

**Manu, Chidu, Rahul, Everyone
Let's Go....**

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Summary

Think Big

The Finance Minister has his heart and mind in right places and made truly good “choices” and also “timed” these well. When the recovery has started growing roots after industry got a helping hand from the centre in form of higher government expenditure and tax sops last year, he is attempting gradual roll back allowing private consumption to pick up. For that, the FM has raised income tax exemptions thereby increasing the disposable income in the hands of consumer that is aimed to spur private consumption.

Fiscal fitness

As anticipated, the FM is banking on acceleration in growth to balance the deficit - a 140 bps cut in deficit to 5.5% of GDP from 6.9% in FY10, highest in sixteen years. While doubting Davids criticize - since they know nothing else - the growth projections and revenue target seem quite achievable given the trickle down effect of increased disposable income in the hands of consumers. Partial roll back of excise cuts are in line with our expectations as the work on DTC and GST is “in progress.” Fiscal consolidation is aimed to be reigned in by 2013 to 4.1% of GDP, when the incumbent government would prepare for the next elections, is positive for India’s credit rating outlook and earnings growth.

Does “Obama” billions, to *aam aadmi*

The finance minister’s move to raise the tax exemption limit for income tax payment is estimated to release over Rs 1,020 crore in the hands of “millionaire” tax payers alone. This is giving money to the masses, unlike Obama bailing out fat corporations.

Money “rabbit” comes from privatization

As bull party goes on Dalal Street, disinvestment target of Rs 40,000 crore looks modest to achieve. The centre raised Rs 25,000 crore in FY10 against BE of Rs 1,120 crore. In addition, 3G auction is also likely to be completed netting over Rs 35,000 crore. Further changes in tax rates are estimated to net Rs 20,500 crore.

Sure booster for GDP

Increase in exemption limits, audit threshold, tax

inflation would boost nominal GDP growth by over a percentage point.

Earnings return to normal

Consumption is expected to revive as small changes in excise are offset by increase in personal taxes. MAT increase and surcharge reduction neutralize and hardly impact earnings. We expect Sensex companies to report ~ 18-20% earnings growth in FY11. As economy returns to 8%+ growth rate and tax reforms (DTC, GST) are implemented in FY12, earnings visibility will enhance defending higher price earning multiples.

“Bank on Indian banks,” Uncle Sam

Government’s intent to issue licences to new private banks signal (a) resilience of Indian banks and regulatory supervision as the country remained insulated from global credit market crisis; and (b) increased financial inclusion with ultimate aim at bringing the masses above poverty line.

Dr Inflation

A key risk to FM’s, and also our, growth outlook is a combination of inflation and satiation of risk appetite at higher end of valuation. WPI inflation, running at 8.56%, would cut relative purchasing power even after increased tax slabs, and as a result, a major portion of increase in disposable income is earmarked for savings and lesser for consumption. Fuel cost, excise hikes and commodities inflation pose challenge to higher growth.

Interest Rates

Long tenor rates likely to remain elevated ~ 8% in view of higher inflation expectations and government borrowings. Short tenor rates also to inch up as RBI further tightens policy stance.

Strategy

Technical suggest market slightly overbought ~ Nifty 5,100 and Sensex 17,200 levels. As economy returns to normal bringing earnings on growth curve and risk appetite awaits fresh dose of liquidity, we expect stock market to provide average returns in FY11. Sensex returns study over the last thirty years shows immediately preceding two years were outliers with astonishing losses in 2008 and amazing returns in 2009. We buy the dips to year end Sensex target of 19,500.



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Budget 2010-11: Key Highlights

Fiscal

- Gross tax receipts estimated to increase by 17.9% as per FY11BE to Rs 7.46 tln against FY10RE of Rs 6.33 tln in FY10
- Non Tax revenue receipts estimated to rise by 32.02% YoY to Rs 1.48 tln, mainly due to rise in disinvestment proceeds and 3G auction
- FY11 non-plan expenditure estimated at Rs 7.36 tln i.e. a growth of 4.15% YoY over FY10RE while plan expenditure estimated at Rs 3.73 tln, a growth of 18.4% YoY over FY10RE
- Govt targets fiscal deficit for FY11 at 5.5% of GDP at Rs 3.81 tln, FY12 at 4.8% of GDP and FY13 at 4.1% of GDP
- FY11 revenue deficit Rs 2.77 tln, 4.0% of GDP and revenue expenditure projected at Rs 8.97 tln
- Primary Deficit for FY11 is at Rs 1.33 tln which is 1.90% of GDP compared to 3.20% last year

Direct Taxes

- Direct Tax Code to be implemented from 1st Apr'11
- Deduction of an additional amount of Rs 20,000 allowed over an above existing limit of Rs 1,00,000 on tax savings for investment in long term infrastructure bonds
- Contributions to the Central Govt Health Scheme allowed as deduction under IT Act
- Surcharge of 10.0% on domestic companies reduced to 7.5%
- Minimum Alternative Tax raised to 18.0% of book profits from 15.0%
- Weighted deduction on expenditure incurred on in-house R&D increased from 150% to 200%, while on payments made to National Laboratories, research associations, colleges, universities and other institutions, for scientific research enhanced from 125% to 175%.
- Payments made to an approved association engaged in research in social sciences or statistical research to be allowed as a weighted deduction of 125%. The income of such

approved research association shall be exempt from tax

- New hotels of 2 star and above category in India will benefit from investment linked deduction
- One time interim relief to housing and real estate sector extended to the pending projects to be completed within a period of five years instead of four years for claiming deduction of profits
- Limits for turnover over which accounts need to be audited enhanced to Rs 6.0 mn for businesses and to Rs 1.5 mn for professions
- Turnover limit enhanced to Rs 6.0 mn for purpose of presumptive tax on small businesses
- If tax has been deducted on payment by way of any expense and is paid before the due date of filing the return, such expenditure to be allowed for deduction. Interest charged on tax deducted but not deposited by the specified date to be increased from 12.0% to 18.0% p.a.
- Transfer of assets as a result of the conversion of small companies into Limited Liability Partnerships not to be subject to capital gains tax
- The advancement of any other object of general public utility to be considered as charitable purpose if the receipts from such activities do not exceed Rs 1.0 mn in the year
- Direct taxes estimated to result in a revenue loss of Rs 260.0 bn for the FY11

Indirect Taxes

- Introduction of Goods and Services Tax with effect from 1st Apr'11
- Central Excise duty and standard rate on all non-petroleum products partially rolled back by 2.0% to 10.0% ad valorem
- Excise duty on portland cement and cement clinker also adjusted upwards proportionately
- Ad valorem component of excise duty on large cars, multi-utility vehicles and sports-utility vehicles increased by 2.0% to 22.0%
- Basic duty on crude petroleum increased to 5.0%, for diesel and petrol raised to 7.5% and 10.0% on other refined products. Central Excise duty on petrol and diesel enhanced by Re 1 per litre each.



- Excise duty on all non-smoking tobacco to be enhanced
- Provide a concessional import duty of 5.0% for the setting up of mechanised handling systems and pallet racking systems in mandis and full exemption from service tax for the installation and commissioning of such equipment
- Provide concessional customs duty of 5.0% with full exemption from service tax to the initial setting up and expansion of cold storage, cold room including farm pre-coolers and for the processing units for such produce
- Full exemption from customs duty to refrigeration units required for the manufacture of refrigerated vans or trucks
- Concessional customs duty of 5.0% to specified agricultural machinery not manufactured in India
- Central excise exemption to specified equipment for preservation, storage and processing of agriculture and related sectors and exemption from service tax to the storage and warehousing of their produce
- Full exemption from excise duty to trailers and semi-trailers used in agriculture
- Concessional import duty to specified machinery for use in the plantation sector to be, extended up to 31st Mar'11 along with a CVD exemption
- Exempt the testing and certification of agricultural seeds from service tax
- Transportation by road of cereals, and pulses to be exempted from service
- Small scale manufacturers are permitted to take full credit of Central Excise duty paid on capital goods in a single installment in the year of their receipt. They would be permitted to pay Central Excise duty on a quarterly rather than monthly basis
- Clean energy cess on coal produced in India as well as imported coal at a nominal rate of Rs 50 per tonne to be levied
- Concessional customs duty of 5.0% to machinery, instruments, equipment and appliances etc. for the initial setting up of photovoltaic and solar thermal power generating units and also exempt them from Central Excise duty
- Ground source heat pumps used to tap geothermal energy to be exempted from basic customs duty and special additional duty
- Exempt from Central Excise duty specified inputs required for the manufacture of rotor blades for wind energy generators
- Central Excise duty on LED lights reduced from 8.0% to 4.0% at par with Compact Fluorescent Lamps
- Duty of 4.0% imposed on electric cars imported. Some critical parts or sub-assemblies of such vehicles exempted from basic customs duty, special additional duty and a concessional CVD of 4.0% subject to actual user condition
- Import of compostable polymer exempted from basic customs duty
- Project import status to 'Monorail projects for urban transport' at a concessional basic duty of 5.0% granted
- Exemptions from basic, CVD and special additional duties are now being extended to parts of battery chargers and hands-free headphones are extended to 31st Mar'11
- Medical Equipments and also the parts and accessories of such equipments subject to concessional basic duty of 5.0% and CVD of 4.0% with full exemption from special additional duty
- Specified inputs for the manufacture of orthopaedic implants exempted from import duty
- Customs duty to be charged only on the value of the carrier medium in importing digital masters of films
- Rates on gold and platinum indexed to Rs 300 per 10 gms from Rs 200 per 10 gms
- Rates on silver indexed to Rs 1,500 per kg from Rs 1,000 per kg
- Basic customs on Rhodium reduced to 2.0%
- Basic customs duty on gold ore and concentrates reduced from 2.0% ad valorem to a specific duty of Rs 140 per 10 gms of gold content with full exemption from special additional duty



- Excise duty on refined gold made from gold ore or concentrate reduced from 8.0% to a specific duty of Rs 280 per 10gms
- Basic customs duty on magnetrons reduced from 10.0% to 5.0%
- Value limit on duty free import of commercial samples increased to Rs 3 lakh p.a
- Exemption on goods imported in a pre packaged form for retail sale
- Toy balloons fully exempted from Central Excise duty
- Reduction in basic customs duty on long pepper from 70.0% to 30.0%
- Reduction in central excise duty on corrugated boxes and cartons and latex rubber thread from 8.0% to 4.0%
- Reduction in excise duty on goods covered under the Medicinal and Toilet Preparations Act from 16.0% to 10.0%
- Rate of tax on services retained at 10.0% to pave the way forward for GST
- Accredited news agencies which provide news feed online exempted from service tax
- Proposals in Indirect Tax are estimated to result in gain of Rs 465 bn

Other Receipts

- Disinvestment is estimated to be Rs 260 bn for FY10 and is estimated to increase to Rs 400 bn for FY11
- 3G Telecom allocation is further expected to raise Rs 350 bn for the FY11

Spending

- Infrastructure development raised to 46.0% of plan allocation to Rs 1.7 tln
- Allocation for road transport increased by 13.0% YoY to Rs 199 bn
- Allocation for railways increased to Rs 168 bn for FY11
- IIFCL's disbursements are expected to reach Rs 200 bn for FY11

- IIFCL's estimated refinanced bank lending to infrastructure projects of Rs 60 bn for FY11
- Plan allocation to Power sector excluding RGGVY doubled to Rs 51 bn for FY11
- Plan outlay for the Ministry of New and Renewable Energy increased by 61.0% to Rs 10 bn in FY11
- Solar, small hydro and micro power projects at a cost of about Rs 5.0 bn to be set up in Ladakh region of Jammu and Kashmir
- Allocation for Defence increased to Rs 1.5 tln

Social Sector

- Social sector spending increased to Rs 1.4 tln in FY11 amounting to 37.0% of the total plan outlay
- Allocated 25.0% of the plan outlay to rural infrastructure
- Allocated Rs 661 bn for rural development
- Allocation of Mahatma Gandhi National Rural Employment Guarantee Scheme raised to Rs 401 bn in FY11
- Allocation to Indira Awas Yojana increased to Rs 100 bn
- Allocation to Backward Region Grant Fund enhanced by 26.0% to Rs 73 bn in FY11
- Allocation for urban development increased by ~75.0% to Rs 54 bn in FY11
- Allocation for Housing and Urban Poverty Alleviation raised to Rs 10 bn in FY11
- Rajiv Awas Yojana is allocated Rs 13 bn increase of 7.5 times of last year
- Allocation to micro small and medium enterprises increased to Rs 24 bn
- Corpus of Micro finance development and equity fund doubled to Rs 4.0 bn in FY11
- Initial allocation of Rs 10 bn to be set up for National Social Security Fund for unorganised sector workers
- Swavalamban will be available for persons who join New Pension Scheme, with a minimum contribution of Rs 1,000 during the FY11, wherein Govt will contribute Rs 1,000 per year to



each NPS account opened in the year. Allocation of Rs 1.0 bn made for this initiative

- Three projects worth Rs 450 mn to create 10 lakh skilled manpower at the rate of Rs 1 lakh p.a
- Plan outlay for Women and Child Development stepped up by almost 50.0%
- Plan outlay of the Ministry of Social Justice and Empowerment enhanced by 80.0% to Rs 45 bn
- Plan allocation for the Ministry of Minority Affairs increased by 50.0% to Rs 26 bn

Farm, Rural Sector

- To provide Rs 4.0 bn to extend green revolution to eastern region of India and Rs 2.0 bn to the on going green revolution areas
- To organise 60,000 pulses and oil seeds villages by providing Rs 3.0 bn in rain-fed areas during FY11
- FCI to hire godowns from private parties for a guaranteed period of 7 years to meet the deficit capacity of storage
- Banking agriculture credit target for FY11 has been set at Rs 3.75 tln
- Period for repayment of the loan amount by farmers extended by 6 months from to 30th Jun'10 under the Debt Waiver and Debt Relief Scheme for Farmers
- Incentive of additional 1.0% interest subvention to farmers who repay short-term crop loans as per schedule, increased to 2% for FY11

Industry

- RBI is considering giving some additional banking licenses to private sector players, NBFC if they meet the eligibility criteria
- To provide Rs 165 bn to ensure that the PSB's are able to attain a minimum 8.0% Tier-I capital by 31st Mar'11

- To provide further capital to strengthen the RRBs so that they have adequate capital base to support increased lending to the rural economy
- Introduce the Companies Bill, 2009 in the Parliament in order to replace the existing Companies Act, 1956
- Extension of interest subvention of 2.0% for one more year for exports covering handicrafts, carpets, handlooms and small and medium enterprises
- Augmentation of Rs 1.0 bn each for the Financial Inclusion Fund and the Financial Inclusion Technology Fund, which shall be contributed by GOI, RBI and NABARD
- Interest subvention of 1.0% on housing loan upto Rs 1.0 mn where the cost of the house does not exceed Rs 2.0 mn to be extended up to 31st Mar'11. Rs 7.0 bn provided for this scheme

Environment and Climate

- One-time grant of Rs 2.0 bn to the Government of Tamil Nadu towards the cost of installation of a zero liquid discharge system at Tirupur to sustain knitwear industry
- Allocated Rs 2.0 bn to Special Golden Jubilee package for Goa to preserve the natural resources of the State, including sea beaches and forest cover
- Allocation for National Ganga River Basin Authority (NGRBA) doubled in FY11 to Rs 5 bn

Education

- Plan allocation for school education increased by 16.0% in FY11 to Rs 310 bn
- Rs 37 bn allocated to states for elementary education under 13th Finance commission grants

Health

- Plan allocation to Health & Welfare ministry increased by 14.2% YoY to Rs 223 bn.



Government Financials

(Rs Bn)	FY04A	FY05A	FY06A	FY07A	FY08A	FY09A	FY10RE	FY11BE
Gross Tax Revenue	2,543	3,050	3,662	4,735	5,931	6,053	6,331	7,467
<i>% to GDP</i>	10	9.4	9.9	11.1	12.0	10.9	10.3	10.8
Net Tax Revenue	1,870	2,248	2,703	3,512	4,395	4,433	4,651	5,341
Non-Tax Revenue	769	812	768	832	1,024	969	1,122	1,481
Net Revenue Receipts	2,639	3,060	3,471	4,344	5,419	5,402	5,773	6,822
Capital Receipts (Non-debt)	841	665	122	64	439	67	302	451
Total Revenues	4,751	5,064	5,266	5,789	7,398	8,399	10,271	11,087
<i>% YoY</i>	15.5	6.6	4.0	9.9	27.8	13.5	22.3	7.9
Revenue Expenditure	3,621	3,843	4,394	5,146	5,944	7,938	9,064	9,587
Capital Expenditure	1,091	1,139	664	688	1,182	902	1,152	1,500
Plan Exp	1,223	1,323	1,406	1,699	2,051	2,752	3,152	3,731
Non-Plan Exp	3,489	3,660	3,651	4,135	5,076	6,087	7,064	7,357
Total Expenditure	4,712	4,983	5,057	5,834	7,127	8,840	10,215	11,087
<i>% YoY</i>	14.0	5.8	1.5	15.4	22.2	24.0	15.6	8.5
Deficit Trends								
Fiscal Deficit	1,233	1,258	1,464	1,426	1,269	3,370	4,140	3,814
<i>% to GDP</i>	4.9	3.9	4.0	3.3	2.6	6.0	6.7	5.5

Plan Outlays by Major Sectors

(Rs Bn; % YoY)	(INR Bn)			% Distribution	
	FY10RE	FY11BE	% YoY	FY10RE	FY11BE
Agriculture & Allied Activities	101	123	21.6	2.4	2.3
Rural Development	516	552	7.0	12.1	10.5
Irrigation % Flood Control	4	5	30.2	0.1	0.1
Energy	1,097	1,466	33.6	25.8	27.9
Industry & Minerals	307	390	27.1	7.2	7.4
Transport	889	1,020	14.7	20.9	19.4
Communications	161	185	15.1	3.8	3.5
Science, Technology & Environment	99	137	38.0	2.3	2.6
General Economic Services	55	76	38.5	1.3	1.4
Social Services	1,014	1,276	25.8	23.8	24.3
General Services	14	15	13.5	0.3	0.3
Grand Total	4,256	5,245	23.2	100.0	100.0

Income tax slabs for individual taxpayers

Income upto Rs 1.6 lakh	Nil
Income above Rs 1.6 lakh and upto Rs 5 lakh	10%
Income above 5 lakh and upto Rs 8 lakh	20%
Income above Rs 8 lakh	30%



Auto Sales and Cement Dispatches Growth

Segment (% Growth)	FY05	FY06	FY07	FY08	FY09	Apr- Jan'10	Apr- Jan'09
2 Wheelers	16.8	15.1	12.2	-5.0	4.6	21.9	4.0
Passenger Cars	19.0	7.4	19.7	12.0	6.7	26.7	6.4
Commercial Vehicles	25.5	12.4	32.1	6.2	-22.3	26.0	-19.4
Cement Dispatches	8.5	11.4	9.0	8.2	8.4	12.9	13.5

Infrastructure Index

Sectors (% Growth)	W'age	FY05	FY06	FY07	FY08	FY09	Apr- Jan'10	Apr- Jan'09
Crude Oil	4.2	1.8	-5.2	5.6	0.4	-1.8	0.0	-1.3
Refinery	2.0	4.3	2.1	12.9	6.5	3.0	-0.4	3.3
Coal	3.2	6.2	6.5	5.9	6.3	7.8	8.5	8.6
Cement	10.2	6.6	12.5	9.1	8.1	7.5	11.2	6.8
Steel	2.0	8.4	10.8	13.1	6.2	0.4	5.0	2.1
Electric	5.1	5.2	5.1	7.3	6.3	2.7	6.1	2.7
Infrastructure	26.7	5.8	6.0	9.3	5.9	2.7	5.3	3.1

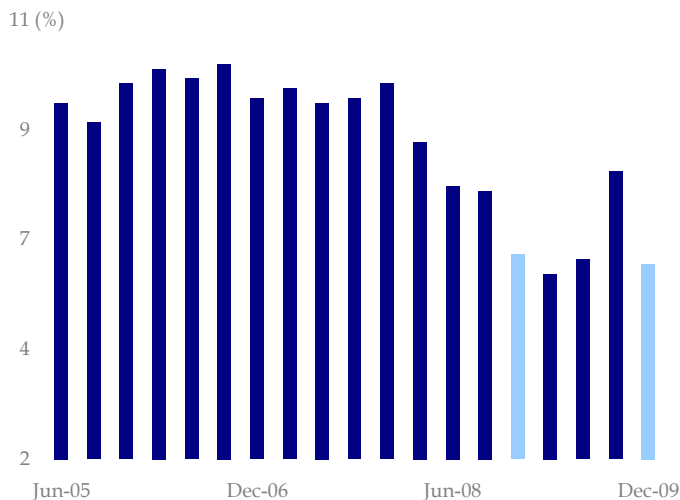
Tax Collections

Description (INR Bn)	FY05	FY06	FY07	FY08	FY09	FY10RE	FY11BE	Apr- Dec'09	Apr- Dec'08
Net Tax Revenue	2,248	2,703	3,512	4,396	4,433	4,651	5,341	3,076	3,099
YoY (%)	20.2	20.2	29.9	25.2	0.9	4.9	14.8	-0.8	4.7
Personal Income	493	636	751	1,026	1,060	1,250	1,206	795	708
YoY (%)	19.0	29.1	18.0	36.7	3.3	17.9	-3.5	12.2	6.9
Corporate Tax	827	1,013	1,443	1,929	2,134	2,551	3,013	1,683	1,440
YoY (%)	30.1	22.5	42.5	33.7	10.6	19.5	18.1	16.8	11.9
Customs	576	651	863	1,041	999	845	1,150	586	827
YoY (%)	18.5	12.9	32.7	20.6	-4.1	-15.4	36.1	-29.2	11.1
Excise	991	1,112	1,176	1,236	1,086	1,020	1,320	630	771
YoY (%)	9.2	12.2	5.7	5.1	-12.1	-6.1	29.4	-18.2	2.2
Service Tax	142	231	376	513	609	580	680	371	394
YoY (%)	80.0	62.4	63.1	36.4	18.8	-4.8	17.2	-6.0	25.4



Quarter GDP Growth

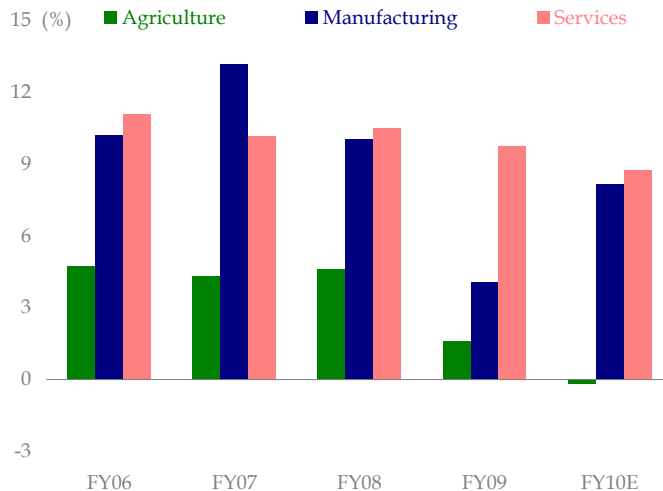
GDP growth in 3QFY10 was a bit dismal registering 6.0% rise compared to 6.2% last year. Negative agriculture contribution, community and social sectors dragged the overall growth.



Source: Khandwala Research, Bloomberg

Sectoral contribution to Real GDP growth

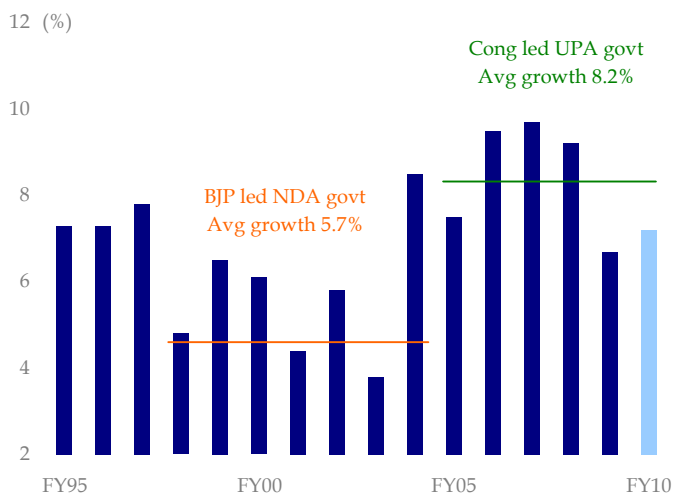
Increased social sector and infra spending in rural areas to offset poor agriculture. However, inflation remains double-edged sword for the manufacturing sector.



Source: Khandwala Research, Bloomberg

Higher and resilient GDP Growth

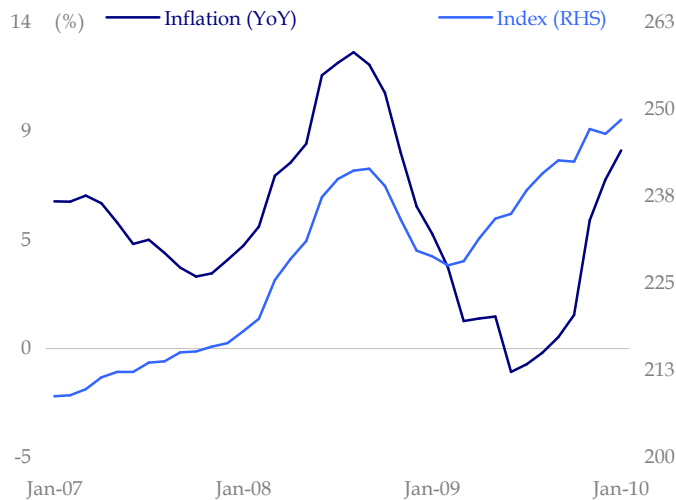
FY10 GDP growth estimated at 7.2% and FY11 real GDP growth at 8.2% to ride on private consumption. The applearcart might get rattled if inflation remains unchecked.



Source: Khandwala Research, CSO, Bloomberg

Inflation

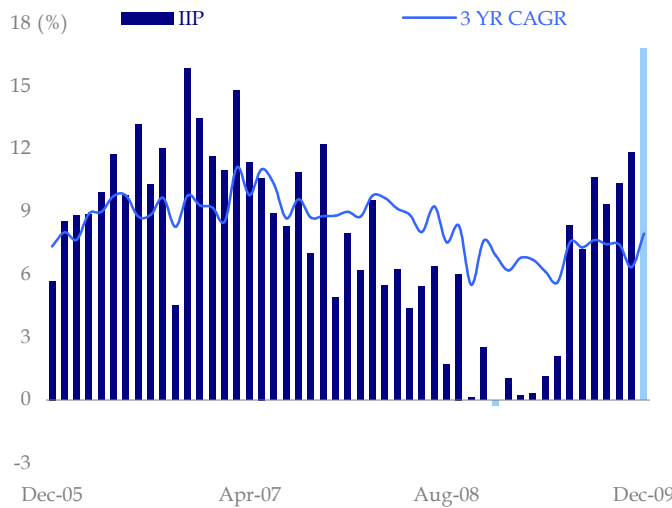
WPI in Jan'10 was at 8.6%, above RBI's target of 8.5% for FY10. Increased disposable income and fuel price hike to further exert upward pressure on inflation going forward.





IIP: 'V' shaped recovery

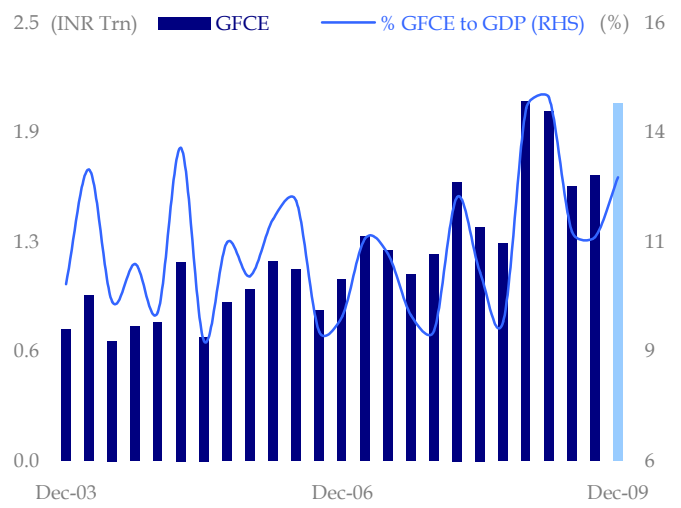
IIP growth for the next quarter is expected to be in double digits on the back of low base effect, pick up in consumer and business sentiment. Marginal withdrawal in excise duty is not likely to stall the growth.



Source: Khandwala Research, CSO, Bloomberg

Government Consumption Trend

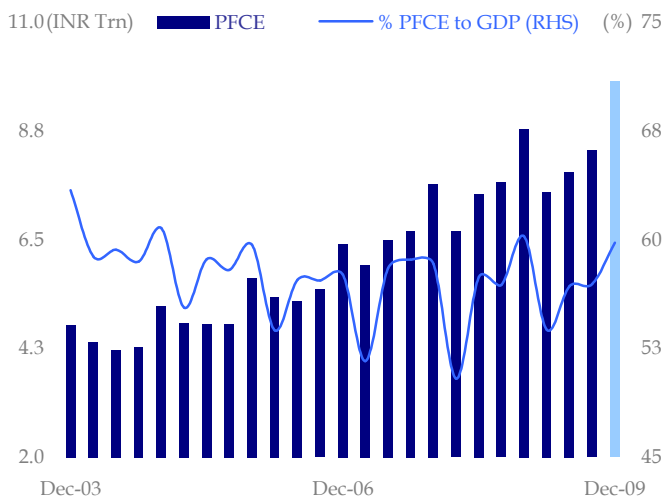
Total Govt expenditure budgeted in FY11 is projected at 8.5% much lower as compared to 15.6% in FY10. Due to spectacular recovery in the production figures we expect a slow transition from Govt consumption towards capital formation and Private consumption.



Source: Khandwala Research, CSO, Bloomberg

Private Consumption Trend

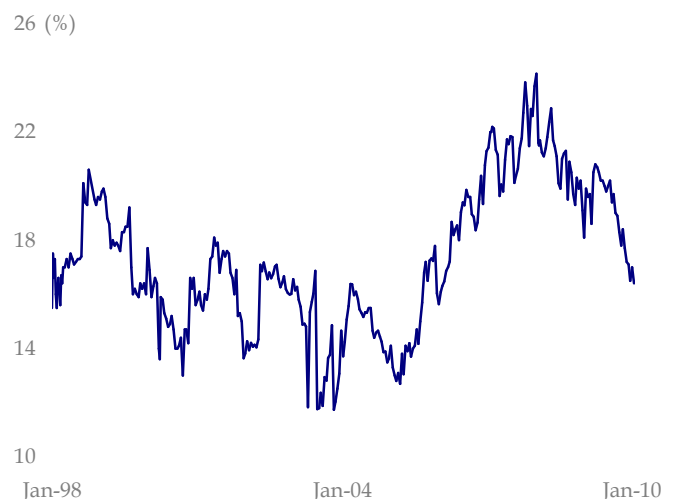
Increasing the disposable income and higher allocation to the rural and social sector spending, is likely to enhance the Private consumption. However higher inflation and crowding out effect on private credit might push the interest rates and stall growth.



Source: Khandwala Research, CSO, Bloomberg

Money Supply Growth

Money supply growth has slowed down considerably to 16.4% lower compared to last year's growth of 21.6%. RBI has targeted M3 growth for FY10 at 16.5%. RBI has started policy tightening measures on higher inflationary concerns.

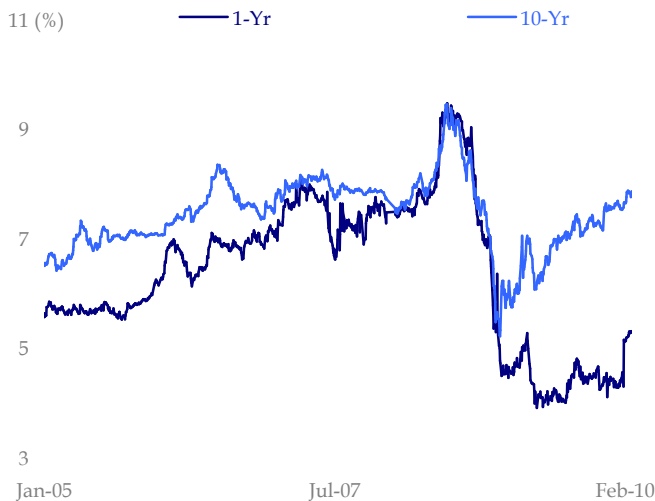


Source: Khandwala Research, Bloomberg



Bond Yields - 1Yr -10YR Gsec

G-Sec 1-yr and 10-yr spread has widened considerably, making the yield curve steeper. Bond markets to see further sell off as short tenor yields rise to keep pace with long tenor bonds bridging the spread.



Source: Khandwala Research, Bloomberg

Currency movement

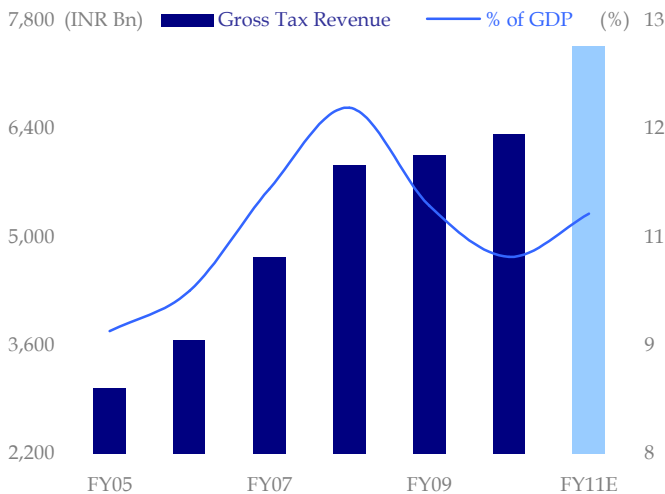
We expect the positive economic growth to attract foreign inflows and thereby put upward pressure on rupee. Foreign investments and domestic re-allocation of household savings positive for equities.



Source: Khandwala Research, Bloomberg

Tax Revenues

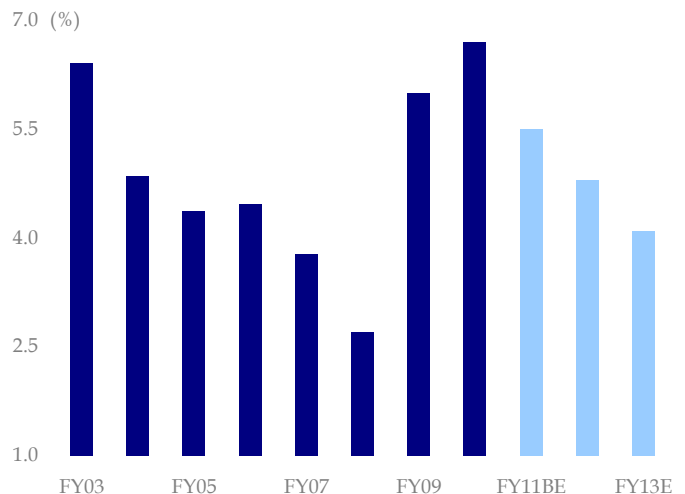
Gross tax revenue is estimated to gain due to higher expected revenue generation from excise duty and customs duty for FY11.



Source: Khandwala Research, CSO

Fiscal Deficit % of GDP

Government aims to shrink fiscal deficit to 5.5% of GDP due to rise in Non tax receipts of Rs 750 bn from 3G and disinvestment.

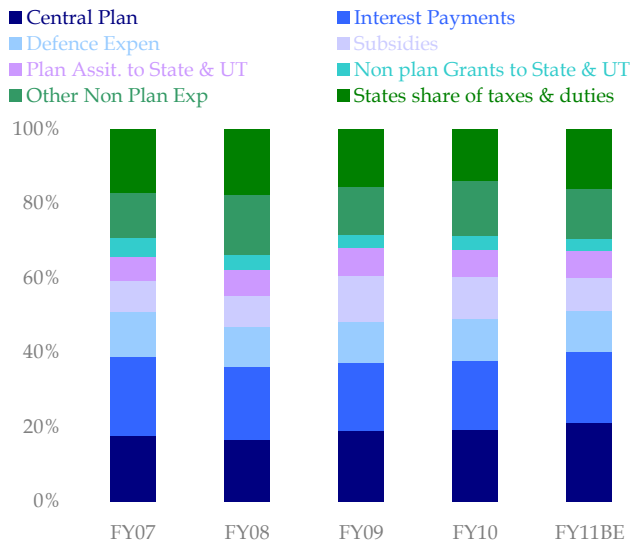


Source: Khandwala Research, CSO



Expenditure Break-up

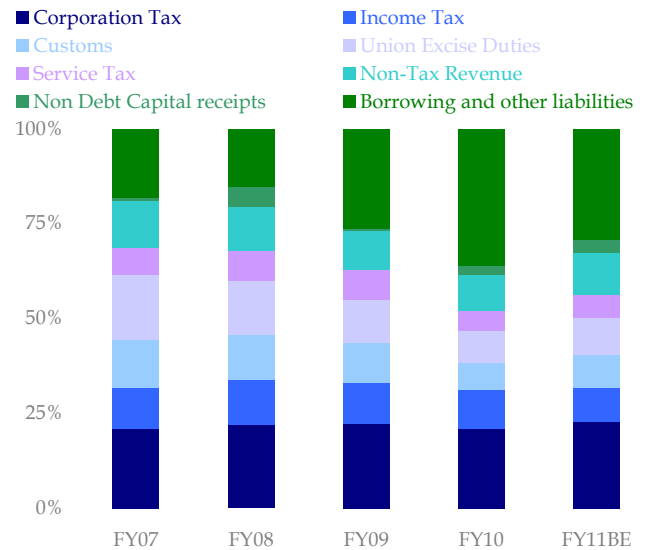
Subsidies is estimated to decrease to 9.0% of total expenditure as compared to 11.0% in the last year. As indicated by Finance commission the share of states in taxes and duties increased to 16.0% from in the last budget



Source: Khandwala Research, CSO

Revenue Break-up

Govt is expected to generate more revenue from disinvestment and from other Non tax receipts as compared to the borrowing. This will further aid lowering the interest burden in the next year.



Source: Khandwala Research, CSO



Sector Analysis



Automobiles

Our View - Marginally Positive

Budget proposals appear marginally positive for the automobile sector as partial roll back of excise duty was in line with the industry's expectations. Marginal hike of 2% in excise duty gives industry enough headroom to pass rate hike to consumers and is unlikely to impact demand significantly. Some companies had retained part of the earlier sops and did not bring down prices in line with excise reduction.

Rural market plays pivotal role for auto demand, particularly 2-W with increased allocation of funds to the rural sector. Planned measures like new banking licences to be granted to private players and NBFCs would further augment availability of finance. Move like change in income tax slabs will increase disposable income is a positive sign for auto.

Going forward performance of rural demand will have a major impact on the demand for 2-W, tractors and passenger vehicle. Although auto sector have managed to pass through one speed breaker in the form of excise hike, it still faces headwinds in the form of interest rate hike.

Budget Proposal	Impact	Rationale/Effect	Stocks to watch
Partial roll back of excise duty to 10% from 8% ad valorem on all non-petroleum products.	Negative	Negatively impact affordability of consumers as price hike are expected to be passed on to the consumers.	Tata Motors, MSIL, Bajaj Auto, HHML
Ad-valorem component of excise duty on large cars, multi-utility vehicles and sports-utility vehicles increased by 2 % points to 22%.	Marginally Negative	Although negative prima facie, but this segment is historically been resistant to changes to excise duty given the incidence of the target audience.	M&M, Tata Motors
High custom and excise duty on petroleum and petroleum product have lead to high retail fuel prices.	Negative	Will give negative sentimental push to the consumers impacting sales no, specially of fuel price sensitive sector like 2w, 3w and LCV	Bajaj Auto, HHML
Allocation of Rs 66,100 crore for rural development, with Rs 48,000 crores focusing on the rural infrastructure development.	Positive	Will put northward movements in unit's sales as will improve easy movement of vehicles in rural sector due to improvement in the rural infrastructure.	HHML, Bajaj Auto, MSIL
Allocation to road transport increased by 13% to Rs 19,894 crore.	Positive	Positive for the commercial segment will push more freight movement through roadways, pushing incremental demand increase of commercial vehicles.	Ashok Leyland, M&M, Tata Motors
The weighted deduction on expenditure incurred on in-house R&D from 150 % to 200%.	Positive	This will give some breather to cost side of the sector which is already facing pressure from high raw material prices. It will also improve industry's focus on innovation, R&D and product development that would increase the competitiveness of the industry longer term.	MSIL, Bajaj Auto, HHML etc
Banking license is granted to private players and NBFCs by Reserve Bank of India	Positive	If banking license is granted to private players and NBFCs by Reserve Bank of India, it will result in increased reach and availability of finance.	All companies in the sector



Aviation:

Our View - Neutral

Overall, neutral budget for the aviation sector. Service tax is now levied on domestic as well as international travel in any class; however service tax being a pass on cost, it is unlikely to have any significant impact on passenger air traffic and therefore financials of the aviation companies.

Main plea to rationalize levies and duties on Aviation Turbine Fuel (ATF) was not considered. ATF forms majority of the cost component for airline companies and the total taxes levied by the regulator in India on ATF are among the highest in the world.

Budget Proposal	Impact	Rationale/Effect	Stocks to watch
<p>Service Tax Levied</p> <p>The scope of air passenger transport service is being expanded to include domestic as well as international journeys in any class</p>	Neutral	So far, service tax was imposed only on international travel on First and Business classes, now the entire air passenger traffic will be subject to service tax. However service tax being a pass on cost it will not have any significant impact on financials of aviation companies	All companies in the sector
<p>Increase in custom duty on petroleum products will increase price of ATF</p> <p>Basic duty on refined products, other than diesel and petrol restored to 10%</p>	Neutral	Increase in custom duty on ATF will further increase the prices of ATF. However considering the recent increase in air passenger traffic, it will not be very difficult to pass on the increased cost.	All companies in the sector
<p>No change on levies and duties on Aviation Turbine Fuel</p>	Negative	Industry expected ATF to be brought under declared goods category. However no amendments on such front will keep the aviation sector struggling for profits.	All companies in the sector



Banking & Financial:

Our View - Positive

Budget is positive for the banking and financial services sector. Proposal of issuing new banking licences shows confidence of regulator in the Indian banking system. Banking will play a very important role in increased spending on infrastructure and rural development.

Recapitalization of PSU banks with paucity of capital and recapitalization of regional rural banks is on cards. Government continues its emphasis on higher contribution by agriculture by setting agri-credit target of Rs 3,75,000 crore for FY11. It has extended last date date under debt waiver and debt relief scheme for payment of overdue by further six months. Additional subvention of 1% is given as incentive to those farmers who repay short term crop loans on schedule.

Budget Proposal	Impact	Rationale/Effect	Stocks to watch
Additional Banking License RBI is considering giving some additional banking licenses to private sector players including NBFCs.	Positive - NBFCs & Negative - Banks	RBI has considered giving additional banking licenses after considerate long period. Certain NBFC can avail this opportunity to get converted into a bank. It is negative for Banks as it will increase competition.	NBFCs like IDFC, IFCI, Reliance Capital
Interest Subsidy on export extended Extension of interest subsidy of 2% for one more year for exports covering handicraft, carpets, handloom & SME.	Neutral	It will support the export segments which were hard hit in global financial crisis.	All companies in the sector
Re-Capitalization of PSU Banks It would ensure infusion of Rs16,500 Crore in PSU Banks to attain a minimum Tier I capital of 8% by March 2011.	Positive	Banks will be re-capitalized from funds received from world bank.	All Weak PSU Banks
Re-Capitalization of Regional Rural Bank Government to infuse additional capital in RRBs	Positive	It will enable RRBs to support rural and priority sector lending.	All companies in the sector
Credit support to Farmers Agriculture credit target set at Rs3,75,000 Crore for FY11	Neutral	It will continue to support Financing needs of farmers.	All companies in the sector
Additional interest subvention for farmers Incentive of additional interest subvention of 1% given in last budget has been increased to 2%	Neutral	It will help in persuading farmers to repay their short term loan to avail the additional interest subvention. Effective interest rate will be now 5%.	All companies in the sector
Debt Relief for Farmers Payment of overdue under debt waiver and debt relief scheme extended from June 30, 2009 to Dec 31, 2009 in last budget has been further extended by 6 months to June 30 2010.	Positive	Under Debt Waiver and Debt Relief scheme introduced two years back, farmers with more than 2 hectare of land had to pay 75% of amount overdue up to June 30, 2009 to get a rebate of balance 25%. After considering the non-payment due to delayed rain, the date for payment of overdue was extended in last budget by 6 months, now it has been further extended by another 6 months, which will enable smooth completion of the scheme. It will reduce the NPA recognition of large PSU banks.	Large Cap PSU Banks



Budget Proposal	Impact	Rationale/Effect	Stocks to watch
IIFCL role in infrastructure financing IIFCL disbursement from Rs9000 Crore last year to Rs20,000 Crore in FY11.	Positive	IIFCL will disburse Rs20,000 Crore by March 2011, IIFCL has refinance banks lending to infra sector of Rs3000 Crore last year is expected to increase more than double in FY11, will help banks to manage ALM.	All companies in the sector
Interest subvention for Housing Loan Interest subvention of 1% on housing loan up to Rs10 Lakh, where cost of house does not exceed Rs20 Lakh announced in last budget is extended for FY11.	Marginally Positive	It will increase appetite for housing loan.	All companies in the sector
Additional deduction on investments in long term infrastructure bonds Additional tax deduction of Rs20,000 over and above Rs1,00,000 on tax savings for investments in long term infrastructure bonds	Positive	It will help raising capital for infrastructure purpose at a lower interest rate	Infra Finance companies like IDFC, PFC, REC



Capital Goods & Infrastructure:

Our View –Marginally Positive

The budget appears to be marginally positive for the sector due to the higher allocation of Rs 1,73,552 crore to infrastructure sector such as roads, railways, ports and airports. Highest priority to power sector- total allocation to power sector increases to Rs 5,100 crore - is positive for the capital goods sector. With measures like excise duty exemption for mega power projects equipments, higher budgetary allocation to railways and Bharat Nirman are positive.

However, implementation of large projects, particularly power, remain a concern considering the negative impact of time over-runs and expected monetary tightening might have on overall interest rates which are crucial for financial viability of such projects. Capital goods sector continues to benefit from the constant budgetary focus on development projects.

Budget Proposal	Impact	Rationale/Effect	Stocks to watch
Higher allocation of Rs 1,73,552 crore. to infrastructure sector such as Roads, Railways, Ports and Airports.	Positive	This would benefit companies undertaking road and other development projects.	IVRCL, HCC, Gammon, GMR Infra, Reliance Infra
Equipment for Mega power project are exempted from excise duty.	Positive	It will boost investment in mega power projects, positive for companies engaged in equipment supplies to mega power projects	BHEL, L&T
Allocation to railways increased to Rs 16,752 crore from Rs 15,802 crore.	Positive	Will benefit companies engaged in railway products supplies.	Titagarh Wag, Texmaco, Kalindee Rail, Pennar Ind
Import status to “Monorail” projects for urban transport at concessional basic duty of 5%.	Positive	Positive for companies engaged in monorail project.	Reliance Infra, L&T
Allocation to Bharat Nirman is proposed at Rs 48,000 crore	Positive	RGVY is part of Bharat Nirman, will be positive for the companies engaged in rural electrification projects.	Jyoti structures, EMCO etc



Cement:

Our View – Positive

The FM has ensured that cement demand would grow in double digit levels in the coming years, as despite high deficit, he remained committed to higher infrastructure spending, urbanization and rural development. More money in individual hands through lower tax would generate strong demand for housing leading to higher cement demand. Although, the excise duty has been hiked, we believe companies would be able to pass on this with immediate effect leading to no impact. The plan to set up coal regulator and allotment through auction route would enable faster allocation, which would be positive considering that imported coal remains much expensive than domestic. Levy of cess on coal would also lead to marginal increase in cost of production; nevertheless, we expect this to be passed on to consumers.

Budget Proposal	Impact	Rationale/Effect	Stocks to watch
Steps Taken to ensure robust demand			
Reduction in tax rate at individual level	Positive	More money in individual hand would result in higher housing demand and therefore more cement demand.	All companies in the sector
Allocation of Rs 1,73,552 crore provided for infrastructure development	Positive	Higher spending on infrastructure i.e. Road, Railway, Ports, Airports and others will directly lead to higher cement demand.	All companies in the sector
Allocation for road transport increased by over 13% from Rs 17,520 crore to Rs 19,894 crore.			
Allocation of Rs 16,752 crore provided for Railways, which is about Rs 950 crore more than last year.			
Allocation of Rs 66,100 crore provided for Rural Development	Positive	Rural employment and rural infrastructure will lead to higher housing construction and therefore higher cement demand.	All companies in the sector
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.			
Indira Awas Yojana witnessed allocation of Rs 10,000 crore for 2010-11 towards rural housing.			
Allocation for urban development increased by more than 75% from Rs 3,060 crore to Rs 5,400 crore in 2010-11.	Positive	The Government has shown its intention to provide urbanization and housing facilities at a greater spend, which will result in strong cement demand from construction and real estate companies.	All companies in the sector
Allocation for Housing and Urban Poverty Alleviation raised from Rs 850 crore to Rs 1,000 crore in 2010-11.			
Scheme of 1% interest subvention on housing loan upto Rs 10 lakh, where the cost of the house does not exceed Rs 20 lakh will be extended up to March 2011. Rs 700 crore provided for this scheme for the year 2010-11.			
An Allocation of Rs 1,270 crore has been made for Rajiv Awas Yojana as compared to Rs 150 crore last year.			



Budget Proposal	Impact	Rationale/Effect	Stocks to watch
Deduction of an additional amount of Rs 20,000 allowed, over and above the existing limit of Rs 1 lakh on tax savings, for investment in long-term infrastructure bonds as notified by the Central Government	Positive	This would allow easy liquidity to infrastructure company leading to higher project execution and thus higher cement demand.	All companies in the sector
Benefit of investment linked deduction under the Act extended to new hotels of two-star category and above anywhere in India to boost investment in the tourism sector.	Positive	Deduction for hotels would lead to new hotels, which would enable higher demand for cement.	All companies in the sector
Other Measures			
Hike in cement excise duty	Neutral	The excise duty will go up to Rs 290 per tonne from the existing Rs 230 per tonne for every 50 kg bag with a maximum retail price of less than Rs 190 per bag. For bags costing over Rs 190 per bag, the excise duty is hiked to 10% from 8% on cement. However, we believe considering the strong demand, the companies would pass on this hike to consumers.	All companies in the sector
Hike in clinker excise duty	Neutral	The excise duty on clinker will go up to Rs 375 per tonne from the existing Rs 300 per tonne. However, we believe the companies would pass on this hike to consumers.	All companies in the sector
The government has imposed clean energy cess on coal produced in India at a nominal rate of Rs 50 per tonne to build the corpus of the National Clean Energy Fund, which will also apply on imported coal.	Neutral	The cess on coal would lead to higher coal cost for all producers who use either captive, CIL or imported coal. The cess on coal will be applicable to power companies also, which may lead to power cost for non-captive producers. However, considering the effect on all the companies, industry would choose pass this increase to consumers.	All companies in the sector
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.	Positive	The coal mining allocation through competitive bidding and setting of coal regulator would ensure faster allocation. Though, the capital cost may rise initially, it would be very beneficial considering the difference between domestic coal and imported coal.	All companies in the sector
Custom duty on crude oil and excise hike on diesel lead to increase in diesel prices	Neutral	Cement being a bulky commodity is generally transported through railway however short term distance and timely delivery always demand for road transport. We expect the loading to shift more towards railway and the marginal hike through road transport can be passed with excise duty price hike.	All companies in the sector
Rate of Minimum Alternate Tax (MAT) increased from the current rate of 15% to 18% of book profits.	Neutral	The cement companies profit from the power segment is subject to MAT. Higher tax rate would result in higher cash flow for initial year and tax credits in the later years. The impact remain minimal as the amount remain relatively low compared to overall profit except Shree cement.	Shree Cement, ACC, Ambuja Cement, Grasim Ind, Ultratech Cement, India Cement
Current surcharge of 10% on domestic companies reduced to 7.5%.	Positive	This would result in marginal reduction in effective tax rate across the board.	All companies in the sector



Information Technology:

Our View - Positive

The budget proposals to increase budget allocation for e-governance projects and UIDAI, setting up Technology Advisory Group for operational efficiencies and effective administration would create growth opportunities in domestic market. Continued focus on education ensures quality and quantity of supply which augurs well for medium to long term. The budget proposals appear to be marginally negative for the sector only to the extent that it has not provided for extension of STPI benefits expiring in FY11 and hike in MAT. However, the doors for the extension are not closed and they have time till March 31, 2011. The sector is recovering from after effects of global slowdown and early signs are encouraging. It is estimated to contribute ~6% of the country's GDP in FY10. After reporting muted performance in FY10, the sector is poised to return back to double digit growth in FY11. Current valuations discount steady demand recovery with stable margins. Protectionism measures in USA and Europe and pace of recovery remain major concerns.

Budget Proposal	Impact	Rationale/Effect	Stocks to watch
<p>Continued focus on education: Rs 42,032 crore allocated for Education out of which 31,036 crore for School education and 10,996 crore for Higher education.</p> <ul style="list-style-type: none"> ✓ 15,000 crore for Sarva Shiksha Abhiyan ✓ 1,700 crore for Rashtriya Madhyamik Shiksha Abhiyan ✓ 4,706 crore for Technical education ✓ 900 crore for national mission in education through ICT 	Positive	<p>Education companies - Direct beneficiaries</p> <p>We believe continued focus on education, in terms of quality and quantity (literacy level), would augur well for the sector and economy at a large in medium to long term.</p>	Educomp, Core Projects, Everonn System, NIIT - Direct beneficiaries
<p>e-Governance Initiatives: Budget allocation of Rs 1,030 crore for e-Governance projects, Rs 700 crore for NIC</p>	Positive	Companies catering domestic markets would be beneficiaries of e-governance projects. It will bring operating efficiencies in government departments.	All companies in sector
Significant increase in budget allocation for UIDAI to Rs 1,900 crore	Positive	UIDAI will set up online data base with identity and biometric details of Indian residents and provide enrolment and verification services across country. The project will generate new growth opportunities for IT players in domestic market.	All companies in the sector
Minimum Alternate Tax (MAT) to be increased to 18% of book profits from 15%.	Negative	Result into higher cash outflow in initial years, especially for tier-2 companies. Cash flow negative, P&L neutral. Companies will loose interest income on the tax paid initially.	All companies in the sector
Surcharge of 10% on domestic companies reduced to 7.5%	Positive	Lower surcharge would result into lower effective tax outgo.	All companies in the sector



Budget Proposal	Impact	Rationale/Effect	Stocks to watch
Clarification regarding exempted profits computation in the case of SEZs.	Positive	The provisions of sub-sections (7) of section 10AA of the Income- tax Act, 1961 was amended and the words "by the undertaking" were substituted for "by the assessee" with effect from AY 2010-11 and subsequent assessment years. This was done as the existing formula was perceived to be discriminatory in so far as those assesseees are concerned who have multiple units in both the SEZ and the domestic tariff area (DTA) vis-à-vis those assesseees who were having units in only the SEZ. In order to make the amendment effective for earlier years, it is proposed, by inserting a proviso to sub-section (7), to provide that the provision of sub-section (7) will apply to the AY 2006-07 and subsequent assessment years.	All companies in the sector



Metal and Mining:

Our View - Positive

The FM has ensured that cement demand would grow in double digit levels in the coming years, as despite high deficit, he remained committed to higher infrastructure spending, urbanization and rural development. More money at individual hand through lower tax would surely generate strong demand for auto and consumer durables and therefore leading to higher metal demand. Although, the excise duty has been hiked, we believe companies would be able to pass on this with immediate effect leading to no impact. The plan to set up coal regulator and allotment through auction route would enable faster allocation, which would be positive considering that imported coal remains much expensive than domestic. The cess on coal would also lead to marginally increase in cost of production, nevertheless, we expect this to pass on to consumers. Even though, some market players were expecting export duty on iron ore and safeguard duty on steel products, we assumed no change in these and therefore remain positive.

The plan outlay of the Ministry of Steel is Rs 17,165 crore, where ~ 95% of outlay has been allocated to Steel Authority of India Limited (SAIL) and Rashtriya Ispat Nigam Ltd. (RINL) to the tune of Rs 12,254 crore and Rs 4,049 crore respectively for their expansion. Remaining balance has been allocated to NMDC Ltd, Manganese Ore (India) Ltd and KIOCL Ltd etc. Non-ferrous Mining and Metallurgical Industry has seen outlay Rs 1,553 crore, where major allocation has been to NALCO for the expansion to the tune of Rs 1,389 crore, while Hindustan Copper has been allocated Rs 150 crore besides some outlay for Mineral Exploration Corporation Ltd and other institutes.

Budget Proposal	Impact	Rationale/Effect	Stocks to watch
Steps Taken to ensure robust demand			
Allocation of Rs 1,73,552 crore provided for infrastructure development	Positive	Higher spending on infrastructure i.e. Road, Railway, Ports, Airports and others will directly lead to higher metal demand.	All companies in the sector
Allocation for road transport increased by over 13% from Rs 17,520 crore to Rs 19,894 crore.			
Allocation of Rs 16,752 crore provided for Railways, which is about Rs 950 crore more than last year.			
Allocation for urban development increased by more than 75% from Rs 3,060 crore to Rs 5,400 crore in 2010-11.	Positive	The Government has shown its intention to provide urbanization and housing facilities at greater speed, which will result in robust metal demand from construction, infrastructure and real estate companies.	All companies in the sector
Allocation for Housing and Urban Poverty Alleviation raised from Rs 850 crore to Rs 1,000 crore in 2010-11.			
Scheme of 1% interest subvention on housing loan upto Rs 10 lakh, where the cost of the house does not exceed Rs 20 lakh will be extended up to March 2011. Rs 700 crore provided for this scheme for the year 2010-11.			
An Allocation of Rs 1,270 crore has been made for Rajiv Awas Yojana as compared to Rs 150 crore last year.			
Deduction of an additional amount of Rs 20,000 allowed, over and above the existing limit of Rs 1 lakh on tax savings, for investment in long-term infrastructure bonds as notified by the Central Government	Positive	This would allow easy liquidity to infrastructure company leading to higher project execution and thus higher metal demand.	All companies in the sector



Budget Proposal	Impact	Rationale/Effect	Stocks to watch
Other Measures			
Hike in excise duty	Neutral	The excise duty would be hiked from 8% to 10% across the board. As stated, companies would be able to pass on these hikes due to strong demand as their customers like auto had already hiked the price.	All companies in the sector
The government has imposed clean energy cess on coal produced in India at a nominal rate of Rs 50 per tonne to build the corpus of the National Clean Energy Fund, which will also apply on imported coal.	Neutral	The cess on coal would lead to higher coal cost for all producers who use either captive, CIL or imported coal. The cess on coal will be applicable to power companies also, which may lead to power cost for non-captive producers. However, considering the effect on all the companies, industry would choose to pass this increase to customers.	All companies in the sector
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.	Positive	The coal mining allocation through competitive bidding and setting of coal regulator would ensure faster allocation. Though, the capital cost may rise initially, it would be very beneficial considering the difference between domestic coal and imported coal.	All companies in the sector
Custom duty on crude oil and excise hike on diesel lead to increase in diesel prices	Neutral	The steel manufacturing involves a large amount of transport, mainly through rail and some amount of road. We expect the loading to shift more towards railway and the marginal hike through road transport can be passed with excise duty price hike.	All companies in the sector
Current surcharge of 10% on domestic companies reduced to 7.5%.	Positive	This would result in marginal reduction in effective tax rate across the board.	All companies in the sector
Rate of Minimum Alternate Tax (MAT) increased from the current rate of 15% to 18% of book profits.	Negative	The metal companies profit from the power segment is subject to MAT. Higher tax rate would result in higher cash flow for initial year and tax credits in the later years. The impact remains insignificant for captive users, however it remains large for independent power plant like JSPL and Sterlite. Apart from this, some non-ferrous and mining companies have set up their units as EOUs, which would also be paying higher tax.	JSPL & Sterlite particularly and most companies in the sector to some extent
Hike in import duty on silver from Rs 1,000 per kg to Rs 1,500 per kg	Positive	Zinc & copper smelting provide silver as a by-product during the process and hike in import duty on silver would enable higher realization.	Hindustan Zinc, Hindalco and Sterlite Ind
To further encourage R&D across all sectors of the economy, weighted deduction on expenditure incurred on in-house R&D enhanced from 150% to 200%.	Positive	Although, metal companies are not one of the best advocates of R&D, SAIL and Tata Steel spend minor amount on R&D. However, overseas companies of Indian majors like Corus and Novelis spend major amount on R&D, which can be shifted in India considering the tax incentive.	SAIL & Tata Steel



Oil & Gas Sector:

Our View - Negative

Budget assured cash subsidy for oil marketers, although no amount was affirmed upon. No fresh issuances of bonds were announced for FY11. Fuel Price deregulation was deferred further. Increase in custom duty Increase in MAT rate would affect cash flow, and bottom-line of various companies availing benefits under Section 80 IA and 80 IB. Increase in custom duty of crude would pressurize the margins of the refiners albeit realization off the upstream companies would improve. Oil Marketers had neutral impact over duty alterations since hike in customs and excise duties is supposed to be passed on the consumers. Petrol prices have been hiked by Rs 2.71 per litre and diesel prices by Rs 2.55 per litre. No clarity was provided on deduction under Sec 80 IB for natural gas blocks.

Budget Proposal	Impact	Rationale/Effect	Stocks to watch
OMCs will be continued to be compensated by cash. However no amount was affirmed upon except for ~ Rs 3,100 cr for LPG and kerosene. Revised estimates for FY10 still provides for bonds worth Rs 10,306 crore. We are not clear about the issuance of the same. However, no fresh subsidy has been announced for OMCs.	Negative	OMCs have been compensated with mere Rs 15,100 crore of cash subsidy as against expected under recovery of Rs 33,000 crore on cooking fuels. Although cash subsidy improves the liquidity, oil marketers will continue to be in red.	IOC, BPCL and HPCL
Decision on petrol and diesel pricing deferred further	Negative	It was high time to allow market determined prices for petrol and diesel since OMCs were inadequately compensated. However no decision was taken on that front.	IOC, BPCL and HPCL, ONGC and OIL
Increase in MAT rate to 18 per cent of book profits from the present rate of 15 per cent	Negative	Major companies in the sector avail tax holiday under section 80IA/80IB making them liable for MAT. It could affect all the gas producing, distribution and refining companies since their cash outlay towards tax could increase.	RIL, Cairn, and Essar
Custom Duty on Crude oil restored to 5%	Positive	Increase in custom duty would increase the import parity price of crude oil realized by upstream companies.	ONGC, OIL Cairn
Custom Duty on Crude oil restored to 5%	Negative	Increase in custom duty of crude oil would pressurize the margins of the export based refiners since they won't be able to pass on to the global consumers. Domestic refiners would also get slightly affected since status quo custom duty on LPG, SKO and Naphtha doesn't allow any pass through of the hike on import parity basis.	RIL, Essar oil, MRPL, IOC, BPCL and HPCL
Custom Duty restored to 7.5% on Petrol and Diesel and 10% on non petro refined products	Neutral	Petroleum Ministry has already announced hike in petrol and diesel price and passed on the hike in duty to the consumers. The margins of the standalone refiners won't be accreted since equal increase in custom duty on crude oil offsets for the same.	IOC, HPCL, BPCL RIL, Essar oil and MRPL



Budget Proposal	Impact	Rationale/Effect	Stocks to watch
Central Excise duty on petrol and diesel enhanced by Re 1 per litre each	Neutral	This move won't impact the domestic refiners since it has already been passed on the consumers.	IOC, BPCL and HPCL
Section 35 AD amended	Neutral	The proportion of the total pipeline capacity to be made available for use on common carrier basis should be as specified by regulations made by the Petroleum and Natural Gas Regulatory Board as against 1/3 rd specified earlier.	GAIL, GSPL
Custom duty on naphtha, domestic LPG and SKO status quo	Negative	Increase in custom duty on crude oil won't be passed on to customers of LPG, SKO, and Naphtha since their custom duty have been kept status quo. This move will restrict the effective protection for domestic refiners.	IOC, BPCL, HPCL and MRPL
Custom duty on naphtha status quo	Partially Negative	Although the refining margins would pressurize for RIL due to absence of effective protection, captive utilization of Naphtha for petchem business would sustain the polymer margins.	RIL
Planned outlay of Rs 69,500 crore by ministry of petroleum and natural gas	Positive	Ministry is keen on encouraging investments in upstream and downstream sector as well.	All companies in the sector

**Power:****Our View - Positive**

Except for revision of MAT upwards, no negative measures for power companies. The announcements of increasing the allocation for power sector and duty exemptions for inputs on mega power projects have macro implications for the sector positively. Various other initiatives have also been taken for encouragement and generation of solar and renewable energy. Imposition of clean energy cess on domestic as well as imported coal will be passed on to the consumers through tariffs.

Budget Proposal	Impact	Rationale/Effect	Stocks to watch
The Mega Power Policy has been modified and is now consistent with the National Electricity Policy, 2005 and Tariff Policy, 2006	Positive	It will help in lowering the cost of generation and the cost of power purchased by distribution utilities.	All companies in the sector
Plan allocation for power sector excluding RGGVY doubled from Rs 2,230 crore in 2009-10 to Rs 5,130 crore in 2010-11	Positive	Ministry is keen on encouraging investments in generation and distribution sector as well.	All companies in the sector
Full exemption from central excise duty and Cenvat credit on inputs used in the manufacture of goods supplied to such mega power projects from which power supply has been tied up through tariff-based competitive bidding	Positive	The capital cost of producing mega power projects would reduce.	All companies in the sector
Clean Energy Cess of Rs 50 per tonne is being imposed on domestic as well as coal and lignite	Neutral	The operating cost of the power generators would increase albeit it would pass on to the consumers.	Tata Power, NTPC, PPOWER
Increase in MAT rate to 18% of book profits from the present rate of 15%	Negative	Major companies in the sector avail tax holiday under section 80IA. It could affect all the power generating companies since their cash outlay towards tax could increase.	All companies in the sector



Telecom:

Our View: Marginally Positive

Indian telecom sector is the fastest growing market in the world, adding nearly 20 million subscribers a month. In the first nine months of FY10, the industry added ~133 million subscribers taking overall subscriber base to ~525 million. With significant decline in pricing, use of multiple SIM cards resulted into fall in ARPU which is likely to result into ~10% growth in revenues in FY10 even though subscribers growth remains ~50%. At the same time, rising network operating costs and subscriber acquisition costs would exert pressure on margins. Heightened competition, tariff war remain key concern in investor's mind. 3G auction revised schedule gives clarity and open up new opportunities, however at the same time it could stress telecom operators' balance-sheet further.

Budget Proposal	Impact	Rationale/Effect	Stocks to watch
Minimum Alternate Tax (MAT) to be increased to 18% of book profits from 15%.	Negative	Result into higher cash outflow in initial years. Cash flow negative, P&L neutral. Companies will loose interest income on the tax paid in initial years.	All companies in the sector
Surcharge of 10% on domestic companies reduced to 7.5%	Positive	Lower surcharge would result into lower effective tax outgo.	All companies in the sector
The BE 2010-11 includes a sum of Rs. 35,000 crores as expected revenue from auction of 3G spectrum.		3G will provide new growth opportunities to players. Competition might lead to overbidding and higher cash outgo.	
Full exemption from basic customs duty, CVD and special additional duty of customs presently available for parts, components, accessories for manufacturing of mobile handsets including cellular phones and parts thereof is being extended to parts, components for the manufacture of battery chargers and hands-free headphones of mobile handsets including cellular phones. Excise duty exemption on parts, components and accessories of mobile handsets including cellular phones is being extended to parts of two accessories namely, battery chargers and hands-free headphones of these devices.	Positive	Have marginally positive impact on mobile affordability and so affordable cost of mobile services access. This would also provide incentive to set up manufacturing base in India.	All companies in the sector



INDIA

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