

ASSOCHAM
FINANCIAL
PULSE
STUDY

Government revenues through corporate tax

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Prepared by
Assocham Research Bureau

INTRODUCTION

The manufacturing and services sector contribution in the GDP accounts for 15.4 per cent and 55.6 per cent respectively. Thus, companies in these sectors are the largest contributor in the gross tax revenues in form of corporate tax. However, in the current fiscal, the dark clouds of financial crisis have lead in declining profitability and rising interest rate cost of Indian companies forcing them to trim cash accumulations of the government as revenues plunge through low corporate tax collections.

TIME PERIOD

The report prepared by ASSOCHAM Research Bureau has taken corporate results announced by companies engaged in various manufacturing & services related activities during the third quarter ending December 2008-09. Indian companies that have announced their results during 15th January- 2nd February 2008-09, have been analyzed in the study.

DATA SOURCE

The report is prepared on the data posted by companies listed on the Bombay Stock Exchange (BSE).

SAMPLE SIZE

The ASSOCHAM Research Bureau (ARB) has taken total 442 listed Indian companies that are further bifurcated and classified under various sectors and sub-sectors for broader analysis.

- In total ARB identified companies under 37 broad sectors. (Refer Annexure)
- There were 326 Indian firms engaged in organized manufacturing and related activities. However, in the services sector 116 Indian companies were identified.

PARAMETERS

The analysis of the Indian companies is based on the parameters including provision for taxation, net profit and interest cost.

METHODOLOGY

Each company fall under specific sector then aggregate sums and averages of each sector have been calculated on the various parameters for comparative analysis.

The ASSOCHAM Financial Pulse (AFP) study revealed that the aggregate tax payments by 442 companies plunged by whooping 40 per cent in the third quarter of the financial year 2008-09 as compared to the corresponding period of the previous fiscal. With the worsening economic scenario, most of the Indian firms are battling with slowing demand (11.22 per cent), mounting losses by 41 per cent and rising interest cost by 51.5 per cent.

MANUFACTURING SECTOR

Manufacturing has been recognized as the main engine for economic growth and creation of wealth thus, emphasis have been placed on the growth of the industry in most of the Five Year Plans.

According to Assocham Financial Pulse (AFP) study "**Government revenues through corporate tax**", analyzed that the corporate tax collection by 326 organized manufacturing firms dipped by 41.8 per cent in the third quarter of the financial year 2008-09 as compared to the corresponding period of the previous fiscal, on account of dismal economic scenario where most of the firms are battling with minimal demand (9.22 per cent), rising interest cost (44.32 per cent) and mounting losses (-50.33 per cent).

SECTOR WISE PERFORMANCE (Q3 FY'09 over Q3 FY'08)

The study identified 25 broad sectors engaged in various manufacturing related activities, out of which 19 reported declining contribution of corporate tax during the Q3 FY'09 as compared to the same period of the previous fiscal.

Among the sectors, the 4 companies in **petroleum products and lubricants** contributed Rs. 35.85 crore in Q3FY'09 as compared to Rs. 590.85 crore in the same period of the previous fiscal registering a negative growth of 170.46 per

cent in total corporate tax collections. However, the aggregate net profit of the sector dipped sharply by 327.87 per cent and interest cost rose by 138.69 per cent.

At the second position, in terms of low corporate tax contribution, **IT Hardware** registered major decline by 110.26 per cent from Rs. 3.81 crore in the period October-December 2007-08 to Rs. 0.39 crore in the same period a year ago. The 3 prominent companies in the sector recorded aggregate net losses by 117.48 per cent and interest cost jumped by 49.27 per cent.

Major manufacturing sectors with sliding tax contributions

No. of Co.	Manufacturing Sector/Industry	Aggregate			
		Net sales	Net Profit	Interest Cost	Provision for taxation
		Growth Rate (in %)			
326	<i>Total Manufacturing Co.</i>	9.22	-50.33	44.32	-41.82
4	Petroleum Products & lubricants	-22.17	-327.87	138.69	-170.46
3	IT Hardware	-10.72	-117.48	49.27	-110.26
10	Gems & Jewellery	-2.25	-55.28	70.88	-102.48
12	Electric Goods	14.18	-40.76	52.44	-89.29
7	Breweries	23.7	-61.12	27.45	-73.96

Source: Assocham Financial Pulse (AFP)

At the third place, tax contribution by the **gems and jewellery sector** with ten companies plunged by 102.48 per cent, from Rs. 10.79 crore in Q3 FY'08 to Rs. 0.27 crore in the same period of the current fiscal. As net profits dipped by 55.28 per cent and interest cost pressure increased by 70.88 per cent.

Similarly, government is losing revenues with declining profits and rising interest cost as companies fail to pay large corporate tax in major sectors auto components (-75.97 per cent; 40.14 per cent), steel (-65.65 per cent; 35.03 per cent), textiles (-57.58 per cent; 61.84 per cent), metals & mining (-32.11 per cent; 24.51

per cent), cement (-36.09 per cent; 21.63 per cent), pharma (-115.73 per cent; 78.74 per cent) and automobiles (-20.76 per cent; 177.19 per cent) respectively among others.

However, aggregate tax contribution by these sectors witness a major plunge as auto components recorded dip by 70.78 per cent in October-December 2008-09 as compared to the same period of the previous year. Similarly the fall was witnessed in steel sector (-61.11 per cent), textiles (-59.48 per cent), metals & mining (-41.51 per cent), cement (-35.74 per cent), pharma (-29.94 per cent) and automobiles (-24.76) respectively.

COMPANY WISE PERFORMANCE (Q3 FY'09 over Q3 FY'08)

One time top tax paying companies in sectors like Steel, Automotive and Auto Components are now witnessing pressure on their bottom and top lines contributing fewer amounts in the corporate tax kitty.

Among the top corporate houses engaged in manufacturing and related activities Reliance Industries Ltd recorded declining tax contribution by 42.63 per cent from Rs. 1,262 crore in Q3 FY'08 to Rs. 724 crore in the corresponding period of the current fiscal.

In the **steel sector** amount of tax paid by SAIL and Tata Steel Ltd dipped by -58.16 per cent and 42.63 per cent respectively in the quarter ending December 2008-09. SAIL's amount of corporate tax reduced from Rs. 987.50 crore to Rs.413.21 crore during the study period. Similarly, Tata Steel Ltd tax contribution also slipped from Rs. 506.07 crore in October-December 2007-08 to Rs. 293.89 crore in the same period in the current fiscal. However, JSW Steel Ltd recorded a major dip in tax contribution by -140.45 per cent in the third quarter of FY'09 over Q3 FY'08.

In the **automobile segment**, tax contribution from Hero Honda Motors Limited slipped by 4.79 per cent from Rs. 127.55 crore in Q3 FY'08 to Rs. 121.44 crore in FY'09. Similarly, Bajaj Auto Ltd tax contribution also plunged by 25.48 per cent from Rs. 101.31 crore in the third quarter of FY'08 to Rs. 75.50 crore in the same period of current fiscal.

In the **auto components sector**, Kirloskar Oil Engines Limited registered declining tax contribution by 46.42 per cent from Rs. 13.96 crore in the third quarter of FY'08 to Rs. 7.48 crore in the same period of current financial year.

Top manufacturing firms with declining tax contribution

Company name	Sector	Provision for taxation		
		Q3 2008-09	Q3 2007-08	Growth rate (in %)
Hero Honda Motors Limited	Automobile	121.44	127.55	-4.79
Bajaj Auto Limited	Automobile	75.5	101.31	-25.48
Kirloskar Oil Engines Limited	Auto Component	7.48	13.96	-46.42
Ultra Tech Cement Limited	Cement	96.41	133.37	-27.71
The India Cement Limited	Cement	38.5	62.43	-38.33
Steel Authority of India Limited	Steel	413.21	987.5	-58.16
TATA Steel Ltd.	Steel	293.89	506.07	-41.93
K.P.R. Mill Limited	Textiles	1.01	4.3	-76.49

Source: Assocham Financial Pulse

In the **cement sector**, Ultra Tech Cement Limited and the India Cement Limited reported negative growth in tax contribution by 27.71 per cent and 38.33 per cent respectively in the quarter ending December 008-09.

De-growth in amount of tax paid by the companies engaged in the **metals & mining sector** was reported. Firms such as Hindustan Zinc Limited, MMTC Limited and Tata Sponge Iron Limited tax contribution slipped by 71.22 per cent, 45.71 per cent and 20.99 per cent respectively.

In the **textile sector** K.P.R. Mill Limited tax contribution dipped by 76.49 per cent from Rs. 4.30 crore in October-December 2007-08 to Rs. 1.01 crore in the same period in the current fiscal.

SERVICE SECTOR

On an aggregate corporate tax collection by 116 firms engaged in service sector plunged by 36.20 per cent in the third quarter of the financial year 2008-09 as compared to the corresponding period of the previous fiscal, with majority of the companies witnessing the pressure of low demand (14.71 per cent), high net losses (21.52 per cent) and increasing interest cost (54.71 per cent).

SECTOR WISE PERFORMANCE (Q3 FY'09 over Q3 FY'08)

Among the 12 major service sectors identified by ARB, 11 sectors tax contribution dipped in the range of 181 per cent to 10 per cent in Q3 FY'09 over Q3 FY'08.

The lowest growth in tax contribution was witnessed by real estate sector recording a dip of 93.29 per cent. On an aggregate the 11 real estate firms amount of tax contribution totaled Rs. 32.34 crore in Q3FY'09 as compared to Rs. 482.18 crore in the same period of the previous fiscal. Simultaneously, the aggregate net profit of the sector dipped sharply by 79.82 per cent and interest cost rose by 57.67 per cent.

In terms of low corporate tax contribution, the second place was occupied by **media & entertainment sector** registering a whopping decline by 79.85 per cent from Rs. 533.06 crore in the period October-December 2007-08 to Rs. 107.41 crore in the same period a year ago. The 5 prominent companies in the sector recorded aggregate net losses by 27.97 per cent and rising interest cost by 60.33 per cent.

Major Service sector with plunging tax contributions

No. of Co.	Service Sector/Industry	Aggregate			
		Net sales	Net Profit	Interest Cost	Provision for taxation
		Growth Rate (in %)			
116	Total Services Co.	14.71	-21.52	54.71	-36.2
11	Real Estate	-66.21	-79.82	57.67	-93.29
5	Media & entertainment	6.41	-27.97	60.33	-79.85
8	Construction	31.91	8.15	40.52	-48.69
34	Financial Services	24.19	-2.2	50.14	10.15
4	Health Care	14.9	-138.84	-31.75	-19.51
5	Hospitality	-17.28	-41.54	5.53	-36.73
28	IT & ITES	26.07	10.33	178.91	-17.8
5	Logistic	12.19	-23.92	19.64	-36.05
2	Retail	24.34	-24.39	90.87	-20.17
4	Telecom	30.22	-31.28	0.67	-51.08
5	Misc	8.39	2080.64	266.47	-181.71

Source: Assocham Financial Pulse

Among the service sectors, on an aggregate tax contribution by 8 **construction companies** plunged by 48.69 per cent, from Rs. 101.05 crore in Q3 FY'08 to Rs. 51.85 crore in the same period of the current fiscal and interest cost pressure increased by 40.52 per cent.

COMPANY WISE PERFORMANCE (Q3 FY'09 over Q3 FY'08)

Large tax contributing business houses in sectors like real estate, financial services, hospitality, media & entertainment are under pressure due economic slowdown forcing them to cut amount in the corporate tax kitty.

Among the 116 service sector companies, DLF Ltd, in the real estate sector contributed tax amounting Rs. 203.66 crore in Q3 FY'08 reducing to Rs. 5.06 crore in Q3 FY'09.

Reliance Industries Infrastructure Ltd tax contribution also dipped in the quarter ending December 2008-09 by 98.05 per cent from Rs. 4.39 crore to Rs. 3.05 crore.

Top service sector companies with declining tax contribution

Company name	Sector	Provision for taxation		
		Q3 2008-09	Q3 2007-08	Growth rate (in %)
DLF Limited	Real Estate	-5.06	203.66	-102.48
Indiabulls Real Estate Limited	Real Estate	2.25	115.09	-98.05
Reliance Industrial Infrastructure Limited	Construction	3.05	4.39	-30.55
Bajaj Holdings & Investment Limited	Financial service	4.24	14.75	-71.25
India Infoline Limited	Financial service	6.98	32.91	-78.8
EIH Limited	Hospitality	20.57	38.91	-47.13
Mastek Limited	ITES	-89	220	-140.45
Zee News Limited	Media & Entertainment	9.38	398.88	-97.65
Balaji Telefilms Limited	Media & Entertainment	2.02	8.47	-76.13
Vishal Retail Limited	Retail	1.81	8.51	-78.69
Spice communications Limited	Telecom	0.17	7.26	-97.6

Source: Assocham Financial Pulse

India Infoline Ltd tax contribution plunged by 78.80 per cent from Rs. 32.91 crore in third quarter of the financial year 2007-08 to Rs. 6.98 crore in the same period of the previous fiscal.

In the media & entertainment segment, Zee News Ltd, posted a negative growth in tax contribution by 97.65 per cent in the third quarter ended December 2008-09 from Rs. 398.88 crore to Rs. 9.38 crore.

SUGGESTIONS

In light of the above analysis Assocham feels that the Government could miss the target of corporate tax revenue totaling Rs 2, 26,361 crore estimated in the Budget 2008-09.

In the phase of global crisis and slowdown in investments, **Assocham feels that India needs to revise its corporate tax rates** in align with the developing Asian economies like Hong Kong's corporate tax that stood at 17.5 per cent, Singapore's 20 per cent and Malaysia's 27 per cent.

Assocham suggests that government should revise the corporate tax rates from the current 30 per cent to 20-25 per cent that would regain Indian industries competitiveness having significant implications on government's revenues and expenditures.

Annexure

No. of Co.	Sectors	Aggregate (Q3 FY'09 over Q3 FY'08)		
		Net Profit	Interest Cost	Provision for taxation
		growth rate (in %)		
52	Chemical & related products	-3	33.6	33.68
39	Textiles	-57.58	61.84	-59.48
34	Financial Services (excl'd banks)	-2.2	50.14	10.15
29	Auto Components	-75.97	40.14	-70.78
29	Pharma	-115.73	78.74	-29.94
28	IT & ITES	10.33	178.91	-17.8
21	Metals & Mining	-32.11	24.51	-41.51
18	Food Processing	-32.45	52.13	4.9
16	Machinery	69.45	-31.78	11.71
14	Steel	-65.65	35.03	-61.11
12	Electric Goods	-40.76	52.44	-89.29
12	Manufacturing Misc	58.07	79.25	79.89
11	Real Estate	-79.82	57.67	-93.29
10	Gems & Jewellery	-55.28	70.88	-102.48
10	Electronic Goods	3.4	13.52	1.45
8	Paper	-15.44	45.7	-20.58
8	Construction	8.15	40.52	-48.69
7	Breweries	-61.12	27.45	-73.96
7	Auto	-20.76	177.19	-24.76
7	Packaging	7.78	14.59	7.83
6	Cement	-36.09	21.63	-35.74
5	Energy Producers	-52.06	0.06	-57.38
5	Hospitality	-41.54	5.53	-36.73
5	Logistic	-23.92	19.64	-36.05
5	Media & entertainment	-27.97	60.33	-79.85
5	Services Misc	2080.64	266.47	-181.71
4	Telecom	-31.28	0.67	-51.08
4	FMCG	1.38	-41.17	-36.29
4	Petroleum Prod & lub	-327.87	138.69	-170.46
4	Health Care	-138.84	-31.75	-19.51
4	Leather Goods	-15.13	16.67	-15.05
3	IT Hardware	-117.48	49.27	-110.26
3	Furniture	-107.12	65.6	-119.46
3	Construction equipments	-5.94	-7.81	17.51

3	Diversified	-56.16	83.93	-43.59
2	Retail	-24.39	90.87	-20.17
2	Aviation	134.17	32.57	-10.39
116	Total Services Co.	-21.52	54.71	-36.2
326	Total Manufacturing Co.	-50.33	44.32	-41.82

Source: Assocham Financial Pulse

Total Number of Sectors		Provision for Taxation			Interest Cost			Net Profits		
37		Q3 FY'09	Q3 FY'08	Growth rate (in %)	Q3 FY'09	Q3 FY'08	Growth rate (in %)	Q3 FY'09	Q3 FY'08	Growth rate (in %)
No. of Companies		Amount (in Rs. Crore)			Amount (in Rs. Crore)			Amount (in Rs. Crore)		
Total	442	5228.55	8715.83	-40.01	11542.3	7617.28	51.53	17681.5	30087	-41.23
Organised Manufacturing	326	3509.24	6031.99	-41.82	3329.6	2307.06	44.32	10252.2	20640.2	-50.33
Services	116	1718.94	2694.31	-36.2	8260.1	5338.92	54.71	7470.98	9519.49	-21.52

Source: Assocham Financial Pulse