Union Budget 2009-10 – Preview

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Hopes of Plenty

Research Team

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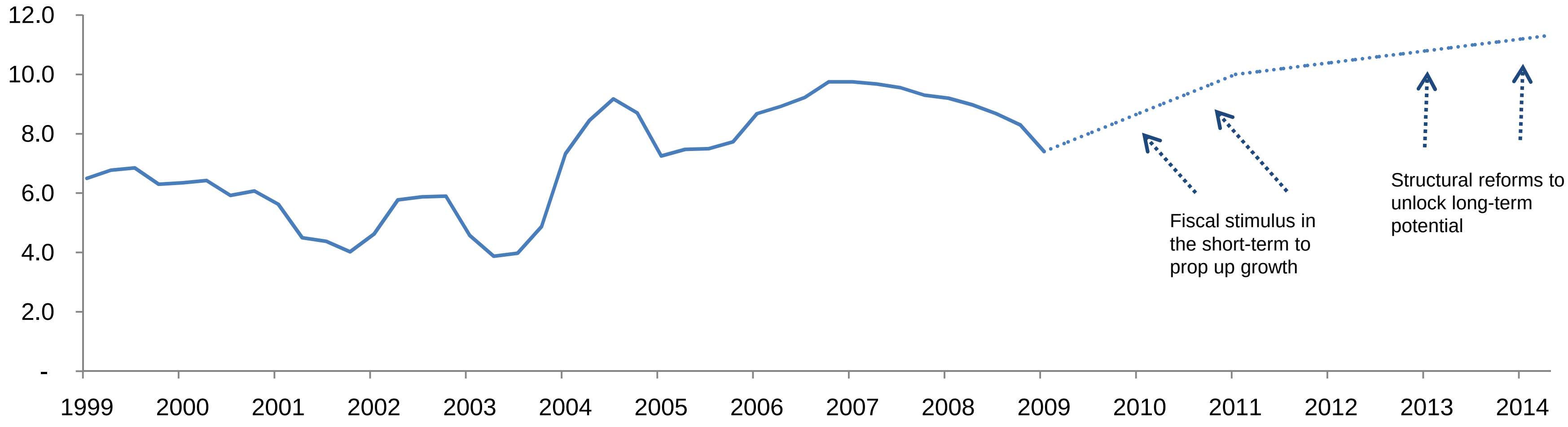
The resounding mandate with which the new government has come to power has created sky-high expectations on the reforms and development front. Several structural reforms, including in the financial services space to begin with, are certainly on the cards. Higher momentum is expected in infrastructure, education and healthcare spending. In the near-term, the government also needs to continue to support the economy with its fiscal policies, with the Export Sector being a prime candidate for receiving fiscal sops this year. Sops for Priority Sectors – a Budget regular – are likely to feature prominently this time around as well, with positive implications for overall consumption demand in the country. In this context, the overall fiscal deficit estimate will also be a key figure to watch out for its implications on interest rates and consequently private sector demand. Given the large funding requirements, it is also likely that the Budget will provide clarity on the government's plans for disinvestment and 3G auctions.

Exhibit 1: GDP Growth



Source: Bloomberg, Angel Research

Financial Sector reforms are likely; roadmap of sorts on other core reforms also expected

Key Financial Sector reforms are already pending before the Parliament and the government clearly has the will to push these through. The reforms include establishing a Pension Regulator as well as Insurance reforms to allow capital raising and increasing the FDI stake from 26% to 49%. Incidentally, while there is some speculation that the government may also further open up the Banking Sector for foreign investments, in our view this is unlikely to happen in the near term. Amongst some of the key structural reforms that the new government has laid stress upon, implementation of the Goods and Service Tax (GST) is a significant one and the Budget is likely to provide concrete details in this respect.

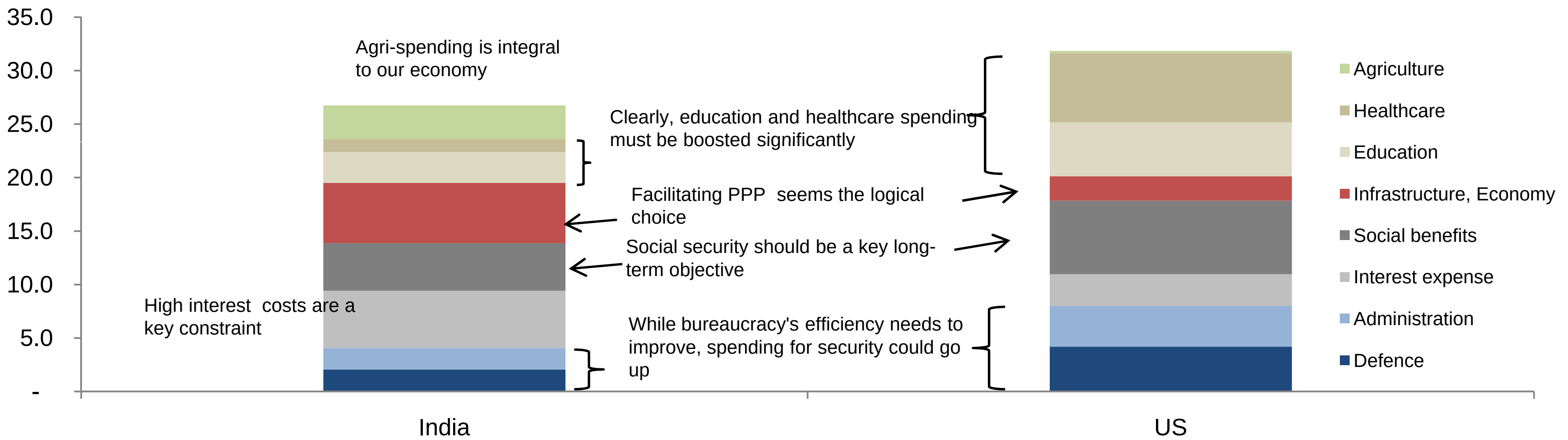
However, other big ticket reforms with far-reaching implications, such as the often-talked about Labour reforms are going to need a lot more consensus-building before achieving meaningful traction, and in our view it is too soon for the new government to take up in this Budget itself. Administrative reforms to overhaul the Bureaucracy and Judiciary have great appeal, especially from the point-of-view of making the country more attractive for foreign and domestic businesses alike. The timing is appropriate to make headway on this front and a better government to execute this could not be asked for, yet we prefer not to be too optimistic on this front without any concrete first steps being taken by the new government.

Priority Sector, Infrastructure, Education and Healthcare spending should receive a boost

Apart from reforms, the other key area where market expectations from this Budget are quite high are with respect to a major push from the government in spending on Priority Sector, Infrastructure, Education and Healthcare. Education and Healthcare spending by the government remain abysmal – the Indian Government spent just 4% of GDP on these areas as compared to 12% of GDP by the US Government. It will be disappointing if the Budget does not have specific programs that increase spending on this front (or planned increase over forthcoming budgets, given fiscal constraints at present). Incidentally, higher education is widely expected to receive special attention in this Budget. Social welfare spending is likely to take the form of increase in the National Rural Employment Guarantee Program (NREGP) and Bharat Nirman Yojana. It is also unlikely that Food and Fertiliser subsidies will be reduced, especially considering the poor rainfall forecasted for the year.

On the Infrastructure front, in our view, measures to facilitate PPP investments will figure in this Budget. A key issue that needs to be addressed is viable financing for PPP projects, otherwise execution will prove to be a damp squib. To this end, amongst other measures, reintroduction of the 100% tax break on interest earned on infrastructure loans, could happen in this Budget. Specific measures maybe enacted to help infrastructure finance companies such as IDFC, PFC, REC, etc. raise cheaper funds, for instance, via tax-free bonds. Besides, we expect higher allocations to be made in the Roads and Ports Segments.

Exhibit 2: Fiscal expenditure heads as % of GDP

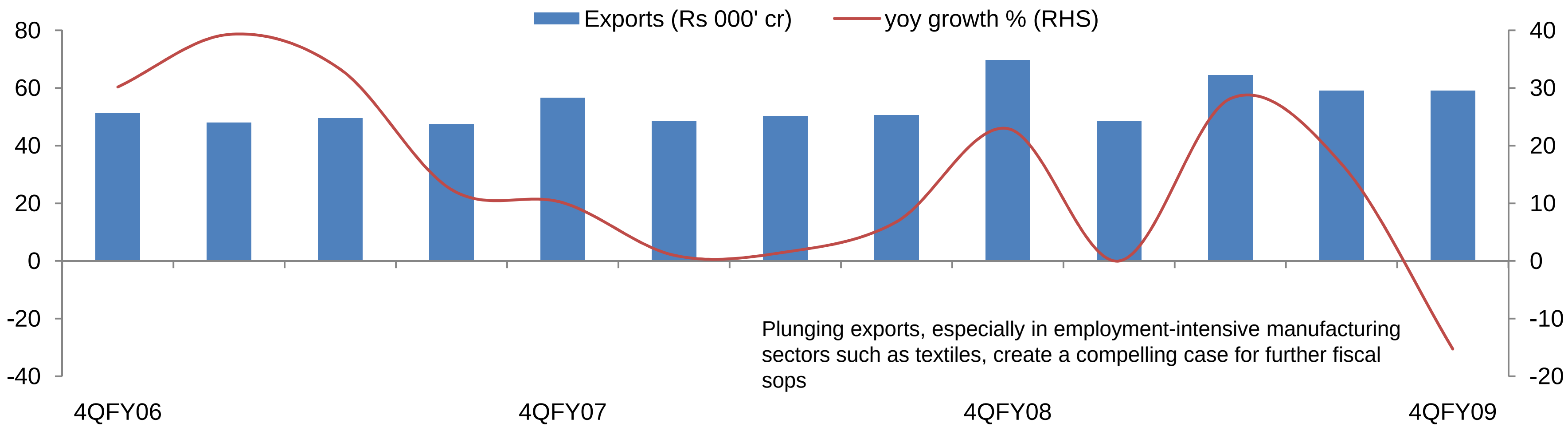


Source: MoF, BEA, Angel Research

Fiscal stimulus is still required, especially for Export Sectors

Fiscal spending to prop up our moderate GDP growth rate continues to be desirable in this environment. Especially, the employment-intensive Export Sector is evidently a prime candidate for receiving fiscal sops this year, considering that it remains the most vulnerable area of our economy to the ongoing global slowdown, with manufacturing exports like textiles, auto ancillaries, gems and jewellery, etc. being amongst the worst hit. We also expect the Software Technology Parks of India (STPI) scheme to get a one-year extension to provide relief especially to the smaller companies in the IT Sector. With monsoons likely to be below normal, apart from the Export Sectors, Agriculture – in any case a key focus area for inclusive growth – is likely to receive special attention as well.

Exhibit 3: Export Sectors continue to be the worst affected by global crisis



Source: Bloomberg, Angel Research

Managing the Fiscal Deficit is a key challenge for the government

Even based on the Interim Budget estimates, Fiscal Deficit is already expected to be quite high. With so many demands and expectations, managing the Fiscal Deficit is going to be a difficult challenge. Based on our projections of Domestic Savings, Credit growth and Fiscal Deficit, the demand and supply of funds is finely balanced. Overshooting on the Fiscal Deficit front or quicker revival of Private Sector Credit demand could prevent Interest Rates from falling further. So, the government is faced with the dilemma of increasing fiscal spending to prop up the economy and at the same time keeping Interest Rates low and not crowding out the Private Sector. It remains to be seen how much any further programmes, tax sops or fiscal stimulus packages add to the already large 11% combined Deficit (about Rs6.5 lakh cr) that we are factoring in at present.

Exhibit 4: Financing of the Fiscal Deficit

Particulars	FY2007	FY2008	FY2009E	FY2010E
- Insurance	58,088	72,459	82,268	93,655
- MSS	(33,912)	(105,418)	80,000	85,000
- Banks (adj for MSS)	103,682	207,239	199,248	273,189
- NSS, PF, External Funding, etc.	102,574	73,551	90,833	115,015
- RBI's Open Market Operations				80,000
Funding of Fiscal Deficit	**230,432**	**247,831**	**452,349**	**646,859**
(% of GDP at mkt prices)	5.6	5.3	8.5	11.0

Source: RBI, Angel Research

Given the high Fiscal Deficit, Disinvestment will be an important feature to watch out for

With the Left no longer a part of the coalition, Disinvestment plans will inevitably be amongst the most important points to be watched out for in this Budget. Given the large funding requirements, it is likely that the Budget will provide clarity on the government's plans for Disinvestment and 3G auctions. Budget provisions for Disinvestment proceeds and 3G auctions of about Rs20,000-25,000cr each in the near future are likely to be received positively by the markets. In our view, non-strategic PSUs such as Shipping Corporation of India are likely to be first in line for Disinvestment. The government is also looking at IPOs of OIL India, NHPC, etc. in the near term. On the other hand, big ticket IPOs such as BSNL, CIL, etc. are likely to be taken up in the forthcoming years rather than in the near term.

Sector-wise Expectations

Agriculture

Positive

We believe Budget 2009-10 is likely to be mildly positive for agriculture-related companies. Last year's farm loan waiver has increased the disposal income of the farmers, which is likely to see better demand for various agriculture-related products (seeds, irrigation system, fertiliser and crop protection chemicals) in the current year. However, companies would have to manage volume growth as the strong correction in commodities prices has led to reduction in the final price. Decline in the commodities prices is also likely to bring down the government's Subsidy burden on fertilisers in FY2010. Subsidy burden for FY2009 is likely to be well over Rs100,000cr, which would be ahead of the government's revised estimate of Rs75,849cr, an increase of 31% above the estimate. Some of the major Budget expectations include:

- Increase in Subsidy allocation for Irrigation projects
- Complete or partial de-regulation of urea price - fixed to zero Subsidy on urea, very less likelihood of the same to come through.
- Fertiliser Investment Policy to encourage Private Sector capacity - Capital subsidy, assured product take off and guaranteed returns on investment (higher than current level).
- Fund infusion in Rashtriya Chemicals & Fertilizers (RCF) and National Fertilizers (NFL) by way of debt or equity for capacity creation.

Budget Expectations

Head	Item	Current Status	Wish List	Potential Impact
Subsidy	Urea	Variable	Fixed/Zero	Positive for all Fertiliser companies

Top Picks

Company	Reco	CMP	Target Price	EPS (Rs)		P/E (x)		EV/EBITDA (x)	
		(Rs)	(Rs)	FY2010E	FY2011E	FY2010E	FY2011E	FY2010E	FY2011E
Jain Irrigation	Accumulate	610	747	33.1	43.9	18.4	13.9	10.1	8.2

Source: Company, Angel Research

Automobile

Neutral

The Union Budget 2009-10 for the Automobile Sector is expected to be Neutral, as most of the desired policy changes have already been announced by the government in its Interim Budget (February 2009) and at the time of Stimulus Package in December 2008. Expectations were running high for an Excise Duty cut to spur demand in the Sector, which has already happened with an across-the-board reduction in Cenvat by 4% in recent months.

In the Budget, Tax Sops could be announced for the Sector by way of lowering of Excise Duty on passenger vehicles (PV), with engine capacity of 1,500cc and more. Extension of Depreciation benefit for commercial vehicles (CVs) till end FY2010 is also expected. The Sector also stands to benefit from indirect sops like higher outlay for the Rural Sector (driving consumer spending) and increased Budgetary allocation for Infrastructure spending (leading to increase in Road freight).

Further, increase in the weighted deduction would motivate Indian companies to spend more on R&D and develop new and more efficient products. Any favourable change in Excise, Import and Custom Duty structure on raw materials and auto components will overall positively impact the industry.

Budget Expectations

Head	Item	Current Status	Wish List	Potential Impact
Excise Duty	**CV**	Charged at 8%	No Change	Positive for Ashok Leyland , Tata Motors
	PV (<1,500cc)	Charged at 8%	No Change	Neutral for Maruti Suzuki, Tata Motors
	PV (>1,500cc)	Charged at 20% and additional Rs15,000-20,000 specific duty	Removal of the additional specific duty of Rs15,000-20,000	Positive for Mahindra & Mahindra, Tata Motors
	Two Wheelers	Charged at 8%	No Change	Neutral for Hero Honda, Bajaj Auto, TVS Motor
Import Duty	**Flat CR**	Effective rate of 5%	Increase to 15%	Negative for the Sector

Top Picks

Company	Reco	CMP (Rs)	Target Price (Rs)	EPS (Rs)		P/E (x)		EV/EBITDA (x)	
				FY2010E	FY2011E	FY2010E	FY2011E	FY2010E	FY2011E
Bajaj Auto	Accumulate	972	1,016	75.8	81.3	12.8	12.0	10.0	9.3
Maruti	Neutral	1,027	1,024	57.9	68.3	17.7	15.0	10.8	9.0
M&M	Neutral	703	693	39.9	41.4	17.6	17.0	12.7	11.9
Amtek India*@	Buy	39	73	3.4	4.7	11.5	8.3	4.4	3.9
Ahmednagar Forg@	Buy	50	93	9.7	12.6	5.1	4.0	2.5	2.0
Bosch India#	Accumulate	3,197	3,365	166.4	186.9	19.2	17.1	12.0	10.5
Exide Industries	Accumulate	70	74	4.2	5.2	16.7	13.3	9.9	8.2
FAG Bearing#	Buy	420	522	58 .0	65 .0	7.2	6.4	3.4	2.8
Motherson Sumi*	Accumulate	68	71	5.0	5.9	13.6	11.4	8.3	6.8
Subros	Buy	27	34	3.3	4.3	8.4	6.4	3.6	3.1

*Source: Company, Angel Research; * Consolidated numbers; # December Yearend; @ June Yearend*

Banking

Positive

Banks are one of the keenest budget-watchers this year – not for specific measures relating to the Banking Sector, but the overall Fiscal Deficit.

Peak FD rates have on an average come down from around 10.5% to 7.5% in line with our expectations. But, to sustain the improving economic outlook and take our GDP growth rate back to the 8%+ levels, lending rates need to come down further and for this to happen deposit rates also need to come down more. It will be interesting to see if the Budget specifically addresses the issue of monetisation of the Fiscal Deficit. Monetisation (or the lack of it) could make the big difference to the direction of Interest rates.

That apart, there are a host of micro-measures available to the government to encourage savings, direct the flow of funds and reduce Interest costs. Small Savings rates may be brought down by 50-75bp so that banks can cut deposit and consequently, lending rates. The government could also look at bringing back tax exemptions on interest earned by lenders on ECBs and profits on infrastructure lending as well as increase the tax benefits on home loans. Regards the increase in FDI in Life Insurance to 49%, while it is on the cards, the Insurance Bill may be taken up separately by the Parliament after the Budget.

Budget Expectations

Subject	Current Status	Wish List	Potential Impact
Government Small Savings Schemes	Offers 8% interest rate	50-75bp reduction	Will eliminate a key hurdle for banks to cut deposit rates (and consequently, lending rates) further; positive for credit growth for all banks
Tax-saving Fixed Deposits	• 5-year lock-in period • Rs1lakh investment limit	• 3-year lock-in period (like ELSS mutual funds) • Rs2 lakh investment limit	Will put lock-in on Tax-saving FDs on par with ELSS; Will help increase deposit mobilisation by the Banking Sector
Profits of infrastructure lending	20% profits exempt	40% exemption	Viable financing for PPP projects is a key issue; such measures will help lower interest costs and increase availability of funds; will benefit the respective NBFCs
Issuance of Tax-free bonds by Infrastructure lenders	Only REC and NHAI permitted	Permitting other companies like PFC, IDFC, IIFC, etc.	
Interest earned on ECBs	No tax exemption	100% tax exemption	A key source of cheap funds to Indian corporates, the ECB route, must be encouraged in the current environment; will benefit domestic banks syndicating large amount of ECBs
Home Loans	Tax deduction on principal repayment up to Rs1lakh and on interest payment up to Rs1.5lakh	Increase in limits	Banks/HFCs, Real Estate companies and home buyers need this; mortgages and housing – languishing at present – are critical for reviving GDP growth; will benefit Banks/HFCs
Priority Sector	Interest subvention, lending targets	Increasing benefits	Regular Budget feature for inclusive growth; Negative for banks

Top Picks

Company	Reco	CMP	Target Price	EPS (Rs)		P/E (x)		P/ABV (x)	
		(Rs)	(Rs)	FY2010E	FY2011E	FY2010E	FY2011E	FY2010E	FY2011E
Corp Bank	Accumulate	335	346	65.5	59.0	5.1	5.7	0.9	0.8
Indian Bank	Accumulate	138	140	29.2	30.5	4.7	4.5	0.9	0.8
PNB	Buy	631	747	107.6	120.5	5.9	5.2	1.3	1.1
Union Bank	Accumulate	230	233	37.9	42.6	6.1	5.4	1.4	1.1
Axis Bank	Buy	779	947	59.7	67.8	13.0	11.5	2.4	2.1
HDFC Bank	Buy	1,465	1,640	63.0	78.2	23.2	18.7	3.3	2.9
ICICI Bank	Buy	700	866	36.5	43.6	19.2	16.0	1.6	1.5

Source: Company, Angel Research

Capital Goods

Positive

The Budget 2009-10 is sure to be keenly observed by the Capital Goods Sector though not much for the direct measures, but majorly with regards to the impetus likely to be provided to the Power and Infrastructure Sectors. Notably, the government is expected to continue to commit resources to the Power Generation, Transmission & Distribution Sectors coupled with the broader Infrastructure development in the country, which would boost orders for the Capital Goods industry.

Regards the specific demands, to counter the threat of increased competition from the overseas players (especially Chinese), Bharat Heavy Electricals (BHEL) has demanded 10% Customs Duty on import of equipment for both mega power projects as well as the ones being awarded through the international competitive bidding (ICB) route. However, we believe that the government is unlikely to accept this demand and maintain status quo in wake of the huge power deficit prevailing in the country.

Besides, to boost investments in productive fixed assets, the government might also consider enhancing the accelerated depreciation benefits or reinstate the investment allowance reserve, which if implemented would be a positive for the entire Capital Goods Sector.

Budget Expectations

Head	Item	Current Status	Wish List	Potential Impact
Import Duty	Power Equipment	Charged at 5% for ICB-based projects; No Customs Duty on mega power projects	Industry wishes 10% duty for both, however we expect status quo to be maintained	Positive for BHEL, if implemented

We are Neutral on the Capital Goods Sector.

Cement

Positive

We believe that the upcoming Budget 2009-10 would be positive for the Cement Sector with the government likely to focus on Infrastructure spending. Likely increased Budgetary allocation on Infrastructure would lend a boost to cement demand. Industry players are demanding reduction in Value Added Tax (VAT), which is currently charged at a much higher rate of 12.5% compared to other goods to around 4%. The Cement industry is also demanding rationalization of Excise Duty, which is currently differential and on MRP. However, the government might consider increasing Excise Duty from 8% to 10%, as the Cement prices have not been completely passed on post the reduction in Excise Duty in April 2009. We believe that this Budget will not effect any material changes in the duties on Cement. The only positive is likely to come from the Infrastructure push.

Budget Expectations

Head	Item	Current Status	Potential Change	Potential Impact
Excise Duty	**Cement**	Charged at 8%	Increase to 10%	Negative for cement companies, as players will not able to pass it on due to the expected surplus and sluggish season.
Value Added Tax	**Cement**	Charged at 12.5%	Reduce it to 4%	Positive for Sector

We are Neutral on the Cement Sector.

Positive

During FY2009, the Indian FMCG Sector exhibited tremendous resilience to the ongoing economic downturn posting healthy growth driven by steady domestic consumption and rising rural demand. We expect Budget FY2009-10 to continue to build on this momentum by strongly focusing on pro-Rural policies with rural employment guarantee schemes and profitable supply of funds to rural areas, duty ratioinalisation measures and increased allocation for infrastructure spending (leading to reduced transportation costs).

Moreover, FMCG players would be keenly watching for a clear roadmap for implementation of GST as it will solve the key issue of multiple taxation, which is currently hampering the Sector's growth. The Cigarette lobby will be keenly watching for the hike in Excise duty on cigarettes (we have factored in 5% hike – anything higher will be negative for ITC). Overall, we expect the Budget to be positive for the FMCG Sector particularly in terms of indirect measures getting announced to boost income levels and consumer spending.

Budget Expectations

Head	Current Status	Wish List	Potential Impact
Rural Sector budget allocation	Rising Rural Incomes has emerged as a key growth driver for FMCG companies	Increase in Budget outlay for the rural sector	Positive for all FMCG companies
FBT	Charged on business expenses such as sales promotion, travel and gifts	Abolish FBT completely	Positive for all FMCG companies
Excise Duties	The government lowered Excise Duty from 14% to 8% in two tranches	Increase in Excise duty on cigarettes by 5%, possible roll-back of Excise duty cuts (partially)	Negative for FMCG companies, including Cigarettes
VAT Rates on Biscuits	Currently at 12.5%	Reduce to 4%	Positive for Britannia, ITC
Central Sales Tax (CST)	Currently at 2%	Expecting complete exemption	Positive for all FMCG companies

Top Picks

Company	Reco	CMP	Target Price	EPS (Rs)		P/E (x)		EV/EBITDA (x)	
		(Rs)	(Rs)	FY2010E	FY2011E	FY2010E	FY2011E	FY2010E	FY2011E
GCPL	Buy	173	211	9.0	10.6	19.2	16.3	16.0	14.3
Marico	Accumulate	73	81	3.9	4.5	18.7	16.1	13.2	11.6
Nestle*	Accumulate	1,792	1911	68.5	79.6	26.2	22.5	16.4	14.2

*Source: Company, Angel Research; *December Year end*

Infrastructure

Positive

In the run up to the Union Budget 2009-10, wish list of the Infrastructure Sector and expectations from the new and stable government are quite high. We believe that Budget 2009-10 would draw up crucial policy changes to aid infrastructure development in the country considering the vital role that it would play in pump priming a sagging economy. We expect amendments in regulations relating to fund raising as there is still some hesitancy among the bankers for PPP projects, which can be done away with if part government guarantee is provided for major projects. Besides, we expect higher allocation to be made in the Roads and Ports Segments. In the Road Segment, we expect announcements to be made for setting up a special body to finance the Road projects through issuance of Bond instruments. We believe that Private NBFCs would be brought on par with the state-run ones in accessing funds from India Infrastructure Company (IIFCL). Also, some relaxation is expected in allowing NBFCs to borrow from abroad to finance the local projects. On the dividends front, we expect re-introduction of Section 80M, which provided for deduction in dividends received from subsidiaries for computation of dividend distribution tax.

Budget Expectations

Head	Current Status	Wish List	Potential Impact
Overall Fund Raising norms relaxation	NBFC's not allowed to borrow from abroad	NBFCs allowed to borrow from abroad and finance local bodies	Positive for Sector
Special kitty for Road Projects	No special purpose vehicle (SPV) to finance road projects	Announcements relating to creation of SPV for Road projects financing	Positive for companies involved in Road projects like NCC, HCC, MPL, etc
Customs Duty on Imported project goods	Currently Customs Duty at 5%	Removal of 5% Customs Duty	Cost savings in imported project goods

Top Picks

Company	Reco	CMP	Target Price	EPS (Rs)		P/E (x)		EV/EBITDA (x)	
		(Rs)	(Rs)	FY2010E	FY2011E	FY2010E	FY2011E	FY2010E	FY2011E
IVRCL Infra	Buy	346	399	20.9	24.1	16.6	14.3	10.5	9.6
Madhucon Projects	Buy	155	246	19.9	26.3	7.8	5.9	6.3	5.4

Source: Company, Angel Research;

Media

Positive

Media has clearly emerged as one of the worst-hit Sectors in the ongoing economic downturn. Hence, the Ambika Soni led I&B Ministry is readying itself for a slew of tax proposals to revive growth of the Indian Media & Entertainment (M&E) Sector. Amongst the key expectations of the Media Sector is inclusion of the Broadcasting, Cable and DTH Sectors in the Infrastructure Sector, as the benefits and incentives applicable to the Infra Sector would get extended to the M&E Sector and aid its expansion.

Other key expectations to watch out for include the demand for parity in applicability of Service Tax between Broadcasting and Print Sectors, reduction in Fringe Benefit Tax for media personnel and relaxation of FDI norms to spur investment in the Sector. The Broadcasting Sector, in particular, will be keenly watching out for the roadmap for roll out of the conditional access system (CAS), removal of frozen pricing regime for pay channels and abolishment of fixed channel pricing on CAS.

Budget Expectations

Head	Current Status	Wish List	Potential Impact
FDI	Varied limits for different sectors	Relax FDI limits for Radio, Distribution and Print companies	Positive for all Media companies
FBT	Charged at 20%	Reduce to 5%	Positive all Media companies
Stimulus Package to Print	Includes a 10% hike in Advertising rates paid by DAVP and waiver of the 15% agency commission	Extend the Stimulus Package for longer period and include Broadcasting Industry	Positive for Print (Jagran, HT Media and Deccan Chronicle) and Broadcasting companies
GST	Varied taxes are levied	Include Broadcast and Cable Sectors in the proposed GST	Positive for Broadcasters (Network18, NDTV, Zee, Zee News, Sun TV, TV Today) and Cable companies (WWIL, Dish TV)
Duty on digital set-top boxes	Special additional duty of 4% and countervailing duty of 8% on set-top boxes	Rationalise duty structure by removing SAD and CVD	Positive for Cable companies (WWIL, Dish TV)

Top Picks

Company	Reco	CMP	Target Price	EPS (Rs)		P/E (x)		EV/EBITDA (x)	
		(Rs)	(Rs)	FY2010E	FY2011E	FY2010E	FY2011E	FY2010E	FY2011E
Jagran Prakashan	Buy	76	89	3.8	4.9	20.1	15.4	11.8	9.2
TV Today	Accumulate	91	102	7.2	9.3	12.6	9.8	5.9	3.9
Zee News	Buy	40	46	2.1	2.9	18.6	13.7	10.5	8.2

Source: Company, Angel Research

Logistics

Neutral

The ongoing global economic slump impacted EXIM trade during FY2009. In the Budget 2009-10, we expect the government to offer incentives to the recession-hit exporters in form of Service Tax exemption and Interest subvention on pre- and post-shipment credit. This should drive overall growth in Container Exports. Further, timeline for the Central Sales Tax (CST) phase-out (2010) is expected to be maintained and result in lowering of CST to 1% from current levels of 2%. This should boost third-party logistic players like Gati and TCI, which will drive the Warehousing Segment.

We expect the government to focus on implementation of port-related Infrastructure and a dedicated rail freight corridor, which should hasten the process for exporters and importers to reduce their overall logistic cost. However, we do not expect these measures to have a significant near-term impact on our estimates and hence expect the Budget to be Neutral for the Sector.

Budget Expectations

Head	Current status	Wish List	Potential impact
Gradual phase-out of Central Sales Tax (CST)	Currently at 2%	Reduction in CST to 1%	It will enhance smooth functioning of VAT, which will drive outsourcing thereby increasing warehousing business for Logistics companies
Export sops		An interest subsidy, special package for labour-intensive industries and exemption of Service Tax	Will drive recession-hit exports-oriented Container Segment

Top Picks

Company	Reco	CMP	Target Price	EPS (Rs)		P/E (x)		EV/EBITDA (x)	
		(Rs)	(Rs)	FY2010E	FY2011E	FY2010E	FY2011E	FY2010E	FY2011E
Gateway Distriparks	Accumulate	102	109	6.8	9.9	14.9	10.3	7.9	6.2

Source: Company, Angel Research

Metals

Positive

We believe that the upcoming Budget 2009-10 would be positive for the Metal Sector with likely surprises on account of protections to be imposed on dumping of metals into the country. The Metals Sector has been reeling under the ongoing economic downturn and affected by the steep fall in the metal prices as well as dumping of metals into the country. Industry players are quite optimistic about this Budget and expect several measures to be announced by the government to protect the domestic companies. The controversial Safeguard duty of 25% on Steel has been talked about for quite a long time now and the government has been looking into the matter in detail and has been unable to find adequate justification to impose the same. We believe the Safeguard duty if at all considered, would be imposed in the range of 10-15% as against 25% demanded. The industry lobby is also demanding an increase in the import duty on steel from 5% to 10% on long products and 15% on flat products, which if it happens will help protect the domestic steel companies from cheap imports and prevent any fall in the domestic prices, which are trading at 10-12% premium to the landed costs. We believe that if at all the government looks at any protections for the Steel industry either of these demands would be considered and not both. But, likely higher budgetary allocation on the Infrastructure Sector would indirectly help boost the demand for metals.

Budget Expectations

Head	Item	Current Status	Potential Change	Potential Impact
Safeguard Duty	**Steel**	Charged at 0%	To be imposed at 25%	Positive for overall Steel Sector
Import Duty	**Steel**	Charged at 5%	Increased to 10-15%	Positive for overall Steel Sector
Export Tax	**Iron ore**	Nil- iron ore fines 5%- Iron ore lumps	Increased to 15% ad valorem on both fines and lumps	Negative for iron ore exporters like Sesa Goa and NMDC; Positive for steel companies, which don't have iron ore mines like JSW Steel, Essar, ISPAT, etc.
Royalty charges	**Iron ore**	Up to Rs13-27/tonne, depending on grade	Ad valorem 10%	Negative for Sesa Goa and integrated Steel players
Excise Duty	**Steel**	Charged at 8%	Increase to 10%	Neutral for Steel Sector; they would pass this to end consumers

We are Neutral on the Metals Sector.

Oil & Gas

Neutral

Resolution of long-pending structural issues including that of under-recoveries and ad-hoc pricing mechanism of the petroleum products, which is a key expectation from the upcoming Budget. Deregulation of petroleum product prices would address the structural issues of pricing and subsidy burden in the country. Tax holiday on natural gas production from the NELP block is also likely to be taken up. We believe that in spite of the various Budget expectations, much will not materialise on the Deregulation front as a people-centric Budget is likely to get announced. Also, following the surge in crude oil prices, chances of policy changes on the pricing front appear minimal. However, certain positives such as tax holiday on natural gas production from NELP blocks could be provided. Overall, we do not expect the measures to significantly impact our estimates as the same has already been factored in by us in case of gas production for RIL.

Budget Expectations

Head	Current Status	Potential Change	Potential Impact
De-regulation in petroleum product pricing	Regulated Ad-hoc pricing	Partial De-regulation of Auto Fuel prices	Positive for Oil Marketing companies (OMCs) like IOC, HPCL and BPCL) and PSU Upstream companies like ONGC, OIL and GAIL
Restoration of tax holiday on the natural gas production from NELP blocks	No Tax on crude oil production, while Tax on gas production	Both crude and natural gas produced from the NELP block to be provided with Tax holiday for 7 years	Positive for Upstream companies such as RIL, ONGC and Cairn
Service Tax on the E&P Segment to be abolished	Levy of Service Tax @ 10% on survey and exploration, site formation, mining services	To be abolished	Likely to benefit Upstream companies as well as Upstream support companies (Shiv Vani Oil & Gas)
Reduction of Custom duty on LNG	5% Custom Duty on LNG	To be abolished	Positive for Petronet LNG as it could prevent the possible downward revision of Re-gas Margins
Natural gas to be given Declared Goods status	Currently Inter-state trade of natural gas attracts multi-point sales tax	Reduces in tax incidence on Inter- state trade	Beneficial for user industries of natural gas, viz. Power and Fertilizer. Also, beneficial for IGL and Gujarat Gas
Custom duty on Crude to be restored	Currently, there is 0% duty on crude	Restoration of to earlier 5%	Negative for OMCs (on the marketing front) , but positive for Upstream Segment

Top Picks

Company	Reco	CMP	Target Price	EPS (Rs)		P/E (x)		EV/EBITDA (x)	
		(Rs)	(Rs)	FY2010E	FY2011E	FY2010E	FY2011E	FY2010E	FY2011E
RIL	Buy	1,960	2,375	130.9	164.9	15.0	11.9	10.5	7.9
Shiv Vani Oil & Gas	Buy	278	406	42.2	58.1	6.6	4.8	5.0	3.9

Source: Company, Angel Research

Power

Positive

We expect the Power Sector to be one of the key areas of focus for the upcoming Budget 2009-10, with the new UPA government reiterating its commitment towards Infrastructure development. The government has in fact targeted to commission 5,653MW of power in 1HFY2010, which is 61% more than the 3,500MW added in whole of FY2009.

We expect certain favourable announcements on the Direct Tax front such as extension of the benefits under Section 80-IA by 10 more years. Sops by way of reduction in duties on imported power equipment are also expected. Further, we expect benefits of Mega Power Status to be allowed for Projects in excess of 500MW as against the current 1,000MW. All these announcements, if made, are expected to be Positive for Power Generation Companies.

We expect an increase in budgetary allocation for projects like APDRP, RGVVY and other rural electrification projects. This is expected to lend a major boost to the Power Transmission companies in the EPC space. Other major announcement expected is disinvestment in PSUs. Further, some announcements facilitating funding of new projects along with concessions on interest cost are also expected.

Budget Expectations

Head	Current Status	Wish List	Potential Impact
Deduction Under Section 80IA	Benefits available only till FY2010; Available only to project developers	Extension of the Provisions of the section for another 10 years; Increase the scope of the section to equipment suppliers, EPC contractors, etc	Positive for all Power Generation Companies
Duty on Import of Power Equipments	5% duty on equipment used for projects awarded under International Competitive Bidding Process	Nil	Positive for Power Generation Companies
Mega Power Status	Awarded to Projects > 1,000MW	Awarded to Projects >500MW	Positive for Power Generation Companies

Top Picks

Company	Reco	CMP	Target Price	EPS (Rs)		P/E (x)		EV/EBITDA (x)	
		(Rs)	(Rs)	FY2010E	FY2011E	FY2010E	FY2011E	FY2010E	FY2011E
CESC	Buy	288	448	33.7	36.0	8.6	8.0	6.6	6.2
Lanco Infra	Accumulate	349	388	15.0	16.6	23.3	21.0	7.8	7.2

Source: Company, Angel Research

Pharmaceutical

Neutral

Budget 2009-10 is expected to be Neutral for the Pharmaceutical Sector. We believe the Budget would look at enhancing public healthcare spending to ensure access to all to affordable healthcare. Industry expects the government to increase public healthcare spending from the current 1% of GDP to at least 3%. Further, Industry expects rationalisation of Excise Duty on APIs from the current 8% to 4% to bring it in line with the Excise Duty charged on finished dosage.

To lend a boost to R&D activities in India, the government could increase the weighted deduction from the current 150% to 200%. Further, reduction of import duties on Intermediaries/ APIs and extension of the DEPB Scheme, which is set to expire in December 2009, can be expected from the Budget. However, we do not expect these measures to have a significant impact on our estimates and hence expect the Budget to be Neutral for the Sector.

Budget Expectations

Head	Current Status	Wish List	Potential Impact
Excise Duty on API	Charged at 8%	Reduced to 4%	Positive for all Pharma companies
R&D	Deduction of 150%	Increase to 200%	Positive for Ranbaxy, Dr Reddy and Cadila Healthcare
Import Duty Intermediaries/ API	-	Reduction	Positive for GSK Pharma and Aventis Pharma.
DEPB Scheme	Slated to Expire in December 2009	Extend by one more year	Positive for all Pharma companies

Top Picks

Company	Reco	CMP	Target Price	EPS (Rs)		P/E (x)		EV/EBITDA (x)	
		(Rs)	(Rs)	FY2010E	FY2011E	FY2010E	FY2011E	FY2010E	FY2011E
Dr. Reddy's	Neutral	757	765	41.0	53.8	18.5	14.1	9.7	7.6
Cadila Healthcare	Buy	370	450	29.0	32.1	12.8	11.5	6.4	5.6
Piramal Healthcare	Buy	302	397	22.8	26.4	13.2	11.4	9.4	8.1
Ipca Laboratories	Buy	510	684	68.1	85.5	7.5	6.0	5.6	4.8

Source: Company, Angel Research

Neutral

The Retail Sector stands to benefit from indirect sops like higher outlay for the Rural Sector and a people friendly Income Tax regime that would result in higher consumption. Our key expectations from Budget 2009-10 are granting Industry status to Retail Sector, removal of Service Tax on Retail rentals and speedy introduction of goods and services tax (GST).

Granting Industry status will be beneficial for the Sector as it will eliminate many hurdles and pave way for reforms in the Sector including labour reforms, tax benefits, development of national policies for retail, etc. Removal of Service Tax on Retail rentals will augment Retailers' Bottom-lines by 1.2-2% as rentals are in the range of 10-15% of Revenues. Introduction of GST in a speedy and efficient manner will eliminate double taxation accrued from both the Value Added Tax (VAT) and Central Sales Tax (CST) and add to Retailers' Profitability.

The above-mentioned wish-list is what the Sector is looking at and we also concur with the industry experts on the same, however, we believe that it will be difficult for the government to pay heed to all the demands of Retailers in this Budget. Hence, we expect the Budget have Neutral impact on the Sector.

Budget Expectations

Head	Item	Current Status	Wish List	Potential Impact
Service Tax	**Retail Rentals**	Charged at 12.5%	Full Exemption	Positive for all Retailers; Impact on Bottom-lines to be in the range of 1.2-2%
GST	**All Products**	Currently double taxation regime of CST and VAT is followed	On-time phase-wise implementation	Positive for all Retailers
Cess and Surcharge on Corporate Tax	**Corporate Tax**	Education cess of 2% and surcharge of 10% on Corporate Tax currently	Corporate Tax likely to be charged on a consolidated tax rate	Lesser tax to be paid by Retailers; improvement in Profitability

Top Picks

Company	Reco	CMP	Target Price	EPS (Rs)		P/E (x)		EV/EBITDA (x)	
		(Rs)	(Rs)	FY2010E	FY2011E	FY2010E	FY2011E	FY2010E	FY2011E
Pantaloon Retail	Neutral	313	301	11.6	15.6	28.2	20.9	11.5	9.5

Source: Company, Angel Research; Note: June ending

Software

Positive

In light of the ongoing global economic slowdown, we expect the Software Technology Parks of India (STPI) scheme to get a one year extension. The need to extend the scheme comes in light of the economic slowdown, which is pressurising business and leading to medium-sized firms, in particular, facing significant pressure. Thus, encouragement of a labour-intensive industry like IT becomes the need of the hour. It would also encourage expansion of the small and medium enterprises (SMEs) into smaller towns and ensure that India remains competitive as an offshoring destination. Other issues that require addressing include speedy enactment of the recent clarifications regarding the SEZ scheme, Service Tax, FBT abolition and transfer pricing norms. Apart from these issues, the treatment of software both packaged and customised is another area to be tackled. Any action on these issues, particularly on the SEZ front and the treatment of software would enable IT companies to do effective long-term tax planning for their businesses as well as reduce overall costs of doing business.

Budget Expectations

Head	Current Status	Wish List	Potential Impact
STPI extension	Tax holiday ends on March 31, 2010	Extension to March 31, 2012	4-6% FY2011E EPS upgrades for all top-tier IT companies
Rationalisation/ abolition of FBT	Employer pays FBT at 30% on the fringe benefit	Selective abolition of FBT on items such as marketing & sales promotion	Positive overall, will reduce cost of business to an extent

Top Picks

Company	Reco	CMP	Target Price	EPS (Rs)		P/E (x)		EV/EBITDA (x)	
		(Rs)	(Rs)	FY2010E	FY2011E	FY2010E	FY2011E	FY2010E	FY2011E
Bartronics	Buy	171	235	37.1	47.0	4.6	3.6	3.8	3.3
Educomp	Neutral	3,535	3,300	114.4	164.8	30.9	21.4	16.0	11.3
Infosys	Neutral	1,758	1,663	98.0	103.9	17.9	16.9	12.6	11.0
TCS	Neutral	380	381	25.9	27.2	14.7	14.0	10.3	8.8

Source: Company, Angel Research

Telecom

Neutral

It may be recalled that in the Budget 2007-08, a Committee was formed to deliberate on the issue of reducing the total levies on the Sector. However, in the consequent Budget, there was no mention about any progress on this issue. Thus, such step-motherly treatment doled out to a vital Sector needs to be a thing of the past if the country is to reap full benefits of the growth and expansion of telecommunication networks into the nooks and corners of rural India.

With a view to continue encouraging growth of the Sector, industry would renew a long-standing demand to reduce the total levies on it. The Indian Telecom Sector is amongst the most heavily taxed in the world, and estimates suggest that as much as 30% of a consumer's typical bill goes towards taxes and levies in the form of service tax, licence fees, spectrum charges, etc.

Any action on this issue will lead to a reduction in costs for telcos leading to them passing on the benefits to the consumer thus making telecom services more affordable for the masses. This is particularly important given that the next phase of growth is expected to come from rural India, where affordability is the key issue.

Apart from this, further clarity about the possible date of the 3G auction would also be looked at.

Budget Expectations

Head	Current Status	Wish List	Potential Impact
Uniform rate of licence fees	Licence fee ranges between 6-10% based on Circle category	Licence fees to be fixed at a uniform rate of 6%	Costs to fall, potential Margin expansion, higher Volumes due to passing on of benefits

Top Picks

Company	Reco	CMP	Target Price	EPS (Rs)		P/E (x)		EV/EBITDA (x)	
		(Rs)	(Rs)	FY2010E	FY2011E	FY2010E	FY2011E	FY2010E	FY2011E
Bharti Airtel	Accumulate	798	903	55.6	64.3	14.4	12.4	8.5	6.8
Tulip Telecom	Neutral	736	764	82.5	95.5	8.9	7.7	6.5	5.7

Source: Company, Angel Research

Disclaimer

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