

Budget Highlights:

In what would be the last budget of current UPA Government, FM has tried to please the “AAM AADMI” with keeping fiscal prudent intact. But in this course we believe he has sacrificed investment in infrastructure development to some extent.

Write-off of loans to small and marginal farmer, reduction in income tax for middle class people on account of change in tax structure & substantial reduction in excise duty on daily consumable item like medicine ready food articles etc will help UPA government to target the Vote Bank of farmer and middle class people.

Fiscal deficit target of 2.5% against 3.1% revised estimate of 2007-08 (might have kept cushion for VIth pay commission) and across the board reduction in excise duty from 16% to 14% with major reduction in excise duty on consumables to control inflation will target fiscal prudence for the economy.

But in meeting these two targets FM had to sacrifice some allocation & divert his focus from infrastructure development.

Major changes in the tax structures is as follows:

Custom Duty(CD)

- o No change in the peak rates of CD, as Rupee has appreciated by 9.8% since April 2007.
- o Reduction in CD on “Project Imports” from 7.5% to 5.00%. However a 4% special CVD is imposed on a few specified projects in power sector.
- o Reduction in CD on Steel melting scrap and Aluminum scrap from 5% to NIL.
- o Reduction in CD on Specified life saving drugs from 10% to 5% and totally exempt them from ED and Countervailing Duty.
- o Reduction in CD on Vitamin premixes and Mineral mixtures from 30% to 20% and on phosphoric acid from 7.5% to 5%.
- o “Bactofuges” (used in milk processing) are exempted from CD.
- o Specified parts of Set top boxes and specified raw materials for use in the IT/electronic hardware industry to be exempted from CD.
- o Reduction in CD on Convergence products from 10% to 5%.
- o To encourage exports of Gems and Jewellery exemption from CD on Rough Cubic Zirconia. Reduction in CD on polished cubic zirconia and on rough coral from 10% to 5%.
- o Reduction in CD on Crude and Unrefined Sulphur from 5% to 2%.
- o Withdrawal of Exemption on Naptha used in manufacture of Polymers and subject to a levy of 5% CD. However Naptha imported for the production of fertilisers will continue to be exempt from import duty.
- o Export Duty on Chrome Ore to be increased from Rs. 2,000 per metric tonne to Rs. 3,000 per metric tone.

Excise Duty (ED):

- To encourage manufacturing sector, FM has proposed to reduce general CENVAT rate on all goods from 16% to 14%.
- Reduction in ED on all goods produced in Pharmaceutical Sector from 16% to 8%.
- Reduction in ED on Buses and their Chassis from 16% to 12%.
- Reduction in ED on Small Cars from 16% to 12% and on Hybrid cars from 24% to 14%.
- Reduction in ED on Two Wheelers and Three Wheelers from 16% to 12%.
- Reduction in ED on Paper and paper products from 12% to 8%
- Reduction in ED on composting machines, wireless data cards, packaged coconut water, tea and coffee mixes, and puffed rice from 16% to NIL.
- Reduction in ED on water purification devices, veneers and flush doors, sterile dressing pads, specified packaging material, and breakfast cereals from 16% to 8%.
- Exemption from ED on anti AIDS drug, Atazanavir, as well as bulk drugs for its manufacture.
- Exemption from ED on Refrigeration equipment above 2 tonne, utilizing power of 50 KW and above.
- Bulk cement will now attract ED of Rs.400 per MT or 14% ad valorem, whichever is higher. Cement clinkers will be liable to ED of Rs.450 per MT.
- Increase in ED on Packaged software from 8% to 12% to bring it on par with customized software which will attract a service tax of 12%.
- Non Filter cigarettes to be levied ED equivalent to duty levyable on Filter Cigarettes.
- Ad valorem part of ED on unbranded petrol and unbranded diesel will be replaced by an equivalent specific duty of Rs.1.35 per litre. Henceforth, 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.
- 1% NCCD on Polyester Filament Yarn is removed.
- 1% NCCD on Cellular Mobile Phones is levied.

Central Sales Tax (CST)

- CST reduced from 3% to 2%

Service Tax

- Service Tax rate kept unchanged at 12%
- Service tax Exemption limit for small service providers to be raised to Rs.10,00,000 from Rs.8,00,000
- Extension of service tax to:
 - Asset management services provided under ULIP
 - Services provided by stock/commodity exchanges and clearing houses
 - Services for supply of goods(machinery, equipment and appliances) not regarded as sale
 - Customized software provided for use in the course of business or commerce(only domestic services)

Income Tax

- o Income tax Rate for Individuals

	Individual	Women	Senior Citizen
Basic Exemption limit	Rs.150000	Rs.180000	Rs.225000
10% rate	Rs.150001 to Rs.300000	Rs.180001 to Rs.300000	Rs.225001 to Rs.300000
20% rate	Rs.300001 to Rs.500000	Rs.300001 to Rs.500000	Rs.300001 to Rs.500000
30% rate	Rs.500001 and above	Rs.500001 and above	Rs.500001 and above

- o Rate of tax on Short term capital gains increased to 15% from 10%.
- o No change in corporate Income tax rate.
- o No change in surcharge.
- o Senior Citizen Savings Scheme 2004 and Post Office Time Deposit Account have been added as eligible investments under Sec.80C.
- o Additional Deduction of Rs.15000 under Sec.80D to individual paying medical insurance premium for his/her parent or parents.
- o Reverse mortgage not to be treated as transfer. This will help Senior citizens to borrow loan.
- o Benefit of amortization of preliminary expenditure under sec.35D extended to services sector.
- o 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.
- o Five year tax holiday granted to hospitals located in any place outside urban areas (especially in tier-2 and tier-3 towns) if operation commences between April 1, 2008 to March 31,2013.
- o Five year Tax holiday granted to two, three or four star hotels established in specified districts having UNESCO-declared 'World Heritage Sites' if the hotel is constructed and commences operation between April1,2008 to March 31,2013.
- o Interest payable on corporate debt instruments issued in dematerialised form and listed on recognized stock exchange exempted from TDS.
- o Expenses for sponsorship of an employee sportsperson, organizing sports events for employees, day care centre for children of employees and guest houses excluded from FBT.
- o 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.
- o Banking Cash Transaction Tax (BCTT) to be withdrawn w.e.f. 01.04.2008.

Budget Impact on Sectors and companies:
Sector: Automobile

Budget proposal	Sector Impact	Company Impacted
Cut in Excise Duty of 3 Wheelers to 12% from 16%	Will Bring Down the cost & improve the margins & Profitability	Positive For Bajaj & M&M
Cut in Excise Duty of 2 Wheelers to 12% from 16%		Positive For Bajaj, Hero Honda & TVS Motors
Cut in Excise Duty on Small Car to 12% from 16%		Positive For Maruti & Tata Motors Positive for Sona Koyo Steering
Cut in Excise Duty on Hybrid Car to 14% from 24%		Positive For Maruti , Tata Motors & M&M
Cut in Excise Duty on Buses & Chasis to 12% from 16%		Positive For Ashok Leyland, Tata Motors, M&M, Swaraj Mazda
Higher Agricultural Credit	Will Increase Farm Equipment Sales	Positive For Punjab Tractors & M&M

Sector: Banking & Finance

Budget proposal	Sector impact	Company impacted
Credit for dividend distribution tax (DDT) paid by subsidiary company to reduce DDT burden of holding company	Positive	Positive for companies with large subsidiaries like Kotak Bank, ICICI Bank, HDFC Bank, HDFC
Banking cash transaction tax withdrawn	Positive as burden of processing BCTT is avoided	All the banks
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. Total value of overdue loans being waived estimated at Rs. 50,000 crore and the OTS relief estimated at Rs.10,000 crore.	Positive as NPAs will be realized as the government assured reimbursement	Positive for banks active in agriculture sector mainly PSU's
Agriculture credit target for 2008-09 set at Rs.2,80,000 crores. Short-term crop loans will continue to be disbursed at 7 per cent per annum.	Positive, as it will increase the loan disbursement of the banks.	Positive for banks active in agriculture sector
STT allowed as expenditure instead of reduction from tax liability	Negative for stock broking community having large arbitrage book.	Edelweiss Capital - Negative

 -Stocks Under Coverage

Sector: Cement

Budget proposal	Sector Impact	Company Impacted
Excise duty rates on bulk cement and packaged cement brought on par	Negative for bulk cement supplier	Negative for Grasim, Ambuja Cement, ACC
Increase in the duty of Cement clinkers to Rs.450 per Metric Tonne.	Negative impact on Cement companies	Negative for Ultratech Cement, Kesoram Industries

Sector: Engineering

Budget proposal	Sector Impact	Company Impacted
Capital expenditure for defence increased by 27% from revised estimate of Rs 37705 Crs in FY 2007-08 to Rs 48007 Crs in FY 2008-09.	Positive for defence equipment suppliers.	BEL, NELCO- Positive
Exemption from ED on Refrigeration equipment above 2 tonne, utilising power of 50 KW and above.	Positive for compressor Manufacturer	Kirloskar Pneumatic Co

Sector: Fertilizer & Chemical

Budget proposal	Sector Impact	Company Impacted
Reduce the customs duty on crude and unrefined sulphur from 5 per cent to 2 per cent.	This will bring down raw material cost resulting into better margins.	Positive for Deepak Fertilizer, Tata Chemicals, Oswal Chemicals
The reduction in customs duty on phosphoric acid from 7.5 percent to 5 percent	Marginal positive	This is Positive for GSFC
Seed companies's to get 150% deduction on R&D expenses	Seed companies generally need huge R&D expenses & so will be benefitted largely by this move	Positive for Monsanto & Advanta
Fertilizer subsidy to be continued. Govt to move to nutrient based subsidy regime	This will result in higher demand for Fertilizers	Positive for RCF, National Fertilizer, Nagarjuna Fertilizer, Zuari Ind.

Sector: FMCG & Food Processing

Budget proposal	Sector Impact	Company Impacted
Custom Duty on Bactofuges reduced from 7.5% to NIL.	Positive	Positive for Heritage Foods, Britannia.
Excise duty on goods of mass consumption such as packaged coconut water, Tea and Coffee mixes reduced to Nil and on Sharbats, Cornflakes, bulgur wheat reduced from 16% to 8%	Positive	Positive for HUL, TATA Tea, Nestle. and Mcleod Russel.
Excise duty to be at par on both filter and non-filter cigarettes.	Negative	Negative for GTC Industry.
Excise duty fully exempted on milk containing edible nuts with sugar or other ingredients.	Positive	Positive for Nestle.
Excise duty on ink for writing instruments such as white board markers, higher lighter pens, paint markers, magic pens reduced from 16% to 8%.	Positive	Positive for Camlin Ltd., Pidilite Industries and Todays Writing Products Ltd.

Sector: Hotel

Budget proposal	Sector Impact	Company Impacted
A 5 years income tax holiday for two, three & four star hotels that are established in specified districts having UNSECO declared world Heritage sites. The above mentioned hotels should be constructed and start functioning within April 1, 2008 to March 31, 2013.	Positive	Positive for Indian Hotels, Asian Hotels, East India Hotels and Hotel Leela Venture.

Sector: Infrastructure / Construction

Budget proposal	Sector Impact	Company Impacted
Additional irrigation potential of 500,000 hectares to be created; outlay to be increased from Rs.11,000 crore to Rs.20,000 crore (increase of 82%)	Companies involved in irrigation projects will benefit	IVRCL - Positive Nagarjuna Construction Company
Agreements of World bank with states of Tamil Nadu, Andhra Pradesh and Karnataka for \$738 million for an area of 900,000 hectare to repair, renovate and restore water bodies.	Positive for Companies involved in irrigation projects and manufacturing of DI Pipes	- Positive Pratibha Industries - Positive Jain Irrigation – Positive Patel Engg – Positive
14 new irrigation projects have been approved by the Government under the Irrigation and Water Resources Finance Corporation (IWRFC) with an initial capital of Rs.100 crore contributed by the Central Government.	Positive impact because a regulatory framework which will reduce procedural delays in the projects	Electrosteel Casting - Positive
Provision for Bharat Nirman to increase from Rs.24,603 crore to Rs.31,280 crore. (Increase of 27%)	Positive for all the infrastructure development companies	Larsen & Turbo, Jaiprakash Associates , GMR Infrastructure & Punj Llyod , GVK Power- Positive
Provision for National Highway Development Programme to increase from Rs. 10,667 crore to Rs. 12,966 crore. (increase of 22%)	Positive for company executing Road projects Lower allocation on account of more BOT Projects	All road construction companies (IVRCL, NCC, GMR Infra , HCC) – Positive

Sector: IT

Budget proposal	Sector Impact	Company Impacted
Increase in Excise Duty on Packaged software from 8% to 12%	Negative for IT companies selling such Software's.	Negative for:- Crane Software
Customized Software to attract a Service Tax of 12%.	Negative for IT companies operating in domestic market	Negative for:- 3iInfotech, Tanla Solution Omnitech, Goldyne Technologies, Nucleus Software.
The total allocation for the education sector (including NER) will be increased by 20 % from Rs.28,674 crore in 2007-08 to Rs.34,400 crore in 2008-09. Of this, Sarva Siksha Abhiyan will be provided Rs.13,100 crore as against Rs. 10,671 crore in 2007-08 and Secondary Education will be provided Rs. 4,554 crore as against Rs. 3,794 crore in 2007-08.	Positive	Positive for:- Educomp Solutions Everonn Systems. NIIT Ltd. Aptech Ltd. Core Project

Sector: Media and Entertainment

Budget proposal	Sector Impact	Company Impacted
Full exemption from Custom Duty on specified parts of set top boxes from 16%.	This will bring broadcasting equipments like set top boxes on par with rates applicable on telecom equipments & will provide a fillip to platforms like DTH which uses set top boxes & will also encourage domestic production of set top boxes.	Positive for Current Player Dish TV, Hinduja Venture WWIL New Entrants Bharti, Rcom, Sun TV Inox – Neutral Pyramid Saimira – Neutral

Sector: Metal

Budget proposal	Sector Impact	Company Impacted
Reduction in the Custom Duty on Steel Melting Scrap from 5% to 0%	Positive for Medium and Small Steel Industry and Negative for Sponge-Iron Industry	Jindal Stainless Ltd., Usha Martin Ltd.& Adhunik Metallicks Ltd.- Positive Bihar Sponge Iron Ltd., Orissa Sponge & Iron Ltd, Jindal Steel & Power, negative
Higher Irrigation outlay	Positive for Steel Tubes and Pipes Industry	Ratnamani Metals & Tubes -Positive Welspun Gujarat - Positive
Reduction in the Custom Duty in the Aluminium Melting Scrap from 5% to 0%	Positive for Aluminium re rolling mills	-
Increase in the Export Duty of Chrome – Ore from Rs 2000 metric ton to Rs. 3000 metric ton	Negative for Chrome Ore mines	Ferro Alloys Corporation Ltd. - Negative

Sector: Oil & Gas

Budget proposal	Sector Impact	Company Impacted
The 7th round of bidding under NELP VII was launched in Dec 2007 and received bids for 57 blocks. It is estimated that the investment will be between US\$ 3.5 billion to US\$ 8 billion for exploration and discovery.	Positive	This is positive for companies in exploration and production sector like ONGC, Oil India Limited, Aban Lloyd, Shiv-Vani Oil , Alpha Geo, Asian Oil Field, Oil Country Tubular etc
The imposition of a 5 percent custom duty on Naphtha for manufacturing of polymers	Marginal Positive	This will improve refining profits of Reliance Industries.
Reduction in peak excise duty by 2 percent and CST by 1 percent	Positive	Since these are likely to be passed on to customer will have neutral impact on companies.
The replacement of ad valorem portion of excise duty (6.2 percent) on unbranded petrol and diesel by an equivalent specific duty of Rs 1.35 Per Litre.	Neutral	HPCL, BPCL, IOC –Neutral Indraprastha Gas - Neutral

Sector: PHARMACEUTICAL:

Budget proposal	Sector Impact	Company Impacted
The grant of 5 year tax holiday from April 1, 2008 to March 31, 2013 in Tier-2 and Tier-3 towns to set up hospital anywhere in India	Positive	This is positive for Fortis healthcare company, Wockhart Hospitals and Apollo Hospitals
The government has increased the allocation for National Rural Health Mission by 18.50% from Rs 10,169 Crs to Rs 12,050 Cr. 323 district Hospitals have taken up for up gradation.	Positive	This is positive for domestic formulation companies
Custom duty on life saving drugs and bulk drugs reduced from 10% to 5%.	Positive	This reduction in customs duty on selected life savings bulk drugs will be marginally positive. Positive for Glaxo Smith line, Cipla.
The rate cut in Excise duty on all drugs produced from 16% to 8%.	Positive	This will reduce burden on players and will have positive impact on all players in the Pharma Sector. (However, as most large and midsized players set up manufacturing facilities in excise free zones.)
The Excise duty rate on manufacturing of Anti AIDS Drugs, as well as bulk drugs will totally exempted.	Positive	This will benefit players such as Cipla, Matrix, Ranbaxy, FDC, Glaxo Smith line.
The 125 percent deduction on R&D outsourcing expenditure	Positive	This will increase competition among the Indian players

Sector: Power

Budget proposal	Sector Impact	Company Impacted
The UMPP plan for Tilaiya will be awarded shortly. In addition to this the Govt has planned for 5 more UMPPs in Chattisgarh, Orissa, Maharashtra, Karnataka & Tamil Nadu.	Positive for Power generation companies.	NTPC, TATA Power, RPower – Positive Sunil Hitech- Positive
Rajiv Gandhi Grameen Vidyutikaran Yojana will be continued during the Eleventh Plan. Of the total subsidy of Rs 28,000 Crs for the program Govt plans to pay Rs 5500 Crs during FY 2008-09 as opposed to Rs 3945 Crs in FY 2007-08 an increase of 39.42%.	Neutral for Transmission & Distribution Companies	Modison Metals – Neutral Sterlite Optical- Neutral
The expenditure for Accelerated Power Development & Reforms Project increased by 23.08% from 650 Crs in FY 2007-08 to Rs 800 Crs in FY 2008-09.	Neutral for Transmission & Distribution Companies	ABB- Negative Siemens- Negative Voltamp- Positive Power Grid- Positive
A National Fund will be developed to bring about fundamental reforms in the Transmission & Distribution segment.	Positive for Transmission & Distribution Companies	
The customs duty on 'Project Imports' has been reduced from 7.5% to 5% but government has imposed a special countervailing duty of 4% on some specific projects. This gives only a marginal benefit of 1 %.	Positive for Power generation companies	

Sector: Real-estate

Budget proposal	Sector Impact	Company Impacted
Reduction in the excise duty from 16% to 8% on water purification devices, veneers and flush doors.	Positive for Real estate developers involved in the interior decoration of the properties as well	Sobha Developers - Positive Puravankara Projects – Positive Omaxe – Neutral Astral Poly - Neutral
Granted a five year tax holiday under a new sub section (11C) in section 80-IA from income tax to two, three or four star hotels during the period April 1, 2008 to March 31, 2013.	Positive for Real estate developers involved in the hospitality sector as the companies may invest more in this sector	Real estate developers who are involved into hotel development & operation like DLF, Unitech, Brigade Enterprise Parsvnath etc.

Sector: Textile

Budget proposal	Sector Impact	Company Impacted
Technology Up gradation Fund Scheme (TUF's) has been extended in 11 th plan (from April-07 to March-12). Government has increased the provision for textile technology fund to Rs 1090 Cr. from Rs 911 Cr.	Extension of TUF's scheme would lead to large inflow of investment in the textile industry thereby improving the production and efficiency.	Positive for – Raymond, Welspun India Ltd, Arvind Mill
All 30 Textile Parks Approved. Provision for Integrated Textile Parks of Rs 450 Cr.	This will provide better infrastructure facilities, including power, water, road and drainage system. This is a positive step towards making India a hub for textile products and will further enhance additional investment, employment generation and increase in textile production.	Positive for Garment Exporting Company, Gokaldas Exports, Pearl Global, Bombay Rayon

Capital Market

- STT to be allowed as an eligible deduction from business income.
- Deduction earlier available under Sec.88E for STT against tax payable now withdrawn.

Change in levy of STT

- In case option exercised : Liability on buyer and levy is on settlement price
- In case option not exercised : Liability on seller and levy is on premium
- No change in STT rates
- Rate of tax on short term capital gains increased to 15% from 10%.
- Exchange- traded currency and interest rate futures to be launched.
- Commodities Transaction Tax (CTT) to be introduced on the same lines as STT on options and futures.

Commodities Trasection	Rate	Payable By
Sales of an option in goods or an option in commodity derivative	0.017%	Seller
Sales of an option in a goods or an option in commodity derviative, where option is exercise	0.125%	Purchaser
Sale of any other commodity dervative	0.017%	Seller

Financial Health

(Rs. in Cr)	2007-08 Budget Estimate	2007-08 Revised Estimates	2008-09 Budget Estimates	Variance (%)
Revenue Receipt				
Excise Duty	130220	127947	137874	7.76%
Custom Duty	98770	100766	118930	18.03%
Corporate Tax	168401	186125	226361	21.62%
Income Tax	98774	118320	138314	16.90%
Service Tax	50200	50603	64460	27.38%
Other Tax	1757	1649	1776	7.70%
Gross Tax Revenue	548122	585410	687715	17.48%
Less Transferred to National Calamity Contingency Fund	1800	1800	1800	0.00%
Less State share	142450	151837	178765	17.73%
Net Tax Revenue	403872	431773	507150	17.46%
Non Tax Revenue	82550	93325	95785	2.64%
Total Revenue Receipt	486422	525098	602935	14.82%
Capital Receipt				
Non Debt Receipt	43151	40622	14662	-63.91%
Debt to finance Deficit (Deficit)	150948	143653	133287	-7.22%
Total Capital Receipt	194099	184275	147949	-19.71%
Total Receipt	680521	709373	750884	5.85%
Expenditure				
Non-planned				
Revenue Expenditure				
Interest	158995	171971	190807	10.95%
Defense	54078	54795	57593	5.11%
Subsidies	54330	69742	71431	2.42%
Other	116143	116467	128521	10.35%
Revenue Expenditure	383546	412975	448352	8.57%
Capital Expenditure				
Defense	41922	37705	48007	27.32%
Other	49953	51169	11139	-78.23%
Capital Expenditure	91875	88874	59146	-33.45%
Total Non planned Expenditure	475421	501849	507498	1.13%
Planned Expenditure				
Budget support for Central Plans	154939	148669	179954	21.04%
Central Assistance for State & UT plans	50161	58855	63432	7.78%
Total Planned Expenditure	205100	207524	243386	17.28%
Total Expenditure	680521	709373	750884	5.85%
Revenue Deficit	71478	63488	55184	-13.1%
Revenue Deficit as % of GDP	1.50%	1.40%	1%	
Fiscal Deficit	150948	143653	133287	-7.2%
Fiscal Deficit as Percentage of GDP	3.30%	3.10%	2.50%	

NOTE

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