

Higher farm loans to benefit fertiliser, seeds and irrigation companies

The expiry of the STPI scheme will hurt mid-sized IT cos like Hexaware, NIIT Tech

Infrastructure status to the fertiliser industry will attract higher investments

VST Tillers, Mahindra's profitability will be hurt on halving of import duty on farm equipment

Levy of service tax on coaching centres will hit profitability of Career Point, EdServ

US Turnaround will Revive Indian IT's Fortunes



Analysts' Picks

Jyotivardhan Jaipuria
MD & Head of India Research,
Bank of America-Merrill Lynch

THE TAX HOLIDAY FOR Software Technology Parks was not extended beyond March, as was anticipated by the smaller IT firms. Consensus estimates had factored in the expiry of the tax holiday. On the other hand, the Minimum Alternate Tax (MAT) on special economic zones will impact cash flow negatively. But IT companies will offset the earnings impact by creating MAT credit asset, which can be carried forward for 15 years, given that they expect their tax liability to be higher than this deferred tax asset during the period.

also seeing regulation-related activity while the telecom vertical is seeing some growth led by cost cutting, modernisation and vendor consolidation-related spend. Secondly, global outsourcing continues to gain share in new areas like infrastructure management services (IMS), health-care and public sector and new markets like continental Europe. IMS and BPO are forecast to grow at twice the average offshore market growth rate. Thirdly, margins are likely to be maintained, helped by scale and pricing showing an upward bias. The rupee should stay flat on an average basis compared to FY11.

We are overweight on the software sector due to its improving growth outlook

Lastly, company-specific factors like higher productivity, broadening of the employee pyramid and investments beginning to pay off are also helping margins. We think the sector can see a top line and bottom line growth of over 20%, which should drive stock performance.

STOCKS TO WATCH OUT FOR

LARGE-CAPS | MID-CAP IT COS

Large-caps are the best bet. Some niche mid-cap IT companies could also provide better value and grow faster than the large-caps. Overall, there's no major implication for the software sector

High on Promises, but no Instant Remedy for Infra



Analysts' Picks

Bharat Iyer
Executive Director & Head
India Equity Research, JP Morgan

THE BUDGET SPEECH WAS long on promise for the infrastructure sector. But there were no triggers to change the near-term growth outlook. The overall infrastructure plan allocation was hiked 23.3% to \$47 billion.

(b) Withholding tax on notified infra debt funds was reduced to 5% from 20% earlier. The government will have enabling power to notify eligible infrastructure debt funds as tax exempt; (c) Issue of tax-free bonds, aggregating to about \$6.5 billion, by infrastructure bodies like IRFC, NHAI, etc.

Conceding the need to balance environmental concerns with growth and speedier implementation of infrastructure projects, the FM announced that a Group of Ministers would be set up to make time-bound recommendations on this debate. Separately, the Land Acquisition (Amendment) Bill and the Mines and Minerals (Development and Regulation) Bill have been tabled in Parliament for discussion. Clarity on these issues will be critical to boost business confidence and ensure a decisive pick-up in the investment cycle. The near-term sector performance will hinge substantially on the progress in policy initiatives.

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There were measures to ease fund availability for infrastructure projects, notably: (a) FII limit on investment in corporate bonds with maturity of more than five years was doubled to \$40 billion;

STOCKS TO WATCH OUT FOR

L&T | BHEL | GMR | POWER GRID

We prefer L&T (proxy for India's infra growth), BHEL (confidence in the near-term growth estimates), GMR (value pick), & Power Grid Corp (solid defensive with limited risks to stable growth profile)

Middle Path to Moolah

Investors, both institutional and retail, eye their pot of gold in mid-caps. It's a bet which has very high stakes of risk-and-reward. If the rub of the green goes your way, you can make a quick buck. ETIG picks 44 such buzzing mid-caps with a market cap of ₹2,000-10,000 crore

MID-CAP BUY SELL HOLD

Allahabad Bank

The proposal to boost Tier-I capital of PSBs may not benefit Allahabad Bank as its CAR is over 8%. The budget will not put any strain on its operations. The proposal to increase credit to the farm sector by ₹1-lakh crore means a higher exposure to this sector.

Market Cap (₹ Cr) **8,845**
PE Ratio **6.36**
Dividend Yield (%) **2.78**
Inst. Holding (%) **32.28**
Sales (TTM in ₹ Cr) **10,102**
Profit (TTM in ₹ Cr) **1,390**

Alok Industries

The integrated textiles company will not benefit directly from the Budget. The government did not tweak the customs duty on one of its major inputs, monoethylene glycol. Also, the company has already completed its expansion. The Budget will be neutral for it.

Market Cap (₹ Cr) **1,627**
PE Ratio **5.21**
Dividend Yield (%) **0.00**
Inst. Holding (%) **30.72**
Sales (TTM in ₹ Cr) **5,634**
Profit (TTM in ₹ Cr) **312**

Apollo Hospitals

The service tax net has widened to include in-patient services at AC hospitals with more than 25 beds and for diagnostic and doctor's services. This will negatively impact Apollo, which has one of the largest networks of multi-speciality hospitals in India.

Market Cap (₹ Cr) **5,796**
PE Ratio **35.37**
Dividend Yield (%) **0.75**
Inst. Holding (%) **27.47**
Sales (TTM in ₹ Cr) **2,193**
Profit (TTM in ₹ Cr) **164**

Ballarpur Industries

Reduction in basic customs duty on waste paper to 2.5% will marginally benefit the company. Corporate surcharge reduction to 5% can improve earnings.

Market Cap (₹ Cr) **1,967**
PE Ratio **9.90**
Dividend Yield (%) **1.67**
Inst. Holding (%) **35.71**
Sales (TTM in ₹ Cr) **4,274**
Profit (TTM in ₹ Cr) **199**

₹ 5,835 Cr
Capital employed as on March 31, 2010.

BGR Energy Systems

The removal of the 2.5% excise duty for equipment meant for mega- and ultra-mega power projects will help increase its pricing power without affecting margins. The move aims to provide a level playing field for domestic companies against Chinese and Korean players.

Market Cap (₹ Cr) **2,940**
PE Ratio **8.80**
Dividend Yield (%) **1.72**
Inst. Holding (%) **9.70**
Sales (TTM in ₹ Cr) **4,959**
Profit (TTM in ₹ Cr) **334**

Bhushan Steel

The pressure on the company's margin may ease due to a reduction in the input costs. Domestic iron-ore prices may fall on the back of the 20% export duty levied on iron-ore exports. The reduction in customs duty on steel scrap and ferro alloys will lower raw material costs.

Market Cap (₹ Cr) **8,041**
PE Ratio **8.02**
Dividend Yield (%) **0.13**
Inst. Holding (%) **3.28**
Sales (TTM in ₹ Cr) **6,643**
Profit (TTM in ₹ Cr) **986**

Blue Star

Blue Star will benefit from the excise duty exemption to AC equipment and refrigeration panels for cold chain infrastructure. The proposed financial assistance for metro projects can also benefit the company, as it will bid to provide cooling solutions.

Market Cap (₹ Cr) **2,904**
PE Ratio **16.44**
Dividend Yield (%) **2.48**
Inst. Holding (%) **19.20**
Sales (TTM in ₹ Cr) **2,848**
Profit (TTM in ₹ Cr) **177**

Chambal Fertiliser

Capital investment in the fertiliser sector is being brought under the ambit of infrastructure, making it eligible for tax exemption. This will benefit the company. The plan to move towards direct transfer of cash subsidy will be a positive.

Market Cap (₹ Cr) **2,805**
PE Ratio **9.15**
Dividend Yield (%) **2.82**
Inst. Holding (%) **18.89**
Sales (TTM in ₹ Cr) **4,585**
Profit (TTM in ₹ Cr) **307**

Corporation Bank

The proposal to raise home-loan limits from ₹20 lakh to ₹25 lakh under priority sector lending will boost its lending target to the segment to 40% from 38%. The rise in interest subvention on farm loans will increase disbursements, helping it meet the higher target for the sector.

Market Cap (₹ Cr) **7,865**
PE Ratio **13.28**
Dividend Yield (%) **3.01**
Inst. Holding (%) **37.38**
Sales (TTM in ₹ Cr) **8,579**
Profit (TTM in ₹ Cr) **1,380**

Dewan Housing Finance

The plan to extend interest subvention of 1% on home loans up to ₹15 lakh, where the housing cost does not exceed ₹25 lakh, will boost disbursements. After acquiring Deutsche Postbank, it now caters to the higher loan segment with a ticket size of over ₹15 lakh, which is a positive.

Market Cap (₹ Cr) **2,598**
PE Ratio **16.31**
Dividend Yield (%) **1.21**
Inst. Holding (%) **43.16**
Sales (TTM in ₹ Cr) **1,286**
Profit (TTM in ₹ Cr) **248**

Educomp Solutions

A 24% higher allocation for the education sector will benefit Educomp Solutions. An increased outlay for the Sarva Shikshan Abhiyan and the pre-matric scholarship scheme for SC/ST students is another positive for the company.

Market Cap (₹ Cr) **4,468**
PE Ratio **17.77**
Dividend Yield (%) **0.59**
Inst. Holding (%) **38.84**
Sales (TTM in ₹ Cr) **1,195**
Profit (TTM in ₹ Cr) **251**

Fortis Healthcare

Services at India's largest healthcare provider will become more expensive, since in-patient treatment provided by AC hospitals with over 25 beds, and diagnostic and doctor services at clinical establishments have been brought under the service tax net.

Market Cap (₹ Cr) **5,925**
PE Ratio **48.43**
Dividend Yield (%) **0.00**
Inst. Holding (%) **8.30**
Sales (TTM in ₹ Cr) **1,397**
Profit (TTM in ₹ Cr) **122**

Gateway Distriparks

The company, which sets up and maintains cold storages and warehousing facilities, will benefit from the proposal to increase storage capacities. The proposal to grant infrastructure status to cold storage and post-harvest storage will help it access bank credit easily.

Market Cap (₹ Cr) **1,280**
PE Ratio **16.77**
Dividend Yield (%) **2.53**
Inst. Holding (%) **41.26**
Sales (TTM in ₹ Cr) **172**
Profit (TTM in ₹ Cr) **80**

Glenmark Pharma

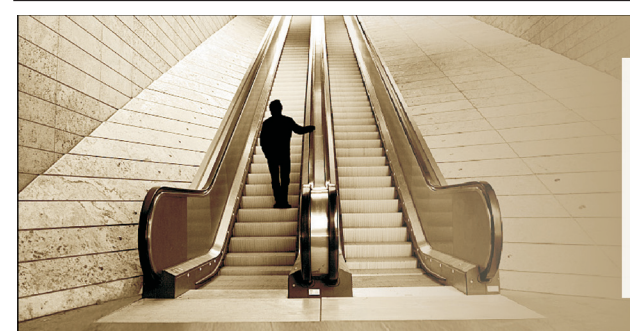
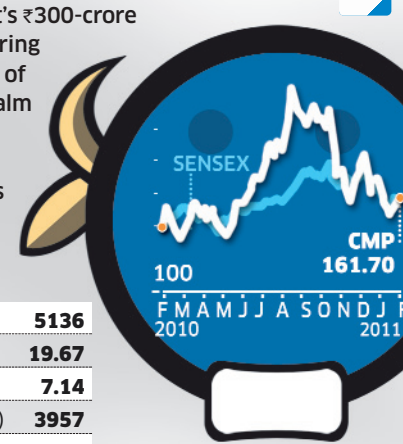
It will benefit from the 20% rise in allocation for healthcare and the widening of the scope of the Rashtriya Swasthya Bima Yojana. The concessional rate of excise duty on pharma products has been raised from 4% to 5%. It may hike product prices to pass on the burden to end-users.

Market Cap (₹ Cr) **6,806**
PE Ratio **14.20**
Dividend Yield (%) **0.16**
Inst. Holding (%) **37.92**
Sales (TTM in ₹ Cr) **2,909**
Profit (TTM in ₹ Cr) **479**

Godrej Industries

The government's ₹300-crore programme to bring 60,000 hectares of land under oil palm plantation is a positive for the company, India's leading producer of oleochemicals.

Market Cap (₹ Cr) **5,136**
PE Ratio **19.67**
Inst. Holding (%) **7.14**
Sales (TTM in ₹ Cr) **3,957**
Profit (TTM in ₹ Cr) **261**



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