

## Report Card

The Budget 2006-07 has impacted positively on FMCG, Banking, Textiles, Infrastructure, Paints, Paper, Power and Cement sectors while negatively Oil & Gas and Metal sectors. It was neutral for Information Technology and Pharmaceutical sectors.

### FMCG POSITIVE

#### *Proposals*

- With the intention to converge all the rates at the CENVAT rates at 16%: duty on Aerated drinks has been reduced to 16%.
- Ice-cream, Condensed Milk, Pasta, processed meat, fish, and poultry to be fully exempt from Excise. Duty on ready-to-eat packaged foods & instant food mixes has been reduced from 16 to 8%.
- Food processing to be a priority sector for bank credit, NABARD to create a refinancing window with a corpus of 1000 crores especially for agro-processing infrastructure & marketing development.
- Custom duty on Vanaspati increased to 80%.
- 5% increase in excise duty on cigarettes.
- Reduction in excise duty on footwear (between Rs250-Rs750) from 16% to 8%.

#### *Budget Impact*

- Nestle seems to be the biggest beneficiary of the exemption of 8% excise duty on pasta.
- We expect cigarette companies to hike prices marginally; however we do not foresee any adverse impact on cigarette volumes.
- Bata derives significant revenues from footwear & would thus be one of the largest beneficiaries.

### Banking - Positive

#### *Proposals*

- Bills proposed for amending Banking Laws, setting up Pension Fund Regulatory & Development Authority and for the Insurance Industry.

- Bank Fixed Deposits of over 5 years tenure to be eligible with other savings instruments for claiming tax exemption under Section 80C subject to overall ceiling of Rs 100,000.
- Higher credit flow to agriculture sector of around Rs 1,750bn during FY2006-07.
- Short-term loans up to Rs 300,000 to farmers at reduced interest rates of 7%. For this purpose, the government has proposed to offer subvention to NABARD.
- Special assistance of Rs 848cr to the Jammu & Kashmir State in addition to the State Plan of Rs 2,300cr and additional Central Plan assistance of Rs 1,300cr.
- Conversion of special non-tradable securities into tradable SLR government dated securities.
- Increase in FII investment limits in Government Securities from USD 1.75bn to USD 2bn and Corporate Debt from USD 0.5bn to USD 1.5bn.
- Extending Negotiated Dealing Systems (NDS) to qualified mutual funds, provident funds and pension funds.
- Rationalization of FBT and threshold limit of Rs 100,000 for contribution by an employer to the superannuation fund.

### ***Budget Impact***

- Tax exemption on Banks' Fixed Deposits of over 5 years tenure would make bank deposits more competitive compared to other savings instrument, which in turn would enable the banks to support the strong credit growth by increasing deposit mobilization.
- Overall thrust on agricultural credit would help banks to sustain the buoyancy in credit offtake.
- Loans to farmers at subsidized rates would not majorly impact banks' margins as NABARD would refinance at lower rates through government support.
- Assistance to Jammu & Kashmir State would provide a fillip to the development of the J&K State and in turn benefit J&K Bank, which enjoys a dominant position in the State.
- Conversion of non-tradable securities to tradable securities would help banks in generating more liquidity and also enable it to deploy funds in more productive avenues.

- Increased participation of FIIs augurs well for the bond markets and banks in managing their treasury operations.

## **Pharmaceuticals NEUTRAL**

### ***Proposals***

- There were no announcements specific to the pharmaceutical sector apart from the reduction in customs duties on Anti-AIDS and Anti-Cancer drugs.
- The sector had hoped for excise cuts, which did not materialize.
- Peak customs duty reduced from 15% to 12.5%.
- Distribution of medical samples has come out of the purview of Fringe Benefit Tax.

### ***Budget Impact***

- No major impact on pharmaceutical companies and although the much expected excise cuts did not materialize since most of the companies have facilities in Baddi (HP) it should not come as a disappointment.

## **Information Technology - Neutral**

### ***Proposals***

- The Budget has rationalized FBT by taxing “Tour and Travel” expenses at 5% instead of 20% previously.
- An excise duty of 8% has been levied on packaged software sold over the counter. Customized software and software downloadable from the Internet have been spared from this levy.
- The current tax structure has been kept unchanged which was expected.
- Although the Budget has proposed many infrastructure projects, there was no concrete
- infrastructure action plan to set up software hubs except for the National Urban Renewal Mission (NURM), which is quite general in nature.
- The Budget was also silent on the thrust on higher technical education which would create a pool of professionals to meet the demands of the industry by the year 2010.

### ***Budget Impact***

- Rationalization of FBT on “Tour and Travel” expenses would be marginally positive for the IT industry as a majority of their fringe benefits are due to traveling. The BPOs also stand to benefit from this measure.
- The Budget proposal of Excise duty of 8% on packaged software sold over the counter excluding customized software and software downloadable from the Internet will have a neutral impact on product companies like I-Flex and Infosys as the products of these companies involves a lot of customisation.
- Overall the Budget is neutral for the IT industry.

### **Textiles POSITIVE**

#### ***Proposals***

- Reduction of excise duty on all Man Made Fibre Yarn and Filament Yarn from 16% to 8%.
- Import duty on all man made fibre and yarn reduced from 15% to 10%.
- Reduction in import duty on raw materials such as DMT, PTA and MEG from 15% to 10%.
- Allocation for Technology Upgradation Fund (TUF) enhanced from Rs4350mn to Rs5350mn.
- Rs 1890 mn to be provided for Scheme for Integrated Textiles Parks (SITP).

### ***Budget Impact***

- The 8% excise cut would benefit companies like Vardhman Spinning, Rajasthan Spinning, Banswara Syntex, Sangam India etc. However, at the same time reduction in import duty of man-made fibre and yarn will put some pressure on their price realization.
- Enhanced allocation of Rs1bn to the TUF scheme will help textiles companies to modernize their manufacturing facilities.
- Reduction in import duty of certain key raw materials like DMT, PTA, MEG will put pressure on the price realization of domestic manufacturers like Bombay Dyeing, Reliance Industries, IPCL etc. due to enhanced competition from imports. However, it will have positive impact on companies like Indo Rama and Century Enka, which uses these products as raw materials.

## **Infrastructure - Positive**

### ***Proposals***

- Increased Budgetary support for NHDP from Rs 9,320cr to Rs 9,945cr
- A special accelerated road development programme for the North-Eastern region finalized at an estimated cost of Rs 4,618cr. Allocation for the year 2006-07 is Rs 550cr.
- Development of access-controlled Expressways on the Design, Build, Finance and Operate (DBFO) model of 1,000 km to be developed on following routes viz., Vadodara-Mumbai, Delhi-Chandigarh, Delhi-Jaipur, Delhi-Meerut, Delhi-Agra, Bangalore-Chennai and Kolkata-Dhanbad.
- National Highway Authority of India (NHAI) to be restructured to effectively to handle a large number of Public Private Partnership (PPP) projects.
- India Infrastructure Finance Company Limited (IIFCL) incorporated and first proposal for funds under consideration. Several other proposals for viability gap funding for PPP projects where in principle approval has been granted to three road projects in Gujarat pending final decision.

### ***Budget Impact***

- We are Positive on the sector though no major sops have been provided in the Budget. However, announcement of new projects and faster completion of projects would add to the order book position of companies.

## **Paints POSITIVE**

### ***Proposals***

- Customs duty on paints, dyes, varnishes, inks and titanium dioxide reduced to 12.5% (15%).
- CVD of 4% imposed on all imports.

### ***Budget Impact***

- The reduction in peak customs duty on raw materials would benefit the companies positively, as around 20 per cent of the raw materials are imported and most of them currently attract peak duty.
- The 4% CVD will not impact paint companies since they will be able to claim credit for CVD against payment of excise duty.

## **Paper POSITIVE**

### ***Proposals***

- Excise duty on specified printing, writing & packing paper to be reduced from 16% to 12%.

### ***Budget Impact***

- Reduction of excise duty would surely benefit bigger players like Ballarpur, JK Paper, and TNPL etc, on account of expected increase in demand, also making Indian Paper players globally more competitive.

## **Oil & Petrochemical - Negative**

### ***Proposals***

- Cess on domestic Crude oil production increased from Rs 1800/mt to Rs 2500/mt
- LPG (domestic) included in the list of 'Declared Goods' under the CST Act.
- Customs duty on naphtha reduced from 10% to 5%; Customs duty on naphtha used in the manufacture of specified polymers reduced from 5% to Nil.
- Customs duty on propane and butane unified at 5% from the earlier 7.5%.
- Customs duty on major bulk plastics like PVC, LDPE and PP reduced from 10% to 5%
- Reduction in Customs duty on styrene, EDC and VCM which are the raw materials for plastic from 5% to 2%
- Customs duty on PTA and MEG reduced from 15% to 10%

### ***Budget Impact***

- Increase in Cess on crude oil production will hit ONGC's profits by Rs 1,200cr if not offset by reduction in subsidy burden or through other means.
- Including domestic LPG in the list of 'Declared Goods' will help moderate LPG price.

- Reduction of Customs duty on naphtha will reduce the realization on naphtha for refiners.
- Reduction of Customs duty on propane and butane is a positive for petrochemical companies which use them as feed-stock.
- Reduction of Customs duty on bulk plastics like PVC and on products like EDC, VCM which are inputs for man-made fibers will hit realizations of petrochemical companies.

## **Metals NEGATIVE**

### ***Proposals***

- Customs duty on alloy steel reduced from 10% to 7.50%.
- Customs duty on non-ferrous metals like aluminium, copper, zinc etc. reduced from 10% to 7.50%.
- Customs duty on steel melting scrap raised to 5%.
- Customs duty on ores and concentrates reduced from 5% to 2%.

### ***Budget Impact***

- Reduction in custom duty on alloy steel will adversely impact companies like Mukand.
- Raising of custom duty on steel melting scrap will be positive for companies manufacturing pig iron and sponge iron like Tata Metaliks, Tata Sponge, Jindal Steel and Monnet Ispat. However, it will be negative for companies producing steel through Electric Arc Furnace like Essar Steel.
- Reduction in custom duty on ore will not impact major steel manufacturers, since they are having their captive mines.

## **Power - Positive**

### ***Proposals***

- Tax holidays under Sec 80-IA for Power projects is extended from 2006 to 2010
- Allocation of 20 billion tonnes of reserves of coal for power projects
- Award of five ultra mega power projects of 4,000 MW before December 31, 2006

- Constitution of Empowered Committee of Ministers to accelerate the pace of reforms
- An additional Rs 597cr provided for Non-Conventional Energy
- Removal of Exemption under Section 10(23G) with regards to dividends, interest and long-term capital gains on infrastructure capital fund and companies.

### ***Budget Impact***

- Overall, it is positive for the power sector. The capex announced for the Generation and Transmission & Distribution sector would give the sector a further boost. Also, extension of provision of Section 80-IA till 2010 augurs well for the capacity coming up in the next two-three years. Higher capex for the Power sector would be a positive for all power ancillary companies too.

### **Cement - Positive**

#### ***Budget Proposals***

- Customs Duty on Cement to be reduced from 15% to 12.5%
- Customs Duty on Pet Coke to be reduced from 10% to 5%
- Tax sops on Housing Loans to continue.
- Definition of captive consumption to be amended to allow coal mining by producers with firm supply contracts with steel, cement and power companies
- Continued emphasis on development of infrastructure.
  - Jawaharlal Nehru Urban Renewal Mission to be extended to the states of Maharashtra, MP and Gujarat
  - Allocation/Enhancement of Budgetary support of the proposed projects
  - Development of 1,000 km of access controlled Expressways
  - Speedy implementation of the Golden Quadrilateral Project and North-South, East-West Corridor
  - Allocation of Rs 4,000cr for development of rural roads under the Bharat Nirman scheme

#### **Budget Impact**

- No impact on account of custom duty reduction as the landed cost is significantly higher. Reduction in customs duty on pet coke to benefit manufacturers using pet coke.
- Increase in domestic availability of coal

- Speedy implementation of undergoing projects, development of roads, ports, airports and new projects in the irrigation space will boost the demand for cement going forward.

*Source: Angel Broking and LKP Shares.*