Interest subsidy on low-cost homes to help realty firms HDIL, Parsvnath & Dewan Housing

Lower borrowings will translate into bond trading gains for banks

Cement cos fall on concerns over ability to pass on increased excise burden

Capital goods companies BGR Energy, Thermax take a hit in the absence of anti-dumping duty

Hospital services to become more expensive after service tax levy

Banks, Funds & Microfinance Win the Day

Analysts' Picks

Aditya Narain
Managing Director & Head of India Research, Citigroup

WE BELIEVE THE UNION Budget 2011-12 is mildly positive for the banking sector due to its emphasis on continued fiscal growth and consolidation, thrust on financial inclusion as well as increasing opportunities for banks and other financial services.

Specific measures include: a) Road map for banking licences — positive — should invigorate the sector with higher activity levels (private banks could face additional competition), RBI likely to come up with detailed guidelines; b) Capital infusion into public sector banks — positive — will enable them to remain on a high growth path; c) Higher limit for inclusion of housing loans as priority sector loans —neutral — in line with higher real estate prices; d) Extension of tax exemption for investments in infrastructure bonds — positive — puts greater thrust on funding of infrastructure projects and also provides greater funding diversity for infrastructure financing companies; and e) Thrust on financial inclusion — positive— 27% higher target for direct agricultural loans (increases access to funding), and higher interest subvention for timely loan repayments (lesser interest burden helpful for asset quality performance), should channel greater funding into this segment.

For financial services, the recommendations were largely positive: a) Foreign investors allowed to invest in mutual funds broadens the scope of target investors substantially (subject to know your customer norms); b) Creation of an equity fund for investing in microfinance companies — positive — "social" investments from such funds (should have lower expected returns on the capital invested) would encourage greater funding stability and encourage wider lending by MFIs and increase financial inclusion, but slightly moderated; c) Wider tax base for life insurance services — slightly negative — widens scope of service tax to non-Ulip products and also raises taxes.

Allowing foreign investors to invest in MFs will broaden the scope of target investors

(Manish Chowdhary, vice-president, Investment Research, contributed to this article)

STOCKS TO *WATCH OUT* FOR

SBI | AXIS BANK | KOTAK MAHINDRA

We believe banks with higher sensitivity to capital markets/mutual funds should benefit more. Among key stocks, SBI, Axis and Kotak Mahindra would be larger beneficiaries

Crude Shock Awaits Oil Cos & Debt-Heavy Govt

Analysts' Picks

Sanjeev Prasad
Executive Director & Co-Head Institutional Equities, Kotak Securities

THE UNION BUDGET OF FY12 did little to address investor concerns about the oil and gas sector. It failed to address the larger issues plaguing the sector — the lack of transparent pricing and subsidy-sharing systems, although it has announced its intention to move to direct cash transfers on kerosene over a period of time. An opaque pricing system, with the government deciding on periodic price increase without any link to global prices, leaves the sector exposed to the vagaries of global crude prices and makes it difficult for investors to assess total under-recoveries and earnings of companies. The lack of a transparent subsidy-sharing system exposes companies' earnings to large volatility and risks.

Likely high crude oil prices in FY12E due to political unrest in the Middle East will lead to large under-recoveries unless the government raises domestic selling prices significantly from the current levels. With the only practical solution of higher domestic selling prices ruled out due to high inflation and five state elections, the government and government-owned oil companies will have to contend with very high under-recoveries. At $110/bbl (dated Brent) average crude price for FY12E, total under-recoveries could be in the region of ₹145,000 crore. Upstream and downstream companies can bear around ₹50,000 crore out of this amount without harming their profits. The government will have to provide ₹95,000 crore (1% of the GDP) of compensation to BPCL, HPCL and IOC, which it can ill afford, given an already high fiscal deficit (target of 4.6% for FY12 Budget Estimates).

The govt has to raise domestic selling prices significantly from the current levels

The government has provided ₹23,700 crore of fuel subsidies only for FY12BE, which largely includes the balance portion of FY11 estimates and another ₹3,200 crore of nominal subsidy on kerosene and LPG, which it pays regularly to downstream oil companies.

The government has provided ₹38,400 crore of subsidy payment from the Budget for FY11 estimates.

STOCKS TO *WATCH OUT* FOR

CAIRN INDIA | RELIANCE | ONGC | OIL INDIA

More focus on private oil & gas cos such as RIL and Cairn India. Among PSU companies, ONGC and OIL have more visibility as they produce crude and stand to benefit from higher crude prices

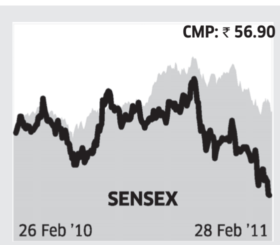
The Men Among Boys

To Give You A Head Start, ETIG spots some winners among mid-caps: banking, fertilisers, shipping and automobiles. But there are some losers as well. Sectors like cement, airlines, branded garments will bear the brunt as Pranabda's Budget measures on service tax and excise begin to bite

MID-CAP — BUY | SELL | HOLD

MRPL (HOLD)

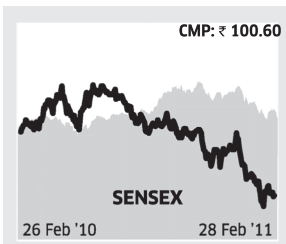
The market was betting on a reduction in customs duty on crude oil & petroleum products which did not materialise in Budget 2011, and this could have squeezed margins for MRPL. But the reduction in corporate surcharge will marginally reduce its tax burden.



Market Cap (₹Cr)	9972
PE Ratio	11.38
Dividend Yield (%)	2.11
Inst. Holding (%)	3.39
Sales (TTM in ₹Cr)	35577
Profit (TTM in ₹Cr)	877

Nagarjuna Construction (BUY)

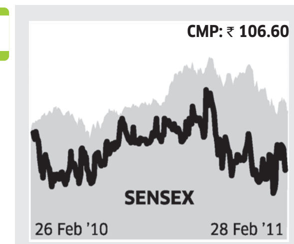
A boost to PPP, thanks to a proposed new policy, will benefit Nagarjuna, which has many power projects under this scheme. Further, a 23% rise in infrastructure funds allocation at ₹214,000 crore will result in easy availability of credit for the execution of large projects.



Market Cap (₹Cr)	2581
PE Ratio	11.20
Dividend Yield (%)	1.29
Inst. Holding (%)	54.27
Sales (TTM in ₹Cr)	6308
Profit (TTM in ₹Cr)	304

National Fertilizer (BUY)

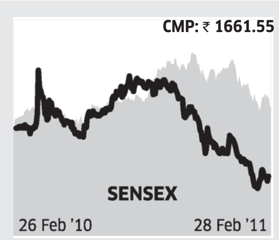
Granting infrastructure status to the fertiliser industry is a key positive, which will enable producers to enjoy investment-linked tax incentives. A substantial increase in agriculture credit target and the interest subvention scheme will ensure liquidity for farmers.



Market Cap (₹Cr)	5230
PE Ratio	31.73
Dividend Yield (%)	0.98
Inst. Holding (%)	1.52
Sales (TTM in ₹Cr)	5540
Profit (TTM in ₹Cr)	165

P&G Hygiene (BUY)

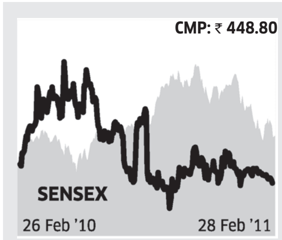
The reduction in excise duty on sanitary napkins and baby diapers from 10% to 1% with no Cenvat credit is a big positive for the company, which manufactures Whisper. It has a market share of over 12% in the Indian sanitary napkins market.



Market Cap (₹Cr)	5393
PE Ratio	41.47
Dividend Yield (%)	1.35
Inst. Holding (%)	11.76
Sales (TTM in ₹Cr)	931
Profit (TTM in ₹Cr)	130

Patni Computer Systems (HOLD)

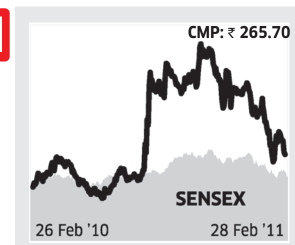
The 50 bps increase in MAT would raise the tax outgo marginally for the company, whose tax incidence is over 12% of its pre-tax income. This would offset the benefit of a 250 bps cut in corporate surcharge tax. Expiry of STPI tax exemption would also increase the tax outgo.



Market Cap (₹Cr)	5902
PE Ratio	9.47
Dividend Yield (%)	14.04
Inst. Holding (%)	17.84
Sales (TTM in ₹Cr)	3329
Profit (TTM in ₹Cr)	623

Raymond (SELL)

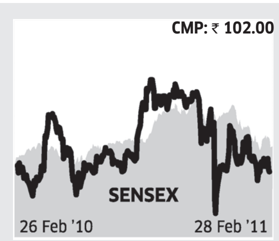
A mandatory 10% excise duty on 60% of the retail value of garments will impact the overall profitability. Raymond works at lower margins compared to its textile segment, which may drop further. A lower corporate tax surcharge may offer some relief.



Market Cap (₹Cr)	1631
PE Ratio	-6.92
Dividend Yield (%)	0.00
Inst. Holding (%)	33.20
Sales (TTM in ₹Cr)	1430
Profit (TTM in ₹Cr)	-95

Ruchi Soya Industries (BUY)

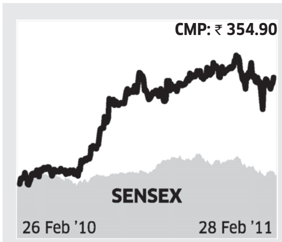
The company is likely to gain indirectly from fund allocations towards palm oil, rise in allocation under Rashtriya Krishi Vikas Yojana and improved credit to farmers. Augmentation of warehousing and capital investment for modern storage capacities is a positive.



Market Cap (₹Cr)	3494
PE Ratio	33.33
Dividend Yield (%)	0.49
Inst. Holding (%)	16.20
Sales (TTM in ₹Cr)	15240
Profit (TTM in ₹Cr)	197

Shoppers Stop (SELL)

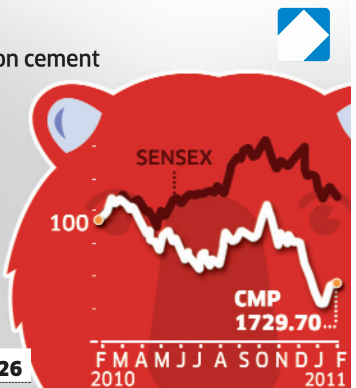
The addition of 10% excise duty on branded garments can hurt earnings. Apparels account for 60% of the total revenue for Shoppers Stop. The excise duty along with the recent price hike pressure faced due to rise in cotton prices can reduce sales volume and margins.



Market Cap (₹Cr)	2915
PE Ratio	60.67
Dividend Yield (%)	0.21
Inst. Holding (%)	19.35
Sales (TTM in ₹Cr)	2230
Profit (TTM in ₹Cr)	48

Shree Cement (HOLD)

The ad-valorem duty on cement could raise duties per bag. Reduction in customs duty on key imported raw materials should help. North-based cement cos may pass on higher excise costs to consumers.

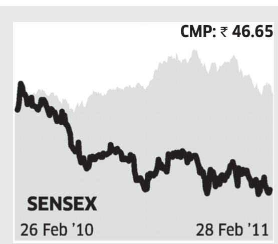


Market Cap (₹Cr)	6026
PE Ratio	83.00
Inst. Holding (%)	12.84
Sales (TTM in ₹Cr)	3387
Profit (TTM in ₹Cr)	73

Suzlon Energy (HOLD)

Focus on environment management marked by a ₹200-crore allocation for remediation programmes from NCE Fund could be a positive.

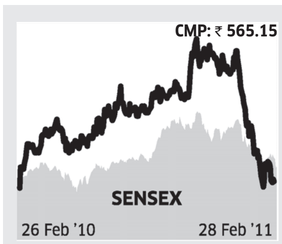
₹ 12,668 cr Total debt against the eq. capital of ₹311 cr



Market Cap (₹Cr)	8291
PE Ratio	-4.81
Dividend Yield (%)	0.00
Inst. Holding (%)	13.47
Sales (TTM in ₹Cr)	16882
Profit (TTM in ₹Cr)	-1723

Thermax (HOLD)

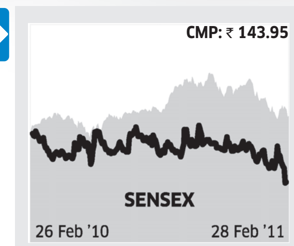
Removal of 2.5% excise duty on equipment manufactured for ultra mega power projects is a positive. But Thermax may not benefit immediately since its plant, in joint venture with Babcock and Wilcox, will commence production next year.



Market Cap (₹Cr)	6734
PE Ratio	28.03
Dividend Yield (%)	0.88
Inst. Holding (%)	24.26
Sales (TTM in ₹Cr)	4342
Profit (TTM in ₹Cr)	240

Tulip Telecom (HOLD)

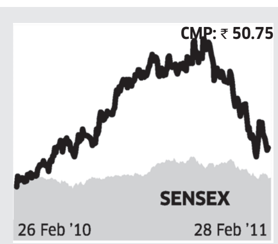
Tulip Telecom is likely to benefit from the proposed plan to connect 1,500 educational institutes via optical fibre network. The proposal to extend rural broadband connectivity to 2.5 lakh panchayats over the next three years is a positive.



Market Cap (₹Cr)	2087
PE Ratio	6.88
Dividend Yield (%)	1.11
Inst. Holding (%)	21.25
Sales (TTM in ₹Cr)	2244
Profit (TTM in ₹Cr)	303

TVS Motor (SELL)

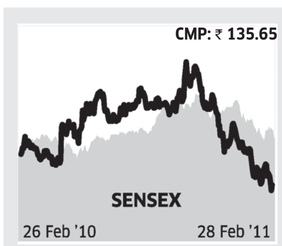
TVS Motor, like other companies operating in the sector, will be relieved since excise duties have not been revised. However, the automobile sector is grappling with higher input costs. This, coupled with rise in auto finance rates, could put the brakes on the sector's growth.



Market Cap (₹Cr)	2411
PE Ratio	17.15
Dividend Yield (%)	2.36
Inst. Holding (%)	20.53
Sales (TTM in ₹Cr)	5872
Profit (TTM in ₹Cr)	171

United Phosphorus (BUY)

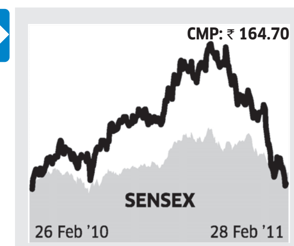
The government's increased focus on agricultural production and productivity in Budget FY12 is likely to benefit the company in the medium term. Interest subvention and increased agricultural credit target will boost sales of farm inputs and drive profitability.



Market Cap (₹Cr)	6264
PE Ratio	11.87
Dividend Yield (%)	1.47
Inst. Holding (%)	52.57
Sales (TTM in ₹Cr)	5464
Profit (TTM in ₹Cr)	529

Voltas (HOLD)

The exemption on excise duty for AC equipment and refrigeration panels for cold-chain infrastructure could benefit the company. However, this represents a small part of Voltas' revenues. Reduction in surcharge to 5% will benefit it marginally.



Market Cap (₹Cr)	5450
PE Ratio	13.90
Dividend Yield (%)	1.21
Inst. Holding (%)	47.30
Sales (TTM in ₹Cr)	4997
Profit (TTM in ₹Cr)	392