Deutsche Bank

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India Strategy : FY13 Budget Review

Tailwind velocity set to moderate

No positive surprises so far from an eagerly awaited month
March 2012 was an eagerly awaited month for India's equity markets, particularly considering the strong tailwind preceding March. Unfortunately, none of the three highly anticipated events – state elections, credit policy and union budget – has given any meaningful directional boost to Indian equity markets. The Indian market is now back to the ebb and flow of global risk appetite (which thankfully remains positive) as its key determinant. With no domestic macro impetus, it is unlikely that India can maintain the outperformance versus its emerging market peers seen in Jan-Feb. Credit policy and an anticipated fuel hike in April (after parliament has closed for recess), the presidential election in June, and the monsoon forecast will now emerge as the next prospective catalysts for the markets.

FY13 budget a vivid reflection of constraints of coalition dynamics in India
The most glaring illustration of the diversity in popular mandates of coalition partners comes from the finance minister's stated resolve to rationalize subsidies, but without any commensurate roadmap. While the increase in excise/service taxes is positive for fiscal consolidation, the absence of credible subsidy rationalization is disappointing. The fiscal deficit target of 5.1% looks fairly difficult. Post budget, bond yields rose by 8bps, underscoring market skepticism of fiscal targets. A fuel price hike could lend robust credibility to fiscal consolidation.

Increases in plan expenditure on infrastructure and agriculture are standout features of budget
Plan expenditure on agriculture, industry and roads is up 20%, 27%, and 19%, respectively. We see the keen focus on public investment (via higher allocations for roads, irrigation, and industry) as strongly underscoring the government's urgency in addressing decelerating capital formation in India. Other emphatic measures in terms of infrastructure include extension of viability gap funding to newer sectors, doubling of tax-free infra bonds and elimination of the import tariff on imported coal for fuel-starved power plants. Budget gainers: capital goods, cement, power utilities, steel, two wheelers, tractors, and fertilizers. Budget losers: upstream oil and pharma.

What should investors be doing now?
We are adopting a more defensive stance in our model portfolio, relative to our YTD view. We have cut our overweight on banks by a modest 47bps and real estate by 35 bps (as we now believe that reduction in policy rates may be slower and smaller than what markets have been expecting) and raised our weighting of tractor and two-wheeler names (given the continued emphasis on agriculture and rural infrastructure). In light of the strong focus on public investment in infrastructure, we are raising our weighting in cement and industrials through ACC and IRB. We raise our weighting in IT stocks, as a play on the normalizing global macro situation, primarily through Infosys. Additions: Adani Power, Coromandel, Bharat Forge, Hero. Deletions: Zee, BoB.

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Market tailwind velocity set to moderate

FY13 budget is a vivid reflection of the conflicts and constraints of coalition dynamics in India today

Nothing could be more reflective of the current state of the Indian political economy than the FY13 union budget. The vastly differing conflicts and compromises of the diverse political mandates of the UPA coalition partners are vividly on display in the FY13 budget. The most glaring illustration of the diversity in popular mandates comes from the finance minister's stated resolve to rationalize subsidies, but unfortunately, without any commensurate roadmap (which would require the politically difficult decision to raise administrative prices of fuel and fertilizers) for achieving this urgent need. Considering the strongly polarized diversity of the popular mandates of coalition partners and in order to prevent rocking the political boat, it appears that the finance minister has chosen the safe course. We believe that in the absence of any roadmap on fiscal consolidation, the government's fiscal deficit target of 5.1% in FY13 may once again prove to be unrealizable.

Fiscal deficit target of 5.1% for FY13 looks difficult

While the stated intention to use the flagship Aadhar programme of directing subsidies to intended recipients is highly noble, it alone cannot ensure the government's realization of its subsidy rationalization target and must be matched with a hike in the administered prices of fuel and fertilizers. We conservatively forecast a near 200-400bps slippage in the fiscal deficit target. If international fuel prices remain high (highly probable given ongoing global risk appetite) and administered prices are not raised, we may again see India's central fiscal deficit moving towards the 6% mark, which we have not seen since FY02 (barring the period of global credit crunch when fiscal stimulus was introduced proactively).

An attempt at fiscal consolidation, but unfortunately no credible roadmap on subsidy rationalization

We laud the finance minister for the bold and unpopular decision to raise excise and service taxes (India is getting increasingly used to doles and freebies and resists any price increase, however important the economic rationale; prices will rise across the board following these hikes) and widen the service tax net, in the quest for fiscal consolidation. However, the attempt has been tempered by the government's inability to lay out a credible roadmap on subsidy rationalization. With rising international prices of oil and fertilizers, India's under-recoveries are threatening its fiscal balance, and subsidies as a % of GDP may snowball to an unsustainable 3%-plus of GDP. The finance minister's resolution to curb subsidies to 2% of GDP, while encouraging, looks unrealizable, unless there is some demonstration that a broad political consensus has emerged to begin weaning the nation off the economically unrealistic fuel and fertilizer prices that are beginning to threaten the long-term economic security of the country.

Bold move on populism by lowering focus on Aam Admi (common man) in favour of public investment

We are encouraged by the finance minister choosing to resist ongoing populist temptation by reducing the legacy, excessive focus on the UPA government's pet projects like NREGA (where the budgetary allocation has been lowered by 18% to Rs330bn – the lowest annual allocation in 4 years). The total budgetary allocation for rural development (excluding allocations for agriculture and allied activities) has been cut by 15%. In addition, the budget has factored in only 3% growth in food subsidies, implying that the government may desist from sharply raising minimum support prices for key crops, which has been another populist feature of the current government. It appears that the government plans to offset the higher MSP regime with directed expenditure on agriculture and allied activities.

Increase in plan expenditure on infrastructure and agriculture are standout features of the budget

The finance minister has chosen to raise plan expenditure impressively on agriculture by 20%, industry and minerals by 27% and public investment in roads by 19%. We see the keen focus on public investment (particularly in industry and infrastructure) as strongly underscoring the government's urgency in addressing decelerating capital formation in the country. It is also evocative of the government's apparent uncertainty regarding investment formation being galvanized in the immediate term by the Indian private sector. We remain concerned about India's sharp deceleration in capital formation. India's gross fixed capital formation has now declined on a yoy basis for two consecutive quarters (not seen for a long time). While fresh private investment proposals remain anemic, it is encouraging to see the government step up its commitment. Our capital goods analyst, Manish Saxena, believes that India's capex will be driven by roads, railways and fertilizers.

The finance minister appears particularly focused on agricultural infrastructure. Measures announced in the budget include viability gap funding for projects associated with irrigation and creation of common markets, increase in allocation for creation of warehousing, setting up of an irrigation and water resource finance company and a hike in agricultural credit to farmers.

How should investors be positioned?
We maintain our 2012 year-end Sensex target of 18,000

March 2012 was an eagerly awaited month for India's equity markets, particularly considering the strong tailwind with which the market entered the month. Unfortunately none of the three most highly watched and eagerly anticipated events – state elections, credit policy and union budget – has given any meaningful directional boost to Indian equity markets. The Indian market is now back to the ebb and flow of global risk appetite (which thankfully remains positive). With no domestic macro impetus, it is unlikely that India can maintain its outperformance versus its emerging market peers. The credit policy and an anticipated fuel hike in April (after parliament has closed for recess), the presidential election in June, and the monsoon forecast will now emerge as the next prospective catalysts for the markets.

What should investors be doing now?

Given that none of the three 'market-determining' events of March have thrown up any major positive surprises, we are adopting a relatively more defensive stance in our model portfolio. We have cut our overweight on banks by 47bps and real estate by 35 bps (as we now believe that RBI reduction in rates may be slower and smaller than what markets have been expecting) and raised our weighting in automobiles (primarily tractors and two-wheeler names, given continued emphasis on agriculture and rural infrastructure) and consumer staples. In light of the strong focus on public investment in infrastructure, we are raising our weighting in cement and industrials via ACC and IRB. Given no major impetus on domestic macro factors, we are also raising our weighting in IT stocks (as a play on the normalizing global macro situation) primarily through Infosys.

Model Portfolio

Figure 1: DB India Model Portfolio

		Last	Mcap	MSCI	DB		P/E (x)		% EPS Growth		P/BV (x)		ROE (%)	
Company	Reco	Price	USDm	wt.	wt	O/U wt.	FY12e	FY13e	FY12e	FY13e	FY12e	FY13e	FY12e	FY13e
CONSUMER DISCRETIONARY				**8.75**	**7.81**	**-94 bps**								
Automobiles & Components				*7.89*	*6.90*	*-99 bps*								
Bajaj Auto	Hold	1,722	9,926	1.22	2.12	90 bps	16.1	14.9	18.2	8.1	7.9	6.4	55.0	47.3
Bharat Forge	Buy	331	1,534		0.25	25 bps	18.8	16.7	36.7	12.8	3.5	3.1	19.8	19.7
Hero Motocorp	Hold	1,957	7,786	0.64	0.74	10 bps	16.6	15.9	17.3	4.7	9.4	7.3	66.3	51.9
Mahindra & Mahindra	Buy	678	8,293	1.71	2.61	90 bps	15.3	13.2	6.0	15.2	3.4	2.9	24.3	23.7
Maruti	Hold	1,374	7,911	0.78	1.18	40 bps	26.3	23.9	-32.5	10.0	2.6	2.4	10.4	10.6
Consumer Durables & Apparel				*0.41*	*0.91*	*50 bps*								
Titan	Buy	234	4,130	0.41	0.91	50 bps	34.7	26.8	37.0	29.5	15.1	11.0	49.8	47.5
Media				*0.45*	*0.00*	*-45 bps*								
CONSUMER STAPLES				**7.51**	**7.25**	**-26 bps**								
Food Beverage & Tobacco				*4.40*	*5.39*	*99 bps*								
ITC	Buy	216	33,626	3.99	4.79	80 bps	26.5	23.4	26.7	13.0	8.5	7.1	35.6	33.1
Nestle	Hold	4,388	8,429		0.60	60 bps	43.0	34.2	20.2	25.8	32.5	22.0	91.3	76.8
Household & Personal Products				*3.12*	*1.86*	*-126 bps*								
Hindustan Unilever (HUL)	Hold	390	16,802	2.76	1.86	-90 bps	31.4	27.4	22.5	14.9	24.4	19.3	90.5	78.9
ENERGY				**11.90**	**12.97**	**107 bps**								
Consumable Fuels				*1.41*	*2.21*	*80 bps*								
Coal India	Buy	342	42,995	1.41	2.21	80 bps	16.3	14.0	22.3	16.5	5.1	4.0	35.0	32.1
Oil & Gas				*10.48*	*10.76*	*28 bps*								
Oil & Natural Gas Corp (ONGC)	Buy	273	46,544	1.72	2.22	50 bps	8.6	8.8	21.1	-2.3	1.8	1.6	21.9	18.9
Petronet LNG	Buy	162	2,427		0.10	10 bps	12.1	11.3	62.1	6.9	3.5	2.8	32.7	27.6
Reliance Industries	Buy	772	50,392	8.29	8.44	15 bps	11.3	9.9	15.8	14.2	1.5	1.3	14.2	14.3
FINANCIALS				**26.44**	**28.12**	**168 bps**								
Banks				*14.78*	*16.50*	*172 bps*								
Axis Bank	Buy	1,216	10,004	2.26	2.77	51 bps	12.3	9.7	20.0	25.7	2.2	1.9	19.6	20.9
Canara Bank	Buy	489	4,319	0.36	0.38	2 bps	6.5	5.2	-19.7	24.6	1.0	0.9	15.7	17.0
HDFC Bank	Buy	508	23,729	6.32	6.72	40 bps	24.6	18.6	31.0	32.3	4.0	3.4	18.9	21.4
ICICI Bank	Buy	918	21,075	3.21	3.71	50 bps	16.7	14.0	20.9	19.7	1.8	1.6	11.1	12.3
Sate Bank of India (SBI)	Buy	2,228	28,187	2.32	2.72	40 bps	9.5	6.9	34.2	40.0	1.5	1.3	16.7	20.2
Yes Bank	Buy	368	2,583		0.20	20 bps	13.3	10.7	31.1	23.9	2.8	2.3	23.0	23.4
Diversified Financials				*4.17*	*3.56*	*-61 bps*								
Industrial Development Finance Corp (IDFC)	Hold	145	4,363	1.13	1.07	-6 bps	13.0	11.4	20.6	13.5	1.9	1.7	14.9	15.2
Power Finance Corp	Buy	188	4,948	0.41	0.80	39 bps	7.9	6.5	-1.1	22.8	1.2	1.0	16.5	16.4
Rural Electrification Corp (REC)	Buy	209	4,116	0.51	1.04	53 bps	7.3	6.3	-3.2	15.5	1.4	1.2	20.5	20.5
Shriram Transport Finance	Buy	586	2,640	0.60	0.65	5 bps	9.3	7.6	8.1	22.8	2.1	1.7	24.4	24.3
Thrifts and Mortgage Finance				*6.52*	*6.09*	*-43 bps*								
HDFC	Buy	666	19,580	5.94	6.09	15 bps	25.0	21.4	13.7	17.1	5.1	4.2	22.1	22.1
Real Estate				*0.97*	*1.97*	*100 bps*								
DLF	Buy	196	6,642	0.66	1.37	71 bps	22.8	15.9	-5.1	43.3	1.2	1.1	5.4	7.4
Sobha Developers	Buy	299	584		0.60	60 bps	16.2	11.9	-0.8	36.5	1.5	1.3	9.4	11.7

Figure 2: DB India Model Portfolio (Cont'd…)

Company	Reco	Last Price	Mcap USDm	MSCI wt.	DB wt	O/U wt.	P/E (x) FY12e	P/E (x) FY13e	% EPS Growth FY12e	% EPS Growth FY13e	P/BV (x) FY12e	P/BV (x) FY13e	ROE (%) FY12e	ROE (%) FY13e
HEALTH CARE				**4.89**	**3.06**	**-183 bps**								
Aurobindo Pharma	Buy	113	657		0.71	71 bps	9.5	5.7	-35.2	67.1	1.4	1.2	14.7	22.8
Cipla	Hold	302	4,834	0.82	0.81	-1 bps	21.4	19.2	17.5	11.1	3.3	2.9	16.1	16.0
Lupin	Hold	504	4,481	0.61	0.60	-1 bps	25.0	21.9	4.1	14.5	5.6	4.7	24.7	23.4
Sun Pharma	Hold	546	11,199	1.38	0.94	-44 bps	25.0	23.2	57.1	7.4	5.4	4.7	24.5	21.7
INDUSTRIALS				**6.06**	**6.13**	**7 bps**								
Construction & Engineering				*2.25*	*4.50*	*225 bps*								
IRB Infra	Buy	198	1,309		0.90	90 bps	12.6	13.7	15.3	-7.8	2.3	2.0	19.6	15.5
Larsen & Toubro	Buy	1,320	16,098	2.25	3.60	135 bps	18.2	16.7	3.6	8.9	2.6	2.3	15.8	14.7
Electrical Equipment				*1.48*	*1.33*	*-15 bps*								
Bharat Heavy Electricals (BHEL)	Buy	274	13,342	1.32	1.33	1 bps	10.2	11.1	9.2	-8.2	2.7	2.4	29.3	22.8
Industrial Conglomerates				*1.90*	*0.00*	*-190 bps*								
Machinery				*0.00*	*0.30*	*30 bps*								
Thermax	Buy	495	1,176		0.30	30 bps	14.3	14.8	8.5	-3.5	3.7	3.2	28.5	23.3
Transportation Infrastructure				*0.44*	*0.00*	*-44 bps*								
INFORMATION TECHNOLOGY				**17.01**	**18.01**	**100 bps**								
Infosys	Buy	2,865	32,777	10.11	10.63	52 bps	20.3	17.5	18.0	16.2	5.4	4.8	28.0	28.8
Tata Consultancy	Buy	1,170	45,607	4.50	5.00	50 bps	20.8	18.0	26.0	15.5	7.9	6.9	40.5	41.1
Wipro	Buy	429	20,992	1.73	2.38	65 bps	18.1	15.7	7.9	14.7	3.9	3.4	22.6	22.9
MATERIALS				**9.82**	**10.99**	**117 bps**								
Chemicals				*1.01*	*1.62*	*61 bps*								
Asian Paints	Hold	3,210	6,135	0.76	1.32	56 bps	29.0	24.4	25.7	18.9	11.0	8.7	42.5	39.8
Coromandel International	Buy	303	1,707		0.30	30 bps	11.0	9.4	12.0	16.6	3.9	3.1	37.7	37.0
Construction Materials				*2.25*	*2.48*	*23 bps*								
ACC	Buy	1,340	5,012	0.58	1.43	85 bps	19.0	16.3	18.3	16.4	3.5	3.1	16.1	20.2
Grasim	Buy	2,759	5,042		0.70	70 bps	10.5	9.7	5.8	8.5	1.6	1.3	15.7	14.9
Shree Cement	Buy	2,892	2,007		0.35	35 bps	45.7	17.4	5.1	162.8	4.7	3.8	10.7	24.0
Metals & Mining				*6.56*	*6.89*	*33 bps*								
Hindustan zinc	Buy	130	10,902		0.40	40 bps	9.1	8.1	22.4	13.3	2.0	1.6	24.0	22.4
JSW Steel	Buy	749	3,328	0.55	1.05	50 bps	10.7	7.2	-11.2	48.2	1.0	0.9	9.3	12.6
Jindal Steel & Power	Buy	575	10,712	1.76	2.25	49 bps	12.9	10.5	11.7	23.0	3.0	2.4	26.0	25.3
Steel Authority of India	Buy	96	7,884		0.40	40 bps	7.3	6.6	10.4	11.2	0.9	0.8	13.6	13.4
Sterlite	Buy	114	7,623	1.25	1.45	20 bps	6.8	5.8	13.0	17.6	0.8	0.7	12.9	13.5
Tata Steel	Buy	455	8,797	1.14	1.34	20 bps	10.2	8.5	-33.7	20.0	1.7	1.5	21.7	12.2
TELECOMMUNICATION				**2.45**	**3.06**	**61 bps**								
Bharti	Buy	328	24,783	1.53	2.43	90 bps	22.1	13.1	-9.4	68.9	2.3	2.0	10.0	16.4
Idea Cellular	Buy	99	6,503	0.53	0.63	10 bps	72.1	27.8	-46.1	159.3	2.6	2.3	3.6	8.8
UTILITIES				**5.17**	**2.60**	**-257 bps**								
Electric Utilities				*0.84*	*0.00*	*-84 bps*								
Gas Utilities				*1.14*	*0.00*	*-114 bps*								
IPP				*3.19*	*2.60*	*-59 bps*								
Adani Power	Hold	73	3,166		0.35	35 bps	35.3	15.6	-12.2	125.6	2.5	2.2	7.1	14.8
National Thermal Power Corp	Hold	172	28,314	0.82	1.02	21 bps	14.4	12.8	5.8	12.1	1.9	1.7	13.7	14.2
Power Grid	Buy	108	9,944	0.98	1.23	25 bps	15.9	13.5	16.0	18.2	2.1	1.9	14.0	15.0

Source: Deutsche Bank

Figure 3: Key changes in the Model Portfolio

ADDITION	O/U wt (in bps)	DELETION	Earlier O/U wt (in bps)
Adani Power	35	Zee Entertainment	21
Coromandel International	30	Bank of Baroda	30
Bharat Forge	25		
Hero Motocorp	10		
Biggest Cuts	**Chg in O/U wt (in bps)**		**Chg in O/U wt (in bps)**
Stocks		**Sectors**	
Sun Pharma	-31	FINANCIALS	-88
Petronet LNG	-30	ENERGY	-77
DLF	-29	Media	-66
(NTPC	-29	Oil & Gas	-56
Tata Consultancy	-25	Banks	-47
Coal India	-20	Real Estate	-35
Oil & Natural Gas Corp (ONGC)	-20	HEALTH CARE	-28
ICICI Bank	-20	Consumable Fuels	-20
Sate Bank of India (SBI)	-20	Diversified Financials	-10
Axis Bank	-19	Consumer Durables & Apparel	-5
Biggest Raises	**Chg in O/U wt (in bps)**		**Chg in O/U wt (in bps)**
Stocks		**Sectors**	
Infosys	37	MATERIALS	76
ACC	30	Automobiles & Components	72
Power Grid	24	INDUSTRIALS	53
Mahindra & Mahindra	20	CONSUMER STAPLES	36
Hindustan Unilever (HUL)	20	Chemicals	35
HDFC Bank	20	Construction & Engineering	25
IRB Infra	20	Metals & Mining	21
Cipla	12	Construction Materials	19
Bajaj Auto	11	UTILITIES	19
ITC	10	Household & Personal Products	18

Source: Deutsche Bank

Sector impact summary

Figure 4: Summary of sector impacts of budget proposals

Sector	Overall Impact	Summary and impact of key proposals	Key winners	Key losers
Automobiles	Neutral	The 200bps increase in excise duty on automobiles was in line with expectations and we do not believe it will have a significant impact on demand. The continued focus on rural credit, rural infrastructure and the extension of interest subvention is positive for the farm equipment segment where M&M is a leader. The absence of any specific excise duty on diesel cars and utility vehicles is a positive surprise and a relief for M&M, Maruti and Tata Motors.	M&M, Bajaj, Hero, TVS	
Capital Goods/ Infrastructure	Long term Positive	Budget seems to be more inclined to help capital formation with sops of lower import duties, easier credit availability and better monitoring. In addition for developers that have already set up capacities or are likely to set up in next 12 months, a tax holiday for infrastructure projects for 10 years has been pushed ahead. However for capital goods companies, risk of rising international competition from lower duties could hurt margins if international peers return to predatory pricing policy	IRB, Larsen from better order inflows and JSPL-through tax sops	BHEL and to lesser extent Larsen and Toubro from rising competition through lower import duties. Marginally negative for Coal India due to the lowering of customs duties on imported coal.
Cement	Positive	The change in excise duty is likely to result in the excise outgo being lower by 0-0.5% at the current All-India average cement prices. The demand pick-up in housing and infrastructure sectors could continue if implemented. Reduction in custom duties of imported coal is likely to benefit the industry.	All cement players	
Consumer	Positive	While the headline 15% increase in excise duty for ITC was in line with market expectations, ITC will likely make use of the new tax structure, where excise duty is effectively reduced by 30% for cigarettes less than 65mm, to bring the overall tax increase to 11.5%. 1% excise hike on unbranded jewellery brings it to par with the rates applicable to branded jewellery manufacturers and is a positive for Titan, but a 2% increase in customs duty on gold imports and a 1% TDS for cash purchases over INR 200,000, would be a marginal dampener of demand	ITC and other tobacco companies	
Fertilisers	Positive	Under section 35AD, investment-linked deduction of capital expenditure incurred on new fertilizer capacity has been enhanced from 100% to 150%. Also, full exemption will be allowed from basic customs duty for import of equipment for expansion or setting up of fertilizer projects up to March 31, 2015. These will benefit companies setting up new fertilizer capacity by way of lower tax incidence as well as lower capex.	Tata Chemicals, Chambal Fertilisers, Coromandel International	
Financials	Neutral	Passing of legislation pertaining to the sector would be a positive, especially for the life insurance sector. Small public sector banks could benefit from continued capitalisation. HFCs can benefit from proposals for the housing sector. Savings account balances of banks could benefit from deduction of interest from savings account for tax purposes.	Public sector banks, HDFC, LICHF	
IT Services	Neutral	The Union Budget 2012-13 does not recommend any major changes to the tax structure of the Indian IT services industry. In our view, the only positive was continuation of repatriation of dividends from foreign subsidiaries of Indian companies to India at a lower tax rate of 15% as against the tax rate of 30%. The extension applies only to FY13 and should be a marginal positive for TCS.	None	None
Metals	Positive	Increase in the import duty on HRC to 7.5%; reduction in customs duty for iron ore pellet and beneficiation equipment to 2.5% from 7.5% earlier; increase in export duty on chromium ore	Indian steel sector	

Source: Deutsche Bank

Figure 5: Summary of sector impacts of budget proposals (Cont'd..)

Sector	Overall Impact	Summary and impact of key proposals	Key winners	Key losers
Oil & Gas	Negative	The cess on crude oil production has been increased by 80% from INR2500/ton (USD6.8/bbl) to INR4500/ton (USD12.3/bbl). This will negatively impact all companies producing crude oil in India. We estimate the negative impact on earnings at 15%/ 9%/ 7% for Oil India, ONGC and Cairn India, respectively. Moreover, the expectation of any reform in fuel subsidies was not met and no roadmap was given for alleviation of fuel subsidy losses. With Brent oil price hovering above US$125/bbl, this raises concerns on the funding of subsidy losses for oil marketing companies (HPCL, BPCL, IOC). Cash compensation of oil subsidies is marginally positive for oil marketing companies (BPCL, HPCL, IOC). Moreover, we expect long-term benefit for the state-owned oil companies from direct transfer of cash subsidy but minimal near-term impact.		Cairn India, ONGC, Oil India
Pharma	Negative	While increases in excise duty (5% to 6% on formulations and 10% to 12% on bulk drugs) as a rollback of 2009 was largely in line with expectations, it adds to costs. Aggressive tax planning resulting in low effective taxation is being eroded with the levy of 20% MAT on SEZs last year and of 18.5% AMT (Alternate Minimum Tax) on non-corporates. Fortunately, the 200% weighted deduction on R&D is extended for another 5 years.		Sun Pharma, Glenmark, Biocon, Lupin
Real Estate	Neutral	(a) Significant incentives to low-cost housing: (i) Continuation of interest subvention scheme on housing loan to a INR 1.5m limit with cost of house being up to INR 2.5m (ii) Allowing ECBs with lower withholding tax of 5% on interest payment. (b) While the introduction of Tax Deduction at Source (TDS) of 1% on the transaction value on sale of property above INR 5m in specified areas and above INR 2m in other areas helps data collection for govt, it increases documentation & could also lead to higher costs. (c) The much-expected increase in exemption limit for interest on mortgages from current INR 0.15m has been belied.		
Telecom	Neutral	The budget has made a provision of Rs 580bn in FY13 for receipts from license fees, excess spectrum charges and spectrum auction. This implies a receipt of Rs 420bn from auctions and excess spectrum charges, which we believe is optimistic. Our assessment is that telecom companies can potentially shoulder an outflow of Rs 250-300bn over the next 12 months.		
Utilities	Positive	The power utilities sector benefits from the government's continued patronage to enhance electricity production to support their long-term growth plans and eradicate shortages. Lower duties in fuel and reduction in withholding tax to 5% is particularly positive for the sector (including for NTPC, Tata Power, JSW Energy and Adani Power), helping them reduce their operating as well as financing costs.	Tata Power	Marginally negative for NTPC on decline in investment projects

Capital Goods/Infrastructure – (Budget impact long term positive)

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Highlights of key proposals

- Central Plan outlay for Railways and Roadways has been increased by 22% and 7.5% while power is constant and trending downwards (first time in the last decade).
- Targets highway awards of 8800kms v/s 7300kms in FY12. A 20% jump on a decadal high number for awards.
- Viability Gap Funding (VGF) under PPP has been extended to newer sectors like irrigation (including dams, channels and embankments), terminal markets, common infrastructure in agriculture markets, soil testing laboratories, capital investment in fertiliser sector, oil and gas/LNG storage facilities and oil and gas pipelines, fixed network for telecommunication and telecommunication towers.
- India Infrastructure Finance Company Limited (IIFCL) has put in place a structure for credit enhancement and take-out finance. A consortium for direct lending and grant of in-principle approval to developers before the submission of bids for PPP projects has also been created
- Import duties for capital equipments have been dropped. Across the sectors
    1) Basic customs duty on capital goods, plant and equipment imported for setting up or substantial expansion of iron ore pellet plants or iron ore beneficiation plants is being reduced from 7.5% to 2.5%.
    2) Full exemption from basic customs duty is being provided to initial setting up and substantial expansion of fertilizer projects. The exemption would be valid until 31 March 2015.
    3) Full exemption from basic customs duty and CVD at present available to tunnel boring machines for hydel and road projects is being extended to all infrastructure projects
    4) At present machinery and instruments for surveying and prospecting of mines attract basic customs duty of 10% and 7.5%, respectively. These rates are being reduced and unified at 2.5%.
    5) Basic customs duty on Railway safety (Train Protection and Warning System) equipment and railway track laying machines is being reduced from 10% to 7.5%
- Section 80IA (sunset clause) for tax holiday has been extended for one more year.
- Imported Fuels would now attract a lower custom duty. Uniform treatment for coal, LNG and uranium
- Central assistance for DMIC at INR 185 bn over 5 years and USD 4.5 bn participation from Japan is likely to help fast-track project development.
- Tax-free bonds of INR 600 bn likely to be issued in FY13 (up 100% YoY).
- Rate of withholding tax on interest payments for ECB loans has been lowered from 20% to 15% in power, airlines, roads and bridges, ports and shipyards, affordable housing, fertilizer and dams
- 1% tax on traded mining goods
- a reporting mechanism of transactions in the real estate sector, proposal to insert a new provision to provide that every transferee, at the time of making payment or crediting any sum by way of consideration for transfer of immovable property (other than agricultural land), shall deduct tax, at the rate of 1% of such sum, if the consideration paid or payable for the transfer of such property exceeds – (a) 50 lakh rupees in case such property is situated in a specified urban agglomeration; or (b) 20 lakh rupees in case such property is situated in any other area

Impact

- The significant challenges that we see from the budget proposal include: How would the government attract investments in manufacturing -as the competition from international vendors could rise with lower import duties on capital goods?
- Budget seeks push for a capex recovery through sops of lower import duties, easier credit availability and better monitoring. In addition for developers that have already set up capacities or are likely to set up in next 12 months, a tax holiday for infrastructure projects for 10 years has been pushed ahead
- Key short-term beneficiaries include JSPL, through 801A extension- as well as lower duties on steel capex.
- Long-term beneficiaries Larsen and Toubro would see long-run benefits through higher volumes of order inflows-but may see margin compression from rising international competition, Coal India may see some competitive disadvantage from lower duties on thermal coal-but time and again we have seen that local prices of e-auction coal are at a premium to landed cost of imports.

Utilities (Budget impact: Positive)

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Highlights of the key proposals

(1) Lowering withholding tax for ECBs to 5% from 20%;

(2) Allowing higher FII investments in debt paper of infra funds;

(3). Extension of sunset clause - 80IA tax benefits for one more year;

(4) No Customs/ Special duty on imported equipment, which was proposed earlier.

(5) removal of customs duty and special 1% CVD on coal imports, Natural gas, LNG and Uranium concentrate for a period of two years, and

(6) Continuation of lower dividend tax rates of 15% for one more year from foreign subs

Negatives –7.5% decline in power sector investment plans by PSUs (to INR 533bn), with an exception of only Powergrid with 13% increase.

Impact

The power utilities sector should benefit from the government's continued patronage to enhance electricity production to support long-term growth plans and eradicate shortages. Lower duties in fuel and reduction in withholding tax to 5% are particularly positive for the sector (including for NTPC, Tata Power, JSW Energy and Adani Power) helping reduce both operating and financing costs.

However, investment plans of NTPC and NHPC are showing a decline in FY13 over FY12, which typically happens when a Five Year Plan ends (12th Plan) and a new Plan period starts (13th Plan). Powergrid is the only listed regulated entity that shows a 13% increase in investments in FY13 and remains our preferred regulated pick in Indian Utilities.

Cement (Budget impact: Positive)

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Highlights of the key proposals

- Excise duty has moved from 10% ad valorem on ex factory price + INR 160/t to 12% ad valorem on Retail Sale Price + INR 120/t with 30% abatement.
- Allow ECB for low-cost affordable housing projects. Extend the scheme of interest subvention of 1% on housing loan up to INR 1.5 mn (where the cost of the house does not exceed INR 2.5 mn) for another year and enhance the limit of indirect finance under the priority sector from INR 0.5 mn to 1 mn.
- Allocation for Accelerated Irrigation Benefit Programme (AIBP) being increased by 13% to INR 142 bn and for PMGSY being increased by 20% to INR 240 bn.
- Removal of customs duty and special 1% CVD on coal imports, Natural gas, LNG and Uranium concentrate for a period of two years.

Impact

The change in excise duty is likely to result in the excise outgo being lower by 0-0.5% at the current All-India average cement prices. The demand pick-up in housing and infrastructure sectors could continue if implemented. Reduction in custom duties of imported coal is likely to benefit the industry.

Financials (Budget impact: Neutral)

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Highlights of the key proposals

Capital Markets

- Proposed introduction of Rajiv Gandhi Equity Savings Scheme, which would allow for income tax deduction of 50% to new retail investors who invest up to INR 50,000 directly in equities and whose annual income is below INR 1 mn. The scheme will have a lock-in period of three years. The details of the scheme will be announced later.
- Allowing Qualified Foreign Investors (QFIs) to access Indian Corporate Bond market.
- Simplifying the process of issuing Initial Public Offers (IPOs), lowering their costs and helping companies reach more retail investors in small towns.
- Permitting two-way fungibility in Indian Depository Receipts subject to a ceiling with the objective of encouraging greater foreign participation in Indian capital market.
- Security transaction tax has been reduced from 0.125% to 0.1%

Legislative reforms

- Moving official amendments to bills like "The Pension Fund Regulatory and Development Authority Bill, 2011", "The Banking Laws (Amendment) Bill, 2011" and "The Insurance Laws (Amendment) Bill, 2008" based on the recommendations of the Standing Committee on Finance in this session of the Parliament.
- The Government proposes to move the following Bills in the Budget Session of the Parliament:
  - The Micro Finance Institutions (Development and Regulation) Bill, 2012;
  - The National Housing Bank (Amendment) Bill, 2012;
  - The Small Industries Development Bank of India (Amendment) Bill, 2012;
  - National Bank for Agriculture and Rural Development (Amendment) Bill, 2012;
  - Regional Rural Banks (Amendment) Bill, 2012;

- Indian Stamp (Amendment) Bill, 2012; and
- Public Debt Management Agency of India Bill, 2012.

- The Enforcement of Security Interest and Recovery of Debts Laws (Amendment) Bill, 2011 has already been introduced in Parliament

Capitalisation of banks

- Keeping in view the requirement of funds by the Public Sector Banks (PSBs), a provision of INR 145.88 bn has been made for recapitalization of PSBs. Further provision of INR 13 bn is made for equity support/recapitalization of Regional Rural Banks (INR 2 bn), NABARD (INR 5 bn), EXIM Bank (INR 2 bn) and India Infrastructure Finance Company Ltd. (INR 4 bn).
- The government is also examining the possibility of creating a financial holding company that will raise resources to meet the capital requirements of public sector banks.

Housing sector

The following changes are proposed to address the shortage of housing for low income groups in major cities and towns:

- Allow ECB for low cost affordable housing projects;
- Set up Credit Guarantee Trust Fund to ensure better flow of institutional credit for housing loans;
- Enhance provisions under Rural Housing Fund from INR 30 bn to INR 40 bn;
- Extend the scheme of interest subvention of 1 per cent on housing loans up to INR 1.5 mn where the cost of the house does not exceed INR 2.5 mn for another year; and
- Enhance the limit of indirect finance under the priority sector from INR 0.5 mn to INR 1 mn.

Agriculture Credit: The interest subvention scheme for providing short-term crop loans to farmers at 7% interest per annum will be continued in 2012-13. An additional subvention of 3% will be available to promptly paying farmers.

- To allow individual taxpayers a deduction of up to INR 10,000 for interest from savings bank accounts

Power Sector

- Allowing raising tax free bonds for power sector of INR 100 bn. We believe that this is most likely be for PFC (INR 50 bn) and REC (INR 50 bn)

<u>Impact</u>

- There seems to be a renewed focus and urgency with regard to passing legislation pertaining to the financial sector. If this is passed by the Parliament, it should be a key positive for the sector - especially the passage of bills related to the life insurance sector. However, these need to be separately legislated and have been pending for a long time – some for years.
- The government remains committed to recapitalization of public sector banks. FY13 budgetary allocation of INR 145.88bn towards PSB recapitalization is above INR 120bn in FY12 revised estimates. While the smaller PSBs stand to gain more, even SBI can potentially receive capital.
- The reforms proposed for capital markets could revive retail investor interest in equity markets as also foreign participation in corporate bond markets.
- Proposals for the housing sector can be helpful for housing finance companies like HDFC Ltd and LIC Housing Finance

- Incentives for timely repayment of agriculture loans should lead to better asset quality from the segment
- Deduction for interest from savings bank accounts for tax purposes could boost savings account balances of the banks, leading to improvement in CASA ratios

Oil & Gas (Budget Impact: Negative)

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Highlights of the key proposals

- Cess on crude oil production has been increased by 80% from INR2500/ton (USD6.8/bbl) to INR4500/ton (USD12.3/bbl).
- Cash compensation for government share of oil subsidies to continue despite burgeoning losses on account of high crude oil prices
- Government reiterated its intention to move towards direct transfer of cash subsidy to people living below poverty line in a phased manner for better targeting of kerosene, LPG subsidy and reduce leakage from the system

Impact

- Increase in cess on crude oil by 80% will negatively impact all companies producing crude oil in India. We estimate the negative impact on earnings at 15%/ 9%/ 7% for Oil India, ONGC and Cairn India, respectively.
- Cash compensation of oil subsidies is marginally positive for oil marketing companies (BPCL, HPCL, IOC). Moreover, we expect long-term benefit for the state-owned oil companies from direct transfer of cash subsidy but minimal near term impact.

Real Estate (Budget impact: Neutral)

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Key highlights

- Significant incentives to low-cost housing: (i) Continuation of interest subvention scheme on housing loans up to a INR 1.5m limit with cost of house being up to INR 2.5m (ii) Allowing ECBs lower withholding tax of 5% on interest payment
- While the introduction of Tax Deduction at Source (TDS) of 1% on transaction value on sale of property above INR 5m in specified areas and above INR 2m in other areas helps data collection for govt, it increases documentation and could also lead to higher costs in property
- The much-expected increase in exemption limit for interest on mortgages from current INR 0.15m has been belied

Impact

- Low-cost housing benefits from higher demand (with interest subvention continuing) as well as higher supply (as low-cost ECBs are allowed). While most listed developers do not focus on these segments; HDIL has limited presence in this segment
- At current levels, our order of preference is Sobha, DLF, IndiaBulls Real Estate and HDIL.

Automobiles (Budget impact: Neutral)

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Highlights of the key proposals

- Excise duty increased from 10% to 12% for all automobiles and from 22% to 24% for large cars and utility vehicles.
- The additional specific excise duty of Rs 15,000 on large cars and UVs having engine size >1500cc has been removed and has been replaced by a flat 27% excise duty.
- Target for agricultural credit flow to farmers has been increased by 21% to Rs 5.75 tn
- Scheme for providing short-term crop loans at 7% to continue in FY13. Additional subvention of 3% available for farmers paying on time.
- Increased allocation under rural schemes: Rs 310bn (FY12) to Rs 330bn (FY13) for rural employment guarantee, Rs 200bn (FY12) to Rs 240bn (FY13) for rural roads, Rs 126bn (FY12) to Rs 142bn (FY13) for irrigation programmes.
- Weighted deduction of 200% on R&D expenditure extended for five years beyond FY12.

Impact

- We expect the excise duty increase would be passed on to consumers and hence should not impact company profitability.
- Continued focus on rural infrastructure and liquidity could provide support to tractor volumes and is a positive for M&M (tractors represent 50% of EBIT). Two-wheeler volume growth in rural areas should also remain strong.
- The absence of any specific excise duty on diesel passenger vehicles is a positive surprise and removes the overhang for M&M (35% its EBIT is derived from UVs) and Maruti (25% of vehicles are diesel based).

Consumer (Budget impact: Positive)

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Highlights of the key proposals

- There are two key changes in the excise duty rate structure applicable to cigarettes – a) A 10% ad valorem rate is applied on 50% of retail sale price printed on the pack for cigarettes longer than 65mm and b) The excise duty applicable to cigarettes less than 60mm in length is extended to cigarettes up to 65mm. Effectively for cigarettes more than 65mm long, the increase in excise duty is 15% , for cigarettes longer than 60 mm but less than 65 mm, excise duty is cut by 30% and for cigarettes less than 60 mm long, there is no change in excise duty.
- 1% excise duty will now be applicable on unbranded jewellery.
- Customs duty on import of 99.5% pure gold is increased from 2% to 4%.
- 1% Tax, as TDS, would have to be now collected at source on purchase in cash of bullion or jewellery in excess of INR 200,000.
- Standard excise duty has been raised from 10% to 12% as part of withdrawal of fiscal stimulus injected during the period of global credit crisis

- FDI in retail - Against expectations no announcement on FDI in retail is a negative for capital-strapped Indian retailers.

<u>Impact</u>

- More than 97% of ITC's cigarette sales by volume are more than 65mm in length. Therefore the effective hike in excise duty for ITC is 15%. However RSFT (regular size filter cigarette) brands like Bristol, Gold flake filter, scissors, capstan etc, which are 69 mm in length, constitute about 55% of ITC's sales. If ITC reduces the length of cigarettes for some brands from 69 mm to 64mm (excise duty drops 30% then) ITC can potentially manage the net impact of excise hike to 11.5%, which could then be easily passed through. For companies that sell cigarettes less than 65 mm (eg VST, GPI) there is no excise duty increase.
- Levying 1% excise duty on unbranded jewellery is a positive for branded jewellery manufacturers like Titan as it removes the existing disparity where only branded jewellery manufacturers are required to pay a 1% excise duty.
- Increasing customs duty on gold increases the domestic price of gold by 2% over and above a 1% increase in January 2012 could be a dampener for gold jewellery sales. However, we believe that the quantum of increase is not very significant.
- 1% TDS would have to be deducted at source on purchase of gold jewellery only if the purchase is in cash amounting to more than INR 200,000. We don't believe this would have a significant impact on gold jewellery sales as a) the retailer would have an option to split the purchase bill to ensure none of the bills have a total amount of more than 200,000, b) cash component can be kept at lower than INR 200,000 to avoid the tax
- 2% excise duty increase would not impact many of the FMCG players like Marico, Dabur etc as most of these companies have manufacturing plants in excise-free locations. Excise duty for Asian Paints would go up 2%, but we believe that the company would be able to pass it on to the end customer.

Fertilisers (Budget impact: Positive)

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Highlights of the key proposals

- Under section 35AD, the investment-linked deduction of capital expenditure incurred on new fertiliser capacity has been enhanced to 150%, versus the current rate of 100%.
- Full exemption from basic customs duty for import of equipment for expansion or setting up of fertiliser projects up to March 31, 2015.

Impact

- Increase in investment-linked deduction u/s 35AD as well as exemption from basic customs duty for equipment imports will benefit companies setting up new fertilizer capacity by way of lower tax incidence as well as lower capex.

Metals and Mining (Budget impact: Positive)

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Highlights of the key proposals

- Customs duty on import of HRC has been increased to 7.5% from 5% earlier.
- Export duty on chrome ore has been raised from a specific rate of INR3000 to 30% ad-valorem.
- Customs duty on import of iron ore pelletization and beneficiation equipment has been reduced to 2.5% from 7.5% earlier.
- Removal of 5% import duty on thermal coal and CVD reduction to 1%.

Impact

- The increase in import duty for HRC is a positive for Indian steel producers and reduces the threat of cheap Chinese steel imports. Domestic steel prices are trading at a premium to the landed costs and the latest increase in import duty brings the landed costs in line with the domestic prices, and hence is positive for Indian steel producers including Tata Steel, SAIL and JSW Steel. Increase in customs duty may provide additional protection on account of a sharp supply increase in flat steel products
- Increase in export duty on chrome ore also likely to improve the supply and reduce costing of this raw material for the domestic steel producers.
- The reduction in import duty on capital equipment for pelletization and beneficiation should help reduce capital costs for future expansions for Indian steel producers.
- Reduction in import duty and CVD for thermal coal to benefit Indian aluminum producers

Pharmaceuticals (Budget Impact: Negative)

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Key highlights

- While the increase in excise duty (5% to 6% on formulations and 10% to 12% on bulk drugs) as a rollback of 2009 was largely in line with expectations, it adds to the overall costs in the current era of high inflation
- Aggressive tax planning resulting in low effective taxation was expected to continue as almost all companies were setting up capacities in SEZ – a tax-exempt zone. However, levying of MAT (18.5% of Book Profits) on SEZ units in the last budget has begun to raise the effective tax rate for the sector
- While a similar provision had been introduced to tax profits of Limited Liability Partnerships (LLPs) last year, this was extended to all non-corporate entities this year with a levy of 18.5% AMT (Alternate Minimum Tax).
- Fortunately, the 200% weighted deduction on R&D is extended for another five years.

Impact

- With EOUs losing tax exemption status, the levy of MAT (18.5% of Book Profits) on SEZ will raise the effective tax rate for companies whose effective tax rates in FY12E is significantly below MAT (~20% including surcharge and cess) – Glenmark (10%), Biocon (13%) and Lupin (18%)
- Sun Pharma has an effective tax rate of 6% in FY11 and 9% in FY12e, largely due to profit sharing from partnership firms that have manufacturing setups in tax-exempt regions. The imposition of 18.5% AMT will now impinge on its overall profits as ~64% of its non-Taro profits in FY11 were from such partnership firms. Quite a few smaller companies, which had followed Sun's tax planning strategies will also be impacted
- We have an underweight rating on the sector and prefer only Aurobindo. We have a Sell rating on Ranbaxy, Biocon & Dr. Reddy's.

IT Services (Budget impact: Neutral)

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Highlights of the key proposals

Increase in scope of MAT (minimum alternate tax) to impact cash flows:
The Union Budget 2012-13 does not recommend any major changes to the tax structure of the Indian IT services industry. In our view, the only positive was continuation of repatriation of dividends from foreign subsidiaries of Indian companies to India at a lower tax rate of 15% as against the tax rate of 30%. The extension applies only to FY13E and would be a marginal positive for TCS.

Figure 6: Effective tax rates

	------------------Tax rates------------------	
	FY12	FY13E
Infosys	28.4%	28.0%
TCS	23.6%	24.0%
Wipro	19.5%	20.0%
HCL Tech	25.3%	25.3%
Tech Mahindra	18.6%	22.0%
Satyam	19.3%	20.0%
Mindtree	17.6%	19.0%
Rolta	15.5%	24.3%

Source: Deutsche Bank

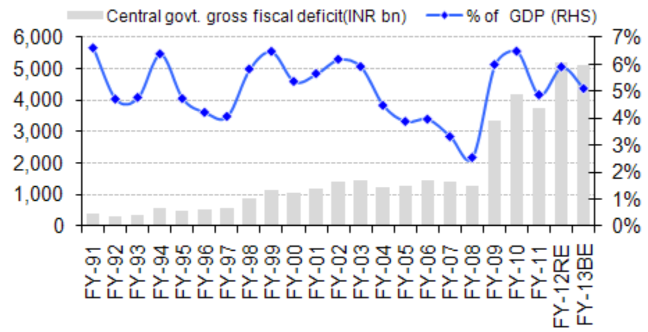
Appendix: Key proposals of the budget

Figure 7: Key proposals announced in the Finance Minister's speech for FY13 Union Budget

- Beginning FY13 subsidies related to food and for administering the Food Security Act will be fully provided for. All other subsidies would be funded to the extent that they can be borne by the economy without any adverse implications
- Endeavour to restrict expenditure on Central subsidies to under 2 per cent of GDP in 2012-13. Over next three years, it would be further brought down to 1.75 per cent of GDP
- INR300bn (US$6bn) to be mobilized through disinvestment of public sector enterprises
- Implementation of Advanced Pricing Agreement (APA) brought forward by introducing it in the Finance Bill, 2012
- Rajiv Gandhi Equity Savings Scheme introduced to encourage flow of savings in financial instruments and deepen capital markets. The scheme would allow for income tax deduction of 50 per cent to new retail investors, who invest up to INR50,000 directly in equities and whose annual income is below INR1mn. The scheme will have a lock-in period of 3 years
- Proposal to allow Qualified Foreign Investors (QFIs) to access Indian Corporate Bond market
- Provision of INR159bn (US$3.2bn) for capitalization of Public Sector Banks, Regional Rural Banks and other financial institutions including NABARD
- Proposal to double tax free bonds for financing infrastructure projects to INR600bn (US$12bn) from INR300bn (US$6bn) earlier.
- External Commercial Borrowings (ECB) to part finance Rupee debt of existing power projects allowed
- Target of covering a length of 8,800 kms under NHDP next year, vs. the award of 7300 km in FY12
- Raise the target for agricultural credit in 2012-13 to INR5750 bn (US$115bn) – a hike of 21% over FY12.
- Enhance the exemption limit for the general category of individual taxpayers from to INR180000 to INR200000.and raise the upper limit of the 20 per cent tax slab from INR0.8 mn to INR1mn
- Individual taxpayers to be allowed a deduction of upto INR10,000 for interest from savings bank accounts
- Rate of withholding tax on interest payments on external commercial borrowings is proposed to be reduced from 20 per cent to 5 per cent for three years for following sectors: power; airlines; roads and bridges; ports and shipyards; affordable housing; fertilizer; and dams
- Extension of the sunset date us/ 80 (IA) of the Income Tax Act by one year for power sector undertakings so that they can be set up on or before March 31, 2013 for claiming 100 per cent deduction of profits for 10 years
- Securities Transaction Tax (STT) to be reduced by 20 per cent (from 0.125 per cent to 0.1 per cent) on cash delivery transactions
- General Anti Avoidance Rule (GAAR) to be introduced in order to counter aggressive tax avoidance schemes, while ensuring that it is used only in appropriate cases
- All services except those in the negative list are to be taxed. The list comprises 17 heads
- Service tax rate to be raised from 10 per cent to 12 per cent
- Standard rate of excise to be raised from 10 per cent to 12 per cent

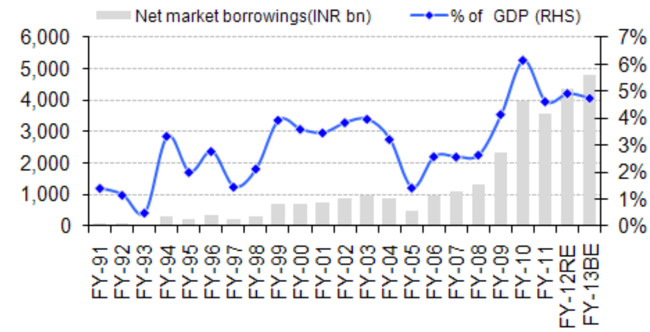
Source: Deutsche Bank; Budget Documents

Figure 8: Trend in central government's fiscal deficit



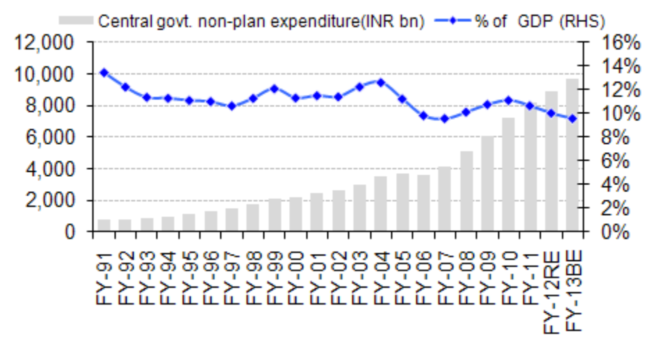
Source: Deutsche Bank; CMIE; Government of India

Figure 9: Central Government's net market borrowings



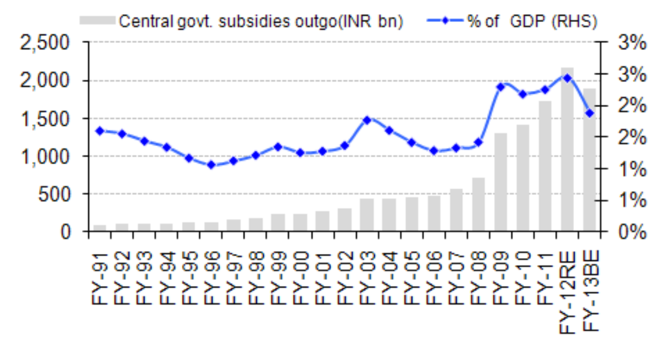
Source: Deutsche Bank; CMIE; Government of India

Figure 10: Trend in non-plan expenditure



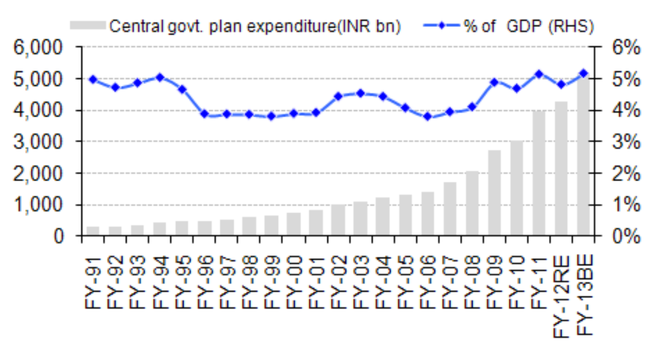
Source: Deutsche Bank; CMIE; Government of India

Figure 11: Trend in subsidies outgo



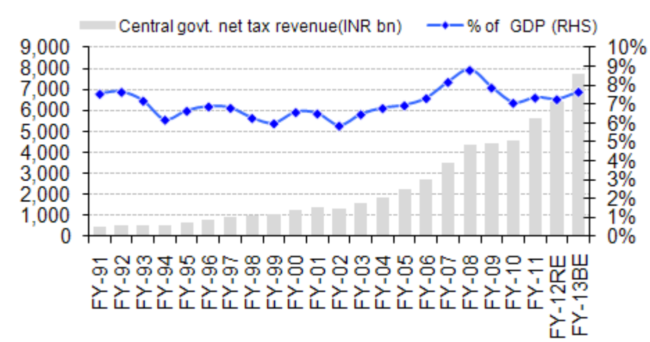
Source: Deutsche Bank; CMIE; Government of India

Figure 12: Trend in plan expenditure



Source: Deutsche Bank; CMIE; Government of India

Figure 13: Trend in net tax revenue



Source: Deutsche Bank; CMIE; Government of India

Budget numbers at a glance

Figure 14: Key items of the budget (figs in INR bn)

	FY12 Budgeted	FY12 Revised	FY13 Budgeted	YoY (FY13 BE over FY12 RE)	YoY (FY13 BE over FY12 BE)
Total Expenditure	12,577	13,187	14,909	13.1%	18.5%
Non Plan Expenditure	8,162	8,921	9,699	8.7%	18.8%
Food Subsidy	606	728	750	3.0%	23.8%
Fertilizer Subsidy	500	672	610	-9.3%	22.0%
Fuel Subsidy (LPG+Kerosene)	236	685	436	-36.4%	84.3%
Plan Expenditure	4,415	4,266	5,210	22.1%	18.0%
Total Revenue Receipts	7,899	7,670	9,357	22.0%	18.5%
Gross Tax Revenue	9,324	9,017	10,776	19.5%	15.6%
Corporation tax	3,600	3,277	3,732	13.9%	3.7%
Income tax	1,720	1,719	1,958	13.9%	13.8%
Customs	1,517	1,530	1,867	22.0%	23.1%
Union Excise Duties	1,641	1,507	1,944	29.0%	18.4%
Service Tax	820	950	1,240	30.5%	51.2%
Non -Tax Revenue	1,254	1,247	1,646	32.0%	31.2%
Dividend and Profits	426	501	502	0.1%	17.7%
Other Non-Tax Revenue	621	534	941	76.3%	51.6%
Capital Receipts	4,478	5,764	5,552	-3.7%	24.0%
Miscellaneous Capital receipts (mainly disinivestments)	400	155	300	93.6%	-25.0%
Gross Borrowings	4,171	5,100	5,696	11.7%	36.6%
Repayments	-741	-736	-906	23.1%	22.2%
Net Borrowings	3,430	4,364	4,790	9.8%	39.7%
Fiscal Deficit	4,128	5,220	5,136	-1.6%	24.4%

Source: Deutsche Bank; Budget documents

Appendix 1

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Buy: Based on a current 12- month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus pro-jected dividend yield) , we recommend that investors buy the stock.

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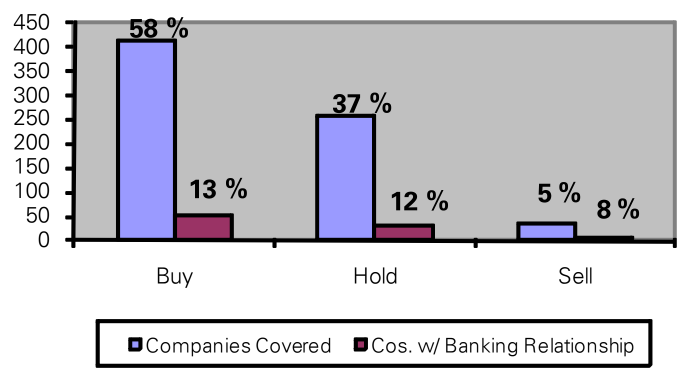
Equity rating dispersion and banking relationships



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