

6 July 2009

Budget FY10

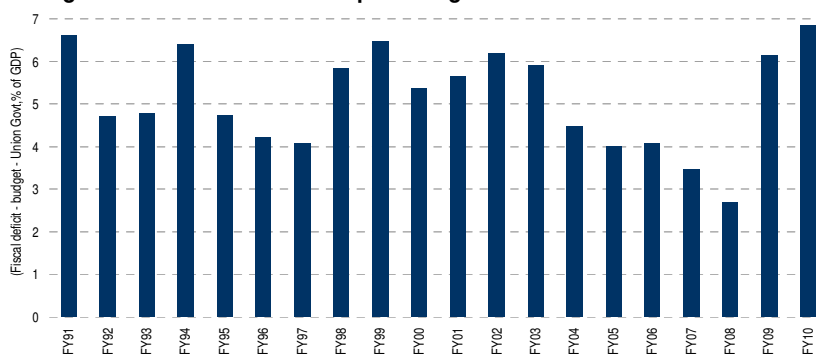
Budget blues, and beyond

Sensex: 14043

Nifty: 4166

- **Paying the price for high expectations.** More than any specific negative measures, the FY10 budget fell well short of the market's high expectations the platform would be used to propagate a reforms push. The higher-than-expected fiscal deficit and the MAT hike were the two key specific negatives. Seeing such a sharp negative reaction from the market, the key to watch will be whether the government comes up with some measures to restore reform belief. We hope so.
- **Earnings upgrade momentum to pause, for now.** Fiscal slippage will result in a further spike in bond yields (10-year to ~7.5%) and halt the recent trend of softening lending rates. Earnings upgrade momentum will be nipped in the bud for the time being due to tax impact, lending costs and a bit of dent in confidence. Equities will encounter valuation hurdles, as a result, over the next 3-6 months.
- **Consumption, infra spend key growth drivers.** On the positive side, there is a sustained thrust on social & infrastructure spend and further boost to private consumption (NREG, personal tax relief), keys to India's growth, in our view, until private investment comes back.
- **Sectoral impact.** Budget measures expected to be positive for auto, consumer, capital goods and IT services; negative for banks, oil & gas and telecom. Neutral for cement, metals, pharma and real estate
- **Key companies impacted.** Positive – BEL, Hero Honda, Infosys, ITC, M&M. Negative – Bharti, JSPL, BPCL/HPCL/IOC, SBI.

Union government fiscal deficit as percentage of GDP



Source: Anand Rathi Research.

Sector impact

Positive Auto, Consumer, Capital Goods, IT Services

Negative Banks, Oil & Gas, Telecoms

Neutral Cement, Real Estate, Pharma, Metals

Source: Anand Rathi Research.

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