Mid-caps

UNION BUDGET 2011-2012

Excise on branded garments to erode profitability of Raymond, Arvind Mills

Excise exemption for coolers in cold storage to benefit Voltas, Blue Star

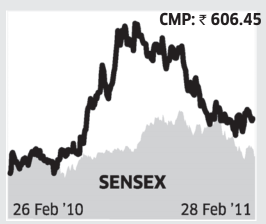
Excise duty cut on sanitary napkins and diapers boosts P&G. ET FMCG Index rises 4%

Extension of tax sops to infra bonds for one more year a shot in the arm for IDFC, REC

Reduction of basic customs duty on micro irrigation equipment hits Jain Irrigation

Godrej Properties

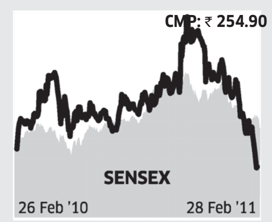
The company should gain from the upward revision in housing loan interest subvention to ₹25 lakh. But lack of exposure to rural areas means it may not be able to capitalise on the increased demand for rural housing.



Market Cap (₹ Cr)	4236
PE Ratio	33.00
Dividend Yield (%)	0.66
Inst. Holding (%)	7.26
Sales (TTM in ₹ Cr)	295
Profit (TTM in ₹ Cr)	128

GE Shipping

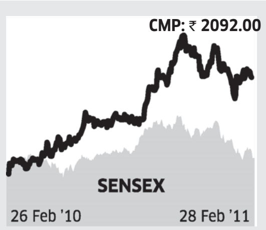
The shipping industry is grappling with sharp downswings in spot freight rates, given the increase in global supply of ships. Shipping companies will benefit from the exemption on customs duties on imported spare parts announced in this Budget.



Market Cap (₹ Cr)	3882
PE Ratio	6.33
Dividend Yield (%)	3.14
Inst. Holding (%)	34.76
Sales (TTM in ₹ Cr)	2691
Profit (TTM in ₹ Cr)	614

GSK Consumers

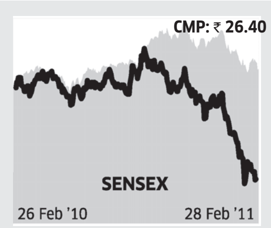
The allocation of ₹300 crore to promote higher production of nutri-cereals such as Bajra, Jowar and Ragi is positive for the firm which produces cereal-based food. It is also likely to benefit indirectly from the rise in consumer disposable income.



Market Cap (₹ Cr)	8799
PE Ratio	29.34
Dividend Yield (%)	2.39
Inst. Holding (%)	30.21
Sales (TTM in ₹ Cr)	2374
Profit (TTM in ₹ Cr)	300

GVK Power & Infrastructure

Steps to attract foreign debt capital in the infrastructure industry – increase in FII limit to $40 billion and cut in withholding tax to 5% – are set to benefit GVK Power. Extension of the sunset clause on tax holiday for power projects is also a positive.



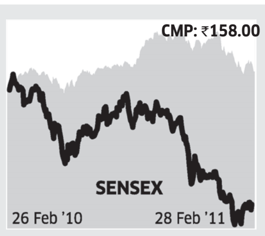
Market Cap (₹ Cr)	4169
PE Ratio	27.50
Dividend Yield (%)	0.00
Inst. Holding (%)	36.55
Sales (TTM in ₹ Cr)	1941
Profit (TTM in ₹ Cr)	151

HDIL

The upward revision of existing housing loan limits under priority sector lending to ₹25 lakh may be positive with its focus on residential segment in the long term.

₹5,174cr

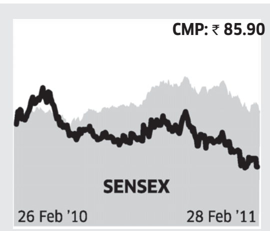
Wealth erosion since listing in 2007



Market Cap (₹ Cr)	6557
PE Ratio	7.48
Dividend Yield (%)	0.00
Inst. Holding (%)	39.80
Sales (TTM in ₹ Cr)	1713
Profit (TTM in ₹ Cr)	878

India Cements

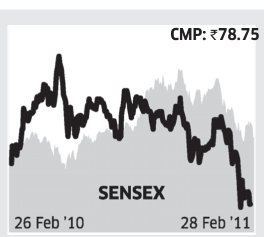
The shift toward ad-valorem duty on cement may increase costs. But weak demand in the South may make it difficult to pass on the burden to end-users. Lower customs duties on key inputs will however help in offsetting higher input prices.



Market Cap (₹ Cr)	2639
PE Ratio	51.75
Dividend Yield (%)	2.33
Inst. Holding (%)	44.10
Sales (TTM in ₹ Cr)	3483
Profit (TTM in ₹ Cr)	51

Indian Hotels

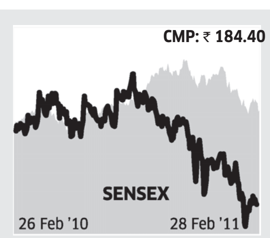
The proposals won't have any major impact on the company. Being a high-end player, it operates at higher room rates. It will not therefore be impacted by the proposal to bring tariff above ₹1,000 per room under the service tax net.



Market Cap (₹ Cr)	5981
PE Ratio	55.85
Dividend Yield (%)	1.27
Inst. Holding (%)	40.14
Sales (TTM in ₹ Cr)	1586
Profit (TTM in ₹ Cr)	107

IRB Infrastructure

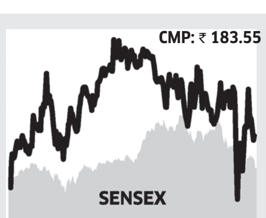
Higher allocation for infrastructure will benefit IRB Infra, a leading player in toll roads under the BOOT agreement. Infrastructure companies generally have bigger working capital cycles due to longer-gestation period of projects.



Market Cap (₹ Cr)	6129
PE Ratio	12.48
Dividend Yield (%)	0.81
Inst. Holding (%)	16.67
Sales (TTM in ₹ Cr)	2173
Profit (TTM in ₹ Cr)	491

Jain Irrigation Systems

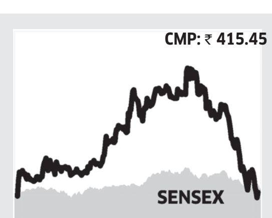
The reduction in customs duty on micro-irrigation equipment from 7.5% to 5% is a key negative for Jain Irrigation. The cut in import tariffs may increase competition and bring its margins under pressure in the micro-irrigation business.



Market Cap (₹ Cr)	6996
PE Ratio	23.20
Dividend Yield (%)	0.49
Inst. Holding (%)	57.82
Sales (TTM in ₹ Cr)	3061
Profit (TTM in ₹ Cr)	303

Jet Airways

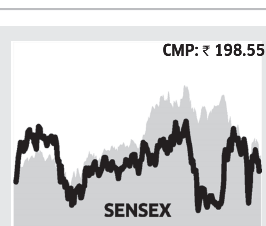
Although the Budget proposed a 50% rise in service tax on economy class to ₹150 from ₹100 for domestic and to ₹750 from ₹500 for international travel, the impact on Jet's earnings may be negligible as 50% of its revenues are from global operations.



Market Cap (₹ Cr)	3587
PE Ratio	18.61
Dividend Yield (%)	0.00
Inst. Holding (%)	15.74
Sales (TTM in ₹ Cr)	12323
Profit (TTM in ₹ Cr)	193

Jindal Saw

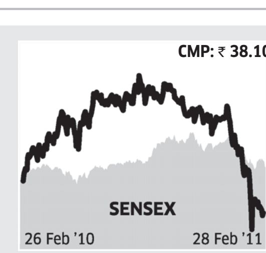
The increase in export duty on iron ore by 20% is positive, as it is likely to bring domestic iron ore prices down, easing raw material costs. The government's plan to issue ₹30,000-crore tax-free bonds to boost infrastructure is also positive.



Market Cap (₹ Cr)	5484
PE Ratio	9.82
Dividend Yield (%)	0.63
Inst. Holding (%)	33.84
Sales (TTM in ₹ Cr)	4094
Profit (TTM in ₹ Cr)	559

Lanco Infratech

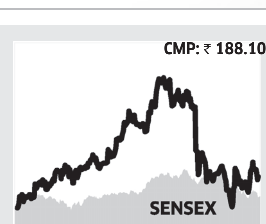
The one-year extension of the sunset clause on tax holiday for the power industry and the exemption of customs duty and CVD on some equipment used in highway development projects will benefit the company marginally.



Market Cap (₹ Cr)	9174
PE Ratio	16.93
Dividend Yield (%)	0.00
Inst. Holding (%)	23.41
Sales (TTM in ₹ Cr)	8133
Profit (TTM in ₹ Cr)	542

LIC Housing Finance

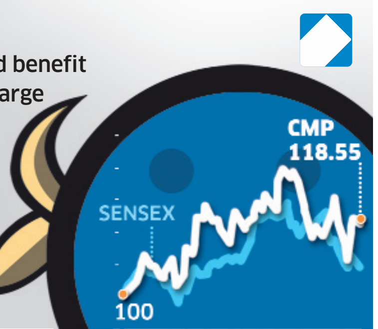
Operating in the urban market with a diversified portfolio, the company will not benefit much from the extension of interest subsidies on housing loans. This is because its average loan size is in excess of the existing ceiling of ₹15 lakh.



Market Cap (₹ Cr)	8928
PE Ratio	21.04
Dividend Yield (%)	1.59
Inst. Holding (%)	46.25
Sales (TTM in ₹ Cr)	4289
Profit (TTM in ₹ Cr)	873

Marico

The company should benefit from the 2.5% surcharge cut. The proposal to bring 60,000 hectares under oil palm plantation will provide an indirect benefit.



Market Cap (₹ Cr)	7283
PE Ratio	27.38
Inst. Holding (%)	29.71
Sales (TTM in ₹ Cr)	2989
Profit (TTM in ₹ Cr)	266

Smooth Ride Ahead for Cars and Bikes

Analysts' Picks

Manishi Raychaudhuri
Managing Director & Head India Research, BNP Paribas

FOR THE AUTOMOBILES sector, the budgetary provisions have been a positive — not because of what the Budget contains, but because of what the Budget does not contain. For instance, the auto industry was apprehensive about a change in central excise duty across the board to 12% from 10%, increase in excise duty on small cars and special tax on purchase of diesel vehicles. None of these measures came through in the Budget — implying a positive surprise to the sector relative to expectations.

However, some questions still remain unanswered. One potential risk to the sector (on which we have little visibility as of now) is that of significant increase in domestic diesel prices. Oil subsidy assumed in the Budget — ₹23,600 crore — is significantly lower than in FY11. This implies the possibility of adjustment of domestic petrol and diesel prices upwards — which could be a risk for commercial vehicle manufacturers.

In general, the Budget has been more favourable for "consumer autos" — ie, two-wheelers and passenger cars, than for "investment autos" — commercial vehicles and utility vehicles. One exception is the diesel vehicles sector, in which M&M is a major player. The apprehension about upfront tax on purchase of diesel vehicles didn't materialise — and that was visible in the sharp positive reaction on M&M's stock price.

The FY12 Budget, in a sense, continues the direction of government policy over the past few years — i.e. (a) support to consumption by way of small adjustments to personal income tax exemption limits — though marginal — increasing annual disposable income by ₹6,600, increase in allocation to social sector spending (Bharat Nirmaan, Rashtriya Krishi Vikas Yojana) and (b) support to infrastructure by a 23% increase in allocation to infrastructure-related programmes and through provisions made to create an enabling environment for infrastructure corporate debt fund. The concerns are mostly around implementation of the low fiscal deficit and government borrowing programme.

Concerns remain on implementation of low fiscal deficit and govt borrowing

STOCKS TO *WATCH OUT* FOR

BAJAJ AUTO | TATA MOTORS | MARUTI

We like Bajaj Auto, Tata Motors, and Maruti. While the Budget may lead to outperformance of some stocks, our stock picking is driven by long-term considerations and relative valuations.

More Reforms Bills Get the Right of Way

Analysts' Picks

Ashish Gupta
Managing Director & Head, India Research, Credit Suisse

THE BUDGET 2011-12 TRIES its best to balance the government's social commitments with fiscal responsibility. Industry-specific stimuli in the form of lower Cenvat rates were largely left untouched, as the government felt it was too early to withdraw them. This should surprise the market positively, especially for automobile and cigarette manufacturers. While there was little to note from the reforms perspective in the Budget itself, the finance minister's speech gave an encouraging line-up of legislations expected to be introduced in the Budget session — the Insurance Bill, the Pension Fund Reform Bill, etc.

The critical aspect of the Budget was the government borrowing number for FY12 and fiscal deficit. The headline number for net borrowing seems low, but once adjusted for short-term borrowings and usage of cash surplus, it is closer to consensus expectations. The fiscal deficit ratio was helped by a sharp 28% jump in nominal GDP in FY11, implying the GDP deflator was a significant 18% year-on-year.

For the real estate sector, overall, the Budget was neutral, though for some, it was positive, and for others, negative. The 1% interest subvention scheme has been extended for home loans up to ₹15 lakh, subject to the house value being less than ₹25 lakh. The earlier limit was ₹10 lakh of loan value subject to house value being less than ₹20 lakh. Further, for priority sector lending, the loan value for home loans has been increased to ₹25 lakh against ₹20 lakh earlier.

Lastly, the investment-linked tax deduction for developing and building a housing project under slum redevelopment or slum rehabilitation has now been extended to affordable housing. These measures should help real estate developers working on affordable and low-end housing. On the other hand, SEZ developers have been brought under MAT. Against zero tax payable for a block of 10 years, the developers will now need to pay 18.5% MAT. While the MAT paid will be available for set-off against future tax liability (after the 10-year tax holiday), it will hurt near-term earnings.

The critical aspect of the Budget is the borrowing number for FY12 and fiscal deficit

STOCKS TO *WATCH OUT* FOR

UNITECH | SOBHA | INDIABULLS REAL ESTATE

Given the Budget's net neutral impact on real estate, our top picks in the sector remain the same: Unitech, Sobha and Indiabulls Real Estate.