

- ⇒ The budget is being seen largely as a non-event with no major policy changes announced during the speech. However, the continued progression for fiscal prudence and consolidation has emerged as the key take away from it. The fiscal deficit for FY12 is being projected at 4.6% vis-à-vis 5.1% for FY11.
- ⇒ The net market borrowing during for FY12 is estimated at Rs 3.43 lakh cr. This is a marginal increase from FY11's market borrowing of Rs 3.38 lakh cr. Consequently, the relatively low scale of borrowing in comparison to the market expectation of Rs 3.75-4 lakh cr has come as a positive for the debt markets. The 10 year gilt yields fell by 5 bps to 8.06% during the day.
- ⇒ The budgetary allocation for FY12 capital expenditure has been estimated at Rs 1,60,567 crs. Moreover, the allocation for the infrastructure sector has been increased by 23% to Rs 2,14,000 cr. Further, budget has increased the FII ceiling in debt issuances from infrastructure sector companies by US\$ 20 bn to US\$ 25 bn. This will take the aggregate FII ceiling in the corporate debt segment to US\$ 40 bn. This provision for capital flow into the infrastructure sector may be seen as a positive development for the sector.
- ⇒ The budget has reduced the oil subsidy estimate by 38.42% from FY11 to Rs 23,640 cr in FY12. This estimate is being seen as too optimistic, since the crude oil prices are trading at around US\$ 98 per barrel. This subsidy would be transferred directly to the oil market companies as cash. Also, the beneficiary population too would receive the subsidy by way of direct assistance. This may be indicative that subsidy spillage to general population may be avoided; giving an indication that further price deregulation may be initiated at a later stage.
- ⇒ The Budget also delves deeper on the issue of inflation. It clearly identifies the need for unlocking the supply constraints and mentions the need for the State Govts to review and reform the APMC Acts. Recently the PM Advisory Committee has also recommended the need to allow private players to operate Mandis within the APMC Act. This would go a long way improving the supply situation of the agri-sector and address the inflation.
- ⇒ From the mutual funds perspective, the increase in the direct distribution tax on the debt oriented mutual funds to 30% (plus surcharge) may reduce the tax arbitration between debt MFs and alternative debt products. Further, the opening up of the mutual funds schemes to direct Foreign individual investors would bring in greater flows in the Indian mutual fund industry.
- ⇒ Increased social and education spending of 17% and 24% at 160,887 crs and 52,057 cr may increase buying power in hands of rural and marginal consumers. This may provide a complementary demand push to the economy.

- ⇒ **Equity Market Perspective** : - The equity market awaited the budget primarily to gather clarity for GST and DTC implementation, as well as to get the feel of reforms agenda. The lukewarm budgetary response and lack of announcement regarding the reforms in the retail sector has come as a negative, especially for the retail sector.
- ⇒ On other hand, the excise on the equipment supplied by domestic companies to Ultra Mega Power Projects has been slashed to 2.5% from 10%. This may come as a positive for domestic capital goods suppliers like BHEL & L&T. Auto sector too got a breather as excise duty was kept unchanged, against much counter expectation. On the other hand, the 0.5% increase in the MAT to 18.5% will be seen as a marginally negative development for select companies in FMCG, IT, Oil & Gas companies etc. Kotak Equity schemes remain aligned with its previous view and remain predominantly invested in Banking, IT and Pharma.
- ⇒ **Debt Market Perspective**: - The less than expected borrowing projection by GoI has come as a positive for the market. This may help alleviate liquidity conditions in the market going forward. The debt market is currently experiencing an inverted yield curve at the near-end. This inversion of the yield curve is expected to normalize going forward. Keeping this view, we believe that investors may invest in kotak BST with a 3-6 month perspective, while a 9-12 month investment horizon can be maintained in Kotak Credit opportunities. Duration funds too may begin to look attractive in the new financial year and can be looked at with a 1 year investment horizon.

Union Budget FY12 Numbers

Budget Allocation over a Period (in Rs bn)					% Change
Budget Heads	FY09	FY10	FY11(RE)	FY12(BE)	in FY12
Revenue Receipts	5,403	5,728	7,838	7,899	0.78%
Tax Receipts	4,433	4,565	5,637	6,645	17.88%
Non-tax Receipts	969	1,163	2,201	1,254	-43.03%
Capital Receipts	3,437	4,517	4,327	4,678	8.11%
Recoveries of loans	61	86	90	150	66.67%
Other Receipts	6	246	227	400	76.21%
Borrowings & other Liabilities	3,370	4,185	4,010	4,128	2.94%
Total Receipts	8,840	10,245	12,166	12,577	3.38%
Non-plan Expenditure	6,087	7,211	8,216	8,162	-0.66%
Non-plan Revenue Expenditure	5,590	6,579	7,267	7,336	0.95%
Interest Payments	1,922	2,131	2,408	2,680	11.30%
On Capital Account	497	632	948	826	-12.87%
Plan Expenditure	2,752	3,034	3,950	4,415	11.77%
On Revenue Account	2,348	2,539	3,269	3,636	11.23%
On Capital Account	405	495	681	779	14.39%
Total Expenditure	8,840	10,245	12,166	12,577	3.38%
Revenue Expenditure	7,938	9,118	10,537	10,972	4.13%
Capital Expenditure	902	1,127	1,629	1,606	-1.41%
Revenue Deficit	2,535	3,390	2,698	3,073	13.90%
Fiscal Deficit	3,370	4,185	4,010	4,128	2.94%
Primary Deficit	1,448	2,054	1,602	1,448	-9.61%
Revenue Deficit (as % of GDP)	4.5	5.2	3.4	3.4	-
Fiscal Deficit (as % of GDP)	6	6.4	5.1	4.6	-
Primary Deficit (as % of GDP)	2.6	3.1	2	1.6	-

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