

# India Budget

## 5-year Government Agenda vs. 1-year Market Expectations?

- **Budget was expected to translate new government upsides into policy** — But the market's 6% drop yesterday reflects a possible mix of: a) Expectations (and stocks) running well ahead of reality, b) A real problem on the fiscal deficit, c) Questions on the government's will to address head-on market friendly issues – divestment, FDI, broad-based reform, and d) Some sector policy and tax pain. In sum, the build-up was belied.
- **The real pain is the fiscal deficit – scale, scope and implications** — This had always been an overhang. However, the government now expects it to rise to 6.8% (5.5% in Feb 2009); there is no roadmap to pull it back; it is driven by slack revenues rather than physical asset investments; and fundamentally stresses have already strained finances. This risks crowding out investments, higher interest rates and currency pressure, which do not bode well for investments, economic growth or the equity markets.
- **And disappointment in text and tone** — Market buzz words – divestment, FDI, deregulation, policy initiatives and reform roadmaps – were conspicuously absent. This does not mean that they are off the table. There is scope for policy action outside the budget (and near term), but near-silence on possibly contentious issues suggests caution and is disappointing.
- **Real gain too – rationalisation, direction and a clear agenda** — The budget does have a clear and distinct agenda (consistent with its manifesto): sustain growth (continues stimuli) and make it equitable; simplify, rationalise and lower taxes (GST introduction); increase social investments; generate inclusive growth; and provide fiscal flexibility at least in the short term. This is probably the right (though risky) way to go with the government's five-year agenda. The market's horizon looks clearly shorter than the government's. Should it risk looking farther out?
- **Real economy should drive the market, stay defensive** — We believe the Indian market will trade at a premium to its long-term average (15-16x 1yr fwd P/E) or 13500-14000 levels by December 2009. Sustainable growth provides downside support. Upsides lie in meaningful earnings (EPS growth should moderate 1-3% on budget) or macro upgrades, which we do not see in the near term. We would remain defensively positioned.

See Appendix A-1 for Analyst Certification and important disclosures.

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# India Strategy

## Agenda vs. Expectations

### **There are good things in this budget**

The government has largely stuck to its agenda: 1) sustaining relatively high levels of growth (getting back to 9%), making it inclusive and investing in social infrastructure; 2) rationalizing taxes and keeping most of them low (effective personal income tax has been lowered); 3) supporting and providing a thrust to the physical infrastructure build-out; 4) and providing some fiscal flexibility when times are tough. The budget is in line with the spelled-out agenda of the government which is only in the second month of a 5-year term, and does gel with a long-term agenda that a country like India probably requires. This is what the government has targeted and, with a bit of luck, should be a more consistent and stable way to grow.

### **But the fiscal deficit jumps and is a macro overhang.**

Our economist Rohini Malkani suggests the government's upwardly revised fiscal deficit target of 6.8% (revised up from 5.5% in Feb 2009) is disappointing, is well ahead of expectations and could result in rating agencies re-visiting the current sovereign rating/outlook. In addition, this could pressure interest rates and currency, and impact some of the investment momentum that has been expected to revive.

While the RBI will likely manage some of these pressures more directly, it will be more challenging than was envisaged prior to the budget. There is also a level of disappointment in that the government has not come forth with a specific roadmap to lower the deficit over a period of time, which effectively raises the level of uncertainty on the longer-term outlook of the fiscal. This is particularly so because this is first year of the current government – historically, it's been in the later years of a government's term when it tends to be a little less careful on the fiscal deficit.

### **Very high expectations, some taxes, and is the government really reformist?**

The market's adverse reaction is also possibly a reflection of fairly high expectations – on investments, favorable taxes, and policy impetus in various sectors, particularly infrastructure – that have been built up. While we believe expectations weren't specific enough and were in nature fairly generalized (and hopeful ones), the lack of big bold policy and investment announcements probably came as a disappointment. In addition, some increases in taxes – Minimum Alternative Tax (MAT) for corporates (which will pull down earnings for some of the larger companies) – appear to be dampeners. We don't believe there are any fundamental shortcomings of the budget on this count – just a possible let-down against a backdrop of high expectations.

A bigger disappointment is possibly the lack of market-friendly buzzwords such as Divestment (a very modest Rs11b target, not mentioned in budget speech), FDI (not mentioned, against expectations of relaxations in insurance and possibly retail), and deregulation (oil sector, possible relaxations in bank ownership norms). This raises questions on the government's willingness to take on these more contentious areas of reform/opening up, which was viewed as one of the biggest upsides of the current government coming to power (apart from stability and decision-making flexibility). We do believe this could be a more specific source for disappointment on market expectations and

could linger. While government officials have been suggesting in the media that they are working on these aspects too, the near-studied silence does suggest some of these market reforms are not as much given, as was possibly anticipated.

### **It's the economy and earnings...it cannot all be the government**

We believe expectations of what the government can do (stable or otherwise) have been running too high. It can facilitate, direct and make easier the process of growth, but cannot drive the economy all the way. That is driven by a mix of policy, macro, corporate risk appetite and external environment. We believe this mix currently offers enough to support 6-7% GDP growth and flattish earnings growth – not more. This budget does not change things. Towards this end, we would expect overall earnings growth to probably moderate to the 0/-2% levels (+0.5% currently).

We do believe the Indian market will continue to trade in the 15-16x range (premium to its 20-year trading average of 15.6x), given its more defensively driven growth. Towards this end, we would expect the market to trade at 13500-14000 by December 2009. We continue to maintain a relatively defensive portfolio bias.

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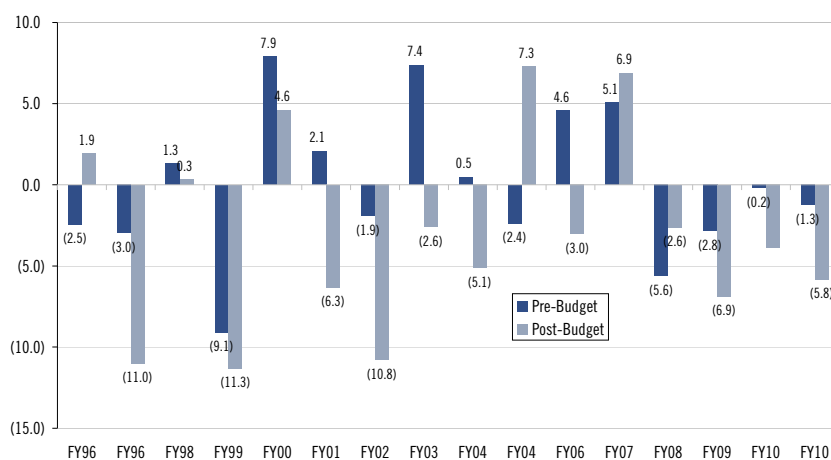
**Figure 1. Sector Impact Summary**

<b>Sector</b>	<b>Impact</b>
Automobiles	Nominal
Banks, Financial services	No specific measures. High fiscal deficit a cause for concern.
Capital Goods	Neutral for Infrastructure investment
Cement	Non-event
Consumer & Retail	Rural focus to help demand; support from stable excise rates
Media	Marginal positive for print media; negative for DTH players
Metals	Policy measures to have a positive impact
Oil & Gas	Positive on Gas infra; no clarity on oil subsidy
Pharma	Non-event
Real Estate	No material impact
IT Services	Positive, but partly priced-in
Telecom	3G targets optimistic

Source: Citi Investment Research and Analysis

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Figure 2. Sensex Performance Pre- and Post Budget Announcements (1-month)



Source: Citi Investment Research and Analysis. Repeating years imply interim budgets first. 1-day performance for FY10.

Figure 3. Top Buy and Sells after the Budget

Stock	RIC	Price	Target	Rating
<b>Large-cap Buy</b>				
Dr Reddy	REDY.BO	767.1	825	1M
Reliance Infracore	RLIN.BO	1131.1	1535	1M
Hero Honda	HROH.BO	1358.6	1593	1L
Mahindra Mahindra	MAHM.BO	710.4	844	1L
ITC	ITC.BO	197.8	225	1L
DLF	DLF.BO	309.3	464	1L
GAIL	GAIL.BO	313.3	339	1L
Hindalco Inds	HALC.BO	78.2	125	1M
<b>Large-cap Sell</b>				
United Spirits	UNSP.BO	830.7	901	3M
Housing Dev	HDIL.BO	227.3	198	3M
ACC	ACC.BO	723.8	540	3M
Ambuja Cements	ABUJ.BO	87.2	70	3M
<b>Mid-cap Buy</b>				
Piramal Health	PIRA.BO	308.9	420	1M
United Phosphorus	UNPO.BO	146.8	223	1H
IVRCL Infra & Projects	IVRC.BO	330.2	409	1M
Nagarjuna Constr	NGCN.BO	128.7	162	1M
Gujarat Petro	GSPT.BO	50.3	70	1M
<b>Mid-cap Sell</b>				
Jet Airways	JET.BO	233.2	167	3H

Source: Citi Investment Research and Analysis. Prices as of 6<sup>th</sup> July 2009.

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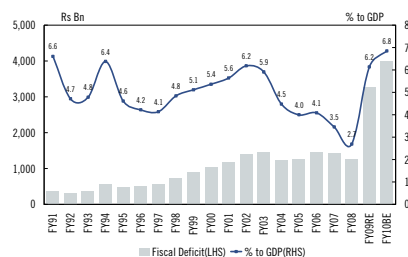
## India Economics

### FY10 Budget – Continued Fiscal Deterioration Is Worrisome

- **Budget – Fiscal takes a beating:** Increased social sector/infrastructure spending coupled with the removal of the surcharges and reduction in customs duties has resulted in the FY10 deficit coming in at Rs4,010bn, or 6.8% of GDP vs. the interim budget estimate of 5.5%. In addition to the deterioration in the fiscal deficit to levels last seen in FY91, India's gross-gross tax-GDP ratio is budgeted at 10.9% vs. 11.8% in FY09. While there are a few good measures, overall it is a disappointing budget as (1) this being the first year of the new government, we expected that it would take steps toward fiscal consolidation and (2) it is silent on divestments, FDI and education – key areas where there was a lot of hope.
- **Budget arithmetic – Assumptions mostly realistic:** Budget assumptions are based on (1) nominal GDP growth of 10% (real GDP of 6.5%), (2) gross tax collections up 2.1%, (3) non-tax collections up 43% and (4) expenditures rising 13.3%. Barring the assumptions for non-tax revenues (*telecom auctions are budgeted at Rs350bn*), we believe projections are realistic and could provide room for spending in case the monsoons fail. Another cushion is that divestment proceeds are estimated at just Rs12bn. (*See page 7 for a detailed budget arithmetic.*)
- **Rating agencies may be concerned...**The further deterioration in government finances coupled with a lack of clarity on the divestment program/FDI could result in rating agencies re-visiting the current sovereign rating/outlook. However, recent discussions indicate that they may want to see the outcome of the 13th Finance Commission recommendations, due by October 2009.
- **...But there could be measures in the coming months:** While divestments/FDI/ etc., are conspicuously absent from the budget, we are still hopeful that measures in these areas could be implemented by the various ministries in the coming months. The FM in his speech has stressed that *'a single Budget Speech cannot solve all our problems, nor is the Union Budget the only instrument to do so'*.
- **Impact on rates and currency:** Based on this new deficit number of Rs4,010bn, the **net** borrowing program has increased from Rs3,086bn to Rs3,980bn. The impact on yields would to a large extent be determined by the RBI's stance on open market operations. With growth being the key priority for the government, we expect the RBI to continue to play a bigger role in the borrowing program. Given the levers that the RBI has coupled with the likely cushion from tax collections and divestments, 10-year bond yields could stay under 7.50%. On the currency, while current sentiment is weak, movements in the USD are key, and the rupee is likely to continue to oscillate between "risk aversion" and "return to risk."

The budget arithmetic is based on nominal GDP growth of 10%, net revenue receipts rising 9.3% and expenditure rising 13.3%.

**Figure 1. Trends in the Centre's Fiscal Deficit (Rs Bn, % GDP)**



Source: Budget Documents

- **Tax Collections could provide some cushion...** : The government has budgeted for tax collections rising 2.1%. This is based on corporate taxes rising 15%, income contracting -8.1%, excise -1.7% and customs -9.3%. We believe assumptions are realistic and could provide a cushion for spending in case the monsoons fail.
- **...but non-tax revenues appear optimistic** as telecom auctions are budgeted at Rs350bn. Our telecom analyst believes this number could be closer to ~Rs250bn
- **Divestments** – A possible reason why the budget has been silent on divestments is the disbursement of its proceeds. Since the setting up of the National Investment Fund in 2005<sup>1</sup> divestment proceeds have been channeled into the NIF. (*Earlier this was classified under Non-Debt Capital Receipts.*) This is managed by three professional fund managers – UTI Asset Management, SBI Funds and LIC Mutual Fund Asset Management. Since it is independently managed, the revenues of the fund are not reflected in budget documents. A key thing to watch for is if there are some amendments to the regulations in order for the government to avail of the NIF corpus and utilize divestment money to meet expenditure.
- **Expenditures:** Expenditures have been projected to rise by 13.3%yoy on the back of higher plan expenditure (+14.9%), while non-plan expenditure is expected to rise 12.6%yoy. These numbers appear realistic.

**Figure 2. Budget Snapshot (Rs Bn)**

	FY09RE	FY10BE	Growth rate
<b>a. Revenue receipts</b>	<b>5,622</b>	<b>6,145</b>	<b>9.3</b>
Tax revenues	4,660	4,742	1.8
Non-tax	962	1,403	45.8
<b>b. Non-debt cap receipts</b>	<b>123</b>	<b>53</b>	<b>-56.4</b>
Recoveries of loans	97	42	-56.4
Others	26	11	-56.4
<b>c. Total receipts (a+b)</b>	<b>5,744</b>	<b>6,198</b>	<b>7.9</b>
d. Revenue expenditure	8,034	8,972	11.7
of which interest (1)	1,927	2,255	17.0
f. Capital expenditure	975	1,236	26.8
h Plan expenditure	2,830	3,251	14.9
i. Non-plan expenditure	6,180	6,957	12.6
<b>j. Total expenditure (d+f) =(h+i)</b>	<b>9,010</b>	<b>10,208</b>	<b>13.3</b>
<b>j. Fiscal deficit (j-c)</b>	<b>3,265</b>	<b>4,010</b>	<b>22.8</b>
% to GDP	6.2	6.8	
<b>Revenue deficit (a-d)</b>	<b>2,413</b>	<b>2,827</b>	<b>17.2</b>
% to GDP	4.5	4.8	
<b>Primary deficit (j-1)</b>	<b>1,338</b>	<b>1,755</b>	<b>31.1</b>
% to GDP	2.5	3.0	

Source: Budget Documents

## Budget FY10: Key Focus Areas

While the budget has clearly disappointed on hopes of fiscal consolidation, it has focused on addressing three key challenges:

- Returning to the higher growth trajectory of 9%

<sup>1</sup> 25% of the annual income earned by the fund is used to meet capital requirements of profitable PSUs; while the remaining 75% is utilized to finance social sector schemes.

- 'Deepening and broadening' the agenda for inclusive development
- Improving delivery and monitoring mechanisms

In line with expectations, there was a thrust on the various flagship schemes<sup>2</sup> as well as a focus on infrastructure, rural development and export-oriented sectors.

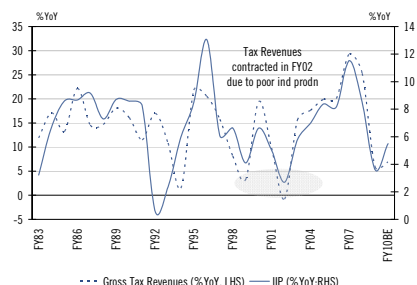
**Figure 3. Key Focus Areas and Measures**

Focus Area	Key Measures
<b>Infrastructure Development</b>	<ul style="list-style-type: none"> <li>- IIFCL to evolve a 'takeout financing' scheme in consultation with banks to facilitate lending</li> <li>- IIFCL to refinance 60% of commercial bank loans for PPP projects in critical sectors over the next 15-18 months</li> <li>- Sectoral Measures include higher spending under the National Highways Development Program (+23%YoY), railways, urban and rural infrastructure under the JNNURM/Bharat Nirman, power, and oil exploration initiatives</li> </ul>
<b>Agricultural and Rural Development</b>	<ul style="list-style-type: none"> <li>- Interest subvention scheme for short-term crop loans to farmers to continue at Rs300,000 per farmer, at a rate of 7% p.a. (for farmers who repay on schedule, rate would be reduced to 6% p.a.).</li> <li>- Farm loan waiver for 40mn farmers introduced in the FY09 budget to extended by 6 months to Dec09</li> <li>- Efforts to move towards a nutrient-based fertilizer subsidy regime to improve investment and ensure balanced fertilizer application</li> <li>- Increased spending for irrigation, National Rural Health Mission</li> <li>- Increased allocation for National Rural Employment Guarantee Scheme (NREGS) and initiating convergence with other schemes</li> <li>- Initiating work on the National Food Security Act</li> <li>- Increased allocations for Bharat Nirman and allocating Rs20bn for the rural housing Fund in the NHB</li> </ul>
<b>Focus on Export Growth</b>	<ul style="list-style-type: none"> <li>- Extension of benefits of Export Credit and Guarantee Corporation Cover at 95% to March 2010</li> <li>- Increased allocation for the Market Development Assistance Scheme for support to exporters in new markets</li> <li>- Interest subvention of 2% on pre-shipment credit for 7 export oriented sectors extended to March 2010</li> <li>- Micro Small and Medium Industries provided funds out of Rural Infrastructure Development Fund</li> </ul>
<b>Steps towards Delivery</b>	<ul style="list-style-type: none"> <li>- The Unique Identification Authority of India is expected to issue the first set of ID cards in 12-18mths</li> </ul>
<b>Other</b>	<ul style="list-style-type: none"> <li>- Stimulus package for Print Media extended by 6 months to Dec09</li> <li>- Details on new petroleum pricing policy to be released by Ministry independently</li> <li>- Modernization of Employment Exchanges based on a PPP model</li> </ul>

Source: Budget Documents

<sup>2</sup> **Eight Flagship Schemes** include the National Rural Health Mission, the Rajiv Gandhi Drinking Water Mission, the Total Sanitation Campaign, the Sarva Sikha Abhiyan, Mid-Day Meal Scheme, Integrated Child Development Services scheme, The JNURM and the National Rural Employment Guarantee Scheme

Figure 4. Trends in IP and Tax Revenues (%Y/Y)



Source: Budget Documents

## Trends in Tax Collections

The FY10 Budget assumes tax revenues to rise 2.1%yoy or 10.9% of GDP. We believe these assumptions appear realistic, with the government acknowledging 'lower buoyancy given the prevailing uncertainty in the world economy'.

Figure 5. Trends in Tax Revenues (Rs Bn, %)

	FY04	FY05	FY06	FY07	FY08	FY09RE	FY10BE
<b>Corporation tax</b>	<b>636</b>	<b>827</b>	<b>1,013</b>	<b>1,443</b>	<b>1,929</b>	<b>2,220</b>	<b>2,567</b>
% YoY	37.7	30.1	22.5	42.5	33.7	15.1	15.6
% GDP	2.3	2.6	2.8	3.5	4.1	4.2	4.4
% to total taxes	25.0	27.1	27.7	30.5	32.5	35.4	40.0
<b>Income tax</b>	<b>414</b>	<b>493</b>	<b>560</b>	<b>751</b>	<b>1,026</b>	<b>1,226</b>	<b>1,129</b>
% YoY	12.3	19.0	13.6	34.1	36.7	19.4	-8.0
% GDP	1.5	1.6	1.6	1.8	2.2	2.3	1.9
% to total taxes	16.3	16.2	15.3	15.9	17.3	19.5	17.6
<b>Excise duty</b>	<b>908</b>	<b>991</b>	<b>1,112</b>	<b>1,176</b>	<b>1,234</b>	<b>1,084</b>	<b>1,065</b>
% YoY	10.3	9.2	12.2	5.7	4.9	-12.2	-1.7
% GDP	3.3	3.1	3.1	2.8	2.6	2.0	1.8
% to total taxes	35.7	32.5	30.4	24.8	20.8	17.3	16.6
<b>Customs collections</b>	<b>486</b>	<b>576</b>	<b>651</b>	<b>863</b>	<b>1,041</b>	<b>1,080</b>	<b>980</b>
% YoY	8.4	18.5	12.9	32.7	20.6	3.7	-9.3
% GDP	1.8	1.8	1.8	2.1	2.2	2.0	1.7
% to total taxes	19.1	18.9	17.8	18.2	17.6	17.2	15.3
<b>Service tax</b>	<b>79</b>	<b>142</b>	<b>231</b>	<b>376</b>	<b>513</b>	<b>650</b>	<b>650</b>
% YoY	91.4	80.0	62.4	63.1	36.4	26.7	0.0
% GDP	0.3	0.5	0.6	0.9	1.1	1.2	1.1
% to total taxes	3.1	4.7	6.3	7.9	8.6	10.4	10.1
<b>Gross Tax Collections</b>	<b>2,543</b>	<b>3,050</b>	<b>3,662</b>	<b>4,735</b>	<b>5,931</b>	<b>6,279</b>	<b>6,411</b>
% YoY	17.6	19.9	20.1	29.3	25.3	5.9	2.1
% to GDP	9.2	9.7	10.2	11.5	12.6	11.8	10.9
<b>Net Tax Collections</b>	<b>1,870</b>	<b>2,248</b>	<b>2,689</b>	<b>3,512</b>	<b>4,395</b>	<b>4,660</b>	<b>4,742</b>
% YoY	17.9	20.2	19.6	30.6	25.2	6.0	1.8
% to GDP	6.8	7.1	7.5	8.5	9.3	8.8	8.1

Source: Budget Documents

### Key Revenue Measures

- The government proposes to introduce the Goods and Services Tax (GST) by April 2010.

### ■ Direct Taxes – Key measures include:

- Tax rates are unchanged but **income tax exemption limits** have been raised by Rs10,000. (Rs15,000 for senior citizens)
- The 10% **surcharge** on income tax has been eliminated
- Fringe Benefit Tax, Commodity Transaction Tax have been abolished
- Minimum Alternate Tax (MAT) raised from 10% to 15% of book profits
- Structural changes in direct taxes would be released in a Direct Taxes Code within the next 45 days

### ■ Indirect Taxes – GST to be implemented by April 2010

- Central **excise** duties on items below the mean rate of 8% have been raised, apart from those on food, drugs and items of mass consumption
- goods transport agents have been exempted from service taxes
- Customs duty reduced on drugs/life-savings devices, increased for gold bars and silver.



Figure 6. Central Plan Outlay (Rsbn)

	FY09	FY10BE	% YoY
Agriculture	100	106	6.6
Rural Development	489	518	5.9
Irrigation/Flood Control	4	4	19.6
Energy	989	1156	16.9
Industry and Minerals	272	357	31.4
Transport	783	943	20.5
Communications	202	167	-17.3
Science Technology	85	112	31.1
General Econ Services	53	63	18.8
Social Services	897	1039	15.8
General Services	8	14	82.8
<b>Grand Total</b>	<b>3881</b>	<b>4479</b>	<b>15.4</b>

Source: Budget Documents

## Trends in Expenditures

Expenditures have been projected to rise 13.3%yoy on the back of higher plan expenditure (+14.9%) while non-plan expenditure<sup>3</sup> is expected to rise by 12.6%yoy.

While higher plan spending is due to social sector/infrastructure expenditure; non-plan expenditure factors in implementation of the pay commission recommendations (also reflected as an increase in defense outgo), higher subsidies (at 2% of GDP in FY10) and interest payments.

Figure 7. Trends in Expenditures (Rsbn, %)

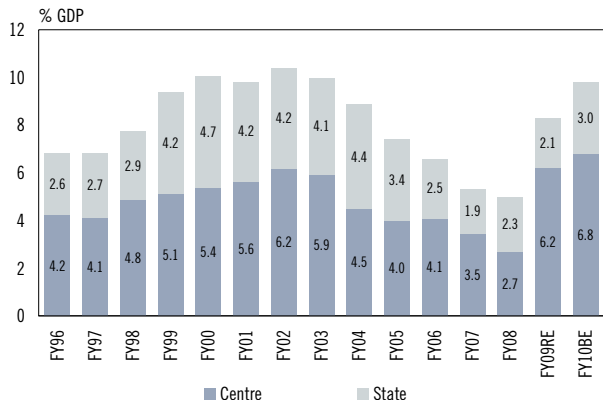
	FY04	FY05	FY06	FY07	FY08	FY09RE	FY10BE
<b>Defense</b>	<b>601</b>	<b>759</b>	<b>805</b>	<b>855</b>	<b>917</b>	<b>1,146</b>	<b>1,417</b>
%YoY	7.9	26.3	6.2	6.2	7.3	24.9	23.7
% to GDP	2.2	2.4	2.2	2.1	1.9	2.2	2.4
% of total Expenditure	12.7	15.2	15.9	14.7	12.9	12.7	13.9
<b>Interest Payments</b>	<b>1,241</b>	<b>1,265</b>	<b>1,326</b>	<b>1,503</b>	<b>1,710</b>	<b>1,927</b>	<b>2,255</b>
%YoY	5.3	1.9	4.8	13.3	13.8	12.7	17.0
% to GDP	4.5	4.0	3.7	3.6	3.6	3.6	3.9
% of Total Expenditure	26.3	25.4	26.2	25.8	24.0	21.4	22.1
<b>Subsidies</b>	<b>443</b>	<b>460</b>	<b>475</b>	<b>571</b>	<b>709</b>	<b>1,292</b>	<b>1,113</b>
%YoY	1.9	3.7	3.4	20.2	24.2	82.2	-13.9
% to GDP	1.6	1.5	1.3	1.4	1.5	2.4	1.9
% of Total Expenditure	9.4	9.2	9.4	9.8	10.0	14.3	10.9
<b>Administration Expenses</b>	<b>422</b>	<b>470</b>	<b>484</b>	<b>553</b>	<b>647</b>	<b>951</b>	<b>1,116</b>
%YoY	12.9	11.4	3.0	14.1	17.0	47.2	17.3
% to GDP	1.5	1.5	1.4	1.3	1.4	1.8	1.9
% to Total Expenditure	9.0	9.4	9.6	9.5	9.1	10.6	10.9
<b>Other Non-Plan exp (Loans)</b>	<b>783</b>	<b>707</b>	<b>560</b>	<b>653</b>	<b>1,092</b>	<b>863</b>	<b>1,056</b>
<b>Total Non-Plan</b>	<b>3,489</b>	<b>3,660</b>	<b>3,651</b>	<b>4,135</b>	<b>5,076</b>	<b>6,180</b>	<b>6,957</b>
%YoY	15.6	4.9	-0.2	13.3	22.7	21.8	12.6
% of GDP	12.7	11.6	10.2	10.0	10.7	11.6	11.9
% of total expenditure	74.0	73.4	72.2	70.9	71.2	68.6	68.1
<b>Total Plan expenditure</b>	<b>1,223</b>	<b>1,323</b>	<b>1,406</b>	<b>1,699</b>	<b>2,051</b>	<b>2,830</b>	<b>3,251</b>
%YoY	9.7	8.2	6.3	20.8	20.7	38.0	14.9
% of GDP	4.4	4.2	3.9	4.1	4.3	5.3	5.6
% of total expenditure	25.9	26.6	27.8	29.1	28.8	31.4	31.9
<b>TOTAL EXPENDITURE</b>	<b>4,712</b>	<b>4,983</b>	<b>5,057</b>	<b>5,834</b>	<b>7,127</b>	<b>9,010</b>	<b>10,208</b>
%YoY	14.0	5.7	1.5	15.4	22.2	26.4	13.3
% of GDP	17.1	15.8	14.1	14.1	15.1	16.9	17.4

Source: Budget Documents

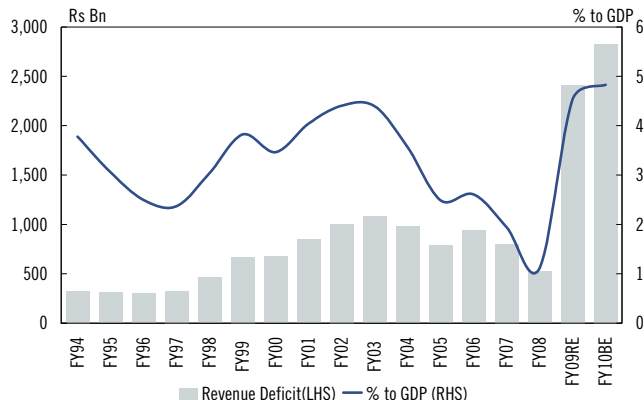
<sup>3</sup> **Plan expenditure** is developmental in nature and is the amount for expenditure on projects and programs announced in the Plan. The capex spend refers to new spending while the revenue plan expenditure refers to expenditure on maintaining assets created in previous Plans. **Non-Plan Expenditure** covers spending not included in the Plan. Interest, subsidies, wages, defense are classified under revenue expenditure, while transfers to states and acquiring new defense equipment comes under capex

### Public Finances in Pictures

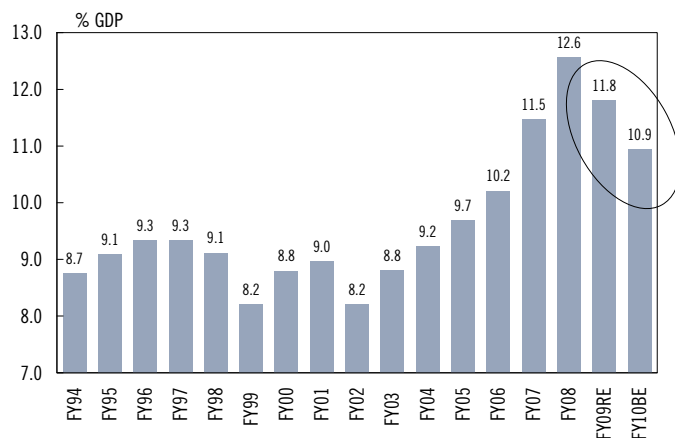
**Figure 8. The FY10 Budget pegs the fiscal deficit at 6.8% of GDP, higher than the Interim Budget estimate of 5.5% and the FY09 deficit of 6.2%**



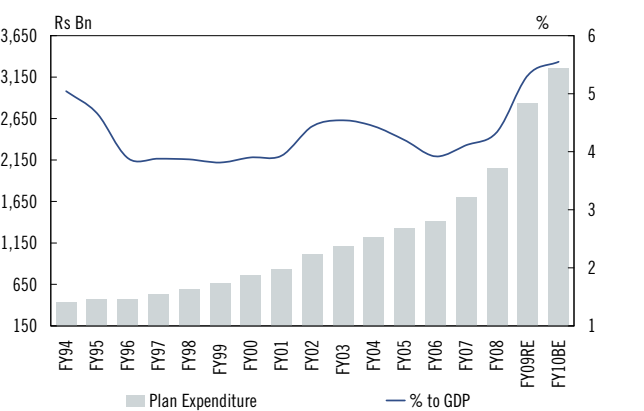
**Figure 9. The Revenue Deficit also deteriorated to 4.8% of GDP in FY10 from 4.5% in FY09**



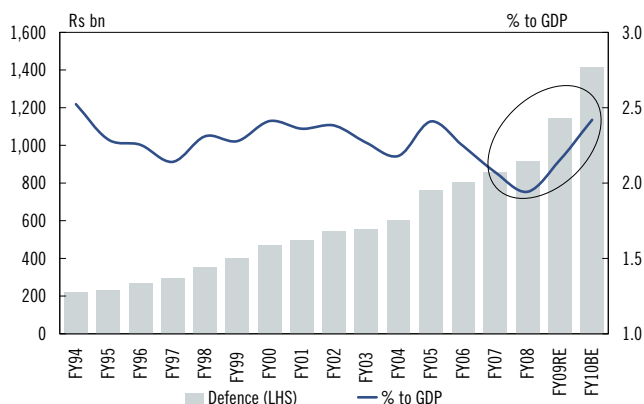
**Figure 10. FY10 estimates factor in a significant slowdown in tax revenues, with a Tax-GDP ratio of 10.9%**



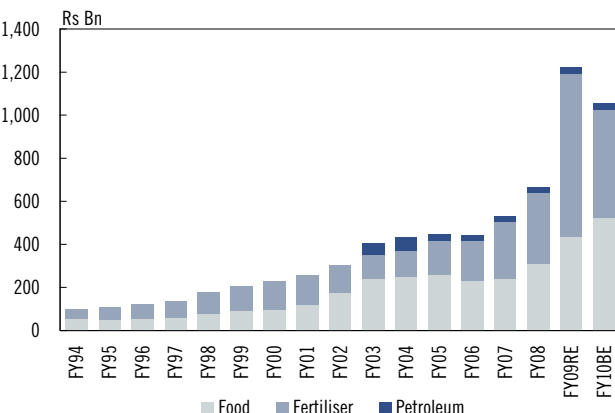
**Figure 11. Expenditures are projected to rise 13.3% on the back of higher plan expenditure (+ 14.9%); non plan (+12.6%)**



**Figure 12. Defense spending is projected to rise 23.6% (largely on the capex side)**



**Figure 13. Subsidies are projected to decline in FY10 on the back of a moderation in food and fertilizer subsidies**



Source: Budget Documents

Source: Budget Documents

## Snapshot of Government Finances

Figure 14. Snapshot of Central Government Finances (Rs Bn, %)

	FY04	FY05	FY06	FY07	FY08	FY09RE	FY10BE	BUDGET – KEY HIGHLIGHTS
<b>a. Gross Tax Revenue</b>	<b>2,543</b>	<b>3,050</b>	<b>3,662</b>	<b>4,735</b>	<b>5,931</b>	<b>6,279</b>	<b>6,411</b>	
% to GDP	9.2	9.7	10.2	11.5	12.6	11.8	10.9	<b>Revenues</b>
% YoY	17.6	19.9	20.1	29.3	25.3	5.9	2.1	
Corporation tax	636	827	1,013	1,443	1,929	2,220	2,567	1. Tax Rates Unchanged
Income tax	414	493	560	751	1,026	1,226	1,129	2. 10% Surcharge Abolished
Excise duty	908	991	1,112	1,176	1,236	1,084	1,065	3. Tax Growth Assumptions
Import duty	486	576	651	863	1,041	1,080	980	Corp +15%; Income -8%; Customs -9.3%
Service tax	100	163	326	502	699	670	670	Excise -1.7%; Service 0.8%
<b>b. (-) Devolvement to States &amp; UTs</b>	<b>674</b>	<b>802</b>	<b>972</b>	<b>1,223</b>	<b>1,536</b>	<b>1,620</b>	<b>1,669</b>	
c. Net tax revenues (a-b)	1,870	2,248	2,689	3,512	4,395	4,660	4,742	
d. Non tax revenues	769	812	768	832	1,024	962	1,403	4. Telecom Auctions budgeted at Rs350bn
<b>e. Net revenue receipts (c+d)</b>	<b>2,639</b>	<b>3,060</b>	<b>3,458</b>	<b>4,344</b>	<b>5,419</b>	<b>5,622</b>	<b>6,145</b>	
<b>f. Non-debt capital receipts</b>	<b>841</b>	<b>665</b>	<b>122</b>	<b>64</b>	<b>439</b>	<b>123</b>	<b>53</b>	
Recovery of loans	672	620	106	59	51	97	42	5. Divestments: Will the govt modify the NIF
Divestments/Other	170	44	16	5	388*	26	11	
<b>g. TOTAL REVENUES (e+f)</b>	<b>3,480</b>	<b>3,725</b>	<b>3,580</b>	<b>4,408</b>	<b>5,858</b>	<b>5,744</b>	<b>6,198</b>	
%YoY	29.8	7.0	-3.9	23.1	32.9	-1.9	7.9	
<b>h. Revenue expenditure</b>	<b>3,621</b>	<b>3,843</b>	<b>4,394</b>	<b>5,146</b>	<b>5,945</b>	<b>8,034</b>	<b>8,972</b>	<b>Expenditures</b>
Interest (1)	1,241	1,269	1,326	1,503	1,710	1,927	2,255	
Defense	432	439	482	517	543	736	869	1. Total Defence Outlay (R+C) up 23.7%
Subsidies	443	460	475	571	709	1,292	1,113	2. Subsidies- Food Rs525bn; Fertil Rs500
Pensions	159	183	203	221	243	327	350	
Grants to States	137	148	305	357	358	384	486	
Admin and social services	422	470	484	553	647	951	1,116	3. Pay Commission Included
Plan expenditure	786	875	1,119	1,424	1,736	2,417	2,784	
<b>i. Capital expenditure</b>	<b>1,092</b>	<b>1,139</b>	<b>664</b>	<b>688</b>	<b>1,182</b>	<b>975</b>	<b>1,236</b>	
Defense	169	320	323	338	375	410	548	
Loans	487	371	52	75	493	152	220	
Plan expenditure	436	448	288	274	315	413	468	
<b>j. Plan expenditure</b>	<b>1,223</b>	<b>1,323</b>	<b>1,406</b>	<b>1,699</b>	<b>2,051</b>	<b>2,830</b>	<b>3,251</b>	4. Plan exp up 14.9%; 5.6% of GDP
<b>k Non Plan expenditure</b>	<b>3,490</b>	<b>3,660</b>	<b>3,651</b>	<b>4,135</b>	<b>5,077</b>	<b>6,180</b>	<b>6,957</b>	5. Non-plan exp up 12.6%; 11.9% of GDP
<b>l. TOTAL EXPENDITURE (h+i) : (j+k)</b>	<b>4,713</b>	<b>4,983</b>	<b>5,057</b>	<b>5,834</b>	<b>7,127</b>	<b>9,010</b>	<b>10,208</b>	
% YoY	14.0	5.7	1.5	15.4	22.2	26.4	13.3	
<b>Deficit trends</b>								
<b>m. Fiscal deficit (l-g)</b>	<b>1,233</b>	<b>1,258</b>	<b>1,478</b>	<b>1,426</b>	<b>1,269</b>	<b>3,265</b>	<b>4,010</b>	<b>Fiscal deficit</b>
% to GDP	4.5	4.0	4.1	3.5	2.7	6.2	6.8	Govt hopes to bring down the deficit to 5.5% in FY11
<b>n. Revenue deficit (h-e)</b>	<b>982</b>	<b>783</b>	<b>936</b>	<b>802</b>	<b>526</b>	<b>2,413</b>	<b>2,827</b>	
% to GDP	3.6	2.5	2.6	1.9	1.1	4.5	4.8	
<b>o. Primary deficit (m-1)</b>	<b>-8</b>	<b>-12</b>	<b>137</b>	<b>-77</b>	<b>-441</b>	<b>1,338</b>	<b>1,755</b>	
% to GDP	0.0	0.0	0.4	-0.2	-0.9	2.5	3.0	
<b>Financing the deficit</b>								
Market borrowings (Net)	889	460	953	1,104	1,318	2,620	3,980	<b>Financing the Deficit</b>
PPF & special deposits	50	-4	60	52	39	48	50	RBI's role would be key on the impact on yields
Small savings	0	0	0	0	-113	13	133	
Net external assistance	-135	148	75	85	93	96	160	
Others	468	736	584	140	204	188	-313	
Cash Surplus	-39	-82	-195	45	-271	300	0	
<b>Total financing</b>	<b>1,233</b>	<b>1,258</b>	<b>1,478</b>	<b>1,426</b>	<b>1,269</b>	<b>3,265</b>	<b>4,010</b>	
<b>Memo items (% to GDP)</b>								
Centre	4.5	4.0	4.1	3.5	2.7	6.2	6.8	
State	4.4	3.4	2.5	1.9	2.3	3.0	3.0	
Combined	8.5	7.5	6.7	5.6	5.2	9.2	9.8	
Combined liabilities	81.4	81.3	80.3	77.3	76.8			
Combined o/s guarantees	11.2	9.9	8.6	8.2	NA			

\*Includes proceeds of transfer of RBI's stake in SBI. Source: Budget Documents; RE: Revised Estimates; BE: Budgeted Estimates

## Sector Notes

### Automobiles

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#### Budget: Nominal Impact

- **Overall impact Neutral** — The auto sector had no major impact (either beneficial or adverse) as key excise duty rates across segments remain unchanged – save for a marginal reduction (Rs5000) on >2000cc engines. Greater emphasis on infrastructure and rural sector should yield longer term benefits, boosting demand for trucks, motorcycles and tractors.
- **Positives** — a) Increased spending in infrastructure and JNNRUM schemes should boost truck and bus demand over the long term, b) Increase in expenditure to rural economy should boost demand for two wheelers and lower end cars; and c) Increase in discretionary income due to removal of 10% surcharge on personal income tax is mildly positive for cars and 2 wheelers.
- **Concerns** — Increase in fiscal deficit could lead to higher government borrowing which might lead to higher interest rates, thereby impacting sector valuations. *See the table below for business implications and stock impact*

Figure 4. Budget Impact on Auto Sector

Change	Business Implication	Stock Impact
Excise duty on greater than 2000 cc engine reduced by Rs 5,000 and excise duty on petrol driven vehicles which transport goods reduced to 8% from 20%	Benefit will be passed on to consumers, Most of the vehicles which transport goods are run on diesel so not much impact	Slightly positive for Mahindra & Mahindra
Increased spending on roads, highways, spend on JNNRUM scheme increased by 87%	Should lead to increase in demand for trucks and buses	Positive for Tata Motors and Ashok Leyland
Target for agriculture credit flow increased by 13%, lower interest rates for farmers through subventions	Should increase demand for two wheelers, tractors and lower end cars. Manufacturers with wider distribution network to benefit	Positive for Hero Honda, Maruti and Mahindra & Mahindra
150% deduction on in house R&D extended	More support to promote in house R&D in India.	Positive for Maruti, Mahindra & Mahindra and Tata Motors
Increase in Minimum Alternate Tax to 15% from 10% and extension for MAT credit to 10 yrs from 7 yrs	Negative for companies on MAT in FY10	Mildly negative for Tata Motors
10% surcharge on personal income tax removed and Rs 10,000 increase in exemption in income tax	Increase in discretionary income for mainly high income bracket. Should be restricted to urban areas and is positive for car and higher end two wheelers	Mildly positive for Maruti, Hero Honda and Bajaj Auto

Source: Citi Investment Research and Analysis

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## Banks, Financial Services

### Macro to the Fore

- **Focus to shift more towards macro** — The budget was largely silent in terms of specific measures for the banking industry, and we believe the focus will now shift more towards the macro economic environment. More specifically on a) fiscal deficit and resultant government borrowings; b) economic growth; and c) asset quality trends, all of which will likely be weaker than pre-budget expectations.
- **No changes in FDI, Ownership status** — The budget maintains status quo on FDI for insurance companies (remains 26%) and government ownership limits for public sector banks. However, while the budget was a good platform to announce directional intent, these changes also have a separate legislative process, which is an ongoing process and could still be taken up separately during the year. The budget did highlight the need to make capital available to public sector institutions for the required growth, though lacked specific details.
- **Growth - lacked expected thrust** — The budget was expected to induce a higher level of growth through a thrust on corporate capex and specifically through policy sops for specific sectors like infrastructure, real estate and agriculture. Lack of socially directed lending should be a positive (especially for public sector banks) though it will be offset by a softer-than-expected overall growth push.
- **Rising bond yields suggest caution** — The higher-than-estimated budget deficit (6.8% vs.5.5% in the interim budget) raises concerns on higher deficit borrowings and is likely to keep bond yields under pressure (10yr G-Sec Yields were up 18bps). This combined with a likely slower demand environment and a still vulnerable asset quality outlook suggests caution for stocks (especially those with higher reliance on wholesale funding).

Figure 5. Key Measures and Their Impact

Measure	Overall Impact	Remarks	Stocks Affected
Loan Growth	Mildly Negative	Increased allocation for infrastructure, offset by no announcements on real estate and social sector loans	Mildly negative for large banks and PSU Banks - SBI, PNB, BOB, Axis
Capital Infusion	Positive	Capital to be made available for infusion into government banks wherever necessary	Positive for PSU Banks - Canara (73% govt ownership), CBI (80%)
Increased Interest Subvention	Neutral	Increased interest subvention on agri loans and education loans- growth positive though revenue neutral	All banks (especially PSU banks)
No announcement on FDI in Insurance	Negative	Near term negative as it was a strong budget expectation by the market	Negative for ICICI Bank, SBI

Source: Citi Investment Research and Analysis

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## Capital Goods

### Neutral for Infrastructure Investment

- **Longer-term targets** — Aims to 1) increase investment in infrastructure to 9% of GDP by 2014, 2) evolve integrated energy policy for energy security, 3) focus on removing policy, regulatory and institutional bottlenecks for infrastructure projects through coordination with state governments.
- **IIFCL refinancing is the key positive** — IIFCL refinancing mechanism is the single biggest positive for the infrastructure sector. IIFCL will evolve a takeout financing scheme in consultation with banks to facilitate incremental lending to the infrastructure sector. IIFCL will refinance 60% of commercial bank loans for PPP projects in critical sectors over the next 15-18 months. As a result, IIFCL/banks would be in position to support projects totalling ~Rs1000bn.
- **Increased allocation to various sectors** — (1) NHAI by +23% YoY, (2) Railways by +19% YoY to Rs158bn, (3) JNNURM by +87% YoY to Rs129bn, (4) APDRP by +160% YoY to Rs21bn.
- **Increase in MAT rate a negative** — MAT rate has been increased to 15% from 10%, which would increase the tax-liability of BOT projects currently paying MAT.
- **Impact of specific tax proposals** — Tax deduction on investments in cold chains is positive for Voltas, while cut in custom duty on wind power generation equipments is negative for domestic wind equipment manufacturers.
- **Overall Neutral for infrastructure investment** — The budget has increased allocation to various infrastructure sectors and has focused on refinancing of projects. However, the budget fails to address various procedural and implementation issues which plague the sector and has also shied away from spelling out concrete timelines and targets for implementation.

Figure 6. Budget – Allocation to Different Sectors

Name	Allocation (Rsbn)	YoY increase	Companies to benefit
NHAI		23%	L&T, GMR, GVK, IVRCL, Nagarjuna, Reliance Infrastructure, Punj Lloyd, JPA
Railways	158	19%	L&T, BHEL
JNNURM	129	87%	L&T, IVRCL, Nagarjuna, Reliance Infrastructure
Rajiv Awas Yojana	40		
Mumbai flood prevention	5	150%	
APDRP	21	60%	ABB, Areva T&D, Power transmission & Distribution companies
Irrigation	10	75%	IVRCL, Nagarjuna Construction
NREGA	391	144%	
Bharat Nirman		45%	
Rural Electrification	70	27%	Power transmission & Distribution companies
Rural Roads	120	59%	L&T, GMR, GVK, IVRCL, Nagarjuna, Reliance Infrastructure, Punj Lloyd, JPA

Source: Citi Investment Research and Analysis

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## Cement

### No Major Changes Despite the Hype

- **Measures announced** — There has been an increase in funding for several schemes for infrastructure, housing, rural development and urban renewal projects. Key announcements:
  - Greater flexibility to Infrastructure Finance Company Limited (IIFCL) for providing LT financial assistance to infrastructure projects.
  - Increasing the allocation for Jawaharlal Nehru National Urban Renewal Mission (JNNURM, focus on urban infrastructure) by 87% to Rs129bn.
  - Increasing the allocation for the National Highways Development Programme (NHDP) by 23% and for the Railways by 46%.
  - Increasing the allocation by 45% for the Bharat Nirman programme which will help to improve the quality of life in rural India.
  - Allocation on the Commonwealth Games (to be held in 2010) has been raised by 64% to Rs35bn.
- **Impact of above measures** — All the above should be helpful in keeping cement industry demand growth buoyant, but are unlikely to push the cement demand growth rate beyond 9-10% in the near term.
- **No change in cement excise duty** — The cement industry voiced widespread concern that the excise duty on cement (currently 8%) would be raised, which would be difficult to pass on given the large capacity increases taking place. Excise duty has not been raised, which is positive news for the industry.
- **Excise duty on manmade fibre raised** — Grasim would be impacted by the increase in excise duty on manmade fibre and yarn from 4% to 8%. However, the company is confident of passing on this burden to its customers.
- **Import duty on batching plants** — The customs duty exemption on concrete batching plants with a capacity of 50 cubic metres or more has been withdrawn and importers will now have to pay customs duty of 7.5%. Impact on this is likely to be limited as concrete batching plants are not very expensive, and the main expense on setting up these plants is the land cost as these are located close to cities.

## Consumer & Retail

### Positives from Excise front; Rural Focus to Help Demand

- **Cigarettes appear to be excluded from excise hikes**— After two years of sharp increases in excise duty, cigarettes are apparently excluded from any increase in excise duties. We think this is a positive. It provides the company with some flexibility to hike prices and offsets the impact of the recent hike in VAT by some state governments (Delhi, Maharashtra). It

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should also enable ITC to re-rate as near term concerns on volume growth should gradually abate.

- **Macro benefits of increased agricultural sector allocation and NREGA** — The debt relief schemes for farmers (lower interest rates, overdue agricultural loans waived), food subsidies and increased government expenditure on agricultural sector target to increase rural disposable incomes and spur demand. Consumer companies with exposure to rural India (HLL, Asian Paints, Colgate, Dabur, Marico) stand to benefit.
- **Excise duty on jewellery removed** — Branded jewellery segment has been exempted from excise duty in the Budget, which is positive for players like Titan and Gitanjali Gems.
- **Paper & paperboard duty maintained at 4%** — Excise duty on paper and paperboard products has not been increased, and is maintained at 4%. This is positive for paper & paperboard manufacturers like ITC.

**Figure 7. Consumer: Budget Implications**

Change	Expectations	Business Implication	Companies Impacted
No change in cigarette excise duty	5-10% increase	Positive for cigarette volume growth	Positive for ITC, Godfrey Phillips, VST
Excise duty on jewellery removed		Beneficial for large branded players	Positive for Titan, Gitanjali Gems
Increased agri allocation/NREGA; debt relief schemes		Positive for rural incomes and demand generation	Positive for all FMCG companies - HLL, Asian Paints, Colgate India, Dabur, Marico

Source: Citi Investment Research and Analysis

## Media

### Set Top Box Duties Negative; Indirect Impact to Broadcasters

- **Customs duty on Set Top boxes reinstated** — An increase in the customs duty to 5% imposed on set-top boxes (STB) is negative for DTH/CAS players. This impacts the affordability of digital boxes in the country, and the move may restrict the high category growth expectations for DTH players. Any moderation in digitalization growth rates would be a negative for leading broadcasters also.
- **Stimulus to print media extended** — Stimulus for print media extended by 6 months from June 2009 to Dec 2009; reduction in 15% agency commission on DAVP ads and 10% increase in DAVP ad yields. This is a marginal positive as government ads are ~5-20% of ad revenues for print companies, of which larger proportion goes to regional players.
- **Clarity awaited on GST implementation** — Move towards GST will have an impact on the sector. There are no details available of this.

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**Figure 8. Media: Budget Implications**

Change	Expectations	Business Implication	Companies Impacted
4% customs duty on Set Top boxes	No duty to spur demand	Negative for DTH/CAS players; may impact speed of growth of digitalization in India	Negative for Dish TV; marginally negative for broadcasters like ZEEL and Sun TV
Extension of stimulus for print media		Marginal benefit flowing from government ads	Marginal positive for regional players like Jagran Prakashan

Source: Citi Investment Research and Analysis

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## Metals

### Steel and iron ore

- **Thrust on gas transportation and infrastructure** – While there have been no announcements in the budget that would have a major impact on the steel sector, the following policy measures are likely to benefit demand positively.
  - The government's proposal to develop a blueprint for long distance gas highways leading to a National Gas Grid should lead to higher demand for steel pipes.
  - Increased allocation for the Railways from Rs108bn made in the Interim Budget for 2009-10 to Rs158bn.
  - A 23% increase in allocation to National Highways Authority of India (NHAI) for the National Highways Development Programme (NHDP).
- **No change in the duty regime for steel** – Import duty on steel has been maintained at 5%. This would be a disappointment for the steel sector, which was lobbying for an increase in duty as it is facing threat of cheap imports and especially as imports have gone up by ~6% YoY in the first two months of FY10. The status quo on steel excise duty (8%) is a positive for the industry as they may not have been able to pass on any hike easily.
- **Iron ore export duty unchanged** – Export duty on iron ore fines is zero and that on lumps is 5%. Status quo is positive for Sesa Goa, as there were recent concerns that the export duties may be raised.

### Non-ferrous metals

- **Focus on the power sector** – Programmes such as the Accelerated Power Development and Reform Programme (APDRP) (160% increase in the budget allocation) and the Rajiv Gandhi Grameen Viduytikaran Yojana (RGGVY) (27% increase) are good for aluminium demand. This is positive as most domestic aluminium companies – Hindalco, Nalco, Sterlite and Vedanta – are enhancing their capacities.
- **Disinvestment process to be revived** – This would be positive for liquidity in Nalco, but not necessarily in the near term as it may not be in the first list of companies to be divested. A disinvestment focus is also likely to benefit Sterlite as it is in negotiations to complete the minority stake acquisitions of Balco and Hindustan Zinc.

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## Oil & Gas, Petrochemicals

### Budget: Impetus to Gas Infra; No Clarity on Subsidy, Tax on Gas

- **Subsidies / Fuel pricing – no major announcements** — Oil bonds are at Rs103bn in FY10 while explicit subsidy on LPG/SKO stays at Rs31bn. This negates the heightened expectations last week about the government bearing the entire cRs300bn of LPG/SKO losses thus sparing ONGC/GAIL. As feared, the Budget has not provided enough to support the Oil Ministry's "wish list". The government also announced formation of an expert group to review the pricing of petroleum products. While this shows intent, the market was expecting a bit more. –ve for ONGC, BPCL, HPCL, IOC.
- **Tax incentive for gas pipelines; positive for GSPL, GAIL** — The government intends to extend investment-linked tax incentives to the business of laying and operating cross-country natural gas pipelines. All capex (excl. land, goodwill, financial instruments) will be deductible. Positive for GAIL, GSPL. Also, the government has proposed to develop a blueprint for developing a National Gas Grid. Long-term beneficiaries are transmission companies such as GAIL, GSPL and companies leveraged to city gas such as GAIL, EKC.
- **MAT increase –ve for RIL/Cairn** — MAT rate has been increased to 16.8% from 11.2%, while the MAT credit period has been increased to 10 yrs (vs. 7 yrs). The increased tax rate could impact RIL and Cairn's cash tax rate, and in the worst case, we estimate EPS impact of ~5% (assuming no change in deferred tax and incl. FBT savings) on both. Cairn's NAV would, however, be impacted less at ~2%.
- **Confusion on extension of tax benefits to natural gas** — Natural gas produced from blocks licensed under NELP-VIII would now be eligible for a 7-year tax holiday (Section 80 IB). However, it is still unclear whether gas produced from blocks allocated in previous NELP rounds would also be eligible for such benefits, adding to uncertainty for RIL. In a worst-case, if RIL's D6 gas production is not eligible for tax benefits, D6 NAV could be impacted by ~Rs40-50.
- **Tax benefit to private refiners** — All private refiners can now avail a 7-year tax holiday, provided they commence operations on or before 31-Mar-12 (previously this benefit was extended only to public sector refineries). This should be beneficial for private refiners that have already announced expansion plans.
- **Excise/customs changes** — Excise duty on man-made fibres and yarns (PFY, PSF, PTA, polyester chips) has been increased to 8% from 4%. Excise duty on branded fuels has also been made full specific. No major custom duty changes made.

Figure 9. Oil & Gas – Impact of 2009-10 Budget

Change	Pre-budget	Post-budget	Stock impact
Pricing of petroleum products	Ad-hoc pricing as decided by the Govt.	Expert group formed to review pricing of petroleum products	Sentiment negative for ONGC, BPCL, HPCL, IOC
Investment linked tax incentive to cross country gas pipelines	-	All capex other than capex on land, goodwill and financial instruments will be tax deductible under new section 35AD	Positive for GAIL, GSPL
National gas grid	-	Blueprint to develop the gas grid to be finalized	Transmission companies such as GAIL, GSPL and companies leveraged to city gas such as GAIL, EKC
Increase in MAT rate	MAT rate of 10%; MAT credit period of 7 years	MAT rate of 15%; MAT tax credit period increased to 10 years	RIL and Cairn's EPS could be impacted by ~5-6% in worst case (assuming no change in deferred tax)
Section 80IB benefits to natural gas	Unclear if tax benefits were applicable to natural gas	Tax benefits applicable to natural gas produced from blocks licensed under NELP VIII; unclear if this would be extended to all (i.e. pre-NELP VIII) blocks	Confusion for RIL persists; in a worst-case, D6 NAV could be impacted by ~Rs40-50
7-year tax holiday to private refiners	Eligible if operations commence on or before 31-Mar-09 for private refineries and 31-Mar-12 for public sector refineries	Extended to include private refineries commencing operations on or before 31-Mar-12	Positive for private refiners that have announced expansion plans
Excise duty on certain products	Branded petrol – 6% + Rs13/l Branded diesel – 6% + Rs3.25/l PFY, PSF, PTA, polyester chips – 8%	Branded petrol – Rs14.50/l Branded diesel – Rs4.75/l PFY, PSF, PTA, polyester chips – 4%	No major impact

Source: Citi Investment Research and Analysis

## Pharmaceuticals, Healthcare & Agrochem

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### A Non Event for the Sector

- **Non Event** — We see the budget as a non event for Indian pharma although some changes in tax laws could marginally impact certain firms. Increase in MAT rate to 15% (10% earlier) is negative from a cash flow perspective. However, this would be offset to some extent by abolition of FBT. Effective tax rate may not change, as most firms make an opposite provision for MAT credit entitlement as well.
- **Higher rate of MAT (15% vs. 10%)** — would lead to higher upfront cash outflow for firms that are under MAT. Effective tax rate is however unlikely to change much as most companies provide for MAT credit entitlement as well. Extension of carry forward period for MAT credit from 7 to 10 years is positive. Piramal H/C, Sun and Biocon are the key firms that would be affected.
- **Other miscellaneous measures** — a) FBT abolished (minor positive for most companies); b) Extension of sunset clause for EOUs by one year (marginal positive for companies such as Dishman, Sun Pharma, Jubilant, Cipla and Glenmark); c) weighted deduction of 150% on R&D stays but not extended beyond FY10 – we expect this to be addressed in the next budget.
- **Expectations belied for healthcare delivery (hospitals)** — The budget had nothing of note for the hospitals sector. While import duty on specified heart devices (viz. artificial heart & PDA/ASD occlusion device) has been brought down to 5% (10% earlier), impact on financials would be negligible. Other weightier expectations such as granting of priority / infrastructure status have found no mention.
- **The usual Agri thrust** — Several measures were announced including: a) Higher targeted credit flow (up 13% from 2008); b) extension of debt relief programmes; and c) 75% higher allocation to accelerated irrigation benefit programme. While these are positive for farm incomes and would lead to greater demand for agri-

inputs such as seeds (Advanta) and pesticides (UPL), these were not entirely unexpected and are therefore unlikely to be catalysts for agrochem companies.

- **No change to top picks** — We remain most positive on United Phosphorus (play on global crop protection). In pharma, Piramal Healthcare is our top pick.

Figure 10. Impact Analysis – Pharma, Healthcare & Agrochem

Change	Impact	Business Implication	Stock Impact
<b>MAT rate hiked from 10% to 15%</b> Carry forward of MAT credit increased from 7 years to 10 years <b>Fringe benefit tax abolished</b>	Marginal Negative	<ul style="list-style-type: none"> <li>○ Would lead to higher upfront cash outflow for certain companies;</li> <li>○ Offset by extension of carry forward period for MAT credit &amp; abolition of FBT</li> </ul>	Piramal HC, Sun Pharma, Biocon, Dishman (marginal -)
<b>Customs duty cuts</b> <ul style="list-style-type: none"> <li>○ Duty on certain life saving drugs cut from 10% to 5%</li> <li>○ Duty on specified medical equipment cut from 7.5% to 5%</li> </ul>	Neutral	<ul style="list-style-type: none"> <li>○ Would lower treatment cost for patients but unlikely to impact P&amp;Ls by much</li> <li>○ Marginal reduction in equipment cost for hospitals but too small to make a material difference</li> </ul>	Apollo Hospitals, Fortis Healthcare (marginal +)
<b>Extension of sunset clause for EoU benefits by one year to FY11</b>	Marginal Positive	<ul style="list-style-type: none"> <li>○ Lower tax rates in FY11 for companies with EoU units – just a postponement of the step up in tax rate – no real change in intrinsic value</li> </ul>	Dishman
<b>Moves to aid farm credit:</b> <ul style="list-style-type: none"> <li>○ Higher targeted credit flow of Rs3.25tn (up 13% from 2008)</li> <li>○ Extension of debt relief programmes – time to repay 75% of overdues extended to 31 Dec 2009 from 30 Jun 2009</li> <li>○ 75% higher allocation to accelerated irrigation benefit programme</li> </ul>	Positive	<ul style="list-style-type: none"> <li>○ Greater demand for seeds, fertilizers and pesticides due to improved farmers' spending power</li> </ul>	United Phosphorus power

Source: Citi Investment Research and Analysis

## MAT & FBT changes – who would be affected?

Figure 11. Indian Pharma – Effective tax rates (Rs m, %)

Company	PBT	Current Tax	Deferred Tax	FBT	Others	Eff. Tax Rate	CIRA Comments
Apollo Hospitals	1,384	34.9%	-1.6%	2.1%	-	35.4%	No material impact
Biocon	2,600	10.3%	0.0%	0.7%	-3.5%#	7.5%	Marginal negative
Cadila Healthcare	3,698	11.1%	2.3%	2.1%	2.5%#	18.0%	
Cipla	910	11.2%	3.3%	1.1%	-	15.6%	
Dishman	1,575	2.4%*	4.2%	0.2%	-	6.8%	EoU benefits to be extended by one year
Dr Reddy	8,064	33.8%	-2.8%	1.4%	-	32.3%	
Fortis Healthcare	218	18.1%	N/A	N/A	-	18.1%	
Glenmark Pharma	2,689	24.6%	-14.2%	3.0%	14.7%#	28.0%	
GSK Pharma	7,010	32.3%	-0.3%	1.0%	-	33.0%	
Jubilant Organosys	2,966	22.5%	-4.3%	1.0%	-10.2%#	9.0%	Under MAT in India; higher upfront cash flow
Lupin	6,060	13.7%	N/A	2.5%	-	16.2%	
Piramal Health	3,408	13.3%	-5.0%	7.6%	-9.4%#	6.4%	Expects incremental MAT liability to be Rs170m – to be offset by lower FBT to the tune of Rs150m
Ranbaxy	(15,000)	-5.0%	43.4%	-1.0%	0.3%	37.7%	
Sun Pharma	19,492	3.7%	N/A	N/A	-	3.7%	Taxation on Indian biz to go up; MAT credit offset
United Phosphorus	4,921	5.2%	-0.4%	0.6%	-	5.5%	Taxation on Indian biz to go up; MAT credit offset

Source: Citi Investment Research and Analysis \*Net of MAT credit entitlement #MAT credit entitlement/utilisation

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## Real Estate

### No Material Impact

- **Budget neutral** — The budget is largely neutral for the real estate sector. Most of the anticipated measures did not come through, particularly for boosting affordable housing and higher interest deduction on taxable income. However, following are some of the indirect positives and negatives for the sector.
- **Indirect positives** — 1) Boost to rural housing with allocation of Rs20bn for Rural Housing Fund in NHB (National Housing Bank) to help refinancing in rural housing sector. 2) Allocation of Rs39.73bn for housing and provision of basic amenities to the urban poor. Government to implement Rajiv Awas Yojana to make the country slum free in a period of 5 year. 3) Abolition of surcharge on personal income tax will increase some disposable income, which could help boost housing demand.
- **Some negatives** — 1) Increase in MAT to 15% vs. 10% could be marginally negative for HDIL. The company's airport project and other key slum rehab projects are exempt from tax, hence largely pay MAT at the corporate level. That said the impact of increase in MAT will be partially offset by benefits from abolition of Fringe Benefit Tax. 2) Extension of STPI benefits until FY11 will be negative for upcoming IT SEZs – something that was largely expected and does not come as a surprise. Moreover, most developers have already delayed their IT/ITES SEZ projects given the slowdown in the IT sector.
- **Property stocks could weaken near term** — We believe property stocks have been factoring in a lot of positive expectations such as: 1) Double the current limit of Rs0.15m p.a. deduction for interest on home loans. 2) Reforms for affordable housing – interest subsidy, exempt entire interest on home loan as deduction, reinstate developer tax benefits u/s 80IB – (10). 3) Separate deduction of up to Rs0.2m for principal loan re-payment. Given none of these have come through, we see property stocks weakening on disappointment in the near term. Subsequently, 1QFY10E results expected over the next few weeks will likely report continued fall in profits.

## IT Services

### Positive but Partly Priced In

- **STPI sunset clause extended until Mar'11** — STPI benefits have been extended until FY11 (until FY10 earlier). As our note last week highlighted (<https://www.citigroupgeo.com/pdf/SAP28709.pdf>), the tier-I gainers (for FY11 EPS) are TCS and HCL Tech. Tier-II players gain more (Patni/Tech Mahindra, in our coverage). From a DCF perspective, the changes would have little impact.
- **MAT increased from 10% to 15%** — MAT (minimum alternate tax) has been increased from the current 10% to 15% of book profits. Benefits can be carried forward for 10 years now (earlier 7 years). This does have a cash flow impact, though is P&L neutral. The increase in tax rate due to MAT is offset by a deferred tax asset creation, which is equal in amount to MAT, not impacting effective tax rate. From a cash flow perspective, the tax is paid today while the "MAT credit entitlement" will be available post STPI (post two-years or more). So what companies lose out is the interest income on the cash tax paid now.

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- **Fringe Benefit Tax (FBT) abolished** — Positive for all companies but has a marginal impact as it was a very small item for most tier-I companies (In FY09; TCS paid Rs230m as FBT while Infosys paid Rs280m). Also, FBT on ESOPs was just a P&L entry as companies were recovering this from the employees (and used to go directly to reserves and surplus line of the balance sheet). However, it will help as the administration was quite cumbersome, as per companies.
- **Clarity on SEZ tax benefits (section 10 AA), as expected** — SEZ export profits were earlier required to be computed with reference to the total turnover of the “assessee”, which has been changed to “undertaking” now. In simple words, now IT companies can claim deduction on 100% of profits from SEZ units for the first 5 years. This is applicable for FY11 and subsequent years only.
- **Threshold for non-promoter public holding in listed companies to rise** — Possible candidates for impact will be TCS, Wipro, HCL Tech and Tech Mahindra. It really depends on the form and when this is implemented.

Figure 12. Impact on Indian IT Sector

Change	Business Implication	Stock Impact
STPI extension by one-year	Effective tax rate in FY11 to come down	Biggest beneficiaries – TCS, HCLT, Patni and Tech Mahindra
MAT increased	No P&L implication	NA

Source: Citi Investment Research and Analysis

## Telecom

### Higher MAT = Cash Flow Impact, 3G Targets Optimistic

- **MAT increase: EPS neutral but impact on cash flows** — The Finance Minister, as part of the Union budget 2009-10, announced an increase in MAT to ~16.8% (incl. surcharge/cess) from 11.2% though extending time line for using the MAT credit to 10 years (7 years). While resulting in higher cash outflow, it should be EPS neutral given: 1) both Idea and RCOM will likely claim higher corresponding MAT credit, and 2) in case of Bharti, our FY10 effective tax rate assumption currently stands at 16%. Abolition of FBT meanwhile is a small positive.
- **Auction assumed to fetch Rs350bn** — The budget estimates include Rs350bn as expected revenue from the auction of 3G spectrum. This estimate, in our opinion, assumes: 1) a higher reserve price (Rs40bn for pan-India spectrum as per media reports); and 2) more number of available slots for auction (~5 earlier). We however believe that this figure is optimistic given the likely reduced intensity in 3G bidding if higher number of slots does become available. It's not clear whether Rs350bn includes anything from WiMax auctions.
- **Rural focus bodes well for telecom spend in the medium term** — The telecom operators have ascribed the rural “spending power” as one of the reasons for the strength in rural MOUs. The debt relief schemes, food subsidies and increased government expenditure on agricultural sector are likely to support rural disposable incomes. This assumes significance as operators esp. incumbents look at the rural markets for traffic growth too offset the increasing competition in the urban areas.

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Figure 13. CIRA India Universe Valuations

Company	RIC	Rating	Price	MktCap US\$m	P/E	P/B	Div.Yield	EPS Growth	RoE
Aban Offshore	ABAN.BO	3S	807.9	639	2.9	1.4	1.24%	49.2%	62.69%
ABB (India)	ABB.BO	3L	745.2	3303	30.7	5.9	0.34%	-1.2%	21.00%
ABG Shipyard	ABGS.BO	3H	182.6	194	3.6	0.8	1.92%	43.7%	24.65%
Ambuja Cements	ABUJ.BO	3M	87.2	2777	12.5	2.0	1.92%	-10.2%	16.99%
ACC	ACC.BO	3M	723.8	2841	12.4	2.3	2.28%	-8.4%	19.90%
Andhra	ADBK.BO	3M	77.9	790	5.2	0.9	5.78%	11.5%	18.76%
Ansal Properties	ANSP.BO	3H	53.5	127	20.3	0.5	0.00%	-38.4%	2.43%
Apollo Hospitals	APLH.BO	1M	571.5	738	22.5	2.3	1.77%	15.2%	10.55%
Areva T & D	AREV.BO	3M	308.4	1542	27.4	7.6	0.78%	17.9%	30.78%
Ashok Leyland	ASOK.BO	3M	29.3	815	17.5	1.1	3.75%	17.0%	6.22%
Asian Paints	ASPN.BO	1L	1193.5	2394	24.2	7.8	1.55%	17.6%	35.53%
AXIS Bank	AXBK.BO	1M	794.2	5976	13.0	2.4	1.26%	22.2%	19.94%
Bajaj Auto	BAJA.BO	3L	984.0	2977	13.3	6.0	2.54%	34.1%	44.15%
Bharat Forge	BFRG.BO	3H	138.9	647	28.2	2.0	2.16%	-24.8%	7.21%
Bharat Heavy	BHEL.BO	2L	2102.5	21525	23.1	6.3	0.95%	42.4%	30.51%
Biocon	BION.BO	3H	210.0	878	18.2	2.4	1.10%	9.6%	15.03%
BoB	BOB.BO	2M	407.9	3107	6.4	1.0	2.21%	4.1%	16.69%
BPCL	BPCL.BO	3M	442.9	3349	11.9	1.1	2.44%	62.8%	9.62%
Bharti	BRTI.BO	1L	783.6	31111	15.7	3.7	0.00%	17.9%	27.07%
Cadila Healthcare	CADI.BO	3M	354.1	1011	12.3	3.0	1.69%	13.5%	26.64%
Cairn India	CAIL.BO	2L	219.2	8693	18.5	1.3	0.00%	257.9%	7.23%
Central Bank IN	CBI.BO	3M	86.9	734	6.1	0.6	1.15%	12.1%	10.02%
CESC	CESC.BO	3M	275.9	721	7.7	0.9	1.45%	9.5%	12.48%
CPCL	CHPC.BO	1M	174.7	544	7.1	0.6	5.72%	-56.2%	8.59%
Cipla	CIPL.BO	3M	260.1	4227	20.4	4.1	1.22%	11.1%	21.59%
Canara	CNBK.BO	1M	264.4	2267	4.9	0.8	3.03%	6.9%	16.90%
Colgate India	COLG.BO	1L	609.1	1732	25.5	46.9	3.13%	16.8%	187.85%
Corp. Bank	CRBK.BO	1H	310.0	930	4.2	0.8	4.19%	18.7%	19.88%
Dabur India	DABU.BO	2L	128.7	2328	24.3	10.8	1.64%	21.1%	50.12%
Dishman	DISH.BO	1H	175.0	295	8.0	1.6	1.25%	16.5%	21.91%
DLF	DLF.BO	1L	309.3	10977	26.1	2.1	0.00%	-56.6%	8.22%
Edelweiss Cptl	EDEL.BO	1M	356.5	559	8.8	1.2	1.12%	63.4%	14.22%
Educomp Solutions	EDSO.BO	3H	3912.5	1417	32.5	10.5	0.09%	63.3%	42.95%
EIH	EIHO.BO	3M	121.6	999	30.5	3.1	0.82%	-12.5%	10.55%
Everest Kanto	EKCL.BO	1M	188.9	400	14.3	2.6	0.73%	1.9%	21.08%
Federal	FED.BO	1M	234.9	840	6.8	0.8	1.92%	17.2%	12.82%
Fortis Healthcar	FOHE.BO	3H	91.1	432	57.3	1.8	0.00%	217.8%	3.11%
GAIL	GAIL.BO	1L	313.3	8311	13.6	2.4	2.95%	1.1%	18.97%
Gujarat Gas	GGAS.BO	1L	305.0	409	10.8	2.2	0.98%	11.2%	21.99%
Glaxosmith P	GLAX.BO	1L	1265.9	2242	19.0	6.5	4.01%	19.4%	35.03%
Glenmark Pharma	GLEN.BO	3H	229.3	1202	15.0	2.5	0.44%	10.4%	19.59%
GMR Infracore	GMRI.BO	2M	132.9	5097	67.8	3.1	0.00%	30.5%	4.78%
Great Offsh	GOFS.BO	1M	436.2	339	6.5	1.7	5.73%	39.3%	29.78%
Grasim Ind	GRAS.BO	3M	2297.2	4404	16.2	2.0	0.78%	-17.9%	13.00%
Gujarat Petro	GSPT.BO	1M	50.3	591	21.6	2.2	1.39%	97.8%	10.69%
GVK Power	GVKP.BO	1H	40.6	1194	25.6	1.8	0.00%	79.4%	7.57%
Hindalco Inds	HALC.BO	1M	78.2	2779	7.2	0.5	0.96%	-21.1%	7.21%
HCL Techno	HCLT.BO	2M	186.9	2620	13.1	2.2	2.54%	-9.7%	17.91%
Hindustan Construction	HCNS.BO	3H	102.8	551	27.2	2.3	0.78%	23.7%	9.25%

Source: Citi Investment Research and Analysis. Prices as of 6<sup>th</sup> July 2009.

Figure 14. CIRA India Universe Valuations (cont'd)

Company	RIC	Rating	Price	MktCap US\$m	P/E	P/B	Div.Yield	EPS Growth	RoE
HDFC Bank	HDBK.BO	2L	1427.2	12721	20.4	3.4	0.63%	26.7%	18.88%
Housing Dev	HDIL.BO	3M	227.3	1644	16.9	1.2	0.00%	-45.3%	8.58%
Hindustan Unilev	HLL.BO	1L	275.9	12582	23.0	34.8	3.48%	28.5%	157.83%
HPCL	HPCL.BO	3M	317.2	2246	10.1	1.0	2.66%	2508.9%	9.82%
Hero Honda	HROH.BO	1L	1358.7	5674	14.6	5.3	1.84%	45.0%	41.85%
Hotel Leela	HTLE.BO	3H	30.2	238	15.0	1.0	1.33%	-16.3%	6.97%
Hindustan Zinc	HZNC.BO	3M	564.2	4985	8.1	1.4	0.80%	8.2%	18.75%
Indiabulls	IBUL.BO	3H	182.7	969	7.6	1.2	4.65%	16.7%	16.65%
ICICI	ICBK.BO	2M	678.0	15787	18.6	1.4	1.62%	9.1%	8.07%
IDEA	IDEA.BO	3M	69.5	4506	27.1	1.8	0.00%	-4.1%	6.82%
IDFC	IDFC.BO	3M	133.9	3627	17.5	2.5	0.97%	31.8%	15.08%
Indraprastha Gas	IGAS.BO	2M	136.7	400	10.2	2.4	3.66%	10.5%	25.76%
Indian Hotel	IHTL.BO	3H	62.0	937	14.0	1.2	1.94%	399.2%	9.54%
Info Edge	INED.BO	1L	617.9	353	25.6	4.3	0.00%	7.8%	17.94%
Infosys Tech	INFY.BO	1L	1760.0	21085	17.6	4.5	1.70%	-4.3%	28.27%
Indiabulls Real	INRL.BO	3M	203.1	1703	43.2	1.2	0.00%	252.5%	3.38%
Indian Oil	IOC.BO	3M	540.8	13485	10.8	1.2	2.24%	18.4%	11.83%
ITC	ITC.BO	1L	197.8	15614	18.8	4.7	2.12%	17.3%	26.51%
IVRCL Infra & Projects	IVRC.BO	1M	330.2	922	16.8	2.2	0.45%	17.4%	14.54%
JAL	JAIA.BO	1M	193.1	4781	32.3	4.3	0.49%	8.7%	14.91%
Jet Airways	JET.BO	3H	233.2	421	-1.4	0.7	1.29%	-11.7%	-46.91%
JSW Steel	JSTL.BO	3H	576.6	2256	11.9	1.3	1.21%	-0.6%	11.41%
Jubilant Organos	JUBO.BO	1H	160.3	494	6.9	1.5	1.25%	77.2%	27.41%
Kotak	KTKM.BO	3H	596.8	4325	21.9	2.8	0.13%	44.6%	13.66%
Larsen & Toubro	LART.BO	2L	1464.0	17949	28.3	5.8	0.79%	12.0%	22.38%
Lupin	LUPN.BO	1M	823.6	1432	11.2	3.1	1.82%	23.3%	33.51%
Mahindra Mahindra	MAHM.BO	1L	710.4	4143	16.5	3.0	1.41%	29.1%	20.04%
Mindtree	MINT.BO	3H	478.3	380	10.6	2.4	0.63%	233.4%	25.81%
Motilal Oswal Fin	MOFS.BO	3M	143.9	427	13.8	2.2	0.63%	65.7%	17.41%
Moser Baer India	MOSR.BO	3H	82.7	291	39.4	0.6	1.21%	108.2%	1.61%
Mundra Port SEZ	MPSE.BO	3H	540.3	4527	35.1	6.4	0.57%	47.9%	19.43%
Marico	MRCO.BO	3L	71.4	909	19.5	6.9	0.92%	9.2%	40.91%
Maruti Suzuki	MRTI.BO	2L	1035.0	6254	16.8	2.7	0.53%	46.0%	17.57%
MTNL	MTNL.BO	3L	96.2	1268	20.4	0.5	3.12%	-33.6%	2.41%
Nation Alum	NALU.BO	3M	285.1	3842	14.7	1.7	1.58%	-1.8%	12.22%
Nestle India	NEST.BO	3L	1932.9	3897	29.1	33.8	2.68%	15.2%	122.97%
Nagarjuna Constr	NGCN.BO	1M	128.7	616	16.8	1.6	0.86%	14.1%	9.92%
NIIT	NIIT.BO	3H	59.2	204	12.9	2.0	2.20%	8.9%	16.15%
NTPC	NTPC.BO	2L	194.0	33454	17.0	2.6	2.11%	18.4%	15.81%
Omaxe	OMAX.BO	3H	91.8	333	21.3	1.0	0.00%	-21.8%	4.83%
ONGC	ONGC.BO	3M	1070.4	47879	12.9	2.2	2.34%	-24.7%	18.00%
OnMobile Global	ONMO.BO	1M	431.2	521	19.7	3.0	0.00%	48.1%	16.63%
ORBC	ORBC.BO	1H	170.2	892	3.9	0.6	4.29%	19.3%	15.62%
Pantaloon	PART.BO	3M	303.2	1106	34.5	2.2	0.12%	17.9%	7.04%
Parsvnath Developers	PARV.BO	3H	81.9	316	16.2	0.7	0.00%	-23.6%	4.54%
Pwr Grid Corp	PGRD.BO	3L	103.6	9119	19.5	2.7	1.35%	17.9%	14.37%
Piramal Health	PIRA.BO	1M	308.9	1350	12.9	3.8	1.62%	15.1%	33.19%
Petronet LNG	PLNG.BO	3H	65.7	1031	8.5	2.1	3.04%	11.8%	26.44%
PNB	PNBK.BO	1M	643.0	4240	5.9	1.2	3.11%	10.6%	21.34%

Source: Citi Investment Research and Analysis. Prices as of 6<sup>th</sup> July 2009.



Figure 15. CIRA India Universe Valuations (cont'd)

Company	RIC	Rating	Price	MktCap US\$m	P/E	P/B	Div.Yield	EPS Growth	RoE
Puravankara Projects	PPRO.BO	3H	86.5	386	16.1	1.3	1.16%	-31.3%	8.17%
Patni Computer	PTNI.BO	3H	245.0	656	9.4	1.0	1.02%	-19.0%	11.09%
Punj Lloyd	PUJL.BO	3M	198.9	1262	15.9	2.1	0.15%	99.8%	14.66%
Ranbaxy	RANB.BO	3H	260.7	2292	-56.8	1.9	0.80%	-221.5%	-3.29%
Dr Reddy	REDY.BO	1M	767.1	2706	17.4	2.6	0.72%	58.7%	20.81%
Religare Entp	RELG.BO	3H	392.0	626	50.2	4.8	0.28%	915.5%	10.06%
Reliance Industries	RELI.BO	2L	1893.6	62329	14.0	2.5	1.16%	34.6%	19.74%
RCOM	RLCM.BO	3H	269.4	11629	12.9	1.6	0.56%	-29.7%	12.97%
Reliance Capital	RLCP.BO	3M	833.5	4282	19.4	2.5	0.84%	4.0%	13.41%
Reliance Infracore	RLIN.BO	1M	1131.1	5329	20.4	2.1	0.71%	17.7%	10.61%
Reliance Petro	RPET.BO	3H	119.4	11237	11.3	3.1	1.33%	na	27.10%
Steel Authority	SAIL.BO	1M	151.0	13044	13.5	2.0	1.32%	-19.6%	15.66%
SBI	SBI.BO	1L	1655.0	21975	10.1	1.6	1.75%	14.1%	16.81%
Sesa Goa	SESA.BO	3H	179.5	2955	11.8	2.5	1.11%	-43.0%	23.62%
Shoppers Stop	SHOP.BO	3H	145.2	106	-13.1	2.2	0.00%	25.6%	-15.55%
Sterilite Industries	STRL.BO	3M	588.3	8716	12.6	1.3	0.51%	0.7%	10.32%
Sun Pharma	SUN.BO	2M	1130.2	4896	15.2	2.8	1.67%	24.0%	24.92%
Sun TV Network	SUTV.BO	2M	226.2	1864	19.7	4.5	1.55%	13.1%	24.36%
Suzlon Energy	SUZL.BO	2H	98.7	3093	20.6	1.5	0.00%	-26.3%	10.96%
Tata Motors	TAMO.BO	2M	283.4	2666	33.9	1.1	2.12%	28.8%	3.35%
TataComm	TATA.BO	3M	470.0	2801	237.5	2.8	0.96%	183.6%	1.15%
Tata Consult	TCS.BO	1L	381.6	15620	14.3	3.9	1.83%	0.9%	29.85%
Tech Mahindra	TEML.BO	3H	695.9	1774	11.0	2.8	0.00%	-19.1%	31.07%
Thermax	THMX.BO	1M	406.3	1013	15.4	4.4	1.97%	2.3%	31.53%
Tata Steel	TISC.BO	3H	396.5	6058	7.7	0.9	0.76%	-23.3%	14.02%
Tata Tele	TTML.BO	3M	34.3	1359	-25.8	2.6	0.00%	-13.9%	-10.33%
Tata Power	TTPW.BO	1L	1101.6	5101	39.4	2.9	1.09%	-2.6%	7.55%
Tulip Telecom	TULP.BO	1M	845.1	513	9.5	2.6	0.47%	31.6%	32.09%
UltraTech Cement	ULTC.BO	3M	693.2	1805	9.1	1.9	0.58%	-3.4%	23.33%
Union Bank	UNBK.BO	3L	233.3	2464	6.5	1.1	2.14%	4.5%	18.99%
United Phosphorus	UNPO.BO	1H	146.8	1350	9.6	1.9	1.02%	14.4%	22.95%
United Spirits	UNSP.BO	3M	830.7	1740	19.4	2.9	0.27%	28.4%	15.92%
Unitech	UNTE.BO	3M	75.9	3792	29.6	2.3	0.00%	-62.7%	9.05%
UTV Software	UTVS.BO	3H	346.0	247	14.1	0.7	0.58%	11.2%	5.95%
Voltas	VOLT.BO	3M	119.1	824	14.6	4.2	1.43%	22.3%	32.47%
Wipro	WIPR.BO	2L	371.1	11375	14.6	3.0	1.35%	7.6%	22.44%
Yes Bank	YESB.BO	1M	133.2	827	11.4	2.0	0.00%	13.5%	19.21%
Zee Entertainment	ZEE.BO	1M	170.7	1549	18.3	2.2	1.46%	8.0%	12.38%

Source: Citi Investment Research and Analysis. Prices as of 6<sup>th</sup> July 2009.



## Appendix A-1

### Analyst Certification

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Global Markets India Pvt Ltd is providing a fairness opinion to Reliance Petroleum in its proposed merger with Reliance Industries.

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A member of the household of Tirthankar Patnaik, Analyst, holds a long position in the securities of ICICI Bank, NTPC.

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A member of the household of Aditya Narain, CFA, Analyst, holds a long position in the securities of Reliance Capital.

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Steel, Larsen & Toubro, Lupin, Mahindra & Mahindra, Moser Baer India, Marico, Maruti Suzuki India, MTNL, National Aluminium, Nestle India, NTPC, Oil & Natural Gas, Oriental Bank of Commerce, Parsvnath Developers, Power Grid Corporation of India, Petronet LNG, Punjab National Bank, Puravankara Projects, Reliance Industries, Reliance Petroleum, Steel Authority of India, State Bank of India, Sesa Goa, Sterlite Industries (India), Suzlon Energy, Tata Motors, Tata Consultancy Services, Tech Mahindra, Tata Steel, Titan Industries, Tata Teleservices, Union Bank Of India, United Spirits.

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