Holding on to lower excise duty, pruning tax on dividends from foreign arms liven up market

Government to infuse ₹6,000 crore in Andhra, Dena, Oriental, Baroda & Union banks

More equity issues by PSUs on the way as government looks to raise ₹40,000 crore

Interest subsidy of 1% extended to home loans up to ₹15 lakh & property worth up to ₹25 lakh

Government & Sidbi to float ₹100-crore fund to capitalise small micro-finance institutions

Hope, Skip and Jump

Laws will be changed to pave the way for new banks, more PSUs will list and foreigners can invest directly in mutual funds. But investors are taking some of the Budget numbers with a pinch of salt

BBDO INDIA

Summing up 20 years of liberalisation in one picture postcard was challenging. Then lightning struck! We realised that the man who kick-started it all was himself the best brand ambassador. In the past 20 years, he had grown from being an FM who hid in his own shadow to a PM who was not afraid to speak his mind. Manmohan Singh represents our growth story

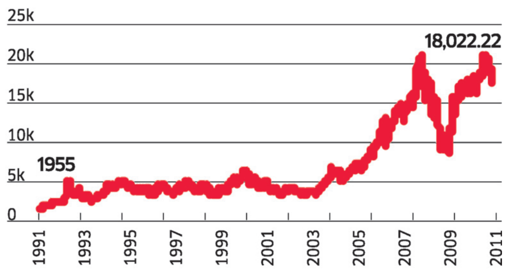
VOYAGE FROM '91

World Class Markets, But Equity Cult Missing

A steady stream of reforms in the 1990s, beginning with the entry of FIIs, setting up of NSE, demat & rolling settlement, changed the face of markets. But Indians have been slow in taking to shares.

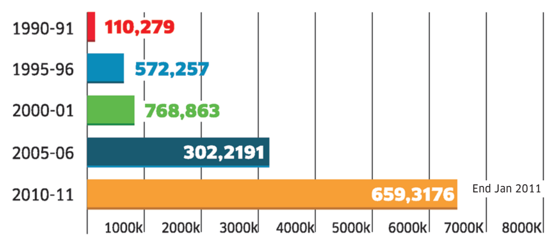
Sensex yielded 15% annual returns since 1991...

BSE Sensex value



...investor wealth rose 60-fold since then...

End March capitalisation in ₹crore



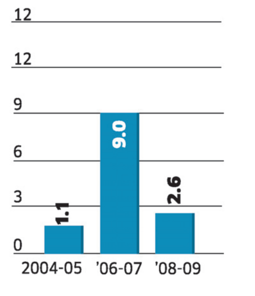
...but retail investors miss out on this wealth creation.

9.7 Per cent

Is the share of equity wealth held by retail investors. Over 60% is with institutional investors and the balance with promoters

Investment in shares & bonds is still low...

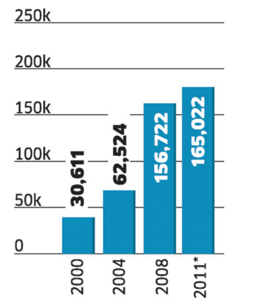
% of total household savings in financial assets



Source: RBI

...and mutual funds have not made a big difference...

Equity assets managed by mutual funds, ₹crore

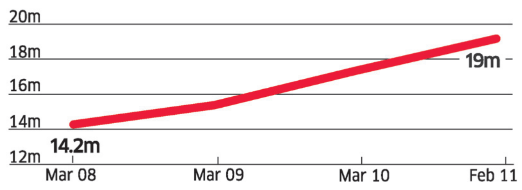


* End Jan

Source: AMFI

...though rising number of demat accounts shows higher investor interest in equity

Number of demat accounts



what it means for the investor

Cap on Voting Rights in Pvt Banks to Go

Laws may be changed to scrap the 10% cap on voting rights in private banks and allow holding companies to own banks. This will help business houses lobbying for a banking licence. The FM also hinted at tabling the Bill to allow 49% FDI in insurance firms, but few think it will happen in a hurry.

High DDT for Money Market, Debt Funds

Money market and debt funds will pay a higher dividend distribution tax (DDT) for investments made by firms. DDT will rise to 30% from 25%, but stay unchanged at 12% for individual investors. Banks will be happy as a higher DDT will place these MF plans on par with fixed deposits.

FM promises to change banking, insurance laws for entry of new firms

High Premium, Less Bonus for Policyholders

Premium on life insurance policies will rise. For every ₹100 premium, there will be a tax of 15 paise. This will mean that policyholders will receive less bonus — the return that policyholders receive. The new rule applies to all endowment policies.

Easier to Meet Priority Sector Targets

Banks will find it easier to meet priority sector targets as home loans up to ₹25 lakh (as against ₹20 lakh) will qualify for this. Also, lending to farmers is expected to go up as borrowers with a good repayment record will be charged 3% (as against 2%) lower than the floor rate.

Foreigners may Ease MF Woes

GOOD news for fund houses. Indian funds will be permitted to sell equity schemes to foreigners. Currently, only FIIs, NRIs and sub-accounts registered with Sebi can invest in mutual funds. But success will depend on the level of KYC required, tax aspects, and possible investment. The small trust funds that avoid the FII route may also put in money. Asset managers feel foreign investors may be less jumpy than local investors.

ET COMMENT

SUGATA GHOSH

Rosy Nos, Positive Vibes

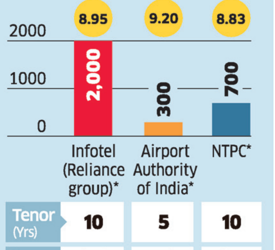
INVESTORS, WHO READ between the lines and crunch numbers, may feel they have lost out. They questioned *Pranabbabu*'s heroic assumptions of low expenditures on food, fertiliser and fuel subsidy and central Plan allocations. For them, claims of a low fiscal deficit and modest government borrowings are outrageous. Someday, they may turn out to be correct, but Monday was the day of punters. Punters bought, sold and bought again, as FM pruned corporate surcharge, lowered tax on dividends that companies receive from foreign arms and held excise duty at pre-downturn levels. But thinking investors should not feel they missed the bus. High inflation, hardening interest rates and a grim scrutiny of the Budget arithmetic will throw up opportunities to buy cheap later. However, there is something for slow investors as well as momentum traders to ponder upon. For the first time, foreign nationals (just like you & I) will be allowed to invest in MFs. This could trigger a flurry of index schemes that are easier for foreign investors to understand and inexpensive for MFs to manage. The next step would be allowing them to directly trade in Indian stocks. It could be the first move towards making the market less volatile and FIIs less relevant.

Foreign Investors Could Run into a Liquidity Wall on Debt Row

In Focus

Raising the Bar

Amount Raised (₹ Crore)



	Infotel (Reliance group)*	Airport Authority of India*	NTPC*
Tenor (Yrs)	10	5	10
Issue Date	Sept 2010	Feb 2011	Dec 2010

Coupon Rate (%) Credit rating: *AAA

SOURCE: EDELWIESS SECURITIES

THE FINANCE MINISTER threw open the floodgates to foreign investment in Indian infrastructure debt, but it will just be a trickle due to liquidity concerns, at least in the near term. But the cut in withholding tax rates may lure some investors. The raising of investment limits for foreigners in infrastructure firms is not so enticing because of riders, such as a lock-in period, attached to these investments.

Illiquidity of these investments will be a deterrent even as yields on such bonds are attractive for foreign funds that face meagre returns in the Western world.

"The increased limit should over a period of time boost funding in infrastructure sector," said Syed Zafar Islam, head- financing & rates sales business, Deutsche Bank. "However, there may not be any immediate benefit of this increase in investment limit as only half-a-billion dollar out of the existing limit of $5 billion has so far been utilised," he said.

FM in his Budget speech said he is raising foreign funds' investment limit in corporate infrastructure bonds fourfold to $25 billion.

"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 the infrastructure sector, is being raised," the FM said. "Since most of the infrastructure firms are organised in the form of special purpose vehicles, FIIs would also be permitted to invest in unlisted bonds with a minimum lock-in period of three years," he said.

"The lock-in requirement of five years itself is not a big problem, if the illiquidity issue are addressed by allowing pension and insurance firms to come in and widen the market," said Hemant Mishr, head, global markets, South Asia, Standard Chartered Bank.

But one proposal, easing of tax rates, may be a relief to some investors where the tax rate was a deterrent.

The FM proposed a three-fourth slashing of withholding tax rates on interest payment on borrowings of these funds to 5% from 20%.

"One of the reasons for the lack of interest from foreigners in the corporate debt market could be the impact of the withholding tax, besides long tenor of bonds," said Deutsche's Islam.

Although some in the market were impressed with the increase in limits, RBI, which supervises the currency market and the one worried about the rising current account deficit, was not as enthusiastic. "We have a pecking order," said Subir Gokarn, deputy governor at RBI. "Our first preference is for foreign direct investment (FDI), second is equity and the least preference is for debt. But we recognise the fact that infrastructure financing is highly leveraged activity and debt has to play a large role in it. If foreign investments come in, so be it. Increase in cap on FII participation in infrastructure bonds should help improve the flow of funds into the sector, if viable projects are in the pipeline," Mr Gokarn said.

TEAM ET

Foreign Inflows into Funds will Fire Up Dalal Street

By Invite

UDAY KOTAK

EXE VC & MD, KOTAK MAHINDRA BANK

THE BUDGET LOOKS FOR fiscal consolidation rather than profligacy. The finance minister is targeting a figure of 4.6% of fiscal deficit for FY12 and 4.1% for FY13, which is lower than what most expected. While the devil might lie in the detail, if it is achieved, it would be very positive for the economy.

I think the Budget is positive for equity as well as bond markets. Mutual funds being allowed to raise money in equities from foreign investors directly is a big plus. This will allow investors across the globe to invest in Indian mutual funds, and help bring money into the country.

On the bond side, most estimates for the borrowing programme had figures between ₹3.8 lakh crore and ₹4 lakh crore. Therefore, the figure of ₹3.43 lakh crore for the government borrowing programme is lower than anticipated and it is bullish for the bond market as well.

Clearly, the finance minister has his focus on the agricultural sector. The ₹3,000-crore addition to the National Bank for Rural and Agricultural Development's (Nabard) share capital and contribution of ₹10,000 crore to Nabard's short-term credit fund and 3% interest subsidies to farmers are steps in that direction.

FM has focused on limiting agri wastage by granting infrastructure status to cold-storage chains

He has also focused on limiting agri wastage by granting infrastructure status to cold-storage chains. This would increase the agri sector's contribution to GDP.

Also, the finance minister has taken steps towards direct transfers of urea and kerosene to tackle corruption and deficit in governance. I think it's a very important statement at this point in time.