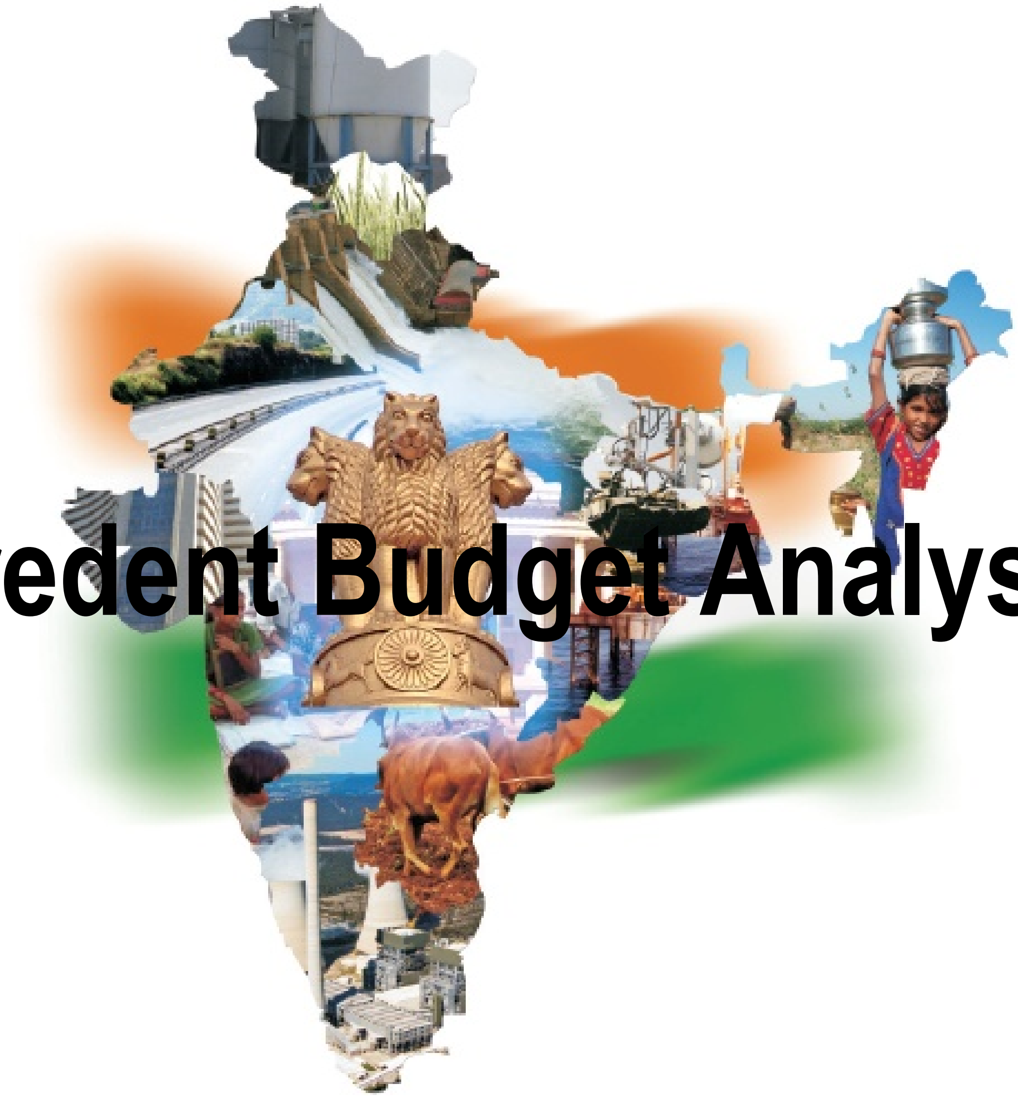


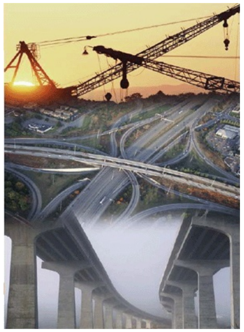
Kredent Budget Analysis

6th July 2009

Budget Focus

KREDENT FINANCE

Aam Aadmi



Simplifying Tax Reforms

Inclusive growth

Infrastructure Spending

Agricultural Focus

Key Takeaways

- The Budget FY1009-10 was a budget for the "AAM ADMI" where the government distributed generously
- Since there were no tax cuts, nothing on disinvestment roadmap and FDI policy or any other popular reforms talked about so much in the media, the markets crashed with Sensex sliding nearly 900 points and Nifty by around 300
- The biggest reason for the crash is nothing but OVER EXPECTATION, as we mentioned in our pre budget analysis (report dated 3rd July 09) that this hype created by the media is a cause of concern
- Among the populist reforms, the government has provided extra thrust on the infrastructure growth, which it believes will lead to a higher overall growth
- A goods and services tax (GST) will be introduced from April 1, 2010, which will subsume all indirect taxes and will levy only value-added production so that manufacturers don't pay taxes twice
- India's fiscal deficit is expected to widen to a 16-year high of 6.8 percent of gross domestic product from a revised 6 percent
- Government provided for only Rs 11.3 bn this year from the sale of stakes in state-run companies, much below the street expectations and the result of economic survey

Budget at a Glance

Figs in Crore Rupees

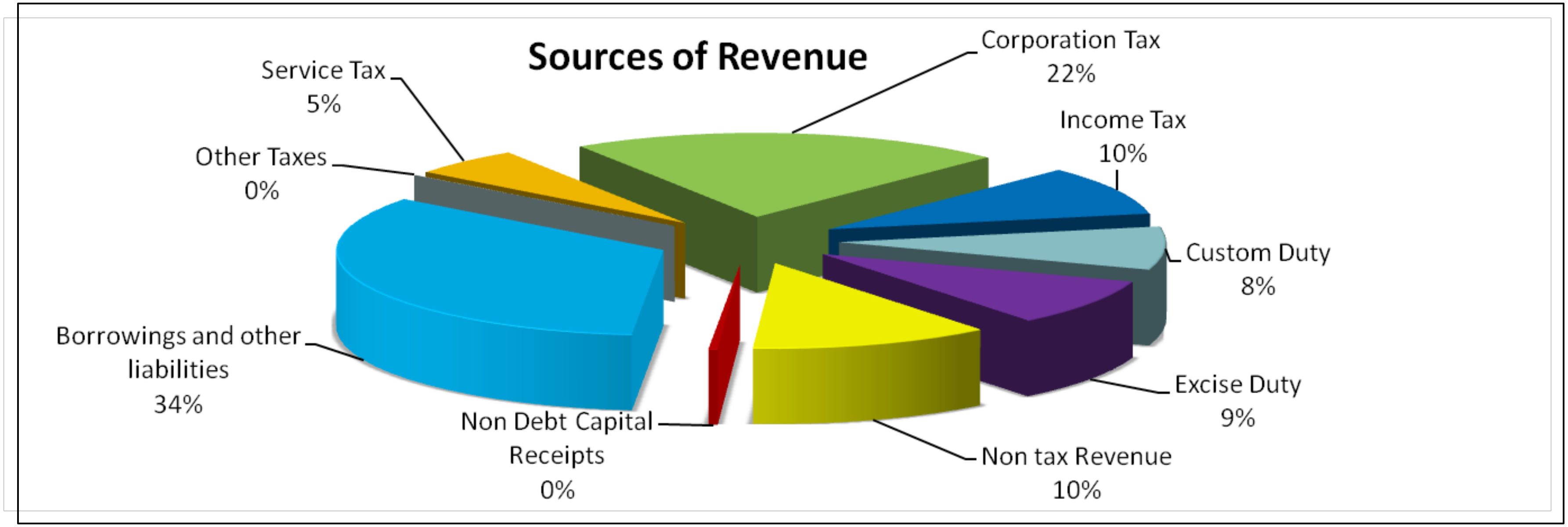
Particulars	2007-2008 Actuals	2008-2009 Budget Estimates	2008-2009Revised Estimates	2009-2010 Budget Estimates
1 Revenue Receipts	**5,41,864**	**6,02,935**	**5,62,173**	**6,14,497**
2 Tax Revenue (net to Centre)	4,39,547	5,07,150	4,65,970	4,74,218
3 Non-tax Revenue	1,02,317	95,785	96,203	1,40,279
4 Capital Receipts (5+6+7)$	**1,70,807**	**1,47,949**	**3,38,780**	**4,06,341**
5 Recoveries of Loans	5,100	4,497	9,698	4,225
6 Other Receipts	38,795	10,165	2,567	1,120
7 Borrowings and other Liabilities *	1,26,912	1,33,287	3,26,515	4,00,996
8 Total Receipts (1+4)$	**7,12,671**	**7,50,884**	**9,00,953**	**10,20,838**
9 Non-plan Expenditure	**5,07,589**	**5,07,498**	**6,17,996**	**6,95,689**
10 On Revenue Account of which,	4,20,861	4,48,352	5,61,790	6,18,834
11 Interest Payments	1,71,030	1,90,807	1,92,694	2,25,511
12 On Capital Account	86,728	59,146	56,206	76,855
13 Plan Expenditure	**2,05,082**	**2,43,386**	**2,82,957**	**3,25,149**
14 On Revenue Account	1,73,572	2,09,767	2,41,656	2,78,398
15 On Capital Account	31,510	33,619	41,301	46,751
16 Total Expenditure (9+13)	**7,12,671**	**7,50,884**	**9,00,953**	**10,20,838**
17 Revenue Expenditure (10+14)	5,94,433	6,58,119	8,03,446	8,97,232
18 Capital Expenditure (12+15)	1,18,238	92,765	97,507	1,23,606
19 Revenue Deficit (17-1)	**52,569** (1.1)	**55,184** (1.0)	**2,41,273** (4.4)	**2,82,735** (4.8)
20 Fiscal Deficit {16-(1+5+6)}	**1,26,912** **(2.7)**	**1,33,287** **(2.5)**	**3,26,515** **(6.0)**	**4,00,996** **(6.8)**
21 Primary Deficit (20-11)	**-44,118** **-0.9**	**-57,520** **-1.1**	**1,33,821** **-2.5**	**1,75,485** **-3.0**

$ Does not include receipts in respect of Market Stabilization Scheme.

** Includes draw-down of Cash Balance.*

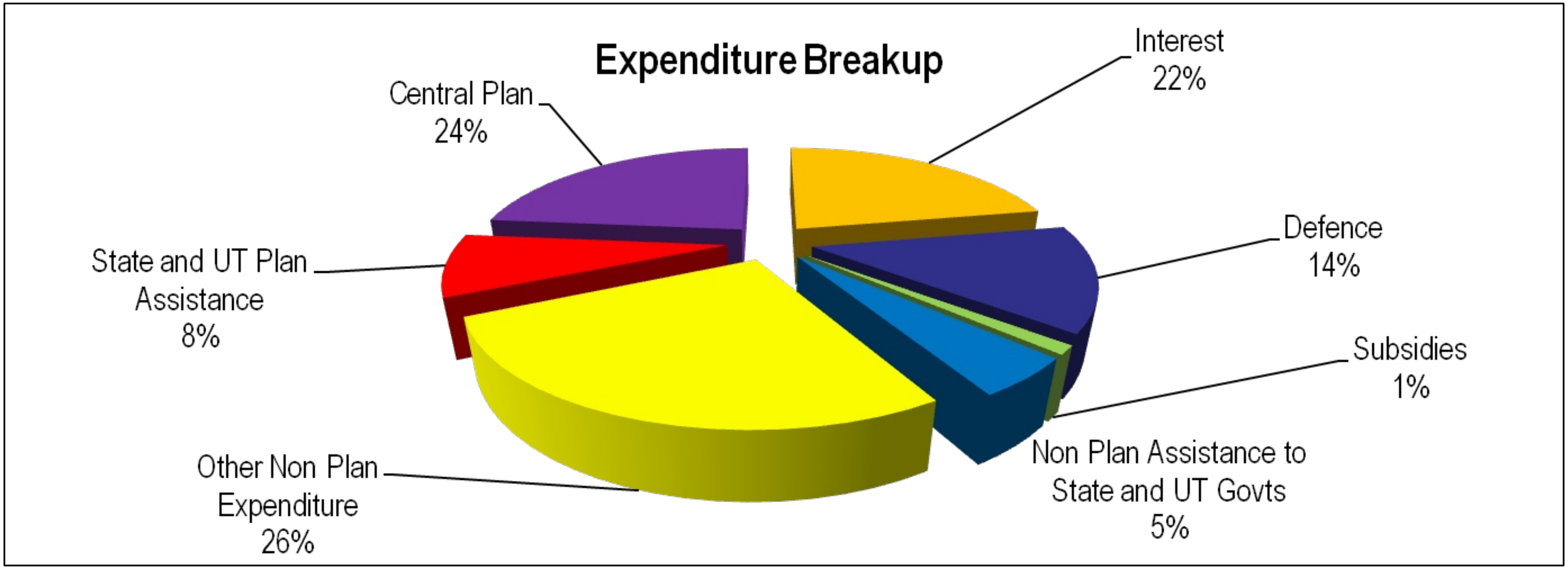
Note : GDP for BE 2009-2010 has been projected at Rs.5856569 crore assuming 10.05% growth over the revised estimates of 2008-2009 (Rs.5321753 crore) released by CSO. Deficit indicators in RE 2008-09 have been retained on the basis of advance estimate for

Sources of Revenue



- Gross tax receipts budgeted at Rs. 641079 crore in BE 2009-10 compared to Rs. 687715 crore in BE 2008-09
- Non Tax revenue Receipts estimated at Rs. 140279 crore in BE 2009-10 compared to Rs. 95785 crore in BE 2008-09
- Tax proposal on direct taxes to be revenue neutral
- On Indirect taxes , estimated net gain to be Rs. 2000 crore for a full year

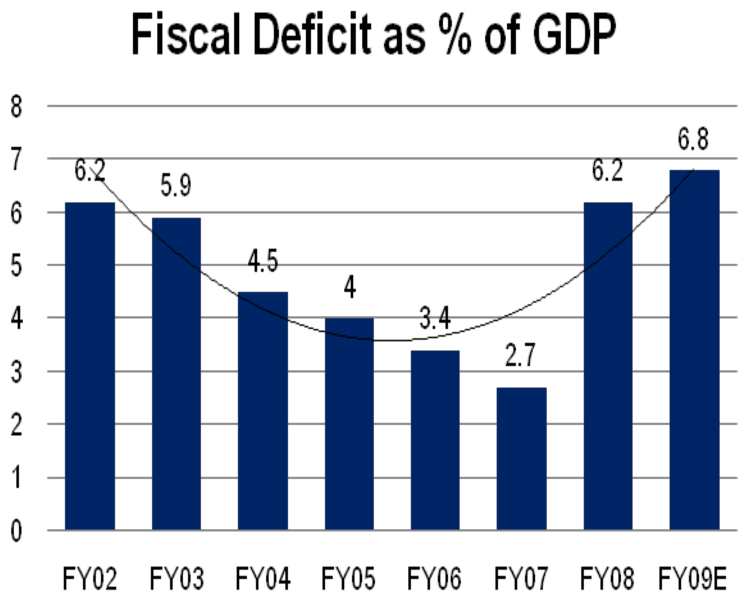
Heads of Expenditure



- The allocation during the current year to National Highways Authority of India (NHAI) for the National Highways Development Programme (NHDP) is being stepped up by 23 per cent over the 2008-09 (BE)
- Increased the allocation for the Railways from Rs.10,800 crore made in the Interim Budget for 2009-10 to Rs.15,800 crore
- In recognition of the role of JNNURM, the allocation for this scheme is being stepped up by 87 per cent to Rs.12,887 crore in the current budget
- The Accelerated Power Development and Reform Programme (APDRP) is allocated Rs.2,080 crore, a steep increase of 160 per cent above the allocation in 2008-09
- Agriculture credit flow was Rs.2,87,000 crore in 2008-09. The target for agriculture credit flow for the year 2009-10 is being set at Rs.3,25,000 crore
- Propose of an allocation of Rs.39,100 crore for the year 2009-10 for NREGA which marks an increase of 144% over 2008-09 Budget Estimates
- Outlay for defense up from Rs. 1,05,600 crore in BE 2008-09 to Rs. 141703 Crore in BE 2009-10

Understanding the Deficit

- The budget offered too much for the 'AAMADMI' and the direct consequence of which is increasing deficits
- Since too much of freebies were on offering the government has very little scope in terms of tax reduction
- The much hyped about disinvestment program also did not received the green signal putting the pressure on the revenues front
- Fiscal deficit as a percentage of GDP is projected at 6.8% compared to 2.5% in B.E. 2008-09 and 6.2 per cent as per provisional accounts 2008-09
- This increase in fiscal deficit combined with the state deficit takes the total deficit to a level of around 13%
- This was one of the many key reasons that lead the sell off in the markets and could lead to a downgrade in India's sovereign debt rating
- Finance Minister announced plans to borrow a record 4.51 trillion rupees ($93 billion) to fund budget spending on roads, power and aid for the poor.



Banking Sector in Pain

- One of the biggest losers out of the Union Budget 2009-10 is the Indian banking sector
- A combination of reduction in interest rates, extension of payment dates clubbed with a mounting deficit have spelled a dooms day for the Indian banking sector
- The finance minister has also said that the banking and financial services companies will not be considered for the process of disinvestment, this will also lead to a dearth of the much needed capital to comply with the applicable BASEL II norm
- However the government did mentioned that they will take the necessary steps to recapitalize the PSU banks, which is the only positive for the sector
- The government has increased the amount of necessary allocation for banks to underdeveloped sections of society, these kind of loans are likely to put strains on their balance sheet and profitability

Direct Tax Reforms

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Centre's Tax-GDP ratio has increased to 11.5 % in 2008-09 from a low of 9.2% in 2003-04. Share of direct taxes in the Centre's tax revenues has increased to 56% in 2008-09 from 41% in 2003-04

Income Tax Slabs(In Lakhs)					
Male taxpayers	**Rate**	**Female taxpayers**	**Rate**	**Senior citizens**	**Rate**
Upto Rs. 1.60	0	Upto Rs. 1.90	0	Upto Rs. 2.40	0
Rs.1.60 to Rs. 3.00	10%	Rs.1.90 to Rs. 3.00	10%	Rs.2.40 to Rs. 3.00	10%
Rs. 3.00 to Rs 5.00	20%	Rs. 3.00 to Rs 5.00	20%	Rs. 3.00 to Rs 5.00	20%
Rs. 5.00 and above	30%	Rs. 5.00 and above	30%	Rs. 5.00 and above	30%

In addition to this, an education cess of 3% on the tax amount continues while a 10% surcharge on income over Rs 10 lakh has been abolished

MAT	FBT	GST	Corporate Tax	CTT
Minimum Allocation Tax (MAT) on book profits has been increased from 10 per cent to 15 per cent, but with a provision of carrying forward the tax credit on MAT to 10 years from the current seven years.	The tax, which added reams of paperwork to Corporates but only Rs 10,000 crore or 3% of total direct tax collections to the government's kitty has been abolished.	Goods and Services Tax is to be implemented by April 2010.He was firm on this even though government faces problem with state administration.	Unchanged. The corporate tax thus continues to stand at 30% plus surcharge of 10% of the corporate tax (for companies with profits above Rs 10 million) along with an education cess that amounts to 3% of corporate tax — totalling to 33.9%	Commodity transaction tax to be abolished

Indirect Tax (1/2)

Sector / Items	Existing Rates	Revised Rates
Media & Television		
CD on Set Top Box for television boardcasting	NIL	5.0%
CD on LCD pannels for manufacture of LCD televisions	10.0%	5.0%
Telecom		
Full CVD exemption on parts for manufacture of mobile phones & accessories	4.0%	NIL
Gem & Jewellery		
CD on unworked corals	5.0%	NIL
Excise duty on branded articles of jewellery	2.0%	NIL
Pharmaceuticals		
CD on 10 specified life saving drugs/vaccine and their bulk drugs	10.0%	5.0% + Nil CVD
CD on specific hurt devices, namely artifical heart and PDA/ASD occlusion device	7.5%	5.0% + Nil CVD
Power		
CD on permanent magnates above 500 KW used in wind operated electricity	7.5%	5.0%
Oil & Gas		
CD on bio-diesel	7.5%	2.5%
Excise duty on Naphtha	16.0%	14.0%
Excise duty on branded petrol	6.0% + Rs.13/litre	Rs.14.50/litre
Excise duty on branded diesel	6.0% + Rs.3.25/litre	Rs.4.75/litre
Tea & Coffee		
CD on 'mechanical harvester' for coffee plantation	7.5%	5.0%
CVD on such harvester	8.0%	NIL

Indirect Tax (2/2)

Sector / Items	Existing Rates	Revised Rates
Textile		
CD on cotton waste	15.0%	10.0%
CD on wool waste	15.0%	10.0%
Excise Duty on manmade fibre and yarn	4.0%	8.0%
Auto		
Excise duty applicable to large cars/utility vehicles of engine capacity 2000 cc & above	Rs.20000/vehicles	Rs.15000/vehicles
Excise duty on petrol driven trucks/lorries	20%	8%
Excise duty on chassis of such trucks/lorries	20% + Rs.10000	8% + Rs.10000

Others

Excise duty on items currently attracting 4% to be raised to 8% with following major exceptions

- Specified food items including biscuits, sharbats, cakes and pastries
- Medical Equipment and Drugs and Pharmaceutical products falling under chapter 30
- Certain varities of paper, paper board and articles thereof
- Paraxylene, pressure cookers, compact fluorescent lamps
- Power driven pumps for handling water

CD: Custom Duty; CVD: Countervailing Duty

Sector Analysis (1/3)

Sector	Wish List	Impact	Stocks to Watch
Metals & Minnings	Additional Outlay amounting Rs. 1360 crore for Commonwealth Games is likely to boost demand for steel consumption in Northern India	Positive	Jindal steel & power SAIL
Automobile	Higher allocation to Jawaharlal Nehru National Urban Renewal Mission (JNNURM) and NHAI, boost order for Public Commercial Transport	Positive	Tata Motors Ashok Leyland
	Unified rate of Excise duty for all cars	Positive	Tata Motors M&M
	Increase in outlay for defense	Positive	M&M
Textile	Custom duty on cotton waste to be reduced from 15% to 10% Custom duty on woll waste to be reduced from 15% to 10%	Positive	Alok Textile Arvind
Media & Cables	Custom duty of 5% to be imposed on set top box for television broadcasting	Negative	Dish TV WWIL
Cement	Excise duty on Clinker upped to Rs. 450 per tonne	Negative	ACC Ultratech
	Additional Outlay amounting Rs. 1360 crore for Commonwealth Games	Positive	
Construction & Infrastructure	Allocation to National Highway Authority of India (NHAI) for the National Haighway Development Programme (NHDP)	Positive	IVRCL Infra Reliance Infra IRB Infra
	Higher allocation to JNNURM, up by 87% in BE of 2009-10 over BE 2008-09	Positive	
Capital Goods	Higher Allocation for Railway, increase to Rs. 15000 crore as against previous allocation of Rs. 10800 crore	Positive	L&T Titagarh Wagons Kalindee Rail Nirman

Sector Analysis (2/3)

Sector	Wish List	Impact	Stocks to Watch
Irrigation	Higher credit flow target set for agriculture development	**Positive**	Jain Irrigation GNFC
IT	Abolishment of FBT	**Positive**	Infosys TCS
Financial Sector	Abolishment of CTT	**Positive**	Financial Technology
Oil & Gas	Blueprint to be developed for long distance gas pipelines leading to a National Gas Grid to facilitate transport of gas across the length and breadth of the country	**Positive**	GAIL GSPL
	Government to setup expert group to advise on a viable and sustainable sytem of pricing petroleum product	**Neutral**	HPCL &BPCL IOC
	Excise duty on NAPTHA to be reduced to 14% from 16%	**Positive**	Reliance Industries
Pharmaceuticals	Custom duty on life saving drugs to be reduced from 10% to 5%	**Positive**	GSK Pharma Cipla
	Weighted reduction for Outsourced R&D	**Positive**	SunPharma Cipla
Power	Higher allocation under Accelerated Power Development and Reform Programme (APDRP) , up by 160% over BE of 2008-09 to Rs. 2080 crore	**Positive**	NTPC REC
	Under Rajiv Gandhi Grameen Vidyutikaran Yojana(RGGVY) increased by 27% to Rs. 7000 crore	**Positive**	REC Power Grid
Banking	To allocate Rs. 2000 Crore for rural housing fund in National Housing Banks	**Negative**	LIC Housing Finance HDFC ltd
	No disinvestment programme	**Negative**	SBI & PNB
	Government to provide for Capitilisation need	**Positive**	
	IIFCL to refinance 60% of commercial bank loans for project in PPP mode	**Positive**	
	Extension time frame for Debt waiver and Debt relief Scheme	**Negative**	

Sector Analysis (3/3)

Sector	Wish List	Impact	Stocks to Watch
Fertilizer	Nutrient based pricing for fertilizer	Positive	Coromandel Fert.
	Seed Companies to get 150% deduction on R&D expense	Positive	Monsanto
Education	ICT allocation increased to Rs. 900 crore	Positive	Educomp
	Higher education spending increased by Rs. 2000 crore	Positive	Everonn
Defence	Additional amount of Rs. 430 crore provided to modernise security in state	Positive	Zicom
	Higher outlay for defence in BE 2009-10 to Rs. 141703 Crore	Positive	L&T BEL & BEML
Gem & Jewellery	Custom duty on unworked corals to reduce from 5% to NIL	Positive	Gitanjali Gems Titan Industries
	Excise duty on branded articles of jewellery to be reduced from 2% to NIL	Positive	Gitanjali Gems Titan Industries

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