

Pre-Budget 2007-08 Sectoral Expectations



Sushil Finance Consultants Ltd.

Auto and Auto-Ancillary



Expectations	Impact	Companies Impacted
Reduction in custom duty by 250 bps	Positive	
	Help in offsetting cost pressure increases due to input cost increases	All OEMs and Ancillaries
150% deduction under IT Act for R&D expenditure to be extended beyond March 2007	Will encourage companies to spend more on R&D	Bharat Forge, Sundaram Group, Rane Group, Clutch Auto, etc.

Auto and Auto-Ancillary



Expectations	Impact	Companies Impacted
Fixing vehicle length as the only criteria for determining excise duty on small car.	Positive	
	Certain cars will be able to get benefits of paying Excise duty of 16% (instead of current rate of 24%).	Maruti (Swift Petrol), Hyundai (Getz Petrol)

Agro-based & FMCG Industries



Expectations	Impact	Companies Impacted
Income Tax / Excise duty concessions for investments in Agro-based industries	Positive	
	Increased investments in agro-based industries	All companies having huge capex plans for investment/expansion could benefit
Reduction in Customs Duty on high-end food processing machinery	Import of latest technology will become cheaper leading to higher growth in food processing	Companies like Agrotech Foods, ITC, Heritage Foods, Ruchi Soya, Modern Dairy, etc. could benefit
Support / Incentives to increase deployment of better technology for irrigation & water resources management	Will provide support to farmers to increase their agri output & lower the impact of monsoon irregularities on the agri production	Companies in the irrigation & water resources management segment like Jain Irrigation, Kirloskar Brothers, Jyoti Ltd., etc. could benefit

Agro-based & FMCG Industries



Expectations	Impact	Companies Impacted
Reduction/Rationalization of excise duty (presently 0% to 16%) for various processed products	Positive	
	This will reduce the prices of the end products and will lead to increased consumption	ITC, Kohinoor Foods, Daawat, etc.
Levy a 4% VAT on cigarettes on ex factory price	Neutral	
	While it will increase the cost of cigarettes, the companies may be able to pass it on to its consumers	ITC, Godfrey Phillips, etc.

Banking



Expectations	Impact	Companies Impacted
Increase in ceiling for TDS from Rs 5000 to Rs 10000	Positive	
	This measure shall enable Banks to generate funds from deposits to meet the growing credit demand	All Banks
Permission for banks to issue perpetual non-cumulative preference shares eligible for Tier 1 capital & redeemable preference shares eligible for Tier II capital	This move will give banks an additional source of funds to augment their capital base ahead of the implementation of Basel II norms	All Banks

Construction



Expectations	Impact	Companies Impacted
Extension of Tax benefits under Section 80IA from BOT & Power projects to Other projects (like Irrigation, Oil & Gas pipelines) as well	Positive	
	Positive for construction companies involved in Irrigation & Oil & Gas pipelines projects as their Tax liability will go down and will provide strong impetus for development	Construction companies like Patel Eng., HCC, Punj Lloyd, Kalpataru Power and others
Increase in Budgetary allocation for rural & urban infrastructure projects	Positive measure which aims at development of Urban & Rural infrastructure necessary to support growing economy	All major construction companies like IVRCL, Nagarjuna Const., Gammon, Patel Eng., Valecha Eng., etc. could benefit

Oil & Gas



Expectations	Impact	Companies Impacted
Reduction in excise duty on Petroleum products	Positive	
	This shall give some relief to the Oil marketing companies whose margins have been reeling under severe pressure on account of various Government policies	IOC, BPCL, HPCL, RIL
Oil & gas pipelines, storage terminals & other related facilities for transportation & storage should be granted infrastructure status	This shall lead to increased investments in transmission & storage	ONGC, RIL , CAIRN Energy, GAIL, GSPL

Oil & Gas



Expectations	Impact	Companies Impacted
Integration of the domestic oil & gas market into a single unified national market with uniformity in rates of taxes	Neutral	
	It shall lead to rationalization of tax structure	All oil companies

Pharmaceuticals



Expectations	Impact	Companies Impacted
Reduction in Customs Duty on bulk drugs & Intermediates from 12.5% to 10%	Positive	
	Import cost of various bulk drugs & intermediates will reduce	Formulation cos like Glaxo, Aventis, Pfizer, Sun Pharma, Ranbaxy, Cipla, Dr. Reddy's, Solvay, Ipca, etc.
Reduction in Customs Duty on specific life savings drugs, kits & equip. from 16% to 5%	Neutral	
	Cost of essential life saving drugs will reduce	Neutral as benefits are likely to be passed on to customers

Pharmaceuticals



Expectations	Impact	Companies Impacted
Extending 150% weighted deduction on R&D expenditure under section 35(2AB) from March 2007 to March 2010	Positive	
	Most of the companies spend heavily every year on R&D. This will lower tax and will promote investments in R&D	R&D focused companies like Glenmark, Ranbaxy, Dr. Reddy's, Sun Pharma, Cipla, Dishman, Biocon, etc.

Power



Expectations	Impact	Companies Impacted
Reduction in Excise duty on raw materials supplied to power generation, transmission & distribution projects	Positive	
	Positive for equipment manufacturers as it will reduce their material cost	Equipment manufacturing companies like ABB, BHEL, etc.
Reduction in Excise Duty on Electrical Equipments from the current 16% level	It will reduce costs and ensure increased sales of such equipments	Companies like Crompton Greaves, Indo Asian Fuse, Havells, Easun Reyrolle, etc. could benefit

Technology



Expectations	Impact	Companies Impacted
Continuation of benefits under section 10A/10B beyond FY2009-10	Positive	
	Help the industry to continue its strong 25-30% growth trend	All Technology companies could benefit
Removal of 8% excise duty on packaged software	Shall help in reducing piracy of software	All Technology companies could benefit
Amendment / Rationalization of FBT	Will reduce the hassles associated with FBT	All Technology companies could benefit

Telecom



Expectations	Impact	Companies Impacted
Telecom service provider should be made eligible to avail credit of 4% Additional Customs Duty (ACD)	Positive	
	This shall make service more affordable, help in faster roll out and increase in revenues of telecom sector	Bharti, MTNL, Reliance Infocom, Tata Tele, etc. could benefit
Exemption under 80IA to be extended to 20 years (in place of 15 years), including 100% exemption for successive 10 years (in place of 5 years)	High disposable surplus & higher profitability for the players in the business	Bharti, MTNL, Reliance Info com, etc. could benefit

Textiles



Expectations	Impact	Companies Impacted
Reduce the excise duty on MEG from 12% to 8%	Positive	
	Rationalisation in the duty structure will mildly improve the cost structures of companies in the MMF Industry	Indorama Synthetics, JBF Inds, Raj Rayon, etc.
Reduction in Excise Duty on POY from the current 8% Level	Will increase the competitiveness of companies in the MMF Industry vis-à-vis the companies in other fibres Like Cotton, etc.	Indorama Synthetics, JBF Inds, Raj Rayon, etc.

Textiles



Expectations	Impact	Companies Impacted
The excise duty on all machinery for production of textile & clothing to be reduced from the 16% to 8% and custom duty on imports of machinery to be reduced from 5 to 15% range to flat 5% for all	Positive	
	Since the textiles Industry is highly capital intensive, any reduction in the capital investment will encourage higher investments in the sector & is an important factor for achieving the growth potential of the industry	All the textile companies which are in expansion mode like Alok Inds, Welspun India, Raymond, etc could benefit.



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Rating Scale

This is a guide to the rating system used by our Equity Research Team. Our rating system comprises of seven rating categories, with a corresponding risk rating.

Rating Category	Risk Rating	
	Risk Description	Predictability of Earnings / Dividends; Price Volatility
1. Buy		
2. Accumulate	Low Risk	High predictability, low volatility
3. Hold	Medium Risk	Moderate predictability / volatility
4. Sell	High Risk	Low predictability, high volatility
5. Avoid		
6. Neutral		
7. Not Rated		

Total Expected Return Matrix

Rating	Low Risk	Medium Risk	High Risk
1. Buy	Over 15%	Over 20%	Over 25%
2. Accumulate	10% to 15%	15% to 20%	20% to 25%
3. Hold	0% to 10%	0% to 15%	0% to 20%
4. Sell	Negative Returns	Negative Returns	Negative Returns
5. Avoid #	Not Applicable	Not Applicable	Not Applicable
6. Neutral	Not Applicable	Not Applicable	Not Applicable
7. Not Rated	Not Applicable	Not Applicable	Not Applicable

Short-term view on stocks not rated earlier.

Please Note

- Recommendations with "Neutral" Rating imply reversal of our earlier opinion (i.e. Book Profits / Losses).
- **** Indicates that the stock is illiquid.** With a view to combat the higher acquisition cost for illiquid stocks, we have enhanced our return criteria for such stocks by five percentage points.

"Desk Research Call" is based on the publicly available information on the companies we find interesting and are quoting at attractive valuations. While we do not claim that we have compiled information based on our meeting with the management, we have taken enough care to ensure that the content of the report is reliable. Although we have christened the report as "Desk Research Calls" (DRC), we intend to release regular updates on the company as is done in our other rated calls.

"First Impression Report" is released on the companies we find interesting and plan to initiate our detailed research. However in the interim, we communicate our initial findings on the company through the "First Impression Report" (FIR). While we do not claim that we have compiled information based on our meeting with the management, we have taken enough care to ensure that the content of the report is reliable.

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