

Union Budget 2010-11

Hobson's choice



IDFC- SSKI Research

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Union Budget FY11 - key themes

Strong consumption boost by way of higher disposable incomes;
sets the stage for accelerated economic growth in medium term

Continued focus on infra, agri and social sectors (healthcare & education)

Withdrawal of fiscal stimulus; increase in indirect taxes to pre-crisis levels

Roadmap for fiscal consolidation to bring deficit to 4.1% in 3 yrs;
FY11 fiscal deficit target a tad ambitious - government banks heavily on divestment proceeds &
oil prices could play spoilsport

Inflation to inch up to approximately 10%;
corporate tax measures an earnings dampener in the near term

Long-term earnings trajectory remains strong;
we retain our 12-month Sensex target at 20000

Budget 'gives' ...and 'leaves' more with consumer...

The urban consumer



- ✓ Revision in direct tax slabs would benefit approx. 60% of the taxpayers in the country
- ✓ Estimate a gain of ~Rs20,000-50,000 per person
- ✓ ~Rs260bn of estimated savings for tax payers
- ✓ Incremental interest subvention of 1% on loans for affordable housing

The rural consumer

- ✓ Allocation to NREGS remains at elevated levels (at Rs400bn)
- ✓ Extension of repayment period of farm loan waivers
- ✓ Incentive of additional 1% interest rate subvention
- ✓ Increased allocation to rural development programmes (of ~Rs661bn)



...and invests in 'priority' sectors

Infrastructure
spending -
Rs1.74trn

- Planned allocation for infra now at 46% of central plan outlay
- Road outlay increased by 13.6%yoy to Rs199bn
- Allocation to Power (excluding RGGVY) up by 130% to Rs51.3bn
- Plan allocation for Bharat Nirman now at Rs480bn (6% yoy rise)
- Deduction of ~Rs20,000 (over-and-above Rs100,000) for investment in infrastructure bonds

Agri focus -
Rs3.75trn of agri
credit

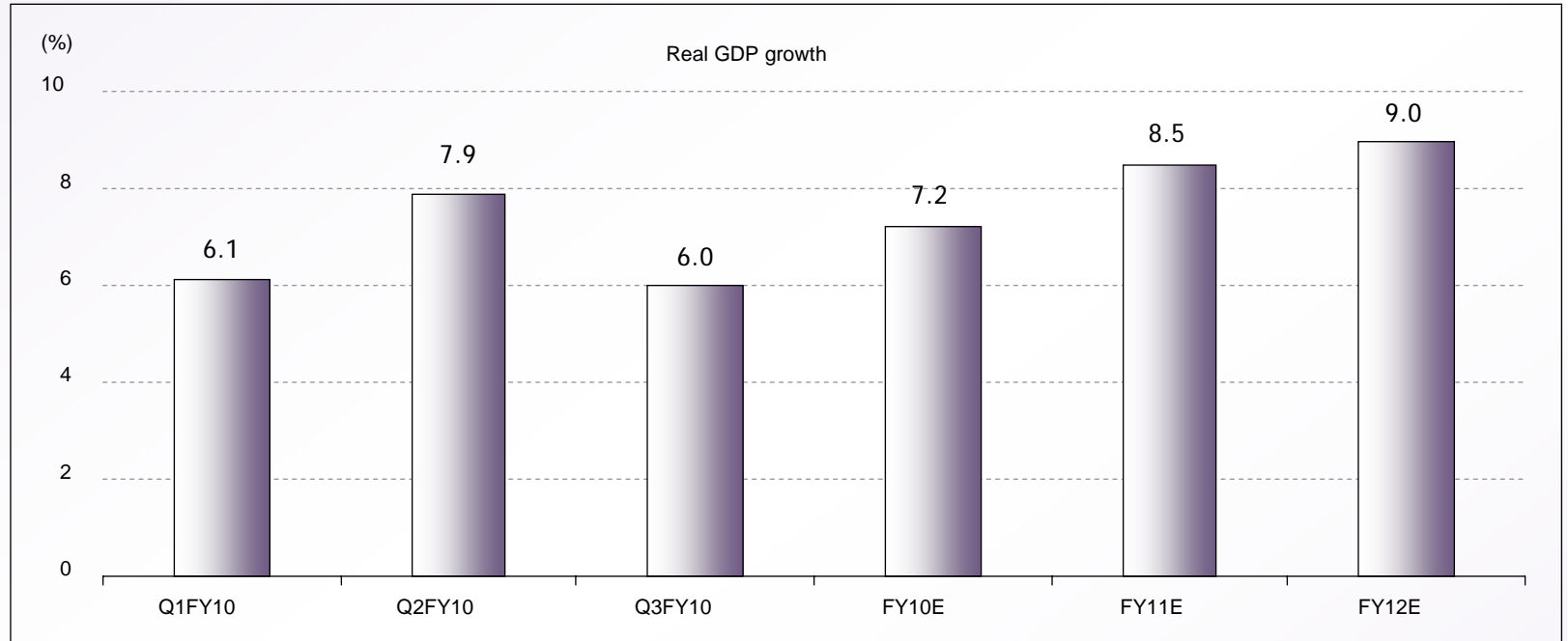
- Food security through higher agri credit, investments in infrastructure (to cut on food wastage), food processing infrastructure and agri productivity

Education,
health and
housing -
Rs1.37trn

- Plan spend on education increased by 16% to Rs310bn
- Additional grants of ~Rs36bn to states for elementary education
- Allocation of Rs223bn to Ministry of Health & Family Welfare up 15%
- Unit cost under Indira Awas Yojana increased to Rs45,000 in plains and to Rs48,500 in hilly areas
- Contribution of Rs1,000 by government for every new account opened with NPS

The stage is set for growth acceleration...

Growth outlook remains strong



Source: Economic Survey 2009-10

"...it is entirely possible for India to move into the rarefied domain of double-digit growth and even attempt to don the mantle of the fastest-growing economy in the world within the next four years..."

...and now time for 'fiscal prudence'

Fiscal deficit targets...

	Fiscal Deficit (as a % of GDP)
FY10E	6.9
FY11E	5.5
FY12E	4.8
FY13E	4.1

Govt. to target an explicit reduction in public debt-to-GDP ratio

Source: Union Budget speech

...appear achievable

Return of growth creates headroom for stimulus rollback

- ✓ Excise duty hiked by 200bp to 10%
- ✓ MAT increased to 18% (15% earlier)
- ✓ Duty on petroleum products reintroduced
- ✓ New set of services brought under Service Tax net
- ✓ Indirect tax measures to result into revenue gain of ~Rs465bn

- ✓ Strong economic growth and increased compliance to support tax revenues in the medium term
- ✓ India among the few economies to have begun withdrawal of fiscal stimulus

While the budget provides growth impetus...

...it comes with a rider

Fiscal deficit target for FY11 - a 'tad' ambitious

(Rs bn)	FY09BE	FY09RE	% growth	FY11BE	% growth
Gross Tax Revenue	6,411	6,331	0.8	7,467	17.9
Net Tax Revenue	4,742	4,651	(0.2)	5,341	14.8
Non-Tax Revenue	1,403	1,122	16.6	1,481	32.0
Non-debt capital receipts	53	53	(56.4)	451	NA
Total Receipts (ex Debt receipts)	6,199	5,826	1.4	7,273	24.8
Plan Expenditure	3,251	3,152	11.4	3,731	18.4
Revenue	2,784	2,644	9.4	3,151	17.8
Capital	468	508	22.9	580	14.2
Non-plan Expenditure	6,957	7,064	14.3	7,357	4.1
Revenue	6,188	6,419	14.3	6,436	0.3
Capital	769	644	14.3	921	42.9
Total Fiscal Deficit	4,010	4,197	NA	3,814	NA
Net market borrowing	3,980	3,984	NA	3,450	NA

Gross tax revenue targets indicate a full blown economic recovery

Govt. looking at ~Rs350bn of 3G auction receipts

Divestment proceeds estimated at ~Rs400bn contingent to benign capital markets

Increase in subsidy bill could lead to sharply higher non-plan expenditure

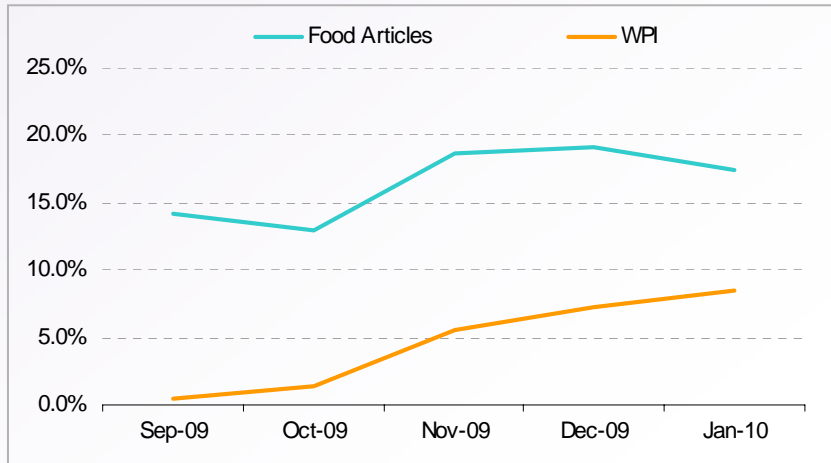
Net market borrowing below expectations

(% of GDP)	FY10BE	FY10RE	FY11BE
Revenue Deficit	4.6	5.3	4.0
Fiscal Deficit	6.5	6.7	5.5
Primary Deficit	2.8	3.2	1.9

Govt. banking on divestment proceeds; oil prices can play spoilsport

Budgetary measures to stoke inflation to ~10%

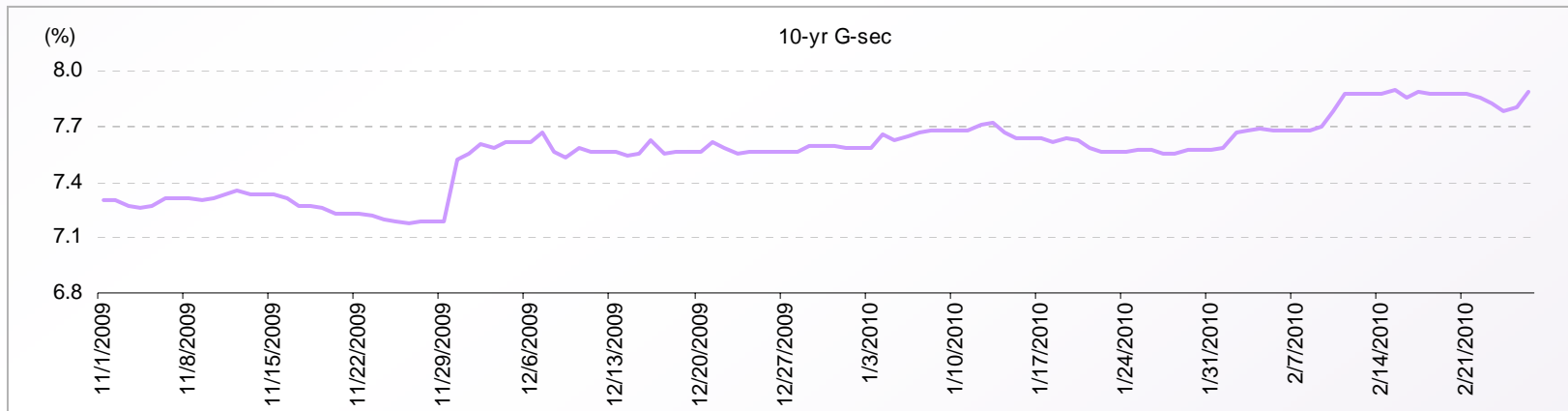
While food inflation remains high...



...core inflation set to rise

- ✓ Hike already effected in fuel prices (Rs2.71/ltr for petrol and Rs2.55/ltr for diesel)
- ✓ Higher excise duty for following sectors
 - Automobiles
 - Cement clinkers
 - Metals
- ✓ Inflation a natural corollary to 'Consumption thrust'

Expect G-sec yields to inch up further



Monetary tightening lies ahead; expect the RBI to act sooner than later

Corporate tax measures - an earnings dampener

Negative measures

MAT rate hiked to 18% (15% earlier)

- ✓ Impact on all power projects, metals, infra developers, Reliance Industries

Service tax imposed on renting of immovable property (for commercial purposes) with retrospective effect from 1-Jun-2007

- ✓ Impact on real estate, retail

New sectors brought under service tax net

- ✓ Impact on Aviation, Power Exchanges

13.5% increase on excise duty in cigarettes

- ✓ Impact on ITC

Positive measures

- ✓ Current surcharge of 10% on domestic companies reduced to 7.5%

- ✓ Weighted deduction on expenditure incurred on in-house R&D enhanced from 150% to 200%

Remain convinced on medium-term outlook

	Sales		EBITDA		PAT	
(% yoy)	FY10E	FY11E	FY10E	FY11E	FY10E	FY11E
Automobiles	19.3	15.8	56.1	34.3	258.4	62.0
Cement	12.3	6.2	43.0	(1.5)	38.6	(3.9)
Construction	11.5	19.8	21.5	20.6	26.1	(2.2)
Consumer goods	1.0	13.6	18.3	15.0	10.6	16.4
Financial	8.9	16.2	13.0	15.6	15.6	20.9
Metals	(21.9)	10.9	(15.9)	42.7	(66.1)	315.2
Oil & Gas	3.2	9.7	8.3	10.4	(6.4)	26.6
Petrochemicals	28.8	18.9	32.3	41.3	16.4	46.9
Pharmaceuticals	(6.2)	10.4	(28.2)	11.5	(21.7)	1.2
Power Equipment	22.1	22.2	48.9	30.6	39.9	29.3
Power Utilities	3.5	19.2	29.9	24.2	14.6	23.7
Real Estate	(31.0)	22.7	(45.0)	27.2	(48.3)	27.9
Software	1.9	8.5	0.9	9.8	9.4	10.6
Telecoms	3.5	4.0	(1.1)	(1.1)	(20.0)	(15.3)
Sensex	2.9	14.2	11.9	21.6	6.8	29.2

***FY11 Sensex EPS revised to Rs1040 (1.6% downgrade)
Reiterate 12-month Sensex target at 20000***

Winners and losers

Winners

- ✓ **Automobiles:** Strong thrust on increasing consumption demand, higher disposable incomes positive for volumes
- ✓ **Capex-plays (Construction and Engineering):** Higher allocation for flagship schemes and uptick in investment demand to drive order bookings and thereby earnings
- ✓ **Agriculture:** Strongly positive for agri-related companies with increased allocation for agriculture
- ✓ **Education:** Increased allocation towards school education and thrust on private participation in skills development are positive for the sector

Losers

- ✓ **Real estate:** Near-term negative due to implementation of service tax
- ✓ **Infra developers:** MAT rate hike to impact DCF value of assets
- ✓ **PSU banks:** High inflation to see rising G-sec yields; expect stocks to underperform
- ✓ **Aviation:** Impact of service tax to be negative for airlines
- ✓ **Retail:** Implementation of service tax (retrospective)

Union Budget FY11: Sectoral Impact

Expectations	Budget Provisions	Impact
<ul style="list-style-type: none"> ✓ Increase in MIS coverage target from 1m to 1.3m ✓ With food security a concern, expect increase in allocation towards agriculture, irrigation and agri infrastructure. 	<ul style="list-style-type: none"> ✓ Direct allocation of Rs10bn towards MIS against Rs4.3bn last year ✓ Indirect allocation towards various schemes <ul style="list-style-type: none"> ✓ Rs90bn towards National Rural drinking water programme ✓ Rs10.6bn towards the National Horticulture Mission ✓ Rs13.5bn for the National Food security Mission ✓ Rs10bn for macro management in Agriculture ✓ Rs5bn for integrated oilseeds, oil palm, pulses and maize development ✓ Allocation of Rs3bn towards water harvesting and soil health in rain-fed regions ✓ Target for bank agricultural credit flow increased from Rs3.25trn in FY10 to Rs3.75trn in FY11 ✓ Extension of loan repayment under the debt waiver scheme to 30th June, 2010 (from 31st Dec, 2009) ✓ Interest subvention raised to 2% (from 1%) for timely payment of short-term crop loans, taking the annual effective rate to 5% p.a 	<ul style="list-style-type: none"> ✓ Positive for Jain Irrigation: The largest provider of MIS with a 35% market share ✓ With central government contributing 40% to the subsidy pool for MIS, the allocation of Rs10bn towards MIS intuitively translates to a Rs25bn opportunity ✓ This imparts strong visibility for JISL and assures of a sustainable 30%+ growth in the MIS business over the next few years

Valuation Matrix

	Price	Mkt Cap	Reco	EPS (Rs)			EPS CAGR (%)	PE (x)			EV/EBITDA (x)		
	(Rs)	(Rs bn)		FY09	FY10E	FY11E	FY09-FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E
Jain Irrigation	832	62.4	Outperformer	26.7	34.5	43.2	27.2	31.2	24.1	19.3	15.5	12.7	10.7
Ruchi Soya	104	30.0	Neutral	4.8	6.3	8.1	30.3	21.7	16.5	12.8	11.1	8.5	7.8

Expectations	Budget Provisions	Impact
<ul style="list-style-type: none">✓ Excise duty hike of 4% across the board except for large cars/UVs✓ Excise duty on large cars/UVs to be maintained at 20%	<ul style="list-style-type: none">✓ Excise duty hike of 2% across the board to 10% except for large cars / UVs✓ Excise duty on large cars / UVs hiked by 2% to 22%✓ Excise duty on components of electric cars and vehicles hiked to 4% from nil to avail MODVAT credit✓ Weighted deduction on expenditure incurred on in-house R&D enhanced from 150% to 200%✓ Continued thrust on rural growth likely to help spur auto demand. Further, lower tax slabs for individuals would mean higher disposable incomes with consumers which may further boost auto demand✓ Surcharge reduced from 10% to 7.5% - to lower corporate tax rate	<ul style="list-style-type: none">✓ Likely to be passed on, unlikely to impact demand✓ Likely to be passed on, unlikely to impact demand✓ Positive for electric car manufacturers✓ Positive for all companies as average tax rate would come down✓ Expect demand for automobiles to sustain going forward✓ Positive for all companies as average tax rate would come down

Earnings Impact; Top Picks

Overall Positive for entire auto universe

✓ Our top picks - Tata Motors and Bajaj Auto

Valuation Matrix

	Price	Mkt Cap	Reco	EPS (Rs)			EPS CAGR (%)	PE (x)			EV/EBITDA (x)		
	(Rs)	(Rs bn)		FY09	FY10E	FY11E	FY09-FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E
Auto Components													
Amtek Auto	184	41.3	Underperformer	8.1	(2.3)	2.4	(45.3)	22.8	n/a	76.0	9.5	14.6	12.4
Bharat Forge	246	54.7	Underperformer	6.9	4.5	8.5	11.4	35.8	54.8	28.9	12.4	16.1	10.6
BOSCH	4,605	144.7	Outperformer	197.8	184.7	220.6	5.6	23.3	24.9	20.9	15.9	15.6	11.9
Rico Auto	25	3.1	Underperformer	(0.4)	(0.3)	1.3	n/a	n/a	n/a	18.9	9.4	8.6	6.7
Sona Koyo	17	3.4	Underperformer	(1.4)	0.7	1.0	n/a	n/a	23.7	17.7	37.0	6.9	5.9
Sundram Fasteners	52	10.9	Underperformer	3.7	3.5	4.3	8.3	14.2	14.9	12.1	7.6	7.1	6.2
Automobiles													
Ashok Leyland	50	66.1	Underperformer	1.5	2.4	2.8	37.8	33.1	20.7	17.5	18.2	12.9	9.7
Bajaj Auto	1,818	263.0	Outperformer	46.9	107.2	129.0	65.9	38.8	17.0	14.1	23.3	11.0	9.8
Hero Honda	1,778	355.0	Neutral	64.2	108.9	119.2	36.3	27.7	16.3	14.9	20.7	12.8	11.6
M & M	1,008	274.7	Underperformer	54.0	77.4	86.1	26.3	18.7	13.0	11.7	10.8	8.7	7.7
Maruti Suzuki	1,460	421.9	Underperformer	42.2	85.0	95.0	50.1	34.6	17.2	15.4	22.4	10.4	9.1
Tata Motors	711	386.9	Outperformer	(44.1)	(10.3)	44.4	n/a	n/a	n/a	16.0	30.9	16.5	8.8
TVS Motor	70	16.7	Underperformer	1.3	3.6	3.4	63.6	55.6	19.8	20.8	21.3	7.6	7.4
Tyres													
Apollo Tyres Ltd	58	29.3	Outperformer	2.8	8.4	8.1	71.3	21.1	6.9	7.2	8.3	4.0	4.2
Balkrishna Industries	592	11.5	Outperformer	52.0	85.8	89.4	31.1	11.4	6.9	6.6	6.6	4.0	3.6

Expectations	Budget Provisions	Impact
<ul style="list-style-type: none"> ✓ Rationalization of taxes on ATF (domestic ATF prices currently ~40% higher than global prices) 	<ul style="list-style-type: none"> ✓ Aviation - Service tax (@10.3%), earlier applicable only to business class and cargo revenue, expanded to include domestic journeys and international journeys across all classes 	<ul style="list-style-type: none"> ✓ Currently ~16% of Jet's revenues attributed to cargo and business class; the airline has an annual outgo of ~Rs1.2bn as service tax. Low cost airlines such as Spice Jet are currently paying negligible service tax ✓ Jet's service tax outflow likely to increase by >5x ✓ While the industry will attempt to pass on the increase through a 10-12% increase in yields, we expect volumes to be impacted

✓ An unexpected blow - While the government has recently funded NACIL to the tune of Rs8bn (as a part of Rs50bn equity infusion plan), we remain puzzled with the increase in service tax across the cash starved sector- Indian aviation sector has consolidated debt worth \$9bn and losses worth \$2bn in FY09. The macro-economic environment has been turning favorable over the last few months (YTD FY10 the industry has seen a 15% growth in passenger traffic), but the sudden move by the government is negative for the sector

Valuation Matrix

	Price	Mkt Cap	Reco	EPS (Rs)			EPS CAGR (%)	PE (x)			EV/EBITDA (x)		
	(Rs)	(Rs bn)		FY09	FY10E	FY11E	FY09-FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E
Jet Airways	404	34.8	Neutral	(242.9)	(94.8)	28.9	n/a	n/a	n/a	14.0	(23.6)	22.9	9.6

Expectations	Budget Provisions	Impact
<ul style="list-style-type: none">✓ Withdrawal of the existing duty concessions announced in the stimulus package✓ Infrastructure focus to continue	<ul style="list-style-type: none">✓ Effective ad-valorem duty increased to 10% from 8% earlier✓ Withdrawal of service tax exemption on service provided in relation to transport of goods by rail✓ Planned allocation on infrastructure announced at Rs1.74 trillion✓ Planned allocation for roads increased by 13.6%yoy to Rs199bn	<ul style="list-style-type: none">✓ Cement and Clinker prices to rise to reflect the hike in excise duties and levy of service tax on rail transportation - expect no impact on net realization to cement companies✓ Continued thrust on infrastructure positive for cement demand

Earnings Impact; Top Picks

- ✓ Expect no material impact on earnings for cement companies

Top Pick: Grasim

Valuation Matrix

	Price	Mkt Cap	Reco	EPS (Rs)			EPS CAGR (%)	PE (x)			EV/EBITDA (x)		
	(Rs)	(Rs bn)		FY09	FY10E	FY11E	FY09-FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E
Ambuja Cement *	107	162.6	Underperformer	7.5	7.7	7.3	(1.7)	14.2	13.8	14.7	8.6	8.2	8.4
ACC *	923	173.4	Underperformer	62.8	85.5	76.0	10.0	14.7	10.8	12.1	9.3	6.9	7.1
Grasim Industries	2,696	247.2	Outperformer	234.1	326.4	322.9	17.5	11.5	8.3	8.4	6.5	4.2	3.9
UltraTech Cement	1,040	129.5	Underperformer	78.5	93.6	87.9	5.8	13.3	11.1	11.8	8.2	6.3	6.1

* Calendar year ending

Construction & Infra developers: Positive

Expectations	Budget Provisions	Impact
<ul style="list-style-type: none"> ✓ Focus on infrastructure spending to continue ✓ Easing of norms for infrastructure financing ✓ Tax rates unlikely to be changed; 80IA benefits for developers to continue 	<ul style="list-style-type: none"> ✓ Planned allocation on infrastructure announced at Rs1.74 trillion ✓ Planned allocation for roads increased by 13.6%yoy to Rs199bn ✓ Allocation for NHAI increased by 10% to Rs95bn ✓ Imposition of Clean Energy Cess of Rs50/ton on coal (both domestic and imported) ✓ MAT rate increased from 15% to 18% 	<ul style="list-style-type: none"> ✓ Continued order inflow for construction companies ✓ Continued opportunity for asset ownership in the infrastructure space ✓ 2-6% adverse impact on valuation of BOT and power generation assets

Earnings Impact; Top Picks

- ✓ No impact on earnings in the construction business
- ✓ Marginal adverse impact of higher MAT rate on valuation of road BOT assets
- ✓ 2-6% adverse impact of higher MAT rate and Rs50/ton cess on coal on valuation of power assets
- ✓ **Top Pick: IVRCL, GVK Power, Lanco**

Construction & Infra Developers: Positive

Valuation Matrix

	Price	Mkt Cap	Reco	EPS (Rs)			EPS CAGR (%)	PE (x)*			EV/EBITDA (x)		
	(Rs)	(Rs bn)		FY09	FY10E	FY11E	FY09-FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E
Construction													
HCC	133	31.7	Outperformer	3.0	3.3	5.0	29.4	19.7	17.6	11.8	7.6	7.2	6.1
IVRCL Infrastructures	322	28.7	Outperformer	16.9	16.4	21.3	12.1	9.9	10.2	7.8	7.4	6.5	4.9
Jaiprakash Associates	132	280.4	Outperformer	6.4	6.8	8.9	17.8	20.7	19.6	14.9	14.5	13.4	14.3
Larsen & Toubro	1,564	930.7	Neutral	46.4	47.8	56.8	10.6	33.7	32.7	27.6	23.0	21.4	17.7
Nagarjuna Construction	155	38.9	Outperformer	6.7	7.3	8.6	13.1	17.6	16.4	13.8	8.3	7.4	6.6
Madhucon Project	161	3.0	Outperformer	6.4	7.5	9.8	24.0	14.5	12.3	9.4	7.4	7.1	5.9
Simplex Infrastructures	445	22.0	Neutral	23.3	28.3	34.5	21.7	19.1	15.8	12.9	8.3	6.8	5.8
Infra Developers													
Adani Enterprise	487	240.0	Outperformer	20.5	15.3	36.7	33.7	23.7	31.7	13.2	21.5	28.9	12.3
GVK Power	43	68.4	Outperformer	7.6	1.2	1.6	(54.2)	5.7	36.3	27.3	19.1	15.7	11.5
GMR Infrastructure	55	199.5	Outperformer	1.5	0.6	1.4	(5.5)	35.7	99.3	40.0	18.8	19.0	12.5
Lanco Infratech	46	110.5	Outperformer	12.6	2.1	3.5	(47.4)	3.6	22.3	13.2	6.0	12.5	7.8
Mundra Port & SEZ	674	270.0	Outperformer	12.2	17.3	25.9	46.0	55.4	39.0	26.0	40.8	30.9	20.6

* Adjusted for value of BOT / Real Estate portfolio

Expectations	Budget Provisions	Impact
<ul style="list-style-type: none"> ✓ Increase in spends towards SSA and skill development 	<ul style="list-style-type: none"> ✓ Funding towards SSA increased by 19% to Rs310.4bn ✓ States to have access to Rs36.75bn for elementary education ✓ Skill development has seen a significant allocation of Rs100bn 	<ul style="list-style-type: none"> ✓ Higher allocation to school education and thrust on private participation in skills development positive for the sector ✓ While positive for the sector, the increase is already factored into our numbers-marginal impact on earnings

Earnings Impact; Top Picks

Top Pick: Everonn Education

Valuation Matrix

	Price	Mkt Cap	Reco	EPS (Rs)			EPS CAGR (%)	PE (x)			EV/EBITDA (x)		
	(Rs)	(Rs bn)		FY09	FY10E	FY11E	FY09-FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E
Educomp Solution	671	63.4	Neutral	78.3	28.7	35.8	(32.4)	8.6	23.4	18.7	6.2	13.7	9.3
NIIT	65	10.7	Neutral	4.1	4.0	5.6	17.3	16.0	16.1	11.6	11.4	9.3	7.1
Everonn Systems	397	6.0	Outperformer	16.8	26.6	37.8	50.1	23.7	14.9	10.5	11.2	7.1	5.1

Expectations	Budget Provisions	Impact
<ul style="list-style-type: none">✓ Maintain focus on power sector investments✓ Stimulus for textile industry	<ul style="list-style-type: none">✓ Increased thrust on power sector investment✓ Sops continued for the textile sector - to generate higher employment, grant of Rs2bn to Tamil Nadu for zero liquid discharge system, 2% interest subvention on handicrafts, handlooms, etc	<ul style="list-style-type: none">✓ Voltas, being the largest agent for LMW, to benefit from stimulus provided to the textile sector✓ Increased power sector investments to benefit Elecon as also AIA Engineering - supplier of equipment for power projects

Earnings Impact; Top Picks

- ✓ No change in earnings estimates for our coverage companies

Top Pick: Voltas, AIA engineering

Valuation Matrix

	Price	Mkt Cap	Reco	EPS (Rs)			EPS CAGR (%)	PE (x)			EV/EBITDA (x)		
	(Rs)	(Rs bn)		FY09	FY10E	FY11E	FY09-FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E
AIAE	333	31.4	Outperformer	18.2	18.9	23.0	12.5	18.3	17.6	14.4	11.9	11.8	9.5
Carborundum Universal	178	16.6	Outperformer	9.4	10.7	12.3	14.4	18.9	16.6	14.5	12.5	9.4	7.9
Elecon Engineering	76	7.0	Outperformer	6.2	6.0	6.3	0.8	12.3	12.7	12.1	8.3	8.1	7.5
Thermax India	590	70.4	Neutral	29.4	21.4	31.3	3.3	20.1	27.5	18.9	13.1	19.0	12.2
Voltas	156	51.5	Outperformer	6.6	7.8	10.8	27.5	23.9	15.9	14.4	16.4	10.5	8.3

Expectations	Budget Provisions	Impact
<ul style="list-style-type: none"> ✓ Reduction in STT and introduction of long-term capital gains tax ✓ Revision in the 5% limit levied on a single shareholder in commodity exchanges 	<ul style="list-style-type: none"> ✓ Project import status granted to installation of mechanized handling and pallet racking systems, in mandis or warehouses for food grains and sugar, with basic customs duty of 5%. Such systems are now exempt from additional duty of customs (CVD) and special additional duty of customs ✓ Service tax imposed on Power Exchanges ✓ Service tax imposed on rented immovable property - applicable for exchanges using leased property 	<ul style="list-style-type: none"> ✓ Thrust provided to warehousing will aid in commodity exchange functioning ✓ Among major exchanges, only NCDEX utilizes leased space, while others have owned premises. Hence, negative for NCDEX ✓ Negative for power exchanges ✓ Investors holding >5% in commodity exchanges need to pare their stake to 5% before 31 March 2010

Valuation Matrix

	Price	Mkt Cap	Reco	EPS (Rs)			EPS CAGR (%)	PE (x)			EV/EBITDA (x)		
	(Rs)	(Rs bn)		FY09	FY10E	FY11E	FY09-FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E
Financial Technologies	1,481	68.0	Outperformer	80.3	70.8	30.3	(38.6)	18.4	20.9	48.9	60.7	40.3	39.6

Expectations	Budget Provisions	Impact
<ul style="list-style-type: none">✓ FY11 fiscal deficit estimated at 5.7% of GDP for FY11✓ Capitalization of PSU Banks (out of the proceeds of a ~USD\$2bn loan from World Bank)	<ul style="list-style-type: none">✓ FY11 fiscal deficit slightly lower than expectations at 5.5% of GDP; lower than 6.9% in FY10✓ Recapitalization for PSU banks to the tune of Rs165bn in FY11✓ Debt relief scheme for agricultural loans extended to June 2010 from December 2010	<ul style="list-style-type: none">✓ Optically positive. Declining deficit may ease near-term pressure on G-Sec yields, and aid trading gains✓ <u>However, a potential rise in inflation may prompt RBI to tighten ahead of earlier estimations and drive a rise in yields over next couple of months</u>✓ So, the current rally in PSU banks is likely to be short-lived✓ Positive for PSU banks with Tier I ratio of less than 8% - possibly IDBI and Union Bank under our coverage✓ Positive for PSU banks as SBI, BOI and Union Bank) - may aid recovery from farmers hit by drought/ floods in FY10, as also provide time for recognition of such loans as NPAs

Expectations	Budget Provisions	Impact
	<ul style="list-style-type: none">✓ RBI deliberating issuance of new banking licenses✓ Interest subvention on crop loans given by banks to continue✓ IIFCL refinancing of bank loans for infrastructure projects to be 2x over next fiscal (Rs30bn in FY10). Estimated at Rs250bn over next 3 years✓ Farm credit target for FY11 at Rs3.75trn (up 15% yoy)✓ Interest subvention of 2% on credit for 7 export oriented sectors* extended to March 2011	<ul style="list-style-type: none">✓ While clarity/ details are awaited, may lead to higher competition✓ Neutral - subvention to be supported by budgetary support✓ Marginally positive as banks can manage their asset-liability match better; would free up capital for faster growth✓ Neutral✓ Neutral - Interest subvention to be supported by budgetary support

* Textiles, handicrafts, carpets, leather, gems and jewellery, marine products and small and medium exporters

Top Picks

ICICI Bank, Axis Bank, ING Vysya Bank, IndusInd Bank and Shriram Transport

Valuation Matrix

	Price	Mkt Cap	Reco	RoE (%)			PE (x)			Price to adj. book value		
	(Rs)	(Rs bn)		FY09	FY10E	FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E
Allahabad Bank	132.6	59.2	Underperformer	16.4	22.4	19.1	7.7	4.8	4.8	1.2	1.0	0.8
Bank of India	333.4	175.3	Underperformer	30.1	16.7	19.9	5.8	8.8	6.3	1.6	1.4	1.2
Bank of Baroda	583.6	212.6	Neutral	21.3	23.9	22.6	9.5	7.1	6.3	1.9	1.6	1.4
Canara Bank	393.0	161.1	Neutral	22.6	28.9	23.7	7.8	4.8	4.7	1.8	1.3	1.0
Corporation Bank	440.7	63.2	Underperformer	19.6	21.3	20.1	7.1	5.6	5.0	1.3	1.1	0.9
IDBI	119.1	86.3	Underperformer	13.4	16.7	15.4	10.0	8.8	8.4	1.2	1.2	1.0
Indian Bank	164.1	70.2	Underperformer	22.9	24.4	22.4	5.6	4.4	3.9	1.2	1.0	0.8
Punjab National Bank	901.0	284.1	Neutral	25.8	26.6	25.4	9.2	7.3	6.3	2.1	1.8	1.4
State Bank of India	1,974.3	1,253.4	Underperformer	17.1	16.2	16.1	13.7	12.5	11.0	1.9	1.6	1.3
Union Bank of India	255.8	129.2	Underperformer	27.2	25.5	23.3	7.5	6.4	5.7	1.8	1.4	1.2
Axis Bank	1,124.5	451.0	Outperformer	19.1	19.0	18.1	22.2	17.2	14.5	4.0	2.5	2.3
ING Vysya Bank	255.2	30.5	Outperformer	12.5	12.7	13.1	13.9	12.6	9.8	1.9	1.5	1.2
Yes Bank	236.6	80.1	Outperformer	20.6	19.5	17.5	23.1	17.3	13.3	4.4	2.6	2.1
HDFC Bank	1,704.8	776.1	Outperformer	16.9	16.2	16.9	32.3	25.6	20.3	4.8	3.6	3.1
ICICI Bank	872.2	971.0	Outperformer	7.8	8.1	9.6	25.8	23.4	18.6	2.0	1.9	1.7
IndusInd Bank	148.9	61.1	Outperformer	11.7	19.1	20.6	33.9	17.0	13.0	4.0	2.9	2.4
HDFC	2,500.3	721.2	Outperformer	18.1	19.8	20.5	31.4	26.1	22.1	5.4	4.9	4.3
MMFS	337.4	32.7	Outperformer	15.4	20.1	18.9	15.3	10.1	9.2	2.2	1.7	1.4
SCUF	441.1	21.7	Outperformer	20.6	21.8	20.7	17.3	11.8	9.8	2.9	2.1	1.8
REC	243.2	224.9	Outperformer	22.0	22.2	19.5	16.4	11.2	9.8	3.4	2.0	1.8
PFC	250.3	287.3	Outperformer	18.9	19.0	18.9	14.6	12.3	11.0	2.5	2.2	2.0
LIC Housing Finance	752.4	71.4	Outperformer	26.2	25.4	21.2	12.0	9.8	8.8	2.8	2.0	1.7
Shri Ram Transport	460.6	102.5	Outperformer	29.6	28.4	26.8	15.3	11.4	9.2	4.1	2.8	2.3

Expectations

- ✓ 5% increase in excise duty on cigarettes

Budget Provisions

~13.5% increase in excise duty on cigarettes

	Rs per 1000 sticks		Change %
	Present rate	Proposed rate	
Non-filter			
<60mm	819	669	(18)
60mm-70mm	1323	1473	11
Filters			
<60mm	819	669	(18)
60mm-70mm	819	969	18
70mm-75mm	1323	1473	11
75mm-85mm	1759	1959	11
Others	2163	2363	9
Cigarettes of tobacco substitutes	1208	1408	17

Impact

- ✓ Effective excise rate increase based on ITC's portfolio works out to 13-14%
- ✓ This would need price hike of 7-8%
- ✓ Negative impact on ITC's volume growth - likely to drop from 8% currently to 3-4% in FY11
- ✓ 5% downgrade in FY11E earnings
- ✓ In the long run, however, ITC tends to gain from reduced gap in mass segment cigarettes and other forms of tobacco

Expectations	Budget Provisions	Impact
<ul style="list-style-type: none"> Roll back of stimulus - excise duty increase from 8% to 10% 	<ul style="list-style-type: none"> ✓ Excise duty increase from 8% to 10% ✓ MAT increase from 15% to 18% ✓ Urban consumption theme - higher disposable income in the hands of urban middle class (Rs200bn savings estimated on direct taxes) ✓ NREGA allocation maintained at Rs401bn. Continued thrust on rural growth 	<ul style="list-style-type: none"> ✓ Higher urban disposable income to drive growth ✓ Excise duty increase - marginal Impact for most consumer plays (less than 100bp increase in excise) ✓ MAT increase - marginally negative for GCPL and Dabur

Earnings Impact

ITC earnings downgraded by 5%; GCPL's earnings by 2.5% and Dabur's by 1%

Valuation Matrix

	Price	Mkt Cap	Reco	EPS (Rs)			EPS CAGR (%)	PE (x)			EV/EBITDA (x)		
	(Rs)	(Rs bn)		FY09	FY10E	FY11E	FY09-FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E
Colgate-Palmolive	688	93.6	Neutral	21.2	29.7	32.3	23.5	32.5	23.2	21.3	25.3	18.4	15.0
Dabur India	169	146.8	Outperformer	4.4	5.8	7.0	26.0	38.2	29.0	24.0	30.0	21.7	17.2
Godrej Consumer	247	76.1	Outperformer	6.7	11.0	13.0	39.4	36.9	22.3	19.0	29.8	16.3	13.0
Hindustan Unilever	236	514.2	Neutral	11.6	10.2	12.2	15.5	20.0	22.6	19.0	15.1	16.3	13.0
ITC	232	875.4	Outperformer	8.7	10.7	12.2	18.6	26.8	21.6	19.1	17.4	13.0	11.1
Marico Industries	103	62.9	Neutral	3.1	4.0	5.0	26.4	33.3	25.9	20.9	21.5	16.7	14.1
Nestle India	2,627	253.3	Outperformer	55.4	73.0	88.6	26.5	47.4	36.0	29.6	28.9	22.9	19.1

Expectations	Budget Provisions	Impact
<ul style="list-style-type: none">✓ No major expectations✓ Status quo on STPI sunset clause	<ul style="list-style-type: none">✓ MAT increased to 18% (15% in FY10)✓ Simplification of service tax - with no change in quantum	<ul style="list-style-type: none">✓ No impact of MAT on earnings (cash MAT paid and MAT credit balance each other in P&L)✓ Some cash flow impact as higher cash taxes paid in FY11 - reduces tax payable in FY12 onwards by equal amount

Earnings Impact; Top Picks

No material earnings impact; Top Pick: Infosys

Valuation Matrix

	Price	Mkt Cap	Reco	EPS (Rs)			EPS CAGR (%)	PE (x)			EV/EBITDA (x)		
	(Rs)	(Rs bn)		FY09	FY10E	FY11E	FY09-FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E
HCL Technologies	367	246.7	Underperformer	19.3	19.2	24.0	11.5	19.0	19.1	15.3	10.9	9.3	8.4
Infosys Technologies	2,602	1,484.7	Outperformer	104.6	107.2	120.0	7.1	24.9	24.3	21.7	19.4	17.9	15.6
Patni Computer	475	61.1	Underperformer	35.6	33.2	32.6	(4.4)	13.3	14.3	14.6	6.3	6.8	6.3
Tech Mahindra	891	108.5	Underperformer	83.4	47.3	55.5	(18.4)	10.7	18.8	16.0	7.7	11.9	10.9
Tata Consultancy	762	1,491.2	Outperformer	26.4	34.2	37.0	18.4	28.8	22.3	20.6	20.7	16.9	15.1
Wipro	678	987.2	Outperformer	26.5	30.5	33.3	12.1	25.6	22.2	20.3	18.8	16.3	13.9

Expectations	Budget Provisions	Impact
<ul style="list-style-type: none">✓ Timeline for CST phase-out✓ Funding for freight corridor and timeline for its implementation to be outlined✓ 80IA benefits to continue	<ul style="list-style-type: none">✓ CST phase-out maintained; GST to be introduced by April 2011✓ Focus on Dedicated Freight Corridor retained✓ Investment-linked tax incentive for setting up and operating<ul style="list-style-type: none">▪ cold chain facilities▪ warehousing facilities for storage of agriculture produce✓ Exemption on service tax on rail transportation withdrawn	<ul style="list-style-type: none">✓ CST phase-out to result in higher outsourcing of logistics functions by corporates and drive demand for logistics companies✓ Dedicated freight corridor to improve turnaround time; to result in better asset utilization and higher volumes. However, implementation over a longer time frame✓ Incentives for investment in cold chain to be positive for companies, like Concor and GDL, setting up these facilities✓ Container rail operators already under service tax net. Movement by IR to be included in service tax net to have no impact

Earnings Impact; Top Picks

- ✓ No change in earnings estimates for our coverage companies
- ✓ Top Pick: Concor, GDL and Arshiya

Valuation Matrix

	Price	Mkt Cap	Reco	EPS (Rs)			EPS CAGR (%)	PE (x)			EV/EBITDA (x)		
	(Rs)	(Rs bn)		FY09	FY10E	FY11E	FY09-FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E
Allcargo	179	22.3	Neutral	9.9	11.1	12.4	11.5	18.0	16.1	14.4	9.9	10.4	8.9
Arshiya International	175	10.3	Outperformer	11.0	9.2	15.3	18.0	15.9	19.1	11.4	14.3	16.4	8.8
Container Corporation	1,206	156.7	Outperformer	60.9	62.8	72.5	9.1	19.8	19.2	16.6	14.7	12.9	10.7
Gateway Distripark	131	14.1	Outperformer	7.4	7.3	8.9	9.9	17.8	17.9	14.7	10.5	9.6	8.0

Expectations	Budget Provisions	Impact
<ul style="list-style-type: none">✓ No expectations	<ul style="list-style-type: none">✓ Customs duty on import of digital masters of films for duplication or distribution, loaded on electronic medium, to be charged only on value of the carrier medium. The same applies to music and gaming software imported for duplication✓ Also, in all above cases the value representing the transfer of IPRs would be subject to service tax✓ Provide project import status to initial setting up of Digital Head End equipment by MSOs, at customs duty of 5% with full exemption from special additional duty✓ Service tax imposed on rented immovable property with retrospective effect from 01.06.2007 - applicable for multiplex operators	<ul style="list-style-type: none">✓ Neutral for film production/distribution companies as the provisions relate to physical transfer which is not currently practiced by these companies✓ Negative for PVR: One-time provision of Rs68m for previous years will be provided for in FY10. Incrementally, assuming PVR would bear full component of service tax, earnings would potentially reduce by Rs30m (50% decline in EPS) in FY10 and Rs42m in FY11 (13% decline in EPS). However, anchor tenants such as PVR are expected to renegotiate prices with real estate players

Valuation Matrix

	Price	Mkt Cap	Reco	EPS (Rs)			EPS CAGR (%)	PE (x)			EV/EBITDA (x)		
	(Rs)	(Rs bn)		FY09	FY10E	FY11E	FY09-FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E
Balaji Telefilms	49	3.2	Underperformer	0.1	1.9	4.1	469.8	384.0	25.7	11.8	5.5	21.3	2.9
Dish TV India	37	39.6	Neutral	(5.1)	(1.9)	(0.9)	n/a	n/a	n/a	n/a	n/a	40.9	14.8
Entertainment Network	208	9.9	Underperformer	(15.3)	(6.9)	6.9	n/a	n/a	n/a	30.3	n/a	48.8	12.5
IBN18 Broadcast	98	17.8	Outperformer	(5.6)	(4.8)	0.1	n/a	n/a	n/a	1,339.7	n/a	n/a	22.7
HT Media	139	32.2	Neutral	(0.5)	5.6	7.9	n/a	n/a	24.8	17.7	34.9	12.4	9.7
Jagran Prakashan	119	35.8	Neutral	3.0	6.0	7.2	54.0	39.1	19.8	16.5	23.4	12.7	10.5
PVR	172	4.6	Outperformer	5.8	2.3	12.2	45.1	29.7	75.9	14.1	8.6	12.5	5.4
Sun TV Network	369	145.5	Neutral	9.3	12.8	16.1	31.2	39.5	28.9	22.9	23.9	16.8	13.3
T.V. Today Network	114	6.4	Underperformer	5.8	9.2	11.3	39.4	19.7	12.4	10.1	13.2	8.0	5.9
Television Eighteen	73	13.0	Underperformer	(13.9)	(8.0)	(0.8)	n/a	n/a	n/a	n/a	n/a	99.6	17.9
UTV Software	465	18.9	Underperformer	10.4	9.9	18.7	34.1	44.6	47.0	24.8	n/a	78.2	16.9
WWIL	17	7.7	Neutral	(3.8)	(3.0)	(2.5)	n/a	n/a	n/a	n/a	307.7	n/a	n/a
Zee News*	56	13.5	Neutral	1.9	1.9	0.7	(39.5)	30.2	29.6	82.6	18.0	17.6	50.5
Zee Entertainment	247	107.2	Outperformer	11.7	10.7	12.8	4.3	21.0	23.0	19.3	20.4	18.2	13.0

* FY11 nos of Zee News exclude regional GEC

Expectations	Budget Provisions	Impact
<ul style="list-style-type: none">✓ Hike in export duty on iron ore lumps from 10%✓ Hike in export duty on iron ore fines from 5%✓ Hike in Ad valorem duty royalty in iron ore from 10%✓ Increase in exise duties from 8%	<ul style="list-style-type: none">✓ Increase in MAT from 15% to 18%✓ Surcharge being reduced from 10% to 7.5%✓ Levying of cess on coal of Rs50/tonne including imported coal✓ Export duties on iron lumps and fines remain unchanged at 10% and 5% respectively✓ Advalorem duty at 10% remains unchanged	<ul style="list-style-type: none">✓ Negative for Sterlite Energy, JSPL as we had assumed MAT rate in the initial years for DCF valuation✓ Reduction in tax liability of 0.75% for full tax paying companies like Tata Steel (India) and SAIL✓ Increase in fuel costs to negatively impact Hindalco and JSW Steel✓ Positive for iron ore companies like Sesa Goa and NMDC

Valuation Matrix

	Price	Mkt Cap	Reco	EPS (Rs)			EPS CAGR (%)	PE (x)			EV/EBITDA (x)		
	(Rs)	(Rs bn)		FY09	FY10E	FY11E	FY09-FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E
Metals													
Hindalco Industries	163	289.6	Outperformer	3.5	18.8	14.5	103.2	46.3	8.6	11.2	16.8	6.5	7.5
Hindustan Zinc	1,124	474.9	Outperformer	64.6	83.6	128.9	41.3	17.4	13.4	8.7	13.8	8.2	4.6
Jindal Steel & Power	632	584.3	Neutral	32.3	41.6	48.4	22.4	19.6	15.2	13.1	12.3	9.7	9.8
JSW Steel	1,070	200.2	Outperformer	13.0	69.4	110.1	191.2	82.5	15.4	9.7	12.1	8.4	6.0
National Aluminium	385	248.1	Underperformer	19.8	10.8	15.8	(10.7)	19.5	35.6	24.4	12.2	24.1	15.7
Sterlite Industries	782	658.0	Outperformer	49.9	50.1	79.0	25.9	15.7	15.6	9.9	12.8	10.5	6.8
SAIL	219	902.5	Neutral	15.0	17.2	18.0	9.5	14.6	12.7	12.1	10.9	9.4	8.2
Bhushan Steel	1,601	68.0	Outperformer	99.2	155.3	186.1	37.0	16.1	10.3	8.6	14.7	10.8	7.4
Tata Steel	574	509.3	Neutral	54.7	(39.1)	40.6	(13.9)	10.5	n/a	14.2	5.5	12.8	6.9
Pipes													
Jindal Saw	194	53.2	Outperformer	11.9	18.6	17.2	20.2	16.3	10.4	11.3	10.3	6.0	7.6
Maharashtra Seamless	355	25.0	Neutral	35.9	33.0	28.0	(11.6)	9.9	10.8	12.7	6.9	5.9	5.9
PSL	145	6.2	Neutral	25.0	29.5	7.2	(46.3)	5.8	4.9	20.0	5.1	4.1	6.4
Welspun Gujarat	240	44.9	Outperformer	11.3	27.2	26.9	54.3	21.2	8.8	8.9	10.4	6.5	6.2

Expectations	Budget Provisions	Impact
<ul style="list-style-type: none">✓ Clarification of exemption of natural gas production under Sec 80 IB✓ Forward movement on subsidy and Kirit Parikh Committee✓ Rationalization of duties and Taxes	<ul style="list-style-type: none">✓ No clarity on tax exemptions for natural gas✓ No clarity on subsidy mechanism and pricing policy. Mention of Kirit Parikh committee made, but the findings to be looked at in "due course"✓ Reinstatement of customs duty of 5% on crude oil, 7.5% on auto fuels and 10% on other products. Central excise duty increased by Re1/ltr on petrol and diesel✓ MAT rate increased to 18%✓ Surcharge reduced to 7.5% from 10% on corporate income tax	<ul style="list-style-type: none">✓ Retains ambiguity on eligibility of gas producing blocks to claim the 7-year tax holiday✓ Subsidy situation remains murky, negative for OMCs and creates a risk on ONGC's earnings✓ Price rise in petrol and diesel offsets damage from excise and customs, but cooking fuel subsidy gap remains✓ Negative for RIL and Essar Oil, effective tax rate increases by 1-1.5% while customs duty increase affects exports from the refinery✓ No material impact on our gas sector universe, except the slight uptick due to reduction in surcharge on income tax

Earnings Impact; Top Picks

RIL's EPS downgraded by ~7% for FY11E, OMCs and ONGC unchanged, gas T&D players see EPS increase by 1.2% for FY11 (CY10E and CY11E for GGCL)

Top Picks: GAIL, RIL

Valuation Matrix

	Price	Mkt Cap	Reco	EPS (Rs)			EPS CAGR (%)	PE (x)			EV/EBITDA (x)		
	(Rs)	(Rs bn)		FY09	FY10E	FY11E	FY09-FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E
Oil & Gas													
BPCL	564	203.9	Underperformer	17.8	44.6	49.0	66.1	31.7	12.7	11.5	12.9	10.5	9.8
HPCL	347	117.5	Underperformer	17.0	25.0	36.3	46.3	20.4	13.9	9.5	7.4	6.7	4.7
IOC	317	770.6	Underperformer	21.8	28.0	29.8	16.9	14.6	11.3	10.7	14.7	11.0	11.0
ONGC	1,118	2,390.4	Outperformer	92.1	86.2	109.1	8.8	12.1	13.0	10.2	5.5	5.3	4.6
GAIL (India)	399	505.9	Outperformer	22.3	23.0	24.6	5.2	17.9	17.3	16.2	11.6	11.7	10.8
Gujarat State Petronet	85	48.0	Outperformer	2.2	6.7	7.6	86.4	38.9	12.7	11.2	14.2	6.8	5.1
Gujarat Gas Company	239	30.6	Outperformer	12.5	14.6	15.8	12.4	19.1	16.4	15.1	13.0	9.9	8.6
Essar Oil	132	160.2	Outperformer	(3.5)	0.6	4.0	n/a	n/a	213.6	32.7	19.5	17.3	10.9
Petrochemicals													
Reliance Industries	979	3,216.8	Outperformer	45.5	52.9	77.8	30.7	21.5	18.5	12.6	16.0	12.3	8.1

Expectations	Budget Provisions	Impact
✓ Nil	<ul style="list-style-type: none">• To encourage research & development activities, government has proposed weighted deduction on in-house R&D expenditure from 150% to 200%• MAT rate increased from 15% to 17%	✓ Net impact expected to be neutral

Earnings Impact; Top Picks

Top Picks: Lupin, Cipla, Ipca laboratories

Valuation Matrix

	Price	Mkt Cap	Reco	EPS (Rs)			EPS CAGR (%)	PE (x)			EV/EBITDA (x)		
	(Rs)	(Rs bn)		FY09	FY10E	FY11E	FY09-FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E
Aventis Pharma	1,615	37.1	Neutral	72.3	68.4	81.2	6.0	22.4	23.6	19.9	15.0	16.2	12.6
Biocon	263	52.5	Outperformer	12.0	14.4	17.7	21.5	21.9	18.2	14.8	17.3	12.4	10.0
Cipla	316	253.8	Outperformer	10.0	14.0	16.0	26.6	31.6	22.5	19.7	20.8	16.3	14.6
Dishman Pharma	208	16.9	Neutral	18.0	8.6	5.3	(46.1)	11.5	24.1	39.7	8.9	14.5	12.4
Dr Reddys Lab	1,142	192.4	Outperformer	52.6	60.5	69.1	14.6	21.7	18.9	16.5	13.7	14.4	10.9
Glaxosmithkline Pharma	1,710	144.8	Outperformer	52.9	59.7	71.1	15.9	32.3	28.7	24.0	22.3	19.8	16.9
Glenmark Pharma	252	68.4	Outperformer	12.3	12.9	17.7	15.8	20.5	21.0	15.3	18.4	12.9	10.5
IPCA Laboratories	1,095	27.4	Outperformer	40.2	80.0	96.4	54.8	27.2	13.7	11.4	12.4	9.9	8.2
Lupin	1,501	135.1	Outperformer	67.9	74.4	89.5	14.8	22.1	20.2	16.8	19.5	17.2	14.0
Piramal Healthcare	398	83.2	Outperformer	17.3	22.2	25.0	20.3	23.0	17.9	15.9	14.4	13.1	10.7
Ranbaxy Lab	470	197.7	Outperformer	(22.6)	7.1	27.2	n/a	n/a	66.7	17.3	89.5	29.7	12.3
Sun Pharma	1,540	318.9	Neutral	87.8	68.8	69.6	(11.0)	17.5	22.4	22.1	15.4	20.7	18.1

Expectations	Budget Provisions	Impact
<ul style="list-style-type: none">✓ Thrust on schemes such as APDRP and RGGVY to continue✓ Roll back of excise duty concessions announced in the stimulus packages	<ul style="list-style-type: none">✓ Allocation for RGGVY increased by 21% to Rs55bn✓ Allocation for power sector (excluding RGGVY) increased by 130% to Rs51.3bn✓ Standard rate of Central Excise Duty increased from 8% to 10%✓ Full exemption of central excise duty for good supplied to mega power projects where off take is through tariff based competitive bidding or where the project has been awarded through tariff based competitive bidding	<ul style="list-style-type: none">✓ Strong pipeline for power projects and distribution capex to drive order flow for equipment companies✓ Increased excise duty to be passed on to the users✓ More opportunities for manufacturers of electrical equipment and systems in T&D segment

Earnings Impact; Top Picks

- ✓ No impact on earnings

Top Pick: Crompton, Kalpataru Power

Valuation Matrix

	Price	Mkt Cap	Reco	EPS (Rs)			EPS CAGR (%)	PE (x)			EV/EBITDA (x)		
	(Rs)	(Rs bn)		FY09	FY10E	FY11E	FY09-FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E
ABB	795	168.4	Underperformer	25.8	19.4	23.0	(5.6)	30.8	40.9	34.5	21.7	25.9	21.6
BHEL	2,349	1,150.0	Neutral	63.3	88.5	114.5	34.5	37.1	26.5	20.5	28.3	18.3	13.5
Crompton Greaves	416	152.6	Outperformer	15.3	20.6	24.0	25.1	27.2	20.2	17.4	15.7	12.3	10.3
EMCO	82	4.8	Outperformer	9.0	8.9	11.1	10.6	9.1	9.3	7.5	5.1	5.3	4.6
Kalpataru Power	997	26.4	Outperformer	41.8	67.9	85.1	42.6	23.8	14.7	11.7	11.0	9.4	8.1
Jyoti Structures	154	12.6	Outperformer	9.8	11.2	13.9	19.5	15.8	13.8	11.0	7.7	6.8	5.7
KEC International	570	28.1	Outperformer	36.0	37.1	44.0	10.6	15.8	15.4	13.0	8.4	8.1	6.9

Expectations	Budget Provisions	Impact
<ul style="list-style-type: none">✓ No changes in tax rates expected	<ul style="list-style-type: none">✓ Increase in MAT rate to 18% from 15%✓ Effective MAT rate increased to 20% from 17%✓ Imposition of Clean Energy Cess of Rs50/ton on coal (both domestic and imported)✓ Withdrawal of service tax exemption on service provided in relation to transport of goods by rail✓ Customs duty of 16% levied on power sales from power SEZs to Domestic Tariff Area (DTA)	<ul style="list-style-type: none">✓ 6-8% adverse impact on valuations in case of off take through Case I/Case II bidding✓ Increase in landed coal cost for thermal power plants (assumed from April 1st 2010)✓ No impact on valuations in case of regulated return off take✓ Significant impact on cash flows in case of power SEZs in case of Adani Power & KSK power

Earnings Impact; Top Picks

- ✓ 6-8% adverse impact on valuation of power generation assets

Top Pick: Rel Infra

Valuation Matrix

	Price	Mkt Cap	Reco	EPS (Rs)			EPS CAGR (%)	PE (x)			EV/EBITDA (x)		
	(Rs)	(Rs bn)		FY09	FY10E	FY11E	FY09-FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E
CESC	383	48.1	Outperformer	32.1	37.7	41.2	12.8	12.0	10.8	9.4	7.6	5.4	3.7
Jaiprakash Power	68	142.5	Outperformer	3.0	1.2	1.2	(35.9)	22.7	58.8	55.3	14.5	37.4	51.9
KSK Energy	176	61.0	Neutral	3.8	5.8	16.5	109.5	47.0	30.5	10.7	31.3	24.1	9.1
NTPC	203	1,674.2	Neutral	9.5	10.9	12.7	15.6	21.4	18.7	16.0	16.6	13.4	11.1
PTC	105	30.9	Neutral	4.0	3.8	5.2	14.1	26.3	28.0	20.2	38.6	17.0	10.7
Reliance Infrastructure	1,003	226.1	Outperformer	51.8	56.2	65.8	12.7	19.4	17.9	15.2	23.4	15.0	11.8
Tata Power	1,213	282.1	Outperformer	23.4	32.5	42.4	34.6	51.7	40.8	28.6	23.9	17.7	13.5

Expectations	Budget Provisions	Impact
<ul style="list-style-type: none"> ✓ Measures to improve affordability of homes; increased exemptions for interest payment ✓ Continuation of Section 80IB of the Income Tax Act ✓ Township development to be given priority by providing infrastructure status 	<ul style="list-style-type: none"> ✓ Scheme of 1% interest subvention on housing loan up to Rs1m (cost of house not exceeding Rs2m) extended up to March 31, 2011 ✓ Income tax slabs revised - resulting in increased disposable income in the hands of individuals (~Rs50,000 p.a.) ✓ Service tax imposed on additional services (preferential location or external or internal development of complexes) provided by a builder (excluding vehicle-parking space) ✓ Service tax imposed on renting of immovable property (for commercial purposes) with retrospective effect from 1-Jun-2007 	<ul style="list-style-type: none"> ✓ Positive as govt thrust on affordable housing continues; will help sustain demand momentum ✓ Positive as tax savings will lead to uptick in residential demand ✓ Negative if passed on to buyers; Developers likely to circumvent the same by offering a single price for each apartment ✓ Was under service tax net with larger developers (DLF, Unitech) already paying the same; small developers now brought in the ambit ✓ Could result in higher lease rentals and dampen demand in short term

Expectations	Budget Provisions	Impact
	<ul style="list-style-type: none"> ✓ Service tax imposed on construction of complex service (except in cases where no money is received from the buyer till the completion of the property) 	<ul style="list-style-type: none"> ✓ Service tax only on value added by developer (not on selling price and land cost); would vary from company to company ✓ Could result in 2-4% price rise ✓ Likely to be passed on to buyers; could marginally impact volumes in the near term

Earnings Impact; Top Picks

- ✓ The budget provisions do not directly impact DLF and Unitech's earnings
- ✓ Positives and negatives play out each other with earnings impact being marginal. Reiterate Outperformer on DLF & Unitech

Top Pick: Unitech

Valuation Matrix

	Price	Mkt Cap	Reco	EPS (Rs)			EPS CAGR (%)	PE (x)			EV/EBITDA (x)		
	(Rs)	(Rs bn)		FY09	FY10E	FY11E	FY09-FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E
DLF	298	506.5	Outperformer	26.2	13.6	17.4	(18.5)	11.4	21.9	17.1	11.9	19.5	14.3
Unitech	72	171.6	Outperformer	6.7	3.0	4.3	(19.9)	10.8	24.1	16.8	13.6	19.9	14.2

Expectations	Budget Provisions	Impact
<ul style="list-style-type: none">✓ None	<ul style="list-style-type: none">✓ Service tax implemented on Lease Rental at 10% retrospective from 1 June 2007 ✓ Change in Income Tax Slabs would render ~Rs50,000 higher in hands of salaried person earning ~Rs800,000 - Rs200bn of estimated savings on direct taxes	<ul style="list-style-type: none">✓ 0.8-1.2% impact on margins✓ Assuming that retailers take the entire burden, Pantaloon Retail could see hit of 10-12% on earnings, Shoppers Stop at ~20% and Provogue at 5%✓ However, we believe retailers would be in a position to negotiate with majority of the developers✓ Also, while this move impacts near-term earnings, movement to GST would minimize the impact✓ Higher disposable income in the hands of salaried people would drive urban consumption. Salaried population is the key target market for organized retailing

Earnings Impact

Assuming part of the burden being shared by developers, Pantaloon Retail would see earnings downgrade of 5% and Shoppers' Stop of 10%. Impact on Titan very marginal

Valuation Matrix

	Price	Mkt Cap	Reco	EPS (Rs)			EPS CAGR (%)	PE (x)			EV/EBITDA (x)		
	(Rs)	(Rs bn)		FY09	FY10E	FY11E	FY09-FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E
Pantaloon Retail	387	75.6	Outperformer	8.1	11.1	17.1	45.5	48.0	35.0	22.7	14.2	12.1	10.1
Provogue India	49	5.7	Outperformer	2.5	3.0	3.8	23.5	19.8	16.7	13.0	18.8	13.0	10.3
Shoppers' Stop	350	12.2	Outperformer	(18.3)	8.3	13.6	n/a	n/a	42.0	25.8	60.3	13.7	10.0
Titan Industries	1,746	77.5	Outperformer	39.4	53.3	68.5	31.9	44.4	32.7	25.5	25.9	21.0	16.3

Expectations	Budget Provisions	Impact
<ul style="list-style-type: none"> ✓ 3G auctions update ✓ Increase in MAT rate ✓ Increased focus on social schemes like NREGAs, etc ✓ Increase in customs duty on telecom equipment ✓ Utilization of USO fund for network in rural areas 	<ul style="list-style-type: none"> ✓ Government has budgeted receipts of ~Rs 350bn from 3G auctions ✓ MAT rate has been increased from 15% to 18% ✓ Social sector spending budgeted to be 37% of total planned outlay in 2010-11 ✓ Change in direct tax slabs results in a benefit of Rs50,000 for income of Rs800,000 or more 	<ul style="list-style-type: none"> ✓ Budgeted 3G receipts (80% premium to reserve price) ✓ Higher MAT drives 2-3% decline in FY11 EPS for Bharti; for RCOM/Idea, higher cash outflow leads to marginal decline in SoTP valuation ✓ Higher disposable rural income to drive deeper penetration but major elasticity in usage is unlikely

Valuation Matrix

	Price	Mkt Cap	Reco	EPS (Rs)			EPS CAGR (%)	PE (x)			EV/EBITDA (x)		
	(Rs)	(Rs bn)		FY09	FY10E	FY11E	FY09-FY11	FY09	FY10E	FY11E	FY09	FY10E	FY11E
Bharti Airtel	279	1,060.7	Underperformer	25.5	23.0	20.1	(11.1)	11.0	12.2	13.9	7.5	7.1	7.1
IDEA Cellular	61	189.4	Underperformer	3.0	2.7	0.8	(49.8)	20.3	22.7	80.5	8.0	8.3	8.9
Reliance Communication	158	325.2	Underperformer	21.9	12.8	9.6	(33.7)	7.2	12.4	16.4	6.0	7.2	7.9

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