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## Abchlor expects right policy stimulus for infra sector

“The Indian Finance Minister is going to announce Union Budget 2010-11 on Feb. 26, 2010. As the markets gear up for yet another Union Budget, the mood remains somber. With economic growth surprising on the positive, the government now faces the tough task of balancing stimulus withdrawal while maintaining growth momentum,” said Abhinav Angirish, managing director (MD), founder - Abchlor Investment Advisors and investonline.in.

“The momentum in economic growth (CSO estimates of FY10 GDP growth at 7.2%) now calls for withdrawal of stimulus measures. The RBI has already taken the first step forward (with ~40% of the stimulus already withdrawn) in this direction,” he added.

He expects the government to commence the rollback of fiscal stimulus measures by reverting excise and customs duties to the pre-crisis levels. He, however, expects continued thrust on the flagship social spending schemes (e.g. NREGS) and Bharat Nirmaan program - both of which could see a reasonable increase in allocations in the current budget.

He also expects the right policy stimulus on infrastructure sector. On the reforms front, he expects a mix of rhetoric (largely on the GST and Direct Tax Code) interspersed with some action - especially around foreign ownership in insurance. Divestments have, so far, met with reasonable success and consensus expects divestments continuing into fiscal 2010.

“As benefits of revenue buoyancy (led by pick-up in tax collections) get offset by elevated expenditure and higher subsidies, we do not expect any significant decline in absolute borrowings by the government in FY11,” he said.

He expects the centre’s fiscal deficit to decline to 5.7% of GDP (on a revised base) in FY11.

He said, “Everyone is as eager to know the India Budget 2010 expectations as the final budget itself. The budget results 2010 are keenly awaited for several reasons.” Some of these are:

> What measures will be taken up to tame high inflation rate, which has given rise to high prices of primary food articles and has caused fiscal deficit?

> How a balanced budget will be managed to cope up with rapid economic growth and the stagnancy seen in the below poverty level?

> The finance minister has plenty of issues to take into notice in order to come up with an ideal budget plan that

meets everyone's expectations. The results will be unfolded in the month of February. But, the expectations from budget 2010 that have come to the notice are vital and play significant role in the pre-budget scenario.

### **Taxes:**

The common men and the corporate are looking for decrease in taxes. The Finance Minister is likely to augment exemption limit of individual taxes to Rs 3 lakh from Rs 1.60 lakh for salaried people. Exemption limit for women is expected to be increased from 1.80 lakh to 4 lakh and for senior citizen from Rs 2 lakh to 5 lakh. However, taxes levied on the perks availed by income earners are expected to be restructured on higher level. This arrangement may satisfy junior employees and senior citizens. But, it may not go well with the people belonging to higher position.

### **Corporate Tax:**

A reduction of 30% is expected in the corporate tax. The expectation is found in line with the introduction of direct tax code (DTC) suggesting a 25% rate. The individual rate was lowered by 30% previous year also.

### **Capital Gains Tax:**

As far as the 2010 India Budget expectation in the area of capital gain tax is concerned, finance minister is unlikely to bring any reform in this category of tax. It is predicted to be included under the Direct Tax Code, to be implemented from April 2011.

### **Re-fixing of Tax Slabs:**

As mentioned earlier, the tax slab for women is expected to be revised to 4 lakh and senior citizens to Rs 5 lakh. However, second and third slabs of tax would see significant change.

The second tax slab is expected to be augmented from the existing Rs 3 lakh to Rs 1 million to be taxed at 20%. The third slab is likely to be increased from Rs 5 lakh to Rs 25 lakh to be taxed at the rate of 30%.

These revisions would act in favor of the reputed advocates as well as the doctors.

### **Gratuity Limit:**

The India Budget 2010 expectations show that significant revision in gratuity limit is also considered. The gratuity limit of the income class is expected to be raised to Rs 10 lakh in the budget 2010 from Rs 3.5 lakh. Both the upper as well as middle level executives will benefit a lot, if this revision is brought into effect.

Employees are paid gratuities in the government as well as corporate organizations during the time of their retirement. The amount that is dished out as gratuity falls outside the tax regime. If the gratuity limit is enhanced, the employees will surely benefit from it.

### **Self Assessment Slab:**

The self assessment slab for businessmen and professionals is Rs 40 lakh at present. According to expectations, the slab may be revised to Rs 1 crore to lower the burden felt by the business people and professionals.

**Stimulus:**

India Budget 2010 speculations suggest that it is not the right time for the government to roll back stimulus packages, despite the fact that GDP growth of the nation in the Q2 (July - September) of the current fiscal stood at 7.9%.

However, experts believe that government would withdraw few of the subsidies from the market. The oil companies were aided with the stimulus package to check loss. Government did not allow the oil companies to raise product costs of kerosene and diesel, which would have forced the common men to pay more.

As high prices of diesel and petrol would bear adverse effect on the transport rates of food products, the stimulus packages are expected to continue in the oil industry. However, partial withdrawal of the stimulus aid can be expected in this sector to tackle the situation of increasing fiscal deficit.

Nevertheless, stimulus packages from engineering as well as export sectors are expected to be rolled back.

**Agriculture Sector:**

According to India Budget 2010 expectations, the agriculture sector would be the highlight of the session. This sector is likely to receive enormous boost from the government. Finance minister's invitation to the farmers for the pre-budget meet is held to be the main reason behind such speculation.

**Infrastructure and Social Sector:**

Infrastructure industry is also expected to be the focus of the budget results of 2010. Many believe that development in this sector would account for massive growth in GDP. However, it is unlikely to ease monetary policy to better infrastructure. Interest rate cannot be reduced as well.

**Railways:**

According to 2010 budget speculations, the transportation charges for bulk commodities in railway industry are likely to be increased. The turnaround in the economic conditions of India is expected to boost the transport costs of cement, coal, iron ore and steel. Previous year, the Ministry of Railway refrained from raising transportation costs to help sector tackle the scenario of global meltdown. The ministry has not come up with its plan for hikes yet. But, the range can be fixed somewhere between 5 and 10%. If this becomes effective, one would need to pay Rs 100 to 200 a ton.

**Other Sectors:**

While taking into account the India Budget 2010 expectations of various sectors, it was found that the garment industry of India is looking for considerable cut in interest rates in its exports segment. The garment exporters also want the ministry to remove all the confusion faced in the case of excise as well as custom duties. The sector wants major commercial as well as fiscal relief. Similarly, the Indian tea industry is expecting to get an allocation of more than Rs 1.30 billion, which was granted in the fiscal year 2009-10.

The bull-run in the markets through 2009 has been (temporarily) halted by rising concerns around monetary tightening and funding of the outsized fiscal deficit. The global economic scenario has also thrown up negatives around the weak fiscal position of countries in the EU and weaker-than-expected consumption growth in the

US. It expects the markets to remain weak going into the budget as uncertainties around the stimulus withdrawal get priced in and inflation concerns take centre-stage. Any slippage on these counts raises the possibility of a stern monetary policy action, which could rub off negatively on the markets. However, we eventually see inflation stabilizing which implies that the rise in lending rates would be only gradual - and thereby not a threat to growth. It maintains its medium term positive stance on Indian markets as the outlook for earnings remains healthy (expect 30% + earnings growth for the Sensex in FY11). Reiterate our 12-month target for the Sensex at 20,000.