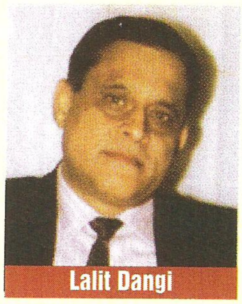
Something for everyone


Lalit Dangi

The Finance Minister has in Budget 2011-12 tried to give something to everyone. He has been able to reduce the fiscal deficit from the estimated 5.5 per cent to 5.1 per cent of the GDP for the year 2010-11 and proposes to bring it further down to 4.6 per cent of GDP next year. He has permitted investment by FIIs into mutual funds, increased the limit of home loans to Rs. 25 lakh for giving 1 per cent subvention in interest and including it in priority sector lending, reduced corporate tax surcharge from 7.5 per cent to 5 per cent, maintained excise duty and service tax rate at 10 per cent.

The budget has made ample provisions for infrastructure, education and social sector schemes. Agriculture has been properly taken care of through measures for greater and cheaper credit, encouragement to cold storages and increasing the production of edible oils and pulses.

The issue tax free bonds worth Rs. 30,000 crore by public state-owned companies will give impetus to the bond market. The programme for tackling black money is uninspiring but will hopefully discourage creation of black money.

To promote financial inclusion, 73,000 villages with population exceeding 2000 are sought to be convered by banks with at least one branch each. This will help in facilitating flow of credit money to the farmers.

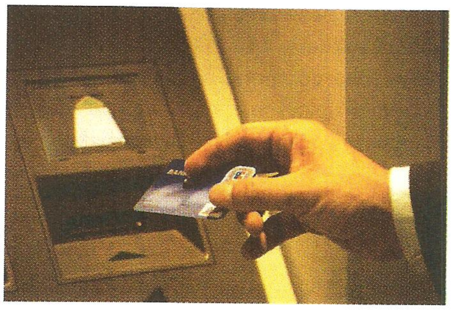
Around 20,000 villages have been covered this year and the remaining 53,000 villages will be covered in 2011-12.

130 new items have been added into the Central Excise at the rate of 1 per cent, but it will hardly have any impact on the general public. No doubt, the levy of service tax on hotels, restaurants, health checkup, diagnostic centres, air travel and legal services will pinch the middle class. However, these services were in any case going to taxed under the GST, which is likely to be implemented from April 2012.

It is a progresive budget with an eye on fiscal reforms and consolidation with growth and socail and economic justice as the theme.

(Mr. Dangi is Chairman and Managing Director, the Libord Group.)

annum for farmers who repay short term loans within one year of disbursement. Guidelines for new banking licenses to be issued by RBI will be issued by March 2011. The State Bank of India (subsidiary Banks Law) Amendment Bill 2009 will be amended. It is proposed to amend SARFAESI Act 2002 that would make Central Electronic Registry prevent frauds involving multiple lending on the same immovable property. This will become operational by March 2011.



There will be an increase in total limit available to FII for investment in corporate bonds to $40 billion even as the withholding tax on interest income from infrastructure financing by foreign funds will be reduced to 5 per cent from 20 per cent. Higher foreign inflows will enhance liquidity in the system, which is a positive for the entire banking sector.

The fresh capital infusion will enable PSUs and regional rural banks to grow at a healthy rate and also help ease liquidity crunch. The enhanced provision by Rs. 1000 crore under the Rural Housing Fund will certainly have a positive impact. Banks including Oriental Bank of Commerce, Bank of Baroda, Andhra Bank etc. will receive capital.

Top Picks: Axis Bank, ICICI Bank, Indusind Bank SBI

METALS

Favouring local firms

The ad valorem duty on export of all types of iron ore lumps has been jacked up to 20 per cent. This will adversely affect profitability of companies like Sesa Goa. However, at the same time, the budget has fully exempted iron ore pellets from export duty to encourage the value addition process for fines. This will be beneficial to NMDC. Basic customs duty has been reduced from 5 per cent to 2.5 per cent on ferro-alloys with no imposition of mining tax which is seen as positive for mining companies. Imports of ferro-