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Union Budget 2007-08

No meals, only biscuits

The stock market was convinced that it will not get a sumptuous meal, but the Union Budget ended up giving just biscuits, hurting market sentiments

The Union Budget 2007-08 turned out to be offering just biscuits, instead of a normal meal for the Corporate India. The markets were convinced that they will not get a sumptuous meal, but never thought that the budget will offer so little and take too much away in terms of rise in tax incidence.

Be it increase in education cess from 2% to 3%, or increase in dividend distribution tax from 12.5% to 15% or extending MAT to IT companies, the irritant list stands tall.

Construction companies' valuations tumble

Biggest irritant was for the construction companies. Section 80-IA of the Income Tax Act provides for a ten-year tax benefit to an enterprise or an undertaking engaged in development of infrastructure facilities, Industrial Parks and Special Economic Zones (SEZs).

However, the Union Budget has indicated that the purpose of the tax benefit has all along been for encouraging private sector participation by way of investment in development of the infrastructure sector and not for the persons who merely execute the civil construction work or any other works contract.

Hence, construction companies shall not get benefit U/s 80 IA. The provision says that this benefit shall not apply to a person who executes a works contract entered into with the undertaking or enterprise referred to in the said section. Thus, in a case where a person makes the investment and he himself executes the development work i.e., carries out the civil construction work, then he will be eligible for tax benefit under section 80-IA.

Not only is the benefit withdrawn, it has been withdrawn with retrospective effect from 1st April 2000 and will, accordingly, apply in relation to the assessment year 2000-2001 and subsequent years. We expect huge income tax liability to accrue to most of the construction companies, due to this change / withdrawal of tax benefit with retrospective effect.

For instance, IVRCL infrastructure's outstanding order book position as on date is Rs 7800 crore of which Rs 2600 crore i.e. 34% are the one which the company won taking into consideration the 80 IA benefits. For FY'07, the company need to provide tax of Rs 20 crore and from April'00 the total tax liability due to retrospective effect of 80 IA amounts to Rs 57 crore. Going forward, there will be an additional tax liability of Rs 16.67 crore every year. Hence going forward this will increase the overall tax liability from 22% (present) to normal tax regime.

Cement scrips crumble on differential excise duty

Another major irritant was for the Cement sector. The Union Budget 2007-08 has introduced differential excise duty based on the retail price. If the Maximum Retail Price (MRP) is upto Rs 190 per 50 kg bag, then the excise duty on cement (of large players) from Rs 400 per metric tonne to Rs 350 per tonne; If the MRP exceeds Rs 190 per 50 kg bag, then the excise duty on cement (of large players) stands increased from Rs 400 per tonne hitherto to Rs 600 per metric tonne. Similar change has been made for mini cement plants. For MRP of upto Rs 190 per 50 kg bag, the excise duty on cement from mini cement plants stands reduced from Rs 250 per tonne to Rs 220 per tonne. For MRP in excess of Rs 190 per 50 kg bag, the excise duty for cement produced by mini cement plants stands increased from Rs 250 per tonne to Rs 370 per tonne.

Inflation

Until 2 February 2007, bank credit, year on year, had grown by 29.6 %. Money supply (M3) had expanded by 21.3 %. Foreign exchange reserves stood at US$ 180 billion. While these are concomitant features of high growth, it cannot be denied that these monetary trends have put pressure on prices. Global commodity prices have also exerted pressure on domestic prices. At the same time, supply constraints have emerged in some essential commodities such as wheat, pulses and edible oils. Consequently, average inflation in 2006-07 is estimated at between 5.2 and 5.4 %, which is higher than 4.4 % last year. Government has already taken a number of measures on the fiscal, monetary and supply sides to maintain price stability and, if required, will not hesitate to take more measures.

Agriculture

The Union Budget 2007-08 has estimated an average growth at 2.3% in agriculture during tenth plan. The FM has focused on improving agricultural output, as it has always been one of the priority sectors. A number of proposals to improve the

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economic viability of farming and ensure that farmers earn a minimum net income have been presented in the budget. The Union Budget 2007-08 has stressed on farm credit. Farm credit has continuously grown at a satisfactory pace. The goal of doubling farm credit in three years was achieved in two years. For 2007-08, a target of Rs.225, 000 crore as farm credit and an addition of 50 lakh new farmers to the banking system has been proposed. In order to encourage banks to provide credit, the two % interest subvention scheme for short-term crop loans will continue in 2007-08.

Looking at the stagnation in the production and productivity of pulses. It has been proposed to expand the Integrated Oilseeds, Oil palm, Pulses and Maize Development programme. There will be a sharper focus on scaling up the production of breeder, foundation and certified seeds. Government will fund the expansion of Indian Institute of Pulses Research (IIPR), Kanpur, and offer the other producers a capital grant or concessional financing in order to double the production of certified seeds within a period of three years. A Special Purpose Tea Fund has been launched for re-plantation and rejuvenation of tea. Government will soon put in place similar financial mechanisms for coffee, rubber, spices, cashew and coconut. For 2006-07, the contribution is expected to be Rs.100 crore. When established, the Fund will benefit growers in the tea growing states including Assam, West Bengal, Tamil Nadu, Kerala and Uttaranchal. Besides this the Union Budget 2007-08 has focused on irrigation facilities, water resources, training progrmmes for farmers, fertiliser subsidies, agricultural insurance, and rural infrastructure developments.

Investment

Gross domestic capital formation in 2005-06 grew by 23.7 %; in April-January, 2006-07, foreign direct investment amounted to US$12.5 billion and outpaced portfolio investment of US$6.8 billion. Central Public Sector Enterprises to invest Rs.165,053 crore through internal and extra budgetary resources in 2007-08; Government to provide equity support of Rs.16,361 crore and loans of Rs.2,970 crore.

Public Private Partnership and Viability Gap Funding

The Public Private Partnership (PPP) model has enabled greater private sector participation in the creation and maintenance of infrastructure. So far, under the viability gap-funding scheme, 37 proposals have been received of which 21 proposals have been granted ‘in-principle’ approval with a total project cost of Rs.9,842 crore and an estimated viability gap funding of Rs.2,521 crore. The pace is slow, and there is a need to adopt a more aggressive approach for preparing a shelf of bankable projects that can be offered for competitive bidding. Apart from the steps already taken for capacity building and engaging consultants, it has been intended to set up a revolving fund with a corpus of Rs.100 crore to quicken project preparation. The fund will contribute up to 75 % of the preparatory expenditure in the form of interest free loan that will be eventually recovered from the successful bidder. Guidelines for operating the fund will be announced in due course.

Public Finance

Thanks to the Fiscal Responsibility legislations, the Central Government and the State Governments have regained lost fiscal ground. Rs. 110,268 crore of States' debt has been consolidated. Twenty States have availed of the benefit of debt waiver to the tune of Rs.8,575 crore. In 2006-07, the Centre will give to the States as their share of taxes and duties Rs.120,377 crore. In 2007-08, this amount will increase to Rs.142,450 crore. Besides, total grants and loans, both under Plan and non-Plan, to States and Union Territories will increase from Rs.90,521 crore in 2006-07 to Rs.106,987 crore in 2007-08.

Plan Expenditure

Plan expenditure for 2007-08 is estimated at Rs.205,100 crore. As a proportion of total expenditure (net of the SBI share acquisition), plan expenditure will be 32.0 %. The thrust on infrastructure development will raise the plan expenditure of the government.

Non-Plan Expenditure

Non-Plan Expenditure in 2007-08 (net of the SBI share acquisition) is estimated at Rs.435, 421. The increase over 2006-07 is only 6.5 %.

Revenue Deficit and Fiscal Deficit

As per the Central Government is concerned, the fiscal consolidation is proceeding according to the FRBM Act. Based on Revised Estimates, the revenue deficit for the current year will be 2.0 % (against a BE of 2.1 %) and the fiscal deficit will be 3.7 % (against a BE of 3.8 %).In the Budget Estimates for 2007-08, the total expenditure is estimated at Rs.680,521 crore (including Rs.40,000 crore for the SBI share acquisition). The total revenue receipts of the Central Government are projected to be Rs.486,422 crore and the revenue expenditure to be Rs.557,900 crore. Consequently, the revenue deficit is estimated at Rs.71,478 crore which is 1.5 % of the GDP. The fiscal deficit is estimated at Rs.150,948 crore, which is 3.3 % of the GDP.

Taxes

Gross tax revenue has grown by 19.9 %, 20.0 % and 27.8 % in the first three years of this Government. The tax to GDP ratio has increased from 9.2 % in 2003-04 to 11.4 % in 2006-07. VAT has proved to be an unqualified success. VAT revenues of the implementing States increased by 13.8 % in 2005-06 and by 24.3 % in the first nine months of

2006-07. The Central Sales Tax (CST) rate will be reduced from 4 % to 3 % with effect from 1 April 2007. The Government announced wide-ranging reductions in tariffs. Import duties on capital goods, project imports, metals and specified inorganic chemicals were reduced by 2.5% points and, in some cases, by 5%. In addition to the 10 to 12.5% reduction in the import duties on select edible oils the government has further reduced the customs duty on crude sunflower oil from 65% to 50% and on refined sunflower oil from 75% to 60%. Similarly, all crude as well as refined edible oils have been exempted from the 4% additional customs duty.

To take one more step towards comparable East Asian rates, Union Finance Minister P Chidambaram, while presenting the budget for 2007-08, proposed to reduce the peak rate for non-agricultural products from 12.5% to 10%.

The reduction in custom duties and excise duties announced in the budget is expected to moderate the growth in tax collection.

The positives of the budget were no change in capital gains tax regime/ STT, corporate taxes, improvement in the overall fiscal situation, no increase in government borrowing next year etc.. On the negative side, though there was no increase in corporate tax, there was an increase in incidence of other taxes on corporate in many sectors (MAT enforced on companies under Section 10A/ 10B, service tax on rentals paid on commercial property, excise duty changes etc.). Reduction in the overall custom duties rate will lead to incremental margin pressures for local companies in various sectors. The upside to this is the impact in controlling inflation.

Heralding The Eleventh Five Year Plan

The year 2007-08 will mark the beginning of the Eleventh Plan. The declared objective is faster and more inclusive growth. The Plan will aim at putting the economy on a sustainable growth trajectory with a growth rate of approximately 10 % by the end of its period. Among the other objectives of the Plan is growth of 4 % in the agriculture sector, faster employment creation, reducing disparities across regions and ensuring access to basic physical infrastructure as well as health and education services to all.

Outlook

The economy is growing at a faster rate. The buoyant economy has given the opportunity to unfurl the sails and catch the wind. The Union Budget 2007-08 is more towards infrastructure development and rural development to facilitate the various programmes proposed under the 11th five-year plan.

Manufacturing is the main driver of growth, and this augurs well for the future. In the three years the growth rate in manufacturing has accelerated from 8.7 % to 9.1 % and further to 11.3 %. The services sector continues to maintain impressive growth and has recorded, in the three years, a growth rate of 9.6 %, 9.8 % and 11.2 % respectively.

On the other hand, the agriculture sector has witnessed sharp ups and downs. Average growth during the Tenth Plan period is estimated at 2.3%, which is below the desired level of 4 % a year. About 115 million families are classified as farming families. Furthermore, a country with a large population has to be nearly self-sufficient in essential food items; otherwise supply constraints could upset macro economic stability and growth prospects, which is the situation faced by the economy currently.

On the whole the Union Budget is neutral with more thrust to agriculture and infrastructure, while turning out to be negative for Corporate India. Ofcourse, some segments like plywood, biscuits, paints benefited. But, by and large, Chidambaram has given biscuits when normal meal was expected.

Proposals on infrastructure are cursory and inadequate.

Steps taken to phase out CST are a step in the right direction. Reiteration on uniform GST is indicative of intention and resolve.

Increase in DDT was unwarranted, when industry was expecting a reduction or abolishment.

Levying FBT on the grant of ESOPs is uncalled for. Impact would be at the highest tax slab.

IT is no longer a sunrise sector and must now contribute. Inclusion of software export profits is not likely to impact much, considering tax relief available under Double Tax agreements.

Reduction in customs duty on medical equipment is a disincentive for indigenous manufacturers, while reduction on dredgers would benefit us.

Increased excise duty on cement would eventually be passed on to the consumer. For Indian construction, the costs would be higher and unpredictable.

Works contract now being included as a taxable category clarifies the doubts on taxability. Option to pay service tax of 2% on composition basis would avoid onerous litigation.

On the whole, this budget cannot be seen as an event. It is one in many steps towards a mature, developed economy.

Mr. Y M Deosthalee, CFO, Larsen & Toubro Limited

Sectoral Impact of Union Budget 2007-08

The rise in tax incidence has turned out to be a big irritant

General

(a) Rise in tax incidence, a big irritant for Corporate

Direct and indirect tax incidence to go up due to increase in education cess from 2% to 3% on customs and excise duties as well as on Income Tax. The tax incidence will also go up due to increase in dividend distribution tax from 12.5% to 15%. The deferred tax charge for the quarter ending March 2007 is set to significantly increase, as it will have to factor in the increased Income tax on past profits that will become chargeable in future.

(b) Reduction in peak customs duties to reduce protection

The peak customs duties have been reduced from 12.5% to 10%. Also, many products, which were under peak customs duties of 12.5%, have been reduced significantly in January 2007 as well as now in the Union Budget 2007-08. This will reduce the competitiveness of the domestic players in the domestic market, as imports are likely to become relatively cheaper. However, historically we find that the Industry is becoming globally competitive as the duty structure stands rationalized, and hence this will be more of a short-term pain for long-term gain.

Major industries that were benefited

(a) Biscuit Manufacturers

The excise duty of 8% has been removed for packed biscuits, if the MRP does not exceed Rs 50 per kg. This will benefit ITC and Britannia Industries, in respect of their biscuit business. However, some of the products of Britannia Industries like Good Day are sold way above this ceiling, and will not qualify for excise exemption.

The fats & Oils constitute about 20% of the cost of production for Britannia Industries. As regards edible oils – there are twin benefits. One, the additional duty of customs of 4% is no longer leviable on edible oils, both crude as well as refined. Further, customs duty on crude sunflower oil has been reduced from 65% to 50% while that on refined sunflower oil has been reduced from 75% to 60%. This should lead to reduction in landed cost of sunflower oil, and thereby leading to reduction in cost of fats and oils for biscuits.

Also, while lamination rolls (packaging) accounts for 10% of the costs of Britannia Industries in FY 2005-06. In this context, the reduction in the peak customs duty from 12.5% to 10%, should facilitate reduction in the packaging costs, as the domestic packaging sector has to pass on this benefit due to global and domestic over capacities in the flexible packaging sector.

Companies to Benefit: Britannia Industries, ITC

(b) MNC pharma companies, and domestic formulators and in-licensees

The subsidiaries and Associates of global pharma majors as well as MNCs operating directly in India, apart from domestic formulators and in-licensees shall benefit from the reduction in the peak customs duty from 12.5% to 10%. This should facilitate reduction in the landed cost of import of intermediates (chemicals used to produce bulk drugs), bulk drugs and formulations. However, frontline domestic pharma companies are producers of both APIs and formulations and their benefit is likely to be limited. In-licensees like Elder Pharma, apart from MNC pharma companies, which import sizeable portion of their requirements, stand to benefit more.

***Companies to Benefit*: Glaxosmithkline Pharma, Pfizer, Novartis India, Aventis Pharma, Merck, Abbott India, Astrazeneca Pharma, Fulford (India), Solvay Pharma, Wyeth, Elder Pharma**

(c) Steel pipe manufacturers

Earlier, the excise duty exemption was available for steel pipes used for taking water from water treatment plant, including its reservoir, to the first storage point. Now, the Union Budget 2007 has extended the scope of this excise exemption to all pipes of outer diameter exceeding 20 centimeter, when such pipes are integral part of the water supply project. Such pipes will be eligible for the exemption irrespective of whether they are used for taking water from treatment plant to the first storage point or from one storage point to another storage point.

Further, the government has proposed extension of benefit U/s 80 IA of the Income Tax act for profits from laying and operating a cross country natural gas distribution network, including gas pipelines and storage facilities that are integral part of the network etc. This should also facilitate increased demand for steel pipes from the Oil and Gas sector.

Companies to Benefit: PSL, Man Industries, Welspun Gujarat Stahl Rohren, Jindal Saw

(d) R & D companies including Auto and Pharma to benefit

The expenditure incurred on Research and Development qualifies for 150% deduction for Income Tax purposes upto 31st March 2007. Now the budget has extended this benefit for another five years. This should benefit Indian pharma companies and auto majors.

Companies to Benefit: Ranbaxy Laboratories, Dr Reddys Laboratories, Cipla, Tata Motors

(e) Growth to continue in Power sector

The government grossly under-achieved its capacity addition target of 46000 MW in the power sector for the 10th Five-Year plan. Capacity of only 23163 MW was added during this plan. As a result the government is expected to increase its efforts for building up infrastructure in the coming years. The government allocated two Ultra-mega power plants during 2006 and two more are expected to be allocated by July 2007. The budgetary provision for APDRP has been raised by 23% to Rs 800 crore for the year 2007-08, while the budgetary provision for rural electrification under Rajeev Gandhi Grameen Vidyutikaran Yojana is increased by 32.8% to Rs 3983 crore. This will benefit Indian power companies and also manufacturers of power equipments depending upon winning bids

***Companies to Benefit*: Tata Power, Reliance Energy, NTPC, Lanco Infratech**

(f)Natural Gas Transmission

The Budget 2007-08 extended infrastructure status to the cross-country pipeline networks. This will exempt 100% of the profits earned by the companies from building, operating and maintaining such natural gas pipelines. Presently GAIL is the only company qualifying for this benefit by virtue of its over 4200 km network of pipelines. While Reliance Industries is building 1400 km pipeline to connect east and west coasts of India.

***Companies to Benefit*: GAIL, Reliance Industries**

(g) Plywood Manufacturers

The excise duty on plywood was cut down from 16% to 8% in the Union Budget 2007-08, which is going to greatly benefit to the plywood manufacturers, as they mostly sell directly to the consumers. At the same time, the peak rate of customs duty has been reduced from 12.5% to 10%, which will effectively reduce the cost of raw materials mainly chemicals such as resins.

***Companies to Benefit*: Greenply Industries, Century Plyboards, Uniply Industries**

(h) Telecom

The long-standing demand of the telecommunications industry for removal of the multifarious taxes, charges and fees applicable to the industry is expected to fructify in this budget, as the Union Finance Minister has announced to constitute a committee to make recommendations towards introducing unified and single levy on revenue. The present license fees range between 6% and 10% and it is expected that a uniform levy at 6% will be introduced through all the telecom license circles.

***Companies to Benefit*: All telecom companies including Bharti Airtel, Reliance Communications, Idea Cellular, MTNL, VSNL**

(i) Healthcare

The budgetary provision for health and family welfare was increased by 21.9% to Rs.15291 crore in the Union Budget 2007-08 with Rs 1290 crore going for elimination of polio and Rs 969 crore budgeted for AIDS control programme. Similarly, the limit of premium on mediclaim insurance was raised to Rs 15000 and Rs 20000 for senior citizens. These developments are going to benefit the healthcare industry in general.

***Companies to benefit:* Cipla, Panacea Biotech, Apollo Hospitals**

(j) IT Education:

Government has increased its budgetary provisions for education by 34.2% to Rs 32352 crore. Similarly, the government has imposed 1% additional cess on all taxes to fund secondary and higher education. The government has allocated Rs 719 crore for e-governance initiatives at the Central level and Rs 500 crore at supporting the e-governance initiatives at the State levels. These initiatives are set to benefit the companies, which provide higher IT education and training in government schools etc.

***Companies to benefit*: NIIT, Aptech, Educomp Solutions**

(k) Paints:

At the time, when the peak customs duty has been cut to 10% from 12.5% earlier, the Paints industry is set to benefit, as most of the chemicals have been brought down to 7.5% customs duty. Except for titanium dioxide, other major inputs for the industry such as phthalic anhydride, pentaerythritol etc now attract 7.5% customs duty.

Further, by continuing with favorable policies for the construction industry, the Union Finance Minister P Chidambaram has ensured that the housing industry stays on its growth path. Further, the increased focus on agriculture, education and employment generation will benefit the paint industry as a whole. Moreover, the reduction of CST to 3% is also a welcome move

***Companies to Benefit*: Asian Paints, Kansai Nerolac**

(l) Hotels:

India bid for and won for the city of Delhi the Commonwealth Games 2010. It is estimated that 20,000 more hotel rooms will be required to be built up for this event. Hence, the finance minister extended a five year holiday from income tax for two, three or four star hotels as well as for convention centres with a seating capacity of not less than 3,000, provided they are completed and begin operations in the National Capital Territory of Delhi or in the adjacent districts of Faridabad, Gurgaon, Ghaziabad or Gautam Budh Nagar during the period April 1, 2007 to March 31, 2010. In order to promote business tourism, the finance minister also allowed the tax benefits of pass-through status to venture capital funds that invest in hotel-cum-convention centres of a certain description and size.

Companies to benefit: **Any new hotel project that comes up in the notified region near New Delhi; But, no major frontline listed entity is likely to significantly benefit.**

Major industries that were negatively impacted:

(a) Infrastructure and Construction:

The Union Budget 2007-08 dealt a heavy blow to the domestic infrastructure industry by changing the eligibility criteria for availing benefits under section 80IA of Income Tax. Henceforth, the provisions of section 80-IA shall not apply to a person who executes a works contract for a principal and only in a case where a person makes the investment and he himself executes the development work, will he be eligible for tax benefit under section 80-IA. Also, this change has been introduced with retrospective effect, which will effectively mean that the companies, which had availed such benefits since assessment year 2000-01, will incur huge tax liability for the past and current year due to removal of 80-IA benefits. While past arrears can be debited to reserves or P & L appropriation account, concern is for the current year, and for projects bid assuming 80 IA benefits, and to be executed in future.

Add to this, fresh the service tax liability on works contract. Though this has been restricted to 2% of the contract value, it will still impact margins.

Companies to suffer: **IVRCL Infrastructure, L&T, Punj Lloyd, Simplex Infrastructure**

(b) Software:

The Union Budget 2007-08 has extended MAT on income in respect of which deduction is claimed under Section 10A and 10B of the Income Tax Act, 1961 i.e. the STPI scheme. The budget also proposes to bring ESOPs under FBT. This was a major shock to the IT industry, which is characterized by high amounts of ESOPs.

Apart from these, the Budget proposes to raise the rate of dividend distribution tax from 12.5% to 15% on dividends distributed by companies. The Budget has also proposed to increase the education cess from 2% to 3%.

Companies to suffer**: Infosys Technologies, HCL Technologies, TCS**

(c) Cement:

The Union Budget 2007-08 introduced a differential excise duty structure where a cement bag of 50kg being sold under Rs 190 will attract excise duty at Rs 350 per tonne and cement being sold at a price more than Rs 190 per bag will be charged excise at Rs 600 per tonne. This hampers the market sentiments as presently the cement prices are strongly above Rs 190 in most parts of the country. In case of large contracts, the excise duty will most probably be a pass through item, however, in the retail market it is yet to be seen whether the industry can pass through the excise duty.

Companies to suffer**: ACC, Gujarat Ambuja Cement, Grasim, Ultratech**

Are we set to register 10% growth in GDP in the quarter ending March 2007?

INDUSTRY	2004-05	2005-06	2006-07	% CHANGE OVER P Y		GDP FOR THE QUARTER ENDING		
				2005-06	2006-07	Mar-06	Mar-07	**Growth***
Agriculture, forestry & fishing	483080	512147	526127	6.0	2.7	133459	139232	4.3
Mining & quarrying	52250	54128	56551	3.6	4.5	15155	15972	5.4
Manufacturing	361115	393956	438440	9.1	11.3	106490	118613	11.4
Electricity, gas & water supply	54531	57401	61817	5.3	7.7	14690	15920	8.4
Construction	155431	177543	194184	14.2	9.4	48048	52083	8.4
Trade, hotels, transport and	616024	680237	768757	10.4	13.0	192184	215700	12.2
Financing, insurance, real estate	323187	358535	398503	10.9	11.1	97501	111232	14.1
Community, social & personal	344042	370584	399643	7.7	7.8	105577	115459	9.4
GDP at factor cost	2389660	2604532	2844022	9.0	9.2	713105	784213	10.0

Only a 10% growth in GDP for the quarter ending March 2007 can lead to 9.2% growth for FY 2006-07

FY 2005-06 figures are quick estimates while FY 2006-07 figures are advance estimates
* Estimated for the quarter ending March 2007, based on Advance Estimate for FY 2007-08 and the provisional figures for the nine months ended December 2006
Figures in Rs crore at Factor cost at 1999-2000 prices; *Source: Central Statistical Organisation*

GDP

Will it touch 10% growth in the quarter ending March 2007?

India's GDP is estimated to have grown by 8.9% in the nine months ended December 2006, and for 9.2% for FY 2006-07 the GDP has to grow by 10% in the quarter ending March 2007

India's GDP (at factor cost and at constant / 1999-2000 prices) is estimated at Rs. 7,56,296 crore for the quarter ended December 2006, which represents decent 8.6% growth over Rs. 6,96,146 crore in the corresponding previous quarter.

The sectors which registered significant growth in Q3 of 2006-07 over Q3 of 2005-06 are, 'mining & quarrying' at 5.7 per cent, 'manufacturing' at 10.7 per cent, 'electricity, gas and water supply' at 9.3 per cent, 'construction' at 9.8 per cent, 'trade, hotels, transport and communication' at 13.0 per cent, 'financing, insurance, real estate and business services' at 11.6 per cent, and 'community, social and personal services' at 7.5 per cent.

Amongst services, finance and insurance, hotels, construction has recorded impressive growth. Infact, the pace of growth in construction sector has been gradually increasing from 9.5% in the quarter ended June 2006 to 9.8% in the quarter ended September 2006, which further increased to 9.9% in the quarter ended December 2006. But, based on the estimated GDP from construction sector, there is likely to be a slowdown in the pace of growth to 8.4% in the quarter ending March 2007.

Receipts

Lower estimated corporate tax raises concerns

In FY 2006-07, Corporation tax receipts registered 45% growth to estimated Rs 146497 crore. But the government has estimated mere 15% growth in corporate tax in FY 2006-07 to Rs 168401 crore, in its budget estimates. The rise in tax incidence of corporate due to increase in education cess from 2% to 3%, increase in dividend distribution tax from 12.5% to 15% and bringing some IT companies into the MAT together with buoyancy in the economy should have facilitated higher estimated corporate tax. This means that the government is expecting a slowdown in the profitability of the corporate on the one hand, and increased tax exemptions from the IT exempt zones.

Likewise, the government is estimating lower growth in FY 2006-07 in various other taxes including taxes on income, customs, service tax.

Contrarily, higher growth in excise duties estimated

The excise duties are estimated to increase by mere 5% to Rs 117266 crore in FY 2006-07. Though there has been no major increase in excise duties, except on tobacco products, the government is expecting 11% growth in excise duty collections to Rs 130220 crore in FY 2007-08. This at a time when the number of units in excise free zones have gone up, and as many units set up in FY 2006-07 will enjoy full year of excise duty exemptions as against for the part of the year in FY 2005-06. While the buoyancy in the manufacturing sector is positive and can facilitate higher excise collections, the surge from mere 5% growth in FY 2006-07 to impressive 11% in FY 2007-08 appears to be on a higher side.

Expenditure

Plan and non-plan expenditure are two main components of total expenditure. From non-plan expenditure Government expecting 16 per cent growth as compared to the 12 percent from last years. Plan expenditure recorded 23 per cent growth in 2005-06 and 2006-07.Government put 19 per cent growth target in coming year. Over all target growth rate for the total expenditure is 17% for 2007-08, whereas it was recorded growth of 15 per cent in 2005-06 and 2006-07 so far.

Deficit

Government is constantly planning to reduce the revenue deficit. It was down by 10 percent as compared between 2005-06 and 2006-07 so far, for year 2007-08; it expected to come down by 14 per cent. At the same time fiscal deficit recorded growth of 4 per cent in 2005-06 and 06-07 so far, but policy makers want to reduce it by 1 per cent. Another major component, primary deficit, which come down by 56 per cent, but it, may come down further to 231 per cent in 2007-08. But much depends on the government's ability to reign in expenditure within the budgeted levels, and its ability to increase tax revenues in line with the projections.

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