



MARKET NEWS :

The key benchmark indices pared gains after a sharp surge in early afternoon trade triggered by the finance minister's budget which pushed for higher consumption. Auto and metal stocks surged. Banking stocks also gained. The market breadth was strong. The BSE 30-share Sensex rose 175.35 points or 1.08%, off close to 240 points from the day's high.

The government's pledge to progressively cut its budget deficit over the next three fiscal years, changes in personal tax rates which will lift disposable incomes in the hand of individuals and a reduction in surcharge on corporate tax for domestic companies to 7.5% from 10%, lifted sentiment. The government's plan to introduce direct and indirect tax reforms from 1 April 2011 also cheered investors. The Finance Minister said the government aims to introduce the Goods and Services Tax (GST) and implement the direct tax code from 1 April 2011

The peak rate of excise duties has been raised to 10% from 8% as a first step towards the winding down of fiscal stimulus measures. However, the service tax was retained at 10%. The government has estimated Rs 40000 crore from disinvestment for FY 2010-11. It has estimated Rs 35000 crore from sale of third generation telecom auctions.

The finance minister has raised personal income tax slabs which will result in increase in disposable incomes which in turn may boost consumption. Incomes up to Rs 1.6 lakh attracts no tax now. Personal income tax for income between Rs 1.6 -5 lakh attracts tax rate of 10% and for the income between 5-8 lakh attracts tax of 20%. The personal income tax above Rs 8 lakh tax is kept at 30%. The Finance Minister said additional Rs 20,000 deduction available will be available for investment in infrastructure bonds. He said threshold limit for TDS applicability will be rationalized.

The minimum alternate tax (MAT) has been raised to 18% from 15% of book profits. The FM also raised the excise duty on petrol and diesel by one rupee per liter, and raised the import duty on gold to Rs 300 per 10 gram from Rs 200 per 10 grams at present. The Finance Minister said an automation of excise and service tax has been already rolled out.

The fiscal deficit is pegged at 5.5% of GDP for 2010-2011, lower than an estimated 6.8% for the current fiscal year. The planned expenditure will rise 15% in 2010-2011. The increase in non-planned expenditure is only 6% for 2010-2011. The finance minister said the government also aimed to reduce the deficit further to 4.8% of GDP in the year starting 1 April 2011, and to 4.2% in the year from 1 April 2012.



The government's market borrowing will rise 1.3% in the next fiscal year. Gross borrowing for the new year will total Rs 4,57,000 crore, above the expected Rs 4,51,000 crore in the current fiscal year. Net borrowing in 2010/11 is seen at Rs 3.45 lakh crore.

The allocation to defense sector is at over Rs 147,000 crore. He said Rs 25,000 crore is allocated to develop rural infrastructure and states will get Rs 3,675 crore for primary education at rural level. The government's plan outlay for renewable energy will rise 61% and allocation for the power sector will double to Rs 5,100 crore. He said government will set up 5 more mega food park projects. The government will also set up coal regulatory authority. He said government has signed \$150 million deal with ADB for implementing Khadi programme.

The government will allocate Rs 22,300 crore to Health Ministry. The government plans to allocate Rs 100 crore for new pension scheme which will benefit 100,000 low income citizens. The government has allocated Rs 48,000 crore for Bharat Nirman plan. He asked state government to contribute for social security to workers in unorganised sector. He said exclusive skill development programme will be introduced in textile and garment sector. The Finance Minister said Rs 4,500 crore is allocated for program of social justice, senior citizens, backward classes and handicapped.

The Finance Minister said the government aims to introduce GST in April 2011. He said there is a need to review stimulus and move towards fiscal consolidation and review public spending. He added since December 2009 there are signs food prices pressures transmitting to non-food items. He said government will take steps to reduce public debt and a paper in this regard will be presented in 6 months. The government plans to raise Rs 25,000 crore this year to meet capital expenditure requirements. He said government will discuss the Kirit Parikh report on oil prices in due course. The Finance Minister said there is a proposal to introduce a new bill to address problems in the corporate sectors. He said Rs 1,900 crore of additional capital will be provided to PSU banks. The Reserve Bank of India may give license to some more private sector players.

The government will augment assistance to RBI to strengthen rural sector. He said the government is committed to special economic zones to promote exports. He extended interest rate subvention of 2% on exports by one year. The government has proposed allocation of Rs 200 crore for climate-resilient agricultural program. He said for timely repayment of crop loans, the interest rate subvention has been raised from 1% to 2%. He said government will provide Rs 400 crore to boost farm output in eastern India.

External commercial borrowing will be available for cold storage. The government has also extended farm loan repayment by 6 months.



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