Budget Analysis 2006-07

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Contents

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"PUNTING ON GROWTH"

- Overall budget is positive & growth oriented

- Thrust on fiscal consolidation & investments

- Key enablers of savings, expenditure & infrastructure spending addressed

- Sector-level positive for auto, FMCG, cement, power, infrastructure – economy drivers

THE CHALLENGES

CHALLENGES

☞AGRI GROWTH

At 19% of GDP, agriculture is a key growth lever. Estimated to only grow by 2.3% in FY06 against the targeted 4%.

☞FALLING SAVINGS RATE

Vital for capital formation, Household savings declined to 22% of GDP in FY05, the first time in past four years.

ACTIONABLES

Thrust on farm credit and cheap credit lines at 7%. Treating food processing as a priority sector for bank credit

Sops for fixed bank deposits and continuity in existing means to boost household savings.

THE CHALLENGES

CHALLENGES

☞INVESTMENT RATE
Investment overtook savings at 30.1% of the GDP in FY05 on account of increase in private investments. Investment rates have grown in the past specially albeit fuelled by a big increase in the fiscal deficit.

☞FISCAL PRUDENCE
The FRBM Act, targets fiscal deficit of below 3% of GDP by FY09. Target for next year is set at 3.8% against this years 4.1%.

ACTIONABLES

Favourable corporate policy for corporate & indirect taxes along with sops for bank deposits.

Lower defence spending, targeted social spending and prudent expenditure.

THE CHALLENGES

CHALLENGES

☞Improve tax-GDP ratio

The tax to GDP ratio is presently around 10.5 per cent and is much lower when compared with the ratio of more than 20 per cent in countries such as Australia, Austria, Belgium, France etc

☞Infrastructure

The country requires investment of $150 bn to $200 bn over the longer-term to upgrade infrastructure to levels of other Asian nations.

ACTIONABLES

Keeping direct & indirect taxes unchanged, widening of service tax net & increasing it from10% to 12%. Issuance of PAN cards s*uo motu is* another means to widen base.

Encourage public private ownership, develop special zones for large investments in oil, chemicals and petrochemicals, overhaul the coal sector and boost power output to fuel economic growth.

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THE MISSES

CHALLENGES

☞ Oil subsidies

Reduced subsidy burden on refiners.

☞ Disinvestment

ACTIONABLES

Failure to implement Rangarajan panel's proposals, which would have reduced the subsidy burden on refiners.

Failure to address the disinvestment in non-*navratna* PSUs

THE WINNING GAMBIT

THE COST FORMULA

NO SPIKE IN SUBSIDIES

+

LOWER DEFENCE SPENDING

+

TARGETTED SOCIAL SPENDING

SOME SKILLFUL EXPENDITURE MANAGEMENT PLUS HIGHER GDP GROWTH WILL HELP HIM ACHIEVE HIS FISCAL DEFICIT TARGET OF 3.8% BY FY07

THE POWER OF SAVINGS

CORPORATE & HOUSEHOLD SAVINGS

MORE INVESTMENT

CAPITAL FORMATION

HIGHER GDP GROWTH

RAPID DEVELOPMENT IS POSSIBLE ON INCREASING RATE OF INVESTMENT. INVESTMENT RATE IS POSSIBLE BY WAY OF A PROPORTIONATE RISE IN RATE OF SAVING, WHICH RESULTS IN HIGH CAPITAL FORMULATION AND THUS HIGH GDP GROWTH

THE GROWTH FORMULA

SAVINGS + HIGHER INVESTMENTS + LOWER FISCAL DEFICIT

=

TARGETTED 8-10% GROWTH

THE FM IS BETTING ON STRONG CORPORATE GROWTH, RECOVERY IN INVESTMENTS & CONTROLLED COSTS TO ACHIEVE HIS TARGET.

BUDGET AT A GLANCE

Rs. Billion	FY04	FY05	FY06BE	FY06RE	FY07BE
Nominal GDP	27602	31214	35150	35292	38822
Revenue receipts	2630	3052	3512	3519	4035
Tax revenue	1869	2249	2735	2741	3272
Non-tax revenue	761	803	777	777	763
Non-debt capital receipts	364	326	120	120	118
Total receipts	2994	3378	3632	3639	4153
Non-plan expenditure	3032	3336	3709	3649	3913
Plan expenditure	1221	1322	1435	1435	1727
Total revenue expenditure	3613	3847	4465	4403	4882
Total capital expenditure	1106	810	678	684	758
Total expenditure	4253	4658	5143	5084	5640
Fiscal deficit	-1260	-1280	-1221	-1445	-1487

KEY BUDGET NUMBERS

	FY05	FY06BE	FY06RE	FY07BE
GDP growth	7.5	8	8.1	8
Inflation rate	5.6	5.5	5	5.1
Nominal GDP growth	13.1	13.6	13.1	13.1
Tax revenue growth	19.8	22	21.9	19.3
Tax to GDP ratio	9.5	10.5	10.5	11.2
Expenditure growth	9.5	12.4	9.1	11.1
Revenue deficit as % of GDP	-2.5	-2.7	-2.6	-2.2
Fiscal deficit as % of GDP	-4.1	-4.3	-4.1	-3.8

KEY BUDGET HIGHLIGHTS

❖Fiscal deficit in 2006-07 likely to be 3.8 % of GDP (at Rs.1,48,686 crore) as compared to an estimated 4.1 % the previous year.

❖Government revenue deficit seen at 2.1 % of GDP (estimated around Rs.84727 crore) compared to 2.6 % for the previous year.

❖Federal tax-GDP ratio seen at 11.2 % versus 10.5 % for 2005/06

❖The government plans to increase its spend from Rs.14300 crore rupees up from Rs.11700 crore in 2005-06 for Rural Jobs Guarantee Scheme and Rs.18696 crore for rural infrastructure next fiscal year.

KEY BUDGET HIGHLIGHTS

- To raise power generation capacity by 15,000 megawatts by March 2007.
- Highways development plan to receive Rs.9945 crore.
- Education spending to increase 31.5 % to Rs. 7,156 crore.
- FII limit in govt debt raised to $2 bn from $1.75 bn, while FII cap on corporate debt is raised to $1.5 bn from $500 mn.
- MFs allowed to invest up to $1 bn in Overseas Exchange Rated Fund.
- 10 % foreign investment cap on mutual funds removed.

TAX PROPOSALS

INDIRECT TAXES

SERVICE TAX

- The Services Tax rate has been raised from 10 percent to 12 percent.
- More services have been brought under the service tax net which include ATM operations, registrars, share transfer agents, sponsorship of non-sporting events, and international travel other than economy class trips, travel on cruise ships & public relations management services.
- The finance minister has paved way for a “nationwide goods and services sales tax” which will be effective from April 1, 2010.

CUSTOMS

- Peak customs duty rate has been brought down from 15 % to 12.5 %.
- Countervailing Duty of 4% will be implemented on all imports (barring few exceptions) However, full credit against this duty would be available for makers of excisable goods.

TAX PROPOSALS

EXCISE

- Excise duty on aerated drinks & small cars reduced from 24% thereby converging all rates for CENVAT at16%.
- Re-imposition of duties on computers at 12%. However, price not to be impacted as duty to be eligible for full input tax credit.

VAT

- VAT expected to be introduced across all states in India.
- Domestic LPG included in the list of declared goods to moderate prices.

TAX PROPOSALS

DIRECT TAXES

Income Tax

- No changes in personal or corporate tax rate or tax slabs.
- Banking cash transaction tax to stay.
- Investments in fixed deposits in scheduled banks for a term of not less than five years included in section 80C of the Income tax Act.
- Minimum Alternate Tax increased from current level of 7.5% to 10%. The long-term capital gains arising out of securities to be included in calculating book profits.
- Open-ended equity-oriented mutual fund schemes and close-ended equity oriented schemes to be treated on par for exemption from dividend distribution tax.

SECURITIES TRANSACTION TAX

Securities Transaction Tax (STT) increased across the board by 25%

Transaction	Old Rate (STT)	New Rate (STT)	Taxable on
Delivery based buying or selling in Cash market	0.10%	0.13%	Both Buy & Sell Transaction
Non-delivery based transaction in cash market	0.02%	0.03%	Only on the sell Transaction
Transaction in derivative segment	0.01%	0.02%	Only on sell transaction.

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SECTOR IMPACT

Automobile

Particular	Pre Budget	Post Budget	Impact	Remarks
Cut in excise duty on small cars	24%	16%	Positive for Maruti Udyog, Tata Motors	Reduction in car prices in the range of Rs 15,000 - Rs 25,000 to boost car sales
Cut in custom duty on alloy steel, ferro alloys and non ferrous metals	10%	8%	Positive for all including auto ancillary	Lower cost of production, margins to improve
Thrust on road projects		Development of 1,000 kms of access-controlled Expressways	Positive for cv players like Tata Motors, Ashok Leyland	Boost CV sales
Thrust on rural infrastructure		Loan relief and short term credit	Positive for M&M, Punjab Tractors	Boost tractor's sales
* Overall positive for automobile sector. The volume growth from automobile will in turn drive growth for auto ancillary				

FMCG

Particular	Pre Budget	Post Budget	Impact	Remarks
Customs duty on natural honey increased	30%	60%	Neutral	Dabur India sources honey from domestic market
Duty on footware with retail sale price between Rs.250 and Rs. 750 to be reduced	16%	8%	Positive for Bata, Liberty Shoes	Lower prices to increase volumes
Increase in excise duty on cigarettes by 5%			Neutal for ITC	Likely to pass the burden on consumers
Excise duty on condensed milk, processed meat, fish and poultary products, pastas, yeast and ice cream removed	8-16%	Nil	Positive for Nestle, Vadilal, Venkys, Godrej Consumer Products	Low prices will push volumes
Excise duty on ready to eat packeged food reduced	16%	8%	Positive for ITC, Godrej Consumer Products	Volumes to rise
Special purpose fund for Tea Plantation			Positive for Assam Co., Harrisons & Mallayam	Investments to improve

Power

Particulars	Pre Budget	Post Budget	Impact	Remarks
80IA benefits for power projects	Exemption available till 2006	Extended till 2010	Positive for new projects under planning stage	
Allotment of 2000 crore of coal block for captive consumption			Positive for NTPC & Neyveli Lignite & other utilities	
Five ultra mega power projects of 4000 MW to be awarded by December 2006			Positive for power utilities & power equipment companies i.e Reliance energy, NTPC, Tata Power, BHEL, Alstom Projects, EMCO	Likely bidders

Petrochemicals

Particular	Pre Budget	Post Budget	Impact on companies	Remarks
Customs duty on Naphtha	10%	5%	Positive for companies using end product of naphtha such as MEG, PTA, LAB, PMT. Such companies are South Asian Petrochem Ltd., JBF Industries, Century Enka, JCT	Reduction in customs duty to keep a check on price of the Naphtha
Customs duty on Methanol	15%	10%	Positive for companies such as Bombay Dyeing, Kanoria Chemicals, HOCL, SRF, Matrix Lab, Asian Paints	
Customs duty on DMT, PTA, MEG and LAB	15%	10%	HLL	Textile players such as Indo Rama Syn & Garden Silk also to benefit
Customs duty on Propane	10%	5%	Grasim Industries likely to be major beneficiary while GAIL & IPCL may feel pressure on Propane realisation	GAIL & IPCL may face downward pressure on Propane realisation

Textile

Particular	Pre Budget	Post Budget	Impact	Remarks
Excise duty on man made fibres	16%	8%	Rajasthan Spinning,Hanil Era, Sangam India, Skumar Nationwide, Indo Rama Syn	Operating margins to improve by around 2%
Custom Duty on DMT, PTA, MEG	15%	10%	Positive for JBF,Recron Synthetic, Century Enka, Garden Silk Mills, Indo Rama Syn	Raw Material cost to come down which accounts for 35% - 40% of sales
Custom Duty on Man Made Fibre	15%	10%	Positive for Indo Rama Synthetic, Century Enka, Raj Rayon	Not to materially impact man domestic man made fibre yarn

Construction

Particular	Pre Budget	Post Budget	Impact	Remarks
Five ultra mega power projects of 4,000 MW each to be awarded before Dec 06			Positive for BHEL, ABB, L&T, Siemens, JP Associates	Power equipment manufacturers would also benefit alongwith turnkey construction companies.
Budget support for NHDP enhanced	Rs. 9320 crores	Rs. 9945 crores	Positive for Madhucon Projects, IVRCL, L&T	
Irrigation outlay for 2006 - 07 increased to Rs.7121 crores			Positive for Jain Irrigation, Finolex Industries. IVRCL	
Sanctions under Rural Infrastructure Development Fund increased	Rs. 7301 crores	Rs.10,000 crores	Positive for IVRCL, JP Associates, NCL, HCC	
Section 80IA extended to 31st March, 2009 for Industrial Parks and 31st March 2010 for Power			Positive for NCL, IVRCL, L&T	

Metals

Particular	Pre Budget	Post Budget	Impact	Remarks
Customs duty on alloy steel, ferro alloys and primary and secondary non-ferrous metals, like aluminium, copper , zinc, tin reduced	10%	7.5%	Neutral for sector, positive for Jindal Stainless	However, since the domestic prices are lower than landed cost of imported products, so the impact will be minimal. Stainless Steel producers will be benefitted.
Customs duty on steel melting scrap increased	0%	5%	Partially negative for Tata Sponge Iron, Mukund	Steel Producers and Sponge Iron producers will be affected
Custom duty on Iron ore and concentrates reduced	5%	2%	Positive for Essar Steel, JSW Steel	Marginal impact on steel costs.

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Chemicals

Particular	Pre Budget	Post Budget	Impact on companies	Remarks
Customs Duty on Borax & Boric acid	15%	10%	Positive impact on Borax Morarji and glass manufacturer such as Borosil Glass.	Reduction in customs duty to keep domestic price under check
Customs Duty on P-Xylene	5%	2%	Adverse impact on petrochemical major Reliance Ind.	
Customs Duty on Vinyl Acetate	15%	10%	Adverse impact on Vinyl Chemicals	Generates around 99.77% revenues from Vinyl Acetate.
Customs Duty on Potassium Chloride	15%	10%	Atul, GACL, Andhra Sugar likely to benefit.	Raw material cost to go down
Customs Duty on raw material for epoxy resins	10%	05%	Atul, Oriental Veneer, Foseco India to gain	Margins to improve
Customs Duty on crude glycerine	30%	12.5%	Positive for Sree Rayalaseema Alkalies	Reduction in customs duty to keep domestic price under check
Customs Duty on Styrene	5%	2%	Lanxess ABS & Bhansali Engineering to benefit	Styrene is one of their major raw material
Customs Duty on Ethylene Dichloride	5%	2%	Ion Exchange, Finolex Ind and Chemplast Sanmar are likely to benefit	

Pharma

Particular	Pre-budget	Post Budget	Impact on companies	Remarks
Reduction in custom duty on Life saving drugs on cancer & AIDS		5%	Ranbaxy, Matrix, Cipla, GSK, Ranbaxy, Dr Reddy's Lab, Aventis etc	Drugs to become affordable
Custom Duty on Hearing Aids equipmrnts	5%	0		
Peak Rate of Duty	15%	12.5%	To benefit the overall industry	

IT

Particular	Pre Budget	Post Budget	Impact	Remarks
Imposition of excise duty on computers	0%	12%	Enable domestic manufactures to take CENVAT credit as well as to face competition from importers	Price not to be impacted as duty to be eligible for full input tax credit
Reduction in FBT on tour and travelling cost	20%	5%	Reduction in FBT paid by Indian Software companies	Tax burden to reduce
Increase in Service tax	10%	12%	Marginal impact on domestic BPO Companies	

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Telecom

Particular	Pre Budget	Post Budget	Impact	Remarks
Increase in effective service tax rate	10%	12%	Negative for Bharti Tele, Tata Tele, MTNL	Since the industry is witnessing robust growth, the effect is set to be minimal
Telecommunication is expected to reach 250 million connections by December, 2007, provision of Rs.1,500 crore for Universal Services Obligation Fund in 2006-07; more than 50 million rural connections to be rolled out in three years.			Positive for telecom equipment manufacturers ITI, Aksh Optifibre, Finolex Cables and greater growth for Bharti Tele, Tata Tele	It would provide strong growth across the length and breadth of the industry. Telecom equipment manufacturers would also benefit.

Media

Particular	Pre Budget	Post Budget	Impact	Remarks
Customs duty on set-top boxes reduced	15%	Nil	No impact as excise duty of 16% is being levied	
New servics to be covered under Service tax including sale of advertisements (except Print) and sponsorship(except sports) of events by companies	Nil	12%	Negative for Inox, Shringar & PVR while Neutral for Adlabs	Impact revenues from displays and on-screen advertising. Inox & PVR have more than 10% income from advertising while its is less than 2% for Adlabs

Banking

Particulars	Pre Budget	Post Budget	Impact	Remarks
Focus on farm lending			Positive for entire sector	
Bank fixed deposits with minimum maturity of 5 years to get tax exemption under section 80 C of Income Tax Act			Positive for entire sector	Will provide access to long term low cost funds

Paper

Particular	Pre Budget	Post Budget	Impact	Remarks
Reduction in Excise Duty on specified paper used for writing,printing & packaging	16%	12%	JK Paper,Paper Products Rama Newsprint, to benefit	Result in lower paper prices stimulating demand

Semi-Conductors

Particulars	Pre Budget	Post Budget	Impact	Remarks
India Infrastructure Finance Company (IIFC) to create a new window to provide equity participation and / or viability gap funding for new ventures in manufacturing semiconductors			Positive for Moschip semiconductor	India to become preferred hub for chipmakers

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