

March 06, 2008

Union Budget 2008 – Key Takeaways

INDIAN ECONOMY: GROWTH, INFLATION

- * India growth story interesting, inspiring
- * Manufacturing, Services to grow 10.7%, 9.4% respectively; Farm growth seen 2.6% FY08
- * 8.7% GDP growth seen for FY08 as per CSO estimates; FM confident of 8.8% GDP growth in FY08
- * FY08 H1 GDP growth was 9.1%; FY08 Q3 growth at 8.4%
- * Savings and Investment rate expected to remain strong in FY08 at 35.6% and 36.3% resp.
- * Focus on managing downside risks to growth with price stability
- * Inflation mainly fuelled by high food prices and capacity constraints; food prices on a rise globally - wheat and rice prices up 88% and 15% resp.
- * Keeping inflation in check remains cornerstone of policy; latest WPI inflation for week ended Feb 16, 2008 jumps from 4.35% in previous week to at 4.89% vs. 4.70% expected.

GLOBAL IMPACT

- * Foreign inflows through FDI and FII route at \$12.7 billion and \$18 billion in Apr-Dec 2007-08
- * Capital inflows in excess of current account deficit; need to be managed more actively
- * Downside risks have increased worldwide; Global markets weak since August, impact on local market not yet clear
- * Govt to monitor foreign fund inflows; augment absorptive capacity of economy in medium term; take steps to sterilise foreign inflows in short term to ensure stability

FISCAL REVIEW

- * FY08 Fiscal deficit to be at 3.1% (expected 3.3%); revenue deficit at 1.4% (expected 1.5%)
- * FY09 fiscal deficit targeted at Rs. 133287cr i.e. 2.5% of GDP; Revenue deficit targeted at Rs. 55184cr i.e. approx. 1% of GDP
- * FY09 non-plan expenditure seen at Rs. 507498 crores; plan expenditure seen Rs. 243386 crores – 32.4% of total expenditure
- * One more year needed to remove revenue deficit; to be removed by 2010
- * FY09 Revenue receipts projected at Rs. 603000cr; Revenue expenditure projected at Rs. 658000cr.
- * FY08 Tax to GDP ratio at 12.5% vs. 9.2% in FY04

DIRECT TAXES

- * Direct tax proposals to be revenue neutral
- * **Short-term capital gains tax on equities or units of equity-oriented funds hiked to 15% vs. 10% earlier**
- * Banking cash transaction tax withdrawn w.e.f. Apr 01, 2009
- * STT for commodity futures trades introduced; to be called Commodities Transaction Tax (CTT)
- * STT paid, to be allowed as a deductible expense against business income and not as a rebate against tax liability
- * STT paid on Options, that are not exercised, shall be calculated on the Option premium only

Personal Taxation

* Income Tax slabs changed. All income tax payers get a minimum relief of Rs. 4,000 p.a. and maximum relief of Rs. 44000 p.a.

Category	Basic Exemption Limit (Rs.)	Taxable Income (Rs.)	Rate of taxation (%)
All Individuals, AOPs, HUFs, BOIs	150000	Basic exemption limit – 300000/-	10
Women (below 65 yrs of age)	180000	300000 – 500000	20
Senior Citizens	225000	500001 & above	30

* Senior Citizens Savings Scheme and Post Office Time Deposit Account made eligible for deduction u/s. 80C

* Reverse mortgage – stream of revenue/cash flows received by Senior citizens not to be taxed as income; Also, reverse mortgage shall not be treated as transfer giving rise to capital gains

* Additional deduction of Rs. 15000 u/s. 80D for individual paying medical insurance premium for parents.

Corporate Taxation

* Income from saplings or seedlings grown in a nursery to be exempt from tax

* Manufacturers of Seeds and Agri implements to get weighted deduction of 150% on in-house R&D exp.

* 125% weighted deduction to companies outsourcing their R&D

* No TDS to be deducted from interest received on corporate debt instruments that are dematerialised and listed on recognised exchanges

* FBT - Creche facility, guest houses, sponsoring employee-sportsperson and organizing sports events for employees excluded from FBT; Valuation of fringe benefits on festival celebrations reduced to 20%.

* No change in rates of corporate income tax, 10% surcharge thereon, securities transaction tax and dividend distribution tax (DDT);

* Holding cos. can setoff dividend received from subsidiaries against dividend distributed by them, for calculating DDT.

* 5 yr tax holiday for hospitals set up anywhere in India except 7 urban agglomerations and certain specified districts – hospital should commence operations during Apr 01, 2008 to Mar 31, 2013

* 5-yr tax holiday for 2, 3, 4-star hotels in UNESCO declared World Heritage sites – should be constructed and start functioning between Apr 01, 2008 to Mar 31, 2013

* Income of Coir Board to be exempt from income tax u/s. 10(29A) (h)

INDIRECT TAXES

* Goods & Services Tax to come into effect from Apr 1, 2010

* Central sales tax reduced to 2% from April 2008 vs. 3% now

* General CENVAT rate cut from 16% to 14%; Reduction/Increase in Excise duty proposed for specified sectors

* Peak Customs duty for non-agricultural products remains unchanged at 10%; Reduction/Increase in customs duty proposed for specified sectors

* Indirect tax proposals to result in revenue loss of Rs. 5900cr.

Sector Wise Impact of Changes in Customs Duty

- * **Farming, Dairy & Cattle: Positive** - Duty on consumables for cattle and poultry feed cut to 20% vs. 30%; on phosphoric acid cut to 5% vs. 7.5%; on bactofuges for dairy industry cut to NIL vs. 7.5%
- * **Pharmaceuticals: Positive** - Duty on bulk drugs used for producing certain life saving drugs, cut to 5% vs. 10%
- * **Infrastructure/Engineering: Positive** - Duty on project imports cut to 5% vs. 7.5%. Special CVD of 4% on specified projects in power sector
- * **Steel and Aluminium: Mildly Positive** - Duty on steel melting scrap and aluminium scrap cut to 0% vs. 5%
- * **Fertilizers: Positive** - Duty on crude and unrefined sulphur (used for fertilisers) cut to 2% vs. 5%
- * **Gems & Jewellery: Positive** - rough cubic zirconia exempted from import duty; customs duty on other consumables cut to 5% vs. 10%
- * **Media Broadcasters: Positive** - Duty exemption for specified parts of set top boxes and specified raw materials for IT/Electronic hardware; duty on media convergence products cut to 5% vs. 10%
- * **Refineries & Petrochemicals: Positive for net producers of naphtha, Negative for net consumers or importers of naphtha other than fertilizers** - Duty exemption on Naphtha withdrawn, to be charged at 5%; naphtha imported for producing fertilizers to be exempted

Sector Wise Impact of Changes in Excise Duty

- * **Pharmaceuticals: Positive** - Duty on all goods produced in pharma sector cut to 8% vs. 16%; Anti-AIDS drug including bulk drugs used for its manufacture – fully exempt from duty
- * **Automobiles: Positive** - Duty on 2 wheelers, 3-wheelers and small cars cut to 12% vs 16%; on hybrid cars cut to 14% vs 24%; on buses and their chassis cut to 12% vs. 16%
- * **Paper & Paper products: Positive** - Duty on paper and specified paper products cut to 8% vs. 12%
- * **Miscellaneous: Positive** – Water purifiers, composting machines, wireless data cards, etc. – duty cut to NIL vs. 16%
- * **FMCG: Positive** – Overall reduction in general CENVAT rate from 16% to 14%; Duty on breakfast cereals cut to 8% from 16%; duty on packaged coconut water and tea/coffee mixes cut to NIL from 16%
- * **Retail & Logistics: Positive** - Large Refrigeration units and refrigeration equipment for cold chain facilities made fully exempt from duty
- * **Packaged Software: Negative** – duty hiked to 12% from 8%
- * **Cement: Negative** – duty raised - to be higher of 14% ad valorem or Rs. 400/MT for bulk cement; to be at Rs. 450/MT for cement clinker
- * **Cigarettes: Negative** - Filter, non-filter cigarettes to be taxed at higher rates
- * **Textiles (manmade): Positive** - Excise duty of 1% (NCCD) on Polyester Filament Yarn to be removed
- * **Telecom Equipments & Services: Negative** - Cell phones to be charged excise (NCCD) duty of 1%

Service Tax

- * 4 services included in Tax net – AMC to ULIPs, Stocks & Commodity Exchanges & clearing houses, Customised software and Right to use goods
- * Threshold limit for exemption of Small Service Providers increased from Rs. 8 lacs p.a. to Rs. 10 lacs p.a.

AGRICULTURE

- * Farm credit seen Rs. 240000cr. by March 08; target of Rs. 280000cr. in FY09.
- * Gross capital formation in agriculture at 12.5% of 'agriculture GDP' in FY07; target to raise it to 16% over 11th Plan period
- * Rs. 1600 interest subvention for short-term crop loan; govt to compensate banks

- * National Agri Insurance Plan to get Rs. 640cr in FY09
- * **Irrigation:** Irrigation & Water Resources Finance Corp (IWRFC) to be incorporated with Rs. 100cr. capital to mobilise larger funds for irrigation; 24 major, 750 minor irrigation projects in FY09; Irrigation outlay Rs. 20,000cr in FY09 vs. Rs. 11000cr. a year ago
- * **Plantation Products:** Rs. 1100cr. for National Horticulture Mission FY09; 56,000 old plantations revived under horticulture mission; Rubber, Tea and Coffee Funds to get Rs. 19cr, Rs. 40cr and Rs. 18cr in FY09 respectively; Rs. 20cr grant for Tea Research
- * **Fertilisers:** Subsidy to continue; mulling new structure for fertiliser subsidy scheme; moving to nutrient-based fertiliser subsidies
- * **Farmers:** Debt worth Rs. 50000cr. overdue from small & marginal farmers, to be waived off completely; Rebate of 25% on one time settlement of debt overdue from other farmers; total hit of Rs. 60000cr. (Co-operative banks to be hit by Rs. 38,000cr; SCBs and RRBs by balance Rs. 22,000cr); Scheme to be completed by June 30, 08; Relieved farmers can apply for fresh loans July 01, 2008 onwards; rescheduled farm loans will also be eligible for waiver

FINANCIAL SECTOR

- * To extend Senior Citizens Pension plan to all above 65 yrs
- * Home loans for poor brought under banks' DRI scheme (int. @ 4%)
- * Rs. 2000cr SIDBI fund for risk financing
- * Rs. 5000cr fund in NABARD for short-term loans to co-operatives
- * To launch exchange traded Forex and Interest rate derivatives; corporate debt market to be expanded
- * Fund for TUFs (Textile) raised to Rs. 1090cr vs. Rs. 900cr
- * SIDBI to cut SSIs annual services fees to 0.5% from 0.75%
- * Uniform Stamp duty proposed across states - To ask states to help develop national securities market by maintaining uniform stamp duty
- * PAN requirement extended to all financial markets; to be sole identification number in securities market

INFRASTRUCTURE SECTOR

- * **Roads:** National Highway Development Programme (NHDP) outlay upped to Rs. 12966cr. from Rs. 10867cr; 96.4% roads completed in Golden Quadrilateral
- * **Energy:** Reforms to be introduced in Coal & Electricity sectors; Coal regulator to be established
- * **Water:** Rs. 7300cr for Rajiv drinking water plan FY09 vs Rs. 6500cr; Rs. 300cr for desalination plant in Chennai in FY09; Rs. 200cr initial outlay for drinking water in schools
- * **Urban Infrastructure:** Nehru Urban Renewal Mission outlay up at Rs. 6866cr vs. Rs. 5482cr
- * **Rural Infrastructure:** Rs. 4000cr outlay for rural roads in FY09

SOCIAL SECTOR

- * **Education** allocation up 20% from Rs. 28674cr. to Rs. 34400cr.
- * **Health** allocation up 15% to Rs. 16534cr; Focus on eradication of AIDS and Polio by allocating Rs. 990cr and Rs. 1042cr respectively in FY09
- * Subsidy of Rs. 32667cr for food under **Public Distribution System** (PDS) in FY09; PDS proposed to be made smart card based
- * **Food** security scheme allocation at Rs. 4882cr

POST BUDGET INVESTMENT CLIMATE

While the stock and bond markets reacted negatively to the budget in the short term, it does not mean that there are no investment avenues left. Attractive investment opportunities are still available in asset classes such as Gold, Money market, Fixed Income deposits, etc. which are capable of providing decent returns over the long term. Even in equities, the long term investment horizon looks quite promising as quality large-cap blue chip stocks trade at attractive valuations. Sectors including Pharmaceuticals, Automobiles & Auto Ancillaries, Textiles, FMCG, Power & Road infrastructure, Urban infrastructure, Engineering, Food products, Seeds, Fertilizers and Agricultural equipments, Paper, etc look quite attractive. Among Services, Healthcare services (hospitals), Hospitality (hotels), Retail, Media & Entertainment (convergence media), etc. are likely to be the prime beneficiaries.

Key Investment Takeaways from the Budget

- Dynamic asset allocation strategies should be followed to diversify the portfolio across asset classes such as Gold, Real Estate, Fixed Income, Equities, etc.
- Since one cannot have expertise in all asset classes, it is better to avail the services of experts by investing in packaged products such as '**My Wrap A/c**'. My Wrap A/c is a special initiative by **Bajaj Capital** along with Optimix. It has been exclusively designed for Bajaj Capital clients to mitigate risk and benefit from the inherent upside potential of different asset classes.
- Diversification will be the key going forward and along with nimble-footed portfolio rebalancing, the means to create and conserve wealth.
- Amongst asset classes, we remain bullish on Gold, Money market securities and Fixed Income securities. We remain skeptical on real estate and long term bond funds in the near future as we expect interest rates to harden in the short term. Sentiments are weak in equities but time is ripe for making long term investments.

Investment Strategies

Gold

- Gold seems to be the best asset class being an excellent hedge against inflation and financial market crisis.
- Invest in gold through Gold ETFs or Gold Mutual Funds that invest in Gold companies.

Fixed Income/Debt

- Interest rates likely to remain high in the short term. Invest in Fixed Income instruments such as bank deposits, post office deposits, etc.
- Avoid long term bond/debt funds in the wake of rising interest rates.
- Invest in Liquid Funds and Fixed Maturity Plans to benefit from tightening liquidity.

Equities

- Invest with a long term horizon. Spread your investments over the next 3-6 months through SIPs or STPs.
- Overweight 'value' stocks with large and stable cash flows; Underweight 'momentum' stocks with weak fundamentals and less or NIL cash flows
- Avoid real estate and financial sector stocks
- Buy stocks in defensive sectors such as Pharma, FMCG, Automobiles, Paper, Seeds, Fertilizers, Agriculture equipments, Healthcare, Hotels, etc.
- Domestic Consumption to get boost, focus on consumption led sectors such as Retail, FMCG, Media & Entertainment, Telecom, etc.