Union Budget

2008-09

Last / Lost Opportunity

Key Highlights

Dhirubhai Shah & Co.
Chartered Accountants

Foreword

DBS GROUP

The Finance Minister was uniquely positioned to present a landmark budget, as the 2008 budget comes in the backdrop of robust economic growth in GDP of 8.8% in 2007-08. In my opinion this years budget proposals is aiming at consolidation. The overall thrust of the Budget appears to be towards spurring growth and providing a helping hand to a select few sections of the society viz. farmers, women, scheduled caste/ scheduled tribe (SC/ST), and the poor. The initiative and objective of allocation of funds can be called growth oriented though some people says this is a populist budget and election oriented. Overall it is a positive budget. The duty cuts and rural segment focus show that FM is trying to filter down benefits to the lower end of the society.

The most welcoming amendment brought about by this Budget is the increase in threshold limits across the board for individual tax payers. The measures of simplification and also the steps taken to widen the tax base have definitely boosted the direct tax collections. Enthused by this, the FM has increased the threshold limits significantly this year.

The waiver of the farm loans is a very major concession announced. This is bound to affect a large section of the society.

Clearly the Finance Minister (FM) P Chidambaram has played a Santa in the month of February. Whilst, undoubtedly, he would have had vested interest in wooing the votes for the 2009 general elections, the goodies extended are simply very attractive.

- K.D Shah

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The Economy – An Overview

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- The GDP increased by 7.5 %, 9.4 % and 9.6 % in first three years resulting in an unprecedented average growth rate of 8.8 %
- Growth rate in agriculture for 2007-08 is estimated at 2.6 %
- Saving rate and investment rate estimated to be 35.6 % and 36.3 %, respectively, by the end of 2007-08;
- FDI amounted to US$ 12.7 billion and FII to US$ 18 billion.
- Overall inflation projected to decline from 5.6% in 2006-07 to 4.1% in 2007-08
- Fiscal deficit to decline to 3.3 %
- Revenue deficit to decline to 1.5 %
- Gross tax GDP ratio to rise to 11.8 %
- Revenue expenditure grows 17 %, higher than target of 5.4 %
- Inflation and infrastructure biggest growth challenges
- Farm growth in FY'08 seen at 2.6%, against 3.8% a year ago
- Acceleration in domestic investment, savings drove growth
- Industrial growth slower at 9% in first 9 months of FY'08
- Rupee rose by 8.9% against USD during current fiscal

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Indian Economy – An Overview

Direct Taxes
Corporate Tax

Indirect Taxes

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Direct Taxes

Corporate Tax

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- There are no changes in the tax rates
- No change in surcharge and education cess. Educational cess shall continue to be levied at the rate of 3% on the amount of tax and surcharge.
- Dividend Transaction Tax (DDT) rate remains unchanged at 15%. However holding Company can set-off dividend received from subsidiary against dividend paid for computing DDT

  This benefit is available to only one level company and if there are down stream subsidiary companies then the benefit is not available

  This benefit is available for dividend distributed by the holding company in the **same Financial Year**
- Advancement of due date for filing return of income under section 139 of the Income Tax Act from 31st October to 30th September
- Banking cash transaction tax will be withdrawn w.e.f April, 01, 2009.
- Benefit of amortization of certain preliminary expenditure under section 35D of the Act will also be allowed to the service sector.

  Section 35D has been amended to give benefits to small companies who outsource their R&D activities. However the company in which the outsourcing is done will have to register themselves u/s 35(1)(ii).Further this R& D companies will get benefit of deduction of 125% as against 150% if R&D is done for their own business
- Business of production of seed and manufacture of agricultural implements added to the list of companies allowed weighted deduction of 150% on any expenditure on in house scientific research

Direct Taxes

Corporate Tax

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- Income derived from saplings or seedlings grown in a nursery shall be deemed to be agricultural income.

  Accordingly, irrespective of whether the basic operations have been carried out on land, such income will be treated as agricultural income, thus qualifying for exemption under section10(1) of the Act.

  This amendment will take effect from the 1st day of April, 2009 and will accordingly apply in relation to the assessment year 2009-10 and subsequent assessment years

- Following activities shall not considered as an activity as mentioned for charitable purpose under section 10 (23C) or section 11 of the Act and no exemption will be allowed
  - any activity in the nature of trade, commerce or business or,
  - any activity of rendering of any service in relation to any trade, commerce or business

  Genuine charitable organizations not to be affected in any way

- Corporate debt Instrument issued in demat form and listed on recognized stock exchange exempted from TDS.

- In order to providing a level playing field to FCEBs, it is proposed to provide that the conversion of FCEBs into shares or debentures of any company shall not be treated as a 'transfer' within the meaning of Income-tax Act.

  These amendments will take effect retrospectively from 1st April, 2008, and will accordingly apply in relation to assessment year 2008-09 and subsequent assessment years.

- Under Section 143(2), the time limit for issue of scrutiny notice is now changed to 6 months from the end of the financial year in which the return is furnished as against 12 months earlier. However very surprising amendment is made in regard to, that beyond the period of 6 months if any assessee attends in compliance to 143(2) notice then the period of 6 months gets extended

- **Amendment tin section 271(1)(c)**

The legal issue was well settled that before issue of notice under section 271(1)(c), satisfaction of the A.O has to be recorded. Now it is provided that recording of satisfaction is not necessary. This will encourage the A.O to issue notice u/s 271(1)(c), in case of additions and mechanical levied penalties

Direct Taxes

Corporate Tax

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- Tax Holiday period for 5 years under section 80 IB to hospitals located in rural areas and constructed at any time during the period beginning on the 1st day of October, 2004 and ending on the 31st day of March, 2008.
  - The tax benefit shall be with respect to the profit derived from the business of operating and maintaining a hospital for a period of five consecutive assessment years, beginning from the initial assessment year
  - This window will be open for the period April 1, 2008 to March 31, 2013.
- Five year holiday from income tax being granted to two, three or four star hotels established in specified districts having UNESCO-declared 'World Heritage Sites'; the hotel should be constructed and start functioning during the period April 1, 2008 to March 31, 2013.
- Earlier there was a provision for making prima facie adjustments to the total income returned in the return of income. Now this provision has been restored but the saving grace is that such prima facie adjustments will be only computer based i.e. manual prima facie adjustments will not be made

Direct Taxes

Corporate Tax

- Section 40A(3) has been amended to substitute the present provision to provide that where a payment or aggregate of payments made to a person in a day, otherwise than by an account payee cheque drawn on a bank or account payee bank draft, exceeds Rs.20,000, the disallowance of such expenditure shall be made under the proposed sub-section (3) of section 40A or the payment shall be deemed to be the profits and gains of business or profession under the proposed sub-section (3A) of section 40A,as the case may be.

  To illustrate with an example, let us assume a taxpayer has incurred an expenditure of Rs 80,000/-. The taxpayer makes separate payments of Rs 25,000/-, Rs 16,000/- , Rs 20,000 and Rs 19,000/- all by cash, to the person concerned in a single day. The aggregate amount of payment made to a person in a day, in this case, is Rs 80,000/-. Since, the aggregate payment by cash exceeds Rs 20,000/-, Rs. 80,000/- will not be allowed as a deduction in computing the total income of the taxpayer in accordance with the proposed amendment.

Corporate Tax rates

For Partnership Firms

Partnership Firms are taxable @ 30%.
Surcharge is applicable @ 10% if total income is in excess of Rs. 10,000,000.
Education cess is applicable @ 3% on income tax (inclusive of surcharge, if any).

For Domestic Companies

Domestic companies are taxable @ 30%.
Special code for computation of total income of insurance companies. The rate of tax on profits from life insurance business is 12.5%.
Surcharge is applicable @ 10% if total income is in excess of Rs. 10,000,000.
Education cess is applicable @ 3% on income tax (inclusive of surcharge, if any).
Marginal relief is available.

For Foreign Companies

Foreign companies are taxable @ 40%.
Surcharge is applicable @ 2.5% if total income is in excess of Rs. 10,000,000.

Dividend Distribution Tax (DDT)

Dividend distributed by an Indian Company is exempt from income-tax in the hands of all shareholders. The Indian company is liable to pay DDT of 16.995% (i.e. inclusive of surcharge and education cess) on such dividends.

Minimum Alternate Tax (MAT)

MAT is levied @ 10% of the adjusted book profits in case of those companies where income-tax payable on the taxable income according to the normal provisions of the Income-tax Act, 1961, is less than 10% of the adjusted book profits.
Surcharge is applicable @ 10% in case of domestic companies if adjusted book profits are in excess of Rs. 10,000,000.
Education cess is applicable @ 3% on income tax (inclusive of surcharge, if any).

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Direct Taxes

Personal Tax

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Income Tax Rates
For Individuals, Hindu Undivided Family, Association of Persons and Body of Individuals

Total Income	Tax Rates
Up to Rs. 150,000	NIL
Rs. 150,001 to Rs. 300,000	10%
Rs. 300,001 to Rs. 500,000	20%
Rs. 500,001 and above (Refer a below)	30%

a) **Surcharge is applicable @ 10% only where total income exceeds Rs. 1,000,000.**
b) **Education cess is applicable @ 3% on income tax (inclusive of surcharge, if any).**
c) **Marginal relief is available.**

Income Tax Rate
In case of a Women assessee below the age of 65 years

Total Income	Tax Rates
Up to Rs. 1,80,000	NIL
Rs. 180,001 to Rs. 300,000	10%
Rs. 300,001 to Rs. 500,000	20%
Rs. 500,001 and above (Refer a below)	30%

Income Tax Rate
In case of a resident individual of the age of 65 years or above

Total Income	Tax Rates
Up to Rs. 2,25,000	NIL
Rs. 2,25,001 to Rs. 300,000	10%
Rs. 300,001 to Rs. 500,000	20%
Rs. 500,001 and above (Refer a below)	30%

Direct Taxes
Personal Tax

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Tax Department found inefficient

- Short Term Capital Gain Tax increased from 10% to 15% Plus sucharge
- STT paid to be treated like any other deductible expenditure against business income. Accordingly, now the benefit of STT will be restricted to 30% as against full rebate from tax payable
- Levy of STT, in the case of options to be only on premium, where the option is not exercised; liability to be on the seller; where the option is exercised, levy to be on the settlement price and the liability on the buyer; no change in the present rates.
- Commodities Transaction Tax (CTT) to be introduced on the same lines as STT on options and futures.
- Additional deduction under section 80D of the Income Tax Act for medical insurance premium
  - INR 15,000 on payment for health insurance of parent(s)
  - However, INR 20,000 where the parent(s) is a senior citizen

  Now u/s 80D of the Act, assessee will be able to claim deduction upto Rs.30,000 i.e.15,000 for medical insurance premium of self and dependent child and another 15,000 or 20,000 for medical insurance premium of parent(s) (not required to be dependent)
- Enlargement of the scope of eligible saving instruments under section 80C. With a view to encourage small savings following new instruments are added to the scope of the section 80C
  - Time deposit > 5 years in Post Office Deposit Account
  - Deposit under savings Scheme for Senior Citizens

  Deposit in Post office term deposit account must be for a period of 5 years and if at any time it is withdrawn within 5 years the it is taxable as income in the year of withdrawal

Direct Taxes

Personal Tax

- A new clause (xa) in section 47 of the Income Tax Act has been added to provide that any transfer of a capital asset in a transaction of reverse mortgage under a scheme made and notified by the Central Government shall not be regarded as a transfer and therefore shall not attract capital gains tax.

  Exemptions for senior citizens under reverse mortgage scheme:
  - Capital gains on transfer of property
  - Income tax on amount received

- Advancement of due date for filing return of income under section 139 of the Income Tax Act from 31st October to 30th September for the following assessees
  - a person (other than a company) whose accounts are required to be audited under this Act or under any other law for the time being in force; or
  - a working partner of a firm whose accounts are required to be audited under this Act or under any other law for the time being in force.

- A scheme for dematerialisation of Tax Deducted at Source (TDS)/ Tax Collected at Source (TCS) certificates was introduced through the Finance (No. 2) Act, 2004, with effect from 01-04-2005 for any deduction or collection of tax at source made on or after 1-04-2005. The commencement of this scheme was postponed to 1-4-2006 by the Finance Act, 2005 and later to 1-4-2008 by the Finance Act, 2006. Since the national level information technology infrastructure of the Income-tax Department is not yet operational, it is proposed to extend the commencement of the scheme to 1-04-2010.

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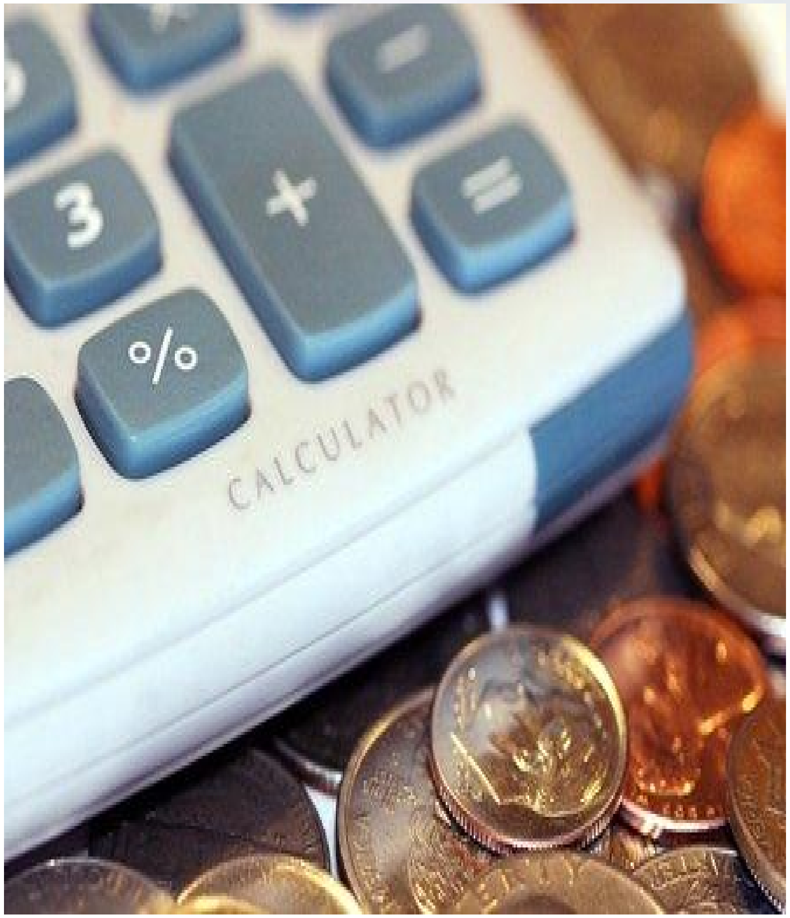

Direct Taxes

Fringe Benefit Tax

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- Where the employees' stock option has been granted, specified securities in respect of levy of Fringe benefit tax to include securities offered under an employees' stock option plan or scheme. This provision will apply retrospectively from 1 April 2008.

- Expenditure on or payment through non transferable pre-paid electronic meal card usable only at eating joints or outlets and fulfilling other conditions as may be prescribed to be excluded from the category of "hospitality" for the purpose of valuation of fringe benefits.

- Expenditure on or payment made to provide crèche facility for the children of the employee or sponsoring a sportsman being an employee or organizing sports events for employees to be excluded from the category of "employee welfare" for the purpose of valuation of fringe benefits.

- Maintenance of any accommodation in the nature of guest house not to be included for the purpose of valuation of fringe benefits.

- The valuation of expenditure or payment for festival celebrations to be reduced from 50 % to 20 %

- Recovery of FBT from employees with respect to allotment / transfer of specified security or sweat equity shares shall be deemed to be tax paid by such employee in relation to the value of fringe benefits provided to such employee. This provision will apply retrospectively from 1 April 2008.

- The employee shall not be entitled to claim for any refund or credit out of such deemed payment of tax against tax on any other income or any other tax liability. This provision will apply retrospectively from 1 April 2008.

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Service Tax

- Rate Of Service Tax
  - There is no change in service tax rate
- Threshold limit for small service providers increased from present level of **8 Lakhs to 10 Lakhs.**
- Following services to become taxable from a date to be notified after enactment of Finance Bill, 2008:
  - Services provided in relation to information technology software for use in the course, or furtherance, of business or commerce;
  - Services provided in relation to management of investment, under unit linked insurance business, commonly known as Unit Linked Insurance Plan (ULIP) scheme;
  - Services provided by a recognised stock exchange in relation to securities;
  - Services provided by a recognised association or a registered association (commodity exchange) in relation to sale or purchase of any goods or forward contracts;
  - Services provided by a processing and clearinghouse in relation to processing, clearing and settlement of transactions in securities, goods or forward contracts;
  - Services provided in relation to supply of tangible goods, without transferring right of possession and effective control of the tangible goods;
  - Services provided in relation to internet telecommunication. Consequently, reference to services provided in relation to internet telephony, being covered as part of internet telecommunication, shall be omitted.

- **SCOPE OF SPECIFIED TAXABLE SERVICES IS BEING AMENDED AS FOLLOWS:**

  To include,-
  - purchase or sale of foreign currency, including money changing, by an authorized dealer or an authorized money changer, under banking and other financial service;
  - purchase or sale of foreign currency, including money changing, by an authorized dealer or authorized money changer, under foreign exchange broker services provided by individual;
  - packing together with transportation of cargo or goods, with or without one or more other services like loading, unloading, unpacking, under cargo handling service;
  - testing or analysis of information technology software under technical testing and analysis service;
  - inspection, examination and certification of information technology software under technical inspection and certification service;
  - services provided in relation to a journey from one place to another in a contract carriage vehicle, under tour operator service. However, such services provided for use by an educational body, other than a commercial training or coaching centre, imparting skill or knowledge or lessons on any subject or field shall be excluded. Services provided in relation to a journey from one place to another in a tourist vehicle is already leviable to service tax under tour operator service;

  To omit,-
  - from business auxiliary service, reference to information technology service consequent upon notifying information technology software service as a separate taxable service;
  - from consulting engineer service, exclusion of computer software engineering consultancy consequent upon notifying information technology software service as a separate taxable service;
  - from 39 specified taxable services, reference to service recipient as “client” or “customer” and replace with the words “any person”;

- Exemption from service tax is being provided to,-
  - the taxable service provided by a person located outside India for a customer located outside India, and received by a hotel located in India, in relation to booking of an accommodation in the said hotel located in India;
  - 75% of the gross amount charged as freight for services provided in relation to transport of goods by road in a goods carriage by a goods transport agency (GTA), unconditionally.

Indirect Taxes

Custom Duty

- No change in peak rate of Basic custom duty (BCD)
- Following amendments will be effective from 1st March, 2008.
  - Custom duty on steel melting scrap and aluminum scrap reduced from 5% to NIL.
  - Custom duty on specified life saving drugs reduced to 5% and on the bulk drugs used for the manufacture of such drugs. There will be no countervailing duty on such goods.
  - Customs duty on Project Imports to reduce from 7.5 % to 5 % & 4 percent special CVD to be imposed on a few specified projects in the power sector
  - Customs duty is being reduced on vitamin premixes and mineral mixtures from 30 % to 20 % and on phosphoric acid from 7.5 %t o 5 % to reduce cost of manufacture of dairy and poultry feeds
  - Specified parts of set top boxes and specified raw materials for use in the IT/electronic hardware industry to be exempted from customs duty.
  - Customs duty on convergence products to be reduced from 10% to 5 %
  - Custom Duty on cubic zirconia reduced from 10 % to 5 %.
  - Customs duty removed on helicopter simulators.
  - Customs duty reduced on crude and unrefined sulphur from 5 % to 2 %
  - Export duty on chrome being increased from Rs.2,000 per metric tonne to Rs.3,000 per metric tonne.

Customs Duty

Change in customs duty

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ITEMS	Prior to March 1, 2008.	With effect from March 1, 2008.
Projects Imports	7.5%	5%
Chemicals and Petrochemicals: •Crude and unrefined Sulphur	 5%	 2%
Export Promotion: •Unworked or simply prepared corals •Cubic zirconia (polished) •Tuna bait	 10% 10% 30%	 5% 5% NIL
Dairy/Poultry: •Duty on bactofuges •Duty on feeds additives/pre mixes	 7.5% 30%	 NIL 20%
Information Technology: •Specified Convergence products •Specified parts of setup boxes on end use basis •Specified raw materials and inputs for use in IT/electronic hardware industry	 10% 7.5% 7.5%	 5% NIL NIL
Drugs and Kits: •Drugs / Kits & Bulk rugs •Specified Material used for Manufacture of ELISA kits	 10% 10% / 7.5%	 5% 5%
Metals: •Iron / Steel Melting Scrap • Aluminium Scrap	 5% 5%	 NIL NIL
Other Relief: •Raw material for Tyre Industries •Helicopter Simulators	 10% 10%	 5% NIL
Tobacco Products: •Cigars, Cheroots & Cigarillos	 30%	 60%
Exemption From additional Duty of Customs Withdrawn From Power Generation Projects (Other than Mega Mega Power Projects), Transmission, Sub transmission & Distribution Projects & Goods for high Voltage Transmission Projects		

Indirect Taxes

Excise Duty

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Reduction in Central excise duty

- General CENVAT rate of all goods are reduced from 16 % to 14%.
- Duty on bus reduced to 12% from 16% at present.
- Duty on two and three wheelers vehicles reduced from 16% to 12%.
- Duty on small cars reduced from 16% to 12% and in case of hybrid car from 24% to 14%.
- Duty on Pharma products reduced from 16% to 8%.
- Anti AIDS drugs will be exempt.
- Excise on paper and other items made from non-conventional raw material and some varieties of writing and printing paper down from 12% to 8% .
- Duty on composting machines, wireless data cards, packaged coconut water, tea and coffee mixes, and puffed rice reduced to NIL from 16%.
- Excise on water purifying devices, veneers and flush doors, sterile dressing pads and some packaging material and breakfast cereals halved to 8%.
- Excise duty being exempted on end-use basis, on refrigeration equipment (consisting of compressor, condenser evaporator, etc) above 2 TR (tonne refrigeration) utilising power of 50 KW and above will be exempt.

Indirect Taxes

Excise Duty

Increase in Central Excise duty

- Excise duty being increased on packaged software from 8 per cent to 12 per cent, bringing at par with customized software attracting a service tax of 12 per cent

- Excise duty on unbranded petrol will be Rs. 14.35/ litre and in the case of unbranded diesel it would be Rs.4.6/ litre. There will be no impact on retail prices

- Excise duty rates on bulk cement and packaged cement brought on par;
  - bulk cement to attract excise duty of Rs.400 per Metric Tonne or 14 per cent ad valorem, whichever is higher;
  - cement clinkers excise duty at Rs.450 per Metric Tonne.

- Excise on non-filter cigarettes to be at par with filter cigarettes.

- Excise duty on 1% (NCCD) on polyester filament yarn and levy shifted to cellular mobile phones.

Central Excise

Change in duty

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ITEMS	Prior to March 1, 2008.	With effect from March 1, 2008.
General Rate of Excise Duty (CENVATE)	16%	14%
Drugs & Pharmaceuticals:		
•All Drugs	16%	8%
•Sterile dressing pad, Burn therapy pads ,Corn removers, First Aid Boxes & Kits, Blood Grouping reagents	16%	8%
•Anti- AIDS Drugs ATAZANAVIR & bulk drugs for its Manufacture Fully Exempted		
Auto Sector:		
•Small Cars	16%	12%
•Hybrid Cars	24%	14%
•Electric Cars	8%	NIL
•Specified Parts of Electric Cars	16%	NIL
•Buses	16%	12%
•Two Wheelers &Passenger three Wheelers	16%	12%
Paper & Paper products:		
Writing Paper, Printing paper & Packing paper	12%	8%
Food Processing Sector:		
Following are the Fully Exempted Products from Excise Duty		
•Packaged tender Coconut Water		
•Paws, mudi (puffed rice) & the like		
•Milk containing edible nuts		
•Tea/Coffee pre mixes		
•Specified Refrigeration Equipments for the installation of a cold storage ,Cold Room & Refrigerated Vehicle		
•Sharbats, Muesli, Corn flakes & similar Breakfast cereals & Specified packaging Materials		

Central Excise

Change in duty

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ITEMS	Prior to March 1, 2008.	With effect from March 1, 2008.
Information Technology & Communication Sector: •Specified Convergence Products •Packaged Software •Wireless data modem card Fully Exempted	 16% 8%	 8% 12%
Cement: Bulk Cement Cement Clinkers	 Rs. 400mt Rs.350mt	 14% / RS.400mt Which ever is higher Rs.450mt
Cigarettes: **Non Filter Cigarettes** •Not exceeding 60mm in length •Exceeding 60mm but not exceeding 70mm in length	(Rs. per 1000) 168 546	(Rs. per 1000) 819 1323
Others: •Water filtration and purification devices, Veneers & Flush doors, Heat resistant rubber tension tape, Inks for marker pens, highlighters etc. •Pan masala, not containing tobacco, with betel nut content not more than 15% •Composing machines, Menthol/Menthol Flakes Fully Exempted	 16 16	 8 8
Petroleum: Motor Spirit (sold without Brand Name) HSD (sold without Brand Name)	 6%+Rs.13 per ltr 6%+Rs.3.25 per ltr	 Rs.14.35 per ltr Rs.4.60 per ltr

Indirect Taxes
Central sales Tax

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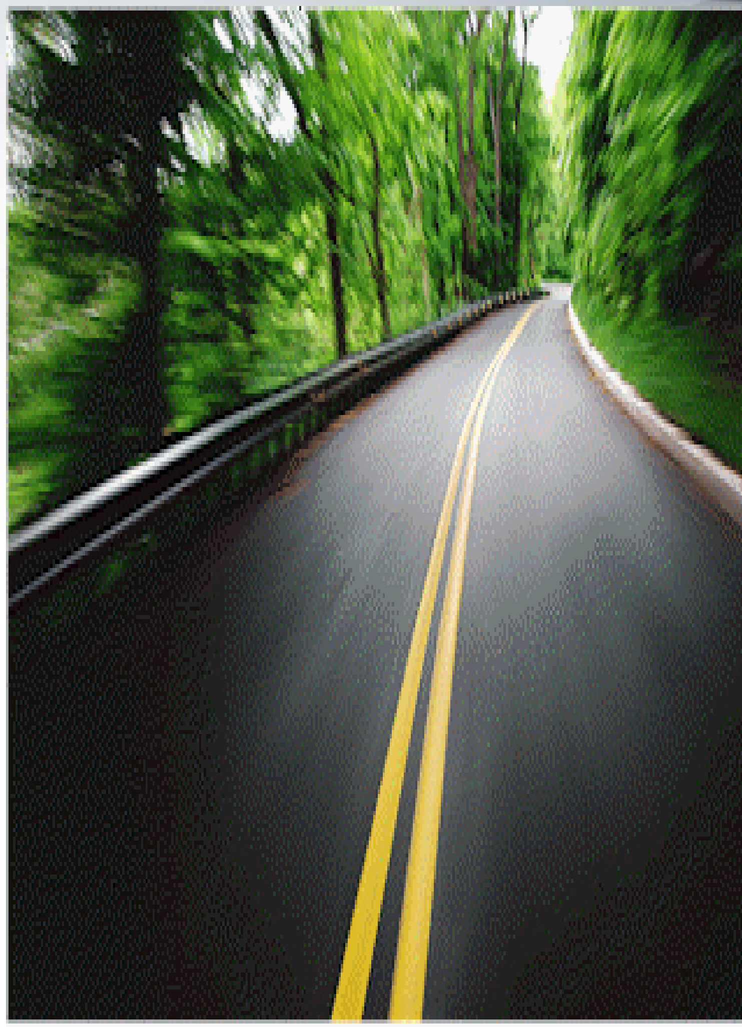
- **Central Sales Tax**
  - CST rate proposed to be reduced from 3% to 2% from 1st April, 2008.



Effective indirect tax rates

Tax	Existing	Proposed
Customs Duty	34.13%	31.70%
Excise Duty	16.48%	14.42%
Service Tax	12.36%	12.36%
CST	3%	2%

Sectoral Analysis

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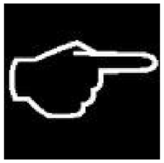
- Automobiles   Positive

- The reduction in excise duty rate from 16 per cent to 14 per cent would be positive for the Automobile Industry
- The tyres sector is also expected to benefit from the excise duty cut
- Two-wheeler demand to benefit from the increase in disposable income due to alteration in income tax slabs and the cut in excise duty, which is likely to be passed on due to intense competition
- Small car manufacturers also to pass on the benefit, resulting in a marginally favourable impact on demand.
- The waiver of loans for small and marginal farmers will have a neutral impact on tractor sales.

- Banking and Finance   Neutral
- The emphasis is on agricultural banking. The loan waiver of Rs 500 billion and the one time settlement scheme of Rs 100 billion are expected to provide relief to debt-burdened farmers.
- Banks will be positively impacted if the government funds the waiver in some manner or else bank margins will suffer. The reduction in growth target (17 per cent y-o-y) for farm credit will help banks consolidate their origination systems for farm loans.
- Further, measures to expand the market for corporate bonds would help increase liquidity and market-driven price discovery.



Sectoral Analysis

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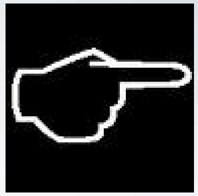
- Cement Neutral



- The excise duty on bulk cement has been revised from Rs 400 per tonne in 2007-08 to Rs 400 per tonne or 14 per cent ad-valorem, whichever is higher.
- The average all-India retail price of cement is Rs 230 per bag, whereas bulk cement sells at discount of Rs 10-16 per bag owing to savings on excise and packaging cost.
- Further, the excise duty on clinkers has been hiked from Rs 350 per tonne in 2007-08 to Rs 450 per tonne in 2008-09.

  This will also have a neutral impact on cement industry, as players possess the flexibility to pass on any increase in cost to end consumers.

- Pharmaceuticals Positive
- The budget will have a positive impact on the pharmaceuticals sector.
- The cut in excise duty on pharmaceutical products, from 16 per cent to 8 per cent, will reduce the burden on players.
- The 125 per cent deduction on R&D outsourcing expenditure will increase the competitiveness of Indian players.
- The reduction in customs duty on selected life saving bulk drugs, from 10 per cent to 5 per cent, will be marginally positive.

Sectoral Analysis

DBS GROUP

- Construction Positive

- Increase in outlay in key infrastructure sectors such as roads, urban infrastructure and irrigation. Under roads, led by National Highways Development Programme.
- The budget allocation has been increased by 19 per cent from Rs 108.67 billion in 2007-08 to Rs 129.66 billion in 2008-09, much higher than the 9 per cent growth in allocation of the previous year.
- The central assistance under Jawaharlal Nehru Urban Renewal Mission has also been increased by 25 per cent - from Rs 54.82 billion in 2007-08 to Rs 68.66 billion in 2008-09.
- Further, the annual outlay under the 'Accelerated Irrigation Benefit Programme' has been raised from Rs 110 billion to Rs 200 billion.
- These increased allocations would augur well for construction companies in terms of healthy order book growth and better revenues.

- Information Technology

MarginallyNegative

- The budget focuses on building the talent pool of the country and the IT sector, being a major recipient of the knowledge resources, is expected to benefit in the long run.
- The excise duty increase from 8 per cent to 12 per cent on packaged software and the addition of customised software in the service tax net, is expected to negatively affect application development players in the domestic software industry.
- Maintenance service providers will not be impacted.
- With no comment on extension of the IT Tax exemption (under section 10A and 10B), the overall impact is expected to be marginally negative for the IT sector.

Sectoral Analysis

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- Textiles — Positive
- The budget measures are largely positive for the textiles sector.
- The Union Budget 2008-09 has maintained the provision for the scheme for integrated textile parks (SITP) at Rs 4.5 billion in 2008-09.
- The allocation of funds under TUFS has been enhanced from Rs 9.1 billion in 2007-08 to Rs 10.9 billion in 2008-09. This will continue to help attract investment flows into the sector by subsidising the interest costs on borrowings for expansions and new projects.
- The identification of Bhiwandi and Erode for development as mega-clusters will support the modernisation and improvement in the infrastructure of these two key powerloom (weaving) clusters, which contribute significantly to India's fabrics production.

- Oil and Gas — Marginally positive
- The imposition of a 5 per cent customs duty on naphtha for the manufacture of polymers is expected to marginally improve refining profits
- Further, a reduction of 2.5 per cent in customs duty on project imports is likely to reduce capital costs of players in the industry. The replacement of ad-valorem portion of the excise duty (6.2 per cent) on unbranded petrol and diesel by an equivalent specific duty of Rs 1.35 per litre will be revenue neutral.
- Other changes such as the reduction in peak excise duty (by 2 per cent) and CST (by 1 per cent) are also expected to be revenue neutral for the sector, as they are likely to be passed on to the customer.

An overall Sectoral Analysis

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Sectors	Proposal	Impact
Education	Increased thrust on education	Positive
Irrigation	Increase in outlay for irrigation and water projects	Positive
Banks	Waiver on agricultural loans, coupled with budgetary support to banks	Neutral to marginal positive
Textiles	Increased outlay for TUFS	Positive
Automobile	Decrease in excise duty on buses, small cars and Two Wheelers	Positive
Pharmaceutical	Excise duty reduced from 16% to 8% on all pharmaceutical goods manufactured	Positive
Healthcare	Five year tax holiday for setting up hospitals	Positive
Defence Supplier	Increased allocation to defense	Positive
Power sector	Setting-up of 5 additional UMPPs	Positive
Steel	Scrapping of custom duty on Steel melting scrap	Positive

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www.dbshahgroup.com
dshahco@dbshahgroup.com

Phone: (0091) (079) 2640 33 25
Telefax: (0091) (079) 2640 33 26

Thank You