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Union Budget 2011-12

Hit or Miss??

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Date: 01st March, 2011

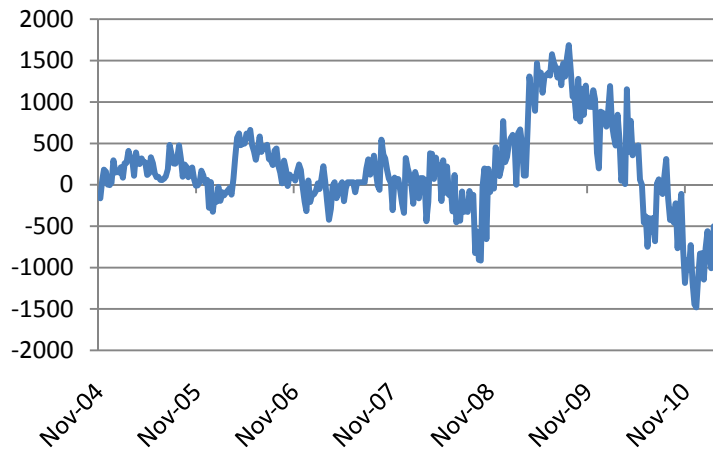


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Why market corrected - Problems

Liquidity concern – rising interest rate

Rev-Repo Amount



3MCP Rate

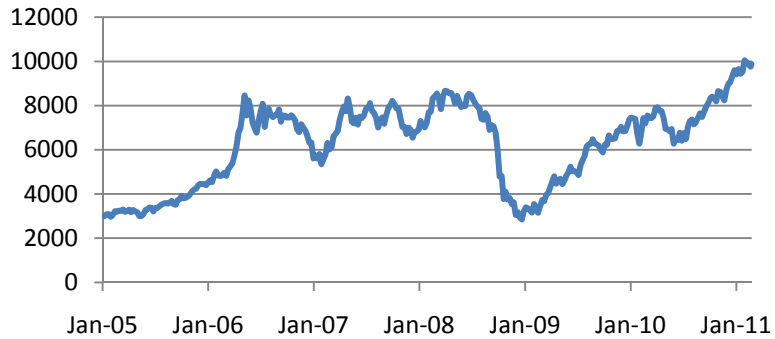




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High Commodity prices – fear of margin pressure

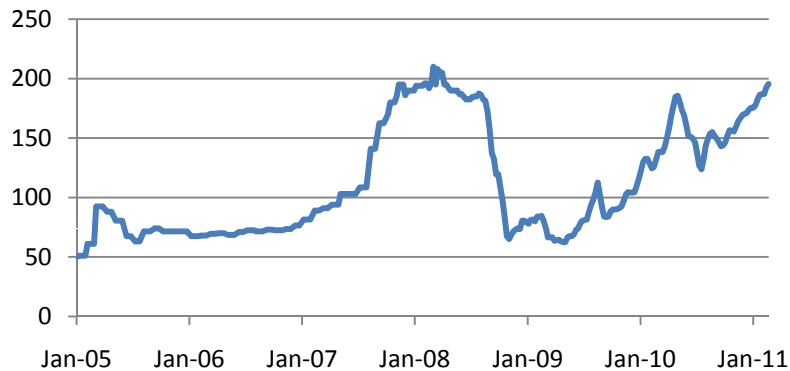
Copper



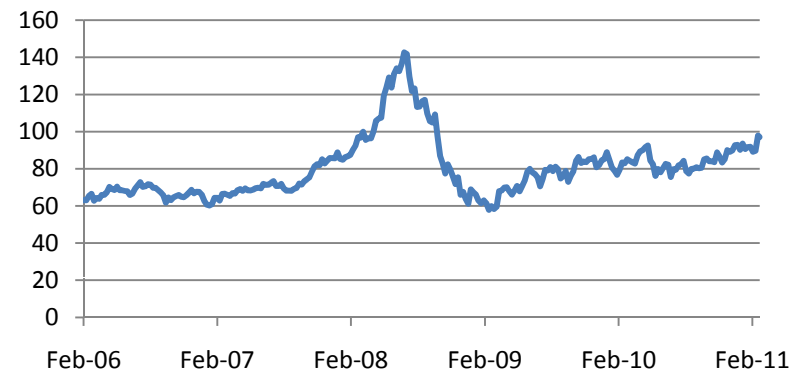
Aluminum



Iron Ore



Crude

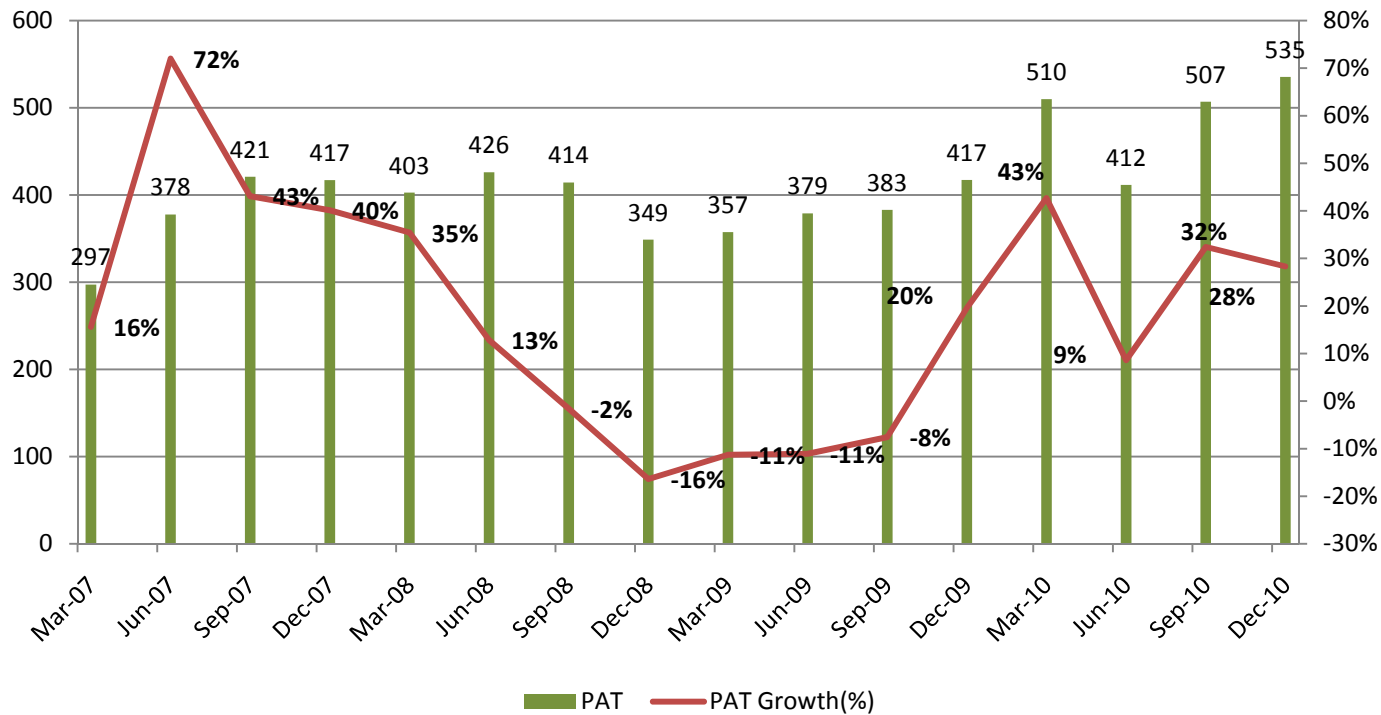




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No more Low base benefit from March quarter





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Any of the problem addressed in Budget 2011-12

Yes – liquidity problem is addressed with lower Fiscal Deficit projection

FM has reduced the Fiscal deficit target for 2011-12 to 4.6% from earlier target of 4.8%. While 2010-11's fiscal deficit is expected to be 5.1% as against earlier expectation of 5.5%

2010-11		2011-12	
Earlier	Revised	Earlier	Revised
5.5%	5.1%	4.80%	4.60%

As a result of lower deficit, borrowings are also expected to be lower at Rs 3.43 lakhs cr from earlier Rs 4.8 lakhs cr.

Budget has further indicated decline in deficit in coming years and given a target of 4.1% and 3.5% for 2012-13 and 2013-14

More empasis on Infrastructure

- ❖ Additional \$20 billion allowed from next fiscal year can be invested in bonds.
- ❖ Allocation for the infrastructure sector, totaling to Rs 2,14,000 cr – is 48% of total planned allocation & 23% higher than previous year.
- ❖ Tax-free bonds worth Rs.30,000cr to be issued by various government units (IRFC, NHAI, HUDCO, Ports) specifically to boost infra development in railways, ports, housing and highways development.
- ❖ One year extension to the additional deduction of Rs 20,000 for investments in infra bonds notified by the government.
- ❖ Increase allocation to Bharat Nirman from Rs 48,000 cr to Rs 58,000 cr
- ❖ Increase allocation to defense capex from Rs 60,833 cr to Rs 69,199 cr
- ❖ Companies to be watched: L&T, Bhel, Unity Infra, IRB Infra, IL&FS Transport, Patel Engg, BEL



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Negative expectation – positive surprise

- ❖ It was expected that excise duty would be rolled back at its original levels of 12% - to withdraw the stimulus given during economic slowdown
- ❖ FM has not touched the base rate giving a relief to Automobiles and Cigarette companies like Tata Motors, ITC



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Key Highlights Of The Budget

Positives

- ❖ Target for fiscal deficit is kept at lower end of 4.6% - Positive for Banking Sector
- ❖ Investments in Fertilizer sector have been given status of Infra sub sector - Positive for all fertilizers company
- ❖ Import duty of 2.5% levied on power equipments – Positive for Bhel, Negative for BGR and Thermax
- ❖ Credit Flow for farmers raised from Rs 3.75 lakh crs to Rs 4.75 lakh crs – Positive for tractor companies like M&M and Escorts
- ❖ Reduction in basic customs duty from 5% to 2.5% on Carbon Black feedstock positive for Phillips Carbon Black
- ❖ Fully exempt stainless steel scrap from basic customs duty (from earlier 2.5%) – Positive for Jindal Stainless
- ❖ FII Investment allowed in Mutual Funds – Positive for Reliance Capital, Bajaj Finserve

Negatives

- ❖ Export duty on Iron Ore fines increased from 5% to 20% - Negative for Sesa Goa
- ❖ SEZ developers and units operating in it have been brought under the purview of Minimum Alternate Tax (MAT) – Negative for Mundra Port, IT and Pharma
- ❖ Service tax on domestic air travel and international travel have been increased by Rs 50 and Rs 250 respectively
- ❖ Health care services brought under the tax bracket – Negative for Fortis Healthcare and Apollo Hospitals
- ❖ Hotel accommodation and restaurant services are not spared – Negative for all Hotels



Key changes in Indirect taxes

Excise Duty

- ❖ Duty kept unchanged at 10%
- ❖ Excise duty of 10% levied on Branded Readymade garments – negative for Textile companies like Arvind Mill, KKC, Raymonds, Brand Retail House
- ❖ For smooth transition towards GST roll out, 130 more items have brought under the net, although with nominal rate of 1%
- ❖ Lower rate of excise duty is increased from 4% to 5%
- ❖ Increase in excise duty on Cement – negative for Cement companies

Service Tax

- ❖ Standard rate of service tax maintained at 10%
- ❖ Service tax on domestic air travel and international travel have been increased by Rs 50 and Rs 250 respectively
- ❖ Health care services brought under the tax bracket
- ❖ Hotel accommodation and restaurant services are not spared
- ❖ Services tax has been increased from 1% to 5% on life insurance companies in the area of investment and some more legal services provided by them
- ❖ All individuals and sole proprietors with a turnover up to Rs 60 lakhs freed from audit formalities



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Customs duty

- ❖ Basic customs duty is being reduced from 5% to 2.5% on specified agricultural machinery mainly paddy trans-planter, laser land leveler, cotton picker, reaper cum binder, straw or fodder balers, sugar cane harvesters and track used for manufacture of track-type combine harvester
- ❖ Full exemption from basic customs duty is being extended to stainless steel scrap
- ❖ Basic customs duty is being reduced from 7.5% to 2.5% on micro-irrigation equipment
- ❖ Basic customs duty is being reduced from 7.5% to 5% for specified gems and jewellery machinery
- ❖ Basic Customs duty on two critical raw materials of cement industry viz. petcoke and gypsum to be reduced to 2.5%



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Key changes in Direct Taxes

❖ Personal Income Tax

- The basic exemption limit has been increased by Rs 20,000 for general category from Rs 160,000 to Rs 180,000 – Benefit of Rs 2,000 to all male individuals
- Qualifying age for senior citizen have been decreased to 60 yrs from earlier 65 years and basic exemption limit for them has been increased by Rs 10,000
- A new category has been formed for the people of above 80 yrs - Very senior citizen
- Basic exemption limit for very senior citizens has been increased by more than two fold from currently Rs 240,000 to Rs 500,000

❖ MAT

- Rate of MAT has been marginally increased to 18.5% from current 18% - this gets offset by the decrease in surcharge rate from 7.5% to 5% - Effective tax rate increases by only 7-8 bps

❖ Foreign Dividend Tax

- Tax on dividends received by Indian companies from its foreign subsidiary reduced from 30% to 15%

❖ Overall Corporate tax reduced on account of reduction in surcharge.



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Sectoral Impact

Positives

Automobiles, Infrastructure, Banking, Fertilizers, FMCG

Negatives

Information Technology, Hotel, Cement, Textiles

Overall View

- **Budget overall could target only one problem cited earlier – Liquidity**
- FM is targeting to restrict fiscal deficit to a lower level on the assumption of higher growth in the economy. However looking at the risk of tight liquidity and higher oil prices we believe it is an optimistic target.
- **In all we feel 2011-12 is a positive budget which has tried to keep growth momentum intact with lower fiscal deficit, higher avenue for financing infrastructure project and re-affirming important law implementation.**



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Valuation is getting attractive





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Market can see 5750 on Nifty

Date	Nifty PE	Nifty	Variance	Sensex	Variance
	24.00	6269	768	20997	2573
	23.50	6139	638	20559	2135
	23.00	6008	507	20122	1698
	22.50	5877	376	19684	1260
	22.00	5747	246	19247	823
	21.50	5616	115	18809	385
01-Mar-11	21.06	5501		18424	
	20.00	5224	-277	17497	-927
	19.50	5094	-407	17060	-1364
	19.00	4963	-538	16622	-1802
	18.50	4832	-669	16185	-2239
	18.00	4702	-799	15747	-2677
	17.50	4571	-930	15310	-3114
	17.00	4441	-1060	14873	-3551



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Stocks can be accumulated on decline

Large Cap		Mid Cap	
Larsen & Toubro	1610	Usha Martin	53
Tata Steel	635	KPIT Cummins	148
Bharti	338	Vivimed Lab	255
ICICI Bank	1028	Apar Ind.	194
Axis Bank	1287	ING Vysya Bank	302
Tata Motors	1143	Havell's	346
Dr Reddy	1581	Bharat Forge	333
ITC	173	Torrent Pharma	536
TCS	1123	Glenmark	290
Biocon	330	Yes Bank	272



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