

Budget Impact on Equity Markets

- ▶ Higher excise and service tax – Negative for earnings across the board
- ▶ Inclusion of a new tax scheme to benefit small investors in direct equity
- ▶ Reduction in STT tax rate – a marginal positive
- ▶ Hopes of fiscal consolidation
 - Institutional investors could have cheered solid steps to reduce fiscal deficit
 - India's long standing concerns on the level of subsidies not addressed
 - India's investment climate remains unchanged
- ▶ Interest rates unlikely to come down in the near future – equity markets perform well in a falling interest rate scenario

Sectoral Impact

Sector	Measure	Impact
Metals / Mining	Customs duty hiked 5% to 7.5% on flat steel products	Positive for domestic steel producers
	Customs duty on imported coal for power removed	Positive for coal importers (though clarity is awaited whether benefit is only for Independent Power Producers)
	Customs duty on import of iron ore pelletisation & beneficiation equipment reduced to 2.5% from 7.5%	Positive for steel makers and merchant miners
	Customs duty on machinery and instruments for surveying and prospecting reduced from 10%/7.5% to 2.5%	Positive for steel makers and merchant miners
Oil and Gas	Cess increased from INR 2500/tonne to INR 4500/tonne	Negative for upstream players
	Oil & Gas/LNG storage facilities as well as Oil & Gas pipelines will be eligible for viability gap funding	Positive for LNG re-gasifiers and gas transmission utilities
Cement	Excise of 12% on MRP after 30% abatement + Rs 120 per tonne	Neutral
Telecom	Budgeted receipts of INR 40,000 crs from spectrum auctions & INR 18,200 crs from annual License Fee (LF) & Spectrum Usage Fee (SUF)	Negative for the sector as spectrum receipts target seem aggressive, given the stretched balance sheets of the telecom companies. The LF & SUF receipts assumes ~10% sector revenue growth, which is a realistic figure.
FMCG	Ad valorem duty of 10% imposed on 50% of MRP on cigarettes	Positive for cigarette manufacturers, as excise increase is lower than market expectations
	Excise increased from 10% to 12%	Marginal Negative as companies could pass on the impact through price increases that could impact demand
	Import duty increased from 2% to 4% on imported gold	Marginal Negative as this would lead to higher gold jewellery prices and could impact demand
Media & Entertainment	Film industry : Exemption from service tax net on copyrights relating to recording of cinematographic films	Positive for movie production & distribution firms
Banks	Re-capitalisation fund of INR 160 bn for PSU, Regional Rural Banks, NABARD and other financial institutions	Marginal Positive for capital starved PSU banks
	Higher net market borrowing of INR 4.8 tn vs. INR 4.3 tn last year	Negative as pressure on bond yields will impact bank's treasury profits and possibly lead to MTM losses on the "Available for Sale" part of the Bank's investment book
	Tax exemption for savings deposits up to INR 10,000/yr	Marginal Positive for savings deposit growth

Sector	Measure	Impact
Pharmaceuticals	All persons, other than companies, claiming profit linked deductions to be included under MAT	Negative for companies which had set up their manufacturing units using the partnership structure to avoid taxes
Industrials	Exemption of existing 5% import duty on coal	Positive for companies that are major importers of coal among private power generation companies and have a fixed price Power Purchase Agreement(PPA) and/or merchant sale
	Allowance of ECBs to partly refinance rupee debt and deduction of withholding tax from 20% to 5%	Neutral for Independent Power Producers(IPP) with cost plus PPA. Positive for IPPs with fixed price contracts/merchant sale.
	Section 80 IA benefits (10 year tax concession) for power companies extended by one more year	Positive but was on expected lines
	Multi – tier cascading effect of Dividend Distribution Tax has been removed	Positive for Asset Developers who have multi-tier SPV structures
	Increased Budgetary expenditure	Neutral as increase in budgetary expenditure is largely on expected lines. Higher emphasis has been given for Roads.
	Irrigation, dams and canals have been made eligible for VGF (Viability Gap Funding)	Positive for companies which have reasonable presence in water / irrigation projects
	Investment linked deduction under section 35AD has been extended to Inland Container Depot / Container Freight Stations	Positive for Logistics companies
Auto	Upper limit of 20% personal income tax slab moved from INR 8 lakhs to INR 10 lakhs	Positive as tax savings of INR 22,000 for income of INR 10 lakhs creates higher disposable income
	Excise duty increased to 12% from 10% for small cars and 2 wheelers	Negative as cost to increase by INR 4,500 - 9,500 for compact cars; increase of INR 600 - 1,100 likely for 2 wheelers
	Excise duty increased to 24% from 22% for large cars	Negative as cost will increase by INR 14,000 and should be passed on to consumer, impacting demand
	Excise duty increased to 27% from 22% plus INR 15,000 for UV	Negative as cost will increase by INR 10,000-38,000 and should be passed on to consumer, impacting demand
	No tax on diesel vehicles R&D deduction of 150% on in-house R&D, has been retained for next 5 years	Positive as no additional cost burden for diesel vehicles Positive for all auto companies

Key Highlights for the Debt Market

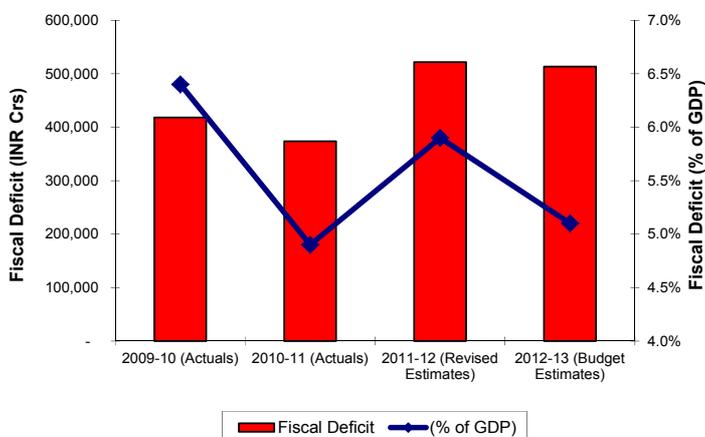
- ▶ Tax revenue projected 20% higher than 2011–12 (RE) on the back of anticipated buoyancy due to stronger GDP growth at a nominal rate of 14% and increase in Indirect Tax rates
- ▶ Disinvestment target of INR 30,000 Crores has been budgeted
- ▶ Unlike last year, expenditure is budgeted to increase: Non-plan expenditure up 8.7%, plan expenditure up 22%
- ▶ Overall, fiscal deficit projected at INR 513,591 Crores (5.1% of GDP) versus a revised figure of INR 521,981 Crores (5.9% of GDP) for 2011-12
- ▶ Net market borrowing projected at INR 4,79,000 Crores for FY 2012-13 versus INR 4,36,414 Crores for FY 2011-12

De-constructing the Blueprint

- ▶ Market borrowing forms 93% of total budgeted fiscal deficit, signifying pressure on yields going forward
- ▶ Key points that need to be considered are:
 - Projected tax revenue growth is higher by 20% owing to increase in Indirect Tax rates back at the pre-crisis (2008) levels and optimistic estimate of the non-plan expenditure may need aggressive management on part of the government
 - Expenditure is expected to be lowered through a reduced subsidy estimate, which remains dependent on the fertilizer subsidy and international crude oil prices for fuel
 - Target for dis-investment at INR 30,000 Crores and from the auction of spectrum at INR 40,000 Crores
 - Government re-focusing on charting out a new roadmap for fiscal consolidation

- ▶ Absolute numbers of fiscal deficit remain elevated
- ▶ Fiscal deficit as a percentage of GDP is improving, on the back of higher nominal GDP growth
- ▶ Net supply to the market may be significantly higher if Open Market Operations (OMOs) are absent

Fiscal Deficit



INR Crs	FY 2010-11	FY 2011-12	FY 2012-13
Net Borrowing	335,414	436,414	479,000
OMO	67,040	124,700	
Net Supply	268,374	311,714	479,000

Effects on the Debt Market

We remain positive on duration funds and endeavor to build duration selectively owing to the following reasons

- ▶ Expectation of rate cuts on the back of benign GDP numbers and moderating Inflation
- ▶ But, volatility will remain because of higher supply and tight liquidity
- ▶ Lower credit growth augurs positively for demand of government bonds
- ▶ OMO's are likely to bail out higher gross borrowing requirement and tight liquidity conditions again in 2012-13

Expect some upward bias to bond yields as the market gears up to absorb the fresh auction calendar in April 2012

Short end rates may ease as the liquidity returns in the first quarter of next financial year, leading to bullish steepening of the bond curve

▶ sms INVEST to 56767

▶ www.assetmanagement.hsbc.com/in

This document has been prepared by HSBC Asset Management (India) Private Limited (HSBC) for information purposes only and should not be construed as an offer or solicitation of an offer for purchase of any of the funds of HSBC Mutual Fund. All information contained in this document (including that sourced from third parties), is obtained from sources HSBC, the third party believes to be reliable but which it has not independently verified and HSBC, the third party makes no guarantee, representation or warranty and accepts no responsibility or liability as to the accuracy or completeness of such information. The information and opinions contained within the document are based upon publicly available information and rates of taxation applicable at the time of publication, which are subject to change from time to time. Expressions of opinion are those of HSBC only and are subject to change without notice. It does not have regard to specific investment objectives, financial situation and the particular needs of any specific person who may receive this document. Investors should seek financial advice regarding the appropriateness of investing in any securities or investment strategies that may have been discussed or recommended in this report and should understand that the views regarding future prospects may or may not be realized. Neither this document nor the units of HSBC Mutual Fund have been registered in any jurisdiction. The distribution of this document in certain jurisdictions may be restricted or totally prohibited and accordingly, persons who come into possession of this document are required to inform themselves about, and to observe, any such restrictions.

© Copyright. HSBC Asset Management (India) Private Limited 2012, ALL RIGHTS RESERVED.

No part of this publication may be reproduced, stored in a retrieval system, or transmitted, on any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior written permission of HSBC Asset Management (India) Private Limited.

Mutual Fund investments are subject to market risks, read all scheme related documents carefully.