UNION-BUDGET ANALYSIS

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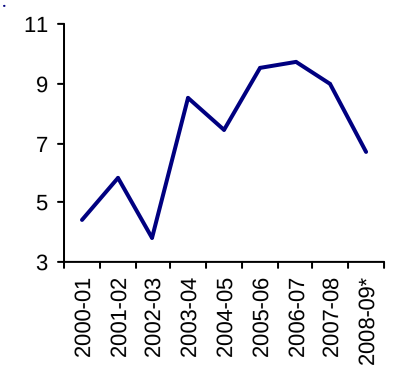
UNION BUDGET ANALYSIS FY2009-10

Outlays rise, reforms may surprise

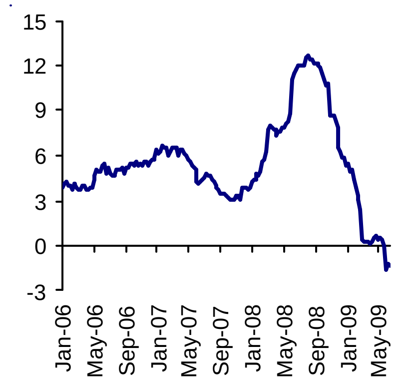
- In a globally uncertain economic environment, Mr. Pranab Mukherjee has sought to address the immediate objective of economic growth by committing significant investments to infrastructure and putting more money in the consumers' hands. The target is to move to a 9% growth at the earliest.
- Significant investments have been committed to infrastructure through increased allocation for roads and highways (NHDP), railways, urban infrastructure (JNNURM), Power (APDRP), etc.
- Equitable growth continues to be a corner-stone with investments for social schemes like NREGS, National Rural Health Mission, etc getting 16% higher allocation. Schemes like Bharat Nirman, Indira Awaas Yojana and Rajiv Gandhi Grameen Vidyudikaran Yojana have been allocated higher sums.
- While the target for fiscal deficit is set at 6.8% v/s 6.2% in FY09RE, the same is sought to be addressed in the medium term. The Finance Minister has indicated a target of reducing the same by 150bps each year from FY11E to about 4% in FY12E. Moreover, the fiscal deficit for the current year could surprise on the positive based on the progress achieved in areas of disinvestment, FDI, subsidies, etc.
- As far as tax reforms are concerned, the FM has indicated that, GST will be implemented from 1st April 2010. On the other hand, a new Direct Taxes Code aimed at making structural changes to the tax laws is proposed to be tabled within the next 45 days. Investments- linked tax incentives have been re-introduced in a selective manner.
- There have been no across-the-board changes in the excise duties, customs duties and service tax rates. However, products in the 4% duty bracket will now attract 8% duty, with exceptions. More services have been brought under the service tax net.
- Corporate tax rate has been left unchanged. MAT rate has been increased from 10% to 15%, which will likely impact profits of select companies. FBT has been removed. However, ESOP benefits to be treated as perquisites.
- The individual tax exemption limit has been raised marginally by Rs.10,000. Also the surcharge has been abolished for individuals. This will put more monies in the consumers' hands; will impact the higher-income segment only, in our view.
- Stock markets have been disappointed. The absence of any firm targets for disinvestment, FDI, subsidy reduction, etc impacted the sentiment. The imposition of MAT will impact corporate profitability, in our view.
- Post the correction of the recent out-performance vis-à-vis most other emerging markets and with no major triggers in the short term, markets will likely remain range-bound. They will be dictated by the quarterly results and also the progress of monsoons. We expect the markets to follow a trend on better visibility of FY11 earnings. Further developments on policy issues like disinvestment, FDI or subsidies can be the triggers, in the medium term.

GDP growth (%)



Source: CSO, * Stands for Revised Estimate

Inflation (%)



Source: Economic Survey 2007-08

Sectoral impact

Budget Impact	Sectors
Positive	Automobiles, Capital Goods, Construction, FMCG, IT, Logistics, Metals & Mining, Oil & Gas
Neutral	Banking, Cement, Fertilizer, Media, NBFC, Pharma, Power, Real Estate, Retail, Textiles
Negative	-

Source: Kotak Securities - Private Client Research

Sustained focus on growth in a globally uncertain environment...

India has witnessed a moderation in the GDP growth in FY09 at 6.7%, after growing at an average of 8.7% over the previous 4 years. The downturn in the global economy has been largely responsible for this moderation. The export sector has witnessed significant challenges and the liquidity dry-up has impacted investment plans of India Inc.

The FM has consciously focused on sustaining and improving the GDP growth in a global environment which is still uncertain. He has laid significant stress on growth and has indicated his intent of improving the same to 9% at the earliest. We view this as encouraging.

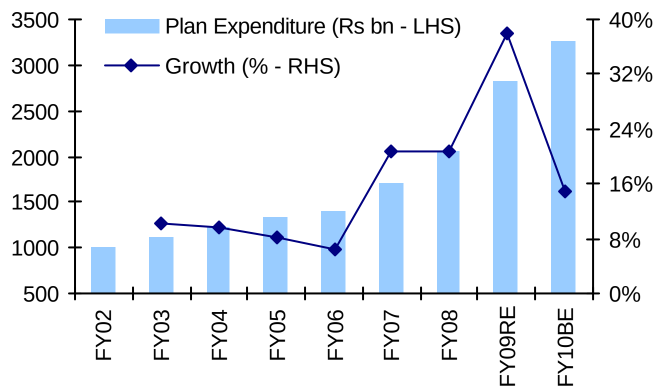
With uncertainty surrounding the global economy, the export sector may find it difficult to grow at a fast pace. Thus, maintaining the growth in domestic economy becomes imperative from an overall perspective.

...through investments

The Government has, till date, provided three fiscal stimulus packages to restrict the impact of the global downturn on India. The total amount of stimulus, according to the FM, has been to the tune of Rs.1.86trn or about 3.5% of FY09 GDP. Of these, significant amounts have been dedicated for overall infrastructure development.

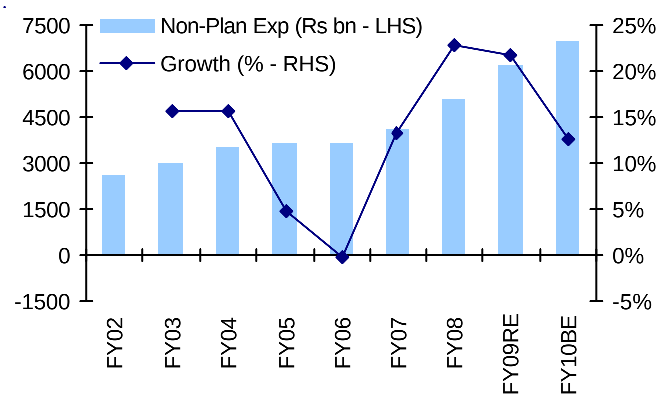
With private investment yet to pick up to the desired extent, the short term requirement is for the public investments to be sustained and increased. The FM has continued with the focus on investments and the plan expenditure has been increased by 15% for the current fiscal.

Plan expenditure



Source: Economic Survey 2008-09, Budget FY2009-10

Non-plan expenditure



Source: Economic Survey 2008-09, Budget FY2009-10

Significant allocations have been made for creating infrastructure, which has a multiplier impact on the economy. Some of the major allocations are :

- IIFCL (India Infrastructure Finance Company Ltd) will now refinance 60% of the loans provided by commercial banks for PPP projects in critical sectors over the next fifteen to eighteen months. With this, IIFCL and banks will now be in a position to support projects involving total investment of Rs.1trn.
- Allocation for the National Highway Development Programme (NHDP) has been increased by 23% over FY09BE.
- The allocation for railways has been increased from Rs.108bn in interim budget for FY10 to Rs.158bn.

- Allocation under Jawaharlal Nehru National Urban Renewal Mission (JNNURM) has been increased by 87% to Rs.129bn as compared to FY09BE.
- Allocation for housing and provision of basic amenities to urban poor has also been enhanced to Rs.40bn.
- Allocations under Accelerated Power Development and Reform Programme (APDRP) have been increased by 160% to Rs.20bn as compared to FY09BE.
- A blueprint will be developed for long distance gas pipelines leading to a National Gas Grid to facilitate transportation of gas across the length and breadth of the country.

...and consumption

- The FM has put in more monies into the hands of the people to give an impetus to consumption.
- Firstly, the FM has not increased excise duties across the board. They was an expectations that, a part of the excise duty cuts made in FY09, could be rolled back. This should help in sustaining demand, in our opinion.
- Nevertheless, there have been some increases for products in the 4% duty slab. These products, subject to exceptions, will now attract 8% duty.
- On the other hand, the surcharge on personal income tax, which was at 10% of the tax paid, has been removed. This should lead to a reduction of about 9% in the tax liability of an individual.
- This should put more monies into the hands of the people. However, this provision will benefit only people in the higher-income category as surcharge is levied only on annual income of Rs.1mn and above.
- The total reduction of revenue (according to budget documents) for the Government from surcharge is expected to be about Rs.100bn.

Inclusive growth remains the corner-stone...

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

Higher allocations have been made for farmers, poor, women, children, etc. The total plan expenditure for the social services has increased by about 16% to Rs.1.04trn.

Thrust on Inclusive growth

Scheme/initiative	Measures proposed
National Rural Employment Guarantee Scheme (NREGS)	■ Allocation increased 144% to Rs.391 bn in FY10E. ■ 115 pilot districts selected for convergence in first stage to increase productivity of assets and resources under NREGS.
National Food Security Act	■ 25 kilo of rice or wheat per month at Rs.3 per kilo to every family living below the poverty line in rural or urban areas.
Bharat Nirman	■ Allocation increased by 45% in FY10E to Rs.453.6 bn. ■ Allocation under Pradhan Mantri Gram Sadak Yojana (PMGSY) increased 59% to Rs.120 bn in FY10E. ■ Allocation under Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY) increased 27% to Rs.70 bn in FY10E. ■ Allocation under Indira Awaas Yojana (IAY) increased 63% to Rs.88 bn in FY10E. ■ Allocation of Rs.20 bn made for Rural Housing Fund (RHF) in NHB to boost the resource base for refinance operations in rural housing sector in FY10E.
Pradhan Mantri Adarsh Gram Yojana (PMAGY)	■ New scheme with allocation of Rs.1 bn for integrated development of 1000 villages having SC population greater than 50%
Swarna Jayanti Gram Swarozgar Yojana (SGSY)	■ Restructured as National Rural Livelihood Mission to make it universal in application for poverty eradication by 2014-15. ■ At least 50% of the Swarozgaries will be SCs/STs, 40% women and 3% disabled.
Accelerated Rural Water Supply Programme	■ Allocation of Rs.80 bn for supplementing the States in their effort to provide safe drinking 9water to all rural habitations.
Integrated Child Development Services (ICDS)	■ All ICD Services to be extended to every child under the age of six by March, 2012.
National Rural Health Mission (NRHM)	■ Allocation increased by Rs.20.6 bn over Interim budget FY10 to Rs.121 bn in FY10E.
Rashtriya Swasthya Bima Yojana (RSBY).	■ All BPL families to be covered ■ Allocation increased 40% over previous allocation to Rs.350 bn in FY10.
Education	■ Provision for the scheme 'Mission in Education through ICT' substantially increased to Rs.9 bn. ■ Rs.21 bn allocated for IITs and NITs which includes a provision of Rs.4.5 bn for new IITs and NITs. ■ The overall Plan budget for higher education is to be increased by Rs.20 bn over Interim budger 10E.

Source: Budget Document 2009-10

...and so does agriculture

With the Government focusing on sustaining growth, the contribution of agriculture becomes important. The dismal 1.4% growth of this sector in FY09 has made the FM increase the allocations for the same in the budget. Some of the important initiatives are :

- Mr. Mukherjee has increased the target for agriculture credit flow to Rs.3.25trn for the year 2009-10 as against Rs.2.87trn in the previous year.
- The interest subvention scheme for short term crop loans up to Rs.0.30mn per farmer at the interest rate of 7% p.a. will be continued.
- Moreover, additional subvention of 1% is proposed to be paid from the current year, as incentive to those farmers who repay short term crop loans on schedule. This provision will cost the Government Rs.4.11bn over the estimates made in the interim budget.
- Under the Debt Waiver and Debt Relief Scheme farmers having more than two hectares of land were given time till June 09 to repay 75% of their over-dues. The same has been extended to December 09, because of the delay in monsoons.

The higher allocations to agriculture and irrigation have also been made with a view to reduce the supply side constraints. As per the third advance estimates, production of food grains in 2008-09 is estimated to be 229.85 million tonnes, which is lower than the target of 233 million tonnes set out for the year as also the final estimates of 230.78 million tonnes for 2007-08.

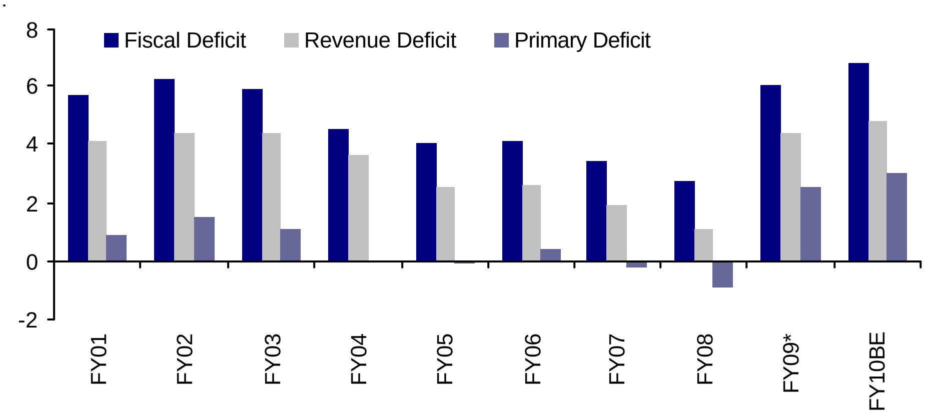
Prior to this, for three consecutive years (2005-06 to 2007-08), food grains production recorded an average annual increase of over 10 million tonnes. In 2008-09, the growth originating from agriculture and allied activities declined to 1.6% (as per the revised estimates) which was lower than average growth of over 4.9% over three years (2005-06 to 2007-08).

Rise in Fiscal Deficit – a necessary evil

With the FM committing significant investments in physical and social infrastructure, the target for Fiscal Deficit has increased to 6.8% of GDP as against 6.2% in the previous year. In absolute terms, Fiscal Deficit is set to increase by about 23% over FY09RE to Rs.4.01trn.

We had expected little change to the Fiscal Deficit (%) in our pre-budget note, citing the need for continued investments. In our opinion, the level of Fiscal Deficit, though high, is not at an alarming level. We also opine that, these investments are necessary to steer the economy to a high growth path over the medium term.

Fiscal and revenue deficit (%)



Source: Economic Survey 2008-09, Interim Budget 2009-10; * Fiscal indicators for 2008-09 are based on the provisional actuals for 2008-09

We take heart from the FM's intention to address the same over the medium term. He has indicated a target to bring down the fiscal deficit to about 4% by FY12E. We also believe that, there could be surprises on the positive and negative side:

1. The FM has budgeted for receipts of Rs.350bn from the sale of 3G telecom licenses and this may prove to be optimistic.
2. On the other hand, the FM has taken credit for only Rs.11.25bn as proceeds from disinvestment. In our opinion, this amount can be higher than budgeted.
3. The FM has also proposed setting up of an expert group to look into the petroleum subsidies and any further developments on the same may lead to a reduction in the subsidy burden for the fiscal.

Tax reforms

On the indirect tax side, the budget has clearly stated the intention of the FM to implement the Goods and Services Tax from April 2010. The Centre and the States are expected to legislate, levy and administer the Central GST and State GST, respectively.

We view this reform measure positively and believe that, it will lead to improved operational efficiencies for companies. While the FM has indicated that, an agreement has been reached on the basic structure of GST with the states, we will closely watch the progress of the implementation of this reform.

On direct taxes front, the FM has hinted at making structural changes to the laws to make the same much simpler. Towards this goal, a new Direct Taxes Code is proposed to be tabled within the next 45 days.

Investment - linked tax incentives have been re-introduced in a selective manner. Investment linked tax incentives are proposed to be provided initially to the businesses of setting up and operating 'cold chain', warehousing facilities for storing agricultural produce and the business of laying and operating cross country natural gas or crude or petroleum oil pipeline network for distribution on common carrier principle. All capital expenditure, other than expenditure on land, goodwill and financial instruments are proposed to be fully allowable as deduction.

DIRECT TAXES

Corporate tax

- **No change in corporate tax rate**

There have been no changes in the corporate tax rate. A section of the market was expecting a reduction in the same. Moreover, there has been no reduction even in the surcharge.

- **Increase in MAT – a negative**

On the other hand, the budget has increased the rate of Minimum Alternate Tax (MAT) from 10% to 15%. 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 may be impacted negatively.

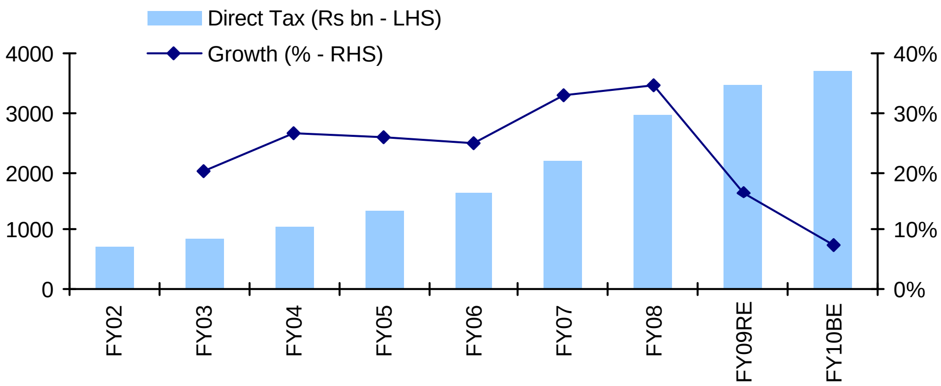
FBT abolished – ESOP holders not to benefit, though

The budget has abolished the FBT which was levied on specific expenditure incurred by companies. This expenditure was mostly incurred on employees and the companies were liable to pay FBT on the same. FBT formed a small part of the overall expenses of companies and the same will add to their bottom-lines.

FBT on ESOPs has also been abolished. However, the benefit accruing to the employee in the form of difference between the exercise price and the fair value of the stock will now be taxed as a perquisite in the hands of the employee, we opine.

Most companies were recovering the FBT on ESOPs from the employees. However, with this new provision, tax will be necessarily recovered by the employer as it is now a perquisite in the hands of the employee.

Direct taxes



Source: Economic Survey 2008-09, Interim Budget FY2009-10

Personal income tax

Marginal increase in basic exemption limits, surcharge removed

The budget has increased the basic exemption limit for individual tax payers marginally from Rs.1,50,000 p.a. to Rs.1,60,000 p.a. The same for women tax payers has been increased from Rs.185,000 p.a. to Rs.195,000 p.a and for senior citizens from Rs.225,000 p.a top Rs.240,000 p.a. We expect this to have a marginal impact on the total tax outgo for individuals.

On the other hand, the surcharge on personal income tax has been abolished. This is expected to benefit the tax payers in the higher income category as surcharge is levied only on annual income of rs.1mn and above. We calculate that, on an annual income of Rs.1 mn, the savings can be Rs.28,050.

According to budget documents, the total reduction in revenues of the Government from surcharge will be about Rs.100bn.

Individual income tax-impact of waiver of 10% surcharge

			Tax paid	
Old Slab (Rs)	**New Slab (Rs)**	**Tax rate %**	**Pre-budget**	**Post-budget**
0-1.5L	0-1.6L	0	NIL	NIL
1.5L-3L	1.6L-3L	10	15,000	14,000
3.0L-5.0L	3.0L-5.0L	20	40,000	40,000
5.0L- abover	5.0L- above	30	150,000	150,000
More than 10L*	More than 10L	30	60,000	60,000
Surcharge		10%	26,500	-
Cess		3%	8,803	7,973
Total tax			300,303	271,973
Savings				28,330

Note: * Assumed Annual Income of Rs. 12L; Source: Kotak Securities - Private Client Research; Budget document 2009-10

Indirect taxes

No across-the-board changes

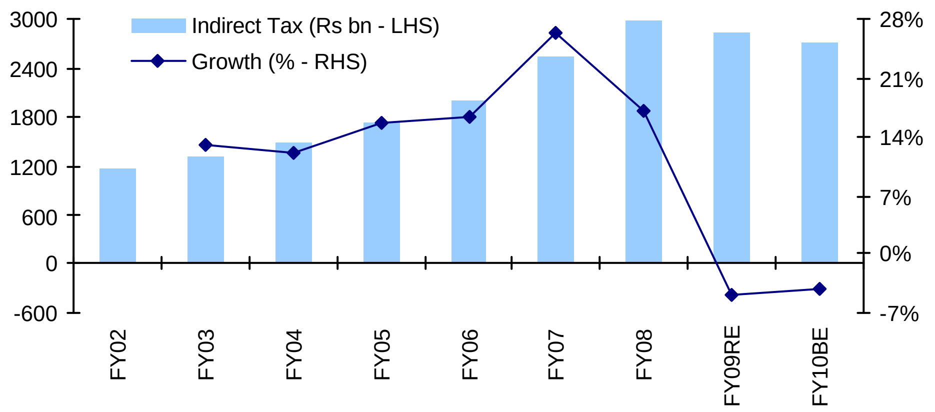
The budget has not made any across the board changes in the indirect tax rates. A few need-based changes have been made.

As far as excise duties are concerned, there was an expectation that a part of the reductions in excise duties effected over the past six months will be reversed. However, the FM has refrained from increasing duties across-the-board with a view to maintain consumption levels. As an exception, products in the 4% duty slab will now attract 8% excise duty, with few exemptions.

Also, there is no change in the peak customs duty, which remains at 10%. A reduction in the import duties would have made imports cheaper, increasing competition for the domestic industry, which is likely recovering from the recent economic slump.

Service tax rates have been maintained and the scope of the same has been expanded by bringing a few services under the tax net.

Indirect taxes



Source: Economic Survey 2008-09, Interim Budget FY2009-10

CAPITAL MARKETS – NEGATIVE IN THE SHORT TERM

Stock markets have reacted negatively to the budget. We opine that, the markets had priced in significant positives from the budget and reacted likely due to the following reasons :

- Increase in the fiscal deficit and accompanying fears of interest rates
- Lack of concrete targets on disinvestment and
- Absence of relaxation / allowance of FDI limits
- Increase in MAT rate to 15%

In our opinion, the budget has done whatever was needed for the sustenance and increase in growth rates of the economy. While the fiscal deficit target is higher, the same is sought to be brought down in subsequent years. Moreover, we believe that, factors like FDI and disinvestment can be taken up outside the budget also. In case the issue of subsidies is addressed in due course, it may also turn out to be positive for the markets. To that extent, we believe that, the reaction to the budget with probably prove to be short term in nature.

Fundamentals to drive markets in medium – long term

Post the correction, we expect markets to focus on the evolving fundamentals of the economy and the corporate sector. Factors like monsoons, quarterly results, inflation and economic growth are expected to influence markets.

In the medium term, the triggers for the markets will be announcements on FDI, disinvestment, subsidies, etc, if any and the movement in international markets. We expect the markets to follow a longer term trend as and when there is more visibility on corporate earnings growth for 2HFY10 and FY11.

Changes in Indirect Taxes

	Pre-budget	Post-budget
CUSTOM DUTIES		
10 specified life saving drugs/vaccine and their bulk drugs	10%	5%
Heart devices, namely artificial heart and PDA/ASD occlusion device	7.5%	5%
LCD Panels for manufacture of LCD televisions	10%	5%
Set Top Box for television broadcasting	0%	5%
Permanent magnets for PM synchronous generator > 500 KW used in wind power	7.5%	5%
Bio-diesel	7.5%	2.5%
Specified machinery for tea, coffee and rubber plantations (duty cut extended)	5%	5%
Mechanical harvester for coffee plantation (CVD of 8% made NIL now)	7.5%	5%
Specified raw materials and equipment imported by manufacturer-exporters of		
leather goods, textile products and footwear industry		0%
Unworked corals	5%	0%
Cotton waste, Wool Waste	15%	10%
Serially numbered gold bars (other than tola bars) and gold coins per 10 gram	Rs.100	Rs.200
Other forms of gold per 10 gram.	Rs.250	Rs.500
Silver per Kg.	Rs.500	Rs.1000
Rock phosphate	5%	2%
Concrete batching plants of capacity 50 cum per hour or more (CVD reintroduced)	0%	7.50%
Water sports equipments		0%
On packaged or canned software, CVD exemption has been provided on the portion of the value which represents the consideration for transfer of the right to use such software, subject to specified conditions.		
EXCISE DUTIES		
Items currently attracting 4% duty except the following	4%	8%
(i) Specified food items including biscuits, sherbats, cakes and pastries		
(ii) Drugs and pharmaceutical products falling under Chapter 30		
(iii) Medical equipment		
(iv) Certain varieties of paper, paperboard and articles thereof		
(v) Paraxylene		
(vi) Power driven pumps for handling water		
(vii) Footwear of RSP exceeding Rs.250 but not exceeding Rs.750 per pair		
(viii) Compact Fluorescent Lamps		
(ix) Pressure cookers		
(x) Vacuum and gas filled bulbs of RSP not exceeding Rs.20 per bulb		
Large cars/utility vehicles of engine capacity 2000cc per vehicle	Rs.20,000	Rs.15,000
Petrol driven trucks/lorries	20%	8%
Chassis of such trucks/lorries	20% + Rs.10,000	8% + Rs.10,000
Special Boiling Point spirits	16% + Rs.15/litre	14%
Naphtha	16%	14%
Duty paid High Speed Diesel blended with upto 20% bio-diesel		NIL
Branded Petrol	6% + Rs.13/litre	Rs.14.5/litre
Branded Diesel	6% + Rs.3.25/litre	Rs.4.75/ litre
Textiles (i) manmade fibre and yarn (ii) PTA and DMT (iii) polyester chips		
(iv) acrylonitrile (v) man-made and natural fibres other than pure cotton	4%	8%
Excise duty on branded articles of jewellery	2%	NIL
Miscellaneous		
(i) Full exemption from excise duty has been provided on goods of Chapter 68 (articles of stone, plaster, cement etc.) manufactured at the site of construction for use in construction work at such site.		
(ii) On packaged or canned software, excise duty exemption has been provided on the portion of the value which represents the consideration for transfer of the right to use such software, subject to specified conditions.		

Source: Budget Document 2009-10

Variance in Non-Plan expenditure (Rs bn)

	FY09RE	FY10BE	Absolute Chg
Fertilizer Subsidy	758.5	499.8	-258.7
Agriculture & Allied activities	58.9	24.4	-34.5
Non-plan grants & loans to Public Enterprises	8.0	34.9	26.9
Food Subsidy	436.3	524.9	88.6
Defence Expenditure	1146.0	1417.0	271.0
Pensions	326.9	349.8	22.9
Police	207.1	253.9	46.8
Non-Plan Capital Outlay	136.9	210.6	73.6
Postal Deficit	38.3	54.0	15.7
Interest Payments and Debt Servicing	1926.9	2255.1	328.2
Education	59.3	77.8	18.5
Non-Plan Grants to States	372.6	475.2	102.6
Other Non-plan Expenditure	704.4	779.6	75.3
Total (Non-Plan) Expenditure	**6180.0**	**6956.9**	**776.9**

Source: Annual Budget 2009-10

Trend in Subsidies (Rs bn)

	FY09BE	FY09RE	FY10BE
Food	326.67	436.27	524.90
Total Fertiliser Subsidy	309.86	758.49	499.80
Indigenous (urea) fertilisers	129.00	165.16	97.80
Imported (urea) fertilisers	72.39	109.81	59.48
Sale of decontrolled fertiliser with concession to farmers	108.47	483.51	342.52
Petroleum Subsidy	28.84	28.76	31.09
Interest subsidies	28.29	40.63	26.01
Other	20.64	28.27	30.96
Total Subsidies (Rs.bn)	**714.31**	**1292.43**	**1112.76**

Source: Annual Budget 2009-10

Major items in Non-plan expenditure (Rs bn)

	FY09BE	FY09RE	FY10BE
Interest Payments & Debt Servicing	1908.1	1926.9	2255.1
Defence	1056.0	1146.0	1417.0
Subsidies	714.3	1292.4	1112.8
Debt waiver & debt relief to farmers	0.0	150.0	150.0
General Services	521.3	692.8	782.5
Social Services	103.8	131.3	184.9
Economic Services	157.7	196.6	183.1
Total Non-plan expenditure (Rs.bn)	**5075.0**	**6180.0**	**6956.9**

Source: Annual Budget 2009-10

Central Government Finances (Rs bn)

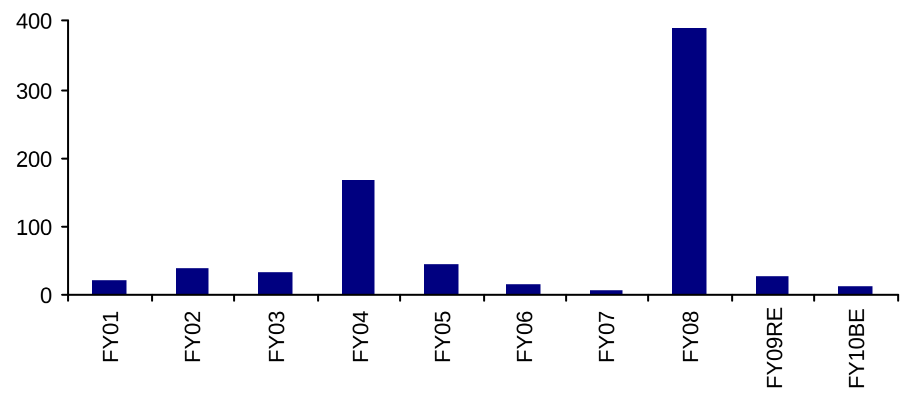
REVENUE	FY 09BE	FY 09RE	Variance (%)	FY 10BE	% Growth (FY10BE vs FY09RE)
Tax Revenue					
Corporation Tax	2263.6	2220.0	-1.9	2567.3	15.6
Income Tax	1206.04	1226.0	1.7	1128.5	-8.0
Excise Duty	1378.7	1083.6	-21.4	1064.8	-1.7
Import Duty	1189.3	1080.0	-9.2	980.0	-9.3
Service Tax	644.6	650.0	0.8	650.0	0.0
Other Taxes	194.9	19.9	-89.8	20.3	1.9
Gross Tax Revenue	**6877.2**	**6279.5**	**-8.7**	**6410.8**	2.1
Less: States' share	1787.7	1601.8	-10.4	1643.6	2.6
Less: NCCD transferred to the NCCF	18.0	18.0	0.0	25.0	38.9
Net Tax Revenue	**5071.5**	**4659.7**	**-8.1**	**4742.2**	1.8
Non-Tax Revenue	**957.9**	**962.0**	**0.4**	**1402.8**	45.8
Interest Receipts	191.4	190.4	-0.5	191.7	0.7
Dividend and Profits	432.0	397.4	-8.0	497.5	25.2
Other Non-Tax Revenue	326.3	366.8	12.4	706.0	92.5
Receipts of UT	8.2	7.5	-8.1	7.5	0.7
Total Revenue Receipts	**6029.4**	**5621.7**	**-6.8**	**6145.0**	9.3
Total Capital Receipts*	**1407.2**	**3088.0**	**119.4**	**4063.4**	31.6
Non-debt Receipts	146.6	122.7	-16.3	53.5	-56.4
Debt Receipts to finance Fiscal Deficit	1260.6	2965.3	135.2	4010.0	35.2
Draw-down of Cash Balance	**72.3**	**299.8**	**315.0**	**0.0**	-100.0
Total Receipts	**7508.8**	**9009.5**	**20.0**	**10208.4**	**13.3**
EXPENDITURE					
Revenue Expenditure					
Interest	1908.1	1926.9	1.0	2255.1	17.0
Defence	575.9	736.0	27.8	868.8	18.0
Subsidies	714.3	1292.4	80.9	1112.8	-13.9
Admn & Social Services	1285.2	1662.5	29.4	1951.7	17.4
Revenue Plan Expenditure	2097.7	2416.6	15.2	2784.0	15.2
Total Revenue Expenditure	**6581.2**	**8034.5**	**22.1**	**8972.3**	11.7
Capital Expenditure					
Defence	480.1	410.0	-14.6	548.2	33.7
Capital Plan Expenditure	336.2	413.0	22.9	467.5	13.2
Loans & other expenditure	111.4	152.1	36.5	220.3	44.9
Total Capital Expenditure	**927.7**	**975.1**	**5.1**	**1236.1**	**26.8**
Plan Expenditure on Rev & Cap a/c	2433.9	2829.6	16.3	3251.5	14.9
Non-plan Expenditure on Rev & Cap a/c	5075.0	6180.0	21.8	6956.9	12.6
Total Expenditure	**7508.8**	**9009.5**	**20.0**	**10208.4**	13.3

DEFICITS

	FY09BE	FY09RE	FY10BE
Fiscal Deficit	**1332.9**	**3265.2**	**4010.0**
% of GDP	2.5	6.0	6.8
Revenue Deficit	**551.8**	**2412.7**	**2827.4**
% of GDP	1.0	4.4	4.8
Primary Deficit	**575.2**	**1338.2**	**1754.9**
% of GDP	1.1	2.5	3.0

Source: Annual Budget FY2009-10; **NCCF:** National Calamity Contingency Fund; * stands for the receipts net of repayments

Disinvestment of equity in PSUs (Rs bn)



Source: Annual Budget FY2009-10

Central Plan Outlay by Sectors (Rs bn)

	FY09BE	% of Total	FY09RE	% of Total	FY10BE	% of Total
Agriculture & Allied Activities	100.74	2.7	99.69	2.6	106.29	2.4
Rural Development*	238.31	6.3	488.84	12.6	517.69	11.6
Irrigation & Flood Control	4.11	0.1	3.67	0.1	4.39	0.1
Energy	938.15	25.0	988.77	25.5	1,155.74	25.8
Industry and Minerals	288.36	7.7	271.93	7.0	357.40	8.0
Transport**	841.77	22.4	782.69	20.2	943.06	21.1
Communications	219.37	5.8	202.37	5.2	167.31	3.7
Science Technology & Environment	92.83	2.5	85.47	2.2	112.07	2.5
General Economic Services	60.52	1.6	52.77	1.4	62.70	1.4
Social Services***	959.19	25.5	896.92	23.1	1,038.56	23.2
General Services	11.50	0.3	7.66	0.2	14.00	0.3
Grand Total	**3,754.85**	**100.0**	**3,880.78**	**100.0**	**4,479.21**	**100.0**

Source: Annual Budget FY2009-10

* 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

BUDGET HIGHLIGHTS FY2009-10

Changes in direct taxes

Item	Pre Budget		Post Budget	
Corporate Tax Rate	30%		30%	
Change in personal IT slabs	**Old Slab (Rs)**	**Tax Rate (%)**	**New Slab (Rs)**	**Tax Rate (%)**
	0-150,000	0	0-160,000	0
	150,000-300,000	10	160,000-300,000	10
	300,000-500,000	20	300,000-500,000	20
	500000 and above	30	500000 and above	30
Surcharge on Individual Tax	1000001 and above	10%	1000001 and above	Nil

Source: Kotak Securities - Private Client Research

SECTOR SUMMARY

Sector Summary

Sector	Budget Impact	Preferred Picks
Automobiles	Positive	NA
Bnaking	Neutral	BOB, Union, PNB, AXIS
Capital Goods	Positive	Blue Star, Hind Dorr oliver, L&T
		Time Techno, AIA Engg, Nitin Fire, EKC
Cement	Neutral	NA
Construction	Positive	NCC, IVRCL, Unity Infra, Sunil Hitech
Fertilizer	Neutral	NA
FMCG	Positive	NA
IT	Positive	Mphasis, Oracle, Zensar
Logistics	Positive	CONCOR, Gateway Distriparks,
		Mundra Port
Media	Neutral	Zee News, Jagran Prakashan
Metals & Mining	Positive	Sesa Goa, SAIL
NBFC	Neutral	Shriram transport Finance
Oil & Gas	Positive	GSPL, Petronet LNG
Pharma	Neutral	NA
Power	Neutral	NTPC
Real Estate	Neutral	NA
Retail	Neutral	NA
Textiles	Neutral	JBF Industries

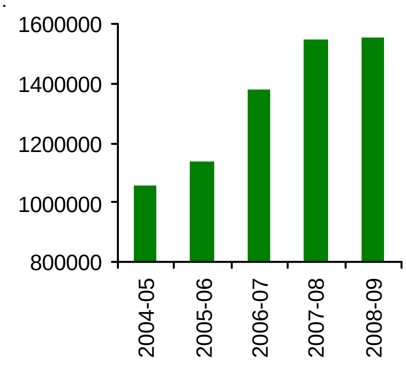
Source: Budget Document 2008-09

SECTOR IMPACT ANALYSIS

BUDGET IMPACT: POSITIVE

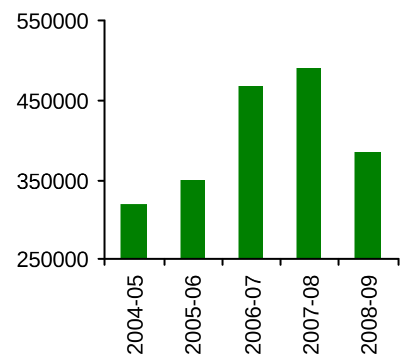
AUTOMOBILES & AUTO ANCILLARIES

Passenger car sales (Units)



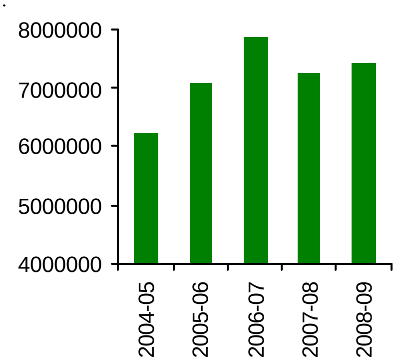
Source: SIAM

CVs sales (Units)



Source: SIAM

Two wheelers sales (Units)



Source: SIAM

BUDGET HIGHLIGHTS & IMPACT

- **No roll-back in excise duty cuts, which were a part of Govt.'s earlier stimulus package.**

  Impact: No rollback in excise duty cuts will likely support volume growth for the industry, which have been on the path to recovery. Positive for auto makers like Hero Honda, Maruti, M&M and Tata Motors.

- **Reduction announced in AED applicable on cars/UV above 2000cc to Rs.15000 from Rs.20000.**

  Impact: Reduction in excise duties will likely support volume growth for the industry, going forward. Positive for segment players like M&M, Tata Motors.

- **Excise duty on petrol-driven trucks and lorries reduced to 8% from 20%.**

  Impact: Reduction in excise duties will likely support volume growth for the industry, going forward. This also draws parity with the rates applicable on similar vehicles that run on diesel.

- **Excise duty on chassis of such trucks/lorries to be reduced from 20%+ Rs.10000 to 8% + Rs.10000.**

  Impact: Positive for trucks manufactures (TAMO) in the form of enhanced sale as excise duty cut will be passed on to the end users.

- **Increase in allocation under JNNURM**

  Impact: Increase in allocation under JNNURM by 87% to Rs.128.87bn would benefit bus manufacturers like Tata Motors and Ashok Leyland.

- **Increased rural spends by the Government**

  Impact: Rural plays like two wheeler companies to be indirect beneficiaries from increased outlay on NREG and other agri-support schemes aimed at increasing rural incomes.

- **Abolishment of FBT**

  Impact: Marginally positive for profitability of all companies given lower tax incidence.

- **Increase in MAT rate from 10% to 15%**

  Impact: Negative for companies like Tata Motors and Ashok Leyland that fall in this tax-paying bracket.

- **Abolition of surcharge in personal income tax proposals**

  Impact: The abolition of surcharge in the personal income tax proposals will lower the effective tax outgo for individuals 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 do not have active coverage on the sector.

BUDGET IMPACT: NEUTRAL

BANKING

BUDGET HIGHLIGHTS & IMPACT

- **The budgeted fiscal deficit for FY10E is 6.8% as against 6.2% reported for FY09.**

  Impact: Government needs to borrow Rs.4.01 trillion from the market to meet its fiscal deficit needs. The hefty borrowing program by the government is likely to harden the yield curve. This would also lead to crowding-out in the economy along with affecting the investment book (AFS/HFT categories) of the banks

  However, RBI has exhibited its capability in FY09 when it managed additional borrowing in the non-disruptive manner. There is also some indication that this would be partly financed by the buy-back of MSS bonds. If this happens, yield curve would not cross 7.1-7.2% in near term, in our view. Therefore, impact on banks would be very marginal.

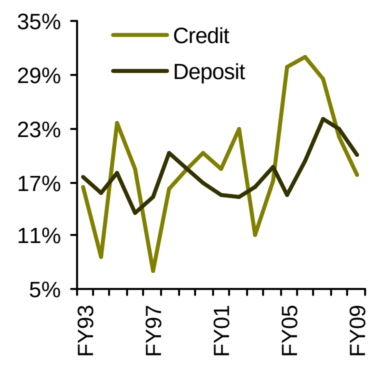
- **Amendment to section 10(23D) of the Income Tax Act, 1961- incorporating "Other Public Sector Banks" under the expression "Public Sector Bank"**

  Impact: The expression "public sector banks" has been defined in the explanation to section 10(23D) which provide exemption of income of Mutual Fund set up by any public sector bank or public financial institution - Notified Mutual Funds.

  Reserve Bank of India has categorized a new sub-group called "other public sector banks". The Central Government holds more than 51% in IDBI Bank Limited which has been categorized under "other public sector banks" by RBI. Since "other public sector banks", has not been included in the expression "public sector banks" as defined in the "Explanation to section 10(23D)", it is proposed to amend the relevant provisions of the Income-tax Act, 1961.

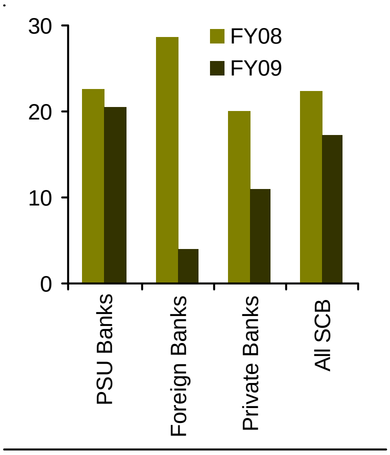
  This amendment will take effect from 1st April, 2010 and will, accordingly, apply in relation to assessment year 2010-2011 and subsequent assessment years. This is positive for the IDBI bank but the impact on its earnings would be very marginal.

Deposit and credit growth (%)



Source: RBI

Growth in credit flow (%)



Source: Economic Survey 2008-09

- **The increase in tax slab from Rs.150,000 to Rs.160,000 for male tax payers and from Rs.180,000 to Rs.190,000 for female tax payers along with the removal of surcharge on personal income tax.**

  Impact: It would marginally increase the disposable income (Rs.1000 per annum for a taxpayer earning between Rs. 1,50,000 - 10,00,000) of taxpayers. However, for taxpayers earning more than Rs. one mn, saving would be about Rs.22,000 per annum. This would have a rub-off effect and banks would benefit as this would reach them through any of their vast array of financial products.

Impact on ABV (Rs)

Company	Pre-Budget ABV		Post-Budget ABV		Current
	FY09	FY10E	FY09	FY10E	Price
Preferred picks					
BoB	301.2	370.9	301.2	370.9	406
Union Bank	133.2	160.4	133.2	160.4	233
PNB	423.2	491.0	423.2	491.0	641
Axis Bank	275.4	309.8	275.4	309.8	794
Others					
HDFC Bank	317.7	378.4	317.7	378.4	142
ICICI Bank	403.6	425.3	403.6	425.3	680
J&K Bank	481.3	544.2	481.3	544.2	466
Allahabad Bank	118.5	123.5	118.5	123.5	76
Andhra Bank	73.6	77.8	73.6	77.8	78
Indian Bank	125.3	138.3	125.3	138.3	131
Indian Overseas Bank	87.8	93.1	87.8	93.1	85

Source: Kotak Securites - Private Client Research

BUDGET IMPACT: POSITIVE

CAPITAL GOODS & ENGINEERING

BUDGET HIGHLIGHTS & IMPACT

- **Increased allocation to APDRP**

  Impact: Positive. The outlay under the Accelerated Power Development and Reform Programme has been increased 160% to Rs 20.8 bn. Under this scheme, the government provides central assistance of 25% to utilities for taking up projects for reduction in T&D losses. The balance 75% has to be raised by the utilities from financial institutions. With a higher allocation from the centre, greater number of projects can be taken up under APDRP. Likely to benefit electrical equipment manufacturers like ABB, Siemens, Areva, Crompton Greaves and Bharat Bijlee.

- **Higher Allocation on RGGVY**

  Impact: Positive.Under Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY), the government provides 90% capital subsidy for rural electrification projects. The allocation under this scheme has been increased by 27% to Rs.70 bn. Main beneficiaries would be Emco and Bharat Bijlee.

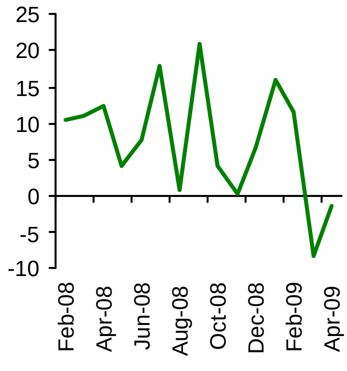
- **Defense allocation raised by 14% from Rs.480 bn to Rs.548 bn**

  Impact: Positive. Capital expenditure on defense has been raised by 14% to Rs.548 bn. This is moderately positive for BEL as higher allocation should translate into increase in order book.

- **Investment linked tax incentive for setting up of cold chain facilities**

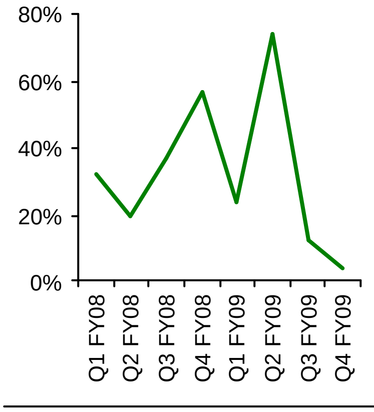
  Impact: Positive. Investment linked tax incentives to be provided to the businesses of setting up and operating 'cold chain', warehousing facilities for storing agricultural produce. Under this method, all capital expenditure, other than expenditure on land, goodwill and financial instruments shall be fully allowable as deduction. To benefit Blue Star and Voltas, which provide refrigeration solutions for cold chain network.

Capital goods index (%)



Source: MOSPI

Growth in L&T's order inflows (%)



Source: Company

Impact on EPS (Rs)

Company	Pre-Budget EPS FY09	Pre-Budget EPS FY10E	Post-Budget EPS FY09	Post-Budget EPS FY10E	Current Price
Preferred picks					
AIA Engineering (FV Rs.2)	18.4	24.0	18.4	24.0	214
Everest Kanto Cylinder (FV Rs. 2)	13.6	16.0	13.6	16.0	188
Nitin Fire Protection	27.5	35.0	27.5	35.0	290
Time Technoplast (FV Re.1)	3.3	4.5	3.3	4.5	37
Blue Star	20.1	23.9	20.1	23.9	322
Hind Dorr Oliver	8.4	11.6	8.4	11.6	95
Larsen and Toubro	51.4	60	51.4	60	1464
Others					
Numeric Power Systems	76.1	80.0	76.1	80.0	378
ABB	25.4	25.7	25.4	25.7	745
Siemens	21.6	21.2	21.6	21.2	457
Areva	10.2	12.2	10.2	12.2	308
Crompton Greaves	15.3	17.8	15.3	17.8	286
Suzlon	4.3	7.1	4.3	7.1	98
Voltamp	114	92	114	92	808
Bharat Electronics	101.1	114.5	101.1	114.5	1324
Thermax	24.3	27.5	24.3	27.5	406
Voltas	6.7	8.4	6.7	8.4	119
Cummins	21.5	18.1	21.5	18.1	262
BHEL	64.1	91.6	64.1	91.6	2102

Source: Kotak Securites - Private Client Research

BUDGET IMPACT: NEUTRAL

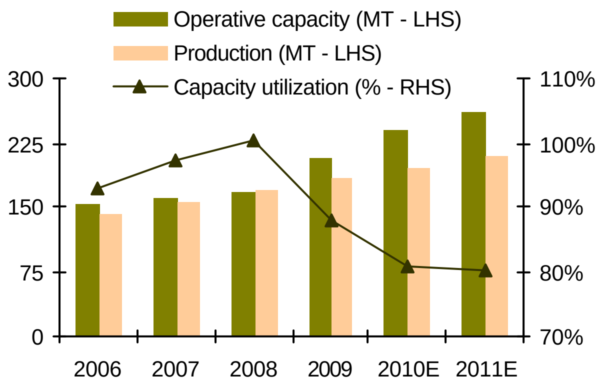
CEMENT

BUDGET HIGHLIGHTS & IMPACT

- **Continued focus on infrastructure creation**

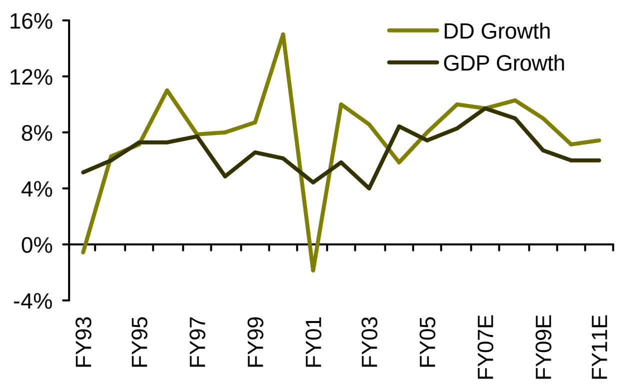
  Impact: Government plans to increase the investment in infrastructure to more than 9 per cent of GDP by 2014. Continued focus on infrastructure is likely to improve the GDP growth going forward. With cement demand having direct correlation with infrastructure investments as well as GDP growth, it is likely to continue to grow at a CAGR of 7.5% between FY09-FY11.

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 FY09	Pre-Budget EPS FY10E	Post-Budget EPS FY09	Post-Budget EPS FY10E	Current Price
Others					
ACC	64.6	64.4	64.6	64.4	724
Grasim	238.5	242	238.5	242	2298
Ultratech Cements	78.5	63	78.5	63	689
India Cements	15.4	16.6	15.4	16.6	132
Shree Cements	165.9	104.6	165.9	104.6	1194

Source: Kotak Securites - Private Client Research

BUDGET IMPACT: POSITIVE

CONSTRUCTION

BUDGET HIGHLIGHTS & IMPACT

- **Greater flexibility to IIFCL for financing new projects**

  Impact: Greater flexibility is provided to IIFCL for financing new projects and it can now refinance 60 per cent of bank loans in PPP projects and can support projects upto Rs 1 trn. IIFCL will also provide long term financial assistance to a wide range of infrastructure projects such as roads, ports, airports, railways, power generation and telecommunications. This would ensure faster implementation of projects through public private partnerships, thereby creating a boost to infrastructure creation.

- **Increased allocation for Bharat Nirman and NHDP**

  Impact: Allocation for Bharat Nirman and NHDP has been increased to Rs 454bn and Rs 160bn in 2009-10 from Rs 313bn and Rs 130bn in 2008-09 respectively. This is likely to result in higher order inflows in the roads and highways segment and is expected to provide boost to order books of companies focused on roads and highways segment such as HCC, IRB, NCC, MPL

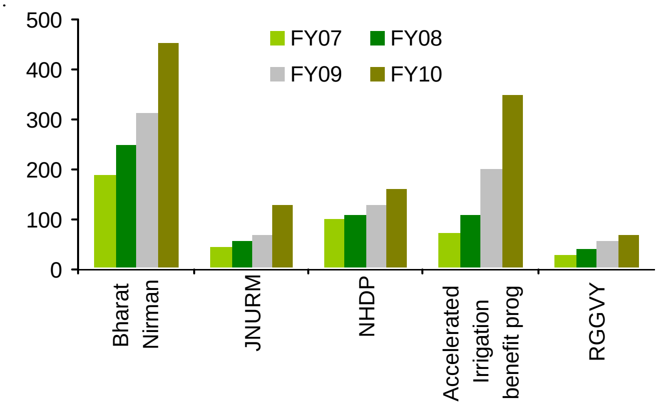
- **Increased allocation for JNNURM and Accelerated Irrigation Benefit Programme**

  Impact: Allocation for Jawahar Lal Nehru National Urban Renewal Mission is increased to Rs 129bn for 2009-10 as against Rs 69bn for 2008-09 while allocation for Accelerated Irrigation Benefit Programme is increased to Rs 350bn in 2009-10 from Rs 200bn for 2008-09. This illustrates government's continued thrust on urban infrastructure and irrigation projects. This is expected to provide boost to order books of companies focused on urban infrastructure and irrigation projects such as IVRCL, Patel Engineering, NCC, Simplex Infrastructure, Unity Infraprojects

- **Focus towards rural infrastructure creation**

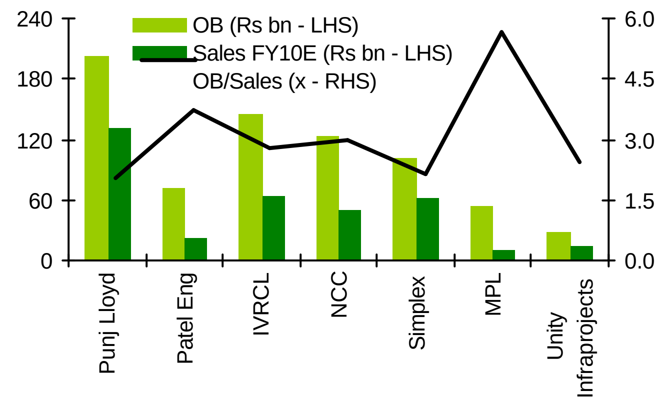
  Impact: Allocation for Rajiv Gandhi Grameen Viduytikaran Yojana (RGGVY) has been increased to Rs 70bn for 2009-10 from Rs 55bn in 2008-09. Government has also increased budgetary allocations for Pradhan Mantri Gram Sadak Yojana to Rs 120bn for 2009-10 to facilitate connectivity to rural areas. This is positive for companies focused on rural roads and rural electrification such as MPL, IVRCL, NCC

Budgetary allocations (Rs bn)



Source: Budget Document - 2008-09

Order book to FY09E sales (x)



Source: Companies

Clarification regarding Section 80IA benefits

Impact: Section 80IA benefits are not applicable for work contracts executed by construction companies. Companies like IVRCL and Patel Engineering have been claiming Section 80IA benefits. Clarification regarding tax breaks under Section 80IA states that it is not applicable to construction companies executing the works on a contract basis. We expect a negative impact of Rs 1400mn for IVRCL and Rs 1490mn for Patel engineering on a retrospective basis since FY01 but this amount is expected to be adjusted through balance sheet. Our future estimates had already factored in higher tax rates for these companies.

Impact on EPS (Rs)

Company	Pre-Budget EPS		Post-Budget EPS		Current
	FY09	FY10E	FY09	FY10E	Price
Preferred picks					
Sunil Hitech	19.8	30.0	19.8	30.0	151
NCC	6.7	7.3	6.7	7.3	130
IVRCL	16.9	20.2	16.9	20.2	330
UNITY INFRA	52.1	59.8	52.1	59.8	320
Others					
BGR Energy	16.1	19.9	16.1	19.9	309
Punj Lloyd	-7.4	14.6	-7.4	14.6	199
Patel Engineering	29.2	25.1	29.2	25.1	431
Simplex Infra	24.3	35	24.3	35	383
Madhucon Projects	12.7	15.5	12.7	15.5	160

Source: Kotak Securites - Private Client Research

BUDGET IMPACT: NEUTRAL

FERTILIZER

BUDGET HIGHLIGHTS & IMPACT

- **Proposal to move to a nutrient based subsidy regime and alternative delivery methods being examined**

  Impact: Industry has been awaiting measures since long that will incentivise setting up of fresh domestic capacities. Greater incentive for the same 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.

- **Customs duty on rock phosphate is proposed to be reduced from 5% to 2%.**

  Impact: This is positive for fertilizer companies that use rock phosphate as an input for manufacturing phosphatic fertilizers. Also, given phosphoric acid prices having risen internationally, lower customs duty would likely be positive for companies.

- **Excise duty on naphtha reduced**

  Impact: This is positive for fertilizer companies that use naphtha as a manufacturing input. The levied rate has now been reduced to 14%.

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

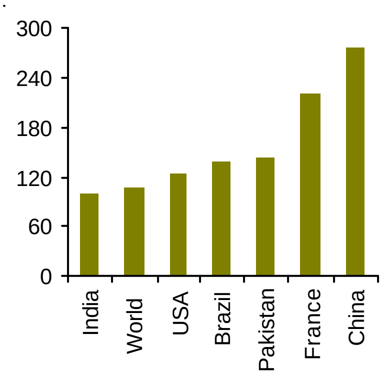
  Impact: Government has increased the outlay under the Accelerated Irrigation Benefit Program by 75% over BE 2008-09 to Rs.350bn. The total outlay for agriculture has also been increased by 7% to Rs.106.4bn. These higher outlays for the sector provide a positive macro backdrop for the sector.

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. The budget seeks to compensat companies through regular subsidy disbursals by the Government over a period of time.

While increasing farm-gate prices seems unlikely given its political inconvenience, industry will await measures to incentivise fresh domestic capacity additions in the industry. Fresh capacity additions by domestic players will not only cater to extant demand and also help the Government manage the growing subsidy burden more effectively, in our opinion. 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.

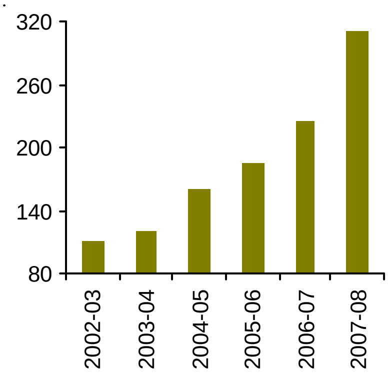
We do not have active coverage on the sector.

India's fertilizer consumption/ hectare (kg/Hectare)



Source: Cris Infac

Trend in urea subsidy spending (Rs bn)



Source: FAI, GoI

BUDGET IMPACT: POSITIVE

FMCG

BUDGET HIGHLIGHTS & IMPACT

- **Increased allocation to National Rural Employment Guarantee Scheme (NREGS)**

  Impact: The allocation under NREGS has been increased by 144% to Rs.391 bn. This is positive for the sector as it will generate more employment in rural India and will further drive consumption of consumer goods.

- **GST by April 2010**

  Impact: The Budget has targeted for implementation of goods & services tax (GST) by April-2010. It will lead to rationalization and simplification of the consumption tax structure at both the centre and state levels, thus bringing relief to the consumers. This is expected to be a tax-neutral exercise.

- **Increase in threshold limit of exemption for personal income tax**

  Impact: The threshold limit of exemption has been increased by Rs.15000 for senior citizens and Rs.10000 for other individuals. Also the surcharge of 10% on personal income tax has been abolished. These would result into lesser tax outgo for individuals and put more disposable incomes in their hands. We believe this is positive for the sector as it will boost the overall demand and induce the households to upgrade to premium brands.

- **Concessional customs duty on specified machinery**

  Impact: The budget has reintroduced the concessional customs duty of 5% on specified machinery for tea, coffee and rubber plantations for one year upto 6th July 2010. This would lead to increased investments and greater efficiency.

- **Reduction in customs duty on mechanical harvester**

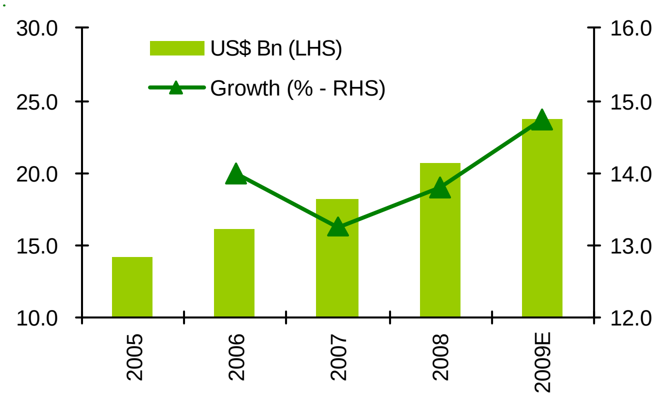
  Impact: The budget has reduced the customs duty from 7.5% to 5% on mechanical harvester for coffee plantation. Also CVD has been reduced form 8% to NIL by way of excise duty exemption. This would lead to increased investments and greater efficiency.

- **MAT increased form 10% to 15%**

  Impact: This is negative for Dabur India as would have to pay higher rate of tax thereby impacting its EPS estimates and cash outflow.

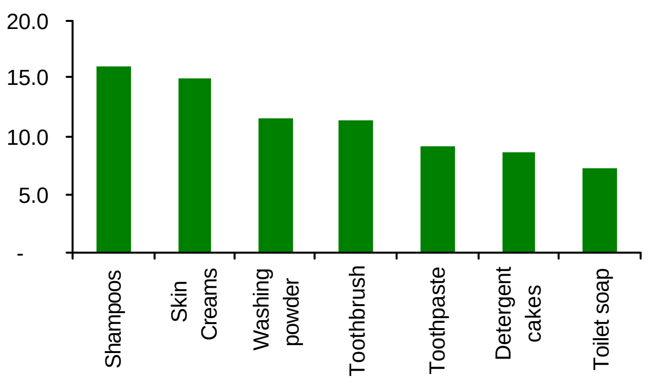
We do not have active coverage on the sector

Size of FMCG industry ($ bn)



Source: AC Nielsen, Trade sources

3 year growth in key FMCG categories

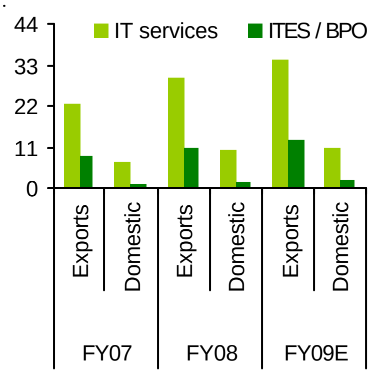


Source: AC Nielsen, Trade sources

BUDGET IMPACT: POSITIVE

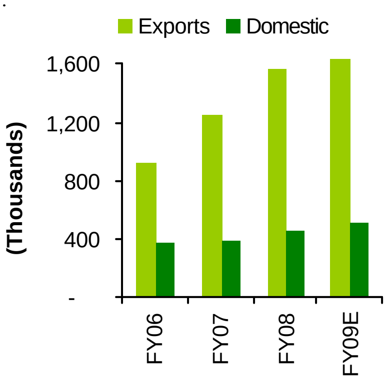
INFORMATION TECHNOLOGY

Industry growth ($ bn)



Source : Nasscom

Growth in number of employees



Source : Nasscom

Rupee / US$

Source : Bloomberg

BUDGET HIGHLIGHTS & IMPACT

- **Extension of STPI sunset clause to FY11**

  Impact: The sunset clauses for deduction in respect of export profits under Sections 10A and 10B of the IT Act have been extended my one more year i.e. for FY11. This expected measure is likely to lead to higher profits across IT services' companies in FY11E- smaller companies (KPIT, Zensar, NIIT Tech) to see more beneficial impact than larger names (Infosys, TCS).

- **PPP initiatives like the UIDAI and Employment Exchange**

  Impact: Government's thrust on encouraging private sector participation in projects like the Unique Identification program (UIDAI) and modernization of the Employment Exchange is likely to open up domestic opportunities for Indian IT companies; positive over the longer term.

- **Excise duty exemption on part value of packaged or canned software**

  Impact: On packaged or canned software, excise duty exemption has been provided on the portion of the value which represents the consideration for transfer of the right to use such software. Positive for IT services' companies involved in the above; low contribution to revenues leads to only a marginal impact on earnings.

- **Proportional profits from SEZ unit to be taxed, prospectively**

  Impact: Marginally negative for companies with a share of profits coming from exports through SEZ's. Profit derived from the export of services (including computer software) shall be the amount which bears to the profits of the business of the undertaking in the same proportion as the export turnover in respect of such services bears to the total turnover of the company. This clarifies the doubts of the industry and also addressing the anomaly of those companies who were having multiple units in both the SEZ and the domestic tariff area (DTA) vis-a-vis those who were having units in only the SEZ

- **Abolishment of FBT**

  Impact: Marginally positive for profitability of all companies given lower tax incidence. It is proposed to retain the taxation of the fringe benefits on ESOP's as perquisites in the hands of the employees. The perquisite shall include the value of any specified equity shares allotted by the employer, or former employer at a concessional rate. This would mean that FBT applicable on ESOP's shall be treated as perquisite and tax will be payable at the time of exercising the options allotted by the employer.

  However other business promotion expenses that attracted FBT will now attract none reducing the tax incidence for the companies. The quantum of tax saving though not likely to be significant at lower than 1% of PBT.

- **Increase in MAT rate from 10% to 15%**

  Impact: Negative for companies that fall in this tax-paying bracket.While increased rate is a negative, MAT can now be deferred by 10 years v/s 7 years earlier- neutral over the short term, negative over the longer term.

The provisions of the Union Budget have a largely positive impact for the sector, in our opinion. With changes to FBT and MAT applicable from FY11E, we see no impact on FY10 EPS estimates fro our coverage universe; we nevertheless note that there could be marginal upsides to our DCF based price targets given the medium term impact on cash-flows after the sunset clause extension. At current point pending more visibility on FY11E and ensuing Q1FY10E earnings, we leave price targets for stocks unchanged.

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. The extension of Sections 10A and 10B of the IT Act is also positive for smaller companies, which have seen a challenging demand environment given the recessionary environment in major user economies.

We are also encouraged by the initial signs of stability in some parts of the US economy, with BFSI and IMS demand stabilizing, for some vendors. Further improvement in business outlook, greater visibility on FY11E will remain the variables to monitor. From a market perspective we remain positive on longer term prospects of IT services companies. Near term valuations of stocks though look ample, and we retain our selective approach towards the sector. Mphasis, Oracle, Zensar are our preferred picks.

Impact on EPS (Rs)

Company	Pre-Budget EPS		Post-Budget EPS		Current
	FY09	FY10E	FY09	FY10E	Price
Preferred picks					
Mphasis	39.8	NA	39.8	NA	351
Oracle	97	109.3	97	109.3	1184
Zensar	32.9	36.1	32.9	36.1	118
Others					
Infosys	103.1	102.1	103.1	102.1	1761
TCS	26.4	25.7	26.4	25.7	381
Wipro	25.9	26.4	25.9	26.4	372
HCL Tech	16.8	16.6	16.8	16.6	187
Infotech	16.5	17.1	16.5	17.1	180
KPIT	8.3	8.5	8.3	8.5	49
Patni	29.6	23.8	29.6	23.8	247
NIIT Technologies	19.6	20.3	19.6	20.3	101
NIIT Limited	4.2	5.6	4.2	5.6	59
Geometric	0.1	3.4	0.1	3.4	28
Subex	1.3	9	1.3	9	71
R Systems	21.2	21.5	21.2	21.5	85

Source: Kotak Securites - Private Client Research

BUDGET IMPACT: POSITIVE

LOGISTICS

BUDGET HIGHLIGHTS & IMPACT

- **Increased allocation to National Highway Authority of India (NHAI) by 23%**

  Impact: Increased allocation to NHAI 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.

- **Various measures to restore exports growth**

  Impact: The budget has given various measures to restore the exports growth like 1) Extending Export Credit and Guarantee Corporation (ECGC) cover at 95% to badly hit sectors extended upto March 2010 2) Interest subvention of 2% for pre shipment credit extended upto march 2010 3) Increased allocation to Market Development Assistance Scheme 4) Exporters are exempt form payment of service tax for transport of goods through roads an commission payable to foreign agents.

  All the above measure would lead to increased exports and thereby lead to increased business for logistics service providers like ports and transporters.

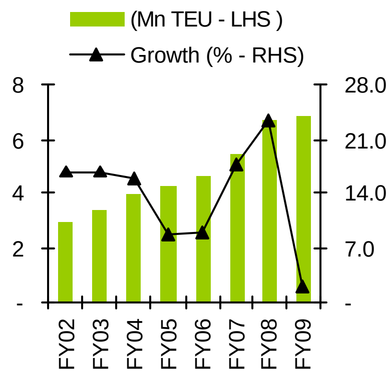
- **GST by April 2010**

  Impact: The Budget has indicated for implementation of goods & services tax (GST) by April-2010. It will lead to rationalization and simplification of the tax structure at both the centre and state levels. This is overall positive for the logistics industry as it would facilitate easier interstate movement of goods thereby providing additional logistics opportunities.

- **Investment linked tax exemptions**

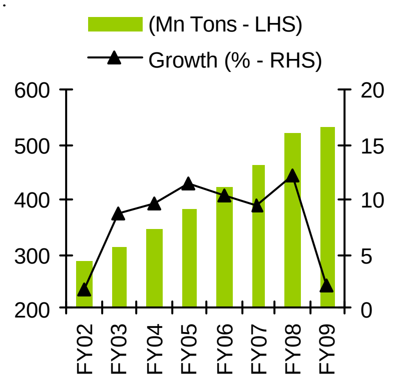
  Impact: The Budget has provided for tax exemptions linked to investment and not profit for setting up and operating cold chain and warehousing facilities for storing agricultural produce. This would lead to increased investments in the cold chain and warehousing facilities.

TEU handled at major ports



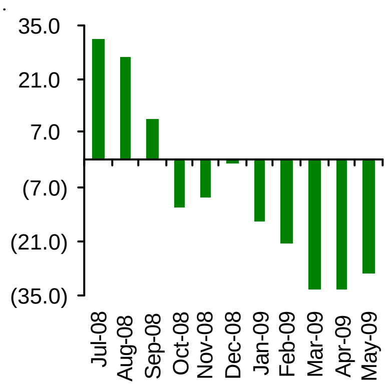
Source: Indian Ports Association

Cargo traffic at major ports



Source: Indian Ports Association

India`s Export Growth YoY (%)



Source: DGFT, Bloomberg

Imposition of Service tax

Impact: The Budget has imposed service tax on transport of goods by rail, coastal cargo and inland waterways. However regarding railways the service providers are already paying it on 75% of the service value and we believe that they would pass on the increased burden of service tax to the customers. Thus its impact is neutral on the revenues of the companies providing services of transportation of goods by railways.

MAT increased form 10% to 15%

Impact: The companies like Gateway Distriparks and Mundra Port would have to pay higher rate of tax thereby impacting its EPS estimates and lead to increased cash outflow.

Impact on EPS (Rs)

Company	Pre-Budget EPS		Post-Budget EPS		Current
	FY09	FY10E	FY09	FY10E	Price
Preferred picks					
CONCOR	63.1	72.5	63.1	72.5	996
Gateway Distriparks	7.5	9.0	7.5	8.5	92
Mundra Port	10.8	15	10.8	14.6	540
Others					
Allcargo Global Logistics (Dec end)	55.3	58.0	55.3	58.0	805
GATI - june end (FV Rs. 2)	0.1	1.5	0.1	1.5	48
Redington	20.5	23.1	20.5	23.1	222
TCI (FV Rs. 2)	4.6	5.5	4.6	5.5	59

Source: Kotak Securites - Private Client Research

BUDGET IMPACT: NEUTRAL

MEDIA

BUDGET HIGHLIGHTS & IMPACT

- **Stimulus package for print media extended**

  Impact: The waiver on 15% agency commission on DAVP advertisements and 10% increase in advertisement rates payable by DAVP to be extended from 30-6-09 to 31-12-09. DAVP is the government arm responsible for funneling of government advertisements to print media. Positive for print companies like HT Media, Jagran Prakashan and DCHL for whom DAVP advertisements contribute c7-10% of company advertisement revenues.

- **Customs duty exemption on Set Top Boxes (STB) for TV broadcasting has been withdrawn; 5% customs duty to be imposed.**

  Impact: Marginally negative for domestic STB makers and distribution platforms dependent on imported STB's- Dish TV and WWIL.

- **Abolishment of FBT**

  Impact: Marginally positive for profitability of all companies given lower tax incidence.

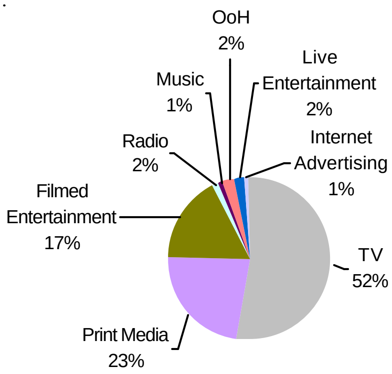
- **Increase in MAT rate from 10% to 15%**

  Impact: Negative for companies that fall in this tax-paying bracket. In our coverage universe ENIL will negatively impacted. While increased rate is a negative, MAT can now be deferred by 10 years v/s 7 years earlier- neutral over the short term.

- **Abolition of surcharge in personal income tax proposals**

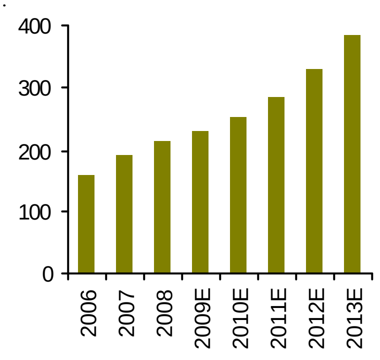
  Impact: The abolition of surcharge in the personal income tax proposals will lower the effective tax outgo for individuals resulting in an increase in disposable income. We opine this would boost spending power and impact consumption trends positively, which would benefit consumption driven sectors like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

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

We expect the Budget to have a largely neutral impact on the prospects of the media sector as a whole, and companies operating within it. From a longer-term perspective, we believe that greater spending power, demographics, growing consumerism in tandem with renewed expectations of healthy economic growth will underpin our optimism on the sector.

In the near term, nevertheless, we believe recent stock out-performance is building in a rapid up tick in advertising revenue momentum on the back of renewed policy action leading to a faster recovery in corporate earnings. Any belying of these hopes will remain the key risk to the near term prospects of the segments' stocks.

Our preference remains for market leaders, strong franchises and healthy balance sheets. We recommend accumulating our preferred picks- Zee News, Jagran Prakashan on dips. We remain positive on the subscription opportunity for broadcasters (ZEE, ZNL) given the structural changes in the distribution set-up.

Impact on EPS (Rs)

Company	Pre-Budget EPS		Post-Budget EPS		Current
	FY09	FY10E	FY09	FY10E	Price
Preferred picks					
Zee News	1.9	2.2	1.9	2.2	39
Jagran Prakashan	3.0	4.1	3.0	4.1	72
Others					
Balaji Telefilms	0.1	2	0.1	2	50
DCHL	5.8	8.8	5.8	8.8	69
ENIL	-	0.7	-	0.7	168
HT Media	0	4.9	0	4.9	88
PVR	3.6	6.8	3.6	6.8	103
UTV	21.6	22.7	21.6	22.7	344
ZEEL	8.6	10.1	8.6	10.1	171

Source: Kotak Securites - Private Client Research

BUDGET IMPACT: POSITIVE

METALS & MINING

BUDGET HIGHLIGHTS & IMPACT

- **Thrust on infrastructure to stimulate steel demand**

  Impact: Government would be setting up IIFCL to refinance 60 per cent of commercial bank loans for PPP projects in critical sectors over the next fifteen to eighteen months. IIFCL and Banks are expected to be in a position to support projects involving total investment of Rs.1,000 bn. Also, 23% higher allocation to NHAI, 46% higher allocations to Railways, 87% higher allocation to Jawaharlal Nehru National Urban Renewal Mission and 45% higher allocation for Bharat Nirman is a big fillip to the infrastructure budget which would surely benefit steel sector in a big way.

- **Investment linked tax exemptions rather than profit linked exemptions for steel intensive businesses**

  Impact: Investment linked tax incentives to be provided, to begin with, to the businesses of setting up and operating 'cold chain', warehousing facilities for storing agricultural produce and the business of laying and operating cross country natural gas or crude or petroleum oil pipeline network for distribution on common carrier principle. Under this method, all capital expenditure, other than expenditure on land, goodwill and financial instruments is to be fully allowable as deduction. This is a big incentive which is likely to lead to massive investments particularly in laying pipelines which would significantly boost steel demand.

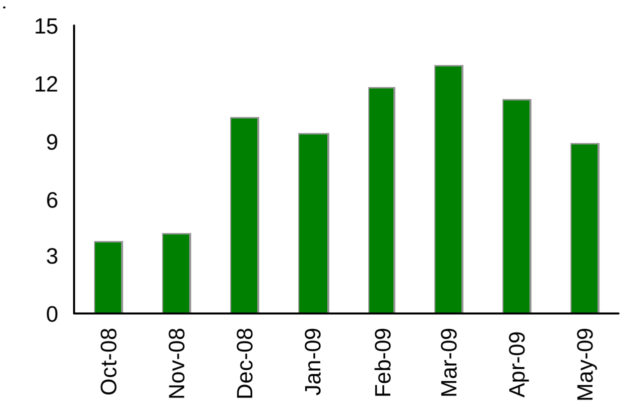
- **No rollback of excise duty on steel earlier cut to 8%**

  Impact: There were expectation in the market that government might now rollback excise duty cut on steel as there has been sharp fall in excise collections and government need sources to generate funds. The continuation of excise duty at 8% is positive for the steel companies as they can raise steel prices in line with global prices when required.

- **Export duty on iron ore fines remains NIL**

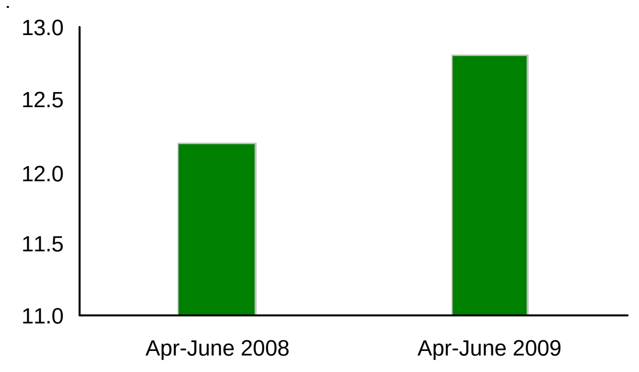
  Impact: Government has not proposed any increase in iron ore export duty in the budget as feared by the markets and demanded by the steel ministry. This would help the iron ore industry to function normally and to gain from any revival in global iron ore demand.

Indian iron ore monthly exports to China (mt)



Source: Bloomberg

Indian domestic steel demand (mt)



Source: Bloomberg

- **Safeguard duty on import of steel products not introduced**

  Impact: Government has not introduced safeguard duty on import on certain steel products particularly HRC. There was demand by the steel ministry to introduce safeguard duty up to 20-25% and there was a market expectation that a 5-10% duty might be imposed. As the import of steel for Q1 FY10 is still within limit, and Indian steel prices are above global steel prices, there was little merit in the demand, so it is not fundamentally negative as such.

- **Extension of sunset clause for units in free trade zone under section 10A and for export oriented undertakings under section 10B extended by one year to FY11**

  Impact: Under the existing provisions, the deductions under section 10A and section 10B of the Income Tax Act are available only up to the assessment year 2010-11. It is proposed to amend sections 10A and 10B to extend the tax benefit under both these sections by one year i.e., the deduction will be available upto assessment year 2011-12. This is going to benefit export mining companies like Sesa Goa and Hindustan Zinc presently availing tax benefits under these sections.

Impact on EPS (Rs)

Company	Pre-Budget EPS		Post-Budget EPS		Current
	FY09	FY10E	FY09	FY10E	Price
Preferred picks					
Sesa Goa	25	29	25	29	275
SAIL	14.9	14	14.9	14	154

Source: Kotak Securites - Private Client Research

BUDGET IMPACT: NEUTRAL

NBFCs

BUDGET HIGHLIGHTS & IMPACT

- **Continuing focus on Bharat Nirman**

Impact: Continuing its thrust on infrastructure development the Union Budget 2009-10 has increased the allocation for Bharat Nirman by 45% over 2008-09 budgeted estimate. Further, allocations under Pradhan Mantri Gram Sadak Yojana (PMGSY) has also been increased by 59% over 2008-09 budgeted estimated to Rs.120bn. Since significant funding requirement for infrastructure development will be met through domestic institutions, continuing thrust on Bharat Nirman will continue to offer attractive opportunity to financial institution to finance these projects. The move, although positive over long- term, is less likely to have an impact financing companies immediately.

- **Increased allocation for Power sector**

Impact: Allocation under the Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY) has also been increased by 27% to Rs.70.0bn. Allocation under Accelerated Power Development and Reform Programme (APDRP) has been increased by 160% to Rs.20.8bn in 2009-10 over 2008-09 budgeted estimates. The continuing thrust on increasing power transmission and distribution network in rural India will be positive for specialised power sector financing companies.

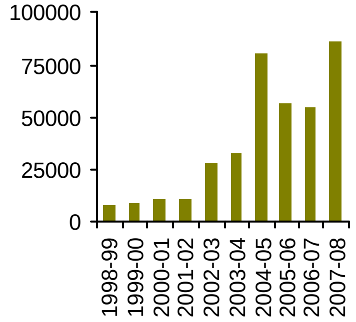
- **Commodity Transaction Tax (CTT) to be abolished.**

Impact: The abolition of the CTT, will restore the viability of the commodity trading business. From the prospective of capital market intermediaries/stock broking firms, while the contribution of commodity trading revenue is relatively smaller, nonetheless, it will be positive for companies engaged in the commodity trading business.

- **NHB entitled for benefits under 36 (1) (viii)**

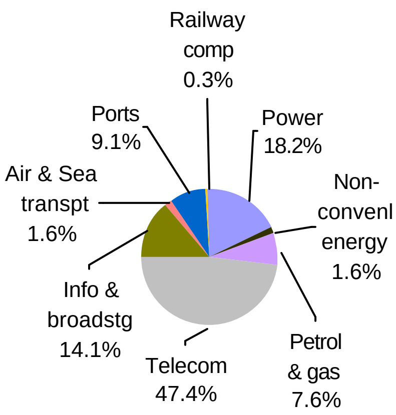
Impact: The Union Budget 2009-10 proposes to included National Housing Bank (NHB) (which provides re-financing facility to housing finance companies banks etc) under the purview of section 36 (1) (viii). Section 36 (1) (viii) provides special deduction to financial institutions of amount not exceeding 20% of the profits as special reserve. We opine that effectively it is less likely to benefit housing finance companies.

Home loan disbursement (Rs mn)



Source: NHB

FDI flows to infrastructure 2008-09



Source: Economic Survey

Impact on EPS (Rs)

Company	Pre-Budget EPS FY09	Pre-Budget EPS FY10E	Post-Budget EPS FY09	Post-Budget EPS FY10E	Current Price
Preferred picks					
Shriram Transport Finance	30.1	36.2	30.1	36.2	298
Others					
HDFC	80.2	92	80.2	92	2356
IDFC	5.9	6.9	5.9	6.9	134
PFC	11.8	14.2	11.8	14.2	195
SREI Infrastrucutre finance	8.4	9	8.4	9	73

Source: Kotak Securites - Private Client Research

BUDGET IMPACT: POSITIVE

OIL & GAS

BUDGET HIGHLIGHTS & IMPACT

- **Clarification of 80-IB on tax holiday for natural gas production**

  Impact: The budget has extended Tax holiday under section 80-IB(9) of the Income Tax Act in respect of profits arising from the commercial production or refining of mineral oil to natural gas. This would lead to increased investments in exploration of natural gas. This is positive for RIL and Cairn India for future gas discoveries.

- **Investment linked tax exemptions**

  Impact: The budget has provided for tax exemptions linked to investment and not profit for laying and operating cross country natural gas or crude or petroleum oil pipeline network for distribution on common carrier principle. This would lead to increased investments in setting up cross country natural gas pipelines. This is positive for GAIL and GSPL.

- **National gas grid**

  Impact: The budget has highlighted that a blueprint would be developed for long distance gas pipelines leading to a national gas grid to facilitate transportation of gas across the length and breadth of the company. This is positive as it would lead to increased investments in the exploration and transportation of gas and city gas distribution. This is positive for GAIL.

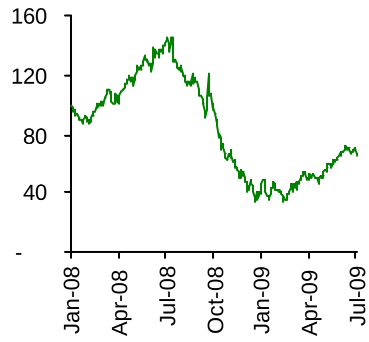
- **Petroleum and Diesel pricing policy**

  Impact: Government would set up an expert group to advice on a viable and sustainable system of pricing petroleum products. This point 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) and oil marketing companies (IOC, HPCL, BPCL).

- **Specific excise duty on petrol and diesel**

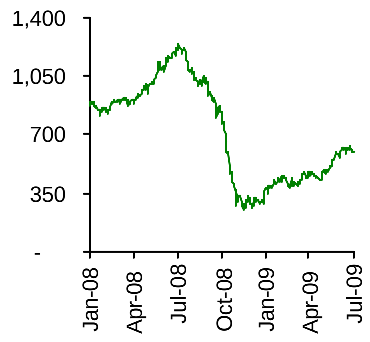
  Impact: The ad valorem part of the excise duty on branded petrol and branded diesel is being abolished. For branded petrol it would be replaced by an equivalent specific duty of Rs.14.5 per liter instead of 6% + Rs.13 per Liter. For branded diesel it would be replaced by an equivalent specific duty of Rs.4.75 per liter instead of 6% + Rs.3.25 per Liter. This is positive for oil marketing companies as now with rising crude prices the duty would remain fixed at the mentioned rates and not rise as percentage of crude prices as was the case earlier.

Crude Oil ($/bbl)



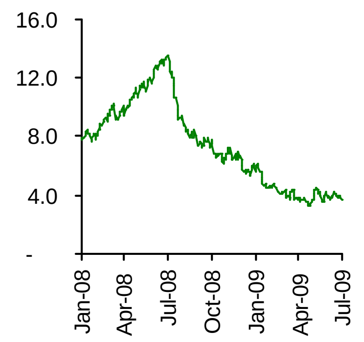
Source: Bloomberg

Naphtha ($/MT)



Source: Bloomberg

Natural Gas ($/MMBTU)



Source: Bloomberg

- **Excise duty on Naphtha reduced to 14%**

  Impact: The budget has reduced the excise duty on naphtha from 16% to 14% for use in petrochemical and power plants. However excise duty on naphtha used by fertilizer plants remains zero. This is positive for oil refineries that produce and sell naphtha as cheaper naphtha would lead to increased off take.

- **MAT increased form 10% to 15%**

  Impact: This is negative for Reliance Industries as would have to pay higher rate of tax thereby impacting its EPS estimates and lead to increased cash outflow.

Impact on EPS (Rs)

Company	Pre-Budget EPS		Post-Budget EPS		Current
	FY09	FY10E	FY09	FY10E	Price
Preferred picks					
GSPL	2.2	3.0	2.2	3.0	50
Petronet LNG	6.9	7.5	6.9	7.5	66
Others					
IGL	12.3	12.5	12.3	12.5	137

Source: Kotak Securites - Private Client Research

BUDGET IMPACT: NEUTRAL

PHARMACEUTICALS

BUDGET HIGHLIGHTS & IMPACT

- **Drugs and pharmaceutical products and medical equipment exempted from increase in excise duty**

  Impact: Drugs and pharmaceutical products falling under Chapter 30 and Medical equipment were exempted from increase in excise duty, (increased from 4% to 8%). Thus, these products will continue to attract an excise duty of 4%. The move will be significantly positive for pharmaceutical companies engaged in the manufacturing of these drugs and medical equipments.

- **National Rural Health Mission allocation increased**

  Impact: Allocation under National Rural Health Mission (NRHM) has been increased by Rs.20.6bn over interim budget estimates for 2009-10 of Rs.120.7bn. This is expected to be positive for the overall pharmaceutical industry, as it will boost health spending.

- **Weighted deduction of 150% allowed for biotechnology and production of drug and pharmaceuticals.**

  Impact: U/s 35 (2AB), weighted deduction of 150% is allowed to companies engaged in the business of biotechnology or in the business of manufacturing or production of drugs, pharmaceuticals. The weight has been increased from 125% previously to 150% and thus positive for the pharma companies engaged in drug discovery operations and boost further investment in R&D in India.

- **Customs duty on life saving drugs and vaccines reduced.**

  Impact: Neutral. Customs duty on 10 specified life saving drugs/vaccine and their bulk drugs to be reduced from 10% to 5% with Nil CVD (by way of excise duty exemption). The duty relaxation is less likely to have any significant benefit to the companies as they will pass on the benefit to the end consumer.

- **Customs duty on specified heart devices reduced**

  Impact: Neutral. Customs duty on specified heart devices, namely artificial heart and PDA/ASD occlusion device, to be reduced from 7.5% to 5% with Nil CVD (by way of excise duty exemption). The duty relaxation is less likely to have any significant benefit to the companies as they will pass on the benefit to the end consumer.

We do not have active coverage on the sector

BUDGET IMPACT: NEUTRAL

POWER

BUDGET HIGHLIGHTS & IMPACT

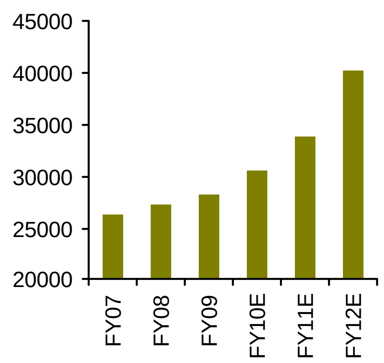
- **Extension of 80 IA benefit by one year**

  Impact: Positive. The 80 IA benefit provides deduction of profits for companies engaged in generating power at any time during the period beginning 1-4-1993 and ending on 31-3-2010. It has been proposed to extend the terminal date for a further period of one year upto 31-03-2011. The impact is positive for companies like NTPC, CESC, Tata Power and Torrent Power.

- **Increase in MAT rate**

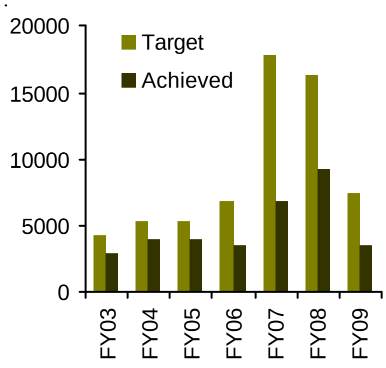
  Impact: Neutral. The increase in MAT shall not have any impact on the utility profits as the entire tax is recovered by adjusting tariffs upward. Neutral on PGCIL.

NTPC's installed capacity (MW)



Source: Company

Growth in capacity (MW)



Source: CEA

Impact on EPS (Rs)

Company	Pre-Budget EPS FY09	Pre-Budget EPS FY10E	Post-Budget EPS FY09	Post-Budget EPS FY10E	Current Price
Preferred picks					
NTPC	9.9	11.1	9.9	11.1	194

Source: Kotak Securites - Private Client Research

BUDGET IMPACT: NEUTRAL

REAL ESTATE

BUDGET HIGHLIGHTS & IMPACT

- **Focus towards housing for poor through Rajiv Awas Yojana**

  Impact: Rajiv Awas Yojana intends to make the country slum free in the five year period. Support for urban poor housing has been increased to Rs 39.73bn and it also includes provision for Rajiv Awas Yojana. Allocation for Indira Awaas Yojana is increased to Rs 88bn for 2009-10. Along with this, an amount of Rs 20bn is allocated for Rural Housing Fund in the National Housing Bank to boost rural housing sector. This is likely to be positive for companies focused on rural housing and slum rehabilitation projects like HDIL, Akruti Nirman.

- **Reduction in construction cost**

  Impact: Goods like pre fabricated concrete slabs made at the construction site have tax relief which is likely to be positive for developers of low income housing segment.

- **Clarification regarding Section 80IB benefits**

  Impact: Section 80-IB benefits are not applicable for contractors building the housing projects. The objective of Section 80 IB is to build housing projects for low and middle income households. This has been ensured by limiting the size of the residential unit. In order to prevent misuse of this section, developer shall not be allowed to allot more than one residential unit in the housing project to the same person or his immediate relatives.

  We do not have active coverage on the sector.

BUDGET IMPACT: NEUTRAL

RETAIL

BUDGET HIGHLIGHTS & IMPACT

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

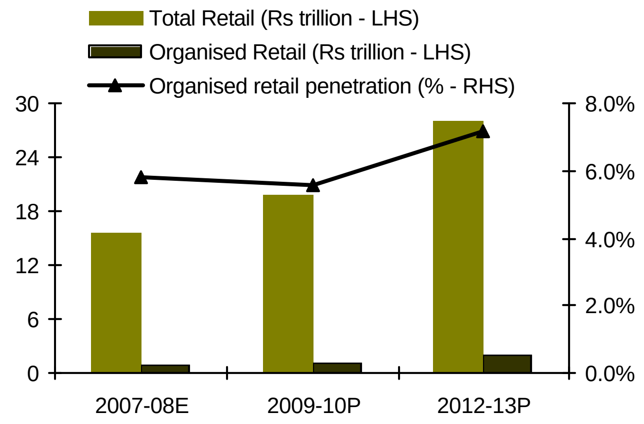
  Impact: Continued measures of government to boost GDP growth are expected to drive Indian consumerism. This is likely to be positive for the retail sector.

- **Higher disposable income due to higher tax exemption as well as abolition of surcharge**

  Impact: The increase in the exemption limits as well as abolition of surcharge of 10 per cent on personal income tax will lower the tax outgo for individuals, thereby resulting in higher disposable income. This is expected to result in increase in the spending power and consumption, thereby directly benefiting retail companies.

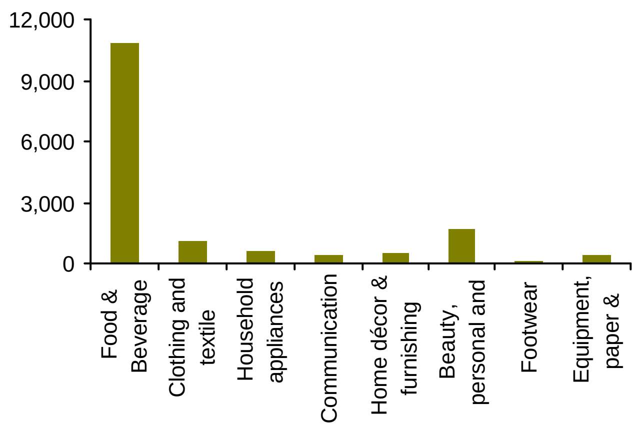
  We do not have active coverage on the sector.

Projected Retail Growth



Source: Industry

Segmentwise size of retail market (2007-08) - (Rs bn)



Source: Industry

BUDGET IMPACT: NEUTRAL

TEXTILES

BUDGET HIGHLIGHTS & IMPACT

- **Increase in excise duty on PTA to 8%**

  Impact: The budget has increased the excise duty on PTA, key raw material to make polyester chips and POY, form 4% to 8%. However this is a modvatable item and thus we do not expect any negative impact on the profitability of the companies.

- **Increase in excise duty on polyester chips to 8%**

  Impact: The budget has increased the excise duty on polyester chips form 4% to 8%. However this is a modvatable item and thus we do not expect any negative impact on the profitability of the companies.

- **Increase in excise duty on man made fiber and yarn to 8%**

  Impact: The budget has increased the excise duty on man made fiber and yarn like POY form 4% to 8%. 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.

- **Reduction in excise duty on MEG to 8%**

  Impact: The budget has reduced the excise duty on MEG, key raw material to make polyester chips and POY, form 12% to 8% and thereby it has removed the duty anomaly in the key raw materials for the man made fibbers. However we expect the companies to pass on the benefits of lower excise duty and thus we do not expect any impact on the profitability of the companies.

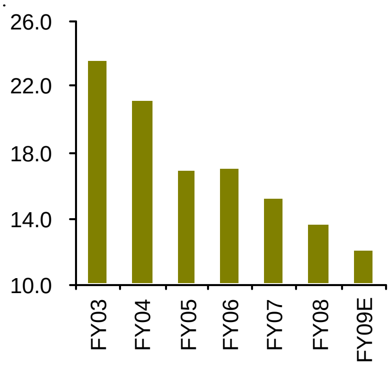
- **Customs duty on cotton and wool waste to be reduced to 10%**

  Impact: The budget has reduced the customs duty form 15% to 10% for cotton and wool waste. This is positive for the companies as now they can import them at lower cost thereby reducing their cost of production.

- **Extension of 2% interest subvention**

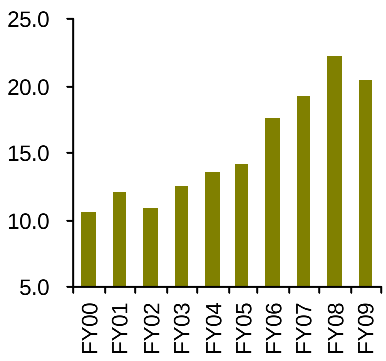
  Impact: The budget has extended the 2% interest subvention till March 2010. This would reduce the interest burden on the textile companies.

Textile exports as % of total exports



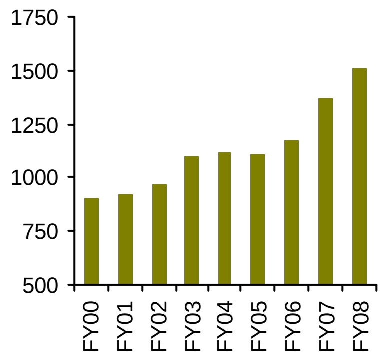
Source: Ministry of Textiles

India`s Textile Exports ($ bn)



Source: Ministry of Textiles

Production of man made filament yarn (mn kg)



Source: Ministry of Textiles

- **Optional 4% excise duty on cotton textiles restored**

  Impact: Restoration of optional excise duty on cotton textile will enable eligible manufacturers to avail the export rebate of the duty paid from CENVAT credit.

- **Mega clusters**

  Impact: Creation of handloom mega cluster in West Bengal and Tamil Nadu, powerloom mega cluster in Rajasthan and carpets mega cluster in Jammu & Kashmir and Misrzapur.

Impact on EPS (Rs)

Company	Pre-Budget EPS		Post-Budget EPS		Current
	FY09	FY10E	FY09	FY10E	Price
Preferred picks					
JBF Industries	30.3	36.0	30.3	36.0	76

Source: Kotak Securites - Private Client Research

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