

The newly elected UPA government is facing high expectations from the electorate and all eyes are now on the forthcoming Budget.

The Finance Minister, Pranab Mukherjee, who is scheduled to present his first Budget on 6th July, faces a formidable task of striking a balance between delivering on election promises and reining in the soaring fiscal deficit.

An estimated US\$ 500bn is required by 2012 to upgrade India's infrastructure. The crippling infrastructure and power deficiency has assumed paramount importance in our country's journey towards developed / super power status.

Key Programmes of UPA Government:

- **BHARAT NIRMAN**
- **NATIONAL RURAL EMPLOYMENT GUARANTEE SCHEME (NREGS)**
- **JAWAHARLAL NEHRU NATIONAL URBAN RENEWAL MISSION (JNNURM)**
- **NATIONAL RURAL HEALTH MISSION (NRHM)**
- **RASHTRIYA SWASTHYA BIMA YOJANA**
- **RAJIV GANDHI DRINKING WATER MISSION**
- **AGRICULTURE CREDIT**
- **SARVA SHIKSHA ABHIYAN (SSA)**
- **MID-DAY MEAL SCHEME**
- **JAWAHAR NAVODAYA VIDYALAYA**
- **KASTURBA GANDHI BALIKA VIDYALAYA**

The focus of the FM will continue to be on sustaining and improving the rate of GDP growth and equitable-inclusive growth (read popular budget measures). Investments in infrastructure, social initiatives and agriculture are expected to continue with some tax incentives for various industries and individuals. Reforms process for various segments of the economy will be muted at the best but we expect to hear some key disinvestment decisions.

The thrust will be on all the programmes mentioned above and the measures are expected to affect the following sector in several ways and the stocks mentioned are expected benefit the most.

SECTORAL IMPACT

Banking and Financial Services

- The Reserve Bank of India, has announced various measure recently, the key being ease in policy rates. Post budget, banks are likely to reduce their interest rates, (already some banks have done), which in turn would lead to increase in credit growth.
- The key trigger would be FDI in Insurance which is currently 26% moves to 49% would be watched carefully as it likely to benefits by most of the NBFC's.
- The major beneficiary would be the Real Estate companies as they rely more on debt funding as lower interest rates would help them restructure their balance sheets, thereby, increasing the loan book and interest income for banks.
- Consolidation in banking sector is very likely [SBI and its Associates] and others are keen to take off in that direction.
- Retail lending (especially mortgage financing) that formed a significant portion of the portfolio for most banks in the last two years lost some weightage on the banks' portfolios due to their risk weightage. However, on the liabilities side, with better penetration in the semi urban and rural areas the banks garnered a higher proportion of low cost deposits thereby economising on the cost of funds.
- With recovery in capital markets, the outlook has improved which is leading to more transactions leading to recovery in the fee based income which had a clear down side last year owing to global crisis.
- RBI's roadmap for the entry of foreign banks and the acquisition of stake by the foreign entities in Indian private banks seems to be a step towards facilitating entry of foreign banks into India. However, the same is set to aggravate the tussle for market share in the already fragmented sector. While private sector banks like **HDFC Bank, Axis Bank, Yes Bank** are expected to benefit from credit and fee income growth, public sector banks like **State Bank** would benefit from any infusion of capital from the Government.

BANKING

Sr. No	Company	CMP	P/E	P/B	ROE (%)	Net Interest Margins (NIM %)	Key Triggers
1	Axis Bank	763	15	3	18	2.9	
2	Bank of India	347	6	2	26	2.7	
3	HDFC Bank	1,540	28	4	15	4.7	# Rate cuts to spurr lending and growth
4	ICICI Bank	727	21	2	8	2.1	# Banking reforms such as increase in voting rights, increased FDI in insurance companies
5	Indusind Bank	81	19	2	7	1.8	# Impending consolidation in banking sector
6	Oriental Bank of Commerce	183	6	1	14	2.0	# Infusion of capital from Government or disinvestment in PSU Banks
7	State Bank of India	1,694	12	2	16	2.5	# Market recovery to aid capital markets divisions and fee income
8	Union Bank	216	6	2	24	2.7	
9	Yes Bank	131	13	2	15	2.4	
10	Reliance Capital	898	22	3	18	-	
11	Religare Enterprises	402	136	5	16	-	

SECTORAL IMPACT

Infrastructure

- We believe that the recently re-elected UPA Government will initiate fresh measures in the upcoming Budget to accelerate infrastructure spending. The Government has already authorized the **India Infrastructure Finance Company (IIFC)** to collect Rs300bn by issuing tax-free bonds for financing infrastructure projects.
- The Budget may provide more incentives and would address the regulatory hurdles to attract private sector investments in roads and the electricity sector. Union Surface Transport Minister **Mr. Kamal Nath** has already indicated that he would like to increase the length of the road network by about 7,300 kms a year. The government post-elections is considering to clear 21 infrastructure road projects, at a total cost of about Rs 20,000crore, to be implemented jointly by various state agencies and private sector developers. Companies like **IVRCL, Patel engineering**, etc which have significant presence in the road segment, will be major beneficiaries of the growing road opportunities in the sector.
- The Government is also keen to speed up the construction of highways and **rail freight corridors** in its current term as a way to boost the slowing economy. The development of 40,000 km of roads at a cost of Rs 60,000crore is on the government's priority list. The Railways has a target of investing Rs 2, 30,000crore during the 11th Five Year Plan.

INFRASTRUCTURE SECTOR

Sr. No	Company	CMP	P/E	P/B	ROE (%)	Debt/Equity Ratio	Cash & Cash Eq Per Share	Key Triggers
1	IVRCL Infra	298	17	2	13	0.7	49	
2	Nagarjuna Construction	122	18	2	10	0.6	15	# Government's thrust on infrastructure to support revenue growth in foreseeable future
3	Patel Engineering	372	14	3	17	0.8	48	# Faster decision making to speed-up planning to execution cycle
4	Reliance Infra	1,207	27	3	11	0.5	119	
5	JP Associates	213	45	7	18	2.0	23	# Falling interest rates and commodity prices to improve the margins
6	Kalindee Rail Nirman	228	22	4	18	0.8	24	
7	Texmaco	120	22	7	37	0.3	4	

Capital Goods

- India's manufacturing activity expanded for a second straight month in May to its highest level in eight months, reflecting a revival in domestic demand. We believe that further easing of liquidity, increasing consumption from user industries like automobiles, power, telecom, mining etc will boost spending. Additionally the lagged effect of the interest rate cuts that have been made in the past 12 months and lower material cost on account of lower steel prices will encourage investments and make projects more viable.
- The budget might throw positive surprises for in the form of re-introduction of Section 80 M, which provided for deduction in dividends received from subsidiaries for calculating dividend distribution tax. Making infrastructure lending more tax-friendly, through reintroduction of Section 10 (23) (G), whereby banks were allowed to claim the interest earned on long-term lending to infrastructure projects as an allowable deduction and extension of shipbuilding subsidy would also be positive for capital goods firms.
- Heavy Engineering companies like **BHEL, L&T**, that exhibit good near-term visibility on strong order books, will be particularly benefited. **BHEL**, country's premier engineering organization, is planning to pump Rs 12000crore over the next four years to pick up equity in power projects and to strengthen its capacity. The blue-chip company intends to enhance its capacity to 20000 MW, by 2011. Besides, it also plans to pick up a 26% stake in more power plants.

CAPITAL GOODS SECTOR

Sr. No	Company	CMP	P/E	P/B	ROE (%)	Debt/Equity Ratio	Cash & Cash Eq Per Share	Key Triggers
1	BHEL	2095	33	7	27	0.01	171.0	
2	Thermax	395	16	5	38	0.00	3.7	# Government's thrust on infrastructure to support revenue growth in foreseeable future
3	Crompton Greaves	290	12	4	37	0.07	18.3	
4	Larsen & Toubro	1,509	42	9	28	0.4	105	

SECTORAL IMPACT

Real Estate

- RBI has reduced general provisions required against standard real estate loans from 2% to 0.4%. The Government in its effort to revive the demand for real estate has ensured reduced home loan interest rates by PSU banks to 8% for loans up to Rs.0.5mn and 9.5% for loans between Rs.0.5-2mn.
- The major beneficiary of the declining interest rates would be the Real Estate sector companies as they rely more on debt funding and lower interest rates would help them restructure their balance sheets.
- The demand for residential segment would get a boost if the government increases the deduction available under Sec 24(B) of IT Act (for interest paid on home loans). Further extension of ECB scheme to entire real estate sector as compared to above 100 acres townships where ECB is currently allowed and reduction in customs and excise duty for capital and construction requirement of the real estate companies will benefit developers significantly.

REAL ESTATE SECTOR								
Sr. No	Company	CMP	P/E	P/B	ROE (%)	Debt/Equity Ratio	Cash & Cash Eq Per Share	Key Triggers
1	DLF	323	34	4	23	0.7	12	# Rate cuts to spur the demand
2	HDIL	221	7	2	39	0.9	13	# Any changes with regards to Interest exemption limits for buyers to impact the demand
3	Indiabulls RealEstate	194	451	2	10	0.5	222	# Affordable / Middle Income housing to drive the mid-term growth

Power

- The **Power** sector's prospects remain bright with the budget allocation for RGGVY and APDRP increased to Rs60bn and Rs18bn respectively and increased regulated ROE from 14% to 15.5% under new CERC Tariff regulations for FY09-14. Additionally, reduced excise duty on equipments to 10% from 14 % in stimulus I and further reduction to 8% in stimulus II also has been a key positive for the sector.
- Government companies like **NTPC** which plans to invest Rs 550 billion (\$12 billion) in the next three years, to add 24,000 megawatts of generation capacity, stands to benefit immensely. Private sector companies like **Jindal Steel & Power, Tata Power etc** having significant revenues from power segment would also benefit in the coming years. The peak power deficit for 2009-10 is pegged at 12.61 per cent, against 11.9 per cent in the previous year, as per the report from Central Electricity Authority (CEA). The energy shortage is projected at 9.6 per cent in this fiscal in the report which states that against the projected electricity requirement of 8 40,544 million units, 762,215 million units would be available during 2009-10.
- We believe that the extension of current benefits (excise, custom and project import scheme) to captive power plants and grant of infrastructure status to power, thereby broadening the beneficiaries of 80 IA benefit beyond developers to equipment suppliers, O&M contractors, etc. are the key budget outcomes that would benefit the sector companies.

POWER SECTOR								
Sr. No	Company	CMP	P/E	P/B	ROE (%)	Debt/Equity Ratio	Cash & Cash Eq Per Share	Key Triggers
1	NTPC	191	19.3	2.6	14.1	0.5	18.8	
2	Powergrid	106	26.3	2.9	10.5	1.6	4.4	# Power hungry - Power deficient country
3	Tata Power	1,107	25.0	2.7	10.9	0.4	25.5	# Government's thrust on power infrastructure to support revenue growth in foreseeable future
4	Jindal Steel & Power	2,338	26.0	8.6	39.9	1.2	51.4	
5	CESC	291.1	14.9	1.8	14.3	1.0	121.2	

SECTORAL IMPACT

Pharmaceuticals / Health care Sector

- The Indian Pharmaceutical industry is highly fragmented with the top ten companies making up for one third of the market. The Indian pharmaceuticals markets accounts for 1% of world pharma industry in value terms and 8 % in volume terms. A key issue facing the sector is high R&D expense therefore most of the companies are now shifting their focus on CRAMS as it lowers their R&D expense. This sector is more on the defensive side as indirectly benefits from the Health care sector (hospitals).
- Key Budget expectations would be the grant of infrastructure status to the Healthcare sector, pharma extension of EOU benefits for another 3 years and increased allocation on Healthcare infrastructure and National Rural Health Mission.
- Hospital majors like **Apollo Hospitals** and **Fortis Healthcare** are expected to benefit with increased healthcare spending as part of social sector spending.

PHARMA / HEALTHCARE								
Sr.No	Company	CMP	P/E	P/B	ROE (%)	Debt/Equity Ratio	Cash & Cash Eq Per Share	Key Triggers
1	Divis Laboratories	1,060.0	16.0	7.7	40.5	0.1	11	
2	Pfizer	829.2	17.1	2.8	38.6	0.0	182	
3	Sun Pharma	1,284.0	21.0	4.9	24.1	0.0	70	# Defesive sector (no impact of the recession)
4	Wyeth	570.0	13.9	5.0	31.5	0.0	81	# Indirectly benefits from Healthcare spending
5	Apollo Hospital	511.0	27.9	2.6	8.3	0.3	85	# MNC parents going for buy-backs and eventual delisting
6	Fortis	100.0	698.2	3.1	0.4	0.3	1	

FMCG Sector

- FMCG sector had a broad based recovery and has grown at 19% CAGR over the last 3 years. Extending distribution reach in rural markets, hitting the markets with new advertisements and products and increasing trade margins in specific product categories have been the key expansion strategies of market players.
- Reduction of **VAT** from current levels of 12.5% to 4% for biscuits, bread, bhujia, namkeen, jam, jellies and fruit juice are maintaining the 2010 timeline for implementation of GST and replacing the redundant and cumbersome multiple tax system are the key sector expectations from the budgets.
- Additionally, continued development spending for rural India and increased allocation to various social programs would be a significant advantage for the sector as rising rural incomes is the key to the revenue growth of pan- India FMCG players like **ITC, HUL, Dabur, etc.**

FMCG SECTOR								
Sr.No	Company	CMP	P/E	P/B	ROE (%)	Debt/Equity Ratio	Cash & Cash Eq Per Share	Key Triggers
1	Dabur	117	27	11	62	0.0	3	
2	HUL	259	27	27	121	0.2	6	# Rural Economy hasn't really faced the recession which is driving the demand for FMCG
3	ITC	203	23	6	26	0.0	9	# If the mansoons are normal / near normal, FMCG demand will continue unabated
4	Nestle	1,735	29	35	113	0.0	24	
5	United Spirits	831	27	4	15	0.6	71	# Relatively defensive in slow growth / recessionary scenario
6	Marico	72	30	15	62	1.0	1	

SECTORAL IMPACT

Telecom Sector

- The Indian Telecom Industry has grown more than 12 times in five years from just 33mn subscribers in 2004 to 386mn subscribers in 2009. Consolidation is likely to place in this sector as many foreign players are planning to enter into the market and with one of the lowest ARPU's globally, volume growth would be the revenue driver for this sector.
- The key trigger would be the implementation and execution of **3G policy** & improvement in the regulatory environment in this sector. Incumbent players with pan- India presence like **Bharati Airtel and Reliance Communications** would be major beneficiaries in terms of 3G spectrum allotment.

TELECOM SECTOR								
Sr. No	Company	CMP	P/E	P/B	ROE (%)	Debt/Equity Ratio	Cash & Cash Eq Per Share	Key Triggers
1	Bharti Airtel	792	19	7	31	0.3	29	# Faster decision 3G policy and auction will be a trigger for higher ARPU in coming years
2	Reliance Communications	296	26	2	10	0.8	4	# Consolidation in telecom & allied sector to help improve the margins

Information Technology

- The deadline for STPI Tax benefits available to Indian IT/ITES companies under Section 10a/10 B of the Income Tax Act'1961 was extended by a year to March 31, 2010 during the year.
- We believe that even an extension of tax benefits available to Indian IT/ITES companies for about a year as against the industry wish list for 3-5 years, would lead to significant earnings upgrades for the IT players. It would benefit mid Tier IT companies/ITES players in a more meaningful manner.

IT SECTOR								
Sr.No	Company	CMP	P/E	P/B	ROE (%)	Debt/Equity Ratio	Cash & Cash Eq Per Share	Key Triggers
1	HCL Info	119	7	2	30	0.35	31	
2	HCL Technologies	185	16	4	24	0.01	17	
3	Hexaware	48	17	1	13	0.00	22	# Decision on STPI sunset clause to impact the revenue growth as well as the profitability
4	Infotech Enterprises	150	12	1	11	0.26	61	
5	TCS	369	15	5	35	0.01	22	# Improvement in global economy to help sustain the growth and margins
6	OnMobile Global	431	65	5	12	0.03	84	

Education

- Any announcement on increased education spending and reforms in education policy by the Government would benefit **Educomp Solutions** and **Everonn Systems**, as these players benefit from increasing spends on Government schools which will increase as a part of social sector spending.

EDUCATION SECTOR								
Sr. No	Company	CMP	P/E	P/B	ROE (%)	Debt/Equity Ratio	Cash & Cash Eq Per Share	Key Triggers
1	Educomp	3072	41	18	24	1.3	170	# Government's thrust on 'education to all' to support revenue growth in foreseeable future
2	Everonn Systems	391	23	5	15	0.5	30	

SECTORAL IMPACT

Agri Input / Processing

- Continuing government programs such as interest subvention for crop loans, agriculture loans under priority sector norms for banks and direct government subsidies/assistance under various schemes of the Bharat Nirman Plan for agriculture ensured adequate credit availability for the sector.
- The Government will focus on enhancing rural incomes by reducing input costs for farmers. Consequently, there could be certain tax breaks for companies providing inputs to the farm sector.
- In addition, Micro Irrigation (MIS) could get a further boost by higher budgetary allocation and water infrastructure development. **Jain Irrigation** should benefit from a government focus on farm productivity, rural development, water infrastructure development and a potential increase in outlays for a micro Irrigation subsidy.

AGRI PROCESSING / INPUTS SECTOR

Sr. No	Company	CMP	P/E	P/B	ROE (%)	Debt/Equity Ratio	Cash & Cash Eq Per Share	Key Triggers
1	GNFC	88	6	0.7	20	0.2	4	
2	Jain Irrigation	637	36	4.5	17	1.2	23	# Waive offs, loans at subsidised rates and good monsoon to drive the growth
3	Monsanto	1588	18	4.0	38	0.0	29	
4	REI Agro	70	67	13.2	22	3.5	1	# Government policy on margin constraints for Fertilizers is the key for investments in the sector
5	Balrampur Chini	106	22	2.0	10	1.4	1	
6	Shree Renuka Sugars	139	31	4.6	17	1.7	2	

Cement / Commodity

- The Government's measures to counter the current slowdown by increasing infrastructure spending and lowering interest rates have benefited the industry in terms of the cement sales volumes.
- Though the industry expects rationalization of excise duties, reduction in VAT rates in the Budget, we believe that policy initiatives to get private sector to invest in infrastructure and a further push on Government infrastructure spending would help maintain the double digit growth rate that the industry is witnessing. The industry would benefit if the limestone royalty is reduced and/ or the coal import duty is abolished.
- Aditya Birla Group companies **Ultratech Cement** and **Grasim Industries** which have huge expansion plans and high manufacturing efficiencies are expected to benefit from the increased thrust on infrastructure spending by the Government.

CEMENT/COMMODITY SECTOR

Sr. No	Company	CMP	P/E	P/B	ROE (%)	Debt/Equity Ratio	Cash & Cash Eq Per Share	Key Triggers
1	Grasim Industries	2,140	11.9	2.0	25	0.4	70	
2	Sterlite Industries	593	31.9	2.7	7	0.3	35	# Government's thrust on infrastructure to support revenue growth in foreseeable future
3	Ultratech Cement	657	8.4	2.2	37	0.7	19	
4	Kesoram Industries	269	1.7	0.5	33	1.5	14	

