A non-event

No positive triggers whatsoever; rising fiscal deficit a concern

No populist measures; market falls on unmet expectations: A lot of hype has surrounded the vote-on-account, giving it the appearance of an interim budget. However, a vote-on-account can at best lay out revenues and expenditures for the next 2–3 months, until the new government presents a full budget. As propriety demands, the government did not harp on any populist measures. This apart, the admission of a 6% fiscal deficit in FY09 is in line with market estimates, which always debated the budgeted 2.5% deficit announced in the last budget. With the vote-on-accounts falling short of expectations, the market fell over 3% in a knee-jerk reaction, with real estate, metal and infrastructure taking the maximum beating.

FY10 deficit could balloon sharply: One should focus on the fiscal deficit of FY10, which is estimated at 5.5%. The new government also needs to increase plan expenditure by 0.5–1% of GDP to prime the economy. This together with the subsidy burden on food, oil and fertiliser as well as state fiscal deficits would leave us with a 10%-plus fiscal deficit for FY10, implying a very high level of government borrowing in FY10.

The resultant crowding out of the private sector implies a higher interest rate. No wonder, bond yields have moved up post the vote-on-accounts. Borrowing costs of corporates would go up over the medium term. We would assume private sector demand for credit will be subdued over next six months, but a back ended economic recovery is hinged upon a strong private sector capex cycle.

Possible bounce back before elections: As the vote-on-account is largely a non-event and would be shrugged off by the market, the focus would return to fundamentals. Currently, valuations are much more reasonable; Q4FY09 Sensex earnings are expected to decline by 15–17%. Under the circumstances, global liquidity might spark a short rally – we are seeing that in China already – the market is forward looking and India might see a bounce back before the election.

Key budget highlights

- Expectations of core sectors disappointed: The vote-on-account has proved to be a complete non-event. The finance minister failed to address the growing concerns of core sectors such as real estate, housing and auto companies. In a negative surprise, expectations regarding the relaxation of STT were also left unfulfilled. It is clear that the onus of further policy measures has been placed squarely on the forthcoming government.
- Rising fiscal deficit sets alarm bells ringing: Higher subvention to the rural sector, lower tax mobilisation and increased market borrowings (stimulus package) have mounted pressure on the government's financials. The result is a wider fiscal deficit at 5.5% of GDP. We believe the government's growth target of 7% for tax collections is rather aggressive and hence anticipate a further deterioration in fiscal deficit.

Amitabh Chakraborty
(91-22) 6766 3404
amitabh.chakraborty@religare.in

Vinod Nair
(91-22) 6766 3443
nair.vinod@religare.in

- **GDP projection unlikely to be met:** The government's 11% nominal GDP growth projection (6–7% real growth) is on the higher side. We expect a downgrade in projections during the course of the financial year.

- **Some positives though – power sector outlay increased:** In terms of sector-wise allocation, power has received a strong boost of 70%, with total fund allocation of Rs 137.6bn from Rs 80.9bn in FY09. Benefits are likely to flow to all players in the value chain. Infrastructure spend has also been increased – for example, the outlay towards Bharat Nirman has been raised to Rs 40.9bn from Rs 31.3bn, while JNNURM allocation has been elevated to Rs 118.4bn from Rs 68.7bn.

- **No major impact, we maintain our target Sensex range:** Given that the interim budget has largely been a no-show, we reiterate our view that markets are in a consolidation stage and maintain our Sensex range of 7000–10500. This is based on a target P/E of 8–12x on FY10E EPS of Rs 864.

Budget at a glance

Particulars	In crores			Growth (%)	
	2007-08 Actuals	2008-09 Revised Estimates	2009-10 Budget Estimates	FY09RE / FY08A	FY10BE / FY09RE
Revenue Receipts (a)	541,925	562,173	609,551	3.7	8.4
Capital Receipts (b)	170,807	338,780	343,680	98.3	1.4
Total Receipts (a + b)	712,732	900,953	953,231	26.4	5.8
Non-plan Expenditure (c)	507,650	617,996	668,082	21.7	8.1
Plan Expenditure(d)	205,082	282,957	285,149	38.0	0.8
Total Expenditure (c+d)	712,732	900,953	953,231	26.4	5.8
Revenue Deficit	52,569	241,273	238,534	359.0	(1.1)
As a % of GDP	(1.1)	(4.4)	(4.0)		
Fiscal Deficit	126,912	326,515	332,835	157.3	1.9
As a % of GDP	(2.7)	(6.0)	(5.5)		

Source: Govt of India

Receipts

Receipts	In crores			Growth (%)	
	2008-09 Budget Estimates	2008-09 Revised Estimates	2009-10 Budget Estimates	FY09RE / FY09BE	FY10BE / FY09RE
1) Tax Revenue					
Gross Tax Revenue	687,715	627,949	671,293	(8.7)	6.9
Net Tax Revenue (a)	507,150	465,970	497,596	(8.1)	6.8
2) Non -Tax Revenue					
Total Non-Tax Revenue (b)	95,785	96,203	111,955	0.4	16.4
Total Revenue Receipts (a + b)	602,935	562,173	609,551	(6.8)	8.4
3) Capital Receipts					
Non-debt Receipts	14,662	12,265	10,845	(16.3)	(11.6)
Debt Receipts to finance Fiscal Deficit	133,287	326,515	332,835	145.0	1.9
Total Capital Receipts	147,949	338,780	343,680	129.0	1.4
Total Receipts	750,884	900,953	953,231	20.0	5.8

Source: Govt of India

Expenditure

Particulars	In crores			Growth (%)	
	2008-09 Budget Estimates	2008-09 Revised Estimates	2009-10 Budget Estimates	FY09RE / FY09BE	FY10BE / FY09RE
1. NON-PLAN EXPENDITURE					
Total Revenue Non-Plan Expenditure	448,352	561,790	599,736	25.3	6.8
Total Capital Non-Plan Expenditure	59,146	56,206	68,346	(5.0)	21.6
2. PLAN EXPENDITURE					
Total-Revenue Plan Expenditure	209,767	241,656	248,349	15.2	2.8
Total Capital Plan Expenditure	33,619	41,301	36,800	22.9	(10.9)
TOTAL EXPENDITURE	750,884	900,953	953,231	20.0	5.8

Source: Govt of India

Central plan outlay by sectors

Sector	In crores			Growth (%)	
	2008-09 Budget Estimates	2008-09 Revised Estimates	2009-10 Budget Estimates	FY09RE / FY09BE	FY10BE / FY09RE
Agriculture and Allied Activities	10,074	9,969	10,136	(1.0)	1.7
Rural Development	23,831	48,884	42,774	105.1	(12.5)
Irrigation and Flood Control	411	367	439	(10.7)	19.6
Energy	93,815	98,877	114,537	5.4	15.8
Industry and Minerals	28,836	27,193	33,830	(5.7)	24.4
Transport	84,177	78,269	86,218	(7.0)	10.2
Communications	21,937	20,237	16,680	(7.7)	(17.6)
Science Technology & Environment	9,283	8,547	9,552	(7.9)	11.8
General Economic Services	6,052	5,277	6,209	(12.8)	17.7
Social Services	95,919	89,692	94,289	(6.5)	5.1
General Services	1,150	766	1,027	(33.4)	34.1
Grand Total	375,485	388,078	415,691	3.4	7.1

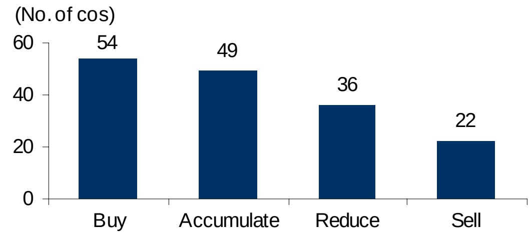
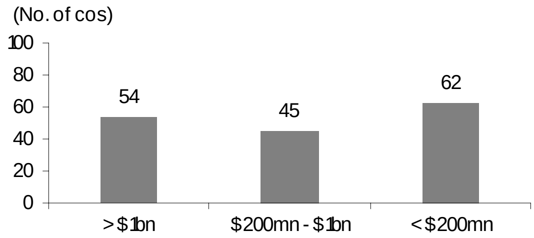
Source: Govt of India

Sector-wise highlights

Sector	Expected	Actual	Implications	Comments
AUTOMOBILES	Reduction in indirect taxes	No change	No impact	–
	In an optimistic scenario, we expected continuation of lower excise rates & higher depreciation on commercial vehicle purchases	No announcement on continuation of lower excise rates or higher depreciation benefits	No impact	
BANKING & FINANCIAL SERVICES	NA	Interest subvention for farmers maintained. Budgeted expenditure reduced from Rs 26bn to Rs 20.1bn Interest subvention of 2% for exporters in sectors like textiles, carpets, leather, jewellery, marine products and SMEs extended beyond March to Sept 30, 2009, involving additional outgo of Rs 5bn Rs 250bn released in FY09 towards agri-debt waiver scheme; Rs 150bn proposed for FY10	NA	–
CAPITAL GOODS	NA	NA	NA	Potential increase in RGGVY fund allocation as FY10 is the last year for the program; Positive for REC
	Increased allocation for infrastructure-related projects (RGGVY , APDRP, JNNURM)	JNNURM allocation increased from Rs 68.6bn in 2008-09 to Rs 118.4bn for 2009-10; 386 projects worth Rs 390bn sanctioned till Dec '08. No word on allocation to other schemes	–	–
	NA	IIFCL to refinance 60% of commercial bank loans for PPP projects	–	Already announced in the stimulus package; however this step would likely ease cost of debt and availability of funds for PPP projects. Achieving financial closure and containing cost of debt are key challenges in current crisis
CEMENT	No budget expectations for the cement sector as the excise duty cut, import ban and removal of export ban were already in place	No change	No impact	–
FMCG	Reduction in excise duty	No change	No impact	Excise duty rates maintained at current levels and hence no impact on any FMCG company

Sector	Expected	Actual	Implications	Comments
	Reduction in VAT from 12.5% to 4% for biscuit manufacturers	No change	No impact	Reduction in VAT for biscuit manufacturers could have positively impacted ITC and Britannia; in the absence of any rate change, the status quo continues
IT SERVICES	STPI extension for 3 years	No change	No impact	–
METALS	Increase in customs duty on: - Flat steel products from 5% to 10% - Long steel products from 5% to 10%	No change	No impact	With no change in customs duty, the threat of low-cost imports continues; realisations would thus remain under pressure in the near term
OIL & GAS	Increase in customs duty by 2.5% on petroleum products Implementation of excise duty on petrol and diesel	No change	No impact	–
REALTY	Re-introduction of Sec 80-IB Removal of service tax on commercial rentals Increase in interest benefit from Rs 150,000 to Rs 300,000 Infrastructure status	No change	No impact	–
SHIPPING & OFFSHORE	Reduction of tonnage tax Exemption from service tax Exemption from fringe benefit tax Extension of subsidy in shipbuilding	No change	No impact	No major budget expectations except for relief sought on taxes and extension of subsidy; the industry might continue to ask for these exemptions once a new government comes into power. Minimal impact seen on stock prices, given that the industry has been seeking similar exemptions for the past two years

Coverage Profile

By recommendation	By market cap (US$)
	

Recommendation interpretation

Recommendation	Expected absolute returns (%) over 12 months
Buy	More than 20%
Accumulate	Between 10% and 20%
Reduce	Up to 10%
Sell	Less than 0%