PRE-BUDGET ANALYSIS

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EXPECTED SECTORAL IMPACT

POSITIVE: Banking, Capital Goods, Construction, FMCG, Hotels, Logistics, Oil & Gas, Power, Real Estate, Textile

NEGATIVE: Auto, Cement

NEUTRAL: Information Technology, Media, Metals & Mining, NBFCs

PRE BUDGET NOTE - FEBRUARY 2010

Back to balancing – Growth, inflation, prudence

With the economy back on the growth path, we opine that, the FM will once again have to address the concerns of inflation and fiscal deficit. We believe that, Budget 2010-11 will strive to achieve a balance between sustenance of growth, paring deficit and controlling inflation (at least the inflationary expectations). The previous budget in July 2009 was focused on improving growth rates at the expense of fiscal discipline. Inflation was not a concern, then.

We are of the opinion that, the focus of Mr. Mukherjee will continue to be on sustaining and improving the rate of GDP growth and that too, equitable (inclusive) growth. Towards this end, infrastructure, social initiatives and agriculture investments are expected to continue. However, speedier implementation of allocated budgets will make these spends more effective, in our view.

Adherence to fiscal discipline will be back on the agenda, we feel. We expect control on non-plan expenditure and partial roll back of fiscal stimulus measures. The target for fiscal deficit is expected to be set at 5.5%, in line with the road map laid down in previous budget. Alternate sources of raising finances like dis-investment, relaxation of FDI norms, auctioning of telecom licenses, etc may be used to fund additional investments.

On inflation control, we expect few changes in exports and customs duties on important commodities to keep prices under check. Supply side constraints can be addressed in the long term by investing in agriculture and irrigation.

Significant changes in duties and taxes may not happen pending introduction of GST and direct tax code WEF FY12. Critical issues like labour reforms, pension reforms, subsidies, etc may need broader political consensus. Reduction of subsidy burden also requires more support. We expect material developments on the same, if any, to be outside the budget.

For the stock markets, we do not expect any major initiatives and any major reduction in STT or changes in capital gains tax will be a surprise for us.

Though India was impacted by the global economic slowdown, the GDP growth of 7.2% (CSO advance estimates) in FY10, will be the second fastest, globally. We expect the focus of the budget to be on sustaining and improving this rate of growth. To that extent, investments, mainly in infrastructure, are expected to continue. Segments like roads, highways, airports, ports, power, etc are expected to receive continued attention and funding. However, only speedier implementation will make these plans more effective, we believe.

We expect inclusiveness to be another corner-stone of the budget. Increased allocations to schemes like SSA, NREGS, RGVY, etc will be announced, we believe. With almost no growth in agriculture in FY10, we expect further initiatives in agriculture, which also promotes balanced growth and helps in containing inflation.

In July 2009, the focus was more on protecting / improving growth rates rather than reducing fiscal deficit. However, we expect the FM to revert back to fiscal rectitude (correctness) in the 2010-11 budget. He has already laid down a target of reaching 4% fiscal deficit by FY12 and we expect the process to start in FY11. While non-plan expenditure is expected to be controlled, further disinvestment may be targeted. Relaxation in FDI rules will also help raise resources. Initiatives on reducing subsidies, if any, will be positive.

We believe that, the FM will reverse the fiscal stimulus provided to select sectors and items, which have regained strength and do not need government support (eg. automobiles, consumer durables, etc). We do not expect across the board increase in excise duties / service tax, in the interest of growth and inflation.

With the RBI having done its bit in controlling inflation, we expect some fiscal measures in the budget towards controlling prices. Changes may be made in customs and export duties on essential / sensitive commodities, with a view to increase their domestic availability. The FM may announce steps to further ease supply side bottlenecks for commodities. Control on fiscal deficit indirectly helps in containing inflation.

On the reforms front, we expect further clarity on the implementation of the GST. Relaxation of FDI rules, if any, will be positive. However, issues like labour laws, pension reforms and subsidies will need broader political consensus before they are implemented.

On the taxation front, we do not expect any major changes on the corporate tax or income tax pending the likely implementation of the Direct Tax Code from FY12. Investment - led deductions from total income (through infrastructure bonds, etc) can be considered by the FM.

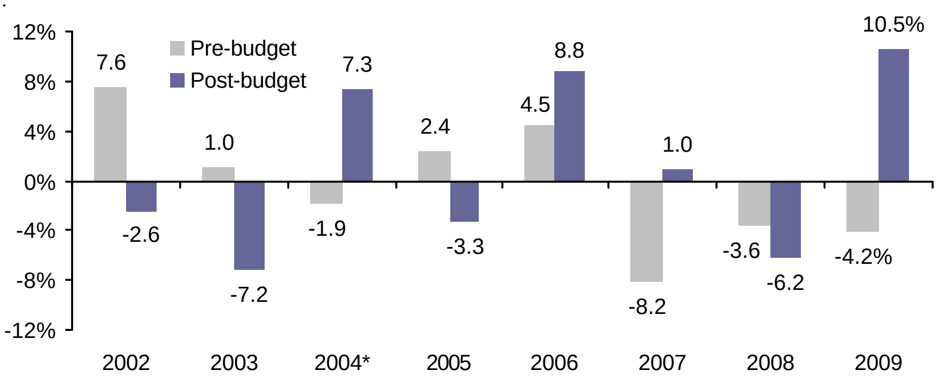
For the stock markets, we do not expect any major initiatives and any major reduction in STT or changes in capital gains tax will be a surprise for us.

Thus, we believe that, the focus of the markets will be more on investments, fiscal discipline and on sectors which are impacted by the budget proposals.

We believe that, the budget may have positive implications for Banking, Capital Goods, Construction, FMCG, Hotels, Logistics, Oil & Gas, Power, Real Estate and Textile sectors.

The budget could have negative implications for the Automobiles and Cement sectors and may be Neutral for sectors like NBFCs, Metals & Mining, Information Technology, Media.

Market movement - one month before and after budget

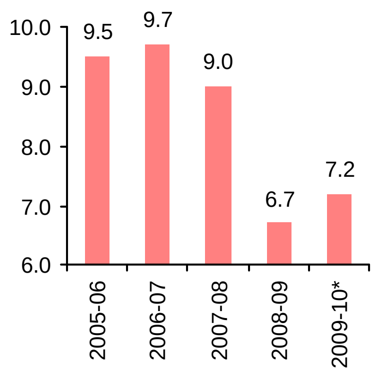


Source: Bloomberg

Sensex from Dec 07 - Feb 10

Source: Bloomberg

GDP growth (%)



Source: CSO

Focus on GDP growth...

In the backdrop of a still-fragile global scenario, India's GDP is likely to grow by about 7.2% in FY10 (CSO advance estimates), the second fastest rate globally. The economy has been relatively insulated because of its low dependence on exports at less than 20% of the GDP. Various fiscal and monetary steps by the UPA Government and RBI, respectively have also resulted in early stabilization and growth.

The focus of the Government will be to sustain and improve this growth rate. Sustenance of high growth is very important to make the benefits of this growth reach all sections of the society.

To sustain this growth amid a global economy which is still not out of the woods, the Government will keep up its investment spends. India's high investment rate (about 35%) has been largely responsible in India achieving a high GDP growth rate. Thus, we expect the FM to continue to allocate significant investments, mainly to the infrastructure sector.

Saving & Investment (% of GDP)

	2003-04	2004-05	2005-06	2006-07	2007-08	2007-08*	2008-09*
Gross domestic saving (GDS)	29.8	31.7	34.2	35.7	37.7	36.4	32.5
Investments (GDFC)	27.6	32.1	35.5	36.9	39.1	37.7	34.9

*Source: CSO; * Indicates numbers at current prices*

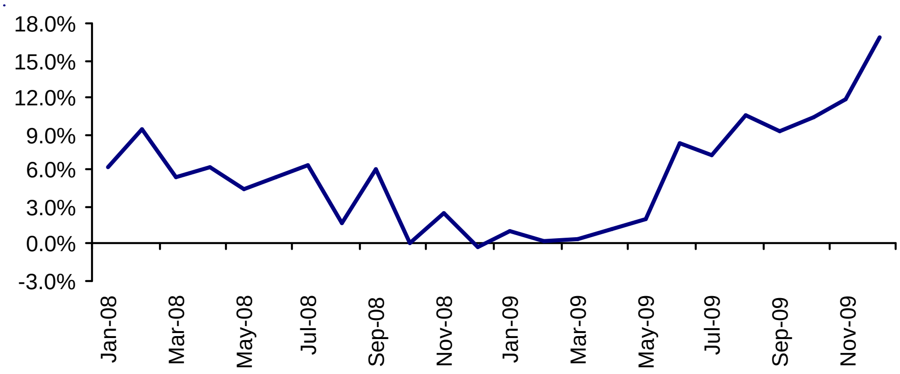
The 11th 5-year Plan has envisaged total investment in physical infrastructure (electricity, railways, roads, ports, airports, irrigation, urban and rural water supply and sanitation) to increase from around 5% of GDP in 2006-07 to 9% of GDP by the end of the plan period if the targeted rate of growth of 9% for the Plan period (2007-12) is to be achieved. Consistent with the above projection, the investment in physical infrastructure alone during the Plan has been estimated to be about Rs.20trn. Of this amount, the share of the Central Government, the State Governments and the private sector has been projected at 37%, 32% and 31%, respectively.

The Government has already indicated it is now targeting to construct 15-20 km of roads a day compared with 1.5-2 km a day last fiscal. On the other hand, the Power Ministry has indicated its desire to be able to add power generation capacity of 62,000 MW in thee current plan period (reduced from 78,700 MW). It also wants to reach its target of providing electricity to about 118,000 villages at the earliest (60000 villages already covered). As of now, the government has awarded four UMPP contracts of 4,000 MW each and expects to award the others at the earliest.

We note that, the FY09-10 Budget had laid down several proposals including : IIFCL and banks to be in a position to support projects involving total investment of Rs.1trn, allocation for the National Highway Development Programme (NHDP) increased by 23%, JNNURM by 87% and Accelerated Power Development and Reform Programme by 160%. A blueprint for long distance gas pipelines leading to a National Gas Grid was also proposed.

While the intent is there, the implementation needs to further speed up. We expect measures towards this end. Conferring the status of a priority sector to the power industry may lead to significant financing from banks and attract more investments from private sector. Also, looking at the potential delays in the power projects, extension of tax benefits for power projects coming on stream post 2011 is expected. Currently, tax benefits under section 80IA are available only to power projects starting power generation before April 2011. Extension of tax holidays to gas exploration business will also spur investments.

IIP growth (%)



Source: MOSPI

...and promoting equitable growth

Equitable growth has been one of the important cornerstones of the UPA's previous tenure and we expect the same to continue in the current tenure also.

Schemes like Sarva Shiksha Abhiyan, National Rural Employment Guarantee Scheme, mid-day meal scheme, etc have lagged targets, though significant progress on the same has been achieved.

The total plan expenditure for the social services was increased by about 16% to Rs.1.04trn in 2009-10 budget. We expect measures to provide further impetus to these schemes to ensure rural upliftment, employment, education, agricultural growth and public health. Initiatives on agriculture also help in easing supply side constraints and sustaining the GDP growth rate.

Gradual withdrawal of fiscal stimulus

With parts of the economy likely on a self-sustaining path, the Government's call on withdrawing stimulus will be of keen interest for the markets. The challenge before the Government is to sustain the higher growth but at the same time withdraw the stimulus and move towards fiscal rectitude.

We opine that, the FM will withdraw the stimulus in a targeted manner. Support may be withdrawn for sectors which have displayed robust demand and growth in the recent past. However, sectors where recovery is still fragile, may continue to receive Government support.

We expect partial roll back of excise duties for sectors like automobiles, consumer durables and cement among others. Service tax may rise to 12% as compared to 10% currently.

Fiscal deficit - back to FRBM

We expect the FM to revert back to FRBM and set a target of 5.5% fiscal deficit for 2010-11, in line with what he had proposed in July 2009.

In the next fiscal, Government is likely to continue vehemence on austerity and revenue enhancing measures. Moreover, the Government may also bank on a potential increase in tax revenues on the back of higher expected growth. Revenue from disinvestments and telecom auctions are expected to be budgeted at about Rs.450bn in FY11.

The Government had proposed to raise about Rs.310bn in FY10 from auctioning of telecom licenses (about Rs.300bn) and disinvestments (Rs.11bn). While telecom license auctions have been delayed, the Government is expected to raise significant sums from the dis-investment process. In FY11, telecom license sales are expected to bring in significant sums even as dis-investments gathers further steam.

Trends in deficits of Central Government

(%)	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09*	FY10BE
Fiscal Deficit	6.2	5.9	4.5	4.0	4.1	3.4	2.7	6.0	6.8
Revenue Deficit	4.4	4.4	3.6	2.5	2.6	1.9	1.1	4.4	4.8
Primary Deficit	1.5	1.1	0.0	-0.1	0.4	-0.2	-0.9	2.5	3.0

*Source: Economic Survey 2008-09, Annual Budget 2009-10; * Fiscal indicators for 2008-09 are based on the provisional actuals for 2008-09*

A partial roll back of fiscal stimulus measures will also add to the revenues. We are not expecting across the board reversals in this budget and FM may wait for GST for complete withdrawal of tax cuts. We estimate that, reversal of 2% cut in service tax rate can add Rs.150bn in tax kitty. Similarly reversal of 2% cut in general CENVAT rate of 10% (slab accounting for over 90% of excise revenues) can add Rs.300bn in tax revenue. Our rough calculations suggest if GST is introduced at 8% rate that would be revenue-neutral at existing tax- rate, however a launch with a 12-16% rate would be useful for enhancing revenues for fiscal consolidation.

We believe there may be some roll back of incentives provided in form of accelerated depreciation among others, which shall result in enhanced revenue by Rs. 200 bn in FY11. FDI limits may be relaxed in several sectors like retail, insurance, airlines, etc and these may bring in additional funds.

Revenue forgone due to major incentives

Incentives	(Rs bn)
Accelerated Depreciation	143
Deduction of export profits of STPI	117
Deduction of export profits of [EOUs]	72
Deduction of profits of undertakings engaged in power	64
Deduction of profits of undertakings providing telecommunication services	60
Deduction on account of donations	43
Deduction of profits from production of mineral oil	31
Deduction of export profits of units located in SEZs	12

Source: Union Budget document 2009-10

Government subsidy bill rose to Rs. 1,300 bn in FY09, and is expected to be over Rs. 1,100 bn in FY10. There are major contentions about subsidy rationalizations; we believe that complete withdrawal of subsidies is not politically feasible. In view of the above, we expect subsidy bill in FY11 could come at about Rs. 1,000 bn. Please note that petroleum companies get majority of their subsidies from upstream companies and government pays its part mostly in oil bonds and hence the subsidy burden due to fuel products doesn't get reflected fully in the budget figures.

Recently CSO changed the base year for India's national accounts from 1999-2000 to 2004-05. As a result, the level of nominal GDP is on average 4.4% higher each year in FY05-FY09 compared to the old base. Advance GDP estimates release by CSO pegs nominal GDP for FY10 at Rs.61,642 bn increase of 5.25% against GDP estimate used in the budget of Rs.58,566 bn (directly reducing 30 bps from fiscal deficit to GDP ratio from 6.8% to 6.5%).

We believe that the budget would mostly be in line with the street expectations: lower fiscal deficit, focus on investments (infrastructure, agriculture) and supporting economic growth through continuation of some fiscal stimulus until second half of the year. In our opinion, the fiscal deficit /GDP ratio should be about 5.5%, gross tax/GDP at 11% and total expenditure/GDP ratio at 16.6% in budget estimate FY11.

We believe that, any major deviation from the targets set out in the previous budget will be viewed negatively.

Reforms at work

We expect the FM to address some of the road-blocks being faced in the reforms process. GST implementation has been delayed and is expected to be implemented only in FY11. Some of the steps which need to be taken are : harmonizing the service tax and excise duties, removing region based exemptions, etc. Currently, while cenvat rate is at 8-12%, service tax rate is at 10% and VAT is at 12.5%. We believe that, GST has the potential to improve margins of companies by way of reduced cost on inter-state transfer of goods.

As far as subsidies are concerned, an outline to reduce the subsidy burden on the Government may be drawn up, though there may be no concrete proposals. There may be no structural changes for FY10-11 as the fertilizer subsidy is expected to be lower because of reduced costs of inputs. On fuel subsidies, while total implementation of the Kirit Parekh committee recommendations looks a distant possibility, some measures may be taken. However, these may be addressed outside the budget.

Apart from these, several initiatives in administrative reforms may be outlined in the budget. However, we believe that pension reforms and labour reforms will need wider political consensus before they are implemented.

No major changes in direct tax rates expected

We do not expect any major change in the direct taxes. The Direct Tax Code will be discussed in FY11 and will likely be implemented wef FY12. Pending its implementation, we do not expect the FM to make any major changes to tax rates. Tax benefits to 'impacted' and labour-intensive industries like textiles, rubber, jewellery, leather, IT, etc may be continued with.

On the personal tax front, some tax exemptions on investments may be given to channel funds for infrastructure.

Stock markets

We do not expect any significant measures on the stock markets. We will be pleasantly surprised if there are significant changes in STT and capital gains tax rates.

The markets are expecting a budget which is growth - oriented and has enough focus on fiscal rectitude. As long as it is not seen as expansionary and adheres to the deficit targets, markets may not be disappointed.

Sectoral implications

We believe that, the focus of the markets will be more on :

- Initiatives to sustain and improve the GDP growth; increased investments in infrastructure and social sector,
- Raising the requisite finances while reducing deficit percentages; disinvestment, telecom licenses, FDI, etc,
- Speedier implementation of these initiatives and
- Sectors which will be positively impacted by the budget proposals

Expected sectoral impact

Budget impact	Sector
Positive	Banking, Capital Goods, Construction, FMCG, Hotels, Logistics, Oil & Gas, Power, Real Estate, Textile
Negative	Auto, Cement
Neutral	Information Technology, Media, Metals & Mining, NBFCs

Source: Kotak Securities - Private Client Research

SECTORWISE EXPECTATION

AUTOMOBILES

EXPECTED BUDGET IMPACT: Negative

Current view

- Auto Industry has made a strong comeback post sharp decline in volumes during 3QFY09. The industry had an excellent 2009 that saw significant improvement in volumes across all the segments. Apart from various other reasons that helped the auto industry, one of the factors that played a key role was the stimulus package announced by the government.
- However there are few concerns looming over the industry that can impact its profitability moving ahead. Rising input cost, adoption of new emission norms from April 2010, expected increase in lending rates etc are the key issues that the industry has to tackle during FY11. With host of new entrants into the Indian auto space across segments, competition is expected to intensify further. In such a scenario, the auto industry would not like any announcement in the forthcoming budget that would have a negative impact. It is expected that the excise duty cuts may be rolled back partially.
- Amidst all these issues, the current strong domestic demand is expected to be the saving grace for the auto players. Moving ahead we expect the industry volumes to grow in the region of 12-14% during the next fiscal year.

Key budget expectations

Issues	Industry wish-list	Our expectation	Rationale for our expectation	Impact of our expectation
Stimulus package roll back	Continuation of stimulus package	Partial roll back of 2% in excise duty	Economy is already on recovery path and auto sales have been strong	Negative
Differential Excise duty	Remove differential excise duty between small and large cars	Status quo to be maintained	Government is promoting fuel efficient vehicles and furthermore large cars are less price elastic	Neutral
Accelerated depreciation	Extension of accelerated depreciation benefits for CV	Status quo to be maintained.	CV sales have already shown signs of recovery	Neutral

Source: Kotak Securities - Private Client Research, Industry

Top picks

Company	Price (Rs)	EPS (Rs) FY10E	EPS (Rs) FY11E	PE (x) FY10E	PE (x) FY11E	Recommendation as per our last report
NIL						

BANKING

EXPECTED BUDGET IMPACT: Positive

LONG TERM OUTLOOK: Positive

Current view

- The loan growth has improved to 14.9% (as on January 29, 2010) after falling below 10% levels in October-November 2010. At the same time, deposit growth has moderated to 17-18% in last few fortnights leading to improvement in C/D ratio to 70-71% from 68-69% during May-November 2010. Due to excess liquidity on their balance sheets, banks were forced to park their surplus money in the government paper leading to increase in I/D ratio.
- Reported WPI (8.56%) for the month of January 2010 has gone up on back of base effect and is likely to touch 9.5-10.0% by the end of FY10. It can be further accentuated by any hike in the fuel prices, if it happens. With higher than expected IIP data (16.8% reported for December 2010) along with some other recent economic indicators like sharp rise in the business confidence index to a two-year high, a 14% growth in exports and a healthy flow of foreign investments (~$20 bn in 9MFY10) etc, would facilitate the central bank in putting a greater focus on inflation.
- In our view, high food inflation is a cause of concern. We continue to expect the RBI to reverse its easy money policy in face of an inflation spike which is now further aggravated by the drought-led agflation. RBI has already hiked the CRR by 75 bps and it is likely to be further hiked by 75 bps in FY11 to contain M3 expansion, in our view. We also believe, RBI to push the policy LAF reverse repo rate (currently at 3.25%) back towards the long-term 5% inflation rate (FY11-12).
- Increase in CRR is a kind of tax on the banks. However, it is not likely to impact the margins much as banks are witnessing re-pricing of their liabilities at lower prices. Apart from this, improvement in credit off-take would allow deployment of the resources at higher yields leading to improvement in the overall yield on assets.
- In a competitive scenario, PSU banks are facing problem of trained specialists. On the other hand, automation has made many jobs quite redundant. It would be beneficial if the Government allowed another round of VRS and permitted banks to recruit specialists.
- There is a great appetite for bank stocks in the system, but FII/FDI limit is acting against it. We would love to see a relaxation in this, but do not expect FII/FDI limit in PSU banks to be hiked in this Budget from the current cap of 20%. We also do not expect any relaxation in voting rights (Cap 10%) in the private banks.
- Last but not the least, consolidation in the industry has so far only been restricted to roundtables (except few deals). Now is the time to act on this, as duplication of IT infrastructure, manpower and capital is becoming prohibitively costly.

Key budget expectations

Issues	Industry wish-list	Our expectation	Rationale for our expectation	Impact of our expectation
To allow a deduction for provision made by banks towards bad and doubtful debts	Remove the ceiling of 7.5% of total income allowed as deduction	Likely	To remove divergence between the provisions made according to the RBI guidelines and the deductions allowed by the IT Act	Positive, as actual provisioning towards bad and doubtful assets is higher than the deduction allowed under the Act.

Banking (contd...)

Key budget expectations

Issues	Industry wish-list	Our expectation	Rationale for our expectation	Impact of our expectation
To extend the prepayment period for 'agricultural debt waiver and debt relief scheme'	Prepayment period to be extended further from December 31, 2009	Likely	To reduce the agri NPAs (especially PSU banks)	Positive, as it would reduce the recognition of agri NPAs
Liberalizing FDI norms for Insurance Sector	Increase the FDI limit in Insurance sector from 26% to 49%	Likely	To provide capital to the Insurance companies	Positive, it will provide capital to fund their insurance businesses.
Tax exemption on Infrastructure financing	Reintroduce 10 (23) G of the Income Tax act	Likely	Increase attractiveness for lending to infrastructure sector.	Positive, it will reduce the effective tax rate depending on the exposure to this sector.
Relaxation in the lock-in period for savings to qualify for tax benefits (Under section 80C)	Reduce from five year lock-in period to three years.	Status quo likely to be maintained	Banks have surplus liquidity on their balance sheets	Neutral
Increase in FII/FDI limit in PSU Banks	Increase the limit from 20% to 49%	Status quo likely to be maintained	Government is willing to infuse capital to fund bank's future business growth	Neutral

Source: Kotak Securities - Private Client Research

Top picks

Company	Price (Rs)	EPS (Rs) FY10E	EPS (Rs) FY11E	P/ABV (x) FY10E	P/ABV (x) FY11E	Recommendation as per our last report
Andhra Bank	101	21.1	22.2	1.2	1.0	BUY
Axis Bank	1026	58.9	73.2	2.7	2.3	BUY
BoB	571	76.6	84.4	1.4	1.2	BUY
HDFC Bank	1606	67.4	90.3	3.4	3.0	BUY
ICICI Bank	832	37.2	44.1	2.0	1.8	BUY
SBI	1921	154.8	171.5	2.2	1.9	BUY
Union Bank of India	246	39.6	42.7	1.5	1.2	BUY

Source: Kotak Securities - Private Client Research

CAPITAL GOODS

EXPECTED BUDGET IMPACT: Positive

LONG TERM OUTLOOK: Positive

Current view

- The Capital Goods sector is a play on the infrastructure and industrial sectors. In the early part of the fiscal, there was a sharp dip in demand for capital goods equipment in the aftermath of the credit crisis in 2008. However, since then several factors including subdued economic outlook, funding constraints and higher risk aversion have been largely addressed. The capital goods index, which is barometer of the growth of the sector recovered from the negative territory in the first two months to climb to 12.2% in November 2009. With the economic growth rates being revised upwards, the prospects of Capital Goods sector have definitely improved.
- The third quarter results of the sector were largely positive, with there being more upgrades than downgrades. While L&T and Voltas reported disappointing numbers, BHEL, Siemens, Cummins, BEL and Voltamp reported profits that exceeded expectations. L&T had to deal with execution related issues in its construction division which held back revenue growth. The company also cited delay in finalization of large orders especially those in the Oil and Gas sector.
- The power sector has been able to maintain its growth momentum despite the adverse developments in the global markets in 2008. However, competition from foreign players has increased in the T&D equipment space.
- Growth in consumer durables has been strong for the year at 21.7%.
- Stable material prices, government thrust on infrastructure and soft interest rates are positives for the capital goods sector. Our preferred picks are L&T, Voltas, Thermax, Blue Star, Voltamp and Hindustan Dorr Oliver.

Key budget expectations

Issues	Industry wish-list	Our expectation	Rationale for our expectation	Impact of our expectation
Customs duty	10% customs duty on import of power plant equipment for both, the projects awarded through the international competitive bidding route and mega power plants.	Import duty likely	To provide level playing field against imports and at the same time develop domestic manufacturing base	Positive for L&T and BHEL
Hike in excise duty from 8% to 10%	Maintain Status quo	Likely	To shore up indirect tax revenues	Negative for product/ equipment mfrs like Voltas, Blue Star
Reduction in customs duty on compressors	From 7.5% to 5%	Unlikely	To bring duties on intermediate product in line with the final product	Positive for Blue Star and Voltas
Availability of long-tenure funds	Setting up India infrastructure debt fund of Rs 500 bn	Likely	To meet funding requirements of the infrastructure sector	Positive
Hike in allocation sought by Urban development ministry	For urban development including metro rail and buses	Likely	Rapid urbanization	Positive for BEML, Cummins

Source: Kotak Securities - Private Client Research

Capital Goods (contd...)

Top picks

Company	Price (Rs)	EPS (Rs) FY10E	EPS (Rs) FY11E	PE (x) FY10E	PE (x) FY11E	Recommendation as per our last report
L&T	1446	57.3	70.5	25.2	20.5	BUY
Voltas	161	9.9	11.5	16.3	14.0	BUY
Thermax	615	23.5	34.8	26.2	17.7	BUY
Blue Star	354	21.2	26.8	16.7	13.2	BUY
BEL	2068	119.0	145.6	17.4	14.2	ACCUMULATE
Hindustan Dorr Oliver	174	15.4	17.9	11.3	9.7	BUY
Voltamp Transformers	857	83.0	101.0	10.3	8.5	BUY
EKC	124	1.8	10.0	69.1	12.4	ACCUMULATE
Nitin Fire	344	33.0	41.0	10.4	8.4	BUY
Time Techno	47	4.7	0.0	10.1	-	BUY

Source: Kotak Securities - Private Client Research

CEMENT

EXPECTED BUDGET IMPACT: Negative

LONG TERM OUTLOOK: Cautious

Current view

- Cement sector has been enjoying the benefits of 8% excise duty since Feb, 2009. We expect a hike in the excise duty rates in Union Budget 2010-11 which would be negative for the sector.
- However, higher allocation for infrastructure sector primarily in roads, urban infra, low cost housing etc is likely to keep cement demand strong going forward.
- Incremental supplies have already started kicking in since the beginning of fiscal 2010. Though demand growth is strong till date, we expect growth in supply addition to outpace demand growth going forward. Thus, oversupply situation coupled with intense competition between players to maintain market share is likely to put pressure on cement prices.
- We maintain our cautious stance on the sector and would recommend companies with significant volume expansion as well as lower valuations.

Key budget expectations

Issues	Industry wish-list	Our expectation	Rationale for our expectation	Impact of our expectation
Excise duty	No increase in excise duty	Excise duty likely to be increased in phases	Hike in excise duty will boost government revenue collection and reduce the fiscal deficit	Hike in excise duty is likely to be negative for sector since it is difficult for companies to pass on the hike
Abatement on excise duty	55% abatement on excise duty as against no abatement allowed currently	Status quo maintained	Indirect tax collections may be impacted negatively	Neutral for the sector
Import duty on coal and pet coke	Abolish import duty on coal and pet coke as against 5% currently	Status quo maintained	Revenue collections for the government may get impacted	Neutral for the sector

Source: Kotak Securities - Private Client Research, Industry

Top picks

Company	Price (Rs)	EPS (Rs) FY10E	EPS (Rs) FY11E	PE (x) FY10E	PE (x) FY11E	Recommendation as per our last report
Shree Cements	2029	265.2	227.2	7.6	8.9	ACCUMULATE

Source: Kotak Securities - Private Client Research

CONSTRUCTION

EXPECTED BUDGET IMPACT: Positive

LONG TERM OUTLOOK: Positive

Current view

- We expect Union Budget 2010-11 to be positive for construction sector in terms of higher budgetary allocations for various segments such as roads, irrigation, urban infra, housing, power, ports and airport development.
- We are positive on the construction sector on account of robust order backlogs, excellent revenue growth and improvement in margins. Companies have gone through another round of fund raising to remain well equipped to bid for larger sized projects. Speedy order inflows are expected to be positive for companies which are well equipped and have a relevant experience in execution.
- Key beneficiaries from higher order inflows are expected to be IVRCL, Nagarjuna Constructions, Patel Engineering, Simplex Infrastructure, Madhucon Projects and Unity Infraprojects

Key budget expectations

Issues	Industry wish-list	Our expectation	Rationale for our expectation	Impact of our expectation
Roads	Faster land acquisition; Increased private participation; Higher grant for select projects; Higher budgetary allocation for Bharat Nirman and NHDP	Higher allocation in budget; Increased private participation	Inline with government's target of achieving construction of 20km/day	Positive for players having adequate experience and networth to bid for large size projects
Irrigation	Higher fund allocation through Accelerated Irrigation Benefit Programme; Approval of national project status to select projects	Increased fund allocation	Result in increasing levels of irrigation	Positive for players having expertise in irrigation and water projects
Urban infrastructure development	Higher fund allocation through JNNURM	Increased fund allocation	Inline with government's focus of infrastructure creation	Positive for players focused on urban infrastructure development
Reintroduction of Section 10 (23)(G)	Enable easier lending to the infrastructure sector	Likely to be reintroduced	Banks would be allowed to claim deduction on interest earned on long term lending to the sector and hence will enhance lending to infrastructure projects	Positive for the infrastructure sector
Extension of Section 80IA benefits for another 15 years	Extend the 10 year income tax holiday by another 15 years	May not be extended in near term	Tax collections for government may get impacted	Neutral for the sector

Construction (contd...)

Key budget expectations

Issues	Industry wish-list	Our expectation	Rationale for our expectation	Impact of our expectation
Abolish MAT during the period of availment of Section 80IA	MAT should be abolished for the tax holiday period during Section 80IA benefits	May not be abolished in near term	Tax collections for government my get impacted	Neutral for the sector
Dividend distribution tax for SPVs	Full pass through of DDT for infrastructure SPVs	Likely to be allowed	DDT exemption is likely to benefit many companies since most of them have multi layer holding structure	Positive for players carrying out projects in separate SPV structures

Source: Kotak Securities - Private Client Research, Industry

Top picks

Company	Price (Rs)	EPS (Rs) FY10E	EPS (Rs) FY11E	PE (x) FY10E	PE (x) FY11E	Recommendation as per our last report
JP Associates	136	4.8	7.7	28.3	17.6	ACCUMULATE
IVRCL	313	16.8	19.7	18.6	15.9	BUY
NCC	158	8.1	9.0	19.6	17.6	BUY
Patel Engineering	426	20.8	26.1	20.5	16.3	ACCUMULATE
Unity Infraprojects	588	58.2	68.5	10.1	8.6	ACCUMULATE

Source: Kotak Securities - Private Client Research

FMCG

EXPECTED BUDGET IMPACT: Positive

LONG TERM OUTLOOK: Neutral

Current view

- FMCG industry in India has continued its strong growth primarily on the back of the robust domestic demand especially form the rural segment. Increasing penetration and low per capita consumption would help to achieve the volume growth. However, going forward, the rate of growth may come down due to higher base effect.
- FMCG has inherent characteristics of necessity and inelastic products used for daily consumption. Also the demand from rural India, which constittues~50% of the total FMCG market in India is expected to remain strong as it has been boosted by hikes in minimum support prices for agricultural commodities.
- India has tremendous potential for development of food processing industry. This is primarily due to changing preferences towards healthy lifestyle, increase in disposable incomes, breakup of joint families into nuclear families, double income families and robust growth in organised retail which is all leading to increased demand for the processed food items in India.

Key budget expectations

Issues	Industry wish-list	Our expectation	Rationale for our expectation	Impact of our expectation
GST	Speedy, effective and transparent GST rollout	Some announcement likely on the road map	GST would lead to lower stocking points and adoption of hub and spoke model and rationalization of taxes across the food processing industry	Positive
Focus on rural sector	Focus on rural sector through employment generation and infrastructure spending	Positive steps for employment generation and infrastructure creation	Boost the inherent strengths of the Indian economy	Positive
Tax exemption	To be increased above Rs.1.6 lakh	Status quo	Direct Tax Code to be implemented in FY12	Neutral
Economic stimulus package	Continue the economic stimulus package	Status quo	Economy growing at healthy pace, good time for partial removal of economic stimulus package, however inflation concerns are hightened	Neutral
Excise duty	To maintain excise duty on cigarettes	Some increase in excise duty on cigarettes	Source of cash for funding the welfare programs	Negative

Source: Kotak Securities - Private Client Research, Industry

Top picks

Company	Price (Rs)	EPS (Rs) FY10E	EPS (Rs) FY11E	PE (x) FY10E	PE (x) FY11E	Recommendation as per our last report
NOT UNDER ACTIVE COVERAGE						

HOTELS

EXPECTED BUDGET IMPACT:
Positive

LONG TERM OUTLOOK:
Neutral

Current view

- The hotel industry has been looking forward to get infrastructure status similar to transportation; energy etc. Currently Hotels come under the real estate sector. This had been top priority for the industry. The industry is an also looking forward to get some tax rationalisation and single window clearance for various licenses.
- Moreover, it is a critical issue for hotel sector because banks considers real estate lending as risky assets, lending for hotel projects has been attracting a high rate of interest.

Key budget expectations

Issues	Industry wish-list	Our expectation	Rationale for our expectation	Impact of our expectation
Infrastructure status for Hotel Industry (Section 80 IA of Income Tax Act)	■ Hotel industry should be brought on par with the other infrastructure industries ■ To be extended to all categories of hotels across the country	■ Likely	■ In order to boost tourism and attract investments in the country Government may consider hotel industry at par with infrastructure sectors	■ Positive

Source: Kotak Securities - Private Client Research, Industry

Top picks

Company	Price (Rs)	EPS (Rs) FY10E	EPS (Rs) FY11E	PE (x) FY10E	PE (x) FY11E	Recommendation as per our last report
NOT UNDER ACTIVE COVERAGE						

Information Technology

EXPECTED BUDGET IMPACT: Neutral

LONG TERM OUTLOOK: Positive

Current view

- The IT/BPO services industry is likely on the cusp of a recovery in demand for its services, given a sustainable revival in user economies of the developed markets.
- The sector after facing significant challenges in FY09 has seen signs of revival in its business outlook, over the last couple of quarters. We note that the initial signs of an improving macro environment have been limited to the BFSI, healthcare and utilities segments, and also larger players which have likely enjoyed the benefits of vendor consolidation. We expect the demand outlook in other important sectors like manufacturing and telecom to pick up with a lag, and in sympathy with greater optimism on a sustainable revival in the global economy.
- In this backdrop, the budget is expected to focus on maintaining an environment conducive to the future growth of this largely export-oriented industry. The sector has asked for an extension in the tax holiday (under section 10A/10B of the Income Tax Act, 1961) beyond FY11.
- We expect the focus on the budget to be on enabling issues like promoting higher technical education (so as to meet the potential demand for employees from the sector), promoting better infrastructure facilities in Tier II cities and other related issues like skills development.
- We remain optimistic on the longer term prospects of the industry. The Global Delivery Model has gained significant acceptance among existing and potential clients. We believe that, the outsourcing and off-shoring story will gather further steam in the future and this will see an increased flow of longer term and larger contracts to Indian vendors. Also, focused smaller companies with expertise on select verticals will be able to move up the value chain and attract larger clients, thereby, improving their longer term prospects.
- Stock prices of most IT companies have corrected over the last month after having risen higher than the broader market over the past twelve months, in anticipation of an improvement in the demand environment. At current levels, we prefer larger names like Infosys and TCS; we also retain our positive bias for select midcaps like Infotech Enterprises, NIIT Technologies and Zensar Technologies.

Key budget expectations

Issues	Industry wish-list	Our expectation	Rationale for our expectation	Impact of our expectation
Tax exemption U/S 10A/10B to STPI limits	Extension of Tax exemption beyond FY11	Unlikely.	Sector is recovering already and a call may be taken next year	Neutral
MAT	Rationalization of the current levy of 15%.	Unlikely	We believe the challenging fiscal picture may restrain the Govt. from a blanket extension.	Neutral
Multiple tax incidences for packaged and customized IT software, on commercial use.	Subsuming of VAT and service tax incidence to a single levy	Status quo	With likely forward movement on GST, Govt may subsume the same on GST implementation.	Neutral

Information Technology (contd...)

Key budget expectations

Issues	Industry wish-list	Our expectation	Rationale for our expectation	Impact of our expectation
Nation wide broadband rollout and focus on skill building.	■ Time frames and scalable programs to be announced and implemented	■ Likely	■ Both have been ear-marked as priority areas by the Govt. ■ Will ensure longer term competitiveness of industry	■ Positive

Source: Kotak Securities - Private Client Research, Industry, NASSCOM

Top picks

Company	Price (Rs)	EPS (Rs) FY10E	EPS (Rs) FY11E	PE (x) FY10E	PE (x) FY11E	Recommendation as per our last report
Infosys	2541	109.3	124.0	23.3	20.5	BUY
TCS	758	34.0	38.5	22.3	19.7	BUY
Infotech Enterprises	336	27.7	30.4	12.1	11.1	BUY
NIIT Technologies	171	20.5	23.8	8.3	7.2	BUY
Zensar Technologies	285	58.9	60.9	4.8	4.7	BUY

Source : Companies, Kotak Securities - Private Client Research

LOGISTICS

EXPECTED BUDGET IMPACT: Positive

LONG TERM OUTLOOK: Positive

Current view

- With the global economy recovering, the logistics business has also picked up as it is highly co-related to the overall economic development. Exports have turned positive in the month of November 2009 after recording de-growth for 13 consecutive months. The exports have continued to grow YoY even in the month of December 2009 and January 2010.
- This is very positive for the logistics sector as it leads to increased demand for various logistics services like basic road transportation, cargo handling, rail transportation, ICD, CFS and finally the port from where it would be exported.
- With the expected introduction of Goods and Services Tax (GST) in 2010, we expect good amount of business to shift from the unorganized to the organized sector. With the introduction of GST we expect that the smaller warehouses in various states would be consolidated into Hub & Spoke operations which are more efficient and cost competitive. We expect that GST would actually lead to higher outsourcing of logistics activities to the third party logistics players.

Key budget expectations

Issues	Industry wish-list	Our expectation	Rationale for our expectation	Impact of our expectation
Roadmap for GST	Faster implementation of GST	Expect timeline for GST implementation	It would lead to comprehensive indirect tax reform	Positive for organized logistics players
Export incentives	Continue with export incentives	Will be continued	Although exports have turned positive for last three months export incentives are needed to increase exports further	Positive
FDI in Aviation	Allow foreign airlines to take stake in Domestic airlines	Foreign airlines would be allowed to take 49% stake in domestic airlines	Help the aviation companies to reduce debt and expand operations	Positive
Sales Tax on ATF	To be reduce from 30% in some states to 4% across country	Status quo to be maintained	Future revenue implications	Neutral
Domestic rail freight charges	Reduction in domestic rail freight charges	Volume based concessions	Lower charges would lead to shift of long distance cargo (over 1000 km) from road to rail	Positive
Funding of Eastern Dedicated rail freight corridor	Finalize funding of Eastern Dedicated rail freight corridor	Some announcements to be made	It is next step after signing Western Dedicated rail freight corridor	Positive in long term
Dedicated rail freight corridor	Faster implementation of dedicated rail freight corridor	Some firm steps for implementation	A dedicated rail freight corridor can boost the trade activities as the transit time will come down considerably between two cities and thus will lead more transportation of goods and services giving additional business to the logistics service providers.	Positive in long term

Source: Kotak Securities - Private Client Research, Industry

Logistics (contd...)

Top picks

Company	Price (Rs)	EPS (Rs) FY10E	EPS (Rs) FY11E	PE (x) FY10E	PE (x) FY11E	Recommendation as per our last report
CONCOR	1240	63.5	75.0	19.5	16.5	ACCUMULATE
GATI	58	1.9	3.5	30.3	16.5	BUY
Mundra Port	635	17.6	22.0	36.1	28.9	BUY

Source: Kotak Securities - Private Client Research

MEDIA

EXPECTED BUDGET IMPACT: Neutral

LONG TERM OUTLOOK: XXXX

Current view

- We expect the Budget to have a neutral impact on the prospects of the Media sector as a whole, and companies operating within it. From a longer-term perspective, we believe that greater spending power, demographics, rising consumerism in tandem with renewed expectations of healthy economic growth will bide well for the sector.
- Our preference remains for market leaders, strong franchises and healthy balance sheets. We retain our positive outlook on ZEEL and HT Media-expect them to be the better options to play a revival in urban advertising outlook. We remain positive on the subscription opportunity for broadcasters like ZEEL given the structural changes in the distribution set-up. We remain cautious on players in the newer media segments as we believe a revival in business outlook for these segments will lag the established mediums.
- Any belying of hopes on a sustainable revival in the advertising market and/or slack pick up in the subscription revenue stream will remain the key risks to earnings/stock performance.

Key budget expectations

Issues	Industry wish-list	Our expectation	Rationale for our expectation	Impact of our expectation
Service Tax: Broadcasters are subject to levy of service tax @12.24% unlike print media that is exempt from the levy of service tax.	Broadcasters expect parity to be drawn between the print and electronic medium.	Status quo will be maintained	Classification for print in terms of industry status-(not considered a rendered service) is different.	Neutral
MAT: Currently 15% levied	Industry expects rationalization in the levied rate	Status quo will be maintained	Intent to shore up tax revenues in backdrop of a challenging fiscal picture will likely restrict the Government.	Neutral
SAD: 4% levied on digital set top boxes	To be made 'nil' duty items.	Likely	To bring broadcasting equipment like set top boxes on par with rates applicable on telecom equipment and provide a fillip to platforms like DTH that use set top boxes.	Positive for DTH players, if industry expectations met.
FDI: Relaxation of norms in sub-sectors	Norms to be relaxed in cable distribution, print media, radio and news broadcasting	Relaxation for norms for distribution, publishing media may come through	FDI relaxation could lead to higher foreign investment in the capital intensive segments.	Positive, if industry expectations met.

Source: Kotak Securities - Private Client Research, Industry

Top picks

Company	Price (Rs)	EPS (Rs) FY10E	EPS (Rs) FY11E	PE (x) FY10E	PE (x) FY11E	Recommendation as per our last report
ZEEL	260	10.1	12.3	25.8	21.2	ACCUMULATE
HT Media	149	4.2	7.8	35.5	19.1	ACCUMULATE

Source: Kotak Securities - Private Client Research

METALS & MINING

EXPECTED BUDGET IMPACT: Neutral

LONG TERM OUTLOOK: Negative

Current view

- LME prices for base metals i.e. aluminium, copper & zinc, ~ doubled since last budget to first week of Jan 2010 and have thereon corrected by ~ 15%. Price correction was very much due as the inventory levels at LME for the base metals witnessed sharp swelling over last year.
- Improving steel demand generally and restocking in the developed world have allowed steel companies in developed nations to gradually increase their capacity utilization in the past few quarters to ~ to 70% levels. China's crude steel production went up by 13.5% in 2009 even in depressed global economy to 568mn tonnes. The big question going forward is how Chinese industry will manage this overcapacity? Any growth slowdown in China, would lead to surge in Chinese steel exports which would be very negative for the overall industry
- Global steel major Arcelor Mittal expects world's apparent steel demand to increase by 10% in 2010. This breaks down into growth of 5% in China, 15% in the other emerging markets and 15-18% in the developed markets (notably Europe and the US). Despite slowing down, it expects real steel demand to remain strong in China. The government has taken measures to further slow its economy, but Arcelor Mittal expects real demand in China to continue to grow by 10% in 2010.
- Demand for key steel making raw materials, iron ore and coking coal is very strong and sharp jump in FY11 contract prices is very likely. Spot prices of both coking coal and iron ore are now trading >70% higher than the last year contract prices. At least 20% hike in contract prices for both the commodities looks highly probable.
- India's steel consumption in the 10 months ended January 31st 2010 rose by 8.5% YoY to 51mn tonnes, boosted by demand from power projects, construction companies and makers of cars and appliances.
- Steel prices have been strong since mid December 2009 as increased raw material costs are being passed on to the end users. Steel firms expect prices to increase further going forward as their production cost is expected to rise. While there would be restocking to replenish inventories depleted by the economic downturn, but investors will have to wait longer for a recovery in real demand.
- The Indian government has lifted restrictions on imports of hot rolled coil and plate for trading purposes in January. Imports are bound to increase gradually in the next few months.
- Bill for auctioning of coal blocks for captive use has been cleared by the union cabinet and is likely to be presented in budget session of the parliament. Later next fiscal even coal commercial mining might be allowed for private players. Coal mining would be large lucrative business opportunity going forward. Coal India IPO is also planned in FY11. So, investors should explore coal mining stocks for medium to long term investment horizon.
- Progress on introduction of New Mineral Policy has been slow but might just get parliament approval in FY11. This could open up huge investments in mining space in India and lead to emergence of new companies on investor horizon.

Metals & Mining (contd...)

Key budget expectations

Issues	Industry wish-list	Our expectation	Rationale for our expectation	Impact of our expectation
Increase in excise duty on steel	■ None	■ Partial rollback of excise duty cut. 10% excise duty instead of 8% likely.	■ Industry data has been strong for last several months and excise cut incentive no longer warranted.	■ Negative. Compress operating margins of steel companies.
Hike in export duty on iron ore	■ Steel ministry/industry seeks hike in export duty to 20%. Mining companies against it.	■ Export duty hike unlikely.	■ Government just 2 months back increased export duty on iron ore lumps to 10% and iron ore fines to 5%. Exports have moderated post that so further hike in near term looks unlikely.	■ No impact
Custom duty on ferro alloys	■ Atleast 10% custom duty	■ 5% custom duty possible	■ Low capacity utilisation of 61% for domestic players. Revenue accretive for government.	■ Positive for ferro alloy companies.
Hike in railway transportation charges	■ None	■ 5 to 10% hike i.e upto Rs.100-200/t likely.	■ Wagon demand has been strong and economic conditions have improved	■ Negative for steel and mining companies

Source: Kotak Securities - Private Client Research, Industry

Top picks

Company	Price (Rs)	EPS (Rs)		PE (x)		Recommendation as per our last report
		FY10E	FY11E	FY10E	FY11E	
Sesa Goa	377	29.2	37.1	12.9	10.2	BUY

Source: Kotak Securities - Private Client Research

NBFCs

EXPECTED BUDGET IMPACT:
Neutral

LONG TERM OUTLOOK:
Positive

Current view

- During 9MFY10 NBFCs have witnessed material decline in their cost of funds in the backdrop of improved liquidity which enhanced operating conditions for corporate India. The stimulus package has resulted in a pickup in economic activity in India. In the 2010-11 union budget, we expect sops for certain specialized infrastructure financing companies while status quo is likely to be maintained for housing finance companies.
- Increase in exemption limit of deduction u/s 24 of Income Tax Act (at individual level) for interest housing loans, (for self occupied property) has been proposed to be raised from Rs.0.15mn to Rs.0.20mn; The residential real estate has seen an uptick in demand, therefore, we opine that, status- quo will be maintained on this front.
- Tax exemptions for specialized financing institutions have been proposed. Particularly for those who are lending to infrastructure related projects by way of restoration of section 10 (23) (G) and increase special reserves limit to 40% from 20% presently u/s 36 1 (viii).
- Moreover, we also expect the government may allow infrastructure financing, companies particularly PFC to raise tax free bonds- classified u/ 54EC. This will help improve funds flow to key infrastructure sector - power generation and T&D and will reduce cost of funds as well.

Key budget expectations

Issues	Industry wish-list	Our expectation	Rationale for our expectation	Impact of our expectation
Tax benefits on Housing Loans	■ Tax exemption on interest paid on home loans to be increased to Rs 0.2mn from existing Rs. 0.15mn	■ Status-quo likely to be maintained	■ The tax rebat u/s 80E and 88 id is expected to remain same, since it is important to improve the affordability of housing in India.	■ Neutral
Restoration of Section 10 23 g and increase of tax exemption limit for special reserve u/s 36 1 (viii)	■ Tax exemption on income by way of dividend, interest, and long-term capital gains from investments made in infrastructure projects. ■ Restore the tax exemption limit for special reserve created under section 36 1 (viii) from 20% presently to 40%.	■ Status-quo likely to be maintained	■ Increased thrust on infrastructure financing and various other benefits available to infrastructure financing companies presently are similar to exemptions under 10 (23) (g) and 36 1 (viii).	■ Neutral
Low cost funds accessibility to infrastructure financing companies	■ Allowing infrastructure financing companies to raise tax free bonds u/s 54 EC	■ Likely	■ Funds will be available to infrastructure companies at competitive rates, which would be positive for overall infrastructure development	■ Positive for specialized financing institutions
Insurance Act amendments are expected, and increase in FDI limits	■ Increase the FDI limit to 49% from 26% presently	■ Likely	■ Insurance industry is capital intensive industry and has higher capital requirement. With the industry now maturing, it requires some sops are likely to be announced	■ Positive for all Insurance companies

Source: Kotak Securities - Private Client Research

NBFCs (contd...)

Top picks

Company	Price (Rs)	EPS (Rs) FY10E	EPS (Rs) FY11E	P/ABV (x) FY10E	P/ABV (x) FY11E	Recommendation as per our last report
LICHF	750	75.5	86.0	2.1	1.8	BUY
IDFC	148	7.9	9.4	2.8	2.4	BUY
Shriram Transport Finance	469	17.7	21.3	3.1	2.5	BUY
M&M Financial Services	330	28.9	36.0	2.1	1.8	BUY

Source: Kotak Securities - Private Client Research

OIL & GAS

EXPECTED BUDGET IMPACT: Positive

LONG TERM OUTLOOK: Neutral

Current view

- **Oil** - The crude oil prices have started rising again and with retail prices capped it is leading to under recovery of Rs.4 per liter on Petrol and Rs.2 per liter on diesel. The Oil Marketing Companies continue to remain dependent on oil bonds. The practice of issuing oil bonds does not resolve the problem as it only defers the resolution while compounding economic and financial costs. We need a permanent and transparent solution for the subsidy sharing mechanism which will clear the ambiguity that who bears how much of the subsidy. Recently Mr. Kirit Parekh committee has given its recommendations however it remains to be seen whether they would be implemented considering the social and political compulsions.
- **Gas** - With Petronet LNG doubling its capacity at Dahej to 10 MMTPA and ramp up of KG basin gas, the country's natural gas supply has increased significantly. Going forward we expect significant investments is cross country natural gas pipelines to transport the gas and increase in use of city gas distribution. However pricing of APM gas is ~50% lower then discovered price of Reliance KG basin and this is expected to be increased gradually.

Key budget expectations

Issues	Industry wish-list	Our expectation	Rationale for our expectation	Impact of our expectation
Tax holiday u/s 80-IB(9) Currently valid for 7 years from the date of commercial production	Extend to 10 years out of 15 years	Will be increased	Inline with other infra-structure projects like power generation and distribution	Positive for ONGC and Oil India
Service tax	Exemption on input services on explora-tion	Status quo to be maintained	Future revenue implica-tions	Neutral
Oil price deregulation	Allowing marketing companies to determine retail fuel prices	Partial freedom. This might happen even outside the budget	At current price, there is under recovery of Rs.4 per liter on Petrol and Rs.2 per liter on diesel	Positive for oil marketing companies
APM gas pricing	APM gas should be sold at market rates	Some hike in APM gas price, though this might happen outside the budget	APM gas is sold at ~50% discount to the price of Reliance KG basin gas	Positive for ONGC, Oil India and negative for APM gas users like IGL
MAT	Abolition of MAT on Exploration & Production companies	Status quo to be maintained	Future revenue implica-tions	Neutral
Declared goods' status to Natural gas	Reduce sales tax i.e. up to 20% in various states to uniform 4%	Status quo to be maintained	Future revenue implica-tions	Neutral

Source: Kotak Securities - Private Client Research, Industry

Top picks

Company	Price (Rs)	EPS (Rs)		PE (x)		Recommendation as per our last report
		FY10E	FY11E	FY10E	FY11E	
GSPL	90	5.1	5.3	17.6	16.9	ACCUMULATE
Petronet LNG	74	7.1	8.0	10.4	9.2	ACCUMULATE

Source: Kotak Securities - Private Client Research

PHARMACEUTICALS

EXPECTED BUDGET IMPACT: Positive

Current view

- Over the past few years, we have seen little impact of the budget on the pharmaceutical sector. The industry has been growing at a steady pace on the domestic side. However, the going has been difficult on exports. Of late, the industry is facing several challenges like domestic pricing pressure and pressure on finding and developing new molecules.
- The Finance Minister is likely to give a boost to the sector's prospects through measures like extending income tax exemption for R&D spends.

Key budget expectations

Issues	Industry wish-list	Our expectation	Rationale for our expectation	Impact of our expectation
Tax exemption for R&D expenses	Increase in weighted average exemption from 150% of R&D spend to 200%	Unlikely	Revenue considerations	Neutral

Source: Kotak Securities - Private Client Research, Industry

Top picks

Company	Price (Rs)	EPS (Rs) FY10E	EPS (Rs) FY11E	PE (x) FY10E	PE (x) FY11E	Recommendation as per our last report
NOT UNDER ACTIVE COVERAGE						

POWER

EXPECTED BUDGET IMPACT: Positive

LONG TERM OUTLOOK: Positive

Current view

- Power deficit in the country continues to remain high with several parts of the country suffering significant load-shedding
- Despite the massive capacity building underway in the country, actual capacity addition has continued to lag the growth in demand. As against a target of 10766 MW in 9M FY10, actual capacity addition has been only 6250 MW.
- As per Central Electricity Authority (CEA) assessment, against planned capacity addition of 78,700 MW for the 11th Plan, a capacity of 18235 MW has been commissioned till 21.10.2009 and a capacity aggregating to 44139 MW is likely to be commissioned with a high level of certainty during the remaining Plan period. Thus a total capacity of 62,374 MW is likely with a high level of certainty.
- The country continues to face shortage of coal due to slow clearance of projects, inadequate transportation facilities (wagons) and inferior quality. As a result, the development of coal sector is not commensurate with the current GDP growth rate of 7-8%. The long term linkage for NTPC stations correspond to 85-90% PLF level whereas the generation target is at 92% PLF. Hence dependence on imported coal will increase substantially by the end of XIth plan. This is likely to lead to uncertainty due to volatility in fuel prices.
- Due to attractive tariffs expected for merchant power, IPPs are unwilling to enter into long term PPAs for entire power before approaching FIs/banks for financial assistance. Building cash flow projections in such a scenario is difficult due to uncertainties in pricing. This leads to inadequate comfort for Bank/FIs while sanctioning these projects.
- The sector continues to face shortage of long-term lending (bank lending is of 7-10 years while project life is 25 years).
- Financial health of the purchasers (State Discoms) remain a long-term concern.
- The sector has long-term potential for growth.

Key budget expectations

Issues	Industry wish-list	Our expectation	Rationale for our expectation	Impact of our expectation
Infrastructure bonds	Interest on Infrastructure bonds to be included under 80C	Likely	To garner funds for development of infra sector	Positive
80IA	Extension of benefits beyond 2011	Likely	To maintain attractiveness of the sector	Positive
Availability of long-tenure funds	Setting up India infrastructure debt fund of Rs 500 bn	Likely	To meet funding requirements of the infrastructure sector	Positive

Source: Kotak Securities - Private Client Research, Industry

Top picks

Company	Price (Rs)	EPS (Rs) FY10E	EPS (Rs) FY11E	PE (x) FY10E	PE (x) FY11E	Recommendation as per our last report
N.A.						

Source: Kotak Securities - Private Client Research

REAL ESTATE

EXPECTED BUDGET IMPACT: Positive

Current view

- We expect Union Budget 2010-11 to be positive for the real estate sector in terms of more focus towards affordable housing segment as well as slum redevelopment projects.
- Real estate industry is expecting a large number of measures from the government to improve affordability for buyers, enable easier financing to the sector as well as enhance higher transparency to the sector.
- More clarity is also expected for a real estate regulator to draw down firm principles for property dealings and quality parameters for rating of construction.

Key budget expectations

Issues	Industry wish-list	Our expectation	Rationale for our expectation	Impact of our expectation
Higher allocations for Rajiv Awas yojana, Indira Awaas yojana and Rural housing fund	Higher allocations and renewed focus for these schemes	Increased fund allocation	Inline with government's plan to make country slum free in next 5 years	Positive for players focused on slum redevelopment projects
Interest payments on home loans	Hike income tax exemption for interest payment on home loans to Rs 3lakh a year	Status quo expected	Housing demand aready improving. Prices are rising.	Neutral
Principal repayment of home loans	Hike the limit of Rs 1 lakh on principal repayments of home loans to Rs 2 lakhs. Also, make this benefit a separate categoty as against part of Section 80C	Status quo expected	Housing demand aready improving. Prices are rising.	Neutral
Section 80IB benefits	Income Tax exemption u/s 80 IB (10) should be extended to include projects constructed after 31st March 08	Increase the limit	Encourage more projects to be launched to meet the growing demand	Positive for real estate sector
Accord infrastructure status	Accord Infrastructure status to the affordable housing and integrated township projects	Status should be given	Provide better access of funds and enable projects to benefit from higher allocation for IIFCL	Positive for real estate sector
Relaxation of ECB regulations	Extension of ECB deadline and should be allowed for wider range of projects	Status quo maintained	May result in shooting up of real estate prices	Neutral for the sector

Real Estate (contd...)

Key budget expectations

Issues	Industry wish-list	Our expectation	Rationale for our expectation	Impact of our expectation
Uniformilty in stamp duty rates	Uniform stamp duty rates across different states	Status quo maintained	May result in loss of revenue for the government	Neutral for the sector
Real estate regulator	Introduction of a real estate regulator to enhance higher levels of transparency	Incorporate a separate real estate regulator	Higher levels of transparency as well as rating of construction quality for the players	Positive for the entire real estate sector

Source: Kotak Securities - Private Client Research, Industry

Top picks

Company	Price (Rs)	EPS (Rs)		PE (x)		Recommendation as per our last report
		FY10E	FY11E	FY10E	FY11E	
NOT UNDER ACTIVE COVERAGE						

TELECOM

EXPECTED BUDGET IMPACT: Neutral

Current view

- The telecom sector has been one of the fastest growing sectors in India, which also boasts of having the second largest telecom user - base in the world. However, the sector is facing intense competitive pressures of late. Consequently, profitability has come under severe strain, as reflected in the quarterly results of most companies.
- Urban India has also reached saturation in terms of mobile usage and focus has now shifted to the semi-urban and rural areas. On the other hand, companies have also started to look overseas for growth and size.
- Thus, Indian companies are looking at new avenues like data-based services to increase ARPUs and sustain margins. In this context, 3G becomes very important for these companies. Mobile Number Portability is also expected to become a reality soon. However, the auction process for 3G spectrum has been delayed to FY11.

Key budget expectations

Issues	Industry wish-list	Our expectation	Rationale for our expectation	Impact of our expectation
3G auctions	Announcement of steps to ensure early and orderly completion of these auctions	Likely	Will bring in the much needed revenues for the Government.	Positive for cash-rich companies in the long term.
Benefits under Section 80IA	Extension of 100% tax exemption benefits from 5 years to 10 years	Unlikely	Broader revenue implications	Neutral

Source: Kotak Securities - Private Client Research, Industry

Top picks

Company	Price (Rs)	EPS (Rs) FY10E	EPS (Rs) FY11E	PE (x) FY10E	PE (x) FY11E	Recommendation as per our last report
NOT UNDER ACTIVE COVERAGE						

TEXTILES

EXPECTED BUDGET IMPACT: **Positive**

LONG TERM OUTLOOK: **Positive**

Current view

- The textiles sector has picked up due to robust domestic demand and increasing exports due to revival in the global economy.
- Man made fibres continue to play a significant role in meeting the textile needs of the country. With limitations in availability of the arable land and hence limits to availability of cotton we feel that the additional needs of the masses can only be met through synthetics.
- As of today polyester is one of the cheapest fibres and has favourable characteristics like wash and wear. Currently it is ~20% cheaper then cotton and it is likely to continue to remain significantly cheaper then cotton going forward also.
- The per capita consumption of polyester in India is fairly low at 1.6 kg as compared to world average of 3 kg and 6 kg for China. This would ensure it steady growth going forward.
- Polyester is also finding increased application in technical textiles like geo textile for road construction, fire retardant textiles, air bags in passenger cars, non woven disposable products etc. Thus we see good growth potential for usage of polyester in India.

Key budget expectations

Issues	Industry wish-list	Our expectation	Rationale for our expectation	Impact of our expectation
Excise duty on PTA, MEG, polyester chips, POY	To be maintained at 8%	Status quo to be maintained	Increase in excise duty would lead to higher prices for the consumer and it would further increase inflation	Neutral
2% Interest subvention	Extend by one year as it expires on 31st March 2010	Will be extended	To reduce interest burden and make them competitive in exports	Positive
DEPB 6% for chips and 8% for POY	Increase DEPB benefits	Some increase likely	To remain competitive in POY exports as compared to other countries especially China	Positive
TUF for man made fire	TUF is allowed only for cotton yarn and not for man made fibres	Status quo to be maintained	Man made fiber is already ~20% cheaper then cotton	Neutral
Allocation under TUF	To increase allocation under TUF	Allocation under TUF expected to be increased	Increase in allocation of TUF scheme would lead to large inflow of investment in the textile industry thereby improving the productivity and efficiency.	Positive
Higher duty on raw materials and lower duty on final product has led to accumulation of CENVAT credit	Cash refund of CENVAT credit	Status quo to be maintained	Cash outflow for government	Neutral

Textiles (contd...)

Key budget expectations

Issues	Industry wish-list	Our expectation	Rationale for our expectation	Impact of our expectation
Import duty on fiber	To increase from current 5% to 10%	Some increase likely	To protect domestic industry from cheap imports	Positive
Import duty on processing chemicals	To reduce from 10% to 5%	Status quo to be maintained	Future revenue implications	Neutral
Labour reforms	To allow contract labour	Some amendments would be done	Rigid labour laws have led to operational inflexibility. Contract labour norms should be liberalized for textiles and garments so that units can hire labourers for a few months without the compulsion of having to absorb them permanently. This would boost the productivity and investments in the textile sector	Positive

Source: Kotak Securities - Private Client Research, Industry

Top picks

Company	Price (Rs)	EPS (Rs)		PE (x)		Recommendation as per our last report
		FY10E	FY11E	FY10E	FY11E	
JBF Industries	105	35.0	41.0	3.0	2.6	BUY

Source: Kotak Securities - Private Client Research

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