Equities

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India Equity Strategy & Economics

Budget Preview: Mathematics and Message Matter

- Equities
- Economics

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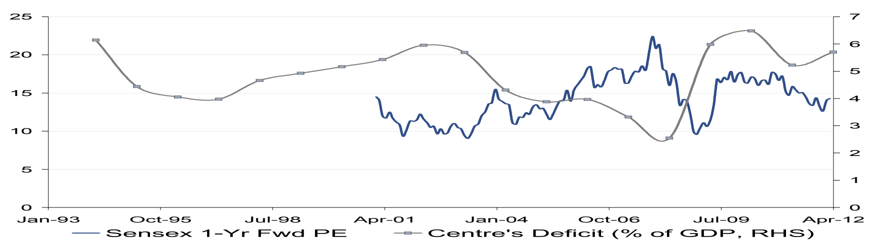
- **It's a Wide Canvas** — The big budget questions: a) Will the fiscal deficit be credibly brought down to 5%; b) Will taxes rise? – If so, what about demand? c) Government's UP election setback (and National elections in 2014): More aggressive economic reform, or a defensive response (i.e. more social spend)? d) Who will bear the benefits/burden – Consumption or Investment, Investors or savers, rich or the subsidized, Foreigners or Locals? There are no easy answers (or clear expectations), but the budget cannot please all (a sub 5% fiscal might go a long way) and, for the market, downside risks probably outweigh upside ones.
- **Mathematics and Message** — We expect a fiscal deficit target of 5.2%, with some tax increases (excise/service up from 10% to 12%), divestment initiatives, some tax rationalization (as a prelude to GST/DTC), tinkering with expenditures (a little oil reform), and only modest spending outlays. Reform measures – GST/DTC, FDI, Subsidy pricing and visibility on project execution should also make the agenda. But we believe it is the credibility – of the budget estimates, and reform measures – that will carry more weight than the announcements themselves.
- **Businesses - High expectations, higher risks** — The budget is also a time when industries/businesses ask for concessions/incentives. This time is no different – but we see more negative risks on Excise duties (most manufactured goods), Cigarettes, Diesel vehicles, income tax – high income earners. We see upside risks for domestic Capital Goods – duty protection, infrastructure sectors-particularly power and Energy. Bottom up, there could be more pain than gain.
- **This Budget matters, for the market and the medium term**— The budget matters; a) Fiscal deficit probably more than anything else (see chart below) – medium-term market driver; b) Market usually does well one month after the budget (+5% in last three years); and c) Domestic sectors that do best post budget (Energy, Autos, Consumers); and worst (Banks, Utilities, Small Caps). While the budget's influence has dimmed over the years, this one could be fairly critical in determining whether, over the medium term, the economy (and the market) goes up or down.

Figure 1. Sensex 1-Yr Fwd P/E vs. Centre's deficit as % of GDP



Source: Citi Investment Research and Analysis

Budget Preview:

The Fiscal deficit is a big part of it

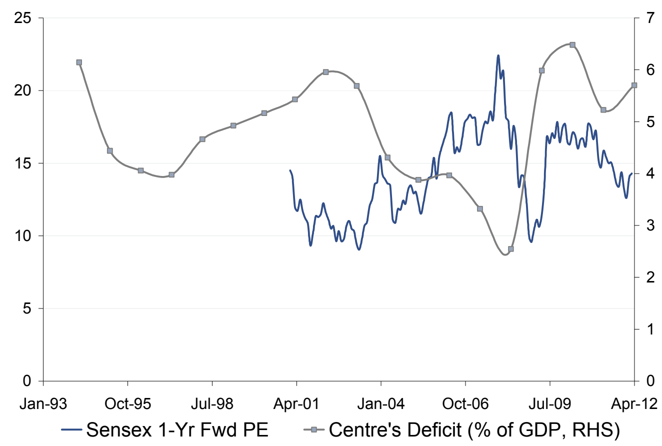
It is about Government finances … though it used to be much more about the nitty gritty of company-specific taxes in the years gone by

The Budget has always been about the Government's finances, and how it proposes to balance its books – while initially directing and, more lately, in coaxing the economy along a certain growth path. While in the pre 2000 decades, the nitty gritty of taxes had an overwhelming influence on individual sectors and business, liberalization has continued to diminish that bit of the budget.

It's now the big picture … how the fiscal deficit is moving and what do the reform measures look like

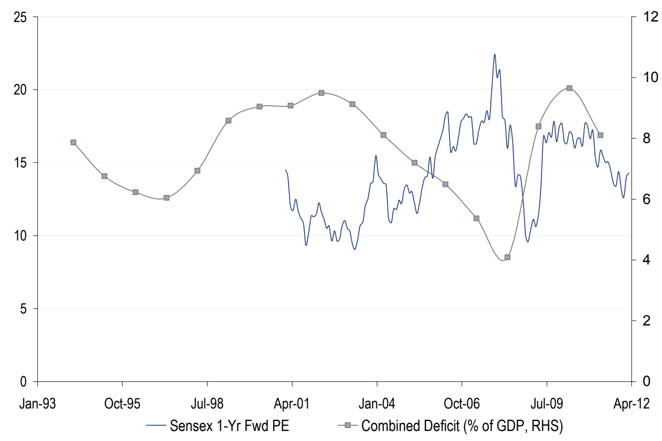
This has now been subsumed by the bigger picture: how the Government is doing with its own finances (read fiscal deficit), the broader tax structure, the balance between investment and consumption support, and how it is reforming the economy – through legislative and investment direction. This has also meant that the market response has tended to focus more and more on the most quantifiable aspect of it – the fiscal deficit (even though the implications are more medium term). We believe this will probably be even more the case this time – given the sharp deterioration versus expectations in the current year, and the mixed political signals that have continued to come out from the Government. While a large measure of this will be the actual target that the Government sets – of greater import will be the credibility of these numbers, as any reform measures that are taken, that would structurally boost either the growth or the revenue prospects for the economy.

Figure 2. Sensex 1-Yr Fwd P/E vs. Centre's deficit as % of GDP



Source: Factset, CIRA

Figure 3. Sensex 1-Yr Fwd P/E vs. Combined deficit as % of GDP



Source: Factset, CIRA

So, what do we expect?

Elections Results = Muted Macro Expectations

Updating our views on the January Macroscope (see *India Macroscope - Upcoming Macro Signposts: State Elections and the FY13 Budget*), we reiterate investors would look for: (1) forward-looking statements given the various pending bills, and (2) steps towards fiscal consolidation, specifically because the RBI is focusing on this as a pre-requisite for monetary easing.

However, with the state elections proving to be disappointing for the Congress party, consensus suggests that the Congress will get more cautious (see State Elections – Not What the Market Ordered). Thus one could see the budget handing out more sops, thereby resulting in further fiscal slippages and a move further away from reform. While this is not necessarily the case – the Congress could well be much more forceful with reform given that back-peddling on them does not seem to be paying electoral dividends for now. But, in our view, we think the odds favor more defensive rather than offensive economic management from the Government from here.

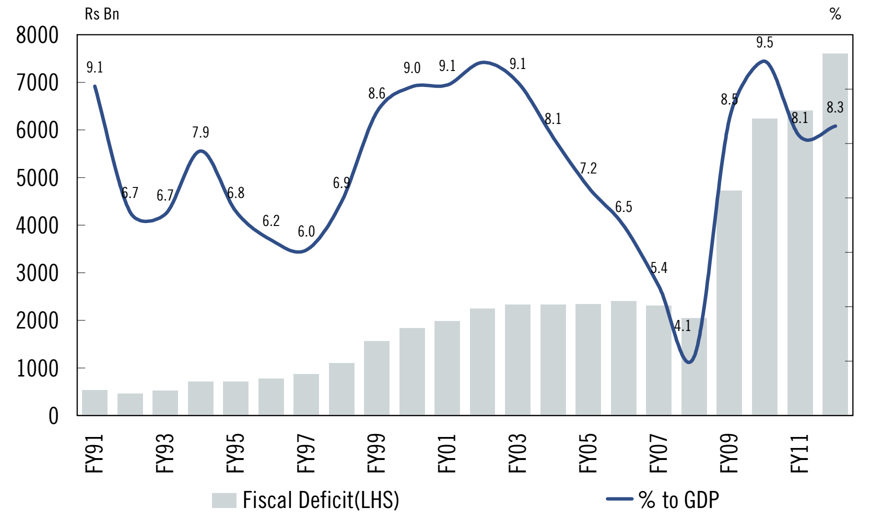
Trends in Deficits – A Reversal in Fiscal Consolidation

As mentioned in our earlier notes, India's significant fiscal consolidation seen between FY02-08 was reversed during FY09. The Centre's deficit rose from a low of 2.5% of GDP in FY08 to 6.4% in FY10 due to a combination of the fiscal stimulus post the financial crisis and higher subsidies/social sector spending ahead of the 2009 elections. Consequently, the combined fiscal deficit, which had consolidated to 4.1% of GDP in FY08, more than doubled to 9.5% in FY10. While trends in FY11 saw some moderation with the Centre's deficit coming at 5.1% and combined at 8.1% - this was largely due to the one-off payment of 3G license fees.

The Centre's fiscal consolidation path of 4.6% for FY12 and 4.1% for FY13 is likely to be missed by a wide margin with combined deficits thus trending back to the 8.5-9% range.

Fiscal consolidation seen during FY02-08 has been reversed. Deficit targets for FY12 and FY13 are likely to be missed by a wide margin due to expenditure overshoot and lower revenues

Figure 4. Trends in the Combined Fiscal Deficit (Rs Bn, % GDP)



Source: Ministry of Finance, CIRA Estimates

FY12 Deficit Likely to See Slippages to the Tune of 100bps

With expenditures trending higher and revenues running below budget estimates, fiscal slippages are well-priced in for FY12 to the government's full-year budgeted target of Rs4,128bn (4.6% of GDP). This is due to: (1) Lower Tax Revenues; (2) Expenditure Overshoot; (3) Lower Divestment Proceeds; and (4) Higher Subsidies largely on account of fuel. While all the above could result in a headline print of 6%, assuming some deferral of under-recoveries, we expect the budget to print a headline deficit number in the 5.6% - 5.8% range.

FY13 Budget – Some Consolidation … But Not Much

On the revenue front we expect some clarity on DTC implementation, steps towards implementing GST, and a clear disinvestment plan

With a slippage of ~100bps being priced in for FY12, the FY13 budget could likely see a focus on revenue enhancing measures. Taking into account a nominal GDP growth of 14.5%, revenue growth of 13% and expenditures at 10%, we expect a headline deficit print of Rs5348bn or 5.2% of GDP. The FY13 numbers could come in a bit lower depending on the govt's estimates for disinvestment and telecom revenues (2G as well as Spectrum Sharing). Another factor to keep in mind is the possibility of an amnesty scheme for unaccounted income.

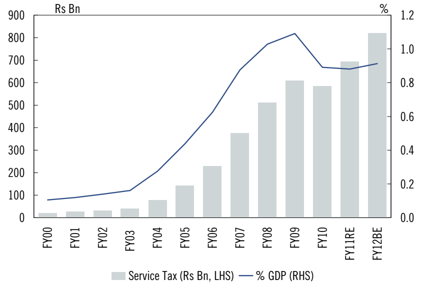
Focus on Boosting Revenues

1. **Indirect Tax Reforms**: Reforms that align with the introduction of the Goods and Service Tax (GST) are widely-expected to be on the agenda. Apart from further clarity on the timeline for implementation of GST (which has been pushed forward from the original deadline), we could see:

   – A gradual increase in excise duties/service taxes. Service taxes and excise duties were 12% and 14% pre-2008, and now stand at 10%. We could thus see rates being raised to shore up revenues. However, a sharp rise in duties could be inflationary in nature.

   – Introduction of a negative service tax list. Currently, India taxes services based on a **'positive'** list, i.e only certain services are taxed. A '**negative'** list refers to a list of services that will not be taxed and, other than that, all services would be subject to the prevailing service tax. Introduction of a negative list would raise service tax revenues. Although services contribute close to 60% of GDP, they generate tax revenues to the tune of just 1% of GDP or 8.8% of total tax revenues (please see Spotlight on Services – Role in Economy and Taxation).

Figure 5. Trends in Service Tax (Rs Bn, %GDP)



Source: Budget Documents; Ministry of Finance

2. **Direct Tax Reforms:** Measures could include:

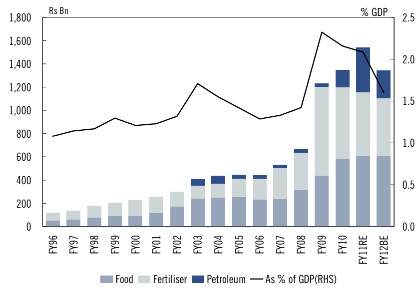
   – Steps to improve personal tax base, perhaps through imposition of a surcharge on income taxes, or measures to curtail benefits through tax havens or measures to track unaccounted income (i.e making declaration of overseas assets mandatory, amnesty schemes, etc).

   – Clarity on the timeline for implementation of the Direct Taxes Code (DTC). This was slated to come into force from 1 April 2012 but is likely to be delayed as it is still under consideration with the Standing Committee on Finance.

   – Other measures to improve corporate tax collections. Possibility of a cess/surcharge.

3. **Non-tax revenues:** With RBI now permitting the government to use its stake in companies held through SUUTI for disinvestment purposes, we could see non-tax revenues being slightly cushioned.

Figure 6. Trends in Subsidies (Rs Bn, %)



Source: Budget Documents; Ministry of Finance

Expenditure Measures to Focus on Subsidies

With even the Finance Minister confessing that he has been 'losing sleep' over subsidies, curtailing the bloated subsidy bill is likely topmost on the government's agenda. Apart from the widely-acknowledged possibility of the Food Security Bill being implemented during the Budget, the areas where we could see some reform are:

- **Fuel subsidies**. While the de-regulation of petrol subsidies last year has helped, oil companies are making major losses on diesel and the cooking fuels. Brent prices staying firm, coupled with the weak rupee, have exacerbated the woes of OMCs. According to our oil & gas analyst, Saurabh Handa, assuming oil at US$113/bbl, gross under-recoveries could rise to Rs1.6trillion in FY13 (even after assuming that the gov't would be able to raise prices of diesel by ~Rs3/l, LPG by ~Rs50/cyl, and kerosene by ~Rs2/l) , from an estimated Rs1.5 trillion in FY12 (see Figure 6). While diesel de-regulation may be too bold a move, we could see the imposition of a tax on diesel vehicles.

While the de-regulation of petrol subsidies last year has helped, oil companies are making major losses on diesel and cooking fuels.

Current Losses: Diesel Rs13/ltr; LPG Rs326/cylinder; Kerosene Rs28.5/ltr

Sensitivities:

Every US1/bbl change in oil prices = Rs30bn

Every Rs1 depreciation = Rs80bn

Figure 6. Oil Subsidy Sharing Mechanism (Rs Bn, %)

	FY10	FY11	FY12E	FY13E	FY14E
Gross Under-Recoveries	**461**	**782**	**1,483**	**1,594**	**1,212**
Less: upstream sharing	144	303	668	717	606
% of total	31%	39%	45%	45%	50%
Less: Govt Share	**260**	**410**	**742**	**797**	**545**
% of total	56%	52%	50%	50%	45%
Net Under-Recoveries	**56**	**69**	**74**	**80**	**61**
Avg Crude (US$/bbl)	70	86.6	110	113	115

Notes: (1) Exact Government and upstream share is not known for FY12. (2) Assuming net under-recoveries for OMCs stay flat yoy and upstream share stays at ~40-45%.
Source: Citi Investment Research and Analysis estimates

- **Fertilizer Subsidies**. With subsidies on fertilizers, including diammonium phosphate (DAP) and muriate of potash (MOP) being reduced across the board by 10-33% last month and effective through FY13, we are unlikely to see any major steps on this front. A positive move would be steps towards de-regulation of urea prices, although this appears uncertain.

Other Measures could include (a) Streamlining expenditure as per recommendations of the BK Chaturvedi Committee Report, which include reducing the number of centrally sponsored schemes and possibly revisiting the classification of expenditure into plan and non-plan, and (b) some clarity on the UID project, which is currently held up due to data collection issues between various ministries.

Other Policies

On the structural front, we expect measures to focus on infrastructure development and the social/agri space

With the economic recovery still fragile, improving investor sentiment is also likely to be key. To this end, we could see a focus on:

Infrastructure Development – Steps could include FDI in retail or aviation, measure to resolve the poor health of State Electricity Boards, and to expedite land acquisition/environmental clearances. We have already seen the recently-set-up committee (headed by the PM's Secretary P. Chatterjee) propose several reforms in the coal/power space, including: a) Fast-track clearances for power and coal projects; (b) expansion in coal production of existing mines without fresh clearance; (c) Coal India instructed to sign Fuel Supply Agreements with power plants that have implemented PPAs. We could also see measures to boost infrastructure financing (e.g. permitting banks to sell tax-free infrastructure bonds, some respite for NPAs in the power sector).

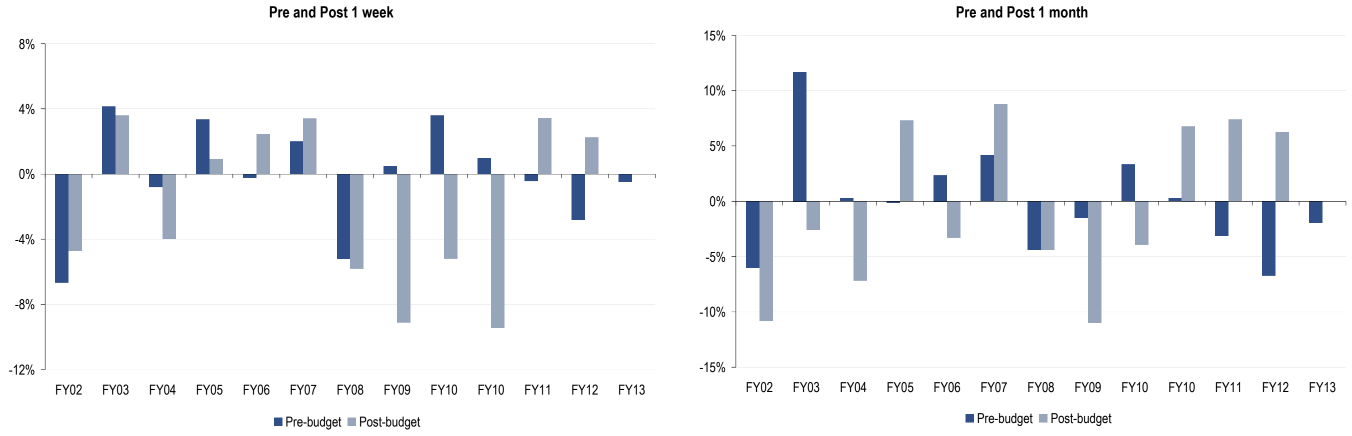
Agriculture and the Social Sector – Amending the APMC Act, decontrolling sugar prices, incentives for cold chain/agriculture supply chains, SME lending, affordable housing, drinking water facilities, irrigation, flood management, welfare of minority communities and those living in hills and the north east, could all be in focus.

How the market reacts leading into and out of the budget

Increasingly difficult to play the market on the budget ….though you would have made decent returns if you had bought for the budget in the last three years

It's a mixed bag, clearly suggesting there is no predictable way of playing the budget, either over a weekly interval, or over a month leading into and out of the budget. The last three years have however been a little different with the market doing consistently well one month after the budget – in part a reflection of fairly modest expectations leading into the budget. That could potentially be the case this time too, though the market has recouped some of its losses over the last two days, since the data below were compiled.

Figure 7. Market Performance around the budget

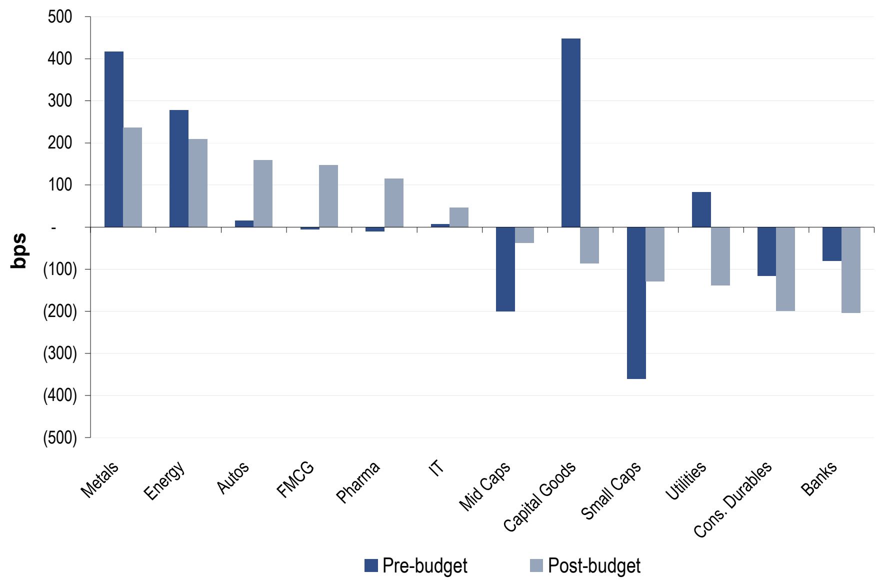


Source: Bloomberg, CIRA

M&M and ITC are vulnerable on account of taxes….though a lot of that is probably factored in

There is greater level of predictability at the sector level, but with distinctly differing performances across sectors. We believe this is largely reflected by the policy sensitivity of some of these sectors – both potentially good and bad news, and relatively positive or negative expectations. In the current budget, we do believe the maximum upside expectations with Capital goods (duty increases for competition), Utilities and the Energy Sector. Downside risks are with Automobiles (Excise duty and taxes of Diesel vehicles, M& M most vulnerable) and Cigarettes (Excise – ITC most vulnerable). Some of these concerns are often well in the price by the time the budget arrives (M&M and ITC this time around), and the 'no news is good news' phenomenon plays out quite often with the budgets. Over time though, the overall economic direction, and to a lesser extent the sector impact has increasingly dominated the company-specific impact that used to be the case.

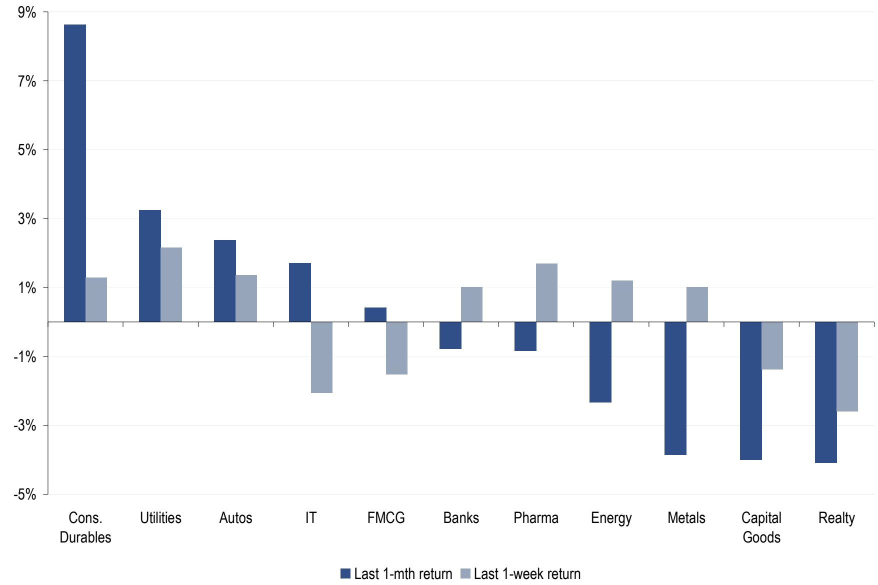
Figure 8. Avg relative sector performance around budgets (Pre and Post 1 month)



Source: Bloomberg, CIRA

Autos could be amongst the most vulnerable given strong performance into the budget which carries risks … while capital goods could potentially see upsides given weak performance with possible budgetary upsides

Figure 9. Sector Performance going into FY13 Budget



Source: Bloomberg, CIRA

Our sector-specific expectations

Figure 10. Sector-level expectations from the budget

Current Status	Expected Changes	Impact	Positive/ Negative	Companies Impacted
Power				
	Provisions for National Electricity Fund (NEF), to subsidize the interest on loans taken by SEBs to cut distribution losses.	Help reduce interest costs for SEBs	Positive	India Electric Utilities
Coal imports carry a 5% customs duty	Waiver of duty on imported coal	Reduce fuel costs	Positive	India Electric Utilities
Capital Goods				
No import duties on imported BTG equipment	Import duty of 15-19% of imported BTG equipment	Positive for domestic equipment manufacturers	Positive	BHEL, L&T, BGRL, Bharat Forge, Thermax and JSW Energy
IT				
Last year, Minimum Alternate Tax (MAT) of 18.5% on Special Economic Zone (SEZ) developers and units was imposed	Removal/dilution of Minimum Alternate Tax on Special Economic Zones	Acceleration in investments in SEZs	Positive	All sector companies
Current growth momentum in the IT Industry is largely limited to Tier 1 cities	Tax incentives for companies go to smaller towns	Higher inclusive growth - opening up of newer supply pockets and higher control over supply metrics in the medium term	Positive	All sector companies
Real Estate				
Clearances required from multiple departments over various stages	Single window clearance for real estate development	Will speed up approvals and reduce execution delays	Positive	All sector companies
Stringent norms for FDI repatriation	Relaxing norms for repatriation of FDI	Will attract higher funding	Positive	All sector companies
Tax benefits - Exemption of interest upto Rs150,000. Principal repayment included under tax benefits u/s 80C up to Rs100,000	Tax benefits - Enhancing income tax exemption limit for interest paid on home loan and repayment of principal under 80C to be treated as a separate tax exemption and be excluded from the benefits u/s 80C	Increase demand for residential segment	Positive for residential asset developers	DLF, Unitech, Oberoi Realty, Prestige Estates, Sunteck Realty, IBREL
No "industry" status	Grant "industry" status to the real estate sector	Raise debt at lower rates	Positive	All sector companies
Pharma				
Currently only in-house R&D comes under the purview of the weighted R&D deduction	Extend weighted R&D deduction to out-sourced R&D. Studies like bioequivalence, clinical etc. which cannot be carried out in house are outsourced	Most pharma companies to benefit. Immensely benefit the companies who are involved in novel drug discovery	Positive	Dr. Reddy's, Glenmark, Lupin, Biocon, Ranbaxy
Expenditure related to registrations, patent filings & related litigations don't come under purview of weighted R&D deduction	Bring them under the purview of weighted R&D deduction	All pharma companies to benefit. Benefits higher for companies involved in 1) drug discovery; 2) expanding into emerging markets in a big way	Positive	Dr. Reddy's, Glenmark, Lupin, Biocon, Ranbaxy
The current abatement for calculating excise duty is at 35%	Abatement needs to be increased to 45% - abatement is not sufficient to cover the trade margins & other related costs	All companies with sales in India pay excise duties - this will reduce excise duty & aid profitability	Positive	Ranbaxy, Cipla, Lupin, GSK Pharma
Excise duty on API is at 10% (higher than formulations) - no refund mechanism for claiming refund of accumulated CENVAT credit	Reduction in duty on APIs inline with formulations (at 4%) - Devise mechanism for refund of CENVAT credit	The higher rate of duty paid on inputs has led to accumulation of Cenvat Credit and cos are unable to offset it against tax. Hence reduction in duty and mechanism for claiming refund should be positive	Positive	GSK Pharma, Lupin, Dr. Reddy's, Cipla
Healthcare				
Currently hospitals do not hold infrastructure status	Infrastructure Status for Hospitals	Infrastructure status would improve access to capital and at lower costs - enabling expansion and making them attractive for investors	Positive	Apollo Hospitals, Fortis Healthcare
Income tax rebate on Medical insurance premium of Rs 15,000 currently allowed as part of section 80D as part of income tax act	Increase premium under tax rebate	Will lead to higher medical insurance cover - enable more people opt for better healthcare benefitting the hospital companies	Positive	Apollo Hospitals, Fortis Healthcare
Tax holiday for hospitals for 5 years under section 80-IB	Extend tax holiday to 10 years	Hospitals have long gestation periods and generally break even in 3-5 years. Extending incentives would enable them to take advantage of these incentives	Positive	Apollo Hospitals, Fortis Healthcare
Customs duty currently at 5% for medical devices	Customs duty to be exempted for medical devices	This would enable hospital companies to reduce their cost of setting up hospitals - require imported equipment	Positive	Apollo Hospitals, Fortis Healthcare

Current Status	Expected Changes	Impact	Positive/ Negative	Companies Impacted
Banks				
Tax deductible bank deposits locked-in for 5yrs	Reduce lock-in period to 3 yrs	Make bank deposits more attractive to investors	Positive	All Banks, especially with stronger deposit franchises, SBI, HDFC Bank, ICICI Bank, Axis, PNB, B
FDI in Insurance allowed up to 24%	Insurance FDI Limits to be increased to 49%	Positive for banks with insurance businesses	Positive	HDFC, ICICI Bank, Reliance Capital, Kotak
NPL provisions only in-line with RBI guidelines are tax deductable	Increased tax sops for NPL provisions	Breather to PSU Banks' earnings	Positive	All Banks, especially PSU banks
No interest subvention for power sector loans	Interest subvention fund for the power sector	Would provide relief to PSU banks that have high power exposure	Positive	Most PSU banks
Need for capital for PSU Banks for future growth and shift to Basel 3 framework	Re-capitalization of some PSU banks	PSU banks could see capital adequacy improving	Positive	SBI, Bank of India, Syndicate Bank, Bank of Baroda, Indian Bank
Metals				
Coal: Current import duty: 5%	The Association of Power Producers (APP) has also asked for the reduction of import duty on thermal coal from 5% to Nil	Lower the cost of power for plants based on imported coal; No impact on Coal India	Neutral for Coal India; Positive for power producers, cement companies, Nalco and other non-ferrous producers	Coal India, Nalco, power producers, cement companies
Aluminum: Import duty 5%	import duties on Aluminum products to protect domestic industry.	Increase in import duty will help raise the landed cost of aluminum	Positive	Hindalco, Nalco
Steel: Import duty 5%	enhance import duties on steel from 5% to protect the domestic industry.	Increase in import duty will help to reduce imports and increase domestic consumption. Domestic steel prices may not be raised on the back of an import duty hike (ET).	Positive	JSW Steel, Tata Steel, JSPL, SAIL and other domestic steel companies
Cement				
Excise duty (1) For cement sold at less than Rs190/ 50kg bag – 10% ad valorem+ Rs4/bag; (2) For cement sold at more than Rs190/bag - 10% ad valorem+ Rs8/bag; (3) For non-packaged cement - 10% ad valorem (calculated on ex-factory price/transactional value).	Rationalize the excise duty rate from 10% to 6-8% and to simplify the duty structure to either specific rate per MT or on ad-valorem basis.	Reduction in excise duty would be positive for cement producers	Positive	ACC, Ambuja, Grasim, UltraTech; all cement companies
Current import duty on thermal coal: 5%; current import duty on petcoke and gypsum: 2.5%	Reduction in the import duty on thermal coal, pet coke and gypsum to zero.	Lower cost of production	Positive	ACC, Ambuja, Grasim, UltraTech; all cement companies
Media				
Increase in customs duty imposed on set-top boxes (STB) is negative for DTH/CAS players	Concessions in these could aid digitalization growth in the country and also indirectly impact leading broadcasters also	Reduction in these could aid digitalization growth in the country and also indirectly impact leading broadcasters also	Any reduction/waiver is a positive	C&S companies (Dish TV, etc) and broadcasters (ZEEL, Sun TV); Print Media (DBCL)
Consumer				
	Increase in cigarette excise duties by ~10-15% (No hike in Union Budget last year)	The recent stock underperformance does price the excise increase, however, a significant increase beyond 10-15% could be a sentiment negative (near term impact on volumes). Historically, ITC has been able to pass on the excise/VAT increases to the consumers and also expand margins.	Duty increase beyond 10-15% could be a short term negative	ITC
Central excise rate for FMCG is ~10%	A increase in excise is a negative for the domestic businesses of some consumer good majors.	Increase in MAT rate (like last year) adversely impacts players	Negative	Asian Paints, Hindustan Unilever
Autos				
Excise duty currently stands at 22.7% for cars (10.3% for sub 4m) and 10.3% for 2Ws and CVs	There could be an overall ~100-200bps increase in excise. i.e. 1) On small cars, 2Ws, LCVs and MHCVs new excise duty rate could be 12% (10.3% currently) and 2) On all other passenger vehicles excise rate could become 24-25% (22.7% currently)	Industry wide price hike as OEMs pass through excise hike. This could lead to demand decline	Negative for industry.	M&M, Tata Motors, Ashok Leyland, Maruti Suzuki,Hero MotoCorp, Bajaj Auto
No difference in excise for diesel and petrol vehicles (barring engine size limit for small cars classification)	There are expectations of additional excise or extra tax on diesel passenger vehicles (as high as Rs 80,000 / vehicle)	Incremental price increase on diesel passenger vehicles (in addition to excise impact). Demand could shift back slightly to petrol vehicles	Extra diesel tax / excise could impact TTMT and M&M	Tata Motors, M&M

Current Status	Expected Changes	Impact	Positive/ Negative	Companies Impacted
Oil & Gas				
	Declared goods status to natural gas	This will trigger a lower sales tax rate as against the prevalent rate that varies from 12.5% to 20% across the states	Positive	Positive for the gas value chain (IGL, PLNG, GSPL, GAIL); Would also benefit gas consumers such as power and fertilizer companies, industrial consumers, etc
	Removal of 5% customs duty on LNG	Will make LNG prices cheaper for consumers; esp in a scenario when cheaper domestic gas is scarce	Positive	Positive for the gas value chain (PLNG, GAIL, IGL, PLNG) esp LNG importers as it would improve the competitiveness of LNG; Would also benefit gas consumers such as power and fertilizer companies, industrial consumers, etc
	Clarity on 7-year tax holiday for natural gas under Sec 80 IB for pre-NELP VIII blocks and flexibility for E&P companies to claim this benefit	Will incentivize E&P companies as the business involves high investment and risks	Positive	RIL, ONGC, etc
	Infrastructure status for RLNG terminals	Will incentivize companies to build new LNG import terminals to address the rising gas demand in the country	Positive	Positive for the gas value chain esp companies looking at building/expanding LNG capacities such as PLNG, GAIL, RIL, etc as well as pipeline companies such as GAIL, GSPL
	Adequate, realistic, and transparent provision of govt. compensation towards losses incurred by oil marketing companies; addressing the ad hocism prevalent in the current subsidy sharing mechanism	Will improve transparency and visibility for the govt.-owned upstream and downstream companies alike and improve financial health of the latter	Positive	Would benefit OMCs (BPCL, etc) as well as upstream companies (ONGC, OIL, GAIL)
	Timelines on the move towards direct transfer of cash subsidy on LPG and kerosene to households below the poverty line	Will significantly address the overall under-recovery situation	Positive	Would benefit OMCs (BPCL, etc) as well as upstream companies (ONGC, OIL, GAIL)

Source: Citi Investment Research and Analysis

Appendix A-1

Analyst Certification

The research analyst(s) primarily responsible for the preparation and content of this research report are named in bold text in the author block at the front of the product except for those sections where an analyst's name appears in bold alongside content which is attributable to that analyst. Each of these analyst(s) certify, with respect to the section(s) of the report for which they are responsible, that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc and its affiliates. No part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this report.

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	12 Month Rating			*Relative Rating*		
Data current as of 31 Dec 2011	**Buy**	**Hold**	**Sell**	**Buy**	**Hold**	**Sell**
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