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smc
Moneywise. Be wise.

The strong GDP growth of 8.9 percent in the first half of the financial year after the global crisis reflects the underlying strength of the Indian Economy. As per CSO estimates Indian economy may grow @ 8.6%. Along with pre crisis era growth levels, we are also moving towards the pre-crisis Fiscal and Monetary policies. Last budget saw a partial rollback of Fiscal policies while Monetary policies started normalizing since Nov 2009. The rebounding economy helped the government in collecting higher than budgeted revenue receipts during 2010-11 (April-January).

This time Finance Minister is expected to present a much-lower-than-budgeted Fiscal deficit for the current Fiscal year i.e at 4.7 percent. In this budget Finance Minister may take further steps towards the recommendations of the Thirteenth Finance Commission (TFC), to overcome the issues of inflation and containing Fiscal deficit. In line with the recommendations of task force of TFC, there are expectations of 2 percent hike in basic excise duty and service tax.

As a tax reforming tool implementation of DTC and GST may play a major role, but for this we have to wait for a year so. Govt failed to collect Rs 40,000 crore through disinvestment which it announced last budget. But the silver line was that it has managed to garner Rs. 1,06,000 crore from the auction of 3G license and Broadband Wireless Access (BWA) auction. Along with the partial deregulation of petrol from the Govt, we too expect deregulation in diesel till the current rate of inflation gets cools off to the level of 5-6 percent. Agriculture, Infrastructure and Education are likely to see higher spending in this budget. In order to support, Agriculture growth Finance Minister may announce a significant increase in the agriculture credit target for banks to Rs. 4,50,000 crore. Finance Minister is also expected to allocate around Rs.40,000crore for the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA). Considering inflation Finance Minister would enhance personal income exemption to around Rs. 1,75,000 from Rs. 1,60,000 this budget. Rollback of excise duty of Re. 1 per litre on diesel and petrol is expected to announce in the budget.

Sector View	Measures expected	Likely Impact	Key stocks to focus
Automobile	Possibility of hike in excise duties	Negative	All Auto Companies
	Expect extension of weighted deduction of 200% on expenditure relating to in-house research and development	Neutral	Tata Motors, Bajaj Auto & Mahindra & Mahindra
	Higher allocation towards road development programme such as the NHAI and rural infrastructure	Positive: Increase in Demand	Tata Motors, Mahindra & Mahindra & Ashok Leyland
Banks	Increase in deduction allowed for calculating tax liability from the provisions covering bad and doubtful debts.	Positive	All bank stocks
Cements	To consider allowing 'Abatement' in respect of cement that is subjected to Valuation with reference to its retail sale price	Positive	ACC, Ambuja Cement, Grasim & Shree Cement Ultratech Cement
	To cut import duty on Coal, Pet Coke and Gypsum.	Positve: This would address the anomaly as Import Duty on inputs is higher than the finished product	ACC, Ambuja Cement, Ultratech Cement, Grasim & Shree Cement
Engineering	Expect increase in central excise duty	Negative	BHEL, Larsen & Toubro, Crompton Greaves, Engineers India Ltd
	Expect increase in the outlay for defense	Positive: Increase in order inflow	Larsen & Toubro, BEL
	Higher allocation for power sector	Positive: Increase in order inflow	Larsen & Toubro, Engineers India Ltd
	Increase in IIFCL re-financing to banks for the infrastructure sector	Positive: Increase in order inflow	BHEL, Larsen & Toubro, Crompton Greaves, Engineers India Ltd
FMCG	Focus on the rural areas to continue. Sustained focus on agriculture growth. Direct subsidy to farmers to be reviewed.	Positive	HUL, Dabur, Colgate, Marico, ITC will get benefit.
	Continuation of National Rural Employment Guarantee Scheme (NREGS)	Positive	HUL, Dabur, Colgate, Marico, ITC
	Farm credit target is expected to rise by 20% to 450000 crore from the current year 375000 cr	Positive	HUL, Dabur, Colgate, Marico, ITC, GPCL
	Excise duty hike on cigarettes	Neutral	ITC
IT	Extension likely for the software technology parks of India (STPI) tax holiday with a change in the basis of benefits from profit linked to investment linked	Positive	Zensar, Hexaware, KPIT Cummins

Sector View	Measures expected	Likely Impact	Key stocks to focus
Metal	Expect enhance allocation for housing and provision of basic amenities	Positive	SAIL, Tata steel, Hindalco, National Alumimium company Ltd
	Expect higher Plan allocation to power sector	Positive	SAIL, Tata steel, Hindalco, National Alumimium company Ltd., Sterlite
Oil & Gas	Reduce the duties on crude oil and refined products such as petrol and diesel	Positive	BPCL, HPCL & IOC
	Expect reduction of central excise duty of Re. 1 on petrol and diesel	Positive	BPCL, HPCL & IOC
Pharma	The provision of weighted deduction of 200% on expenditure incurred on in-house R&D and 175% on payments made to National Laboratories, research associations, colleges, universities and other institutions for scientific research will be extended	Positive: Extended weighted deduction on in-house R&D is beneficial to domestic pharma companies who are increasingly undertaking R&D activities to become research driven companies in the long term	Glenmark, Dr.Reddy's, Ranbaxy, Biocon, Piramal Healthcare, Sun Pharma and Cadila Healthcare
Power	Higher allocation to Accelerated Power Development And Reforms Programme (APRDRP) and Ultra Mega Power Projects (UMPP)	Positive: Aid new generation capacities	NTPC, Tata Power, NHPC, Adani power
Real Estate	Continuation of one per cent interest subvention on housing loan upto Rs.10 lakh, where the cost of the house does not exceed Rs.20 lakh	Positive	DLF & Unitech
	Relax the deadlines proposed under Revised DTC for Special Economic Zones (SEZs) to avail of the tax benefits	Positive: Provide greater impetus to the demand for commercial real estate from the IT and manufacturing industries.	DLF, Unitech
	Increase in the cap on tax deduction available on housing loans	Positive	All Real Estate Companies
Telecom	Expect extension of the tax holiday benefits under Section 80IA of the I-T Act to operators	Positive	All telecom operators
Textile	Expect continuation of Technology Upgradation Fund Scheme	Positive: Low interest cost	Alok ind, Vardhman Textile
	Expect reduction in import duty in raw silk	Positive: Bring Level playing field	S. kumar Nation, Alok Inds

India has emerged stronger than expected after the global crisis. The strong GDP growth of 8.9 percent in the first half of the financial year reflects the underlying strength of the Indian Economy. CSO has further estimated the real GDP growth for the current fiscal year at 8.6 percent. Though we have moved closer to pre crisis era growth levels but at the same time we are also moving towards the pre-crisis fiscal and monetary policies.

Table I.1 : Sectoral GDP Growth (Base : 2004-05) (Per cent)

	Item	2008- 09*	2009- 10# H1	2009- 10 H1	2010- 11
1.	Agriculture & allied activities	1.6	0.2	1	3.8
2.	Industry	3.1	10.4	6.5	10.3
2.1	Mining & quarrying	1.6	10.6	9.1	8.2
2.2	Manufacturing	3.2	10.8	6.1	11.3
2.3	Electricity, gas & water supply	3.9	6.5	7.1	4.8
3.	Services	9.3	8.3	9.1	9.6
3.1	Construction	5.9	6.5	8.4	9.6
3.2	Trade, hotels, restaurants, transport & communication, etc.	7.6	9.3	6.9	11.5
3.3	Financing, insurance, real estate & business services	10.1	9.7	11.5	8.1
3.4	Community, social & personal services	13.9	5.6	11	7.6
4.	GDP at factor cost	6.7	7.4	7.5	8.9

* : Quick Estimates. # : Revised Estimates. Source: Central Statistics Office.

As far as Fiscal policies are concerned, we saw a partial rollback in the last budget and if talk about the monetary policies, normalisation started somewhat near November 2009 and since March 2010 we have seen a series of actions taken by the RBI. The steps taken were the result of strong economic data pointing towards broad based recovery and high inflation that has emerged as a big caveat in the process of growth.

Thanks to the strong recovery in the Indian economy that helped the government in collecting higher than budgeted revenue receipts during 2010-11 (April-January). In the light of higher tax collections government in late January decided to revise the target of indirect tax collections to 3.37 lakh crore from the budget target of Rs 3.15 lakh crore and the direct tax collection target from Rs 4.30 lakh crore to Rs 4.46 lakh crore for the current fiscal.

Finance minister is expected to present a much-lower-than-budgeted fiscal deficit for the current fiscal year in this budget at 4.7 percent as the central statistical organisation (CSO) pegs the nominal GDP at 78,77,947 crore for the current fiscal reflecting a growth of 20.3 percent. Net borrowings, or the fiscal deficit of Rs. 3,81,000 crore in the last budget were based on a estimated nominal GDP of Rs. 69,34,700 crore.

We expect that in the forthcoming budget, Finance Minister would take a further step towards the recommendations of the Thirteenth Finance Commission (TFC) to cap the combined debt of the Centre and the States at 68 per cent of the GDP to be achieved by 2014-15. To overcome the issues of inflation and containing fiscal deficit (FD), the finance minister would focus on revenue mobilisation by extending the tax base, particularly in services and improving tax administration for better compliance. Service sector that constitutes 58 per cent of GDP only contributes 10 per cent of total tax revenues (little more than 1 one per cent of GDP). In line with the recommendations of task force of TFC, there are expectations of 2 percent hike in basic excise duty and service tax.

Table II.3 : Key Fiscal Indicators (Per cent to GDP)

Year	Primary Deficit	Revenue Deficit	Gross Fiscal Deficit	Outstanding Liabilities*
		Centre		
2008-09	2.6	4.5	6	59.2
2009-10 RE	3.2	5.3	6.7	58.2
2010-11 BE	1.9	4	5.5	57.8
		States #		
2008-09	0.6	-0.2	2.4	26.2
2009-10 RE	1.6	0.8	3.4	26.2
2010-11 BE	1	0.4	2.9	25.8
		Combined		
2008-09	3.4	4.3	8.5	74.5
2009-10 RE	4.8	6	10	74.3
2010-11 BE	3	4.4	8.3	74.3

RE : Revised Estimates. BE : Budget Estimates.
* : Includes external liabilities at current exchange rates based on the report, Government Debt Status and Road Ahead, Ministry of Finance, Government of India, November 2010. # : Data pertain to 27 State governments.
Note : Negative sign indicates surplus.

Source: Central Statistics Office.

Table II.2 : Central Government Finances : April-November

Items	Amount (` crore)		Percentages to Budget Estimates for		Growth Rate (Per cent)	
	2009-10	2010-11	2009-10	2010-11	2009-10	2010-11
1. Revenue Receipts	3,07,125	4,76,716	50.00	69.90	-2.50	55.20
i) Tax Revenue (Net)	2,32,873	2,96,634	49.10	55.50	-8.20	27.40
ii) Non-tax Revenue	74,252	1,80,082	52.90	121.60	20.90	142.50
2. Non-Debt Capital Receipts	8,326	27,449	155.80	60.80	215.40	229.70
3. Non-Plan Expenditure	4,47,995	4,79,771	64.40	65.20	25.10	7.10
of which:						
i) Interest Payments	1,19,504	1,34,544	53.00	54.10	7.00	12.60
ii) Defence	78,955	86,404	55.70	58.60	50.20	9.40
iii) Major Subsidies	90,766	90,137	85.60	82.60	-8.10	-0.70
4. Plan Expenditure	1,73,677	2,10,916	53.40	56.50	27.60	21.40
5. Revenue Expenditure	5,65,027	6,16,874	63.00	64.30	23.80	9.20
6. Capital Expenditure	56,645	73,813	45.80	49.20	49.90	30.30
7. Total Expenditure	6,21,672	6,90,687	60.90	62.30	25.80	11.10
8. Revenue Deficit	2,57,902	1,40,158	91.20	50.70	82.40	-45.70
9. Gross Fiscal Deficit	3,06,221	1,86,522	76.40	48.90	73.50	-39.10
10. Gross Primary Deficit	1,86,717	51,978	106.40	39.20	188.00	-72.20

Source : Controller General of Accounts, Ministry of Finance.

Tax Reforms

On the Tax reforms front, we may have to wait for a year for the implementation of Direct Tax Code (DTC) and Goods and Services Tax (GST) in order to simplify tax system with minimum exemptions and low rates.

Disinvestment

Government is likely to fall short of the capital proceeds from the disinvestment target of Rs. 40,000 crore but the good thing that happened was that it managed to garner Rs. 1,06,000 crore from the auction of 3G license and Broadband Wireless Access (BWA) auction against the target of Rs. 35,000 crore. For the next fiscal it is expected that government may put up a target of Rs.35,000 – Rs.40,000 crore which may include companies such as IOC, Rashtriya Ispat Nigam Limited, Bharat Heavy Electricals Limited (Bhel) and MMTC limited.

Petroleum and Diesel pricing policy

While we have seen partial deregulation in the space as the government linked petrol to international crude prices, making them market-determined but we have to wait for deregulation in diesel till the current rate of inflation gets cools off to the level of 5-6 percent. The diesel price hike has a major ramification on the economy.

Exports

This year we may not see an extension of the interest subvention of 2 per cent for exports covering handicrafts, carpets, handlooms and small and medium enterprises. Against the $200-billion export target of this financial year, overseas shipments touched $164.7 billion during April-December 2010-11, and according to commerce ministry estimates, they may well touch $215-220 billion.

Priority Sector

Agriculture, Infrastructure and education are likely to see higher spending in the budget. However it is expected that the incentives may not come in form of tax sops as the government is worried about tax to GDP ratio and does not have much room to reduce taxes.

In order to support agriculture growth, the Finance Minister may announce a significant increase in the agriculture credit target for banks to Rs. 4,50,000 crore including direct farm credit of 2,70,000 crore and indirect credit of 1,80,000 crore. In the previous Budget (2010-11), the target was raised to Rs 3,75,000 crore from Rs 3,25,000 crore. 2 percent interest subvention for timely repayment of crop loans is likely to continue.

It is expected that the allocation for Accelerated development of high quality physical infrastructure, such as roads, ports, airports and railways i.e. essential to sustain economic growth would form a major part of the total plan allocation. Last year total outlay for the same accounted for the 46 percent of the total plan allocation.

Rural development

It is expected that in the budget Finance Minister would allocate around Rs.40,000 crore for the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) as the scheme will have opening balance of about 10,000 crore. Last year budgetary allocation for the scheme was Rs. 40,100 crore and as a matter of fact only 20,854 crore had been spent under the scheme by the end of December 2010.

Direct

It is expected that the income tax exemption limit on the personal income tax may be enhanced to around Rs. 1,75,000 from Rs. 1,60,000 considering the fact that the inflation is running close to 10 percent. The hike in exemption limit would also be a step towards aligning the tax structure with DTC, as the exemption limit under the proposed regime is 2,00,000 a year. Further in order to promote savings, limit of saving of Rs. 1,00,000 U/S 80C may be enhanced by another Rs. 20,000.

Indirect Taxes

In light of high inflation, it is expected that excise duty cut may come in order to cut the impact of price rise. Rollback of excise duty of Re. 1 per litre on diesel and petrol may be announced in the budget.

AUTOMOBILE

Overall auto sector has performed well in the fiscal 2011. The volume growth was more than 30% in the period from April 2010 – December 2010. All the segments namely: Passenger vehicles and commercial vehicles saw a good demand. Further momentum is expected to continue but at a moderate pace on the back of rising income levels & good rural demand.

Some of the concerns or pressure points that have emerged over a period are rising raw material cost & rising interest rates. Raw material prices like steel & rubber have seen a huge jump over the year.

We expect that in the coming budget we may see all roll back of the incentives given in the period of recession as partial rollback has already happened in the last budget.

Measures expected	Likely Impact	Key stocks to focus
Possibility of hike in excise duties	Negative	All Auto Companies
Expect extension of weighted deduction of 200% on expenditure relating to in-house research and development	Neutral	Tata Motors, Bajaj Auto & Mahindra & Mahindra
Higher allocation towards road development programme such as the NHAI and rural infrastructure	Positive: Increase in Demand	Tata Motors, Mahindra & Mahindra & Ashok Leyland

BANKS

During the period from April to November the scheduled commercial banks saw huge divergence between the growth rates of credit and deposit. The gap peaked at 9 percent due to reluctance of banks in hiking interest rates in line with that of RBI directives. Worried about demand conditions banks decided to use their resources in a judicious manner. The rise in delinquency rates together with stipulated provisioning coverage ratio of 70% dented the profitability of many banks in the year to date. Now in the last 2-3 months bank have started increasing interest rates and have seen huge jump in incremental deposits.

Measures expected	Likely Impact	Key stocks to focus
Increase in deduction allowed for calculating tax liability from the provisions covering bad and doubtful debts	Positive	All bank stocks

CEMENT

Due to heavy monsoon in the current fiscal, construction activities declined which adversely affected the industry. The industry witnessed flat revenue growth on account of lower demand and price realisation amid capacity addition. The widening demand-supply gap is expected to affect the capacity utilisation levels of the cement companies. Cement production grew by 4.4% during April-December 2010-11 as compared to an increase of 11% during the same period in 2009-10. In 2010, the industry reported an average utilisation rate of around 70 per cent after adding a total of 30 million tonnes capacity.

Rising coal prices, power & fuel expenses during the period adversely affected the operating profit margins. Coal prices have spiked considerably in the recent past on account of adverse global climatic conditions. On account of continued margin pressures, most cement companies are hoping to increase prices for the first time in calendar year 2011.

Measures expected	Likely Impact	Key stocks to focus
To consider allowing 'Abatement' in respect of cement that is subjected to Valuation with reference to its retail sale price	Positive	ACC, Ambuja Cement, Grasim & Shree Cement Ultratech Cement
To cut import Duty on Coal, Pet Coke and Gypsum	Positve: This would address the anomaly as Import Duty on inputs is higher than the finished product	ACC, Ambuja Cement, Ultratech Cement, Grasim & Shree Cement

ENGINEERING

During the first nine months of the current fiscal most of the companies in the sector witnessed decent order inflow, however delay in project execution failed to reflect them in the revenue growth resulting in below expectation growth in the industry. During the period, operating profit margin remained under pressure due to rise in raw material cost especially that of steel and lower price realization on the back of escalating competition both domestically and from overseas. Though strong order backlog along with strong investment under pipeline in the infrastructure sector as well as pick up in industrial capex support the industry but strong competition from overseas capital goods manufacturers, high commodity prices and rising interest rate are the cause of concerns.

Measures expected	Likely Impact	Key stocks to focus
Expect increase in central excise duty	Negative	BHEL, Larsen & Toubro, Crompton Greaves, Engineers India Ltd
Expect increase in the outlay for defense	Positive: Increase in order inflow	Larsen & Toubro, BEL
Higher allocation for power sector	Positive: Increase in order inflow	Larsen & Toubro. Engineers India Ltd
Increase in IIFCL re-financing to banks for the infrastructure sector	Positive: Increase in order inflow	BHEL, Larsen & Toubro, Crompton Greaves, Engineers India Ltd

FMCG INDUSTRY

FMCG companies are witnessing good volume growth of 15-17%, giving a reflection of consumerism and demographics that are paying rich dividends.

Further good monsoon season, govt. initiatives like NREGS, direct subsidy to farmers etc. have also helped in stimulating growth in rural areas for the companies.

On one hand good revenue growth is coming in for the FMCG companies, however, on the other hand margin pressure is also building up. The key raw ingredients like palm oil, sunflower oil, copra prices etc. have seen unprecedented rise in the last one year.

Measures expected	Likely Impact	Key stocks to focus
Focus on the rural areas to continue. Sustained focus on agriculture growth. Direct subsidy to farmers to be reviewed	Positive	HUL, Dabur, Colgate, Marico, ITC will get benefit
Continuation of National Rural Employment Guarantee Scheme (NREGS)	Positive	HUL, Dabur, Colgate, Marico, ITC
Farm credit target is expected to rise 20% to 450000 crore from the current year's 375000 cr	Positive	HUL, Dabur, Colgate, Marico, ITC, GPCL
Excise duty hike on cigarettes	Neutral	ITC

IT INDUSTRY

With companies showcasing better than expected growth, it seems that the industry has passed through the bad phase. The moderate volume growth exhibited by the large players, good hiring, higher utilization rates, expectation of moderation in attrition rates, US economy GDP growth, leading indicators of US economy depicting continuation of growth momentum indicates that the Indian IT industry would do well in the time to come. Though Indian IT companies are witnessing good revenue growth in all verticals but what they are getting are short duration orders as the global recovery is still fragile.

Finance minister is also likely to throw a light on the issue of double taxation for IT companies. Software is sometimes treated as a good when sold on a compact disc, while it is considered a service when supplied via electronic download.

Measures expected	Likely Impact	Key stocks to focus
Extension likely for the software technology parks of India (STPI) tax holiday with a change in the basis of benefits from profit linked to investment linked	Positive	Zensar, Hexaware, KPIT Cummins

METAL INDUSTRY

During the first nine months of the current fiscal, the industry exhibited mixed picture. In late 2010, steel prices came off in line with the international prices that started falling from May 2010. However aluminum price rise in 2010 as compared to last year proved beneficial for the players. Prices are expected to remain at these levels. Rising material cost like coking coal that forms a major part of the operating cost has doubled in the last one year is threatening the profitability of metal companies. Risk of lower demand has also emerged in light of rising cost pressures.

Measures expected	Likely Impact	Key stocks to focus
Expect enhance allocation for housing and provision of basic amenities	Positive	SAIL, Tata steel, Hindalco, National Alumimium company ltd.
Expect higher Plan allocation to power sector	Positive	SAIL, Tata steel, Hindalco, National Alumimium company ltd., Sterlite Industries

OIL & GAS

The rise in crude oil prices and optimism about recovery in global economies, has led to positive outlook for oil exploration and refining companies. On the one hand higher crude prices and favorable supply and demand situation of refining capacities proved to be good for the one segment of the industry but on the other hand it impacted the downstream companies profitability. On the oil deregulation front it seems that downstream oil companies may may have to wait a while as the government would wait till inflation comes to a level of 5-6 percent before deregulating diesel prices.

Measures expected	Likely Impact	Key stocks to focus
Reduce the duties on crude oil and refined products such as petrol and diesel	Positive	BPCL, HPCL & IOC
Expect reduction of central excise duty of Re. 1 on petrol and diesel	Positive	BPCL, HPCL & IOC

PHARMA INDUSTRY

Growing economy, lifestyle related health issues, improving healthcare insurance penetration, government initiatives and increasing disposable income are some of the factors that are leading to continuous double digit growth of Rs 1-lakh-crore pharmaceutical industry.

As per DIPP(Department of industrial policy and promotion) , 61 drugs worth over $80 billion are going off-patent, making it possible for domestic companies to produce cheaper versions of those drugs.

The demand for generics will also get a push from favourable regulatory moves in developed markets looking to combat rising healthcare costs. Indian drug makers with a growing product pipeline, regulatory-compliant manufacturing facilities and cost advantages stand a good chance to benefit from developed markets increasing veering towards generics.

Measures expected	Likely Impact	Key stocks to focus
The provision of weighted deduction of 200% on expenditure incurred on in-house R&D and 175% on payments made to National Laboratories, research associations, colleges, universities and other institutions for scientific research will be extended	Positive: Extended weighted deduction on in-house R&D is beneficial to domestic pharma companies who are increasingly undertaking R&D activities to become research driven companies in the long term	Glenmark, Dr.Reddy's, Ranbaxy, Biocon, Piramal Healthcare, Sun Pharma and Cadila Healthcare

POWER INDUSTRY

Bolstered by a stellar performance by private sector developers, the power capacity addition during the first nine months of the current fiscal has already surpassed the record 9,585 MW achieved in 2009-10. However capacity addition is likely to be well short of the official target of 21,441 MW set for the period. One of the major concerns of the power sector is the need to reduce the losses in the distribution. Concern for the operator is the rising input cost which has already affected the OPM during the first nine months of the current fiscal, especially ever escalating coal price amidst short supply due to flood in Australia. The sector offers huge opportunity on account of sustained double digit power deficit in the country with economic wheel on ascent.

Measures expected	Likely Impact	Key stocks to focus
Higher allocation to Accelerated Power Development and Reforms Programme (APRDRP) and Ultra Mega Power Projects (UMPP)	Positive: Aid new generation capacities	NTPC, Tata Power, NHPC, Adani power

REAL ESTATE

High land investments, lower execution cycle, rising interest rates, higher commodity prices and increase in labour cost are some of the factors that are seriously affecting the real estate companies revenue and profitability. Further debt ridden balance sheets have almost taken back the pricing power for most of the companies. Last year RBI stepped of capping loan to value at 80 percent and higher interest cost for loans above Rs. 75 lakh in order to curb speculative activity has already given a negative impact on real estate players especially those who were catering to the premium segment of the society.

For example: A 20 year loan of Rs 25,00,000 lac taken on 1st Jan 2010 would have the following likely impact:-

Rate hike Impact	
Loan account initiated	1/1/2010
Amount borrowed (Rs)	25,00,000
Rate of interest at origination	9.00%
Tenure (years)	20
EMI (Rs)	22,493.15
Situation in Jan 2011	
Rate of interest	10.00%
Increase (in bps) since origination	100
Compulsory EMI from Jan 2011 (Rs)	24,133.81
Increase in EMI (Rs)	(1,640.70)
Annual impact in cash flow (Rs)	(19,687.90)
If EMI remains constant	
Increase in tenor (approx.)	5 years 5 months

NOT possible due to maximum tenor limit of 20 years

Measures expected	Likely Impact	Key stocks to focus
Continuation of one per cent interest subvention on housing loan upto Rs.10 lakh, where the cost of the house does not exceed Rs.20 lakh	Positive	DLF & UNITECH
Relax the deadlines proposed under Revised DTC for Special Economic Zones (SEZs) to avail of the tax benefits	Positive: Provide greater impetus to the demand for commercial real estate from the IT and manufacturing industries	DLF, UNITECH
Increase in the cap on tax deduction available on housing loans	Positive	All Real Estate Companies

TELECOM INDUSTRY

The industry has witnessed consistent growth during the current fiscal year on the back of rollout of newer circles by operators, network rollout in semi-rural areas and increased focus on the value added services (VAS) market. During the first nine months of the current fiscal, the industry continued to witness new telephone subscribers addition; it added 120.85 million during the period from March 2010 to October 2010. Teledensity witnessed continuous rising trend; as on October 2010 it stood at 62.51% supported by growing rural and urban teledensity. All these resulted in better revenue growth during the period. Lower realization due to price war, high interest cost on fund raised to bag 3G licenses and Broadband Wireless Access (BWA) coupled with high cost business promotion impacted the margins of the players in the industry during the period under review. Price war that started last year in order to gain market share has now stabilized but high interest cost is likely to impact the profitability.

Measures expected	Likely Impact	Key stocks to focus
Expect extension of the tax holiday benefits under Section 80IA of the I-T Act to operators	Positive	All telecom operators

TEXTILE INDUSTRY

The textile industry performed well in the current fiscal. Despite the rise in raw material prices like cotton, the companies were able to pass on the higher cost to the end consumer's as the high cotton prices got absorbed by U.S. Europe and Indian Markets. Further price rise from here can become a cause of worry. Indian textile export demand is likely to get a strong push in light of slowdown in China as the nation is focusing more on domestic market. Government step of linking wages in MGNREGS to CPI may put pressure on the industry in terms of wage hikes. On the relief side Government is gearing up to resume its Technology Upgradation Fund Scheme (TUFS) which will reduce interest burden and increase PAT margins.

Measures expected	Likely Impact	Key stocks to focus
Expect continuation of Technology Upgradation Fund Scheme	Positive: Low interest cost	Alok ind, Vardhman Textile
Expect reduction in import duty on raw silk	Positive: Bring Level playing field	S. kumar Nation, Alok Inds

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Fundamental Research

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