



Feb 16, 2010

The budget is a major announcement that investor keenly look forward to. The government policies and announcements will impact the different sectors that will in turn determine the direction of the stock markets.

As our finance minister will be presenting his second consecutive Union Budget in parliament on February 26, 2010. People are expecting a '**Surprise**' Budget considering that India is expected to achieve eight per cent gross domestic product (GDP) growth against the estimated growth of 6.9 per cent, and growth estimates across the manufacturing, services and agriculture sectors are promising. However, there is pressure to curb inflation which may put burden on government finances.

Major Focus Areas:

(1) Agriculture -

Agriculture sector would be the highlight of the session. This sector is likely to receive enormous boost from the government. Finance minister's invitation to the farmers for the pre-budget meet is held to be the main reason behind such speculation. All agricultural based products should be tax exempt or concessionally treated. Import of plant and machinery for food processing sector should be exempt from custom duty. Our expectations are that government will boost existing initiatives and come up with more innovative strategies to commercialise this sector.

Stock to watch: Jain Irrigation Systems Ltd, ITC, REI Agro

(2) Housing & Infrastructure-

Budget 2010-11 may increase the tax exemption limit on interest payments on home loans, and rental income. The sector is expecting measures such as extension of incentive for affordable housing, steps to boost capital funding and eliminating liquidity crunch, and increasing available deduction for interest on housing loans. Under the present provisions of the Income Tax Act, an individual gets a tax deduction of up to Rs 1.5 lakhs on interest payments on home loans.

The industry has requested the finance minister in a pre-budget meeting to hike this limit to at least Rs 3 lakhs. This is expected to give a boost to construction activities. There is also a demand to increase the limit of Rs 1 lakh on principal repayments of home loans to Rs 2 lakhs. Further, there is a demand to make this benefit a separate category, instead of making it a part of Section 80C.

It is also being suggested that the government should accord infrastructure status to the housing sector and appoint a regulator to act as a single window to monitor the affordable housing agenda.

Other items on the agenda have been the rationalisation of stamp duty across all States, and encouraging States to release land for low and middle income housing schemes. To provide further impetus in this direction, the government should consider tax holiday benefits under Section 80IB-(10) for affordable housing projects



Infrastructure industry is also expected to be the focus of the budget. Many believe that development in this sector would account for massive growth in GDP. Government should take steps to bring more transparency and simplicity to the processes involved in the real estate.

Stock to watch: IRB Infra, GMR Infra, DLF, Unitech, Hind Construction, Ansal Housing, LIC Housing

(3) Banking –

The banking system in India has vital importance to the India growth story. The strength of this sector is necessary to provide an anchor to the economy, particularly in these turbulent times. The government may announce a major capital infusion into public sector banks, or PSBs, in the forthcoming Budget enabling them to lend more. The capital infusion will not put any pressure on the fiscal deficit since the funds will come from a World Bank commitment of \$2 billion to the government-controlled banks that name of the beneficiary banks are likely to be announced in the Budget.

Stock to watch: SBI, PNB, Bank of Baroda, Canara Bank, Indian Bank, Union Bank

(4) Automobiles-

The automobile industry fears that Budget 2010 may make cars, both big and small, more expensive by anything between Rs 2,000 and a lakh.

India is now seen as a hub for the small cars segment and many global majors are looking expansion into India. The Govt. initiatives of various excise duty cuts and higher allocation to defense and tractor segment also proved fruitful.

The top auto CEOs are expecting that the government may roll back part of the stimulus package that helped boost car and SUV sales through 2009-10. The industry is also expecting an upward revision in service tax as well as a 2% hike in Cenvat. If Cenvat is hiked two-wheelers might also get costlier by Rs 600-1,500.

Stock to watch: Hero Honda, TVS, Bajaj Auto, Ashok Leyland, Tata Motors, Maruti,

(5) Exports-

With Budget 2010-11 a fortnight away, the Union commerce ministry has asked FM to continue with export incentive schemes till the economy totally recovers. They have urged the finance minister to offer cheap dollar credit at 1% over Libor (London Interbank Offered Rate) to exporters, against 3.5% over Libor. Although India's exports have started growing again after several months of decline, the commerce ministry wants extension of interest subvention scheme to sustain growth and stabilize it at 15-20%.

Stock to watch: Gitanjali Gems, Rajesh Exports

(6) Shipping-

Shipping industry, the backbone of global trade is cyclical in nature with its fortune swing to extreme ends in quick succession, In the last four Union Budgets, there were no major announcements for the Shipping sector. But if the industry gets service tax waiver, its competitive edge can improve.

Stock to watch -Shipping Corporation, Great Eastern Shipping and Mercator Lines



(7) Oil and Gas Exploration-

The budget has an opportunity to resurrect investor sentiments in the two critical areas of gas pipeline infrastructure and upstream exploration by doing away with ambiguity in the fiscal regime and licensing policies. The government should allow true economic value of fuels to reflect in prices of transport and domestic fuels and target subsidies to the deserving in the interest of financial and environmental health.

Stock to watch: ONGC, GAIL, CAIRN INDIA, IGL

(8) Pharma-

To boost (R&D), the ministry is said to have also taken up the suggestions from industry associations to extend a scheme of providing 200 per cent weighted exemption, instead of the current 150 per cent, on R&D activities. This means, for every Rs 100 spent on R&D, a company could claim Rs 200 as tax-free income.

Stock to watch: Cipla, Ranbaxy, Panacea biotech, Cadila, Sun Pharma, Dr. Reddy Lab., Orchid Chemical

(9) Metal-

Base metal producers of aluminum, copper and zinc are drawing some comfort from the improvement in LME base metal prices. Base metal producers are relatively more dependent on global industry revival than the steel players. Growth in production capacity and in turn sales volume and reduction in cost of production is going to remain the growth mantra for them

After the Indian government raised the export duty on iron ore last month, the steel industry is reported to be seeking fresh hike to curb excess exports, especially to China. In its budget recommendations, the steel industry wants the government to curb the rising iron ore exports by imposing a 20% export duty after the central government had doubled the export duty on iron ore lumps from 5% to 10%. Also, Steel ministry supported steel industry to this context.

Stock to watch: Hindalco Sterlite, Tata steel, JSW Steel, SAIL

(10) Power-

Power sector being one of the key sectors of the economy should be focused through a combination of incentives and direct benefits. India is in dire need for strengthening the power transmission and distribution sectors. Special Tax benefits must be provided for companies engaged in R&D producing high-end technology and offering power technology/solutions, since this ultimately results in increase in revenues for the government. Tax incentives must be extended not only to companies owning the power assets but for companies who are directly engaged in creating and deploying those assets.

Stock to watch: NTPC, Adani Power, JSW Energy, NHPC, Tata Power, Reliance Power

(11) Telecom-

Indian telecom sector are consolidating with the increase in the number of operators. Excise duty on all domestic telecom products should be reduced in this Union Budget.

Stock to watch: Idea Cellular, Reliance Communication, Tata Communication, Bharti Airtel



(12) **Retail-**

Finalisation of the GST rollout is also keenly awaited by the retail sector and retailers are in the process of gearing themselves to reap the benefits of the new tax regime.

Stock to watch: Pantaloon, Aditya Birla Nuvo Ltd.



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