IIFL
INDIA PRIVATE CLIENTS

Weekly Wrap

February 25, 2011

Strategy note

Union Budget Preview 2011-12

The Union Budget 2011-12 will revolve around fiscal consolidation, inflation control, administrative checks and inclusive growth. We do not anticipate any major roll-back of stimulus (indirect taxes) since some concerns lurk about pace of economic growth in 2011. Further, given the upcoming elections in key states, the Government will, in all likelihood, follow certain populist measures. Notwithstanding fiscal pressures, we believe the Budget presents a golden opportunity to the incumbent Government to send a strong signal on the policy front. All-in-all, the Budget is expected to be a mixed one with a marginal positive bias.

Direct tax: Raising of personal income tax slab for lower income group

Inflation pressure is resulting in low income groups spending a bigger share of their wallet on food and other basic necessities. The Government will look to appease this class of people, especially with key states going into elections soon. We expect an increase in personal income tax exemption limit, for the lower income bracket from Rs160,000 to Rs175,000-180,000. The Government can afford this largesse given last year's buoyancy in direct tax collection. Corporate taxes, on the other hand, are likely to compensate for the rise in slab in personal income tax. This would mean that the industry demand for lowering the tax rate, removing the surcharge or reducing MAT rate will not be met and rates will be left unchanged.

Indirect tax: No major change; tweaks in some components

The Government had partially rolled back excise duty last year (it had cut duties as a stimulus a couple of years ago), but is unlikely to do so in the upcoming Budget, especially when concerns loom about a possible percentage point drop in GDP growth and when industry is in investment mode. Roll-backs in excise would be selective in our opinion. We see excise duty hike specific to diesel cars and SUVs, on grounds that it provides subsidy to an audience not needing it. Similarly, excise duty may be hiked for tobacco.

To tackle rising inflation, we expect excise duties on petroleum products or customs duty on crude and petrochemicals to be cut. Certain countervailing duties may also be cut to lower value of imported items.

There is a view that service tax rate may be hiked to eventually converge with GST in future. However, in our view, a better approach would be to widen the scope of the tax to include all services (with some exemptions) while keeping rates unchanged this year. The Budget may not be able to give a detailed roadmap on GST, given opposition from states.

Non-tax revenue: Amnesty scheme for black money holders

The Budget will possibly see announcement of an amnesty scheme to bring back to India some of the black money residing in foreign banks. While such schemes raise a moral issue since they disadvantage honest tax payers, but they will certainly help the fiscal position greatly. Even if the minister gives it a miss, there is a strong possibility that the scheme is introduced during the course of the year and add to revenues in 2012.

Social sector spending to witness healthy rise in allocations

We believe the Government will focus on strengthening existing schemes rather than introducing new ones. Flagship projects like Bharat Nirman, Rajiv Awas Yojana, Midday Meal scheme and Right to Education will see good increase in allocation. Healthcare is another area where expenditure will likely rise. On the NREGA front, the focus would be on preventing inefficiencies and leaks in the system rather than big rise in allocation.

Subsidy burden to remain elevated

It can be expected that the subsidy on food and fertilisers will continue to mount. On the oil subsidy front, we see the Government tackling this issue by lowering duties rather than hiking subsidies substantially. The two percent subvention scheme on export credit is scheduled to expire on March 31, 2011. The subvention will either not be extended or will see a lower rate.

Strong agriculture focus

Ineffective public distribution is a major reason for food inflation. The Budget is likely to allocate funds for effective warehousing and distribution of agricultural products. Administrative controls are also expected to be put in place to check on hoarding of any produce. Common market for agricultural products and reduction in Mandi tax are areas which could be addressed. We also expect allocation for irrigation to rise meaningfully.

Infrastructure issues to be addressed partly

The Government will partly attempt to resolve funding constraints in infrastructure. Funding problems have resulted in a major slowdown in order flow in the last 6-8 quarters. Capex uptick is a must to sustain the growth rates in GDP. One way to channelize money flow into the power segment, which accounts for a chunk of the infra capex, is to remove withholding tax on overseas investment. There is a case to allow NBFCs and banks to raise tax free infrastructure bonds to ease funding to this sector.

Fiscal deficit: Will amnesty replace the 3G windfall?

The revised estimates for 2011 would reveal a lower fiscal deficit when compared to Budget estimates on account of higher tax revenues last year and windfall 3G auction gains. For 2012, the fiscal deficit could be around 4.7-5% in case the amnesty scheme is Budgeted for and closer to 5.5%, in case of non inclusion of the voluntary disclosure scheme to bring back black money.

We see amnesty scheme, agriculture focus and easing of infra funding issues as the key addressable areas, which could enthuse the equity market. A complete excise duty roll-back by 2% and higher fiscal deficit target of 5.5% would be major negative surprises, in case announced. Jain irrigation, L&T, BGR Energy, Everonn Education, Jindal Saw, SBI, GSK Consumer are our top Budget picks. ITC and Tata Motors could be the top misses from the budget.

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Strategy note...

Sectoral expectations

Expectation	Probability
Automobiles	
Increase in excise duty by 2%	Low
Levy of special excise duty on diesel vehicles	High
Banking	
Banks to be allowed to raise long-term funds through issue of tax-free infrastructure bonds (like IFCs)	High
Allocation of capital for infusion into PSU banks as in the 2010 Budget (Rs165bn)	High
Increase in FDI limit for the insurance sector from current 24% to 49%	Low
Govt net market borrowings to be higher than FY11	High
Raising limit of refinancing from IIFCL	Medium
FMCG	
Continued spending for development of rural sector	High
Increase in excise duty by 2%	Low
Increase in excise duty on cigarettes	High
Hospitality	
Infrastructure status u/s 80IA for the industry	Low
Information Technology	
Extension of Tax exemptions under sections 10A and 10B (STPI) for one more year.	Medium
Clarity on whether service tax and/or VAT on 'right-to-use' software	Medium
Partial roll back of MAT for STPs	Low
Significant increase in allocation for education	High
Metals & mining	
Decrease in customs duty on coal/coke	Medium
Increase in export duty of iron ore	Medium
Introduction of Mining Bill	Medium

Expectation	Probability
Infrastructure	
Increase in infrastructure spending through higher allocation to various schemes	High
Steps towards expediting various clearances and eliminating bottlenecks for infrastructure projects	High
Allowing commercial banks to issue tax-free infrastructure bonds	High
Other initiatives towards improving availability of long-term funding for infrastructure projects	Medium
Raising limit of refinancing from IIFCL	Medium
Oil & Gas	
Reduction in customs duty on crude oil from 5% to Nil	High
Restoration of 7-year tax holiday for Gas production	Medium
Pharma & Healthcare	
Extension of the list of Drugs under DPCO	Low
Change in transfer pricing policy (API attracts 10% excise duty whereas formulations 4%)	Medium
Infrastructure status to Healthcare	Medium
Extension of tax exemption beyond FY11 in EOUs	Medium
Retail	
Multi-brand retail for opening up FDI	Medium
Telecom	
Extension of 100% tax exemption u/s 80IA to 10 years, in line with other infrastructure providers; 3G capex eligible for 80IA tax benefits	Low
Extension of tax benefits u/s 80IA to independent tower/infrastructure providers	Low
Textiles	
TUFs scheme extended	High

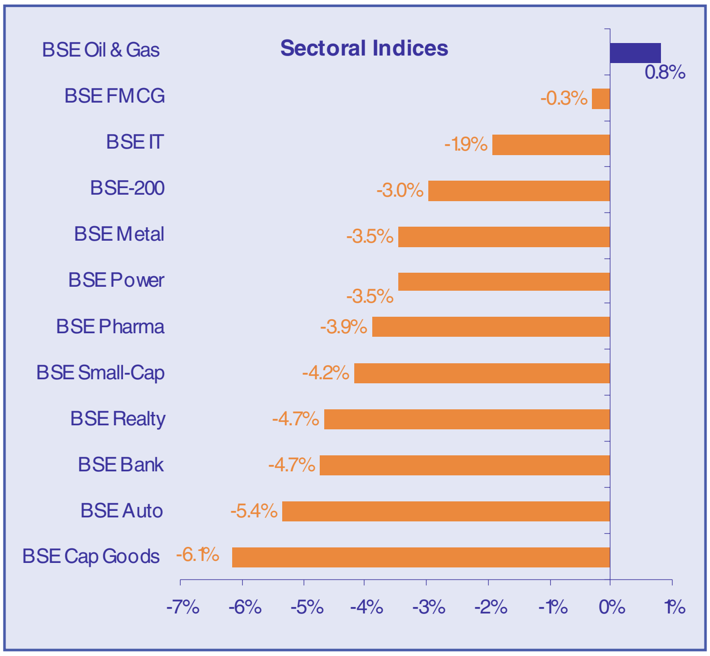
FII & MF activity

(Rs cr)

Date	FII Net Investment	MF Net Investment
17-Feb	86	448
18-Feb	245	41
21-Feb	(39)	(170)
22-Feb	92	203
23-Feb	(13)	314
Total 2011	**(3,796)**	**737**

BSE 200 Top Five Gainers & Losers

BSE 200 Gainers			BSE 200 Losers		
Company	CMP (Rs)	% Chg	Company	CMP (Rs)	% Chg
Nalco	440	7.6	Mphasis	448	(31.3)
Reliance Infra	638	5.4	Patel Eng	155	(16.5)
Cairn India	330	4.3	Essar Shipping	71	(15.1)
Titan Inds	3,337	3.5	DCHL	60	(14.9)
RIL	966	3.1	GT Offshore	229	(14.1)



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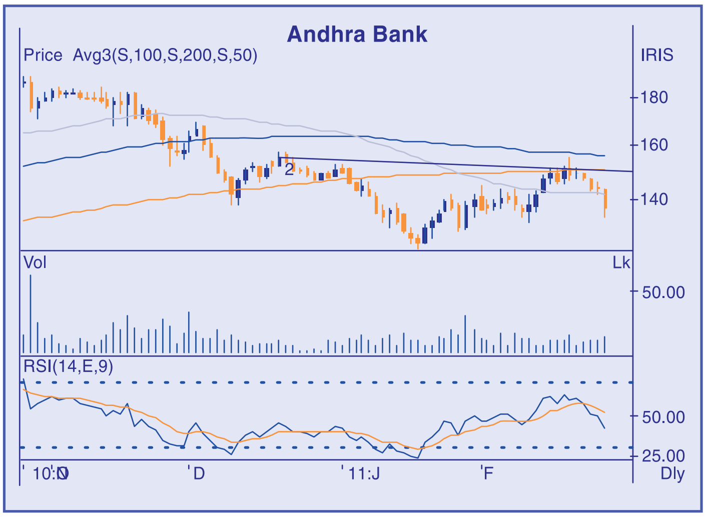
Technical ideas

Hindalco Industries — SELL, CMP Rs200

Hindalco on the daily chart has broken down from a 'symmetrical triangle' after it pierced below the support of Rs209. As triangles are considered as continuation pattern which usually appears in mid of rally or decline, we expect the resumption of downtrend in the near term.

Adding to it volumes have also expanded with yesterdays declining supporting our negative view on the stock. **We advise going short of Hindalco Mar Futures in the range of Rs202-204 with stop loss of Rs209 for Target of Rs189.**

Andhra Bank — SELL, CMP Rs137



On the daily chart, the stock has been forming the pattern of lower high and lower lows since the start of the week. The downtrend is likely to continue in the near term after it closed below multiple moving averages. Before the start of the week the stock was consolidating around its 200-DMA, which was broken this week, confirming the downtrend.

Volumes have also expanded with this week's decline, reaffirming our negative view on the stock. The daily RSI as well as the MACD continue to depict negative trend. In view of the above mentioned technical evidences, **we recommend traders to sell March Futures below Rs137 with stop loss of Rs142 for a target of Rs127.**

Bulk deals

Date	Institution	Scrip name	B/S	Qty (lacs)	Price
21-Feb	Carlson Fund	Polaris Soft	B	5.5	183.9
22-Feb	Goldman Sachs	Mcnally Bharat	S	2.0	219.2
23-Feb	Reliance Cap	Cox & Kings	B	15.4	375.0
24-Feb	HDFC Trustee	Apollo Tyres	S	28.2	53.5
24-Feb	Credit Suisse	FSL	S	26.1	16.0
24-Feb	Credit Suisse	GT Offshore	S	2.8	226.2
24-Feb	Merrill Lynch	Orchid Chemicals	S	5.6	264.9

Insider Trades

Company	Name	B/S	Qty ('000)
IVRCL Assets	Sudhir Reddy	B	36.4
Eicher Motors	Srinivas Balantrapu	S	2.1
PVR Ltd	Ajay Bijli	B	15.6
OFSS	Manmath Kulkarni	S	3

Technically strong

Company	CMP (Rs)	10 days Moving Average (Rs)	Total Traded Qty (lacs)	10 days Average Traded Qty (lacs)
Bharat Electron	1,683	1,672	0.2	0.2
Hindustan Uni	280	277	23.7	18.1
Ultratech Cem	959	948	1.9	1.2
Shree Cement	1,711	1,683	0.1	0.1
Hero Honda	1,501	1,477	13.7	7.2

Technically weak

Company	CMP (Rs)	10 days Moving Average (Rs)	Total Traded Qty (lacs)	10 days Average Traded Qty (lacs)
Gateway Distri	116	117	2.5	2.3
Tata Comm	212	213	4.2	3.3
Rolta India	140	143	6.3	5.0
Indian Overseas	127	130	16.5	14.3
Glenmark Ph	279	286	8.4	5.1

India Infoline Weekly Wrap

Mutual fund round-up

India Infoline picks

Mutual Funds	Assets	NAV	Absolute return (%) as on February 25, 2011							
	(Rs Cr)	(Rs)	1wk	1mth	3mth	6mth	1yr	2yr	3yr	5yr
ICICI Prudential Dynamic - (G)	2,785	104.2	(1.9)	(3.4)	(3.8)	1.6	15.9	123.7	32.4	130.2
Reliance Equity Opportunities – (G)	2,861	33.3	(3.0)	(7.0)	(11.0)	(8.3)	18.9	173.4	32.2	112.9
HDFC Top 200 (G)	9,409	200.5	(2.7)	(5.7)	(9.5)	(3.5)	17.0	140.7	36.9	132.5
Fidelity Tax Advantage (G)	1,296	21.1	(1.6)	(5.4)	(8.6)	(4.3)	19.7	131.5	28.6	110.6
HDFC Prudence Fund (G)	5,789	203.3	(1.5)	(4.0)	(6.7)	(3.1)	18.6	141.4	45.7	129.2

Fund this week: ICICI Prudential Dynamic Plan

Fund snapshot	
Fund Manager	Sankaran Naren
Latest NAV	Rs104.2
NAV 52 high/low	Rs113/87
Latest AUM (cr)	Rs2,785
Type	Open-ended
Class	Equity - Diversified
Options	Growth & dividend
Min investment	Rs5000
Benchmark	S&P CNX Nifty
No. of stocks	59
No. of sectors	30
Expense ratio	1.8%
Exit load	1% before 1 year

Asset allocation (%)	
Equity	80.7
Debt	0.0
Cash/call	19.3
Top 5 holdings (%)	
Reliance Inds	6.8
BHEL	4.2
Infosys Ltd	4.1
Cadila Healthcare	3.7
Bharti Airtel	3.7
Top 3 sectors (%)	
Bank - Private	11.3
Pharma	9.2
Bank - Public	3.8

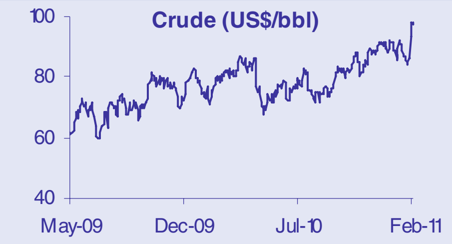
NFO update

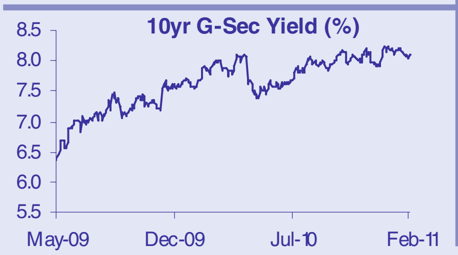
Fund Name	Close	Type	Class
ICICI Pru Sr 55 - 1 Year Plan E	3-Mar	CE	Debt – FMP
Reliance Fixed Horizon F XIX Sr 2	3-Mar	CE	Debt – FMP
HDFC Debt Fund for Cancer Cure	4-Mar	CE	Debt

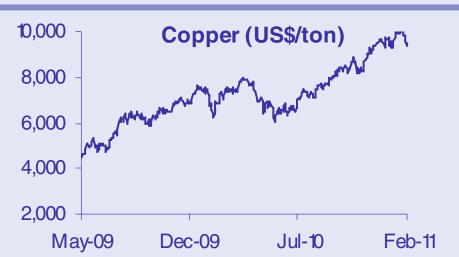
Dividend update

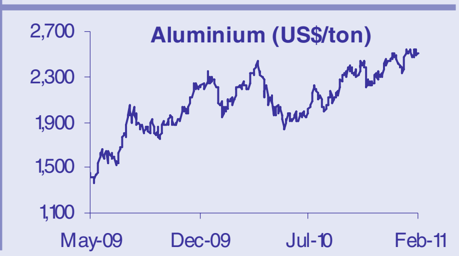
Mutual Fund	Dividend %	Record date	Class
Taurus Tax Shield Fund	12.5	28-Feb	Equity - tax
UTI Master Value Fund	10.0	1-Mar	Equity
Edelweiss Qtrly Interval -Sr 1	100.0	1-Mar	Debt - Invt

Commodity, debt and currency graphs









** As per previous close*

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