CREDIT ANALYSIS & RESEARCH LIMITED

IMPACT OF UNION BUDGET 2009-10

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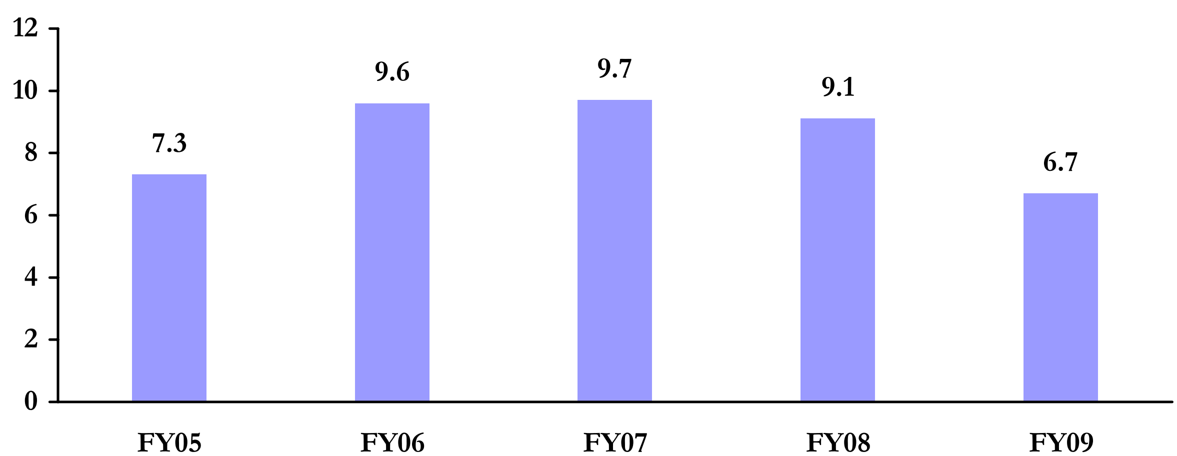
MACROECONOMIC BACKDROP

Economic scenario

The most significant feature providing a backdrop to the union budget 2009-10 is the sharp slowdown in domestic economic growth due to the unprecedented slowdown in major economies around the world. Growth of Gross Domestic Product (GDP) at constant prices slowed from 9.1 per cent in FY08 to 6.7% in FY09 as per revised estimates of the Central Statistical Organization (CSO) as shown in diagram 1 below. For a developing country with a healthy population growth rate and expanding labor force, this reflects a sharp fall. Rough estimates indicate that given the levels of investment and labor force growth in the economy, this has meant that the economy has added at least 1.02 lakh crore worth of goods and services lesser than that added on an average in the previous three years. The sectoral break-up in terms of performance indicates that manufacturing has been severely hit with growth in the sector estimated at 2.4% in FY09 vis-à-vis 8.2% in FY08. However agriculture has also performed poorly, growing at just 1.6% albeit on a higher base of 4.9% in FY08.

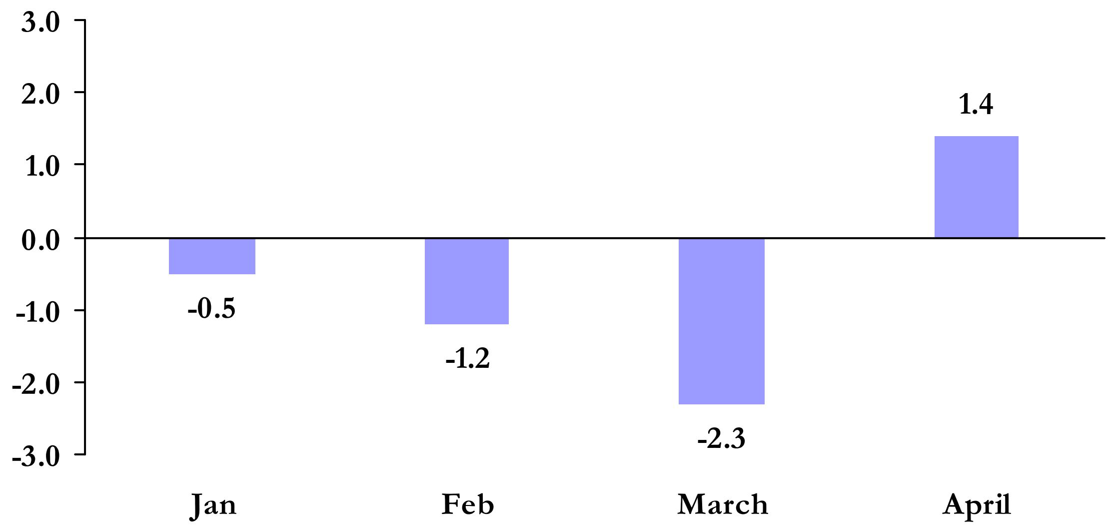
Diagram 1: Annual growth in GDP (%)



One of the most direct consequences of the global and domestic slowdown has been a softening inflationary situation. Variation in the Wholesale Price Index (WPI), a measure of inflation actually fell by 1.61 per cent in the week ended June 6, 2009 – the lowest in more than three decades. Inflation had touched a high of 12.5% in July 2008. In fact a downward trend has been indicated from November 2008. A more comfortable inflationary situation has imparted greater flexibility to monetary and fiscal policy.

The most severe fallout of the global recession has been felt by the industrial sector. Annualized growth in Index of Industrial Production (IIP) fell from 8.1 per cent in FY08 to 2.4 per cent in FY09. In the first four months of 2009 as shown in diagram 2 below, IIP growth has averaged -0.7 per cent, indicating a fall in industrial production over the period. IIP growth in April was however positive at 1.4 per cent vis-a-vis fall in production in the previous three months. An analysis indicates that labor-intensive sectors have been hit hard especially in the textile, apparel and leather arena.

Diagram 2: Growth in IIP in 2009 (%)



The high growth phase between FY04 and FY08 has been accompanied by an increased trade orientation of the Indian economy in terms of an increased share of imports and exports to the GDP. For example, between FY04 and FY08, imports registered an average growth of 30.8 per cent while exports registered an average growth of around 24 per cent. Consequently the impact of global recession has been far more on the present domestic economic cycle in contrast to previous periods. Export growth (3.4 per cent) has decelerated faster than import growth (14.3 per cent) in FY09, thereby resulting in an increasing trade deficit. Merchandise trade deficit increased to US$ 119 billion in FY09 as compared to US$ 88.5 billion in FY08.

Despite the slowdown in agricultural growth rates, no serious impact can be discerned in the food security situation. Foodgrain production was just marginally lower at around 227 million tones (second advance estimate) in FY09 as compared to the record high of 230 million tones in FY08. The lack of sustained growth despite the existence of large yield potential in several parts of the country especially the eastern gangetic plains indicates the need for continued and sustained public investment in the sector.

Despite the tangible evidence of a slowdown, a high level of domestic savings and investment rates continue to provide fundamental stability to the Indian economy. In fact in the past few years, domestic savings rate (to GDP) has increased in tandem with Gross Domestic Capital Formation (GDCF). Gross Domestic Savings rate for example increased from 29.8 per cent in FY04 to 37.7 per cent in FY08. GDCF on the other hand has increased from 28.2 per cent in FY04 to 39 per cent in FY08. Despite the slowdown, indications suggest that savings rate continue to remain high. This indicates a fundamental upward shift in the growth trajectory underlining the Indian business cycle. The existence of a high savings pool would also give greater room for fiscal maneuvering through the debt markets and mitigate apprehensions of a possible private sector crowding out.

Government Finances:

(Rs '000 crore)

	FY05	FY06	FY07	FY08	FY09	FY10	FY05-FY09	FY10
	(A)	(A)	(A)	(A)	(RE)	(BE)	CAGR	growth
Revenue Receipts	306	347.5	434.4	541.9	562.2	614.5	16.4%	9.3%
a) Net Tax Revenue to CG	224.8	270.3	351.2	439.5	469.6	474.2	20.2%	0.9%
b) Non-tax Revenue	81.2	77.2	83.2	102.4	96.2	140.3	4.3%	45.8%
Revenue Expenditure	384.4	439.8	514.6	594.5	803.4	897.2	20.2%	11.7%
Capital Receipts	191.7	158.7	149.0	170.8	338.8	406.3	15.3%	19.9%
a) Recoveries of Loans	62	10.6	5.9	5.1	9.7	4.2	-37.1%	-56.4%
b) Other Receipts	4.4	1.6	0.5	38.8	2.6	1.1	-12.6%	-56.4%
c) Borrowing & other Liabilities	125.2	146.4	142.6	126.9	326.5	401.0	27.1%	22.8%
Capital Expenditure	113.3	66.4	68.8	118.2	97.5	123.6	-3.7%	26.8%
Total Receipts	497.7	506.1	583.4	712.7	901.0	1020.8	16.0%	13.3%
Total Expenditure	497.7	506.1	583.4	712.7	901.0	1020.8	16.0%	13.3%
Revenue Deficit	78.3	92.3	80.2	52.6	241.3	282.7	32.5%	17.2%
Fiscal Deficit	125.2	146.4	142.6	126.9	326.5	401.0	27.1%	22.8%
Primary Deficit/(Surplus)	-1.7	13.8	-7.7	-44.1	133.8	175.5	NA	31.1%

The current economic slowdown is affecting Government finances. As per the budgeted estimates for FY10, revenue growth has moderated to 9.3 per cent vis-a-vis 16.4 per cent CAGR between FY05 and FY09. Tax revenues seem hard hit and budgeted to grow at 0.99 per cent in FY10. Given the prevailing scenario, these estimates not only appear realistic but actual figures could well come out worse off. Government budget estimates of a 45.81 per cent growth in non-tax revenues in FY10 appear a bit optimistic especially given the growth witnessed in the past, coupled with the economic slowdown.

Given the moderating revenue profile, implementation of the sixth pay commission and the increased need for spending under the various government flagship programmes and infrastructure projects, fiscal deterioration has occurred. The proportion of Gross Fiscal Deficit (GFD) to GDP rose from 2.7 per cent in FY07 and 6.2 per cent (excluding oil and fertilizer bonds) in FY08 RE to a budgeted a 6.8 per cent in FY10. Two striking features of the fiscal stimulus policy followed so far which has also been reflected in the union financial statement are the recourse to market borrowing to finance fiscal deficit and the increasing proportion of borrowings going towards financing current expenditure of the government. Borrowings and other liabilities of the Union government has witnessed a significant jump from Rs 1.26 lakh crore in FY08 and Rs 3.27 lakh crore in FY09 (RE) to Rs 4.01 lakh crore in FY10 (BE). With the increased and continued reliance on debt markets, government yield curves should continue to be underlined by an upward pressure. However, given the existence of sufficient liquidity in the system, past empirical evidence, implications of government spending on sentiments on the economy, fiscal policy by itself would not result in "crowding out" of private investment. Another striking feature of the fiscal deterioration in recent years has been the rising proportion of revenue deficit to fiscal deficit. This ratio has increased from 41.4 per cent in FY08 to 74 per cent in FY09 (RE) and 70 per cent in FY10 (BE). This means that an increasing proportion of borrowing is going towards current expenditure items like salaries, pensions, maintenance, interest payments, subsidies etc rather than physical capital asset formation like roads, power plants etc. This would impact direct consumption, which is required during a slowdown. However there appears case for increasing government spending towards direct infrastructure creation and more equitable revenue to capital mix in the GFD.

UNION BUDGET 2009-10

The budget has been an overall positive for economic growth as strong expenditure focus on key sectors, boosting of aggregate demand and indication of movement towards structural fiscal reforms. However, significant fiscal deterioration is expected FY10.

The key highlights of the budget are:

I) Economic Revival programme supportive of regaining growth momentum:

Strong focus on Infrastructure, Agriculture and Exports has been indicated as crucial parts of the Economic revival programme. The major components of the same can be summarized as follows:

a) **Infrastructure:** Among the major measures announced include 60% refinancing for public private partnership schemes via IIFCL, more flexibility to IIFCL and the envisaging of a "take out financing scheme" by IIFCL for incremental infrastructure financing. Substantial increase in allocation in FY10 over FY09 in major infrastructure segments has also been envisaged. Allocation to the National Highway Authority of India (NHAI) for the various National Highway development programmes has increased by 23 per cent. Urban infrastructure under Jawaharlal Nehru National Urban Renewal Mission (JNNURM) has got an 87 per cent increase in allocation. A new urban housing scheme for slum dwellers (Rajiv Awas Yojana) with allocation of Rs.3,973 crore has been announced. Allocation for the power sector under the accelerated power development and reform programme (APRDP) has increased by 160 per cent in FY10 over FY09. Moreover the government has also continued its focus on rural infrastructure under the flagship Bharat Nirman programme.

b) **Agriculture:** There has been an increase in interest sub-vention for farm loans on an incentivized basis. Consequently, loans will be provided to farmers at 6 per cent vis-à-vis 7 per cent provided servicing on loans is on time. Irrigation investments have been increased by 75 per cent under Accelerated Irrigation Benefit Programme (AIBP) in FY10 over FY09.

c) **Exports:** Tenure of most schemes announced under the fiscal stimulus package extended to March 2010. Adjustment assistance from enhanced export credit guarantee corporation credit at 95 per cent is now in effect till March 2010. Special focus continues on textiles, gems and jewellery, marine products and small and medium enterprises. Interest subvention of 2 per cent to these sectors has been extended from December 2009 to March 2010. Allocation for the Market Development scheme has been increased by 148 per cent to Rs 124 crore.

d) **Micro, Small and medium scale sector:** Micro, medium and small-scale enterprises have also been in focus. Increased refinance provisions have been announced for the sector.

The emphasis of the economic revival package remains in the right direction. Given that micro, small and medium enterprises have been the worst hit by the credit contraction consequent to the economic slowdown, increased focus on the same is a positive for the general employment situation and hence aggregate demand in the economy. Increased emphasis on operational flexibility and measures to improve fund flow via IIFCL is a positive move in strengthening the institutional framework for infrastructure finance. Increased focus on urban infrastructure should not only benefit private players involved in major city transport projects but also automobile manufacturers as a significant component would go into purchases of vehicles for public transport. Increased focus on agriculture especially through the AIBP is welcome as the present uncertainty over monsoon has brought into sharp focus the need to increase area under irrigated water supply. The continuation of stimulus measures in the export sector is in line with the trend of labour-intensive segments especially textiles suffering from an inability to compensate export contraction with domestic demand. The measures announced should provide some relief in this context.

II) Strong stimulus to rural demand

All major social development programmes of the government have got a major boost. The National Rural Employment Guarantee Scheme (NREGS) has witnessed an increase in its allocation of 144 per cent in FY10 over FY09. This should directly help stabilize rural demand especially when there could be an increase in periodic demand for non-farm employment in the scenario of uncertain rainfall. Increased allocation in other schemes like health, education, nutrition and housing should also contribute towards improving the quality of human capital in the country.

III) Sharp deterioration in Fiscal balance a concern

Increased expenditure vis-à-vis the interim budget and previous budget has meant a sharp deterioration in fiscal balances. Gross Fiscal Deficit to GDP ratio for FY10 has been budgeted at 6.8 per cent (excluding oil and fertilizer subsidies) vs 5.5 per cent budgeted in the interim budget and 6.2 per cent in FY09. The most significant consequence of the same is the substantial jump budgeted in the Union government's borrowing programme. Borrowing of around Rs.4.01 lakh crore has been budgeted for FY10 vis-à-vis Rs.3.33 lakh crore in the interim budget and Rs.3.26 lakh crore in FY09. Moreover relaxation of FRBM targets for states from 3.5 per cent to 4 per cent could see substantial increase in state government borrowing (about Rs.21,000 crore additional borrowing). Despite the finance minister indicating steps towards structural and institutional reforms on the fiscal side, no specific roadmap on reverting to the fiscal prudence path announced.

The implications of the prevailing fiscal situation are manifold. Firstly, the increased recourse to the debt market should exert an upward pressure on government bond yields. The increased fiscal deficit position should also contribute to the rigidity in non-plan expenditure by increasing the level of interest payments vis-à-vis the revenues available to discharge them. Consequently a significant deterioration is foreseen in debt and debt-servicing parameters. This could be a dampener to international investment sentiment. The continued high composition of current and recurring expenditure as regards the allocation of borrowing also means that the link between revenue generation and debt back spending is weak. Hence, as the economy revives, the most significant challenge confronting the government will be reverting back to the path of fiscal prudence. In this context in the long term, the finance minister's pronouncements on a relook at the subsidy system and petroleum pricing policy are a positive.

IV) No major policy announcement on expected reforms vis-à-vis financial sector, retail or foreign investment

The prevailing uncertainties underlining the global economy seem to have refrained the government from announcing any major policy measures vis-à-vis foreign investment, the financial and the retail sector. Given the sharp division in opinion on the exact implications of measures over many of these reforms and the variegated experience of countries undertaking the same during recessions; it is difficult to conclude on the implications of the same. However the constraints on long-term financing in India do entail reforms in the pensions and insurance segment and some indications on the same could have been more forthcoming.

The government policy on disinvestment of Public sector enterprises has also been reiterated by the finance minister. There is going to be no dilution of government holding in banks. Divestment to increase non-promoter share capital while not impacting government controlling stake to be implemented in all other listed PSUs in a phased manner.

V) Revenue measures

There has been no major tinkering in indirect taxes. The deadline for introduction of dual rate Goods and Service Tax (GST) remains at April 1st 2010. Movement towards the rationalization of taxation system continues. Sectors benefiting from indirect taxation incentives include construction, non-renewal energy especially wind power, electronic goods, information technology and agriculture.

Policy of fiscal stimulus on direct tax front continues. General personal income tax exemption limits have increased by Rs.10,000. Fringe benefit taxes and commodity transaction tax have been abolished. Surcharge on personal income tax has been abolished. Minimum Alternative Tax (MAT) rates increased from 10 per cent to 15 per cent. No change in corporate tax rates.

VI) Conclusion

Budget appears to have an appropriate investment programme for the slowdown but the increased debt burden and deteriorating fiscal situation would continue to pose threats and challenges. Overall the Budget is positive for reviving the current rate of economic growth in the prevailing circumstances.

RAILWAY BUDGET

Background

The Indian Railways (IR) is the world's second-largest rail network under a single management and has been contributing to the industrial and economic development of the country for more than 150 years. IR operates approximately 11,000 passenger trains a day, around 5,000 freight trains a week and employs nearly 1.412 million people. The freight traffic accounts for roughly 67 per cent of its revenues while the passenger traffic constitutes 33 per cent of its receipts.

During the fiscal year ended March 2009, IR witnessed strained finances amidst a reduction in freight growth, the impact of fare cuts and the unavoidable hike in wage bill following pay commission recommendation.

Annual Plan for FY2009-10

The FY2009-10 would witness a hefty increment of Rs.2,840 crore in annual plan outlays over the amount proposed in the Interim budget announced in February. The provision for the annual plan stands at Rs.40,745 crore.

During the year, the ministry plans to approach the market to raise Rs.9,170 crore. It is also expected to issue tax-free bonds to generate revenue. The proposed allocation for new lines has been increased to Rs.2,921 crore from Rs.1,100 crore in the interim budget. Similarly provision for gauge conversion has been increased by 24 per cent over the interim budget by allocating Rs.1,750 crore. Special attention has been provided to passenger amenities, which is evident from the phenomenal 119 per cent rise in funds over the allocated finances in the interim budget. Around Rs.1,102 crore has been provided to serve passengers of IR. For the welfare of the Railway's staff, the ministry is set to construct staff quarters costing to Rs.335 crore along with other amenities with Rs.424 crore. Additional funds to the tune of Rs.1,949 crore have been sought from the Ministry of Finance for 11 railway projects spread over in Jammu & Kashmir and the North East.

Budget proposals

The ministry has laid down roadmap to improvise passenger and commercial amenities, infrastructure and network.

Budget proposals for passengers

With recognition of passenger traffic being a major source of revenue, the ministry undertook several initiatives to attract more commuters. Easy availabilities of rail tickets, discounted passes to students and elderly group, cheaper Tatkal services and other facilities are few of them.

Followings are the highlights of the proposals:

- No change in passenger fares of all classes
- Tatkal charges will now be levied as a percentage of the fare subject to a minimum of Rs.100 instead of minimum of Rs.150 at present. The Tatkal Scheme to be reduced from five days to two days
- Tickets would be available at 5,000 post offices across the country
- Introduction of ATMs on 200 mid and small-sized stations across the country
- SMS updates for wait-listing
- The scheme providing students discounts metro passes has been extended and the discount increased to 60 per cent.
- Tickets of Rs.25 for travel up to 100 km for poor people
- To develop air-conditioned double-decker coaches
- Yuva trains to be introduced for the youth whereby one would have to pay Rs.299 for distances upto 1,500 km and Rs.399 for distances upto 2,500 km. These would be air-conditioned trains.
- As a part of medical facilities on board, doctors would be available on long-distance trains

Budget proposals to improve the IR's infrastructure & network

- To develop 50 stations as world-class stations with 375 to be developed as ideal stations. Multi-functional complexes with shopping facilities, food stalls and budget hotels are to be constructed at 50 railway stations

- IR to take over wagon units of two state companies
- Plans to encourage cold storage facilities for farmers, cold storage cargo introduced.
- Proposed to put railway land bank for productive use, industrial purpose
- To set up 1,000 mega watt (MW) power plant in alliance with NTPC
- About 57 new trains, extension of 27 trains and increase in frequency of 13 trains and air-conditioned double-decker trains have been proposed. Moreover, proposals for seven new lines, Gauge conversion of 17 lines and doubling of 13 railway lines have been put forth
- Railways will be setting up a new coach factory with state-of-the-art facilities to manufacture 500 coaches.

Budget proposals for corporate

- No change in freight rates
- To set up premium freight service for container movement with assured transit time and a mega logistic hub alongside eastern and western dedicated freight corridors.
- Special trains to ferry perishable agro products like fruits, vegetables and also village handicrafts, cottage industry and textile products from production clusters to consumer clusters.

Other Proposals

- Integrated security schemes for 140 vulnerable railway stations
- Timely track renewal, modernization of signals and use of digital ultrasonic flaw detectors will be introduced for the safety of the passengers.

- Women RPF Squads, exclusively for women passengers, will also be introduced
- Creation of North-East Rail Development Fund for timely completion of national projects in the North Eastern region and said Quazigund-Anantnag new line in Kashmir will be completed by next month.

Budget implications

- With no increment in fare and freight charges amidst the current slowdown in economic activities would put further strain on the corporation's finance.
- The continuation of mobile and on-line train booking services and other services using Information Technology (IT) will support business opportunities to Indian IT firms.
- The Railway Ministry's efforts to improve connectivity between North-Eastern states and in Kashmir valley would boost the economic activities in these areas.
- The IR's requirement of 18,000 wagons in FY10, higher than 11,000 in FY09 would provide some respite to few core and automobile sectors, which have been grappling with economic slowdown.
- Improved network of rails and enhanced capacity of containers would advance IR revenue in the coming years.
- With a considerable hike in petrol and diesel charges effective July 2, 2009, road freight charges are likely to be impacted. An unchanged freight charge as per the railway budget makes railways more cost competitive, affecting the road transportation unfavourably.
- Expansion in railway network for overall economic development through proposed newly-laid lines and gauge conversions will impact the Railway's efficiency and consequently its revenue stream.
- An additional budgetary support from Government of India worth Rs.5,000 crore in the financial year 2009-10 will exert additional pressure on the Central government's fiscal indicators.
- The infrastructure sector is likely to gain momentum with the railway budget emphasizing on improvement in infrastructural facilities across 375 railway stations.
- Special cargoes for perishable items along with other measures to improve the loading of coal, iron ore, cement, fertilisers and food grain would lead to growth in freight and commodity traffic for IR.

Overall assessment

The railway budget presented on July 3, 2009 is populist despite the strained finances. It was in line with the UPA Government's slogan of 'for the welfare of *aam aadmi'*. The focus of the budget remained on better passenger amenities, good food at affordable prices, clean toilets at stations and trains. The budget further attempted to explore Information Technology (IT) to provide user-friendly facility with better quality. The issue pertaining to the security of passengers has been addressed by the minister, given the threats from terrorists and anti-social groups. Moreover, the railway minister suggested that economic viability of the project should not be the only criterion; rather social viability of the project should be taken into account. This indicates that future actions of the ministry will be guided more by the social welfare than the improvement in the financial health of IR.

AGRICULTURE

Budget Proposals:

- Agricultural credit flow at Rs 287000 crore in FY09. Target for FY10 at Rs 325000 crore.
- Continuation of interest subvention for short term farm loans upto Rs 300000. Additional subvention of 1 per cent in cases of timely debt servicing. Effective interest on farm loans thus 6 per cent under new scheme.
- Period of earlier one off debt waiver increased by six months till 31st December 2009.
- Task force to be set up to look into debt burden of farmers due to private informal lending in Maharashtra.
- Allocation under Accelerated Irrigation Benefit Programme (AIBP) increased by 75 per cent.
- Allocation under Rashtriya Krishi Vikas Yojana increased by 30 per cent.

Budget Impact:

- Increased credit flow should result in stabilization of a significant portion of rural demand. This should benefit consumer goods sectors, especially fast moving consumer goods (FMCGs). Fertilizer companies would also benefit.
- Increased investment in irrigation to contribute towards reducing rain dependence. This is important in the context of the current uncertainty over the monsoon. The measures would benefit the companies in the irrigation based manufacturing space.
- In the present context of the industrial slowdown, would help in arresting fall in general economic growth.

GENERAL TAX PROPOSALS

Budget Proposals

1. The Finance Minister proposed to pursue structural changes in direct taxes by announcing that the new Direct Taxes Code (DTC) would be released within the next 45 days. The DTC, along with a discussion paper, is proposed be released to the public for debate and based on the inputs received, the Government will finalise the DTC Bill for introduction in Lok Sabha during the Winter Session.
2. Similarly, the Finance Minister proposed to pursue structural changes in indirect taxes by disclosing that the Empowered Committee of State Finance Ministers has made considerable progress in preparing the roadmap and the design of the GST, which is expected to be a dual model, comprising of a Central GST and a State GST.
3. The Corporate tax rates remain unchanged at 30 per cent for domestic company and 40 per cent for foreign company. In case the income exceeds Rs.10,000,000, surcharge of 10 per cent is applicable in case of domestic company and 2.5 per cent in case of foreign company. Education cess of 2 per cent and Secondary and Higher Education cess of 1 per cent is levied on the tax payable, including surcharge.
4. The rate of Minimum Alternate Tax (MAT) is increased from 10 per cent to 15 per cent of book profits. Further, the period allowed to carry forward the tax credit under MAT is increased from seven years to ten years.
5. Fringe Benefit Tax is abolished.
6. Commodity Transaction Tax is abolished.
7. The personal income tax exemption limit is increased by
   a) Rs.15,000 from Rs.225,000 to Rs.240,000 for senior citizens.
   b) Rs.10,000 from Rs.180,000 to Rs.190,000 for female assesses
   c) Rs.10,000 from Rs.150,000 to Rs.160,000 for all other assesses
8. The surcharge of 10 per cent payable in case of individuals, where income exceeds Rs. 1,000,000 is eliminated.

AUTOMOBILES

Background

Automobile Sales

('000 units)	Domestic Sales			Exports		
	FY08	**FY09**	**Growth**	**FY08**	**FY09**	**Growth**
MHCV	275	184	-33.2%	22	17	-23.7%
LCV	216	201	-7.1%	37	26	-30.1%
Passenger Cars	1,204	1,219	1.3%	211	332	57.0%
UV and MPV	346	332	-4.0%	7	4	-42.4%
Three Wheelers	365	350	-4.1%	141	148	4.8%
Two Wheelers	7,249	7,438	2.6%	820	1,004	22.5%
Tractors	302	304	0.6%	44	39	-12.1%

MHCV: Medium and Heavy Commercial Vehicles; LCV: Light Commercial Vehicles; UV: Utility Vehicles; MPV: Multi-purpose Vehicles

Source: Society of Indian Automobile Manufacturers (SIAM), Industry

Global financial crisis hit the automobile industry hard in FY09. Economic slowdown entailed a sharp fall in demand for Commercial Vehicles (CV), whereas job losses, pay cuts and related fears hampered sales of personal vehicles like cars and two-wheelers. Cautious stance of the vehicle finance companies added to the woes of the industry. Tractor sales too remained muted in the last year. Fall in steel and aluminium prices, declined petrol and diesel prices (from the peak level) and lower interest rates have provided some solace to this disturbed industry. Government's measures like allowing accelerated depreciation and providing capital subsidies to State Transport Corporations to purchase buses has also arrested the fall in sales of CVs. The recent hike in fuel prices would have negative impact on the revival of the automobile demand.

Budget Proposals

1. Additional duty of Rs.20,000 applicable on cars with engine capacity exceeding 2000cc reduced to Rs.15,000.
2. Excise duty on petrol-driven trucks reduced to 8 per cent from 20 per cent charged earlier.
3. The provision of weighted deduction of 150% in case of expenditure on in-house Research and Development continued.

Duty Structure

(%)	Existing	Proposed
CUSTOMS DUTY		
• CV (Old and New) and Tractors	10	10
• Passenger cars, two and three wheelers		
•Old	105	105
•New	60	60
EXCISE DUTY		
• Passenger Cars, UV and MPV		
•Small Cars*	8	8
•Hybrid Cars	10	10
•Others[1,2]	20	20
• Buses	8	8
• Chassis of diesel operated CV	8 + Rs. 10,000	8 + Rs. 10,000
• Chassis of diesel operated CV	20 + Rs. 10,000	8 + Rs. 10,000
• Diesel-operated CV other than bus and chassis	8	8
• Petrol-operated CV other than bus and chassis	20	8
• Two-Wheelers	8	8
• Three-Wheelers	8	8
• Tractors	8	8

Excluding:

2% Education cess and 1% secondary & higher education cess

1% National Calamity Contingent Duty (NCCD)

[1] Additional duty of Rs. 15,000 applicable on cars with engine capacity exceeding 1500cc and up to 1999cc

[2] Additional duty of Rs. 20,000 applicable on cars with engine capacity exceeding 2000cc, now reduced to Rs. 15,000 post budget

* Of length not exceeding 4 metres [Engine capacity< 1500cc (Diesel): 1200cc (Petrol)]

Budget Impact: Industry

1. Reduction in additional duty applicable on cars with engine capacity exceeding 2,000cc from Rs.20,000 to Rs.15,000 will have negligible impact, both on the price of such car as well as the profitability of the manufacturers. Only 3-4 per cent of the cars sold in India exceed engine capacity of 2,000 cc
2. Reduction of excise duty on petrol-driven trucks and its chassis to 8 per cent from 20 per cent charged earlier would not have material impact, as large portion of trucks sold in India are diesel operated.

3. Continuation of the provision for weighted deduction of 150% in case of expenditure on in-house Research and Development, though marginally positive for the sector, does not provide any incremental benefit over and above the existing benefits for the manufacturers. Hence it is considered to be neutral.
4. Increase of the exemption limits for personal income tax would not significantly impact demand for personal vehicles like cars and two-wheelers.
5. Interest subvention for crop finance, extension of time limit for bigger farmers to repay 75 per cent of their dues to avail benefit under agricultural debt waiver scheme, additional budgetary allocation of Rs.10 billion for the Accelerated Irrigation Benefit Programme and 30 per cent higher allocation for the Rashtriya Krishi Vikas Yojna would cumulatively boost the demand for tractors.
6. Focus on improvement of road infrastructure would have a long-term positive impact on the demand for automobiles.

Budget Impact: Companies

Company	Products	% of Sales	Applicable Proposals	Overall Impact
Ashok Leyland	CV	89	2,3,6	◀▶
Tata Motors	CV Cars UV and MPV	63 25 12	1,2,3,4,6	◀▶
Maruti Udyog	Cars and UV	93	1,3,4,6	◀▶
Mahindra and Mahindra	UV and MPV LCV Tractors Three Wheelers	32 26 6 36	3,4,5,6	▲
Hero Honda	Two Wheelers	99	3,4,6	◀▶
Bajaj Auto	Two Wheelers Three Wheelers	73 22	3,4,6	◀▶

Legends:

▲▲	Highly Positive	▼	Marginally Negative	◀▶	Neutral
▲	Marginally Positive	▼▼	Highly Negative	Ø	No Proposals

BANKING AND FINANCIAL SERVICES

Background

Banking and Financial Services Industry (BFSI) witnessed severe pressure beginning mid September 2008 due to the global financial and liquidity crisis. The sector faced a chain reaction beginning with withdrawal of foreign funds leading to liquidity problems faced by domestic corporates who withdrew investments from money market mutual funds, which in turn put pressure on Non-Banking Financial Corporations (NBFC) as a large source of their funding was from mutual funds. The Reserve Bank of India (RBI) changed its focus from containing inflation in the first half of FY09 to providing liquidity and supporting growth and consumption during the second half of FY09. RBI's concern was to avoid short-term liquidity problems leading to long-term solvency issues and hence encouraged the BFSI to increase supply of credit to the real economy. RBI used monetary and non-monetary policy measures to enhance liquidity in the system.

Measures by RBI* to ease liquidity pressure

- Repo rate reduced from 9% in October 2008 to 4.75%
- Reverse Repo rate reduced from 6% in December 2008 to 3.25%
- CRR requirement reduced from 9% in October 2008 to 5%
- SLR requirement reduced from 25% to 24% with effect from November 8, 2008
- Institution of a term repo facility for an amount of Rs.600 billion under LAF to enable banks to ease liquidity stress faced by MFs, NBFCs and HFCs
- Reduction in provisioning requirements
- Reduction in risk weights under Basel II

*This is only a selective list and not a comprehensive list of all measures undertaken by RBI

BFSI also faced stress on their asset quality, especially on exposure to export related, capital markets related and real estate sectors. RBI allowed special restructuring window to banks in order to avoid the liquidity crisis translating to solvency problems.

Primary and secondary markets were impacted due to drying up of liquidity and withdrawal of funds by Foreign Institutional Investors (FII). Resources raised through public issues declined from Rs.837 billion in FY08 to Rs.147 billion in FY09. FII made net sales of Rs.482 billion during FY09 as against net purchases of Rs.527 billion in FY08. The BSE Sensex was lower by 37.9 per cent y-o-y in March 2009. The liquidity conditions have since improved during Q4 FY09 and equity markets have recovered post March 2009.

	Deposits growth (%)			Advances growth (%)		
Banking group	**FY07**	**FY08**	**FY09***	**FY07**	**FY08**	**FY09***
Scheduled Commercial Banks	24.6	23.1	19.8	30.6	25.0	17.3
SBI and Associates	16.8	22.2	27.0	29.8	23.1	22.0
Nationalised Banks	26.0	18.1	23.0	30.4	25.7	19.5
Private Sector Banks	28.8	22.3	9.0	32.5	25.0	10.9
Foreign Banks	32.6	26.7	8.0	29.5	27.5	4.0

* FY09 numbers are provisional

Source: RBI

Scheduled Commercial Banks (SCBs) in India have shown an impressive growth from FY04 to the mid of FY09. Total deposits, advances and net profit grew at CAGR of 19.6 per cent, 27.4 per cent and 20.2 per cent, respectively, from FY03 to FY08. The Indian economy is witnessing moderation in growth which has lead to slowing of credit offtake. Year-on-year credit growth as on May 2009 was at 15.9 per cent, the lowest level in nearly five years. Credit to deposit ratio fell from 75 per cent in Oct 2008 to 62 per cent in May 2009. The RBI has allowed special restructuring of standard assets which has restricted the NPA level of the banks for FY09. In order to provide adequate support for growth, government and RBI are favouring lower lending rates. This may have negative impact on banks margins.

	Mutual Funds - Assets Under Management (Rs Billion)				
Mutual Funds	**March 08**	**June 08**	**Sept 08**	**Dec 08**	**March 09**
Average AUM for the Month	5,300	5,639	5,288	4,210	4,931
Q-Q Change (%)	-	6.4	-6.2	-20.4	17.1

Source: AMFI

The average Assets Under Management (AUM) of mutual fund industry reduced by 6.9 per cent y-o-y during FY09 due to the redemption pressure faced by the sector in money market schemes. Redemption was high beginning September 2008 due to the liquidity crisis. The sector has since recovered with a 17.1 per cent growth in average AUM during Q4 FY09.

Budget Proposals

1. IIFCL to refinance 60% of loans given by commercial banks for PPP-based projects in critical sectors. IIFCL and banks together will be able to support infrastructure projects involving total investment of Rs 1,000 bn.
2. Target for agriculture credit flow set at Rs.3,250 bn for the year 2009-10. Interest subvention scheme at the interest rate of 7% will be continued. Additional subvention of 1% for the farmers who repay their debt on time.

3. Farm debt waiver scheme extended to 31st December 2009 from 30th June 2009.
4. Interest subvention scheme to exporters extended to 31st March 2010.
5. Special fund of Rs.40 bn out of Rural Infrastructure Development Fund (RIDF) to provide refinance to banks and State Finance Corporation for incremental lending to Micro and Small Enterprises (MSEs).
6. Rs.1 bn to ensure provision of at least one centre/Point of Sales (POS) for banking services in each of the unbanked blocks.
7. Interest subsidy to poor households for loans upto Rs.1,00,000 from banks.
8. Rs.20 bn earmarked for Rural Housing Fund in National Housing Bank (NHB)
9. Recapitalisation of public sector banks and insurance companies.
10. Exemption of income of New Pension System (NPS) trust from income tax and dividend paid to NPS trust from dividend distribution tax. Sale and purchase of equity shares and derivatives by NPS trust will be exempt from the securities transaction tax.

Budget Impact: Industry

1. Long-term refinancing from IIFCL for infrastructure projects will ensure better asset-liability match for banks.
2. Debt waiver and interest subvention schemes will not have much impact on banks.
3. Recapitalisation will ensure adequate capital for the growth of the public sector banks and insurance companies.
4. Rural Housing fund will boost the resource base of NHB for their refinance operation in rural housing sector.
5. Tax break for NPS trust will have positive impact on the same.

CEMENT

Background

- After a robust 10 per cent growth in FY08, cement consumption growth slowed down to 8.4% in FY09. However, it maintained its multiplier factor with GDP growth at 1.25 times.
- South, East and Central regions saw better consumption growth, while West and North saw weaker consumption growth.

(mn tonnes)	Capacity		Production		Consumption		Dispatch	
	FY 09	Growth	FY 09	Growth	FY 09	Growth	FY 09	Growth
North	49.9	5.1%	41.2	9.9%	35.1	2.3%	41.1	9.6%
South	77.9	30.4%	59.7	10.2%	54.3	10.4%	59.7	10.3%
West	32.4	1.8%	28.5	11.4%	34.0	5.4%	28.5	11.7%
East	29.9	3.1%	26.0	8.8%	28.2	11.3%	26.0	8.9%
Central	27.6	-2.0%	26.1	4.1%	26.2	10.4%	25.7	4.7%

Source: Cement Manufacturers Association (CMA)

- The industry has witnessed capacity addition of about 52 mn tonnes during the past two years. As a result, the operating rate has declined to 84 per cent in FY09 from 94 per cent in FY07.
- The average cement prices in India have risen by 5-6 per cent in FY09 over the previous year. The prices in Southern region registered the highest increase of 8 per cent, followed by the Eastern region at 6 per cent.
- Margins of the companies were hit in FY09 mainly because of increase in power and fuel costs. Cement manufacturers were affected by the substantial rise in international coal prices in the first half of FY09.
- CARE Research estimates domestic cement demand to grow at a CAGR of 9.2% in next couple of years. Based on announcements, CARE Research has estimated capacity additions to the tune of about 89 mn tonnes till FY11.

Budget Proposals

1. Budgetary support for National Highway Development Programme (NHDP) has been increased by 23 per cent on yoy basis for 2009-10.
2. Allocation to Jawaharlal Nehru National Urban Renewal Mission (JNNURM) increased by 87 per cent to Rs.12,887 crores.

3. Outlays for Commonwealth Games 2010, stepped up from Rs.2,112 crore in Interim budget to Rs.3,472 crore for the year 2009-10.
4. Allocation for Bharat Nirman increased by 45 per cent in 2009-10. Allocations under Pradhan Mantri Gram Sadak Yojana (PMGSY) increased by 59 per cent to Rs.12,000 crore for the year 2009-10.
5. Allocation for housing and provision of basic amenities to urban poor enhanced to Rs.3,973 crore. This includes provision for Rajiv Awas Yojana (RAY).
6. Allocation under Indira Awaas Yojana (IAY) increased by 63 per cent to Rs.8,800 crore in 2009-10. Allocation of Rs.2,000 crore made for Rural Housing Fund (RHF) in National Housing Bank (NHB).
7. Programme for housing to create 1 lakh dwelling units for Central Para-military Forces personnel to be launched.

Duty Structure

(Rs. per tonne)	Existing	Proposed
EXCISE DUTY		
• Retail		
• Price below Rs.190 per 50 kg bag	230	230
• Price above Rs. 190 per 50 kg bag	8% ad-valorem	8% ad-valorem
• Bulk	230 or 8% ad-valorem whichever is higher	230 or 8% ad-valorem whichever is higher
• Clinker	450	450

Excluding:

2% Education cess and 1% secondary & higher education cess

Budget Impact: Industry

1. Cement demand will continue to remain buoyant on the back of government's focus on infrastructure development. Infrastructure sector accounts for almost 25% of the total cement consumption in the country.
2. Increased allocation to programmes like RAY and IAY is likely to boost the housing demand in semi-urban and rural areas which will augur well for the cement industry.

Budget Impact: Companies

Company	Products	% of Sales	Applicable Proposals	Overall Impact
ACC	Cement	100	1 to 9	▲▲
Grasim	Cement VSF RMC Others	52 26 5 17	1 to 9	▲▲
Ambuja Cements	Cement	100	1 to 9	▲▲
UltraTech	Cement RMC	96 4	1 to 9	▲▲
India Cements	Cement	100	1 to 9	▲▲

Legends:

▲▲	Highly Positive	▼	Marginally Negative	◀▶	Neutral
▲	Marginally Positive	▼ ▼	Highly Negative	Ø	No Proposals

CONSTRUCTION

Background

- Growth in construction industry is dependent upon GDP growth and overall economic development in the country. Due to reduced economic activities, growth in construction industry has reduced to 7.2 per cent in FY09 compared to 10.1 percent registered last year. All the segments of construction – real estate (residential and commercial), infrastructure and industrial construction – have witnessed slowdown. However, the ratio of order backlog to sales for the construction companies is still comfortable.
- Off late, more and more Government contracts are awarded on the basis of Build-Own-Operate-Transfer (BOOT)/Build-Operate-Transfer (BOT) rather than cash-contract basis to encourage private participation. As a result, in past few years, many of the construction companies have diversified themselves from core construction activities to other allied activities like infrastructure (BOT/BOOT) and development.
- To ease the liquidity position for the construction industry, government has authorised IIFCL to raise Rs.40,000 crores. Also, government has allowed NBFCs to raise ECBs to provide funds to infrastructure projects.

Budget Proposals

1. Budgetary support for National Highway Development Programme (NHDP) has been increased by 23 per cent on yoy basis for 2009-10.
2. Allocation to Jawaharlal Nehru National Urban Renewal Mission (JNNURM) increased by 87 per cent to Rs.12,887 crores.
3. Allocation to railways had increased from Rs.10,800 crores made in interim budget to Rs.15,800 crores for the year 2009-10.
4. Allocation under Accelerated Power Development and Reform Programme (APDRP) increased by 160 per cent to Rs.2,080 crore for the year 2009-10.
5. Allocation for housing and provision of basic amenities to urban poor enhanced to Rs.3,973 crore. This includes provision for Rajiv Awas Yojana (RAY).

6. Additional provision of Rs.1,000 crore for the Accelerated Irrigation Benefit Programme (AIBP) over the Interim budget, marking an increase of 75 per cent over the allocation in 2008-09.
7. To facilitate transportation of gas across the country, a concept of National Gas Grid to be developed.
8. Outlays for Commonwealth Games 2010, stepped up from Rs.2,112 crore in Interim Budget to Rs.3,472 crore for the year 2009-10.
9. Allocation for Bharat Nirman increased by 45 per cent in 2009-10. Allocations under Pradhan Mantri Gram Sadak Yojana (PMGSY) increased by 59 per cent to Rs.12,000 crore for the year 2009-10.
10. Allocation under Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY) increased by 27 per cent to Rs.7,000 crore.
11. Allocation under Indira Awaas Yojana (IAY) increased by 63 per cent to Rs.8,800 crore in 2009-10. Allocation of Rs.2,000 crore made for Rural Housing Fund (RHF) in National Housing Bank (NHB).
12. Programme for housing to create 1 lakh dwelling units for Central Para-military Forces personnel to be launched.
13. IIFCL to refinance 60 per cent of commercial bank loans for PPP projects in critical sectors over the next 15 to 18 months.
14. Full exemption from excise duty to be provided on goods of Chapter 68 of Central Excise Tariff manufactured at the site of construction for use in construction work at such site.

Duty Structure

(%)	Existing	Proposed
CUSTOMS DUTY		
• Project imports	5	5
EXCISE DUTY*		
• Goods manufactured at the site of construction for use in construction work	As per Chapter 68 of Central Excise Tariff Act, 1985	Nil

*Excluding:

2% Education cess and 1% secondary & higher education cess

Budget Impact: Industry

1. To revive the economic growth and to generate employment in the current slowdown, the Government has put strong impetus on infrastructure development in the current budget. Sustained focus of the government to improve infrastructure especially roads, power, housing through increased allocation to various schemes such as NHDP, Bharat Nirman, ABDRP, JNNURM, AIBP would result in strong growth for the construction industry.
2. Greater flexibility provided to IIFCL is likely to provide requisite long-term lending needed for the infrastructure sector.

Budget Impact: Companies

Company	Products	% of Sales	Applicable Proposals	Overall Impact
L & T	Construction Equip/Machine Others	65 27 8	1 - 14	▲▲
HCC	Construction	100	1 - 14	▲▲
Gammon India Ltd	Construction	100	1 - 14	▲▲
Patel Engineering Ltd*	Construction	100	1 - 14	▲

* Under MAT

Legends:

▲▲	Highly Positive	▼	Marginally Negative	◀▶	Neutral
▲	Marginally Positive	▼▼	Highly Negative	Ø	No Proposals

CONSUMER GOODS
(DURABLES AND NON-DURABLES)

Background

- Consumer goods industry is highly fragmented and is classified into two major segments namely, consumer durables and FMCG, comprising wide array of products.
- The Indian FMCG sector is the fourth-largest sector in the economy accounting for 5% of the total factory employment in the country. Sugar, classified as an essential commodity, is the country's second-largest rural agro-industry and is highly regulated by the Government.
- A combination of changing lifestyles, higher disposable income, greater product awareness and affordable pricing have been instrumental in changing the pattern and amount of consumer expenditure leading to robust growth of the consumer durables industry.
- Penetration level of consumer goods in rural areas comprising 70% of India's population is still low indicating the untapped market potential.
- Challenges faced by the industry are adverse monsoon (at times), spurious products, illegal imports, cost escalation, intense competition, high advertisement cost and complex distribution system besides current economic slowdown.
- The slowdown in the Indian economy led by global financial turmoil is forcing consumer goods companies to focus on traditional retail channels, closing stores and curbing expansion plans. Demand for high-end products is dropping.

Budget Proposals

1. Customs duty of 5% imposed on set top boxes.
2. Reduction in customs duty on LCD panels from 10% to 5%.
3. Full exemption from CVD of 4% available to accessories and components imported for manufacture of mobile phones till June 30, 2009 extended for another year.
4. Excise duty on items attracting 4% duty enhanced to 8% except certain food items, pressure cookers, cheaper electric bulbs, low-priced footwear, water purifiers, CFL etc.
5. Concessional customs duty of 5% on specified machinery for tea, coffee and rubber plantations extended for one year, upto July 6, 2010. Customs duty on mechanical harvesters for coffee plantation sector reduced from 7.5% to 5% valid upto July 6, 2010. CVD on such harvesters has also been reduced from 8% to nil, by way of excise duty exemption.

Duty Structure

(%)	Existing	Proposed
CUSTOMS DUTY		
• Set top boxes	Nil	5
• LCD panels	10	5
EXCISE DUTY		
• Ink used in writing instruments	4	8
• MP3/MP4 and MPEG4 players	4	8
• Playing cards	4	8
• Brushes	4	8

Excluding:

2% Education cess and 1% secondary & higher education cess

Budget Impact: Industry

1. Increase in excise or customs duty on entertainment products (like set top boxes, MP3 players) might adversely affect the demand, especially in the current economic scenario.
2. Extension of concessional custom duty and reduction in custom duty on plantation machinery will have a positive impact on the industry.
3. The major thrust in the agricultural sector is likely to boost the demand for the consumer goods sector in the rural segment.
4. Increase in disposable incomes due to reduction in personal income tax will augur well for the industry.

Budget Impact: Companies

Company	Products	% of Sales*	Applicable Proposals	Overall Impact
LG Electronics India (P) Ltd	Consumer electronics Mobile phones	47 6	1, 2 and 3	▲
Tata Sky	Set top boxes	33	4	▼
Britannia	Biscuits, bread and cake	100	3	◀▶

*Based on FY08

Legends:

▲▲	Highly Positive	▼	Marginally Negative	◀▶	Neutral
▲	Marginally Positive	▼▼	Highly Negative	Ø	No Proposals

EDUCATION

Background

- Educational services consist of Academic, Non-Academic, Vocational, Technical and Other Certified and Training Courses. India has one of the largest education systems in the world. It ranks next only to America and China.
- As per the Government estimates, the number of schools in the country increased from 1.20 million as on March 31, 2007 to 1.25 million as on March 31, 2008. The national spending on education was around 3.5% of GDP in 2007-08. Half of the money spent by public sector on education is on elementary education.
- 40% of India's population is in the age group of 6-24 years. Education has been identified as the single most important element in national development. In view of the above, the Government has announced major programs and schemes in the past.
- With the implementation of the Sarva Shiksha Abhiyan (SSA) and Mid Day Meal (MDM) Schemes, the percentage of out-of-school children in the age group of 6-14 declined from 6.6% in 2006 to 4.2% in 2007.
- While availability of elementary schools within a reasonable distance from habitations is now fairly universal, the same cannot yet be said in regard to Secondary Schools and Colleges. Gross Enrolment Ratio (GER) at primary level increased to 113.94% in 2007-08 from 110.86% in 2006-07 and the GER at upper primary level increased to 69.88% in 2007-08 from 64.72% in 2006-07.

Budget Proposals

1. A new scheme has been introduced whereby students from economically weaker sections can avail of full interest subsidy during the period of loan moratorium with respect to loans taken from scheduled banks to pursue any of the approved courses of study, in technical and professional streams, from recognized institutions in India.
2. The scope of Section 80E of the Income-tax Act, which allows for deduction in respect of interest on loans taken for pursuing higher education, has been extended from specified fields of study to cover all fields of study, including vocational studies, pursued after completion of schooling.

3. The provision for the scheme, 'Mission in Education through ICT' has been increased to Rs.900 crore from Rs.502 crore in 2008-09.
4. The provision for setting up and up-gradation of Polytechnics under the Skill Development Mission has been increased to Rs.495 crore.
5. The Government has allocated Rs.827 crore for setting up of one Central University in each uncovered State.
6. An allocation of Rs.2,113 crore has been made for IITs and NITs, which includes a provision of Rs.450 crore for new IITs and NITs.
7. An allocation of Rs.50 crore has been made to improve the facilities at Punjab University, Chandigarh.
8. It has been decided to launch a National Mission for Female Literacy, with focus on minorities, SC, ST and other marginalised groups. The aim is to reduce by half, the current level of female illiteracy, in three years.
9. An allocation of Rs.25 crore each has been made to enable Aligarh Muslim University to establish a campus each at Murshidabad in West Bengal and Malappuram in Kerala
10. An allocation of Rs.60 crore has been made to enhance the corpus fund of the Maulana Azad Education Foundation.
11. The overall Plan Budget for higher education is proposed to be increased by Rs.2000 crore over Interim BE.

Duty Structure

(%)	Existing	Proposed
EXCISE DUTY		
• Certain varieties of writing, printing and packaging paper	8	8
• Paper, paper board and articles made therefrom manufactured out of non-conventional raw materials by units not having an attached bamboo/wood pulp making plant	8	8

Excluding:

2% Education cess and 1% secondary & higher education cess

1% National Calamity Contingent Duty (NCCD)

Budget Impact: Industry

1. The proposal to provide full interest subsidy on loans and increasing of the scope of section 80E will enable the students from the economically weaker sections to pursue higher education, which in turn will expand the target base of the various publication companies in this sector.
2. The increase in the provision for the scheme 'Mission in Education through ICT' will result in increased demand for services of the companies providing Information & Communication Technology (ICT) services.
3. The provisions for setting up and up-gradation of Polytechnics, IITs and NITs will lead to an increased demand for the publication companies in this sector through an increased requirement of notebooks, books etc.
4. The National Mission for Female Literacy will not only boost literacy levels of the underprivileged female section of society but also benefit the ICT and publication companies through an increased demand for their goods and services.

Budget Impact: Companies

Company	Products	% of Sales	Applicable Proposals	Overall Impact
Educomp Solutions	ICT Solutions for schools , Professional Development and Smart Class	94	1, 2, 3, 8	▲▲
Everonn Systems	Institutional Education	100	1, 2, 3, 8	▲▲
NIIT	Technical education solutions	100	1, 2, 3, 8	▲▲
Navneet Publications	Notebooks and publication	100	1, 2, 3, 4, 5, 6, 8	▲▲
Blue Bird (India) Ltd	Notebooks and publication	98	1, 2, 3, 4, 5, 6, 8	▲▲

Legends:

▲▲	Highly Positive	▼	Marginally Negative	◀▶	Neutral
▲	Marginally Positive	▼▼	Highly Negative	Ø	No Proposals

FERTILIZERS

Background

Mn tones	Production			Consumption			Imports		
	FY08	FY09p	Growth (%)	FY08	FY09p	Growth (%)	FY08	FY09p	Growth (%)
Urea	19.8	19.9	0.5	26.0	26.7	2.7	6.9	5.7	-17.4
DAP	4.2	3.0	-28.8	7.5	9.4	25.6	2.7	6.2	129.6
MoP	NA	NA	NA	4.4	5.7	29.5	4.4	5.7	29.5

Source: Fertilisers Association of India (FAI)

- The overall production, consumption and import of fertilizers saw an increase in FY09 over FY08.
- Higher raw material prices and cartelization for certain key raw materials (rock phosphate & phosphoric acid) forced the players to keep their capacity idle leading to lower production of DAP and high imports.
- The Fertilizer subsidy doubled from FY08 levels due to spiralling product prices and rising imports, putting additional burden on the Government of India (GOI) and negatively impacting the liquidity of the manufacturers.
- Implementation of New Pricing Scheme III (NPS III), introduction of import parity urea investment policy, and allotment of gas from the KG D-6 block are the key positive steps taken by the GOI for the sector.

Budget Proposals

- Ensure transition from product-based pricing to nutrient-based pricing policy
- Thrust on irrigation, by increasing the allocation under the Accelerated Irrigation Benefit Programme.
- Government intends to move to a system of direct subsidy payment to the farmer, as against the present system of routing the same through the fertilizer manufacturers.
- For the FY2009-10, the government has allocated Rs.500 bn towards fertilizer subsidy as against the revised subsidy allocation of Rs.758 bn in FY2008-09.
- Development of blue print for long distance gas highways leading to a National Gas Grid.

Duty Structure

(%)	Existing	Proposed
CUSTOM DUTY		
Urea	10	10
DAP	5	5
Complexes	5	5
Rock Phosphate	5	2

Budget Impact: Industry

1. A shift from product-based pricing to nutrient-based policy would ensure balanced demand for all the primary nutrients, thereby increasing the demand for complexes. The policy also aims to boost the demand for essential secondary and micronutrients that are deficit in the soil.
2. Thrust on irrigation is likely to increase the area under irrigation thereby providing further impetus to the fertilizer demand.
3. The Government's intention to grant subsidy directly to the farmers would be sentiment booster for the manufacturers, grappling with tight working capital situation.

Budget Impact: Companies

Company	Products	% of Sales	Applicable Proposals	Overall Impact
IFFCO	Urea DAP Complex	48 22 28	All	▲
NFL	Urea	97	All	▲
GSFC Ltd	Urea DAP Caprolactum Ammonium Sulphate	5 44 17 5	All	▲
Chambal Fert. Ltd	Urea	70	All	▲
NFCL	Urea	97	All	▲
TCL	Urea DAP Complex	25 10 17	All	▲

Legends:

▲▲	Highly Positive	▼	Marginally Negative	◀▶	Neutral
▲	Marginally Positive	▼▼	Highly Negative	Ø	No Proposals

GEMS & JEWELLERY

Background

(USD mn)	Exports		
	FY08	**FY09**	**Growth**
C&P Diamonds	14,194	13,025	(8.2)
Gold Jewellery	5,546	6,857	23.6
Coloured Gemstones	276	266	(3.7)
Rough Diamonds	567	772	36.2
Others	234	199	(15.1)
Total	**20,816**	**21,118**	**1.5**

Source: Gems & Jewellery Export Promotion Council (GJEPC)

The demand for consumer discretionary items like jewellery and cut & polished diamonds slowed down drastically in FY09 on account of the economic crisis. Weaker rupee hardly assisted the industry. Many diamond processing industries shut down, leading to huge job losses. The GoI/RBI took various steps for revival of the beleaguered industry for eg setting up of a task force for diamond industry in Gujarat for expeditious restructuring of borrowal accounts, nomination of more agencies for import of gold and extension of interest subvention of 2 per cent on export credit till 30-09-09.

Budget Proposals

1. Interest subvention of 2% on pre-shipment credit extended beyond September 2009 to March 2010.
2. Sun-set clauses for deduction in respect of export profits under Section 10A and 10B extended by one more year upto FY11.
3. Allocation for Market Development Assistance Scheme enhanced to Rs.124 crore in 2009-10.
4. Removal of FBT.
5. Excise duty on Branded Jewellery to be reduced from 2% to Nil.
6. Customs duty on unworked Corals to be reduced from 5% to Nil.
7. Customs duty on Gold Bars and Gold Coins to be increased from Rs.100 per 10 gm to Rs.200 per 10 gm. Customs duty on other forms of gold to be increased from Rs.250 per 10 gram to Rs.500 per 10 gram. Customs duty on silver to be increased from Rs.500 per Kg to Rs.1,000

per Kg. These increases also to be applicable when gold and silver (including ornaments) are imported as personal baggage.

8. Removal of 10% surcharge on Personal Income Tax (applicable for income above Rs.10 lacs).

Duty Structure

	Existing	Proposed
CUSTOMS DUTY		
• Gold bars & gold coins (Rs. per 10 gm)	100	200
• Other forms of gold (Rs. per 10 gm)	250	500
• Silver (Rs. per kg)	500	1,000
EXCISE DUTY (%)		
• C&P diamonds	0	No change
• Silver and articles of silver	8	No change
• Gold and articles of gold	8	No change
• Jewellery	8	No change
• Branded Jewellery	2	Nil

Excluding:

2% Education cess and 1% secondary & higher education cess

Budget Impact: Industry

1. Extension of interest subvention and tax holiday to be positive for the GJ industry which is currently affected by global recession.
2. Removal of FBT will reduce cost overheads for the GJ companies.
3. Reducing excise duty to Nil on branded jewellery will remove the ambiguity related to defining of brand and is highly positive for the industry.
4. However, increasing customs duty on gold and silver by 100% will lead to price rise of gold and silver products in the local market. Companies manufacturing gold and silver jewellery will pass on the price rise to consumers.
5. Removal of 10% surcharge to improve buying of discretionary items by higher income group, hence positive for the GJ sector.

Budget Impact: Companies

Company	Products	% of Sales	Applicable Proposals	Overall Impact
Gitanjali Gems	Diamond Jewellery	65 35	1, 2, 4, 5, & 8	▲
Rajesh Exports	Gold Jewellery	100	1, 2, 4, 5, 7 & 8	▲
Asian Star Co	Diamond Jewellery Others	94 5 1	1, 2, 4, 5, & 8	▲
Suashish Diamonds	Diamonds	100	1, 2, 4, 5, & 8	▲
Su-Raj Diamonds & Jewellery	Diamonds Jewellery	37 63	1, 2, 4, 5, & 8	▲

Legends:

▲▲	Highly Positive	▼	Marginally Negative	◄►	Neutral
▲	Marginally Positive	▼▼	Highly Negative	Ø	No Proposals

HEALTHCARE

Background

- Hospital industry is an important component of the value chain in the Indian Healthcare industry rendering services and recognised as healthcare delivery segment of the healthcare industry.
- Healthcare, which is a US$ 35 billion industry in India, is expected to reach over US$ 75 billion by 2012 and US$ 150 billion by 2017.
- The gap between the present and estimated infrastructure in the healthcare sector in India can be gauged through following indicators.

Particulars	FY2008	FY2018 (P)	FY2028 (P)
Additional Beds Required	1.1 million	3.1 million	2 million
Bed/1000 Population Ratio	0.7 to 1.7	4	5
Additional Floor Space (800	880 million sq.ft.	2,480 million sq.ft.	1,600 million sq.ft
Additional Land Area (Floor Space Index 1:1)	20,000 acres	56,400 acres	36,400 acres

- India requires an immediate investment of US$ 82 billion to make up for the back-log. An additional US$ 465 billion is needed to catch up with demographic shifts as well as improvement in healthcare indicators in the next 10 years.
- Major growth drivers for the sectors are as under:
    - Growing and aging population of India
    - Growing urbanization
    - Rising income levels
    - Increasing burden of chronic diseases
    - Healthcare financing transition
    - Medical value travel (medical tourism)
- India's cost advantage and explosive growth of private hospitals, equipped with latest technology and skilled healthcare professionals have made it preferred destination for medical tourism.

Budget Proposals

1. Allocation to the National Rural Health Mission (NRHM) increased to Rs.14,127 crore.
2. Rashtriya Swasthya Bima Yojana scheme empowers poor families the freedom of choice for using healthcare services from an extensive list of hospitals including private hospitals. Till now more than 46 lakh Below Poverty Line (BPL) families in 18 States and Union Territories have been issued biometric smart cards. An amount of Rs.350 crore is being allocated towards the scheme.
3. Reduction in the custom duty from 7.5% to 5% on two specified life savings devices used in treatment of heart conditions.
4. Retention of excise duty on medical devices at 4%.

Budget Impact – Industry

- Marginally positive impact on the healthcare industry and hospital.

Budget Impact – Hospitals

Hospitals	Type of hospital	Applicable Proposals	Overall impact
Fortis Healthcare	Multi-Speciality	3	◄►
Asian Healthcare	Heart Speciality	3	◄►
Apollo Hospital	Super Speciality	3	◄►

Legends:

▲▲	Highly Positive	▼	Marginally Negative	◄►	Neutral
▲	Marginally Positive	▼▼	Highly Negative	Ø	No Proposals

IT/ITES

Background

IT/ITES Sales

(USD billion)	Domestic Sales			Exports			Total		
	FY08	FY09E	Growth (%)	FY08	FY09E	Growth (%)	FY08	FY09E	Growth (%)
IT Services	7.9	8.3	5.06	23.1	26.9	16.5	31	35.2	13.6
BPO	1.6	1.9	18.75	10.9	12.8	17.4	12.5	14.7	17.6
Engineering Services & R&D, Software Products	2.2	2.3	4.55	6.4	7.3	14.1	8.6	9.6	11.6
Hardware	11.5	11.8	2.61	0.5	0.3	(40)	12	12.1	0.8
Total IT/ITES Industry	**23.2**	**24.3**	**4.74**	**40.9**	**47.3**	**15.7**	**64.1**	**71.6**	**11.7**

Source: The National Association of Software and Services Companies (NASSCOM)

- The global economic downturn in FY09 resulted in demand-side challenges for IT/ITES service providers, in terms of reduced IT spending.
- The economic outlook for the U.S. and U.K., which accounted for around 60% and 20% of Indian IT/ITeS export revenues respectively in CY08, remains gloomy. The negative stance of the U.S. towards outsourcing to the emerging economies has also increased concerns for the sector.
- The IT/ITES sector is exploring diversification to other geographies like mainland Europe and China. The domestic industry is also increasingly looked upon for outsourcing contracts.
- Although, Banking and Financial Services Industry (BFSI), the worst-hit sector, accounts for the majority of Indian IT and Business Process Outsourcing (BPO) exports, Indian companies are expanding their portfolios to other sectors like telecom and retail.
- Hardware exports receded due to the global downturn and intense competition from China. As a result, hardware manufacturers have turned to the domestic market.
- A weaker rupee has provided some assistance to the Indian IT/ITeS industry in CY08.

Budget Proposals

1. Deduction in respect of export profits under sections 10A and 10B of the Income-tax Act, applicable to Software Technology Parks in India (STPIs) and hitherto scheduled to be discontinued in FY10, has been proposed to be extended by one more year i.e. till FY11.

2. Minimum Alternate Tax (MAT) to be increased to 15% of book profits from 10%. The period allowed to carry forward the tax credit under MAT to be extended from seven years to 10 years.
3. An allocation of Rs.120 crore has been proposed to set up online data base containing identity and biometric details of Indian residents under the aegis of Unique Identification Authority of India (UIDAI).
4. Excise duty exemption on 'recorded smart cards' & 'recorded proximity cards & tags' to be made optional. Manufacturers have the option to pay the applicable excise duty and avail the credit of duty paid on inputs.
5. It is proposed to exempt the value attributable to the transfer of the right to use packaged software from excise duty and CVD.
6. Fringe Benefit tax abolished.

Duty Structure

(%)	Existing	Proposed
CUSTOMS DUTY		
• Under Export Promotion Capital Goods (EPCG)*	3	3
EXCISE DUTY**		
• Under STPI Scheme	Nil	Nil
• Computers – Desktops, Notebooks	8	8
• HDDs/FDDs/CD-ROM Drives/DVDs/Flash Drives/Combo Drives	Nil	Nil
• Microprocessors	Nil	Nil
• Motherboard & Populated PCBs	8	8
• Monitors (CRT & LCD)	8	8
• Printers and Plotters	8	8

- * Subject to an export obligation equivalent to 8 times of duty saved on capital goods imported under EPCG scheme, to be fulfilled in 8 years reckoned from Authorisation issue-date.
- ** 4% additional duty on all products; additional duty is refundable on finished goods
- Duty drawback scheme: Exporters are eligible for reimbursement of all custom duty paid on imported inputs of an export product.
- Service tax on IT services: 10%
- Excluding: 3% cess and 1% National Calamity Contingent Duty (NCCD)

Budget Impact: Industry

1. Extension of deduction under Section 10A and 10B of the Income-Tax Act of India to STPIs will boost profits of the beleaguered IT industry in FY10 and will also lead to higher domestic penetration by the small and medium-scale IT/ITes companies.
2. Enhancement of MAT by 5% will impact the IT (ITes) industry negatively, although the extension of tax holidays will more than compensate for this increase in MAT.
3. The UIDAI project will provide opportunities for IT service-providers.
4. Fringe benefit tax being abolished will restore the efficacy of the Employee Stock Options (ESOPs) as a tool to check attrition in the IT (ITes) industry.

Budget Impact: Companies

Company	Products/Services	% of Sales	Applicable Proposals	Overall Impact
Infosys	Services - IT, Engineering, Consulting, BPO, Products & Platforms	96	1,2, 3, 5 and 6	▲▲
Wipro	Services – IT, Product Engineering, Technology Infrastructure, BPO, Consulting	97	1 and 2	▲
Tata Consultancy Services	Services - IT, Enterprise Solution, Consulting , BPO, Engineering	98	1,2, 3	▲
HCL Technologies	Services - IT, Application, ERP, Engineering	96	1,2, 3and 6	▲▲
Tech Mahindra	Services - IT, R&D, Consulting and BPO Services	97	1, 2 and 6	▲

Legends:

▲▲	Highly Positive	▼	Marginally Negative	◀▶	Neutral
▲	Marginally Positive	▼▼	Highly Negative	Ø	No Proposals

MEDIA AND ENTERTAINMENT

Background

- As per FICCI – KPMG Report, Media and Entertainment industry grew at a CAGR of 15% over the last two years (2006-08). A snapshot of the size and the revenue contribution of the industry segments is given below:

Revenue (Rs. Bn)					**Composition of Total (%)**
Industry	**2005**	**2006**	**2007**	**2008**	**2008**
Television	163	183	211	241	41
Print	117	139	160	173	30
Film	67	82	96	109	19
Radio	5	6	7	8	1
Music	8	8	7	7	1
Animation	10	12	15	17	3
Gaming	2	3	4	7	1
Internet Advertising	2	2	4	6	1
Outdoor	10	12	14	16	3
Total	**385**	**445**	**520**	**584**	**100**

Source: FICCI - KPMG 2009

- Rising digitalisation (as content creation and as a distribution platform), increase in penetration of media segments, narrowcasting (niche segmentation of target audience), regionalization (strategy to capture untapped potential of tier 2 and tier 3 cities), expanding international markets for Indian content, organized funding and deregulation would be the key growth drivers for the industry.
- The advertising segment, which is a key contributor to the M&E industry's revenue, slowed down in FY09 due to the economic slowdown.
- Television Industry is expected to grow at a faster rate than the overall industry on account of a paradigm shift in distribution platforms due to digitalization (through Compulsory implementation of Conditional Access System (CAS) by TRAI) and increased focus on content due to narrowcasting and regionalization. The key concerns of broadcasters viz inadequate audience measurement/rating system, low Average Revenue Per User (ARPU) and high carriage costs would remain until CAS gets substantially implemented across India.
- In FY09, the print industry was severely hit on account of reduced advertising revenues due to economic slowdown and rise in newsprint prices. The industry is enhancing its presence in regional markets and exploiting alternative distribution platforms like online circulation to combat the rising threat of internet and to gain increased penetration on a pan-India level.

- Corporate funding boosted the film industry's growth over the last three years by encouraging multiplexes and also opening up the overseas market. Digitization in content creation and distribution would be the key driving factor for the film industry as it would shorten marketing time and improve distribution network to rural areas.

Budget Proposals

1. The stimulus package for print media comprising waiver of 15% agency commission on Directorate of Advertising and Visual Publicity (DAVP) advertisements and 10% increase in DAVP rates to be paid as a special relief, extended from 30th June, 2009 to 31st December, 2009.
2. Basic customs duty of 5% is proposed to be imposed on Set Top Boxes (STBs). STBs are used for television broadcasting under Conditional Access Systems.

Duty Structure

(%)	Existing	Proposed
CUSTOMS DUTY		
• Set Top Box	0	5

Budget Impact: Industry

1. The extension of the stimulus package with respect to DAVP advertisements would continue to protect the profit of print media companies.
2. Introduction of customs duty on Set Top Boxes would lead to increased cost, impacting the profitability of cable distributors.

Budget Impact: Companies

Company	Services	Applicable Proposals	Overall Impact
HT Media Ltd	Printing and Publishing	1	▲
DB Corp Ltd	Printing and Publishing	1	▲
Deccan Chronicle Holdings Ltd	Printing and Publishing	1	▲
Dish TV	Cable Distribution	2	▼
Wire and Wireless Ltd.	Cable Distribution	2	▼

Legends:

▲▲	Highly Positive	▼	Marginally Negative	◄►	Neutral
▲	Marginally Positive	▼▼	Highly Negative	Ø	No Proposals

OIL & NATURAL GAS

Background

Particulars	FY08	FY09	Growth
Crude Oil Production (in MMT)	34.12	33.51	-1.8%
-Onshore	11.21	11.28	0.5%
-Offshore	22.91	22.23	-2.9%
Refinery Production (in MMT)*	156.10	160.77	3%
-Public Sector	112.54	112.22	-0.3%
-Private Sector	43.56	48.55	11.4%
Natural Gas Production (in MCM)	32,402	32,849	1.4%
-Onshore	9,084	8,763	-3.5%
-Offshore	23,318	24,086	3.3%

MMT: Million Metric Tonnes; MCM: Million Cubic Metres

*in terms of Crude Throughput

Source: Ministry of Petroleum & Natural Gas

- Crude oil production fell short by 6.9 per cent against targeted production of 36 MMT in FY09 while natural gas production fell short by 11.1 per cent against targeted production of 36,943 MCM. ONGC and Oil India together contribute about 86 per cent of India's oil production while ONGC leads in natural gas production in India with 68% share.
- India imports around 75 – 80 per cent of its crude oil requirements. Crude oil imports stood at 94.3 MMT for the period April-December 2008, whereas it stood at 115.3 MMT in FY08.
- At present, there are 19 refineries operating in India, of which 17 are in public sector and two in private sector. IOC dominates the refining capacity with 47 MMTPA, nearly 32 per cent share while Reliance's refinery is the largest crude oil refinery operating in India from a single location at Jamnagar with a refining capacity of 33 MMTPA.
- 8th round of New Exploration Licensing Policy (NELP-VIII) offering 70 blocks and 4th round of Coal Bed Methane (CBM-IV) offering 10 blocks were launched in April 2009.
- The retail prices of fuel (petrol, diesel, kerosene, LPG cylinders and natural gas), except Aviation Turbine Fuel (ATF) are controlled. The losses, if any, on the retail sales by the Oil Marketing Companies (OMC) are subsidised to some extent by the upstream players as well as the Government (currently through Oil bonds), with some losses borne by OMC themselves.

Budget Proposals

1. Develop a blueprint for long-distance gas highways leading to a National Gas Grid to facilitate transportation of gas across the length & breadth of the country. 100% deduction to be allowed in respect of any expenditure of capital nature for laying & operating a cross-country natural gas or crude oil pipeline network for distribution.
2. Tax holiday for seven years under Section 80-IB(9) in respect of profits arising from the commercial production or refining of mineral oil, being extended to natural gas.
3. Extension for a period of three years i.e. upto 31st March, 2012 to refineries in private sector to commence refining of mineral oil to avail tax holiday under Section 80-IB(9)
4. Set up an expert group to suggest on developing a viable & sustainable system of pricing petroleum products.
5. Increase in MAT rate from 10% to 15%.

Duty Structure

	Existing	Proposed
CUSTOMS DUTY	*NO CHANGE*	
EXCISE DUTY		
• Branded fuels •Motor Spirit (Petrol) •High Speed Diesel	6% + Rs.13 per litre 6% + Rs.3.25 per litre	Rs.14.50 Rs.4.75

Budget Impact: Industry

1. Would encourage the capital expenditure plans of gas transmission companies.
2. Natural Gas well owners would be benefited as it will boost their exploration plans.
3. Relief for private companies which faced financial setback as significant capital was deployed & time period for execution of projects was extremely short.
4. Government seems to look forward to link oil price with global crude oil prices. A positive outcome from the expert group can prove beneficial for oil marketing companies.
5. Companies falling under MAT would be adversely affected.

Budget Impact: Companies

Company	Products	% of Sales	Applicable Proposals	Overall Impact
Oil & Natural Gas Corp. Ltd.	Exploration & Production Refining Overseas Exploration	55 30 15	2	▲
Reliance Industries Ltd.	Gas Exploration, Oil Refining & Marketing, Petrochemicals	2 59 38	2, 3, and 4	▲
Bharat Petroleum Corp. Ltd. Hindustan Petroleum Corp. Ltd. Indian Oil Corp. Ltd.	Refining & Marketing	100	4	▲
GAIL (India) Ltd.	Gas Transmission & Trading Petrochemicals	66 13	1	▲
Gujarat State Petronet Ltd.	Gas Transmission	100	1	▲

Legends:

▲▲	Highly Positive	▼	Marginally Negative	◄►	Neutral
▲	Marginally Positive	▼▼	Highly Negative	Ø	No Proposals

PHARMACEUTICALS

Background

- The Indian Pharmaceutical Industry, valued at around US$ 10 bn, is highly fragmented with around 20,000 players. Out of this, around 250 are in the organised sector controlling over 70% of the total domestic market in value terms. The industry has been growing at the rate of 6-7% annually. The major growth stems from therapeutic categories in the lifestyle segment like Cardiovascular, Central Nervous system, Anti-Diabetic etc as against old and mature categories like anti-infectives, vitamins and analgesics.
- The Indian Pharmaceutical Industry is ranked 11th in value terms and 4th in volume terms in the world. It manufactures about 400 bulk drugs and almost the entire range of formulations. The industry, however, constitutes less than 2% of the total global industry turnover, due to low prices. The per capita consumption of drugs in India stands at US$ 8, which is amongst the lowest in the world, as compared to developed countries like USA (US$ 801), France (US$ 697) and Japan (US$ 516).
- The prices of the drugs in the domestic market are regulated by the Government in order to ensure availability and affordability of essential drugs to the masses. In recent years drug prices have been decontrolled to a larger extent.
- India ushered in the Product Patent regime on January 1, 2005 in order to comply with WTO norms. As a result, several Indian pharmaceutical companies have adapted a research-driven strategy in order to take advantage of the emerging opportunities in the export markets as well as competing with the multi-national companies in the domestic market.
- Availability of skilled manpower, lower production costs and a quality manufacturing base has made India a preferred outsourcing destination for research and manufacturing by the big global pharmaceutical companies. Contract Research and Manufacturing Services (CRAMS) is a growing segment in the Indian Pharmaceutical Industry as a result of drying R&D pipelines of the global companies and decreasing rate of success of new drug innovations *vis-à-vis* its cost of development. Besides, the regulated markets like USA and Europe offer a huge opportunity for Indian companies to introduce generic versions of the patented drugs whose patents are set to

expire within the next five years. The value of patented drugs set to expire within the next five years is estimated at US$ 70-80 bn in USA.

- For clinical trials, India is one of the favoured destinations among South Asian countries due to its positive factors like low labour costs, updated information technology, availability of human resources etc. The clinical trials market is currently worth US$385m.

Budget Proposals

- Reduction in customs duty from 10% to 5% on influenza vaccine and nine specified life saving drugs used for the treatment of breast cancer, hepatitis-B, rheumatic arthritis etc and bulk drugs used for the manufacture of such drugs. They are also exempted from excise duty or countervailing duty.
- Extension in the weighted deduction of 150% on expenditure incurred on in-house Research & Development activities.
- Retention of excise duty on drugs and pharmaceuticals at 4%.

Changes in Duty Structure

(%)	Existing	Proposed
CUSTOMS DUTY*		
• Bulk Drugs	7.50	7.50
• Drug Intermediaries	7.50	7.50
• Formulations	7.50	7.50
• Life Saving Drugs#	10.0	5.0
EXCISE DUTY		
• Bulk Drugs	8.0/4.0	8.0/4.0
• Drug Intermediaries	8.0/4.0	8.0/4.0
• Formulations	8.0/4.0	8.0/4.0
• Life Saving Drugs#	Nil	Nil
Weighted deduction on in-house Research and Development	125	150

*Excluding 2% education cess and 1% secondary & higher education cess
on influenza vaccine and nine specified life saving drugs used for the treatment of breast cancer, hepatitis-B, rheumatic arthritis etc and bulk drugs used for the manufacture of such drugs

Budget Impact – Industry

1. Decrease in excise duty on certain life saving drugs in the pharma sector may be passed on to the end-user and thus would have neutral impact on the companies engaged in manufacture of life savings drugs.
2. Increased weighted deduction on in-house R & D expenditure will encourage higher spending by R & D-focussed companies towards NCE/NDDS-related R & D activities. It is beneficial for Clinical Research Organisations (CRO).

Budget Impact – Companies

Company	Products	Applicable Proposals	Overall impact
Ranbaxy Lab.	Anti-infectives, cardiovascular and Gaestro-intestinal	2	▲
Sun Pharma	Neuro-psychiatry, Cardiovascular, Gastrointestinal, Diabetic, Gynaecology	2	▲
Glenmark Pharmaceuticals	Cardiovasular, Ortho, anti- asthamatics, CNS, Anti- Diabetics, Oncology	2	▲
Dr. Reddy's Lab.	Cardiovascular, Gaestro-intestinal, anti-infectives and pain management	1	▲
Cipla	Anti-biotics (including anti-retroviral) and anti-asthmatics	1	▲
Glaxosmithkline	Anti-Diabetic, Cardiovascular, CNS, Anti-ulcerents	1	▲

Legends:

▲▲	Highly Positive	▼	Marginally Negative	◀▶	Neutral
▲	Marginally Positive	▼▼	Highly Negative	Ø	No Proposals

POWER

Background

Source	Installed Capacity (MW)			Power Generation (Mn Units)		
	31/03/08	**31/03/09**	**Growth**	**FY08**	**FY09**	**Growth**
Thermal						
- Coal	76,049	77,649	2.1%	558,815	589,915	5.6%
- Gas	14,656	14,877	1.5%			
- Diesel	1,200	1,200	-			
Hydro	35,909	36,878	2.7%	128,860	118,925^	(7.7%)
Nuclear	4,120	4,120	-	16,776	14,716	(12.3%)
RES	11,125	13,242	19.0%			
Total	**143,060**	**147,966**	**3.4%**	**704,451**	**723,556**	**2.7%**

RES: Renewable Energy Source

^ includes import of about 5,290 Mn Units from Bhutan in FY08 and 5,897 Mn Units in FY09

Source: Central Electricity Authority (CEA)

- The eleventh Five Year Plan targets to add 78,700 MW of power capacity during 2007-2012. As against a target of 11,061 MW, only 4,906 MW (about 44 per cent) was achieved in 2008-09. The underachievement was primarily due to site clearance issues, delay from equipment manufacturers, problems on the supply of balance-of-plant equipment, fuel linkages not coming through and funds not been tied-up.
- India experienced average energy deficit of 11 per cent and peak deficit of 12 per cent during 2008-09. Major shortage was witnessed in western region with the peak deficit at 19 per cent.
- Ultra Mega Power Projects (UMPPs): Out of the thirteen UMPPs proposed, the Ministry of Power has allocated four UMPPs till date. Three UMPPs were awarded to Reliance Power Ltd while one UMPP was bagged by Tata Power Ltd. Bids are likely to be invited by the Central Government soon for three more UMPPs of 4,000 MW each.
- The Accelerated Power Development and Reforms Program (APDRP) of the Central Government aims to increase the reliability and quality of power supply in India, bring down the Aggregate Technical and Commercial (AT&C) losses to 10% level (currently about 27%), and improve the financial viability of the State distribution utilities. Under the APDRP, projects for strengthening and upgradation of the state power distribution, sub-transmission network, metering and billing have been supported financially and technically by the Central Government. The Central Budget allocation for this program was Rs.800 crore for 2008-09.
- For strengthening the National Grid, addition of 12,742 ckt. Kms of High and Extra High Voltage transmission lines was completed in 2008-09 against a target of 16,421 ckt Kms.

- The Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY) was launched by the Central Govenrment in April 2005 with the goal of providing access to electricity to all household in India by 2012. Under the RGGVY, 492,831 or about 83% of the inhabited villages in India have been electrified till March 31, 2009.

Budget Proposals

1. Aim to increase Investment in infrastructure to above 9% of GDP by 2014.
2. APDRP – increase in budget allocation to Rs.2,080 crore for 2009-10 from Rs.800 crore for 2008-09.
3. RGGVY – increase in budget allocation to Rs.7,000 crore for 2009-10 from Rs.5,500 crore for 2008-09.
4. Proposal to develop long distance gas highways leading to a National Gas Grid.
5. Customs duty on imported permanent magnets for Wind Operated Electricity Generators reduced from 7.5% to 5%.

Duty Structure

(%)	Existing	Proposed
CUSTOMS DUTY		
• Permanent Magnets (Component for Wind Operated Electricity Generators)	7.5	5.0
• Power Components (Others)	7.5	-
• Project imports in the power sector	5.0	-
EXCISE DUTY		
• Power Components	8.0	-

Budget Impact: Industry

1. Thrust on investment in infrastructure projects by the Government is expected to benefit the power sector in the long term.
2. Increase in budget allocation for APDRP to Rs.2,080 crore is expected to provide more funds in the hands of the State distribution utilities to upgrade their network, infrastructure and improve their financial position. This is also expected to provide impetus to the power equipment industry for supplying power network and infrastructure equipment like meters, transformers, switchgears, conductor cables, insulators etc.

3. Enhanced budget allocation for RGGVY is expected to accelerate the rural electrification process, thereby expanding the power distribution network in the rural areas. This is expected to benefit power distribution and distribution equipment players in the industry.
4. The proposed National Gas Grid will be beneficial for power generation as it would enable setting up of gas-based power plants near centres of consumption along the gas grid.
5. The benefit of customs duty cut on permanent magnets used for wind electricity generators is expected to benefit wind project developers marginally in terms of lower project cost.

Budget Impact: Companies

Company Category	Products	Applicable Proposals	Overall Impact
State Power Transmission and Distribution Companies	Transmission and Distribution of Power	1, 2 and 3	▲▲
NTPC, Reliance Power, Tata Power, State Power Generation Companies	Thermal Power Generation	1, 3 and 4	▲
NHPC	Hydro Power Generation	1	▲
Suzlon Energy, Enercon India, Indowind Energy Ltd	Wind Power Equipment and Generation	5	▲

Legends:

▲▲	Highly Positive	▼	Marginally Negative	◀▶	Neutral
▲	Marginally Positive	▼▼	Highly Negative	Ø	No Proposals

ROADS & HIGHWAYS

Background

Indian Road network and its constituents as on April 30, 2009

Category of Road	Length in Kms.
Total road network	3.34 million
National Highways (proposed and existing)	66,590
State Highways (proposed and existing)	1,31,899
Major District Road, Rural road & Urban road (proposed and existing)	3.14 million

- As on April 30, 2009, 33.9% of the targeted 33,097 km for National Highways Development Project (NHDP) was complete, 18.3% was under implementation and 47.8% yet to be awarded.
- Land acquisition issues as well as issues like shifting of utilities, availability of Right of Way (RoW), obtaining environmental and other clearances and contractor capacity have adversely affected smooth execution of several road projects.
- In H1FY09, the high cost of construction as well as funds, led to a slowdown in ongoing projects and lack of financial closure of new projects. Although the cost of construction materials fell sharply in H2FY09, road development failed to pick up unlike envisaged earlier due to adverse impact on capital inflows into the sector.
- The economic scenario also led to a reduction in commercial traffic, negatively affecting toll road projects.
- In the Interim Budget 2009-10 it was proposed that India Infrastructure Finance Company Limited (IIFCL), a 100% government-owned Special Purpose Vehicle (SPV) set up to finance infrastructure projects at lower cost, should refinance up to 60% of commercial bank loans for Public-Private Participation (PPP) infrastructure projects. The total investment involved was Rs.1,000 billion over the next eighteen months ending August 2010.
- Besides, lower bank lending rates are expected to provide necessary funding support to infrastructure projects and thereby add stimulus to the road sector in medium term.

Budget Proposals

1. IIFCL in consultation with banks, to evolve a 'takeout financing' scheme which could facilitate incremental lending to the infrastructure sector.
2. The allocation during the current year to National Highways Authority of India (NHAI) for the NHDP has been proposed to be hiked by 23% over 2008-09 (BE).
3. Investment allocation to The Pradhan Mantri Gram Sadak Yojana (PMGSY) under Bharat Nirman initiative, increased by 59% over 2008-09 (BE) to Rs.12,000 crore.

Budget Impact: Industry

1. The sector is expected to draw continued support from the Centre. This would favourably impact the various entities associated with execution and implementation of roads and highways.
2. The impetus to infrastructure development should aid India's economic recovery.

TEXTILES

Background

- The textile industry, which contributes 4 per cent to GDP and earns 12 per cent of foreign exchange, is one of largest employers after agriculture.

- Export quota abolition by the US and Europe in January 2005 provided huge opportunity to India. However, economic slowdown translated into textile imports by US and Europe slowing down. During Apr-Dec'08, India's exports amounted to only US$ 15.27 billion as compared to US$ 15.25 billion in the corresponding period last year, a minuscule growth of 0.12 per cent. However, weaker rupee provided some relief to the industry.

- Domestic demand growth has also been impacted to some extent by the slowdown, especially in case of branded and premium clothing.

- Technology Up-gradation Fund Scheme (TUFS) provides interest subvention of (currently 2 per cent) and capital subsidy (currently 10 per cent) for modernization and expansion in textile sector. Projects worth Rs.662 billion were sanctioned under TUFS in FY07, which fell to Rs.199 billion in FY08. In the first nine months of FY09, projects worth Rs.317 billion were sanctioned under TUFS. Weak demand, high leverage and paucity of funds translated into slowdown in expansion and modernization projects by the industry.

- Decline in demand has resulted in drop in production. Man-made fibre and spun yarn production declined by 15.2 per cent and 3.8 per cent, respectively, during the period April-February 2009 over same period last year. Cloth production by mill sector and decentralised sector too decreased by about 1.4 per cent during the said period.

- In order to combat the downturn in the textile industry, the stimulus package in December 2008 provided for interest subvention of 2 per cent for export credit, allocation of Rs.14 billion to clear the backlog in the TUFS, extension of export obligation period against advance authorization etc.

Budget Proposals

1. Allocation for Market Development Assistance Scheme enhanced to Rs.124 crore in 2009-10.

2. Interest subvention of 2% on pre-shipment credit extended beyond the current deadline of September 30, 2009 to March 31, 2010.
3. One handloom megacluster each in West Bengal and Tamilnadu and one powerloom megacluster in Rajasthan to be set up. New megaclusters for carpets to be also set up in Srinagar and Mirzapur.
4. Excise duty on all types of manmade fibre and yarn and their intermediates to be increased from 4% to 8%.
5. The scheme of optional excise duty of 4% for pure cotton to be restored.
6. Excise duty for man-made and natural fibre other than pure cotton, beyond the fibre and yarn stage to be increased from 4% to 8% under the existing optional scheme.
7. Customs duty on cotton and wool waste to be reduced from 15% to 10%

Duty Structure

(%)	Existing	Proposed
CUSTOMS DUTY		
• Raw Cotton^	0	0
• Cotton Yarn^*	10	10
• Manmade Fibre*	5	5
• Manmade Yarn*	5	5
• Cotton fabric*	10	10
• Manmade Fabric*	10	10
EXCISE DUTY		
• Raw Cotton	0	4#
• Cotton Yarn	0	4#
• Manmade Fibre	4	8
• Manmade Yarn	4	8
• Manmade Fabric	4	8

Excluding:

2% Education cess and 1% secondary & higher education cess

1% National Calamity Contingent Duty (NCCD)

^Special CVD 4%, *CVD 4%, #optional

Budget Impact: Industry

1. Continuity of interest subvention of 2% and increased allocation to market development assistance scheme to benefit exporters.
2. Increase in excise duty for man-made fibre value chain from 4% to 8% to increase the cost of synthetic textile goods.

Budget Impact: Companies

Company	Products	% of Sales	Applicable Proposals	Overall Impact
Raymond Ltd.	Worsted Fabric Garments	73 4	4,7	◀▶
Alok Industries	Apparel Fabric Home textile Texturised yarn Garments	53 17 21 5	4,5,6	▼
Bombay Dyeing	Textiles Polyester	36 40	4,5,6	▼
Garden Silk Mills	Polyester Chips Polyester Yarn Fabric/Garments	32 53 10	4,5,6	▼

Legends:

▲▲	Highly Positive	▼	Marginally Negative	◀▶	Neutral
▲	Marginally Positive	▼▼	Highly Negative	Ø	No Proposals

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1	Two Wheeler	Monthly
2	Cement	Monthly
3	Commercial Vehicle	Monthly
4	Gems & Jewellery	Monthly
5	Shipbuilding	Monthly
6	Tyre	Monthly
7	Retail	Monthly
8	Steel	Monthly
9	Banking	Monthly
10	Shipping	Quarterly
11	Construction	Quarterly
12	Pesticides	Quarterly
13	Pipe	Quarterly
14	Coal	None
15	Express Services #	None

#old report - not be updated

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