Strong on intent, but deliverables can wobble

Union Budget Review FY2011-12

quant

analysis adds up

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February 28, 2011

Strong on intent, but deliverables can wobble

- **No major policy announcements**
  - Finance Minister chose this opportunity to announce intent (many of which are repeated from the past budget) rather than action on major policy decisions, such as new banking licenses, the companies bill, FDI liberlisation, unearthing black money, manufacturing policy, GST bill, comprehensive policy for PPP projects, and the National Food Security Bill
- **Fiscal deficit target of 4.6% for FY12 is challenging, we believe**
  - Delivering an aggressive fiscal deficit target of 4.6% will be challenging despite a likely reduction to 5.1% for FY11
  - Macro environment has been deteriorating for some time with rising oil prices, interest rate and inflation
  - Reducing subsidies and other non-plan expenditure would be critical to achieve this target
  - Achieving divestment target of Rs400 bn also important
  - Likely robust tax collections in light of high GDP growth can dilute impact of other negative factors
- **Infrastructure sector gets a boost with various incentives**
  - Allocation for infrastructure raised by 23% at Rs2.14 tn and forms 49% of total plan outlay
  - Infrastructure bond worth Rs300b n to be issued by government in FY12
  - FII limits in corporate bonds doubled to US$40 bn for FY12
- **Foreign investors allowed to invest in Indian MFs – A BIG POSITIVE IN THE LONG RUN**
- **No major tax changes either in indirect or direct taxes except more services covered for tax**
  - FM chose to retain major tax rates intact with small tinkering in income tax and excise duties
  - However, he brought more services under the service tax net as intended
  - We believe that there could be upside to net tax revenue collection, which FM expects to grow at 18% for FY12
- **Bringing SEZs under MAT, a *regressive* step. No impact of increasing MAT by 0.5% points to 18.5%**
  - **We believe bringing SEZs under MAT is a step in the negative direction** as the government encouraged the manufacturing sector to move to these zones to be more competitive by not paying any taxes
  - Increasing MAT to 18.5% from 18.0% and reducing surcharge by 2.5% would lead to a negligible increase in the MAT rate
  - Removal of DDT exemption for SEZ developers also impact their profit

Budget at a glance

Analyst: Bhupesh Bameta, bhupesh.bameta@quantcapital.co.in, +91 22 3954 1472

Budget at a glance

Rs bn	2009-10 Actuals	2010-11 (Revised Estimates)	2011-12(Budget Estimates)	Growth in FY11 over FY10 (%)	Growth in FY12 over FY11 (%)
Revenue receipts	**5,728**	**7,838**	**7,899**	**36.8**	**0.8**
-Tax revenue	4,565	5,637	6,645	23.5	17.9
-Non-tax revenue	1,163	2,201	1,254	89.3	-43.0
Capital Receipts	**4,531**	**4,477**	**4,478**	**-1.2**	**0.0**
-Recovery of loans	86	90	150	4.5	66.9
-Other receipts	(189)	105	11	-155.7	-89.2
-Borrowing and other liabilities	3,984	3,554	3,430	-10.8	-3.5
Total receipts	**10,259**	**12,316**	**12,377**	**20.1**	**0.5**
Non-plan expenditure	**7,211**	**8,216**	**8,162**	**13.9**	**-0.7**
On revenue account	6,579	7,268	7,336	10.5	0.9
-Interest payments	2,131	2,408	2,680	13.0	11.3
On capital account	632	948	826	50.1	-12.8
Plan expenditure	**3,034**	**3,950**	**4,415**	**30.2**	**11.8**
Revenue account	2,539	3,269	3,636	28.8	11.2
Capital account	495	681	779	37.5	14.5
Total Expenditure	**10,245**	**12,166**	**12,577**	**18.7**	**3.4**
-Revenue expenditure	9,118	10,537	10,972	15.6	4.1
-Capital expenditure	1,127	1,629	1,606	44.6	-1.4
Revenue deficit	**3,390**	**2,698**	**3,073**	**-20.4**	**13.9**
Revenue deficit as % of GDP	**5.2**	**3.4**	**3.4**	**na**	**na**
Fiscal Deficit	**4,185**	**4,010**	**4,128**	**-4.2**	**2.9**
Fiscal Deficit as % of GDP	**6.4**	**5.1**	**4.6**	**na**	**na**
Primary deficit	**2,054**	**1,602**	**1,448**	**-22.0**	**-9.6**
Primary deficit as % of GDP	**3.1**	**2.0**	**1.6**	**na**	**na**

A 17.9% increase in tax revenue without any major tax hike is on the back of assumption of a 14% GDP growth rate and resultant tax buoyancy

Recovery of loans, buoyancy in tax revenue, draw down of cash balance and a significant reduction in non-plan expenditure were main reasons for reduction in fiscal deficit

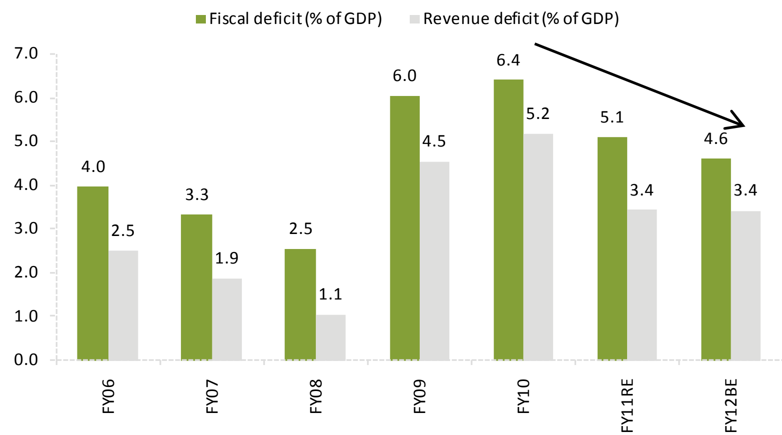
An increase in plan expenditure and a decrease in non-plan expenditure is a qualitative improvement in government expenditure and quite positive. However, the reduction in non-plan is aggressive in our view and the government will have to make significant effort to meet the targets

Note: Nominal GDP has been assumed to increase by 14% y-y to Rs89,809 bn. Source: Budget document 2011-12

Reduction in deficit and market borrowings

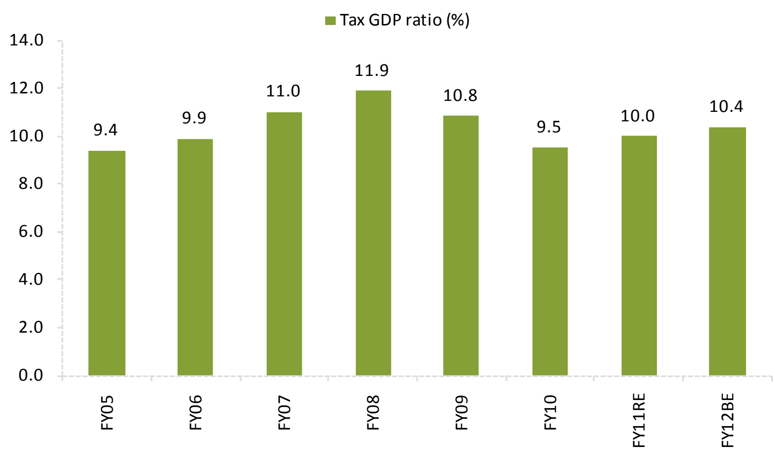
Analyst: Bhupesh Bameta, bhupesh.bameta@quantcapital.co.in, +91 22 3954 1472

Deficits: significant improvement in revenue and fiscal deficit



Note: RE is revised estimates and BE is budget estimates; Source: Budget documents

Gross tax-to-GDP ratio



Note: RE is revised estimates and BE is budget estimates; Source: Budget documents, CEIC, Quant Global Research

Government borrowing plan: lower borrowing plans are quite positive

Borrowing Head (Rs Bn)	FY10	FY11 RE	FY12 BE
Gross internal borrowing	4,510.0	4,470.0	4,171.3
-Repayments	525.8	1,115.9	741.3
Net internal borrowing	**3,984.2**	**3,354.1**	**3,430.0**
Gross external assistance	221.8	339.5	268.2
-Repayments	111.4	116.8	123.2
Net external assistance	110.4	222.6	145.0
Net small savings	132.6	177.8	241.8
Net Provident funds	160.6	100.0	100.0
Other receipts (net)	-189.1	105.4	11.3
Total net borrowing (fiscal deficit)	4,184.8	4,010.0	4,128.2

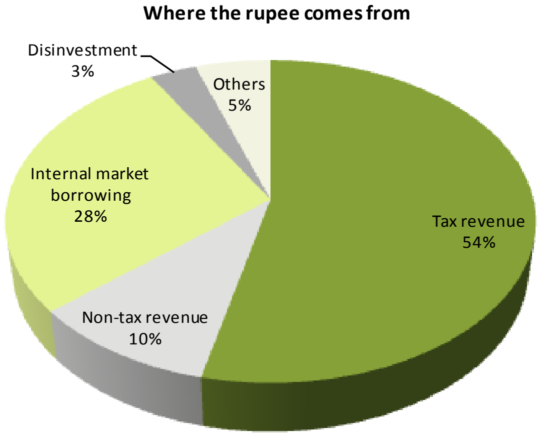
Note: RE is revised estimates and BE is budget estimates; Source: Budget documents

- Fiscal and revenue deficit targets for FY12 are quite positive for the markets and the economy, but, in our opinion, the government will have to make significant efforts to meet its targets, especially in subsidy reduction. Lower-than-expected GDP growth and high crude prices are significant risk factors for meeting government estimates
- Net internal borrowing number is quite positive and should help in keeping bond yields low and reduce "crowding out" of private sector credit needs
- The tax-to-GDP ratio at 10.4% is still quite low, in our view, and has the scope for significant improvement, which should bring about qualitative improvement in government receipts

Tax buoyancy on the back of growth momentum

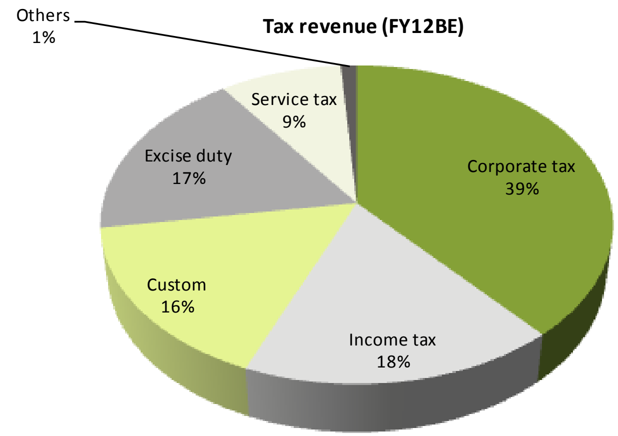
Analyst: Bhupesh Bameta, bhupesh.bameta@quantcapital.co.in, +91 22 3954 1472

Where the rupee comes from



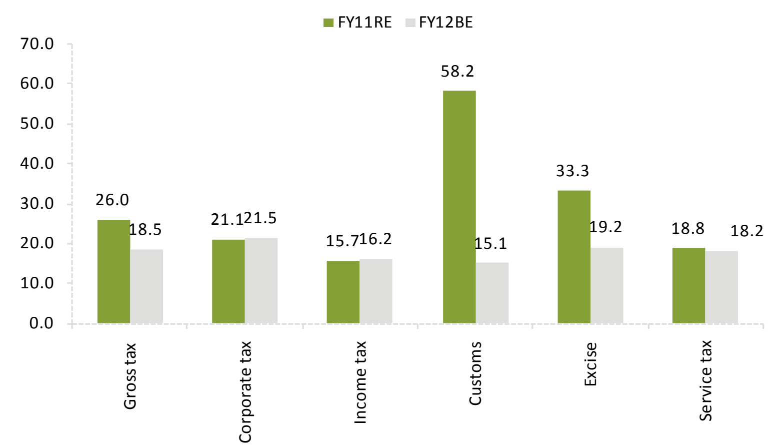
Source: Budget documents, CEIC, Quant Global Research

Breakdown in tax revenue



Note: BE is budget estimates; Source: Budget documents, CEIC, Quant Global Research

Growth in tax revenue (% y-y)



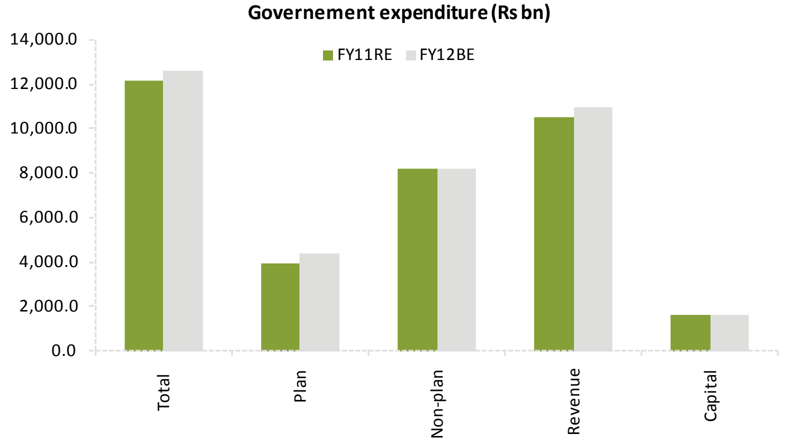
Note: RE is revised estimates and BE is budget estimates; Source: Budget documents, CEIC, Quant Global Research

- The share of tax revenue in total GDP stands at 54%, which is an improvement on less than 50% in FY11 and is quite positive, in our view, as it results in sustainable improvement in government finances. The share of borrowing in total receipts is still quite high at 28%, although lower than FY11
- The share of direct tax in overall tax revenue stands at 57%, which is positive from an equity point of view. However, the share of the services tax in total revenue is still below par and needs further improvement, given that services account for about 58% of GDP and has shown strong growth in the past decade. FM has called for public discussion for shifting to a negative list for services to increase its share in tax revenue

Frugal budget expectations

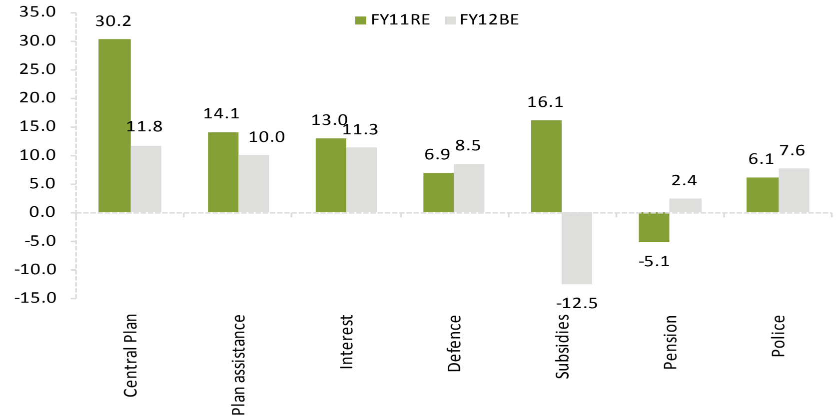
Analyst: Bhupesh Bameta, bhupesh.bameta@quantcapital.co.in, +91 22 3954 1472

Government expenditure (Rs bn): qualitative improvement



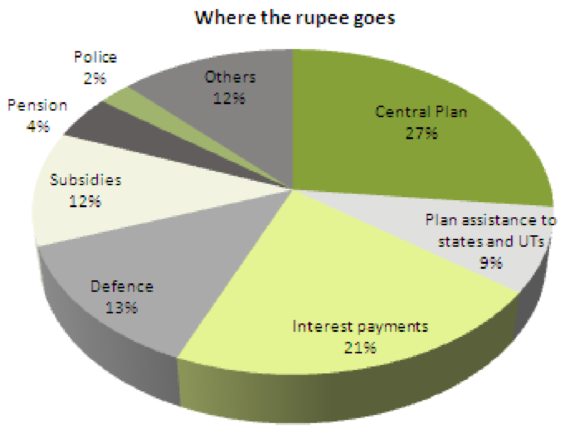
Note: RE is revised estimates and BE is budget estimates; Source: Budget documents, CEIC, Quant Global Research

Expenditure heads (% y-y): government has budgeted a significant reduction targets in subsidies, which would be challenging to achieve



Note: RE is revised estimates and BE is budget estimates; Source: Budget documents, CEIC

Where the rupee goes



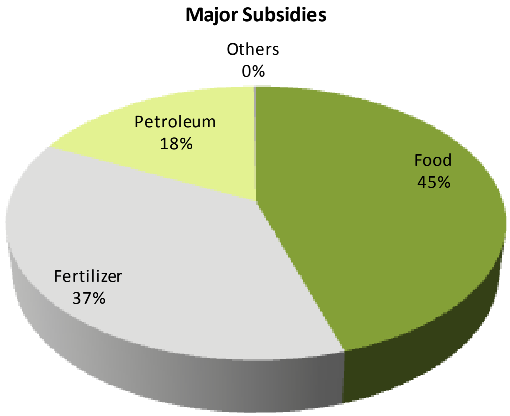
Source: CEIC, Budget documents

- The government has budgeted for a qualitative improvement in expenditure with greater increase in plan component of expenditure and bringing about an actual reduction in non-plan expenditure on the back of a significant 12.5% reduction in subsidy payments
- Non-plan expenditure is sticky in nature and any reduction, if achieved, should be seen as very positive. The past year's budgetary projection in non-plan expenditure was exceeded by about 10%. Growth in defense and police services expenditure is moderate and barely covers inflation
- Plan expenditure comprises 36% of total expenditure, which is an improvement from FY11numbers

… but the reduction in subsidy will be difficult to achieve, we think

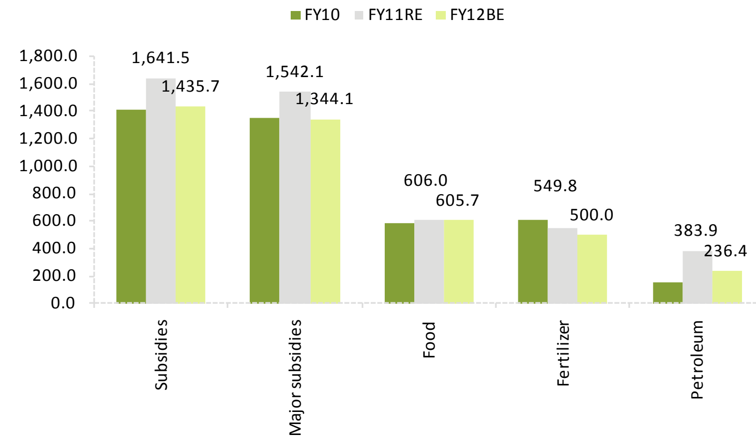
Analyst: Bhupesh Bameta, bhupesh.bameta@quantcapital.co.in, +91 22 3954 1472

Subsidy breakdown



Source: Budget documents, CEIC

Major subsidy heads (Rs bn)



Note: RE is revised estimates and BE is budget estimates; Source: Budget documents, CEIC

Sectoral allocation of central plan

(Rs Billions)	FY10	FY11 BE	FY11 RE	FY12 BE
Agriculture and Allied Activities	110.1	123.1	143.6	147.4
Rural Development	473.7	551.9	554.4	552.9
Irrigation and Flood Control	4.2	5.3	4.1	5.7
Energy	1143.1	1465.8	1262.3	1555.0
Industry and Minerals	306.9	390.2	388.5	452.1
Transport	864.5	1020.0	987.3	1168.6
Communications	147.5	185.3	121.7	202.6
Science Technology & Environment	98.6	136.8	126.5	161.9
General Economic Services	40.1	75.5	148.8	158.0
Social Services	867.9	1275.7	1271.6	1448.2
General Services	12.4	15.4	13.8	72.3
Grand Total	4069.1	5244.8	5022.5	5924.6

Note: RE is revised estimates and BE is budget estimates; Source: CEIC, Quant Global Research

- The government has budgeted for aggressive subsidy reduction targets, which are key reasons for being able to reduce fiscal deficit to 4.6% in FY12. In FY11, the government has budgeted for similar aggressive reduction targets in subsidies, which were missed by more than 40%. The reduction in petroleum subsidy will be the most challenging to achieve, in our view, given high crude prices and inflation
- However, the government has given indications that it intends to significantly bring down leakages in subsidy through direct cash transfer and proper monitoring and that would be a key reason for being able to reduce subsidy

Focus areas

Analyst: Bhupesh Bameta, bhupesh.bameta@quantcapital.co.in, +91 22 3954 1472

Focus area	Sub-area	Rating
Promoting growth	**Industrial**	★★★★
	Agricultural	★★★★
	Services	★★★
	Exports	★★★
Government finances	**Tax collection**	★★★★
	Expenditure management	★★★★★
	Tax reforms → Simplicity and transparency (GST/DTC)	★★★★
	Divestment	★★★
	Subsidy	★★★★
Inflation control	**Supply side**	★★★★
	Lower borrowing	★★★★
Social and physical infrastructure	**Roads, power, ports, railways, housing**	★★★
	Education, health	★★★
Employment generation	**Government schemes like NREGS**	★★★
Poverty alleviation	**Financial inclusion, insurance, interest rate subvention**	★★★★
	Government schemes like NREGS	★★★

Source: Quant Global Research

Budget 2010-11: an assessment of hits and misses

Analyst : Madhavi Arora, madhavi.arora@quantcapital.co.in, +91 22 3954 1495

Budget 2010-11 announcement	Report card
Tax Reforms - **Direct Tax Code (DTC**) and **Goods and Services Tax (GST)** proposed in the past year's budget to be implemented from April 1, 2011, to bring about smoother transition in the tax system	This year's budget saw the re-announcement of DTC and GST with a new proposed timeline of April 1, 2012, given the sheer lack of political consensus. We expect a more diluted adoption of DTC with none of the radical measures from the original draft. Besides, the clear outcome on initial loss-sharing between the Centre and the states remains the bone of contention in GST
Banking and Finance Reforms - **Banking Licenses:** The foundation of new bank licenses for further banking inclusion and competition was laid with a hope of some prudent action in the same direction. - **New Pension Scheme:** Announced in the budget to encourage individuals to save for their retirement during their working life with every new account getting Rs1,000 incentive. The budget had set aside Rs1,000 mn - **Micro Finance:** The budget aimed to link self-help groups (SHGs) with the banking system with a fund corpus of Micro Finance Development and Equity Fund being doubled to Rs4,000 mn - **Financial Stability and Development Council (FSDC)** was proposed under the chairmanship of the Finance Minister to monitor the macro prudential economic supervision	- The RBI discussed and sought feedback on the new banking licenses norms, but yet to come out with any guidelines. Now, the FM has mentioned this fiscal year-end as the new timeline - The scheme seems to have failed in taking off along expected lines as there are only 14,369 registrations to date - While the progress of disbursement under the fund has been constantly monitored, this year's budget created a "Women's SHG's Development Fund" with a corpus of Rs5,000 mn. We see it as progress in the right direction to protect the interests of small borrowers - It was set up in December 2010
- **Governance:** The budget was high on promises to create an environment that supports transparency and administrative accountability	The government's image was tarnished owing to the corruption in Commonwealth Games, 2G licenses and CVC controversies

Budget 2010-11: an assessment of hits and misses

Analyst : Madhavi Arora, madhavi.arora@quantcapital.co.in, +91 22 3954 1495

Budget 2010-11 announcement	Report card
- **Unique Identification Authority of India(UIDAI):** UID entered its operational phase with the Planning Commission's target of over 100 mn UIDs to be issued by March 2011	Despite being one of the government's pet projects, the current progress of UID has been dismal. The UID website says only 2 mn cards have been issued to date
- **Infrastructure:** Budget 2010 targeted 2,500 km of national highways with the allocation of Rs199 bn also aiming at PPPs to catalyse the targets - Competitive bidding process for coal blocks allocation was proposed	As against the target, NHAI has just completed the construction of 1,156 km (by December 2010). The current budget continues to stress on the importance of road infrastructure and role of PPPs. -We see slow implementation with only the announcement of Mines and Mineral Amendment Act by September 2010
- **Shipping:** The budget promised an alternate port facility and connecting road at Sagar Islands at West Bengal	The decision to hire a consultant has been just taken. The consultant's feasibility report will take another nine months, showing lax progress
Developmental Reforms - **NREGA** allocation was stepped up to Rs401 bn in Budget 2010-11 with extension of the National Social Security Fund and Rashtriya Swathya Bima Yojana. Rajiv Awas Yojna (RAY) was announced to give property rights to slum dwellers, keeping aside Rs12.7 bn in the past budget.	The government spending on NREGA falls short of the allocation. The parameters of the RAY and other schemes are still under formulation by the Planning Commission. Meanwhile, the FM proposed additional Mortgage Risk Guarantee Fund under RAY to guarantee housing loans taken by economically weaker sections in this year's budget.
- **Subsidy:** Food, fertiliser and petroleum subsidies were allocated Rs606 bn, Rs549 bn and Rs383 bn, respectively, with the government envisaging petroleum and diesel deregulation policy	While these sectors continue to receive sizeable subsidies, the deregulation of petrol was a step forward. But, we still have a long way to go towards other fuel deregulations
- **Agriculture reforms:** Green revolution of the Eastern region was allocated Rs4 bn while Rs3 bn was allocated to organise "Pulses and Oil Seed Villages" programme	The concept remains a concern as supply-side constraints were visible given high food inflation. We believe either allocation was insufficient or the implementation was poor. However, once again the FM has reiterated on the green revolution in the eastern region

Impact on sectors

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February 28, 2011

Sectoral impact

Sector	Sectoral impact	Stocks affected positively	Stocks affected negatively
Auto & auto ancillaries		Tata Motors, Maruti, M&M	2 wheelers
Banks / Financials		PSU Banks, NBFCs, HFCs	--
Cement		--	ACC
Consumer and Retail		ITC, Jubilant Foodworks	Pantaloon, Trent, Shoppers' stop
Infrastructure		BHEL, L&T, GVK, GMR, Voltas	Mundra Port
Metals and Mining		--	Sesa Goa
Media		--	--
Oil & Gas		Upstream	Gas transmission companies
Pharmaceuticals		--	--

Auto & Auto Ancillaries

Analyst: : Basudeb Banerjee, basudeb.banerjee@quantcapital.co.in, +91 22 3954 1480

Expectations	Announcement	Impact on sector	Impact on stocks
Hike in excise duty across segments in the automobile & auto ancillaries industry, from 10% to 12%, as a part of rolling back of the fiscal stimulus initiated by the UPA government in CY09	No incremental hike in excise duty against current 10% levels	Sector already under pricing pressure led by rising input costs and demand stabilization coinciding with rising competition in an inflationary scenario. Although this move would not affect fundamentals, it would protect demand growth and margin from further contraction	Since we do not expect fair value to get impacted incrementally, we believe the negative overhang over the PV, two-wheeler and CV stocks will get removed partially. Positive for the auto basket. Positive for **MSIL, AL, TVSL and EIM.** Slightly **positive** for TTMT on CV business
Introduction of special duty on diesel-fed passenger vehicles to the extent of Rs80,000-Rs100,000/vehicle to compensate for the diesel subsidy burden contribution from the PV segment	No such introduction of a special duty in a rising diesel subsidy burden scenario	With dieselization in the domestic PV market being around 16-18%, we believe this is a welcome move for diesel PV manufacturers. **We believe this may happen given rising crude prices**	Positive for **M&M, MSIL and TTMT** with regards to their diesel PV business segment
Pro agriculture-related policies, benefitting rural India	Increase in targeted credit flow to farmers in FY12 from Rs3.75 tn to Rs4,75 tn along with a rise in interest subvention for timely re-payment to 3%. Contraction in import duty for critical agrimachinery from 5.0% to 2.5%. Making NREGA payment linked to inflation, leading to a rise in daily wages by almost 30%.	On the back of rising demand for farm mechanization along with easier and cheaper access to credit, demand for farm equipment in the form of tractors, tillers, and water pump-sets will be boosted	Positive for **Escorts, Greaves Cotton, M&M and VST Tillers**
Reduction in import duty of rubber and resolving the inverted duty structure of tyres	Import duty on carbon black reduced from 5.0% to 2.5% and that on Caprolactam reduced from 10.0% to 7.5%. No change in rubber import duty structure	Slightly positive on the tyre sector in terms of minor reduction in input cost	Neutral on tyres stocks like **Apollo Tyres, JK Tyres, CEAT and BKT** as we believe rubber is the critical margin deciding input material

Outlook: We believe the key surprise in the current budget has been maintaining the excise duty rate at the existing 10% level. With most manufacturers already under margin pressure, incremental price hikes of the products would help tackle rising input costs rather than passing on the increase in excise duty to consumers. Although we do not see any change in demand and margin scenario of the sector, we believe the ongoing negative overhang on the stock prices due to concerns related to excise duty hike will dissipate. We have a neutral view on the auto sector with a positive bias for four-wheelers and negative for two-wheelers.

Auto & Auto Ancillaries

Analyst: : Basudeb Banerjee, basudeb.banerjee@quantcapital.co.in, +91 22 3954 1480

Valuation summary

Company	Bloomberg Code	Rating	Market Cap Rs mn	CMP* (Rs)	Px target (Rs)	Quant Ret (%)	1 mth Ret (%)	EPS (Rs) FY11E	EPS (Rs) FY12E	P/E (x) FY11E	P/E (x) FY12E	EV/EBITDA (x) FY11E	EV/EBITDA (x) FY12E	ROE (%) FY11E	ROE (%) FY12E
Auto and auto ancilliary															
Bajaj Auto	BJAUT IN EQUITY	REDUCE	368,054	1,269	1,386	9.2	1.9	88.1	93.2	14.4	13.6	9.9	8.4	55.2	42.5
Hero Honda	HH IN EQUITY	REDUCE	293,040	1,465	1,420	(3.1)	(10.3)	94.1	104.1	15.6	14.1	10.7	9.8	49.1	45.9
TVS	TVSL IN EQUITY	BUY	24,109	51	78	54.0	(7.0)	2.5	5.6	20.3	9.0	7.7	4.7	16.6	28.5
Eicher Motors	EIM IN EQUITY	BUY	28,279	1,059	1,532	44.6	3.5	70.1	88.4	15.1	12.0	5.0	4.0	15.3	16.6
Maruti Suzuki	MSIL IN EQUITY	BUY	349,170	1,208	1,754	45.2	(3.6)	83.1	103.2	14.5	11.7	7.5	5.8	17.4	18.0
Exide Industries	EXID IN EQUITY	BUY	116,238	137	170	24.3	6.5	6.7	8.5	20.4	16.1	13.1	10.0	21.2	22.2
Escorts	ESC IN EQUITY	BUY	11,463	113	180	59.2	(14.0)	15.8	20.8	7.2	5.4	4.2	2.9	9.5	11.3
Tata Motors	TTMT IN EQUITY	BUY	673,471	1,083	1,667	54.0	(5.6)	146.0	173.0	7.4	6.3	5.8	4.9	44.7	37.2
Ashok Leyland	AL IN EQUITY	BUY	62,178	47	87	86.1	(20.7)	4.5	6.3	10.4	7.4	0.5	1.0	21.7	24.2

Note: pricing as of 28 February 2011; Source: Quant Global Research estimates

Analyst : Nitin Kumar, nitin.kumar@quantcapital.co.in, +91 22 3954 1468
Jay Prakash Sinha, CFA, jayprakash.sinha@quantcapital.co.in, +91 22 3954 1462

Expectations	Announcement	Impact on sector	Impact on stocks
New banking licenses	FM proposes amendments to the Banking Regulation Act for granting additional banking licenses to private sector players. The RBI is to come out with the final guidelines by FY11-end	Would encourage deeper penetration of banking services in the country. We see a minor impact on existing players as new entrants comply with stringent rural targets	NBFCs will have an upper hand in getting new licenses
Further capitalization of SOE banks	Rs60 bn to be provided during 2011-12 to enable public sector banks to maintain a minimum Tier I CRAR of 8% Rs5 bn to be provided to regional rural banks to maintain a CRAR of at least 9% as on March 31, 2012	Positive for banks with a lower capital base as capital infusion would help them support their growth plans	Positive for **Bank of Maharashtra, IDBI Bank, Vijaya Bank, Union Bank**
NA	"India Microfinance Equity Fund" of Rs1 bn to be created with Small Industries Development Bank of India (SIDBI) "Women's SHG's Development Fund" to be created with a corpus of Rs5 bn	Underscores the importance of the micro-finance sector in promoting financial inclusion. We believe uncertainties on the sector should recede	Positive **for SKS Microfinance**
Interest subvention to farmers for short-term crop loans to continue given political compulsions	Interest subvention proposed to be enhanced from 2% to 3% for providing short-term crop loans to farmers who repay their crop loan on time Credit flow for farmers raised from Rs3.75 tn to Rs4.75 tn in 2011-12.	Mildly positive as higher interest subsidy gets offset by increasing moral hazard issue. Banks already say that farmers have not been forthcoming in paying their dues, expecting a complete loan waiver Ambitious target but given strong farm growth and several proposals introduced this year to promote agricultural activity, it could be achievable	Positive for the sector in general as this would help keep a check on agriculture NPLs

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Jay Prakash Sinha, CFA, jayprakash.sinha@quantcapital.co.in, +91 22 3954 1462

Expectations	Announcement	Impact on sector	Impact on stocks
NA	Mortgage Risk Guarantee Fund to be created under the Rajiv Awas Yojana for enhancing credit-worthiness of economically weaker sections of society Central Electronic Registry to be implemented by March 31, 2011 to prevent fraud involving multiple lending on the same immovable property	Would help keep a check on NPL formation in the mortgage space	Positive mainly for **LICHF, HDFC, SBI, and ICICI Bank** and other mortgage players
We had expected no increase in the housing loan limit; instead, we had expected a clampdown on real estate developers to reduce real estate prices	Existing housing loan limit enhanced to Rs2.5 mn from Rs2.0 mn under priority sector lending Interest subvention of 1% on housing loans up to Rs1.5 mn	Positive for housing finance companies and banks in general as their risk-weight will decline. Also, positive for real estate players engaged in building low-cost housing	Positive for **HDFC, SBI, ICICI Bank, LICHF** and banking sector in general
NA	IIFCL to achieve cumulative disbursement target of Rs200 bn by March 31, 2011 and Rs250 n by March 31, 2012. Also Rs50 bn is targeted to be sanctioned during FY12	Positive for infrastructure financing companies	Positive for **IDFC, PFC, REC, SREI Infra**
NA	Target of providing banking facilities to all 73,000 habitations with a population of over 2,000 to be completed during 2011-12	Will increase the reach of the sector, resulting in higher business volumes	Positive for business growth but higher costs incurred in offering services to these areas could make them unprofitable

Outlook : We believe the current budget has been a non-event for the financial sector. Absence of any timelines on key reforms like insurance liberalization, pension reforms and banking regulation raise concerns on the government's pro-reform attitude. However, the extension of interest subvention on short-term crop loans, an increase in home loan limit under the priority sector target, recapitalization of SOE banks and small steps taken to promote micro-finance are positive developments for the sector.

Banking & Financials

Analyst : Nitin Kumar, nitin.kumar@quantcapital.co.in, +91 22 3954 1468
Jay Prakash Sinha, CFA, jayprakash.sinha@quantcapital.co.in, +91 22 3954 1462

Valuation summary

Company	Bloomberg Code	Rating	Market Cap Rs mn	CMP* (Rs)	PT (Rs)	Quant Ret (%)	1 mth Ret (%)	EPS (Rs) FY11E	EPS (Rs) FY12E	P/E (x) FY11E	P/E (x) FY12E	P/ABV (x) FY11E	P/ABV (x) FY12E	ROE (%) FY11E	ROE (%) FY12E
Banking and financials															
Axis Bank	AXSB IN Equity	BUY	499,484	1,219	1,477	21.2	(1.9)	81.8	104.9	14.9	11.6	2.7	2.3	19.1	20.9
HDFC	HDFC IN Equity	REDUCE	921,149	629	632	0.4	0.1	23.0	27.2	27.4	23.1	5.2	4.6	20.4	20.9
HDFC Bank	HDFCB IN Equity	BUY	952,860	2,052	2,530	23.3	0.2	86.4	114.7	23.8	17.9	3.9	3.3	17.1	19.5
ICICI Bank	ICICIBC IN Equity	ACCUMULATE	1,114,536	971	1,240	27.7	(5.0)	45.2	53.4	21.5	18.2	2.8	2.6	9.6	10.7
IDFC	IDFC IN Equity	ACCUMULATE	212,573	145	225	55.0	(1.4)	9.6	11.9	15.1	12.2	2.1	1.9	15.1	14.5
PNB	PNB IN Equity	BUY	334,530	1,062	1,400	31.8	(3.8)	138.6	165.7	7.7	6.4	1.9	1.5	22.4	22.5
SBI	SBIN IN Equity	ACCUMULATE	1,670,073	2,630	2,880	9.5	(0.5)	175.9	233.0	15.0	11.3	2.9	2.1	17.3	19.1
Union Bank	UNBK IN Equity	ACCUMULATE	158,570	314	425	35.4	(4.9)	45.8	60.6	6.9	5.2	1.7	1.3	20.3	22.3
BOB	BOB IN Equity	BUY	317,214	871	1,000	14.8	0.1	110.6	140.2	7.9	6.2	2.0	1.6	24.1	25.0
BOI	BOI IN Equity	REDUCE	230,764	440	500	13.8	0.1	54.2	68.4	8.1	6.4	1.8	1.4	18.5	20.0
Canara	CBK IN Equity	BUY	251,802	614	835	36.0	1.9	102.3	127.6	6.0	4.8	1.8	1.4	25.5	25.5
Yes Bank	YES IN Equity	BUY	88,755	256	420	64.1	(2.7)	20.7	29.6	12.4	8.6	2.4	1.9	20.7	24.3
IndusInd Bank	IIB IN Equity	BUY	101,992	219	325	48.3	(2.1)	12.5	17.5	17.5	12.5	2.8	2.3	18.5	19.8

Note: pricing as on February 28, 2011. ABV is the book value for the standalone entity. Also excludes subsidiary investments in case of ICICI Bank and SBI; Source: Quant Global Research estimates

Cement

Analyst : Mangesh Bhadang, mangesh.bhadang@quantcapital.co.in, +91 22 3954 1465
Tushar Manudhane, tushar.manudhane@quantcapital.co.in, +91 22 3954 1487

Expectations	Announcement	Impact on sector	Impact on stocks
Industry players were expecting an uniform rate of excise duty independent of cement prices for cement in packaged form	A 10% ad-valorem duty plus Rs160/tonne has been imposed. Ad-valorem component would now be on transaction value instead of retail sales price	Neutral to negative	Although now excise is levied on transaction value and not on MRP, effective excise duty will still be higher by 1-2% due to additional specific duty of Rs160/tonne
No change in excise duty for clinker sale was expected	Excise duty on clinker has changed from Rs375/tonne to 10% ad-valorem plus Rs200/tonne	Neutral to negative	Neutral on cement companies
Reduction in import duty of essential raw materials like coal	Import duty on gypsum and pet coke is reduced from existing 5.0% to 2.5%.	Neutral	Pet coke is not used by many players as a substitute for coal. Most players which use pet coke source it domestically so the reduction in import duty will not help. Secondly, gypsum is ~5% of total cost of cement players and that is also sourced domestically by few players. Hence, the overall impact of the reduction in import duties will not help.
No change in excise duty for fly ash	The government has withdrawn current exemption on fly ash and has introduced 1% duty without cenvat credit facility.	Marginal impact on companies through increased fly ash prices	Marginal impact on companies through increased fly ash prices
Reduction in VAT from the current high rate of 12.5%	No change	Negative	Cement companies will continue to pay higher VAT, which is negative for the sector

Outlook: We believe that the budget is negative for the cement industry. Although the government imposed excise duty on transaction value instead of MRP, this positive effect is offset by the addition of specific duty of Rs160/tonne in addition to the 10% ad-valorem duty. The import duty on coal is not reduced nor is there any reduction in VAT, which is currently at 12.5%. We maintain our cautious view on the sector and believe that the recent price hike of close to 30% by Coal India and a rise in imported coal costs would impact margins negatively. We maintain our negative view on ACC, based on the recent stock outperformance as well as the hike in coal prices by Coal India.

Cement

Analyst : Mangesh Bhadang, mangesh.bhadang@quantcapital.co.in, +91 22 3954 1465
Tushar Manudhane, tushar.manudhane@quantcapital.co.in, +91 22 3954 1487

Valuation summary

Company	Bloomberg Code	Rating	Market Cap Rs mn	CMP* (Rs)	Px target (Rs)	Quant Ret (%)	1 mth Ret (%)	EPS (Rs)		P/E (x)		*EV/EBITDA (x)		ROE (%)	
								FY11E	FY12E	FY11E	FY12E	FY11E	FY12E	FY11E	FY12E
ACC	ACC IN Equity	SELL	181,991	969	854	(11.9)	(2.2)	57.2	61.6	16.9	15.7	11.4	8.8	16.2	15.5
Ambuja	ACEM IN Equity	REDUCE	180,294	118	124	5.2	(6.6)	8.1	9.9	14.5	11.9	9.5	7.3	17.3	18.3
Grasim	GRASIM IN Equity	ACCUMULATE	206,790	2,255	2,583	14.5	(1.1)	185.0	197.0	12.2	11.4	4.6	3.9	11.1	10.8
Ultratech	UTCEM IN Equity	ACCUMULATE	255,072	931	1,119	20.2	(7.2)	38.1	78.4	24.4	11.9	11.9	7.3	9.7	17.3
India Cements	ICEM IN Equity	BUY	26,233	85	146	71.0	(13.7)	2.9	11.0	29.8	7.8	8.5	5.4	2.1	8.0

Note: pricing as of 28 February 2011; Source: Quant Global Research estimates

Consumer and Retail

Analyst : Kalpesh Makwana, kalpesh.makwana@quantcapital.co.in, +91 22 39541489
Tulasi Trivedi, tulasi.trivedi@quantcapital.co.in, +91 22 39541481

Expectations	Announcement	Impact on sector	Impact on stocks
Open up FDI in multi-brand retail	No relaxation on FDI norms	Negative for retail, F&B sectors	Negative for **Pantaloon Retail, Shoppers Stop, Trent**
NA	Incentivise supply chain and logistics firms; tax holiday with regards to profit from cold chain infrastructure; granting infrastructure status to cold chain companies	Positive for companies in the supply chain/ cold chain infrastructure space	Positive for **Pantaloon Retail, Shoppers Stop, Jubilant Foodworks**
Excise duty on cigarettes may go up 8% to 10%	No changes in excise duty	Positive for cigarettes companies	Positive for **ITC**

Valuation summary

Company	Rating	Market Cap	CMP*	Price target	Quant	1-mth	ROE (%)			P/E (x)			EV/EBITDA			EV/Store (Rs)		
		(Rs bn)	(Rs)	(Rs)	return (%)	return (%)	FY10	FY11E	FY12E	FY10	FY11E	FY12E	FY10	FY11E	FY12E	FY10	FY11E	FY12E
Retail																		
Jubilant Foodwork JUBI IN	SELL	34	541	482	(2.6)	(0.3)	46.6	42.9	38.7	104.3	54.0	39.8	51.7	31.0	21.2	125.8	98.9	80.2

Note: pricing as on February 28, 2011. Source: Quant Global Research estimates

Outlook: We believe the budget disappointed the sector which was expecting rationalisation of FDI limits on various segments. Hence, we have a neutral view of the sector.

Infrastructure

Analyst : Krishnakant Thakur, krishnakant.thakur@quantcapital.co.in, +91 22 39541467
Pawan Parakh, pawan.parakh@quantcapital.co.in, +91 22 39541471
Arafat Saiyed, arafat.saiyed@quantcapital.co.in, +91 22 39541482

Expectations	Announcement	Impact on sector	Impact on stocks
Thrust for the infrastructure sector by increasing allocation to various schemes and easing availability of funds for the sector	FII limit for investment in corporate bonds issued in infrastructure sector being raised to US$25 bn from US$5 bn	Positive as higher and cheap availability of long-term debt funds to boost investment in infrastructure	Positive for all infrastructure companies (both BOT operators and EPC contractors)
	Issuance of tax-free bonds worth Rs300 bn by government undertakings during 2011-12 to finance railways, ports, housing and highways development projects	Positive. In line with government's thrust on transportation infrastructure	
	IIFCL disbursement targets raised to Rs 250 bn in FY12 from Rs200 bn in FY11.	Positive as this is expected to ease funding for long infrastructure projects	
	Additional tax deduction of Rs20,000 for individuals on investment in long-term infrastructure bonds extended for one more year	Positive and in line with the government's thrust on infrastructure and sustaining growth momentum	
	Allocation for Bharat Nirman increased by about Rs100 bn to Rs580 bn y-y	Positive and in line with the government's thrust on infrastructure and sustaining growth momentum	
Increase in import duty on foreign power generation equipment	Parallel excise duty exemption for domestic suppliers producing capital goods needed for expansion of existing mega or ultra mega power projects	Positive as this will ensure level-playing field and improve competitiveness of firms with a domestic manufacturing facility	Positive for **BHEL** and **Larsen & Toubro**
Reduction in the MAT rate for infrastructure projects	MAT increased to 18.5% of book profit from 18.0%. Surcharge reduced to 5.0% from 7.5% leaving the effective MAT rate unchanged	Neutral as the step is in line to synchronise the MAT rate to the rate proposed in draft DTC. Lowering of surcharge to negate impact of higher MAT rate	Neutral for **Reliance Infrastructure, Reliance Power, GMR Infrastructure, Mundra Port, GVK Power** and others
NA	Discontinuance of dividend distribution tax for SEZ developers	Negative. To negatively impact SEZ developers	Neutral for **Mundra Port** as SEZ income comprises a miniscule part of the company's earnings
NA	Levy of MAT on units operating in the SEZ	Negative. The same is likely to partially discourage investments in SEZs	Negative for **Mundra Port** and other user industries in SEZ

Infrastructure

Analyst : Krishnakant Thakur, krishnakant.thakur@quantcapital.co.in, +91 22 39541467
Pawan Parakh, pawan.parakh@quantcapital.co.in, +91 22 39541471
Arafat Saiyed, arafat.saiyed@quantcapital.co.in, +91 22 39541482

Expectations	Announcement	Impact on sector	Impact on stocks
NA	Extension of sunset clause u/s 80 IA-4 for tax holiday for the power sector (generation and T&D) up to March 2012	Positive. Extension of tax benefits to maintain investment momentum in the power sector	Positive for **NTPC, Power Grid, GMR Infra, GVK Power** and all companies in the power ancillary space
Special provisions to boost investment in roads sector (like setting up of road finance corporation). Although actual implementation could be a longer process, a step toward it would be welcome	Setting up of dedicated infrastructure debt funds which shall enjoy tax exemptions u/s 10 (to take effect from June 2011)	Positive. Creation of dedicated fund would facilitate easy financing and speedy execution of infrastructure projects in the long term	Positive for the whole infrastructure sector
NA	Capital investment in the creation of modern storage capacity and cold storage. Approval to set up 15 more mega food parks	Positive and in line with the government's thrust on investment in agriculture and agro-processing activities	Positive for **Voltas** and **Blue Star**
NA	Removal of production and distribution bottlenecks for fruits and vegetables, milk, meat, poultry and fish 24 cold storage projects with a capacity of 0.14 mn tonnes have been sanctioned, 107 cold storage projects with a capacity of over 0.5 mn tonnes have been approved Capex for modern storage capacity will be eligible for viability gap funding scheme. It is also proposed to recognize cold chains and post-harvest storage as an infrastructure sub-sector	Positive and in line with the government's thrust on investment in agriculture and agro-processing activities	Positive for **Voltas** and **Blue Star**

Outlook: We believe the budget provides adequate funding support for infrastructure projects. We are of the view that increasing FII limit in investment in corporate bonds issued in infrastructure companies and plans to facilitate setting up of infrastructure debt are key steps to meet long-term fund requirements of the sector. This is likely to benefit long-term financial needs of the infrastructure sector, thereby giving a boost to the investment environment in the country. Additionally, level-playing field for BHEL and L&T by waiving off excise tax for equipment supplied mega and ultra mega power plants was the long-awaited tax measure delivered in the current budget. While the introduction of MAT liability for users and developers of SEZ is negative for the long-term growth potential of SEZ, for companies like Mundra Port, SEZ remains an insignificant portion of their revenue/ income. The recent correction in the stock provides strong opportunity for investors to accumulate the stock.

Media

Analyst : Kalpesh Makwana, kalpesh.makwana@quantcapital.co.in, +91 22 39541489
Maulik Mashkaria, maulik.mashkaria@quantcapital.co.in, +91 22 39541470

Expectations	Announcement	Impact on sector	Impact on stocks
Allowing foreign firms to own up to 74% in broadcasting companies	NA	NA	Neutral

Valuation summary

Company		Rating	Market Cap (Rs bn)	CMP* (Rs)	Price target (Rs)	Quant return (%)	1-mth return (%)	ROE (%)			Mcap/Sales (x)			EV/EBITDA			EV/Sub (US$)		
								FY10	FY11E	FY12E	FY10	FY11E	FY12E	FY10	FY11E	FY12E	FY10	FY11E	FY12E
Media																			
Dish TV	DITV IN	ACCUMULATE	62	59	72	(2.3)	(0.3)	na	na	na	5.7	4.4	3.2	59.1	29.9	12.6	302.2	207.3	151.7

Note: pricing as on February 28, 2011. Source: Quant Global Research estimates

Outlook: We believe the budget disappointed the retail sector that was expecting FDI reforms and the removal of service tax on rent. The sector is performing well operationally buoyed by high consumer confidence and inflation-led high SSGs.

Analyst : Kalpesh Makwana, kalpesh.makwana@quantcapital.co.in, +91 22 39541489
Maulik Mashkaria, maulik.mashkaria@quantcapital.co.in, +91 22 39541470

Expectations	Announcement	Impact on sector	Impact on stocks
Increase in exports duty on iron ore fines to 15%	Unified ad valorem rate of 20% for all types of iron ore	Positive for steel companies with no iron ore integration and negative for iron ore companies	Negative for **SESA,** neutral for **NMDC**
Introduction of MMDR Act*	No formal announcement but GoM will suggest changes in existing statutes, rules, regulations and guidelines and make its recommendations in a time-bound manner to address all issues related to environmental concerns	Neutral	**Coal India, Sesa Goa, NMDC, Gujarat NRE Coke**. All metals and power companies with captive mining
Setting up of a coal regulator*	NA	NA	NA
NA	MAT raised to 18.5% from 18.0%	However, the effective tax rate would not change as surcharge has dropped to 5%	No impact

* - Not part of the budget has found mention in the budget speech indirectly

Valuation summary

Company	Bloomberg Code	Rating	Market Cap (Rs bn)	CMP* (Rs)	Price target (Rs)	Quant return (%)	1-mth return (%)	ROE (%)			P/E (x)			EV/EBITDA			P/B (x)		
								FY10	FY11E	FY12E	FY10	FY11E	FY12E	FY10	FY11E	FY12E	FY10	FY11E	FY12E
Metals																			
Coal India	COAL IN	REDUCE	2,070	328	290	(11.5)	7.4	43.8	35.1	32.6	21.3	20.0	17.0	16.2	12.5	10.1	7.9	6.1	4.9

Note: pricing as on February 28, 2011. Source: Quant Global Research estimates

Outlook: We believe the budget was negative for steel companies based on reduction of 5% import duty on raw steel. It also was negative for iron ore exporting companies as export tax on iron ore was increased to 20% ad-valorem on both lumps and fines. No mention of the MMDR Act will act as an overhang on the mining companies, in our view. The metals & mining sector is facing twin headwinds of high raw material costs and wage inflation currently.

Analyst : Gagan Dixit, gagan.dixit@quantcapital.co.in, +91 22 3954 1494

Expectations	Announcement	Impact on sector	Impact on stocks
Reduction in customs duty on crude oil, motor spirit (MS) and high speed diesel (HSD) that currently stand at 5.0%, 7.5% and 7.5%, respectively	No change in customs duty	Positive for upstream and Neutral for OMCs	Upstream companies **(RIL, Cairn, ONGC, OIL)** realisations on domestic production would maintain current levels due to maintenance of custom duties. OMCs (**BPCL, HPCL, IOC**) were expected to pass on the benefit of any lowering of custom duty on MS and HSD to the consumers
Reduction in excise duty on MS & HSD	No change in excise duty	Neutral for OMCs	OMCs (BPCL, HPCL, IOC) were expected to pass on the benefit of any lowering of excise duty on MS & HSD to the consumers
Possibility of clarity with regards to giving infrastructure status to city gas distribution (CGD) and LNG re-gasification projects so that these firms can avail 10-year tax holiday under section 80-IA	No mention of inclusion of CGD and LNG re-gasification projects under section 80-IA benefits	Slightly negative for CGD and LNG firms	Slightly negative for CGD **(Gujarat Gas, Indraprastha Gas, GAIL, IOC, GSPC**) operating and LNG re-gasification **(Petronet LNG**) firms
Possibility of re-instatement of profit linked incentives (under section 80-IA) to pipelines infrastructure	No mention of including pipelines infrastructure under section 80-IA benefits	Slightly negative for gas transmission firms	Slightly negative for **GAIL, GSPL**, OMCs (**BPCL, HPCL, IOC**)
Clarity with regards to the extension of seven-year tax holiday benefits (under section 80-IB) for exploration & production of natural gas	Section 80-IB benefits for natural gas production not included	Slightly negative for E&P firms with natural gas discoveries	Slightly negative for **RIL, ONGC and GSPC**

Outlook : We believe the current budget is slightly positive for the upstream companies because there was no decline in customs duty. We believe it was neutral for OMC stocks and slightly negative for gas transmission (CGD) and LNG firms given there was no clarity on tax holidays on future investments.

Analyst : Gagan Dixit, gagan.dixit@quantcapital.co.in, +91 22 3954 1494

Valuation summary

Company	Ticker	Rating	M. Cap (Rs bn)	CMP	FY12E EPS #	FY13E EPS #	FY12E P/E	FY13E P/E
BPCL	BPCL IN	Not rated	200	552	52.7	59.5	10.5	9.3
Cairn	CAIR IN	Not rated	645	339	44.4	51.7	7.6	6.6
GAIL	GAIL IN	Not rated	543	428	33.2	36.9	12.9	11.6
HPCL	HPCL IN	Not rated	108	320	42.2	50.3	7.6	6.4
IOCL	IOCL IN	Not rated	726	299	39.1	42.1	7.7	7.1
OIL	OINL IN	Not rated	297	1,234	140.3	152.1	8.8	8.1
ONGC	ONGC IN	Not rated	2,316	271	31.2	32.9	8.7	8.2
RIL	RIL IN	Not rated	3,158	965	74.3	86.0	13.0	11.2

Note: pricing as on February 28, 2011; Source: Bloomberg consensus estimates for not rated companies

Pharmaceuticals

Analyst : Kirit Gogri, kirit.gogri@quantcapital.co.in, +91 22 3954 1464
Shardul Pradhan, shardul.pradhan@quantcapital.co.in, +91 22 3954 1469

Expectations	Announcement	Impact on sector	Impact on stocks
NA	MAT applicable to units operating in special economic zones (SEZ)	Most companies would take MAT credit, which would offset net tax and result in no major negative effect on profit after tax. However, cash outgo will increase as actual tax would be higher	Negative for **Cadila Healthcare** and **Lupin** as these companies are under MAT
NA	MAT increased from 18.0% to 18.5% of book profit for all companies	Affect of an increase in the MAT rate is offset by the reduction in surcharge from 7.5% to 5.0%. Hence, there will be no impact on the tax rate	Neutral
NA	Increase in central excise duty from 4% to 5%	Most companies are operating out of excise exempt locations like Baddi, Jammu & Kashmir and Simla. The increase in excise will reduce accumulating CENVAT credit (for formulations manufacturers), which is a result of higher excise on APIs (input) at 10%	Neutral. The impact is not meaningful. Moreover, a small increase can be easily passed on to the end consumer
NA	Customs duty on four life-saving drugs reduced from 10% to 5%	Rasburicase (administered before the start of chemotherapy), Nilotinib (treatment of leukemia), pneumococcal sacchride conjugate vaccine (prevention of diseases caused by certain bacterium) and micafungin sodium for injection (anti-fungal) will witness lower customs duty of 5% from 10%	Cheaper imported life-saving drugs would increase pricing pressure for domestic pharma companies making same products. However, these would account for only an insignificant proportion of revenue for such companies

Outlook : We believe the budget was neutral for the pharmaceuticals sector as there were no significant proposals. Although the extension of MAT to units operating in SEZs is a bit of dampener, the earnings impact is not material, in our view. Hence, we do not expect any adverse effect on earnings in the sector and reiterate our Positive view on the sector as a whole.

Analyst : Kirit Gogri, kirit.gogri@quantcapital.co.in, +91 22 3954 1464
Shardul Pradhan, shardul.pradhan@quantcapital.co.in, +91 22 3954 1469

Valuation summary

Company	Bloomberg code	Rating	Mkt. Cap (Rs bn)	CMP (Rs)	Price target (Rs)	Quant return (%)	1-mth return (%)	EPS (Rs)			PE (x)			RoE (%)			RoCE (%)		
								FY11E	FY12E	FY13E	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E
Lupin	LPC IN	Buy	170.1	381	604	58.4	(9.6)	19.7	24.4	30.2	19.3	15.7	12.6	30.1	29.3	28.5	26.3	28.9	29.4
Aurobindo Pharma	ARBP IN	Buy	49.5	170	373	119.5	(28.4)	18.5	21.6	23.8	9.2	7.9	7.1	25.5	23.2	20.8	19.6	19.2	18.8
Divi's Labs	DIVI IN	Buy	78.2	590	937	58.9	(7.1)	27.4	33.7	46.9	21.5	17.5	12.6	21.9	22.7	25.7	24.3	26.7	30.3
Ipca Labs	IPCA IN	Buy	34.6	275	381	38.6	(9.5)	18.7	22.3	27.2	14.7	12.3	10.1	24.1	23.6	23.5	23.8	24.5	25.4
Sun Pharmaceuticals	SUNP IN	Buy	436.2	424	499	17.8	(3.9)	16.6	20.3	24.9	25.5	20.9	17.0	20.9	23.3	25.5	22.2	25.8	28.0
Cadila Healthcare @	CDH IN	Accumulate	150.6	736	735	(0.1)	(11.0)	33.4	36.7	42.0	22.0	20.0	17.5	36.2	30.7	27.9	30.6	28.4	27.1
Dr Reddy's Lab	DRRD IN	Reduce	261.5	1,546	1,668	7.9	(4.8)	61.2	84.6	87.8	25.3	18.3	17.6	23.7	26.5	22.3	22.5	26.7	23.2
Cipla	CIPLA IN	Sell	240.6	300	288	(3.9)	(9.8)	11.9	13.7	16.0	25.2	21.8	18.7	15.2	15.6	16.1	18.1	18.1	18.8

Note: pricing as of 28 February 2011; @ FY13 estimates are provisional; Source:: Quant Global Research estimates

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Thank you

612, maker chambers IV, nariman point,
mumbai 400 021, india
phone 91 22 4088 0100, 3025 0100
fax 91 22 4088 0198, 3025 0198

Quant Global Research
91 22 4088 0100

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