

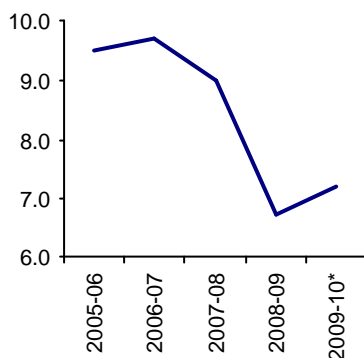
UNION-BUDGET ANALYSIS

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UNION BUDGET ANALYSIS FY2010-11

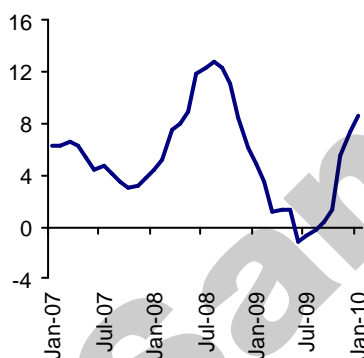
Growth, prudence cheer. Inflation...?

GDP growth (%)



Source: CSO, * Stands for Revised Estimate

Inflation (%)



Source: Economic Survey 2009-10

- In his second budget for the current UPA Government, the FM has chosen to concentrate on growth and fiscal discipline. The target is to return to the pre-crisis growth rates as soon as possible and a fiscal deficit level of 4.1% by FY13.
- To sustain growth, significant investments have been allocated to infrastructure and agriculture. On the other hand, additional monies have been put in the hands of individuals to boost consumption. Several concessions have been announced to attract more private sector investment in industry.
- Equitable growth continues to be a corner-stone with spending on social sector increasing to Rs.1.37trn i.e. 37% of the total plan outlay. Another 25% of the plan allocations are devoted to the development of rural infrastructure.
- The fiscal deficit target of 5.5% in FY11 and 4.1% by FY13, reflects the FM's resolve to return to the path of fiscal discipline. Reduction in subsidies, partial roll-back of fiscal stimulus and higher economic growth are expected to curtail Government's net borrowings.
- On the reforms front, the Government has sent out a strong message by introducing nutrient-based subsidies and ruling out further issue of bonds in the fertilizer sector. DTC and GST are expected to be rolled out WEF FY11, which should be meaningful steps in simplifying the administrative processes, and add to productivity.
- The budget (increase in duties and fuel rates) is expected to result in a 1% increase in WPI which is a matter of concern. However, the Government plans to address it in the medium term through a lower fiscal deficit and in the long term by taking several measures to ease supply side constraints.
- Excise duty rate has been increased by 200bps, while peak customs duty rate has been maintained. Moreover, service tax rates have also been maintained, which is a positive surprise. However, more services have been brought under the service tax net. This is expected to add to inflationary pressures, while curtailing deficit.
- With a view to promote consumption and compensate consumers for inflation, income tax rates in the >Rs.160,000 slabs have been reduced. This move while not benefiting the lower-income population will nevertheless put more money in hands of middle/higher income families. The 250bps reduction in surcharge is expected to only partially off-set the impact of higher MAT for corporate India. This will likely impact profits of select companies.
- The budget is largely in line with expectations as far as larger issues of growth, fiscal discipline and fiscal stimulus roll-back are concerned. Thus, we do not expect any major impact on the markets in the near term. Over the medium - to - long term, we expect valuations and the global economic scenario to dictate market movements. We opine that, valuations, based on FY11E consensus earnings, leave scope for gains over this period.

Sectoral impact

| Budget Impact | Sectors |
|---------------|---|
| Positive | Banking, Capital Goods & Engineering, Construction, FMCG, Hotels, Logistics, Media NBFC, Retail |
| Neutral | Fertilizer, Information Technology, Metals and Mining, Oil & Gas, Pharmaceuticals, Textiles |
| Negative | Automobiles, Cement, Power, Real Estate |

Source: Kotak Securities - Private Client Research

Sustained focus on growth ...

The Finance Minister has rightly focused on sustaining and improving the high growth rates of the economy.

After experiencing a slowdown in FY09 and the early part of FY10, Indian economy has recovered smartly. According to the advance estimates of CSO, the Gross Domestic Product (GDP) growth for 2009-10 is pegged at 7.2%, which will be the second fastest growth across major economies. IIP grew by 16.8% in January and growth rate in manufacturing sector in December 2009 was 18.5% - the highest in the past two decades. The stimulus package provided by the Government in FY09 has had the desired impact.

The growth is expected to be high despite the expected 0.2% reduction in agricultural GDP, on the back lower rainfall and drought in part of the country.

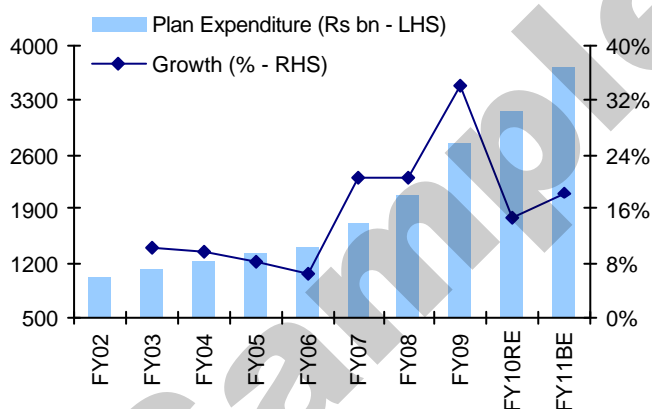
The economic survey for 2009-10 has laid down targets of 9% in FY12 and double-digit growth rates in the future years. However, these are subject to several challenges like monsoons and global economy in the short term and structural changes in the economy over the longer term.

...through investments

Towards this objective, the FM has allocated significant sums towards investments in agriculture as well as infrastructure. The plan expenditure has thus, been increased by about 18% as compared to the revised estimates for FY10.

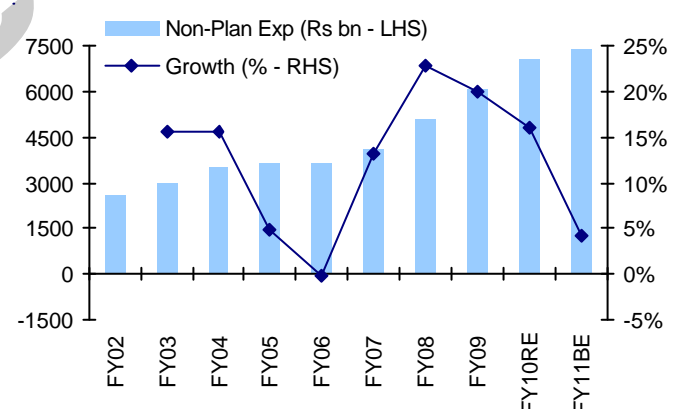
One of the important features of the budget has been the concessions provided by the FM to attract private investments in specified segments of agriculture and infrastructure. Concessions have been provided in the form of reduced duties, exemption from duties and taxes, project import status, etc.

Plan expenditure



Source: Economic Survey 2009-10, Budget FY2010-11

Non-plan expenditure



Source: Economic Survey 2009-10, Budget FY2010-11

Significant allocations have been made for creating infrastructure, which has a multiplier impact on the economy. Rs.1.74trn has been provided for infrastructure development. This accounts for over 46% of the total plan allocation. Some of the major allocations are :

- Allocation for road transport has been increased by over 13% from Rs.175bn to Rs.199bn.
- Rs 168bn have been provided for Railways, which is about Rs.9.5bn more than last year.

- IIFCL's disbursements, which are expected to touch Rs.90bn by end March 2010 are targeted to reach around Rs.200bn by March 2011. The re-financing of bank lending to infrastructure projects is expected to double in FY11 over FY10 levels of Rs.30bn.
- Plan allocation for power sector excluding RGGVY is proposed to be doubled from Rs.22.3bn in 2009-10 to Rs.51.3bn in 2010-11.

Central Plan Outlay by Sectors (Rs bn)

| | FY10BE | % of Total | FY10RE | % of Total | FY11BE | % of Total |
|----------------------------------|-----------------|--------------|-----------------|--------------|-----------------|--------------|
| Agriculture & Allied Activities | 106.29 | 2.4 | 101.23 | 2.4 | 123.08 | 2.3 |
| Rural Development* | 517.69 | 11.6 | 515.60 | 12.1 | 551.90 | 10.5 |
| Irrigation & Flood Control | 4.39 | 0.1 | 4.04 | 0.1 | 5.26 | 0.1 |
| Energy | 1,155.74 | 25.8 | 1,096.85 | 25.8 | 1,465.79 | 27.9 |
| Industry and Minerals | 357.40 | 8.0 | 306.94 | 7.2 | 390.19 | 7.4 |
| Transport** | 943.06 | 21.1 | 889.48 | 20.9 | 1,019.97 | 19.4 |
| Communications | 167.31 | 3.7 | 160.99 | 3.8 | 185.29 | 3.5 |
| Science Technology & Environment | 112.07 | 2.5 | 99.08 | 2.3 | 136.77 | 2.6 |
| General Economic Services | 62.70 | 1.4 | 54.46 | 1.3 | 75.54 | 1.4 |
| Social Services*** | 1,038.56 | 23.2 | 1,013.70 | 23.8 | 1,275.70 | 24.3 |
| General Services | 14.00 | 0.3 | 13.53 | 0.3 | 15.35 | 0.3 |
| Grand Total | 4,479.21 | 100.0 | 4,255.90 | 100.0 | 5,244.84 | 100.0 |

Source: Union Budget FY2010-11

* Includes provision for rural housing but excludes provision for rural roads

** Includes provision for rural roads

*** Excludes provision for Rural Housing

RE: Revised Estimate

BE: Budget Estimate

As far as agriculture is concerned, the following allocations have been proposed :

- The target for credit to the sector has been increased from Rs.3.25trn to Rs.3.75trn.
- The plan expenditure to agriculture sector has increased by about 22% to Rs.119bn.

Rs.4bn has been provided to extend the green revolution to the eastern region of the country comprising Bihar, Chattisgarh, Jharkhand, Eastern UP, West Bengal and Orissa.

- Rs.3bn has been provided to organise 60,000 "pulses and oil seed villages" in rain-fed areas during 2010-11
- Rs.2bn has been allocated for sustaining the gains already made in the green revolution areas through conservation farming, which involves concurrent attention to soil health, water conservation and preservation of biodiversity.

...and consumption

- The FM has put in more monies into the hands of the people to give an impetus to consumption.
- Towards this, the the rates of income tax in slabs beyond Rs.160,000 per annum, have been rationalized. According to our estimates, this is expected to result in savings of about Rs.50,000 in income tax for a person earning Rs.0.80mn per annum.
- However, this provision will benefit only people in the middle and higher-income category as there has been no change in the basic exemption limit of Rs.160,000 per annum.
- Also, there has been no increase in service tax rates, though more services have been brought into the service tax net.
- While the service tax rate has been maintained to achieve parity with the excise duty rate of 10%, consumers have been spared the additional burden on services currently being taxed.

Inclusive growth remains the corner-stone...

With a view to make the growth more sustainable, the Government has continued its focus on inclusive growth. The Government has announced various measures for the social sector and agriculture. We concur with the Government's assessment that, high growth in the economy can be sustained only if it is equitable and inclusive growth.

Higher allocations have been made for farmers, poor, women, children, etc. Allocation for social sector has increased to Rs.1.37trn i.e. 37% of the total plan outlay. Another 25% of the plan allocations are devoted to the development of rural infrastructure.

Thrust on Inclusive growth

| Scheme/initiative | Measures proposed |
|---|---|
| Mahatma Gandhi National Rural Employment Guarantee Scheme | Allocation of Rs.401 bn in FY11E For providing 100 days of wage employment to each rural household |
| Pradhan Mantri Gram Sadak Yojana | Allocation of Rs.120 bn in FY11E For providing assistance to rural BPL households for construction of houses (and upgradation of Kutchha houses) under Indira Awaas Yojana. |
| Rural Housing | Allocation of Rs.100 bn in FY11E For providing connectivity to eligible unconnected rural habitations through good all-weather roads. |
| Swaranjayanti Gram Swarozgar Yojana | Allocation of Rs.30 bn in FY11E For establishing micro-enterprises in rural areas through activity clusters and group approach At least 50% of the Swarozgaries will be SCs/STs, 40% women and 3% disabled. |
| National Rural Drinking Water Programme | Allocation of Rs.90 bn in FY11E |
| School Education and Literacy | Allocation of Rs.150 bn in FY11E for Sarva Shiksha Abhiyan Allocation of Rs.94 bn in FY11E for National Program for mid day meals in School |
| Agriculture and Cooperation | Allocation of Rs.11 bn in FY11E for National Horticulture Mission Allocation of Rs.14 bn in FY11E for National Food Security Mission Allocation of Rs.11 bn in FY11E for Macro Management in Agriculture |
| Higher Education | Allocation of Rs.44 bn in FY11E for UGC Allocation of Rs.47 bn in FY11E for Technical Education |
| Women and Child Development | Allocation of Rs.87 bn in FY11E for Integrated Child Development Services Allocation of Rs.10 bn in FY11E for Rajiv Gandhi Scheme for Empowerment of Adolescent Girls Allocation of Rs.4 bn in FY11E for Indira Gandhi Matritva Sahyog Yojana |

Source: Budget document

Attacking supply side constraints in agriculture

With agriculture expected to clock in a negative 0.2% growth in FY10, the FM has tried to address some long pending structural issues in agriculture. These issues are expected to address the supply side constraints and ease inflation in the longer term.

There is a mention of bringing about a second green revolution in parts of Eastern India and allocations have been made towards this. Also, the FM has tried to address the structural short-fall in important commodities like pulses and oil-seeds. Allocations have been made to convert 60,000 villages into "pulses and oil-seeds villages".

With a view to reduce wastage of produce, the retail trade is sought to be opened up to increase competition. Moreover, several incentives have been provided to improve the cold storage and cold room facilities, including farm level pre-cooling.

As per the first advance estimates (kharif only), production of food grains in 2009-10 is estimated to be 98.83 million tonnes, which is lower than the target of 125.1 million tonnes set out for the period.

Back to fiscal prudence, sets a 5.5% GFD/GDP ratio...

We view intention of the government to revert towards FRBM act as significantly positive for the economy as reduction in net borrowing requirement would reduce the risk of crowding out private sector credit demand as well as help in containing sharp increase in yield. The gross and net market borrowings is estimated at Rs.4571.43 bn and Rs.3450.1 bn (4.98% of GDP) in FY11 respectively as against Rs.4510 bn and Rs.3984.1 bn (6.46% of GDP) during FY10. The credit rating agencies are also expected to view this positively and may change the rating outlook on India to "Positive". The FM has also laid down the path towards fiscal discipline going forward and sets higher target than TFC recommendations (see Exhibit-1).

Exhibit-1 - Fiscal Targets (as %of GDP)

| | 2010-11 | 2011-12 | 2012-13 |
|-------------------------|---------|---------|---------|
| Fiscal Deficit | | | |
| Mid Term Fiscal Policy | 5.5 | 4.8 | 4.1 |
| 13th Finance Commission | 5.7 | 4.8 | 4.2 |
| Revenue Deficit | | | |
| Mid Term Fiscal Policy | 4.0 | 3.4 | 2.7 |
| 13th Finance Commission | 3.2 | 2.3 | 1.2 |
| Debt | | | |
| Mid Term Fiscal Policy | 51.1 | 50 | 48.2 |
| 13th Finance Commission | 53.9 | 52.5 | 50.5 |

Source: Union Budget Documents

Economic growth picks up...amid mixed signs

With economic recovery becoming broad based (manufacturing sector growing by 18.5% in December 2009 - the highest in the past two decades) government has returned to the path of fiscal prudence. CSO pegged advance GDP estimates for FY10 at 7.2%. According to economic survey FY11 GDP growth is expected to be over 8% and is expected to hit double digit growth in near future. However, the 3QFY10 GDP growth of 6% was a surprise - about 0.9% below consensus. A closer look at the data suggests that non-agricultural economic growth was 8.1% (agriculture contracted by 2.8% and Community, social and personal services declined by 2.2% against growth of 12.7% in previous quarter). We expect non-agricultural GDP to grow by 8.5% in FY10. The fall in CSP is mainly on account of high base in Q3 of 2008-09, following the implementation of Sixth Central Pay Commission's recommendations. The significant strength here reflects double-digit gains in manufacturing of 14.3% (up from 9.2% in the previous quarter) as well as trade, hotels, transport & communication (10%). Construction saw robust growth of 8.7% (up from 6.5% in the previous quarter). (see Exhibit-2)

Exhibit 2: Growth in Real GDP (%)

| Sector | 1Q | 1Q | 2Q | 2Q | 3Q | 3Q | 4Q | | 1Q | 2Q | 3Q | FY10 |
|--|------|-------|------|-------|------|-------|------|-------|------|------|-------|--------|
| | FY09 | FY09* | FY09 | FY09* | FY09 | FY09* | FY09 | FY09* | FY10 | FY10 | FY10* | Adv.E* |
| I Agriculture and allied activities | 3.0 | 3.2 | 2.0 | 2.4 | 1.4 | -1.4 | 2.4 | -1.6 | 2.4 | 0.9 | -2.8 | -0.2 |
| II Industry (2+3+4) | 4.4 | 5.2 | 4.0 | 4.8 | 1.0 | 1.8 | -0.1 | 3.0 | 4.3 | 9.0 | 12.7 | 8.8 |
| 2 Mining and quarrying | 6.1 | 2.6 | 5.1 | 1.6 | 6.5 | 2.8 | 3.4 | 1.6 | 7.9 | 9.5 | 9.6 | 8.7 |
| 3 Manufacturing | 4.4 | 5.9 | 4.0 | 5.5 | -0.1 | 1.3 | -1.0 | 3.2 | 3.4 | 9.2 | 14.3 | 8.9 |
| 4 Electricity, gas and water supply | 1.5 | 3.3 | 2.5 | 4.3 | 2.2 | 4.0 | 2.3 | 3.9 | 6.2 | 7.4 | 4.9 | 8.2 |
| III Services (5+6+7+8) | 10.4 | 9.4 | 10.4 | 9.5 | 10.0 | 11.2 | 8.7 | 9.4 | 7.7 | 9.0 | 6.5 | 8.4 |
| 5 Construction | 11.1 | 7.1 | 10.3 | 8.0 | 6.4 | 3.0 | 1.5 | 5.9 | 7.1 | 6.5 | 8.7 | 6.5 |
| 6 Trade, hotels, transport, storage and communic | 14.8 | 10.8 | 14.9 | 10.0 | 6.4 | 4.4 | 9.0 | 7.6 | 8.1 | 8.5 | 10.0 | 8.3 |
| 7 Financing, insurance, real estate and business ser | 6.7 | 9.1 | 6.2 | 8.5 | 8.2 | 10.2 | 9.3 | 10.1 | 8.1 | 7.7 | 7.8 | 9.9 |
| 8 Community, social and personal services | 6.0 | 8.7 | 6.9 | 10.4 | 20.1 | 28.7 | 11.3 | 13.9 | 6.8 | 12.7 | -2.2 | 8.2 |
| IV Real GDP at factor cost (I+II+III) | 8.0 | 7.6 | 7.9 | 7.5 | 6.2 | 6.2 | 5.9 | 6.6 | 6.1 | 7.9 | 6.0 | 7.2 |
| Non-agricultural GDP | 8.8 | 8.4 | 8.8 | 8.3 | 7.7 | 8.8 | 6.4 | 7.8 | 6.8 | 9.0 | 8.1 | 8.5 |

Notes: * Base year: 2004-05; Source: CSO and Kotak Securities - Private Client Research

Fiscal discipline...reduces non productive expenditure and continues to focus on productive expenditure

However, as per the revised budget estimates for FY10 the fiscal deficit is pegged at 6.7% of GDP as against 6.8% in budgeted estimates, though the fiscal deficit in nominal terms has increased to Rs. 4140.41 bn against estimate of Rs.4009.96 bn. The better fiscal deficit number is reflective of better economic growth and revision in the base year from 1999-2000 to 2004-05.

In this budget, government has tried to contain size of its finances, budgeting for growth of 8.54% in FY11 against 15.57% growth in FY10RE and is targeting 16% reduction in revenue deficit in FY11 against 30% increase in FY10RE. Government expects to meet its fiscal target, primarily through reduction in non-plan revenue expenditure and increase in revenues. The reduction in fiscal deficit is targeted to be achieved by higher disinvestments (Rs. 400 bn budget in FY11 against Rs. 260 bn in FY10RE); while Non-plan expenditure is budgeted to increase only by 4.15% in FY11 against 16% increase in FY10, of which non-plan revenue expenditure is budgeted to increase merely by 0.26% against 14.83%. However, the focus on supporting the inclusive economic growth remains intact. The Plan expenditure is expected to grow by 18.4% in FY11 against 14.5% achieved in FY10 (see Exhibit-3).

Exhibit-3: Central Government Finances

| (Rs Cr) | 2008-09 | 2009-10BE | 2009-10RE | 2010-11BE |
|----------------------------------|---------|-----------|-----------|-----------|
| Revenue Receipts | 540,259 | 614,497 | 577,294 | 682,212 |
| Tax Revenue (net to Centre) | 443,319 | 474,218 | 465,103 | 534,094 |
| Non-tax Revenue | 96,940 | 140,279 | 112,191 | 148,118 |
| Capital Receipts | 343,697 | 406,341 | 444,253 | 426,537 |
| Recoveries of Loans | 6,139 | 4,225 | 4,254 | 5,129 |
| Other Receipts | 566 | 1,120 | 25,958 | 40,000 |
| Borrowings and other Liabilities | 336,992 | 400,996 | 414,041 | 381,408 |
| Total Receipts | 883,956 | 1,020,838 | 1,021,547 | 1,108,749 |
| Non-plan Expenditure | 608,721 | 695,689 | 706,371 | 735,657 |
| On Revenue Account of which, | 559,024 | 618,834 | 641,944 | 643,599 |
| Interest Payments | 192,204 | 225,511 | 219,500 | 248,664 |
| On Capital Account | 49,697 | 76,855 | 64,427 | 92,508 |
| Plan Expenditure | 275,235 | 325,149 | 315,176 | 373,092 |
| On Revenue Account | 234,774 | 278,398 | 264,411 | 315,125 |
| On Capital Account | 40,461 | 46,751 | 50,765 | 57,967 |
| Total Expenditure | 883,956 | 1,020,838 | 1,021,547 | 1,108,749 |
| Revenue Expenditure | 793,798 | 897,232 | 906,355 | 958,724 |
| Capital Expenditure | 90,158 | 123,606 | 115,192 | 150,025 |
| Revenue Deficit | 253,539 | 282,735 | 329,061 | 276,512 |
| % of GDP | -4.5 | -4.8 | -5.3 | -4.0 |
| Fiscal Deficit | 336,992 | 400,996 | 414,041 | 381,408 |
| % of GDP | -6.0 | -6.8 | -6.7 | -5.5 |
| Primary Deficit | 144,788 | 175,485 | 194,541 | 132,744 |
| % of GDP | -2.6 | -3.0 | -3.2 | -1.9 |
| Nominal GDP | 56,165 | 58,970 | 61,797 | 69,347 |

Source: Union Budget Documents

The major items of variation in Non-Plan expenditure estimates are provided below in Exhibit-4:

Exhibit-4: Variance in Non-Plan expenditure (Rs bn)

| | FY10RE | FY10BE | Absolute Chg |
|---|---------------|---------------|--------------|
| Interest Payments and Debt Servicing | 2195.0 | 2486.6 | 291.6 |
| Defence Expenditure | 1362.6 | 1473.4 | 110.8 |
| Non-Plan Capital Outlay | 153.4 | 310.5 | 157.1 |
| Agriculture and Allied Services | 22.8 | 36.6 | 13.8 |
| Interest Subsidies | 27.2 | 44.2 | 17.0 |
| Census, Survey and Statistics | 6.3 | 15.4 | 9.1 |
| Petroleum Subsidy | 149.5 | 31.1 | -118.5 |
| Agricultural Debt Waiver and Debt Relief Scheme | 150.0 | 120.0 | -30.0 |
| Fertilizer Subsidy | 529.8 | 499.8 | -30.0 |
| Non-plan Grants and Loans to Public Enterprises | 34.7 | 6.1 | -28.6 |
| Police | 245.9 | 221.5 | -24.4 |
| Postal Deficit | 54.6 | 36.0 | -18.7 |
| Other Non-plan Expenditure | 2131.9 | 2075.4 | -56.5 |
| Total (Non-Plan) Expenditure | 7063.7 | 7356.6 | 292.9 |

Source: Union Budget 2010-11

Impact of budget on Inflation

Immediate impact of union budget on inflation would be negative as some increase in the taxes is likely to be passed on to the consumer (e.g. Petrol prices increased by Rs2.67 per liter; and diesel prices by Rs2.58 due to re-imposition of 5% import duty on crude and 7.5% import duty on petrol and diesel). We believe that lower fiscal deficit is likely to result in lower inflation in longer term, in short term the increased taxes may impact WPI inflation by at least 100 bps (Increased fuel prices would have immediate impact of 40 bps). We expect inflationary pressure to ease off over the course of next few months, partially due to the base effect and with expectation of better Rabi crop and normal monsoon.

Reforms

Mr. Mukherjee has moved ahead on the reforms front, though more concrete announcements were expected on this front.

The FM has indicated that, the GST and DTC will come into force WEF FY12. While GST needs broader consensus from all states, we understand that, the Centre has more administrative control over DTC. In our opinion, the implementation of these measures will significantly simplify the administrative processes for companies.

The Government has also indicated that, a decision on the oil price subsidies, based on the Kirit Parekh Committee will be taken soon and we believe that, there can be a partial de-regulation of the sector in due course of time. However, this is expected to take time as retail fuel prices have just been increased. The Government has already moved on the fertilizer subsidy front by announcing a 5% rise in urea prices and a move towards nutrient - based subsidies from April 2011.

The Finance Minister has also expressly stated that, no provision has been made for bond issuances to any sector - oil, fertilizer, food, etc.

"Tax reforms a process, not an event" - FM

And process continues....

The gross tax revenue is budgeted to increase by 18% as against mere 5% increase in FY10RE, income tax is expected to de-grow due to higher tax exemptions. The estimate points to considerable increase in indirect tax collection on account of partial roll back of fiscal stimulus and higher GDP growth expectations (Exhibit-5).

DIRECT TAXES

Corporate tax

■ No change in corporate tax rate; surcharge reduced

There have been no changes in the corporate tax rate. However, the surcharge has been reduced from 10% to 7.5%. This will bring down the effective tax rate for corporates from 33.9% to 33.2%.

■ Increase in MAT - a negative

On the other hand, the budget has increased the rate of Minimum Alternate Tax (MAT) from 15% to 18%. Companies have to pay MAT on the Book profits as against the profits derived under the Income Tax Act, if the taxable income is less than 30% of the book profits.

This will have an impact on the profits of the companies which are currently paying tax at lower rates. Thus, apart from others, companies in the infrastructure segment which were claiming deduction u/s 80 or companies in the exports sector which were claiming export benefits will be impacted negatively. We believe that, this will be largely a cash-flow impact.

Bonanza on personal income tax front

No change in basic exemption limit but significant reductions thereon

The budget has kept the basic exemption limit at Rs.160,000 per annum. However, the tax rates for income beyond this level have been rationalized, resulting in substantial benefit for tax-payers.

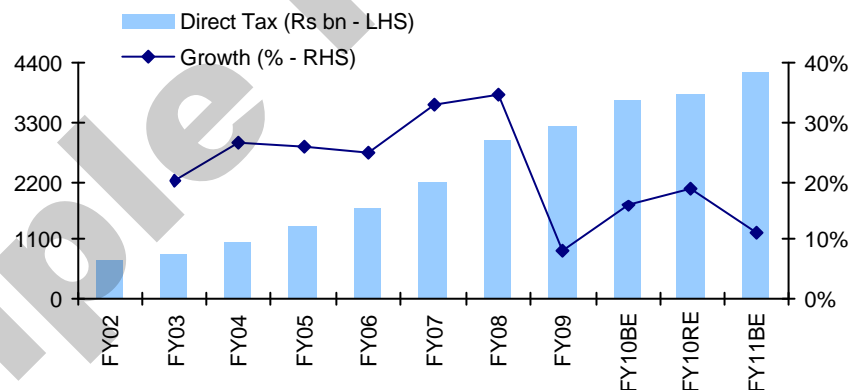
Individual direct tax impact - Assuming individual income level of Rs.10 lakhs

| New Slab (Rs) | Old Slab (Rs) | Tax rate % | Tax payable | |
|------------------------|-----------------|------------|-------------|--------|
| | | | New | Old |
| 0-1.6lakh | 0-1.6lakh | NIL | 0 | 0 |
| 1.6-5lakh | 1.6-3 lakh | 10% | 34000 | 14000 |
| 5-8lakh | 3-5lakh | 20% | 60000 | 40000 |
| 8lakh & above- | 5 lakh & above | 30% | 60000 | 150000 |
| upto Rs. 10 lakh | upto Rs 10 lakh | | | |
| Total tax payout | | | 154000 | 204000 |
| Incremental tax saving | | | | 50000 |

Source: Annual Budget 2010-11

The accompanying table depicts the benefit available to a person having taxable income of Rs.1mn per annum. The tax benefit is expected to be about Rs.50,000 per annum.

Direct taxes



Source: Economic Survey 2009-10, Interim Budget FY2010-11

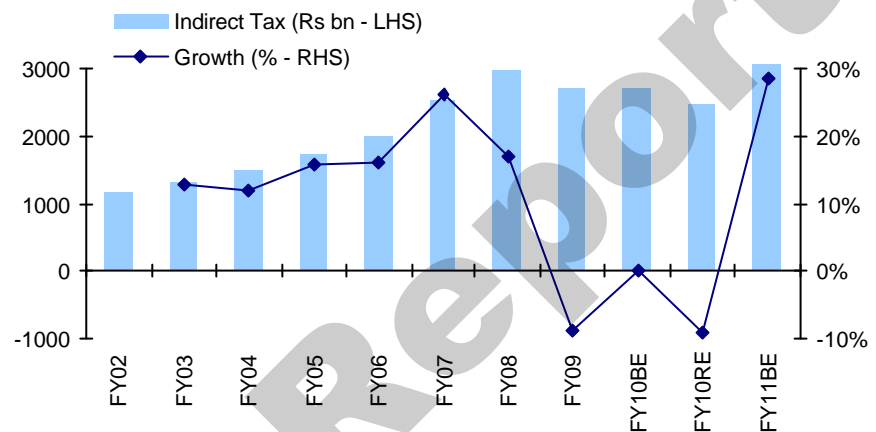
However, we note that, this will not benefit a large section of tax-payers in the lower-income tax bracket.

Investment - linked tax incentives have been given. Additional deduction of Rs.20,000 per annum will be allowed on investments in infrastructure bonds. While on the one hand, it will induce savings, it will also generate funds for infrastructure investments.

INDIRECT TAXES

Rate reduction in Central Excise duties was partially rolled back and the standard rate on all non-petroleum products enhanced from 8 per cent to 10 per cent ad valorem. Rate of tax on services retained at 10 per cent to pave the way forward for GST. Certain services, hitherto untaxed, brought within the purview of the service tax levy. Proposals relating to Indirect Taxes estimated to result in a net revenue gain of Rs.465 bn 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. 205 bn for the year. Major proposals are listed below:

Indirect taxes



Source: Economic Survey 2008-09, Union Budget FY2010-11

Service Tax - unchanged at 10%

- No service tax on testing, certification of farm seeds
- No service tax on transportation of pulses, cereals
- Transfer of intellectual property right to attract service tax
- News agencies exempted from service tax
- To bring more svcs under service tax

Capital markets - neutral in short-term but positive in the long-term

The budget has largely been in line with expectations as far as major issues like growth, fiscal deficit, roll-back of fiscal stimulus are concerned. In our opinion, the budget has done whatever was needed for the sustenance of and increase in growth rates of the economy. The deficit is sought to be contained and that is a positive.

Thus, we believe that, the near-term reaction of the markets to the budget may not be significant, except in case of sectors which have been impacted.

Over the medium - to - long term, we expect markets to be dictated more by the global economic scenario and more importantly, the valuations. We believe that, while the markets are fairly priced based on FY10E earnings, there is scope for gains based on FY11E earnings. Thus, we expect the markets to move up steadily in line with improved earnings visibility and economic growth prospects for FY11.

The reduction in fiscal deficit is based on rational and reasonable assumptions and we expect this to go down well with investors, more importantly the foreign institutional investors. The triggers for the markets can be further announcements on the progress on GST, DTC and on subsidies, if any.

BUDGET HIGHLIGHTS FY2010-11

Changes in Indirect Taxes

| | Pre-budget | Post-budget |
|---|---|--|
| Excise duty | | |
| non-petroleum products | 8% | 10% |
| Cement- other than mini plant | | |
| i) Sales price - Rs.190 per 50kg bag | Rs 230 per tonne | Rs 290 per tonne |
| ii) Sales price above Rs. 190 per 50 kg bag | 8% of retail sales price | 10% of retail sales price |
| iii) other than packaged | 8% or Rs. 230 per tonne, whichever higher | 10% of RS 290 per tonne, whichever is higher |
| MUVs and SUVs | 20% | 22% |
| Motor Spirit - unbranded | Rs 12.35 | Rs.14.35 |
| Motor Spirit - branded | Rs 9.5 | Rs. 15.5 |
| HSD - unbranded | Rs 2.6 | Rs 4.6 |
| HSD - branded | Rs 2.6 | Rs 5.75 |
| Cigarettes (per 1000) | | |
| Non-filtered not exceeding 60mm size | Rs 819 | Rs 669 |
| Non-filtered exceeding 60mm but not exceeding 70 mm | Rs 1323 | Rs 1473 |
| Filtered - length not 60 mm | Rs 819 | Rs 669 |
| Filtered - length exceeding 60mm but not exceeding 70 mm | Rs 819 | Rs 969 |
| Filtered - length exceeding 70mm but not exceeding 75 mm | Rs 1323 | Rs 1473 |
| Filtered - length exceeding 75mm but not exceeding 85 mm | Rs 1759 | Rs 1959 |
| others | Rs 2163 | Rs 2363 |
| Cigarettes of tobacco substitutes | Rs 1208 | Rs 1408 |
| Basic excise duty on cut tobacco | Rs 50 per kg | Rs60 per kg |
| Batteries and battery chargers and battery operated vehicles | | 4% |
| LED lights/lighting fixtures | 8% | 4% |
| Rotor blades for wind operated electricity generators | | 0 |
| DTA clearances of gold and silver jewellery mfg by 100% EOU | Rs 500 per 10gm | Rs 750 per 10gm |
| Replaceable kits of water filter (except for RO) | 8% | 4% |
| Corrugated boxes/cartons | 8% | 4% |
| Latex rubber thread | 8% | 4% |
| Goods under Medicinal and Toilet preparations Act | 16% | 10% |
| Maize and tapioca starch | 0% | 4% |
| Potato starch | 8% | 4% |
| Ceramic tiles (with cenvat credit) | 8% | 10% |
| Umbrellas and umbrella parts | 4% and 8% | 4% |
| Rough ophthalmic blanks | 0% | 4% |
| Mosquito nets impregnated with insecticides | 0% | 4% |
| Av gas | 0% | 4% |
| Microprocessors, Floppy disk drive, flash drive, CD/DVD and combo drive | 0% | 4% |
| Clinical diapers and sanitary napkins | 0% | 10% |
| Open tin sanitary (OTS) | 0% | 10% |
| Goggles | 0% | 10% |

Source: Kotak Securities - Private Client Research

Changes in Indirect Taxes

| Item | Pre Budget | Post Budget |
|--|----------------------|----------------------|
| CUSTOM DUTIES | | |
| Crude Petroleum | 0% | 5% |
| Motor Spirit (petrol) and HSD (diesel) | 2.50% | 7.50% |
| Specified petroleum products | 5% | 10% |
| Customs duty on serially numbered gold bars and gold coins | Rs.200 per 10 gram | Rs.300 per 10 gram |
| Other forms of gold | Rs.500 per 10 gram | Rs.750 per 10 gram |
| Silver | Rs.1000 per kg | Rs.1500 per kg |
| Platinum | Rs.200 per 10 gram | Rs.300 per 10 gram |
| Long pepper | 70% | 30% |
| Asafoetida | 30% | 20% |
| Medical equipments | 0% | 9% |
| Magnetrons of upto 1,000 kw for the manufacture of microwave ovens | 10% | 5% |
| Rhodium | 10% | 2% |
| Duty free import of samples | Rs. 1 lakh per annum | Rs. 3 lakh per annum |

Source: Union Budget Document 2010-2011

Central Government Finances (Rs bn)

| REVENUE | FY09 | FY10BE | FY10RE | Variance (%) | FY11BE | % Growth (FY11BE vs FY10RE) |
|---|---------------|----------------|----------------|--------------|----------------|-----------------------------|
| Tax Revenue | | | | | | |
| Corporation Tax | 2134.0 | 2567.3 | 2550.8 | -0.6 | 3013.3 | 18.1 |
| Income Tax | 1060.5 | 1128.5 | 1249.9 | 10.8 | 1205.7 | -3.5 |
| Excise Duty | 1086.1 | 1064.8 | 1020.0 | -4.2 | 1320.0 | 29.4 |
| Import Duty | 998.8 | 980.0 | 844.8 | -13.8 | 1150.0 | 36.1 |
| Service Tax | 609.4 | 650.0 | 580.0 | -10.8 | 680.0 | 17.2 |
| Other Taxes | 164.2 | 20.3 | 85.5 | 322.0 | 97.5 | 14.0 |
| Gross Tax Revenue | 6053.0 | 6410.8 | 6331.0 | -1.2 | 7466.5 | 17.9 |
| Less: States' share | 1601.8 | 1643.6 | 1648.3 | 0.3 | 2090.0 | 26.8 |
| Less: NCCD transferred to the NCCF | 18.0 | 25.0 | 31.6 | 26.4 | 35.6 | 12.7 |
| Net Tax Revenue | 4433.2 | 4742.2 | 4651.0 | -1.9 | 5340.9 | 14.8 |
| Non-Tax Revenue | | | | | | |
| Interest Receipts | 207.2 | 191.7 | 192.1 | 0.2 | 192.5 | 0.2 |
| Dividend and Profits | 386.1 | 497.5 | 519.8 | 4.5 | 513.1 | -1.3 |
| External grants + Other Non-Tax Revenue | 368.2 | 706.0 | 399.2 | -43.5 | 766.3 | 91.9 |
| Receipts of UT | 8.0 | 7.5 | 10.7 | 42.3 | 9.3 | -13.8 |
| Total Revenue Receipts | 5402.6 | 6145.0 | 5772.9 | -6.1 | 6822.1 | 18.2 |
| Total Capital Receipts* | 2911.0 | 4063.4 | 4498.7 | 10.7 | 4265.4 | -5.2 |
| Non-debt Receipts | | | | | | |
| Recovery of Loans & Advances | 61.4 | 42.3 | 42.5 | 0.7 | 51.3 | 20.6 |
| Miscellaneous Capital receipts | 5.7 | 11.2 | 260.0 | NA | 400.0 | 53.9 |
| Debt Receipts | 2844.0 | 4010.0 | 4196.2 | 4.6 | 3814.1 | -9.1 |
| Market Loans | 2336.3 | 3979.6 | 3984.1 | 0.1 | 3450.1 | -13.4 |
| Short term borrowings | 996.0 | 0.0 | -39.0 | NA | 0.0 | -100.0 |
| External assistance (Net) | 110.2 | 160.5 | 165.4 | 3.0 | 224.6 | 35.9 |
| Securities issued against Small Savings | -13.0 | 132.6 | 132.6 | 0.0 | 132.6 | 0.0 |
| State Provident Funds (Net) | 80.4 | 50.0 | 85.0 | 70.0 | 70.0 | -17.6 |
| Other Receipts (Net) | -665.8 | -312.6 | -131.8 | -57.9 | -63.2 | -52.0 |
| Draw-down of Cash Balance | 526.0 | 0.0 | -55.8 | NA | 0.0 | NA |
| Total Receipts | 8839.6 | 10208.4 | 10215.9 | 0.1 | 11087.5 | 8.5 |
| EXPENDITURE | | | | | | |
| Revenue Expenditure | | | | | | |
| Interest | 1922.0 | 2255.1 | 2195.0 | -2.7 | 2486.6 | 13.3 |
| Defence | 733.1 | 868.8 | 884.4 | 1.8 | 873.4 | -1.2 |
| Subsidies | 1297.1 | 1112.8 | 1310.3 | 17.7 | 1162.2 | -11.3 |
| Grants to State and U.T. Governments | 381.6 | 485.7 | 466.1 | -4.0 | 460.0 | -1.3 |
| Pensions | 329.4 | 349.8 | 422.3 | 20.7 | 428.4 | 1.4 |
| Other Revenue Expenditure | 927.1 | 1116.2 | 1141.4 | 2.3 | 1025.3 | -10.2 |
| Total Revenue Expenditure | 5590.2 | 6188.3 | 6419.4 | 3.7 | 6436.0 | 0.3 |
| Capital Expenditure | | | | | | |
| Defence Services | 409.2 | 548.2 | 478.2 | -12.8 | 600.0 | 25.5 |
| Other Non-plan Capital Outlay | 72.7 | 210.6 | 153.4 | -27.2 | 310.5 | 102.4 |
| Others | 15.1 | 9.8 | 12.7 | 29.7 | 10.1 | -20.4 |
| Total Capital Expenditure | 497.0 | 768.6 | 644.3 | -16.2 | 920.6 | 42.9 |
| Plan Expenditure on Rev & Cap a/c | 2752.4 | 3251.5 | 3151.8 | -3.1 | 3730.9 | 18.4 |
| Non-plan Expenditure on Rev & Cap a/c | 6087.2 | 6956.9 | 7063.7 | 1.5 | 7356.6 | 4.1 |
| Total Expenditure | 8839.6 | 10208.4 | 10215.5 | 0.1 | 11087.5 | 8.5 |

Source: Annual Budget FY2010-11; NCCF: National Calamity Contingency Fund; * stands for the receipts net of repayments

SECTOR SUMMARY

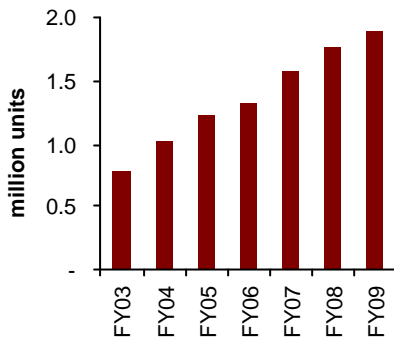
Sector Summary

| Sector | Budget Impact | Preferred Picks |
|-------------------------------|---------------|--|
| Automobiles | Negative | NA |
| Banking | Positive | HDFC Bank, Axis Bank, BoB, Union Bank, Andhra Bank |
| Capital Goods and Engineering | Positive | L&T, Thermax, Blue Star, HDO, Voltamp |
| Cement | Negative | Shree Cements |
| Construction | Positive | JP Associates, Nagarjuna Constructions, IVRCL, Unity Infra |
| Fertilizer | Neutral | NA |
| FMCG | Positive | NA |
| Hotels | Positive | NA |
| Information Technology | Neutral | Infosys, TCS, Infotech, NIIT Technologies, Zensar |
| Logistics | Positive | GATI, Mundra Port, CONCOR, GDL |
| Media | Positive | ZEEL, HT Media |
| Metals and Mining | Neutral | SAIL, Sesa Goa |
| NBFC | Positive | Shriram Transport Finance, M&M Financial Services, LIC Housing Finance, IDFC |
| Oil & Gas | Neutral | GSPL, Petronet LNG |
| Pharmaceuticals | Neutral | NA |
| Power | Negative | NA |
| Real Estate | Negative | NA |
| Retail | Positive | NA |
| Textiles | Neutral | JBF Industries |

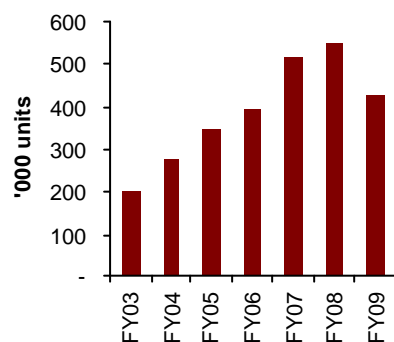
Source: Kotak Securities - Private Client Research

SECTOR IMPACT ANALYSIS

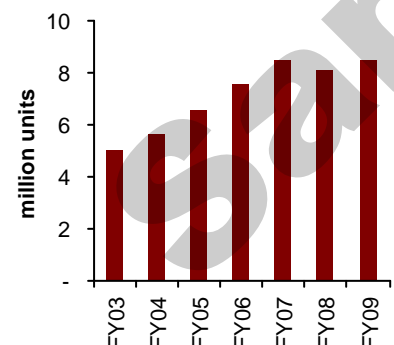
Sample Report

BUDGET IMPACT: NEGATIVE**AUTOMOBILES****BUDGET HIGHLIGHTS & IMPACT****Passenger vehicles - Sales volume**

Source: SIAM

CVs - Sales volume

Source: SIAM

2 wheeler - Sales volume

Source: SIAM

■ Partial roll back of excise duty

Impact: Finance Minister in his budget speech announced partial roll back of 2% excise duty on all non-petroleum products by increasing the standard rate of excise duty from 8% to 10%. Also the ad valorem part of excise duty on large cars, MUV and SUV was increased from 20% to 22%. This step is negative for companies across auto sector as this could impact volumes in case they pass off the increase or can impact the profitability in case they absorb the hike in excise duty. We expect this announcement to be negative from short to medium perspective. Post excise duty hike Maruti has already announced upward revision in selling prices across models with immediate effect.

Impact of stimulus package - Domestic sales

| (mn units) | FY09 (Apr-Jan) | FY10 (Apr-Jan) | % growth |
|---------------------|----------------|----------------|----------|
| 2W | 7.0 | 8.6 | 21.9 |
| 3W | 0.4 | 0.5 | 19.1 |
| Passenger vehicles | 1.5 | 1.9 | 26.8 |
| Commercial Vehicles | 0.3 | 0.4 | 26.3 |
| Overall Sales | 9.3 | 11.4 | 22.7 |

Source: SIAM

■ Increase in deduction incurred for R&D purpose:

Impact: Weighted deduction on R&D expenses incurred in-house has been enhanced from 150% to 200%. It is positive for auto companies across the sector.

■ Hike in petrol and diesel prices

Impact: Following the re-imposition of 5% basic duty on crude petroleum and increase from 2.5% to 7.5% on diesel and petrol, the oil ministry has announced petrol and diesel price hike of Rs2.67per liter and 2.58 per liter respectively. We view this as negative for the auto sector especially for large cars, SUV and CV players. Negative for M&M, Tata Motors and Ashok Leyland from medium-term perspective.

■ Focus on agriculture continues:

Impact: Few positive steps announced for the agriculture sector:

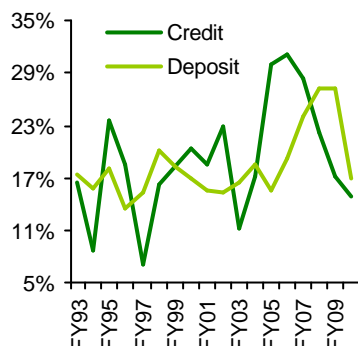
- 13% increase in credit flow to the agriculture sector
- 6 months extension for loan repayment
- Increase in interest subvention from 1% to 2%; thereby bringing the effective interest rate to 5%.

We expect the above measures would be positive for players like M&M (tractor segment) and Hero Honda (2W).

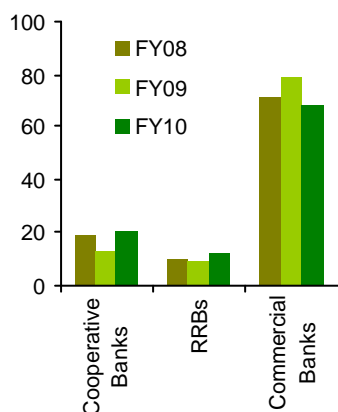
■ Focus on building national highways:

Impact: Allocation for road transport has been increased by 13% and the government looks focused on achieving its target of 20km of highways per day. This is a potential positive for CV players like Tata Motors and Ashok Leyland from long term perspective.

We do not have active coverage on companies in this sector

BUDGET IMPACT: POSITIVE**BANKING****BUDGET HIGHLIGHTS & IMPACT****Deposit and credit growth (%)**

Source: RBI

Growth in credit flow (%)

Source: Economic Survey 2008-09

- **Extension of six months for the repayment of loans under the agri-debt waiver scheme.**

Impact: The budget has extended the repayment of loans by farmers under the agri-debt waiver scheme by six months from December 31, 2009 to June 30, 2010. This is positive for PSU banks, as it would reduce the recognition of their agri NPAs.

Finance Minister has also raised the interest subvention to 2%, from 1% earlier, as an incentive for those farmers who repay their short-term crop loans as per schedule. This would encourage farmers to repay the loans which in turn are likely to moderate the slippage in agricultural loans.

- **The budget has provided Rs.165 bn for recapitalization of state-run banks.**

Impact: Rs.165 bn has been earmarked for recapitalization of PSU banks to enable them to maintain the minimum tier-I capital of 8.0% by FY11. This is through Rs.150 bn loans taken from World Bank and another Rs.15 bn would be used for subscription to tier-I instrument.

This would help PSU banks in growing their loan book without facing constraint from the capital front. Banks like Dena Bank, IDBI, Syndicate Bank, United bank of India (yet to be listed), Bank of Maharashtra and Vijaya Bank etc are likely beneficiary.

- **The budgeted fiscal deficit for FY11E is 5.5% as against 6.7% (revised estimate) reported for FY10.**

Impact: The Government needs to borrow Rs.3.45 trillion from the market to meet its fiscal deficit as against the revised estimate of Rs.3.98 trillion for FY10. The lower borrowing by the government in FY11E reduces the concern of crowding out effect on private investment.

RBI has exhibited its capability in FY09 & H1FY10, when it managed additional borrowings in the non-disruptive manner. In H1FY10, it managed to borrow 2/3 of the market borrowing program without much impacting the yield curve. In our view, 10-Yr yield curve is not likely to spike much from here onwards. Therefore, we believe that marked-to-market impact on banks would be marginal.

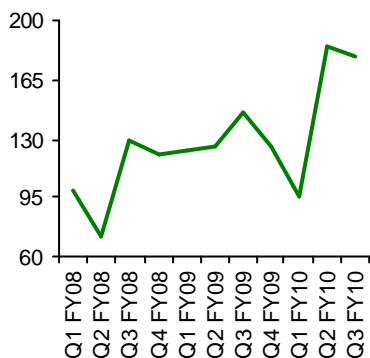
- **The new tax slab (below 1.6L: Nil, Rs.1.6L - 5.0L: 10%, Rs.5.0L- 8.0L: 20% and > 8.0L: 30%) proposed for FY11E.**

Impact: It would provide more money in the hands of aam aadmi. Maximum saving for the taxpayers earning more than Rs.0.8 mn would be Rs.50K. This would have a multiplier effect in the economy and banks would benefit by reaching to them through vast array of financial products.

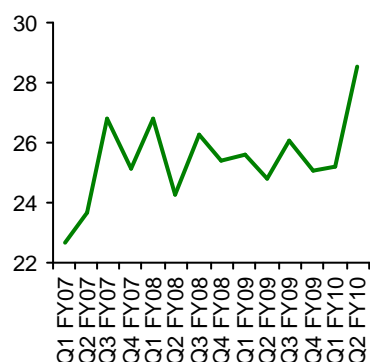
Impact on EPS (Rs)

| Company | Pre-Budget ABV | | Post-Budget ABV | | Current Price | Target Price |
|------------------------|----------------|---------|-----------------|---------|---------------|--------------|
| | FY10E | FY11E | FY10E | FY11E | | |
| Preferred picks | | | | | | |
| HDFC Bank | 469.6 | 539.8 | 469.6 | 539.8 | 1,705 | 1,950 |
| Axis Bank | 382.3 | 440.4 | 382.3 | 440.4 | 1,125 | 1,210 |
| BoB | 401.4 | 475.6 | 401.4 | 475.6 | 584 | 596 |
| Union Bank | 158.9 | 200.7 | 158.9 | 200.7 | 256 | 320 |
| Andhra Bank | 86.3 | 100.5 | 86.3 | 100.5 | 99 | 130 |
| PNB | 477.1 | 588.3 | 477.1 | 588.3 | 901 | 972 |
| Others | | | | | | |
| ICICI Bank | 419.0 | 450.6 | 419.0 | 450.6 | 872 | 1,000 |
| SBI | 859.8 | 1,033.1 | 859.8 | 1,033.1 | 1,974 | 2,474 |
| J&K Bank | 533.6 | 613.5 | 533.6 | 613.5 | 622 | 710 |
| Allahabad Bank | 140.6 | 161.6 | 140.6 | 161.6 | 133 | 154 |
| Indian Bank | 143.0 | 168.6 | 143.0 | 168.6 | 164 | 228 |
| Indian Overseas Bank | 95.5 | 108.2 | 95.5 | 108.2 | 88 | 110 |

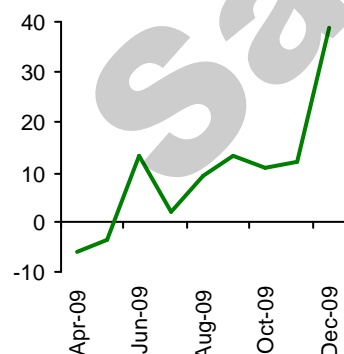
Source: Kotak Securities - Private Client Research

BUDGET IMPACT: POSITIVE**CAPITAL GOODS & ENGINEERING****BUDGET HIGHLIGHTS & IMPACT****L&T's order booking (Rs bn)**

Source: Company

Revenue visibility months

Source: Company

Capital goods index (%)

Source: MOSPI

■ Increase in Cenvat duty by 2%

Impact: Moderately Negative. The FM has proposed an increase in Excise duty of 2% from 8% currently to 10%. The increase in excise rate is a negative for the entire manufacturing sector. The impact would vary across products depending on the price-demand elasticity of each product category and competitive intensity (ability to pass on the increase to consumer).

Within the manufacturing sector, the consumer durables sector is relatively sensitive to excise rate changes. We believe that looking at the robust growth rate being recorded by the consumer durables sector, the increase in excise rate may be fully/partly passed on to the consumer. Furthermore, the FM has proposed to modify personal income tax slabs thus leaving greater cash in the hands of the salaried tax payer. This may provide a fillip to the demand for consumer durables. Thus we believe that the increase in excise duty could only be a moderate negative for companies like Blue Star and Voltas.

■ Central excise exemption on specified equipment used for preservation of agriculture produce

Impact: Positive. The Budget has proposed to provide central excise exemption to specified equipment for preservation, storage and processing of agriculture. We believe such specified equipment may include cold-storage equipment, which would be a positive for Blue Star and Voltas. Currently, a significant share of the domestic horticulture production is wasted for want of proper storage facilities. Hence, there is a huge requirement of cold storage network, but lack of quality power and initial capital costs have been hampering the development of cold storage networks in the country.

The FM has also proposed availability of External Commercial Borrowings for setting up cold storage or cold room facility, including for farm level pre-cooling, for preservation or storage of agricultural and allied produce, marine products and meat.

■ Rationalisation of customs duty on healthcare equipment

Impact: Marginally Positive. The FM has proposed replacement of multiplicity of taxes on import of medical equipment. Now, all medical equipment will attract 5% basic customs duty, 4% CVD and Nil special additional duty of customs, thus taking the effective duty to 9.2%. Beneficiary would be Siemens India Ltd.

■ Project import status to 'Monorail projects for urban transport'

Impact: Moderately Positive: Project import status to "Monorail projects for urban transport" at a concessional basic duty of 5% has been granted. This should bring down the overall cost of "Monorail" projects. Currently, L&T along with its consortium partner - Scomi of Malaysia are executing the Mumbai Monorail project, which is the first monorail project in India. Wagons for monorail will be imported from Malaysia and the reduction in customs duty will entail reduced project costs on procurement of wagons. It is likely that this may give a fillip to viability of monorail projects in other cities. Likely beneficiary could be L&T.

■ **Specified inputs required for the manufacture of rotor blades for wind energy generators exempt from Central Excise duty**

Impact: Marginally Positive: Likely beneficiary could be Suzlon and Shriram EPC, which are engaged into the manufacture of wind power generators.

■ **Plan capex on defence raised by 9.4% from Rs.548 bn to Rs.600 bn**

Impact: Positive. Capital expenditure on defence for 2010-11 has been raised by 9.4% to Rs.600 bn. While the increase in planned capex is moderate, it should be seen in the backdrop of muted growth of 7.4% CAGR in capex on defence in the past five years.. The increase in planned capex on defence is positive for Bharat Electronics Ltd (BEL) as higher allocation should translate into increase in order book. The Indian government is likely to embark on a massive defence equipment procurement over the next few years, which augers well for BEL.

Impact on EPS (Rs)

| Company | Pre-Budget EPS | | Post-Budget EPS | | Current Price | Target Price |
|------------------------|----------------|-------|-----------------|-------|---------------|--------------|
| | FY10E | FY11E | FY10E | FY11E | | |
| Preferred picks | | | | | | |
| L&T | 57.3 | 70.1 | 57.3 | 70.1 | 1,564 | 1,715 |
| Thermax | 23.5 | 34.8 | 23.5 | 34.8 | 590 | 750 |
| Blue Star | 21.2 | 26.8 | 21.2 | 26.8 | 355 | 450 |
| HDO | 15.4 | 17.9 | 15.4 | 17.9 | 186 | 210 |
| Voltamp | 82.7 | 101.4 | 82.7 | 101.4 | 822 | 1,010 |
| Others | | | | | | |
| ABB | 19.9 | 25.7 | 19.9 | 25.7 | 795 | 700 |
| Siemens | 24.4 | 30.0 | 24.4 | 30.0 | 684 | 690 |
| Areva | 8.3 | 11.3 | 8.3 | 11.3 | 260 | 295 |
| BHEL | 90.3 | 120.1 | 90.3 | 120.1 | 2,349 | 2,600 |
| Voltas | 9.3 | 10.7 | 9.3 | 10.7 | 156 | 200 |
| Cummins | 24.1 | 28.5 | 24.1 | 28.5 | 456 | 460 |
| CRG | 21.3 | 24.7 | 21.3 | 24.7 | 416 | 465 |
| KPTL | 62.3 | 78.0 | 62.3 | 78.0 | 997 | 1,310 |
| BEL | 119.2 | 145.6 | 119.2 | 145.6 | 2,001 | 2,150 |
| Suzlon | -0.4 | 2.5 | -0.4 | 2.5 | 72 | 65 |

Source: Kotak Securities - Private Client Research

BUDGET IMPACT: NEGATIVE**CEMENT****BUDGET HIGHLIGHTS & IMPACT**■ **Continued focus on infrastructure creation**

Impact: Positive. Cement demand is expected to remain strong due to continuous thrust of government on infrastructure creation. With cement demand having direct correlation with infrastructure investments as well as GDP growth, it is likely to grow at a CAGR of 10.5% between FY09-FY11.

■ **Increase in excise duty rates**

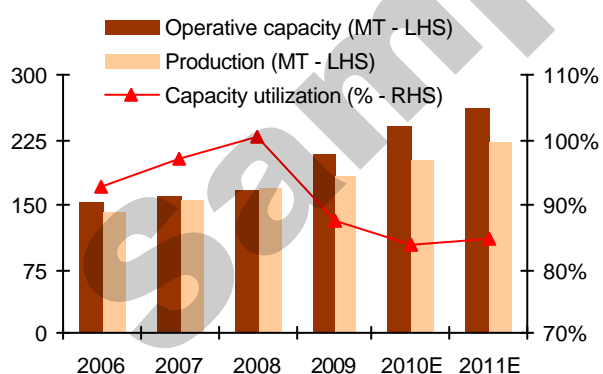
Impact: Negative. Excise duty on cement price below Rs 190 per 50 kg bag has been hiked from Rs 230 per tonne to Rs 290 per tonne. It is hiked to 10% of retail sale price for cement selling above Rs 190 per bag. This is likely to increase the overall burden of excise by Rs 3 per bag and approx Rs 5 per bag for cement selling below and above Rs 190 per bag respectively. Along with this, excise on cement clinker has also been hiked from Rs 300 per tonne earlier to Rs 375 per tonne. Though cement companies are expected to pass on the hikes to the end user but it will be difficult for companies operating in southern markets which are already facing oversupply situation.

■ **Increase in fuel prices**

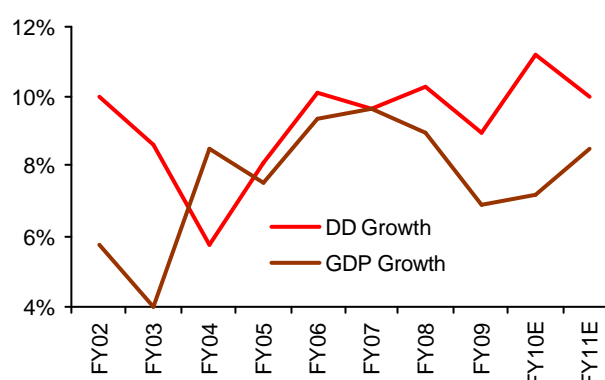
Impact: Negative. With increase in the customs duty on diesel and petrol and central excise duty on petrol and diesel by Rs 1 per litre, fuel prices are expected to increase. This is likely to increase the freight rates and have an adverse impact on overall margins of cement companies. Though we have already factored in increased freight cost in our future estimates for FY11 as well as lower margins as against FY10, possibility of any upward surprise on margins has reduced drastically.

■ **Cess on coal**

Impact: Negative. Cess on domestic and imported coal has been imposed at a nominal rate of Rs 50 per tonne. Though this amount is quite small as compared to the overall fuel cost of the cement companies, but it will increase the power and fuel cost to some extent going forward.

Capacity utilization

Source: Kotak Securities - Private Client Research, CMA

Trend in GDP and cement growth

Source: Kotak Securities - Private Client Research, Cris Infac

Impact on EPS (Rs)

| Company | Pre-Budget EPS | | Post-Budget EPS | | Current Price | Target Price |
|------------------------|----------------|-------|-----------------|-------|---------------|--------------|
| | FY10E | FY11E | FY10E | FY11E | | |
| Preferred picks | | | | | | |
| Shree Cements | 265 | 227 | 265 | 223 | 2141 | 2315 |
| Others | | | | | | |
| ACC | 85.5 | 72.2 | 85.5 | 72.2 | 923 | 800 |
| Grasim | 341 | 277 | 341 | 277 | 2696 | 2531 |
| India Cements | 13.7 | 12.1 | 13.7 | 12.1 | 118 | 92 |
| Ultratech Cements | 95.9 | 76.8 | 95.9 | 76.8 | 1040 | 919 |

Source: Kotak Securities - Private Client Research

Sample Report

BUDGET IMPACT: POSITIVE

CONSTRUCTION

BUDGET HIGHLIGHTS & IMPACT

- Allocation for infrastructure sector is over 46% of total plan allocation

Impact: Positive. Government continues to maintain its thrust on upgrading infrastructure in both urban and rural areas. Provision of Rs 1735.5bn has been made for accelerated development of physical infrastructure such as roads, ports, airports, railways to sustain high economic growth. Higher provision translates into greater number of projects being awarded under various sectors and would be positive for companies such as JP Associates, Nagarjuna Constructions, IVRCL, Simplex Infrastructure and Unity Infracore.

- Increased allocation for road and railways segment

Impact: Positive. Allocation for road segment has been increased by 13% for 2010-11 to Rs 199bn from Rs 175bn last year. This is inline with government's plan to achieve the targeted construction of 20km per day. This is likely to result in higher fund allocation for road projects being put up on public private partnership mode and is positive for players focused on road BOT projects such as IVRCL and NCC. Along with this, allocation for railways has been increased from Rs 158bn for 2009-10 to Rs 168bn for 2010-11. This is expected to result in enhanced order inflows for players having expertise in railway related projects such as Simplex Infrastructures as well as Nagarjuna Constructions.

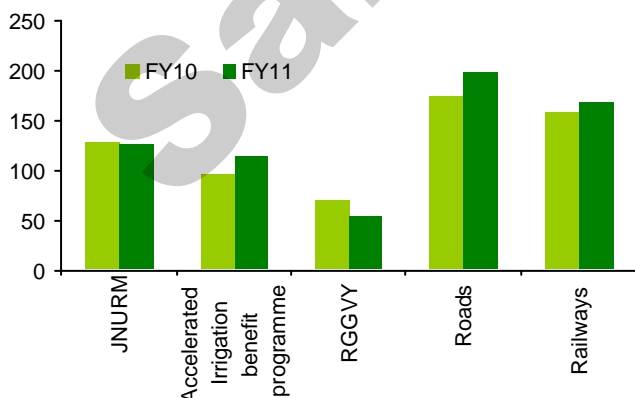
- Focus towards rural infrastructure creation

Impact: Positive. Positive for companies focused on rural roads and rural electrification such as MPL, IVRCL, NCC. Allocation for Indira Awaas Yojana and Pradhan Mantri Gram Sadak Yojana has been planned at Rs 100bn and Rs 120 bn respectively to facilitate assistance to rural households and enhance connectivity through rural roads.

- Increase in MAT from 15% to 18%

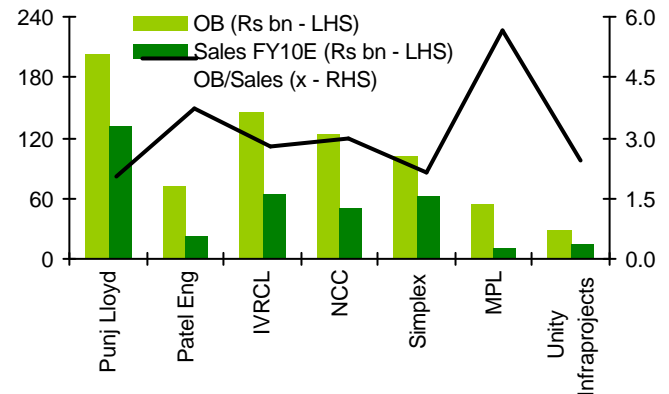
Impact: Negative. Increase in the MAT is expected to be negative for players executing BOT/BOOT projects and impact the cash flows adversely. Along with this, increased MAT rate is also likely to impact the project IRR's adversely for the recently awarded as well as upcoming projects. This is negative for players such as IRB, GMR, HCC etc.

Budgetary allocations (Rs bn)



Source: Budget Document - 2008-09

Order book to FY11E sales (x)

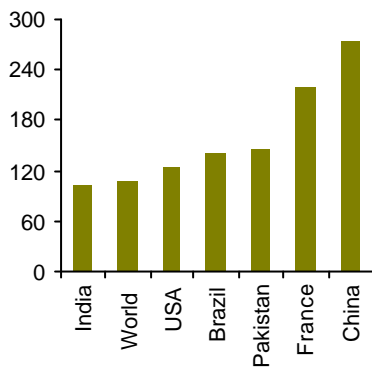


Source: Companies

Impact on EPS (Rs)

| Company | Pre-Budget EPS | | Post-Budget EPS | | Current Price | Target Price |
|-------------------------|----------------|-------|-----------------|-------|---------------|--------------|
| | FY10E | FY11E | FY10E | FY11E | | |
| Preferred picks | | | | | | |
| JP Associates | 4.8 | 7.7 | 4.8 | 7.7 | 132 | 183 |
| Nagarjuna Constructions | 8.1 | 9 | 8.1 | 9 | 155 | 175 |
| IVRCL | 16.8 | 19.7 | 16.8 | 19.7 | 322 | 419 |
| Unity Infra | 58.2 | 68.5 | 58.2 | 68.5 | 580 | 620 |
| Others | | | | | | |
| BGR Energy Systems | 21.9 | 28.7 | 21.9 | 28.7 | 489 | 415 |
| Madhucon Projects | 7.3 | 8.9 | 7.3 | 8.9 | 161 | 184 |
| Patel Engineering | 20.8 | 26.1 | 20.8 | 26.1 | 426 | 455 |
| Punj Lloyd | 10.7 | 12.3 | 10.7 | 12.3 | 175 | 171 |
| Simplex Infrastructure | 26.1 | 34.2 | 26.1 | 34.2 | 445 | 447 |

Source: Kotak Securities - Private Client Research

BUDGET IMPACT: NEUTRAL**FERTILIZER****BUDGET HIGHLIGHTS & IMPACT****India's fertilizer consumption/ hectare (kg/Hectare)**

Source: Cris Infac

- **A nutrient based subsidy policy has been approved and, will become effective from April 1, 2010 for DAP and complex fertilisers**

Impact: Greater incentive for fresh domestic capacities to come up through a more effective subsidy policy and disbursal mechanism as being examined by the Government will be vital for the sector's prospects going ahead.

- **Greater thrust and outlay for the agriculture sector and irrigation schemes**

Impact: Government has increased the outlay under the Accelerated Irrigation Benefit Program to Rs.115bn, from Rs.97bn in the previous year. The total outlay for agriculture has also been increased by 21% to Rs.123bn, over FY10RE. These higher outlays for the sector provide a positive macro backdrop for the sector.

Agriculture has been a thrust area for the Government with programs like 'Bharat Nirman' and the accelerated irrigation program that entail significant additions in farm land requiring to be irrigated, provide a positive macro back drop for the fertilizer sector. The industry though has grappled for long with issues like regulated pricing, an increasing disparity between costs of production and selling, which are to be compensated through irregular subsidy disbursals by the Government.

A new nutrient based subsidy (NBS) policy is expected to lead to greater agricultural productivity, provide better returns for the farmer and over time help contain the subsidy bill. Under the NBS policy, there will be a fixed subsidy for nutrients and unlike in the past, when the MRP was fixed by the government, the current NBS policy will facilitate complex fertilizer players to determine their selling price. While greater details are awaited, efficient companies that manufacture complex fertilizers can now introduce various innovative products according to need of the farmers and charge differential prices. Companies will now be able to compete on the basis of their cost efficiency, brand equity, distribution network. With fixed nutrient based subsidy, it can be expected, that subsidy calculation will become less complicated, help companies determine their subsidy arrears accurately and reduce working capital requirements. Greater thrust on facilitating fresh capacity additions, more effective subsidy disbursal mechanisms will be the key for alleviating the fortunes of this sector, in our opinion.

We do not have active coverage on the sector.

BUDGET IMPACT: POSITIVE

FMCG

BUDGET HIGHLIGHTS & IMPACT

■ Increased allocation for rural development

Impact: The allocation under the rural development program has been increased to Rs.661 bn. The allocation for Mahatma Gandhi National Rural Employment Guarantee Scheme has been stepped up to Rs.401 bn and Rs.480 bn is allocated for rural infrastructure programs under Bharat Nirman. This is positive for FMCG sector as it will generate more employment and development in rural India and will further drive consumption of fast moving consumer goods.

■ Relief in personal income tax

Impact: The budget has given relief in personal income tax in terms of lower tax rate of 10% for income between Rs.1.6 - 5 lakh, 20% for income between Rs.5 - 8 lakh and 30% above Rs.8 lakh. This would result into lesser tax outgo for individuals (tax savings of Rs.50000 for income of Rs.8 lakh) and put more disposable incomes in their hands. We believe this is positive for the FMCG sector as it will boost the overall demand and induce the households to upgrade to premium brands.

■ GST by April 2011

Impact: The Budget has indicated for implementation of goods & services tax (GST) by April-2011. It will lead to rationalization and simplification of the tax structure at both the centre and state levels, thus bringing relief to the consumers. This is positive for companies as it will further boost the consumption and lead to demand buoyancy.

■ Mega food parks

Impact: In addition to the ten mega food park projects already being set up, the Government has decided to set up five more such parks. This is positive as it would lead to lower wastage of perishable foods as they would get processed in time to increase their shelf life.

■ Exemption of service tax on transport of food grains and pulses

Impact: The budget has exempted the payment of service tax on road transport of food grains and pulses and thus it would reduce the cost of key raw material for the food processing industry. This is positive for companies like Nestle and Britannia.

■ Concessional customs duty on specified machinery

Impact: The budget has retained the concessional customs duty of 5% on specified machinery for tea, coffee and rubber plantations upto 31st March 2011. This would lead to increased investments and greater efficiency.

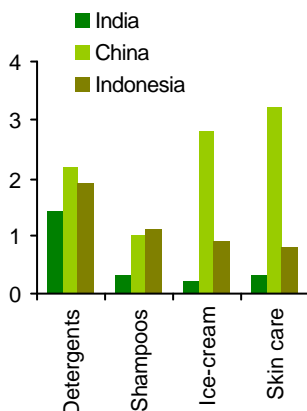
■ Hike in excise duty by 2%

Impact: The budget has rolled back the fiscal stimulus package by increasing the peak rate of excise duty by 2% to 10%. This is marginally negative as it would lead to hike in the final product prices, which can impact demand.

■ Hike in excise duty on cigarettes by ~11%

Impact: This is negative for ITC as they will have to either hike the final product prices, which can impact demand or take a hit on its profitability.

Consumption opportunity - Per capita (\$)



Source: AC Nielsen, Trade sources

■ **Maize starch to attract excise duty of 4%**

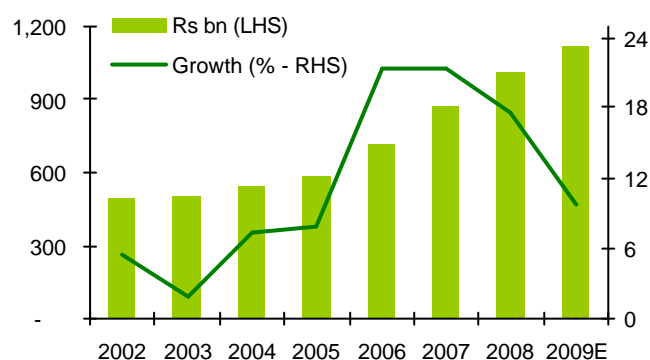
Impact: Excise duty exemption on maize starch has been removed and now it will be subject to 4% excise duty. Maize starch is raw material for the food processing industry and thus it would increase their cost of production which will ultimately be passed on to the final consumers.

■ **MAT increased form 15% to 18%**

Impact: Increase in MAT to 18% is negative for companies like HUL and Dabur as these companies would have to pay higher rate of tax thereby impacting its EPS estimates and lead to increased cash outflow. However the impact of MAT increase would be marginal as it would be counterbalanced by a cut in surcharge from 10% to 7.5%.

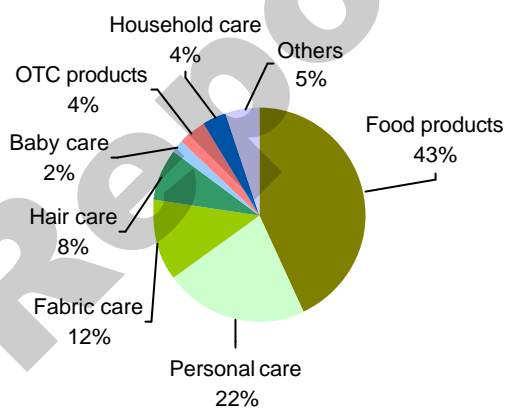
We do not have active coverage on the sector.

Size of FMCG industry



Source: AC Nielsen, Trade sources

Segment wise breakup of Indian FMCG industry



Source: AC Nielsen, Trade sources

BUDGET IMPACT: POSITIVE

HOTELS

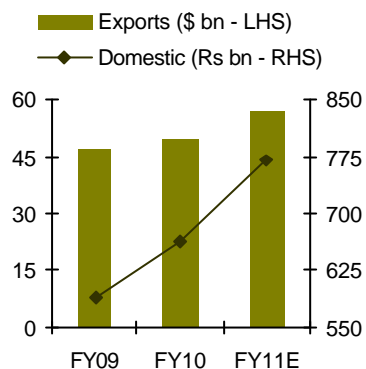
BUDGET HIGHLIGHTS & IMPACT

- **Benefit of investment linked deduction under the Income Tax Act extended to new hotels of two-star category and above anywhere in India**

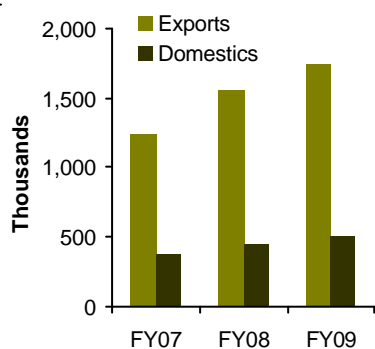
Impact: The move is significantly positive as it will provide impetus to investment in capacity expansion in the hotel industry. This move will boost growth of new hotels of two-star category and above to claim investment-linked deduction under the Income tax. This is expected to enhance the overall tourism sector in India. However, extent of deduction on capital expenditure by the sector still require more clarity.

We do not have an active coverage on the sector.

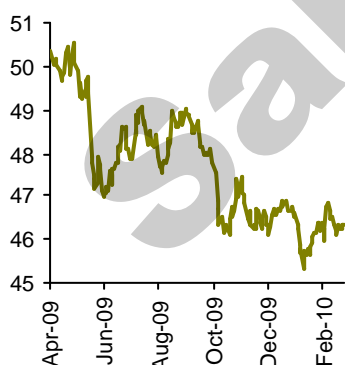
Sample Report

BUDGET IMPACT: NEUTRAL**INFORMATION TECHNOLOGY****BUDGET HIGHLIGHTS & IMPACT****Indian IT Services-BPO Industry; exports & domestic**

Source : Nasscom

Growth in number of employees

Source : Nasscom

Rupee / US\$

Source : Bloomberg

- **STPI sunset clause not extended beyond FY11**

Impact: The sunset clauses for deduction in respect of export profits under Sections 10A and 10B of the IT Act have not been extended beyond FY11, in line with our expectations. This expected measure is likely to impact profitability of IT services' companies after FY11E- smaller companies (KPIT, Zensar, NIIT Tech) to see more impact than larger names (Infosys, TCS).

- **Greater outlay for PPP initiatives like the UIDAI and more focus on IT for tax administration and financial governance**

Impact: Government's thrust on encouraging private sector participation in projects like the Unique Identification program (UIDAI), with an outlay of Rs.19bn, and setting up of an advisory group to look into technological and systemic issues for effective tax administration through use of IT is likely to open up domestic opportunities for Indian IT companies; positive over the longer term. Companies focused on domestic IT opportunity, and more specifically through UIDAI, smart card extension to NREGA (e-governance) like TCS, Glodyne Tech, Bartronics may benefit.

- **Duty exemptions on packaged or canned software**

Impact: On packaged or canned software, earlier custom & excise duty exemption had been provided on the portion of the value which represents the consideration for transfer of the right to use such software, only if used for commercial exploitation. This exemption has now been extended to all imported packaged software. Positive for IT product companies (like Oracle) involved in the above; low contribution to revenues leads to only a marginal impact on earnings.

- **Increase in MAT rate from 15% to 18%**

Impact: Negative for companies that fall in this tax-paying bracket. In our coverage universe companies like Mphasis will negatively impacted, due to a higher tax incidence.

- **Tax benefits on retrospective basis for units in Section 10AA (SEZ)**

Impact: The above clarification brings relief to IT Services companies with tax benefits available for SEZ units on a retrospective basis from assessment year beginning April 1, 2006. Measure will benefit all companies with relevant facilities; larger companies like Infosys and TCS (greater proportion of revenues from SEZ) and mid-size players like MindTree to benefit.

The provisions of the Union Budget have a largely neutral impact on the sector, in our opinion. Changes to the MAT rate will impact marginally the EPS estimates for companies that fall into the tax bracket like Mphasis, Geometric. The STPI sunset clause not being extended beyond FY11 was in line with our expectation, and we believe it will impact profitability of IT services' companies after FY11E- smaller companies (KPIT, Zensar, NIIT Tech) to see likely more impact than larger names (Infosys, TCS). The focus on opening up avenues for IT companies in government projects, promoting higher technical education, so as to meet potential demand for employees from this sector, are positive over the longer term.

We remain optimistic on the longer term prospects of the industry. The Global Delivery Model has gained significant acceptance among existing and potential clients. We believe that, the outsourcing and off-shoring story will gather further steam in the future and this will see an increased flow of longer term and larger contracts to Indian vendors. Also, focused smaller companies with expertise on select verticals will be able to move up the value chain and attract larger clients, thereby, improving their longer term prospects.

We note that the initial signs of an improving macro environment have been limited to the BFSI, healthcare and utilities segments, and also larger players which have likely enjoyed the benefits of vendor consolidation. We expect the demand outlook in other important sectors like manufacturing and telecom to pick up with a lag, and in sympathy with greater optimism on a sustainable revival in the global economy.

At current levels, we prefer larger names like Infosys and TCS; we also retain our positive bias for select midcaps like Infotech Enterprises, NIIT Technologies and Zensar Technologies.

Impact on EPS (Rs)

| Company | Pre-Budget EPS | | Post-Budget EPS | | Current Price | Target Price |
|------------------------|----------------|-------|-----------------|-------|---------------|--------------|
| | FY10E | FY11E | FY10E | FY11E | | |
| Preferred picks | | | | | | |
| Infosys | 109.3 | 124 | 109.3 | 124 | 2602 | 2851 |
| TCS | 34 | 38.5 | 34 | 38.5 | 762 | 841 |
| Infotech | 27.7 | 30.4 | 27.7 | 30.4 | 346 | 365 |
| NIIT Technologies | 20.5 | 23.8 | 20.5 | 23.8 | 172 | 230 |
| Zensar | 32.9 | 36.1 | 32.9 | 36.1 | 118 | 387 |
| Others | | | | | | |
| Wipro | 31.5 | 38 | 31.5 | 38 | 678 | 800 |
| HCL Tech | 17 | 22.7 | 17 | 22.7 | 367 | 391 |
| Mphasis | 49.2 | - | 49.2 | - | 663 | 706 |
| Oracle | 110.7 | 124.9 | 110.7 | 124.9 | 2238 | 2513 |
| KPIT | 10.3 | 12.6 | 10.3 | 12.6 | 107 | 135 |
| Patni | 44.7 | 47 | 44.7 | 47 | 475 | 540 |
| NIIT Limited | 4.3 | 7.5 | 4.3 | 7.5 | 65 | 88 |
| Geometric | 7.7 | 10.8 | 7.7 | 10.8 | 62 | 75 |
| Subex | 7.7 | 9.4 | 7.7 | 9.4 | 63 | 90 |
| R Systems | 22.8 | 23.1 | 22.8 | 23.1 | 96 | 90 |

Source: Kotak Securities - Private Client Research

BUDGET IMPACT: POSITIVE

LOGISTICS

BUDGET HIGHLIGHTS & IMPACT

■ GST by April 2011

Impact: The Budget has indicated for implementation of goods & services tax (GST) by April-2011. It will lead to rationalization and simplification of the tax structure at both the centre and state levels and there would continuous tax credit right from the producer to the final consumer level. This is overall positive for the logistics industry as it would facilitate easier interstate movement of goods and transfer of business from the unorganized to the organized sector, thereby providing additional logistics opportunities.

■ Increased allocation for road transport by 13%

Impact: The allocation for the road transport has been increased by over 13 per cent to Rs.199 bn. Also it is looking to built 20km of roads per day. This would lead to better roads across the country which is positive for the overall logistics sector as it would lead to more and efficient transportation of goods within the country.

■ Concessional import duty of 5% and full service tax exemption on mechanized handling systems and pallet racking systems in 'mandis' or warehouses

Impact: The Budget has provided for concessional import duty of 5% for setting up of mechanized handling systems and pallet racking systems in 'mandis' or warehouses for food grains and sugar. It has also offered full exemption from service tax for the installation and commissioning of such equipment. This will lead to increased investments in the warehousing business.

■ Concessional import duty of 5% and full service tax exemptions for cold storage

Impact: The budget has provided for project import status and a concessional customs duty of 5% with full exemption from service tax to the initial setting up and expansion of Cold storage, cold room including farm pre-coolers for preservation or storage of agriculture and related sectors produce and processing units for such produce. This is positive for cold chain logistics companies like CONCOR, Gateway Distriparks and GATI as they can now import hi-tech cold storage equipments at lower costs to expand their operations.

■ Exemption of customs duty for refrigeration units

Impact: The budget has provided for full exemption from customs duty to refrigeration units required for the manufacture of refrigerated vans or trucks. This is positive for cold chain logistics companies like Gateway Distriparks and GATI as they can now import at lower costs to expand their refrigerated fleet.

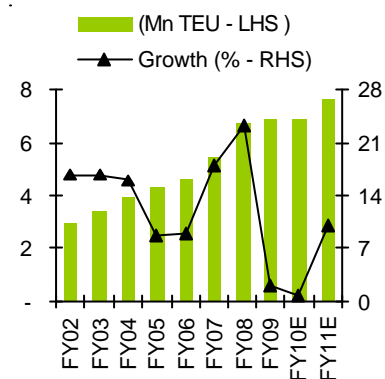
■ ECB allowed for cold storage

Impact: External Commercial Borrowings (ECB) is now allowed for cold storage and cold room facility, including for farm level pre-cooling. This will help in preservation or storage of agricultural and allied produce, marine products and meat. This is positive for cold chain logistics companies like Gateway Distriparks and GATI as they can now have access to cheaper funds for their expansion plans.

■ Central excise and service tax exemption for specified equipment for warehousing

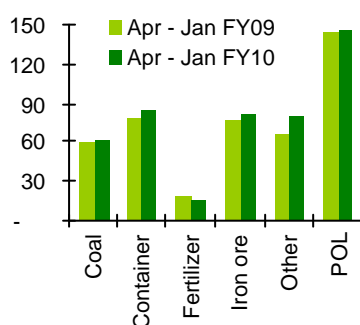
Impact: The budget has provided for central excise exemption to specified equipment for preservation, storage and processing of agriculture and related sectors and exemption from service tax to the storage and warehousing of their produce. This is positive for logistics companies providing warehousing services.

TEU handled at major ports



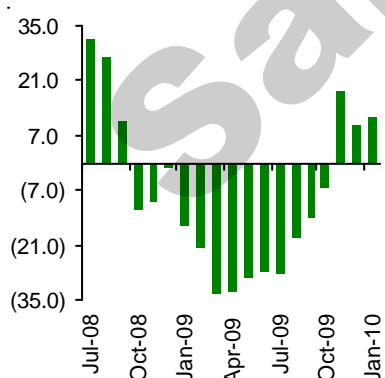
Source: IPA, Industry, Kotak Securities - Private Client Research

Cargo traffic at major ports (mn tons)



Source: Indian Ports Association

India's Export Growth YoY (%)



Source: DGFT, Bloomberg

■ **Air travel to charge service tax @ 10%**

Impact: Service tax @ 10% will now be charged on the domestic and international air travel in any class. This is negative for the aviation companies like Jet Airways, Kingfisher and Spicejet as it will lead to higher fares and this can impact growth.

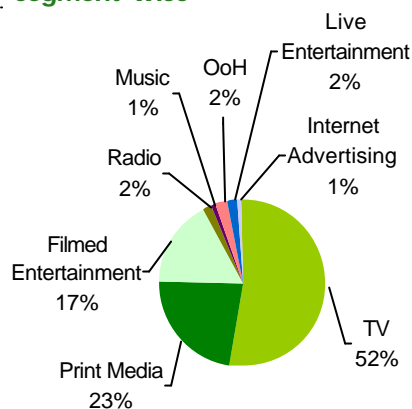
■ **MAT increased form 15% to 18%**

Impact: The companies like Gateway Distriparks would have to pay higher rate of tax thereby impacting its EPS estimates and lead to increased cash outflow. However the impact of MAT increase would be marginal as it would be counterbalanced by a cut in surcharge from 10% to 7.5%.

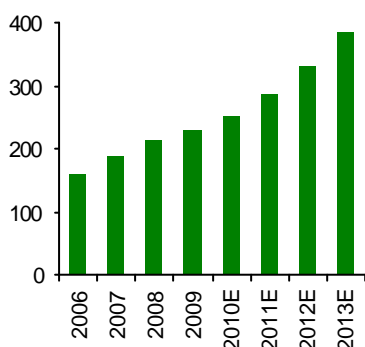
Impact on EPS (Rs)

| Company | Pre-Budget EPS | | Post-Budget EPS | | Current Price | Target Price |
|------------------------------|----------------|-------|-----------------|-------|---------------|--------------|
| | FY10E | FY11E | FY10E | FY11E | | |
| Preferred picks | | | | | | |
| GATI (June end - Fv Rs.2) | 1.9 | 3.5 | 1.9 | 3.5 | 55 | 70 |
| Mundra Port | 18.0 | 22.0 | 18.0 | 22.0 | 674 | 750 |
| CONCOR | 68.0 | 75.0 | 68.0 | 75.0 | 1206 | 1325 |
| GDL | 7.4 | 9.5 | 7.4 | 9.5 | 131 | 135 |
| Others | | | | | | |
| Redington | 24.6 | 28.0 | 24.6 | 28.0 | 296 | 330 |
| TCI (FV Rs.2) | 5.8 | 7.0 | 5.8 | 7.0 | 91 | 100 |
| Allcargo (Dec end - FV Rs.2) | 11.1 | 12.4 | 11.1 | 12.4 | 179 | 185 |

Source: Kotak Securities - Private Client Research

BUDGET IMPACT: POSITIVE**MEDIA****BUDGET HIGHLIGHTS & IMPACT****Indian M&E revenue mix, segment wise**

Source: Pwc Report on Indian Media & Entertainment industry

Growth in overall ad revenues, 2006-13E

Source: Industry, FICCI-KPMG, Kotak Securities - Private Client Research

- **Project import status & lower duty structure for 'digital head end' equipment used by MSO's**

Impact: Project import status at a concessional customs duty of 5% from 10% with full exemption from SAD to Multi-Service Operators (MSO's) involved in setting up 'Digital High End' equipment is likely to aid the operators and digitalization of the distribution set-up. Increased digitalization will benefit the value chain; broadcasters in terms of higher transparency in the distribution set up leading to greater subscription revenues. Government too will benefit from higher tax collections that will come with greater subscriber declarations; an outcome of digitalization. Companies like DEN (distribution platform) and broadcasters (ZEEL, Sun TV, ZNL, and NDTV) likely beneficiaries.

- **Customs duty chargeable only on carrier medium for companies involved in importing digital masters of films, music and gaming software**

Impact: To benefit filmed entertainment companies engaged in importing digital masters of films for duplication/distribution loaded on electronic medium vis-a-vis those imported on cinematographic film, owing to a differential customs duty structure, customs duty to be charged only on the value of the carrier medium. However the value representing the transfer of the IPR would be subjected to service tax. The same would apply for all music and gaming software imported for duplication in the Indian market. Companies like UTV (gaming & filmed entertainment), PVR (filmed entertainment) to marginally benefit given low proportion of such import.

- **Increase in MAT rate from 15% to 18%**

Impact: Negative for companies that fall in this tax-paying bracket. In our coverage universe ENIL, UTV and Balaji Telefilms will be negatively impacted.

- **Modification of income tax slabs for individual tax payers**

Impact: The new tax slabs in the personal income tax proposals will lower the effective tax outgo for greater number of individuals falling in the relevant slabs, resulting in an increase in disposable income. We opine this would boost spending power and impact consumption trends positively, which would benefit consumption driven sectors like media, automobiles, retail and FMCG.

We expect the proposals of the Budget to have a largely neutral impact on the prospects of the listed companies in Media sector. The emphasis though on spurring consumption growth through focus on economic growth and, favorable personal income tax proposals leading to greater disposable income are positive for consumption oriented businesses like FMCG, Media and Autos. From a longer-term perspective, we believe that greater spending power, demographics, rising consumerism in tandem with renewed expectations of healthy economic growth will bode well for the sector.

Our preference remains for market leaders, strong franchises and healthy balance sheets. We retain our positive outlook on ZEEL and HT Media-expect them to be the better options to play a revival in urban advertising outlook. We remain positive on the subscription opportunity for broadcasters like ZEEL given the structural changes in the distribution set-up. We remain cautious on players in the newer media segments as we believe a revival in business outlook for these segments will lag the established mediums.

Any belying of hopes on a sustainable revival in the advertising market and/or a slack pick up in the subscription revenue stream will remain the key risks to earnings/stock performance.

Impact on EPS (Rs)

| Company | Pre-Budget EPS | | Post-Budget EPS | | Current Price | Target Price |
|------------------------|----------------|-------|-----------------|-------|---------------|--------------|
| | FY10E | FY11E | FY10E | FY11E | | |
| Preferred picks | | | | | | |
| ZEEL | 10.1 | 12.3 | 10.1 | 12.3 | 247 | 290 |
| HT Media | 4.2 | 7.8 | 4.2 | 7.8 | 139 | 180 |
| Others | | | | | | |
| Balaji Telefilms | 2.5 | 4.1 | 2.5 | 4.1 | 49 | 67 |
| DCHL | 12.2 | 13.8 | 12.2 | 13.8 | 146 | 165 |
| ENIL | 15.5 | - | 15.5 | - | 208 | 240 |
| Jagran Prakashan | 5.9 | 7.3 | 5.9 | 7.3 | 119 | 145 |
| PVR | 5 | 12.8 | 5 | 12.8 | 172 | 192 |
| UTV | 13.1 | 21.4 | 13.1 | 21.4 | 465 | 480 |
| Zee News | 2.7 | 3.6 | 2.7 | 3.6 | 56 | 66 |

Source: Kotak Securities - Private Client Research

BUDGET IMPACT: NEUTRAL

METALS & MINING**BUDGET HIGHLIGHTS & IMPACT****Steel (Negative)**

- **Sustained infrastructure thrust and higher disposable income to stimulate steel demand**

Impact - Positive for steel companies as higher outlay for road, railways, power, urban and rural infrastructure development to lead to higher steel consumption. Incentives to individuals for investing in infrastructure bonds and higher disposable income in the consumer hands post relief in direct taxes is also likely to increase spending on consumer durables and housing both of which are steel intensive.

- **Excise duty on steel products increased by 2% to 10%**

Impact - Negative for steel companies as this would hit their operating margins as total cost push is unlikely. The move was widely anticipated.

- **Excise duty on automobiles and consumer durables increased by 2%**

Impact - Negative for steel companies as there might be some slowdown in demand for fast growing end products based on price elasticity.

- **Increase in MAT by 3% to 18%**

Impact - Negative for steel and sponge iron players who have reasonable contribution from power unit sales

Iron Ore (Neutral)

- **No change in iron ore export duty**

Impact - Same like last year, fears of increase in export duty on iron ore as demanded by steel industry and ministry were unfounded. Government had already increased iron ore export duty on pellets to 10% and reintroduced export duty on fines @ 5% just two months back so any increase at the budget were unlikely in our view. This would be positive for iron ore exports like Sesa Goa.

Coal (Positive)

- **Competitive bidding for allocation of captive coal blocks**

Impact - Long awaited deregulation in the Indian coal sector might just be beginning with the announcement of setting up of a coal regulator and introduction of competitive bidding for allocation of captive blocks. Coal regulator could be in place within a month's time as per the coal ministry post introduction of the Coal Governance & Regulation Authority Bill to be passed by the cabinet, and subsequently by the Parliament. The move is likely to gradually align domestic coal prices with international ones. We believe significant investor wealth creation might happen in the coal sector over next few years. This is very positive for companies like Jindal Steel & Power, GMDC and Neyvile Lignite.

- **Clean Energy Cess @ Rs.50/t is being imposed on coal, lignite and peat produced in India. This cess will also apply to imported coal.**

Impact - Neutral for steel companies as cost of production would rise by negligible \$1/t. Negative for aluminium companies like Hindalco, Sterlite and Nalco.

Base Metals (Positive)

■ **Customs duty on gold (other than gold bars and coins) increased from Rs.500/ 10g to Rs.750/ 10g. Gold ore and concentrate are being fully exempted from basic customs duty and special additional duty of customs.**

Impact - Positive for Hindalco and Sterlite which produce Gold as a byproduct in copper smelting from imported ore.

■ **Customs duty on silver increased from Rs.1000/ kg to Rs.1500/ kg.**

Impact - Positive for Hind Zinc which produces silver as a byproduct in Zinc refining from captive mined ore.

■ **Customs duty on platinum increased from Rs.200/ 10g to Rs.300/ 10g.**

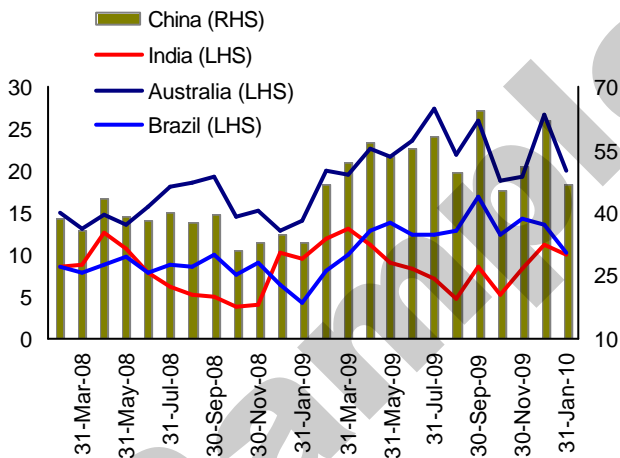
Impact - No impact to Indian metal companies.

Impact on EPS (Rs)

| Company | Pre-Budget EPS | | Post-Budget EPS | | Current Price | Target Price |
|------------------------|----------------|-------|-----------------|-------|---------------|--------------|
| | FY10E | FY11E | FY10E | FY11E | | |
| Preferred picks | | | | | | |
| SAIL | 17.2 | 16.8 | 17.2 | 16.8 | 219 | 184 |
| Sesa Goa | 29.2 | 37.1 | 29.2 | 37.1 | 400 | 400 |

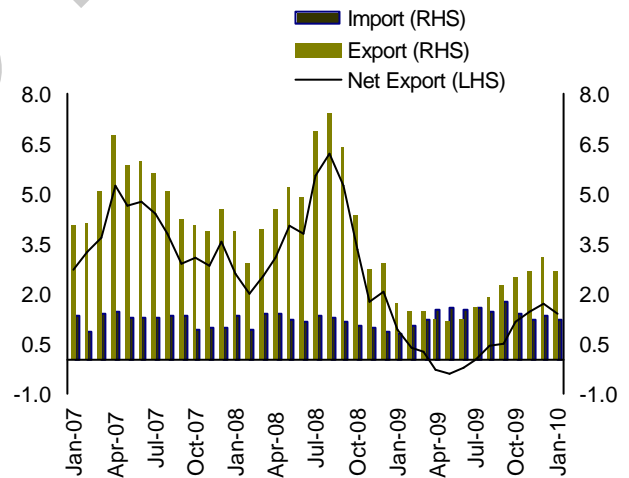
Source: Kotak Securities - Private Client Research

Iron ore exports to China (mn tonnes)

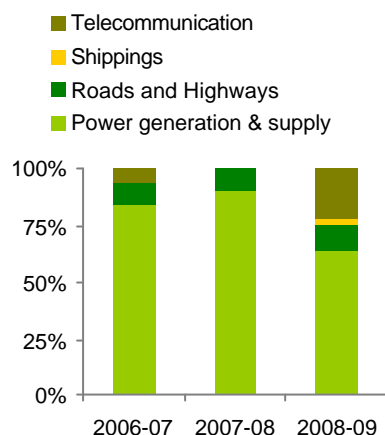


Source: Bloomberg

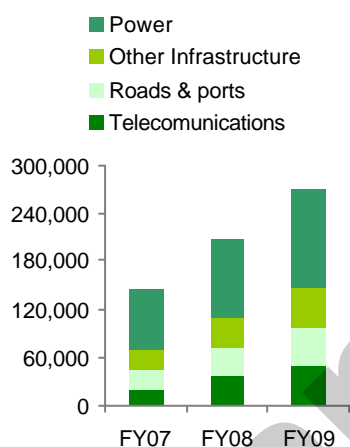
China - Steel Net Exports (mn tonnes)



Source: Bloomberg

BUDGET IMPACT: POSITIVE**NBFCs****BUDGET HIGHLIGHTS & IMPACT****Private placement of debt**

Source: RBI

Infrastructure lending by banks

Source: RBI

RBI to consider issue of new banking licenses to private corporate and NBFCs

Impact: The move is positive for leading non-banking financial institutions in India who have been pitching for a banking license to expand their scale of operations. We opine the move will be more positive for NBFCs with strong balance sheet and strong asset quality. Our preferred pick in this space will be IDFC, which has a strong balance sheet and net NPA of 0.2%.

Increased allocation towards infrastructure development

Impact: Continuing thrust on infrastructure development is positive for overall infrastructure development space. This will offer attractive opportunity to domestic specialised financing institution to participate in development by way of project financing as well as equity investment. The infrastructure development allocation has been increased to 46% of the total planned allocation to Rs.1.73trn.

Allocation to road infrastructure development has been increased by 13% to Rs.198bn from Rs.175.2bn, which is significantly positive for NBFCs financing and investing in road development projects. Besides this, IIFCL will also continue to provide long-term financial assistance to infrastructure projects. It will also continue to provide refinancing assistance to banks for lending to infrastructure projects. The take-out financing scheme announced in the previous budget is expected to initially provide finance for about Rs 250bn.

Extended the 1% interest subvention scheme on housing finance upto Rs. 1mn

Impact: With government's thrust on increasing affordable housing and to continue stimulating small ticket home loan borrowers, the budget has extended till March 31, 2011, the 1% interest subvention scheme on housing loan upto Rs.1mn, where the cost of the house does not exceed Rs.2mn. Government will provide Rs7.bn for this scheme for the year 2010-11.

The scheme was implemented through scheduled commercial banks and housing finance companies. We opine that, the move will be significantly positive for the housing finance companies in maintaining the traction in the mortgage loan growth in India.

Transportation of cereals, and pulses by road will be exempted from service tax

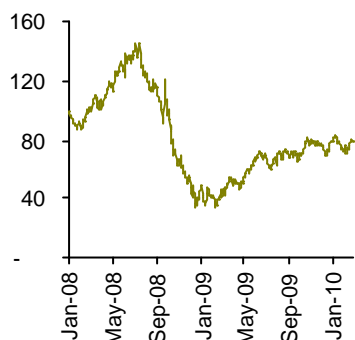
Impact: The move is materially positive for individuals and small truck operators engaged in the road transportation (particularly agri-commodities) in the Indian hinterlands. This will attract increased participation in the transportation space. Moreover, we are of the view that, it will encourage small truck operators to expand their fleet size, which will indirectly offer lucrative opportunity to companies providing financial assistance for vehicles used in such transportation.

Impact on ABV (Rs)

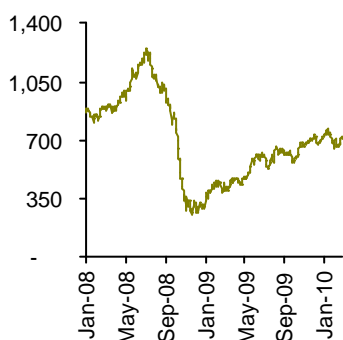
| Company | Pre-Budget ABV | | Post-Budget ABV | | Current Price | Target Price |
|------------------------------|----------------|-------|-----------------|-------|---------------|--------------|
| | FY10E | FY11E | FY10E | FY11E | | |
| Preferred picks | | | | | | |
| Shriram Transport Finance | 152 | 187 | 152 | 187 | 460 | 585 |
| M&M Financial services | 156 | 182 | 156 | 182 | 336 | 410 |
| LIC Housing Finance | 363 | 409 | 363 | 409 | 753 | 930 |
| IDFC | 54 | 61 | 54 | 61 | 160 | 175 |
| Others | | | | | | |
| HDFC | 502 | 558 | 502 | 558 | 2,500 | 2,996 |
| PFC | 110 | 122 | 110 | 122 | 247 | 245 |
| SREI Infrastructure Finance* | 101 | 110 | 101 | 110 | 65 | - |

Source: Kotak Securities - Private Client Research; * Numbers do not factor in merger of Quippo

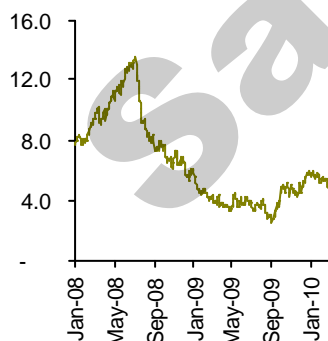
Sample Report

BUDGET IMPACT: NEUTRAL**OIL & GAS****BUDGET HIGHLIGHTS & IMPACT****Crude Oil (\$/bbl)**

Source: Bloomberg

Naphtha (\$/MT)

Source: Bloomberg

Natural Gas (\$/MMBTU)

Source: Bloomberg

Petroleum pricing policy

Impact: The government would consider the recommendations of the expert group i.e. Mr. Kirit Parekh committee, for a viable and sustainable system of pricing petroleum products. This points to the fact that the government is looking to link the prices of petrol and diesel to market prices, which is positive for oil producing companies (ONGC, Oil India) and oil marketing companies (IOC, HPCL, BPCL).

Basic customs duty increased to 5% on crude petroleum and 7.5% for petrol and diesel

Impact: The restoration of basic customs duty of 5% on crude petroleum and 7.5% for petrol and diesel is negative for oil marketing companies as now they will have to pay more duties while the price at which they can sell is capped. However this is positive for ONGC and Oil India as they benchmark the crude oil they produce to import parity prices.

Central excise duty enhanced by Re.1 each on petrol and diesel

Impact: The budget has imposed additional Re.1 central excise duty on petrol and diesel. This is negative for oil marketing companies as now they will have to pay more duties while the price at which they can sell is capped. Although the government has also increased the retail price of petrol by Rs.2.7 per liter and diesel by Rs.2.6 per liter, we feel that this is not enough to offset their under realization, hike in basic customs duty and hike in central excise duty and thus the oil marketing companies will continue to bleed.

MAT increased from 15% to 18%

Impact: This is negative for Reliance Industries and Cairn India as they would have to pay higher rate of tax thereby lead to increased cash outflow. However the impact of MAT increase would be marginal as it would be partly counterbalanced by a cut in surcharge from 10% to 7.5%.

Impact on EPS (Rs)

| Company | Pre-Budget EPS | | Post-Budget EPS | | Current Price | Target Price |
|------------------------|----------------|-------|-----------------|-------|---------------|--------------|
| | FY10E | FY11E | FY10E | FY11E | | |
| Preferred picks | | | | | | |
| GSPL | 5.1 | 5.3 | 5.1 | 5.3 | 85 | 100 |
| Petronet LNG | 7.1 | 8.0 | 7.1 | 8.0 | 74 | 80 |
| Others | | | | | | |
| IGL | 16.1 | 19.0 | 16.1 | 19.0 | 208 | 200 |

Source: Kotak Securities - Private Client Research

BUDGET IMPACT: NEUTRAL**PHARMACEUTICALS****BUDGET HIGHLIGHTS & IMPACT****■ Increase in deduction incurred for R&D purpose**

Impact: Weighted deduction on R&D expenses incurred in-house has been enhanced from 150% to 200%. Positive for various pharma companies as R&D forms a critical part of their operations.

■ Partial roll back of excise duty

Impact: Increase in excise duty for bulk drugs from 8% to 10%; but the impact would be neutral as they can claim MODVAT.

■ Increase in MAT

Impact: MAT increased from 15% to 18%. Negative for most Pharma companies.

We do not have active coverage on Pharma sector

Sample Report

BUDGET IMPACT: NEGATIVE**POWER****BUDGET HIGHLIGHTS & IMPACT**■ **Increase in MAT rate from 15% to 18%:**

Impact: Power utilities covered under the regulated return model as prescribed by the CERC are allowed to pass-through the MAT. Hence, while tax payment will go up due to increase in MAT but there will not be an impact on profits as the increase in MAT would be recovered through higher regulated tariffs. No impact on PGCIL, NHPC and NTPC.

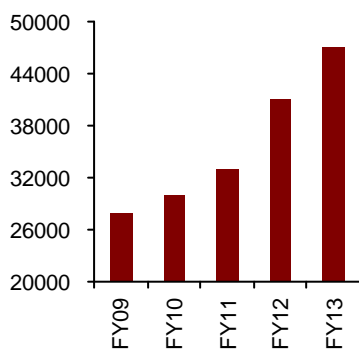
Power utilities not covered under regulated return criteria and awarded under tariff based bidding model, could be impacted to the extent of increase in MAT. However, there is a "Change in law" clause embedded in the PPA agreement, which may get triggered allowing these utilities to adjust tariff upwards in view of increased tax incidence. UMPPs of Tata Power and Reliance Power could thus be protected.

However, utilities operating as merchant power capacity will see an increase in tax incidence. This will pull down the IRR of merchant power capacities. Negative for JSPL, Navbharat Ventures, RPL, Lanco Infratech, JSW Energy, Adani Power and Indiabulls Power.

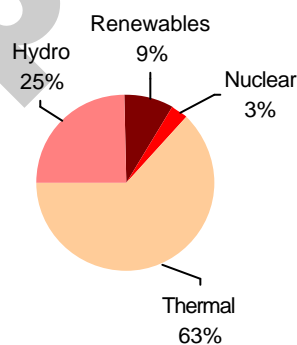
■ **Increase in cess on coal of Rs 50 per ton for domestic as well as imports:**

Impact: Power utilities covered under the regulated return as prescribed by the CERC are allowed to pass-through any increase in fuel costs. Hence NTPC would not be affected.

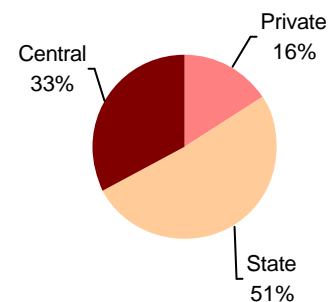
However, utilities operating as merchant units should see their fuel costs going up. To what extent the utilities are compensated in terms of higher tariffs would depend on spot tariff rates which are based on supply-demand forces. Negative for JSPL, Navbharat Ventures, Lanco Infratech, JSW Energy, Adani Power and Indiabulls Power.

NTPC's installed capacity (MW)

Source: Company

Fuel-wise installed power capacity

Source: Ministry of Power

Sector-wise generating capacity

Source: Ministry of Power

Impact on EPS (Rs)

| Company | Pre-Budget EPS | | Post-Budget EPS | | Current Price | Target Price |
|---------|----------------|-------|-----------------|-------|---------------|--------------|
| | FY10E | FY11E | FY10E | FY11E | | |
| NTPC | 11.2 | 12.1 | 11.2 | 12.1 | 205 | 216 |

Source: Kotak Securities - Private Client Research

BUDGET IMPACT: NEGATIVE**REAL ESTATE****BUDGET HIGHLIGHTS & IMPACT**

- **Service tax charged on additional services provided by builders**

Impact: Negative. Certain additional services provided by the builder to the prospective buyers have come under the gamut of service tax such as providing preferential location or any incremental service being provided on extra charges. Along with this, for under construction properties where completion certificate has not been obtained from the required authorities, construction activity would come under service tax net. There is lot of ambiguity regarding levy of service tax but most of the developers already pay service tax for the construction activity. Over and above that, any additional service being provided by the builder will come under service tax net. Players which were not paying service tax on the construction activity will now have to charge service tax from the buyers. This is likely to increase the overall cost of the property for the prospective buyer and will result in reducing the demand.

- **Service tax on renting of vacant land**

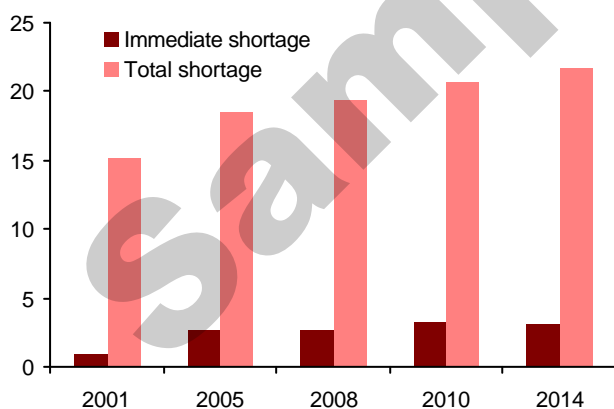
Impact: Negative. Service tax will also be levied on renting of vacant land where there is an agreement between the lessor and lessee for undertaking construction during the tenure of the lease. This is also expected to be negative for builders who were entering into land development agreement with land owners for constructing projects rather than buying the land on their own books.

- **Higher disposable income to spur demand**

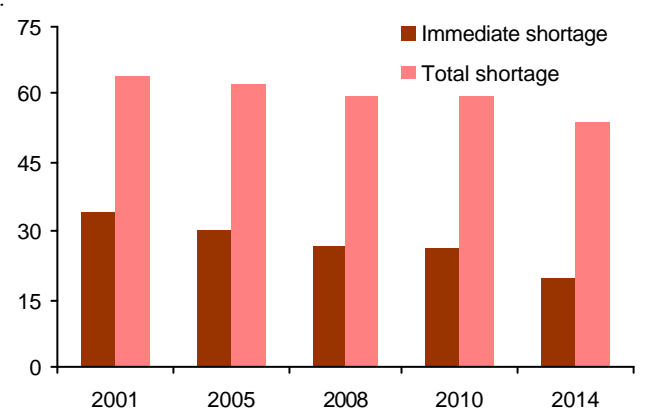
Impact: Positive. Due to increase in the exemption limits on personal income tax for individuals, disposable income is expected to increase. This is likely to result in higher demand for the real estate sector.

- **Interest subvention extension till March 31, 2011**

Impact: Positive. Interest subvention on housing loans up to Rs.10 lakhs where the cost of the house does not exceed Rs.20 lakhs has been extended till March 31, 2011. This would be positive for players focused on low cost housing.

Urban housing shortage (mn units)

Source: Industry

Rural housing shortage (mn units)

Source: Industry

- **Extension of project completion time for claiming deduction on profits**
Impact: Positive. In order to avail tax benefits under Section 80IB, project completion time has been extended from 4 years from the end of the financial year in which the project was approved to 5 years now. Along with this, built up area of shops and other commercial establishments, for availing tax benefits, has also been increased to 3 per cent of the aggregate built-up area of the housing project or 5000 sq. ft., whichever is higher.
- **Higher allocation for Rajiv Awas Yojana**
Impact: Positive. Allocation for Rajiv Awas Yojana has been increased from Rs 1.5bn last year to Rs 12.7 bn for 2010-11. This scheme intends to make country slum free in the five year period. This is expected to be positive for players focused on rural housing and slum rehabilitation projects like HDIL, Unitech, Akruti Nirman etc.

We do not have active coverage on the sector.

Sample Report

BUDGET IMPACT: POSITIVE

RETAIL

BUDGET HIGHLIGHTS & IMPACT

■ **Higher disposable income due to higher tax exemption to spur growth**

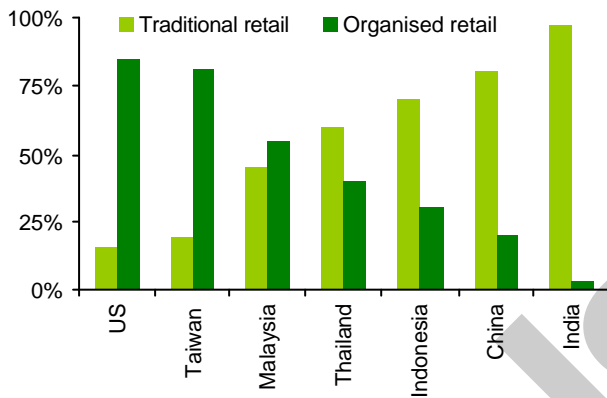
Impact: Positive. Due to increase in the exemption limits on personal income tax for individuals, disposable income is expected to increase. This is expected to result in higher spending power as well as consumption, thereby benefiting retail sector.

■ **Boost in GDP growth to spur consumption**

Impact: Positive. Continued measures of government to boost GDP growth are expected to drive Indian consumerism. This is likely to be positive for the retail sector.

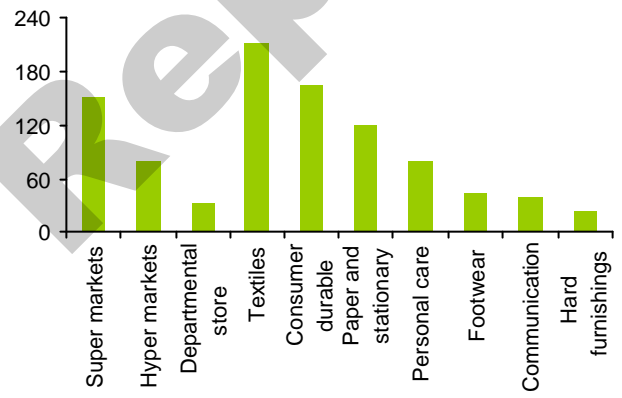
We do not have active coverage on the sector.

Retail Penetration (%)

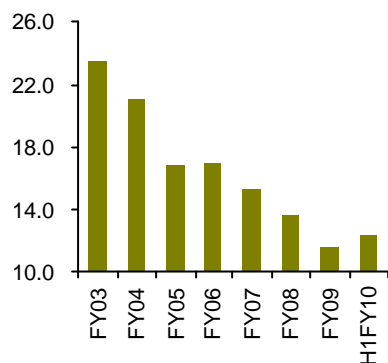


Source: Industry

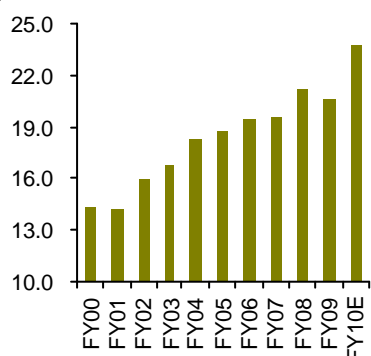
Segmentwise size of retail market (2008-09) - (Rs bn)



Source: Industry

BUDGET IMPACT: NEUTRAL**TEXTILES****BUDGET HIGHLIGHTS & IMPACT****Textile exports as % of total exports**

Source: Ministry of Textiles

Non Cotton Fabric production (bn sq. mtr.)

Source: Ministry of Textiles; Kotak Securities - Private Client Research

- **Rs. 2 bn for Tirupur knitwear industry**

Impact: The budget has given a one-time grant of Rs.2 bn to the Government of Tamil Nadu towards the cost of installation of a zero liquid discharge system at Tirupur to sustain knitwear industry.

- **Skill development program**

Impact: An extensive skill development program has been introduced in the textile and garment sector by leveraging the strength of existing institutions and instruments of the Textile Ministry and this will train 30 lakh persons over 5 years. This is positive as the textile industry would get skilled labor which will improve productivity and efficiency.

- **Surcharge on companies down by 2.5% to 7.5%**

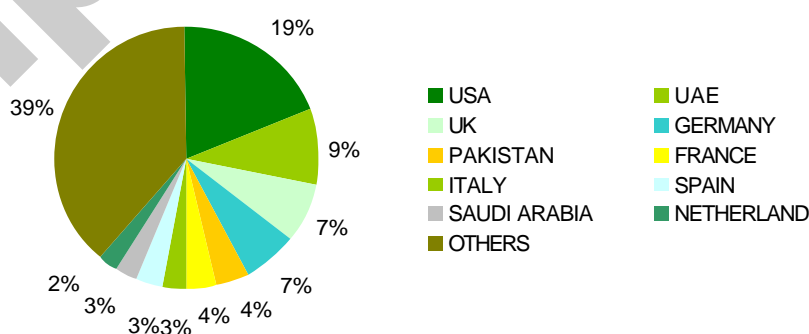
Impact: The surcharge on the companies has been brought down by 2.5% from 10% to 7.5%. This is positive for all the companies as it would lead to lower tax outgo, though marginal in nature.

- **Increase in excise duty from 8% to 10%**

Impact: The budget has increased the excise duty on PTA, MEG, man made fiber and yarn like POY from 8% to 10%. However this is a modvatable item and thus we do not expect any negative impact on the profitability of the companies. Ultimately the increased cost would be passed onto the customers; however we do not expect it to have major impact on demand of man made fibers.

- **Exemption of 4% CVD for pre-packed ready made garments**

Impact: The budget has exempted the payment of 4% special CVD on import of pre-packed ready made garments. This can lead to more import of pre-packed ready made garments thereby impacting local supply.

Country wise break up of textile export (H1FY10E)

Source: Ministry of Textiles

Impact on EPS (Rs)

| Company | Pre-Budget EPS | | Post-Budget EPS | | Current Price | Target Price |
|------------------------|----------------|-------|-----------------|-------|---------------|--------------|
| | FY10E | FY11E | FY10E | FY11E | | |
| Preferred picks | | | | | | |
| JBF Industries | 35.0 | 41.0 | 35.0 | 41.0 | 99 | 150 |

Source: Kotak Securities - Private Client Research

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