arm research

outperform

Union Budget 2010

www.armresearch.in

Union Budget 2010

A summary of intended expenditures along with proposals for revenue collection.

Yearly Financial Vision Statement 2010

Budget Simplified

arm research
outperform

- Revenue Receipts
- Plan Expenditure
- Non-Plan Expenditure

34 % of Total Expenditure is Planned
66% of Total Expenditure is Non-Planned

Fiscal Deficit

In Cr

Particulars	FY10	FY11	% Rise
Total Expenditure	10,20,838	11,08,749	8.61%
Total Receipt	6,06,797	7,27,341	19.87%
Fiscal Deficit	4,14,041	3,81,408	
Fiscal Deficit (%) GDP	6.90%	5.50%	

Pleasant but Unrealistic forecast for Fiscal Deficit …..

FY12 is expected to be 4.8% & FY13 is expected to be 4.1%

GDP (Gross Domestic Product) Rs. 57,91,268 cr
US$ 1.26 trn*

arm research
outperform

Industry	2007-08	2008-09	2009-10
1. Agriculture, Forestry & Fishing	8,15,399	8,98,378	9,82,091
2. Mining & Quarrying	1,25,730	1,34,398	1,36,718
3. Manufacturing	7,31,078	8,14,025	9,02,418
4. Electricity, Gas & Water supply	83,060	86,512	93,539
5. Construction	3,81,521	4,50,021	4,99,002
6. Trade, Hotels, Transport & Communication	11,29,387	12,86,380	13,96,194
7. Financing, Insurance, Real Estate & Bus. Services	6,95,861	8,39,232	9,35,540
8. Community, Social & Personal Services	5,78,951	7,19,704	8,45,767
GDP at Factor Cost (Total 1 to 8)	45,40,987	52,28,650	**57,91,268**

***US$ = Rs. 46**

US GDP: US$ 14.2 trn
Fiscal Deficit: 12.3% of US GDP

China GDP: US$ 4.9 trn
Fiscal Deficit: 2.2% of China GDP

How to Forecast Earnings Growth ?

arm research
outperform

- Earnings Growth = 1 to 1.5x of Nominal GDP Growth
- If Real GDP Growth is 7.2% & Inflation is 5%
- Then Nominal GDP Growth is 7.2% + 5% = 12.2%
- Hence, Earning Growth will be 12.2 % to 18.3%
- FY10 Est. Sensex EPS is Rs. 805

India's GDP in next 5 years is estimated to be US $ 2.27 trillion

i.e. addition of US $ 1 trillion in the next 5 years

GDP growth estimate from 7.2% in FY10 to 8.5% in FY11

Expected Reforms From The Government

arm research
outperform

- Insurance sector FDI to be increased from 26% to 49%
- Oil deregulation – Kirit Parikh Committee report
- Hoda Committee report on Mining not yet implemented
- GST and DTC roadmap
- 3G Auction
- Deregulation of Fertiliser sector
- Banking Reforms & Consolidation of Banks
- FDI in Multi Brand Retail

What Did Markets Like?

arm research
outperform

- Move to fiscal consolidation for next 3 years.
- 16% of planned allocation for infrastructure development.
- Increase in the tax slabs.
- Reduction in subsidy burden.
- Disinvestment of PSUs: Rs. 40,000 cr.
- Auction of 3G spectrum: ~Rs.35,000 cr.
- Reduction in Surcharge from 10% to 7.5%.

What Did Markets Not Like?

- MAT increased from 15% to 18%.
- Service tax on projects under construction & lease rentals.
- Budget to generate inflationary pressures in the near term because of Fuel price hike leading to hardening of interest rates.
- No mention of Insurance Reforms.
- No mention on Banking Reforms.
- No mention on Mining Reforms.
- No mention on FDI in Retail.
- No clear roadmap for GST & DTC.
- Instead of Deregulation of Oil prices, taxes hiked on Petroleum products.

Sectoral Impact

arm research
outperform

Information Technology – Negative

- STPI benefits not extended beyond FY 11.
- Rupee appreciation to hit exports of IT companies.
- Increase in MAT rates from 15% to 18%, Surcharge decreased from 10% to 7.5%
- Perceived perception: Negative
- Market perception: Negative

Oil and Gas - Negative (Except ONGC & Oil India)

- Customs duty increased by 5% on crude oil and levy of excise duty.
- +ve on upstream companies as net realisation on crude increasing by 2.5%.
- -ve for OMCs due to increase in under recoveries.
- Perceived perception: Negative
- Market perception: Negative

Sectoral Impact

Auto Sector – Positive

- Excise duty increase of 2% across the board.
- Perceived perception: Negative
- Market perception: Positive – Price hike to be passed on to the consumers.

Cement – Neutral

- Partial rollback of excise duty on cement products.
- Perceived perception: Negative
- Market perception: Positive – Price hike to be passed and spending on Infra to drive demand growth.

Sectoral Impact

arm research
outperform

Banking – Positive

- New Banking Licenses, capital infusion in Public Sector Banks.
- IIFCL to refinance loans given by banks.
- Perceived Perception: Positive
- Market Perception: Positive

Hotel – Positive

- U/s 35 AD, 100% deduction allowed on capital expenditure as tax incentives for hotels 2 star category and above.
- Perceived Perception: Positive
- Market Perception: Positive

Sectoral Impact

Infrastructure – Negative

- Allocation on infrastructure schemes below expectations.
- MAT rate increased from 15% to18%.
- Perceived Perception: Positive
- Market Perception: Negative

Pharmaceuticals – Positive

- Weighted deduction on R&D expense increased from 150% to 200%.
- SEZ profits completely exempt from tax.
- Perceived Perception: Positive
- Market Perception: Positive

Post Budget – Top Picks

BEL

- Defence Allocation has been increased by 8% from Rs. 1,36,300 cr to Rs. 1,47,300 cr.

Divi’s Lab

- Weighted Deduction on ‘In-House' R&D increased from 150% to 200%.
- Surcharge on Domestic Companies Reduced from 10% to 7.5%.
- Allocation to Ministry of Health & Family Welfare increased from Rs 19,534cr in FY2010 to Rs 22,300cr for FY2011.

Post Budget – Top Picks

arm research
outperform

L&T & BHEL

- Allocation to APDRP scheme increased from Rs. 21bn to Rs. 37 bn.
- Mega power projects have been exempted from excise duty of 8%.

Reliance Power

- Excise duty on mega power projects has been exempted. This will reduce capital expenditure of company.
- Increase in MAT from 15% to 18% insignificant.

Post Budget – Top Picks

arm research
outperform

TATA Motors & Maruti

- Rationalisation of personal tax slabs to improve discretionary spending.
- Excise duty hike of 2% to be passed on to the customer.

Mahindra and Mahindra & Hero Honda

- Greater agricultural credit flow for FY11 due to increase in the interest subvention scheme to 2% from 1%.
- Excise duty hike of 2% to be passed on to the customers.

Post Budget – Top Picks

arm research
outperform

ONGC

- 5% Higher Customs Duty on Crude Oil. This will improve Realization by 2-3 percent.

Syndicate Bank, UCO bank, IOB, IDBI

- Rs 16,500 cr to be provided to PSBs in FY11 to maintain minimum Tier - I capital of 8%.

arm research – Top Picks

arm research
outperform

Gujarat Gas

- Implementation of Kirit Parikh Committee report to drive growth.

Sun Pharma Advanced

- Weighted deduction on R&D expense increased from 150% to 200%.

MRF

- Improved discretionary spending would boost auto sales resulting in growth for tyre companies.
- Exemption of 4% custom duty on its feedstock carbon black to improve profitability.

Market Outlook

- Nominal GDP Growth is 7.2% + 5% = 12.2%
- Earning Growth Expected: 12.2 % to 18.3%
- FY10 Est. Sensex EPS Rs. 805

Earning Growth (%)	12.2	18.3
Est. Sensex EPS- FY11	903	952
PE Multiple	19.7	21.1
Sensex Target	17,800	20,100

Year of consolidation with limited upside in first half of the calendar year and may not challenge the previous peak of 21,000

Total Population V/s Tax Payers

- Total Population of India is 125 Cr
- Total Tax Payers in India are 4 Cr Individuals
- Income Tax Collected in FY 10 is Rs 1,25,000 Cr
- Tax per Assessee : 125000 /4= Rs 31,250.
- Tax per person : 125000/125= Rs. 1,000.

Penetration Still a Distant Goal Since only 3.1% Pay Tax

Disclaimer

arm research
outperform

This document is not for public distribution and has been furnished to you solely for your information and must not be reproduced or redistributed to any other person. Persons into whose possession this document may come are required to observe these restrictions. This material is for the personal information of the authorized recipient, and we are not soliciting any action based upon it. This report is not to be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. It is for the general information of clients and Associates of arm research It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. We have reviewed the report, and in so far as it includes current or historical information, it is believed to be reliable though its accuracy or completeness cannot be guaranteed. Neither arm research, nor any person connected with it, accepts any liability arising from the use of this document. The recipients of this material should rely on their own investigations and take their own professional advice. Price and value of the investments referred to in this material may go up or down. Past performance is not a guide for future performance. Certain transactions -including those involving futures, options and other derivatives as well as non-investment grade securities - involve substantial risk and are not suitable for all investors. Reports based on technical analysis centers on studying charts of a stock's price movement and trading volume, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals. Opinions expressed are our current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice. Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein. We and our affiliates, officers, directors, and employees may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company (ies) discussed herein or act as advisor or lender / borrower to such company (ies) or have other potential conflict of interest with respect to any recommendation and related information and opinions. The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report. No part of this material may be duplicated in any form and/or redistributed without arm research's prior written consent.