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The FY11 budget shows government inaction in terms of near-term fiscal consolidation. Cutting the fiscal deficit from 6.9% to 5.5% of GDP in FY11 is a step in the right direction – but this is in line with previous forecasts which have relied on heavy borrowing.

Also, the government has not specified longer term targets for cutting the deficit/debt as percentage of GDP but has pegged fiscal consolidation to a possible double-digit growth in India. Meanwhile, GDP grew 6% in December FY10 quarter lower than 7.9% in the previous quarter.

With the fiscal deficit expected to be still high over the next fiscal year, it is clear that the onus will be on the RBI to hike policy rates and deal with inflation.

On the positive side, the budget has initiated some action to reduce debt, giving banking licenses to private players, capital support to banks, higher allocation to infra, power, roads, higher social spending, rural development spending, broader income tax spreads, and keeping service tax steady.

The implementation of GST and DTC has been postponed to FY12.

Highlights:

Fiscal health

- The budget has pegged fiscal deficit at 5.5% of GDP in FY11 at Rs3,81,408cr and total expenditure at Rs11.09lakh cr.
- The total tax and non-tax revenues are estimated at Rs 6.82lakh cr for FY11. The deficit is much lower than the budgeted estimate for FY10 at 6.8%.
- To meet the shortfall, the government has estimated borrowing of Rs 3.81lakh cr for FY11, lower than FY10's Rs4.01lakh cr.
- Fiscal deficit for 2009-10 is pegged at 6.9% and 7.8% in FY09 (inclusive of oil and fertilizer bonds). The rolling targets for fiscal deficit are pegged at 4.8% in FY12 and 4.1% in FY13.
- The gross tax receipts estimated at Rs7,46,651cr, non-tax revenue receipts at Rs1,48,118cr. The total expenditure is estimated at Rs11,08,749cr, an increase of 8.6% yoy.
- The Plan and Non Plan expenditures in FY11 are estimated at Rs 3,73,092cr and Rs 7,35,657cr respectively. There is 15% hike in plan expenditure and the increase in non plan expenditure is only 6%.
- The actual net market borrowing of the government in FY11 would be lower at aboutRs3,45,010cr.
- No bonds will be issued to oil and fertilizer companies. The government would extend government subsidy in cash – bringing all subsidy related liabilities into government's fiscal accounting.

Taxes

- Proposed budgetary measures will lead to additional indirect tax revenues of Rs46,500cr and will stand to lose direct tax collections of Rs26,000crore. Thus net tax impact will be to the tune of Rs20,500cr.
- Rate reduction in central excise duties to be partially rolled back and standard rate on non-petroleum products hiked to 10% ad valorem (from 8%).
- MAT has been hiked to 18% from 15%.
- Increased individual tax slabs to lead to saving of about Rs50,000. Further additional amount of Rs20,000 deductions allowed, over & above Rs1Lac for investment in long term infra-bonds.
- Corporate surcharge of 10% on domestic companies reduced to 7.5%

Sector-wise implications

BFSI - Positive

Overall positive for PSU banks and NBFC's

- In the budget, FM has tried to address the issue of capital constraint for un-adequately capitalized banks by providing Rs165bn as Tier-I capital. However, failed to address expectations on reducing govt. stake and increasing FII limit in PSU banks. Further, lower than expected government borrowing target at Rs3.45Lacs cr should bring some relief for rising G-sec yields and thus lower impact on interest rate sensitive investment portfolio of banks.
- FM has also extended some measures supporting infrastructure sector, which in a way will further provide fillip to infrastructure financing. Government has confirmed that RBI is working on road-map for giving bank licenses to private players and NBFC's. Overall budget impact on banking sector will be positive.

Budget Measures	Rationale	Impact	Key beneficiaries/Losers
Extension of farm loan repayment period from Dec 31, 09 to June 30, 2010	Relief measure for farmers considering poor monsoon	Positive for PSU banks. This will lead to under-reporting of potential NPA's.	BOB and PNB, who have already included in their Q3FY10 GNPA's have option to reverse the same.
Government to provide Rs165bn as Tier I capital to PSU banks. Also to provide capital support to RRB's	To support PSU banks having overall CAR below optimal 12% and Tier-I capital below 8%. To provide support to ailing RRB's and fund their business growth, who are also mainstay in rural growth and financial inclusion	Positive for PSU banks, RRBs	Central bank, Dena bank, BOM, IDBI, Syndicate, Vijaya, UCO bank
1% interest subvention for farmers hiked to 2%	Relief measure for farmers considering poor monsoon	Neutral for banks	-
1% interest relief for housing loans below Rs10Lacs extended by one year till March 2011	To benefit small house aspirers	No major impact. Already banks are offering loans at lower rates.	-
Other direct/indirect measures:			
Govt. confirmed that RBI is considering giving bank licenses to private players and NBFC	To broaden banking spectrum, increase private participation and also support financial inclusion	Positive for NBFC's	Reliance capital, India Infoline, IDFC, and other NBFCs who are looking to diversify in to banking space
IIFCL expected to double Infra loans refinancing to banks	Support infrastructure financing	Positive	Positive for banks
Additional tax deduction of Rs20,000 on infra-bonds to individuals	To provide relief for individual tax assesses and support infra-funding	Positive	Positive for financial institutions offering infrastructure bonds

Metals and Mining - Neutral

Govt has maintained its focus on infrastructure spending. Such expenditure is expected to maintain strong demand for both ferrous as well as non-ferrous metals.

Budget Measures	Rationale	Impact	Key beneficiaries/Losers
Clean energy cess of Rs50 per tonne on domestic as well as imported coal.	To promote more renewable source of energy	Neutral to Marginally Negative- All ferrous and non ferrous players having CPP could witness marginal hike in their cost of production. Sponge iron players too could witness marginal spike in production costs. Such costs are expected to have minimal impact on the profitability of the sector.	No specific beneficiaries
Hike in excise duty to 10% from 8%.	Marginal withdrawal of stimulus incentives	Neutral- As this hike of 2% is marginal and such excises duty is always a pass through. We can expect Rs500-1000 hike in steel prices.	No specific beneficiaries, as impact is neutral on sector.

IT - Negative

Against industry expectations for extension of tax exemptions for IT companies under sec 10A and 10B under STPI scheme for next 6-7 years, budget drew blank on the issue not extending the benefits, which we believe would be negative for IT companies. Further, increase in MAT rate by 300bps will not have major impact on big IT companies, but likely to have adverse impact on relatively smaller IT companies.

Budget Measures	Rationale	Impact	Key beneficiaries/Losers
No extension of tax exemptions for IT companies under section 10-A and 10-B for 10-year tax exemption under the Software Technology Parks of India (STPI) scheme e Duty	-	Negative	Effective tax rates for the companies would increase by 300-400 bps in FY12. Large players will not have much impact as they are rapidly expanding into SEZ, however small and medium companies are more likely to be adversely impacted.
MAT rate on book profits increased to 18% from 15%	-	Negative	Likely to impact smaller IT companies
Allocation on NREGA and UIDAI projects increased to Rs40,100cr and Rs1900cr respectively	-	Positive	Positive for companies having domain expertise in domestic projects like CMC, TCS, Wipro, Glodyne etc.

Capital Goods - Positive

The Government highlights the need for clean energy with major budgetary measures focused in the renewable space. The plan outlay for renewable energy has been increased by 61% to Rs10bn, with concessional duty of 5% on equipment required for setting up of photovoltaic and solar thermal plants and exemption of excise on inputs required for the manufacture of rotor blades for wind energy generators. No announcement on the import of power equipment side was made in the budget, though reservations have already been made for domestic manufacturers to supply to UMPPs as well as to state governments.

Budget Measures	Rationale	Impact	Key beneficiaries/Losers
concessional customs duty of 5% to machinery, instruments, equipment and appliances etc. required for the initial setting up of photovoltaic and solar thermal power generating units	To support the National Solar Mission	Positive	Moser Baer, Webel Solar
The plan outlay for renewable energy increased by 61% from Rs6.2bn in 2009-10 to Rs10bn in 2010-11.	To establish India as the global leader in solar power	Positive	Moser Baer, Webel Solar, Suzlon Energy
The plan allocation for power sector increased from Rs22.3bn in 2009-10 to Rs51.3bn in 2010-11	To aid faster capacity addition in the power sector	Positive	BHEL, KEC, Kalpataru, L&T, Alstom, Areva T&D
Increase in the allocation for Defence to Rs1473.44bn. This would include Rs600bn for capital expenditure		Positive	BEL, L&T
Exempt specified inputs required for the manufacture of rotor blades for wind energy generators from Central Excise duty.	To push renewable and clean energy	Positive	Suzlon Energy
Setting up of cold storage exempted from service tax	To provide for higher number of cold storages for food and other perishable items	Positive	Kalpataru Power
Excise Duty on CFLs cut to 4%	Push for clean energy	Positive	Havells India
Excise duty increased from 8% to 10%	Partial rollback of stimulus package	Neutral	-

Power : Neutral

The budgetary allocation for the power sector excluding RGGVY has been raised by 130% from Rs22.3bn to Rs51.3bn. The hike in MAT from 15% to 18% would have a neutral impact, as it would be passed on to the end users. A clean energy cess of Rs 50 per tonne would be levied on domestic as well as imported coal. As fuel costs for the power sector are a pass through, we expect power tariffs to rise by 2-3 paise per kwh. On the renewable energy front, the budgetary allocation has been increased by 61% from Rs 6.2bn to Rs10bn.

Budget Measures	Rationale	Impact	Key beneficiaries/Losers
Plan allocation for power sector excluding RGGY doubled to Rs.51.3bn from Rs22.3bn in FY09-10.	To add fresh capacities and expedite the work for the projects under construction.	Positive	NTPC, Relaince Power, Tata Power, Adani Power etc. On the transmission space; BHEL, L&T, Areva, Alstom etc
Clean energy cess of Rs50/tonne on domestic & imported coal	Power tariffs to rise by 2-3 paisa/kw	Neutral	-

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