



MANGAL KESHAV

Nuturing wealth, since 1939

2010 ANNUAL BUDGET



Overview



- Balanced budget with concrete steps to address both near term and long term structural issues
- Positive surprise include reduction in personal income tax which shall help boost discretionary consumption
- Excise duty rollbacks and hike in oil prices to help contain fiscal deficit
- Hike in MAT to 18% will in short term dampener for select corporate
- Focus on rural spending, and infrastructure to help sustain acceleration in GDP growth
- Continue our positive view on Infrastructure, Capital goods, Auto and Banking
- Our Top picks are Mahindra & Mahindra, IndusInd Bank, Nagarjuna Construction, Zee Entertainment & Godrej Consumer

Key Allocation to Infra & Social Sectors



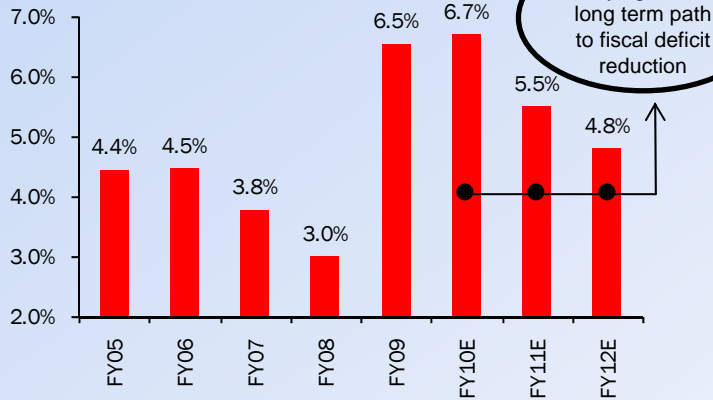
- Rs1,73,552 crore provided for infrastructure development which accounts for over 46 per cent of the total plan allocation
- Allocation for road transport increased by over 13 per cent from Rs17,520 crore to Rs19,894 crore
- Plan allocation for power sector excluding RGGVY doubled from Rs2,230 crore in 2009-10 to Rs5,130 crore in 2010-11
- Plan allocation for school education increased by 16 per cent from Rs26,800 crore in 2009-10 to Rs31,036 crore in 2010-11

Budget Maths



(Rs bn)	FY2010RE	FY2011BE
Tax Revenue	4,651	5,341
Non Tax Revenue	1,122	1,481
Non Debt Capital Receipts	302	451
Total Revenues	6,075	7,273
Non Plan Expenditure	7,064	7,356
Plan Expenditure	3,151	3,731
Total Expenditure	10,215	11,087
Fiscal Deficit	4,140	3,814
GDP	61,642	69,347
% to GDP	6.7	5.5

Key Indicators



Source : Budget Document

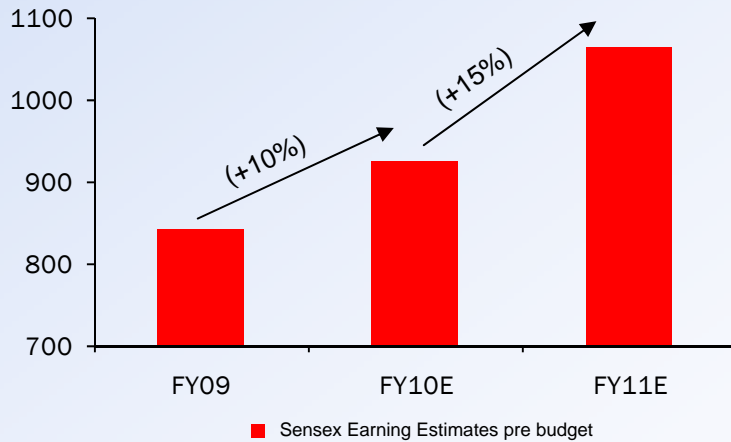
■ Fiscal Deficit As % to GDP



Source : CMIE

— GDP Growth (yoy)

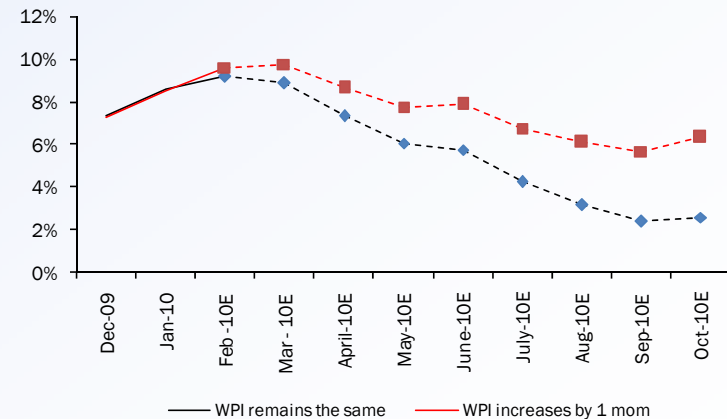
Potential for upgrade to FY11 earnings



Source : Bloomberg

■ Sensex Earning Estimates pre budget

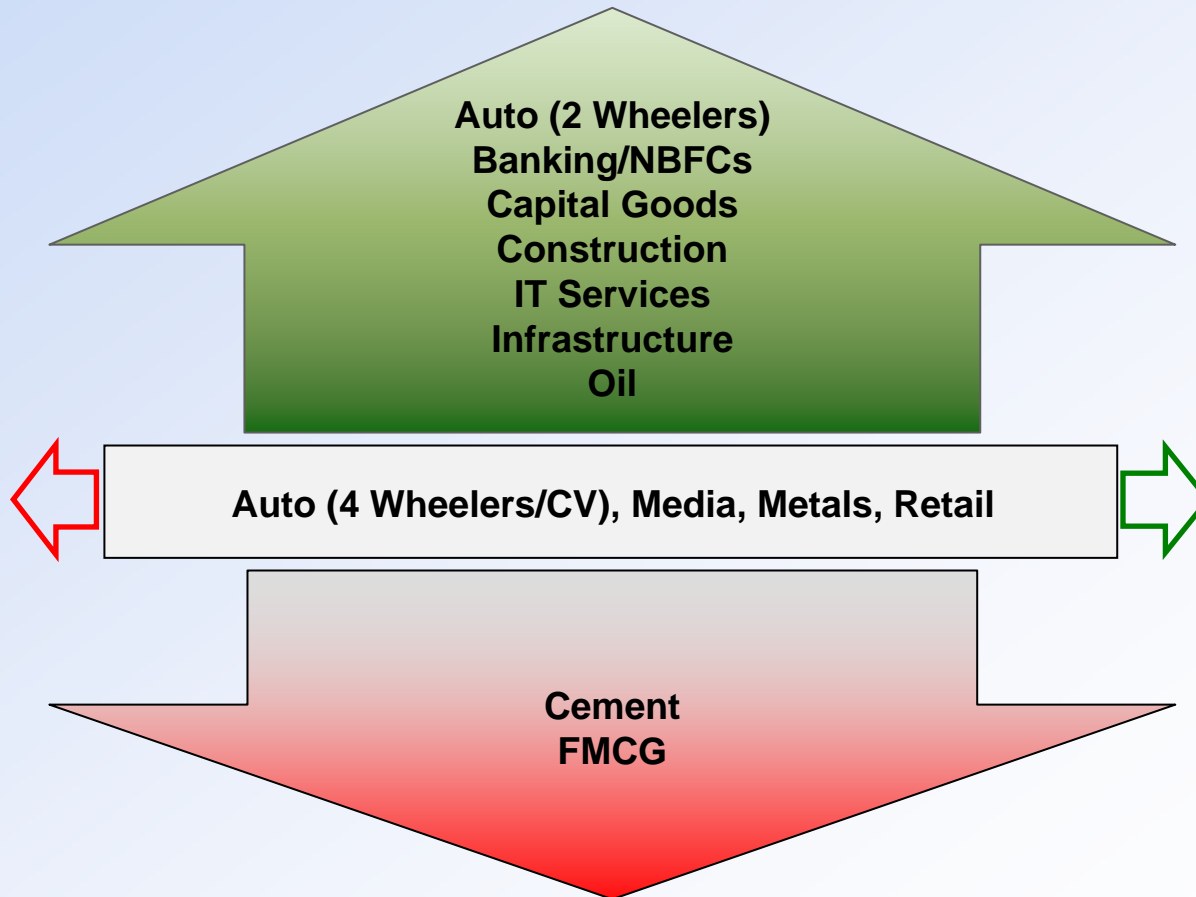
Inflation to peak out by March '10



Source : Mangal Keshav Research

— WPI remains the same — WPI increases by 1 mom

Winners & Losers



Automobiles



Outcome	Impact	Stocks impacted	EPS impacted
Partial roll back of excise duty benefits : (a) Excise duty on two-wheelers, small cars and commercial vehicles increased to 10% from existing 8% (b) Ad-valorem duty on large cars, MUVs and SUVs increased to 22% from 20%	Marginally negative.	All	No incremental impact as we have already built in these changes in our FY11 estimates
Weighted deduction on in-house R&D enhanced from 150% to 200%	Positive	M&M, Maruti Suzuki	-
Personal tax rates reduced	Positive	Hero Honda, Bajaj Auto, TVS Motor, Maruti	-
Impetus on Agriculture and rural growth	Positive	M&M, Hero Honda, Maruti	-
Impetus on infrastructure	Positive	Tata Motors, Ashok Leyland, M&M	-
Higher duties on petrol prices	Negative	Tata Motors, Ashok Leyland	-

Capital Goods



Outcome	Impact	Stocks impacted	EPS impact
Increase in plan outlay for the Ministry of New and Renewable Energy by 61 per cent to Rs.10bn	Positive	Websol Energy Systems, Suzlon	-
External Commercial Borrowings (ECB) to be available for setting cold storage facilities by changes in the definition of infrastructure under the ECB policy should result in increased addressable business opportunity . However, project import status at a concessional import duty of 5% for setting up & expansion of cold storage facilities should increase competition.	Neutral	Blue Star, Voltas	-
Concessional customs duty of 5% on machinery, instruments, equipment and appliances required for the initial setting up of photovoltaic units and also exemption from Central Excise duty	Positive	Websol Energy Systems	-
Exemption from excise duty to specified inputs required for the manufacture of rotor blades for wind energy generators	Positive	Suzlon	-
Excise duty increase on room ACs from 8% to 10%.	Neutral as majority of AC manufacturing units are located in excise free zones	Blue Star, Voltas, Hitachi	-

Cement



Outcome	Impact	Stocks impacted	EPS Impact
Increase excise duty to 10%	To result in upward revision in cement prices in short term. However, such revision of prices would be restricted on account of increase in supplies, particularly for South India players	Negative for all companies	No incremental impact as we were building in such an increase Negative
Increased outlay for infrastructure development, rural housing	Cement growth would sustain and the industry would be able to bridge the expected supply demand gap to some extent	Positive for all companies	Positive

Construction



Outcome	Impact	Stocks impacted	EPS Impact
Allocation of Rs 1735bn for infrastructure development	Would result in more projects being awarded to construction companies, thereby enabling further growth and visibility.	Positive for the entire sector	Positive
Increase MAT rate to 18%	Increase the tax-liability of BOT projects currently paying MAT and would reduce equity cash flows	Negative for companies executing BOT projects like IRB Infra, IVRCL, IVR Prime among others	Negative for Infa asset owners
IIFCL's disbursements expected to touch Rs 200bn during FY11. Take-out financing to provide Rs. 250bn in the next three years	Provide long term financing assistance to a wide range of infra projects, thus enhancing infrastructure creation	Positive for the entire sector	Positive

Financials



Outcome	Impact	Stocks impacted
Additional banking licenses to private sector players and NBFC	Positive	IDFC, IFCI, Reliance Capital
Provision of Rs 16500 crore for PSU Banks to ensure 8% tier I capital by Mar' 2011	Positive	OBC, Dena Bank, Syndicate Bank, Central Bank
Period for repayment of loans to farmers extended by six months from Dec 2009 to June 2010 under debt waiver and relief schemes	Positive	All PSU Banks



Outcome	Impact	Stocks impacted	EPS impact
MAT increased to 18% (from 15%)	Negative	Dabur, Godrej Consumer Products, Marico	Dabur ~(-4%) GCPL ~(-2-3%) HUL ~(-5%)
Hike in Excise Duty for cigarettes	Negative	ITC, Godfrey Philips	ITC Sales ~(-3.5%) EPS ~(-4-5.5%)
Excise duty hiked to 10% (From 8%)	Negative	Almost all companies	Colgate ~(-2%)
Service tax retained at 10%	Neutral	Marico	No Impact



Excise Duty hike in Cigarettes – Redefining the slabs

In cigarettes, the government has split the slab of less than 70mm filter cigarettes into two categories - less than 60mm (excise duty of Rs669 per thousand sticks Vs earlier duty of Rs819 per thousand sticks) and between 60mm-70mm (excise duty of Rs969 per thousand sticks Vs earlier duty of Rs819 per thousand sticks). In our opinion, taking the 70mm-75mm length also into account, this introduction will have negligible impact on the overall excise duty rates. We expect some improvement in volume growth in this length group though as the availability of less than 60mm cigarette would help.

However, the 11.4% and 9.2% increase in duty rates for between 75mm-85mm and over 85mm, respectively is adverse and above the street expectations. This length group, in our estimate, would be contributing around 20% of total domestic volumes. We believe part of this can be compensated by the 18% lowering of excise on non-filter less than 60mm cigarettes. We believe that this move once again makes ITC's presence in non-filter a little viable. Overall, we see this Budget as somewhat negative, but correcting some aberrations in the fundamental structure of cigarette industry.

Media



Outcome	Impact	Stocks Concerned	EPS impact
No reduction in License fees for DTH	Neutral	DISH TV	No Impact
No increase in service tax	Neutral	Almost all companies	No Impact

Retail



Outcome	Impact	Stocks impacted	EPS impact
No change in FDI limits	Neutral	All companies	No Impact
Implementation of GST by April 1, 2011	Positive	All companies	None for FY11E



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