

BUDGET 2011-12

2011-12
BUDGET



IMPACT ON INDUSTRY

- UNION BUDGET 2011-12
- ECONOMIC SURVEY 2011-12

BUDGET HIGHLIGHTS 2011

INCOME TAX

1. Basic exemption limit for individuals increased to INR 180,000 (for resident women below the age of 60 years exemption limit retained at INR 190,000).
2. Age limit for qualifying as senior citizen reduced from 65 years to 60 years and basic exemption limit increased to INR 250,000.
3. Basic exemption limit of INR 500,000 applicable for senior citizens of the age of 80 years or more.
4. Deduction in addition to limit of INR 100,000 specified under section 80CCE available to employees in respect of contributions (upto 10% of salary) made to notified pension scheme by the Government or any other employer.
5. Surcharge on domestic companies reduced from 7.5% to 5%.
6. Surcharge on foreign companies reduced from 2.5% to 2%.
7. Weighted deduction for contributions made to national laboratory or a University or IIT or a specified person for scientific research, increased to **200%** from **175%**.
8. Activities in the nature of trade, commerce or business or any related activities, pursued for advancement of object of general public utility is "charitable purpose", if annual receipts from such activities do not exceed INR 2.5 million (previous limit INR 1 million).
9. MAT rate increased from 18% to 18.5% of book profit (plus applicable surcharge and education cess).
10. Contributions made to national laboratory or a university or IIT or a specified person for scientific research, increased to 200%.

11. Tax holiday sunset clause for power sector extended to 31 March 2012.
12. Tax holiday for undertakings engaged in commercial production of Mineral oil will not be available for blocks licensed under a contract awarded after 31 March 2011.
13. Income of SEZ developers and units will be subject to MAT.
14. Dividends declared by SEZ developers will be subject to DDT.
15. Introduction of MAT for LLPs at 18.5% (plus education cess) of the adjusted total income. MAT credit allowed to be carried forward and set off against future income-tax liability for a period of ten years.
16. Due date for filing the return of income by a company which is required to report its international transactions in Form 3CEB is extended to 30 November.
17. Notified class or classes of persons exempted from filing the return of income.
18. Time limit prescribed for completion of assessment and reassessments (including search assessments) to exclude time taken for obtaining information from foreign tax authorities under agreement for exchange of information or six months, whichever is less.
19. For determining ALP of international transactions, instead of a 5% variation, the allowable variation will now be such percentage as may be notified by the Government.
20. TPOs granted power of conducting a survey.
21. Transactions with persons located in a NJA brought within the purview of TP provisions.
22. Contribution made by an employer towards a notified pension scheme allowed as a deduction (restricted to 10% of the salary of employees).

23. Transactions with a person located in a NJA subject to certain disallowance/ taxability and higher withholding tax under certain circumstances.
24. The limit for making application before Settlement Commission is reduced from INR 5 million to INR 1 million in certain cases.
25. Settlement Commission empowered to rectify its order passed pursuant to the application before it, within a period of six months from the date of the order.
26. Non residents having LOs in India required to file a statement, giving details of the activities carried out by the LO, within 60 days from the end of the financial year.
27. Revenue authorities empowered to make enquiries and investigate for collection of information on requests received from the Revenue authorities outside India, pursuant to a double taxation avoidance agreement entered into between India and the respective country.
28. Income from infrastructure debt funds notified by the Central Government will be exempt.
29. Interest received by non residents from notified infrastructure debt funds taxable at 5% (plus applicable surcharge and education cess).
30. Rate of tax on income distributed by mutual funds (other than equity oriented funds) to a person other than individual or HUF, increased to 30% (plus applicable surcharge and cess).
31. Dividend received by an Indian company from subsidiary foreign company will be taxed at the rate of 15% (plus applicable surcharge and cess), on gross basis.
32. Deletion of scheme of DIN for correspondence with tax authorities.

CUSTOM DUTY

1. Existing procedure provides for assessment of every bill of entry or shipping bill by the customs officer before removal from port of import or export. Goods will now be allowed to be cleared both for import or export on 'self assessment' basis.
2. Provisions introduced to create first charge on the property of the defaulter for recovery of the customs dues from such defaulter subject to conditions.
3. Peak rate of BCD unchanged at 10%.
4. BCD of 2%, 2.5% and 3% replaced with median rate of 2.5%.
5. Amendments made to allow exports counted towards export obligation under EPCG scheme, to be also simultaneously available for benefits under export incentive schemes. These amendments have been made with retrospective effect.
6. Time limit for demanding customs duty and claiming refund of duty enhanced from six months to one year for all categories of importers.

EXCISE DUTY

1. Exemption to packaged or canned software (from value that represents transfer of right to use) provided to cover supplies made other than under MRP assessment.
2. Interest rate for delayed payment of duty increased from 13% to 18% with effect from 1 April 2011 and penalty provisions amended.
3. Input and input services redefined to exclude specified goods and services. Exempted services to include trading “trading” for the purposes of computing credit reversal.
4. Peak rate of duty maintained at 10%. Basic duty rate increased from 4% to 5% to align with state VAT rates.
5. AED under AED (GSI) removed on sugar, textile and textile products to enable states to levy VAT.
6. Duty of 1% (without input Cenvat) imposed on 130 items, which were earlier exempted. For specified items, option provided to avail credit and discharge duty at 5%.
7. Rule 6(5) of credit rules which specified input services for full cenvat credit availability (unless used exclusively for exempted operations), deleted.
8. Definition of capital goods amended to include goods used outside the factory for generation of electricity for captive use.

SERVICE TAX

1. Interest for delayed payment of service tax increased to 18% a year and penalty provisions amended.
2. Point of Taxation Rules, 2011 introduced, deeming the time of provision of service to be the date of provision of service or date of invoice or date of payment, whichever is earlier.
3. Performance based criteria for determining export of “credit rating agency services”, “market research agency services”, “technical testing and analysis services” and “transport of goods by air/ road/ rail services” changed to “location of recipient of service”.
4. No change in the effective service tax rate of 10.3%.
5. Service tax extended to services by air conditioned restaurants having liquor license and to short term accommodation in hotels.
6. Scope of seven existing service categories expanded, including life insurance service, legal service, health service and commercial training and coaching service.
7. Banking companies or financial institutions obligated to pay an amount equal to 50% of cenvat credit availed. For services related to life insurance or management of ULIP such amount to 20% of credit availed.
8. Provision relating to availability of full Cenvat credit on specified services under Rule 6(5) of cenvat credit rules deleted.
9. “Exempted services” to include trading. For the purposes of availment of pro rata Cenvat credit, value of trading will be the difference between sale price and purchase price of the goods traded.

SALES TAX

No Change in CST rate.

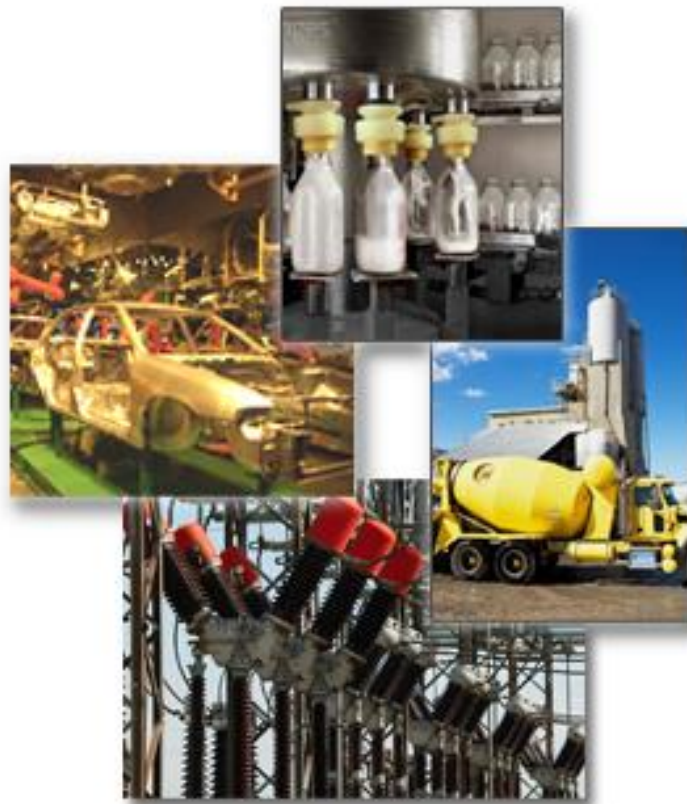
GST

Date of implementation of GST not announced.

IMPACT ON INDUSTRY

- UNION BUDGET 2011-12

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AUTO SECTOR

No price hike, but go green



AUTOMOBILES

The domestic automobiles industry is estimated to grow by more than 30 per cent (in value terms) in 2010-11. Growth is expected to be driven primarily by a strong volume growth in passenger cars and utility vehicles (30 per cent), commercial vehicles (CV), tractors and two wheelers (26 per cent).

- **Strong growth** in industrial production and healthy agricultural production has translated into buoyant freight availability for transporters in 2010-11. This, along with favourable financing environment, has led to healthy growth in sales of CVs. Two-wheeler and passenger car volumes have been driven by higher disposable incomes, launch of new models and increasing rural penetration.
- In 2011-12, the domestic automobile industry is expected to grow at a relatively lower rate of 17-18 per cent given the increasing cost of ownership caused by hardening interest rates and rising vehicle and fuel prices. Revival in key export markets will enable a 19- 21 per cent growth in 2011-12.
- Higher demand and tight supplies of key inputs like steel and tyres have led to an increase in raw material costs, which in turn resulted in a 3-8 per cent increase in vehicle prices in 2010-11. However, manufacturers have not been able to pass on the entire increase in input costs, which has exerted pressure on operating margins.
- Operating margins are expected to decline marginally in 2011-12 with a sustained increase in prices of raw materials like steel and tyres, given the limited flexibility of automobile manufacturers to pass on the price increase to their consumers.

AUTO-COMPONENTS

Healthy growth in domestic automobile production, recovery in exports drive auto component players' revenues in 2010-11

- Auto component production was estimated to grow by 21-23 per cent in 2010-11, led by strong demand from **OEMs** on the back of buoyant sales of commercial vehicles, cars, tractors and two-wheelers. Exports are estimated to grow by 16-18 per cent with revival of automobile production in key global export markets. Growth in production of auto components will moderate to 15-17 per cent in 2011-12. The **OEM** segment is expected to record a growth of 16-18 per cent. Exports are likely to grow by 19-21 per cent, while the replacement segment will grow by 7-9 per cent.
- Raw material cost for auto components has risen by 21 per cent from April-December 2010, leading to a pressure on margins. Operating margins are estimated to fall by 150-200 bps (y-o-y) to 12.2-12.8 per cent in 2010-11. In 2011-12, operating margins are likely to drop further by 90-120 bps due to a continuous increase in the raw material cost and the limited pricing flexibility of auto component players.

Operating margins of tyre manufacturers to remain under pressure

- The *tyre industry's revenues* are estimated to grow by 26-30 per cent in 2010-11, aided by a 14-16 per cent growth in volumes (tonnage) and a 12-14 per cent increase in tyre prices. In 2011-12, growth (in tonnage terms) is projected to be 13-15 per cent, while tyre prices will rise by 12-14 per cent on account of higher input cost.

Raw material prices are likely to remain firm in 2011-12 and will keep margins under pressure.

Two Wheelers/Passenger Cars

Proposals

- Retention of Central Excise Duty at 10%.
- 100% exemption from Basic Customs Duty and Special Additional Duty (SAD) and concessional Countervailing Duty (CVD) extended to specified parts of hybrid and electric vehicles till March 2013; reduction of excise duty from 10% to 5% on kits used for conversion of fossil fuel vehicles into hybrid vehicles
- Marginal reduction in personal tax rates and corporate surcharges.
- Full exemption from excise duty provided to electric vehicles that offer an eco friendly alternative to petrol or diesel vehicles and setting up of NATIONAL MISSION for Hybrid and Electric Vehicles to be launched in association with all stakeholders including car and battery makers. This mission will strive to provide green and clean transport to the masses.

Impact- Positive

- Retention of the Central Excise Duty at 10% is a positive for the auto sector as manufacturers may not have been able to pass on the entire hike, had the duty been increased. The hike in MAT rate and simultaneous reduction of tax surcharge would result only in a marginal increase in tax liability for companies falling under its ambit. The continued thrust of the government on rural and infrastructural development remains a key positive for the sector.
- **National mission** for hybrid and electric vehicles will strive to provide green and clean transport to the masses
- Excise duty exemption on electric vehicles will benefit the electric vehicle manufacturers and also incentivize other OEMs to produce eco friendly electric vehicles.

Proposal-CKD KIT ENGINES

Completely Knocked Down(CKD) KIT, imported with preassembled engines and transmission, to attract higher customs duty of **60%** instead of existing concessional duty of 10%.

IMPACT-Negative

Cars being imported in CKD Condition, particularly popular models of BMW, Mercedes, Audi etc and some of the models of Maruti and Hyundai, where CKD kits are being imported with engines prefitted, would become costlier



Commercial Vehicles

Proposals

- Excise duty remains unchanged at 10%
- Increased thrust on infrastructure spending with improving funding arrangement measures such as increased FII limits for investments in corporate bonds (issued by infrastructure companies) and creation of special vehicles for infrastructure debt funds

Impact: Positive

Over the past 12-15 months, prices of commercial vehicle have increased substantially as OEMs have affected successive price increases averaging over 10% to recover the increase in input material prices and impact of change in emission norms. Thus with any increase in duties, OEMs would not have been in a position to completely pass on the impact in view of increased vehicle prices and hardening interest rates which have started exerting some pressure on fleet operator's cash flows/viability. The increased thrust on infrastructure spending and measures being announced on improving funding however augurs well for commercial vehicle sector from the growth perspective.

TRACTORS

Proposals

- Institutional Credit flow to farmers raised by Rs. 100,000 to Rs. 475,000 crore in 2011-12; interest subvention scheme for crop loans to continue in 2011-12 and additional subvention to farmers who repay crop loan on time increased from 2% to 3%.
- Allocation for Bharat Nirman programme proposed to be increased by Rs. 10,000 crore from the current year to Rs. 58,000 crore in 2011-12; allocation under Rashtriya Krishi Vikas Yojana (RKVY) increased by Rs. 1,105 crore to Rs. 7,860 crore; specific budgetary allocations to aid increased production of pulses, oil palm plantation, vegetables, nutri-cereals.
- Basic Custom Duty reduced from 5% to 2.5% for specified agricultural machinery (including paddy transplanter, cotton picker, sugarcane harvester and laser land leveler) and from 7.5% to 5% for micro irrigation equipment.
- The Government has decided to index the wage rates notified under the NREGA to the Consumer Price Index for Agricultural Labour.
- Full exemption from excise duty to trailers and semi trailers used in agriculture.

Impact: Positive

- The increase in agricultural credit target augurs well for the industry as financing availability remains one of the most critical factors. Additionally, the 3% subvention (earlier 2%) resulting in effective interest rate of 4% is expected to reduce the interest burden on the farmers. The Government's thrust on rural and agricultural development continues with increased allocations to Bharat Nirman programme, which are likely to stimulate demand in medium term. The reduction in custom duty on specified agricultural machinery and micro irrigation equipments is expected to help improve farm mechanization levels in India.
- Excise duty exemption on trailers and semi trailers will boost sale of agriculture machinery.

AUTOMOTIVE COMPONENTS

Proposal

- In December 2010, the government had reduced the basic customs duty on natural rubber (upto the limit of 40,000 tonnes) to 7.5 per cent from 20 per cent for January-March 2011. This customs duty will be revised to 20 per cent or Rs 20 per kg, whichever is lower, effective from April 2011
- The customs duty on Carbon Black Feedstock (which is used to manufacture carbon black) has been reduced to 2.5 per cent from 5 per cent and customs duty on caprolactum, which is used to produce Nylon Tyre Cord (NTC), has been reduced to 7.5 per cent from 10 per cent.
- LED Lights to attract only 5% excise from 10%, exempt from special CVD.
- Full exemption of basic custom duty and concessional central excise of 4% extended to batteries imported for electric vehicles in replacement market.

Impact –Neutral

- No significant impact on the tyre industry.
- The Reduction in custom duty will result into marginally lower input cost.



AVIATION SECTOR

Proposals

- Increase in service tax on air travel
- Budget support of Rs. 1,700 to Ministry of Civil Aviation (MoCA) and Rs. 280.15 crore to Airports Authority of India (AAI)
- Budget support of Rs. 1,200 crore for financial restructuring of National Aviation Company of India Ltd
- SPVs implementing Infrastructure projects, permitted to raise funds from FIIIs through unlisted bonds having a minimum lock-in period of three years
- The FII limit for corporate bonds, having a residual maturity of over 5 years, issued by infrastructure companies raised by an additional USD 20 billion.

Impact-Negative

Increase on service tax rates is a negative as it is likely to be passed on by the carriers in the form of higher air fares, thereby negatively impacting the air traffic levels. However, the Government has continued its thrust on infrastructure spending and PPP projects. This along with budgetary support to MoCA and AAI, and promotion of foreign fund infusion in the infrastructure development could favourably impact the pace of development of airport infrastructure in the country. However, the extent to which long term finances become available for the sector as a result of the policy pronouncements remains to be seen.



CONSTRUCTION AND INFRASTRUCTURE SECTOR

Proposal- Roads & Ports

- Operationalisation of infrastructure debt funds, increased FII investments, lowering of withholding tax
- Increase in budget allocation for road projects a boost for the sector
- Increase in MAT rate from 18% to 18.5%
- Exemption from basic custom duty for bio-asphalt and Tunnel-boring machines used in the construction of national highways.

Impact-Positive

The increased outlay on road transport would favourably impact companies involved in road construction. The Government also seeks to increase the funding options for the infrastructure projects by allowing SPVs to raise funds from FIIs through unlisted bonds and also by creating a dedicated debt funds to raise long term low cost funds from foreign investors. The impact of increase in MAT rate from 18% to 18.5% will be neutralised by the reduction in surcharge rates from 7.5% to 5%. Moreover, exemption provided to specific construction equipment from import duty will provide some respite.

PROPOSAL- LONG TERM INFRASTRUCTURE BONDS

-Deduction in respect of investment in long term infrastructure bonds to the tune of Rs 20000 u/s 80 CCF.

IMPACT-Positive

This would improve credit availability and promote investment in the infrastructure investment sector.

PROPOSAL-MONO RAIL PROJECT.

-Project import status to 'Monorail project for urban transport' at a concessional basic duty of 5% granted.

IMPACT-Neutral

This would result in marginal increase in operating profits.

PROPOSAL-DOUBLING OF REFINANCING TO BANKS

IIFCL to double its refinancing to banks which are lending to infrastructure projects.

IMPACT-Positive

This would improve credit availability for infrastructure projects and enable timely financial closure of the projects which in turn would fasten the infrastructure development.

PROPOSAL-ALLOCATION FOR URBAN & RURAL INFRASTRUCTURE

Higher budgetary allocation for Urban & Rural infrastructure development to schemes like Bharat Nirman etc.

IMPACT-Positive

This would result into higher order inflows for companies involved in infrastructure development.

PROPOSAL-BUDGETARY ALLOCATION FOR ROADS

Higher Budgetary allocation for road development (Up 13%)

IMPACT-Positive

This would result into higher order inflows for companies involved in road construction.

PROPOSAL-TAX FREE BONDS

Tax Free infra bonds worth Rs 30000 crores for enhancement of infrastructure in railways, ports, housing & highways by various undertaking

IMPACT-Positive

Creation of funds impact would be positive.

PROPOSAL-ENHANCEMENT IN FUNDING TO INFRASTRUCTURE SECTOR

To enhance the flow of funds to infrastructure sector, the FII limit for investment in corporate bonds, with residual maturity of over 5 years issued by the companies in infrastructure sector, is being raised by an additional limit of USD 20 billion taking the limit to USD 25 billion, raising the total limit available to FIIs for investment in corporate bonds to USD 40 billion.

IMPACT-Positive

Now FII would be permitted to invest in unlisted bonds with minimum lockin period of 3 years.

PROPOSAL-INTRODUCTION OF NOTIFIED INFRASTRUCTURE DEBT BONDS.

Creation of special vehicles in the form of notified infrastructure debt bonds to attract foreign funds for infrastructure financing.

IMPACT-Positive

Interest payment on the borrowings of these funds will have a reduced withholding tax rate of 5% instead of current rate of 20%,also full exemption of income from the fund.

PROPOSAL-EXTENSION IN SCOPE OF EXEMPTION IN BASIC EXCISE DUTY

Full exemption from basic custom duty has been extended to bio asphalt,an emerging green technology for the surfacing of roads,and specified machinery for its application in the construction of national highway.Tunnel-boring machines required for the construction of highways are also being included in this exemption.

IMPACT-Positive

Growth and reduced costs for highways/roads and construction equipments.

PROPOSAL-INFRASTRUCTURE STATUS FOR COLD STORAGE

Infrastructure status for cold storage changed and capital investment in fertilizer sector.

IMPACT-Positive

Cheer for domestic and global retail chains and opportunity for PPP.



CAPITAL GOODS & ENGINEERING SECTOR

Proposals

- Infrastructure debt fund announced, higher FII limit for investment in bonds
- Increased allocation to Bharat Nirman programme
- Window of raising the funds through tax-free bonds by Infrastructure Finance Companies extended for FY 2011-12
- Reduction in excise duty from 10% to 5% and exemption of countervailing excise duty on the basic components of LED
- Reduction in basic customs duty from 10% to 5% on the solar lanterns; Nil basic customs duty on some of the inputs for Solar modules/cells
- Excise duty exemption for capital goods supplied to UMPPs by domestic suppliers, to make a level playing field against the same applicable on imported capital goods

Impact-Positive

Increased long term funding availability for power and infrastructure projects will facilitate more investment in these sectors and thereby benefit equipment manufacturers, especially electric equipment and construction equipment manufacturers. With continued focus on energy efficiency & green environment, provisions such as excise duty reduction for LEDs, customs duty reduction on solar lanterns & inputs for solar modules would result into improved demand prospects for the players in the lighting segment. Excise duty exemption for supplies to UMPPs to improve competitiveness of domestic electric equipment manufacturers.



POWER SECTOR

PROPOSAL-EXCISE DUTY EXEMPTION FOR MPPs & UMPPs

- Domestic equipment manufacturers for Mega Power Projects (MPPs) and Ultra Mega Power Projects (UMPPs) have been exempted from central excise duty to bring them on an even platform with foreign suppliers which currently enjoy a concessional customs duty of 2.5 per cent and exemption from countervailing duty.

IMPACT-Neutral

This will have a marginal positive impact on domestic equipment manufacturers.

PROPOSAL

- Submit (by USD 20 billion to USD 25 billion) for investment by FIs in corporate infrastructure bonds
- Increased allocation to Bharat Nirman programme, which includes Rajiv Gandhi Vidyut Vitaran Yojna
- Window of raising the funds through tax-free bonds by Infrastructure Finance Companies extended for FY 2011-12
- Increase in MAT rate from 18% to 18.5% and surcharge reduced from 7.5% to 5%; units in SEZ areas will be covered under MAT

Impact- Neutral

Budget measures are expected to improve the availability for long term funding for power sector through creation of infrastructure debt fund, hike in investment limit by FIs on corporate bonds as well as provision of tax-free bonds by infrastructure finance companies; this is a positive for all players across the value chain of power sector. Further, the availability of long term funding is expected to improve from take-out financing scheme being implemented by IIFCL. Impact of levy of MAT on the units operating in SEZ would depend upon the extent of pass-through of such increase through 'change of law adjustment' clause in PPA for competitively bid based tariff. However, this is a negative in case of merchant sales.

TELECOM SECTOR

PROPOSAL-SERVICE TAX

Service tax now payable on gross amount charged to subscriber .

IMPACT-Positive

Ambiguity removed.

PROPOSAL-CIVIL CONSTRUCTION

Credit of duty paid on input or input services used in civil construction not available.

IMPACT-Negative

This will impact telecom infrastructure companies .

PROPOSAL-SERVICE RULES

Point of service rules have been issued .

IMPACT-Negative

The provisions itself and ambiguities are likely to impact cash flows of telecom companies as also increase the difficulty in compliances.

PROPOSAL-DUTY ON MOBILE HANDSET.

The exemption from basic, countervailing duty (CVD) and special additional duty (SAD) on components and accessories of mobile handsets has been extended for the next financial year and a few more items have now been included in its ambit (like battery chargers, headphones, components for manufacture of PC connectivity cables and subparts of parts and components of PC connectivity cable).

IMPACT-Neutral

The extension of duty exemptions would help sustain the current low prices of mobile handsets.



OIL & GAS SECTOR

Proposals

- Provision of subsidy for sensitive petroleum products: Rs. 38,401 crore for 2010-11 (RE) and Rs. 23,656 crore for 2011-12 (BE)
- Continuation of payment of subsidy in cash to the OMCs rather than by way of oil bonds
- Direct payment of subsidy to the people living below poverty line (BPL) on LPG (domestic) and SKO (PDS) based on the final recommendations of task force headed by Mr Nandan Nilekani
- Increase in MAT from 18% to 18.5% and reduction in surcharge from 7.5% to 5%
- Deduction available for commercial production of 'mineral oil' will not be available for blocks licensed under a contract awarded after March 31, 2011
- Decrease in basic customs duty (BCD) on carbon black feedstock and petroleum coke from 5% to 2.5%.

Impact-Negative

The subsidy for 2011-12 seems grossly inadequate and the gross under recoveries could cross Rs. 100,000 crore mark, even assuming 50% share to be borne by the GoI. Hence additional provision of subsidy and deregulation of diesel prices are imperatives for the PSU OMCs to report meaningful profits.

Continuation of payment of subsidy in cash is as per the practice followed since the last budget. However, timely release of cash subsidy continues to be an issue resulting in additional working capital borrowings for the PSU OMCs. Direct payment of subsidy to BPL people will help arrest the subsidy level, although implementation will be a huge challenge.

Clarification on income tax deduction for blocks awarded after March 31, 2011 is negative for the upstream companies considering bidding for NELP IX and beyond, and could be a dampener in attracting oil majors.

Reduction in BCD on carbon black feedstock and petcoke, will marginally reduce the import duty differential for the refineries and hence impact their gross refining margins.

CEMENT SECTOR

Proposals

- Rationalisation in excise duty rates; change from MRP based excise duty to ad valorem excise duty
- Reduction in customs duty on petcoke and gypsum from 5% to 2.5%
- Liberalisation of interest subvention scheme to include housing loans of up to Rs. 15 lakh and Rs. 25 lakh for housing loans in urban areas
- Increased allocation to Bharat Nirman programme

Impact-Positive

The change in excise duty computation is likely to result in a marginal reduction in effective excise duty incidence and thus improved margins for the cement industry, although given the competitive pressures some of it may have to be passed onto the consumers. Reduction in customs duty on petcoke and gypsum is also likely to result in a marginal decrease in input costs. Increase in allocation for infrastructure and increased long term funding availability for infrastructure projects will facilitate more investment in these sectors and thereby boost cement demand. Subventions on housing and increased rural income under NREGA will also boost urban and rural housing demand and in turn demand for cement.



IRON & STEEL SECTOR

Proposals

- Increase in export duty of iron ore to 20%
- Exemption of stainless steel scrap from basic customs duty
- Reduction of basic customs duty on ferro nickel to 2.5%

Impact-Neutral

The proposal to increase the ad valorem export duty on all types of iron ore from 5% (fines) and 15% (lumps) to a uniform rate of 20% would adversely impact the profitability of iron ore exporting companies. This however is likely to benefit domestic steel companies, especially the ones who purchase iron ore fines, because of the likelihood of higher domestic availability of the raw material. The import duty reduction of both stainless steel scrap (2.5% to nil) and ferro nickel (5% to 2.5%) would reduce producers' cost of production, providing a support to their margins.



REAL ESTATE SECTOR

Proposals

- Creation of a Mortgage Risk Guarantee Fund under Rajiv Awas Yojana which would guarantee housing loans taken by Economically Weaker Sections (EWS) and LIG households and enhance their credit worthiness.
- Interest subvention scheme for home loans extended till March 2012. As per the revised scheme, home buyers get one per cent interest subsidy for loans upto Rs.15 lakh.
- Priority sector lending limit increased from Rs. 20 lakh to Rs. 25 lakh



- Increase in provision under Rural Housing Fund to Rs. 3,000 crore from the existing Rs. 2,000 crore to provide housing finance to targeted groups in rural areas at competitive rates
- Setting up of Central Electronic Registry under the SARFAESI Act, 2002 to prevent frauds in loan cases involving multiple lending from different banks on the same immovable property, the same will become operational by March 31, 2011.
- Abolishment of MAT exemption for
SEZ projects

Impact-Neutral

The budget proposals are likely to boost the demand for Rural and Affordable Urban Housing such as creation of a Mortgage Risk Guarantee Fund under Rajiv Awas Yojana to enhance credit worthiness of economically weaker sections and enhancement of Rural Housing Fund; and Liberalization of existing scheme of interest subvention and increase in priority lending limit from Rs. 20 lakh to Rs. 25 lakh. Apart from these, setting-up of a Central Electronic Registry to prevent frauds will increase the overall transparency level. However, abolishment of MAT exemption for SEZ projects is negative for the sector.

PHARMACEUTICAL SECTOR

Proposals

- Increase in weighted reduction from 175% to 200% on R&D activities outsourced to specific institutions
- Excise duty of 1% on certain goods such as medicaments, intravenous fluids and vaccines (not covered under national immunization programme)
- Basic custom duty reduced on lactose used in homeopathic medicines from 25% to 10%
- MAT rates increased from 18.0% to 18.5%; however surcharge decreased from 7.5% to 5.0%, thereby leaving the effective MAT rate unchanged

Impact: Neutral

The impact of most proposals announced during the budget is unlikely to have a material impact on the pharmaceutical sector. Increase in weighted reduction from 175% to 200% on R&D activities outsourced to specific institutions is now in line with exemption available on in-house scientific research. Such measures would continue to support higher investments by research-led pharmaceutical companies in areas of NCE/NDDS related R&D activities.



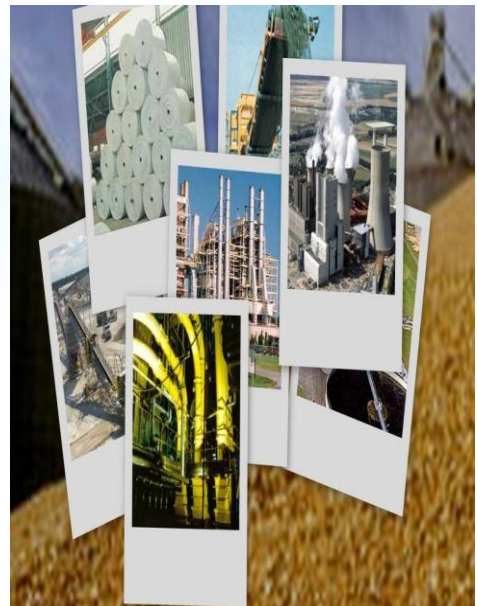
HEALTHCARE SECTOR

Proposals

- Planned allocation increased by 20% to Rs. 26,760 crore for healthcare
- Service tax imposed on services provided by hospitals with 25 beds or more with air-conditioning, on higher-end treatments and diagnostic tests (with 50% abatement)
- Endovascular stents have been fully exempted from basic customs duty of 5%

Impact: Neutral

Contrary to the expectations, there have been no specific announcements on improvement of healthcare infrastructure apart from the 20% increase in planned expenditure on healthcare. The implementation of service tax on aforementioned services in the healthcare space is likely to be passed on to the end-consumers thus having marginal/no impact on the sector.



FERTILISER SECTOR

Proposals

- Extension of Nutrient Based Subsidy (NBS) for urea under consideration
- Direct payment of subsidy to the farmers living below poverty line (BPL) based on the final recommendations of task force headed by Mr. Nandan Nilekani
- Budgetary provision for subsidy: Rs. 57,844 crore (RE 2010-11) and Rs. 53,600 crore (BE 2011-12)
- Continuation of payment of subsidy in cash to the fertiliser companies rather than by way of bonds
- Infrastructure status for capital investments in the fertiliser sector
- Investments linked deductions on Income Tax for fertilisers producers
- Thrust on agriculture through higher agricultural credit and subvention of interest on farm loans and several measures such as mega food parks, cold chains and promotion of oil palm plantations.
- Reduction in basic customs duty from 5% to 2.5% on specified agricultural machinery
- Reduction in basic customs duty from 7.5% to 5% on micro irrigation equipment

Impact-Positive

If implemented, NBS for urea or direct payment of subsidy to the BPL farmers, will be positive for the cost efficient fertilizer companies

Subsidy provision for both 2010-11 and 2011-12 are inadequate. Hence the industry could again face delays in getting subsidy, unless the industry passes on the deficit by way of rise in MRP of the fertilizers which should be huge challenge.

Infrastructure status for the fertilizer sector and investments linked deductions will incentivise the promoters to take up urea plant expansions and participate in the revival process of FCI/HFC plants, provided other pressing issues such as gas availability at competitive prices and certain glitches in the extant policy are ironed out. As these investments are highly capital intensive, the above fiscal sops will improve the returns to the sector participants.

Other measures to incentivise agriculture such as increased farm credit, creation of mega food parks and cold chains, should lead to healthy growth in demand for fertilizers.

HOTELS & TOURISM SECTOR

Proposals

- Service tax on air conditioned restaurants possessing licenses to serve alcoholic beverages
- Service tax on hotel accommodation, in excess of declared tariff of Rs. 1,000 per day
- Revision in service tax rates on air travel: Hike in domestic and international travel (economy class) by Rs. 50 and Rs. 250 respectively. Tax on domestic air travel (other than economy) at standard rate of 10% (in line with international travel).

Impact- Negative

The levy of service tax on room tariffs / restaurants, the impact of which will be passed on to the end customer, is likely to have a detrimental impact on demand as it drives up the effective consumer cost. However, roll out of GST could neutralize this impact. While the incremental tax on air travel will also push up the travel bill, the quantum of the same would be low. However coupled with impact of the increased fuel surcharge, higher travel cost could have a detrimental impact on airline traveller volumes.



RETAIL SECTOR

Proposals

- No announcements related to FDI norms on multi-brand retailing
- Increased investments in improving supply chain efficiencies through investments in Mega Food Parks, storage capacities and cold chains
- Service tax on rentals not removed

Impact- Neutral

The much anticipated announcement on allowing FDI in multi-brand retailing did not materialize, However, the government's thrust on improving supply chain efficiencies through investments in Mega Food Parks, storage capacities and cold chains is a step towards reducing the bottlenecks in modern retailing. The retail trades' expectations of removal of service tax on rentals have however not materialised.

FAST MOVING CONSUMER GOODS SECTOR

Proposals

- Increased allocation towards rural development, agriculture-centric and employment generation schemes
- Infrastructure status for cold storage chains; excise exemption for cold storage equipments
- Marginal reduction in personal tax rates and corporate surcharges.

Impact- Positive

Increased allocation towards rural development and agriculture is a positive for the sector, since it is expected to improve farm production and increase rural consumer spending. The infrastructure status for cold storage chains and excise duty exemption for cold storage equipments may aid investments and improve supply chain efficiencies for the sector. The marginal reduction in personal income tax rates, corporate surcharges and no increase in excise duties (especially in tobacco products) are positive for the sector.

TEXTILES SECTOR PROPOSALS

- Conversion of optional levy of excise duty to mandatory levy (@ 10%) on branded ready-made and made-up garments
- Levy of Excise duty (@ 5%) on automatic and projectile looms. Concessional excise duty rates on few textile intermediaries and goods hiked from 4% to 5%.
- Basic customs duty reduced on raw silk from 30% to 5%. Nylon chips, fibre and yarn and few other chemicals enjoy 2.5% reduction in duty rates while cotton waste is fully exempted from basic customs duty
- Reduction of duty on parts of specified textile machinery from 10% to 5% and full exemption to specified part of sewing machines
- Stimulus to NABARD to the tune of Rs. 3,000 crore (in phases) to co-operative societies expected to benefit handloom weavers. Inclusion of specified tools used in handicraft sector under specified goods list, to enjoy duty free import benefit.

Impact- Neutral

Mandatory levy of excise duty on branded ready-made and made up garments to have an adverse impact on demand, although accessibility to cenvat credit provides cushion. Reduction in customs duty on raw silk, and other intermediaries used in manufacture of textile products expected to support the cost structure of industry players and the financial stimulus to NABARD to assist handloom weavers.

MEDIA & ENTERTAINMENT SECTOR

Proposals

- Concessional basic customs duty of 5% and countervailing duty of 5% extended to import of mailroom equipment by newspaper publishing houses
- Full exemption from excise duty (for domestically manufactured) and countervailing duty on the import of colour, unexposed jumbo rolls of cinematographic films of 400 and 1,000 feet
- Plan to provide Rural Broadband Connectivity to all 250,000 Panchayats in the country in three years
- Marginal reduction in the corporate surcharge

Impact – Neutral

Customs duty rationalization for import of mailroom equipment is positive for the newspaper publishing houses, providing stimulus to the print industry through increase in investments. Exemption from excise duty for domestically manufactured films and CVD on import of cinematographic films to enable cost reductions for the film industry. Rural broadband connectivity to the Panchayats is expected to increase the penetration of internet in the country.

SMALL & MEDIUM ENTERPRISES SECTOR

Proposals

- Exemption to all individual and sole proprietor taxpayers with a turnover up to Rs. 60 lakh from the formalities of audit
- Rationalization of penal provisions of service tax
- Refund of taxes on the services used for export in lines of drawback of duties
- Increased allocation for infrastructure development in rural areas
- Vocationalisation of Secondary Education to improve the employability and increased allocation for skill development of the youth
- Allocation of Rs 5,000 crore to **SIDBI** for refinancing incremental lending by banks to MSMEs
- Conversion of the optional levy into a mandatory levy at a unified rate of 10 per cent on all branded garments
- Levy of service tax on new services like Hotel accommodation, in excess of tariff of Rs. 1,000 per day and air-conditioned restaurants serving liquor.

Impact - Positive

Exemption to formalities of audit for SMEs with a turnover of less than Rs. 60 lakh is likely to have a positive impact on the micro enterprises by ensuring ease in compliance. However, non compliance in future is likely to be dealt severely. Refund of service tax on services used for exports will have a positive impact on MSMEs engaged in export. Increased access to the Sadak, broadband connectivity and power are likely to go a long way in providing an improved environment for providing an impetus to entrepreneurial activities in the agro-based (food processing, warehousing and allied services) industry in the rural and semi-urban areas. However, given the disparity in the way other existing central schemes are being implemented, the growth of SMEs is likely to be similarly skewed in those regions where participation of the local self Govt. is active. Proposal on vocationalisation of Secondary Education if implemented in letter and spirit is likely to have a favorable impact on the overall growth of the economy through availability of skilled labour to meet the growing needs of the MSME segment. Increased allocation to SIDBI will lead to increased availability of funds for the MSME sector. However, since a large percentage of the entities in manufacturing of branded garments, hotels and restaurants fall under MSME segments, their margins are likely to come under pressure.