

Demand Pull

UNION BUDGET 2011-2012
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Gold loses glitter, LED to shine more, pastry remains sweet and laundry gets a tad easy

Excise duty of 1% on branded jewellery. A 2-gram gold pendant to cost ₹300 more

Excise on LED bulbs halved to 5%. Entry-level LED light fixtures to cost ₹450-500

Excise on pastry, cakes & sugar confectionery increased by 1% to 5%. Prices unlikely to go up

24% excise on crude palm stearin scrapped. Laundry soaps like 555 may become cheaper

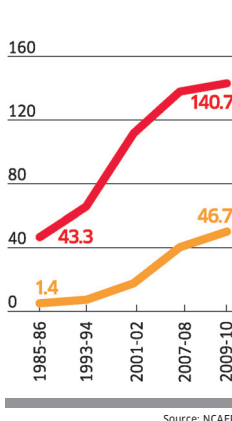
VOYAGE FROM '91

Shopping Without Dropping

In January 2011, Indians bought 1.84 lakh cars, more than what they had bought in the entire year of 1991 (1.72 lakh). This level of spending in the times of record food price inflation is just one indicator of the coming consumption boom

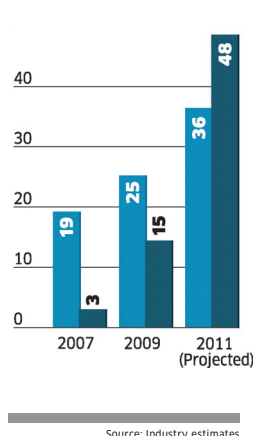
As the consuming classes swell in numbers...

High- and middle-income households in millions



...sales of consumer products break new records...

Annual sales in lakh units

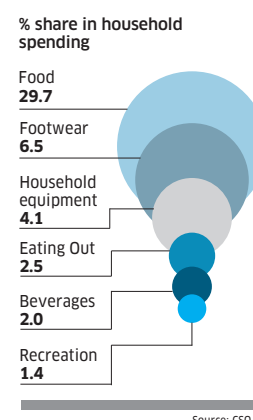
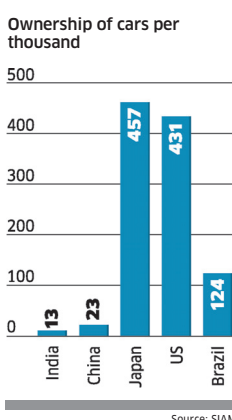


...making Indian retail market ever more lucrative ...

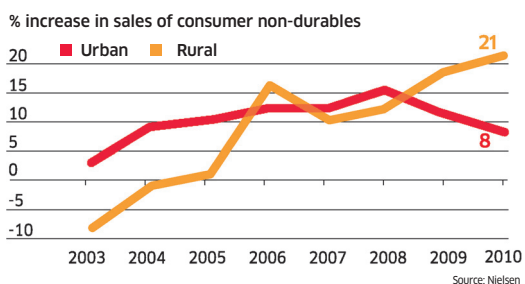
\$900 Billion

Will be size of Indian retail market in 2014, up from \$500 billion in 2010

...a bigger boom is ahead as spending on most discretionary products is still low...

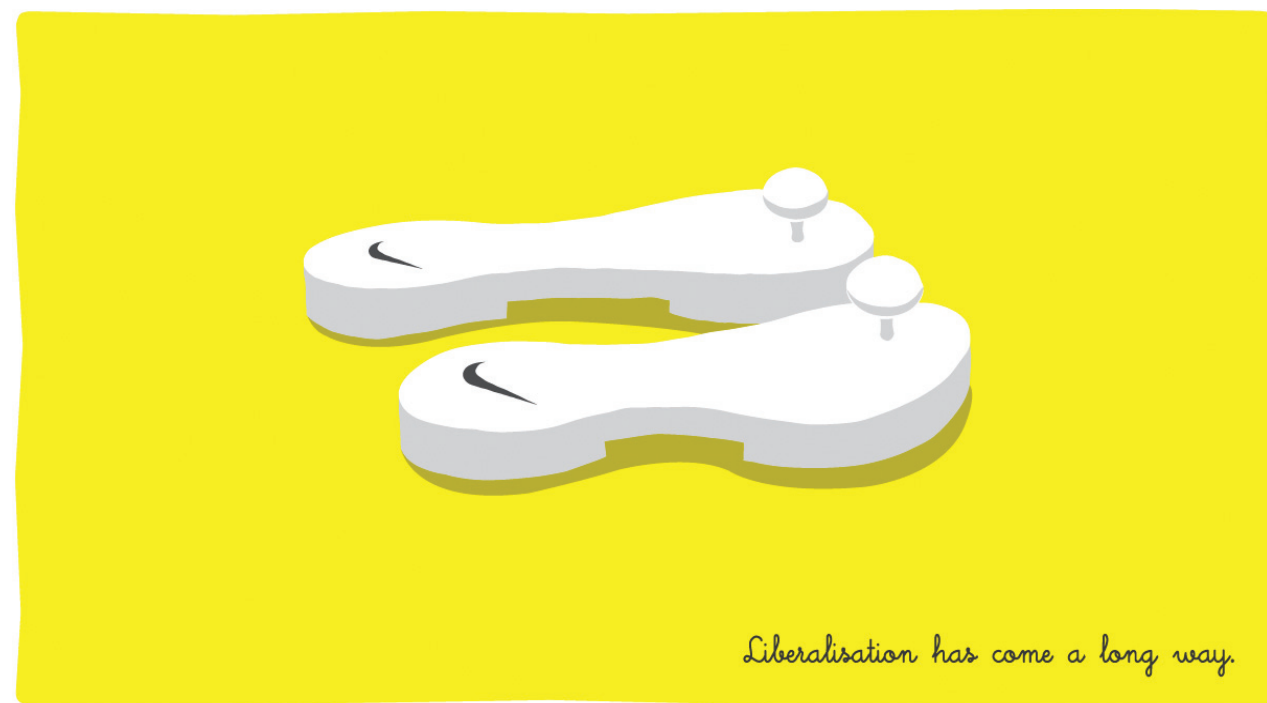


...and a significant chunk of future consumer demand will come from rural areas



Not Pocket-Friendly

Grocery bill of households is likely to increase by 4-5% within three months as companies have got no concessions to help stem the rising tide of input costs



MCCANN WORLDGROUP

India has walked many a mile to reach where it stands today. In the journey, the *paduka* depicts the amazing Indian ability to embrace the new while retaining the old. The shoe with Swoosh says: ancient culture and tradition still finds place in 21st century India as the country grows and modernises at a blistering pace

what it means for the consumer

Excise Levy on Food Mixes

An excise levy of 1% will be imposed on items such as coffee and tea pre-mixes, sauces, ketchup, soups and broths, fruit pulp, fruit juice-based drinks, food mixes, ready-to-eat packaged foods and toothpastes. Since the levy is small, it will not trigger price increases.

Hospital, Medical Bills to Rise

Medical bills, including diagnostic tests, will be 5% higher at private hospitals as the government brings these under the service tax net.

Now Pay More for Air Travel

Passengers to pay ₹50 more on domestic air travel and ₹250 on

foreign travel because of a 2% increase in service tax.

Branded Garments to Cost More

Branded garments to cost a tenth more as retailers plan to pass on the 10% excise levy on such clothes to consumers.

Food Bills, Hotel Tariffs Slither up

Eating out in restaurants serving liquor will become 3% costlier. Staying in hotels with room rents higher than ₹1,000 will become 5% more expensive.

Excise on Sanitary Napkins Slashed

Excise on sanitary napkins and diapers cut to 1% from 10%. Prices unlikely to come down.

Pistachio is cheaper by ₹50/kg. Import duty slashed to 10%

Grocery Bills to Get Bigger

THE consumer's grocery bill could increase by 4-5% within three months, but not as a direct result of the budget. Companies say that they have received no concessions to help them stem rising costs and they are just about coping now by selling less for the same price and using cheaper raw materials. Increased expenses on packaging and transportation will put margins under further pressure.



M ANAND

Open doors to global retailers

THE FM IDENTIFIED HIGH food prices as main concern; highlighted the shortcomings in agri-distribution systems; denounced big differences between wholesale and retail prices as they hurt farmers and consumers; and promised 'personal attention' to removing distribution bottlenecks. But he avoided the controversy of discussing FDI in retail in his speech. This is a potent remedy to the vexing problem of food inflation, but arguably so. However, by labouring long enough on the many problems in the food economy, he seemed to be building a case for retail FDI. Even the economic survey had argued for it. Given the environment of persistent double-digit food price increase, the government would do well to bite the bullet and move forward in this direction, albeit with safeguards to ensure that global retailers do not monopolise markets here. Large global retailers eyeing India's upcoming \$500 billion consumption market, will build modern supply chains linking agri-produce efficiently to consumption centres. But they will also squeeze thousands of kiranas, who may learn to work more efficiently. Opening doors to global retailers is not a one-step fix to all inefficiencies in food markets, but it is one solution that can't be ignored for too long.

For Consumer Cos in Major Pain, Budget Delivers Minor Pinpricks

In Focus

Heavy on Pocket

10% INCREASE IN PRICES OF FOUNTAIN & BALL PENS

1% INCREASE IN PRICES OF MOBILE PHONES

PRANAB MUKHERJEE'S budget does little to harm the consumer, but not much good either, leaving companies to go back to contemplating on their main problem: rising input costs. The finance minister announced measures that will make branded apparel, air travel, eating out, hotel accommodation and health check-ups costlier, but sparing the most common articles of daily consumption. "Although the middle class consumer will be pushed to some extent, the budget has not significantly impacted consumption of daily goods," said Madan Sabnavis, chief economist at Care Ratings, adding that these goods constitute a small share of the wholesale price index. Headline inflation measured by the wholesale price index was at 8.23% in January, well above even the Reserve Bank's revised estimate of 7% for the end of the fiscal in March. Food inflation has been even higher, rising at

11.49% for the week ended February 12. Companies in the consumer sector mostly fretted about an issue that has been bothering them for many years—foreign direct investment in multi-brand retail. "I really expected FDI in retail to be announced but that didn't happen. FDI should have ideally happened five years ago and would have accelerated the FMCG industry growth by at least 20%," said A Mahendran of Godrej Consumer Products. India is one of the fastest-growing retail markets in the world, but companies complain that by not allowing FDI in multi-brand retail the government is shutting out modern technology and practices, to the detriment of consumers. A report by brokerage house CLSA said India is the most compelling Asian market with a great appetite to spend when incomes increase. It forecast discretionary spending in India to increase by 18% every year. For companies that had postponed raising prices in anticipation of concessions in the budget, price hikes will

become inevitable. Mahendran and divisional chief executive of ITC Foods Chitranjan Dar said they expect FMCG product prices to increase on average by 4-5%. Retailers of branded garments are poised to pass on the entire cost of the 10% excise duty to consumers. Excise duty on branded apparel was earlier voluntary, which meant those who did not opt to pay the duty could also not credit or offset the tax paid by their suppliers for inputs. "It has come as a bolt from the blue," said J Suresh, MD and CEO of Arvind Lifestyle Brands and Arvind Retail. "The increase in excise duty leaves us with no other choice but to pass on the increased cost burden fully to the consumers." The continued rise in prices of raw materials such as forced companies to increase rates despite fears that the middle class, already reeling under rising food and fuel prices, will curtail impulsive consumption.

Budget's Thrust: Keep Growth Going, Plug Leaks

By Invite

SUNIL MITTAL
CHAIRMAN & GROUP CEO,
BHARTI ENTERPRISES

THE FINANCE MINISTER HAS made an honest effort to reconcile two seemingly conflicting objectives of maintaining growth momentum and containing the inflationary pressure in the economy. As expected, no big-bang reform measures have been announced but the future rollout schedule of key initiatives has been delineated. The decision not to roll back the central excise and service tax rates from 10% is understandable. The fiscal deficit target of 4.6% of GDP as compared to 5.1% (revised estimate) last fiscal is achievable with the ₹40,000 crore he aims to raise through disinvestment. It would be desirable to build a cushion for an additional ₹30-40,000 crore by way of providing for auction of additional slots for 3G and BWA spectrum. Announcements on GST and DTC are welcome. Although MAT has risen marginally, the corporate tax surcharge cut is welcome.

The emphasis is both on increasing agricultural productivity and distribution efficiency. Increasing targeted rural credit from ₹3,75,000 crore to ₹4,75,000 crore and increased investment in crop-specific plans and logistics infrastructure should help in this regard. The plan to provide broadband connectivity to all 2,50,000 village panchayats will help in the governance framework. The introduction of direct cash subsidy will help plug the leakages. And mobile phones can ensure targeted, secure and affordable cash transfer of subsidies. The finance minister has confirmed his government's intention on furthering reforms. On the whole, the budget is intended to keep growth momentum going in a difficult environment.

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