





UNION BUDGET 2011-2012 WWW.ECONOMICTIMES.COM

The government once again uses state-run banks as tools to push its social agenda Banks told to lend more to minority community

borrowers. Target at 6%

of total PSU bank loans

Banks will have to lend ₹1 lakh cr more to farmers. Total loans to touch ₹4.75 lakh cr

A new company will guarantee home loans taken by poor borrowers

► The Rising Current Account

to Policy Makers Woes...

Policy Paralysis, Recovery

Worries in the West Have

Slowed Down FII Inflows...

■ Latest Trend in FII Inflows

■ Current Account Deficit

Deficit is Being Financed by

Short-term Inflows, Adding

RBI to sell stakes in Nabard, NHB to govt for ₹1,430 cr & ₹450 cr. respectively

Stocks to Trail Gold, Bonds

Stocks may take a further hit as spike in crude prices could trigger more sell-offs, warn fund managers

to brace for more turbu $lence\ in\ the\ stock\ market$ next financial year, as unyielding inflation coupled with rising interest rates could

slow economic growth and spark corporate earnings downgrades. While volatile stock market conditions would give value-hunters an opportunity to identify winners for the next three years, investments in shortterm bonds and gold would help investors beat the possible gloom in the stock market this year.

"Equities look vulnerable from a one-year perspective, but investors should take advantage of this to buy quality stocks from a two or three year perspective," said Ashish Kehair, head, wealth management, ICICI Securities

The benchmark Sensex closed 0.7% higher on Monday, before giving up on early gains as the Union Budget proposals for 2011-12 did not have enough steps to lift the sagging investor sentiment.

"There wasn't much in the Budget Experts for us to change our view that there could be another 10-15% correction in the Sensex over the next three months," said Saurabh Mukherjea, equities head, Ambit Capital. "This correction will be driven by uncertainty on the political front, a growth scare in the fourth quarter of FY11 and compression of corporate profit margins in 2011-12 because high interest rates and input costs remain major concerns," he said.

The Sensex has fallen about 16% so far in 2011, led by foreign institutional investors selling equities worth ₹8.900 crore. Hopes of a rebound in the US economy, worries about a slowdown in India's economic and corporate earnings growth and corruption scandals involving ministers in the ruling coalition and top companies prompted foreign investors to pull money out of India after investing around \$29 billion in 2010.

Fund managers and brokers warn the worst may not be over for Indian stocks as further spike in crude prices, in the event of more instances of po litical instability in oil-producing reNandkumar Surti, chief investment

officer at JP Morgan Asset Management India, said, equities would continue to be exposed to external challenges such as the US growth and rising oil prices. Crude oil prices hit a two-and-a-half-year high of \$119.79 last week

India, among other emerging markets, has been struggling to contain inflation, driven by higher food and commodity prices, forcing the Reserve Bank of India to raise policy rates seven times since March 2010. Finance minister Pranab Mukherjee said, in his Budget speech on Monday, inflation continues to re-

Ambit's Mukherjea recommends stocks of companies in consumer goods and durables, tobacco and paint sectors, which are less likely to be impacted by rising prices and would benefit from the government's rural spending. His least preferred stock picks are in me-

recommend MF debt products

dia and entertainment, power generation and distribution and construction sectors. Wealth manincluding Securities Kehair, advises investors to stay away from stocks or bonds of real estate

companies. Firm interest rates and high prices may force property buyers to defer purchases that may impact companies' earnings. Investors should increase allocation to gold, but should not hope for great returns, Mr Kehair said, "It should be

to hedge the portfolio against infla-

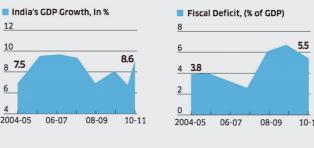
tion," he said Most wealth and fund managers recommend locking money in shortterm mutual fund debt products, such as fixed maturity plans, to benefit from higher interest rates. "Investors can park lumpsum money in fixed income schemes of shorter tenure and avoid long-term bonds. But, if oil prices fall, long-term bonds may appear attractive," Mr Surti said.

OVERCOMING FISCAL CHALLENGE

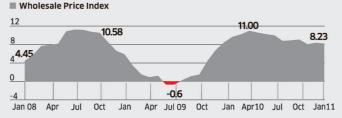
Foreign inflows took a toll in the latter part of 2010 due to scams & inflation. FM promised to cut fiscal deficit, but will he be able to deliver on it?



▶ On the Back of the India However, There are Many **Growth Story & Rising** Concerns on the Macro **Economic Front. Inflows** Flows to Emerging Market May Slow Down..



▶ High Inflation's Pinching the Pockets of the Common Man. This has Forced the Central Bank to Raise Key Policy Rates Several Times..



More Reforms Needed to Juice Up Markets

By Invite



RUCHIR SHARMA HEAD, EMERGING MARKETS,

FOR A BUDGET THAT BEAT the rather low expectations of most analysts, the market's muted reaction indicates just how difficult Indian authorities' work will be in the coming year.

Investors were intensely focused on the government's finances before the Budget speech and to their surprise, finance minister Pranab Muhkerjee seemed to chart a path of fiscal responsibility by increasing total spending a mere 3.4% and projecting a 5% reduction in the government's borrowing programme.

But the financial markets were not impressed by the Budget arithmetic as they doubt whether the government can keep spending on such a tight leash and cut the subsidy bill by the prom-Doubts also prevail over whether the government will

be able to meet its revenue targets, with the increase in tax receipts based on an economic growth assumption of 9% in An inadequately appreciated

aspect of the country's growth resilience, following the global financial crisis, is that both

fiscal and monetary stimulus played a major role.

The stimulus effects are now beginning to fade. In order for India to achieve its ambitious growth target, the private sector has to pick up the baton from the government.

The high investment ratio has been propped up by government spending of late, rather than a major pick-up in private sector capital outlays.

After many years of rapid growth over the past decade, aided in part by the boom across emerging markets, there is a sense of complacency that India is destined to grow at a trend rate of 8-9% come what may.

Policymakers have had little incentive to carry out meaningful economic reform when growth seemed to chug along at 8%, as was the case for much of the past decade. But in recent months, cracks have begun

show up in After many years of rapid touted 'India story' with ingrowth, there is a sense of flation surfac ing as a major complacency issue and the that India private sector to grow at a trend rate re inclination of 8-9% abroad than

at home.

By not carrying on with its streak of populist announcements, the government did show greater sensitivity in its Budget to the changed economic environment where investors are more circumspect about India's growth profile. But the less-than-remarkable

invest

reaction from the international community shows that a lot more economic reform must happen for the bid to come back into India's markets

FM Goes Easy on Service Tax, Excise to Keep Up the Tempo



Big Push

Attempts to cut

fiscal deficit to

Rise in FII invest-

ment limit in corp

bonds in infra

4.6% in FY12

Expert Take

Nirmal Jain Chairman, India Infoline

months, markets and governance have been reeling under a negative sentiment. This Budget can prove to be a sentiment changer. The biggest surprise is the finance minister's attempt to contain fiscal deficit at 4.6% in FY12.

FOR THE PAST COUPLE OF

The bounty of 3G receipts in FY11, at ₹1.1 lakh crore, has been used astutely to help control next year's deficit. The current year's deficit, which most ana-

growth to drive tax revenues, the way it has been in the current year. Although the market sentiment for the past few weeks would make one feel nervous about the ₹40,000-crore disinvestment target, it could be easily surpassed if the sentiment changes.

The government borrowing programme, at ₹3.4 lakh crore, a good 15% lower than market expectations, will ensure private investment is not crowded out and growth momentum is sustained.

Despite experts sermonising him to compromise growth and contain deficit and inflation, the FM has refrained from increasing excise duty and service tax lysts were expecting to be at rates. This will help maintain 4.7%, has jumped to 5.1%. This is the tempo of domestic condue to the lower roll-over of subsumption, which is the key to

bonds in the infrastructure space to \$25 billion from \$5 billion will not only spur investments in the sector, but will also have a cascading impact on oth-

Other measures like the reduction in excise by 7.5% on larger power plants will make local players more competitive.

While the finance minister has disappointed insurance and retail sectors by not allowing more FDI flow, there was a pleasant surprise in the form of direct FII investment in mutual funds. He has also moved forward on Goods & Service Tax and Direct Taxes Code.

Those who would not be happy with the Budget are SEZ players and iron ore exporters. Units in SEZs will be subject to MAT, which can impact tax liability.

STOCKS TO WATCH OUT FOR ITC | MARUTI | MAHINDRA & MAHINDRA

A few sectors prepared for excise increase have been pleasantly surprised. For instance, cigarettes, diesel cars, etc, making investors in ITC, Maruti

Growth's Back on the Agenda, and Markets are Happy, Relieved



Expert Take

Motilal Oswal CMD, Motilal Oswal

Fast Lane Reduction of surcharge on domestic companies Focus on infrastructure and ru-

ral development

I HAD BEEN DREADING THE possibility of an aggressive rollback of the stimulus package, given last year's experience and other initiatives during the current year. But the finance minister has chosen not to do so, making Mr $Market\,relieved\,and\,happy.$

He has retained the standard rate of central excise duty at

ment. The reduction of sur- flow of funds to the sector. charge on domestic companies is a positive step. The exemption limit for individual tax payers has also been raised. The Budget is growth-oriented — the FM used the word 'growth' 21 times in his speech. He is aiming for 9% real GDP growth in FY12, with an ambitious gross tax revenue increase of 24.8%. But he seems confident of reining in fiscal deficit at 4.6%. The banking sector remains one of our favourites, especially given the reined-in fiscal deficit.

The government's focus on infrastructure and rural development is clear from the increased allocations. The enhancement of 10%. Even on the direct tax FII limit for investment in corfront, the FM has chosen to porate bonds issued by inframaintain a benign environ- structure companies will boost

Inflation was a key theme of the speech, and understandably so. The recognition that there are shortcomings in distribution and marketing systems and the government's resolve to take corrective measures are key positives. On the reforms front, DTC and GST now appear set for implementation. RBI has proposed amendments to the Banking Regulation Act and will issue the

guidelines for licences during this fiscal. The FM has also left $indirect\, taxes\, largely\, untouched,\\$ which is good for many sectors While one might be tempted to say there is nothing new in the Budget, one did not expect much, to begin with.

> (The author, through indirect investments, holds shares of SBI)

STOCKS TO WATCHOUT FOR M&M and Bajaj Auto in the automotive segment, ITC in the consumer space, SBI and ICICI Bank in the banking segment, and L&T and Bhel in the infrastructure sector.



Past Performance is no guarantee of future results.

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ICRA Mutual Fund Awards 2011: Canara Robeco Income has been ranked as a 7- Star Fund in the category of 'Open Ended Debt - Long Term' schemes for its 3 year

performance till December 31, 2010. 7 - Star Gold Award indicates the best performing fund amongst the 5-Star Funds, provided the scheme size is a minimum Rs 100 crore or greater than the category average asset size, whichever is lower.The rank is an outcome of an objective and comparative analysis against various parameters, including: risk adjusted return, fund size, company concentration and portfolio turnover. The ranking methodology did not take into account loads imposed by the Fund. There were 26 schemes considered in 'Open Ended Debt - Long Term' category for the ranking exercise. The rank is neither a certificate of statutory compliance nor any quarantee on the future performance of Canara Robeco Mutual Fund. Ranking Source & Publisher: ICRA Online Limited. CNBC TV18 - CRISIL Mutual Fund Awards 2011: Canara Robeco Income (Category - Income Funds) Canara Robeco Income won the CNBC TV18 - CRISIL Mutual Fund Awards 2011 in the Income Funds category. In total 25 schemes were eligible for the award universe. Schemes present in all four quarterly CRISIL Mutual Fund Ranking were considered for the award. The award is based on consistency of the scheme's performance in the four quarterly CRISIL Mutual Fund Rankings released during the calendar year 2010. The individual CRISIL Mutual Fund Ranking parameter scores averaged for the four quarters were further multiplied by the parameter weights as per the CRISIL Mutual Fund Ranking methodology to arrive at the final scores. A detailed methodology of the CRISIL Mutual Fund Ranking is available at www.crisil.com.Past performance is no quarantee of future results. Rankings and Award Source: CRISIL FundServices, CRISIL Ltd. Investment Objective: Canara Robeco Income (open ended debt scheme): To generate income through investment in Debt and Money Market securities of different maturity and issuers of different risk profiles. Load Structure: Entry Load: Nil. Exit Load: 0.5% - if redeemed/ switched out within 6 months from the date of allotment. Nil – if redeemed / switched out after 6 Months from the date of allotment. Statutory Details: Canara Robeco Mutual Fund has been set up as a trust under the Indian Trust Act, 1882. Asset Management Company: Canara Robeco Asset Management Company Ltd. Sponsors: Canara Bank, Head Office, 112, J C Road, Bangalore 560 002; Robeco Groep N.V, Coolsingel 120, 3011 Rotterdam, Netherlands. Risk Factors: Mutual Funds and securities investments are subject to market risks and there can be no assurance or guarantee that the objectives of the Schemes will be achieved. As with any investment in securities, the NAV of the units issued under the Schemes may go up or down depending on the factors and forces affecting the Capital markets and Money markets. Past performance of the Sponsors/AMC/Mutual Fund do not guarantee future performance of the Schemes. Canara Robeco Income is only the name of the scheme and does not in any manner indicate either the quality of the scheme, its future prospects or returns. The Sponsors of the Fund are not responsible or liable for any loss or shortfall resulting from the operations of the Schemes of CRMF, beyond the initial contribution of a sum of ₹10 lac towards the setting up of CRMF. Investors should read the Scheme Information Document for Scheme specific risk factors and other details before investing.