Union Budget FY2009

BUDGET TO BOOST CONSUMER DEMAND AND GROWTH – POSITIVE FOR EQUITY MARKETS

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Head - Institutional Equity

February 29, 2008

An Economic Stimulus Package! – Pro consumption, Pro Growth and Pro Employment Budget

- **Strong fiscal position** - FY08 (revised estimates) nominal GDP growth pegged at 13.2%, Fiscal deficit at 3.1%, revenue deficit at 1.4%. FRBM targets met. **Robust tax collections – Tax to GDP ratio now at 12.5%**

- **FY09 (Budget estimates) nominal GDP growth forecast at 13%, fiscal deficit 2.5%, revenue deficit 1%.** Tax to GDP ratio to move up to 13% on lower taxes and better administrations.

- Increase in income tax exemption level for individuals from Rs 110,000 to Rs 150,000 will increase disposable income of consumers and **boost consumption demand for corporate India.**

- Reduction in excise duties and cenvat to bring down prices of manufacturing goods and boost demand besides being non-inflationary.

- Waiver of farm loans (Rs 600 bn) – Govt to compensate banks by issuing bonds – despite being a populist move ahead of election next year is probably necessary in these times to boost agricultural growth and bring down food prices that are causing inflationary pressures.

An economic Stimulus Budget – Pro consumption, Pro Growth and Pro Employment

- The government continues its thrust on the infrastructure sector.
  - Increased allocation to Bharat Nirman program (Rs 31,280 crore)-this would call for development of rural and semi-urban locations.
- **Measures to boost corporate debt market is a step in the right direction and the need of the hour when the country needs huge resources**.
- While the budget does have some negatives for capital markets (Increase in short term capital gains tax from 10% to 15% but the long term capital gains continue to remain tax exempt) – it is overall positive as the growth momentum in the economy will be sustained.
- **VALUATIONS**: Sensex at 17579 trades at 16.7X FY09E earnings (non ff). We believe the valuations are attractive and recommend investors to buy fundamentally strong stories across sectors.
- **Budget winners: CONSUMPTION - Staples, Durables & Discretionaries (Auto), PSU BANKS & Power Infrastructure.**

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An Economic stimulus package to boost consumption and growth

Anjali Verma
Economist

In the flux of inflation and growth

- The Union Budget ’08-09 reiterated its focus on:
  - Fiscal consolidation
  - Inflation management
  - Growth enhancement.
- The budgetary support to agriculture, health, education and social sector enhanced– ensuring more inclusive and equitable growth.
- Infrastructure (the back bone of an economy) related allocations increased in terms of power, roads, ports, etc.
- Higher investments to ensure more employment and economic growth.
- Gross budgetary support in FY09 increased by 19% to Rs 2.43tn vs. Rs 2.05tn in FY08.
- The fiscal situation may deteriorate due to the implementation of the Sixth Pay Commission in FY09.
- Rs 60,000crore debt waived for farmers.
- Continuity in tax reforms.

Tax Reforms – Better than expected

- The **direct tax** policy altered. To boost spending, savings and investment.
  - The threshold limit of exemption for all individual assesses (on personal income tax) enhanced to Rs 150,000.
  - No change in corporate tax and the surcharge.
  - No change in the education cess–retained at 3%.

- Tax reforms in **indirect taxes**—direction maintained
  - Peak rate of customs tariff (for non-agricultural products) left unchanged at 10% (closer to ASEAN levels).
  - Excise duty reduced on automobiles, pharmaceuticals.
  - Rate of service tax unchanged at 12%; more services brought under coverage.
  - CENVAT rate reduced to 14% from 16%.
  - Central sales tax reduced to 2% from 3%.
  - Banking transaction tax abolished.
  - Short-term capital gains tax increased from 10% to 15% -to encourage long-term investment.
  - Commodities transactions to attract securities transactions tax.

More steps

- Reiterates commitment on introduction of GST from April 1, 2010–to phase out CST and determine the compensation package for the states.

- Capital Markets–Continued focus on bond, currency and credit market, to ensure better price discovery.

- Focus on rural India:
  - Thrust on boosting agricultural credit by 17% in FY09 to Rs 2,80,000cr.
  - 20% higher outlay for education, 15% for health.

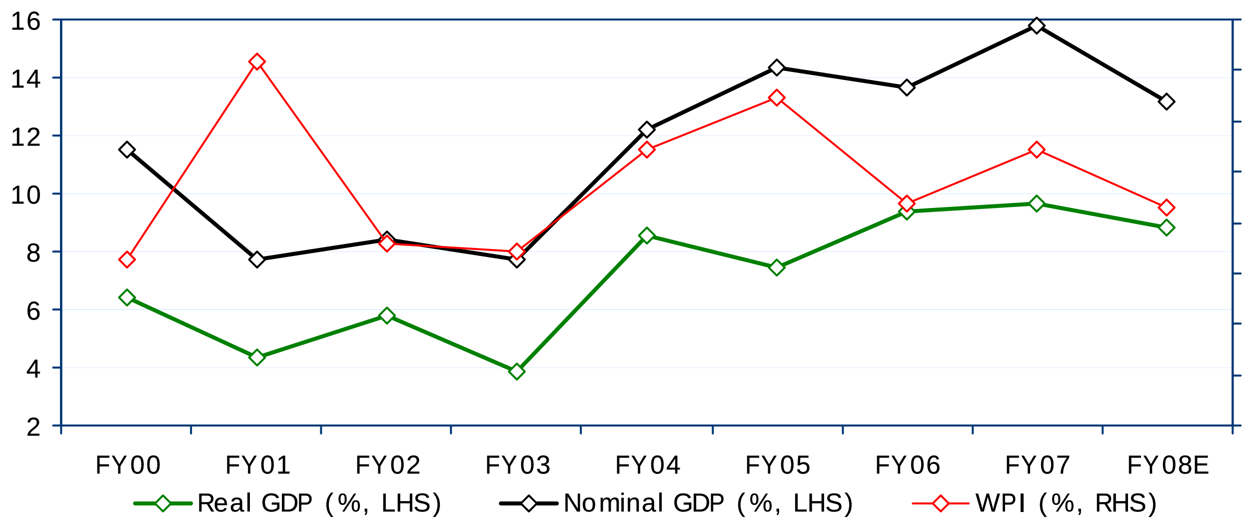
- Infrastructure—Continued momentum on the existing programmes.
  - Intends to add five more Ultra Mega Power Plants (UMPPs).
  - Provision of NHDP programme to increase from Rs 109bn to Rs 130bn.

- Subsidies have been increased from Rs 697bn in FY08 to Rs 714bn in FY09 (1.3% of GDP).
  - Food and fertilizers form 89% of the total subsidy.
  - Finance Minister intends to include the off-budget subsidies (like oil bonds etc.) in the budget liabilities.

Focus on Growth and/or Inflation

- The nominal GDP for FY09 has been assumed at 13% by the Finance Ministry as compared to 13.2% in FY08 as estimated by CSO.
- CSO estimates real GDP to grow at 8.7% in FY08-in line with our expectations; approximately 1% lower than last year.
- WPI FYTD is at 4.2% in FY08 vs. 5.2% in FY07.
- The budget has laid a consistent focus on inflation.

Growth in nominal GDP, real GDP and inflation



Source: RBI, CSO, India Budget Document, MF Global India Research

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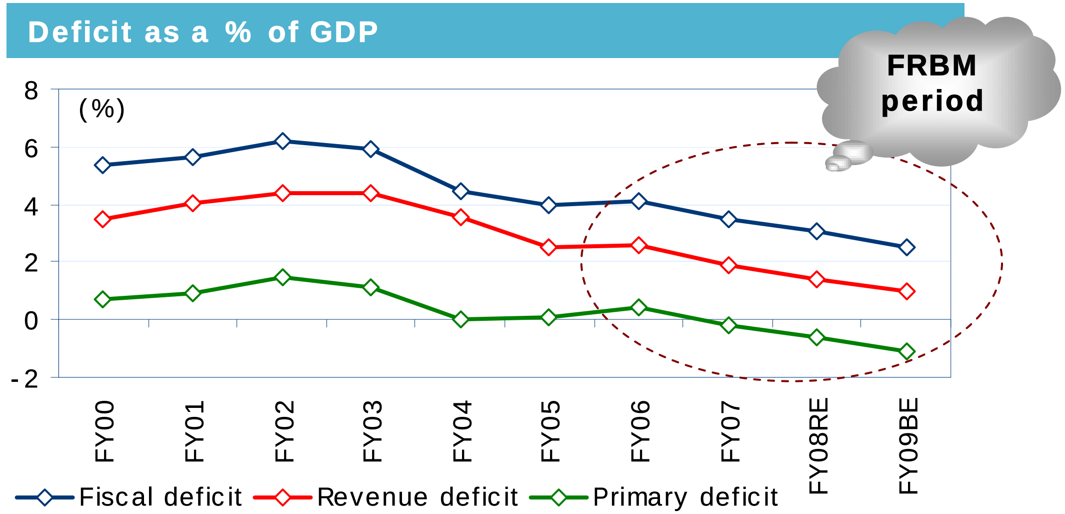
Fiscal consolidation–mostly on track

- According to the FRBM Act (enacted in 2003, implemented in FY05), FY09 fiscal deficit should be at 3% and revenue deficit at 0%.
  - FY09 fiscal deficit target set at 2.5% of GDP for FY09, versus 3.1% (revised estimate) achieved in FY08; Sixth Pay Commission related payout may pose difficulty.
  - Revenue deficit targeted at 1% of GDP for FY09 vs. 1.4% in FY08–not meeting the FRBM target for FY09.
  - Primary deficit in FY09 estimated at -1.1% of GDP vs. -0.6% in FY08–due to higher interest payment on MSS bonds.

As a % of GDP	FY08BE	FY08RE	FY09BE
Fiscal Deficit	3.3%	3.1%	2.5%
Revenue Deficit	1.5%	1.4%	1.0%
Primary Deficit	-0.2%	-0.6%	-1.1%

Deficit as a % of GDP



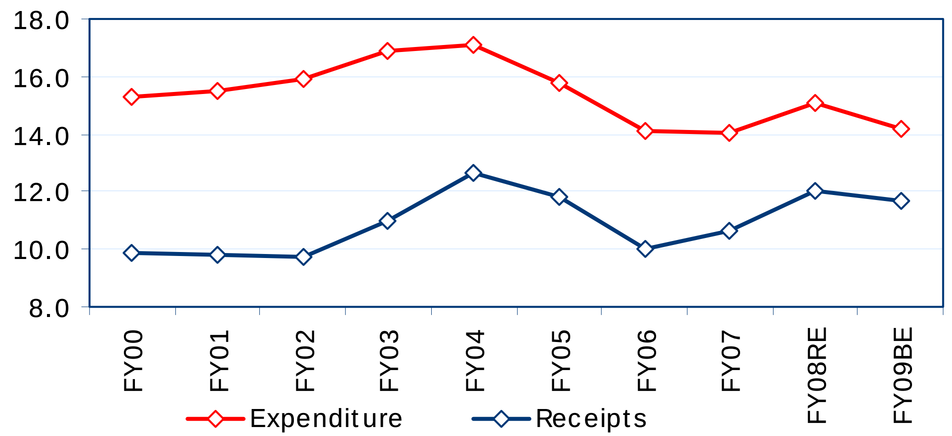
Source: RBI, CSO, India Budget Document, MF Global India Research

Receipts boosted by buoyant economic growth while expenditure kept restricted

- **Receipts growth:** In FY08, was at 28.3%; FY09 target set at 9.2% - much lower.
  - Revenue receipts expected to form 11.4% of GDP in FY09 vs. 11.2% in FY08.
  - Capital receipts expected to form 2.8% of GDP in FY09 vs. 3.9% in FY08.
- **Expenditure growth:** In FY08, was at 21.6%; expenditure in FY09 expected to grow by 5.9%; quality enhanced marginally.
  - Revenue expenditure stable: 12.4% of GDP in FY09 vs. 12.5% in FY08.
  - Capital expenditure has fallen to 1.7% of GDP in FY09 from 2.6% in FY08.

As a % of GDP	FY08BE	FY08RE	FY09BE
Receipts	11.3	12.1	11.6
Expenditure	14.5	15.1	14.2

Receipts and Expenditure as a % of GDP



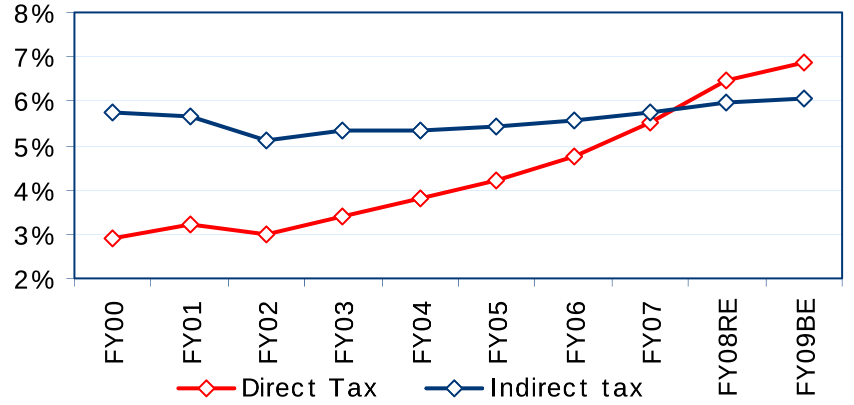
Source: RBI, CSO, India Budget Document, MF Global India Research

Receipts - Growth in tax revenue has made deficit management easy and achievable

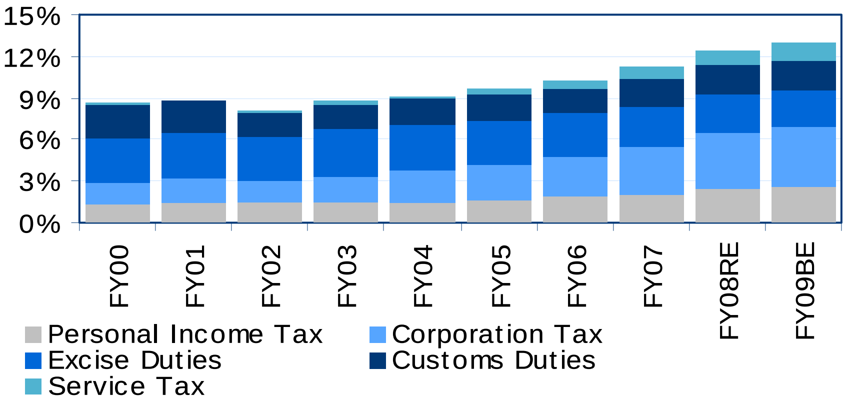
- Gross tax revenue collection in FY08 has been reported at 12.5% of GDP as compared to the budgeted 11.7% mainly due to continued momentum in economic growth, corporate earnings and better tax administration. Gross revenue for FY09 is targeted at Rs 6,877bn (13% of GDP). Tax/GDP ratio is targeted to rise to 13% in FY09 from 12.5% in FY08. In FY09, direct taxes expected to grow by 19.8% (vs. 33%) and indirect taxes by 15%.

YoY growth (%)	FY08BE	FY08RE	FY09BE
Gross Revenue	17.2	25.1	17.5
Income tax	19.7	43.4	16.9
Corporate tax	15.0	27.1	21.6
Excise duty	11.0	9.1	7.8
Custom duty	20.7	23.2	18.0
Service tax	31.5	32.6	27.4

Direct and Indirect taxes (% of GDP)



Break-up of taxes (% of GDP)



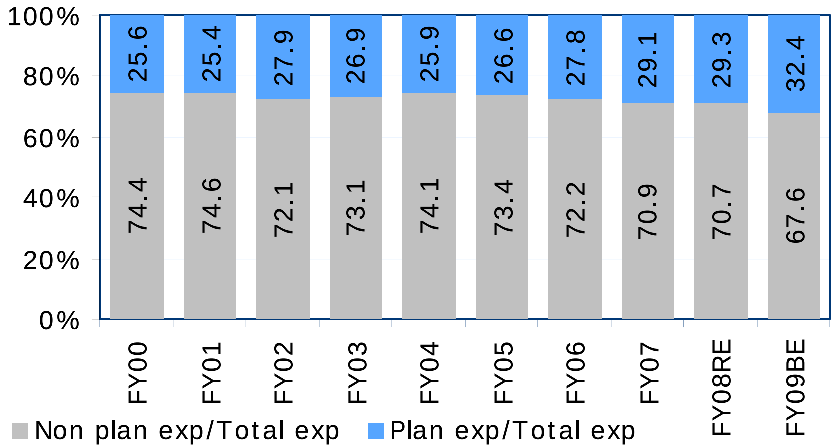
Source: RBI, CSO, India Budget Document, MF Global India Research

Expenditure - Plan and non-plan

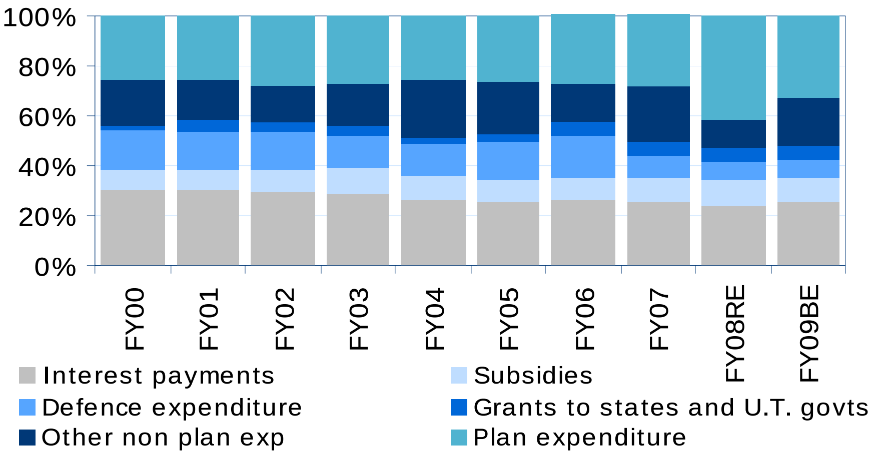
- Non-plan expenditure in FY09, in terms of subsidies, interest rates, salaries etc., continues to weigh higher at 9.6% of GDP than plan expenditure at 4.6% of GDP.

(As a % of GDP)	FY08BE	FY08RE	FY09BE
Plan Expenditure	4.4	4.4	4.6
Non-Plan Expenditure	10.1	10.7	9.6

Plan and Non-plan Expenditure
(% of total expenditure)



Break-up of Expenditure
(% of total expenditure)



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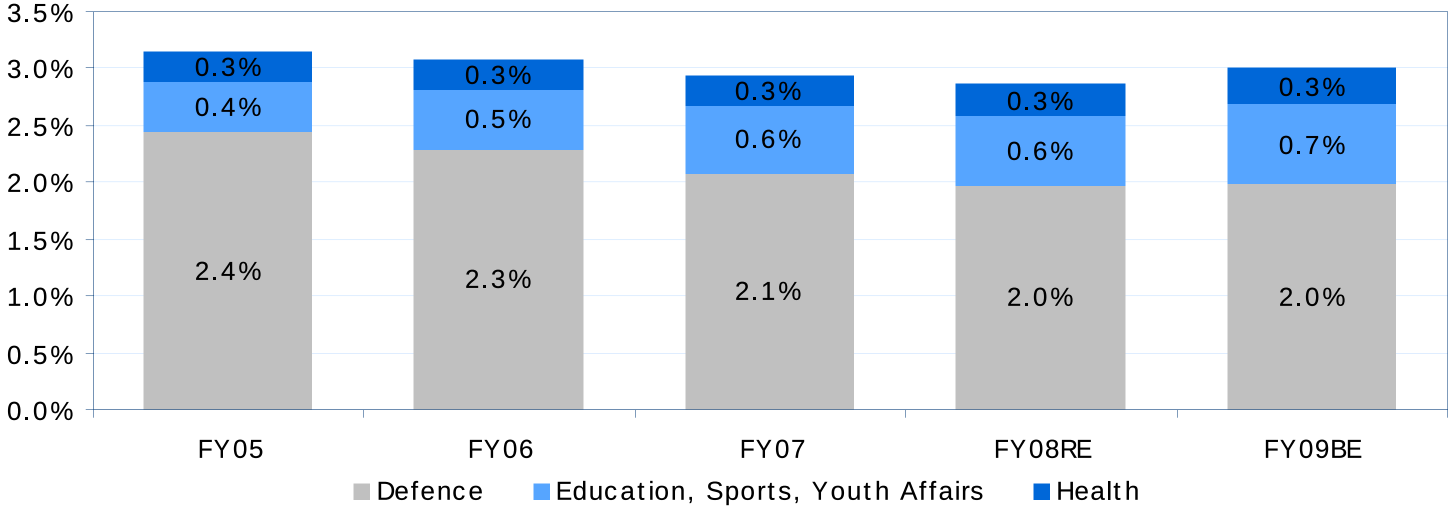
Source: RBI, CSO, India Budget Document, MF Global India Research

Non-Plan Expenditure – Defense, health and education

INR bn	FY08BE	FY08RE	FY09BE
Defence	960	925	1056
YoY Growth	*(11.7%)*	*(7.6%)*	*(14.2%)*
Education, Sports and Youth Affairs	312	287	375
YoY Growth	*(32.5%)*	*(15%)*	*(30.6%)*
Health	144	136	164
YoY Growth	*(34%)*	*(24.6%)*	*(20.8%)*

Defense, Education, Sports & Youth Affairs and Health *(as a % of GDP)*



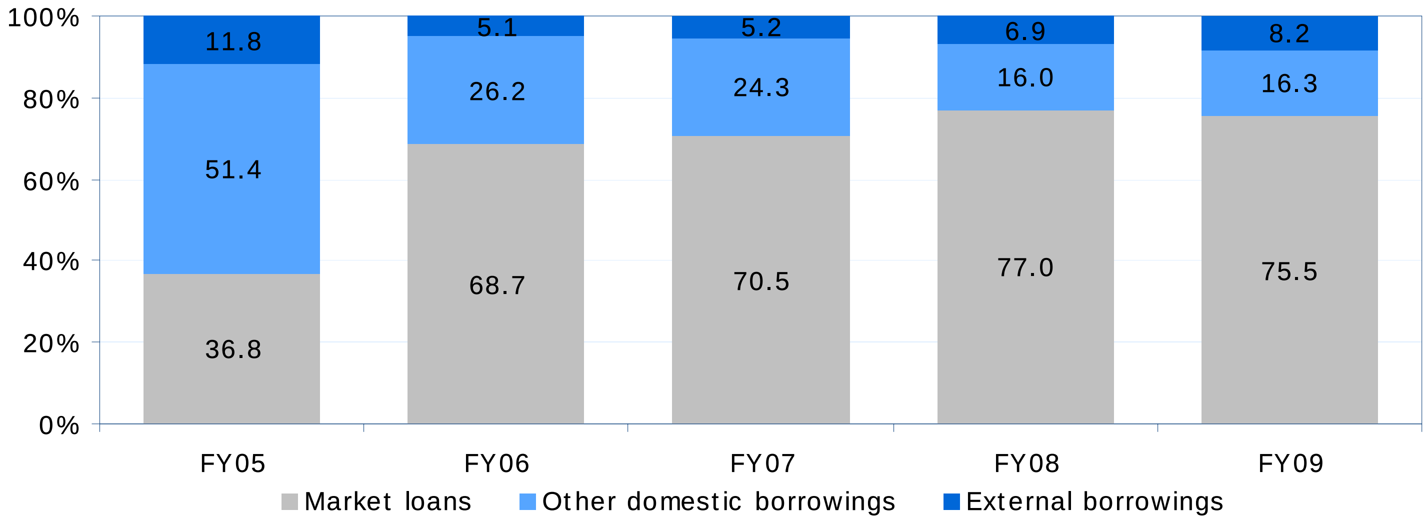
Source: RBI, CSO, India Budget Document, MF Global India Research

Deficit financing

- Market borrowings remain the single most important method of financing the deficit. But, now when the deficit is declining, the net market borrowings would also fall. The government would be required to issue lesser bonds.

INR bn	FY08BE	FY08RE	FY09BE
Market loans (Net)	1,096	1,107	1,006
Other domestic borrowings	323	230	217
External borrowing	91	100	110

Pattern of Deficit financing (As a % of total)



Source: RBI, CSO, India Budget Document, MF Global India Research

Revenue Account

INR bn	FY05	FY06	FY07	FY08RE	FY09BE	Growth YoY, %	% of GDP FY09	% of GDP FY08
Total Revenues	**4,977**	**5,087**	**5,816**	**7,094**	**7,509**	**5.9**	**14.2**	**15.1**
Revenue Receipts	**3,060**	**3,485**	**4,233**	**5,251**	**6,029**	**14.82**	**11.37**	**11.19**
Gross tax revenue	**3,050**	**3,701**	**4678.48**	**5854.1**	**6877.15**	**17.5**	**13.0**	**12.5**
Personal income tax	493	662	825	1,183	1,383	16.9	2.6	2.5
Coporation tax	827	1,036	1,465	1,861	2,264	21.6	4.3	4.0
Excise duties	991	1,120	1,173	1,279	1,379	7.8	2.6	2.7
Customs duties	576	642	818	1,008	1,189	18.0	2.2	2.1
Service tax	142	230	382	506	645	27.4	1.2	1.1
Other tax revenues	20	11	16	16	18	7.7	0.0	0.0
Less: Transfers to National Calamity Contingency fund	16	16	15	18	18	0.0	0.0	0.0
Less: State's share of taxes	786	944	1,204	1,518	1,788	17.7	3.4	3.2
Net tax revenue	**2,248**	**2,741**	**3,460**	**4,318**	**5,072**	**17.5**	**9.6**	**9.2**
Non-tax revenue	**812**	**743**	**774**	**933**	**958**	**2.6**	**1.8**	**2.0**
Interest receipts	324	212	201	175	191	9.6	0.4	0.4
Dividend and profits	229	255	304	361	432	19.7	0.8	0.8
External grants	26	30	25	21	18	-14.2	0.0	0.0
Other non-tax revenue	226	238	236	368	308	-16.3	0.6	0.8
Receipts of union territories	8	8	7	8	8	-0.6	0.0	0.0
Capital Receipts	**1,917**	**1,602**	**1,583**	**1,843**	**1,479.5**	**-19.7**	**2.8**	**3.9**
Non-debt receipts	**665**	**141**	**60**	**406**	**147**	**-63.9**	**0.3**	**0.9**
Recoveries of loans and advances	620	117	55	45	45	0.0	0.1	0.1
Miscellaneous capital receipts (Disinvestment)	44	24	5	361	102	-71.9	0.2	0.8
Debt receipts to finance fiscal deficit	**1,252**	**1,462**	**1,523**	**1,437**	**1,333**	**-7.2**	**2.5**	**3.1**
Market loans	460	1,004	1,075	1,107	1,006	-9.1	1.9	2.4
Other domestic borrowings	644	383	370	230	217	-5.6	0.4	0.5
External borrowings	148	75	79	100	110	10.2	0.2	0.2

Source: RBI, CSO, India Budget Document, MF Global India Research Estimates

Expenditure Account

INR bn	FY05	FY06	FY07	FY08RE	FY09BE	Growth YoY, %	% of GDP FY09	% of GDP FY08
Total Expenditure	**4,999**	**5,120**	**5,853**	**7,094**	**7,509**	**5.9**	**14.2**	**15.1**
Non-plan Expenditure	**3,677**	**3,682**	**4,126**	**5,018**	**5,075**	**1.1**	**9.6**	**10.7**
Revenue Expenditure	**2,992**	**3,294**	**3,658**	**4,130**	**4,484**	**8.6**	**8.5**	**8.8**
Interest payments	1,269	1,326	1,462	1,720	1,908	11.0	3.6	3.7
Defence	435	486	515	548	576	5.1	1.1	1.2
Subsidies	460	475	571	697	714	2.4	1.3	1.5
Food	258	231	240	315	327	3.6	0.6	0.7
Fertilisers	159	185	262	305	310	1.6	0.6	0.6
Petroleum	30	27	27	29	29	0.1	0.1	0.1
Others	13	33	42	48	49	1.7	0.1	0.1
Grants to states and UT governments	148	304	362	364	433	18.8	0.8	0.8
Pensions	183	202	222	242	251	3.7	0.5	0.5
Others	497	500	526	558	601	7.7	1.1	1.2
Capital Expenditure	**685**	**388**	**467**	**889**	**591**	**-33.4**	**1.1**	**1.9**
Defence	335	331	345	377	480	27.3	0.9	0.8
Other non-plan capital exp	350	57	123	512	111	-78.2	0.2	1.1
Plan Expenditure	**1,322**	**1,438**	**1,727**	**2,075**	**2,434**	**17.3**	**4.6**	**4.4**
Revenue Expenditure	**875**	**1,142**	**1,446**	**1,756**	**2,098**	**19.4**	**4.0**	**3.7**
Central plan	580	828	1,040	1,240	1,514	22.1	2.9	2.6
Central assistance for state and UTs plans	295	313	405	516	584	13.1	1.1	1.1
Capital Expenditure	**447**	**296**	**281**	**319**	**336**	**5.3**	**0.6**	**0.7**
Central plan	220	244	225	246	285	15.9	0.5	0.5
Central assistance for state and UTs plans	227	52	57	73	51	-30.2	0.1	0.2

Source: RBI, CSO, India Budget Document, MF Global India Research Estimates

Outlook for FY09 – From the horse's mouth

"Optimism, but with 'caution' as the watch word"

- P. Chidambaram, The finance Minister

Automobiles – Positive

A Welcome Surprise

WINNERS **Hero Honda, Bajaj Auto, Maruti, M&M**

KEY MEASURES

- **Excise duty:** Proposed across various segments. Will lead to price cuts, and boost demand (mainly for 2Ws) and add to earnings growth.
  - On small cars from 16% to 12% came as a surprise.
  - On 2/3-Wheelers and buses from 16% to 12%.
- **Direct tax structure eased:** Increased threshold limit and taxable slabs. Will ensure higher disposable income, thus benefiting domestic automobile demand.
- **Debt waiver and relief scheme:** Rs 600bn relief package for agricultural loans, renewing eligibility of farmers for fresh loans. +ve for farm equipment makers.
  - Complete waiver for small and marginal farmers
  - One-time settlement for other farmers
- **Rural infrastructure thrust:** Maintained the focus on rural infrastructure, augmenting rural transportation–Passenger and Goods.

Automobiles

	2 and 3 Wheelers	Passenger Cars	CVs	Farm Equipments
Key Budget Proposals	Excise Duty cut from 16% to 12%	Excise Duty cut from 16% to 12% on Small Cars	Excise Duty cut from 16% to 12% on Buses and Chassis	Maintained focus on rural infrastructure. Growing allocation towards irrigation projects
	Inc Tax threshold raised to Rs 1.5 lacs	Inc Tax threshold raised to Rs 1.5 lacs	Maintained focus on infrastructure projects	Waiver/OTS of agricultural loans to the tune of Rs 600bn
	Inc Tax slabs raised. 30% rate now applies at Rs 5 lacs & above	Inc Tax slabs raised. 30% rate now applies at Rs 5 lacs & above		
Sector Impact	+ ve	+ ve	+ ve	+ ve
Beneficiaries	Hero Honda, Bajaj Auto	Maruti Suzuki	Tata Motors, Ashok Leyland	Mahindra & Mahindra, Punjab Tractors
Impact on Earnings	4% - 8%	3% - 5%	2% - 3%	-

Source: MF Global India Research

Cement – Neutral

No relief yet on excise duties

KEY MEASURES

- **Excise duty on bulk cement changed** to Rs 400/tonne or 14% ad-valorem, whichever is higher (currently, Rs 400/tonne). We believe this initiative seeks to rationalize excise duty collection for both bagged and bulk cement.
  - Bagged cement sales form the majority. Bulk cement realizations are at ~10-15% discount to bagged cement.
  - Duty structure would mean additional excise duty pay out of Rs 160-200/tonne for cement manufacturers selling bulk cement (~Rs 8-10/bag).
  - However, we believe, the incremental excise duty burden is likely to be passed on.
- **Excise duty on clinker increased** from Rs 350/tonne to Rs 450/tonne
  - Negative for cement manufacturers with significant clinker sales, unless the additional burden is passed on.
  - May result in marginal price increases, especially in clinker-deficient regions (up to Rs 5/bag), if the additional excise burden is passed on to clinker buyers/cement grinders.
- **Customs duty on project imports reduced** to 5% from 7.5%, currently.
  - Positive for cement manufacturers as it will help control capital costs on imported plant & machinery, especially on the new capacity creations.

Consumer – Neutral

Higher income levels to drive consumption

WINNERS **HUL, Dabur, GCPL**

LOSERS **ITC**

KEY MEASURES

- Increase in the threshold limit for exemption from income tax (from Rs 1.1 lakh to Rs 1.5 lakh). Positive for FMCG players as the proposal would lead to higher disposable incomes in the hands of consumers.

- **Excise duty on non-filter cigarettes, plains and micros to increase** from Rs 546 and Rs 168 per 1000 sticks to Rs 1,323 and Rs 819 per 1000 sticks, respectively.
  - We estimate a 17.6% increase in excise duty outgo on cigarettes for ITC.
  - Negative in the short term for ITC as it would require a price hike of about 10%.

- **CENVAT reduced** from 16% to 14%
  - Would reduce effective duty on FMCG products from 10.4% to about 9.1%.
  - Marginally positive for FMCG players as a meaningful portion of their sales come from backward area units, which are already exempt from excise.

Financials – Positive

Improves asset quality and increases liquidity for the bank

WINNERS **PSU Banks and ICICI Bank**

KEY MEASURES

- **Debt waiver and one-time settlement scheme for the farmers.**
  - Overdue loans as on December 2007, for marginal farmers and small farmers, estimated at Rs 50,000crore will be waived completely. One-time settlement scheme (OTS) for other farmers will provide a rebate of 25% against payment of the balance of 75%. The OTS relief is estimated at Rs 10,000crore.
  - Positive, as the debt waiver will be reimbursed completely by the Government. The banking system will get Rs 60,000crore over a period of 3 years, which will provide them the liquidity to lend further. It will clean up the bad loans and improve the overall asset quality of the banking system.

- **Parent company allowed to set off the dividend received** from its subsidiary against dividend distributed by the parent company (provided it is not a subsidiary).
  - Positive as it will avoid double taxation for dividend distributed. We believe that these measures lay the foundation for the creation of a holding company structure in the sector.

IT Services – Negative

Tax at full rates is now a reality

WINNERS **NIIT Ltd, Educomp, Aptech**

LOSERS **IT services & BPO companies**

KEY MEASURES

- **Status quo on Section 10A/10B benefits**–Major negative for all the Indian IT export companies, especially for small and medium-sized companies.
  - Does not distinguish BPO business from IT business for tax purposes–The BPO business is more sensitive in terms of competitiveness to other offshore locations.
  - Tax rates in FY10 to be in the range of 22-25%, which will result in 10-15% earnings growth in FY10.
- **Increase in excise duty on packaged software** from 8% to 12% will bring it on par with customized software, which will attract a service tax of 12%.
  - Applicable only to domestic sales, negligible impact on TCS, Satyam, Infosys.
- Higher thrust on education with increased outlay on higher education is likely to benefit IT education companies.

Metals – Neutral

Marginally positive for steel & marginally negative for aluminum

WINNERS Jindal Stainless, JSPL, JSW Steel

LOSERS Nalco, Hindalco & Sterlite

KEY MEASURES

- **Reduction in duty on steel melting scrap from 5% to nil.**
  - Marginally positive for steel companies using steel scrap as inputs, like JSW, and more for steel companies with EAF (Electric Arc Furnace) like JSPL.
  - Excise duty reduction on buses and chassis, small cars, two and three wheelers from (16% to 12%) positive for steel demand.
  - Export duty on chrome ore increased from Rs 2,000/tonne to Rs 3,000/tonne– marginally positive for ferro chrome manufacturers (JSPL) and stainless steel companies that consume ferro chrome like Jindal Stainless.
- **Reduction in duty on aluminium scrap from 5% to nil.**
  - Marginally negative for aluminium companies like Nalco, Hindalco and Sterlite because smaller players who import scrap and convert it into metal ingots would benefit from lower costs, thus increasing domestic supply in the market.
- **Reduction in general Cenvat rate** from 16% to 14% will give a stimulus to the manufacturing sector, which is positive for metal demand.

Pharmaceuticals – Neutral

Most benefits to be passed to end users

WINNERS **MNC Pharma**

KEY MEASURES

- **Excise duty on drugs–Reduced to 8% from 16%.**
  - Positive for the entire sector as most of the benefit would be passed on to consumers.
  - Most of the listed pharma players manufacture drugs in the tax-free zones.
  - MNC pharma players do not have manufacturing locations in tax-free zones, and hence, they could marginally gain market share.

Power – Positive

Re-instating confidence…

WINNERS **PGCIL, Jyoti Structures, Kalptaru, KEC**

KEY MEASURES

- Higher allocation under APDRP (Rs 800crore) and RGGVY (Rs 5,500crore).
- Proposed creation of National T & D fund.
- Higher allocation towards Bharat Nirman of Rs 31,280crore (27% higher than previous year) to further speed up Rural Electrification Program.
- Rationalization of customs duty on project imports from 7.5% to 5%.
- Imposition of 4% CVD on certain specified projects.
- Indication towards awarding Tilaiya UMPP and additional five UMPPs.
- The Budget indicated the implementation of the Coal Policy Bill and the appointment of a Coal Regulator in line with the Electricity Regulator.

Real Estate – Neutral

Mute on the policy front, indirect benefits to flow in…

KEY MEASURES

- The government continues its thrust on the infrastructure sector.
  - Increased allocation to Bharat Nirman program (Rs 31,280 crore)-this would call for development of rural and semi-urban locations.
- Significant hike in income tax exemption limits.
  - This would increase disposable income; housing affordability to improve (which has been affected by rising interest rates for the past one and a half years)
- Five-year tax holiday for hotel development in specified districts including UNESCO-declared 'World Heritage Sites' in India
  - Would benefit real estate developers who have plans to enter the hospitality space.

ANNEXURE

Valuation Summary (Contd.)

Company Name	MF Rating	TP (INR)	Price (INR)	M.Cap (USDm)	Net Sales, Rs mn FY08e	Net Sales, Rs mn FY09e	Net Profit, Rs mn FY08e	Net Profit, Rs mn FY09e	EPS, Rs FY08e	EPS, Rs FY09e	P/E, x FY08e	P/E, x FY09e	ROE, % FY08e	ROE, % FY09e
Auto - 2Wheelers				**9,845**	**232,137**	**260,031**	**22,560**	**24,998**	**41.9**	**46.4**	**17.5**	**15.8**	**24.2**	**23.7**
Bajaj Auto	OP	2,724	2,280	5,769	93,888	105,784	13,176	14,412	130.2	142.4	17.5	16.0	22.4	21.7
Hero Honda	UP	654	764	3,817	102,079	113,683	9,034	9,977	45.2	50.0	16.9	15.3	33.8	32.2
TVS Motors	UP	54	44	260	36,170	40,565	349	608	1.5	2.6	29.7	17.1	4.5	7.5
Auto - Ancillaries				**7,156**	**254,326**	**292,874**	**18,209**	**22,205**	**15.5**	**18.9**	**15.7**	**12.9**	**17.1**	**17.0**
Amtek Auto	BUY	532	304	1,020	45,734	53,946	4,631	5,751	28.6	35.5	10.7	8.6	12.0	13.1
Apollo Tyres	BUY	64	44	524	47,427	53,862	2,498	2,700	5.0	5.4	8.9	8.2	22.9	19.6
Balkrishna Industries	BUY	1,041	680	329	11,434	13,944	1,253	1,503	62.4	74.9	10.9	9.1	28.2	25.1
Bharat Forge	OP	336	290	1,614	46,601	53,329	2,949	3,921	12.3	16.3	23.6	17.8	14.6	14.7
Ceat Ltd	BUY	257	139	119	23,110	25,881	928	1,001	20.3	21.9	6.8	6.3	21.7	19.2
Clutch Auto	BUY	162	80	32	2,721	3,252	217	241	13.3	14.8	6.0	5.4	16.9	16.3
JK Tyres & Industries	BUY	219	141	108	30,304	34,172	939	1,000	22.9	24.4	6.1	5.8	15.2	13.3
MICO	NEU	4,600	3,974	3,185	37,837	43,443	4,247	5,419	132.5	169.1	30.0	23.5	23.6	23.4
Ramkrishna Forgings	BUY	208	264	100	2,343	2,757	223	277	14.5	18.1	18.2	14.6	26.8	26.0
Sona Koyo	SELL	52	52	125	6,814	8,288	323	393	3.2	4.0	15.9	13.1	19.5	18.2
Auto - CVs				**7,995**	**358,145**	**426,969**	**19,922**	**24,731**	**11.5**	**14.2**	**16.1**	**12.9**	**19.1**	**19.3**
Ashok Leyland	NEU	39	37	1,246	79,277	90,940	4,421	4,946	3.3	3.7	11.3	10.1	22.1	22.0
Tata Motors	NEU	792	700	6,749	278,868	336,029	15,501	19,786	38.1	48.6	18.4	14.4	18.4	18.7
Auto - Cars & UVs				**10,521**	**291,863**	**347,578**	**28,382**	**31,841**	**52.3**	**58.6**	**14.8**	**13.2**	**23.5**	**21.1**
Mah and Mah	BUY	890	693	4,257	111,018	125,968	9,819	10,180	38.6	40.1	17.9	17.3	22.4	18.3
Maruti Udyog	BUY	1,278	867	6,264	180,846	221,610	18,563	21,660	64.2	74.9	13.5	11.6	24.1	22.7
Cement				**20,708**	**420,097**	**493,130**	**76,412**	**85,152**	**32.7**	**36.4**	**10.8**	**9.7**	**32.0**	**26.9**
ACC	Sell	767	793	3,719	70,674	72,823	12,362	12,342	65.8	65.7	12.0	12.1	33.7	27.0
Grasim Inds	BUY	4,000	2,888	6,621	166,558	207,760	27,533	33,417	300.3	364.5	9.6	7.9	30.5	27.2
Gujarat Ambuja	SELL	111	121	4,604	58,079	61,864	12,003	13,054	7.9	8.6	15.3	14.1	26.6	23.3
India Cement	SELL	-	210	1,479	29,724	34,568	7,034	7,331	25.0	26.1	8.4	8.0	26.3	20.5
JK Cement	Neutral	175	168	293	14,586	15,134	2,741	2,140	39.2	30.6	4.3	5.5	29.5	19.1
Mangalam Cement Ltd	BUY	220	138	98	5,490	6,363	1,064	1,052	37.7	37.2	3.7	3.7	55.9	38.3
Shree Cement	Buy	1,512	1,216	1,059	19,826	24,594	3,725	3,921	106.9	112.6	11.4	10.8	55.2	38.3
UltraTechCement	BUY	1,121	911	2,837	55,159	70,025	9,951	11,896	79.9	95.6	11.4	9.5	44.6	36.7

Source: MF Global India Research Estimates

Valuation Summary (Contd.)

	MF	TP	Price	M.Cap	Net Sales, Rs mn		Net Profit, Rs mn		EPS, Rs		P/E, x		ROE, %	
Company Name	Rating	(INR)	(INR)	(USDm)	FY08e	FY09e	FY08e	FY09e	FY08e	FY09e	FY08e	FY09e	FY08e	FY09e
Consumer				**1,267**	**14,748**	**16,766**	**2,300**	**2,800**	**16.9**	**20.6**	**22.0**	**18.1**	**102.2**	**148.1**
Colgate Palmolive	BUY	465	373	1,267	14,748	16,766	2,300	2,800	16.9	20.6	22.0	18.1	102.2	148.1
Financials				**109,264**	**950,780**	**1,136,041**	**231,565**	**285,714**	**38.4**	**47.2**	**18.9**	**15.3**	**14.8**	**14.2**
Andhra Bank	BUY	148	91	1,098	22,277	25,748	6,014	6,875	12.4	14.2	7.3	6.4	18.0	18.3
Bank of Baroda	OP	498	366	3,331	61,389	72,451	15,528	18,275	42.5	50.0	8.6	7.3	17.0	17.9
Bank of India	SELL	385	360	4,721	64,300	76,006	15,044	18,688	28.6	35.5	12.6	10.1	20.9	20.1
Canara Bank	NEU	346	278	2,851	62,053	69,566	16,291	18,879	39.7	46.0	7.0	6.0	14.9	15.5
Corporation bank	BUY	514	326	1,168	23,381	27,668	6,617	7,887	46.1	55.0	7.1	5.9	16.5	17.2
HDFC Bank	OP	1,897	1,453	12,877	67,154	82,228	14,988	19,569	41.6	54.3	34.9	26.8	16.0	15.0
ICICI Bank	BUY	1,595	1,091	29,869	176,646	216,749	41,939	53,731	37.3	47.4	29.2	23.0	11.7	11.0
IOB	BUY	238	165	2,249	40,840	48,423	12,530	14,924	23.0	27.4	7.2	6.0	28.0	26.8
Oriental Bank	BUY	348	251	1,573	25,787	30,124	9,024	10,094	36.0	40.3	7.0	6.2	15.4	15.7
PNB	OP	721	604	4,763	84,237	99,573	19,021	23,317	60.3	74.0	10.0	8.2	17.0	18.0
SBI	BUY	2,790	2,110	33,314	244,312	288,322	54,807	67,940	84.3	104.5	25.0	20.2	12.7	11.7
Union Bank	OP	227	186	2,345	41,746	49,131	10,166	12,146	20.1	24.0	9.2	7.7	18.4	19.3
UTI Bank	BUY	1,279	1,019	9,106	36,659	50,054	9,596	13,388	27.0	36.9	37.8	27.6	15.8	14.5
Healthcare				**26,551**	**320,680**	**372,420**	**45,988**	**61,495**	**17.5**	**23.5**	**23.1**	**17.3**	**24.0**	**26.9**
Cadila Healthcare Ltd	Buy	440	261	819	22,345	25,747	2,332	2,698	18.6	21.5	14.0	12.1	23.9	23.0
Cipla	Buy	240	207	4,028	42,178	48,577	6,839	8,394	8.8	10.8	23.6	19.2	19.9	21.4
Dishman Pharma	OP	351	291	573	7,915	10,490	876	1,240	10.8	15.3	27.0	19.1	21.6	20.9
Divi"s Laboratories	Buy	1,767	1,384	2,234	10,569	13,437	3,517	4,383	53.0	66.0	26.1	21.0	50.6	41.7
Dr. Reddy's	Sell	561	583	2,448	47,871	51,291	2,449	4,912	14.6	29.3	39.8	19.9	6.6	15.0
Glenmark Pharma	Buy	719	485	3,017	20,062	23,913	6,285	7,923	23.3	29.4	20.8	16.5	63.7	47.6
Jubilant Organosys	Buy	456	358	1,292	24,107	29,867	2,991	4,233	16.5	23.4	21.7	15.3	26.9	28.0
Nicholas Piramal	Outperformer	362	274	1,433	28,953	31,455	3,577	4,062	17.1	19.4	16.0	14.1	30.4	27.8
Ranbaxy Lab	Buy	489	446	4,159	64,028	72,294	4,798	6,362	12.0	15.9	37.2	28.1	17.4	21.3
Shasun Chemicals	Neutral	66	62	74	8,862	9,384	235	335	4.7	6.6	13.2	9.3	10.1	13.0
Sun Pharma	Buy	1,472	1,226	6,141	29,693	40,199	11,061	15,644	53.4	75.5	23.0	16.2	34.4	35.6
Torrent Pharma	Buy	195	158	334	14,098	15,766	1,028	1,308	12.1	15.5	13.0	10.2	23.0	24.8

Source: MF Global India Research Estimates

Valuation Summary

Company Name	MF Rating	TP (INR)	Price (INR)	M.Cap (USDm)	Net Sales, Rs mn FY08e	Net Sales, Rs mn FY09e	Net Profit, Rs mn FY08e	Net Profit, Rs mn FY09e	EPS, Rs FY08e	EPS, Rs FY09e	P/E, x FY08e	P/E, x FY09e	ROE, % FY08e	ROE, % FY09e
IT Services				**70,984**	**778,201**	**974,209**	**163,391**	**199,911**	**35.6**	**43.5**	**17.4**	**14.2**	**36.1**	**34.2**
Firstsource Solutions	BUY	97	51	544	13,517	20,490	1,545	2,490	3.4	5.4	15.2	9.4	13.5	18.4
Infosys Tech	BUY	1,910	1,547	22,105	168,196	212,575	46,462	54,752	81.0	95.5	19.1	16.2	35.5	31.9
Mphasis Ltd	BUY	340	229	1,197	24,555	32,785	3,144	4,698	15.1	22.6	15.2	10.2	30.0	36.8
NIIT Tech	BUY	400	131	193	9,374	11,472	1,413	1,722	24.2	29.4	5.4	4.5	32.0	30.1
Satyam Computer	BUY	518	434	7,274	82,614	100,938	17,630	22,042	26.1	32.6	16.6	13.3	28.4	28.9
Subex	NEU	540	273	238	6,530	8,177	1,250	1,728	35.9	49.6	7.6	5.5	14.1	16.9
TCS	BUY	1,240	874	21,393	230,431	284,068	51,464	60,575	52.6	61.9	16.6	14.1	51.0	44.1
Tech Mahindra Ltd	BUY	932	688	2,088	37,739	50,185	7,691	10,099	59.2	77.7	11.6	8.9	59.6	47.9
Wipro	BUY	531	435	15,876	196,570	243,095	31,950	40,763	22.0	28.1	19.7	15.5	29.8	30.8
Zensar Tech	BUY	UR	128	77	8,677	10,423	842	1,043	35.5	44.0	3.6	2.9	29.7	27.0
Metals				**67,941**	**2,378,889**	**2,542,231**	**195,608**	**232,346**	**26.8**	**31.8**	**13.9**	**11.7**	**28.2**	**25.5**
Hindalco Inds	SELL	137	203	6,227	605,480	595,039	21,353	20,270	16.3	15.5	12.4	13.1	13.8	10.4
Jindal Steel	SELL	1,857	2,305	8,872	55,233	74,381	11,138	19,184	72.3	124.6	31.9	18.5	36.3	42.6
JSW Steel	Sell	840	1,062	4,353	134,267	171,437	14,536	16,671	72.3	83.0	14.7	12.8	23.1	20.3
NALCO	SELL	337	463	7,465	51,197	51,240	17,656	17,838	27.4	27.7	16.9	16.7	21.1	18.4
SAIL	BUY	268	255	26,381	375,377	431,811	73,249	91,427	17.7	22.1	14.4	11.5	36.6	34.7
Tata Steel	Neutral	751	802	14,642	1,157,335	1,218,322	57,677	66,956	66.8	77.6	12.0	10.3	35.5	29.1
Media				**3,032**	**27,277**	**33,055**	**5,497**	**6,700**	**7.0**	**8.6**	**22.1**	**18.1**	**23.7**	**24.6**
Deccan Chronicle	NEU	244	170	1,038	7,792	9,555	2,983	3,209	12.1	13.0	14.0	13.0	31.6	27.9
HT Media	OP	291	195	1,141	11,840	13,898	1,373	1,904	5.9	8.1	33.2	24.0	16.2	19.0
Jagran Prakashan	OP	154	113	852	7,646	9,602	1,141	1,587	3.8	5.3	29.9	21.5	21.6	27.8
Power				**11,544**	**45,390**	**51,927**	**15,362**	**16,466**	**3.8**	**3.9**	**30.1**	**28.0**	**12.8**	**12.1**
Power Grid Corp (I) Ltd	BUY	177	110	11,544	45,390	51,927	15,362	16,466	3.8	3.9	28.7	28.0	12.8	12.1
Real Estate				**170**	**4,322**	**8,795**	**1,250**	**2,070**	**31.5**	**52.2**	**5.4**	**3.3**	**31.1**	**27.9**
Prajay Engineers	BUY	427	324	170	4,322	8,795	1,250	2,070	31.5	52.2	10.3	6.2	31.1	27.9

Source: MF Global India Research Estimates

THANK YOU

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