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Union Budget 2011-12

All's well if oil's well

Research Team (Rajat@MotilalOswal.com); Tel: +91 22 3982 5441

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The Union Budget 2012 has been presented amidst assumptions of a robust economic environment in FY12 with nominal GDP growth of 14%, tax revenue growth of 18% and a significantly lower fiscal deficit at 4.6% (vs 5.1% YoY). The path to fiscal consolidation (a key focus point), however, will be difficult as subsidies are under provided at current global commodity prices. No rollback in excise duty and alignment of direct tax structure to eventual new DTC (Direct Taxes Code) are the key highlights on tax front.

Aggressive subsidy accounting; challenging disinvestment target

While we think that the government has been realistic in its tax revenue projections, it has routinely overshot its subsidy estimates by a margin. We estimate FY12 subsidy burden to be Rs1.7t vs government's estimate of Rs1.4t. As a result, our fiscal deficit estimate stands at 4.8% vs budgeted 4.6%. We believe the budget assumes lower oil prices (~80-90% of actual) and normal monsoons, inturn driving a strong agricultural growth (critical for 8.5-9%). While disinvestment target of Rs400b appears challenging in the current market conditions, the pipeline of Rs180b overflowing from FY11 improves visibility of this target.

ITC, BHEL, Autos and Financials among key beneficiaries; Iron ore worst hit

Key beneficiaries are ITC (no hike in excise on cigarettes), Autos (no rollback in excise), Financials (lower borrowing plan) and BHEL (level playing field on expansions). Key adversely impacted sectors were Iron-ore (higher export duty), SEZ developers and units operating in SEZs (MAT applicability), Cement (hike in excise duty) and Retail (no mention of FDI increase).

Execution of key reforms is critical

The important catalyst for equities will be the execution of key reforms proposed: (i) Introduction of GST Bill, (ii) DTC will be introduced from April 2012, (iii) Move towards direct subsidy for Below Poverty Line by April 2012 (LPG, kerosene and fertilizer), (iv) Food Security Bill to be tabled in FY12, and (v) Improving access to long term funds for infrastructure projects through various measures.

Tapping foreign savings to ease domestic liquidity

A breakthrough measure for Indian mutual fund industry is to permit SEBI-registered mutual funds to accept subscriptions from foreign investors for equity schemes. This would enable Indian mutual funds to have direct access to foreign investors and widen the class of foreign investors in Indian equity market. FII limit on corporate bonds has been raised to US$40b, and this could be a key step towards easing of the tight liquidity conditions.

Back to basics for the market: Steady earnings growth; reasonable valuation

Post-budget, we believe the focus of markets will shift back to global oil prices and inflationary trends. Our earnings estimates for the Sensex universe indicates an 19.7% EPS growth in FY12, which has remained unchanged post 3QFY11 results season. Post a ~14% correction in CY11YTD, Indian equities trade at P/E of 14x FY12 EPS, in-line with long-term averages.

Key fiscal estimates look better on optimistic assumptions

The key fiscal deficit figures came above estimate and forms the key positive takeaways from the current year's budget.

Reconciliation of FY12 fiscal deficit (Rs b)

FY12 fiscal deficit (BE)	**4,128**
% of GDP	4.6
MOSL adjustments	
(+) Higher subsidy	258
(+) Higher interest	17
(-) Higher net tax rev.	-131
(-) Other non-plan exp.	-3
FY12 fiscal def.(MOSL)	**4,269**
% of GDP	4.8

Source: Budget docs/MOSL

FY12 fiscal deficit at 4.6% of GDP; our estimate 4.8%

Fiscal deficit for FY12BE placed at Rs4.1t (MOSL Rs4.5t; FY11RE Rs4t) and 4.6% of GDP (MOSL 4.8%). Near static absolute fiscal deficit and much lower deficit to GDP ratio were achieved under the assumptions of (i) robust growth of tax revenue (18.5% over FY11RE); (ii) marked deceleration in non-plan expenditure (a degrowth of 0.7% for FY11RE and a growth of only 10.9% over FY11BE), and (iii) nominal GDP growth of 14% in FY12.

However, if some of the aggressive assumptions on subsidy and PSU disinvestment are moderated, the fiscal deficit for FY12 would come closer to Rs.4.3t (4.8% of GDP) rather than Rs4.1t (4.6% of GDP). Consequently gross (net) market borrowing would shoot up to Rs.4.5t (Rs3.8t).

Market borrowing: Big surprise

As a result of near static level of fiscal deficit, gross market borrowing for FY12 was estimated much lower at Rs.4.2t (MOSL Rs4.7t; FY11RE Rs4.5t) and net market borrowing at Rs.3.4t (MOSL Rs4t; FY11RE Rs3.4t). The lower gross market borrowing has been achieved by i) draw down of cash balances to the extent of Rs200b, ii) recourse to Rs200b MSS (unexpected), and iii) an increase in small savings contribution by Rs65b. Excluding these one-off items, gross market borrowing would stand much higher at Rs4.8t. This could further strain liquidity and make crowding-out a real possibility.

Plan expenditure: 11th Plan on target

Plan expenditure is expected to keep up the momentum (11.8% growth over FY11RE and 18.3% over FY11BE) in order to meet the 11th Five Year Plan targets, FY12 being the last year of plan period. If actually met, 11th Plan would be the first time that overall plan targets would be achieved.

FY11 revised estimates: Fiscal deficit at 5.1%

FY11 fiscal deficit at 5.1% is higher than our estimate of 4.6%

Simultaneously, FY11RE fiscal deficit was placed at 5.1% (MOSL 4.6% and 5.5% FY11BE). The higher than expected fiscal deficit in FY11RE seems to be a result of sharp increase in both Plan and non-Plan expenditure provisioned for in the last three months of FY11. However, while Plan expenditure is expected to overshoot FY11BE estimate by only 6%, non-Plan expenditure would exceed by 12%, largely due to a ballooning subsidy bill where allocation has increased by 41%.

Challenging targets of PSU disinvestment

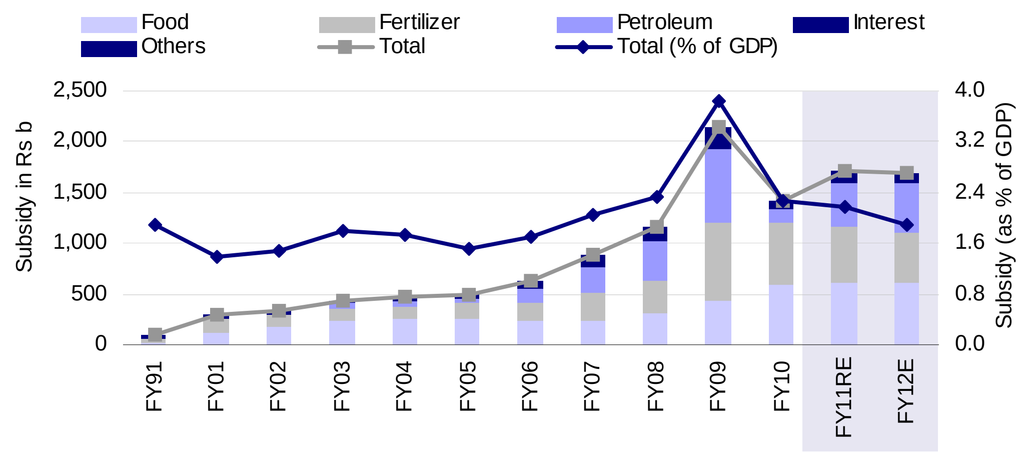
Against less optimistic assumptions, however, the key fiscal indicators would look somewhat more challenging. We believe while the government has been fairly conservative in its tax revenue projections and indeed there is scope for higher collection on higher GDP growth and increased revenue buoyancy, the targets for disinvestment looks challenging at first count given the current investment climate.

Ballooning subsidy

In the past, government has routinely overshot the subsidy estimates by a huge margin. For example against a provision of mere Rs31b in FY11BE for petroleum subsidy, revised estimate is placed at Rs384b which is expected to go up further to Rs448b. Likewise, we estimate FY12 oil subsidy closer to Rs494b against Rs236b provided for. Also the allocation for food security seems absent with static Rs606b provision of food subsidy.

Against a provision of Rs31b in FY11BE for petroleum subsidy, FY11RE is placed at Rs384b, which is expected to go up further to Rs448b

Increasing subsidy bill despite under provisioning by government



Source: Budget Documents/MOSL

Fiscal consolidation still underway

In two aspects, however, fiscal consolidation is definitely underway. First, falling fiscal deficit as percentage of GDP would still mean compliance with the medium-term fiscal discipline. Secondly, the overall magnitude of both revenue and expenditure in FY12BE is largely unchanged from FY11RE levels. This means the government would not grow at the same rate of GDP and to that extent the fiscal impulse on the economy would be reduced materially.

No big bang but steady on the reforms course

While some of the big bang reforms expected in the area of multi-brand retail and insurance did not take place, the direction of reform stayed on course the already announced path. Especially on the taxation front, the Government signaled its commitment to implementation of DTC (the Bill is already introduced in the Parliament) and GST (on which consultations with states are in their final stage).

Overall direct tax proposals to result in net revenue loss of Rs115b

Rationalization of indirect tax rates is expected to yield Rs113b

FII limit on corporate bonds of US$40b to help infrastructure funding

Budget 2011-12: Key proposals and likely impact

Proposal	Likely Impact
DTC	
■ Personal tax slabs enhanced (minimum slab to Rs180k from Rs160k) mid-way to proposed DTC bill. ■ Corporate tax rates rationalized with reduction of surcharge from 7.5% to 5% on course to move towards 30% DTC norm. ■ MAT rate at 18.5% (from 18%). ■ Overall direct tax proposals to result in net revenue loss of Rs115b.	■ Marginal relief for taxpayers to guard against inflation. ■ With DTC to be implemented by April 2011, this goes mid-way in to the DTC prescribed minimum slab of Rs200k. ■ Reduction in corporate surcharge is a welcome move and seems on course to phased abolition of corporate surcharge in order to brind the corporate tax rate to 30% in consonance with DTC. ■ Increase in MAT rate is to plug the loopholes.
GST	
■ Mean rates left unchanged but a lot of existing rates rationalized. ■ Service tax extended to cover new areas of services. ■ Rationalization of indirect tax rates is expected to yield Rs113b. ■ Hence overall tax proposals expected to result in a loss of Rs2b.	■ This is the clearest indication of government's resolve to move towards GST. Thus one can expect much greater stability of indirect tax after the rationalization exercise is complete. ■ Leaving the service tax rates unchanged too signifies laying the groundwork for unified rollout of goods and services tax. ■ Quite evidently revenue mobilization has been a secondary goal of such rationalization exercise.
Governance challenge	
■ Five point program and measures to curb black money announced earlier reiterated. ■ Highlighted the progress in various international tax and co-operation treaties in this respect.	■ Government at the later stage seems to rely more on executive action to address the issues of corruption than relying on articulated policy measures. However, the key lies in its sustenance of such executive actions.
Foreign investment	
■ Discussions underway on opening up of key sectors ■ Mutual funds allowed to accept subscription from foreign investment ■ FII limit on corporate bonds enhanced to US$40b.	■ On FDI in multi-brand retail, enough indications have been given by the Government of the measure in the offing including pronouncement of commerce minister. ■ Increase in the FIIs ceiling in the corporate bond market is a big positive as this would infuse activity in the bond market, help infrastructure, help garner capital flows and reduce pressure on liquidity. ■ Permitting MFs to accept foreign subscription is also likely to help capital flows and ease liquidity. ■ Hence, the government has been on overdrive on attracting capital flows and also indicates a shift in the long standing policy preference in favor of equity flows.
Delivery mechanism	
■ Government will move towards direct subsidy for Below Poverty Line by April 2012 (LPG, Kerosene and Fertilizer). The necessary IT infrastructure in this regard is being put in place.	■ This would pave the way for efficient delivery of welfare schemes riding on the UID infrastructure.
Disinvestment	
■ Target set at Rs400b	■ The target is challenging in the current investment climate. The intent is a steady inroad into broader public ownership and market supervision of PSUs.

Source: Budget Documents/MOSL

Expenditure priorities are clearly oriented towards infrastructure, development and welfare

Infrastructure, Agriculture and Inclusive development are current key focus areas

1. **Infrastructure:** Focus stays on infrastructure with 23.3% increase in spend, constituting 48.5% of total Plan. Key measures include: (1) Comprehensive policy on PPP, (2) Enhancement of disbursement and take-out financing targets of IIFCL, and (3) Tax-free bonds to various infrastructure authorities.

2. **Agriculture:** Key proposals include: (1) A four-pronged strategy covering agricultural production, reduction in wastage of produce, credit support to farmers and a thrust to the food processing sector, (2) Agricultural credit target enhanced by 27%, (3) An additional 1% interest subvention to farmers, (4) Various support measures to NABARD, (5) Thrust to storage capacity and cold chain, (6) Removal of remaining bottleneck of movement of agricultural commodities, etc. However, most crop based programs have received a rather modest sum of Rs3b.

3. **Development and welfare:** Key measures: (1) Significant increase in social sector (17% increase constituting 36% of plan), (2) Introduction of Food Security Bill, (3) Bharat Nirman (21% increase), (4) Education (24% increase of which Sarva Siksha 40%), (5) Health (20% increase), and (6) Social security (enhanced support for pension plan, etc).

4. **Non-Plan:** As mentioned earlier, no major hike (10.9%) was announced in non plan expenditure. Much lower oil subsidy is perhaps based on the optimistic assumption of moderating oil prices or effect of hike/deregulation.

Conclusion

All's well if oil's well!

- Union Budget 2011-12 stays on fiscal corrective course perhaps aided by a few optimistic assumptions.
- While there is no new big bang reform, already announced measures such as DTC and GST remain on track.
- Revenue estimates appear reasonable. On expenditure, infrastructure, agriculture and various inclusive development programs received renewed attention.
- A key risk to all of this is a further flare-up in oil prices.
- **Thus, all’s well if oil’s well!**

Budget at a glance

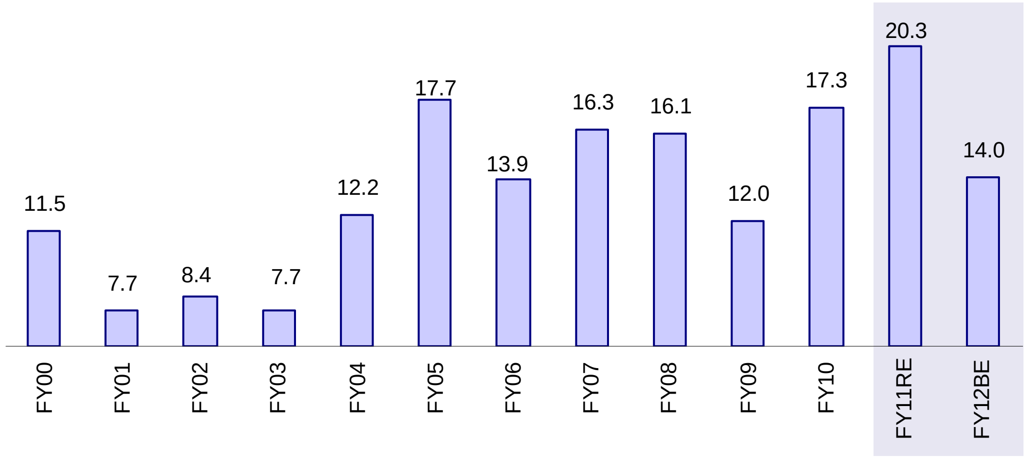
Rs billion	FY09	FY10	FY11BE	FY11RE	FY12BE	% incr. FY12 over FY11RE	FY12E MOSL
Receipts	**8,399**	**10,259**	**11,087**	**12,316**	**12,377**	**0.5**	**12,849**
Revenue receipts	**5,403**	**5,728**	**6,822**	**7,838**	**7,899**	**0.8**	**8,030**
Net tax revenue	4,433	4,565	5,341	5,637	6,645	**17.9**	6,776
Gross tax revenue	**6,053**	**6,245**	**7,467**	**7,869**	**9,324**	**18.5**	**9,480**
Income tax receipt	1,060	1,323	1,281	1,491	1,720	**15.4**	1,759
Corporate tax receipt	2,134	2,447	3,013	2,964	3,600	**21.5**	3,557
Custom duties collection	999	833	1,150	1,318	1,517	**15.1**	1,582
Excise duties collection	1,086	1,036	1,320	1,378	1,641	**19.1**	1,653
Other tax revenue	774	605	703	719	846	**17.7**	929
Service tax receipt	609	584	680	694	820	**18.2**	819
Taxes of union territories	15	16	17	19	20	**3.3**	22
States' share in tax revenue	1,602	1648	2090	2193	2635	**20.1**	2,654
Transfer of UTs taxes and duties	18	32	36	39	45	**16.0**	50
Non-tax Revenue	**969**	**1,163**	**1,481**	**2,201**	**1,254**	**-43.0**	**1,254**
Interest receipt	207	218	193	197	196	**-0.8**	196
Dividend and profits receipts	386	502	513	487	426	**-12.5**	426
Receipts of union territories	8	12	9	11	12	**2.3**	12
Other non-tax revenue (excld: 3G/BWA)	368	431	766	1506	621	**-58.8**	621
Capital receipts (net)	**2,999**	**4,531**	**4,265**	**4,477**	**4,478**	**0.0**	**4,819**
Net market borrowings	**2,336**	3984	3450	3354	3430	**2.3**	**3,813**
Gross market borrowings	**2,730**	**4,510**	**4,571**	**4,470**	**4,171**	**-6.7**	**4,554**
Repayment of domestic mkt borrowings	394	526	1121	1116	741	**-33.6**	741
Net external assistance	110	110	225	223	145	**-34.9**	145
Recovery of loans and advances	61	86	51	90	150	**66.9**	150
Disinvestment of equity holding in PSUs	6	246	400	227	400	**75.9**	400
Expenditure	**8,840**	**10,245**	**11,087**	**12,166**	**12,577**	**3.4**	**12,849**
Non-plan expenditure	**6,087**	**7,211**	**7,357**	**8,216**	**8,162**	**-0.7**	**8,490**
Non-plan revenue expenditure	5,590	6,579	6,436	7,267	7,336	**0.9**	7,663
Interest payments	1,922	2131	2487	2408	2680	**11.3**	2,696
Non-plan revenue exp on defence	733	907	873	907	952	**4.9**	962
Subsidies outgo	1,297	1414	1162	1642	1436	**-12.5**	1693
Other non-plan revenue	1,638	2,128	1,914	2,311	2,268	**-1.9**	2,311
Grants to states and UTs	382	459	460	526	663	**26.1**	-
Grants to foreign government	14	16	17	21	23	**7.6**	-
Non-plan rev. exp. UTs w/o legislature	31	33	32	37	36	**-1.9**	-
Other non-plan revenue expenditure	1,211	1620	1405	1727	1546	**-10.5**	-
Non-plan capital expenditure	497	632	921	948	826	-12.8	828
Non-plan loans and advances	17	11	10	63	2	**-96.6**	2
Capital non-plan capital exp on defence	409	511	600	608	692	**13.8**	693
Other non-plan capital	71	110	311	277	132	**-52.3**	132
Plan expenditure	**2,752**	**3,034**	**3,731**	**3,950**	**4,415**	**11.8**	**4,359**
Plan revenue expenditure	2,348	2,539	3,151	3,269	3,636	**11.2**	3,596
Revenue expenditure on central plan	1,665	1788	2309	2420	2683	**10.8**	2,662
Assistance to states plan	683	751	842	849	953	**12.3**	934
Plan capital expenditure	405	495	580	681	779	**14.5**	763
Capital expenditure on central plan	317	401	497	566	672	**18.8**	634
Loan and advances to states plan	88	94	82	115	107	**-7.0**	129
Gross fiscal deficit	**3,370**	**4,185**	**3,814**	**4,010**	**4,128**	**2.9**	**4,269**
Revenue deficit	2,535	3,390	2,765	2,698	3,073	**13.9**	3,229
Primary deficit	1,448	2,054	1,327	1,602	1,448	**-9.6**	1,573
GDPmp	**55,826**	**65,503**	**69,347**	**78,779**	**89,809**	**14.0**	**89,809**
Fiscal deficit (% of GDP)	**6.0**	**6.4**	**5.5**	**5.1**	**4.6**		**4.8**

Source: Budget Documents/MOSL

Economy: key trends

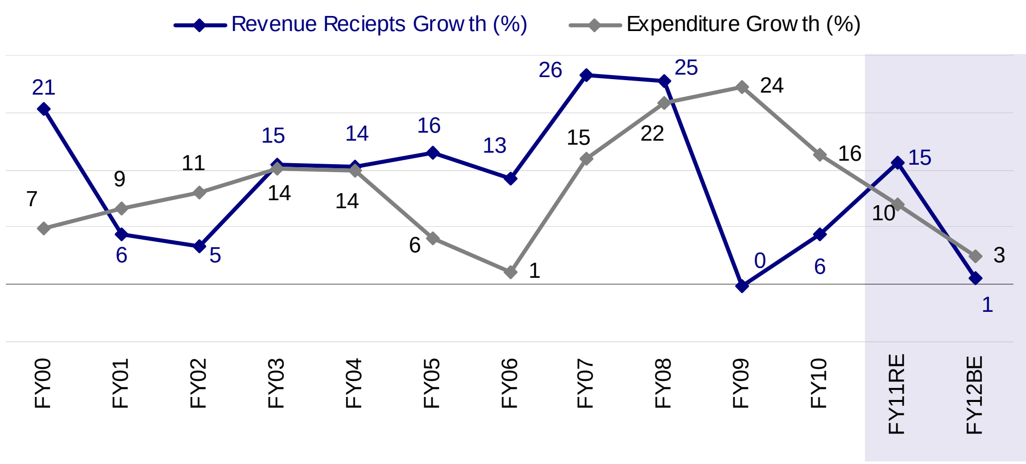
FY11 nominal GDP growth second highest ever

Nominal GDP growth (%)



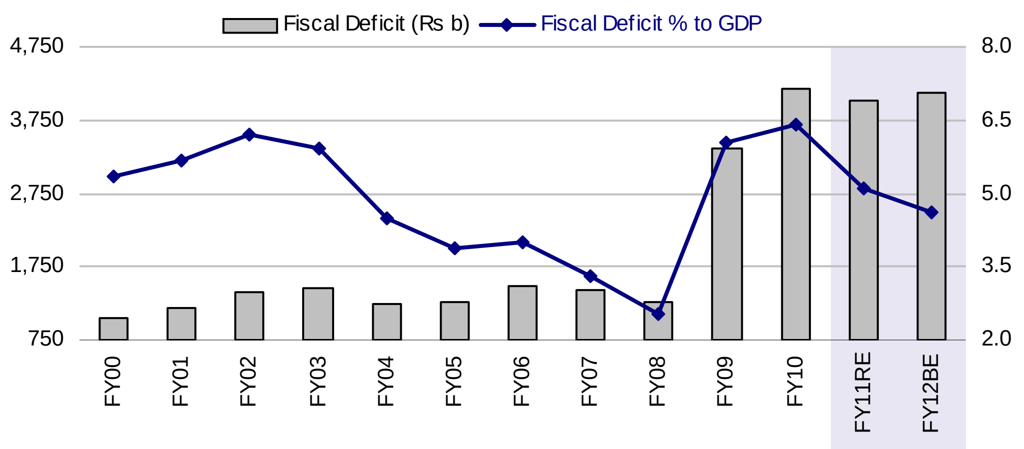
Near static level of revenue and expenditure in FY12

Growth trend in revenue receipts and total expenditure (%)



Medium term fiscal targets are being met

Fiscal deficit as a % of GDP

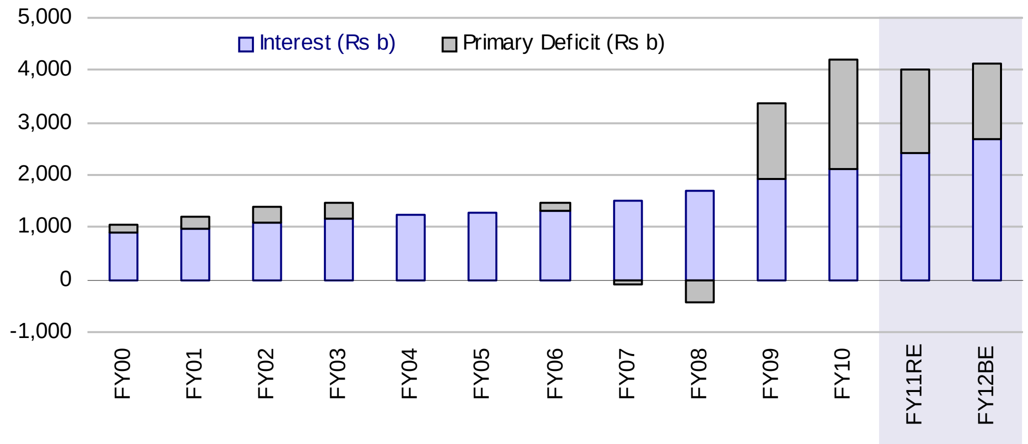


Source: Budget Documents/MOSL

Economy: key trends (Contd.)

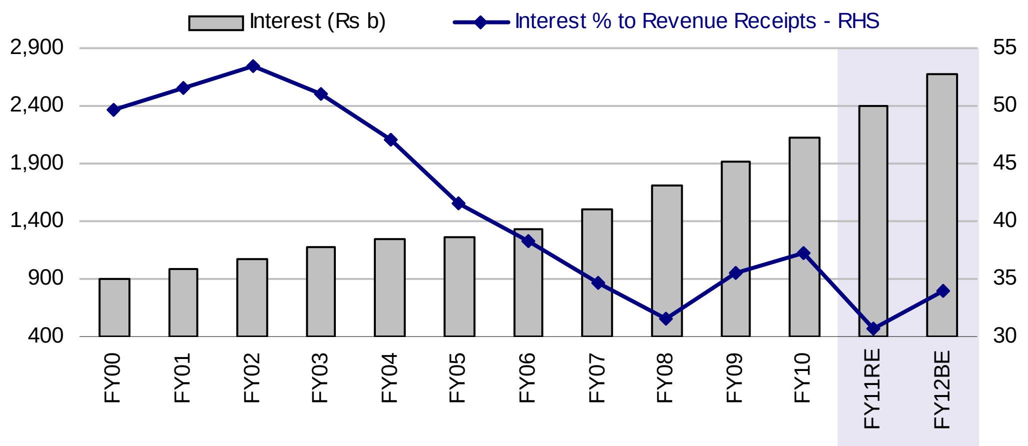
Interest burden has increased on higher borrowing and rates

Primary deficit and interest components of fiscal deficit



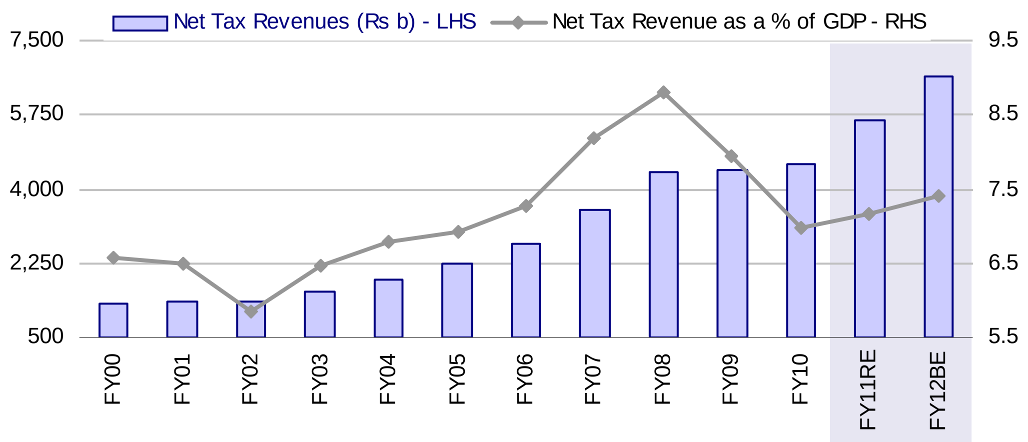
Interest cost eats up significant part of revenue receipts

Interest expense and Interest as % of revenue receipts



Tax burden moderately increased

Net tax revenue to GDP



Source: Budget Documents/MOSL

Macro-economic indicators

Annual

	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11E	FY12E
Growth Rate (%)												
Gross Domestic Product	**4.4**	**5.8**	**3.8**	**8.5**	**7.5**	**9.5**	**9.6**	**9.3**	**6.8**	**8.0**	**8.5**	**8.4**
Agriculture	-0.2	6.3	-7.2	10.0	-	5.1	4.2	5.8	0.0	0.4	5.2	3.1
Foodgrains (M Ton)	196.8	212.9	174.8	213.2	198.4	208.6	217.3	230.8	234.5	218.2	232.1	236.9
Industry	6.4	2.7	7.1	7.4	10.3	9.7	12.2	9.7	4.4	8.0	7.5	8.9
Manufacturing	7.7	2.5	6.8	6.6	8.7	9.1	12.5	9.0	7.4	11.0	8.3	10.0
Services	5.7	7.2	7.5	8.5	9.1	11.0	10.1	10.3	10.1	10.1	9.9	9.5
Prices												
WPI (Annual Averages)												
All commodities	**7.1**	**3.6**	**3.4**	**5.5**	**6.5**	**4.4**	**6.5**	**4.8**	**8.0**	**3.6**	**9.0**	**6.6**
Primary articles	2.9	3.6	3.3	4.3	3.7	2.9	9.6	8.3	11.1	12.7	17.7	11.1
Fuel & power	28.4	9.0	5.5	6.4	10.1	9.5	6.5	0.0	11.6	-2.1	11.9	7.5
Manufactured products	3.2	1.9	2.7	5.6	6.3	3.1	5.6	4.9	6.1	1.8	4.7	5.2
CPI (Annual Averages)												
IW - General index	3.8	4.3	4.0	3.9	3.8	4.4	6.7	6.2	9.1	12.4	9.4	-
AL - General index	-0.3	1.3	3.2	3.8	2.4	4.1	7.6	7.6	10.0	14.0	-	-
UNME - General Index	5.4	5.1	3.8	3.7	3.8	4.6	6.6	6.0	8.9	13.0	-	-
Money and Banking												
Money Supply (M3) Growth (%)	**16.8**	**14.1**	**14.7**	**16.7**	**12.3**	**21.2**	**21.3**	**21.4**	**19.3**	**16.8**	**17.0**	**18.0**
Non-food credit Growth (%)	14.1	9.4	30.1	18.9	26.7	39.6	28.5	23.0	17.8	13.5	22.0	22.0
Deposit Growth (%)	16.2	11.5	18.9	17.6	10.8	23.4	23.8	22.4	19.9	17.2	18.0	19.0
Yield on 10-yr G-sec (%)	9.8	7.4	6.2	5.2	6.7	7.5	8.0	8.0	7.0	7.8	8.0	8.3
External Sector												
Exports (US$ b)	44.1	44.0	52.8	63.9	83.5	103.1	126.3	163.0	183.1	178.2	225.0	285.0
Change (%)	20.1	-0.4	20.2	20.9	30.7	23.4	22.5	29.1	12.3	-2.7	26.2	26.7
Imports (US$ b)	50.1	51.6	61.5	78.2	111.5	149.1	185.1	249.8	299.3	286.1	335.0	392.0
Change (%)	0.5	3.0	19.3	27.1	42.6	33.8	24.1	35.0	19.8	-4.4	17.1	17.0
Trade Deficit (US$b)	-6	-8	-9	-14	-28	-46	-59	-87	-116	-108	-110	-107
Invisible Surplus (US$b)	10	15	17	28	31	42	52	76	91	80	60	70
Current A/c deficit (US$b)	**4**	**7**	**8**	**13**	**3**	**-4**	**-7**	**-11**	**-25**	**-28**	**-50**	**-37**
As % of GDP												
Exports	9.6	9.2	10.4	10.6	11.6	12.4	13.3	13.2	15.1	12.9	13.0	14.3
Imports	10.9	10.8	12.1	13.0	15.5	17.9	19.5	20.2	24.6	20.7	19.4	19.6
Trade Deficit	-1.3	-1.6	-1.7	-2.4	-3.9	-5.5	-6.2	-7.0	-9.6	-7.8	-6.4	-5.4
Invisible Surplus	2.1	3.1	3.4	4.6	4.3	5.0	5.5	6.1	7.5	5.8	3.5	3.5
Current A/c deficit	**0.9**	**1.5**	**1.6**	**2.2**	**0.4**	**-0.5**	**-0.7**	**-0.9**	**-2.0**	**-2.0**	**-2.9**	**-1.9**
Forex Reserves (US$ b)	**42.3**	**54.2**	**74.8**	**110.3**	**140.9**	**151.6**	**199.2**	**309.2**	**252.3**	**277.0**	**300.0**	**320.0**
Avg Exchange Rate (Rs/US$)	45.6	47.6	48.3	45.9	45.0	44.3	45.3	40.2	45.9	47.4	45.6	45.0

Monthly

	Apr-10	May-10	Jun-10	July-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10	Jan-11E	Feb-11E	Mar-11E
IIP Growth (%)	16.6	12.2	7.2	15.1	7.3	4.9	11.3	3.6	1.6	3.7	5.2	1.2
Non-food Credit Growth (%)	18.1	18.8	19.7	19.9	19.8	19.1	22.0	22.4	26.4	23.0	-	-
Deposit Growth (%)	16.3	14.9	13.4	14.0	14.4	14.3	18.5	14.0	18.1	15.9	-	-
Forex Reserves (US$ b)	279.6	272.0	277.0	284.2	282.8	291.6	298.0	294.0	297.3	299.2	298.7	300
Exchange Rate (Rs/US$1)	44.5	45.8	46.6	46.8	46.6	46.1	44.4	45.0	45.2	45.4	45.5	45.5
Exports (US$ b)	16.5	15.7	19.3	16.0	16.4	18.1	18.0	18.9	22.5	22.4	22.4	22.3
Imports (US$ b)	27.7	26.6	25.9	26.5	27.1	25.1	27.7	27.8	25.1	25.5	25.9	26.3
Wholesale Price Index (% change)	11.0	10.6	10.3	10.0	8.8	8.9	9.1	8.1	8.4	8.2	8.6	8.2
Yield on 10-year G-sec (%)	8.1	7.5	7.5	7.8	8.0	7.8	8.1	8.1	7.9	8.2	8.1	8.05

MOSL Model Portfolio

Sector Weight / Portfolio Picks	BSE-100	MOSL Weight	Weight Relative to BSE-100	Effective Sector Stance
Banks	**24.8**	**24.0**	**-0.8**	**Neutral**
Private	**12.0**	**15.0**	**3.0**	**Overweight**
ICICI Bank	5.5	8	2.5	Buy
HDFC Bank	3.8	5	1.2	Neutral
IndusInd Bank	0.0	2	2.0	Buy
PSU	**7.2**	**9.0**	**1.8**	**Overweight**
SBI	3.7	7	3.3	Buy
Canara Bank	0.0	2	2.0	Buy
NBFCs	**5.6**	**0**	**-5.6**	**Underweight**
Infrastructure & Related Sectors	**11.2**	**14.0**	**2.8**	**Overweight**
Larsen & Toubro	4.2	5	0.8	Buy
BHEL	1.7	3	1.3	Buy
DLF	0.4	2	1.6	Buy
Crompton Greaves	0.5	2	1.5	Neutral
Jaiprakash	0.5	2	1.5	Buy
Information Technology	**12.7**	**13.0**	**0.3**	**Overweight**
Infosys Tech	7.3	7	-0.3	Buy
TCS	3.3	4	0.7	Neutral
HCL Tech	0.6	2	1.4	Buy
Oil & Gas	**14.0**	**11.0**	**-3.0**	**Underweight**
Reliance Inds.	8.6	8	-0.6	Under Review
ONGC	2.3	3	0.7	Buy
Metals	**6.3**	**8.0**	**1.7**	**Overweight**
Sterlite	1.2	3	1.8	Buy
Tata Steel	2.0	3	1.0	Buy
Sesa Goa	0.5	2	1.5	Buy
Auto	**6.4**	**7.0**	**0.6**	**Overweight**
Mahindra & Mahindra	1.5	3	1.5	Buy
Tata Motors	2.0	2	0.0	Buy
Bajaj Auto	0.9	2	1.1	Buy
FMCG / Media	**8.4**	**6.0**	**-2.4**	**Underweight**
ITC	4.5	6	1.5	Buy
Telecom	**2.8**	**4.0**	**1.2**	**Overweight**
Bharti Airtel	2.2	3	0.8	Buy
Idea	0.2	1	0.8	Buy
Utilities	**5.9**	**4.0**	**-1.9**	**Underweight**
Coal India	0.0	2	2.0	Buy
Power Grid Corp.	0.8	2	1.2	Buy
Pharmaceuticals	**4.3**	**4.0**	**-0.3**	**Underweight**
Cipla	0.8	2	1.2	Buy
Dr Reddys	1.0	2	1.0	Buy
Mid-caps	**3.3**	**5.0**	**1.7**	**-**
BGR Energy	0.0	1	1.0	Buy
GVK Power	0.0	1	1.0	Buy
IVRCL	0.1	1	0.9	Buy
Oberoi Realty	0.0	1	1.0	Buy
Sintex	0.0	1	1.0	Buy
Cash	**0.0**	**0.0**	**0.0**	
Total	**100.0**	**100.0**		

Sectoral impact

Sector	Budget Impact	PAGE
Automobiles	Positive	14
Banking & Finance	Positive	16
Cement	Neutral	19
Construction/Infrastructure	Neutral	21
Engineering	Positive	23
FMCG	Positive	25
Information Technology	Marginally Negative	27
Media	Neutral	29
Metals	Neutral	30
Oil & Gas	Negative	32
Pharmaceuticals	Neutral	34
Real Estate	Neutral	36
Retail	Negative	38
Telecom	Neutral	39
Utilities	Positive	41

Automobiles

Budget Impact: Positive **Sector Stance: Overweight**

At a glance

Major proposals	Impact
➢ Maintained excise duty rate at current levels (10%-22%), as against expectation of increase in excise up to 2%	Positive
➢ No differential taxation for diesel-powered passenger vehicles, as against expectation of additional levy	Positive
➢ Extending refund-based concession of excise duty for taxis having seating capacity of up to 13 persons	Positive

Flashback

Budget Changes (2010)

- Increase in the ad-valorem component of excise duty on automobiles by 2%, with no change in the specific component.
- Increase in duties on fuel resulted in 6% increase (~Rs2.7/liter: Delhi) in petrol prices and 7.6% increase (~Rs2.5/liter) in diesel prices.
- Reduction in income tax, resulting in higher disposable incomes, (maximum increase of Rs56,000).

Overall budget impact, Sector outlook and Recos

- ➢ Post-budget, we are maintaining our earnings estimates for companies under coverage.
- ➢ Volume growth in the domestic market continues to be robust across segments. Short-term headwinds exist in the form of increase in selling price (due to rising RM costs and emission norm changes), fuel price hikes, and hardening interest rates. EBITDA margins are estimated to moderate from higher levels.
- ➢ **Top picks:** Bajaj Auto, M&M and Tata Motors.

Valuation Matrix

	CMP (Rs)	Reco	EPS (Rs)			P/E (x))			EV/EBITDA (x)			RoE (%)		
Name	28.02.11		FY11E	FY12E	FY13E	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E
Automobiles														
Bajaj Auto	1,268	Buy	91.6	106.2	117.8	13.8	11.9	10.8	9.2	7.6	6.2	68.1	51.1	40.2
Hero Honda	1,465	Buy	99.7	113.7	128.5	14.7	12.9	11.4	10.1	8.0	6.4	49.3	37.4	33.1
Mahindra & Mahindra	614	Buy	51.7	64.2	75.1	11.9	9.6	8.2	4.7	3.8	3.1	24.1	22.4	21.4
Maruti Suzuki	1,207	Buy	88.2	104.6	124.4	13.7	11.5	9.7	7.3	5.9	4.5	16.4	17.0	17.0
Tata Motors	1,082	Buy	142.0	165.6	186.0	7.6	6.5	5.8	4.8	4.0	3.4	47.7	37.5	30.9
Sector Aggregate						**10.6**	**9.0**	**7.9**	**5.9**	**4.8**	**3.9**	**36.5**	**32.2**	**28.5**

Key budget proposals and impact

The Budget was positive for the Auto sector. Contrary to general expectations, excise duty was kept unchanged and there was no introduction of differential excise duty on diesel vehicles.

Excise duty maintained at 10-22%

The Finance Minister has maintained excise duty on automobiles at 10-22%. While two-wheelers, small cars and buses would now attract 10% excise duty, trucks would attract 12%. Large cars and UVs would attract 22% excise duty plus Rs15,000 (for engine capacity of 1,500cc to 2,000cc) or Rs20,000 (for engine capacity above 2,000cc).

Impact: Positive No increase in excise duty is positive as any increase in selling price would have reduced headroom for the auto industry to pass on cost inflation.

Jinesh K Gandhi (Jinesh@MotilalOswal.com); Tel +91 22 39825416

Automobiles (Contd.)

No differential duty on diesel powered passenger vehicle

Impact: Positive	No differential duty on diesel powered passenger vehicle is positive for M&M, Tata Motors and Maruti. Any additional levy on diesel passenger vehicle could have impacted demand.

Measures supporting demand

- Concessional excise duty structure, in form of 20% refund, is extended to include vehicles having carrying capacity of 13 persons as against only vehicles with carrying capacity of up to 7 persons earlier.
- Sustained focus on infrastructure development, especially urban infrastructure under JNNURM.
- Increase in agriculture sector outlay and rural credit; increase of interest subvention scheme for short-term loans to farmers, with interest subvention of 3% now (v/s 2% earlier), resulting in lowering interest cost to 4%.
- However, budgetary allocation under NREGA remains flat at Rs400b.

Impact: Positive	While continued focus on urban infrastructure will benefit CV players, increase in outlay for agriculture/ rural areas will be positive for **M&M, Hero Honda** and **Maruti.**

Banking & Finance Budget Impact: Positive Sector Stance: Overweight

At a glance

Major proposals	Impact
➢ FY12 fiscal deficit expected to be 4.6% for FY12 and net market borrowings to be at ~Rs3.6t (including T-Bills), lower than MOSL expectations of ~Rs4t and market consensus of ~Rs3.6-3.8t	Positive
➢ Allocation of Rs60b for recapitalization of state owned banks to maintain minimum Tier I CAR at 8% and increase government shareholding to minimum of ~58%. In FY11, ~Rs202b has been provided, of which Rs102b is already infused. Capital infusion amount does not include SBI rights issue (expected Rs200b, of which government contribution expected to be ~Rs120b)	Positive
➢ Enhancement limit for 1% housing loan interest subvention to Rs1.5m (up from Rs1m). Further housing loan limit under priority sector lending enhanced from Rs2m to Rs2.5m	Positive
➢ Additional deduction of Rs20,000 under section 80CCF for investment in long-term infrastructure bonds has been extended for FY12 as well	Positive
➢ Increase in the target for agri loan from Rs3.75t to Rs4.75t, translating into growth of 25%+	Neutral

Flashback

Budget Changes (2010)

- Fiscal deficit higher at 5.5% of GDP for FY11 with net government borrowing of Rs3.5t. Target of reducing it to 4.8% by FY12
- Extension of interest subvention on export credit of 2% on pre-shipment credit and interest subvention on farmer's credit increased to 2%.
- Increase in recapitalization funds to Rs165b.
- Statement on possibility of issuing fresh banking licenses.

Overall budget impact, Sector outlook and Recos

- ➢ The Budget has continued with government's focus on achieving fiscal consolidation without hurting growth (FY12 GDP growth target of 9%, +/- 25bp).
- ➢ Lower than expected borrowing and enhanced FII limit for investment in corporate bonds are steps in right direction to maintain adequate liquidity in the system (key concern for the sector). Further, robust economic outlook augurs well for asset quality.
- ➢ Government is committed to provide capital to banks to ensure that funds are not a constraint for growth
- ➢ Steps taken for the development of the corporate bond market are in the right direction. Government's re-assurance to undertake key financial sector reforms including insurance, SBI (Subsidiary Banks) Amendment bill and SARFAESI Act (facilitate faster recovery of NPAs) are all positive developments.
- ➢ **Top picks:** SBI, ICICI Bank, PNB, Canara Bank, Yes Bank and IndusInd Bank.

Fiscal deficit and increase in FII limit for corporate bond market: Positive for domestic liquidity

- FY12 fiscal deficit expected to be 4.6% for FY12 and net market borrowings to be at ~Rs3.6t (including T-Bills), lower than MOSL expectations of ~Rs4t and market consensus of ~Rs3.6-3.8t
- FII limit for investment in corporate bonds issued by companies in infrastructure sector is enhanced by US$20b taking the total limit to US$25b. These bonds would have a residual maturity of over five years. Further, FIIs would also be permitted to invest in unlisted bonds with a minimum lock-in period of three years. With the above measures, total limit available to the FIIs for investment in corporate bonds has increased to US$40b.

Impact: Positive Lower than expected gross fiscal deficit will allay concerns of crowding out of private players. Increase in FII limit for infrastructure bonds will provide additional liquidity and development of corporate bond market (key focus area of regulator and government).

Alpesh Mehta (Alpesh.Mehta@MotilalOswal.com) + 91 22 3982 5415/
Abhishek Agarwal (Abhishek.Agarwal@motilaloswal.com) + 91 22 3982 5414

Banking & Finance (Contd.)

Valuation Matrix

Name	CMP (Rs) 28.02.11	Reco	EPS (Rs) FY11E	FY12E	FY13E	P/E (x)) FY11E	FY12E	FY13E	P/BV (x) FY11E	FY12E	FY13E	RoE (%) FY11E	FY12E	FY13E
Banking														
Andhra Bank	136	Buy	26.5	30.0	37.1	5.1	4.5	3.7	1.2	1.0	0.8	26.2	24.4	24.9
Axis Bank	1,224	Buy	80.9	97.6	116.4	15.1	12.5	10.5	2.6	2.3	1.9	18.9	19.5	19.8
Bank of Baroda	871	Neutral	110.2	126.7	153.9	7.9	6.9	5.7	1.9	1.5	1.3	25.8	24.4	24.4
Bank of India	439	Neutral	51.4	63.9	79.3	8.5	6.9	5.5	1.5	1.3	1.1	19.5	20.6	21.6
Canara Bank	610	Buy	98.2	108.8	121.5	6.2	5.6	5.0	1.6	1.3	1.1	28.4	25.3	23.2
Corporation Bank	548	Neutral	101.4	113.2	131.6	5.4	4.8	4.2	1.1	1.0	0.8	23.0	21.6	21.3
Dena Bank	95	Buy	20.3	23.4	27.2	4.7	4.1	3.5	0.9	0.8	0.7	22.0	21.1	20.5
Dewan Housing	249	Buy	22.7	31.6	41.2	11.0	7.9	6.0	1.7	1.5	1.2	19.9	19.8	21.7
Federal Bank	349	Buy	33.1	38.0	43.9	10.5	9.2	7.9	1.2	1.1	1.0	11.5	12.1	12.6
HDFC	630	Neutral	23.4	28.0	32.4	26.9	22.4	19.4	5.1	4.5	3.6	25.5	25.6	26.6
HDFC Bank	2,050	Neutral	84.4	110.2	137.7	24.3	18.6	14.9	3.8	3.3	2.8	16.7	18.8	20.1
ICICI Bank	971	Buy	45.2	57.4	68.1	21.5	16.9	14.3	2.6	2.4	2.2	12.0	14.1	15.1
IDFC	145	Neutral	8.5	10.2	12.4	17.1	14.2	11.7	1.9	1.7	1.6	13.9	12.7	14.0
Indian Bank	205	Buy	39.8	43.8	51.5	5.1	4.7	4.0	1.1	0.9	0.8	23.0	21.4	21.5
ING Vysya Bank	303	Buy	25.4	32.0	41.6	11.9	9.5	7.3	1.5	1.3	1.1	12.9	14.5	16.4
Kotak Mahindra Bank	405	Neutral	19.5	23.3	28.0	20.8	17.4	14.5	2.7	2.3	2.0	15.6	14.8	15.3
LIC Housing Fin	188	Neutral	19.1	23.2	27.4	9.8	8.1	6.9	2.2	1.8	1.5	24.3	24.4	23.9
M & M Financial	706	Buy	48.3	60.0	71.3	14.6	11.8	9.9	3.4	2.8	2.3	24.3	24.8	24.2
Oriental Bank of Commerce	323	Buy	59.9	68.1	79.2	5.4	4.7	4.1	1.0	0.8	0.7	19.0	18.6	18.7
Punjab National Bank	1,055	Buy	137.4	167.2	202.4	7.7	6.3	5.2	1.7	1.4	1.1	24.1	24.2	24.2
Rural Electric. Corp.	235	Buy	25.8	30.6	36.4	9.1	7.7	6.4	1.8	1.6	1.4	21.5	22.2	22.9
Shriram Transport Fin.	743	Buy	55.0	66.2	77.9	13.5	11.2	9.5	3.5	2.8	2.2	28.6	27.3	25.9
State Bank	2,632	Buy	209.9	272.6	333.3	12.5	9.7	7.9	1.8	1.6	1.4	15.5	17.6	18.6
South Indian Bank	21	Buy	2.4	2.9	3.5	8.4	7.0	5.8	1.4	1.2	1.0	17.6	18.4	19.2
Union Bank	313	Buy	41.4	50.7	62.3	7.6	6.2	5.0	1.5	1.3	1.0	21.7	22.3	22.8
Yes Bank	256	Buy	21.4	27.6	34.5	12.0	9.3	7.4	2.3	1.9	1.5	21.3	22.6	23.0
Sector Aggregate						**12.9**	**10.5**	**8.7**	**2.4**	**2.0**	**1.7**	**18.6**	**19.4**	**20.0**
Private Banks						**19.5**	**15.5**	**12.8**	**3.0**	**2.6**	**2.3**	**15.3**	**16.8**	**17.7**
PSU Banks						**8.9**	**7.4**	**6.1**	**1.8**	**1.5**	**1.3**	**19.9**	**20.5**	**20.9**
NBFC						**17.0**	**14.1**	**11.8**	**3.5**	**2.9**	**2.5**	**20.6**	**20.6**	**20.8**

Public sector bank capitalization

In addition to Rs201.6b to be infused in various state-owned banks in FY11, government has planned additional infusion of Rs60b in FY12 to shore up the Tier I capital to 8%+ and increase government stake to 58%.

Impact: Positive Government's commitment to keep state owned banks adequately capitalized will allay fears of capital shortage for growth. There is no specific mention of capital infusion in SBI (via rights issue).

Thrust on affordable housing finance scheme

Limit for home loans qualifying for priority sector lending has been increased from Rs2m to Rs2.5m. Further, interest rate subvention of 1% on housing loans has been extended to loans up to Rs1.5m where the cost of the house does not exceed Rs2.5m (present limit of Rs1m and Rs2m, respectively)

Impact: Positive for banks and Housing Finance Companies (especially Dewan Housing and Gruh Finance).

Banking & Finance (Contd.)

Other highlights

- Government's reassurance to undertake key financial sector reforms including insurance, SBI (Subsidiary Banks) Amendment bill and SARFAESI Act (facilitate faster recovery of NPAs) are all positive developments.
- Following the submission of Malegam Committee report on issues related to MFI sector, government is considering putting in place appropriate framework to protect the interests of small borrowers. Government has proposed creation of Rs1b India Microfinance Equity Fund with SIDBI.
- Government has increased the target of credit flow to agriculture from Rs3.8t in FY11 to Rs4.8t in FY12.
- Interest rate subvention to farmers who repay crop loan on time has been upped by 1% to 3%, resulting in effective rate of interest of 4% for such farmers.
- Additional deduction of Rs20,000 for investments in long-term infrastructure bonds introduced in FY11 has been extended by one more year.

Impact: Positive Financial sector reform is picking pace. Extension of infrastructure bonds is positive for companies classified as IFCs (infrastructure finance companies) by RBI.

Cement

Budget Impact: Neutral **Sector Stance: Underweight**

At a glance

Major proposals	Impact
➢ Change in excise from 10% of MRP to 10% ad valorem plus Rs160/ton for bagged cement above Rs190/bag	Negative
➢ Continued focus on infrastructure development with higher allocation and focus on availability of funding	Positive

Flashback

Budget Changes (2010)

- Increase in the ad-valorem component of excise duty on cement by 2%.
- Increase in duties on fuel resulted in 7.6% increase (~Rs2.5/liter) in diesel prices, impacting freight cost.
- Imposition of clean energy cess of Rs50/ton on both domestic and imported coal.

Overall budget impact, Sector outlook and Recos

- ➢ Post-budget, we are upgrading our FY12 EPS estimates by 3-9% having factored in higher cement prices and ~30% increase in domestic linkage coal price by Coal India, with highest increase in Ambuja (~8%), Birla Corp (~8%) and Shree Cement (~9%). We factor in ~Rs15/bag QoQ increase in 4QFY11 and Rs6/bag increase in FY11 over average FY10.
- ➢ We believe we have already witnessed bottom-of-the-cycle utilization, which should gradually improve from hereon given sustainable demand drivers.
- ➢ **Top picks:** Ambuja Cement and ACC in large-caps; Birla Corp and India Cement in mid-caps.

Valuation Matrix

	CMP (Rs)	Reco	EPS (Rs)			P/E (x))			EV/EBITDA (x)			RoE (%)		
Name	28.02.11		FY11E	FY12E	FY13E	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E
Cement														
ACC	971	Buy	53.6	58.4	76.3	18.1	16.6	12.7	10.3	8.7	6.4	16.1	15.6	18.3
Ambuja Cements	118	Neutral	8.1	9.4	11.8	14.5	12.5	10.0	8.6	7.3	5.5	18.1	18.6	20.6
Birla Corporation	309	Buy	52.8	64.7	75.2	5.9	4.8	4.1	2.5	2.5	1.9	19.0	19.4	18.8
Grasim Industries	2,264	Buy	249.7	276.7	354.7	9.1	8.2	6.4	3.9	3.0	1.9	15.9	15.3	16.8
India Cements	86	Buy	2.0	7.4	8.8	43.9	11.7	9.8	12.0	7.5	6.3	1.4	5.0	5.7
Kesoram Ind	188	Buy	43.1	55.2	81.8	4.4	3.4	2.3	4.8	4.6	3.8	12.1	13.9	17.9
Shree Cement	1,730	Neutral	166.7	203.1	218.6	10.4	8.5	7.9	8.6	6.9	5.6	29.7	33.9	33.8
Ultratech Cement	930	Neutral	46.9	64.7	101.3	19.8	14.4	9.2	10.1	7.2	5.0	16.7	15.4	20.4
Sector Aggregate						**13.4**	**11.1**	**8.4**	**7.1**	**5.7**	**4.1**	**15.4**	**15.8**	**18.1**

Key budget proposals and impact

The Budget was Neutral for the cement industry. While change in excise duty is a marginal negative, continued focus on infrastructure would offset it by driving demand.

Excise duty maintained at 10-22%

- The budget has changed excise duty for bagged cement with retail price over Rs190/bag from 10% of MRP to 10% ad valorem plus Rs160/ton.
- For bagged cement with retail price below Rs190/bag, excise duty would be charged at 10% ad valorem plus Rs80/ton as against Rs290/ton earlier.
- For non-bagged cement, excise duty would be charged at 10% ad valorem (v/s higher of 10% or Rs290/ton earlier).
- On clinker sales, excise duty would be charged at 10% ad valorem plus Rs200/ton (v/s Rs375/ton earlier).

Jinesh K Gandhi (Jinesh@MotilalOswal.com); Tel +91 22 39825416

Cement (Contd.)

Impact: Negative	There is lack of clarity on base price for charging ad valorem rate. Our interaction with the industry participants suggests that it would be either ex-factory or ex-depot price. Excise on ex-factory price would be positive as it would save Rs5-7/bag in excise. We believe the more likely basis would be ex-depot price, which would result in increase in excise by Rs1-2/bag. Any increase in excise duty would be passed on to the consumers.

Measures supporting cement demand

- 23% increase in allocation for infrastructure development at Rs2,140b, 48.5% of Plan spending.
- Higher allocation towards Bharat Nirman - Rs580b in FY12, up from Rs480b in FY11 and Rs453b in FY10.
- Tax-free infrastructure bonds of Rs300b to be issued by various government undertakings in 2011-12.
- Liberalization of existing scheme of interest subvention of 1% on housing loans up to Rs1.5m (from Rs1m) where cost of house doesn't exceed Rs2.5m (from Rs2m). For urban areas, it enhances existing housing loan limit from Rs2m to Rs2.5m under priority sector lending. Also, it has increased provision under Rural Housing Fund to Rs30b (from Rs20b) to provide housing to targeted groups.

Impact: Positive	Continued focus on infrastructure and housing for poor will benefit cement demand

Construction/Infra

Budget Impact: Neutral **Sector Stance: Underweight**

At a glance

Major proposals	Impact
➢ 23% increase in allocation for infrastructure development at Rs2,140b, 48.5% of Plan spending	Positive
➢ IIFCL expected to achieve cumulative disbursement target of Rs250b by 31 March 2012	Positive
➢ Tax-free bonds of Rs300b to be issued by various Government undertakings in 2011-12. This includes bonds to be issued by Indian Railway Finance Corporation Rs100b, National Highway Authority of India Rs100b, HUDCO Rs50b, and Ports Rs50b	Positive
➢ Increased allocation towards Bharat Nirman - Rs580b in FY12, up from Rs480b in FY11 and Rs453b in FY10	Positive
➢ Investment in NHAI increased to Rs82.50b in FY12 from Rs78.49b in FY11	Positive

Overall budget impact, Sector outlook and Recos

- ➢ Given the continuing focus on infrastructure, we expect pick-up in order flows for construction companies. Momentum is expected to accelerate in latter half of FY12 and FY13.
- ➢ Volatile raw material prices and high cost of borrowing will depress net margins in the near term.
- ➢ We believe valuations largely factor in concerns thereby limiting downside. Significant pick up in order-flows can improve earnings visibility and re-rate the sector.
- ➢ **Top picks:** NCC and IVRCL

Flashback

Budget Changes (2010)

- ■ Increased investments towards various schemes

Budgetary allocation of schemes (Rs b)

	FY11	FY10
Bharat Nirman	480	453
JNNURM	116	63
AIBP	115	97
NHDP	199	175

- ■ India Infrastructure Finance Company Limited (IIFCL) was expected to increase its disbursement to Rs200b of funding for infrastructure projects till FY11. The take-out financing scheme announced in the last budget is expected to initially provide finance for about Rs250b in the next three years.
- ■ To support fund raising the budget provided for a deduction of up to Rs20,000 u/s 80CCF by an individual (over and above the investment limit of Rs100,000 u/s 80C).
- ■ Increase in MAT rate to 18% from 15%
- ■ Specified road construction machinery items fully exempted from customs duty, subject to specified conditions. Sale or disposal of such machinery items was earlier permitted only after five years; now the sale/disposal is being permitted post payment of customs duty at depreciated value.

Valuation Matrix

	CMP (Rs)	Reco	EPS (Rs)			P/E (x))			EV/EBITDA (x)			RoE (%)		
Name	28.02.11		FY11E	FY12E	FY13E	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E
Construction/Infrastructure														
GMR Infrastructure	41	Neutral	1.2	1.4	2.4	35.7	30.3	17.1	11.7	10.8	7.3	6.0	6.7	10.8
GVK Power & Infra	26	Buy	1.1	1.5	1.9	24.2	17.4	14.2	15.2	13.7	9.2	5.2	6.8	7.8
Hindustan Construction	34	Neutral	1.2	1.2	1.6	28.0	27.5	21.4	9.0	8.3	7.7	4.0	3.9	4.8
IVRCL Infra.	69	Buy	7.1	7.9	9.4	9.8	8.8	7.4	5.2	4.6	4.0	9.8	10.1	11.1
Jaiprakash Associates	78	Buy	4.9	1.1	7.4	15.9	72.1	10.5	16.8	14.3	10.0	11.4	2.4	14.8
Nagarjuna Construction	101	Buy	10.2	11.0	12.3	9.9	9.1	8.2	8.4	7.4	6.9	8.7	9.3	10.4
Simplex Infra.	322	Buy	25.7	30.0	39.3	12.5	10.7	8.2	6.5	5.9	5.3	12.4	12.9	14.9
Sector Aggregate						**19.7**	**26.6**	**12.2**	**12.8**	**11.4**	**8.3**	**8.2**	**5.0**	**11.4**

Dhirendra Tiwari (Dhirendra.Tiwari@motilaloswal.com) +91 22 30295127
Pooja Kachhawa (Pooja.Kachhawa@MotilalOswal.com) +91 22 3982 5585

Construction/Infra (Contd.)

Key budget proposals and impact

Overall, the Budget is positive for the infrastructure and construction industry. Budget allocation for the infrastructure sector stands at Rs2140b (up 23%), which accounts for 48.5% of the Plan spending.

Increased allocation towards ongoing schemes

- Allocation towards Bharat Nirman is Rs580b in FY12, up from Rs480b in FY11 and Rs453b in FY10.
- Investment in NHAI is increased to Rs82.50b in FY12 from Rs78.49b in FY11.

Impact: Positive We expect higher allocation towards various infrastructure schemes would accelerate order flows for construction companies in FY12 and FY13.

Increased allocation towards funding of infrastructure projects

IIFCL (India Infrastructure Finance Company) is expected to achieve its cumulative disbursement target of Rs250b till FY12, against Rs200b expected by March 2011. Besides this, to drive infrastructure development in the country, Budget has proposed tax-free bonds of Rs300b to be issued by various Government undertakings in 2011-12. This includes Indian Railway Finance Corporation Rs100b, National Highway Authority of India Rs100b, HUDCO Rs50b, and Ports Rs50b.

Impact: Positive Increase in disbursements will facilitate financial closure of projects. This will also accelerate execution which, in turn, will enhance revenue visibility for construction sector.

Engineering

Budget Impact: Positive **Sector Stance: Overweight**

At a glance

Major proposals	Impact
➢ Removal of Excise duty of 10% and concessional customs duty of 2.5% on power equipment for the expansion of mega/ultra mega power projects	Positive
➢ Concessional rate of 5% Basic Customs duty and 5% CVD on raw materials used to manufacture high voltage power transmission equipment	Positive
➢ Capital expenditure on defense set up 15% YoY	Positive
➢ Accordance of infrastructure status to cold storage projects and near trebling of such projects from 24 to 70 in FY12. Full exemption from excise duty covering air-conditioning equipment, refrigeration panels and conveyor belt systems.	Positive

Flashback

Budget Changes (2010)

- Increase in excise duty of all manufactured goods from 8% to 10%.
- Zero import duty on certain specified raw materials for manufacturing rotor blades used in wind generation sets.
- Increase in allocation to defense (Rs600b; +9% YoY)
- Allocation of Rs51.3b and Rs10b towards APDRP and JNNSM.
- JNNURM allocation of Rs116.2b v/s Rs63.3b in FY10 RE.

Overall budget impact, Sector outlook and Recos

- ➢ The proposals announced in the budget have been positive for the Engineering sector.
- ➢ Removal of excise duty on power equipments for expansion of mega/ultra mega power projects will create a level playing field for domestic BTG manufacturers in comparison with Chinese/Korean counterparts.
- ➢ Reduction in CVD to 5% and nil SAD on materials used for high voltage transmission equipment is positive for domestic companies like Crompton, BHEL and L&T who have transformer facilities in India.
- ➢ 15% increase in defense spend is meaningful and a big positive for companies like L&T which has technological expertise in patrolling boats, submarines and cruise missiles.
- ➢ Accordance of infrastructure status for cold storage projects will attract substantial bank funding for such projects. The number of projects has also trebled from 24 to 70. Excise duty exemption on air-conditioning and conveyor belt systems is a positive for companies like Voltas and Blue Star.
- ➢ We remain positive on the sector and expect the budget to have a favorable impact on engineering companies.
- ➢ Top picks: BHEL, BGR Energy, L&T, Cummins, Siemens.

Valuation Matrix

	CMP (Rs)	Reco	EPS (Rs)			P/E (x))			EV/EBITDA (x)			RoE (%)		
Name	28.02.11		FY11E	FY12E	FY13E	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E
Engineering														
ABB	664	Neutral	3.0	18.5	24.7	222.5	35.8	26.8	90.3	22.5	16.4	2.6	14.8	17.1
BGR Energy	408	Buy	43.0	49.0	61.4	9.5	8.3	6.6	5.3	4.5	3.8	36.9	31.3	29.9
BHEL	2,001	Buy	119.2	146.4	173.0	16.8	13.7	11.6	9.8	7.8	6.5	32.6	32.2	30.8
Crompton Greaves	245	Neutral	14.4	17.3	20.4	17.1	14.1	12.0	11.1	9.1	7.5	28.4	26.6	24.8
Cummins India	650	Buy	31.3	40.0	48.6	20.8	16.3	13.4	14.5	11.3	10.2	36.1	37.5	36.5
Larsen & Toubro	1,528	Buy	74.5	89.9	107.1	20.5	17.0	14.3	17.2	14.9	12.2	19.0	19.4	20.4
Siemens	846	Buy	22.5	31.3	39.7	37.6	27.0	21.3	20.6	16.3	12.5	25.9	27.3	28.3
Thermax	565	Neutral	31.5	41.1	49.8	17.9	13.8	11.3	11.5	8.8	7.2	30.9	31.5	29.7
Sector Aggregate						**20.3**	**16.1**	**13.5**	**13.6**	**10.9**	**9.0**	**25.3**	**26.3**	**27.2**

Dhirendra Tiwari (Dhirendra.Tiwari@motilaloswal.com) +9122 30295127/**Navneet Iyengar** (Navneet.Iyengar@MotilalOswal.com) 30295126

Engineering (Contd.)

Key budget proposals and impact

Removal of Excise duty/Customs Duty on expansion of existing mega/ultra mega power projects

The budget has proposed a complete exemption of excise duty (10%) and customs duty (2.5%) on power equipment for expansion of existing mega and ultra mega power projects. Greenfield projects accorded mega and ultra mega power project status already enjoy nil excise and customs duty.

Impact: Positive	Positive This gives the benefit of cost advantage to domestic manufacturers like BHEL and L&T who used to charge 10% excise duty on BTG equipment as compared to 2.5% customs duty and NIL CVD by their Chinese/Koran counterparts. This now creates a level playing field. Positive for **BHEL, L&T.**

Reduction in CVD rate and nil special duty on parts used for high-voltage power equipment

The Budget has proposed 5% concessional customs duty and 5% CVD (down from 10%) with nil SAD (Special Additional Duty) on parts and materials used for the manufacture of high voltage power transmission equipment (400KV, 765KV and HVDC).

Impact: Positive	The reduction in CVD from 10% to 5% is a positive and will make components like CRGO and other metal alloys cheaper for company like **Crompton, Siemens, ABB** and **Areva**, who have high-voltage transformer manufacturing facilities in India.

Infrastructure status to cold projects and near trebling of the number of such projects to 70

- The Budget has accorded infrastructure status to cold storage projects and the number of projects in the country is expected to touch 70 in FY12 from 24 currently.
- There is also excise exemption on air-conditioning equipment, refrigeration panels and conveyor belt systems.

Impact: Positive	Accordance of infrastructure status will enhance bank funding to cold storage projects and hence will speed up execution. Exemption of excise duties on air-conditioning equipment is a positive for companies like Voltas and Blue Star.

Other measures

- Allocation to APDRP Rs20b v/s Rs51b in FY11
- Allocation to RGGVY of Rs60b v/s 55b in FY11
- Allocation towards Bharat Nirman of Rs580b v/s Rs480b in FY11

Impact: Positive	Though there seems to be a reduction in the grant component towards APDRP, continued thrust on power sector/infra investment augurs well for the engineering sector.

FMCG

Budget Impact: Positive **Sector Stance: Underweight**

At a glance (FMCG)

Major proposals	Impact
➢ No increase in excise duty on cigarettes	Positive
➢ Reduction in excise duty on Sanitary Napkins and Diapers from 10% to 1%	Positive
➢ Increase in excise duty from 4% to 5% on Coffee/Tea Mix, Sauces/Ketchups, instant Mix/Soups, Flavored Milk, Confectionery, Pastry, Cakes	Negative
➢ Some consumer products subject to 1% excise duty (0% hitherto); these include products like noodles and pasta	Negative
➢ Reduction in custom duty on palm styrene used in laundry soaps from 10% to Nil	Positive

Flashback

Budget Changes (2010)

- 18% increase in excise duty on 60-70mm cigarettes and 11% on >70mm, blended increase at 16.5%, introduction of new excise category of <60mm length.
- Excise duty on major FMCG products increased from 8% to 10%; exempted categories like Baby Diapers and Sanitary Napkins brought under excise at the rate of 10%.
- Demand boosting measures: sustaining NREGA spend post 200% increase in FY10; reduction in income tax by Rs20,000 for individuals with income of Rs0.5m and Rs56000 at Rs0.8m income.

Overall budget impact, Sector outlook and Recos

- ➢ Post-budget, we are upgrading our earnings estimates of ITC by 4-5% to factor in higher volume growth of 7% in FY12; we retain FY13 volume growth at 6%. We estimate 10% increase in net realization in FY12 (7% earlier) and 7% in FY13 (5.5% earlier). We are increasing target price of ITC to Rs200 (earlier Rs190).
- ➢ There has been no big demand impetus as increase in tax-exempt income slab is marginal and NREGA allocation has been flat, although it has been linked to inflation.
- ➢ Reduction in duty in palm styrene will benefit HUL, but will find it difficult to hold on to gains due to competitive intensity in the laundry business.
- ➢ **Top picks:** ITC, Asian Paints and Nestle.

Valuation Matrix

	CMP (Rs)	Reco	EPS (Rs)			P/E (x))			EV/EBITDA (x)			RoE (%)		
Name	28.02.11		FY11E	FY12E	FY13E	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E
FMCG														
Asian Paints	2,406	Buy	92.9	111.4	133.2	25.9	21.6	18.1	16.0	13.5	11.2	40.9	39.4	38.1
Britannia	337	Neutral	10.5	15.5	20.6	32.0	21.7	16.4	21.8	14.7	11.1	26.3	31.9	34.1
Colgate	820	Neutral	29.4	32.1	37.1	27.9	25.6	22.1	19.9	17.0	14.6	110.3	99.6	96.5
Dabur	100	Neutral	3.2	3.9	4.7	31.0	25.4	21.4	23.4	18.9	16.1	45.9	42.9	40.2
Godrej Consumer	360	Neutral	14.3	17.2	20.1	25.2	21.0	17.9	21.2	16.6	13.8	28.2	29.7	30.1
GSK Consumer	2,092	Buy	71.5	87.1	104.8	29.3	24.0	20.0	17.8	14.6	11.5	31.3	31.7	32.3
Hind. Unilever	282	Neutral	9.5	10.5	11.9	29.6	26.9	23.8	22.3	20.0	17.4	69.8	68.2	68.7
ITC	169	Buy	6.4	7.8	9.2	26.3	21.7	18.4	16.5	13.3	11.3	31.6	31.8	29.1
Marico	119	Neutral	4.5	5.3	6.5	26.1	22.4	18.3	18.6	15.0	12.4	32.5	28.6	26.9
Nestle	3,541	Buy	85.8	103.3	125.5	41.3	34.3	28.2	27.6	22.7	18.5	102.5	86.2	76.5
United Spirits	1,106	Buy	29.0	38.7	52.7	38.1	28.6	21.0	17.2	14.1	11.9	8.6	10.4	12.5
Sector Aggregate						**28.8**	**24.2**	**20.4**	**18.9**	**15.6**	**13.2**	**34.1**	**34.2**	**34.1**

Amnish Aggarwal (AmnishAggarwal@MotilalOswal.com)Tel:+9122 39825404

FMCG (Contd.)

Key budget proposals and impact

Cigarette excise duty remains unchanged

The Finance Minister has maintained the excise duty on cigarettes. This follows a sharp 16.5% weighted average increase in excise duty in FY11

Impact: Positive	We believe this is big positive for ITC as stable excise rates will boost volume growth. We note that ITC has already undertaken 4% increase in prices in Jan as a preemptive measure for excise duty increase. We are increasing cigarette realization increase from 7% to 10% in FY12 and from 5.5% to 7% in FY13. We are also increasing FY12 volume growth estimates from 6% to 7%. We are increasing EPS estimates by 4-5% to Rs7.8 for FY12 and Rs9.2 for FY13. We are increasing our target price to Rs200/share from Rs190/share.

Reduction in duties on sanitary napkins and diapers from 10% to 1%

Impact: Positive	Lower duties will enable companies to at least maintain (if not cut) prices and expand market penetration. P&G had cut prices of sanitary napkins by 15-20% last year despite imposition of excise duty which had impacted margins significantly.

1% increase in excise duty - 4% to 5% and 0% to 1%

Impact: Negative	Excise duty of 1% has been imposed on 130 of 370 products which hitherto attracted 0% excise duty We believe this is a precursor to reduce the excise-exempt list ahead of GST.

Custom duty on Palm Styrene used in Laundry soaps cut from 10% to Nil

Impact: Positive	The reduction in import duty on Palm Styrene is positive for laundry soaps as palm oil derivatives have seen sharp price increase. However we believe manufacturers will pass on the benefit to consumers as the laundry segment is highly competitive. HUL is the largest player in this segment, and the gains on this count are not likely to be material.

Other measures supporting demand

- NREGA allocation has been retained at Rs400b for second year in a row, although the wages have been linked to consumer inflation index. It indicates lower man-hours of work under the scheme.
- Direct tax benefits have been very few with the gains capped at Rs2,000/annum

Impact: Negative	Flat allocation under NREGA is negative given that it has been linked to inflation indices. Direct tax cuts do not add anything meaningful in the hands of consumers to induce them to start spending more in the current environment of high food inflation.

IT

Budget Impact: Marginally Negative **Sector Stance: Overweight**

At a glance

Major proposals	Impact
➢ MAT on units operating in SEZ	Marginally Negative

Flashback

Budget Changes (2010)

- No further exemption for STPI beyond 2011
- Tax exemption on export profits from SEZ with retrospective effect (FY06 onwards v/s FY10 onwards)
- MAT rate increased from 15% to 18%

Overall budget impact, Sector outlook and Recos

- There is no major change in our earnings estimates for the IT universe post the budget. Proposal to levy MAT on units operational in SEZ will have a slightly negative cash flow impact but only marginal impact on the P&L.
- We remain positive on the demand environment for top-tier IT companies and model 20%+ FY11-13 revenue CAGR for all of Top 4 companies. Opportunities in under-penetrated verticals, service lines and geographies should aid growth in the sector. Pricing strength should help offset wage inflation, driving stable margins.
- **Top picks:** Infosys and HCL Tech.

Comparative valuatuion

Company	TP/TM*	Rating	EPS (Rs)			P/E (x)			FY11-13 CAGR (%)	
			FY11	FY12	FY13	FY11	FY12	FY13	US$ Rev	EPS
Infosys	3,664 / 20x	Buy	121.4	152.2	182.9	24.8	19.8	16.5	20.8	22.7
TCS	1,225 / 20x	Neutral	44.2	52.0	61.3	25.2	21.4	18.2	22.5	17.8
Wipro	490 / 17x	Neutral	21.9	24.1	28.7	20.1	18.2	15.3	20.1	14.5
HCL Tech	550 / 15x	Buy	23.2	31.9	36.6	19.1	13.9	12.1	22.6	25.8
Tech Mahindra	714 / 11x	Neutral	56.8	56.1	65.1	11.3	11.5	9.9	9.0	7.0
Mphasis	524 / 11x	Neutral	40.0	47.7	55.6	10.8	9.0	7.8	19.4	-1.0
Patni	500 / 11x	Neutral	42.2	38.3	45.3	10.3	11.4	9.6	17.3	3.5

* - TP: Target Price, TM - Target Multiple based on FY13EPS Source: Company/MOSL

Valuation Matrix

Name	CMP (Rs) 28.02.11	Reco	EPS (Rs) FY11E	EPS (Rs) FY12E	EPS (Rs) FY13E	P/E (x) FY11E	P/E (x) FY12E	P/E (x) FY13E	EV/EBITDA (x) FY11E	EV/EBITDA (x) FY12E	EV/EBITDA (x) FY13E	RoE (%) FY11E	RoE (%) FY12E	RoE (%) FY13E
Information Technology														
HCL Technologies	442	Buy	23.0	31.8	36.6	19.2	13.9	12.1	11.6	8.0	6.8	20.7	23.8	22.6
Infosys	3,003	Buy	121.5	152.2	182.9	24.7	19.7	16.4	16.9	13.3	10.8	28.1	29.6	28.8
MphasiS	431	Neutral	40.0	47.7	55.6	10.8	9.0	7.8	8.5	6.5	5.5	23.3	22.8	21.7
Patni Computer	449	Neutral	42.2	38.3	45.3	10.6	11.7	9.9	7.1	5.8	4.3	17.9	16.1	16.4
TCS	1,113	Neutral	44.2	52.0	61.3	25.2	21.4	18.2	18.9	15.0	12.4	37.5	34.7	31.0
Tech Mahindra	645	Neutral	55.0	54.4	64.9	11.7	11.8	9.9	6.1	5.6	5.1	25.3	21.2	20.3
Wipro	438	Neutral	21.9	24.1	28.7	20.1	18.2	15.3	16.6	14.0	11.6	21.8	18.8	18.4
Sector Aggregate						**22.7**	**19.3**	**16.3**	**16.3**	**13.0**	**10.7**	**25.7**	**24.1**	**22.9**

Kuldeep Koul (Kuldeep.Koul@MotilalOswal.com); Tel: +91 22 3982 5521/**Ashish Chopra** (Ashish.Chopra@MotilalOswal.com); Tel: 3982 5424

IT (Contd.)

Key budget proposals and impact

The Budget was marginally negative for the IT industry. As expected, no incremental proposal was put forward on the STPI sunset clause, set to expire on March 31st 2011. However, the Budget proposed levy of MAT on operating units in SEZ, which will have a negative impact on cash flows though impact on earnings should be minimal.

MAT levy on operating units in SEZ

The Finance Minister proposed to levy MAT on developers of Special Economic Zones as well as units operating in SEZs.

Impact: Marginally Negative	Levy of MAT on SEZ profits will have a cash flow impact. Lower cash balance to the tune of MAT paid will have a very marginal negative impact on the other income (impact of less than 50bp to earnings).

Other measures

- There was no further extension to the window of STPI tax benefits, set to expire on March 31, 2011.

Impact: Neutral	Although there were some expectations of a 1-year extension in the STPI sunset clause, Government's decision in the previous budget of not extending tax sops beyond FY11 has stayed, with no mention of the subject this time around. However, expectation of higher taxation has already been built into our estimates.

Media

Budget Impact: Neutral **Sector Stance: Underweight**

At a glance

Major proposals	Impact
➢ Lower effective tax rate due to reduction in surcharge from 7.5% to 5%	Marginally Positive
➢ Concessional import duty of 5% basic custom duty, 5% CVD and Nil SAD currently applicable to high-speed printing machinery extended to mailroom equipment	Negligible

Flashback

Budget Changes (2010)

- Exemption from basic and additional customs duty for importing digital masters for duplication/distribution - currently at 20%, of which 4% can be offset against service tax
- Setting up of digital head-end notified under project imports attracting 5% customs duty and nil special CVD, positive for MSOs.
- Lower effective tax rate due to reduction in surcharge from 10% to 7.5%.

Overall budget impact, Sector outlook and Recos

➢ Lower effective tax rate due to reduction in surcharge from 7.5% to 5%. We are keeping our estimates unchanged.

Valuation Matrix

	CMP (Rs)	Reco	EPS (Rs)			P/E (x))			EV/EBITDA (x)			RoE (%)		
Name	28.02.11		FY11E	FY12E	FY13E	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E
Media														
Deccan Chronicle	57	Neutral	8.5	8.2	8.2	6.8	7.0	7.0	2.4	2.3	2.0	15.6	13.8	12.8
HT Media	133	Neutral	7.8	9.0	10.8	17.1	14.7	12.2	9.7	8.5	7.1	15.1	15.6	16.5
Jagran Prakashan	112	Neutral	6.8	7.6	9.0	16.3	14.6	12.3	9.4	8.1	6.8	31.2	33.5	36.5
Sun TV	407	Neutral	19.4	22.8	27.7	21.0	17.8	14.7	9.6	8.6	7.1	29.7	27.9	27.2
Zee Entertainment	119	Under Review	4.7	6.1	6.7	25.1	19.5	17.9	16.3	12.8	11.7	11.7	14.1	14.3
Sector Aggregate						**19.5**	**16.5**	**14.3**	**10.1**	**8.9**	**7.6**	**18.6**	**19.4**	**19.7**

Shobhit Khare (Shobhit.Khare@MotilalOswal.com); Tel: +91 22 3982 5428 / **Nirav Poddar** (Nirav.Poddar@MotilalOswal.com); Tel: 3982 5444

Metals

Budget Impact: Neutral **Sector Stance: Overweight**

At a glance

Major proposals	Impact
➢ Increase in export duty on iron ore from 5% on fines and 15% on lumps to uniform 20%	Negative for merchant mines; Positive for steel mills
➢ Import duty on pet coke reduced from 5% to 2.5%	Positive
➢ Import duty increased from 2% to 2.5% on ore and concentrate	Negative
➢ Foreign dividend tax rate cut to 15% for FY12	Positive
➢ Stainless steel scrap import duty removed	Positive

Flashback

Budget Changes (2010)

- Excise duty increased by 2pp to 10%.
- Clean energy cess of Rs50 per ton on coal production and imports.
- Proposal to introduce competitive bidding for further allocation of coal blocks.

Overall budget impact, Sector outlook and Recos

- ➢ Post-budget, we are downgrading our FY12 earnings estimates for Sesa Goa by 17% as its average export duty will increase from 5.5% now to 20%.
- ➢ Non-integrated steel companies will tend to benefit from lower iron ore prices in domestic market.
- ➢ We cut our estimates for Hindalco and Nalco by 3-6% to factor coal price hike undertaken by Coal India.
- ➢ **Top picks:** Tata Steel, JSW Steel and Sesa Goa.

Valuation Matrix

	CMP (Rs)	Reco	EPS (Rs)			P/E (x))			EV/EBITDA (x)			RoE (%)		
Name	**28.02.11**		**FY11E**	**FY12E**	**FY13E**	**FY11E**	**FY12E**	**FY13E**	**FY11E**	**FY12E**	**FY13E**	**FY11E**	**FY12E**	**FY13E**
Metals														
Hindalco	201	Buy	15.3	17.7	19.2	13.1	11.3	10.5	6.9	6.3	5.8	19.6	18.8	17.2
Hindustan Zinc	1,265	Buy	103.4	127.0	139.1	12.2	10.0	9.1	7.5	5.4	4.3	19.7	19.8	18.0
JSW Steel	869	Buy	65.8	110.8	156.3	13.2	7.8	5.6	5.5	3.7	3.3	9.2	12.9	15.5
Nalco	432	Sell	16.4	18.1	17.4	26.3	23.9	24.9	14.6	12.9	13.5	9.5	9.8	8.8
SAIL	153	Neutral	12.3	13.9	14.6	12.4	11.0	10.5	7.6	7.4	7.2	13.6	13.7	12.9
Sesa Goa	262	Buy	50.1	36.3	39.7	5.2	7.2	6.6	2.8	2.7	1.8	34.0	20.2	18.5
Sterlite Inds.	164	Buy	12.7	22.5	23.7	12.8	7.3	6.9	7.0	3.8	2.9	10.6	16.0	14.7
Tata Steel	606	Buy	72.5	82.8	102.0	8.4	7.3	5.9	6.1	5.4	4.1	35.7	29.9	27.9
Sector Aggregate						**11.2**	**9.2**	**8.1**	**6.6**	**5.4**	**4.6**	**15.5**	**16.0**	**15.6**

Key budget proposals and impact

Increased in export duty on iron ore from 5% on fines and 15% on lumps to uniform 20%.

Impact: Negative for merchant mines; positive for non-integrated steel producers

This will increase the incidence of export duty for Sesa Goa from average of 5.5% to 20% thus impacting FY12 EPS and DCF value by 16-17%. Non-integrated steel companies will tend to benefit from lower iron ore prices in domestic market. Pellet exports have been exempted from export duty completely, which is less relevant as India hardly exports pellets.

Sanjay Jain (SanjayJain@MotilalOswal.com);Tel:+9122 39825412/**Tushar Chaudhari** (Tushar.Chaudhari@MotilalOswal.com); +9122 39825425

Metals (Contd.)

Import duty on pet coke reduced from 5% to 2.5%

Impact: Positive	Aluminum smelters import calcined pet coke (CPC) for production of anode. This will reduce the cost of production of Aluminum by US$5-6/ton at current prices.

Import duty increased from 2% to 2.5% on ore and concentrate

Impact: Negative	Copper smelters in India will be impacted in small way as they tend to gain from import duty differential between concentrate and metal imports, which will narrow from 3% to 2.5% thereby squeezing the margins by US$45-50/ton at current copper prices. We are not changing our estimates at this moment as (1) the impact on EPS is insignificant, and (2) expected expansion of TcRc margins and positive bias on by-product prices will be more than offsetting.

Foreign dividend tax rate cut to 15% for FY12

Impact: Positive	Dividends received by an Indian company from its foreign subsidiary will attract only 15% tax. If Indian parent companies want to repatriate the dividends from their foreign subsidiaries, effective tax rate will be lower.

Stainless steel scrap import duty removed

Impact: Positive	This will positively affect JSL Stainless as cost of raw material will come down by 5% for import portion of scrap consumption.

Oil & Gas

Budget Impact: Negative **Sector Stance: Underweight**

At a glance

Major proposals	Impact
➢ MAT to be applicable on developers of SEZs as well as units operating in SEZs (This could be negative for RIL's new 27mmtpa refinery; we await confirmation from the company.)	Negative
➢ Status quo on customs and excise duty structure for petroleum products (We believe government could tweak the duties towards the end of the year. It could also be a precursor to price hike of retailed fuels, since the under recovery in the system may not be sustainable.)	Neutral
➢ Decrease in excise duty on CNG conversion kits to 5% from 10%	Positive
➢ Decrease in customs duty on pet coke from 5% to 2.5	Marginally negative
➢ No update on tax holiday for natural gas production from the NELP blocks prior to NELP VIII.	

Flashback

Budget Changes (2010)

- Increase in customs duty on crude from nil to 5%.
- Increase in customs duty on petrol and diesel from 2.5% to 7.5% and from 5% to 10% on other refined products.
- Specific duty hike of Rs1/liter on petrol and diesel.

Overall budget impact, Sector outlook and Recos

- Overall budget impact on the sector is Neutral with respect to any new proposals; however, it is negative with respect to key pre-budget expectations.
- We are changing our estimates to factor in the change in crude oil price assumption from US$80/75/bbl for FY12/long-term to US$90/80/bbl. We assume Rs2/ltr price hike in diesel in FY12.
- Our gross under-recoveries for FY11/FY12/FY13 now stand at Rs787b/Rs842b/Rs433b. We model upstream to share 33%, downstream to share 8-10% and the rest to be borne by the government. Call on government funding now stands at Rs448b for FY11 and Rs494b for FY12.
- We remain Neutral on the sector pending clarity on subsidy sharing mechanism; additionally, sunsetting of MAT exemption to SEZ units could impact RIL SEZ refinery (clarity awaited).
- **Top picks:** Upstream companies, viz, ONGC and Petronet LNG. Recent deal with BP is likely to be positive for RIL's E&P operations while Cairn India stands to benefit from high oil prices.

Valuation Matrix

	CMP (Rs)	Reco	EPS (Rs)			P/E (x))			EV/EBITDA (x)			RoE (%)		
Name	28.02.11		FY11E	FY12E	FY13E	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E
Oil & Gas														
BPCL	552	Buy	57.3	58.2	61.2	9.6	9.5	9.0	9.0	8.2	7.6	14.0	12.9	12.5
Cairn India	339	Neutral	30.9	48.2	51.5	11.0	7.0	6.6	8.0	4.7	3.9	16.2	21.8	19.8
Chennai Petroleum	188	Buy	25.7	31.2	33.8	7.3	6.0	5.5	6.5	6.2	5.2	10.8	12.4	12.4
GAIL	428	Neutral	29.0	31.2	32.8	14.8	13.7	13.1	13.5	13.5	13.4	19.2	18.2	17.0
Gujarat State Petronet	90	UR	8.6	6.6	7.5	10.4	13.7	12.0	7.1	7.6	6.8	27.4	17.3	17.3
HPCL	320	Buy	38.7	38.8	41.0	8.3	8.2	7.8	7.8	7.8	7.3	10.9	10.3	10.2
Indraprastha Gas	290	Neutral	18.3	21.2	24.7	15.8	13.6	11.7	8.0	6.8	5.6	28.4	27.5	26.6
IOC	299	Buy	32.7	38.4	43.4	9.2	7.8	6.9	6.0	5.0	4.0	14.5	15.7	16.0
MRPL	57	Sell	4.4	4.6	5.4	12.8	12.4	10.5	9.5	10.4	7.5	13.2	12.6	13.5
ONGC	271	Buy	27.7	32.0	32.5	9.8	8.4	8.3	3.9	3.3	3.1	22.0	22.1	19.7
Petronet LNG	110	Buy	8.0	9.4	11.3	13.7	11.7	9.7	8.7	7.8	5.7	24.8	24.8	25.7
Reliance Inds.	965	UR	69.1	70.7	86.4	14.0	13.7	11.2	9.3	7.6	6.6	14.9	31.5	12.3
Sector Aggregate						**11.8**	**10.4**	**9.5**	**6.8**	**5.6**	**5.1**	**15.8**	**14.8**	**14.7**

Harshad Borawake (HarshadBorawake@MotilalOswal.com); +91 22 3982 5432

Milind Bafna (Milind.Bafna@MotilalOswal.com); +91 22 39825445/**Bivek Anand** (Bivek.Anand@MotilalOswal.com); +91 22 3982 5426

Oil & Gas (Contd.)

Key budget proposals and impact

The Budget was neutral for the Oil & Gas sector. However, there was a disappointment as key expectations from the budget were not met i.e. 1) reduction in custom duty on crude and excise duty on diesel, and 2) clarity on the subsidy sharing mechanism.

Subsidy payouts to be in cash only; expect clarity on sharing mechanism by year-end

The Finance Minister reiterated that the subsidy payout to the oil companies will be in cash only, thereby moving away from any off-balance sheet items, the practice prevalent prior to FY10. For FY11, government has allocated budgetary support of Rs384b; however clarity is yet to emerge whether it includes Rs140b from FY10 (paid in FY11). If FY11 number includes Rs140b from FY10 and Rs237b provided in FY12 is actually for FY11, then government effectively has provided nil for FY12. We expect government to share Rs494b in FY11 as against Rs210b announced till date. Similar to previous years, we believe government sharing will be finalized at the end of the year when the OMCs finalize their annual accounts.

Impact: Negative	We expect OMCs' stock prices to be under sustained pressure due to less than expected relief on under-recovery as well as delay in compensation from the government.

MAT to be applicable to SEZ units; could be negative for RIL

The Finance Minister has proposed applicability of MAT from FY12 for all the developers of SEZ as well as for units operating in SEZ. Thus, RIL's SEZ refinery earnings might come under the ambit of MAT. However, we understand that the overall tax rate on a corporate level might not increase and could only result in cash outflow as companies can claim MAT credit.

Impact: Negative	MAT will be applicable on RIL's SEZ refinery earnings. The refinery currently enjoys exemptions under section 115JB(6) of the Income-Tax Act.

Other proposals for the sector

The Finance Minister also proposed the following:

- Reduction of excise duty on CNG kits from 10% to 5%. This will be a positive for gas distribution companies.
- Reduction in custom duty on pet coke (a raw material for cement and aluminium). This will have marginal negative impact on RIL which produces ~3mmt of pet coke annually from its earlier 33mmt refinery.
- Government to pay direct cash subsidy on kerosene and LPG to consumers in a phased manner from March 2012. This will prevent leakages/adulteration of fuels and help subsidy reach targeted beneficiaries, thus indirectly limiting the subsidy burden.
- No clarity on tax holiday for natural gas production from NELP blocks prior to NELP VIII and CBM-IV. The FM has also introduced a sunset clause to the income tax holiday on mineral oil, by making it unavailable for blocks contracted after March 31, 2011. This effectively denies tax holiday to all blocks being auctioned in NELP-IX.

Pharmaceuticals

Budget Impact: Neutral **Sector Stance: Neutral**

At a glance

Major proposals	Impact
➢ MAT levied on profits generated from SEZ	Neutral
➢ Excise duty on formulations increased from 4% to 5%	Neutral
➢ Service tax for Air Conditioned hospitals with more than 25 beds	Neutral
➢ Service tax on diagnostic services	Neutral

Flashback

Budget Changes (2010)

- Increase in Minimum Alternate Tax from 15% to 18%.
- Increase in weighted deduction from 150% to 200% for in-house R&D expenditure.
- Retrospective extension of treatment of profit from domestic tariff area for SEZ (Sec 10AA).
- Increase in excise duty on APIs from 8% to 10%.
- Reduction in state-level excise duty from 16% to 10% on narcotic products.

Overall budget impact, Sector outlook and Recos

- ➢ We do not expect any major earnings impact for the companies under our coverage.
- ➢ Levy of MAT on SEZ will increase cash outflow for some companies on account of higher tax but will not impact earnings since most of the companies will be taking MAT credit. Hence reported EPS will not change.
- ➢ Increase in excise duty on formulations from 4% to 5% and levy of service tax on hospitals and diagnostic services will be a pass-through to the consumer/patient, without negligible demand impact.
- ➢ Top picks: Sun Pharma, Cipla and Divi's Lab.

Valuation Matrix

	CMP (Rs)	Reco	EPS (Rs)			P/E (x))			EV/EBITDA (x)			RoE (%)		
Name	28.02.11		FY11E	FY12E	FY13E	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E
Pharmaceuticals														
Aventis Pharma	1,869	Neutral	67.3	78.7	94.3	27.8	23.8	19.8	25.5	20.3	16.0	15.5	16.6	18.2
Biocon	311	Buy	17.3	19.5	21.6	17.9	15.9	14.4	10.5	9.2	8.1	17.1	16.8	16.3
Cadila Health	735	Buy	30.5	37.6	46.7	24.1	19.6	15.7	15.3	13.2	11.0	33.2	31.6	30.7
Cipla	300	Buy	12.0	15.0	16.8	25.1	20.0	17.8	18.1	14.8	13.1	14.5	16.0	15.8
Dishman Pharma	91	Sell	7.5	4.5	8.9	12.1	20.0	10.2	10.5	9.3	7.2	7.4	4.2	7.8
Divis Labs	590	Buy	27.2	32.9	42.4	21.7	17.9	13.9	18.2	14.3	11.4	20.2	20.7	22.3
Dr Reddy' s Labs	1,547	Buy	64.9	72.9	84.2	23.9	21.2	18.4	22.7	21.9	18.6	22.1	24.4	24.6
Glenmark Pharma	252	Neutral	13.1	16.7	19.8	19.2	15.1	12.7	11.4	10.8	9.4	13.2	14.5	14.8
GSK Pharma	2,217	Buy	68.6	79.1	92.6	32.3	28.0	23.9	22.7	19.4	16.3	30.1	31.7	34.0
Jubiliant Organosys	164	Neutral	14.5	15.1	21.5	11.3	10.8	7.6	9.2	8.5	6.8	10.5	10.3	13.9
Lupin	382	Buy	19.7	22.6	24.4	19.3	16.9	15.6	16.4	13.9	12.1	30.5	28.4	25.4
Opto Circuits	249	Neutral	18.1	21.0	27.6	13.7	11.8	9.0	12.0	10.2	7.8	28.6	28.2	30.9
Ranbaxy Labs	434	Sell	28.5	10.8	15.9	15.2	40.0	27.2	10.1	21.2	15.8	20.5	7.2	9.6
Strides Arcolab	310	Buy	21.1	33.4	36.5	14.7	9.3	8.5	10.4	9.4	8.9	11.6	14.1	13.9
Sun Pharma	424	Buy	13.2	16.0	18.8	32.1	26.5	22.5	20.9	21.5	17.9	16.1	16.8	17.4
Sector Aggregate						**22.8**	**21.2**	**17.8**	**16.1**	**15.8**	**13.2**	**18.9**	**18.0**	**18.8**

Nimish Desai (Nimishdesai@MotilalOswal.com); Tel: +91 22 39825406 / **Amit Shah** (Amit.Shah@MotilalOswal.com) + 91 22 3982 5423

Pharmaceuticals (Contd.)

Key budget proposals and impact

The Budget was overall Neutral for the pharmaceutical and healthcare sector.

Levy of MAT on SEZ

Impact: Neutral	The impact on earnings is negligible as (1) Most companies are already (or will start) availing MAT credit (Cipla, Lupin, Opto Circuits), or (2) SEZ tax cover has expired for some companies (Biocon), or (3) SEZ is not yet operational or material in the company's scheme of things (Dishman, Piramal, Ranbaxy). Cadila is the only company where we expect an adverse impact of 2% on FY12E EPS since its Hospira JV will now have to pay MAT.

Excise duty on formulations increased from 4% to 5%

Impact: Neutral	We expect companies to pass-on this increase to the consumer and hence we do not expect any changes in our estimates.

Levy of service tax on hospitals and diagnostic services

The Finance Minister has proposed levy of service tax @ 10.2% on hospitals and diagnostic services with 50% abatement.

Impact: Neutral	We expect companies to pass on this increase to the consumer/patient and hence we do not expect any adverse impact.

Real Estate

Budget Impact: Neutral

Sector Stance: Neutral

At a glance

Major proposals	Impact
➢ MAT on developers of SEZs	Negative
➢ Interest subvention of 1% on housing loans extended to housing loan up to Rs1.5m (v/s Rs1m), where the cost of the house is lower than Rs2.5m (v/s Rs2m)	Marginally Positive
➢ Priority sector housing loan limit increased from Rs2m to Rs2.5m	Marginally Positive
Others	
➢ Enhanced provision under Rural Housing Fund to Rs30b (v/s Rs20b) to provide competitive housing finance to rural EWS / LIG segments	Marginally Positive
➢ Mortgage Risk Guarantee Fund under Rajiv Awas Yojana to guarantee housing loans taken by EWS and LIG households and enhance their credit worthiness	

Flashback

Budget Changes (2010)

- Service tax on home buyers, resulting in additional tax incidence of 3-4%.
- Allocation for urban development increased by 75% from Rs30.6b to Rs54b. Allocation for Housing and Urban Poverty Alleviation has been raised from Rs8.5b to Rs10b.
- Increase in allocation for the Indira Awas Yojna to Rs100b and increase in allocation for the Rajiv Awas Yojna to Rs12.7b from Rs1.5b.

Overall budget impact, Sector outlook and Recos

- ➢ Increase in housing loan limit for 1% interest subvention scheme and priority sector lending would improve affordability. Key beneficiaries would be Unitech (Unihomes), Puravankara (Provident Projects), HDIL.
- ➢ Introduction of MAT on SEZ developers (v/s no taxation earlier) is negative for RE players such as DLF, Mahindra Lifespace and Prestige as it would impact near term cash flow.
- ➢ Budget remains silent on the sector expectation of 1) industry status, and 2) meaningful reform towards introduction of REITs.
- ➢ **Top picks:** DLF, Mahindra Lifespace, Oberoi Realty.

Valuation Matrix

	CMP (Rs)	Reco	EPS (Rs)			P/E (x))			EV/EBITDA (x)			RoE (%)		
Name	**28.02.11**		FY11E	FY12E	FY13E	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E
Real Estate														
Anant Raj Inds	75	Buy	6.6	7.9	10.8	11.5	9.6	7.0	11.0	8.6	6.3	5.2	5.9	7.5
Brigade Enterpr.	96	Buy	11.9	17.6	4.1	8.1	5.4	23.3	6.7	4.4	3.3	12.4	16.4	16.1
DLF	212	Buy	10.8	12.6	16.6	19.6	16.8	12.8	12.7	10.9	9.1	6.3	7.3	8.9
HDIL	158	UR	22.5	25.2	26.7	7.0	6.3	5.9	7.5	5.5	5.0	10.4	10.9	10.9
Indiabulls Real Estate	104	Buy	5.4	5.8	12.2	19.3	18.0	8.5	20.3	11.9	6.0	2.1	2.2	4.4
Mahindra Lifespace	344	Buy	32.2	43.5	57.6	10.7	7.9	6.0	8.3	5.8	3.7	12.0	14.1	15.9
Peninsula Land	58	Neutral	11.9	13.2	4.7	4.9	4.4	12.3	3.5	3.2	4.2	24.0	22.9	8.1
Phoenix Mills	178	Buy	6.6	7.8	11.6	27.0	22.8	15.4	23.0	13.1	8.9	5.7	6.4	8.7
Puravankara Projects	105	Neutral	8.2	9.8	10.3	12.9	10.7	10.2	13.2	8.5	-3.9	10.8	11.8	11.2
Unitech	34	Buy	2.6	3.3	4.7	12.9	10.2	7.2	10.7	6.9	5.4	5.7	6.8	8.9
Sector Aggregate						**14.0**	**11.9**	**9.6**	**11.4**	**8.7**	**6.8**	**6.7**	**7.6**	**8.8**

Siddharth Bothra (SBothra@MotilalOswal.com); Tel: +91 22 3982 5407/**Sandipan Pal** (Sandipan.Pal@MotilalOswal.com); Tel: 3982 5436

Real Estate (Contd.)

Key budget proposals and impact

The Budget was a mixed bag for the Real Estate sector and overall **Neutral**.

MAT on developers of Special Economic Zones (SEZ)

The Finance Minister has introduced MAT on the developers of SEZ as well as units operating in of Special Economic Zones (SEZ). Earlier developers used to enjoy 'no taxation' on their income from SEZ.

Impact: Negative	Reduces the benefits for SEZ developers and impacts near term cash flow. Negative for key SEZ players such as DLF, Mahindra Lifespaces and Prestige. This proposal is not surprising since it was always part of DTC. It is just that it is getting implemented a year early w.e.f. Apr-11 (v/s Apr-12 if it were to be introduced along with DTC).

Increase in housing loan limit under interest subvention and priority sector lending

The Finance Minister has liberalized the existing scheme of interest subvention of 1% on housing loans by extending it to housing loan up to Rs1.5m (v/s Rs1m earlier), where the cost of the house does not exceed Rs2.5m (v/s Rs2m earlier). Housing loan limit for priority sector lending has been raised from Rs2m to Rs2.5m.

Impact: Marginally Positive	The higher limit increases buyers' affordability of low/mid income housing projects, and could boost sales in this vertical. Key beneficiaries would be Unitech (Unihomes), Puravankara (Provident Projects), HDIL, etc. However, it doesn't address the bigger ongoing concern of price-led non-affordability in metro markets.

Other measures

- **Maintained silence on industry status:** There has been no meaningful step towards proving industry status to RE sector which could been a huge positive for easy and cheaper bank financing for this liquidity striven sector.
- **Enhanced provision under Rural Housing Fund positive; could improve rural RE potential:** Provision under Rural Housing Fund has been increased to Rs30b (v/s Rs20b) to provide competitive housing finance to rural EWS / LIG segments. Additionally, creation of the Mortgage Risk Guarantee Fund under Rajiv Awas Yojana to guarantee housing loans taken by EWS and LIG households would enhance their credit worthiness. However, in the past, such provisions have not witnessed any significant effect on the rural housing pace.
- **Proposed investment linked deduction could be a positive:** Notified affordable housing schemes have been included as eligible for investment-linked deduction under Section 35AD of Income Tax Act. This could improve funding for such projects (however, further clarity awaited).

Retail

Budget Impact: Negative **Sector Stance: Underweight**

At a glance

Major proposals	Impact
➢ No reference to FDI in retail	Negative
➢ 10% excise duty on sale of branded garments applicable at 60% of retail selling price	Negative
➢ 1% excise duty on branded jewelry	Neutral
➢ Government program for vegetable clusters, National Mission for Protein Supplements, 15 mega food parks, capital expenditure for modern food storage eligible for viability gap funding	Positive

Flashback

Budget Changes (2010)

- 12% service tax imposed on lease rentals
- Excise duty exemption on items used in cold chain, refrigeration, etc extended to dairy, poultry, marine and horticulture.
- Rationalization of direct taxes to boost the income levels of urban middle class and boost demand.

Overall budget impact, Sector outlook and Recos

- Overall, budget is negative for the retail sector. There are minor hints on changes in APMC Act and reducing the cost of distribution etc, but no direct measures are there.
- Imposition of 10% excise duty on branded garments is negative as the retailers have to pass this on to consumers. This can impact sales more so as input costs have been rising due to hardening cotton prices.
- Budget has proposed 1% excise duty on branded jewellery, however as players like Titan Inds don't have brand Tanishq embossed on the jewelry, it is unlikely to impact them. Further clarity is awaited.
- **Top pick:** Pantaloon Retail

Valuation Matrix

	CMP (Rs)	Reco	EPS (Rs)			P/E (x))			EV/EBITDA (x)			RoE (%)		
Name	28.02.11		FY11E	FY12E	FY13E	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E
Retail														
Jubilant Foodworks	541	Neutral	11.1	14.6	21.7	48.7	37.0	25.0	28.2	19.3	13.3	37.6	35.4	37.9
Pantaloon Retail	261	Buy	8.6	12.2	16.5	30.3	21.5	15.8	8.3	6.9	6.0	5.7	7.7	9.6
Shopper's Stop	355	Neutral	8.6	13.1	17.6	41.4	27.2	20.2	18.5	13.1	9.9	11.8	15.7	18.2
Titan Industries	3,329	Neutral	104.3	130.7	171.6	31.9	25.5	19.4	22.9	18.3	14.3	45.4	41.7	40.5
Sector Aggregate						**33.9**	**25.5**	**19.0**	**15.4**	**12.1**	**9.8**	**15.6**	**18.0**	**20.5**

Key budget proposals & impact

The Budget is Neutral for the telecom sector. Service tax and MAT have remained largely unchanged.

Excise duty of 10% on branded apparel

Budget has imposed 10% excise duty on branded apparel which will include even private labels as they fall under the ambit of brands sold in specific stores. Retailers will have to increase apparel prices by an incremental 6% given 40% abatement. This will impact demand and volume growth as the sector is reeling under higher costs due to sharp increase in cotton prices. Retailers were contemplating 12-18% price increase from April. We believe current excise hike will add to margin pressure and/or impact volume growth in the coming quarters.

Impact: Neutral We expect retailers and branded garment manufacturers to pass on the excise duty. This can impact volume growth as input costs have been rising led by steep increase in cotton prices.

Increased focus on food distribution and storage

Impact: Positive Programs like vegetable clusters, viability gap funding for food storage, and mega food parks will promote food processing and is a broad positive for organized retail.

Amnish Aggarwal (AmnishAggarwal@MotilalOswal.com)Tel:+9122 39825404

Telecom

Budget Impact: Neutral **Sector Stance: Overweight**

At a glance

Major proposals	Impact
➢ Effective service tax unchanged at ~10.3% Effective MAT rate unchanged at ~20%	Neutral
➢ Exemption of 4% special additional duty on mobile phone components extended for FY12	Neutral
➢ FY12 budget incorporates ~Rs125b non-tax revenue over and above the revenue sharing license fee and spectrum charges, implying likely budgeted one-time revenue receipts for spectrum allocation from existing/new operators	Neutral

Flashback

Budget Changes (2010)

- The key negative was increase in MAT from 15% to 18%.
- Exemption of 4% Special Additional Duty (SAD) on mobile phones, positive for the overall demand growth in the sector.

Budget impact largely Neutral

- ➢ Post-budget, our earnings estimates remain unchanged as all key rates have been maintained
- ➢ Potential stemming/reversal of declining RPM trend could be a structural positive for the sector though regulatory uncertainty persists.
- ➢ Our top picks are **Bharti** and **Idea**.

Valuation Matrix

	CMP (Rs)	Reco	EPS (Rs)			P/E (x))			EV/EBITDA (x)			RoE (%)		
Name	28.02.11		FY11E	FY12E	FY13E	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E
Telecommunication														
Bharti Airtel	331	Buy	16.6	21.8	28.2	19.9	15.2	11.7	9.2	6.8	5.5	13.1	15.0	16.8
Idea Cellular	58	Buy	2.4	2.7	5.1	24.4	21.4	11.3	8.1	6.2	4.5	6.7	7.2	12.3
Reliance Comm	86	Neutral	7.9	7.6	8.4	10.9	11.4	10.3	7.6	6.1	5.1	4.1	3.9	4.2
Tulip Telecom	144	Buy	19.0	24.7	26.2	7.6	5.8	5.5	5.3	4.0	2.2	29.0	28.8	24.4
Sector Aggregate						**18.2**	**14.8**	**11.3**	**8.6**	**6.5**	**5.2**	**9.0**	**10.1**	**11.8**

Key budget proposals and impact

The Budget is Neutral for the telecom sector. Service tax and MAT have remained largely unchanged.

Budget incorporates ~Rs125b one-time revenue from telecom sector

FY12 budget incorporates ~Rs125b non-tax revenue over and above the revenue sharing license fee and spectrum charges, implying likely budgeted one-time revenue receipts for spectrum allocation from existing/new operators.

Impact: Neutral We believe this could be pertaining to potential proceeds from 'excess' 2G spectrum from existing licensees or allocation of available 2G/700MHz spectrum from new licencees. For FY12, total budgeted proceeds from communications services (which include revenue-sharing, license and spectrum charges, and one-time charges for license/spectrum allocation) is Rs296b of which we estimate ~Rs170b would be recurring revenue and ~Rs130b could be 'one-time' revenue assumed by the government.

Shobhit Khare (Shobhit.Khare@MotilalOswal.com); Tel: +91 22 3982 5428 / **Nirav Poddar** (Nirav.Poddar@MotilalOswal.com); Tel: 3982 5444

Telecom (Contd.)

Effective service tax unchanged at 10.3%

Service tax remains unchanged at 10% base tax plus 3% education cess.

Impact: Neutral	Potential hike in service tax would have been negative for overall demand environment.

Effective MAT rate remains at ~20%

MAT rate has been increased from 18% to 18.5% but corporate surcharge has been lowered from 7.5% to 5%, thus implying unchanged effective rate at ~20%. MAT credit is available for telecom operators.

Impact: Neutral	Cash outgo as well as earnings to remain unaffected.

Utilities

Budget Impact: Positive **Sector Stance: Underweight**

At a glance

Major proposals	Impact
➢ Sunset clause of Sec 80IA tax holiday extended till March 2012	Positive
➢ SEZ developers and units operating within SEZ subject to MAT	Negative
➢ Facilitates dedicated debt funds for the infrastructure sector	Positive

Flashback

Budget Changes (2010)

- Customs duty for mega power projects exempted, for which power supply is tied-up on competitive bid mechanism.
- Approval accorded for coal mines award for captive use on competitive bid basis and setting up of Coal Regulator.
- Promotion of clear energy development through levy of cess on coal produced at Rs50 per ton. This cess will also apply on imported coal.

Overall budget impact, Sector outlook and Recos

- ➢ Post-budget, we maintain our earnings estimates.
- ➢ The utilities sector faces headwinds in terms of fuel availability, decline in merchant prices, execution delays, etc. This has impacted operating cash flows for several players. Given the accelerated pace of capacity additions, we prefer companies that have tied up large parts of capacities under PPA and have access to long term coal availability.
- ➢ **Our top picks:** NTPC, Powergrid and Coal India.

Valuation Matrix

	CMP (Rs)	Reco	EPS (Rs)			P/E (x))			EV/EBITDA (x)			RoE (%)		
Name	**28.02.11**		**FY11E**	**FY12E**	**FY13E**	**FY11E**	**FY12E**	**FY13E**	**FY11E**	**FY12E**	**FY13E**	**FY11E**	**FY12E**	**FY13E**
Utilities														
CESC	299	Buy	37.8	38.8	39.6	7.9	7.7	7.6	4.8	5.3	5.4	13.3	12.2	11.2
Coal India	328	Buy	16.4	22.5	25.8	20.0	14.6	12.7	13.1	8.9	7.5	25.4	27.2	25.2
NTPC	170	Buy	10.5	12.2	14.4	16.2	14.0	11.8	10.4	10.4	9.3	13.3	14.2	15.5
Power Grid Corp.	99	Buy	5.7	7.0	8.0	17.3	14.1	12.3	10.6	9.6	9.0	14.0	14.2	14.8
PTC India	81	Buy	5.7	10.6	14.4	14.3	7.7	5.6	10.0	9.0	5.9	6.2	7.1	9.4
Reliance Infrastructure	610	Buy	34.8	53.8	60.8	17.5	11.3	10.0	9.2	6.8	5.6	5.6	8.2	8.6
Tata Power	1,155	Neutral	77.7	96.0	87.6	14.9	12.0	13.2	20.7	17.1	17.2	7.4	7.2	6.4
Sector Aggregate						**17.5**	**14.8**	**13.1**	**11.5**	**10.3**	**9.3**	**15.9**	**16.9**	**17.1**

Key budget proposals and impact

The Budget was positive for the Utilities sector. As expected, tax holiday under Section 80IA was extended by one more year till March 2012. Effective MAT rate is unchanged, and most companies in the sector come under MAT. Long-term funding is a constraint for the sector, and the Budget has proposed various steps to enhance incremental fund flows.

Satyam Agarwal (AgarwalS@MotilalOswal.com) +91 22 3982 5410
Nalin Bhatt (NalinBhatt@MotilalOswal.com) +91 22 3982 5429 / **Vishal Periwal** (Vishal.Periwal@MotilalOswal.com) +91 22 3982 5417

Utilities (Contd.)

Sunset clause for claiming Sec 80IA tax holiday extended till March 2012

Impact: Positive	Our SOTP already factors in continuation of 80IA tax benefits for projects commissioned and thus the extension is maintaining status quo. Among the private IPPs, key beneficiaries will be Adani Power, JSW Energy, Lanco Infratech, etc, which expect to commission large capacities by March 2012.

SEZ developers and units operating within SEZ subject to MAT

Impact: Negative	This is largely applicable for Adani Power as 4,620MW of capacity at Mundra is located within the SEZ premises. A large part of the capacities (~3,800MW) is already tied up under long-term PPA and thus the MAT imposition could possibly be a pass-through under 'Change in Law' provisions (we await better clarity). Merchant profitability from these plants will anyways be subject to MAT.

Annual performance/Valuations - MOSL Universe

Annual performance - MOSL Universe (Rs Billion)

	Sales					EBITDA					Net Profit				
	FY11E	FY12E	FY13E	Chg. * (%)	Chg. # (%)	FY11E	FY12E	FY13E	Chg. * (%)	Chg. # (%)	FY11E	FY12E	FY13E	Chg. * (%)	Chg. # (%)
Auto (5)	2,338	2,734	3,090	16.9	13.0	341	393	441	15.4	12.3	197	232	264	17.7	13.8
Banks (26)	1,546	1,802	2,142	16.5	18.9	1,219	1,456	1,762	19.4	21.0	628	768	925	22.2	20.5
Cement (8)	635	768	902	21.0	17.4	133	162	216	21.6	33.0	71	85	112	20.5	32.0
Engineering (8)	1,246	1,533	1,861	23.0	21.3	191	237	287	24.6	20.8	134	168	201	25.5	19.8
FMCG (11)	822	969	1,121	17.8	15.7	169	203	237	20.0	16.8	112	134	158	19.1	18.3
IT (7)	1,258	1,531	1,781	21.8	16.3	317	387	449	21.8	16.2	242	285	337	17.5	18.6
Infrastructure (7)	388	455	582	17.3	28.0	83	100	149	21.4	48.1	22	16	36	-25.9	118.5
Media (5)	82	92	103	11.7	11.4	33	36	40	10.2	11.7	18	21	25	18.0	15.6
Metals (8)	3,112	3,548	3,779	14.0	6.5	569	684	774	20.2	13.1	307	374	422	21.9	12.7
Oil Gas (12)	10,566	10,556	10,129	-0.1	-4.0	1,332	1,494	1,608	12.2	7.6	676	770	847	13.8	10.1
Pharma (15)	561	617	704	9.9	14.1	125	127	149	2.0	17.5	87	93	111	7.4	19.3
Real Estate (10)	190	237	289	24.8	22.0	83	101	119	21.6	17.4	47	56	70	17.9	24.7
Retail (4)	202	252	305	25.1	21.0	19	24	30	27.8	24.8	8	11	14	33.0	34.3
Telecom (4)	976	1,162	1,295	19.1	11.4	311	399	457	28.2	14.7	90	111	145	23.3	30.7
Textiles (4)	158	174	188	10.0	8.2	34	36	37	3.7	4.4	9	10	12	13.7	17.0
Utilities (7)	1,458	1,788	2,034	22.6	13.7	396	460	534	16.0	16.2	253	300	339	18.8	13.0
Others (1)	59	68	77	16.8	12.5	12	15	17	19.7	15.6	6	8	10	36.1	20.1
MOSL (142)	**25,598**	**28,287**	**30,381**	**10.5**	**7.4**	**5,367**	**6,315**	**7,307**	**17.7**	**15.7**	**2,908**	**3,442**	**4,029**	**18.4**	**17.1**
Ex.RMs(139)	**19,940**	**22,847**	**25,305**	**14.6**	**10.8**	**5,140**	**6,061**	**7,016**	**17.9**	**15.7**	**2,795**	**3,315**	**3,888**	**18.6**	**17.3**
Sensex (30)	**6,829**	**7,660**	**8,383**	**12.2**	**9.4**	**1,572**	**1,840**	**2,136**	**17.0**	**16.1**	**847**	**1,013**	**1,198**	**19.7**	**18.2**
Nifty (50)	**7,742**	**8,652**	**9,442**	**11.8**	**9.1**	**1,750**	**2,052**	**2,393**	**17.3**	**16.7**	**958**	**1,141**	**1,348**	**19.1**	**18.1**

* Growth FY12 over FY11; # Growth FY13 over FY12. For Banks : Sales = Net Interest Income, EBIDTA = Operating Profits; Tata Steel Figures are consolidated including corus. **Note:** Sensex & Nifty Numbers are Free Float

Valuations - MOSL Universe

Sector	P/E (X)			EV/EBITDA (X)			P/BV (X)			RoE (%)			Div. YLD (%)	EPS CAGR
(No. of Companies)	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E	FY10	FY11-13
Auto (5)	10.6	9.0	7.9	5.9	4.8	3.9	3.9	2.9	2.3	36.5	32.2	28.5	2.2	15.7
Banks (26)	12.9	10.5	8.7	NM	NM	NM	2.4	2.0	1.7	18.6	19.4	20.0	1.1	21.3
Cement (8)	13.4	11.1	8.4	7.1	5.7	4.1	2.1	1.8	1.5	15.4	15.8	18.1	1.5	26.1
Engineering (8)	20.3	16.1	13.5	13.6	10.9	9.0	5.1	4.3	3.7	25.3	26.3	27.2	0.9	22.6
FMCG (11)	28.8	24.2	20.4	18.9	15.6	13.2	9.8	8.3	7.0	34.1	34.2	34.1	3.3	18.7
IT (7)	22.7	19.3	16.3	16.3	13.0	10.7	5.8	4.7	3.7	25.7	24.1	22.9	1.2	18.1
Infrastructure (7)	19.7	26.6	12.2	12.8	11.4	8.3	1.6	1.5	1.4	8.2	5.8	11.4	0.9	27.2
Media (5)	19.5	16.5	14.3	10.1	8.9	7.6	3.6	3.2	2.8	18.6	19.4	19.7	1.7	16.8
Metals (8)	11.2	9.2	8.1	6.6	5.4	4.6	1.7	1.5	1.3	15.5	16.0	15.6	1.1	17.2
Oil Gas & Petchem (12)	11.8	10.4	9.5	6.8	5.6	5.1	1.9	1.5	1.4	15.8	14.8	14.7	4.5	11.9
Pharma (15)	22.8	21.2	17.8	16.1	15.8	13.2	4.3	3.8	3.3	18.9	18.0	18.8	0.8	13.2
Real Estate (10)	14.0	11.9	9.6	11.4	8.7	6.8	0.9	0.9	0.8	6.7	7.6	8.8	0.6	21.2
Retail (4)	33.9	25.5	19.0	15.4	12.1	9.8	5.3	4.6	3.9	15.6	18.0	20.5	0.4	33.6
Telecom (4)	18.2	14.8	11.3	8.6	6.5	5.2	1.6	1.5	1.3	9.0	10.1	11.8	0.4	26.9
Textiles (4)	6.5	5.7	4.9	4.9	4.7	4.2	0.7	0.6	0.6	10.5	10.8	11.5	0.6	15.3
Utilities (7)	17.5	14.8	13.1	11.5	10.3	9.3	2.8	2.5	2.2	15.9	16.9	17.1	1.7	15.9
Others (1)	10.1	7.4	6.2	5.6	4.3	3.4	1.7	1.5	1.2	17.2	19.6	19.5	1.5	27.8
MOSL (142)	**15.1**	**12.8**	**10.9**	**N.M**	**N.M**	**N.M**	**2.6**	**2.2**	**1.9**	**17.4**	**17.5**	**17.9**	**1.9**	**17.7**
MOSL Excl. RMs (139)	**15.3**	**12.9**	**11.0**	**N.M**	**N.M**	**N.M**	**2.7**	**2.3**	**2.0**	**17.6**	**17.7**	**18.0**	**1.9**	**17.9**
Sensex (30)	**16.9**	**14.1**	**12.0**	**N.M**	**N.M**	**N.M**	**3.0**	**2.5**	**2.2**	**17.9**	**17.9**	**18.3**	**1.5**	**18.9**
Nifty (50)	**16.7**	**14.0**	**11.9**	**N.M**	**N.M**	**N.M**	**2.9**	**2.5**	**2.2**	**17.7**	**17.7**	**18.2**	**1.4**	**18.6**

N.M. - Not Meaningful

Source: MOSL

Valuation Matrix

Valuation Matrix

Name	CMP (Rs) 28.02.11	Reco	EPS (Rs) FY11E	EPS (Rs) FY12E	EPS (Rs) FY13E	P/E (x)) FY11E	P/E (x)) FY12E	P/E (x)) FY13E	EV/EBITDA (x) FY11E	EV/EBITDA (x) FY12E	EV/EBITDA (x) FY13E	RoE (%) FY11E	RoE (%) FY12E	RoE (%) FY13E
Automobiles														
Bajaj Auto	1,268	Buy	91.6	106.2	117.8	13.8	11.9	10.8	9.2	7.6	6.2	68.1	51.1	40.2
Hero Honda	1,465	Buy	99.7	113.7	128.5	14.7	12.9	11.4	10.1	8.0	6.4	49.3	37.4	33.1
Mahindra & Mahindra	614	Buy	51.7	64.2	75.1	11.9	9.6	8.2	4.7	3.8	3.1	24.1	22.4	21.4
Maruti Suzuki	1,207	Buy	88.2	104.6	124.4	13.7	11.5	9.7	7.3	5.9	4.5	16.4	17.0	17.0
Tata Motors	1,082	Buy	142.0	165.6	186.0	7.6	6.5	5.8	4.8	4.0	3.4	47.7	37.5	30.9
Sector Aggregate						**10.6**	**9.0**	**7.9**	**5.9**	**4.8**	**3.9**	**36.5**	**32.2**	**28.5**
Cement														
ACC	971	Buy	53.6	58.4	76.3	18.1	16.6	12.7	10.3	8.7	6.4	16.1	15.6	18.3
Ambuja Cements	118	Neutral	8.1	9.4	11.8	14.5	12.5	10.0	8.6	7.3	5.5	18.1	18.6	20.6
Birla Corporation	309	Buy	52.8	64.7	75.2	5.9	4.8	4.1	2.5	2.5	1.9	19.0	19.4	18.8
Grasim Industries	2,264	Buy	249.7	276.7	354.7	9.1	8.2	6.4	3.9	3.0	1.9	15.9	15.3	16.8
India Cements	86	Buy	2.0	7.4	8.8	43.9	11.7	9.8	12.0	7.5	6.3	1.4	5.0	5.7
Kesoram Ind	188	Buy	43.1	55.2	81.8	4.4	3.4	2.3	4.8	4.6	3.8	12.1	13.9	17.9
Shree Cement	1,730	Neutral	166.7	203.1	218.6	10.4	8.5	7.9	8.6	6.9	5.6	29.7	33.9	33.8
Ultratech Cement	930	Neutral	46.9	64.7	101.3	19.8	14.4	9.2	10.1	7.2	5.0	16.7	15.4	20.4
Sector Aggregate						**13.4**	**11.1**	**8.4**	**7.1**	**5.7**	**4.1**	**15.4**	**15.8**	**18.1**
Engineering														
ABB	664	Neutral	3.0	18.5	24.7	222.5	35.8	26.8	90.3	22.5	16.4	2.6	14.8	17.1
BGR Energy	408	Buy	43.0	49.0	61.4	9.5	8.3	6.6	5.3	4.5	3.8	36.9	31.3	29.9
BHEL	2,001	Buy	119.2	146.4	173.0	16.8	13.7	11.6	9.8	7.8	6.5	32.6	32.2	30.8
Crompton Greaves	245	Neutral	14.4	17.3	20.4	17.1	14.1	12.0	11.1	9.1	7.5	28.4	26.6	24.8
Cummins India	650	Buy	31.3	40.0	48.6	20.8	16.3	13.4	14.5	11.3	10.2	36.1	37.5	36.5
Larsen & Toubro	1,528	Buy	74.5	89.9	107.1	20.5	17.0	14.3	17.2	14.9	12.2	19.0	19.4	20.4
Siemens	846	Buy	22.5	31.3	39.7	37.6	27.0	21.3	20.6	16.3	12.5	25.9	27.3	28.3
Thermax	565	Neutral	31.5	41.1	49.8	17.9	13.8	11.3	11.5	8.8	7.2	30.9	31.5	29.7
Sector Aggregate						**20.3**	**16.1**	**13.5**	**13.6**	**10.9**	**9.0**	**25.3**	**26.3**	**27.2**
FMCG														
Asian Paints	2,406	Buy	92.9	111.4	133.2	25.9	21.6	18.1	16.0	13.5	11.2	40.9	39.4	38.1
Britannia	337	Neutral	10.5	15.5	20.6	32.0	21.7	16.4	21.8	14.7	11.1	26.3	31.9	34.1
Colgate	820	Neutral	29.4	32.1	37.1	27.9	25.6	22.1	19.9	17.0	14.6	110.3	99.6	96.5
Dabur	100	Neutral	3.2	3.9	4.7	31.0	25.4	21.4	23.4	18.9	16.1	45.9	42.9	40.2
Godrej Consumer	360	Neutral	14.3	17.2	20.1	25.2	21.0	17.9	21.2	16.6	13.8	28.2	29.7	30.1
GSK Consumer	2,092	Buy	71.5	87.1	104.8	29.3	24.0	20.0	17.8	14.6	11.5	31.3	31.7	32.3
Hind. Unilever	282	Neutral	9.5	10.5	11.9	29.6	26.9	23.8	22.3	20.0	17.4	69.8	68.2	68.7
ITC	169	Buy	6.4	7.8	9.2	26.3	21.7	18.4	16.5	13.3	11.3	31.6	31.8	29.1
Marico	119	Neutral	4.5	5.3	6.5	26.1	22.4	18.3	18.6	15.0	12.4	32.5	28.6	26.9
Nestle	3,541	Buy	85.8	103.3	125.5	41.3	34.3	28.2	27.6	22.7	18.5	102.5	86.2	76.5
United Spirits	1,106	Buy	29.0	38.7	52.7	38.1	28.6	21.0	17.2	14.1	11.9	8.6	10.4	12.5
Sector Aggregate						**28.8**	**24.2**	**20.4**	**18.9**	**15.6**	**13.2**	**34.1**	**34.2**	**34.1**

(Contd.)

Valuation Matrix (Contd.)

Valuation Matrix

Name	CMP (Rs) 28.02.11	Reco	EPS (Rs) FY11E	EPS (Rs) FY12E	EPS (Rs) FY13E	P/E (x)) FY11E	P/E (x)) FY12E	P/E (x)) FY13E	EV/EBITDA (x) FY11E	EV/EBITDA (x) FY12E	EV/EBITDA (x) FY13E	RoE (%) FY11E	RoE (%) FY12E	RoE (%) FY13E
Information Technology														
HCL Technologies	442	Buy	23.0	31.8	36.6	19.2	13.9	12.1	11.6	8.0	6.8	20.7	23.8	22.6
Infosys	3,003	Buy	121.5	152.2	182.9	24.7	19.7	16.4	16.9	13.3	10.8	28.1	29.6	28.8
MphasiS	431	Neutral	40.0	47.7	55.6	10.8	9.0	7.8	8.5	6.5	5.5	23.3	22.8	21.7
Patni Computer	449	Neutral	42.2	38.3	45.3	10.6	11.7	9.9	7.1	5.8	4.3	17.9	16.1	16.4
TCS	1,113	Neutral	44.2	52.0	61.3	25.2	21.4	18.2	18.9	15.0	12.4	37.5	34.7	31.0
Tech Mahindra	645	Neutral	55.0	54.4	64.9	11.7	11.8	9.9	6.1	5.6	5.1	25.3	21.2	20.3
Wipro	438	Neutral	21.9	24.1	28.7	20.1	18.2	15.3	16.6	14.0	11.6	21.8	18.8	18.4
Sector Aggregate						**22.7**	**19.3**	**16.3**	**16.3**	**13.0**	**10.7**	**25.7**	**24.1**	**22.9**
Infrastructure														
GMR Infrastructure	41	Neutral	1.2	1.4	2.4	35.7	30.3	17.1	11.7	10.8	7.3	6.0	6.7	10.8
GVK Power & Infra	26	Buy	1.1	1.5	1.9	24.2	17.4	14.2	15.2	13.7	9.2	5.2	6.8	7.8
Hindustan Construction	34	Neutral	1.2	1.2	1.6	28.0	27.5	21.4	9.0	8.3	7.7	4.0	3.9	4.8
IVRCL Infra.	69	Buy	7.1	7.9	9.4	9.8	8.8	7.4	5.2	4.6	4.0	9.8	10.1	11.1
Jaiprakash Associates	78	Buy	4.9	1.1	7.4	15.9	72.1	10.5	16.8	14.3	10.0	11.4	2.4	14.8
Nagarjuna Construction	101	Buy	10.2	11.0	12.3	9.9	9.1	8.2	8.4	7.4	6.9	8.7	9.3	10.4
Simplex Infra.	322	Buy	25.7	30.0	39.3	12.5	10.7	8.2	6.5	5.9	5.3	12.4	12.9	14.9
Sector Aggregate						**19.7**	**26.6**	**12.2**	**12.8**	**11.4**	**8.3**	**8.2**	**5.8**	**11.4**
Media														
Deccan Chronicle	57	Neutral	8.5	8.2	8.2	6.8	7.0	7.0	2.4	2.3	2.0	15.6	13.8	12.8
HT Media	133	Neutral	7.8	9.0	10.8	17.1	14.7	12.2	9.7	8.5	7.1	15.1	15.6	16.5
Jagran Prakashan	112	Neutral	6.8	7.6	9.0	16.3	14.6	12.3	9.4	8.1	6.8	31.2	33.5	36.5
Sun TV	407	Neutral	19.4	22.8	27.7	21.0	17.8	14.7	9.6	8.6	7.1	29.7	27.9	27.2
Zee Entertainment	119	UR	4.7	6.1	6.7	25.1	19.5	17.9	16.3	12.8	11.7	11.7	14.1	14.3
Sector Aggregate						**19.5**	**16.5**	**14.3**	**10.1**	**8.9**	**7.6**	**18.6**	**19.4**	**19.7**
Metals														
Hindalco	201	Buy	15.3	17.7	19.2	13.1	11.3	10.5	6.9	6.3	5.8	19.6	18.8	17.2
Hindustan Zinc	1,265	Buy	103.4	127.0	139.1	12.2	10.0	9.1	7.5	5.4	4.3	19.7	19.8	18.0
JSW Steel	869	Buy	65.8	110.8	156.3	13.2	7.8	5.6	5.5	3.7	3.3	9.2	12.9	15.5
Nalco	432	Sell	16.4	18.1	17.4	26.3	23.9	24.9	14.6	12.9	13.5	9.5	9.8	8.8
SAIL	153	Neutral	12.3	13.9	14.6	12.4	11.0	10.5	7.6	7.4	7.2	13.6	13.7	12.9
Sesa Goa	262	Buy	50.1	36.3	39.7	5.2	7.2	6.6	2.8	2.7	1.8	34.0	20.2	18.5
Sterlite Inds.	164	Buy	12.7	22.5	23.7	12.8	7.3	6.9	7.0	3.8	2.9	10.6	16.0	14.7
Tata Steel	606	Buy	72.5	82.8	102.0	8.4	7.3	5.9	6.1	5.4	4.1	35.7	29.9	27.9
Sector Aggregate						**11.2**	**9.2**	**8.1**	**6.6**	**5.4**	**4.6**	**15.5**	**16.0**	**15.6**
Oil & Gas														
BPCL	552	Buy	57.3	58.2	61.2	9.6	9.5	9.0	9.0	8.2	7.6	14.0	12.9	12.5
Cairn India	339	Neutral	30.9	48.2	51.5	11.0	7.0	6.6	8.0	4.7	3.9	16.2	21.8	19.8
Chennai Petroleum	188	Buy	25.7	31.2	33.8	7.3	6.0	5.5	6.5	6.2	5.2	10.8	12.4	12.4
GAIL	428	Neutral	29.0	31.2	32.8	14.8	13.7	13.1	13.5	13.5	13.4	19.2	18.2	17.0
Gujarat State Petronet	90	UR	8.6	6.6	7.5	10.4	13.7	12.0	7.1	7.6	6.8	27.4	17.3	17.3
HPCL	320	Buy	38.7	38.8	41.0	8.3	8.2	7.8	7.8	7.8	7.3	10.9	10.3	10.2
Indraprastha Gas	290	Neutral	18.3	21.2	24.7	15.8	13.6	11.7	8.0	6.8	5.6	28.4	27.5	26.6
IOC	299	Buy	32.7	38.4	43.4	9.2	7.8	6.9	6.0	5.0	4.0	14.5	15.7	16.0
MRPL	57	Sell	4.4	4.6	5.4	12.8	12.4	10.5	9.5	10.4	7.5	13.2	12.6	13.5
ONGC	271	Buy	27.7	32.0	32.5	9.8	8.4	8.3	3.9	3.3	3.1	22.0	22.1	19.7
Petronet LNG	110	Buy	8.0	9.4	11.3	13.7	11.7	9.7	8.7	7.8	5.7	24.8	24.8	25.7
Reliance Inds.	965	UR	69.1	70.7	86.4	14.0	13.7	11.2	9.3	7.6	6.6	14.9	31.5	12.3
Sector Aggregate						**11.8**	**10.4**	**9.5**	**6.8**	**5.6**	**5.1**	**15.8**	**14.8**	**14.7**

UR - Under Review

(Contd.)

Valuation Matrix (Contd.)

Valuation Matrix

Name	CMP (Rs) 28.02.11	Reco	EPS (Rs) FY11E	FY12E	FY13E	P/E (x)) FY11E	FY12E	FY13E	EV/EBITDA (x) FY11E	FY12E	FY13E	RoE (%) FY11E	FY12E	FY13E
Pharmaceuticals														
Aventis Pharma	1,869	Neutral	67.3	78.7	94.3	27.8	23.8	19.8	25.5	20.3	16.0	15.5	16.6	18.2
Biocon	311	Buy	17.3	19.5	21.6	17.9	15.9	14.4	10.5	9.2	8.1	17.1	16.8	16.3
Cadila Health	735	Buy	30.5	37.6	46.7	24.1	19.6	15.7	15.3	13.2	11.0	33.2	31.6	30.7
Cipla	300	Buy	12.0	15.0	16.8	25.1	20.0	17.8	18.1	14.8	13.1	14.5	16.0	15.8
Dishman Pharma	91	Sell	7.5	4.5	8.9	12.1	20.0	10.2	10.5	9.3	7.2	7.4	4.2	7.8
Divis Labs	590	Buy	27.2	32.9	42.4	21.7	17.9	13.9	18.2	14.3	11.4	20.2	20.7	22.3
Dr Reddy' s Labs	1,547	Buy	64.9	72.9	84.2	23.9	21.2	18.4	22.7	21.9	18.6	22.1	24.4	24.6
Glenmark Pharma	252	Neutral	13.1	16.7	19.8	19.2	15.1	12.7	11.4	10.8	9.4	13.2	14.5	14.8
GSK Pharma	2,217	Buy	68.6	79.1	92.6	32.3	28.0	23.9	22.7	19.4	16.3	30.1	31.7	34.0
Jubiliant Organosys	164	Neutral	14.5	15.1	21.5	11.3	10.8	7.6	9.2	8.5	6.8	10.5	10.3	13.9
Lupin	382	Buy	19.7	22.6	24.4	19.3	16.9	15.6	16.4	13.9	12.1	30.5	28.4	25.4
Opto Circuits	249	Neutral	18.1	21.0	27.6	13.7	11.8	9.0	12.0	10.2	7.8	28.6	28.2	30.9
Ranbaxy Labs	434	Sell	28.5	10.8	15.9	15.2	40.0	27.2	10.1	21.2	15.8	20.5	7.2	9.6
Strides Arcolab	310	Buy	21.1	33.4	36.5	14.7	9.3	8.5	10.4	9.4	8.9	11.6	14.1	13.9
Sun Pharma	424	Buy	13.2	16.0	18.8	32.1	26.5	22.5	20.9	21.5	17.9	16.1	16.8	17.4
Sector Aggregate						**22.8**	**21.2**	**17.8**	**16.1**	**15.8**	**13.2**	**18.9**	**18.0**	**18.8**
Real Estate														
Anant Raj Inds	75	Buy	6.6	7.9	10.8	11.5	9.6	7.0	11.0	8.6	6.3	5.2	5.9	7.5
Brigade Enterpr.	96	Buy	11.9	17.6	4.1	8.1	5.4	23.3	6.7	4.4	3.3	12.4	16.4	16.1
DLF	212	Buy	10.8	12.6	16.6	19.6	16.8	12.8	12.7	10.9	9.1	6.3	7.3	8.9
HDIL	158	UR	22.5	25.2	26.7	7.0	6.3	5.9	7.5	5.5	5.0	10.4	10.9	10.9
Indiabulls Real Estate	104	Buy	5.4	5.8	12.2	19.3	18.0	8.5	20.3	11.9	6.0	2.1	2.2	4.4
Mahindra Lifespace	344	Buy	32.2	43.5	57.6	10.7	7.9	6.0	8.3	5.8	3.7	12.0	14.1	15.9
Peninsula Land	58	Neutral	11.9	13.2	4.7	4.9	4.4	12.3	3.5	3.2	4.2	24.0	22.9	8.1
Phoenix Mills	178	Buy	6.6	7.8	11.6	27.0	22.8	15.4	23.0	13.1	8.9	5.7	6.4	8.7
Puravankara Projects	105	Neutral	8.2	9.8	10.3	12.9	10.7	10.2	13.2	8.5	-3.9	10.8	11.8	11.2
Unitech	34	Buy	2.6	3.3	4.7	12.9	10.2	7.2	10.7	6.9	5.4	5.7	6.8	8.9
Sector Aggregate						**14.0**	**11.9**	**9.6**	**11.4**	**8.7**	**6.8**	**6.7**	**7.6**	**8.8**
Retail														
Jubilant Foodworks	541	Neutral	11.1	14.6	21.7	48.7	37.0	25.0	28.2	19.3	13.3	37.6	35.4	37.9
Pantaloon Retail	261	Buy	8.6	12.2	16.5	30.3	21.5	15.8	8.3	6.9	6.0	5.7	7.7	9.6
Shopper's Stop	355	Neutral	8.6	13.1	17.6	41.4	27.2	20.2	18.5	13.1	9.9	11.8	15.7	18.2
Titan Industries	3,329	Neutral	104.3	130.7	171.6	31.9	25.5	19.4	22.9	18.3	14.3	45.4	41.7	40.5
Sector Aggregate						**33.9**	**25.5**	**19.0**	**15.4**	**12.1**	**9.8**	**15.6**	**18.0**	**20.5**
Telecommunication														
Bharti Airtel	331	Buy	16.6	21.8	28.2	19.9	15.2	11.7	9.2	6.8	5.5	13.1	15.0	16.8
Idea Cellular	58	Buy	2.4	2.7	5.1	24.4	21.4	11.3	8.1	6.2	4.5	6.7	7.2	12.3
Reliance Comm	86	Neutral	7.9	7.6	8.4	10.9	11.4	10.3	7.6	6.1	5.1	4.1	3.9	4.2
Tulip Telecom	144	Buy	19.0	24.7	26.2	7.6	5.8	5.5	5.3	4.0	2.2	29.0	28.8	24.4
Sector Aggregate						**18.2**	**14.8**	**11.3**	**8.6**	**6.5**	**5.2**	**9.0**	**10.1**	**11.8**
Textiles														
Alok Ind	21	Neutral	3.6	5.2	6.5	5.7	4.0	3.2	5.4	5.3	4.9	8.5	11.3	12.8
Arvind Mills	55	Neutral	4.3	5.8	6.4	12.6	9.4	8.6	5.5	4.8	4.3	4.7	6.0	6.2
Raymond	266	UR	21.2	25.9	29.3	12.5	10.3	9.1	6.7	6.1	5.5	5.1	5.7	5.8
Vardhman Textiles	250	Buy	66.7	58.9	67.1	3.8	4.3	3.7	3.2	3.0	2.4	18.9	14.5	14.4
Sector Aggregate						**6.5**	**5.7**	**4.9**	**4.9**	**4.7**	**4.2**	**10.5**	**10.8**	**11.5**

UR - Under Review

(Contd.)

Valuation Matrix (Contd.)

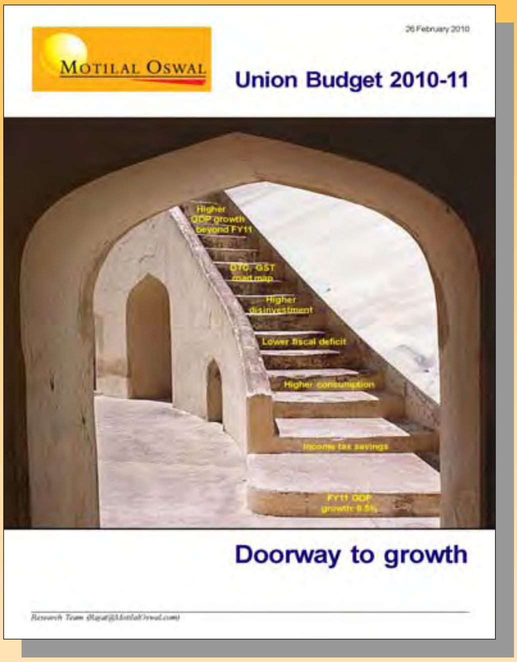
Valuation Matrix

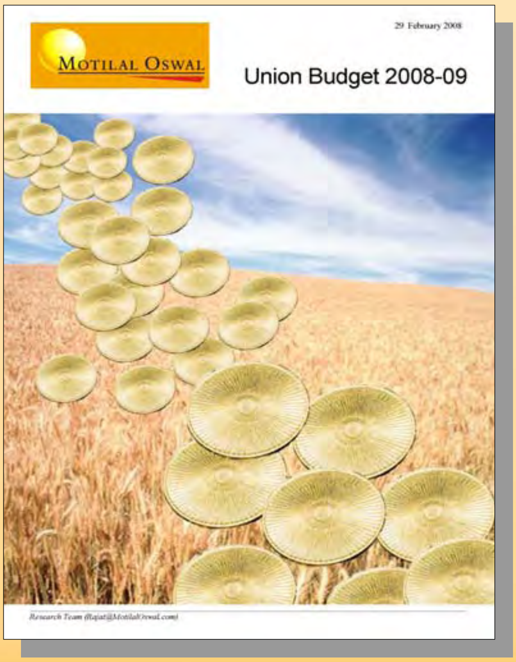
Name	CMP (Rs) 28.02.11	Reco	EPS (Rs) FY11E	EPS (Rs) FY12E	EPS (Rs) FY13E	P/E (x)) FY11E	P/E (x)) FY12E	P/E (x)) FY13E	EV/EBITDA (x) FY11E	EV/EBITDA (x) FY12E	EV/EBITDA (x) FY13E	RoE (%) FY11E	RoE (%) FY12E	RoE (%) FY13E
Utilities														
CESC	299	Buy	37.8	38.8	39.6	7.9	7.7	7.6	4.8	5.3	5.4	13.3	12.2	11.2
Coal India	328	Buy	16.4	22.5	25.8	20.0	14.6	12.7	13.1	8.9	7.5	25.4	27.2	25.2
NTPC	170	Buy	10.5	12.2	14.4	16.2	14.0	11.8	10.4	10.4	9.3	13.3	14.2	15.5
Power Grid Corp.	99	Buy	5.7	7.0	8.0	17.3	14.1	12.3	10.6	9.6	9.0	14.0	14.2	14.8
PTC India	81	Buy	5.7	10.6	14.4	14.3	7.7	5.6	10.0	9.0	5.9	6.2	7.1	9.4
Reliance Infrastructure	610	Buy	34.8	53.8	60.8	17.5	11.3	10.0	9.2	6.8	5.6	5.6	8.2	8.6
Tata Power	1,155	Neutral	77.7	96.0	87.6	14.9	12.0	13.2	20.7	17.1	17.2	7.4	7.2	6.4
Sector Aggregate						**17.5**	**14.8**	**13.1**	**11.5**	**10.3**	**9.3**	**15.9**	**16.9**	**17.1**
Others														
United Phosphorous	136	Buy	12.7	17.3	20.8	10.6	7.8	6.5	5.6	4.3	3.4	17.2	19.6	19.5
Sector Aggregate						**10.6**	**7.8**	**6.5**	**5.6**	**4.3**	**3.4**	**17.2**	**19.6**	**19.5**

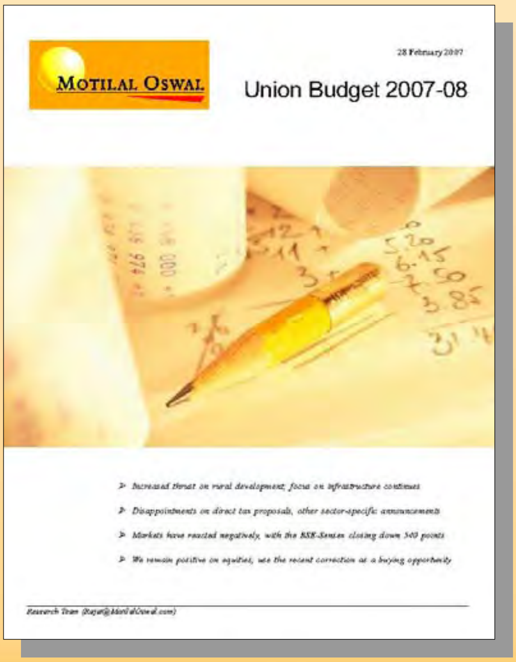
Valuation Matrix

Name	CMP (Rs) 28.02.11	Reco	EPS (Rs) FY11E	EPS (Rs) FY12E	EPS (Rs) FY13E	P/E (x)) FY11E	P/E (x)) FY12E	P/E (x)) FY13E	P/BV (x) FY11E	P/BV (x) FY12E	P/BV (x) FY13E	RoE (%) FY11E	RoE (%) FY12E	RoE (%) FY13E
Banking														
Andhra Bank	136	Buy	26.5	30.0	37.1	5.1	4.5	3.7	1.2	1.0	0.8	26.2	24.4	24.9
Axis Bank	1,224	Buy	80.9	97.6	116.4	15.1	12.5	10.5	2.6	2.3	1.9	18.9	19.5	19.8
Bank of Baroda	871	Neutral	110.2	126.7	153.9	7.9	6.9	5.7	1.9	1.5	1.3	25.8	24.4	24.4
Bank of India	439	Neutral	51.4	63.9	79.3	8.5	6.9	5.5	1.5	1.3	1.1	19.5	20.6	21.6
Canara Bank	610	Buy	98.2	108.8	121.5	6.2	5.6	5.0	1.6	1.3	1.1	28.4	25.3	23.2
Corporation Bank	548	Neutral	101.4	113.2	131.6	5.4	4.8	4.2	1.1	1.0	0.8	23.0	21.6	21.3
Dena Bank	95	Buy	20.3	23.4	27.2	4.7	4.1	3.5	0.9	0.8	0.7	22.0	21.1	20.5
Dewan Housing	249	Buy	22.7	31.6	41.2	11.0	7.9	6.0	1.7	1.5	1.2	19.9	19.8	21.7
Federal Bank	349	Buy	33.1	38.0	43.9	10.5	9.2	7.9	1.2	1.1	1.0	11.5	12.1	12.6
HDFC	630	Neutral	23.4	28.0	32.4	26.9	22.4	19.4	5.1	4.5	3.6	25.5	25.6	26.6
HDFC Bank	2,050	Neutral	84.4	110.2	137.7	24.3	18.6	14.9	3.8	3.3	2.8	16.7	18.8	20.1
ICICI Bank	971	Buy	45.2	57.4	68.1	21.5	16.9	14.3	2.6	2.4	2.2	12.0	14.1	15.1
IDFC	145	Neutral	8.5	10.2	12.4	17.1	14.2	11.7	1.9	1.7	1.6	13.9	12.7	14.0
Indian Bank	205	Buy	39.8	43.8	51.5	5.1	4.7	4.0	1.1	0.9	0.8	23.0	21.4	21.5
ING Vysya Bank	303	Buy	25.4	32.0	41.6	11.9	9.5	7.3	1.5	1.3	1.1	12.9	14.5	16.4
Kotak Mahindra Bank	405	Neutral	19.5	23.3	28.0	20.8	17.4	14.5	2.7	2.3	2.0	15.6	14.8	15.3
LIC Housing Fin	188	Neutral	19.1	23.2	27.4	9.8	8.1	6.9	2.2	1.8	1.5	24.3	24.4	23.9
M & M Financial	706	Buy	48.3	60.0	71.3	14.6	11.8	9.9	3.4	2.8	2.3	24.3	24.8	24.2
Oriental Bank of Commerce	323	Buy	59.9	68.1	79.2	5.4	4.7	4.1	1.0	0.8	0.7	19.0	18.6	18.7
Punjab National Bank	1,055	Buy	137.4	167.2	202.4	7.7	6.3	5.2	1.7	1.4	1.1	24.1	24.2	24.2
Rural Electric. Corp.	235	Buy	25.8	30.6	36.4	9.1	7.7	6.4	1.8	1.6	1.4	21.5	22.2	22.9
Shriram Transport Fin.	743	Buy	55.0	66.2	77.9	13.5	11.2	9.5	3.5	2.8	2.2	28.6	27.3	25.9
State Bank	2,632	Buy	209.9	272.6	333.3	12.5	9.7	7.9	1.8	1.6	1.4	15.5	17.6	18.6
South Indian Bank	21	Buy	2.4	2.9	3.5	8.4	7.0	5.8	1.4	1.2	1.0	17.6	18.4	19.2
Union Bank	313	Buy	41.4	50.7	62.3	7.6	6.2	5.0	1.5	1.3	1.0	21.7	22.3	22.8
Yes Bank	256	Buy	21.4	27.6	34.5	12.0	9.3	7.4	2.3	1.9	1.5	21.3	22.6	23.0
Sector Aggregate						**12.9**	**10.5**	**8.7**	**2.4**	**2.0**	**1.7**	**18.6**	**19.4**	**20.0**
Private Banks						**19.5**	**15.5**	**12.8**	**3.0**	**2.6**	**2.3**	**15.3**	**16.8**	**17.7**
PSU Banks						**8.9**	**7.4**	**6.1**	**1.8**	**1.5**	**1.3**	**19.9**	**20.5**	**20.9**
NBFC						**17.0**	**14.1**	**11.8**	**3.5**	**2.9**	**2.5**	**20.6**	**20.6**	**20.8**

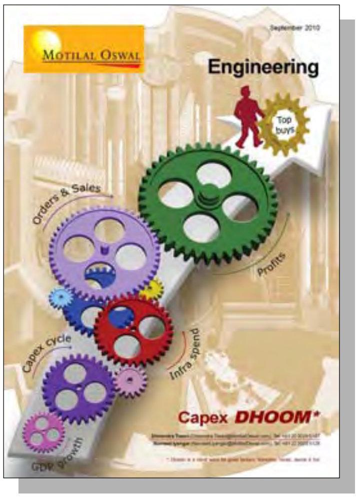
Motilal Oswal Budget Notes

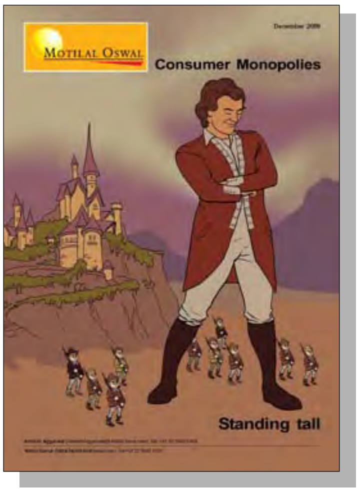






Motilal Oswal Sector Gallery





For more copies or other information, contact
Institutional: Navin Agarwal. **Retail:** Manish Shah
Phone: (91-22) 39825500 Fax: (91-22) 22885038. E-mail: reports@motilaloswal.com
Motilal Oswal Securities Ltd, 3rd Floor, Hoechst House, Nariman Point, Mumbai 400 021

Disclosure of Interest Statement

The MOSt group and its Directors own shares in the following companies covered in this report: Bharti Airtel, Birla Corporation, Coal India, GSK Pharma, Hero Honda, IDFC, IOC, Marico, Nestle India, Oriental Bank, Siemens, South Indian Bank, State Bank and Tata Steel.

MOSt has broking relationship with a few of the companies covered in this report.

MOSt is engaged in providing investment-banking services in the following companies covered in this report: South Indian Bank