

THE ROBIN HOOD ACT

“ALL IS WELL and WILL BE” is the clear message that Finance Minister Mr. Pranab Mukherjee has given to the world at large in his Budget Announcement for FY 2010-11.

The Finance Minister stepped in to present the budget with key concerns like rising fiscal deficit and worsening debt situation in the background. The Finance Minister laid emphasis on consolidated growth, improving investment environment, inclusive development and strengthening transparency and public accountability in Budget 2010-11. The total expenditure proposed in the Budget Estimates is Rs.11,08,749 crores which is an increase of 8.6% over last year.

As in the interim budget last year, the FM concentrated primarily on the Aam Aadmi or common man as he battled three challenges on the economic front – (i) double digit GDP growth & inflation (ii) Inclusive development and economic growth and (iii) Improvement in public delivery mechanism, Food Security and Healthcare system.

Highlights from the Budget 2010-11 –

- Fiscal deficit seen at 5.5% in FY11 vs 6.9% in FY10 (all subsidies included). Roadmap to cut to 4.8% in FY12, 4.1% in FY13. 5.5% Deficit in FY11 works out to Rs.3,81,408 crores
- Net market borrowing of the Government in 2010-11 would be of the order of Rs.3,45,010 crores as against Rs.3,98,411 crores in 2009-10. The Gross borrowing is pegged at Rs.4,57,000 crores.
- Direct Tax Code (DTC) and Goods & Service Tax (GST) to be implemented by April 01. 2011
- Divestment target of INR 400bn in FY11 as against INR 250bn in FY10.
- Additional Banking licenses to be provided to Private sector players and NBFCs (if within RBI eligibility criteria)
- Government will follow a four pronged strategy towards providing thrust to agricultural growth. Targeted agricultural credit flow at 3,75,000 crores for the year 2010-11.
- Additional one per cent interest subvention to farmers who repay short-term crop loans as per schedule. Thus, the 2% incentive makes the interest rate 5% for those farmers for 2010-11.
- **Spending:**
 - 1,73,552 crores provided for infrastructure development which accounts for over 46 per cent of the total plan allocation.
 - Other Areas to receive increased allocation are Social Sector spending, Education, Healthcare, Rural Development
 - Plan allocation for power sector excluding Rajiv Gandhi Grameen Vidyutikaran Yojanan(RGGVY) doubled from Rs.2230 crores in 2009-10 to Rs.5,130 crores in 2010-11.
 - Allocation for Mahatma Gandhi National Rural Employment Guarantee Scheme (NREGS) stepped up to Rs. 40,100 crores in 2010-11.
- **Direct Taxes:**
 - 10% Surcharge on Domestic Companies is reduced to 7.50%
 - Minimum Alternative Tax (MAT) increased from 15% to 18%
- **Indirect Taxes:**
 - Standard rate on all non-petroleum products enhanced from 8% to 10%.
 - Hike in import duty on crude petroleum to 5% from 0% and hike in petrol & diesel customs duty from 2.5% to 7.5%.

- Central Excise duty on petrol and diesel is enhanced by Re.1 per litre each. Surcharge for Domestic Companies cut from 10% to 7.5%
- 5% custom Duty hike on Crude Oil

➤ **Personal Income Tax –**

- Income up to Rs. 1.6 lakhs – Nil
- Income above Rs. 1.6 lakhs and up to Rs. 5 lakhs – 10%
- Income above Rs. 5 lakhs and up to Rs. 8 lakhs – 20%
- Income above Rs. 8 lakhs – 30%
- Deduction of an additional amount of Rs. 20,000 allowed, over and above the existing limit of Rs.1 lakh on tax savings, for investment in long-term infrastructure bonds as notified by the Central Government

Sectoral Impact:

Sector	Announcement and Impact	Sector Outlook
Information Technology	<ul style="list-style-type: none"> ✓ No extension of STPI ✓ Increase in MAT rates would result in high cash outflows 	Negative
Auto	<ul style="list-style-type: none"> ✓ Rate reduction in CENVAT partially rolled back from 8% to 10% (from 20% to 22% in case of UVs and bigger cars). ✓ Central excise duty on petrol and diesel enhanced by Re1 per litre each. ✓ Continued focus on infrastructure and 13% increase in allocation on road transport. ✓ Increase in MAT rates would result in high cash outflows. ✓ Tax concession in the form of weighted deduction on in-house R&D increased from 150% to 200% play positively on R&D spends of companies. 	Neutral
Banking	<ul style="list-style-type: none"> ✓ Additional banking licenses to private sector players and NBFC's if they meet RBI's criteria. Recapitalization of Regional Rural banks also a positive. ✓ Rs 16,500 Cr provided to ensure that the Public Sector banks are able to attain 8% Tier-I capital by March, 2011. 	Positive
Infrastructure & Capital Goods	<ul style="list-style-type: none"> ✓ Rs 1, 73,552 crore provided for infrastructure development which accounts for over 46% of the total plan allocation and increase in allocation for Road Transport by 13% would ensure continued thrust towards infrastructure growth. ✓ However changes in the MAT provisions would have a negative impact on the Infrastructure developers. 	Neutral
Pharma	<ul style="list-style-type: none"> ✓ Increase in MAT rates would have a negative impact on the cash outflows for select Pharma companies. ✓ Increase in weighted deduction on (a) in house R&D expenses from the current 150% to 200% and (b) on payments made to National Laboratories, research 	Neutral

	associations, colleges, universities and other institutions, for scientific research enhanced from 125 per cent to 175 per cent, would provide an impetus for pharma companies to take undertake more research initiatives.	
Cement	<ul style="list-style-type: none"> ✓ Increase in excise duty on cement of 2% & excise duty on cement clinkers from Rs300/T to Rs375/T would result in price hike by Rs. 8-9 per bag to pass on the higher excise rates 	Negative
Oil & Gas	<ul style="list-style-type: none"> ✓ Custom Duties on Crude Petroleum, Diesel & Petrol and other refined products have been restored to 5%, 7.5% and 10% respectively. ✓ Excise duty on petrol and diesel is hiked by Re.1 per litre resulting in increase in prices for petrol and diesel. ✓ Increase in MAT rates would impact select companies 	Neutral to Negative
Power	<ul style="list-style-type: none"> ✓ Companies will be impacted due to Coal Cess of Rs50/MT & Increase in MAT ✓ These provisions are likely to impact private power utilities but not impact regulated utilities as coal cost will increase for private power utilities, which are definitely not a pass through for merchant power producers. ✓ Also competitive bidding for coal mines is likely to increase the future coal costs of these utilities. 	Negative
Metals	<ul style="list-style-type: none"> ✓ Excise tariffs hiked by 2% to 10% ✓ Coal cess negative for aluminum companies, sponge iron producers ✓ Increase in fuel price hikes would increase freight costs across the board for steel/metal companies. 	Negative
FMCG	<ul style="list-style-type: none"> ✓ Increase in Excise duty would impact select FMCG companies ✓ Packaging Material linked to crude prices may result to surge in prices 	Negative
Real Estate	<ul style="list-style-type: none"> ✓ Construction of New houses for advance paid customers in included under the ambit of service tax provisions and would be levied a service tax of 10% ✓ Extension of 1% interest subvention on housing loan upto 10 lakh, where the cost of house does not exceed Rs 20 lakh would be positive 	Neutral to Negative

Equity Market Outlook:

Overall, the budget was clearly a positive one with ‘no controversial’ policies announced. The FM stepped up adequately for the role leaving more smiling faces which is evident from the positive reaction from the markets. As outlined by the FM, improvement in Food Security and Public Distribution System lay at the fulcrum of most of the problems of the country. The FM has addressed these problems as it has aimed for inclusive growth in the form of sanctions towards Green Revolution among other measures and making available credit to farmers. Also, the FM has increased outlay on the social sectors to Rs. 1,37,164 crs in 2010-11. On the Infrastructure front, apart from the increasing outlay for infrastructure development, FM has also provided additional support to Road and Rail Transport. The FM has also ensured inclusive growth by carrying forward the thrust on the Education and Healthcare segment. With this, the FM has attended to the key areas (viz., Infrastructure Growth, Social Sector Growth, etc.) which are important for the long term growth sustenance

and double digit GDP growth. On the sectoral front, individual sectors would be impacted marginally and would not lead to major change in outlook for the sectors.

Pertaining to the near term concerns, the FM has provided a clear roadmap of targeted fiscal deficit for the coming two financial years which is encouraging and also the in line government borrowing figures is a positive. The FM also did a 'Robin Hood' act as he relaxed personal income tax rates for 'the common man' and increased excise duties which affects the corporates (which enjoyed the stimulus for last one year). Thus, given the current scenario, consumers are empowered to swim through the duty hikes and thus, consumption will continue to be as strong as before.

Fixed Income Market Outlook:

The Finance minister presented the Budget 2010-2011 in the backdrop of going ahead with fiscal consolidation as recommended by the 13th Finance Commission and consolidating growth of the economy with aim of achieving 9% GDP growth for FY11.

The estimated revenue receipts would be Rs 7.47 lakh crores and the expenditure would be Rs 11.09 lakh crores. The Fiscal deficit for the BE 2010-2011 would be Rs 3.81 lakh crores (5.5% of GDP), which puts the expected GDP for FY 11 at Rs 69.35 lakh crores. The Government expects the net borrowing for FY 11 to be Rs 3.45 lakh crores for FY 2010-11.

The budget basically highlights control on expenditure and generating higher revenues by broadening the base, increasing excise duty and increasing the applicability of service tax to more services. Also, the budget has ambitious targets of generating Rs 36,000 crores from auction of 3G spectrum licenses. Though the budget proposes to keep the fiscal deficit at 5.5% levels, as earlier desired, there is no significant change in the borrowings of the government as compared to current year.

Inflation Outlook - With increase in excise duty on various products, and increase in prices of petro products, there is a fear of rise in prices and hence a risk of inflation going higher.

G-Secs Outlook - As there would be ample supply of G-secs and risk of inflation on the higher side, the market is expected to be cautious and positioned defensively. With no clear case of contraction of yields, we expect the 10 year GOI yield to be in range of 7.75% - 8.25%, till the next monetary policy review slated in April 2010.

Statutory Disclosures and Risk Factors

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