RELIGARE
Values that bind

BUDGET09 INSIGHTS

An Analysis by Religare Research

Amitabh Chakraborty, CFA, FRM
(91-22) 6766 3404
amitabh.chakraborty@religare.in

Vinod Nair
(91-22) 6766 3443
nair.vinod@religare.in

Long-term positive

What the FM said

*"Members would appreciate that a single budget speech cannot solve all our problems, **nor is the union budget the only instrument to do so**" – Finance Minister, Pranab Mukherjee, Union Budget 2009-10*

What he means

- *Market expectations unnecessarily overstated*
- *Scope for off-budget initiatives*

- Inflated market expectations of a spectacular round of reforms turned the budget into a major event risk. In our view, that risk has passed.
- We believe the budget lays out a strong blueprint for balancing the medium-term exigencies of growth with a long-term return to fiscal prudence once external shocks subside.

Budget silent but not without direction

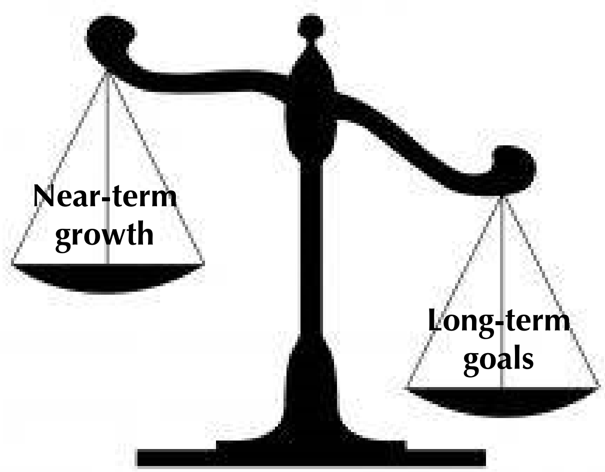
- The government is eager to play the role of growth driver at the expense of fiscal prudence in the near term – a calculated step but one that could be a sentimental blow for FIIs.

- Simultaneously, the budget urges an early return to measures aimed at:
  - reducing subsidies (expert group to advise on petroleum pricing),
  - increasing taxes,
  - curbing government expenditures, and
  - embarking on disinvestment (while retaining at least 51% in PSUs).
- We believe these steps will be taken outside the budget.
- Notably, the FM was completely silent on FDI in retail and insurance.

Walking a tightrope

Budget imperatives

- Invigorate domestic demand to sustain near-term growth
- Return to long-term fiscal targets at the earliest



Today's expenditure by borrowing future fiscal prudence is intended to immunise the economy from external shocks.

Walking a tightrope

Near-term growth

- **Increase in disposable income** by raising income tax exemption by Rs 10,000, abolishing FBT and removing the 10% surcharge. This would increase disposable income by 5–6%.
- 144% increase in **rural employment scheme** to Rs 391bn for FY10.
- Continuation of **fiscal stimulus** involving lower service tax and excise duty (3.5% of GDP, Rs 1,860bn).
- **Health and education** reforms.
- High **public expenditure** (Increase in planned expenditure by 14.9% and non-plan expenditure by 12.6%)

Long-term objectives

- To attain a long-term **growth rate of 9%**
- **Infrastructure spending** to increase from 5.8% to 9% of GDP by 2014
- **Disinvestment** route to attain fiscal prudence.
- Creation of 12mn **jobs** per annum.
- **Agriculture** growth rate of 4%.
- Integrated **energy** policy.

Rural & Infra take centrestage yet again

AGRI & INFRA

Higher agriculture credit growth target of 13%

Continuation of interest subvention scheme for short-term crop loans and additional subvention of 1% for farmers who repay these loans

Irrigation programme allocation pumped up by 75%

Bharat Nirman allocation increased 59% to Rs 120bn

Impetus for PPP: IIFCL to refinance 60% of commercial bank loans for PPP projects

Flagship schemes

NHAI	Rs 108bn	Rs 158bn	up 23%
JNNURM	Rs 68bn	Rs 129bn	up 87%
APDRP	Rs 8bn	Rs 20.8bn	up 160%

Fiscal fitness remains under stress

Fiscal Fitness

- Revenue and fiscal deficit to deteriorate further in FY10 to 4.8% and 6.8% of GDP respectively after witnessing a sharp fall in FY09.
- Excluding the revenue assumption of Rs 350bn from auctioning of 3G and Wimax spectrum, fiscal deficit would have been higher by 60bps at 7.4%.
- Deterioration in fiscal fitness attributed to flat tax revenues (sapped by the economic slowdown) and spurt in interest expenses (spurred by aggressive govt borrowing plans).
- Rising concerns over "crowding out" effect on investments justified due to elevated levels of government borrowing and ballooning fiscal deficit.
- FRBM targets revised downward; zero fiscal deficit a distant dream with the government targeting a deficit of 4% in FY12.

- However, there is some silver lining:
  - Including off-balance sheet items like OMC and fertiliser bonds, budgeted fiscal deficit at 7% for FY10 as compared to 7.8% in FY09.
  - Assumption of 10% growth in nominal GDP conservative, in our opinion, considering 8% growth in Q4FY09 and revival in manufacturing activity.
  - No provision for revenues from disinvestment activities; could act as bonus in FY10 and FY11.

Fiscal deficit to widen

Budget at a glance

(Rs bn)	FY09 (BE)	FY09 (RE)	FY10 (BE)	Chg YoY (%)
Revenue receipts	**6,029**	**5,622**	**6,145**	**9.3**
Tax revenues	5,072	4,660	4,742	1.8
Non-tax revenues	958	962	1,403	45.8
Capital receipts	**1,479**	**3,388**	**4,063**	**19.9**
Recoveries of Loans	45	97	42	(56.4)
Other Receipts	102	26	11	(56.4)
Borrowings & other Liabilities	1,333	3,265	4,010	22.8
Revenue expenditure	**6,581**	**8,034**	**8,972**	**11.7**
Interest payments	1,908	1,927	2,255	17.0
Major subsidies	714	1,292	1,113	(13.9)
Defence expenditure	579	1,146	1,417	23.7
Other revenue expenditure	3,380	3,669	4,187	14.1
Capital expenditure	**928**	**975**	**1,236**	**26.8**
Revenue deficit	**552**	**2,413**	**2,827**	**17.2**
as % of GDP	1.0	4.4	4.8	-
Fiscal deficit	**1,333**	**3,265**	**4,010**	**22.8**
as % of GDP	2.5	6.0	6.8	-
Primary deficit	**(575)**	**1,338**	**1,755**	**31.1**
as % of GDP	(1.1)	2.5	3.0	-
Nominal GDP	**53,597**	**53,218**	**58,566**	**10.0**

Non-tax revenues assume income of Rs 350bn from the 3G auction

Increase of 52% YoY in government borrowings through market loans

Higher due to increased government borrowing and servicing of OMC and fertiliser bonds

Fertiliser subsidy allocation lowered by 34% to Rs 500bn

Revenue and fiscal deficit to increase due to flat tax revenues and sharp increase in interest payments

GDP growth assumption moderate and should hold room for improvement

Interim budget realigned to reality

Comparison with interim budget marks material difference in revenue and fiscal deficit expectations

FY10 – interim vs final budget

(Rs bn)	FY10 (BE) (I)	FY10 (BE)
Revenue receipts	**6,096**	**6,145**
Tax revenues	4,976	4,742
Non-tax revenues	1,120	1,403
Capital receipts	**3,437**	**4,063**
Recoveries of Loans	97	42
Other Receipts	11	11
Borrowings & other Liabilities	3,328	4,010
Revenue expenditure	**8,481**	**8,972**
Interest payments	2,255	2,255
Major subsidies	1,009	1,113
Defence expenditure	869	1,417
Other revenue expenditure	4,348	4,187
Capital expenditure	**1,051**	**1,236**
Revenue deficit	**2,385**	**2,827**
as % of GDP	4.0	4.8
Fiscal deficit	**3,328**	**4,010**
as % of GDP	5.5	6.8
Primary deficit	**1,073**	**1,755**
as % of GDP	1.8	3.0
Nominal GDP	**60,214**	**58,566**
YoY Growth (%)	13.0	10.0

Targets for tax revenue collection revised downwards

Non-tax revenues increased due to inclusion of 3G and Wimax auction

Borrowing targets increased by 20%; however provision for interest payments remain unchanged

Targets for deficit revised upwards following reduction in tax revenues and increase in revenue expenditures

Assumption of nominal GDP growth revised downwards

Tax revenues to remain flat YoY

Receipts

Tax Revenues	FY09 (BE)	FY09 (RE)	FY10 (BE)
Direct taxes	**3,650**	**3,450**	**3,700**
Corporation taxes	2,264	2,220	2,567
Income taxes	1,383	1,226	1,129
Wealth taxes	3	4	4
Indirect taxes	**3,227**	**2,829**	**2,711**
Customs duty	1,189	1,080	980
Excisde duty	1,379	1,084	1,065
Service taxes	645	650	650
Taxes on UT	15	16	16
Gross tax revenues	**6,877**	**6,279**	**6,411**
Net tax revenue to Centre	**5,072**	**4,660**	**4,742**
Tax collection as % of GDP			
Direct taxes	6.9	6.4	6.3
Indirect taxes	6.1	5.2	4.6
Total	**13.0**	**11.6**	**10.9**
Non-Tax Revenues			
Interest receipts	191	190	192
Divident & profits	432	397	498
Other non-tax revenues	326	367	706
Receipts of UT	8	7	8
Total non-tax revenues	**958**	**962**	**1,403**

Increase in direct taxes dependent on higher collections from corporate income taxes

Personal income taxes to decrease owing to change in tax structure and abolition of surcharge

Indirect taxes to remain largely unchanged given the minimal changes in tax structure

Gross tax revenue as % of GDP to fall to 10.9% after falling short of expectations in FY09

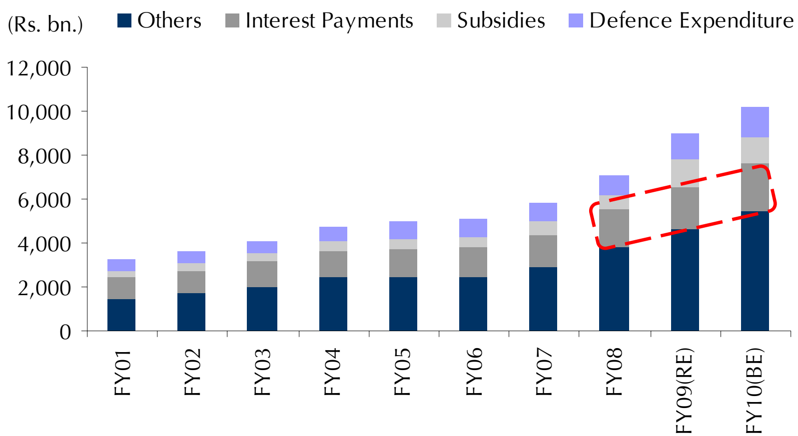
Non-tax revenues expect higher transfer of surplus funds from RBI/nationalised banks to government and a Rs 350bn income from auctioning of 3G spectrum

FRBM targets scaled down further

Fiscal deficit targets

As % of GDP	FY09 (BE)	FY09 (RE)	FY10 (BE)	FY11 (Tgt)	FY12 (Tgt)
Revenue deficit	1.0	4.4	4.8	3.0	1.5
Fiscal deficit	2.5	6.0	6.8	5.5	4.0
Gross tax revenue	13.0	11.6	10.9	11.9	12.4

Trends in total expenditure



- FRBM targets revised further downwards; dream of achieving zero fiscal deficit levels appears a long way off.
- Revival in economy and thus tax revenues critical to narrow revenue deficit. FY11 target of 11.9% gross tax revenues as percentage of GDP would require a healthy 12–14% nominal GDP growth.
- Borrowings as a percentage of total receipts expected to rise further to 39% from 36% in FY09, raising concerns over “crowding out” of private investments.
- Fiscal deficit to remain elevated due to higher interest burden arising out of aggressive government borrowing plans.

RELIGARE Hichens Harrison
Established 1803

But hope floats

6. Others	-194	-180	124
Total Capital Non-Plan Expenditure	**59146**	**56206**	**76855**
Total Non-Plan Expenditure	**507498**	**617996**	**695689**
Note: Issue of Special Securities in lieu of subsidies.			
(i) Oil Marketing Companies	...	75942	10306
(ii) Fertilizer Companies	...	20000	...

Off-balance sheet financing

	FY09 (BE)	FY09 (RE)	FY10 (BE)
OMC Bonds	--	759	103
Fertilizer bonds	--	200	--
Total	**--**	**959**	**103**
Fiscal deficit including these items	2.5	7.8	7.0

Considering off-balance sheet items, fiscal deficit is expected to reduce to 7% from 7.8% in FY09

- **GDP growth assumption for budget estimates in FY10 appears conservative:**
  - Budget estimates assume a nominal GDP growth of 10% YoY as against 8% recorded in Q4FY09.
  - With a revival in manufacturing activity, actual GDP growth could be better than estimated.
- **Budget makes no provision for possible revenues arising out of disinvestment opportunities.**
- **Estimated disinvestment revenues of Rs 250bn over the next 15–18 months could alleviate fiscal deficit situation.**

Religare Hichens Harrison
Established 1803

Sector snapshot

Sector	Impact	Key measures	Winners / Losers
Automobiles	**POSITIVE**	Continuation of stimulus package benefits; rise in rural spending	**Hero Honda, M&M**
Banking and Financial Services	**NEGATIVE**	Increased government borrowings to have an overall negative impact	**SBI, ICICI Bank**
Capital Goods & Power	**POSITIVE**	Positive on the whole with increased allocation towards various schemes	**All T&D companies**
Cement	**NEUTRAL**	No change in excise; increase in infrastructure spend	**None**
FMCG	**POSITIVE**	Higher outlay for NREGS and Bharat Nirman, farmer interest subvention and increase in disposable income to drive consumption	**ITC**
Infrastructure	**POSITIVE**	Infrastructure spending to be raised to 9% of GDP by 2014	**All infrastructure companies**
IT Services	**POSITIVE**	Extension of STPI tax benefits by one year	**All IT services players esp. mid-tier**
Logistics	**NEUTRAL**	Greater fund allocation for national highway development	**GDL**

Sector snapshot

Sector	Impact	Key measures	Winners
Metals & Mining	NEGATIVE	No major initiatives	Sesa Goa
Media	NEUTRAL	Customs duty of 5% on set top boxes	Jagran Prakashan, HT Media
Oil and Gas	NEUTRAL	Policy regarding petroleum product pricing to be released shortly	GAIL, OMCs
Pharmaceuticals	NEUTRAL	Removal of FBT is positive	None
Real Estate	NEGATIVE	No major initiatives	DLF, Unitech, HDIL
Retail	NEUTRAL	No major initiatives, budget silent on FDI	None
Telecom	NEGATIVE	Increase in MAT	Bharti, Rcom

Sector-wise impact

Automobiles

Winners | Hero Honda, M&M **POSITIVE**

Budget Provision	Old	New	Impact
Continuation of lower excise duty and accelerated depreciation benefits announced in stimulus packages	NA	NA	**Positive** as lower vehicle prices and higher depreciation benefits will vitalise demand
Reduction in excise duty on: a) petrol driven trucks/lorries; b) chassis of such vehicles	a) 20% b) 20% + Rs 10,000	a) 8% b) 8% + Rs 10,000	**No Impact**
87% increase in JNNURM allocation	Rs 69bn	Rs 129bn	Increased spending by state transport undertakings **Positive for Tata Motors and Ashok Leyland**
Focus on growth in agriculture; increased spending for rural growth	NA	NA	Should boost disposable income in rural India **Positive for Hero Honda, M&M**
Reduction in specific component of excise duty on large UVs with engine capacity of 2000+ cc	Rs 20,000 per vehicle	Rs 15,000 per vehicle	**Marginally positive** for large PV manufacturers

- **Budget positive for the auto sector as stimulus package benefits were not rolled back – much to the relief of manufacturers.**
- **No major sector-specific announcements but increased spending on rural development should help to incrementally bolster demand.**

Banking and Financial Services

Losers | SBI, ICICI Bank **NEGATIVE**

Budget Provision	Old	New	Impact
Increase in market borrowings by central government	Rs 3,086.5bn (Interim Budget)	Rs 3,979.6bn	Yield on long-dated securities to harden; **negative** impact on treasury profits, especially for PSU banks
Higher credit flow to agricultural sector	Rs 2,870bn	Rs 3,250bn	Agri sector credit growth of 13% YoY
Introduction of Take-out Financing Scheme for infrastructure projects	NA	NA	Allows continued focus on infrastructure lending; refinancing facility would ease capital constraints
Continuation of 2% subvention for agri-lending; additional 1% subvention for timely short-term crop loan payment	NIL	Rs 4.1bn	Higher demand for agri-loans; would benefit PSU banks with a wider geographical presence

Contd…

Banking and Financial Services

Losers | SBI, ICICI Bank

NEGATIVE

Budget Provision	Old	New	Impact
Banks and insurance companies to remain in the public sector and to be given all support	NA	NA	Absence of announcement on raising FDI cap in insurance will be viewed negatively in the near term, but the govt can introduce relevant proposals later
Increase in non-promoter holding	NA	NA	Positive for PFC and REC if Govt. reduces stake without new equity issue. Current holding stands at 90% and 82% resp.
Higher allocation under RGGVY	Rs 55bn	Rs 70bn	**Positive for REC** who is the nodal agency for implementing RGGVY projects

- **Government thrust on rural and infrastructure development evident.**
- **But higher government borrowings to have an overall negative impact on the financial services sector as hardening of interest rates will dampen treasury profits and impact loan growth.**

Capital Goods & Power

Winners | All T&D companies **POSITIVE**

Budget Provision	Old	New	Impact
Allocation to APDRP pumped up by 160%	Rs 8bn	Rs 20bn	**Positive** for Jyoti Structures, KEC, Kalpataru
Allocation to RGGVY raised 27%	Rs 55bn	Rs 70bn	**Positive** for Voltamp, Emco
Allocation for JNNURM increased 90%	Rs 68bn	Rs 129bn	**Positive** for EKC, Thermax, L&T
Increase in MAT	10%	15%	No impact on NTPC and Power Grid; **Negative for Reliance Infra, Tata Power, GVK, GMR**
Higher railways allocation	Rs 108bn	Rs 158bn	**Positive for L&T, Kalindee Rail, BEML**
Allocation for NHAI raised 23%	Rs 129bn	Rs 159bn	**Positive for L&T**

- **Overall positive for the sector with increased allocation towards various schemes.**
- **Traction in order flow for T&D companies set to continue in the current year.**

Cement

Winners | None

NEUTRAL

Budget Provision	Old	New	Impact
Service tax on goods transported through rail, coastal and inland waterways	NIL	**10%**	**No impact** since service tax can be offset against excise duty
Increase in Minimum Alternate Tax (MAT)	10%	15%	**Negative for JK Lakshmi Cement**
Excise duty on cement unchanged	8%	8%	Sentiment-wise positive as markets were expecting a restoration of duty to 12% **Neutral** in terms of financial impact
Allocation to NHAI increased by 23%; proposed increase in fund allocation for infrastructure	NHAI: Rs 129bn Infra: 5.8% of GDP in FY08	NHAI: Rs 159bn Infra: 9% of GDP in 2014	**Marginally positive** in terms of higher demand for cement

- **Neutral for the cement sector – while excise duty remains unchanged, service tax has been imposed on goods transported through railways.**
- **Increase in infrastructure spending would enhance cement demand.**

Winners | ITC

POSITIVE

Budget Provision	Old	New	Impact
Increase in rural income through interest rate subvention scheme and higher allocation for NREGS	NREGS outlay of Rs 160.2bn	Outlay raised 144% to Rs 391bn	**Positive** for most FMCG companies as this will put more money in the hands of rural consumers and stimulate rural demand
Increase in exemption limit for personal income tax and removal of surcharges on tax	10% surcharge on income tax	NIL	**Positive** for most companies as it will increase disposable income
Increase in MAT rate	10%	15%	Will **marginally impact** companies like Dabur and GCPL as tax incidence could increase by up to 5%
Excise duty on cigarettes and papers & paperboard unchanged	NA	NA	Both steps are **positive for ITC** as the market was estimating a 6–8% increase in excise on cigarettes

- **Higher rural demand oriented steps like increased outlay for NREGS and Bharat Nirman, farmer interest subvention and increase in disposable income will drive consumption demand for all FMCG players.**
- **No hike in excise duty on cigarettes a positive for ITC.**

Infrastructure

Winners | All infrastructure companies **POSITIVE**

Budget Provision	Old	New	Impact
IIFCL to refinance 60% of commercial bank loans for PPP projects over the next 15–18 months	NA	NA	**Positive** for all infrastructure-developer companies
Proposed increase in fund allocation for infrastructure	5.8% of GDP in FY08	9% of GDP in 2014	**Positive** for all infrastructure companies
Allocation for NHAI increased by 23%	Rs 129bn	Rs 159bn	**Positive** for all infrastructure-developer companies: **L&T, IRB Infra, GMR, Reliance Infra**
Allocation for JNNURM hiked 90%	Rs 68bn	Rs 129bn	**Positive** for urban infrastructure players like **Patel Engineering, Prathiba Industries and Subhas Projects**
Allocation for accelerated irrigation benefit programme boosted 75%	Rs 200bn	Rs 350bn	**Positive for IVRCL, NCC, Patel Engineering, HCC**

Contd…

Religare Hichens Harrison
Established 1803

Infrastructure

Winners | All infrastructure companies **POSITIVE**

Budget Provision	Old	New	Impact
MAT rate increased	10%	15%	**Negative** for developer companies like **GMR, IRB Infra, GVK, Reliance Infra and L&T**
Railways allocation increased	Rs 108bn	Rs 158bn	**Positive for L&T, Simplex Infra, Kalindee Rail**
Higher allocation for Commonwealth Games	Rs 21bn	Rs 35bn	**Positive for Voltas, Blue Star, JP Associates, Ahluwalia Contracts**
Explanation to S80IA amended to clarify that benefits are not available to the sub-contractor	NA	NA	**Negative for IVRCL, Simplex Infra, Patel Engineering**

- **Key positives: a) Infrastructure spending to be raised from the current 5.8% of GDP to 9% by 2014; b) IIFCL allowed to refinance 60% of the project cost for PPP projects over the next 15–18 months; c) Increased spending under the various infrastructure schemes (JNNURM, roads, railways, accelerated irrigation benefit scheme, etc)**
- **Key negative: Increase in MAT from 10% to 15%**

Information Technology

Winners | All IT services players esp. mid-tier

POSITIVE

Budget Provision	Old	New	Impact
Extension of sunset clause for STPI tax benefits by one more year	Till FY10	Till FY11	Increases FY11 earnings of tier-1 IT services players by 1–3% and 5–6% for mid-tier players
Increase in MAT rate	10%	15%	No material impact on income statement, but cash flow from operations to reduce due to higher cash tax out flow
Abolishment of FBT	12.5%	NIL	Earnings impact to be limited as a bulk of FBT is due to ESOPs which would continue

- **Extension of STPI tax benefits by one year lower than the expected 2–3 year extension.**
- **Smaller positive impact on earnings for tier-1 players like Infosys, TCS and Wipro due to their existing SEZ plans.**
- **Greater impact on mid-tier players like Infotech Enterprises and MindTree.**

Logistics

Losers | GDL

NEUTRAL

Budget Provision	Old	New	Impact
Increase in MAT	10%	15%	**Negative for GDL** – will lead to an additional tax burden of 5–6% in effective tax rate for the company
Tax incentives for operating cold chain and warehousing facilities to store agricultural produce	Profit-linked tax incentives	Investment-linked tax incentives	**Positive** for companies operating in the cold chain and warehousing space (through subsidiaries) like **GDL, Arshiya, Gati and Concor**
Service tax levied on goods transported as coastal cargo and through inland waterways	NIL	10%	Overall **positive** for container haulage players as it will ensure a level-playing field
23% YoY increase in spending on national highway development by NHAI	Rs 129bn	Rs 159bn	**Long-term positive** for all logistics players

- **Budget neutral for the logistics sector as a whole.**
- **Greater fund allocation for national highway development (23% YoY) and tax incentives for operating cold chain and warehousing facilities are overall positive for logistics players. But the increase in MAT will be negative for GDL.**

Media

Winners | Jagran Prakashan, HT Media

NEUTRAL

Budget Provision	Old	New	Impact
Extension of waiver of 15% agency commission on DAVP ads &10% rise in DAVP rates as per stimulus package	Available till 30-Jun-09	Extended to 31-Dec-09	**Mildly positive** for print companies like **Jagran Prakashan, HT Media and Deccan Chronicle**
Customs duty imposed on set top boxes for television broadcasting	NIL	5%	**Negative for Dish TV and WWIL** Indirect impact on broadcasters like Sun TV and Zee TV
Abolition of fringe benefit tax	12.5%	NIL	**Positive** for all media companies paying FBT
MAT increased with carry forward of tax credit extended to 10 years from 7 years	10%	15%	**Negative for UTV, Fame India**

- **Customs duty of 5% on set top boxes to have a major negative impact on the television distribution segment.**
- **Continuation of benefits under DAVP scheme earlier announced in stimulus packages a positive.**

Winners | Sesa Goa

NEGATIVE

Budget Provision	Old	New	Impact
Increase in MAT	10%	15%	Companies like Jindal Steel & Power will see a higher tax outgo on account of higher MAT than earlier expected
Service tax to be levied on goods transported by railways and inland waterways	NIL	10%	**Negative** for steel companies
Refundable service tax paid by exporters on goods transport abolished	Pay service tax and later claim refund	Exempt from service tax	**Positive for Sesa Goa**; will improve working capital management

- **Industry expected a slew of relief measures from the budget including a safeguard duty on cheap steel imports. However, that did not come through as steel producers were themselves increasing domestic prices.**
- **Royalty rates which were expected to increase did not find a mention, giving relief to miners.**

Oil and Gas

Winners | GAIL, OMCs

NEUTRAL

Budget Provision	Old	New	Impact
Tax holiday on natural gas production from NELP – VIII blocks	NIL	7-year tax holiday	**Positive** for upstream players like ONGC, GSPC, RIL and Cairn. NELP-VIII would attract more participation; provision unlikely to be applicable to NELP I to VII.
Increase / Extension of MAT	10%, c/f of tax credit for 7 years	15%, c/f of tax credit for 10 years	**Negative for RIL, Cairn and Essar Oil**
All capex on oil and natural gas pipeline networks, other than land, goodwill and financial instruments allowed as deduction	-	-	**Positive for GAIL, GSPL and RIL**
Reduction in excise duty on naphtha	16%	14%	**No impact**

Contd…

Oil and Gas

Winners | GAIL, OMCs

NEUTRAL

Budget Provision	Old	New	Impact
Diesel blended with 20% bio-diesel fully exempt from excise duties with cut in customs duty	Excise: Rs 4.60/ltr Customs: 7.5%	Excise: Nil Customs: 2.5%	**Mildly positive for OMCs**
Ad-valorem component of excise duty changed for branded petrol and diesel	Petrol: 6% + Rs 13/ltr Diesel: 6% + Rs 3.25/ltr	Petrol: Rs 14.5/ltr Diesel: Rs 4.75/ltr	**Positive for OMCs**
Increase in outlay for Commonwealth Games	Rs 21.2bn	Rs 34.7bn	**Positive for Indraprastha Gas**

- **Complete policy regarding petroleum product pricing to be released shortly, as per the budget announcement ; lower provision of Rs 103bn for government subsidy supports the same.**
- **Decision to build a national gas grid along with tax deduction on capex for pipelines would entice gas producers.**
- **Barring the hike in MAT which would affect a few companies in the sector, all other measures are neutral for oil & gas players. However, any transparency on subsidy sharing would be a key positive for the sector.**

Pharmaceuticals

Winners | None **NEUTRAL**

Budget Provision	Old	New	Impact
Increase in MAT rate	10%	15%	P&L neutral; this is a cash outflow which can be set off going ahead. **Negative** for most Indian pharma companies (Dishman, Jubilant, Biocon, Piramal Healthcare, Sun Pharma)
FBT abolished	Variable	NIL	**Positive** for all pharma companies
Extension of Sec 10(A) / 10(B) tax benefit by one year	Till FY10	Till FY11	**Positive for Dishman, Opto Circuits**
Inclusion of legal services in service tax net	Not included	Included 10%	**Negative** for companies having legal expenses – Ranbaxy, Dr Reddy's, Cipla, Sun Pharma, Glenmark

- **Neutral – while removal of FBT is positive, this is offset by the increase in MAT rate and inclusion of legal services in the service tax net.**

Real Estate

Losers | DLF, Unitech, HDIL **NEGATIVE**

Budget Provision	Old	New	Impact
STPI extended to March 2011	Expiring on 31-Mar-09	Expiring on 31-Mar-11	**Negative for DLF, Unitech, Parsvnath Developers** Further extension would severely hurt SEZ players as IT companies will delay plans to switch over
Allocation of Rs 20bn for a Rural Housing Fund in National Housing Bank (NHB)	NA	NA	**Positive** for rural contractors as it would boost the resource base of NHB for refinance operations in the rural housing sector
Allocation for housing and provision of basic amenities to urban poor enhanced to Rs 39.7bn	NA	Rs 39.7bn	**Positive** for urban contractors like Ahluwalia Contracts, Unity Infra and developers engaged in the contracting business
Programme for housing to create 100,000 dwelling units for Central Paramilitary Forces via innovative financing model	Rs 48.6bn (total outlay under IAY*)	Rs 79.2bn	**Positive** for developers as the job may be outsourced * Indra Awaas Yojana

- **Four key measures anticipated by the market failed to materialise: a) reintroduction of Sec 80IB**; b) Increase in exemption of interest on home loans; c) FDI relaxation; and d) Infrastructure status for SEZs – negative for DLF, Unitech, HDIL, Parsvnath. Removal of surcharge (10%) on personal income tax, though positive, will not suffice to boost the sector.**
- **Overall negative for the realty sector as a whole and for DLF, Unitech, HDIL and Parsvnath in particular.**

More than one residential unit cannot be sold to an individual or any member of a family, as per the new clause.

Retail

Winners | None

NEUTRAL

Budget Provision	Old	New	Impact
Increase in customs duty on a) gold bars, coins and b) other forms of gold	a) Rs 100 / 10gm b) Rs 250 / 10gm	a) Rs 200 / 10gm b) Rs 500 / 10gm	**No significant impact** on earnings of Titan
Elimination of excise duty on branded articles of jewellery	2%	NIL	**No impact** on Titan's earnings as the company was not paying the same earlier as well

- **Industry expectations of FDI in retail were already suppressed by the finance ministry.**
- **Increase in customs duty on gold and abolition of excise duty on branded jewellery to have no material impact on Titan's financials.**

Telecom

Winners | Bharti, Rcom

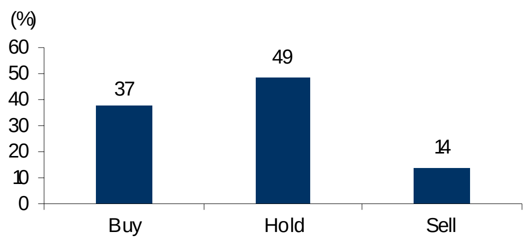
NEGATIVE

Budget Provision	Old	New	Impact
Increase in MAT rate	10%	15%	Negative – would increase cash outflows due to the tax break available under section 80IA

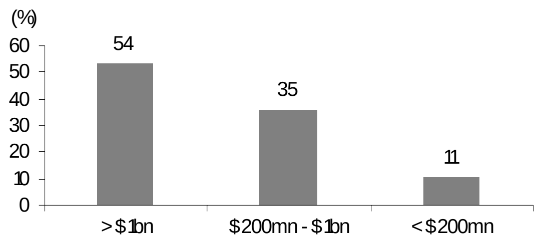
Thank You

Coverage Profile

By recommendation



By market cap



Recommendation interpretation

Recommendation	Expected absolute returns (%) over 12 months
Buy	More than 15%
Hold	Between 15% and –5%
Sell	Less than –5%

Recommendation structure changed with effect from March 1, 2009

Expected absolute returns are based on share price at market close unless otherwise stated. Stock recommendations are based on absolute upside (downside) and have a 12-month horizon. Our target price represents the fair value of the stock based upon the analyst's discretion. We note that future price fluctuations could lead to a temporary mismatch between upside/downside for a stock and our recommendation.

Religare Capital Markets Ltd
4th Floor, GYS Infinity, Paranjpe 'B' Scheme, Subhash Road, Vile Parle (E), Mumbai 400 057.

Disclaimer

"Religare Enterprises Limited proposes, subject to receipt of requisite approvals, market conditions and other considerations, to make a rights issue of its equity shares to its existing shareholders and has filed a draft letter of offer ("DLOF") with the Securities and Exchange Board of India ("SEBI"). The DLOF is available on the website of SEBI at www.sebi.gov.in as well as on the websites of the lead manager at www.enam.com. Investment in equity shares involves a high degree of risk and for details relating to the same, please refer to the section titled "Risk Factors" of the DLOF."