



UNION BUDGET 2009-10

Government will unveil its Full fledged budget on 6th July, with a tough task of balancing, its fiscal deficit on one hand and taking liberal measures by keeping industry promises and higher spending on social sectors.

While industry experts are suggesting that budget might not match up to the expectations of the industry. Absence of pre-budget rallies and June corrections, are paving a way for a potential upside for the markets over next 2 months.

We expect this Government to continue to announce incremental fiscal policy measures aimed at specific vulnerable sectors and a fiscal stimulus to be announced next year to offset the fall in private investments in financial year 2010.

Also statements by top leaders of having control of Fiscal deficit, higher IIP number and current account surplus data for April and May (thanks to lower petroleum and Fertilizer prices) will act as economic support for the markets.

Expectations from Budget

- **Incentives to infrastructure sector are high likely as it will have huge multiplier effect on the economy.**
- Clearer guidelines on and incentives to social sectors like Agricultural and Rural Economy.
- Clarity on Adoption of GST and possible Restructuring on Central and State Taxes.
- No major benefits to corporate sectors in terms of Tax Relief, except linking with FBT at least in the current budget. Tax rationalization will be a major drive and huge efforts are expected in terms of inclusion of all businesses under tax net and strict action on Tax evaders.
- Likelihood of keeping the brokerage industry happy by revising STT and CTT norms, as government wants strong and stable capital markets.
- Support will be provided to Export Oriented sectors like Textile and Gems and Jewellery which were hit by global economic slowdown
- Hike in excise duty from 8% to 10% which was brought down to 8% from 12% in earlier stimulus packages announced last yr.
- Prices of goods and commodities can be decontrolled due to low inflation figures.
- Increase in FDI limit for insurance sector from 26% to 49% Greater channeling of domestic savings for long-term investment; positive for insurance and financing for infrastructure.
- On the individual front, we expect some relaxation in the basic exemption limit, putting extra money in the hands of people to spend will be an excellent stimulus for Economy.

Measures to raise capital through disinvestment will have significant Positive Impact on Capital markets

We expect the central government's deficit to remain at an elevated level at 6.8% of GDP, and the overall deficit to be 10% of GDP in FY10.

Although the deficit will be high, we think it can be managed, in part due to impending disinvestment and the auctioning of 3G licenses and raising money through Long term bonds in domestic market. Long bonds may rally as a result

We continue to remain neutral on the INR. Strong domestic demand driven economy, along with the need to raise money abroad is expected to keep Rupee stable within 45-48 levels

We would recommend Retail investors to be highly stock specific and specific on timing as Indian markets will remain highly volatile and hugely dependent on global liquidity as burgeoning fiscal deficits require government to look towards FDI and raising money through long term bonds.

Huge capital requirement is giving a signal of steepening yield curve and Rising Interest Rate in the Long term.

Next 3-6 months would be an excellent time for Individuals looking to purchase a property to take home loans and lock in lower interest rate.

INFRASTRUCTURE

S.NO	EXPECTATIONS	IMPACT	COMPANIES TO BE AFFECTED POSITIVELY
1	Relaxation of funds raising norms through ECB's, Infrastructure Bonds, etc.	Easier for corporates to raise funds through lower rates.	IVRCL, INFRA, Madhucon projects, Gayatri project, NCC, Patel Engineering
2	NBFC's to be allowed to borrow from abroad and finance local bodies	Will have a positive impact on the sector	
3	Increase in allocation of funds for various infrastructure and power projects (RGGY, APDRP, JNNURM)	Increase the revenue earnings of the companies	
4	Revision of Sec 80IA norms	Reduction of tax liability	
5	Announcements relating to creation of SPV's for road financing projects.	Positive impact on companies indulged in road financing projects like MPL, HCC, etc	

BANKING AND FINANCE

S.NO	EXPECTATIONS	IMPACT	COMPANIES TO BE AFFECTED POSITIVELY
1	Raising FDI Limit in insurance from 26 to 49%	attract overseas players	Indian Bank, Union Bank, HDFC, ICICI, Reliance Capital
2	Reduction in small savings scheme by 50-75bps	Good for Credit growth of banks	
3	Government can impose interest rate capon certain priority sectors.	Highly negative , can reduce net interest margins	
4	Raise limit of deduction u/s 24 for interest on housing loan from 1.5 to 2 lacs	Increase demand for housing loan segment	

REAL ESTATE

S.NO	EXPECTATIONS	IMPACT	COMPANIES TO BE AFFECTED POSITIVELY
1	Reintroduction of sec 80IB, Corporate Building having units of less than 100sq ft to be exempted from tax	minimize tax outflows	All Real Estate Companies DLF, HDIL, UNITECH, Sintex Industries(for low cost housing and rural housing development schemes)
2	Raise limit of deduction u/s 24 for interest on housing loan from 1.5 to 2 lacs	Increase Loan ticket size and consequently the demand	
3	Removal of service tax on rental income	Impact governments tax income	
4	Appointment of real estate regulator	Higher transparency	

OIL AND GAS

S.NO	EXPECTATIONS	IMPACT	COMPANIES TO BE AFFECTED POSITIVELY
1	Deregulation of pricing of petroleum products	Positive for companies marketing oil	HPCL, BPCL, IOC, IGL, RIL, ONGC, Cairn India.
2	Restoration of tax holiday on gas production from NELP Blocks	Positive for the players	
3	Service tax on E&P at 10% to be abolished	Positive for Both upstream and upstream support companies	
4	Tax holiday for city gas distribution and production of natural gas	Increased investments in development of City gas projects and production of natural gas	
5	Natural gas to be given declared goods status	Beneficial for power and fertilizers companies, negative for O&G companies.	
6	custom duty on crude to be restored from 0% to earlier 5%	Positive for upstream segment	

POWER & CAPITAL GOODS

S.NO	EXPECTATIONS	IMPACT	COMPANIES TO BE IMPACTED
1	Emphasis on infrastructure development	Enhance the demand for heavy machineries	CESC, NTPC.
2	Likely ECB relaxation and Interest on Infrastructure bonds to be included under 80C	It will enable power companies to raise cheaper tax funds.	
3	Extension of deduction under Section 80-IA on direct tax beyond 2010	Benefit equipment suppliers, contractors, etc. Would facilitate raising adequate capital required to meet 11th Plan targets	

AUTOMOBILE

S.NO	EXPECTATIONS	IMPACT	COMPANIES TO BE IMPACTED
1	Rollback in Excise Duty cut.	Excise duty increase from 8% to 10%, will hurt all manufacturers, price increase will be passed on to the customer, which might hurt Commercial vehicle demand.	M&M, Tata Motors, Hero Honda. Excise duty level will be major factor on the short term movement of the sector.
2	Excess duty of 20% +20000 charged on Utility vehicles (exceeding 1500 cc), might be lowered	If it happens will be a huge booster for UV manufacturers' especially largest player Mahindra and Mahindra.	

CEMENT

S.NO	EXPECTATIONS	IMPACT	COMPANIES TO BE IMPACTED
1	Reduction in VAT on cement	Beneficial for consumers as this will lead to reduction in prices	Mildly positive as added capacity and completion will keep prices stable
2	the government might consider increasing Excise Duty from 8% to 10%,	Cement manufacturers might not be able to pass entire hike to the consumers	
3	Increase fund allocation for infrastructure	improve demand for cement	

PHARMACEUTICALS

S.NO	EXPECTATIONS	IMPACT	COMPANIES TO BE AFFECTED POSITIVELY
1	Rollback of Excise duty deduction from 16% to 8% in last budget and further to 4% in the stimulus package. Current rate of 4% is expected to restore back to 8%.	Neutral, if changed to only 8%.	Beneficial to Hospitals as it will enable them to access Bank credit at cheaper rates
2	Infrastructure Industry for Health care Industry	Positive for all Hospitals like Wockhardt, Apollo, Fortis.	Most of the companies are not expected to have major impact from budget

MEDIA

S.NO	EXPECTATIONS	IMPACT	COMPANIES TO BE AFFECTED POSITIVELY
1	Removal of fringe benefit tax for media agencies	Positive for Print Media Industry	Deccan chronicle, HT Media, Dish TV, Jagaran Prakash, PVR Ltd.
2	Infrastructure status and Tax Breaks to DTH and Broadcasting Industry	Positive for DTH Companies.	
3	Removal of 4% countervailing duty and 8% Special Additional Duty ON Set Top Boxes	Positive for DTH Companies as it will help them in deeper penetration.	
4	Uniform entertainment tax enforcement across states for multiplex players	Positive for multiplex players	

Our stock picks:

SECTOR	STOCK	POSITION	RECOMMENDATION
Infrastructure	Gayatri Projects	Buy	It is expected that, Infrastructure will remain in a bullish phase over next decade, and governments impetus on the sector is a necessity, considering the potential of the sector and huge multiplier effect, sector has on sectors like Real Estate, Cement, Steel, Logistics, etc.
	Nagarjuna Constructions	Accumulate/ Buy on Lower levels	
	Patel Engineering	Accumulate/ Buy on Lower levels	
	HCC	Accumulate/ Buy on Lower levels	
Media & Entertainment	PVR	Buy	We believe Media and Entertainment story cannot be looked from the budget perspective and although demand rise will be slow, our stocks picks is based on long term attractiveness and profitability along with attractive prices at which these particular stocks are available.
	Network 18 Media	Buy	
	HT Media	Accumulate/ Buy on Lower levels	
	Dish TV	Accumulate/ Buy on Lower levels	
Agriculture and Allied services	Tata Chemicals	Buy	Industry demand to free Urea pricing by removing subsidies(or bring fixed subsidies) will be major boost private players to increase capacities, India utilizes 11% of Global fertilizer consumption versus 28% of China, moreover per hectare utilization is ¼ of China
	Chambal Fertilizers	Hold	
Banking And Financial Services	Karnataka Bank	Buy	Brokerage Industry stocks are expected to anticipated to do well over next 1 year as Indian Capital Markets still have a huge scope of expansion. Also small Private and Public sector banks which are still trading at 50% discount to their January lows will do well over next 2 years/
	Reliance Capital	Accumulate/ Buy on Lower levels	
	Kotak Mahindra Bank	Accumulate/ Buy on Lower levels	
	India bulls Securities	Accumulate/ Buy on Lower levels	
Automobiles	M&M	Hold	Although we are Bullish on Long term story of the sector, majority of the stocks have had a huge run up, hence we would advice investors to wait for some correction before venturing in the sector for the ling term.
	Hero Honda	Accumulate/ Buy on Lower levels	
Real Estate/ Housing	Unitech	Buy	Changes with regards to Interest exemption limits for buyers making impact on demand Affordable & Middle Income housing demand making this sector attractive
	DLF	Accumulate/ Buy on Lower levels	
	Sintex (low cost housing and Rural Infra.	Buy	

Coverage:

Our Stock coverage and Returns:

BUY REPORTS:

Stock	Set Date	Target Price	Price as on Call date		Price on 26th may		% return absolute		% return Relative to Sensex
			Stock	Sensex	Stock	Sensex	Stock	Sensex	
Educomp	22-Jan-09	2750	1715	8814	2,861.10		66.83%	57.85%	8.98%
Havells	30-Jan-09	280	115	8325	281		144.35%	67.12%	77.22%
Jaiprakash Associates	12-Feb-09	110	73	9466	185.6		154.25%	46.98%	107.27%
Lupin	03-Feb-09	780	630	8607	862.6		36.92%	61.65%	-24.73%
Tata Steel	06-Mar-09	250	152	8325	368.7		142.57%	67.12%	75.44%
M&M	12-Mar-09	440	345	8344	633.8		83.71%	66.74%	16.97%
Unitech	25-Mar-09	51	34	9667	77.15		126.91%	43.92%	82.99%
Punj Lloyd	30-Mar-09	120/145	85	9549	179.8		111.53%	45.70%	65.83%
Sintex Industries	16-Apr-09	240	137	10,947	218.5		59.49%	27.09%	32.39%
Alok Industries	26-Apr-09	28	14	11,371	21		50.00%	22.36%	27.64%

SELL REPORTS:

Stock	Target	Price as on Call date		Price on 26th may	% return absolute	% return Relative to Sensex
Bharat Electronics Ltd	21-May-09	1059	1319	13,736	1,343.55	

Note: Based on 25th May 2009 Sensex closing of 13,913

Note: All calls are initial/ first time calls

Note: All reports can be accessed on our website under <http://www.fairwealth.in/Research.aspx>

Note:

Fundamental and Technical reports are independently given and investors are advised to take their decision based on their investment profile and holding periods.

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