6 July 2009

Union Budget 2009-10

Keep hope kindled

Research Team (Rajat@MotilalOswal.com)

Contents

Budget highlights

The Union Budget 2009-10 was presented in the backdrop of a very positive political mandate, leading to expectations of some big-bang reforms. However, the economic environment has been equally challenging, considering slowing economic growth and rising fiscal deficit. The key task was to maintain a balance between stimulating growth and curbing fiscal deficit. The government chose the former. Most of the sectors that had benefited from the previous stimulus packages continue to get the benefits. The fiscal deficit estimate for FY10 has now shot up to 6.8%, largely a result of the stimulus packages announced earlier.

A small target on disinvestment in FY10 was disappointing, although the positive intent of reducing stake in most state-owned enterprises leaves significant scope to raise resources. Other reforms such as oil price de-regulation, FDI hike in insurance, etc are still on the agenda and will be considered later. The rural economy got another boost, with a 144% increase in NREGS allocation. Allocations to infrastructure development schemes for FY10 saw a meaningful increase.

The Indian markets had moved up by over 75% since March lows and by 25% since the election results. Expectations have been running high, as was reflected in the Sensex valuations of 17x FY10E EPS. The delivery of budget proposals was unexciting, as is evident from the 6% correction witnessed post the budget. Though valuations are fair in our opinion, we remain positive on growth. Our current estimates factor in very strong rebound in growth (over 25%) in 2HFY10 and we expect Sensex earnings to grow by 16% in FY11. We see high probability of further upgrades.

We expect the focus to shift back to earnings (June quarter earnings begin this week), monsoon status, and global markets. Our positive bias on reforms remains high. Our preferred bets remain unchanged from the previous week's strategy report.

We recommend investing in Financials, Infrastructure, Autos, and Telecom. Among the large caps, we like **ICICI Bank**, **SBI** and **IDFC** in Financials, **Grasim**, **Jaiprakash** and **DLF** in Infrastructure, **Hero Honda** and **M&M** in Autos, and **Bharti** in Telecom. Other top bets in our model portfolio are **JSPL**, **Wipro**, **ONGC** and **Bank of Baroda**.

Modest 6.5% GDP growth expected in FY10; non-tax revenue to prop up total revenue growth

For the 2009-10 Budget, the government has assumed FY10 nominal GDP growth of 10% and real GDP growth of 6.5%, marginally lower than the FY09 levels of 6.7%. Modest GDP growth is also reflected in low growth in FY10BE tax revenue of Rs6,411b (+2% over FY09RE). However, non-tax revenue growth is strong at 46%, driven by Rs350b budgeted inflow on account of 3G spectrum auction. Total revenue growth is a modest 8%.

Higher interest cost, development outlays and defense drive expenditure

FY10BE revenue expenditure is up 12% over FY09RE, mainly driven by 17% growth in interest cost to Rs2,255b (25% of total revenue expenditure). Capital expenditure is higher by 27%, driven by various development outlays. Expenditure is also high on account of defense (growth of 34%) and implementation of Sixth Pay Commission recommendations. On the subsidy front, the government actually expects to improve its performance in FY10 over FY09. Total subsidies on food, fertilizer and oil (including bonds) stood at Rs2,195b in FY09 (4.1% of GDP). This number is expected at Rs1,158b in FY10 (2% of GDP).

Growth stimulus inflates fiscal deficit

The fiscal deficit at 6.8% of GDP is higher than the 6.2% of FY09RE and 5.5% in the FY10 interim budget. However, in times of global slowdown, the government has opted for growth at the cost of temporary fiscal slippage. For FY09RE, the fiscal deficit at 6.2% of GDP was sharply higher than the 2.7% figure for FY08. Almost the entire gap of 3.5% of GDP is explained by the Rs1,860b economic stimulus package. None of this has been rolled back in the budget, causing the fiscal deficit to remain high in FY10, as well.

Intention to rein in fiscal deficit clear; but roadmap not

It is encouraging to note that the government, in its published medium-term fiscal policy statement, has made its intention clear to roll back fiscal deficit to 5.5% of GDP in FY11 and further down to 4% in FY12. What is not clear, however, is a roadmap for the same. For instance, given the ruling UPA's (United Progressive Alliance) comfortable majority in the parliament, disinvestment was expected to be an important fiscal management tool. However, FY10BE budgets for disinvestment proceeds of just Rs11.2b (Rs25.6b in FY09), the second lowest figure in the last 10 years after Rs5.4b in FY07.

Two key themes - infrastructure and inclusive growth

On infrastructure, the India Infrastructure Finance Company Limited (IIFCL) is expected to play a more aggressive role as a special purpose vehicle for funding infrastructure projects. IIFCL will refinance 60% of commercial bank loans for PPP projects in critical sectors over the next 15-18 months. IIFCL and the banking sector together are expected to support projects involving a total investment of Rs1,000b. Allocation for urban infrastructure under JNNURM (Jawaharlal Nehru National Urban Renewal Mission) is being stepped up by 87% to Rs130b.

On inclusive growth, the National Rural Employment Guarantee Scheme (NREGS) has emerged as the government's flagship project. In FY09, the scheme provided employment opportunities for ~45m households compared to 34m in FY08. In FY10, the budget provision has been raised 144% to Rs391b. Allocations have also been increased to Bharat Nirman programs including rural roads, rural electrification and rural housing.

Stable tax structures

Overall, the budget has maintained stable tax structures. There has been no roll-back of excise duty cuts announced as part of the economic stimulus packages. Even cigarettes were spared a hike in excise duty. The major changes in tax proposals are:

- Rs10,000 increase in income-tax exemption limit (Rs15,000 for senior citizens)
- No surcharge on personal income tax
- Sunset clauses for export profit exemptions extended by one more year to FY11
- Abolition of FBT (fringe benefit tax). This would result in a loss of Rs80b to the government.
- Abolition of CTT (commodities transaction tax)
- Increase in MAT (minimum alternate tax) from 10% to 15%; however, MAT credit carry forward period extended from 7 years to 10 years.

Conclusion

At the very outset, the budget laid out several goals from a medium-term perspective, including:

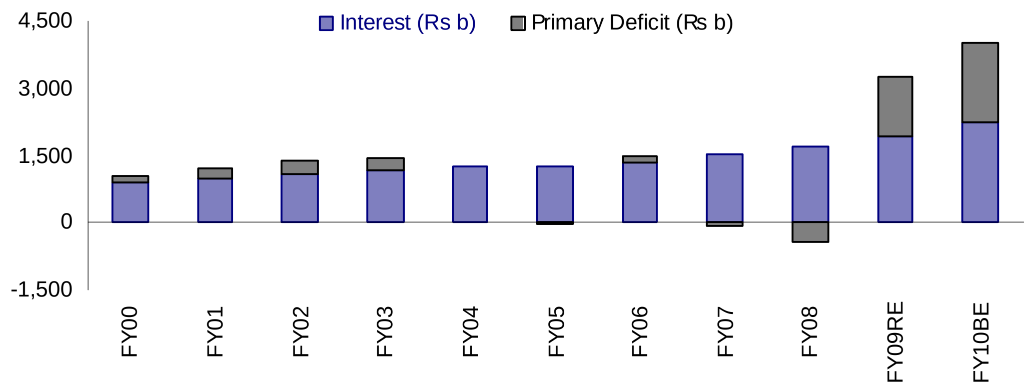
- sustaining a growth rate of at least 9% per annum over an extended period of time
- reducing the proportion of people living below poverty line to less than half from current levels by 2014.
- increase the investment in infrastructure to more than 9% of GDP by 2014; etc.

However, as the Finance Minister said, "While we are determined to convert our words into deeds, members would appreciate that a single budget speech cannot solve all our problems, nor is the Union Budget the only instrument to do so."

Economy: key trends

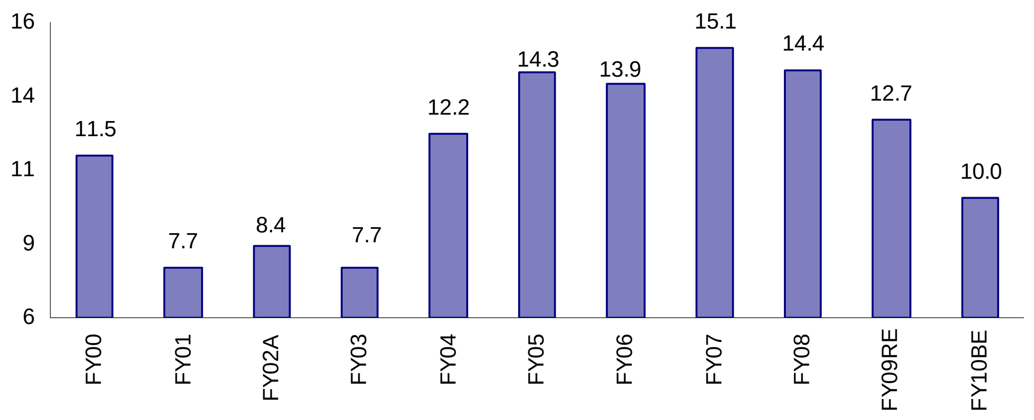
Interest expenses rising significantly

PRIMARY DEFICIT AND INTEREST COMPONENTS OF FISCAL DEFICIT



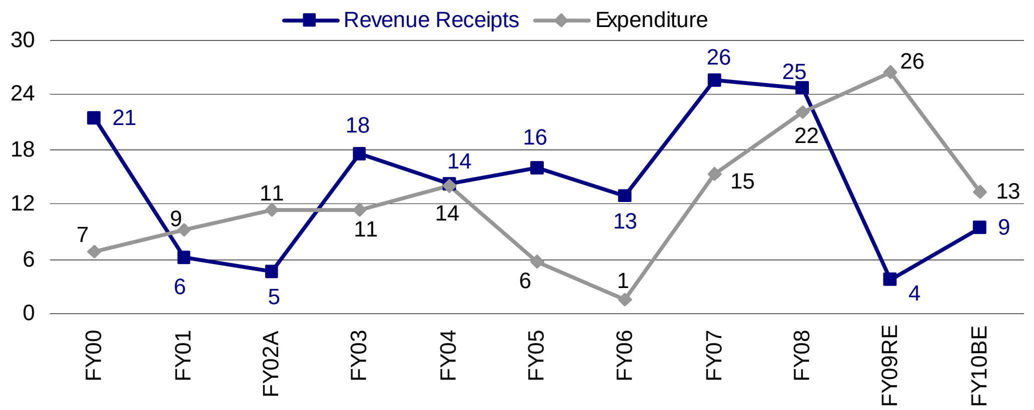
GDP growth reflecting global and domestic slowdown

NOMINAL GDP GROWTH (%)



Expenditure growth still higher than revenue growth

GROWTH TREND IN REVENUE RECEIPTS AND TOTAL EXPENDITURE (%)

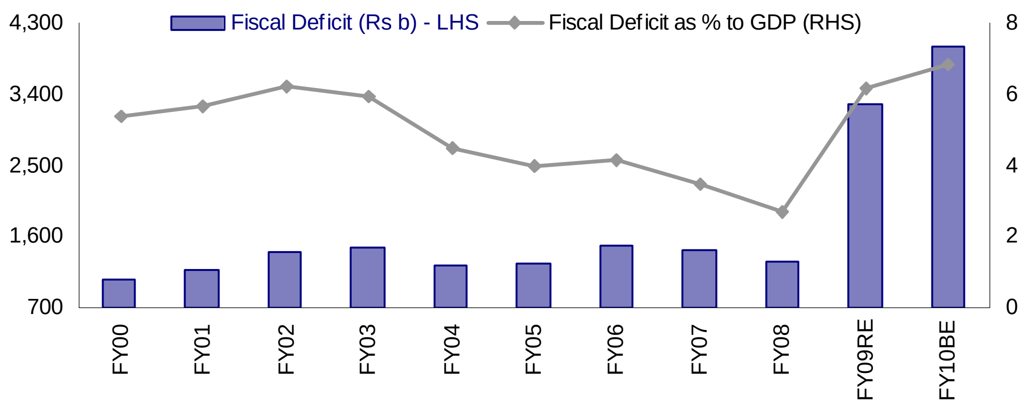


Source: Budget Documents/MOSL

Economy: key trends (Contd.)

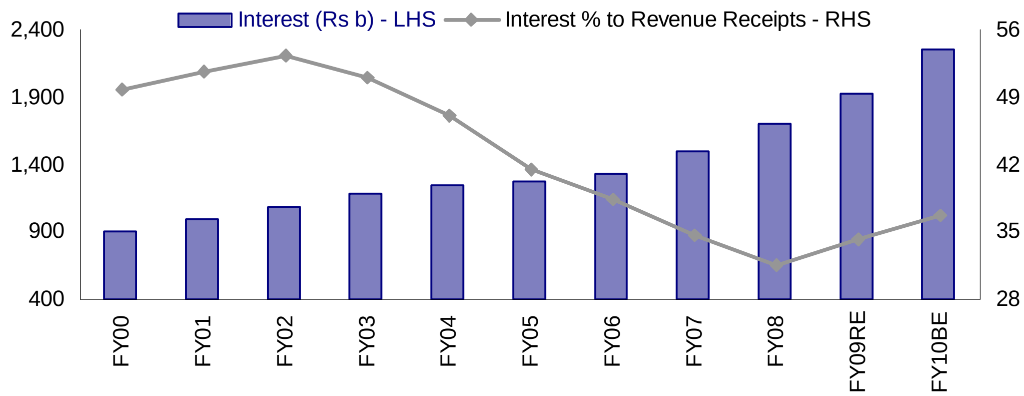
FISCAL DEFICIT AS A % OF GDP

Fiscal deficit temporarily worsening in order to sustain growth



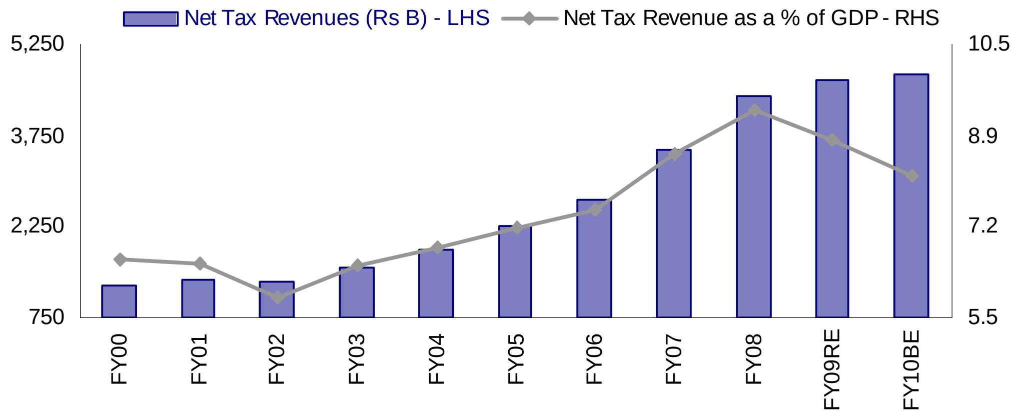
INTEREST EXPENSE AND INTEREST AS % OF REVENUE RECEIPTS

Interest expenditure is driving up fisc



NET TAX REVENUE TO GDP

Net tax revenue as a percentage of GDP off its highs



Source: Budget Documents/MOSL

Budget at a glance

											INTERIM		FINAL	
	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09RE	% CH.	FY10BE	% CH.	FY10BE	% CH.
Revenue (Rs b)														
Gross Tax Revenue	**1,886**	**1,871**	**2,163**	**2,543**	**3,050**	**3,662**	**4,735**	**5,931**	**6,279**	**5.9**	**6,713**	**6,9**	**6,411**	**2.1**
Corporation Tax	357	366	462	636	827	1,013	1,443	1,929	2,220	15.1	2,442	10.0	2,567	15.6
Income Tax	318	320	369	414	493	560	751	1,026	1,226	19.4	1,354	10.4	1,129	-8.0
Excise Duty	685	726	823	908	991	1,112	1,176	1,236	1,084	-12.3	1,106	2.1	1,065	-1.7
Customs	475	403	449	486	576	651	863	1,041	1,080	3.7	1,102	2.0	980	-9.3
Other Tax Revenues	51	56	61	100	163	326	502	699	670	-4.1	709	5.9	670	0.1
NCCF Expenditure	**3**	**7**	**16**	**16**	**16**	**28**	**20**	**18**	**18**	**0.0**	**25**	**38.9**	**25**	**38.9**
Devolvement to States and UTs	**517**	**528**	**561**	**658**	**786**	**944**	**1,203**	**1,518**	**1,602**	**5.5**	**1,712**	**6.9**	**1,644**	**2.6**
Net Tax Revenues	**1,367**	**1,335**	**1,585**	**1,870**	**2,248**	**2,689**	**3,512**	**4,395**	**4,660**	**6.0**	**4,976**	**6.8**	**4,742**	**1.8**
Non-tax Revenues	557	678	723	768	812	768	832	1,023	962	-6.0	1,120	16.4	1,403	45.8
Net Revenue Receipts	**1,924**	**2,013**	**2,308**	**2,638**	**3,060**	**3,458**	**4,344**	**5,419**	**5,622**	**3.7**	**6,096**	**8.4**	**6,145**	**9.3**
Non-debt Capital Receipts	**142**	**200**	**373**	**841**	**665**	**122**	**64**	**439**	**123**	**-72.1**	**109**	**-11.5**	**53**	**-56.4**
Recovery of Loans	120	164	342	672	620	106	59	51	97	90.2	110	13.8	42	-56.4
Other Receipts	21	36	32	170	44	16	5	388	26	-93.4	-2	-107.0	11	-56.4
Total Revenues	**2,066**	**2,214**	**2,682**	**3,479**	**3,725**	**3,580**	**4,408**	**5,858**	**5,744**	**-1.9**	**6,204**	**8.0**	**6,198**	**7.9**
Expenditure (Rs b)														
Revenue Expenditure	**2,778**	**3,015**	**3,387**	**3,621**	**3,844**	**4,394**	**5,146**	**5,945**	**8,034**	**35.1**	**8,481**	**5.6**	**8,972**	**11.7**
Interest	993	1,075	1,178	1,241	1,269	1,326	1,503	1,710	1,927	12.7	2,255	17.0	2,255	17.0
Defense	397	400	411	453	759	483	855	917	736	-19.7	869	18.0	869	18.0
Subsidies	269	305	446	443	437	442	571	709	1,292	82.2	1,009	-21.9	1,113	-13.9
Plan Expenditure	511	617	716	786	875	1,119	1,424	1,736	2,417	39.2	2,483	2.8	2,784	15.2
Admin. & Social Services	631	620	636	698	504	1,024	793	873	1,663	90.5	1,864	12.1	1,952	17.4
Capital Expenditure	**478**	**608**	**745**	**1,091**	**1,139**	**664**	**688**	**1,182**	**975**	**-17.5**	**1,051**	**7.8**	**1,236**	**26.8**
Defense	148	162	150	169	225	344			410		548	33.7	548	33.7
Other Non-plan Expenditure	14	28	133	467	348	34	62	479	152	-68.2	128	-16.0	220	44.9
Plan Expenditure	316	395	399	436	448	288	274	315	413	31.1	368	-10.9	468	13.2
Total Expenditure	**3,256**	**3,623**	**4,132**	**4,712**	**4,983**	**5,057**	**5,834**	**7,127**	**9,010**	**26.4**	**9,532**	**5.8**	**10,208**	**13.3**
Deficit Trends														
Fiscal Deficit	**1,190**	**1,410**	**1,451**	**1,233**	**1,258**	**1,478**	**1,426**	**1,270**	**3,265**	**157.2**	**3,328**	**1.9**	**4,010**	**22.8**
% to GDP	*5.7*	*6.1*	*5.9*	*4.5*	*4.0*	*4.1*	*3.5*	*2.7*	*6.2*		*5.5*		*6.8*	
Revenue Deficit	**852**	**1,002**	**1,079**	**983**	**784**	**936**	**802**	**526**	**2,413**	**358.4**	**2,385**	**-1.1**	**2,827**	**17.2**
% to GDP	*4.1*	*4.3*	*4.3*	*3.6*	*2.5*	*2.6*	*1.9*	*1.1*	*4.6*		*4.0*		*4.8*	
Primary Deficit	**195**	**335**	**273**	**-82**	**-11**	**138**	**-77**	**-441**	**1,338**	**-403.7**	**1,073**	**-19.8**	**1,755**	**31.1**
% to GDP	*0.9*	*1.5*	*1.2*	*0.0*	*-0.1*	*0.4*	*-0.2*	*-0.9*	*2.5*		*1.8*		*3.0*	
Financing the Deficit	**1,190**	**1,410**	**1,451**	**1,233**	**1,258**	**1,478**	**1,426**	**1,270**	**3,265**	**157.2**	**3,328**	**1.9**	**4,010**	**22.8**
Market Borrowings	729	877	976	889	460	954	1,104	1,318	2,620		3,086		3,980	
Other Internal Financing	386	476	594	479	650	449	237	-141	549		81		-130	
External Assistance	75	56	-119	-135	148	75	85	93	96		160		160	
Key Indicators														
Int Expenses/Fiscal Deficit	83.4	76.2	81.2	100.7	100.9	89.8	105.4	134.7	59.0		67.8		56.2	
Int Expenses/ Revenues Receipts	51.6	53.4	51.0	47.0	41.5	38.4	34.6	31.6	34.3		37.0		36.7	
Defense/Total Expenditure	16.7	15.5	13.6	13.2	19.7	16.3	14.7	12.9	12.7		20.6		13.9	

Source: Budget Documents/MOSL

Macro-economic indicators

ANNUAL	FY99	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10E
National Income (Growth %)												
Gross Domestic Product	6.7	6.4	4.4	5.8	3.8	8.5	7.5	9.5	9.7	9.0	6.7	6.5
Agriculture	6.2	2.7	-0.2	6.3	-7.2	10.0	-	5.8	4.0	4.9	1.6	2.1
Foodgrains (M Ton)	203.6	209.8	196.8	212.9	174.8	213.3	198.4	208.6	217.3	230.8	235.6	235.4
Industry	3.7	4.6	6.4	2.7	7.1	7.4	10.3	10.2	11.0	8.1	3.9	6.0
Manufacturing	3.1	3.2	7.7	2.5	6.8	6.6	8.7	9.1	11.8	8.2	2.4	5.2
Services	8.3	9.5	5.7	7.2	7.5	8.5	9.1	10.6	11.2	10.9	9.7	8.2
Money and Banking (%)*												
Money Supply (M3) Growth (%)	19.4	14.6	16.8	14.1	14.7	16.7	12.3	21.2	21.5	21.2	18.4	20.0
Non-food credit Growth (%)	13.0	21.9	14.1	9.4	30.1	18.9	26.7	39.6	28.5	23.0	17.5	15.6
Deposit Growth (%)	19.3	19.3	16.2	11.5	18.9	17.6	10.8	23.4	23.8	22.4	17.7	22.0
Yield on 10-yr G-sec (%)	12.3	10.9	9.8	7.4	6.2	5.2	6.7	7.5	8.0	8.0	7.0	7.0
External Sector*												
Exports (US$ b)`	33.2	36.8	44.1	44.0	52.8	63.9	83.5	103.1	126.3	159.1	131.7	21.8
Change (%)	*-5.1*	*10.7*	*20.1*	*-0.4*	*20.2*	*20.9*	*30.7*	*23.4*	*22.5*	*26.0*	*-17.2*	*-31.0*
Imports (US$ b)	42.4	49.8	50.1	51.6	61.5	78.2	111.5	149.1	185.1	238.6	222.7	32.0
Change (%)	*2.1*	*17.5*	*0.5*	*3.0*	*19.3*	*27.1*	*42.5*	*33.8*	*24.1*	*28.9*	*-6.7*	*-37.2*
Forex Reserves (US$ b) *	29.5	35.1	39.6	51.0	71.9	107.4	135.6	145.1	191.9	299.1	241.8	253.7
Average Exchange Rate (Rs/US$1)	42.1	43.3	45.6	47.6	48.3	45.9	45.0	44.3	45.3	40.2	45.2	48.6

MONTHLY	JUL '08	AUG '08	SEP '08	OCT '08	NOV '08	DEC '08	JAN '09	FEB '09	MAR '09	APR '09	MAY '09	JUN '09
IIP Growth (%)	*6.4*	*1.7*	*6.0*	*0.1*	*2.5*	*-0.2*	*1.0*	*-0.7*	*-0.8*	*1.4*	-	-
Non-food Credit Growth (%)	*25.7*	*25.6*	*25.3*	*29.0*	*26.0*	*23.0*	*20.8*	*18.5*	*17.5*	*18.1*	*15.2*	*15.6*
Deposit Growth (%)	*19.5*	*22.1*	*19.8*	*22.1*	*23.6*	*20.8*	*17.7*	*21.0*	*19.8*	*22.5*	*22.0*	*22.0*
Forex Reserves (US$ b)	295.9	286.1	277.3	244.0	239.0	246.6	238.9	238.7	241.4	242.5	251.5	253.7
Exchange Rate (Rs/US$1)	42.8	42.9	45.6	48.6	49.0	48.6	48.8	49.2	51.2	50.1	48.5	47.8
Exports (US$ b)	16.9	16.1	13.8	12.7	10.2	12.2	11.4	10.9	11.5	10.7	11.0	-
Imports (US$ b)	28.6	29.0	26.4	22.3	19.9	18.1	16.3	13.1	15.6	15.7	16.2	-
Wholesale Price Index (% change)	12.3	12.8	12.3	11.0	8.4	6.1	4.9	3.1	0.8	1.3	0.5	-1.4
Yield on 10-year G-sec (%)	9.3	8.7	8.6	7.5	7.1	5.3	6.3	6.0	7.0	6.2	6.7	7.0

** Figures under FY10E column are YTD actuals*

MOSt model portfolio

SECTOR WEIGHT / PORTFOLIO PICKS	BSE-100	MOST WEIGHT	WEIGHT RELATIVE TO BSE-100	EFFECTIVE SECTOR STANCE
Banks	**21.7**	**22.0**	**0.3**	**Overweight**
SBI	3.3	6.0	2.7	Buy
ICICI Bank	5.3	6.0	0.7	Buy
HDFC	3.9	4.0	0.1	Neutral
Bank of Baroda	0.5	4.0	3.5	Buy
IDFC	0.9	2.0	1.1	Buy
Infrastructure & Surrogate	**15.3**	**17.0**	**1.7**	**Overweight**
Grasim	1.0	4.0	3.0	Buy
BHEL	2.4	3.0	0.6	Neutral
Jaiprakash	0.9	3.0	2.1	Buy
DLF	0.9	3.0	2.1	Buy
L&T	5.3	2.0	-3.3	Neutral
IVRCL	0.3	2.0	1.7	Buy
Metals / Utilities	**11.2**	**11.0**	**-0.2**	**Neutral**
Jindal Steel & Power	1.2	4.0	2.8	Buy
JSW Steel	0.4	3.0	2.6	Buy
Tata Steel	1.4	2.0	0.6	Neutral
Sterlite	1.1	2.0	0.9	Buy
Telecom	**6.0**	**8.0**	**2.0**	**Overweight**
Bharti Airtel	3.6	6.0	2.4	Buy
Reliance Communication	1.5	2.0	0.5	Buy
Information Technology	**8.4**	**8.0**	**-0.4**	**Neutral**
Wipro	0.7	4.0	3.3	Neutral
Infosys	5.8	4.0	-1.8	Neutral
Petrochemicals	**11.9**	**7.0**	**-4.9**	**Underweight**
Reliance Inds.	10.7	7.0	-3.7	Buy
Oil & Gas	**5.9**	**6.0**	**0.1**	**Neutral**
ONGC	2.9	4.0	1.1	Neutral
IOC	0.4	2.0	1.6	Buy
Auto	**4.3**	**6.0**	**1.7**	**Overweight**
Hero Honda	1.0	3.0	2.0	Buy
M&M	1.0	3.0	2.0	Buy
FMCG	**6.7**	**5.0**	**-1.7**	**Underweight**
ITC	3.5	3.0	-0.5	Buy
United Spirits	0.3	2.0	1.7	Buy
Pharmaceuticals	**3.3**	**4.0**	**0.7**	**Neutral**
Divis Lab	0.2	2.0	1.8	Buy
Piramal Healthcare	0.0	2.0	2.0	Buy
Others	**5.2**	**6.0**	**0.8**	**-**
Sintex	0.0	2.0	2.0	Buy
United Phosphorus	0.3	2.0	1.7	Buy
India Cements	0.2	2.0	1.8	Buy
Cash	**0.0**	**0.0**	**0.0**	
Total	**100.0**	**100.0**		

Sectoral impact

SECTOR	BUDGET IMPACT	PAGE
Automobiles	Neutral	12
Banking & Finance	Neutral	13
Cement	Positive	15
Engineering & Power	Positive	17
FMCG	Positive	19
Information Technology	Neutral	22
Infrastructure	Neutral	24
Media	Neutral	26
Metals	Neutral	27
Oil & Gas	Negative	29
Pharmaceuticals	Neutral	31
Real Estate	Neutral	33
Retail	Negative	34
Telecom	Neutral	35

Automobiles

Budget Impact: Neutral

Sector Stance: Overweight

The Budget was neutral for the Automobiles industry. However, the following policy measures will drive demand for the industry:

- Reduction in additional excise duty on cars/UVs above 2,000cc to Rs15,000 from Rs20,000.
- Sustained focus on infrastructure development, especially urban infrastructure under JNNURM.
- Reduction in personal tax, with change in slabs, abolishment of FBT and abolishment of surcharge on personal income tax.
- Increase in agriculture sector outlay and rural credit.

Impact

Post-budget, we do not expect any material impact on our earnings estimates, as these policy measures are likely to have an impact in the medium to long term. While continued focus on infrastructure, especially urban infrastructure, will benefit CV players, increase in outlay for agriculture/rural areas will be positive for companies like M&M, Hero Honda and Maruti.

Sector outlook

Volume growth in the domestic market is witnessing revival, aided by improvement in sentiment, availability of credit and launch of new models. Valuations in the sector remain attractive, especially considering impending improvement in macro environment for the auto industry. Our top picks are **Hero Honda**, **M&M** and **Bajaj Auto**.

VALUATION MATRIX

	CMP (RS)	RECO	EPS (RS)			P/E (X))			EV/EBITDA (X)			ROE (%)		
NAME	6.7.09		FY09	FY10E	FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E
Automobiles														
Bajaj Auto	955	Buy	55.0	72.1	77.5	17.4	13.2	12.3	10.4	7.7	6.9	39.9	39.5	33.6
Hero Honda	1,359	Buy	64.2	87.7	99.1	21.2	15.5	13.7	13.7	10.3	8.7	37.8	39.9	35.1
Mahindra & Mahindra	710	Buy	53.0	68.9	74.8	13.4	10.3	9.5	12.7	9.9	9.6	17.7	18.8	17.0
Maruti Suzuki	1,035	Buy	42.1	54.3	66.0	24.6	19.0	15.7	13.5	9.8	7.7	12.8	14.4	15.1
Tata Motors	283	Neutral	9.9	14.9	18.0	28.7	19.0	15.7	12.0	9.0	7.5	6.1	7.8	9.1
Sector Aggregate						**22.4**	**17.2**	**15.2**	**12.6**	**9.4**	**8.0**	**16.5**	**18.7**	**18.4**

Jinesh K Gandhi (Jinesh@MotilalOswal.com); Tel +91 22 39825416

Banking & Finance

Budget Impact: Neutral

Sector Stance: Overweight

The Budget turned out to be a non-event for the financial sector. While the continued expansionary fiscal stance augurs well for growth, measures to improve the fiscal situation were missing. The Budget was silent on increasing foreign direct investment (FDI) limits in the insurance industry, there was no roadmap for government disinvestment, and no plan to cut the fiscal deficit.

Expanding fiscal deficit - a cause for concern

The fiscal deficit for FY10 is estimated at 6.8% of GDP, driven by an expansionary fiscal stance. The government's gross market borrowings are expected to rise to Rs4.5t from Rs3.6t, increasing net market borrowing to Rs3.98t from an earlier estimate of Rs3.08t. This would mean sustenance of upward pressure on long-tenure yields during 2HFY10. In the near term, however, given the influx of liquidity in the system, any spike in yields is ruled out, in our view.

Considering expected inflationary pressure, the Reserve Bank of India's (RBI's) ability to undertake expansionary monetary action is limited and it might have to reverse its expansionary policy stand. So, we believe interest rates will move up in 2HFY10. In our view, the steepness of the yield curve will continue.

A few disappointments

Higher tax incentives to promote home and infrastructure loans were expected, as was increased FDI in the insurance industry. However, spending on infrastructure has been stepped up. Though we note that the government has not ruled out increasing FDI in insurance, the Budget laid out no timeline. The issue of allowing more FDI in insurance, meanwhile, is being studied by a Cabinet committee.

Farm loan relief scheme, repayment deadline extended

The time limit under the Debt Relief Scheme for farmers to pay up 75% of their dues has been extended to December 2009 from June 2009. In a way, this is a restructuring of loans for eligible farmers. Most of the loans are standard loans and concerns over their repayment remain. State Bank of India (SBI) identified Rs50b in loans eligible under the Debt Relief Scheme as accounting for 0.9% of its overall book.

MAT up, earnings impact negligible

An increase in MAT from 10% to 15% will impact only one bank in our universe - Indian Bank. The effective tax rate would not change at all as the bank makes a deferred tax provision to keep the overall tax rate at 33%. But the tax outgo would rise to 17% from 12%.

FBT abolishment - no meaningful impact

The fringe-benefit tax (FBT) is less than 1% of PBT for banks; scrapping FBT would lead to non-material earnings adjustments.

Ajinkya Dhavale (AjinkyaDhavale@MotilalOswal.com); Tel: +9122 39825426/Alpesh Mehta (Alpesh.Mehta@MotilalOswal.com); +9122 3982 5415

Banking & Finance (Contd.)

Maintain positive stance on banking

We rate the budget as Neutral for the sector. We continue to be positive on the prospects of the Indian banking industry. The government's focus on growth would drive a pick-up in investment activity and loan growth, and allay concerns on asset quality. Our top picks in the sector are: **Axis Bank** and **ICICI Bank** from private banks and **BoB**, **PNB**, **Union Bank** and **SBI** from state-owned banks.

VALUATION MATRIX

	CMP (RS)	RECO	EPS (RS)			P/E (X))			P/BV (X)			ROE (%)		
NAME	6.7.09		FY09	FY10E	FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E
Banking														
Andhra Bank	78	Buy	13.5	14.3	15.7	5.8	5.4	4.9	1.0	0.9	0.8	18.9	18.0	17.7
Axis Bank	794	Buy	50.6	59.3	75.2	15.7	13.4	10.6	2.8	2.4	2.0	19.1	19.2	20.7
Bank of Baroda	408	Buy	60.9	62.7	75.6	6.7	6.5	5.4	1.3	1.1	1.0	20.9	18.4	19.2
Bank of India	327	Neutral	57.2	61.0	67.0	5.7	5.4	4.9	1.5	1.2	1.0	29.2	24.4	22.1
Canara Bank	264	Buy	50.6	61.8	70.1	5.2	4.3	3.8	1.1	0.9	0.8	22.8	23.4	22.4
Corporation Bank	309	Buy	62.2	64.3	64.6	5.0	4.8	4.8	0.9	0.8	0.7	19.6	17.6	15.5
Federal Bank	235	Buy	29.3	31.2	34.7	8.0	7.5	6.8	0.9	0.9	0.8	12.1	11.8	12.0
HDFC	2,354	Neutral	80.2	92.6	111.2	29.3	25.4	21.2	5.1	4.6	4.1	23.7	24.9	25.8
HDFC Bank	1,427	Neutral	52.8	63.2	84.2	27.0	22.6	16.9	4.0	3.1	2.7	15.6	15.9	17.0
ICICI Bank	678	Buy	33.8	34.3	44.5	20.1	19.7	15.2	1.5	1.5	1.4	10.1	10.2	12.5
Indian Bank	131	Buy	29.0	32.2	37.2	4.5	4.1	3.5	1.0	0.9	0.7	24.8	23.0	22.3
Indian Overseas Bank	85	Sell	24.3	19.5	21.2	3.5	4.3	4.0	0.8	0.7	0.6	24.8	16.8	16.1
J&K Bank	464	Buy	84.5	93.8	110.4	5.5	4.9	4.2	0.9	0.8	0.7	16.6	16.3	16.9
Oriental Bank of Commerce	170	Buy	36.1	36.9	38.1	4.7	4.6	4.5	0.6	0.6	0.5	14.8	14.6	14.5
Punjab National Bank	643	Buy	98.0	108.4	126.9	6.6	5.9	5.1	1.5	1.3	1.1	25.8	23.7	23.3
State Bank	1,655	Buy	143.7	142.7	183.1	11.5	11.6	9.0	1.8	1.6	1.4	17.1	14.8	16.8
Union Bank	233	Buy	34.2	37.7	42.5	6.8	6.2	5.5	1.7	1.4	1.1	27.2	24.2	22.4
Sector Aggregate						**11.9**	**11.2**	**9.2**	**2.2**	**1.9**	**1.7**	**18.0**	**16.9**	**17.9**

Cement

Budget Impact: Positive

Sector Stance: Overweight

The Budget is positive for the cement industry, as the government maintained excise-duty on cement at 8% and focused on infrastructure with increased allocation to various schemes, which should result in higher cement demand.

Excise duty unchanged

The finance minister maintained excise duty at 8% against expectations of a 2% to 4% duty increase. However, contrary to industry expectation, there was no excise abatement for retail sales. Cement stocks over the past month had underperformed due to concerns over a possible increase in excise duty.

Infrastructure focus to boost demand

Continued focus on infrastructure development is expected to result in higher cement demand. Among the factors seen to boost cement demand are:

- Higher outlay for the Bharat Nirman program at Rs454b in FY10 (up by about 45%). This program focuses on irrigation, rural roads and rural housing.
- Higher outlay for the Jawaharlal Nehru National Urban Renewal Mission (JNNURM) to Rs129b (up 87%)
- Allocation for NHDP enhanced to Rs160b (up 23%)
- Outlay under Accelerated Irrigation Benefit Program (AIBP) increased to Rs350b from Rs200b.
- Outlay for Commonwealth Games to be increased to Rs34.7b, up from Rs21.1b in the interim budget.

Higher allocations for urban/rural housing

- Increased allocation for housing for the urban poor under Indira Awas Yojna, part of Bharat Nirman, to Rs88b (up 63%). This includes the provision for Rajiv Awas Yojana, which is intended to make India slum-free in 5 years.
- Launch of a program to create 100,000 units for Central Para-Military Forces personnel.
- Allocation of Rs20b towards Rural Housing Fund in the National Housing Bank to boost the resource base of NHB for their refinance operations in the rural housing sector.

Impact

While the Budget focused on infrastructure development, we do not expect major deviation in the short term from our current estimates. We maintain our FY10 price assumption at Rs5/bag QoQ price decline in 2QFY10 and 3QFY10, and Rs10/bag decline in FY11 (over FY10 average). We also maintain our demand growth estimate of 10% in FY10 and FY11.

Sector outlook

Valuations are attractive, as strong demand and stable prices lead to stable margins. Prefer companies that are ahead of the curve in adding capacity, along with strong cost saving possibilities. Among large cap stocks, **Grasim** remains our top pick and we like **Shree Cement**, **India Cement** and **Birla Corp** among mid-caps.

Jinesh K Gandhi (Jinesh@MotilalOswal.com); Tel +91 22 39825416

Cement (Contd.)

VALUATION MATRIX

NAME	CMP (RS) 6.7.09	RECO	EPS (RS) FY09	EPS (RS) FY10E	EPS (RS) FY11E	P/E (X)) FY09	P/E (X)) FY10E	P/E (X)) FY11E	EV/EBITDA (X) FY09	EV/EBITDA (X) FY10E	EV/EBITDA (X) FY11E	ROE (%) FY09	ROE (%) FY10E	ROE (%) FY11E
Cement														
ACC	724	Neutral	57.9	75.2	57.5	12.5	9.6	12.6	7.2	5.1	6.6	23.9	24.7	16.7
Ambuja Cements	87	Neutral	7.4	9.3	8.0	11.7	9.3	10.9	7.0	5.3	5.6	22.1	23.1	17.2
Birla Corporation	210	Buy	42.0	49.8	42.1	5.0	4.2	5.0	2.6	1.5	1.1	25.1	23.6	17.0
Grasim Industries	2,297	Buy	238.5	266.6	244.5	9.6	8.6	9.4	5.4	3.7	3.3	21.1	19.4	14.4
India Cements	132	Buy	19.1	21.2	14.6	6.9	6.2	9.0	4.5	3.7	4.6	18.7	17.9	10.9
Shree Cement	1,194	Buy	177.5	175.5	164.5	6.7	6.8	7.3	4.9	3.6	3.4	64.6	40.0	27.5
Ultratech Cement	693	Buy	79.8	107.6	88.8	8.7	6.4	7.8	5.7	3.6	3.6	31.5	31.6	20.7
Sector Aggregate						**9.5**	**8.0**	**9.5**	**5.7**	**4.0**	**4.2**	**23.3**	**22.6**	**16.5**

Engineering & Power

Budget Impact: Positive

Sector Stance: Neutral

Extended benefits

The Budget has proposed extension of Sec 80-IA benefit to power utilities (generation, transmission and distribution) by one more year. The benefit was hitherto available for projects being commissioned before March 2010.

According to revised estimates for the 11th Plan capacity addition, power projects generating about 34GW are expected to be commissioned in FY10 and FY11 and projects generating about 32GW are expected to be commissioned in FY12. The major private sector capacity additions expected in FY10 are from JSW Energy (1,275MW), Lanco Infra (1.8GW), Torrent Power (765MW), Adani Power (1.3GW), Sterlite (600MW), Reliance Power (600MW), CESC (250MW) and Tata Power (525MW). NTPC is expected to add 6GW of capacity in FY10 and FY11.

~35GW CAPACITY TO BE COMMISSIONED IN FY10 & FY11, ELIGIBLE FOR 80IA BENEFITS

	FY08	FY09	FY10	FY11	FY12	TOTAL
Thermal Projects						
Target	6,620	9,304	14,229	16,655	12,885	59,693
Feasible	6,620	2,485	11,653	16,572	23,793	61,123
Hydro Projects						
Target	2,423	1,097	1,805	1,741	8,561	15,627
Feasible	2,423	969	1,805	1,741	8,569	15,507
Nuclear Projects						
Target	220	660	2,000	500	-	3,380
Feasible	220	-	1,440	1,500	220	3,380
Total Projects						
Earlier Targets	16,335	7,702	15,198	16,970	22,495	78,700
Revised Targets	9,263	11,061	18,034	18,896	21,446	78,700
Current Targets	9,263	3,454	14,898	19,813	32,582	80,010

Actual capacity addition

Source: CEA

Key beneficiaries: All power utilities like NTPC, Tata Power, Reliance Power, GMR Infrastructure, GVK Power and Infrastructure, etc.

MAT hike

As per Sec 80-IA, power and infrastructure development was eligible for 100% tax exemption for 10 years out of any 15-year block. Thus, the developer was liable to pay MAT rate of tax during the years of Sec 80-IA benefit.

Impact on power sector companies: Power sector firms under the regulatory regime such as NTPC and Powergrid get tax as pass-through in tariff. So, the hike in the MAT rate has no implication on the profitability of these companies. However, in the recent tariff norms announced by CERC, the benefit of Sec 80-IA was allowed to be retained by the developer by grossing-up the regulated return on the project (core RoE of 15.5%) at the applicable rate and thus, increase in MAT rate would lower the benefit for companies like NTPC.

For private sector players, where the projects have been awarded through Case-2 bidding or capacity has been tied up under Case-1, the contract term specifies that any increase in costs due to changes in legislation is a pass-through and will be adjusted in tariffs. However, the initial tax provisions on merchant profits/capacity not yet tied up under Case-1 will increase, and impact players like Reliance Power, Tata Power, Adani Power, GMR Infrastructure and GVK Power.

Satyam Agarwal (Agarwals@MotilalOswal.com); Tel: +9122 3982 5410

Nalin Bhatt (NalinBhatt@MotilalOswal.com);+9122 39825429/Shridatta Bhandwaldar (Shridatta.Bhandwaldar@MotilalOswal.com);+9122 39825417

Engineering & Power (Contd.)

Marginally negative for NTPC, earnings downgrade of 1.5%: NTPC was a key beneficiary of the revised CERC norms as the difference between MAT and full corporate tax rate was retained. For NTPC, we estimate about 7.7GW of project capacity to be eligible for Sec 80-IA benefit, and the hike in MAT rate has lowered the differential available.

Infrastructure tax benefit accounts for 5-6% of the company's net profit. We downgrade our earnings estimates for NTPC by about 1.5% each for FY10 and FY11 to factor in the higher MAT rate. We now expect NTPC to report EPS of Rs10.1 (against Rs10.2) in FY10 and Rs11.1 in FY11 (against Rs11.3 earlier). However, the impact on the valuations is not meaningful, as present value of the 80-IA tax benefit is about 2% of the DCF value. We maintain a Neutral stance.

Impact on infrastructure sector: The increase in MAT rate for the infrastructure sector is likely to impact earnings as well as cash flows of project SPVs, and therefore, valuations. We understand that companies can create deferred tax assets in the P&L account and lower impact on the earnings. For GMR Infrastructure, we estimate earnings downgrade of about 2% for FY10 and marginal impact in FY11, while there is insignificant change in valuations.

Increased allocations towards power distribution

Capital goods companies like ABB, Crompton Greaves, Siemens and Areva will continue to benefit from ongoing investments in schemes like RGGVY and APRDP. The investments in these two schemes have been increased 27% to Rs70b and by 160% to Rs21b, respectively in FY10. Besides, the extension of Section 80-IA is also positive for the capital goods sector.

VALUATION MATRIX

	CMP (RS)	RECO	EPS (RS)			P/E (X))			EV/EBITDA (X)			ROE (%)		
NAME	6.7.09		FY09	FY10E	FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E
Engineering														
ABB	745	Neutral	25.1	23.8	27.8	29.7	31.3	26.8	20.5	20.0	17.8	28.4	21.5	20.8
Bharat Electronics	1,324	Buy	101.1	109.6	118.7	13.1	12.1	11.2	6.9	5.8	4.5	23.7	21.6	19.8
BHEL	2,103	Neutral	72.9	87.8	112.9	28.9	24.0	18.6	21.2	14.9	11.4	30.2	30.0	31.2
Crompton Greaves	284	Neutral	15.3	16.9	19.0	18.6	16.8	14.9	16.3	15.0	13.2	36.8	31.2	28.1
Cummins India	262	Neutral	21.9	20.0	22.7	12.0	13.1	11.5	8.1	7.9	6.8	34.4	24.8	23.7
Larsen & Toubro	1,464	Neutral	51.5	58.5	65.0	28.4	25.0	22.5	23.8	21.1	18.4	24.5	21.3	20.2
Siemens	457	Neutral	14.6	18.5	17.5	31.3	24.8	26.2	18.6	13.8	14.1	28.5	22.9	16.7
Suzlon Energy	99	Neutral	7.8	6.2	8.4	12.6	15.9	11.7	10.2	11.1	8.9	14.1	10.2	12.8
Thermax	406	Neutral	24.8	21.2	21.1	16.4	19.1	19.3	11.3	12.8	12.6	35.3	26.3	24.2
Sector Aggregate						**24.3**	**22.3**	**18.8**	**17.9**	**15.2**	**12.6**	**25.3**	**23.0**	**23.3**

VALUATION MATRIX

	CMP (RS)	RECO	EPS (RS)			P/E (X))			EV/EBITDA (X)			ROE (%)		
NAME	6.7.09		FY09	FY10E	FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E
Utilities														
CESC	276	Neutral	29.5	28.0	30.0	9.4	9.8	9.2	7.6	7.6	7.1	12.9	11.0	10.7
NTPC	194	Neutral	9.9	10.1	11.2	19.6	19.2	17.4	15.4	9.7	9.5	14.8	13.9	14.1
PTC India	90	Buy	4.3	3.9	4.6	21.1	23.4	19.6	89.8	41.6	33.6	6.4	6.2	6.3
Reliance Infrastructure	1,131	Buy	46.4	47.0	47.9	24.4	24.1	23.6	21.8	21.7	19.2	10.2	9.1	8.6
Tata Power	1,102	Neutral	53.7	57.3	57.4	20.5	19.2	19.2	26.5	16.9	15.4	7.0	8.7	9.7
Sector Aggregate						**19.9**	**19.4**	**17.9**	**16.6**	**11.0**	**10.6**	**13.1**	**12.3**	**12.3**

FMCG

Budget Impact: Positive

Sector Stance: Neutral

The Budget is positive for the FMCG sector for several reasons. It has proposed increased allocation for the National Rural Employment Guarantee Scheme (NREGS) and Bharat Nirman scheme, which will boost rural disposable income. It has scrapped the fringe-benefit tax (FBT), left untouched excise duty on cigarettes and raised income-tax exemption slabs, besides removing surcharge on income tax for higher salaried people.

More power to the NREGS

Rural India holds key to higher volume growth for the FMCG industry. The Budget has proposed that allocation to the NREGS be increased to Rs391b from Rs160b in FY09. This scheme, which benefited about 45m households in FY09, will be integrated with other rural schemes in 115 districts to ensure long-term sustainability.

Less tax, more spending power

The Budget has proposed reducing taxes for individuals for the second consecutive year. Income tax slabs have been restructured with exemption limits increasing by Rs10,000-Rs15,000. We believe this would bring tax savings of Rs1,000 to Rs1,500 per month to individual tax-payers. Those who earn more than Rs1m stand to save even more with the scrapping of the 10% surcharge.

EXEMPTION LIMIT CHANGES (RS)	FY09	FY10
Resident Woman	180,000	190,000
Resident Senior Citizen	225,000	240,000
Other Individuals	150,000	160,000

Excise duty on cigarettes untouched

The Budget has not proposed any change in excise duty on cigarettes against industry expectations of a 6-8% increase. This will provide respite to the cigarette industry. We maintain FY10 volume growth estimates at 4% (2.9% volume decline in FY09). Maharashtra and Delhi increased VAT on cigarettes by 7.5%, calling for a 6.5% price increase. We would watch out for changes in VAT in other states as well.

CIGARETTES - EXCISE DUTY TREND

	EXCISE DUTY ON CIGARETTES					
YEAR	FY05	FY06	FY07	FY08	FY09	FY10
Filter						
>85mm	1,780	1,960	2,058	2,181	2,181	2,181
75-85mm	1,450	1,595	1,675	1,775	1,775	1,775
70-75mm	1,090	1,200	1,260	1,336	1,336	1,336
<70mm	670	740	777	824	824	824
Non Filter						
60-70mm	450	495	520	551	1,322	1,322
<60mm	135	150	158	167	820	820
Excise Increase (%)	0	10	5	5	390 (<60mm) 140 (60-70mm)	
ITC's Volume Growth (%)	7.1	8.4	7.1	-0.7	-2.9	4.0

Amnish Aggarwal (AmnishAggarwal@MotilalOswal.com)Tel:+9122 39825404/Amit Purohit (AmitPurohit@MotilalOswal.com)Tel:+9122 39825418

FMCG (Contd.)

Removal of FBT positive; increase in MAT rate to impact Dabur, GCPL

The Budget has proposed the scrapping of the FBT and an increase in the minimum alternate tax (MAT) to 15% from 10%. FBT forms about 5% of corporate taxes and 0.8- 1.8% of FMCG companies' PAT. Abolition of FBT will lift reported PAT by 1.2-2.8%.

Among FMCG companies under our coverage, Dabur and Godrej Consumer (GCPL) pay MAT and will be hit by the increase in MAT rate. After adjusting for gains on abolition of FBT, Dabur and GCPL will see EPS slip by 3.5-5%.

FBT AS % OF PAT FOR FMCG COMPANIES

	2006-07	2007-08	2008-09
Hindustan Unilever	1.9	2.0	1.5
ITC	0.6	0.8	0.8
United Spirits	1.2	1.3	NA
Asian Paints	1.7	1.5	1.8
Nestle	1.2	1.0	1.5
Colgate	2.6	1.8	1.3
Dabur	1.3	0.2	1.1

CHANGES IN ESTIMATES

	EARLIER		REVISED		CHANGE (%)		
	FY10/CY09	FY11/CY10	FY10/CY09	FY11/CY10	FY10/CY09	FY11/CY10	REMARKS
Asian Paints	53.5	64.0	54.3	65	1.5	1.6	Impact of FBT
Britannia	106.1	118.6	107.7	120	1.5	1.4	Impact of FBT
Colgate	25.5	29.7	25.8	30.1	1.2	1.3	Impact of FBT
Dabur	5.6	6.6	5.3	6.3	-5.4	-4.5	Impact of MAT and FBT
Godrej Consumer	9.2	11.0	8.8	10.6	-4.3	-3.6	Impact of MAT and FBT
GSK Consumer	59.0	70.7	60.2	72.2	2.0	2.1	Impact of FBT
Hind. Unilever	10.6	11.7	10.9	12.0	2.8	2.6	Impact of FBT
ITC	9.9	11.3	10.2	11.7	3.0	3.5	Impact of FBT/ No change in excise
Marico	3.8	4.8	3.9	4.9	2.6	2.1	Impact of FBT
Nestle	70.4	85.3	71.5	86.5	1.6	1.4	Impact of FBT
United Spirits	40.5	60.4	41.2	61.3	1.7	1.5	Impact of FBT

Sector outlook

We expect FMCG demand to stay robust because of higher disposable income in rural and urban India. We expect higher volume growth in mass-market products. Removal of the 10% surcharge on the upper middle class will trigger consumer upgradation.

We are upgrading EPS estimates of most of the FMCG companies under our coverage by 1.2-3.5%. ITC's FY10E EPS has been revised to Rs10.2 from Rs9.9 and FY11E EPS to Rs11.7 from Rs11.3, an increase of 3-3.5%. We are revising HUL's EPS estimates from Rs10.6 to Rs10.9 for FY10, and from Rs11.7 to Rs12 for FY11, an increase of 2.6-2.8%. Dabur's EPS will fall 4.5-5.4% due to the MAT increase. GCPL will take an EPS hit of 3.6-4.3%.

We rate **ITC** as our top pick in large caps. **Marico** is our preferred bet among mid-caps.

FMCG (Contd.)

VALUATION MATRIX

NAME	CMP (RS) 6.7.09	RECO	EPS (RS) FY09	EPS (RS) FY10E	EPS (RS) FY11E	P/E (X)) FY09	P/E (X)) FY10E	P/E (X)) FY11E	EV/EBITDA (X) FY09	EV/EBITDA (X) FY10E	EV/EBITDA (X) FY11E	ROE (%) FY09	ROE (%) FY10E	ROE (%) FY11E
FMCG														
Asian Paints	1,193	Neutral	41.9	54.3	65.0	28.5	22.0	18.4	17.1	13.1	10.8	33.6	35.4	34.6
Britannia	1,571	Buy	84.1	107.7	120.3	18.7	14.6	13.1	14.5	11.6	10.6	22.7	24.4	23.0
Colgate	609	Buy	21.7	25.8	30.1	28.1	23.6	20.2	29.0	23.1	19.5	152.6	158.2	152.5
Dabur	129	Buy	4.5	5.3	6.3	28.4	24.1	20.4	23.1	18.4	15.5	47.8	43.1	39.7
Godrej Consumer	163	Buy	6.7	8.8	10.6	24.4	18.5	15.4	19.7	13.5	11.2	29.0	34.3	36.2
GSK Consumer	918	Buy	44.8	60.2	72.2	20.5	15.2	12.7	14.2	10.3	8.5	24.8	27.7	27.8
Hind. Unilever	276	Neutral	9.4	10.9	12.0	29.4	25.4	23.0	19.2	19.6	17.4	121.3	94.1	88.3
ITC	198	Buy	8.6	10.2	11.6	22.9	19.4	17.0	14.0	11.7	10.2	23.8	24.5	24.3
Marico	71	Buy	3.1	3.9	4.9	23.1	18.1	14.4	15.0	12.0	9.7	41.3	37.1	33.4
Nestle	1,933	Buy	58.6	71.5	86.5	33.0	27.0	22.3	21.3	17.3	14.6	119.4	120.1	120.7
Tata Tea	707	Neutral	47.4	48.0	55.0	14.9	14.7	12.9	5.5	5.6	4.9	7.5	7.3	8.0
United Spirits	831	Buy	32.2	41.2	61.3	25.8	20.2	13.6	15.0	13.0	10.6	12.1	13.4	16.6
Sector Aggregate						**25.7**	**21.6**	**18.6**	**16.3**	**14.2**	**12.2**	**30.2**	**31.2**	**31.2**

Information Technology

Budget Impact: Neutral Sector Stance: Neutral

STPI extension until FY11: marginally positive

Tax exemption on export income derived from units operating under STPI has been extended for one year until FY11. This would impact earnings growth positively for IT companies that have unutilized periods in their STPI units. STPI units are tax-exempt for 10 years from their start or March 2011, whichever is earlier. This 10-year period has not been extended.

EPS upgrade of 0-4% in top-3 IT stocks

We see 0-4% upside in our earnings estimates for the top-3 IT companies. Infosys will be least affected because most of its units go off STPI by FY11. HCL Tech will be the key beneficiary, with an FY11 EPS upgrade of 16%. HCL Tech's effective tax rate is expected to fall to 17% from 28% in FY11.

Scrapping FBT: marginal financial impact

FBT at IT companies has largely been an administrative issue, with most of them charging it to employees. At an absolute level, FBT paid out by IT companies is not material. In case of Infosys, it was Rs250m in FY09, 0.4% of its PAT.

Higher MAT neutral on P&L

From a cash-flow perspective, the increase of MAT to 15% from 10% will be negative. But from a P&L perspective, the companies would be able to claim MAT credit entitlement until tax incidence starts, with no impact on reported earnings.

IMPACT OF STPI EXTENSION

	FY09	FY10E	FY11E		FY09	FY10E	FY11E
Effective Tax Rates - Old (%)				**Dil. EPS - Old (Rs)**			
Infosys	14.9	16.5	21.0	Infosys	102.5	96.9	101.0
TCS	15.3	16.5	21.0	TCS	26.2	25.5	25.0
Wipro	13.6	14.9	21.0	Wipro	23.6	24.9	24.7
HCLT	14.4	18.9	28.5	HCLT	18.6	14.9	17.3
Tech Mahindra	11.3	12.7	20.0	Tech Mahindra	70.6	73.3	69.8
Mphasis	4.6	6.1	13.1	Mphasis	14.1	37.6	38.1
Patni	13.5	16.0	20.6	Patni	28.6	24.5	22.5
Effective Tax Rates - New (%)				**Dil. EPS - New (Rs)**			
Infosys	14.9	16.5	21.0	Infosys	102.5	96.9	101.0
TCS	15.3	16.5	18.0	TCS	26.2	25.5	26.0
Wipro	13.6	14.9	17.8	Wipro	23.6	24.9	25.6
HCLT	14.4	16.0	17.0	HCLT	18.6	15.4	20.1
Tech Mahindra	11.3	12.7	16.0	Tech Mahindra	70.6	73.3	72.0
Mphasis	4.6	6.1	13.1	Mphasis	14.1	37.6	38.1
Patni	13.5	16.0	19.0	Patni	28.6	24.5	22.8
EPS change due to STPI extension (%)				**EPS Growth (%)**			
Infosys		-	-	Infosys		-6	4
TCS		-	4	TCS		-3	2
Wipro		-	4	Wipro		5	3
HCLT		4	16	HCLT		-17	30
Tech Mahindra		-	3	Tech Mahindra		4	-2
Mphasis		-	-	Mphasis		168	1
Patni		-	2	Patni		-14	-7

Ashwin Mehta (Ashwin.Mehta@MotilalOswal.com); Tel: 3982 5409 / Vihang Naik (Vihang.Naik@MotilalOswal.com); Tel: +9122 39825436

Information Technology (Contd.)

Sector outlook

Overall, we view the Budget as Neutral for the IT sector. We believe the valuation impact is not material, as it is a one-year extension, against a sustained positive. We prefer **Wipro** among large caps, as it has been managing the slowdown better than others. That is because it has less affected clients, better revenue performance across services and verticals, strong operating performance through in-tune hiring and better handling of pricing pressures. Besides, we find the company's outlook to be most positive within the sector. Post the EPS upgrade, we like **HCL Tech** on valuations at 9.3x FY11 earnings and believe that there could be absolute upsides on account of upgrades being higher than consensus expectations. We continue to view **Mphasis** as the best demand story in mid-caps. We maintain a Neutral rating on the sector.

VALUATION MATRIX

	CMP (RS)	RECO	EPS (RS)			P/E (X))			EV/EBITDA (X)			ROE (%)		
NAME	6.7.09		FY09	FY10E	FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E
Information Technology														
HCL Technologies	187	Neutral	18.6	15.4	20.1	10.1	12.1	9.3	6.5	6.3	6.0	24.0	18.6	21.1
Infosys	1,760	Neutral	102.5	96.9	101.0	17.2	18.2	17.4	12.7	13.3	12.2	36.7	27.6	24.3
MphasiS	351	Buy	14.1	37.6	38.1	25.0	9.3	9.2	18.8	6.2	5.4	22.8	43.8	31.9
Patni Computer	245	Neutral	28.6	24.5	22.8	8.6	10.0	10.7	3.3	3.0	3.0	13.4	10.7	9.1
TCS	382	Neutral	26.2	25.5	26.0	14.5	15.0	14.7	10.0	10.5	10.3	36.4	30.0	27.5
Tech Mahindra	696	Neutral	70.6	73.3	72.0	9.9	9.5	9.7	7.0	9.2	8.9	55.0	37.9	27.8
Wipro	371	Neutral	23.6	24.9	25.6	15.7	14.9	14.5	10.5	10.2	9.2	24.6	21.7	18.8
Sector Aggregate						**15.1**	**15.2**	**14.5**	**10.5**	**10.4**	**9.8**	**28.6**	**24.0**	**21.6**

Infrastructure

Budget Impact: Neutral

Sector Stance: Overweight

The Union Budget continued thrust on infrastructure development and has increased budgetary allocation for most of the schemes (by ~10%) as against the interim budget. However, the budget did not spell out policy direction for major issues like funding, approach towards PPP projects, etc. Finance bill indicated that 80IA benefit does not apply to companies doing works contracts (from any individual or Central/State government), thus removing any ambiguity on this section. Increase of MAT rate from 10% to 15% will impact BOT project NPVs by 2-3%.

Infrastructure spend is targeted at 9% of GDP in FY14, v/s Eleventh Plan target of 9.2% in FY12; and thus the Budget represents a moderation. However, this is a substantial increase as compared to 5.5-6% spending in FY09. IIFCL, in consortium with banks has been authorized to refinance additional Rs1,000b of long term finance, restricted to 60% of project debt (already announced in interim budget / stimulus packages). To finance public investments in infrastructure, state governments can raise additional 0.5% of GDP, which will raise incremental Rs210b.

Key budget incentives that will drive demand: The Budget has increased allocations towards various ongoing schemes. However, no significant policies or initiatives aimed at boosting infrastructure spending and financing have been announced, which has been a disappointment.

SCHEME-WISE BUDGETARY ALLOCATION (RS B)

	FY08 BE	FY08 RE	FY09 BE	FY10 (INT. BUDGET) BE	FY10 BE
Bharat Nirman	246	266	313	409	454
Growth (%)	*31.6*		*27.2*	*30.8*	*45.0*
Jawaharlal Nehru National Urban Renewal Mission (JNNURM)	50	55	69	118	129
Growth (%)	*8.7*		*37.4*	*71.8*	*87.6*
Accelerated Irrigation Benefit Programme (AIBP)	110	110	200	340	350
Growth (%)	*52.8*		*81.8*	*70.0*	*75.0*
Rural Infrastructure Development Fund (RIDF)	120	120	140	180	180
Growth (%)	*20.0*		*16.7*	*28.6*	*28.6*
Accelerated Power Development and Reforms Project (APDRP)	8	8	8	21	21
Growth (%)	*23.1*		*0.0*	*160.0*	*160.0*
Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY)*	40	39	55	70	70
Growth (%)	*32.8*		*38.1*	*27.3*	*27.3*
National Highway Development Program (NHDP)	106	95	130	160	160
Growth (%)	*7.1*		*22.4*	*23.0*	*23.0*
Defense Expenditure	960	960	1056	1417	1418
Growth (%)	*11.6*		*10.0*	*34.2*	*34.3*
Capex Exp	420	420	480	548	548
Growth (%)	*12.0*		*14.3*	*14.2*	*14.2*

** Figures will not match as the only relevant heads are shown; * Part of Bharat Nirman Scheme*

80IA is not applicable to construction companies / contractors

The finance bill indicated that 80IA benefit does not apply to companies doing works contracts (from any individual or government); thus removing any ambiguity on this section. Thus, IVRCL and Patel Engineering's reported earnings will get impacted, as these companies claim section 80IA benefits. We had assumed 22-25% tax rate for IVRCL and 15%

Satyam Agarwal (Agarwals@MotilalOswal.com); Tel: +9122 3982 5410

Nalin Bhatt (NalinBhatt@MotilalOswal.com);+9122 39825429/Shridatta Bhandwaldar (Shridatta.Bhandwaldar@MotilalOswal.com);+9122 39825417

Infrastructure (Contd.)

tax rate for Patel Engineering and thus the earnings impact for IVRCL and Patel Engineering will be 11-15% and 19-20% respectively, for FY10 and FY11. However, there would be no cash flow impact since both the companies pay full cash tax.

CHANGE IN ESTIMATES

	EPS IMPACT (%)		REVISED EPS		NET WORTH IMPACT*	% NET WORTH
	FY09	FY10	FY10	FY11	RS M	(FY10)
IVRCL	-14.4	-11.5	19.3	22.3	-1,353	(6.60)
Patel Engineering	-19.9	-20.8	26.3	35.2	-1,533	(15.90)

** Net worth impact due to higher tax in retrospective effect from 2001*

VALUATION MATRIX

	CMP (RS)	RECO	EPS (RS)			P/E (X))			EV/EBITDA (X)			ROE (%)		
NAME	6.7.09		FY09	FY10E	FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E
Infrastructure														
Hindustan Construction	103	Neutral	3.0	3.8	6.6	34.7	27.1	15.5	11.1	9.3	7.6	7.6	7.3	11.7
IVRCL Infra.	330	Buy	17.0	19.3	22.3	19.4	17.1	14.8	25.6	18.7	16.3	13.3	13.8	14.0
Jaiprakash Associates	193	Buy	7.2	8.4	8.2	26.8	23.0	23.5	22.9	14.1	13.8	16.8	19.3	16.5
Nagarjuna Construction	129	Buy	6.7	9.0	10.7	19.1	14.3	12.0	10.9	9.4	7.7	9.4	11.6	12.6
Simplex Infra.	381	Buy	26.8	36.2	44.0	14.2	10.5	8.7	7.0	5.6	5.0	15.7	18.4	19.6
Sector Aggregate						**27.0**	**20.2**	**18.4**	**18.2**	**12.8**	**11.7**	**13.1**	**15.0**	**14.3**

Media

Budget Impact: Neutral | Sector Stance: Neutral

The Budget had no major announcements for the media sector, except for two small proposals for the print media and C&S distribution companies.

The Budget proposed extending the stimulus package (wavier of agency commission of 15% and 10% increase in DAVP ad rates) for print media from June 30 to December 31, 2009. DAVP ads form 20% to 25% of the advertising. The advertising rate increase was applicable to small print media companies and large players have not been benefited. However, a wavier of agency commission is a positive for print media firms.

The Budget also proposed customs duty of 5% to be imposed on set-top boxes for television broadcasting. It is negative for distribution companies like Dish TV and WWIL, as the cost of set-top boxes will increase by 5%.

Sector outlook

The impact on the sector is neutral. But an increase in disposable income, as the government focuses on boosting rural and urban income, will increase the penetration of television and the number of C&S TV households.

VALUATION MATRIX

	CMP (RS)	RECO	EPS (RS)			P/E (X))			EV/EBITDA (X)			ROE (%)		
NAME	6.7.09		FY09	FY10E	FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E
Media														
Deccan Chronicle	69	Buy	5.6	7.1	8.7	12.3	9.8	8.0	5.4	4.5	3.7	12.6	15.4	18.1
HT Media	90	Neutral	4.4	5.3	6.5	20.2	16.8	13.7	11.9	9.7	7.9	8.7	9.9	11.4
Jagran Prakashan	72	Neutral	3.0	3.6	4.4	23.7	20.1	16.2	12.9	10.8	8.6	16.3	18.0	20.2
Sun TV	226	Neutral	10.5	13.0	15.4	21.5	17.4	14.6	11.3	9.0	7.3	24.4	24.0	24.0
TV Today	85	Buy	5.8	7.1	9.5	14.7	12.0	9.0	7.9	5.0	3.2	10.6	11.7	13.8
Zee Entertainment	171	Under Review	9.2	8.9	11.3	18.5	19.2	15.1	14.8	12.8	10.1	12.6	11.3	13.3
Sector Aggregate						**19.3**	**16.9**	**13.8**	**11.5**	**9.5**	**7.6**	**14.9**	**15.5**	**17.2**

Amnish Aggarwal (AmnishAggarwal@MotilalOswal.com)Tel:+9122 39825404/Amit Purohit (AmitPurohit@MotilalOswal.com)Tel:+9122 39825418

Metals

Budget Impact: Neutral

Sector Stance: Neutral

The Budget is neutral for the metals-mining sector because there was no sector-specific announcement with excise, import and export duties on metals and iron ore being left unchanged.

An increase in MAT rate will increase cash tax for metal companies, as many of them have low current tax due to high investment in building fixed assets for growth. There is no material change in EPS of most metal companies due to the cushion of deferred tax. However, effective tax rates will rise marginally for Jindal Power, Sterlite standalone, Balco, Sterlite Energy, Adhunik and Godawari, thereby impacting their EPS.

Sector outlook

Steel prices across the world are inching up due to the end of de-stocking and gradual recovery in demand. Rising production, reports of low inventories and rising prices imply that demand is recovering. Global crude steel production during May increased 16.4% from the lowest level of monthly production in December 2008. We believe that steel prices will remain range-bound because higher prices and demand will encourage the start-up of more idle capacities.

Indian metal demand remains strong and is expected to strengthen further because of the various measures announced in the Budget to boost infrastructure development and other schemes. Demand for flat products is robust and HRC is in short supply. Many hot-strip mills are expected to shut down in July, which will only accentuate the shortage. Therefore, we expect mills to raise prices of HRC. Long-product demand in India is sluggish due to seasonal factors such as depressed construction activity during the monsoon. We expect demand of long products to rebound after the monsoons.

Our top picks are **Jindal Steel & Power** and **Sterlite Industries**.

VALUATIONS: INDIAN METALS

	RATING	PRICE (INR)	MKT CAP (US$ M)	FY10 TAX RATE		FY10 EPS (RS)			P/E (X)		EV/EBITDA (X)		P/B (X)	
				OLD	REV.	OLD	REV.	(%)	FY09	FY10E	FY09	FY10E	FY09	FY10E
Ferrous														
JSW Steel	Buy	577	2,300	34.3	34.3	74.9	74.9		11.1	7.7	8.0	5.2	1.3	1.1
Jindal Steel & Power	Buy	2,493	8,061	20.2	20.2	207.8	207.8		12.6	12.0	8.6	9.1	5.7	3.9
Tata Steel	Neutral	396	6,934	59.4	59.4	48.1	48.1		3.6	8.2	4.6	6.4	2.5	2.5
Sesa Goa	Buy	180	3,094	33.6	33.6	20.2	20.2		7.1	8.9	4.0	4.7	3.2	2.4
SAIL	Sell	151	13,194	34.1	34.1	13.9	13.9		9.1	10.9	5.1	6.4	2.2	1.9
Non-Ferrous														
Sterlite Inds.	Buy	588	8,336	19.1	20.1	31.7	31.1	-1.9	12.6	18.9	10.0	15.6	1.6	1.5
Hindustan Zinc	Buy	564	4,767	19.0	19.0	56.6	56.6		8.7	10.0	5.0	6.0	1.7	1.4
Nalco	Sell	285	3,917	33.8	33.8	13.0	13.0		14.4	21.9	9.1	13.9	1.9	1.8
Hindalco	Sell	78	2,859	34.2	34.2	3.1	3.1		4.7	25.4	5.5	5.6	1.3	1.2
Mid-caps														
Monnet Ispat Energy	Buy	233	229	20.0	20.0	34.2	34.2		5.4	6.8	4.8	4.7	0.9	0.8
Godawari Power & Ispat	Buy	103	58	15.0	17.0	30.0	29.3	-2.4	4.5	3.5	4.8	3.3	0.7	0.6
Sarda Energy & Minerals	Neutral	112	78	17.0	17.0	14.7	14.7		2.8	7.7	3.3	4.9	0.8	0.7
Tata Sponge Iron	Buy	176	54	30.0	30.0	33.0	33.0		2.2	5.3	0.9	2.0	0.8	0.7
Adhunik Metaliks	Buy	81	176	28.1	29.3	9.9	9.8	-1.4	9.9	8.3	8.6	5.9	2.8	1.6
Bhushan Steel	Buy	596	519	24.9	24.9	103.9	103.9		6.1	5.7	9.6	6.8	1.3	1.1

Source: MOSL

Sanjay Jain (SanjayJain@MotilalOswal.com);Tel:+9122 39825412/Ashutosh Somani (Ashutosh.Somani@MotilalOswal.com);Tel+9122 39825425

Metals (Contd.)

VALUATION MATRIX

NAME	CMP (RS) 6.7.09	RECO	EPS (RS) FY09	EPS (RS) FY10E	EPS (RS) FY11E	P/E (X)) FY09	P/E (X)) FY10E	P/E (X)) FY11E	EV/EBITDA (X) FY09	EV/EBITDA (X) FY10E	EV/EBITDA (X) FY11E	ROE (%) FY09	ROE (%) FY10E	ROE (%) FY11E
Metals														
Hindalco	78	Sell	9.9	5.0	4.8	7.9	15.7	16.4	5.2	5.2	4.8	16.0	7.3	6.5
Hindustan Zinc	564	Buy	64.6	56.6	67.1	8.7	10.0	8.4	5.0	6.0	4.1	19.0	14.4	14.8
Jindal Steel & Power	2,493	Buy	198.6	207.8	250.2	12.6	12.0	10.0	8.6	9.1	8.7	45.1	32.4	28.3
JSW Steel	577	Buy	52.0	67.5	79.2	11.1	8.5	7.3	8.0	5.5	4.7	12.0	13.6	13.9
Nalco	285	Sell	19.7	13.0	11.2	14.4	21.9	25.3	9.1	13.9	17.5	13.0	8.1	6.8
SAIL	151	Sell	16.6	13.9	14.6	9.1	10.9	10.3	5.1	6.4	6.6	24.0	17.3	15.9
Sterlite Inds.	588	Buy	46.8	31.1	42.8	12.6	18.9	13.7	7.1	11.8	7.4	13.0	8.0	10.1
Tata Steel	396	Neutral	110.2	48.1	85.6	3.6	8.2	4.6	4.8	6.4	5.1	68.2	30.2	43.2
Sector Aggregate						**8.3**	**11.8**	**9.4**	**5.9**	**7.1**	**6.2**	**20.3**	**13.0**	**14.5**

Oil & Gas

Budget Impact: Negative

Sector Stance: Overweight

Many issues were left unstated or postponed for the Oil & Gas sector. Against high expectations, clarity did not emerge in terms of deregulation and towards under-recovery sharing. The Finance Minister indicated that the government was going to set up an expert group to work out a viable and sustainable system for petroleum product pricing mechanism and that the Petroleum Minister would announce the details.

NELP VIII blocks will have 7-year tax holiday for gas production

The FM announced that the tax holiday u/s 80-IB (9) for profit on production/refining of mineral oil would be extended to natural gas. He also stated that the benefit would be for blocks under NELP-VIII round. However, the Budget was silent about the previous NELP rounds (I to VII). Our interactions with the companies indicate that the 7-year tax holiday would be available for the previous NELP rounds also; however, clarity is yet to emerge.

MAT rate increase to impact RIL's FY10 EPS; marginal impact on Cairn

Minimum alternate tax (MAT) rate was increased to 15% from 10% and the carry-forward period allowed for MAT, increased to 10 years from 7 years. As a result, our FY10 effective tax rate for Reliance Industries will increase to 17% from 12.3%, resulting in a 6% decline in FY10 EPS to Rs132. For FY11, we factor in effective tax rate of 18% and our EPS estimate is Rs155. Impact on Cairn India's SOTP would be ~2% due to increase in MAT rate. (SOTP will reduce to Rs203)

Investment-linked tax incentives for natural gas pipelines: likely to benefit GAIL, GSPL

The Budget proposes investment-linked tax incentives under a new section 35AD for laying and operating a cross-country natural gas/crude/petroleum oil pipeline network. Section 35AD proposes capex towards pipelines to be fully allowable as deduction (except land, goodwill and financial instruments), if the operations commenced on or after 1 April 2007. Prima facie, this proposal seems positive for long-distance pipeline companies like GAIL and GSPL. We await more clarity on this proposal before changing our estimates.

OTHER HIGHLIGHTS

KEY HIGHLIGHTS	CHANGES	IMPACT / COMMENTS
Branded fuel excise duty changed from ad valorem to specific	**Branded Petrol:** Basic excise duty has been changed from 6%+Rs5/ltr to specific rate of Rs6.5/ltr. Now the total excise duty on petrol will be Rs14.5/ltr. **Branded Diesel:** Basic excise duty has been changed from 6%+Rs1.25/ltr to specific rate of Rs2.75/ltr. Now the total excise duty on petrol will be Rs4.75/ltr.	Neutral: In the low oil price regime, OMCs would have benefited by the ad valorem structure. However, with the current specific duty structure OMCs will gain in the high oil price regime. We estimate that as the quantum of branded fuel is not significant (for petrol and diesel combined) the impact would be minimal.
Excise duty on Naphtha reduced	Excise duty on Naphtha has been reduced from 16% to 14%	We believe this will result in decline in Naphtha imports and companies are most likely to pass through the benefits to the consumers.
Excise duties on polyester and polyester intermediates increased	Excise duty increased from 4% to 8%.	The increase in the excise duties is likely to be passed on to consumers

Harshad Borawake (HarshadBorawake@MotilalOswal.com) Tel: 39825432

Oil & Gas (Contd.)

VALUATION MATRIX

NAME	CMP (RS) 6.7.09	RECO	EPS (RS) FY09	EPS (RS) FY10E	EPS (RS) FY11E	P/E (X)) FY09	P/E (X)) FY10E	P/E (X)) FY11E	EV/EBITDA (X) FY09	EV/EBITDA (X) FY10E	EV/EBITDA (X) FY11E	ROE (%) FY09	ROE (%) FY10E	ROE (%) FY11E
Oil & Gas														
BPCL	443	Buy	17.5	43.7	46.8	25.3	10.1	9.5	11.4	6.6	6.1	4.8	11.3	11.1
Cairn India	219	Buy	4.3	6.2	24.5	51.4	35.6	8.9	47.3	18.1	5.7	2.6	3.5	12.9
Chennai Petroleum	175	Buy	-2.9	41.3	28.2	-60.5	4.2	6.2	-26.9	2.9	3.6	-12.2	18.7	11.8
GAIL	313	Buy	22.5	21.5	23.4	13.9	14.6	13.4	9.3	9.8	8.7	19.0	16.4	15.9
HPCL	317	Buy	12.8	31.3	28.4	24.7	10.1	11.2	7.1	5.2	5.7	4.1	9.3	7.9
Indraprastha Gas	137	Neutral	11.9	12.6	11.6	11.4	10.9	11.8	5.8	5.1	5.1	26.7	24.1	19.8
IOC	541	Buy	21.8	49.8	50.4	24.8	10.9	10.7	14.2	6.5	6.7	5.9	12.7	11.5
MRPL	78	Sell	8.3	5.5	4.2	9.4	14.2	18.8	6.8	8.1	12.1	28.0	19.0	12.8
ONGC	1,070	Neutral	90.6	89.4	86.8	11.8	12.0	12.3	5.1	5.0	4.9	23.1	19.9	17.2
Reliance Inds.	1,894	Buy	103.1	139.9	155.3	18.4	13.5	12.2	13.9	9.6	8.2	16.1	18.1	17.3
Sector Aggregate						**16.6**	**12.7**	**11.6**	**9.3**	**7.3**	**6.6**	**13.9**	**15.4**	**14.7**

Pharmaceuticals

Budget Impact: Neutral

Sector Stance: Neutral

The Budget is neutral for the pharmaceuticals sector.

Higher MAT

Most large Indian pharmaceutical companies pay MAT on profits generated in India. For companies that will no longer be MAT-paying in the next few years, the increase in MAT rate will impact only the cash flows; reported EPS will not change as the company will show it as a MAT credit in the P&L. For companies that might stay under MAT for longer, the increase in MAT rate will impact cash flow as well as reported EPS. MNCs will not be impacted by this change as none of them pays MAT.

FBT scrapped: marginally positive

We expect this to be only marginally positive for pharmaceutical companies as the quantum of FBT paid is negligible.

THE TABLE BELOW GIVES OUR SENSITIVITY ANALYSIS FOR THE ABOVE TWO MEASURES (RS M)

	INCREMENTAL TAX OUTGO/(GAIN)				EPS - CURRENT		EPS - REVISED		CHANGE (%)	
	FY10		FY11							
	CASHFLOW	PAT	CASHFLOW	PAT	FY10	FY11	FY10	FY11	FY10	FY11
Aventis	(56)	(56)	(56)	(56)	59.4	68.6	61.8	71.0	4.1	3.5
Biocon**	43	(19)	55	(19)	13.0	15.5	13.1	15.6	0.7	0.6
Cadila	177	177	213	213	32.4	37.3	31.1	35.8	(4.0)	(4.2)
Cipla	(64)	(64)	(64)	(64)	15.6	17.1	15.7	17.1	0.5	0.5
Divi's Labs**	152	(3)	187	(3)	76.8	94.2	76.8	94.3	0.1	0.1
Dr. Reddy's Labs	(113)	(113)	(113)	(113)	40.0	46.9	40.7	47.5	1.7	1.4
GSK Pharma	(72)	(72)	(72)	(72)	59.0	69.0	59.9	69.9	1.4	1.2
Glenmark**	97	(85)	128	(85)	12.3	14.3	12.6	14.7	2.6	2.2
Jubilant**	103	(28)	73	(28)	22.0	16.9	22.2	17.1	0.9	1.1
Lupin**	339	(115)	405	(115)	67.0	76.6	68.3	77.9	1.9	1.7
Piramal Healthcare**	353	(132)	478	(132)	23.4	29.4	24.0	30.1	2.7	2.1
Ranbaxy**	14	(125)	91	(125)	(4.8)	0.4	(4.5)	0.7	NA	79.7
Sun Pharma	56	56	66	66	65.2	74.8	65.0	74.5	(0.4)	(0.4)

*Note - Incremental Tax Outgo/(Gain) includes net impact of increase in MAT rate & FBT exemption; ** Companies likely to take MAT credit, hence only cash flow impact.*

Customs duty on life savers

Reduced customs duty will have no major impact because companies are likely to pass on the benefits to the end consumer as is generally the case with life-saving drugs. Extension of EOU tax benefits by one year to 2011 is unlikely to change estimates.

Earnings outlook

Earnings estimates for our pharmaceuticals coverage remain largely unchanged as the MAT rate change will impact cash flows and not reported earnings while the scrapping of FBT will have a marginal benefit.

Nimish Desai (Nimishdesai@MotilalOswal.com); Tel: +91 22 39825406

Pharmaceuticals (Contd.)

Sector strategy and recommendation

Generics

We believe emerging markets will be key earnings drivers for Indian generic players in the short-to-medium term. While the US continues to be a key market for most Indian companies, we note that the traction in US business is likely to be hit in the near term, given the stringent steps taken by the US FDA to ensure compliance with GMP norms. Japan will be the next frontier of growth for generics in the long-term given Tokyo's intention to cut healthcare costs by encouraging generics.

Geographically diversified operations, a pragmatic mix of IPR-driven low competition and normal products, vertically integrated operations with strict US FDA compliance and a differentiated business model are the key pre-requisites for success in the generics space. Our top pick in the generics space is **Lupin**.

CRAMS

Despite the short-term adverse impact of inventory corrections, we believe the Indian CRAMS segment will see strong double-digit secular growth. The impact of inventory corrections will reverse from 2HFY10 and we expect innovator pharmaceutical companies to restart sourcing from Indian CRAMS players. **Divi's Labs** and **Piramal Healthcare** remain our top picks among the CRAMS players.

Pharma MNCs

We remain favorably inclined towards pharma MNCs for the long term. Leading pharma MNCs are geared to gain from the opportunities arising from a sustained double-digit growth for the domestic pharmaceuticals market and a stronger patent regime. The potential upside from product patents would create 'option value' in these stocks over the longer term. It should be noted that while some of the patented products may be launched by the parent through the 100% subsidiary route, we believe that most of the mass-market products (which need a large field force for promotion) are likely to be launched through listed entities. **GSK Pharma** remains our top pick among the MNCs.

VALUATION MATRIX

	CMP (RS)	RECO	EPS (RS)			P/E (X))			EV/EBITDA (X)			ROE (%)		
NAME	6.7.09		FY09	FY10E	FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E
Pharmaceuticals														
Aventis Pharma	1,093	Buy	72.2	61.8	71.1	15.1	17.7	15.4	10.4	13.6	11.0	21.7	17.2	17.9
Biocon	210	Buy	4.7	13.1	15.6	45.1	16.1	13.5	13.4	9.7	8.3	6.0	15.0	15.7
Cadila Health	354	Buy	24.1	31.1	35.8	14.7	11.4	9.9	8.3	6.8	6.0	27.5	29.2	27.0
Cipla	260	Neutral	9.9	15.7	17.1	26.3	16.6	15.2	16.2	13.5	11.7	17.6	22.9	21.1
Divis Labs	1,088	Buy	64.6	76.8	94.2	16.9	14.2	11.5	13.1	11.9	9.2	39.8	34.6	32.5
Dr Reddy' s Labs	767	Buy	-30.7	40.7	47.5	-25.0	18.9	16.1	11.7	14.8	13.0	-11.9	14.2	14.8
GSK Pharma	1,266	Buy	52.9	59.9	69.9	23.9	21.1	18.1	16.7	14.2	12.2	29.1	29.5	30.9
Glenmark Pharma	229	Neutral	4.3	12.6	14.7	52.9	18.3	15.6	20.2	11.1	9.7	6.7	16.5	15.4
Jubiliant Organosys	161	Buy	15.9	22.2	17.1	10.1	7.2	9.5	8.3	8.5	7.3	18.6	25.5	16.4
Lupin	824	Buy	56.9	68.3	77.9	14.5	12.1	10.6	12.0	9.8	8.5	34.1	32.0	29.3
Piramal Healthcare	309	Buy	17.1	24.0	30.1	18.0	12.8	10.3	12.3	9.1	7.4	29.7	33.1	32.1
Ranbaxy Labs	261	Neutral	2.5	-4.5	0.7	105.8	-57.9	372.4	27.1	2158.0	34.6	2.4	-4.6	0.3
Sun Pharma	1,130	Buy	87.8	65.0	74.5	12.9	17.4	15.2	11.1	14.9	12.3	31.7	19.1	18.8
Sector Aggregate						**24.5**	**17.8**	**15.2**	**13.3**	**13.2**	**10.9**	**15.9**	**18.7**	**18.9**

Real Estate

Budget Impact: Neutral

Sector Stance: Neutral

The Union Budget is 'neutral' on the real-estate sector, shrugging off key industry expectations. It does not propose increased income-tax deductions under Section 24(B) on interest on housing loans, does not clarify proposals for the introduction of real-estate investment trusts (REITs), and offers no tax breaks under section 80(B) to promote affordable housing.

Key positives

The Budget proposes sops in personal income tax, which will make homes more affordable. It proposes scrapping the 10% surcharge on personal income tax and the FBT (fringe-benefit tax), and an increase in tax-exemption limits across categories.

The Budget also proposes other measures which, though positive for the overall real-estate sector, are unlikely to have an immediate or major impact on organized players. These measures include an 87% increase in the corpus for the Jawaharlal Nehru Urban Renewal Mission to Rs128.8b and an added Rs39.7b in provision of basic amenities to the urban poor. Besides, the allocation for the Indira Awas Yojna has been boosted by 63% to Rs88b and Rs20b has been allocated to the Rural Housing Fund in the National Housing Bank. The Budget also proposes a program to develop 100,000 units for Central Para-Military Forces personnel.

Sector view

In the past few months, there has been a swift re-capitalization of the property sector, with equity infusion of US$2.7b. Following this, valuations have moved from 'distress valuations' to 'going- concern valuations'. While solvency risk has diminished significantly, business risk remains, as all real-estate verticals have still not recovered. Although the sector seems to be on the road to recovery, we believe valuations have moved ahead of fundamentals in the medium term. Our top pick in the sector is DLF.

VALUATION MATRIX

	CMP (RS)	RECO	EPS (RS)			P/E (X))			EV/EBITDA (X)			ROE (%)		
NAME	6.7.09		FY09	FY10E	FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E
Real Estate														
DLF	309	Buy	26.9	13.5	19.1	11.5	22.9	16.2	12.4	19.1	13.4	18.7	8.6	10.9
Unitech	76	Neutral	6.0	4.5	4.1	12.7	17.0	18.5	16.6	12.7	14.8	18.7	10.0	8.5
Sector Aggregate						**12.7**	**21.0**	**16.7**	**13.4**	**16.9**	**13.7**	**18.7**	**9.0**	**10.2**

Siddharth Bothra (Sbothra@MotilalOswal.com); Tel: +9122 39825407/Mansi Trivedi (Mansi.Trivedi@MotilalOswal.com); Tel: +9122 39825430

Retail

Budget Impact: Negative

Sector Stance: Neutral

No news on FDI

India's big retailers hoped this Budget would raise the cap for FDI in the industry, which would help stimulate expansion. But the cash-strapped sector's hopes were dashed. Still, we do not rule out the possibility of the government raising FDI limits, subsequently.

Titan Industries: not all glitter

The Budget proposes that branded jewelry be exempt from excise duty. We estimate the effective excise rate on Titan's jewelry portfolio at about 0.6%. Most of Titan's jewelry sales are exempt, as they are assembled in excise-free zones. But this marginal benefit is likely to be offset by higher customs duty on gold bars from Rs100/10gm to Rs200/10gm and other forms of gold (excluding jewelry) from Rs250/10gm to Rs500/10gm. The increase of about Rs100/10gm is likely to raise raw-material costs for Titan by about 50bp. We believe the net impact of the two could be **Neutral** for Titan.

VALUATION MATRIX

	CMP (RS)	RECO	EPS (RS)			P/E (X))			EV/EBITDA (X)			ROE (%)		
NAME	6.7.09		FY09	FY10E	FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E
Retail														
Pantaloon Retail	303	Buy	7.8	9.7	12.3	39.0	31.3	24.7	10.3	9.3	8.3	6.9	7.7	8.9
Titan Industries	1,238	Neutral	46.3	51.3	64.2	26.7	24.1	19.3	17.3	15.0	12.0	37.5	31.4	30.5
Sector Aggregate						**30.8**	**25.6**	**20.1**	**12.5**	**11.2**	**9.7**	**13.6**	**13.2**	**14.5**

Amnish Aggarwal (AmnishAggarwal@MotilalOswal.com)Tel:+9122 39825404/Amit Purohit (AmitPurohit@MotilalOswal.com)Tel:+9122 39825418

Telecom

Budget Impact: Neutral Sector Stance: Overweight

Budget 2009-10 is marginally negative for the Telecom industry, given the increase in MAT from 10% to 15% (higher cash-tax outgo but significant earnings impact unlikely), and government's relatively ambitious 3G spectrum auction revenue target of Rs350b. Increase in tenure of carry-forward losses from 7 to 10 years would be positive.

Higher MAT unlikely to affect earnings significantly

Although there were no major proposals directly related to the telecom industry, the Budget proposed an increase in the minimum alternate tax (MAT) to 15% from 10%. This would boost the cash-tax outflow, though the effective tax rate might not be affected, as companies get MAT credit. Bharti, Idea, and RCom are MAT payers.

During FY09, the effective tax rate for Bharti was 7.1% (current tax rate of 11.2% + deferred tax write-back of -4.1%). Effective tax rate was 3.9% for Idea and -0.2% for RCom.

Besides, the tenure of carry-forward losses has been increased to 10 years from 7 years, which is positive for the sector.

Our FY10 estimates (FY11 in brackets) incorporate an effective tax rate of 14.4% (18%) for Bharti, 6.4% (8%) for Idea, and 2% (5%) for RCom.

We are maintaining our EPS estimates. Assuming a worst-case scenario in which the effective tax rate rises by 500bp for FY10 and FY11, the EPS would get impacted by 5% to 6%.

Ambitious auction revenue target

The Budget expects revenue from the 3G-spectrum auction to be Rs350b, up from Rs200b estimated in the interim budget. Recent media reports indicate that 6-7 slots per circle would be available for 3G auctions. Assuming 7 slots on a pan-India basis, the Budget estimates imply a per-slot auction price of about Rs50b against Rs20.2b as earlier indicated.

Based on Budget estimates, we expect the base auction price to rise to Rs35b-40b. We do not expect aggressive bidding given likely high availability of spectrum and limited balance-sheet strength of operators.

We arrive at a 3G-spectrum valuation of Rs39b based on IRR expectations of 15%, subscriber penetration of 25% and incremental ARPU of Rs100/month on terminal basis, and incremental 3G rollout capex of Rs30b, terminal 3G EBITDA margin of 40%, and FCF/EBITDA ratio of 60%.

We maintain **Buy** on **Bharti** and **RCom**, and we are **Neutral** on **Idea**.

VALUATION MATRIX

	CMP (RS)	RECO	EPS (RS)			P/E (X))			EV/EBITDA (X)			ROE (%)		
NAME	6.7.09		FY09	FY10E	FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E
Telecommunication														
Bharti Airtel	784	Buy	44.7	55.2	63.0	17.5	14.2	12.4	10.3	8.2	6.9	31.4	28.8	25.6
Idea Cellular	70	Neutral	3.0	3.5	3.6	23.0	19.8	19.5	8.9	7.5	6.7	10.4	7.6	6.9
Reliance Comm	269	Buy	29.8	25.8	32.8	9.0	10.4	8.2	8.0	6.4	4.9	20.7	15.7	17.0
Sector Aggregate						**14.5**	**13.4**	**11.4**	**9.4**	**7.5**	**6.2**	**20.9**	**18.7**	**17.8**

Shobhit Khare (Shobhit.Khare@MotilalOswal.com); Tel: +91 22 3982 5428

Annual performance/Valuations - MOSL Universe

ANNUAL PERFORMANCE - MOSL UNIVERSE (RS BILLION)

	SALES					EBITDA					NET PROFIT				
	FY09	FY10E	FY11E	CHG. (%)*	CHG. (%)#	FY09	FY10E	FY11E	CHG. (%)*	CHG. (%)#	FY09	FY10E	FY11E	CHG. (%)*	CHG. (%)#
Auto (5)	807	904	1,010	12.0	11.7	78	107	120	36.1	12.4	47	61	69	30.2	13.0
Banks (17)	829	944	1,120	13.9	18.7	642	727	895	13.3	23.0	373	399	481	6.9	20.7
Cement (7)	463	498	516	7.6	3.7	120	149	130	24.4	-12.6	70	82	70	18.6	-15.3
Engineering (9)	1,106	1,203	1,417	8.8	17.8	148	175	213	18.1	21.2	109	119	141	9.0	18.5
FMCG (12)	690	740	836	7.1	13.0	130	148	169	13.7	14.0	83	99	115	19.3	16.0
IT (7)	949	978	1,045	3.1	6.8	237	231	236	-2.3	2.3	173	173	180	-0.2	4.3
Infrastructure (5)	228	294	339	28.7	15.3	33	48	53	48.0	9.9	14	19	21	33.8	9.4
Media (6)	64	69	77	6.9	11.8	19	23	27	17.8	18.9	12	13	17	14.0	22.8
Metals (8)	3,160	2,490	2,681	-21.2	7.7	521	440	514	-15.5	16.9	290	205	257	-29.4	25.4
Oil Gas (10)	9,032	7,646	8,215	-15.3	7.4	841	1,082	1,175	28.7	8.5	433	566	621	30.6	9.7
Pharma (13)	447	482	489	7.7	1.7	94	93	109	-1.0	17.6	48	66	78	37.5	17.6
Real Estate (2)	129	92	105	-28.6	13.2	71	50	60	-28.9	18.9	56	34	43	-39.4	25.9
Retail (2)	102	117	137	14.5	17.4	10	11	12	11.0	15.9	3	4	5	20.6	27.3
Telecom (3)	701	845	992	20.6	17.4	273	333	391	22.0	17.3	155	169	199	8.7	17.8
Textiles (4)	112	122	133	8.7	9.0	16	18	20	9.3	14.0	1	1	3	94.1	226.7
Utilities (5)	686	820	881	19.5	7.5	132	206	229	56.3	11.1	109	111	121	2.6	8.4
Others (5)	130	149	176	15.1	17.7	24	29	36	21.9	24.4	13	16	22	24.7	32.6
MOSL (120)	**19,634**	**18,391**	**20,169**	**-6.3**	**9.7**	**3,388**	**3,870**	**4,389**	**14.2**	**13.4**	**1,989**	**2,139**	**2,442**	**7.5**	**14.2**
Ex. Banks	**18,805**	**17,447**	**19,049**	**-7.2**	**9.2**	**2,746**	**3,143**	**3,494**	**14.5**	**11.2**	**1,616**	**1,740**	**1,961**	**7.7**	**12.7**
Ex. Metals	**16,474**	**15,901**	**17,488**	**-3.5**	**10.0**	**2,867**	**3,431**	**3,875**	**19.6**	**13.0**	**1,700**	**1,934**	**2,186**	**13.8**	**13.0**
Ex. RMs	**14,160**	**14,335**	**15,909**	**1.2**	**11.0**	**3,263**	**3,654**	**4,181**	**12.0**	**14.4**	**1,953**	**2,052**	**2,355**	**5.1**	**14.8**
Ex. Met.&RMs	**11,000**	**11,845**	**13,228**	**7.7**	**11.7**	**2,743**	**3,214**	**3,667**	**17.2**	**14.1**	**1,663**	**1,847**	**2,098**	**11.1**	**13.6**
Sensex (30)	**9,616**	**9,657**	**10,419**	**0.4**	**7.9**	**2,216**	**2,474**	**2,779**	**11.7**	**12.3**	**1,353**	**1,399**	**1,596**	**3.4**	**14.1**
Sensex Ex.Met.	**7,722**	**8,281**	**8,892**	**7.2**	**7.4**	**1,953**	**2,280**	**2,533**	**16.7**	**11.1**	**1,209**	**1,314**	**1,471**	**8.7**	**12.0**

** Growth FY10 over FY09; # Growth FY11 over FY10. For Banks : Sales = Net Interest Income, EBIDTA = Operating Profits; Tata Steel Figures are consolidated including corus.*

VALUATIONS - MOSL UNIVERSE

SECTOR	P/E (X)			EV/EBITDA (X)			P/BV (X)			ROE (%)			DIV. YLD (%)	EARN. CAGR
(NO. OF COMPANIES)	FY09	FY10E	FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E	FY09	(FY11-09)
Auto (5)	22.4	17.2	15.2	12.6	9.4	8.0	3.7	3.2	2.8	16.5	18.7	18.4	1.3	21.3
Banks (17)	11.9	11.2	9.2	2.2	1.9	1.7	2.2	1.9	1.7	18.0	16.9	17.9	1.8	13.6
Cement (7)	9.5	8.0	9.5	5.7	4.0	4.2	2.2	1.8	1.6	23.3	22.6	16.5	1.8	0.2
Engineering (9)	24.3	22.3	18.8	17.9	15.2	12.6	6.1	5.1	4.4	25.3	23.0	23.3	0.9	13.7
FMCG (12)	25.7	21.6	18.6	16.3	14.2	12.2	7.8	6.7	5.8	30.2	31.2	31.2	2.4	17.6
IT (7)	15.1	15.2	14.5	10.5	10.4	9.8	4.3	3.6	3.1	28.6	24.0	21.6	2.0	2.0
Infrastructure (5)	27.0	20.2	18.4	18.2	12.8	11.7	3.5	3.0	2.6	13.1	15.0	14.3	0.7	21.0
Media (6)	19.3	16.9	13.8	11.5	9.5	7.6	2.9	2.6	2.4	14.9	15.5	17.2	1.6	18.3
Metals (8)	8.3	11.8	9.4	5.9	7.1	6.2	1.7	1.5	1.4	20.3	13.0	14.5	1.6	-5.9
Oil Gas & Petchem (10)	16.6	12.7	11.6	9.3	7.3	6.6	2.3	2.0	1.7	13.9	15.4	14.7	1.5	19.7
Pharma (13)	24.5	17.8	15.2	13.3	13.2	10.9	3.9	3.3	2.9	15.9	18.7	18.9	1.1	27.2
Real Estate (2)	12.7	21.0	16.7	13.4	16.9	13.7	2.4	1.9	1.7	18.7	9.0	10.2	0.4	-12.7
Retail (2)	30.8	25.6	20.1	12.5	11.2	9.7	4.2	3.4	2.9	13.6	13.2	14.5	0.7	23.9
Telecom (3)	14.5	13.4	11.4	9.4	7.5	6.2	3.0	2.5	2.0	20.9	18.7	17.8	0.3	13.2
Textiles (4)	53.6	27.6	8.4	8.0	7.7	6.2	0.5	0.5	0.4	0.9	1.7	5.2	2.6	151.8
Utilities (5)	19.9	19.4	17.9	16.6	11.0	10.6	2.6	2.4	2.2	13.1	12.3	12.3	1.7	5.5
Others (5)	11.9	9.6	7.2	7.8	6.1	4.6	2.4	2.0	1.6	20.0	20.8	22.6	1.1	28.6
MOSL (120)	**15.3**	**14.2**	**12.4**	**N.M**	**N.M**	**N.M**	**2.8**	**2.4**	**2.1**	**18.0**	**16.7**	**16.6**	**1.5**	**10.8**
Excl. Banks (103)	**16.1**	**14.9**	**13.2**	**10.2**	**8.9**	**7.9**	**2.9**	**2.5**	**2.2**	**18.0**	**16.7**	**16.4**	**1.4**	**10.1**
Excl. Metals (112)	**16.5**	**14.5**	**12.8**	**N.M**	**N.M**	**N.M**	**2.9**	**2.5**	**2.2**	**17.7**	**17.3**	**16.9**	**1.5**	**13.4**
Excl. RMs (117)	**15.1**	**14.4**	**12.5**	**N.M**	**N.M**	**N.M**	**2.9**	**2.5**	**2.1**	**18.9**	**17.1**	**17.0**	**1.5**	**9.8**
Excl. Met. &RMs (109)	**16.3**	**14.6**	**12.9**	**N.M**	**N.M**	**N.M**	**3.0**	**2.6**	**2.2**	**18.7**	**17.7**	**17.4**	**1.5**	**12.3**
Sensex (30)	**16.5**	**15.9**	**13.7**	**N.M**	**N.M**	**N.M**	**3.2**	**2.8**	**2.4**	**19.4**	**17.5**	**17.7**	**1.3**	**8.6**
Sensex Excl. Met. (27)	**17.9**	**16.0**	**14.1**	**N.M**	**N.M**	**N.M**	**3.3**	**2.9**	**2.5**	**18.7**	**17.9**	**17.6**	**1.2**	**10.3**

N.M. - Not Meaningful *Source: MOSL*

Valuation Matrix

VALUATION MATRIX

NAME	CMP (RS) 6.7.09	RECO	EPS (RS) FY09	EPS (RS) FY10E	EPS (RS) FY11E	P/E (X)) FY09	P/E (X)) FY10E	P/E (X)) FY11E	EV/EBITDA (X) FY09	EV/EBITDA (X) FY10E	EV/EBITDA (X) FY11E	ROE (%) FY09	ROE (%) FY10E	ROE (%) FY11E
Automobiles														
Bajaj Auto	955	Buy	55.0	72.1	77.5	17.4	13.2	12.3	10.4	7.7	6.9	39.9	39.5	33.6
Hero Honda	1,359	Buy	64.2	87.7	99.1	21.2	15.5	13.7	13.7	10.3	8.7	37.8	39.9	35.1
Mahindra & Mahindra	710	Buy	53.0	68.9	74.8	13.4	10.3	9.5	12.7	9.9	9.6	17.7	18.8	17.0
Maruti Suzuki	1,035	Buy	42.1	54.3	66.0	24.6	19.0	15.7	13.5	9.8	7.7	12.8	14.4	15.1
Tata Motors	283	Neutral	9.9	14.9	18.0	28.7	19.0	15.7	12.0	9.0	7.5	6.1	7.8	9.1
Sector Aggregate						**22.4**	**17.2**	**15.2**	**12.6**	**9.4**	**8.0**	**16.5**	**18.7**	**18.4**
Cement														
ACC	724	Neutral	57.9	75.2	57.5	12.5	9.6	12.6	7.2	5.1	6.6	23.9	24.7	16.7
Ambuja Cements	87	Neutral	7.4	9.3	8.0	11.7	9.3	10.9	7.0	5.3	5.6	22.1	23.1	17.2
Birla Corporation	210	Buy	42.0	49.8	42.1	5.0	4.2	5.0	2.6	1.5	1.1	25.1	23.6	17.0
Grasim Industries	2,297	Buy	238.5	266.6	244.5	9.6	8.6	9.4	5.4	3.7	3.3	21.1	19.4	14.4
India Cements	132	Buy	19.1	21.2	14.6	6.9	6.2	9.0	4.5	3.7	4.6	18.7	17.9	10.9
Shree Cement	1,194	Buy	177.5	175.5	164.5	6.7	6.8	7.3	4.9	3.6	3.4	64.6	40.0	27.5
Ultratech Cement	693	Buy	79.8	107.6	88.8	8.7	6.4	7.8	5.7	3.6	3.6	31.5	31.6	20.7
Sector Aggregate						**9.5**	**8.0**	**9.5**	**5.7**	**4.0**	**4.2**	**23.3**	**22.6**	**16.5**
Engineering														
ABB	745	Neutral	25.1	23.8	27.8	29.7	31.3	26.8	20.5	20.0	17.8	28.4	21.5	20.8
Bharat Electronics	1,324	Buy	101.1	109.6	118.7	13.1	12.1	11.2	6.9	5.8	4.5	23.7	21.6	19.8
BHEL	2,103	Neutral	72.9	87.8	112.9	28.9	24.0	18.6	21.2	14.9	11.4	30.2	30.0	31.2
Crompton Greaves	284	Neutral	15.3	16.9	19.0	18.6	16.8	14.9	16.3	15.0	13.2	36.8	31.2	28.1
Cummins India	262	Neutral	21.9	20.0	22.7	12.0	13.1	11.5	8.1	7.9	6.8	34.4	24.8	23.7
Larsen & Toubro	1,464	Neutral	51.5	58.5	65.0	28.4	25.0	22.5	23.8	21.1	18.4	24.5	21.3	20.2
Siemens	457	Neutral	14.6	18.5	17.5	31.3	24.8	26.2	18.6	13.8	14.1	28.5	22.9	16.7
Suzlon Energy	99	Neutral	7.8	6.2	8.4	12.6	15.9	11.7	10.2	11.1	8.9	14.1	10.2	12.8
Thermax	406	Neutral	24.8	21.2	21.1	16.4	19.1	19.3	11.3	12.8	12.6	35.3	26.3	24.2
Sector Aggregate						**24.3**	**22.3**	**18.8**	**17.9**	**15.2**	**12.6**	**25.3**	**23.0**	**23.3**
FMCG														
Asian Paints	1,193	Neutral	41.9	54.3	65.0	28.5	22.0	18.4	17.1	13.1	10.8	33.6	35.4	34.6
Britannia	1,571	Buy	84.1	107.7	120.3	18.7	14.6	13.1	14.5	11.6	10.6	22.7	24.4	23.0
Colgate	609	Buy	21.7	25.8	30.1	28.1	23.6	20.2	29.0	23.1	19.5	152.6	158.2	152.5
Dabur	129	Buy	4.5	5.3	6.3	28.4	24.1	20.4	23.1	18.4	15.5	47.8	43.1	39.7
Godrej Consumer	163	Buy	6.7	8.8	10.6	24.4	18.5	15.4	19.7	13.5	11.2	29.0	34.3	36.2
GSK Consumer	918	Buy	44.8	60.2	72.2	20.5	15.2	12.7	14.2	10.3	8.5	24.8	27.7	27.8
Hind. Unilever	276	Neutral	9.4	10.9	12.0	29.4	25.4	23.0	19.2	19.6	17.4	121.3	94.1	88.3
ITC	198	Buy	8.6	10.2	11.6	22.9	19.4	17.0	14.0	11.7	10.2	23.8	24.5	24.3
Marico	71	Buy	3.1	3.9	4.9	23.1	18.1	14.4	15.0	12.0	9.7	41.3	37.1	33.4
Nestle	1,933	Buy	58.6	71.5	86.5	33.0	27.0	22.3	21.3	17.3	14.6	119.4	120.1	120.7
Tata Tea	707	Neutral	47.4	48.0	55.0	14.9	14.7	12.9	5.5	5.6	4.9	7.5	7.3	8.0
United Spirits	831	Buy	32.2	41.2	61.3	25.8	20.2	13.6	15.0	13.0	10.6	12.1	13.4	16.6
Sector Aggregate						**25.7**	**21.6**	**18.6**	**16.3**	**14.2**	**12.2**	**30.2**	**31.2**	**31.2**

(Contd.)

Valuation Matrix (Contd.)

VALUATION MATRIX

	CMP (RS)	RECO	EPS (RS)			P/E (X))			EV/EBITDA (X)			ROE (%)		
NAME	6.7.09		FY09	FY10E	FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E
Information Technology														
HCL Technologies	187	Neutral	18.6	15.4	20.1	10.1	12.1	9.3	6.5	6.3	6.0	24.0	18.6	21.1
Infosys	1,760	Neutral	102.5	96.9	101.0	17.2	18.2	17.4	12.7	13.3	12.2	36.7	27.6	24.3
MphasiS	351	Buy	14.1	37.6	38.1	25.0	9.3	9.2	18.8	6.2	5.4	22.8	43.8	31.9
Patni Computer	245	Neutral	28.6	24.5	22.8	8.6	10.0	10.7	3.3	3.0	3.0	13.4	10.7	9.1
TCS	382	Neutral	26.2	25.5	26.0	14.5	15.0	14.7	10.0	10.5	10.3	36.4	30.0	27.5
Tech Mahindra	696	Neutral	70.6	73.3	72.0	9.9	9.5	9.7	7.0	9.2	8.9	55.0	37.9	27.8
Wipro	371	Neutral	23.6	24.9	25.6	15.7	14.9	14.5	10.5	10.2	9.2	24.6	21.7	18.8
Sector Aggregate						**15.1**	**15.2**	**14.5**	**10.5**	**10.4**	**9.8**	**28.6**	**24.0**	**21.6**
Infrastructure														
Hindustan Construction	103	Neutral	3.0	3.8	6.6	34.7	27.1	15.5	11.1	9.3	7.6	7.6	7.3	11.7
IVRCL Infra.	330	Buy	17.0	19.3	22.3	19.4	17.1	14.8	25.6	18.7	16.3	13.3	13.8	14.0
Jaiprakash Associates	193	Buy	7.2	8.4	8.2	26.8	23.0	23.5	22.9	14.1	13.8	16.8	19.3	16.5
Nagarjuna Construction	129	Buy	6.7	9.0	10.7	19.1	14.3	12.0	10.9	9.4	7.7	9.4	11.6	12.6
Simplex Infra.	381	Buy	26.8	36.2	44.0	14.2	10.5	8.7	7.0	5.6	5.0	15.7	18.4	19.6
Sector Aggregate						**27.0**	**20.2**	**18.4**	**18.2**	**12.8**	**11.7**	**13.1**	**15.0**	**14.3**
Media														
Deccan Chronicle	69	Buy	5.6	7.1	8.7	12.3	9.8	8.0	5.4	4.5	3.7	12.6	15.4	18.1
HT Media	90	Neutral	4.4	5.3	6.5	20.2	16.8	13.7	11.9	9.7	7.9	8.7	9.9	11.4
Jagran Prakashan	72	Neutral	3.0	3.6	4.4	23.7	20.1	16.2	12.9	10.8	8.6	16.3	18.0	20.2
Sun TV	226	Neutral	10.5	13.0	15.4	21.5	17.4	14.6	11.3	9.0	7.3	24.4	24.0	24.0
TV Today	85	Buy	5.8	7.1	9.5	14.7	12.0	9.0	7.9	5.0	3.2	10.6	11.7	13.8
Zee Entertainment	171	UR	9.2	8.9	11.3	18.5	19.2	15.1	14.8	12.8	10.1	12.6	11.3	13.3
Sector Aggregate						**19.3**	**16.9**	**13.8**	**11.5**	**9.5**	**7.6**	**14.9**	**15.5**	**17.2**
Metals														
Hindalco	78	Sell	9.9	5.0	4.8	7.9	15.7	16.4	5.2	5.2	4.8	16.0	7.3	6.5
Hindustan Zinc	564	Buy	64.6	56.6	67.1	8.7	10.0	8.4	5.0	6.0	4.1	19.0	14.4	14.8
Jindal Steel & Power	2,493	Buy	198.6	207.8	250.2	12.6	12.0	10.0	8.6	9.1	8.7	45.1	32.4	28.3
JSW Steel	577	Buy	52.0	67.5	79.2	11.1	8.5	7.3	8.0	5.5	4.7	12.0	13.6	13.9
Nalco	285	Sell	19.7	13.0	11.2	14.4	21.9	25.3	9.1	13.9	17.5	13.0	8.1	6.8
SAIL	151	Sell	16.6	13.9	14.6	9.1	10.9	10.3	5.1	6.4	6.6	24.0	17.3	15.9
Sterlite Inds.	588	Buy	46.8	31.1	42.8	12.6	18.9	13.7	7.1	11.8	7.4	13.0	8.0	10.1
Tata Steel	396	Neutral	110.2	48.1	85.6	3.6	8.2	4.6	4.8	6.4	5.1	68.2	30.2	43.2
Sector Aggregate						**8.3**	**11.8**	**9.4**	**5.9**	**7.1**	**6.2**	**20.3**	**13.0**	**14.5**
Oil & Gas														
BPCL	443	Buy	17.5	43.7	46.8	25.3	10.1	9.5	11.4	6.6	6.1	4.8	11.3	11.1
Cairn India	219	Buy	4.3	6.2	24.5	51.4	35.6	8.9	47.3	18.1	5.7	2.6	3.5	12.9
Chennai Petroleum	175	Buy	-2.9	41.3	28.2	-60.5	4.2	6.2	-26.9	2.9	3.6	-12.2	18.7	11.8
GAIL	313	Buy	22.5	21.5	23.4	13.9	14.6	13.4	9.3	9.8	8.7	19.0	16.4	15.9
HPCL	317	Buy	12.8	31.3	28.4	24.7	10.1	11.2	7.1	5.2	5.7	4.1	9.3	7.9
Indraprastha Gas	137	Neutral	11.9	12.6	11.6	11.4	10.9	11.8	5.8	5.1	5.1	26.7	24.1	19.8
IOC	541	Buy	21.8	49.8	50.4	24.8	10.9	10.7	14.2	6.5	6.7	5.9	12.7	11.5
MRPL	78	Sell	8.3	5.5	4.2	9.4	14.2	18.8	6.8	8.1	12.1	28.0	19.0	12.8
ONGC	1,070	Neutral	90.6	89.4	86.8	11.8	12.0	12.3	5.1	5.0	4.9	23.1	19.9	17.2
Reliance Inds.	1,894	Buy	103.1	139.9	155.3	18.4	13.5	12.2	13.9	9.6	8.2	16.1	18.1	17.3
Sector Aggregate						**16.6**	**12.7**	**11.6**	**9.3**	**7.3**	**6.6**	**13.9**	**15.4**	**14.7**

UR - Under Review

(Contd.)

Valuation Matrix (Contd.)

VALUATION MATRIX

NAME	CMP (RS) 6.7.09	RECO	EPS (RS) FY09	EPS (RS) FY10E	EPS (RS) FY11E	P/E (X)) FY09	P/E (X)) FY10E	P/E (X)) FY11E	EV/EBITDA (X) FY09	EV/EBITDA (X) FY10E	EV/EBITDA (X) FY11E	ROE (%) FY09	ROE (%) FY10E	ROE (%) FY11E
Pharmaceuticals														
Aventis Pharma	1,093	Buy	72.2	61.8	71.1	15.1	17.7	15.4	10.4	13.6	11.0	21.7	17.2	17.9
Biocon	210	Buy	4.7	13.1	15.6	45.1	16.1	13.5	13.4	9.7	8.3	6.0	15.0	15.7
Cadila Health	354	Buy	24.1	31.1	35.8	14.7	11.4	9.9	8.3	6.8	6.0	27.5	29.2	27.0
Cipla	260	Neutral	9.9	15.7	17.1	26.3	16.6	15.2	16.2	13.5	11.7	17.6	22.9	21.1
Divis Labs	1,088	Buy	64.6	76.8	94.2	16.9	14.2	11.5	13.1	11.9	9.2	39.8	34.6	32.5
Dr Reddy' s Labs	767	Buy	-30.7	40.7	47.5	-25.0	18.9	16.1	11.7	14.8	13.0	-11.9	14.2	14.8
GSK Pharma	1,266	Buy	52.9	59.9	69.9	23.9	21.1	18.1	16.7	14.2	12.2	29.1	29.5	30.9
Glenmark Pharma	229	Neutral	4.3	12.6	14.7	52.9	18.3	15.6	20.2	11.1	9.7	6.7	16.5	15.4
Jubiliant Organosys	161	Buy	15.9	22.2	17.1	10.1	7.2	9.5	8.3	8.5	7.3	18.6	25.5	16.4
Lupin	824	Buy	56.9	68.3	77.9	14.5	12.1	10.6	12.0	9.8	8.5	34.1	32.0	29.3
Piramal Healthcare	309	Buy	17.1	24.0	30.1	18.0	12.8	10.3	12.3	9.1	7.4	29.7	33.1	32.1
Ranbaxy Labs	261	Neutral	2.5	-4.5	0.7	105.8	-57.9	372.4	27.1	2158.0	34.6	2.4	-4.6	0.3
Sun Pharma	1,130	Buy	87.8	65.0	74.5	12.9	17.4	15.2	11.1	14.9	12.3	31.7	19.1	18.8
Sector Aggregate						**24.5**	**17.8**	**15.2**	**13.3**	**13.2**	**10.9**	**15.9**	**18.7**	**18.9**
Real Estate														
DLF	309	Buy	26.9	13.5	19.1	11.5	22.9	16.2	12.4	19.1	13.4	18.7	8.6	10.9
Unitech	76	Neutral	6.0	4.5	4.1	12.7	17.0	18.5	16.6	12.7	14.8	18.7	10.0	8.5
Sector Aggregate						**12.7**	**21.0**	**16.7**	**13.4**	**16.9**	**13.7**	**18.7**	**9.0**	**10.2**
Retail														
Pantaloon Retail	303	Buy	7.8	9.7	12.3	39.0	31.3	24.7	10.3	9.3	8.3	6.9	7.7	8.9
Titan Industries	1,238	Neutral	46.3	51.3	64.2	26.7	24.1	19.3	17.3	15.0	12.0	37.5	31.4	30.5
Sector Aggregate						**30.8**	**25.6**	**20.1**	**12.5**	**11.2**	**9.7**	**13.6**	**13.2**	**14.5**
Telecommunication														
Bharti Airtel	784	Buy	44.7	55.2	63.0	17.5	14.2	12.4	10.3	8.2	6.9	31.4	28.8	25.6
Idea Cellular	70	Neutral	3.0	3.5	3.6	23.0	19.8	19.5	8.9	7.5	6.7	10.4	7.6	6.9
Reliance Comm	269	Buy	29.8	25.8	32.8	9.0	10.4	8.2	8.0	6.4	4.9	20.7	15.7	17.0
Sector Aggregate						**14.5**	**13.4**	**11.4**	**9.4**	**7.5**	**6.2**	**20.9**	**18.7**	**17.8**
Textiles														
Alok Ind	21	Buy	9.0	5.2	8.3	2.3	4.0	2.5	6.4	6.9	6.0	12.5	6.6	9.7
Arvind Mills	26	Neutral	-4.5	-1.1	0.7	-5.7	-24.0	37.0	8.2	7.1	6.3	-5.0	-1.2	0.8
Raymond	182	Buy	-37.2	-12.1	0.8	-4.9	-15.1	228.4	31.3	13.3	6.8	-18.1	-7.1	0.2
Vardhman Textiles	115	Buy	33.2	15.7	23.5	3.5	7.3	4.9	6.8	7.7	6.2	14.8	6.4	9.0
Sector Aggregate						**53.6**	**27.6**	**8.4**	**8.0**	**7.7**	**6.2**	**0.9**	**1.7**	**5.2**
Utilities														
CESC	276	Neutral	29.5	28.0	30.0	9.4	9.8	9.2	7.6	7.6	7.1	12.9	11.0	10.7
NTPC	194	Neutral	9.9	10.1	11.2	19.6	19.2	17.4	15.4	9.7	9.5	14.8	13.9	14.1
PTC India	90	Buy	4.3	3.9	4.6	21.1	23.4	19.6	89.8	41.6	33.6	6.4	6.2	6.3
Reliance Infrastructure	1,131	Buy	46.4	47.0	47.9	24.4	24.1	23.6	21.8	21.7	19.2	10.2	9.1	8.6
Tata Power	1,102	Neutral	53.7	57.3	57.4	20.5	19.2	19.2	26.5	16.9	15.4	7.0	8.7	9.7
Sector Aggregate						**19.9**	**19.4**	**17.9**	**16.6**	**11.0**	**10.6**	**13.1**	**12.3**	**12.3**

(Contd.)

Valuation Matrix (Contd.)

VALUATION MATRIX

NAME	CMP (RS) 6.7.09	RECO	EPS (RS) FY09	EPS (RS) FY10E	EPS (RS) FY11E	P/E (X)) FY09	P/E (X)) FY10E	P/E (X)) FY11E	EV/EBITDA (X) FY09	EV/EBITDA (X) FY10E	EV/EBITDA (X) FY11E	ROE (%) FY09	ROE (%) FY10E	ROE (%) FY11E
Others														
Blue Star	322	Neutral	20.0	22.6	25.7	16.1	14.3	12.5	10.7	9.4	8.1	56.9	47.3	41.4
Bombay Rayon	173	Buy	19.6	31.9	48.0	8.8	5.4	3.6	8.2	5.4	3.7	18.9	20.8	25.4
Everest Kanto	189	Neutral	14.1	15.4	21.0	13.4	12.3	9.0	7.7	7.1	5.3	24.5	20.0	22.6
Sintex Inds.	220	Buy	24.0	27.3	34.7	9.2	8.1	6.4	6.8	5.6	4.3	19.8	18.7	19.8
United Phosphorous	147	Buy	10.7	13.7	18.3	13.7	10.7	8.0	7.4	5.6	4.1	20.0	21.5	23.9
Sector Aggregate						**11.9**	**9.6**	**7.2**	**7.8**	**6.1**	**4.6**	**20.0**	**20.8**	**22.6**

VALUATION MATRIX

NAME	CMP (RS) 6.7.09	RECO	EPS (RS) FY09	EPS (RS) FY10E	EPS (RS) FY11E	P/E (X)) FY09	P/E (X)) FY10E	P/E (X)) FY11E	P/BV (X) FY09	P/BV (X) FY10E	P/BV (X) FY11E	ROE (%) FY09	ROE (%) FY10E	ROE (%) FY11E
Banking														
Andhra Bank	78	Buy	13.5	14.3	15.7	5.8	5.4	4.9	1.0	0.9	0.8	18.9	18.0	17.7
Axis Bank	794	Buy	50.6	59.3	75.2	15.7	13.4	10.6	2.8	2.4	2.0	19.1	19.2	20.7
Bank of Baroda	408	Buy	60.9	62.7	75.6	6.7	6.5	5.4	1.3	1.1	1.0	20.9	18.4	19.2
Bank of India	327	Neutral	57.2	61.0	67.0	5.7	5.4	4.9	1.5	1.2	1.0	29.2	24.4	22.1
Canara Bank	264	Buy	50.6	61.8	70.1	5.2	4.3	3.8	1.1	0.9	0.8	22.8	23.4	22.4
Corporation Bank	309	Buy	62.2	64.3	64.6	5.0	4.8	4.8	0.9	0.8	0.7	19.6	17.6	15.5
Federal Bank	235	Buy	29.3	31.2	34.7	8.0	7.5	6.8	0.9	0.9	0.8	12.1	11.8	12.0
HDFC	2,354	Neutral	80.2	92.6	111.2	29.3	25.4	21.2	5.1	4.6	4.1	23.7	24.9	25.8
HDFC Bank	1,427	Neutral	52.8	63.2	84.2	27.0	22.6	16.9	4.0	3.1	2.7	15.6	15.9	17.0
ICICI Bank	678	Buy	33.8	34.3	44.5	20.1	19.7	15.2	1.5	1.5	1.4	10.1	10.2	12.5
Indian Bank	131	Buy	29.0	32.2	37.2	4.5	4.1	3.5	1.0	0.9	0.7	24.8	23.0	22.3
Indian Overseas Bank	85	Sell	24.3	19.5	21.2	3.5	4.3	4.0	0.8	0.7	0.6	24.8	16.8	16.1
J&K Bank	464	Buy	84.5	93.8	110.4	5.5	4.9	4.2	0.9	0.8	0.7	16.6	16.3	16.9
Oriental Bank of Commerce	170	Buy	36.1	36.9	38.1	4.7	4.6	4.5	0.6	0.6	0.5	14.8	14.6	14.5
Punjab National Bank	643	Buy	98.0	108.4	126.9	6.6	5.9	5.1	1.5	1.3	1.1	25.8	23.7	23.3
State Bank	1,655	Buy	143.7	142.7	183.1	11.5	11.6	9.0	1.8	1.6	1.4	17.1	14.8	16.8
Union Bank	233	Buy	34.2	37.7	42.5	6.8	6.2	5.5	1.7	1.4	1.1	27.2	24.2	22.4
Sector Aggregate						**11.9**	**11.2**	**9.2**	**2.2**	**1.9**	**1.7**	**18.0**	**16.9**	**17.9**

(Contd.)

NOTES

NOTES

N O T E S

For more copies or other information, contact

Institutional: Navin Agarwal. **Retail:** Manish Shah

Phone: (91-22) 39825500 Fax: (91-22) 22885038. E-mail: reports@motilaloswal.com

Motilal Oswal Securities Ltd, 3rd Floor, Hoechst House, Nariman Point, Mumbai 400 021

Disclosure of Interest Statement

The MOSt group and its Directors own shares in the following companies covered in this report: Bharat Electronics, Bharti Airtel, Birla Corporation, GSK Pharma, Hero Honda, Hindalco, Marico, Nestle India, Oriental Bank, Siemens and State Bank.

MOSt has broking relationship with a few of the companies covered in this report.

MOSt is engaged in providing investment-banking services in the following companies covered in this report: Sintex Industries