

September 30, 2011

Kashyap Jhaveri

kashyap.jhaveri@emkayglobal.com

+91 22 6612 1249

Pradeep Agrawal

pradeep.agrawal@emkayglobal.com

+91 22 6612 1340

Aalok Shah

aalok.shah@emkayglobal.com

+91 22 6612 1336

Government raises borrowing target for FY12

- **The Government has announced for an additional borrowing programme to the tune of Rs528bn or 13% of the FY12 fiscal deficit. However, fiscal deficit target has been kept unchanged at 4.6% of GDP**
- **Gol attributed higher additional borrowing to net outflow from smaller savings schemes and lower cash balances. It now expects a shortfall of Rs350bn in small savings for FY12**
- **With 47% of FY12 borrowing in H2 and deficit liquidity, we believe there could be some crowding out of private borrowings**
- **Additional borrowing along with any further increase in interest rates could put pressure on the yield curve. Expect the longer yield curve (10-yr Gsec currently quoting at 8.44% levels) to inch-upwards of 8.6% levels**

Government raises borrowing target by Rs528bn

The Government of India has announced for an additional borrowing programme to the tune of Rs528bn or 13% of the FY12 fiscal deficit. Fiscal deficit target however has been kept unchanged at 4.6% of FY12 GDP. Resultant, H2FY12 borrowing programme now stands at Rs2.2tn as against earlier budgeted borrowing of Rs1.67tn.

... led by shortfall in Small savings schemes and cash balances

Gol attributed the reason for additional borrowing to net outflow from smaller savings schemes and lower cash balances. The government now expects a shortfall of Rs350bn for FY12 in small savings. Moreover, the cash balance has also been lower as there was higher than budgeted expenditure in last fortnight of March, 2011.

Historically borrowing programme has been front-ended

Historically, borrowing programme has been front-ended as credit growth remains lower in H1 and gradually picks up in H2 owing to festive season and capex plans by corporates. With borrowing being higher at 47% of FY12 in H2 and liquidity being in deficit of ~Rs500bn, we believe there could be some crowding out of private borrowings.

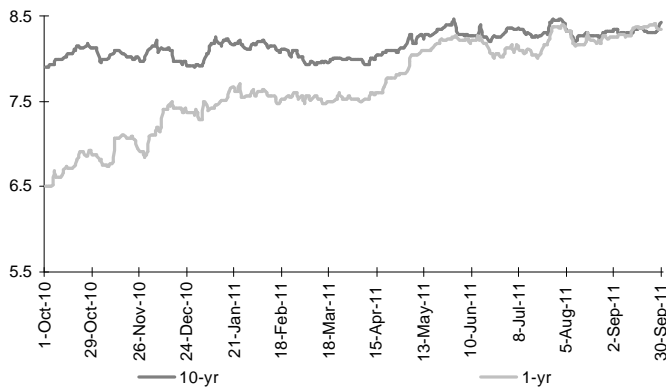
H2FY12 borrowing is higher at 47% of FY12

Rs bn	H2FY12	% of total	H2FY11	% of total
Oct	430	19.5	440	27.0
Nov	520	23.6	330	20.2
Dec	380	17.3	330	20.2
Jan	390	17.7	430	26.4
Feb	480	21.8	100	6.1
Mar				
Total	2,200		1,630	
Total borrowing programme for the year	4,700		4,500	
H2 as % of total	46.8		36.2	

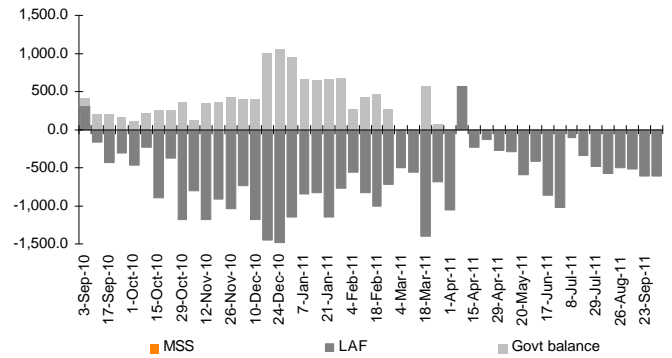
Bond yields to inch upwards of 8.6% trajectory; may crowd out private borrowing

For a long time now, spreads of short tenure yield over long tenure had remained flat owing to liquidity squeeze. However, in our view, with additional borrowing programme, largely being in nature of dated securities, we expect the longer yield curve (10-yr Gsec currently quoting at 8.44% levels) to inch-upwards of 8.6% levels. Non-food credit growth had gained momentum and inched towards 20% levels (fortnight ended 9th September, 2011). However, with additional borrowing (61% being in Q3), we expect crowding out-effect to come into play.

Additional borrowing to put further pressure on yield curves



... liquidity continues to remain in deficit mode



Source: Bloomberg, Emkay Research

Emkay Global Financial Services Ltd.

Corporate Add: B – Ruby Mills Tower, 7th Floor, South East Wing, Senapati Bapat Marg, Dadar (W), Mumbai - 400028 India.

Tel.: +912266121212 Web: www.emkayglobal.com

DISCLAIMER: This document is not for public distribution and has been furnished to you solely for your information and may not be reproduced or redistributed to any other person. The manner of circulation and distribution of this document may be restricted by law or regulation in certain countries, including the United States. Persons into whose possession this document may come are required to inform themselves of, and to observe, such restrictions. This material is for the personal information of the authorized recipient, and we are not soliciting any action based upon it. This report is not to be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. No person associated with Emkay Global Financial Services Ltd. is obligated to call or initiate contact with you for the purposes of elaborating or following up on the information contained in this document. The material is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon. Neither Emkay Global Financial Services Ltd., nor any person connected with it, accepts any liability arising from the use of this document. The recipient of this material should rely on their own investigations and take their own professional advice. Opinions expressed are our current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice. We and our affiliates, officers, directors, and employees world wide, including persons involved in the preparation or issuance of this material may; (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company (ies) discussed herein or may perform or seek to perform investment banking services for such company(ies) or act as advisor or lender / borrower to such company(ies) or have other potential conflict of interest with respect to any recommendation and related information and opinions. The same persons may have acted upon the information contained here. No part of this material may be duplicated in any form and/or redistributed without Emkay Global Financial Services Ltd.'s prior written consent. No part of this document may be distributed in Canada or used by private customers in the United Kingdom. In so far as this report includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.