UNICON™ WEALTH MANAGEMENT — ASSOCIATION FOR LIFE

COUNTDOWN TO UNION BUDGET 2011 - 12

Union Budget 2011-12 Expectations

Macro Economy

Infrastructure

- Capital Goods & Infrastructure
- Cement
- Metals / Mining
- Oil & Gas
- Power

Manufacturing

- Auto
- Textiles
- Paper
- FMCG
- Pharmaceuticals
- Fertilizers

Services

- Banking, Financial Services & Insurance
- Information Technology
- Telecom
- Media
- Hotels
- Shipping / Ports / Logistics
- Retail

BUDGET SPECIAL

Act of 3 C's
Confidence, Conviction & Commitment

Executive Summary

Global markets have stabilized despite political and economic concerns which emerged in bits and pieces and performed steadily over last six months. The US markets have rallied nearly ~20% till mid Feb 2011. Eurozone too moved up with ~15% plus gains in the French, German and British markets. Positive triggers like improved economic growth outlook, reduction of unemployment, increased house sales and increasing risk appetite has helped the markets to sustain the rally.

However, domestic markets have bucked this trend and reacted negatively during this phase. In the last six months, markets have been gyrating and witnessing severe volatility, losing almost 15% since November after making a 52-week high. This has been a result of various factors. The commencement of high interest rate regime to combat inflation and buoyant commodity and crude prices acted as serious detriments. To add to this political uncertainty (Scams & Corporate Governance issues) spoilt the market environment. The economy during this phase has experienced drying up of FDI which raises concerns regarding management of fiscal deficit. The fixed income securities like CDs / CPs continue to yield 9.5%-9.7% thereby making risk reward towards equity unfavorable in the short term.

Consequently in the Budget 2011-12, emphasis should be on maintaining and even accelerating the pace of growth and employment. The ensuing budget is expected to take note of the current scenario and announce policies and reforms to support and form a suitable base for the economy to continue to grow at 8%+ levels. We at Unicon feel that the budget would be skewed towards investment rather than consumption. Agriculture & related activities would continue to be the focus area as inflation and food security is high on the government agenda. Government would allocate higher amounts towards infrastructure (logistics, rural infrastructure and water management), education and technology to give a multiplier effect to the economy to sustain high GDP growth in the coming years.

The Union Budget 2011-12 might be a key from a policy stand point and may provide incremental direction to markets. There is an inherent value in India economy given the growth story and favorable demographic, but catalyst are required at macro level to deleverage the underlying value.

Expectations - Union Budget 2011-12

India was among the few countries in the world to implement a broad-based counter-cyclic policy package to respond to the negative fallout of the global slowdown. These policy actions has helped Indian Economy to clock a growth of 8.6% in FY11 (advance estimates). While rising strongly in the world economic order, India faces the most critical challenge of crossing the 'double digit growth barrier'. Current macroeconomic challenges are manifold 1. Controlling inflation, including that for essential commodities, 2. Maintaining fiscal deficit amongst rising oil prices, 3. Absence of one-time revenues such as 3G, WiMax license fees, 4. Allocation & channelising investment in Infrastructure, 5. Domestic financial sector liquidity management with large government borrowing can potentially be a dampener for private investments, 6. Reducing current account deficit from current elevated levels, 7. Over and above, handling corruption issues. The upcoming elections in some of the major states may prompt the government to continue to take some populist measures.

Union Budget 2011-12 - Focus on Agriculture & Infrastructure sector

On backdrop of higher inflation (supply side constraints), lower industrial growth & infrastructure investments, Union Budget 2011-12 is likely to undertake measures to ease such constraints in the form of reforms in Agriculture & Infrastructure sector.

A) Agriculture sector

1. Larger Investments in Agriculture sector,
2. Improvement in the Agri logistics & cold storage chains,
3. Steps towards reduction in essential commodities hoarding,
4. Investment in R&D in agriculture.
5. Irrigation and water management
6. Related to agri inputs

B) The lower growth in the industrial production last year is also likely to be addressed; to sustain the growth momentum and expand manufacturing base of the economy over medium term, the government is likely to look at addressing the challenges of land acquisition, infrastructure bottlenecks and infrastructure financing, among others. Besides agriculture, & infrastructure sector, power, rural electrification, education, logistic and rural oriented sectors will be the main focus of the budget, as it would be the main participants in the acceleration of GDP growth of country. In addition, we are likely to see relaxation of FDI norms further in Retail, Insurance and FDI procedures.

C) Inclusive agenda: After years of substantial expansion in the social sector spending, the government is likely to go relatively slower on its inclusive growth agenda, given limited fiscal headroom.
No major change in the prevailing tax regime is expected; due to fears of a slower GDP growth in 2011-12. Moreover, any major tinkering in the indirect tax rates is unlikely as the government is targeting rollout of the integrated goods and service tax (GST) in a year. Similarly, changes in direct tax regime may be limited to aligning it with the upcoming direct tax code (DTC).

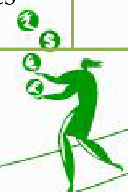
One of the problems is funding revenue expenditure through capital receipts and, thus, bringing in greater inter-generational inequalities. In the process, we run the risk of prioritising the immediate problems at the cost of our longer-term policy objectives (reforms and infrastructure creation). Unfortunately, we are, once again, likely to get stuck in addressing only the near-term problems in the coming budget too!

Macro Economic Expectations from Union Budget 2011-12

Expectations on Revenue side

Wish list /Proposals/Demand	Current Status / Reason for change	Implications	Unicon View
Exemption limits of individual taxes to increase to INR 0.2 Mn, exemption limit for woman to INR 0.35 Mn, and senior citizens to INR 0.4 Mn	Exemption limits of individual taxes INR 0.16 Mn, exemption limit for woman INR 0.19 Mn and senior citizens INR 0.2 Mn	If implemented it will increase the higher disposable income in the hands of individual which will spurt the demand	No major changes expected in the exemption limits as the limit was already increased in the last budget and higher exemption limit in the direct tax code proposed
Guidance on implementation the Direct Tax Code (DTC) and Goods and Service Tax (GST).	No clarity on the implementation of the GST & DTC from April 2011.	Simplify the tax structure	The Finance Minister is expected to announce a roadmap for implementation of the new DTC and GST in the Union Budget.
The corporate tax rate is expected to reduce to 25%	The corporate tax rate is currently at 30%.	Positive for the corporate sector which are paying high taxes like FMCG, Retail, Oil & Gas, Metal and Mining	No major changes expected on the corporate tax structure, however; the government is likely to give the roadmap on account of DTC.

Wish list /Proposals/Demand	Current Status / Reason for change	Implications	Unicon View
Government may not extend the exemptions granted to various sectors (sunset clause on tax exemptions for STP)	Extend till April 2011	If extension removed then negative for IT	No major changes expected
Excise duty & Service-tax rate			
Complete removal of Fiscal Stimulus	The fiscal stimulus stood at 3.5% of GDP for 2008-09	If implemented it is likely to reduce the fiscal deficit of the country	We expect no major changes in the fiscal stimulus as the ~2.8% of the stimulus is irreversible (interms of NREGA, Pay revision)
Excise duties to be hiked 4%	Excise duties which are currently at 8-10%	Negative for automobile companies, cement companies	We expect the government to hike excise duty by 2% to 12% for certain sectors like automobile, cement, FMCG (especially cigarettes) etc.
Service tax rate to increase by 2-4%	Service tax rate currently at 10%	If implemented it will increase the government revenues.	We anticipate the government to increase the service tax rate by 2% to 12% & to broaden the tax net
Central excise tariffs on SUVs & MUVs to be hiked by 2%	Central excise tariffs currently at 22%	If implemented it will increase the government revenues, Negative for automobile companies	We expect no major changes



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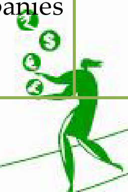
Government may not extend the exemptions granted to various sectors (sunset clause on tax exemptions for STP)	Extend till April 2011	If extension removed then negative for IT	No major changes expected

Expectations on Expenditure side

Wish list /Proposals/Demand	Current Status / Reason for change	Implications	Unicon View
Agriculture Sector			
Higher fund allocation for Agriculture	In the Budget 2010-11, INR 4 Bn provided to extend the green revolution to Eastern region, INR 3 Bn provided to organise 60,000 "pulses and oil seed villages" etc	Positive for the Agri sector but to put pressures on the Govt. finances	Higher fund allocation for Agriculture, also we expect PPP model to be introduced in Agri sector.
Implementation of food security bill	-	Government to honour its social commitment	Government to propose a roadmap towards "Right to Food Security Act"
Setting up a National Crop Statistics Centre (NCSC)	-	Provide reliable and timely data needed for monitoring agricultural trends and for policy making at the state and national levels	Government is likely to take steps towards setting up of NCSC
Fertilizer subsidies to be restructured on higher side	In 2010-11 government is estimated to give INR 822 Bn fertilizer subsidy (Source: Department of Fertiliser's)	Farmers to be benefited	High possibility of it being implemented

BUDGET SPECIAL

Wish list /Proposals/Demand	Current Status / Reason for change	Implications	Unicon View
Continue fund allocation to the infrastructure projects			
Infrastructure spending to boost in the budget 2011-12	In Budget 2010-11, INR 1.73 Tn provided for infrastructure development which accounts for over 46% of the total plan allocation.	To keep infrastructure companies order-book robust	Lackluster growth in infrastructure sector is likely to gain importance in the 2011-12 budget. We expect certain reforms like land acquisition, infrastructure bottlenecks and infrastructure financing to be addressed.
The irrigation sector is likely to gain prominence in the budget	Andhra Pradesh, Gujarat are promoting the irrigation projects and other states on back of center support are likely to join	If implemented Positive for companies like Jain irrigation	The irrigation sector to receive more funds in the budget.
Reforms to be introduce interms of modernisation of agricultural marketing	-	to increase access to healthier, diverse foods by the disadvantaged & to reduce the wastage of food production	We expect the government to introduce a road for the reform & expect to implement in the 12th five year plan
Subsidies			
De-regulation of diesel prices	Auto fuel subsidies are compensated by upstream players and government partially share subsidy	If implemented oil marketing company's topline as well as margins will improve, negative for the cement companies	No major changes



Wish list /Proposals/Demand	Current Status / Reason for change	Implications	Unicon View
Food subsidies to restructured at higher side	Currently the administrative costs of PDS amount to 85% of total expenses of government	If implemented it will burden the fiscal deficit of the country	On account of high food inflation we expect the food subsidies to marginally increase.
Continual Commitment towards the Social Sector			
Social Sector spending to continue	Social sector spending by the central and state government stood at 1.38 Tn in 2009-10	It will put additional burden on fiscal deficit	Spending on critical rural infrastructure and social security schemes – eg, NREGS, *Bharat Nirman* are unlikely to be reduced given government's commitment towards inclusive growth.

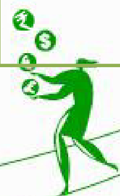
Infrastructure

Capital Goods & Infrastructure

Infrastructure spending is the backbone of any economy especially in a developing country like India. With end of XI five year plan and missing targets, focus would remain on infra sector. Currently, the sector faces issues like higher commodity prices, higher funding cost and over and above slow pace of award win. At operational level difficulties are faced in obtaining several clearances for land, environment etc causing further delay in project execution and cost over run.

Given the recent reshuffling in the cabinet, low pace of award win activities and dismal IIP data over last couple of months, the thrust would be to accelerate the infrastructure spending and promote private participation to achieve inclusive growth of the economy. Emphasis would be towards higher infrastructure spending both from public and private participants in order to achieve higher GDP growth rate of 8.5%+. We expect higher fund allocation to various infrastructure development schemes (like Bharat Nirman, JNNURM, APDRP, RGGVY etc.) & focus on higher social spending benefitting construction and water & rural infrastructure taking front seat while allocation. Formalization of Public Private Partnership for Infra projects is also liekly

Wish list / Proposal/ Demand	Current Status / Reason for change	Implications	Companies impacted	Unicon's View
Hike in FDI limit in defence sector to 49%	Currently FDI is capped at 26% whereby foreign entities are reluctant to expand its India operation and delaying to form JV with the Indian player	If implemented would be positive for respective companies as order-intake will see growth over years	BEL, BEML, Larsen & Toubro, Mahindra & Mahindra, Punj Lloyd, Astra Microwave	Defence, being of national importance, we don't expect such hike in FDI
Levy import duty on construction equipments	Road construction equipments such as concrete batching plants (capacity >= 50 cub/hr), stone crushers (stone type) etc are imported at nil customs duty and counter veiling duty (for few sectors like fertilizers, power, coal mining etc), while the domestic manufacturers have to pay a excise duty of 8%	If implemented would be positive for domestic manufacturers like	BEML, Gujarat Apollo Industries, Greaves Cotton, Atlas Copco, L&T Komatsu	Expect to levy such import / custom duty If implemented would be positive for the sector



Wish list / Proposal/ Demand	Current Status / Reason for change	Implications	Companies impacted	Unicon's View
Higher spending on Road, Highways, Water and Irrigation projects etc	To accelerate the growth of infra related projects	Positive for the sector	L&T, HCC, IVRCL, Patel Engg., Madhucon, IRB, Gammon, Pratibha Inds., VA Tech Wabag, etc.	Likely as water infrastructure is gaining importance and is need of the hour

Cement

Cement industry currently faces multiple challenges both internal and external. On one hand, demand is moderating especially in the North region and muted to negative growth in Southern region, industry is also facing higher input and fuel costs. The situation was also aggravated due to hike in diesel prices, making transport cost (freight) dearer. With low demand in over supply regime, industry is unable to pass on the higher costs to end user thereby keeping their margin under pressure or voluntarily opt to keep volume low. Given the backdrop of Government thrust to accelerate economic growth, industry expectations are high to reduce excise duty on cement which in our view is unlikely.

With country's GDP pegged to grow ~8%+ annually going forward, cement industry is likely to grow in double digit over long term and outlook for demand remains positive. With a view to have inclusive growth of all sectors, emphasis would be to create demand for real estate sector with focus on affordable housing, Govt. led higher infra spending in the form of higher fund allocation and incentive for public private partnership (PPP) to keep robust demand for cement. Sector specific, we do not expect material changes.

Wish list / Proposal/ Demand	Current Status / Reason for change	Implications	Companies impacted	Unicon's View
Reduce excise duty to 4%	Currently it is 10 (hiked from 8% to 10% last year)	Lower cement price would go in tandem with growth policy to accelerate the Infrastructure development in the economy	All players	Do not expect any change, Neutral

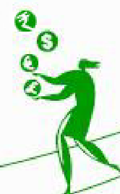
Wish list / Proposal/ Demand	Current Status / Reason for change	Implications	Companies impacted	Unicon's View
An abatement of 55% of excise duty (ED) and VAT in line with steel	Currently, if the retail sale price (50kg/bag) <= Rs 190 or <=3,800/tonne manufacturers are paying INR 290/tonne as ED, otherwise, 10% of the sale price The VAT on cement is pegged at 12.5% (14%-15% in few states) whereas in case of steel is only 4%	Lower cement prices would result in higher consumption leading to higher demand	Neutral as cost is expected to be passed on to the end user	Do not expect any change, Neutral
Abolition of import duty on imported coal / Gypsum / Pet coke	Currently, coal, pet coke and gypsum attract an import duty of 5% whereas cement imports attract no duty	If implemented would result in lower input cost and pressure on operating profit margin could marginally ease	All players like Ultratech, India Cement, Dalmia Cement, ACC, Shree Cement	Likely in line with the established principle that import duty on inputs should not be greater than that of finished product and benefit should be given to the industry to offset the impact of likely price decline owing to supply glut
Removal of Cess on Coal of INR 50/tonne, (both for domestic as well as imported)	Imposed last year and due to rise in coal price, operating profit margin of the industry is marginally down	If withdrawn, would be neutral, provided the benefit (miniscule) is passed on to end user	All	Unlikely

Metals / Mining

Metal prices have been in an uptrend on the back of rising input costs. Recent disruption in coking coal and iron ore supply due to floods in Australia have been responsible for the rising prices of steel. Spot prices of 63.5 Fe grade iron ore have risen sharply from ~USD 125 / MT in July 2010 to ~USD 196 / MT currently. China coking coal prices have increased from ~USD 265 / MT in July 2010 to ~USD 320 / MT currently. This steep rise in input costs have resulted in compression of margins for non integrated players such as JSW Steel and SAIL while it has helped the integrated players such as Tata Steel and Jindal Steel & Power and mining companies like NMDC and Sesa Goa to improve their profitability.

Going forward we expect steel prices to remain firm on account of strong demand lead by recovering global economies. However we believe iron ore prices would come under pressure going forward on account of high inventory levels. Iron ore inventory in China's ports has reached 82.8 MT, record high in three years. With the resumption of supplies from Australia, prices of coking coal would also normalize from their highs. We believe this scenario would be positive for steel companies.

Wish list / Proposal/ Demand	Current Status / Reason for change	Implications	Companies impacted	Unicon's View
Increase in spending on infrastructure projects through higher allocations for various schemes	Infrastructure spending has been a major area of thrust in previous budget	This would be an overall positive for the industry as infra-spending would create demand for all metals and ores	Positive for all Metal (Steel, Non-Ferrous) / Mining companies (NMDC, MOIL, Coal India)	We expect increased allocations this year as well.
Import duty on HR coil to be increased to 10%	5% currently	Positive for the steel sector	Tata Steel, JSW steel, SAIL, etc	We do not expect any change in the import duties
Increase in export duty on iron ore fines to 15%	5% currently	Positive for the steel sector / Negative for iron ore players	Positive for JSW Steel, Sail / Negative for Sesa Goa	
Reduction in direct tax rates		This is positive for the steel industry as higher disposable incomes would increase demand for autos and consumer durables		We expect some reduction in tax rates or increase in some exemptions.



BUDGET SPECIAL

Oil & Gas

The International Energy Agency (IEA) estimates global oil demand at 89.1 million barrels per day (mb/d) for CY11, an increase of 1.4mb/d over CY10. Asia and the Middle East would account for a major portion of the increase with an expected rise in demand by 1 mb/d. Per capita consumption of energy in India is still one of the lowest in the world (around 0.3 tonnes of oil equivalent compared to world average of l .8). The rise in oil demand can be attributed to a buoyant economic recovery globally. To cater to this demand, IEA estimates OPEC supply at 29.9 mb/d, non-OPEC supply at 53.4mb/d and OPEC NGLs to contribute 5.8 mb/d in 2011.

With demand expected to remain strong we expect crude prices to remain high going forward which is negative for the sector, especially the downstream players. Uncertainty regarding subsidy continues to bleed the oil marketing companies. The three OMCs will end the fiscal with around INR 800 bn of revenue losses on selling diesel, domestic LPG and kerosene below cost, compared to ~INR 440 bn last year. The focus on laying of natural gas and gas transmission pipelines continues with transmission and distribution companies like GSPL, IGL, GAIL and GGCL having performed very well over the last
year. With issue of coal availability, ramp up of KG basin production and government's thrust on cleaner fuels, natural gas business is expected to grow very rapidly.

Wish list / Proposal/ Demand	Current Status / Reason for change	Implications	Companies impacted	Unicon's View
Removal of import duties on crude	5% currently	This would help reduce the underrecoveries for the subsidy sharing companies	Positive for Oil PSU's (ONGC, Gail, & OMC's)	No change expected
Change in Subsidy sharing / Diesel deregulation	Diesel accounts for a major portion of underrecoveries	A reduction in subsidy burden would be positive for the Oil PSU's		Highly unlikely

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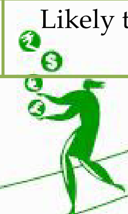
BUDGET SPECIAL

Power

Investments in power transmission & distribution (T&D) are currently lagging behind compared to investments in power generation and are expected to play catch up in the coming years. Given the heavy investment (INR 8370 bn for XIth Plan) requirement in this sector, we believe that the thrust on spending will be maintained. We expect the incentives to continue and in a best case scenario, there could be some more positive surprises as well. Incase of customs duty exemption, there would be reduction in the cost of power generation which will help our economy at large besides encouraging more industries to come forward to set up power plants. All initiatives from industries to set up Independent, Merchant and Captive Power Plants are expected to be encouraged by Government of India. Focus of the budget is expected to be on improving the T&D infrastructure in the country & promoting renewable energy.

Wish list / Proposal/ Demand	Current Status / Reason for change	Implications	Companies impacted	Unicon's View
Increase spend towards transmission & distribution	INR 4,270 Bn earmarked for XIth Plan	Positive	KEC International, Jyoti Structures, Kalpataru Power Transmission	Likely to happen, in view of dire need to strengthen the T&D infrastructure
The domestic BTG (boiler turbine and generator) equipment manufacturers expect that the government may provide more details on decision regarding import duty on power equipments	Currently Indian manufacturers have to pay excise and sales tax making them less competitive compared to imports	Positive for domestic manufacturers, if imposed	BGR Energy, BHEL, L&T, Thermax	Import duty will not be imposed in view of capacity shortage of domestic manufacturers
Extension of tax exemption for profit generated by the Utility, before stipulated deadline.	As per the provision of section 80-IA(4)(iv) of the Act, profit earned by an undertaking is exempted if it begins to generate power up to March 31, 2011.	Positive	Adani Power, JSW Energy, Reliance Power etc	In view of scarcity of power and to promote the power plants, exemption may be continued for another year for the power plants to be commissioned by March 31, 2012.
Increase allocation for renewable energy	Earmarked INR 1000 cr	Positive	Suzlon, Moser Baer, Orient Green Power	Likely to happen
Service tax exemption for development of power projects.	Currently at 10%	Positive	Adani Power, JSW Energy, Reliance Power etc	Likely to happen
Removal of 5% customs duty on LNG	Currently at 5%	Positive	Reliance Power	Likely to happen



Manufacturing

Auto

The budget last year had partially rolled back the stimulus provided to the auto players by increasing the excise duty to 10%. We may see a complete withdrawal of the stimulus with excise duties on two wheelers and small cars back to 12%. The auto industry has begun showing signs of a slowdown, imminent on the back of a high base due to strong growth last year on account of pent up demand post the recession. Increasing input costs, rising vehicle & crude prices, general inflationand an upward spiral in interest rates have also resulted in moderating the auto demand. Most auto majors have expressed their concerns and we expect the industry to grow at 10-12% in CY11 compared to 31% in CY10.

Wish list / Proposal/ Demand	Current Status / Reason for change	Implications	Companies impacted	Unicon's View
Society of Indian Auto mobile manufacturer (SIAM) has proposed to retain the existing level of Excise duty on the small car segment	10% on two wheelers and small cars	Hike in excise duties would result in lower demand for auto and would be negative for the auto majors.	Maruti,Tata Motors, Ashok Leylands,M& M,Hero Honda & TVS Motors	Increase of 2% likely
Automotive Component Manufacturers Association of India (ACMA) has propose to scrap the import duty on steel and aluminum alloys.	5% currently	This will help reduce the cost of production for auto component players	Auto ancillary players like Bharat Forge, Amtek auto, etc	Highly unlikely
Higher allocation under NREGA and NHAI Schemes		Postive for the auto sectors, especially for two wheelers and Tractors	Hero Honda, M & M and Bajaj Auto	Likely

Textiles

Indian Textile industry contributes 14% of the total industrial output and 15% of exports. The Industry ranked second in terms of employement generation employing more than 35 mn people. The industry is going through major technology upgradtion to increase the productivity during the last few year to counter global competiton. The Government expects the industry numbers to triple by the next decade to USD 220 bn from the current USD 70 bn considering the rising demand from the western countries. With the US economy showing good signs of recovery, textile demand would increase at a rapid pace going forward. The textile industry with help from TUFs scheme has already modernised with a lot of textile majors now having integrated business models right from raw materials to garments. To further support the growth story of the industry there are favourable expectation from the union budget.

Wish list / Proposal/ Demand	Current Status / Reason for change	Implications	Companies impacted	Unicon's View
Resumption of the technology upgradation fund scheme (TUFS)	Government urged banks to shelve further approvals under TUFS till further fund allocations are sanctioned by the Cabinet Committee on Economic Affairs (CCEA) in June 2010.	This would be a positive for textile companies as TUFS is crucial for all the interconnecting sectors such as spinning, weaving, knitting, processing and garmenting.	Alok Industries, Vardhman Textiles, Arvind Ltd, Raymonds, etc	Likely
Excise duty on all items of Textile machinery should be at 8% and there should not be any exemption	Excise duty on textile machinery in general is at 10%	Positive for the textile industry		Unlikely

Paper

The Indian paper industry is currently passing through a very difficult phase due to high input cost of raw materials. Since the industry is highly fragmented in nature, it has not been able to take advantages economies of scale as has been the case with its global counterparts. As a result, production in India is very low at 14% compared to 60% in developed countries with high cost of production. Paper industry in India depends on import of waste paper for manufacture of paper/paperboards, as there is a huge shortage of the raw material domestically. We think the government will provide releif to the paper industry by reducing the customs duty on waste paper and pulp which would be positive for the paper companies.

Wish list / Proposal/ Demand	Current Status / Reason for change	Implications	Companies impacted	Unicon's View
The Federation of Indian Export Organizations (FIEO) has proposed to scrap the customs duty on import of waste paper, wood pulp and coal.	Coal attracts import duty of 5.15%	Positive for the paper industy if implemented as it will help the industry in reducing raw material costs	Rama Newsprint, J K Paper, Ballarpur Ind.	Likely
FIEO has also suggested that import duties on timber/logs in rough and processed forms be reduced to 0% and 5%.	5% on Rough Timbers /logs & 10% on processed Timbers/logs	It would make the product competitive in the inetranational market as well as it would generate more employment in the rural and remote areas	Positive for all paper companies - Ballarpur Ind, J K Paper, Tamil Nadu Newsprint	Unlikely

BUDGET SPECIAL

FMCG

FMCG companies witnessed growth in volumes across product categories. However, rise in raw material costs took a toll on the operating margins across companies, with margins contracting by ~ 200 bps to 500 bps. The increasing competition among players also resulted in greater Advertising & Promotion (A&P) expenses of majority FMCG companies barring a few. The companies in this space either, have already taken price hikes during the quarter or are planning to rise prices to protect margins from erosion.

The recent correction in FMCG stocks has made them attractive, given the fact that underlying consumption story remains intact. Rural sector accounts for about 33% of sector's total revenue. The rural FMCG market is growing on the back of rising demand driven by rising income levels, changing lifestyles and favorable demographics. The pace of rural consumption is growing much faster than urban areas. The acquisitions by FMCG companies in other emerging as well as developed markets would also be earnings accretive in the long run. The sector is expected to be a market performer. Overall, we remain positive about the sectors prospects given the acceleration in rural spend and urbanization.

Wish list / Proposal/ Demand	Current Status / Reason for change	Implications	Companies impacted	Unicon's View
Reduction in the excise duty on packaged drinking water to 4%	Currently charged at 10%	Positive for manufacturers of packaged drinking water	NA	No major change expected
Enhanced spending on critical rural infrastructure and social security-NREGS should continue	This scheme has been driving the disposable incomes in the rural areas which in turn would help rural consumption.	If status quo maintained, will help drive the topline of FMCG companies	Dabur, Colgate – Pamolive, GCPL, HUL, ITC, Jyothy Labs, Marico, Bajaj Corp	We believe that companies like Colgate , ITC, Dabur, GCPL etc which have a strong rural distribution setup would get benefited
Excise duty on cigarettes be maintained at the current level	This would provide the industry with viable price points to combat the menace of illegal, duty evaded cigarettes.	If status quo maintained, will be positive	ITC, Godfrey Phillips India Ltd	Excise duty might get increased by ~8%
Reduction in MAT to 10%	Currently charged at 18%	Positive for companies paying MAT	MAT paying companies like Dabur and GCPL	Unlikely

Pharmaceuticals

The domestic pharma industry continues to grow at 11-12%, dwarfing the global average of five-six percent. Similarly, improved traction in productivity trends has prevented margin pressures, notwithstanding the intensifying competitive landscape domestically. The government's Vision 2015 statement indicates an 18% plus CAGR for the pharma sector, translating to a doubling of revenues to USD40 bn over the next five years. Growth will be driven by all verticals: domestic formulations, generics exports, and outsourcing (CRAMS). The government has recently announced the setting up of a venture fund that will target the infusion of INR 20 bn into the sector.

Wish list / Proposal/ Demand	Current Status / Reason for change	Implications	Companies impacted	Unicon's View
Extension of the list for life saving drugs- List should be expanded to cover more drugs	Limited list of life saving drugs	Marginal impact due to lower share in total sales	Lupin, Dr. Reddy, Cipla, etc	Likely to be announced for certain categories
Rationalisation of excise duty rates of API	API & formulations face 10% & 4% duty	Marginally negative for formulation players; companies may pass on to end consumers	Aurobindo, Lupin	Formulations and APIs would be affected negatively and positively respectively
Exemption of central exise duty on physician samples	No waiver currently	Marginal impact due to lower share	All companies	Not Expected
Tax holiday on healthcare infrastructure in tier-2 and tier-3 towns; should be extended from 5 years to 10 years	Initial years in this sector observe lower customer admissions	Strong impact on margins	Apollo Hospitals, Fortis Healthcare	Likely to be announced
Customs duty exemption to notified life saving drugs	Basic Customs Duty on certain drugs/vaccine is 5%	Improve margins for drug manufacturers	Lupin, Dr. Reddy, Cipla, etc	Not Expected
Extension of weighted deduction(150%) to expenditure incurred on clinical trials,bioequivalence studies conducted overseas and regulatory and patent approvals	These activities are directly related to research & development.	Improve margins for companies undertaking R&D activities	SPARC, Piramal Life Sciences	Not Expected

Fertilizers

Urea has taken centre stage in fertiliser sector in Budget 2011-12. Urea represents almost 50% of all fertiliser products consumed in the country with an annual consumption of 27mn tonnes (mt), of a total fertiliser consumption of 55 mt. The Committee of Secretaries is currently working out a viable model to determine how the subsidy component would be fixed, as urea production is based on different forms of feedstock such as gas, naphtha, fuel oil and coal. The government was also working at raising the urea prices by 2-5% in 2011-2012. De-canalisation of urea imports would also take place once urea comes under the NBS regime. At present, only authorised agencies can import urea. The industry is also eyeing upgradation of investment policy for urea by the government. The fertilizer industry expects Rs 50,000 crore in cash for FY12 by way of subsidies. It also expects further cushioning for FY11 subsidy. The sector has also sought removal of import and export restrictions.

Wish list / Proposal/ Demand	Current Status / Reason for change	Implications	Companies impacted	Unicon's View
Decontrol of Urea prices under Nutrient based scheme	Urea is priced through new pricing scheme III	Margin expansion for Urea manufacturers	Chambal Fertilisers, Tata Chemicals, Coromandel International, GNFC	Price decontrol unlikely but increase in subsidy possible
Inverted Duty Structure on Import of Chemical Inputs	Currently, import duty is higher than 5%	Margin expansion for domestic manufacturers	All companies	Not expected

Services

Banking, Financial Services & Insurance

Banking sector being a backbone of the economy has shown a strong growth in the FY11; especially the robust results in the last few quarters have bestowed strength in the banking sector. In the first half of the financial year 2011 the credit growth has been subdue but later it improved on back of strong demand for capex, infrastructure and agriculture. Due to inflationary pressures in the economy RBI has raised repo & reverse repo rate six times in last financial year. Despite this bank's have improved their performance on all fronts like NII, NIMs, CASA etc. Going ahead, banks are likely to focus more on CASA growth by expanding there branch network (rural and unbanked areas), improvement in NIMs & reduction in NPA's. We believe the sector will continue to remain under pressure in the near term until a sharp uptick in credit and deposits growth alongside pressure on yields easing off. We have seen interest rates on the deposits side, money markets, etc. inching up at a much faster pace on account of continued liquidity shortfall which would affect banks NIMs. Banks with higher CASA will be able to ride the wave better and protect NIMs. However, the inherent strengths of the Indian banking industry is likely to offset this impact.

Wish list / Proposal/ Demand	Current Status / Reason for change	Implications	Companies impacted	Unicon's View
Government subsidy/concessions on interest rates to be provided on lending to SEBs, given their weak financial health	-	To partially allay asset quality concerns in power financing segment	Positive for PFC, REC & leading PSU banks	We expect separate subsidy/fund to be created to meet financing requirement of SEBs
RBI to consider rolling out additional banking licenses to NBFCs and private players	Few private players in the banking space	To increase competition	Positive for the private players & NBFC's which are planning to enter banking space	IDFC, Exim Bank, TATA, Birla group, Reliance Capital, Indiabulls etc.
Policy on Microfinance sector	There is no clear guideline for the Microfinance sector	Negative for the Microfinance companies	Companies to be impacted are SKS Microfinance, SE Investments	We expect government to give some guidelines on the Microfinance sector
Limit of refinancing from IIFCL to commercial bank loans for PPP projects in critical sectors expected to be raised from INR 60 bn	-	-	Positive for banks in infrastructure lending to manage ALM	Last year also it was doubled, but considering growth this year as well limit could be further raised

Information Technology

While earnings of the companies have been positive so far, revenue growth is a concern for IT companies. Volume growth has been slower than expected. The managements of IT companies are confident that future outlook would be better with increasing IT budgets. Also discretionary spending is witnessing a revival. While the big-players are not facing problems currently, the small and mid-sized ones are struggling to grow post the recession, and so a slew of measures such as the STPI extension and tax clarifications would provide an improvement in their bottom-lines that would fuel future growth.

Wish list / Proposal/ Demand	Current Status / Reason for change	Implications	Companies impacted	Unicon's View
Extension of the STPI (Sections 10A and 10B) for the duration of 2011 - 2012.	Expiry in March 2011.	Positive	TCS, Infosys, HCL Tech etc	STPI will be extended until 2012, when the DTC is implemented.
Simplification of Refund of Service Tax on Inputs to Exporters.	Proposed for Budget 2011.	Positive	TCS, Infosys, HCL Tech etc	Unlikely for a well studied proposal to be drafted for the budget.
Reduction of Minimum Alternative Tax or Exemption.	Currently at 18%.	Positive	All IT firms not located in SEZs.	A roll-back or a decrease is not expected on this front. There could be a marginal increase on the contrary.
Removal of dual levy of Service tax on 'Right to Use Software' transactions.	Companies end up paying double the taxes they should ideally pay.	Positive	All IT & BPO firms.	Clarifications are expected in the current budget about the issue of double taxation.

Telecom

Indian mobile market has undergone revolutionary change during the past few years to become one of the leading mobile markets on the global map. The number of mobile subscribers stands at 752.19 mn in December 2010. With this the sector has become hyper competitive market with ~12-13 players as compared to ~3-4 in most other developed markets. Thus is expected to witness consolidation in near term. Mobile number portability could affect the subscription figures of some companies but established player may not feel the pinch. Companies are expected to roll out 3G services (Rcom , Bharti and Tata have already started) but the traction generated by it is still to be seen. Moreover, recent regulator recommendation has stimulated some uncertainty in the sector, especially with regards to recent 2G pricing and license renewal fees. However, increasing rural penetration and data services offers immense potential going forward.

Wish list / Proposal/ Demand	Current Status / Reason for change	Implications	Companies impacted	Unicon's View
MAT to be raised from 18% to 20%	In line with new direct tax code	Higher tax burden	Bharti, Rcom and Idea	Likely to be implemented
3G investment should be eligible for the 80IA benefit	Not eligiable	Positive as the companies can save tax	3G auction winners - Bharti, Idea and Rcom	Not likely to happened

Media

The Indian Media & Entertainment industry (television, film, radio, print, music, the internet, animation, gaming and outdoor media) offers attractive growth potential as compared to both developed and other emerging markets. The entertainment sector is expected to grow at 10 .7% in 2009-13. Rapid urbanisation and an increase in disposable income have accelerated the addition of new viewers driving the viewership number. The Media and Entertainment sector is witnessing continues increase in media spends by various industries. A rapid adoption of satellite based television services via DTH and digital cable augurs well for the Television industry. Regional print is expected, to continue to show strength backed by increasing regional demand however, rising newsprint prices could play a spoiler going forward. Phase-III licenses are expected to give a boost to the radio industry.

Wish list / Proposal/ Demand	Current Status / Reason for change	Implications	Companies impacted	Unicon's View
VAT and Service Tax on Copyright	The Budget 2010, introduced the levy of service tax on Copyright Services with effect from 1 July 2010, Separately, the Government of various states have classified copyright as goods and made the transfer / licensing of copyright liable to VAT. VAT & service tax should not be levied simultaneously on copyright to avoid multiple taxation	Will reduce distress in the indstry. Positive	Entire Media and Entertainment sector	Clear guidance likely

BUDGET SPECIAL

Wish list / Proposal/ Demand	Current Status / Reason for change	Implications	Companies impacted	Unicon's View
Reduction/Removal in 90 days criteria for exhibition of the film under rule 9A and 9B -Income Tax Act	Rule 9A, 9B specifies that in case if films are released within 90 days of the end of the year then, production cost will not be allowed in full but allowed only to the extent of revenue generated from exhibition of the film during the concerned financial year. in the current scenario, most of the films do not have a shelf life of more than 2- 3 weeks.cordingly, the criteria of 90 days should either be reduced or removed completely	Production cost can be allowed in the same year in entirety as exibition forms the main source of revenue for films. Positive	All production companies. Like -UTV, Eros, balaji Telefilms.	No major changes expected
Rationalization of duty on Set Top boxes	Currently, the import duty structure for a Set Top Box is as high as a basic import duty of 5% + SAD of 4% + CVD of 8%. Moreover, the excise duty on a Set Top Box is at 10.3%. To increase the digitization and plug the revenue leakage.	Increase in digitization	Dish TV, DEN Networks, Hathway and WWIL	Rationalization expected
FDI norms	FDI norms get liberalised for some of the segments like radio(20%), DTH(49%) and cable(49%).	Boost further investment	ENIL, Dish TV, DEN Networks, Hathway and WWIL	Likey as TRAI has also given Recommendation

Hotels

An improvement in the macro environment and the consequential improvement in foreign tourist arrivals and domestic corporate travel have aided a rebound in the hotel Industry. Occupancies have shown a remarkable improvement and this is likely to be followed by an improvement in average room rates (ARRs). The tourism industry is expected to grow at a CAGR of 7.6% for the next 10 years. With increase in disposable incomes and favorable demography domestic leisure travel is set to grow at a healthy pace.

Growth in demand is seen across business as well as leisure destinations and we maintain our positive stance on the hotel industry, on the back of the improving dynamics despite huge inventory lined up and foreign players also queuing up to be a part of domestic hospitality growth saga. There might be some rate corrections across hotel categories owing to competition from leading international and domestic brands entering the market as well as the availability of quality options in the mid-market and budget category.

Wish list / Proposal/ Demand	Current Status / Reason for change	Implications	Companies impacted	Unicon's View
Granting Infrastructure status to hotel industry	Currently hotel industry does not enjoy infrastructure status	Will aid raising funds at lower interest rate, tax concession, industrial rates on electricity, extension of loan maturity to 12-18yrs from 7-8yrs	Indian Hotels, EIH, Hotel Leela, Taj GVK, ITC Hotels, Asian Hotels (N/E/W), Royal Orchid, Viceroy Hotels, Kamat Hotels (India) Ltd.	Not likely
Rollback of depreciation rate for hotel buildings to 20%	Current depreciation rate for hotel buildings is 10%	Will help in improving bottom-line	All companies across the sector	No major change expected

Shipping / Ports / Logistics

India suffers from an inefficient modal mix in its transport landscape, because its share of roads over more operationally as well as cost effective modes like rail or coastal shipping is large. The Indian transportation & logistics sector is increasingly attractive to foreign and domestic operators as well as strategic and financial investors. To build a strong platform for driving long-term economic growth, an increase in the government's thrust on this sector is vital. The domestic shipping industry is burdened by severe competition on the one hand and taxes on the other vis-a-vis global players operating from tax neutral jurisdictions. The ports sector is anticipating rapid growth and considerable investor interest. This would entail major investment in initiatives to expand capacity of major ports and make improvements to their facilities. There is an urgent need for measures to facilitate growth in ground logistics (warehousing, rail freight and cold chain logistics) and we expect some solid reforms to be announced in the budget.

Wish list / Proposal/ Demand	Current Status / Reason for change	Implications	Companies impacted	Unicon's View
Customs duty exemptions / concessions on import of capital goods required for construction and erection of ports.	This would entail major investment in initiatives to expand capacity of major ports and make improvements to their facilities.	Positive	Dredging Corporation of India, Pipavav Shipyard, Guj. Pipavav Port. Etc.	Likely, as thrust is to accelerate port development and logistics
Income tax exemption under Section 80 IA should be extended to port-related support infrastructure such as container freight stations and inland container depots.	Tax incentive in the form of extended tax holiday would be in tandem to accelerate port development and logistics	Positive	Mundra Port & Sez, Pipavav Shipyard, Etc	Should be implemented to have inclusive growth
Aviation Turbine Fuel should be brought under the ambit of Goods and Service Tax Act	Tax rates substantially vary from state to state.	Positive	Jet Airways, Kingfisher Airlines, Spice Jet	This will ensure uniform ATF taxation across the country
Investments linked tax incentive need to be made available to cold chain and warehouses across food products	Needed for development of cold chain logistics and warehousing facilities to bring in efficiency in supply chain	Positive	Gati	Should be implemented to develop efficiency in logistics

Retail

With the improving economic scenario, purchasing power of consumers is on the rise. However the recent inflation shock is denting this purchasing power. While retail companies have so far produced good results, the future outlook would be under pressure if inflation continues unchecked. While little can be done on the global commodity front, improved FDI in retail could help bring down prices of consumer goods, thus fueling growth.

In the short-term, given the inflationary scenario, we don't expect Retail to outperform, as people's daily necessities will take over a large part of their spending budget. However over the long term, since the economy is growing, we expect the Retail Sector to perform well.

Wish list / Proposal/ Demand	Current Status / Reason for change	Implications	Companies impacted	Unicon's View
FDI Limit liberalization for different Retail formats.	51% in Retail FDI. Proposal for 100%.	Would improve competitiveness, help consumers and overall bring prices down further.	Agri-based, Retail Companies and new foreign firms or JVs entering the Indian market.	In light of the recent food inflation, rationalization of FDI could improve supply-chain management which would overall bring prices down. We expect this proposal to be implemented partially.

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