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# Budget 2007-2008

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Institutional Equity Research Team

 **IL&FS INVESTSMART**

# Economy

*The budget is neutral as far as corporate India is concerned in the near term. We are positive on the economy, given the fact that the investments proposed in infrastructure, irrigation, power etc should lead to stronger growth in the earnings of corporates. However, the near term impact of introduction of marginal taxation across the sectors could impact the short term earnings of corporates.*

## Macro Economy

- ✓ No immediate benefits to corporate India, and we are neutral on the budget.
- ✓ Thrust more on fiscal prudence and minor taxation
- ✓ Increased thrust on infrastructure development, agriculture
- ✓ Tax to GDP ratio up to 11.4% in FY07
- ✓ Revenue deficit to reduce to 1.5% of GDP
- ✓ Fiscal deficit to reduce to 3.3% of GDP
- ✓ Gross Domestic Capital Formation grew 23% to Rs11472bn
- ✓ Outlay on education increased to rs323.52bn
- ✓ Investment in agriculture to go up to 2% of GDP
- ✓ Reverse mortgages for senior citizen for houses
- ✓ Social security for the poor, a beginning made

## Indirect taxes

- ✓ No major changes in duties except cement where the domestic tariffs have been hiked selectively depending on end retail prices
- ✓ Marginal decrease in import tariffs for chemicals, polyester and polyester raw materials
- ✓ Marginal hike in excise duty of cigarettes
- ✓ Marginal decrease in excise duty of petrol and diesel by 2%

## Direct Taxes

- \*No major changes in direct taxes
- ✓ Cess increased by 1% for secondary education
- ✓ Threshold limit for personal income tax increased by Rs10,000
- ✓ ESOPS brought under FBT
- ✓ Dividend distribution tax hiked from 12.5% to 15%
- ✓ Dividend distribution for MMFs hiked to 25%
- ✓ Benefits of tax breaks for infrastructure available only for the developers

# Economy

## Budget at a glance

Rs bn	2005-06	2006-07 (BE)	2006-07 (Revised)	2007-08 (BE)
<b>Revenue Receipts</b>	<b>3475</b>	<b>4035</b>	<b>4233</b>	<b>4864</b>
Tax Revenue (net)	2703	3272	3460	4039
Non-tax Revenue	772	763	774	826
<b>Capital Receipts</b>	<b>1587</b>	<b>1605</b>	<b>1583</b>	<b>1941</b>
Recoveries of loans	106	80	55	15
Other Receipts	16	38	5	417
Borrowing and other liabilities	1464	1487	1523	1509
<b>Total receipts</b>	<b>5061</b>	<b>5640</b>	<b>5816</b>	<b>6805</b>
<b>Non-Plan expenditure</b>	<b>3655</b>	<b>3913</b>	<b>4089</b>	<b>4754</b>
On Revenue Account	3279	3444	3622	3835
<i>of which</i>				
Interest Payments	1326	1398	1462	1590
On Capital Account	376	468	467	919
<b>Plan Expenditure</b>	<b>1406</b>	<b>1727</b>	<b>1727</b>	<b>2051</b>
On Revenue Account	1119	1438	1446	1744
On Capital account	288	290	281	307
<b>Total Expenditure</b>	<b>5061</b>	<b>5640</b>	<b>5816</b>	<b>6805</b>
Revenue Expenditure	4398	4882	5068	5579
Capital Expenditure	664	758	749	1226
<b>Revenue Deficit</b>	<b>923</b>	<b>847</b>	<b>834</b>	<b>715</b>
<i>(% of GDP)</i>	-2.6	-2.1	-2	-1.5
<b>Fiscal Deficit</b>	<b>1464</b>	<b>1487</b>	<b>1523</b>	<b>1509</b>
<i>(% of GDP)</i>	(4.1)	(3.8)	(3.7)	(3.3)
<b>Primary Deficit</b>	<b>138</b>	<b>89</b>	<b>61</b>	<b>(80)</b>
<i>(% of GDP)</i>	(0.4)	(0.2)	(0.1)	(-0.2)

Source: indiabudget.nic.in

# Automobiles

# Neutral

Budget measures	Impact	Positive	Negative
No change in excise structure though import duty on commercial vehicles reduced from 12.5 to 10%	Neutral for the CV's. As at present the quantity of CV's imported is insignificant. Also due to the presence of non tariff barriers like import licenses, the impact of import duty cut gets nullified.		
Additional Education Cess of 1% and the service tax on design services	Negligible impact, as the companies will pass on the costs to the end users.		
Increase in outlay for the urban renewal mission coupled with the focus on the transportation, road infrastructure	May generate demand for Cv's, 2-W	Bajaj Auto, Ashok Leyland, Tata Motors	
Defence allocation increased by 11.5% to Rs.960 bn.	Generate demand for special purpose M&HCV	Ashok Leyland, Tata Motors	
Emphasis on agricultural investments	Increase in demand for farm equipments	Mahindra & Mahindra	
Weighted deduction for R&D expenditure under IT Act extended for next 5 years	Will lead to tax benefits	Marginally positive for high R&D spenders	

	Customs		Excise	
	06-07	07-08	06-07	07-08
Small cars (size of 4000mm and engine capacity of 1500cc for diesel and 1200cc for petrol)	60	60	16	16
Other cars	60	60	24	24
<b>2 Wheeler</b>				
CKD	12.5	12.5	16	16
New Completely built	60	60	16	16
Used	100	100	16	16
<b>3 Wheelers</b>				
	12.5	12.5	16	16
CV's	12.5	10	16	16
Tractors	12.5	10	0	0

Company name	Net sales (Rs mn)		EBITDA (Rs mn)		PAT (Rs mn)		EPS (Rs.)		P/E (x)		Impact
	2006-07E	2007-08E	2006-07E	2007-08E	2006-07E	2007-08E	2006-07E	2007-08E	2006-07E	2007-08E	
Bajaj Auto	91,558	108,039	15,550	19,250	12,900	15,200	127.6	150.3	20.6	17.5	neutral
Hero Honda	98,560	108,250	13,100	15,040	8,870	10,005	44.4	50.1	15.3	13.6	neutral
Maruti Udyog	142,082	162,973	22,000	24,296	14,697	16,298	50.9	56.4	16.5	14.9	neutral
Tata Motors	237,000	245,747	27,614	31,829	16,871	19,205	44.1	50.2	17.8	15.7	neutral
TVS Motors	37,280	42,654	2,145	2,850	1,190	1,358	5.0	5.7	12.4	10.8	neutral
Clutch Auto	1,988	2,650	305	445	187	261	13.3	16.8	10.7	8.5	neutral
Ashok Leyland	58,100	64,200	5,850	6,900	3,640	4,250	2.7	3.2	14.6	12.5	neutral
ANG Auto	1199	1706	289	401	224	452	18.8	37.9	15.2	7.5	neutral

Budget measures	Impact	Positive	Negative
Co-operative banks to be allowed deduction in respect of provision for bad and doubtful debts	Benefit earlier available only to Scheduled Commercial Banks (SCBs) has now been extended to Co-operative society banks	Co-operative banks	NA
Banking Cash Transactions Tax (BCTT) limit for individuals and HUF increased to Rs 50,000 from Rs 25,000	Withdrawals to attract BCTT only on Rs 50,000 and above	Individuals and HUFs	NA
Dividend Distribution Tax on dividend paid by money market and liquid mutual funds raised to 25% for all investors	Banks and mutual funds brought to level playing field	Banks	Money market and liquid mutual funds
Farm credit to be increased to Rs 2,25,000cr from Rs 1,75,000cr and another 50 lakh farmers to be added into the credit fold	Step up in farm credit	N A	

There is a budget allocation of Rs13bn to IFCI and Rs5bn to IDBI. While the amount for IFCI is to meet the restructuring liabilities, the amount being paid to IDBI need to be matched by repayment in terms of loan extended. While for IFCI, it is an increase from Rs2.24bn to Rs13bn, in case of IDBI, it is a reduction from Rs15bn to Rs5bn.

Company Name	NII (Rs mn)		Operating Profit (Rs mn)		PAT (Rs mn)		EPS		P/E (x)		Impact
	2006-07E	2007-08E	2006-07E	2007-08E	2006-07E	2007-08E	2006-07E	2007-08E	06-07E	07-08E	
Federal Bank	6,861.5	8,329.0	5,503.1	6,560.6	1.1	1.0	31.5	37.9	7.0	5.9	Neutral
HDFC Bank	35,073.4	45,158.2	27,306.2	34,707.8	1.3	1.4	36.4	47.5	25.6	19.6	Neutral
OBC	16,673.8	19,676.4	12,925.3	15,344.6	1.1	1.0	37.1	40.6	12.6	11.5	Neutral
South Indian Bank	3,456.1	4,310.4	2,311.0	3,073.0	0.6	0.8	10.6	15.8	9.1	6.1	Neutral
UTI	15,565.4	21,368.7	13,002.6	17,291.0	1.1	1.0	22.7	29.9	7.9	6.0	Neutral

Budget measures	Impact	Positive	Negative
Change in excise duty on cement	If retail cement prices are More than Rs190 per bag -	Marginally positive for cement	All cement companies elsewhere where MRP is more than Rs190.
If retail price is greater than Rs190 per bag - Rs600 per tonne	Negative impact of Rs10.5 per bag for cement companies	companies selling cement in Andhra Pradesh where retail price is less than Rs190 per bag	
If retail price is less than Rs190 per bag - Rs350 per tonne	Less than Rs190 per bag - Savings of Rs2.5 per bag savings for cement companies		

With a view to check the increase in cement prices, the government has been taking initiatives like removal of customs duty on cement. Following up on this policy, the government has now introduced a dual rate taxation policy for imposing excise duty. Thus, the excise duty will be low if cement prices are low and high if the cement prices are high. We believe that the cement demand-supply dynamics will determine the cement prices. With the same expected to remain tight in the near term, we believe that the cement prices will not decline and the cement companies will be able to partially pass on the increase in excise duty to the consumers.

	Customs		Excise	
	06-07	07-08	06-07	07-08
Cement retail price below Rs190 per bag	12.8*	Nil	408	361
Cement retail price above Rs190 per bag	12.8*	Nil	408	618
White Cement	12.8	12.9	16.3	16.5
Clinker	12.8	12.9	357	361
Limestone	12.8	12.9	Nil	Nil
Gypsum	12.8	12.9	Nil	Nil
Non Coking Coal	5.1	5.2	Nil	Nil
Pet Coke	5.1	5.2	16.3	16.5

*Note: Reduced to Nil in Jan-07*

Company name	Net sales (Rs mn)		EBITDA (Rs mn)		PAT (Rs mn)		EPS (Rs.)		P/E (x)		Impact
	2006-07E	2007-08E	2006-07E	2007-08E	2006-07E	2007-08E	2006-07E	2007-08E	2006-07E	2007-08E	
ACC	65,661.6	68,229.4	17,843.0	14,902.7	12,105.8	9,813.2	65.2	52.9	14.1	17.5	Negative
Gujarat Ambuja	48,098.7	45,978.5	21,806.5	17,498.9	13,404.1	9,870.3	9.9	7.3	12.1	16.4	Negative
Grasim	90,283.9	101,318.6	25,282.3	29,656.7	15,970.3	18,494.1	174.2	201.7	12.9	11.2	Negative
India Cement	21,527.1	24,396.8	7,301.9	8,434.4	5,260.4	6,298.8	23.9	28.6	7.6	6.3	Negative
Madras cement	15,650.8	17,048.6	5,861.7	6,641.8	3,523.8	4,102.6	291.7	339.6	10.3	8.8	Negative
Shree Cement	13,729.0	16,923.7	6,312.0	7,507.5	3,539.6	4,039.6	101.6	115.9	11.2	9.8	Negative
Ultratech Cemco	44,992.3	48,919.2	13,489.4	15,836.0	7,275.9	8,712.4	58.5	70.0	15.4	12.9	Negative

Budget measures	Impact	Positive	Negative
Central excise duty on cigarettes increased by 5%	Marginal impact. Cigarette companies likely to pass on the hike to the consumers.	ITC, Godfrey Phillips and VST Industries	NA
Excise duty on biscuits with MRP of less than Rs50/- per kg reduced to Nil from 8%	Britannia will benefit from the said exemption as its brand <i>Tiger</i> is priced at Rs40/- per kg. <i>Tiger</i> contributes approximately 30% to revenues of the company	Britannia Industries, ITC	NA
Peak customs duty reduced from 12.5% to 10% on linear alkyl benzene	Linear Alkyl Benzene, the raw material for detergent expected to become cheaper	HLL	NA
Excise duty on instant food mix reduced from 8% to Nil.	The move will positively impact categories like ready-to-eat food products among others (Further clarification awaited).	ITC, Kohinoor Foods	NA

	Excise	
	06-07	07-08
Biscuits (MRP less than Rs50/- per kg)	8%	Nil
Biscuits (MRP more than Rs50/- per kg)	8%	8%
Cigarettes (Length less than 70mm) Rs	780	819
Cigarettes (Length between 70-75mm) Rs	1260	1323
Cigarettes (Length between 75-85mm) Rs	1675	1759
Cigarettes (Length of more than 85mm) Rs	2060	2163
All types of food mixes (Incl. instant mix)	8%	Nil
Customs		
	06-07	07-08
Linear Alkyl Benzene	12.8%	10.3%

*Excise duty on cigarettes for 1000 sticks*

Company name	Net sales (Rs mn)		EBITDA (Rs mn)		PAT (Rs mn)		EPS (Rs.)		P/E (x)		Impact
	2006-07E	2007-08E	2006-07E	2007-08E	2006-07E	2007-08E	2006-07E	2007-08E	2006-07E	2007-08E	
Godrej consumer	9,291.4	11,249.2	1,845.4	2,377.5	1,412.6	1,841.0	6.3	8.2	24.1	18.5	Neutral
Dabur India	21,928.8	25,581.9	3,506.2	4,081.6	2,739.1	3,254.3	3.2	3.8	30.7	25.8	Neutral
Marico	15,098.0	17,699.8	2,297.2	2,825.9	1,174.3	1,571.7	19.3	25.8	29.4	21.9	Neutral
ITC	114,129.7	134,389.9	39,376.7	46,642.6	26,319.0	31,476.3	7.1	8.5	24.0	20.2	Positive

Source: IISL Research, Bloomberg

# Hotels

Neutral

Budget measures	Impact	Positive	Negative
On account of the forthcoming Commonwealth games in 2010 in Delhi, the National Capital Region (NCR) would require 20,000 additional hotel rooms. To attract investment in the hospitality sector in this region, Finance Minister has announced a five-year tax holiday for two, three and four star hotels and convention centers with a seating capacity of 3,000 set up in Delhi, Gurgaon, Ghaziabad, Faridabad and Gautam Buddha Nagar to be made operational between April 1st 2007 and 31st March 2010.	With property rates soaring in these areas, large hotel players were only considering the Operation and Management (O&M) model till now; however, today's sop could see a number of them resorting to making investments in the region. However land availability at reasonable price remains a key constraint.		

	Customs		Excise	
	06-07	07-08	06-07	07-08
Alcohol	182	182	16	16
Wines	100	100		
Cakes and Pastries			8	8
Fruits and Veg	30	30		

Company name	Net sales (Rs mn)		EBITDA (Rs mn)		PAT (Rs mn)		EPS (Rs.)		P/E (x)		Impact
	2006-07E	2007-08E	2006-07E	2007-08E	2006-07E	2007-08E	2006-07E	2007-08E	2006-07E	2007-08E	
Hotel Leelaventures	4,192.0	5,712.0	2,087.0	2,833.0	1,704.0	1,884.0	4.1	4.5	14.0	12.7	Neutral
Taj GVK	2,353.0	2,749.0	1,085.0	1,294.0	608.0	717.0	9.7	11.4	19.7	16.7	Neutral



# Information Technology

Neutral

Budget measures	Impact	Positive	Negative
Minimum Alternate Tax to be extended to income in respect of which deduction is claimed u/s 10A & 10B	Mildly negative for Large Caps for whom the average Tax Liability currently is around 12%-13%, but for the those with lower tax liability the measure would have harder impact	NA	Mildly negative for most IT companies
Service Tax on Lease Rentals for commercial properties	IT companies operating on leased premises to be impacted.	NA	TCS, Satyam, Mphasis, iflex, Allsec & MindTree (which is still not listed)

Company Name	Net sales (Rs mn)		EBITDA (Rs mn)		PAT (Rs mn)		EPS (Rs.)		P/E (x)		Impact
	2006-07E	2007-08E	2006-07E	2007-08E	2006-07E	2007-08E	2006-07E	2007-08E	2006-07E	2007-08E	
Allsec Technologies	1,155.0	1,480.9	331.2	406.9	286.9	385.5	17.7	23.8	17.4	12.9	Mildly Negative
HCL Technologies	61,138.2	79,615.5	14,109.8	18,045.6	11,797.1	14,510.5	34.5	42.5	17.3	14.0	Mildly Negative
I-Flex	20,994.1	28,204.4	4,023.8	5,884.0	3,357.9	4,348.0	41.5	53.7	46.4	35.9	Mildly Negative
Infosys	140,278.5	181,702.1	44,981.5	58,388.5	37,731.0	47,784.3	67.9	86.0	30.6	24.2	Neutral
Mphasis	11,845.8	17,515.5	2,040.8	2,960.8	1,166.1	1,923.3	7.2	11.9	35.7	21.7	Mildly Negative
Patni#	30,858.7	37,467.1	5,911.8	6,664.0	4,441.9	4,982.5	31.0	34.8	13.6	12.1	Mildly Negative
Satyam Computers	64,548.3	82,871.3	15,383.0	18,737.6	13,779.5	16,833.3	21.0	25.7	19.6	16.0	Mildly Negative
TCS	186,979.8	240,793.5	50,914.2	66,324.5	41,530.2	52,997.9	42.4	54.2	28.0	21.9	Neutral
Wipro*	148,506.4	192,650.1	29,648.3	38,062.2	28,239.0	35,721.6	19.7	24.9	28.5	22.5	Neutral
Sasken	4,838.4	7,089.7	772.4	1,340.3	460.3	844.0	16.5	30.2	30.1	16.4	Mildly Negative
R Systems**	2,069.6	2,648.2	271.0	378.6	205.7	308.6	15.2	22.9	10.5	7.0	Mildly Negative
Subex	3,630.2	5,780.0	721.9	1,848.2	618.9	1,557.7	17.9	45.0	35.2	14.0	Mildly Negative
Micro Tech	1,055.3	1,401.5	417.7	598.0	314.7	440.2	30.0	41.9	7.3	5.2	Mildly Negative
KPIT Cummins	4,623.1	6,273.1	729.4	1,060.5	513.8	754.5	5.6	8.2	25.1	17.1	Mildly Negative

\* EBIT for Wipro

# Estimates for Patni is for CY07E and CY08E

\*\*R Systems the figures are CY06E & CY07E

Budget measures	Impact	Positive	Negative
Provision for the National Highway Development Programme (NHDP) has been increased from Rs 9,945cr in 2005-06 to Rs 10,667cr in 2006-07.	On account of the completion of the golden quadrangle, smooth movement of cargo vehicles would be facilitated, resulting an improved turnaround time and lower operating cost.	ALL	NA

Company name	Net sales (Rs mn)		EBITDA (Rs mn)		PAT (Rs mn)		EPS (Rs.)		P/E (x)		Impact
	2006-07E	2007-08E	2006-07E	2007-08E	2006-07E	2007-08E	2006-07E	2007-08E	2006-07E	2007-08E	
Allcargo	15,335.0	16,394.0	1,342.0	1,623.0	942.0	1,188.0	46.5	59.0	23.6	18.7	Neutral
Gateway Distriparks	1,456.0	1,893.0	800.8	1,031.0	740.0	881.0	8.0	9.5	20.4	17.0	Neutral

# Metals

# Positive

Budget measures	Impact	Positive	Negative
Removal of customs duty on all grades of coking coal (irrespective of ash content). Earlier, custom duty on 'less than 12% ash content coking coal' was 0% and 'above 12% ash content coking coal' was 5%	Lower raw material costs for companies importing coking coal as the landed cost of coking coal declines	For steel companies (SAIL, Tata Steel, JSW Steel) & Gujarat NRE coke	NA
Export duty of Rs300 per tonne levied on export of iron ore	Negative for iron ore exporters as they export at internationally determined iron ore prices; Positive for steel industry as it improves the availability of iron ore in the domestic market	Steel companies not having captive iron ore mines	Sesa Goa
Reduction in customs duty on caustic soda from 12.5% to 7.5%	Reduces the landed cost of caustic soda	Aluminum producers like Hindalco, Nalco, Malco	NA

The imposition of export duty on iron ore is aimed at restricting the export of low value-add iron ore. Given the huge capex in steel, the government move aims at restricting export of iron ore and easing the availability of iron ore for domestic steel producers.

	Customs		Excise	
	06-07	07-08	06-07	07-08
<b>Steel</b>				
HR Sheets/plates	5.1	5.2	16.3	16.5
CR Coil/sheet	5.1	5.2	16.3	16.5
GP/GC Sheet	5.1	5.2	16.3	16.5
Non coking coal	5.1	5.2	16.3	16.5
Coking coal (more than 12%ash content)	5.1	Nil	16.3	16.5
<b>Alumina</b>	5.1	5.2	16.3	16.5
<b>Aluminium</b>				
Ingots/products/scrap	5.1	5.2	16.3	16.5
Caustic soda	12.8	7.7	16.3	16.5
<b>Copper</b>				
Copper ore & concentrate	2.0	2.1	16.3	16.5
Copper/copper scrap	5.1	5.2	16.3	16.5
<b>Zinc</b>	<b>5.1</b>	<b>5.2</b>	<b>16.3</b>	<b>16.5</b>
Iron ore export duty (Rs)	0	300		

Company name	Net sales (Rs mn)		EBITDA (Rs mn)		PAT (Rs mn)		EPS (Rs.)		P/E (x)		Impact
	2006-07E	2007-08E	2006-07E	2007-08E	2006-07E	2007-08E	2006-07E	2007-08E	2006-07E	2007-08E	
Hindalco	185,018.1	189,609.6	41,255.4	38,423.3	23,979.7	21,063.3	23.6	18.8	5.9	7.4	Positive
Malco	5,016.2	4,554.7	1,981.5	1,544.6	1,329.7	1,093.3	59.1	48.6	6.4	7.8	Positive
Nalco	59,278.2	57,395.9	34,676.4	30,132.3	22,276.8	18,629.1	34.6	28.9	6.1	7.3	Positive
JSW Steel	84,637.5	98,431.0	27,577.9	32,872.5	12,766.7	17,112.1	77.9	99.5	6.1	4.8	Positive
Jindal Steel and pow	35,851.5	-	13,034.7	-	7,565.5	-	245.6	-	9.4	-	Positive
Monnet Ispat	6,991.3	-	1,927.8	-	1,465.4	-	33.5	-	6.7	-	Positive
SAIL	331,301.4	345,939.1	95,809.3	100,196.8	61,522.9	66,130.1	14.9	16.0	7.2	6.7	Positive
Sesa Goa	19,255.6	20,518.5	9,541.8	10,140.1	6,468.9	6,999.8	164.3	177.8	11.5	10.6	Negative
Tata Steel	175,335.4	180,435.0	71,518.5	70,111.0	43,517.6	43,125.5	75.0	74.3	6.1	6.1	Positive

# Media/Entertainment

Negative

Budget measures	Impact	Positive	Negative
Service tax extended to rentals on immovable assets used for commerce or business purposes	We expect shrinkage in margins of the companies paying rents -Multiplex and retail sector as most of these companies in the sector operate out of rented premises.	NA	Negative for multiplex companies - Adlabs, PVR, Inox Leisure, Shringar Cinemas and Cinemax.

Company name	Net sales (Rs mn)		EBITDA (Rs mn)		PAT (Rs mn)		EPS (Rs.)		P/E (x)		Impact
	2006-07E	2007-08E	2006-07E	2007-08E	2006-07E	2007-08E	2006-07E	2007-08E	2006-07E	2007-08E	
Adlabs	2,249.2	3,578.3	782.7	1,303.2	649.4	904.5	16.3	22.7	26.0	18.7	Negative
Inox Leisure	1,746.1	2,346.1	597.2	788.4	310.1	443.9	5.2	7.4	23.0	16.1	Negative
PVR	1,826.6	3,455.8	361.6	802.8	122.2	302.7	5.3	13.2	33.7	13.6	Negative
Shringar Cinemas	899.9	1,700.1	178.9	387.6	62.6	134.8	2.3	4.6	22.9	11.5	Negative

The reduction of ad valorem excise duty on petrol and diesel by 2% has been made to help the oil marketing companies reduce under recoveries on fuel sales. This was expected as the government had indicated an adjustment in the duty structure at the in time of price revision earlier this month. The natural gas transmission companies are not expected to largely benefit from infrastructure status, as the gains are expected to be passed on to the consumers in form of lower transmission charges. Government has reduced the customs duty on petrochemical products by 2.5% to bring the rates closer to ASEAN levels.

Budget measures	Impact	Positive	Negative
Reduction in ad valorem component of excise duty on petrol and diesel from 8% to 6%	This is expected to improve the margins on diesel by 41 p and petrol by 39 p.	IOCL, BPCL, HPCL	NA
Concessions under 80 IA extended to cross country natural gas distribution network.	This will help gas transportation companies avail income tax holiday. But since the transmission charges are regulated by the government, we expect the benefits to be passed on to the customers.	GAIL	NA
Services provided in relation to both exploration and exploitation of oil and gas will be taxed at the rate of 15%.	The tax charge is expected to be passed on to the E&P players. The effect is expected to be minimal.		ONGC, RIL
Reduction in customs duty on polyester fibers, polyester yarns, MEG and PET from 10% to 7.5%	This move will reduce the duty protection for domestic petrochemical players. It would put margin pressure, as the domestic selling prices have to be aligned with the landed cost.	NA	RIL, IPCL

	Customs		Excise	
	06-07	07-08	06-07	07-08
<b>Crude and Petroleum Pro</b>				
Naphtha	-	-	16.32	16.48
MS *	7.65	7.73	8.16	6.18
<b>LPG</b>				
Industrial use	5.10	5.15	-	-
Domestic use	-	-	-	-
ATF	10.20	10.30	8.16	8.24
HSD **	7.65	7.73	8.16	6.18
<b>SKO</b>				
Industrial use	10.20	10.30	-	-
Domestic use	-	-	-	-
Fuel oil	10.20	10.30	16.32	16.48
Crude Oil	5.10	5.15	-	-
<b>Petrochemicals</b>				
PTA	15.30	10.30	16.48	16.48
MEG	15.30	10.30	16.48	16.48
PSF	15.30	10.30	16.48	16.48
PFY	15.30	10.30	16.48	16.48

Company name	Net sales (Rs mn)		EBITDA (Rs mn)		PAT (Rs mn)		EPS (Rs.)		P/E (x)		Impact 2007-08
	2006-07E	2007-08E	2006-07E	2007-08E	2006-07E	2007-08E	2006-07E	2007-08E	2006-07E	2007-08E	
ONGC	821,059	821,877	402,401	395,487	191,389	198,319	89.5	92.7	8.8	8.5	Neutral
RIL	1,052,293	956,317	183,204	172,520	107,860	105,673	77.4	75.9	17.5	17.9	Negative
IOC	1,929,386	18,997,545	132,163	147,629	72,159	60,911	61.8	52.2	6.7	7.9	Positive
HPCL	830,695	742,300	28,410	29,915	14,454	13,807	42.7	40.7	6.3	6.6	Positive
BPCL	889,002	805,428	39,561	41,238	17,869	18,686	49.4	51.7	6.3	6.0	Positive

Budget measures	Impact	Positive	Negative
Customs duty reduced from 12.5% to 10% for drug intermediates, formulations & bulk drugs	Cost of specific drugs to come down & increase the profitability.	Ranbaxy, Dr Reddys, Cipla, Sun pharma	NA
Service Tax exemption on clinical trial of new drugs		Biocon, Suven, Vimta Labs, Shasun	NA
Reduction of import duty on medical equipments from 12.5% to 7.5%.	Beneficial for Medical Equipment companies	Opto Circuits, Abbott, Nicholas Piramal	NA
Extension of weighted tax deduction on in-house R&D for another 5 years till 31 <sup>st</sup> March 2011		Dr Reddys, Ranbaxy, Sun Pharma, Glenmark, Suven	NA

The overall impact on pharmaceutical sector is neutral. The exemption of customs duty cut from 12.5% to 7.5% and service tax exemption on clinical trials of new drugs will help reduce cost to the companies.

	Customs		Excise	
	06-07	07-08	06-07	07-08
Drug Intermediates	12.5	10.0	16.3	16.3
Bulk Drugs	12.5	10.0	16.3	16.3
Formulations	12.5	10.0	16.3	16.3

Company name	Net Sales (Rs mn)		EBITDA (Rs mn)		PAT (Rs mn)		EPS (Rs)		P/E (x)		Impact
	2006-07E	2007-08E	2006-07E	2007-08E	2006-07E	2007-08E	2006-07E	2007-08E	2006-07E	2007-08E	
Glaxo	15529.2	16924.5	4759.6	5188.0	3617.3	3974.4	42.7	46.9	27.4	24.9	Positive
Cipla	35651.7	42493.0	9023.5	11052.7	7288.8	9052.7	9.4	11.6	24.7	19.9	Positive
Glenmark	11858.8	17530.2	4087.2	6616.8	3184.7	5283.5	26.8	44.5	20.0	12.0	Positive
Lupin	20211.3	23779.5	2927.2	4113.5	2094.8	3052.2	26.1	38.0	23.0	15.8	Positive
Indoco	3059.0	3888.8	645.8	862.6	459.8	636.3	38.9	53.8	7.8	5.7	Neutral
Dr Reddys	61936.6	53141.3	12274.3	10877.3	6970.4	5847.7	45.5	38.2	14.9	17.7	Positive
Biocon	9640.0	11110.1	2787.3	3347.1	2202.0	2638.1	22.0	26.4	20.8	17.3	Positive
Suven	1145.0	1660.3	414.1	630.9	350.9	560.8	14.0	22.4	10.0	6.2	Positive

# Power & Capital Goods

## Positive

Budget measures	Impact	Positive	Negative
Budgetary allocation (including grants and assistance to States) for APDRP increased from Rs13bn to Rs16bn, with increased coverage	Higher investments in renovation and upgradation of power distribution infrastructure would benefit EPC contractors	Emco, Jyoti Structures, Kalpataru Power	
Increased budgetary allocation for Rajiv Gandhi Grameen Vidyutikaran Yojana from Rs30bn to Rs39.8bn	The move would benefit companies undertaking rural electrification projects	Jyoti Structures, Kalpataru Power, RPG Transmission	
Increased plan investments for PSUs in the power industry:			
Bhel - Plan investment increased from Rs4bn to Rs8bn	It would enable BHEL to increase capacities to cater to the demand for generation equipments	BHEL	
Powergrid - Plan investment increased from Rs48bn to Rs65bn	Increased investment in transmission sector	Jyoti Structures, Kalpataru Power, RPG Transmission, KEC International, Sterlite Optical, Apar Ind	
Plans to award of 2 Ultra Mega Power Projects by July 2007	It is a positive for the generation equipment manufacturers	BHEL, Siemens	
Continuation of the TUF scheme and increase in allocation for 2007-08 from Rs5.3bn to Rs9.1bn	Would benefit the textile machinery manufacturers	LMW, Veejay Lakshmi Engineering, Super Sales	
Budgetary allocation for defence increased from Rs890bn to Rs960bn	Higher spend for defence equipments	Bharat Electronics Ltd	

The focus on augmenting generation and transmission capacities has hugely benefited the power equipment companies. The Budget has further provided a boost to the power equipment manufacturers through increased allocation for APDRP and RGGVY schemes, and higher plan investments in BHEL and Powergrid. The continuation of the TUF scheme over the 11<sup>th</sup> plan would benefit textile machinery manufacturers, as textile units would further plan aggressive expansions.

	Customs		Excise	
	2006-07	2007-08	2006-07	2007-08
<b>Power Equipments</b>	12.75	7.73	16.32	16.48
Boilers	12.75	7.73	16.32	16.48
Steam Turbines	12.75	7.73	16.32	16.48
Hydraulic Turbines	12.75	7.73	16.32	16.48
Electrical resistors	12.75	7.73	16.32	16.48
Switchgears	12.75	7.73	16.32	16.48
<b>Metals</b>	7.65	5.15	7.65	5.15
Copper	7.65	5.15	7.65	5.15
Aluminium	7.65	5.15	7.65	5.15
Stainless Steel	7.65	5.15	7.65	5.15
Alloy Steel	7.65	5.15	7.65	5.15
<b>Fuels</b>				
LNG	5.10	5.15	0.00	0.00
Non-coking coal	5.10	5.15	0.00	0.00

Company name	Net sales (Rs mn)		EBITDA (Rs mn)		PAT (Rs mn)		EPS (Rs.)		P/E (x)		Impact
	2006-07 E	2007-08 E	2006-07 E	2007-08 E	2006-07 E	2007-08 E	2006-07 E	2007-08 E	2006-07 E	2007-08 E	
BHEL <sup>#</sup>	174,008.0	213,906.0	34,333.0	44,271.0	23,302.0	29,004.0	94.7	118.5	23.0	18.4	Positive
KEC International <sup>#</sup>	19,596.0	24,012.0	2,268.0	2,543.0	961.0	1,210.0	25.4	33.8	21.0	15.8	Positive
Havells <sup>#</sup>	13,806.0	19,506.0	1,416.0	1,953.0	924.0	1,304.0	16.5	23.8	27.6	19.2	Positive
RPG Transmission <sup>#</sup>	3,834.0	4,750.0	388.0	546.0	219.6	287.6	14.0	18.4	13.4	10.2	Positive
Kalpataru Power <sup>#</sup>	15,399.0	22,563.0	2,195.0	3,145.0	1,244.0	1,864.0	49.0	71.0	22.2	15.3	Positive
Jyoti Structures <sup>#</sup>	10,242.0	13,760.0	1,230.0	1,704.0	540.0	831.0	6.7	10.6	24.6	15.6	Positive

<sup>#</sup> Bloomberg Consensus Estimates

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Service tax extended on the rentals of immovable assets for business purpose would have negative impact on the retail sector. As the retail space taken by retail companies are on long term lease, the outgo of rent expenses would increase, hence EBITDA margins are expected to be under pressure for retail companies like Pantaloon retail, Shoppers stop etc.

Some of the products in the ready to eat mixes could see increased off take due to lower retail prices on account of abolition of tariffs. Could be marginally positive for the organized retailing.



# Tea & Coffee

Neutral

Budget measures	Impact	Positive for	Negative for
A financial mechanism similar to the Tea fund is being considered for promoting Coffee.	While such a measure would help boost productivity of Coffee plantations, no concrete plan or specific amount has been allocated by the government.	NA	NA

Tea and Coffee companies that are primarily engaged in growing tea and coffee would benefit from Government's focus on development of irrigation and water harvesting projects. The establishment of a Coffee fund would be much welcomed as Indian coffee companies aim to make their mark on the global map.

	Customs		Excise	
	06-07	07-08	06-07	07-08
Instant tea	102.0	103.0	16.32	16.48
Black tea	102.0	103.0	0.00	0.00
Instant coffee, flavoured	102.0	103.0	16.32	16.48
Instant coffee, not flavoured	102.0	103.0	16.32	16.48
Coffee aroma	102.0	103.0	16.32	16.48
Instant tea	102.0	103.0	16.32	16.48

Company name	Net sales (Rs mn)		EBITDA (Rs mn)		PAT (Rs mn)		EPS (Rs.)		P/E (x)		Impact
	2006-07E	2007-08E	2006-07E	2007-08E	2006-07E	2007-08E	2006-07E	2007-08E	2006-07E	2007-08E	
Tata Tea	40,074	42,078	7,533	7,994	3,658	4,024	62.0	68.2	9.9	9.0	NA
McLeod Russel	6,806	7,168	1,347	1,594	836	1,061	7.7	9.8	8.3	6.5	NA
Warren Tea#	1,563	1,675	130**	201**	73	123	6.8	11.5	10.3	6.1	NA

# Bloomberg est; \*\* EBIT

Source: IISL Research, Bloomberg

Budget measures	Impact	Positive	Negative
No change. Only proposal is that the DoT would separately be considering the rationalisation of levies.	No impact from the budget.	No impact from the budget.	No impact from the budget.

Company name	Net sales (Rs mn)		EBITDA (Rs mn)		PAT (Rs mn)		EPS (Rs.)		P/E (x)		Impact
	2006-07E	2007-08E	2006-07E	2007-08E	2006-07E	2007-08E	2006-07E	2007-08E	2006-07E	2007-08E	
Bharti Airtel	186,707	284,152	74,203	115,813	38,661	61,959	20.4	32.7	35.2	22.0	neutral
MTNL	50,869	51,264	9,443	7,575	5,301	3,734	8.4	5.9	15.8	22.5	neutral
RCOM	148,710	211,364	58,612	88,139	30,296	48,497	14.3	23.0	28.4	17.7	neutral
TTML	16,644	25,889	3,915	7,746	(3,202)	177	(1.5)	0.1	nm	261.5	neutral
VSNL	41,929	42,658	7,874	7,896	3,066	2,370	10.8	8.3	34.0	44.0	neutral

Budget measures	Impact	Positive	Negative
Customs duty cut on Polyester fibre, yarn, and raw materials - PTA and MEG, from 10% to 7.5%	We don't expect any impact on the operating margins as the duty cut has been on both, the finished product as well as raw material. However, prices of polyester yarn would become competitive as against cotton yarn.	Indo Rama Synthetics, JBF, Alok Industries	Cotton yarn manufacturers
TUF loans extended for 11 <sup>th</sup> plan period. Allocation for 2007-08 increased to Rs911cr from Rs535cr in 2006-07	Positive for all textile companies, especially for integrated players that are aggressively expanding capacities.	Welspun India, Alok Industries, Vardhman Textiles	
	Textile machinery manufacturers are likely to witness strong growth in orders.	Lakshmi Machine Works, Super Sales Agencies, Veejay Lakshmi Engineering	

The new budget has taken another step to make man-made fibers more competitive. The duty reduction would enable the man made yarn manufacturers regain lost ground. The continuation of TUF scheme over the 11<sup>th</sup> plan period would go a long way in maintaining the flow of investments in the sector and maintain global competitiveness.

	Customs		Excise	
	2006-07	2007-08	2006-07	2007-08
DMT, PTA, MEG	10.20	7.73	8.16	8.20
Man-made Filament	10.20	7.73	12.24	12.36
Man-made Yarn	10.20	7.73	8.16#	8.24#
Cotton fibre	10.20	7.73	8.16#	8.24#
Cotton yarn	10.20	10.30	Nil	Nil
Cotton fabrics	12.5	12.9	4.08#	4.12#

#The excise duty is zero in case the manufacturer opts out of CENVAT scheme  
opts out of the CENVAT scheme

Company name	Net sales (Rs mn)		EBITDA (Rs mn)		PAT (Rs mn)		EPS (Rs.)		P/E (x)		Impact
	2006-07E	2007-08E	2006-07E	2007-08E	2006-07E	2007-08E	2006-07E	2007-08E	2006-07E	2007-08E	2006-07
Abhishek Industries	9,515.8	11,940.2	1,791.3	2,290.3	572.4	651.7	2.9	3.4	7.1	6.2	Positive
Alok Industries	17,909.6	23,383.6	3,895.4	4,965.8	1,338.6	1,927.8	7.9	11.3	7.5	5.2	Positive
Ambika Cotton Mills	1,316.5	1,456.3	383.3	448.0	147.8	211.1	23.9	34.2	6.9	4.8	Neutral
Arvind Mills	15,444.4	17,325.4	3,255.7	4,369.3	464.6	1,558.0	2.2	7.4	22.5	6.7	Neutral
Bannari Amman Spinning Mills	1,676.6	3,010.6	561.3	947.1	231.5	431.7	14.7	27.4	6.4	3.5	Neutral
Celebrity Fashions	3,488.2	5,286.2	207.1	575.9	-17.7	219.4	-1.0	12.3	n.a.	6.9	Neutral
Gokaldas Exports	10,109.0	11,825.7	1,045.7	1,242.3	691.4	899.0	20.1	26.2	12.9	9.9	Neutral
Indo Rama Synthetics#	21,413.0	28,593.0	716**	1,608**	392.0	1,008.0	3.0	7.6	17.8	7.0	Positive
JBF Industries#	13,532.0	16,055.0	1,624.0	1,967.0	736.6	n.a.	10.5	n.a.	10.3	n.a.	Positive
Vardhman Textiles	21,722.7	25,329.8	3,976.8	4,699.9	1,691.1	1,868.4	29.3	32.3	7.2	6.5	Positive
Welspun India	9,183.3	11,485.2	1,952.2	2,515.4	594.4	840.5	8.1	11.5	9.7	6.9	Positive

# Bloomberg estimates

\*\* EBIT

Budget measures	Impact	Positive	Negative
Sec 80 IA benefits extended only to developers	All contractors and sub-contractors other than BOT operators would be affected with retrospective effect from April '00, wherever tax exemptions availed	NA	Most construction companies who had taken protection under Sec 80IA for construction profits to be impacted.
Sec 80IB benefits extended beyond March'07 by including it in sec 80IA	Real estate developers to continue enjoying tax benefits on residential projects	ALL real estate developers	NA
Bharat Nirman outlay increased by 31.6% to Rs246bn	Higher spending on infrastructure projects, including irrigation for additional 2.4m hectares	ALL infrastructure construction companies	NA
Proposal to use RBI's forex reserves for financing infrastructure projects	Easier credit availability	ALL infrastructure construction companies	NA
Service tax on rentals for non-residential properties	Downward pressure on rental rates especially	NA	All real estate developers

The short term trigger seems to be negative on account of withdrawal of Sec 80 IA benefits. The long term growth potential however remain strong on account of continued thrust given to the infrastructure sector through the higher outlay for the Bharat Nirman program as well initiating more innovative efforts for financing future funding requirements.

Company name	Net sales (Rs mn)		EBITDA (Rs mn)		PAT (Rs mn)		EPS (Rs.)		P/E (x)		Impact
	2006-07E	2007-08E	2006-07E	2007-08E	2006-07E	2007-08E	2006-07E	2007-08E	2006-07E	2007-08E	
<b>Punj Lloyd</b>	52,505.3	85,969.0	3,396.5	5,637.7	1,786.6	2,853.5	34.2	54.6	22.9	14.4	Neutral

# Ship Building

Neutral

Budget measures	Impact	Positive	Negative
Budget allocation for the subsidies for the non-central PSU shipyards and private sector shipyards of Rs1320mn.	The companies which have got in principle approval for shipbuilding subsidy would be eligible to receive the respective subsidy.	ABG Shipyard is expected to receive Rs400mn of subsidy.	

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