



Birla Sun Life
Mutual Fund

Analysis of Union Budget 2008-09

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29th Feb 08



Economic Survey: *highlights*



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- GDP growth rate expected at 8.7% in 2007-08 v/s 9.6% in 2006-07
 - Agricultural growth is at 2.6% vis-à-vis 3.8% in '06-07
 - Manufacturing growth is at 9.4 % vis-à-vis 12% in '06-07
- “Maintaining growth at 9 per cent will be a challenge and raising it to two digits will be an even greater one” - Economic Survey***
- Gross domestic savings as a % of GDP has grown from 29.8% in 2003-04 to 35.6% in 2007-08
 - Gross investment to GDP has grown from 28.2% in 2003-04 to 36.3% in 2007-08



Economic Survey: *highlights*



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- Containing inflation while sustaining growth primary Govt. concern
 - Inflation expected to decline from 5.6% in 2006-07 to 4.1% in 2007-08
 - Headline inflation on 16th February, 2008 was 4.89%

- Tax to GDP seen improvement
 - Tax to GDP has improved from 11.4% in 2006-07 to 12.5% in 2007-08.

- State finances improve distinctly
 - States now enjoy a revenue surplus of 0.3% and fiscal deficit of 2.3% of GDP



Government Finances



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	2004-05	2005-06	2006-07	2007-08 RE	2008-09 BE
(Rs. Crore)					
1. Revenue receipts (a+b)	305,991	347,462	434,387	525,098	602,935
(a) Tax revenue	224,798	270,264	351,182	431,773	507,150
(b) Non-tax revenue	81,193	77,198	83,205	93,325	95,785
2 . Revenue expenditure	384,329	439,761	514,608	588,586	658,119
(a) Interest payments	126,934	132,630	150,272	171,971	190,807
3. Revenue deficit (2-1)	78,338	92,299	80,221	63,488	55,184
4. Capital receipts	192,261	158,661	148,999	202,459	140,724
(a) Recovery of loans ^a	62,043	10,645	5,892	4,497	4,497
(b) Other receipts (mainly PSU dis investment)	4,424	1,581	534	36,125	10,165
(c) Borrowings and other liabilities ^d	125,794	146,435	142,573	161,837	126,062
5. Capital expenditure	113,923	66,362	68,778	120,786	92,764
6. Total expenditure [2+5=6(a)+6(b)]	498,252	506,123	583,386	709,372	750,883
(a) Plan expenditure	132,292	140,638	169,860	207,524	243,385
(b) Non-plan expenditure	365,960	365,485	413,526	501,849	507,498
7. Fiscal deficit [6-1-4(a)-4(b)]	125,794	146,435	142,573	143,652	133,286
8. Primary deficit [7-2(a)=8(a)+8(b)]	(1,140)	13,805	(7,699)	(28,319)	(57,521)

- Revenue receipts expected to increase by 14.8%, revenue expenditure by 11.8%
- FM is hopeful of maintaining 8.8% GDP growth

Mutual Fund investments are subject to market risks. Read the offer documents carefully before investing.



Government Finances

	2005-06	2006-07	2007-08 RE	2008-09 BE
Fiscal deficit	4.1	3.4	3.1	2.5
Revenue deficit	2.6	1.9	1.4	1

- FM is projecting a fiscal deficit of 2.5% of GDP in 2008-09. This does not take into account the Rs. 60,000crs debt waiver to farmers and the impact of the 6th Pay Commission. If we factor in Rs. 20,000crs on account of the debt waiver (Rs.60,000crs to be provided over a period of 3 years) and an additional Rs. 25,000crs (internal estimates) on account of the Pay Commission, the fiscal deficit becomes almost Rs. 180,000crs, it would translate into a fiscal deficit of 3.4%.



Key Taxation Proposals



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- 👍 Peak customs duty unchanged
- 👍 General CENVAT on all goods reduced from 16% to 14%
- 👎 Short term capital gains tax increased from 10% to 15%
- 👎 STT paid now treated business expense instead of earlier set off provision against tax liability
- 👎 Commodity transaction tax to be introduced on the same lines as STT
- 👍 Central sales tax reduced from 3% to 2% from Apr 08
- 👍 Banking and Cash Transaction Tax to be withdrawn from Apr 09
- 👉 Corporate tax and dividend distribution tax unchanged
- 👍 Direct tax slab restructured as:
 - Upto Rs.1.5 lakhs - nil (increased from Rs.1.1 lakh earlier)
 - Rs.1.5 – 3 lakhs @ 10%
 - Rs. 3 - 5 lakhs @ 20%
 - Rs.5 lakhs and above @ 30% (net gain of Rs.55,000 to tax payers at highest slab)



Fillip to the debt markets



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- Proposal to launch exchange traded interest rate futures
- Develop a transparent credit derivatives market
- Exempt debt instruments issued in demat form and listed on a stock exchange from TDS



Budget impact - debt markets

- 👍 Participation of banks in the secondary market of corporate bonds will increase after removal of TDS
- 👎 When the adjustment is made for the debt waiver to farmers and pay commission the current deficit figures will deteriorate. This will be negative for the GSec market
- 👍 No comment on inclusion of Oil Food and fertilizer bonds as part of SLR is good for the Gsec market

We feel that Corporate bonds should outperform GSecs



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Sector Impact

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Agri-Inputs

Budget Impact: Positive

Sector outlook: Positive

- Fertilizer subsidy provided at Rs.31,000 crs for 2008-09 against Rs.22,000crs in 2007-08.
- Reduction in custom duty to 5% from 7.5% on phosphoric acid and 2% from 5% on sulphur.
- R&D tax benefit to seeds manufacturing companies.
- Inclusion of seeds in VAT list - marginally negative for seed companies.

Key beneficiaries: Coromandel, Advanta, Kaveri seeds, United phosphorus, Tata Chemicals, Jain Irrigation.

Analyst: Paresh Khandelwal



Automobiles

Budget Impact: Positive

- Excise duty cut to 12% from 16% for:
 - Small cars
 - Two wheelers/ three wheelers
 - Buses and chassis
- Change in the income tax slabs to improve disposable income in the hands of the customers.
- Increase in agriculture focus – loan waiver, thrust on irrigation and further increase in agriculture credit to support tractor segment.

Key beneficiaries: Maruti, Tata Motors, Ashok Leyland, Bajaj Auto, Hero Honda, Mahindra & Mahindra

Analyst: Achala Kanitkar

Sector outlook: Positive



Banking

Budget Impact: Neutral

Sector outlook: Positive

- Loan waiver to marginal and small farmers
- One time settlement giving 25% rebate
 - Loan waivers likely to be reimbursed by government through budgetary support. It is sentimentally negative though it would not impact EPS and Net worth of banks.
- Total amount loans to be waived: Rs.50,000crs
- OTS scheme: Rs.10,000crs
- Banking and cash transaction tax to be removed from Apr 09.

Key companies impacted: All PSU banks

Analyst: Ajay Garg



Cement

Budget Impact: Marginally Negative/ Neutral

Sector outlook: Positive

- Excise duty on bulk cement increase from Rs. 400 / T to higher of Rs. 400/ T or 14% ad valorem
- Excise duty on clinkers increased from Rs. 350/T to Rs. 450/T
- Bulk Cement and Clinker form a very small part of overall sales of cement companies hence the impact is minimal

Key companies impacted: All cement companies

Analyst: Vineet Maloo



Education



Budget Impact: Positive

Sector outlook: Positive

- Education Sector allocation up 20% Y-o-Y at INR 344 bn. Of this, Rs 131 bn is allocated for the Sarva Siksha Abhiyan (SSA)
- Focus also on the upper primary, retention and quality of education

Key beneficiaries: Educomp, Everonn, NIIT and Core Projects

Analyst: Atul Penkar



FMCG



Budget Impact: Neutral

Sector outlook: Positive

- Increase in excise for non-filter cigarettes to bring parity with filter cigarettes.
 - *Marginal impact on ITC; would influence its long-term strategy of converting beedi-smokers.*
- Excise cut on tea and coffee mixes to 8% from 16%
- Rs.40crs allocation under Special Purpose Tea fund for re-plantation
- Rs.20crs to Tea Research institute – no impact

Key beneficiaries: Tata Tea, Nestle, HUL

Marginally negative: ITC

Analyst: Dipika Chheda / Sanjay Chawla



Hotel

Budget Impact: Positive

Sector outlook: Neutral

- Tax exemption to 2,3 & 4 star hotels for new properties established in UNESCO recognized areas.
- The move should be positive for companies in the 4 star space.

Key beneficiaries: Indian Hotels, Kamath Hotels

Analyst: Paresh Khandelwal



Infra / Capital Goods



Budget Impact: Neutral

Sector outlook: Positive

- Higher budget allocation under key schemes like Bharat Nirman etc.
- National fund for power transmission & distribution to be set up
- Customs duty on project imports reduced from 7.5% to 5%. A
- Additional 4% special CVD to be imposed on few specified power projects
- To open bidding for 5 more UMPP subject to support from various states
- Double taxation on dividend distribution removed

Key beneficiaries: BHEL, L&T, Crompton & Greaves, IVRCL, Gammon

Analyst: Ankit Sancheti



Information Technology

Budget Impact: Neutral

Sector outlook: Neutral

- Introduction of 12% service tax on customised software
- Increase in excise duty on packaged software to 12% from 8%
- Service tax on customised software applicable on domestic sales and not applicable to exports
- Both service tax and excise duty are pass through and hence no impact

Key beneficiaries: None

Analyst: Atul Penkar



Media & Telecom

Budget Impact: Neutral

Sector outlook: Positive

- Specified parts of set-top boxes, namely SMPS power board and IR module, for use in manufacture of set-top box, have been exempted from customs duty.
- Customs duty on convergence products to be reduced from 10% to 5%
- Wireless data modems: exempt from excise duty
- Telecom Tower companies were expecting infrastructure status which did not come through.

Key beneficiaries: WWIL, Dish TV, none in telecom.

Analyst: Atul Penkar / Mahesh Patil



Metals

Budget Impact: Neutral

Sector outlook: Positive

- Reduction in Customs duty on Iron & Steel scrap and Aluminium scrap from 5% to nil
- Neutral for large steel companies but negative for merchant sponge iron producers
- Positive for scrap users, specially stainless steel makers
- Neutral for Aluminium.

Key beneficiary: Jindal Stainless

Analyst: Vineet Maloo



Oil & Gas

Budget Impact: Neutral

Sector outlook: Positive

- Excise duty structure on unbranded petrol and diesel changed to specific rate structure.

Petrol	Existing	New	Diesel	Existing	New
Advalorem (6%) (Rs./ltr)	1.42	-	Advalorem (6%) (Rs./ltr)	1.42	-
Specific (Rs./ltr)	13.39	14.78	Specific (Rs./ltr)	3.34	4.78
Total (Rs./ltr)	14.81	14.78	Total (Rs./ltr)	4.76	4.78

- Change is neutral on current crude and retail prices.

Key beneficiaries: None

Analyst: Achala Kanitkar



Pharmaceuticals

Budget Impact: Neutral

Sector outlook: Neutral

- Excise Duty reduced from 18% to 6%
 - Relatively beneficial for MNCs; domestic cos have shifted to excise free locations
- Custom duty on specified life saving drugs and their bulk cut from 10% to 5%
- Custom duty reduced from 30% to 20% on Vitamin premixes for animal food and poultry
- Weighted deduction on outsourced research raised to 125%
- Hospitals set up in Tier II and Tier III towns provided tax holiday for 5 years

Key beneficiaries: MNC pharmaceutical companies

Analyst: Ajay Argal



Paper



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Budget Impact: Positive

Sector outlook: Positive

- Reduction in excise duty for certain units importing pulp from 12% to 8%.
- Reduction in excise duty on certain types of papers from 12% to 8%.

Key beneficiaries: Ballarpur Industries

Analyst: Paresh Khandelwal



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Thank You

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