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DIGEST

Reactions to the Union Budget 2012-13

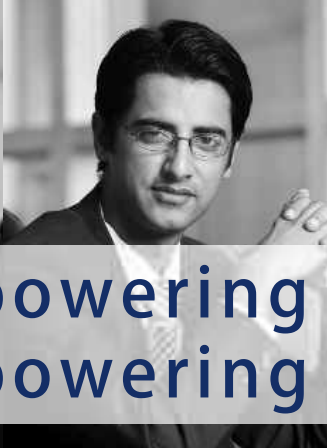


Suman Das,
CFO, IT Co.

Rakesh Kapoor,
Banker -Treasury Dept.

M. Murleedharan,
Garment Exporter

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CONTENTS

Reaction to the Union Budget 2012-13

1	FICCI's Reaction to the Union Budget 2012-13	01
2	Ashwin Dani , <i>Vice Chairman, Asian Paints Limited</i>	17
3	Mr. Rashesh Shah , <i>Chairman and CEO, Edelweiss Group, Chairman</i> <i>FICCI Maharashtra State Council</i>	20
4	Mr. Y. M. Deosthalee , <i>Chairman & Managing Director of L&T Finance Holdings Limited</i>	22
5	Dr. V Shunmugam , <i>Chief Economist, MCX Stock Exchange</i>	25
6	Mr Shachindra Nath , <i>Group Chief Executive Officer, Religare Enterprises Limited</i>	28
7	Mr. Gaurav Kapur , <i>Senior Economist, Royal Bank of Scotland</i>	30
8	Mr. Hemant Kanoria , <i>Chairman and Managing Director, Srei Infrastructure Finance Ltd.</i>	33

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**Federation of Indian Chambers of
Commerce and Industry, FICCI,**

Federation House Tansen Marg,
New Delhi - 110001

Phone: 23738760-70 (11 Lines)

Fax: 23320714, 23721504

E-Mail: ficci@ficci.com

Website: www.ficci.com

FICCI's Reactions to the Union Budget 2012-13

HIGHLIGHTS

- Fiscal deficit projected at 5.1% of GDP in 2012-13: Based on a projected buoyancy in non-tax revenue and indirect taxes
- The nominal growth rate of GDP is expected to be 14% for 2012-13: This translates into a 6.5% inflation rate, assuming a 7.6% GDP projection in the next fiscal
- Exemption limit for general category of individual taxpayers has been raised from Rs1.8 lakh to Rs 2 lakh
- Growth impulse could be dampened by the 2% hike in excise duty and service tax: These hikes are expected to add to inflationary pressures and would work against budget expectations of lower inflation
- Over the medium term, the Government believes to bring down fiscal deficit further and has targeted a reduction in fiscal deficit to 4.5% by FY2014 and 3.9% by FY2015: Fiscal consolidation will remain a challenge
- Budget targets to contain the central subsidies under 2% of GDP in 2012-13: It will be a difficult task
- Gross market borrowings will finance 93% of the fiscal deficit in 2012-13: Indication of government borrowing to finance non-plan expenditures
- The Government did not enunciate any actionable roadmap for implementation of either the GST or the DTC
- No revival of investment allowance, no restoration of tax exemption on dividend income or capital gains for infrastructure capital fund / company and no hike in depreciation rate in budget
- Reduction in withholding tax on interest payable on External Commercial Borrowings (ECBs) in certain sectors and extension of concessional tax treatment on the repatriation of overseas dividends are welcome: The raising of the ECB limit for infrastructure sector will also encourage investment in the sector.



- The removal of cascading impact of DDT, which was recommended by FICCI is most welcome. The extension of tax benefit period for companies engaged in in-house R&D activities may also provide some relief to the companies.
- Provision of extension of 200% weighted deduction for R&D expenditure is specially welcome as it has been announced for a period of 5 years
- 150% weighted deduction for agricultural extension will hopefully encourage private sector investment in agriculture and raise crop yields
- For the power sector besides access to low cost funds the Budget has also extended the sunset date by one year until March 31, 2013 by claiming 100% deduction of profits for 10 years along with an additional distribution of 20%. This measure would encourage investment in power generation.

MACROVIEW

FICCI had expected and recommended that the budget would include measures for promoting investment led growth. This was specially requested in the context of ongoing slowdown of economic growth which could be lower than 6.9% in 2011 -12. The



nominal growth rate of GDP is expected to be 14% for 2012 -13. This translates into a 6.5% inflation rate, assuming a 7.6% GDP projection in the next fiscal . It is not clear if the higher growth rate would see a strong revival of the manufacturing sector

The Government has budgeted a fiscal deficit target of 5.1% of GDP in FY2013 as against an estimated 5.9% of GDP (was budgeted at 4.6% of GDP) in FY2012. This is based on a projected buoyancy in non- tax revenue (32% budgeted growth in 2012-13 against a 5 year compounded annual growth rate/ CAGR at 6.1%) , basis Rs 40,000 crore spectrum proceeds in next fiscal . Net tax revenue to Centre is

projected to climb by 20.1% (5 year CAGR at 9.9%) . Net tax revenue in turn is based on estimated buoyancy in indirect taxes (excise tax projected to grow by a sharp 29%, against a 5 year CAGR at 5% and service taxes at 30. 5% against a 5 year CAGR at 16.7%) .

The Government has taken several measures to augment indirect taxes. On the services tax front, the tax base has been increased through the introduction of the negative list . The list now contains 17 items, which implies that every other service would be taxed. Apart from this, there is a proposal to raise the service tax rate to 12% from 10% earlier, bringing it to the pre-crisis level .

On the excise duty front, the standard rate on non-petroleum goods is proposed to be increased to 12%. It had been reduced to 8% during the peak of the last global financial crisis and since then the Government has been rolling it back in stages. It has been proposed that customs duty on gold bars, coins and platinum would be increased from 2% to 4%. Duty on nonstandard gold is to be doubled to 10% from 5% earlier. Excise duty on gold has also been increased to 3% from 1.5% earlier.

The Government did not enunciate any actionable roadmap for implementation of either the GST or the DTC.

Growth impulse could be dampened by the 2% hike in excise duty and service tax. These hikes are expected to add to inflationary pressure and would work against budget expectations of lower inflation.

As far as personal income taxes are concerned, the exemption limit for general category of individual taxpayers has been raised from Rs1.8 lakh to Rs 2 lakhs.

Over the medium term, the Government believes to bring down fiscal deficit further and has targeted a reduction in fiscal deficit to 4.5% by FY2014 and 3.9% by FY2015.

FICCI believes fiscal consolidation would continue to be one of the major challenges. The disinvestment target at Rs 30,000 crores is an ambitious one. Additionally, as mentioned earlier, the budgeted spectrum proceeds at Rs 40,000 crores for the next fiscal assumes will be difficult to achieve.

The Government has also proposed rationalisation of tax provisions that accrues from overseas transfer of shares holding underlying assets in India. The proposed rationalisation will effect retrospectively from April 1' 1962. FICCI believes that any policy changes should always be forward looking and not with retrospective impact as it hurts the investment climate and the business strategies for the investors.

Table 1: Budget at a glance (Rs crore and as a % of GDP)

	2008-09	2009-10	2010-11	2011-12-BE	2012-13 BE	Growth rates	CAGR 10 yrs	CAGR 5 yrs
1 Revenue Receipts	540,259 9.7%	572,811 8.9%	788,471 10.3%	766,989 8.6%	935,685 9.2%	22.0	14.2%	9.1%
a. Tax Revenue (net to centre)	443,319 7.9%	456,536 7.1%	569,869 7.4%	642,252 7.2%	771,071 7.6%	20.1	16.7%	9.9%
b. Non-Tax Revenue	96,940 1.7%	116,275 1.8%	218,602 2.8%	124,737 1.4%	164,614 1.6%	32.0	6.2%	5.1%
1 Capital Receipts (5+6+7)\$	343,697 6.2%	451,676 7.0%	408,857 5.3%	551,730 6.2%	555,241 5.5%	0.6	13.1%	34.1%
2.a. Recoveries of Loans	6,139 0.1%	8,613 0.1%	12,420 0.2%	14,258 0.2%	11,650 0.1%	-18.3	-9.3%	29.3%
2.b. Other Receipts	566 0.0%	24,581 0.4%	22,846 0.3%	15,493 0.2%	30,000 0.3%	93.6	19.4%	-20.5%
2.c. Borrowings and other liabilities*	336,992 6.0%	418,482 6.5%	373,591 4.9%	521,980 5.9%	513,590 5.1%	-1.6	15.3%	42.4%
3 Total Receipts (1+4)	883,956 15.8%	1,024,487 15.9%	1,197,328 15.6%	1,318,720 14.8%	1,490,925 14.7%	13.1	13.7%	16.6%
4 Non-Plan Expenditure	608,721 10.9%	721,096 11.2%	818,299 10.7%	892,116 10.0%	969,900 9.5%	8.7	12.8%	15.1%
4.a On Revenue Account of which,	559,024 10.0%	657,925 10.2%	726,491 9.5%	815,740 9.2%	865,596 8.5%	6.1	13.2%	18.0%

4.a.1 Interest Payments	192,204 3.4%	213,093 3.3%	234,022 3.0%	275,618 3.1%	319,759 3.1%	16.0	9.9%	12.7%
4.b On Capital Account	49,697 0.9%	63,171 1.0%	91,808 3.0%	76,376 3.1%	104,304 3.1%	36.6	25.9%	33.5%
5 Plan Expenditure	275,235 4.9%	303,391 4.7%	379,029 1.2%	426,604 0.9%	521,025 1.0%	22.1	-4.1%	-21.9%
5.a. On Revenue Account	234,774 4.2%	53,884 3.9%	314,232 4.9%	346,201 4.8%	420,513 5.1%	21.5	21.9%	25.2%
5.b. On Capital Account	40,461 0.7%	49,507 0.8%	64,797 4.1%	80,404 3.9%	100,512 4.1%	25.0	27.1%	82.1%
6 Total Expenditure (9+13)	883,956 15.8%	1,024,487 15.9%	1,197,328 0.8%	1,318,720 0.9%	1,490,925 1.0%	13.1	13.7%	16.6%
6.a Revenue Expenditure (10+14)	793,798 14.2%	911,809 14.1%	1,040,723 15.6%	1,161,940 14.8%	1,286, 14.7%	109 10.7	16.3%	22.0%
6.a.1 Of Which, Grants for creation of Capital Assets			87,487	137,505	164,672			
6.b. Capital Expenditure (12+15)	90,158 1.6%	112,678 1.7%	156,605 1.1%	156,780 1.5%	204,816 1.6%	19.8	7.0%	3.8%
7 Revenue Deficit (17-1)	253,539 4.5	338,998 -5.2	252,252 -3.3	394,951 -4.4	350,424 -3.4	30.6	4.2%	31.4%
8 Effective Revenue Deficit (17-18)#				164,765 -2.1	257,446 -2.9	185,752 -1.8	-27.8	
9 Fiscal Deficit {16-(1+5+6)}	336,992 6	418,482 -6.4	373,591 -4.9	521,980 -5.9	513,590 -5.1	-1.6	15.3%	42.4%
10 Primary Deficit (20-11)	144,788 2.6	205,389 -3.1	139,569 -1.8	246,362 -2.8	193,831 -1.9	-21.3	27.7%	na
Memoranda								
Nominal GDP Growth rate	5,582,623 12.0	6,457,352 15.7	7,674,148 18.8	8,912,178 16.1	10,159,884 14.0			

Source: Budget documents

Note: Figures below the estimates are expressed as a % of GDP

Table 2: Direct and Indirect taxes (Rs crore and as a % of GDP)

	2008-09	2009-10	2010-11-RE	2011-12-BE	2012-13	2012-13 vis-à-vis 2011-12 growth rates	CAGR 10 yrs	CAGR 5 yrs
1 Gross Tax Revenue	605,299 10.8%	624,528 9.7%	786,888 10.3%	901,664 10.1%	1,077,611 10.6%	19.5%	17.2%	11.0%
2 Direct Tax								
2.a. Corporation Tax	213,395 3.8%	244,725 3.8%	296,377 3.9%	327,680 3.7%	373,227 3.7%	13.9%	24.3%	14.2%
2.b. Taxes on Income Other than Corporation Tax	106,046 1.9%	122,475 1.9%	141,566 1.8%	166,679 1.9%	189,866 1.9%	13.9%	18.3%	12.9%
3 Indirect Taxes								
3.a. Customs	99,879 1.8%	83,324 1.3%	131,800 1.7%	153,000 1.7%	186,694 1.8%	22.0%	14.6%	10.1%
3.b. Union Excise Duty	108,613 1.9%	102,991 1.6%	137,263 1.8%	150,07 1.7%	5193,729 1.9%	29.1%	6.9%	5.0%
3.c. Service Tax	60,941 1.1%	58,422 0.9%	69,400 0.9%	95,000 1.1%	124,000 1.2%	30.5%	41.7%	16.7%

Source: Budget documents

Note: Figures below the estimates are expressed as a % of GDP

It might also be noted that the capital expenditure is budgeted to go up by 31% in the year 2012-13. But the growth in non-plan capital expenditure is estimated to be much higher than the growth in plan capital expenditure. Hence an impetus to growth through pump priming capital expenditure is difficult to envisage.



Table 3: Expenditure trends (Rs crore and as a % of GDP)

	2008-09	2009-10	2010-11	2011-12-BE	2012-13 BE	Growth rates	CAGR 10 yrs	CAGR 5 yrs
1 Non Plan Expenditure	608,721 10.9%	721,096 11.2%	818,299 10.7%	892,116 10.0%	969,900 9.5%	8.7%	12.8%	15.1%
1.a. Interest payments	192,204 3.4%	213,093 3.3%	234,022 3.0%	275,618 3.1%	319,759 3.1%	16.0%	9.9%	12.7%
1.b. Defence Expenditure	114,223 2.0%	141,781 2.2%	154,117 2.0%	170,937 1.9%	193,407 1.9%	13.1%	13.3%	16.9%
1.c. Subsidies	129,708 2.3%	141,351 2.2%	173,420 2.3%	216,297 2.4%	190,015 1.9%	-12.2%	19.5%	32.1%
1.d. Other Non Plan Expenditure	172,586 3.1%	224,871 3.5%	256,740 3.3%	229,264 2.6%	266,719 2.6%	16.3%	11.7%	7.1%
2 Plan expenditure	275,235 4.9%	303,391 4.7%	379,029 4.9%	426,604 4.8%	521,025 5.1%	22.1%	16.1%	20.1%
2.a. on Revenue Account	234,774 4.2%	253,884 3.9%	314,232 4.1%	346,200 3.9%	420,513 4.1%	21.5%	19.1%	18.8%
2.b. on Capital Account	40,461 0.7%	49,507 0.8%	64,797 0.8%	80,404 0.9%	100,512 1.0%	25.0%	8.1%	26.4%
3 Total Expenditure	883,956 15.8%	1,024,487 15.9%	1,197,328 15.6%	1,318,720 14.8%	1,490,925 14.7%	13.1%	13.8%	16.6%
3.a. on Revenue Account	793,798 14.2%	911,809 14.1%	1,040,723 13.6%	1,161,940 13.0%	1,286,109 12.7%	10.7%	14.7%	18.2%
3.b. on Capital Account	90,158 1.6%	112,678 1.7%	156,605 2.0%	156,780 1.8%	204,816 2.0%	30.6%	8.6%	7.3%

Source: Budget documents

Note: Figures below the estimates are expressed as a % of GDP

Though the budget targets to contain the central subsidies under 2 % of GDP in 2012 -13, and bringing them down from the current 2.4% will not be easy. This is because implementation of food security bill will alone amount to a minimum of 0.7% of GDP and could be as high as 1.5% of GDP. We believe that the estimates of food subsidy may have a downward bias, as it does not include subsidy storage and transport, leakage costs etc (food subsidy is projected to increase by only 3% in 2012 -13, against a 5 year CAGR at 22.1%) Also, the budgeted figures for oil

subsidy indicate a decline by about 36.4% or Rs 24,901 crores. However there has been no word on the proposed deregulation of the sector

or an increase in diesel prices. We hope that the much required deregulation of the petroleum sector is taken forward in the right earnest.

Table 4: Subsidy trends (Rs crore and as a % of GDP)

	2008-09	2009-10	2010-11	2011-12-BE	2012-13-BE	2012-13 vis-à-vis 2011-12 growth rates	CAGR 10 yrs	CAGR 5 yrs
1 Total Subsidies	129,708 2.3%	141,351 2.2%	173,420 2.3%	216,297 2.4%	190,015 1.9%	-12.2%	19.2%	31.9%
1.a. Fertiliser Subsidy	76,602 1.4%	61,264 0.9%	62,301 0.8%	67,199 0.8%	60,974 0.6%	-9.3%	22.3%	21.4%
1.b. Food Subsidy	43,751 0.8%	58,443 0.9%	63,844 0.8%	72,823 0.8%	75,000 0.7%	3.0%	13.0%	22.2%
1.c. Petroleum Subsidy	2,852 0.1%	14,951 0.2%	38,371 0.5%	68,481 0.8%	43,580 0.4%	-36.4%	30.4%	120.7%
1.d. Interest Subsidies	3,493 0.1%	2,686 0.0%	4,680 0.1%	5,791 0.1%	7,968 0.1%	37.6%	25.2%	19.6%
1.e. Other Subsidies	3,009 0.1%	4,006 0.1%	4,223 0.1%	2,002 0.02%	2,493 0.02%	24.5%	1.9%	-0.8%

Source: Budget documents

Note: Figures below the estimates are expressed as a % of GDP

The gross market borrowings for the year 2011-12 have been revised upwards by 22%

from Rs 4171 billion (BE) to Rs 5100 billion (RE) . This figure is further expected to go

up to Rs 5696 billion in 2012-13. Such a high level of borrowing will continue to exert

pressure on interest rates . Apart from dated securities, the Government is also

scheduled to borrow Rs 900 billion through treasury bills. However the decrease in

interest rates on EPFs is an encouraging move .

Table 5: Government Borrowings (Rs crore and as a % of GDP)

	2008-09	2009-10	2010-11	2011-12-RE	2012-13-BE	2012-13	CAGR 10 yrs	CAGR 5 yrs
Gross Market Borrowings	273,000 4.9%	451,000 7.0%	437,000 5.7%	510,000 5.7%	569,616 5.6%	11.7%	16.9%	32.0%
Less repayments	39,370 0.7%	52,576 0.8%	111,586 1.5%	73,586 0.8%	90,616 0.9%	23.1%	11.6%	19.3%
Net Market Borrowings	233,630 4.2%	398,424 6.2%	325,414 4.2%	436,414 4.9%	479,000 4.7%	9.8%	18.1%	34.9%

Source: Budget documents

Note: Figures below the estimates are expressed as a % of GDP



Interestingly, as table 6 shows, the huge increase in gross borrowings for the government in 2012-13 may crowd out credit to private sector . For example, the ratio of gross borrowings to non- food credit in 2011-12 was 1.14 indicating that for every rupee of non- food credit, there is a concomitant borrowing of Rs 1.14 by the Government .

Interestingly, the ratio of redemption to gross borrowings (indicating for every rupee of Government borrowing, the amount that is going purely to repay previous government debt) was 43 paise in 2004-05, that had declined to 16 paise in 2012-13. By this logic, the government borrowings should have declined in 2012-13. However,

in contrast, in the next fiscal, the market borrowings will finance 93% of the fiscal deficit as compared to 84% last year . This clearly indicates that the Government is now borrowing purely to finance non-plan expenditure, as revenue growth has decelerated in the last couple of years.

Table 6: Gross borrowings, crowding out and redemption

	Gross Borrowing/Non Food Credit	Redemption/Gross Market Borrowings
2002-03	0.88	0.22
2003-04	1.03	0.35
2004-05	0.29	0.43
2005-06	0.37	0.27
2006-07	0.35	0.24
2007-08	0.39	0.22
2008-09	0.66	0.14
2009-10	0.97	0.12
2010-11	0.64	0.26
2011-12	1.14	0.14
2012-13		0.16

Source: Budget documents



SECTOR ANALYSIS

Table 7 gives us an impact of budget on the different sectors. As can be seen from the table, most of the

issues which were in the wish list have not been fulfilled. Sectors like insurance, retail; warehousing, environment & climate change and chemical are the ones where issues

have not been addressed extensively. A more detailed impact of the budget has been provided below based on different sectors.

Table 7: FICCI's Scorecard of Wishlist & Budget Impact

Sector	Wish-list			Budget Impact	
	No of wishes	Addressed	Not Addressed	+ve	-ve
Chemical	15	2	13	7	1
FMCG	6	1	5	3	1
Energy, Defense & Aerospace	3		3		2
Oil & Gas	3		3		
Retail	8		8		7
Medical Devices	3	1	2	1	
Technical Textiles	7	4	3	4	2
Warehousing	21	5	16	5	1
MSME	4	1	3	7	
Power	8	4	4	2	
Infrastructure	1		1		
Homeland Security				1	
ICT				3	2
Agriculture	5	5			
Environment & Climate change	10		10		
Textiles	8	2	6	10	
Gems & Jewellery	2		2	1	3
Wellness	4		4		
Health	11	3	8	5	
Human Resource	7	3	4	4	2
Banking	3	3			
Insurance & Pensions	4	1	3		
Health Insurance	4	2	2		
Microfinance	1	1			
Capital Markets	7	7			
Total	145	45	100	53	21

Source: FICCI Research

Footnote: counts of 'Add ressed' and 'Not Addressed' wish-list adds up to the number of wishes made in every sector. However, counts for Budget Impact will not add up to the numbers of wishes as rest of the impact are neutral

Agriculture

- The budget has placed a major emphasis on agriculture by way of announcing right policies that would ensure more investments in agriculture extension, development of agri marketing infrastructure, increasing agri credit availability to the farmers, etc. FICCI welcomes these initiatives, as they will give a big push to agriculture growth
- The long standing demand of FICCI that 150 per cent weighted deduction of expenditure be extended to investments made in the extension services has been considered. This is a very positive move as it will lead to more investments by the private sector in agriculture extension, which will result in increasing yields.
- The government has considered FICCI's suggestion to extend interest subvention for post harvest loans against warehouse receipts. This will reduce the distress selling by the farmers.
- FICCI also welcomes the decision to enhance the investment linked deduction for warehouses and cold storages to 150 per cent . This would attract large private investments in the cold chain across the country whose demand far outstrips the present handling

capacity. The enhanced cold chain and warehousing facilities would immensely contribute to the government coffers as these would reduce horticultural produce wastages to an extent of 30 %. Apart, significant allocation was made for increasing the warehousing capacity in the country.

- Several announcements made on indirect taxes front by way of reduction in import duty on farm equipment, green houses, water soluble fertilizers would also result in lower input costs for farmers.
- Government's decision to setup a company to financing minor irrigation works and including irrigation projects under viability gap funding is an innovative as it would encourage several private companies to enter into the business of developing irrigation facilities.
- Rs 200 crore for Research Rewards for agricultural researchers for breakthroughs is yet another innovative policy approach adopted by the government



Chemicals

- An estimated 40% of the fruit and vegetable production in India goes waste due to lack of storage, cold chain and transport infrastructure. To address these issues, during 2011-12, approval is being given to set up 15 more Mega Food Parks. Specialty chemicals will be part of this facilitation.
- To attract investment in this sector, henceforth, capital investment in the creation of modern storage capacity will be eligible for viability gap funding scheme of the Finance Ministry. It is also proposed to recognize cold chains and post-harvest storage as an infrastructure sub-sector.
- In order to give a boost to infrastructure development in railways, ports, housing and highways development, tax free bonds of Rs 30,000 crores to be issued by various Government undertakings in the year 2011-12. This includes Indian Railway Finance Corporation Rs 10,000 crores, National Highway Authority of India Rs 10,000 crores, HUDCO Rs 5,000 crores and Ports Rs 5,000 crores.
- Policy expects to take the share of manufacturing in GDP from about 16% to 25% over a period



of ten years. A Group of Ministers has been set up to consider all issues relating to reconciliation of environmental concerns emanating from various departmental activities including those related to infrastructure and mining. This Group will also suggest changes in the existing statutes, rules, regulations and guidelines and make its recommendations in a time bound manner. This will benefit the chemical industry also.

- Weighted deduction on payments made to National Laboratories, universities and Institutes of technology, for scientific research, enhanced from 175% to 200%.
- Micro-irrigation is an environment - friendly and efficient means of irrigation especially for dry land farming. It is proposed to reduce the basic customs duty on micro-irrigation equipment from 7.5% to 5%. This is an opportunity for the Plastics industry.

- Full exemption from basic customs duty and a concessional CVD of 1% to steam coal for a period of two years till March 31, 2014

FMCG

- Direct tax: Exemption limit of personal income tax increased, will be leading to augmentation in the disposable income: Should give stimulus to the demand of FMCG products.
- Cascading effect of dividend distribution tax removed: To benefit Indian MNCs
- GST network expected to roll out by August 2012: No clarity on the implementation timeline.
- Standard rate of excise increased from 10% to 12%, the merit rate from 5% to 6%, and the lower merit rate from 1% to 2%: could lead to increase in the product price and would have inflationary impact
- Increase in basic excise duty on cigarettes of more than 65mm length by adding an ad valorem component of 10% to the existing specific rates. The ad valorem duty would be chargeable on 50% of the Retail Sale Price declared on the pack: Prices will increase of cigarettes manufactured domestically.

- Increase in basic excise duty on hand-rolled bidis from 8 to 10 per thousand and machine-rolled bidis from 19 to 21 per thousand, however existing exemption available to hand-rolled bidis for clearances up to 20 lakh bidis per annum is being retained: It is an effort to gain revenue and structure the unorganised sector.

Energy, Defense and Aerospace

- The budget has not addressed any of the issues which are plaguing the growth of the private sector in defence. No step is being taken in the direction of creating a level playing field for the private sector. Private sector continues to be on an uneven footing unable to competitively bid against the DPSUs and the OEMs owing to the issues such as FERV, and uneven taxes and duties.
- Although the government has approved the guidelines for establishing the joint venture companies by defence PSU sin



PPP mode, it can't be claimed that setting of guidelines alone will boost self reliance and in digenization. The guidelines will ensure transparency in set ting up of JVCs and not directives to DPSUs to form s JVs with private sector. As DPSUs' order books are full with orders and over flowing in some cases, the intent to form JV in DPSUs is not there.

Retail

- Direct tax: Exempt ion limit increased, although a token increase yet will be leading to augmentation in the disposable income : Should give stimulus to the retail sales
- Indirect tax: Service tax increased from 10% to 12%: Food services retailing to have an impact ; eating out would be expensive. In addition increase in service tax on rentals of commercial premises would lead to increase in cost for the retailers.
- DTC deferred no clarity on GST timelines.
- Efforts to continue to build a consensus in consul tat ion with the State governments. : No fresh air for multi -brand retailing in this respect
- Investment linked deduct ion of capital expenditure incur red in



the cold chain business is proposed to be provided at the enhanced rate of 150%, as against the current rate of 100%: Will attract investment in cold chain infrastructure and improvise the supply chain

- Weighted deduct ion of 150% on expenditure incur red for agri-extension services which will trickle down to give boost to food retailing sector as well
- Concessional import duty to be available for installation of Mechanised Handling Systems and Pal let Racking Systems in mandis or warehouses for horticultural produce: Mechanisation would lead to reduction in wastage

Medical Devices

- The impact of custom duty reduction will be far reaching in cutting down the costs of medical devices and equipments where titanium dioxide is used as an input .

Technical Textiles

- The use of right mix of fibre as is the trend worldwide.
- Likely to encourage manufacturing of technical textiles items like bullet proof helmets in the country and making them competitive
- Geo-textiles manufacturing will get a boost in the country if the domestically produced items are encouraged under the Rs 500 crores scheme announced for North-East for application of geo-textiles
- R&D is must for technical textiles, hence the budget will have salutary impact on the sector
- Green house covers can be imported at basic import duty of 5% now as against 10%. May disincentive local manufacturing here
- Weaving is weak link in the textiles value chain and needs to



be modernised. Hence, custom duty exemption on shuttles looms will help the sector in upgrading the technology

Warehousing

- The proposal for setting up the national food Processing Mission is a welcome move which will definitely contribute to enhanced growth of the sector on account of improved centre state coordination and execution of policies.
- The increase in excise duty across categories ranging from 1-2% will contribute to inflationary pressures and we seek a roll back. Since the industry is low margin and high volume the roll back becomes even more pertinent.
- The reduction in customs duty on probiotics and Soya protein concentrate and isolated soya protein as well as reduction in excise duty on all processed soya food products, as also the reduction in concessional basic customs duty along with reduced excise duty of 6% on iodine, is a step in the right direction towards achieving nutrition and health goals.

MSME

- Increase in Compulsory audit limit of small business will help curtail cost of hiring auditors/ legal experts
- In order to enhance availability of equity to MSME sector, setting up of Rs. 5,000 crores India Opportunities Venture Fund with SIDBI is a welcome step. This will help MSMEs funding requirement during their start-up as well as growth stage
- For the year 2012-13, tax-free bonds for Rs. 5000 crores were announced for financing infrastructure projects for SIDBI
- In addition to 4 mega handloom clusters already operationalised, the announcement of two more mega clusters, one to cover Prakasam and Guntur districts in Andhra Pradesh and the other for Godda and neighbouring districts in Jharkhand is a welcome move for promoting cluster development for MSMEs. Also providing assistance in setting up of dormitories for women workers in the 5 mega clusters relating to handloom, power loom and leather sectors would increase employment opportunities for women.

- The allocation for Prime Minister's Employment Generation Programme (PMEGP) has been increased by 23% from Rs. 1,037 crore in 2011-12 to Rs. 1,276 crore in 2012-13. This would eventually help in broadening entrepreneurship base and thereby increasing the employment opportunity in the MSME sector.
- In order to provide impetus to the MSME engaged in production of low-cost medical devices, a reduction on basic customs duty to 2.5% with concessional CVD of 6% on specified parts, components and raw materials for the manufacture of some disposables and instruments was announced. Also, full exemption from basic customs duty and CVD is also being extended to specified raw materials for the manufacture of coronary stents and heart valves. These concessions would be subject to actual user condition. This announcement will help Indian manufacturers to bring out indigenised products at low cost



- The announcement of exemption of capital gains tax on sale of a residential property, if the sale consideration is used for subscription in equity of a manufacturing SME company for purchase of new plant and machinery will help in augment funds for SMEs

Power

- Fuel reforms: Government's appreciation for the concerns of power sector stakeholders particularly pertaining to the fuel issues is welcome. The efforts started by PMO by mandating Coal India Limited to sign Fuel Supply Agreements (with undertakings having signed the PPAs and likely to commission before or by March 31, 2015). These have been further enhanced by full exemption of basic customs duty and a concessional CVD of 1% on steam coal for a period of 2 years till March 2014. Other fuels used for power generation such as natural gas and LNG, uranium have also been fully exempted from basic customs duty. The proposed constitution of an inter-ministerial group to undertake periodic review of the allocated coal mines and make recommendations on de-allocations, if so required is also welcome. These measures coupled with full exemption from

basic customs duty for coal mining projects will certainly make the process more accountable and hopefully lead to greater domestic exploration of coal

- Financing Imperatives: ECBs have been allowed to part-finance Rupee Debt of existing power projects and tax-free bonds amounting INR 10,000 crores have been proposed for the power sector. For the power sector, besides access to low cost funds, the Budget has also proposed extension of the sunset date by one year for power sector undertakings so that they can be set up on or before March 31, 2013 for claiming 100% deduction of profits for 10 years. Additional depreciation of 20% in the initial year is proposed to be extended to new assets acquired by power generation companies. The decision to remove the cascading effect of Dividend Distribution Tax is also welcome



Homeland Security

- Efforts to increase the availability of residential quarters to forces. In 2012-13, it is envisaged to construct nearly 4,000 residential quarters for Central Armed Police Forces for which 1,185 crores are proposed to be allocated
- A provision of 3,280 crores for 2012-13 has also been made for construction of office buildings including land acquisition and barracks to accommodate 27,000 personnel. This will provide better working environment and incentive for people to serve in various forces.

ICT

- Need to get further elaboration on the viability gap funding announced for phone towers
- Some mobile phone parts have been exempted from basic customs duty which is good news
- Increase in service tax will hit the end customers in telecom sector, more so when the industry is facing lots of uncertainty
- Focus on e-enablement by stressing on enabling e-filing, e-payment of taxes, computerization of commercial taxes, Creation of online platforms etc

- All three public sector Oil Marketing Companies have launched LPG transparency portals to improve customer service and reduce leakage
- Mobile-based system that gives all information on fertilizer and subsidies movements to be rolled out nation-wide is positive step
- Use of Aadhaar as powerful effective tool in achieving good governance and maintaining transparency" Endeavour to scale up and roll out Aadhaar enabled payments for various government schemes in at least 50 districts within next 6 months

Environment, Climate Change & Renewable Energy

- No change in the existing condition

Textiles

- Excise duty on readymade Garments further reduced: Excise duty of 10% is applicable to branded ready-made garments with abatement of 55% from the Retail Sale Price. Along with increase in duty to 12%, FM proposes to enhance the abatement to 70%. As result, the incidence of duty as a percentage of the Retail Sale Price would come down from 4.5% to 3.6%. In terms of impact, there would be marginal benefit to textile companies in the higher end of the value chain

- Automated shuttle looms exempted from customs duty: Fully exempt automatic shuttle-less looms from basic customs duty of 5% would have the positive impact on weaving industry and specially Denim sector
- More Handloom clusters: Setting up of two more handloom mega clusters, one to cover Prakasam and Guntur districts in Andhra Pradesh and other for Godda and neighboring districts in Jharkhand in addition to 4 mega handloom clusters already operating.
- Three Weaver's Service Centers one each in Mizoram, Nagaland and Jharkhand to be set up for providing technical support to poor handloom weavers
- Setting up of dormitories for women workers in the 5 mega clusters relating to handloom, power loom and leather sectors
- Rs 500 crores pilot scheme in twelfth plan for promotion and application of Geo-textiles in the North East Region
- Reduction of basic customs duty on raw materials



- Mega Power loom Cluster: A Power loom Mega Cluster will be set up in Ichalkaranji in Maharashtra with budget allocation of Rs 70 crores
- Relief to Silk industry: Full exemption from basic duty is being accorded to automatic silk reeling and processing machinery as well as its parts. It is also proposed to restrict these exemptions and the existing concessional rate of basic customs duty of 5% only to new textile machinery
- Second-hand machinery would now attract basic duty of 7.5%
- To reduce basic customs duty on wool waste and wool tops from 15% to 5%
- To reduce basic customs duty on Titanium dioxide from 10% to 7.5%

Gems & Jewellery

- Excise duty stays at 1%
- Custom duty on Gold and Platinum duty has been increased from 2% to 4%. This will affect the end user, since the duty hike will be passed on to them
- Branded Silver Jewellery is exempted from excise duty; as such there is no branded silver jewellery available in market
- Cut and Polished colored gems stone to attract basic custom duty

of 2% at par with Diamonds. This will have marginal impact.

Health

- Investment link deduction of capital expenditure for certain businesses including hospitals proposed to be provided at the enhanced rate of 150% which will include hospitals. The measure will incrementally incentivize hospital penetration into tier- II and tier- III cities. However, the demand for 'Infrastructure Status' has not been met which would have a far greater impact on the expansion of numbers of beds in Tier II- Tier III cities.
- Within the existing limit for deduction allowed for health insurance, a deduction of up to Rs.5000 is being allowed for preventive health checkups.
 - ❖ This would benefit the end consumer in a big way; the proposal would lead to move towards prevention and management of diseases as also health counseling instead
- ❖ Hospitals and standalone diagnostics centers would benefit through substantial additional business.
- ❖ Health insurance industry can also benefit indirectly through better risk profiling of consumers and more scientific pricing in the long run.
- Allocation for NRHM proposed to be increased from Rs.18,115 crores in 2011-12 to Rs.20,822 crores in 2012-13.
 - ❖ Additional funding will positively impact various public health initiatives of the Government at the rural level.
- National Urban Health Mission is being launched.
 - ❖ This will have a positive impact on including the urban poor in the public health initiatives of the Government which was neglected until now

of just curative healthcare which is the need of the hour



the sector, there has not been any major announcement made. In fact, the budget speech finds no mention of higher education anywhere, thereby not giving a clear picture of the amount allocated for higher education this year. Also the much awaited impending Bills on higher education found no place in his speech which would further aggravate the anxiety of stakeholders, more so from the foreign higher education providers.

Real Estate & Housing Sector

- In view of the shortage of housing for low income groups in major cities and towns, following have been proposed:
 - ❖ ECBs allowed for low cost affordable housing projects
 - ❖ Set up Credit Guarantee Trust Fund to ensure better flow of institutional credit for housing loans;



Human Resource

- Government has largely missed out on the FICCI recommendations for higher education. Except for the routine increase in the fund allocation for

- ❖ Enhance provisions under Rural Housing Fund from 3000 crore to 4000 crore
- ❖ Extend the scheme of interest subvention of 1 per cent on housing loan up to 15 lakh where the cost of the house does not exceed 25 lakh for another year; and
- ❖ Enhance the limit of indirect finance under priority sector from 5 lakh to 10 lakh
- Due to shortage of housing for LIGs, it has been proposed to enhance the limit of indirect finance under priority sector from Rs. 5 lakh to Rs. 10 lakh
- In order to provide low cost funds to some stressed infrastructure sectors, the rate of withholding tax on interest payments on external commercial borrowings is proposed to be reduced from 20 per cent to 5 per cent for three years for sectors including affordable housing
- Investment linked deduction of capital expenditure incurred in the business of cold chain facility is proposed to be provided at the enhanced rate of 150 per cent, as against the current rate of 100 per cent
- Construction services relating to specified infrastructure, canals,

irrigation works, post-harvest infrastructure, residential dwelling, and low-cost mass housing up to an area of 60 sq. metres. under the Scheme of Affordable Housing in Partnership are also included in the exemptions to service tax

Higher Education

- Government's proposal to create a Credit Guarantee Scheme for education loans through banks to ensure better flow of credit to deserving and meritorious students will definitely enhance the affordability of higher education amongst the middle and low income groups there by increasing the GER
- To promote investment in research and development, the

government has extended the weighted deduction of 200% for R&D expenditure in an in-house facility beyond March 31, 2012 for a period of five years which certainly impact the R&D growth in universities and research centres

- Government's announcement of weighted deduction of 150% of expenditure incurred on skill development in manufacturing sector would partially help in addressing shortage of skilled manpower in the manufacturing sector and would generate employment. FICCI's initiative of setting up National Knowledge Functional Hubs (NKFH) for creating a sustained mechanism for industry-academia linkage focusing on capital



goods/manufacturing will gain by attracting corporate investment in the hub. Planning Commission is also proposing to integrate this model in the 12th Plan

School Education

- 21.7% increase in budget allocation (Rs 25,555 crores for 2012-13) for Sarva Shiksha Abhiyan (SSA) which is being currently implemented through Right to Education (RTE) would certainly help in meeting the resource crunch and help in increasing literacy level in the country



- The mention of setting up 6000 model schools is one of the elements from last year's budget. 2500 model schools to be built in PPP a framework has not taken off due lack of consensus between the government and the private sector. Hence, there is an urgent need by the government to

expedite the process so that it fructifies in the 12th Plan period

- 29% hike in fund allocation (Rs 3124 crores) for Rashtriya Madhyamik Shiksha Abhiyan (RMSA) which was launched in 2009 to enhance access to quality secondary education is a good move forward to arrest school dropout rate at the middle school level.

Union Budget 2012-13

Mr Ashwin Dani

Vice Chairman, Asian Paints Limited

Financial Year 2011 - 2012 has been a year of interrupted recovery. The sovereign debt crises in Euro zone intensified, political turmoil in Middle East injected widespread uncertainty, crude oil price rose, an earthquake stuck Japan and the hence overall economic growth was slow.

The country had to constantly battle double digit inflation. The monetary and fiscal policy response during this period was geared towards domestic inflationary pressures. A tight monetary policy impacted

investments as well as consumption growth. The fiscal policy had to absorb expanded outlays on subsidy and duty reductions to limit the passing of higher fuel prices to consumers. As a result, growth moderated and the fiscal balance deteriorated.

It is under this difficult and uncertain times, our Hon'ble Finance Minister had to present his budget.

The GDP estimate for FY12-13 at 7.6% looks challenging considering the current rate at 6.9%. Lowering

the Fiscal Deficit to GDP to 5.1% for FY13 from 5.9% for FY12 will be a good one.

There are no major reforms proposed in the budget as well as allocations to social security schemes have been kept in control.

Allowing ECB's will also help in the survival and development of certain industries like airlines, housing, power and roads. Considering the current financial crisis suffered by major airlines, the proposal to allow ECB's of up to \$1 billion will help them to meet immediate funding needs.

The focus on basic sector continues viz agriculture, irrigation, rural development and infrastructure.

The launch of National Urban Health Mission will boost the performance of the Healthcare sector. However, the extension of MAT (Minimum alternate Tax) to



non-corporate entities as well as partnership firms will lower the earnings of major healthcare companies in India

Though the budget speech promises the implementation of Direct Tax Code ('DTC') as well as Goods and Services Tax ('GST') and highlights the steps taken in this direction, unfortunately no concrete timelines have been provided for the same. The Hon'ble Finance Minister also proposes to release "white paper on Black Money" in order to tackle the malaise of generation and circulation of Black Money

On the Direct Tax Front, the Hon'ble Finance Minister has tried to keep aam aadmi (Common Man) happy by revising the slabs for income tax and giving certain small deductions. Also he has tried to give tax carrot for channelising the household

From the consumer point of view, the changes in the Income Tax structure will lead to more disposable income in the hands of the consumer and increased savings. At the same time, budget has taken away some of the tax benefits enjoyed by the consumers with respect to life insurance policies and infra bonds

As is always, the devil is in the fine print. The budget has introduced a series of retrospective amendments to reverse various judgements especially the Hon'ble Supreme Court judgment on taxability of indirect transfer of shares - the famous "VODAFONE CASE" retrospectively from 01.04.1961. This kind of amendments negate the time tested interpretation of law and surely lose credibility of the Country globally as well as damage

the chances of the country getting much needed FDI !!

The budget has launched a crack down on tax evaders by introducing various tax evasion measures:

- 1% tax deduction at source on transfer of immovable property;
- 1% tax at source on cash purchases of jewellery over Rs. 2 lacs;
- 30% tax on unaccounted money even if it is within exemption limit
- Tax authorities can open cases for upto 16 years, if foreign undisclosed income is found
- Compulsory filing of income tax return for those having assets outside India

This will surely help in improving compliance and reduction of circulation of black money in the system resulting in additional tax revenue to the exchequer.

The budget also tries to debut certain provisions of DTC early:

- General Anti Avoidance Rule (GAAR)
- Advance Pricing Agreements (APA)
- IT exemption upto Rs. 2 lacs for individuals



- Upper limit of 20% slab upto Rs. 10 lacs

The hike in Excise Duty and Service Tax will lead to increase in the price

It also proposes to include the scope of Transfer Pricing by including domestic transactions into its fold.

On the Indirect Tax Front, the Hon'ble Finance Minister has chosen to increase the rate of excise and service tax by 2%, thereby increasing burden on the consumers as well as spiraling inflation.

Another milestone amendment proposed by this budget is taxation of services based on the negative list. From 1994 till date, taxation of services is based on the positive list of taxable services proposed by the Finance Act. Hence this is a paradigm shift in the way of taxing of services and will certainly pave the path of movement towards GST.



Mr Ashwin Dani
Vice Chairman
Asian Paints Limited

Ashwin Dani was Vice Chairman and Managing Director of Asian Paints Limited from December, 1998 to March, 2009. Currently, he holds the position of Vice Chairman of the Company and was the Vice President of Federation of Indian Chambers of Commerce and Industry (FICCI). He is also a member of the Board on Sun Pharmaceuticals Ltd and ACC Limited one of the leading pharmaceutical and cement companies in the country.

He started his career in 1967, as a Development Chemist with Inmont Corp, (now known as BASF) Detroit USA, a major supplier of automotive OEM and refinishes. He joined Asian Paints in 1968 as Senior Executive and moved through successive senior positions like Director- R & D, Works Director, Whole-time Director and Vice Chairman.

Mr. Dani is the past President of the Indian Paint Association (IPA) and has received a number of awards for his contributions to the Paint Industry. He was a member of the Central Board of Trustees - Employees Provident Fund of the Govt. of India and was also the President of the Board of Governors of the UDCT Alumni Association, Mumbai. Currently, he is the member of the Board of Management of Institute of Chemical Technology (formerly UDCT).

Ashwin Dani was born in October 24, 1942, in Kapadwanj, Gujarat. He completed his B.Sc. (Hons) from the Institute of Science University of Bombay and B.Sc. (Tech) (Pigments and Varnishes) from U.D.C.T. University of Bombay. He holds Masters Degree in Polymer Science from University of Akron, Akron, Ohio, USA and Diploma in Colour Science from Rensselaer Polytechnic, Troy, New York. His hobbies include collecting art and yoga.

Ashwin Dani is an ex-managing Trustee of "Light on Yoga", a trust created by the world famous Yogacharya, Shri. B.K.S. Iyengar and his disciples.



A credible budget

*Mr Rashesh Shah, Chairman and CEO
Edelweiss Group, Chairman
FICCI Maharashtra State Council*

FM's latest budget offering is credible, realistic and growth oriented, says Rashesh Shah

Now that the heat and dust has settled down on the budget proposals and the reality is sinking in, it is perhaps a good time to look at what the proposals actually mean for the Indian economy in general and India Inc. specifically.

But before undertaking that exercise, it would perhaps be proper to understand the political and economic context in which the FM was operating. It would help with a greater and perhaps more nuanced understanding of the budget.

In his long and chequered career as a politician and administrator, Finance Minister Pranab Mukherjee is unlikely to have faced a more daunting task than finalizing this budget. The competing pressures on him were intense.

It was quite clear that the Indian economy faced structural challenges. Fiscal deficit was way over the numbers projected in last

year's budget. Inflation which had cooled in the early months of 2012 was again raising its head.

Investments and consequently growth had slowed down to about seven per cent. Clearly what was needed was a budget that attempted a fiscal course correction while giving an impetus to growth - itself an onerous task.

Complicating the scenario further were the setbacks in the recent assembly elections and growing dissonance between the Congress and other constituents of the UPA on various policies. This meant that the political room for big bang reforms was clearly limited.

Given these constraints the Finance Minister has managed to perform a minor miracle and walk the high wire like a virtuoso. He has admirably balanced the various pulls and pressures and yet delivered a budget growth by maintaining consumption, reviving investment, boosting capital markets and widening the tax net.

The big worry was the fiscal deficit and even the FM admitted as much in his budget speech. From a projected level of 4.8%, fiscal deficit had reached 5.9%. This was clearly unsustainable and inflationary. The RBI had also said that it was almost impossible to curtail inflation using monetary tools alone. What was needed was fiscal consolidation. But given the political scenario, it was clear that the FM will have very little room for curbing spending. Increasing taxes beyond a certain level was also not an option since this would have only impacted investments.

Yet the FM has projected a fiscal deficit of 5.1%. How does he hope to achieve that? Two initiatives hold the key. First, as he mentioned in his budget speech, better targeting of subsidies to plug leakages and use of the UID platform for direct cash transfers. The second perhaps even more subtle is his statement to cap all subsidies - food, fuel, fertilizer etc. at 2% of GDP and reducing them to about 1.7% of GDP in three years time. This will only be possible

if the oil prices remain at the same level or come down during the year.

In case the situation in Iran results in a sudden oil price spike, the government will have no option but to pass on the burden to consumers. Don't be surprised however if the fuel hikes come when the parliament is not in session to reduce the political fallout.

On the revenue side, there has been a lot of heartburn on the raising of excise duties. But this was perhaps inevitable. The FM had slashed exercise duties when he attempted to give a fiscal stimulus after the global financial meltdown. Now the time had come for controlling the deficit and he had little option than to raise the duties.

The raising of Service Tax rate to 12% was a bit of surprise, but perhaps unavoidable given the FM's need to raise resources. But the move to a negative list will go a long way towards simplifying the process. His proposals on avoidance

of tax evasion are very significant and could have long term positive implications for the economy.

All the moves on the infrastructure sector - from doubling of the limit to tax free infrastructure bonds to Rs. 60,000 to customs duty relief for import of fuels like coal are welcome and could re-start critically needed investments in these sectors.

The proposals on the capital markets side - whether the cut in Securities Transactions Tax, the incentives under the Rajiv Gandhi equity scheme for first time investors, as well making the electronic format mandatory for 10% of IPOs over Rs. 10 crore are again small but directionally important steps. What the FM seems to convey is that he appreciates the importance the markets in the capital formation process.

The main concern really is about inflation which after cooling off for a couple of months has started raising



its head again. It is quite likely that global scenario on oil may add to this. How the government manages to tackle this will remain the big imponderable.

Admittedly there were no "Big Bang", headline grabbing reforms in the budget. But the FM has done enough to re-ignite growth and more importantly, he has done it in an understated, credible manner that is unlikely to raise any political hackles and thus has greater chances of success.



Mr Rashesh Shah
Chairman and CEO
Edelweiss Group
Chairman, FICCI
Maharashtra State Council

Rashesh Shah, Chairman and CEO of the Edelweiss Group has over twenty years of experience in financial services in India. Prior to founding Edelweiss, he worked with ICICI, then India's premier industrial development bank and today its largest private sector bank. In 1996, encouraged by the opportunity in the financial services sector as a result of economic reforms and liberalization in India, Rashesh founded Edelweiss with initial equity capital of INR 1 Cr (USD 250,000).

Rashesh's focus on innovation and his passion for growth through expansion into related/adjacent markets has been a key differentiator for Edelweiss. Under his leadership, the company has combined growth oriented entrepreneurship with a strong focus on risk. Rashesh has served on the Boards of various companies and public institutions. He has in the past served on the Executive Committee of the National Stock Exchange and has recently been appointed as Chairman, FICCI Maharashtra State Council. Besides this, he has also been the Chairman of the Capital Markets Committee of FICCI.

He is also a regular speaker at various industry and economic forums. Besides writing regularly for various leading business dailies and publications in India, Rashesh's views on the Indian economy and policy issues are regularly sought by leading Indian and global business journals. Rashesh is an MBA from Indian Institute of Management, Ahmedabad.

Union Budget 2012-13

*Mr Y. M. Deosthalee, Managing Director
L&T Finance Holdings Limited.*

The Union Budget for the year 2012-13 was presented by the Finance Minister under very challenging circumstances. The GDP growth for the year has considerably slowed down and is expected to be around 6.9% for the current year. Inflationary pressures have somewhat come down, but crude oil prices are at elevated levels threatening inflation which may raise its head up in the near future. More importantly, the revised estimate for the all-important fiscal deficit has been pegged at 5.9% of the GDP as against 4.6% as budgeted last year.

The budget announcements need to be viewed with this background. The Finance Minister has targeted a fiscal deficit figure of 5.1% for FY13. While this is a welcome step, the plan to bridge the gap is mainly through increase in the revenues.

The increase in revenues is proposed to be achieved through Indirect Taxes. The standard rate for Excise Duty has gone up from 10%

to 12%. Similarly, Service Tax rate has been increased from 10% to 12% and the tax base has been widened with introduction of a Negative List consisting of 17 segments. These measures are part of the Government's efforts to rollback the stimulus measure introduced in 2008 and 2009.

While these moves are seen as key to achieving fiscal consolidation, one wonders about whether these targets will be achieved considering that growth in FY13 is expected to be moderate, and that the inflation situation continues to be precarious. In the current year, we overshoot the budget for subsidies by more than 50%. If crude prices remain at the current elevated levels or rise even further, it is unlikely that we will achieve our fiscal targets, unless the Government takes steps to increase the prices of gas, kerosene and diesel at the risk of stoking inflation.

A welcome proposal was the thrust on direct transfer of subsidies with respect to fertilisers, LPG and

kerosene using Aadhar, thus streamlining the process to reduce costs of delivery, improving governance and losses due to leakage.

It was however surprising to note that the disinvestment target for the next year at Rs.30,000 crores is even lower than the target of Rs.40,000 crores set in the budget presentation last year. The Government seems to be banking heavily on the auction of 2G spectrum freed up after the SC cancelled 122 licenses.



The Corporate Tax rates have been left untouched, and certain proposals such as the rationalisation of cascading impact of the DDT for multi-tier corporate groups are welcome moves. However, the proposal that domestic transactions with related parties will now be subject to Transfer Pricing regulations in case the transaction value exceeds Rs. 5 crore, is taxing and unnecessary. Another troubling development for all businesses is that many of the amendments to the Income Tax Act, have been made applicable with retrospective effect thus creating uncertainty for industry and sends out more negative signals about India as an investment destination.

The bringing forward of certain DTC proposals with respect to GAAR are welcome, but should have been introduced in a more careful manner. For instance, the Finance Bill ignored some very important aspects such as the precedence of existing tax treaties over the GAAR, and that the onus of proving avoidance should be on the IT Dept and not on the tax payer. In the proposed form, tax planning can easily be interpreted as tax evasion.

An inadequate aspect about the FM's speech was that there was no mention of any target for implementing important legislations like GST and DTC. The only allusion that the GST network would be

operational by August 2012, is of no consequence.

The FM announced incremental steps to provide impetus to investment in the infrastructure sector. Doubling of the limit for tax-free infrastructure bonds to Rs.60,000 crores, allowing the Power sector to raise ECBs to replace INR debt, reduction in withholding tax on interest on ECBs for areas such as roads, power, ports and certain other infra sectors, the extension of some benefits for import of power equipment and the reduction in duties for importing coal and LNG, are all welcome steps, but unless issues surrounding land, environment and fuel are sorted out, the sector as whole will not really revive.

However, it is disappointing to note that there will be no extension of deduction of INR 20,000 per annum on subscription to specified long-term infrastructure bonds. Many in the industry had called for increasing the limit as the instrument had begun to find favour

with small investors and infrastructure companies were benefitting from lower cost of funds. The impact of the extension on the exchequer would have been minuscule. The Government may argue that concessions with respect to ECBs for the infrastructure sector would more than compensate for the withdrawal of tax benefits, but the fact is that not all developers are in a position to raise and manage the risks related to foreign exchange debt which is where IFCs have so far played a very important and effective role.

The FM made some right noises about legislative reforms for the financial sector by proposing that the long awaited bills for important sectors like Banking, Insurance, Pensions and Micro Finance would be moved in this session of parliament. We now have to await passing of these Bills.

For individuals, there was some relief as the tax slabs were widened and the move to allow income deduction for equity investments up



to Rs.50,000 per year, subject to a 3-year lock-in, to those with annual income less than Rs.10 lacs, will be welcome and may even provide a small boost to the equity markets. On the same note, the cut in STT will provide a boost to delivery based trading. The move to allow income deduction of up to Rs. 10,000 in respect of interest earned on saving account is another positive step and we may see

increased flows into saving accounts, which will be a positive for the Banks as well.

Individual tax payers will probably find the proposed TDS of 1% for transfer of immovable property particularly onerous, since they would now have to seek a refund, in case they meet the condition for exemption from payment of long term capital gains tax on sale of house property and subsequent purchase of another property.



Overall, while the budget was neither populist nor reformist, it was quite balanced. However, some seemingly minor points in the fine-print have left a bad taste in the mouth.



Mr Y. M. Deosthalee
Chairman
& Managing Director
L&T Finance
Holdings Limited.

Brief Profile

- 1974 - Joined Larsen & Toubro Limited (L&T)
- 1995 - Appointed as Chief Financial Officer & Member of the Board, Larsen & Toubro Limited till he retired on 5 September 2011.
- 6 September 2011 - Appointed as Chairman & Managing Director of L&T Finance Holdings Limited.
- Member on the Board of several Subsidiary & Associate Companies of the L&T Group

In addition to his current responsibilities:

- He is the Non-Executive Director of L&T Finance Limited, L&T Infrastructure Finance Limited.
- He is the Chairman of L&T Mutual Fund Trustee Limited.
- He is the Non-Executive Chairman of L&T General Insurance Co.Ltd.
- He is also responsible for the Concessions business of the Group which is housed in the holding company viz. L&T Infrastructure Developmental Projects. The Company has several infrastructure projects at different stages of completion in sectors such as Roads, Ports, Urban Infrastructure Projects including one of the largest Metro Rail Projects in the country - Hyderabad Metro Rail. Consequently, he is Non-Executive Chairman of L&T Infrastructure Developmental Projects and L&T Metro Rail (Hyderabad) Limited
- Has won several Best CFO Awards in the recent past.

A Capital Markets Friendly Budget 2012/13

Dr V Shunmugam, Chief Economist
MCX Stock Exchange

Thanks to the resilience of the Indian Economy, it was able to outperform other emerging economies during the last three years next only to China in terms of its economic growth. However, FY 2011 – 12 tested the mettle of the markets and investor sentiments, consequent to the Euro Crisis, fears about hard landing of China and a slew of domestic economic issues including inflation, weakening currency, widening fiscal deficit, to name a few. Yet, the economy is expected to post a healthy 6.9 percent growth given the resilience of the domestic demand and the calculated measures undertaken to nurture the demographic dividend. However, falling investor sentiments led to increased withdrawal of investors at the retail level and hence the contraction in market-based fund raising activity. Sensing the same, the government had moved in with the right measure to encourage retail participation in equities with a tax incentive and also by reducing their cost of purchase from the

secondary markets through a reduction in the tax incidence from 0.125 % to 0.1 % on delivery based equity market transaction. It would have been further helpful to improve the liquidity and reduce the cost of trading in secondary markets if a reduction to the same extent had been extended to non-delivery based transactions in the equity markets as well.

The Rajiv Gandhi Equity Savings Scheme is expected to incentivize investment among 34 million tax payers in the country as opposed to 20 million demat account holders that are estimated to have been initiated into the culture of equity based investments of which an estimated 50 percent are said to be active (at least making one transaction a year). In addition to improving their access with no-frills depository accounts, it would be helpful if the banks could provide them with intermediation services in terms of trading advisories, enablement of their purchase through bank arranged intermediary

at the lowest cost as possible with the best possible advisory keeping in mind the mandate of the equity savings scheme and the customer's needs. Banks in India have a total of 310 million accounts compared with only about 20 million demat account holders in the country as per the current statistics. It means that Indian Capital markets can make further inroads hand in hand with the growth in banked population in the country with the financial sector reforms process enabling the same. This freeloading relationship if enabled, it would help the economic stakeholders effectively plough their savings into



profitable economic investment opportunities and share the benefits of economic growth equitably.

Apart from the secondary markets, the budget announced proposal for Electronic IPO (E-IPO) would further help the retail investors access primary markets online and to benefit from economic opportunities through investment in public offerings in a transparent and real-time manner. In its roll out, the E-IPO initiative announced is likely to simplify the access of market participants and improve transparency, promoting participation and help in easier decision making. These financial enablement measures, if combined with easier access through no-frills depository accounts, would assist Indian capital markets improve retail penetration. In this context, it is heartening to note that the FM had vowed the current progress of the UID scheme from 200 million to a further beneficiary population of 400 million. Regulatory reforms and

modification in the regime if needed to enable UID as the key element of KYC would help further simplify the process of opening of demat account, especially for the retail investors. If the focus of the announced skill development funding shall be directed towards capacity building it would go a long way in augmenting the capital markets growth process and to make it inclusive.

Retail investors, being physically away to take part in the critical decision making processes of their investee businesses, have always wished electronic enablement of their participation in an effort to improve trust in their investments in the top listed companies. The proposed electronic enablement process would not only increase the trust levels but also enhances the corporate governance process besides improving the overall trust of the retail participants in equity based investments. It remains to be seen how effectively and

economically investor participation in decision making of their invested businesses is being enabled in its implementation. Effectively implemented and taken across all listed companies, it would remain a benchmark measure in the efforts of the capital markets to improve retail investor participation in equity markets to preserve the diversity of participation and information and thereby improve the market efficiency.

Continuing its intent to move away from the path of socialism that had been predominant in policy making till the liberalization of 90's, the proposed continuation of PSU disinvestment would not only help augment the growth of capital markets but would also assist the government in sharing wealth creation opportunities among the private investors. Mr Mukerjee's announcement of having a controlling stake in all Public Sector Undertakings would go a long way in assuaging any socialistic concerns that may arise and could facilitate the processes in successful completion of the proposed divestment measures. It would be interesting to watch the investor's response while the proposed disinvestment process hits the market, as reforms in policies plays a key role in strengthening investor confidence.

Apart from equities, this budget by allowing QFIs in the Corporate Bond



Markets recognizes the need for wider participation in India's illiquid markets for Corporate Bonds. If markets in which risks in Corporate Bonds could be managed are anchored such as IRF and CDS, it would go a long way in creating vibrant markets for Corporate Bonds and would empower the Indian corporate to choose between debt to equity capital depending on various economic/market/business indicators that would guide their decision making. A strong secondary market in Corporate Bonds is essential for healthy markets for corporate debt instruments in India. Debt markets would help infrastructure companies tap the markets effectively to meet their long-term funding needs. Though, it would initially need government

support in terms of assurances, a vibrant market place with effective information convergence would help issuers of corporate bonds from infrastructure firms and help in the nation building process. The proposed infrastructure debt fund shall be enabled to assist the policy makers, regulators and market places to set up debt markets that private infrastructure developers can access to take care of their working capital needs.

The proposed tabling of critical reform legislations and their passing/implementation will accentuate the process of widening and deepening of the Indian financial sector in general and the capital markets in particular. Healthy competition among the Market Infrastructure Institutions is critical



in turning these reform measures into wealth creation and sharing opportunities among the Indian economic stakeholders to subserve the Government's Objective of Financial Inclusion.



Dr V Shunmugam
Chief Economist
MCX Stock Exchange

Dr. V Shunmugam is the Chief Economist at MCX Stock Exchange Pvt Ltd. (MCX-SX), Mumbai. Having obtained extensive experience in economic research, commodity and currency markets and policy analysis, his key responsibility as the Head of Research at MCX-SX is to analyse market data and trends and informing market participants, regulators and policymakers about how the markets are trending and, therefore, the course that ought to be taken in line with the changing global and domestic socio-economic and political needs.

As an expert on forex and commodity markets, Dr. Shunmugam also propagates the need and benefits of hedging risks in foreign currency on the exchange platform via his articles, white paper, case studies, lectures and speeches etc, for various market participants like corporates, SMEs, importers and exporters, among others.

Earlier, Dr. Shunmugam was the Chief Economist at the Multi Commodity Exchange of India Ltd. (MCX), and as the Head - Economic Analysis and Publications Division, he analysed commodity market trends, regulations and policy issues and kept the stakeholders updated about the same.

Dr. Shunmugam regularly contributes research papers, analyses, articles, etc. on subjects ranging from commodities to capital markets to issues related to trade policy, financial markets and the recent global financial crisis in national and international publications of repute, including journals, books, financial dailies and trade publications.

Prior to joining MCX, he was an Agricultural Specialist at US Department of Agriculture (USDA), where he spent more than 8 years. Dr. Shunmugam has a Ph. D. in Agricultural Economics from Indian Agricultural Research Institute, New Delhi.

Union Budget 2012-13

*Mr Shachindra Nath, Group Chief Executive Officer
Religare Enterprises Limited*

Overall, the Union budget for FY12-13 appears to be balanced and pragmatic.

On the positive side, it is heartening to note that the Government is seized of the pressing need for fiscal prudence and has set itself a target of a fiscal deficit of 5.1% of GDP for the coming year. This appears to be broadly feasible, as it is backed by two key sets of decisions:

1. Increasing tax revenues, through a combination of raising excise duties to pre-crisis levels of 12% and broadening the service tax net via the mechanism of a negative list and increasing the rate to 12%. This is indeed a good move, as it recognizes the services-led nature of India's economy and seeks to expand the tax base to cover a vast majority of it, something which was long overdue.
2. A commitment to control subsidies to under 2% of GDP and further reduction in the coming years. While this is of

course subject to the major external influence of oil prices which is beyond the Government's control, the very fact that such a goal is being mooted and monitored will lead to better control on this front. Further, it is encouraging that the initial steps towards a direct cash transfer of subsidies have started through pilot projects, as this would enhance the effectiveness of the delivery of subsidies to the needy.

On the flip side, the budget does seem to have missed an opportunity in terms of moving the reforms process forward and giving a fresh fillip to GDP growth, which has now slipped below 7%. No firm commitments have been announced on the timelines for the implementation of key reforms such as the Direct Tax Code (DTC), Goods and Service Tax (GST), raising FDI limit in Insurance, Banking Regulations Amendment Act, etc. only mean a prolonged period of uncertainty for the industries.

However, this was not wholly unexpected, given the need to establish consensus on these matters. Changes to the Income Tax law such as domestic transfer pricing, and retrospective amendments to the law also do no good for investor confidence.

From a financial services perspective, the budget is neither positive nor negative.

The one big positive is the new Rajiv Gandhi equity scheme, aimed at getting new investors into the equity markets. After a long time,



there has been a policy push in this regard. Equity ownership in India is amongst the lowest in the world, with less than 3% of household financial savings invested in the markets in the form of shares or debentures. While the fine print on the scheme is yet to be finalized, initial estimates suggest that if executed well, this scheme alone has the potential to attract Rs 15,000 Crore of fresh investments into the equity markets (Source: Association of National Exchange Members of India).

The Securities and Exchange Board of India (SEBI) has already mooted the creation of no-frills demat accounts to support this scheme. Measures like this, coupled with sufficient incentives for retail investors in the government disinvestment programme as has been done in the past can provide a fresh impetus to the capital

markets. The broking industry in India will have to gear itself up to deliver this to the retail investor especially in Tier II to Tier IV towns, a challenge which I am sure they will relish.

On the Micro, Small and Medium Enterprise (MSME) side, the move to set up a Rs. 5,000 Crore India Opportunities Venture Fund with SIDBI is a welcome step. SMEs represent over 95% of the industrial units in India, and are going to be the growth engine for manufacturing in this country, much like the famed 'Mittelstand'. Mittlestand refers to the SMEs of Germany, which contribute up to 50% of its GDP and over 70% of its employment.

Additional announcements such as a 20% reduction in the Securities Transaction Tax (STT) on delivery transactions, two-way fungibility for

Indian Depository Receipts (IDRs) are all positive for the financial sector.

However, the increase in service tax by 2% will certainly bite and would result in higher costs for the end customer across a range of financial services.

On the banking side, the budget has proposed further capital infusion into the Public Sector Banks directly to the tune of over Rs 18,000 Crore, and a Financial Holding Company structure for additional capital support. Unfortunately, this falls quite short of the actual needs of the system to keep up with credit growth as well as the upcoming Basel III.

On a final note, the continued support to the UID scheme is welcome, as this will form the backbone of the overall delivery mechanism of subsidies in the future.



Mr Shachindra Nath
Group Chief Executive Officer
Religare Enterprises Limited

Mr. Shachindra Nath (Group Chief Executive Officer) Religare Enterprises Ltd. carries the overall responsibility for leading all pivotal operations and businesses of the group. He has been associated with Religare since the year 2000 and has been instrumental in building various businesses under the Religare umbrella from scratch.

His strategic agility coupled with hands on approach has been a key to Religare's growth and success over the years. With a career span of more than 20 years, Shachindra is a highly accomplished professional backed by an exemplary academic record. He is a University rank holder for his Bachelor's degree in Law from the Banaras Hindu University, Varanasi. He also went on to pursue a Post Graduate diploma in Intellectual Property Rights from the Amity Law College, Delhi.

Prior to joining Religare; Shachindra has worked in the manufacturing and Financial services sector in various capacities. A great motivator and leader, when not at work he loves to read, contribute to columns, travel and spend time with his family.



Union Budget 2012-13

*Mr Gaurav Kapur, Senior Economist
Vice President
Royal Bank of Scotland N.V. (India)*

The Union Budget for the fiscal year 2012-13 was presented in a backdrop of slowdown in growth, persistent inflation, stalled investment activity, high interest rates partly due to large government borrowings, high and rising oil prices and a weak rupee. In this macro-economic setting, the Budget was being eagerly awaited to revive growth and improve investor sentiment. The Finance Minister in particular was expected to deliver "credible" fiscal consolidation while supporting growth by reviving investment activity and addressing supply side bottlenecks in the infrastructure and farm sectors.

Fiscal consolidation through higher indirect taxes

The Budget delivers on fiscal consolidation to some degree even as the fiscal policy remains expansionary in nature to support growth. The fiscal deficit target for next fiscal has been put at 5.1% of GDP down from the revised number

of 5.9% in the current fiscal. This fiscal consolidation is essentially based on higher indirect tax revenues and lower subsidies' bill, while maintaining public spending growth in line with nominal GDP growth.

Importantly, the budget is based on more "realistic" assumptions about the macro-economic environment, thereby reducing the scope for fiscal slippage seen this fiscal. Key assumptions include real and nominal GDP growth of 7.6% and 14% respectively in the next fiscal and average price of crude oil at \$115 per barrel for 2012. Real GDP growth of 7.6% seems to be on the higher side, though for nominal growth of GDP at 14% seems reasonable considering that average inflation in the next fiscal could be around 7%.

The Finance Minister has relied on raising indirect taxes to shore up gross tax revenues. In order to lay the ground for the implementation of the GST by August 2012, whole services sector has been brought

under the tax net except a negative list of 17 services. This will be an important milestone for the country's taxation structure. The services sector which accounts for about 60% of India's GDP, contributes only about 10.5% to government's total revenue. A wider service tax net combined with an increase in the service tax rate from 10% to 12% is expected to yield a 31% increase in service tax revenue over the current fiscal.

The other major source of tax revenue is from excise duties, where the standard rate has been hiked from 10% to 12%. Here, the government has estimated a 29% growth in excise duty collections in the next fiscal. Custom duty collections are budgeted to increase by 22%, considering high crude oil prices and high incidence of taxes on fuel products. Overall, revenue projections seem reasonable.

The impact of service tax rate and excise duty hikes would however, be "inflationary" in nature. To curb the pressure of increased indirect taxes

on consumers, the Finance minister has provided some sops to individual tax payers. From a minimum savings of Rs. 2000, individual tax payers can save up to Rs. 22,000 in the next fiscal. The Finance Minister also reiterated his commitment to introduce Direct Tax Code soon and left corporate tax rates unchanged.

Spending remains largely revenue in nature, more money allocated to capital expenditure

On the expenditure side, the subsidies total bill has been curtailed to 1.9% of GDP from 2.4% in the current fiscal. This works out to a 12.1% reduction in the total bill between the next and the current fiscal. The central government aims to bring down the subsidies bill to 1.75% of GDP in the next 3 years.

For the next fiscal however, the Finance Minister has once again relied on under-provision of subsidies, especially in case of fuel, which leaves room for an increase during the coming year. The subsidy provided for fuel is pegged at Rs. 435.8 billion compared to Rs. 684.8 billion in the current fiscal. Subsidy on fuel is likely to over shoot significantly during the year considering that oil prices could remain at an average of close to \$115 per barrel and rupee could stay weaker for most of the coming

fiscal relative to the current fiscal. The only way to curb fuel subsidy will be to raise fuel prices significantly, especially those of diesel and LPG in the coming fiscal year. However, that may not be politically tenable and hence can strain government's finances during the year. Estimates for fertilizer and food subsidy also seem to be on the lower side.

Total government spending is estimated to grow by 13.1% compared with 8.4% growth in the current fiscal. The focus of spending remains on supporting government's social sector plans via greater fund allocation to health, education and the rural infrastructure. The mix of spending remains largely revenue in nature, even though the capital spending has been increased by 30% over the current fiscal. Interest payments, subsidies and defence spending combined amount for almost 50% of the total spending. Higher revenue spending would support consumption and that is something the RBI would take into account when it considers the magnitude of policy rate cuts during the next fiscal.

Larger market borrowings to exert upward pressure on rates

To bridge the fiscal deficit, the government will mainly rely on

market borrowings. The size of net market borrowings is budgeted to go up to Rs. 4790 billion from Rs. 4364 billion in the current fiscal year. That is bound to put pressure on interest rates in the economy. The RBI will have to continue supporting government borrowings through open market purchases if capital inflows do not pick up significantly during the year. The central bank in the current fiscal year has absorbed over Rs. 1000 billion of government borrowings through its open market purchases. Upward pressure on rates can increase especially if bank credit off-take picks up on improvement in growth and some easing of rates.

Moreover the scope for fiscal slippage and therefore higher market borrowings also exists on account of under-provision of subsidies and some possibility of tax and non-tax revenue slippage. On the non-tax revenue front, the government is relying on sale of telecom spectrum to generate Rs. 400 billion and Rs. 300 billion from



disinvestment. Given the uncertainties in the telecom sector policies and given the volatility in the capital markets, both these numbers are subject to under-shooting.

Supply side measures focus on power sector

The Finance Minister partially delivered on alleviating the supply side bottlenecks. The focus here was on the infrastructure sector, particularly power, where access to foreign capital via external commercial borrowings (ECBs) for part financing of rupee debt was allowed and some tax concessions were given, particularly on coal imports. With the aim of channelizing more funds into the infrastructure sector, the total limit for the issuance of infrastructure bonds was doubled to Rs. 600 bn from Rs. 300 bn. The critical and stressed sector of aviation was given more support, via access to ECBs for working capital up to a total of \$1 billion.

Financial sector - more money for recapitalization of banks

Some crucial financial sector measures were announced in the Budget, with key being recapitalization of public sector banks by Rs. 158.9 billion, keeping in mind higher capital requirements under the Basel III regime and an increase in non-performing loans. The Finance Minister also proposed setting up of a financial holding company to meet capital requirements of the public sector banks.

On impending legislative reforms in the financial sector, the Finance Minister announced that the key financial legislations covering pension, insurance, banking and microfinance will be introduced in the ongoing session of the Parliament. This is critical for the financial sector on the whole as the existing laws governing the sector need to be revamped in order to

more efficiently garner savings and to improve on capital allocation.

Measures to channelize more household savings into financial assets, has been attempted via tax concession to retail investors for their equity investments and higher duties on gold. Household savings in physical assets are over 12% of GDP. Such savings are unproductive in nature as they are not available for supporting investments in the economy.

On the whole, the Budget 2012 was just used for presenting the state of public finances, rather than a platform to announce major reforms. While higher indirect taxes will be inflationary, these are needed to bridge the fiscal gap. Overall the fiscal policy remains expansionary and will work together with easier monetary policy, to shore up growth.



Mr Gaurav Kapur

Senior Economist, Vice President
Royal Bank of Scotland N.V. (India)

Mr. Gaurav Kapur is the Senior Economist, Vice President at the Royal Bank of Scotland N.V. (India). His experience at the bank dates back to November 2000 when he joined the bank's economics research team as Associate Economist. Prior to joining the bank he served a year at the Indian Council for Research on International Economic Relations (ICRIER). His academic background includes an undergraduate degree in Economics from Delhi University, a Graduate degree in Economics from Delhi School of Economics and a Post Graduate Certificate in Business Management from XLRI, Jamshedpur.

He is regularly quoted in the financial media and is a columnist for DNA Money. He has also been a member of the RBI's expert committee for the review of the national inflation expectations survey and represents the bank at key industry chambers.



*Mr. Hemant Kanoria, Chairman and Managing Director
Srei Infrastructure Finance Ltd.*

With USD 1 trillion investment envisaged for infrastructure in the 12th Five Year Plan and 50% of it to come from the private sector, Union Budget 2012-13 was expected to create an enabling environment for raising long term debt and equity from both domestic and overseas markets. While the issue of tapping overseas resources was addressed to some extent, there was no initiative to channelize the domestic long term funds into infrastructure.

However, this Budget had several positives for the infrastructure sector. The Finance Minister's emphasis in this budget had been to address the supply-side bottlenecks that have persistently fuelled inflation. Besides enhancing sectoral allocations, the doubling of the amount of tax free bonds to be raised for infrastructure in FY13 will facilitate capacity augmentation in roads, power, railways, housing, ports, etc. Expanding the scope of Viability Gap Funding and including various segments of agricultural

infrastructure, telecom and also including oil & gas related infrastructure also a welcome step. It was heartening to note that the Government has rightly identified the criticality of external commercial borrowings (ECB) in infrastructure financing and to that end has rightly allowed ECB financing to play a larger role in sectors like roads, power, railways, housing, mining, etc. Reducing the withholding tax rate on ECB from 20% to 5% for 3 years for select sectors is another big positive for infrastructure. In addition, customs duty reduction on a number of items and equipment pertaining to sectors like road, power, mining, shipping, aviation, cold chain, agriculture, etc. will go a long way in benefiting India's infrastructure. Apart from enhanced allocation for rural infrastructure, incentives have been provided towards encouraging creation & use of more warehouses, which will help towards curbing our annual wastage of foodgrains to a large extent.

The power sector seems to have received extra attention vis-à-vis other sectors, and this is indeed necessary now keeping in mind that this sector is going through a tough phase. The sunset clause for power sector stands extended for another year and the sector has also been allowed enhanced depreciation on select items. In addition, this sector is entitled to the above-mentioned steps too like tax-free bonds, ECB window and custom duty reduction on select imports.

However, there are several areas where the Budget should have delivered more:

- a) No effort was made to channelize some of the long-term resources available with the insurance and pension funds into infrastructure.
- b) While there has been an increased emphasis on ECB, the Minister was silent on the annual ECB cap that presently exists. As of now, India is not allowed to have ECB inflows of more than

USD 30 billion every year. This needs to be increased.

- c) While the quantum of tax-free bonds for infrastructure has been doubled, this budget does not outline any step to encourage retail investment into tax-free bonds.
- d) The Rs. 20,000 investment in tax-saving infrastructure bonds per annum per individual which was continued for the last two years stands discontinued. Ideally the scheme should have been continued and the cap should have been raised to Rs. 50,000 at least.

We hope that Government would address these issues in due course and initiate action on at least some of these areas. Overall, the needs of the infrastructure sectors have been addressed to a large extent in this budget, although some more action is needed on specific fronts.

However, as they say the devil is always in the details. Explanatory Memorandum to the Finance Bill, 2012 needs to be carefully studied for income deemed to accrue or arise in India. The memorandum says "Certain judicial pronouncements have created doubts about the scope and purpose of" Sections 9 and 195 of the Income Tax Act. Section 9 of the I.T. Act provides cases where income is deemed to accrue or arise in India and Section 195 requires any person to deduct tax at source before making payment to a non-resident if the income of such a non-resident is taxable in India. After the Vodafone case (where Supreme Court had ruled that Government had no jurisdiction over Vodafone's purchase of Hutchison Whampoa's Indian mobile business in 2007 as the transaction took place in Cayman Islands between Hutchison and Vodafone), the Government felt it is necessary to plug all loopholes

that can allow a transaction between two foreign firms involving the sale and purchase of any asset in India without paying capital gains tax, or withholding tax, and hence decided to amend Section 195(1) to clarify that the obligation (to make appropriate tax deductions) applies, and shall be deemed to have always applied, and extends, and shall be deemed to have always extended, to all persons, resident or non-resident, whether or not the non-resident has (i) a residence or place of business or business connection in India, or (ii) any other presence in any manner whatsoever in India. But the amendment is not prospective, but retrospective from 1st April 1962. If the Government is really serious about attracting huge amounts of FDI, this amendment should come in force on a prospective basis. For those who have already invested, a mid-way policy change can upset all calculations. Also potential investors get discouraged.



Mr Hemant Kanoria

*Chairman & Managing Director
Srei Infrastructure Finance Ltd.*

Mr. Hemant Kanoria is the Chairman and Managing Director of Srei Infrastructure Finance Ltd. Srei was started in 1989 and has been engaged in the infrastructure sector since the last twenty two years, being among the first few private players to enter this area in India. Beginning as an equipment financing company, Srei has evolved into a holistic infrastructure institution offering a wide spectrum of infrastructure products and services ranging from financing equipment to projects, project advisory, fund management, investment banking and project development & management.

Srei's shares are listed on all major stock exchanges in India and also in London. Srei's equipment financing business is through a joint venture with BNP Paribas, presently the largest global bank. Srei's telecom tower infrastructure business, world's largest independent telecom tower company, is a joint venture with the reputed Tata Group of India. Srei Sahaj, the largest rural IT infrastructure company with 28,000 centres catering to about 280 million people, provides various B2C and G2C services including e-learning courses. With an employee-strength of more than 7,200 in the group today, it has a total asset base of about USD 9 billion.

Mr. Kanoria is the Chairman of National Committee on Infrastructure of FICCI and has been on the Board of Governors of Indian Institute of Management (IIM) - Kolkata, Member of Regional Direct Taxes Advisory Committee, Government of India and President of Calcutta Chamber of Commerce among others.

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Email: itsl@idbitrustee.co.in

FAX: +91 022 6631 1776
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