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Market Comment

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Budget: A missed opportunity

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■ Roadmap missing; High fiscal deficit is a concern

Finance minister Mr. Pranab Mukherjee presented the union budget for FY10. We believe the Indian government missed a significant opportunity to send a positive signal to investors. Specifically, we were disappointed by lack of roadmap on infrastructure, divestment and on reforms in banking/insurance (no announcements on FDI/FII limits in insurance). Hike in MAT (Minimum Alternate Tax) to 15% from 10% is also negative for corporate India. Fiscal deficit target of 6.8% (FY10) is also likely to disappoint investors. We highlighted in our note '*A Dream Budget? Unlikely, in our view'* (29 June '09) that fiscal concerns could dampen the budget.

■ Some positives: Rural thrust to continue, Personal tax relief

Thrust on rural economy continued with allocation on NREGS (National Rural Employment Guarantee Scheme) increased by 144% to Rs391bn. We believe the rural thrust will benefit FMCG cos. such as ITC and HUL. Other beneficiaries of the rural thrust will include Hero Honda, Bharti Airtel and cement companies. Removal of 10% surcharge on personal taxes is also a positive for consumption.

■ Maintain March 2010 Sensex target of 16,750

Over the medium term, we believe fundamentals and liquidity are likely to support higher valuations and maintain our March 2010 Sensex target of 16,750 (Pls refer our note *'Approaching fair value; Turning less bullish'* dated 18 June, 2009). We are overweight on banks, autos, cement, IT Services, telecom and real estate. We have also allocated 5% weight to Cash in our model portfolio. We are underweight on petrochem, metals, engineering, conglomerates and oil & gas. Key overweight stocks in our model portfolio are BoB, Infosys, Tata Power, Bharti, & Union Bank.

Table 1: Current UBS model portfolio sector weighting

Overweight	Neutral	Underweight
Auto	Consumer staples	Conglomerates
Banks and Fis	Pharmaceuticals	Engineering
Cement	Power	Metals
IT Services		Oil & Gas
Real Estate		Petrochemicals
Telecom		
Cash		

Source: UBS estimates

Budget impact-by sectors

Table 2: Impact of budget in each sector

Sectors	Budget Provisions	Sector Impact	Stock Impact
Infrastructure	- Maintained the overall spending thrust on infrastructure. Increase investment in infrastructure to more than 9% of GDP by 2014 - Increased allocations/Gross Budgetary Support: NHDP by 23%, JNNURM by 87% to Rs129bn, APDRP by 160%, Pradhan Mantri Gram Sadak Yojana by 59% to Rs120bn, Bharat Nirman by 45%, RGGVY by 27% to Rs70bn, Railways to Rs158bn from Rs108bn in FY09. Irrigation by 75% - There is unlikely to be crowding out of infrastructure borrowings despite higher government borrowing - No significant Impact on infrastructure companies on the increase in MAT rates from 10% to 15%	- Neutral. In line with expectations	- No major budget related impact - Top buys are Tata Power and L&T.
Real Estate	- Extension of STPI by one-more year	- Will further delay the move to SEZ by the IT companies. We are estimating negligible launches of IT SEZs by leading real estate companies in FY10. Hence, only the existing inventory and under construction could face delays in leasing.	- Negative for DLF and Unitech
	- Higher personal incomes due to abolition of surcharge on income tax	- Positive	- Positive for all real estate companies
Banking / Insurance	- Fiscal deficit - expected to be higher at 6.8%	- Likely end of falling interest rate - Government borrowing will increase leading to higher government securities to total deposits for banks. We therefore maintain credit growth of 15% for industry. - Higher proportion of Gsec could impact margins as the yields are lower. Net impact will be neutral as no reduction in PLR will expand margins in H2	- Despite short term disappointment, we remain structurally positive on the banking sector. - Within this we maintain our preference for select PSU banks – given attractive valuations. Our top picks amongst PSU banks are Union Bank, BoB, PNB.
	- Agriculture subvention retained	- No impact on banks, good for rural economy.	- Amongst private banks we prefer ICICI Bank
	- Investment in rural infrastructure under the NREGS	- PSU banks will be indirect beneficiaries as 35% of their branches are located in rural India.	
	- Infrastructure funding through IIFCL	- Positive for banks. It will enable banks to reduce their asset liability mismatch arising out of financing infrastructure projects and also to free up capital for financing new projects.	
	- No announcement on FDI in insurance	- This was not a budget related issue; we still expect this to go through over the next six months	
	- No divestment in banks	- Government ownership unlikely to reduce in PSUs. PSUs will be provided with sufficient capital for growth	
Consumer Staples	- Increase in allocation under NREGS	- Positive	- Positive for HUL, ITC
	- Excise duty on cigarettes remain unchanged	- Positive	- Positive for ITC
Cement	- No increase in excise duty (4% excise duty announced in Dec 08) remains effective	- Positive trigger for the sector as news of excise cut rollbacks have been an overhang on the stocks	- Positive for all cement companies. - Top picks are Ambuja & Grasim
	- Increase in allocations for infrastructure / rural economy will boost cement demand	- Positive for the sector as increased infrastructure / rural spending will spur demand	- Positive for all cement companies

Sectors	Budget Provisions	Sector Impact	Stock Impact
Telecom	- Government expects to collect Rs350bn from 3G auction this FY	- Neutral	- Bharti, Idea and RCOM
	- Government has abolished FBT and has raised MAT from 10% to 15%	- Marginally negative	- Bharti, Idea and RCOM
	- Customs duty of 5% has been imposed on import of set top boxes	- Marginally negative	- Bharti, Idea and RCOM
Oil & Gas, Petrochem	- MAT(minimum alternate tax) increased to 15% from 10%		- Negative for RIL and Cairn India. We have cut our EPS estimate for RIL 4.5%/ 3.3%/ 2.8% to Rs119.3/ 154.8/ 172.4 respectively in FY10/FY11/FY12 on increase in MAT. Impact on Cairn India is partly mitigated by elimination of Fringe Benefit Tax
	-Tax holiday under section 80-IB(9) of the IT Act to be extended to natural gas for blocks awarded under the NELP-VIII	- Increased uncertainty regarding tax holiday on natural gas produced from blocks awarded in NELP I -VII rounds.	- Negative for E&P companies, especially RIL. If we assume no tax benefits on gas production, RIL's EPS in FY10 would be lower by 12% to Rs104 and our target price would be lower by 9% to Rs1640.
	- Investment-linked tax incentive for laying and operating a cross country natural gas pipeline.	- Beneficial for gas transmission companies assuming no impact on tariff calculation.	- GAIL will benefit as its tax rate would reduce in the years immediately after the capex.
Autos	- Imposition of service tax for railway goods transport	- Positive for transporters and CV demand	- Tata Motors key beneficiary
	- Reduction in specific excise duty for large cars/UVs with engine capacity in excess of 2000cc from Rs 20,000 to Rs 15,000	- Marginal impact on demand of UVs from the same	- M&M likely to benefit
Metals (Non-Ferrous) / Mining	- Import duty for aluminium remain unchanged	- Negative	- Negative for Hindalco and Nalco
	- No change in royalties and export duty on iron ore	- Positive	- Positive for Sesa Goa
Steel	- No increase in excise duty	- Short term positive from a sentiment prospective	- All steel companies to benefit
	- Increase in allocations for infrastructure / rural economy will boost steel demand	- Positive for the sector as increased infrastructure / rural spending will spur demand	- Positive for all steel companies
	- No anti-dumping duty on imports	- No impact	- No impact
	- Proposed long distance gas pipelines leading to a National gas grid to facilitate transportation of gas across the country	- Positive as this will increase demand for steel	- Most large steel companies to benefit
IT Services	- Extension of income tax benefits under Software Technology Parks of India (STPI) scheme by one more year till FY11. STPI units will get tax benefits till 10 years of commencement or FY11, whichever is earlier.	- Positive for the sector and will benefit the EPS estimates for FY11. However, since the extension is only for one-year period, there will be no change in earnings estimates for FY12 and beyond and there will be marginal change in the DCF based price targets.	- Infosys & Wipro will have incremental benefit of ~1% on FY11 EPS estimates. - TCS will have 3% benefit and HCL Tech will have 9% benefit on FY11 EPS estimates.
Pharma	- Extension of tax holiday for export oriented units (EOU) under 10B till FY11	- positive for sector	NA

Source: UBS estimates

Table 3: Top Buy and Sell ideas

	UBS Rating	Mkt Cap (US$ mn)	Price (Rs)	Price Target (Rs)	Potential Upside	ROE FY10E	P/BV(x) FY10E	PE(x) FY10E	PE(x) FY11E
Top Buy									
Infosys Technologies	Buy	20,703	1,760	2,070	17.6%	28.5%	5.0	17.5	15.1
Bharti Airtel	Buy	30,625	784	999	27.5%	24.9%	3.9	15.5	13.6
Tata Power	Buy	5,007	1,102	1,600	45.2%	14.4%	2.3	12.6	10.5
Union Bank	Buy (CBE)	2,210	233	280	20.0%	16.0%	1.4	7.4	6.1
BOB	Buy	3,060	408	525	28.7%	12.8%	1.2	8.2	6.7
Top sell									
Reliance Industries	Sell	61,355	1,894	1,800	-4.9%	14.7%	2.2	15.2	11.8
Reliance Comm	Sell	11,447	269	333	23.6%	13.1%	1.6	11.8	9.1
AXIS Bank	Sell	5,818	794	775	-2.4%	15.9%	2.5	15.5	11.8
State Bank of India	Sell	17,937	1,655	1,630	-1.5%	11.4%	1.7	14.5	10.3
Sun Pharma	Sell	4,818	1,130	1,150	1.8%	19.1%	3.0	15.8	14.4

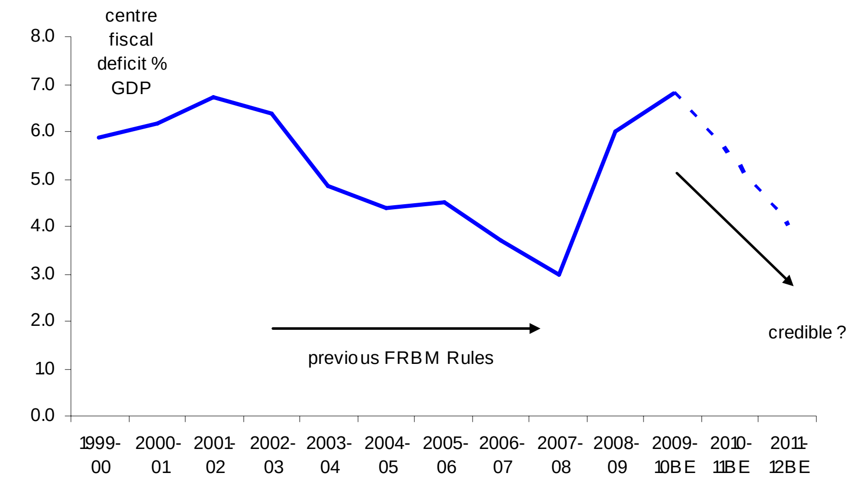
Source: UBS estimates, Price as of 6th July'09

Macroeconomic Implications

India: Budget overshoot, inflationary recovery.

What are 4 key things in this budget? First, the headline fiscal deficit number (6.8%) is higher than the provisional (interim) budget estimate (of 5.5% of GDP). Second, the government intends to retain a loose budgetary stance until real economic recovery is well on the way back to 9%. Third, government market borrowing has risen, but the Reserve bank of India (RBI) is likely to continue to accommodate some of this. Fourth, the deficit overshoot should not hinder economic recovery. Moreover, unlike the developed world, India should see an inflationary recovery, so equity prices should benefit from the inflation cushion. By contrast bond yields will likely continue to face upward pressure.

Chart 1: The deficit picture



Source: CEIC, Finance Ministry

The Context

This is the General Budget - a more final version of the Interim Budget presented pre-election. The global background remains the same so unsurprisingly the policy justification is unchanged. In his opening speech the Finance Minster explained high deficit spending is warranted to bring back real economic growth to 9% - at the earliest. So even though the worst 2 quarters maybe behind us we cannot 'drop our guard' but have to continue with further fiscal stimulus.

Table 4: Medium term fiscal targets

	Revised Est	Budget Est	Targets for:	
	2008-09	2009-10	2010-111	2011-12
Revenue deficit	4.4	4.8	3	1.5
Fiscal deficit	6	6.8	5.5	4
Gross tax revenue	11.6	10.9	11.9	12.4
Total outstanding liabilities by y/e	59.6	61.4	60.1	57.2

Source: http://indiabudget.nic.in

The doubts

As expected the government announced a return to fiscal targeting under their fiscal responsibility act (FRBM), but in effect this 'hard budget constraint' is suspended for this year (until economic growth recovers). The new plan is to reduce the deficit quite quickly to 5.5% and then to 4% in the immediate two years ahead i.e. FY11-12 (Table 4). In our view financial markets were looking for clarity and credibility. Unfortunately by delaying the start of the deficit reduction process the government makes it even harder for investors to see this as credible. Moreover the issue of subsidies remains vague. The government plans to set up a committee to examine the feasibility of more flexible domestic oil prices. It also plans to reduce the subsidy bill. Meanwhile the practice of off-budget 'oil-bonds' continues (albeit reduced).

Table 5: Centre Budget (% GDP)

(% GDP)	FY06	FY07	FY08	FY09	FY10 BE	FY10BE
					(interim)	(new)
Total Receipts	14.3	14.2	15.0	16.4	15.8	17.4
Revenue receipts	9.8	10.3	11.1	10.6	10.1	10.5
Tax revenue (net of states)	7.7	8.4	9.1	8.8	8.3	8.1
Gross tax revenue	10.4	11.4	12.4	11.8	11.1	10.9
Non-tax revenue	2.1	1.9	2.0	1.8	1.9	2.4
Capital Receipts	4.5	3.9	3.9	5.8	5.7	6.9
Recovery of loans	0.3	0.1	0.1	0.2	0.2	0.1
Asset sales	0.1	0	0.8	0.0	0.0	0.0
Market borrowings & other liab's	4.1	3.7	3.0	5.6	5.5	6.8
Total Expenditure	14.3	14.2	15.0	16.9	15.8	17.4
Revenue expenditure	12.3	12.4	12.5	15.1	14.1	15.3
Interest payments	3.6	3.6	3.6	3.6	3.7	3.9
subsidies	1.3	1.3	1.5	2.4	1.7	1.9
defence expenditure	1.4	1.3	1.2	1.4	1.4	1.5
Capital expenditure	1.9	1.8	2.6	1.8	1.7	2.1
defence expenditure	0.9	0.8	0.8	0.8	0.9	0.9
Plan Expenditure	4	4.2	4.4	5.3	4.7	5.6
Non-Plan Expenditure	10.2	10	10.6	11.6	11.1	11.9
Key Fiscal ratios (Official ests)						
Gross tax	10.4	11.4	12.4	11.8	11.1	10.9
Revenue Deficit	-2.6	-2.1	-1.3	-4.5	-4.0	-4.8
Primary Deficit	-0.5	-0.2	0.6	-2.5	-1.8	-3.0
Fiscal Deficit	-4.1	-3.8	-3.0	-6.1	-5.5	-6.8
Bonds to oil marketing and fertilizer companies			0.4	1.8		0.2

Source: http://indiabudget.nic.in

So where is the money going?

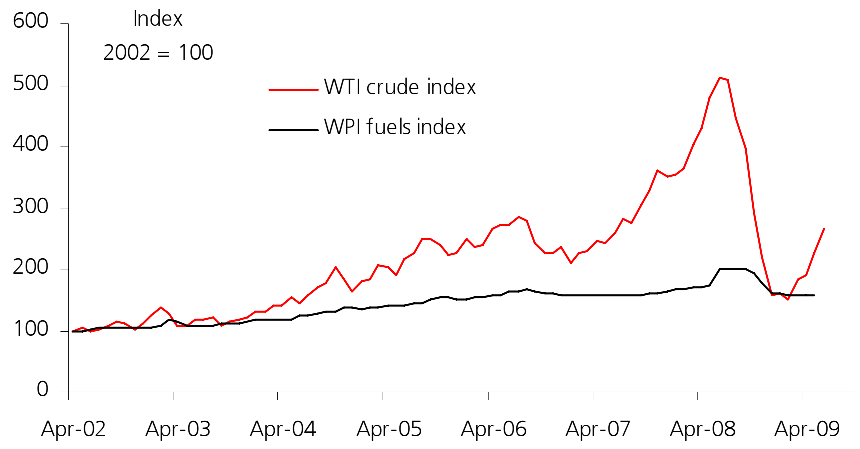
Tax buoyancy has dropped (tax/GDP ratio down to 10.9% from 11.6% last year), both due to the economic slowdown and due to the extended tax benefits granted pre-election. However this is being more than compensated by a one-off boost to non-tax revenue. Non-tax revenue should rise to Rs1.4tn (rather than Rs1.1tn) due to higher public sector (PSU) dividends and 3G telecommunication auction revenues.

Enhanced public spending for social sector schemes: both rural and urban are raising government spending in the General budget relative to the interim budget. This budget provides for an additional Rs400bn this year in schemes like rural employment, housing, water, sanitation, education, health and roads, rail & energy. Support schemes for exporters and SMEs have also been extended. The aim is to create rural jobs and demand as well as build new infrastructure.

Centre government capital spending (both Plan & non-Plan is now set at Rs1.24tn rather than Rs1tn as in interim budget)[1]. But the bigger point is one of substitution. If the government is to raise its capex from the current 2% of GDP (Centre) and 1% (State) without widening the fiscal deficit further it must cut back the revenue deficit, and this means subsidies and certain social benefits. This did not happen last year due to high commodity prices and it is not happening this year either.

Subsidies were a fiscal Achilles heel of the last government. Surprisingly this has yet to change even though the new Finance Minister intends to reduce it. Compared with the Interim budget total subsidies are slightly higher though still around 2% of GDP - set at Rs1.2tn (of which Rs523bn is food, Rs500bn is fertilizer and Rs103bn is off-budget oil).

Chart 2: Oil prices versus domestic mineral oil prices



Source: CEIC, UBS ests

With global oil prices rising again there is a need for more flexible domestic fuel prices. The recent 10% hike in domestic fuel prices is a positive first step, but still an ad-hoc adjustment rather than part of a more transparent mechanism. The Finance Minister stated that the government recognises local fuel prices must be in sync with global ones and has set up a committee to consider the matter. For now we are inclined to regard this government as more likely to make discrete adjustments in local fuel price given their more constrained fiscal starting point.

Where is the money coming from?

[1] The States have been granted freedom to expand fiscal deficit from 3.5% of GDP to 4%.

Contrary to our expectations proceeds from privatisation/divestment of public sector entities will not make any contribution to deficit reduction, but be held as a separate fund for other purposes. In any case the amount is projected to be negligible.

The FY10 fiscal deficit is set to rise from Rs3.3tn (Interim Budget estimate) to Rs4tn. The bulk of funding is to come from market borrowing (bills & bonds). The gross amount of centre government market borrowing is set to rise to Rs3.98tn (from Rs3.2tn). Of this amount Rs1.96tn has already been issued. Table 3 shows that the net amount issued is set to rise by about Rs0.5tn to Rs3.1tn. But is this large or small?

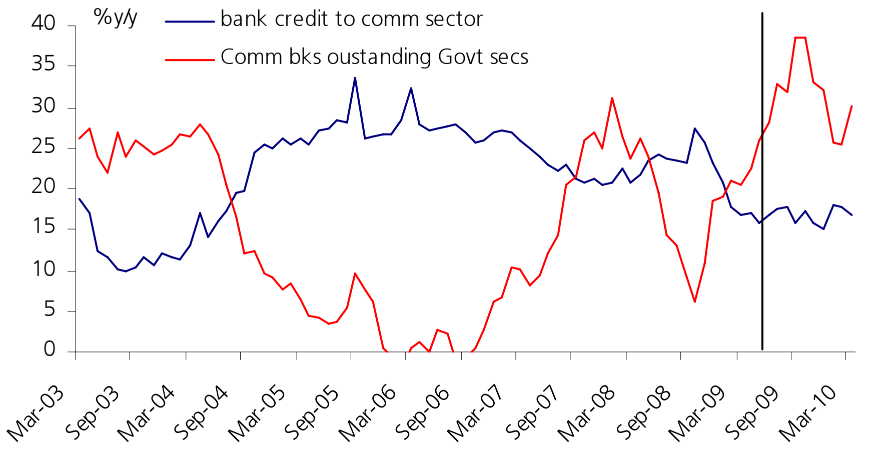
Table 6: Deficit funding

INR bn	2007/08	2008/09	2009/10BE
Budget bal	1269.1	3265.2	4009.9
Dom financing (net)	1175.9	3169.2	3849.4
Market borrow (net)	1095	2423	3086.4
Gross borrowing	1882	3185	3985
Repayments	787	762	898.6
Other receipts	80.9	746.2	763
Foreign financing (net)	93.2	96	160.5
Off-budget bonds	280.5	959.4	103.2

Source: Finance Ministry, IIF

In terms of direct impact on the banking system we see the impact as minor for three reasons. First, a crude model for total bank lending suggests that with 18% deposit growth a rise in public sector funding to Rs4tn would result in a slowdown in bank lending to 15% and a rise in excess government securities holdings equivalent to 5% of NDTLs. But this is an extreme case which assumes the non-bank financial sector plays no role in bond absorption.

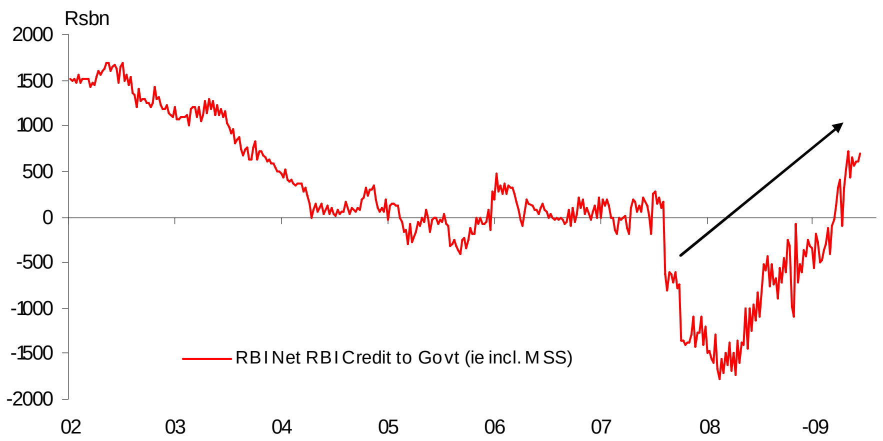
Chart 3: Bank lending & government bond holding (% growth)



Source: CEIC, UBS ests

Second, the RBI is very unlikely to stand aside and watch lending growth get squeezed out. In our view the RBI will accommodate by releasing more funds into the banking system (whether through MSS or direct government bond purchase). This is the message from chart below. Finally, there is the role of foreign capital in FY10. If by the second half of FY10, as we expect, foreign capital returns more significantly then official FX reserves will climb steeply and this is the mechanism by which local monetary conditions can remain easy, rather than through direct RBI lending to the government. Under such conditions Indian corporations will be less capital constrained and the government would not compete as intensely for funds with the private sector. The result would be much less credit rationing and faster loans growth.

Chart 4: RBI net lending to the government



Source: CEIC, RBI

All boils down to easy money

The question is to what degree does the central bank need to continue to keep monetary policy relaxed? Our answer is that for as long as the bond supply bulge threatens to depress bank loan growth below 15%y/y (roughly today's growth rate) the RBI is very unlikely to withdraw its provision of liquidity.

Official policy to support the provision of adequate bank lending to the economy remains unchanged. So it is possible to regard the wider fiscal deficit as a vehicle for this easy money policy - one which will likely support 18-20% M3 growth. In our view this is consistent with long term CPI inflation of 6-7% and provides support for further equity gains in general and to inflation hedges in particular.

Sector-Wise Impact

Banking (Tabassum Inamdar)

- Fiscal deficit - expected to be higher at 6.8%. Based on our analysis, we, expect the impact on banks of higher fiscal deficit and borrowing programme to be nominal. We see the following implications for banks:
  - Likely end of falling interest rate scenario - i.e no more PLR or deposit rate cuts likely.
  - Government borrowing will increase leading to higher government securities to total deposits for banks. In our view the RBI will maintain sufficient liquidity or the government will have to compromise on growth - not an ideal situation. We therefore maintain credit growth of 15% for industry.
  - Impact on margins: higher proportion of Gsec could impact margins as the yields are lower, while simultaneously no further reduction in PLR will enable banks to see margin improvement in 2H of the year as the full impact of deposit rate cuts is reflected. Net impact therefore could be neutral. We are currently assuming flat to slightly lower margins and will revisit our estimates post results.
- No announcement on FDI in insurance: This was not a budget related issue; we still expect this to go through over the next six months
- No divestment in banks, for now: Wider public participation in PSUs talked about, but not in banks. This means government ownership in PSU banks unlikely to be reduced, atleast for now. However, the finance minister also mentioned that PSU banks will be provided with sufficient capital for growth.
- Agriculture subvention retained: Working capital loans up to Rs300,000 will continue to get loans at 7% interest rate (banks get subvention from government against these loans). In addition farmers paying loans on schedule will get an additional 1% interest rate subsidy (again government will compensate banks for this). No impact on banks, good for rural economy.
- Investment in rural infrastructure under the National Rural Employment Guarantee Schemes - PSU banks will be indirect beneficiaries as 35% of their branches are located in rural India.
- No changes in housing loans exemptions - There was general expectation that the tax exemption on interest and principal payment on housing loans will be increased.
- Infrastructure funding: The Finance minister indicated that India Infrastructure Finance Company Limited (IIFCL) will be given greater flexibility to aggressively fulfill its mandate of providing long term financial assistance to infrastructure projects. IIFCL, in consultation with banks, is expected to evolve a ‘takeout financing’ scheme which could facilitate incremental lending to the infrastructure sector. In addition, IIFCL is

expected to refinance 60% of commercial bank loans for public private partnerships (PPP) projects in critical sectors over the next fifteen to eighteen months. We believe this could be positive for both banks and the infrastructure sector if IIFCL can manage to raise funds to achieve the above two objectives. It will enable banks to reduce their asset liability mismatch arising out of financing infrastructure projects and also to free up capital for financing new projects.

Top picks

- Despite short term disappointment, we remain structurally positive on the banking sector.
- Within this we maintain our preference for select PSU banks – given attractive valuations. Our top picks amongst PSU banks are
  - Union Bank (Buy, PT Rs280) is currently trading at 1.4x FY10E P/B. We estimate an ROE of 17% in FY10E
  - Bank of Baroda (Buy, PT Rs525) is currently trading at 1.2x FY10E P/B. We estimate an ROE of 13.4% in FY10E
  - PNB (Buy, PT Rs865) is currently trading at 1.3x FY10E P/B. We estimate an ROE of 17.1% in FY10E.
- Amongst private banks we prefer ICICI Bank (Neutral, PT Rs800). It is trading at 1.4x FY10E P/B and ROE est of 8.3% for FY10E. In our view insurance bill will be passed during this financial year.

Infrastructure (Suhas Harinarayanan)

No significant positive surprises

- We think 1) the government has maintained the overall spending thrust on infrastructure through increased allocations to various schemes though no additional schemes or measures have been announced, 2) there would be no crowding out of infrastructure borrowings despite the higher government borrowing programme, and 3) there is unlikely to be a significant impact on infrastructure companies on the increase in MAT rates from 10% to 15%.
- Key positive: Government maintains spending thrust on infrastructure through increased allocations across sectors. The trend, if maintained and also supported by state spending, will lead to gross budgetary support (GBS) higher than our estimate of about 2% of GDP. Increase in GBS in roads, railways and T&D is especially higher than our estimates.
- Key negative: No specific road-map, new schemes, relief measures have been announced to provide a boost to the sector.
- Stock impact - Neutral: No major budget related impact.

Top picks: Our top Buys in the sector are Tata Power

- Tata Power (Buy, PT Rs1,600) is currently trading at 12.6x FY10E PE
- L&T (Buy, PT Rs1,600) is trading at 25.1x FY10E PE & 15.9x FY10E EV/EBITDA

Table 7: Impact of budget on infrastructure

Budget impact analysis on the infrastructure/construction sector	Incremental data point	Our View	Timeline of impact	Stock impact
Increase investment in infrastructure to more than 9% of GDP by 2014.	No. Stated objective of XIth Plan	Overall trend is increasing. Achievement over last three plans has been about 5% and the step-up is likely to be gradual.	Long-term	Nothing incrementally positive.
Funding				
IIFCL to refinance 60% of commercial bank loans for PPP projects. Can refinance projects upto Rs1trn	No. Announced with the two stimulus packages	Provides long-term funds to banks. Rs100bn of bonds already raised. IIFCL has mandate to raise further Rs300bn	15-18months	Nothing incrementally positive
IIFCL to evolve a 'takeout financing' scheme in consultation with banks	Yes	Will help ease asset liability mismatch of commercial banks	More than six months	Positive for infrastructure development companies
State governments allowed to borrow an additional (over interim budget) 0.5% GSDP by relaxing the FRBM from 3.5% to 4% of their GSDP	Yes	To help support budgetary spending by the states	12 months	Positive for construction companies leveraged to state spending like IVRCL, Nagarjuna and also L&T. Though likely to be used for under-construction projects rather than fresh orders
Fiscal deficit of 6.8% (Rs4trn) of GDP and resultant government net borrowings of Rs4trn	Govt borrowing higher by 10%	- We expect loan growth at 15% as we expect monetary policy to be accommodative. Likely no crowding effect but interest costs are likely troughing out. - Fiscal deficit was a negative surprise but loose monetary policy could ensure o immediate increase to funding costs	12 months	No significant impact
Spending				
Increased allocations/Gross Budgetary Support: NHDP by 23%, JNNURM by 87% to Rs129bn, APDRP by 160%, Pradhan Mantri Gram Sadak Yojana by 59% to Rs120bn, Bharat Nirman by 45%, RGGVY by 27% to Rs70bn, Railways to Rs158bn from Rs108bn in FY09. Irrigation by 75%	Yes	- Likely to ensure timely completion of projects in rural electrification, improvement of power T&D, rural roads & housing, railways - Overall trend of increasing infrastructure spending is positive.	FY10. If trend of higher spending continues, for long term as well	- Positive for construction companies like L&T, IVRCL, Nagarjuna. - Likely to be used for under-construction projects though, rather than fresh orders
Develop a blueprint for long distance gas highway leading to a National Gas Grid, that would facilitate transportation of gas across the length and breadth of the country.	Yes		>1year	Positive for Punj and L&T
Tax changes				
Increase in MAT from 10% to 15%. MAT credit availability has been extended to 10 years from 7 years	Yes	- NHAI concession agreements require developers to be compensated for any financial burden (having an impact higher than Rs10m)due to change in law that affects their net after tax return - For power projects awarded under ultra mega power (UMPP) scheme, all tax increases are pass-through and hence, no impact..	FY11 onwards	No significant impact

Source: UBS estimates

Real estate (Suhas Harinarayanan)

- Extension of the STPI act by 1 more year will mean further delays to the move to SEZs by the IT companies. However, we are estimating negligible launches of IT SEZs by leading real estate companies in FY10. Hence, only the existing inventory and under construction could face delays in leasing. Negative for DLF, Unitech.

- There are no big real incentives for the residential segment except increase to affordability from higher personal incomes due to abolition of surcharges on income tax. There are risks on interest rates rising in the near-term but we think affordability levels are still high enough to combat increases to interest rates in near-term.

- Stock impact - neutral.

Top picks

- Our top picks are
  - IBREL (Buy, PT Rs310) - IBREL is trading at 1x FY10E P/B and
  - Unitech (Buy, PT Rs90) is trading at 1.6x FY10P/B

Oil & Gas, Petrochemicals (Harshad Katkar)

- The government has failed to clear the uncertainty surrounding tax holiday on natural gas production from NELP blocks. The FM has allowed tax holiday under section 80-IB(9) of the IT Act to be extended to natural gas for blocks awarded only under the NELP-VIII round without any clarity on the treatment for gas from NELP I – VII blocks. If we assume no tax benefits on gas production, Reliance Industries' (RIL) EPS in FY10E would be lower by 12% to Rs104 and our valuation would be lower by 9% to Rs1640.

- Increase in MAT to 15% from 10% will have a negative impact on RIL and Cairn India. We recently cut our EPS estimate for RIL 4.5%/ 3.3%/ 2.8% to Rs 119.3/ 154.8/ 172.4 respectively in FY10/FY11/FY12 on increase in MAT. In case of Cairn India, the negative impact of higher MAT would be partly mitigated by the elimination of the Fringe Benefit tax.

- GAIL would benefit from the budget proposal to provide investment-linked tax incentive for laying and operating a cross country natural gas pipeline. This section (35AD) would allow 100% deduction in respect of the capex incurred assuming this has no impact on the tariff calculation for the pipeline. On the other hand profit-linked deduction provided under section 80-IA for the gas pipelines has been withdrawn.

- In line with our expectations, the budget failed to provide any breakthrough on auto fuel pricing policy. The government has announced its intention to set up another expert group to advice on the contentious issue. In our opinion unless crude prices retreat below ~$60/bbl, auto fuel pricing decontrol is unlikely.

- The government has tinkered with a few excise changes on Naphtha, branded auto fuels, SBP, man made fiber, PTA etc which would have minimal impact on the oil companies' finances.

Top picks

- Cairn India (Buy, PT Rs265): Cairn is our top pick in the Indian Oil & Gas space at current levels. We expect the start up of crude production from

Rajasthan field and agreement on crude pricing to be the near term triggers for Cairn India stock. Cairn India will also benefit from the firm crude prices. The stock currently factors $58/bbl of Brent crude to perpetuity.

- Reliance Industries (Sell, PT Rs1,800): We reiterate our anti-consensus Sell rating on Reliance Industries (Key Call) on weakening refining environment going ahead. We expect increasing supply (from capacity coming back from maintenance and commissioning of new capacity) to put further pressure on already weak margins and a drastic fall in Light-heavy crude differential to reduce RIL's complexity premium significantly. On exploration, we believe RIL will focus on developing earlier discoveries in FY10, so possibility of exploration surprises is limited. The company has also given up 4 rigs (1 of which was ultra deepwater) which could have hastened RIL's exploration activity.

- We have a negative view on ONGC, GAIL and the Oil Marketing companies.

Telecom (Suresh A. Mahaedevan)

- The government expects to raise Rs350bn of revenues from 3G auction this FY. This is an increase of 75% from the earlier estimate presented in the interim budget. Based on our estimates, (Please refer Table 11 in Appendix), we believe there will be an average 7 nationwide operators (weighted average number of operators) bidding for 3G spectrum. Hence, we estimate a nationwide 3G license to cost Rs50bn per operator. This is in the lower end of our estimated range of $1-1.5bn cost for a nationwide 3G license.

- The government has abolished FBT. We believe abolishment of FBT is Neutral for India telcos as it is an insignificant amount.

- The government has raised MAT from 10% to 15%. The effective increase in tax rate is 5.665% as shown in Table 12 in the Appendix. The government has however, extended the period of MAT credit from seven years to ten years. We believe the increase in MAT is marginally negative for the near term cash flows and hence valuations. MAT is payable on book profits calculated as per section 115JB when the company's taxable profits are nil or negligible. This amount of MAT paid by the company is then available in the form of MAT credit for set-off against tax payable in future years for the next ten years (as compared to seven years earlier).

- The government has imposed a 5% customs duty on import of set top boxes. We believe this is marginally negative for Bharti and RCOM, given they operate in the DTH segment. We believe this is not significant as DTH constitutes a very small portion of their overall business.

Top picks

- We continue to prefer Bharti given company’s strong brand, solid understanding of Indian consumer behaviour, deep distribution, and first mover advantage.

- We expect Idea financials to be under pressure in the near to medium term due to new circle launches.

- We maintain Buy on Bharti with PT of Rs999, Neutral on Idea with PT of Rs88, and Sell on RCOM with PT of Rs333.

Autos (Sonal Gupta)

Minor positive for UVs

- Specific component of excise duty applicable to large cars/utility vehicles of engine capacity 2000cc and above has been reduced from Rs.20,000/- per vehicle to Rs.15,000 per vehicle, so the excise duty is now 20% + Rs 15,000.

- Excise duty on petrol driven trucks/lorries has been reduced from 20% to 8%.

- Excise duty on chassis of such trucks has been reduced from '20% + Rs.10,000' to '8% + Rs.10,000'. Trucks are predominantly diesel driven vehicles in India, we see no impact of this change.

Positives for Transporters:

- Imposition of service tax on transport of goods by Railways will help improve competitiveness of road transporters, who are already subject to service tax, vis-à-vis railways.

- No service tax will be imposed on intra and inter state transportation of passengers in a vehicle bearing 'contract carriage permit' with certain conditions.

- Payment for transport operators have been exempted from TDS (Tax deduction at source) to reduce operational constraints. Further, cash payment limit for transport services has been enhanced from Rs 20,000 to Rs 35,000.

We reiterate our preference for passenger vehicle manufacturers in our sector note *"India Auto Sector: Positive macro momentum taking shape"* date June 16, 2009. We expect strong passenger vehicle growth of 14%/15% for FY10/FY11 respectively as we believe demand will continue to improve with improving finance availability and higher income growth due to economic recovery. We therefore continue to prefer Maruti (Buy) and M&M (Buy) as the key beneficiaries of this growth.

Top Picks

- Maruti (Buy, PT Rs1,280) - We remain positive on passenger vehicle growth in India and Maruti being a key beneficiary of that growth. We believe Maruti's diesel portfolio will continue to drive market share gains for the company. We expect new launches Ritz and AStar to help drive domestic and export volume growth. We expect margin improvement to continue driven by reduction in discounts with improving demand conditions. It is currently trading at 17.7x FY10E PE and 9.2x FY10E EV/EBITDA.

- Mahindra & Mahindra (Buy, PT Rs860) - We believe growth for M&M's core portfolio i.e. UVs & LCVs will remain strong driven by successful new launches and higher exposure to rural and semiurban areas. We expect M&M's UV and LCV sales to grow 20% YoY and 15%YoY respectively in FY10. We expect re-rating of subsidiary businesses to be the other key driver for M&M stock price. It is currently trading at 11.7x FY10E PE and 6.7x FY10E EV/EBITDA.

Cement (Navin Gupta)

Budget 2009-10 is a positive for the sector due to

- Continuation of lower excise duty announced as part of stimulus package announced in Dec'08. Expectation of excise cut rollback (from 8% to 12%) had been an overhang on the sector recently so continuation of lower excise rate (8%) is positive for the sector.

- Increased allocation for infrastructure and various rural development schemes are likely to increase the demand for cement in medium term. We are currently estimating 5% growth in cement demand for FY10 which in our view conservative given the increased allocation for infrastructure

Some other announcements relevant for the sector include:

- Service Tax has been imposed on railway freight but this would not have an impact on cement companies' earnings since a tax credit can be claimed against the excise duty payments.

- Excise duty on man-made fibre has been increased from 4% to 8%. Grasim is impacted by this but this will be a pass-through as the consumers of VSF will be able to claim tax-setoff.

Top picks

- Ambuja (Buy, PT Rs120): Ambuja remains a top pick due to significant increase in captive power capacity, its net cash position, and capacity expansions in 2009-10. The stock has significantly underperformed in last two months and now we expect it to outperform; Our price target is based on 1-year forward EV/EBITDA of 6.5x (valuation during the previous period of stable prices 2002-05). It is currently trading at 5.4x FY10E EV/EBITDA

- Grasim (Buy, PT Rs2,500): Grasim is also our top pick in the sector due to front-loaded capacity addition and a significant increase in captive power capacity. We value Grasim on a sum-of-the-parts basis, valuing the cement business at 6.5x 1-year forward EV/EBITDA (the same as Ambuja), VSF at 4.5x, sponge iron at 4.5x, and others (chemicals, textiles, JVs) at 4x. It is currently trading at 5.1x FY10E EV/EBITDA

Table 8: UBS India cement companies valuation

Company Name	Rating	Price	Price	Mkt Cap	Pre-exp PE(x)		EV/EBITDA(x)		P/BV(x)		ROE(%)		EV/T ($)
		Target (Rs)	Rs	(US$m)	FY10E	FY11E	FY10E	FY11E	FY10E	FY11E	FY10E	FY11E	FY10E
Grasim Industries	Buy	2,500	2,297	4,338	8.4	8.0	5.1	4.7	1.6	1.4	20.8	18.4	106
Ambuja Cements	Buy	120	87	2,738	8.8	8.0	5.4	4.9	2.0	1.7	24.4	22.8	104

Source: UBS estimates, Price as of 6th July close

Consumer staples (Sunita Sachdev)

Rural thrust to aid consumption

- Rural environment continue to be robust: Through June'09 the market feared the effects of a delayed monsoon and effect on rural incomes, the Budget provided enough evidence of government's priorities. The allocation under NREGS has been increased by 144% yoy to Rs391bn, guaranteeing higher wages for the poorest. We believe the rural markets will continue to offer a good opportunity with increase in rural incomes and provide HUL the chance to increase demand for consumer goods and ITC the chance to push through cigarettes in rural India and grow volumes.

- No increase in cigarette excise: Cigarette excise duties have been left unchanged. This is a positive for ITC. We would need some clarity on the VAT which has been increased in Maharashtra and in Delhi, however given the risk of excise duties now behind us, we reiterate our top pick ITC in the sector.

Top pick

- ITC (Buy, Rs250): Given the risk of excise duties now behind us, we reiterate our top pick ITC in the sector. It is currently trading at 19.8x FY10E earnings.

Table 9: Valuation comparison

	Price (Rs)	PER, x		EV/EBITDA, x			ROE, %		
Company	6-Jul-09	FY10E	FY11E	FY09E	FY10E	FY11E	FY09	FY10E	FY11E
Nestle India Ltd.	1,933	21.4	18.0	16.6	13.8	11.6	90.5	73.2	59.8
Hindustan Unilever	276	24.1	20.8	21.9	22.3	19.0	114.1	100.4	82.1
Dabur	129	25.2	21.6	23.7	19.7	17.2	52.9	49.1	44.9
ITC	198	19.8	16.9	11.5	9.8	8.4	25.2	25.4	25.8
USL	831	18.4	15.6	12.0	10.5	9.4	10.1	8.7	9.6
Asian Paints	1,193	22.8	19.5	17.5	14.1	12.2	36.7	38.2	36.5

Source: Company data, Bloomberg, UBS estimates; Note: Priced on close of 6th July 2009

Metals and mining (Sunita Sachdev)

Non-ferrous space left untouched

- No changes in the import duty for the aluminium sector: We expected that in Budget FY09-10 there would be an increase in import duty on aluminium products and would be a positive catalyst companies in the sector - Hindalco, NALCO and Sterlite. However, in the budget presented, the sector was left untouched and we re-iterate our ratings for Hindalco and NALCO as Sells.

- Iron ore: Expected increase in royalties and export duty, but no change. Our expectation in the Budget 2009-10 was that there would be an increase in iron ore royalties but the royalties on iron ore was left untouched. We also expected that the export duty on iron ore will be increased and both the factors would be negatively impact Sesa Goa, as it will increase cost base for all miners in India. However, this sector was also left untouched. We re-iterate our Sell call on Sesa Goa.

Top picks

- Sesa Goa (Sell, PT Rs142): We re-iterate our Sell call on Sesa Goa. It is currently at 5.3x FY10E EV/EBITDA

Table 10: Valuation comparison

Company	Rating	Price (Rs) 6-Jul-09	PER, x FY10E	FY11E	EV/EBITDA, x FY09E	FY10E	FY11E	ROE, % FY09	FY10E	FY11E
Sterlite Industries	Neutral	588	11.2	8.7	9.9	8.3	5.7	9.5	9.6	11.4
Sesa Goa	Sell	180	8.6	6.8	5.1	5.3	4.1	49.0	30.4	29.6
National Aluminium	Sell	285	21.2	17.3	8.4	13.9	9.5	15.2	8.5	9.9
Hindalco	Sell	78	13.3	9.4	10.4	7.0	5.8	2.4	4.4	5.9

Source: Company data, Bloomberg, UBS estimates; Note: Priced on close of 6th July 2009

IT Services (Govind Agarwal)

Extension of STPI tax benefits

- Indian Finance minister has proposed extension of income tax benefits under Software Technology Parks of India (STPI) scheme by one more year till FY11. Now subject to approval from Indian parliament, STPI units will get tax benefits till 10 years of commencement or FY11, whichever is earlier.
  - Sector Impact: Extension of STPI tax benefits is positive for the sector and will benefit EPS estimates for FY11. However, since the extension is only for one-year period, there will likely be no change in earnings estimates for FY12 and beyond and potentially only marginal change in the DCF based valuations.
  - Stock Impact: Based on our preliminary analysis, we believe that Infosys & Wipro will have incremental benefit of ~1% on FY11 EPS estimates. TCS will have 3% benefit and HCL Tech will have 9% benefit on FY11 EPS estimates.
- Other budget provisions: Fringe Benefit tax has been abolished. This will not have any material impact on the EPS.

Top picks

- Our top picks remain Infosys (Buy, PT Rs2,070), TCS (Buy, PT Rs450), and Wipro (Buy, PT Rs470)
- We believe that June quarter results could be a positive surprise for the street. Our channel checks indicate that a) contract closures have increased from the levels seen in 4QCY08/1QCY09 & b) Worst of the pricing decline is behind us. Tier-1 companies should benefit from a) market share gains for India based IT service providers and b) vendor consolidation.
- We expect Infosys to beat the top end of Q1FY10 revenue (US$) guidance (UBSe:US$1,116mn, down 0.4% q-o-q). We believe this could be a significant positive surprise as it will be after 3 quarters that Infosys will report revenues ahead of the higher end of guidance.
- Investor meetings with Infosys management support our view that a) Demand will recover post stability in global economy & b) worst of the pricing decline is behind us. We had upgraded IT sector in our note "Indian IT – a play on global stability" dated 8th June 2009 citing demand recovery

from 2HFY10 and relative stability on pricing front. We feel more comfortable with our hypothesis post Infosys management meetings.

Steel (Navin Gupta)

Budget 2009-10 is a positive for the sector.

- No increase in excise duties on steel - Government continued with the lower excise duty (8%) after the 4% rate cut announced as part of stimulus package in Dec 08. Import duty remains unchanged at 5%.
- Governments increased allocation for infrastructure development like higher NHDP allocation and IIFCL refinance up to 60% commercial bank loans for PPP (public private partnership) will drive demand for steel.
- However Government did not impose anti dumping duty on cheap imports as expected by the industry.
- Service Tax has been imposed on railway freight but this would not have an impact on steel companies' earnings since a tax credit can be claimed against the excise duty payments.

Overall, it was positive for the sector due to increased allocations for infrastructure and rural spending and no negative surprises on excise duties.

Fertiliser (Nirmal Raghavan)

- As a part of Institutional reform measure the government intends to move to a nutrient based subsidy regime so as to cover a larger basket of fertilisers. The government also intends to move to a system of direct transfer of subsidy to the farmers in due course. Both of these are measures for the medium term.
- At present the subsidy and prices are based on products. In a nutrient based pricing scheme the unit prices of N, P and K nutrients should be the same in all products. This would help the farmer chose between an array of fertiliser most suitable for his soil ensuring more balanced application of fertilisers.
- Moving to a system where the subsidy is provided to the farmers and not the companies would improve the working capital situation of the fertiliser companies including Tata chemicals.
- However these measures as said earlier are for the medium term. No commitment has been made to provide fertiliser subsidies in cash which could be mildly negative for companies the sector.

Shipping (Nirmal Raghavan)

- Services provided in relation to transport of coastal goods and goods through National waterways and Inland water have been included in the list of taxable services. The above changes will come into effect from a date to be notified after then enactment of finance bill.
- We expect this service tax would be recovered from the customers and hence this is expected to have a neutral effect on shipping companies.

- This should affect SCI (Sell, PT Rs70) more than GESCO (Sell, PT Rs220) as it has higher no of vessels in coastal movement. Shipping sector is in a downturn and we have a Sell on GESCO and SCI due to expected weak rates in dry bulk and tanker segments.

Appendix

Table 11: Service area wise 3G reserve price break-up

	Category	Reserve price	Number of blocks available	Number of blocks bid for (UBSe)
Delhi	Metro	3,200	5	5
Mumbai	Metro	3,200	8	8
Kolkata	Metro	1,200	12	8
Maharashtra	A	3,200	8	8
Gujarat	A	3,200	5	5
Andhra Pradesh	A	3,200	12	8
Karnataka	A	3,200	12	8
Tamil Nadu	A	3,200	12	8
Kerala	B	1,200	12	8
Punjab	B	1,200	9	8
Haryana	B	1,200	10	8
Uttar Pradesh (E)	B	1,200	7	7
Uttar Pradesh (W)	B	1,200	6	6
Rajasthan	B	1,200	5	5
Madhya Pradesh	B	1,200	10	8
West Bengal	B	1,200	5	5
Himachal Pradesh	C	300	6	6
Bihar	C	300	8	8
Orissa	C	300	12	8
Assam	C	300	7	7
North East	C	300	2	2
Jammu & Kashmir	C	300	7	7
Weighted average (Pan India)				7
Cost per operator (Rs bn)				50

Source: UBS estimates

MAT (Minimum Alternate Tax)

The government has raised MAT from 10% to 15%. The effective increase in tax rate is 5.665% as shown in the table below. The government has however, extended the period of MAT credit from seven years to ten years. We believe the increase in MAT is marginally negative for the near term cash flows and hence valuations. MAT is payable on book profits calculated as per section 115JB when the company's taxable profits are nil or negligible. This amount of MAT paid by the company is then available in the form of MAT credit for set-off against tax payable in future years for the next ten years (as compared to seven years earlier).

Table 12: Impact of MAT changes

	Earlier	Now
MAT	10.000%	15.000%
Add 10% surcharge	1.000%	1.500%
Total incl surcharge	11.000%	16.500%
Add 3% cess	0.330%	0.495%
Total tax rate applicable	11.330%	16.995%
Net increase		5.665%

Source: UBS estimates

■ Statement of Risk

The risks to investing in India arise from the possibility of an economic slowdown, weakening currency and government policy changes.

■ Analyst Certification

Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report.

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UBS Investment Research: Global Equity Rating Allocations

UBS 12-Month Rating	Rating Category	Coverage[1]	IB Services[2]
Buy	**Buy**	44%	38%
Neutral	**Hold/Neutral**	39%	36%
Sell	**Sell**	17%	25%
UBS Short-Term Rating	**Rating Category**	**Coverage[3]**	**IB Services[4]**
Buy	**Buy**	less than 1%	33%
Sell	**Sell**	less than 1%	33%

1:Percentage of companies under coverage globally within the 12-month rating category.
2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.
3:Percentage of companies under coverage globally within the Short-Term rating category.
4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 30 June 2009.

UBS Investment Research: Global Equity Rating Definitions

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.
UBS Short-Term Rating	**Definition**
Buy	Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.
Sell	Sell: Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.

KEY DEFINITIONS

Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).

Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.

Short-Term Ratings reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case.

EXCEPTIONS AND SPECIAL CASES

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Core Banding Exceptions (CBE): Exceptions to the standard +/-6% bands may be granted by the Investment Review Committee (IRC). Factors considered by the IRC include the stock's volatility and the credit spread of the respective company's debt. As a result, stocks deemed to be very high or low risk may be subject to higher or lower bands as they relate to the rating. When such exceptions apply, they will be identified in the Company Disclosures table in the relevant research piece.

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Company Disclosures

Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
Ambuja Cements Limited	ABUJ.BO	Buy	N/A	Rs87.20	06 Jul 2009
AXIS Bank	AXBK.BO	Sell	N/A	Rs794.20	06 Jul 2009
Bank of Baroda	BOB.BO	Buy	N/A	Rs407.90	06 Jul 2009
Bharti Airtel Ltd.	BRTI.BO	Buy	N/A	Rs783.60	06 Jul 2009
Cairn India Limited	CAIL.BO	Buy	N/A	Rs219.15	06 Jul 2009
DLF Limited	DLF.BO	Suspended	N/A	Rs309.25	06 Jul 2009
GAIL (India) Ltd.	GAIL.BO	Sell	N/A	Rs313.30	06 Jul 2009
Grasim Industries[16]	GRAS.BO	Buy	N/A	Rs2,297.20	06 Jul 2009
Great Eastern Shipping	GESC.BO	Sell	N/A	Rs235.75	06 Jul 2009
HCL Technologies	HCLT.BO	Sell	N/A	Rs186.90	06 Jul 2009
Hindalco Industries[20]	HALC.BO	Sell (CBE)	N/A	Rs78.15	06 Jul 2009
Hindustan Unilever	HLL.BO	Buy	N/A	Rs275.90	06 Jul 2009
ICICI Bank[16]	ICBK.BO	Neutral	N/A	Rs678.00	06 Jul 2009
Idea Cellular	IDEA.BO	Neutral	N/A	Rs69.50	06 Jul 2009
Indiabulls Real Estate[13]	INRL.BO	Buy	N/A	Rs203.05	06 Jul 2009
Infosys Technologies Ltd.[16]	INFY.BO	Buy	N/A	Rs1,760.00	06 Jul 2009
ITC	ITC.BO	Buy	N/A	Rs197.80	06 Jul 2009
IVRCL[20]	IVRC.BO	Sell (CBE)	N/A	Rs330.15	06 Jul 2009
L & T[16]	LART.BO	Buy	N/A	Rs1,464.00	06 Jul 2009
Mahindra & Mahindra	MAHM.BO	Buy	N/A	Rs710.40	06 Jul 2009
Maruti Suzuki India	MRTI.BO	Buy	N/A	Rs1,035.00	06 Jul 2009
Nagarjuna Construction Company	NGCN.BO	Sell	N/A	Rs128.65	06 Jul 2009
National Aluminium Co. Ltd.[20]	NALU.BO	Sell (CBE)	N/A	Rs285.10	06 Jul 2009
Oil & Natural Gas Corporation	ONGC.BO	Sell	N/A	Rs1,070.35	06 Jul 2009
Punj Lloyd	PUJL.BO	Sell	N/A	Rs198.85	06 Jul 2009
Punjab National Bank	PNBK.BO	Buy	N/A	Rs642.95	06 Jul 2009
Reliance Communication Limited[2, 4, 5]	RLCM.BO	Sell	N/A	Rs269.40	06 Jul 2009
Reliance Industries[5]	RELI.BO	Sell	N/A	Rs1,893.60	06 Jul 2009
Sesa Goa	SESA.BO	Sell	N/A	Rs179.50	06 Jul 2009
Shipping Corporation of India	SCI.BO	Sell	N/A	Rs122.90	06 Jul 2009
State Bank of India	SBI.BO	Sell	N/A	Rs1,655.00	06 Jul 2009
Sun Pharmaceuticals Industries Limited	SUN.BO	Sell	N/A	Rs1,130.20	06 Jul 2009
Tata Consultancy Services Ltd.[22]	TCS.BO	Buy	N/A	Rs381.60	06 Jul 2009
Tata Motors Ltd.[16, 22]	TAMO.BO	Sell	N/A	Rs283.35	06 Jul 2009
Tata Power[22]	TTPW.BO	Buy	N/A	Rs1,101.60	06 Jul 2009
Union Bank[20]	UNBK.BO	Buy (CBE)	N/A	Rs233.25	06 Jul 2009
Unitech[2, 4, 5, 6, 13, 20]	UNTE.BO	Buy (CBE)	N/A	Rs75.90	06 Jul 2009
Wipro Ltd.[5, 16]	WIPR.BO	Buy	N/A	Rs371.10	06 Jul 2009

Source: UBS. All prices as of local market close.
Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

2. UBS AG, its affiliates or subsidiaries has acted as manager/co-manager in the underwriting or placement of securities of this company/entity or one of its affiliates within the past 12 months.
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