

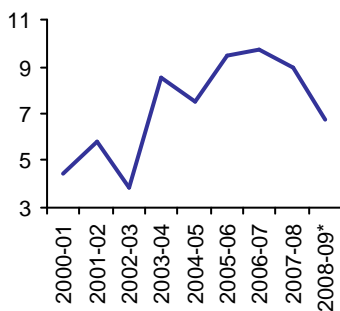
**PRE-BUDGET ANALYSIS**

Research Team  
+91 22 6621 6301

**Pre Budget Note - June 2009**

India's new Finance Minister will present a full-fledged budget after a gap of 16 months and under a different set of circumstances. In February 2008, India was entering a phase of lower growth trajectory. On the other hand, current data is suggesting that, the economy is likely past the worst and improving. However, we expect the agenda of the budget to be identical, subject to a few differences. We note that, the previous FM had a far more fractious and demanding set of coalition partners to contend with.

We opine that, the focus of the FM will continue to be on sustaining and improving the rate of GDP growth and that too, equitable (inclusive) growth. Investments in infrastructure, social initiatives and agriculture are expected to continue. While fiscal prudence will be attempted, we expect little change to the Center's fiscal deficit of more than 6% of the GDP. Alternate sources of raising finances like dis-investment, relaxation of FDI norms, auctioning of telecom licenses, etc may be used to fund additional investments.

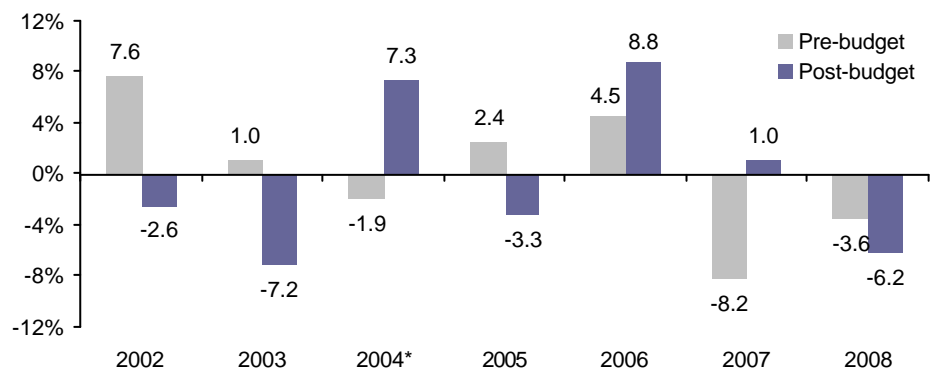
**GDP growth (%)**

Source: CSO

While issues like FDI relaxations / allowance and implementation of GST may be addressed, other critical issues like labour reforms, pension reforms, etc may need broader political consensus. We expect material developments on the same, if any, to be outside the budget. Tax burden on individuals may be reduced to spur consumption. From the market perspective, any major reduction in the STT burden will positively surprise us. Tax benefits for 'impacted' sectors and employment-generating sectors will be provided, in our view.

Though India was impacted by the global economic slowdown, the GDP growth of 6.7% (CSO advance estimates) in FY09, was the second fastest, globally. We expect the focus of the budget to be on sustaining and improving this rate of growth. To that extent, investments, mainly in infrastructure, are expected to continue. Segments like roads, highways, airports, ports, power, etc are expected to receive continued attention and funding. However, only speedier implementation will make these plans more effective.

We expect inclusiveness to be another corner-stone of the budget. Increased allocations to schemes like SSA, NREGS, mid-day meal scheme, etc will be announced, we believe. With falling growth in agriculture and some uncertainty on the monsoon (till now), we expect further initiatives in agriculture, which also promotes balanced growth and helps in containing inflation.

**Market movement - one month before and after budget**

Source: Bloomberg

The FM is faced with a fiscal deficit of more than 6% (combined with states, a fiscal deficit of about 11% of GDP) and the target for FY10 may not be too different. However, we expect a road-map for reducing the deficit over the next few years. To raise additional resources for investments, we expect targets for disinvestment in PSUs to be announced. Relaxation in FDI rules and encouraging more NRI money-flow will also help raise resources. Any initiatives on reducing subsidies will be positive.

While inflation is not an immediate concern, the FM may announce steps to further ease supply side bottlenecks for commodities. Control on fiscal deficit indirectly helps in containing inflation.

On the reforms front, we expect further progress on the implementation of the GST and also relaxation of FDI rules. However, issues like labour laws and pension reforms will need broader political consensus before they are implemented.

On the taxation front, we expect the FM to reduce the burden on individual taxpayers in a bid to increase consumption. An increase in the basic exemption limit, enhancing deductions from total income (through infrastructure bonds), etc can be considered by the FM.

We expect some targeted modifications to help 'impacted sectors'. Export-oriented sectors (leather, gems & jewellery, textiles), which continue to be impacted by the global economic slowdown, may be given relief. The FM may give further tax benefits on borrowings for certain segments of housing with a view to improve demand. Employment-generating sectors (IT services) may see benefits in terms of extended tax incentives. We also expect the FBT to be removed because of the high cost of implementation.

For the stock markets, we do not expect any major initiatives and any major reduction in STT or changes in capital gains tax will be a surprise for us.

Thus, we believe that, the focus of the markets will be more on investments, fiscal discipline and on sectors which are impacted by the budget proposals.

We believe that, the budget may have positive implications for Automobiles, Banking, Capital Goods, Construction, FMCG, Hotels, IT, Logistics, Media, Metals/Mining, NBFCs, Oil & Gas, Power, Real Estate and Textile sectors.

The budget could have negative implications for the Cement sector and may be Neutral for sectors like Telecom, Retail and Pharmaceuticals (marginally positive).

### **Focus on GDP growth...**

In the backdrop of a challenging global scenario, India's GDP grew at 6.7% in FY09, the second fastest rate globally. The economy was relatively insulated because of its low dependence on exports at less than 20% of the GDP. The UPA Government and the RBI took various fiscal and monetary steps, respectively to support the domestic industry, likely resulting in an early stabilization of the economy.

However, the global economy is still not out of the woods and reinforcements from the Government will still be needed to push our economy into a sustainable-growth phase. India's high investment rate (more than 35%) has been largely responsible in India achieving a high GDP growth rate. Thus, we expect the FM to continue to allocate significant investments, mainly to the infrastructure sector.

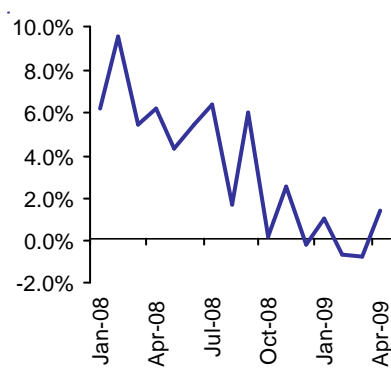
The 11th 5-year Plan has envisaged total investment in physical infrastructure (electricity, railways, roads, ports, airports, irrigation, urban and rural water supply and sanitation) to increase from around 5% of GDP in 2006-07 to 9% of GDP by the end of the plan period if the targeted rate of growth of 9% for the Plan period (2007-12) is to be achieved. Consistent with the above projection, the investment in physical infrastructure alone during the Plan has been estimated to be about Rs.20trn. Of this amount, the share of the Central Government, the State Governments and the private sector has been projected at 37%, 32% and 31%, respectively.

**Saving & Investment (% of GDP)**

	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Savings (GDS)	24.8	23.7	23.5	26.3	29.8	31.7	34.2	35.7	37.7
Investments (GDFC)	25.9	24.3	22.8	25.2	27.6	32.1	35.5	36.9	39.1

Source: CSO

The Government has already indicated it is now targeting to construct 15-20 km of roads a day compared with 1.5-2 km a day last fiscal. On the other hand, the Power Ministry has indicated its desire to be able to add power generation capacity of about 78,000 MW by 2012. It also wants to reach its target of providing electricity to about 118,000 villages at the earliest (60,000 villages already covered). As of now, the government has awarded four UMPP contracts of 4,000 MW each and expects to award two more by the calendar end and the others also at the earliest.

**IIP growth (%)**

Source: MOSPI

We note that, the Interim Budget (February 2009) had also proposed to make sizeable increases in allocations under various infrastructure schemes. It had provided for a 72% increase in spending (from Rs 69bn in 2008-09 to Rs.118bn in 2009-10) under the Jawaharlal Nehru National Urban Renewal Mission. Similarly, spending under the UPA Government's exclusive programme of Bharat Nirman was budgeted to increase by 31% to Rs 409bn for 2009-10.

While the intent is there, the implementation needs to further speed up. We expect measures towards this end. The Government has already taken the first step by putting the important infrastructure portfolios under experienced and seasoned ministers.

Conferring the status of a priority sector to the power industry may lead to significant financing from banks and attract more investments from private sector. Also, looking at the potential delays in the UMPPs, extension of tax benefits for UMPPs coming on stream post 2010 is expected. Currently, tax benefits under section 80IA are available only to UMPPs starting power generation before 2010. Extension of tax holidays to gas exploration business will also spur investments.

**...and promoting equitable growth**

Equitable growth has been one of the important cornerstones of the UPA's previous tenure and we expect the same to continue in the current tenure also.

Schemes like Sarva Shiksha Abhiyan, National Rural Employment Guarantee Scheme, mid-day meal scheme, etc have made significant progress though some of them have missed targets..

The total spend on social initiatives in 2008-09 (RE) was at Rs.1385.76 bn (15.4% of total expenditure) and the interim 2009-10 budget had pegged the spend at Rs.1370.63 bn (14.4% of total expenditure). We expect measures to provide further impetus to these schemes to ensure rural upliftment, employment, education, agricultural growth and public health. Initiatives on agriculture also help in easing supply side constraints and sustaining the GDP growth rate.

**Expenditure on Social Sector & Rural Development**

(Rs bn)	FY09 RE	% of Total Exp	FY10 BE	% of Total Exp
Social Sector	896.92	10.0	942.89	9.9
Rural Development	488.84	5.4	427.74	4.5
<b>Total</b>	<b>1385.76</b>	<b>15.4</b>	<b>1370.63</b>	<b>14.4</b>

Source: Interim Budget 2009-10

## Fiscal deficit - roadmap for achieving targets may be laid down

We expect the FM to lay down a road-map for achieving the targets laid down by the FRBM Act. He may be constrained to bring down the combined deficit of 11% by much in this fiscal itself because of the pressing needs of more investments. We note that, the FM has already indicated that, growth will be sought without fiscal profligacy.

We expect the Government to strive and raise finances through initiatives like disinvestment, FDI and auction of telecom licenses. With the compulsions of a coalition Government largely diluted, we expect the Government to announce targets for raising finances through disinvestments of select PSUs. The Government has already indicated that companies like ITI and BHEL may see their Government stakes diluted. A target for future years may also be set.

FDI limits may be relaxed in several sectors like insurance, airlines, etc and these may bring in additional funds.

The Government has already announced auctioning of telecom licences and this is targetted to bring in Rs.240bn. Moreover, the Government may also bank on a potential increase in tax revenues to improve finances.

We believe that, any minor deviation from the current deficit levels may not be viewed very negatively. Internationally, Governments of several countries have announced stimulus measures and spending programs to counter the slowdown leading to large fiscal deficits.

### Deficits (% of GDP)

	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09RE	FY10BE
Fiscal Deficit	6.2	5.9	4.5	4.0	4.1	3.4	2.7	6.0	5.5
Revenue Deficit	4.4	4.4	3.6	2.5	2.6	1.9	1.1	4.4	4.0
Primary Deficit	1.5	1.1	0.0	-0.1	0.4	-0.2	-0.9	2.5	1.8

Source: Budget documents

### Reforms at work

We expect the FM to address some of the reforms in this budget. Mr. Chidambaram has initiated the process of implementing GST by April 1, 2010 and we expect Mr. Mukherjee to continue with this process. Some of the steps which need to be taken are : harmonizing the service tax and excise duties, removing region based exemptions, etc.

Currently, while cenvat rate is at 8-12%, service tax rate is at 10% and VAT is at 12.5%. To align these, there can be an increase in the service tax rate. We believe that, GST has the potential to improve margins of companies by way of reduced cost on inter-state transfer of goods, and improved operating efficiencies.

As far as subsidies are concerned, an outline to reduce the subsidy burden on the Government may be drawn up. There may be no changes for FY09-10 as the fertilizer subsidy is expected to be lower in 2009-10 because of reduced costs of inputs. On the other hand, the recent increase in crude prices may prevent the Government from implementing market based pricing of fuels at retail level.

Apart from these, several initiatives in administrative reforms may be outlined in the budget. However, we believe that pension reforms and labour reforms will need wider political consensus before they are implemented.

## No major changes in direct tax rates expected

### Direct & Indirect Tax

	FY09	FY08	Growth (%)
<b>Direct Tax</b>	<b>3382.1</b>	<b>3122.0</b>	<b>8.3</b>
Corporate Tax	2138.23	1929.11	10.8
Personal Income Tax (including FBT, STT and BCTT)	1239.67	1189.04	4.3
FBT	79.97	71.16	12.4
STT	54.08	85.77	-36.9
<b>Indirect Tax*</b>	<b>2833.5</b>	<b>2813.3</b>	<b>0.7</b>
Excise Duty	1083.6	1236.1	-12.3
Import Duty	1080.0	1041.2	3.7
Service Tax	650.0	513.0	26.7
Other Taxes	19.9	23.0	-13.5

Source: CBDT, Budget documents; \* Indicates FY09 figures taken from the Revised Estimate from Interim Budget 2009-10

According to the data available, net direct tax collection during the fiscal 2008-09 stood at Rs.3.38trn, up from Rs.3.12trn during 2007-08, registering a growth of just 8.33%. Growth in Corporate Taxes was 10.84%, while Personal Income Tax (including FBT, STT and BCTT) grew at 4.3%. With fiscal deficit at elevated levels, we do not expect any major concessions in direct taxes to corporates. At best, there can be some changes in the surcharge. However, tax benefits to 'impacted' and labour-intensive industries like textiles, rubber, jewellery, leather, IT, etc may be extended.

On the individual front, we expect some relaxation in the basic exemption limit, to put more money in the hands of people. Some tax exemptions on investments may be given to channel funds for infrastructure.

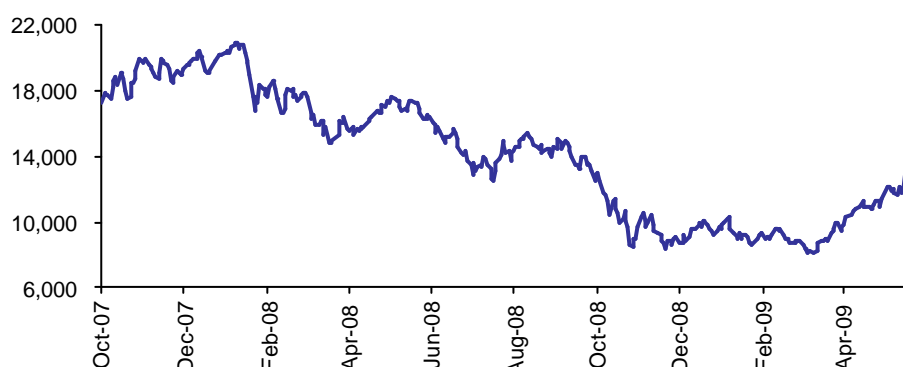
There have been representations from the industry about the Fringe Benefit tax (FBT). We believe that, the budget may dilute or remove this provision as the administrative costs for this are high.

### Stock markets

We do not expect any significant measures on the stock markets. There are expectations that, STT may be removed. We will be pleasantly surprised if there are significant changes in STT and capital gains tax rates. However, the burden of STT may be lowered.

The markets have already risen significantly post the election results. Expectations from the new Government are running high. Markets also seem to be discounting a reforms-oriented and growth-oriented budget from Mr. Pranab Mukherjee.

### Sensex from Oct 07 - June 09



Source: Bloomberg

## Sectoral implications

We believe that, the focus of the markets will be more on :

- Initiatives to sustain and improve the GDP growth; increased investments in infrastructure and social sector,
- Raising the requisite finances without impacting deficit percentages; disinvestment, FDI, etc,
- Speedier implementation of these initiatives

We believe that, the budget may have positive implications for Automobiles, Banking, Capital Goods, Construction, FMCG, Hotels, IT, Logistics, Media, Metals/ Mining, NBFCs, Oil & Gas, Power, Real Estate and Textile sectors.

The budget could have negative implications for the Cement sector and may be Neutral for sectors like Telecom, Retail and Pharmaceuticals (marginally positive).

## SECTORWISE EXPECTATION

## AUTOMOBILES

### EXPECTED BUDGET IMPACT: Positive

#### Current view

- Volumes for the automobiles sector have picked up after hitting a trough in Q3FY09. Going ahead, auto volumes can be expected to sustain their growth from the lower base of last year given a sustainable increase in economic activity and lending norms being eased by banks.
- While volumes for cars and 2W picked up in Q4FY09 due to high discounts, new launches and easier financing have helped the sales outlook in Q1FY10.
- The demand for CV's has improved QoQ, while being still down YoY, given the gradual improvement in economic activity and also as a result of the government's economic stimuli. The Government will be keen to support a turnaround in CV sales given its high co-relation with industrial production numbers and the movement of goods.
- Given this it is expected that excise duties will be retained at current levels or reduced marginally; we also believe an increase in duties will likely coincide with a further improvement in economic activity. On the contrary, a marginal increase in duties is likely to be a near term negative for the impacted segments.

#### Key budget expectations

Issues	Industry wish-list	Our expectation	Rationale for our expectation	Impact of our expectation
<b>Excise duty applicable for small cars.</b>	■ Retaining the cuts in excise duties, which were a part of the Govt.'s stimulus package.	■ Likely	■ Auto sales have begun to rebound after a long spell. Govt. will be keen to give impetus to this key component of consumption growth.	■ Neutral, if industry expectations met.
<b>Excise duty applicable for large cars</b>	■ Reduction in excise duty. Large cars invite a duty of 21%+ compared to 8% for small cars.	■ Likely. If not complete parity, we expect the differential to contract.	■ To further promote domestic industry and growth.	■ Positive, for players catering to the particular end of the segment.
<b>R&amp;D deductions for auto component makers.</b>	■ Extension of deductions to auto component makers who source it from abroad for use in India.	■ Status quo to be maintained.	■ Government has made clear its intention to gradually do away with deductions, across industries.	■ Neutral
<b>Extension of depreciation benefits</b>	■ For CV's and trucks this is expected to end in FY10E	■ Likely	■ Govt. will be keen to give impetus to this key component of domestic industrial demand and growth	■ Positive, for truck makers if it materializes.

Source: Kotak Securities - Private Client Research, Industry

#### Top picks

Company	Price (Rs)	EPS (Rs)		PE (x)		Recommendation
		FY09	FY10E	FY09	FY10E	

NOT UNDER ACTIVE COVERAGE

## BANKING

**EXPECTED BUDGET IMPACT:**  
Positive

**LONG TERM OUTLOOK:**  
Positive

### Current view

- ❑ The loan growth has moderated to 16-17% in last few fortnights whereas the deposit growth remained robust in the range of 22-23%. This has led to decline in C/D ratio to 69-70% currently from 72-73% few months back. The banks have parked their surplus money in government paper leading to increase in I/D ratio.
- ❑ We believe that southward journey of interest rate would continue. Falling Inflation which has even touched the negative territory last week (mainly on high base) has provided enough comfort to the RBI. The central bank has aggressively cut the CRR, repo as well reverse repo rate by 400 bps, 425 bps and 275 bps, respectively. These measures were front-loaded in nature and banks have not acted commensurately with the RBI's policy cut to pass on the benefits to borrowers.
- ❑ In our view, banks would further cut their lending rates without comprising on their margins as bulk rate has come off from the peak rates of October-November 08. As these bulk deposits would come for re-pricing at the lower rates, helping the banks in reducing their cost of funds. So, in our view, cut in lending rates would accompany the fall in the cost of funds for the banks.
- ❑ In falling interest rate environment, financial sector benefits on two fronts - 1) The demand for credit increases with the fall in the interest rate. 2) The liability of the banks get repriced at lower rate vis-à-vis its asset side. Therefore, banks see their cost of funds falling faster than their yield on funds, leading to increase in the margin.
- ❑ In a competitive scenario, PSU banks are facing problem of trained specialists. On the other hand, automation has made many jobs quite redundant. It would be beneficial if the Government allowed another round of VRS and permitted banks to recruit specialists.
- ❑ There is a great appetite for bank stocks in the system, but FII/FDI limit is acting against it. We would love to see a relaxation in this, but do not expect FII/FDI limit in PSU banks to be hiked in this Budget from the current cap of 20%. We also do not expect any relaxation in voting rights (Cap 10%) in the private banks.
- ❑ Last but not the least, consolidation in the industry has so far only been restricted to roundtables (except few deals). Now is the time to act on this, as duplication of IT infrastructure, manpower and capital is becoming prohibitively costly.

### Key budget expectations

Issues	Industry wish-list	Our expectation	Rationale for our expectation	Impact of our expectation
<b>Increasing the limit for deduction of interest on housing loans (for self occupied property)</b>	■ Increase from Rs.0.15 mn to Rs.0.25 mn	■ Likely	■ Increase the affordability of the borrowers.	■ Positive, it will increase the demand for home loans.
<b>Liberalizing FDI norms for Insurance Sector</b>	■ Increase the FDI limit in Insurance sector from 26% to 49%	■ Likely	■ To provide capital to the Insurance companies	■ Positive, it will provide capital to fund their insurance businesses.

## Banking (contd...)

### Key budget expectations

Issues	Industry wish-list	Our expectation	Rationale for our expectation	Impact of our expectation
<b>Tax exemption on Infrastructure financing</b>	■ Reintroduce 10 (23) G of the Income Tax act	■ Likely	■ Increase attractiveness for lending to infrastructure sector.	■ Positive, it will reduce the effective tax rate depending on the exposure to this sector.
<b>Reduction in the lock-in period for savings to qualify for tax benefits (Under section 80C)</b>	■ Reduce from five year lock-in period to three years.	■ Likely	■ Increase the attractiveness of term deposits and make it at par with other investment instruments	■ Positive as this would help the banks in correcting the asset-liability mismatch.

Source: Kotak Securities - Private Client Research

### Top picks

Company	Price (Rs)	PE (x)		P/ABV (x)		Recommendation
		FY09	FY10E	FY09	FY10E	
Axis Bank	766	15.1	11.9	2.8	2.4	BUY
BoB	440	7.2	6.0	1.5	1.2	BUY
Indian Bank	132	4.6	4.2	1.1	1.0	BUY
PNB	649	6.6	6.1	1.6	1.4	BUY
Union Bank	216	6.3	5.9	1.6	1.3	BUY

Source: Kotak Securities - Private Client Research

## CAPITAL GOODS

**EXPECTED BUDGET IMPACT:**  
Positive

**LONG TERM OUTLOOK:**  
Positive

### Current view

- The Capital Goods sector has been negatively impacted in last one year due to overall global slowdown which has severely impacted new investment plans. Apart from the slowdown, credit freeze in financial markets resulted in either deferment of capital expenditure plans or significant curtailment of the project size. The impact of these macro developments has reflected in deceleration in order inflows. Since, order inflows get translated into revenues over a period of time, we are seeing a slackening in pace of revenue growth.
- However, over the past three months, the liquidity in the system has improved vastly thereby making availability of funds relatively easier. We have also seen an improvement in new financial closure activity, which, if attains momentum, would restore future prospects for capital goods suppliers. A stable political environment should be a key catalyst.
- Softening in material prices, government thrust on infrastructure and soft interest rates are positives for the capital goods sector. The industry prospects have improved but current stock valuations appear to largely factor in the same.

### Key budget expectations

Issues	Industry wish-list	Our expectation	Rationale for our expectation	Impact of our expectation
<b>Customs duty</b>	<ul style="list-style-type: none"> <li>■ Imposition of 10 per cent customs duty on import of power plant equipment for both the projects awarded through the international competitive bidding route and mega power plants.</li> </ul>	<ul style="list-style-type: none"> <li>■ Status quo to be maintained</li> </ul>	<ul style="list-style-type: none"> <li>■ To promote investment in power sector and increase generation capacity</li> </ul>	<ul style="list-style-type: none"> <li>■ No impact</li> </ul>
<b>Import Duty on certain capital goods like boilers, rolling mills, hydraulic turbine etc</b>	<ul style="list-style-type: none"> <li>■ Not to be included in sensitive list for zero-duty under WTO obligations</li> </ul>	<ul style="list-style-type: none"> <li>■ Status quo to be maintained</li> </ul>	<ul style="list-style-type: none"> <li>■ To retain the viability of capital goods sector</li> </ul>	<ul style="list-style-type: none"> <li>■ Positive</li> </ul>
<b>Infrastructure bonds</b>	<ul style="list-style-type: none"> <li>■ Interest on Infrastructure bonds to be included under 80C</li> </ul>	<ul style="list-style-type: none"> <li>■ Likely</li> </ul>	<ul style="list-style-type: none"> <li>■ To garner funds for development of infra sector</li> </ul>	<ul style="list-style-type: none"> <li>■ Positive</li> </ul>
<b>Funding</b>	<ul style="list-style-type: none"> <li>■ The planning commission has proposed setting up a National Electricity Fund with a corpus of Rs 1000 bn - 1500 bn to finance development of power T&amp;D network by state utilities so as to reduce T&amp;D losses.</li> </ul>	<ul style="list-style-type: none"> <li>■ Likely</li> </ul>	<ul style="list-style-type: none"> <li>■ To garner funds for development of infra sector</li> </ul>	<ul style="list-style-type: none"> <li>■ Positive for T&amp;D Equipment companies like ABB, Areva, Siemens and Crompton</li> </ul>
<b>Rural electrification</b>	<ul style="list-style-type: none"> <li>■ Impetus on rural electrification to continue</li> </ul>	<ul style="list-style-type: none"> <li>■ Likely</li> </ul>	<ul style="list-style-type: none"> <li>■ To make power available to all</li> </ul>	<ul style="list-style-type: none"> <li>■ Positive for transformer makers</li> </ul>
<b>Allocation under Textile Upgradation Fund</b>	<ul style="list-style-type: none"> <li>■ To increase allocation under TUF</li> </ul>	<ul style="list-style-type: none"> <li>■ Allocation under TUF expected to be increased</li> </ul>	<ul style="list-style-type: none"> <li>■ Increase in allocation of TUF scheme would lead to revival in investment in the textile industry.</li> </ul>	<ul style="list-style-type: none"> <li>■ Positive for companies like LMW and Voltas</li> </ul>

Source: Kotak Securities - Private Client Research

## Capital Goods (contd...)

### Top picks

Company	Price (Rs)	EPS (Rs)		PE (x)		Recommendation
		FY09	FY10E	FY09	FY10E	
Crompton Greaves	281	15.3	17.8	18.4	15.8	ACCUMULATE
Voltamp	725	114	82	6.4	8.8	ACCUMULATE
Bharat Electronics	1318	101.1	114.5	13.0	11.5	ACCUMULATE
Larsen and Toubro	1497	51.4	60	29.1	25.0	ACCUMULATE
Blue Star	305	20.1	23.9	15.2	12.8	ACCUMULATE
Hind Dorr Oliver	90	8.4	11.6	10.7	7.8	BUY
AIA Eng.	225	18.1	24	12.4	9.4	BUY
EKC	200	13.6	16	14.7	12.5	ACCUMULATE
Nitin Fire	285	27.5	35	10.4	8.1	BUY

Source: Kotak Securities - Private Client Research

## CEMENT

**EXPECTED BUDGET IMPACT:**  
Negative

**LONG TERM OUTLOOK:**  
Negative

### Current view

- Union budget is expected to be marginally negative for the cement sector in terms of expected hike in the excise duties for cement. We expect that it will be difficult for the cement companies to pass on the hike in excise duties due to monsoons as well as impending oversupply.
- Higher budgetary allocations for infrastructure sector are likely to boost cement demand going forward. But we do expect that by H2FY10, incremental supplies would start kicking in and thereby cement prices would start coming under pressure.
- Thus we continue to maintain our negative stance on the sector

### Key budget expectations

Issues	Industry wish-list	Our expectation	Rationale for our expectation	Impact of our expectation
<b>Excise duty</b>	■ No increase in excise duty	■ Excise duty likely to be increased from 8% to 12%	■ Hike in excise duty will boost government revenue collection and reduce the fiscal deficit	■ Hike in excise duty is likely to be negative for sector since it is difficult for companies to pass on the hike due to monsoons as well as impending oversupply
<b>Abatement on excise duty</b>	■ 55% abatement on excise duty as against no abatement allowed currently	■ Status quo maintained	■ Indirect tax collections may be impacted negatively	■ Neutral for the sector
<b>Import duty on coal and pet coke</b>	■ Abolish import duty on coal and pet coke as against 5% currently	■ Expected to be abolished	■ Enhance the efficiencies of the cement companies	■ Result in saving the power costs for the companies. Marginally positive for the sector
<b>Reduction in railway freight charges</b>	■ Bring cement and coal in railway freight classification 130 and 140 respectively	■ Status quo maintained	■ Railways freight collections may be impacted negatively	■ Neutral for the sector

Source: Kotak Securities - Private Client Research, Industry

### Top picks

Company	Price (Rs)	EPS (Rs)		PE (x)		Recommendation
		FY09	FY10E	FY09	FY10E	

We do not have any picks in cement sector since we are negative on the sector

## CONSTRUCTION

### Current view

**EXPECTED BUDGET IMPACT:**  
Positive

**LONG TERM OUTLOOK:**  
Positive

- We expect Union Budget 2009-10 to be positive for the infrastructure sector with higher budgetary allocations in different segments such as roads, irrigation, ports, airports, power etc. We expect infrastructure companies to benefit positively in terms of higher order inflows going forward.
- We believe road sector is likely to witness a significant jump in the order inflows after a lull of almost 5 years. Simplification of model concessionaire agreement along with flexibility to offer projects on toll or annuity basis is likely to result in enhanced pace of order inflows. This is likely to be positive for players having adequate expertise and network for carrying out large sized BOT projects.
- Industry is also expecting introduction of Section 80M which enables extension of tax exemption on inter corporate dividends on multi layer holding structure. Reintroduction of Section 10 (23) (G) for lending companies is also likely to boost lending to the infrastructure projects.
- Key beneficiaries from higher order inflows are expected to be IVRCL, Nagarjuna Constructions, Patel Engineering, Simplex Infrastructure, Madhucon Projects and Unity Infraprojects

### Key budget expectations

Issues	Industry wish-list	Our expectation	Rationale for our expectation	Impact of our expectation
<b>Roads</b>	<ul style="list-style-type: none"> <li>■ Simplification of policy and regulatory framework for faster implementation; Increasing VGF cap for supporting non-viable projects; Higher budgetary allocation</li> </ul>	<ul style="list-style-type: none"> <li>■ Simplify procedures for implementation; higher allocation in budget; change the revenue model on annuity basis for select projects</li> </ul>	<ul style="list-style-type: none"> <li>■ Simplification of procedures to attract more players and will enhance modernisation and upgrading of highways</li> </ul>	<ul style="list-style-type: none"> <li>■ Positive for players having adequate experience and network to bid for large size projects</li> </ul>
<b>Irrigation</b>	<ul style="list-style-type: none"> <li>■ Faster environmental clearances; Higher fund allocation through Accelerated Irrigation Benefit Programme;</li> </ul>	<ul style="list-style-type: none"> <li>■ Will increase fund allocation</li> </ul>	<ul style="list-style-type: none"> <li>■ Result in increasing levels of irrigation</li> </ul>	<ul style="list-style-type: none"> <li>■ Positive for players having expertise in irrigation and water projects</li> </ul>
<b>Urban infrastructure development</b>	<ul style="list-style-type: none"> <li>■ Higher fund allocation through JNNURM</li> </ul>	<ul style="list-style-type: none"> <li>■ Increased fund allocation</li> </ul>	<ul style="list-style-type: none"> <li>■ Inline with government's focus of infrastructure creation</li> </ul>	<ul style="list-style-type: none"> <li>■ Positive for most of the construction companies focused on urban infrastructure development</li> </ul>
<b>Introduction of Section 80M</b>	<ul style="list-style-type: none"> <li>■ Extension of tax exemption on inter corporate dividends further one step down</li> </ul>	<ul style="list-style-type: none"> <li>■ Likely to be extended</li> </ul>	<ul style="list-style-type: none"> <li>■ DDT exemption is likely to benefit many companies since most of them have multi layer holding structure</li> </ul>	<ul style="list-style-type: none"> <li>■ Positive for players carrying out projects in separate SPV structures</li> </ul>
<b>Reintroduction of Section 10 (23)(G)</b>	<ul style="list-style-type: none"> <li>■ Enable easier lending to the infrastructure sector</li> </ul>	<ul style="list-style-type: none"> <li>■ Likely to be reintroduced</li> </ul>	<ul style="list-style-type: none"> <li>■ Banks would be allowed to claim deduction on interest earned on long term lending to the sector and hence will enhance lending to infrastructure projects</li> </ul>	<ul style="list-style-type: none"> <li>■ Positive for the infrastructure sector</li> </ul>

Source: Kotak Securities - Private Client Research, Industry

## Construction (contd..)

### Top picks

Company	Price (Rs)	EPS (Rs)		PE (x)		Recommendation
		FY09	FY10E	FY09	FY10E	
IVRCL	300	16.9	20.2	17.8	14.9	ACCUMULATE
NCC	121	6.7	7.3	18.1	16.6	ACCUMULATE
Simplex Infra	350	26.2	31.3	13.4	11.2	BUY
Unity Infraprojects	284	50.3	56.7	5.6	5.0	BUY
Sunil Hitech	150	22.0	25.0	6.8	6.0	ACCUMULATE

Source: Kotak Securities - Private Client Research

## FMCG

### EXPECTED BUDGET IMPACT: Positive

#### Current view

- In the current economic downturn and global financial turmoil we feel that FMCG industry in India should be able to continue to grow, albeit at a slower pace. Increasing penetration and low per capita consumption would help to achieve the volume growth. However the rate of growth may come down due to higher base effect and falling commodity prices.
- FMCG has inherent characteristics of necessity and inelastic products used for daily consumption. Also the demand from rural India, which constitutes ~50% of the total FMCG market in India is expected to remain strong as it has been boosted by hikes in minimum support prices for agricultural commodities and farm loan waivers.
- India has a tremendous potential for development of food processing industry. This is primarily due to changing preferences towards healthy lifestyle, increase in disposable incomes, breakup of joint families into nuclear families, double income families and robust growth in organised retail which is all leading to increased demand for the processed food items in India.

#### Key budget expectations

Issues	Industry wish-list	Our expectation	Rationale for our expectation	Impact of our expectation
<b>Excise duty</b>	■ To maintain excise duty on cigarettes	■ Marginal increase in excise duty on cigarettes	■ Source of cash for funding the welfare programs	■ Negative
<b>Focus on rural sector</b>	■ Focus on rural sector through employment generation and infrastructure spending	■ Positive steps for employment generation and infrastructure creation	■ Boost the inherent strengths of the Indian economy	■ Positive
<b>Tax exemption</b>	■ To be increased above Rs.1.5 lakh	■ Likely to be increased	■ More money in the hands of consumers leads to higher spending for FMCG	■ Positive
<b>Dividend distribution tax</b>	■ Reduction in dividend distribution tax	■ Status quo to be maintained	■ Future revenue implications	■ No impact
<b>Value Added Tax (VAT)</b>	■ Rationalize across the food processing industry	■ Status quo to be maintained	■ Future revenue implications	■ No impact
<b>Tax incentives</b>	■ Tax incentives for R&D in food processing industry	■ Some tax concessions to be announced	■ Tax concession on R&D would help the companies to invest in R&D and evolve new standards and practices in food processing	■ Positive

Source: Kotak Securities - Private Client Research, Industry

#### Top picks

Company	Price (Rs)	EPS (Rs)		PE (x)		Recommendation
		FY09	FY10E	FY09	FY10E	

NOT UNDER ACTIVE COVERAGE

## HOTELS

**EXPECTED BUDGET IMPACT:**  
Positive

**LONG TERM OUTLOOK:**  
Neutral

### Current view

- The hotel industry has been looking forward to get infrastructure status similar to transportation; energy etc. Currently banks treat hotels as real estate sector. This had been top priority for the industry. The industry is also looking forward to some tax rationalisation, relaxation of FBT, and single window clearance for various licenses. This also a critical issue since banks considers real estate lending as risky assets, lending for hotel projects has been attracting a high rate of interest.

### Key budget expectations

Issues	Industry wish-list	Our expectation	Rationale for our expectation	Impact of our expectation
<b>Infrastructure status for Hotel Industry (Section 80 IA of Income Tax Act)</b>	■ Hotel industry should be brought on par with the other infrastructure industries	■ Likely	■ In order to boost tourism in the country Government may consider hotel industry at par with infrastructure sectors	■ Positive

Source: Kotak Securities - Private Client Research, Industry

### Top picks

Company	Price (Rs)	EPS (Rs)		PE (x)		Recommendation
		FY09	FY10E	FY09	FY10E	

NOT UNDER ACTIVE COVERAGE

## INFORMATION TECHNOLOGY

**EXPECTED BUDGET IMPACT:**  
Positive

**LONG TERM OUTLOOK:**  
Positive

### Current view

- The IT/BPO services industry likely grew by about 15% in FY09 to \$59.6bn (source : NASSCOM). Of this, exports contributed about \$47bn, a growth of about 16.3%.
- The sector has faced significant challenges in FY09. Growth in exports dropped from 30% in FY08 to about 16%. The economic turmoil in developed nations impacted and continues to impact demand for Indian IT / BPO vendors. While there are initial signs of the situation easing in those economies, it is still early to determine whether they have turned the corner. Indian companies have seen some signs of stabilization in the form of fewer project deferrals, fewer pricing negotiations and visits from new clients.
- In this backdrop, the budget is expected to focus on maintaining an environment conducive to the future growth of this largely export-oriented industry. The sector has asked for an extension in the tax holiday (under section 10A/10B of the Income Tax Act, 1961) beyond FY10. We believe that, the FM may view this demand favourably with a view to help smaller companies compete more effectively.
- The industry has also submitted that FBT be removed. We believe that, the Government also shares the same sentiment because of the high cost of administration. Removal of FBT will have a positive impact on the sector in terms of cost control.
- We expect the focus on the budget to be on enabling issues like promoting higher technical education (so as to meet the potential demand for employees from the sector), promoting better infrastructure facilities in Tier II cities and other related issues. Initiatives on skills development, a priority area can also be expected in the budget.
- We are optimistic on the longer term prospects of the industry. Global Delivery Model has gained significant acceptance among existing and potential clients. We believe that, the outsourcing and off-shoring story will gather further steam in the future and this will see an increased flow of longer term and larger contracts to Indian vendors. Also, focused smaller companies with expertise on select verticals will be able to move up the value chain and attract larger clients, thereby, improving their longer term prospects.
- In the immediate term, companies should see demand improving in line with the improving economic scenario. Stock prices of most companies have risen over the past two months in anticipation of this improvement and adequately discount the current year earnings. Thus, at these levels, we prefer only selected stocks, which are available at reasonable valuations.

### Key budget expectations

Issues	Industry wish-list	Our expectation	Rationale for our expectation	Impact of our expectation
<b>Tax exemption U/S 10A/10B</b>	■ Extension of Tax exemption beyond FY10	■ Likely	■ This job generating and export oriented sector has faced numerous headwinds. Govt. will look to encourage sector for boosting export growth.	■ Positive, if materializes
<b>FBT</b>	■ Abolition of FBT.	■ Likely, given costs of compliance and to boost competitiveness of the export oriented sector.	■ To boost competitiveness of the export oriented sector. Govt. will look to encourage given the downturn in exports.	■ Positive, if materializes

## Information Technology (contd...)

### Key budget expectations

Issues	Industry wish-list	Our expectation	Rationale for our expectation	Impact of our expectation
<b>Multiple tax incidences for packaged and customized IT software, on commercial use</b>	<ul style="list-style-type: none"> <li>Subsuming of VAT and service tax incidence to a single levy</li> </ul>	<ul style="list-style-type: none"> <li>Status quo</li> </ul>	<ul style="list-style-type: none"> <li>With likely forward movement on GST, Govt may subsume the same on GST implementation.</li> </ul>	<ul style="list-style-type: none"> <li>Marginally positive, if it materializes.</li> </ul>
<b>Amendment in Section 10AA of IT Act: SEZ profits currently computed on total turnover of assessee</b>	<ul style="list-style-type: none"> <li>SEZ export profits to be computed with reference to turnover in particular unit</li> </ul>	<ul style="list-style-type: none"> <li>Likely</li> </ul>	<ul style="list-style-type: none"> <li>Addressing likely discriminatory nature of levy. FM has earlier stated in the Interim Budget that the anomaly will be corrected.</li> </ul>	<ul style="list-style-type: none"> <li>Marginally Positive</li> </ul>
<b>Nation wide broadband rollout and focus on skill building.</b>	<ul style="list-style-type: none"> <li>Time frames and scalable programs to be announced and implemented</li> </ul>	<ul style="list-style-type: none"> <li>Likely</li> </ul>	<ul style="list-style-type: none"> <li>Both have been earmarked as priority areas by the Govt.</li> <li>Will ensure longer term competitiveness of industry</li> </ul>	<ul style="list-style-type: none"> <li>Positive</li> </ul>

Source: Kotak Securities - Private Client Research, Industry, NASSCOM

### Top picks

Company	Price (Rs)	EPS (Rs)		PE (x)		Recommendation
		FY09	FY10E	FY09	FY10E	
Infosys	1780	103.1	104.5	17.3	17.0	ACCUMULATE
Mphasis *	385	39.8	NA	9.7	NA	BUY
KPIT Infosystems	48	8.3	8.5	5.8	5.6	BUY

Source : Companies, Kotak Securities - Private Client Research

\* - Financials of Mphasis are for fiscal ending October 2009

## LOGISTICS

### Current view

**EXPECTED BUDGET IMPACT:**  
Positive

**LONG TERM OUTLOOK:**  
Positive

- The logistics business is highly co-related to the overall economic development. Since we are in midst of turbulent times in terms of recession in US and Europe we expect lower EXIM growth. India's exports have registered negative growth rate for eight consecutive months. Also India's imports have registered negative growth rate for five consecutive months. This has led to lower port volumes and thereby lower number of containers being transported from port to ICD and vice versa.
- However we are seeing early signs of recovery in the domestic economy as there is significant push from the Indian government to accelerate the economic growth. This should translate into increased transportation of goods within the country.

### Key budget expectations

Issues	Industry wish-list	Our expectation	Rationale for our expectation	Impact of our expectation
<b>FDI in Aviation</b>	■ Allow foreign airlines to take stake in Domestic airlines	■ Foreign airlines would be allowed to take 49% stake in domestic airlines	■ Help the aviation companies to reduce debt, improve efficiencies	■ Positive
<b>Sales Tax on ATF</b>	■ To be reduced from 30% in some states to 4%	■ Status quo to be maintained	■ Future revenue implications	■ No impact
<b>Toll policy</b>	■ Centralized toll mechanism	■ Road map to be outlined	■ Reduction in stoppage time would lead to greater efficiency	■ Positive
<b>Rationalization of various taxes (Sales tax, Octroi, CESS etc.)</b>	■ From various taxes from state to state to common tax across the country	■ Status quo to be maintained	■ Future revenue implications	■ No impact
<b>Infrastructure related to roads and ports</b>	■ Some more initiatives to be taken for faster development of the roads and ports	■ Some firm steps for better infrastructure related to ports and roads	■ Efficient infrastructure is the key to the growth of the logistics industry as it facilitates faster and smoother transportation of goods across the country.	■ Positive
<b>Dedicated rail freight corridor</b>	■ Fixed schedule for implementation to set up rail freight corridor	■ Some firm steps for implementation	■ A dedicated rail freight corridor can boost the trade activities as the transit time will come down considerably between two cities and thus will lead more transportation of goods and services giving additional business to the logistics service providers.	■ Positive
<b>Modernization of rail freight</b>	■ Modernization of terminal and rail handling facilities	■ Some firm steps for implementation	■ It would lead to quicker turnaround of container and non container cargo	■ Positive

Source: Kotak Securities - Private Client Research, Industry

## Logistics (contd..)

### Top picks

Company	Price (Rs)	EPS (Rs)		PE (x)		Recommendation
		FY09	FY10E	FY09	FY10E	
Container Corporation (CONCOR)	1025	63.1	72.5	16.2	14.1	BUY
Gateway Distriparks (GDL)	102	7.5	9.0	13.6	11.3	ACCUMULATE
Mundra Port	620	10.8	15.0	57.4	41.3	ACCUMULATE
Redington India	230	20.5	23.1	11.2	10.0	ACCUMULATE

Source: Kotak Securities - Private Client Research

## MEDIA

**EXPECTED BUDGET IMPACT:**  
Positive

**LONG TERM OUTLOOK:**  
Positive

### Current view

- We expect the Budget to have a neutral impact on the prospects of the Media sector as a whole, and companies operating within it. A thrust on promoting domestic production of set top boxes, which will aid the acceptance of distribution platforms like DTH/CAS could be expected from the budget. These in our opinion will eventually lead to greater transparency in subscriber reporting and possibly higher tax revenues for the Government.
- From a longer-term perspective, we believe that greater spending power, demographics, growing consumerism in tandem with renewed expectations of healthy economic growth will underpin our optimism on the sector.
- In the near term, nevertheless, we believe stock out-performance is building in a rapid up tick in advertising revenue momentum on the back of renewed policy action leading to a faster recovery in corporate earnings. Any belying of these hopes will remain the key risk to the near term prospects of the segments' stocks.
- Our preference remains for market leaders, strong franchises and healthy balance sheets. We recommend accumulating our preferred picks- Zee News, JPL on dips. We remain positive on the subscription opportunity for broadcasters (ZEE, ZNL) given the structural changes in the distribution set-up.

### Key budget expectations

Issues	Industry wish-list	Our expectation	Rationale for our expectation	Impact of our expectation
<b>Service Tax:</b> Broadcasters are subject to levy of service tax @12.24% unlike print media that is exempt from the levy of service tax.	■ Broadcasters expect parity to be drawn between the print and electronic medium.	■ Status quo will be maintained	■ Classification for print in terms of industry status- (not considered a rendered service) is different.	■ Positive for broadcasters, if exempted. Negative for print companies if they are included in the service tax net.
<b>FBT</b>	■ Reduction in FBT from 20% to 5% for personnel working for print & electronic media companies.	■ Expected to be removed	■ High administrative costs	■ Positive.
<b>CVD:</b> 8% levied on digital set-top boxes	■ To be made 'nil' duty items.	■ Likely.	■ To provide a fillip to platforms like DTH. Increase C&S penetration. ■ Improve subscriber reporting; could reduce revenue losses and boost Government's tax collections.	■ Positive, if industry expectations met.
<b>SAD:</b> 4% levied on digital set top boxes	■ To be made 'nil' duty items.	■ Likely	■ To bring broadcasting equipment like set top boxes on par with rates applicable on telecom equipment and provide a fillip to platforms like DTH that use set top boxes.	■ Positive for DTH players, if industry expectations met.
<b>FDI:</b> Relaxation of norms in sub-sectors	■ Norms to be relaxed in cable distribution, print media, radio and news broadcasting	■ Relaxation for norms in cable distribution may come through	■ FDI relaxation could lead to higher foreign investment in the capital intensive segment.	■ Positive, if industry expectations met.

Source: Kotak Securities - Private Client Research, Industry

**Media (contd...)****Top picks**

Company	Price (Rs)	EPS (Rs)		PE (x)		Recommendation
		FY09	FY10E	FY09	FY10E	
Jagran Prakashan	76	3.0	4.1	25.0	18.3	ACCUMULATE
UTV	375	21.6	22.7	17.4	16.5	REDUCE
Zee News	40	1.9	2.2	21.4	18.1	ACCUMULATE

Source: Kotak Securities - Private Client Research

## METALS & MINING

**EXPECTED BUDGET IMPACT:**  
Positive

**LONG TERM OUTLOOK:**  
Positive

### Current view

- ❑ Indian domestic steel consumption had shown resilience in the backdrop of sharp fall in global ex-china slump in steel demand, aiding the Indian steel companies to post sales volumes growth for last few months adjusted for seasonality.
- ❑ Global steel industry has been showing first signs of recovery in last few weeks wherein there has been price increase announcement by large steel players like Arcelor Mittal, Baosteel, Nippon Steel etc. along with the lowest cost CIS producers. Since the capacity utilization had dwindled to historical lows in several key steel producing nations, the time period to spring back to stable sustainable recovery in demand and steel prices is expected to be long.
- ❑ Steel industry associations expect steel demand conditions to begin improving towards the end of 2009 when world industrial production is expected to recover, although there remains considerable uncertainty. Growth in steel demand is expected to resume over the long term, supported by domestic-led growth in many emerging economies like India.
- ❑ Indian government's fiscal and monetary measures in the beginning of the year helped the Indian steel industry to deal with the crisis via revival of robust domestic steel consumption.
- ❑ Indian steel industry is again expected to benefit indirectly from the significant government support to key steel-using sectors, mainly infrastructure, construction and low cost housing in the forthcoming budget.
- ❑ Sharp fall in key steel making raw materials like iron ore and coking coal would help the steel companies in sustaining healthy operating margins despite much lower steel prices.
- ❑ Domestic steel demand is expected to improve further from Q3FY10 onwards and we anticipate there could be sustainable marginal improvement in steel prices thereon.
- ❑ Base metal producers of aluminium, copper and zinc are drawing some comfort from the improvement in LME base metal prices. Base metal producers are relatively more dependant on global industry revival than the steel players. Growth in production capacity and in turn sales volume and reduction in cost of production is going to remain the growth mantra for them.
- ❑ Indian coal sector is expected to be in limelight in this fiscal and next few years as there are major policy initiatives expected which can make the sector very lucrative for the long term investors. There can be coal sector deregulation, IPO of Coal India and domestic coal price hike etc.
- ❑ There can be considerable action in the Indian mining space if the Indian government chooses to get parliament approval for the New Mineral Policy in the year ahead.

## Metals & Mining (contd...)

### Key budget expectations

Issues	Industry wish-list	Our expectation	Rationale for our expectation	Impact of our expectation
<b>Excise duty increase</b>	<ul style="list-style-type: none"> <li>Industry wishes that there is no roll-back of the reduction in excise duties.</li> </ul>	<ul style="list-style-type: none"> <li>Likely. Excise duty on steel may be raised from 8% to 10% or 12%</li> </ul>	<ul style="list-style-type: none"> <li>Government's revenue collection has been badly hit which in turn badly impact infrastructure development and ultimately hit steel demand.</li> </ul>	<ul style="list-style-type: none"> <li>Marginally negative for steel companies as it reduces their ability to push higher prices</li> </ul>
<b>Infrastructure spending push up</b>	<ul style="list-style-type: none"> <li>Continue with its thrust on the infrastructure sector</li> </ul>	<ul style="list-style-type: none"> <li>Likely. Higher allocation for the creation of fixed assets like railways, roads, transports and housing.</li> </ul>	<ul style="list-style-type: none"> <li>To enable India to deal with the global economic crisis and aim at leading the economy to a 7% plus growth in the coming year</li> </ul>	<ul style="list-style-type: none"> <li>Positive for steel companies with higher exposure to long products and sponge iron producers</li> </ul>
<b>Safeguard duty imposition</b>	<ul style="list-style-type: none"> <li>Provide adequate protection to the domestic firms against imports of cheap steel products. Levy safeguard duty on HRC at 20-25%.</li> </ul>	<ul style="list-style-type: none"> <li>Likely imposition of 5-10% safeguard duty on HRC</li> </ul>	<ul style="list-style-type: none"> <li>China has recently introduced 9% rebate on export of HRC and its likely negative impact on Indian steel companies can be negated with this action. Positively impacts government revenue collection.</li> </ul>	<ul style="list-style-type: none"> <li>Positive for steel companies with higher exposure to flat products.</li> </ul>

### Base Materials - Key budget expectations

<b>Safeguard duty imposition on Aluminium</b>	<ul style="list-style-type: none"> <li>Impose safeguard duty of up to 35 per cent on some aluminum products (aluminum sheets and foils) for two years</li> </ul>	<ul style="list-style-type: none"> <li>Likely. Provisional duty of up to 35 per cent was already in place for a period of 200 days.</li> </ul>	<ul style="list-style-type: none"> <li>To protect the domestic industry against cheap Chinese imports. The Board of Safeguards which is headed by Commerce Secretary has approved the imposition of the duty for two years.</li> </ul>	<ul style="list-style-type: none"> <li>Positive for domestic aluminium players.</li> </ul>
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### Mining - Key budget expectations

<b>Coal sector deregulation</b>	<ul style="list-style-type: none"> <li>Deregulation in coal sector. To allow entry of unrestricted private sector participation in coal mining. Allowing merchant sale of coal from captive blocks till the sector is fully opened up.</li> </ul>	<ul style="list-style-type: none"> <li>Likely. Government may indicate policy action for allowing commercial coal mining by private companies and amendment in Parliament to permit competitive bidding of captive coal blocks.</li> </ul>	<ul style="list-style-type: none"> <li>To help plug the growing demand-supply gap as it would boost India's domestic coal output and reduce dependence on imports. India produces over 450mn tonnes of coal annually, almost 50mn tonnes less than what it consumes.</li> </ul>	<ul style="list-style-type: none"> <li>Big positive for the companies with captive coal mines and those interested in entering the lucrative but restricted domain.</li> </ul>
<b>Iron ore export duty imposition</b>	<ul style="list-style-type: none"> <li>Steel ministry has recommended 15% export duty on iron ore.</li> </ul>	<ul style="list-style-type: none"> <li>Unlikely.</li> </ul>	<ul style="list-style-type: none"> <li>Enough iron ore resources in the country to meet the demand of domestic steel companies for next several decades. Previously imposition of export duty failed to achieve desired results.</li> </ul>	<ul style="list-style-type: none"> <li>Neutral. If any duty is imposed it would be negative for iron ore exporters.</li> </ul>

## Metals & Mining (contd..)

### Key budget expectations

Issues	Industry wish-list	Our expectation	Rationale for our expectation	Impact of our expectation
<b>Mining equipments import duty reduction</b>	<ul style="list-style-type: none"> <li>Reduction in 10% import duty levy on earth moving equipment and 7.5% import duty levey on smaller mining equipments</li> </ul>	<ul style="list-style-type: none"> <li>Likely. Government could reduce nearly by half the import duty levied on heavy and light equipment used for mining coal</li> </ul>	<ul style="list-style-type: none"> <li>Lower import duty will increase the rate at which these equipment are pressed into service for raising output.</li> </ul>	<ul style="list-style-type: none"> <li>Positive for companies with captive mining blocks of coal, iron ore, bauxite etc.</li> </ul>

Source: Kotak Securities - Private Client Research, Industry

### Top picks

Company	Price (Rs)	EPS (Rs)		PE (x)		Recommendation
		FY09	FY10E	FY09	FY10E	
Sesa Goa	190	25.0	29.0	7.6	6.5	BUY
SAIL	147	14.9	14.0	9.9	10.5	ACCUMULATE

Source: Kotak Securities - Private Client Research

## NBFCs

### Current view

**EXPECTED BUDGET IMPACT:**  
Positive

**LONG TERM OUTLOOK:**  
Positive

- For NBFC's the cost of funds has eased materially; this was seen in the backdrop of improved liquidity conditions in the system. Meanwhile some improvement in the global macro-economic outlook coupled with political stability in India is also a positive for the overall business growth outlook. In the 2009-10 union budget we expect sops for infrastructure financing companies and tax exemption for individuals pertaining to housing loan which will be positive for housing finance companies.
- We expect the individual tax exemption limit of deduction u/s 24 of Income Tax Act for interest housing loans, (for self occupied property) to be raised from Rs.0.15mn to Rs.0.20mn. The move will be positive for the housing finance companies and will enhance demand for housing loans.
- We expect tax exemptions for infrastructure financing companies in lending to infrastructure projects, We also expect the government to allow infrastructure finance companies to raise tax free bonds. This will help improve funds flow to key infrastructure sector and reduce cost of funds for these key infrastructure financing companies.

### Key budget expectations

Issues	Industry wish-list	Our expectation	Rationale for our expectation	Impact of our expectation
<b>Tax benefits on Housing Loans</b>	■ Tax exemption on interest paid on home loans to be increased to Rs 0.2mn from existing Rs. 0.15mn	■ Likely	■ The tax rebate u/s 80E and 88 is expected to continue, since it is important to improve the affordability of housing in India.	■ Positive
<b>Tax exemption to infrastructure financing companies and infrastructure projects</b>	■ Tax exemption from income - dividend, interest, and long-term capital gains from investments made in infrastructure facility	■ Likely	■ Increase in thrust on infrastructure financing and restore benefits to infrastructure financing companies which are similar to section 10 (23G)	■ Positive for infrastructure financing companies
<b>Low cost funds accessibility to infrastructure financing companies</b>	■ Allowing infrastructure financing companies to raise tax free bonds	■ Likely	■ Funds will be available to infrastructure companies at competitive rates, which would be positive for overall infrastructure development	■ Positive for specialised financing institutions
<b>Insurance Act amendments are expected, and increase in FDI limits</b>	■ Increase the FDI limit to 49% from 26% presently	■ Likely	■ Insurance industry is capital intensive industry and has higher capital requirement. With the industry now maturing, it requires some sops which are likely to be announced	■ Positive for all insurance companies

Source: Kotak Securities - Private Client Research

### Top picks

Company	Price (Rs)	PE (x)		P/ABV (x)		Recommendation
		FY09	FY10E	FY09	FY10E	
HDFC	2301	28.7	25.0	5.1	4.5	ACCUMULATE
IDFC	127	21.4	18.5	2.7	2.4	ACCUMULATE
SREI Infrastructure Finance	66	10.7	11.6	1.0	1.0	BUY

Source: Kotak Securities - Private Client Research

## OIL & GAS

### Current view

**EXPECTED BUDGET IMPACT:**  
Positive

**LONG TERM OUTLOOK:**  
Neutral

- ❑ **Oil** - The crude oil prices have started rising again and with retail prices capped it is leading to under recovery of Rs.6 per liter on Petrol and Rs.2 per liter on diesel. Oil Marketing Companies continue to remain dependent on oil bonds. The practice of issuing oil bonds does not resolve the problem as it only defers the resolution while compounding economic and financial costs.
- ❑ **Gas** - With expected ramp up of KG basin gas the country's natural gas supply is likely to increase significantly in next couple of years. Currently, majority of the gas consumption in India is for power, fertilizer, industrial etc. We believe that with easing supply side constraints and to lower the dependence on oil the government would provide incentives to increase the share of city gas distribution.

### Key budget expectations

Issues	Industry wish-list	Our expectation	Rationale for our expectation	Impact of our expectation
<b>Oil price deregulation</b>	<ul style="list-style-type: none"> <li>■ Allowing marketing companies to determine retail fuel prices</li> </ul>	<ul style="list-style-type: none"> <li>■ Road map may be laid down</li> </ul>	<ul style="list-style-type: none"> <li>■ At current price, there is under recovery of Rs.6 per liter on Petrol and Rs.2 per liter on diesel</li> </ul>	<ul style="list-style-type: none"> <li>■ Neutral</li> </ul>
<b>APM gas pricing</b>	<ul style="list-style-type: none"> <li>■ APM gas should be sold at market rates</li> </ul>	<ul style="list-style-type: none"> <li>■ Some hike in APM gas price</li> </ul>	<ul style="list-style-type: none"> <li>■ APM gas is sold at ~50% discount to the price of Reliance KG basin gas</li> </ul>	<ul style="list-style-type: none"> <li>■ Positive for ONGC and negative for APM gas users</li> </ul>
<b>Tax holiday</b>	<ul style="list-style-type: none"> <li>■ Tax holiday for city gas distribution</li> </ul>	<ul style="list-style-type: none"> <li>■ Some relief likely</li> </ul>	<ul style="list-style-type: none"> <li>■ Tax holiday would lead to increased investments in development of city gas distribution projects</li> </ul>	<ul style="list-style-type: none"> <li>■ Positive</li> </ul>
<b>Tax holiday</b>	<ul style="list-style-type: none"> <li>■ Tax holiday for production of natural gas</li> </ul>	<ul style="list-style-type: none"> <li>■ Some relief likely</li> </ul>	<ul style="list-style-type: none"> <li>■ Tax holiday would lead to increased investments in production of natural gas thereby reducing dependence on oil imports. Also similar exemption is available to other fuels.</li> </ul>	<ul style="list-style-type: none"> <li>■ Positive</li> </ul>
<b>MAT</b>	<ul style="list-style-type: none"> <li>■ Abolition of MAT on Exploration &amp; Production companies</li> </ul>	<ul style="list-style-type: none"> <li>■ Status quo to be maintained</li> </ul>	<ul style="list-style-type: none"> <li>■ Future revenue implications</li> </ul>	<ul style="list-style-type: none"> <li>■ No impact</li> </ul>
<b>Declared goods' status to Natural gas</b>	<ul style="list-style-type: none"> <li>■ Reduce sales tax i.e. up to 20% in various states to uniform 4%</li> </ul>	<ul style="list-style-type: none"> <li>■ Status quo to be maintained</li> </ul>	<ul style="list-style-type: none"> <li>■ Future revenue implications</li> </ul>	<ul style="list-style-type: none"> <li>■ No impact</li> </ul>

Source: Kotak Securities - Private Client Research, Industry

## PHARMACEUTICALS

**EXPECTED BUDGET IMPACT:**  
Positive

### Current view

- Over the past few years, we have seen little impact of the budget on the pharmaceutical sector. The industry has been growing at a steady pace on the domestic side. However, the going has been difficult on exports. Of late, the industry is facing several challenges like domestic pricing pressure and pressure on finding and developing new molecules.
- The Finance Minister is likely to give a boost to the sector's prospects through measures like extending income tax exemption for R&D spends.

### Key budget expectations

Issues	Industry wish-list	Our expectation	Rationale for our expectation	Impact of our expectation
<b>Tax exemption u/s 80</b>	■ Exemption under section 80, for promoting R&D in the sector.	■ Likely	■ To encourage companies to focus on R&D	■ Positive, if it materializes
<b>Fund to support small and medium enterprises</b>	■ Setting up of Rs.10bn fund to help companies for Schedule M compliance	■ Likely	■ To encourage SMEs	■ Positive for the industry, if it materialises

Source: Kotak Securities - Private Client Research, Industry

### Top picks

Company	Price (Rs)	EPS (Rs)		PE (x)		Recommendation
		FY09E	FY10E	FY09E	FY10E	
<b>NOT UNDER ACTIVE COVERAGE</b>						

## POWER

**EXPECTED BUDGET IMPACT:**  
Positive

**LONG TERM OUTLOOK:**  
Positive

### Current view

- ❑ Power deficit in the country continues to remain high with several parts of the country suffering hours of load-shedding
- ❑ Capacity addition has continued to lag the growth in demand. Power generation grew by a modest 2.7% in FY09 further widening the demand supply gap.
- ❑ Capacity addition during the year FY09 stood at 11061 MW, lower than the target addition.
- ❑ Thermal capacity addition under XIth plan was targeted at 59693 MW. As against this, thermal power capacity already commissioned stands at 9405 MW while capacity under construction stands at 61722 MW. However, there are likely to be significant slippages in XIth plan.
- ❑ The government has put in place favourable policies for attracting investment in power sector. The CERC raised the fixed Return on Equity to 15.5% from 14% earlier.
- ❑ The sector has long-term potential for growth. We recommend Accumulating NTPC.

### Key budget expectations

Issues	Industry wish-list	Our expectation	Rationale for our expectation	Impact of our expectation
<b>Infrastructure bonds</b>	■ Interest on Infrastructure bonds to be included under 80C	■ Likely	■ To garner funds for development of infra sector	■ Positive
<b>Withholding tax</b>	■ Remove withholding tax imposed on foreign borrowings	■ Likely	-	■ Neutral for NTPC but positive for UMPPs
<b>ECB Relaxation</b>	■ Further relaxation of borrowing limit	■ Likely	■ To garner funds for development of infra sector	■ Positive
<b>80IA tax benefit</b>	■ Extension of benefits beyond 2010	■ Likely	■ To maintain attractiveness of the sector	■ Positive

Source: Kotak Securities - Private Client Research, Industry

### Top picks

Company	Price (Rs)	EPS (Rs)		PE (x)		Recommendation
		FY09	FY10E	FY09	FY10E	
NTPC	193	9.9	11.1	19.5	17.4	ACCUMULATE

Source: Kotak Securities - Private Client Research

## REAL ESTATE

### EXPECTED BUDGET IMPACT: Positive

#### Current view

- We expect Union Budget 2009-10 to be positive for the real estate sector especially the affordable housing segment.
- In order to spur demand in the real estate industry, we expect the government to hike the income tax exemption for interest payment on home loans to Rs.0.25 mn a year. This is likely to result in increased demand in the residential segment.
- Real estate industry is also expecting setting up of a real estate regulator to enhance higher transparency in the sector.

#### Key budget expectations

Issues	Industry wish-list	Our expectation	Rationale for our expectation	Impact of our expectation
<b>Income tax exemption on home loans</b>	<ul style="list-style-type: none"> <li>■ Hike income tax exemption for interest payment on home loans to Rs 2.5lakh a year</li> </ul>	<ul style="list-style-type: none"> <li>■ Increase in the limit</li> </ul>	<ul style="list-style-type: none"> <li>■ Hike in limit may prompt buyers to buy houses, thereby beneficial to real estate sector</li> </ul>	<ul style="list-style-type: none"> <li>■ Positive for players focused on residential projects</li> </ul>
<b>Higher FSI</b>	<ul style="list-style-type: none"> <li>■ Increase the FSI for affordable housing</li> </ul>	<ul style="list-style-type: none"> <li>■ Increase the limit</li> </ul>	<ul style="list-style-type: none"> <li>■ Hike in limit since it is inline with government's focus on increasing affordable houses</li> </ul>	<ul style="list-style-type: none"> <li>■ Positive for players focused on affordable housing segment</li> </ul>
<b>Removal of service tax on rental income</b>	<ul style="list-style-type: none"> <li>■ Free the rental income yielded by commercial premises from service tax.</li> </ul>	<ul style="list-style-type: none"> <li>■ Status quo maintained</li> </ul>	<ul style="list-style-type: none"> <li>■ If service tax on rentals is removed, it may impact government's tax collection</li> </ul>	<ul style="list-style-type: none"> <li>■ Neutral for the sector</li> </ul>
<b>Real estate regulator</b>	<ul style="list-style-type: none"> <li>■ Introduction of a real estate regulator to enhance higher levels of transparency</li> </ul>	<ul style="list-style-type: none"> <li>■ Incorporate a separate real estate regulator</li> </ul>	<ul style="list-style-type: none"> <li>■ Higher levels of transparency as well as rating of construction quality for the players</li> </ul>	<ul style="list-style-type: none"> <li>■ Positive for the entire real estate sector</li> </ul>

Source: Kotak Securities - Private Client Research, Industry

#### Top picks

Company	Price (Rs)	EPS (Rs)		PE (x)		Recommendation
		FY09	FY10E	FY09	FY10E	
<b>NOT UNDER ACTIVE COVERAGE</b>						

## RETAIL

**EXPECTED BUDGET IMPACT:**  
Neutral

### Current view

- The organized retail industry has been facing tough times because of the general economic slowdown. Job losses and salary cuts have had an impact on the spending power of consumers. Consequently, there has been an impact on the foot-falls and also the average revenue per sq. feet for the retailers.
- In addition to this, the lack of financing has also impacted the expansion plans of these companies. FDI is allowed only in single brand retail but, restricted otherwise. The industry has been asking for relaxation in FDI rules, with a view to get adequate financing and also relevant expertise.

### Key budget expectations

Issues	Industry wish-list	Our expectation	Rationale for our expectation	Impact of our expectation
FDI rules	■ Relaxation in FDI rules	■ Unlikely	■ Government's focus is to promote the industry prospects in an orderly manner. However, a broader political consensus will be needed	■ Neutral. Positive only if it materializes

Source: Kotak Securities - Private Client Research, Industry

### Top picks

Company	Price (Rs)	EPS (Rs)		PE (x)		Recommendation
		FY09	FY10E	FY09	FY10E	

NOT UNDER ACTIVE COVERAGE

## TELECOM

**EXPECTED BUDGET IMPACT:**  
Neutral

### Current view

- The telecom sector has been one of the fastest growing sectors in India, which also boasts of having the second largest telecom user - base in the world. In fact, in January 2008, India had added the largest number of mobile subscribers on a monthly basis (8.77mn).
- With more than 35% tele-density, growth rates for Indian companies may taper off over the next few quarters. The ARPUs have already come down to about Rs.300. Thus, Indian companies are looking at new avenues like data-based services to increase ARPUs. In this context, 3G becomes very important for these companies. Mobile Number Portability is also expected to become a reality soon.
- Recently, the Government has fixed the license fee for country-wide 3G spectrum at about Rs.40bn. This is significantly higher than expectations of the telcos and may expect their expected profitability from these services.

### Key budget expectations

Issues	Industry wish-list	Our expectation	Rationale for our expectation	Impact of our expectation
<b>3G auctions</b>	■ Announcement of steps to ensure early and orderly completion of these auctions	■ Likely	■ Will bring in the much needed revenues for the Government.	■ Positive for cash-rich companies in the long term.
<b>Excise duty on all domestic telecom products</b>	■ Should be reduced from 16% to 8%	■ Unlikely	■ Broader revenue implications	■ Neutral

Source: Kotak Securities - Private Client Research, Industry

### Top picks

Company	Price (Rs)	EPS (Rs)		PE (x)		Recommendation
		FY09	FY10E	FY09	FY10E	

NOT UNDER ACTIVE COVERAGE

## TEXTILES

**EXPECTED BUDGET IMPACT:**  
Positive

**LONG TERM OUTLOOK:**  
Positive

### Current view

- The textiles sector has been negatively impacted in last one year due to slowdown in US and Europe which severely impacted the demand as they contribute ~60% of total textile exports. However companies who were domestic focused have continued to do well as the demand in India has picked up during last few months.
- With expected high domestic growth in consumption of textile products the incremental demand of manmade fiber is expected to grow at a much faster pace as against cotton yarn. Going forward, we see strong demand for man-made fibers leading to more demand for POY.

### Key budget expectations

Issues	Industry wish-list	Our expectation	Rationale for our expectation	Impact of our expectation
<b>Excise duty on man made yarn i.e. POY</b>	■ To be reduced from 4% to 0%	■ Status quo to be maintained	■ Future revenue implication	■ No impact
<b>Excise duty on MEG (key input for POY)</b>	■ To be reduced from 8% to 4%	■ Status quo to be maintained	■ Future revenue implication	■ No impact
<b>Duty drawback on man made fiber</b>	■ Increase from 6% to 13%	■ Some increase likely	■ To remain competitive in exports as China has 13% duty drawback on man made fibers.	■ Positive
<b>Excise duty on all textile machineries</b>	■ Reduce from 10% to 4%	■ Excise duty would be reduced to some extent	■ Cheaper machinery would lead to newer capacities and increase in productivity	■ Positive
<b>Allocation under TUF</b>	■ To increase allocation under TUF	■ Allocation under TUF expected to be increased	■ Increase in allocation of TUF scheme would lead to large inflow of investment in the textile industry thereby improving the productivity and efficiency.	■ Positive
<b>Interest rates</b>	■ To reduce interest rates on pre and post shipment credit	■ Some relief likely	■ Cheaper credit would reduce the overall cost of production and thereby become competitive in exports	■ Positive
<b>Service tax</b>	■ Exempt service tax	■ Status quo to be maintained	■ Future revenue implication	■ No impact
<b>Labour reforms</b>	■ To allow contract labour	■ Status quo	■ Rigid labour laws have led to operational inflexibility. Contract labour norms should be liberalized. However, broader political consensus required	■ Neutral

Source: Kotak Securities - Private Client Research, Industry

### Top picks

Company	Price (Rs)	EPS (Rs)		PE (x)		Recommendation
		FY09	FY10E	FY09	FY10E	
JBF Industries	75	24.1	32	3.1	2.3	BUY

Source: Kotak Securities - Private Client Research

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## Research Team

**Dipen Shah**

IT, Media  
dipen.shah@kotak.com  
+91 22 6621 6301

**Sanjeev Zarbade**

Capital Goods, Engineering  
sanjeev.zarbade@kotak.com  
+91 22 6621 6305

**Teena Virmani**

Construction, Cement, Mid Cap  
teena.virmani@kotak.com  
+91 22 6621 6302

**Apurva Doshi**

Logistics, Textiles, Mid Cap  
doshi.apurva@kotak.com  
+91 22 6621 6308

**Saurabh Gurnurkar**

Media, IT  
saurabh.gurnurkar@kotak.com  
+91 22 6621 6310

**Saurabh Agrawal**

Metals, Mining  
agrawal.saurabh@kotak.com  
+91 22 6621 6309

**Saday Sinha**

Banking, Economy  
saday.sinha@kotak.com  
+91 22 6621 6312

**Sarika Lohra**

NBFCs  
sarika.lohra@kotak.com  
+91 22 6621 6313

**Shrikant Chouhan**

Technical analyst  
shrikant.chouhan@kotak.com  
+91 22 6621 6360

**K. Kathirvelu**

Production  
k.kathirvelu@kotak.com  
+91 22 6621 6311

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