Higher capital infusion in public sector banks to help accelerate lending

MAT on SEZ income to marginally impact profit of tech players like Patni, HCL Tech

Rural broadband thrust to expand reach of telcos such as Bharti Airtel & RCom

Exclusion of employee welfare services from Cenvat credit to push up staff retention costs

Interest on loans to acquire overseas outfits will increase tax outgo on firms with foreign units

Govt Must Hold the Line on Expenditure

Expert Take

Ajay Srinivasan
CEO, Financial Services, Aditya Birla Group

FISCAL CONSOLIDATION was what many were looking for from the Union Budget, with it being evident that monetary policy had done what it could to tame inflation. The biggest characteristic of Budget 2011 seems to be all-round expenditure control. If the government can deliver on expenditure discipline, this would be very welcome. Any adverse development on government spending levels would imply an upside risk to the government borrowing plan.

A key developmental initiative has been seen towards infrastructure financing, which has been given a boost by increasing FII investment limits in corporate bonds with residual maturity of over five years issued by companies in the infrastructure sector by $20 billion. While the stated measure seems to be positive for domestic infrastructure financing, the overall response from FIIs to the increased limit needs to be seen.

The experience with the earlier $5-billion window was lukewarm, with foreign inflows of less than $500 million garnered so far. FIIs would also be permitted to invest in unlisted bonds with a minimum lock-in period of three years, with the FIIs being allowed to trade among themselves during the lock-in period.

Additionally, ₹30,000 crore worth of tax-free bonds can be issued by IRFC, NHAI, HUDCO and ports in FY12. Access to offshore funds by domestic entities to finance domestic infrastructure projects may, however, gain traction as interest payments on the borrowings of domestic infrastructure funds will now be subject to a reduced withholding tax of 5% from the earlier 20%, thus lowering the cost of raising foreign capital for this purpose. Additionally, mutual funds have been permitted to raise funds abroad through foreign investors. All of the aforementioned measures should lead to attracting money from offshore, thus building a marginally positive bias for the rupee in the medium term.

Infra funding now finds itself on a stronger footing. Auto has motored along, too

SECTORS TO *WATCH OUT* FOR

AUTO | CEMENT | INFRASTRUCTURE

We are positive on auto, cement and infrastructure. Auto, as excise duty hasn't been raised. Infra financing should be positive for banks and infra firms. Consumer goods should continue to grow.

FM Hits All the Right Buttons on Reforms Front

Expert Take

Sunil Singhania
Head-Equities, Reliance Mutual Fund

INVESTMENT BY FOREIGN nationals directly into Indian mutual fund schemes is a huge positive. This will pave the way for not only big growth for the fund industry, but will attract much more stable and long-term foreign retail investments into equities. The potential for inflows into Indian MFs can be gauged from the fact that while foreign investors own nearly $350 billion worth of Indian equities, the size of assets in equities of Indian MFs is hardly $50 billion.

Overall, the Budget has kept most of the broad headline macro-economic figures well within expectations. Thus, fiscal deficit and the government borrowing numbers have been big positives. Obviously, concerns and questions do exist on how this will be achieved. After many years, government spending on capital expenditure has seen a negative growth; the subsidy provided for FY12 is lower despite higher global oil and fertiliser prices and also, lower allocation to states for capex programmes.

On the policy front, statements on GST and DTC were on expected lines. The FM mentioned every expected reform — FDI in a few sectors, banking reforms including new licences, corruption, schemes to tax and repatriate illicit money, targeted subsidies on LPG and kerosene and the like. Most proposed reforms would be taken up by the respective agencies in coming months. Thus, 2011-12 can be an action-packed year in terms of reforms.

The increase in FII limit for investment in corporate bonds of infrastructure companies has been by a huge $20 billion. This not only enables the infrastructure sector to raise the much-needed funds at competitive rates, but eases to a large extent the current deficit concerns. Besides causing the rupee to be stable, this investment will also ease significantly the tight liquidity and thus, arrest a further rise in interest rates.

Overall, the Budget is a balanced document.

(Views expressed here are personal and don't reflect those of the organisation)

Fiscal deficit and govt borrowing numbers are positives. But execution is a critical issue

SECTORS TO *WATCH OUT* FOR

FIN SERVICES | BANKS | AUTO | CONSUMPTION

Financial services as G-sec yields should firm up, liquidity and interest rates should ease, MF assets should grow, and new bank licences are on the way. Auto & consumption will be in focus

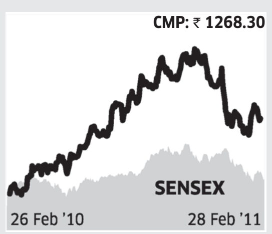
FM Sparked the Fire...

Hard Landing It's been a harrowing few months for blue chips, battered and bruised despite posting fairly impressive numbers. The market was looking for some cues from Pranab Mukherjee's Budget to end its poor run on Dalal St, but after the initial burst of euphoria, the Sensex lost its spark

SENSEX-30 BUY SELL HOLD

Bajaj Auto

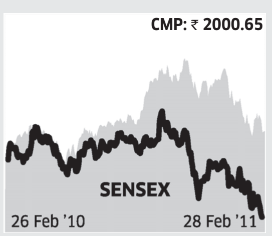
The unchanged excise duty at 10% is a positive as the market had factored in a 2% rollback of the excise cut. Bajaj is the second-largest two-wheeler co and will continue to witness strong demand with rise in disposable incomes and a revision in tax slabs.



Market Cap (₹ Cr)	36700
P/E Ratio	49.82
Dividend Yield (%)	3.15
Inst. Holding (%)	24.01
Sales (TTM in ₹ Cr)	15808
Profit (TTM in ₹ Cr)	2468

BHEL

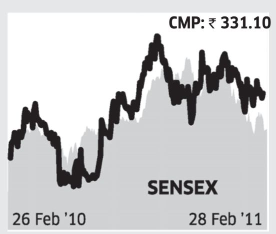
The order backlog of ₹1,58,000 cr provides reasonable revenue visibility of 4.1x book-to-bill ratio. Bhel is expected to meet its order inflow guidance of ₹60,000 cr for FY11E. NTPC's bulk tender is a key trigger. We expect a revenue CAGR of 19% over FY10-FY13E.



Market Cap (₹ Cr)	97936
P/E Ratio	44.20
Dividend Yield (%)	1.16
Inst. Holding (%)	25.95
Sales (TTM in ₹ Cr)	38060
Profit (TTM in ₹ Cr)	5123

Bharti Airtel

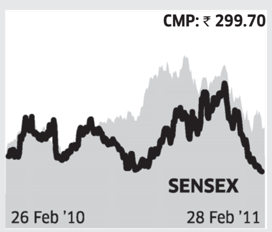
Change in MAT and surcharge will have a marginal impact on earnings. Bharti continues to lead in India while indicators from Africa are encouraging. Though regulatory concerns and the 2G probe may be an overhang, 3G launch could be a near-term trigger.



Market Cap (₹ Cr)	125736
P/E Ratio	18.86
Dividend Yield (%)	0.30
Inst. Holding (%)	26.02
Sales (TTM in ₹ Cr)	53941
Profit (TTM in ₹ Cr)	6670

Cipla

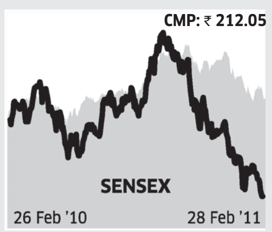
The increase in excise duty to 5% from 4% and in MAT to 18.5% from 18% will not have any major impact on the company. Cipla is expected to pass on the increase in excise duty to customers. In terms of MAT, the net outgo of the company is expected to increase by 0.08%.



Market Cap (₹ Cr)	24063
P/E Ratio	23.40
Dividend Yield (%)	0.67
Inst. Holding (%)	34.07
Sales (TTM in ₹ Cr)	6023
Profit (TTM in ₹ Cr)	1029

DLF

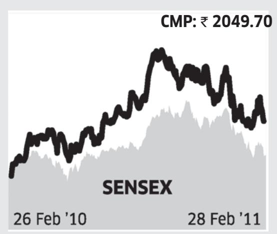
Extension of 1% interest rate subsidy on home loans up to ₹15 lakh will not have any impact on demand. Rising debt level, at around ₹22,000 cr, slower-than-expected sales and launches are a concern. Anticipated revival in commercial lease market is a positive.



Market Cap (₹ Cr)	35995
P/E Ratio	20.91
Dividend Yield (%)	0.94
Inst. Holding (%)	16.12
Sales (TTM in ₹ Cr)	8872
Profit (TTM in ₹ Cr)	1721

HDFC Bank

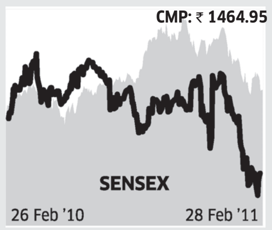
The government's net borrowing at ₹3.43 trillion is lower than estimated. This will keep a check on the rise in bond yields, thus protecting it from MTM hits. The rise in housing loan priority sector limit to ₹25 lakh will help the bank meet its housing portfolio targets.



Market Cap (₹ Cr)	95258
P/E Ratio	26.11
Dividend Yield (%)	0.59
Inst. Holding (%)	40.23
Sales (TTM in ₹ Cr)	18513
Profit (TTM in ₹ Cr)	3648

Hero Honda Motors

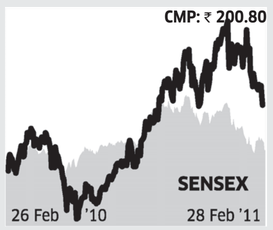
Unchanged excise duty at 10%, government's focus on rural segment and higher disposable incomes are a positive for Hero Honda. With leadership in rural markets, increased focus on exports, higher R&D spend and reducing royalty, the outlook on the stock remains positive.



Market Cap (₹ Cr)	29255
P/E Ratio	14.45
Dividend Yield (%)	7.51
Inst. Holding (%)	38.03
Sales (TTM in ₹ Cr)	18133
Profit (TTM in ₹ Cr)	2025

Hindalco Industries

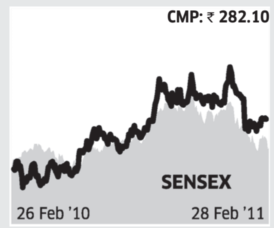
Unchanged excise duty is a positive for the sector. Demand for aluminium is expected to be robust. The firm is better placed to cater to the demand with its expanding capacity and low-cost production. At current LME prices, we believe, Hindalco will post healthy growth.



Market Cap (₹ Cr)	38449
P/E Ratio	18.37
Dividend Yield (%)	0.67
Inst. Holding (%)	44.14
Sales (TTM in ₹ Cr)	22417
Profit (TTM in ₹ Cr)	2092

Hindustan Unilever

Exemption of customs duty on crude palm oil will cut production cost of soaps. Higher disbursement of farm credit and interest subsidy to farmers will boost rural income and thus spending. Unchanged excise duty, higher MAT at 18.5%, and cut in corporate surcharge will be neutral.

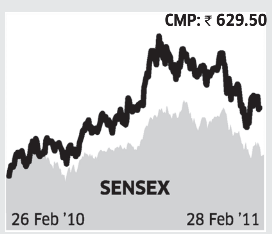


Market Cap (₹ Cr)	62415
P/E Ratio	26.92
Dividend Yield (%)	2.30
Inst. Holding (%)	30.19
Sales (TTM in ₹ Cr)	19149
Profit (TTM in ₹ Cr)	2318

HDFC

Extension of 1% interest subvention for housing loans up to ₹15 lakh for houses costing ₹25 lakh to boost loan book growth. Rise in home loan priority sector limit would also help.

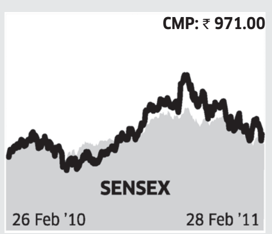
967%
Return in 10 years



Market Cap (₹ Cr)	92231
P/E Ratio	27.78
Dividend Yield (%)	1.14
Inst. Holding (%)	87.66
Sales (TTM in ₹ Cr)	11971
Profit (TTM in ₹ Cr)	3319

ICICI Bank*

The Budget measure does not have much of an impact on the bank. The lower-than-expected government borrowing will keep yields in check. The bank should benefit from higher priority sector lending limit for home loans, as home loans form 24% of its advances.

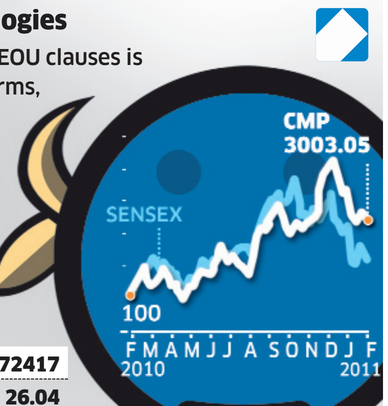


Market Cap (₹ Cr)	111553
P/E Ratio	22.41
Dividend Yield (%)	1.24
Inst. Holding (%)	62.66
Sales (TTM in ₹ Cr)	50307
Profit (TTM in ₹ Cr)	5867

*ETIG VIEW

Infosys Technologies

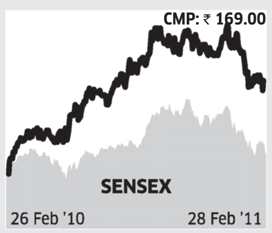
Sunset of STP and EOU clauses is neutral for tier-I firms, but modestly negative for tier-II and tier-III ones. MAT on SEZ is partially negative as it could lead to cash outflows.



Market Cap (₹ Cr)	172417
P/E Ratio	26.04
Inst. Holding (%)	45.03
Sales (TTM in ₹ Cr)	26195
Profit (TTM in ₹ Cr)	6622

ITC

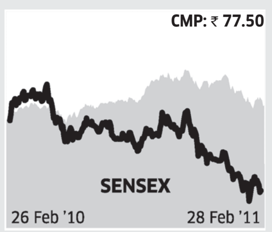
Unchanged excise duty on cigarettes is a big boost. Exemption of customs duty on crude palm oil, higher spend for oil seeds products and better agri produce will cut production costs of soaps & food products. Tax slabs revision and higher rural wages will boost sales growth.



Market Cap (₹ Cr)	130497
P/E Ratio	63.30
Dividend Yield (%)	5.92
Inst. Holding (%)	49.99
Sales (TTM in ₹ Cr)	20640
Profit (TTM in ₹ Cr)	4734

Jaiprakash Associates

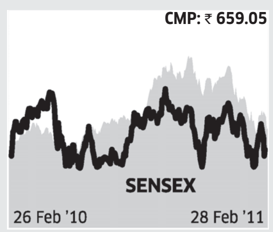
The change in excise duty to 10% on an ad valorem basis and ₹8/bag from 10% on MRP basis will be neutral as incremental duty of ₹8/bag will be offset by reduced duty on the ex-factory price. Major gains from import duty cut on petcoke and gypsum are unlikely.



Market Cap (₹ Cr)	16480
P/E Ratio	14.88
Dividend Yield (%)	1.39
Inst. Holding (%)	33.33
Sales (TTM in ₹ Cr)	12581
Profit (TTM in ₹ Cr)	1108

Jindal Steel & Power

Unchanged excise rate at 10% is neutral for the sector. The hike in infrastructure spend with greater rural focus will help spur domestic demand for steel. The extension of sunset clause on tax holiday for the power sector is a positive for the power segment of the company.



Market Cap (₹ Cr)	61568
P/E Ratio	16.35
Dividend Yield (%)	0.19
Inst. Holding (%)	26.10
Sales (TTM in ₹ Cr)	12433
Profit (TTM in ₹ Cr)	3766

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