

Events 2008

US financial tsunami hits world economy

Recent events have shown that the American financial system is not as robust as its advocates claim. The system's so-called checks and balances have failed to avert the financial crisis that has engulfed the country's leading commercial banks, insurance companies and investment banks.

The failure of the American financial giants means that the growth prospects of America will be affected. Many of our industries, especially in the service sector, depend on markets in the US and could be affected. Outsourcing industry, which depends on the level of demand in the US and Europe, may take a hit.

Sparked by sub-prime crisis

In recent years the American financial system has encountered serious problems. Some of these arose as a result of the sub-prime crisis, followed by fall in house prices and exploitation by lenders to credulous sub-prime borrowers by offering them loans at initially low interest rates and subsequently raising the rates. What made matters worse was that the sub-prime loans were packaged, securitised so to say, and marketed to investment banks.

The investment banks did not, however, have a direct contact with the borrowers. They did not have a clue as to how reliable the sub-prime borrower was. When defaults started, the investment banks realised they were getting on worthless securities.

What was worse was that the sub-prime related securities were also invested in by various international banks, including those in Europe, such as UBS. Many of the banks, which had such exposures, were persuaded to make such investments because of optimistic rating by various reputed rating agencies.

The latest episode of failures was led by the collapse of the State Guaranteed Mortgage Institutions, known as Fannie and Freddie. Apart from the fact that these institutions accounted for the bulk of the mortgage lending in the US, they were also attracting investments in their debt securities from various central banks of the world, especially because their debt was implicitly guaranteed by US Government. However, the collapse of Fannie & Freddie became a national crisis.

In view of their importance both domestically and globally, the US Treasury Secretary, Hank Paulson, and the US Administration decided to bail them out, a bailout that was hailed by many observers as a victory for the US financial managers' pragmatism.

Heavy burden on US taxpayers

The bailout will leave a heavy burden on US taxpayers, especially because the prices of houses, which form the basis of securitisation, cannot be expected to be at a level to sustain the value of the debt paper. The gap will be a burden on US taxpayers.

The American financial market is in a state of shock. Liquidity has become very low and the American stock markets have collapsed, leading to further failures of some banks and financial institutions.

The venerable insurer, AIG (American International Group) has been bailed out with a \$85-billion infusion. The Federal Reserve has agreed to extend a two-year loan to AIG in exchange for a 79.9 per cent equity stake in the company and change in the top management.

Proximate reasons

Analysts have been quick to point out the boom in investment activity sparked by low interest rates was partly responsible for creating a complacent attitude amongst the markets and the investment banks. It led to a built-in sentiment that catastrophes would be averted and further the Government would take care if any unforeseen events happen.

Impact on rest of the world

The American financial system is the main engine that drives the world's economy. Its being in serious trouble has some disturbing consequences for the world economy.

America's financial investments are looking to Sovereign Wealth Funds to save them. They are also driven to the ultimate irony of nationalisation of their private sector.

Despite all the talk of India decoupling from the American economy, the fact remains that India, like the rest of Asia, is very much linked to the health of the American financial system. For one thing, capital flows in the Indian stock market under FII depend on the easy liquidity in the American financial system. The failure of the American financial giants means that the growth prospects of America will be affected. Many of our industries, especially in the service sector, depend on markets in the US and they will be adversely affected.

Outsourcing industry vulnerable

The outsourcing industry of India depends very much on the likes of AIG, Citibank and Lehman Brothers. Our service industry will lose business substantially when there are serious problems in these institutions.

The decline in capital flows into the stock market as a result of fall of share prices has led to a change in exchange rate and fall in the rupee vs dollar. While this is good news for the exporting community, it is not so good news for the government's finances. The declining rupee means that imports will cost more and the subsidy on crude oil may not decrease in tandem with the decline of oil prices.

Road ahead

It is difficult to insulate India or any other country from the effects of the American problems. Better regulation is not by itself an answer. The problems arose because of the complexity of the

financial products and innovations introduced in the American financial system. Innovation for the sake of innovation can be disastrous.

The American experience should be a guide to us to avoid such pitfalls. Governor Reddy took a tough line in regard to encouraging innovations, but with sufficient safeguards. Economists hope that the new RBI governor Dr Subbarao will continue the same tradition, learning from the US experience.

Chandrayaan-I : Moon odyssey

The moon mission marks a new chapter in the history of Indian space programme that takes a giant leap — from 36,000 km of orbit around earth to 3,84,000 km away to orbit the moon. It also initiates a fresh era of more ambitious interplanetary missions in the future by India to Mars and other planets

On the way to moon

Heralding a new era in the country's space programme, India October 22 successfully launched its first unmanned moon mission, Chandrayaan-1, becoming the sixth nation to undertake an odyssey for exploration of lunar surface.

The home-grown PSLV-C11, ISRO's workhorse launch vehicle, placed the spacecraft into a transfer orbit around the earth exactly 18.2 minutes after a textbook lift off at 6.22 am from the second launch pad of Satish Dhawan Space Centre in this island in the Bay of Bengal, 100 km north of Chennai.

The joy of Indian Space Research Organisation (ISRO) scientists knew no bounds as the 44.4 metre tall four-stage rocket majestically soared into the sky, capping their four years of toil for the first-ever mission that would travel beyond earth's orbit in the country's forty-year-old space programme.

Chandrayaan-1 is a milestone because India is only the sixth country to send a moon orbiter into space. Of the previous five, the US, Russia and Japan have planted their flags on the moon; the tri-colour will thus be the fourth.

When the spacecraft finally reaches its destination at 100 km above the moon surface after a series of manoeuvres over the next two weeks, it would signal India's arrival in the league of nations— the US, Russia, European Space Agency, China and Japan which are already involved in lunar exploration.

India's last tryst with moon came way back in 1984 when Indian astronaut, Squadron Leader Rakesh Sharma, travelled to space along with two Soviet cosmonauts. The focus now shifts to ISRO's telemetry, tracking and command network (ISCRAC) at Payenya in Bangalore, which will be the country's nerve centre for tracking and controlling Chandrayaan-1 over the next two years of its life span.

Chandrayaan-1 carries 11 payloads, including two instruments from the American space agency, NASA, which will assess mineral resources, map the Polar Regions, look for ice deposits and prepare a three-dimensional atlas of the moon and prospect the lunar surface for natural resources.

Coming after 44 years of its maiden rocket launch from Thumba in 1963, Chandrayaan-1 will also look for possible uranium deposits on the moon as India sets out to augment its energy capacity through international bilateral nuclear pacts.

“The 360-tonne PSLV-C11 has precisely achieved the objective of placing the satellite in the orbit around the earth with its nearest point being 250 km (perigee) and the farthest around 23,000 km (apogee),” ISRO Chairman G Madhavan Nair said.

“If everything goes on well, on Nov 8 we will be injecting the spacecraft into the lunar trajectory.” Nair expressed the hope that India would be able to send the first man-mission to moon from Indian soil before 2015 and that Mars was the next natural destination for the ISRO.

For India, the significance of Chandrayaan-1 goes beyond national pride. This mission not only gives a measure of what scientists in India are capable of achieving, but also places their work in a global context. Other than the four indigenous instruments, the Chandrayaan-1 is carrying three made by the European Space Agency, two from NASA and one from Bulgaria.

This goes to show the faith that the international community has put in this project. Other countries may have been on the moon and done all this years ago, but that does not belittle India’s effort. After being propelled into the moon’s orbit by a polar satellite launch vehicle, Chandrayaan-1 will spend the next two years studying surface or sub-surface water-ice on the moon. A 30-kg Moon Impact Probe is going to be released into the lunar surface, which is going to send back data on the mineralogy of the moon — this could provide clues to the origins of the moon and the earth.

India could well be on its way towards becoming a space superpower. India has real cost advantages in its space programme—mainly because of the low cost of its trained, scientific and technological manpower. There is no reason why this should not be used to make the country the leader in the business of launching (and even fabricating) satellites into space. There are security implications as well. The technology evolved for the Chandrayaan mission can prove handy for intelligence gathering and developing space weaponry, including long-distance intercontinental missiles.

With its technological prowess firmly established, this venture will give ISRO a firmer foothold in the multi-million dollar satellite development and launch market. ISRO has already made a beginning in this direction by developing and shipping a few satellites for foreign customers, and its claim to more such business strengthens after yesterday’s Chandrayaan’s successful launch.

India’s maiden moon mission Chandrayaan-I carries a record number of 11 payloads, six of them foreign.

Future plans

With Chandrayaan-1 on course to the moon, India at last has entered the space — literally.

With its maiden mission to the moon, Indian Space Research Organisation (ISRO) has forayed into space explorations for the first time after fulfilling its societal duties over the last three decades through INSAT and IRS satellites.

Chandrayaan-1 will be followed by a dedicated astronomy satellite; Chandrayaan-2; a satellite to study the Sun, putting a man to the space, sending a payload to study comets; unmanned missions to explore nearby planets like Mars, Venus and Mercury and finally an Indian on the moon.

The immediate next in line will be Astrosat — India's first dedicated astronomy satellite — which will observe the universe at a wide range of energy between 1 electron volt to 100 keV through five on-board instruments. Scheduled to be launched by the end of 2009 by a PSLV rocket, Astrosat will look at the Active Galactic Nuclei at the core of Milky Way galaxy that is believed to have a super-massive black hole and other rare cosmological objects like quasars and blazars.

The astronomy payload will be followed by the Rs 425 crore-Chandrayaan-2, which will carry a Russian robotic Lander and rover. The likely launch schedule is around 2011-12. Almost at the same time, ISRO plans to send a small probe, Aditya, to study the solar corona — one of the enigmatic cosmic features in the solar system. Aditya will coincide with a 'solar maximum' a phase of high solar dynamism, which will occur in 2012.

India's space dreams do not end with the Sun. The space agency plans a flyby mission to an asteroid or comet by 2015. It could either be an orbiter mission to a main belt asteroid or a comet, but there is also an alternative proposal to make it an orbiter around a suitable near earth asteroid coupled with flyby to one or more comets and asteroids.

The fall of Lehman Brothers

The 158-year-old firm has filed the biggest bankruptcy petition in history

Crisis at Lehman

Lehman Brothers Holdings Inc, the fourth-largest US investment bank, succumbed to the subprime mortgage crisis, in the biggest bankruptcy filing in history.

The 158-year-old firm filed a Chapter 11 petition with US Bankruptcy Court in Manhattan on September 15. The following day, its investment-banking and trading divisions were acquired by Barclays plc along with its New York headquarters building. Lehman had more than \$613 billion of debt.

Lehman's loss was apparently a result of having held on to large positions in subprime and other lower-rated mortgage. Lehman was forced into bankruptcy after Barclays Plc and Bank of America Corp abandoned takeover talks.

Founded in 1850 by three Jewish immigrants from Germany, Lehman was among the handful of US financial firms that had endured for more than a century. Over the past year, its own share price has plummeted to nearly one-twentieth — falling from \$82 to just \$4 — in the midst of billions of dollars lost in the subprime crisis.

What is subprime mortgage crisis?

The subprime mortgage crisis is an ongoing economic problem characterized by contracted liquidity in the global credit markets and banking system. This has adversely affecting the world economy.

The crisis began with the bursting of the United States housing bubble and high default rates on “subprime” and adjustable rate mortgages (ARM). Loan incentives, such as easy initial terms, in conjunction with an acceleration in rising housing prices encouraged borrowers to assume difficult mortgages on the belief they would be able to quickly refinance at more favorable terms.

However, once housing prices started to drop moderately in 2006–2007 in many parts of the U.S., refinancing became more difficult. Defaults and foreclosure activity increased dramatically, as easy initial terms expired, home prices failed to go up as anticipated, and ARM interest rates reset higher. Foreclosures accelerated in the United States in late 2006 and triggered a global financial crisis through 2007 and 2008. During 2007, nearly 1.3 million U.S. housing properties were subject to foreclosure activity, up 79% from 2006.

No bailout this time

That Lehman Brothers was in trouble was widely known, given the massive second-quarter losses that it announced weeks ago.

The US Federal Reserve had bailed out another such institution Bear Stearns a few months ago. Recently, the US government nationalised Fannie Mae and Freddie Mac to save the two mortgage companies from bankruptcy. These bailouts had created expectations of a similar rescue in the marketplace that a similar approach would be used for Lehman. Efforts by government agencies to find a buyer for Lehman failed in the face of their refusal to protect the potential acquirer from Lehman's liabilities.

Merrill Lynch, another prominent investment bank, was recently taken over by Bank of America at a significant discount to what it was worth a few months ago.

The US government refused to step in and save Lehman, even in the form of providing guarantees to a potential acquirer. The Fed was strongly criticised for the "moral hazard" problems when it initiated the rescue of Bear Stearns. The critics had then said that insolvent financial institutions should be allowed to fail. Prudence in investment banking business will come only when they are seen to be paying the full price for their misjudgments.

India impact

I. Cost of credit

The key question confronting the Indian economy now is the impact effect of the American (or global) financial crisis. The RBI has moved quickly to improve liquidity. Still there could be some impact on credit availability. That implies more expensive credit (even public sector banks are said to be raising money at 11.5 per cent, so that lending rates will inch up to 16 per cent and higher).

For companies looking to raise capital, the alternative of funding through fresh equity is not cheap, either, since stock valuations have suffered in the wake of the FII pull-out.

Capital has suddenly become more expensive. There is a risk that projects underway will suffer from delays and cost overruns as cost of credit shoots up. Real estate could be the most affected sector. Builders may have to resort to dropping prices to find customers for housing projects nearing completion.

People who have borrowed for things like housing and auto-finance in floating rate loans will start feeling the pinch. Those who had planned could postpone their purchase.

Another worry is impact on job creation in the country. There could be downsizing in companies in sectors impacted by high cost of credit and fall in demand. The layoffs in IT sector may be a fair portent of things to come.

Any benefits?

The crisis does have a silver lining. The falling rupee (against the dollar) will mean that exporters affected by the earlier rise of the currency can breathe easy. However importers would be at the receiving end. Importers of oil and other commodities may not suffer as the fall in oil and commodities' prices will neutralise the impact of the dollar's decline against the rupee.

Prices of stocks and real estate, which had appreciated by too much, will come down to realistic levels.

II. Lehman's India investments

The 158-year-old Lehman Brothers' move to file for bankruptcy wiped off more than Rs 2,000 crore from the market valuation of those Indian companies in which the US financial major made equity investments.

Major stocks held through participatory notes issued by Lehman Brothers Investment Management, a SEBI-registered foreign institutional investor, saw their prices nosedive. Participatory notes are derivative instruments through which foreign investors that are not registered in India can trade on the Indian markets.

In addition to its equity holdings in listed companies, Lehman had also invested in various projects of Indian companies, especially in real estate. In India, Lehman also acquired BRICS Institutional Equities business of research analysts and sales and trading professionals and bought a 26 per cent stake in Edelweiss Capital Finance, a non-banking financial company, recently.

The investment banking major has also been involved in several Indian initial public offers.

III. IT sector

As much as 60 per cent of the revenue of India's software firms comes from the global financial sector, so the fallout of Lehman's bankruptcy on India's IT sector could well be imagined.

IV. Real estate

The collapse of Lehman Brothers and the bailout of Merrill Lynch, the global financial behemoths, are likely to affect Indian realty companies that are in the process of raising fresh funds. Many leading realtors, already facing a paucity of funds due to a slowdown or a correction in prices, will find it more difficult to raise resources even at the project level. Merrill Lynch and Lehman Brothers have exposure to more than a dozen realty companies, including, Ansal Housing, Anant Raj Industries, Unity Infrastructure, the Puravankara group and J Kumar Infrastructure, among others.

V. Banking

ICICI Bank said that it might need to make an additional provision of \$28 million (Rs 188 crore) on its exposure to bonds issued by Lehman. It had already made provisions of \$12 million on these bonds.

VI. Lehman's BPO unit

Indian IT major Wipro Technologies has expressed interest in bidding for the Indian back office business of Lehman. The bankrupt investment banking firm is expected to close its captive unit in Mumbai by the end of this month. The unit's 1,200 employees, who work on equity research and analytics support for the mergers and acquisitions business, have been asked to quit by September-end. Unlike employees in Lehman's investment banking business, who have been receiving feelers from domestic banks, employees in the captive BPO are unlikely to find alternative jobs quickly because the IT and IT-enabled services industries have already begun downsizing, owing to the global financial crisis.

AIG-Avoiding Lehman's fate

The United States Federal Reserve allowed American International Group (AIG) special permission to access \$20 billion of capital in its subsidiaries to tie over the liquidity crisis. The move gave AIG time to negotiate for a loan from the Federal Reserve and escape Lehman's fate. This allowed AIG to race cash to forestall credit-rating downgrades.

AIG suffered a liquidity crisis on September 16, 2008 following the downgrade of its credit rating. Federal Reserve's move prevented the company's collapse.

Impact on India

American International Group's (AIG's) recent financial crisis could have repercussions on its businesses in India. The largest US insurer by assets, AIG is working on plans to raise capital and sell units to forestall credit downgrades.

AIG has asked the Federal Reserve for a \$40-billion bridge loan after rejecting an offer from JC Flowers & Co to acquire the whole company.

AIG has several businesses in India. These include joint ventures in life and non-life insurance with the Tata Group, an NBFC called Vivek Hire and Purchase, in which it has 75 per cent controlling stake, a BPO, a private equity arm and an asset management company named AIG Global AMC.

Experts said that since the Indian insurance business was highly capital-intensive due to high solvency requirements stipulated by law, AIG may find it difficult to pull on in Tata-AIG Life Insurance and Tata-AIG General Insurance.

As life insurance requires continuous flow of capital, AIG's capital commitments for India will take a hit and will subsequently impact their growth plans.

AIG's subsidiary United Guarantee Corporation has entered into a joint venture with National Housing Bank (NHB), International Finance Corporation and Asian Development Bank to set up a mortgage guarantee company, and even applied to the Reserve Bank of India for the same.

Tatas: Singed by Singur

The continuing agitation by farmers in Singur who are vehemently against the Tatas building their small car factory on their farmlands has unnerved India's premier corporate group. The state government and the Tatas have found the Trinamool Congress backed violent agitation too hot to handle. A cloud of uncertainty hangs over the fate of the project in West Bengal. The Tatas may move out of the state and shift to a more hospitable location elsewhere.

Singur is now a name known all over the world. A section of farmers who are unwilling to part with their land have carried on a violent agitation that has made the Tatas do a serious rethink about continuing at Singur. However, not all the farmers in Singur want to persist with farming. A large number of them willingly sold it off for a handsome compensation. There are large numbers of farmers who have happily sold off their land to be used for setting up the Tata's car factory or for its ancillary units. But enough of them have opposed the land sale to give Tatas the jitters and even make them threaten to leave West Bengal for more welcoming climes.

Mamata Banerjee and the Trinamool Congress supported agitation could not have been so successful if the farmers of Singur were not really on the warpath. Enough of them are disgruntled to have led to this agitation. Many of them are pointing out that a one time compensation for the land sale will not feed them all their lives.

Their reasoning is valid. There are reports of numerous farmers having sold off their land in areas around Delhi owing to the growing urbanisation of the national capital region and then having literally blown up the money within a short period and then having to face the consequences. So the concerns of the Singur farmers are genuine as they point out that the land will always give them a livelihood but mere cash will not last for ever.

At the same time, with fragmentation of holdings, revenue from agriculture is gradually declining. This situation has been acknowledged by the Left Front government in West Bengal led by Buddhadeb Bhattacharya which has recognized that there is need for farmers to move into other sectors of the economy. In such a scenario, innovative ways to provide farmers both compensation as well a long term livelihood need to be incorporated into future land acquisition agreements.

The compromise formula that is sought to be hammered out currently by the West Bengal Governor Gopalkrishna Gandhi with the state government and Mamata Banerjee apparently envisages providing jobs to each family that is being uprooted. Reports have also appeared in the media about large industry trying to take a new approach to dealing with farmers whose land is being acquired for special economic zones. The aim should obviously be to ensure that the farmer's family does not lose out in the long run after selling their land.

As for the immediate problem of Singur, the Tatas with their emphasis on corporate social responsibility are bound to embrace any reasonable compensation package worked out by the state government along with the Governor. In case the situation becomes intractable, however, Ratan Tata has made it clear that he would walk away from the entire investment made in the state and shift elsewhere. This has, of course prompted a flurry of offers from other states though

Uttarakhand has the inside track since there is already a Tatas facility set up in that state which is reported to be in a position to churn out Nanos, if the situation so demands.

But walking away from the huge investment already made in Singur would be a lose-lose scenario for all concerned. A huge financial loss for the Tatas, a huge loss of image for West Bengal which had become to pride itself as a rising industrial centre and an equally huge loss for Mamata Bannerjee herself who would have to answer from her constituency about the enormous economic losses to West Bengal as a result of her obduracy.

It would thus be wiser for all concerned to sit together at the negotiating table and ultimately allow the world famous Nano to be produced in West Bengal. That would indeed be a feather in the cap of the state as well as Chief Minister Buddhadeb Bhattacharya who is on a mission to restore the glory of West Bengal as the leading modern corporate and industrial hub of the country.

What made the Tatas chose Singur?

Tata Motors has plans to invest about Rs 1,500 crore at Singur with the vendors bringing in another Rs 500 crore. The plant was to have a capacity of 2.5 lakh units a year on a two-shift basis, going up to 3.5 lakh units on three shifts. In addition, it would have vendors and act as a mother plant for many aggregates to the tune of five lakh cars a year.

A comprehensive package of incentives — subsidy on land, concessional power, a soft loan and tax paychecks— to match the benefits that Tata Motors would have got in Uttarakhand or Himachal Pradesh, was what got it to choose Singur in West Bengal for making its low-cost car Nano.

The agreement between Tata Motors, West Bengal Government and the State industrial promotion agency — West Bengal Industrial Development Corporation — available on the corporation's Web site, provides details of the incentives offered.

Soft loan: According to the agreement, the West Bengal Government will provide Tata Motors a loan of Rs 200 crore at 1 per cent interest, repayable in five equal annual instalments starting from the 21st year from the date of disbursement of the loan

Concessional power: The Government will provide electricity for the project at Rs 3 a kWh. In case the tariff is increased by more than 25 paise a unit in every block of five years, the Government will provide relief through additional compensation to neutralise the increase.

Subsidy on land: The West Bengal Industrial Development Corporation (WBIDC) will provide 645.67 acres of land to Tata Motors on a 90-year lease, on an annual lease rental of Rs 1 crore a year for the first five years, with a 25 per cent increase after every five years till 30 years.

Tax paychecks: The agreement says that WBIDC will provide an industrial promotion assistance in the form of a loan at 0.1 per cent per annum for amounts equal to gross value-added tax and

Central Sales Tax received by the State Government in each of the previous years ended March 31, on the sale of the small car from the date the sales begin.

India crosses the nuclear Rubicon at NSG

The 45 member NSG granted India the permission to trade in nuclear material and technology without signing the NPT. Voluntary non-binding moratorium on weapons testing is the maximum India has committed to the NSG.

The 45-member Nuclear Suppliers Group has agreed to lift a 34-year old nuclear trade embargo on India, helping it to resume nuclear commerce with the rest of the world. The waiver came after two-and-a-half days of hectic parleys in Vienna, paving the way for India to re-enter the global nuclear market.

This also sets the stage for the next milestone in operationalising the Indo-US civil nuclear co-operation agreement – the ratification of the pact through a vote in the US Congress. “The next move forward will be to accomplish the final step with the US Congress,” said US Ambassador to India, David C. Mulford.

Terming the decision of the NSG to adjust its guidelines to enable a full civil nuclear cooperation with India as a “forward looking and momentous decision,” the Prime Minister, Dr Manmohan Singh, said the opening of full civil nuclear cooperation between India and the international community will be good for India and the world.

The Prime Minister also thanked US President, George Bush for his role in taking forward the civil nuclear initiative and the decision by the NSG to adjust its guidelines to enable full civil nuclear cooperation between India and the international community.

The NSG waiver marked the second major milestone for India, with the IAEA clearance already through. This technically opens the door for Russian and French reactor manufacturers and uranium suppliers from Canada and Australia to enter India. The prospect of six more Koodankulam type reactors coming up with Russian assistance could be in the offing soon.

Analysts said for the investment potential of the India-US nuclear deal to be realised, a key domestic policy amendment in the form of allowing private sector participation is necessary. At present, private sector as well as foreign investment in the atomic energy sector is completely banned. The government is expected to speed up amendments to the Atomic Energy Act to facilitate the entry of private players in the Indian nuclear space.

The US along with Australia, the UK, Japan, Russia, China, France and Germany are among the 45 countries which make up the NSG. It was in 1974 after the Pokhran nuclear tests that India was denied access to nuclear technology and fuel by the NSG.

Now its entry into the global civilian nuclear fraternity could well be a win-win situation as it opens up avenues not only in business but also in technology flows for the country. India, which has established global leadership in research involving Pressurised Heavy Water Reactors (PHWR), Fast Breeder Reactors and thorium cycle, hopes to leverage this niche on a global basis.

Status of weapons tests

India negotiated hard for a waiver from the NSG to engage in nuclear commerce without signing the Nuclear Non-Proliferation treaty (NPT). At least three countries in the NSG said they needed many more assurances from India that it would never conduct a nuclear test again. These countries also wanted assurances that India would not pass on uranium enrichment technologies to other non-signatories of NPT.

Foreign Minister Pranab Mukherjee issued a statement, which emphasised India's voluntary moratorium on testing. However, he said nowhere that India would not test again. This was repeated by Chairman of the Atomic Energy Board, Anil Kakodkar. Mukherjee also stressed India's commitment to non-proliferation but added that as NPT was discriminatory, India would not sign it.

This testament of India's nuclear doctrine appears to have been accepted as India's commitment to non-proliferation. Achieving this cannot have been easy because, as India is not a member of NSG, it was the United States that swung the deal for New Delhi.

Conclusion of the deal had appeared difficult in view of the reservations expressed by countries like Ireland, Austria and New Zealand over the draft waiver as well as reported Chinese opposition to the move to grant India the waiver. India's argument for retaining the option of testing has consistently been that it lives in a rough neighbourhood inhabited by two nuclear powers, China and Pakistan. For obvious reasons, this annoyed China. The Chinese finally left the discussions altogether. Without China, the opposition of the other three countries – Ireland, New Zealand and Austria – weakened.

All that India did was to reiterate its unilateral moratorium on testing: subject to the neighbourhood threat perception remaining at the level it is.

PM Singh survives trust vote

The success of the trust vote has infused new life in a government tottering on the brink of collapse over the persistent nit-picking by the Leftists who had made it their mandate to oppose anything progressive the UPA government sought to implement, be it the Indo-US Nuclear deal or a renewed thrust to economic reforms.

Convincing win

After days of mudslinging, charges and counter-charges of corruption and bribery and claims and counter-claims, the Congress-led UPA government has cruised to a comfortable victory in the vote of confidence in the Lok Sabha.

The Prime Minister's motion expressing confidence of the House in the Council of Ministers was carried with 275 votes in favour and 256 against while two abstained in a total vote of 487. In a House with an effective strength of 541 members, eight MPs did not turn up for the vote.

The vote has put a formal stamp of approval on the controversial Indo-US nuclear agreement and will allow the government to push ahead with the nuke deal, which had been blocked by the Left parties. More importantly, the Prime Minister has emerged as a politician in his own right after this vote.

Breaking ranks

The opposition was predictably shell-shocked as its ranks had been successfully breached, giving the impression that the BJP-led National Democratic Alliance is in a disarray. As many as five BJP MPs are said to have defied their party whip and voted for the government. Other defectors were from JD (S) and TDP members. As many as three BJP members did not come for the vote. A Shiv Sena and an Akali Dal MP were among the other absentees.

Corruption allegations

The vote on the confidence motion came at the end of a day which was marred by unseemly scenes of allegations of bribery and intimidation by the Bharatiya Janata Party (BJP) and the Bahujan Samaj Party (BSP).

Three BJP MPs stunned the nation today by tabling Rs one crore in the Lok Sabha before the trust vote, alleging they were being bribed by Samajwadi Party MP Reoti Raman Singh and party general secretary Amar Singh "to abstain from voting". One of the three BJP MPs, Ashok Argal, told news channel CNN-IBN that he had placed hidden cameras when they were being given the money. The BJP leaders demanded that the Speaker watch the CD and take appropriate action who, however, said that it would not be possible to do it at such short notice.

The House had to be adjourned repeatedly as slogan-shouting opposition members stormed into the well of the House to demand Prime Minister's resignation.

The vote has ended the political instability ever since the Left withdrew its support to the government. For the BJP, the UPA government's victory is a major setback in as much as it won on the issue of the nuclear deal with which it has little complaints. The vote marginalises some of the smaller parties which thought they could call the shots in a situation of political instability. The projection of UP Chief Minister Mayawati as the Third Front's prospective leader and, perhaps, the next Prime Minister ended up creating fissures in the opposition. This only helped the government to fortify its position. Having won the vote and getting freed from Left's shackles, nothing prevents Prime Minister Manmohan Singh from concentrating his attention on issues like the price rise.

ISRO creates record with 10-satellite launch

The record multiple launch of 10 satellites in one shot showcased ISRO's space transportation capability in polar, 1,000-km distances, aboard the PSLV launcher.

World record

For Indian Space Research Organisation (ISRO), precision and timing played out perfectly when its 13th polar satellite launch vehicle (PSLV) fired off 10 satellites into space from the Satish Dhawan Space Centre at Sriharikota on April 28. In doing so, ISRO has humbled the Russian record of putting eight satellites, weighing far less, into space in one operation.

The payload

The launch put in orbit Cartosat-2A, the remote sensing satellite with the best-ever Indian imagery resolution offer of 0.8 metre. The same PSLV-C9 launcher delivered nine other satellites—the experimental Indian Mini Satellite IMS-1 and eight tiny commercial satellites—into a 637-km near-Earth orbit.

This was the 12th consecutive and successive PSLV flight from the Satish Dhawan Space Centre at Sriharikota. The same PSLV is being used to loft the Chandrayaan-1 lunar orbiter mission later this year.

Cartosat-2A comes as an improvement on earlier remote sensing satellites in spatial resolution, agility that allows frequent imaging of specific areas. ISRO describes it as a state-of-the-art remote sensing satellite with a spatial resolution of about one metre and a swath of 9.6 km. The satellite carries a panchromatic camera capable of taking black-and-white pictures in the visible region of electromagnetic spectrum. Data is expected to add to urban and rural applications that require large scale mapping.

IMS-1 or the Indian Mini Satellite is meant for remote sensing applications to generate data for indigenous use as well as for sale to potential customers.

The eight nano-satellites were built by universities in Canada, Denmark, Germany and the Netherlands. Called NLS-4 (a cluster of six), NLS-5 and RUBIN-8, they together weigh 50 kg. ISRO's commercial arm Antrix Corporation charged \$600,000 (about Rs 2.4 crore) for their launch. It charged \$12,000 (Rs 5 lakh) per kg as against the commercial price of \$20,000 (Rs 8 lakh) per kg since the eight nano satellites were designed and developed by universities and research bodies in Canada, Denmark, Germany and The Netherlands.

Big money is in launching heavy satellites

The world record mission not only demonstrates capability to launch small satellites but also puts ISRO's commercial arm, Rs 660-crore Antrix Corporation, in a competitive position to capture a chunk of the over \$3-billion global satellite launch business. But if ISRO seeks to tap this market aggressively, it will have to shift focus to launch bigger rockets and heavier satellites.

Satellite launches for applications spanning direct-to-home (DTH) services, global positioning systems (GPS), education, telecom, weather monitoring and others are increasing worldwide. But launch costs are prohibitively-high. ISRO's satellite launch services at 60 to 70 percent cheaper costs could provide a boost to India's space programme. The challenge before ISRO will be to demonstrate consistent capability to launch heavy satellites, weighing over 4 tonnes. ISRO scientists say that such capability will be available by 2009 when ISRO readies its heavier rocket GSLV Mark-III.

At present India has the capability of carrying small satellites of less than 100 kg to nearly 2.25 tonnes capacity, an area dominated by Russia, China, Ukraine and the European Space Agency. Globally, the Ariane 5 rocket built by Arianespace of France can effectively put a five-tonne satellite into orbit. The cost is a whopping \$120 million. Rockets that can carry a very heavy payload will be in demand to put the next generation of super-sized satellites into space.

Other rockets capable of putting heavy satellites into space like Atlas V of America's United Launch Alliance (ULA) are rarely available for non-US missions. Likewise, the Delta IV rocket built by the ULA is primarily for US military use. Most commercial satellites weigh between 3 tonnes and 5 tonnes and Ariane 5 can carry two into space at once.

Budget 2008-09: Sops galore

P. Chidambaram's budget has an unprecedented amount of benefits for the rural economy and has also pleased the urban middle class with tax giveaways. The across the board cut in taxes/duties will boost demand by making a wide swathe of consumer goods more affordable.

The budget proposals for 2008-09 are a bag of goodies for the middle class, women, senior citizens, and consumers, and a major relief for debt-trapped farmers. Political parties had demanded relief for distressed farmers and the finance minister obliged with waiver of loans for indebted farmers. Nearly 3 crore small and medium farmers and 1 crore bigger farmers will benefit from this. For the small and marginal farmers, the entire loan amount will be waived and for others, a small part will be waived. For the crisis-ridden agriculture sector, this will come as a godsend. This does not include their debt to the money lenders which is even more. The banks will be reimbursed for this in three years so that it does not impact their balance sheets adversely.

The salaried class would be a happy lot as Chidambaram has raised the exemption limit and raised the slabs for applicable tax rates. As small cars and two-wheelers will become cheaper due to duty reduction, consumers have more reasons to cheer.

The corporate sector could also count its blessings as he imposed no additional tax, nor did he take away anything from them. Chidambaram has given a boost to the manufacturing sector by cutting down excise on raw materials and not raising customs duties.

The only ones unhappy were those playing for short-term gains in the stock market and adding to the volatility. Short-term capital gains attract a tax of 10 percent under Section 111A and this has been raised to 15 percent in line with the dividends which attract a 15 percent tax rate.

For the social sector, the finance minister has raised allocations significantly under many schemes covering health, education, drinking water, irrigation etc. The focus on these sectors underlines the fact that real and meaningful economic growth is dependent on the performance of these sectors.

Your Budget

What's cheaper

- Small cars, two-wheelers, three-wheelers and buses.
- Medicines, breakfast cereal, puffed rice, tea and coffee pre-mixes.
- Packaged coconut water, sherbet, packaged milk containing edible nuts.
- Set-top boxes, wireless data cards, water purifiers, steel, paper.

What's dearer

- Mobile handsets, non-filter cigarettes, cigars, cheroots, packaged software.

Taxes

- Income tax exemption limit goes up to Rs.1.5 lakh; Rs.1.8 lakh for women; Rs.2.25 lakh for senior citizens.
- Additional deduction up to Rs.15,000 to individuals who pay for parents' health insurance.
- Banking cash transaction tax off.
- Crèches, guest houses and sports events out of fringe benefit tax net.
- Small service providers earning Rs.10 lakh exempt from tax.
- Short-term capital gains tax up from 10% to 15%
- PAN mandatory for all financial market transactions

Senior citizens

- A Rs.400-crore national programme for elderly
- Two National Institutes of Ageing
- Eight regional centres
- Department for geriatric health care in one medical college/hospital in each state

Education

- Non-profit corporation for skill development
- 6,000 model schools
- 16 central universities
- 300 ITIs to be upgraded
- Three new IITs, two Indian Institutes of Science Education and Research, and two planning and architecture schools
- Mid-day meal scheme for upper primary classes

Farm

- Rs.50,000-crore loan waiver to benefit 3 crore farmers
- Rs.10,000-crore debt relief for 1 crore farmers
- Fertilisers, chicken feed and livestock feed cheaper

AGRICULTURE: Loan write-offs to relieve farm distress

The write-off of Rs 60,000 crore (or an average of Rs 15,000 per farmer) is by far the single biggest hand-out given by any government in Indian fiscal history, and was the most striking point in the budget. The scheme of debt relief for small and marginal farmers includes the complete waiver of all loans that were overdue on December 31, 2007 and which remained unpaid until February 29, 2008 while for other farmers there is a one time scheme (OTS) consisting of a rebate of 25 percent against payment of 75 percent of all loans that remained overdue and unpaid. The total value of loans being waived is estimated at Rs 50,000 crore plus an additional Rs 10,000 crore under the OTS and is estimated to benefit about 4 crore farmers. The implementation of the debt waiver and relief scheme is to be completed by June 30, 2008.

The Rs 60,000 crore loan waiver scheme has been the most debated of all budget measures. It has come in for the maximum share of criticism from economists who believe that write-offs are unlikely to relieve farm distress and bring growth and prosperity to the farm sector. It will also be detrimental to inculcating credit discipline in farm sector borrowers. Writing off loans makes

every farmer who repaid his loan feel cheated. Also, the write-off does not end rural indebtedness, because farmers owe more money to moneylenders. And if they got into financial trouble because farming does not pay enough, then the debt write-off does not solve the underlying problem. So farmers who borrow again (if the banks are willing to lend) will also get into trouble again.

AUTOMOBILES: Speed breakers removed

Two-wheeler and three-wheeler manufacturers have reason to smile. The finance minister has cut excise duties in both categories by four percentage points. Small cars, two- and three-wheelers, bus and bus chassis will be brought under a common excise duty of 12 percent from the current 16 percent. To promote clean fuel technology, the finance minister has also slashed excise duty rates by a whopping 10 percentage points on hybrid cars (which are yet to be launched in India) from what would have been 24 percent. Many car makers have been demanding a revision in excise duty rate for hybrid cars to make them viable in India and, hence the budget proposal to reduce excise duty.

The Rs 70,000 crore car industry grew nearly 21 percent in 2006-07. Stymied by high interest rates, the industry's growth has been below 13 percent between April and January this financial year. The excise duty cut for small cars comes at a time when 70 out of every 100 cars sold fall under the definition of small cars.

High interest rates had dented the sales of two-wheelers and three-wheelers. Leading manufacturers, including Hero Honda, Bajaj Auto and TVS Motors, had been demanding a revision in the duty rate targeted to provide the much needed fillip.

Much to the delight of prospective small car buyers, leading manufacturers Hyundai Motor India, General Motors and Maruti Suzuki slashed prices by up to Rs 16,000 to pass on benefits from the excise duty cut announced in the budget. Tyre makers have also decided to pass on the benefits of reduction in CENVAT duty to its consumers by announcing price cuts of up to two percent.

CEMENT: Small is not beautiful

Chidambaram's proposal to increase excise duty on cement clinkers has met with apprehension from the industry, which feels it could adversely affect mini and small plants, although the overall budget was welcomed as a "positive one".

What is proposed is a hike in excise duty of Rs. 400 a tonne or 14 percent ad-valorem, whichever is higher, on bulk cement. Earlier, it was a flat excise duty of Rs. 400 a tonne in bulk cement. Further, there is also an increase in excise duty on cement clinkers to Rs 450 from Rs 350 per metric tonne.

The move will deter companies to sell and set up clinker plants in backward states, like Uttarakhand and the northeast. Small and mini plants are set up by manufacturers who usually sell clinkers to big cement companies. There may not be an immediate impact of the increase in excise duty on bulk cements as the bulk cement supply is hardly two percent in the country.

COMMERCIAL VEHICLES: Buses become cheaper

The government reduced the excise duty on buses and bus chassis from 16 to 12 percent in the Budget. Thanks to the excise cut on buses, coupled with reduced duty on bus chassis, super-luxury coaches will be cheaper by Rs 2.4 lakh, low floor buses by Rs 1.8 lakh, while the standard bus by Rs 64,000. Even light buses will be cheaper by Rs 35,000. The cut is a demand booster and benefits the entire bus financing industry. While the prices of new vehicles will drop, even the used bus market is witnessing downward pricing. The cut is also expected to accelerate replacement purchases.

DEFENCE: Deep pockets for country's security

With the Indian armed forces embarking on an extensive modernisation drive, the finance minister, hiked the defence expenditure for fiscal 2008-09 by 10 percent to Rs 10,560 crore and promised even more funds if these were required. The allocation accounts for 14 percent of the government's total spending of Rs 75,080 crore during the fiscal beginning April 1. The Defence Research and Development Organisation (DRDO) received a boost with a hike of 6.2 percent. The current DRDO outlay has been pegged at Rs 330 crore against last year's figure of Rs 310 crore.

While the 10 percent hike exceeds the 7.8 percent increase granted for the 2007-08 fiscal, the allocation is still below 2.5 percent of the GDP, even as successive parliamentary committees have recommended this be raised to at least 3 percent, if the armed forces are to rapidly modernise. The armed forces are eyeing military hardware worth Rs 1550 crore over the next five years in a series of big-ticket purchases of combat jets, helicopters, artillery guns and ships.

FMCG: Lower input costs, prices

Reduced CENVAT and excise duty cuts may result in cost efficiency and savings. The general CENVAT (central value-added tax) rate on all goods has been reduced from 16 percent to 14 percent. Some products such as packaged coconut water, tea and coffee mixes have seen duty cuts from 16 percent to nil. Others such as water purification devices, specified packaging material and breakfast cereals have seen duties halved from 16 percent to 8 percent.

A lower CENVAT and lesser duties on some packaging materials will reduce input costs. Companies may not be able to pass on the benefits to consumers, as the reductions are marginal.

INFORMATION TECHNOLOGY: Higher excise; service centres

Higher excise duty on packaged software and service tax on customised software is a setback. The increased allocation of funds to the Department of Information and Technology (DIT) is likely to benefit the IT sector. It has been raised from Rs 1,500 crore in 2007-08 to Rs 1,680 crore for 2008-09.

Other proposals from the finance ministry include zero excise duty for wireless data cards used for Internet connectivity, a full exemption for specified parts of set top boxes (STBs), specified raw materials from customs duty for use in the IT/electronic hardware industry and reduction of customs duty on convergence products from 10 percent to 5 percent. Around Rs 450 crore has been allocated for state wide area networks (SWAN), Rs 275 crore for state data centres and Rs 75 crore for common service centres (CSCs). Besides, one lakh broadband Internet-enabled CSCs will be established. The DIT has been allotted an additional Rs 100 crore for establishing

the National Knowledge Network. The minister has proposed a non-profit corporation, with the government putting in Rs 1,000 crore as equity.

Excise duty on packaged software has been increased from 8 percent to 12 percent. The FM has also chosen to completely ignore the demand to extend the tax holiday for Software Technology Parks of India, which comes to an end in March 31, 2009. The higher excise duty on packaged software and service tax on customised software is a setback. This will impact the domestic industry and to some extent discourage domestic companies which are into customised software.

OIL and GAS: Oil's not well, yet steady

The finance minister has abolished the ad valorem component in excise duty on petrol and diesel. However, the current specific excise duty component—Rs 13.26 a litre on petrol and Rs 3.32 a litre on diesel—will increase to Rs 14.61 a litre for petrol and Rs 4.67 a litre on diesel. Customs duty on naphtha has been increased to 5 percent from zero. The central sales tax on goods, which includes all petroleum products, has been reduced to 2 percent from 3 percent.

The FM also withdrew tax holidays from new and expanded refineries, which begin operations after April 1, 2009. The withdrawal of the seven-year income-tax holiday for new refineries will adversely impact Indian Oil Corporation's (IOC's) upcoming refinery at Paradeep in Orissa, the Hindustan Petroleum Corporation-LN Mittal joint venture refinery in Bathinda, Bharat Petroleum Corporation's Bina refinery and Essar Oil's expanded refinery at Vadinar in Gujarat. However, Reliance Petroleum's under-construction 27-mtpa refinery will get the tax benefit as it is scheduled to begin operation in December 2008.

POWER: Sops for capacity augmentation

A host of significant steps will go a long way towards tackling power shortage. The finance minister has proposed a reduction in customs duty on project imports from 7.5 percent to 5 percent. He has also proposed to impose a 4 percent special CVD (countervailing duty) on a few specified projects in the power sector. The Centre plans to develop five more ultra-mega power projects (UMPPs).

The government will continue the Rajiv Gandhi Grameen Vidyutikaran Yojana during the Eleventh Plan period with a capital subsidy of Rs 28,000 crore. An amount of Rs 5,500 crore has been allocated for the scheme in 2008-09. It has allocated Rs 800 crore for the Accelerated Power Development and Reforms Project (APDRP) and has proposed to set up a fund for transmission and distribution reforms.

The Centre has plans to increase power generation to overcome the severe shortage across the country. It proposes to set up 78,577 mw during the Eleventh Plan, which is more than the total capacity added in the last three plans. It has awarded four UMPPs and several smaller projects are coming up in different states.

Power and mining projects will benefit from the lower customs duty on project imports. Equipment companies will also gain from the higher allocation for APDRP and rural electrification projects.

PHARMACEUTICALS: Just what the doctor ordered

The budget has reduced the excise duty on all goods produced in the pharmaceutical sector from 16 percent to 8 percent, a long pending demand of drug manufacturers. Customs duties have also been reduced on specific life-saving drugs and on bulk drugs used for the manufacture of such drugs from 10 percent to 5 percent. These have been exempted from excise duty or countervailing duty.

The key anti-AIDS drug, atazanavir, as well as bulk drugs used in its production, has been exempted from excise duty. The budget, which allocated Rs 993 crore for the National AIDS Control Programme, also granted Rs 1,042 crore to eradicate polio with focus on the high-risk districts in Uttar Pradesh and Bihar.

The government also gave a five-year tax holiday to hospitals located in any place outside the urban areas in tier-II and tier-III towns, with a window open between April 1, 2008, and March 31, 2013.

The industry is upbeat on the decision to reduce excise duty, which will help reduce prices of drugs and revive the fortunes of small and medium manufacturers. It is also happy with the reduction on customs duty on life-saving drugs.

The R&D sector was given extension of 125 percent weighted deduction for outsourcing R&D. The finance minister's decision to include outsourced R&D operations under the exemption limits would boost drug discovery operations in the country. The move would boost investments in R&D and would encourage a lot of contract researchers to set shop in India.

SOCIAL SECTOR: Bumper allocations

The social sector will be getting the maximum allocation of Rs 95,919 crore out of the total annual plan outlay for 2008-09. Schemes like Below Poverty Line (BPL) health insurance and national programme for the elderly, improving quality of learning at schools and doubling of allocation for the minority welfare topped the agenda.

The allocation for social services has been stepped up from Rs 75,162 crore in 2007-08 to Rs 95,919 crore, showing a growth of about 28 percent. The government has pegged the annual plan outlay for 2008-09 at Rs 3.76 lakh crore. In the education sector, Sarva Shiksha Abhiyan (SSA) would be provided Rs 13,100 crore; the mid-day meal scheme Rs 8,000 crore and secondary education Rs 4,554 crore.

The focus of the SSA would shift from access and infrastructure at the primary level to enhancing retention; improving quality of learning and ensuring access to upper primary classes. The minister proposed to provide Rs 650 crore for a new model school programme with the aim of establishing 6,000 high quality model schools. The mid-day meal scheme would be extended to upper primary classes in government and government-aided schools in the country.

The budget has two major new schemes for the social sector that would be launched in 2008-09. Centre would provide Rs 205 crore towards its share of premia for the health insurance scheme

for the BPL families. The other would be a National Programme for the Elderly with a plan outlay of Rs 400 crore. As part of the programme, two National Institutes of Ageing, eight regional centres and a department of geriatric medical care would be set up in one medical college/tertiary level hospital in each state during the 11th Plan period.

Responding to the long-standing demand of anganwadi workers, the minister announced an increase in their monthly remuneration from Rs 1,000 to Rs 1,500.

Increasing the allocation to the ministry of minority affairs from Rs 500 crore in 2007-08 to Rs 1,000 crore in 2008-09, a multi-sectoral development plan for each of the 90 minority concentration districts would be drawn up at a cost of Rs 3,780 crore. The allocation in 2008-09 would be Rs 540 crore. A pre-matric scholarship scheme with an allocation of Rs 80 crore would also be launched for the minority students from the next financial year.

Apart from increasing the allocation to the ministry of women and child development by 24 percent to Rs 7,200 crore in 2008-09, the budget proposals for the first time included a statement on child-related schemes. The total expenditure on these schemes is to the order of Rs 33,434 crore.

STEEL: Scraping the bottom

The budget has recommended a reduction of import duty on steel melting scrap from 5 percent to nil. To conserve chrome ore and make it available for value-added manufacture in India, export duty has been increased to Rs 3,000 from Rs 2,000 a tonne. The industry has welcomed the measures, but feels it may not be enough to mitigate the cost increase, given that the sector faced pressure from the steel ministry to keep prices under check, which led to a partial rollback in January. Stainless steel producers hailed the chrome ore duty hike as it would increase the availability of chrome ore in the domestic market.

CAPITAL MARKETS: Budget STT-umps markets

The budget proposals were a dampener for the stock market. The finance minister hiked the short term capital gains tax from 10 percent to 15 percent. The idea was to encourage investors to stay invested for a longer term, but market players termed it as a sentiment-spoiler.

However, it was the other proposal of the finance minister—securities transaction tax (STT) to be set off as a business expense rather than against other taxes paid, which was the case earlier—that hogged the limelight. According to the proposal, the amount of STT paid by the broker will be allowed as deduction under Section 36 of the Income Tax Act only if the income from these transactions is included under the head “profits and gains of business or profession”. STT set-off is likely to hit brokerage houses hard.

The finance minister has also proposed to bring the stock, commodity exchanges and clearing houses under the service tax net. As per the proposal, service tax would be charged by stock exchanges on exchange transaction fees, listing fees, data dissemination charges (data provided to brokers by exchanges for fees) and on property rent, if any, being received by the stock

exchanges. The service tax would be passed on to the stock brokers, which they would set off with the service tax on brokerage.

TAXATION: Exemption limits raised

Personal income tax

The finance minister has increased the exemption limit for paying income tax to Rs 1,50,000 from Rs 1,10,000. Those earning between Rs 1,50,000 and Rs 3 lakh will pay only 10 percent income tax; those earning between Rs 3 lakh and Rs 5 lakh 20 percent; while those earning more than Rs 5 lakh would have to pay 30 percent. In the case of women assesses, the exemption limit has been raised from Rs 1,45,000 to Rs 1,80,000, while senior citizens will have to pay taxes on income of Rs 2,25,000 and above, against the earlier ceiling of Rs 1,95,000. The banking cash transaction tax, which was very unpopular, has also been withdrawn.

Corporate tax

Corporate India was hoping that the finance minister would cut corporation tax, even abolish the fringe benefit tax, and they were disappointed that he didn't. But he has made other significant cuts that should stimulate consumption and spur investment.

SERVICE TAX: More money for the government

Purchase of unit-linked insurance plans (ULIP) will no longer help save on income tax. The finance minister, P. Chidambaram, has brought them into the service-tax net. So a ULIP scheme will attract education and health cesses along with the service tax.

Chidambaram proposes to mobilise a staggering Rs 64,460 crore from services this year against Rs 50,603 crore in 2007-08. Justifying his move to rope in more services into the tax net, he pointed out that the sector contributes over 55 percent of GDP.

The finance minister has proposed to increase service tax revenues by bringing in services like stock and commodity exchanges, asset management firms offering unit linked insurance plans (ULIPs), clearing houses and customised software makers under levy. Besides right to use goods in cases, where VAT is not payable, would also come under service tax net.

Providing relief to small service providers, Chidambaram proposed to increase the threshold limit of tax exemption from Rs 8 lakh to Rs 10 lakh. As a result as many as 65,000 small services providers will go out of the service tax net.

Chidambaram also clarified that money changers, persons running games of chance and tourist operators using contract carriage vehicles are liable to pay service tax, although it was widely believed that they were exempt.

The budget proposed to include purchase or sale of foreign currency, including money changing, by an authorised dealer or an authorised money changer, under banking and other financial service.

Even testing or analysis of IT software under technical analysis service would come under the tax net.

TEXTILES: Weaving new hope

The budget has lots of incentives for the textile sector to increase capacities and improve productivity. Six mega textile clusters will be set up with an initial investment of Rs 100 crore to scale up infrastructure and production. The allocation under the Technology Upgradation Fund (TUF) has been increased to Rs 1,090 crore from Rs 911 crore in 2007-08. Varanasi and Sibsagar (handlooms), Bhiwandi and Erode (powerlooms) and Narsapur and Moradabad (handicrafts) will be where these mega clusters will come up with an investment of Rs 70 crore each.

Among other measures, the government has approved all 30 integrated textile parks and maintained the Rs 450 crore outlay for the Scheme of Integrated Textile Park (SITP). About 17 lakh families of weavers will be covered under the health insurance scheme by March 2008 with an increased allocation of Rs 340 crore. The one percent excise duty (NCCD) on polyester filament yarn has been lifted.

There is already a backlog in the disbursement of loans under TUF amounting to about Rs 1,000 crore and the textile and clothing industry was expecting another Rs 1,100 crore. The industry had asked for excise and import duty cuts on machinery to assist domestic manufacturing that would reduce dependence on imports. The sector, which is reeling under the sharp currency appreciation, is therefore disappointed over the lack of any specific initiatives.

HOTELS AND TOURISM: Hotels out on a tax holiday

To promote cultural tourism, the budget has proposed a five-year income tax holiday to two-, three- and four-star hotels that are situated in specified districts which have UNESCO-declared "World Heritage Sites". The condition is that the hotels should be constructed and functional by March 31, 2013. The plan allocation for tourism has also been increased by 5 percent from Rs 786 crore to Rs 830 crore.

The hotel industry is unhappy with the decision to extend the 5-year tax holiday only for UNESCO heritage sites. The industry feels that most world heritage sites are located in areas with high seasonal tourist inflows. Besides, availability of land is a concern for the sector.

Criticism

The sops-laden budget has given enough hints that general elections are just around the corner. This intention of the government was best exemplified by an unusually aggressive Prime Minister Manmohan Singh, who normally is dignity personified, telling parliament that the waiver was UPA government's way to rescue the farmers from the "debt distress" created by the previous NDA government. Devoid of any monumental breakthroughs, the last budget of the UPA government before the Lok Sabha elections is clearly aimed at winning the hearts and minds of the voters.

Economists say loan waiver, the centre-piece of the election oriented budget, will not mitigate distress among farmers as it covers less than one-third of the affected farmers. According to the C. Rangarajan Committee, only 27 percent of the farm households take loans from formal sources. Most others borrow from private moneylenders, who charge heavy interest rates and also force the borrowers to sell their crops to or through them at lower-than-market prices.

One obvious reason for the persistence of the moneylender even as the banking system has expanded in the rural economy is his far greater flexibility with regard to timely disbursement of loans, conditions of end use and collateral requirements.

How do the banks ensure that farmers who have maintained payment schedules and, therefore, do not get any benefit from the current waiver continue to behave that way? The government should ensure that the farmers who paid their debts on time do not feel cheated. Borrowers with good records can be given a small discount on their interest rates. The credit limits of farmers who get the benefit of the waiver could be curtailed by more rigorous collateral standards. The incentive to default should be nipped in the bud.

Debt is only one part of the problem that has got highlighted due to suicides by farmers. Irrigation is another. There are farmers, particularly in arid and other areas, where irrigation facilities are absent or inadequate, who own more than two hectares but are poor because of low productivity or frequent crop failures. They will not benefit from the loan waiver.

Farm productivity in India is below global standards. A large share of farmland is still subject to the vagaries of monsoons as investments in developing irrigation facilities have stagnated. Also needed is the use of biotechnology to improve the quality of seeds as has been done in the case of cotton. There is also a need to strengthen extension services to provide expert advice to farmers on what to grow and how.

If farmers are to be rescued from relapsing into a debt trap and agriculture has to be made remunerative, the practice of artificially suppressing farm prices will have to be given up. While the government must ensure payment of minimum support prices, if global prices are higher, the growers must not be denied the added benefit. Last year, the government paid much more for imported wheat than what was paid to local farmers. The government burden can be contained if the food, power and fertiliser subsidies are limited to the needy.

The Nano Revolution

Ratan Tata kept his promise when he unveiled the Nano at a price that will make a four-wheeler affordable to owners of two-wheelers. Nano is a demonstration of engineering and project management skills of Tata Motors and has silenced critics and competitors who termed a Rs 1 lakh car as a pipe dream. Nano has no peers in the world car market and has created a new market for itself.

Unveiling Nano

Tata Motors unveiled the world's cheapest motor car at Auto Expo 2008 organised in New Delhi recently. The vehicle, called the Tata Nano, will sell for Rs 1 lakh and enable two-wheeler owners to move to four wheels. The four-door, five-seater car, which goes on sale later this year, has a 33bhp, 624cc engine at the rear.

It has no air-conditioning, no electric windows and no power steering, but two deluxe models will be on offer. Tata Motors will initially make about 250,000 Nanos and expects an eventual annual demand of one million cars. The price will be slightly more than Rs 1 lakh, once tax and other costs are taken into consideration. The Nano release comes as the domestic car market is predicted to soar in the coming years on the back of the country's fast-growing economy and increased consumer wealth.

Low-cost structure

The Tata Motors managers knew that they had to make a safe and comfortable car to be sold at Rs 1 lakh, without losing sight of the fact that project had to be profitable as well.

The Nano team led by Girish Wagh achieved this by making a clever design and strictly working within the budget at every stage of the design and development process. Their focus was on three aspects of the car: low cost, safe and environment-friendly norms and acceptable performance.

Good design was critical for making effective savings in material usage, reducing mass and weight, and for safety. The engineers decided to put the engine in the rear, thus gaining space in the front and saving cost. At the same time, absolute structural stiffness analysis was done with the stylists at the I.De.A. Institute in Italy, which designed the look of the car. The NVH (noise, vibration, harshness) characteristics were tackled by using very lean but intelligent design.

Given the rear-engine layout, the engineers were able to move the firewall well forward. This reduced the car's weight. It also enhanced the cabin foot well area. A design detail which delivered reductions in cost and weight reduction and facilitated the adoption of a cheaper manufacturing process was achieved by bonding the rear glass windscreen to the tailgate.

Good design and packaging of the mechanical aggregates brought in great savings. The compact configuration of the engine aided in weight distribution and in deriving a low centre of gravity. The placement of the battery under the driver's seat helped spread the weight optimally while the radiator at the rear on the right hand side ensured good placement of the ancillaries. The rear-

engine layout also helped save costs and complexity as the drive shafts didn't need complex joints as in a front-engine vehicle.

Bosch played a major role in the development of the multi-point fuelling system and the electronic management system that enables a consistent and precise fuel delivery with optimised spark control, resulting in the frugal consumption of the 623.6cc engine.

It also saved weight by going for tubeless tyres made by MRF. A total of 2 kg were saved from the tyres alone. By doing away with the tube, Tata managed to save a couple of hundred rupees. The use of the right amount of plastics for the given surface in the cabin plus the architecture of the seats with optimised cushioning aided the engineers in their battle to balance costs and comfort.

Finally, the complete project cost for the Nano is Rs 1,700 crore, exactly the same amount Tata spent a decade ago to start the Indica project.

According to Wagh, the low-cost marvel is a combination of innovation in design and development, component engineering and the skilful management of vendors who are supplying components for the Nano. Tata Motors has filed 34 patents on various design innovations that went into building the car, some of them relating to its engine.

More than 100 vendors are contributing to the Nano, and Wagh indicated that some vendors were playing a role in reducing the cost of the car. Bumper-to-bumper, the Nano is 7.05 percent smaller than the Maruti 800 but provides 21 percent more space inside. The smaller design of the body and its components means lower costs of materials.

Tata Motors has entered into long-term agreements with vendors who are supplying components for the Tata Nano. Automotive engineering analysts believe such long-term agreements would prompt vendors to explore strategies to reduce cost of the components.