Sensex 30

UNION BUDGET 2011-2012 | WWW.ECONOMICTIMES.COM

Hike in MAT to 18.5% from 18% will impact companies like Reliance Industries

Lower handset prices to boost rural wireless penetration; cos like Videocon, Spice to gain

Higher farm credit will benefit agri-based cos such as Tata Chemicals, & United Phosphorus

FMCG, hospitality, consumer durables cos to benefit from higher disposable income

Sparing tobacco products from tax hikes boosts ITC & Godfrey Phillips

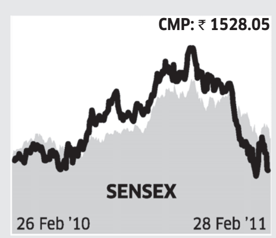
...But St Didn't Fan It

Ringside View To put you on a firm footing in a choppy market, ET, in association with ICICIdirect – an arm of ICICI Bank – makes sense of what's hot and what's not among the 30 Sensex companies. This will not only help you stay ahead on the Street, but will give your portfolio that extra edge

SENSEX-30 BUY SELL HOLD

Larsen & Toubro

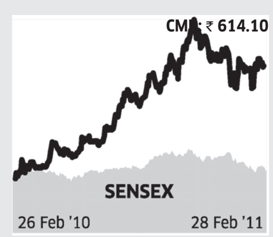
An increase in infrastructure allocation by 23.3% will benefit L&T in terms of order inflows. Hike in the limit for FII investment in corporate bonds to $25 billion also augurs well for the sector. L&T, being the leader, is expected to benefit the most.



Market Cap (₹Cr)	93035
P/E Ratio	25.08
Dividend Yield (%)	0.82
Inst. Holding (%)	53.79
Sales (TTM in ₹Cr)	42214
Profit (TTM in ₹Cr)	3710

Mahindra & Mahindra

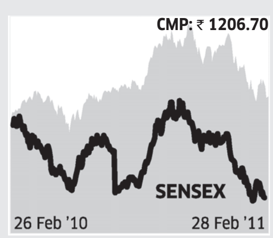
The setting up of a cleantech R&D fund is a boost for hybrid vehicles which M&M can utilise through recently-acquired Reva. Increase in farm credit to ₹4.75 lakh crore, central excise duty at 10%, and a reduction in customs duty on agri machinery are the other positives.



Market Cap (₹Cr)	37702
P/E Ratio	14.36
Dividend Yield (%)	1.55
Inst. Holding (%)	49.72
Sales (TTM in ₹Cr)	22020
Profit (TTM in ₹Cr)	2626

Maruti Suzuki India

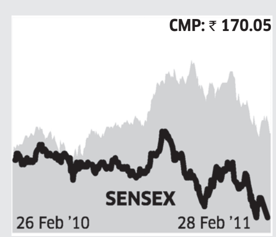
Unchanged excise duty on passenger cars is a strong positive. The establishment of an R&D fund for hybrid cars is a push towards more investment in green technology. Rising disposable income due to lower direct tax will assist small car buyers.



Market Cap (₹Cr)	34864
P/E Ratio	15.26
Dividend Yield (%)	0.50
Inst. Holding (%)	38.00
Sales (TTM in ₹Cr)	35298
Profit (TTM in ₹Cr)	2285

NTPC

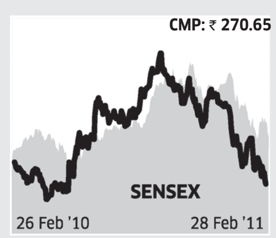
The extension of the sunset clause (for tax holiday) for the power sector was on expected lines. We expect incremental capacity addition of 3,000 MW by FY12. An increase in MAT to 18.5% from 18% and a 2.5% cut in surcharge will neutralise the impact on earnings.



Market Cap (₹Cr)	140214
P/E Ratio	16.82
Dividend Yield (%)	2.23
Inst. Holding (%)	11.78
Sales (TTM in ₹Cr)	53273
Profit (TTM in ₹Cr)	8338

ONGC

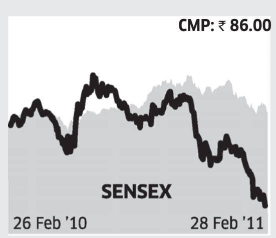
Customs duty on crude oil unchanged at 5% is a positive for the company as gross realisation will remain the same as earlier. There is also no change in under-recoveries on petroleum products, which would have no impact on the company's margins.



Market Cap (₹Cr)	231554
P/E Ratio	11.63
Dividend Yield (%)	6.10
Inst. Holding (%)	12.30
Sales (TTM in ₹Cr)	69060
Profit (TTM in ₹Cr)	19910

Reliance Comm

The company will benefit marginally from a rise in MAT and reduction in tax surcharge. However, stagnating revenue, declining profitability and mounting debt pose a serious concern. While it may benefit from 3G launch and MNP-led churn, 2G probe remains a worry.

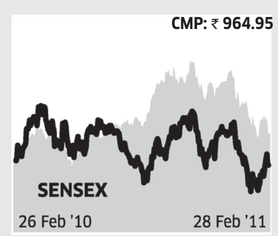


Market Cap (₹Cr)	17751
P/E Ratio	7.56
Dividend Yield (%)	0.99
Inst. Holding (%)	17.54
Sales (TTM in ₹Cr)	19830
Profit (TTM in ₹Cr)	2347

Reliance Industries

Lack of clarity on I-T benefit US 80IB on natural gas production. Increase in MAT rate to 18.5% and a 2.5% cut in surcharge mean the impact on earnings would be neutral.

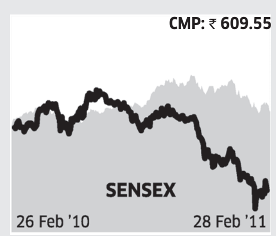
₹2,06,183cr
Total assets as on March 31, 2010



Market Cap (₹Cr)	315848
P/E Ratio	37.07
Dividend Yield (%)	0.73
Inst. Holding (%)	28.08
Sales (TTM in ₹Cr)	233066
Profit (TTM in ₹Cr)	19620

Reliance Infrastructure

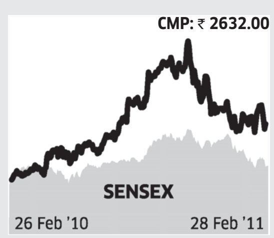
The extension of the sunset clause for the power sector to March 2012 bodes well as projects commissioned this year will get tax benefits. The overall increase in infra sector allocation and FII limit for infrastructure corporate bonds are positives for infrastructure players.



Market Cap (₹Cr)	16301
PE Ratio	19.56
Dividend Yield (%)	1.16
Inst. Holding (%)	37.57
Sales (TTM in ₹Cr)	15284
Profit (TTM in ₹Cr)	1612

State Bank of India

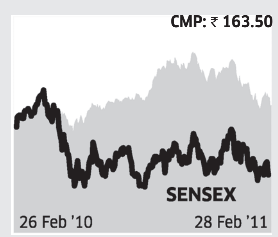
Lower borrowings due to reduced fiscal deficit will keep G-sec yields under control. The impetus to priority sector lending from increased housing loans, priority sector limit of ₹25 lakh and additional interest rate subvention for short-term farm loans will have no impact.



Market Cap (₹Cr)	167129
P/E Ratio	13.86
Dividend Yield (%)	1.14
Inst. Holding (%)	28.95
Sales (TTM in ₹Cr)	109038
Profit (TTM in ₹Cr)	12059

Sterlite Industries

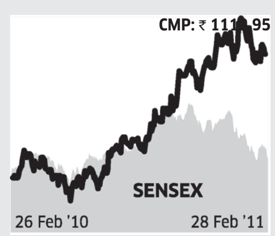
No change in excise duty is a positive. The demand for copper, aluminium and zinc may remain robust due to rising infra spending. This will help in increasing sales volumes of the company's base metal products in the domestic market where margins are higher.



Market Cap (₹Cr)	54962
P/E Ratio	12.22
Dividend Yield (%)	1.15
Inst. Holding (%)	21.69
Sales (TTM in ₹Cr)	27615
Profit (TTM in ₹Cr)	4498

TCS

Sunset of STP and EoU clauses is neutral for tier-I companies, but modestly negative for tier-II and III companies. MAT on SEZ is partially negative for the sector as it could lead to a higher cash outflow. Rising IT budgets and a revival in developed geographies are positives.

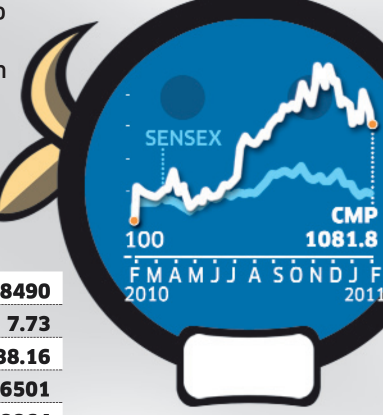


Market Cap (₹Cr)	217827
P/E Ratio	25.79
Dividend Yield (%)	1.80
Inst. Holding (%)	20.68
Sales (TTM in ₹Cr)	34905
Profit (TTM in ₹Cr)	8446

Tata Motors

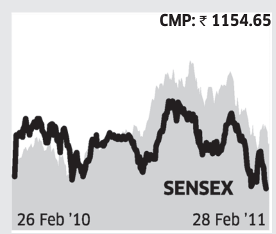
Tata Motors is expected to utilise JLR's capabilities to effectively use the push towards green technology. The unchanged excise duty structure will boost sentiment in the near term.

Market Cap (₹Cr)	68490
P/E Ratio	7.73
Inst. Holding (%)	38.16
Sales (TTM in Rs Cr)	116501
Profit (TTM in ₹Cr)	8864



Tata Power Company

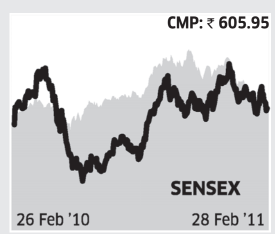
The extension of the sunset clause for the power sector was on expected lines. We expect incremental capacity addition of around 1,850 MW by FY12. These projects will enjoy tax benefits in FY12. The company faces minimal risks for projects at the commissioning stage.



Market Cap (₹Cr)	27401
P/E Ratio	11.51
Dividend Yield (%)	1.04
Inst. Holding (%)	48.05
Sales (TTM in ₹Cr)	19788
Profit (TTM in ₹Cr)	2381

Tata Steel

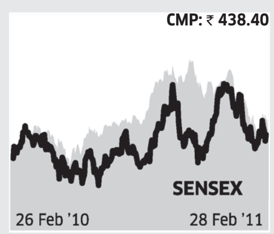
Unchanged excise rate is a neutral for the sector. However, an increase in infra spending, with greater rural focus, may spur domestic demand. We remain positive on Indian operations, but a subdued performance of its overseas operations raises concern.



Market Cap (₹Cr)	58123
P/E Ratio	8.03
Dividend Yield (%)	1.32
Inst. Holding (%)	42.64
Sales (TTM in ₹Cr)	112434
Profit (TTM in ₹Cr)	7241

Wipro

Sunset of STP and EoU clauses is neutral for tier-I companies, but modestly negative for tier-II and III companies. MAT on SEZ is partially negative as it could lead to higher cash outflow. Improved IT budgets, revival in developed geographies will help.



Market Cap (₹Cr)	107570
P/E Ratio	20.97
Dividend Yield (%)	1.37
Inst. Holding (%)	9.00
Sales (TTM in ₹Cr)	29779
Profit (TTM in ₹Cr)	5131

Consumption, Investment Get a Move on

Expert Take

Milind Barve
Managing Director, HDFC AMC

THROUGH THIS BUDGET, THE government has continued to support the twin engines of growth, namely, consumption and investment. On the consumption front, by increasing exemption limits and keeping the central excise rate broadly unchanged, the government has sought to create a conducive environment. It has also introduced several measures aimed at supporting agricultural growth. The government has also sought to address the problems relating to poor infrastructure. A 23% increase in spending on infrastructure is a clear indication of its desire to tackle the problem more aggressively.

The government's commitment to fiscal prudence is another key takeaway. While it has kept a tight leash on expenditure, the revenue trajectory is expected to be reasonable. Revenue receipts are expected to increase 3.6% and tax receipts 18%. Non-tax receipts are expected to fall 43% in the absence of one-off gains. Controlling the deficit should help rein in interest rate expectations. By restricting government borrowings, it has given the private sector greater freedom to access the debt market to fund its requirements.

The proposal for the mutual fund industry will help expand the investor base and open up additional capital avenue. There has also been a marginal increase in dividend distribution tax for corporate investors, making it uniform at 30% for debt and liquid schemes.

A 23% rise in spending on infra is a clear indication of govt's desire to tackle the problem aggressively

While the overall direction is encouraging, one must realistically assess the underlying assumptions. To meet the government's targets, not only do receipts have to remain encouraging, but expenses too have to be controlled. In particular, the overall projection of subsidies appears to be low. Some of this will depend on the direction of commodity prices, particularly crude oil. Overall, the finance minister has attempted to strike a balance between immediate requirement for growth and the long-term need for discipline.

SECTORS TO *WATCH OUT* FOR

AUTO | BANKS | CONSUMER GOODS COMPANIES

This Budget should be positive for automobile (no increase in excise), banks (controlled borrowing), and consumer goods companies (marginal reduction in direct taxes)

Cement, Infra Have it Good but Oil & Gas Trip Up

Expert Take

Sam Mahtani
Director, Emerging Markets Portfolio, F&C

BROADLY SPEAKING, THE Union Budget took a reasonable approach to keep the economic growth momentum. However, in certain areas it should have been lot more explicit. For instance, on the expenditure side, numbers seem to be a bit too optimistic with only 3% growth budgeted despite many social sector programmes.

Fiscal deficit at 5.1% of GDP in 2010-11 is a positive. In FY12, the fiscal deficit is projected at 4.6% and 3.5% in 2013-14. The medium-term deficit reduction plan is a positive, although we do expect some slippage in FY12.

Net market borrowing for 2011-12 is seen at ₹3.43 trillion. The market found the net borrowing amount announced to be much better than expected and treated it as a positive because of the fear of crowding out private investments.

The decision to allow foreign investors to invest in equity mutual funds and to hike FII investment limit in corporate bonds are huge positives and have opened up a new route of opportunity for Indian asset management companies.

On the sectoral side, the hike in excise duty for cement is perceived as a negative since it may erode the profit margins of companies which are already facing lower prices due to supply glut.

In the Union Budget for 2011-12, the finance minister proposed a 10% ad valorem duty and ₹80 per tonne for cement with retail price of up to ₹190 per 50-kg bag. For retail price of over ₹190 per bag, excise duty has been revised to 10% ad valorem and ₹160 per tonne. Cement makers are expected to pass on the hike in excise duty to consumers. However, for the consumer sector this is a huge positive.

On the sectoral side, the hike in excise duty for cement companies is being viewed as a negative

The overall measure for the infra sector is a long-term positive. In the oil and gas sector, the market was expecting some announcements for oil marketing companies, which did not happen and, hence, is taken as a negative. The announcements for the banking sector are a positive.

STOCKS TO *WATCH OUT* FOR

ITC | SBI | BHARTI AIRTEL | RIL | TATA MOTORS

ITC to profit from higher rural income. SBI to gain as inflation & interest rates will peak over the next 3 months. Bharti to benefit from an improved sector outlook. RIL poised to make gains