26 February 2010

Union Budget 2010-11

Doorway to growth

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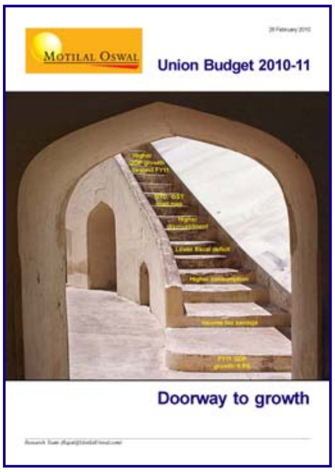
Summary



The Union Budget 2010-11 was a challenging event, given the balance that was required between lowering deficit and providing growth catalysts to the economy. The government seems to have done well on both counts. While the fiscal deficit has been curbed at 5.5% for FY11, growth catalysts have been provided with further sops for private consumption. The Budget has been prepared with GDP growth estimate of 8.5% for FY11 v/s 7.2% for FY10, which we believe is realistic.

There was a partial withdrawal of the stimulus measures on expected lines through a 2% hike in excise duty (what was unexpected was the additional hike in duty on auto fuels and steep hike in excise duty for tobacco). A high disinvestment target of Rs400b would call for stake sale in several state-owned companies over the next 12 months while the revenues of Rs350b from 3G auction would be crucial for achieving growth estimates.

The most important positive has been concessions on personal income tax, which will release significant amounts for discretionary spending. We estimate average savings of Rs56,000 for an income earner of Rs0.8m per annum. This will boost demand for Autos, Real Estate and various savings products. Movement to DTC and GST from April 2011 will be key reforms to watch for. While the Oil sector reforms were not announced, we expect these to happen in 1HFCY10.

Over the next couple of months, monetary policy will be in focus, given the expected rise in inflation in March. We believe that RBI will focus on medium-term inflationary outlook rather than just the near-term one. We are modeling over 100bp increase in deposit and lending rates in CY10.

The Indian markets have remained in a period of consolidation over the last couple of quarters, post the big gains made after the May 2009 elections. We are expecting earnings growth to return strongly, with an EPS CAGR of over 20% in FY10-14, with FY11 EPS likely to grow by 31%. This coupled with the several reforms that the government proposes over the next 12 months would provide several investment opportunities.

In our model portfolio, we have raised our weightage on the domestic themes - Financials, Autos and Infrastructure. Among the large cap stocks, we like **HDFC Bank**, **Bank of Baroda**, **Bajaj Auto**, **Maruti**, **BHEL**, **ACC**, **Cipla**, **ITC**, **Unitech**, and **Idea**.

Budget highlights

New growth drivers in place; shift from rural to urban consumption

Personal income tax concessions aggregate Rs250b …

- In the last two years, economic growth has been boosted by the impact of the Sixth Pay Commission, farm loan waiver and the fiscal stimulus. We believe that personal tax concessions of Rs250b through realignment of tax slabs coupled with expected improvement in economic growth to over 8% will ensure continued buoyancy on consumption themes like Autos, Real Estate and FMCG.

SAVINGS IN PERSONAL INCOME TAX

TAXABLE INCOME (RS)	500,000		800,000		1,000,000	
	FY10	FY11	FY10	FY11	FY10	FY11
Tax	54,000	34,000	144,000	94,000	204,000	154,000
Saving		20,000		50,000		50,000
Additional Tax Saving *		2,000		6,000		6,000
Total Tax Saving		**22,000**		**56,000**		**56,000**

** Assuming additional Rs20,000 invested in long-term infrastructure bonds*

Note: Calculations exclude 3% cess; If cess is included, maximum tax saving is Rs57,680

… will cause urban consumption to emerge as the new growth driver

- Relatively superior rural growth in the last two years has been driven by farm loan waiver, 144% growth in allocation to NREGA in FY10, and sharp rise in food prices, resulting in strong growth in nominal agricultural GDP. Going forward, urban consumption will be a stronger growth driver due to lack of these rural drivers, coupled with the income tax benefits extended.

Fiscal management road map encouraging

Indirect taxes and non-tax revenue to help lower FY11 fiscal deficit

- Despite the giveaways in personal taxes, fiscal deficit has been curbed at 5.5% of GDP. This is driven by four major factors:
  (1) a significant growth in non-tax revenues (PSU divestment: Rs400b v/s Rs250b in FY10, 3G revenues: Rs350b v/s zero in FY10),
  (2) partial roll-back of the fiscal stimulus,
  (3) raising of excise duty on petrol and diesel, and
  (4) proposed non-plan expenditure growth of just 3% due to the high base of FY10.

Going forward, commitment to fiscal discipline is encouraging

- Importantly, a commitment to bring down fiscal deficit to 4.8% in FY12 and 4.1% in FY13 is encouraging and seems achievable in the context of the rising non-tax revenues and potential tax revenue buoyancy, aided by accelerating economic growth.

- The quality of the fiscal deficit number is also better, as it now includes cash subsidies on oil and fertilizer, and henceforth, the government does not plan to rely on the issue of off-budget bonds to finance the under-recoveries in these sectors.

Mixed bag on reforms

On key policy reforms (oil, DTC, GST), the budget signals intention …

- The Budget articulates clear timelines for the implementation of key reforms like GST and DTC, and specific steps have been taken that signal commitment to enable smooth transition. For instance, service tax rate has been held at 10%, in line with excise duty to enable a single rate of tax on goods and services. Further, steps have been taken to drive convergence in peak tax rate and MAT rate (MAT rate has been raised from 15% to 18% while surcharge on corporate tax has been cut from 10% to 7.5%), and tax breaks for software parks have not been extended.

… but postpones or passes on implementation

- Missed opportunities are on FDI liberalisation and oil sector reforms, though both of these reforms can be implemented outside of the Budget.
  (1) The Budget pushes the onus of reforming the oil sector by implementing the Kirit Parikh Committee recommendations to the Oil Minister
  (2) It makes no specific mention of any timelines to liberalise FDI in retail or insurance sectors while articulating the intent to make FDI policy user-friendly, clear and predictable.

Medium-term inflationary outlook to influence monetary policy

High short-term inflation is a key concern …

- Fuel price hike of 6-8% announced post-budget by oil marketing companies coupled with 2% increase in excise duty will result in higher peak inflation in end-4QFY10. The direct impact of higher fuel prices on inflation is estimated at 0.41%. However, the recent sharp correction in various food prices coupled with high base effect will result in lower inflationary pressures in 1HFY11, in our view.

… and will be closely monitored and managed

- We believe that RBI's monetary policy stance will take cognizance of the medium-term trends in inflation rather than merely focussing on the short-term inflationary pressures.

Mixed bag for corporate profits; no material change in Sensex EPS estimates

Corporate sector has its share of pros and cons …

- The positives are:
  (1) Corporate surcharge has been lowered from 10% to 7.5%, a marginal relief of 0.77% for peak tax paying companies; and
  (2) R&D has been encouraged by allowing higher weighted deduction for in-house R&D spend of 200% (150% earlier) and 175% (125% earlier) for contribution to approved third party R&D centers.

- However, the above is offset by:
  (1) Increase in MAT rate from 15% to 18%
  (2) Clean Energy cess of Rs50/ton on domestic/imported coal
  (3) 2% roll-back of excise duty cut, Re1/liter higher excise on petrol and diesel, and sharply higher excise on cigarettes and non-smoking tobacco.
  (4) Levy of service tax on 8 new services -
     i. Service of permitting commercial use or exploitation of any event organized by a person or organization.

ii. The existing taxable service 'Intellectual Property Right (IPR)' excludes copyright from its scope. Copyrights on (a) cinematographic films and (b) sound recording are being brought under the ambit of service tax. However, copyright on original literary, dramatic, musical and artistic work would continue to remain outside the scope of service tax.

iii. Service tax on the following health services: (a) health check up undertaken by hospitals or medical establishments for the employees of business entities; and (b) health services provided under health insurance schemes offered by insurance companies.
(The tax on these health services would be payable only if the payment for such health check up or preventive care or treatment etc. is made directly by the business entity or the insurance company to the hospital or medical establishment).

iv. Service provided for maintenance of medical records of employees of a business entity.

v. Service provided by Electricity Exchanges.

vi. Certain additional services provided by a builder to the prospective buyers such as providing preferential location or external or internal development of complexes on extra charges. However, service of providing vehicle-parking space would not be subjected to tax.

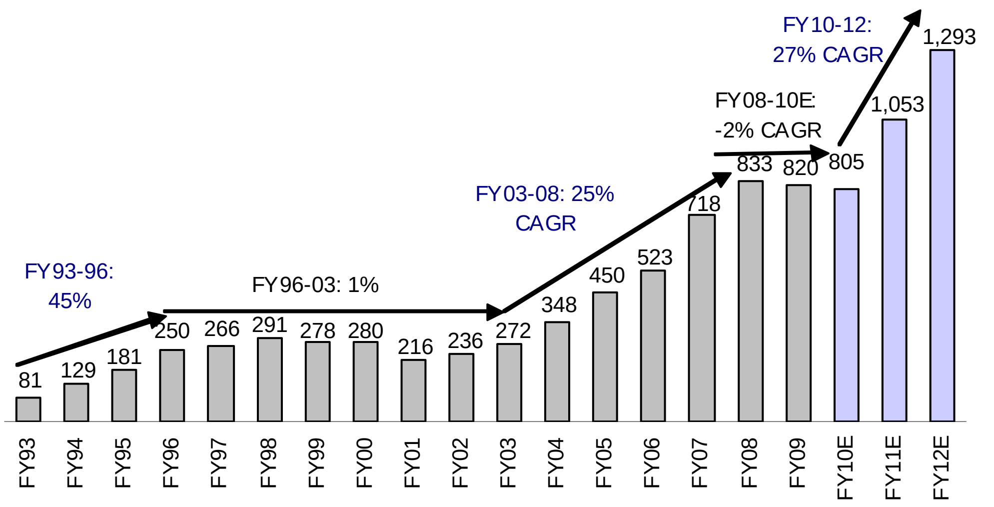
vii. Service of promoting of a 'brand' of goods, services, events, business entity, etc.

viii. The promotion, marketing or organizing of games of chance, including lottery, is being introduced as a separate service. Consequently, the Explanation in provision relating to Business Auxiliary Service is being deleted.

... translating to marginal downgrade in earnings estimates

- A bottom-up budget impact exercise on Sensex companies indicates a marginal, less than 1% decline in Sensex EPS estimate for FY11 and FY12.

SENSEX EPS: ON THE THRESHOLD OF A NEW CYCLE OF GROWTH



Source: MOSL

Key risks to the budget estimates and India's macro economic performance

Execution and externalities (mainly monsoons) …

- Execution on certain budget promises unfulfilled in the past, e.g. 3G auctions were also budgeted in FY10, but did not materialize. Likewise, achieving the PSU divestment program of Rs400b is also key to achieving the FY11 fiscal targets.
- Effective management of inflation and interest rates.
- Performance of forthcoming monsoons (however, initial reports indicate a normal and widespread monsoon).

… hold key to India's sustained growth story

The FY11 Economic Survey, in its concluding remarks says, "…it is entirely possible for India to move into the rarefied domain of double-digit growth and even attempt to don the mantle of the fastest-growing economy in the world within the next four years." How the Government delivers on its FY11 Union Budget promises will be a key indicator as to whether this conclusion will come true or not.

Budget at a glance

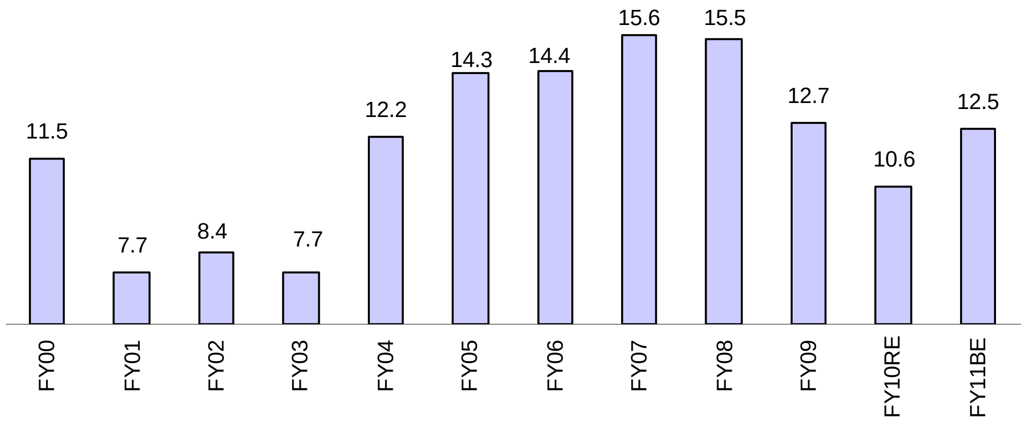
	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	% CH.	FY10RE	% CH.	FY11BE	% CH.
Revenue (Rs b)														
Gross Tax Revenue	**1,886**	**1,871**	**2,163**	**2,543**	**3,050**	**3,662**	**4,735**	**5,931**	**6,053**	**2.0**	**6,331**	**4.6**	**7,467**	**17.9**
Corporation Tax	357	366	462	636	827	1,013	1,443	1,929	2,134	10.6	2,551	19.5	3,013	18.1
Income Tax	318	320	369	414	493	560	751	1,026	1,210	17.9	1,314	8.6	1,281	-2.6
Excise Duty	685	726	823	908	991	1,112	1,176	1,236	1,086	-12.1	1,020	-6.1	1,320	29.4
Customs	475	403	449	486	576	651	863	1,041	999	-4.1	845	-15.4	1,150	36.1
Other Tax Revenues	51	56	61	100	163	326	502	699	624	-10.6	601	-3.7	703	16.9
NCCF Expenditure	**3**	**7**	**16**	**16**	**16**	**28**	**20**	**18**	**18**	**0.0**	**32**	**75.6**	**36**	**12.7**
Devolvement to States and UTs	**517**	**528**	**561.2**	**658**	**786**	**944**	**1,203**	**1,518**	**1,602**	**5.5**	**1,648**	**2.9**	**2,090**	**26.8**
Net Tax Revenues	**1,367**	**1,335**	**1,585**	**1,870**	**2,248**	**2,689**	**3,512**	**4,395**	**4,433**	**0.9**	**4,651**	**4.9**	**5,341**	**14.8**
Non-tax Revenues	557	678	723	768	812	768	832	1,023	969	-5.3	1,122	15.7	1,481	32.0
Net Revenue Receipts	**1,924**	**2,013**	**2,308**	**2,638**	**3,060**	**3,458**	**4,344**	**5,419**	**5,403**	**-0.3**	**5,773**	**6.9**	**6,822**	**18.2**
Non-debt Capital Receipts	**142**	**200**	**373**	**841**	**665**	**122**	**64**	**439**	**67**	**-84.7**	**302**	**350.6**	**451**	**49.4**
Recovery of Loans	120	164	342	672	620	106	59	51	61	20.4	43	-30.7	51	20.6
Disinvestment receipts	21	36	32	170	44	16	5	388	6	-98.5	260	4,486.2	400	54.1
Total Revenues	**2,066**	**2,214**	**2,682**	**3,479**	**3,725**	**3,580**	**4,408**	**5,858**	**5,470**	**-7**	**6,075**	**11.1**	**7,273**	**19.7**
Expenditure (Rs b)														
Revenue Expenditure	**2,778**	**3,015**	**3,387**	**3,621**	**3,844**	**4,394**	**5,146**	**5,945**	**7,938**	**33.5**	**9,064**	**14.2**	**9,587**	**5.8**
Interest	993	1,075	1,178	1,241	1,269	1,326	1,503	1,710	1,922	12.4	2,195	14.2	2,487	13.3
Defense	397	400	411	453	759	483	517	542	733	35.2	884	20.6	873	-1.2
Subsidies	269	305	446	443	437	442	571	709	1,297	82.9	1,310	1.0	1,162	-11.3
Plan Expenditure	511	617	716	786	875	1,119	1,424	1,736	2,752	58.6	3,152	14.5	3,731	18.4
Admin. & Social Services	631	620	636	698	504	1,024	1,131	1,247	1,233	-1.1	1,522	23.4	1,334	-12.4
Capital Expenditure	**478**	**608**	**745**	**1,091**	**1,139**	**664**	**688**	**1,182**	**902**	**-23.7**	**1,152**	**27.8**	**1,500**	**30.2**
Defense	148	162	150	169	320	323	338	375	409	9.2	478	16.9	600	25.5
Other Non-plan Expenditure	14	28	133	467	348	34	62	479	73	-84.8	153	110.9	311	102.4
Plan Expenditure	316	395	399	436	448	288	274	315	405	28.4	508	25.5	580	14.2
Total Expenditure	**3,256**	**3,623**	**4,132**	**4,712**	**4,983**	**5,057**	**5,834**	**7,127**	**8,840**	**24.0**	**10,215**	**15.6**	**11,087**	**8.5**
Deficit Trends														
Fiscal Deficit	**1,190**	**1,410**	**1,451**	**1,233**	**1,258**	**1,478**	**1,426**	**1,270**	**3,370**	**165.4**	**4,140**	**22.9**	**3,814**	**-7.9**
% to GDP	*5.7*	*6.1*	*5.9*	*4.5*	*3.9*	*4.0*	*3.3*	*2.6*	*6.0*		*6.7*		*5.5*	
Revenue Deficit	**852**	**1,002**	**1,079**	**983**	**784**	**936**	**802**	**526**	**2,535**	**381.7**	**3,291**	**29.8**	**2,765**	**-16.0**
% to GDP	*4.1*	*4.3*	*4.4*	*3.6*	*2.4*	*2.5*	*1.9*	*1.1*	*4.5*		*5.3*		*4.0*	
Primary Deficit	**195**	**335**	**273**	**-82**	**-11**	**138**	**-77**	**-441**	**1,448**	**-428.6**	**1,945**	**34.4**	**1,327**	**-31.8**
% to GDP	*0.9*	*1.5*	*1.1*	*-0.3*	*0.0*	*0.4*	*-0.2*	*-0.9*	*2.6*		*3.2*		*1.9*	
Financing the Deficit	**1,190**	**1,410**	**1,451**	**1,233**	**1,258**	**1,478**	**1,426**	**1,270**	**3,370**	**165.4**	**4,140**	**22.9**	**3,814**	**-7.9**
Market Borrowings	729	877	976	889	460	954	1,104	1,318	2,336		3,984		3,450	
Other Internal Financing	386	476	594	479	650	449	237	-141	923		-9		139	
External Assistance	75	56	-119	-135	148	75	85	93	110		165		225	
Key Indicators														
Int Expenses / Fiscal Deficit	83.4	76.2	81.2	100.7	100.9	89.8	105.4	134.7	57.0		53.0		65.2	
Int Expenses / Revenues Receipts	51.6	53.4	51.0	47.0	41.5	38.4	34.6	31.6	35.6		38.0		36.4	
Defense / Total Expenditure	16.7	15.5	13.6	13.2	21.6	15.9	14.7	12.9	12.9		13.3		13.3	

Source: Budget Documents/MOSL

Economy: key trends

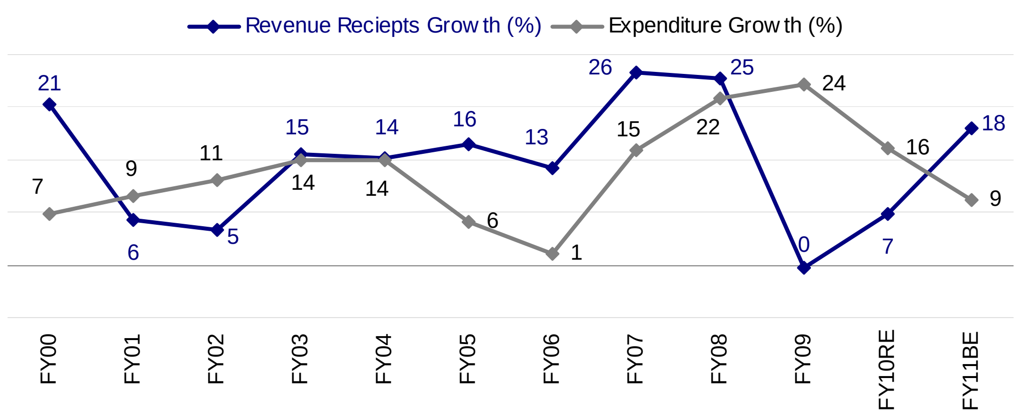
FY11 nominal GDP growth reflects realistic real GDP growth rate assumption of 8.5%

NOMINAL GDP GROWTH (%)



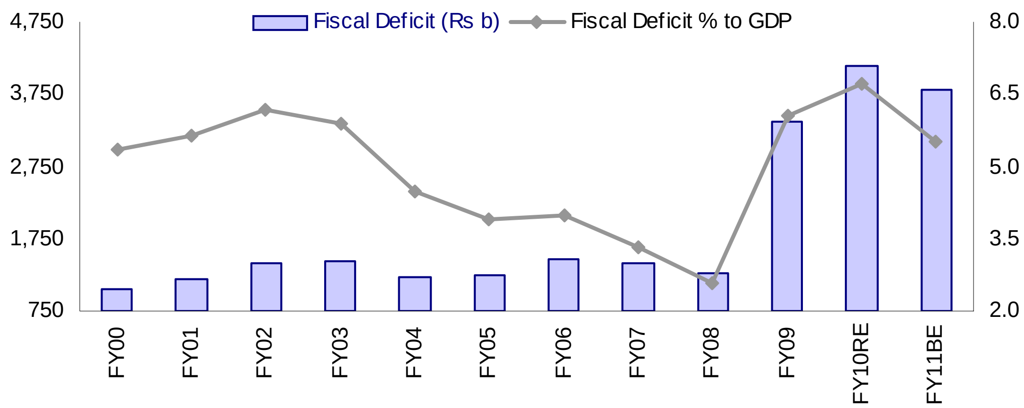
Control over non-plan expenditure to keep total expenditure growth lower than revenue growth

GROWTH TREND IN REVENUE RECEIPTS AND TOTAL EXPENDITURE (%)



Fiscal deficit temporarily worsening in order to sustain growth

FISCAL DEFICIT AS A % OF GDP

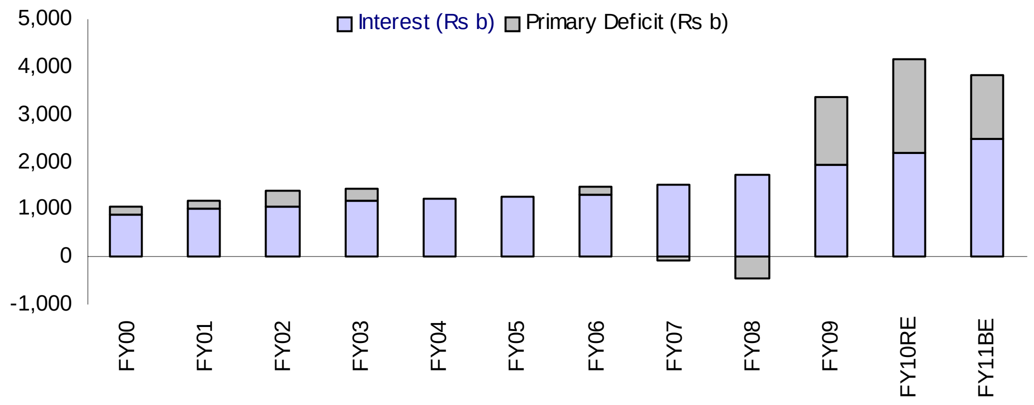


Source: Budget Documents/MOSL

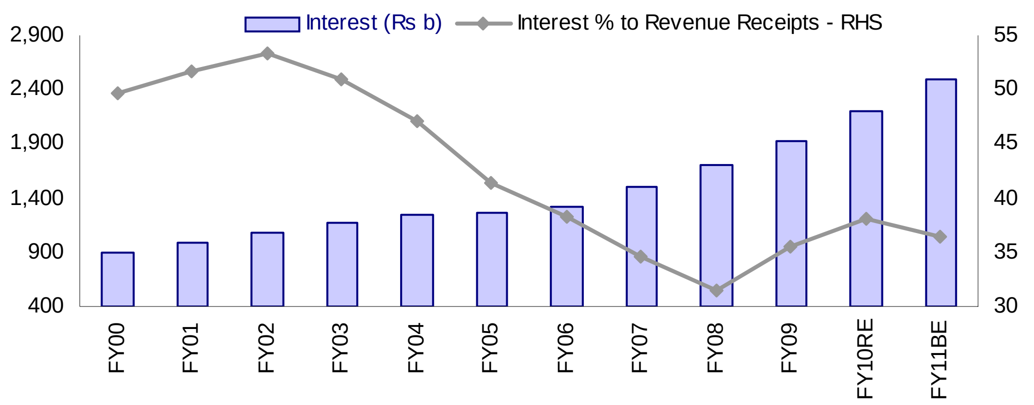
Economy: key trends (Contd.)

Interest cost remains a major component of fiscal deficit; primary deficit expected to shrink in FY11

PRIMARY DEFICIT AND INTEREST COMPONENTS OF FISCAL DEFICIT

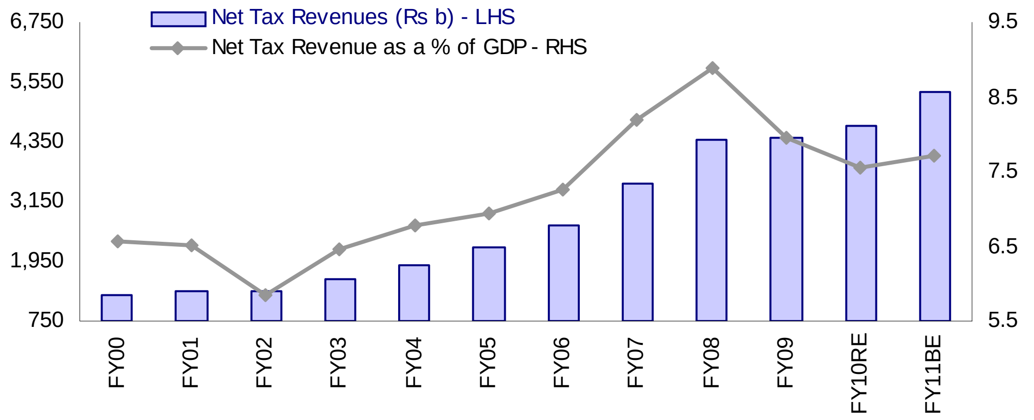


INTEREST EXPENSE AND INTEREST AS % OF REVENUE RECEIPTS



Flat net tax revenue to GDP suggests rising importance of non-tax revenue in fiscal management

NET TAX REVENUE TO GDP



Source: Budget Documents/MOSL

Macro-economic indicators

ANNUAL	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10E	FY11E
National Income (Growth %)												
Gross Domestic Product	6.4	4.4	5.8	3.8	8.5	7.5	9.5	9.7	9.2	6.7	7.2	8.5
Agriculture	2.7	-0.2	6.3	-7.2	10.0	-	5.2	3.7	4.7	1.6	-1.0	-
Foodgrains (M Ton)	209.8	196.8	212.9	174.8	213.3	198.4	208.6	217.3	230.8	233.9	213.5	231.5
Industry	4.6	6.4	2.7	7.1	7.4	10.3	9.3	12.7	9.5	3.9	8.9	-
Manufacturing	3.2	7.7	2.5	6.8	6.6	8.7	9.6	14.9	10.3	3.2	9.4	-
Services	9.5	5.7	7.2	7.5	8.5	9.1	11.1	10.2	10.5	9.8	8.5	-
Money and Banking (%)												
Money Supply (M3) Growth (%)	14.6	16.8	14.1	14.7	16.7	12.3	21.2	21.5	21.2	18.6	17.0	20.0
Non-food credit Growth (%)	21.9	14.1	9.4	30.1	18.9	26.7	39.6	28.5	23.0	17.8	13.5	14.5
Deposit Growth (%)	19.3	16.2	11.5	18.9	17.6	10.8	23.4	23.8	22.4	19.9	18.0	20.0
Yield on 10-yr G-sec (%)	10.9	9.8	7.4	6.2	5.2	6.7	7.5	8.0	8.0	7.0	7.9	8.1
External Sector												
Exports (US$ b)	36.8	44.1	44.0	52.8	63.9	83.5	103.1	126.3	163.0	182.9	163.0	187.4
Change (%)	*10.7*	*20.1*	*-0.4*	*20.2*	*20.9*	*30.7*	*23.4*	*22.5*	*29.1*	*12.2*	*-10.9*	*15.0*
Imports (US$ b)	49.8	50.1	51.6	61.5	78.2	111.5	149.1	185.1	249.8	290.7	267.0	306.6
Change (%)	*17.5*	*0.5*	*3.0*	*19.3*	*27.1*	*42.5*	*33.8*	*24.1*	*35.0*	*16.4*	*-8.1*	*14.8*
Forex Reserves (US$ b)	38.0	42.3	54.2	74.8	110.3	140.9	151.6	199.2	309.2	252.3	278.7	-
Average Exchange Rate (Rs/US$1)	43.3	45.6	47.6	48.3	45.9	45.0	44.3	45.3	40.2	45.2	47.6	46.0

MONTHLY	MAR '09	APR '09	MAY '09	JUN '09	JUL '09	AUG '09	SEP '09	OCT '09	NOV '09	DEC '09	JAN '10	FEB '10
IIP Growth (%)	*0.3*	*1.1*	*2.1*	*8.3*	*7.2*	*10.6*	*9.3*	*10.3*	*11.8*	*16.8*	-	-
Non-food Credit Growth (%)	*17.8*	*18.0*	*15.7*	*15.1*	*17.0*	*14.1*	*13.0*	*9.6*	*10.6*	*12.7*	*15.2*	*15.4*
Deposit Growth (%)	*19.8*	*22.5*	*22.0*	*21.6*	*22.8*	*20.5*	*19.8*	*18.9*	*18.4*	*18.0*	*17.1*	*16.6*
Forex Reserves (US$ b)	252.3	253.1	262.3	264.6	271.6	276.4	279.9	284.4	286.7	283.5	281.0	278.7
Exchange Rate (Rs/US$1)	51.2	50.1	48.5	47.8	48.5	48.3	48.4	46.7	46.6	46.6	46.0	46.4
Exports (US$ b)	12.9	11.8	11.4	13.0	13.3	12.9	13.7	13.2	13.2	14.6	-	-
Imports (US$ b)	15.8	18.7	20.0	22.2	19.9	21.4	20.4	22.0	22.9	24.8	-	-
Wholesale Price Index (% change)	1.2	1.3	1.4	-1.0	-0.7	-0.2	0.5	1.5	5.6	7.3	8.6	-
Yield on 10-year G-sec (%)	7.0	6.2	6.7	7.0	7.2	7.4	7.2	7.3	7.5	7.6	7.6	7.9

Forex Reserve is (Incl. gold and SDRs) *Source: CMIE/MOSL*

MOSL Model Portfolio

SECTOR WEIGHT / PORTFOLIO PICKS	BSE-100	MOSL WEIGHT	WEIGHT RELATIVE TO BSE-100	EFFECTIVE SECTOR STANCE
Banks	**21.8**	**25.0**	**3.2**	**Overweight**
PSU	**5.8**	**13.0**	**7.2**	**Overweight**
Bank of Baroda	0.6	4	3.4	Buy
SBI	3.2	4	0.8	Buy
PNB	0.7	3	2.3	Buy
REC	0.0	2	2.0	Buy
Private	**15.5**	**12.0**	**-3.5**	**Underweight**
ICICI Bank	5.4	5	-0.4	Buy
HDFC Bank	3.5	5	1.5	Buy
Yes Bank	0.0	2	2.0	Buy
Infrastructure & Surrogate	**14.2**	**15.0**	**0.8**	**Overweight**
BHEL	2.3	4	1.7	Buy
ACC	0.5	3	2.5	Neutral
Unitech	0.6	3	2.4	Buy
Jaiprakash Associates	0.9	3	2.1	Buy
Larsen & Toubro	4.7	2	-2.7	Neutral
Oil & Gas	**15.0**	**11.0**	**-4.0**	**Underweight**
Reliance Inds.	9.0	6	-3.0	Buy
GAIL	1.1	3	1.9	Buy
Cairn India	0.7	2	1.3	Buy
Information Technology	**11.6**	**9.0**	**-2.6**	**Underweight**
Infosys Tech	7.1	5	-2.1	Neutral
TCS	2.5	2	-0.5	Buy
HCL Tech	0.5	2	1.5	Buy
Metals	**7.3**	**8.0**	**0.7**	**Overweight**
Sterlite	1.7	4	2.3	Buy
Sesa Goa	0.8	2	1.2	Buy
JSW Steel	0.6	2	1.4	Buy
Auto	**5.6**	**7.0**	**1.4**	**Overweight**
Mahindra & Mahindra	1.2	2	0.8	Buy
Maruti	1.2	2	0.8	Buy
Bajaj Auto	0.7	2		Buy
Hero Honda	1.0	1	0.0	Buy
Pharmaceuticals	**3.7**	**5.0**	**1.3**	**Overweight**
Cipla	0.9	3	2.1	Buy
Sun Pharma	0.7	2	1.3	Buy
FMCG	6.9	5.0	-1.9	Neutral
ITC	3.5	5.0	1.5	Buy
Telecom	**3.3**	**4.0**	**0.7**	**Overweight**
Bharti Airtel	2.1	2	-0.1	Buy
Idea Cellular	0.3	2	1.7	Buy
Utilities	**6.3**	**2.0**	**-4.3**	**Underweight**
Jindal Steel & Power	1.5	2	0.5	Restricted
Others	**4.3**	**9.0**	**4.7**	**-**
GVK Power	0.0	1	1.0	Buy
Piramal Healthcare	0.0	1	1.0	Buy
Nagarjuna Construction	0.0	1	1.0	Buy
Sintex Industries	0.0	1	1.0	Buy
Birla Corp	0.0	1	1.0	Buy
Deccan Chronicle	0.0	1	1.0	Buy
Anant Raj Industries	0.0	1	1.0	Buy
Dewan Housing	0.0	1	1.0	Buy
Jai Balaji Inds	0.0	1	1.0	Buy
Cash	**0.0**	**0.0**	**0.0**	
Total	**100.0**	**100.0**		

Sectoral impact

Automobiles

Budget Impact: Positive **Sector Stance: Overweight**

The Budget was Positive for the Automobiles industry. As expected, excise duty was increased by 2% across all categories. Also, petrol and diesel prices are likely to increase by Rs2.7/liter and Rs2.5/liter, respectively due to increase in duties. However, reduction in tax incidence and increase in disposable incomes would provide boost to demand.

Excise duty increased by 2%

The Finance Minister has increased the ad-valorem component of excise duty on automobiles by 2%, with no change in the specific component. While two-wheelers, small cars and buses would now attract 10% excise duty, trucks would attract 12%. Large cars and UVs would attract 22% excise duty plus Rs15,000/unit (for engine capacity of 1,500cc to 2,000cc) or Rs20,000 (for engine capacity above 2,000cc).

Increase in fuel prices

Increase in duties on fuel would drive 6% increase (~Rs2.7/liter: Delhi) in petrol prices and 7.6% increase (~Rs2.5/liter) in diesel prices. This is sentimentally negative for the auto sector.

Other measures supporting demand

- Reduction in income tax, resulting in higher disposable incomes. We estimate maximum increase of Rs56,000 in disposable incomes.
- Sustained focus on infrastructure development, especially urban infrastructure under JNNURM.
- Increase in agriculture sector outlay and rural credit; continuance of interest subvention scheme for short-term loans, with interest subvention of 2% now (v/s 1% earlier), resulting in lowering interest cost to 5%.

Impact

We expect OEMs to pass through increase in excise to consumers. Negative impact of increase in excise duty and fuel prices is expected to be offset by increase in disposable incomes. **Post-budget, we are upgrading our earnings estimates by 1%-6% to factor in for higher demand, with highest upgrade for Bajaj Auto of 6% for FY11 to Rs140**. While continued focus on infrastructure, especially urban infrastructure, will benefit CV players, increase in outlay for agriculture/rural areas will be positive for companies like M&M, Hero Honda and Maruti.

Sector outlook

Volume growth in the domestic market continues to be robust across segments. Short-term headwinds exist in the form of excise duty increase, increase in selling price (for RM & emission norm change), fuel price increase and hardening interest rates. Our top picks are **Bajaj Auto**, **M&M** and **Maruti**.

VALUATION MATRIX

	CMP (RS)	RECO	EPS (RS)			P/E (X))			EV/EBITDA (X)			ROE (%)		
NAME	26.02.10		FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E
Automobiles														
Bajaj Auto	1,817	Buy	117.0	140.4	160.0	15.5	12.9	11.4	10.0	8.2	6.8	56.5	44.1	35.7
Hero Honda	1,772	Buy	109.9	126.7	144.4	16.1	14.0	12.3	11.1	9.3	7.6	47.7	39.8	30.4
Mahindra & Mahindra	1,007	Buy	93.8	106.7	131.2	10.7	9.4	7.7	5.0	4.4	3.5	26.4	21.3	21.5
Maruti Suzuki	1,464	Buy	86.9	98.7	119.5	16.8	14.8	12.2	9.6	8.2	6.4	21.6	20.1	20.0
Tata Motors	711	Neutral	-3.1	25.8	48.2	-232.3	27.5	14.8	10.0	8.6	7.2	9.0	9.3	9.5
Sector Aggregate						**19.9**	**14.6**	**11.5**	**8.7**	**7.5**	**6.0**	**20.8**	**22.9**	**23.8**

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Banking & Finance

Budget Impact: Positive **Sector Stance: Overweight**

Net government borrowing target of Rs3.45t will abate concerns of crowding out and will limit the rise in G-Sec yield. With pick-up in economic activities, we expect the loan growth of 20% at least in FY11. The government is committed to keeping public sector banks adequately capitalized, which is positive for state-owned banks (especially where government holding is near 51%). RBI is also mulling a proposal of issuing additional bank licenses, where some NBFCs could also benefit. Overall, we rate the budget positive for the financial sector and remain overweight on the sector.

Inline fiscal deficit targets

For FY11, the government estimates net borrowing of Rs3.45t, which is 13% lower than the pervious year's borrowing program. In our view (1) yields are unlikely to harden significantly, and (2) enough resources will be available to support the expected strong pick-up in credit growth. This is favorable for the profitability of banks, as (1) MTM hit will be limited, and (2) higher lendable resources will lead to higher spreads and margins.

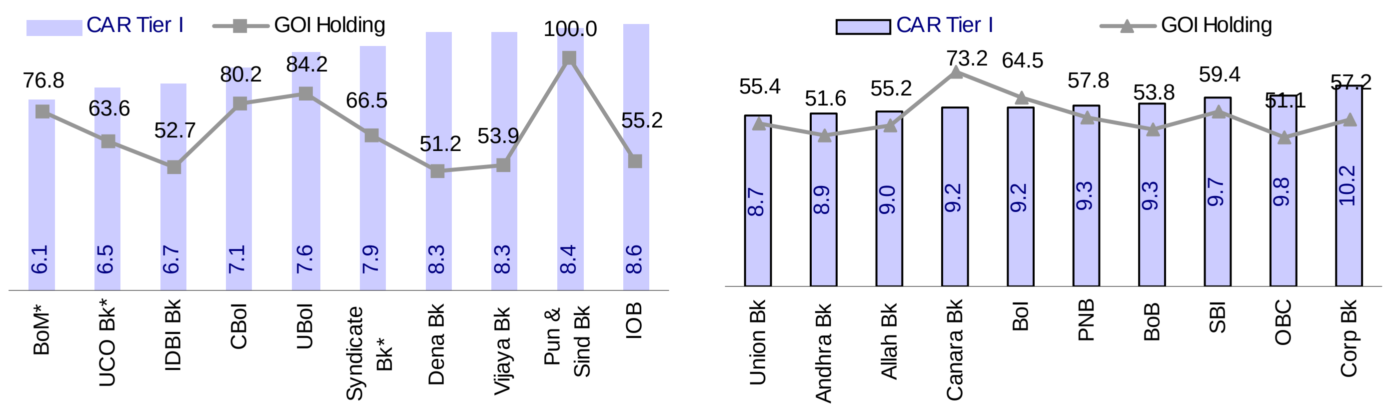
Issue of new banking licenses

The Finance Minister mentioned that RBI is considering issue of banking licenses to private sector players and for which NBFCs could also be considered, if they meet the RBI's eligibility criteria. Currently, large industrial houses cannot promote banks and they cannot hold (directly or indirectly) more than 10% of the bank's equity. Existing criteria for converting an NBFC into a private sector bank are: (1) it should not be promoted by a large industrial house, (2) it should have credit rating of AAA in the previous year, (3) CAR should not be less than 12% and NNPA ratio should not be higher than 5%.

Public sector bank capitalization

For FY11, the government is planning to put a sum of Rs165b to ensure that state-owned banks will be able to attain minimum 8% tier-I capital by FY11. In FY09, the government has already infused Rs19b as tier-I capital in four banks and it is planning to put an additional sum of Rs12b in FY10. State-owned banks with near 51% government holding are likely to be major beneficiaries. In the near-term, banks with near 8% tier-I ratio (like BoM, UCO Bank, IDBI, Dena bank, CBoI, Vijaya Bank, Syndicate bank, IOB, Union Bank) likely to see capital infusion.

TIER-1 CAR AND GOVERNMENT HOLDING IN VARIOUS PSU BANKS (%)



** As on 4QFY09* *Source: Company/MOSL*

Agri debt relief scheme

Repayment schedule for the farmers covered under Debt Relief Scheme is extended by six months to June 30, 2010. Thus, the banks that have not recognized the amount as NPA will get a breather of two quarters. Among state-owned banks, BoB, PNB and Corporation Bank have already recognized these amounts as NPAs.

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Banking & Finance (Contd.)

AMOUNT OUTSTANDING FOR VARIOUS BANKS UNDER DEBT RELIEF SCHEME <AMOUNT IS DEBT RELIEF>

RS B	AMOUNT	GNPA	% OF O/S GNPA
SBI	15	189	8
PNB	2	32	NA*
BoB	2	23	NA*
BoI	5	42	11
UBoI	3	21	14
OBC	2	13	14
Indian	2	5	29
Corp Bk	1	8	NA*

already recognized as NPAs

Tax concessions for infrastructure bonds

To promote savings and to ensure their utilization for the thrust area of infrastructure, budget proposals allow a deduction of an additional amount of Rs20,000 for investment in long-term infrastructure bonds as notified by the central government. This would be over and above the existing limit of Rs100,000. Details of who will be eligible to issue such bonds are not clear. However, it is positive for infrastructure financing, considering ALM mismatches that banks face in infrastructure financing.

Outlook and view

There is no impact on our earnings estimates post-budget. We remain positive on the prospects of the Indian banking sector. The government's focus on growth would drive a pick-up in investment activity and loan growth, and allay concerns on asset quality. **BoB**, **PNB**, **SBI** and **Union Bank** are our top picks among large state-owned banks. We like **OBC** and **Dena Bank** among mid-cap state-owned banks. **HDFC Bank** and **ICICI Bank** are our top picks among private banks.

VALUATION MATRIX

	CMP (RS)	RECO	EPS (RS)			P/E (X))			P/BV (X)			ROE (%)		
NAME	26.02.10		FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E
Banking														
Andhra Bank	99	Buy	22.1	23.1	27.5	4.5	4.3	3.6	1.1	0.9	0.8	26.7	23.5	23.9
Axis Bank	1,125	Buy	60.7	77.8	96.2	18.5	14.5	11.7	2.8	2.5	2.1	18.7	18.2	19.3
Bank of Baroda	584	Buy	81.4	90.6	104.3	7.2	6.4	5.6	1.5	1.3	1.1	23.3	21.9	21.3
Bank of India	334	Neutral	34.7	49.8	64.5	9.6	6.7	5.2	1.3	1.1	1.0	14.6	18.3	20.3
Canara Bank	392	Buy	80.7	76.6	91.8	4.9	5.1	4.3	1.3	1.1	0.9	29.1	22.4	22.4
Corporation Bank	442	Buy	81.0	91.9	109.5	5.5	4.8	4.0	1.1	0.9	0.8	21.8	21.0	21.2
Dena Bank	80	Buy	17.6	19.4	22.2	4.6	4.1	3.6	1.0	0.8	0.7	23.2	21.2	20.4
Dewan Housing	186	Buy	18.2	25.4	34.7	10.2	7.3	5.4	1.8	1.5	1.2	22.5	22.3	25.1
Federal Bank	257	Buy	31.3	39.7	47.5	8.2	6.5	5.4	0.9	0.8	0.7	11.8	13.5	14.3
HDFC	2,500	Neutral	94.5	109.8	128.5	26.5	22.8	19.5	4.9	4.4	3.8	25.1	24.9	25.2
HDFC Bank	1,705	Buy	65.2	86.5	110.7	26.2	19.7	15.4	3.7	3.2	2.8	16.3	17.4	19.3
ICICI Bank	872	Buy	37.5	50.5	62.2	23.2	17.3	14.0	1.9	1.7	1.6	11.0	13.7	15.3
IDFC	160	Neutral	8.5	10.2	12.0	18.7	15.7	13.3	2.9	2.6	2.2	16.7	17.4	17.8
Indian Bank	164	Buy	36.4	33.1	39.8	4.5	5.0	4.1	1.0	0.9	0.8	25.6	19.6	20.3
Indian Overseas Bank	88	Sell	13.6	16.3	19.9	6.5	5.4	4.4	0.8	0.7	0.6	12.1	13.5	15.1
J&K Bank	619	Buy	106.6	118.6	135.6	5.8	5.2	4.6	1.0	0.9	0.8	18.3	17.7	17.7
Kotak Mahindra Bank	742	Neutral	34.2	42.2	49.3	21.7	17.6	15.0	3.3	2.8	2.4	19.4	20.2	19.9
LIC Housing Fin	753	Buy	69.5	87.3	102.7	10.8	8.6	7.3	2.1	1.8	1.5	23.5	22.5	22.4
Oriental Bank of Commerce	274	Buy	45.9	49.6	60.6	6.0	5.5	4.5	0.9	0.8	0.7	16.6	15.7	16.8
Punjab National Bank	901	Buy	122.5	141.1	165.7	7.4	6.4	5.4	1.8	1.5	1.2	26.4	25.0	24.3
Rural Electric. Corp.	244	Buy	19.8	24.5	29.6	12.3	9.9	8.2	2.2	1.9	1.7	21.5	20.6	21.9
Shriram Transport Fin.	461	Buy	38.2	48.2	60.4	12.0	9.6	7.6	2.7	2.3	1.8	22.7	23.6	24.0
State Bank	1,976	Buy	200.0	227.7	287.0	9.9	8.7	6.9	1.5	1.3	1.1	16.3	16.3	17.8
South Indian Bank	145	Buy	22.3	26.7	30.3	6.5	5.4	4.8	1.1	0.9	0.8	18.0	18.7	18.5
Union Bank	256	Buy	40.8	49.0	58.2	6.3	5.2	4.4	1.5	1.2	1.0	26.1	25.4	24.6
Yes Bank	237	Buy	14.3	18.2	22.6	16.6	13.0	10.5	2.5	2.1	1.8	20.2	17.8	18.4
Banking Sector Aggregate						**12.3**	**10.4**	**8.5**	**2.2**	**1.9**	**1.7**	**18.3**	**18.5**	**19.5**

Cement

Budget Impact: Negative **Sector Stance: Overweight**

The Union Budget 2010-11 is negative for the cement industry. As expected, the government increased excise duty on cement to 10% (from 8%). However, the government continues to focus on infrastructure - increased allocations under various schemes should result in higher cement demand.

Increase in excise duty by 2%, increase in fuel prices, imposition of Rs50/ton cess on coal

The finance minister has increased excise duty by 2% to 10%, in-line with expectations. Further, due to increase in duties on fuel would drive increase in 6% (~Rs2.7/ltr Delhi) increase in petrol prices and 7.6% (~Rs2.5/ltr) increase in diesel prices. Also, there is imposition of clean energy cess of Rs50/ton on both domestic and imported coal.

Continued focus on infrastructure, development and housing to boost cement demand

The Budget continued the thrust on infrastructure development, with allocations being increased to Rs1,735b. The following measures would boost cement demand:

- Bharat Nirman allocation increased from Rs480b in FY11BE (up 6%)
- JNNURM allocation at Rs116.2b v/s Rs63.3b in FY10RE (and Rs129b in FY10BE)
- Accelerated Irrigation Benefit Program allocation increased to Rs115b (up 18%)
- National Highway Development Program allocation increased to Rs199b (up 14%)
- Allocation for urban development increased to Rs54b (up 76%)
- Increase in allocation for the Indira Awas Yojna (rural housing) by 13% to Rs100b
- Increase in allocation for the Rajiv Awas Yojna (slum rehabilitation) to Rs12.7b from Rs1.5b

Impact

Increase in excise duty by 2% would increase excise burden by Rs3-6/bag, whereas increase in fuel prices would in turn result increase in freight of ~Rs1.5/bag. Imposition of cess on coal would have very marginal impact of Re0.25/bag. Our interactions with the companies indicate that this increase in excise duty would be passed on necessitating Rs3-6/bag increase in cement prices. However, this reduces ability for the industry to take further price increases in short term. As a result, we are reducing our price assumption from Rs15/bag QoQ increase to Rs10/bag QoQ increase. **Our FY11 EPS estimates have been downgraded by an average 1.5%, with India Cement being worst impacted with 6% downgrade to Rs8.6.**

Sector outlook

- Short-term outlook is positive, based on strong demand and improvement in utilization levels. News flow on pricing is expected to be positive. However, prices are likely to correct in 1HFY11, as demand cools off from the peak and new capacities begin operations.
- However, presence of sustainable demand drivers and expected gradual recovery in utilization from 3QFY11 would lay the foundations for the next upcycle. We prefer companies that are ahead of the curve in adding capacity, along with strong cost saving possibilities. Among large cap stocks, **UltraTech** and **ACC** remain our top picks, while we prefer **India Cement** and **Birla Corp** among mid-caps.

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Cement (Contd.)

VALUATION MATRIX

	CMP (RS)	RECO	EPS (RS)			P/E (X))			EV/EBITDA (X)			ROE (%)		
NAME	26.02.10		FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E
Cement														
ACC	923	Neutral	83.4	69.6	79.5	11.1	13.3	11.6	6.2	7.1	6.2	29.6	20.9	19.2
Ambuja Cements	107	Neutral	7.8	8.4	9.1	13.7	12.7	11.8	8.1	7.6	6.5	19.7	18.8	18.0
Birla Corporation	363	Buy	74.5	67.5	66.2	4.9	5.4	5.5	2.7	2.5	3.2	31.6	22.7	18.5
Grasim Industries	2,697	Buy	341.1	281.1	311.1	7.9	9.6	8.7	3.7	3.3	2.5	23.8	16.3	15.7
India Cements	117	Buy	12.9	8.6	10.2	9.1	13.7	11.5	6.5	7.9	6.1	9.4	5.9	6.4
Kesoram Ind	359	Buy	57.2	57.7	73.9	6.3	6.2	4.9	4.7	4.7	3.9	18.1	15.8	17.4
Shree Cement	2,146	Buy	266.7	230.1	257.8	8.0	9.3	8.3	5.3	5.1	4.2	56.5	32.7	27.7
Ultratech Cement	1,038	Buy	91.1	82.6	93.7	11.4	12.6	11.1	6.5	3.4	2.7	24.3	27.7	20.0
Sector Aggregate						**9.4**	**9.3**	**8.4**	**5.2**	**4.6**	**3.8**	**22.7**	**17.5**	**16.7**

Construction/Infrastructure **Budget Impact: Neutral** Sector Stance: Overweight

Union Budget 2010-2011 has continued the thrust on infrastructure development and has increased budgetary allocations for most segments. Budget allocation for the infrastructure sector stands at Rs1,735b, which accounts for 46% of plan spending. India Infrastructure Finance Company Limited (IIFCL) has disbursed Rs90b of funding for infrastructure projects till FY10E, which is expected to increase to Rs200b by FY11E. To further encourage fund raising for various NBFCs, banks, etc, the Budget has provided for deduction of up to Rs20,000 under section 80CCF by an individual (over and above the investment limit of Rs100,000 under section 80C). Increase in MAT rate from 15% to 18% is largely neutral, as it is a tariff adjustment and thus a pass-through for major infrastructure projects through "change in laws of land" clause. Service tax net has been expanded to cover services at airport, ports, etc; which is negative for project developers.

A] Key Budget Incentives that will drive demand

The Budget has increased allocations towards various ongoing schemes.

- **Bharat Nirman:** Increased allocation to Rs480b in FY11BE, up from Rs453b in FY10BE and Rs409b in FY09.
- **Jawaharlal Nehru National Urban Renewal Mission (JNNURM):** Allocation for FY11E increased to Rs116.2b v/s Rs63.3b in FY10RE (and Rs129b in FY10BE). The scheme caters to various projects in segments like Water Supply, Sanitation, Transportation, Roads and Housing in urban areas.
- **Accelerated Irrigation Benefit Program:** Budget allocation for FY11 increased to Rs115b from Rs97b during FY10BE.
- **National Highway Development Program:** Budgetary allocation has increased from Rs175b in FY10BE to Rs199b for FY11BE.

Key beneficiaries: Project developers like GMR Infrastructure, GVK Power and Infrastructure, IRB Infrastructure, Gammon, Larsen & Toubro; and also construction companies like Nagarjuna Construction, Simplex, HCC, etc.

B] Focus on facilitating funding for infrastructure projects

- India Infrastructure Finance Company Limited (IIFCL) has disbursed Rs90b of funding for infrastructure projects till FY10E, which is expected to increase to Rs200b by FY11E. IIFCL has refinanced bank lending to infrastructure projects of Rs30b during FY10E and is expected to more than double in FY11. The take-out financing scheme announced in the last Budget is expected to initially provide finance for about Rs250b in the next three years.
- To further encourage fund raising for various NBFCs and banks, the Budget has provided for a deduction of up to Rs20,000 u/s 80CCF by an individual (over and above the investment limit of Rs100,000 u/s 80C). This amendment is proposed to take effect from 1 April 2011 and will, accordingly, apply in relation to the assessment year 2011-12.

Take-out financing is a method of providing finance for longer duration projects (say of 15 years) by banks by sanctioning medium-term loans (say 5-7 years). It is an understanding that the loan will be taken out of books of the financing bank within pre-fixed period, by another institution, thus preventing any possible asset-liability mismatch.

Benefits

This ensures that project gets long-term funding though various participants.

Process of take-out financing

- The original lender participates in a long-term project (say 15-20 years) by granting a medium-term loan (of say 5-7 years).
- On completion of the pre-decided period, this loan is taken over by another institution subject to fulfillment of the conditions stipulated in the original arrangement.
- Original lender receives the payment from the second lender who has taken over the loan.

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Construction/Infrastructure (Contd.)

C] Widening service tax net on infrastructure assets

- The Budget has widened service tax net to include 'airport services, 'port services', and 'other port services'. We understand that all services provided entirely within the airport/port premises would be classified as taxable services, without any authorization from the airport/port authority.
- We also understand that scope of air passenger transport service is being expanded to include domestic journeys and international journeys in any class, and thus will attract service tax.

Negative: Project developers like GMR Infrastructure, GVK Power and Infrastructure, Mundra Port, etc would be negatively impacted, as this could impact passenger spend. While service tax on aero revenues at airports is a tariff adjustment and thus a pass-through, service tax on non-aero revenues will possibly have to be borne by the project developers. Also, GMR Infrastructure is already providing service tax on UDF at Hyderabad airport (impact to company); now the scope could be expanded.

D] Increase in MAT rate to 18% from 15%

The increase in MAT rate for infrastructure sector is likely to impact earnings as well as cash flows of project SPVs, and therefore, valuations. We understand that companies can create deferred tax assets in the P&L account and lower impact on the earnings.

Neutral / Negative: Project developers like GMR Infrastructure, GVK Power and Infrastructure, IRB, Larsen and Toubro, Mundra Port, etc will be impacted. Projects awarded through a competitive bid will entail adjustment to the tariffs and thus pass-through. Other projects will be impacted; for instance non-aero revenues at airports.

E] Flexibility in disposal of road construction equipment

Specified road construction machinery items are presently fully exempt from customs duty, subject to specified conditions. Sale or disposal of such machinery items was earlier permitted only after five years; now the sale/disposal is being permitted post payment of customs duty at depreciated value.

Positive: Several construction companies take contracts in JVs, and now such JVs can acquire road machinery. Previously, this was not tax-efficient as most projects are executed within 3-4 years.

VALUATION MATRIX

	CMP (RS)	RECO	EPS (RS)			P/E (X))			EV/EBITDA (X)			ROE (%)		
NAME	26.02.10		FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E
Construction/Infrastructure														
GMR Infrastructure	55	Neutral	1.2	1.2	1.4	45.9	47.6	40.3	15.6	14.5	13.2	6.5	6.0	6.7
GVK Power & Infra	43	Buy	1.0	1.7	3.1	42.6	26.1	14.0	19.0	16.1	10.7	5.1	7.8	13.0
Hindustan Construction	134	Neutral	4.2	6.1	8.1	31.8	22.1	16.5	13.2	10.2	8.6	8.3	10.9	13.1
IRB Infra.Devl.	253	Not Rated	17.7	19.7	18.6	14.3	12.9	13.6	9.9	9.8	8.4	22.2	19.7	15.7
IVRCL Infra.	322	Buy	16.0	18.1	24.0	20.1	17.8	13.4	12.0	10.0	8.1	11.7	12.3	14.5
Jaiprakash Associates	132	Buy	4.4	3.8	3.1	29.8	35.2	42.3	15.0	18.4	11.9	12.0	9.1	7.0
Mundra Port	673	Not Rated	14.4	20.9	32.9	46.7	32.2	20.5	32.8	20.9	15.7	17.4	21.3	26.8
Nagarjuna Construction	154	Buy	9.1	11.6	14.0	16.8	13.3	11.0	12.6	10.8	9.6	9.5	9.5	10.3
Simplex Infra.	448	Buy	26.4	35.3	47.4	17.0	12.7	9.4	6.9	5.9	5.0	13.6	15.9	18.2
Sector Aggregate						**30.7**	**26.9**	**21.8**	**15.6**	**14.7**	**11.4**	**11.0**	**11.3**	**12.4**

Engineering & Power

Budget Impact: Neutral **Sector Stance: Neutral**

The Union Budget 2010-11 is neutral for Power and marginally negative for Engineering. The key budget proposals for the Power sector are: (1) higher budgetary allocation at Rs51.3b in FY11BE (v/s Rs22.3b in FY10BE), (2) award of coal mines for captive use on competitive bid basis and setting up of Coal Regulator, (3) 16% customs duty on sale of power from SEZ to DTA, etc. The Budget has not clarified on the key industry expectation of extending the deadline for claiming Sec80IA deadline for power generation projects commissioned post FY11. The government emphasized the development of clean energy fund (akin to carbon tax in developed countries) and has provided for a cess of Rs50/ton of coal produced/imported in India [could raise Rs20b+ per year, given coal consumption of ~400m tons in India]. Further, to promote wind power generation, the government has announced zero duty import of specified raw material required for manufacturing of rotor blades.

For the Capital Goods sector, the increase in excise duty to 10% (increase of 2%) is marginally negative, while the increase in allocation towards the Power sector, Solar Power sector and Defense spending (capital expenditure up 9% YoY to Rs600b) is a key positive.

Key budget initiatives

[A] Focus on power sector capacity addition: The government has accorded highest priority to capacity addition in power sector and has initiated steps to expedite the same. Budget 2010-11 provides for exemption of customs duty for mega power projects, for which power supply is tied-up on competitive bid mechanism.

[B] Rationalization of coal resources / plans to appoint coal regulator: Sufficient coal availability is likely to be a key constraint for the power sector; and to address the issue, the Budget has announced various initiatives.

- Award coal blocks for captive mining through competitive bid mechanism (CBT). This, we believe is the key positive, as this would drive the private sector to expedite mine development.
- "Coal Regulatory Authority" is proposed to be created to offer a level playing field in the coal sector.

[Utilities (Positive): NTPC, Tata Power, Reliance Power, Adani Power, JSW Energy;
Capital Goods (Positive): BHEL, L&T, etc]

[C] Increase in defense spending: The government has increased budgetary allocation for capital expenditure on defense sector in FY11BE to Rs600b (+9%YoY) v/s Rs548b during FY10BE.

[**Positive:** BEL, L&T]

Tax measures

[D] MAT rate increased to 18% from 15%: Under section 80-IA, power and infrastructure development was eligible for 100% tax exemption for 10 years out of any 15-year block. Thus, the developer was liable to pay MAT rate of tax during the years of 80-IA benefit.

Impact on power sector companies: Power sector firms under the regulatory regime such as NTPC and Powergrid get tax as pass-through in tariff. So, the hike in MAT rate has no implication on the profitability of these companies.

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Engineering & Power (Contd.)

However, in the recent tariff norms announced by CERC, the benefit of section 80-IA was allowed to be retained by the developer by grossing-up the regulated return on the project (core RoE of 15.5%) at the applicable rate and thus, increase in MAT rate would lower the benefit for companies like NTPC.

For private sector players, where the projects have been awarded through Case-2 bidding or capacity has been tied up under Case-1, the contract term specifies that any increase in costs due to changes in legislation is a pass-through and will be adjusted in tariffs. However, on merchant profits, increased tax burden will have to be borne by developers and impact players like Reliance Power, Tata Power, Adani Power, GMR Infrastructure and GVK Power.

Marginally negative for NTPC, earnings downgrade of 1.4% in FY12E: NTPC was a key beneficiary of the revised CERC norms as the difference between MAT and full corporate tax rate was retained. For NTPC, we estimate about 11.2GW of project capacity to be eligible for 80-IA benefit and the hike in MAT rate has lowered the differential available.

Infrastructure tax benefit accounts for 5-6% of the company's net profit. We downgrade our earnings estimates for NTPC by about 1% for FY11E and 1.5% for FY12E to factor in the higher MAT rate. We now expect NTPC to report EPS of Rs11.2 (against Rs11.2) in FY11E and Rs12.7 in FY12E (against Rs12.9 earlier). However, the impact on the valuations is not meaningful, as present value of the 80-IA tax benefit is about ~3% of the DCF value. Neutral.

[E] Electricity generation from SEZ brought under customs net: Currently, electricity generation from SEZ supplies to Domestic Tariff Area is fully exempt from customs duty. Now, such sales of electrical energy would attract duty of 16% ad valorem + Nil special CVD. This change is being made retrospectively w.e.f. 26 June 2009. Exemption on supplies or imports of electrical energy, other than the above, would however continue.

[**Négative:** Adani Power]

[F] Transmission exempt from service tax: Budget has proposed to exempt transmission of electricity from service tax net, while electricity exchanges have been brought under service tax. This will lower the cost of power transmission.

[G] Excise rate increased to 10% from 8% on capital goods: Hike in basic rate of excise duty for all manufactured goods from 8% to 10% is marginally negative, as it could make domestic equipment slightly less competitive, as peak rate of customs duty is kept unchanged.

[**Négative:** Siemens, ABB, Crompton Greaves, Areva]

[H] Increased allocations towards APDRP, etc: Budgetary allocations to the sector have increased to Rs51.3b in FY11BE from Rs22.3b in FY10 (excluding RGGVY).

[I] 80IA benefit status quo till March 2011: The Budget has not clarified on the key industry expectation of extending deadline for claiming 80IA deadline for power generation projects commissioned post FY11. Our NPV factors in that projects commissioned post FY11 will also continue to enjoy section 80-IA benefits.

Engineering & Power (Contd.)

[J] Development and promotion of clean energy / environment management

- To build the corpus of National Clean Energy Fund, clean energy cess on coal produced in India at a nominal rate of Rs50 per ton to be levied. This cess will also apply on imported coal.
- Concessional customs duty of 5% to machinery etc required for initial setting up of photovoltaic and solar thermal power generating units; these would also be exempt from central excise duty.
- Allocation of Rs10b towards Jawaharlal Nehru National Solar Mission (JNNSM), with plans to add 20GW of solar power by 2022.
- Thirteenth Finance Commission Report has also recommended provision of Rs50b grant from the central government to states towards incremental costs for promoting renewable energy over a period of four years.
- Further, to promote wind power generation, the government has announced zero excise duty on certain raw materials required for manufacturing rotor blades.

[**Positive:** Suzlon; Tata Power (PV manufacturing)]

We believe that the creation of National Clean Energy Fund is akin to carbon tax in developed countries; given the coal consumption of ~400m ton, Rs20b per year can be raised. This could provide a significant push to renewable energy, largely wind energy.

VALUATION MATRIX

	CMP (RS)	RECO	EPS (RS)			P/E (X))			EV/EBITDA (X)			ROE (%)		
NAME	26.02.10		FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E
Engineering														
ABB	795	Neutral	16.7	25.9	36.3	47.5	30.7	21.9	31.0	20.0	13.7	15.6	20.5	23.6
BHEL	2,352	Buy	89.7	114.2	151.8	26.2	20.6	15.5	16.3	12.6	9.4	30.5	31.5	33.6
Crompton Greaves	416	Neutral	22.3	26.6	32.2	18.6	15.7	12.9	17.1	13.6	10.8	39.1	35.6	34.0
Larsen & Toubro	1,567	Neutral	55.5	70.0	88.2	28.2	22.4	17.8	21.8	17.8	14.2	18.7	18.5	20.1
Siemens	683	Neutral	13.7	24.0	27.0	49.8	28.4	25.3	21.1	15.3	13.9	12.7	25.6	24.8
Thermax	589	Neutral	20.5	23.8	30.9	28.8	24.8	19.1	19.0	15.9	13.0	26.0	30.3	33.9
Sector Aggregate						**28.3**	**21.9**	**17.0**	**19.1**	**15.0**	**11.6**	**24.6**	**25.5**	**27.3**

VALUATION MATRIX

	CMP (RS)	RECO	EPS (RS)			P/E (X))			EV/EBITDA (X)			ROE (%)		
NAME	26.02.10		FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E
Utilities														
Adani Power	106	Not Rated	0.5	2.1	10.9	230.5	50.4	9.7	165.5	34.9	9.6	1.9	8.2	35.2
CESC	384	Neutral	28.9	31.0	31.5	13.3	12.4	12.2	7.7	8.5	9.3	11.3	11.0	10.1
Indiabulls Power	29	Not Rated	0.2	0.1	-0.2	136.2	253.4	-	-	-	-	1.1	0.6	-0.9
JSW Energy	104	Not Rated	4.7	9.0	9.6	22.2	11.5	10.8	16.0	6.4	5.8	15.4	26.0	21.8
NTPC	203	Neutral	10.6	11.3	12.9	19.2	18.0	15.8	12.1	9.8	9.9	14.6	14.2	14.8
Power Grid Corp.	107	Buy	4.9	5.8	7.6	21.9	18.5	14.0	14.0	11.3	9.6	13.4	14.4	17.1
PTC India	105	Buy	3.7	4.3	4.4	28.1	24.6	24.0	40.3	41.1	38.2	6.1	5.9	5.9
Reliance Infrastructure	1,004	Buy	45.0	56.3	68.8	22.3	17.8	14.6	24.9	23.2	20.8	9.8	9.8	10.0
Reliance Power	138	Not Rated	-	2.6	0.8	-	53.4	168.8	-	28.9	19.1	-	4.4	1.4
Tata Power	1,213	Neutral	60.8	96.7	119.1	19.9	12.5	10.2	18.6	16.2	15.3	7.8	9.0	9.1
Sector Aggregate						**23.9**	**19.0**	**15.3**	**16.4**	**12.5**	**11.1**	**10.7**	**12.1**	**13.7**

FMCG/Retail

Budget Impact: Negative **Sector Stance: Positive**

The Budget is negative for FMCG in general due to the rollback of excise duty on major FMCG categories as well as double-digit increase in excise duty on cigarettes (18% increase on 60-70mm cigarettes and 11% on >70mm cigarettes). Increase in MAT rate will increase tax rate of GCPL and Dabur. The government has not increased allocation under NREGA while reduction in tax rate will boost the disposable incomes of the middle class. On the retail sector front, the Finance Minister disappointed again with little mention of FDI in multi-brand retail.

Rationalization of income tax slabs positive; near flat spend on NREGS disappoints

The Budget has proposed further rationalization of personal taxes. We estimate annual saving of Rs20,000 for an individual with an annual income of Rs0.5m and Rs56,000 for an individual earning Rs0.8m. We believe this is likely to boost discretionary spend among the middle class.

However, we were disappointed by the near flat spend on NREGA. We note that the rural economy has been displaying strong resilience in recent quarters, led by the support of non-agri income, NREGA being the prime one. NREGA also had indirect implications for the general wage level in rural India; flat allocation will stabilize wage levels. NREGA is expected to cover ~50m households (~40% of rural households) in FY10-11.

Cigarette excise increased by 11-18%; introduction of <60mm slab positive; ITC EPS estimates downgraded by 4-5%

The Budget proposals would have far reaching implications for the excise duty on cigarettes. While on one hand, the industry demand for lower excise duty on smaller filter cigarettes has found favor with the Finance Minister, blended increase in excise duty is estimated at a steep 15-16%. Following are the key highlights and implications:

- Excise duty on cigarettes has been increased by 11%, except 60-70mm cigarettes, where it has been increased by 18%
- The government has split the <70mm filter cigarette category into (1) <60mm with excise duty at Rs669/1,000 sticks; and (2) 60-70mm filter, with excise duty of Rs969/1,000 sticks. Thus, the excise duty increase on 60-70mm cigarettes is 18%
- Excise duty on other tobacco forms like cigar, pan masala, other smoking tobaccos, etc has also been increased, but it does not indicate any lowering of differential between excise duty on cigarettes and other tobacco forms
- We estimate that 60-70mm filter cigarettes account for 75% of cigarette volumes for ITC, consequently blended duty increase is estimated at 16%. We believe 60-70mm filter cigarettes would witness a price increase of 7-8% on account of excise increase.
- We expect ITC and other cigarette players to launch <60mm filters at MRP of Rs1.5, this would enable the industry to upgrade not only the consumers of excise evaded cigarettes but also bidis.
- However, the current phase of transition will impact volumes in the interim. ITC earlier had plain cigarettes at a price point of Rs1.5, which accounted for 15% of its volumes. We estimate that <60mm cigarettes would account for 5% of its volumes, which would mainly come at the expense of regular filters, initially.
- We are reducing FY11 and FY12 volume growth estimates to 3.2% and 5.5% from our earlier estimates of 6%. We expect the sales mix to deteriorate due to consumer downtrading and introduction of lower-priced filter cigarette.
- We estimate realization growth of 2.9% v/s 11.8% in FY10E. EBIT growth is estimated at 2.5% only, sharp contrast to 16.8% CAGR in the past five years and 15% CAGR over FY07-09 when ITC's volumes actually declined.

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FMCG/Retail (Contd.)

CIGARETTES - EXCISE DUTY TREND

RS/1,000 STICKS	LENGTH (MM)	FY06	FY07	FY08	FY09	FY10E	FY11E	FY12E
Micros	<60	150	158	167	819	819	669	702
Plains	61-70	495	520	551	1,323	1,323	1,473	1,547
Small Filter	<60mm						669	702
Filter - Regular	<70	740	777	819	819	819	969	1,017
Filter - Long	71-75	1,200	1,260	1,323	1,323	1323	1,473	1,547
Filter - King	76-85	1,595	1,675	1,759	1,759	1759	1,959	2,057
Filter - Extra large	86-100	1,960	2,058	2,163	2,163	2163	2,363	2,481
Excise Duty Change (%)	10	5	5	Micros 391	0	11	5	
					Plains 140		RFC - 18	
VAT Increase (%)				12.5		7.5 (3 states)		
Volume Growth (%)	8.4	7.1	-0.7	-2.9	7.5	3.2	6	
Net Realization Growth (%)	5.9	9.1	11.9	17.3	11.8	2.9	6.8	
EBIT Growth (%)		17.1	16.5	15.0	15.2	19.1	2.5	14.7

- We are downgrading FY11 and FY12 EPS estimates by 4-5%, which factors in (1) lower volume growth and profitability in cigarette business; (2) lower tax rate due to 100% depreciation allowance for new hotels starting from April 2010 (section 35AD); and (3) 2.5% reduction in surcharge on corporate tax.
- Our FY11 and FY12 EPS estimates stand reduced to Rs12.3 (earlier Rs12.8) and Rs14.2 (earlier Rs15). Our SOTP-based target price stands reduced to Rs278 (earlier Rs300).

Partial stimulus roll-back negative for sector; increase in MAT rate to hurt GCPL and Dabur

The Budget partially rolled back excise stimuli offered in the previous fiscal. Following are the key highlights:

- Excise on major FMCG product categories has been increased from 8% to 10%, which is likely to necessitate price increase of 0.5-1.7% by various FMCG companies depending upon the category and the location of manufacturing units (excise exemption).
- Baby diapers and sanitary napkins will attract 10% excise duty (earlier exempted).
- Excise duty on cartons, boxes and cases of paperboard has been reduced from 8% to 4%, which will benefit the entire FMCG sector.

CHANGES IN ESTIMATES

	EARLIER		REVISED		CHANGE (%)		
	FY11/CY10	FY12/CY11	FY11/CY10	FY12/CY11	FY11/CY10	FY12/CY11	REMARKS
Asian Paints	88.2	106.6	86.5	104.6	-1.9	-1.8	Excise roll-back, partially offset by Surcharge reduction
Colgate	32.0	38.0	32.3	38.3	0.8	0.8	Excise roll-back, partially offset by Surcharge reduction
Dabur	6.8	8.2	6.5	7.9	-3.3	-3.3	Impact of MAT increase
Godrej Consumer	13.6	16.0	13.1	15.5	-3.4	-3.3	Impact of MAT increase
GSK Consumer	66.2	81.0	64.5	78.9	-2.6	-2.6	Impact of Roll-back, partially offset by Surcharge reduction
Hind. Unilever	12.3	14.4	12.1	14.2	-1.9	-1.8	Impact of Roll-back, partially offset by Surcharge reduction
ITC	12.8	15.0	12.3	14.2	-3.9	-5.0	Cigarette excise increase, tax benefit in Hotels, surcharge reduction
Marico	4.8	5.9	4.8	6.0	0.8	0.8	Benefits from surcharge reduction
Nestle	93.5	114.2	93.0	114.0	-0.5	-0.2	Impact of Roll-back, partially offset by Surcharge reduction
United Spirits	51.1	61.9	51.6	62.5	1.0	1.0	Benefits from surcharge reduction

FMCG/Retail (Contd.)

- The budget also proposed increase in MAT rate from 15% to 18%, which is likely to increase the tax burden of Dabur and GCPL.

We believe that most of the FMCG companies would try to pass on the impact of increase in excise duty, high inflation, rising competition and proportion of sales from excise free zones will be a key determinant. We are lowering EPS estimates of Dabur and GCPL by 3.3% mainly due to higher MAT rate.

No mention of FDI in Retail disappointing

Retail sector has not got any direct incentives, as there is no mention of FDI in multi-brand Retail. However, some of the other Budget highlights are:

- Rationalization of tax slabs will boost the discretionary income of middle class and sales growth of organized retail
- Excise duty exemption on specific items used in cold chain, refrigerated vehicle, etc has been extended to dairy, poultry, horticulture and marine segments
- Import duty on gold has been increased from Rs200/10gm to Rs300/10gm, which is a pass-through in the jewelry industry
- Excise duty on goggles imposed at 10%, earlier exempted.

VALUATION MATRIX

	CMP (RS)	RECO	EPS (RS)			P/E (X))			EV/EBITDA (X)			ROE (%)		
NAME	26.02.10		FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E
FMCG														
Asian Paints	1,810	Neutral	79.9	86.5	104.6	22.6	20.9	17.3	14.3	13.1	10.7	48.2	41.2	39.9
Britannia	1,671	Buy	86.9	112.7	132.0	19.2	14.8	12.7	15.9	11.8	9.8	49.1	50.7	48.0
Colgate	691	Buy	28.8	32.3	38.3	24.0	21.4	18.0	19.4	15.7	13.0	167.2	150.8	148.9
Dabur	169	Buy	5.7	6.5	7.9	29.4	25.8	21.4	22.8	19.2	16.1	45.7	41.1	39.1
Godrej Consumer	246	Buy	10.7	13.1	15.5	23.0	18.8	15.9	18.6	14.3	12.0	48.2	50.4	50.0
GSK Consumer	1,435	Buy	55.4	64.5	78.9	25.9	22.2	18.2	17.8	15.6	12.2	26.0	25.7	26.6
Hind. Unilever	236	Neutral	9.7	10.3	12.1	24.2	22.8	19.6	17.7	16.5	14.1	94.1	96.2	103.1
ITC	232	Buy	10.8	12.3	14.2	21.5	18.9	16.3	13.0	11.8	9.9	25.7	25.3	25.4
Marico	103	Buy	4.0	4.8	6.0	25.7	21.3	17.3	16.8	14.1	11.4	37.6	32.7	30.0
Nestle	2,622	Buy	77.1	93.0	114.0	34.0	28.2	23.0	23.0	19.1	15.6	125.9	119.1	115.5
Tata Tea	943	Neutral	61.6	68.8	76.7	15.3	13.7	12.3	9.2	8.0	7.1	9.5	9.9	10.2
United Spirits	1,362	Buy	30.7	51.6	62.5	44.3	26.4	21.8	17.2	13.9	12.2	8.3	12.4	13.2
Sector Aggregate						**24.3**	**21.2**	**18.0**	**15.7**	**13.9**	**11.7**	**31.7**	**31.6**	**32.1**

VALUATION MATRIX

	CMP (RS)	RECO	EPS (RS)			P/E (X))			EV/EBITDA (X)			ROE (%)		
NAME	26.02.10		FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E
Retail														
Pantaloon Retail	388	Buy	9.9	14.5	19.0	39.3	26.8	20.4	11.9	9.7	8.3	6.8	9.1	10.7
Titan Industries	1,749	Neutral	55.1	70.9	91.6	31.7	24.7	19.1	21.1	16.0	12.5	33.8	33.5	33.9
Sector Aggregate						**35.6**	**25.7**	**19.7**	**14.7**	**11.7**	**9.7**	**12.0**	**14.4**	**16.4**

Information Technology

Budget Impact: Neutral **Sector Stance: Neutral**

We view the Budget as Neutral for the IT sector, with no further extension of STPI exemption beyond FY11, in line with expectations. The exemption of export profits from SEZs with retrospective effect (FY06 onwards v/s FY10 onwards, earlier) is marginally positive for Infosys and HCL Tech, which had provided for taxation on the same. Other measures like higher MAT and procedural simplification of service tax refunds do not have a P&L impact. Our estimates remain unchanged post the budget. We prefer Infosys and HCL Tech within large caps and Patni within mid-cap IT companies.

Full export profits from SEZs exempted from FY06 onwards (v/s FY10 earlier), Infosys and HCL Tech to see tax write-back

According to section 10AA earlier, 'export turnover of the unit' was divided by the 'total turnover of the assessee' for calculation of exemption from income tax on export profits from SEZs. In the FY09 Budget, this anomaly was removed, exempting overall export profits on a prospective basis from FY10 onwards. This has now been allowed with retrospective effect from FY06. This clarification is positive for IT companies. Infosys and HCL Tech had provided for taxes on un-exempted profits in their P&L account. So, there would be tax write-back due to the same. The extent of this provision has not been disclosed by Infosys, but given that revenues till FY09 were just 11% of Infosys' revenues, the write-back might not be substantial. For HCL Tech, it was a US$6.6m provision. Other IT companies were not providing for this tax, so there would be no material impact there.

No extension in STPI benefits beyond FY11: on expected lines

Tax exemption on export income derived from units operating under STPI has not been extended beyond FY11. This is on expected lines and increase in tax rates on account of the same has been already factored in our estimates.

Higher MAT neutral on P&L

From a cash-flow perspective, the increase of MAT to 18% from 15% will be negative. But from a P&L perspective, the companies would be able to claim MAT credit entitlement until tax incidence starts, with no impact on reported earnings.

Expansion of tax slabs could lead to some moderation in wage inflation pressures

With benefit of Rs56,000 on income up to Rs0.8m, based on proposed tax slabs, IT companies would get some leeway in terms of wage inflation, given higher disposable income in the hands of employees. Our assumptions factor in 8-9% offshore and 2% onsite wage inflation.

Sector outlook

Overall, we view the Budget as Neutral for the IT sector. **Our estimates remain unchanged post the budget.** We prefer **Infosys** and **HCL Tech** within large caps and **Patni** within mid-cap IT companies. Our pecking order of preference within large caps is **Infosys** followed by **TCS** followed by **Wipro**.

VALUATION MATRIX

NAME	CMP (RS) 26.02.10	RECO	EPS (RS) FY10E	FY11E	FY12E	P/E (X) FY10E	FY11E	FY12E	EV/EBITDA (X) FY10E	FY11E	FY12E	ROE (%) FY10E	FY11E	FY12E
Information Technology														
HCL Technologies	367	Buy	17.5	25.4	29.5	21.0	14.5	12.4	10.0	8.5	7.0	19.3	23.3	22.6
Infosys	2,602	Neutral	109.7	122.5	147.2	23.7	21.2	17.7	17.1	14.4	12.0	30.4	27.5	27.3
MphasiS	663	Neutral	48.3	50.5	54.1	13.7	13.1	12.3	10.9	9.9	8.8	36.8	29.1	24.4
Patni Computer	474	Buy	36.1	41.9	44.3	13.1	11.3	10.7	6.4	5.1	4.1	15.1	15.3	14.2
TCS	761	Buy	34.8	39.2	42.4	21.9	19.4	17.9	16.5	14.2	12.5	37.1	32.0	27.5
Tech Mahindra	893	Neutral	49.1	64.7	71.4	18.2	13.8	12.5	8.1	8.0	7.3	35.4	32.3	26.5
Wipro	677	Neutral	31.4	36.3	39.6	21.5	18.7	17.1	15.8	13.4	11.2	27.1	24.6	21.9
Sector Aggregate						**21.4**	**18.6**	**16.6**	**15.1**	**13.0**	**11.1**	**26.8**	**24.7**	**22.8**

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Media

Budget Impact: Neutral **Sector Stance: Neutral**

The Union Budget 2010-11 is largely neutral for the Media sector. However, it has a few provisions that will aid the films segment and aid faster digitization of cable networks.

Key highlights

- Exemption from basic and additional customs duty for importing digital masters for duplication/distribution - currently at 20%, of which 4% can be offset against service tax (likely positive for UTV), no impact on Zee Entertainment as it beams Zee Studio and Zee Café from Hong Kong.
- Setting up of digital head-end notified under project imports attracting 5% customs duty and nil special CVD (positive for MSOs like Den Networks, Hathway, and WWIL). This will reduce the cost of setting up digital head ends.
- Lower effective tax rate due to reduction in surcharge from 10% to 7.5%. We are keeping our estimates unchanged.

Sector outlook

The impact on the sector is Neutral. But an increase in disposable incomes (reduction in personal income tax rates) and sustenance of expenditure under NREGS are positive for increasing TV penetration, number of cable and satellite households, and film exhibition.

VALUATION MATRIX

	CMP (RS)	RECO	EPS (RS)			P/E (X))			EV/EBITDA (X)			ROE (%)		
NAME	26.02.10		FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E
Media														
Deccan Chronicle	146	Buy	12.0	14.9	18.4	12.1	9.8	7.9	6.2	5.0	3.8	22.8	24.5	26.0
HT Media	138	Neutral	6.7	8.2	9.5	20.8	16.9	14.5	12.2	9.8	8.5	14.5	15.9	16.3
Jagran Prakashan	119	Neutral	5.8	6.6	7.9	20.6	18.0	15.1	12.1	10.2	8.7	29.3	31.5	34.2
Sun TV	369	Neutral	14.2	17.5	21.2	26.0	21.1	17.4	12.9	10.0	8.8	25.2	25.0	24.4
TV Today	113	Buy	8.6	10.4	12.1	13.2	10.9	9.3	7.1	5.2	4.0	13.8	14.7	15.0
Zee Entertainment	248	Neutral	9.7	12.5	14.8	25.4	19.8	16.7	17.6	12.2	10.2	11.4	12.1	13.3
Sector Aggregate						**21.4**	**17.2**	**14.4**	**12.5**	**9.6**	**8.2**	**16.6**	**18.2**	**19.3**

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Metals

Budget Impact: Neutral **Sector Stance: Neutral**

Rs1.7 trillion infrastructure spend to boost demand

Steel demand is likely to get significant boost as the Budget has put major emphasis on infrastructure spend, with total outlay of Rs1,735b during FY11, which accounts for 46% of total plan expenditure. The funds will be spent on accelerated development of high quality physical infrastructure such as roads, ports, airports and railways.

Excised duty increased by 2pp to 10%

Excise duty is pass-through for steel companies, as most of the user industry is entitled for modvat. The end product price is likely to increase for products like TMT bar, etc used in the construction and housing sectors, which are not entitled for modvat credit. However, the quantum of duty is immaterial with respect to volatility in steel prices. Positive effect of infrastructure spend will more than offset the negative impact of price-sensitive demand.

MAT increased by 3pp to 18%

Due to simultaneous reduction in surcharge by 250bp to 7.5%, total incidence will increase by 294bp to 19.94%, affecting most metal companies except SAIL, Tata Steel, Nalco, Sesa Goa and Hindalco. EPS of most mid-caps and Sterlite Industries will be impacted.

Clean energy cess of Rs50/ton on coal production and imports

Clean energy cess of Rs50/ton will be levied on coal production as well as imports. Cost of production (CoP) of steel is likely to go up by US$1/ton for steel producers using blast furnace route and by US$2/ton for steel mills using sponge iron route. CoP of aluminum is likely to go up by US$11-12/ton. CoP of zinc will increase by US$3-4/ton.

Competitive bidding for coal blocks

The government is moving towards ensuring greater transparency in allocation of coal blocks for captive mining. The Budget has proposed to introduce competitive bidding in further allocation of coal blocks. The Bill is likely to be passed in current parliamentary session and is expected to attract serious players in coal mining, thereby giving boost to coal production in the country. Metal companies that have received allocation of coal blocks in the past will have an edge over others.

Impact: EPS cut up to 6%

- Steel demand is likely to get a significant boost due to major emphasis on infrastructure investment and rural spend. Infrastructure investment alone will account for 46% of planned government expenditure in FY11. However, clean energy cess on coal and MAT are likely to negatively impact the bottomline of metal companies. Clean energy cess will impact aluminum smelters most due to high energy requirements. The impact on bottomline is only up to 2% for main metal producers. Secondary steel producers' bottomline is impacted more significantly up to 6% due to dual impact of increase in MAT and coal cess. We expect that the negative impact on EPS will be offset by stronger demand in due course. Contrary to expectations of a hike, export duty remains unchanged at 5% for iron ore fines and 10% for iron ore lumps. Sesa Goa's earnings remain unchanged.
- Moving to competitive bidding for further allocation of coal blocks appears certain in current parliamentary session. This will set valuation benchmarks and reduce cost of equity for metal companies. Secondary steel producers are likely to be key beneficiaries because they need equity investment for development of coal blocks and setting up end-use steel and power capacities. Jai Balaji has the largest size of captive coal blocks.

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Metals (Contd.)

EPS IMPACT

	FY10E	FY11			FY12			COAL RESERVES
		OLD	NEW	CHG. (%)	OLD	NEW	CHG. (%)	(M TONS)
JSW Steel	68.1	82.4	81.3	-1.4	137.7	136.3	-1.0	395
Tata Steel	-20.4	68.3	68.0	-0.4	92.7	92.4	-0.3	333
Sesa Goa	32.5	40.6	40.6	0.0	46.5	46.5	0.0	- N/A -
SAIL	15.4	16.5	16.4	-0.6	16.3	16.2	-0.7	394
Sterlite Inds.	46.7	69.3	68.3	-1.5	94.4	92.8	-1.7	352
Hindustan Zinc	97.0	119.2	117.7	-1.2	136.4	134.6	-1.3	29
Nalco	11.9	18.0	17.7	-1.9	20.5	20.1	-1.9	194
Hindalco	3.3	6.8	6.6	-2.4	12.7	12.5	-1.3	221
Monnet Ispat	59.1	70.8	66.6	-5.9	86.1	81.0	-5.9	232
Godawari	19.7	41.1	40.1	-2.5	48.3	47.1	-2.5	74
Sarda Energy	11.5	32.8	31.1	-5.2	38.3	36.2	-5.6	156
Tata Sponge	49.2	58.4	57.2	-2.0	71.9	70.7	-1.7	50
Adhunik Metaliks	10.0	15.6	15.2	-2.3	20.4	19.9	-2.6	93
Bhushan Steel	170.5	235.2	224.9	-4.4	420.0	402.2	-4.2	395
Jai Balaji	10.5	35.8	34.2	-4.5	65.5	62.8	-4.1	759
Prakash Industries	21.4	23.1	21.9	-5.2	40.7	38.5	-5.3	146

No change in EPS

Largest allocation of captive coal blocks

Sector view

Steel demand is likely to grow in double-digits over 2-3 years, due to pick-up in GDP growth. Emphasis on infrastructure and rural spend will be the key drivers of steel demand. We expect steel supply to lag demand growth, as greenfield projects have failed to take off. Secondary producers have stopped adding capacities due to leveraging of their balance sheets. Instead, they are now directing investments towards improving productivity and backward integration. Indian steel prices will be at premium to international prices, India will remain dependent on imports to bridge the demand and supply gap. Additionally, lower iron ore, labor and other operating costs are likely to drive margins of Indian steel mills. **JSW Steel** is our top pick in Indian steel space due to stronger volume growth, lower iron ore and conversion costs.

We remain positive on zinc outlook. **Sterlite** is our top pick among non-ferrous names. Sesa Goa is the key beneficiary of stronger iron ore prices in China and low freight due to oversupply of cape-size vessels.

VALUATIONS: INDIAN COMPANIES

	RATING	PRICE	MCAP	EPS (RS)			P/E (X)		EV/EBITDA (X)		P/BV (X)	
		(INR)	(US$ M)	FY10	FY11	FY12	FY11	FY12	FY11	FY12	FY11	FY12
Mid-caps												
Monnet Ispat	Buy	370	386	59.1	66.6	81.0	5.6	4.6	6.7	6.3	1.0	0.9
Godawari	Buy	201	122	19.7	40.1	47.1	5.0	4.3	4.9	4.2	1.0	0.8
Sarda Energy	Neutral	197	146	11.5	31.1	36.2	6.3	5.4	6.5	6.1	1.1	0.9
Tata Sponge	Buy	332	111	49.2	57.2	70.7	5.8	4.7	1.3	0.4	1.1	0.9
Adhunik Metaliks	Buy	101	262	10.0	15.2	19.9	6.6	5.1	6.1	5.6	1.5	1.2
Bhushan Steel	Buy	1,599	1,475	170.5	224.9	402.2	7.1	4.0	8.8	5.7	1.8	1.3
Jai Balaji	Buy	231	319	10.5	34.2	62.8	6.7	3.7	6.7	5.2	1.3	1.0

Source: MOSL

VALUATION MATRIX

	CMP (RS)	RECO	EPS (RS)			P/E (X))			EV/EBITDA (X)			ROE (%)		
NAME	26.02.10		FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E
Metals														
Hindalco	161	Neutral	3.3	6.6	12.5	48.3	24.4	12.9	9.9	9.5	7.3	6.0	10.9	17.5
Hindustan Zinc	1,121	Buy	97.0	117.7	134.6	11.6	9.5	8.3	7.4	5.4	4.1	22.5	21.6	20.0
JSW Steel	1,071	Buy	68.1	81.3	136.3	15.7	13.2	7.9	8.8	7.9	4.9	18.0	17.7	22.9
Nalco	385	Sell	11.9	17.7	20.1	32.4	21.8	19.2	19.2	11.3	9.6	7.4	10.2	10.7
Prakash Inds	201	Buy	21.4	21.9	38.5	9.4	9.2	5.2	8.2	6.7	4.2	21.7	17.8	24.5
SAIL	218	Sell	15.4	16.4	16.2	14.2	13.3	13.5	9.5	8.7	8.4	19.0	17.4	15.1
Sesa Goa	400	Buy	32.5	40.6	46.5	12.3	9.9	8.6	8.3	6.0	4.6	34.5	30.7	26.4
Sterlite Inds.	781	Buy	46.7	68.3	92.8	16.7	11.4	8.4	9.0	6.1	3.9	10.6	13.6	15.7
Tata Steel	574	Neutral	-20.4	68.0	92.4	-28.1	8.4	6.2	14.5	6.3	4.9	-19.2	44.2	40.9
Sector Aggregate						**20.1**	**11.8**	**9.4**	**10.2**	**7.2**	**5.6**	**11.4**	**16.7**	**17.7**

Oil & Gas

Budget Impact: Negative **Sector Stance: Neutral**

The Budget failed to address the under-recovery issue and the Finance Minister indicated that a decision on Kirit Parikh Committee recommendations will be taken in due course by the Petroleum Ministry. Nevertheless, apart from the industry-wide changes in MAT rate and surcharge, there were few sector-specific duty changes.

Customs duty on crude hiked from nil to 5%

The Budget has proposed an increase in customs duty on crude from nil to 5%. Earlier in June 2008, the government had reduced customs duty from 5% to nil to give some respite to oil companies from higher crude prices (Brent had peaked at US$147/bbl v/s last 6-month average of US$74/bbl).

Duties on petrol and diesel hiked

An increase in customs duty on petrol and diesel from 2.5% to 7.5% and from 5% to 10% on other refined products is proposed. Also, specific duty hike of Rs1/liter on petrol and diesel is proposed.

MAT rate increased to 18%, surcharge lowered

- MAT would increase from 15% to 18%. This is the second consecutive year of MAT rate hike; in FY10, MAT was hiked from 10% to 15%.
- Surcharge on income tax is reduced from 10% to 7.5%. For a full-tax paying company, tax rate will reduce from 34% to 33.2% and for a MAT paying company tax rate will increase.

Clarity on subsidy sharing post decision on Parikh Committee recommendations

- During 9MFY10, upstream shared 100% of the auto fuel under-recoveries and the government compensated Rs120b to OMCs as against domestic fuel losses of Rs209b.
- The Budget document indicates Petroleum Ministry demand of Rs253b towards subsidy to OMCs as against estimated domestic fuel losses of Rs311b. However, clarity on the final FY10 subsidy would only emerge post decision on the Kirit Parikh Committee recommendations, in our view.

Impact

- Additional customs duties will fetch Rs155b and increase in excise duties on petrol and diesel will fetch Rs86b for the government.
- Though the government has tinkered with the excise and customs duties for petroleum products, we believe a decision on the Kirit Parikh Committee recommendations will be key to the state-owned companies' profitability for FY10 and future years.
- Retail prices of petrol and diesel have been increased by Rs2.7/liter and Rs2.5/liter, respectively, neutralizing the impact of increase in duties.
- We are reducing our EPS estimates for RIL by ~3.5% and increasing our EPS estimates for ONGC by ~3% for FY11 and FY12. We will wait for more clarity on Cairn and OMC's before revising our estimates. The Budget does not impact our estimates for GAIL, IGL and GSPL.

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Oil & Gas (Contd.)

LIKELY IMPACT OF BUDGET RECOMMENDATIONS

BUDGET ACTION	REMARKS AND IMPACT ON FY11 EPS
Reliance Industries	Negative EPS impact of ~4%
(1) Customs duty on crude hiked from nil to 5%	Negative impact of ~2% on EPS. Does not impact new SEZ refinery and impact on DTA refinery would be minimal as bulk of products are sold domestically.
(2) MAT rate increased from 15% to 18%	Negative impact of ~2.2% on EPS; effective tax rate would increase from current 22% to 24%
ONGC	EPS would increase by 3%, assuming no impact on subsidy
(1) Customs duty on crude hiked from nil to 5%	Only 50% of the customs duty hike will accrue to ONGC (as per pricing formula)
(2) Reduction in surcharge from 10% to 7.5%	ONGC's tax rate will reduce by 0.8% to 33.2%.
Cairn India	Net positive impact on EPS would be ~2%, if Cairn can negotiate the customs duty hike to be incorporated into its price formula
(1) Customs duty on crude hiked from nil to 5%	Crude sales agreement for bulk of Cairn's crude are yet to be finalized; however, assuming it will be able to incorporate this duty in its price formula, it will be positive
(2) MAT rate increased from 15% to 18%	Negative impact on cash tax outflow
HPCL, BPC and IOC	Despite tinkering in duties, decision on Parikh Committee recommendations holds the key to earnings; decision is expected in the near term
(1) Customs duty on crude hiked from nil to 5%	This will lead to increase in under-recoveries, if commensurate retail prices are not hiked
(2) Petrol and diesel duty hiked from 2.5% to 7.5% and specific excise duty by Rs1/lliter	This will lead to increase in under-recoveries, if commensurate retail prices are not hiked
MRPL, CPCL	
(1) Customs duty on crude hiked from nil to 5%	Crude cost would increase by 5%, however impact on profits would be lower as realizations on ~70% of the products have also increased commensurately resulting in a net negative impact of US$0.5/bbl on GRM.
(2) Petrol and diesel duty hiked from 2.5% to 7.5% and specific excise duty by Rs1/liter	As the difference in duties between petrol/diesel and crude remain same, impact would be neutral to that extent
(3) Reduction in surcharge from 10% to 7.5%	As MRPL and CPCL are full tax paying companies tax rate will reduce by 0.8% to 33.2%.

EARNINGS REVISION FOR KEY STOCKS (RS)

		FY11	FY12
RIL	Earlier	75.8	91.9
	Revised	**72.9**	**88.7**
	Chg. (%)	-3.9	-3.5
ONGC	Earlier	113.3	129.8
	Revised	**116.8**	**133.8**
	Chg. (%)	3.1	3.1

VALUATION MATRIX

	CMP (RS)	RECO	EPS (RS)			P/E (X))			EV/EBITDA (X)			ROE (%)		
NAME	26.02.10		FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E
Oil & Gas														
BPCL	562	Buy	68.6	56.2	60.4	8.2	10.0	9.3	8.1	7.7	6.9	17.3	12.5	12.1
Cairn India	266	Buy	5.9	19.4	35.3	45.2	13.7	7.5	46.8	8.4	4.8	10.4	16.7	14.2
Chennai Petroleum	246	Buy	41.0	29.4	25.4	6.0	8.4	9.7	5.7	5.6	6.1	23.1	11.8	9.6
GAIL	399	Buy	22.7	27.4	29.2	17.6	14.6	13.7	11.5	9.5	9.2	17.2	18.0	16.7
Gujarat State Petronet	86	Buy	7.4	9.3	12.2	11.6	9.2	7.0	5.7	4.7	3.6	29.1	28.4	29.0
HPCL	347	Buy	66.1	44.3	48.3	5.2	7.8	7.2	4.5	5.1	4.3	19.0	11.1	11.0
Indraprastha Gas	208	Neutral	15.6	18.2	21.1	13.3	11.5	9.9	7.6	6.0	4.8	28.8	27.3	26.1
IOC	318	Buy	42.4	32.5	38.0	7.5	9.8	8.4	5.8	6.3	5.1	20.4	13.6	14.1
MRPL	74	Sell	5.5	4.3	4.7	13.5	17.1	15.6	10.2	11.0	11.8	18.9	13.3	13.2
ONGC	1,117	Neutral	90.9	116.8	133.8	12.3	9.6	8.3	4.9	4.2	3.6	20.0	22.4	22.1
Reliance Inds.	978	Buy	53.4	72.9	88.7	18.3	13.4	11.0	12.6	8.9	7.2	12.9	15.4	16.1
Sector Aggregate						**14.1**	**11.8**	**9.8**	**8.1**	**6.6**	**5.5**	**14.8**	**15.5**	**16.2**

Pharmaceuticals

Budget Impact: Marginally Positive **Sector Stance: Neutral**

Budget 2010-11 is marginally positive for the pharmaceutical sector. Some of the key changes include:

Increase in minimum alternate tax (MAT) rate from 15% to 18%

Impact: Most of the large Indian pharmaceutical companies pay MAT on profits generated in India. Our interaction with company managements indicate that for companies that are expected to come out of MAT in the next few years, the increase in MAT rate will impact only the cash flow while reported EPS will not change as the company will be showing it as a MAT credit in the P&L. For companies that are likely to remain under MAT for a longer period of time, the increase in MAT rate will impact both the cash flow as well as reported EPS as they cannot take it as MAT credit in the P&L (Sun Pharma and Cadila Healthcare). MNCs will not be impacted by this change as none of them pay MAT.

Increase in weighted deduction from 150% to 200% for in-house R&D expenditure

Impact: We expect this to be positive for all generic pharmaceutical companies as they spend 6-7% of revenues on R&D. We note that only a part of R&D expenses (those incurred within India on particular items) will be eligible for this deduction. This will be a marginal positive for CRAMS companies since their R&D spend is not very high while MNCs will not benefit from this relaxation as they do not spend on R&D in India.

Retrospective extension of treatment of profit from domestic tariff area for SEZ (Sec 10AA)

Impact: This will be positive for Divi's Labs, as it had provided Rs540m as tax from DTA for earlier years which will be reversed in 4QFY10. However, this will not change estimates for FY11 and FY12. No other pharmaceutical company will benefit from this change.

Increase in excise duty on APIs from 8% to 10%

Impact: This will not have a significant impact, as this would largely be pass-through.

Reduction in state-level excise duty from 16% to 10% on narcotic products

Impact: This will be a marginal positive for Piramal Healthcare and Pfizer, as Phensedyl and Corex will qualify for this benefit.

Reduction in surcharge on corporates from 10% to 7.5%

Impact: This will be a marginal positive for the entire sector.

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Pharmaceuticals (Contd.)

THE TABLE BELOW GIVES OUR SENSITIVITY ANALYSIS FOR THE ABOVE MEASURES:

(RS M)	NEGATIVE MAT IMPACT				R&D BENEFIT	EPS (RS)						
	FY11		FY12		FY11	FY12	PRE-BUDGET		POST-BUDGET		% CHANGE	
	CASH FLOW	PAT	CASH FLOW	PAT			FY11	FY12	FY11	FY12	FY11	FY12
Ranbaxy**	95	0	68	0	273	239	3.5	5.9	3.8	6.3	8.6	6.8
Dr. Reddy's Labs	NA	NA	NA	NA	191	216	52.2	59.9	56.2	62.9	7.7	5.0
Glenmark**	169	0	191	0	105	140	15.7	18.0	16.1	18.5	2.5	2.8
Lupin**	248	0	274	0	161	180	88.6	98.2	90.5	100.3	2.1	2.1
Aventis	NA	NA	NA	NA	NA	NA	80.9	94.1	81.9	95.4	1.2	1.4
GSK Pharma	NA	NA	NA	NA	NA	NA	68.4	78.2	69.2	79.1	1.2	1.2
Cipla**	377	0	439	0	131	0	17.3	20.2	17.5	20.4	1.2	1.0
Piramal Healthcare**	110	0	132	0	41	47	25.6	30.8	25.8	31.0	0.8	0.6
Biocon**	123	0	138	0	21	31	17.0	19.4	17.1	19.5	0.6	0.5
Divi's Labs**	83	0	100	0	Negligible		26.5	32.2	26.5	32.2	0.0	0.0
Jubilant**	155	0	177	0	Negligible		25.4	28.8	25.4	28.8	0.0	0.0
Sun Pharma	192	192	207	207	72	78	64.4	68.9	64.0	68.5	(0.6)	(0.6)
Cadila	163	163	203	203	92	113	44.5	55.4	44.0	54.7	(1.1)	(1.3)

Note - For all companies except for GSK Pharma & Aventis, surcharge benefit is included in MAT calculations

*** Companies likely to take MAT credit, hence only cash flow impact*

Earnings outlook

Ranbaxy and DRL will be the key beneficiaries while earnings estimates for other companies remain largely unchanged, as the MAT rate increase will impact cash flows and not reported earnings.

Sector strategy and recommendation

Generics

We believe that emerging markets will be the key earnings drivers for Indian generic players in the short-to-medium term. While US continues to be a key market for most of the Indian companies, we note that the traction in US business will continue to get impacted in the near term given the stringent steps taken by the US-FDA to ensure compliance with cGMP norms. Japan will be the next frontier of growth for generics in the long-term, given the Japanese government's intention to reduce healthcare costs by encouraging generics.

Geographically diversified operations, a pragmatic mix of IPR-driven low competition and normal products, vertically integrated operations with strict US-FDA compliance and a differentiated business model are the key pre-requisites for success in the generics space. Our top picks in the generics space are **Cipla** and **Lupin**.

CRAMS

Despite the short-term adverse impact of inventory corrections, we believe that the Indian CRAMS segment will see strong double-digit secular growth (given India's advantages). The impact of inventory corrections will reverse from FY11, as we expect innovator pharmaceutical companies to restart sourcing from Indian CRAMS players. **Divi's Labs** and **Piramal Healthcare** remain our top picks among the CRAMS players.

Pharmaceuticals (Contd.)

MNC Pharma

We remain favorably inclined towards MNC Pharma stocks for the long term. Leading pharma MNCs are geared to gain from the opportunities arising from a sustained double-digit growth for the domestic pharmaceuticals market and a stronger patent regime. The potential upside from product patents would create 'option value' in these stocks over the longer term. It should be noted that while some of the patented products may be launched by the parent through the 100% subsidiary route, we believe that most of the mass-market products (which need a large field force for promotion) are likely to be launched through the listed entities. **GSK Pharma** remains our top pick among the MNCs.

VALUATION MATRIX

	CMP (RS)	RECO	EPS (RS)			P/E (X))			EV/EBITDA (X)			ROE (%)		
NAME	26.02.10		FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E
Pharmaceuticals														
Aventis Pharma	1,610	UR	68.3	81.9	95.4	23.6	19.7	16.9	20.5	16.0	12.6	18.1	19.3	19.8
Biocon	263	Buy	14.2	17.1	19.5	18.5	15.4	13.5	11.4	9.4	8.0	16.5	17.2	17.1
Cadila Health	762	Buy	35.9	44.0	54.7	21.2	17.3	13.9	14.6	12.3	10.3	35.5	33.4	32.3
Cipla	315	Buy	13.8	17.5	20.4	22.9	18.0	15.5	16.3	13.9	11.8	18.8	20.2	20.0
Divis Labs	623	Buy	23.8	26.5	32.2	26.2	23.5	19.3	22.9	19.2	15.8	22.9	21.6	22.3
Dr Reddy' s Labs	1,143	Buy	6.6	56.2	62.9	174.4	20.3	18.2	16.1	15.6	13.7	2.6	19.1	18.6
GSK Pharma	1,716	Buy	59.6	69.2	79.1	28.8	24.8	21.7	19.5	17.0	14.6	28.7	30.1	31.2
Glenmark Pharma	252	Neutral	10.7	16.1	18.5	23.5	15.6	13.6	12.7	10.1	9.0	13.4	13.8	13.8
Jubiliant Organosys	319	Buy	25.9	25.4	28.8	12.3	12.6	11.1	11.0	10.2	8.6	27.0	21.5	20.2
Lupin	1,498	Buy	71.3	90.5	100.3	21.0	16.6	14.9	16.2	13.3	11.8	37.8	36.5	31.8
Piramal Healthcare	397	Buy	21.1	25.8	31.0	18.8	15.4	12.8	13.4	10.8	9.3	29.7	29.2	28.5
Ranbaxy Labs	467	Neutral	3.6	3.8	6.3	130.2	121.9	73.9	35.8	51.0	39.3	3.3	3.4	5.4
Sun Pharma	1,541	Buy	55.1	64.0	68.5	27.9	24.1	22.5	22.2	19.8	17.7	15.1	15.4	14.6
Sector Aggregate						**28.3**	**21.1**	**18.3**	**17.5**	**15.5**	**13.3**	**16.6**	**18.9**	**18.9**

Real Estate

Budget Impact: Negative **Sector Stance: Overweight**

The Union Budget 2010-11 is Negative for the real estate industry. Not only have key industry expectations such as (i) increase in income tax deduction under Sec 24(B) for housing loans from Rs0.15m to ~Rs0.25m, (ii) industry status for the real estate sector, and (iii) reforms for introduction of REITs in India not been met, but the scope of service tax has also been expanded, which will lead to a ~3% impact. However, measures aimed at increasing disposable income in the hands of consumers and continuation of interest cost subvention benefits for affordable housing for FY11, are positive.

Explanation of service tax on developers: The government has issued an explanation on the service tax payable by developers. The tax has now been broad-based to include all new buildings intended for sale, wholly or partly by the builder at any stage of the building or after the construction. Industry is still awaiting clarification on whether this service tax is applicable on construction cost or on sale value. Currently, the consensus view is that this tax is applicable on the construction cost and not on the sale value of a building. If the tax is on construction, it would imply a service tax burden of 6-7% for the builder (labor attracts 10% tax and work contract attracts 4% of tax), which would imply a burden of 2-3% on the sale value (assuming 40-50% profit margin and deducting land cost). While clarity on this is still awaited, our view is that this tax is likely to be inflationary.

Higher disposable incomes to boost affordability: The real estate sector is likely to be a key beneficiary from the tax slab rationalization, aimed at increasing disposable income of consumers. The rationalization of tax brackets would lead to lower tax incidence for 60% of the tax payers and would increase affordability for potential homebuyers.

Continuation of interest subvention of 1% for loans up to Rs1m for property priced up to Rs2m: This is positive for companies with focus on affordable housing such as Unitech, Purvankara, HDIL, Sobha, etc.

Allocation for urban development increased by 75% from Rs30.6b to Rs54b. Allocation for Housing and Urban Poverty Alleviation has been raised from Rs8.5b to Rs10b: This is positive for real estate, as it would facilitate urbanization of key metros, boosting demand for real estate.

Increase in allocation for the Rajiv Awas Yojna to Rs12.7b from Rs1.5b: This is positive for real estate, as it would aid urbanization by encouraging states to provide property rights to slum dwellers.

Increase in allocation for the Indira Awas Yojna to Rs100b: This is positive for real estate, as it would augment the pace of rural housing.

One-time interim relief to the real estate sector: The government has allowed completion of pending projects within a period of five years v/s four years for claiming deduction on companies' profits. Norms would be relaxed for built-up area of shops and other commercial establishments in housing projects to enable basic facilities for their residents. This is positive for real estate companies as it allows them to claim deductions for an additional year.

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Real Estate (Contd.)

Sector view

The Union Budget 2010-11 is Negative for the real estate industry. The sector continues to be firmly set for recovery, following the successful balance sheet recapitalization by key companies and the pick-up in activity. Recent underperformance of large cap real estate companies coupled with the recent price correction provides investors an opportunity to accumulate real estate stocks at ~25% discount to NAV. We believe that the two key catalysts that would drive stock performance in the medium-term are: (1) recovery in the commercial and retail verticals, and (2) visible acceleration in execution. Our top large cap picks are **DLF** and **Unitech** (recently upgraded to Buy). Within mid-caps, we like **Anant Raj**, **Mahindra Lifespaces** and **Phoenix Mills**.

VALUATION MATRIX

	CMP (RS)	RECO	EPS (RS)			P/E (X))			EV/EBITDA (X)			ROE (%)		
NAME	26.02.10		FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E
Real Estate														
Anant Raj Inds	123	Buy	7.3	10.4	11.9	16.9	11.9	10.3	14.4	8.9	9.2	6.0	8.0	8.5
Brigade Enterpr.	140	Buy	6.9	9.9	15.0	20.4	14.3	9.4	15.6	10.0	6.6	7.6	10.2	14.3
DLF	297	Buy	13.3	18.1	19.9	22.3	16.5	14.9	16.3	11.9	10.9	8.5	10.4	10.6
HDIL	301	Buy	14.9	18.4	23.9	20.2	16.3	12.6	17.8	13.5	9.4	7.8	8.8	11.5
Indiabulls Real Estate	160	Neutral	2.8	5.4	13.4	57.5	29.4	11.9	103.2	32.9	11.0	0.8	1.6	3.9
Mahindra Lifespace	377	Buy	24.2	29.4	36.0	15.6	12.8	10.5	12.9	9.0	6.8	9.8	10.6	11.4
Peninsula Land	81	Neutral	10.0	12.0	13.2	8.1	6.8	6.2	6.6	5.1	4.6	24.3	24.8	23.5
Phoenix Mills	181	Buy	4.2	7.4	10.7	43.4	24.6	17.0	40.9	20.1	16.3	3.9	6.4	9.0
Puravankara Projects	95	Neutral	5.3	7.8	9.4	17.9	12.1	10.1	21.6	12.4	8.8	7.8	10.6	13.1
Unitech	72	Buy	3.4	4.8	6.4	21.1	15.1	11.2	17.9	13.0	8.3	7.6	9.7	12.5
Sector Aggregate						**21.7**	**16.0**	**13.1**	**17.1**	**12.3**	**9.7**	**7.3**	**9.1**	**10.5**

Telecom

Budget Impact: Neutral **Sector Stance: Overweight**

The Union Budget 2010-11 is largely neutral for the Telecom sector. The key negative is the increase in MAT from 15% to 18% (higher cash-tax outgo but significant earnings impact unlikely). Service tax rate remaining unchanged at 10%, increase in personal income tax exemption limits, and exemption of 4% Special Additional Duty (SAD) on mobile phones would be positive for the overall demand growth in the sector. The government has budgeted a receipt of Rs350b from auction of 3G and BWA spectrum (same as estimated in FY10 budget; 3G auctions now rescheduled for April 9) v/s the pan-India reserve price of ~Rs196b, which is in line with expectations.

MAT hike unlikely to impact earnings meaningfully

Though there were no major proposals directly related to the Telecom industry, the budget has proposed an increase in the Minimum Alternate Tax (MAT) to 18% from 15%. This would increase the cash-tax outflow, though the effective tax rate might not be affected, as companies get credit on MAT paid, which can be utilized once the tax exemptions are over. Bharti, Idea, and RCom are MAT payers. During FY10, the effective tax rate for Bharti is expected to be ~12.7% (current tax rate of ~18.7% + deferred tax write-back of ~6%). Effective tax rate is expected to be ~12.5% for Idea and ~7.5% for RCom. Our FY11 estimates (FY12 in brackets) incorporate an effective tax rate of 17% (22%) for Bharti, 8% (15%) for Idea, and 7% (15%) for RCom. **We are keeping our EPS estimates unchanged.**

Sector outlook

While near-term earnings visibility remains low, given tariff pressures, impending MNP implementation and 3G auctions, we expect the growth to rebound in FY12 as new rollouts get through and tariffs stabilize. Potential industry consolidation aided by change in M&A rules will also be a positive. Valuations are attractive at 6.4-7.8x FY11E EV/EBITDA and 5.3-5.9x FY12E EV/EBITDA.

INDIAN TELECOM: EFFECTIVE TAX RATE (%)

	FY09	FY10E	FY11E	FY12E
Bharti	7	13	17	22
Idea Cellular	4	12	8	15
RCom	0	7	7	15

VALUATION MATRIX

	CMP (RS)	RECO	EPS (RS)			P/E (X))			EV/EBITDA (X)			ROE (%)		
NAME	26.02.10		FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E
Telecommunication														
Bharti Airtel	279	Buy	24.0	23.5	25.8	11.6	11.9	10.8	6.7	6.4	5.1	26.9	22.1	20.0
Idea Cellular	61	Buy	2.7	1.7	2.9	22.6	36.2	20.7	7.4	7.4	5.7	6.0	3.5	5.3
Reliance Comm	157	Buy	20.9	17.2	21.2	7.5	9.1	7.4	6.4	6.7	5.3	11.1	8.6	9.7
Sector Aggregate						**11.0**	**12.1**	**10.4**	**6.7**	**6.6**	**5.3**	**16.2**	**12.6**	**13.0**

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Annual performance/Valuations - MOSL Universe

ANNUAL PERFORMANCE - MOSL UNIVERSE (RS BILLION)

	SALES					EBITDA					NET PROFIT				
	FY10E	FY11E	FY12E	YOY % FY11	YOY % FY12	FY10E	FY11E	FY12E	YOY % FY11	YOY % FY12	FY10E	FY11E	FY12E	YOY % FY11	YOY % FY12
Auto (5)	1,724	1,977	2,244	14.7	13.5	181	200	232	10.4	15.7	89	121	154	35.6	27.5
Banks (26)	1,157	1,414	1,668	22.2	18.0	928	1,173	1,410	26.4	20.2	528	623	761	17.9	22.1
Cement (8)	567	706	794	24.5	12.4	165	181	200	9.6	10.3	92	93	103	1.1	11.2
Engineering (6)	926	1,173	1,499	26.7	27.9	134	173	226	28.6	30.7	96	124	160	29.2	28.6
FMCG (12)	742	846	967	14.0	14.4	158	177	206	11.6	16.7	104	119	140	14.8	17.8
IT (7)	1,055	1,214	1,396	15.0	15.1	282	318	358	12.6	12.5	212	244	274	15.0	12.3
Infrastructure (9)	365	428	507	17.2	18.5	95	109	140	15.3	28.0	33	38	47	14.2	23.5
Media (6)	72	86	96	20.0	12.4	28	35	40	26.1	14.1	17	21	25	23.9	20.0
Metals (9)	2,651	2,802	3,202	5.7	14.3	422	595	725	40.9	22.0	182	311	390	70.8	25.5
Oil Gas&Pet(11)	8,454	9,030	9,079	6.8	0.5	1,081	1,280	1,485	18.4	16.0	565	672	807	19.1	20.1
Pharma (13)	484	540	616	11.6	14.0	100	111	127	11.5	13.9	60	81	93	34.2	15.4
Real Estate (10)	148	199	281	34.0	41.4	71	96	118	35.3	22.7	45	62	75	36.0	21.9
Retail (2)	123	153	182	24.1	18.7	12	15	18	26.2	21.2	4	6	8	38.5	30.3
Telecom (3)	743	818	946	10.2	15.6	274	286	343	4.5	19.6	143	130	151	-8.7	16.2
Textiles (5)	139	164	189	18.4	15.4	24	30	37	24.0	23.4	4	8	13	86.0	55.9
Utilities (10)	891	1,142	1,340	28.2	17.3	258	377	466	46.3	23.5	149	187	233	26.2	24.1
Others (2)	88	102	116	15.6	14.0	16	20	23	25.5	15.3	9	11	14	33.7	20.4
MOSL (144)	**20,328**	**22,793**	**25,124**	**12.1**	**10.2**	**4,231**	**5,178**	**6,154**	**22.4**	**18.8**	**2,331**	**2,851**	**3,447**	**22.3**	**20.9**
Excl.RMs(141)	**15,669**	**18,046**	**20,566**	**15.2**	**14.0**	**3,984**	**4,957**	**5,901**	**24.4**	**19.1**	**2,182**	**2,737**	**3,318**	**25.4**	**21.2**
Sensex (30)	**5,359**	**5,978**	**6,781**	**11.5**	**13.4**	**1,171**	**1,443**	**1,713**	**23.3**	**18.7**	**610**	**798**	**980**	**30.8**	**22.7**
Nifty (50)	**6,317**	**7,065**	**7,996**	**11.8**	**13.2**	**1,332**	**1,653**	**1,980**	**24.1**	**19.8**	**703**	**916**	**1,124**	**30.2**	**22.7**

For Banks : Sales = Net Interest Income, EBITDA = Operating Profit; Tata Steel figures are consolidated including Corus; Sensex & Nifty numbers are free float

VALUATIONS - MOSL UNIVERSE

SECTOR	P/E (X)			EV/EBITDA (X)			P/BV (X)			ROE (%)			DIV. YLD (%)	EPS CAGR
(NO. OF COMPANIES)	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	FY10E	FY10-12
Auto (5)	19.9	14.6	11.5	8.7	7.5	6.0	4.1	3.3	2.7	20.8	22.9	23.8	1.1	31.5
Banks (26)	12.3	10.4	8.5	NM	NM	NM	2.2	1.9	1.7	18.3	18.5	19.5	1.6	20.0
Cement (8)	9.4	9.3	8.4	5.2	4.6	3.8	2.1	1.6	1.4	22.7	17.5	16.7	1.5	6.0
Engineering (6)	28.3	21.9	17.0	19.1	15.0	11.6	6.9	5.6	4.6	24.6	25.5	27.3	0.9	28.9
FMCG (12)	24.3	21.2	18.0	15.7	13.9	11.7	7.7	6.7	5.8	31.7	31.6	32.1	2.1	16.3
IT (7)	21.4	18.6	16.6	15.1	13.0	11.1	5.7	4.6	3.8	26.8	24.7	22.8	0.9	13.7
Infrastructure (9)	30.7	26.9	21.8	15.6	14.7	11.4	3.4	3.0	2.7	11.0	11.3	12.4	0.5	18.8
Media (6)	21.4	17.2	14.4	12.5	9.6	8.2	3.5	3.1	2.8	16.6	18.2	19.3	1.4	22.0
Metals (9)	20.1	11.8	9.4	10.2	7.2	5.6	2.3	2.0	1.7	11.4	16.7	17.7	1.0	46.4
Oil Gas & Petchem (11)	14.1	11.8	9.8	8.1	6.6	5.5	2.1	1.8	1.6	14.8	15.5	16.2	1.5	19.6
Pharma (13)	28.3	21.1	18.3	17.5	15.5	13.3	4.7	4.0	3.5	16.6	18.9	18.9	0.9	24.4
Real Estate (10)	21.7	16.0	13.1	17.1	12.3	9.7	1.6	1.5	1.4	7.3	9.1	10.5	0.4	28.7
Retail (2)	35.6	25.7	19.7	14.7	11.7	9.7	4.3	3.7	3.2	12.0	14.4	16.4	0.5	34.4
Telecom (3)	11.0	12.1	10.4	6.7	6.6	5.3	1.8	1.5	1.3	16.2	12.6	13.0	0.7	3.0
Textiles (5)	15.1	8.1	5.2	7.4	6.0	4.7	0.8	0.7	0.7	5.4	9.1	12.7	1.2	70.3
Utilities (10)	23.9	19.0	15.3	16.4	12.5	11.1	2.6	2.3	2.1	10.7	12.1	13.7	1.3	25.1
Others (2)	11.6	8.7	7.2	8.7	6.6	5.4	2.0	1.7	1.4	17.7	20.0	19.7	1.5	26.9
MOSL (144)	**17.2**	**14.0**	**11.6**	**N.M**	**N.M**	**N.M**	**2.8**	**2.4**	**2.1**	**16.1**	**17.0**	**17.8**	**1.2**	**21.6**
MOSL Excl. RMs (141)	**17.8**	**14.2**	**11.7**	**N.M**	**N.M**	**N.M**	**2.9**	**2.5**	**2.1**	**16.0**	**17.3**	**18.1**	**1.2**	**23.3**
Sensex (30)	**20.4**	**15.6**	**12.7**	**N.M**	**N.M**	**N.M**	**3.1**	**2.7**	**2.3**	**15.3**	**17.2**	**18.4**	**1.2**	**26.7**
Nifty (50)	**20.4**	**15.7**	**12.8**	**N.M**	**N.M**	**N.M**	**3.1**	**2.6**	**2.3**	**14.9**	**16.8**	**17.9**	**1.1**	**26.4**

N.M. - Not Meaningful *Source: MOSL*

Valuation Matrix

VALUATION MATRIX

NAME	CMP (RS) 26.02.10	RECO	EPS (RS) FY10E	EPS (RS) FY11E	EPS (RS) FY12E	P/E (X)) FY10E	P/E (X)) FY11E	P/E (X)) FY12E	EV/EBITDA (X) FY10E	EV/EBITDA (X) FY11E	EV/EBITDA (X) FY12E	ROE (%) FY10E	ROE (%) FY11E	ROE (%) FY12E
Automobiles														
Bajaj Auto	1,817	Buy	117.0	140.4	160.0	15.5	12.9	11.4	10.0	8.2	6.8	56.5	44.1	35.7
Hero Honda	1,772	Buy	109.9	126.7	144.4	16.1	14.0	12.3	11.1	9.3	7.6	47.7	39.8	30.4
Mahindra & Mahindra	1,007	Buy	93.8	106.7	131.2	10.7	9.4	7.7	5.0	4.4	3.5	26.4	21.3	21.5
Maruti Suzuki	1,464	Buy	86.9	98.7	119.5	16.8	14.8	12.2	9.6	8.2	6.4	21.6	20.1	20.0
Tata Motors	711	Neutral	-3.1	25.8	48.2	-232.3	27.5	14.8	10.0	8.6	7.2	9.0	9.3	9.5
Sector Aggregate						**19.9**	**14.6**	**11.5**	**8.7**	**7.5**	**6.0**	**20.8**	**22.9**	**23.8**
Cement														
ACC	923	Neutral	83.4	69.6	79.5	11.1	13.3	11.6	6.2	7.1	6.2	29.6	20.9	19.2
Ambuja Cements	107	Neutral	7.8	8.4	9.1	13.7	12.7	11.8	8.1	7.6	6.5	19.7	18.8	18.0
Birla Corporation	363	Buy	74.5	67.5	66.2	4.9	5.4	5.5	2.7	2.5	3.2	31.6	22.7	18.5
Grasim Industries	2,697	Buy	341.1	281.1	311.1	7.9	9.6	8.7	3.7	3.3	2.5	23.8	16.3	15.7
India Cements	117	Buy	12.9	8.6	10.2	9.1	13.7	11.5	6.5	7.9	6.1	9.4	5.9	6.4
Kesoram Ind	359	Buy	57.2	57.7	73.9	6.3	6.2	4.9	4.7	4.7	3.9	18.1	15.8	17.4
Shree Cement	2,146	Buy	266.7	230.1	257.8	8.0	9.3	8.3	5.3	5.1	4.2	56.5	32.7	27.7
Ultratech Cement	1,038	Buy	91.1	82.6	93.7	11.4	12.6	11.1	6.5	3.4	2.7	24.3	27.7	20.0
Sector Aggregate						**9.4**	**9.3**	**8.4**	**5.2**	**4.6**	**3.8**	**22.7**	**17.5**	**16.7**
Engineering														
ABB	795	Neutral	16.7	25.9	36.3	47.5	30.7	21.9	31.0	20.0	13.7	15.6	20.5	23.6
BHEL	2,352	Buy	89.7	114.2	151.8	26.2	20.6	15.5	16.3	12.6	9.4	30.5	31.5	33.6
Crompton Greaves	416	Neutral	22.3	26.6	32.2	18.6	15.7	12.9	17.1	13.6	10.8	39.1	35.6	34.0
Larsen & Toubro	1,567	Neutral	55.5	70.0	88.2	28.2	22.4	17.8	21.8	17.8	14.2	18.7	18.5	20.1
Siemens	683	Neutral	13.7	24.0	27.0	49.8	28.4	25.3	21.1	15.3	13.9	12.7	25.6	24.8
Thermax	589	Neutral	20.5	23.8	30.9	28.8	24.8	19.1	19.0	15.9	13.0	26.0	30.3	33.9
Sector Aggregate						**28.3**	**21.9**	**17.0**	**19.1**	**15.0**	**11.6**	**24.6**	**25.5**	**27.3**
FMCG														
Asian Paints	1,810	Neutral	79.9	86.5	104.6	22.6	20.9	17.3	14.3	13.1	10.7	48.2	41.2	39.9
Britannia	1,671	Buy	86.9	112.7	132.0	19.2	14.8	12.7	15.9	11.8	9.8	49.1	50.7	48.0
Colgate	691	Buy	28.8	32.3	38.3	24.0	21.4	18.0	19.4	15.7	13.0	167.2	150.8	148.9
Dabur	169	Buy	5.7	6.5	7.9	29.4	25.8	21.4	22.8	19.2	16.1	45.7	41.1	39.1
Godrej Consumer	246	Buy	10.7	13.1	15.5	23.0	18.8	15.9	18.6	14.3	12.0	48.2	50.4	50.0
GSK Consumer	1,435	Buy	55.4	64.5	78.9	25.9	22.2	18.2	17.8	15.6	12.2	26.0	25.7	26.6
Hind. Unilever	236	Neutral	9.7	10.3	12.1	24.2	22.8	19.6	17.7	16.5	14.1	94.1	96.2	103.1
ITC	232	Buy	10.8	12.3	14.2	21.5	18.9	16.3	13.0	11.8	9.9	25.7	25.3	25.4
Marico	103	Buy	4.0	4.8	6.0	25.7	21.3	17.3	16.8	14.1	11.4	37.6	32.7	30.0
Nestle	2,622	Buy	77.1	93.0	114.0	34.0	28.2	23.0	23.0	19.1	15.6	125.9	119.1	115.5
Tata Tea	943	Neutral	61.6	68.8	76.7	15.3	13.7	12.3	9.2	8.0	7.1	9.5	9.9	10.2
United Spirits	1,362	Buy	30.7	51.6	62.5	44.3	26.4	21.8	17.2	13.9	12.2	8.3	12.4	13.2
Sector Aggregate						**24.3**	**21.2**	**18.0**	**15.7**	**13.9**	**11.7**	**31.7**	**31.6**	**32.1**

(Contd.)

Valuation Matrix (Contd.)

VALUATION MATRIX

NAME	CMP (RS) 26.02.10	RECO	EPS (RS) FY10E	EPS (RS) FY11E	EPS (RS) FY12E	P/E (X)) FY10E	P/E (X)) FY11E	P/E (X)) FY12E	EV/EBITDA (X) FY10E	EV/EBITDA (X) FY11E	EV/EBITDA (X) FY12E	ROE (%) FY10E	ROE (%) FY11E	ROE (%) FY12E
Information Technology														
HCL Technologies	367	Buy	17.5	25.4	29.5	21.0	14.5	12.4	10.0	8.5	7.0	19.3	23.3	22.6
Infosys	2,602	Neutral	109.7	122.5	147.2	23.7	21.2	17.7	17.1	14.4	12.0	30.4	27.5	27.3
MphasiS	663	Neutral	48.3	50.5	54.1	13.7	13.1	12.3	10.9	9.9	8.8	36.8	29.1	24.4
Patni Computer	474	Buy	36.1	41.9	44.3	13.1	11.3	10.7	6.4	5.1	4.1	15.1	15.3	14.2
TCS	761	Buy	34.8	39.2	42.4	21.9	19.4	17.9	16.5	14.2	12.5	37.1	32.0	27.5
Tech Mahindra	893	Neutral	49.1	64.7	71.4	18.2	13.8	12.5	8.1	8.0	7.3	35.4	32.3	26.5
Wipro	677	Neutral	31.4	36.3	39.6	21.5	18.7	17.1	15.8	13.4	11.2	27.1	24.6	21.9
Sector Aggregate						**21.4**	**18.6**	**16.6**	**15.1**	**13.0**	**11.1**	**26.8**	**24.7**	**22.8**
Infrastructure														
GMR Infrastructure	55	Neutral	1.2	1.2	1.4	45.9	47.6	40.3	15.6	14.5	13.2	6.5	6.0	6.7
GVK Power & Infra	43	Buy	1.0	1.7	3.1	42.6	26.1	14.0	19.0	16.1	10.7	5.1	7.8	13.0
Hindustan Construction	134	Neutral	4.2	6.1	8.1	31.8	22.1	16.5	13.2	10.2	8.6	8.3	10.9	13.1
IRB Infra.Devl.	253	Not Rated	17.7	19.7	18.6	14.3	12.9	13.6	9.9	9.8	8.4	22.2	19.7	15.7
IVRCL Infra.	322	Buy	16.0	18.1	24.0	20.1	17.8	13.4	12.0	10.0	8.1	11.7	12.3	14.5
Jaiprakash Associates	132	Buy	4.4	3.8	3.1	29.8	35.2	42.3	15.0	18.4	11.9	12.0	9.1	7.0
Mundra Port	673	Not Rated	14.4	20.9	32.9	46.7	32.2	20.5	32.8	20.9	15.7	17.4	21.3	26.8
Nagarjuna Construction	154	Buy	9.1	11.6	14.0	16.8	13.3	11.0	12.6	10.8	9.6	9.5	9.5	10.3
Simplex Infra.	448	Buy	26.4	35.3	47.4	17.0	12.7	9.4	6.9	5.9	5.0	13.6	15.9	18.2
Sector Aggregate						**30.7**	**26.9**	**21.8**	**15.6**	**14.7**	**11.4**	**11.0**	**11.3**	**12.4**
Media														
Deccan Chronicle	146	Buy	12.0	14.9	18.4	12.1	9.8	7.9	6.2	5.0	3.8	22.8	24.5	26.0
HT Media	138	Neutral	6.7	8.2	9.5	20.8	16.9	14.5	12.2	9.8	8.5	14.5	15.9	16.3
Jagran Prakashan	119	Neutral	5.8	6.6	7.9	20.6	18.0	15.1	12.1	10.2	8.7	29.3	31.5	34.2
Sun TV	369	Neutral	14.2	17.5	21.2	26.0	21.1	17.4	12.9	10.0	8.8	25.2	25.0	24.4
TV Today	113	Buy	8.6	10.4	12.1	13.2	10.9	9.3	7.1	5.2	4.0	13.8	14.7	15.0
Zee Entertainment	248	Neutral	9.7	12.5	14.8	25.4	19.8	16.7	17.6	12.2	10.2	11.4	12.1	13.3
Sector Aggregate						**21.4**	**17.2**	**14.4**	**12.5**	**9.6**	**8.2**	**16.6**	**18.2**	**19.3**
Metals														
Hindalco	161	Neutral	3.3	6.6	12.5	48.3	24.4	12.9	9.9	9.5	7.3	6.0	10.9	17.5
Hindustan Zinc	1,121	Buy	97.0	117.7	134.6	11.6	9.5	8.3	7.4	5.4	4.1	22.5	21.6	20.0
JSW Steel	1,071	Buy	68.1	81.3	136.3	15.7	13.2	7.9	8.8	7.9	4.9	18.0	17.7	22.9
Nalco	385	Sell	11.9	17.7	20.1	32.4	21.8	19.2	19.2	11.3	9.6	7.4	10.2	10.7
Prakash Inds	201	Buy	21.4	21.9	38.5	9.4	9.2	5.2	8.2	6.7	4.2	21.7	17.8	24.5
SAIL	218	Sell	15.4	16.4	16.2	14.2	13.3	13.5	9.5	8.7	8.4	19.0	17.4	15.1
Sesa Goa	400	Buy	32.5	40.6	46.5	12.3	9.9	8.6	8.3	6.0	4.6	34.5	30.7	26.4
Sterlite Inds.	781	Buy	46.7	68.3	92.8	16.7	11.4	8.4	9.0	6.1	3.9	10.6	13.6	15.7
Tata Steel	574	Neutral	-20.4	68.0	92.4	-28.1	8.4	6.2	14.5	6.3	4.9	-19.2	44.2	40.9
Sector Aggregate						**20.1**	**11.8**	**9.4**	**10.2**	**7.2**	**5.6**	**11.4**	**16.7**	**17.7**
Oil & Gas														
BPCL	562	Buy	68.6	56.2	60.4	8.2	10.0	9.3	8.1	7.7	6.9	17.3	12.5	12.1
Cairn India	266	Buy	5.9	19.4	35.3	45.2	13.7	7.5	46.8	8.4	4.8	10.4	16.7	14.2
Chennai Petroleum	246	Buy	41.0	29.4	25.4	6.0	8.4	9.7	5.7	5.6	6.1	23.1	11.8	9.6
GAIL	399	Buy	22.7	27.4	29.2	17.6	14.6	13.7	11.5	9.5	9.2	17.2	18.0	16.7
Gujarat State Petronet	86	Buy	7.4	9.3	12.2	11.6	9.2	7.0	5.7	4.7	3.6	29.1	28.4	29.0
HPCL	347	Buy	66.1	44.3	48.3	5.2	7.8	7.2	4.5	5.1	4.3	19.0	11.1	11.0

(Contd.)

Valuation Matrix (Contd.)

VALUATION MATRIX

	CMP (RS)	RECO	EPS (RS)			P/E (X))			EV/EBITDA (X)			ROE (%)		
NAME	26.02.10		FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E
Oil & Gas (Contd.)														
Indraprastha Gas	208	Neutral	15.6	18.2	21.1	13.3	11.5	9.9	7.6	6.0	4.8	28.8	27.3	26.1
IOC	318	Buy	42.4	32.5	38.0	7.5	9.8	8.4	5.8	6.3	5.1	20.4	13.6	14.1
MRPL	74	Sell	5.5	4.3	4.7	13.5	17.1	15.6	10.2	11.0	11.8	18.9	13.3	13.2
ONGC	1,117	Neutral	90.9	116.8	133.8	12.3	9.6	8.3	4.9	4.2	3.6	20.0	22.4	22.1
Reliance Inds.	978	Buy	53.4	72.9	88.7	18.3	13.4	11.0	12.6	8.9	7.2	12.9	15.4	16.1
Sector Aggregate						**14.1**	**11.8**	**9.8**	**8.1**	**6.6**	**5.5**	**14.8**	**15.5**	**16.2**
Pharmaceuticals														
Aventis Pharma	1,610	UR	68.3	81.9	95.4	23.6	19.7	16.9	20.5	16.0	12.6	18.1	19.3	19.8
Biocon	263	Buy	14.2	17.1	19.5	18.5	15.4	13.5	11.4	9.4	8.0	16.5	17.2	17.1
Cadila Health	762	Buy	35.9	44.0	54.7	21.2	17.3	13.9	14.6	12.3	10.3	35.5	33.4	32.3
Cipla	315	Buy	13.8	17.5	20.4	22.9	18.0	15.5	16.3	13.9	11.8	18.8	20.2	20.0
Divis Labs	623	Buy	23.8	26.5	32.2	26.2	23.5	19.3	22.9	19.2	15.8	22.9	21.6	22.3
Dr Reddy' s Labs	1,143	Buy	6.6	56.2	62.9	174.4	20.3	18.2	16.1	15.6	13.7	2.6	19.1	18.6
GSK Pharma	1,716	Buy	59.6	69.2	79.1	28.8	24.8	21.7	19.5	17.0	14.6	28.7	30.1	31.2
Glenmark Pharma	252	Neutral	10.7	16.1	18.5	23.5	15.6	13.6	12.7	10.1	9.0	13.4	13.8	13.8
Jubiliant Organosys	319	Buy	25.9	25.4	28.8	12.3	12.6	11.1	11.0	10.2	8.6	27.0	21.5	20.2
Lupin	1,498	Buy	71.3	90.5	100.3	21.0	16.6	14.9	16.2	13.3	11.8	37.8	36.5	31.8
Piramal Healthcare	397	Buy	21.1	25.8	31.0	18.8	15.4	12.8	13.4	10.8	9.3	29.7	29.2	28.5
Ranbaxy Labs	467	Neutral	3.6	3.8	6.3	130.2	121.9	73.9	35.8	51.0	39.3	3.3	3.4	5.4
Sun Pharma	1,541	Buy	55.1	64.0	68.5	27.9	24.1	22.5	22.2	19.8	17.7	15.1	15.4	14.6
Sector Aggregate						**28.3**	**21.1**	**18.3**	**17.5**	**15.5**	**13.3**	**16.6**	**18.9**	**18.9**
Real Estate														
Anant Raj Inds	123	Buy	7.3	10.4	11.9	16.9	11.9	10.3	14.4	8.9	9.2	6.0	8.0	8.5
Brigade Enterpr.	140	Buy	6.9	9.9	15.0	20.4	14.3	9.4	15.6	10.0	6.6	7.6	10.2	14.3
DLF	297	Buy	13.3	18.1	19.9	22.3	16.5	14.9	16.3	11.9	10.9	8.5	10.4	10.6
HDIL	301	Buy	14.9	18.4	23.9	20.2	16.3	12.6	17.8	13.5	9.4	7.8	8.8	11.5
Indiabulls Real Estate	160	Neutral	2.8	5.4	13.4	57.5	29.4	11.9	103.2	32.9	11.0	0.8	1.6	3.9
Mahindra Lifespace	377	Buy	24.2	29.4	36.0	15.6	12.8	10.5	12.9	9.0	6.8	9.8	10.6	11.4
Peninsula Land	81	Neutral	10.0	12.0	13.2	8.1	6.8	6.2	6.6	5.1	4.6	24.3	24.8	23.5
Phoenix Mills	181	Buy	4.2	7.4	10.7	43.4	24.6	17.0	40.9	20.1	16.3	3.9	6.4	9.0
Puravankara Projects	95	Neutral	5.3	7.8	9.4	17.9	12.1	10.1	21.6	12.4	8.8	7.8	10.6	13.1
Unitech	72	Buy	3.4	4.8	6.4	21.1	15.1	11.2	17.9	13.0	8.3	7.6	9.7	12.5
Sector Aggregate						**21.7**	**16.0**	**13.1**	**17.1**	**12.3**	**9.7**	**7.3**	**9.1**	**10.5**
Retail														
Pantaloon Retail	388	Buy	9.9	14.5	19.0	39.3	26.8	20.4	11.9	9.7	8.3	6.8	9.1	10.7
Titan Industries	1,749	Neutral	55.1	70.9	91.6	31.7	24.7	19.1	21.1	16.0	12.5	33.8	33.5	33.9
Sector Aggregate						**35.6**	**25.7**	**19.7**	**14.7**	**11.7**	**9.7**	**12.0**	**14.4**	**16.4**
Telecommunication														
Bharti Airtel	279	Buy	24.0	23.5	25.8	11.6	11.9	10.8	6.7	6.4	5.1	26.9	22.1	20.0
Idea Cellular	61	Buy	2.7	1.7	2.9	22.6	36.2	20.7	7.4	7.4	5.7	6.0	3.5	5.3
Reliance Comm	157	Buy	20.9	17.2	21.2	7.5	9.1	7.4	6.4	6.7	5.3	11.1	8.6	9.7
Sector Aggregate						**11.0**	**12.1**	**10.4**	**6.7**	**6.6**	**5.3**	**16.2**	**12.6**	**13.0**
Textiles														
Alok Ind	23	Buy	2.7	4.4	5.5	8.7	5.3	4.3	8.2	7.6	6.5	7.1	10.9	12.4
Arvind Mills	34	Neutral	1.7	1.6	5.2	20.6	22.1	6.7	6.4	6.0	4.8	1.9	1.7	5.5
Bombay Rayon	208	Buy	16.6	28.2	41.1	12.5	7.3	5.1	8.5	5.3	3.9	11.6	15.9	19.3
Raymond	214	Buy	-7.0	9.0	19.1	-30.6	23.9	11.2	12.7	8.5	6.2	-1.9	2.2	4.6
Vardhman Textiles	218	Buy	23.4	31.5	51.9	9.3	6.9	4.2	3.1	2.3	1.9	10.3	12.8	18.4
Sector Aggregate						**15.1**	**8.1**	**5.2**	**7.4**	**6.0**	**4.7**	**5.4**	**9.1**	**12.7**

UR - Under Review

(Contd.)

Valuation Matrix (Contd.)

VALUATION MATRIX

NAME	CMP (RS) 26.02.10	RECO	EPS (RS) FY10E	EPS (RS) FY11E	EPS (RS) FY12E	P/E (X)) FY10E	P/E (X)) FY11E	P/E (X)) FY12E	EV/EBITDA (X) FY10E	EV/EBITDA (X) FY11E	EV/EBITDA (X) FY12E	ROE (%) FY10E	ROE (%) FY11E	ROE (%) FY12E
Utilities														
Adani Power	106	Not Rated	0.5	2.1	10.9	230.5	50.4	9.7	165.5	34.9	9.6	1.9	8.2	35.2
CESC	384	Neutral	28.9	31.0	31.5	13.3	12.4	12.2	7.7	8.5	9.3	11.3	11.0	10.1
Indiabulls Power	29	Not Rated	0.2	0.1	-0.2	136.2	253.4	-	-	-	-	1.1	0.6	-0.9
JSW Energy	104	Not Rated	4.7	9.0	9.6	22.2	11.5	10.8	16.0	6.4	5.8	15.4	26.0	21.8
NTPC	203	Neutral	10.6	11.3	12.9	19.2	18.0	15.8	12.1	9.8	9.9	14.6	14.2	14.8
Power Grid Corp.	107	Buy	4.9	5.8	7.6	21.9	18.5	14.0	14.0	11.3	9.6	13.4	14.4	17.1
PTC India	105	Buy	3.7	4.3	4.4	28.1	24.6	24.0	40.3	41.1	38.2	6.1	5.9	5.9
Reliance Infrastructure	1,004	Buy	45.0	56.3	68.8	22.3	17.8	14.6	24.9	23.2	20.8	9.8	9.8	10.0
Reliance Power	138	Not Rated	-	2.6	0.8	-	53.4	168.8	-	28.9	19.1	-	4.4	1.4
Tata Power	1,213	Neutral	60.8	96.7	119.1	19.9	12.5	10.2	18.6	16.2	15.3	7.8	9.0	9.1
Sector Aggregate						**23.9**	**19.0**	**15.3**	**16.4**	**12.5**	**11.1**	**10.7**	**12.1**	**13.7**
Others														
Sintex Inds.	238	Buy	22.3	29.7	37.5	10.7	8.0	6.3	12.2	9.7	8.1	17.0	18.8	19.8
United Phosphorous	152	Buy	11.9	15.9	18.7	12.7	9.5	8.1	6.8	5.0	3.8	19.1	21.9	20.9
Sector Aggregate						**11.6**	**8.7**	**7.2**	**8.7**	**6.6**	**5.4**	**17.7**	**20.0**	**19.7**

VALUATION MATRIX

NAME	CMP (RS) 26.02.10	RECO	EPS (RS) FY10E	EPS (RS) FY11E	EPS (RS) FY12E	P/E (X)) FY10E	P/E (X)) FY11E	P/E (X)) FY12E	P/BV (X) FY10E	P/BV (X) FY11E	P/BV (X) FY12E	ROE (%) FY10E	ROE (%) FY11E	ROE (%) FY12E
Banking														
Andhra Bank	99	Buy	22.1	23.1	27.5	4.5	4.3	3.6	1.1	0.9	0.8	26.7	23.5	23.9
Axis Bank	1,125	Buy	60.7	77.8	96.2	18.5	14.5	11.7	2.8	2.5	2.1	18.7	18.2	19.3
Bank of Baroda	584	Buy	81.4	90.6	104.3	7.2	6.4	5.6	1.5	1.3	1.1	23.3	21.9	21.3
Bank of India	334	Neutral	34.7	49.8	64.5	9.6	6.7	5.2	1.3	1.1	1.0	14.6	18.3	20.3
Canara Bank	392	Buy	80.7	76.6	91.8	4.9	5.1	4.3	1.3	1.1	0.9	29.1	22.4	22.4
Corporation Bank	442	Buy	81.0	91.9	109.5	5.5	4.8	4.0	1.1	0.9	0.8	21.8	21.0	21.2
Dena Bank	80	Buy	17.6	19.4	22.2	4.6	4.1	3.6	1.0	0.8	0.7	23.2	21.2	20.4
Dewan Housing	186	Buy	18.2	25.4	34.7	10.2	7.3	5.4	1.8	1.5	1.2	22.5	22.3	25.1
Federal Bank	257	Buy	31.3	39.7	47.5	8.2	6.5	5.4	0.9	0.8	0.7	11.8	13.5	14.3
HDFC	2,500	Neutral	94.5	109.8	128.5	26.5	22.8	19.5	4.9	4.4	3.8	25.1	24.9	25.2
HDFC Bank	1,705	Buy	65.2	86.5	110.7	26.2	19.7	15.4	3.7	3.2	2.8	16.3	17.4	19.3
ICICI Bank	872	Buy	37.5	50.5	62.2	23.2	17.3	14.0	1.9	1.7	1.6	11.0	13.7	15.3
IDFC	160	Neutral	8.5	10.2	12.0	18.7	15.7	13.3	2.9	2.6	2.2	16.7	17.4	17.8
Indian Bank	164	Buy	36.4	33.1	39.8	4.5	5.0	4.1	1.0	0.9	0.8	25.6	19.6	20.3
Indian Overseas Bank	88	Sell	13.6	16.3	19.9	6.5	5.4	4.4	0.8	0.7	0.6	12.1	13.5	15.1
J&K Bank	619	Buy	106.6	118.6	135.6	5.8	5.2	4.6	1.0	0.9	0.8	18.3	17.7	17.7
Kotak Mahindra Bank	742	Neutral	34.2	42.2	49.3	21.7	17.6	15.0	3.3	2.8	2.4	19.4	20.2	19.9
LIC Housing Fin	753	Buy	69.5	87.3	102.7	10.8	8.6	7.3	2.1	1.8	1.5	23.5	22.5	22.4
Oriental Bank of Commerce	274	Buy	45.9	49.6	60.6	6.0	5.5	4.5	0.9	0.8	0.7	16.6	15.7	16.8
Punjab National Bank	901	Buy	122.5	141.1	165.7	7.4	6.4	5.4	1.8	1.5	1.2	26.4	25.0	24.3
Rural Electric. Corp.	244	Buy	19.8	24.5	29.6	12.3	9.9	8.2	2.2	1.9	1.7	21.5	20.6	21.9
Shriram Transport Fin.	461	Buy	38.2	48.2	60.4	12.0	9.6	7.6	2.7	2.3	1.8	22.7	23.6	24.0
State Bank	1,976	Buy	200.0	227.7	287.0	9.9	8.7	6.9	1.5	1.3	1.1	16.3	16.3	17.8
South Indian Bank	145	Buy	22.3	26.7	30.3	6.5	5.4	4.8	1.1	0.9	0.8	18.0	18.7	18.5
Union Bank	256	Buy	40.8	49.0	58.2	6.3	5.2	4.4	1.5	1.2	1.0	26.1	25.4	24.6
Yes Bank	237	Buy	14.3	18.2	22.6	16.6	13.0	10.5	2.5	2.1	1.8	20.2	17.8	18.4
Banking Sector Aggregate						**12.3**	**10.4**	**8.5**	**2.2**	**1.9**	**1.7**	**18.3**	**18.5**	**19.5**

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Disclosure of Interest Statement

The MOSt group and its Directors own shares in the following companies covered in this report: Bharat Electronics, Bharti Airtel, Birla Corporation, GSK Pharma, Hero Honda, Hindalco, Marico, Nestle India, Oriental Bank, Siemens and State Bank.

MOSt has broking relationship with a few of the companies covered in this report.

MOSt is engaged in providing investment-banking services in the following companies covered in this report: Sintex Industries