Union Budget 2010-11 - Preview

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Budget Preview – Time for calculated moves!

The Finance Ministry and Industry Associations have been buzzing with activity over the past few days. While the former has been busy formulating this year's Budget, the latter have been engaged in preparing their wish list for the Budget apart from trying to justify the reasons for the continuation of the stimulus provided by the government to them last year.

The FM's dilemma

Notably, the Finance Minister is once again at the crossroad. He has to choose between: 1) continuation of the stimulus measures provided to various sectors over the last one year (to weather the global crisis) and support growth or; 2) withdraw some of the stimulus keeping in view the high fiscal deficit situation in the country, especially considering the fact that the stimulus measures have done their bit in pulling the economy back up.

Government's SOS measures

Notably, some fiscal stimulus measures provided by the Government of India (GoI) since Dec 2008 are:

- Additional plan expenditure of up to Rs20,000cr to counter the slowdown in private spending;
- Excise Duty reduction from 12-14% to 8%;
- Interest subvention of 2% for labour-intensive export sectors like textiles, leather, gems & jewellery, marine products and SMEs;
- Additional funds/incentives provided to support exports;
- Government authorizes India Infrastructure Finance Company (IIFCL) to raise Rs10,000cr through tax-free bonds to refinance long gestation infrastructure projects, particularly under the PPP route;
- Borrowing limit for State Governments raised by 0.5% (Rs30,000cr) of their gross state domestic product;
- Service Tax reduced from 12% to 10%, for the benefit of 50% of the country's GDP;
- Apart from the above, the government had also resorted to monetary measures pertaining to easing of liquidity in the system so as to meet the financial requirements of businesses in the backdrop of a crumbled external financial system. However, this does come under the purview of the Budget.

Is there a case for Stimulus rollback?

As the FM rises to present the Union Budget for 2010-11 next week, it will be difficult for him to ignore certain facts:

- The resilience of the Indian economy to the global financial turmoil depicted by the strong rebound in Industrial Production from de-growth of 0.2% yoy in December 2008 to 16.8% yoy growth in December 2009…,
- … leading to an equally swift recovery in the GDP from 5.3% yoy in 3QFY2009 to 7.9% in 2QFY2010;
- Inflationary pressures creeping into the system as even after adjusting for the high food prices, inflation for January 2009 would be around 4.5-5%; actual was at 8.6% yoy;
- Recovery in the country's exports as they recoup lost ground from a monthly export run rate of US $10-11bn during November 2008 – May 2009 to around US $15bn for December 2009;
- Pick up in imports from around US $13bn in February 2009 to around US $25bn in December 2009 as domestic economy gathers momentum.

Why the rollbacks?

Thus, considering the above, the probability of the FM initiating the rollback of stimulus measures does not remain a mere *probability,* but indicates some sort of *certainty.* This is also necessary, in our view, considering the fiscal position of the country and huge investments required by the government to meet their funding responsibilities towards Infrastructure development, the ambitious Bharat Nirman project and the National Rural Employment Guarantee Scheme (NREGS), Educational and Social goals, etc.

Excise Duty expected to be increased by 2%

Thus, in terms of measures in this Budget, we expect the FM to increase Excise Duty by 2% to 10%. However, we do not see this as a concern as the Indian economy, in our view, has turned the corner and is in a cyclical uptrend, which will ensure that demand does not get affected, especially considering the fact that consumer leverage is low at this point of time and interest rates are favourable. Notably, we have witnessed robust demand in higher Excise Duty regimes also in the past.

Service Tax expected to be restored

On the Service Tax front, there is a case for restoration of this tax to 12% levels, as the same was also reduced with the sole intention of providing stimulus to the economy in terms of providing greater disposable income in the hands of the tax payer. Further, considering that the indirect tax collection is likely to fall short of the budgeted target for FY2010, it could spur the FM to go ahead with the 2% rollback in Service Tax.

Direct Taxes may not to be tinkered with

While the above taxes form part of Indirect Taxes, on the Direct Tax front, we do not expect any major announcements. We expect, both, the Personal Income Tax and Corporate Income Tax rates to remain unchanged. While the former is expected to remain unchanged on account of the fact that the Personal Income Tax collection in 9MFY2010 was marginally down (adjusting for higher refunds); the FM would not opt to tinker with the Corporate Tax rates considering that the Direct Tax Code could get implemented over the next 12-24 months, wherein the entire direct tax structure is expected to get overhauled. Thus, with the economic upturn underway, the government can expect higher tax collections for FY2011.

Notably, as stated earlier, the primary reason why the government would not want to lose any revenues is because it cannot afford to do so at the current juncture considering various investment and welfare programmes that need to be funded amidst a high fiscal deficit scenario, which also needs to be reduced.

Other sources of revenue for the government

Against this backdrop, we believe that the government would announce speeding up the disinvestment process. Notably, while the government had envisaged raising a paltry Rs1,100cr in the previous Budget, year-to-date including the REC and NMDC FPOs, it would manage to raise about Rs20,000cr. Considering investor appetite for stake in government companies and the likes of Coal India, BSNL, Satluj Jal Vidyut, etc. lined up for an IPO in 2010, it is quite likely that the government would keep a higher disinvestment target for FY2011 at around Rs25,000-30,000cr.

Expenditure priorities to remain unaltered

On the expenditure front, the usual focus on Infrastructure development (Roads & highways, Urban Infra., Power, Gas, etc.), Agricultural development (agriculture credit, irrigation, etc.), Subsidies (food, fertiliser, petroleum, interest, etc.) and Social development (NREGS, food security, Bharat Nirman, education, health, etc.) is expected to continue. Export sops announced in the face of the global turmoil last year are also expected to broadly continue as the exports market has yet to rebound in a sustainable manner as global economic fragility remains. Further, there could be some additional focus towards agriculture on account of the drought that the country witnessed this monsoon season.

The move towards fiscal consolidation

Thus, considering all of the above, and assuming that there are no major additional commitments made towards Subsidies for FY2011 along with the money expected to be raised from the auction of 3G telecom licenses (Rs35,000cr), it will help the government start to take control of the fiscal issues on hand. For FY2010, the fiscal deficit is running at around 6.8% of GDP and we expect the government to target around 1-1.5% lower fiscal deficit for FY2011.

Other announcements

We do not expect any significant announcements pertaining to the progress of the Direct Tax Code unveiled last year or regards implementation of the GST, which will seemingly be postponed to 2011. As far as announcements pertaining to the stockmarkets are concerned, we do not expect any tinkering with the STT and the short-term and/or long-term capital gains tax rate in this Budget.

In conclusion

Notably, partial Stimulus rollback and fiscal prudence setting in are already reflecting in the current behaviour of the market participants. Thus, any significant deviation from the expected can lead to heightened volatility in markets. However, considering the limited options at hand for the FM in this Budget, it seems unlikely that he can deviate from the path visible. Thus, the FM's moves are expected to be calculative so as to ensure that a move towards fiscal prudence is initiated without jeopardizing the country's growth prospects.

Sector-wise Expectations

Agriculture

Expected Impact: Positive

India is currently at a critical juncture where strong government focus on agriculture is needed. Last year's drought resulted in high food inflation in most basic food commodities. In the current year, India has grown by 7-8%, while at the same time agriculture output has grown at less than 1%. India has around 146mn hectares (ha) of land under agriculture, which yields 108mn tonnes of food grain, while in case of China it has 100mn ha of land, which yields 400mn tonnes of food grain. India produces around 600mn tonnes of food products (fruits + vegetables), of which around 25-30% is wasted due to lack of adequate logistical support. Hence, the need to raise production along with productivity of land and developing cohesive logistical support are of utmost importance to manage the long-term food security issue.

Farm production and yield can be increased with the help of: (a) modern irrigation systems, (b) access to better quality seeds, (c) access to right fertilisers and (d) increasing Priority sector lending norms. Logistical support can be addressed by allowing more private sector participation.

In case of Fertiliser, the country has not seen new plants being set up in the last two decades, while 25% of the total consumption is still imported. Urea continues to be the most consumed fertiliser as the prices are low and have not been revised since 2002. Total Fertiliser subsidy has ballooned from Rs12,600cr in FY2002 to upward of Rs50,000cr in FY2010. Thus, a new Fertiliser Policy is an immediate requirement wherein the private sector is encouraged to expand fertiliser capacity. However, Profitability, Returns and Capex for the projects need to be kept in mind by the government. Along with relaxing rules pertaining to participation from corporates / private sector in contract farming, other farming related activities also need to be amended. Overall, we expect the Budget 2010-11 to be Positive for Agri-input companies.

Budget Expectations

Head	Current Status	Expected Change	Potential Impact
Fertiliser (Urea)	Current policy doesn't encourage corporates to undertake Green-field expansion due to marginal/low returns.	New policy that allows higher returns or gives capital subsidy on new Green-field capacity.	If the expected changes are met, it would help corporates expand capacity and in turn eliminate the country's dependence on imports. Positive for all fertiliser companies, especially Tata Chemicals, Chambal Fertiliser, Zuari Ind, GNFC, GSFC and RCF.
Irrigation System Subsidy	Rs500cr through main scheme and another Rs3,000-4,000cr through other schemes.	Increase allocation by 20-25%.	Will help in bringing more drought-prone areas under irrigation. Positive for companies like Jain Irrigation that provides micro irrigation system solution to farmers.

Top Picks

Company	Reco	CMP (Rs)	Target Price (Rs)	EPS (Rs)		P/E (x)		EV/EBITDA (x)	
				FY2011E	FY2012E	FY2011E	FY2012E	FY2011E	FY2012E
Bayer CropScience	Buy	586	713	44.3	51.0	13.2	11.5	8.1	6.8
Jain Irrigation	Buy	837	907	40.6	53.4	20.6	15.7	10.9	9.0
K S Oil	Buy	70	94	8.1	10.4	8.6	6.7	5.3	4.3
Rallis India	Buy	1,224	1,464	96.3	122.0	12.7	10.0	7.5	6.1

Source: Company, Angel Research

Automobile

Expected Impact: Negative

The Union Budget 2010-11 for the Automobile Sector is expected to be partially Negative owing to the possible rollback of Excise duty cut effected during FY2010. Rollback of Tax Sops could have a cascading effect on the growth prospects of the Sector and impact the segments including Small cars, Motorcycles, Commercial Vehicles (CVs), Large cars and Utility Vehicles (UVs) in that order.

The Small car and Motorcycle Segments have shown complete recovery and higher possibility of Excise rate increase. While recovery in the CV Segment has just started, likelihood of rollback is lower or partial. Excise duty rates on Large cars and UVs are already high and may not witness any major changes in the duty structure.

The Sector however, stands to benefit from indirect sops like higher outlay for the Rural Sector (driving expected consumer spending) and increased Budgetary allocation for Infrastructure spending (leading to increase in Road freight). Further, increase in allocation under the JNNURM Scheme (proposed by the CV players) would help the CV players like Tata Motors (TML) and Ashok Leyland (ALL).

Most Auto stocks have already underperformed in the last couple of months, discounting the above risks and are trading at reasonable valuations. Hence, any exaggerated reaction in the stock prices following any negative announcements, should be viewed as an opportunity to enter the stocks.

Budget Expectations

Head	Item	Current Status	Expected Change	Potential Impact
Excise Duty	Commercial Vehicles	Charged at 8%.	Excise Duty hike of 2%.	The companies are expecting that the government does not roll back the Excise Duty cuts given recovery in the CV Sector has just started. Negative for AAL and TML.
	Small cars	Charged at 8%.	Excise Duty hike of 2-4%.	With rising commodity prices, any increase in duties would further add to the cost, which may affect sales volume. Negative for Maruti Suzuki and TML.
	Large cars and UVs	Charged at 20-22%.	No change in Excise Duty.	Increase in Excise Duty on Small cars will help reduce disparity of duty structure within the Passenger Vehicle segment. Positive for Mahindra & Mahindra and TML.
	Two Wheeler	Charged at 8%	Excise Duty hike of 2-4%	With rising commodity prices, any increase in duties would further add to costs, which may affect sales volume. Negative for Hero Honda, Bajaj Auto and TVS Motor.

Top Picks

Company	Reco	CMP (Rs)	Target Price (Rs)	EPS (Rs) FY2011E	EPS (Rs) FY2012E	P/E (x) FY2011E	P/E (x) FY2012E	EV/EBITDA (x) FY2011E	EV/EBITDA (x) FY2012E
Ashok Leyland	Accumulate	49	55	3.3	3.9	14.7	12.5	9.2	7.9
Bajaj Auto	Accumulate	1,810	1,968	119.7	131.2	15.1	13.8	11.6	10.5
Hero Honda	Accumulate	1,680	1,918	109.6	119.8	15.3	14.0	10.1	8.7
Maruti Suzuki	Buy	1,370	1,873	97.1	110.2	14.1	12.4	11.1	9.4
M&M	Buy	999	1,207	63.9	67.1	15.6	14.9	10.9	10.1
Tata Motors *	Buy	698	859	41.4	60.5	16.9	11.5	9.8	7.6
TVS Motor	Buy	63	80	5.4	7.0	11.6	9.0	7.3	6.4

*Source: Company, Angel Research ; Note: * Consolidated*

Banking

Expected Impact: Negative

Banks are one of the keenest budget-watchers this year, not for specific measures relating to the Banking Sector, but for the overall Fiscal Deficit. In FY2010, credit demand had dipped significantly, even as deposit growth had remained quite strong. As a result, the banking sector had substantial surplus funds that it had deployed to a large extent in government bonds. Going forward, we expect demand for credit from the private sector to pick up with every successive quarter, increasing to about 20% yoy by the end of FY2011E. Consistent with GDP growth and credit pickup, interest rates are eventually likely to start increasing in going forward. In case the Government is unable to bring down the fiscal deficit (in light of the increasing private spending), then the resultant funding of the fiscal deficit could lead to bond rates inching up at a faster rate in FY2011E. While this is unlikely to be a negative for the sector as a whole, those banks that have the highest investment/deposit ratios and lowest CASA ratios will be unfavourably impacted. In this context, HDFC Bank, Axis Bank, SBI and PNB are the most favourably placed, while smaller banks, especially smaller PSU banks, are likely to be impacted.

Among the specific measures, it will be interesting to see if the Government announces a capital infusion of PSU Banks with more details on the same (though Government has announced its intentions, nothing concrete has been declared on this front so far). Apart from this, there are a host of micro-measures available to the government to encourage savings and to direct the flow of funds. The government could also look at bringing back tax exemptions on profits on infrastructure lending, as well as increase the tax benefits on home loans. As regards the increase in FDI in Life Insurance to 49%, while it is on the cards, we expect the Bill to be taken up separately by the Parliament after the Budget. Overall, though the short-term impact of the budget is expected to be Negative, we maintain our positive outlook, as we believe that the Banking Sector is a direct play on economic revival in the longer-term.

Budget Expectations

Head	Current Status	Expected Change	Potential Impact
Capital Infusion in PSU Banks	No clarity on quantum of capital infusion so far.	Re-capitalising banks with low proportion of Tier-I capital and near their Government of India Holding.	Positive for mid-size PSU Banks like Dena Bank, OBC, Vijaya Bank, Allahabad Bank and Union Bank.
Tax-saving Fixed Deposits	5-year lock-in period. Rs1lakh investment limit.	3-year lock-in period (like ELSS mutual funds). Rs2lakh investment limit.	Will put lock-in on Tax-saving FDs, on par with ELSS. Will help increase deposit mobilisation by the Banking Sector.
Profits of infrastructure lending	20% profits exempt.	40% exemption.	Viable financing for PPP projects is a key issue; such measures will help lower interest costs and increase availability of funds; will benefit the respective NBFCs.
Issuance of Tax-free bonds by Infrastructure lenders	Only REC and NHAI permitted.	Permitting other companies like PFC, IDFC, and IIFC.	
Priority Sector	Interest subvention, lending targets, Farm Debt Waiver.	Increasing benefits.	Regular Budget feature for inclusive growth. Negative for banks.

Top Picks

Company	Reco	CMP	Target Price	EPS (Rs)		P/E (x)		P/ABV (x)	
		(Rs)	(Rs)	FY2011E	FY2012E	FY2011E	FY2012E	FY2011E	FY2012E
Axis Bank	Buy	1,096	1,450	71.8	95.3	15.3	11.5	2.5	2.1
Corp. Bank	Buy	435	535	88.4	95.3	4.9	4.6	0.9	0.8
Dena Bank	Buy	76	104	20.5	23.5	3.7	3.2	0.8	0.6
HDFC Bank	Buy	1,700	2,127	83.3	112.1	20.4	15.2	3.3	2.8
ICICI Bank	Buy	831	1,155	44.7	61.0	18.6	13.6	1.8	1.6
South Ind. Bank	Buy	140	199	27.0	33.6	5.2	4.2	0.9	0.8
Union Bank	Buy	248	309	42.0	47.6	5.9	5.2	1.2	1.0

Source: Company, Angel Research

Capital Goods

Expected Impact: Positive

The Budget FY2010-11 will be keenly observed by the Capital Goods Sector, majorly with regards to the continued impetus being provided to the Power and Infrastructure Sector. Notably, the government is expected to continue to commit resources towards Power Generation, and Transmission and Distribution, coupled with the broader Infrastructure development in the country, which would boost orders for the Capital Goods industry.

About the specific demands; to counter the threat of overseas competition (especially Chinese), the state run Bharat Heavy Electricals Limited (BHEL) and even L&T have been lobbying with the government to increase the import duty on foreign equipment, citing the lack of a level playing field for domestic manufacturers. Currently, no duty is levied on the import of foreign equipment for so-called Mega Power projects (1,000MW and above for thermal), while a 5% duty is levied on imports for smaller projects. Going by the inclination of the government to encourage domestic manufacturing, it might consider this industry demand during the forthcoming budget.

Additionally, the fund allocation to various programs including the APDRP and RGGVY is expected to continue to provide a fillip to transmission line players. Overall, we expect the Budget to be Positive for the Sector.

Budget Expectations

Head	Current Status	Expected Change	Potential Impact
Import duty on Power Generation equipment	No import duty on foreign equipment for Mega Power projects. Charged at 5% for smaller projects.	Increase in import duty.	Will reduce the price differential between domestic and overseas players (especially the Chinese). Positive for BHEL, L&T and other new players planning to establish a domestic manufacturing base.
Fund Allocation	Fund allocation for various programs including the APDRP and RGGVY.	Expected to continue.	Positive for various transmission line players (including Jyoti Structures, KEC International and Kalpataru Power), as it provides a continuing business opportunity.

Top Picks

Company	Reco	CMP	Target Price	EPS (Rs)		P/E (x)		EV/EBITDA (x)	
		(Rs)	(Rs)	FY2011E	FY2012E	FY2011E	FY2012E	FY2011E	FY2012E
Crompton Greaves	Buy	403	537	23.7	26.8	17.0	15.0	10.3	8.7
Jyoti Structures	Buy	164	220	14.2	16.9	11.5	9.7	6.1	5.4
KEC International	Buy	572	728	44.9	52.0	12.7	11.0	6.9	5.9
Thermax	Buy	601	754	30.3	37.7	19.8	15.9	11.9	8.8

Source: Company, Angel Research

Cement

Expected Impact: Neutral

The Cement sector, which is one of the prime beneficiaries of the stimulus package announced to pull the economy back from a slowdown, will be hoping for no withdrawal of the same, to enable the sector to sustain the healthy demand, going forward. Further, the sector (which is expected to face margin pressures, going ahead, due to excess supply) will benefit considerably if the government announces new schemes that would involve an additional spend on infrastructure projects.

Also, the sector, which is among the top three contributors to the government exchequer in terms of duties and taxes, will be hoping for the fulfillment of some of its long unfulfilled demands on the duties front. The industry will be well served by a rationalisation of the excise duty structure, reduction of the VAT on cement from 12.5% to 4% (as is the case with steel) and the elimination of import duty on key raw materials (such as coal, pet coke and gypsum). We expect these measures (if announced in the budget) to ultimately be passed on to the final consumers.

We do not expect the Union Budget to concede to any of the major expectations of the industry mentioned above. On the contrary, we expect the excise duty to be hiked from 8% to 10%. We expect the Budget to have Neutral impact on the Sector.

Budget Expectations

Head	Current Status	Expected Change	Potential Impact
Excise duty on cement	Excise Duty charged at 8% on cement price above Rs190 per bag, and Rs230 per tonne for cement price below Rs190 per bag.	The NCAER has recommended a 55% abatement on the excise duty.	With the industry expected to face a demand- supply mismatch , the pricing power is low for manufacturers. Hence the reduction in Excise duty will benefit the manufacturers as well as consumers. Positive for all the cement companies. However, there is a possibility that the excise duty might be raised to 10%.
Government spend on infrastructure	Rs30,000cr under various schemes in the Union Budget FY2009-10.	Higher government spend on Infrastructure.	Increased government spend on Infrastructure will result in the cement demand remaining healthy at 9-10%. Positive for all the cement companies.
Import duty on coal	Import duty of 5% is currently charged on Thermal coal.	Abolition of Import duty on coal.	Thermal coal is a major raw material in power generation. Hence, the elimination of import duty will result in a considerable reduction in manufacturing costs. Positive for all the cement companies.

Top Picks

Company	Reco	CMP (Rs)	Target Price (Rs)	EPS (Rs) FY2011E	EPS (Rs) FY2012E	P/E (x) FY2011E	P/E (x) FY2012E	EV/EBITDA (x) FY2011E	EV/EBITDA (x) FY2012E
Grasim	Accumulate	2,681	2,861	263	325	10.2	8.3	5.7	4.8
India Cements	Accumulate	120	136	13.0	18.1	9.3	6.6	4.8	3.5
JK Lakshmi Cement	Buy	73	88	13.0	16.3	5.6	4.5	4.0	3.4
Madras Cements	Buy	112	141	17.9	24.7	6.3	4.5	4.6	3.2

Source: Company, Angel Research

FMCG

Expected Impact: Neutral

The year 2009 was a good one for the Indian FMCG sector. Strong volumes, price hikes and the reduction in excise duties (as a part of the stimulus package offered by the government in the Union Budget 2009-10) aided the growth.

Over the past few months, prices of input costs for FMCG companies have risen by almost 30-40% on an average from their lows. For instance, prices of commodities like palm oil and most other agri commodities (like sugar, milk and tea) have spiked sharply. However, crude and crude oil derivatives (like LAB and HDPE) are below their peaks. Going forward, we believe that agri commodities, particularly those sourced domestically, will remain firm on account of the poor monsoon in India. ITC and Marico are the best-placed to benefit from a benign input cost environment, whereas the rising food inflation (Nestle and GSKCHL) and higher Palm oil prices (HUL and GCPL) carry downside risks to our estimates.

In a bid to garner a higher market share and to sustain their growth momentum, FMCG majors are aggressively pushing for volume growth, ahead of margin preference. Hence, we believe that if the rural area focus continues, the FMCG sector would stand to benefit. Also, by leaving the existing duty cuts in place, margin pressure would ease to some extent. With low penetration, a huge consumer class and rising rural incomes, FMCG companies are banking on rural areas for volume growth. However, a delay in GST implementation and hike in Excise Duty on cigarettes may act like a wet sack.

Overall, we expect the Budget to have a Neutral impact on the Sector.

Budget Expectations

Head	Current Status	Expected Change	Potential Impact
GST implementation	Expected rollout in April 2010, but may be delayed.	14-16% GST rate implementation.	Will be positive for the sector as a whole. FMCG companies will benefit from the uniform, simplified and single-point taxation across product categories, which will weed out waste from the system. This is also positive for the end consumers, as dealers will pass on the benefits of a reduced tax incidence by slashing the prices of goods over time, thereby boosting Volumes for FMCG companies.
Excise Exemption in the states of Himachal Pradesh and Uttarakhand	Excise Exemption lapses in these two states on 31 March 2010	Excise exemption should be extended.	The companies are hoping that the government extends the excise exemption given to these states. With rising commodity prices, any increase in excise duties would further add to the cost, which may affect volume sales. In our FMCG universe, HUL, Marico, Nestle, Godrej Consumer, Colgate and Dabur, which have factories and depots in either of these states, might see an impact on their Bottom-line.
Rural Focus	Higher allocation to NREGS and a six-month extension of debt relief to farmers in the Union Budget 2009-10.	Rural initiatives to remain a priority.	Positive for the sector as a whole, as it will maintain the momentum to spur income levels.
Excise duty on Cigarettes	Excise duty remained unchanged in the Union Budget 2009-10.	Hike Expected.	A hike (up to 5%) in the excise duty on Cigarettes would be Neutral for ITC, as the company will be able to pass on the same. However, any hike over and above 5% may put pressure on operating margins of the company.

Top Picks

Company	Reco	CMP (Rs)	Target Price (Rs)	EPS (Rs)		P/E (x)		EV/EBITDA (x)	
				FY2011E	FY2012E	FY2011E	FY2012E	FY2011E	FY2012E
Asian Paints	Accumulate	1,856	2,039	84.3	95.9	22.0	19.4	13.8	12.0
Colgate	Accumulate	698	752	33.1	37.6	21.1	18.6	19.7	16.8
Dabur India	Accumulate	171	181	6.8	7.8	25.2	22.0	19.4	16.7
GCPL	Buy	260	310	12.6	14.3	20.6	18.2	13.7	11.7
HUL	Buy	241	294	12.2	13.8	19.8	17.5	16.0	14.0
ITC	Buy	248	300	12.5	13.9	19.8	17.9	12.5	11.0
Marico	Accumulate	100	112	4.8	5.3	20.8	18.8	14.3	12.7
Nestle	Accumulate	2,642	2,969	90.3	107.7	29.2	24.5	19.3	16.2

Source: Company, Angel Research

Hotels

Expected Impact: Positive

The Hotel Industry is witnessing positive signs of recovery from the slump caused by the global meltdown and the 26/11 terrorist attack in Mumbai in the recent past. The key demands of the industry from the Union Budget 2010-11, to avail of a conducive environment for future growth, are:

The Hotel Industry has long been demanding the grant of infrastructure status under Section 80 IA (applicable to airports, ports, etc). This will enable hotel players to get the benefit of total deductions on profits and gains for 10 years. The granting of Infrastructure status would also encourage companies to reinvest their profits into the sector, thereby paving way for more guest-rooms. In turn, it will help lower tariffs and will make India a more affordable tourism destination, on the lines of Malaysia, Indonesia and Sri Lanka.

The industry also wants the Government to restore the depreciation rate to 20%. The depreciation rate was at 20% till March 2007; however, it was lowered to 10% later. The reason behind this demand is that hotel buildings (like factory plants) are used around-the-clock, and require heavy investments for constant renovation and upgradation.

Overall, the Budget is expected to have Positive impact on the Sector.

Budget Expectations

Head	Current Status	Expected Change	Potential Impact
Infrastructure status	Not granted .	Infrastructure status under Section 80IA of Income Tax Act.	Will enable hotel players to get the benefit of total deductions on profits and gains for 10 years. Positive for All hotel players.
Depreciation Rate	10%	20%	Will positively impact the profitability of all hotel players.

Top Picks

Company	Reco	CMP	Target Price	EPS (Rs)		P/E (x)		EV/EBITDA (x)	
		(Rs)	(Rs)	FY2011E	FY2012E	FY2010E	FY2011E	FY2010E	FY2011E
TAJGVK	Buy	147	240	9.0	12.2	16.4	12.1	8.8	6.9

Source: Company, Angel Research

Infrastructure

Expected Impact: Positive

Post the recent fall in the share prices of almost all Infrastructure stocks primarily due to the disappointing 3QFY2010 performance, investors would keenly track the upcoming Union Budget for any announcements for the Sector. However, with the stocks having corrected across-the-board by 20-25% and languishing at those levels, we believe that markets are not building up huge expectations from the Budget for the Sector. Nonetheless, given that the Sector plays a vital role in pump priming the economy, we expect some customary announcements to come through, viz. increasing allocation for inevitable areas like irrigation, roads, etc. as well as tinkering with matters that would ease the process of accessing capital for the Sector. Overall, we expect the Budget to be Positive for the Infrastructure Sector.

Budget Expectations

Head	Current Status	Expected Change	Potential Impact
Increased allocation to the Sector	Current Infra spend of 4-5% of GDP is much below the requirement.	Taking Infra spend to 8-9% of GDP.	It will be positive for all players in the Sector as the government still plays a major role in the entire scheme of things.
Relaxation of MAT provision on Infra projects under new Direct Tax code	Proposed 2.5% of gross assets is way above the world-wide applicable rate.	Should be rationalised and lowered to 0.5%.	If implemented, positive for all developers like IRB, L&T, MPL and IVRCL as the tax outflow would reduce.
Clarity on take out financing	N.A.	N.A.	Would help Banks to get more aggressive in lending to infrastructure projects with long gestation periods.

Top Picks

Company	Reco	CMP	Target Price	EPS (Rs)		P/E (x)		EV/EBITDA (x)	
		(Rs)	(Rs)	FY2011E	FY2012E	FY2011E	FY2012E	FY2011E	FY2012E
IVRCL	Buy	318	468	23.2	25.7	13.5	12.2	9.4	9.5
Madhucon Project	Buy	160	214	10.2	11.1	15.5	14.4	8.7	8.1

Source: Company, Angel Research

Media

Expected Impact: Positive

Media has clearly emerged as one of the worst-hit sectors in the recent economic downturn. Hence, the Ambika Soni-led I&B Ministry is readying itself for a slew of tax proposals to revive growth of the Indian Media & Entertainment (M&E) Sector.

Among the key expectations of the Media Sector is the inclusion of the Broadcasting, Cable and DTH Sectors in the Infrastructure Sector, as the benefits and incentives applicable to the Infra Sector would get extended to the M&E Sector and aid its expansion. Other key expectations to watch out for include the relaxation of FDI norms (to spur investment in the Sector), implementation of the GST (which will enable companies to benefit from the uniform, simplified and single-point taxation across product categories) and the rollout of Phase-III radio reforms (which have been ready for sometime and can be pushed through immediately). The Broadcasting Sector, in particular, will be keenly watching out for the roadmap for the roll-out of the Conditional Access System (CAS), removal of the frozen pricing regime for pay channels and the abolishment of fixed channel pricing on the CAS.

Overall, we have a Positive expectation for the Sector from the Union Budget 2010-11.

Budget Expectations

Head	Current Status	Expected Change	Potential Impact
FDI	Varied limits for different sectors.	Relaxation of FDI limits for Radio, Distribution and Print media companies.	Allowing FDI and foreign players will bring in great benefits for the Indian Media and Entertainment industry. Many modern technologies will be available to the players post liberalisation of the sector. Positive for all Media companies.
GST	Varied taxes levied.	Include Broadcast and Cable Sectors in the proposed GST.	It will provide relief from the burden of multiplicity of taxes that the industry currently pays and will result in supply chain gains over a period of time. Positive for Broadcasters (Network18, NDTV, Zee, Zee News, Sun TV, TV Today) and Cable companies (WWIL, Dish TV).
Phase-III Radio reforms	Reforms are ready, but delayed due to the demand of the Radio industry for licence period extension from 10 to 15 years.	Multiple frequency in certain cities and removal of Service Tax.	If announced, auction of as many as 800 channels in 300 new towns could well be completed in 2010 itself, and by next year the Radio industry could start offering a serious alternative to regional print publications. With much economic activity expected in the smaller markets in the next decade, the potential for radio to become a far bigger medium is very tangible. Positive for all FM players.

Top Picks

Company	Reco	CMP	Target Price	EPS (Rs)		P/E (x)		EV/EBITDA (x)	
		(Rs)	(Rs)	FY2011E	FY2012E	FY2011E	FY2012E	FY2011E	FY2012E
Cinemax	Buy	68	107	6.0	8.2	11.2	8.3	5.6	5.1
Jagran Prakashan	Buy	120	160	6.7	8.0	17.9	15.0	11.4	9.6
PVR	Buy	173	211	8.7	15.1	19.9	11.4	8.4	6.4
TV Today	Buy	114	140	9.9	11.7	11.4	9.7	6.2	4.7
Zee News	Buy	57	68	3.2	3.8	18.1	15.1	11.0	9.2

Source: Company, Angel Research

Metals

Expected Impact: Neutral

The Union Budget 2010-11 is likely to be mixed for the metals sector. While an increase in railway freight rates will add to the cost of production, a hike in the export duty on iron ore will benefit steel companies purchasing iron ore from the open market. Such a move will adversely affect mining companies like Sesa Goa and NMDC.

We expect a rollback of the stimulus package that was announced last year. Consequently, the excise duty on metal products is likely to increase from the current 8% to 10%. We expect custom duties to remain at the current level (5%).

Additionally, the sector also stands to benefit from indirect sops like a higher outlay for the Rural Sector and increased Budgetary allocation for Infrastructure spending, as these would help boost the demand for metals.

Presently, details of the fund-raising plan by the government through the disinvestment process lack any clarity. We believe that the FY2011 budget is likely to expedite the disinvestment process for SAIL and NMDC.

Overall, we expect the FY2011 Budget to have a Neutral impact on metal companies, while having a negative bearing on mining companies.

Budget Expectations

Head	Current Status	Expected change	Potential Impact
Excise duty	8% on steel products.	Increase in duty to 10%.	No impact on ferrous companies, as it is likely to be passed on to the end users.
Export duty on Iron Ore	10% duty on Lumps. 5% duty on Fines.	5% increase in export duty.	Hike in export duty would benefit Indian steel companies who are purchasing iron ore from the open market , but would be negative for Mining companies like Sesa Goa and NMDC.
Customs Duty	Presently at 5% on copper, aluminium and steel.	No change.	No impact.
Rural and infrastructure activity	Strong focus on developing infrastructure.	Expected to continue with more vigour.	Continued focus on rural and infrastructure activity will drive the demand for metals. Positive for all Metal companies under our coverage.

Top Picks

Company	Reco	CMP	Target Price	EPS (Rs)		P/E (x)		EV/EBITDA (x)	
		(Rs)	(Rs)	FY2011E	FY2012E	FY2011E	FY2012E	FY2011E	FY2012E
Godawari Power	Buy	201	252	59.0	66.1	3.4	3.0	2.6	1.9
Hindalco	Accumulate	150	179	12.8	18.0	11.7	8.3	7.5	6.3
Hindustan Zinc	Buy	1,076	1,399	118.8	162.0	9.1	6.6	4.9	2.9
JSW Steel	Buy	1,021	1,360	97.2	122.7	10.5	8.3	7.0	5.3
Sterlite	Buy	746	980	67.5	75.8	11.1	9.8	6.2	4.6
Tata Steel	Buy	563	697	61.2	57.5	9.2	9.8	6.9	6.2

Source: Company, Angel Research

Oil & Gas

Expected Impact: Neutral

Post submission of the Kirit Parekh Committee recommendations, investors would keenly track the upcoming Union Budget for implementation of the proposed recommendations particularly on the Subsidy-sharing mechanism. If the Finance Ministry does announce a clear Subsidy-sharing mechanism by providing cash subsidy/oil bonds, it would be a positive for the Sector. Some measures may be announced for delivery of Subsidy to the target user segment. We believe that markets are not building up huge expectations from the Budget for the Sector especially given the concerns over the high fiscal deficit, inflation and political compulsion preventing reforms in the Pricing Policy. On the gas front, we expect clarity to emerge on the Tax break front for the natural gas produced under NELP I-VII.

Overall, the Budget is expected to be Neutral for the Sector.

Budget Expectations

Head	Current Status	Expected Change	Potential Impact
Clarity over Tax break under Sec 80-IB on the Natural gas produced under NELP I – VII	Currently, Tax breaks are provided for gas produced only under NELP –VIII.	Extension of Tax benefits to NELP I-VII.	It will be positive for all Upstream companies having exposure to blocks under NELP I-VII. We have already assumed Tax break for RIL's KG-D6. The companies that would benefit includes RIL, Oil India, ONGC, Cairn India.
Nil Custom duty on LNG	There exists Custom duty of 5% on LNG imports.	Remove Custom duty on LNG imports.	The move will reduce the price of LNG for end users and thus improve its marketability. The companies that would benefit includes Petronet LNG, GAIL, GSPL.
Natural gas to be given declared goods status	Currently, there is no uniform Sales tax rate for the natural gas sold.	Natural gas should be included in the list of 'declared goods' under Sec14 of the Central Sales Tax Act to reduce incidence during inter-State trade.	Will benefit end user industries, viz. Power and Fertiliser.

Top Picks

Company	Reco	CMP (Rs)	Target Price (Rs)	EPS (Rs) FY2011E	EPS (Rs) FY2012E	P/E (x) FY2011E	P/E (x) FY2012E	EV/EBITDA (x) FY2011E	EV/EBITDA (x) FY2012E
GAIL	Accumulate	404	463	26.4	28.4	15.3	14.2	11.0	9.3
GSPL	Buy	87	121	7.7	8.4	11.3	10.3	5.7	4.7
Petronet LNG	Buy	72	89	8.3	7.7	8.7	9.4	6.2	7.1
RIL	Buy	984	1,260	81.3	87.3	12.1	11.3	7.9	6.8
Shiv-Vani Oil	Buy	355	446	58.6	63.7	6.1	5.6	4.7	4.0

Source: Company, Angel Research

Power

Expected Impact: Positive

The UPA government has always viewed the Power sector as one of the major drivers of India's economic growth. The government's intent towards the sector is mirrored in the ambitious targets it has set for the sector in the Eleventh Plan. More measures are expected from the government to speed up the capacity addition programme.

Some of the anticipated announcements in favour of the power sector are: 1) Extension of the benefits under 80-IA beyond FY2011, and increasing the scope of the section to include power equipment suppliers and EPC contractors, 2) Elimination of the duty on imported power equipment, 3) Award of Mega Power status to projects that are more than 500MW in size, as against the current requirement of 1,000MW, 4) Abolition of duty on capital and fuel inputs borne by private power generating companies, and 5) More incentives to promote Renewal Energy projects.

Of all the anticipated announcements, we believe there is a high likelihood that only the deduction under section 80IA, will be extended by one more year.

Overall, we expect the Budget to have Positive impact on Sector.

Budget Expectations

Head	Current Status	Expected Change	Potential Impact
Deduction under Section 80IA	Available only to project developers till FY2011.	Extension of the scheme beyond FY2011.	As per Section 80IA, power generating companies are eligible for a deduction of 100% of the profits for 10 consecutive years, during the first 15 years of operations. The benefit under this section is available only till FY2011. The extension of the benefits beyond FY2011 will be of a major advantage to project developers, as it will reduce their tax burden substantially. Positive for private power generation companies.
Duty on import of Power Equipment	5% duty on equipment used for projects awarded under the international competitive bidding process.	No duty.	Abolition of duty would result in a reduction of the cost of power. Positive for generation companies setting up plants with imported equipment, like Reliance Power, Adani Power, Indiabulls Power.
Mega Power Status	Awarded to thermal projects > 1,000MW.	Awarded to thermal projects > 500MW.	If implemented would result in a reduction of the cost of power. Positive for generation companies.

Top Picks

Company	Reco	CMP (Rs)	Target Price (Rs)	EPS (Rs)		P/E (x)		EV/EBITDA (x)	
				FY2011E	FY2012E	FY2011E	FY2012E	FY2011E	FY2012E
CESC	Buy	377	460	37.7	49.4	10.0	7.6	6.9	4.9
GIPCL	Buy	105	135	7.6	10.7	13.7	9.8	8.4	6.6
NTPC	Accumulate	202	230	10.3	12.7	19.5	15.9	11.5	9.6
PTC	Buy	107	136	5.1	6.5	21.1	16.4	15.6	14.2

Source: Company, Angel Research

Pharmaceutical

Expected Impact: Neutral

The Union Budget 2010-11 is expected to be a non-event for the Pharma Sector. The government could however continue to increase Budgetary allocation for Healthcare spending, which would be an overall positive for the Sector.

Indian Pharma companies have been investing on the R&D front to tap opportunities both in the Domestic and Global markets. Further, in order to accelerate the growth momentum, industry expects the government to increase the weighted deduction on R&D expenditure from the current 150% to 200% and extend the tenure of deduction for the next 10 years. Currently, deduction on this front is available only till FY2012. Industry also expects widening of the scope by including research work carried 'outside' R&D facility in India and outside India.

Any extension of EOU provisions would be a positive for the Sector especially for companies which have not or have been slow in expanding through SEZ. On the Excise front, industry expects duty on API to be in sync with that on FDF.

Overall, we expect the Budget to be Neutral for the Sector.

Budget Expectations

Head	Current Status	Expected Change	Potential Impact
Extension of EOU status	Benefit available till FY2011.	Needs to be extended for another three years.	Positive especially for companies which have not or have been slow in expansion through SEZ. In our coverage Dishman would be positively affected.
MAT Provisions	MAT at 15% and MAT credit available for 10 years.	Status quo	Any changes as indicated in Direct Tax code would be negative for the Sector. In our coverage Sun Pharma, PHL, Dishman and Indoco Remedies to be affected.
Increase in R&D Deduction and widening of scope	Currently, the weighted deduction stands at 150% and applicable only to 'in-house' Research. Further, deduction is available only till FY2012.	Increase the weighted deduction to 200% and widen the scope to research work done 'outside' R&D facility that are in India or outside India. Extension of deduction for another ten years.	Positive for the entire Sector as this would increase expenditure on the R&D front and accelerate the growth momentum for the Indian companies.
Rationalisation of Excise Duty structure	FDF at 4% and API at 8%.	Duty on API to be reduced and brought in line with FDF	Higher duty on API has resulted in accumulation of Cenvat credit in books of Small Domestic Pharma companies and increasing costs for the companies. Indoco Remedies to be positively affected.
Increase in Budget Allocation to Healthcare schemes	In the last Budget, allocation to the National Rural Health Mission was increased by Rs2,000cr.	Further increase in allocation expected.	Positive for Pharma and Healthcare companies

Top Picks

Companies	Reco	CMP	TP	EPS (Rs)		PE (x)		EV/EBITA (x)	
				FY11E	FY12E	FY11E	FY12E	FY11E	FY12E
Cadila Healthcare	Buy	701	778	41.1	51.9	17.1	13.5	12.3	9.7
Dr Reddy's	Buy	1,122	1,313	58.3	74.2	19.2	15.1	11.4	9.3
Ipca Labs	Buy	1,135	1,409	97.7	117.4	11.6	9.7	8.2	6.9
Lupin	Buy	1,526	1,863	86.1	103.5	17.7	14.7	13.0	11.0
Piramal Healthcare	Buy	378	457	26.5	30.5	14.3	12.4	10.1	8.6

Source: Company, Angel Research

Real Estate

Expected Impact: Neutral

The Real Estate Sector in India is now on a gradual improvement curve with new projects being launched and liquidity position of developers improving on the back of QIPs and proposed public issue offers. Recovery of the Sector has largely been led by the Residential Segment with prices rising from their bottoms by 5-25% across India. The Commercial Leasing Segment has also been witnessing signs of recovery, even as the Retail Segment continues to languish. Banks are offering aggressive mortgage rates, but we expect mortgage rates to increase by 50-100bp over the next six months in lieu of concerns expressed by the RBI on inflation.

In the Union Budget, we expect the government to increase the Tax limit under Sec 80c from Rs1lakh to Rs2-3lakh, which will lend a boost to the Housing Segment. Currently, only the Township projects avail external commercial borrowings (ECB) funds; the Developers expect all FDI-compliant projects also be allowed access to ECBs. Re-introduction of Tax holiday for Housing projects under Sec 80IB is also on the wish list. Further, Developers expect to be taxed at a flat 10% on the rental income earned by them. Overall, we do not expect these measures to have a significant near-term impact on our estimates. Hence, we expect the Budget to be Neutral for the Sector.

Budget Expectations

Head	Current Status	Expected Change	Potential Impact
Tax Holiday under Sec 80 IB (10)	Tax-free profits earned by developers and builders from projects (<1,000sq. ft) started on or before 31.03.07 and executed within the next four years.	Re-instate the provision for current projects.	Will boost Mid-income Housing Segment thereby improving cash flow for developers. It will also enable the government to reduce the potential shortage of 24mn sq.ft in the Housing Sector. Developers like HDIL, DLF and Unitech will be key beneficiaries.
Income Tax Deduction under Sec 80C	Income Tax is exempt on home loan principal re-payment up to Rs1lakh.	Increase in the exemption limit to Rs2.0-3.0lakh.	Improving affordability will induce end users to buy property thereby lending a boost to the Housing Segment. Developers like DLF, Unitech, Sobha, HDIL will be key beneficiaries.
Interest paid on Home Loans	Exemption limit under Sec24 currently capped at Rs1.5lakh.	Increase in exemption limit to Rs2.0lakh.	Improved affordability for Residential Segment to augur well for developers having exposure to the Residential Segment.
Tax Deduction at Source (TDS) on Rental Income	Current rate @ 16.83% for Individuals and 22.44% for Corporates.	Reduction in the rate to 10.0%.	Leasing Segment had been lacklustre in CY2009 with high levels of vacancy across India. Therefore, reduction in the Tax rate on Rental income will induce developers to lower rents, while keeping the yield constant and lending a boost to Segment. Developers like DLF, Anant Raj and Phoenix Mills will be key beneficiaries.
External Commercial Borrowings (ECB)	Allowed only for 100acre Township projects.	Include all FDI-compliant projects as well.	Increased source of funding for developers at lower cost.

Top Picks

Company	Reco	CMP (Rs)	Target Price (Rs)	EPS (Rs)		P/E (x)		EV/EBITDA (x)	
				FY2011E	FY2012E	FY2011E	FY2012E	FY2011E	FY2012E
Anant Raj Industries	Buy	129	196	11.8	17.6	10.9	7.3	8.1	5.4

Source: Company, Angel Research

Retail

Expected Impact: Neutral

The Retail Sector stands to benefit from indirect sops like a higher outlay for the Rural Sector and a people-friendly Income Tax regime that would result in higher consumption. Our key expectations from the FY2011 Budget are:

The industry has constantly advocated that 100% Foreign Direct Investment (FDI) should be allowed in single-brand retailing. Currently, FDI of up to 51% under single-brand retail trading and 100% in the cash-and-carry wholesale format is allowed under the automatic route. Additionally, FDI may be allowed in a diluted form in multi-brand retailing. Such a development, if it happens, would speed up the growth of the organised format in the country, leading to lower prices, improved product quality and a wider choice of products available to consumers.

Introduction of the GST in a speedy and efficient manner will result in the elimination of double taxation accrued from both the Value Added Tax (VAT) and Central Sales Tax (CST), and will add to the profitability of retailers.

Overall, the Budget is expected to be Neutral for the Sector.

Budget Expectations

Head	Current Status	Expected Change	Potential Impact
FDI Limits	No FDI allowed in multi-brand retailing and up to 51% allowed under single-brand retailing.	To allow 100% FDI in single-brand retailing and to allow at least partial FDI in multi-brand retailing.	Will speed up the growth of the organised format in the country, leading to lower prices, improved product quality and a wider choice of products available to consumers. Positive mainly for Pantaloon Retail.
GST	Double taxation accrued from both the Value Added Tax (VAT) and Central Sales Tax (CST).	Introduction of GST in a speedy and efficient manner.	Will add to the profitability of retailers. Positive for all Retailers.

Top Picks

Company	Reco	CMP	Target Price	EPS (Rs)		P/E (x)		EV/EBITDA (x)	
		(Rs)	(Rs)	FY2011E	FY2012E	FY2011E	FY2012E	FY2011E	FY2012E
Pantaloon Retail	Accumulate	401	469	15.6	20.4	23.8	21.4	10.9	9.2
Shoppers Stop	Accumulate	329	383	13.9	18.4	23.7	17.9	10.5	8.5

Source: Company, Angel Research

Software

Expected Impact: Positive

Union Budget 2010-11 is likely to be an important event for the IT Sector as some important initiatives are expected to be announced to help ease the mounting pressure from the global front. The IT-BPO Sector has witnessed steep fall in the growth rate in FY2009-10 and is expecting extension of the fiscal benefits under the STPI (10A/10B) scheme. In the last Budget, the government had extended the tax benefits by one year, which would just help in lower the Tax outgo for FY2011, but industry expects a longer 3-5 years extension to boost investments in Tier-II and Tier-III cities as these places are unable to avail SEZ benefits.

IT Sector growth, in FY2009, was led by the domestic market buoyed by increased government spending on IT under its various e-governance initiatives. Industry players would be closely watching the various allocations under schemes such as APDRP, UIDAI, Sarva Shiksha Abhiyan and others. Indian Tier-I companies have bagged some crucial deals under these schemes and has increased their conscious effort in the domestic market. Also, increased emphasis on PPP in Education and incremental allocation for ICT implementation in schools would benefit companies like Educomp, NIIT, Everonn and others.

Contrary to industry players, markets are not expecting any extension of the benefits under STPI scheme. Therefore, in case such extension does get announced would be beneficial for all software players.

Budget Expectations

Head	Current Status	Expected Change	Potential Impact
Extension of Tax holiday under 10A/10B for Exports	Tax exemptions available till FY2011.	Extension for another 3-5 years.	Will boost investments in industry; will help small & mid size companies to overcome current cost pressures due to lower pricing power. Benefits for large players would be marginal as most of their centers have completed their threshold 10-year mark. Infosys, Wipro, TCS, HCL and Tech M would be among the gainers from the Budget.
E-Governance initiatives	Government has been focusing on digitalizing various departments.	Incremental allocation under schemes like APDRP, UIDAI and Defence.	Will benefit large and niche companies possessing capabilities to deliver large country-wide roll-outs, viz. Infosys, TCS, Wipro and Infotech (GIS).
Education Allocation	Government is pro-actively drawing roadmap for PPP in the Education Sector.	Incremental allocation for the ICT Segment (Rs900cr in FY2010).	Will benefit companies engaged in ICT and IT-education, viz. Educomp, NIIT and Everonn.

Top Picks

Company	Reco	CMP (Rs)	Target Price (Rs)	EPS (Rs)		P/E (x)		EV/EBITDA (x)	
				FY2011E	FY2012E	FY2011E	FY2012E	FY2011E	FY2012E
Educomp Solutions	Buy	706	926	36.5	46.3	19.3	15.2	9.5	7.7
Everonn Education	Buy	396	602	36.5	43.0	11.0	9.3	4.6	4.4
Infotech Enterprises	Buy	333	408	30.7	34.1	10.8	9.8	4.6	3.7
Infosys	Buy	2,535	3,100	120.1	141.1	22.4	19.0	15.1	12.5
TCS	Buy	750	900	39.2	45.1	20.2	17.6	14.2	12.1
Wipro	Buy	663	760	34.8	39.9	20.8	18.2	14.9	12.4

Source: Company, Angel Research

Telecom

Expected Impact: Neutral

The Telecom Sector is currently faced with a lot of challenges on the competitive and regulatory fronts relating to Tariffs, M&As and MNP implementation. The much-awaited 3G and BWA auction is also hanging fire. 3G auction though not a Budget event, it is highly likely that some indication about the auction time/size would find mention in the Budget. Pertinently, we do not see the 3G and BWA auction proceeds going into the government's FY2010 fiscal kitty even though TRAI and DOT are working towards the auction.

Telecom is among the heavily taxed Sectors in India attracting various levies such as license fees, spectrum charges and others. A Uniform Tax structure would help in reducing the operational costs in turn lowering tariffs, which is necessary for the next leg of growth in the rural India.

Overall, we expect the Budget to be Neutral for the Sector.

Budget Expectations

Head	Current Status	Expected Change	Potential Impact
100% tax exemption under Sec 80IA	Exemption of 5 years.	Extend exemption to 10 years.	Favourable for the Sector, which is currently reeling under pricing pressures and regulatory challenges. RCOM (GSM), Idea and other TSPs, which have commenced operations in newer circles stand to benefit.
3G and BWA auctions	On hold, due to Regulatory issues.	To process at the earliest.	Availability of high-speed spectrum would accelerate roll out of services and support the increasing traffic on telecom network. It would also encourage growth of VAS Revenues. These auctions are expected to add around Rs35,000cr to the government kitty, which could be utilised to reduce the country's fiscal deficit..

Top Picks

Company	Reco	CMP	Target Price	EPS (Rs)		P/E (x)		EV/EBITDA (x)	
		(Rs)	(Rs)	FY2011E	FY2012E	FY2011E	FY2012E	FY2011E	FY2012E
Bharti Airtel	Buy	278	406	23.8	25.8	11.7	10.8	6.3	5.7
RCOM	Buy	161	197	16.2	18.6	9.9	8.6	6.5	5.8

Source: Company, Angel Research

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