Budget 2010-11Impact

Fullerton Securities

Focus on Growth with a Roadmap for Fiscal Management

Direct Tax Rationalization to unleash huge new avenues of demand...

- The Budget although proposed a partial roll-back of fiscal incentives given last year in terms of indirect taxes & services tax rates, it however, did not compromise on Infrastructure Development & Social Sector spending. The Union Budget 2010-11 announced significant changes to the individual tax structure as exhibited in the table below. Although the changes are a non-event for individuals earning below 3 lakhs p.a., the widening of tax slabs for higher income individuals are expected to result in significantly lower personal tax incidence, lower tax pay-outs and higher disposable income.

- This is expected to unleash a lot of pent-up demand for the consumer discretionary sectors like Automobiles, Housing, Consumer Durables, etc. even as the excise duty on all major sectors have been increased to 10% from 8%.

- The corporate basic tax rate was kept unchanged at 30%, while surcharge of 10% on domestic companies have been reduced to 7.5% However, the major negative was the increase in Minimum Alternate Tax (MAT) to 18% from 15% of book profits.

- The direct tax proposals are estimated to result in a revenue loss of Rs 26,000 crore. Sizeable portion of these are due to the effective reduction in the personal income tax incidence. On the other hand, the proposals relating to customs and central excise are estimated to result in a net revenue gain of Rs 46,500 crore to the government.

Personal Tax Rate Rationalization

Old Tax Structure	Tax Rate %	New Tax Structure	Tax Rate %
0 - 1.6 lakhs	-	0 - 1.6 lakhs	-
1.6 - 3 lakhs	10%	1.6 - 5 lakhs	10%
3 - 5 lakhs	20%	5 - 8 lakhs	20%
Above 5 Lakhs	30%	Above 8 Lakhs	30%

Fiscal Management back in focus...

- The budget provided a clear roadmap for the fiscal management. The fiscal policy was shaped with reference to the recommendations of the Thirteenth Finance Commission, which has recommended a calibrated exit strategy from the expansionary fiscal stance of last 2 years.

- It would be for the first time that the Government would target an explicit reduction in its domestic public debt-GDP ratio. The Government has taken a significant step in this regard by bringing in oil subsidy and fertilizer subsidy under budget accounting and announcing that all the subsidies will be paid in cash.

- Against a fiscal deficit of 7.8% in 2008-09, inclusive of oil and fertilizer bonds, the comparable fiscal deficit is 6.9% as per the revised estimates for 2009-10. Fiscal deficit for Budget Estimates (BE) 2010-11 at 5.5% of GDP, which works out to Rs.3, 81,408 crore. The rolling targets for fiscal deficit are pegged at 4.8% and 4.1% for 2011-12 and 2012-13 respectively.

- Taking into account the various other financing items for fiscal deficit, the actual net market borrowing of the Government in 2010-11 would be of the order of Rs.3,45,010 crore. There will be enough space to meet the credit needs of the private sector. The Government will plan the borrowing programme in consultation with the RBI.

- The Gross Tax Receipts are estimated at Rs. 7, 46,651 crore. The Non Tax Revenue Receipts are estimated at Rs. 1, 48,118 crore. The net tax revenue to the Centre as well as the expenditure provisions in 2010-11 have been estimated with reference to the recommendations of the Thirteenth Finance Commission.

- The total expenditure proposed in the BE is Rs. 11, 08,749 crore, which is an increase of 8.6% over the last year. The Plan and Non Plan expenditures in BE 2010-11 are estimated at Rs. 3, 73,092 crore and Rs. 7, 35,657 crore respectively. While there is 15% increase in Plan expenditure, the increase in Non Plan expenditure is only 6% over the BE of the previous year.

Other Budget Highlights

- Rate of tax on services retained at 10% to pave the way forward for Goods Services Tax (GST).
- Proposals on direct taxes estimated to result in a revenue loss of Rs 26,000 crore for the year. Proposals relating to Indirect Taxes estimated to result in a net revenue gain of Rs 46,500 crore for the year. Taking into account the concessions being given in the tax proposals and measures taken to mobilise additional resources, the net revenue gain is estimated to be Rs 20,500 crore for the year.
- The proposed restructuring of direct tax rates will increase disposable incomes in the hand of individuals and would unleash a new set of demand for consumer proxy sectors such as housing, automobiles, consumer durables, etc.
- The Government's plan to introduce direct and indirect tax reforms from 1 April 2011 was a welcome move. The Finance Minister also said that the Government aims to introduce the GST and implement the direct tax code from 1 April 2011.
- The Government has said that the disinvestment in Oil India Limited, NHPC, NTPC, REC, NMDC & SJVM will raise about Rs 25,000 crore during the current year. It further intends to raise Rs 40,000 crore next year and also aims to raise about Rs 35,000 crore from 3G auction expected to be completed by the end of the Q1 FY2011.
- As expected, the budget proposed extension of existing interest subvention of 2% for one more year for exports covering handicrafts, carpets, handlooms and small and medium enterprises. Further, the scheme of 1% interest subvention on housing loan up to Rs 10 lakh has been extended up to 31March 2011.
- The Government has continued its thrust on infrastructure development and has provided Rs 1, 73,552 crore for infrastructure development, which accounts for over 46% of the total plan allocation. Plan allocation for school education & Ministry of Health & Family Welfare is increased by 16% & 14% at Rs 31,036 crore & Rs 22,300crore respectively for the year.
- Allocation for Defense sector has increased to Rs 1, 47,344 crore including Rs 60,000 crore for capital expenditure.
- Allocation for Mahatma Gandhi National Rural Employment Guarantee Scheme stepped up to Rs 40,100 crore in 2010-11. An amount of Rs 48,000 crore allocated for rural infrastructure programmes under Bharat Nirman.
- Rs 1,900 crore is allocated to the Unique Identification Authority of India (UIDAI) for 2010-11. UIDAI will be able to meet its commitments of issuing the first set of UID numbers in the coming year.
- Rate reduction in Central Excise duties to be partially rolled back and the Standard Rate on all non-petroleum products enhanced from 8% to 10% *ad valorem*. Accordingly, the industries like Automobiles, Cement, and Metals etc will be affected. The budget has also restored the basic duty of 5% on crude petroleum; 7.5% on diesel and petrol and 10% on other refined products. Central Excise duty on petrol and diesel is enhanced by Rs 1 per litre each.
- This budget has laid a strong emphasis on strengthening research and development. Weighted deduction on expenditure incurred on In-house R&D is enhanced from 150% to 200%. Weighted deduction on payments made to National Laboratories, Research Associations, Colleges, Universities and Other institutions is enhanced from 125% to 175%.

Sectoral Impact

Automobiles – Positive

- Excise duty is raised by 2%, from 8% to 10% on small cars, two wheelers, three wheelers and CV's while on UV's, large cars and MUV it has been increased by 2%, from 20% to 22%. This was expected and was at the lower end of the expectation of 2-4%, hence it was a major relief for all the automakers and it will lead to price hike with immediate effect.
- Weighted deduction expenditure incurred on in house R&D enhanced from 150% to 200%. The major beneficiaries are Tata Motors and Bajaj Auto.
- Proposal of Rs 66,100 crore towards rural infrastructure development projects & 13% increase in the allocation of road transport to Rs 19,894 crore. Positive for Hero Honda, M&M and Maruti as they derive their major revenues from rural market.
- Continuation of 50% depreciation policy on trucks Positive for Ashok Leyland and Tata Motors.
- Increase in fuel prices by Rs 2.68 for petrol and Rs 2.57 for diesel & MAT increase from 15% to 18% is key negative for the auto industry.

❖ **Stocks to watch out for**: Tata Motors, Maruti Suzuki, Hero Honda Motors, Bajaj Auto, Exide Industries.

Automobiles

Sr. No	Company	Revenues (Rs mn)	EBITDA Margins %	PAT Margins %	ROE %	Debt - Equity Ratio	CMP	P/E	P/B
1	Tata Motors	254,150	7.9	1.9	5.3	1.0	711	23.1	3.2
2	Maruti Suzuki	205,301	10.5	5.3	13.7	0.1	1,464	20.3	4.5
3	Hero Honda Motors	123,152	14.5	9.5	37.8	0.0	1,772	17.4	9.3
4	Bajaj Auto	84,396	12.2	7.2	37.9	0.8	1,817	18.3	14.1
5	Exide Industries	37,610	13.1	6.7	25.8	0.3	107	18.3	7.1

 # Standalone FY09 figures, P/E & P/B on TTM EPS & BVPS

FMCG Sector - Neutral

- With higher disposable income in urban households and a significant portion of budget allocation towards the development of the rural sector and rural employment, the FMCG sector has a lot to gain from Union Budget 2010-11.
- There is an increased focus at the bottom of pyramid to boost rural income and enhanced personal tax limits. Major positive for Dabur & HUL.
- Increase in excise duty of 2% for non-oil based products and of >13% for cigarettes. Key negative for ITC, Golden Tobacco, & HUL and GSK Consumer on the excise duty front.
- Impetus to the development of food processing sector by allowing External Commercial Borrowings (ECBs). Nestle being the largest player in the organized processed food sector is expected to benefit.
- Reduction in excise duty for corrugated boxes and cartons is a positive for all FMCG companies as it will help reduce packaging costs.
- Increase in MAT from 15% to 18% is going to impact the profitability of all the FMCG companies.

❖ **Stocks to watch out for**: Dabur India, Hindustan Unilever, ITC, Marico Industries and Nestle India.

FMCG

Sr. No	Company	Revenues (Rs mn)	EBITDA Margins %	PAT Margins %	ROE %	Debt - Equity Ratio	CMP	P/E	P/B	Div Yield %
1	Dabur India	23,962	19.3	15.4	68.0	0.1	169	36.1	19.8	1.0
2	Hind. Unilever	201,924	14.9	11.6	82.6	0.2	236	23.9	25.3	3.1
3	ITC	148,815	23.4	14.1	27.9	0.0	232	23.0	6.5	1.6
4	Marico	19,175	13.8	9.2	61.9	1.0	103	27.4	17.1	0.6
5	Nestle India	43,277	19.4	12.0	102.5	0.0	2,622	38.6	43.5	1.6

 # Standalone FY09 figures, P/E & P/B on TTM EPS & BVPS

Sectoral Impact

Retail Sector - Neutral

- The Union Budget 2010's measures are likely to boost the sales of the sector with the increase in spending power. The tax relief extended to individuals is expected to result in higher disposable income and hence higher consumption. Apart from this, the budget has been neutral for the sector.
- Customs duty on gold ores and concentrates for use in manufacture of gold is being fully exempted. These goods will, however, be levied concessional CVD at the rate of Rs 140 per 10 gm of gold content.
- Custom duty on precious metals indexed is as follows - on gold and platinum from Rs 200 per gm to Rs 300 per gm. In case of silver the hike has been of Rs 500 to Rs 1,500 per kg.
- Individual tax payers have been given the benefit of lower tax slabs and higher exemption limits.
- Surcharge on domestic companies is reduced to 7.5% from 10%.
- Companies such as Trent, Titan Pantaloon Retail are likely to benefit from the above mentioned provision.

❖ **Stocks to watch out for:** Pantaloon Retail, Koutons Retail and Shoppers Stop.

Retail

Sr. No	Company	Revenues (Rs mn)	EBITDA Margins %	PAT Margins %	ROE %	Debt - Equity Ratio	CMP	P/E	P/B
1	Pantaloon Retail	66,614	10.2	2.1	6.8	1.2	388	48	2.9
2	Koutons Retail	10,467	21.5	7.6	20.5	1.4	354	12	2.5
3	Shoppers Stop	14,001	3.6	(2.7)	0.0	0.7	351	75	5.3

 # Standalone FY09 figures, P/E & P/B on TTM EPS & BVPS

Agricultural Sector - Positive

- A four-pronged strategy was announced by the Finance Minister, to spur growth in the agricultural sector, which includes agricultural production, reduction in wastage of produce, credit support to farmers and thrust to the food processing sector.
- In this budget, agricultural credit flow target has been raised to Rs 3, 75,000 crore from Rs 3, 25,000 crore.
- The subvention for timely repayment of crop loan has been increased from 1% to 2%.
- Rs 400 crore has been provided to extend Green Revolution to the eastern region of the country. Key positive for Jain Irrigation and Advanta India.

❖ **Stocks to watch out for:** Advanta India, Bajaj Hindustan, Balrampur Chini, Jain Irrigation, KS Oils, Lakshmi Energy, Shri Renuka Sugars and Tata Tea.

Agriculture

Sr. No	Company	Revenues (Rs mn)	EBITDA Margins %	PAT Margins %	ROE %	Debt - Equity Ratio	CMP	P/E	P/B
1	Advanta India	1,393	29.5	7.2	4.4	0.2	497	0.0	2.1
2	Bajaj Hindusthan	15,964	42.5	9.4	(3.4)	1.8	153	9.9	1.2
3	Balrampur Chini	17,199	26.3	12.8	10.1	1.1	105	10.8	2.3
4	Jain Irrigation	23,815	15.8	4.9	22.5	1.2	825	40.4	6.1
5	K S Oils	31,467	11.9	5.4	28.1	0.8	70	13.8	2.7
6	Lakshmi Energy	15,402	20.9	10.4	34.8	0.9	125	7.9	1.4
7	Sh.Renuka Sugar	22,342	15.9	6.2	19.1	1.2	167	16.1	4.3
8	Tata Tea	13,615	23.6	11.7	11.0	0.4	943	36.5	3.3

 # Standalone FY09 figures, P/E & P/B on TTM EPS & BVPS

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Sectoral Impact

Banking & Financial Services Industry (BFSI) - Positive

- The government's focus on sustaining inclusive growth, financial stability and higher credit to deserving sectors were evident in the Union Budget 2010-11. By ensuring that the banks are adequately capitalized and have enough scope to grow their franchise and loan book, the budget ensured that banks play a major role in the economy's growth in the coming fiscals
- The Prepayment period of agricultural debt waiver and debt relief scheme extended further from 31 December 2009 to 30 June 2010. Specifically positive for banks with large agri lending portfolio like Punjab National Bank, Bank of Baroda and Oriental Bank Commerce.
- Provision of a sum of Rs 16,500 crore to ensure minimum 8% Tier-I capital of the Public Sector Banks by 31st March 2011. Major positive for Dena Bank, Syndicate Bank and UCO Bank.
- 2% interest subvention for exports covering handicrafts, carpets, handlooms and small and medium enterprises extended up to 31st March2011. Positive for State Bank of India and Bank of Baroda.
- 1% interest subvention on housing loans, up to Rs 10 lakh where the cost of the house does not exceed Rs 20 lakh extended up to 31st March 2011. Positive for LIC Housing Finance, HDFC and GIC Housing Finance.
- RBI is considering giving some additional banking licenses to private sector players as well as NBFCs, for expanding the reach of banking services. Major positive for Reliance Capital, IDFC, IFCI and other NBFCs.
- Refinancing from IIFCL up to 60% of commercial bank loans for PPP projects in critical sectors has been continued this year as well -take out financing is likely to provide approximately Rs 25,000 crore in 3 years. Positive for SBI.

❖ **Stocks to watch out for**: Axis Bank, Bank of Baroda, IndusInd Bank, Kotak Mahindra Bank, Punjab National Bank, South Indian Bank, State Bank of India and Yes Bank.

Banking & Financial Services

Sr. No	Company	Interest Earned (Rs mn)	NIM %	NPA %	ROA %	ROE %	CMP	P/E	P/B
1	Axis Bank	108,355	2.9	0.4	1.4	19.1	1,125	17.1	3.0
2	Bank of Baroda	150,916	2.5	0.3	1.1	18.7	584	6.5	1.5
3	IndusInd Bank	23,095	1.8	1.1	0.6	13.3	149	19.2	3.1
4	Kotak Mah. Bank	30,651	5.3	2.4	1.0	7.5	742	60.5	7.3
5	Punjab Natl.Bank	193,262	3.2	0.2	1.4	25.8	901	7.9	2.2
6	South Ind.Bank	16,869	2.8	1.1	1.0	16.0	145	6.9	1.3
7	St Bk of India	637,884	2.5	1.8	1.1	17.1	1,976	14.4	2.5
8	Yes Bank	20,033	2.6	0.3	1.5	20.7	237	19.2	3.4

 # Standalone FY09 figures, P/E & P/B on TTM EPS & BVPS

Sectoral Impact

Infrastructure: Transportation – Positive

- Union Budget 2010-11 reiterated the commitment of the Government of India on an accelerated development of Infrastructure in the country. The budget has proposed Rs 1, 73,552crore for infrastructure development, which accounts for over 46% of the total plan allocation.
- The allocation for road transport increased by over 13% from Rs 17,520 crore to Rs 19,894 crore. The budget also reiterated the plan to construct 20 km of road a day, which will throw more opportunities for infrastructure developers focused on road sector such as IRB Infrastructure, Sadbhav Engineering, GMR Infrastructure and IVRCL etc.
- The railways have been allocated Rs 16,752 crore, which is about Rs 950 crore more than last year. Positive for companies like BEML, Kalindee Rail, Titagarh Wagons, Texmaco, etc.
- The Budget has also provided for resale of specified construction machinery imported on concessional duty before 5 years by paying import duty on depreciated value or allowing it to shift to other eligible projects. This was a long pending demand of the players who were forced to invest in machines so as to pre-qualify but required to keep the machine idle once the project is over before the stipulated 5 years.
- IIFCL's disbursement is expected to touch Rs 9,000 crore by end of March 2010 and to more than double to Rs 20,000 crore by March 2011. It has refinanced bank lending to infrastructure projects of Rs 3,000 crore during the current year and is expected to increase more than double that amount in 2010-11. Further, financing to the tune of Rs 25,000 crore would be provided through take out financing in the next 3 years.
- On the flip side, the increase in MAT by 300 basis points to 18% has come as a shocker for the project developers who are largely covered by the MAT.

❖ **Stocks to watch out for**: GMR Infrastructure, IRB Infrastructure, IVRCL Infrastructure, Pratibha Industries, Sadbhav Engineering, Texmaco, Titagarh Wagons and Reliance Infrastructure.

Infrastructure: Transport

Sr. No	Company	Revenues (Rs mn)	EBITDA Margins %	PAT Margins %	ROE %	Debt - Equity Ratio	CMP	P/E	P/B
1	GMR Infra.	44,762	24.3	6.2	5.4	1.3	55	0.0	3.4
2	IRB Infra.Devl.	9,919	48.2	17.9	11.8	1.3	253	143.6	6.2
3	IVRCL Infra.	50,741	10.5	4.7	14.1	0.7	322	20.5	2.4
4	Pratibha Inds	8,058	12.0	5.6	24.6	0.9	320	11.2	2.4
5	Sadbhav Engg.	10,974	14.8	3.4	19.2	2.0	1,180	22.8	4.3
6	Texmaco	10,072	12.3	7.0	37.0	0.3	138	21.2	3.8
7	Titagarh Wagons	6,891	14.4	8.5	18.6	0.1	348	13.4	1.7
8	Reliance Infra.	127,244	16.6	9.9	7.3	0.5	1,004	20.8	2.5

 # Consolidated FY09 figures, P/E & P/B on TTM EPS & BVPS

Sectoral Impact

Infrastructure: Power – Positive

- Overall, the Union Budget 2010-11 is positive for the power generation sector. The Plan allocation for power sector excluding RGGVY doubled from Rs 2,230 crore in 2009-10 to Rs 5,130 crore in 2010-11.
- Government proposes to introduce a competitive bidding process for allocating coal blocks for captive mining to ensure greater transparency and increased participation in production from these blocks.
- A "Coal Regulatory Authority" to create a level playing field in the coal sector proposed to be set up.
- Plan outlay for the Ministry of New and Renewable Energy increased by 61% from Rs 620 crore in 2009-10 to Rs 1,000 crore in 2010-11. Solar, small hydro and micro power projects at a cost of about Rs 500 crore to be set up in Ladakh region of Jammu and Kashmir.
- The excise duty exemption on supplies to mega power projects was extended to those awarded through tariff based competitive bidding or power supply tied through tariff based competitive bidding. This brings down the cost of setting up power projects auguring for IPPs. This will also benefit PSU power generation utilities as well as equipment suppliers such as BHEL etc.
- Similarly exempting power transmission from service tax net will benefit Power Grid Corporation of India. Likewise the allocation of captive coal blocks through competitive bidding will give equal opportunity for private sector power players.

❖ **Stocks to watch out for**: Areva T&D, CESC, ICSA (India), Nava Bharat Ventures, Tata Power and Torrent Power.

Infrastructure: Power

Sr. No	Company	Revenues (Rs mn)	EBITDA Margins %	PAT Margins %	ROE %	Debt - Equity Ratio	CMP	P/E	P/B
1	Areva T&D	26,411	15.0	8.0	35.6	0.5	260	32.8	7.4
2	CESC	30,882	27.0	13.3	12.9	1.0	384	11.3	1.4
3	ICSA (India)	11,004	24.3	13.9	31.5	0.6	132	6.2	1.4
4	Nava Bharat Vent	12,685	43.5	35.0	46.1	0.4	356	6.3	2.7
5	Tata Power Co.	72,817	19.6	9.5	8.2	0.5	1,213	30.8	3.7
6	Torrent Power	43,249	19.0	9.4	13.3	1.1	294	22.0	4.7

 # Standalone FY09 figures, P/E & P/B on TTM EPS & BVPS

Sectoral Impact

Real Estate - Neutral

- Real Estate sector which is slowly coming out of the mid 2008 slump, has received some support from the Union Budget 2010-11. While the budget has encouraged affordable housing below Rs 20 lakh with 1% interest subvention for housing loan up to 10 lakh and extension of benefits available under section 80IB by one more year.
- The surcharge on corporate tax has been reduced from 10% to 7.5% while MAT has been hiked from 15% to 18%. This should benefit many real estate companies, as most of them are outside the purview of MAT, but will benefit from effective reduction in corporate tax.
- While the hike in excise duty on cement, steel and other inputs will pinch the industry at a time when the demand is on slow recovery path, as the industry could not afford to pass on the same to the homebuyer.
- However the industry players who have got their 80IB (10) eligible projects delayed can take comfort with the time for completion being extended to 5 years from current 4 years. Moreover interest subvention scheme of 1% on all individual housing loans up to Rs 10 lakh for units costing up to Rs 20 lakh till 30 March 2011, is a positive move to encourage affordable housing units costing up to Rs 20 lakh. Since the real estate sector is more interest sensitive, this 1% subvention will reduce the EMI significantly and will improve affordability. Further more and more developers will conceive projects in this price segment to tap the potential auguring well for the sector on a whole. However the impact of bringing rental of vacant land into service tax as well as other changes in service tax has to be seen.
- Since the demand for real estate is a derived one, the growth thrust as well as more money on middle class individual's front will benefit the industry by way of demand pickup.

❖ **Stocks to watch out for**: Anant Raj Industries, DLF Limited, Indiabulls Real Estate and Unitech.

Real Estate

Sr. No	Company	Revenues (Rs mn)	EBITDA Margins %	ROE %	Debt - Equity Ratio	CMP	P/E	P/B
1	Anant Raj Inds	2,508	114.9	6.6	0.0	123	15.8	1.1
2	DLF	100,354	59.7	21.3	0.6	297	129.8	2.2
3	Indbull.RealEst.	2,086	83.6	0.9	0.1	160	0.0	0.8
4	Unitech	28,496	71.9	26.7	2.4	72	42.7	1.8

 # Consolidated FY09 figures, P/E & P/B on TTM EPS & BVPS

Logistics - Negative

- The hike in service tax will increase operating costs for the industry. Additionally, higher duties on petroleum would put pressure on the margins.
- The demand of the civil aviation sector for cut in taxes on ATF, which accounts for about 40% of the cost of any airline company, remains still un-answered. The levy of service tax on domestic travel would be recovered by companies from the passengers.
- However, the extension of interest rate subvention scheme for exporters will benefit in terms of smooth recovery for the sector.
- Additionally, the 5% exemption for cold storage units is a positive for companies operating cold storage facilities.

❖ **Stocks to watch out for**: Allcargo Global Logistics, Arshiya International and Gateway Distriparks

Logistics

Sr. No	Company	Revenues (Rs mn)	EBITDA Margins %	PAT Margins %	ROE %	Debt - Equity Ratio	CMP	P/E	P/B
1	Allcargo Global Logistics	5,168	28.5	17.9	21.9	0.3	179	22.7	2.8
2	Arshiya International	2,564	12.0	7.2	3.9	0.1	174	77.9	2.1
3	Gateway Distriparks	2,036	60.6	46.1	14.6	0.0	130	19.0	2.2

 # Standalone FY09 figures, P/E & P/B on TTM EPS & BVPS

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Sectoral Impact

Hotels – Positive

- The hospitality industry will be benefited, as it is eligible for investment linked tax incentives under section 35 AD of the Income Tax act. The government has extended date for eligibility of tax holiday under Section 80 ID for the hotels opened in NCR till 31st July 2010. Earlier, the hotels opened during the period 1st April 2007 to 31st March 2010 in the NCR region were given tax holidays for 5 years. This extension of time should benefit select players like Hotel LeelaVenture, which is set to open a hotel at Chanakyapuri in New Delhi before Commonwealth Games. Besides, all the hotels including Hotel Leelaventure will also benefit from their plans to set up hotels across the country.
- Rs 200 crore provided as a Special Golden Jubilee package for Goa to preserve the natural resources of the State, including sea beaches and forest cover.
- Restoration of duties on cement, steel, fuel, etc will add to the project cost of setting up a hotel.

❖ **Stocks to watch out for**: Hotel Leelaventure, Indian Hotels, Taj GVK Hotels and EIH Limited.

Hotels

Sr. No	Company	Revenues (Rs mn)	EBITDA Margins %	PAT Margins %	ROE %	Debt - Equity Ratio	CMP	P/E	P/B
1	Hotel Leela Venture	4,701	58.4	30.8	20.4	3.2	45.7	37.8	2.5
2	Indian Hotels	16,196	35.7	14.5	9.2	0.6	89.5	71.0	2.1
3	Taj GVK Hotels	2,375	42.9	22.2	20.9	0.4	152.4	29.8	3.5
4	EIH	8,887	46.1	19.2	15.2	0.8	123	54.7	4.6

 # Standalone FY09 figures, P/E & P/B on TTM EPS & BVPS

Cement – Negative

- The excise duty on packaged cement is increased to Rs 290 from Rs 230 per tonne if retail sale price is below Rs 190 per 50 kg bag or Rs 3800 per tonne. In case the retail price is above Rs 190 per 50 kg bag or Rs 3800 per tonne, the excise duty is increased to 10% of retail sale price from 8%.
- The excise duty on bulk cement has been increased to "higher of 10% or Rs 290 per tonne", from "higher of 8% or Rs 230/ tonne". Further, the duty on clinker has been increased to Rs 375 from Rs 300 per tonne.
- The hike in excise duty on cement & cement products is negative, but can be overwhelmed by improved demand from greater thrust on infrastructure and rural sector.
- Acceleration in urban housing and construction and other infrastructure related activities will revive the demand for the various cement products, which is experiencing excellent demand from the rural markets. However, overall, the budget looks neutral for the industry.
- However the major concern is high tax and lower margins. Thus in the absence of major push by the government for the sector in this budget, the cement industry will turn uncompetitive going ahead. The hike in MAT from 15% to 18% is an irritant for the sector.
- The demand from the rural infrastructure and semi-urban areas for the cement sector will continue for some time in the back drop of increased provisions for various social projects like Rural Development, Bharat Nirman Housing and Urban Poverty Alleviation and Rajiv Awas Yojana (RAY). While the cement sector will be able to pass on the hike in excise duties now, it may fail to do so from July 2010, when the demand weakens during South West Monsoons on the one hand, and by then surge in capacity additions lead accentuated over supply situation. Thus, the budget was overall negative for the sector.

❖ **Stocks to watch out for**: ACC, Ambuja Cement, Orient Paper and Industries and Ultratech Cements.

Cement

Sr. No	Company	Revenues (Rs mn)	EBITDA Margins %	PAT Margins %	ROE %	Debt - Equity Ratio	CMP	P/E	P/B
1	ACC	71,896	25.1	14.7	26.7	0.1	967.5	10.2	2.7
2	Ambuja Cem.	61,821	27.4	16.6	22.7	0.1	106.9	13.4	2.5
3	Orient Paper	15,365	24.3	13.6	41.8	0.6	45.9	5.2	1.4
4	UltraTech Cem.	63,855	25.3	13.6	31.0	0.6	1,038.1	11.0	3.6

 # Standalone FY09 figures, P/E & P/B on TTM EPS & BVPS

Sectoral Impact

Metals - Negative

- The Finance Minister in Union Budget 2010-11 has proposed to partially roll back the excise duty to 10% from 8%. The steel companies may be able to pass on the hike to the end consumer on the back of healthy demand scenario. As per the Finance Ministry, the Steel sector is expected to grow by around 6% - 9% in 2010, on the back of healthy demand scenario from Real Estate, Construction and Automobile sectors.
- Though the increase in the excise duty will be marginally negative in terms of demand but the government is committed to retain thrust on rural and infrastructure spend and the continued focus on rural and infrastructure activities will drive the demand for metals. Allocation of 46% of total funds to the infrastructure segment and increased allocation to the power sector is likely to increase the demand for base metals, especially aluminum and copper.
- The industry was not expecting any increase in excise duty and customs duty while it was expecting that the customs duty on scrap of non-ferrous metals (except aluminum) at 5%, which is at par with customs duty on non-ferrous metals, which should be reduced to zero. However, while the customs duty on metals and on the scrap of non-ferrous metals (except aluminum) has been kept same, whereas the excise duty has been increased by 2% from 8% to 10%.
- Levy of cess on coal at Rs 50 per tonne is likely to marginally increase the power cost, which is already quite high and in result will increase the cost of production per tonne. However, the proposal for setting up of a coal regulator is a key positive as the allotment of coal blocks has been a major obstacle for many projects.

❖ **Stocks to watch out for**: Gujarat NRE Coke, Hindalco Industries, Jindal Steel and Tata Steel

Metals

Sr. No	Company	Revenues (Rs mn)	EBITDA Margins %	PAT Margins %	ROE %	Debt - Equity Ratio	CMP	P/E	P/B
1	Guj NRE Coke	15,220	15.9	7.0	9.2	0.8	73.0	73.0	2.9
2	Hindalco Inds.	180,701	18.8	11.4	10.8	0.4	161.3	20.3	1.2
3	Jindal Steel	76,712	32.1	18.2	33.7	1.0	633.4	45.8	11.0
4	Tata Steel	243,485	36.4	19.4	21.9	0.8	573.7	11.7	1.7

 # Standalone FY09 figures, P/E & P/B on TTM EPS & BVPS

Capital Goods - Neutral

- The Capital Goods sector expected redressal of inverted duty structure (lower duties for imported capital goods & higher duties on raw materials imports) for the sector as well as higher import duty on capital goods. The Budget has ignored these expectations.
- In addition, the Budget has extended 0% customs duty for some more project imports and equipments. Similarly, the demand of removal of exemption from payment of 4% special CVD for capital goods/ project imports has not come through.
- Increase in allocation to power & roads would benefit large companies like L&T & BHEL. Further, Suzlon Energy would benefit from increased allocation to renewable energy.

❖ **Stocks to watch out for**: BHEL, Crompton Greaves, Jyoti Structures, Larsen & Toubro, McNally Bharat, Siemens India and Thermax India.

Capital Goods

Sr. No	Company	Revenues (Rs mn)	EBITDA Margins %	PAT Margins %	ROE %	Debt - Equity Ratio	CMP	P/E	P/B
1	B H E L	265,901	18.3	11.0	26.5	0.0	2,352	30.7	8.9
2	Crompton Greaves	46,587	13.9	8.0	37.1	0.1	416	30.2	12.7
3	Jyoti Structures	17,160	13.0	4.6	21.0	0.7	154	14.4	3.0
4	Larsen & Toubro	338,959	13.2	7.7	24.0	0.5	1,567	30.7	6.6
5	McNally Bharat	9,680	8.1	1.9	10.4	0.6	250	20.0	4.0
6	Siemens	83,868	16.0	10.2	35.3	0.0	683	28.7	7.9
7	Thermax	30,770	14.5	9.0	33.8	0.0	589	28.1	7.3

 # Standalone FY09 figures, P/E & P/B on TTM EPS & BVPS

Sectoral Impact

Pharmaceuticals and Healthcare - Positive

- This budget has laid a strong emphasis on strengthening the research and development work, which is likely to benefit all major Pharma companies. Weighted deduction on expenditure incurred on in-house R&D is enhanced from 150% to 200%. Weighted deduction on payments made to National Laboratories, Research Associations, Colleges, Universities and other institutions is enhanced from 125% to 175%.
- An Annual Health Survey to prepare the District Health Profile of all Districts shall be conducted in 2010-11. Plan allocation to Ministry of Health & Family Welfare has increased from Rs 19,534 crore in 2009-10 to Rs 22,300 crore for 2010-11.
- Uniform, concessional basic duty of 5%, CVD of 4% with full exemption from special additional duty is prescribed on all medical equipments.
- A concessional basic duty of 5% is being prescribed on parts and accessories for the manufacture of such equipment while they would be exempt from CVD and special additional duty.
- Full exemption currently available to medical equipment and devices such as assistive devices, rehabilitation aids etc. retained. The concession available to Government hospitals or hospitals set up under a statute also retained.
- Specified inputs for the manufacture of orthopedic implants exempted from import duty.

❖ **Stocks to watch out for**: Apollo Hospitals, Fortis Healthcare, Cipla, Glenmark Pharma and Dr Reddy Laboratories.

Pharmaceuticals & Healthcare

Sr. No	Company	Revenues (Rs mn)	EBITDA Margins %	PAT Margins %	ROE %	Debt - Equity Ratio	CMP	P/E	P/B
1	Apollo Hospitals	14,580	16.4	8.1	9.1	0.3	687	28	3.0
2	Fortis Healthcare	1,768	15.7	(3.5)	0.0	0.3	156	400	2.8
3	Cipla	49,606	22.0	15.5	19.2	0.2	315	24	5.0
4	Glenmark Pharma	8,546	41.6	25.2	19.3	0.7	252	43	4.1
5	Dr Reddy's Laboratories	41,589	22.4	13.2	11.1	0.1	1,143	26	3.7

 # Standalone FY09 figures, P/E & P/B on TTM EPS & BVPS

Media & Entertainment Sector - Positive

- Country's new advertising agencies and online advertising agencies are now exempted from service tax, whereas some services that are not taxed until now will be brought in the new Service Tax.
- Service tax extension to several sectors like sports sponsorship, brand promotion, FMCG products etc. will lead to the decrease in the advertising spend by most of the FMCG companies.
- The MAT has been increased to 18% from the existing 15% for the digital industry, Internet and Mobile VAS (Value Added Services).
- For the investment in the digital platform for cable television, Headend-In-The-Sky (HITS) platform, the Government has proposed 5% custom duty with full exemption for importing equipments by Cable TV operators.
- Channels like UTV World Movies and UTV Action will benefit from the clarification issued in respect of custom duty on imported cinematographic films.

❖ **Stocks to watch out for**: HT Media, UTV Software, D B Corp, Zee Entertainment and Zee News.

Media & Entertainment

Sr. No	Company	Revenues (Rs mn)	EBITDA Margins %	PAT Margins %	ROE %	Debt - Equity Ratio	CMP	P/E	P/B
1	HT Media	13,230	16.6	7.4	10.8	0.3	138	24	3.6
2	UTV Software	2,512	19.0	8.3	3.3	0.5	463	36	1.8
3	D B Corp	9,206	17.6	7.5	23.3	1.4	229	77	7.0
4	Zee Entertainment	12,102	38.7	25.6	13.9	0.1	248	27	4.6
5	Zee News	5,075	19.8	8.8	19.6	0.5	56	27	5.5

 # Standalone FY09 figures, P/E & P/B on TTM EPS & BVPS

Sectoral Impact

Telecom Sector – Neutral

- It was widely expected that the Finance Minister will increase the Service Tax from 10% to 12% in order to roll back fiscal stimulus but that has not been done. Positive for the industry.
- Increase of MAT from 15% to 18% will have an impact on earnings for this sector also.
- The Finance Minister has budgeted to raise Rs 35,000 crore from auction of 3G, which will be conducted in April 2010.
- Mobile phones will get an exemption from a special additional duty provided to goods imported in per-packaged form for retail sales. This will make mobile handsets cheaper and will help increase mobile penetration.

❖ **Stocks to watch out for**: Bharti Airtel, Reliance Communications, Idea Cellular and Onmobile Global.

Telecom

Sr. No	Company	Revenues (Rs mn)	EBITDA Margins %	PAT Margins %	ROE %	Debt - Equity Ratio	CMP	P/E	P/B
1	Bharti Airtel	340,143	39.7	22.8	32.4	0.3	279	11	3.8
2	Reliance Communication	136,106	28.2	8.9	3.5	0.7	157	24	0.6
3	Idea Cellular	98,571	30.7	8.3	9.9	1.0	61	17	1.7
4	Onmobile Global	3,271	43.6	21.6	11.2	0.0	369	38	3.3

 # Standalone FY09 figures, P/E & P/B on TTM EPS & BVPS

Information Technology Sector – Marginally Positive

- Government has announced a slew of project related to e-governance and IT Infrastructure. This will help IT majors to grow domestically. Rs 1,900 crore has been earmarked for National Unique Identification Authority of India Project.
- IT industry was optimistically expecting extension of tax under Section 10A/10B to continue, but this was not to be. The Finance Minister tried to compensate this by providing more clarity on SEZ which states that profit from SEZ will be fully exempted with a retrospective effect from FY2007.
- Attractive R&D benefits are likely to encourage IT companies to increase expenditure on R&D. This will benefit the industry to remain competitive and move up the value chain.
- Increase of MAT from 15% to 18% will have impact on earnings for this sector as well.

❖ **Stocks to watch out for**: Infosys, TCS, Wipro and Geodesic.

Information Technology

Sr. No	Company	Revenues (Rs mn)	EBITDA Margins %	PAT Margins %	ROE %	Debt - Equity Ratio	CMP	P/E	P/B
1	Infosys	202,640	36.7	28.7	37.2	0.0	2,602	25	8.4
2	TCS	224,040	24.8	21.0	38.7	0.0	761	28	11.2
3	Wipro	215,073	19.8	13.8	24.7	0.4	677	22	7.9
4	Geodesic	4,938	56.9	38.8	36.3	1.1	124	8	1.9

 # Standalone FY09 figures, P/E & P/B on TTM EPS & BVPS

Sectoral Impact

Oil & Gas Sector – Negative

- The Finance Minister has made one significant announcement that the subsidy will be given in cash in order to bring all the public debt under fiscal accounting, which means that Oil Marketing Companies (OMC) will do away with Oil Bonds. This will help OMCs to better manage their cash.
- The Finance Minister was expected to make some announcement regarding the petroleum pricing policies as per Kirit Parikh Committee recommendation but the Finance Minister only said that it will be discussed in due course of time.
- Budget also spells out increase in excise duty by Rs 1 per liter for petrol and diesel. Custom duty on crude oil has also increased from nil to 5%. Due to this retail petrol and diesel prices have gone up by Rs 2.6 to Rs 2.8.
- Increase of MAT from 15% to 18% will have impact on earnings for this sector as well.

❖ **Stocks to watch out for**: Reliance Industries, Gujarat State Petronet Ltd. (GSPL), Indian Oil Corporation (IOC), Cairn India, BPCL, HPCL and ONGC.

Oil & Gas

Sr. No	Company	Revenues (Rs mn)	EBITDA Margins %	PAT Margins %	ROE %	Debt - Equity Ratio	CMP	P/E	P/B
1	Reliance Industries	1,419,590	17.3	10.5	15.7	0.6	978	21	2.8
2	GSPL	4,875	92.1	25.3	10.5	0.9	86	14	4.0
3	IOC	3,065,489	3.7	1.1	8.4	1.0	318	7	1.8
4	BPCL	1,340,734	3.3	0.7	8.3	1.5	562	5	1.7
5	HPCL	1,256,693	3.0	0.4	5.2	1.9	347	2	1.1
6	ONGC	636,299	39.9	25.2	21.6	0.2	1,117	16	3.0

 # Standalone FY09 figures, P/E & P/B on TTM EPS & BVPS

Education Sector - Positive

- The budget proposes an increase in planned allocation for school education & literacy by 16% to Rs 31,036 crore.
- In addition, States will have access to Rs 3,675 crore for elementary education under the Thirteenth Finance Commission grants for 2010-11.
- Further, the plan outlay for higher education has been increased by 14.5% to Rs 10,996 crore.

❖ **Stocks to watch out for**: Aptech, EdServ Softsystems, Educomp Solutions, Everonn Education and NIIT.

Education

Sr. No	Company	Revenues (Rs mn)	EBITDA Margins %	PAT Margins %	ROE %	Debt - Equity Ratio	CMP	P/E	P/B
1	Aptech	1,130	(3.5)	20.8	16.1	0.1	164	0.0	3.0
2	Edserv Softsys.	85	60.6	43.7	17.6	0.0	253	22.6	8.7
3	Educomp Sol.	5,012	57.9	26.3	37.0	1.3	670	31.0	6.2
4	Everonn Educat.	1,214	48.5	19.6	15.4	0.3	399	18.4	2.9
5	NIIT	5,456	20.6	7.2	10.5	0.4	65	33.1	2.8

 # Standalone FY09 figures, P/E & P/B on TTM EPS & BVPS