

A black and white photograph of the Lion Capital of Ashoka, a four-lion sculpture, perched atop the dome of the Indian Parliament Building. The Indian national flag is visible in the foreground, partially obscuring the base of the sculpture.

Kredent Consensus Budget Expectations

2nd July 2009

Summary

- This report will provide you with details regarding the expectations from the Budget 2009. In this we have not tried to showcase the expectations we have from the budget but have provided the consensus expectations of different brokerage houses/institutions
- We strongly believe that the media hype surrounding the current budget is completely unjustified, since this is just the first budget the UPA government is delivering after its reappointment and there are four more to go. The media has tagged this budget to be the once in a life time event but they fail to understand that Mr. Mukherjee has clearly stated that implementing reforms takes time
- S&P have already downgraded the outlook for India's sovereign debt rating from stable to negative and any further increase in deficit would lead to a cut in India's rating from BBB-minus and bringing India to speculation grade from the current investment grade
- Historically markets on most of the occasions have disappointed after budgets and the main reason is that they expect miracle from budget which have rarely being delivered. So we expect this budget to be the normal budget with focus to be more on "AAM AADMI" reforms and some on the privatization and priority areas

Agenda

- Highlights
- Historic Pre/Post Budget Market Movements
- Fiscal Deficits
- Taxation
- Sectoral Consensus Expectations

“The Budget is expected to contain measures to accelerate growth while being fiscally prudent” - Business Standard

Highlights

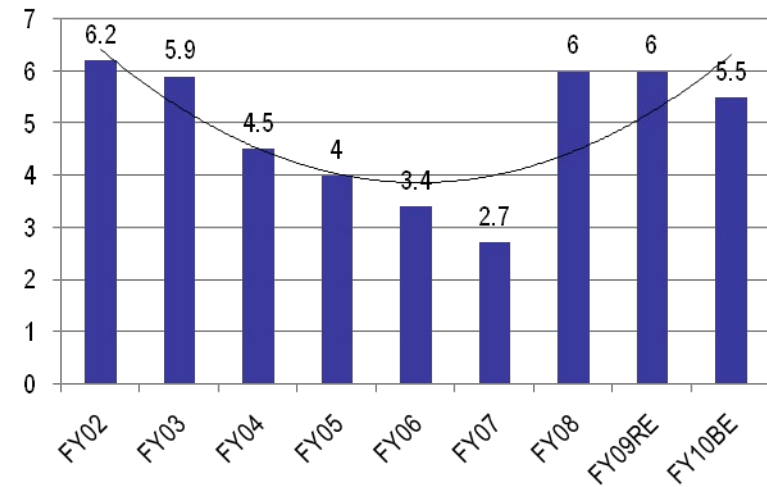
- The focus of FM will continue to be sustaining and improving the rate of GDP growth and that too inclusive growth
- Investments in infrastructure, social initiatives and agriculture are expected to continue. Alternate sources of raising finances like disinvestment, relaxation of FDI norms, auctioning of telecom licenses etc may be used to fund additional requirements
- While issues like FDI relaxations/allowance and implementation of GST may be addressed, other critical issues like labour reforms, pension reforms may need broader political consensus. Tax budget on individual may be reduced to spur consumption
- From a market perspective any major reduction in STT burden will bring a positive surprise. Tax benefit for impacted sectors and employment generating sectors can be provided
- Export oriented sector (Auto Ancillary, leathers, gems & jewellery, textiles) which continues to be impacted by global economic slowdown may be given relief. Employment generating sectors like IT services may see benefit in terms of extended tax benefits. It is expected that FBT will be removed due to high cost of implementation
- The 11th five year plan has envisaged total investment in physical infrastructure to increase from 5% of GDP to 9% of GDP in the current plan. That alone demands an investment of Rs 20 trillion



Fiscal Deficit

- The FM is faced with a fiscal deficit of more than 6% (combined with states a fiscal deficit of around 11% of the GDP) and the target of FY10 may not be too different. Thus to raise additional funds divestments is PSUs, and relaxation of FDI norms
- The government could also announce steps to ease supply side bottlenecks for commodities since inflation is not an immediate concern
- Though the street is expecting the government to remove STT, CTT, this move is highly unlikely given kind of exchequer they are to the government

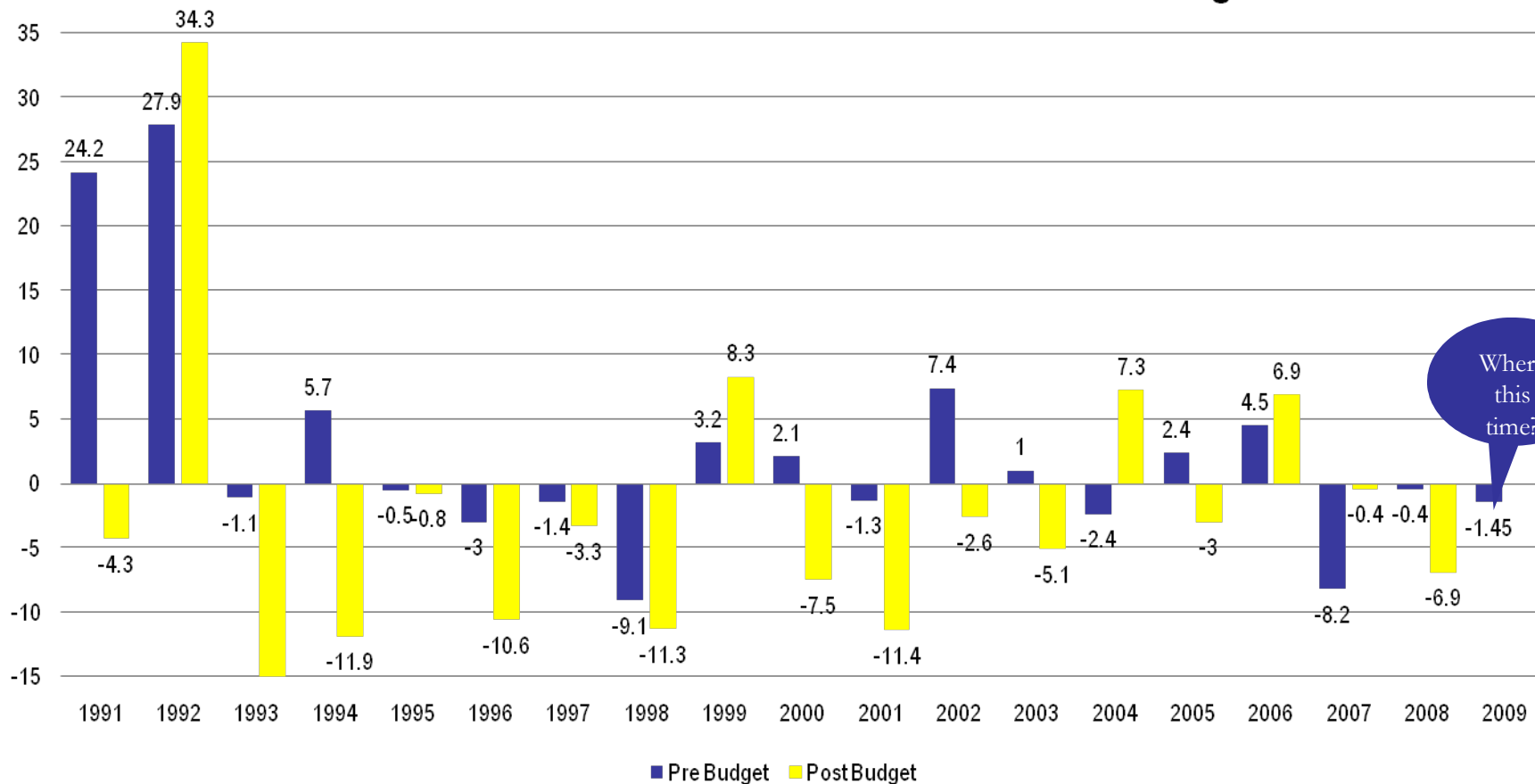
Fiscal Deficit as % of GDP



Year	F2008		F2009		Aggregate
	US\$bn	% of GDP	US\$bn	% of GDP	US\$bn
Oil subsidy	19	1.60%	22	1.90%	41
Fertilizer Subsidy	11	0.90%	24	2.10%	35
NREGS	3	0.30%	7	0.60%	10
Farm Loan Waiver	n/a	n/a	13	1.10%	13
Sixth Pay Commission	n/a	n/a	5	0.40%	5
Additional Fiscal Stimulus	n/a	n/a	28	2.40%	28
Total	33	2.80%	99	8.50%	132

Market Movement Post/Pre Budget Month

Market movements one month before and after the budget



Where this time?

Taxation

No major changes in Direct Tax Rates Expected			
Direct & Indirect Tax	FY09	FY08	Growth(%)
Direct Tax	3382.1	3122	8.3
Corporate Tax	2138.23	1929.11	10.8
Personal Income tax	1239.67	1189.04	4.3
FBT	79.97	71.16	12.4
STT	54.08	85.77	-36.9
Indirect Tax	2833.5	2813.3	0.7
Excise Duty	1083.6	1236.1	-12.3
Import Duty	1080	1041.2	3.7
Service Tax	650	513	26.7

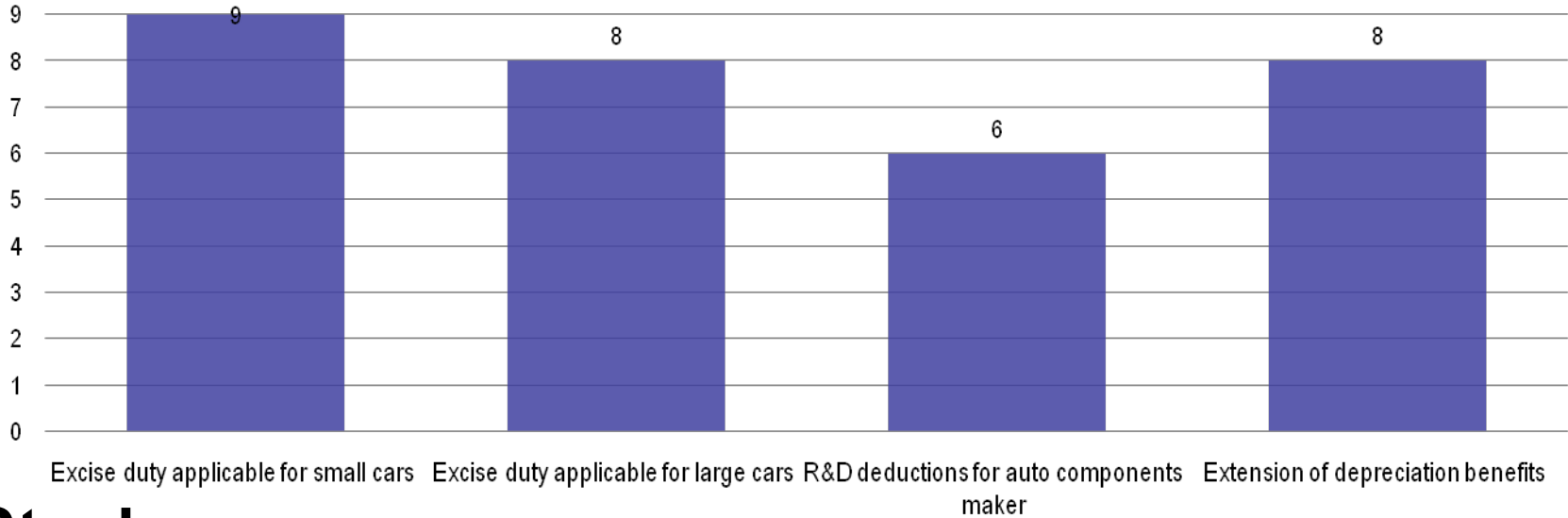
- With fiscal deficit at current levels we do not expect any major concession in direct tax to corporate. At best there can be some change in surcharges. However tax benefit to some impacted industries may be extended
- On an individual front we expect relaxation in some basic exemption limit to put more money in hands of people. Some tax exemptions may be given to channel funds to infrastructure



Automobile

Issues	Industry wish list	Expectations	Rationale	Impact
Excise duty applicable for small cars	Retaining the cut in excise duty which were part of government stimulus package	Likely	Auto sales have begun to rebound after a long time. Govt will be keen to give impetus to this key component of consumption growth	Neutral if industry expectations met
Excise duty applicable for large cars	Reduction in excise duty. Large cars invite a duty of 21% compared to 8% for small cars	Likely, expectation is that the difference would contract	To further promote domestic industry and growth	Positive for players catering to the particular end of the segment
R&D deductions for auto components maker	Extension of deductions to auto component makers who source it from abroad for use in India	Status quo to be maintained	Government has made it clear its intention to gradually do away with deductions across industries	Neutral
Extension of depreciation benefits	For CV's and trucks this is expected to end in FY10E	Likely	Govt will be keen to give impetus to this key component of domestic industrial demand and growth	Positive for truck makers if it materializes

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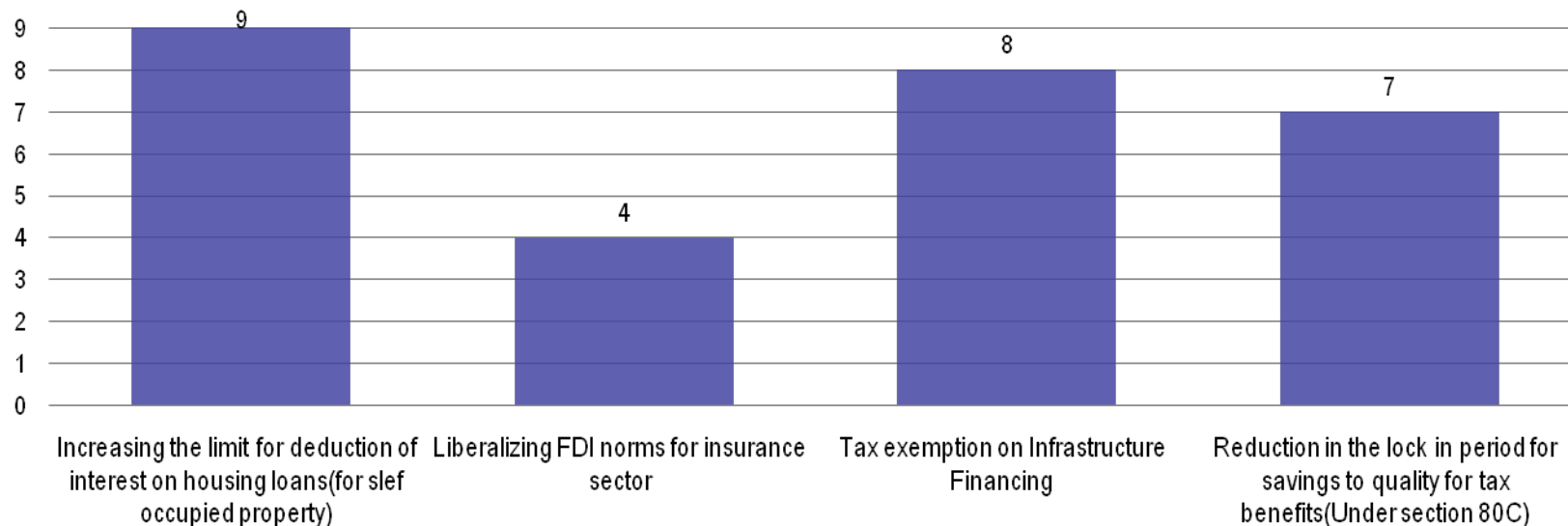
- Mahindra & Mahindra
- Tata Motors



Banking

Issues	Industry Wish list	Expectations	Rationale	Impact
Increasing the limit for deduction of interest on housing loans(for self occupied property)	Increase from Rs 0.15 million to 0.25 million	Likely	Increase the affordability of the borrowers	Positive, it will increase the demand for home loans
Liberalizing FDI norms for insurance sector	Increase the FDI limit in insurance sector from 26% to 49%	Likely	To provide capital to the insurance companies	Positive, it will provide capital to fund their insurance businesses
Tax exemption on Infrastructure Financing	Reintroduce 10 (23) G of the income tax act	likely	Increase attractiveness for lending to infrastructure sector	Positive, it will reduce the effective tax rate depending on the exposure to this sector
Reduction in the lock in period for savings to qualify for tax benefits(Under section 80C)	Reduce from five years lock in period to three years	likely	Increase the attractiveness of term deposits and make it par with other investment instruments	Positive as this would help the banks in correcting the asset liability mismatch

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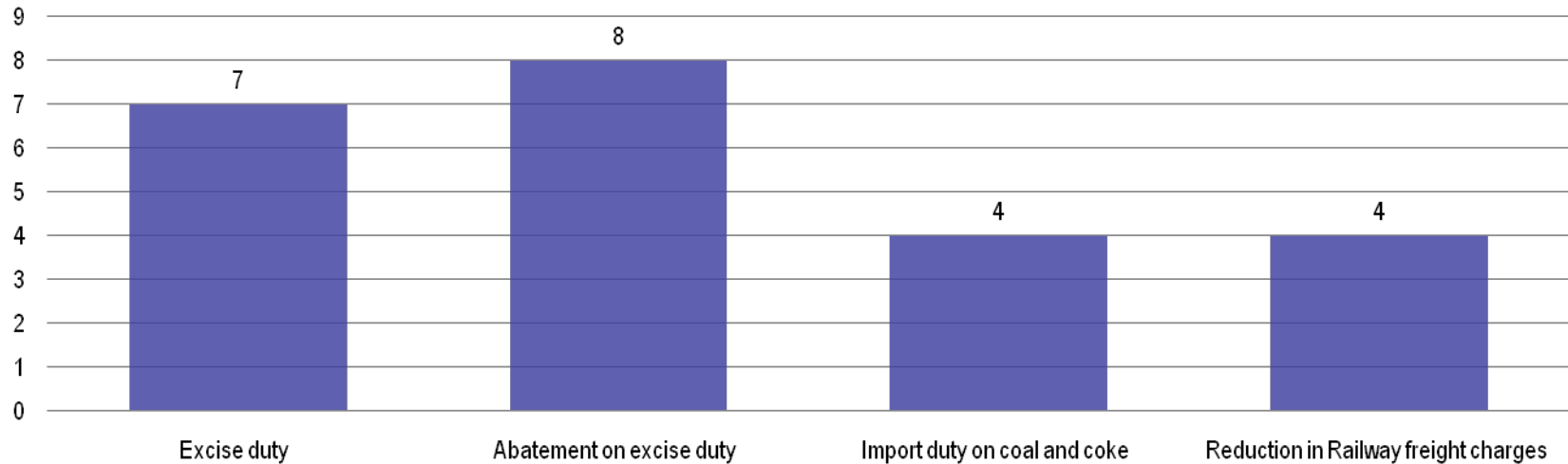
- AXIS BANK
- BANK OF BARODA
- INDIAN BANK
- PUNJAB NATIONAL BANK
- UNION BANK



Cement

Issues	Wish list	Expectations	Rationale	Impact
Excise duty	No increase in excise duty	Excise duty likely to be increase from 8% to 12%	Hike in excise duty will boost government revenue collection and reduce the fiscal deficit	Negative , it is difficult for manufacturers to pass the hike to consumers due to monsoons as well as impending oversupply
Abatement on excise duty	55% abatement on excise duty as against no abatement allowed currently	Status quo maintained	Indirect tax collection may be impacted negatively	Neutral
Import duty on coal and coke	Abolish import duty on coal and pet coke as against 5% currently	Expected to be abolished	Enhance the efficiencies of the cement companies	Results in saving the power cost for the cement companies. Marginally positive
Reduction in Railway freight charges	Bring cement and coal in railway freight classification 130 and 140 respectively	Status quo maintained		Neutral

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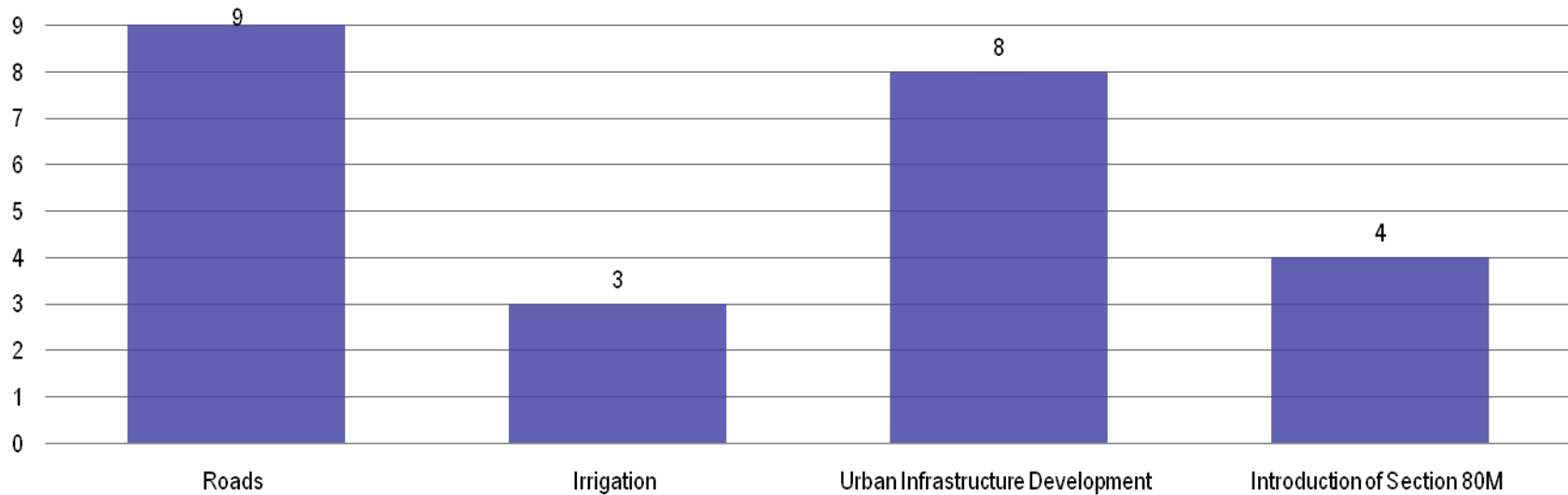
- Shree Cements
- Prism Cements
- India Cements
- ACC Ltd



Construction

Issues	Wish list	Expectations	Rationale	Impact
Roads	Simplification of policy and regulatory framework for faster implementation. Increasing VGF cap for supporting non viable projects; Higher budgetary allocation	Simplifying procedures for implementation; higher allocation in budget; change the revenue model on annuity basis for select projects	Simplification of projects to attract more players and will enhance modernisation and upgrading of highways	Positive for players having adequate experience and net worth to bid for the project
Irrigation	Faster environmental clearances; Higher fund allocation through accelerated irrigation benefit programme	Will increase fund allocation	Results in increase level of irrigation	Positive for players having expertise in irrigation and water projects
Urban Infrastructure Development	Higher fund allocation through JNNURM	Increased fund allocation	Inline with governments focus of infrastructure creation	Positive for most of the construction companies focused on urban infrastructure development
Introduction of Section 80M	Extension of tax exemption on inter corporate dividends further one step down	Likely to be extended	DDT exemption is likely to benefit many companies since most of them have multi layer holding structure	Positive for players carrying out projects in separate SPV structure

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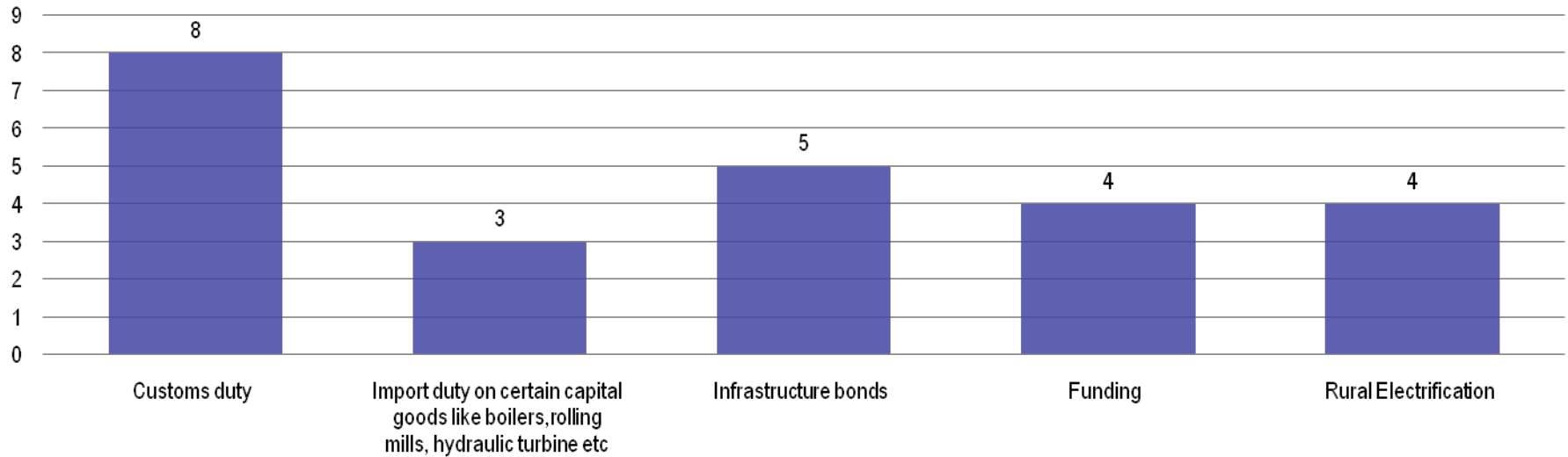
- IVRCL
- Simplex Infra
- Nagarjuna construction
- Sunil Hitech
- Unity Infraprojects



Capital Goods

Issues	Wish List	Expectation	Rationale	Impact
Customs duty	Imposition of 10% customs duty on import of power plant equipment for both the projects awarded through the international competitive bidding route and mega power plant	Status quo to be maintained	To promote investment in power sector and increase generation capacity	No impact
Import duty on certain capital goods like boilers, rolling mills, hydraulic turbine etc	Not to be included in sensitive list for zero duty under WTO obligations	Status quo to be maintained	To retain the viability of the capital good sector	Positive
Infrastructure bonds	Interest on infrastructure bonds to be included under 80C	Likely	To garner funds for development of infrastructure sector	Positive
Funding	The planning commission has proposed setting up a national Electricity fund with a corpus of Rs 1000 bn-1500 bn to finance development of power T&D network by state utilities so as to reduce T&D losses	Likely	To garner funds for development of infrastructure sector	Positive for T&D equipment companies like ABB, Areva, Siemens and Crompton
Rural Electrification	Impact on rural electrification to continue	Likely	To make power available to all	Positive for transformer makers

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- Crompton Greaves
- Voltamp
- BHEL
- L&T
- Blue Star
- Hind Dorr Oliver
- AIA Engg



Issues	Wish List	Expectation	Rationale	Impact
Excise duty	To maintain excise duty on cigarettes	Marginal increase in excise duty on cigarettes	Source for cash for funding the welfare programs	Negative
Focus on rural sector	Focus on rural sector through employment generation and infrastructure spending	Positive steps for employment generation and infrastructure creation	Boost the inherent strengths of the indian economy	Positive
Tax exemption	To be increased above Rs 1.5 lakh	Likely to be increased	More money in the hands of consumer leads to higher spending for FMCG	Postive
Dividend distribution tax	Reduction in Dividend distribution tax	Status quo to be maintained	Future revenue Implications	No Impact
VAT	Rationalize across the food processing industry	Status quo to be maintained	Future revenue Implications	No Impact
Tax incentives	Tax incentives	Some tax concession to be announced	Will help companies to invest in R&D	Positive

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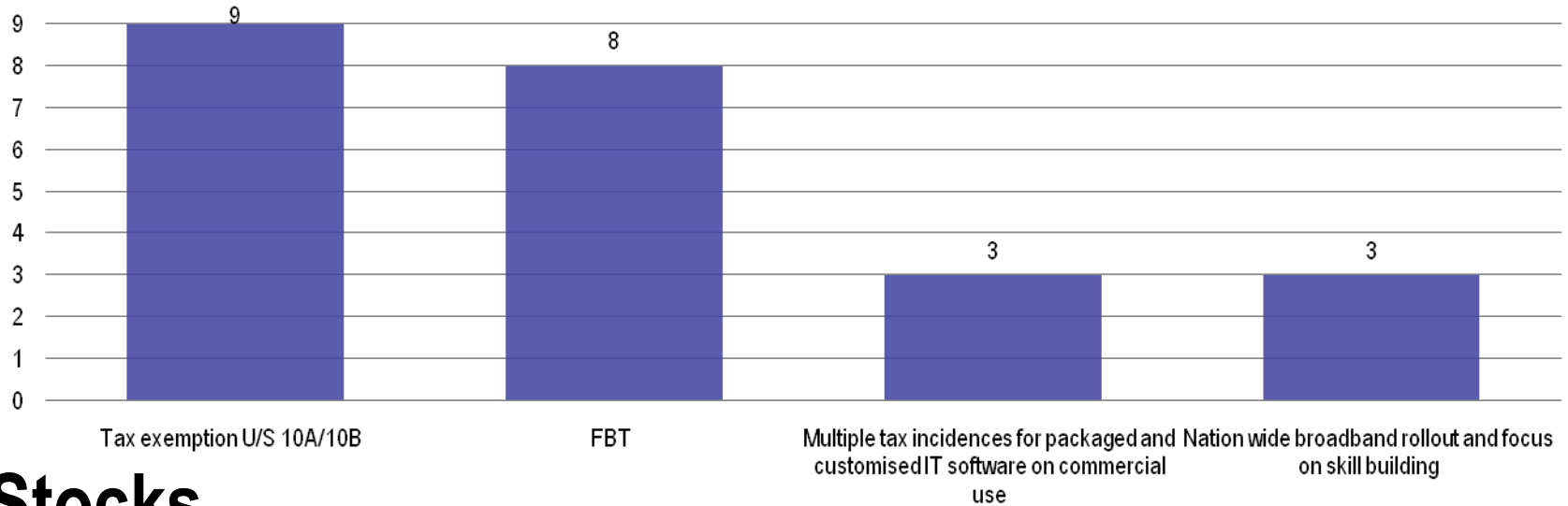
- ITC
- HUL
- Britannia



Information Technology

Issues	Wish List	Expectation	Rationale	Impact
Tax exemption U/S 10A/10B	Extension of tax exemption beyond FY10	Likely	This job generating and export oriented sector has faced numerous headwinds	Positive
FBT	Abolition of FBT	Likely	To boost competitiveness of the export oriented sector	Positive
Multiple tax incidences for packaged and customised IT software on commercial use	Subsuming of VAT and service tax incidence to a single levy	Status quo	With likely forward movement on GST, govt may subsume the same on GST implementation	Marginally positive
Nation wide broadband rollout and focus on skill building	Time frames and scalable programs and to be announced and implemented	likely	Will ensure long term competitiveness in the industry	Positive

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- Mphasis
- HCL
- Infosys



Infosys®

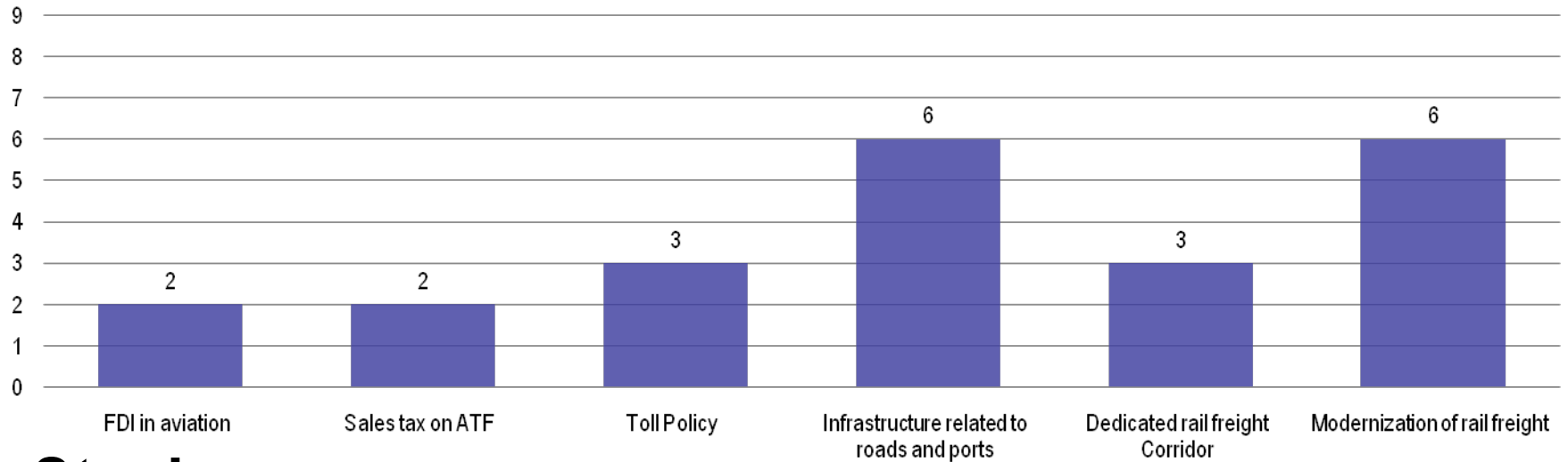


HCL

Logistics

Issues	Wish list	Expectation	Rationale	Impact
FDI in aviation	Allow foreign airlines to take stakes in Domestic airlines	Foreign airlines would be allowed to take 49% stake in domestic airlines	Help the aviation companies to reduce debt improve efficiencies	Positive
Sales tax on ATF(Air Turbine Fuel)	To be reduced from 30% in some states to 4%	Staus quo to be maintained	Future revenue implications	No impact
Toll Policy	Centralised toll mechanism	Road map to be outlined	Reduction in stoppage time would lead to to greater efficiency	Positive
Infrastructure related to roads and ports	Some more initiatives to be taken for faster development of the roads and ports	Some firm steps for better infrastructure related to ports and roads	key thrust area	Positive
Dedicated rail freight Corridor	Fixed schedule for implementation to set up corridor	Some firm steps for better infrastructure related to ports and roads	Boosting trade activities	Positive
Modernization of rail freight	Modernization of terminal and rail handling facilities	Some firm steps for implementation	It would lead to quicker turnaound of container and non container cargo	Positive

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- Container Corporation
- Gateway Distriparks
- Mundraport
- Redington

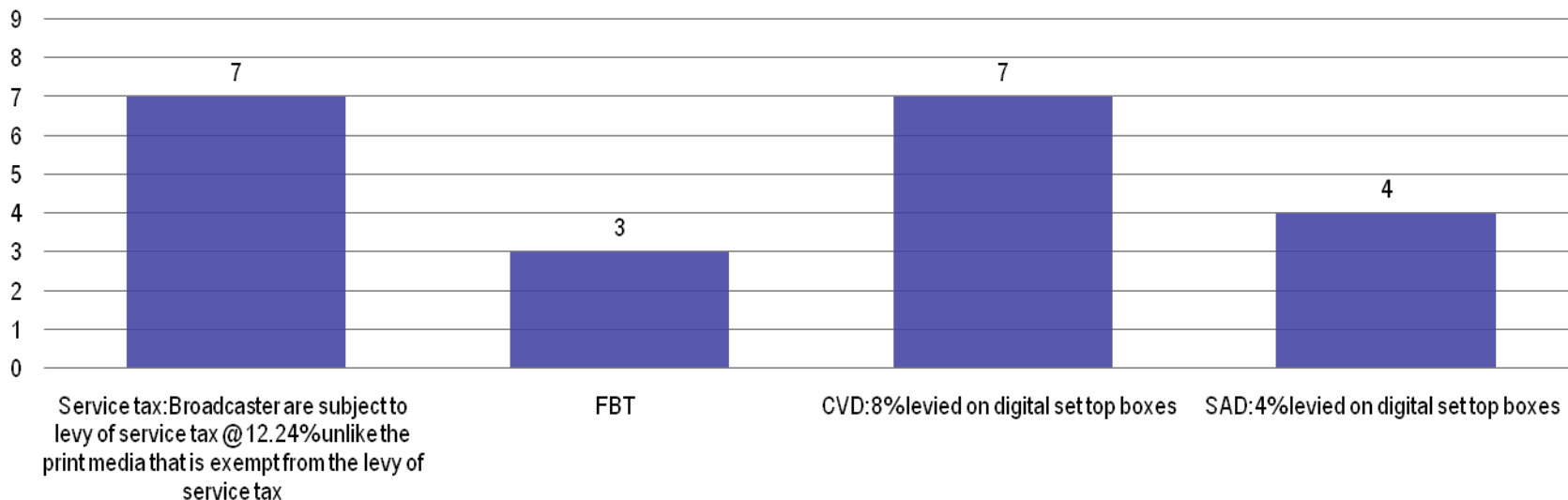
भारतीय कंटेनर निगम लिमिटेड
Container Corporation of India Ltd.
(भारत सरकार का उपक्रम)
(A Govt. of India Undertaking)



Media

Issues	Wish list	Expectation	Rationale	Impact
Service tax: Broadcaster are subject to levy of service tax @12.24% unlike the print media that is exempt from the levy of service tax	Broadcaster expect parity to be drawn between the print and electronic media	Status quo will be maintained	Classification for print in industry status is different	Positive for broadcaster and negative for print companies
FBT	Reduction in FBT from 20% to 5% for personnel working for print & electronic media companies	Expected to be removed	High Administrative cost	Positive
CVD(Counter Vailing Duty): 8% levied on digital set top boxes	To be made nil duty items	Likely	to provide a filip to platforms like DTH	Positive
SAD(Special Additional Duty): 4% levied on digital set top boxes	To be made nil duty items	Likely	To bring broadcasting equipment like set top boxes on par with rates applicable on telecom equipment	Positive for DTH players

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Stocks

- Jagran Prakshan
- UTV
- Zee News

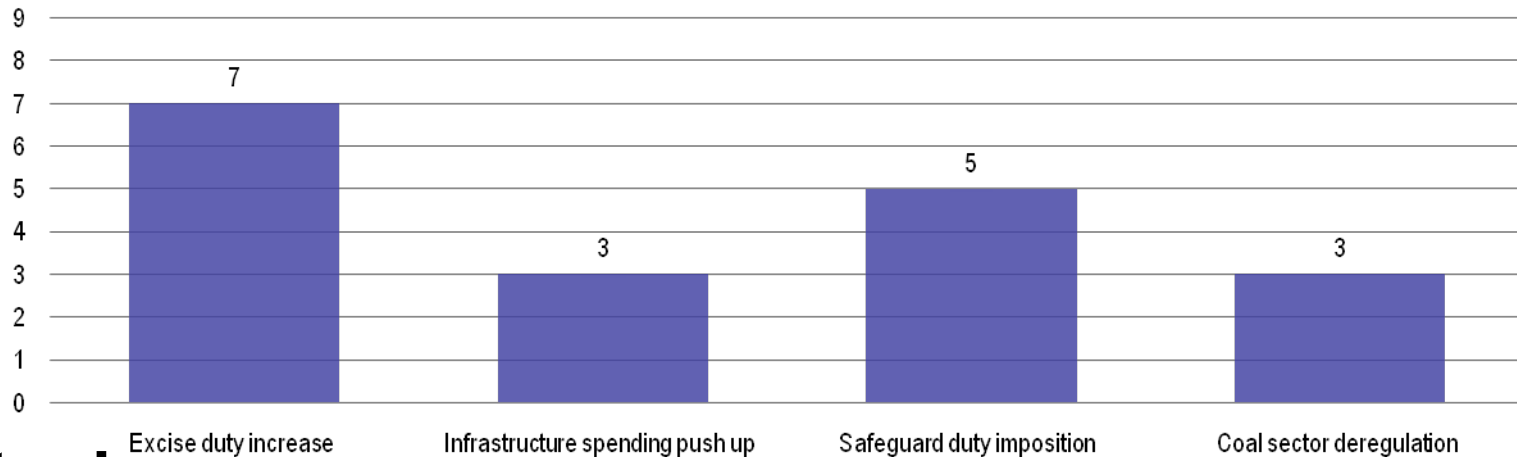


Metals & Minings

Issues	Wish list	Expectation	Rationale	Impact
Excise duty increase	Industry wishes that there is no roll back on the reduction in excise duties	Likely ,Excise duty on steel may be raised from 8% to 10% or 12%	Governments revenue collection has been badly hit which in turn badly impact infrastructure development and ultimately hit steel demand	Marginally negative
Infrastructure spending push up	Continue with great thrust	Likely	To enable India to deal with the global economic crisis and aim at leading the economy to a 7% plus growth in the coming year	positive for steel companies with higher exposure to long products and sponge iron producers
Safeguard duty imposition	Positive adequate protection to the domestic firms against imports of cheap steel products	Likely imposition of 5-10% safeguard duty on HRC	China has recently introduced 9% rebate on export of HRC and its likely negative impact on Indian steel companies can be negated with this action. Positively impacts governments revenue collection	Positive for steel companies with exposure to falt products
Coal sector deregulation	Deregulation	Likely	To help plug the growing demand supply gap as it would boost India's domestic coal output	Big positive for companies with captive coal mines and those interested in entering the lucrative but restrictive

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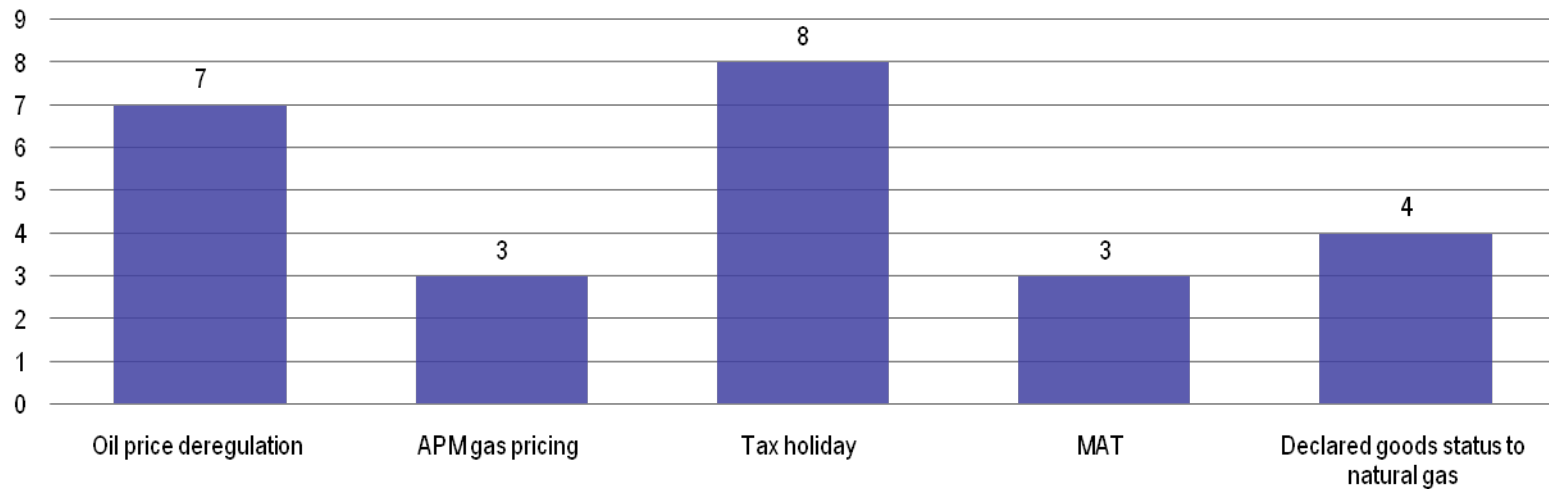
- Sesa Goa
- SAIL
- Tata Steel
- JSW



Oil & Gas

Issues	Wish list	Expectation	Rationale	Impact
Oil price deregulation	Allowing marketing companies to determine retail fuel prices	Road map to be laid down	At current price there is under recovery of Rs 6 per litre on petrol and Rs 2 per litre on diesel	Neutral
APM gas pricing	APM gas should be sold at market rates	Some hike in APM gas prices	APM gas is sold at 50% discount to the price of reliance KG basin gas	Positive for ONGC and negative for APM gas users
Tax holiday	Tax holiday for city gas distribution and production of natural gas	Some relief likely	Increased production	Positive
MAT	Abolition of MAT on exploration & production companies	Status quo to be maintained	Future revenue implications	No Impact
Declared goods status to natural gas	Reduce Sales tax	Status quo to be maintained	Future revenue implications	No Impact

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- RIL
- ONGC
- GAIL
- Cairn India

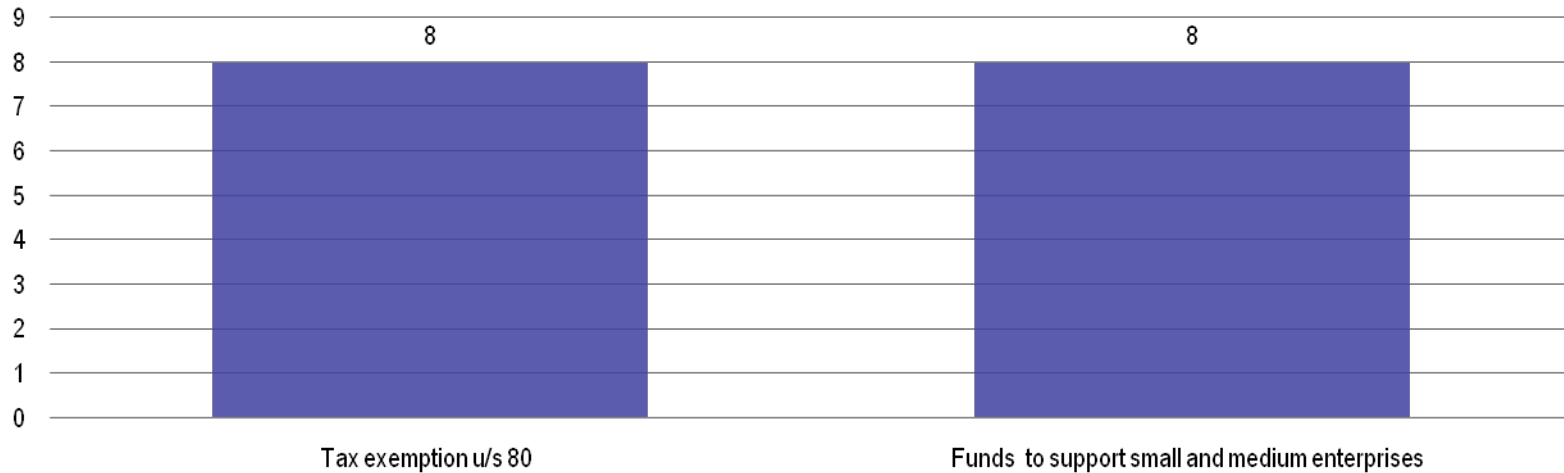


Pharmaceuticals

Issues	Wish list	Expectation	Rationale	Impact
Tax exemption u/s 80	Exemption under section 80, for promoting R&D in this sector	Likely	To encourage companies to focus on R&D	Positive
Funds to support small and medium enterprises	Scheduling up a fund	Likely	To encourage SMEs	Positive

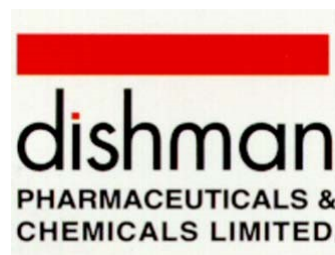


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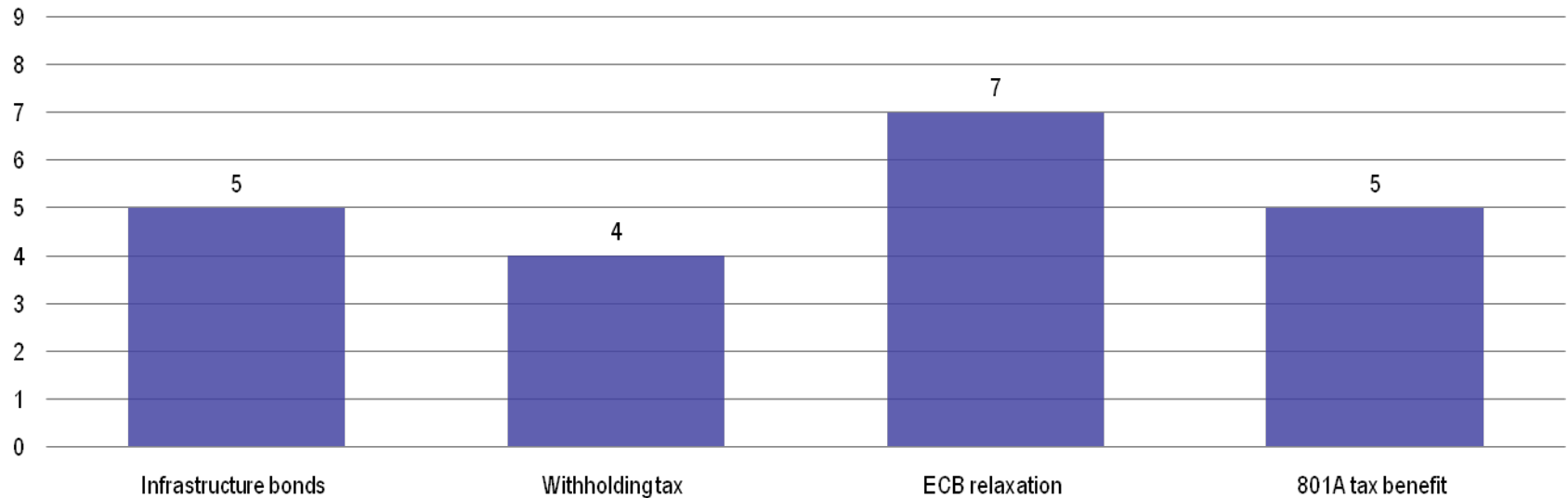
- Dishman Pharma
- Glenmark Pharmaceuticals



Power

Issues	Wish List	Expectation	Rationale	Impact
Infrastructure bonds	Interest on infrastructure bonds to be included under 80C	Likely	To garner funds for infra sector	Positive
Withholding tax	Removing withholding tax imposed on foreign borrowings	Likely		Neutral for NTPC but positive for UMPPs
ECB relaxation	Further relaxation of borrowing limits	Likely	To garner funds for infrs sector	Positive
801A tax benefit	Extension of benefits beyond 2010	Likely	To maintain attractiveness of the sector	Positive

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Stocks

- NTPC
- PowerGrid



THANK YOU

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Member: National Stock Exchange (Cash, FO & Currency)
Bombay Stock Exchange Limited (Cash & FO)

4, Brabourne Road ; 4th Floor ; Kolkata – 700001

Ph: +91 033 2225 3783/4/5/6/7

Fax :+91 033 2225 3788

research@kredent.com

www.kredent.com

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