



*In matters of style, swim with the current,  
in matters of principle, stand like a rock.*

		Sensex Close	
This Week: 23	▲	14	▼ 08
Today: 106	▲	57	▼ 48

## Market Snapshot

Indices	27-Aug	WTD %	CYTD %
BSE Sensex	17,998	▼ -2.2	▲ 3.1
S&P Nifty	5,409	▼ -2.2	▲ 4.0
Dow Jones	10,151	▼ -0.6	▼ -2.7
FTSE 100	5,202	▲ 0.1	▼ -3.9
Nikkei 225	8,991	▼ -2.1	▼ -14.7
Bovespa	65,585	▼ -1.6	▼ -4.4
Hang Seng	20,598	▼ -1.8	▼ -5.8
Seoul	1,730	▼ -2.6	▲ 2.8
Shanghai	2,611	▼ -1.2	▼ -20.3
Straits Times	2,939	▲ 0.1	▲ 1.4

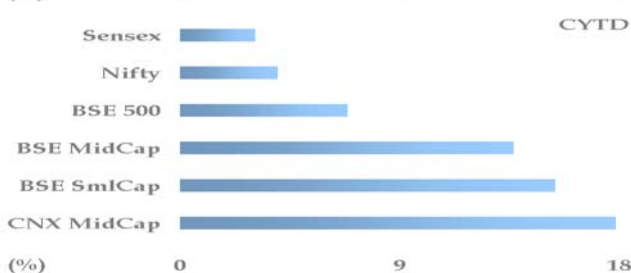
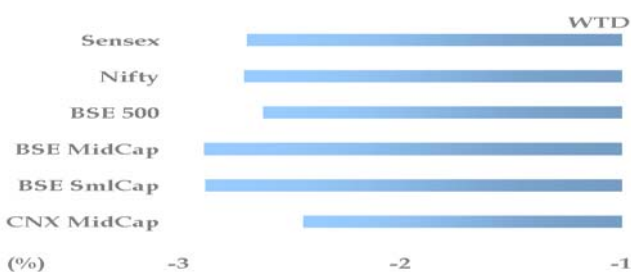
## Market Capitalization

INR Bn	20-Aug	27-Aug	Abs Chg	% Chg
BSE	67,211	65,898	-1,313	-2.0
NSE	65,525	64,202	-1,323	-2.0

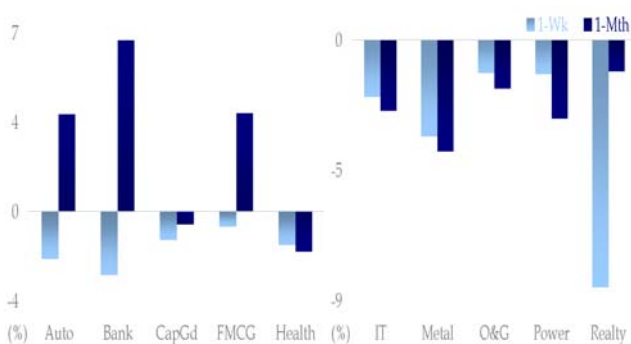
## Institutional Activity

INR Bn	For the Week			Cash
	Cash	F&O	MTD	FYTD
FII's	14.84	56.89	114.47	385.01
MF's	-14.09	-	-28.91	-95.32

## Market Moods



## BSE Sectoral Indices



## WATCH LIST

- IND: 2Q GDP, Aug 31
- IND: July Exports/Imports, Sept 01

## Market Lack Direction

In the absence of any major economic catalysts markets have lost direction and turned mixed for quite a time now. Markets are at similar levels for over a month. Global cues are not encouraging, so domestic data has to be upbeat to support markets. 1QFY11 GDP would be announced early next week and is expected to be ~8.8%.

Much awaited Direct Tax Code is scheduled to be tabled in parliament on Monday, finer details are still to be seen. It is seen as an important reform that replaces half a century old income tax laws. Tax slabs announced were below expectations as lower tax rates were expected.

Food inflation fell for the second straight week, to 10.05% for the week ended August 14, as good rains boosted sowing of key crops. Food inflation had softened to 10.35% for the week ended August 7 against 11.40% in the previous week. The fuel price index remained steady at 12.57%. Monsoon has considerably improved during the week; however cumulative season's rainfall is still 5% below LPA.

RBI is expected to continue its tightening cycle in the mid-quarter policy review scheduled on September 16, as the real interest rates are still negative. RBI indicated that inflation has become increasingly generalized and hence, requiring appropriate monetary policy actions to anchor inflation expectations. Given the stronger domestic growth outlook and the probability of monetary exit being delayed by the advanced economies, capital inflows could be expected to accelerate, which will have to be managed.

## Events during the week

Date	Events
31-Aug	JP: Industrial/Vehicle Prod, CAN: 2Q GDP
02-Sept	EUR: 2Q GDP; US: Vehicle Sal; Initial Jobless Claims
03-Sept	JP: Capital Spending; CHI: Non-manufacturing PMI

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## Old Wine in New Bottle

The cabinet has finally approved the new Direct Tax Code (DTC), replacing 50 years old tax system in India. The bill is likely to be tabled in Parliament during the ongoing monsoon session and thereafter it may be referred to the standing committee. The initial draft appears to be bold and envisages significant changes from the current tax system; some of these are :

- Corporate tax rate placed at 25% compared to 33% in the current system.
- Individual tax slabs were hiked massively and top rate of 30% was applicable to income above Rs 25 lakh compared to Rs 8 lakh currently.
- MAT would be charged on the value of gross blocks rather than book profit.
- Capital gains tax was proposed to include in the total income and taxed at a applicable marginal rate of tax. The proposed DTC also doesn't include the difference between long term and short terms rate. Non-residents were asked to pay 30% tax on the capital gain in India.
- Long term saving instruments, which are currently enjoying status of 'EEE', were proposed under 'EET'.
- Though the individual slabs were proposed to rise significantly, the government decided to do away with all the perquisites and allowance.
- The government also proposed to dispose off housing interest exemption of 1.5 Lakh for self occupied house.
- It was proposed that a foreign company will be treated as resident in India if, at any time in the financial year, the control and management of its affairs is situated 'wholly or partly' in India.

Some of these measures were expected to result in large protest from the stakeholder and finally government considered these changes and proposed to take into consideration the suggestion provided by industry body and associations.

The code approved by Cabinet suggests that passed tax code is quite different from the earlier proposed one. These initial fine points suggest that final draft may not be much different from current tax system. The major highlights of the passed code are as follow.

- The recent code proposes to do away with surcharge and cesses on corporate tax; however, rate has been maintained at 30%.
- MAT has been suggested to put on book profit against assets envisaged earlier, however, the MAT rate is likely to move up from 18% to 20%.
- The current draft also proposes to hold long-term savings like provident funds as 'EEE' only.
- The current draft propose to keep securities transaction tax regime for the capital market transactions, which implies the distinction between capital gain would be taxed at a specific rate rather than at marginal rate of tax. Dividend distribution tax rate has also been kept at 15%.
- Original draft seeks to phase out profit-linked incentives for corporate sector; however, this proposal has been dropped, implying relief to the developers of special economic zones and units located in them.
- The cabinet has suggested new tax slabs; however, the government has gradually raised the income tax slabs in past couple of years and it seems a normal extension. These rates are far from proposed under DTC.

Considering these measures, it looks that DTC may prove to be 'Old Wine in New Bottle'.

### Income Tax Slabs

Tax Rate	Till FY05	Till FY07	Till FY08	Till FY09	Till FY10	Current	Approved by Cabinet	Proposed in DTC
0%	0-50,000	0-100,000	0-110,000	0-150,000	0-160,000	0-160,000	0-200,000	0-160,000
10%	50,000-60,000	100,000-150,000	110,000-150,000	150,000-300,000	160,000-300,000	160,000-500,000	200,000-500,000	160,000-1,000,000
20%	60,000-150,000	150,000-250,000	150,000-250,000	300,000-500,000	300,000-500,000	500,000-800,000	500,000-1,000,000	1,000,000-2,500,000
30%	Above 150,000	Above 250,000	Above 250,000	Above 500,000	Above 500,000	Above 800,000	Above 1,000,000	Above 2,500,000



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