Union Budget 2009 - 10

The roadmap for inclusive growth

Low on Frills, High on Contents – Budget for Bharat

In our budget expectations, we had hoped that Finance Minister would announce some market pleasing measures, such as economic reforms, FDI liberalization and disinvestment. Many of our and market expectation remained unfulfilled as the FM refrained from any 'big bang' announcements. However the budget deals with fundamental pillars of the Indian political economy – consumption, infrastructure and inclusive growth. Overall we believe that Budget 09-10 could be a beginning of de-linking budget from political announcements.

Though FM seems to have lost opportunity to give a big psychological boost , he lays foundation for accelerating long term growth potential of the Indian economy to 9%. FM focuses on some of the basic factors that influence the economy.

This budget lays the foundation for the long term growth prospects of the Indian economy through higher plan allocation to rural infrastructure and social development. Over the long term, these measures will have a salutary effect on rural productivity and boost economic growth

We do not believe that the fiscal deficit will be a major negative as it is caused due to higher government spending to counter the effects of the economic slowdown. It will cause a very little 'crowding out' as private credit demand remains subdued

Positive Affected Sector: Auto, Fertilizers, Pharma, Infrastructure

Beneficiaries: Bajaj Auto, Tata Chemicals, L&T, BHEL, IVRCL Infra

Consumption & Infrastructure to boost growth

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Consumption led growth.

- Private consumption has been the engine of Indian economic growth, unlike China which is driven by exports
- Rural consumption has insulated India from the worst effects of the global economic slowdown.
- Budget 2009-10 positively reinforces the trend by putting more money in hands of consumers through increase in tax exemption limits, abolition of surcharge on personal income tax and higher rural income through various government welfare schemes.
- Higher allocation to NREGA and increase in minimum wages to Rs 100 will improve the disposable income to rural India
- Boost to rural infrastructure through Bharat Nirman will boost employment opportunities in rural India and improve productivity of agriculture and allied activities

Giving boost to infrastructure

- India suffers from a infrastructure deficit, which hampers growth
- A thrust on Public Private Partnership (PPP) is the way to go forward for infrastructure projects and the government does not have sufficient resources to boost infrastructure investment
- FM has tackled the problem of mismatch between the need for long-term funds for infrastructure and bank’s need to lend on short term basis through IIFCL.
- Increase focus on the infrastructure through higher allocations for JNNURM, Bharat Nirman, NHAI, AIBP will provide much needed boost to Indian infrastructure.
- Higher allocation to agriculture, fertilizers, rural infrastructure and development of supply chains will help connect farmers to consumers, improving agricultural productivity and rural income

Market Overreacted

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- The near 6% fall in the market following the Budget speech to me reflects the unwinding of inflated budget expectations.
- Few negative surprises in form of increase MAT from 10% to 15% and lack of announcement of reforms in fuel prices, FDI in insurance and disinvestment.
- We believe that higher MAT would have maximum 2-4% impact on the bottom line but at the same time MAT credit period is also extended to 10 years from 7 years. The impact of MAT looks minimal on the EPS growth of 15-20% in the sector impacted by the MAT
- On reform, FM has played very politic game and left it to the individual ministry to implement and announced the proposed reform. If FM has announced reforms in the budget in a bunch it would invite lot of opposition in parliament. In next few weeks we can expect increase activity from the individual ministry.
- There are few positives which market had totally ignored like investment link tax exemption, direct subsidy in the hands of farmers, improved delivery mechanism at the government level and incentives given to the investors in National Pension scheme.

Direct Tax – Unjustified focus on MAT

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- No change in corporate tax rate
- Abolition of FBT regime; Expect Sensex EPS increase by 0.5% to Rs 876 – Positive for IT and FMCG
- Exemption on IT export profit under STPI scheme increase by 1 more year to FY11 – Positive, however Industry was expecting at least 3 years of extension
- Abolition of Commodity Transaction Tax (CTT) – Positive for Commodity exchanges
- Extension of provisions related to weighting deduction of 150% on expenditure incurred on in-house R&D to all manufacturing businesses – Positive for Auto and Pharma companies
- Investment link tax exemption on the capital expenditure made on the cold-chain, warehousing and cross country gas pipeline – Positive for Gas Transmission and Logistic companies
- Increased in MAT to 15% from the current 10% is the biggest negative of the budget; it will hit hard most to the Telecom, IT, Oil & Gas and Power & Capital goods companies
- Section 80 IB extends to Natural Gas which gives 7 years of tax holiday – Positive, however it was expected
- Marginal increase in Tax exemption limit by Rs 10,000, from Rs 1,50,000 on personal income taxes – Positive, higher discretionary spending in the hands of urban consumers
- Removal of 10% surcharge on personal income taxes – expect all surcharges to be phased out over the next few years
- Government expect tax proposals on Direct Tax to be revenue neutral

Indirect Tax – No Major Changes

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- Most of the stimulus given in the form of duty and excise cut retained in the budget. FM expects indirect tax proposals to give increase in revenue in the tune of Rs 2,000 crore in FY10

Custom Duty

- 5% custom duty to be imposed on Set Top Box for Television broadcasting – Negative for WLL, Dish TV
- Custom duty reduced from 10% to 5% with NIL CVD on 10 specific life saving drugs
- Custom duty on certain generators used in Wind energy reduced to 5% from 7.5% - Positive for Suzlon

Excise Duty

- Excise duty on naphtha reduced to 14%
- Excise duty on PTA, DMT, acrylonitrile increased to 8% from the 4%
- Excise duty rate on items currently attracting 4% to be raised to 8% with few exceptions Service Tax
- No major inclusion/exclusion in service tax; consultancy in law and transport of goods by rail are included

Government Finance

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	2007-08	2008-09 RE	2009-10 BE	Change
REVENUE RECEIPTS	**541,925**	**562,173**	**614,497**	**9%**
Tax Revenue	541,925	465,970	474,218	2%
Non-Tax Revenue	102,378	96,203	140,279	46%
CAPITAL RECEIPTS	**197,978**	**308,796**	**406,341**	**32%**
Internal Debt Market Borrowings (Net)	131,768	261,972	397,957	52%
Gross Market Borrowings	168,101	306,000	451,093	47%
Disinvestment of equity in PSU	38,796	2,567	1,120	-56%
Other items of Capital				
receipts (Net)	20,404	18,833	(31,264)	-266%
TOTAL- RECEIPTS	**739,903**	**900,953**	**1,020,838**	**13%**
EXPENDITURE				
Non-plan Expenditure	507,650	617,996	695,689	13%
Plan Expenditure	205,082	282,957	325,149	15%
Total Expenditure	**712,732**	**900,953**	**1,020,838**	**13%**
Fiscal Deficit as % of GDP	(2.7)	(6.0)	(6.8)	

Detail Government Finance

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	2008-09 RE	2009-10BE	Change
REVENUE RECEIPTS	562,173	614,497	9%
Tax Revenue	627,949	641,079	2%
Corporation tax	222,000	256,725	16%
Income tax	122,600	112,850	-8%
Customs	108,000	98,000	-9%
Union Excise Duties	108,359	106,477	-2%
Service Tax	65,000	65,000	0%
Less States' Share	160,179	164,361	3%
Net Tax Revenue	465,970	474,218	2%
Non-Tax Revenue	96,203	140,279	46%
CAPITAL RECEIPTS	308,796	406,341	32%
Internal Debt Market Borrowings (Net)	261,972	397,957	52%
External Assistance (Net)	9,603	16,047	67%
TOTAL- RECEIPTS	**900,953**	**1,020,838**	13%
EXPENDITURE			
Non-plan Expenditure	617,996	695,689	13%
Interest Payments	192,694	225,511	17%
Defence Expenditure	114,600	141,703	24%
Subsidies	129,243	111,276	-14%
Grants to States & UT Govts	38,421	48,570	26%
Other Non-Plan Expenditure	143,038	25,390	-82%
Plan Expenditure	282,957	325,179	15%
Total Expenditure	**900,953**	**1,020,838**	13%

Realistic Tax Revenue growth targets given the state of the economy

Reflects the ~10% contraction expected in Imports in FY10

Accounts for the CENVAT cuts announced as part of stimulus package after interim budget

Sharp rise in market borrowings will put upward pressure on the long bond yields

Higher Interest payments and Defense Expenditure push up non plan expenditure

Growth reflects higher social spending and allocation to rural infrastructure

Revenue Trends

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	2007- 08	2008 - 09 RE	2009 - 2010 BE
Gross Tax Revenue	**593,147**	**627,949**	**641,079**
% Growth Y-o-Y	25.3%	5.9%	2.1%
% of GDP	13.7%	12.7%	11.3%
Direct Tax	295,555	344,600	369,575
% Growth Y-o-Y	56.0%	16.6%	7.2%
% of GDP	6.8%	7.0%	6.5%
Indirect Tax	279,031	281,359	273,377
% Growth Y-o-Y	15.5%	0.8%	-2.8%
% of GDP	6.5%	5.7%	4.8%
Corporation tax	**192,911**	**222,000**	**256,725**
% Growth Y-o-Y	68.7%	15.1%	15.6%
% of GDP	4.5%	4.5%	4.5%
% of Total Tax Revenues	32.5%	35.4%	40.0%
Income tax	**102,644**	**122,600**	**112,850**
% Growth Y-o-Y	36.7%	19.4%	-8.0%
% of GDP	2.4%	2.5%	2.0%
% of Total Tax Revenues	17.3%	19.5%	17.6%
Customs	**104,119**	**108,000**	**98,000**
% Growth Y-o-Y	20.6%	3.7%	-9.3%
% of GDP	2.4%	2.2%	1.7%
% of Total Tax Revenues	17.6%	17.2%	15.3%
Union Excise Duties	**123,611**	**108,359**	**106,477**
% Growth Y-o-Y	5.1%	-12.3%	-1.7%
% of GDP	2.9%	2.2%	1.9%
% of Total Tax Revenues	20.8%	17.3%	16.6%
Service Tax	**51,301**	**65,000**	**68,900**
% Growth Y-o-Y	36.5%	26.7%	6.0%
% of GDP	1.2%	1.3%	1.2%
% of Total Tax Revenues	8.6%	10.4%	10.7%

Tax Revenue growth to slowdown due to weak economic growth and fiscal stimulus

Elimination of surcharge and increase in deduction limits on income tax

Customs Duty to contract on account of degrowth in imports

Exercise Duty to contract on account of reduction in CENVAT rate announced as part of fiscal stimulus and slowdown on industrial production

Revenue Trends

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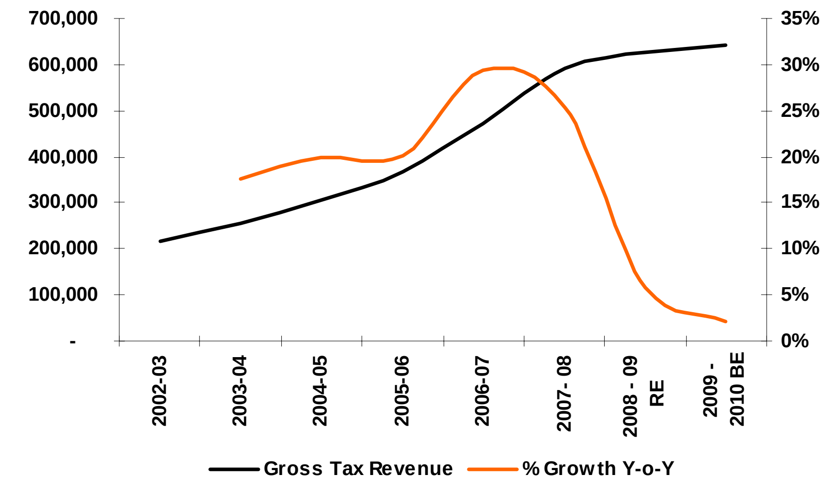
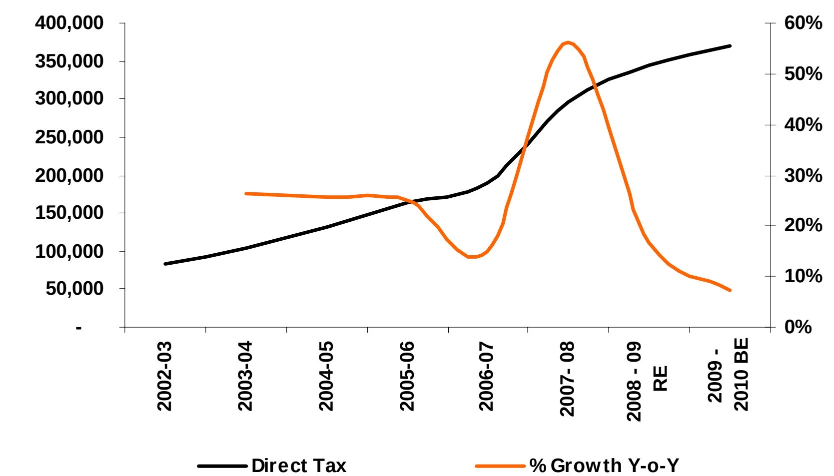
Gross Tax Revenue

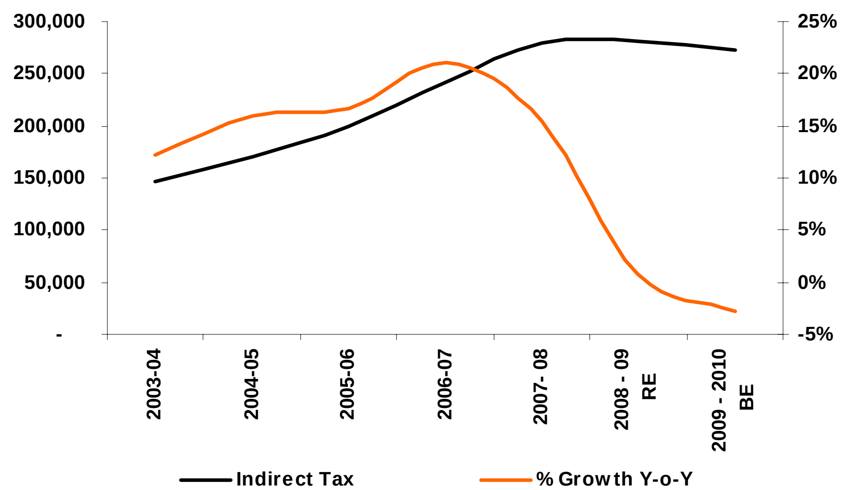


- Gross Tax Revenue growth to slow drastically to 2% (y-o-y)
- Direct Tax Revenue growth to be healthy at 7.2% on back of higher corporate taxes
- Indirect Tax Revenue to contract on account of Exercise and Service Tax rate cuts announce as part of economic stimulus

Direct Tax



Indirect Tax



Source : KRC

Expenditure Trends

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	2007-08	2008-09 RE	2009-10 BE
Non-Plan Expenditure	**507,650**	**617,996**	**695,689**
% Growth Y-o-Y	22.8%	21.7%	12.6%
% of GDP	11.7%	12.5%	12.3%
% of Total Expenditure	71.2%	68.6%	68.1%
Interest Payments	171,030	192694	225,511
% Growth Y-o-Y	13.8%	12.7%	17.0%
% of GDP	4.0%	3.9%	4.0%
% of Total Expenditure	24.0%	21.4%	22.1%
Defence Expenditure	91,681	114,600	141,703
% Growth Y-o-Y	7.2%	25.0%	23.7%
% of GDP	2.1%	2.3%	2.5%
% of Total Expenditure	12.9%	12.7%	13.9%
Subsidies	70,926	129,243	111,276
% Growth Y-o-Y	24.2%	82.2%	-13.9%
% of GDP	1.6%	2.6%	2.0%
% of Total Expenditure	10.0%	14.3%	10.9%
Grants to States & UT Govts	35,769	38,421	48,570
% Growth Y-o-Y	0.1%	7.4%	26.4%
% of GDP	0.8%	0.8%	0.9%
% of Total Expenditure	5.0%	4.3%	4.8%
Plan Expenditure	**205,082**	**282,957**	**325,149**
% Growth Y-o-Y	20.7%	38.0%	14.9%
% of GDP	4.7%	5.7%	5.7%
% of Total Expenditure	28.8%	31.4%	31.9%
Total Expenditure	**712,732**	**900,953**	**1,020,838**
% Growth Y-o-Y	22.2%	26.4%	13.3%
% of GDP	16.5%	18.3%	18.0%

Sharp Increase in Interest Payments reflects the growth of government debt

Subsidies higher on account of higher auto and cooking fuel prices and not allowing upstream oil companies to bear any costs of under recoveries

Higher Allocation to government's priority areas of rural infrastructure and rural development

Countercyclical fiscal policy to insulate the economy from effect of global slump

Expenditure Trends

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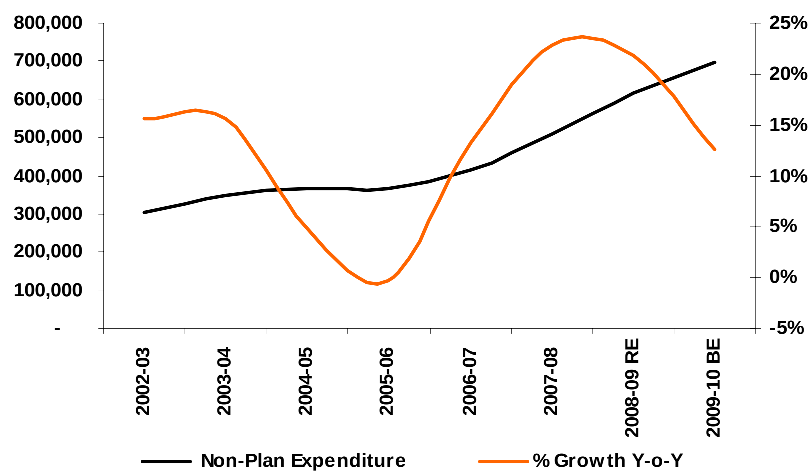
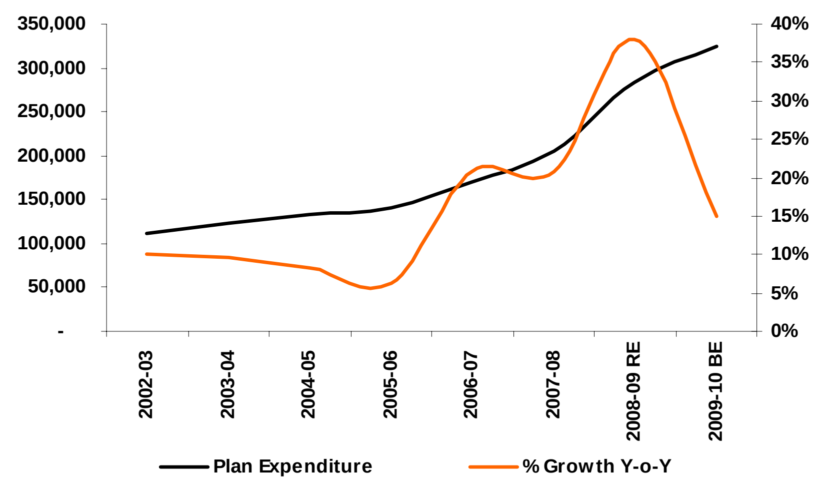
- Government Expenditure to grow 13.3% as government steps up spending to counter economic slump and boost rural infrastructure
- Plan Expenditure to grow 14.9% as government invests to promote 'inclusive growth' and boost infrastructure spending
- Non Plan Expenditure growth boosted by higher interest payments (up 17% y-o-y) and higher defense expenditure (up 23.7% y-o-y)

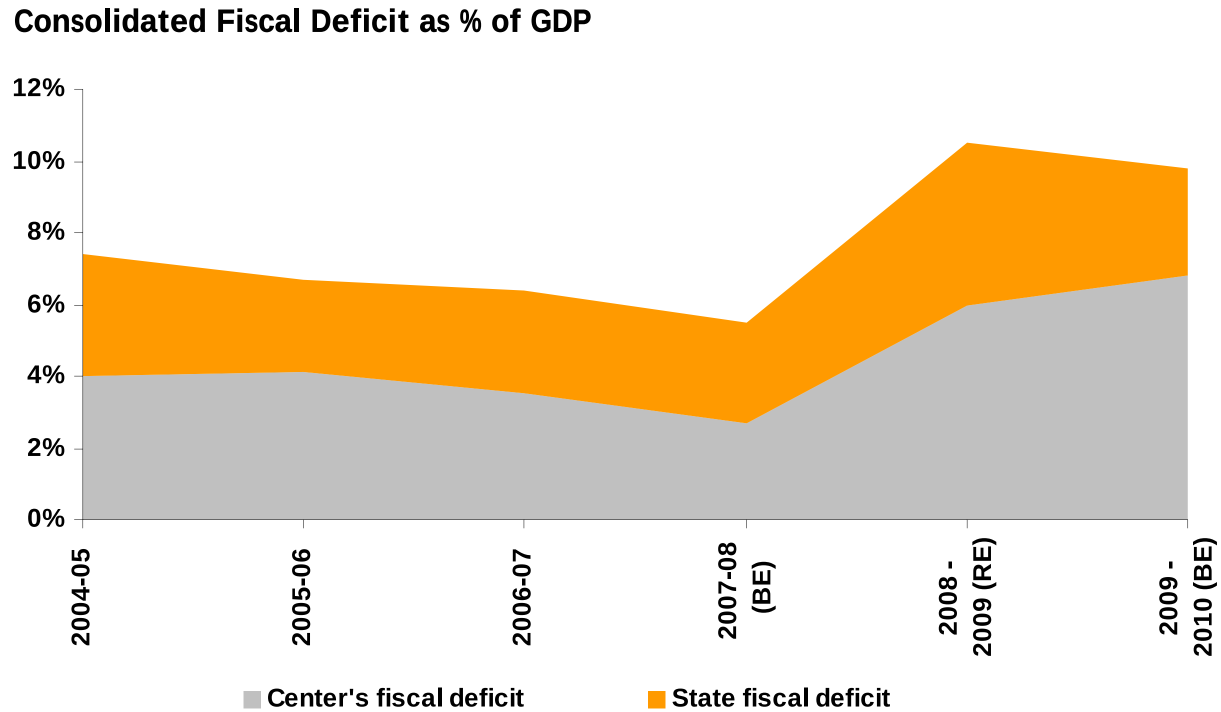
Non-plan Expenditure



Plan Expenditure



Fiscal Deficit



- Center's Fiscal Deficit budgeted to reach 6.8% of GDP on account of higher government expenditure and slowdown in revenue growth
- Consolidated Fiscal Deficit budgeted to touch 9.8% of GDP on back of .5% higher borrowing limits (upto 3% of GSDP) for states
- Assumption of Rs 35,000 crore from 3G license sales and just Rs 1,120 crores from disinvestment. However, we expect more in disinvestment going forward.

Sector Summary

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Sector	Impact	Key Measures	Winners	Losers
Autos	Positive	• Increase spend on highways, hike in the NREGA to benefits auto companies having presence in rural markets • Increase in allocation in JNNURM by 87% increase the demand of M&HCV, Unified excise duty for cars	M&M, Hero Honda, Bajaj Auto	
Banks	Neutral	• Higher credit growth due to economic stimulus measures • Hardened bond yields may cause MTM losses	SBI, ICICI Bank, Axis Bank	
Cement	Neutral	• The sector would benefit indirectly from spending in infrastructural projects and Rural Development Programme	Grasim, Ambuja, ACC	
Fertilizers	Positive	• Government intends to move towards a nutrient based subsidy regime from product based subsidy regime	Tata Chemicals	
FMCG	Neutral	• Abolition of FBT will increase money for consumption • Real wage increased to Rs. 100/ day under NREGA to boost rural consumption. • Increase in personal tax slabs by Rs, 10,000 for male & female,	HUL, ITC, Tata Tea	
Infrastructure	Positive	• Higher outlay on irrigation and urban infra and Infra spending to be ~9% of GDP by 2014 • IIFCL to refinance commercial bank loans	Patel Engg., IRB, IVRCL, NCC	
IT	Neutral	• While the extension of tax exemption to STPI units is welcome, the failure to extend the benefits beyond 2011 would limit any substantial sector re-rating	Infosys, Wipro	
Media	Negative	• Increase in custom duties on set-up boxes, • No relaxation on FDI front and additional duties.	Jagran, HT Media	WLL, Dish TV

Sector Summary

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Sector	Impact	Key Measures	Winners	Losers
Metal	Neutral	• Industry was expecting an imposition of safeguard duty of 15-20% which has not been materialized. This is negative for Steel sector. • No changes in the export duty structure on iron ore is positive for Sesa Goa	Sesa goa	
Oil & Gas	Neutral	• Blueprint on setting up national gas grid and expert panel on fuel pricing formula • Section 80IB benefits for seven year tax holiday on natural gas production	GSPL	
Pharma	Positive	• Customs duty on life saving drugs/vaccine and their bulk drugs to be reduced ; • Customs duty on specified heart devices to be reduced;	Cipla, Glenmark, Biocon, Dr Reddy	
Power & Capital Goods	Neutral	• Allocation under RGGVY increased by 27% to Rs 7000 crores will boost demand for power equipments, Allocation for NHDP increased by 23% over FY09 budget est.	BHEL	
Real Estate	Neutral	• Spending on Rural Housing Stepped up	DLF, Unitech	
Retailing	Neutral	• No change in FDI; Branded Jewelry exempted from excise; Customs duty on gold and silver increased by 100%		
Shipping & Logistics	Neutral	• Capex related to setting up of cold-chain, warehousing for agriculture produce to be fully allowed as deduction from taxes	Gateway Distriparks	
Telecom	Negative	• Increase in MAT from 10% to 15% would impact telecom operators like Rcom and Bharti which pay considerable MAT	Bharti Airtel	RCOM

Auto

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Positive

Increase spend on highways, hike in the NREGA to benefits auto companies having presence in rural market
Increase in allocation in JNNURM by 87% increase the demand of M&HCV, Unified excise duty for cars

Key measures

- **Increase in the allocation in JNNURM by 87%**
  - Allocation in JNNURM up by 87% to Rs12887 crore
  - This will boost the demand for busses and act as a positive catalyst for companies like Tata Motors & Ashok Leyland
- **Hike in allocation in NHAI by 23%**
  - Increase spend on highways to boost the demand of commercial vehicle thereby benefiting companies like Tata Motors, Ashok Leyland etc
- **NREGS hiked by 144%**
  - Hike in NREGS to act as a positive trigger as it would lead to an Increase in the demand of vehicles for companies like Hero Honda, M&M, Maruti & Eicher Motors having strong presence in rural markets.
- **Extension of R&D deduction**
  - Weighted deduction of 150% on expenditure incurred on in-house R&D for all manufacturers have been extended. This will reduce the R&D expenses of all the Auto and Auto components company and thereby improve the earnings
- **Unified excise duty for cars**
  - The rates of specific components of excise for vehicles with engine capacity of below or higher than 2000 cc have been unified to Rs15000/unit which was earlier Rs2000/unit for vehicles with higher engine capacity. Petrol driven trucks were charged excise duty of 20%. Due to its quality of useful means of transport for cities and short distance, the excise duty on them have been reduced to 8% to equate the duty with similar vehicles that run on diesel
- **Increase in the MAT rate to 15%**
  - MAT rate has been increased to 15% from 10% will have a negative impact on the earnings of companies like Tata Motors & Ashok Leyland

Earnings Snapshot

	Tata Motos	Ashok Leyland	Maruti	Hero Honda
Sales	28,082	7,201	27,333	16,718
EBITDA	1,684	658	2,255	2,148
PAT	319	191	1,500	1,489
EPS	7.3	1.5	51.0	72.6
Rev. EPS	6.2	1.4	52.0	74.6
P/E	45.7	20.4	19.9	18.2
P/BV	1.2	1.7	2.7	5.1
EV/ EBITDA	15.7	6.8	13.5	11.2
RoE	4%	10%	14%	33%
Div Yield	1.5	3.7	1.0	2.5%

TOP PICKS

Bajaj Auto, Hero Honda

Banks / Financials

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Neutral

IIFCL refinance of loans for PPP Projects will boost Advances Growth
FBT withdrawal boost EPS of Private Banks by 2-3%

Key measures

- **Withdrawal of FBT on ESOPs: 2-3% potential EPS boost for private banks**
  - ICICI Bank, Axis Bank and HDFC Bank will be able to reward talent and save on compliance costs
- **Hardening Bond Yields to Impact Trading Profits**
  - Bonds reacted negatively to 6.8% fiscal deficit estimates
  - May cause MTM losses on investment books of banks
- **IIFCL to evolve a Takeout financing scheme to facilitate Infrastructure Lending**
  - IIFCL to refinance 60% of commercial bank loans for PPP projects in critical sector
  - Will provide marginal boost to lending and help banks address Asset Liability Mismatch
- **Subsidy to ensure provision of banking services to 'Underbanked Areas'**
  - Will enable PSU banks to expand their liability mobilization franchise and acqui of low cost deposits
- **Increase in Interest Subvention on short term farm credit**
  - No earnings impact as banks will pass the subsidy onto borrowers but incentive for farm loan repayment will improve
- **No Roadmap for Insurance or Pension FDI Liberalization**
  - Sentimental short term impact

Earnings Snapshot

	HDFC Bank	ICICI	Axis	SBI
NII	7,276	8,890	4,239	24,033
Operating Profit	5,310	10,148	4,138	19,162
PAT	2,590	4,897	2,049	10,238
EPS	74	50	57	268
Rev. EPS	75	52	59	270
BV	534	480	305	1068
P/E	18.80	13.42	14.13	6.20
P/BV	2.66	1.44	2.64	1.57
Div Yield	0.66%	1.46%	1.14%	1.60%

TOP PICKS

SBI, PNB, Bank of Baroda

Cement

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Neutral

The sector would benefit indirectly from spending in infrastructural projects and Rural Development Programmes

Key measures

- **No reduction in Excise Duty or VAT**
  - The cement industry was expecting a reduction in excise duty and VAT which would improve there net profit margins, however no announcement came in the budget.
- **No taxes on import of cement**
  - Currently there is no import duty on cement which is hurting the domestic players, the players expected a imposition of at least 12.5% on import of cement which would keep the domestic price firm there has been a disappointment in this aspect.
- **Infrastructural and Rural Spending**
  - The government has aggressively planned for development of roads, railways, dams, power, housing etc. Cement being the main raw material demand is expected to rise. Infrastructure investment as percentage of GDP to go up to 9% by 2014 the cement sector would be a major beneficial in coming time.

Earnings Snapshot

	Grasim	Ambuja	ACC
Sales	18,100	7,910	8,100
EBITDA	5,085	2,545	2,045
PAT	2,237	1,655	1,138
EPS	244.0	71.9	60.6
Rev. EPS	244.0	71.9	60.6
P/E	9.4	1.2	11.9
P/BV	1.5	1.8	1.9
EV/EBITDA	5.2	5.6	4.6
EV/Ton ($)	124.1	117.0	105.6

TOP PICKS

Grasim, Ambuja, ACC

Fertilizers

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Positive

Government intends to move towards a nutrient based subsidy regime from product based subsidy regime

Key measures

- **A nutrient based subsidy regime has been introduced instead of product based subsidy regime**
    - This would lead to a significant drop in the prices of complex fertilizer encouraging the judicious use of complex fertilizers and micro-nutrients that contain more than one nutrient instead of ones which have only one nutrient.
    - This will push up the demand for the complex fertilizers
- **Companies to be benefited**
    - This move would prove positive for all the complex fertiliser manufacturing companies like Tata Chemicals Ltd, Coromandel Fertilizers Ltd, GNFC,RCF and Zuari Industries Ltd.
- **Working capital to improve**
    - Subsidy directly given to the farmers would have positive effect on the bottom-line of the companies.

Earnings Snapshot

	Tata Chemicals	United Phosphorus
Sales	8,969	5,282
EBITDA	1,547	950
PAT	649	493
EPS	28.6	11.2
Rev. EPS	30.2	11.2
P/E	7.1	13.1
P/BV	1.3	2.1
EV/EBITDA	6.7	8.4
RoE	14.5	16.3
Div Yield	4.0	0.7

TOP PICKS

Tata Chemicals

FMCG

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Neutral

Emphasis on agriculture, rural growth, rural infrastructure is likely to increase income in the hands of rural people and thereby lead to increase in consumption.

Key measures

- **Agriculture credit flow allocation in FY10 of Rs. 3,25,000 crore**
  - To boost agriculture and thereby accelerate rural demand
- **Interest subvention scheme on short term loan to be continued and additional subvention of 1% to be given to those farmers who repay short term crop loan on time**
  - Encourage farmers to repay loan on time to save interest and thereby stimulate consumption
- **Allocation under NREGS increased by 144% to Rs. 39,100 crore and real wage of Rs. 100/day provided under NREGA**
  - This would increase employment in rural areas and thereby boost rural consumption
- **Abolition of FBT – positive for all FMCG companies**
- **Personal Income Tax slabs raised by Rs. 10,000 for male & female and Rs. 15,000 for senior citizens**
  - This will result in savings and thereby encourage consumption.

All FMCG companies are likely to benefit from this as all companies have started focusing on rural India for driving volume growth. No increase in excise duty on cigarettes is a positive move for ITC

Earnings Snapshot

	Tata Tea	GSK Consumer	HUL	ITC
Sales	5,556	1,750	18,195	18,004
EBITDA	777	301	2,929	6,121
PAT	889	219	2,536	3,960
EPS	143.8	52.17	11.6	10.49
Rev. EPS	143.8	52.17	11.8	10.49
P/E	4.9	17.6	23.4	18.9
P/BV	1.1	4.2	19.3	4.8
EV/EBITDA	4.4	14.0	20.1	9.16
RoE	14%	23.60%	81%	27%
Div Yield	1%	1%	3%	2%

TOP PICKS

HUL, Tata Tea, ITC

Infrastructure

KRChoksey
wealth enhancement solutions

Positive

Increase in infra spending, IIFCL to refinance projects, JNNURM allocation increased, NHDP allocation stepped up

Key measures

- **Increase in infrastructure spending to >9% of GDP by 2014**
  - A major boost for all infrastructure companies as more funds will flow in and order backlogs of companies to improve thus increasing the revenue visibility.
  - Allocation under JNNURM increased by 87% to Rs12887 crore a major boost for companies operating in irrigation and rural development
- **IIFCL to refinance commercial bank loan and in consultation with banks evolve "takeout financing"**
  - IIFCL has been allowed to refinance 60% of commercial banks for PPP projects in critical areas which will ensure liquidity and financial closure of projects
  - "Takeout financing" to facilitate incremental lending and help banks in ALM management
- **NHDP fund allocation stepped up by 23%**
  - NHAI allotted funds to the tune of Rs15948 crore an increase of 23% over 2008-09(BE) which will speed up allocation and implementation of road projects

Earnings Snapshot

	PEL	IVRCL	JP Assoc
Sales	3,113	6,197	8,685
EBITDA	506	564	2,675
PAT	181	239	1,177
EPS	28.9	17.9	9.9
Rev. EPS	-	-	-
P/E	15.0	18.3	19.2
P/BV	2.2	2.2	3.4
EV/EBITDA	8.9	10.1	12.2
RoE	19.4	12.4	17.7
Div Yield	0.3%	0.4%	-

TOP PICKS

Patel Engg, IVRCL Infra

Information Technology

KRChoksey
wealth enhancement solutions

Neutral

While the extension of tax exemption to STPI units is welcome, the failure to extend the benefits beyond 2011 would limit any substantial sector re-rating

Key measures

- **Extension of STPI to FY2011**
    - Sun-set clauses for deduction of export profits under sections 10A and 10B of the Income-tax Act being extended for 2010-11.
    - FY2011 EPS to be revised upwards by 3.5-5%, but as this was anticipated, we do not see an upside on this account.
- **Fringe benefit tax abolishment**
    - ESOPS, an employee compensation method were charged FBT. Their abolishment will be a positive for employees of these companies. Eg: Management of Wipro, Tech Mahindra and TCS have large number of ESOPs outstanding.
- **MAT increase from 10% to 15%**
    - Increase in minimum alternate tax rate would have a cash flow impact more than a P&L impact.
- **Fiscal deficit outlook at 6.8% points towards currency weakness**
    - High crude oil prices, and high capital outflow outlook could keep the rupee weak in the 49-50 range. Rupee depreciation correlation to sector outperformance over the past 6 months is now at 89% making it a strong positive indicator
- **Plan budget for Higher Education - up by 2000 crores**
    - The overall Plan budget for higher education is to be increased by Rs.2,000 crore over Interim B.E. 2009-10.
    - Provision for the scheme 'Mission in Education through ICT' increased to Rs.900 crore and provision for setting up/up-gradation enhanced to Rs.495 crore.
    - This move would directly increase the demand for internet based education services from operators like NIIT, Educomp, and Everonn.

Earnings Snapshot

	Infosys	TCS	Wipro	HCL
Sales	23,401	27,176	28,700	12,733
EBITDA	7,259	7,169	5,452	2,889
PAT	5,861	5,261	4,121	1,824
EPS	102.4	53.14	28.35	27.24
Rev. EPS	102.4	53.14	28.35	27.24
P/E	17.63	7.39	13.44	7.09
P/BV	4.7	1.8	2.1	2.0
EV/ EBITDA	14.2	4.5	7.7	1.3
RoE	42	28	25	33
Div Yield	1.77%	5.19%	1.63%	3.59%

TOP PICKS

Infosys, Wipro

Media and Entertainment

KRChoksey
wealth enhancement solutions

Negative

Increase in custom duties on set-up boxes,
No relaxation on FDI front and additional duties

Key measures

- **Increase in custom duties of set-up boxes from zero to 5%**
  - Move will increase cost of acquiring customers and operating cost by 5%.Delay the breakeven level further for next 6-8 months.
  - Negative for distribution segment- WWIL, DISH TV and Videocon Industries
  - Negative impact for DTH revenue of broadcasting segment – SUNTV, and ZEE.
- **Fringe benefit tax (FBT) reduced to Zero from 20%.**
  - Media companies had to spend more towards travelling and accommodation for their employees, impact on EPS would be minimal.
- **Extension of stimulus package to Print and Media sector for 6 months**
  - Waiver of 15% agency commission on government advertisement further, this would have an increase EPS by 5-6%. HT Media and Jagran most benefited.
  - Increase in DAVP rate by 10% would not impacted larger companies.

Earnings Snapshot

	ZEE	SUNTV	PVR	JPL
Sales	2,389	1,249	373	935
EBITDA	593	856	64	217
PAT	413	452	15	111
EPS	10.0	11.3	6.5	3.9
Rev. EPS	10.0	11.3	6.5	4.1
P/E	17.9	20.5	16.1	17.5
P/BV	2.2	4.6	1.1	3.6
EV/ EBITDA	13.3	10.9	3.7	9.6
RoE	3.3	7.5	0.6	2.32
Div Yield	24.8%	68.6%	17.1%	23.2%

TOP PICKS

Jagran Prakashan and PVR

Metal

KRChoksey
wealth enhancement solutions

Neutral

No safeguard duty on cheap imports of HR, infrastructure push will keep strong domestic demand of steel, no change in export duty on iron ore

Key measures

- **No safeguard duty on cheap HRC imports**
  - Industry was expecting a safeguard duty of 15-20% on cheap imports of HRC particularly from CIS countries. The demand was further corroborated by 9% rebate offered by China to its steel exporters. Currently domestic steel prices are at a premium over global markets.
  - This will have negative impact on Tata Steel, SAIL, JSPL and JSW Steel
- **No changes in duty structure on iron ore exports**
  - There were concerns in the market that duty on iron ore exports could be increased which could have significantly impacted iron ore industry in India as the country exports almost 50% of its 200 bn tonne iron ore production each year.
- **Infrastructure investment as percentage of GDP to go up to 9% by 2014**
  - Infrastructure push by government will keep strong domestic demand of steel even under the current global meltdown when steel consumption is expected to go down sharply over last year.
- **Blueprint to be developed for National Gas Grid**
  - Government is going to develop a blueprint for long distance gas pipelines leading to a National Gas Grid to facilitate transportation of gas across the length and breadth of the country.
  - This will have a positive impact on SAW pipe manufacturers like Welspun Gujarat and Jindal SAW.

Earnings Snapshot

	Sesa Goa	Hind Zinc	Sterlite
Sales	6,320	5,442	16,099
EBITDA	3,161	2,860	4,118
PAT	2,321	2,663	3,504
EPS	29	63	49
Rev. EPS	29	63	49
P/E	6.03	8.9	16.3
P/BV	2.03	1.4	1.0
EV/ EBITDA	4.42	4.5	7.9
RoE	34%	15.4%	8.5%
Div Yield	1%	1%	1%

TOP PICKS

Sesa Goa, Sterlite, Hindustan Zinc

Oil & Gas

KRChoksey
wealth enhancement solutions

Neutral

Blueprint on setting up national gas grid and expert panel on fuel pricing mechanism
Section 80IB benefits for seven year tax holiday on natural gas production

Key measures

- **No immediate announcement in fuel price de-regulation**
  - o Expert committee will be set up to look into the fuel pricing mechanism
- **E&P negatively impacted by increase in MAT from 10% to 15%**
  - o RIL will have to pay higher MAT on profit from new refinery and KG D6 production; Decline of 2-3% in expected FY10E EPS;
  - o Cairn & ONGC will also pay higher MAT on Rajasthan production; Lower NPV value for the blocks due to time value of money and extension of cash flow
- **Natural Gas to avail 7 year of Tax Holiday**
  - o Natural gas is included in the definition of hydrocarbons along with oil for purpose of 7 year tax holiday
  - o We along with market had already modeled 7 year tax holiday for KG D6 gas production; however confusion remains on whether KG D6 block can avail tax benefit
- **Blueprint to be developed for Natural Gas Grid**
  - o Setting up a nationwide gas grid to facilitate transportation of gas sector across the length and breadth of the country as done in Golden Quadrilateral and NS-WE project
  - o Investment linked tax exemption to cross country natural gas/crude/petroleum pipeline network; full tax exemption on all capital expenditure o
  - o Positive for gas transmission companies like GAIL, GSPL and City Gas Distribution

Earnings Snapshot

	RIL	GSPL	GGAS	PetLNG
Sales	202,754	843	1,460	11,226
EBITDA	38,262	728	284	1,198
PAT	22,055	180	188	629
EPS	134.2	3.2	29.4	8.4
Rev. EPS	129.5	3.2	29.4	8.4
P/E	14.4	15.6	10.3	8.0
P/BV	1.7	1.8	2.3	2.4
EV/ EBITDA	9.1	6.3	7.2	5.1
RoE	18.2%	11.7%	21.8%	29.5%
Div Yield	1.0%	1.4%	1%	2.2%

TOP PICKS

RIL, GSPL

Pharmaceuticals

KRChoksey
wealth enhancement solutions

Positive

Customs duty on life saving drugs/vaccine and their bulk drugs to be reduced ; Customs duty on specified heart devices to be reduced; Extension of weighted deduction on R&D

Key measures

- **Customs duty on life saving drugs/vaccine and their bulk drugs to be reduced from 10% to 5%**
  - This will reduced the prices of life saving drugs, thus making it affordable for the masses
  - This will push up the exports as well as reduced the raw material cost
- **Cipla, Panacea Biotec - to be in focus**
  - We expect that due to this reform there would be a positive impact on the topline as well as at the operating level
- **Customs duty on specified heart devices, to be reduced from 7.5% to 5%. Opto Circuit- the key beneficiary**
  - With this move we can expect a shoot up in the imports of life saving devices.
- **Extension of 150% weighted deduction on R&D**
  - This would help the pharma companies to actively carry out in-house R&D activity
- **Companies to be benefited**
  - Though with this move all the pharma companies would be benefited. Companies like Glenmark, Biocon, Dr. Reddys would be the key beneficiary.

Earnings Snapshot

	Biocon	Cipla	Dr. Reddys	Glenmark
Sales	1,938	5,952	8,019	2,690
EBITDA	416	1,359	1,363	740
PAT	314	1,032	742	438
EPS	15.2	12.5	43.5	17.3
Rev. EPS	15.7	13.3	44.2	17.6
P/E	16.4	19.4	17.4	13.0
P/BV	2.5	3.9	3.0	2.7
EV/ EBITDA	10.1	14.9	10.2	8.8
RoE	18.8	18.0	17.1	20.5
Div Yield	1.4	0.8	0.8	0.3

TOP PICKS

Cipla, Glenmark, Biocon

Power & Capital Goods

KRChoksey
wealth enhancement solutions

Neutral

Allocation under RGGVY increased by 27% to Rs 7000 crores will boost demand for power equipments, Allocation for NHDP increased by 23% over FY09 budget est.

Key measures

- **Under RGGVY allocation increased by 27% to Rs 7000 crores**
  - o Under Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY), government has increased allocation by 23% to Rs 7000 crores which is positive for power equipment manufacturers.
- **MAT incresed from 10% to 15%**
  - o MAT increase will negatively impact all power generation companies like Reliance Power, Tata Power etc.
- **Customs duty on Wind power equipment reduced from 7.5% to 5%**
  - o Customs duty on permanent magnets PM synchronous generators above 500 KW used in wind operated electricity generators to be reduced from 7.5% to 5%.
  - o This is marginally negative for Suzlon
- **IIFCL to refinance 60% of commercial bank loans for PPP**
  - o This step will boost the investment in infrastructure sector leading to higher demand for capital equipments.
- **Allocation for NHDP increased by 23% over FY09**
  - o Allocation to National Highways Authority of India (NHAI) for the National Highway Development Programme (NHDP) increased by 23 per cent over B.E. 2008-09.

Earnings Snapshot

	BHEL	L&T
Sales	32,918	40,517
EBITDA	7,359	5,543
PAT	4,414	2,510
EPS	90	56
Rev. EPS	90	56
P/E	23	34
P/BV	6	9
EV/EBITDA	13	15
RoE	26%	26%
Div. Yield	0.38%	0.7%

TOP PICKS

L&T, BHEL

Real Estate

KRChoksey
wealth enhancement solutions

Neutral | Spending on Rural Housing Stepped up

Key measures

- **No hike in income tax exemption for interest payment nor increase in Loan Slab**
  - The industry expected an increase in interest payment exemption from Rs. 1.5 lakhs to Rs. 2.5 Lakhs and in loan slab from 20 lakhs to Rs. 30 Lakhs for a lower interest rate from PSU banks which would help in revival of sales which has not happened and would have a negative impact on all real estate companies.
- **Rural Housing**
  - The government has allocated Rs.2,000 crore for housing construction in National Housing Bank. These funds are mainly allotted for refinance operations in rural housing sector. DLF and Parsvanth Developers would be a major beneficial due to their exposure in rural housing.
- **Common Wealth Games**
  - Rs. 3472 crore is allotted for the preparation of the Common Wealth Games. Unitech and DLF being NCR players would benefit from the spending programme, it could benefit from hotel construction orders.
- **Bharat Nirman**
  - Under this scheme Rs. 40,900 crore are allotted for development of rural areas including housing. The major beneficiatory would be DLF and Unitech due to its current land bank in the Tier – II and Tier – III cities

Earnings Snapshot

	DLF	Unitech	HDIL
Sales	5,800	3,570	1,610
EBITDA	2,325	1,870	655
PAT	1,730	995	545
EPS	10.2	8.4	19.8
Rev. EPS	10.2	8.4	19.8
P/E	22.3	7.6	11.5
P/BV	2.0	1.5	3.3
EV/EBITDA	28.8	6.7	16.3
RoE	6.5%	16.7%	5.8%

TOP PICKS

DLF, Unitech

Retailing

KRChoksey
wealth enhancement solutions

Neutral

No change in FDI; Branded Jewelry exempted from excise; Customs duty on gold and silver increased by 100%

Key measures

- **No change in FDI in Retailing**
  - The industry would not be particularly pleased with this move. However, we were anticipating this, as we believed that the government, with its populist reforms would give this a miss.
- **Branded Jewelry exempted from excise (2% earlier); Customs duty on gold and silver increased by 100%.**
  - Both these measures impact Titan Industries (Not Under Our Active Coverage), however, most of this impact would be passed onto the customer and thus would have a neutral impact on the company

Earnings Snapshot

	Koutons	PRIL	SSL
Sales	1,202	6,384	1,527
EBITDA	196	676	(1)
PAT	78	131	(67)
EPS	25.4	7.5	(19.2)
Rev. EPS	25.4	7.5	(19.2)
P/E	15.8	40.4	NA
P/BV	2.9	4.5	2.6
EV/EBITDA	8.9	14.1	NA
RoE	16.6%	7.1%	NA
Div Yield	0.0%	0.2%	1.0%

TOP PICKS

Koutons Retail

Shipping & Logistics

KRChoksey
wealth enhancement solutions

Neutral

No major announcement; Incentives for setting up of cold chain and warehousing for agriculture produce; New service tax for transport of goods by rail

Key measures

- **Capex related to setting up of cold-chain, warehousing for agriculture produce to be fully allowed as deduction from taxes**
  - To benefit Gateway Distriparks (GDL), as the company is planning a capex (for cold chain expansion) of Rs 360 crore over the next two years
- **MAT increased from 10% to 15%**
  - Tax liability of GDL will go up by 50% due to increase in the MAT from 10% to 15%
- **Service tax to be imposed on service provided in the form of transport of goods carried by Indian Railways or through inland waterways**
  - This would have a no impact on the logistics operators who avail of these services, as this additional tax burden would be passed onto the customers.

Earnings Snapshot

	GDL	MPSEZ	GESCO	BSL
Sales	575	1,416	3,464	3,464
EBITDA	191	949	1,441	1,441
PAT	104	582	1,232	1,232
EPS	9.6	14.5	80.9	80.9
Rev. EPS	10.5	14.5	80.9	80.9
P/E	8.8	37.0	2.9	2.9
P/BV	1.4	8.6	0.5	0.5
EV/ EBITDA	4.4	25.4	3.8	3.8
RoE	14.2%	19.8%	21.3%	21.3%
Div Yield	4.1%	0.0%	3.0%	3.0%

TOP PICKS

Mundra Port (MPSEZ), GDL, GE Shipping (GESCO), Bharti Shipyard (BSL)

Telecom

KRChoksey
wealth enhancement solutions

Negative Increase in MAT from 10% to 15% would impact telecom operators like Rcom and Bharti which pay considerable MAT

Key measures

- **Increase in MAT from 10% to 15%**
  - The increase would imply the telecom operators which pay a relatively higher percentage of tax as MAT would be negatively impact at EPS level. This would impact telecom operators such as Rcom and Bharti by ~1-3% at EPS level.

- **Customs duty on Set top boxes introduced at 5%**
  - Telecom operators like Reliance communications which provide DTH services using set-top boxes, would be impacted by 2-3% at EPS level as cost of equipment imported would increase.

Earnings Snapshot

	Bharti	Rcom	Idea
Sales	45,374	28,397	13,801
EBITDA	16,650	10,933	3,798
PAT	8,640	5,874	1,293
EPS	45.5	29.7	4.2
Rev. EPS	43.29	28.35496	4.09
P/E	17.82	9.78	17.58
P/BV	4.2	1.3	1.3
EV/EBITDA	9.94	8.17	7.57
RoE	34.87	8.66	15.59

TOP PICKS

Bharti Airtel

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