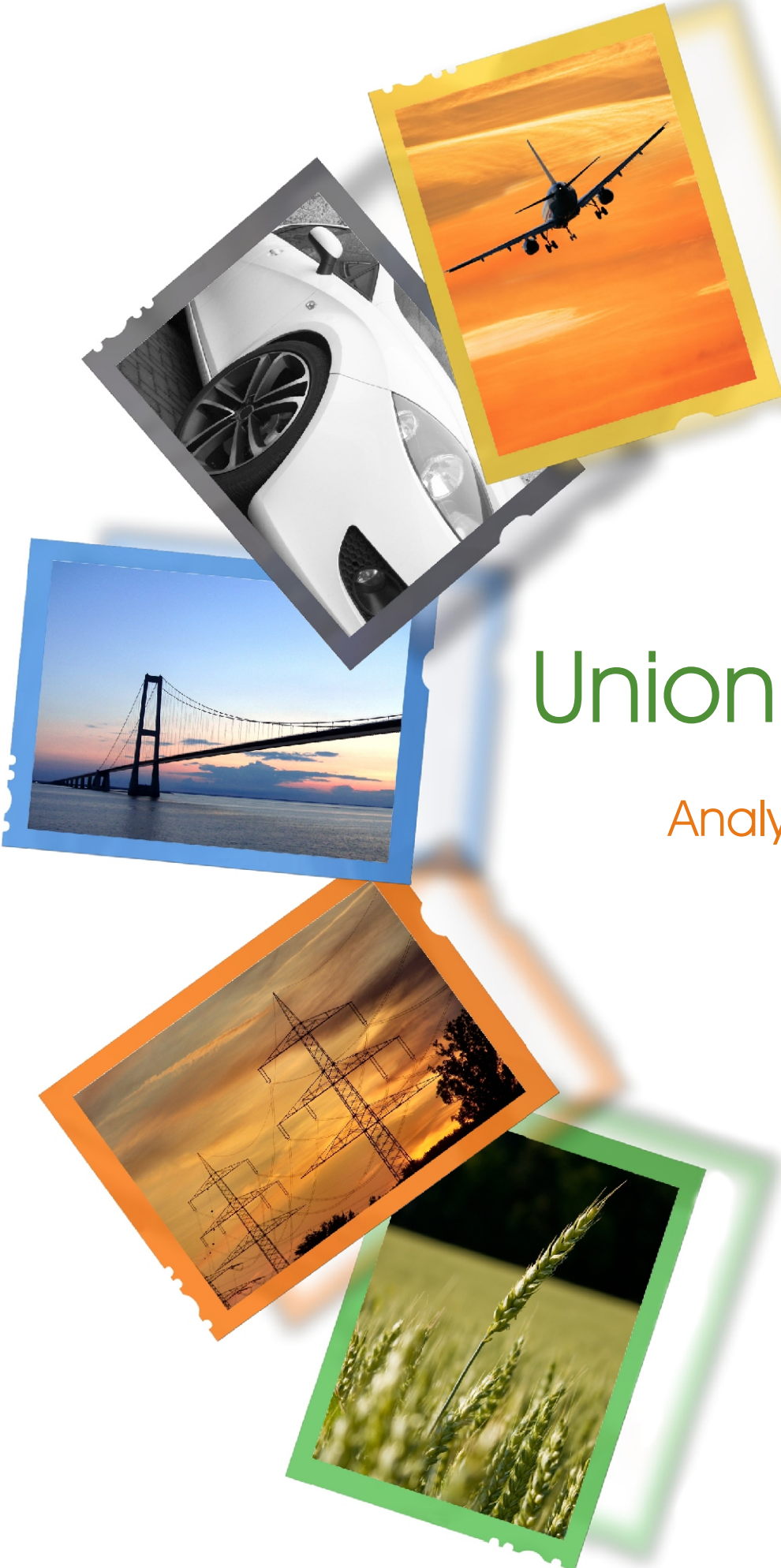




Union Budget

Analysis and Outlook

2009-10

New products to be launched

- **Indian Logistics Industry: Analysis of Infrastructure and Modes (AIM)**

Coverage areas:

Infrastructure segments

Warehousing

Cold storages

Container freight stations (CFS) /

Inland container depots (ICD)

Modes

Road freight

Rail freight

Coastal shipping

3PL Industry in India

- **CRISIL's Outlook on Capital Expenditure**

The report would provide a detailed year-by-year outlook on investments from 2009-10 to 2011-12 across 11 key sectors, accounting for more than 60 per cent of commercial lending of the banking sector. The sectors covered include oil exploration, oil refining, gas transmission and distribution, power generation and transmission, telecom services, steel, non-ferrous metals, automobiles, cement, fertilisers, and textiles.

- **City Real(i)ty: CRISIL Research's Independent View**

Coverage on 10 Cities:

Ahmedabad

Bengaluru

Chandigarh

Chennai

Hyderabad

Kochi

Kolkata

Mumbai

NCR

Pune

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Data notes

- 1) All domestic prices are ex-factory prices, unless indicated otherwise.
- 2) All international prices are cif prices, unless indicated otherwise.
- 3) Wherever the domestic prices are ex-factory prices, the landed costs do not include CVD. Wherever the domestic prices are market prices, the landed costs include CVD.
- 4) The customs and excise duty rates mentioned in the tariff tables for each sector are effective duty rates, after including the education cess applicable for the year.
- 5) Landed cost is gross of special CV duty of 4 per cent wherever applicable. However, the effective landed cost for intermediate products will be MODVATable and will hence not include the impact of this duty.

A cautious beginning

Nitty-gritties were clearly the focus of this year's budget exercise. Beyond some general references to long-term challenges, the speech itself had very little of the sense of occasion that one has come to expect from a first-year budget. Disinvestment received several lines of text, worthy of a big initiative like the Rs 250 billion mentioned in the Economic Survey, but all it got was a little over Rs 10 billion credit for the year. Likewise, the speech was silent on the increase of the FDI cap in insurance, which probably means that the issue will continue to hang fire. The tax reforms that were announced, such as the abolition of the Fringe Benefits Tax, the Commodities Transactions Tax and the surcharge on the personal income tax (along with higher thresholds of liability) are all very welcome, but are hardly earth-shattering. The one dramatic fiscal measure was the adherence to the original timeline of April 2010 for the implementation of the Goods & Services Tax (GST), which most people expected would be postponed.

On the expenditure side, as expected, a significant amount of Rs 390 billion was provided for the National Rural Employment Guarantee Scheme, which was given much credit for the UPA's electoral victory. There are also significant, but not dramatic, increases in commitments to rural roads, electrification and housing. The campaign promise to make low-priced foodgrains available to poor households has also been promised under the framework of a National Food Security Act. But, beyond these, the budget speech is largely a listing of moderate increases or small new allocations for a variety of programmes.

The fiscal numbers clearly indicate that the Finance Minister simply did not want to take any chances. For example, the estimated increase in tax revenues is a mere 1.8 per cent over the Revised Estimates for 2008-09, a far cry from the high buoyancy of just a couple of years ago. Even in difficult economic conditions, this seems rather pessimistic. Even with a 45.8 per cent increase in non-tax revenues, some of which will come from spectrum auctions, total receipts increase by less than 10 per cent. Compared to this, total expenditures are estimated to increase by about 13 per cent, taking the fiscal deficit to 6.8 per cent of GDP. While this will certainly cause concern, it must also be seen as a conservative number, with very little prospect of going beyond. The Survey did mention the need to amend the Fiscal Responsibility and Budget Management goalposts to accommodate business cycles. 6.8 per cent may violate even those modified targets, but the speech was quite explicit in stating the government's intention to work this out.

Overall, as budgets go, this one certainly scores in a realistic, house-keeping sort of way. But, the absence of a clearly articulated economic vision and strategy for the government detracts from its impact.

Dr Subir Gokarn

Chief Economist, Standard & Poor's Asia Pacific

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Economy
Economy

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- Real and Nominal GDP growth assumed at 6.5 and 10.05 per cent respectively in 2009-10
- Revenue deficit projected at 4.8 per cent of GDP in 2009-10
- Fiscal deficit projected at 6.8 per cent of GDP
- Total expenditure increased by 36 per cent to Rs 10,208.38 billion over 2008-09 (BE)
- IIFCL to refinance 60 per cent of commercial bank loans for PPP projects in critical sectors over the next 15-18 months
- Allocation to National Highways Authority of India (NHAI) for the National Highway Development Programme (NHDP) increased by 23 per cent over 2008-09 (BE) in 2009-10
- Allocation under Jawaharlal Nehru Urban Renewal Mission (JNNURM) stepped up by 87 per cent in 2009-10 over 2008-09 (BE)
- Allocation under Accelerated Power Development and Reform Programme (APDRP) increased by 160 per cent
- Target for agriculture credit flow set at Rs 3,250 billion for the year 2009-10 (credit flow had been at Rs 2,870 billion in 2008-09).
- Rebate for farmers paying loan on time at a lower rate of 6 per cent proposed. Also, deadline for farmers to repay 75 per cent of the loan extended by 6 months to December 31, 2009
- Allocation under National Rural Employment Guarantee Scheme (NREGS) increased by 144 per cent to Rs 391 billion in 2009-10 over 2008-09 (BE)
- Allocation for Bharat Nirman increased by 45 per cent in 2009-10. Under it, allocation under Pradhan Mantri Gram Sadak Yojna (PMGSY) and Indira Awas Yojna increased by 59 per cent and 63 per cent, respectively
- Allocation under National Rural Health Mission (NHRM) increased by Rs 20.57 billion over the allocation in Interim budget 2009-10 (Rs 120.7 billion)
- The overall Plan budget for higher education is to be increased by Rs 20 billion over the Interim Budget
- Unique Identification Authority of India (UIDAI) to set up online data base for Indian residents and provision of Rs 1.2 billion made for this in the budget
- While retaining at least 51 per cent government equity stake in PSUs, disinvestment proceeds for B.E. 2009-10 estimated at 11.2 billion
- Fringe benefit tax (FBT) to be abolished
- Commodity transaction tax (CTT) to be removed
- Minimum alternate tax (MAT) to be increased to 15 per cent of book profits
- Exemption limit in personal income tax raised by Rs 10,000 for all categories of individual taxpayers; by Rs 15,000 for senior citizens
- Surcharge of 10 per cent eliminated on personal income tax

Detailed economic analysis

Impact on Indian Economy

Introduction

The 2009-10 Budget has been presented against the backdrop of extremely challenging times. The weakness in the global economy is expected to continue through 2009. IMF expects the global economy to contract by 1.3 per cent in 2009, with a number of advanced economies experiencing the deepest recession in the post World War-II period. The World Bank has an even gloomier outlook of -2.9 per cent for the world economy. This has adverse implications for India's exports and capital inflows, and hence, its growth, which has already slipped from the highs of 9.0 per cent to 6.7 per cent in 2008-09. Had it not been for the government stimulus, the fall in growth would have been sharper. In this scenario, another expansionary fiscal policy is essential to push up growth; however, mounting deficits impose limits on government's ability to do the needful.

Outlook 2009-10: Down but not out

Despite the policy measures announced in the budget, the India's economic growth is unlikely to exceed 6.5 per cent in 2009-10, given the prevailing global economic slowdown. We expect the economy to grow by 6.0-6.5 per cent at factor cost in the current fiscal as compared to 6.7 per cent in 2008-09. However, recovery, albeit slow, is already underway, and the economy is expected to grow by 6.0-6.2 per cent in the first half of the current fiscal as compared to 5.8 per cent in the second half of 2008-09. The expenditure plans announced today will support the growth momentum. The private sector should see a revival in the second half of the year, when the economy is likely to grow by 6.4-6.6 per cent.

Table 1: Indian economy in 2009-10

	2009-10
Real GDP factor cost (y-o-y percentage growth)	6.0-6.5
Supply-side	
Agriculture	3.5
Industry	4.2
Services	8.2
Hotels, transport and communications	7.1
Finance	8.4
Community and social	10.1
Demand-side	
Private final consumption expenditure	5.5
Government final consumption expenditure	15.0
Gross fixed capital formation	3.0
Other macroeconomic variables	
WPI inflation (average)	1.5-2.0
Interest rate (10-year G-sec March-end)	6.4-6.6
Exchange rate (Rs-\$ March end)	47.0-47.5
Fiscal deficit	6.8-7.0

Note: Industry includes mining and quarrying, manufacturing, electricity, gas and water supply, construction

Source: CRISIL assessment

Detailed economic analysis

Growth in the services sector, which accounts for nearly 57 per cent of the GDP, is expected to decelerate from 9.7 per cent in 2008-09 to 8.2 per cent in 2009-10, as demand weakens further. Industrial growth is expected to remain weak at 4.2 per cent (vis-à-vis 3.9 per cent in 2008-09) due to demand constraints - both exports and domestic - with the financing crunch continuing at least in the first half of the year.

With the several social and infrastructure initiatives announced in the budget, government expenditure would continue to be the key demand driver in 2009-10, although its growth will moderate from 2008-09 levels. Government expenditure is projected to expand by 15.0 per cent in 2009-10. Investment activity is expected to slow further, with gross fixed capital formation growing at 3.0 per cent in the next fiscal as compared to 8.2 per cent in 2008-09. Both weak demand and financing constraints would hit corporate investment. With corporate profits shrinking and other sources of finance drying up, the supply of funds is expected to be tight. Private consumption growth, however, should recover to around 5.5 per cent from a mere 2.8 per cent last year, with several incentives announced to push household expenditure and also due to the lagged impact of interest rate reductions on retail loans.

Among other macroeconomic indicators, inflation would continue to fall in the first half of 2009-10 as prices of commodities, especially oil, are expected to stabilise at a relatively low level due to the global slowdown. The high base of last year and demand slowdown has started to exert downward pressure on prices with headline inflation in the negative zone at present. In the latter half of the year, inflation should start picking up as demand recovers. We expect average WPI inflation to remain in the 1.5-2.0 per cent range. While the steady infusion of liquidity by the RBI as well as a decline in credit demand by the private sector should keep interest rates at a moderate level, the increased government demand for funds to finance its deficit and a pick up in inflation towards the end of the fiscal would pressurise interest rates in the current fiscal.

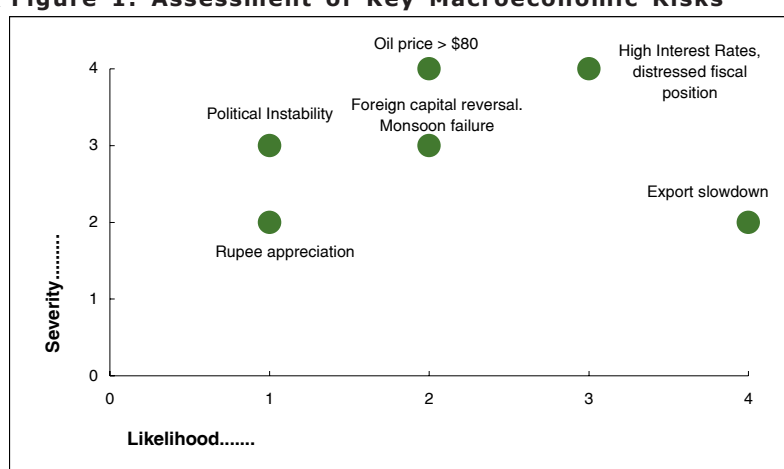
In recent months, the Rupee has recovered some ground with foreign investments flowing back in the country in the first quarter of the current fiscal; the currency is expected to resume its fundamental trend of appreciation. We expect the Rupee to stabilise in the range of Rs 47.0-47.5 per US\$ by March-end. The margin of error for the exchange rate forecast remains high in view of the continuing global financial instability. On the fiscal front, given the current environment, the government has pushed ahead the FRBM target. With further significant fiscal stimulus announced in the budget and the implementation of the remaining part of the sixth pay commission pay hikes, the fiscal deficit would remain under pressure. The good news is that oil, food and fertiliser subsidies and off-budget liabilities are expected to reduce considerably this year. Tax revenues would suffer as economic growth, and hence, tax buoyancy would be lower, although disinvestment and revenues from the auction of 3-G spectrum should bring in additional revenues. Assuming that all the expenditure and revenue proposals in the budget materialise, the fiscal deficit to GDP ratio is expected to be around 6.8-7.0 per cent in 2009-10.

CRISIL macroeconomic forecasts set out here are firmly based on our view of the fundamentals. However, we recognize that the outlook for the world economy is uncertain, given that financial markets continue

Detailed economic analysis

to be extremely volatile. As a result, frequent revisions to our outlook could become necessary in 2009-10. These revisions would largely be driven by any worsening of the macroeconomic risks and prevailing uncertainty in the Indian economy. From an assessment of the likelihood of alternative risks and their severity, the deteriorating fiscal position and an increased possibility of high interest rates pose the greatest risks to the economic revival at present. A significant deterioration in any of these risks would require a reassessment of the current forecasts.

Figure 1: Assessment of Key Macroeconomic Risks



Source: CRISIL Assessment

Overall fiscal trends

Fiscal performance is contingent on the performance of the economy. The economic downturn took a serious toll on government revenues in 2008-09. The gross revenues of the central government grew by a mere 2.8 per cent in 2008-09 compared to over 25.0 per cent in the preceding year. Income tax and corporation tax growth fell to 7.2 and 10.8 per cent, respectively, from close to 35 per cent in 2007-08. The worst performers were indirect taxes, which shrank by 8.4 per cent in 2008-09. Manufacturing sector is the key contributor to corporation tax and excise duties. With growth in manufacturing slipping to an anemic 2.5 per cent, the poor performance of excise and corporation tax does not come as surprise. Due to the global turmoil, India's external trade performance has been dented considerably, leading to lesser-than-expected growth in customs. Since 1993-94, the service sector's contribution to the government's corpus had been increasing steadily, and service tax collections posted an average growth of 55 per cent per annum in the preceding 3 years. In 2008-09, this sector too has experienced moderation, but growth remains healthy at 18.4 per cent.

While revenues fell short of budgeted targets, expenditures significantly overshoot the budgeted estimates. On the domestic front, adoption of sixth pay commission panel report, National Rural Employment Guarantee act, Farm loan waiver and various subsidies fuelled the domestic expenditure. The global meltdown too impacted India's growth and necessitated further expenditure to cushion falling growth. The impact of

Detailed economic analysis

global developments can be viewed as two separate developments. The first came from the commodity price shocks in the first half of the last fiscal, which resulted in ballooning of oil, fertiliser and food subsidy bill. The second shock came from the global financial crisis. As the crisis deepened further, government provided some fiscal stimulus largely by reducing different taxes and duties and also raising expenditure.

On the expenditure front, the Government of India (GOI) has achieved significant grip over non-developmental expenditure which had been growing at a high rate till 2002-03. Its annual growth has been brought down to 6-8 per cent. Similarly, non-developmental capital expenditure has also been controlled to a manageable level, although there have been sporadic spurts due to rise in defense expenditure. Table 2 shows the percentage deviation in indicators from the budgeted amount. As is quite evident, fiscal deficit has always been lower than the budgeted estimate since 2002-03 owing to high GDP growth and compression in expenditure. Revenue deficit, which was a cause of worry till 2001-02, had been controlled and reduced, starting with 2003-04. Nevertheless, the fiscal compression has resulted in lesser-than-budgeted growth in plan expenditure in some years. Similarly, non-plan expenditure exceeded the budgeted estimate in the past couple of years. But the extremely favorable GDP growth has reduced the gap between receipts and expenditure. The reversal in 2008-09 is the result of both expenditures which were either not budgeted or not anticipated and revenue hit by lower growth.

Table 2: Per cent deviation from budgeted

Year	Fiscal deficit	Revenue deficit	Plan expenditure	Non-plan expenditure	Total expenditure	Gross tax revenue
2001-02	21.2	27.1	6.4	-5.1	-3.4	-17.5
2002-03	-3.1	13.1	-1.8	-2.7	-2.4	-8.3
2003-04	-19.8	-12.5	1.1	9.8	7.4	1.1
2004-05	-8.9	2.8	-9.1	10.0	4.2	-4.0
2005-06	-3.1	-3.2	-2.0	-1.4	-1.6	-1.0
2006-07	-4.1	-5.3	-1.7	5.7	3.4	5.8
2007-08	-15.9	-26.5	0.0	6.8	4.7	8.2
2008-09 RE	145.0	337.2	16.3	21.8	20.0	-8.7

Source: Union Budget various issues

The following table presents the key budgetary arithmetic for 2009-10. One of the notable features here is that primary balance (fiscal deficit - interest payments) which was in surplus has turned into deficit in 2008-09 and continues to be in the red in 2009-10.

Detailed economic analysis

Table 3: Budget 2009- 10 at a glance

(Rs billion)	2007-08 Actuals	2008-09 BE	2008-09 RE	2009-10 BE
1. Revenue Receipts	5418.6	6029.4	5621.7	6145.0
2. Tax Revenue (net to centre)	4395.5	5071.5	4659.7	4742.2
3. Non-Tax Revenue	1023.8	957.9	962.0	1402.8
4. Capital Receipts (5+6+7)	1708.1	1479.5	3387.8	4063.4
5. Recoveries of Loans	51.0	45.0	97.0	42.3
6. Other Receipts	388.0	101.7	25.7	11.2
7. Borrowings and other liabilities	1269.1	1332.9	3265.2	4010.0
8. Total Receipts (1+4)	7126.7	7508.8	9009.5	10208.4
9. Non-Plan Expenditure	5075.9	5075.0	6180.0	6956.9
10. On Revenue Account of which	4208.6	4483.5	5617.9	6188.3
11. Interest Payments	1710.3	1908.1	1926.9	2255.1
12. On Capital Account	867.3	591.5	562.1	768.6
13. Plan Expenditure	2050.8	2433.9	2829.6	3251.5
14. On Revenue Account	1735.7	2097.7	2416.6	2784.0
15. On Capital Account	315.1	336.2	413.0	467.5
16. Total Expenditure	7126.7	7508.8	9009.5	10208.4
17. Revenue Expenditure	5944.3	6581.2	8034.5	8972.3
18. Capital Expenditure	1182.4	927.7	975.1	1236.1
19. Revenue Deficit	525.7	551.8	2412.7	2827.4
As a percentage of GDP	-1.1	-1.0	-4.4	-4.8
20. Fiscal Deficit	1269.1	1332.9	3265.2	4010.0
As a percentage of GDP	-2.7	-2.5	-6.2	-6.8
21. Primary Deficit	-441.2	-575.2	1338.2	1754.9
As a percentage of GDP	-0.9	-1.1	-2.5	-3.0

Source: Union Budget 2009-10

Rolling fiscal targets

The Medium Term Fiscal Policy Statement presented along with the budget gives 3-year rolling targets for key fiscal indicators. These have been derived on the basis of assumptions on growth and the policy stance of the government. Table 4 compares the rolling targets set in the budget since 2006-07 and the subsequent revisions in them.

Detailed economic analysis

Table 4: Slippage in FRBM targets

Targets	2008-09	2009-10	Targets for	
			2010-11	2011-12
Fiscal Deficit				
Budget 2006-07	3.0	--	--	--
Budget 2007-08	3.0	3.0	--	--
Budget 2008-09	2.5	3.0	3.0	--
Budget 2009-10	6.0	6.8	5.5	4.0
Revenue Deficit				
Budget 2006-07	0.0	--	--	--
Budget 2007-08	0.0	0.0	--	--
Budget 2008-09	1.0	0.0	0.0	--
Budget 2009-10	4.4	4.8	3.0	1.5
Tax/ GDP				
Budget 2006-07	11.8	--	--	--
Budget 2007-08	12.3	12.7	--	--
Budget 2008-09	13.0	13.5	14.0	--
Budget 2009-10	11.6	10.9	11.9	12.4
Debt/ GDP				
Budget 2006-07	63.1	--	--	--
Budget 2007-08	58.6	56.0	--	--
Budget 2008-09	59.6	55.7	52.3	--
Budget 2009-10	59.6	61.4	60.1	57.2

Source: Union Budget various issues

The rolling indicators set in the 2005-06 budget had targeted the revenue deficit to fall to 1.1 per cent of GDP by 2007-08, but the 2006-07 budget had a more realistic revenue deficit target of 1.5 per cent for the same year. The revised estimates for 2007-08 show an improvement in the revenue deficit over the budgetary target. For the last fiscal, revenue deficit of 1.0 per cent was set down in the budget. Under the FRBM act, the revenue deficit was to be eliminated by the next fiscal. In the 2008-09 budget, the elimination of revenue deficit was pushed forward to 2009-10, but it had aggressively targeted the reduction in fiscal deficit to 2.5 per cent of GDP. The outcome for 2008-09 was a complete reversal of fiscal correction over the last couple of years. The fiscal deficit of the central government (including off budget liabilities) was nearly 8 per cent of GDP in 2008-09 as against the target of 2.5 per cent, which happens to be one of the highest since 1990-91.

We test the feasibility of fiscal targets set for 2009-10 to 2011-12 using a simple spreadsheet model (refer section on medium term fiscal sustainability). The results indicate that although there will be some improvement in fiscal indicators going ahead, the FRBM targets set in the present budget are unlikely to be achieved unless government streamlines its revenue mobilisation together with expenditure controls.

Detailed economic analysis

Table 5: Feasibility of three year fiscal targets starting 2009-10

As a % of GDP	2009-10		2010-11		2011-12	
	BE	CRISIL	TARGET	CRISIL	TARGET	CRISIL
Fiscal deficit	6.8	6.8	5.5	6.4	4.0	6.1
Revenue deficit	4.8	4.8	3.0	4.5	1.5	4.1
Tax/GDP	10.9	10.90	11.9	11.20	12.4	11.6

Source: CRISIL Simulations and Budget 2009-10 document

The revenue arithmetic

Revenue targets in 2009-10

The economic downturn, particularly the weak industrial performance, has dented government revenues quite severely. The budget assumes a nominal growth of 2.1 per cent in gross revenues in 2009-10 over a moderate growth of 5.9 per cent in 2008-09. This shifts the Tax/GDP ratio from 11.6 per cent in 2008-09 to 10.9 per cent in 2009-10. Table 5 documents the share of major taxes in the gross tax revenues, their performance in 2008-09 and expectation in 2009-10. The weak performance on the tax front assumed in 2009-10 is quite realistic given the continuing economic downturn.

Table 6: Tax Revenues of Central government

Tax Heads	% Share	% Growth	
	2008-09	08-09/07-08	09-10BE/08-09
Gross Tax Revenue	100	5.9	2.1
Excise	17.3	-12.3	-1.7
Corporate	35.4	15.1	15.6
Customs	17.2	3.7	-9.3
Income Tax	19.5	19.4	-8.0
Service	10.4	26.7	0.0
Other Taxes	0.1	17.6	6.3
Net tax revenue (Centre)	74.2	6.0	1.8

Source: Budget 2009-10

The overall revenue receipts (net to the centre) are budgeted to grow by 1.8 per cent in 2009-10 as against the observed growth of around 6.0 per cent in the previous year. One important change in the structure of tax revenues in the last couple of years has been the emergence of corporate taxes as the single largest component of overall tax collections. Prior to that union excise duty was the single biggest source of tax revenue for the government. Also, now direct tax collections have overtaken indirect tax collections in their contribution to the entire tax kitty.

Detailed economic analysis

Table 7: Non Tax Revenues of Central government

Tax Heads	% growth	
	2009-10 BE (Rs billion)	09-10BE/08-09
Fiscal services	1.5	7.2
Interest receipts	191.7	0.7
Dividends and profits	497.5	25.2
Other general services	76.7	12.7
Social services	6.1	5.0
Economic services	600.4	127.3
Proceeds from divestment	11.2	-
Total non-tax revenue	1402.8	45.8

Source: Budget 2009-10

Economic downturn and tax buoyancy

Higher economic growth, especially if that is propelled by industrial growth, leads to an increase in tax collections for the government. Whether the higher growth is translating into adequately high tax revenue is measured by tax buoyancy. This is expressed as 'percentage change in tax revenues per unit percentage change in tax-base'. When tax-buoyancy is greater than one, it implies that the growth in tax collection has surpassed the growth in GDP.

Table 8 brings home the point. The average real GDP growth in phase-I (i.e., 1993-94 to 1996-97) was 6.8 per cent, followed by 5.2 per cent growth in phase-II (i.e., 1997-98 to 2002-03). Phase-III (2003-04 to 2007-08) witnessed an extremely high growth rate to the tune of 9 per cent per annum. However, during 2008-09, growth has slipped to 6.7 per cent due to poor industry and agriculture performance. A cursory look at the table shows that gross tax buoyancy is higher during the high-growth phase and vice-versa. Income tax buoyancy has moved in line with the GDP growth rate, whereas corporate income tax has remained buoyant even when growth remained subdued until the last phase. Due to poor top and bottomline growth of the Indian corporate sector in 2008-09, corporate tax buoyancy has gone below unity for the first time in 8 years.

Until now, custom duty has been a significant source of revenue for GoI. Moreover, it remained quite buoyant during the high growth phase. But due to sharp contraction in export and import activities in 2008-2009, customs buoyancy has become extremely low. Excise buoyancy has gone below zero in 2008-09 largely due to slump in industrial production and reduction of excise duty by GoI as part of stimulus measures. Service tax buoyancy has come down to 1.8 due to slowdown in activities.

Detailed economic analysis

Table 8: Tax buoyancy in different growth phases

	GDP growth	Gross tax	Tax buoyancy				
			Direct tax		Indirect tax		
			Corporate tax	Income tax	Custom	Excise	Service tax
1993-94 to 1996-97	6.8	1.2	1.3	1.5	1.5	0.7	3.5
1997-98 to 2002-03	5.2	0.9	1.6	1.4	0.2	1.2	1.7
2003-04 to 2007-08	8.9	1.6	2.1	1.7	1.5	0.5	4.1
2008-09	6.7	0.5	1.0	1.3	0.3	-1.1	1.8

Note: Service tax was introduced in 1994-95. Hence, buoyancy for Phase-I is for the period 1994-95 to 1996-97.

Source: CRISIL estimates

Tax collections record a sharper increase as compared to the base (GDP) in an economic upturn and post a steeper decline in a downturn. During the recent downturn (1997-98 to 2002-03), the overall tax buoyancy fell from 1.2 to 0.9. It again rose to 1.6 during the recent high-growth phase. The 2009-10 budget expects the tax buoyancy to fall to 0.21, which is much lower than that witnessed during the previous downturn. However, given the severity of current economic downturn, the estimate appears pretty realistic.

Medium term fiscal sustainability

A welcome feature of fiscal developments in the last couple of years was reduction in the deficit ratios and stability in debt/GDP ratios. With the onset of the global crisis, all this changed for the worse in 2008-09. Weak industrial performance, depressed corporate profits and falling tax buoyancy took its toll on government revenues. The stimulus measures involving tax cuts further depressed government revenues. The expenditure commitments of the government went far beyond what was budgeted due to need to stimulate the economy and also due to populist measures like the farm loan waiver. While the fiscal stress in the near term is inevitable, will the fiscal normalcy return over the medium term? . We attempt to address these medium term fiscal sustainability issues using a fairly disaggregated spread sheet model which captures the impact of cyclical factors of government finances

Features and assumptions of the model

Revenues

The revenue performance of the government is not linked to the aggregate growth performance but to its sectoral dynamics. While the buoyancy in industry leads to buoyant revenues, the buoyancy in agriculture has no association with revenue performance. Thus, different sectors have different potential of impacting revenues. Recognising this, the government revenues have been linked to the appropriate GDP base. The corporate and income taxes have been linked to the performance of non-agricultural GDP. The service tax collections are linked to performance GDP in the non-government sector. The second characteristic of revenue performance of the government is that government revenues grow more than proportionately vis-à-vis GDP in an economic up-turn and less than proportionately during a downturn. This is because

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the revenue generating activities like industry and corporate performance see a significant upturn during the boom phase of the economy and opposite happens during a downturn. The tax buoyancy, therefore, is higher in an upturn and lower in a downturn. In 2008-09 the overall tax buoyancy fell from 1.4 per cent in the previous couple of years to 0.2. It has been assumed at 0.21 in the 2009-10 budget.

Expenditures

2008-09 was an exceptional year and required additional stimulus from the government to boost GDP growth. For 2009-10, we have assumed the major expenditure categories to grow as projected in the Budget. But after that we have assumed that expenditure growth will revert to its normal trend. The arrears to the central government employees have been assumed not to continue beyond 2009-10. The expenditure on farm loan waiver has been distributed over 5 years (till 2011-12) and has been accordingly assumed in the model. The interest payment component of the expenditure is linked to changes in debt stock and interest rates. The interest payments in any given year are impacted by debt stock and a) interest rates applicable on past debt, b) the administered rates of interest and c) the market determined rates of interest for new debt. The average cost of servicing debt in any given year takes into account the above mentioned characteristics. This average interest rate/cost of debt has applied on the stock of debt to work out interest payments in any given year. The interplay of expenditures and revenues determine the key fiscal indicators like fiscal, revenue and primary deficit.

GDP growth

Monetary easing and fiscal stimulus by the government notwithstanding, the prevailing global economic slowdown is expected to pull down growth further in 2009-10. We expect growth to slide further in first half of 2009-10, and post a mild recovery beginning in the third quarter. The economy is expected to grow at around 6.0-6.5 per cent in 2009-10. After that, as the global economies recover and the impact of monetary loosening on the economy kicks in, growth in India too will pick up. We expect the economy to expand by 7.2 per cent in 2010-11. After 2011-12 the economy should be on the 8 per cent growth path.

Table 9: Medium term growth assumptions

	2009-10	2010-11	2011-12	2012-13	2013-14
Agriculture	3.5	3.0	3.0	3.0	3.0
Industry	4.2	6.5	7.6	8.0	8.5
Services	8.1	8.7	9.4	9.5	9.7
Total GDP	6.3	7.2	7.9	8.1	8.4

Source: CRISIL

The model simulations indicate that fiscal stress is likely to continue in the short run with only moderate corrections in fiscal deficit/GDP and revenue deficit to GDP after 2009-10. Even after assuming that trend growth in expenditure will come down from that in 1998-99 and 1999-2000, the deficit levels continue

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to remain high. The fiscal deficit comes down from 6.2 per cent of GDP in 2008-09 to 5.1 per cent by 2013-14. This is quite similar to the behaviour of fiscal deficit in the most recent up turn in the Indian economy from 2003-04 to 2006-07. The central government deficits were at a high of 5.9 per cent of GDP in 2002-03. Despite an average GDP growth of 8.8 per cent and a sharp rise in revenue buoyancy between 2003-04 and 2006-07, the fiscal deficit came down by only 2.5 percentage points to 3.5 per cent by 2006-07. The revenue deficit too displayed similar pattern during this period. Absence of expenditure reforms was clearly behind sluggish fiscal improvement. We have a somewhat similar situation now.

Bringing the debt/GDP (debt ratio) requires much sharper correction in the fiscal deficit than the forecast in our base case scenario. The good news on the debt front is that it is likely to remain stable at high levels and start reducing after 2010-11. By 2013-14, the debt/GDP is expected to be around 57.0 per cent. The debt dynamics can be understood in terms of the growth, interest rates and primary deficits. As long as the growth remains higher than the cost of borrowing (interest rates), the debt ratio can be kept stable even by running a primary deficit. The current downturn notwithstanding, the structural upward shift in growth rates and a downward shift in interest rates will help in stemming the explosive debt dynamics in future. The average cost of government debt has come down from 7.9 per cent in the eighties to 9.3 per cent in the nineties. It is currently around 6.8 per cent. At the same time, there has been a significant improvement in GDP growth. This gives government some leeway to run a primary deficit and yet maintain stability in the debt ratio. That is why we have stability and eventual reduction in the debt ratio despite primary deficit of around 1.5 per cent of GDP during the 5 years beginning 2009-10. If, however, the GDP growth drops below our assumptions, even moderate fiscal correction will be difficult to achieve.

Table 10: Fiscal Indicators (as % of GDP)

	2009-10F	2010-11F	2011-12F	2012-13F	2013-14F
Fiscal deficit	6.8	6.4	6.1	5.6	5.1
Revenue deficit	4.8	4.5	4.1	3.6	3.1
Primary deficit	3.0	2.7	2.3	1.9	1.5
Interest Payments	3.9	3.8	3.8	3.7	3.6
Debt /GDP	61.4	60.3	59.8	58.7	57.0

Source: CRISIL Simulations

The medium-term fiscal policy statement accompanying the budget estimates the revenue deficit at 1.5 per cent and fiscal deficit at 4 per cent of GDP by 2011-12. These are more realistic than the targets set out in the interim budget which was aiming at zero revenue deficit by 2011-12. The total liabilities of the government are projected to fall to 57.2 per cent by 2011-12. We believe these targets are too aggressive and our simulations show that they are unlikely to be achieved. By 2011-12, we expect fiscal deficit, revenue deficit and debt at 6.1, 4.1 and 60 per cent of GDP. A significant rise in tax buoyancy is required to achieve the revenue deficit target 1.5 per cent of GDP by 2011-12 set in the medium term

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fiscal policy statement. Fiscal projections over the medium run clearly indicate that unless concerted efforts are made for curbing expenditures and or raising revenues, reducing the revenue deficit to 1.5 per cent of GDP by 2011-12 would be a challenging task.

Going ahead, the key issue is related to medium term fiscal sustainability. A key positive development in the last few years has been the slightly disciplining impact of Fiscal Responsibility and Budget Management Bill (FRBM) on government finances. But the sharp growth contraction led to the abandonment of FRBM targets so as to stabilise the economy and to give a boost to consumption.. To restore fiscal credibility, the government needed to come out with a new FRBM Act which takes into account the changed economic scenario. The economic survey had suggested the concept of targeting cyclically adjusted deficit. During a downturn government revenues shrink and expenditures escalate, thereby widening the deficit. The reverse happens during a boom period. So the surplus generated during boom years is used to finance deficit during a recession. Cyclically adjusted deficit takes into account changes in business cycles to work out the underlying deficit which is a normal year deficit. The shape of the new FRBMA will be clear only by October 2009.

Theme I: What has the budget done for growth?

The Indian economy grew by over 6 per cent during 2008-09 despite depressed domestic and export demand in the wake of severe global economic crisis. What accounted for this robust growth performance as compared to a number of other developing countries is the contribution of government expenditure. It is no surprise that the government has once again announced a number of measures in the budget to sustain the growth rate of the economy in the current fiscal. The budget has provided support to the social and infrastructure sectors in particular.

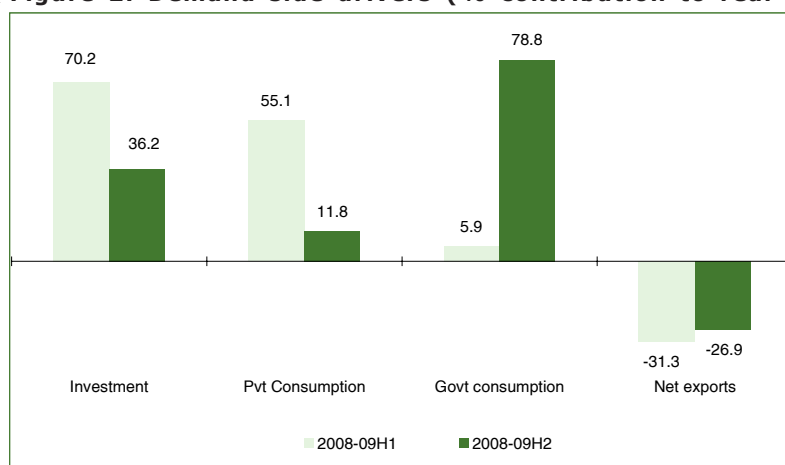
Demand-side components of GDP (2008-09)

GDP growth from the demand side arises from changes in four main components: consumption expenditures, domestic investment, government consumption expenditures and net exports (difference between the value of exports and the value of imports). The contribution to growth of each of these GDP components- defined as the ratio of the change in that component over 2008-09 to the total change in GDP over same period, expressed as a percentage-pinpoint those components most responsible for additions to GDP.

In 2007-08, government expenditure contributed around 7.6 per cent to overall GDP growth. The contribution of this component to GDP growth increased to a whopping 38.0 per cent in 2008-09 as a result of the fiscal stimulus. In contrast, the contribution of private consumption to Indian growth dropped significantly from just over 50 per cent to around 38 per cent during the same time. Unlike in a number of other countries which are experiencing economic slowdown or recession, investment remained relatively robust, contributing to 57.0 per cent of GDP growth. Lastly, in 2008-09, net exports was a drag on the GDP as real exports fell faster than imports as oil import bill ballooned in the first half of 2008-09.

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Figure 2: Demand side drivers (% contribution to real GDP growth at market prices)



Source: CRISIL Estimates fom CSO data

The role of increased government expenditure in boosting GDP was especially significant in the second-half of 2008-09 as the global economic crisis deepened. Almost 80 per cent of GDP growth in the second half of last year resulted from an increase in government expenditure (Figure 2). In contrast, the contribution of investment and especially that of private consumption to growth dropped drastically in the same time period. Another impact of fiscal stimulus, as reflected in higher subsidies and reductions in taxes was seen in the difference between GDP at market prices and GDP at factor cost in the second half of last year. While GDP at factor cost grew at 5.8 per cent during October-March 2008-09 GDP at market prices grew only by 4.45 per cent during the same period. In other words, net subsidies amounted to almost 1.35 per cent of GDP.

Growth drivers - 2009-10

1) Private consumption

During the 4 years of accelerated growth between 2004-05 and 2007-08, increase in private consumption made the most important contribution to aggregate demand. But the picture changed dramatically during 2008-09. In the first half, the monetary tightening measures by the RBI to control inflation and inflationary expectations pushed up the cost of borrowing. In the second half, the sharper-than-expected global slowdown had an impact on employment and income growth, especially in export-oriented sectors. As a result, private consumption growth slowed down considerably in 2008-09.

The budget of 2009-10 aims to stimulate private consumption by increasing plan expenditure by Rs 400 billion over and above that was announced in the interim budget in February. A large portion of this outlay would be channelled through schemes such as National Rural Employment Guarantee Scheme (NREGS) and Jawaharlal Nehru National Urban Renewal Mission (JNNURM). The enhanced provisions for these schemes are aimed at boosting demand and generate employment in the domestic economy. In addition,

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an increase in the threshold level for paying income tax by Rs 10,000 for general taxpayers, and by Rs 15,000 for senior citizens would raise disposable income, albeit marginally. The removal of the 10 per cent surcharge on income above Rs 10 lakh for personal income tax payers should also encourage consumer spending. However, In spite of these measures, private consumption growth is unlikely to recover significantly in the current fiscal as job and income uncertainty continues. In addition, interest rates on retail bank credit have not come down to the level necessary to boost household consumption.

2) Government consumption

In the second half of 2008-09, the government effectively used the fiscal policy as a tool to provide a boost to domestic demand and counter the negative impact created by the global financial crisis. Government expenditure is once again expected to be a leading growth driver in the current year. Total expenditure of the Central government is budgeted to increase by Rs 1,199 billion or by 13.3 per cent y-o-y, primarily on account of higher plan outlay to boost domestic demand and increased food subsidy

Until 2007-08, the most encouraging feature of government finances was an improvement of government savings and the increasing fiscal responsibility it exhibited. The pattern altered completely last year. As noted in the previous section, given the large size of stimulus already underway and more under consideration, importance of a clear commitment to long-run fiscal discipline is critical. In the absence of such a perceived commitment, expansionary fiscal actions can lead to increases in long-term interest rates, which would tend to offset the stimulus effects of the fiscal actions on GDP.

3) Investment

The trend of investments in the economy rising in tandem with the GDP has been a prominent feature of India's growth story. In the last fiscal, however, investment growth, although robust, slowed down from a peak of nearly 19.0 per cent in 2004-05 to just over 8.0 per cent, as financing constraints and depressed demand compelled companies to revise their investment strategies. The improvement in investments in recent years has been driven by a significant increase in the private corporate sectors investment, largely funded via retained earnings, which has doubled as a share of GDP within 4 years - from 6.8 per cent in 2003-04 to 15.9 per cent in 2007-08. The current slowdown is likely to hit corporate investments, going forward.

In light of the slowdown in growth of private investment, the budget announced a number of key initiatives to increase public sector investments, especially in infrastructure sectors such as highways and railways as well as urban infrastructure. The increased government spending, although necessary at this juncture, has further weakened the government's fiscal position. The current deterioration of the public sector finances could have an adverse impact on corporate investment going forward, if a definite plan to reduce fiscal deficit is not in place. Earlier in this decade, private corporate sector investment had soared after the public's saving records started to improve and freed up resources for private investment and also brought down the cost of borrowing.

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4) Trade

India's external sector also witnessed a significant contraction in export and import growth in the second half of 2008-09 as the global economic crisis spread and world international trade started to contract. In spite of the government measures announced in the budget to support the export sector, such as provision of enhanced export credit and guarantee cover and the extension of the interest subvention of 2 per cent on pre-shipment credit for certain export sectors, trade contraction is likely to persist in the current fiscal year due to shrinking global trade activity.

Summary assessment

The government has announced several initiatives in the budget aimed at raising private consumption and investment to revive the economy in the uncertain global economic environment. However, government consumption would continue to be the key driver of economic growth in the current fiscal year.

Theme II - Infrastructure - Where are we?

Weakness in the global economic environment, and its adverse impact on exports and domestic consumption, has led to a renewed focus on the infrastructure in the economy. In the last few years, the government introduced various schemes to promote and facilitate physical infrastructure in the country across energy, communication, transport etc sectors in both urban and rural areas. But the pace of infrastructure growth in the country remained much lower than the requirements. As infrastructure has a direct bearing on domestic economic production and services, it has immense capacity to stimulate domestic investment and business. Better infrastructure not only enhances accessibility ameliorating supply-side bottlenecks to growth but also helps bring down transaction cost.. Thus, adequate push to the infrastructure sector in the next few fiscal years is considered to be crucial to stimulating domestic demand and investment and in turn growth in the economy.

The deterioration in fiscal health of the government coupled with tight liquidity conditions globally has made financing of infrastructure a very challenging task. Although the total central plan outlay has been increased by 19.3 per cent over the budgeted figure of last fiscal, it is 15.4 per cent higher than the revised figure. Further while the budgetary support is 33.3 per cent higher than budget estimates of the previous fiscal year, it is only 17.5 per cent higher than the revised estimates. But, unlike the previous fiscal, this year the incremental support has come from the budget, and not the internal and extra budgetary resources (IEBR). Table 11 below shows the rise in outlay in terms of both IEBR and budget support to the major ministries covered under the physical infrastructure segment.

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Table 11: Year-on-year growth in plan expenditure

	2008-09 RE			2009-10 BE		
	Budget Support	IEBR	Total	Budget Support	IEBR	Total
Ministry of Power	40.23	14.68	18.30	51.31	45.32	46.33
Ministry of Shipping	-37.12	4.85	-3.06	64.38	71.60	70.71
Ministry of Road Transport and Highways	7.61	77.03	17.55	14.87	35.14	19.24
Ministry of Urban Development	54.59	30.35	44.69	-34.20	-17.86	-28.19
Ministry of Housing and Urban Poverty All	34.00	-28.32	-23.39	26.87	61.14	56.40
Railways	14.85	22.51	20.42	56.53	-6.48	9.85
Total	18.67	20.31	19.75	26.69	22.24	23.75

Note: Revised estimates of 2008-09 compared with revised estimates of 2007-08.

Budget estimates of 2009-10 compared with revised estimates of 2008-09.

Note: IEBR = Internal and Extra Budgetary Resources

Source: Calculated from Budget 2009-10.

A) Urban infrastructure

Besides direct outlays to the ministry of transport, railways, power etc, the chief vehicle of the government to boost infrastructure development in urban areas is the Jawaharlal Nehru National Urban Renewal Mission which is administered jointly by Ministry of Urban Development and the Ministry of Housing and Urban Poverty Alleviation launched in 2005-06, the scheme's objective is to enable cities to provide and improve governance of their civic services entailing water supply, transport, waste management etc. A total of Rs 1 trillion (Rs 500 billion from the Central assistance and equal amount from state governments and urban local bodies) has been made available for this purpose since 2005-06 for a period of 7 years. JNNURM has been a particularly successful scheme and has been instrumental in driving reforms in urban governance and urban-related laws. For this reason, the new budget has enhanced the allocation to the JNNURM by 87 per cent over 2008-09 (BE) to Rs128.8 billion. There are several sub-missions under the umbrella of JNNURM that encompass development in small and medium sized towns and public-private partnerships across sectors. Metro-rail projects in Delhi and other cities such as Kolkata and Bangalore, Bus Rapid Transit systems in major Tier 1 & Tier 2 cities etc. are examples of projects covered under the scheme. Fresh initiatives under the scheme include comprehensive land titling legislation in Rajasthan, creation of a municipal accounts service in Andhra Pradesh, setting up of urban transport in Surat, and setting up of transport authority in Hyderabad, Jaipur, Chennai, Bangalore and Mumbai.

B) Power

The National Electricity Policy, 2005, recognises electricity as a "basic human need" and targets a rise in per capita availability from 704 units in 2007-08 units to 1,000 units per annum by the end of 2012 - that is a capacity addition of 78,700 MW as set under the Eleventh 5-Year Plan. However, in both Ninth and Tenth 5-year Plans, the capacity additions were way behind target. Even in 2007-08, the capacity addition of 9,263 MW was 23 per cent lower than the revised (downward) target for the year. In spite of significant past reforms and impending high targets, energy generated by power utilities (2.7 per cent)

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fell short of the target 9.1 per cent growth in 2008-09. All-India peak shortage declined during the year, but that was primarily due to lower growth in peak demand. These trends underscore the urgent need to address the supply-demand imbalance and call for further reforms and fiscal allocations in the sector. The primary reasons for underachievement of capacity addition targets during the last 2 years were delayed and non-sequential supply of material by suppliers, shortage of skilled manpower, construction and commission of projects etc.

To address these constraints, the new budget has raised the total plan outlay for the sector by 51.3 per cent along with a hike of 45.3 per cent in the IEBR, compared to the revised estimates of previous year's expenditure. As such, last fiscal year's revised estimates of the expenditure by the Ministry of Power was 10 per cent lower than the budget. Allocation under the Accelerated Power Development and Reform Programme (APDRP), an important scheme for reducing power demand and supply gap was raised to Rs 20.8 billion, 160 per cent more than the last year's allocation. However, the budget did not focus on the sector to any great extent.

C) Road transportation

The new budget has stepped allocation to the NHA for the NHDP by 23 per cent over the 2008-09 (BE). National Highways (NHs) account for about 40 per cent of the total traffic on Indian roads. However, they comprise only about 2 per cent of the total length of roads, which underscores the massive need for NH development. The National Highway Development Programme (NHDP) to construct 33.6 thousand kilometres is under implementation; of this, 32.8 per cent has been completed and 18.4 per cent is currently under implementation. Majority of the completed project comes under the Golden Quadrilateral, with nearly 98 per cent having been completed by March 2009. The other major project is the North-South & East-West Corridor project, which was 48 per cent complete by March 2009, and is expected to be finished by December 2009. It also covers the SARDP-NE, a programme devised to improve road connectivity in the North Eastern region. Its first phase -targeted for completion by 2012-13 - consists of improving 2619 km of road including primarily NHs. The NHDP also includes upgradation of already developed national highways. The main source of funds for the NHDP under the National Highway Authority of India has been the fuel cess and loans from multilateral organisations. However, implementation of the the NHDP continues to face constraints in land acquisition, removal of structures, shifting of utilities etc.

D) Ports and Shipping

Ports play a critical role in international trade, and consequently, are crucial for economic development. Maritime transport accounts for about 95 per cent of the country's foreign trade in terms of volume and 70 per cent in terms of value. There are 12 major ports and 200 minor/intermediate ports located along the 7,517 km-long coastline of India, with the major ports handling three-fourths of the sea-borne traffic. Significant constraints have emerged in the sector, with the turnaround time being much higher than that of some other international ports. Total traffic carried by both minor and major ports during 2008-09 was about 723 MT. However, despite adequate capacity and modern handling facilities, the average

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turnaround time on Indian ports was 3.85 days in 2008-09 as compared with 3.93 days in 2007-08 and 3.62 in 2006-07. It falls well below the international benchmarks; for example, in Hong Kong, the average turnaround time is 10 hours. This is due to weak linkages to hinterland that clog up cargo evacuation. All port trusts have set up groups of representatives from NHAI, Railways and State governments to prepare plans aimed at improving rail-road connectivity. The union budget has raised the total outlay to the ministry by a significant 70.7 per cent as against the 54 per cent increase in the 2007-08 budget. Of this, the budgetary support has improved by 64.4 per cent.

E) Rural infrastructure

Rural infrastructure has gained impetus under the Bharat Nirman scheme that was launched in 2005-06. It contains six components, namely, rural housing, irrigation potential, drinking water, rural roads, electrification and rural telephony. The budget allocation towards the scheme has been increased by 45 per cent in 2009-10 over 2008-09 BE. Under the Pradhan Mantri Gram Sadak Yojana (PMGSY), a successful project under the scheme, a total length of 214 thousand kilometres of roadwork was completed as of March 2009. In 2009-10, the total budgetary allocation has been stepped up by 59 per cent to Rs 120 billion over 2008-09 BE. Under the Indira Awas Yojana (IAY), 2,105 thousand houses were constructed during 2008-09. Given its success, the budget allocation towards this scheme has been augmented by 63 per cent. In addition, an allocation of Rs 20 billion has been made for Rural Housing Fund (RHF) in National Housing Bank (NHB) to boost the resource base of NHB for re-finance operations in the rural housing sector. A new scheme called Pradhan Mantri Adarsh Gram Yojana (PMAGY) has been launched on a pilot basis for the integrated development of 1,000 villages with over 50 per cent scheduled caste population. Rs 1 billion has been provided for this scheme, allowing each village would to avail gap funding of Rs 1 million over and above the allocations under Rural Development and Poverty Alleviation Schemes. On successful implementation of the pilot phase, the Yojana would be extended to 43,000 such villages in coming years.

Theme III - Inclusiveness

Despite the rising fiscal deficit, the Union Budget 2009-10 has made an attempt to provide steady monetary assistance to the social sector. Focussing on inclusive growth, the UPA government in its interim budget had emphasised on the progress of existing flagship programmes such as National Rural Employment Guarantee Scheme (NREGS), Sarva Shiksha Abhiyan (SSA), Mid-day Meal Scheme, National Rural Health Mission (NRHM) and Jawaharlal Nehru National Urban Renewal Mission (JNNURM) by augmenting their budgetary allocation. In its full budget, the government has only tried to broaden its agenda for inclusive development. However, the government seems to have been rather conservative in allocating funds to the social sector this time as compared to the previous year.

Budgetary support to the social sector, together with internal and extra budgetary resources (IEBR), grew by a mere 10.5 per cent over the revised estimate of 2008-09 (Table 12). As compared to this, according to the revised estimate of 2008-09, allocation to the social sector had grown by 45.0 per cent over the

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allocation in the previous year. However, as a per centage of total central government plan expenditure, or gross budgetary support (GBS), expenditure on social services and rural development has been budgeted at 45.1 per cent in 2009-10 BE as against 46.5 per cent in 2008-09 RE.

Table 12: Year-on-year growth in plan expenditure

	2008-09 RE			2009-10 BE		
	Budget Support	IEBR	Total	Budget Support	IEBR	Total
Ministry of Health and Family Welfare	23.04		23.04	18.57		18.57
Ministry of Rural Development	79.75		79.54	10.60	-18.75	7.47
Department of School Education and Literacy	10.41		10.41	9.39		9.39
Department of Higher Education	108.48		108.48	41.17		41.17
Ministry of Women and Child Development	18.25		18.25	7.30		7.30
Total	48.65	20.00	45.02	11.30	3.83	10.52

Source: Calculated from Budget 2009-10

Employment

While the overall share of expenditure on labour and employment in total social services expenditure has been falling for the last 3 years, the emphasis on employment in rural areas has always been accorded the highest priority. The National Rural Employment Guarantee Act (NREGA), one of the flagship programmes of the government, has been recognised as the most successful programmes ever. The scheme, which was launched on February 2, 2006, in 200 extremely backward districts, was extended to cover all the districts of the country in 2008. The scheme has led to an improvement in wage employment in rural areas, thereby pushing up demand for goods. During 2008-09, employment of 215.63 crore person days covering 4.47 crore households was generated.

The interim budget for 2009-10 had allocated Rs 301 billion for the scheme as against Rs 160 billion in 2008-09. This allocation has further been raised to Rs 391 billion, signalling an increase of 144 per cent over 2008-09 BE. Also, in order to increase the productivity of assets and resources under NREGA, convergence with other schemes relating to agriculture, forests, water resources, land resources and rural roads is being initiated. In the first stage, a total of 115 pilot districts have been selected for this purpose. The Swarna Jayanti Gram Swarozgar Yojana (SGSY), launched in April 1999, was originally meant to bring the assisted self-employees above the poverty line by providing them income-generating assets through bank credit and government subsidy. This scheme has been restructured as National Rural Livelihood Mission to make it universal in application, and aims to eradicate poverty by 2014-15. For the facilitation of job-seekers, there is a proposal to launch a new project for modernisation of Employment Exchanges, so that a job seeker can register on-line from anywhere and approach any employment exchange. A national web portal with common software, to be developed under this project, will contain all the data regarding availability and requirement of skilled persons. It will help youth get placed and enable the industry to procure required skills on a real time basis.

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Education

As compared to last year, the budget allocation to education is far from being impressive. The support towards the Department of School Education and Literacy shows a growth of 9.4 per cent over the revised estimate of 2008-09, and that towards the Department of Higher Education shows a growth of 41.2 per cent. As compared to this, last year's growth in allocation stood at 10.4 per cent and 108.5 per cent, respectively.

Among the initiatives taken towards the education sector, the support for the scheme, "Mission in Education through ICT" has been raised from Rs 5.02 billion in 2008-09 to Rs 9 billion in 2009-10. The allocation towards Skill Development Mission has also been enhanced to Rs 4.95 billion. There are various other ambitious proposals, including opening of one Central University in each uncovered state with a corpus of Rs 8.27 billion and setting up of new IITs and NITs with a provision of Rs 4.5 billion. For the welfare of minorities, SC, ST and other marginalised groups, National Mission for Female Literacy is to be launched with the aim of reducing female illiteracy by half in 3 years.

Health

The budget 2009-10 proposes to increase the allocation to health sector by 18.6 per cent over the previous year. National Rural Health Mission (NRHM), a key initiative by the government with the aim to achieve the goal of health for all, has received an allocation of Rs141.27 billion, 17.2 per cent higher than the allocation in last year's budget. The allocation towards Rashtriya Swasthya Bima Yojana (RSBY), launched on October 1, 2007, for the BPL families in the unorganised sector, has been increased to Rs 3.5 billion, 70 per cent higher than last year's allocation of Rs 2.05 billion.

Industry
Industry

Overall sectoral impact

Industry	Effect
Airport infrastructure	Neutral
The announcement that Indian Infrastructure Company Ltd will re-finance 60 per cent of commercial bank loans amounting to Rs 1 trillion for public private partnership (PPP) projects would help attract private investments in the sector. However, this measure had already been announced in the Interim Budget of February 2009. The hike in MAT from 10 per cent to 15 per cent will have minimal impact on the financials of players. Overall, the Union Budget 2009-10 would have a neutral impact on the sector.	
Auto components & Tyres	Neutral
The Union Budget 2009-10 announcement will not have any significant impact on the auto component and tyre industry. Extension of the tax holiday for 100 per cent export oriented units (EOU) till 2010-11 will benefit only those few players with established EOUs. Interest subvention of 2 per cent for availing packing credit will have a marginally positive impact for small and medium enterprises engaged in export of auto components. ECGC cover extension until March 2010 will protect exporters against risk of payment defaults. Thrust on rural spending will marginally benefit tractor and two-wheeler sales thereby, benefiting sales to original equipment manufacturer (OEMs) in these segments.	
Automobiles	Neutral
The budget announcements are not likely to have any major impact on the automobile sector. We expect the reduction in specific additional duty on passenger car and utility vehicles above 2,000 cc from Rs 20,000 to Rs 15,000 to result in a negligible impact on demand. The continued focus on rural development and change in exemption limit in income tax slabs will marginally benefit two wheeler sales. The increase in funds allotted towards irrigation by 75 per cent in 2009-10 will be marginally favourable for tractor sales. Increase in allotment to Jawaharlal Nehru National Urban Renewal Mission (JNNURM) scheme may potentially benefit bus sales.	
Banking and Finance	Neutral
Emphasis has been laid on priority sector lending. Refinance schemes of Rs 40 billion and Rs 20 billion will enhance credit flow to micro and small enterprises and rural housing, respectively. For 2009-10, banks have been directed to lend Rs 3,250 billion to the farm sector - a 13 per cent increase over the previous year. The reduction in targeted growth rate, over the previous year, will give banks a breather to consolidate their origination systems for farm credit. However, continuation of interest subvention scheme and additional subvention of 1 per cent (for farmers who repay on schedule) along with extension of debt waiver and debt relief scheme might impact the banks' profitability.	

Overall sectoral impact

Industry	Effect
Cement	Neutral
The Union Budget 2009-10 is not expected to have any major impact on the cement sector. Cement prices are not expected to be affected as excise and customs duties for cement and clinker have remained unchanged. Similarly, duties on key inputs such as coal, limestone and gypsum have not been changed. Measures to spur infrastructure investments will have a marginally positive impact on demand for cement.	
Construction	Marginally positive
The increased outlay on roads, railways, irrigation and urban infrastructure announced in the Union Budget 2009-10 has a marginally positive impact for the industry and will aid the construction expenditure/growth in infrastructure segment (18 per cent in 2009-10.) The additional funding support for PPP infrastructure projects through refinancing of up to 60 per cent through IIFCL will ease funding pressures on construction companies and attract more participation, especially for BOT projects. Removal of excise duty on prefabricated concrete blocks will result in minor improvement in margins of construction players.	
Fertilisers	Neutral
The budget has announced the intention to change the subsidy regime from being product-based to nutrient-based. Further, it has reiterated the plan to move to a system of direct subsidies to farmers. Since the specific measures have not been stated, it is early to gauge the impact of these announcements. The budget allocation for fertiliser subsidy has been reduced from Rs 759 billion in 2008-09 to Rs 502 billion in 2009-10. Against this, the subsidy bill in 2009-10, including arrears is expected to be around Rs 600-650 billion. The greater thrust on agricultural credit and irrigation is expected to boost fertiliser consumption in the long run.	
Hotels	Neutral
The impact of Union Budget 2009-10 on hotels is neutral. While the fringe benefit tax on the use of hotel facilities has been abolished, this move alone is unlikely to spur room demand. Hotels will continue to face a challenging environment over the next one year, given the slowdown in business and leisure demand.	
Household Appliances	Marginally positive
The reduction in customs duty on LCD panels from 10 per cent to 5 per cent is likely to have a marginally positive impact on the industry. LCD panels account for around 45-70 per cent of the price of a LCD TV, depending on the screen size. Consequently, if this reduction in customs duty is passed on in full to the consumer, prices of 32-inch LCD TVs could reduce by around Rs 600. This cut in duty would also boost domestic assembling of LCD TVs. The marginal rise in disposable income due to the increase in personal tax exemption limit by Rs 10,000 per annum is likely to boost demand.	

Overall sectoral impact

Industry	Effect
Housing	Neutral
Proposals to allocate funds (Rs 39.7 billion) under Basic Services to the Urban Poor (BSUP) sub-mission of Jawaharlal Nehru National Urban Renewal Mission (JNNURM) will help provide affordable housing to EWS (Economic weaker section) and LIG (low income group) categories. In addition, allocation of Rs 88 billion under Indira Awaas Yojana and Rs 20 billion for Rural Housing Fund through National Housing Board will further aid in reduction of rural housing shortage. However, it will not impact the organised housing sector.	
Information Technology	Marginally Negative
The extension of IT tax exemption (section 10A and 10B) by a year, to March 31, 2011, scrapping of FBT in the IT industry (which has a high tax incidence due to ESOP) and removal of duty on packaged software bodes well for the industry. However, the positive impact of the extension is expected to be nullified by an increase in MAT from 10 per cent to 15 per cent of book profits. The increase in MAT rate would impact tier-2 players more than tier-1 players. The increase in MAT credit period from 7 to 10 years is expected to increase the near-term cash outflow but could lead to benefits in the long term.	
Media and Entertainment	Neutral
The overall impact of the budget on the media and entertainment sector is neutral. The hike in customs duty on set top boxes - from nil to 5 per cent - is expected to incentivise its domestic production. However, the move will also increase the subsidies borne by digital pay-tv operators, and hence, will marginally impact their margins. A 15 per cent waiver of agency commission and 10 per cent increase in the rates of DAVP advertisements in print media, and exemption of customs duty on newsprint have been retained till December 2009. This move is expected to provide some relief to the print industry, which has been experiencing margin pressure due to the economic slowdown.	
Non-ferrous Metals	Neutral
The impact of Union Budget 2009-10 is neutral on the non ferrous metals industry with no changes announced in the customs and Central Value Added Tax duties. Thus, the prices of non ferrous metals are not expected to be affected. The government has increased the allocation under Accelerated Power Development and Reform Programme and rural electrification scheme in the power sector, which forms around 40-45 per cent of the total aluminium demand. Hence, demand for aluminium might be positively impacted from increase in investments in the power sector.	

Overall sectoral impact

Industry	Effect
Oil and Gas	Marginally positive
We expect the impact of the 2009-10 Union Budget to be marginally positive for the oil and gas sector. The extension of tax holiday under Section 80-IB on natural gas production with retrospective effect is expected to lead to better response to future NELP rounds. Although the MAT credit period has been extended from 7 years to 10 years, the increase in MAT rate from 10 per cent to 15 per cent is expected to lead to higher initial tax outflow. Given the expected increase in oil and gas production, the allowance of 100 per cent deduction for all capital expenditure on pipelines operating on a common carrier principle (both oil and gas), will ensure a better reach for distribution of the same. Further, the government has reiterated its commitment of creating a National Gas Grid.	
Paper	Neutral
The impact of the Union Budget 2009-10 on the domestic paper industry is neutral with no change in the customs and excise duties on paper and paper boards. The customs duty exemption provided to newsprint in the fiscal stimulus package has also been continued. The higher emphasis on education is likely to boost demand for writing and printing paper, although the benefits will be visible only over a long term, as a significant portion of investments in education will go towards infrastructure development. The education sector accounts for around 30 per cent of the total writing and printing paper demand.	
Petrochemicals	Neutral
The excise duty on naphtha has been reduced from 16 per cent to 14 per cent. This is expected to have a marginally positive effect on margins of naphtha-based crackers. But the overall impact of Union Budget 2009-10 on the domestic petrochemical industry is neutral with no changes announced in the excise and customs duties. Also, the Central Government has proposed to expedite the 220,000 tpa Assam gas cracker project (announced in April 2006). A capital subsidy of Rs 21.38 billion will be provided out of the total project cost of Rs 54.61 billion.	
Pharmaceuticals	Neutral
The overall impact on the pharmaceuticals sector is neutral. The reduction in customs duty from 10 per cent to 5 per cent and exemption of CVD on imports of select life-saving drugs and their bulk drugs for treating ailments like breast cancer, hepatitis, rheumatic arthritis, etc will have a negligible impact as the proportion of life-saving drugs is marginal. Further, the marginally negative impact due to the hike in the Minimum Alternate Tax (MAT) rate from 10 per cent to 15 per cent will be partly offset as fringe benefit tax (FBT) has been abolished.	

Overall sectoral impact

Industry	Effect
Ports	Neutral
The Union Budget 2009-10 is expected to have a neutral impact on the ports sector. The government has imposed a service tax on the transport of goods through the coastal and inland waters route, including National Waterways. Considering the low cost of transporting goods through the coastal mode vis-à-vis the roadways and railways, this tax will not have a major implication. The increase of MAT from 10 per cent to 15 per cent is expected to have a marginally negative impact on the revenues of players. The refinancing scheme through IIFCL, announced initially in the interim budget of 2009, is not expected to have an incremental impact on the sector.	
Power	Neutral
There were no major announcements with respect to the power sector. IIFCL has been given greater flexibility to re-finance infrastructure projects. The budgetary allocations for the APDRP and RGGVY programmes have been increased by 160 per cent to Rs 20.8 billion and by 27 per cent to Rs 70 billion, respectively. The hike in MAT from 10 per cent to 15 per cent would have a neutral impact, as it would be passed on to the end users. The enhancement in credit period for MAT from 7 years to 10 years would be marginally positive for the sector. On the renewable energy front, the basic customs duty on permanent magnets used in wind power generation has been reduced from 7.5 per cent to 5 per cent.	
Roads	Neutral
Even though the allocation for NHDP has increased by 23 per cent, the implementation of the projects is expected to remain slow on account of policy issues. Allocations under PMGSY have increased by 59 per cent in 2009-10 to Rs 120 billion. However, the past track record of expenditure reveals that funds allocated are inadequate considering the future funding requirements. Refinancing commercial bank loans for Public Private Partnership projects through IIFCL will facilitate higher incremental loans towards the projects. However, this measure was already announced in the interim budget in February 2009. Increase in Minimum Alternate Tax from 10 per cent to 15 per cent of book profits will have marginal negative impact on the financials of players.	

Overall sectoral impact

Industry	Effect
Steel	Neutral
The budget impact for the steel industry is expected to be neutral with no effect on industry profitability. Since there has been no change in the customs or Central Value Added Tax duty related to steel products, the prices are not to be impacted. However, with the provision of higher investment in infrastructure segments such as roads, railways and urban infrastructure under Jawaharlal Nehru National Urban Renewal Mission (JNNURM), the demand for steel is likely to improve marginally.	
Sugar	Neutral
The impact of Union Budget 2009-10 on the sugar sector is expected to be neutral. The elimination of the commodities transaction tax will not impact the sugar sector in the near future as trading in sugar futures is banned till December 2009. CRISIL Research expects the margins of sugar companies to remain unaffected by the change.	
Telecom	Marginally negative
Overall impact on the Telecom services sector is marginally negative. The government has extended the full exemption from special additional duty of customs on parts, components and accessories of mobile handsets including cell phones, for a period of 1 year. Extension of this policy continues to maintain the affordable cost of accessing mobile services. The fringe benefit tax (FBT) provided by employers to their employees has been abolished. While this move is expected to be marginally positive for the sector, increase in minimum alternative tax (MAT) to 15 per cent of book profits from 10 per cent will more than offset the benefit from reduction in FBT. This would negatively impact cash flows of companies in the sector.	
Textiles	Neutral
The Union Budget 2009-10 has a neutral impact for the textile sector. Interest costs for exporters will decline by 1 per cent due to the extension of 2 per cent interest subvention on pre and post shipment export credit till March 31, 2010. Excise duty on cotton textiles beyond the fibre stage which had been reduced to zero in the stimulus package has been restored to a 4 per cent optional duty. Excise duty on man-made fibres and yarns has been raised to 8 per cent from earlier levels of 4 per cent. While this will increase polyester prices by Rs 2.5 per kg, it will not affect demand, as polyester continues to be cheaper than cotton and substitution will continue.	

Overall company impact

Company	Impact	Industry
ACC	↔	Cement
Adlabs Films Ltd	↔	Media and Entertainment
Alok Industries Ltd	↔	Textiles
Amtek Auto Ltd	↔	Auto components & tyres
Andhra Pradesh Paper Mills Ltd	↔	Paper
Arvind Mills Ltd	↑	Textiles
Ashok Leyland Ltd	↔	Automobiles
Aurobindo Pharma Ltd	↔	Pharmaceuticals
Bajaj Auto Ltd	↑	Automobiles
Bajaj Hindustan Ltd	↔	Sugar
Balaji Telefilms Ltd	↔	Media and Entertainment
Ballarpur Industries Ltd	↔	Paper
Balrampur Chini Mills Ltd	↔	Sugar
Bannari Amman Sugars Ltd	↔	Sugar
Bharat Forge Ltd	↔	Auto components & tyres
Bharat Heavy Electricals Ltd (BHEL)	↑	Power
Bharat Petroleum Corporation Ltd	↔	Oil and Gas
Bharti Airtel Ltd	↓	Telecom Services
Bhushan Steel Ltd	↔	Steel
Bosch Ltd	↔	Auto components & tyres
Chambal Fertilisers & Chemicals Ltd	↔	Fertiliser
Chemplast Sanmar Ltd	↔	Petrochemicals
Chennai Petroleum Corporation Ltd	↔	Oil and Gas
Cipla Ltd	↔	Pharmaceuticals
Coromandel Fertilisers Ltd	↔	Fertiliser
DCW Ltd	↔	Petrochemicals
Dish TV Ltd	↔	Media and Entertainment
DLF Universal Ltd	↔	Housing
Dr Reddy's Laboratories Ltd	↔	Pharmaceuticals
EID Parry Ltd	↔	Sugar
EIH Ltd	↔	Hotels
Essar Steel Ltd	↔	Steel
Finolex Industries Ltd	↔	Petrochemicals
Firstsource Solutions Ltd	↓	Information Technology

Continued...

Overall company impact

...continued

Company	Impact	Industry
GAIL India Ltd	↑	Oil and Gas
Gammon India Ltd	↑	Construction
Gammon Infrastructure Projects Ltd	↔	Roads
GlaxoSmithKline Pharmaceuticals Ltd	↔	Pharmaceuticals
GMR Infrastructure Ltd	↔	Airport Infrastructure
Gokaldas Exports Ltd	↑	Textiles
Gujarat Ambuja Cement Ltd	↔	Cement
Gujarat Narmada Valley Fertilizers Company Ltd	↔	Fertiliser
Gujarat State Fertilizers Company Ltd	↔	Fertiliser
GVK Power and Infrastructure Ltd	↔	Airport Infrastructure
Haldia Petrochemicals Ltd	↑	Petrochemicals
HCL Technologies Ltd	↓	Information Technology
HDFC Bank	↔	Banking and Finance
HDFC Limited	↔	Banking and Finance
HDIL	↔	Housing
Hero Honda Motors Ltd	↑	Automobiles
Hindalco Industries Ltd	↔	Non Ferrous Metals
Hindustan Construction Co Ltd	↑	Construction
Hindustan Copper Ltd	↔	Non Ferrous Metals
Hindustan Organic Chemicals Ltd	↔	Petrochemicals
Hindustan Petroleum Corporation Ltd	↔	Oil and Gas
Hindustan Zinc Ltd	↔	Non Ferrous Metals
Hotel Leelaventure Ltd	↔	Hotels
HT Media Ltd	↔	Media and Entertainment
ICICI Bank	↔	Banking and Finance
IG Petrochemicals	↔	Petrochemicals
India Cement Ltd	↔	Cement
Indian Hotels Company Ltd	↔	Hotels
Indian Oil Corporation Ltd	↔	Oil and Gas
Indo Rama Synthetics (India) Ltd	↔	Textiles
Infosys Technologies Ltd	↓	Information Technology
IRB Infrastructure Developers Ltd	↔	Roads
ITI Ltd	↔	Telecom Services
IVRCL Infrastructures & Projects Ltd	↑	Construction

Continued...

Overall company impact

...continued

Company	Impact	Industry
JBF Industries Ltd	↔	Textiles
JK Paper Ltd	↔	Paper
JSW Steel Ltd	↔	Steel
Larsen & Toubro Ltd	↑	Construction
LG India	↑	Household Appliances
LIC Housing Finance Limited	↔	Banking and Finance
Mahanagar Telephone Nigam Ltd	↔	Telecom Services
Mahindra & Mahindra Ltd	↔	Automobiles
Mangalore Refinery & Petrochemicals Ltd	↔	Oil and Gas
Maruti Suzuki Ltd	↔	Automobiles
MIRC Electronics Ltd	↑	Household Appliances
Mundra Port and SEZ Ltd	↔	Ports
Nagarjuna Construction Co Ltd	↑	Construction
National Aluminium Company Ltd	↔	Non Ferrous Metals
National Thermal Power Corp Ltd	↔	Power
Oil and Natural Gas Corporation Ltd	↑	Oil and Gas
Orchid Pharmaceuticals Ltd	↔	Pharmaceuticals
Parsvnath Developers Ltd	↔	Housing
Petronet LNG Ltd	↔	Oil and Gas
Phillips Carbon Black Ltd	↔	Petrochemicals
Piramal Healthcare Ltd	↔	Pharmaceuticals
Power Grid Corporation of India Ltd	↔	Power
Punjab National Bank	↔	Banking and Finance
PVR Ltd	↔	Media and Entertainment
Rashtriya Chemicals and Fertilisers Ltd	↔	Fertiliser
Reliance Communications Ltd	↓	Telecom Services
Reliance Industries Ltd	↓	Petrochemicals
Reliance Infrastructure	↔	Roads

Continued...

Overall company impact

...continued

Company	Impact	Industry
Samsung India	↑	Household Appliances
Samtel Colour Ltd	↔	Household Appliances
Schenectady Herdillia Ltd	↔	Petrochemicals
Seshasayee Paper and Boards Ltd	↔	Paper
Shree Ashtavinayak Cine Vision Ltd	↔	Media and Entertainment
Shree Cement Ltd	↔	Cement
Shree Renuka Sugars	↔	Sugar
Sobha Developers Ltd	↔	Housing
Sona Koyo Steering Systems Ltd	↑	Auto components & tyres
State Bank of India	↔	Banking and Finance
Steel Authority of India Ltd	↔	Steel
Sterlite Industries (India) Ltd	↔	Non Ferrous Metals
Sun Pharmaceutical Industries Ltd	↔	Pharmaceuticals
Sun TV Ltd	↔	Media and Entertainment
Sundaram Fasteners Ltd	↑	Auto components & tyres
Supreme Petrochem Ltd	↔	Petrochemicals
Suzlon Energy Ltd	↑	Power
Tamil Nadu Newsprint and Papers Ltd	↔	Paper
Tamil Nadu Petroproducts Ltd	↔	Petrochemicals
Tata Chemicals Ltd	↔	Fertiliser
Tata Communications Ltd	↔	Telecom Services
Tata Consultancy Services Ltd	↓	Information Technology
Tata Motors Ltd	↔	Automobiles
Tata Power Company Ltd	↔	Power
Tata Steel Ltd	↔	Steel
Thirumalai Chemicals Ltd	↔	Petrochemicals
UltraTech Cement Ltd	↔	Cement
Unitech Ltd	↔	Housing
Vardhaman Textiles Ltd	↑	Textiles
Welspun India Ltd	↑	Textiles
Whirlpool of India Ltd	↔	Household Appliances
Zee Entertainment Enterprises Ltd	↔	Media and Entertainment
Zenith Computers Ltd	↔	Information Technology
Zuari Industries Ltd	↔	Fertiliser

Airports

Investments worth Rs 290 billion underway to upgrade airport infrastructure

- Total passenger traffic (international and domestic) handled at Indian airports has declined by 6.9 per cent y-o-y to Rs 108.8 million in 2008-09 from Rs 116.8 million in 2007-08. With the economic slowdown impacting business as well as leisure travel, CRISIL Research expects domestic passenger traffic at airports to decline by 3 per cent in 2009-10.
- Some large Indian airports are heavily congested and are handling significantly higher traffic than their existing capacity (the top six airports handle approximately 73 per cent of passenger traffic). This congestion has led to a drop in quality standards, with high turn around time of aircrafts.
- CRISIL Research expects the sector to witness investments worth Rs 290 billion from 2009-10 to 2013-14. A large portion of these investments would be directed towards the metro airports, where the existing infrastructure is overstretched, through private participation. AAI is undertaking an infrastructure development exercise at Chennai, Kolkata and 35 non-metro airports. The city-side development of selected non-metro airports will be carried out in association with the private sector. Airside work at few airports has already been completed.

Neutral impact on the sector

Company	Impact	Impact factors
GMR Infrastructure Ltd	↔	A,B
GVK Power and Infrastructure Ltd	↔	A,B

Source: CRISIL Research

Impact factors

- A. The increase in Minimum Alternate Tax (MAT) from 10 per cent to 15 per cent will have minimal impact on financials of players.
- B. Indian Infrastructure Company Ltd's (IIFCL) announcement of refinancing 60 per cent of commercial bank loans, amounting to Rs 1 trillion for public private partnership (PPP) projects, will help attract private investments in the sector. However, impact of the same will be neutral as the announcement was already made in the Interim Budget of February 2009.

Auto components & Tyres

Auto components operating margins to remain low in 2009-10

- In 2008-09, auto component production remained stagnant at Rs 1,006 billion in value terms. While domestic original equipment manufacturer (OEM) and export sales volumes declined, prices increased in the first quarter of 2008-09. Value growth is expected to remain flat in 2009-10, with marginal growth in domestic revenues and further decline in export revenues.
- Operating margins declined by 300-350 bps on an average for the industry in 2008-09 due to higher raw material prices in the first half of 2008-09 and a drop in volumes in the second half of 2008-09. In spite of decline in the second half of 2008-09, average raw material prices were higher by 11 per cent in 2008-09. We expect margins to remain low in 2009-10, despite significantly low raw material costs on account of reduction in prices to consumers and higher unit fixed costs.

Revenue growth with lower raw material prices to benefit tyre industry in 2009-10

- Tyre industry's revenues grew by around 15 per cent aided by 10-12 per cent increase in tyre prices. Tyre production (in tonnes) declined by around 1 per cent with a 15 per cent decline in OEM offtake and slower replacement offtake. Tyre demand is estimated to recover marginally and grow by 6 per cent (tonnage terms) in 2009-10.
- Operating margins of players declined by around 500 bps in 2008-09 despite easing raw material prices in the second half of 2008-09 and higher realisation. Lower offtake in the second half of 2008-09 led to higher unit fixed cost while inventory of high priced raw material stocked in the first half of 2008-09 negated the benefit of lower material prices in the second half of 2008-09.
- In 2009-10, we expect average raw material cost to decline by 23 per cent and, consequently, operating margins to improve by 600-700 bps. We estimate average realisation to remain at increased levels as only a part of the benefit of lower raw material cost will be passed on to consumers across segments.

Auto components & Tyres

Auto Component: Tariffs

(per cent)	Customs		Excise	
	2008-09	2009-10	2008-09	2009-10
Engine and Engine parts ¹	7.7	7.7	8.2	8.2
Two-wheelers and Four-wheelers				
Drive transmission, steering, suspension and braking parts ²	10.3	10.3	8.2	8.2
Two-wheelers and Four-wheelers				
Electrical parts	10.3	10.3	8.2	8.2
Raw materials for auto components	5.2	5.2	8.2	8.2

Note: Raw materials for auto components include: GP/GC steel, HR steel, aluminium, copper, lead
HR: Hot rolled; GC: Galvanised coil; GP: Galvanised plate.

Excise duty rate is the revised rate announced by the government in December 2008

¹ Except for parts such as silencer, exhaust pipes and radiators, on which the duty is at 10.3 per cent

² Except for parts such as couplings and seals, on which the duty has been reduced to 7.73 per cent

Note:

Duty free imports from Thailand are allowed for engine parts, helical springs, ball bearings, lighting equipment and gear boxes under the FTA.

Source: CRISIL Research

Tyres: Tariffs, prices and landed costs

	Tariffs (per cent)				Prices (May 2009)		Landed costs (Rs/tonne)	
	Customs		Excise		Domestic (Rs/tonne)	International (\$/tonne)	Pre-budget	Post-budget
	2008-09	2009-10	2008-09	2009-10				
New tyres	10.3	10.3	8.2 [#]	8.2	-	-	-	-
Used/retreaded tyres								
Truck and bus	10.3	10.3	8.2 [#]	8.2	-	-	-	-
Car cross ply/ Radials	10.3	10.3	8.2 [#]	8.2	-	-	-	-
Raw materials for tyres								
Natural rubber	20.6	20.6	-	-	98,578	1,741	106,798	106,798
SBR (1502)	10.3	10.3	8.2 [#]	8.2	na	1,350	74,383	74,383
PBR (1220)	10.3	10.3	8.2 [#]	8.2	78,000	1,375	75,080	75,080
NTC fabric	10.3	10.3	8.2 [#]	8.2	na	3,100	195,094	195,094
Carbon black (N330)	5.2	5.2	8.2 [#]	8.2	80,203	na	na	na

NTC: Nylon tyre cord; PBR: Polybutadiene rubber; SBR: Styrene butadiene rubber

n.a: Not available

Note:

1) For natural rubber, there is a cess of Rs 1.50 per kg in lieu of excise duty.

2) For NTC fabric, an additional excise duty of Rs 10 per kg is chargeable.

3) China and South Korea enjoy preferential rate of customs duty of 8.9 per cent on tyres under the Asia- Pacific Trade Agreement

4) New tyres include the following categories: Truck & bus, Light truck, Car (Cross Ply and Radial), Tractor Front, Tractor Rear, Tractor Trailer, Moped, Scooter and Motorcycle.

[#] Post stimulus package announced in February 2009

Source: CRISIL Research

Auto components & Tyres

Auto components and tyres to remain unaffected by budget announcements

Auto components: Company impact

Company	Impact	Impact factors
Bharat Forge Ltd	↔	B
Bosch Ltd	↔	B
Amtek Auto Ltd	↔	B
Sona Koyo Steering Systems Ltd	↑	A,B
Sundaram Fasteners Ltd	↑	A,B

Source: CRISIL Research

Tyres: Company impact

Company	Impact	Impact factors
Apollo Tyres Ltd	↔	D
Ceat Ltd	↔	D
Goodyear India Ltd	↔	D
JK Industries Ltd	↔	D
MRF Ltd	↔	D

Source: CRISIL Research

Impact factors

- Extension of tax holiday for 100 per cent export oriented units (EOU) until 2010-11 will benefit only players with established EOUs.
- Scheme to provide enhanced Export Credit and Guarantee Corporation (ECGC) cover at 95 per cent has been extended up to March 2010. This scheme will assist players to mitigate risk of payment defaults in the export market.
- Interest subvention of 2 per cent on pre-shipment credit for small and medium exporters has been extended up to March 31, 2010.
- There will be an indirect impact on tyres sector due to the benefit derived by two-wheelers, tractors and bus segments from announcements of the Union Budget 2009-10.

Automobiles

Volume recovery and lower material cost to aid higher profitability across auto segments

- The Indian automobile industry declined by 3 per cent in 2008-09, to Rs 1,635 billion, due to fall in commercial vehicle volumes, despite a price increase in the range of 3-8 per cent across auto segments. Export industry registered a growth of 14 per cent (in value terms) with buoyant export growth in passenger car and two-wheeler segments, which together constitute around 70 per cent of total exports.
- Sharp decline in commercial vehicle purchases by transporters could be attributed to sluggish growth in freight movement, significant increase in operating and finance costs and stringent credit disbursement norms. Weak consumer sentiment and tight credit disbursement norms impacted passenger cars and two-wheeler volume growth in 2008-09.
- Rise in input cost in the first half of 2008-09 and decline in volumes in the second half of 2008-09 led to decline in operating margins of passenger car and commercial vehicle manufacturers. Vehicle price increase across segments partially offset the increase in cost.
- Automobile sales are expected to grow by 2.5 per cent in 2009-10, in value terms, led by recovery in volume growth in passenger cars and two-wheelers. However, a continued decline in commercial vehicles will partially offset this.

Product category	Volume growth %	2008-09 Growth drivers	Volume growth %	2009-10 (E) Growth drivers
Cars & utility vehicles	5.9%	Robust growth in exports with India emerging as a small car manufacturing hub	10-11%	Improved financing scenario, new model launches and strong exports growth
Two-wheelers	4.6%	Higher farm incomes due to higher minimum support prices (MSP), increased personal disposal income on account of change in income tax slabs and higher cash sales (due to increased rural demand) were the main drivers	6-8%	Continued healthy rural demand and 4-5 per cent decline in cost of ownership
Commercial vehicles	-22.3%	Reduction in freight availability on account of slowdown in industrial production, particularly in the second half of 2008-09; lack of commercial vehicle (CV) financing and stringent underwriting norms due to continuing risk of delinquencies	(2) - 0 %	Improvement in freight availability; lower interest rates reflecting greater willingness on part of financiers to lend; excise and accelerated depreciation benefit
Tractors	-1%	Reduced bank credit disbursements in response to increase in non performing assets (NPA) led to a decline in spite of an increase in farm incomes	0-2%	Credit disbursements by public sector banks and expected domestic push from players, in order to compensate for export decline, is likely to stabilise manufacturer sales.

E: Expected growth

Source: CRISIL Research

Automobiles

Automobiles: Tariffs

(per cent)	Customs		Excise	
	2008-09	2009-10	2008-09	2009-10
New cars				
-Completely knocked down units (CKD)	10.3	10.3	-	-
-Semi-knocked down units (SKD)	61.8	61.8	-	-
-Specified small cars ¹	61.8	61.8	8.2	8.2
-others	61.8	61.8	20.6	20.6
Second hand cars	103.0	103.0	20.6	20.6
Utility vehicles				
-6-12 seater	10.3	10.3	20.6	20.6
-12 seater and above ²	10.3	10.3	10.3	10.3
Two-wheelers	61.8	61.8	8.2	8.2
Trucks (LCVs & MHCVs)	10.3	10.3	8.2 [#]	8.2 [#]
Buses (LCVs & MHCVs)	10.3	10.3	8.2 [#]	8.2 [#]
Tractors	10.3	10.3	-	-
Steel items	5.2	5.2	8.2 [#]	8.2 [#]
Pig iron	5.2	5.2	8.2 [#]	8.2 [#]
Engine & engine parts				
- Four-wheelers	7.7	7.7	16.5	16.5
- Two-wheelers	7.7	7.7	16.5	16.5
Drive transmission, steering, suspension & braking parts				
- Four-wheelers	10.3	10.3	16.5	16.5
- Two-wheelers	10.3	10.3	16.5	16.5
Electrical parts	7.7	7.7	16.5	16.5

¹ Specified small cars include cars with length not exceeding 4,000 mm and engine capacity not exceeding 1,200 cc for petrol cars and 1,500 cc for diesel cars.

² Excluding driver

LCV: Light commercial vehicles; MHCV: Medium and heavy commercial vehicles

[#] Post stimulus package announced in February 2009

Since July 2008, cars and utility vehicles attract specific additional duty of Rs 15,000 (1500cc to 1999cc) and Rs 20,000 (2000cc & above). In 2009-10, cars and utility vehicles (1500cc & above) attract specific additional duty of Rs 15,000.

Source: CRISIL Research

No major impact on automobile sector

Company	Impact	Impact factors
Maruti Suzuki Ltd	↔	A
Tata Motors Ltd	↔	A,D
Ashok Leyland Ltd	↔	D
Bajaj Auto Ltd	↑	B
Hero Honda Motors Ltd	↑	B
Mahindra & Mahindra Ltd	↔	A,C

Source: CRISIL Research

Impact factors

- A.** Reduction in specific additional duties by Rs 5,000 for cars and utility vehicles (2,000 cc and above) will be marginally favourable for the sector.
- B.** We expect the demand for two wheelers to benefit marginally from the increase in disposable income due to alteration in income tax slabs and continued focus on rural development.
- C.** A 75 per cent increase in allocation of funds for Accelerated Irrigation Benefit Programme (AIBP) will be marginally beneficial for tractor sales.
- D.** Increase in allocation of funds through Jawaharlal Nehru National Urban Renewal Mission (JNNURM) scheme may potentially benefit bus sales.

Banking and finance

Slowdown in demand and rising credit risk concerns to impact credit growth in 2009-10

- Growth in aggregate banking credit moderated to 17.3 per cent (y-o-y) in 2008-09 as compared to 22.3 per cent in 2007-08. Growth decelerated further to 15.7 per cent (y-o-y) in May 2009. Non-food credit that grew by 25.7 per cent (y-o-y) in 2007-08 decelerated to 18.2 per cent in 2008-09 and further declined to 15.9 per cent (y-o-y) in May 2009. Slowdown in credit offtake can be attributed to the prevailing economic downturn reflected in reduced gross domestic product (GDP) growth and lower industrial production. In addition, slowdown in retail advances in conjunction with reduced borrowing by corporates has led to moderation in credit growth.
- Aggregate deposit growth moderated to 19.8 per cent (y-o-y) in 2008-09 as against growth of 22.4 per cent in 2007-08. Deposits grew by 22.6 per cent (y-o-y) in May 2009. As in the past, the growth in deposits was led by time deposits, reflecting a shift of demand deposits and other savings instruments to time deposits.
- Outstanding credit-deposit ratio stood at 72.3 per cent as on March 2009, compared to 73.9 per cent as on March 2008. Deceleration in credit growth coupled with acceleration in deposits growth led to decline in the incremental credit-deposit ratio (y-o-y) of scheduled commercial banks (SCBs) to 64.4 per cent as on March 2009 from 73.6 per cent a year ago.
- CRISIL Research expects credit growth to further moderate in 2009-10, at around 16-18 per cent (y-o-y) on account of weak business confidence and consumer sentiment along with rising credit risk concerns of banks. Expected increase in gross non-performing assets (GNPAs) might turn the banking system cautious towards lending, which may further lower the pace of credit growth. Although deposit rates are expected to move southwards, deposits are likely to grow moderately at 17-19 per cent (y-o-y) due to the lack of alternative avenues of investment.
- Most public sector banks and private sector banks have reduced their prime lending rates (PLRs) in 2008-09, beginning the third quarter, by around 125-225 basis points (bps) and 100-125 bps, respectively, while deposits rates have been reduced by 100-200 bps and 75-125 bps, respectively. Banks have reduced their PLR in 2009-10 so far, by around 50-100 bps while deposit rates have reduced by 75-125 bps. The pace of decrease in high cost deposits vis-à-vis re-pricing of loans would determine banks' margins in the near future. Margins for the banking sector would be under pressure in 2009-10, with GNPAs estimated to increase to 3.9 per cent in 2009-10 from 2.7 per cent in 2008-09.

Overall neutral; thrust on priority sector lending

Company	Impact	Impact factors
State Bank of India	↔	A, B, D
Punjab National Bank	↔	A, B, D
ICICI Bank	↔	A, B, D
HDFC Bank	↔	A, B, D
HDFC Limited	↔	B
LIC Housing Finance Limited	↔	B

Source: CRISIL Research

Banking and finance

Impact factors

A. Farm credit

- For 2009-10, banks have been directed to lend Rs 3,250 billion to the farm sector - a 13 per cent increase over the previous year. Reduction in the targeted growth rate, over the previous year, will give banks a breather to consolidate their origination systems for farm credit.
- Interest subvention scheme for short term crop loans to farmers up to Rs 0.3 million per farmer at 7 per cent per annum is set to continue in 2009-10. Further, the government will pay an additional subvention of 1 per cent as an incentive to those farmers who repay their short term crop loans on schedule. An additional provision of Rs 4.11 billion has been made for these schemes.
- Under the Agricultural Debt Waiver and Debt Relief Scheme (2008), farmers having more than two hectares of land were given margin up to June 30, 2009 for paying 75 per cent of their overdues. Due to the late arrival of monsoon, this period has been extended by 6 months up to December 31, 2009.
- However, continuation of the interest subvention scheme, an additional subvention of 1 per cent and extension of bank loan waiver may impact profitability of banks.

B. Refinance Schemes

- The proposal to provide a special fund of Rs 40 billion, for supporting Micro, Small and Medium Enterprises (MSMEs), will incentivise banks and State Finance Corporations (SFCs) to lend to MSMEs by refinancing 50 per cent of incremental lending to these enterprises during 2009-10. This fund is a part of Rural Infrastructure Development Fund (RIDF) to Small Industries Development Bank (SIDBI). It will facilitate credit flow at reasonable rates to MSMEs affected by slowdown in the backdrop of global financial crisis.
- Allocation of Rs 20 billion for Rural Housing Fund in the National Housing Bank (NHB) will broaden the pace of rural housing and boost the resource base of NHB for refinance operations in the rural housing sector.

C. Financial inclusion

- It has been proposed to set aside Rs 1 billion, for 2009-10, as one-time grant-in-aid to ensure provision of at least one centre/Point of Sales (POS) for banking services in the country's unbanked blocks. A sub-committee of State Level Bankers Committee (SLBC) will identify such unbanked areas and formulate an action plan for providing banking facilities in the next 3 years.
- It has been proposed to relax the Branch Authorisation Policy and allow SCBs to set up offsite ATMs without prior approval of the RBI (subject to reporting). So far, SCBs have opened 33 million 'no frills' accounts either with 'nil' or very low minimum balances.
- These proposals are part of the larger financial inclusion drive, providing banks with an opportunity to expand banking business.

D. Hardening yields

- Hardening of G-Sec yields, in the backdrop of revised estimates for fiscal deficit, will negatively impact the value of the bank's investment portfolio on one hand, and on the other, will positively impact growth in investment income. We estimate fall in the face value of G-Secs to be of a higher order as compared to gain in investment income. However, extent of this impact would depend on the maturity profile and coupon rate. Overall, this will have a marginally negative impact on the investment portfolio of banks.

Cement

Price declines to exert pressure on profitability

- Cement demand increased by 8.4 per cent on a year-on-year (y-o-y) basis during 2008-09 primarily due to increased demand from infrastructure activities and independent housing in semi-urban and rural areas. CRISIL Research expects growth in cement demand to decline to around 7 per cent over the next 2 years.
- Industry operating rates dropped from 95 per cent in 2007-08 to 88 per cent in 2009-10 due to the capacity additions towards the end of 2007-08 and in 2008-09. CRISIL Research expects around 65 million tonnes of cement capacity to be added over the next 2 years. As a result, cement operating rates are expected to fall further.
- Average retail cement prices rose from Rs 233 per bag in 2007-08 to Rs 240 per bag in 2008-09, registering an increase of 3 per cent (y-o-y). However, we expect cement prices to decline by 4-6 per cent in 2009-10 as industry operating rates are expected to drop due to capacity additions.
- We believe that the decline in cement prices would exert pressure on player profitability, and operating margins would come down by 50-100 basis points in 2009-10.

Cement: Tariffs

(Per cent)	Customs		Excise		Abatement rate	
	2008-09	2009-10	2008-09	2009-10	2008-09	2009-10
Portland cement ^{1,2}	0.0	0.0	237 - 412	237 - 412	0.0	0.0
White cement	10.3	10.3	0.0	0.0	35.0	35.0
Cement clinker ¹	10.3	10.3	309	309	0.0	0.0
Limestone	5.2	5.2	0.0	0.0	0.0	0.0
Gypsum	5.2	5.2	14.4	14.4	0.0	0.0
Non-coking coal	5.2	5.2	0.0	0.0	0.0	0.0
Pet coke	5.2	5.2	16.5	16.5	0.0	0.0

¹ Excise duty for portland cement and cement clinker is in rupees.

² There is a three-tier excise duty structure on cement industry for large cement plants.

MRP < Rs 3,800 / tonne - excise Rs 230 / tonne, MRP > Rs 3,800 / tonne but < Rs 5,000 / tonne - excise 8%,
MRP > Rs 5,000 / tonne - excise Rs 400. An education of cess of 3 per cent will be applicable in all cases.

Source: CRISIL Research

Duties and tariffs unchanged - No major impact on cement sector

Company	Impact	Impact factors
ACC	↔	A
Gujarat Ambuja Cement Ltd	↔	A
India Cement Ltd	↔	A
Shree Cement Ltd	↔	A
UltraTech Cement Ltd	↔	A

Source: CRISIL Research

Impact factors

A. Measures to spur infrastructure investments will have a marginally positive impact on demand for cement.

C

onstruction

Construction margins to remain stable in the medium term

- CRISIL Research expects the construction industry (construction investment in infrastructure and industrial segment) to grow at a CAGR of 13 per cent between 2008-09 and 2010-11 on the back of strong infrastructure spending by the government. Investments in industrial segment are likely to slowdown on account of companies postponing/cancelling their expansion plans owing to falling demand and difficulties in raising funds.
- Construction investment in infrastructure is likely to grow from Rs 991 billion in 2007-08 to Rs 1,447 billion in 2010-11. Whereas, construction investment in industrial segment is expected to grow from Rs 390 billion to Rs 450 billion during the same period. The irrigation, urban infrastructure and ports sectors will be the primary growth drivers for construction investments in the near future, while sectors like roads and power will continue to form a large part due to the quantum of their investments. In the industrial segment, the sectors of oil & gas and metals will be the primary sectors of growth.
- In 2008-09, industry sales (aggregate of top construction players) registered a robust annual growth of 34.8 per cent. Operating margins declined marginally from 13.4 per cent to 13.1 per cent (y-o-y), due to delays in project execution and intense competition.
- CRISIL Research expects the industry to continue to record healthy growth as large order inflows are anticipated with the formation of a stable government and its continued thrust on improving infrastructure. For large players, operating margins are expected to improve further as they are restricting themselves from bidding for low-margin projects (especially Build-Operate-Transfer projects). Execution is also likely to improve as interest rates moderate and banks increase their appetite to lend to construction companies.

For evaluating corporate performance, we have considered the aggregate financials of the following six companies: Hindustan Construction Co Ltd, IVRCL Infrastructures and Projects Ltd, Jaiprakash Associates Ltd, Larsen & Toubro Ltd, Nagarjuna Construction Co Ltd and Punj Lloyd Ltd

Marginally positive impact of budget

Company	Impact	Impact factors
Larsen & Toubro Ltd	↑	A
Hindustan Construction Co Ltd	↑	A
IVRCL Infrastructures & Projects Ltd	↑	A
Nagarjuna construction Co Ltd	↑	A
Gammon India Ltd	↑	A

Source: CRISIL Research

Impact factors

- A. The outlay on infrastructure has increased substantially in terms of roads, railways, irrigation and urban infrastructure
- Allocation under Jawaharlal Nehru National Urban Renewal Mission (JNNURM) has been stepped up by 87 per cent to Rs 128.9 billion in 2009-10.
 - Funding for infrastructure projects has been enhanced by empowering IIFCL to refinance upto 60 per cent of commercial bank loans for PPP projects in critical sectors over the next 15-18 months. IIFCL and banks are now in a position to support projects involving a total investment of Rs 1,000 billion
 - Spending on national highways and railways has been increased by 23 per cent and 46 per cent, respectively, which augurs well for the construction industry
 - The annual outlay under the 'Accelerated Irrigation Benefit Programme' has been increased by 75 per cent
 - Removal of the central excise tax on prefabricated concrete blocks will marginally reduce the cost of construction
- B. The hike in MAT rate from 10 per cent to 15 per cent may adversely impact companies exposed to BOT projects. An explanation of Section 80-IA has been incorporated in this budget in order to prevent the misuse of the tax holiday by sub-contractors under Section 80-IA of the Income Tax Act.

Fertilisers

Profitability increased with increase in subsidy payment; subsidy bill to come down in 2009-10

- Production of complex fertilisers declined in 2008-09, primarily due to scarcity of raw materials and high phosphoric acid prices in the first half of 2008-09. Hence, in order to support the healthy demand, imports increased.
- Changes in the concession scheme for complex fertilisers including concession on sulphur nutrient enabled players in this segment to realise higher profits. Although prices of key raw materials increased in 2008-09, operating profits of fertiliser players have risen on account of higher subsidy payments.
- The Union Budget 2008-09 provided Rs 301 billion towards fertiliser subsidy. The provision was revised upwards to Rs 758 billion in the interim budget with prices of imported fertilisers and key raw materials increasing significantly in the first half of 2008-09. In addition, the government issued bonds of Rs 200 billion during the year. However, the subsidy bill for 2008-09 is estimated to be over Rs 1,000 billion, which is expected to lead to some carrying forward of the subsidy claims.
- Going forward, given the healthy growth in demand, we expect imports to continue, in the absence of new capacity additions. In the medium term, demand for urea is expected to grow by 4 per cent while that of phosphatic fertilisers is likely to increase by 6-7 per cent.
- The gas utilisation policy earmarked top priority to supply 15 million metric standard cubic meters of Reliance Industries Limited (RIL) gas to urea manufacturers. Supply of RIL gas to urea manufacturers commenced in April 2009. Consequently, profitability of urea players is expected to increase backed by higher energy efficiency due to increased usage of gas.
- With fall in international prices of key raw materials and fertiliser products coupled with increased supply of natural gas, the overall subsidy bill in 2009-10, including arrears is expected to be around Rs 600-650 billion. Against this the government had budgeted for Rs 502 billion in the Union budget.

Fertilisers: Tariffs, prices and landed costs

	Tariffs (per cent)				Prices (May 2009)		Landed costs (Rs/tonne)	
	Customs ¹		Excise ¹		Domestic (Rs/tonne)	International (\$/tonne)	Pre-budget	Post-budget
	2008-09	2009-10	2008-09	2009-10				
Urea	5.2	5.2	-	-	4,830 ²	270	14,678	14,678
DAP	5.0	5.0	-	-	9,350 ²	314	18,971	18,971
MOP	5.2	5.2	-	-	4,455 ²	917	49,701	49,701
Ammonia	5.2	5.2	-	-	NA	272	14,158	14,158
Phosphoric acid	5.2	5.2	-	-	NT	630	32,791	32,791
Sulphur	2.1	2.1	-	-	NA	63	3,158	3,158
Rock phosphate	5.2	2.1	-	-	NT	290	16,235	15,758
Naphtha	-	-	-	-	27,435	478	24,145	24,145
Fuel oil	-	-	-	-	17,930	337	18,919	18,919
LNG ³	5.2	5.2	-	-	-	-	9,074	9,074

DAP: Di-ammonium phosphate; LNG: Liquified natural gas

MOP: Muriate of potash; NT: Not traded; NA: Not available

"-" indicates not applicable

Notes:

¹ Includes education cess except for DAP

² Farmgate price from March 12, 2003

³ Price per thousand scm

There is no Excise and Customs duty on naphtha and fuel oil used for production of fertilisers

Prices of rock phosphate and MOP are for January 2009

Source: CRISIL Research

Roadmap for change in subsidy mechanism unclear

Company	Impact	Impact factors
Chambal Fertilisers & Chemicals Ltd	↔	-
Coromandel Fertilisers Ltd	↔	A
Gujarat Narmada Valley Fertilizers Company Ltd	↔	A
Gujarat State Fertilisers Company Ltd	↔	A
Rashtriya Chemicals and Fertilisers Ltd	↔	A
Tata Chemicals Ltd	↔	A
Zuari Industries Ltd	↔	A

Source: CRISIL Research

Impact factors

- A. The customs duty on rock phosphate has been reduced from 5.0 per cent to 2.0 per cent. This will have a marginal impact on industry profits as most of the phosphatic fertilisers are produced using imported phosphoric acid.
- B. The budget has announced the intention to change the subsidy regime from product-based to nutrient-based. Further, it has reiterated the plan to move to a system of direct subsidies to farmers.

Other factors

- C. The greater thrust on agricultural credit and irrigation is expected to boost the fertiliser consumption in the long run.

Hotels

Corporate travel cut backs and falling tourist arrivals to impact demand and revenues in the near term

- The hotel industry is expected to face a tough business environment in 2009-10. Curtailment in corporate travel spending has adversely affected demand from the business segment; additionally leisure demand has also waned considerably. Occupancy rates fell from 71 per cent in 2007-08 to 63 per cent in 2008-09.
- ARRs, which rose by 19 per cent (y-o-y) between April-October 2008, declined by around 14 per cent during November 2008-March 2009 over the same period last year. Occupancy rates declined to 63 per cent during November 2008-March 2009 from 79 per cent in the same period last year, resulting in a significant drop in RevPAR.
- During 2008-09, RevPAR fell by around 11 per cent. Foreign tourist arrivals, which increased by 8 per cent (y-o-y) in April-October 2008, began dropping from November 2008 onwards.
- CRISIL Research expects room availability to increase by 13 per cent in 2009-10. Even though the recent downturn has slowed down the development of new properties, those at an advanced stage of execution are being launched, albeit with a few months lag.
- We expect room demand to decline by 6 to 8 per cent in 2009-10 causing occupancy rates to fall to around 53 per cent across major business and leisure destinations. RevPAR is expected to decline by around 29 per cent, thereby impacting player revenues and profitability.
- Pune is expected to witness the sharpest decline (around 45 per cent) in RevPAR in 2009-10 due to declining demand and excess supply leading to intense competition. NCR, North Mumbai and Bengaluru are also likely to witness a substantial decline in RevPAR.

No impact on premium segment hotels

Company	Impact	Impact factors
Indian Hotels Company Ltd	↔	A
EIH Ltd	↔	A
Hotel Leelaventure Ltd	↔	A

Source: CRISIL Research

Impact factors

- A. The impact of the Union Budget 2009-10 on hotels is neutral. While the fringe benefit tax on the usage of hotel facilities has been abolished, this move by itself is unlikely to spur room demand.

Household appliances

Household appliances sector to grow by around 4 per cent in 2009-10

- The household appliances industry stood at Rs 229 billion in 2008-09, registering a growth of 11 per cent y-o-y. While the first half witnessed robust growth across products such as CTVs, refrigerators and washing machines, the overall economic slowdown led to weakening of consumer sentiments from the third quarter.
- In 2008-09, festive sales during Diwali were lower on a y-o-y basis, resulting in a decline in volumes for CTVs and refrigerators. Third quarter CTV and refrigerator volumes declined by 9.4 per cent and 2.5 per cent, respectively. Air conditioner volumes also declined 10 per cent y-o-y in November 2008.
- Consumer demand has shown some signs of revival with CTV volumes growing marginally (1.7 per cent y-o-y) in the fourth quarter of 2008-09. Benefits of the excise duty cuts of 4 per cent and 2 per cent in December 2008 and February 2009 respectively, were partly passed on to the consumer by the manufacturers. This also contributed to the revival in demand
- CRISIL Research expects household appliances sales to grow moderately by around 4 per cent in 2009-10. CTV and air conditioner volumes are expected to clock the fastest growth at 5 per cent y-o-y in 2009-10. LCD TVs are expected to continue to grow robustly by 75 per cent in 2009-10.

Product category	2009-10 P over 2008-09 Volume growth%	Growth drivers
Air-conditioners	4 - 6	Changing lifestyles, rising personal disposable incomes and increasing demand from the commercial segment
Refrigerators	2 - 4	Rising urban consumption and growth in the frost-free segment due to upgradation
Colour televisions	4 - 6	Improving disposable incomes, reducing prices, product innovations and upgradation towards LCD TVs
Washing machines	2 - 4	Increasing penetration from low base and rising disposable incomes

P: Projected

Source: CRISIL Research

Household appliances: Tariffs

(per cent)	Customs		Excise		Abatement rate	
	2008-09	2009-10	2008-09	2009-10	2008-09	2009-10
B/W TVs	10.3	10.3	8.2	8.2	-	-
Colour TVs (CRT,LCD)	10.3	10.3	8.2	8.2	30	30
Refrigerators	10.3	10.3	8.2	8.2	35	35
Room ACs	10.3	10.3	8.2	8.2	25	25
Washing machines	10.3	10.3	8.2	8.2	35	35
CPT and glass parts	10.3	10.3	8.2	8.2	-	-
LCD Panel	10.3	5.2	8.2	8.2	-	-
Compressors, Thermostat and Tubes	7.7	7.7	8.2	8.2	-	-
Steel, Polymers	10.3	5.2	8.2	8.2	-	-

CRT: Cathode ray tube, LCD: Liquid crystal display, CPT: Colour picture tube

Note: On 7th Dec 2008 the excise duty was reduced from 14% to 10%. It was further reduced to 8% on 24th Feb 2009. Abatement rate effective from 24th December 2008.

The Custom Duty on Steel was revised from 10% to 5% in November 2008.

Source: CRISIL Research

Household Appliances

Marginally positive impact for manufacturers of LCD TVs

Company	Impact	Impact factors
Samtel Colour Ltd	↔	B
LG India	↑	A, B
Samsung India	↑	A, B
Whirlpool of India Ltd	↔	B
MIRC Electronics Ltd	↑	A, B

Source: CRISIL Research

Impact factors

- A. The reduction in customs duty on LCD panels from 10 per cent to 5 per cent is likely to have a marginally positive impact on the household appliances industry. LCD panels constitute around 45-70 per cent of the price of an LCD TV, depending upon the screen size. Consequently, if this customs duty cut is passed on in full to the consumer, the prices of 32-inch LCD TVs could fall by around Rs 600. This cut in duty is also likely to boost domestic assembling of LCD TVs.
- B. The marginal rise in disposable incomes due to the increase in income tax exemption limit by Rs 10,000 per annum is likely to marginally drive demand.

Housing

Demand to pick up on the back of new launches at attractive prices

- The real estate market in India witnessed stupendous growth over the past few years, with average residential capital values more than doubling between 2005 and the first half of 2008. However, demand for houses has plummeted since then. With global economy decelerating, end users have put their purchasing plans on hold due to fall in affordability levels, job-related uncertainties and expectations in price corrections. Investors have also pulled out of the market due to wealth erosion and rising risk of negative returns.
- Sluggish demand accompanied by tight liquidity forced developers to offer huge discounts causing sales and profit margins to deteriorate sharply. CRISIL Research's study shows that residential real estate prices, in India's 10 major cities, declined by 18-20 per cent in March 2009 from the highs witnessed in first half of 2008.
- Aggregate sales of major real estate players declined by 30 per cent in 2008-09 compared to the previous year. Operating profits fell more steeply by 41 per cent during the same period.
- We expect residential real estate market sales to pick up marginally with more number of housing projects likely to be launched at attractive prices. Liquidity pressure has been easing for major players as funds have been generated through various alternative sources like land sales, sale of non-strategic businesses and Qualified Institutional Placement (QIP) route. Additionally, stability in economy accompanied by decline in home loan rates will support demand from end users. Overall, before stabilising in 2010, capital values are likely to fall further by 8-10 per cent in 2009, due to pressure on affordability on account of continuing uncertainty in the job market and absence of investor interest.

For evaluating corporate performance, we have considered aggregates of the following six companies: D L F Ltd, Housing Development & Infrastructure Ltd (Standalone), Puravankara Projects Ltd, Indiabulls Real Estate Ltd, Sobha Developers Ltd (Standalone), Brigade Enterprises Ltd (Standalone), Orbit Corporation Ltd.

No major impact on organised players and urban segments

Company	Impact	Impact factors
DLF Universal Ltd	↔	-
HDIL	↔	-
Parsvnath Developers Ltd	↔	-
Sobha Developers Ltd	↔	-
Unitech Ltd	↔	-

Source: CRISIL Research

Impact factors

- A.** Funds, to the tune of Rs 39.7 billion in 2009-10, have been allocated under the Jawaharlal Nehru National Urban Renewal Mission (JNNURM) to improve housing for poor and provide basic amenities. These include provision for Rajiv Awas Yojana, a new scheme announced. Allocation under Indira Awaas Yojana has increased by 63 per cent to Rs 88 billion. In addition, for boosting rural housing, Rs 20 billion has been provided for Rural Housing Fund through National Housing Bank for refinancing to scheduled commercial banks. Although this will help rural housing to improve, organised sector will largely remain unaffected.

Information Technology

Growth to dip significantly in 2009-10

The Indian IT industry primarily consists of three segments: IT services, information technology enabled services (commonly referred to as BPO/KPO services) and hardware.

- Indian IT players are facing the brunt of slowdown in their key markets (the US and UK) and key vertical - BFSI. Clients are cutting down on their IT budgets and seeking concessions on billing rates from their vendors.
- CRISIL Research estimates IT services export revenues to be around \$26 billion in 2008-09, a year-on-year (y-o-y) growth rate of 12 per cent, after an impressive 29 per cent y-o-y growth in 2007-08. In 2009-10, we expect IT services export revenues to remain flat.
- After years of robust growth of over 30 per cent, the export growth rate of the Indian ITeS sector slumped to 18 per cent in 2008-09, with estimated revenues of \$12.8 billion. CRISIL Research expects growth in ITeS exports to moderate to 7-8 per cent in 2009-10.
- However, we are positive about the long-term prospects of the industry. Continuing maturity of the global offshore delivery model and the inherent need of clients to reduce costs would together help propel growth, once the world economy recovers. Players would also increasingly focus on targeting new markets, developing capabilities in emerging service lines such as IMS, and process innovation. To mitigate the impact on margins due to the slowdown, IT players have resorted to measures like increasing the offshore component and improving employee utilisation levels, minimal salary increment and rationalising of selling general and administrative expenses.
- Revenues of the hardware industry remained flat at \$11.8 billion in 2008-09. This can mainly be attributed to flat PC sales. We expect the industry to recover in the medium term. Demand is expected to be driven by increasing utilisation of PCs, availability of affordable finance schemes, and the development of useful content and applications. The push is also expected to come from growing distribution channels of technology vendors.

IT: Hardware and software tariffs

	Tariff (per cent) ¹			
	Customs		Excise ²	
	2008-09	2009-10	2008-09	2009-10
Packaged software	0.0	0.0	8.2	0.0
Personal computers	0.0	0.0	8.2	8.2
Monitor	0.0	0.0	8.2	8.2
Keyboard	0.0	0.0	8.2	8.2
Mouse	0.0	0.0	8.2	8.2
Printer	0.0	0.0	8.2	8.2
FDD, HDD, CD-ROM drive and other storage drives ³	0.0	0.0	0.0	0.0
Motherboards	0.0	0.0	8.2	8.2
Microprocessors	0.0	0.0	8.2	8.2
Routers	0.0	0.0	8.2	8.2
Modems	0.0	0.0	8.2	8.2

¹Tax rate is inclusive of education cess.

²Excise duty for 2008-09 is as per the stimulus package announced in December 2008 and February 2009.

³FDD: Floppy disk drive; HDD: Hard disk drive; CD-ROM: Compact disk-read only memory.

Source: CRISIL Research

Marginally negative impact of budget

Company	Impact	Impact factors
Infosys Technologies Ltd	↓	A,B,C,D
Tata Consultancy Services Ltd	↓	B,C,D
HCL Technologies Ltd	↓	B,C,D
Firstsource Solutions Ltd	↓	B,C,D
Zenith Computers Ltd	↔	-

Source: CRISIL Research

Impact factors

- Abolition of excise duty on packaged software is expected to positively impact the industry. However, its impact on Indian players will be marginal due to its limited packaged software offering.
- Tax exemption under section 10 (A) and 10 (B) has been extended by a year, till March 31, 2011. This will bring respite to IT players, especially tier-2 players.
- The minimum alternate tax (MAT) rate has been increased from 10 per cent to 15 per cent, and MAT credit period has been increased from 7 years to 10 years. This will dent profitability of players across the board in the near term. However, the impact is expected to be relatively higher for tier-2 IT players vis-à-vis tier-1 players.
- Abolition of fringe benefit tax (FBT) will benefit the industry as a whole as the IT industry had a high incidence of FBT due to ESOPs. This will help reduce the employee compensation cost.

Media and Entertainment

Industry to feel the impact of slowdown in advertising spends in 2009

- CRISIL Research expects growth in advertising spends to drop to 7-8 per cent in 2009 from 15-16 per cent in 2008. Advertising spends during the Indian Premier League (IPL) and the general elections provided support to the ad spend growth during the year. Spending by sectors such as BFSI and retail has declined significantly, but sectors such as telecom, FMCG, automobiles, and education services are expected to continue to advertise. Advertising spends are expected to improve in line with the economic revival and grow by about 15 per cent in 2010.
- Although subscription revenues would register healthy growth, due to the slowdown in ad spends, the total revenues of the media and entertainment industry are expected to increase by 14 per cent to Rs 660 billion in 2009. With a revival in ad spends growth in 2010 and an increase in the penetration of media platforms, industry revenues are likely to grow by 15 per cent to Rs 760 billion by 2010.
- Amongst individual media segments, television and newspapers would be the worst hit by the expected slowdown in advertising spends growth. Smaller players in these segments are likely to witness considerable pressure on profitability. In the radio broadcasting space as well, smaller players are likely to find it hard to get advertisers on board, which would adversely impact profitability.
- The film segment is expected to witness a decline of 2 per cent in 2009 due to fewer numbers of Hindi films expected to be released during the year, the spate of films performing poorly at the box-office in the first quarter of 2009, and a sharp decline in the prices paid for rights associated with movies.

Media and entertainment: Tariffs

(per cent)	Customs*		Excise	
	2008-09	2009-10	2008-09	2009-10
Digital cinema equipment	7.7	7.7	8.2	8.2
Broadcast equipment	10.3	10.3	8.2	8.2
Set-top boxes	0.0	5.2	8.2	8.2

* Customs duty is inclusive of education cess of 3 per cent and exclusive of special duty of 4 per cent

Source: CRISIL Research

Media and Entertainment

Budget neutral for the media and entertainment sector

Company	Impact	Impact factors
Adlabs Films Ltd	↔	
Balaji Telefilms Ltd	↔	
Dish TV Ltd	↔	A
HT Media Ltd	↔	B,C
Shree Ashtavinayak Cine Vision Ltd	↔	
PVR Ltd	↔	
Sun TV Ltd	↔	A
Zee Entertainment Enterprises Ltd	↔	

Source: CRISIL Research

Impact factors

- A. The increase in customs duty on set top boxes from 0 to 5 per cent is expected to boost domestic production. However, the move will also increase the subsidies borne by digital pay-tv operators, and hence, will marginally impact their profitability.
- B. The exemption of customs duty on newsprint, announced in the fiscal stimulus is being extended till December 2009.
- C. Stimulus package for print media comprising waiver of 15 per cent agency commission and 10 per cent increase in Directorate of Advertising and Visual Publicity advertisement rates to be paid as a special relief - subject to documentary proof of loss of revenue in non-governmental advertisements - is being extended till December 2009. This along with exemption in customs duty on newsprint is expected to provide some relief to the print industry, which has been facing margin pressures due to the economic slowdown.

Non-ferrous Metals

Demand in 2009-10 to slowdown across non-ferrous metals

Aluminium

- The global economic meltdown led to a 1 per cent decline in the global aluminium demand in 2008. Similarly, the demand slowdown in key aluminium consuming sectors resulted in marginal growth of 3-4 per cent y-o-y in 2008-09 in India.
- Recovery amongst consuming sectors in key aluminium consuming regions globally is likely to remain muted, whereas the domestic demand in 2009-10 is likely to grow by 2-3 per cent driven by moderate growth in power and automobiles.
- Average international prices of aluminium declined by around 15 per cent y-o-y, while domestic prices declined by around 6 per cent in 2008-09. The significant slowdown in demand caused a sharp decline in prices in the second half of the year.
- CRISIL Research expects aluminium prices in 2009 to range between \$1,450 and \$1,550 per tonne, while landed cost of aluminium is likely to range between Rs 86,000 and 88,000 per tonne in 2009-10.
- Although aluminium prices are expected to fall, the anticipated decline in the cost of raw material and reduction in other operating costs is likely to help in maintaining profitability of domestic players in 2009-10.

Copper

- Average international and domestic prices in 2008-09 fell by around 23 per cent and 12.5 per cent, respectively (y-o-y) due to a steep fall in the second half of 2008-09 on account of the economic slowdown.
- Global copper demand is expected to decline by 4-5 per cent in 2009 due to substantial contraction in demand anticipated in US, Europe and Japan.
- Operating margins of integrated players (Hindustan Copper) are estimated to have reduced as a result of fall in domestic copper prices in 2008-09. As we expect the downward pressure on price to continue in 2009-10, operating margins are likely to shrink further. For custom smelter players, the expected increase in TC/RC margins due to increased supply in concentrate market is likely to offset by the expected decline in copper prices. Thus, TC/RC margins of custom players are likely to be flat or decline marginally.

Zinc

- In 2008-09, average international and domestic prices fell by 48 per cent and 42 per cent, respectively. Prices declined mainly due to slowdown in demand along with increase in supply from new mines, refineries as well as from mine expansions.
- Demand is estimated to be lower especially in US and Europe while global supply is likely to outpace demand in 2009 due to the huge capacity additions which took place in 2008.
- Domestic demand for zinc is likely to remain flat in 2009-10 as production of galvanized sheets (key end user sector) is expected to remain more or less flat.

Non-ferrous Metals

Lead

- During 2008-09, average international and domestic lead prices declined by around 42 per cent and 15 per cent (y-o-y), respectively.
- With continuing slowdown in demand, the global lead demand in 2009 is estimated to fall marginally. The steep decline in Europe and US will be partly offset by expected growth in China.
- The average global prices of lead are likely to fall in 2009, due to expected decline in demand.

Non-ferrous metals: Tariffs, prices and landed costs

	Tariff (per cent) ¹				Prices (June 2009)		Landed cost (Rs/tonne)	
	Customs		Excise ³		Domestic ⁴ (Rs/tonne)	International ⁵ (\$/tonne)	Pre-budget	Post-budget
	2008-09	2009-10	2008-09	2009-10				
Aluminium ingots	5.2	5.2	8.2	8.2	90,250	1,574	90,649	90,649
Aluminium products			8.2	8.2	-	-	-	-
Flat-rolled products	7.7	7.7	8.2	8.2				
Foils	7.7	7.7	8.2	8.2				
Aluminium scrap ²	0.0	0.0	8.2	8.2	-	-	-	-
Non-coking coal	5.2	5.2	0.0	0.0	-	-	-	-
Caustic soda	7.7	7.7	8.2	8.2	-	-	-	-
Calcined petroleum coke	0.0	0.0	8.2	8.2	-	-	-	-
Copper	5.2	5.2	8.2	8.2	303,250	5,014	285,105	285,105
Copper scrap	5.2	5.2	8.2	8.2	-	-	-	-
Copper ore and concentrates	2.1	2.1	8.2	8.2	-	-	-	-
Lead	5.2	5.2	8.2	8.2	88,500	1,674	96,343	96,343
Lead ore and concentrates	2.1	2.1	8.2	8.2	-	-	-	-
Zinc ²	0.0	0.0	8.2	8.2	92,750	1,557	85,375	85,375
Zinc ore and concentrates	2.1	2.1	8.2	8.2	-	-	-	-

¹ Tax rate is inclusive of education cess.

² Customs duty was reduced from 5 per cent to nil on aluminium scrap and zinc in Dec 08 and Feb 09 respectively.

³ Excise duty for 2008-09 is as per the stimulus package announced in December 2008 and February 2009.

⁴ Domestic prices are average Mumbai market prices for June 2009.

⁵ International prices are average LME cash prices for June 2009.

Source: CRISIL Research

Non-ferrous Metals

Neutral impact for the non ferrous metal industry with no change in duty structure

Company	Impact	Impact factors
Hindalco Industries Ltd	↔	A
Hindustan Copper Ltd	↔	-
Hindustan Zinc Ltd	↔	B
National Aluminium Company Ltd	↔	A
Sterlite Industries (India) Ltd	↔	A

Source: CRISIL Research

Impact factors

- The government has proposed investments of around Rs 20.8 billion under the Accelerated Power Development and Reform Programme (APDRP) and Rs 70 billion for the rural electrification scheme (Rajiv Gandhi Grameen Vidyutikaran Yojana). With increased investments in the power sector (accounting for about 40-45 per cent of the total aluminium demand), demand for aluminium will be positively impacted.
- Allocation of Rs 88 billion under Indira Awaas Yojana and Rs 20 billion for Rural Housing Fund through National Housing Board will help in creating rural housing demand and will positively impact the demand for galvanized sheets (key end-user of the zinc industry).

Lower marketing losses in 2009-10 as compared to 2008-09

- During April-December 2008, an increase in oil demand and supply tightness, as reflected in the OPEC spare capacity decline, resulted in crude oil prices rising. This was further fuelled by dollar depreciation and speculation. Crude oil (Dated Brent) prices rose by 26.3 per cent and averaged at \$97.9 per barrel during April-December 2008 (y-o-y), eventually peaking in July 2008 at \$133.9 per barrel.
- This situation reversed in the last quarter of 2008-09 (January-March) with the economic downturn impacting product demand. Consequently, overall GRMs for 2008-09 averaged lower at \$5.8 per barrel as compared to \$10.6 per barrel in 2007-08. Crude oil prices also declined and averaged at \$45.0 per barrel.
- On the marketing front, OMCs (oil marketing companies) continued to incur losses on the sale of auto and cooking fuels as domestic retail prices are controlled. Total financial assistance to OMCs stood at Rs 1,042.3 billion in 2008-09 as compared with Rs 610.0 billion in 2007-08. In lieu of under-recoveries, OMCs have been allocated oil bonds worth Rs 712.9 billion, while actual upstream assistance provided was Rs 329.4 billion for 2008-09.
- CRISIL Research expects crude oil prices (Dated Brent) to be around \$60-62 per barrel in 2009-10. GRMs too are expected to decline from their 2008-09 levels and average at \$5.0-5.5 per barrel in 2009-10 as a result of easing product demand. After the recent price hike of Rs 4 per litre for petrol and Rs 2 per litre for diesel (the current retail selling price stands at Rs 48.8 per litre for petrol and Rs 36.7 per litre for diesel), the under-recoveries are expected to decline to Rs 592 billion in 2009-10 as against Rs 1,042.3 billion in 2008-09.
- In 2008-09, the crude throughput of the industry was at 160.8 million tonnes, while imports were at 128.2 million tonnes. Crude throughput and imports in 2007-08 stood at 156.1 million tonnes and 121.7 million tonnes, respectively.
- Upstream companies provide assistance to OMCs in the form of discount on the sale of crude oil and their realisations were affected to that extent. For April-December 2008, the total realisation of ONGC was \$99.8 per barrel, out of which it provided discounts of \$50.5 per barrel to OMCs. Realisation of the company for the same period last year was \$80.6 per barrel with the discount given being \$26.7 per barrel.
- In 2008-09, the domestic gas supply of 74.4 mmcmd in the country was dominated by APM gas (75.4 per cent), which is supplied at a subsidised rate and the balance is contributed by private and joint venture (pvt/JV) fields. In 2013-14, the supply of gas from pvt/JV fields is expected to dominate the total estimated domestic gas supply of 185.6 mmcmd. The share of pvt/JV gas in supply is likely to increase to 129.2 mmcmd i.e. 70 per cent of the total supply, whereas the share of APM gas is likely to come down.
- The landfall price of Pvt/JV gas (RIL gas price at \$4.2 per mmbtu) is much higher than that of APM gas (at \$1.8 per mmbtu). Moreover, an increase in APM gas price is anticipated over the medium term. Thus, CRISIL Research expects average gas prices in India (delivered excluding sales tax) to increase from about \$4.3 per mmbtu in 2008-09 to about \$6.2 per mmbtu in 2013-14 - an increase of 44 per cent.

Oil and Gas

Oil and gas: Tariffs, prices and landed costs

	Tariffs (per cent)				Prices (May 2009)		Landed costs (Rs/tonne)	
	Customs		Excise		Domestic (Rs/tonne)	International (\$/tonne)	Pre-Budget	Post-Budget
	2008-09	2009-10	2008-09	2009-10				
Motor spirit (MS)	2.6	2.6	13.4	13.4	26,539.2	564.6	28,365.8	28,365.8
Aviation turbine fuel (ATF)	5.2	5.2	8.2	8.2	21,095.0	553.5	28,755.3	28,755.3
Naphtha	5.2	5.2	16.5	14.4	27,435.0	518.4	26,967.8	26,967.8
Superior kerosene oil (SKO)								
- Industrial use	5.2	5.2	14.4	14.4	29,889.5	525.8	27,345.2	27,345.2
- Domestic use	0.0	0.0	0.0	0.0	10,238.8	525.8	26,005.9	26,005.9
High-speed diesel (HSD)	2.6	2.6	3.6	3.6	27,357.8	501.9	25,261.1	25,261.1
Fuel oil	5.2	5.2	14.4	14.4	19,203.2	372.1	19,501.0	19,501.0
Liquefied petroleum gas (LPG)								
- Industrial use	5.2	5.2	8.2	8.2	31,190.0	436.8	23,821.6	23,821.6
- Domestic use	0.0	0.0	0.0	0.0	17,939.0	436.8	22,654.8	22,654.8
Bitumen	5.2	5.2	14.4	14.4	n.a.	372.1	-	-
Crude oil ¹	0.0	0.0	0.0	0.0	n.a.	424.6	-	-
Natural gas ²								
- Priority sector	5.2	5.2	0.0	0.0	3,200.0	-	-	-
- Transportation and consumers drawing gas less than 0.05 mmscmd	5.2	5.2	0.0	0.0	3,840.0	-	-	-
- Non-priority sector	5.2	5.2	0.0	0.0	9,147.7	-	-	-
LNG ³	5.2	5.2	0.0	0.0	-	-	9,074.2	9,074.2
CNG	5.2	5.2	14.4	14.4	-	-	-	-

- indicates Not applicable

n.a.: Not available

¹ Cess on crude (in lieu of excise) is Rs 2500 / tonne

² Price per thousand scm

³ Prices are for pooled LNG (landfall) in Rs / '000 scm

⁴ Excise duty for MS and HSD is quoted in Rs/ltr

Notes

1) International prices are fob Arab Gulf prices.

2) Domestic price of petroleum products are ex-storage point prices.

3) Customs duty on the naphtha used in fertiliser is nil. In terms of power, the customs duty has become nil w.e.f. December 2008.

4) Priority sectors for natural gas include power and fertiliser.

5) Natural gas domestic prices represent landfall prices (inclusive of royalty) for each category.

6) Excise duty on naphtha used for fertiliser is nil.

7) Customs duty and excise duty on fuel oil used in fertiliser is nil.

8) The current excise duty of 6 per cent plus Rs 13 per litre on branded petrol and 6 per cent plus Rs 3.25 per litre on branded diesel has been changed to a specific rate of Rs. 14.5 per litre on petrol and Rs 4.75 per litre on diesel

Source: CRISIL Research

Budget impact to be marginally positive

Company	Impact	Impact factors
Oil and Natural Gas Corporation Ltd	↑	C, E, F
GAIL India Ltd	↑	C, E, F
Petronet LNG Ltd	↔	-
Chennai Petroleum Corporation Ltd	↔	A, B
Mangalore Refinery & Petrochemicals Ltd	↔	A, B
Indian Oil Corporation Ltd	↔	A, B
Bharat Petroleum Corporation Ltd	↔	A, B
Hindustan Petroleum Corporation Ltd	↔	A, B

Source: CRISIL Research

Impact factors

- A. The excise duty on naphtha has been reduced from 16 per cent to 14 per cent. This move is expected have a neutral impact on players in the refining segment since the duty cut is expected to be passed through.
- B. The total excise of 6 per cent plus Rs 13 per litre on branded petrol and 6 per cent plus Rs 3.25 per litre on branded diesel has been converted into a specific rate of Rs 14.5 per litre on petrol and Rs 4.75 per litre on diesel. We expect the impact of this change in duty to be neutral for the industry, assuming it will be passed on to the consumers through the retail sales price.

Other factors

- C. The tax holiday under Section 80-IB, thus far applicable to oil exploration and production, is now extended to gas as well (with retrospective effect). This announcement is expected to trigger a better response in future NELP rounds.
- D. The increase in MAT rate from 10 per cent to 15 per cent is expected to lead to a higher tax outflow in the initial years. Moreover, MAT credit period has been extended from 7 years to 10 years.
- E. In view of the projected increase in oil and gas supplies, the government has reiterated its commitment of developing a National Gas Grid.
- F. Furthermore, the allowance of 100 per cent deduction for all capital expenditure on pipelines operating on a common carrier principle (both oil and gas), is expected to encourage investments in pipeline infrastructure.

Paper

Demand to grow at a moderate pace; margins to remain under pressure

- Domestic paper industry witnessed steady growth in demand and a rise in paper prices in 2008-09 vis-à-vis 2007-08. However, operating margins declined by nearly 200 basis points, from 17.5 per cent in 2007-08 to 15.7 per cent in 2008-09 due to significant rise in operating costs, especially pulp and waste paper prices, and power costs.
- CRISIL Research expects steady growth in demand for paper and paperboard of about 6.5 per cent compound annual growth rate (CAGR) over the next 2 years. In the writing and printing (W&P) segment, demand is expected to grow at a CAGR of 5.6 per cent on the back of faster growth in copier and coated paper, which are expected to grow at 13 per cent and 8 per cent, respectively. A sustained growth in consumer packaging is likely to result in demand growth of 6.5 per cent CAGR over the next 2 years in the paperboard segment. Newsprint demand is expected to slowdown from around 9 per cent over the last few years and grow at a CAGR of 6.6 per cent during the same period due to decline in advertising revenues post the economic slowdown.
- Pulp and wastepaper prices, driven by slowdown in global demand, are expected to decline in 2009-10 and 2010-11 as compared to 2008-09. With most of the players having expanded capacities leading to supply exceeding demand over the next 2 years, this decline in raw material prices will have to be passed on to consumers, leading to a fall in paper prices and consequently, decline in operating margins.
- Rise in depreciation and interest costs, post capacity expansions by players, resulted in net margins declining from about 7 per cent in 2007-08 to 5.2 per cent in 2008-09. Going forward, we expect net margins of players to fall further due to fall in operating profits coupled with high capital costs.

Paper: Tariffs

(per cent)	Tariff (per cent)				Prices (May 2009)		Landed cost	
	Customs		Excise		Domestic (Rs/tonne)	International (\$/tonne)	(Rs/tonne)	
	2008-09	2009-10	2008-09	2009-10			Pre-Budget	Post-Budget
Newsprint	0.0	0.0	0.0	0.0	24,000	550	26,692	26,692
Maplitho	10.3	10.3	4.1	4.1	48,000 ¹	925	51,554	51,554
Duplex board	10.3	10.3	4.1	4.1	32,950 ¹	-	-	-
Coated paper	10.3	10.3	4.1	4.1	52,500 ¹	975	54,341	54,341
Wood pulp (hard)	5.2	5.2	0.0	0.0	NT	435	22,198	22,198
Wood pulp (soft)	5.2	5.2	0.0	0.0	NT	510	26,025	26,025
Waste paper (OCC)	5.2	5.2	0.0	0.0	8,000	170	10,063	10,063

NT: Not traded

¹ Prices are delivered prices excluding VAT (delivered: basic+excise+octroi+avg freight prices).

Excise duty was reduced from 8 per cent to 4 per cent in December 2008

Customs duty on newsprint has been waived since February 2009.

Source: CRISIL Research

Duties remain unchanged; Neutral impact on the industry

Company	Impact	Impact factors
Andhra Pradesh Paper Mills Ltd	↔	A
Ballarpur Industries Ltd	↔	A
JK Paper Ltd	↔	A
Seshasayee Paper and Boards Ltd	↔	A
Tamil Nadu Newsprint and Papers Ltd	↔	A

Source: CRISIL Research

Impact factors

A. Customs duty on paper and paperboard has remained unchanged. The customs duty exemption provided to newsprint in the fiscal stimulus package in February 2009 has been continued in the Union Budget 2009-10. The excise duty on paper and paperboard has also remained unchanged. Impact on the sector is neutral with both customs and excise duties remaining unchanged.

Other factors

B. Higher emphasis on the educational segment is likely to stimulate demand for writing and printing paper. Benefits would, however, be felt over the long term as a significant portion of investments in education will go towards infrastructure development. The educational segment accounts for around 30 per cent of the writing and printing paper demand.

Petrochemicals

Cracker margins to remain weak in 2009 and improve in 2010; polymer demand to pick up

- In January-May 2009, average naphtha prices stood at \$441 per tonne, down by 47 per cent from \$829 per tonne in 2008, mainly due to the decline in crude oil prices.
- The fall in feedstock prices and weak demand led to a sharp drop in prices of basic petrochemicals and polymers. Consequently, cracker margins declined to \$17 per tonne of ethylene produced during this period as compared to \$145 per tonne of ethylene produced in 2008. With regard to polymers, hdPE prices declined by 28 per cent to \$1,039 per tonne in January-May 2009, thus affecting margins of integrated players.
- CRISIL Research forecasts margins to remain weak over the next 6-7 months and improve thereafter, when demand picks up. Demand is expected to remain weak for the next few months. It is expected to increase only in the last quarter of 2009 and grow steadily in 2010. Domestic product prices will continue to move in line with global prices in the medium term.
- Domestic polymer demand increased by a mere 1 per cent to 5.9 million tonnes in 2008-09 over 2007-08 due to weak demand from the end-user segments. CRISIL Research expects domestic demand to grow at a CAGR of 8 per cent over the next 2 years. Polyethylene (PE) and polyvinylchloride (PVC) are expected to witness strong demand, driven by growth in the retail and pipes industry.
- To cater to the growth in domestic demand and to increase exports, capacity of around 1 mtpa is expected to come on-stream over the next 2 years. Capacity additions could thus increase the dependence on exports. However, due to the expected capacity additions in the Middle East, which have the advantage of low-cost feedstock, player profitability could be strained in the long run.

Demand for commodity chemicals to degrow by 1-2 per cent in 2009-10; margins to decline significantly due to sharp correction in prices.

- Commodity chemicals have seen a demand degrowth of 5-6 per cent in 2008-09 on account of sharp and sudden demand erosion from end-user segments in the third quarter. The operating rate of the industry and production declined drastically during the year.
- Prices witnessed correction ranging from 18-70 per cent in the third quarter of 2008-09 from the peak of the year due to sudden demand erosion and sharp decline in raw material prices. Exports fell sharply during the year, while imports rose significantly.
- Demand for chemicals is expected to witness degrowth of 1-2 per cent in 2009-10 as demand from end-user segments continues to remain weak. We expect demand to revive to a large extent in the second half of 2009-10 as economic parameters are expected to improve.
- Exports are estimated to decline further in 2009-10 as demand from international markets is expected to remain weak.

Petrochemicals

Petrochemicals: Tariffs, domestic prices and landed costs

	Tariff (per cent)				Prices (May 2009)		Landed cost (Rs/tonne)	
	Customs		Excise		Domestic (Rs/tonne)	International (\$/tonne)	Pre-budget	Post-budget
	2008-09	2009-10	2008-09	2009-10				
Polymers								
hdPE (IM)	5.2	5.2	8.2	8.2	74,199 ¹	1,529 ³	70,944	70,944
ldPE	5.2	5.2	8.2	8.2	78,961 ¹	1,689 ³	69,948	69,948
lldPE	5.2	5.2	8.2	8.2	83,706 ¹	1,582 ³	66,316	66,316
PPHP (IM)	5.2	5.2	8.2	8.2	72,088 ¹	1,457 ³	63,035	63,035
PVC	5.2	5.2	8.2	8.2	56,260 ¹	1,025 ³	43,281	43,281
PS (GP)	5.2	5.2	8.2	8.2	70,760 ¹	1,418 ³	56,650	56,650
ABS	5.2	5.2	8.2	8.2	80,000	1,725 ³	70,731	70,731
SBR (1502)	10.3	10.3	8.2	8.2	89,000	1,900 ³	70,985	70,985
PBR (1220)	10.3	10.3	8.2	8.2	78,000	2,150 ³	75,080	75,080
Basic petrochemicals and intermediates								
EDC	2.1	2.1	8.2	8.2	36,000 ¹	403 ³	23,899	23,899
VCM	2.1	2.1	8.2	8.2	n.a.	773 ³	38,227	38,227
Styrene	2.1	2.1	8.2	8.2	60,000 ¹	1,322 ²	53,910	53,910
Ethylene	5.2	5.2	8.2	8.2	55,000	1,400 ²	40,134	40,134
Propylene	5.2	5.2	8.2	8.2	55,000	1,211 ²	44,871	44,871
Butadiene	5.2	5.2	8.2	8.2	44,000	1,739 ²	38,156	38,156
Benzene	5.2	5.2	8.2	8.2	35,200	1,006 ²	35,449	35,449
Toluene	5.2	5.2	8.2	8.2	36,000	932 ²	35,865	35,865
Naphtha	5.2	5.2	16.5	14.4	27,435	860 ⁴	25,882	25,882
Commodity chemicals								
LAB	7.7	7.7	8.2	8.2	76,100 ⁵	1,230	65,595	65,595
PAN	7.7	7.7	8.2	8.2	59,000	1,020 ²	53,329	53,329
Methanol	7.7	7.7	8.2	8.2	12,500	180	9,599	9,599
Phenol	7.7	7.7	8.2	8.2	56,000	880 ²	50,129	50,129
Orthoxylene	5.2	5.2	8.2	8.2	45,000	830	43,205	43,205

¹ Market prices, ² Fob prices, ³ C&F Far-East Asia, ⁴ C&F Japan, ⁵ Excludes trade discount of Rs 4,000 per tonne.

LAB: Linear alkyl benzene; PAN : Phthalic anhydride

n.a - not available

Notes

Education cess of 3 per cent has been included in customs and excise duty.

Anti-dumping duties on PS and SBR have not been included in the landed cost since they vary by country.

Landed cost of PAN doesn't include antidumping duty.

Source: CRISIL Research

Petrochemicals

Neutral impact of budget

Company	Impact	Impact factors
Basic petrochemicals and intermediates		
Chemplast Sanmar Ltd	↔	-
DCW Ltd	↔	-
Finolex Industries Ltd	↔	-
Haldia Petrochemicals Ltd	↑	B
Reliance Industries Ltd	↓	B,C
Supreme Petrochem Ltd	↔	-
Commodity chemicals		
Phillips Carbon Black Ltd	↔	
Tamil Nadu Petroproducts Ltd	↔	
IG Petrochemicals	↔	
Thirumalai Chemicals Ltd	↔	
Hindustan Organic Chemicals Ltd	↔	
Schenectady Herdillia Ltd	↔	

Source: CRISIL Research

Impact factors

Petrochemicals - Basic and polymers

- A.** The customs and excise duties on basic petrochemicals and polymers have not been changed. Hence, the impact of Union Budget 2009-10 on the industry is neutral.
- B.** The excise duty on naphtha has been reduced from 16 per cent to 14 per cent. This is expected to have a marginally positive effect on margins of naphtha-based crackers.
- C.** The government has increased the minimum alternate tax (MAT) rate to 15 per cent from the present rate of 10 per cent. Also, the period allowed to carry forward the tax credit under MAT has been increased from the current 7 years to 10 years.

Petrochemicals - Commodity chemicals

The budget will not have any material impact as there has been no change in any policy or in the indirect tax structure. Customs and excise duties on raw materials and end products remain unchanged.

Pharmaceuticals

Exports to drive growth in Indian pharmaceuticals

- Between 2006-07 and 2008-09, the Indian pharmaceutical market is estimated to have grown by around 23 per cent CAGR to \$19 billion. With exports expected to continue to post strong growth, CRISIL Research expects this market to surge at a CAGR of 18-20 per cent to \$25-27 billion by 2010-11.
- As Indian players leveraged the generics and the outsourcing opportunity in the regulated market, exports clocked a CAGR of around 30 per cent during 2006-07 and 2008-09. The domestic formulations market surged by around 15 per cent during the same period due to robust growth in anti-diabetic, cardiovascular, gynaecology and steady growth in anti-infectives.
- Driven by the increasing need for bulk drugs to manufacture off-patent drugs in the regulated markets, overall bulk drug exports are expected to witness a CAGR of 23-25 per cent between 2008-09 and 2010-11. Increasing generic opportunity in the regulated market will guide the overall growth in formulation exports, which is set to increase at a CAGR of 18-20 per cent during the said period.
- The domestic formulations market is expected to grow moderately at a CAGR of 13-15 per cent to reach around \$10-11 billion by 2010-11.

Demand drivers

Exports

- Huge generic opportunity expected in the regulated market, with drugs worth \$135-140 billion scheduled to go off-patent in the US and Europe over the next 5 years.
- Aggressive cost-reduction measures initiated by global pharmaceutical companies coupled with declining R&D productivity offer substantial growth potential for contract manufacturing.
- India is well placed to tap the expected opportunity owing to key strengths such as lower cost of manufacturing and strong re-engineering skills.

Domestic

- Increasing focus on chronic and lifestyle segments.

Pharmaceuticals: Tariffs

(per cent)	Customs ^{1,2,3}		Excise ^{1,2}	
	2008-09	2009-10	2008-09	2009-10
Bulk drugs	7.7	7.7	8.2	8.2
Formulations	10.3	10.3	4.1	4.1

¹ Tax rates are inclusive of education cess

² Rates are revised as announced in stimulus packages of December 2008 and February 2009

³ Customs duty on select life saving drugs and bulk drugs used to manufacture them, for treating life saving diseases like breast cancer, hepatitis, rheumatic arthritis etc have been reduced from 10 per cent to 5 per cent

Source: CRISIL Research

Pharmaceuticals: Neutral impact of increase in MAT, abolishment of FBT

Company	Impact	Impact factors
Aurobindo Pharma Ltd	↔	B
Cipla Ltd	↔	B
Dr Reddy's Laboratories Ltd	↔	A
GlaxoSmithKline Pharmaceuticals Ltd	↔	A
Orchid Pharmaceuticals Ltd	↔	B
Piramal Healthcare Ltd	↔	A,B
Sun Pharmaceutical Industries Ltd	↔	B

Source: CRISIL Research

Impact factors

- A.** The reduction in customs duty on imports of select life-saving drugs and bulk drugs used for their manufacture, from 10 per cent to 5 per cent and exemption of CVD on them , is a marginally positive move for the pharmaceuticals industry. However, its impact on the industry is likely to be neutral as its share in the overall pharmaceutical market is minimal.
- B.** The negative impact of the rise in Minimum alternate tax (MAT) from 10 per cent to 15 per cent is expected to be partly nullified by the abolishment of fringe benefit tax (FBT).

P orts

Indian ports to continue its growth trajectory

- Total traffic in ports grew by 4.4 per cent from 722 million tonnes in 2007-08 to 754 million tonnes in 2008-09 (estimated), whereas capacity for the same period grew from 772 million tonnes to 885 million tonnes. Thus, capacity utilisation levels fell from 94 per cent in 2007-08 to 85 per cent in 2008-09. Going forward, we expect port traffic to increase at 7.9 per cent in 2009-10 and 7.2 per cent in 2010-11.
- The share of traffic handled by non-major ports in 2007-08 was 28.6 per cent, which increased to 30 per cent in 2008-09 (estimated). Over the coming years, non-major ports are expected to grow at a faster pace vis-à-vis the major ones owing to increased private participation and investment in non-major ports and concerns such as operational inefficiency and congestion due to lack of mechanisation at major ports. Hence, non-major ports are expected to handle a larger chunk of the incremental traffic going forward.
- CRISIL Research expects investments to the tune of Rs 281 billion in the ports sector between 2009-10 and 2010-11. Of this, around Rs 130 billion is expected to be directed towards major ports, while the non-major ports are expected to see investments to the tune of Rs 151 billion.

Neutral impact on the sector

Company	Impact	Impact factors
Mundra Port and SEZ Ltd	↔	A,B

Source: CRISIL Research

Impact factors

- The imposition of service tax on the transport of goods through the coastal route and through inland waterways is not expected to have a major implication on the ports sector, considering the rates for coastal transport are very low vis-à-vis the railways and roadways.
- The MAT rate increase (from 10 per cent to 15 per cent) is expected to lead to a higher tax outflow in the initial years and marginally impact the returns of players
- The refinancing scheme through IIFCL announced in the interim budget of 2009-10 is not expected to have an incremental impact on the sector.

P_{ower}

Capacity additions in generation: The key focus area

- As of April 2009, the installed capacity in the country stood at 148 GW and the average plant load factor (PLF) was 82.5 per cent; the energy shortage was 10.4 per cent, while the peak shortage was 12.2 per cent. Demand for electricity is expected to grow by around 7-8 per cent over the medium term. To meet the demand growth, the government has planned a capacity augmentation of around 78.7 GW in the Eleventh Plan (2007-2012).
- CRISIL Research expects total capacity additions during the Eleventh Plan to be around 45,000 MW as against the government's target of 78,700 MW. However, only 12,717 MW of capacity have been added in the first 2 years of the Eleventh Plan. CRISIL Research expects a capacity addition of around 8,800 MW in 2009-10.
- On the transmission side, the current inter-regional capacity is around 20,750 MW (till March 2009). The government expects to achieve 37,150 MW of inter-regional capacity by the end of the Eleventh Plan. Private participation in transmission is steadily growing with the completion of the Tala project. A number of private players have signed JVs, such as Parbati-Koldam and Western Region strengthening scheme, with PGCIL. Further, three more transmission lines are scheduled to be awarded to the private sector through the competitive bidding process in 2009-10.
- On the distribution front, privatisation through the franchisee route is growing, with Maharashtra being the first state to implement it. Other states like Uttar Pradesh have also started implementing this model.

Neutral impact of budget

Company	Impact	Impact factors
National Thermal Power Corp Ltd	↔	-
Power Grid Corporation of India Ltd	↔	-
Suzlon Energy Ltd	↑	A
Tata Power Company Ltd	↔	-
Bharat Heavy Electricals Ltd (BHEL)	↑	D

Source: CRISIL Research

Impact factors

- A.** The basic customs duty on permanent magnet used in wind power generation has been reduced from 7.5 per cent to 5 per cent. This would have a marginally positive impact on the wind power generation segment.
- B.** Minimum alternate tax (MAT) has been increased from 10 per cent to 15 per cent; however, its impact is neutral as it would be passed on to the end users. Further, increase in credit period for MAT from 7 years to 10 years would be marginally positive for the sector.
- C.** The government has reiterated IIFCL's role in infrastructure financing as announced in the interim budget and has given it greater flexibility to use take-out financing as a way to refinance infrastructure projects in public private partnership (PPP) route. We expect this to have a positive impact on power projects.
- D.** The budgetary allocations for the Accelerated Power Development and Reforms Programme (APDRP) has been increased to Rs 20.8 billion for 2009-10, a rise of 160 per cent from Rs 8 billion for 2008-09. The allocation for the Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY) has been increased to Rs 70 billion in 2009-10 from Rs 55 billion in 2008-09, a rise of 27 per cent.

Roads

Implementation of NHDP continues at snail pace

- In the past one year, National Highway Development Programme (NHDP) witnessed a delayed progress in awarding of road projects due to litigations, restructuring of projects and liquidity crunch. Thus, out of 60 projects which were under bidding in 2008, only ten projects have been awarded till date. Around 48 per cent of total length under NHDP still remains to be awarded.
- Nearly, 33 per cent of the total length under NHDP was completed as on March 31, 2009. The Golden Quadrilateral, linking the four metro cities of India is almost complete. The focus of implementation has shifted to the North-South-East-West (NSEW) Corridor (Phase II) and Phase III. Around 47 per cent in Phase II and only 7 per cent in Phase III have been completed as on March 31, 2009. Close to 12 per cent in Phase II remains to be awarded. Awarding in Phase III and Phase V has still not picked up pace, as close to 79 per cent and 84 per cent, respectively are balance for award.
- As on March 31, 2009, the total cost incurred for NHDP was Rs 744 billion. This expenditure is inclusive of the cost spent on stretches under implementation and completed stretches. CRISIL Research envisages investment of Rs 1.6 trillion in NHDP over the next 5 years.
- In Pradhan Mantri Gram Sadak Yojana (PMGSY), out of the total length envisaged for new connectivity and upgrading existing routes, 86 per cent and 29 per cent was completed respectively as on April 30, 2009. Although the government has cleared proposals worth Rs 900 billion for all phases, only Rs 412 billion has been released till date. Interim budget allocations for development of rural roads, amounts to Rs 40 billion.

Neutral impact on road sector

Company	Impact	Impact factors
IRB Infrastructure Developers Ltd	↔	A,C,D
Gammon Infrastructure Projects Ltd	↔	A,C,D
Reliance Infrastructure	↔	A,C,D
Larsen & Toubro Ltd	↔	A,C,D
Hindustan Construction Corporation Ltd	↔	A,C,D
Nagarjuna Construction Company	↔	A,C,D
IVRCL Infrastructure & projects Ltd	↔	A,C,D

Source: CRISIL Research

Impact factors

- A.** Even though the allocation for NHDP has increased by 23 per cent, the implementation of the projects is expected to remain slow on account of policy issues.
- B.** Allocations under PMGSY have increased by 59 per cent in 2009-10 to Rs 120 billion. However, the past track record of expenditure reveals that funds allocated are inadequate considering the future funding requirement.
- C.** Refinancing commercial bank loans for Public Private Partnership projects through IIFCL will facilitate higher incremental loans towards the projects.
- D.** Increase in Minimum Alternate Tax from 10 per cent to 15 per cent of book profits will have a marginally negative impact on the financials of players.

Steel

Indian steel industry likely to display resilience towards global economic slowdown

- Tight demand-supply resulted in HR price increasing to \$1053 per tonne (FoB, CIS Black Sea) in the first half of 2008-09 from \$607 per tonne in 2007-08, enabling strong margins despite high raw material cost. However, as the demand slumped in the second half of 2008-09, prices plummeted. On the other hand, raw material price contracts were re-negotiated at much slower pace leading to significant decline in operating margins of the steel players in the second half of 2008-09.
- Domestic steel demand in the first half of 2008-09 increased by 4.1 per cent. However, with global economic slowdown and its impact on Indian economy, domestic steel demand declined by 1.4 per cent for the year 2008-09.
- In 2009, the contract prices for raw materials are estimated to be revised significantly downwards. The coking coal contract prices are estimated to have declined by around 60 per cent whereas; iron ore contract prices are estimated to have fallen by around 33 per cent. As the steel prices are expected to remain stable at current level (Rs 30,000-31,000 per tonne), the decline in raw material prices would lead to improvement in the margins of steel players in 2009-10 vis-à-vis the second half of 2008-09.
- The global steel demand is unlikely to recover in 2009 due to severe impact on key steel consuming sectors like construction, automobile, machinery in the developed countries. However, domestic demand for steel is expected to show strong growth with expected revival in these sectors. CRISIL Research expects global steel demand to decline by 9-10 per cent in 2009 whereas; domestic steel demand is expected to grow by 5-6 per cent in 2009-10.

Steel: Tariffs, prices and landed costs

	Tariff (per cent) ¹				Prices (June 2009)		Landed cost (Rs/tonne)	
	Customs ²		Excise ³		Domestic (Rs/tonne)	International (\$/tonne)	Pre-Budget	Post-Budget
	2008-09	2009-10	2008-09	2009-10				
GP/GC	5.2	5.2	8.2	8.2	40,500	550	32,057	32,057
CR coils	5.2	5.2	8.2	8.2	35,500	420	24,809	24,809
HR coils	5.2	5.2	8.2	8.2	31,000	388	22,997	22,997
Structurals	5.2	5.2	8.2	8.2	-	-	-	-
Bars and rods	5.2	5.2	8.2	8.2	33,000	425	25,088	25,088
Alloy steel	5.2	5.2	8.2	8.2	-	-	-	-
Billets/Slabs	5.2	5.2	8.2	8.2	26,500	390	23,136	23,136
Pig iron	5.2	5.2	8.2	8.2	22,000	260	15,889	15,889
HBI/Sponge iron	5.2	5.2	8.2	8.2	-	-	-	-
Ferro alloys	0.0	0.0	8.2	8.2	-	-	-	-
Steel melting scrap ⁴	0.0	0.0	8.2	8.2	16,700	185	11,125	11,125
Iron ore ⁴	2.1	2.1	8.2	8.2	-	-	-	-
Coking coal (< 12% ash content)	0.0	0.0	-	-	-	-	-	-
Coking coal (> 12% ash content)	0.0	0.0	-	-	-	-	-	-
Metallurgical coke	0.0	0.0	-	-	-	-	-	-
Non-coking coal	5.2	5.2	-	-	-	-	-	-

¹ Tariff rates are inclusive of 3% education cess.

² The 5% customs duty on steel products was removed in April 2008 and re-imposed in November 2008

³ Excise duty for all steel products was revised in December from 14% to 10%. In February 2009, it was further reduced to 8%

⁴ Export duty of 15% is imposed on iron and steel making scrap and 5% duty on iron ore lumps (Dec 2008)

Notes

1) International prices are FOB prices

2) Domestic prices are average prices for May 2009

Source: Metal Bulletin, CRISIL Research

Budget impact on the steel industry to be neutral with no change in duty structure

Company name	Impact	Impact factors
Steel Authority of India Ltd	↔	A
Tata Steel Ltd	↔	A
JSW Steel Ltd	↔	A
Essar Steel Ltd	↔	A
Bhushan Steel Ltd	↔	A

Source: CRISIL Research

Impact factors

- With the provision of higher investment in infrastructure segments such as roads, railways and urban infrastructure under Jawaharlal Nehru National Urban Renewal Mission (JNNURM), the demand for steel is likely to improve marginally.

Sugar

Sugar prices surge as production falls sharply

- After 2 years of record production, 2008-09 SS registered a sharp fall in production to 14.7 million tonnes, a 44 per cent fall y-o-y. This fall was due to a drop in cane area, yield, drawal and recovery. We expect sugar production in the 2009-10 SS to increase to 20 million tonnes on account of higher area, yields, drawal and recovery.
- With production being below consumption levels in both SS 2008-09 and 2009-10, a shortfall in the domestic market is expected, which will be met through inventory depletion and imports.
- Imports are likely to be around 2.5 and 2.0 million tonnes in SS 2008-09 and 2009-10, respectively.
- Post the factoring in of imports, we expect inventory levels to fall from 5.7 months of offtake at the end of SS 2007-08 to 2.6 months of offtake at the end of SS 2009-10.
- Thus, on account of the tightening demand-supply situation, domestic sugar prices (Mumbai M-30) surged by 31 per cent in the first 8 months of SS 2008-09. CRISIL Research expects sugar prices in the 2008-09 SS to average between Rs 21,500-22,500 per tonne and Rs 22,500-23,500 per tonne in the 2009-10 SS
- In February 2009, the government allowed duty free imports of raw sugar upto August 1, 2009, and in April 2009, permitted the state-run trading firms to import 1 million tonne of white sugar. In May 2009, trading of sugar futures was banned in a bid to control prices. However, despite these measures, prices are expected to remain firm as a result of domestic prices being close to the landed cost.
- CRISIL Research expects industry profitability to improve in the SS 2008-09 and 2009-10 on account of higher realisations. However, profitability is unlikely to witness the full impact of the sugar price hike due to higher raw material costs and lower production in view of lower cane availability.

Sugar: Tariffs, prices and landed costs

	Tariff				Prices (May 2009)		Landed cost (Rs/tonne)	
	Customs (per cent)		Excise (Rs per tonne)		Domestic (Rs/tonne)	International (\$/tonne)	Pre-Budget	Post-Budget
	2008-09	2009-10	2008-09	2009-10				
Domestically produced sugar								
Free sale	n.a.	n.a.	978.5	978.5	24,030	-	-	-
Levy	n.a.	n.a.	638.6	638.6	13,500	-	-	-
Imported white sugar	61.8	61.8	978.5	978.5	-	445	34,421	34,421
Imported raw sugar	0.0	0.0	978.5	978.5	-	354	18,065	18,065
Molasses	10.3	10.3	772.5	772.5	-	n.a.	n.a.	n.a.

n.a.: Not applicable

Notes

- 1) Domestic and international prices are the average for May 2009
- 2) Duty free imports of raw sugar has been allowed since February 2009 and permitted till July 31, 2009
- 3) State run trading firms have been allowed to import duty-free white sugar after April 2009

Source: CRISIL Research

Abolition of commodities transaction tax to have no impact

Company	Impact	Impact factors
Bajaj Hindustan Ltd	↔	A
Balrampur Chini Mills Ltd	↔	A
Bannari Amman Sugars Ltd	↔	A
EID Parry Ltd	↔	A
Shree Renuka Sugars	↔	A

Source: CRISIL Research

Impact factors

- A. The commodities transaction tax has been abolished. However, this will not impact the sugar sector as trading in sugar futures is banned till December 2009. CRISIL Research expects the margins of sugar companies to remain unaffected by the change.

Telecom

Wireless subscriber growth remains robust but ARPU continues to decline

- Wireless subscriber base moved to an altogether different growth trajectory in 2008-09, registering a record 130 million net additions, touching 391 million. However, the industry continued to witness pressure on average revenue per user (ARPU), which declined by an estimated 18 per cent during the same period.
- CRISIL Research believes that pace of mobile subscriber additions would moderate post 2010-11; however, the medium-term outlook for growth in the subscriber base will remain robust. We expect the number of mobile subscriptions in the country to reach 611 million by 2010-11, driven by increased focus on the rural market by incumbents, changing competitive dynamics -mobile number portability (MNP) implementation expected to coincide with the foray by new entrants- and rollout of 3G services by private players.
- The wireline segment, on the other hand, continued its downward trend with a decline of 1.45 million subscribers in 2008-09. While government-owned companies, Bharat Sanchar Nigam Limited (BSNL) and Mahanagar Telephone Nigam Ltd (MTNL), witnessed a month-on-month erosion in their wireline subscriber base, private players cumulatively added 0.86 million subscribers for the year.
- Growth in the Internet space has been driven by the broadband segment, which added 2.3 million subscribers in 2008-09 to reach 6.2 million. CRISIL Research expects the wireline broadband subscriber base to touch 11.5 million by 2010-11 on the back of rising private participation, relevant content and applications becoming available online and better value proposition at competitive price points as compared to the dial-up segment.
- CRISIL Research expects investment flow into the telecom space to continue to remain robust between 2009-10 and 2011-12. We believe investments in the sector are expected to peak in 2009-10 with new licensees launching services and existing players expanding their footprint across the country.

Telecom: Tariffs

(per cent)	Customs ¹		Excise ²	
	2008-09	2009-10	2008-09	2009-10
Cellular phones	0.0	0.0	8.24	8.24
Telecom networking equipment	0.0	0.0	8.24	8.24
Base stations	0.0	0.0	8.24	8.24
Wireless Internet data card	0.0	0.0	0.0	0.0
HDSL	0.0	0.0	8.24	8.24

¹: Telecom products are subject to Special Additional Duty of 4 per cent.

²: Excise duty for 2008-09 is as per stimulus package announced in December 2008 and February 2009

HDSL: High bit-rate digital subscriber line

Source: CRISIL Research

Budget marginally negative for the telecom sector

Company	Impact	Impact factors
Bharti Airtel Ltd	↓	B,C
ITI Ltd	↔	B
Mahanagar Telephone Nigam Ltd	↔	B
Reliance Communications Ltd	↓	B,C
Tata Communications Ltd	↔	B

Source: CRISIL Research

Impact factors

- A.** Full exemption from special additional duty of customs on parts, components and accessories of mobile handsets including cell phones, has been extended for a period of 1 year. Extension of this policy continues to maintain the affordability of users for accessing mobile services.
- B.** Fringe benefit tax (FBT) has been abolished, which would be marginally positive for the sector.
- C.** Minimum alternate tax (MAT) has been increased to 15 per cent of book profits from 10 per cent. This would negatively impact cash flows of companies in the sector.

Textiles

For the Indian textile industry, 2008-09 was a challenging year due to the slowdown in the markets of importing countries, high cotton prices, high interest rates and tight credit availability. Moreover, the Indian textile industry continues to be characterised by a high level of fragmentation across the value chain, and a weak weaving and processing sector. Measures taken so far to boost the sector, which include a 2 per cent duty credit scrip on exports to the EU and US and an interest subvention of 2 per cent on pre and post shipment export credit, have only had a marginally positive impact.

Cotton yarn and cotton

- Cotton yarn demand is expected to grow at a CAGR of 3-4 per cent (volume terms) in the medium-term, supported by the domestic market, which accounts for 60 per cent of total demand. However, the overcapacity situation is likely to persist, particularly in the spinning segment.
- CRISIL Research expects a bumper Indian cotton crop and the easing of the global demand-supply situation to lead to cotton prices softening to levels of Rs 52-57 per kg in cotton season 2009-10. However, overcapacity will compel spinners to pass on the benefit of lower cotton prices to consumers, leading to continued margin pressure.

MMF

- Polyester demand is estimated to grow by 8-9 per cent. Despite this, CRISIL Research expects the polyester industry to be plagued by overcapacity over the next 2 years. Since 2006-07, capacity has increased at a CAGR of 18 per cent, while demand has increased at a CAGR of only 8 per cent.
- Polyester feedstock (PTA and MEG) prices are expected to decline from their 2008-09 levels due to an easing demand-supply situation in the feedstock markets and the softening of crude oil prices from their peak levels. However, overcapacity will compel polyester producers to pass on the benefit of lower input prices to consumers.

Readymade garments

- Garment exports have been severely impacted post September 2008 on account of the economic slowdown in the US and the EU27. Margins of exporters have not improved despite 20 per cent rupee depreciation from January 2008 to June 2009, as weak demand forced them to pass on the benefit to customers. India's market share (in value terms) in both, the US and the EU, has remained stagnant at 5.7 per cent (January-March 2009 vis-à-vis January-March 2008) and 3.6 per cent (January-December 2008 vis-à-vis January-December 2007) respectively.
- The highly fragmented nature of the industry and a weak weaving and processing sector has hindered India's attempts to gain a larger share of the global apparel market. Greater investments in the weaving and processing segment hold the key to improving India's competitiveness in the global apparel market.
- Although the domestic market has continued to exhibit growth of 6-7 per cent, margins of manufacturers are under pressure as they have had to resort to discounting in order to push volumes.

Apparels and fabrics: Tariffs

	Tariff (per cent)			
	Customs		Excise	
	2008-09	2009-10	2008-09	2009-10
Cotton-based apparels ¹	10.30	10.30	4.12	4.12
Non-cotton-based apparels ¹	10.30	10.30	4.12	4.12
Cotton woven fabrics ²	10.30	10.30	0.00	4.12
Non-cotton woven fabrics	10.30	10.30	4.12	4.12
Cotton knitted fabrics ²	10.30	10.30	0.00	4.12
Non-cotton knitted fabrics	10.30	10.30	4.12	4.12

¹ Garments attract additional 4 per cent countervailing duty (CVD).

² Excise duty of 4 per cent is optional

Source: CRISIL Research

Cotton and cotton yarn: Tariffs, prices and landed costs

	Tariff (per cent)				Prices (June 2009)		Landed cost (Rs/tonne)	
	Customs		Excise ³		Domestic	Inter-national ²	Pre-budget	Post-budget
	2008-09	2009-10	2008-09	2009-10	(Rs/tonne)	(\$/tonne)	(Rs/tonne)	(Rs/tonne)
Cotton yarn (40s)	10.30	10.30	0.00	4.12	126,700	2,560	144,728	144,728
Cotton ¹	0.00	0.00	0.00	0.00	60,500	1,266	60,378	60,378

¹ Domestic price of S-6 variety and international cotton price of a comparable variety.

² FOB prices

³ Excise duty of 4 per cent is optional

Landed cost includes handling charges of 1 per cent

CVD and Spl CVD - 4 for cotton yarn.

Source: CRISIL Research

Man-made fibre and intermediates: Tariffs, prices and landed costs

	Tariff (per cent)				Prices (June 2009)		Landed cost (Rs/tonne)	
	Customs		Excise		Domestic	Inter-national ¹	Pre-budget	Post-budget
	2008-09	2009-10	2008-09	2009-10	(Rs/tonne)	(\$/tonne)	(Rs/tonne)	(Rs/tonne)
PSF 1.2d	5.15	5.15	4.12	8.24	323,792	1,200	65,381	68,038
VSF 1.5d	5.15	5.15	4.12	8.24	540,091	n.a	n.a	n.a
POY 126d	5.15	5.15	4.12	8.24	357,876	1,310	71,374	74,275
VFY 120d	5.15	5.15	4.12	8.24	1,295,169	n.a	n.a	n.a
PV 30s (70:30)	10.30	10.30	4.12	8.24	576,796	n.a	n.a	n.a
PTA	5.15	5.15	4.12	8.24	244,352	820	44,201	46,493
MEG	5.15	5.15	8.24	8.24	280,821	560	31,424	31,424
RGWP	5.15	5.15	0.00	0.00	n.a	820	42,388	42,388
Paraxylene	0.00	0.00	4.12	4.12	n.a	1,010	53,882	53,882

POY: Partially oriented yarn; PSF: Polyester staple fibre; MEG: Mono-ethylene glycol

PTA: Purified terephthalic acid; PV: Polyester viscose; RGWP: Rayon grade wood pulp

VFY: Viscose filament yarn; VSF: Viscose staple fibre

n.a.: Not available

¹ FOB prices

Landed cost includes handling charges of 1 per cent.

Source: CRISIL Research

Textiles

Duty changes to have no major impact, interest subvention to benefit exporters

Company	Impact	Impact factors
Alok Industries Ltd	↔	A, B & C
Arvind Mills Ltd	↑	A & C
Gokaldas Exports Ltd	↑	C
Indo Rama Synthetics (India) Ltd	↔	B
JBF Industries Ltd	↔	B
Vardhaman Textiles Ltd	↑	A
Welspun India Ltd	↑	A & C

Source: CRISIL Research

Impact factors

- The excise duty on pure cotton textiles beyond the fibre stage which had been reduced to zero in the stimulus package has been restored to a 4 per cent optional duty. When the excise duty had been reduced to zero, companies with accumulated CENVAT credit were left with no avenue to use that credit. Now, with the excise duty being restored to its earlier 4 per cent optional level, companies will be able to utilise their accumulated CENVAT credit.
- The excise duty on man-made fibres and yarns has been raised to 8 per cent from the earlier level of 4 per cent. While this will increase polyester prices by Rs 2.5 per kg, it will not affect demand as polyester continues to be cheaper than cotton and substitution will continue.
- The extension of 2 per cent interest subvention on pre and post shipment export credit by a period of six months till March 31, 2010, will result in interest costs for exporters declining by around 1 per cent.

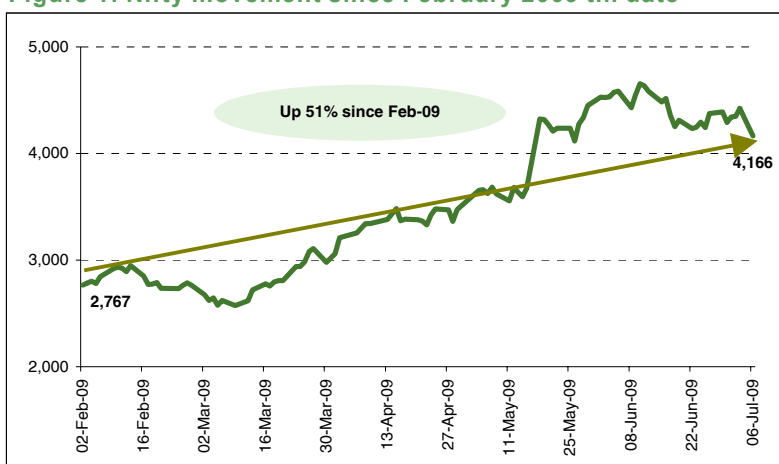
Capital markets

Capital markets

Equity market

The Indian equity markets remained bullish since the last interim budget which was presented by the government in February 2009. Since then, the Nifty has gained almost 60 per cent; mainly aided by the strong electoral mandate to the government on May 18, 2009 (The Nifty jumped almost 18 per cent on that day). However, after that, the markets have remained in the range of 4,200-4,400. The run up to the budget was marked by a high degree of optimism in sectors such as retail, insurance (relaxation of FDI norms), infrastructure and education (expectations of significant thrust by the government). Many public sector undertakings (PSUs) witnessed a significant rise in their stock prices on hopes of disinvestment plans picking up pace.

Figure 1: Nifty movement since February 2009 till date



Source: NSE

On the economic front, although the GDP growth rate has moderated from the highs of over 9 per cent achieved during 2003-04 to 2007-08, India has performed reasonably well in the current global economic scenario.

This was the first budget after the government came to power earlier this year with a clear mandate and much was expected out of it. While the Union Budget announced reforms in some key areas, it failed to put in place a definite roadmap in certain areas, including the government's plan of action on the PSU disinvestments and easing FDI norms in some sectors.

Key areas where reforms were announced included the Goods and Services Tax (GST) to be applicable from April 1, 2010, abolishing the Commodities Transaction Tax (CTT), a unique ID plan to be rolled out in the next 12-18 months and higher allocation of expenditure for National Highways Authority of India. While the corporate tax rate remained unchanged, there was no major announcement on disinvestment of the government's stake in public sector enterprises, except the assurance that the government's holding will not fall below 51 per cent in any such enterprises. Continuing the farm loan subsidy will have a negative impact on PSU banks' profitability.

Equity market

Few measures to sustain and improve the overall GDP growth and schemes to boost investments in infrastructure, education and agriculture have been introduced.

While the impact of the budget on various sectors has been covered in the respective industry section, we have examined the impact of some of the other announcements.

Impact analysis

Minimum alternate tax (MAT)

The government proposed to increase the MAT applicable for corporate houses to 15 per cent from the existing 10 per cent. This will have an incremental cash outflow burden for the companies that come under the purview of MAT. Amongst all the sectors, we feel the information technology and telecommunications sectors will be the most impacted.

Fringe benefit tax (FBT)

We believe that abolishing FBT, which contributes around Rs 100 billion to the government exchequer annually, would not have any material impact on corporate profits (except companies in the IT and FMCG sectors) as it forms less than 1 per cent of the total corporate revenues. However, this would definitely avoid corporate administrative hassles.

Commodities transaction tax (CTT)

The government made an announcement today abolishing the 0.017 per cent CTT which was introduced in last year's budget but was yet to be implemented. CTT, if implemented, would have impacted the transaction costs (as it is linked to trading volumes) and would have been detrimental to the trading volumes. Abolishing this tax, we feel, has a positive impact for the commodity markets and especially for broking companies engaged in commodities trading.

Marginal increase in personal tax exemption limits

The Union Budget announced marginal tax benefits for individual taxpayers by increasing the basic exemption limit for taxpayers (male and female) by Rs 10,000 and that of senior citizens by Rs 15,000. We feel this will have a marginal positive impact on the disposable income of taxpayers and may have a slightly positive impact on the consumer durables sector. Abolishing the 10 per cent surcharge on income over Rs 10 lakhs would have a very marginal impact as a large segment of taxpayers are still in the below Rs 10 lakhs segment.

Markets today

The Union Budget 2009-10 received a thumbs down from the markets, mainly because of deferment of most of the key policy announcements. The Nifty closed at 4,166 points, down 6 per cent from Friday's close of 4,424 points.

Equity market

Table 1: Indices on Budget day

Sector	Close as at		Fall	Remarks
	6-Jul-09	3-Jul-09		
NIFTY	4,165.7	4,424.3	-5.8%	No major policy announcements in the budget.
Sector indices:				
Bankex	7,768.6	8,459.7	-8.2%	Further increase in loan waivers. No FDI norm in insurance sector.
Realty	3,185.2	3,435.2	-7.3%	No incentive as against expectation of some benefits for affordable housing.
Cap. Goods	12,099.8	13,013.1	-7.0%	
Metal	10,560.2	11,303.3	-6.6%	
Power	2,743.8	2,930.2	-6.4%	
Oil & Gas	9,039.2	9,597.3	-5.8%	No announcement on deregulation of oil prices.
PSU	7,773.2	8,226.8	-5.5%	No disinvestment strategy announcement.
Teck	2,539.8	2,643.5	-3.9%	
Auto	4,460.0	4,612.8	-3.3%	
IT	3,236.3	3,327.4	-2.7%	Abolition of FBT. Increase in MAT
Health Care	3,586.3	3,654.9	-1.9%	Few positives in excise duty as well as income tax exemptions.
Cons. Dur.	2,931.3	2,985.5	-1.8%	
FMCG	2,312.5	2,290.2	1.0%	Abolition of FBT. No increase in taxes on cigarettes (ITC)

Source: BSE, NSE. All sectoral indices are taken from BSE.

Even after today's sharp correction, the market is trading at a forward P/E multiple of more than 16 times its 2009-10 earnings estimate. Till date, the Indian markets were commanding higher multiples relative to other emerging markets due to higher expectations on the reforms front as a result of higher political stability. However, given today's announcement by the government, we expect a further correction of around 8-10 per cent from the current levels in the broader market indices. Stocks in sectors such as infrastructure, education and banking may see sharper erosion.

Mutual funds

MF industry assets at an all-time high, post a successful bounceback from October 2008 liquidity crisis

- The Indian mutual fund industry's average assets under management (AAUM) have grown by 19 per cent since June 2008 to touch Rs 6.72 trillion (including fund of funds) in June 2009. AAUM growth followed a key stress point witnessed by the industry during the year in October 2008, largely on account of the contagion effect of the global liquidity and credit crisis. Timely measures to provide liquidity and stimulus by the government and market regulators, coupled with the up-tick in equity markets following the May 2009 elections results played a significant role in helping the industry continue on its growth trajectory.
- The share of debt-oriented funds in industry assets increased to 73 per cent in May 2009 from 66 per cent a year ago. In contrast, the share of equity-oriented funds has reduced to 26 per cent in May 2009 from 33 per cent a year ago, largely owing to mark to market losses in equity funds as the equity markets had been performing weakly for a large part of this period. Fixed income funds, on the other hand, have seen net cash inflows of close to Rs 750 billion, accounting for around 95 per cent of net cash inflows, for year ending May 2009. The fixed income AAUM for the industry stood at Rs 4.84 trillion in May 2009. Bank investment in mutual funds, as per RBI data, topped Rs 1.23 trillion as on June 19, 2009, as compared to less than Rs 100 billion in October 2008.
- Reliance Mutual Fund dominated the assets chart throughout the year and became the first fund house to cross the Rs 1 trillion AAUM mark in May 2009. The largest ten fund houses held 78 per cent of the assets, with the top five constituting 57 per cent. The trend of increasing polarization in mutual fund assets to the top 10 fund houses (35 fund houses in all) is clearly evident from the share of the bottom 10 fund houses, which constitute less than 1 per cent of the assets today.
- Retail investor penetration was a topic of great interest during the year with views and initiatives from both the regulators and the market body, Association of Mutual Funds of India (AMFI). The latest Economic Survey for 2008-09 highlighted the scope for expansion of the mutual fund industry since only 7.7 per cent of the total financial savings were allocated to mutual funds in 2007-08. In a recent release, AMFI too had stated that retail investors constituted only 21 per cent (majorly in equity funds) of the mutual fund industry AUM as of March 2009.
- CRISIL FundServices expects increasing investor awareness and proactive steps from the regulator and AMFI towards instilling transparency and good governance practices to enhance investor confidence, thereby aiding increased participation from the retail segment over the medium term.

Mutual funds

- Snapshot of Mutual fund performance

Table: CRISIL Index Returns in per cent

Tracks		1-year Returns till June 30, 2009	YTD Returns till June 30, 2009	3-months returns till June 30, 2009
CRISIL Fund~eX	Equity Funds	9.18	44.72	51.01
CRISIL Fund~bX	Balanced Funds	15.40	37.77	42.01
CRISIL MIPeX	Benchmark for Monthly Income Plans	12.04	8.32	8.26
CRISIL MF~Gilt Index	Gilt Funds	14.43	-7.43	3.89
CRISIL Fund~dX	Long-Term Bond Funds	10.52	0.28	3.26
CRISIL STBeX	Benchmark for Short-Term Bond Funds	11.26	4.47	2.44
CRISIL~LX	Liquid Funds	7.26	2.97	1.26

Source: CRISIL Mutual Fund Database

Budgetary measures to boost infrastructure investments

Measures:

- India Infrastructure Finance Company Ltd (IIFCL) is expected to play a pivotal role in infrastructure funding. IIFCL is expected to re-finance 60 per cent of the commercial bank loans for PPP projects in critical sectors involving a total investment of Rs 1 trillion.
- Allocation to National Highways Authority of India (NHAI) has been increased by 23 per cent over the Budget 2008-09. Allocation for the Indian Railways has also increased by Rs 50 billion over the Interim Budget 2009-10.
- Allocation under Jawaharlal Nehru National Urban Renewal Mission (JNNURM) has been stepped up by 87 per cent over the Budget 2008-09 to Rs 129 billion
- Allocation for housing and provision of basic amenities to the urban poor has been enhanced to Rs 40 billion.
- Allocation under the Accelerated Power Development and Reform Programme (APDRP) has been increased by 160 per cent over the Budget 2008-09 to Rs 21 billion
- A blueprint on a National Gas Grid to facilitate transportation of gas across the country is expected to be developed.

Impact:

- The increased thrust on infrastructure funding is expected to result in an increasing appetite for infrastructure-oriented funds. In the light of the recent SEBI circular on entry loads, AMC's may market existing funds within this category, rather than come out with New Fund Offers (NFOs), exhibiting a marked deviation from the past precedents.
- The focus on infrastructure projects is expected to result in an increasing number of corporate bond and equity issuances for fund raising by infrastructure companies and institutions. This would provide an expanding avenue for mutual funds to invest in.

Mutual funds

Debt-fund durations to drop due to high government borrowings

Measures

- Total additional Plan expenditure by the Centre and the States put together would be Rs 610 billion over the Interim Budget.
- State governments would be permitted to borrow an additional 0.5 per cent of their Gross State Domestic Product (GSDP) by relaxing the fiscal deficit target under Fiscal Responsibility and Budget Management (FRBM).

Impact:

- News of the increased government borrowings and high fiscal deficit (of 6.8 per cent of 2009-10 GDP) are expected to lead to a rise in bond yields, at least in the short run. This could result in mark to market losses for high duration mutual funds. As a mitigant, we could see fund managers pruning durations on their income and gilt funds to limit losses.
- Increasing issuances of State Development Loans is expected to result in sustenance of the attractive yields for these securities, thus maintaining investor interest.

EET status quo over NPS continues despite tax concessions

Measures

- The New Pension System (NPS) would continue to be subject to the Exempt-Exempt-Taxed (EET) method of tax treatment of savings.
- The NPS Trust has been exempted from income tax, dividend distribution tax and securities transaction tax for income, dividend paid and purchase and sale of equity shares and derivatives, respectively.

Impact

- While the tax concessions given to the NPS trust is a move in the right direction, the EET method of tax treatment for contributions to the NPS will hinder its potential success in the short term

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