

India Strategy

Union Budget review

The fiscal deficit target of 4.6% seems aggressive, with oil subsidies resulting from US\$100 crude potentially adding 70bp. Maintenance of excise duties is a relief for autos and cigarettes, and a marginal positive for inflation and domestic demand.

Table 1 : Key union budget estimates as percentage of GDP

% of GDP	FY09	FY10	FY11 (RE)	FY12 (BE)
Gross tax revenues	10.8	9.5	10.0	10.4
Central government receipts	9.8	9.3	10.4	9.4
Revenue	9.7	8.7	9.9	8.8
Non-debt capital	0.1	0.5	0.4	0.6
Central government expenditure	15.8	15.6	15.4	14.0
Revenue	14.2	13.9	13.4	12.2
Capital	1.6	1.7	2.1	1.8
Fiscal deficit	6.0	6.4	5.1	4.6

RE = revised estimate, BE = budget estimate
 Source: Union budget documents, RBS

FY12 union budget fiscal deficit estimate of 4.6% seems aggressive

The FY12 union budget forecasts an FY12 fiscal deficit of 4.6%, down from the revised estimate of 5.1% for FY11. We believe this may be optimistic on both revenue and expenditure estimates. Separately, the oil subsidy bill could add 70bp to the FY12 fiscal deficit, as the budget estimates do not provide for under-recovery compensation to oil marketing companies (OMCs) during the year (for diesel, kerosene and LPG).

No major tax changes in aggregate...

The standard excise and service duties were maintained at 10%, although some market participants were expecting a hike in the excise duty to 12%. As such, there should be no negative impact on inflation and domestic demand. The reduction in the corporate tax surcharge to 5% from 7.5% results in a 77bp decline in the mandated tax rate to 32.4% from 33.2%. Special economic zone (SEZ) units and developers are being brought under the minimum alternative tax (MAT) in line with Direct Taxes Code (DTC) recommendations. The reduction in taxation of dividends from foreign subsidiaries to 15% from the current marginal rate is a positive for companies with foreign operations.

... and no major reforms either

Although the goods and services tax (GST) bill is expected to be introduced in parliament this session, the finance ministry does not expect it to be implemented by April 2012, which will disappoint current market expectations. The provision of subsidies via direct cash transfers should help reduce subsidies but is only expected to be implemented in April 2012.

Budget picks and pans

Picks: ITC (no hike in excise duties versus market expectations of a hike), Tata Motors (status quo on excise and lower profit repatriation tax for Jaguar Land Rover), and Hindalco (lower profit repatriation tax for Novelis). **Pans:** Cement stocks (rise in per bag excise duties), Reliance Industries (MAT on SEZ to increase cash tax rate) and Sesa Goa (increase in export duty for iron ore lumps and fines).

Analyst

Parul J. Saini
 Singapore
 +65 6518 5974
 parul.saini@rbs.com

RCB Reg 198703346M, Permit MICA
 (P) 101/04/2010, Level 21, One Raffles
 Quay, South Tower, 048583, Singapore

<http://research.rbsm.com>

Important disclosures can be found in the Disclosures Appendix.

Macro-economics view

Our Chief Economist, Sanjay Mathur, expects the FY12 fiscal deficit target to be missed, as both the revenue and expenditure estimates appear aggressive.

The following section is an extract from *Top View: India, FY12 budget: hard to deliver*, published by Sanjay Mathur and Teck Wee Yeo on 28 February 2011.

- The FY12 (fiscal year ending March 2012) budget seeks a significant reduction in the fiscal deficit to 4.6% of GDP from a downwardly revised estimate of 5.1% previously.
- We expect the FY12 target to be missed – both the revenue and expenditure estimates appear aggressive.
- The borrowing programme is commensurately lower. However, given our view on the fiscal situation, this is likely to be breached.
- The government has doubled the aggregate foreign investment ceiling in corporate bonds to US\$40bn by increasing the share that can be deployed into infrastructure bonds. While this may be a temporary positive for the INR, in the longer term we expect fundamental issues such as the high current account deficit to dominate.

In the fixed income space, there are few immediate implications until the slippage becomes evident. However, as the issuance programme resumes in April, we expect a bear steepening of the yield curve as supply will likely be concentrated at the long end of the curve.

Financial markets have reacted favourably to the FY12 (fiscal year ending March 2012) central government budget. Market participants were particularly gratified by the FY12 deficit target of 4.6% of GDP as opposed to the 4.8% level mandated by the 13th Finance Commission and the attendant reduced size of government borrowings. Net borrowings have been forecast at Rs3.43trn compared with market estimates of Rs3.65bn.

Whether we should be gratified or not depends on the feasibility of the FY12 fiscal target. The fiscal target is built on a nominal GDP (NGDP) growth assumption of 14%, comprised of real growth of 9% and a deflator of 5%. This follows an unusually strong expansion of 20.3% in the previous year. Based on this NGDP estimate, the government expects aggregate taxes to rise 18.5%.

Our concerns with this tax estimate are twofold. GDP growth and more importantly, non-agriculture growth is peaking. Typically, tax collections tend to accelerate in the first year of a recovery and stabilise thereafter. In FY11, the faster than expected recovery provided an increase of 24% in aggregate tax collections, ie, the tax buoyancy was 1.2. The FY12 budget assumes further acceleration to 1.3. Also, the two types of taxes that accelerated most rapidly were customs and excise duties. In FY11, customs and excise taxes had increased 56% and 29% compared with targets of 36% and 29% respectively. Now if imports are to taper off (as has been the case recently), consumption has stabilised and base effects have become more demanding, we think that growth in both categories will slow to a more moderate pace of around 12%. By contrast, the budget assumes growth of 15% in customs duties and of 19% in excise duties.

The second is that there are no new tax radical measures. If anything, new tax exemptions offset the new measures. Through new measures such as an increase in the minimum alternative tax (MAT) from 18% to 18.5% and the imposition of a 1% excise duty on 130 new products is offset by relaxations in personal taxes and a reduction in the corporate tax surcharge.

In the area of capital revenues, the government has retained the disinvestment target of Rs400bn. While a number of this order is not unattainable, much will depend on the state of capital markets. For FY11, the government has scaled down its expectations from Rs400bn to Rs227.4bn, ie, a slippage equivalent to 0.2% of GDP. Should this be the case, the deficit would be at the mandated level of 4.8% of GDP.

We also find expenditure forecasts to be overly aggressive. As such, expenditures are expected to rise only by 3.4% from the FY11 level. This is not necessarily conservative stance, in our view, as in FY11, expenditures materially overshot budgeted targets. The modest increase should be viewed in the context of this overrun.

The overrun was on account of higher development spending as well as subsidies. While the development spending overrun is digestible in that it is growth augmenting subsidies were an outcome of higher food and crude oil prices. Now with crude oil prices even higher, a subsidy overrun can not be ruled out. Several types of fuel including diesel, cooking gas and kerosene remain price controlled.

Interestingly, the government has budgeted only Rs236bn as fuel subsidy compared with Rs383bn in FY11. This appears inconsistent with the fact that international crude prices have hardened significantly over the past three months. We also understand, but are unable to confirm that the government has provided for fuel subsidies only for the first three quarters of FY12. Therefore, barring a major collapse in crude prices, a subsidy overrun seems inevitable.

Overall, the point we are making is that there is scope for slippage on both the revenue and expenditure front. The slippage will most likely surface in the second half of the fiscal year.

We now turn to the borrowing programme and its market implications. As mentioned at the outset, the net borrowing programme of Rs3.43trn is lower than market expectations. However, the overall impact on the market should be viewed against the following:

- Fiscal slippage from the target will elevate the borrowing programme.
- Unlike in the first half of FY11, the credit cycle is considerably advanced now with the incremental credit-deposit ratio at above 100%. There should be some degree of crowding out.
- Bank holdings of government bonds are already above than that prescribed by the statutory liquidity ratio.
- Unlike in FY11, we are not certain whether the RBI would provide support to the issuance programme.

Table 2 : Sector-wise key budget proposals and sector/stock impact per RBS analysts

Sector/Analyst	Key budget proposals	Sector impact	Key stocks
Oil & Gas Avadhoot Sabnis +91 22 6715 5302	Rs350bn & Rs200bn provided as GOI contribution to industry under recoveries for FY11 & FY12 respectively.	<p>Impact –Marginally positive for OMCs</p> <p>We believe the provision of Rs350bn for revised FY11 estimates comprised of Rs140bn paid in June 2010 (which related to FY10) and Rs210bn relating to 9mFY11 (which has already been accounted by the OMCs). The Rs200bn provision for Budget FY12 would be broadly the GOI subsidy required for 4QFY11, in our view. This would take total GOI subsidy in FY11 (as per accrual accounting by the OMCs) to Rs410bn (210+200), as against expectations of under-recoveries of Rs720bn (thus GOI share works out to 57%). We expect this number to be fine-tuned depending on other items impacting profits like inventory gains, refining margins, etc.</p> <p>However, there were no announcements relating to a cut in excise/import duty to lower the impact of high oil price on under-recoveries of the OMCs.</p> <p>In our view, the subsidy contribution from GOI would ensure adequate returns for the OMCs (which we define as 11-12% ROE for the weakest player, Hindustan Petroleum Corporation (HPCL)). Hence, whether the GOI contribution comes in the form of lower taxes or a lump sum payment has impact only in terms of timing of cash flow. A duty cut would provide immediate cash flow; now the cash flow will materialise as and when the supplementary demands are passed by Parliament.</p> <p>Since the Rs200bn provided for Budget FY12 relates to 4QFY11, there has been no provision for an FY12 oil subsidy. At an average Brent oil price of US\$100/bbl, we estimate that under-recoveries for the OMCs in FY12 on sale of diesel, LPG and kerosene would amount to Rs1,300bn. GOI support would need to be in the 50-60% range or Rs650bn-780bn, which would figure in the revised FY12 Budget estimates.</p>	Indian Oil Corporation (IOC), Hindustan Petroleum Corporation (HPCL), Bharat Petroleum Corporation (BPLC)
	MAT exemption to units operating in SEZs removed.	<p>Impact – Negative for RIL.</p> <p>Reliance Industries operates its new refinery (Reliance Petroleum which was merged with RIL) under a special economic zone (SEZ) and was paying virtually zero tax on profits of this refinery. As per the Budget provisions, from FY12 it would have to pay the minimum alternative tax (MAT) which is effectively 20% (basic rate now 18.5%, surcharge 5%, education cess 3%). Pre-budget, we were estimating RIL's total cash tax rate of 15% and effective tax rate of 21% after considering deferred tax rate. The Budget provisions would result in the cash tax rate rising to 20%, an additional cash outgoing of Rs13.6bn, which can reduce RIL FY12F EPS by 6.2%. RIL may be able to lower the negative EPS impact by creating some deferred tax asset, for which we would seek clarity from management.</p>	RIL
	Seven-year tax holiday for commercial production of mineral oil removed.	<p>Impact – Negative for E&P companies</p> <p>The seven-year tax holiday available for commercial production of mineral oil (which covered oil for sure, since gas production is still under litigation) would not be available for blocks licensed under a contract awarded after 31 March 2011 (ie, under all new NELP rounds). This is surprising since the tax holiday is aimed at continued encouragement for oil/gas exploration within the country.</p>	Reliance Industries, Oil and Natural Gas Corporation (ONGC), Oil India, Cairn India.

Table 2 : Sector-wise key budget proposals and sector/stock impact per RBS analysts (cont'd)

Sector/Analyst	Key budget proposals	Sector impact	Key stocks
Cement Mohan Swamy +91 22 6715 5304	Excise duty which was Rs290/mt on sale price below Rs190/bag has been changed to 10% on ad valorem basis + Rs80/mt (or Rs4/bag).	For cement bag priced below Rs190 we see the effective increase of Rs4/bag.	India Cement (Buy, Rs85), ACC (Sell, Rs969), Ambuja (Sell, Rs118), Ultra Tech (Sell, Rs931) and Grasim Industries (Buy, Rs2255): The Budget has moved a price-based excise levy to a hybrid levy (specific + ad valorem) for cement companies, which we believe will raise excise incidence for cement companies by Rs2-4.5/bag. The incidence of taxation would be higher in states where, cement prices fall below Rs190/bag. In the past 12 months, this has happened in South India; hence, on the margin, these provision changes would be negative for south-based companies such as India Cements.
	Excise duty which was 10% on retail selling price on cement sold above Rs190/bag, has been changed to 10% ad valorem + Rs160/mt (Rs8/bag).	We see effective increase of Rs2/bag for cement bags priced more than Rs190/bag.	
	Excise duty on cement clinker which was Rs375/mt, has been changed to 10% ad valorem + Rs200/mt.	Rate increase would be negative for the cement companies. We see pricing pressure in the current oversupply market, which would put further pressure on the margins.	
	MAT rate increased to 18.5% from 18% with effect from 1 April 2012.	Increase in MAT rate should not have any impact for our coverage companies, as they are already debiting P&L with peak rates of taxes.	
	Current surcharge of 7.5% on domestic companies reduced to 5%.	Reduction in the surcharge rates would be positive for the companies.	
Consumer Mohan Swamy +91 22 6715 5304	No change in excise rates for cigarettes. General excise duty rate kept constant at 10%.	We believe continuation of specific excise duty and no material excise increase is positive for continuation of the volume recovery trends in cigarettes.	ITC (Buy, Rs169): We expect the volume recovery trend in cigarettes to continue. Its other FMCG business would face some marginal excise duty hikes, which we believe would not be material. We expect ITC to report 20% earnings growth year in FY12 and do not foresee any material risk to earnings. Nestle (Buy, Rs3,479): Would be impacted by increase in the excise rates for coffee or tea pre mixes, sauces, ketchup, soups and all kinds of food mixes, including instant food mixes, etc. However, the increase is just 1%, hence we do not see any material impact. Hindustan Unilever (Hold, Rs282): We see no impact on the company as excise duty has remained unchanged for its major segments like soaps and personal care products. The marginal excise duty increase in some food products would be not materially impact volume growth or revenues.
	The exemption from basic excise duty on coffee or tea pre mixes, sauces, ketchup, soups and broths and preparations, all kinds of food mixes, including instant food mixes, betel nut product known as "supari", ready to eat packaged food, milk containing edible nuts with sugar or other ingredients, tooth powder and note book is being withdrawn. However, these goods would be subject to the concessional rate of 1% without CENVAT credit facility.	Withdrawal of excise exemption for few goods would attract concessional duty of 1% without CENVAT credit. However, if the companies pay duty at 5% they would be eligible for CENVAT credit. The inclusion of note books, tooth powder and candles in the excisable list is at a very marginal rate of 1%, hence would have no material impact of volumes, in our view.	
	Other FMCG products such as some types of confectionaries would see increase in excise duty from 4% to 5%.		
	No change in custom duty rates.		
	MAT rate increased to 18.5% from 18% with effect from 1 April 2012.	Increase in MAT rate would have margin impact on some of the FMCG companies as their effective tax rates are much higher than MAT rates.	
Current surcharge of 7.5% on domestic companies reduced to 5%.	Reduction of the surcharge rate would generally reduce the tax incidence by 0.8%.		

Table 2 : Sector-wise key budget proposals and sector/stock impact per RBS analysts (cont'd)

Sector/Analyst	Key budget proposals	Sector impact	Key stocks
Banking/Financials Jatinder Agarwal +91 22 6715 5306	Proposed capital infusion of Rs60bn in public sector banks in FY12 to maintain a minimum tier I capital adequacy at 8%.	Positive for select public sector banks in general.	As specific capital infusion details are not available, the impact on stocks cannot be quantified.
	The housing loan limit has been increased to Rs2.5m (from Rs2.0m) for dwelling units under priority sector lending.	In general, this would be positive for banks as this aligns the increase in property prices to the amount eligible for priority sector loans.	The direct beneficiary would likely be Housing Development Finance Corporation (HDFC) as it can raise more funds from banks against the loans eligible for priority sector.
	Government will provide interest subvention of 1% on housing loans up to Rs1.5m (from Rs1.0m) where the cost of the house does not exceed Rs2.5m (from Rs2.0m).	In general this would be positive for banks and housing finance companies (HFCs) in terms of loan growth, as the marginal borrower would benefit from subsidised rates.	In general this would be positive for banks and housing finance companies (HFCs) in terms of loan growth, as the marginal borrower would benefit from subsidised rates.
	The gross loan disbursement target to the farmers has been increased to Rs4,750bn in FY12F (from Rs3,750bn in FY11). Further, the loans to farmers are fixed at 7% and there is an additional subvention of 3% (from 2%) to those farmers who repay their short-term crop loans on time. Thus, the effective rate of interest is 4% pa.	The disbursement target for FY12 seems higher than the expected industry loan growth of 18-20% and, thus, would likely lead to an increase in proportion of agriculture loans to total loans (about 12.4% as at December 2010). According to the government, the response to the prompt repayment incentive scheme has been good.	Sharp increase in farm loan disbursement target, but a higher incentive for prompt repayment of farm loans.
	In order to prevent frauds involving multiple lending from different banks on the same immovable property, a Central Electronic Registry will become operational by 31 March 2011.	In general, this is a positive development for the financial sector. In the long run this would likely lower incidence of such cases in industry.	No quantifiable financial impact.
	RBI is planning to issue the guidelines for banking licences before the close of the financial year (ie, year ending March 2011).	We believe, this is a positive development for potential players in financial services looking to apply for a banking licence.	No quantifiable financial impact.
	The government has increased the FII limit for investment in corporate bonds issued by companies in infrastructure sector to US\$25bn (from US\$5bn).	According to initial government estimates, the planned infrastructure investment in the 12th plan (2012-2017) is estimated to be US\$1trn. However, these bonds may have limited attraction due to the shallow corporate debt market in India.	No immediate quantifiable financial impact.
Real Estate Prakash Agarwal +91 22 6715 5314	Focus on affordable housing: – Upped priority home loans from Rs2.0m to Rs2.5m. – 1% interest subsidy on home loans up to Rs1.5m. – Investment linked deduction for developers of affordable housing. – Increase tax exemption resulting in marginal decline in tax liability of Rs2,000. – Rural housing fund corpus raised to Rs30bn from Rs20bn.	Marginally positive step towards affordable housing: – Banks have lower risk weighting and provisioning for priority sector home loans resulting in lower mortgage rates. – Cheaper home loans to lower ticket sizes. – Marginal increase in disposable income.	Marginally positive for real estate developers with focus on affordable housing Housing Development & Infrastructure (HDIIL), Unitech and Sobha.

Table 2 : Sector-wise key budget proposals and sector/stock impact per RBS analysts (cont'd)

Sector/Analyst	Key budget proposals	Sector impact	Key stocks
	<p>Minimum alternative tax (MAT) of 18.5% on SEZs on developers – as of now the DTC has proposed that SEZ developers will be allowed profit-linked deductions for all zones notified on or before 31 March 2012 and units in SEZs that will commence exports by 31 March 2014 will also be given profit-linked exemptions.</p> <p>It is now proposed to sunset the availability of exemption from MAT in the case of SEZ developers and units in SEZs. This would take effect from 1 April 2012 – basically moving towards DTC.</p>	Marginally negative for developers with SEZs as earlier SEZs were tax exempt.	Marginally negative for DLF and for SEZs that are under construction and would not be able to complete by March 2012 (and so would have higher taxes).
Pharma Prakash Agarwal +91 22 6715 5314	MAT rate increased to 18.5% from 18% with effect from 1 April 2012. Moreover, it has been proposed to sunset the availability of exemption from MAT in the case of SEZ in the Income Tax Act as well as the SEZ Act. This would be with effect from 1 April 2012.	Negative. As the tax incentives on EOUs are expiring on 31 March 2011, many pharma companies have made new investments in SEZs. However, with the introduction of MAT from April 1, 2012, these tax benefits may be minimised.	Cipla, Glenmark, Sun, Lupin (which have SEZ in Indore) and Dr Reddys (Vizag), etc, are some of the key pharma companies that have made substantial investments in SEZs. Tax rates for most pharma companies would go up. This is largely on the expected lines but the quantum is of increase in tax outflow still uncertain.
	The concessional rate of excise duty of 4% applicable on drugs and medical equipments would now be applied at an enhanced rate of 5%.	The net impact is marginally negative, although the companies are likely to pass on the increase in excise duty to patients.	
	Endovascular stents are now fully exempt from basic custom duty of 5%. Customs duty on four specified life saving drugs (details not known as yet) is being reduced to 5% from 10% with nil countervailing duty.	Marginally positive.	
	Allocation to health sector raised by 20% to Rs267.6bn.	Positive for the sector as a whole as spending on medicines likely to increase.	Most Indian pharma companies such as Dr Reddys, Ranbaxy, Cipla, Sun, etc, have turned aggressive in their domestic formulation business and could benefit.
Automobile Pramod Amthe +91 22 6715 5319	Excise duty rates and structure remain intact.	Relief to the sector demand, as it is already plagued by rising consumer finance rates and commodity prices.	All OEMs are beneficiary.
	Improved rural household disposable income from higher interest subvention for crop loans and upward revision in NREGA wage rates.	Improve rural demand for two-wheelers and tractors marginally.	Hero Honda, Mahindra & Mahindra.
	Custom duty exemption for Hybrid vehicle parts.	Marginally beneficial for sector as majority of vehicles are on petrol/diesel.	Bharat Forge joint development of hybrid technology along with KPIT-Cummins would benefit.

Table 2 : Sector-wise key budget proposals and sector/stock impact per RBS analysts (cont'd)

Sector/Analyst	Key budget proposals	Sector impact	Key stocks
Construction/ Infrastructure Pramod Amthe +91 22 6715 5319	Debt fund availability for infra projects improved by allowing FII investment in infra sector corporate bonds to increase from US\$5bn to US\$25bn. Extension of infra bond issuance to FY12F also.	Improved availability of long-term debt fund at attractive interest rates.	Benefit GMR Infra, Nagarjuna Construction's BOT portfolio.
	Rs300bn tax free bonds to be issued by various government undertakings such as railways, ports, highways and housing.	Should improve funding of these organisations at lower cost of borrowing and in turn lead to more cash contracts to be awarded.	Benefit construction companies like Nagarjuna, IVRCL Infrastructure, and Hindustan construction.
	Excise structure change for cement leading to 10% rise in prices	Cement is key raw material for construction industry and rise in tax rate is concern. Construction companies say they can pass it on to government or private clients easily.	
Metals & Mining Rahul Jain +91 22 6715 5305	To increase export duties on iron ore fines from 5% to 20% and on lumps from 15% to 20%.	Negative for iron ore miners such as Sesa Goa and NMDC, which mostly export fines and lumps. Sesa Goa would have an impact of 7% on earnings for FY12. Exports are just 15-20% of NMDC's output, hence the impact is limited.	Negative for Sesa Goa and NMDC
	To remove export duties on iron ore pellets from 15% to nil.	Positive for pellet exporters.	Positive for Jindal Steel & Power as they would now be able to export pellets to their recently acquired Oman unit.
	Minor reduction in income-tax surcharge.	Tax reduction is positive for all companies in the space.	
	Taxation of dividends from foreign subsidiaries reduced to 15%.	Hindalco, Tata Steel, Jindal Steel & Power, JSW Steel, etc., have foreign subsidiaries and can now receive dividends at lower tax rates.	Hindalco could repatriate dividends at lower tax rates, which is positive.

Table 2 : Sector-wise key budget proposals and sector/stock impact per RBS analysts (cont'd)

Sector/Analyst	Key budget proposals	Sector impact	Key stocks
Indian IT Services Sandeep Shah +91 22 6715 5304	No further extension of STPI tax benefits beyond 31 March 2011.	Neutral: This is line with expectations and we believe consensus EPS estimates were not considering any extension. This should have no impact on EPS but would be negative for sentiment towards midcaps considering their low balance sheet capacity to expand in SEZ.	Top Buys: Infosys (Rs2997), Tata Consultancy Services (Rs1110), HCL Tech (Rs442) and Polaris Software (Rs182).
Srinivas Seshadri +91 22 6715 5320	SEZ units brought under MAT: SEZ units are proposed to be brought under MAT (in line with DTC proposals which is likely to come into effect from 1 April 2012 onwards).	Neutral to marginal negative: MAT on SEZ units should not have major impact on EPS of IT companies as MAT credit would be carried forward. However, this would result in higher cash outflow and thus have some impact on treasury income.	
	MAT rate increased to 18.5% from 18%.	Neutral to marginal negative: Should not impact the EPS materially considering carry-forward of MAT credit, but would marginally increase the cash outflow and have some resulting impact on treasury income.	
	Surcharge on corporate tax reduced to 5% from 7.5%.	Positive: In line with other Indian corporates, it would be marginally positive for profitability of Indian IT companies.	
	Lower tax on repatriated dividend income from foreign subsidiaries to Indian parent at 15% versus marginal tax earlier.	Positive: This would improve the financial flexibility (particularly for TCS and HCL Tech among large caps, which have sizeable foreign subsidiaries). Companies can either pay out higher dividends if required or earn higher other income on liquid assets.	
	Increased outlay on IT programmes and education – targeting rural broadband in all 3,50,000 villages, investments to implement a National Knowledge network, a 24% increase in allocation for education at Rs521bn and investment in building IT infrastructure for GST rollout. Other initiatives to improve IT infrastructure and delivery mechanism.	Should be positive for the domestic IT market (particularly for HCL Infosystems) System Integration and Education business. TCS and Wipro also stand to benefit given their focus on the domestic IT market.	
	Reduction/exemption in import duties for printers and disk drives, PC and mobile components.	Should be positive, particularly for HCL Infosystems' PC and mobile reselling business.	

Table 2 : Sector-wise key budget proposals and sector/stock impact per RBS analysts (cont'd)

Sector/Analyst	Key budget proposals	Sector impact	Key stocks
Capital Goods Vinod Chari +91 22 6715 5390	Parallel excise duty exemption on domestic equipment supplied for UMPP and Mega Power projects.	The government has extended the excise duty exemption on equipment to Mega Power projects, subject to certain conditions. Earlier, this was restricted to UMPP power projects alone. In addition, the government has dropped certain restrictive conditions with regards to applicability of this exemption. This is likely to benefit domestic equipment manufacturers as it provides them with a more level playing field vis-à-vis foreign equipment provider. This is also likely to result in lower capital cost for generation players and thus lower electricity tariffs.	Bharat Heavy Electricals Limited, Larsen & Toubro
	Defence capital spending Rs692bn (up 15% yoy).	Modernisation/upgrading of defence equipment likely to continue; higher level of order inflows.	Bharat Electronics. Also Larsen & Toubro and Tata Power to some extent.
	Overall increase in infrastructure spending by 23% to Rs2140bn.	Positive for investment in the sector and likely to result in higher level of order inflows, project opportunities for sector players.	Hindustan Petroleum Corporation (HPCL), Bharat Heavy Electricals Limited, Crompton, ABB, Siemens.
	Excise duty exemption for air-conditioning equipment/refrigeration equipment for food processing industry.	Positive for air-conditioning/refrigeration equipment makers – the lower equipment cost coupled with higher incentives for investment in the food processing sector should result in higher demand for air-con/refrigeration equipment.	
	A concessional rate of 5% custom duty and 5% CVD for parts and components of 23 specified high-voltage transmission equipment.	Should be positive for multinational T&D equipment companies and negative on the margin for domestic companies.	Voltas.
Power Vinod Chari +91 22 6715 5390	Extension of 80-IA benefit for power sector until FY12.	On expected lines, positive for investment in the sector.	Crompton Greaves, ABB, Siemens.

Source: Union budget documents, RBS estimates

Recommendation structure

Absolute performance, short term (trading) recommendation: A Trading Buy recommendation implies upside of 5% or more and a Trading Sell indicates downside of 5% or more. The trading recommendation time horizon is 0-60 days. For Australian coverage, a Trading Buy recommendation implies upside of 5% or more from the suggested entry price range, and a Trading Sell recommendation implies downside of 5% or more from the suggested entry price range. The trading recommendation time horizon is 0-60 days.

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and, except as follows, only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%. For research produced by Nedbank Capital, a Buy implies upside in excess of 20%, a Sell implies an expected return less than 10%, and a Hold implies a return between 10% and 20%. For UK-based Investment Funds research, the recommendation structure is not based on upside/downside to the target price. Rather it is the subjective view of the analyst based on an assessment of the resources and track record of the fund management company. For research produced by Nedbank Capital and for research on Australian listed property trusts (LPT) or real estate investment trusts (REIT), the recommendation is based upon total return, ie, the estimated total return of capital gain, dividends and distributions received for any particular stock over the investment horizon.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

Distribution of recommendations

The tables below show the distribution of recommendations (both long term and trading). The first column displays the distribution of recommendations globally and the second column shows the distribution for the region. Numbers in brackets show the percentage for each category where there is an investment banking relationship. These numbers include recommendations produced by third parties with which RBS has joint ventures or strategic alliances.

Long term recommendations (as at 28 Feb 2011)		
	Global total (IB%)	Asia Pacific total (IB%)
Buy	766 (13)	493 (3)
Hold	431 (7)	237 (1)
Sell	115 (1)	64 (0)
Total (IB%)	1312 (10)	794 (2)

Source: RBS

Trading recommendations (as at 28 Feb 2011)		
	Global total (IB%)	Asia Pacific total (IB%)
Trading Buy	0 (0)	0 (0)
Trading Sell	0 (0)	0 (0)
Total (IB%)	0 (0)	0 (0)

Source: RBS

Valuation and risks to target price

For a discussion of the valuation methodologies used to derive our price targets and the risks that could impede their achievement, please refer to our latest published research on those stocks at <http://research.rbsm.com>

Regulatory disclosures

None

Global disclaimer

© Copyright 2011 The Royal Bank of Scotland N.V. and affiliated companies ("RBS"). All rights reserved.

This material was prepared by the legal entity named on the cover or inside cover page. It is provided for informational purposes only and does not constitute an offer to sell or a solicitation to buy any security or other financial instrument. While based on information believed to be reliable, no guarantee is given that it is accurate or complete. While we endeavour to update on a reasonable basis the information and opinions contained herein, there may be regulatory, compliance or other reasons that prevent us from doing so. The opinions, forecasts, assumptions, estimates, derived valuations and target price(s) contained in this material are as of the date indicated and are subject to change at any time without prior notice. The investments referred to may not be suitable for the specific investment objectives, financial situation or individual needs of recipients and should not be relied upon in substitution for the exercise of independent judgement. The stated price of any securities mentioned herein is as of the date indicated and is not a representation that any transaction can be effected at this price. Neither RBS nor other persons shall be liable for any direct, indirect, special, incidental, consequential, punitive or exemplary damages, including lost profits arising in any way from the information contained in this material. This material is for the use of intended recipients only and the contents may not be reproduced, redistributed, or copied in whole or in part for any purpose without RBS's prior express consent. In any jurisdiction in which distribution to private/retail customers would require registration or licensing of the distributor which the distributor does not currently have, this document is intended solely for distribution to professional and institutional investors.

Australia: Any report referring to equity securities is distributed in Australia by RBS Equities (Australia) Limited (ABN 84 002 768 701, AFS Licence 240530), a participant of the ASX Group. Any report referring to fixed income securities is distributed in Australia by The Royal Bank of Scotland NV (Australia Branch) (ABN 84 079 478 612, AFS Licence 238266). Australian investors should note that this document was prepared for wholesale investors only.

Canada: The securities mentioned in this material are available only in accordance with applicable securities laws and many not be eligible for sale in all jurisdictions. Persons in Canada requiring further information should contact their own advisors.

EEA: This material constitutes "investment research" for the purposes of the Markets in Financial Instruments Directive and as such contains an objective or independent explanation of the matters contained in the material. Any recommendations contained in this document must not be relied upon as investment advice based on the recipient's personal circumstances. In the event that further clarification is required on the words or phrases used in this material, the recipient is strongly recommended to seek independent legal or financial advice.

Denmark: Royal Bank of Scotland N.V. is authorised and regulated in the Netherlands by De Nederlandsche Bank. In addition, Royal Bank of Scotland N.V. Danish branch is subject to local supervision by Finanstilsynet, The Danish Financial Supervisory Authority.

Hong Kong: This document is being distributed in Hong Kong by, and is attributable to, RBS Asia Limited which is regulated by the Securities and Futures Commission of Hong Kong.

India: Shares traded on stock exchanges within the Republic of India may only be purchased by different categories of resident Indian investors, Foreign Institutional Investors registered with The Securities and Exchange Board of India ("SEBI") or individuals of Indian national origin resident outside India called Non Resident Indians ("NRIs"). Any recipient of this document wanting additional information or to effect any transaction in Indian securities or financial instrument mentioned herein must do so by contacting a representative of RBS Equities (India) Limited. RBS Equities (India) Limited is a subsidiary of The Royal Bank of Scotland N.V..

Italy: Persons in Italy requiring further information should contact The Royal Bank of Scotland N.V. Milan Branch.

Japan: This report is being distributed in Japan by RBS Securities Japan Limited to institutional investors only.

South Korea: This document is being distributed in South Korea by, and is attributable to, RBS Asia Limited (Seoul) Branch which is regulated by the Financial Supervisory Service of South Korea.

Malaysia: RBS research, except for economics and FX research, is not for distribution or transmission into Malaysia.

Netherlands: the Authority for the Financial Markets ("AFM") is the competent supervisor.

Russia: This Material is distributed in the Russian Federation by RBS and "The Royal Bank of Scotland" ZAO (general banking license No. 2594 issued by the Central Bank of the Russian Federation, registered address: building 1, 17 Bolshaya Nikitskaya str., Moscow 125009, the Russian Federation), an affiliate of RBS, for information purposes only and is not an offer to buy or subscribe or otherwise to deal in securities or other financial instruments, or to enter into any legal relations, nor as investment advice or a recommendation with respect to such securities or other financial instruments. This Material does not have regard to the specific investment purposes, financial situation and the particular business needs of any particular recipient. The investments and services contained herein may not be available to persons other than "qualified investors" as this term is defined in the Federal Law "On the Securities Market".

Singapore: Any material in connection with equity securities is distributed in Singapore by The Royal Bank of Scotland Asia Securities (Singapore) Pte Limited ("RBS Asia Securities") (RCB Regn No. 198703346M). Without prejudice to any of the foregoing disclaimers, this material and the securities, investments or other financial instruments referred to herein are not in any way intended for, and will not be available to, investors in Singapore unless they are institutional investors (as defined in Section 4A(1) of the Securities and Futures Act (Cap. 289) of Singapore ("SFA") or relevant persons falling within Section 275 of the SFA and in accordance with the conditions specified therein or otherwise fall within the circumstances under Section 275 of the SFA. Further, without prejudice to any of the foregoing disclaimers, where this material is distributed to accredited investors or expert investors as defined in Regulation 2 of the Financial Advisers Regulations ("FAR") of the Financial Advisers Act (Cap. 110) of Singapore ("FAA"), RBS Asia Securities is exempted by Regulation 35 of the FAR from the requirements in Section 36 of the FAA mandating disclosure of any interest in securities referred to in this material, or in their acquisition or disposal. Recipients who do not fall within the description of persons under Regulation 49 of the Securities and Futures (Licensing and Conduct of Business) Regulations or Regulations 34 and 35 of the Financial Advisers Regulations should seek the advice of their independent financial advisor prior to taking any investment decision based on this document or for any necessary explanation of its contents.

Thailand: Pursuant to an agreement with Asia Plus Securities Public Company Limited (APS), reports on Thai securities published out of Thailand are prepared by APS but distributed outside Thailand by RBS Bank NV and affiliated companies. Responsibility for the views and accuracy expressed in such documents belongs to APS.

Turkey: The Royal Bank of Scotland N.V. is regulated by Banking Regulation and Supervision Authority (BRSA).

UAE and Qatar: This report is produced by The Royal Bank of Scotland N.V. and is being distributed to professional and institutional investors only in the United Arab Emirates and Qatar in accordance with the regulatory requirements governing the distribution of investment research in these jurisdictions.

Dubai International Financial Centre: This material has been prepared by The Royal Bank of Scotland N.V. and is directed at "Professional Clients" as defined by the Dubai Financial Services Authority (DFSA). No other person should act upon it. The financial products and services to which the material relates will only be made available to customers who satisfy the requirements of a "Professional Client". This Document has not been reviewed or approved by the DFSA.

Qatar Financial Centre: This material has been prepared by The Royal Bank of Scotland N.V. and is directed solely at persons who are not "Retail Customer" as defined by the Qatar Financial Centre Regulatory Authority. The financial products and services to which the material relates will only be made available to customers who satisfy the requirements of a "Business Customer" or "Market Counterparty".

United States of America: This document is intended for distribution only to "major institutional investors" as defined in Rule 15a-6 under the U.S. Exchange Act of 1934 as amended (the "Exchange Act"), and may not be furnished to any other person in the United States. Each U.S. major institutional investor that receives these materials by its acceptance hereof represents and agrees that it shall not distribute or provide these materials to any other person. Any U.S. recipient of these materials that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this document, should contact and place orders solely through a registered representative of RBS Securities Inc., 600 Washington Boulevard, Stamford, CT, USA. Telephone: +1 203 897 2700. RBS Securities Inc. is an affiliated broker-dealer registered with the U.S. Securities and Exchange Commission under the Exchange Act, and a member of the Securities Investor Protection Corporation (SIPC) and the Financial Industry Regulatory Authority (FINRA).

- Material means all research information contained in any form including but not limited to hard copy, electronic form, presentations, e-mail, SMS or WAP.

The research analyst or analysts responsible for the content of this research report certify that: (1) the views expressed and attributed to the research analyst or analysts in the research report accurately reflect their personal opinion(s) about the subject securities and issuers and/or other subject matter as appropriate; and, (2) no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendations or views contained in this research report. On a general basis, the efficacy of recommendations is a factor in the performance appraisals of analysts.

For a discussion of the valuation methodologies used to derive our price targets and the risks that could impede their achievement, please refer to our latest published research on those stocks at research.rbsm.com.

Disclosures regarding companies covered by us can be found on our research website at research.rbsm.com.

Our policy on managing research conflicts of interest can be found at <https://research.rbsm.com/Disclosure/Disclosure.AspX?MI=2>.

Should you require additional information please contact the relevant research team or the author(s) of this report.