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# AN ANALYSIS OF THE UNION BUDGET 2011-12 AND RECENT POLICY INITIATIVES

FOR PRIVATE CIRCULATION ONLY

# Preface

***FM targets governance to garner growth***

The predicament at the centre seen in the last quarter has been dealt with fine touches of Confidence, Minuteness and Vision as laid down in the Union Budget 2011-12. The balancing act of Finance Minister, Sri Pranab Mukherjee, is seen to bring down the targeted fiscal deficit for FY11-12 at much appreciable level of 4.6 percent as against 5.1 percent in FY10-11. Fiscal Deficit is expected to be progressively reduced to 3.5 percent by 2013-14. He reiterates time and again the need to increase the governance across all sectors of the economy and to aid and facilitate the key programs like UID and other Technologies that would play a greater role in bringing transparency. It simply means that the Finance Minister is targeting greater governance to enhance the flow of revenue. In brief, Budget 2011-12 is set to serve as a transition towards a more transparent and result oriented economic management system in India.

The target from disinvestment has been set at ₹ 40,000 crores, but more than that the repeated mention of commitment to retain at least 51 percent ownership and management control of the CPSUs, highlights the intent of the government to disinvest major PSU's which may help higher flow from disinvestments and also increase the level of governance of these companies.

The FM has chosen to continue and enhance measures taken in budget 2010-11 to counter higher inflation arising out of higher food prices. The rural economy has been given a greater thrust to improve farm lending allocation, productivity, logistics, and manpower. Credit flow for farmers has been raised from ₹ 3,75,000 crore to ₹ 4,75,000 crore in 2011-12. Interest subvention has further been proposed to be enhanced from 2 percent to 3 percent for providing short-term crop loans to farmers who repay their crop loan on time.

Capital investment in fertilizer production is proposed to be included as an infrastructure sub-sector. The Cold storage sector has been given a thrust with the sector being given the infrastructure sub-sector status which would encourage private investment.

The Direct Tax Code is to be finalized for enactment during FY11-12 and proposed to be made effective from April 1, 2012. As a step towards roll out of GST, Constitution Amendment Bill is proposed to be introduced in this session of Parliament. Significant progress in establishing GST Network (GSTN) has been done in this respect.

Allocation of ₹ 2,14,000 crore for infrastructure in 2011-12 has been budgeted. This is an increase of 23.3 percent over 2010-11. This also amounts to 48.5 percent of total plan allocation.

The Government will come up with a comprehensive policy for further developing Public Private Partnership (PPP) projects. To enhance the flow of funds to the infrastructure sector, the FII limit for investment in corporate bonds, with residual maturity of over five years issued by companies in infrastructure sector, is being raised by an additional limit of US Dollar 20 billion taking the limit to US Dollar 25 billion. Also, SEBI registered mutual funds are permitted to accept subscription from foreign investors who meet KYC requirements for equity schemes.

Some of the major financial sector reforms that the government has outlined for FY11-12 are the Life Insurance Corporation (Amendment) Bill, 2009; the revised Pension Fund Regulatory and Development Authority Bill, first introduced in 2005; Banking Laws Amendment Bill, 2011; the State Bank of India (Subsidiary Banks Laws) Amendment Bill, 2009; and the setting up of Central Electronic Registry under the SARFAESI Act, 2002.

Allocation for education increased by 24 percent over current year with *Sarva Shiksha Abhiyan (SSA)* getting ₹ 21,000 crore which is 40 percent higher than that budgeted in 2010-11. Plan allocation for health has been stepped-up by 20 percent. With the level of education set to increase in India with various educational allocations and reforms, it was necessary for the government to target an increase in employment in the manufacturing sector. **The same has been addressed with the introduction of National Manufacturing Policy. The share of manufacturing in GDP is expected to grow from about 16 percent to 25 percent over a period of 10 years.**

FM has highlighted some of the measures adopted on global convention that would help curb circulation of black money. A Fivefold strategy is put into operation to deal with the problem of generation and circulation of black money.

On the Direct Tax front, the minimum slab has been enhanced from ₹ 1,60,000 to ₹ 1,80,000 giving uniform tax relief of ₹ 2,000. Current surcharge of 7.5 percent on domestic companies is proposed to be reduced to 5 percent. On the indirect tax front, basic excise duty has been left untouched while Customs duties on various products have been brought down marginally to help the domestic manufacturers of FMCG products, power equipments, agricultural equipments etc. Service Tax rate has been retained at 10 percent, while seeking a closer fit between present regime and GST.

The government has been able to identify the factors which are the bottlenecks of our public delivery mechanisms. The same has been dealt with various measures, the impact of which can only be felt in the long run. The fact that significant progress has been made in the critical institutional reforms that would set the pace for double-digit growth in near future keeps our expectations high from the hidden reforms of the government.

The Budget for 2011-12 is a transition towards a more transparent and result oriented economic management system in India. The government is taking major steps in simplifying and placing the administrative procedures concerning taxation, trade and tariffs and social transfers on electronic interface which will be free of discretion and bureaucratic delays. This will set the tone for a newer, vibrant and more efficient economy.

**Team Microsec**

# INDIAN UNION BUDGET 2011-12

**and Recent Policy Initiatives**

## Contents

# Budget Highlights

**ECONOMY**

- Gross Domestic Product (GDP) estimated to have grown at 8.6 per cent in 2010-11 in real terms.
- Economy expected to grow at 9 per cent with an outside band of +/- 0.25 percent in 2011-12.
- Share of manufacturing in GDP expected to grow from about 16 per cent to 25 per cent over a period of 10 years.

**FISCAL SNAPSHOTS**

- Gross Tax receipts are estimated at ₹ 9,32,440 crore.
- Non-tax revenue receipts estimated at ₹ 1,25,435 crore.
- Total expenditure proposed at ₹ 12,57,729 crore.
- Increase of 18.3 percent and 10.9 percent in total Plan allocation and Non-plan expenditure respectively.
- Fiscal Deficit brought down from 5.5 per cent in BE 2010-11 to 5.1 per cent of GDP in RE 2010-11.
- Fiscal Deficit targeted at 4.6 per cent of GDP for 2011-12 and to be progressively reduced to 3.5 per cent by 2013-14.
- "Effective Revenue Deficit" estimated at 2.3 per cent of GDP in the RE for 2010-11 and 1.8 per cent for 2011-12.
- Net market borrowing of the Government through dated securities in 2011-12 would be ₹ 3.43 lakh crore.

**AGRICULTURE**

- Allocation under Rashtriya Krishi Vikas Yojana (RKVY) increased from ₹ 6,755 crore to ₹ 7,860 crore.
- To improve rice based cropping system in eastern region, allocation of ₹ 400 crore has been made.
- Allocation of ₹ 300 crore for each of the following purposes
  - To promote 60,000 pulses villages in rainfed areas.
  - To bring 60,000 hectares under oil palm plantations.
  - For implementation of vegetable initiative to provide quality vegetable at competitive prices
  - To promote higher production of Bajra, Jowar, Ragi and other millets.
  - To promote animal based protein production
  - For Accelerated Fodder Development Programme to benefit farmers in 25,000 villages.
- Credit flow for farmers raised from ₹ 3,75,000 crore to ₹ 4,75,000 crore in 2011-12.
- Interest subvention proposed to be enhanced from 2 per cent to 3 per cent for providing short-term crop loans to farmers who repay their crop loan on time.
- Capital base of NABARD to be strengthened by ₹ 3,000 crore in phased manner.
- ₹ 10,000 crore to be contributed to NABARD's Short-term Rural Credit fund for 2011-12.
- Approval being given to set up 15 more Mega Food Parks during 2011-12.

**INDUSTRY**

- ₹ 6,000 crore to be provided during 2011-12 to enable public sector banks to maintain a minimum of Tier I CRAR of 8 per cent.
- ₹ 40,000 crore to be raised through disinvestment in 2011-12.
- ₹ 500 crore to be provided to enable Regional Rural Banks to maintain a CRAR of at least 9 per cent as on March 31, 2012.
- "India Microfinance Equity Fund" of ₹ 100 crore to be created with SIDBI.
- Corpus of RIDF XVII to be raised from ₹ 16,000 crore to ₹ 18,000 crore.
- ₹ 5,000 crore to be provided to SIDBI for refinancing incremental lending by banks to Micro Small and Medium Enterprises.
- ₹ 3,000 crore to be provided to NABARD to provide support to handloom weaver co-operative societies.
- Provision under Rural Housing Fund enhanced to ₹ 3,000 crore.
- Foreign Investors meeting the KYC requirements shall be able to subscribe to equity schemes of Mutual Funds registered with SEBI

**INFRASTRUCTURE**

- Allocation of ₹ 2,14,000 crore for infrastructure in 2011-12.
- IIFCL to achieve cummulative disbursement target of ₹ 20,000 crore by March 31, 2011 and ₹ 25,000 crore by March 31, 2012.
- Under take out financing scheme projects with debt of ₹ 5,000 crore will be sanctioned during 2011-12.
- To boost infrastructure development, tax free bonds of ₹ 30,000 crore proposed to be issued by Government undertakings during 2011-12.

**SOCIAL SECTORS**

- Allocation for social sector in 2011-12 (₹ 1,60,887 crore) increased by 17 percent over current year.
- Allocation for Bharat Nirman programme proposed to be increased by ₹ 10,000 crore to ₹ 58,000 crore in 2011-12.
- Allocation for primitive Tribal groups increased from ₹ 185 crore in 2010-11 to ₹ 244 crore in 11-12.
- ₹ 500 crore proposed to be provided for National Skill Development Fund during the next year.
- ₹ 200 crore proposed to be allocated for Green India Mission and also for launching Environmental Remediation Programmes from National Clean Energy Fund.
- Special allocation of ₹ 200 crore proposed to be provided for clean-up of some more important lakes and rivers other than Ganga.
- ₹ 8,000 crore provided in current year for development needs of Jammu and Kashmir.
- "Women's SHG's Development Fund" to be created with a corpus of ₹ 500 crore.
- Under Sarva Shiksha Abhiyan - ₹ 21,000 crore allocated, which is 40 per cent higher than Budget for 2010-11.

**CUSTOMS DUTY**

- Basic Custom Duty reduced for specified agricultural machinery from 5 per cent to 2.5 per cent.
- Basic Custom Duty reduced on micro-irrigation equipment from 7.5 per cent to 5 per cent.
- De-oiled rice bran cake to be fully exempted from basic Custom Duty. Export Duty of 10 per cent to be levied on its export.
- Rate of Export Duty for all types of iron ore enhanced and unified at 20 per cent ad valorem. Full exemption from Export Duty to iron ore pellets.
- Basic Custom Duty on two critical raw materials of cement industry viz. petcoke and gypsum reduced to 2.5 per cent.
- Exemption granted from basic custom duty and special CVD to critical parts/assemblies needed for Hybrid vehicles.
- Special CVD on LEDs being fully exempted.
- Exemption from Import Duty for spares and capital goods required for ship repair units extended to import by ship owners.
- Full exemption from basic Customs Duty to bio-asphalt and specified machinery for application in the construction of national highways.

**EXCISE DUTY**

- Central Excise Duty to be maintained at standard rate of 10 per cent and lower rate of Duty enhanced from 4 per cent to 5 per cent.
- Nominal Central Excise Duty of 1 per cent imposed on 130 items entering in the tax net.
- Scope of exemptions from Excise Duty enlarged to include equipments needed for storage and warehouse facilities on agricultural produce.
- Concessional Excise Duty of 5 per cent on vehicles based on Fuel cell technology.
- Reduction in Excise Duty on kits used for conversion of fossil fuel vehicles into Hybrid vehicles.
- Excise Duty on LEDs reduced to 5 per cent.
- Parallel Excise Duty exemption for domestic suppliers producing capital goods needed for expansion of existing mega or ultra mega power projects.

**SERVICE TAX**

- Standard rate of Service Tax retained at 10 per cent.
- Hotel accommodation in excess of ₹ 1,000 per day and service provided by air conditioned restaurants that have license to serve liquor added as new services for levying Service Tax.
- Tax on all services provided by hospitals with 25 or more beds with facility of central air conditioning.
- All individual and sole proprietor tax payers with a turn over upto ₹ 60 lakh freed from the formalities of audit.

**DIRECT TAX**

- Introduction of the Direct Tax Code (DTC) with effect from April 01, 2012.
- Exemption limit for the general category of individual taxpayers enhanced from ₹ 1,60,000 to ₹ 1,80,000 giving uniform tax relief of ₹ 2,000.
- The qualifying age limit for senior citizens has been reduced to 60 years from 65 years and the exemption limit has been enhanced by ₹ 10,000 to ₹ 2,50,000
- Higher exemption limit of ₹ 5,00,000 for Very Senior Citizens, who are 80 years or above.
- Current surcharge of 7.5 per cent on domestic companies reduced to 5 per cent.
- Rate of Minimum Alternative Tax proposed to be increased from 18 per cent to 18.5 percent
- Additional deduction of ₹ 20,000 for investment in long-term infrastructure bonds extended for one more year.
- Lower rate of 15 per cent tax on dividends received by an Indian company from its foreign subsidiary.
- Weighted deduction on payments made to National Laboratories, Universities and Institutes of Technology to be enhanced to 200 per cent.

**SECURITY & JUSTICE**

- In the Budget 2011-12, a provision of ₹1,64,415 crore has been made for Defence services
- The Plan provision for Department of Justice for 2011-12 has been increased three-fold to ₹1,000 crore.
- A new scheme with an outlay of ₹ 300 crore to be launched to provide assistance to States to modernize their stamp and registration administration and roll out e-stamping in all the districts in the next three years.

# Budget at a Glance

(Rs. in Crore)

| Sl No | Particulars | 2009-10 Actuals @ | 2010-11 Budget Estimates | 2010-11 Revised Estimates | 2011-12 Budget Estimates |
|---|---|---|---|---|---|
| 1 | **Revenue Receipts** | **572811** | **682212** | **783833** | **789892** |
| | 2. Tax Revenue (Net to centre) | 456536 | 534094 | 563685 | 664457 |
| | 3. Non Tax Revenue | 116275 | 148118 | 220148 | 125435 |
| 4 | **Capital Receipts (5+6+7)** $ | **451676** | **426537** | **432743** | **467837** |
| | 5. Recoveries of Loan | 8613 | 5129 | 9001 | 15020 |
| | 6. Other Receipts | 24581 | 40000 | 22744 | 40000 |
| | 7.Borrowing & Other Liabilities * | 418482 | 381408 | 400998 | 412817 |
| 8 | **Total Receipts (1+4)**$ | **1024487** | **1108749** | **1216576** | **1257729** |
| 9 | **Non Plan Expenditure** | **721096** | **735657** | **821552** | **816182** |
| | 10. On Revenue Account of which, | 657925 | 643599 | 726749 | **733558** |
| | 11. Interest Payments | 213093 | 248664 | 240757 | **267986** |
| | 12. On Capital Account | 63171 | 92058 | 94803 | **82624** |
| 13 | **Plan Expenditure** | **303391** | **373092** | **395024** | **441547** |
| | 14. On Revenue Account | 253884 | 315125 | 326928 | 363604 |
| | 15.On Capital Account | 49507 | 57967 | 68096 | 77943 |
| 16 | **Total Expenditure (9+13)** | **1024487** | **1108749** | **1216576** | **1257729** |
| | 17. Revenue Expenditure (10+14) | 911809 | 958724 | 1053677 | 1097162 |
| | 18. Of Which, Grants for creation of Capital Assets | | 31317 | 90792 | 146853 |
| | 19. Capital Expenditure (12+15) | 112678 | 150025 | 162899 | 160567 |
| 20 | **Revenue Deficit (17-1)** | **338998** | **276512** | **269844** | **307270** |
| | | (5.2) | (4.0) | (3.4) | (3.4) |
| 21 | **Effective Revenue Deficit (17-18)#** | | **245195** | **179052** | **160417** |
| | | | (3.5) | (2.3) | (1.8) |
| 22 | **Fiscal Deficit** | **418482** | **381408** | **400998** | **412817** |
| | **{16-(1+5+6)}** | (6.4) | (5.5) | (5.1) | (4.6) |
| 23 | **Primary Deficit (20-11)** | **205389** | **132744** | **160241** | **144831** |
| | | (3.1) | (1.9) | (2.0) | (1.6) |

*Source: Union Budget Document*

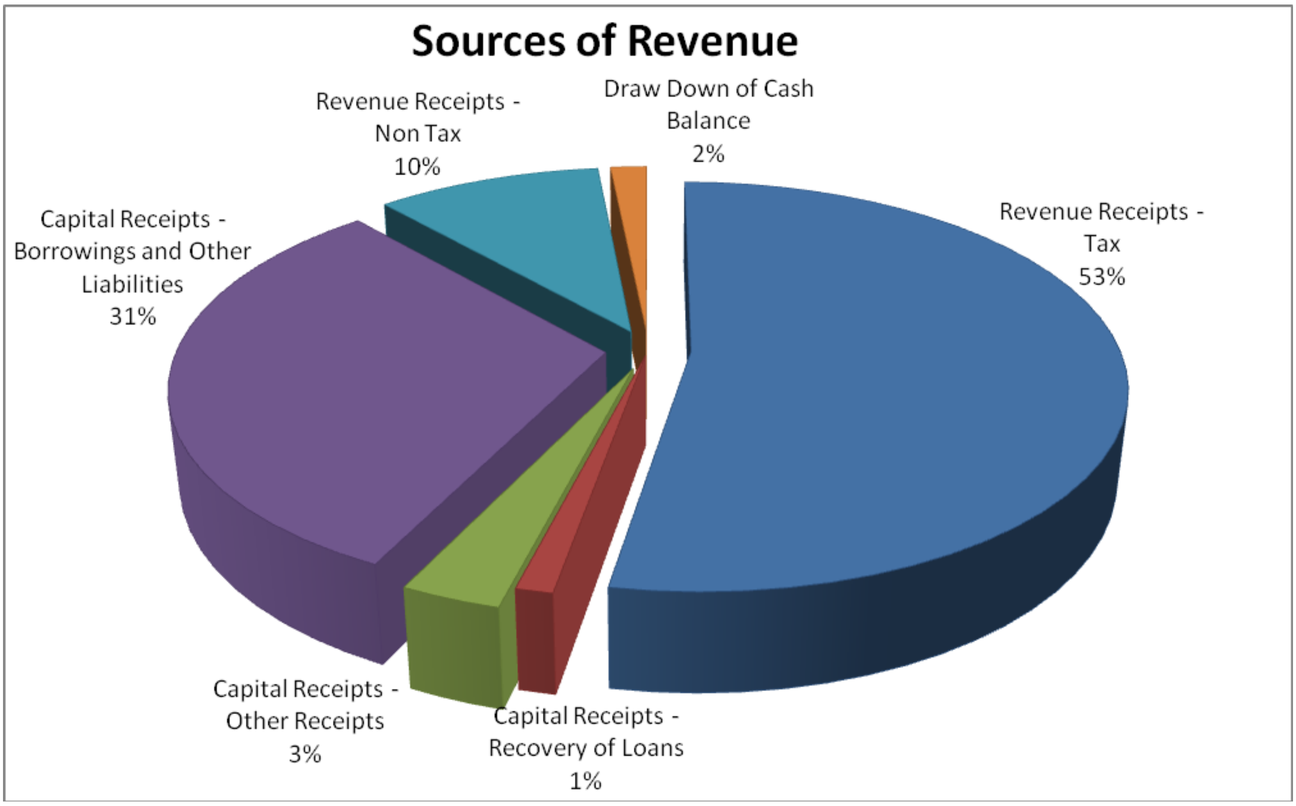
*@Actuals for 2009-10 are provisional.*

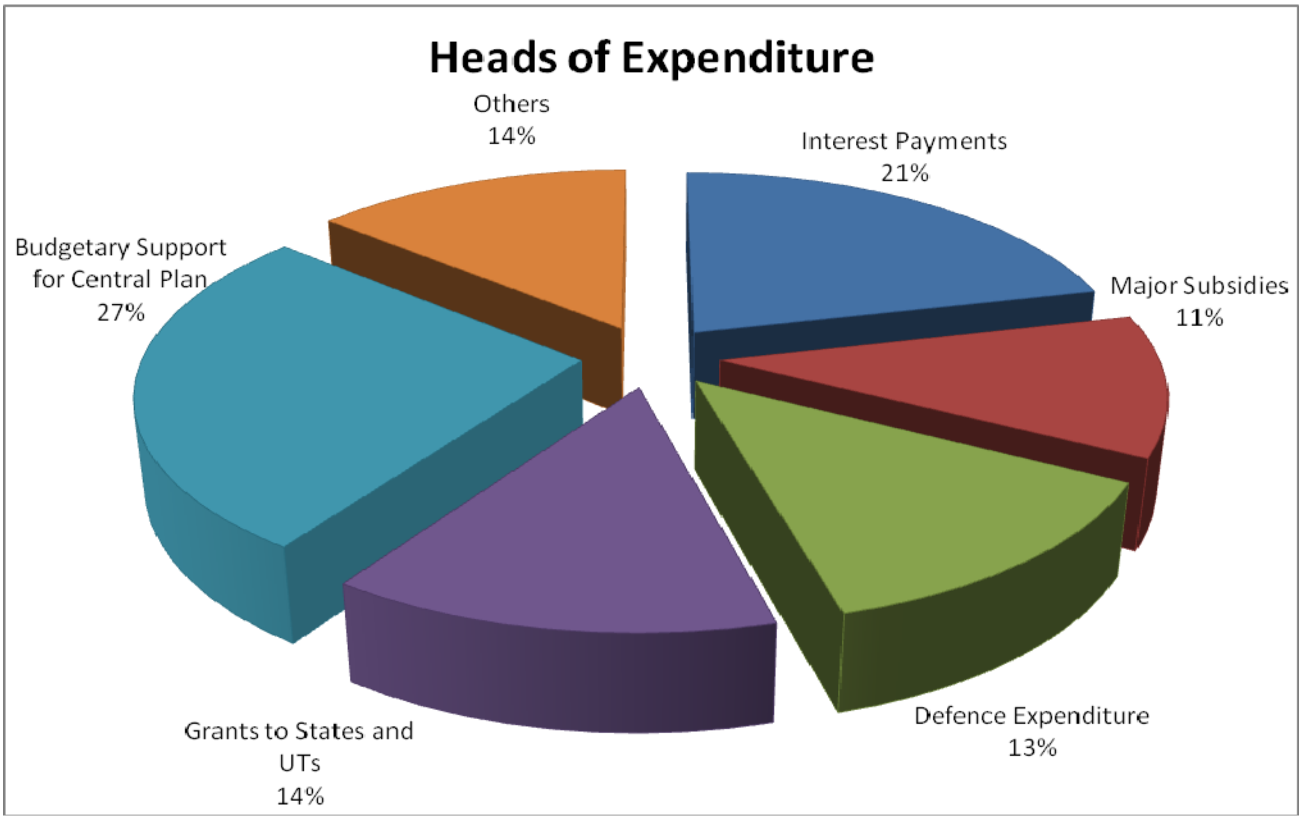
*$ Does not include receipts in respect of Market Stabilisation Scheme (MSS).*

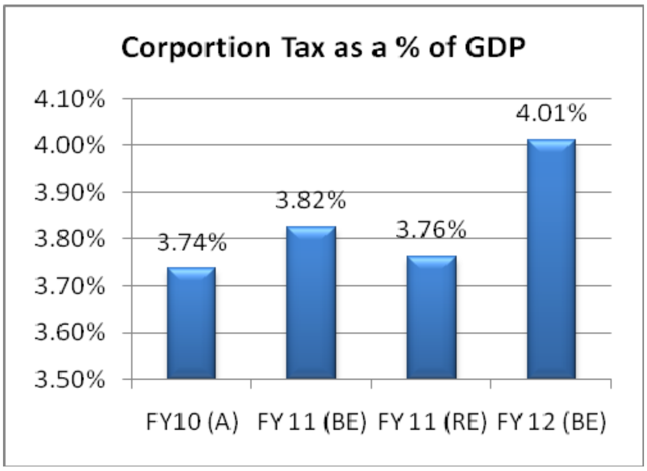
**Includes draw-down of Cash Balance.*

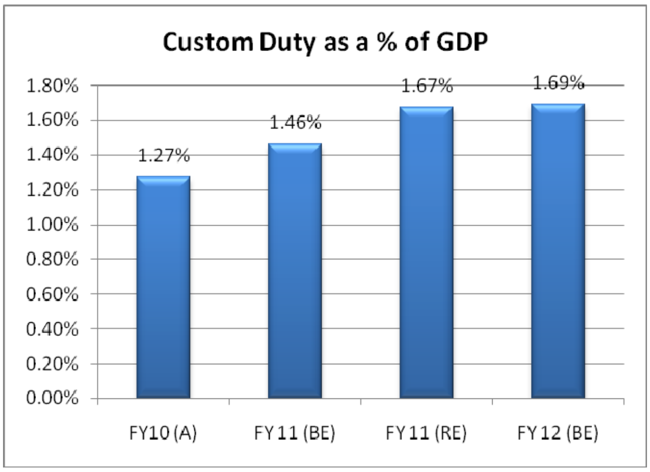
*# Excluding Grants for creation of Capital Assets.*

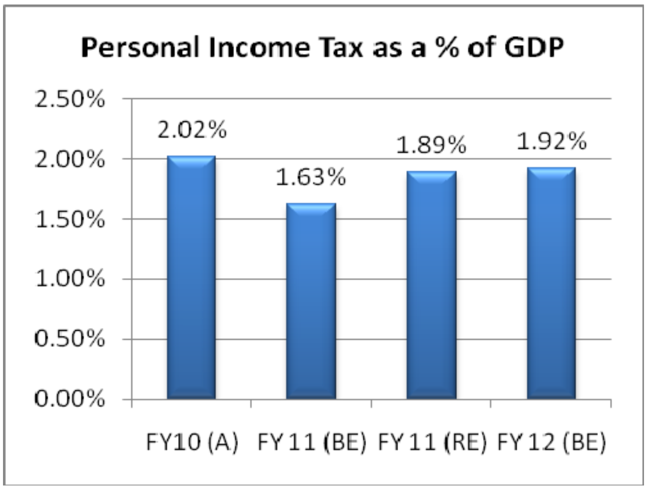
***NOTE:** GDP for BE 2011-12 has been projected at Rs. 8980860 crore assuming 14% growth over the advance estimates of 2010-2011 (Rs. 7877947 crore) released by CSO.*

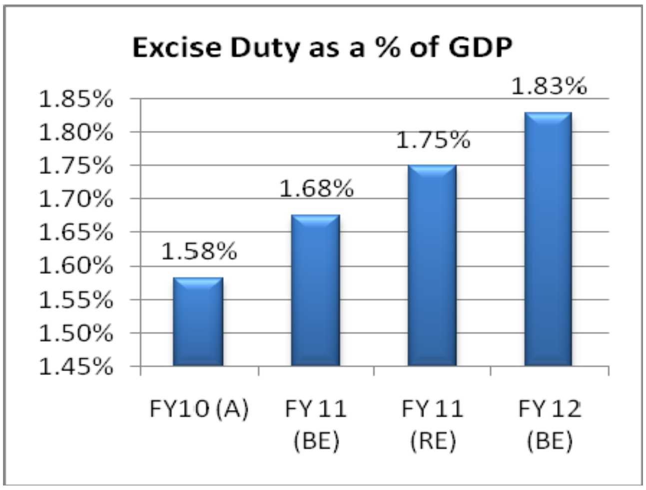

Sources of Revenue
Revenue Receipts - Non Tax 10%
Draw Down of Cash Balance 2%
Revenue Receipts - Tax 53%
Capital Receipts - Borrowings and Other Liabilities 31%
Capital Receipts - Other Receipts 3%
Capital Receipts - Recovery of Loans 1%

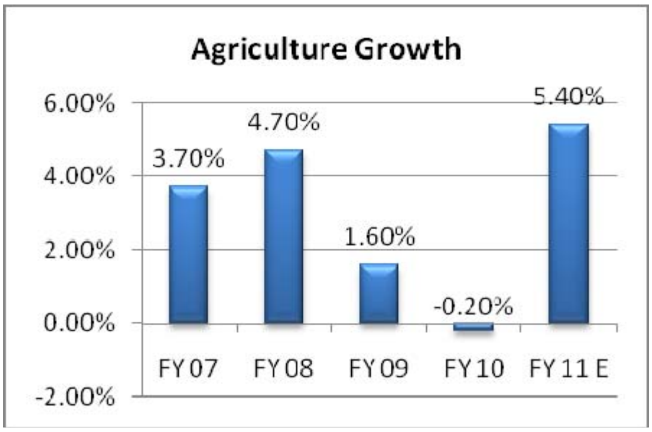

Heads of Expenditure
Others 14%
Interest Payments 21%
Budgetary Support for Central Plan 27%
Major Subsidies 11%
Grants to States and UTs 14%
Defence Expenditure 13%

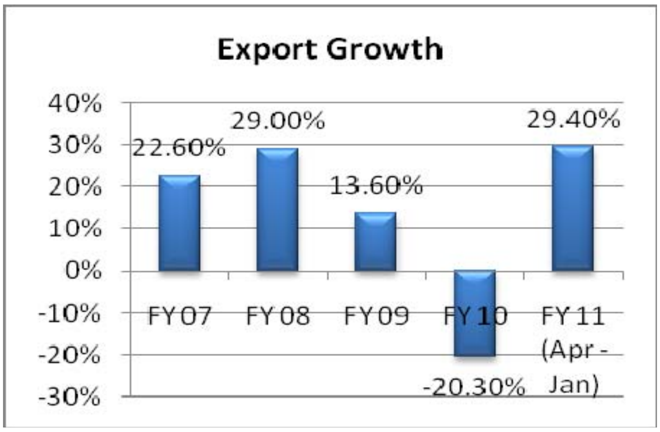

Corportion Tax as a % of GDP
4.10%
4.00%
3.90%
3.80%
3.70%
3.60%
3.50%
3.74%
3.82%
3.76%
4.01%
FY10 (A)
FY 11 (BE)
FY 11 (RE)
FY 12 (BE)


Custom Duty as a % of GDP
1.80%
1.60%
1.40%
1.20%
1.00%
0.80%
0.60%
0.40%
0.20%
0.00%
1.27%
1.46%
1.67%
1.69%
FY10 (A)
FY 11 (BE)
FY 11 (RE)
FY 12 (BE)


Personal Income Tax as a % of GDP
2.50%
2.00%
1.50%
1.00%
0.50%
0.00%
2.02%
1.63%
1.89%
1.92%
FY10 (A)
FY 11 (BE)
FY 11 (RE)
FY 12 (BE)


Excise Duty as a % of GDP
1.85%
1.80%
1.75%
1.70%
1.65%
1.60%
1.55%
1.50%
1.45%
1.58%
1.68%
1.75%
1.83%
FY10 (A)
FY 11 (BE)
FY 11 (RE)
FY 12 (BE)


Agriculture Growth
6.00%
4.00%
2.00%
0.00%
-2.00%
3.70%
4.70%
1.60%
-0.20%
5.40%
FY 07
FY 08
FY 09
FY 10
FY 11 E


Export Growth
40%
30%
20%
10%
0%
-10%
-20%
-30%
22.60%
29.00%
13.60%
-20.30%
29.40%
FY 07
FY 08
FY 09
FY 10
FY 11 (Apr - Jan)

# Key Economic Indicators – for the year 2010-11

| | Item | Units | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 |
|---|---|---|---|---|---|---|---|---|
| 1 | **GDP and related indicators** | | | | | | | |
| | GDP (current market prices) | Rs. crore | 3692485 | 4293672 | 4986426 | 5582623[PE] | 6550271[QE] | 7877947[AE] |
| | Growth rate | % | 13.9 | 16.3 | 16.1 | 12.0 | 17.3 | 20.3 |
| | GDP (factor cost 2004-05 prices) | Rs. crore | 3254216 | 3566011 | 3898958 | 4162509[PE] | 4493743[QE] | 4879232[AE] |
| | Growth rate | % | 9.5 | 9.6 | 9.3 | 6.8 | 8.0 | 8.6 |
| | Savings Rate | % of GDP | 33.5 | 34.6 | 36.9 | 32.2 | 33.7 | na |
| | Capital formation (rate) | % of GDP | 34.7 | 35.7 | 38.1 | 34.5 | 36.5 | na |
| | Per cap Net National Income (factor cost at current prices) | Rs. | 27123 | 31198 | 35820 | 40605 | 46492 | 54527 |
| 2 | **Production** | | | | | | | |
| | Food grains | Mn Tonnes | 208.6 | 217.3 | 230.8 | 234.5 | 218.1[a] | 232.1[b] |
| | Index of Industrial production [c] (growth) | % | 8.0 | 11.9 | 8.7 | 3.2 | 10.5 | Na |
| | Electricity generation (growth) | % | 5.2 | 7.2 | 6.4 | 2.8 | 6.0 | Na |
| 3 | **Prices** | | | | | | | |
| | Inflation (WPI) (12 month average) | %change | 4.3 | 6.5 | 4.8 | 8.0 | 3.6 | 9.4[d] |
| | Inflation CPI (IW) (average) | %change | 4.4 | 6.7 | 6.2 | 9.1 | 12.4 | 11.0[d] |
| 4 | **External sector** | | | | | | | |
| | Export growth ( US$) | %change | 23.4 | 22.6 | 29.0 | 13.6 | -3.5 | 29.5[e] |
| | Import growth (US$) | %change | 33.8 | 24.5 | 35.5 | 20.7 | -5.0 | 19.0[e] |
| | Current account balance (CAB)/GDP | % | -1.2 | -1.0 | -1.3 | -2.3 | -2.8 | Na |
| | Foreign exchange reserves | US$ bn. | 151.6 | 199.2 | 309.7 | 252.0 | 279.1 | 297.3[f] |
| | Average exchange rate | Rs./ US$ | 44.27 | 45.25 | 40.26 | 45.99 | 47.42 | 45.68[g] |
| 5 | **Money and credit** | | | | | | | |
| | Broad Money ($M_3$) (annual) | %change | 16.9 | 21.7 | 21.4 | 19.3 | 16.8 | 16.5[h] |
| | Scheduled commercial bank credit (growth) | %change | 30.8 | 28.1 | 22.3 | 17.5 | 16.9 | 24.4[h] |
| 6 | **Fiscal indicators (Centre)** | | | | | | | |
| | Gross fiscal Deficit | % of GDP | 4.0 | 3.3 | 2.5 | 6.0 | 6.3[i] | 4.8 |
| | Revenue Deficit | % of GDP | 2.5 | 1.9 | 1.1 | 4.5 | 5.1[i] | 3.5 |
| | Primary Deficit | % of GDP | 0.4 | -0.2 | -0.9 | 2.6 | 3.1[i] | 1.7 |
| 7 | **Population** | Million | 1106 | 1122 | 1138 | 1154 | 1170 | 1186 |
| | (Year-wise projected population as on 1st Oct) | | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |

**AE** GDP figures for 2010-11 are advance estimates  **PE** Provisional Estimates  **QE** Quick Estimates

**Na** not yet available/released

**a** final Estimates

**b** Second Advance Estimates

**c** The annual growth rates have been recompiled from 2005-06 onwards since the indices have been recompiled from April 04 onwards using new series of WPI for the IIP intems reported in value terms.

**d** Average April-Dec 2010

**e** April-Dec 2010

**f** as of December 31, 2010

**g** Average Exchange Rate for 2010-11 (April-Dec 2010)

**h** Provisional

**i** Fiscal indicators for 2009-10 are based on the provisional actuals for 2009-10.

## GENERAL REVIEW

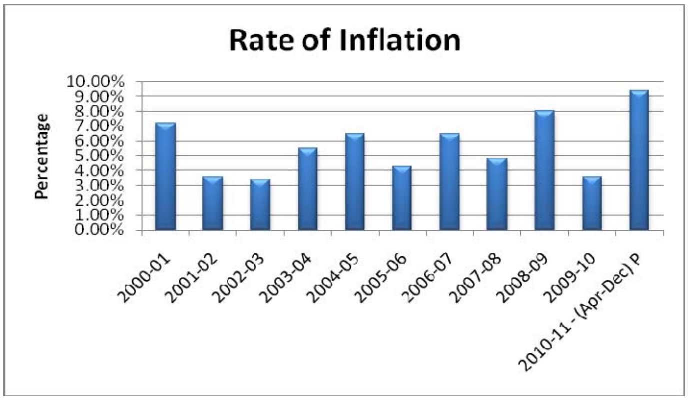
The Indian Economy has emerged with remarkable rapidity from the slowdown caused by the global financial crisis of 2007-09. With growth in 2009-10 now estimated at 8.0 percent by the Quick Estimates released on 31 January 2011 and 8.6 percent in 2010-11 as per the Advance Estimates of the Central Statistics Office (CSO) released on 7 February 2011, the turnaround has been fast and strong. Growth is strong in 2010-11 (as per the Advance Estimates) with a rebound in agriculture and continued momentum in manufacturing, though there was a deceleration in community, social, and personal services, reflecting the base effect of fiscal stimulus in the previous two years. The estimated level of growth in the GDP was composed of growth of 5.4 percent in agriculture, 8.1 percent in industry and a decelerated growth of 9.6 percent in services. On the demand side, a rise in savings and investment and pickup in private consumption have resulted in string growth of the gross domestic product at constant market prices at 9.7 percent in 2010-11. The renewed inflationary pressure become evident in December 2010 as headline wholesale price index (WPI) inflation increased to 8.4 percent from 8.1 percent in November 2010. However, in January 2011 it has moderated to 8.2 per cent. Food inflation in particular has remained stubbornly in double digits for over a year now, which has welfare costs. Foreign Exchange Reserves increased from US$ 252 billion at the end of March 2009 to US$ 279.1 billion at the end of March of 2010, showing a rise of US$ 27.1 billion.

## FISCAL POLICY

With clear evidence of economic recovery in 2009-10 as indicated by the Advance Estimates of the GDP, the budget for 2010-11 resumed the path of fiscal consolidation with a partial exit from the stimulus measure. As a proportion of the GDP, fiscal deficit was estimated 5.5 percent of the GDP by the Budget 2010-11 and the Medium Term Fiscal Policy Statement indicated a further reduction to 4.8 percent and 4.1 percent in 2011-12 and 2012-13. The fiscal outcome in the first nine months of the current financial year remained broadly on the consolidation track chalked by the Budget. With growth reverting to the pre crisis levels in the current fiscal, revenues remained buoyant, and a much higher than budgeted realisation in non-tax revenues arising from telecom 3G/BWA auctions, there was headroom for higher levels of expenditure at the given fiscal deficit targets. In the first nine months of the current fiscal, with year-on-year growth in total expenditure at 11.2 percent as against a level of 8.5 percent envisaged for the full year by the Budget Estimates for 2010-11, fiscal and revenue deficits are placed at Rs. 171,249 crore and Rs 116,309 crore respectively, which constituted 44.9 percent and 42.1 percent of the Budget Estimates. With nominal GDP placed at Rs 78,77,947 crore for the year by the Advance Estimates of the CSO, the target for the current fiscal deficit to GDP ratio is placed at 4.8 percent and in terms of revenue deficit at 3.5 percent.

## INFLATION

A new WPI series with 2004-05 bases was released on 14 September 2010. A representative commodity basket comprising 676 items has been selected and weighting diagram derived for the new series. During the first half of 2009-10, the headline year-on-year inflation remained significantly low at 0.36 per cent on account of sharp increases in prices recorded in 2008-09. The second half of 2009-10 showed increasing food prices on account of unfavourable agricultural supply conditions coupled with the waning of base effect, leading to sharp increase in inflation. Thereafter, the headline WPI inflation reached 10.23 per cent in March 2010. WPI has been on a downward trajectory since April 2010, when inflation peaked at 11 percent year-on-year. Inflation stood at 8.23 percent in January 2011. The financial-year build-up (from March 2010) remained at 7.44 percent upto January 2011. Inflation in primary articles, particularly food articles, was the main contributor to the elevated levels of WPI inflation. With diminishing base effect, there was a gradual moderation in overall WPI inflation in November 2010, driven mainly by certain food articles (fruits and vegetables, milk, egg, meat, fish) and also petroleum products. A series of steps, both structural and macroeconomic, was taken to combat the rising food inflation.




**CAPITAL MARKETS**

**THE PRIMARY MARKET**

The year 2010-11 has seen the Indian capital market put the worst behind and move towards strong growth. The cumulative amount mobilized as on 30 November 2010-11 through initial public offers (IPOs), follow on public offers (FPOs) and rights issues stood at Rs 46,701 crore as compared to 46,737 crore in 2009-10. During 2010-11, so far, 40 new companies (IPOs) were listed both at the NSE and BSE amounting to Rs 33,068 crore as against 39 companies amounting to Rs 24,696 crore in 2009. The mean IPO size for the current financial year is Rs 827 crore as compared to Rs 633 crore in the previous financial year, showing an increase of 30.6 per cent. Further, Rs 2197 crore was mobilized through debt issue as compared to Rs 2500 crore in 2009-10. The amount of capital mobilized through private placement in 2010-11 (as on 30 November 2010) is Rs 1,47,400 crore as compared to Rs 2,12,635 crore in 2009-10.

**Resource Mobilisation through the Primary Market**

in Rs Crore

| Sl. No. | Mode | 2007-08 | 2008-09 | 2009-10 | 2010-11* |
|---|---|---|---|---|---|
| 1 | Debt | 0 | 1,500 | 2,500 | 2,197 |
| 2 | Equity | 54,511 | 2,082 | 46,737 | 46,701 |
| | of which IPOs | 42,595 | 2,082 | 24,696 | 33,068 |
| | Number of IPOs | 85 | 21 | 39 | 40 |
| | Mean IPO Size | 501 | 99 | 633 | 827 |
| 3 | Private Placement | 1,18,485 | 1,73,281 | 2,12,635 | 1,47,400 |
| 4 | Euro Issues (ADR/GDR) | NA | NA | NA | NA |
| | **Total (1+2+3+4)** | **2,16,176** | **1,79,066** | **2,87,240** | **2,30,233** |

**Source: SEBI and RBI (for Euro Issues).**
**Notes: NA indicates Not Available. * As on 30 November 2010**

**Trend in Resource Mobilisation (net) by Mutual Funds**

in Rs Crore

| Sl. No. | Sector | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11* |
|---|---|---|---|---|---|---|
| 1 | UTI | 7,326 | 10,677 | -3,659 | 15,653 | -5237 |
| 2 | Public Sector | 7,621 | 9,820 | 9,380 | 12,499 | -2,956 |
| 3 | Private Sector | 79,038 | 1,33,304 | -34,018 | 54,928 | 20,378 |
| | **Total (1+2+3)** | **93,985** | **1,53,802** | **-28,926** | **83,080** | **12,185** |

**Source: SEBI.**
**Note: *As on 30 November, 2010**

During 2010-11 (as in November 2010), mutual funds mobilized Rs 12,185 crore from the market as compared to Rs 83,080 crore in 2009-10. The market value of assets under management stood at Rs 6,65,282 crore as on 30 November 2010 compared to Rs 6,13,979 crore as on 31March 2010, showing an increase of 8.4 per cent.

**SECONDRY MARKET**

The year 2010 has been one of strong growth for the Indian capital markets. Bulls tossed off the markets in the year 2010 to a net gain of 18 percent, following global recovery and with FIIs pumping money in to the market on account of solid domestic growth coupled with a resurging corporate sector. Indices achieved record highs during the special one-hour muhurut trading on 5 November 2010 with the Sensex touching 21004.96 and Nifty 6312.45. Indian markets have been making gains for eight quarters in a row, their longest winning run in at least 20 years. While 2009 was basically a year of recovery from the crisis year of 2008, 2010 was one of consolidation of gains.

As on 31 December 2010, Indian benchmark indices, the BSE Sensex and Nifty, increased by 17.0 per cent and 17.9 per cent respectively over the closing value of 2009-10. Nifty Junior and BSE 500 also increased by 17.8 per cent and 15.1 per cent respectively over their values in the previous financial year. The free float market capitalization of Nifty, the Sensex, Nifty Junior, and BSE 500 stood at Rs 18,27,097 crore, Rs 16,32,236 crore, Rs 3,37,573 crore, and Rs 29,52,135 crore respectively, showing an increase of 19.8 per cent, 22.8 per cent, 15.5 per cent and 20.8 per cent respectively over their values in financial year 2009-10. The price to earnings (P/E) ratios of Nifty, the Sensex, Nifty Junior, and BSE 500 as on 31 December 2010 were 24.5, 23.6, 17.6 and 21.4 respectively, indicating an increase of 10.1 per cent, 10.5 per cent, 11.6 per cent and 4.5 per cent respectively over their 2009-10 values.

**Cumulative change in movement of global indices** *

| Cumulative change over end 2003 level (%) | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Index** | **2004** | **2005** | **2006** | **2007** | **2008** | **2009** | **2010** |
| BSE Sensex, India | 13.1 | 61.0 | 136.1 | 247.4 | 65.2 | 199.1 | 251.2 |
| Hang Seng Index, Hong Kong | 13.2 | 18.3 | 58.8 | 121.2 | 1.1 | 74.2 | 83.2 |
| Jakarta Composite Index, Indonesia | 44.5 | 68.1 | 161.0 | 296.8 | 35.5 | 264.1 | 435.3 |
| Nikkei 225, Japan | 7.6 | 50.9 | 61.3 | 43.4 | -22.9 | -5.3 | -4.2 |
| Kospi Index, South Korea | 10.5 | 69.7 | 76.8 | 133.9 | 25.6 | 104.4 | 153.0 |
| Kuala Lumpur Comp Index, Malaysia | 14.2 | 13.4 | 38.0 | 82.0 | -3.3 | 58.7 | - |
| TSEC Weighted Index, Taiwan | 4.2 | 11.2 | 32.8 | 44.4 | -25.2 | 32.3 | 35.3 |
| SSE Composite Index, China | -15.4 | -22.4 | 78.7 | 251.5 | 43.7 | 116.9 | 87.6 |

**Source: Derived from various country sources.**
**Note: * End-year closing.**

**COMMODITY FUTURES MARKET**

During 2010, one commodity exchange, namely the Ahmadabad Commodity Exchange (ACE), was upgraded to a national exchange and rechristened ACE Derivatives and Commodity Exchange Limited, Ahmadabad. Agricultural commodities, bullion, energy, and base metal products account for a large share of the commodities traded in the commodities futures market. Futures trading in zinc and lead, mini contracts were introduced for trading during 2010. The total value of trade in the commodity futures market has risen substantially in 2010. The growth could be attributed to larger participation in the market, increase in global commodity prices, the advent of new commodity exchanges and the restoration of trade in some of the suspended agriculture commodities. During the year 2010-11 (up to November 2010), in value terms bullion accounted for the maximum share of traded value among the commodity groups (45.22 per cent) followed by metals (23.80 per cent), energy (19.45 per cent) and agricultural commodities (11.53 per cent). However, in quantity terms trade in energy accounted for 56.77 per cent followed by agricultural commodities (31.67 per cent), metals (11.51 per cent), and bullion (0.05 per cent). The Forward Markets Commission (FMC), the regulator for commodity futures trading under the provisions of the Forward Contracts (Regulation) Act 1952, continued its efforts to strengthen and broad base the market during 2010. The efforts were directed at enlarging the participation of physical market stakeholders, especially farmers, as hedgers in the commodity futures market by increasing the level of awareness of physical market participants and policymakers about the economic role of this market.

**Turnover on commodity futures markets**

Rs. crore

| Name of the Exchange | Calendar Year | | |
|---|---|---|---|
| | 2008 | 2009 | 2010 (upto to Nov. 2010) |
| Multi Commodity Exchange (MCX), Mumbai | 42,84,653 | 59,56,656 | 78,95,404 |
| National Commodity and Derivatives Exchange (NCDEX) | 6,28,074 | 8,05,720 | 9,73,217 |
| National Multi Commodity Exchange, (NMCE) | 37,272 | 1,95,907 | 1,80,738 |
| Others | 83,885 | 1,32,173 | 4,45,366 |
| **Total** | **50,33,884** | **70,90,456** | **94,94,725** |

**INSURANCE AND PENSION FUNDS**

The insurance sector was opened for private participation with the enactment of the Insurance Regulatory and Development Authority Act 1999. While permitting foreign participation in ventures set up by the private sector, the Government restricted participation of the foreign joint venture partner through the FDI route to 26 per cent of the paid-up equity of the insurance company. The post-liberalization period has been witness to tremendous growth in the insurance industry, more so in the life segment. In 2009-10, even after the outcome on account of the financial meltdown, the life insurance segment saw an upward trend. The first-year premium, which is a measure of new business secured, underwritten by the life insurers during 2009-10 was Rs 1,09,894.02 Crore as compared to Rs 87,331.09 Crore in 2008-09, registering a growth of 25.84 percent. In terms of linked and non-linked business during the year 2009- 10, 54.53 per cent of the first-year premium was underwritten in the linked segment while the remaining 45.47 per cent was in the non-linked segment as against 51.13 and 48.87 respectively in the previous year. Non-life insurers in India (excluding specialized institutions like the Export Credit Guarantee Corporation and Agriculture Insurance Corporation and the standalone health insurance companies) underwrote premiums of Rs 34,620 crore in 2009-10, as against Rs 30,352 crore in 2008-09. Insurance penetration (the ratio of premium underwritten in a given year to the GDP) in the year 2000 when the sector was opened up to the private sector was 2.32 (life 1.77 and non-life 0.55) and it has increased to 5.39 in 2009 (life 4.73 and non-life 0.66).

**INDUSTRY & MANUFACTURING**

**BANKING SECTOR**

Bank credit that started picking up from the last quarter of 2009-10 continued its momentum during 2010-11 as well. The pickup in credit reflected the improved demand conditions associated with stronger industrial recovery and growth. Telecom operators raised credit to pay for 3G/broadband wireless access (BWA) spectrums, which partly contributed to stronger credit growth in the first quarter of 2010-11. As against an increase of 17.5 per cent in 2008-09, growth in bank credit moderated to 16.9 per cent in 2009-10. Non-food credit during the same period was 17.8 per cent and 17.1 per cent respectively.

During 2010-11 credit started picking up in a strong way from early June 2010 and since then the growth in bank credit has shown a continuous increasing trend. During the financial year 2010-11, growth in bank credit extended by scheduled commercial banks (SCBs) stood at 12.2 per cent as on 17 December 2010 as compared to 6.0 per cent for the corresponding period in 2009-10. The year on-year growth in bank credit as on 17 December 2010 was high at 23.7 per cent as compared to 11.3 per cent for the corresponding period of the previous year. It was in fact above the Reserve Bank's indicative projected trajectory of 20 per cent for the full year as set out in the Second Quarter Review for 2010-11 (2 November). Growth in non-food credit so far in 2010-11 on financial-year basis was much higher at 11.9 per cent as compared to 6.2 per cent in the previous year and 23.5 per cent year-on- year basis as compared to 11.8 per cent for the corresponding period of the previous year. Growth in aggregate deposits so far in 2010-11 has been lower than for the corresponding period of the previous year. The high expansion in credit relative to lower growth in deposits during 2010-11 has caused increase in the credit- deposit ratio from 72.2 per cent in end-March 2010 to 75.8 per cent on 17 December 2010. Due to higher credit growth and tight liquidity condition, commercial banks' investment in Government and other approved securities remained low at 27.3 per cent as compared to 29.2 per cent in the previous year. Consequently, the investment deposit ratio declined from 30.8 per cent in end-March 2010 to 30.1 per cent on 17 December 2010 as the investment and deposit growth of SCBs is lower.

Following the RBI's raising of the repo and reverse repo rates by 125 basis points (bps) and 175 bps respectively during March- November 2010, the SCBs increased their deposit rates by 50 bps to 200 bps. Interest rates offered by the PSBs, private-sector banks and foreign banks on deposits of maturity of one to three years changed from the range of 6.00-7.25 per cent, 5.25- 7.75 per cent, and 2.25-8.00 per cent respectively in March 2010 to the range of 7.00-8.50 per cent, 7.25-9.00 per cent, and 3.00-8.00 per cent respectively in December 2010. The BPLRs of SCBs remained unchanged from July 2009 till end-June 2010. The base rate system replaced the BPLR system with effect from 1 July 2010. The base rates of PSBs, private-sector banks, and foreign banks were fixed in the range of 7.50- 8.25 per cent, 7.00-8.75 per cent, and 5.50-9.00 per cent respectively. Subsequently, several banks reviewed and increased their base rates. The base rate of PSBs and private-sector banks changed to the range of 7.60-9.00 per cent and 7.00-9.00 per cent respectively in December 2010.

**SOCIAL SECTOR**

The Budget for 2010-11 had indicated that inclusive development is an act of faith for the government. Social Sector spending has progressively been stepped up and it stood at 37 percent of the total plan outlay in 2010-11. The share of Central Government expenditure on social services including rural development in total expenditure (Plan and non-Plan) has increased from 13.75 percent in 2005-06 to 19.27 percent in 2010-11 (Budget Estimates). Similarly the expenditure on social services by the Central Government (Centre and States combined) has also shown increase in recent years reflecting higher priority to social services. The expenditure on social services as a proportion of total expenditure has increased from 21.1 percent in 2005-06 to 23.8 percent in 2008-09 and further to 25.2 percent in 2010-11 (Budget Estimates).

**INFRASTRUCTURE**

The Planning Commission has revised the estimates of total investment in infrastructure during the Eleventh Plan period based on the revised data available during the first two years of the Eleventh Plan and it is now estimated that it would be Rs. 20,54,205 crore, which is comparable with the initial investment planned. The contribution of the private sector during the first two years was 34.32 per cent and 33.74 per cent respectively, higher than the targeted 30 per cent. The investment in infrastructure has reached 7.18 per cent of the gross domestic product (GDP) in 2008-09 and this is expected to increase to 8.37 per cent in the terminal year of the Plan. Total investment in infrastructure during the Eleventh Plan is, therefore, likely to increase by 2.47 percentage points of the GDP as compared to the Tenth Plan. During the first three years. (2007-08 to 2009-10) actual expenditure in the ten infrastructure sectors (including investment in gas pipelines along with oil) is about Rs. 10,65,828 crore as against the target of Rs. 9,81,119 crore.

During April-November 2010, the performance of core industries and infrastructure services has been mixed. Electricity generation by power utilities during 2010-11 has been targeted to go up by 7.7 per cent to 830.757 billion KWh. The growth in power generation during April-December 2010 was about 4.5 per cent as compared to about 6.17 per cent during April-December 2009, with nuclear, hydro, and thermal power generation registering growth of 33 per cent, 8 per cent and 3 per cent respectively. During the current financial year (2010-11), production of crude oil is estimated at 37.96 million metric tonne (MMT), which is about 12.67 per cent higher than the crude oil production of 33.69 MMT during 2009-10. The projected production for natural gas, including coal bed methane (CBM), for 2010- 11 is 53.59 billion cubic metres (BCM) which is 12.80 per cent higher than the production of 47.51 BCM in 2009-10. The increase in natural gas production is primarily from the KG deepwater block. The production of raw coal during April to November 2010 was 319.80 million tonne (MT), against 317.79 MT in the same period of the previous year. Coking coal production during this period was 28.72 MT against 25.64 MT during the same period last year, registering a growth of 12.01 per cent. The growth rate in the production of raw coal increased from 5.85 per cent during 2006-07 to 7.98 per cent in 2009-10, due to enhanced production by all the stakeholders. During 2009-10 the import and export of coal was about 67.744 MT and 2.171 MT respectively. Freight loading on Indian Railways in the period April-November, 2010 was 593.43 MT as compared to 574.40 MT in April-November 2009— an increase of 3.31 per cent. In 2010-11, the achievement under various phases of the NHDP up to November 2010 has been about 1,007 km and projects have been awarded for a total length of about 3,780 km. The Civil Aviation Sector witnessed a strong recovery during 2010 from the adverse impact of the recent global financial crisis. The scheduled domestic passenger traffic at 51.53 million clocked a growth rate of 19 per cent during January-December 2010 as compared to 43.3 million during the corresponding period in 2009. Domestic cargo transported by air increased from 3.4 million tonnes in 2009 to 4.7 million tonnes in 2010 registering a growth rate of 30 per cent. From only 76.54 million telephone subscribers in 2004, the number increased to 764.77 million at the end of November 2010. Wireless telephone connections have contributed to this growth as their number rose from 35.62 million in March 2004 to 729.58 million at the end of November 2010. The wire-line has shown a decline from 40.92 million in 2004 to 35.19 million in November 2010. Teledensity, an important indicator or telecom penetration, rose from 7.02 per cent in March 2004 to 64.34 per cent in November 2010. Broadband subscribers. grew from 8.77 million as in March 2010 to about 10.71 million up to November 2010. A target of 20 million by 2010 has been set.

**Growth in core Industries and Infrastructure Services (in percent)**

| Sl. No. | Sector | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 (April-Nov) |
|---|---|---|---|---|---|---|
| 1 | Power | 7.3 | 6.3 | 2.5 | 6.8 | 4.6 |
| 2 | Coal | 5.9 | 6.0 | 8.2 | 8.0 | 0.6 |
| 3 | Finished Steel | 12.2 | 6.8 | 13.2 | 3.2 | 6.7 |
| 4 | Railway Revenue Earning - Freight Traffic | 9.2 | 9.0 | 4.9 | 6.6 | 3.3 |
| 5 | Cargo Handled at Major Ports | 9.5 | 12.0 | 2.2 | 5.7 | 0.8 |
| 6 | Telecommunications: | | | | | |
| | a) Addition in Switching Capacity | -23.0 | -25.4 | 101.0 | -3.6 | 39.7 |
| | b) Telephone Connections | -19.6 | 83.7 | - | - | - |
| | c) Cellphone Connections | 85.4 | 38.3 | 80.9 | 47.3 | 27.1 |
| 7 | Fertilizers. | 3.3 | -8.6 | -2.6 | 13.2 | 0.0 |
| 8 | Cement | 9.4 | 7.8 | 7.6 | 10.1 | 4.1 |
| 9 | Petroleum | | | | | |
| | a) Crude Oil | 5.6 | 0.4 | -1.8 | 0.5 | 11.5 |
| | b) Refinery | 12.6 | 6.5 | 3.0 | -0.4 | 0.8 |
| | c) Natural Gas | -1.4 | 2.1 | 1.4 | 44.8 | 19.8 |
| 10 | Civil Aviation | | | | | |
| | a) Export Cargo Handled | 3.6 | 7.5 | 3.4 | 10.4 | 17.7 |
| | b) Import Cargo Handled | 19.4 | 19.7 | -5.7 | 7.9 | 26.1 |
| | c) Passengers Handled at International Terminals | 12.1 | 11.9 | 3.8 | 5.7 | 12.7 |
| | d) Passengers Handled at Domestic Terminals | 34.0 | 20.6 | -12.1 | 14.5 | 15.9 |
| 11 | Roads:* | | | | | |
| | Upgradation of Highways | | | | | |
| | i) NHAI | -12.5 | 164.6 | 30.9 | 21.4 | -32.2 |
| | ii) NH(O) & BRDB | -10.5 | 12.5 | 17.3 | 4.0 | -0.2 |

**Notes: * Includes widening to four lanes and two lanes and strengthening of existing weak pavement only.**
**NHAI—National Highways Authority of India. BRDB- Border Road Development Board.**
**Source: Ministry of Statistics and Programme Implementation (MOSPI).**

## BALANCE OF PAYMENTS

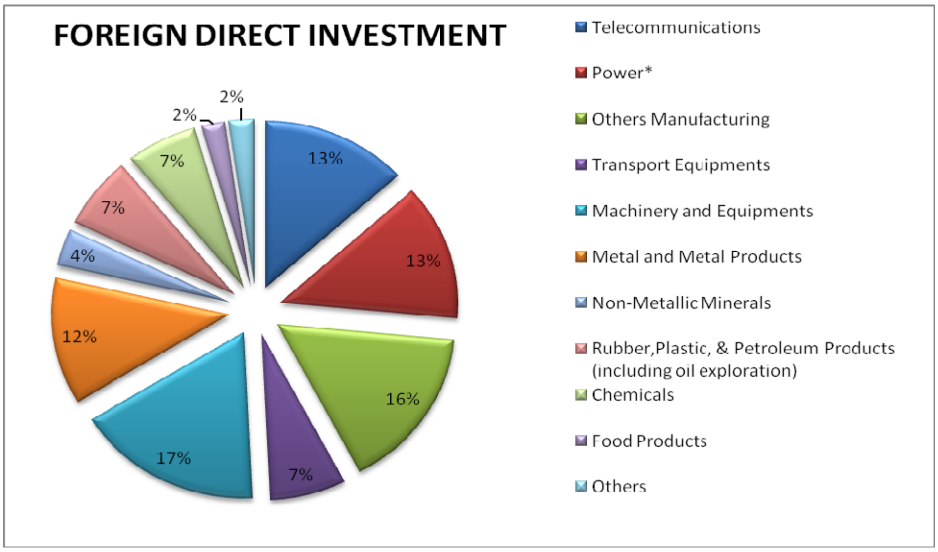
The world economy is exhibiting signs of recovery, driven largely by the robust growth in emerging economies. Advanced countries however, continue to face uncertainty with large fiscal deficit, high public debt and unemployment levels that together with the deleveraging of banks, corporate entities and individuals, is affecting aggregate demand and impeding the recovery process. BoP developments during 2009-10 indicate that despite lower trade deficit, current account deficit widened on account of slowdown in invisible receipts. There was also sharp increase in capital flows, which led to accretion in foreign exchange reserves. India's merchandise exports of US$ 182.2 billion during 2009-10 posted a decline of 3.6 per cent, as against US$ 189.0 billion in 2008-09, which recorded a positive growth of 13.7 per cent over the exports of US$ 166.2 billion in 2007-08. Similarly, import payments of US$ 300.6 billion also recorded a decline of 2.6 per cent in 2009-10, as compared to US$ 308.5 billion in 2008-09, which was 19.8 per cent higher than the imports of US$ 257.6 billion in 2007-08. Though the decline in exports was relatively higher than that in imports, the merchandise trade deficit in absolute terms decreased marginally to US$ 118.4 billion (8.6 per cent of GDP) during 2009-10 from US$ 119.5 billion (9.8 per cent of GDP) in 2008-09. India's merchandise exports during the first quarter (Q1- April-June 2010) and Q2 (July-September 2010) of 2010-11 recorded a growth of 43.6 per cent and 25.0 per cent respectively, as against a decline of 31.8 per cent and 19.1 per cent in the corresponding quarters. of 2009-10. During H1 of 2010-11, exports recorded a growth of 33.8 per cent as against negative growth of 25.7 per cent during the corresponding period of the previous year. Similarly, imports witnessed a growth of 34.2 per cent and 22.8 per cent during the first two quarters of 2010- 11, as against a decline of 20.8 per cent and 21.3 per cent recorded during the corresponding quarters. of 2009-10. Imports posted a growth of 28.2 per cent during the first half of 2010-11, as compared to negative growth of 21.1 per cent during H1 of 2009-10. Invisibles receipts of US$ 163.4 billion in 2009-10 recorded a decline of 2.6 per cent over US$ 167.8 billion in 2008-09 (as against an increase of 12.7 per cent in 2008-09 over US$ 148.9 billion in 2007-08). The net invisibles surplus was lower by 8.0 per cent at US$ 39.1 billion during H1 of 2010-11 as against US$ 42.5 billion during the corresponding period of 2009-10.

As a consequence of the decline in invisible surplus, despite the lower trade deficit, the current account deficit increased by 37.5 per cent in 2009-10 to US$ 38.4 billion (2.8 per cent of GDP) from US$ 27.9 billion (2.3 per cent of GDP) in 2008-09. Similarly, the lower invisible surplus combined with higher trade deficit during the first half of 2010-11 led to more than doubling of the current account deficit to US$ 27.9 billion from US$ 13.3 billion during April-September 2009-10.

Net capital flows at US$ 53.4 billion (3.8 per cent of GDP) were much higher during 2009-10 as compared to US$ 6.8 billion (0.5 per cent of GDP) in 2008-09. The net FII inflows were higher at US$ 22.3 billion during April-September 2010 as compared to US$ 15.3 billion a year earlier.


**FOREIGN DIRECT INVESTMENT**

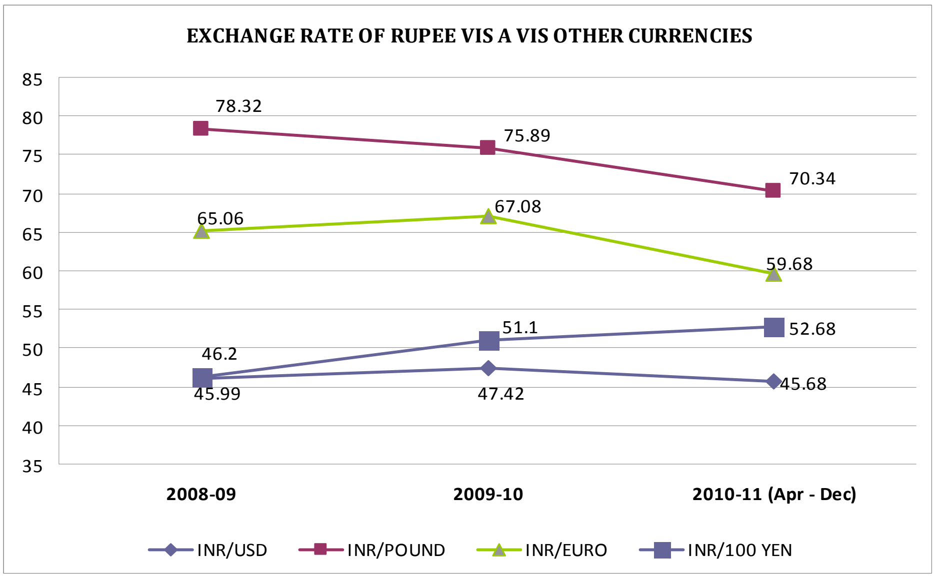
Both inward as well as outward FDI showed declining trend in 2009-10 vis-a-vis 2008-09. The inward FDI declined by 12.4 per cent to US$ 33.1 billion in 2009-10 from US$ 37.8 billion in 2008-09. Similarly, outward FDI declined by 19.6 per cent from US$ 17.9 billion in 2008-09 to US$ 14.4 billion in 2009-10. Consequently, the net FDI (inward FDI minus outward FDI) was marginally lower at US$ 18.8 billion in 2009-10, as compared with US$ 19.8 billion in 2008-09. The FDI was channelled mainly into manufacturing followed by construction, financial services and the real estate sector. The inward FDI declined by 36.4 per cent from US$ 19.8 billion during H1 of 2009-10 to US$ 12.6 billion during H1 of 2010-11. However, outward FDI remained at more or less the same level at US$ 7.2 billion during H1 of 2010-11, as compared to US$ 7.4 billion in H1 of the previous year. The share of net FDI in net capital flows also declined from 53.7 per cent in H1 of 2009-10 to 14.6 per cent in the first half of the current fiscal.




**Source: DIPP.**
**Note : Total excludes inflows to services sector and other NRI schemes;**
***=includes Non-conventional energy sector**

**FOREIGN EXCHANGE**

India's foreign exchange reserves comprise foreign currency assets (FCAs), gold, special drawing rights (SDRs) and reserve tranche position (RTP) in the International Monetary Fund (IMF). During 2009-10, the level of foreign exchange reserves increased to US$ 279.1 billion at the end of March 2010, mainly on account of valuation gain as the US dollar depreciated against most of the major international currencies. During 2009-10, of the total US$ 27.0 billion increase in foreign exchange reserves, US$ 13.6 billion was on account of valuation gain and balance US$ 13.4 billion was on BoP basis. In the current fiscal 2010-11, on month-on-month basis, foreign exchange reserves have shown an increasing trend. The reserves increased by US$ 18.2 billion from US$ 279.1 billion at the end of March, 2010 to US$ 297.3 at the end of December, 2010. Foreign Currency Assets (FCAs) are the major constituent of foreign exchange reserves in India. FCAs increased by US$ 13.1 billion (5.1 per cent) from US$ 254.7 billion at end-March 2010 to US$ 267.8 billion at end-December 2010. The increase was largely attributed to valuation gain, aid receipts and purchase of US dollar by the Reserve Bank of India.



# Direct Tax Proposals

**Tax Rate**

There is relief in personal income tax rates as the basic exemption has been increased while surcharge in case of corporate has been reduced from 7.5% to 5%. Rate of MAT in case of Corporate assessee has been increased by one half percent from 18% to 18.5%. The proposed slab for Personal Income Tax is given below:

**Personal Taxation**

| Figure in Lacs | Rate of Tax (%) |
|---|---|
| Up to ₹ 1.80* | Nil |
| ₹ 1.80 to ₹ 5.00 | 10 |
| ₹ 5.00 to ₹ 8.00 | 20 |
| ₹ 8.00 and above | 30 |

*The Basic exemption limit for special category assessee is as per statement below;

| Assessee | Basic Exemption (Figure in Lacs) |
|---|---|
| Women below the age of 60 years | ₹ 1.90 |
| Senior citizens (having age of 60 years or more and below 80 years) | ₹ 2.50 |
| Senior citizens (having age of 80 years or more) | ₹ 5.00 |

The following table highlights the savings on account of increase of basic exemption:

| Assessee | Amount (₹) |
|---|---|
| Individual other than women below age of 60 yrs and senior citizen | 2,060/- |
| Women below the age of 60 years | Nil |
| Senior citizens (having age of 60 years or more and below 80 years) | 1,030/- |
| Senior citizens (having age of 80 years or more) | 26,780/- |

**Return of Income by Salaried Tax Payer- not required**

It is proposed to exempt the requirement of furnishing a return of income by salaried tax payer having no other source of income where entire tax liability is discharged by the employer through deduction of tax at source and complete details of such tax payers are also reported by the employer through Tax Deduction at Source (TDS) statements. This will take effect from 1st June, 2011.

**Firm and Corporate**

No Change in Tax Rate however surcharge has been reduced.

**Surcharge**

| Assessee | Existing 2010-11 | Proposed 2011-12 |
|---|---|---|
| Domestic Company | 7.5% | 5.0% |
| Companies other than Domestic Company | 2.5% | 2.0% |

**Minimum Alternate Tax (MAT)**

Existing rate of 18% is proposed to be increased to 18.5%.

**Alternate Minimum Tax (AMT) for Limited Liability Partnership (LLP)**

Alternate Minimum Tax (AMT) at a rate of 18.5% is introduced for LLP. The provisions relating to AMT are summarized as below:

- AMT is payable where regular income tax payable for a previous year by a LLP is less than AMT.
- AMT shall be calculated on 'Adjusted Total Income' (ATI).
- Tax credit against AMT paid by the LLP shall be allowed to the extent excess of AMT paid over regular income tax.
- Tax credit shall be allowed to be carried forward upto the tenth assessment year

| | |
|---|---|
| | immediately succeeding the assessment year for which the same is allowable.<br>• Tax credit is allowed to set off for an assessment year in which the regular income tax exceeds AMT to the extent of such excess.<br>However it is hereby understood that Long Term Capital Gain (LTCG) arising from transactions chargeable to securities transaction tax (STT) is exempt under section 10(38) and need not required to be added back while calculating ATI for the purpose of AMT. |
| **Tax benefits for contribution to New Pension System (NPS)** | Contribution made by the employer to a pension scheme shall be excluded from the overall limit of one lakh rupees provided under section 80CCE is excluded.<br>Contribution made by an employer on account of an employee towards the pension scheme to the extent it does not exceed ten per cent of the salary of the employee in the previous year, shall be allowed as deduction from Profit and gains of business or profession. |
| **Sunset of exemption for SEZ Developers and units in SEZ for MAT and DDT** | Exemption from Minimum Alternate Tax (MAT) in case of SEZ Developers and units in SEZ under section 115JB(6) will be withdrawn w.e.f. assessment year 2012-13<br>Exemption from payment of Dividend Distribution Tax (DDT) on distribution of profits by SEZ Developer under section 115-O (6) will be withdrawn w.e.f. 1st June, 2011.<br>Exemption on dividend received from SEZ Developer under section 10(34) will be withdrawn w.e.f. 1st June, 2011. |
| **Investment linked deduction in respect of specified business u/s. 35AD** | Business of affordable housing project and production of fertilizer proposed as 'specified business' for the purpose of investment linked deduction. The date of commencement of operations in case of a new plant or in a newly installed capacity in an existing plant is proposed as on or after 1st April, 2011.<br>It is proposed to allow set-off loss from the profit of a 'specified business' qualified for tax incentive with the profits of such business not qualified for tax incentive under the provisions of the act. |
| **Transfer Pricing- powers of TPO** | Jurisdiction of Transfer Pricing Officer (TPO) shall be extended to the determination of Arm's Length Price (ALP) in respect of other international transactions in addition to the international transactions referred to the TPO by the Assessing Officer, which are noticed by him subsequently; in the course of proceedings before him.<br><br>TPO is enabled with exercise of power of survey conferred upon an income tax authority under section 133A of the Act w.e.f. 1st June 2011.<br><br>Due date for filing of transfer pricing report in Form 3CEB is extended to 30th November of the assessment year |
| **Settlement Commission- application by related entities** | Entities related to a tax payer who is subject matter of search, would now be allowed to file an application for settlement, if additional income tax payable in their application exceeds ₹ 10 lakhs instead of ₹ 50 lakhs as applicable to the tax payer who is subject matter of search w.e.f. 1st June 2011. |
| **Settlement Commission- power to ratify orders** | It is proposed that with a view to rectify any mistake apparent from the record, settlement commission may, at any time within a period of 6(six) months amend any order passed by it w.e.f. 1st June 2011. |
| **Tax Holiday- sunset for exemption** | Terminal date for tax holiday for power sector under section 80-IA (iv) is extended for a further period of one year i.e. upto 31st March, 2012<br><br>Tax holiday for certain undertakings engaged in commercial production of mineral oil under section 80-IB (9) shall be allowed for blocks licensed under a contract awarded up till 31st March, 2011. |
| **Deduction for contribution for approved scientific research programme-200%** | Contribution made for approved scientific research programme under section 35(2AA) to a National Laboratory or a university or an Indian Institute of Technology (IIT) or a specified person is proposed to increased from Weighted deduction for 175% to 200%. |

**Dividend from a foreign company to a resident shareholder**

Special rate of 15% (plus applicable surcharge and cess) on gross amount of dividend received from a foreign company by a resident shareholder in India is proposed against the current maximum marginal rate of tax.

**Miscellaneous**

- Monetary limit in respect of receipts from activity other than "advancement of any other object of general public utility" as stated in section 2(15) is proposed to enhance from current limit of ₹ 10 lacs to ₹ 25 lacs.
- It is proposed to exempt the income of a notified dedicated infrastructure fund and interest received by a non-resident from such fund shall be taxable at the rate of 5% w.e.f. 1st June, 2011.
- Deduction upto a maximum of ₹ 20,000/- for investment in notified long term infrastructure bond under section 80CCF is extended upto assessment year 2012-13.
- It is proposed to levy additional income tax at a higher rate of 30% on income distributed by debt funds to a person other than an individual or HUF w.e.f .1st June, 2011.
- Specific perquisites and allowances received by both serving as well as retired Chairman and Members of the Union Public Service Commission proposed to be exempted.
- It is proposed to exempt the specified income of a notified entity which is not engaged in any commercial activity and formed by central or state government with the object of regulative or administering an activity for the benefit of general public w.e.f. 1st June 2011.
- Non-residents are proposed to file annual information containing prescribed details as regards their liaison offices w.e.f. 1st June, 2011.
- Time limit for obtaining exemption from Employees Provident Fund Organization (EPFO) is extended from 31st December, 2010 to 31st March, 2012.
- Requirement of quoting Document Identification Number (DIN) is omitted with retrospective effect from 1st April, 2011.

# Indirect Tax Proposals

## EXCISE DUTY

**Salient Features**

- The standard rate of excise duty remains unchanged at 10%
- Nominal Central Excise duty of 1% imposed on 130 items. No Cenvat credit would be available for the manufacture of these items. Basic food and fuel would continue to be exempt. This levy would also not apply to precious metals and stones. In case of jewellery and articles of gold, silver and precious metals, the levy would apply only to goods sold under a brand name.
- Lower rate of Central Excise Duty increased from 4 percent to 5 percent.
- Excise duty on branded apparel made mandatory which was voluntary earlier. As per the budget, 10% excise duty has become universally applicable across all branded clothing.The levy would however, apply only to branded garments or made-ups and not to those tailored or made to order for a retail customer. Credit of tax paid on inputs, capital goods and input services would be available to manufacturers of these products. Full SSI exemption is also being extended to these products. Export of these items would continue to be zero-rated.
- At present, there are about 100 items that are exempt from Central Excise as well as State VAT. In addition, there are as many as 370 items that enjoy exemption from Central Excise duty but are chargeable to VAT. Exemptions on 130 of these items that are mainly in the nature of consumer goods are withdrawn. The remaining 240 items would be brought into the tax net when GST is introduced.

**Agriculture & Related Sectors**

- Scope of exemptions from Excise Duty enlarged to include equipments needed for storage and warehouse facilities on agricultural produce.

**Manufacturing**

- Extension of concession available to parts, components and accessories for manufacture of mobile handsets till 31st March, 2012 and to include few more items in its ambit;
- Reduction in excise duty (and hence CVD) on parts of ink-jet and laser-jet printers from 10 per cent to 5 per cent.

**Environment**

- Reduction in excise duty on kits used for conversion of fossil fuel vehicles into hybrid vehicles from 10% to 5%.
- Reduction in excise duty from 10% to 5% on hybrid vehicles to incentivise their domestic production.
- A concessional rate of Central Excise Duty of 4% extended to batteries imported by manufacturers of electrical vehicles.
- Concessional Excise Duty of 10 per cent to vehicles based on Fuel cell/Hydrogen cell technology.
- Excise Duty on LEDs reduced to 5 per cent and special CVD being fully exempted.
- Full exemption from basic Excise Duty granted to enzyme based preparation for pre-tanning.

**Infrastructure**

- Parallel Excise Duty exemption for domestic suppliers producing capital goods needed for expansion of existing mega or ultra mega power projects.

**Others**

- Concession to factory-built ambulances from Excise Duty. A refund-based concession is available to taxis having a seating capacity not exceeding 7 persons including the driver. It has been extended upto a seating capacity not exceeding 13 persons including the driver.
- Reduction in central excise duty on sanitary napkins, baby and adult diapers from 10 per cent to 1 per cent

## CUSTOMS DUTY

**Salient Features**

- There is no change in the general rate of Basic Customs Duty which remains at 10%.

**Agriculture & Related Sectors**

- Basic Custom Duty reduced for specified agricultural machinery from 5 per cent to 2.5 per cent. The concession is also being extended to parts of such machinery to encourage their domestic production.
- Basic Custom Duty reduced on micro-irrigation equipment from 7.5 per cent to 5 per cent.
- De-oiled rice bran cake to be fully exempted from basic Custom Duty. Export Duty of 10 per cent to be levied on its export.

**Manufacturing Sector**

- Reduce basic customs duty on raw silk (not thrown) from 30 to 5 per cent;
- Reduce basic customs duty from 5 per cent to 2.5 per cent on certain textile intermediates and inputs for chemicals, ferro-alloys and paper;
- Reduce basic customs duty on certain specified inputs for manufacture of certain technical fibre and yarn from 7.5 per cent to 5 per cent;
- Fully exempt stainless steel scrap from basic customs duty;
- Reduce import duties on specified raw material for the manufacture of syringes and needles to 5 per cent basic and 4 per cent CVD;
- Expand the raw material list for manufacture of specified electronic components that are fully exempt from basic customs duty;
- Rate of Export Duty for all types of iron ore enhanced and unified at 20 per cent ad valorem. Full exemption from Export Duty to iron ore pellets.
- Basic Custom Duty on two critical raw materials of cement industry viz. petcoke and gypsum is proposed to be reduced to 2.5 per cent.
- Cash dispensers fully exempt from basic Customs Duty.

**Environment**

- Full exemption from basic Customs Duty to batteries imported by manufacturers of electrical vehicles.
- Exemption granted from basic custom duty and special CVD to critical parts/assemblies needed for Hybrid vehicles.
- Basic Customs Duty on solar lantern reduced from 10 to 5 per cent. Basic customs duty on a few more inputs used in the manufacture of solar modules/ cells is being reduced to Nil.
- Full exemption from basic Customs Duty to Crude Palm Stearin used in manufacture of laundry soap.

**Infrastructure**

- Full exemption from basic Customs Duty to bio-asphalt and specified Machinery for application in the construction of national highways. Tunnel-boring machines required for the construction of highways are also being included in this exemption.

**Others**

- Scope of exemptions from basic Customs Duty for work of art and antiquities extended to apply for exhibition or display in private art galleries open to the general public.
- Exemption from Import Duty for spares and capital goods required for ship repair units extended to import by ship owners.

- Concessional basic Custom Duty of 5 per cent and CVD of 5 per cent available to newspaper establishments for high speed printing presses extended to mailroom equipment.
- Jumbo rolls of 400 feet and 1000 feet cinematographic film fully exempted from CVD by providing full exemption from Excise Duty.
- Reduction in basic customs duty on raw pistachio from 30 per cent to 10 per cent;
- Reduction in basic customs duty on bamboo for agarbatti from 30 per cent to 10 per cent;
- Reduction in basic customs duty on lactose for the manufacture of homeopathic medicines from 25 per cent to 10 per cent;

## SERVICE TAX

| | |
|---|---|
| **Salient Features** | The rate of service tax remain unchanged at 10%<br>• Service tax on air travel increased by ₹ 50 for domestic travel and ₹ 250 for international travel in economy class. On higher classes, it will be ten per cent flat to bring it on par with journeys by higher classes on international air travel.<br>• All individual and sole proprietor tax payers with a turn over upto ₹ 60 lakh freed from the formalities of audit. Again, all assessees with turnover upto ₹ 60 lakh, also get benefit of 3 percentage on interest on delayed payment.<br>• To encourage voluntary compliance the penal provision for Service Tax are being rationalised. |
| **New Services added** | The scope of service tax widened to include the following :<br>• Hotel accommodation, in excess of ₹ 1,000 per day with an abatement of 50 per cent so that the effective rate is only 5 per cent of the amount charged.<br>• Air Conditioned restaurants having license to serve liquor will be brought under service tax net. The effective burden will be 3 per cent of the bill as they will enjoy a rebate of 70%.<br>• Centralised air conditioned (AC) hospitals with 25 or more bed. The effective rate would be 5% as there is 50% rebate on this.<br>• Services provided by Life Insurance Companies in the areas of investment and some more legal services to include services provided by business entities to individuals as well as representational and arbitration services by individuals to business entities. There shall, however, be no tax on services provided by individuals to other individuals. |

# Key Policy Announcements – In the Budget 2011-12

| | |
|---|---|
| **OBJECTIVES** | • Swift and broad based growth in 2010-11 has put the economy back to its pre-crisis growth trajectory.<br>• Significant progress in critical institutional reforms that would set the pace for double-digit growth in the near future.<br>• Structural concerns on inflation management to be addressed by improving supply response of agriculture to the expanding domestic demand and through stronger fiscal consolidation.<br>• Dynamism in the rural economy due to scaled up flow of resources to the rural areas.<br>• To serve as a transition towards a more transparent and result oriented economic management system in India. |
| **EDUCATION** | |
| *Education Allocation* | An allocation of ₹ 52,057 crore, which is an increase of 24 per cent over the current year. |
| *Sarva Shiksha Abhiyan* | To implement the right of children to free and compulsory education the Government has allocated ₹ 21,000 crore which is 40 per cent higher than ₹ 15,000 crore allocated in the Budget for 2010-11.<br>Pre-matric scholarship scheme to be introduced for needy SC/ST students studying in classes IX and X. |
| *National Knowledge Network* | Connectivity to all 1,500 institutions of Higher Learning and Research through optical fiber backbone to be provided by March 2012. |
| *Special Grants* | • ₹ 50 crore each to upcoming centres of Aligarh Muslim University at Murshidabad in West Bengal and Malappuram in Kerala;<br>• ₹ 100 crore as one-time grant to the Kerala Veterinary and Animal Sciences University at Pookode, Kerala;<br>• ₹ 10 crore each for setting up Kolkata and Allahabad Centres of Mahatma Gandhi Antarrashtriya Hindi Vishwavidyalaya, Wardha;<br>• ₹ 200 crore as one time grant to IIT, Kharagpur;<br>• ₹ 20 crore for Rajiv Gandhi National Institute of Youth Development, Sriperumbudur, Tamil Nadu<br>• ₹ 20 crore for IIM, Kolkata, to set up its Financial Research and Trading Laboratory;<br>• ₹ 200 crore for Maulana Azad Education Foundation;<br>• ₹ 10 crore for Centre for Development Economics and Ratan Tata Library, Delhi School of Economics, Delhi; and<br>• ₹10 crore for Madras School of Economics |
| **HEALTH** | |
| *Allocation* | Government has increased the plan allocations for 2011-12 by 20 per cent to ₹ 26,760 crore. |
| *MGNREGA* | Government proposes to further extend this scheme to cover unorganized sector workers in hazardous mining and associated industries like slate and slate pencil, dolomite, mica and asbestos etc. |
| **SCHEDULED CASTES AND TRIBAL** | |
| *Allocation* | Allocation for primitive Tribal groups increased from ₹ 185 crore in 2010-11 to ₹ 244 crore in 2011-12. |
| *Scholarship* | Introduction of a scholarship scheme for needy students belonging to the Scheduled Castes and Scheduled Tribes studying in classes ninth and tenth. |

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| **BHARAT NIRMAN** | |
| *Allocation* | Allocation for Bharat Nirman programme proposed to be increased by ₹ 10,000 crore to ₹ 58,000 crore in 2011-12. |
| *Rural Broadband* | Plan to provide Rural Broadband Connectivity to all 2,50,000 Panchayats in the country in three years. |
| **MICRO, SMALL & MEDIUM ENTERPRISES** | |
| *Refinancing* | ₹ 5,000 crore to be provided to SIDBI for refinancing incremental lending by banks to these enterprises. |
| *Handloom weavers* | ₹ 3,000 crore to NABARD for providing support to handloom weaver cooperative societies which have become financially unviable |
| **MICRO FINANCE INSTITUTIONS** | |
| *Fund for smaller MFIs* | • "India Microfinance Equity Fund" of ₹ 100 crore to be created with SIDBI. Government considering putting in place appropriate regulatory framework to protect the interest of small borrowers.<br>• "Women's SHG's Development Fund" to be created with a corpus of ₹ 500 crore. |
| **INFRASTRUCTURE** | |
| *Allocation* | Allocation of ₹ 2,14,000 crore for infrastructure in 2011-12. This is an increase of 23.3 per cent over 2010-11. This also amounts to 48.5 per cent of total plan allocation. |
| *India Infrastructure Finance Company Ltd* | IIFCL to achieve cummulative disbursement target of ₹ 20,000 crore by March 31, 2011 and ₹ 25,000 crore by March 31, 2012. |
| *Take out financing scheme* | Under take out financing scheme, seven projects sanctioned with debt of ₹ 1,500 crore. Another ₹ 5,000 crore will be sanctioned during 2011-12. |
| *Tax free bonds* | To boost infrastructure development, tax free bonds of ₹ 30,000 crore proposed to be issued by Government undertakings during 2011-12. |
| *Rural Infrastructure Development Fund* | Corpus of RIDF XVII to be raised from ₹ 16,000 crore to ₹ 18,000 crore. |
| *Special Allocation* | Allocation made in 2011-12 to meet the infrastructure needs for Ladakh (₹ 100 crore) and Jammu region (₹ 150 crore). |
| **AGRICULTURE** | |
| *Allocation* | Allocation under Rashtriya Krishi Vikas Yojana (RKVY) increased from ₹ 6,755 crore to ₹ 7,860 crore. |
| *Green Revolution* | To improve rice based cropping system in Eastern Region, allocation of ₹ 400 crore has been made. |
| *Special Package to rainfed Areas* | An amount of ₹300 crore to promote 60,000 pulses villages in rainfed areas for increasing crop productivity and strengthening market linkages. |
| *Promotion of Oil Palm* | Allocation of ₹ 300 crore to bring 60,000 hectares under oil palm plantations. Initiative to yield about 3 lakh Metric tonnes of palm oil annually in five years. |
| *Initiative on Vegetable Clusters* | To provide quality vegetables at competitive prices an amount of ₹300 crore given for implementation of vegetable initiative to set in motion a virtuous cycle of higher production and incomes for the farmers. |

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| *Nutri-cereals* | Allocation of ₹ 300 crore to promote higher production of Bajra, Jowar, Ragi and other millets, which are highly nutritious and have several medicinal properties. |
| *National Mission for Protein Supplement* | Allocation of ₹ 300 crore to promote animal based protein production through livestock development, dairy farming, piggery, goat rearing and fisheries. |
| *Accelerated Fodder Development Programme* | Allocation of ₹ 300 crore for Accelerated Fodder Development Programme to benefit farmers in 25,000 villages. |
| *Agriculture Credit* | • Credit flow for farmers raised from ₹ 3,75,000 crore to ₹ 4,75,000 crore in 2011-12.<br>• Interest subvention proposed to be enhanced from 2 per cent to 3 per cent for providing short-term crop loans to farmers who repay their crop loan on time.<br>• In view of enhanced target for flow of agriculture credit, capital base of NABARD to be strengthened by ₹ 3,000 crore in a phased manner.<br>• ₹ 10,000 crore to be contributed to NABARD's Short-term Rural Credit fund for 2011-12. |
| *Mega Food Parks* | Approval being given to set up 15 more Mega Food Parks during 2011-12. |
| *Storage Capacity and Cold Chains* | Augmentation of storage capacity through private entrepreneurs and warehousing corporations has been fast tracked. |
| **FINANCIAL SECTOR** | |
| *Public Sector Bank Capitalisation* | ₹ 6,000 crore to be provided during 2011-12 to enable public sector banks to maintain a minimum of Tier I CRAR of 8 per cent. |
| *Banking Licenses* | Amendments proposed to the Banking Regulation Act in the context of additional banking licences to private sector players. |
| **HOUSING SECTOR FINANCE** | |
| *Housing Loan* | Interest subvention of 1 per cent on housing loans by extending it to housing loan upto ₹15 lakh where the cost of the house does not exceed ₹ 25 lakh from the present limit of ₹10 lakh and ₹20 lakh respectively. |
| *Housing Loan Limit* | Existing housing loan limit enhanced to ₹ 25 lakh for dwelling units under priority sector lending. |
| *Rural Housing Fund* | Provision under Rural Housing Fund enhanced to ₹ 3,000 crore. |
| *Credit enablement* | To enhance credit worthiness of Economically Weaker Sections (EWS) and LIG households, a Mortgage Risk Guarantee Fund to be created under Rajiv Awas Yojana. |
| *Central Electronic Registry* | Central Electronic Registry to prevent frauds involving multiple lending on the same immovable property to become operational by March 31, 2011. |
| **EXPORT** | |
| *Task Force on Transaction Cost* | Of 23 suggestions made by Task Force on Transaction Cost, constituted by the Department of Commerce, 21 suggestions already implemented. Action to be taken on the remaining two suggestions. Transaction Cost of ₹ 2,100 crore will thus be mitigated. |
| *Mega Cluster Scheme* | • Mega Cluster Scheme to be extended for leather products. Seven mega leather clusters to be set up during 2011-12.<br>• Jodhpur to be included for the development of a handicraft mega cluster. |
| *Scheme for refund of Taxes* | Proposal to introduce scheme for refund of taxes paid on services used for export of goods. |
| **DEFENCE** | |
| *Defence Expenditure* | Provision of ₹ 1,64,415 crore, including ₹ 69,199 crore for capital expenditure to be made for |

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|---|---|
| | Defence Services for 2011-12. |
| *Ex-gratia Compensation* | A lump-sum ex-gratia compensation of ₹ 9 lakh for 100 per cent disability to be granted for personnel of Defence and Para Military forces discharged from service on medical ground on account of disability attributable to government service. For personnel with disability ranging from 20 to 99 per cent, a proportionate amount would be given. |
| **OTHER PROPOSALS** | |
| *Disinvestment* | To maintain the momentum on disinvestment ₹ 40,000 crore to be raised through disinvestment in 2011-12. |
| *Foreign Investors* | • SEBI registered mutual funds permitted to accept subscription from foreign investors who meet KYC requirements for equity schemes.<br>• To enhance flow of funds to infrastructure sector, the FII limit for investment in corporate bonds with residual maturity of over five years issued in the infrastructure sector has been increased to US Dollar 25 billion. |
| *Black Money* | Fivefold strategy to be put into operation to deal with the problem of generation and circulation of black money. |
| *Banking Facilities* | Target of providing banking facilities to all 73,000 habitations having a population of over 2,000 to be completed during 2011-2012. |
| *Forests* | ₹ 200 crore proposed to be allocated for Green India Mission from National Clean Energy Fund. |
| *Environmental Management* | ₹ 200 crore proposed to be allocated for launching Environmental Remediation Programmes from National Clean Energy Fund. |
| *Cleaning of Rivers and Lakes* | Special allocation of ₹ 200 crore proposed to be provided for clean-up of some more important lakes and rivers other than Ganga. |
| *Census 2011* | The 15th Census in the country is being conducted from 9th February. It will be the largest administrative exercise in the country providing statistical data on different socio-economic parameters of population. |
| *UID Mission* | From 1st October 2011 ten lakh Aadhaar numbers will be generated per day. |
| *e-stamping* | A new scheme with an outlay of ₹ 300 crore to be launched to provide assistance to States to modernise their stamp and registration administration and roll out e-stamping in all the districts in the next three years. |
| *Social Sector* | Allocation for social sector in 2011-12 (₹ 1,60,887 crore) increased by 17 per cent over current year. It amounts to 36.4 per cent of total plan allocation. |
| *Special Support to Jammu & Kashmir* | Special support of ₹ 8,000 crore in current year for development needs of Jammu and Kashmir. |
| *Judicial infrastructure* | To build judicial infrastructure, plan provision for Department of Justice increased by three fold to ₹ 1,000 crore. |
| *Skill Development* | Additional ₹ 500 crore proposed to be provided for National Skill Development Fund during the next year. |
| *Innovation* | • National Innovation Council set up to prepare road map for innovations in India.<br>• Special grant provided to various universities and academic institutions to recognise excellence. |

# Sectoral Impact Analysis

**Metal and Mining**

| Sl | Proposal | Impact |
|---|---|---|
| 1 | Raised the rate of export duty for all types of iron ore at 20 per cent according to value (ad valorem). Earlier, Iron ore attracted an export duty of 15 per cent in the case of lumps and 5 per cent in the case of fines. | Negative for all iron ore mining companies that export iron ore and do not have forward integration to add value by converting it to pellets. Negative for companies such as Sesa Goa and NMDC. |
| 2 | Continued thrust on rural and urban development with focus on infrastructure amounting to ₹ 2,14,000 crore. | Positive for all Steel companies |
| 3 | Full exemption from export duty to iron ore pellets | Companies will start adding value to iron ore and then export pellets. |

**Auto and Auto Ancillary**

| Sl | Proposal | Impact |
|---|---|---|
| 1 | No hikes in excise duties | Positive for all Auto companies |
| 2 | Weighted deduction of 200% on expenditure relating to in-house research and development from existing 175% | Positive for all Auto companies |
| 3 | Incentives to electric, hybrid vehicles in the form of concession on excise duty of 5% | Positive for M&M due to Reva |

**Textiles**

| Sl | Proposal | Impact |
|---|---|---|
| 1 | 10% excise duty on branded garments | Negative for Apparel players like Koutons, Bang Overseas, Provogue etc |
| 2 | Reduce basic customs duty on certain specified inputs for manufacture of certain technical fibre and yarn from 7.5 per cent to 5 per cent | Positive for Yarn Spinning companies like Vardhman Textiles, RSWM etc |

**Infrastructure & Real Estate**

| Sl | Proposal | Impact |
|---|---|---|
| 1 | Allocation of ₹ 2,14,000 crore for infrastructure which is an increase of 23.3 % over 2010-11 | Positive for all Infra companies like L&T, Nagarjuna Construction, Gammon India |
| 2 | To boost infrastructure development, tax free bonds of ₹ 30,000 crore proposed to be issued by Government undertakings | Positive for Infra Companies like GMR Infra, IVRCL Infra |
| 3 | FII limit in corporate bonds in Infra is being raised to USD 25 bn from USD 20 bn | Positive for Infra Companies |
| 4 | Parallel Excise Duty exemption for domestic suppliers producing capital goods needed for expansion of existing mega or ultra mega power projects | Positive for L&T and BHEL |
| 5 | Grant of one per cent interest subvention on housing loan upto ₹ 15 lakh, where the cost of the house does not exceed ₹ 25 lakh | Positive for HDIL, Sobha Developers |
| 6 | Upped priority home loan limit to ₹ 25 Lakh Vs ₹ 20 Lakh | Positive for HDIL, Sobha Developers |

**Hotel**

| *Sl* | *Proposal* | *Impact* |
|---|---|---|
| 1 | No Infrastructure Status for Hotel Companies | Neutral for Hotel Copmpanies |
| 2 | Hotel's having tariffs in excess of ₹ 1,000 per day, service provided by air conditioned restaurants that have license to serve liquor added as new services for levying Service Tax. | Negative for Hotel Leela, Taj GVK and Indian Hotel as it will become costlier for customers |

**FMCG**

| *Sl* | *Proposal* | *Impact* |
|---|---|---|
| 1 | Increase in allocations to social and development programs aimed for rural India – like Indira Gandhi Vikas Yojana, NREGA, Bharat Nirman (₹ 58,000 crore allocated), Indira Awas Yojana and Krishi Vikas Yojana (₹ 6,755 crore allocated) | Positive for all FMCG companies like HUL, P&G |
| 2 | No hike in Excise duty on Cigarettes | Positive for ITC, Godfrey Phillips India |
| 3 | Reduction in central excise duty on sanitary napkins, baby and adult diapers from 10% to 1%. | Positive for companies like P&G |
| 4 | Increase in personal income tax exemption limits – Individual taxpayers from ₹1,60,000 to ₹ 1,80,000 – NIL and additional benefit for Senior citizen. | Positive for all the companies to boost volumes. |

**BFSI**

| *Sl* | **Proposal** | **Impact** |
|---|---|---|
| 1 | SEBI registered mutual funds are permitted to accept subscription from foreign investors who meet KYC requirements for equity schemes. | Positive for companies having AMC's |
| 2 | To enhance flow of funds to infrastructure sector, the FII limit for investment in corporate bonds issued in infrastructure sector being raised from USD 20 Bn to USD 25 Bn. | Positive for corporate bond market in general and specifically for good quality infrastrure players who can rely more on bond market as source of funding. |
| 3 | ₹ 6,000 crore to be provided during 2011-12 to enable public sector banks to maintain a minimum of Tier I CRAR of 8 per cent. | Positive for PSU banks specifically Andhra Bank, IOB, Union bank, PNB (banks having Tier1 CAR less than 8%) |
| 4 | ₹ 5,000 crore to be provided to SIDBI for refinancing incremental lending by banks to SME enterprises. ₹ 3,000 crore to be provided to NABARD to provide support to handloom weaver co-operative societies which have become financially unviable due to non-repayment of debt by handloom weavers facing economic stress. | Positive for banks as refinacing will happen at discount to market rate and it will also help them meet their priority sector lending target. |
| 5 | Existing scheme of interest subvention of 1 per cent on housing loan further liberalized for housing loan upto ₹ 15 lakhs. Existing housing loan limit enhanced to ₹ 25 lakh for dwelling units under priority sector lending. To enhance credit worthiness of economically weaker sections and LIG households, a Mortgage Risk Guarantee Fund to be created under Rajiv Awas Yojana. | Positive for Housing Finance sector as it will not only help in the demand side of the value chain but also reduces risk in case of Low income group housing financing. |

**Fertilizer**

| Sl | Proposal | Impact |
|---|---|---|
| 1 | Government actively considering extension of NBS regime to cover urea | Positive for urea manufacturer like Chambal, Nagarjuna Fertilizers, Tata Chemicals |
| 2 | Move towards direct transfer of cash subsidy in phased manner for better delivery of fertilizers | Positive for all fertilizer companies |
| 3 | Include capital investment in fertilizer production as an infrastructure sub sector | Positive for all fertilizer companies |
| 4 | Extend the benefit of investment linked deduction to business engaged in the production of fertilizers | Positive for all fertilizer companies |

**Pharmaceuticals**

| Sl | Proposal | Impact |
|---|---|---|
| 1 | Weighted deduction on R&D from 175% to 200% | Positive for the industry |
| 2 | Health allocation increased by 20% to ₹ 26,760 cr. | Positive for the industry |

**Oil & Gas**

| Sl | Proposal | Impact |
|---|---|---|
| 1 | No tax change in the Oil sector companies | Negative for IOC, BPCL,HPCL |

**Telecom**

| Sl | *Proposal* | *Impact* |
|---|---|---|
| 1 | Increased allocation on various schemes under Bharat Nirman including Rural Telephoney by ₹ 10,000 Crores, Plan to provide Rural Broadband Connectivity to all 250,000 panchayats of India in three years | Positive for the sector, especially for the companies having spectrum in the BWA space and / or having strong rural presence, which include RIL and Bharti |

**Information Technology**

| Sl | *Proposal* | *Impact* |
|---|---|---|
| 1 | New scheme to be introduced by which units in SEZs will be able to obtain tax-free receipt of services wholly consumed within the zone and get their refunds in a much easier manner. | Neutral, however the receipt of tax refunds may be pacified mainly for large players who have set ups in SEZs |
| 2 | Levy of MAT on units in SEZs and developers of SEZs | Negative for the large players |
| 3 | The National Securities Depository Limited (NSDL) has been selected as technology partner for incubating the National Information Utility that will establish and operate the IT backbone for GST. | Positive for TCS as it's a partner with NSDL |

**Media and Entertainment**

| Sl | *Proposal* | *Impact* |
|---|---|---|
| 1 | Exempt jumbo rolls of 400 feet and 1000 feet from CVD through full exemption from excise duty | Positive for Film sector |

# Microsec Budget Top Picks

**BLUE STAR LIMITED**

**Background**

Blue Star is India's leading central air-conditioning and commercial refrigeration company. The company primarily operates in three segments – Central & Packaged Air-conditioning systems, Cooling Products and Professional Electronics & Applied Industrial systems. The company currently has five modern state of the art manufacturing facilities in Thane, Bharuch, Dadra, Kala Amb (Himachal Pradesh), and at Wada in Thane district of Maharashtra. Blue Star primarily focuses on corporate, commercial and institutional customers.

**CMP – ₹ 323**

**Key Points**

- To attract investment in the Storage Capacity and Cold Chains sector, capital investment in the creation of modern storage capacity will be eligible for viability gap funding scheme of the Finance Ministry. It has also been proposed to recognize cold chains and post-harvest storage as an infrastructure sub-sector. The company's order book growth is expected to be driven by investments in cold storages, airports, metros, hospitality and hotels.
- The lower personal taxes would result in higher purchasing power which in turn is likely to increase the consumer spending.

**MAHINDRA & MAHINDRA LIMITED**

**Background**

Mahindra & Mahindra Limited is the flagship Company of the US$ 7.1 billion Mahindra Group which consists of 105 companies and has businesses large and small in almost every continent of the world. Established in 1945, M&M is among the top tractor brands in the world. The different sectors of the Mahindra Group cover a wide spectrum of industries from Tractors to Information Technology, from Automobiles and Two Wheelers to Airplanes, from financial services and Holidays to Defence and Infrastructure. Its visionary management, coveted with prestigious awards, is expected to elevate the positioning of the company higher.

**CMP – ₹ 615**

**Key Points**

- Basic custom duty reduced for specified agriculture machinery from 5 percent to 2.5 percent.
- Contrary to the expectation of an increase in excise duty the Finance minister spared it from any change. The move would be a certain welcome by the industry as it is already fighting rising input costs. This will benefit M&M.
- A National Mission for hybrid & electric vehicles to promote their adoption as well as to incentivise. Also a concessional rate of 5% excise duty will be granted to hybrid vehicles if manufactured locally. This will benefit M&M.
- Credit flow for farmers raised from ₹3,75,000 crore to ₹4,75,000 crore in 2011-12. This would increase the Agricultural equipment business of the company.
- Increase in defence expenditure to ₹1,64,415 crore will boost revenue growth of the company.

**TATA MOTORS LTD**

**Background**

Tata Motors Limited is India's largest automobile company, with consolidated revenues of ₹ 92,519 crores (USD 20 billion) in 2009-10. It is the leader in commercial vehicles in each segment, and among the top three in passenger vehicles with winning products in the compact, midsize car and utility vehicle segments. The Company is the world's fourth largest truck manufacturer, and the world's second largest bus manufacturer. It is the first Company from India's engineering sector to be listed in the New York Stock Exchange (September 2004) and become an international automobile company. Through subsidiaries and associate companies, Tata Motors has operations in the UK, South Korea, Thailand and Spain. Among them is Jaguar Land Rover, a business comprising the two iconic British brands that was acquired in 2008.

**CMP – ₹ 1082**

**Key Points**

- Contrary to the expectation of an increase in excise duty the Finance minister spared it from any change. The move would be a certain welcome by the industry as it is already fighting with rising input costs. This will benefit Tata Motors
- Credit flow for farmers raised from ₹3,75,000 crore to ₹ 4,75,000 crore in 2011-12. This will benefit the Sales of Tata Nano and Tata ACE in rural areas.

**LIC HOUSING FINANCE**

**Background**

LIC housing Finance company is one of the leading players in the mortgage market. The company promoted by the Government insurance behemoth has been in existence since 1989. The main objective of the Company is providing long term finance to individuals for purchase, construction, repair and renovation of new or existing flats, houses. The Company also provides finance on existing property for business or personal needs. Almost 90% of the company's loans are to retail customers and the balance 10% to large ticket commercial sector companies.

It has traditionally concentrated and has a well-established presence in Tier I cities in the North and Southern India i.e. Hyderabad, Chennai, Bangalore, Delhi NCR, Mumbai, and Pune. LICHF's housing loan portfolio continues to be dominated by salaried segment. LICHF's sourcing strategy is largely agency oriented. It operates through a total combined network of around 11,000 direct Sales Agents (DSAs), Home Loan Agents (HLAs) and customer Relationship Associates (CRAs), constituting its pan- India marketing network.

**CMP- ₹188**

**Key Points**

- Existing scheme of interest subvention of 1 per cent on housing loan further liberalized for housing loan upto ₹ 15 lakhs. This will help the demand side of the housing finance value chain. Positive for LIC Housing Finance.
- Existing housing loan limit enhanced to ₹ 25 lakh for dwelling units under priority sector lending. This is positive for LIC Housing Finance.
- To enhance credit worthiness of economically weaker sections and LIG households, a Mortgage Risk Guarantee Fund to be created under Rajiv Awas Yojana. It will help in reducing risk.

**RURAL ELECTRIFICATION CORPORATION**

**Background**

Rural Electrification Corporation (REC) was incorporated on July 25, 1969 under the Companies Act, 1956. REC is a listed Government of India Public Sector Enterprise with a net worth of ₹ 5368 crore. The company's main objective is to finance and promote rural electrification projects all over the country. It provides financial assistance to state electricity boards, state government departments and rural electric cooperatives for rural electrification projects as are sponsored by them.

REC provides loan assistance to SEBs/state power utilities for investments in rural electrification schemes through its corporate office located at New Delhi and 17 field units (project offices), which are located in most of the sates. The project offices in the states coordinate the programmes of REC's financing with the concerned SEBs/state power utilities and facilitate in formulation of schemes, loan sanction and disbursement and implementation of schemes.

**CMP- ₹ 235**

**Key Points**

- To enhance flow of funds to infrastructure sector, the FII limit for investment in corporate bonds issued in infrastructure sector being raised to USD 25 Billion. Positive for good quality company like REC as they can now use corporate bond market as source of funds.

| | |
|---|---|
| **ELGI EQUIPMENT** | **Background**<br>Elgi is the market leader in air compressors (over 10 per cent) as well as automobile service station equipment and is also among the larger players in Asia. Elgi has a very wide customer base, given the diverse application of its products in sectors such as mining, transport, power, railways, oil, textiles, shipbuilding, plastics and electronics, to name a few. It also has all major automobile manufacturers as its customers. |
| **CMP- ₹ 84** | **Key Points**<br>• Company would be benefited on extension of full exemption from excise duty to air-conditioning equipment and refrigeration panels for cold chain infrastructure as proposed in Budget 2011-12.<br>• Elgi has acquired a French company named Belair of France, engaged in assembly, sales and service of industrial compressors, piping, fittings and accessories. It has acquired the entire stake of the company for euro 700,000 (about ₹ 4.35 crore).<br>• Elgi has utilised the slowdown period to test grounds and ramp up presence in the Brazilian and Chinese markets which seems to pay back the company going forward. |
| **TATA CHEMICALS LTD** | **Background**<br>Tata Chemicals Ltd (TCL), a part of US$ 70.8 billion Tata group was incorporated in 1939. The company is mainly in the business of soda ash, crop nutrients & protections, salt, water purifier, chemicals. TCL has launched I-Shakti Dal and expands its product portfolio by entering into pulses and agri retail segment. It has manufacturing units in Mithapur, Haldia, Babrala, USA, UK and Kenya. In addition to that, The Company has innovation centre in Pune to develop R&D capability in biotechnology and nanotechnology. TCL has significant presence in Africa, America, Europe and other parts in Asia & it has acquired British Salt Ltd, a leading salt manufacturer in UK to ensure the steady source of raw material and also deepen its presence in UK's food and industrial market. |
| **CMP- ₹ 319** | **Key Points**<br>• Allocation of ₹ 300 crore in the budget FY2011-12 to promote 60,000 pulses in villages in rain fed areas is likely to benefit the company as it has entered into pulse segment by launching I-Shakti Dal.<br>• Mulling NBS policy for urea is likely to boost the top line growth of the company.<br>• Government initiatives to treat capital investment in fertilizer production as infrastructure sub sector & extend the benefit of investment linked deduction are likely to benefit the company as it has an ongoing project on potash manufacturing from seawater. |
| **GODREJ INDUSTRIES LTD** | **Background**<br>Godrej Industries Ltd (Godrej) is a member of Godrej Group which was established in 1987. The company is engaged in animal feed, vegetative oils, chemicals, real estate, beverages & foods, finance & investment. Godrej exports its products to North America, South America, Asia, Europe, Australia & Africa. |
| **CMP- ₹ 161.70** | **Key Points**<br>• Allocation of ₹ 300 cr for oil-palm cultivation on 60,000 additional hectares to reduce dependency on imported edible oil is likely to be positive for the company.<br>• Proposed to provide ₹ 300 cr for Accelerated Fodder Development Programme which is positive for the company as its animal feed segment contributes 30% in their revenue. |

# Key Policy Initiatives & Regulatory Developments during 2010-11

**SECURITIES CONTRACTS (REGULATION) RULES, 1957**

SCR Rules were amended twice during the previous year, mainly to bring Rule 19(2)(b) in line with the contemporary policies.

**Securities Contracts (Regulation) (Amendment) Rules, 2010**

**Amendments vide Notification dated June 04, 2010**

This amendment changed the face of Rule 19(2)(b) by making it more simpler. The said clause was substituted to provide that:

For the purpose of listing of securities on a recognized stock exchange, the stock exchange has to be satisfied that

i. At least 25 % of each class or kind of equity shares or debentures convertible into equity shares issued by the company was offered and allotted to public in terms of an offer document; or

ii. At least 10 % of each class or kind of equity shares or debentures convertible into equity shares issued by the company was offered and allotted to public in terms of an offer document if the post issue capital of the company calculated at offer price is more than four thousand crore rupees

The second proviso provided that companies which have offered and allotted 10 % of each class of equity shares or debentures convertible into equity shares to public in terms of an offer document, shall increase the public shareholding to 25% by increasing it to the extent of at least 5% per annum beginning from the date of listing of the securities, in the manner specified by the SEBI.

The amendment also made it mandatory to make an application for listing in respect of all new issues of any class or kind of securities to be offered to the public and for all further issues of securities that are already listed on a recognized stock exchange.

**Rule 19A was inserted to provide the following:**

1) Every listed company shall maintain public shareholding of at least twenty five per cent. Any listed company which has public shareholding below twenty five percent, shall bring the public shareholding to twenty five percent by increasing its public shareholding to the extent of atleast five percent per annum.
2) Where the public shareholding in a listed company falls below 25% at any time, such company shall bring the public shareholding to 25% within a maximum period of 12 months from the date of such fall.

**Securities Contracts (Regulation) (Second Amendment) Rules, 2010**

**Amendments vide Notification dated August 09, 2010**

This amendment made further changes which are as under:

(a) In Rule 19(2)(b), the second proviso was substituted to provided that companies which has offered and allotted 10 % of each class of equity shares or debentures convertible into equity shares to public in terms of an offer document, shall increase its public shareholding to at least 25% within a period of 3 years from the date of listing of the securities,

(b) Clause (c) was inserted to provide that a public sector company ("public sector company" means a body corporate constituted by an Act of the Parliament or any State Legislature and includes a government company) shall offer and allot at least 10% of each class or kind of equity shares or debentures convertible into equity shares to public in terms of an offer document

(c) Public sector companies were excluded from the scope of Rule 19A

(d) Sub rule (1) of Rule 19A was amended as follows:

Every listed company shall maintain public shareholding of at least twenty five per cent. Any listed company which has public shareholding below twenty five percent, shall increase its public shareholding to at least 25% within a period of 3 years

(e) In Rule 19A, sub- rule (3) was inserted to provide that

i. Every listed public sector company shall maintain public shareholding of at least 10%.

ii. a listed public sector company has public shareholding below 10% on the date of commencement of this amendment shall increase its public shareholding to at least 10% within a period of 3 years from the date of such commencement

iii. a listed public sector company whose public shareholding reduces below 10% after the date of commencement of this amendment, shall increase its public shareholding to at least 10% within a period of 12 months from the date of such reduction

**SEBI (ISSUE OF CAPITAL AND DISCLOSURE REQUIREMENTS) REGULATIONS, 2009**

ICDR Regulations were amended twice during the previous year by enactment of the Third Amendment and the Fourth Amendment Regulations. The major changes made are as under:

**Amendments vide Notification dated 13th April, 2010**

**Change in definition of "Employee" in clause (m) of Reg 2**

The definition of employee has been made wider to include permanent and full-time employees of the holding company or subsidiary company or of that material associate(s) of the issuer whose financial statements are consolidated with the issuer's financial statements as per Accounting Standard 21.

**Lock-in provisions in case of exempted category of preferential allotment**

SEBI has restricted the lock-in provisions in case of exempted category of preferential allotment to allotments in terms of the rehabilitation scheme approved by the BIFR under the Sick Industrial Companies (Special Provisions) Act, 1985.

Thus, lock-in requirements shall not apply in case of issue of shares pursuant to a scheme approved by a High Court under section 391 to 394 of the Companies Act, 1956.

**Enlargement of Retail Individual Investors category in case of issue of IDR**

The allocation to Retail Individual Investors in case of issue of IDRs has been increased from 15 % to 30%.

**Employees Reservation**

SEBI has reduced the aggregate of employee reservation from ten percent to 5 percent of post issue capital of the company.

**Chapter XA inserted: Issue of Specified Securities by Small and Medium Enterprises**

SEBI has provided relief to small and medium companies from hefty compliances required for issue of shares to public by introducing **Chapter XA** and SME Exchange. The main provisions of the said Chapter are stated hereunder:

| | |
|---|---|
| **Applicability** | • Compulsory for issuer whose post-issue face value capital does not exceed ten crore rupees<br>• Optional for issuer, whose post issue face value capital is more than ten crore rupees and upto twenty five crore rupees |
| **Definition of SME Exchange** | A trading platform of a recognised stock exchange having nationwide trading terminals permitted by the Board to list the specified securities issued in accordance with this Chapter and includes a stock exchange granted recognition for this purpose but does not include the Main Board |
| **Issuer need not file draft prospectus with the Board** | The issuer shall file a copy of the offer document with the Board through a merchant banker, simultaneously with the filing of the prospectus with the SME exchange and the ROC or letter of offer with the SME Exchange and that the Board shall not issue any observation on the offer document. |
| **Underwriting** | The issue made under this Chapter shall be 100% underwritten. |
| **Minimum Application Value & Minimum number of Allottees** | To be stipulated in the offer document. However, the same shall not be less than one lakh rupees per application. Prospective allottees cannot be less than fifty. |
| **Migration to SME Exchange** | A listed issuer whose post-issue face value capital is less than 25 crore rupees may migrate its specified securities to SME exchange if its shareholders approve such migration by passing a special resolution to this effect and if such issuer fulfils the eligibility criteria for listing laid down by the SME exchange. |
| **Migration to Main Board** | Where the issuer's post issue face value capital is more than 10 crore and upto 25 crore, the issuer has an option to migrate its specified securities to Main Board if its shareholders approve such migration by passing a special resolution through postal ballot to this effect and if such issuer fulfils the eligibility criteria for listing laid down by the Main |

| | |
|---|---|
| | Board. |
| | Where the issuer's post issue face value capital is likely to increase beyond 25 crore rupees by virtue of any further issue of capital, the issuer shall migrate its specified securities listed on SME exchange to Main Board and seek listing of specified securities proposed to be issued on the Main Board subject to the fulfilment of the eligibility criteria for listing of specified securities laid down by the Main Board. |

**Amendments vide Notification dated 12th November, 2010**

**Change in definition of Retail Individual Investors**

In case of retail individual investors/shareholders, the amount of application or the monetary bid has been enhanced from one lakh rupees to two lakh rupees

**Addition to manner of making draft offer document public**

Reg 9(3) has been inserted to provide that the issuer either on the date of filing the draft offer document with the Board or on the next day shall make a public announcement in one English national daily newspaper with wide circulation, one Hindi national daily newspaper with wide circulation and one regional language newspaper with wide circulation at the place where the registered office of the issuer is situated, disclosing to the public the fact of filing of draft offer document with the Board and inviting the public to give their comments to the Board in respect of disclosures made in the draft offer document."

**Additional obligation for Merchant Banker**

The merchant bankers shall also be required to submit a compliance certificate in the prescribed format, for the period between the date of filing the draft offer document with the Board and the date of closure of the issue, in respect of news reports appearing in the newspapers, major business magazines and print and electronic media controlled by a media group where the media group has a private treaty/shareholders' agreement with the issuer or promoters of the issuer

**SEBI (SUBSTANTIAL ACQUISITION OF SHARES AND TAKEOVERS) REGULATIONS, 1997**

The major changes that have taken place since the last budget in SEBI (SAST) Regulations, 1997 are enumerated and explained as under:

**Amendments vide Circular dated April 13, 2010**

**Addition to the list of exemption in Regulation 3**

Amendment in Takeover Regulation was a consequential change that was made pursuant to inclusion of Chapter XA in the SEBI ICDR Regulations.

A merchant banker or nominated investor in the process of market making and subscription by the nominated investor to the unsubscribed portion of issue, in terms of Chapter XA of the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009 were exempted from applicability of Regulation 10 and 11 of the Takeover Regulations.

**Takeover Regulation Advisory Committee (TRAC) Report on Takeover Regulations**

The Takeover Regulations have been amended from time to time in response to events and developments in the marketplace, regulatory and judicial rulings as well as evolving global practices. However, to address the growing corporate restructuring by Indian companies, increasing level of M&A activity in India, the increasing sophistication of takeover market, the decade-long regulatory experience and various judicial pronouncements, SEBI, vide its order dated September 4, 2009, constituted the Takeover Regulations Advisory Committee under the Chairmanship of Mr. C. Achuthan with the mandate to examine and review the Takeover Regulations of 1997.

The TRAC submitted its Report to SEBI on 19th July 2010 which was open for public comments upto 31st August 2010. The same is under consideration of the concerned Ministry and we look forward to it with the hopes and aspiration of having a more comprehensive takeover regime in India.

**LISTING AGREEMENT**

The major changes that have taken place since the last budget in the Listing Agreement are enumerated and explained as under:

**Significant amendment in Clause 24, 41 and 49 of the Listing Agreement**

**Circular No. CIR/CFD/DIL/1/2010 dated April 05, 2010**

SEBI notified amendments to the Equity Listing Agreement as part of a review of the extant policies of disclosure requirements for listed entities and also to bring more transparency and efficiency in the governance of listed entities. Main features of the said notification are discussed below:

| Clause No. | Subject matter of Amendment |
|---|---|
| **Clause 24** | SEBI has brought in an additional requirement of submitting auditors' certificate while submitting the scheme of amalgamation / merger / |

| | |
|---|---|
| | reconstruction, etc. (schemes) to the stock exchanges under clause 24(f) of the Equity Listing Agreement to the effect that the accounting treatment contained in such schemes is in compliance with all the applicable Accounting Standards. |
| **Clause 41** | • Timelines for submission and publication of financial results by listed entities have been amended to provide that quarterly (audited or un-audited with limited review) financial results shall be submitted within 45 days of the end of every quarter.<br>• Audited annual results on stand-alone as well as consolidated basis, shall be disclosed within 60 days from the end of the financial year for those entities which opt to submit their annual audited results in lieu of the last quarter unaudited financial results with limited review.<br>• Clause 41(I) (g) has been inserted to provide for Voluntary adoption of International Financial Reporting Standards (IFRS) by listed entities having subsidiaries.<br>• Clause 41(1) (h) has been inserted which requires a valid peer review certificate for statutory auditors.<br>• Clause 41(V) (h) and Annexure IX have been inserted which require disclosure of statement of assets and liabilities in the specified format within forty-five days from the end of the half-year as a note to their half-yearly financial results. |
| **Clause 49** | The appointment of the CFO shall now be required to be approved by the Audit Committee before finalization of the same by the management. The Audit Committee, while approving the appointment, shall assess the qualifications, experience & background etc. of the candidate. |

**Discontinuation of Electronic Data Information Filing and Retrieval (EDIFAR) System.**

**Circular No. CIR/CFD/DCR/3/2010 dated April 16, 2010**

SEBI discontinued the EDIFAR system w.e.f from April 1, 2010. Consequently, the Equity Listing Agreement was amended by removal of words, "and also through the EDIFAR website" from Clause 32 and omission of Clause 51

**Making Annual Reports of Listed Companies easily accessible**

**Circular No. Cir/ CFD /DCR/5 /2010 dated May 07, 2010**

By this Circular, all Stock Exchanges were advised to make the Annual Reports for the financial year 2009-10 onwards, submitted to Stock Exchange as per Clause 31 of Equity Listing Agreement, available on their respective websites.

**Conditions of listing for issuers seeking listing on SME Exchange - Model SME Equity Listing Agreement**

**CIR/CFD/DIL/6/2010 dated May 17, 2010**

In continuation of inclusion of Chapter XA in the ICDR Regulations and to facilitate listing of specified securities in the SME exchange, "Model Equity Listing Agreement" to be executed between the issuer and the Stock Exchange, to list/migrate the specified securities on SME Exchange, was notified through this circular.

**Significant amendment made to the Listing Agreement**

**Circular No. CIR/CFD/DIL/10/2010 dated 16th December 2010**

SEBI notified amendments to the Equity Listing Agreement with respect to various disclosures to be made by listed companies with an objective to streamline the disclosures made by listed companies with the ever increasing need of transparency and public interest. Main features of the said notification are discussed below:

| **Clause No.** | **Subject matter of Amendment** |
|---|---|
| Clause 5A | The procedure contained in existing Clause 5A has also been made applicable to shares issued in physical form. Prior to this, it only resolved the practical difficulties of companies which have issued shares in electronic mode and which remained unclaimed and lying in the escrow account. |
| Clause 20 and 22 | In order to enable investors to manage their cash/securities flow efficiently, Listed Companies shall pre-announce and intimate to the stock exchange, the fixed date for payment of dividends and credit of bonus shares. Consequential changes have been made in Clause 21. |

| | |
|---|---|
| clause 35 | In addition to disclosing the shareholding pattern to the Stock Exchanges within 21 days from the end of each quarter, the same has to be disclosed on two more occasions:<br>i. One day prior to listing of its securities on the stock exchanges<br>ii. Within 10 days of any capital restructuring of the company resulting in a change exceeding +/-2% of the total paid-up share capital<br>The formats for making disclosure under Clause 35 have also been amended. |
| Substitution of Clause 40A | Clause 40A has been substituted to include the following:<br>i. The issuer company agrees to comply with the requirements specified in Rule 19(2) and Rule 19A of the Securities Contracts (Regulation) Rules, 1957.<br>ii. Where the issuer company is required to achieve the minimum level of public shareholding specified in Rule 19(2)(b) and/or Rule 19A of the Securities Contracts (Regulation) Rules, 1957, it shall adopt any of the following methods to raise the public shareholding to the required level:-<br>a. issuance of shares to public through prospectus; or<br>b. offer for sale of shares held by promoters to public through prospectus; or<br>c. sale of shares held by promoters through the secondary market.<br>Provided that for the purpose of adopting the method specified at sub-clause (c) above, the issuer company agrees to take prior approval of the Specified Stock Exchange (SSE) which may impose such conditions as it deems fit. |
| Insertion of Clause 53 | The disclosure norms have been extended to cover agreements made with media companies and/or their associates. The issuer company has to notify the stock exchange and also disseminate certain prescribed information on the same through its own website |
| Insertion of Clause 53 | It has been made mandatory for the issuer company to maintain a functional website for disseminating basic information about the company. The website shall remain updated at any given point of time. |

**THE COMPANIES ACT, 1956**

The major amendments which have taken place since the last budget in the Companies Act, 1956 are as under:

**Amnesty Schemes Introduced by MCA: Company Law Settlement Scheme, 2010**

**General Circular No. 1 /2010 dated 26th May 2010**
Company Law Settlement Scheme has been issued by the Ministry to give an opportunity to the defaulting companies to enable them to make their default good by filing belated documents and become a regular compliant by

- condoning the delay in filing documents with the Registrar,
- granting immunity from prosecution
- charging additional fee of 25 % of actual additional fee payable for filing belated documents

The Scheme remained in effect for a period of three months from 30$^{th}$ May 2010 to 31$^{st}$ August 2010

**Amnesty Schemes Introduced by MCA: Easy Exit Scheme, 2010**

**General Circular No. 2 /2010 dated 26th May 2010**
The MCA has introduced Easy Exit Scheme to give an opportunity to the defunct companies to get their name strike off from the Register of Companies under section 560 of the Companies Act, 1956. Eligible companies may after complying with the requirements of the Scheme, exit from the Register of Companies.

The Scheme remained in effect for a period of three months from 30th May 2010 to 31st August 2010

**Modification for Government Companies in EES 2010**

**General Circular No. 3 /2010 dated 10th August 2010**
For smooth implementation of Easy Exit Schemes in case of Government Companies, the MCA decided that if no Board is in existence, an officer not below the rank of Deputy Secretary of the concerned administrative Ministry may be authorized to enter his name and other details in place of directors and sign the relevant documents

**Revision in additional fee to be levied for delays in filing forms**

**General Circular No. 4 /2010 dated 22nd November 2010**
Almost after fifteen years, the MCA revised the additional fees to be charged on delayed filing of forms by the corporate, thereby making the negligence on the part of corporate really expensive for them.

| Period of delay | Fixed rate of additional fee |
|---|---|
| Upto 30 days | Two times of normal fee |
| More than 30 days and upto 60 days | Four times of normal fee |
| More than 60 days and upto 90 days | Six times of normal filing fee |
| More than 90 days | Nine times of normal filing fee |

**Reopening/ revision of annual accounts after their adoption**

**General Circular No. 5 /2010 dated 22nd November 2010**

The Ministry instructed Registrar of Companies to keep a check on revised filing of accounts by the companies. The financial statements of the company once approved by the shareholders at the Annual General Meeting cannot be normally revised except in exceptional circumstances mentioned in the Ministry's Circular Number 1/2003 (F. No. 17/75/2002) dated 13.01.2003.

Companies, were thus being made cautious so as to ensure that correct set of accounts are uploaded in the MCA site to avoid any inconvenience.

**Re-introduction of Easy Exit Scheme 2010**

**General Circular No. 6 /2010 dated 3rd December 2010**

This Scheme was re-introduced as Easy Exit Scheme 2011 by the Ministry to give an opportunity to all those who missed the chance of closing down their inoperative companies without going into the long drawn hassles of winding up procedures during June- August Easy Exit Scheme 2010.

The major difference with the 2010 Scheme was that while there was no fees to apply under 2010 Scheme, a company applying under 2011 Scheme was required to pay a fees of Rs. 3,000/-.

The Scheme came into force on the 1st January 2011 and remained in force up to 31st January 2011.

**Rectification in Approved Forms 1, 1A and 44 made possible**

**Notification No. G.S.R. 177(E)- 5.03.2010**

MCA for the first time provided scope for rectification in forms which were already approved by the online systems.

A new e-Form 68 was notified by way of Rule no. 20G for making an application for rectification of mistakes made while filing e-Form 1, e-Form 1A and e-Form 44 electronically on the Ministry's website. The application for rectification was possible within 365 days from the date of approval of respective form.

Note that e-Form 1 was for the purpose of making 'Application or declaration for incorporation of a company', e-Form 1A for 'Application for availability or change of a name' and e-Form 44 is filed for 'Documents delivered for registration by a foreign company'.

**Easy Exit Scheme 2011**

**General Circular 1/ 2011 dated 3rd February 2011**

The Ministry extended the time for availing Easy Exit Scheme introduced by General Circular No. 6 /2010 dated 3rd December 2010 by a period of three months, i.e., upto 30th April 2011.

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| **Direction under Section 212(8) of the Companies Act, 1956** | **General Circular 2/ 2011 dated 8th February 2011**<br><br>In terms of the section 212, companies were required to attach Annual Report of subsidiaries with the Annual Report of the holding company. The Central Government however was empowered, on application, to direct that in relation to any subsidiary, the provisions of this section shall not apply, or shall apply only to such extent as may be specified in the direction.<br><br>The Ministry has granted general exemption to all companies having subsidiaries from complying with the provision of section 212 of the Companies Act. By the present circular, the MCA has granted general exemption to companies in this respect subject to complying with the conditions mentioned therein. |
| **Exemption under section 211 of the Companies Act, 1956 for Public Financial Institutions** | **Notification No. S.O. 300 (E) dated 8th February 2011**<br><br>By this Circular, MCA granted exemption to Public Financial Institutions as specified under section 4A of the Companies Act, 1956 from disclosing Investments as required under paragraph (1) of Note (1) of Part-I of Schedule VI in their balance sheet subject to fulfillment of the certain conditions mentioned therein. |
| **Exemption under section 211 of the Companies Act, 1956 to certain class of companies** | **Notification No. S.O. 301 (E) dated 8th February 2011**<br><br>Section 211 of the Companies Act, 1956 requires that the balance sheet and profit and loss account of a company shall be in the form set out in Part I of Schedule VI or in such other form as may be approved by the Central Government either generally or in any particular case. However, considering the need to align the disclosure requirements of our country with those of foreign companies and to generate competitive advantage to Indian corporate, MCA granted general exemption to the certain categories of companies like Companies producing Defence Equipments including Space Research, Export Oriented company, Shipping companies, Hotel companies, Manufacturing companies and Trading Companies from compliance with the disclosures requirement of Part II of Schedule VI as specified in the said Circular. |
| **Amendment to Schedule XIII to the Companies Act, 1956** | **Notification No. G.S.R. 70(E) dated 8th February 2011**<br><br>Public limited companies (listed and unlisted) with no profits/ inadequate profits were required to approach the Ministry for approval in cases where the remuneration of Directors/ equivalent managerial personnel exceeds certain limits. In the light of the evolving economic and regulatory environment, MCA has notified that:<br>• Unlisted companies (which are not subsidiaries of listed companies) shall not require Government approval for managerial remuneration in cases where they have no profits/ inadequate profits, provided they meet the other conditions stipulated in the Schedule.<br>• Remuneration Committee has been defined to mean:<br>    o In case of listed companies, consisting of three non-executive independent directors<br>    o In case of any other company, a Remuneration Committee of Directors. |
| | **FOREIGN DIRECT INVESTMENT** |
| **Transfer of Shares/Preference shares / Convertible debentures by way of sale** | Transfer by Resident to Non-Resident such as to a foreign national NRI, FII and incorporated nonresident entity other than erstwhile OCB.<br><br>**Transfer of Shares by way of sale, by Resident to Non-Resident**<br><br>**For Quoted shares** shall be at a price not less than the price at which a preferential allotment of shares can be made under SEBI guidelines.<br><br>**For Unquoted Shares** shall be at a price not less than the fair value to be determined by a SEBI registered category I Merchant Banker or a Chartered Accountant.<br><br>For transfer by Non Resident to a Resident, the transfer price of shares shall not be more than the minimum price at which the transfer of shares can be made from a Resident to a Non Resident as stated above |

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| **Reporting under Foreign Direct Investment (FDI) Scheme (RBI/2010-11/199 A P Circular no 13 Dated 14 September 2010)** | Indian companies are required to report, the details of the amount of consideration received for issue of FDI instruments, viz. equity shares, fully and mandatorily convertible preference shares and debentures under the FDI scheme, in the Advance Reporting Format along with the KYC report on the non-resident investor, to the Regional Office of the Reserve Bank in whose jurisdiction the Registered Office of the company operates, within 30 days of receipt of the amount of consideration. Further, the Indian company is required to issue the FDI instruments to the non-resident investor within 180 days of the receipt of the inward remittance and report the same in Form FC-GPR, to the Regional Office concerned of the Reserve Bank, within 30 days from the date of issue of shares. |
| | **FOREIGN EXCHANGE MANAGEMENT ACT (FEMA)**<br>**External Commercial Borrowings (ECB) Policy** |
| **Take-out Finance** | Refinancing of domestic Rupee loans with ECB is not permitted under existing guidelines. It has been decided to permit take out financing arrangement through ECB under approval route for refinancing of Rupee loans availed from the domestic banks by eligible borrowers in the sectors like sea port and airport, roads including bridges and power sectors for the development of new projects, subject to the conditions. |
| **Liberalization** | At present, entities in the services sectors viz., Hotels, Hospitals and Software are allowed to avail of ECB up to USD 100 million per financial year under the Automatic Route, for foreign currency and/or Rupee capital expenditure for permissible end-uses. It has now been decided that entities in the above sectors can avail ECB beyond 100 million under approval route for the permissible end use. This modification will come in to force with immediate effect. |
| **Lending to infrastructure sector** | Infrastructure Finance Companies (IFCs) have been permitted to avail of ECBs for on-lending to the infrastructure sector, as defined in the extant ECB policy, under the approval route. It has now been decided to permit the IFCs to avail of ECBs, including the outstanding ECBs, up to 50 per cent of their owned funds under the automatic route. ECBs by IFCs above 50 per cent of their owned funds would require the approval of the Reserve Bank and will, therefore, be considered under the approval route. |
| | **Export of Goods** |
| **Export of Goods and Software – Realisation and Repatriation of export proceeds – Liberalisation** | The period of realization and repatriation of export proceeds to India of goods and software export increased from six months to twelve months subject to review after one year as per RBI circular dated June 30 2009. It has been decided upon review to extend the above relaxation up to 31st March 2011. Other terms and conditions remaining unchanged. |
| **Export of Goods and Services - Unrealised export bills – Write-off - Surrender of export incentives** | Banks are now permitted to accede to request of write off from the exporter provided that they surrender proportionate amount of export incentive received by them relating to export not made. The above relaxation is applicable for the exports made with effect from August 27, 2009. Accordingly, banks are advised not to insist on the surrender of the proportionate export incentives, other than under the Duty Drawback scheme. |
| | **Currency Futures (Reserve Bank) Directions, 2008** |
| **Guidelines on trading of Currency Options on Recognized Stock / New Exchanges** | Persons resident in India were permitted to participate in the currency futures market in India subject to directions contained in the Currency Futures (Reserve Bank) Directions, 2008.<br><br>It has been decided to permit trading of currency options on spot USD-INR rate in the currency derivatives segment of the stock exchanges, recognized by SEBI as per directions, guidelines, etc issued by the RBI and the SEBI from time to time. Persons resident in India are permitted to participate in the currency options market. |
| | **Foreign Currency Convertible Bonds (FCCBS)** |
| **Buyback / Prepayment** | Indian companies were allowed to buyback their Foreign Currency Convertible Bonds (FCCBs) under the approval route, up to June 30, 2010, which is now extended up to 30.06.2011subject to the issuers complying with all the terms and conditions of buyback/ prepayment of FCCBs. |
| | **Others** |

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| **Overseas Investments - Liberalisation** | Indian entities are permitted to invest in overseas unincorporated entities in the oil sector, up to 400 per cent of the net worth of the Indian company, under the automatic route.<br><br>As a measure of further liberalisation, it has now been decided, to allow Indian companies to participate in a consortium with other international operators to construct and maintain submarine cable systems on co-ownership basis under the automatic route. Accordingly, banks may allow remittances by Indian companies for overseas direct investment subject to compliance of terms and conditions. |
| **Foreign Exchange Management Act (FEMA), 1999 - Current Account Transactions – Liberalisation** | Authorised Dealer Banks may permit drawal of foreign exchange by persons for payment of royalty and lump-sum payment under technical collaboration agreements without the approval of Ministry of Commerce and Industry, Government of India. |
| **Release of Foreign Exchange for Visits Abroad – Currency Component** | Authorised Dealers and Full Fledged Money Changers are permitted to sell foreign exchange in the form of foreign currency notes and coins, up to USD 2,000 or its equivalent, to the travellers proceeding to countries other than Iraq, Libya, Islamic Republic of Iran, Russian Federation and other Republics of Commonwealth of Independent States. The existing limits of USD 2,000 now been increased to USD 3000. The other terms and conditions remaining unchanged. |
| | **BANKING SECTOR** |
| **Mobile Branches and Mobile ATMs** | General permission has been granted to domestic scheduled commercial banks (other than RRBs) to operationalise Mobile branches in Tier 3 to Tier 6 centres (with population upto 49,999 as per Census 2001) and in rural, semi urban and urban centres in the North Eastern States and Sikkim |
| **Date of Return has to be mentioned in the Cheque Return Memo** | Banks shall have to indicate the date of return in the Cheque Return Memo that accompanies a cheque dishonoured / returned |
| **Repayment of Gold Loan** | It has been decided to permit bullet repayment of gold loans up to Rupees one lakh and for a period not exceeding 12 months |
| | **INCOME TAX ACT** |
| **Tax Deduction at Source on payment of interest on time deposits under Section 194A of the Income Tax Act, 1961 by banks following Core-Branch Banking Solutions (CBS) software** | It is clarified that since no constructive credit to the depositor's / payee's account takes place while calculating interest on time deposits on daily or monthly basis in the CBS software used by banks, tax need not be deducted at source on such provisioning of interest by banks for the purposes of macro monitoring only. In such cases, tax shall be deducted at source on accrual of interest at the end of financial year or at periodic intervals as per practice of the bank or as per the depositor's / payee's requirement or on maturity or on encashment of time deposits; whichever event takes place earlier; whenever the aggregate of amounts of interest income credited or paid or likely to be credited or paid during the financial year by the banks exceeds the limits specified in section 194A.<br><br>[source: circular No. 3/2010 dated 2-3-2010] |
| **Widening of existing roads constitutes creation of new infrastructure facility for the purpose of Section 80IA (4)(i) of the Income Tax Act, 1961.** | It has been clarified that widening of an existing road by constructing additional lanes as a part of a highway project by an undertaking would be regarded as a new infrastructure facility for the purpose of Section 80IA (4)(i). However, simply relaying of an existing road would not be classifiable as a new infrastructure facility for this purpose.<br><br>[source: circular No. 4/2010 dated 18-5-2010] |
| **Clarification regarding eligibility of deduction under section 80P to Regional Rural Banks** | It has been again clarified that Regional Rural Banks are not eligible for deduction under section 80P of the Income-tax Act, 1961 from the assessment year 2007-08 onwards<br><br>[source: circular No. 6/2010 dated 20-9-2010] |
| **Clarification regarding period of validity of approvals issued under section 10(23C)(iv), (v), (vi) or (via) and section 80G(5) of the Income-tax Act** | To remove doubts in regard to the period of validity, it has been clarified that any approval under section 80G (5) on or after 1-10-2009 would be a onetime approval which would be valid till it is withdrawn.<br><br>[source: circular No.7/2010 dated 27-10-2010] |

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