

Impact of Union Budget

The Union Budget 2011-12 can be viewed as market neutral but growth oriented, with a positive bias. With the focus being, very clearly, on growth combined with inflation containment and an overall stronger fiscal position, we are fairly positive about the policies announced by the Finance Minister in his Budget.

The highlight was the Fiscal Deficit target that showed a meaningful decline. The FM has brought down the fiscal deficit from 5.5% to 5.1% of GDP for 2010-11 and for FY12, the deficit target has also been improved to 4.6%, which provided considerable cheer to the markets. GDP growth targets for the economy at a strong 9% for FY12 and 8.6% for FY11 also provided comfort to the markets and indicated that India's growth trajectory was intact. An announcement that was keenly watched was the targeted borrowing programme of the Government for FY12, which again surprised positively with a target net borrowing of Rs. 3.4 trillion, as against market expectations of Rs. 4 trillion. Bond yields reacted positively to this news. It is however to be seen if this is an achievable number, given the macro pressures like higher crude oil prices. The FM also discussed certain long awaited policy initiatives, including the promise to introduce legislation regarding a nation-wide Goods & Services Tax (GST) in the current session of parliament.

The mutual fund industry is the beneficiary of a positive move to open the equity markets further to foreign investors, as they will now be allowed to invest in SEBI registered equity mutual funds. This coupled with promise to introduce legislation regarding the nationwide Goods & Services Tax (GST) in the current session of Parliament are important initiatives that bode well for the economy as a whole.

Sector-wise, the Budget was a mixed bag. Sectors like Infrastructure, FMCG, Banks, Autos and Fertilizers saw positive announcements while Cement, Metals and Real Estate faced the brunt of the negative ones. Specifically, the infrastructure spending has been increased by a strong 23% YOY including a 20% rise in Government schemes like the Bharat Nirman. Borrowings by infrastructure companies have also been made more robust by increasing the FII limit on investments in corporate bonds. The auto sector will benefit significantly as the FM maintained status quo with regard to excise duties on the sector. Increased agriculture spending and increased allocation to the social sector will also benefit auto companies with rural focus, in addition to Consumer companies that have a strong rural presence. No excise duties were imposed on tobacco products as has been happening over the past few budgets and this was taken positively by the markets as well. The Banking sector got a fillip from the proposed equity infusion of Rs. 6000 Crores to shore up their Tier I capital adequacy ratios. Among the not-so positive announcements were the higher customs duties imposed on iron ore, the removal of tax incentives for SEZs (they now have to pay MAT rates) and the increased duties on cement sales via ad valorem taxes.