



*Sushil Financial Services Private Limited*

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- **The union budget to be presented by the Finance Minister on 26<sup>th</sup> Feb. 2010 will be one of the most important economic documents to be presented by this Government.**
- We expect the Government to continue its focus on inclusive growth and maintain / enhance allocation to spending on Infrastructure Building and Rural / Social sector schemes, especially on education & health.
- Over the years, while the Governments have progressively refined their policies across industries & products thereby leaving little room for mass changes on that front, a lot however remains to be done on the structural reforms front, especially with respect to:
  - **Tax Reforms** (like GST implementation, Direct Tax Code, Simplification of Tax Laws)
  - **De-regulation & Subsidies** (Oil & Gas, Fertilizers, Food, etc),
  - **Relaxing FDI norms** (in sectors like Insurance, Retail, Banking, Media, etc),
  - **PSU Divestment** (started well in 2010 but roadmap for FY11 & beyond required).
- The FM will have to pull through a fine balancing act between the management of growth vis-à-vis managing fiscal deficit as well as controlling inflation.
- **A gradual withdrawal of stimulus, without hurting the growth will be the most critical part of this budget.**

**Our Expectations with respect to some of the most important issues required to be addressed by the Government through the union budget are:**

➤ **Lowering of Fiscal Deficit while retaining high GDP growth Target**

The FM will have to display a high level of finesse to pull through a Budget which will reduce the fiscal deficit while maintaining high GDP growth levels.

- We expect GDP growth to be targeted at 8% for FY11 (7.5% is expected for FY10).
- We expect the Government to bring down the Fiscal Deficit target from the FY10 budgeted level of 6.8% to below 6% for FY11.
- We also expect the FM to give a road map for achieving fiscal prudence with a gradual reduction in the fiscal deficit towards the 3% level over the next 3 years.

➤ **Withdrawal of Fiscal Stimulus**

With the Indian economy coming back on the high growth track, we expect a gradual withdrawal of the stimulus packages which were announced by the Government during FY09. A gradual & phase-wise withdrawal is essential to ensure high GDP growth even as a part of the stimulus is rolled back. Some of the important measures expected on this front, amongst others, include:

- Increase the Service Tax by 2% to 12%
- Increase in General rate of excise duty by 2% to 10% (highest slab), especially with respect to the Auto sector, which has seen strong growth during FY10.
- Continuity of most of the measures announced to support Exporters.

## ➤ Reforms required to achieve fiscal targets

To achieve its Fiscal Deficit targets, the FM will also have to aggressively tap additional funds from sources like

- **PSU Divestment:** This is one area where Government has been able to achieve some success during FY10. We expect more aggression on this count during FY11 with a target of raising at least Rs.250 Bn.
- **3G Spectrum Auctioning:** There has been a lot of delay in auctioning of 3G spectrum but the Government will have to move decisively on this issue, through which about Rs.250 to 300 bn could be generated.
- **GST Implementation:** This is not only a highly required reform for enhancing the growth of the economy, it will also help resurrect Revenue leakages from the system. There has already been a long delay in GST implementation (primarily due to its inability to deal with some of the state related issues). An announcement of a credible road map on GST implementation is highly critical & essential.
- **FDI Norms Relaxation:** Government has put caps on the FDI Investment in Sectors like Insurance, Banking, Aviation, Retail, Real Estate, etc. There have been ongoing discussion on relaxing the restrictions on some of these sectors and the time has come to take some hard but concrete steps. This will not only ensure additional fund infusion onto some of these key sectors but will also lift the likes of the Aviation sector from the dire straits they are in currently.

## De-regulation & Subsidies Management

- **Oil & Gas Sector De-regulation:** The Parikh Committee report on Oil sector Deregulation has been published. While the changes recommended by this committee may not be implemented in full at one go, we expect the FM to implement a part of it initially & then gradually build on it in phases as the economic health of country improves.
- **Direct tax code:** A draft paper has already been floated & since it involves a total overhauling of the Direct Tax Laws, it requires far more clarity to enable consultation & agreement across key political parties. Hence, we believe the Direct Tax Code will be a subject of serious discussion over the next 12 months and would be paced on floor only during FY12 Budget. Also, in light of this, we do not expect any changes on the Direct Taxes or the Capital Markets front during this Budget.
- **Fertilizers Subsidies:** During FY2010 Budget, the FM had indicated that the Government would formulate a Nutrient based Fertilizers subsidy policy to encourage the balanced use of all nutrients and thereby enhance the farm productivity. In a bold move just before the FY2011 budget, the Government on 18<sup>th</sup> Feb. 2010 announced its Nutrient based subsidy policy, as first step towards Fertilizer sector de-regulation. This has certainly raised hopes from this Government towards its commitment to push reforms.

**Overall, we believe FY2011 Budget will be very critical for achieving India's true potential. While this Government has shown a lot of promise, it is yet to prove itself. FY2011 Budget is an ideal opportunity and we hope the FM does not let it pass.**

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# Sectoral Expectations

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## **Stimulus Rollback to be most prominent for the Auto Sector**

During FY09, the government, through a series of Fiscal Stimulus packages, had announced a number of concessions for the automobile industry such as:

- Excise duty reduced by 4% for two-wheelers, passenger three-wheelers, small cars to 8%
- Excise duty reduced by 4% for passenger vehicles other than small cars to 20%.
- Excise duty reduced by 4% for buses and 6% for commercial vehicles to 8%

**As a result of the above steps, the Auto Industry performed very well and most of the Auto OEMs have started delivering strong sales numbers from April 2009 onwards.**

Though most Auto OEM manufacturers have seen strong volume growth numbers in the past 2-3 quarters, the high growth numbers were also a result of low base effect. Moreover, in the past 2 months, the cost of raw materials, especially steel, have also been increasing. Furthermore, interest rates are likely to go up in the next financial year and the competition for small to mid-segment cars has got fiercer as international players have set up manufacturing plants in India. The new environmental Euro IV norms are to be adopted from April, 2010, which would be an added expenditure for the companies. Despite the above, since the demand for small cars and 2 wheelers continues to stay strong, the Government may rollback some part of the stimulus package announced earlier.

**During FY2011 Budget, we believe the FM may hike excise duty by about 2%.**

Expectations	Impact	Companies Impacted
<b>NEGATIVE</b>		
<p><b>On the back of strong sales numbers through out FY10, we expect an excise duty hike by about 2%.</b></p>	<p>This will result in increase in the prices of vehicles but could be largely passed on to the customers. Given the high volume growth seen during FY10, this move may result in a relative slower growth in volumes during FY11.</p> <p>Also, since a part of increased excise duties may not be passed on to customers, margins of Auto OEMs may also remain muted for FY11.</p>	<p>Negative for Passenger Vehicle and two-wheeler manufacturers such as Maruti Suzuki, Tata Motors, Hero Honda &amp; Bajaj Auto.</p>
<p><b>In line with the Parikh Committee recommendation, the Government may impose a Special Levy on Diesel Passenger Vehicles.</b></p>	<p>This will result in reduced attractiveness of the Diesel Vehicles and hence may impact their volumes marginally.</p>	<p>Negative for Passenger Vehicle such as Maruti Suzuki, Tata Motors, M&amp;M, etc.</p>

Expectations	Impact	Companies Impacted
	<b>POSITIVE</b>	
<p><b>Increased allocation of funds under the JNNURM scheme towards improvement of roads and infrastructure.</b></p>	<p>A step towards improved roads and increased spending on infrastructure will boost industrial activity which will indirectly benefit the Indian Commercial Vehicle Industry.</p>	<p>OEMs manufacturing CVs, i.e. Tata Motors, Ashok Leyland, Eicher, Mahindra &amp; Mahindra will benefit. Auto Ancillaries such as Amtek group, Automotive Axles, Wabco – TVS, Bosch Ltd, etc.</p>

Expectations	Impact	Companies Impacted
<b>POSITIVE</b>		
<p><b>Complete customs duty exemption of capital goods project imports for fertilizer sector used in all new investment in fertilizer projects.</b></p>	<p>This will encourage new Greenfield investment in the fertilizer sector.</p>	<p>Companies like Coromandel Fertilizers, Rallis, Chambal Fertilizers, Nagarjuna Agrichem, etc. could be benefitted.</p>
<p><b>The benefit of Tax Holiday for a period 10 years may be extended to all future fertilizer projects to attract investment in this sector.</b></p>	<p>New capacity additions would help in reducing the dependence on costly imports.</p>	<p>Companies like Coromandel Fertilizers, Rallis, Chambal Fertilizers, Nagarjuna Agrichem, etc. could be benefitted.</p>
<p><b>Exemption from other taxes and duties levied on some of the key inputs for fertilizers, in order to keep the price (MRP) of fertilizers low so that the farmers can afford it.</b></p>	<p>This will help in keeping the prices (MRP) within affordable limit of farmers to encourage consumption for accelerating agricultural production and productivity.</p>	<p>Companies like Coromandel Fertilizers, Rallis, Chambal Fertilizers, Deepak Fertilizers, etc. could be benefitted.</p>

Expectations	Impact	Companies Impacted
<b>POSITIVE</b>		
<b>Increase in FDI limit from 26% to 49% for the Insurance sector.</b>	The move shall enable more FDI in insurance companies, leading to deepening of Indian insurance market & will help in unlocking the value for many companies.	ICICI Bank, Kotak Mahindra Bank, ING Vyasa Bank, HDFC, SBI, Reliance Capital, Max India, Aditya Birla Nuvo, Bajaj Finserve.
<b>Issuance of Tax-free bonds by companies like PFC, IDFC, IIFC, etc.</b>	It will provide low cost funds to infrastructure financing Companies.	PFC, IDFC, IIFC.
<b>Restoration of tax benefits on income from infrastructure lending U/s 10 (23G) of Income Tax Act, which was available till FY06.</b>	This will allow banks to claim the interest earned on long-term lending to infrastructure projects as an allowable deduction & infrastructure companies by way of lower rates.	All Banks will benefit. Also Infrastructure focused NBFC's like IDFC, IFCI, etc & players in the Infrastructure sector will benefit.

Expectations	Impact	Companies Impacted
<p><b>Allowing tax benefits to borrowers along with the start of repayment of housing loan as against existing guidelines which allows tax benefits only after the completion of construction of the house.</b></p>	<b>POSITIVE</b>	
	<p>Such measures address the lacunae &amp; resolve the long standing demand of the industry. It is expected that these measure would relive the borrowers and help in inducing demand.</p>	<p>Real estate developers, Housing Finance Companies and All banks.</p>
<p><b>Directed lending to SSI and export oriented units with Government guarantee.</b></p>	<b>NEGATIVE</b>	
	<p>This will force banks to increase lending to export oriented units/SSI where NPA risks are high.</p>	<p>All Banks</p>

Expectations	Impact	Companies Impacted
<p><b>Rollback of Excise duty (from the current 8% level) benefits given away in the Stimulus Package during FY09.</b></p>	<p><b>NEGATIVE</b></p> <p>Will lead to increase in the cost for Cement Manufacturers. Given that a lot of Capacity Addition is expected in the coming 2 years, we believe the Cement companies will have to absorb the increased costs, which will put pressure on their margins.</p>	<p>Most Cement Companies will be affected.</p>

Expectations	Impact	Companies Impacted
<b>POSITIVE</b>		
<p><b>To rapidly implement GST (Goods &amp; Service Tax).</b></p>	<p>This move will replace the multiple indirect taxes currently levied on FMCG products. This would lead to uniform, simplified and single-point taxation and reduce prices. Consumption growth and improved tax compliance will result in an increase in tax collections.</p>	<p>Companies like HUL, Godrej Consumer Products, Dabur India etc. could be benefitted.</p>
<p><b>FMCG companies want the Government to continue its focus on the rural sector .</b></p>	<p>This move will increase the volume growth as 40%-50% of FMCG demand comes from rural areas for most of the companies.</p>	<p>All FMCG Companies like HUL, Godrej Consumer Products, Dabur India, etc could be benefitted.</p>
<b>NEGATIVE</b>		
<p><b>Rollback of Excise duties.</b></p>	<p>The move may lead to increased costs, which in most cases will be passed on to consumers, which in-turn will affect the volumes.</p>	<p>All Companies in the FMCG &amp; Consumer Durables space would be affected.</p>

Expectations	Impact	Companies Impacted
<b>POSITIVE</b>		
<p><b>Increase in Infrastructure spending by higher allocation to schemes like NHDP, JNNURM, Bharat Nirman etc.</b></p>	<p>To boost the order inflows of infrastructure companies.</p>	<p>L&amp;T, Reliance Infra, HCC, IVRCL, Patel Engg., JMC projects, IRB Infra, Sadbhav Engg, etc. could be benefitted.</p>
<p><b>Allowing Issuance of Tax-free bonds by companies like PFC, IDFC, IIFC, etc.</b></p>	<p>Will enable easy availability of credit at lower rates which in turn would fasten the infrastructure development.</p>	<p>L&amp;T, Reliance Infra, HCC, IVRCL, Patel Engg., JMC projects, IRB Infra, Sadbhav Engg, etc. could be benefitted.</p>
<p><b>Relaxation of financing norms for Infrastructure projects.</b></p>	<p>Will enable easy availability of credit at lower rates which in turn would fasten the infrastructure development.</p>	<p>L&amp;T, Reliance Infra, HCC, IVRCL, Patel Engg., JMC projects, IRB Infra, Sadbhav Engg, etc. could be benefitted.</p>

Expectations	Impact	Companies Impacted
<b>POSITIVE</b>		
<p><b>FDI relaxation in media companies: The Government has been contemplating relaxing FDI norms especially with respect to TV &amp; Radio Broadcasters up to 49%.</b></p>	<p>This move will lead companies to access low cost of capital.</p>	<p>Companies like Entertainment Network India Ltd., TV Today, IBN 18, TV 18, etc could be benefitted.</p>
<p><b>Withdraw 5% Customs Duty on Set Top Box (STB) which was imposed in Union Budget of 2009-10.</b></p>	<p>Due to non-availability of components and other factors required to make STB as 80% of their components are imported. This move will reduce the cost.</p>	<p>Companies like Dish TV, Wire &amp; Wireless, etc. could be benefitted.</p>

Expectations	Impact	Companies Impacted
<b>POSITIVE</b>		
<p><b>Quicker and transparent Government policies on allotment of iron ore and coal mines.</b></p>	<p>Faster allocation of coal and iron ore mines, thereby avoiding delay in large projects.</p>	<p>All Metal &amp; Power companies will benefit.</p>
<p><b>Imposition of about 5% Customs Duty On Ferro Alloys.</b></p>	<p>Most Ferro Alloys players are currently operating their plants at very low levels or are closed. This will give them the much needed elbow room to grow their business.</p>	<p>All Ferro Alloy companies like IMFA, NB Ventures, etc will benefit.</p>
<b>NEGATIVE</b>		
<p><b>Hike in Excise duty from the present 8%.</b></p>	<p>To be passed on to the consumers, thus likely to impact demand.</p>	<p>For all steel companies.</p>

Expectations	Impact	Companies Impacted
<b>POSITIVE</b>		
<p><b>Implementation of changes suggested by Parikh Committee on pricing of the petroleum products, in a phased manner.</b></p>	<p>This move will bring about clarity in the subsidy sharing as well as the pricing of the petroleum products. It could possibly reduce the subsidy burden as well as under-recovery for the upstream and downstream companies, respectively.</p>	<p>Oil marketing companies like ONGC, OIL, HPCL, IOCL, BPCL etc. could be benefitted.</p>
<p><b>Hike in gas price under Administered Price Mechanism (APM), in a phased manner for nominated blocks.</b></p>	<p>Price of gas under APM is currently at \$1.79 per mmbtu which if raised in a phased manner to \$4.2 per mmbtu by 2013, could progressively cut down under-recoveries of companies engaged in gas exploration and production.</p>	<p>Companies like ONGC and OIL etc. could be benefitted.</p>

Expectations	Impact	Companies Impacted
<b>POSITIVE</b>		
<p><b>Extension of the present tax holiday benefits beyond Mar 2011, given that most power projects are still under development and unlikely to be operational before Mar 2011.</b></p>	<p>The move will be highly beneficial for all the power generation and power distribuion companies and will encourage faster capacity additions.</p>	<p>All power generation companies like NTPC, REL, Reliance Power, PGCIL, PTC India etc. will be benefited.</p>
<p><b>Increase in import duty on foreign power generation equipments to keep in check the quality concerns on foreign equipments.</b></p>	<p>Would encourage the domestic production of power equipment and keep the foreign competition at bay. Would also lead to improved quality of Plants with relative better PLF &amp; lower maintenance costs.</p>	<p>Companies like L&amp;T, BHEL, Thermax, BGR Energy, Bharat Forge etc will be benefited.</p>
<b>NEUTRAL</b>		
<p><b>Roll back of excise duty concessions by about 2%, especially on Power Equipments .</b></p>	<p>This move would lead to increased equipment costs for the power sector but most companies would pass on the cost increases, so would be largely Neutral.</p>	<p>Companies such as BHEL, BGR , Jyoti, KEC, Kalpataru, ABB, Emco Energy etc.</p>

Expectations	Impact	Companies Impacted
<b>POSITIVE</b>		
<p><b>Further allocation of funds under RGGVY scheme.</b></p>	<p>The move would result in increase order inflows for T&amp;D companies. The move would prove to be beneficial for power finance companies.</p>	<p>Companies like REC, PFC, Jyoti Structures, Kalpataru, KEC International, ICSA India, Apar Industries could be benefitted.</p>
<p><b>Hike in budgetary allocation for APDRP (Accelerated Power Development and Reform Programme).</b></p>	<p>More fund allocation will benefit companies in T&amp;D sector and enable the Govt in achieving its target of “Power for All” by 2012.</p>	<p>ICSA India, Apar Industries, KLG Systel, Torrent Power, PFC etc could be benefitted.</p>
<p><b>Expedite clearance process for setting up of Power plant. E.g. Fuel linkages, land, environment etc.</b></p>	<p>Would facilitate faster setting up of Power plant encouraging more companies to enter into Power Generation.</p>	<p>Companies such as NTPC, TATA Power, Reliance Power, PTC India Lanco Infratech, Patel Engg, etc. will be benefitted.</p>

Expectations	Impact	Companies Impacted
<b>POSITIVE</b>		
<p><b>Ensure the benefit of Tax Holiday u/s 80IA in case of amalgamation/merger.</b></p>	<p>The move would lead to increase in M&amp;A activities in the sector leading to optimization, ensuring benefits for the players in sector.</p>	<p>Telecom Service providers like Bharti Airtel, RCom, Idea Cellular, etc.</p>
<p><b>Important steps to ensure timely execution of 3G auctions and implementation of uniform License fee across the telecom players.</b></p>	<p>The move would benefit telecom operators in long run .</p>	<p>Telecom Service providers like Bharti Airtel, RCom, Idea Cellular, etc will benefit. Mobile Content &amp; VAS players like OnMobile, Sasken, Tanla, etc would also benefit.</p>
<p><b>Rationalization of existing multifarious Tax Structure of spectrum charge, license fees, service tax, VAT etc.</b></p>	<p>The move would lead to single tax structure &amp; reduce litigation &amp; enhance tax compliance.</p>	<p>Telecom Service providers like Bharti Airtel, RCom, Idea Cellular, etc.</p>

Expectations	Impact	Companies Impacted
<b>POSITIVE</b>		
<p><b>The STPI tax benefits available to IT companies u/s 10A/10B till March, 2011 to be extended further (already has been extended twice by 1 year but may do again, probably for 1 more year), to ensure level playing field for Tier-II IT companies which are not able to take full advantage of the benefits under SEZ scheme.</b></p>	<p>The move will benefit IT Companies (specially Tier-II IT Companies) to save cost to some extent.</p>	<p>All technology &amp; other export oriented companies operating out of a STPI could be benefitted.</p>
<p><b>Increase in e-governance &amp; educational program outlays.</b></p>	<p>Higher IT spending in e-governance &amp; education program would help companies in IT services &amp; education space.</p>	<p>TCS, 3i-Infotech, NIIT, Aptech, Glodyne, Educomp, Everonn, Vakarangee, Core projects, etc.</p>

Expectations	Impact	Companies Impacted
<b>POSITIVE</b>		
<p><b>Extension of Technology Upgradation Funds Scheme (TUFs) for another 5 years till FY2017 and higher allocation of funds for reimbursement of TUFs Interest Subsidy.</b></p>	<p>New investment can be attracted to realize the growth opportunities by extending the scheme. This will in turn further generate employment and increase India's share in the world textile trade.</p>	<p>All textile companies .</p>
<p><b>Removal of basic customs duty of 5% on all man-made fibers , 10% on all liquid fuels used for captive power generation by textiles &amp; clothing units and all machinery for textiles &amp; clothing units (from 5%-10%), except for spindles.</b></p>	<p>Rationalization in the duty can get cheaper man made fabrics available in the country for manufacture and export garments at more competitive prices.</p>	<p>Companies like Alok Industries, Aditya Birla Nuvo, Raymonds, etc., will be benefitted.</p>
<p><b>Restoration of 4% interest rate subsidy on bank loans for exporters from 2% (allowed until March 2011).</b></p>	<p>The move would reduce borrowing cost and hence increase the competitiveness.</p>	<p>Companies like Alok Industries, Raymonds, etc., will be benefitted.</p>

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