BUDGET 2010

ORANGE FLASH

Fiscal situation and the stimulus roll back were the two most important elements being watched for, in the Finance Minister's speech.

Not only were both these issues addressed emphatically but the commitment for the tax reforms a.k.a. GST and DTC were also reemphasized. The fiscal prudence requirement was well articulated, backed by a roadmap of the next three years. The FM has laid out a fiscal deficit estimate of 5.5%, 4.8%, and 4.1% for FY10, FY11 & FY12 respectively.

This also translates into government net borrowing for the financial year at Rs 3.45 trillion which is below the market expectations thus having a positive rub off on the equity as well as the bond market.

Introduction of GST and DTC from April 2011 was re stated paving the way for reforms continuity and long term growth of the country through increased efficiency.

All this was achieved without burdening the industry with steep tax hikes. On the contrary, the roll back in stimulus was partial with a 2% hike across the board, service tax left untouched, increasing money in the hands of individuals by raising the income tax slabs, reducing the surcharge on corporate tax from 10% to 7.5% etc.

The major money flow is estimated from disinvestment and 3G auction pegged at Rs 75,000 crore. The major tax hikes proposed were, hike in MAT rate from 15% to 18%, increase in excise duty by Rs 1/- on Petrol and Diesel and excise hike on cigarettes.

Most of the measures announced in the direct and indirect taxes leads to synchronization with the GST and the DTC expected to be implemented in the next Financial Year.

Social thrust continued with increased allocation to the various social schemes like NREGA , rural development etc.

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Budget Impact on the Quant Portfolios

At a sectoral level the budgetary impact was neutral to positive for most of the sectors as the excise duty was hiked by 2% across the board. There was some expectation of a hike higher than that announced and hence it was not only a relief but a sentiment booster.

The most negatively impacted sector was Tobacco and cigarettes which witnessed a steep rise in excise duty in some category of cigarettes.

The increase in the MAT rate would impact companies selectively & particularly, for those paying income tax less than the MAT rate. Most of the construction companies and a few pharma companies would get impacted. However, thrust on infrastructure, increased allocation to road development and healthcare and increased R&D deduction to companies would not only mitigate the negative impact of MAT but would have a positive impact on the sector in general.

ING India Large Cap Quant Equity Portfolio

The ING India Large Cap Quant Equity Portfolio is significantly overweight in IT, Pharma and Auto. It is also reasonably exposed to Metals, Financials, Oil and Gas.

Our exposure in Auto is the biggest beneficiary of the budget announcements. The sector definitely had a positive impact and our stocks also had a positive impact of the announcement as the excise duty on diesel vehicles were not hiked.

The pharma exposure benefits from the increased deductions on the R&D expenditure. Some stocks in the segment may be impacted negatively on account of increase in MAT rates. Majority of the pharma exposure in our portfolio benefits from the announcement and is out of the ambit of MAT , except for a small exposure which would have some negative impact. Overall, the impact should be positive on the pharma exposure.

IT sector exposure should have a neutral impact from the budget announcement as there was no direct announcement related to the sector. However, focus and thrust by the FM on developing technological platforms for various social initiatives like UID and reforms like GST could increase the domestic IT spend.

The FM indicated issue of Banking license to some NBFCs in the next financial Year. He also announced increasing capitalization of PSU Banks. Also the interest rate subsidy extension (housing finance upto Rs 10 lakhs for a property value of Rs 20 lakhs) bodes well for the housing finance companies. We have a balance exposure in PSU and Private banks. The overall impact is positive for our exposure in the Portfolio.

Metal exposure is neutrally impacted.

Oil and Gas exposure is restricted to domestic OMC and Gas utility. The payment of subsidy in cash should have a positive impact. Increase in MAT would have a negative impact on the private crude producers where our exposure is nil.

The only negative impact on the Portfolio comes in the form of tobacco exposure which is impacted negatively by a very high increase in the excise duty.

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