



Budget 2013-14

“You still have to live under pain”

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Foreword

The Finance Minister, Mr. P. Chidambaram, presented UPA-II's last full Budget; he had an opportunity to make the best of the current situation and take radical directional measures in governance. Instead there was a steep hike in allocation to social and rural schemes, eyeing general elections due next year without addressing the key question of CAD, revenue generation and rationalization of expenditure.

There is something in it for everyone. Government has to keep a tab on limiting fiscal deficit to 4.8% when planned expenditure has been increased by ~30% which should give a boost to the GDP growth.

The dampener was the additional corporate surcharge doubling to 10%. The lack of clarity on Direct Tax Code (DTC) and Goods and Services Tax (GST) has also disappointed.

The FM has made an effort to keep the capital markets in good mood by reducing the STT. The changes in classification in respect of FIIs will have some effect as well in keeping inflows stable in long run. But the imposition of the CTT could have a negative effect on sentiment. His attempt to direct savings into the bond markets are welcomed through introducing Inflation index bond and dedicated debt segment on the bourse but it remains to be seen how effective they are in a high inflation environment.

Expenditure growth is budgeted to raise 16.4% y-o-y in FY14, from 9.7% in FY13, with a steep rise in plan expenditure. Government expenditure will rise to 14.7% of GDP from 14.3% in FY13. Food subsidies have shot up to INR 900 bn due to the Food Security Bill a prelude to elections, which the government expects to be financed by keeping the oil and fertilizer subsidy burden under check. We believe slippage in the budgeted fiscal deficit may be unavoidable.

While a cautious budget has been presented, the size of the government remains large and the quality of fiscal consolidation seems unsatisfactory. Hence, we ultimately see this budget as a missed opportunity.

Sector-wise Impact

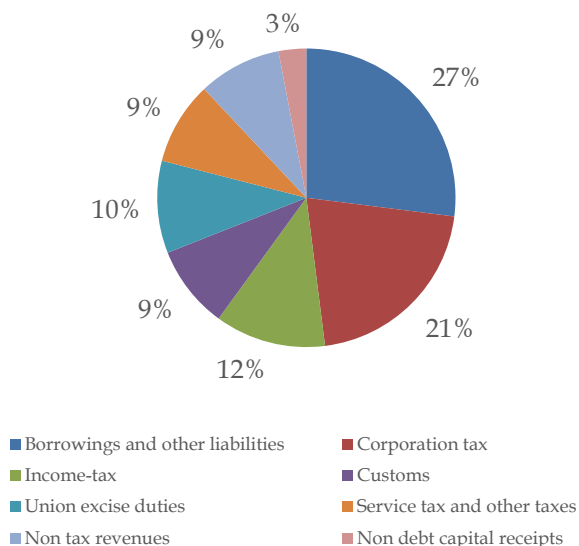
Sectors	Budget Proposal	Impact	Stocks to Watch
Automobile	✧ Increase in outlay for JNNURM scheme will boost demand for buses from STUs.	✧ Positive	✧ Ashok Leyland; Tata Motors & Eicher Motors ✧ M&M
	✧ SUVs E.D. increased from 27% to 30% (non-taxis).	✧ Negative	
Consumer	✧ Hike in excise on cigarettes by 18% Impact	✧ Negative	✧ ITC ✧ Page and Lovable
	✧ Reduction in duty on Readymade garments Impact	✧ Positive	
	✧ Leather and Leather products company including footwear duty reduced from 7% to 5% for P&M	✧ Positive	
Education	✧ NSDC to get Rs1,000cr to provide Rs10,000 to each student once he/she clears the Skills training course	✧ Positive	✧ NIIT
Cap Goods/Infra	✧ Award of 3000kms of road projects in the next 6 months	✧ Positive	✧ L&T, IRB ✧ Suzlon
	✧ INR 800crs for Renewable energy projects	✧ Positive	
PPP coal projects + renewable power	✧ PPP model beneficial for MDO, increase in coal production	✧ Positive	✧ Coal India, power producers, equipment suppliers
Real estate/Construction	✧ Interest deduction raised by additional INR 1 Lakh to INR 2.5 Lakh. This is for loan upto Rs 25 lakh	✧ Positive	✧ Affordable housing construction company such as Purvankara, HDIL
Financials	✧ Tax-free bonds to be allowed for certain financial institutions for building resources for infra lending	✧ Positive	✧ PFC, REC, IDFC ✧ LIC Housing Finance and HDFC
	✧ Interest deduction of Rs 1lakh for first-time home loans of upto Rs 25lakh, between April 1, 2013 and March 31st, 2014.	✧ Positive	
NBFC	✧ Introduction of commodities transaction tax of 0.1% on non agri commodities	✧ Negative	✧ MCX ✧ Shriram Transport, Magma
	✧ Clarification of taxation on securization transactions, which will not be subject to double taxation	✧ Positive	
Media	✧ To auction 839 FM radio licenses across 294 cities in 2013-14, including 707 in 227 new cities.	✧ Positive	✧ Entertainment Network India (ENIL), Reliance Broadcast Network ✧ Dish TV, Hathway Cable, Datacom, DEN Networks, WWIL.
	✧ Increase in custom duty on import of set top box (STB) increased from 5 to 10% to encourage domestic production	✧ Negative	

Budget 2013-14: Key Highlights

- ✦ Corporation Tax with INR 4,195bn will be the major contributor in the Revenue Receipts. Income Tax, Customs, Union Excise Duties and Service Tax will yield INR 2,476bn, INR 1,873-bn, INR 1,976-bn and INR 1,801-bn respectively.
- ✦ Direct tax revenue growth is estimated at 18.1% over 2013-14 BE and Indirect tax revenue growth estimated at 20.3% over 2013-14.
- ✦ Revenue Plan Expenditure is estimated as INR 4,433 bn with a growth of 29% as against 2013 RE.
- ✦ Capital Plan Expenditure will be INR 1,121-bn as against of INR 1,005 bn 2013 RE
- ✦ Non-plan expenditure is budgeted at INR 11,100 bn which is 11% higher than the RE for 2012-13 and 14.4% higher than the BE for 2012-13.
- ✦ Subsidies will account for INR 2,310-bn whereas INR 1,169-bn will go for the Defence Services and INR 707.2-bn for pensions.
- ✦ Fiscal Deficit has been pegged at INR 5,425-bn which is 4.8% of the GDP. In 2012-13 RE, it was 5.2% of the GDP and INR 5,209-bn in absolute terms.
- ✦ Revenue deficit for the current year at 3.9 % and for the year 2013-14 at 3.3 %
- ✦ Target to achieve 3% fiscal deficit & 1.5% revenue deficit by 2016-17.
- ✦ An increase of 22% in the allocation in the Plan Outlay for the Department of Agriculture & Cooperation from INR 202.08-bn in 2012-13 to INR 270.4 in 2013-14.
- ✦ Finance Minister has proposed to kept agricultural credit in 2013-14 to INR 7,000bn.
- ✦ Has doubled the tax free bonds for financing infrastructure projects to INR 500-bn in 2013-14.
- ✦ Allocation for Defence increased to INR 2036.72 bn including INR 867.41 bn for capital expenditure.
- ✦ Ministry of Rural Development allocation has increase of 46% to INR 801.94bn in 2013-14 over RE 2012-13.
- ✦ JNNURM allocation has increase from INR 73.83 bn to INR 148.73 bn for in BE 13-14 as against RE 2012-13. A significant portion will be used to support the purchase of upto 10,000 buses, especially by the hill States.
- ✦ Companies investing INR 1 bn or more in plant and machinery during the period 1.4.2013 to 31.3.2015 will be entitled to deduct an investment allowance of 15 % of the investment.
- ✦ Additional deduction of interest upto INR 1 lakh for a person taking first home loan upto INR 25 lakh during period 1.4.2013 to 31.3.2014
- ✦ Seven new cities Industrial Corridors have been finalised and work on two new smart industrial cities at Dholera, Gujarat and Shendra Bidkin, Maharashtra will start during 2013-14
- ✦ To reduce the dependency on imported coal. Govt plan to devise a PPP policy framework with Coal India Limited as one of the partners
- ✦ Simplify the procedures of FDI & FII through stake of 10 & or less in a company will be treated as FII and, where an investor has a stake of more than 10 & will be treated as FDI will be laid.
- ✦ Surcharge of 10 % on persons (other than companies) whose taxable income exceeds INR 1 crore to augment revenues.
- ✦ Increase surcharge from 5 to 10 % on domestic companies whose taxable income exceed INR 10 crore.
- ✦ Extension of U/S 80IA tax benefit to power sector to FY14E.
- ✦ Proposal to increase the rate of tax on payments by way of royalty and fees for technical services to non-residents from 10 percent to 25 %

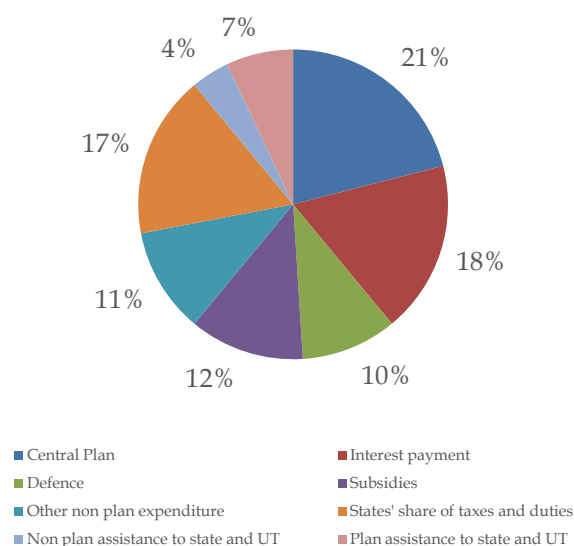
- ✦ Duties on Steam Coal and Bituminous Coal equalised and 2 % custom duty and 2 % CVD levied on both kinds coal
- ✦ Increase in excise duty on cigarettes by 18 %. Similar increase on cigars, cheroots and cigarillos.
- ✦ Reduction in STT from 0.1% to NIL on delivery based purchase of units of equity oriented fund entered into on a recognized stock exchange
- ✦ Reduction in STT from 0.1% to 0.001% on delivery based sale of units of equity oriented fund entered into on a recognized stock exchange
- ✦ Reduction in STT from 0.017% to 0.01% sale of futures in securities
- ✦ Reduction in STT from 0.25% to 0.001% on sale of unit of equity oriented fund to the mutual fund
- ✦ Commodity Transaction Tax (CTT) to be levied at 0.01% on sale of commodity (other than agricultural commodities) derivatives.
- ✦ Deduction for CTT paid to be available against income arising from such transactions and taxable as profits and gains of business or profession.

Where the rupee comes from



Source: MoF, KSL Research

Where the rupee goes to



Source: MoF, KSL Research

- ✦ The annual financial statements of the Government for 2012-13 are set to reflect a fiscal deficit of 5.2% of GDP, higher than the budget estimate of 5.1%. The target fiscal deficit for 2013-14 is 4.8%. Revenue deficit for 2013-14 is estimated at 3.3% as against the revised estimate of 3.9% for 2012-13.
- ✦ Market borrowings are expected to finance 89.22% of the Government’s fiscal deficit in 2013-14. As per the revised estimates, the interest outgo as a percentage of the revenue receipts is set to marginally decrease from 36.35% in 2011-12 to 36.32% in 2012-13 and is estimated to reduce further to 35.09% in 2013-14.
- ✦ Gross tax revenues at INR 12,358.7 billion representing an increase of approximately 19.06% over the revised estimates of INR 10,380.37 billion for 2012-13;
- ✦ Plan expenditure at INR 5,553.22 billion representing an increase of approximately 29.39% over the revised estimates of INR 4,291.87 billion for 2012-13. As a proportion of the total expenditure, plan expenditure is estimated at 33.35%. Non plan expenditure is estimated to increase to INR 11,099.75 billion

Customs duty	Excise duty
<ul style="list-style-type: none"> ✧ Peak rate of BCD remains unchanged at 10%. ✧ Introduction of specific provisions permitting filing of import and export manifest electronically 	<ul style="list-style-type: none"> ✧ No change in the basic excise duty rate of 12%. ✧ Stay order shall stand vacated, if the appeal is not disposed of within a total period of 365 days. ✧ Specified offences are now treated as cognizable and non bailable.
Service tax	GST
<ul style="list-style-type: none"> ✧ No change in effective service tax rate of 12.36%. ✧ Value liable to service tax for construction of specified properties increased by 20%. 	<ul style="list-style-type: none"> ✧ No GST implementation date announced, however commitment to introduce GST affirmed ✧ Positive announcements with regard to support of states for GST, compensation for loss on CST rate reduction, drafting GST law.

Source: MoF, KSL Research

Income - Expenditure ≠ 0

Government Financials

Description (INR Bn)	FY06A	FY07A	FY08A	FY09A	FY10A	FY11A	FY12A	FY13RE	FY14BE
Gross Tax Revenue	3,662	4,735	5,931	6,053	6,245	7,931	9,017	10,776	12,359
Net Tax Revenue	2,703	3,512	4,395	4,433	4,565	5,699	6,298	7,421	8,841
Non-Tax Revenue	768	832	1,024	969	1,163	2,186	1,217	1,297	1,723
Net Revenue Receipts	3,471	4,344	5,419	5,402	5,728	7,885	7,514	8,718	10,563
Capital Receipts (Non-debt)	122	64	439	67	332	353	369	381	665
Total Revenues	3,593	4,408	5,858	5,469	6,060	8,237	7,884	9,099	11,228
% YoY	-3.5	22.7	32.9	-6.6	10.8	35.9	-4.3	15.4	23.2
Revenue Expenditure	4,394	5,146	5,945	7,938	9,118	10,407	11,458	12,631	14,362
Capital Expenditure	664	688	1,182	902	1,127	1566.05	1,586	1,678	2,291
Plan Expenditure	1,406	1,699	2,051	2,752	3,034	3,790	4,124	4,292	5,553
Non-Plan Expenditure	3,651	4,135	5,077	6,087	7,211	8,183	8,920	10,016	11,100
Total Expenditure	5,057	5,834	7,127	8,840	10,245	11,973	13,044	14,308	16,653
% YoY	1.5	15.4	22.2	24.0	15.9	16.9	8.9	9.7	16.4
Fiscal Deficit	1,464	1,426	1,269	3,370	4,185	3,736	5,160	5,209	5,425
% to GDP	16.4	3.8	2.7	6.0	6.4	4.9	5.7	5.2	4.8

Tax Revenue Breakup

(INR Bn)	FY06	FY07	FY08	FY09	FY10	FY11	FY12A	FY13RE	FY14BE
Net Tax Revenue	2,703	3,512	4,396	4,433	4,597	5,740	6,298	7,421	8,841
yoy %	20.2	29.9	25.2	0.9	3.7	24.9	9.7	17.8	19.1
Personal Income	636	751	1,026	1,060	1,224	1,391	1,703	2,061	2,476
yoy%	29.1	18.0	36.7	3.3	15.4	13.6	22.5	21.0	20.2
Corporate Tax	1,013	1,443	1,929	2,134	2,447	2,987	3,228	3,589	4,195
yoy%	22.5	42.5	33.7	10.6	14.7	22.1	8.1	11.2	16.9
Customs	651	863	1,041	999	833	1,358	1,493	1,649	1,873
yoy%	12.9	32.7	20.6	-4.1	-16.6	63.0	10.0	10.4	13.6
Excise	1,112	1,176	1,236	1,086	1,030	1,377	1,456	1,720	1,976
yoy%	12.2	5.7	5.1	-12.1	-5.2	33.7	5.7	18.1	14.9
Service Tax	231	376	513	609	584	710	975	1,327	1,801
yoy%	62.4	63.1	36.4	18.8	-4.1	21.6	37.3	36.1	35.8

Plan Outlays by Major Sectors

Description	(INR Bn)			% Distribution	
	FY13RE	FY14BE	% YoY	FY13RE	FY14BE
Agriculture & Allied Activities	159.7	187.8	17.6	2.9	2.8
Rural Development	437.0	564.4	29.1	7.9	8.3
Irrigation & flood Control	4.3	12.0	180.4	0.1	0.2
Energy	1,482.3	1,582.9	6.8	26.7	23.3
Industry & Minerals	392.3	480.1	22.4	7.1	7.1
Transport	1,030.2	1,334.9	29.6	18.5	19.6
Communications	82.6	123.8	49.9	1.5	1.8
Science, Technology & Environment	121.2	175.9	45.1	2.2	2.6
General Economic Services	210.2	316.0	50.4	3.8	4.6
Social Services	1,583.4	1,930.4	21.9	28.5	28.4
General Services	58.6	93.1	58.8	1.1	1.4
Grand Total	5,561.8	6,801.2	22.3	100.0	100.0

Source: MoF, KSL Research

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