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Stratoscope

Budget Review - Expectations deferred?

Indian Equity Strategy

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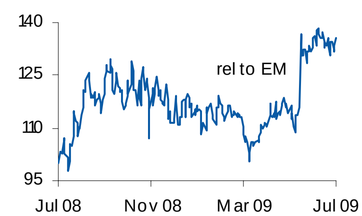
- **Budget FY2010 maintains the status quo**. Against the backdrop of an uncertain global economic environment, Finance Minister Pranab Mukherjee continued to provide short-term fiscal support to ensure a durable economic recovery. Consequently, tax rates and structures were largely left unchanged. Key changes proposed were a 500 bps increase in the Minimum Alternate Tax (MAT) rate for corporates and a withdrawal of the surcharge on personal income taxes.
- **Markets sell off as pre-budget hype not matched**. The financial markets were however spooked by a larger than expected fiscal deficit (6.8% vs 6.2% indicated in the interim budget) and the absence of some keenly awaited policy announcements pertaining to fiscal responsibility, the divestment agenda and an increase in foreign investment limit in certain sectors.
- **But all is not lost.** As the Finance Minister indicated in the Budget speech, it is not about one budget, and a lot of policy announcements can be done ex the budgetary framework. Further, the Government has provided a tangible time frame for key initiatives including fiscal responsibility, a new direct tax code and the implementation of GST. Also late evening, the Finance Secretary provided additional clarity on the divestment and medium-term fiscal deficit targets. We also take comfort in the policy flexibility available to the Government given the current political scenario.
- **Maintain market stance at this stage.** Prima facie we do not see any major changes to our earnings estimates for the broad market (12% for FY10E and 16% for FY11E). Consequently we continue to expect a trading range of 12,500-16,500 for the BSE Sensex. Over the last month, we have been calling for consolidation in the equity markets, following the sharp post-election results rally and given the substantial equity issuance pipeline and the weak progress of the monsoon. We believe the current sell-off provides an opportunity to get more constructive on the markets.
- **Sector stance.** Our overweight stance on financials and underweight stance on consumer staples are at risk due to the Budget. We are however maintaining our positions herein at this stage on financials, given the sharp sell-off today and given the possibility of the Government clarifying on key issues related to sector reforms; and on consumer staples, given the weak progress of the monsoon.

MSCI India vs. EM



Source: Datastream

Budget 2009-10: Sectoral impact

Positive	Neutral	Disappointing
Consumer Staples, IT, Cement	Infrastructure, Auto, Energy	Financials, Real estate, Metals

Source: J.P. Morgan

See page 16 for analyst certification and important disclosures, including non-US analyst disclosures.

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Budget FY2010 – Focus on Stability

"It [the results of the National Elections] is a mandate for continuity, stability and prosperity. It is a mandate for inclusive growth and equitable development."

"Members would appreciate that a single Budget Speech cannot solve all our problems, nor is the Union Budget the only instrument to do so".

Finance Minister Pranab Mukherjee outlined his stance early in the Budget speech with these statements.

Against the backdrop of an uncertain global economic environment and the weak progress of the monsoon, the Finance Minister has opted for stability and continuity in the Budget presented for FY10E.

Recognizing the need to support growth through the revival phase, the Government has continued with its stance of providing short-term fiscal support to ensure a durable economic recovery. Total expenditure has been increased by 36%, including a 34% increase in Plan expenditure.

Consequently, there have been no major changes in taxation, with the exception of an increase in the rate of Minimum Alternate Tax from 10% to 15% and the withdrawal of the surcharge on personal income tax. (Please refer to Table 1 and Table 2 for details on significant changes in expenditure and taxation announced in the Budget).

Table 1: Key measures announced in Budget -2009-10

Measures	Change	Impact
MAT (Minimum Alternate Tax)	Increased to 15% from 10% earlier. The period allowed to carry forward the tax credit under MAT to be extended from seven years to ten years though.	Negative for companies currently under MAT, though the earnings impact in the immediate term could be muted due to availability of sufficient tax credits.
Fringe Benefit Tax	FBT abolished	Reduces effective tax rates by 0.5-1.0%; more importantly, reduces procedural hassles.
Commodity transaction tax	Abolished	Positive for commodity traders, particularly for hedging and exchanges.
Surcharge	Removed surcharge on personal income (10% previously)	Increases the disposable income by up to 3% for higher income bracket and should help consumption.
Personal income tax	Exemption limit increased by Rs10,000	Marginally increases disposable income

Source: J.P. Morgan

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Table 2: Increased allocation to social and infrastructure schemes

Scheme	YoY increase in allocation
National Highway Development Programme (NHDP)	23%
Jawaharlal Nehru National Urban Renewal Mission (JNNURM)	87%
Bharat Nirman	45%
Rashtriya Krishi Vikas Yojana (RKVY)	30%
National Rural Employment Guarantee Scheme (NREGS)	144%
Accelerated Power Development and Reform Programme (APDRP)	160%
Accelerated Irrigation Benefit Programme (AIBP)	75%
Pradhan Mantri Gram Sadak Yojana (PMGSY)	59%
Rajiv Gandhi Grameen Vidyutikaran Yojna	27%
Indira Awaas Yojana (IAY)	63%

Source: J.P. Morgan

The financial markets have however been spooked due to a larger than expected fiscal deficit (6.8% vs. the 6.2% indicated in the interim budget announced in February) and the absence of some keenly awaited policy announcements pertaining to fiscal responsibility, the divestment agenda and an increase in foreign investment limit in certain sectors.

Over the last month, we have been calling for a consolidation in the equity markets, given the sharp rally post election results, the large equity issuance pipeline and the weak progress of the monsoon.

We however believe that the current sell-off would be an opportunity to turn more constructive on the markets as the Government retains the policy freedom and flexibility to promote growth and pursue reform initiatives. We also take comfort from the tangible time lines provided by the Finance Minister to tackle key issues.

Table 3: Time line for government initiatives

	Time line
Direct tax code	Structural changes in direct tax to be pursued by releasing new direct tax code within the next 45 days.
GST rollout	Starting April 2010
Petroleum product pricing	Govt to set up an expert group to advise on petroleum pricing policy

Source: J.P. Morgan

Also, in a post-budget interview with the electronic media, the Finance Secretary specified targets on key issues including divestment, the fiscal deficit, etc.

Table 4: Finance secretary's post market hour interview and clarifications

	Clarification	J.P. Morgan comment
Road map for fiscal consolidation	Finance ministry remains committed to fiscal consolidation and deficit is targeted at 5.5% and 4% of GDP over next two fiscal years, from 6.8% for current FY.	This should help bond market sentiment. Higher borrowing for the current fiscal year however remains a key concern.
Divestment	Divestment is ON and for the current fiscal year 250 bn is likely, in line with economic survey suggestions	Secretary clarified that State-owned Oil India Ltd and NHPC Ltd will hit the capital market with their Initial Public Offerings (IPOs) in August and September. Four more companions based on overall framework and design will be identified (for disinvestment) by the Department of Disinvestment in consultation with ministries. The Budget proposed an estimated disinvestment proceeds of Rs11.2B for 2009-10, which includes disinvestment in Rail India Technical and Economic Services, Cochin Shipyard, Telecommunications Consultants India, Manganese Core India, Rashtriya Ispat Nigam and Satluj Jal Vidyut Nigam
FDI limit is insurance	There was no mention of higher FDI limit in insurance sector as proposal is already in parliament and will proceed with parliamentary approval.	Should help sentiment for companies with insurance subsidiaries

Source: J.P. Morgan

Market stance

On balance, we do not see a major revision to our earnings estimates (12% for FY10E and 16% for FY11E) at this stage and continue to expect a trading range of 12,500-16,500 for the BSE Sensex (for details, please refer to Stratoscope – Valuations re-visited, dated June 22, 2009).

Portfolio stance
In the run-up to the Budget, our key overweight positions were Industrials and Utilities, Financials and IT Services.

We believe the Budget has been positive for IT services, neutral for Industrials and Utilities, and negative, at least from a sentiment perspective, for financials. However given the sharp sell-off today and the possibility of the Government clarifying on key issues related to the financial sector in the immediate term, we prefer to hold our positions at this stage and review once the dust settles.

In the run-up to the Budget, our key underweight positions were Materials, Energy and Consumer Staples.

We believe the Budget has been neutral for Materials and Energy and positive for Consumer staples, given the removal in surcharge on personal income tax and as no incremental taxes have been levied on tobacco products. We however prefer to maintain our underweight stance on consumer staples at this stage, given the weak progress of the monsoon and the adverse impact this could have on demand. It is worth pointing out that while only 31.5m people in India pay personal income taxes and would benefit due to the withdrawal of surcharge, a much larger percentage – nearly 60% of the total population – lives in rural areas and would be adversely impacted either directly or in terms of sentiment if the monsoon does not improve.

Sectoral impact

Infrastructure & Capital Goods

Measure	Remarks	Impact - Positive / Neutral / Negative Key Stocks impacted
Policy Action	No specifics on divestment, although the FM did say that it would look to getting its stake down to 51% in PSUs. We believe divestment-related announcements would be made later on	An expected catalyst for BHEL, NTPC, PGCIL.
	IIFCL would refinance 60% of commercial bank loans for private-public partnership based infrastructure projects - as per FM, this can support infra projects to the tune of Rs1000B. Take-out financing mechanism by IIFCL to address ALM mismatch issues that would arise for long-term funding needs of infra sector	This should be positive for infra developers such as RPWR, TPWR, GMRI and RELI.
Government Expenditure	National Highway Development Project (+23%), Rail capex Rs158B. JNNURM for urban infra and housing Rs129B (+87%), APDRP Rs20.8B, up sharply. PM Gram Sadak for rural roads Rs120B (+59%), RGGVY for rural electrification Rs70B (+27%), Commonwealth games related infra building Rs34.72B - these are TANGIBLE measures proposed for infrastructure spending Some of the budgeted capex estimates (e.g., APDRP, whose investment target is Rs515B) are still way below overall 11th plan targets. However, government's role as a facilitator is more crucial in our view. The government has to ensure speedy clearances, stable regulatory and funding environment etc. In our estimate ~70% of the investments are made by states and private sector.	This should be positive for L&T and T&D, equipment mfrs ABB, CG and Siemens.
	Suggested various measures to step up oil & gas capex: a) Blueprint for National gas grid under preparation, b) increased capital subsidy for Assam gas cracker project, c) investment-linked tax incentives to be extended to laying and operating oil & gas pipelines, d) Sec 80IB benefits to be extended to natural gas exploration.	These measures should be positive for L&T, which depends upon hydrocarbon for sizeable portion of FY10 orders, and Punj Lloyd
Taxation	No word on 80IA so far. This is a key tax provision that exempts profits earned on infrastructure related investments from tax, for any 10 out of the first 15 years.	The benefits are available through FY10, and thus it is possible that the announcement might come next year.
Direct taxes	Increase in MAT rates to 15% from 10%	Negative for some units of Suzlon that have 100% backward-area related exemptions. Also marginally negative for infra developers who pay MAT on their infra SPVs – e.g., RPWR and RELI.
Indirect taxes		
Excise duties	a) pre-fabricated concrete slabs and at-site manufacturing exempted from excise duty	Positive for E&C companies, including L&T
Customs duties	b) Reduction in custom duty on permanent magnets, a key component of wind-based generators, from 7.5% to 5%	Suzlon does not employ this technology, hence neutral
Overall assessment	Neutral	

Source: J.P. Morgan

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Banks

Measure	Remarks	Impact - Positive / Neutral / Negative Key Stocks impacted
Policy Action	Refinancing Infrastructure lending through IIFCL	This would improve refinancing for Infrastructure projects. Positive for Infrastructure lending
	Additional interest subvention of 1% on farm credit	This is P&L neutral for Banks as budgetary allocation is made for the same
	SOE Banks government holding not to go below 51%	The Finance minister ruled out divesting govt. stakes in PSU banks to below 51%. While this leaves room for some stake reduction (probably through capital issuance and renunciation of rights), a “re-rating” opportunity is unlikely for now.
Policy Non-Action	Expectation of Increase in FDI limits in insurance from 26% to 49% - Not met	This is likely to be a disappointment for the market although we should note that this was not necessarily a budgetary item so the door on this may still be open.
	Expectation of increase to housing Allowance Deduction – Not Met	Expectations that there would be an increase in deductible allowance to boost housing have not come through. Marginal negative for Banks and HFC's like HDFC and LIC Housing Finance
Government Expenditure	Budget Deficit higher than expected – Negative for Rates	With a proposed 6.8% budget deficit for current fiscal year, bond yields have shown an early spike – this is negative for PSU banks’ bond focused asset books. But Finance secretary did indicate towards lower deficit going forward.
Taxation	FBT abolished	Most Banks pass on FBT to employees and hence this is P&L neutral for Banks
Overall assessment	Disappointing	Overall the budget did not match the pre-budget hype with status quo maintained on all major financial reforms expected (FDI in Insurance, PSU bank disinvestments,etc). But we believe some measures could be taken up independent of the Budget later.

Source: J.P. Morgan

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Oil & Gas

Measure	Remarks	Impact - Positive / Neutral / Negative Key Stocks impacted
Policy Action	Blueprint for formation of a national gas grid. Tax exemptions for investments in oil & gas pipelines	Positive - This would provide incentive for gas transmission companies like GAIL, GSPL
	To set up expert group on aligning fuel pricing with global trends - No specific announcements made	Negative - Expectations on progressive announcements on deregulating fuel pricing and upstream subsidy sharing were not met. No incremental positive news for BPCL, HPCL, IOC, GAIL, ONGC
Taxation Direct taxes	Tax holiday as per Sec. 80 IB extended to natural gas production	Clarification positive for all upstream companies especially RIL given ~25-37% Ebitda contribution from KG block (primarily gas). Though text specifies clarification is from NELP VIII, softening of Fin Min stance is positive and sub-judice disputes on earlier rounds will likely get sorted.
	MAT rate increased to 15% from 10%	Negative for RIL, Cairn. We expected RIL to pay near MAT taxes for FY10-12E given tax exemption for their gas business. We estimate ~4% negative impact on RIL's EPS. For Cairn India we estimate 5-6% negative impact on PAT.
	Extension for Tax exemption for refineries under Sec 80 IB	The deadline for eligibility of tax exemption for refineries has been extended to Mar 2012 from March 2009 earlier. This would be positive for private refinery projects. RIL already enjoys tax benefits under the SEZ scheme and SOE oil refineries have already been granted exemption till Mar-12
	Investment linked tax incentive for oil and gas pipelines, under new section 35AD	Positive - Would provide incentive for gas transmission companies like GAIL, GSPL. Proposed section allows 100% deduction in respect of capex incurred for setting up cold chain, oil & gas pipelines
Excise/Customs duties	No Auto Fuel taxation increase	Positive for R&M companies given 6-9% increase allowed in retail auto fuel prices recently. However, excise duty for branded petrol and diesel has been increased marginally, while excise duty on bio fuel blended petrol/diesel has been removed - these measures should have marginal impact.
	Excise Duty on manmade fibres/intermediates increased	Excise duty on manmade fibres/intermediates increased to 8% from 4% earlier. Negative for polyester companies (Reliance Industries, Indo Rama Synthetics). Excise duty on PX kept at 4%; positive for Reliance Industries
Overall assessment	Neutral	Tax clarity and no increase in fuel taxes, positive. MAT increase, no action on de-regulation impacts earnings, sentiment

Source: J.P. Morgan

Consumer & Retail

Measure	Remarks	Impact - Positive / Neutral / Negative Key Stocks impacted
Government Expenditure	Higher allocation for rural benefit schemes like NREGA (allocation raised 144% vs. FY09)	Push to rural consumption bodes well for FMCG companies such as HUL, Dabur, Godrej Consumer and Colgate which receive significant share (30-50%) from rural areas
	Emphasis on GST implementation by April 1, 2010	Positive
Taxation		
Direct taxes	MAT increased from 10% to 15%	Negative for Dabur India and Godrej Consumer who pay MAT considering majority of their production is from tax exempt zones
	Abolishment of FBT	Positive. Reduces effective tax rate by 0.5-1% for FMCG companies
Indirect taxes		
Excise duties	Excise duty on cigarettes unchanged	Positive for ITC
	No excise duty cut roll backs	Positive for HUL and Colgate
	Excise duty on branded jewelry removed	No material impact on Titan considering excise duty payouts were negligible for jewelry for Titan
Customs duties	Raise custom duty on gold bars from Rs10/gm to Rs20/gm	Since duty rate is marginal in context of overall cost of gold at Rs1500/gm and is likely to be passed on to consumers, no material impact on jewelry demand and earnings for Titan Industries
Others	Personal income tax exemption limits raised and removal of surcharge	Should boost consumer spending particularly discretionary spends. Beneficiaries include retailers like Titan Industries and Pantaloon and staple companies
Overall assessment	Positive	

Source: J.P. Morgan

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Autos

Measure	Remarks	Impact - Positive / Neutral / Negative Key Stocks impacted
Government Expenditure	Focus on infrastructural development: Increased allocation to JNNURM, National Highways (NHAI) and Pradhan Mantri Gram Sadak Yojna (Rural roads scheme): The finance minister increased allocation by +87%, +23% and +59%, respectively, towards these urban infrastructure schemes and road building programs	Positive for commercial vehicle OEM's - as it will enhance demand for tippers and transportation vehicles
	Focus sustained on agricultural / rural segment: Target for agriculture credit flow set at Rs.3,250B for FY10 (+13% yoy). Allocation for Bharat Nirman increased by 45% in FY10E	Positive for OEM's with exposure to rural segment – i.e. Hero Honda, Mahindra & Mahindra, Bajaj Auto
Taxation Direct taxes - Corporate	a) Minimum Alternate Tax rate Increased from 10% to 15%. The period allowed to carry forward the tax credit under MAT to be extended from seven years to ten years though b) Fringe Benefit Tax abolished	a) This is negative for Ashok Leyland, Tata Motors and Mahindra and Mahindra, which are expected to be under MAT in the current year b) This is positive for auto OEM's
Direct taxes - Individual	Personal Tax Rates lowered: Surcharge on various direct taxes to be phased out; in the first instance, by eliminating the surcharge of 10 percent on personal income-tax. Exemption limit in personal income tax raised by Rs10,000 for individual taxpayers (an increase of c.6% over the previous limit).	This will increase surplus in the hands of the consumer – Beneficial for two wheelers and passenger car OEM's
Indirect taxes	R&D based exemption extended into FY10: Scope of provisions relating to weighted deduction of 150% on expenditure incurred on in-house R&D to manufacturing businesses is being extended	a) This is positive for Indian OEM's – Tata Motors, Ashok Leyland and Mahindra which are increasing their spend on product development
Excise duties	Additional Excise duties on larger vehicles (engine size over 2,000cc) reduced: to Rs.15,000 (from Rs. 20,000 earlier)	a) This is positive for Utility vehicle OEM's i.e. M&M and Tata Motors
Overall assessment	Neutral	

Source: J.P. Morgan

Cement

Measure	Remarks	Impact - Positive / Neutral / Negative Key Stocks impacted
Government Expenditure	Increased allocations across various infrastructure schemes/programs National Highway Development Program (NHDP), urban infrastructure projects like Jawaharlal Nehru Urban Renewal Mission (JNNRUM)	Continued focus on infrastructure build-out is a long-term demand positive for cement in India
Taxation		
Direct taxes	No change in Corporate taxation; Increase in MAT to 15% from current 10%	No impact on the large cement companies
Indirect taxes		
Excise duties	No change in excise duties for cement; Increase in excise duties from 4% to 8% for man-made fibers	Near-term positive for the sector, as most expected were on some rollback of the recent excise duty cuts. We expect Grasim to pass on the higher excise rates on Viscose Staple Fiber (VSF)
Customs duties	No change in customs duties	India is not a large importer of cement, and hence no impact
Overall assessment	Positive	Continued focus on structural demand drivers is positive, no change in excise duty for cement is also a near-term positive

Source: J.P. Morgan

Metals & Mining

Measure	Remarks	Impact - Positive / Neutral / Negative Key Stocks impacted
Government Expenditure	Increased allocations across various infrastructure schemes/programs National Highway Development Program (NHDP), urban infrastructure projects like Jawaharlal Nehru Urban Renewal Mission (JNNRUM)	Continued focus on infrastructure build-out is a long term demand positive for steel in India.
Taxation		
Direct taxes	No change in Corporate taxation; Increase in MAT to 15% from current 10%	Sterlite Industries impacted negatively, given Sterlite Energy would be on MAT.
Indirect taxes		
Excise duties	No change in excise duties	No material impact as the excise rates are generally a pass-through for the sector
Customs duties	No change in customs (import) duties for metals; no increase in export taxes for iron ore	Negative for the metals sector, as expectations were high, for an increase in import (customs) tariffs. No increase in export taxes for iron ore is positive fort iron ore exporters.
Overall assessment	Negative	Negative for the metals sector given no increase in import tariffs

Source: J.P. Morgan

Information Technology

Measure	Remarks	Impact - Positive / Neutral / Negative Key Stocks impacted
Taxation		
Corporate Tax	STPI extended by 1 year	Positive (mainly for TCS, HCL Tech)
	FBT abolished	Mild positive (less than 1% EPS impact)
	MAT increased to 15% (from 10%); tax benefit can be availed for period of 10 years (earlier 7 years)	No impact as most companies paid more than MAT rate
Overall assessment	Positive	

Source: J.P. Morgan

Real Estate

Measure	Remarks	Impact - Positive / Neutral / Negative Key Stocks impacted
Government Expenditure	Focus on rural housing. Allocation of Rs.20B made for Rural Housing Fund (RHF) in National Housing Bank (NHB) to boost the resource base of NHB for refinance operations in rural housing sector.	No Impact. Listed players are focused on urban housing.
Taxation		
Direct taxes	Increase in MAT tax rate from 10% to 15%.	
	STPI extension by one year to Mar-11.	Positive for Ascendas India Trust. While the tax rate (MAT) will increase from 10% to 15%, we believe there will minimal impact on near term DPU estimates as company has sufficient tax credit available.
	Removal of surcharge and increase in exemption limits	Increases post tax disposable income. Positive for residential developers including Unitech, DLF
Overall assessment	Disappointing	Two key expectations relating to the budget were: 1) Increase in interest exemption limit on housing loans and 2) 80I(B) benefits for mass housing projects, neither of which came through.

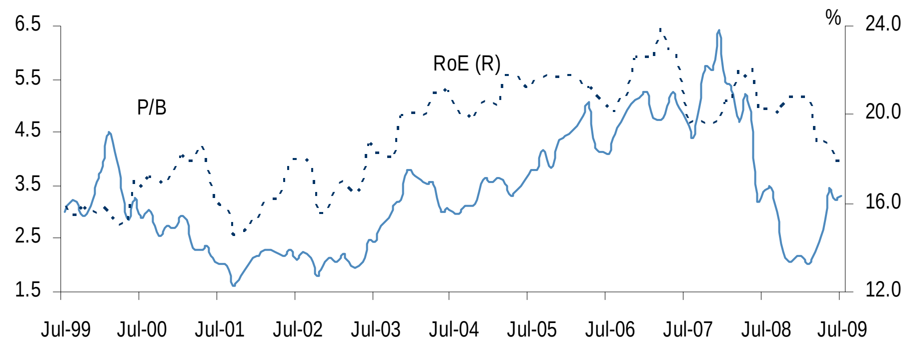
Source: J.P. Morgan

Annexure 1: Valuations

After substantial de-rating over the last one year, valuations bounced back meaningfully over the last quarter

ROEs, however, remain under pressure due to muted earnings outlook over the near term. Companies are also reviving capital expenditure plans and these will likely pressure ROEs over the near term

Figure 1: P/B and ROE

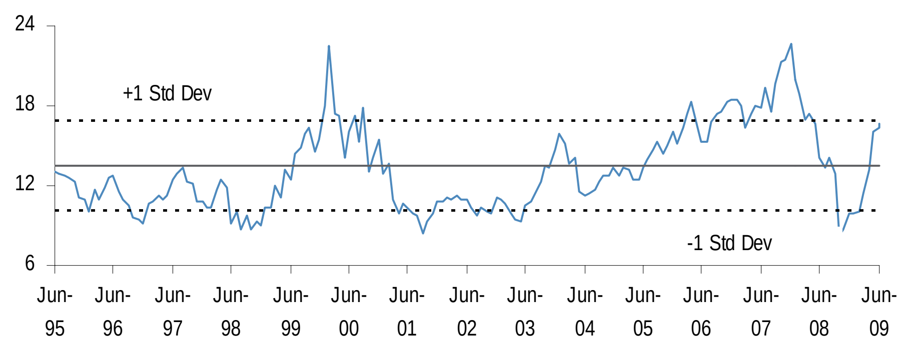


Source: MSCI, IBES, Datastream

Forward PE multiples have bounced back significantly, post the National election results

The Street now estimates an earnings growth of 13% for FY10E and growth of 15% for FY11E

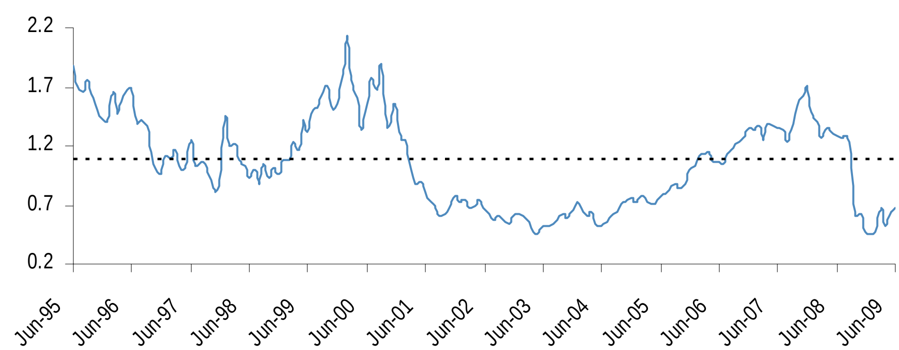
Figure 2: 12 month forward PE



Source: MSCI, IBES, Datastream

While the earnings yield has moderated over the recent past, lower treasury yields at the short end continue to provide relative valuation support to equities

Figure 3: 1 Year Bond Yield / Earnings Yield



Source: MSCI, IBES, Datastream

Annexure 2 - MSCI India valuations

Table 5: J.P. Morgan estimates and MSCI India valuations

	PE			Earnings Growth (%)			PB		
	FY09	FY10E	FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E
Consumer Discretionary	23	16	13	(24)	38	25	4.0	3.4	3.0
Consumer Staples	25	22	19	15	12	16	8.2	6.6	5.7
Energy	20	15	11	(10)	32	40	2.8	2.4	2.0
Financials	23	20	17	(14)	13	19	2.5	2.3	2.2
Health Care	31	18	15	(29)	71	17	3.1	2.6	2.3
Industrials	27	27	21	5	0	30	4.6	3.3	2.9
Information Technology	17	16	15	18	4	7	4.8	4.1	3.3
Materials	12	12	9	(5)	(4)	29	2.1	1.6	1.5
Telecommunication Services	11	13	11	10	(18)	12	1.7	1.5	1.3
Utilities	22	18	17	9	22	11	2.4	2.2	2.0
MSCI India	19.6	17.4	14.1	(3)	12	16	3.0	2.5	2.3

	RoE (%)			EV/ EBITDA			Div Yld (%)		
	FY09	FY10E	FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E
Consumer Discretionary	17	21	23	12.9	13.6	10.9	0.7	0.9	0.9
Consumer Staples	33	30	30	16.6	14.7	13.3	1.7	1.8	1.8
Energy	14	16	19	10.1	9.3	7.6	1.1	1.7	2.2
Financials	11	11	13	NA	NA	NA	0.7	0.8	0.2
Health Care	10	14	15	15.3	14.4	13.9	1.3	0.5	1.1
Industrials	17	12	14	17.9	17.0	15.3	0.9	0.9	0.3
Information Technology	28	25	22	14.4	11.1	10.8	2.4	2.1	2.0
Materials	18	13	16	3.6	3.9	4.4	1.7	0.9	1.6
Telecommunication Services	16	12	12	8.4	7.3	6.1	0.0	0.0	0.6
Utilities	11	12	12	11.5	9.8	7.9	1.1	1.4	1.4
MSCI India	15.2	14.6	16.2	9.3	8.9	8.3	1.2	1.1	1.2

Source: J.P. Morgan calculations, MSCI, Datastream

Annexure 3: Key Economics Indicators

Table 6: Key economic indicators

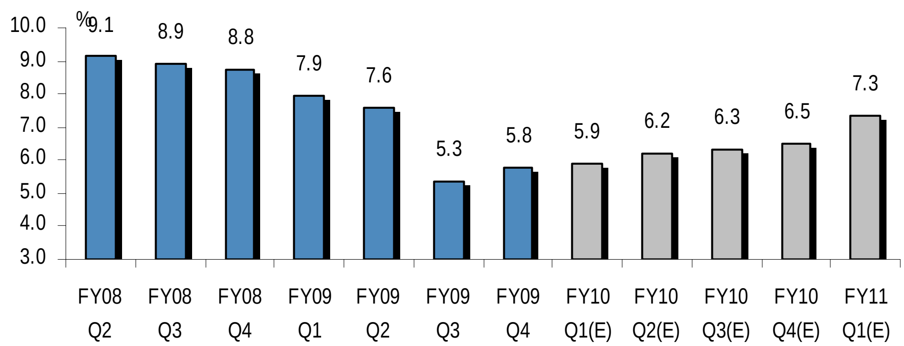
	FY 08	FY 09	FY 10 (E)
Nominal GDP (US$ bn)	1,175	1,170	1,207
Real GDP Growth rates	9.0	6.7	6.2
WPI (%)	4.6	8.6	1.8
INR / US$, (Avg)	40.0	47.0	46.0
10 Yr - T Yield, (%, eop)	7.9	7.0	7.5
Current A/C balance (US$ bn)	(17.8)	(32.0)	5.5
Central govt. fiscal deficit (% of GDP)*	(3.1)	(6.3)	(7.0)

Source: J.P. Morgan Economics

4QFY09 GDP growth at 5.8% oya was significantly better than expectations

J.P. Morgan has revised up GDP growth forecasts to 6.2% for FY10 and ~7.2% for FY11

Figure 4: Quarterly real GDP growth trend

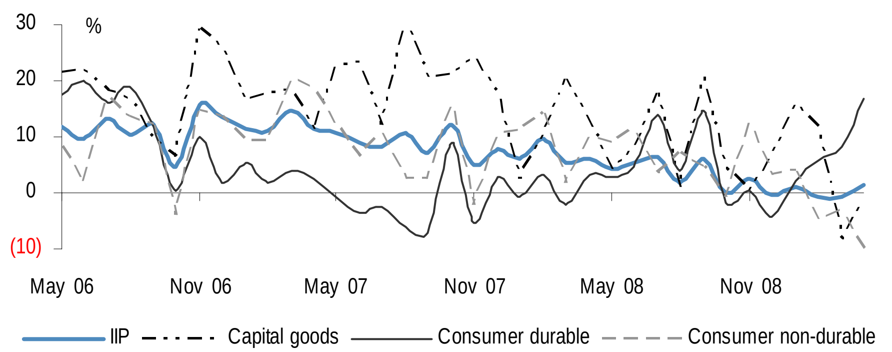


Source: J.P. Morgan estimates

Industrial production surprised on the upside and gained 1.4% oya in April

The near-term outlook for IIP remains subdued, particularly given weak investment demand

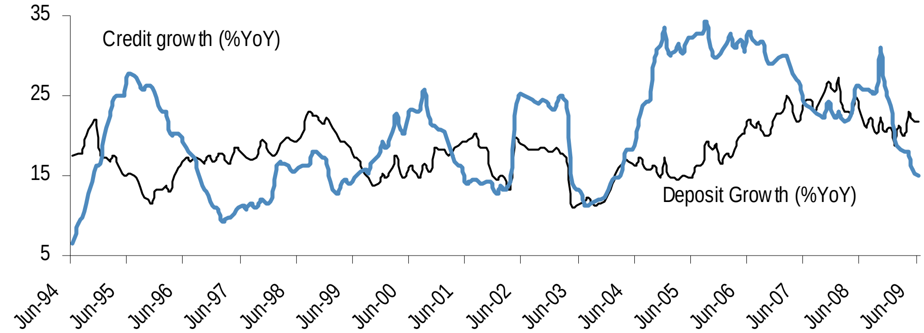
Figure 5: Industrial production (%YoY)



Source: J.P. Morgan Economics

Credit growth has come off sharply on the back of economic slowdown and risk aversion on the part of the banking system. Deposit growth, however, continues to hold up

Figure 6: Commercial banks – Deposit & credit growth (%)

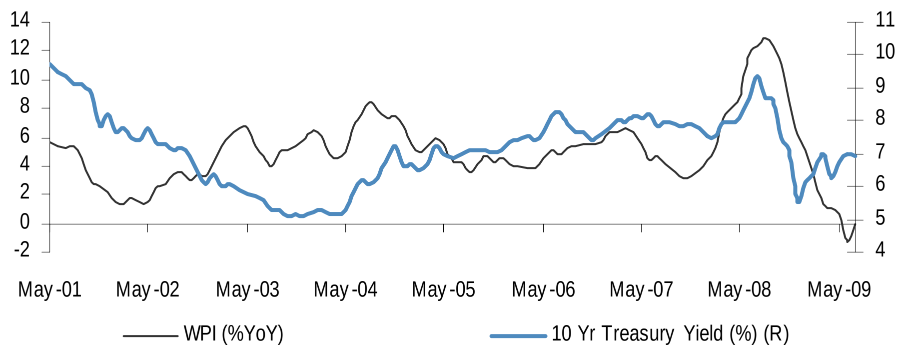


Source: J.P. Morgan Economics

Inflation fell by 1.3% y/y for week ended June 20. The wholesale price index (WPI) went sub-zero for the first time in 35 years

10-year Treasury yields increased meaningfully to 7.0%. The bond markets remain concerned over the Government's high fiscal deficit

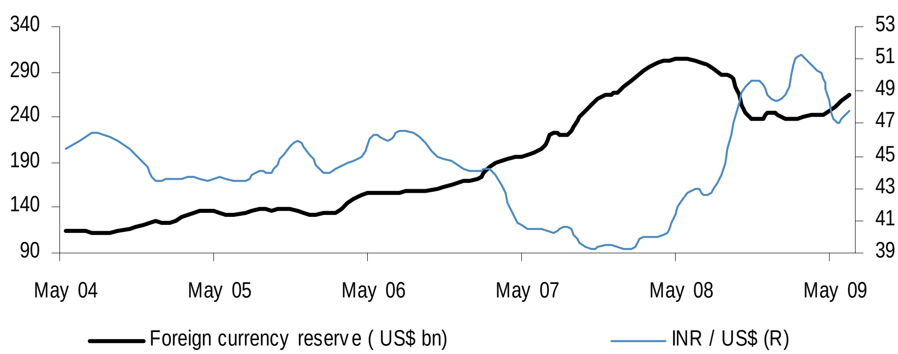
Figure 7: Inflation and treasury yield (%)



Source: J.P. Morgan Economics

INR has depreciated by marginal 1% vs. the US$ in June

Figure 8: Foreign currency reserves and exchange rate



Source: J.P. Morgan Economics

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