

WHAT IT MEANS FOR...

TAXPAYER

- Personal tax liability goes down across the board. Those with annual taxable income of Rs 5 lakh will save Rs 20,600 a year
- Tax-exempt saving limit goes up to Rs 1.2 lakh from Rs 1 lakh through additional Rs 20,000 for infrastructure bonds
- Professionals earning up to Rs 15 lakh won't need to have their accounts audited

PAGE 11

CONSUMER

- Chips, fridges, cars... all to become dearer if producers pass on the 2% cess hike.
- Petrol and diesel prices rise; petrol up Rs 2.67 a litre, diesel Rs 2.58 a litre. Could rise further
- Carmakers up prices. Buyers need to stump up Rs 3,000 - Rs 1 lakh more



- Gold prices to go up by Rs 100 for every 10 gm
- Income-tax payers are more than compensated, but not other consumers

PAGE 10

INVESTOR

- Stepped-up disinvestment drive will mean more listings of state-owned firms, widening choice for investors

UNION BUDGET 2010-2011: CRISIS OVER, PRANAB GOES FOR GROWTH

FISCAL CONSOLIDATION BACK ON TRACK

Exit from stimulus begins; lower net government borrowings to ease pressure on interest rates

ROAD MAP TO GOODS AND SERVICES TAX

Cenvat rate hiked to 10% & aligned with service tax rates, more services under tax net

MORE TAX FOR LESS, LESS FOR MORE

Corporate surcharge cut to 7.5% from 10%, but MAT rate rises to 18% from 15%

DISINVESTMENT GETS BIGGER

Govt eyes Rs 40,000 crore from divestment, another Rs 35,000 crore from spectrum sale



WHEN ET APPROACHED INDIA'S legendary artist Syed Haider Raza to sketch his India 2020 vision for this year's Budget Edition, he readily agreed. Raza created for us a masterpiece of high hope. The jagged strokes in it, he says, are the furious down-and-up movements of the Sensex: the swiftness of its rise outpacing its turbulent fall. The Bindu, Raza's tour de force, is symbolised by the rising sun, a glorious manifestation of its vital conquering force, of its victory over the many enervating elements of the world economy. ET dedicates Raza's masterwork and the whole Budget Edition to India and its elemental entrepreneurial spirit.

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What A Middle-Class Act!

Fiscal Health Gets A Booster Shot

SWAMINATHAN S ANKLESARIA AIYAR



ET
comment

growth. This very optimistic scenario assumes that the global economy will not slow down. If it does, all bets on deficit reduction are off.

The surcharge on corporate tax has been cut from 10% to 7.5% while the minimum alternative tax (MAT) has been raised from 15% to 18%. This will raise the overall effective tax rate. The tax break for software parks has not been extended, so the likes of TCS will now be

MARKET CHEER

Finally, St
Breaks
B-Day Jinx

attractive prices

India becomes a more appealing investment story; valuations to rise

New investment avenue in the form of tax-free infrastructure bonds

PAGES 2, 3, 4, 5, 6, 7, 8, 9

BUSINESS

Lower government borrowings will ensure funds are available to the private sector at reasonable rates

Bulk transport costs to rise as rail freight is brought into the service tax net

Compliance for small businesses with turnover under Rs 60 lakh to be easier

PAGES 16, 17, 18, 19

ECONOMY

More money in taxpayers' hands and higher allocation for govt programmes to boost consumption and growth

More private funds for infrastructure through bonds eligible for tax deductions

New banking licences to encourage competition and help financial inclusion

Fiscal prudence road map to boost investor confidence in economy and encourage investment

PAGES 14, 15



ARTIST AVA NAGPOREWALLA • CLASS IX
• SCHOOL BAF PETIT, MUMBAI

WITH RAZA—APPEARING FOR THE FIRST TIME IN A NEWSPAPER globally—as our inspiration, ET's Budget Edition on Vision 2020 is brought to you by those who'll steer the country's fortunes a decade later. Our illustrators fanned out to schools across the country and worked with kids barely in their teens. For the participants, it was an exhilarating experience; for us, a humbling one. Meet the prodigies down the pages...

GUEST WRITERS

MADHU KELA • M J AKBAR • NILESH SHAH • NIRMAL JAIN • UDAY KOTAK • VALLABH BHANSHALI • YASHWANT SINHA • SITARAM YECHURY

I-T's A Special Stimulus: Everyone's Getting Richer

Tina Edwin
NEW DELHI

FINANCE MINISTER PRANAB Mukherjee sprang a pleasant surprise on personal income-tax payers, lightening by Rs 20,600 the tax burden for those with an annual income of Rs 5 lakh and a saving of as much as Rs 51,500 for individuals earning Rs 8 lakh.

For individuals hurting from a sharp spike in prices, the concession should compensate for the anticipated increase in the cost of living after he raised the excise duty rate, expanded the ambit of service tax, and increased the prices of petroleum products.

The relief is a direct fallout of a re-jig in tax slabs (see chart). Concessions that were available to women and senior citizens will continue. The tax burden for women will be Rs 3,000 lower than for men while that for senior citizens Rs 8,000 less. Income-tax slabs were last changed in 2008-09, and with the latest propos-

al, the government appears to be making a gradual attempt to align the slabs with those recommended in the draft Direct Taxes Code. Of course, it is a long way before the income-tax slab for the 10% rate is widened to Rs 10 lakh.

"The widening of the slabs is a reward to the missing middle for better compliance," observed Kaushik Mukherjee, executive director at PricewaterhouseCoopers. He added that the introduction of a simplified Saral form for tax re-

turns along with lower tax liability should improve compliance levels among individuals.

The introduction of infrastructure bonds, with a separate ceiling of Rs 20,000 outside Section 80C deductions, will also increase investment avenues for individuals. As a result, an individual can claim deduction of up to Rs 1.20 lakh from next year instead of Rs 1 lakh now.

The bad news is that the education cess of 3% will continue for another year, at least.

CORNER ROOM



MUKESH AMBANI



SUNIL MITTAL



NARAYANA MURTHY



AZIM PREMJI



KUMAR BIRLA



MARK MOBIUS

spending is up 15%, a desirable trend change.

The middle class will be angry with the rise in petrol and diesel prices, and Mr Mukherjee has sought to mollify it with a widening of income-tax slabs, which will provide some relief. But inflation remains a major concern, and the budget hope that inflation will fall to 4% over the next year is a triumph of hope over experience.

SENSEX



THE STOCK MARKET witnessed a rare Budget rally—the first time in four years—boosted by the government's pledge to cut fiscal deficit, but concerns about rising inflation, and with it interest rates, tempered the mood.

Prices of government bonds also rose, before easing amid inflation worries.

ICI Bank, RIL and SBI led the benchmark SENSEX to close 1.1% higher at 16,429.55 points, off the day's high of 16,669.25. ITC fell the most.

The 10-year bond yield edged up to 7.86% at the end of the day from 7.83% on Thursday, after hitting an intra-day low of 7.77%.

Ratings agencies were pleased, with Moody's Investor Services saying it may "countenance" an increase in India's local currency rating if the government kept its pledge on deficit.

STEPPING ON THE SLABS

TAX RATE	NEW TAX SLABS	INCOME	TAX SAVING
Exempt income	1,60,000	Rs 4 lakh	Rs 10300
10%	1,60,001 - 5,00,000	Rs 5 lakh	Rs 20600
20%	5,00,001 - 8,00,000	Rs 7 lakh	Rs 41200
30%	8,00,001 and above	Rs 10 lakh	Rs 51500

Income up to Rs 1.9 lakh and Rs 2.4 lakh exempt in the case of women and senior citizens, respectively. Assuming full 80C deductions (Figures in Rs)

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IMPACT ON MARKETS Investor

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ASCENT OF MONEY
ON D-STREET

16%

Average annual returns
on stocks since 1991;
Sensex rose from about
1,000 pts in January '91 to
17,478 by 2009-end

THE STORY SO FAR

Trillion-Dollar Club

THE Indian equity market rejoined the league of bourses, boasting of over \$1 trillion in market capitalisation in 2010. India is the 9th-largest market with an m-cap of \$1,238 trillion, up from 22nd place in 2000. Around 11% of the total companies listed across the globe are from the Bombay Stock Exchange, which is currently the No. 1 bourse in terms of company listings — 4,962 firms at last count.

Two-Day Trade

FOLLOWING the stock market scam of 2001, the regulator decided to clamp down on carry-forward trades. *Badla* was banned in 2002, and other mechanisms like ALBM and BLESS were scrapped shortly after. The weekly system of settlement of trades was phased out and the market moved to a T+2 system. The transition was smoother than what most market watchers had expected.

The Game-Changer



Three cheers to reforms

Opening up the stock market to foreign investments in 1993, setting up of NSE in 1995 to rival BSE and introduction of demat shares in 1996 have been three turning points in the history of Indian markets. Arrival of foreign investors improved liquidity, demat eliminated the fear of bad deliveries, and NSE sparked a free fall in brokerage rates and improved services.



• **Growth of FII:** From annual net inflows of a couple of hundred million dollars in the mid-90s,

foreign institutional investors are now the trend-setters on the Indian bourses and have pumped

- High net worth individuals can no longer escape tax net by becoming NRIs
- Bullion over Rs 50,000 received as gift from 'friends' will be taxed

- Vijaya, Uco, Central and United Bank to gain from Rs 16,500-crore capital infusion
- Govt banks' NPAs to dip as farmers get more time to repay loans, SBI to gain most

Pranabda hits bull's eye

NEW BANKS WILL SET UP SHOP, MORE PSUs WILL LIST, 2011 WILL SEE A NEW TAX CODE AND THERE'LL BE MORE MONEY IN THE HANDS OF INVESTORS... INFLATION'S THE LAST THING ON DALAL STREET'S MIND



ARTIST ISHMITA LOONA • CLASS VIII • SCHOOL ST THOMAS' SCHOOL, DELHI
BSE, Asia's oldest stock market, now figures in the desktop screens of investment managers across the world together with the young NSE, thanks to The India Story.

ET
comment

SHAJI VIKRAMAN

TINA may swing it in India's favour

IT WAS LIKE A CANDY FOR a crying kid. When Dalal St was worried about a steep rise in taxes, it turned out to be moderate. When most feared fiscal deficit could jump, it fell. Partly because Pranab *babu*, unlike some of his predecessors, is viewed by the Street as more of an old-world purist — someone who does not exceed his brief. In the event, Mr Mukherjee surprised a bit on the upside — especially on fiscal consolidation and potential game-changing fiscal laws such as GST and the direct tax code. It is true that markets are driven by sentiment — but increasingly, its constituents recognise that many critical reforms

WHAT IT MEANS FOR THE INVESTOR

\$12-14 billion, nearly three times the cash-market average. In a sign of a maturing market, incremental volumes are coming from transactions in options contracts. This reduces systemic risk, as it was the huge build-up in index and stock futures and their subsequent unwinding, that aggravated the crash in January '08.

in a net \$15 billion-plus in two of the past three calendar years.

● **MF Matures:** From a few thousand crores in the '90s, domestic mutual funds now manage roughly Rs 8 lakh crore of assets. Nearly 75% of that money is institutional, but a rising number of retail investors now see MFs as their preferred vehicle for equity investments.

and the way forward...



OP BHATT
CHAIRMAN, STATE BANK OF INDIA

India Inc can rest assured that interest rates will not rise in a hurry. The govt's market borrowing in FY11 can be managed comfortably without impacting liquidity

INFRA BONDS ANY TAKER?

● Infrastructure bonds are not great products with interest as low as 5.5-6% and money locked in for 5-10 years. But that's the only option to save more than Rs 1 lakh by way of tax if you don't have a housing loan (which entitles you to Rs 1.5 lakh more). If you have an extra Rs 20,000, go for it.

SERVICE TAX TO HIT HOME BUYERS

● Service tax will be charged if the builder does not produce the 'completion certificate'. Booking a Rs 1-crore apartment before it's 'complete', will mean a Rs 3-lakh tax over and above the value-added tax (VAT) collected by states. Genuine home buyers should insist on the certificate.

E-LOAN DATA REGISTRY TO CURB FRAUD

● A new electronic registry to store title and borrower details will curb home-loan frauds. When a bank processes a home loan, it can find out whether the title deed is clear and no other lender has a claim on it.

LESS GOVT BORROWING FINE FOR DEBT

● No pressure to hike interest rates. Short-term plans (with 1-2-year maturity) look good for a 6-month investment since bond prices may rise, post March. Income funds may give decent returns if the govt does not front load its borrowing.

TAX REJIG TO RAISE ULIP RETURNS

● Service tax on charges levied by life insurers on Ulip investors has been reworked. Returns will rise a little as more money out of premium gets invested. Property and overseas mediclaim premium may rise due to service tax on non-life insurance companies.

SERVICE TAX ON MEDICLAIM PREMIUM

● Service tax on health claims will be settled by insurers directly with hospitals. Insurers will recover the money from policyholders. Health insurance costs may rise if insurers are not allowed to offset the tax against service tax on premium.

are undertaken outside the Budget. What may keep the market going this year are better prospects of corporate earnings, higher private investment and perhaps, allocation of more money from overseas investors who are desperate for higher returns. On a valuation basis, the Indian market may appear expensive, but investors are sceptical on Russia and China. If the world economy does recover slowly, the TINA factor may come into play. Indian stocks may then be more fancied. Structural shifts in the form of stronger local institutional investors should also help. The show-spoilers could, however, be inflation, slippages in divestment and stodgy handling of the fisc.

It may be rush hour on Bank St, but entry is still by invitation

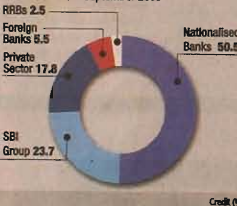
IN FOCUS

Cos planning to enter the banking space

- Religare ● Shriram Group ● Birla Group
- Anil Ambani Group ● Bajaj Group

SHARE OF CREDIT

September 2009



INDIA'S CENTRAL BANK indicated on Friday afternoon that it had no intention of easing its norms barring companies from setting up banks, hours after finance minister Pranab Mukherjee raised hopes of corporate houses such as Aditya Birla and the Anil Dhirubhai Ambani Group by referring to the possibility of RBI issuing new banking licences.

In his Budget speech, the finance minister proclaimed that Reserve Bank of India (RBI) is "considering" issuing licences to set up new banks to "private sector players" and non-banking finance companies, or NBFCs. The FM never referred to corporate houses in his speech, but shares of companies such as Reliance Capital, part of ADAG, as well as NBFCs such as Religare shot up on hopes that they would be eligible for the coveted banking licence.

RBI last issued licences to private banks way back in 2002 to Kotak Mahindra Bank and Rabo Bank. These banks became operational a couple of years later. For over a

decade, there has been pressure on the banking regulator and the government to open up banking to private players, but policy makers have so far managed to resist such pressure. An expert committee headed by former RBI deputy governor SS Tarapore had made a case for granting banking licences to corporate firms. The Raghuram Rajan Committee, too, had pitched for licences for private players for setting up local area banks.

Kumar Mangalam Birla, the head of the Aditya Birla Group, told ET NOW that he was very keen on setting up a bank. Ajay Srinivasan, CEO, financial services, Aditya Birla Group, said the group will apply for a licence. "The Aditya Birla Group is confident that we will meet any eligibility criteria that might be set," Mr Srinivasan added. But just two hours after the finance minister's speech, Corporate India's ambitions were tempered as RBI made it clear that its formidable entry barriers for those wanting to enter banking remain. Deputy governor Usha

Tharot told reporters that basic principles of governance will not be compromised. "The basic principles of ownership and governance will remain unchanged. They are sacrosanct. All the principles of ownership and governance will be taken into account while evolving the new guidelines," she said.

She added that RBI will review applications only after the new guidelines are unveiled. She, however, did not give a timeframe for this nor did she refer explicitly to corporate houses. Present norms do not allow any single entity or group of related entities to hold over 10% in a private bank, a rule used to keep at bay groups like the Tatas and Birlas which have banking ambitions.

Bankers said RBI is likely to increase the minimum net worth requirement for new banks from Rs 300 crore at present to over Rs 500 crore. But this is unlikely to be a deterrent as most potential entrants are likely to stump up cash.

GEORGE SMITH ALEXANDER

Economy can live with moderate duty hikes



By Invite

UDAY KOTAK
VC & MD
KOTAK MAHINDRA BANK

BUDGET 2010 REFLECTS THE VISION OF the government to move towards a 9% GDP growth with a clear focus on inclusion. The finance minister was also candid to highlight the weaknesses in the public delivery system and, therefore, clearly reposed faith in the entrepreneurship of the private sector. The plan towards fiscal consolidation will be a very positive structural development for the economy. Also, the vision of the government becoming an enabler for economic growth is very progressive.

The key thrust sectors for growth are: agriculture, infrastructure and the financial sector. I was particularly enthused by the FM's confidence in expanding the role of the private sector in Indian financial services. The country's financial sector has demonstrated its robustness and is set for a steady and sustained growth in years to come.

I think we need to admire the Budget for the calibrated tax changes it has attempted. Given the current growth buoyancy, the economy can live with moderate excise duty hikes. Its inflationary impact would, however, need to be closely monitored. The finance minister has also bolstered private disposable income by significant reductions in personal income taxes. The tax changes have little negative surprises except perhaps for downstream companies. However, the government has tried to move fast by containing imbalances through a hike in the prices of petrol and diesel. As a principle, it is important to address price rigidities that are coming in the way of investments and bloating our subsidies bill.

As regards interest rates, the proposed borrowing programme should keep the 10-year rates in a non-disruptive range of around 8%. The Budget has clearly recognised the need for continuing with growth impulses so that the investment cycle remains positive and India handles its supply-side challenges against the backdrop of robust domestic demand.

The finance minister has done a wonderful job of managing expectations before the Budget and delivering better than those expectations! I consider the Budget very positive for the Indian economy and positive for the long-term development of Indian financial markets.

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MORE POWER TO YOU PRANABDA. CORPORATE INDIA CAN DEFINITELY BANK ON YOU. THE SALARIED ARE PROTECTED. WOW! CAN THE FILM INDUSTRY LOOK FOR MORE NEXT TIME?

PRIYANKA CHOPRA, ACTRESS

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It is all about innocence

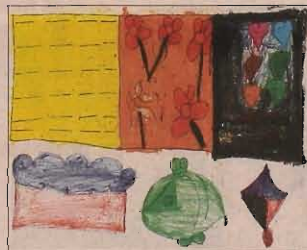
THEY MAKE FOR 42% OF OUR POPULATION. YET THEY ARE OFTEN IGNORED. HERE THESE CHILDREN HAVE TRIED TO TAKE SOME HEALTHY STEPS TOWARDS THE CRADLE OF HUMANITY THROUGH THEIR VIBRANT COLOURS



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And let's not forget our special people. They may be different, but they are as creative and expressive as anybody — the world, their canvas.



JYOTSNA KALRA



SOMYA GUPTA • SCHOOL TAMANNA SPECIAL CHILDREN SCHOOL

Budget gets a tweet twist

People on twitter have been at it ever since the finance minister made his budget speech. The tweet community gave a mixed response. In fact, some of them have been speculating and placing bets on what ET's reaction would be. They were also tweeting about what our page one headline would be. Aal Izz Well, some asked. Here are some tweets:



Iamrsk Diesel up, mobiles down. Eager claps. Hasty exits. Aam aadmi talk & long term benefits. Boys will be boys, only change is the price of the toys



Anand Mahindra Have successfully managed to avoid bland budget bhasha thus far—don't intend to succumb now!



Narendra Modi Central Budget is anti-poor, anti-farmer, anti-youth & anti-women. It also works against Dalits, making great harm to the deprived classes.



Vir Das Budget babbbyyyyyyyyy!!!! My comeback to newscomedy tonight. ETNOW



MASTER STROKE: SH Raza gives a progressive inspiration

Lines from our childhood

WHAT DOES THE BUDGET MEAN TO CHILDREN? THIS question crossed our minds when we set about to bring this edition to you. We decided to ask schoolchildren to make a visual representation of the nation as they see it in a decade from now, Vision 2020. The long-overdue attention that we gave to our young ones amply demonstrates that the voice of our children remains vital in today's political and economic discourse. So, it would not be difficult to see why the rugged authenticity of this approach has turned out to be more than appealing. And, as it is apparent, child art is not pure crude roughness. There is a thought behind the process, a method behind the madness. The works that our children have blessed us with provide divergent but equally salient manifestations of ideas. These works deftly address issues that the nation is facing as it surges towards the coveted crown position.

"When I was their age I could draw like Raphael, but it took me a lifetime to learn to draw like them," said Picasso when he visited an exhibition of art works by children. To draw like children is not easy. Nobody can assure us more about that fact than the undisputed master of modern art, SH Raza, who set the tone for our special edition's attempt to decode the look of things. This is the first time that the great master is drawing for the media. It has been an honour and privilege to have the classicist to kick off this issue where innocence caresses spontaneity. Raza's quivering, frenetic yet seemingly controlled strokes awaken the consciousness of our children.

Which is why our design team has created an intense expression of child pride in these pages. Kudos to Triparna, Nadeem, Shashi, Santan, Kamal, Salam, Sunil, Purnima, Jayeeta, Jitendra, Zahid, Sub-rotto, Yogesh, Nawzer, Shaleesh, Ajay, Geeta, Kim, Mahesh, Manohar, Prabhakar, Prashant, Pravin, Rajesh, Sachin, Sandeep, Sanjog, Sarfaraz, Shubhra, Varani, Geetanjali and Animisha.

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