Key data 18 February 2008

Budget Expectations - 2008-09

A populist budget in the midst of concerns of inflation and slowdown

We expect the budget to focus on sustained balanced growth, while addressing the short-term challenges of inflation, the slowdown in the GDP and the impending elections. We expect tax reforms and fiscal discipline to be addressed in this budget also. For the stock markets, we do not expect any major negative surprises (apart from the expected STT increase). Changes in direct and indirect taxes, however, do have the ability to impact the market sentiment.

A key feature of this budget is that it is the last budget to be presented by the current government before it faces the general elections next year. Therefore, it will inevitably be targeted at getting votes. This means that it could well be a 'populist' budget with pay-offs for voters in terms of lower taxes. Another possibility is that tax rates are left unchanged for corporates, but there are a host of announcements on increased outlays to social sectors like education and health. The key challenges that this budget also needs to address are (i) inflation, (ii) the slowdown in the GDP, particularly in the manufacturing sector, (iii) a much tougher global environment and its impact on growth through the external sector in the months ahead and (iv) a rising subsidy burden, which does not fully reflect in the fiscal deficit. Therefore, on balance, we believe that the key features of this budget will be as given below:

- Reduction in direct tax rates for individuals but NOT for corporates
- Some reduction or elimination of dividend distribution tax
- Rationalization of excise duties, including the auto sector
- Rationalization of exemptions for corporates
- Lower customs duties for commodities to contain inflation and rationalization of inconsistencies
- Enhanced credit availability for the agriculture sector
- Some relief in FBT
- A sharp increase in the outlays for social sectors like health and education

We expect the following sectors to be **positively impacted** by the Budget:
Auto, Capital goods, Cement, Construction, FMCG, Logistics, Oil and Gas, Metals, Fertilizers and Pharma.

We expect the Budget to be **largely neutral** for the following sectors:
Media, Telecom, Information Technology and Real estate.

The sector specific impact is given below.

Our top picks are:

Auto OEMs:
M&M, Tata Motors, Bajaj Auto

Capital Goods:
Jyoti, KEC, Voltamp, Indotech

Cement:
Grasim, UltraTech, India Cements, Shree Cement, Orient Paper, JK Lakshmi, Mangalam Cement

Construction:
HCC, IVRCL

FMCG:
ITC

Logistics:
GDL

Media:
Zee Entertainment, Jagran, Prime Focus, ENIL

Oil and Gas
Great Offshore

Pharma:
Sun Pharma, Glenmark

Steel Pipes:
Jindal Saw, Welspun Gujarat

Telecom:
Bharti Airtel

NBFC:
IDFC

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Valuation matrix for top picks

	Price	Rating	Mkt Cap	EPS (Rs)			P/E (x)			EBITDA margins (%)			P/BV (x)			RoE (x)			EV/EBITDA (x)		
	(Rs)		(Rs bn)	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E
Auto																					
Mahindra & Mahindra	619	Accumulate	152	38.3	42.8	47.0	16.1	14.4	13.2	11.2	11.2	11.2	2.7	2.4	2.1	18.6	17.2	16.6	14.5	12.8	11.1
Tata Motors Ltd	751	Accumulate	290	45.9	53.9	64.7	16.4	13.9	11.6	10.2	10.3	10.3	3.6	3.2	2.8	13.8	14.2	16.1	12.3	10.2	8.6
Bajaj Auto	2,175	Accumulate	220	133.2	159.7	168.8	16.3	13.6	12.9	14.9	15.5	15.5	3.4	2.9	2.6	22.6	23.3	21.2	13.9	10.9	9.3
Capital Goods																					
Jyoti Structures	196	Buy	16	10.0	14.5	19.1	19.7	13.5	10.3	12.5	12.5	12.5	2.9	2.4	1.7	16.1	18.7	20.0	13.5	10.6	8.3
KEC International	702	Buy	26	36.8	46.0	58.1	19.1	15.2	12.1	13.3	13.0	12.5	8.4	5.7	4.0	47.8	44.4	38.9	11.3	9.0	7.3
Voltamp	1,401	Buy	14	78.8	92.8	124.2	17.8	15.1	11.3	20.2	18.1	17.8	8.8	6.1	4.3	57.2	45.1	42.4	13.3	10.3	7.6
Indo Tech Transf.	608	Buy	6	39.8	51.0	60.6	15.3	11.9	10.0	29.7	26.0	23.0	5.2	3.8	2.9	37.2	37.1	33.1	10.6	7.7	6.2
Cement																					
Grasim Inds	2,814	Accumulate	258	236.5	264.3	277.4	11.9	10.6	10.1	32.4	32.8	31.8	3.2	2.5	2.1	26.9	23.8	20.5	7.8	6.6	5.9
UltraTech	904	Accumulate	112	87.0	98.4	103.2	10.4	9.2	8.8	32.2	32.5	31.5	4.1	2.9	2.2	47.7	36.6	28.5	5.8	4.9	4.1
India Cements	209	Buy	59	28.6	35.8	37.2	7.3	5.8	5.6	38.0	38.6	36.8	1.7	1.3	1.1	26.4	26.4	22.2	5.8	4.1	3.3
Shree Cement	1,233	Buy	43	120.2	154.5	162.5	10.3	8.0	7.6	43.7	43.7	40.0	4.9	3.2	2.3	60.4	48.0	35.1	5.9	4.0	3.2
Orient Paper	51	Buy	10	13.2	13.9	17.8	3.9	3.7	2.9	28.4	29.1	29.7	1.4	1.1	0.8	50.4	32.3	31.1	3.2	2.6	1.7
JK Lakshmi Cement	136	Buy	8	47.1	48.4	46.5	2.9	2.8	2.9	33.3	34.3	30.3	1.2	0.8	0.7	48.6	34.7	25.2	3.6	2.8	2.3
Mangalam Cement	136	Buy	4	37.5	41.7	38.8	3.6	3.3	3.5	30.5	30.6	28.4	1.6	1.1	0.9	43.5	33.8	24.6	2.9	1.7	1.3
Construction																					
HCC	172	Buy	44	2.8	4.8	6.9	61.9	36.0	24.9	11.5	12.0	12.0	3.3	3.1	2.7	5.5	9.0	11.7	16.3	12.0	10.0
IVRCL	436	Accumulate	58	14.3	19.4	26.5	30.6	22.5	16.5	10.5	10.5	10.5	3.6	3.2	2.7	12.6	15.1	17.7	16.3	12.4	9.4
FMCG																					
ITC	203	Accumulate	765	8.1	10.0	12.2	25.0	20.3	16.6	32.4	34.5	36.0	6.2	5.3	4.5	26.5	28.1	29.5	15.4	12.3	9.9
Logistics																					
Gateway Distpark	115	Buy	13	7.0	9.6	12.7	16.4	12.0	9.0	40.9	39.7	39.1	2.0	1.9	1.6	12.7	16.2	19.2	11.5	7.9	5.8
Media																					
Zee Entertainment	255	Buy	111	8.5	10.8	15.2	30.0	23.7	16.8	30.4	31.4	35.4	3.8	3.4	2.9	12.7	14.3	17.2	21.4	16.4	11.5
Jagran Prakashan	110	Accumulate	33	3.6	5.6	6.8	30.8	19.8	16.1	23.2	28.9	29.6	5.5	4.5	3.7	19.1	25.2	25.2	3.7	2.2	1.5
Prime Focus	848	Accumulate	11	27.1	39.3	58.0	31.3	21.6	14.6	30.4	36.4	41.4	4.7	3.9	3.1	16.3	19.7	23.4	16.7	11.2	7.7
Entertainment Network	439	Accumulate	21	2.4	15.4	26.3	182.2	28.5	16.7	11.7	22.7	27.0	6.9	5.6	4.3	3.9	21.8	29.0	44.7	15.0	9.6
Oil and Gas																					
Great Offshore	846	Accumulate	32	55.9	69.6	102.3	15.1	12.2	8.3	49.7	52.8	54.7	3.9	3.1	2.3	26.0	23.2	27.8	9.6	7.8	5.7
Pharma																					
Sun Pharma	1,113	Accumulate	223	45.9	55.5	67.1	24.2	20.1	16.6	36.3	36.0	35.4	5.2	4.2	3.4	23.8	23.2	22.8	21.4	16.4	13.3
Glenmark Pharma	499	Accumulate	124	22.8	26.5	34.0	21.9	18.8	14.7	44.4	40.5	39.0	7.6	5.5	4.0	41.6	33.7	31.4	8.0	6.9	5.5
Steel Pipes																					
Jindal Saw Ltd	822	Accumulate	40	58.3	86.1	112.7	14.1	9.5	7.3	15.5	16.0	16.0	1.6	1.4	1.1	12.3	15.8	17.3	8.8	6.4	5.2
Welspun Gujarat	447	Accumulate	77	21.0	32.8	47.8	21.3	13.6	9.4	9.1	9.0	10.6	5.1	3.8	2.7	23.3	30.9	39.5	2.5	1.6	1.2
Telecom																					
BhartiAirTel	882	Accumulate	1,673	34.0	45.9	55.0	25.9	19.2	16.0	42.5	43.0	42.7	8.3	5.8	4.3	39.1	35.6	30.6	15.4	10.5	8.5
NBFC																					
IDFC	199	Buy	258	6.0	8.5	11.5	33.4	23.3	17.3	-	-	-	4.6	3.9	3.2	17.3	18.1	20.5	-	-	-

Source: Company, Religare Institutional Equity Research

Auto OEMs: Neutral

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The key highlights of budget expectations

- Budget 2008 is expected to be largely positive for the Auto-OEMs sector.
- There is only one major expectation of the auto sector from the budget – that of uniform excise duty on passenger cars and MUVs.
- To compete with low-cost cars, the two-wheeler companies are expecting a reduction in the excise duty from 16% to 12%.

Sector	Item	Current Status	Likely changes in the budget	Rationale	Impact	Companies Impacted
Auto OEMs – Four Wheelers	Excise Duty	24% for UVs and large cars (engine capacity above 1200 cc (Petrol) or 1500cc (Diesel) and length of the car exceeding 4000 meters)	Reduction in the excise duty from 24% to 16%	To have a uniform duty structure of 16% across all segments of cars and UVs.	Positive.	M&M, Maruti Suzuki, Tata Motors
Auto OEMs – Four Wheelers	Excise Duty	24% duty on all hybrid passenger vehicles	Reduction in the excise duty from 24% to 16%	To help in lower fuel emissions.	Positive.	M&M, Maruti Suzuki, Tata Motors
Auto OEMs – Two Wheelers	Excise Duty	16% duty on all two wheelers	Reduction in the excise duty from 16% to 12%	Will help promote low cost fuel efficient transportation	Positive.	Hero Honda, Bajaj Auto, TVS Motors

Capital Goods: Positive

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The key highlights of budget expectations

- Budget 2008 is expected to be largely positive for the capital goods sector.
- Outlay for the power sector will be the key thing to monitor in the budget. It is expected that the government's power sector reforms programs like the "Rajiv Gandhi Vidyutikaran Yojana" and rural electrification will receive an increased allocation.
- A special duty on imports from China, as China has pegged its currency and competitiveness of Indian companies is being affected by an appreciating rupee.
- Interest income from infrastructure bonds to be exempted from tax and deduction up to Rs 50,000 for individuals investing in power bonds. This move will help mobilize funds required from infrastructure development.

Sector	Item	Current Status	Likely changes in the budget	Rationale	Impact	Companies Impacted
Capital goods	Excise duty	Peak excise duty on electric equipments at 16%	Excise duty to be reduced to 8%	Reduced product cost.	Positive.	BHEL, ABB, Crompton Greves, Areva, Thermax, Voltamp, Indotech, Emco

Cement Sector: Positive

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The key highlights of budget expectations

- Budget 2008 is expected to be largely positive for the cement sector.
- The companies expect the FM to remove the differential excise duty structure, which was passed in the last budget to tame cement prices, but failed to do so as the companies passed this on to its customers.

Sector	Item	Current Status	Likely changes in the budget	Rationale	Impact	Companies Impacted
Cement	Excise Duty	Dual Excise duty structure	Rationalization of excise duty structure	Simplification of the complex structure	Positive	ACC, Ambuja Cement, Grasim, Ultratech, Shree Cement, India Cements, Orient Paper, JK Lakshmi, Mangalam Cements
Cement	Royalty on limestone	Rs 67 per tonne	Reduction in royalty	Limestone is the main raw material. Royalty on limestone is much higher compared to that on high value minerals like iron ore.	Positive	ACC, Ambuja Cement, Grasim, Ultratech, Shree Cement, India Cements, Orient Paper, JK Lakshmi, Mangalam Cements
Cement	Import duty on coal	Import duty is 5%	Waiver of import duty on coal and domestic linkages of coal to increase	Coal is a key input in cement production	Positive	ACC, Ambuja Cement, Grasim, Ultratech, Shree Cement, India Cements, Orient Paper, JK Lakshmi, Mangalam Cements

Construction Sector: Positive

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The key highlights of budget expectations

- Budget 2008 is expected to be largely positive for the construction sector due to the government's increased thrust on infrastructure. This current budget could ease regulatory issues in order to facilitate building up of world-class infrastructure
- The expectations for most of the companies is more clarity on S80IA provision which was withdrawn in Budget 2007 with retrospective effect

Sector	Item	Current Status	Likely changes in the budget	Rationale	Impact	Companies Impacted
Construction	S. 80IA	Only available to developer	More clarity expected in the budget.	Should be extended to main contractors as it will reduce their tax liability. Currently, it is available only to the main developer.	Positive.	HCC, IVRCL, NCC, Simplex Infrastructure, Gammon

FMCG Sector: Neutral

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The key highlights of budget expectations

- Budget 2008 is expected to be largely positive for the FMCG sector.
- Packaging materials is one area where most FMCG companies have expectations from the budget. The central excise duty on packaging which is currently at 16% is expected to be reduced to 8%. This will be done to drive growth in the processed foods and personal care segments.
- The expectation for most of the companies is a decrease in the fringe benefit tax (FBT). FMCG companies have to incur a lot of expenses on travel, product sampling and product promotion as a part of their operations.

Sector	Item	Current Status	Likely changes in the budget	Rationale	Impact	Companies Impacted
Packaging material	Central excise tax	Central excise tax is currently levied at 16%.	Central excise tax should be reduced to 8%.	Cutting costs in the food sector would drive growth. We expect this change as the Government in the previous budget had reduced excise duty on ready-to-eat packaged foods.	Positive.	Dabur, HUL, ITC, Nestle, GCPL, Britannia
Ayurvedic products	Excise duty	Currently, the excise duty is 4%.	Excise duty should be abolished.	Drive growth in alternate medicines. We do not expect the excise duty to be abolished as it is at a nominal level.	Positive	Dabur
Palm oil	Import duty	Import duty of 46% charged	Import duty should be reduced.	Palm oil prices have risen sharply impacting the margins of soap manufacturers. We expect the import duty to be reduced to offset the pressure on margins.	Positive.	HUL, GCPL, Dabur
FMCG	Fringe Benefit Tax	Fringe benefit tax is applicable	Fringe benefit tax should be reduced/rationalized.	FMCG companies have to incur a lot of expenses on travel, product sampling and product promotion as a part of their operations.	Positive.	Dabur, HUL, ITC, Nestle, GCPL, Britannia
FMCG	Convergence of taxes instead of multiple taxes.	Multiple taxes like the sales tax, the excise duty, VAT are imposed.	GST is expected to rationalize taxes.	Multiple taxes should be done away with.	Positive	Dabur, HUL, ITC, Nestle, GCPL, Britannia

IT Sector: Neutral

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The key highlights of budget expectations

- We do not expect any changes in the current status of the sunset clause.
- One of the rationales for giving tax benefits was to promote the Indian software exports and give the Indian software companies a competitive advantage vis-à-vis global players. The Indian IT companies operating from the Software Technology Parks (STPs) have been enjoying the tax benefits since 1999 and they are now profitable enough to pay higher corporate taxes.
- Moreover, the Special Economic Zone (SEZ) scheme has been launched and the Indian IT companies have been taking similar benefits from these SEZs for the past several years.

Sector	Item	Current Status	Likely changes in the budget	Rationale	Impact	Companies Impacted
IT Services	Tax Benefit to the IT companies having their operation units in the Software Technology Parks of India	STP units are exempted from the corporate income tax till 31st March 2009.	We do not expect any changes in the current status of the sunset clause.	The Indian IT companies operating from the STPs have been enjoying the tax benefits since 1999 and have large enough bottom lines to pay higher taxes now.	Negative but already factored in the prices to a large extent.	All IT companies operating from the STPs.

Logistics Sector: Positive

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The key highlights of budget expectations

- Budget 2008 is expected to be a positive for the logistics sector as various initiatives can be announced to boost the maritime industry.
- To sustain growth, India needs investment in infrastructure (roads, rail, ports, etc.) in order to facilitate quicker and more cost efficient movement of goods across the country and abroad.

Sector	Item	Current Status	Likely changes in the budget	Rationale	Impact	Companies Impacted
Aviation	Sales tax on Aviation Turbine Fuel (ATF)	State taxes on ATF varies between 4-38% across the states	Uniform sales tax of 4% by categorizing ATF as “Declared Goods”	ATF accounts for 39% of a carrier's operational cost vs. 20-25% in case of overseas carriers	Positive	Gati, Blue Dart
Aviation	Customs duty on ATF	Customs duty is 10% on ATF	To be reduced to 5%	ATF accounts for 39% of a carrier's operational cost compared to 20-25% in case of overseas carriers	Positive	Gati, Blue Dart
Logistics	FBT	FBT is currently applicable	FBT on traveling, conveyance and customer meetings to be reduced or rationalized.	In the service industry, the companies require a lot of traveling and meetings with customers	Positive	Allcargo, Concor, GDL, Gati, Mundra Port & SEZ, TCI
Logistics	Multi-modal Logistics Park	No announcement as of yet	Plans for setting up multi-modal logistics parks	Multi-modal logistics park along with a dedicated freight corridor will lead to larger logistics outsourcing and will help in providing efficient end-to-end logistics solution	Positive	Allcargo, Concor, GDL, Gati, Mundra Port & SEZ, TCI
Roads and Ports	Development Programs	Slower implementation of proposed programs	More initiatives for faster development of roads and ports	Efficient infrastructure is the key to the growth of the logistics sector	Positive	Allcargo, Concor, GDL, Gati, Mundra Port & SEZ, TCI

Media Sector: Positive

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The key highlights of budget expectations

- Budget 2008 is expected to be largely neutral for the media sector.
- There are no new/major expectations of the media sector from the budget.
- The expectation for most of the companies is a decrease in the fringe benefit tax (FBT). Media companies need to incur a lot of expenses in travel and communication for their operations like news gathering, shows, etc.
- TV and radio companies expect a level playing field with print companies in terms of service tax.

Sector	Item	Current Status	Likely changes in the budget	Rationale	Impact	Companies Impacted
Media – Print/ TV news/ Radio companies	Fringe benefit tax	Fringe benefit tax is applicable	Fringe benefit tax should be reduced/rationalized.	Print/TV news companies have to incur a lot of expenses for news gathering/ shows in the form of travel and communication.	Positive. We expect this to remain unchanged.	HT Media, Jagran Prakashan, Zee News, NDTV, TV Today, TV18, Deccan Chronicle
Media – TV/Radio	Service Tax	Service tax of 12% is levied on ad sales for TV and Radio companies	Service tax rate could be reduced for broadcasting companies.	Service tax is nil for print media.	Positive. We expect this to remain unchanged.	Zee Entertainment, TV 18, Sun TV, ENIL etc
Media – Radio	News	News is not allowed on private FM radio channels	News would be allowed on private FM radio in line with the All India Radio.	Since news is allowed on All India Radio, it should be allowed on private channels as well	Positive. We expect this to remain unchanged.	ENIL, Sun TV
Media – DTH/CAS	Customs Duty	Customs duty on Set-Top Boxes is zero while for Broadcasting equipments is 12.5%.	To be made 'nil' duty items.	DTH/ CAS industry is currently incurring huge losses.	Positive.	WWIL, Dish TV.

Oil and Gas Sector: Neutral

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The key highlights of budget expectations

- Budget 2008 is expected to be largely positive for the oil and gas sector and may provide a trading opportunity.
- The oil marketing companies (OMCs) expect rationalization of excise duty and customs duty on petrol and diesel.
- Upstream companies are expecting the infrastructure status for oil and gas exploration, and withdrawal of service tax on oil exploration services.
- The industry is also expecting natural gas to be brought under the declared goods status, and LNG terminals to get the infrastructure status.

Sector	Item	Current Status	Likely changes in the budget	Rationale	Impact	Companies Impacted
Oil Marketing	Excise duty	On petrol-6%+Rs 13 On diesel-6%+Rs 3.25	Reduction or abolition of the ad valorem component in the duty.	Companies are losing heavily on the sale of these products. With an increase in the global oil prices, the companies tend to lose more on account of the ad valorem component.	Positive.	HPCL, BPCL, IOC, ONGC, GAIL
Oil	Custom Duty	Currently, 5% customs duty is levied on crude, 7.5% on petrol & diesel, 10% on ATF and 5% on naphtha	Rationalization of custom duty structure on petro products Reduce the customs duty rate by 5%	Would reduce the burden on consumers.	Positive.	Oil refineries, oil marketing companies
Oil Exploration	Service tax	12% service tax on exploration and production	Withdrawal of service tax.	Service tax on E&P is having a negative impact on the much-needed foreign investments in the oil and gas sector	Positive.	ONGC, RIL, Cairn, Great Offshore, Aban Offshore
Oil Exploration	Infrastructure Status	Blocks awarded under the NELP rounds enjoy a seven year tax holiday	Oil and gas exploration may get the infrastructure status; extension of the tax holiday from 7 years to 10 years.	The move will provide an impetus to the E&P sector in the country and generate a better response in the seventh round of the new exploration licensing policy	Positive.	ONGC, RIL, Cairn, Great Offshore, Aban Offshore
Natural Gas	Sales Tax	Different states levy different rates, which are as high as 20%	Natural gas may be given the declared goods status which ensure uniform 4% sales tax across the country.	This would bring down the prices of natural gas and biofuel, which are increasingly becoming popular because they cause less pollution and can be less expensive than conventional fuels.	Positive	GAIL, Petronet LNG, Indraprastha Gas
LNG	Infrastructure status	LNG regassification terminals do not enjoy the infrastructure status	LNG terminals may get the infrastructure status	Infrastructure status will encourage more companies to set up LNG terminals in a gas starved nation	Positive	Petronet LNG, GAIL

Metals & Steel Pipes Sector: Positive

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The key highlights of budget expectations

- Budget 2008 is likely to be positive for the metals sector.
- We expect the government to take the appropriate measures to reduce the export of iron ore.
- We anticipate a reduction in the import duty on steel making raw materials.
- We also expect a reduction in excise duty on steel products and an increase in customs duty for stainless steel products.

Sector	Item	Current Status	Likely changes in the budget	Rationale	Impact	Companies Impacted
Raw material – Iron Ore	Export Duty	Rs 50 for <63% Fe content Rs 300 for >63% Fe content	Duty to be charged on an ad valorem basis.	Discourage exports.	Positive. Discourage exports	Companies that do not have captive iron ore mines.
Raw material – Iron Ore	Royalty	Rs 25 – 26 / tonne	Rate to be increased to 10% of ex-mine price.	Rates have been unchanged for a few years.	Negative.	All iron ore mining and steel companies.
Raw material – Met coal, scrap and nickel	Import Duty	2%-5%	Import duty to be reduced to 0%	Reduce raw material costs.	Positive	All stainless steel manufacturers and companies that do not have captive coal mines.
Stainless Steel products	Customs Duty	7.5% is currently being charged	To be increased to 10%.	To prevent Chinese manufacturers from dumping into the Indian market.	Positive.	All stainless steel manufacturers.
Steel products	Excise Duty	16% is currently being charged	Duty likely to be reduced. It is difficult to predict the extent.	Reduction in the excise duty so as to reduce the final product price.	Positive	General steel industry, users of steel industry.

Pharmaceuticals Sector: Neutral

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The key highlights of budget expectations

- Likely changes in the Budget 2008 are expected to have a mild positive impact on the pharma sector.
- The peak customs duty is expected to come down from 10% to 7.5% (the ASEAN level), which will benefit all pharma companies, in particular, the MNCs.
- The 150% weighted tax deduction is likely to be extended for the non-manufacturing R&D companies.
- The excise duty is unlikely to change from the current level of 16%.

Sector	Item	Current Status	Likely changes in the budget	Rationale	Impact	Companies Impacted
Pharma – Raw materials	Peak customs duty	10%	7.5%	To bring it to the ASEAN level.	Positive	GSK Pharma, Aventis, Novartis, Pfizer
Pharma – R&D	150% weighted deduction	Only for manufacturing companies	Extension to non-manufacturing pharma R&D companies	To extend the R&D benefits to all the companies.	Positive	SPARC, NPIL, Ranbaxy, Wockhardt
Pharma - Domestic Formulations	Excise Duty	16%	No change	To bring the cost structure of the non-backward zones to the level of backward zones.	Neutral	-

Real estate Sector: Neutral

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The key highlights of budget expectations

- Budget 2008 is expected to be largely neutral for the Real estate sector.
- Policy formulation in respect of REITs and the likely tax impact.
- Entire interest and EMI payment for the first house to be completely tax deductible
- Real estate Mutual Funds (REMF) should be approved immediately

Sector	Item	Current Status	Likely changes in the budget	Rationale	Impact	Companies Impacted
Real estate	S80IB	Available for projects approved before March 2007.	Should be extended up to March 2012.	To facilitate the mass housing projects.	Positive.	DLF, Unitech, Akruti City, HDIL and Parsvnath
Real estate	Stamp duty	Different rates in the respective states.	Stamp duty rate should be uniform.	Enable implementation of uniform stamp duty across the country.	Positive.	DLF, Unitech, Akruti City, HDIL and Parsvnath
Real estate	Service tax	Leasing of commercial properties.	Removal of the leasing services under the service tax gamut.	Leasing cannot be classified as service.	Positive. We expect this to remain unchanged.	DLF, Unitech, Akruti City, HDIL and Parsvnath

Telecom Sector: Neutral

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The key highlights of budget expectations

- Budget 2008 is expected to be largely neutral for the Telecom sector.
- The major expectation for the Telecom sector is the decrease in revenue share license charges by implementation of a single levy system for license charges. The finance minister in FY08 budget presentation had indicated setting up a panel to look into the current license charge regime and recommend a single levy system.

Sector	Item	Current Status	Likely changes in the budget	Rationale	Impact	Companies Impacted
Telecom	License charges on revenue share basis	10% of AGR (adjusted gross revenue) in metros and A category circles, 8% of AGR in B category and 6% of AGR in C category circles.	Single levy of 6% of AGR in all the circles.	Reduction in license charges will bring down tariffs, Hence, increasing the affordability of telecom services. Growth in telecom services is critical in sustaining the GDP growth.	Positive.	RCOM, Bharti Airtel, Idea Cellular, Spice Communications and MTNL

Rating definition

Buy	:	> 15% returns relative to Sensex	**Accumulate**	:	+5 to +15% returns relative to Sensex
Sell	:	> (-)15% returns relative to Sensex	**Reduce**	:	(-) 5 to (-) 15% returns relative to Sensex
Hold	:	Upto + / (-) 5% returns relative to Sensex			

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