

Union Budget Analysis 2008-09



A BUDGET FOR THE MASSES

The Union Budget for FY2008-09 announced by Finance Minister P Chidambaram has been a perfect 'Balancing Act' with the focus clearly on the Aam aadami. As mentioned by us in our Pre- Budget Report, the FM has continued to strongly focus on Agriculture, Infrastructure, Public Health and Education which forms the main agenda in this years budget. The Loan waiver to farmers and raising of Income-Tax limits are clearly initiatives taken by this government to keep its alliance partners happy and are populist measures.

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Agriculture has been accorded a big boost in this years budget with the FM increasing the total planned outlay here by 16% to Rs 2800bn. Some of the major flagship programmes like National Rural Employment Guarantee Scheme, Jawaharlal Nehru National Urban Renewal Mission and the Rajiv Gandhi Drinking water Mission have been given renewed focus. On the other hand the outlay on Education has been increased by 20% YoY to Rs 34,400crs while for Public Health services the plan outlay is up by 15% from last year to Rs 165.3 bn.

AGRICULTURE – BIG INVESTMENTS PLANNED

With the total outlay on Agriculture being increased to Rs 2800bn from Rs 2400 bn last year, the focus of the government is clearly on ensuring that Agri growth is accelerated to 4% annually from 1.7% average growth recorded in the 10th five year plan. To ensure that this will happen the government has targeted gross capital formation (GCF) in agriculture as a % to GDP from the present level of 12.5% to 16% in the 11th five year plan. This is because even as on today, almost 60% of our population still depends on agriculture as its livelihood.

During FY08, both savings rate and investment formation rates have remained impressive at levels of 36% and 36.3% respectively

Agriculture which used to previously account for a sizeable chunk (around 24%) of the GDP in 2001 has seen its share drop to 17% in FY08 and has seen a volatile uneven trend after its peak 10% growth in FY2004. We believe that going ahead in order to sustain the GDP growth it would be imperative for the government to focus on Agriculture to ensure that its share in the GDP increases steadily. For this the government has also renewed its efforts to increase plan outlays for creation of irrigational facilities, creation of water management cells, improved production due to better utilisation of seeds and fertilizers which should ensure a sustainable growth in agriculture.

INFRASTRUCTURE THRUST TO CONTINUE —

During FY08, both savings rate and investment formation rates have remained impressive at levels of 36% and 36.3% respectively. We believe that that the 11th Five Year Plan (2008-2013) envisages huge investments in roads, power and other infrastructure projects, which is likely to result in a significant rise in expenditure on infrastructure sectors to around 7-8% of GDP from around 4.5% currently.

To ensure that the GDP growth is sustained at 8%plus levels, the government has allocated increased outlay of Rs 140bn for the Rural Infrastructure Development Fund (RIDF), more funds to the tune of Rs129.7 bn have been approved for the NHDP program with the total Power Generation capacity being targeted to increase by another 78577Mw in the 11th five year plan which is more than the total cumulative capacity added in the previous three five year plans.

Government has allocated increased outlay of Rs 140bn for the Rural Infrastructure Development Fund

In this Budget, Roads, power, and drinking water projects have been accorded higher plan outlays which all promise a better infrastructure base ahead. We hence believe that Power Projects, roads and water projects are the clear beneficiaries of the Budget. The power sector will benefit from the expected five new ultra mega power projects

Power sector will benefit from the expected five new ultra mega power projects (UMPPs)

(UMPPs) which are expected to be announced in Chhatisgarh, Karnataka, Maharashtra, Orissa and Tamil Nadu.

INDIAN ECONOMY IS NOW IN CONSOLIDATION MODE –

The Indian economy is now clearly in a consolidation phase after 3 years of sustained growth witnessed in the GDP from 7.5% in FY05 to 9.6% in FY07. The Advance Estimates for 2007-08 by CSO clearly indicate that a slowdown is on the cards and it has already estimated that this year GDP will grow at a slower pace of 8.7% from 9.6% recorded last year. However the government is confident of sustaining GDP growth at 8.8% in current year despite signs of slow down in global markets and aims at a higher growth from the Agriculture and service sectors with regards to the Indian economy context.

A major driver to the GDP growth will be the Manufacturing Sector growth which is targeted to grow by 9.4% in FY09E and which contributes around 27% of the GDP and grew by 9.2% in FY08 as compared to 11.6% last year. On the other hand, with revenue collections being buoyant this year overall total Plan expenditure has been increased to Rs.2433.86bn, up by 17.5%. This leaves the government with a fiscal deficit of Rs1332.8 bn i.e. 2.5% of GDP as compared to 3.1% in FY08 as per revised estimates. In fact the government has clearly achieved this target in this years budget on account of the robust revenue collections till date. The Fiscal deficit for FY09 is being targeted at 2.5% of GDP while revenue deficit is targeted at 1.1%, from 1.4% on the revised FY08E. Overall tax collection has shown a healthy trend so far and the tax-to-GDP ratio, which is estimated to be at 9.2% for FY08 & is further expected to touch 12.5% in FY09.

BHARAT NIRMAN... CONTINUED THRUST ON INFRASTRUCTURE CREATION –

Services and Manufacturing sectors are targeted to grow by 10% and 12% respectively in the 11th five year period

On the other hand with the first year of the 11th five year plan (FY2008-2013) drawing to a close, the government has set an ambitious target of 9% GDP during this period which will be driven by a 4% average growth in Agri output from 1.7% average growth recorded in the 10th five year plan. Also the Services and Manufacturing sectors are targeted to grow by 10% and 12% respectively in the 11th five year period. Alternatively 11th Five Year Plan (2008-2013) also envisages huge investments in roads, power and other infrastructure projects, which is likely to result in a significant rise in expenditure on infrastructure sectors to around 7-8% of GDP from around 4.5% currently.

To this effect the government has increased the gross budgetary support (GBS) to Rs2433.8 bn with the central plan allocation placed at Rs 1799.5 bn – an increase of 16% and the Bharat Nirman programme to get Rs 31280cr.

EDUCATION & PUBLIC HEALTH – ALSO GIVEN TOP PRIORITY

Outlay on education and health has been increased by 20% & 15% respectively

We believe that, the other two important foundation blocks of the Indian economy namely Public Health and Education have rightly been given due importance in this budget. In this budget the FM has increased the outlay on Education and Health for FY09 at Rs 34.4 bn and Rs 165.3bn which is up by 20% and 15% respectively. The government has also made a conscious effort to promote major investments in both these areas from the government and encourage the private sector to invest in this sector to upgrade existing facilities here.

As mentioned earlier in our Pre Budget Report, the government has plans to increase the spend on the sector to Rs. 2,77,837 crores in the 11th Five Years Plan from Rs. 59,181 crores in the 10th Plan. This spend would include expenditure on elementary, adult and higher education. Thus in conclusion as per the planning commission total

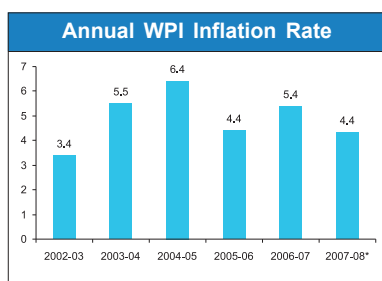
public spending plan and non-plan on education would account for 5% of GDP by the end of 11th Five Year Plan.

DEBT WAIVER FOR FARMERS TO THE TUNE OF RS 600BN –

Government has announced a complete waiver Rs 600 bn to farmers on loans that were overdue on December 31, 2007

In a major political move to ensure that the farmer community is taken care of the government has announced a complete waiver of all loans that were overdue on December 31, 2007 and which remained unpaid up to February 2008 for marginal farmers and small farmers. There is a one time settlement (OTS) scheme in respect of other farmers for all loans that were overdue on December 31, 2007 and which remained unpaid until February 2008.

The government estimates that about three crore small and marginal farmers and about one crore farmers will benefit from this scheme. The total value of overdue loans being waived is estimated at Rs 50000 crs and the OTS relief on the overdue loans is estimated at Rs 10000 crs. Net net we believe that the government's intention of helping distressed farmers by this verdict is a helpful move but clearly has political undertones keeping in mind the oncoming general elections.



* For 43rd Week / Source : CSO

Controlling inflation and ensuring steady growth in agriculture are two challenges in the medium term

In order to boost consumption demand, CENVAT has been reduced from 16% to 14%.

KEY CHALLENGES AHEAD FOR THE FM –

Two key challenges for the FM in the medium term would be to clearly manage and keep inflation at lower levels and to ensure that agriculture growth gets boosted. During FY08, the inflation rate has been moderated and it had earlier come down to 3%, however in recent weeks it has again risen to around closer to 4.89%. Our belief is that the government will further announce measures to reduce inflationary trends in the economy. The recent petrol and diesel price hike is expected to raise the inflationary trends in the economy in the short term.

Again with the 6th Pay commission Report likely to be finalized by March 08 end and with provisioning for this to be made later on, the government will have to ensure that there is no let down in revenue collections.

TAX PROPOSALS: INDIRECT TAXES –

The FM has ensured that looking at the sharp rupee appreciation, the peak customs duty has been maintained at 10% where earlier there expectations of a further cut. On the excise duty front, the FM has quite rightly ensured that in order to boost consumption demand, he has reduced the CENVAT from 16% to 14%. This we believe would result in prices of several products being reduced and benefits of these passed on to customers which should increase demand levels.

The excise receipts are projected to increase by 6.62% in FY09E from Rs.279.9bn in FY08. The service tax also has seen its scope being widened to new segments like asset management services like ULIP, services provided by stock and commodity exchanges and clearing houses and on providers of customized software.

DIRECT TAXES –

In the true spirit of ensuring support from the urban middle class before the oncoming elections, the FM has reduced personal income tax slab rates by increasing the basic exemption levels while not introducing any new taxes for FY09. However the capital markets were disappointed over 'No change in the Corporate Tax and Surcharge levels. Also the increase in 'Short Term Capital Gains' by 50% from 10 to 15% has made markets nervous. We believe that this move on the part of the government now could shift investors from momentum based to more value based investors and this is in fact a positive development in the longer term although this is negative in the short term.

Presently STT where currently the charge is 0.125 percent, can be currently be claimed as a rebate against a tax liability. However from now on delivery business STT would now be treated like any other deductible expenditure against business income. Further, in the case of options, STT would levied on the option premium if the option was not exercised, payable by the seller. If the option was exercised, the tax would be levied on the settlement price and paid by the buyer.

The increase in short term capital gains from 10% to 15% will continue to dampen the sentiment in the short term.

The FM has also proposed imposing a commodities transactions tax on options and futures on the lines of the STT. According to industry players this is a negative development as the commodity markets are already facing low volumes because of the ban on trading of foodgrains and other reasons. This will be an additional blow to industry players here and could see transaction costs rising by 20 percent.

In another major policy development initiative the FM has announced Measures to develop the country's financial markets that would include launching exchange-traded currency and interest rate futures. This is being done to foster development of a transparent credit derivatives market, and put in place a mechanism to allow investors to separate and trade the embedded equity options in the form of convertible bonds. The Govt has also modified the tax treatment for Dividend Distribution Tax for parent companies owning subsidiaries companies declaring dividends. The cascading effect of Dividend Distribution Tax from subsidiaries to parent companies has been removed by allowing an offset mechanism. That should help many large corporate as operating subsidiaries are going to be more tax efficient from dividend distribution point of view.

MACRO ISSUES WHICH COULD NOT SEE THE LIGHT OF THE DAY

Some of the macro issues, which did not get mentioned by the Finance Minister in this Budget, included Public Sector Divestment, foreign direct investments increase in Insurance, Aviation, Introduction of REITs (Real Estate Investment Trusts), were not considered.

MARKET OUTLOOK – LONG-TERM POSITIVE

We rate this Budget as a balanced exercise with the focus being on long term sustainable and balanced economic growth. We however believe that in the short term the capital market is unlikely to be impressed by the measures announced by the FM as there are no direct benefits announced for equity investors. The increase in short term capital gains tax from 10% to 15% will continue to dampen the sentiment in the short term.

More specifically from a technical perspective the Nifty on budget day opened 'Flat' and slipped gradually in Red before the Budget presentation. However with some negative announcements following in market witnessed a sharp sell off and Nifty lost almost 192 points from day's high to hit a low of 5098.35. The Nifty recovered most of its losses and finally closed modestly in Red i.e. 61 points or 1.17% lower at 5233.50. Moving ahead our Senior Derivative strategist believes that the NIFTY now clearly is under pressure, with fresh 'Short' positions being created in MARCH series, and the market could well have have to face an Acid test in the range 5100~5050 in next few days.

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We believe that a sustainable follow-up buying would be required to push-up index beyond these levels, which going by the current scenario appears to be unlikely. In view of this a momentous 'down-move' is not ruled out and we could see the NIFTY trading around 4820~4800 over the next 4 weeks.

Liquidity, in the short term particularly from foreign institutional investors (FIIs), would be a key deciding factor. Nevertheless valuations have come down to more normal levels with the markets now trading at 15-16 times the March 2009 earnings. Again not cheap, but if we can grow earnings at near 16-18%, when corporate earnings are declining in most other parts of the world, it does not seem unrealistic.

While sentiments on a shorter term basis would definitely get impacted by stock market movements, the longer term India growth story continues to remain intact and investors would have to accept short term volatility as a fact of life. Smart Long Term Investors should use this market crash as an opportunity to buy strong companies with robust business models with excellent management bandwidth but more important investors need to temper their return expectations and think long term.

SECTORAL BIAS -

We expect the following sectors to benefit from the budget process. These include Automobiles, Capital Goods, Power Equipment, Construction, Cement, Real Estate, Hotels, Retailing, Telecom, Insurance, Food processing, Fertilisers, Oil & Gas/Allied services players

TOP PICKS

Sector	Budget Impact	Top Picks
Automobiles	Positive	Maruti Suzuki, Tata Motors, Mahindra & Mahindra, Ashok Leyland, Hero Honda, Bajaj Auto
Auto Ancillary	Neutral	Ahmednagar Forging
Capital Goods	Neutral	Bharati Shipyard, Cummins India and Kirloskar Oil Engine
Power	Neutral	NTPC
Pharmaceuticals	Positive	Ranbaxy, Indoco Remedies, Elder Pharma and Wockhardt
Telecommunication	Neutral	Gemini Communication

CENTRAL GOVERNMENT FINANCES

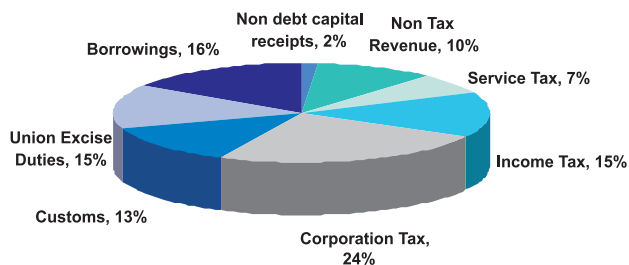
(Rs bn)

	FY07	FY08BE	FY08RE	YOY (%)	FY09BE	YOY (%)
REVENUE RECEIPTS						
Tax Revenue						
Union Excise Duties	1172.66	1302.2	1279.4	(1.75)	1378.7	5.87
Customs	818	987.7	1007.6	2.01	1189.3	20.41
Corporation Tax	1464.97	1684.01	1861.2	10.52	2263.6	34.42
Income Tax	825.1	987.74	1183.2	19.79	1383.14	40.03
Service Tax	381.69	502	506	0.80	644.6	28.41
Taxes of Union Territories	13.41	14.42	13.33	(7.56)	14.5	0.55
Other taxes & duties	2.65	3.15	3.15	0	3.25	3.17
Gross Tax Revenue	4678.48	5481.22	5853.88	6.80	6877.09	25.47
Less: NCCD for financing						
National Calamity Contingency Fund	15	18	18	0	18	0
Less: States' share	1203.77	1424.5	1518.37	6.59	1787.65	25.49
Centre's Net Tax Revenue [A]	3459.71	4038.72	4317.51	6.90	5071.44	25.57
Non-Tax Revenue						
Interest Receipts	201.31	193.08	174.63	(9.56)	191.35	(0.90)
Dividends & Profits	304.38	339.25	361.07	6.43	432.03	27.35
External Grants	24.69	21.35	20.91	(2.06)	17.95	(15.93)
Other Non-Tax Revenue	235.98	264.71	368.42	39.18	308.36	16.49
Non-Tax Revenue of Union Territories	7.24	7.11	8.19	15.19	8.14	14.49
Total - Non Tax Revenue [B]	773.6	825.5	933.22	13.05	957.83	16.03
Total Revenue Receipts [C=A+B]	4233.31	4864.22	5250.73	7.95	6029.27	23.95
CAPITAL RECEIPTS						
Recoveries of Loans	54.5	15	44.97	199.8	44.97	199.8
Misc Capital Receipts	5.28	416.51	361.25	(13.27)	101.65	(75.59)
Debt receipts to finance fiscal deficits	1523.28	1509.48	1436.52	(4.83)	1332.85	(11.70)
Total Capital Receipts [D]	1583.06	1940.99	1842.74	(5.06)	1479.47	(23.78)
Total Receipts [C+D]	5816.37	6805.21	7093.47	4.24	7508.74	10.34
NON-PLAN EXPENDITURE						
Revenue Expenditure						
Interest Payments	1461.92	1,589.95	1719.71	8.16	1908.1	20.01
Defense	515.42	540.78	547.95	1.33	575.93	6.50
Subsidies	534.63	543.3	697.42	28.37	714.31	31.48
Grants to State and U.T. Governments	361.52	384.03	364.31	(5.14)	432.94	12.74
Admin & Social Responsibility	748.34	777.40	800.36	2.95	852.24	9.63
Total Revenue Non-Plan Expenditure [E]	3,621.83	3,835.46	4129.75	7.67	4483.52	16.90
Capital Expenditure						
Defense	344.58	419.22	377.05	(10.06)	480.07	14.52
Other Non-Plan Capital Outlay	108.06	493.14	496.35	0.65	105.67	(78.57)
Loans to Public Enterprises	15.2	7.67	11.22	46.28	6.73	(12.26)
Others	(0.60)	(1.28)	4.12	(421.87)	(1.01)	(21.09)
Total Capital Non-Plan Expenditure [F]	467.24	918.75	888.74	(3.27)	591.46	(35.62)
Total Non Plan Expenditure [G=E+F]	4,089.07	4,754.21	5,018.49	5.56	5074.98	6.75
PLAN EXPENDITURE						
Revenue Expenditure						
Central Plan	1,040.49	1,287.27	1240.42	(3.64)	1514.17	17.63
Central Assistance for State & UT Plans	405.35	456.27	515.69	13.02	583.50	27.88
Total Revenue Plan Expenditure [H]	1,445.84	1,743.54	1,756.11	0.72	2097.67	20.31
Capital Expenditure						
Central Plan	224.61	262.12	246.27	(6.05)	285.37	8.87
Central Assistance for State & UT Plans	56.85	45.34	72.86	60.70	50.82	12.09
Total Capital Plan Expenditure [I]	281.46	307.46	319.13	3.80	336.19	9.34
Total Plan Expenditure [J=H+I]	1,727.30	2,051.00	2,075.24	1.18	2433.86	18.67
Total Expenditure [G+J]	5,816.37	6,805.21	7,093.73	4.24	7508.84	10.34
Revenue Deficit [H+E-C]	802.22	714.78	634.88	(11.18)	551.84	(22.80)
% of GDP	1.9	1.5	1.4	(6.67)	1.0	(33.33)
Fiscal Deficit	1,425.73	1,509.48	1436.53	(4.83)	1332.87	(11.70)
% of GDP	3.5	3.3	3.1	(6.06)	2.5	(24.24)
Primary Deficit	(76.99)	(80.47)	(283.18)	251.91	(575.20)	614.80
% of GDP	(0.20)	(0.20)	(0.60)		(1.10)	

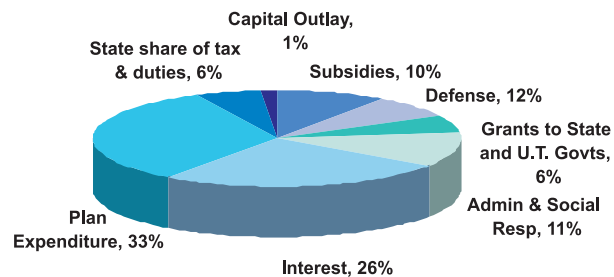
Source: Ministry of Finance, Annual Budget FY2008-09

ECONOMIC DATA CHARTS

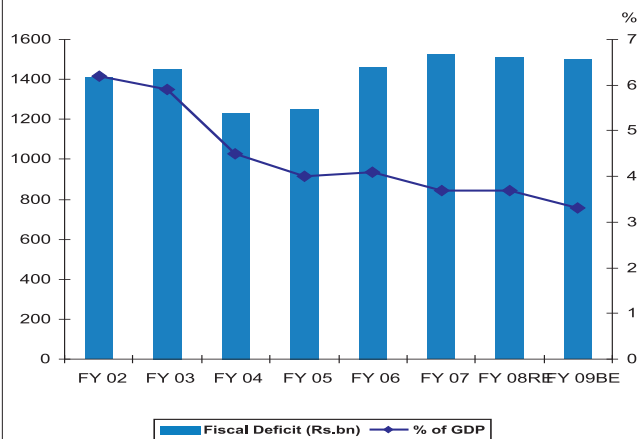
Where the Rupee comes from



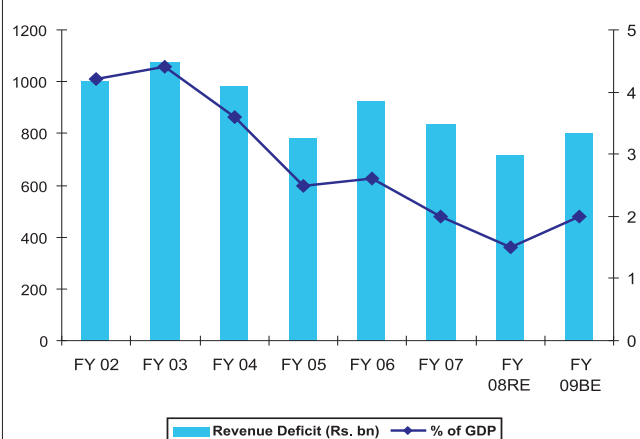
Where the Rupee goes



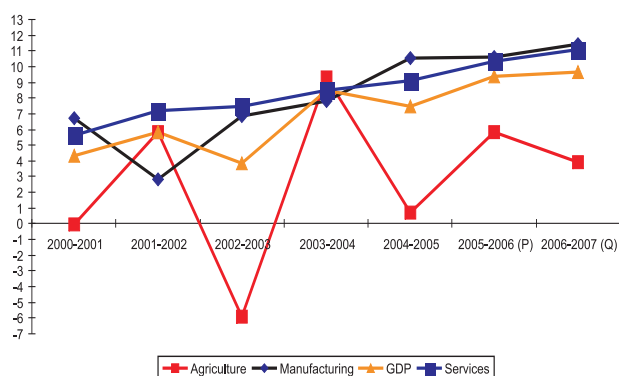
Fiscal deficit (Rs bn)



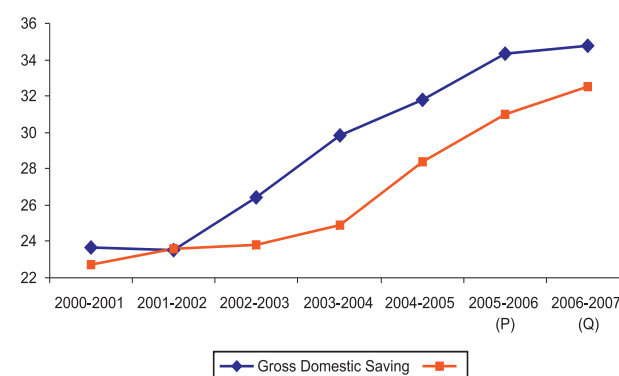
Revenue deficit (Rs bn)



GDP Growth by constituents (%)



Gross domestic savings & capital formation (%)



Source: Government of India, Annual Budget FY2008-09

TAX PROPOSALS

Tax to GDP ratio that was 9.2 per cent in 2003-04, set to rise to 12.5 per cent at the end of 2007-08.

Set to achieve the Budget Estimates of indirect taxes and exceed the Budget Estimates of direct taxes.

Indirect Taxes

CUSTOMS DUTIES

- No change in the peak rate of customs duty.
- Customs duty on Project Imports to reduce from 7.5 per cent to 5 per cent; 4 per cent special CVD to be imposed on a few specified projects in the power sector.
- Customs duty being reduced on steel melting scrap and aluminium scrap from 5 per cent to nil.
- Customs duty to be reduced from 10 per cent to 5 per cent on certain specified life saving drugs and on the bulk drugs used for the manufacture of such drugs. They are also being exempted from excise duty or countervailing duty.
- Customs duty is being reduced on vitamin premixes and mineral mixtures from 30 per cent to 20 per cent and on phosphoric acid from 7.5 per cent to 5 per cent to reduce cost of manufacture of dairy and poultry feeds
- Customs duty being reduced on bactofuges from 7.5 per cent to nil for the benefit of dairy industry and to increase shelf life of milk
- 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 per cent to 5 percent to establish parity between devices used in the information/ communication sector and the entertainment sector
- Customs duty being reduced on specified machinery from 7.5 per cent to 5 per cent to provide fillip to the manufacture of sports goods; duty also being exempted on specified raw materials for sports goods.
- Customs duty to be exempted on rough cubic zirconia and being reduced on polished cubic zirconia from 10 per cent to 5 per cent, in order to encourage value addition and exports by gem and jewellery industry; Customs duty on rough coral being reduced from 10 per cent to 5 per cent.
- Customs duty removed on helicopter simulators to facilitate training of helicopter pilots
- Customs duty reduced on crude and unrefined sulphur from 5 per cent to 2 percent, in order to support domestic fertiliser production
- Customs duty exemption is proposed to be withdrawn on naphtha for use in the manufacture of polymers in order to correct price distortions and revenue losses.
- Naphtha for use in the manufacture of polymers will be subjected to normal rate of 5 per cent. Naphtha imported for the production of fertilisers will continue to be exempt from import duty.
- Export duty on chrome being increased from Rs.2,000 per metric tonne to Rs.3,000 per metric tonne in order to conserve and make it available for value added manufacture in India.

Excise duty

- General CENVAT rate on all goods reduced from 16 per cent to 14 per cent to give a stimulus to the manufacturing sector.
- Excise duty on all goods produced in the pharmaceutical sector reduced from 16 per cent to 8 per cent.
- Excise duty reduced on buses and their chassis from 16 per cent to 12 per cent.
- Excise duty reduced on small cars from 16 per cent to 12 per cent and on hybrid cars from 24 per cent to the general revised rate of 14 per cent.
- Excise duty reduced on two wheelers and three wheelers from 16 per cent to 12 per cent.
- Excise duty is to be reduced from 16 per cent to nil on a few mass consumption items including composting machines, wireless data cards, packaged coconut water, tea and coffee mixes, and puffed rice.
- Excise duty reduction from 16 per cent to 8 per cent on a few more items including water purification devices, veneers and flush doors, sterile dressing pads etc., specified packaging material and breakfast cereals.
- Anti AIDS drug, Atazanavir, as well as bulk drugs for its manufacture are to be exempted from excise duty.
- Excise duty being exempted on end-use basis, on refrigeration equipment (consisting of compressor, condenser units, evaporator, etc) above 2 TR (tonne refrigeration) utilising power of 50 KW and above.
- 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 a valorem, whichever is higher; cement clinkers excise duty at Rs.450 per Metric Tonne.
- Excise duty being increased on packaged software from 8 per cent to 12 per cent, bringing at par with customised software attracting a service tax of 12 per cent.
- Excise duty on both filter and non-filter cigarettes brought on par by applying higher rates on non-filter cigarettes.
- Ad valorem part of the excise duty on unbranded petrol and unbranded diesel being abolished and replaced by an

equivalent specific duty of Rs.1.35 per litre; there will be only a specific duty of Rs.14.35 per litre on unbranded petrol and Rs.4.60 per litre on unbranded diesel; there will be no impact on retail prices.

- NCCD of 1 per cent removed on polyester filament yarn and the levy shifted to cellular mobile phones.

SERVICE TAX

- Four services brought under service tax net namely, asset management service provided under ULIP, services provided by stock/commodity exchanges and clearing houses; right to use goods, in cases where VAT is not payable; and customized software, to bring it on par with packaged software and other IT services.
- Threshold limit of exemption for small service providers increased from Rs.8 lakhs per year to Rs.10 lakh per year; about 65,000 small service providers go out of the tax net.

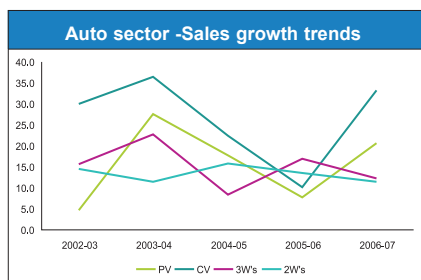
Direct Taxes

- Threshold limit of exemption from personal income tax in the case of all assesses increased to Rs.150000. The slabs and rates of tax are :
 - Up to Rs.150,000 NIL
 - Rs.150,001 to Rs.300,000 10 per cent
 - Rs.300,001 to Rs.500,000 20 per cent
 - Rs.500,001 and above 30 per cent
- In case of a woman assessee, the threshold limit increased from Rs.145,000 to Rs.180,000; for a senior citizens, the threshold limit increased from Rs.195,000 to Rs.225,000.
- No change in the corporate income tax rates.
- No change in the rate of surcharge.
- Senior Citizen Saving Scheme 2004 and the Post Office Time Deposit Account added to the basket of saving instruments under Section 80C of the Income Tax Act.
- Additional deduction of Rs.15,000 allowed under Section 80D to an individual paying medical insurance premium for his/her parent or parents.
- Income Tax Act to be amended to provide that reverse mortgage would not amount to "transfer"; and the stream of revenue received by the senior citizen would not be "income".
- Tax income arising from saplings or seedlings grown in a nursery exempted.
- Business of production of seeds and manufacture of agricultural implements added to the list of companies allowed weighted deduction of 150 per cent on any expenditure on in-house scientific research.
- Benefit of amortization of certain preliminary expenses under Section 35D allowed to assesseees in the services sector.
- Corporate debt instruments issued in demat form and listed on recognised stock exchanges exempted from TDS.
- Crèche facilities, sponsorship of an employee-sportsperson, organising sports events for employees and guest houses excluded from the purview of FBT.
- Parent Company allowed to set off the dividend received from its subsidiary company against dividend distributed by the parent company; provided that the dividend received has suffered DDT and the parent company is not a subsidiary of another company.
- Insert a new sub-section (11C) in Section 80-IB to grant a five year tax holiday to hospitals located in any place outside the urban agglomerations especially in tier- 2 and tier-3 towns; 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.
- Rate of tax on short term capital gains under Section 111A & Section 115AD increased to 15 per cent.
- STT paid to be treated like any other deductible expenditure against business income; 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.
- Law being amended to exclude entities carrying on regular trade, commerce or business or providing services in relation to any trade, commerce or business and earning incomes from claiming that their purposes also fall under "charitable purpose"; Genuine charitable organisations not to be affected in any way.
- Banking Cash Transaction Tax (BCTT) being withdrawn with effect from April 1, 2009.

CST and a Roadmap towards GST

- Central Sales Tax rate being reduced from 3 per cent to 2 per cent from April 1, 2008.
- Roadmap for Goods and Service Tax being prepared for introduction of GST from April 1, 2010.

SECTOR IMPACT ANALYSIS

BUDGET IMPACT : POSITIVE


Source : SIAM

Sales volume Numbers

Volume	YTD 2007	YTD 2008	% Change
Four wheeler			
Maruti Suzuki	540,153	630,730	16.8
M & M	231,580	270,784	16.9
Two Wheeler			
Hero Honda	2,778,104	2,751,117	(1.0)
TVS Motors	1,279,897	1,076,693	(15.9)
Bajaj Auto	2,325,422	2,091,320	(10.1)
Commercial Vehicle			
Ashok Leyland	66621	65110	(2.3)
Tata Motors	462,376	461,725	(0.1)

Source: Reliance Money Research

AUTOMOBILES
BUDGET HIGHLIGHTS

- Excise Duty cut on -
- Buses - From 16% to 12%
- Chassis - From 16% +Rs.10,000 to 12% + Rs.10,000
- Small Cars - From 16% to 12%
- Hybrid Cars - From 24% to 14%
- Electric Cars - From 8% to Nil
- Three Wheeler - From 16% to 12%
- Two Wheeler - From 16% to 12%
- Increase in agriculture credit target by 16% to Rs.280,000 cr from Rs.240,000cr in 2007-08
- Increase in the provision for the National Highway Development Programme (NHDP) from Rs.10,867 crore in 2007-08 to Rs.12,966 crore next year.
- The general CENVAT reduced from 16% to 14% and CST cut from 3% to 2%

IMPACT ON THE SECTOR

- Due to cut in excise duty on Buses, Commercial Vehicles, Small Cars, Hybrid Cars and two wheelers, we expect OEMs to pass on benefit to the end consumers. Auto sector has witnessed sluggish growth during last one year mainly due to higher interest rates and stringent financing norms adopted by financing institutions. The step to cut excise duty is in right direction and will help auto industry. We expect OEMs to cut prices by 2-2.5% on their products which in turn is likely to trigger demand for automobiles in the domestic market over next 5-6 months. We assess major beneficiaries will be small car and two wheeler segments.
- Increase in farm credit target by 20% to Rs.280,000cr would continue to drive demand for tractors and is a positive for companies like M&M.
- Increase in provision for the NHDP will increase the highway network in India and is positive for demand growth for commercial vehicles in the long term.
- Reduction in CENVAT and CST will not bring any substantial benefit but it is likely to reduce the raw material cost to some extent.

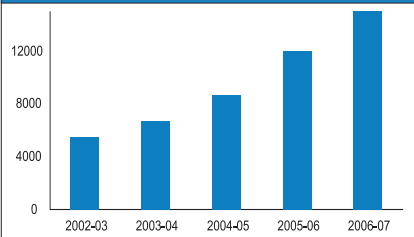
TOP PICKS

- Maruti Suzuki, Tata Motors, Mahindra & Mahindra, Ashok Leyland, Hero Honda, and Bajaj Auto

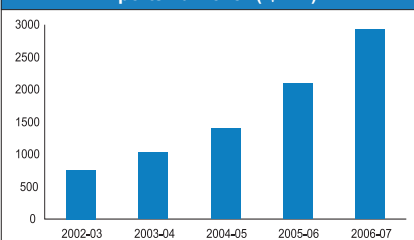
Impact on EPS

Company	Price (Rs)	EPS (Rs)			Reco	Remarks
		FY09E		FY010E		
		Pre Budget	Post Budget			
Maruti Suzuki	867	68.7	68.7	74.6	HOLD	Cut in excise duty positive. Maruti will be the major beneficiary as it commands largest market share of 56% in small cars.
Tata Motors	700	49.3	49.3	57.0	HOLD	Cut in excise duty positive for both commercial vehicles and small cars (Indica and Indigo GS). It commands largest market share of 63% in CVs market
Mahindra & Mahindra	692	44.8	44.8	49.2	BUY	Increase in farm credit is positive for M&M in the long term. Cut in excise duty on three wheelers, LCVs positive
Ashok Leyland	37	3.7	3.7	4.2	BUY	Cut in excise duty positive
Hero Honda	764	49.6	49.6	53.7	HOLD	Cut in excise duty positive
Bajaj Auto	2270	148.6	148.6	159.5	HOLD	Cut in excise duty positive
TVS Motors	44	2.1	2.1	2.8	HOLD	Cut in excise duty positive

Source: Reliance Money Research

BUDGET IMPACT : NEUTRAL**AUTO ANCILLARY****AUto Component Industry Turnover (\$Mn)**

Source : ACMA

Exports Turnover (\$ Mn)

Source: ACMA

BUDGET HIGHLIGHTS

- Reduction in excise duty from 16% to 14% on buses, commercial vehicles, three wheelers, small cars and two wheelers
- Customs Duty on polyester tyre cord reduced from 10% to 5%

IMPACT ON THE SECTOR

- Reduction in excise duty would be positive to some auto ancillaries and it will also be positive in the long term for auto ancillaries which derive higher replacement market demand.
- Reduction on customs duty on polyester tyre cord positive for tyre manufacturers

TOP PICKS

- Ahmednagar Forgings

Impact on EPS

Company	Price (Rs)	EPS (Rs)			Reco	Remarks
		FY08E		FY09E		
		Pre Budget	Post Budget			
Ahmednagar Forgings	193	22.7	22.7	27.0	BUY	Beneficiary of likely increase in demand in domestic market due to excise duty cut

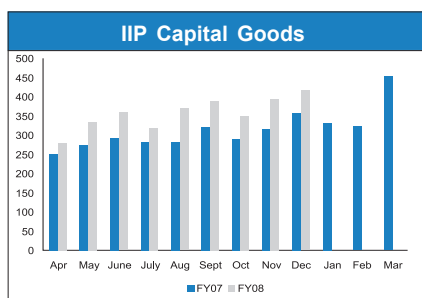
Source: Reliance Money Research

BUDGET IMPACT : NEUTRAL**BANKING****BUDGET HIGHLIGHTS**

- For 2008-09, agriculture credit target is set at Rs.280,000 crore, with short-term crop loans continued to be disbursed at 7% per annum; initial provision of Rs.1,600 crore made for interest subvention in 2008-09.
- Complete waiver of all loans that were overdue on December 31, 2007 and which remained unpaid until February 29, 2008 for marginal farmers and small farmers; One time settlement (OTS) scheme in respect of other farmers for all loans that were overdue on December 31, 2007 and which remained unpaid until February 29, 2008; Rebate of 25 per cent against payment of the balance of 75 per cent under OTS; About 3 crore small and marginal farmers and about one crore other farmers to benefit from the scheme; Total value of overdue loans being waived estimated at Rs.50,000 crore and the OTS relief estimated at Rs.10,000 crore. The scheme to cover all loans disbursed by scheduled commercial banks, regional rural banks and cooperative credit institutions up to March 31, 2007 and overdue as on December 31, 2007.
- Exchange-traded currency and interest rate futures to be launched and transparent credit derivatives market to be developed with appropriate safeguards; Tradability of domestic convertible bonds to be enhanced through the mechanism of enabling investors to separate the embedded equity option from the convertible bond, and trade it separately; Development of a market-based system for classifying financial instruments based on their complexity and implicit risks to be encouraged.

TOP PICKS

- The impact of waiver of loans to marginal farmers and small farmers should be neutral as government will provide the amount waived as liquidity over the three year time. It should be further noted if right liquidity support would be provided then this measure would reduce the NPAs of the public sector banks.
- Expansion of bond market will encourage banks to diversify their asset exposure. The measure will deepen the corporate bond market further.

BUDGET IMPACT : NEUTRAL
CAPITAL GOODS
BUDGET HIGHLIGHTS


- Fourth Ultra Mega Power Projects to be awarded soon and new 5 UMPPs will bring to the bidding stage.
- General project Import rate has been reduced from 7.5% to 5%
- Exemption of 4% additional customs duty withdrawn on power generation projects, transmission, sub-transmission and distribution projects, and specified goods for High Voltage transmission projects.
- The plan outlay for Ministry of Power at Rs.40,460cr in 2008-09 from Rs.30690cr, mainly for NTPC, NHPC, DVCL etc.
- Budgetary support for APDRP maintained at Rs800crs in 2008-09.
- Raised allocation for Rajiv Gandhi Grameen Vidyutikaran Yojana from Rs3900crs to Rs5500crs
- Subsidy allocation for non-central PSU shipyards and private sector shipyard has been increased to Rs60crs in 2008-09 from Rs28crs in 2007-08.
- Renewable Energy of 2603 MW Grid-Interactive Power Capacity addition targeted
- Excise duty exempted on refrigeration equipment of capacity 2TR (tonne refrigeration)

IMPACT ON THE SECTOR

- Five new ultra mega power projects and initiatives taken by Ministry of Power will improve the demand for power equipment suppliers and transmission companies
- Reduction in project import rate is applicable to industrial projects; power transmission, sub-transmission and distribution projects; power transmission projects of 66KV and above; and airport development projects, metro rail projects, port development projects, railway electrification projects, digital cinema development projects etc. It would reduce the project cost for the companies.
- Withdrawal of 4% additional customs duty exemption available on power generation projects, transmission, sub-transmission and distribution projects, and specified goods for High Voltage transmission projects would be beneficial for domestic equipment manufacturers.
- Higher allocation to Ministry of Power for NTPC, NHPC etc would increase the demand for power equipments.
- Budgetary support for APDRP will help to monitor power usage and is likely to benefit meter manufacturers
- Increase in allocation for Rajiv Gandhi Grameen Vidyutikaran Yojana will be beneficial for equipment suppliers
- Increase in subsidy allocation for non-central PSU shipyards and private sector shipyards is positive direction for private shipbuilding players like Bharati Shipyard Ltd. as it reduces the uncertainty of extension of subsidy offered by government to private shipbuilding players.
- 2603MW target for renewable energy beneficial for companies like Suzlon etc.
- Manufacturers of refrigeration equipment especially retail units are likely to benefit from excise duty exemption.

TOP PICKS

- Bharati Shipyard, Cummins India and Kirloskar Oil Engines

Impact on EPS

Company	Price (Rs)	EPS (Rs)			Reco	Remarks
		FY09E		FY010E		
		Pre Budget	Post Budget			
Bharati Shipyard	639	56.0	56.0	85.3	BUY	Increased allocation for subsidy is positive for the shipbuilding industry
Cummins India	338	19.5	19.5	22.6	BUY	Positive due to higher spending on infrastructure
Kirloskar Oil Engines	114	9.3	9.3	11.3	BUY	Positive due to higher spending on infrastructure

Source: Reliance Money Research

BUDGET IMPACT : NEUTRAL**CEMENT****BUDGET HIGHLIGHTS**

- 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.
- There is no change in rate of duty on bulk cement manufactured and cleared by mini-cement plants, which remains unchanged at Rs.250 PMT.
- Excise duty on cement clinkers is being increased from Rs.350 per tonne to Rs.450 per tonne.

IMPACT ON THE SECTOR

- The proposal of charging excise duty on bulk cement at Rs 400 per tonne or 14% ad valorem on bulk cements may cause slight increase in bulk cement prices but the industry will not be affected, as producers will be able to pass on this increase to customers.
- Similarly, rising excise duty on clinker will have marginal impact on the cement prices as well as the industry.

BUDGET IMPACT : POSITIVE**EDUCATION****BUDGET HIGHLIGHTS**

- Education allocation up by 20% hike from Rs 28,674 crore to Rs 34,400 crore
- Allocation for Sarva Shiksha Aiviyan stood at 13100 crore
- Higher Education: more institutions in the 11th plan.
- Navodiya Vidyalayas to start up in 6,000 districts
- Rs 100 crore to be given to the Information Technology ministry to set up national knowledge centers,
- New IIT in Andhra, Bihar, Rajasthan
- 16 central universities to be set up in FY09
- FY09 allocation for secondary education stood at 4554 crore
- Allocation of Rs 100 crore to IT ministry to link knowledge institutes
- Allocation of Rs 750 crore for upgrade of ITIs in FY09
- Skill development programmes for knowledge intensive industry through public and private partnership, total expenditure estimated at Rs 15000 crore, Government is proposed to put initial capital of Rs 1000 crore.

As expected Education Sector has got one of the top priorities in the Union Budget 2008-09, allocation has been increased across the streams.....

IMPACT ON THE SECTOR

- As expected Education Sector has got one of the top priorities in the Union Budget 2008-09, allocation has been increased across the streams, and Government has commented on further improving the quality of education standard in India in order to make it knowledge driven society. Players operating in the sector like NIIT, Educomp, Aptech, Core Projects and Technologies, Everonn expect to get benefited from the increased allocation in the sector.
- Going forward, we believe with India steadily moving towards a more knowledge based economy the spending on education will increase manifold with the households spend on Education moving up the priority list education ought to become the top most priority of Government, thus Education sector is likely to witness more robust growth in the coming years

TOP PICKS

- Core Projects and Technologies

Impact on EPS

Company	Price (Rs)	EPS (Rs)			Reco	Remarks
		FY09E	FY10E			
			Pre Budget	Post Budget		
Core Proj & Tech. Ltd	214	7.4	14.9	14.9	BUY	Increase in budget allocation across the Indian Education streams in the union budget 2008-09 augurs well for growth prospects of Core Projects and Technologies

Source: Reliance Money Research

BUDGET IMPACT : POSITIVE**FMCG****BUDGET HIGHLIGHTS**

- Excise duty reduced from 16% to 8% on packaging material used mainly for processed foods.
- Reduction in the excise duty from 16 per cent to 8 per cent on a few items including water purification devices (HUL recently ventured into the space), specified packaging material, and breakfast cereals. muesli, corn flakes and 'sharbats'.
- Excise duty on non-filter cigarettes have been enhanced to bring them at par with filter cigarettes.
- Excise duty on pan masala, not containing tobacco, with betel nut content not more than 15%, has been reduced from 16% to 8%.
- Central Sales Tax has been reduced from 3% to 2%.

IMPACT ON THE SECTOR

- The pro- rural and pro-agriculture proposals in the budgets would actually put more money in the rural consumers' pockets, would fuel growth in the sector in the medium to long term
- Reduction of excise duty on the above mentioned items is likely to have a positive impact on FMCG companies engaged in production of such goods like HUL, Godrej Consumer Goods, Nestle, Dabur etc.
- Uniform excise structure for filter and non-filter cigarettes, would have slightly favourable impact on ITC, as it does not have presence in non-filter cigarettes.

BUDGET IMPACT : NEUTRAL**HOTELS****BUDGET HIGHLIGHTS**

- 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, provided the hotel should be constructed and start functioning during the period April 1, 2008 to March 31, 2013

IMPACT ON THE SECTOR

- The budget proposal will have marginal impact on the sector, as the proposal would bear fruits in a fairly longer time period.

BUDGET IMPACT : POSITIVE**INFRASTRUCTURE****BUDGET HIGHLIGHTS**

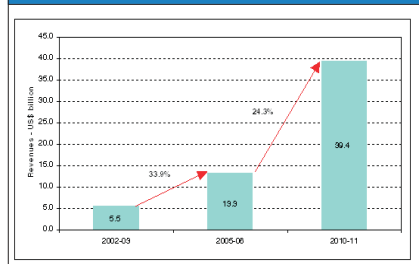
- The Bharat Nirman Programme has continued to get focus from the government. Outlay to the programme has been increased by a 27.13% from INR 24603 crores (2007-08) to INR 31280 crores (2008-09) .
- Budgetary support to (NHDP) National Highway Development Programme has been increased by a 19.31% from INR 10867 crores (2007-08) to INR 12966 crores (2008-09)
- Thrust on irrigation to review agriculture sector continues. Accelerated Irrigation Benefit Programme (AIBP) outlay increased from INR 11000 crores (2007-08) to INR 20000 crores (2008-09).
- Irrigation and Water Resources Finance Corporation (IWRFC) proposed to be set up with capital of INR 100 crores contributed by the Central Government, to fund long gestation major and medium irrigation projects.
- Allocation for (JNNURM) Jawaharlal Nehru National Urban Renewal Mission has been increased by a 25.24% from INR 5482 crores (2007-08) to INR 6866 crores (2008-09)
- Rural Infrastructure Development Fund (RIDF XIV) corpus to be raised in 2008-09 to INR 14000 crores from INR 12000 crores last budget.
- Rajiv Gandhi Drinking Water Mission - enhance the allocation to INR 7300 crores in 2008-09 as against INR 6500 crores in 2007-08.
- Accelerated Power Development and Reforms Project (APDRP) INR 800 crores to be provided in 2008-2009.

IMPACT ON THE SECTOR

- Bharat Nirman one of the central governments flagship programme has six components Roads, Telephone connection, Irrigation, Water Supply, Housing and Electrification. Increased outlay to the programme will facilitate investments in all the sub segments.
- Focus on irrigation, NHDP, JNNURM and power through various funds to encourage construction activity in these sectors.
- Overall, the increase in the budgetary allocation to the various segments of infrastructure is positive for the construction companies.

BUDGET IMPACT : NEGATIVE
INFORMATION TECHNOLOGY
BUDGET HIGHLIGHTS

- There was no extension in tax benefits U/S 10A/10B, tax holiday for IT companies under STPI is going to expires on March 2009.
- Excise on packaged software hiked to 12% from 8%

Growth in Indian IT Services Export


Source: Industry

IMPACT ON THE SECTOR

- As expected Tax benefits U/S 10A and 10B has not been extended, Effective tax rates for the companies would increase by 300-400 bps in FY10 and beyond. Large players will not much impact as they are rapidly expanding into SEZ, however small and medium companies are more likely to be adversely impacted.
- There is nothing in the union budget 2008-09 for the Indian IT sector to cheer about, expect sector to take more beating in the medium term. In the medium term, we expect IT sector to underperform market indices, till the time it gets more clarity on the impending US IT budgets coupled with trending down of rupee appreciation.

TOP PICKS

- Infosys, TCS and Satyam

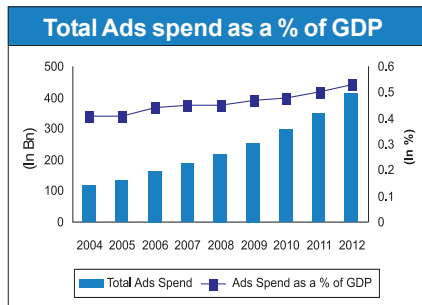
Impact on EPS

Company	Price (Rs)	EPS (Rs)		Reco	Remarks
		FY09E			
		Pre Budget	Post Budget		
Infosys Technologies Ltd	1545	97.3	97.3	HOLD	With the non extension of STPI tax benefits, effective tax rates of the companies expected to go up by 300-400 bps in FY10, which would reduced the net margins of the companies.
Tata Consultancy Services	874	62.7	62.7	BUY	
Satyam Computers Ltd	434	32.8	32.8	BUY	

Source: Reliance Money Research

BUDGET IMPACT : NEUTRAL
MEDIA AND ENTERTAINMENT
BUDGET HIGHLIGHTS

- Customs duty on convergence products to be reduced from 10% to 5% to establish parity between devices used in the information/ communication sector and the entertainment sector.
- Specified parts for the manufacture of set-top boxes are also exempt from customs duty, on end-use basis, from 7.5% to nil.



Source: Industry

IMPACT ON THE SECTOR

- Specified parts for the manufacture of set-top boxes are also exempt from customs duty, on end-use basis. No direct Impact to listed companies, however domestic Set Top boxes manufacturer will be benefited.
- As expected union budget 2008-09 has a neutral impact on the sector, nevertheless on a longer term perspective, we expect Indian media and entertainment sector to show strong growth prospects.

BUDGET IMPACT : NEUTRAL**METALS****BUDGET HIGHLIGHTS**

- Reduction in customs duty on iron / steel melting scrap from 5% to Nil
- Reduction in customs duty on aluminium scraps from 5% to Nil.
- Export duty on chrome being increased from Rs.2,000 per metric tonne to Rs.3,000 per metric tonne
- General CENVAT rate on all goods reduced from 16% to 14%

IMPACT ON THE SECTOR

- Reduction in custom duty on steel scrap will have marginal impact on the steel sector as the share of steel scrap in the domestic steel industry is low. Like wise the abolishing of duty on aluminum scrap will have no impact at all, as the aluminum scrap hardly gets traded in the country.
- Increase in the export duty would encourage conservation of chrome ores and this would benefit alloy steel manufacturers (including stainless steel companies) such as Jindal Stainless, Shah Alloys etc.
- The reduction in the CENVAT rates would definitely result in decline in metal prices, but it will not have a significant impact on the sectors as the excise duty on metals sold is MODVAT'able.

**BUDGET IMPACT :
MARGINALLY POSITIVE**
OIL & GAS AND ALLIED SERVICES
BUDGET HIGHLIGHTS

- Excise duty on unbranded petrol is fixed at a specific rate of Rs.14.35 per litre (Rs.13+Rs.1.35) instead of the ad-valorem duty of 6% + Rs.13 per litre.
- Excise duty on High Speed unbranded Diesel is fixed at a specific rate of Rs. 4.60 per litre instead of the ad-valorem 6% + Rs.3.25 per litre.
- Customs duty exemption on Naphtha for use in the manufacture of polymers will be withdrawn and be subjected to normal rate of 5%. However, naphtha imported for the production of fertilisers will continue to be exempt from import duty.
- Reduction of customs duty on project imports from 7.5% to 5%. Central sales tax has been reduced from 3% to 2%.

IMPACT ON THE SECTOR

- Fixing a specific rate by abolishing the ad-valorem tax would help retailers positively if Oil prices rise. With increasing global oil prices, excise duty will remain fixed, and would not rise with increased prices. So with the likely rising price trend, Retailers like HPCL, BPCL, IOC, etc would be positively impacted.
- Reduction of CST Central sales tax by 1% and peak excise duty by 2% will have neutral revenue impact for the industry, as they are likely to be passed on to the customers.
- The withdrawal of duty exemption on naphtha would positively impact the refining companies like Reliance Industries but would impact negatively polymers Manufacturers.
- Customs duty reduction on project imports would help cut project cost at new refineries, pipelines and oil/gas field developments for both public and private sector firms who have invested heavily in oil/gas field developments.

BUDGET IMPACT : NEUTRAL**POWER UTILITIES****BUDGET HIGHLIGHTS**

- The gross budget support for RGGVY scheme is improved from Rs 3983 crore to Rs 5500 crore and the support for the APDRP has been maintained at Rs 800 crore with added recommendation for setting up of a national fund for transmission and distribution.
- Setting up of a regulator for the coal sector is recognized but no tax sops has been extended for the coal mining initiative by the utilities.
- Exemption from 4% additional duty of customs been withdrawn from power generation projects (other than mega power projects), transmission, sub-transmission and distribution projects, and goods for high voltage transmission projects

IMPACT ON THE SECTOR

- Enhanced Budget Support for RGGVY scheme, maintained support for APDRP scheme and maintenance of the tax sops extended to Power Finance Corporation and Rural Electrification corporation will give effective support to the up coming generation projects in the country. So revenue outlook for the sector will remain buoyant.
- The imposition of 4% SAD on imported equipment provides some partial direction for domestic manufacturing in higher KV transmission and distribution equipments

TOP PICKS

- NTPC

Impact on EPS

Company	Price (Rs)	EPS (Rs)		Reco	Remarks
		FY09E			
		Pre Budget	Post Budget		
NTPC	201.75	10.3	10.3	BUY	Indirect benefits through improved capex in T&D sector

Source: Reliance Money Research

**BUDGET IMPACT :
MARGINALLY POSITIVE**
PHARMACEUTICALS
BUDGET HIGHLIGHTS

- Budget Allocation for Healthcare increased by 15% to Rs.165.34 bn. Allocated Rs. 10.42 bn in 2008-09 to eradicate polio in the high risk districts in Uttar Pradesh and Bihar.
- Excise duty reduced from 16% to 8% on all pharmaceutical goods manufacture. But the excise duty on Anti-AIDS drug ATAZANAVIR and the bulk drugs for its manufacture has been fully exempted.
- Customs duty on specified life saving drugs reduced from 10% to 5%, also exempted them totally from excise duty or countervailing duty.
- Proposed for weighted deduction of 125% on any payment made to companies engaged in research and development for out sourced research activity.
- Grant 5 year tax holiday U/s: 80-IB (11C) hospitals to be set up anywhere in India, except certain specified urban agglomerations, and especially in tier-2 and tier-3 towns in order to serve the rural hinterland. This window will be open for the period April 1, 2008 to March 31, 2013, during which the hospital must commence operations.

IMPACT ON THE SECTOR

- Increased allocation of funds towards Healthcare would have positive impact for the sector, while the allocation to eradicate polio would impact Pancea Biotech (being the largest supplier of Polio vaccines) positively.
- The rationalization of excise duty would make the medicines affordable and could see volume growth in domestic formulations. So it's an indirect sectoral positive. But the domestic pharma corporates may not benefit much, as most of the peers has already shifted their operation to Excise free zones.
- Reduction custom duty on life saving drugs impact MNCs (like Aventis, GlaxoSmithkline etc) positively.
- With the 125% weighted deduction for outsourced R&D activity, the small and marginal players (without in-house R&D center) would be benefited.
- 5 year tax holiday is positive for Corporate hospitals like Fortis Healthcare, Wockhardt hospitals etc, as these players are entering into un explored II-tier towns and cities.

TOP PICKS

Ranbaxy , Indoco Remedies Ltd, Elder Pharma, Wockhardt

Impact on EPS

Company	Price (Rs)	EPS (Rs)			Reco	Remarks
		FY08E	FY9E			
			Pre Budget	Post Budget		
Ranbaxy	446	20.8	27.1	27.1	BUY	Increased allocation of fund to healthcare and rationalization of excise duty would make the medicines affordable and could see volume growth in domestic formulations. So it's an indirect sectoral positive.
Indoco Remedies Ltd	276	42.0	53.4	53.4	BUY	
Elder Pharma	376	38.0	45.8	45.8	BUY	
Wockhardt	337	38.0	45.2	45.2	BUY	

Source: Reliance Money Research

BUDGET IMPACT : NEUTRAL**REAL ESTATE****BUDGET HIGHLIGHTS**

- Five year holiday from income tax being granted to two, three or four star hotels established in specified district having UNESCO declared "World Heritage Sites"
- Five year tax holiday to hospitals located in any place outside the urban agglomerations especially in tier II and tier III cities section 80-IB sub section (11C).

IMPACT ON THE SECTOR

- Five year tax holidays will encourage construction of hotels.
- No major offering to the sector, the budget stands neutral to the sector.

BUDGET IMPACT : NEUTRAL**TELECOMMUNICATION****BUDGET HIGHLIGHTS**

- CVD is removed on imported Data/Broadband Cards but SAD is maintained at 4%. 4% SAD is maintained on PCMCIA/USB/PCI Express Ports but these products got exemption from CVD and Excise duty. Excise duty on manufactured Broadband Cards is completely removed.
- Allocation hiked to Rs 1680 crore for Department of IT from 1500 crore (07-08) with increased spending on Network Infrastructures.

IMPACT ON THE SECTOR

- Reduction of custom and excise duty on selected equipments will have a positive sign for the telecom service providers so far as service penetration is concerned. However no positive provision on the service tax front is negative for the sector. Therefore the budget remained neutral for the telecom services.
- The increased spending on the SWAN networks and setting up of a nationwide knowledge network is a positive sign for the network equipment and service providers.

TOP PICKS

- Gemini Communication

Impact on EPS

Company	Price (Rs)	EPS (Rs)		Reco	Remarks
		FY09E			
		Pre Budget	Post Budget		
Gemini Communication	180.7	21.9	21.9	BUY	Increased spending in broadband & SWAN projects

Source: Reliance Money Research



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Equities: Trading through Reliance Securities Limited | NSE SEBI Registration Number Capital Market :- INB 231234833 |
BSE SEBI Registration Number Capital Market :- INB 011234839 | NSE SEBI Registration Number Derivatives :- INF 231234833
Commodities : Trading through Reliance Commodities Limited | MCX member code: 29030 | NCDEX member code: NCDEX-CO-05-00647|
NMCE member code: CL0120 Mutual Funds : Reliance Securities Limited | AMFI ARN No.29889

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