

# Union Budget for FY2010-11

**DSP BLACKROCK  
MUTUAL FUND**



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## Highlights of the Union Budget for FY2010-11

The Union Budget proposals for FY2010-11 were welcomed by the market participants. Some key highlights were as follows:

- Gross Borrowing for FY2010-11 will be Rs. 4,57,000 crore as compared to Rs. 4,51,000 crore for FY2009-10
- Net Borrowing for FY2010-11 will be Rs. 3,45,010 crore as compared to Rs. 3,98,000 crore for FY2009-10
- Fiscal Deficit for FY2010-11 will be 5.5% based on the revised GDP Base Year (2004-05). The government will attempt to reduce it further to 4.8% of the GDP in FY2011-12
- However, fiscal deficit for FY2009-10 has been revised up to 6.9% after including Oil & Fertilizer Bonds (approximately 6.42% without excluding them)
- Total expenditure for FY2010-11 will be Rs. 11,08,749 crore representing 8.6% increase over FY2009-10 total expenditure of Rs. 10,20,000 crore
- Revenue Receipts for FY2010-11 is estimated Rs. 6,82,212 crore - an increase of 18.17% over FY2009-10 while capital receipts are estimated to be Rs. 4,26,537 crore, down by 4% over FY2009-10
- Disinvestment Target for FY2010-11 is expected to be Rs. 40,000 crore
- 3G Auction is expected to collect Rs. 35,000 crore in FY2010-11

As expected, the bond market's reaction was cautious after the budget. The benchmark 10Y yield moved up to 7.88% pa from 7.82% pa in the morning. Although the net borrowing amount next year is less than this year's net borrowing, the bond market participants are a bit nervous about the potential supply and its impact on the yield curve.

## Snapshot of supply-demand for bonds:

Supply	FY2009-10	FY2010-11
Gross Borrowing	Rs. 4,51,100 crore	Rs. 4,56,000 crore
Less: MSS De-sequestering	(Rs. 33,000 crore)	Nil
Gross Issuance @ Centre	Rs. 4,18,100 crore	Rs. 4,56,000 crore
Less: Maturities	(Rs. 53,100 crore)	(Rs. 1,14,000 crore)
Net Issuance @ Centre	Rs. 3,65,000 crore	Rs. 3,42,000 crore
Net Issuance @ State	Rs. 1,23,800 crore	Rs. 1,00,000 crore (estimated)
Total Issuance	Rs. 4,88,800 crore	Rs. 4,42,000 crore
Less: MSS Maturities	(Rs. 53,000 crore)	Nil
Net Supply (Centre + State)	Rs. 4,35,800 crore	Rs. 4,42,000 crore
<b>Demand</b>		
Banks	Rs. 2,14,400 crore	Rs. 2,15,000 crore (assuming 18% growth in Deposits, 27% SLR) (estimated)
RBI Purchases through OMO	Rs. 57,500 crore	Nil (estimated)
Non-Bank Buyers	Rs. 1,63,800 crore	Rs. 1,75,000 crore (estimated)
Excess Supply over Potential Demand	Nil	Rs. 52,000 crore (estimated)

Sources: RBI, MoF, Deutsche Bank

It is this excess supply of bonds along with demand for credit from the private sector due to buoyant economic growth, which could put upward pressure on bond yields in the first-half of the year. Although there is a large maturity of bonds in the first-half of the year, we believe that bond yields may peak out in the second-half of the year.

### Summary of the maturity profile of bonds for FY 2010-11:

Month	Maturities
May 2010	Rs. 26,876 crore
June 2010	Rs. 7,152 crore
July 2010	Rs. 49,515 crore
December 2010	Rs. 500 crore
January 2011	Rs. 9,462 crore
February 2011	Rs. 20,817 crore
<b>Total</b>	<b>Rs. 1,14,300 crore</b>

### Impact on the Benchmark 10Y Yield



Source: Bloomberg LP

We expect the benchmark 10Y Bond yield could touch 8.10% pa in the near-term due to the heavy supply and the prospects of RBI's rate hikes. We expect an average supply of Rs. 45,000 crore of government bonds per month in the FY2010-11. However, it could be significantly higher in the month of July 2010 due to maturities. We also expect the RBI to focus on the supply of bonds maturing up to 2014 and beyond 2022, due to lower maturities in these calendar years.

More importantly, going forward, the demand for government bonds could outstrip supply due to declining fiscal deficits for FY2012 & 2013. This should help keep the short-term (upto 5Y) bond yields from rising significantly.

### What Should An Investor Do?

We believe that investors should invest in the short-end of the money market curve during the hardening of the bond yields to take advantage of attractive money market yields by investing in funds like **DSP BlackRock Floating Rate Fund** and **DSP BlackRock Short Term Fund**. Investors can consider investing in government bonds or high duration funds such as **DSP BlackRock Bond Fund** and **DSP BlackRock Government Securities Fund** once the bond yields appear to have peaked out.

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**DSP BlackRock Floating Rate Fund (DSPBRFRF)** is an open ended income Scheme, seeking to generate interest income through investments in acceptable floating rate assets commensurate with the credit risk. The Scheme may also invest in fixed rate debt securities. **Asset Allocation:** Floating rate debt securities\* or money market securities: 65% to 100%; Fixed rate debt securities: 0% to 35% (Debt securities may include securitized debts upto 60% of the net assets). **Features:** No entry/exit load. Sale and redemption of Units on all Business Days at Purchase Price and Redemption Price. Switching facility subject to prevailing terms of the scheme. SWP and STP facilities available in each plan of the scheme. Minimum investment - Regular Plan - Rs. 5,000; Institutional Plan - Rs. 5 crore. Declaration of NAV on all Business Days. Redemption normally within 2 Business Days. Nomination facility available, subject to applicable conditions as per the Statement of Additional Information (SAI) and Scheme Information Document (SID). **DSP BlackRock Short Term Fund (DSPBRSTF)** is an open ended income Scheme, seeking to generate income commensurate with prudent risk, from a portfolio constituted of money market securities, floating rate debt securities and debt securities. **Asset Allocation:** Money market securities, floating rate debt securities whose coupon(s) are reset at least once a year, fixed rate debt securities having an average or residual maturity  $\leq$  367 days or having put options within a period not exceeding 367 days: 50%-100% (Floating rate debt securities will include fixed rate debt securities swapped for floating rate returns by using derivatives); Fixed rate debt securities having a residual or average maturity  $>$  367 days and floating rate debt securities where the next reset date is more than 367 days from the date of purchase: 0%-50% (Debt securities may include securitised debts up to 60% of the net assets). **Features:** No entry/exit load. Sale and redemption of Units on all Business Days at Purchase Price and Redemption Price. Switching facility subject to prevailing terms of the relevant schemes. SWP and STP facilities available. Minimum investment - Rs. 5,000/-. Declaration of NAV on all Business Days. Redemption normally within 1 Business Day. Nomination facility available, subject to applicable conditions as per the Statement of Additional Information (SAI) and Scheme Information Document (SID). **Investment Objective: DSP BlackRock Bond Fund (DSPBRBF)** is an open ended income Scheme, seeking to generate an attractive return, consistent with prudent risk, from a portfolio which is substantially constituted of high quality debt securities, predominantly of issuers domiciled in India. As a secondary objective, the Scheme will seek capital appreciation. **Asset Allocation:** Debt & money market securities: 100% (Debt securities may include securitised debts upto 50% of net assets). **Features:** Sale and redemption of Units on all Business Days at Purchase Price and Redemption Price. Switching facility subject to prevailing terms of the scheme. SIP, SWP & STP facility available. Minimum Investment - Rs. 5,000/-. Exit Load - Holding Period  $\leq$  7 calendar days: 0.10%; Holding Period  $>$  7 calendar days: Nil Declaration of NAV on all Business Days. Redemption normally within 3 Business Days. Nomination facility available, subject to applicable conditions as per the Statement of Additional Information (SAI) and Scheme Information Document (SID). **DSP BlackRock Government Securities Fund (DSPBRGF)** is an open ended income Scheme, seeking to generate income through investment in Central Government Securities of various maturities. **Asset Allocation:** Central Government securities, repos / reverse repos in Central Government securities as may be permitted by Reserve Bank of India: 80%-100%; Call money market or alternative investment for call money market as may be provided by the Reserve Bank of India: 0%-20%. **Features:** Sale and redemption of Units on all Business Days at Purchase Price and Redemption Price. Switching facility subject to prevailing terms of the scheme. SIP, SWP and STP facilities available. Minimum investment - Rs. 5,000/-. Entry Load: NIL; Exit Load: Holding Period  $\leq$  7 calendar days - 0.10%, Holding Period  $>$  7 calendar days - Nil. Declaration of NAV on all Business Days. Redemption normally within 2 Business Days. Nomination facility available, subject to applicable conditions as per the Statement of Additional Information (SAI) and Scheme Information Document (SID). **Statement Details:** DSP BlackRock Mutual Fund was set up as a Trust and the settlors/sponsors are DSP ADIKO Holdings Pvt. Ltd. & DSP HMK Holdings Pvt. Ltd. (collectively) and BlackRock Inc. (Combined liability restricted to Rs. 1 lakh). Trustee: DSP BlackRock Trustee Company Pvt. Ltd. Investment Manager: DSP BlackRock Investment Managers Pvt. Ltd. **Risk Factors: Mutual funds, like securities investments, are subject to market and other risks and there can be no assurance that the Scheme's objectives will be achieved. As with any investment in securities, the NAV of Units issued under the Scheme can go up or down depending on the factors and forces affecting capital markets. Past performance of the sponsor/AMC/mutual fund does not indicate the future performance of the Scheme. Investors in the Scheme are not being offered a guaranteed or assured rate of return. Each Scheme/Plan is required to have (i) minimum 20 investors and (ii) no single investor holding  $>$ 25% of corpus. If the aforesaid point (i) is not fulfilled within the prescribed time, the Scheme/Plan concerned will be wound up and in case of breach of the aforesaid point (ii) at the end of the prescribed period, the investor's holding in excess of 25% of the corpus will be redeemed as per SEBI guidelines. DSPBRFRF, DSPBRSTF, DSPBRBF and DSPBRGF are the names of the Schemes and do not in any manner indicate the quality of the Schemes, their future prospects or returns. For scheme specific risk factors, please refer the Scheme Information Document (SID). For more details, please refer the Key Information Memorandum cum Application Forms, which are available on the website, [www.dspblackrock.com](http://www.dspblackrock.com), and at the ISCs/Distributors. Please read the Scheme Information Document and statement of Additional Information carefully before investing.**