Budget Expectation

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wealth enhancement solutions

Countdown begins – 'Aam Aadmi' is watching

When Pranab Mukharjee will rise to present Union budget for year 2009-10 and his 4th budget on 6th July, 2009, all eyes will be watching him closely. This budget gives an opportunity to the UPA government to signals its agenda for the next 5 years. However, budget this time around is also a challenge of balancing expectations of people of India with economic & fiscal rationale. We expect government to remain committed in its inclusive growth agenda and "aam aadmi". Given the revenue constraint faced by the government and already large concessions given in the three stimulus packages, any significant indirect concessions or another fiscal stimulus package is highly unlikely. We will not be surprised if government withdrawn few of the stimulus to bridge the fiscal deficit. Budget is likely to be focus on the agriculture, infrastructure, job-intensive industries and SMEs. On the reform side we expect road map on the disinvestment & GST to be presented. FDI limits in Insurance, Airlines & defense to be increase with simplified norms in calculating FDI limit. Apart from the budget announcement, execution of the reform is another matter and historically we had below-average track record of executing reforms.

Key focus area to achieve long term economic growth

Supporting long term economic growth of 8-9% is very much focus of the new government and the key actionable items to achieve are: 1) Increase public & private investment in infrastructure to boost the economy reeling under the impact of the global financial meltdown 2) Announcement of new large size projects in Port, Road & urban infrastructure 3) Long-term agriculture policy to promote second green revolutions, expanding irrigation channels, development of supply chains to connect farmers to consumers and processing industry which Improve the agriculture productivity & rural income 4) Initiatives to improve skill levels & human resources 4) Improve governance.

"Aam Aadmi" is on the top priority

In UPA manifesto and post election, government has emphasized its focus on the inclusive growth and 'aam aadmi'. Huge job losses in export oriented sectors and weak job scenario has led many politicians to support labour driven industries. Government to expand its populist scheme NREGS to urban area and will also increase the allocation to Sarva Siksha Abhiyan, NRHM and Bharat Nirman. Government will widen the food subsidy to the Below Poverty Line (BPL) family by providing food grains of 25kg/family/month at Rs 3/kg. Government may consider increasing tax slabs & exemption limit on individual income.

Economic Reforms will be accelerated but not in full gear

Roadmap on disinvestment through public offering will be announced as a revenue raising measure. Deregulation on fuel prices will be the complex and political issue as international crude is above $70/bbl level. Goods & Services Tax (GST) is most important reform in indirect taxation and government to present its blueprint in the budget. Increase FDI limits in few sector is on the card since UPA government's budget in 2004-05. Given the lower commodity prices, subsidy bill will be lower compared to the previous year. Political will be required to improve the targeting of government subsidy by providing it directly in the recipients in form of cash/voucher rather than indirectly through prices. Given the lack of political will, any significant labour reforms are not expected. The government will not announce outright sale or management transfer of PSU companies due to political opposition both within and outside the UPA. Any changes to land acquisition laws are not expected as there was significant public opposition to SEZ land acquisitions.

Containing fiscal deficit will be the challenge

The President's speech makes it clear that the government plans to focus on 'inclusive growth' and rural India. Given the significantly higher plan allocation and lower than budgeted revenue collection, budget deficit is expected to increase. The government may announce a roadmap to reduce fiscal deficit through a new FRBM Act. Government will announce revenue raising measures such as disinvestments and 3G auction sales. Oil and fertilizer subsidies were given through bonds which were not reflected on the government's budget. In keeping with sound budgeting policies, the government many announce a plan to provide all future oil and fertilizer subsidies through the budget rather than through off budget bonds.

Corporate wish list!!!

There are not many realistic expectations of significant reduction in both direct and indirect taxes. However, India Inc will expect government to remove Fringe Benefit Tax (FBT) which has added tax burden and paper work. Re-introduction of investment allowances is also a demand for few sections of the corporate. Companies would like to see retention of the cuts in indirect taxes that were part of the stimulus packages. Long pending demand from the capital market is removal of Securities Transaction Tax (STT) & Commodity Transaction Tax (CTT) and reduction in dividend distribution tax from current 15%. Metal companies want an imposition of safe guard duty on steel & aluminum products. IT companies are lobbying to extend STPI benefits beyond March'2010. Oil & gas companies expect de-regulation of fuel prices and inclusion of tax holiday for natural gas production. Telecom players demand faster 3G auction and implementation of uniform licence fee. Infrastructure sector expect annuity based road projects compared to BOT projects. In the banking sector, banks expect increase in subvention on farm credit from 2% to 3% and consolidation of PSU banks.

Market Performance Pre-Post Budget

Historically market built expectation on budget and has little run up before the budget (Exhibit 11). Out of the last 18 budgets we have taken, in 12 cases we had given negative return for 30 days post budget as most of the announcement already factored in pre-budget run up. We had seen one of the fastest and sharpest rally since March'09, we don't expect market run up post budget unless significant reforms announced.

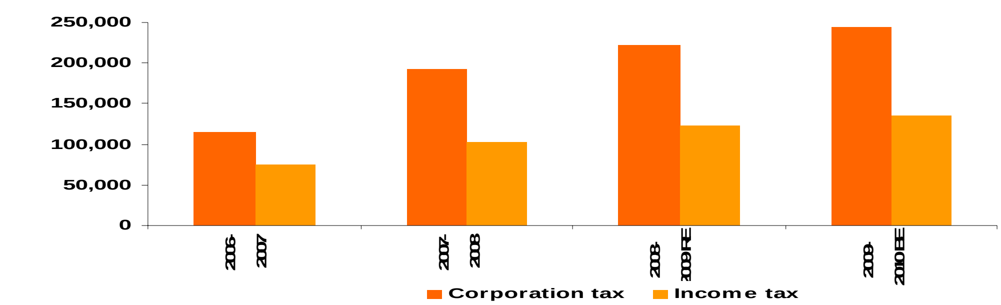
A. Government Finances

A.1 Government Receipt

Direct tax

The government estimated 10% increase in corporate tax collection and 10.4% growth in income tax collections for FY10 in the interim budget. We believe that these targets are too optimistic given the slowdown in corporate and personal income, notwithstanding the recovery expected in H2FY10. Measures such as increasing tax slabs for individuals, interest exemption on mortgage payments and removal of surcharge on corporate taxes will only reduce tax collections.

Exhibit 1 Direct Tax Collection

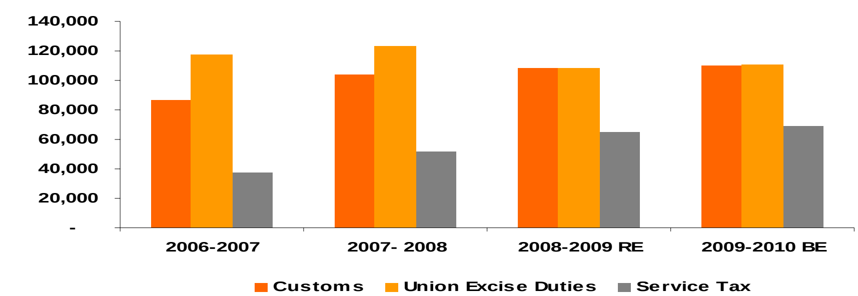


Source : KRC Research, Ministry of Finance

Indirect tax

The government is budgeting for a 6% increase in service tax collection, a 2.07% increase in exercise duty collections and a 2% increase in customs duty. These budget estimates did not factor in a 4% reduction in CENVAT rates and a 2% reduction in service rates. Estimates of 2% increase in customs duty collections when non oil imports contracted ~30% in April and May 2009 and are expected to contract ~10% in FY10 is optimistic. Abolition of custom duty in crude oil imports, which garnered Rs 12,626crore in FY08, will also significantly lower the custom duty collections.

Exhibit 2 Direct Tax Collection



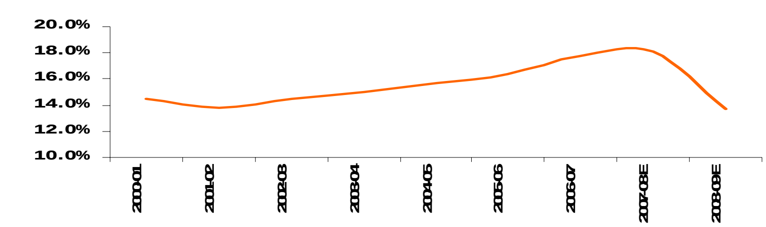
Source : KRC Research, Ministry of Finance

Tax Revenue

The union government has budgeted for tax revenue of Rs 497,596 crores for FY 10. Given the economic slowdown and indirect tax cuts announced as part of economic stimulus, we expect that tax revenue for FY10 is expected to ~Rs 470,000 crores, lower than budget estimates by around Rs 37,500 crores. The shortfall is expected to be met through non tax revenue sources, such a 3G receipts and disinvestment proceeds, and additional market borrowing.

Improving Tax – GDP ratio has been the focus area of successive central governments. Because of the slowdown in tax collections due to economic slowdown, the Tax – GDP ratio has deteriorated slightly. The UPA government is expected to widen the tax net by bringing more services into service tax ambit. There will be focus on enhancing tax compliance by strengthening the Tax Information Network.

Exhibit 3 Tax GDP Ratio



Non Tax Revenues

Media reports have indicated a Rs 3510 crore reserve price for 3G auction. Assuming the bids are slightly higher than the reserve price, 3G auctions can be expected to gather Rs 40,000 crores. Additionally, disinvestment proceeds are likely to be Rs 29,675crores. We have detailed a conservative estimate of revenues from disinvestment in FY10.

Exhibit 4 Government's tentative disinvestment list

Company	Total Value	Value of 5% stake (Rs Crores)
NHPC	32,250	1,613
RITES	3,114	156
Oil India	93,304	4,665
Cochin Shipyard	376	19
MMTC	167,904	8,395
NMDC	156,546	7,827
Coal India	70,000	7,000
Total		**29,675**

Source : KRC Research, Ministry of Finance

A.2 Government Expenditure

Plan

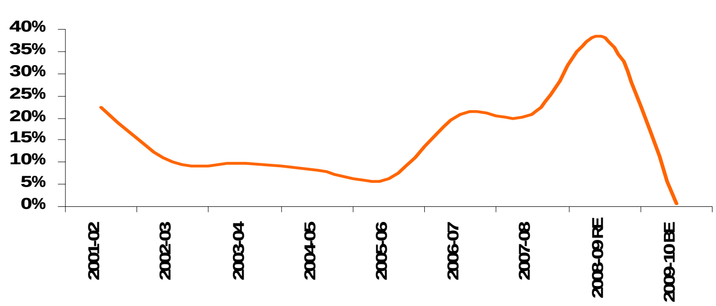
FY10 Planned expenditure has been budgeted at Rs 285,149, an increase of just 1% from FY09 Revised Estimates. We believe that the magnitude of increase in planned expenditure is too low in an environment of economic slowdown. Moreover, the budget is expected to give a boost to the UPA government priority areas – infrastructure, particularly roads, power and low cost housing. The additional resources garnered from divestment and 3G auctions will be used for additional budgetary support to priority areas.

President Patil in her address to the parliament promised a 'Right to Food' act which entitles a family living below poverty line to a monthly ration of 25 kg of rice or wheat at Rs 3 a kg. There are around 10 crore BPL ration cards in the country. At 25 kg a month (as promised in the President's speech), the annual grain requirement would be over 32 million tones. Currently the government provides ~27 million tones of subsidized foodgrains to 6.52 crore below poverty line and Antyodaya Anna Yojana families. The additional cost of ~5 million tones of foodgrains at even lower rates (Rs 3/kg vs Rs 4.15/ kg for wheat and Rs 5.65/ kg for rice) would be approximately Rs 15,000 crores.

The government plans to expand NREGA to urban areas and increase minimum wage to Rs 100/day would need an additional allocation of Rs 4000 crore. Increase in allocation to education (Sarva Shiksha Abhiyan and setting up eight new IITs and 16 Central Universities) and urban development (expansion of Jawaharlal Nehru Urban Renewal Mission) will also increase plan expenditure.

We expect plan expenditure to be budgeted at Rs 350,000 crores for FY 10 as against the interim budget estimate of Rs 285,000 crores.

Exhibit 5 Y-o-Y % Growth in Plan Expenditure



Source : KRC Research, Ministry of Finance

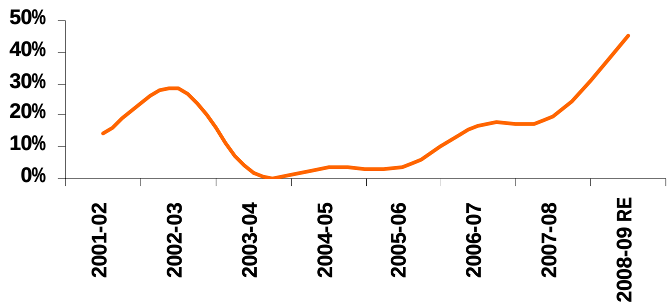
Non Plan

The government subsidy burden can be expected to be higher than the budgeted amount of Rs 100,932 crore in FY10 in an environment of high commodity prices. The under-recoveries on petrol, kerosene and LPG have also risen sharply, to Rs 6.08 a litre, Rs 12.65 a litre and Rs 69.49 a cylinder. In these circumstances, the Rs 3,100 crores budgeted for petroleum subsidy in FY 10 will be inadequate. The government will either have to resort to 'off balance sheet' oil bond issuances to compensate oil marketing companies or raise fuel prices. We assume that any increase in fertilizer subsidy or fuel subsidy will be absorbed through off budget bonds rather than through the budget

Subsidies

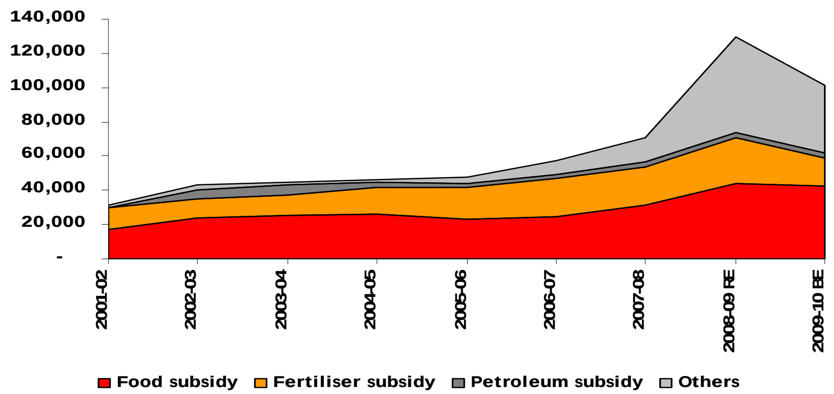
The government's subsidy budget has grown exponentially over the past few years as commodity prices increased and there was political unwillingness to pass on higher prices to end users. There is realization that the trajectory of government subsidies is unsustainable and has put a great strain on public finances. The government is expected to take measures to better target subsidies towards needy sections of the society through smart cards or Unique Identification Numbers. Media reports have suggested that the government might come up with a roadmap for partial decontrol of fuel prices.

Exhibit 6 Y-o-Y % Growth in On-Budget Subsidies



Source : KRC Research, Ministry of Finance

Exhibit 7 On-Budget Subsidies

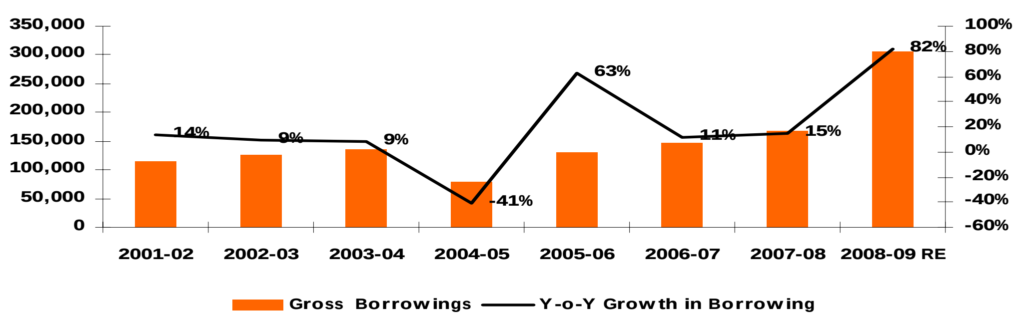


Source : KRC Research, Ministry of Finance

A.3 Government Borrowing

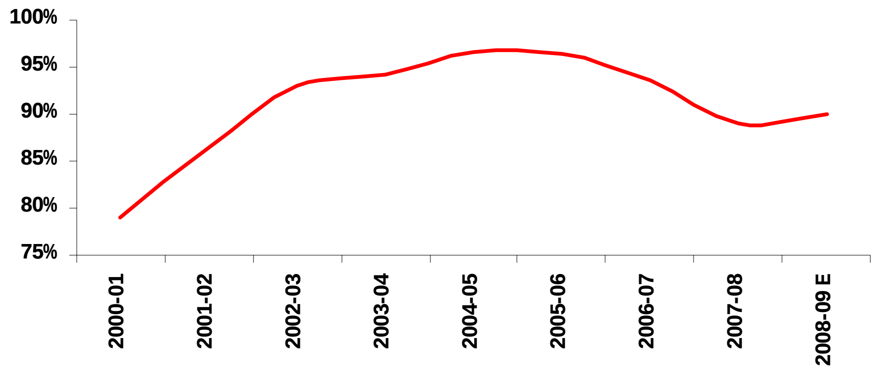
The government budget for gross market borrowing for Rs 3.63 lakh crores. We believe the borrowing will be around Rs 3.84 lakh crore, higher by about Rs 21,000 crore than interim budget estimate, even after accounting for 3G auction and disinvestment revenues if government allocates higher resources to UPA existing and new flagship projects. Government debt has exploded recently as expenditure has grown and revenue receipts have slowed down. The growth rate of consolidated liabilities of state and central government has increased from 9% in FY08 to 15% in FY09. The liabilities outstanding of state and central government now stand at an estimated 90% of GDP. Unless the growth rate of government liabilities in brought down to below the growth rate of nominal GDP, the country could face a fiscal and interest rate shock.

Exhibit 2 Government Borrowing



Source : KRC Research, Ministry of Finance

Exhibit 8 Public Debt as % of GDP



Source : KRC Research, Ministry of Finance

A.4 Fiscal Deficit

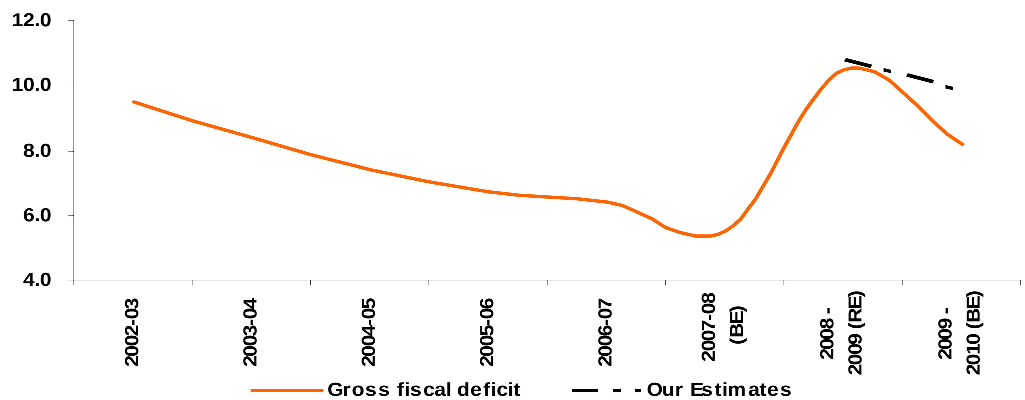
Because of the sharp increase in plan expenditure and lower tax revenues, we expect the union government's FY 10 budget deficit to be higher by ~Rs 32,000 crores than budget estimate of Rs 332,835. The total FY 10E fiscal deficit Rs 366,452 crores will be ~6.5% of GDP. The combined fiscal defict (center + state + off budget items) is expected to exceed 10% of GDP if oil prices are not deregulated and crude stays at the current elevated levels. As a result, market borrowing of the central government will also be higher around Rs 384,554 crores vs. interim budget estimate of Rs 361,782 crores. Bond markets have already been jittery over the prospects of higher than budgeted government borrowing in FY 10.

Exhibit 9 Combined (Central + State) budget deficit

	2006A	2007A	2008A	2009RE	2010BE
Centre	4.1	3.4	2.7	7.8	5.5
on-budget	4.1	3.4	2.7	6	5.5
off-budget	-	-	-	1.8	-
State	2.5	1.9	2.3	2.3	2.7
Total	6.6	5.3	5	10.5	8.2

Source : KRC Research, Ministry of Finance

Exhibit 10 Consolidated Fiscal Deficit as % of GDP



Source : KRC Research, Ministry of Finance

Exhibit 11 Government Finance

	2006-07	2007-08	2008-09	2009-2010 BE	KRC Estimate
REVENUE RECEIPTS (A)	**434,387**	**541,925**	**562,173**	**609,551**	**581,955**
Tax Revenue	434,387	541,925	465,970	497,596	470,000
Non-Tax Revenue	83,205	102,378	96,203	111,955	111,955
CAPITAL RECEIPTS (B)	**144,482**	**197,978**	**308,796**	**343,680**	**436,127**
Internal Debt Market Borrowings (Net)	110,446	131,768	261,972	308,647	331,419
Gross Market Borrowings	146,000	168,101	306,000	361,782	384,554
Less – Repayments	35,554	36,333	44,028	53,135	53,135
External Assistance(Net)	8,472	9,315	9,603	16,047	16,047
Recovery of Loans*	5,893	5,100	9,698	9,725	9,725
Small Savings(Net)@	-	(11,302)	1,323	13,256	13,256
State Provident Funds(Net)	5,178	3,897	4,800	5,000	5,000
Disinvestment of equity in PSU	534	38,796	2,567	1,120	30,795
Other items of Capital					
receipts (Net)#	13,959	20,404	18,833	(10,115)	29,885
TOTAL- RECEIPTS (A+B)	**578,869**	**739,903**	**870,969**	**953,231**	**1,018,082**
Non-plan Expenditure	413,527	507,650	617,996	668,082	668,082
Plan Expenditure	169,860	205,082	282,957	285,149	350,000
Total Expenditure	**583,387**	**712,732**	**900,953**	**953,231**	**1,018,082**

Source : KRC Research, Ministry of Finance

B. Sector Expectation

Automobile

The Auto sector has been a key beneficiary from the fiscal stimulus package that was put in place in December, January and February 2008-09. India is one of the very few countries where the de-growth of the auto industry improved from being minus 21% in Q3FY09 to minus 6% in Q4FY09. The commodity prices have seen a sharp fall from its peak in early FY09. The prices have fluctuated sharply from the low levels in the first half of FY08 to an upward trend in the second half of FY08 and then finally reach their peak in the first half of FY09. The increase in raw material costs in the previous few quarters had severely impacted the margins of all auto players who were unable to fully pass on the higher raw material costs to customers, despite hiking their vehicle prices 2-3 times. The volumes for most of the Auto companies remain subdued during FY09. However there were signs of recovery in the volumes from Q4FY09 as the sector got the boost from the stimulus package announced as well as demand from rural markets and government employees. Volumes were also aided by new product launches like A-star, Xylo, XCD 135 etc. There had been Accelerated depreciation of 50% for CV purchased in Q1CY09. This led to an increase in the demand of CVs from truck operators, which helped industry to generate sales growth of 12%.

Measures Taken in Fiscal Stimulus Packages: - 4% excise duty cut on small cars and two wheelers and 2% cut on trucks; accelerated depreciation of 50% provided on Commercial Vehicles bought on or after 1st January'09 to 31st March'09.

Budget Measures	Impact	Companies Impacted
Excise duty cut on Cars (Other than small cars)	Positive for car manufacturers as it will improve their revenue and earnings	Tata Motors, Maruti Suzuki, M&M
No reduction in customs duty	This will reduce the imports of cheap components from China and thereby improve the demand of Indian products	All Auto component Manufacturers
Measures for better Financing through NBFC's	There will be positive impact as most of the NBFC's are ideal finance partners in towns and small cities where National Banks do not have strong presence. This would boost the demand from the rural market.	All Auto companies
Increase in fund allocation to infrastructure	Increase the demand offtake of Utility Vehicles, two-wheelers & small cars will increase	Hero Honda, Tata Motors, Maruti Suzuki, Ashok Leyland and TVS Motors
Extension of the benefits of Depreciation on commercial vehicles and trucks till the end of FY10	Positive for all truck makers	Tata Motors and Ashok Leyland
Reduction in lending rates	Improve the earnings	All Auto companies

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Banking & Finance

FY 09 was a very volatile year for the banking sector. Rates were very volatile post Lehman collapse as capital flows dried out and market players attempted to hoard cash. In this environment, banks were forced to raise wholesale and retail term deposits at high rates. Credit demand slowed down as a result of the economic environment. Banks NIM came under pressure on account of the low Incremental Credit Deposit ratio and the high cost term deposits. Both PSU and private banks suffered MTM losses on Credit Linked Notes exposure on their overseas book. Policy response to the stress in funding markets was swift. RBI lowered CRR by 400 bps and reverse repo by 375 bps. RBI also injected liquidity into the system through open market operations. Currently, there is excess liquidity in the banking system as the banks are deposits an average of Rs 1 lakh crores with the RBI's reverse repo window every day. Funding costs have also come down sharply.

Measures Taken in Fiscal Stimulus Packages: - Exceptional treatment to commercial real estate exposure restructured upto June 30, 2009, Home Loans less than Rs 20 lakhs granted by banks to be classified under priority exposure, Non Deposit talking NBFC permitted to raise Tier I funds by issuing perpetual debt instruments

Expected Measure	Impact	Companies to be impacted
Banking		
Removal of 10% voting right cap on FIIs in banks	long awaited reform which will have a positive impact on small cap private players	Small cap private sector banks – Yes Bank, Federal Bank, IndusInd Bank
Recapitalization of PSU banks	Smaller PSU's Bank with lower Tier I capital and GOI holding near 51% limit.	Dena Bank, Bank of Maharashtra, Union Bank, IDBI Bank
Hike in FII holding limits in PSU banks	Very significant step which will help PSU banks to raise Tier I capital at better valuations.	All PSU banks – primarily State Bank of India, PNB, Bank of Baroda

Expected Measure	Impact	Companies to be impacted
Consolidation of PSU banks	reform with immense benefits for the economy and banking sector	Smaller PSU banks (Vijaya Bank, Dena Bank, Indian Bank, Oriental Bank of Commerce); SBI and associates
Hike interest subvention on farm credit from 2% to 3% in order to boost credit	Currently, banks provide farm loans at 7% to farmers while they get 2% interest subvention from the government. Govt. is likely to increase the interest subvention from 2% to 3% i.e. farm loans would be disbursed at 6% by the banks instead of 7%. Impact on the bank's earnings in terms of interest would be neutral as they would get compensation by the govt. However, lower interest rate offered by the banks would create additional demand for the farm loans	All PSU banks
Relaxation in the operating environment (branch and ATM numbers, location etc) of foreign banks	Foreign banks may see some relaxation in their operating environment (branch and ATM numbers, location etc). However, this would depend on the quality of the foreign player and the level of reciprocity of home country.	Citi Bank, Standard Chartered, HSBC, ABN Amro
Insurance & Pension		
Increase in FDI limit in insurance to 49%	Will enable insurance companies to raise additional capital and allow banks to unlock value of their insurance subsidiaries through listing	ICICI Bank, HDFC, SBI, Reliance Capital
Pension Reform (PFRDA Act enabling a pension regulatory authority)	Announcement for enactment of PFRDA bill	NPS fund managers (ICICI Prudential, IDFC, Kotak Mahindra Bank, Reliance Capital, SBI)

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Cement

Given the industry has added 50 million tonnes in the first two years of the XI Plan (2007-12) and had targeted 298 million tonnes by the end of period. The Government should consider imposition of countervailing and special additional duty on cement imports. Earlier, import duty on cement had been abolished to improve supply and rein in runaway prices.

Measures Taken in Fiscal Stimulus Packages: - Exercise duty on bulk cement reduced to 10% ad valorem or Rs 280/tonne whichever is higher, exemption on custom duty has been withdrawn, excise duty on packaged cement reduced to Rs 230/tonne from Rs 350/tonne

Budget Measure	Impact	Companies to be Impacted
VAT on cement and clinker be reduced to 4% from existing 12.5%	This will help in reducing the cement prices and inturn benefits would be passed to the consumers.	All Cement Companies
Customs duty on coal and pet coke be abolished. As the industry suffers from high import duty on quality coal and gypsum	Reduction in coal and coke would have a positive impact on the profit margins of the companies	All Cement Companies
We expect uniform excise duty and an abatement of 55 per cent (on excise). Now, excise duty of Rs 11.50 is levied on a 50-kg bag, which costs Rs 190. Anything in excess invites an 8 per cent levy on the MRP.	The final consumers would benefit with reduction in cement prices. The infrastructure and real estate companies would also get the benefits	All Cement Companies
Supply of fly ash to cement firms at no cost from power companies	It would have a marginal positive impact margins	All Cement Companies
Cement industry has asked for a 50 per cent subsidy on freight on the logistics cost for cement and clinker for exports	As the manufacturing units and consumer points are at far locations. It would lower the distribution cost.	All Cement Companies

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Education

Education sector is always been an area of importance for the government. The budget for education is increased almost 10 fold. There has been an increase in the allocation of funds in the Sarva Shiksha Abhiyaan by 571% from 2004-2009 and the Government has proposed to allocate Rs13,000 crore for 2009. There has been an allocation of Rs 8,000 crore for the year 2009-10 for the Mid-Day Meal scheme in the Interim budget announced. FY09 has been a good year for the education sector as a whole as it was least prone from the economic slowdown. We expect the entire sector to command a premium on anticipated strong order flows from the government on various projects under the public private partnership model. Foreign Institutions are expected to be entitled to invest in education. This help to bring in a new arena for the Indian education where the institutions will have an access to the enormous talent and also cater to the needs of Indian and Global Community.

Measures Taken: - Increase in the allocation of funds in Srava Shiksha Abiyaan & Mid-Day Meal schemes

Budget Measures	Impact	Companies Impacted
Increase in allocation in Sarva Shiksha Abiyaan to Rs13,000 crore for 2009-10	Improve the sales of the company as revenues are linked to sarva shiksha abhiyaan programe of the government	Everonn, Educomp & NIIT
Budgetary Allocation to education is expected to increase to at least 5-6%	This will attract more private participation in the industry	All companies
One school in a village with population over 100	This will increase the number of educated population of the country. The number of schools under the umbrella of players having strong rural presence will increase	All companies
Increase in the funds allocation for Infrastructure of schools & colleges	Improve the standard of Indian Education & thus increase the enrollment of students	Everonn, Educomp & NIIT
Public Private Partnership model for Primary & Higher education	The order inflow for the Private players will increase and thus boost the sales	All companies

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Fertilizers

With commencement of KG gas, allocation to the existing fertilizer units, revival of closed units, planned expansions, and conversion of non-gas-based units will increase the production of the fertilizers and reduce gap between demand & supply of fertilizers. Government has been trying to restart the urea plant with the LNG terminal which is coming at Kochi and is in process of finalizing the deal, if this deal goes through the urea plants will work on full capacity. The government is expected to save around Rs 2000-3000 crore of subsidy from domestic urea due to supply of gas from KG gas basin. The fertilizer consumption is expected to grow at a CAGR of 5 to 6% till 2011-12.

Expected Measure	Impact	Companies impacted
Disinvestment of stake	Divestment of stake in RCF and NFL will help them to boost their capex plans, although government has denied divestment till now.	RCF & NFL
Reform in subsidy payment system	Timely payment of subsidy would reduce working capital requirement for fertiliser companies.	Beneficial for all companies
Uniform subsidy across gas-based plants.	A uniform subsidy for all gas-based plants would encourage production efficiency and with improving gas availability (KG Basin gas), a large part of the capacity would be 100% gas-based.	Tata Chemicals & Chambal Fertilizers
Government should encourage buying strategic stake in raw material resources abroad.	As there are limited reserves of P&K in India, the raw materials have to be imported for the production of DAP based on the international price which are very volatile. If the companies are having there own raw material reserves, they will have benefit of the same.	DAP Players like: Coromandel fertilizer, Tata Chemicals and GSFC.

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FMCG

FMCG sector continued to grow by 17-18% (in volume terms) in FY09, inspite of the global slowdown and financial crisis. On account of future uncertainty and job insecurity consumers shifted from spending mode to saving mode and went for down trading from H2FY09. Rise in commodity prices led by spike in oil prices impacted FMCG companies leading to dent in profitability. FMCG companies have shifted their emphasis on mass products in order to gain volume growth. Rural growth will drive the demand and this had been accepted by the FMCG players. As a result strategies and marketing initiatives are now being focused on capturing rural market and increase rural penetration.

Agriculture will continue to get emphasis and we expect the govt. to announce measures to boost agricultural activity. Contribution of agriculture to India's GDP has declined in past 5 years. Easy credit to agriculture and public spending on the NREG and Bharat Nirman may continue to aid rural purchasing power. The Government has now sharpened its focus on the Indian farmer, placing greater emphasis on the economic well-being of farmers and rural development rather than merely on agricultural production.

Improvement of rural infrastructure, supply chain logistics, expansion of irrigation area, improved water management, support for rural roads, housing are likely to continue to get high priority.

Measures Taken in Fiscal Stimulus Packages: Excise duty cut from 10% to 8%

Expected Measure	Impact	Companies impacted
Excise duty likely to be increased from 8% to 10%	Reduction in excise duty in Stimulus Package 1& 2 helped FMCG companies to maintain margins. With softening of raw material prices, govt. may reverse the reduction in excise duty taking into consideration the upward trend in oil prices.	All FMCG Companies
Tax holiday for food processing industry	20% deduction in first year of investment on plant & machinery would encourage investment in the sector	Riddhi Siddhi, Nestle, ITC
Reduction of VAT from 12.5% to 4% on biscuits	This would bring down the cost	Britannia, ITC, Surya Foods

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Information Technology

Throughout FY09, we witnessed substantial rupee depreciation upto the 53 levels, as FII's withdrew a substantial portion of inflows. In the second half, the IT sector was witnessed demand fallout from the collapse of the US financial sector and pricing impact in the range of 130 bps. This was reflected in volume declines in the Q2FY09 and Q3FY09, with tier-1 IT players slashing growth forecasts. Subsequently diversified IT operators employed various cost cutting measures to reduce costs and defend margins. In the last budget, the government extended the STPI tax benefits till FY10, and this time around we could see a repetition given the continued bleak outlook for mid cap and small cap operators.

Budget Measure	Impact	Companies to be Impacted
Extend Tax benefits on STPI beyond FY2010	No change in our present FY10E EPS. However, valuations based on FY11 estimates would increase by an average of 10%. The extension of STPI tax benefits would increase foreign and local investments in these regions (100% foreign equity permissible) and boost service sector employment	All IT players
Reduction in excise duties on electronic and IT goods from 10 percent to 8 percent	Reduction in hardware and software equipment	Rolta India, MoserBaer

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Infrastructure

Infrastructure is the foundation for economic, industrial, social and overall nation development. However despite infrastructure being an important growth driver for the economy government's spending had been restricted by high levels of non-development expenditure and high debt levels. During FY09 performance was dismal both in terms of investments as well as awarding and execution of projects. Top-line of majority of infrastructure player's was healthy however margins were impacted on account of high commodity prices and higher interest costs. We believe with the new government coming into power with majority and appointment of Mr.Kamal Nath, infrastructure sector will be the most preferred sector for investments due to a) Huge capital investments- Rs.118bn has been kept aside under the JNNURM programme and US$494bn capital outlay in XI 5 year plan etc b) Road and Irrigation contract awards to speed up post policy changes during the coming budget and c) Declining Commodity prices coupled with cooling of interest rates to have a positive impact on the margins of the company.

Measures Taken in Fiscal Stimulus Packages: - Allocation of Rs 118.4bn under JNNURM programme, IIFCL been authorized to raise Rs 110bn via issue of bonds to finance infrastructure projects

Budget Measure	Impact	Companies to be Impacted
Increase in infrastructure spending and persuade banks to lend at a lower rate.	Currently infrastructure spending is ~5% of total GDP and to sustain GDP growth over 8-9% infrastructure spending will have to be increased due to which order books of infrastructure will swell. Low cost of funding will boost the margins of the company.	All Infrastructure companies
Road projects on annuity basis rather then BOT basis/Extension of concession period for BOT toll based projects.	Annuity based projects will ensure stable cash flows and less risky compared to toll while extension of concession period will make projects more viable and profitable.	IRB Infrastructure, L&T, Noida Toll, C&C Constructions, Soma Developers.
Land Acquisition for BOT projects on a faster pace and increase in limit of land acquisition prior to commencement of construction.	Land Acquisition process needs to be on a faster pace and current norm of 50% land availability needs to be replaced with higher limit.	IRB Infrastructure, L&T, Noida Toll, C&C Constructions, Soma Developers.
Increase in rate of depreciation	Currently the depreciation rate is ~20% and it should be increased to 25% to avail tax benefits	All Infrastructure companies
Extending tax benefits to entities providing infrastructure financing	To infuse more funds in infrastructure projects and at a cheaper cost government needs to provide certain tax benefits to financing institutions	All Infrastructure companies
Hike in petrol cess to increase funding for highways	Increase in petrol cess will bring in much needed funds required to finance national highway projects and achieve timely financial closure.	IRB Infrastructure, L&T, Noida Toll, C&C Constructions, Soma Developers.
Setting up of National Infrastructure Facilitation and Monitoring Agency (NIFMA) & Road Finance Corporation(RFC).	Setting up of NIFMA will ensure monitoring the performance of various government agencies awarding projects and RFC will raise funds for infrastructure projects and will reduce government burden	All Infrastructure companies

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Media and Entertainment

FY09 was not a good year for any of the media companies due to a decline in corporate advertising spends. This was in turn lower because of the slowdown of the economy and lower advertising revenue hit the Broadcasting and Print Media companies. Lack of quality content had impacted the Production and Multiplex industry with lower occupancy and footfalls. We believe going forward, that the media companies would be in the spotlight because of an increase in advertising spends by corporate to restore their revenue market share which they lost in FY09. This year would be remarkable year for production, distribution and multiplex industry due to large quality of content would be following in 9 months, which would led to various content with end users. However, according to a report jointly published by the Federation of Indian Chambers of Commerce and Industry (FICCI) and KPMG, the M&E industry in India is likely to grow 12.5% per annum over the next five years and touch US$ 20.09 billion by 2013.

Measures Taken in Fiscal Stimulus Packages: - Exemption on custom duty of 3% of news print and 5% on lightweight coated paper

Budget Measure	Impact	Companies to be Impacted
FDI relaxation in media companies: The government has been contemplating relaxing FDI norms for cable operators, print media and news broadcasters.	Higher FDI investment will lead companies to access low cost of capital.	All Media Companies
Special Additional Duty (4%) and countervailing duty (CVD) 8% reduced to Zero for next 5 years	For distribution and broadcasting companies because this will lead to increase their customer base by lowering the cost of Set-up boxes.	All broadcasting and distribution companies WWIL, ZEE TV, Sun TV, IBN18,etc
Reduction in the fringe benefit tax (FBT) from 20% to 5% for media personnel working for both print and electronic media companies	Because as media companies they have to incur more expenditure towards employee compensation other than wages, tips, health insurance, life insurance and pension plans. If FBT is reduced then they can transfer this benefit to end users, employees or boost their bottom-line.	Print and Media Companies such as Jagran, HT Media, DCHL,etc.
10-year tax holiday for the gaming, animation and the VFX (visual effects) industry	Because they have to spend huge amount towards Research and Development of the product and this is an emerging sectors.	UTV Software
Categorization of broadcasting, DTH and cable services as part of infrastructure industry for their rapid expansion.	Get the benefit of 80i (Tax), available cost of funds at lower cost	Broadcasting companies, Dish TV, WWIL

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Metal

The metal prices were extremely volatile last year, peaking in July and then we saw a free fall across the board whether its steel prices or LME prices of base metals. While realizations dropped considerably for all the companies in the second half of FY 09 due to fall in prices, non-integrated players faced the problems of higher raw material costs as most steel and base metal companies procure raw materials through long term contracts which were entered at higher levels; this resulted in sharp drop in margins in the second half. In FY09 government reduced customs duty on steel making scrap and aluminium scrap to zero; this provided some relief to primary producers. Iron ore prices dropped by almost 55-60% from their peaks and many iron exporters in Orissa and Karnataka made losses as internal logistics cost (cost of transportation from mine site to ports) was very high due to poor infrastructure.

Measures Taken in Fiscal Stimulus Packages: - Reduction in excise duty from 14% to 8%; Customs duty rate on TMT bars and structurals restored to 10% from zero; Customs duty rate on ferro alloys increased to 5% from zero; Levy of 5% import duty on HRC; Export duty on iron ore fines scrapped (from 8%) and reduced to 5% on lumps from 15%

Budget Measure	Impact	Companies to be Impacted
Imposition of 15-20% safeguard duty on HR Coils	This will make import price of HRC from CIS & China in line with the domestic prices. This move will help domestic steel players especially the ones with larger proportion of flats.	JSW Steel, Tata Steel, SAIL, Jindal Steel & Power
Imposition of 10% safeguard duty on Aluminium Products	In order to protect the domestic industry against cheap shipments of key aluminium products that are used in the automobile and machine sector mainly from china, South Korea, Oman & Iran.	Hindalco, Nalco, Sterlite
Increased spending in infrastructure	Increased spending in infrastructure will lead to increase in the demand for steel products leading improvement in the domestic steel demand	Tata Steel, SAIL, JSW Steel and JIndal Steel & Power

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Oil & Gas

Crude prices remained volatile throughout FY09 which resulted in the volatile earnings of the upstream, Refining and Oil Marketing Companies (OMC). The Administrated Price Mechanism (APM) on retail fuel prices resulted into the gross under recoveries worth Rs 103,100crore out of that government shared 69% and rest shared by the upstream companies. Government has issued oil bonds worth Rs 69,000crore to keep OMCs in profit. Refining companies posted the inventory losses in Q3FY09 on the back of sharp drop in crude prices. Imbalances in supply-demand kept the margins under pressure in petrochemical and refining segment. Poor response in NELP VII due to the confusion over tax holiday on natural gas production.

Measures Taken in Fiscal Stimulus Packages: - 2% excise duty cut in petrochemicals

Budget Measure	Impact	Companies to be Impacted
De-regulation of auto fuel prices and link it to the international crude prices below a cap of $75/bbl, above the cap subsidy sharing mechanism among government, OMC and upstream companies to come in place.	Reduction in 1) under-recoveries of the OMCs, 2) fuel subsidy given by government 3) discount given by Upstream companies to the OMCs. Such formula will improve earning visibility of the OMCs and upstream companies.	OMC : IOC, HPCL, BPCL Upstream : ONGC, GAIL, Oil India
Include Natural gas in the definition of “mineral oil” to avail 7 years of tax holiday on natural gas production under NELP blocks	Increase interest in forthcoming auction of NELP VIII blocks	Upstream Companies
Inclusion of Natural Gas in the list of Declared Goods	As a declared good, natural gas will attract a uniform sales tax and not central and state sales tax which varied from 8% to 20% across the state	Gujarat Gas, Indraprastha Gas and end users of the Gas

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Pharma

Despite a global recession, the demand in the Indian pharmaceutical sector remained largely stable, driven by the inherent stability of demand for core pharmaceutical products and the likely support from global demand for low cost Indian generics in comparison with their branded counterparts. In the year 2008, the Indian pharma sector witnessed consolidation of largest drug manufacturer Ranbaxy by its Japanese counter part Daiichi Sankyo.

Budget Measure	Impact	Companies to be Impacted
Tax incentives on exports	This would bolster the net realizations of the company as pharma companies significantly rely on earnings from exports	Cipla, DRL, Ranbaxy

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Power and Capital Goods

The Central Electricity Regulatory Commission (CERC) had released draft regulations in January’09 for determining tariffs for power generation and transmission companies for FY2010 till FY2014 under which the base rate for return on equity (RoE) has been raised from 14% to 15.5%. The move will help power generating and transmission companies attain higher profitability. These norms covered all central public sector power utilities, which include NTPC, Power Grid Corporation of India (PGCIL), Neyveli Lignite, and National Hydro Electric Power Corporation. Capital Goods sector suffered in the second half of FY 09 as due to liquidity crunch most of the companies in the manufacturing sector slashed their capex plans.

Measures Taken in Fiscal Stimulus Packages:- Reduction of CENVAT rate by 4% across the board; Infrastructure Finance Co. (IIFCL) to raise Rs 10,000 crore through tax free bonds before March 31, 2009.Removal of 10% Import duty on Naptha

Budget Measure	Impact	Companies to be Impacted
Congress manifesto emphasized on infrastructure development as priority to tackle the current slowdown.	This will boost demand for the heavy machineries and will have a positive impact on the order book of the companies.	L&T, BEML, ABB

Budget Measure	Impact	Companies to be Impacted
speedy coal linkages to the thermal power plant developers	Will ensure long-term supply of coal at cheap prices and will boost profitability of companies	All thermal power developers

Real Estate

Measures have been introduced to help the realty sector during its downtrend , which have benefited the sector. However, there are several issues remain unfulfilled including tax benefits (Sec 80IB re-introduction), infrastructure status for SEZs and relaxation of ECBs. Accordingly, priority status to housing loans is likely to help companies engaged in affordable housing and especially players in tier-III cities. The PSU bank packages has, and in coming time would be a positive impact on companies with land bank exposure to low-cost housing.

Measures Taken in Fiscal Stimulus Packages: Extension given to the developers for restructuring of loan

Budget Measure	Impact	Companies to be Impacted
Hike in income-tax exemption available for interest payment (of housing loan) from Rs 1.5 lakh to Rs 2.5 lakh a year.	Will instigate prospective buyers to purchase new homes, and would inturn spur the demand for low to mid cost housing.	DLF, Unitech, HDIL
Higher FSI for developers to focus on low-cost housing	Will improve the margins for developers focused on low-cost housing	DLF, HDIL, Unitech, Omaxe
Single window clearance for all schemes under affordable housing in the line of SEZs	Fast development of units and achieve the shortfall of about 26 million houses at the earliest	All Real Estate Companies
Renewal of Sec 80 IB, which gives tax waivers to a housing unit built in less than 1,000 sq ft	Will provide incentive to the construction of small and affordable houses	DLF, HDIL, Unitech, Omaxe
Reduction in stamp duty & registration charges for land and certain development charges for developer	Will reduce the effective price of the property for Buyers. Will improve the margins for the developers.	All Real Estate Companies
Fund allocation to Public-private partnership (PPP Projects) for government rental housing	More construction orders of rental housing from government for the lower level of society	HDIL, DLF, Unitech
Amendment in loan slab from 20 lakh to 30 lakh at a lower interest rate from PSU Banks	Will lead to an uptick in the demand for mid-level housing	DLF, Unitech

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Retailing

The industry experts have been vouching for the industry status for the Retailing for some time now, considering the quantum of employment the sector generates. The industry has been reeling under the pressure of slowdown in demand, coupled with liquidity issues. This not only impacted the profitability of the retailers, but also impacted their expansion plans. The Indian organized industry is still in its infancy compared to developed nations. And if the industry has to grow, the Government needs to open up the sector for foreign investments. The Government has been mulling over this issue for some time now and has not been able to do it because of the political sensitivity of the issue.

Budget Measure	Impact	Companies to be Impacted
Allow FDI in multi brand outlets	Opening up doors for FDI in multi retail branding would lead many foreign players to enter into the Indian market and also benefit domestic players	Pantaloon Retail, Bharti-Walmart, Shoppers Stop Limited.

Budget Measure	Impact	Companies to be Impacted
Increase FDI limit from current 51% to 74% in single brand retailing.	Increasing FDI limits will bring in more funds and expansion plans of the retailers would be on track. It will also help in improving the supply chain management systems of the companies.	Pantaloon Retail, KKCL, Bata India Ltd.
Introduction of Retail & Entertainment Zones.(REZ)	It would provide various tax benefits, create employment and improve standard of living.	All retail companies
Tax incentives (Removal of FBT & Direct Tax)	Low cash outflow and will act as cushion on margins.	All retail companies
Procedural norms to be relaxed	It would streamline processes and Less paperwork and will be hassle free.	Domestic & Foreign Retiling companies

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Shipping & Logistics

In the interim 2009-10 and 2008-09 Union Budget, there were no major announcements for the shipping sector per se. All the shipping companies have been reeling under pressure as the freight rates dropped almost ~95% from its peak in May 2008. As this was mainly because of the slowdown in the overall global trade, the Government of India could not come up with any measures to compensate the shipping companies. In 2007-08 Union Budget, custom duty on dredgers was brought down to Nil. Dredgers were also exempted from additional custom duty of 4%. These initiatives have helped the shipping companies to reduce their expenditure.

In 2006-07 Union Budget, National Maritime Development Programme (NMDP) was approved. As a part of this programme, work is in progress in 101 projects covering inland waterways, shipping and ports including deepening of channels in Kandla, JNPT and Paradip. With the increased emphasis on the development of infrastructure, coupled with the funding constraint that the government has faced, the BOT projects have become more popular over past couple of years in construction of highways, ports, SEZs, etc.

Budget Measure	Impact	Companies to be Impacted
Reduction in Service tax of 12.36%	Will improve the profitability of the shipping companies	All Shipping Companies
Extension of shipbuilding subsidy to beyond August 2007	Can lead to competitive pricing, and in turn would lead to increase in the order book.	ABG Shipyard, Bharati Shipyard
Award at least six concessions in the port sector and also initiate the process for 20 other concessions	Would lead to capacity build-up to cater to the growing cargo both domestic and EXIM	Mundra Port, Marg Group

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Telecom

Throughout FY09, the telecom industry witnessed a series of quarters of unbridled growth making it the fastest growing telecom market. While profitability took a hit with ARPU dropping from ~280 to ~201 from the foray into rural areas, the sector remained one of the most profitable industries. The sale of 2G liscenses to telecom operators received strong criticism over low license fees after it was found that local operators without any industry experience were partnering with international operators to deploy wireless services. Thereafter, the Ministry of Finance has proposed a doubling of 3G services licenses and proposed to link subsequent 2G spectrum auction to 3G prices. The industry also witnessed a pivotal shift in terms of capital expenditures slowdown and expansion of telecom operators into international markets.

Budget Measure	Impact	Companies to be Impacted
Unification of tax regime from current differential taxation methods	While the unification of taxes charged will not have a change on operators profitability it will improve transparency of fees.	All telecom operators

Pre Budget Expectations:

Budget Measure	Impact	Companies to be Impacted
Increase in cost of 3G licenses from Rs3024 cr to Rs 4040 cr;	Increased breakeven period for telecom operators and fewer pan-India service licenses	All telecom operators
Reduction of customs duty on specific convergence products such as handsets	Exemption from customs duty will lower the cost of handsets to local consumers which are primarily in the rural areas	Tata Teleservices Maharashtra, RCom
Tax holiday for M&A activities of telecom companies to be extended till April 2010	Increased partnership with foreign operators will enable access to more efficient technologies, and faster rollout of services	Bharti Airtel

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C. Market Performance after and before budget

Market mania post election is behind us and market has started taking realistic view of the budget. Historically market built expectation on budget and has little run up before the budget. Out of the last 18 budgets we have taken, in 12 cases we had given negative return for 30 days post budget as most of the announcement already factored in pre-budget run up. We had seen one of the fastest and sharpest rally since March'09, we don't expect market run up post budget unless significant reforms announced. Apart from the budget announcement, execution of the reform is another matter and historically we had below-average track record of executing reforms.

Exhibit 11 BSE Sensex Performance Pre & Post Budget

	Before Budget			After Budget		
Budget Year	**7days**	**15 days**	**30 days**	**7days**	**15 days**	**30 days**
1991-1992	3.0%	8.5%	16.8%	9.9%	9.9%	21.3%
1992-1993	15.3%	22.8%	27.9%	22.7%	15.1%	44.5%
1993-1994	5.3%	0.0%	8.4%	-12.1%	-13.9%	-19.1%
1994-1995	3.8%	7.4%	5.7%	-12.9%	-12.1%	-11.9%
1995-1996	-2.3%	-1.8%	-3.3%	-3.1%	-3.3%	1.8%
1996-1997	2.6%	2.7%	-3.0%	-8.3%	-8.6%	-10.5%
1997-1998	6.2%	4.6%	3.6%	6.1%	2.6%	-8.0%
1998-1999	-6.8%	-5.4%	-9.1%	-6.2%	-13.2%	-11.3%
1999-2000	-3.6%	-3.1%	-1.8%	12.8%	13.9%	13.9%
2000-2001	-2.3%	-2.3%	-3.2%	-3.8%	-9.8%	-11.1%
2001-2002	-6.6%	-7.6%	-6.0%	-1.8%	-8.5%	-7.8%
2002-2003	4.1%	5.9%	11.7%	-2.5%	-3.4%	-5.5%
2003-2004	-0.7%	1.1%	1.4%	-4.0%	-7.2%	-6.2%
2004-2005	3.3%	4.6%	0.4%	-2.2%	2.0%	4.9%
2005-2006	-0.2%	-0.1%	5.4%	4.6%	3.6%	-3.1%
2006-2007	2.0%	1.7%	4.2%	4.4%	10.0%	8.8%
2007-2008	-5.4%	-5.0%	-5.6%	-5.8%	-7.0%	-3.7%
2008-2009	1.2%	7.3%	-1.8%	-8.3%	-13.8%	-8.2%
Average	**1.0%**	**2.3%**	**2.9%**	**-0.6%**	**-2.4%**	**-0.6%**
Median	**1.6%**	**1.4%**	**0.9%**	**-2.8%**	**-5.2%**	**-5.9%**

Source : KRC Research, Bloomberg, Excluded Interim Budget

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