



ARIHANT capital markets Ltd.

Union Budget FY2013-14:



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Union Budget 2013-14 Balancing the act, yet lackluster

Brimming investors glued on their seats at 11 am on Feb 28th of 2013, waiting for the long awaited Budget Speech and hoping for Finance Minister P. Chidambaram to take out a magic wand that would change the fate of the economy and the stung financial markets. Once the speech was finally over their reaction was one of confusion, followed by slow realisation, followed by mixed reaction of optimism and pessimism.

FM delivered the promise of fiscal consolidation, bringing down the fiscal deficit to 5.2% of GDP for FY13 and projecting a figure of 4.8% for FY14. While the country's growth rate of 8-9% is clearly unachievable, FM said that there is no need for gloom. In his words 'we have done it. We can do it again'.

Fair and square. We think that although the budget did not bring any radical change and was rather lackluster, but it wasn't any bad either. It was neither austere nor populist, balancing the trade off between the two in the best way possible.

On the backdrop of fiscal slippage, which has remained a big cause of concern for the economy, the FM announced certain measures including taxing the "super rich" and corporates above a certain threshold, adding new entrants in the service tax purview, raising excise duty on select sectors and marking up import duty on luxury automobiles to increase tax revenues for the forthcoming year.

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The recent slowdown in growth in the Indian economy with GDP estimates of around 5% in 2012-13 reveals that growth through domestic consumption-driven factors cannot be sustained for long. It has to be equally driven by employment generation and investment-driven engines of growth. The FM, thus, recognized the need to introduce measures to attract foreign flows into India. Several measures were also proposed to incentivize greater savings by household sector in financial instruments and in insurance sector to increase penetration of both life and general insurance in the country. A continued focus on infrastructure, manufacturing and agriculture sector is a welcome step indeed. On the other hand, there's probably enough to keep the political constituency happy with several steps aimed at the farm sector and the rural population.

In all, it is a Budget with something for everybody, but wary of aggressive moves amidst uncertainty in global and local economic environment and eye on elections. A lot now depends on the work which remains to be done outside the Budget Proposals such as enacting Legislation, executing supportive monetary policies and enhancing FDI limits in chosen sectors.

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Direct Taxes:

- No change in personal and corporate tax rates
- Surcharge introduced at the rate of 10% for individuals whose taxable income exceeds Rs 1 crore. Surcharge increased for domestic companies from 5% to 10% and for foreign companies from 2% to 5% whose taxable income exceeds Rs 10 crores
- Securities Transaction Tax (STT) on sale of equity futures reduced from 0.017% to 0.01% and on sale of unit of an equity oriented fund to mutual fund reduced from 0.25% to 0.001%
- Commodities Transaction Tax (CTT) introduced on commodities derivatives other than agricultural commodities
- TDS introduced at the rate of 1% on sale of land or building exceeding Rs 50 lakhs, agricultural land excluded

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Direct Taxes:

- GAAR provisions modified in line with representations made to the Government, GAAR to be effective from 2015-16
- Submission of Tax Residency Certificate necessary but not a sufficient condition for a non-resident to claim tax treaty benefit
- Additional deduction of Rs 1,00,000 introduced for first-home buyers in respect of interest payable for housing loan sanctioned by a financial institution subject to conditions

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Indirect Taxes:

- No announcement on likely timeline for implementation of GST
- Limited broadening of tax base, such as introduction of service tax on all air-conditioned restaurants, vehicle parking, etc
- Increase in duty/taxes on luxury products:
 - ✓ Customs duty on high-end motor vehicles, bikes, yachts, raw silk, set-top boxes and steam coal
 - ✓ Excise duty on SUVs, mobile phones above Rs 2,000, marble slabs or tiles, etc
 - ✓ Effective service tax rate on residential units above 2,000 square feet or where amount charged from the buyer for transfer of immovable property is more than Rs 1 crore

Budget Impact on Key Sectors and Affected Companies



Auto

Budget proposal	Sector Impact	Company Impacted
Excise duty on SUVs increased from 27% to 30%	NEGATIVE	Mahindra & Mahindra, Tata Motors
Import duty on luxury CBU cars increased from 75% to 100%	NEGATIVE	Mahindra & Mahindra (Ssangyong portfolio), Tata Motors(Jagaur Land Rover imports)
Import duty on luxury motorcycles > 800CC increased from 60% to 75%	NEGATIVE	No listed company currently imports such motorcycles
No special duty on diesel engine vehicles	POSITIVE	Mahindra & Mahindra, Tata Motors
Double allocation of funds to Jawaharlal Nehru National Urban Renewal Mission (JNNURM) in FY 2013-14 which includes allocation of upto 10,000 more buses	POSITIVE	Ashok Leyland, Tata Motors

Auto

Budget proposal	Sector Impact	Company Impacted
Pro-agro sector policies such as increase in credit to agriculture and allied activities from Rs 5.6 lakh crores to Rs 7 lakh crores	POSITIVE	Positive for M&M, and Escorts and two wheeler companies
Concession on environment friendly vehicles, zero custom duty on electric car parts	POSITIVE	Mahindra & Mahindra
Tax on royalty increased from 10% to 25%	NEGATIVE	Maruti Suzuki

Oil and Gas

Budget proposal	Sector Impact	Company Impacted
Natural Gas pricing policy to be reviewed; Shale Gas projects to be encouraged	Positive	Increase in prices will benefit IGL, Petronet LNG, GAIL, ONGC, Oil India
Move towards revenue sharing mechanism from present profit sharing mechanism	Positive	Upstream players like ONGC, OIL India

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FMCG & Consumer durables

Budget proposal	Sector Impact	Company Impacted
Specific excise duty on cigarettes and cigars raised by 18%	NEGATIVE	ITC, Godfrey Phillips
Sops given to agro sector and social schemes	POSITIVE	Overall consumer space
Tax on royalty increased from 10% to 25%	NEGATIVE	HUL, Colgate-Palmolive, P&G Hygiene

Metals and Mining

Budget proposal	Sector Impact	Company Impacted
To increase income tax surcharge to 10% from 5% on domestic companies with annual income of more than Rs 10 crores	Marginally Negative	All large cap metal companies
Proposed capital allowance of 15% to companies on investment of more than Rs 100 crores	Positive	Tata Steel, JSW Steel, SAIL, JSPL, Sterlite Ind, Hindalco, NMDC
To equalize duties on steam and bituminous coal to 2% customs duty and 2% CVD	Negative	JSW steel will be impacted most as its captive power plant run almost entirely on imported coal. Tata Steel, SAIL, Bhushan Steel, Adhunik Metaliks, GPIL, Monnet Ispat, IMFA, Hindalco, Sterlite will see marginal impact
Increased allocation to rural and urban development programmes	Positive	All metal companies
Export duty on galvanized steel abolished to 0%	Positive	JSW Steel, SAIL, Tata Steel
Levied 4% excise duty on silver manufactured through zinc and lead smelting	Negative	Hindustan Zinc

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Pharma

Budget proposal	Sector Impact	Company Impacted
Allocation of Rs 212 bn towards National Health Mission and allocation of Rs 373 bn for the Ministry of Health and Family welfare	Positive	Cadilla, Dr Reddy
Excise duty levied on MRP of branded medication of Ayurveda, Unani, Siddha and Homeopathy.	Negative	Dabur, Kerala Ayurveda
Royalty/technical fees paid to NRIs increased to 25%	Negative	Ranbaxy, subsidiaries of multi-national companies

Infrastructure

Budget proposal	Sector Impact	Company Impacted
3,000 km of road projects to be awarded in Gujarat, Maharashtra, Karnataka in first 6 months of 2013-14	Positive	IRB, L&T, IVRCL Infra, Nagarjuna Construction
Regulatory authority to be set up for road sector	Positive	IRB, L&T, IVRCL Infra, Nagarjuna Construction
IIFCL, ADB to offer credit enhancement for infra companies	Positive	All infra companies
Rural Infra Dev Fund corpus raised to Rs 20,000 crores	Positive	All infra companies

Power

Budget proposal	Sector Impact	Company Impacted
Proposed capital allowance of 15% to companies on investments of more than Rs 100 crores	Positive	NTPC, GVK Power, Adani Power, Indiabulls Power, JSW Energy, Tata Power
To equalize duties on steam and bituminous coal to 2% customs duty and 2% cvd	Negative	JSW Energy will be biggest loser followed by Tata Power, Adani Power, India Bulls Power, GVK Power
Extension of section 80IA benefits by one year	Positive	NTPC, Tata Power, Adani Power, Indiabulls Power, GVK Power

Banking and Finance

Budget proposal	Sector Impact	Company Impacted
Allocation of Rs 140 billion for capital infusion in PSU banks in FY14; Rs 125 billion in FY13	Positive	All PSU banks
Plan to set up Women's bank with provision of initial capital of Rs 10 billion	Positive	-
Bring all banks including cooperative banks on CBS and E-payment systems and assurance that all the branches of PSBs to have ATMs by FY14	Positive	All PSU banks
Allocation of Rs 60 billion for rural housing fund and Rs 20 billion for urban housing fund	Positive	Housing finance cos such as LIC HFC, HDFC Ltd
Insurance cos can open Tier II and below branches without IRDA nod	Positive	Insurance cos, Banks with Insurance arms such as ICICI Bank, SBI, HDFC Bank
Banking correspondence can sell micro-insurance products	Positive	All banks
Interest subvention on farm loans and crop loans to continue; 4% farm loan scheme extended to private sector banks	Positive	All banks, particularly HDFC Bank, ICICI Bank



Banking and Finance

Budget proposal	Sector Impact	Company Impacted
Introduction of Inflation Index bonds or security certificates (in order to boost savings)	Positive	All banks
Financial restructuring for DISCOMs to speed up	Positive	All banks (PSU banks in particular) and PFC, REC
Introduction of Commodity Transaction Tax (CTT) on non-agricultural contracts	Negative	MCX, FT
Reduction in Securities Transaction Tax (STT)	Positive	IIFL, Motilal Oswal, Religare
Allocation of Rs 5.3 billion to post offices for core banking solutions	Positive	All banks
Empowerment of Insurance cos to open branches in Tier II cities and below without prior approval of IRDA	Positive	Insurance cos, Banks with Insurance arms such as ICICI bank, SBI, HDFC bank
Exemption of Securitization Trust from income tax	Positive	All banks, NBFCs
Focus on Insurance penetration with finalization of proposals in consultation with IRDA	Positive	SBI, HDFC bank, ICICI Bank, and others

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Real Estate

Budget proposal	Sector Impact	Company Impacted
Reduction in rate of abatement for high-end construction to 70% (earlier 75%)	Negative	DLF
Revival of 1% TDS on real estate transactions for properties above Rs 50 lakhs	Negative	All real estate cos
Additional deduction of interest upto Rs 1 lac for home loans upto Rs 25 lacs for first time buyer	Positive	All real estate cos
Increase in excise duty on marble slabs	Negative	All Real estate cos



Cement

Budget proposal	Sector Impact	Company Impacted
To increase income tax surcharge to 10% from 5% on domestic companies with annual income of more than Rs 10 crores	Marginally Negative	All Cement companies
Proposed capital allowance of 15% to companies on investments of more than Rs 100 crores	Positive	Ultratech will be the biggest beneficiary as it has more than Rs 12,000cr of capex lined up over next two years
To equalize duties on steam and bituminous coal to 2% customs duty and 2% cvd	Negative	All Cement companies
Royalty to overseas parents to attract 25% tax vs 10%	No Impact	No impact on ACC and Ambuja Cement

Retail and Textiles

Budget proposal	Sector Impact	Company Impacted
Abolition of excise duty on branded readymade garments	POSITIVE	Kewal Kiran Clothing and Raymond, Shoppers Stop, Page Industries, Lovable Lingerie
Rs 1.51 trillion for textile upgradation fund in the Twelfth Plan	POSITIVE	Mandhana Industries, Alok Industries Raymond, Arvind Mills, Bombay Dyeing and Welspun Retail, Page industries, Zodiac Clothing
Allocation of Rs 500 million to set up apparel parks	POSITIVE	
Rs 960 million for interest subvention in textile for FY14	POSITIVE	
Loans at 6% rate for women textile entrepreneurs	POSITIVE	
Textile tech upgrade scheme to get Rs 24 billion for FY14	POSITIVE	

Media

Budget proposal	Sector Impact	Company Impacted
Service tax exemption on copyrights on cinematography limited to films exhibited in cinemas	Positive	Cinemax, PVR, INOX
Custom duty increased from 5% to 10% on set top boxes	Negative	Siti Cable, Den Networks, Hathway Cable, Dish TV, WWIL
294 more cities to be covered by FM radio where population is higher than 1 Lakh	Positive	Reliance Broadcast Network, Sun TV
Clear roadmap for Phase-III auctions	Positive	Entertainment Network (India)

Fertilizers		
Budget proposal	Sector Impact	Company Impacted
Increase in total allocation of funds to department of agriculture and co-operation to Rs 270 billion	Positive	Monsanto, Bayercorp, Rallis India
Extension of subsidized agricultural credit at an interest rate of 4%	Positive	Monsanto, Bayercorp, Rallis India
Reduction in subsidy of NPK fertilisers by 3.5%	Positive	Coromandel, GSFC and Deepak Fertilisers



Gems and Jewellery

Budget proposal	Sector Impact	Company Impacted
Reduction of duty on precious and semi -precious stones from 10% to 2%	POSITIVE	Tribhovandas Bhimji Zaveri, Gitanjali, Rajesh Exports, Titan Industries

Information Technology

Budget proposal	Sector Impact	Company Impacted
Status quo on MAT (presently at 18.5%) for software export units	Neutral	All the technology companies
Increase in the e-governance budget at Rs 7 billion, improvement of National Informatics Centre with Rs 8.3 billion	Positive	Infosys, TCS, Mindtree, HCL Tech, Wipro

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Education		
Budget proposal	Sector Impact	Company Impacted
Allocation of Rs 65,867 crores to the Ministry of Human Resource Development	Positive	Educomp, Everonn and NIIT Ltd
Provision of Rs 4,727 crores for medical education, training and research		
Allocation to Sarva Shikshan Abhiyan (SSA) and Rashtriya Madhyamik Shiksha Abhiyan		



Capital Goods

Budget proposal	Sector Impact	Company Impacted
Allowance of investment deduction of 15% for investments over Rs 100 crores	Positive	All Capital goods companies such as ABB, L&T and BHEL
Higher allocation to defence	Positive	BEL, BEML



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