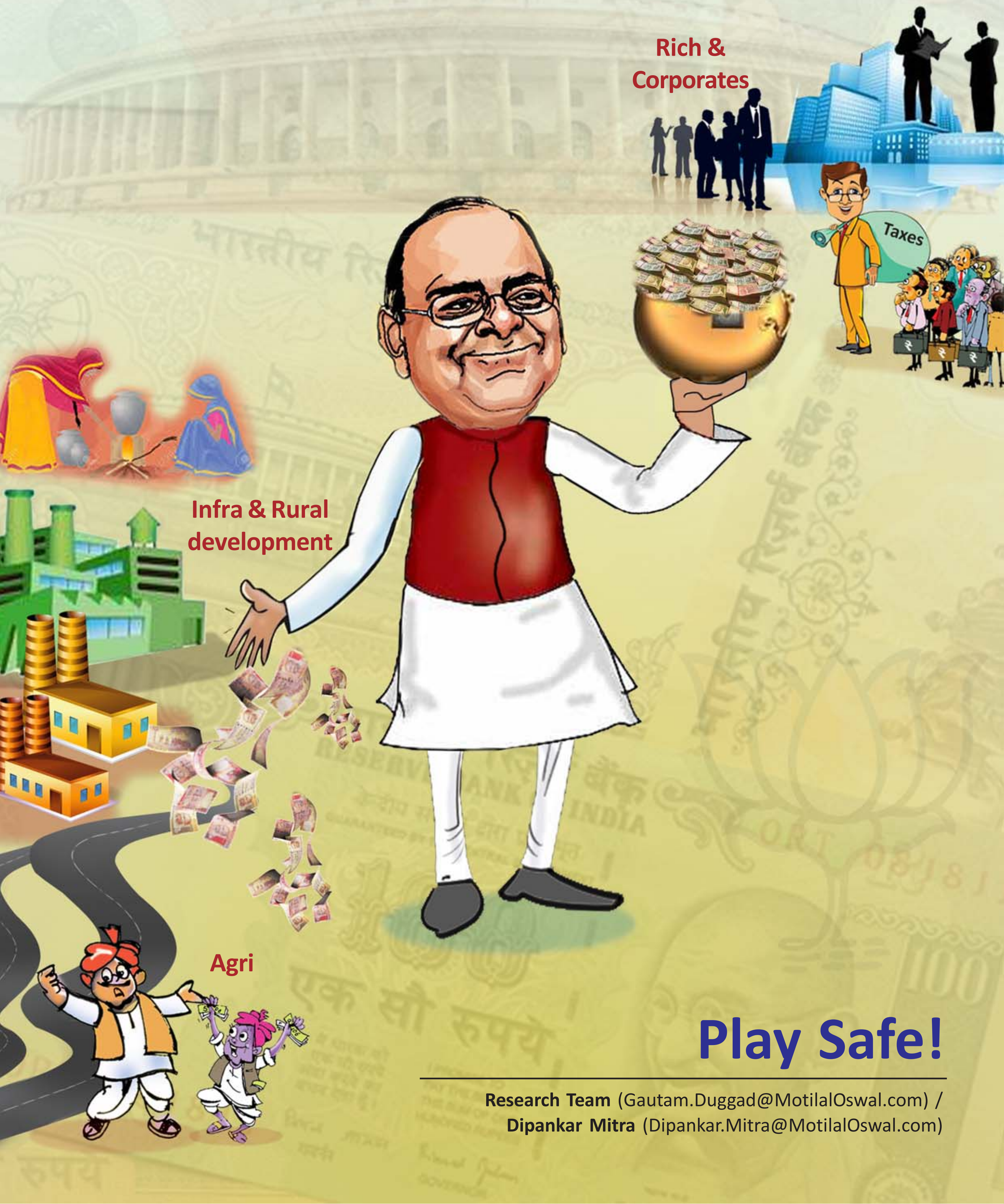
February 2016

Budget 2016 -17



Play Safe!

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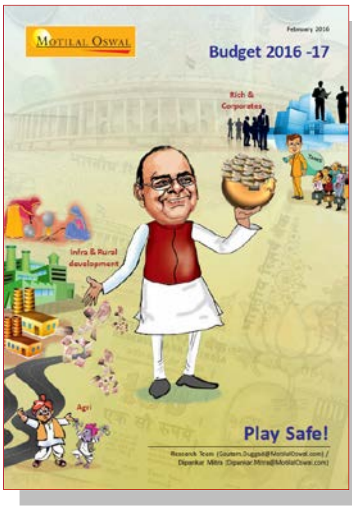


Union Budget FY16-17: Fiscal credibility reaffirmed

Expenditure prioritized, revenue target critical to manage growth

Budget 2016 was prepared under most compelling challenges emanating from both global and domestic economy. Faced with a stiff choice of fiscal consolidation vs. spending boost, the government choose the former and sought to prioritize expenditure to minimize the adverse impact on growth. Government however, have made adequate fiscal space for imperative expenditures including higher devolution to states, Pay Commission, higher infrastructure and rural spending. While the spectrum auction and disinvestment are being relied upon, continued consolidation may need recalibration of growth or deficit objectives. Meanwhile with fiscal credibility reaffirmed, RBI may take matching action with a rate cut.

- **FY17 budget tilts for prudence:** The FY17 Union Budget maintained the path of accelerated deficit reduction with the fiscal deficit recording a decline in both absolute terms as well as % of GDP (to 3.5% from 3.9% of FY16). This was accompanied by an over-achievement on the revenue deficit front and a primary deficit that came closer to nil first time since FY08. The fact that fairly deep fiscal consolidation was achieved in an year of multiple challenges in global and domestic economy, provide credence to fiscal accounting and may be matched by corresponding action from RBI (by cutting rates). Credit rating agencies will also have a favorable outlook on India's rating.
- **Expenditure imperatives kept intact:** Despite the consolidation, the government has been able to maintain the higher devolution to states, fully funded the Pay Commission expenditure, kept the capex spend ongoing with newer sources of funding and managed an effective hike to capex and total spend in the rural and agriculture sector.
- **Revenue dependent on spectrum auction and disinvestment:** Around INR750b of additional allocation have been budgeted for on the above two counts. If these targets are met, then fiscal consolidation would be achieved along with meeting expenditure target. However, a shortfall would impact growth adversely if deficit goals are left unchanged.

Market strategy

The FY17 budget was presented amidst an extremely challenging environment characterized by multiple headwinds. The headwinds pertaining to domestic as well as global growth have accelerated offlate. Against this backdrop, the finance minister did not deviate from fiscal prudence and stuck to the 3.5% fiscal deficit target. At the same time the budget also provided growth triggers. While FY16 budget was dominated by investments and capex narrative, this year FM has given more fillip to consumption and within that, rural consumption. He has played safe by sticking to fiscal prudence and maneuvered the fiscal space by prioritizing spending in Rural, Agriculture and Social sector. This will also raise the clamor for rate cuts going forward, in our view. Further, he has unveiled initiatives to build confidence with tax payers with an aim to reduce litigations and reiterated his commitment to no retrospective taxation/amendments. That said, we believe the attention will now shift to reforms outside of budget.

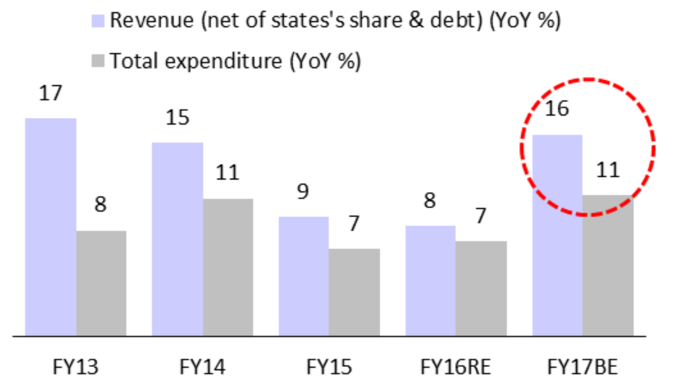
Top budget ideas: ITC, Ultratech, LIC Housing Finance, HPCL and Ashok Leyland.

FY17 Budget steadfast on accelerated consolidation path

Higher revenue goals take revenue and primary deficit to multi year lows

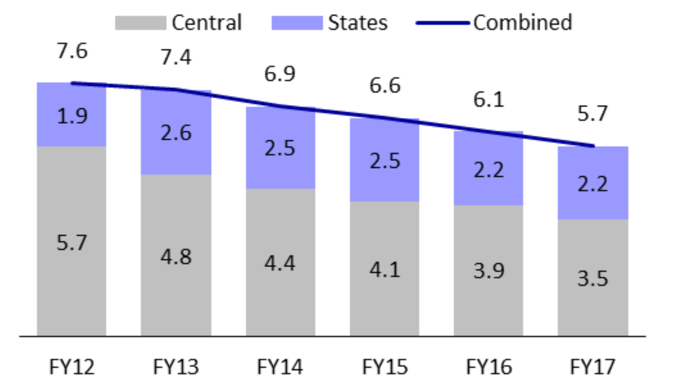
- **Strong message for fiscal consolidation**: The Budget FY17 has carried a strong message of the government continuing with pre-set fiscal consolidation path despite several challenges from the global and domestic economy.
- **Fiscal deficit at 3.5% of GDP**: Thus fiscal deficit to GDP ratio has been restricted to 3.5% from 3.9% in FY16 (as budgeted and revised). The extent of deficit reduction is sufficient to cause a dip in the combined deficit of centre and states too, even if states are unable to consolidate further.
- **Very high growth in revenue assumed:** While expenditures are expected to grow nearly at the same rate of the nominal income, revenue (net of states' share and borrowing) is expected to grow at a rather high rate of 16% in order to enable the fiscal consolidation as envisaged.

Exhibit 1: Fairly significant jump in expenditure and even more ambitious jump in revenue assumed



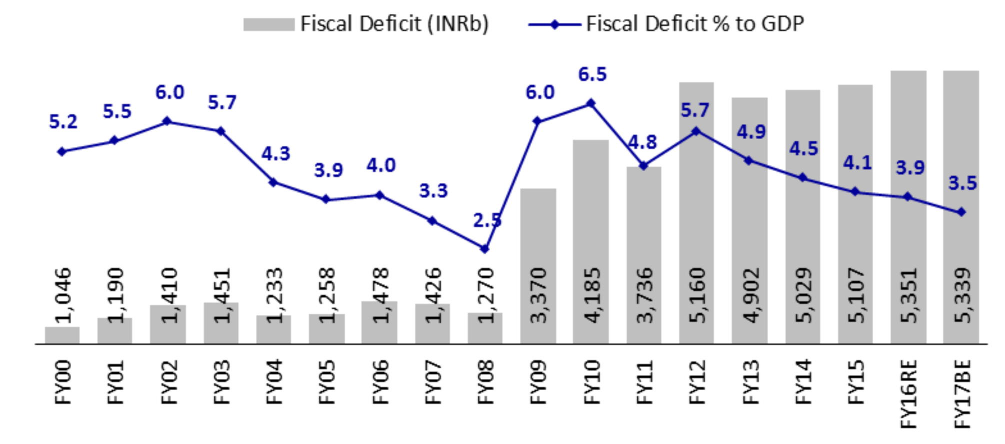
Source: Government, MOSL

Exhibit 2: Higher revenue growth envisaged to correct fiscal deficit as per the accelerated consolidation plan



Source: Government, MOSL

Exhibit 3: Fiscal deficit reduces both in absolute amount and now approaching decadal lows as % of GDP

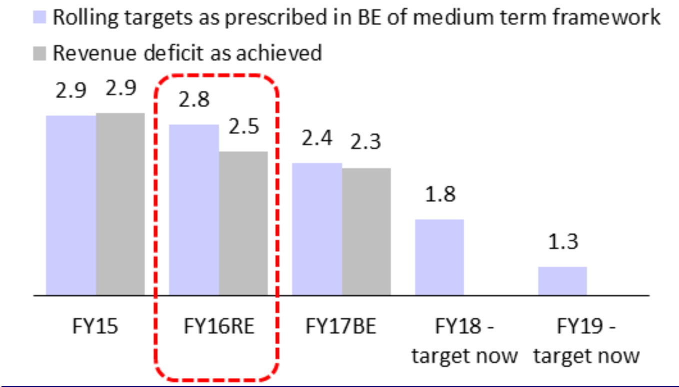


Source: Government, MOSL

- **Deficit lower even in absolute terms**: The fiscal deficit is placed lower even in absolute terms at INR5.3t compared with INR5.4t during FY16. Accordingly, the net (gross) market borrowing for FY17 has been restrained at INR4.3t (INR6t) as compared with INR4.4t (INR5.9t) of previous year. Notably this was the third successive year of decline in net market borrowing while gross market borrowing too have essentially remained flat for around five consecutive years.

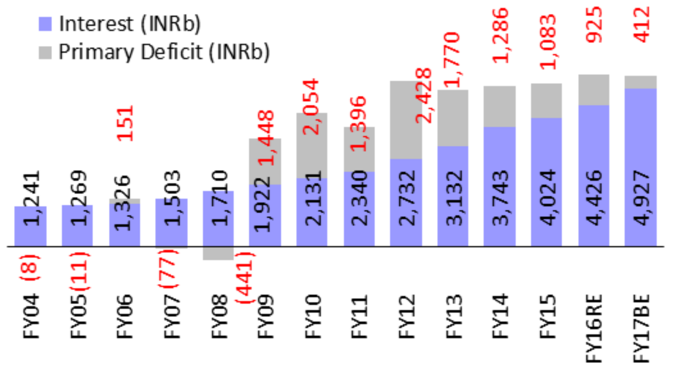
- **Revenue deficit even better, primary deficit reaching nil**: The extent of consolidation is even more evident from the revenue deficit that overachieved the FY16 targets. Primary deficit is nearly eliminated now with fiscal deficit largely representing the interest burden.

Exhibit 4: Significant overachievement of revenue deficit target in FY16 (as % of GDP)



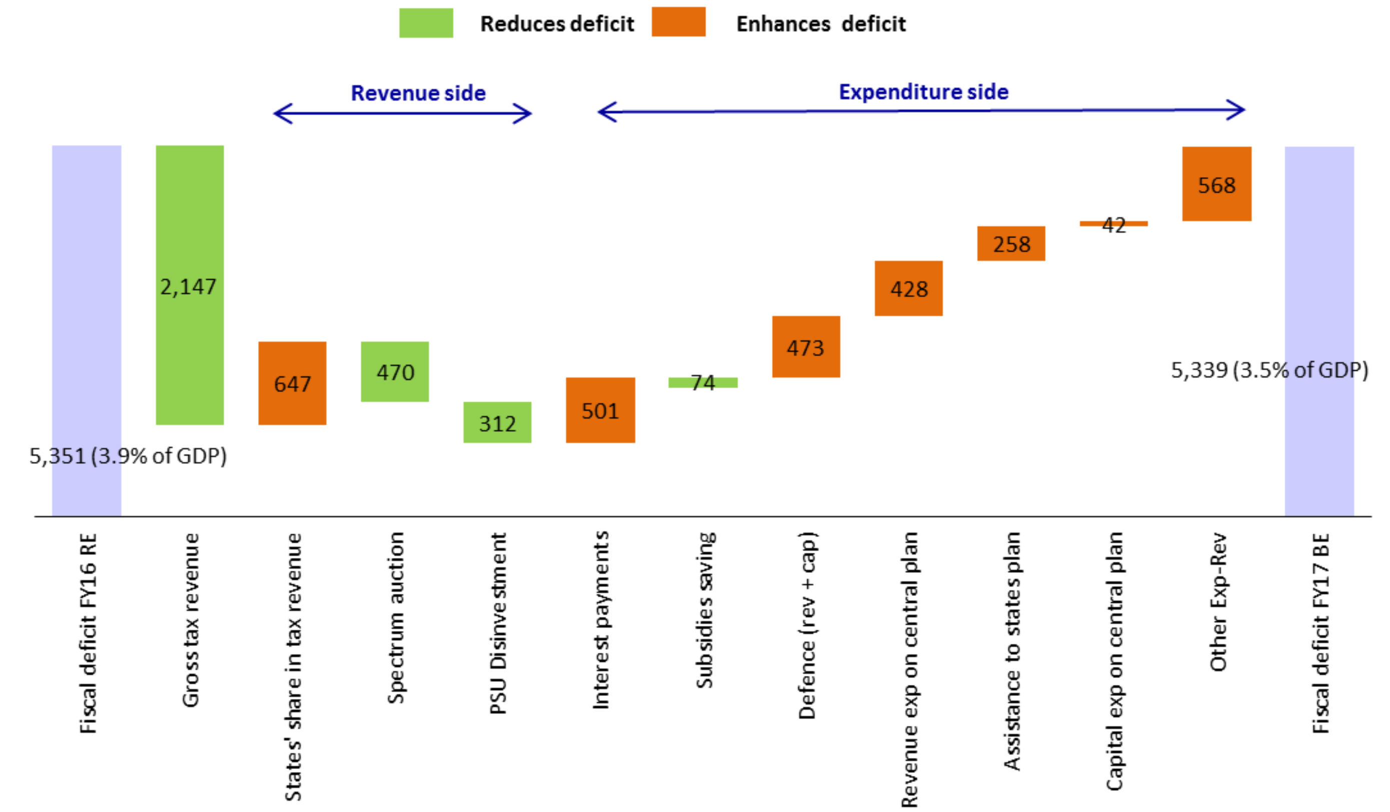
Source: Government, MOSL

Exhibit 5: Primary deficit nearing surplus again implying the whole of fiscal deficit is solely due to interest burden



Source: Government, MOSL

Exhibit 6: How the government kept the deficit low despite many challanges



Source: Government, MOSL

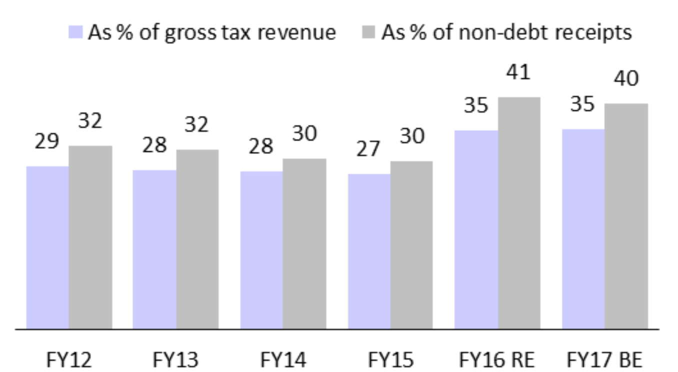
- **Revenue enhanced to meet target**: A look at the various items in the budget clearly shows that meeting deficit targets are contingent upon various revenue items coming closer to their budget estimate as well as ability to restrain some of the expenditures, most notably subsidies.
- **RBI, Rating Agencies may initiate matching action**: As the deficit goals have been kept intact despite several challenges along with an improvement in the quality of spending and deficit, we expect RBI to cut rates. Rating agencies will also have a favorable outlook on India's rating.

Expenditure imperatives kept intact

Higher devolution, Pay Commission, capex and rural spend provided for

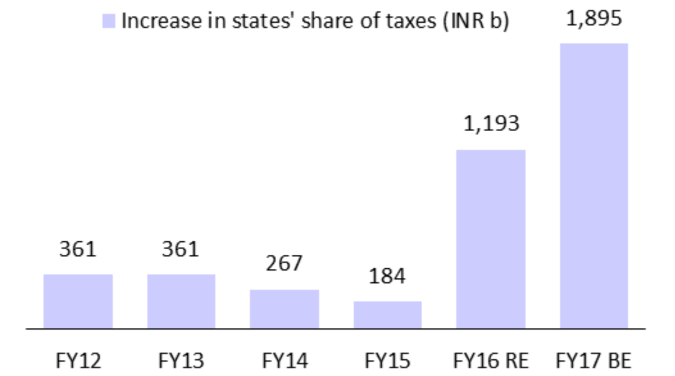
- **Targeted spending goals kept alive** : The Budget has steeped up the spending in priority areas and have maintained the expenditure is some other areas of importance.
- **Spending thrust to aid consumption**: The following areas have seen substantial increase in the spending.
  - **i)** Transfer to states maintained at 35% of gross tax revenue resulting in release of an additional INR700b for the states.
  - **ii)** Multiple data points within Budget suggests that the Pay Commission award of around INR700b has been fully provided for.
  - **iii)** Continued high double digit growth is ensured in plan outlay (including internal resources and borrowing) aggregating INR7.1t in FY17. This represented a jump of 21% YoY on top of 38% spike during FY16.
  - **iv)** Agriculture and rural sector together saw an increase of 54% in Plan spend and around 29% rise in overall expenditure.
  - **v)** The subsidy amount for FY17 at INR2.5t was a tad lower than INR2.6t. As a percentage of GDP this implied a drop from 1.9% to 1.7%. Somewhat curiously, the food subsidy bill has been assumed to grow at INR1.35b (dropping marginally from INR1.4t of FY16) despite FY17 being the year of enrollment of Food Security Bill on a pan-India basis.

Exhibit 7: Higher share of states maintained for the second successive year



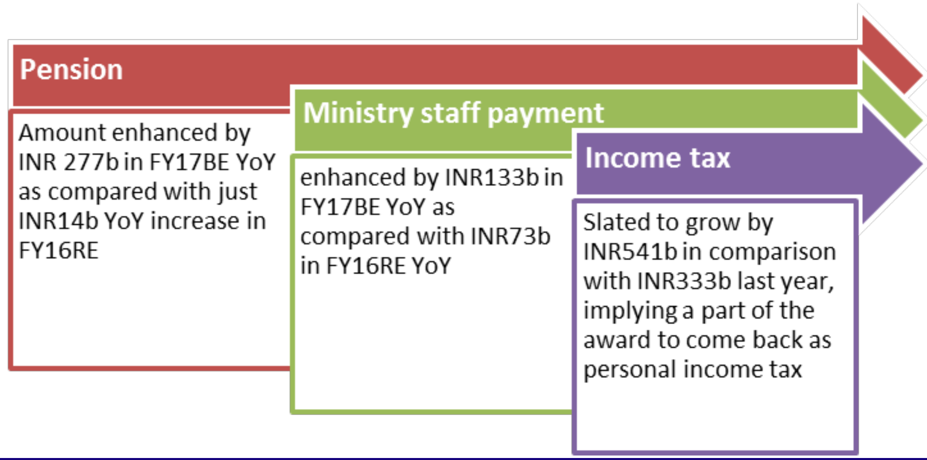
Source: Government, MOSL

Exhibit 8: This means a fairly significant jump in fiscal transfers for the states



Source: Government, MOSL

Exhibit 9: Many pointers in the Budget that the Pay Commission award has been fully provided for



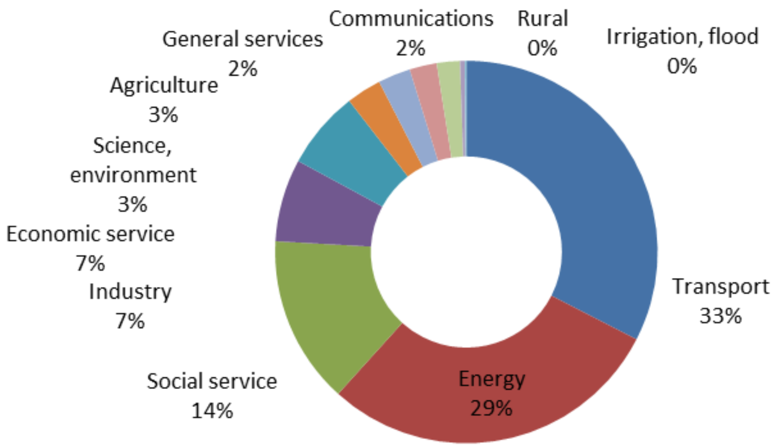
Source: Government, MOSL

Exhibit 10: Selective thrusts to the critical infra and social sectors of the economy

Sectors	FY15	FY16BE	FY16RE	FY17BE	FY16RE over FY15,%	FY17BE over FY16RE,%
Transport	1,005	1,934	1,785	2,299	78	29
Energy	1,708	1,673	1,715	2,059	0	20
Social service	509	810	835	1,003	64	20
Industry	440	431	455	494	3	8
Economic service	168	203	386	467	130	21
Science, environment	144	190	180	209	25	16
Agriculture	98	117	109	194	12	77
General services	52	266	186	162	259	-12
Communications	64	120	135	138	109	3
Rural	12	31	30	28	146	-9
Irrigation, flood	9	8	11	10	21	-7
Total	**4,209**	**5,784**	**5,827**	**7,062**	**38**	**21**

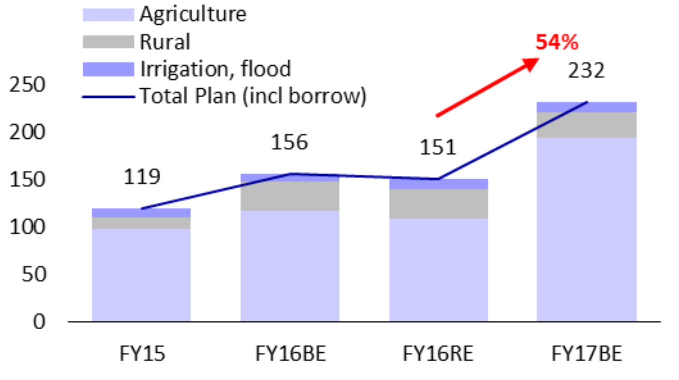
Source: Government, MOSL

Exhibit 11: Three sectors, transport, energy and social services comprise three fifth of all plan outlay (FY17B)



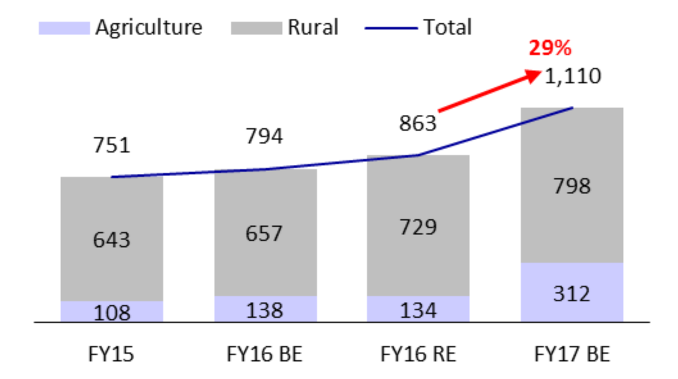
Source: Government, MOSL

Exhibit 12: Plan outlay in rural and agri has seen sharply higher allocation (INRb)



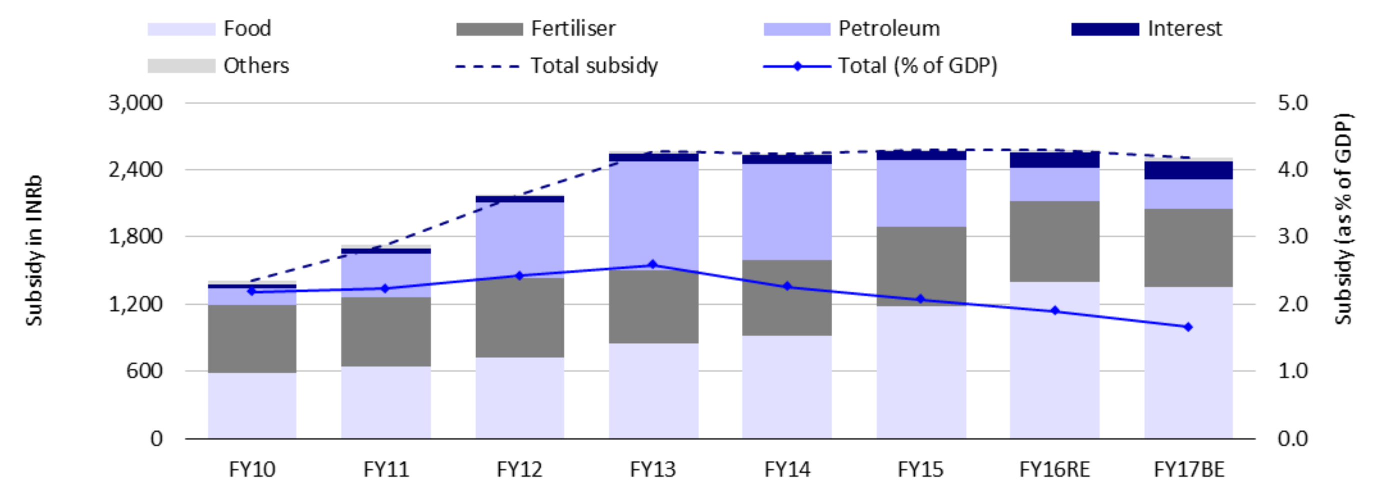
Source: Government, MOSL

Exhibit 13: These two Ministries have seen high growth in total expenditure too including revenue expenditure (INRb)



Source: Government, MOSL

Exhibit 14: Subsidy amount is sharply lower and carry some upside risk (INRb)



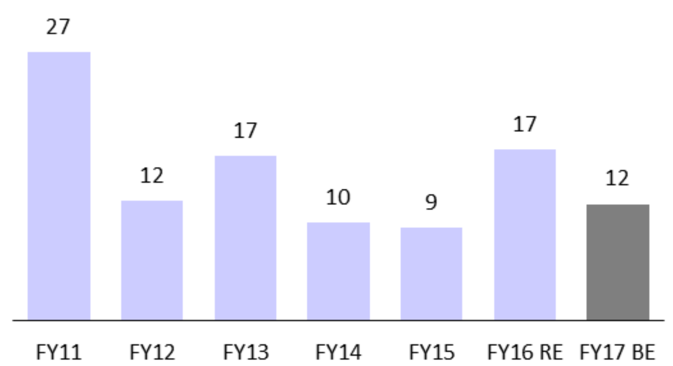
Source: Government, MOSL

Revenue projections – a mix of realism with optimism

Most revenue collection estimates are strikingly modest

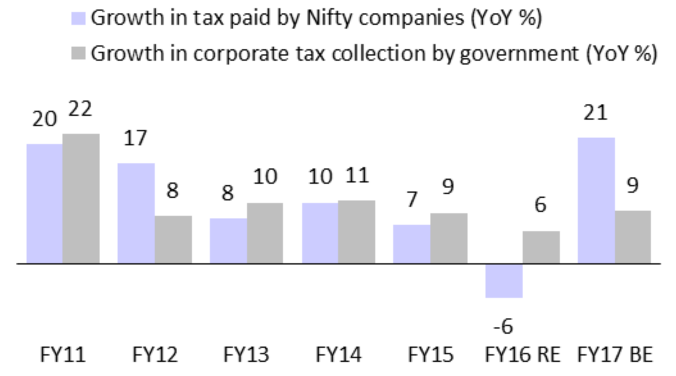
- **Tax growth near about nominal GDP growth**: Government has largely sought to protect its share in the economy with proportionate growth in tax revenue as that of the nominal growth in the economy.
  - **i)** Gross tax revenue of the government is expected to grow at 12% - a tad higher than the nominal growth of 11%.
  - **ii)** Corporate tax collections growth has been estimated at 9% - somewhat below the current expectations of profit growth now.
  - **iii)** While income tax collections are slated to grow at much higher rate of 18%, this was on the back of imposition of additional taxes on dividend, voluntary disclosure scheme. Notably a part of (around 25%) of the INR750b Pay Commission award is also expected to come back as TDS for the government.
  - **iv)** Service tax growth at 10% again possibly holds upside potential given the imposition of Krishi Kalyan cess.
  - **v)** Similarly while the excise duty hike is kept at a moderate 12%, this is entirely due to oil sector revenue barring which excise duty is expected to degrow at 10%.

Exhibit 15: Gross tax collection slated to see a healthy increase (YoY %)



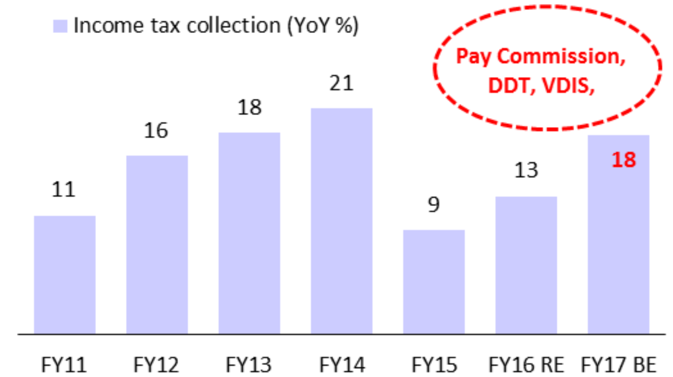
Source: Government, MOSL

Exhibit 16: Corporate tax assumed to grow in line with broader market expectations (YoY %)



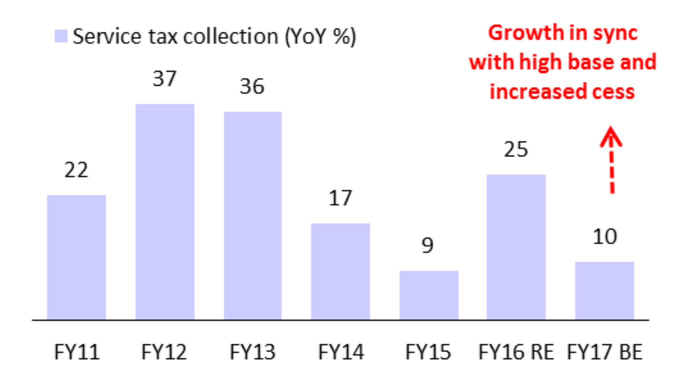
Source: Government, MOSL

Exhibit 17: Income tax receipts likely to see higher growth on account of a few initiatives (YoY %)



Source: Government, MOSL

Exhibit 18: Service tax growth reasonable despite imposition of new cess (YoY %)



Source: Government, MOSL

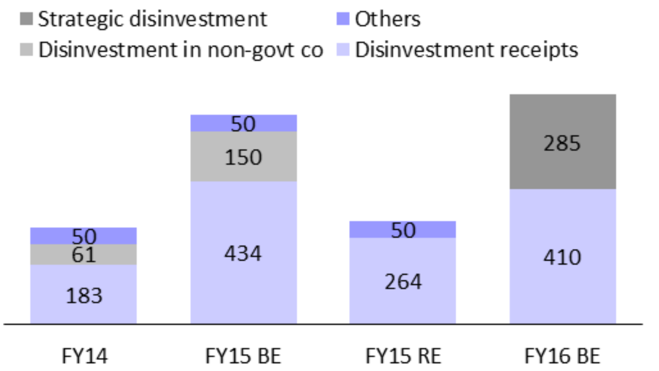
Exhibit 19: Excise duty collection is actually lower without the oil sector revenue (INRb)

INR b	Excise	Excise without petro sector	Excise - petro sector	Brent crude (USD/bbl)
FY12	1,456	767	689	115
FY13	1,765	1,032	733	111
FY14	1,702	922	780	108
FY15	1,900	908	992	86
FY16 BE	2,841	1,282	1,760	48
FY17 BE	3,187	1,157	2,231	45

Source: Government, MOSL

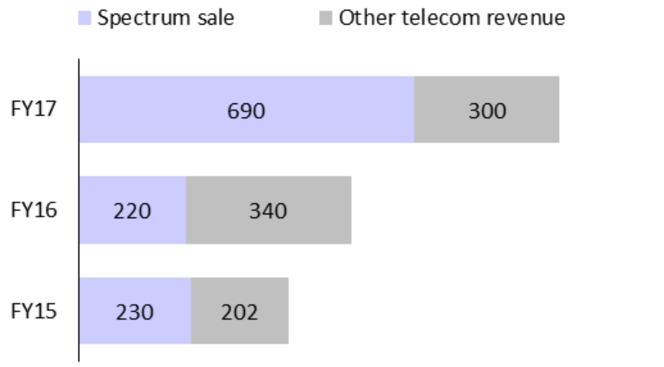
- **Sharp increase in telecom auction proceeds and disinvestment**: The revenue assumptions appear optimistic on two counts, viz., disinvestment and telecom spectrum revenue. Together, these two items is expected to bring in an additional revenue of INR742b in FY17 (or 0.5% of GDP).
- **Estimate risk of around 0**.6% of GDP: If the revenue trend keeps up as expected, then indeed expenditure targets can be met along with accelerated fiscal consolidation. However, if revenues fall short on either disinvestment or spectrum revenue part or if subsidy bill is enhanced, expenditure targets may suffer to keep the fiscal consolidation plan on track. This is likely to have adverse consequences for growth. An alternate goal could be to revisit the consolidation goal and make it somewhat more anti-cyclical than what it is presently.

Exhibit 20: However, despite weak track record, disinvestment proceeds is placed much higher (INR b)



Source: Government, MOSL

Exhibit 21: Sharp jump assumed in telecom spectrum revenue (INR b)



Source: Government, MOSL

Exhibit 22: Annexure: Union Budget key numbers

	FY13	FY14	FY15	FY16BE	FY16RE	FY17BE	YoY (%)			as % of GDP		
							FY15 Vs. FY14	FY16RE Vs FY15	FY17BE Vs FY16RE	FY15	FY16RE	FY17RE
Receipts	**14,104**	**15,594**	**16,637**	**17,775**	**17,854**	**19,781**	**7**	**7**	**11**	**13.3**	**13.2**	**13.1**
Revenue receipts	**8,792**	**10,147**	**11,015**	**11,416**	**12,061**	**13,770**	**9**	**9**	**14**	**8.8**	**8.9**	**9.1**
Net tax revenue	**7,419**	**8,159**	**9,036**	**9,198**	**9,475**	**10,541**	**11**	**5**	**11**	**7.2**	**7.0**	**7.0**
Gross tax revenue	**10,362**	**11,387**	**12,449**	**14,495**	**14,596**	**16,309**	**9**	**17**	**12**	**10.0**	**10.8**	**10.8**
Income tax receipt	2,015	2,429	2,657	3,274	2,991	3,532	9	13	18	2.1	2.2	2.3
Corporate tax receipt	3,563	3,947	4,289	4,706	4,530	4,939	9	6	9	3.4	3.3	3.3
Custom duties collection	1,653	1,721	1,880	2,083	2,095	2,300	9	11	10	1.5	1.5	1.5
Excise duties collection	1,765	1,702	1,900	2,298	2,841	3,187	12	50	12	1.5	2.1	2.1
Other tax revenue	1,365	1,589	1,723	2,134	2,139	2,351	8	24	10	1.4	1.6	1.6
Wealth tax receipt	8	10	11	0			8					
Service tax receipt	1,326	1,548	1,680	2,098	2,100	2,310	9	25	10	1.3	1.5	1.5
Taxes of union territories	31	31	32	36	39	41	2	23	4	0.0	0.0	0.0
States' share in tax revenue	2,915	3,182	3,378	5,240	5,062	5,703	6	50	13	2.7	3.7	3.8
Contingency/Disaster Funds	28	47	35	57	59	65	-26	71	9	0.0	0.0	0.0
	4,745	4,971	5,459	6,479	7,036	7,797	10	29	11			
Non-tax Revenue	**1,374**	**1,989**	**1,979**	**2,217**	**2,586**	**3,229**	**-1**	**31**	**25**	**1.6**	**1.9**	**2.1**
Interest receipt	208	219	238	236	231	296	9	-3	28	0.2	0.2	0.2
Dividend and profits receipts	538	904	898	1,007	1,183	1,238	-1	32	5	0.7	0.9	0.8
Receipts of union territories	11	15	14	13	13	13	-8	-5	4	0.0	0.0	0.0
Other non-tax revenue	617	851	829	962	1,159	1,682	-3	40	45	0.7	0.9	1.1
Capital receipts (net)	**5,822**	**5,447**	**5,622**	**6,359**	**5,793**	**6,010**	**3**	**3**	**4**	**4.5**	**4.3**	**4.0**
Net market borrowings	**4,674**	**4,536**	**4,531**	**4,564**	**4,406**	**4,252**	**0**	**-3**	**-4**	**3.6**	**3.2**	**2.8**
Gross market borrowings	**5,580**	**5,486**	**5,920**	**6,000**	**5,850**	**6,000**	**8**	**-1**	**3**	**4.7**	**4.3**	**4.0**
Repayment of domestic mkt bc	906	950	1,389	1,436	1,444	1,748	46	4	21	1.1	1.1	1.2
Net external assistance	72	73	129	112	115	191	77	-11	66	0.1	0.1	0.1
Recovery of loans and advances	151	125	137	108	189	106	10	38	-44	0.1	0.1	0.1
PSU Disinvestment	259	294	377	695	253	565	28	-33	123	0.3	0.2	0.4
Rcpts frm small savings, PPF & de	86	124	322	224	534	221	161	66	-59	0.3	0.4	0.1
Receipts from state providend fu	109	98	119	100	110	120	22	-8	9	0.1	0.1	0.1
Rcpts frm specl depsts & short-te	534	77	92	301	687	166	19	648	-76	0.1	0.5	0.1
Other capital receipts	-63	313	-784	136	107	257			140	-0.6	0.1	0.2
Switching/Buy Back of Securities			-79		-387							
Drawdown on cash balances	-510	-192	778	120	-221	132				0.6	-0.2	0.1
Expenditure	**14,104**	**15,594**	**16,637**	**17,775**	**17,854**	**19,781**	**7**	**7**	**11**	**13.3**	**13.2**	**13.1**
Non-plan expenditure	**9,967**	**11,061**	**12,010**	**13,122**	**13,082**	**14,281**	**9**	**9**	**9**	**9.6**	**9.6**	**9.5**
Non-plan revenue expenditure	**9,143**	**10,190**	**11,094**	**12,060**	**12,127**	**13,274**	**9**	**9**	**9**	8.9	8.9	8.8
Interest payments	3,132	3,743	4,024	4,561	4,426	4,927	8	10	11	3.2	3.3	3.3
Non-plan rev exp on defence	1,113	1,244	1,368	1,521	1,432	1,628	10	5	14	1.1	1.1	1.1
Subsidies outgo	2,571	2,546	2,583	2,438	2,578	2,504	1	0	-3	2.1	1.9	1.7
Other non-plan revenue	2,328	2,658	3,119	3,539	3,690	4,215	17	18	14	2.5	2.7	2.8
Grants to states and UTs	480	606	771	1,086	1,082	1,184	27	40	9	0.6	0.8	0.8
Grants to foreign governmer	32	40	38	43	43	45	-5	12	6	0.0	0.0	0.0
Non-plan revenue expenditu	43	46	48	50	51	57	6	6	11	0.0	0.0	0.0
Other non-plan revenue exp	1,773	1,966	2,261	2,360	2,514	2,930	15	11	17	1.8	1.9	1.9
Non-plan capital expenditure	**824**	**871**	**916**	**1,062**	**955**	**1,006**	**5**	**4**	**5**	0.7	0.7	0.7
Non-plan loans and advances	43	5	16	10	9	10	199	-40	2	0.0	0.0	0.0
Non-plan capital exp on defen	705	791	819	946	814	863	3	-1	6	0.7	0.6	0.6
Other non-plan capital	76	74	82	106	132	133	10	61	1	0.1	0.1	0.1
Plan expenditure	**4,136**	**4,533**	**4,626**	**4,653**	**4,772**	**5,500**	**2**	**3**	**15**	3.7	3.5	3.7
Plan revenue expenditure	**3,292**	3,527	3,576	3,300	3,350	4,036	1	-6	20	2.9	2.5	2.7
Revenue exp on central plan	2,324	2,522	1,001	1,397	1,332	1,761	-60	33	32	0.8	1.0	1.2
Assistance to states plan	969	1,005	2,575	1,904	2,018	2,276	156	-22	13	2.1	1.5	1.5
Plan capital expenditure	**844**	1,006	1,050	1,353	1,422	1,464	4	35	3	0.8	1.0	1.0
Capital exp on central plan	724	883	918	1,208	1,278	1,320	4	39	3	0.7	0.9	0.9
Loan to states plan	120	123	133	144	143	143	8	8	0	0.1	0.1	0.1
Gross fiscal deficit	**4,902**	**5,029**	**5,107**	**5,556**	**5,351**	**5,339**	**2**	**5**	**0**	**4.1**	**3.9**	**3.5**
Revenue deficit	3,643	3,570	3,655	3,945	3,416	3,540	2	-7	4	2.9	2.5	2.3
Primary deficit	1,770	1,286	1,083	995	925	412	-16	-15	-55	0.9	0.7	0.3
GDPmp	99,513	112,728	124,882	141,089	135,672	150,650	11	9	11			

Source: Government, MOSL

Taxing times! Proposed changes and a roadmap

While the headline tax rates have remained largely unchanged, the Budget intends to tax the richer sections by increasing surcharge and additional taxation on dividend income. While no direct measures have been attempted to make the indirect tax structure compliant with the proposed GST, a few incremental steps have been taken in the form of a) additional cess on services, and b) enhancing the tax base for levy of indirect tax.

A. Direct Taxation

Personal Taxation:

- The tax rates on personal income tax have remained unchanged. However, for taxing HNI's two amendments have been made which will lead to an increase in their tax liabilities:
  (a) Surcharge on income tax of Individuals, HUF, association of person whose income exceeds INR10m has been increased to 15% v/s 12% earlier.
  (b) 10% additional tax on dividend received has been levied on resident - Individuals, HUF and firms where the annual dividend received is in excess of INR1m. We however note that the tax is not being made applicable to a corporate or non-residents.

Corporate taxation:

- The headline tax rates for the corporate taxes have remained unchanged. However, an option given to new manufacturing companies incorporated from FY17 to be taxed at 25% + surcharge and cess provided they do not claim investment or profit linked incentives.
- The Finance Minister in his Budget Speech, 2015 had indicated that the rate of corporate tax will be reduced from 30% to 25% over the next four years along with phasing out of exemptions/deductions. The Government in the current budget has laid down the road map to phase out exemptions. Refer exhibit below for details"

Exhibit 23: Proposed Phase out plan of incentive effective from FY17

Section	Incentive currently available in the Act	Proposed phase out measures/ Amendment
10AA- Unit operating for SEZ	No Sunset Clause	Sunset Clause - FY21.
35AC- social development projects or schemes.	No Sunset Clause	Sunset Clause - FY18
35CCD- skill development project.	Weighted deduction of 150%	Deduction shall be restricted to 100 % from FY21
(a) 80IA - Insfrastructure facility (b) 80-IAB - development of SEZ (c) 80-IB(9) - mineral oil and natural gas	No Sunset Clause	Sunset Clause - FY18

Source: GOI, MOSL

Exhibit 24: Proposed Phase out plan of incentive effective from FY18

Section	Incentive currently available in the Act	Proposed phase out measures/ Amendment
32 - Accelerated Depreciation in specified industrial sectors	Maximum - 100%	FY18 onwards maximum 40%
35(1)(ii)- approved scientific research.association/ university/ college	Weighted deduction of 175%	Weighted deduction restricted to 150% from FY18 to FY20 and deduction shall be restricted to 100% from FY21
35(1)(iia)- scientific research company	Weighted deduction of 125%	Deduction shall be restricted to 100% from FY18
35(1)(iii)- Scientific research contribution to aproved research association for social science or statistical research programme	Weighted deduction of 125%	Deduction shall be restricted to 100 % with effect from FY18
35(2AA)- Expenditure on scientific research.in a national laboratory/university/IIT for approved research	Weighted deduction of 200%	Weighted deduction shall be restricted to 150% with effect from FY18 to FY20.Deduction shall be restricted to 100% from FY21
35(2AB)- Captive expenditure on scientific research.in biotechnology/ approved manufacturing business	Weighted deduction of 200%	Weighted deduction restricted to 150% from FY18 to FY20. Deduction shall be restricted to 100% from FY21
35AD- Specified business including Warehousing, Colchain facility, Affordable housing, Mfg of fertilisers, hospitals etc	Weighted deduction of 150%	Deduction shall be restricted to 100 % of capital expenditure from FY18
35CCC- Expenditure on notified agricultural extension project.	Weighted deduction of 150%	Deduction shall be restricted to 100% from FY18

Source: GOI, MOSL

- Place of effective management (POEM) based residency test deferred by one year, to be effective from FY18.
- No change in effective date for implementation of GAAR (effective FY18).
- Budget has introduced Base erosion profit shifting (BEPS). Under this, Multinational enterprises (MNE) having consolidated revenues of EUR750m (INR53.95b) will be required to give disclosures on:
  - Master file - to provide an overview of the MNE group's business, including the nature of its global business operations, its overall transfer pricing policies, and its global allocation of income and economic activity in order to assist tax administrations in evaluating the presence of significant transfer pricing risk.
  - Country by country annual declaration of (a) Revenue, PBT, taxes paid & accrued for each tax jurisdiction in which they do business, and (b) Details of business activity each entity is engaged in.
  - Local file – referring to material transaction of the local taxpayer.

We believe that this will acts as a preliminary data collection exercise to check the tax pilferage due on export of goods through countries with low tax regime.

B. Indirect Taxation

- With a view to implement GST, the government has taken two measures:
  (i) Increase in effective service tax rate from 14.5% to 15% with additional levy of 0.5% cess towards towards Krishi kalyan, and
  (ii) Increased the tax base by (a) Including legal service, construction of monorail or metro, transportation of passengers under the ambit of service tax, and (b) levying excise on branded garments, jewelry etc. currently being exempted.

Top Picks

BSE Sensex: 23,002 | **S&P CNX: 6,987** | **February 2016**

- **ITC**
- **LIC Housing Finance**
- **Ultratech Cement**
- **HPCL**
- **Ashok Leyland**

MOTILAL OSWAL

29 February 2016

Update | Sector: Consumer

ITC

BSE SENSEX	S&P CNX
23,089	7,019

ITC Limited

Stock Info

Bloomberg	ITC IN
Equity Shares (m)	8,038.3
52-Week Range (INR)	410/268
1, 6, 12 Rel. Per (%)	0/4/4
M.Cap. (INR b)	2,377.7
M.Cap. (USD b)	36.4
Avg Val (INR m)	2658
Free float (%)	100.0

Financials Snapshot (INR b)

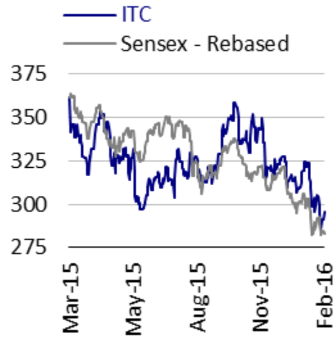
Y/E MAR	2016E	2017E	2018E
Net Sales	362.7	394.2	435.7
EBITDA	140.8	156.3	173.8
PAT	98.7	111.7	127.2
EPS (INR)	12.3	13.9	15.9
Gr. (%)	2.7	13.1	14.0
BV/Sh (INR)	42.7	47.7	53.4
RoE (%)	30.4	30.8	31.4
RoCE (%)	38.4	38.8	39.3
P/E (x)	24.0	21.2	18.6
P/BV (x)	6.9	6.2	5.5

Shareholding pattern (%)

As On	Sep-15	Jun-15	Sep-14
Promoter	0.0	0.0	0.0
DII	35.1	35.0	34.8
FII	21.0	20.9	20.5
Others	43.9	44.1	44.6

FII Includes depository receipts

Stock Performance (1-year)



CMP: INR294 TP: INR365 (+24%) Buy

Excise hike at five year low; is the government turning rational???

Spares the small filter segment; Risk reward favorable; Upgrade to BUY

- **10% weighted average excise duty hike:** Government has increased the excise duty for Cigarettes by 10% in its FY17 budget. This is a fifth consecutive year of double digit excise hike.
- **Excise increase is lower vs. our expectations of 15% hike:** Even though this is a fifth consecutive year of double digit Cigarette excise hike, it was lower than our expectations of 15% hike. We also note that, magnitude of excise duty increase has come off progressively over FY13-17 (from 22% to 18% to 16% to now 10%). Several years of punitive excise duty increase has resulted in cigarette volume shift towards illegal trade (doubled to ~20% in six years). Government's collection of Cigarette excise duty has also flattened.
- **Small filter excise hike is not disproportionate, a departure vs. last two year's trend:** Excise duty for <65mm filter has also been hiked by 10%. This had been a volume recruiter for ITC in FY13 and FY14. However excise duty in this segment had gone up >2x over FY14-16 (72% hike in FY15 and 25% hike in FY16). Thus, excise increase for FY17 is in line with rest of the filter segments and provides a welcome respite. It can help drive volumes at the margin.
- **Raise estimates marginally:** Prior to budget we were building n 15% excise duty increase in Cigarettes with 5% Cigarette volume decline for FY17. We now revised our volume assumptions to 3% decline. FY17 volumes should also benefit from an optical low base (after four consecutive quarters of sharp double digit volume decline, 3Q16 Cig volumes declined 5%). We revise our EPS estimates for FY17E and FY18E marginally by 2-2.5%. Our FY17E and FY18E EPS now stand at INR 13.9 and INR 15.9, respectively.
- **Upgrade to BUY; Attractive valuations make risk-reward favorable:** ITC has underperformed the Sensex by 20% in last twenty four months on the back of punitive Cigarette taxation measures. While the current 10% excise hike is not benign and does not in any way signal change of hostile stance by government, at the margin it does provide succor vs. the last four years of 15-20% excise increase. Cig volumes, in our view will show gradual recovery in FY17. Thirdly, valuations at 21x FY17 EPS (and 3% dividend yield on FY17 basis) are at a 35% discount to sector average and largely discounts the punitive taxation regime, in our view. With budget overhang behind, we believe combination of attractive valuations and provide a reasonable risk-reward, in our view. Upgrade to **BUY** with a TP of INR 365 (23x FY18 EPS, unchanged 15% discount to three year averageP/E). Downside risks to our rating include: a) Sharp VAT increase by state governments b) Incremental non-tax punitive actions by government and c) Acceptance of 40% GST rate for Cigarette (unlikely in our view).

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Financials and Valuations

Income Statement								(INR Million)
Y/E Mar	**2011**	**2012**	**2013**	**2014**	**2015**	**2016E**	**2017E**	**2018E**
Net Sales	**214,590**	**251,475**	**299,013**	**332,386**	**365,074**	**365,858**	**393,636**	**436,623**
Change (%)	16.7	17.2	18.9	11.2	9.8	0.2	7.6	10.9
EBITDA	**74,123**	**88,687**	**106,470**	**124,755**	**134,946**	**140,784**	**152,376**	**169,957**
EBITDA Margin (%)	34.5	35.3	35.6	37.5	37.0	38.5	38.7	38.9
Depreciation	6,560	6,985	7,956	8,999	9,617	10,571	11,956	13,106
EBIT	**67,563**	**81,702**	**98,514**	**115,756**	**125,328**	**130,213**	**140,421**	**156,851**
Interest	679	980	1,059	236	785	489	520	503
Other Income	5,798	8,253	9,387	11,071	15,431	17,565	20,386	22,847
Extraordinary items	0	0	0	0	0	0	0	0
PBT	**72,682**	**88,975**	**106,842**	**126,591**	**139,975**	**147,288**	**160,286**	**179,195**
Tax	22,806	27,352	32,658	38,739	43,898	48,605	51,292	54,654
Tax Rate (%)	31.4	30.7	30.6	30.6	31.4	33.0	32.0	30.5
Min. Int. & Assoc. Share	0	0	0	0	0	0	0	0
Reported PAT	**49,876**	**61,624**	**74,184**	**87,852**	**96,077**	**98,683**	**108,995**	**124,540**
Adjusted PAT	**49,876**	**61,624**	**74,184**	**87,852**	**96,077**	**98,683**	**108,995**	**124,540**
Change (%)	22.6	23.6	20.4	18.4	9.4	2.7	10.4	14.3

Balance Sheet								(INR Million)
Y/E Mar	**2011**	**2012**	**2013**	**2014**	**2015**	**2016E**	**2017E**	**2018E**
Share Capital	7,738	7,818	7,902	7,953	8,016	8,016	8,016	8,016
Reserves	151,795	180,101	214,977	254,667	299,341	334,522	373,378	417,777
Net Worth	**159,533**	**187,919**	**222,879**	**262,620**	**307,357**	**342,537**	**381,394**	**425,793**
Debt	343	119	113	155	143	143	143	143
Deferred Tax	8,019	8,727	12,037	12,970	16,316	11,585	6,432	1,574
Total Capital Employed	**167,894**	**196,765**	**235,029**	**275,745**	**323,816**	**354,266**	**387,970**	**427,510**
Gross Fixed Assets	127,658	138,033	165,884	181,756	209,908	234,908	259,908	284,908
Less: Acc Depreciation	44,208	48,197	54,698	62,269	72,136	82,707	94,663	107,769
Net Fixed Assets	**83,451**	**89,837**	**111,186**	**119,487**	**137,771**	**152,201**	**165,245**	**177,139**
Capital WIP	13,334	23,923	15,786	23,598	25,155	25,155	25,155	25,155
Investments	55,547	63,166	70,603	88,234	84,055	102,010	120,052	143,015
Current Assets	**97,901**	**112,957**	**142,600**	**160,975**	**194,976**	**197,597**	**212,691**	**233,037**
Inventory	52,692	56,378	66,002	73,595	78,368	78,992	85,155	92,514
Debtors	8,851	9,824	11,633	21,654	17,224	19,873	21,377	23,714
Cash & Bank	22,432	28,189	36,150	32,894	75,886	72,535	78,027	86,555
Loans & Adv, Others	13,926	18,565	28,815	32,832	23,498	26,196	28,132	30,255
Curr Liabs & Provns	**82,338**	**93,117**	**105,146**	**116,549**	**118,140**	**122,697**	**135,174**	**150,836**
Curr. Liabilities	47,904	57,934	63,661	68,830	68,043	68,421	75,227	82,339
Provisions	34,435	35,183	41,485	47,719	50,097	54,276	59,947	68,497
Net Current Assets	**15,563**	**19,840**	**37,454**	**44,426**	**76,835**	**74,900**	**77,518**	**82,201**
Total Assets	**167,894**	**196,765**	**235,029**	**275,745**	**323,816**	**354,266**	**387,969**	**427,511**

Financials and Valuations

Ratios

Y/E Mar	2011	2012	2013	2014	2015	2016E	2017E	2018E
Basic (INR)								
EPS	**6.4**	**7.9**	**9.4**	**11.0**	**12.0**	**12.3**	**13.6**	**15.5**
Cash EPS	7.3	8.8	10.4	12.2	13.2	13.6	15.1	17.2
Book Value	20.6	24.0	28.2	33.0	38.3	42.7	47.6	53.1
DPS	4.5	4.5	5.3	6.0	6.3	6.8	7.5	8.5
Payout (incl. Div. Tax.)	69.0	57.1	55.9	54.3	52.1	55.0	55.0	55.0
Valuation(x)								
P/E	47.2	38.6	32.4	27.5	25.4	24.7	22.4	19.6
Cash P/E	41.7	34.6	29.2	25.0	23.1	22.3	20.1	17.7
Price / Book Value	14.7	12.6	10.8	9.2	7.9	7.1	6.4	5.7
EV/Sales	11.2	9.5	7.9	7.1	6.3	6.2	5.7	5.1
EV/EBITDA	31.9	26.5	21.9	18.6	16.9	16.1	14.7	13.0
Dividend Yield (%)	1.5	1.5	1.7	2.0	2.1	2.2	2.5	2.8
Profitability Ratios (%)								
RoE	33.2	35.5	36.1	36.2	33.7	30.4	30.1	30.9
RoCE	42.7	44.8	45.6	45.3	41.8	38.4	37.8	38.5
Turnover Ratios (%)								
Asset Turnover (x)	1.3	1.3	1.3	1.2	1.1	1.0	1.0	1.0
Debtors (No. of Days)	15.0	13.7	13.2	18.5	19.7	18.7	19.3	19.0
Leverage Ratios (%)								
Net Debt/Equity (x)	-0.1	-0.1	-0.2	-0.1	-0.2	-0.2	-0.2	-0.2

Cash Flow Statement (INR Million)

Y/E Mar	2011	2012	2013	2014	2015	2016E	2017E	2018E
Adjusted EBITDA	74,123	88,687	106,470	124,755	134,946	140,784	152,376	169,957
Non cash opr. exp (inc)	607	2,996	1,454	1,428	-250	0	0	0
(Inc)/Dec in Wkg. Cap.	-4,522	1,480	-9,654	-10,228	10,583	-1,416	2,874	3,844
Tax Paid	-22,806	-27,352	-32,658	-38,739	-43,898	-48,605	-51,292	-54,654
Other operating activities	0	1	2	3	0	0	0	0
CF from Op. Activity	**47,402**	**65,812**	**65,614**	**77,220**	**101,381**	**90,763**	**103,959**	**119,146**
(Inc)/Dec in FA & CWIP	-11,224	-20,964	-19,714	-23,684	-29,709	-25,000	-25,000	-25,000
Free cash flows	**36,178**	**44,848**	**45,900**	**53,535**	**71,673**	**65,763**	**78,959**	**94,146**
(Pur)/Sale of Invt	1,722	-7,619	-7,437	-17,631	4,180	-17,956	-18,042	-22,963
Others	0	0	0	0	0	0	0	0
CF from Inv. Activity	**-9,502**	**-28,583**	**-27,151**	**-41,316**	**-25,529**	**-42,956**	**-43,042**	**-47,963**
Inc/(Dec) in Net Worth	5,220	7,650	9,223	6,911	9,788	0	0	0
Inc / (Dec) in Debt	183	-224	-6	43	-12	0	0	0
Interest Paid	-679	-980	-1,059	-236	-785	-489	-520	-503
Divd Paid (incl Tax) & Others	-31,455	-37,918	-38,660	-45,877	-41,851	-50,669	-54,905	-62,152
CF from Fin. Activity	**-26,731**	**-31,472**	**-30,502**	**-39,160**	**-32,859**	**-51,159**	**-55,425**	**-62,655**
Inc/(Dec) in Cash	**11,170**	**5,757**	**7,961**	**-3,256**	**42,993**	**-3,351**	**5,492**	**8,528**
Add: Opening Balance	11,263	22,432	28,189	36,150	32,894	75,886	72,535	78,027
Closing Balance	**22,432**	**28,189**	**36,150**	**32,894**	**75,887**	**72,535**	**78,028**	**86,555**

MOTILAL OSWAL

29 February 2016

Update | Sector: Financials

LIC Housing Finance

BSE SENSEX	S&P CNX
23,002	6,987

CMP: INR422 TP: INR540 (28%) Buy

Thrust on affordable housing continues

Housing to be the biggest beneficiary of the move

- **In union budget government announced additional interest deduction of INR50,000 per annum (over and above prevailing INR 0.15m) for first time buyer for loans upto INR3.5m during FY17.**
- **In our view LICHF is likely to be a big beneficiary of this move as a) almost all of LICHF's customers are first time borrower's b) 70% of its customers fall in this category and in FY15 2/3 of the disbursements made were below INR3.5m c) LICHF has pan India presence coupled with strong distribution network in tier 2-5 cities and brand lineage of LIC of India to fully exploit this opportunity.**
- **LICHF is a levered play on interest rates, while spreads and ROA are thin, but low risk weights lend higher potential leverage to the mortgage business – its profitability, i.e., ROE, can benefit significantly from even a moderate expansion in spreads. Lowerr market borrowings announced in the budget will drive the yields lower and overall fall in the interest rates at the system level thereby benefiting LICHF with continuous improvement in incremental spreads.**
- **Asset quality remains healthy as LICHF is a plain vanilla mortgage player- lowest risky book among housing finance companies with retail forming +97% of the loan book (with continuous improvement in asset quality).**
- **LICHF has a strong balance sheet, is well-capitalized (Tier I ratio of ~12.5% as of Dec-2015), has a granular retail loan book, and its GNPLs is low (0.58%) and ~20% RoEs.. Moreover pricing discipline owing to base rate regime is the key difference in this cycle. The stock is trading at 1.7x FY18 P/B and 8.5x FY18 P/E. Reiterate BUY.**

Additional exemption bodes well to boost home ownership

In union budget government announced additional interest deduction of INR50,000 per annum (over and above prevailing INR 0.15m) for first time buyer for loans upto INR3.5m during FY17. This measure makes housing most attractive instrument to save tax even higher than 80C. This is a very positive step taken by government to boost the home ownership in affordable housing segment and will drive down the cost of home ownership; moreover the limit of INR3.5m is very realistic and bodes very well for the end user segment.

Led by strong distribution and brand; LICHF likely to be biggest beneficiary

In our view LICHF is likely to be a big beneficiary of this move as a) almost all of LICHF's customers are first time borrower's b) 70% of its customers fall in this category and in FY15 2/3 of the disbursements (i.e. of INR300b od disbursements INR 200b) were made to below INR3.5m segment c) LICHF has pan India presence coupled with strong distribution network in tier 2-5 cities and brand lineage of LIC of India to fully exploit this opportunity. d) 47% of business originates from the outskirts of top 7 cities and Incremental average ticket size is INR1.95m (as on 9MFY16. Moreover with slew of recent measure to boost affordable housing, builder interest in affordable housing is on the rise. We remain confident that this segment wont see any dearth in growth over near to medium term and expect the growth to remain at +18%.

Stock Info

Bloomberg	LICHF IN
Equity Shares (m)	504.7
52-Week Range (INR)	526/389
1, 6, 12 Rel. Per (%)	-4/10/10
M.Cap. (INR b)	212.9
M.Cap. (USD b)	3.2
Avg Val (INRm)	1,137.0
Free float (%)	59.7

Financials Snapshot (INR b)

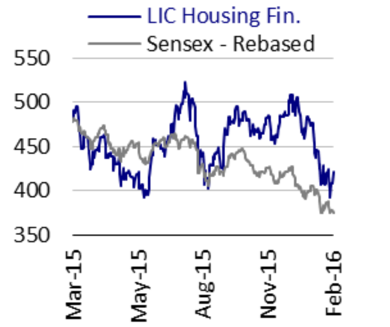
Y/E MAR	2016E	2017E	2018E
NII	30.0	36.1	42.2
PPP	27.7	33.5	39.1
Adj. PAT	16.9	21.2	25.0
Adj. EPS (INR)	33.5	42.0	49.5
EPS Gr. (%)	25.8	25.4	17.7
BV/Sh (INR)	181.9	215.7	255.4
RoAA (%)	1.5	1.5	1.5
RoE (%)	19.9	21.2	21.0
Payout (%)	20.3	20.3	20.3
Valuations			
P/E (x)	12.6	10.0	8.5
P/BV (x)	2.3	2.0	1.7
Div. Yield (%)	1.4	1.8	2.1

Shareholding pattern (%)

As On	Sep-15	Jun-15	Sep-14
Promoter	40.3	40.3	40.3
DII	7.6	7.3	7.3
FII	35.4	37.4	39.0
Others	16.7	15.1	13.5

FII Includes depository receipts

Stock Performance (1-year)



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Lower market borrowings to help reduce the cost of funds further

LICHF is a levered play on interest rates, while spreads and ROA are thin, but low risk weights lend higher potential leverage to the mortgage business – its profitability, i.e., ROE, can benefit significantly from even a moderate expansion in spreads. Lower market borrowings announced in the budget will drive the yields lower and overall fall in the interest rates at the system level; falling interest rate regime will be positive for the wholesale funded entities like LICHF. The company's borrowing mix has been shifting towards market instruments and bank borrowing now stands at 12.5% of the total borrowing whereas NCDs now form 65% of the borrowing mix. The company is among the few housing finance companies which is witnessing improvement in incremental spreads and we believe this trend to continue in ensuring quarters.

Granular loan book; asset quality remain healthy with GNPLs of 0.58%

Asset quality remains healthy as LICHF is a plain vanilla mortgage player- lowest risky book among housing finance companies with retail assets forming +97% of the loan book. Retail asset quality at LICHF has been improving over the years. As of 3QFY16, retail GNPL ratio was only 0.32%. We do not foresee any asset quality deterioration in the individual loan book and expect it to improve/remain stable from these levels. While the While the legacy developer book has been a cause of some concern for LICHF, the overall developer book as a % of total loans has been shrinking. As of 3QFY16, the developer loan book of INR30.9b constituted 2.63% of the overall loan book.

Attractively priced at 1.7x FY18 P/B; Reiterate buy

LICHF has a strong balance sheet, is well-capitalized (Tier I ratio of ~12.5% as of Dec-2015), has a granular retail loan book, and its GNPLs is low (0.58%) and ~20% RoEs. Moreover pricing discipline owing to base rate regime is the key difference in this cycle. We expect LICHF to post earning CAGR of 23% over FY16-18E and RoA's/RoE's of 1.55%/21%. The stock is trading at 1.7x FY18 P/B and 8.5x FY18 P/E. Reiterate **Buy**.

Financials and Valuations

Income Statement							(INR Million)
Y/E March	**2012**	**2013**	**2014**	**2015**	**2016E**	**2017E**	**2018E**
Interest Income	59,827	74,591	90,733	105,467	123,843	144,770	169,385
Interest Expense	45,911	59,246	71,744	83,102	93,837	108,649	127,146
Net Interest Income	**13,916**	**15,345**	**18,990**	**22,364**	**30,006**	**36,121**	**42,239**
Change (%)	1.4	10.3	23.8	17.8	34.2	20.4	16.9
Fee Income	1,322	1,549	1,080	1,227	1,477	1,821	2,163
Income from Investments	804	617	1,083	815	750	850	950
Other Income	198	-168	450	343	69	69	69
Net Income	**16,240**	**17,343**	**21,603**	**24,749**	**32,302**	**38,860**	**45,421**
Change (%)	-8.3	6.8	24.6	14.6	30.5	20.3	16.9
Operating Expenses	2,371	2,819	3,133	3,885	4,594	5,388	6,321
Operating Income	**13,870**	**14,524**	**18,470**	**20,864**	**27,707**	**33,472**	**39,100**
Change (%)	-10.8	4.7	27.2	13.0	32.8	20.8	16.8
Provisions/write offs	1,561	789	215	-20	1,530	737	917
PBT	**12,309**	**13,736**	**18,255**	**20,884**	**26,177**	**32,734**	**38,183**
Tax	3,167	3,504	5,083	7,158	9,031	11,293	12,982
Tax Rate (%)	25.7	25.5	27.8	34.3	34.5	34.5	34.0
PAT	**9,142**	**10,232**	**13,172**	**13,727**	**17,146**	**21,441**	**25,201**
Change (%)	-6.2	11.9	28.7	4.2	24.9	25.0	17.5
Adjusted PAT	**10,011**	**10,232**	**12,017**	**13,466**	**16,936**	**21,231**	**24,990**
Change (%)	-2.7	2.2	17.4	12.1	25.8	25.4	17.7
Proposed Dividend	**2,112**	**2,244**	**2,657**	**3,022**	**3,496**	**4,371**	**5,138**

Balance Sheet							(INR Million)
Y/E March	**2012**	**2013**	**2014**	**2015**	**2016E**	**2017E**	**2018E**
Capital	1,010	1,010	1,010	1,010	1,010	1,010	1,010
Reserves & Surplus	55,812	63,803	74,319	77,174	90,825	107,894	127,958
Net Worth	**56,822**	**64,813**	**75,329**	**78,184**	**91,835**	**108,904**	**128,967**
Borrowings	**560,873**	**687,641**	**820,356**	**965,319**	**1,155,292**	**1,401,159**	**1,662,609**
Change (%)	24.2	22.6	19.3	17.7	19.7	21.3	18.7
Total Liabilities	**617,695**	**752,454**	**895,685**	**1,043,503**	**1,247,127**	**1,510,063**	**1,791,577**
Investments	13,750	18,673	1,993	2,371	2,609	2,869	3,099
Change (%)	-2.0	35.8	-89.3	19.0	10.0	10.0	8.0
Loans	**630,802**	**778,120**	**913,410**	**1,083,610**	**1,283,658**	**1,522,999**	**1,807,184**
Change (%)	23.5	23.4	17.4	18.6	18.5	18.6	18.7
Net Fixed Assets	623	624	756	797	843	879	905
Net Current Assets	-27,481	-44,963	-20,474	-43,275	-39,982	-16,684	-19,612
Total Assets	**617,695**	**752,454**	**895,685**	**1,043,503**	**1,247,127**	**1,510,063**	**1,791,577**

E: MOSL Estimates

Financials and Valuations

Ratios

Y/E March	2012	2013	2014	2015	2016E	2017E	2018E
Spreads Analysis (%)							
Avg. Yield on loans	10.5	10.6	10.7	10.6	10.5	10.3	10.2
Avg. Yield on Earning Assets	10.2	10.2	10.5	10.3	10.2	10.0	9.9
Avg. Cost-Int. Bear. Liab.	9.1	9.5	9.5	9.3	8.9	8.5	8.3
Int. Spread on Hsg. Loans	1.4	1.1	1.21	1.25	1.61	1.8	1.9
Net Int. Margin on Hsg. Loans	2.4	2.2	2.25	2.24	2.54	2.57	2.54
Profitability Ratios (%)							
Adj RoAE	20.3	16.8	17.2	17.5	19.9	21.2	21.0
Adj RoAA	1.8	1.5	1.5	1.4	1.5	1.5	1.5
Int. Expended/Int.Earned	76.7	79.4	79.1	78.8	75.8	75.0	75.1
Other Inc./Net Income	1.2	-1.0	2.1	1.4	0.2	0.2	0.2
Efficiency Ratios (%)							
Fees/Operating income	2.1	2.0	1.2	1.1	1.2	1.2	1.3
Op. Exps./Net Income	14.6	16.3	14.5	15.7	14.2	13.9	13.9
Empl. Cost/Op. Exps.	30.6	32.1	33.1	34.1	33.8	34.6	35.4
Asset-Liability Profile (%)							
Loans/Borrowings Ratio	112.5	113.2	111.3	112.3	111.1	108.7	108.7
Debt/Equity (x)	9.9	10.6	10.9	12.3	12.6	12.9	12.9
Gross NPAs (Rs m)	2,652	4,712	6,090	4,947	5,489	6,130	6,740
Gross NPAs to Adv.	0.4	0.6	0.7	0.5	0.4	0.4	0.4
Net NPAs (Rs m)	849	1,953	3,534	2,344	2,744	3,065	3,370
Net NPAs to Adv.	0.1	0.3	0.4	0.2	0.2	0.2	0.2
CAR	13.0	12.5	11.5	10.5	10.5	10.5	10.5
Valuation							
Book Value (INR)	112.5	128.3	149.2	154.8	181.9	215.7	255.4
Growth (%)	28.2	14.1	16.2	3.8	17.5	18.6	18.4
Price-BV (x)	**3.8**	**3.3**	**2.8**	**2.7**	**2.3**	**2.0**	**1.7**
Adjusted BV (INR)	112.1	127.3	147.3	153.6	180.4	214.0	253.6
Price-ABV (x)	**3.8**	**3.3**	**2.8**	**2.7**	**2.3**	**2.0**	**1.7**
EPS (INR)	18.1	20.3	26.1	27.2	34.0	42.5	49.9
Growth (%)	-11.7	11.9	28.7	4.2	24.9	25.0	17.5
Price-Earnings (x)	**23.3**	**20.8**	**16.2**	**15.5**	**12.4**	**9.9**	**8.5**
Adj. EPS (INR)	19.8	20.3	23.8	26.7	33.5	42.0	49.5
Growth (%)	-8.4	2.2	17.4	12.1	25.8	25.4	17.7
Price-Earnings (x)	**21.3**	**20.8**	**17.7**	**15.8**	**12.6**	**10.0**	**8.5**
Dividend Per Share	3.6	3.8	4.5	5.0	5.9	7.4	8.7
Dividend Yield (%)	**0.9**	**0.9**	**1.1**	**1.2**	**1.4**	**1.8**	**2.1**

E: MOSL Estimates

29 February 2016

Update | Sector: Cement

Ultratech Cement

BSE SENSEX	S&P CNX
23,002	6,987

CMP: INR2,767 **TP: INR3,370 (+22%)** **Buy**

Best pick for the up-cycle

Pan India growth levers, resilient earning strength and sustainability

- **Pan India growth levers in place:** UTCEM aids most predicable and profitable growth due to (a) PAN India presence with 17-18% market share (#1 or #2 across regions, (b) strong utilization headroom from recent expansion, and (c) much stabler portability amidst recent weakness (50-100% premium EBITDA/ton v/s ACC, ACEM). It is evident from top quartile growth and profitability over past 2-3 years.
- **Built up edge on efficiencies renders strong and stable margins:** UTCEM delivered strong margins (18-20%) with lowest variance led by (a) consistent efforts in cost savings (rise in pet coke/AFR/WHRS mix, sea route transport, and operating efficiency) and (b) benefits of healthy profitability of white cement. It witnessed strongest savings in direct cost in past 12 months, with further benefits from logistics measures ahead (new grinding facilities in north, west and east, bulk terminus).
- **Mounting entry barrier, UTCEM has preparedness:** Rising entry barrier (critical resources viz. limestone, land getting costlier) offers natural scarcity premium to UTCEM as leader. Additionally, it has high growth sustainability on the back of strong preparedness like investment in land and limestone in past 4-5years (can add 20-35mt of brownfield).
- **JPA deal offers long-term strategic boost:** While sub-normal profitability, low utilizations and fresh debt would lead to EPS dilution in initial years, we expect the transaction to strengthen UTCEM's competitive position through complimentary market reach, synergies, sufficient limestone reserve over medium-term.
- **Dilution in B/S strength would be momentary in our view:** UTCEM's net debt to EBITDA stood at 0.6x S/A (0.9x consolidated). B/S strength enabled it to grab attractive opportunities like JPA's assets. While the transaction would raise net debt/EBITDA to ~2.9x on conclusion, we expect gradual ramp-up in target assets and discipline in other capex (no organic expansion for 2-3 years) would revive the strength back to normal. From its existing assets, it would generate INR30-50b of growth capital from operations (after meeting fixed commitment) which aid self-sustaining growth.
- **Preferred pick:** At the critical juncture of bottoming out growth, UTCEM's strong focus on growth makes its preferred play. We are yet to factor in JPA-deal impact as it is in MoU stage. We expect return ratios to revive to 17-20% and EBITDA/ton to post 20%+ CAGR till FY18 in existing assets. The stock trades at 13.7x/9.4xx FY18E EBITDA and EV of US$164/155/ton. We value UTCEM at INR3,370 (12x FY18E EBITDA, USD190/ton).

Stock Info

Bloomberg	UTCEM IN
Equity Shares (m)	274.4
52-Week Range (INR)	3,399/2,531
1, 6, 12 Rel. Per (%)	5/8/10
M.Cap. (INR b)	759.3
M.Cap. (USD b)	11.1
Avg Val (INRm)	899.9
Free float (%)	38.3

Financials Snapshot (INR b)

Y/E MAR	2016E	2017E	2018E
Sales	237.5	265.2	313.3
EBITDA	43.0	53.1	73.6
NP	20.9	28.2	43.2
Adj EPS (INR)	76.3	102.8	157.6
EPS Gr. (%)	3.9	34.8	53.3
BV/Sh (INR)	750.3	835.6	972.9
RoE (%)	10.6	13.0	17.4
RoCE (%)	13.2	16.4	21.7
P/E (x)	36.3	26.9	17.6
P/BV (x)	3.7	3.3	2.8

Shareholding pattern (%)

As On	Sep-15	Jun-15	Sep-14
Promoter	61.7	61.7	61.7
DII	7.1	6.8	5.7
FII	20.2	20.3	21.7
Others	11.0	11.3	11.0

FII Includes depository receipts

Stock Performance (1-year)

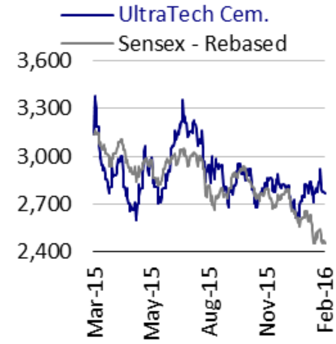

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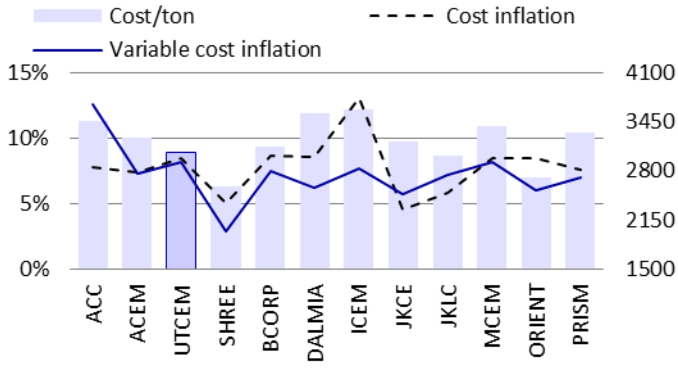
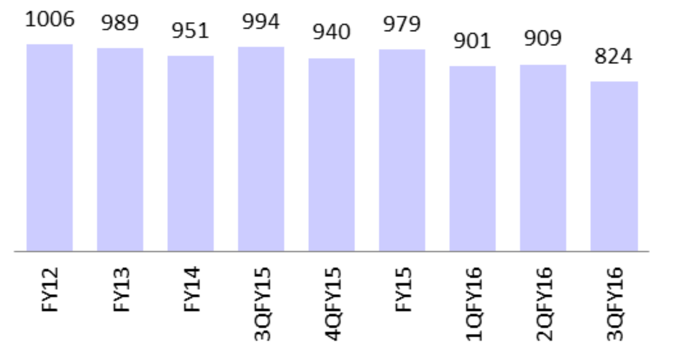
Exhibit 25: Average total cost of past 4 years and inflation recorded



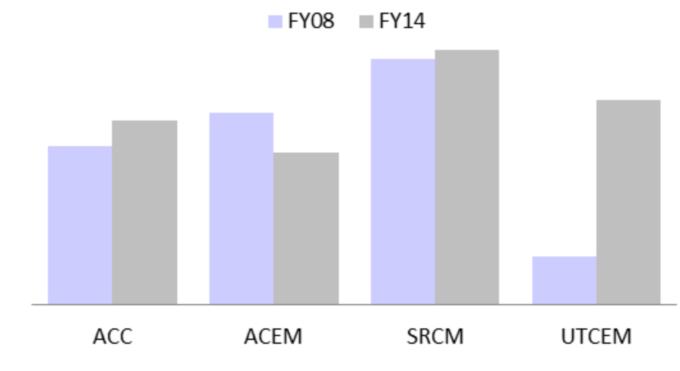
Source: Company, MOSL

Exhibit 26: Significant dip in energy cost



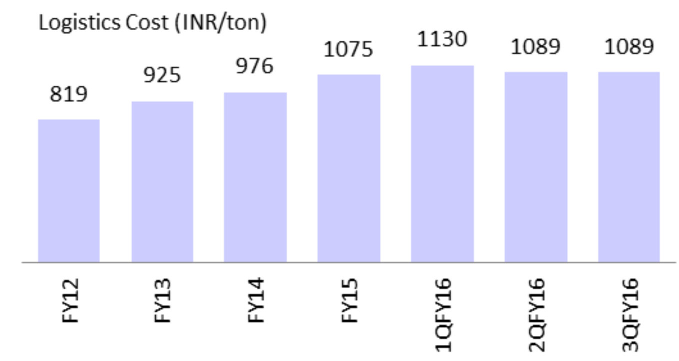
Source: Company, MOSL

Exhibit 27: Achieved significant increase in CPP mix (%)



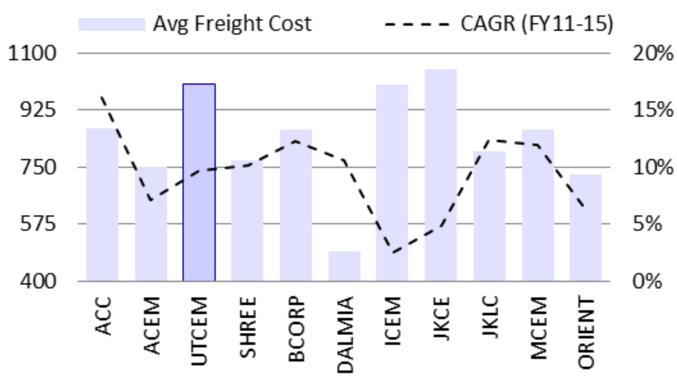
Source: Company, MOSL

Exhibit 28: Freight inflation has been high in recent years



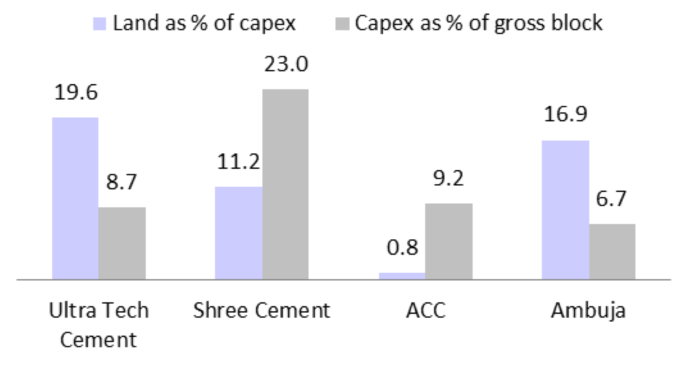
Source: Company, MOSL

Exhibit 29: Comparative freight cost (INR/ton)



Source: Company, MOSL

Exhibit 30: Exhibit 6: UTCEM's investments in land are higher than peers (FY14)



Source: Company, MOSL

Financials and Valuations

Income Statement								(INR Million)
Y/E Mar	**2011**	**2012**	**2013**	**2014**	**2015**	**2016E**	**2017E**	**2018E**
Net Sales	**132,062**	**181,664**	**199,991**	**200,779**	**226,565**	**237,459**	**265,207**	**313,251**
Change (%)	87.3	37.6	10.1	0.4	12.8	4.8	11.7	18.1
EBITDA	**25,597**	**40,039**	**44,946**	**36,160**	**39,153**	**43,009**	**53,101**	**73,611**
EBITDA Margin (%)	19.4	22.0	22.5	18.0	17.3	18.1	20.0	23.5
Depreciation	7,657	9,026	9,454	10,523	11,331	12,858	13,387	13,828
EBIT	**17,939**	**31,013**	**35,492**	**25,637**	**27,822**	**30,151**	**39,715**	**59,783**
Interest	2,725	2,239	2,097	3,192	5,475	5,255	5,424	5,027
Other Income	2,619	4,568	4,620	5,310	6,515	5,000	6,000	7,000
Extraordinary items	0	666	0	956	0	0	0	0
PBT	**17,833**	**34,009**	**38,015**	**28,711**	**28,863**	**29,896**	**40,290**	**61,756**
Tax	3,791	9,467	11,700	7,266	8,715	8,969	12,087	18,527
Tax Rate (%)	21.3	27.8	30.8	25.3	30.2	30.0	30.0	30.0
Min. Int. & Assoc. Share	0	0	0	0	0	0	0	0
Reported PAT	**14,042**	**24,542**	**26,315**	**21,445**	**20,147**	**20,927**	**28,203**	**43,229**
Adjusted PAT	**14,042**	**24,062**	**26,315**	**20,731**	**20,147**	**20,927**	**28,203**	**43,229**
Change (%)	28.4	71.4	9.4	-21.2	-2.8	3.9	34.8	53.3

Balance Sheet								(INR Million)
Y/E Mar	**2011**	**2012**	**2013**	**2014**	**2015**	**2016E**	**2017E**	**2018E**
Share Capital	2,740	2,741	2,742	2,742	2,744	2,744	2,744	2,744
Reserves	103,920	125,858	149,606	168,233	185,833	203,099	226,520	264,171
Net Worth	**106,660**	**128,598**	**152,348**	**170,975**	**188,576**	**205,843**	**229,264**	**266,914**
Debt	26,373	41,529	54,085	51,993	74,142	64,142	59,142	59,142
Deferred Tax	17,301	17,378	19,059	22,958	27,920	29,415	31,631	35,027
Total Capital Employed	**150,334**	**187,505**	**225,493**	**245,927**	**290,638**	**299,400**	**320,037**	**361,084**
Gross Fixed Assets	179,423	190,138	213,822	250,778	318,741	354,478	359,478	364,478
Less: Acc Depreciation	65,420	73,797	82,599	92,059	109,267	122,125	135,512	149,340
Net Fixed Assets	**114,003**	**116,342**	**131,224**	**158,718**	**209,475**	**232,353**	**223,966**	**215,139**
Capital WIP	6,831	18,965	35,054	20,384	20,737	15,000	30,000	45,000
Investments	37,303	37,888	51,087	53,917	52,088	24,500	29,500	29,500
Current Assets	**41,809**	**56,257**	**56,723**	**64,489**	**69,850**	**92,604**	**101,964**	**138,386**
Inventory	19,565	20,359	23,505	23,684	27,514	26,023	29,064	34,329
Debtors	6,023	7,660	10,172	12,810	12,032	13,011	13,079	15,448
Cash & Bank	1,448	1,896	1,427	2,775	2,139	24,294	30,031	54,280
Loans & Adv, Others	14,773	26,342	21,619	25,220	28,165	29,276	29,790	34,329
Curr Liabs & Provns	**49,612**	**41,947**	**48,595**	**51,582**	**61,511**	**65,057**	**65,394**	**66,941**
Curr. Liabilities	43,877	33,740	37,903	41,884	48,481	52,046	54,495	55,784
Provisions	5,735	8,207	10,692	9,698	13,030	13,011	10,899	11,157
Net Current Assets	**-7,803**	**14,310**	**8,128**	**12,907**	**8,339**	**27,547**	**36,570**	**71,445**
Total Assets	**150,334**	**187,505**	**225,493**	**245,927**	**290,638**	**299,400**	**320,037**	**361,084**

29 February 2016

Update | Sector: Oil & Gas

HPCL

BSE SENSEX	S&P CNX
23,002	6,987

CMP: INR688 TP: INR1,299 (+89%) Buy

Highest leverage to marketing margins gives upside

- **HPCL's high marketing-to-refining ratio** of 2x gives it highest leverage to reforms compared with its peers, led by interest cost reduction and likely higher auto fuel marketing margins. An INR0.5/liter increase in diesel margin increases HPCL's FY17E EPS by 32%. We model gross diesel margin of INR1.9/2.0/liter for FY16/FY17 versus regulated margin of INR1.4/liter.

- **Widening Moat:** We believe that HPCL's economic moat is widening, led by (1) scope for meaningful increase in marketing margins and profitability, (2) slower ramp-up by private marketers, (3) high volume growth, aided by expected GDP boost, and (4) improving balance sheet with increasing cash flow.

- **Key positives include:** (a) Under-recoveries to reduce by 85% from FY15 to FY17 led by Diesel de-regulation, (b) Likely continued higher marketing margin, and (c) steps such as 'direct cash benefit transfer' to reduce subsidy – directly by selective allocation, and indirectly by reducing surplus allocation. In the current budget DBT for fertilizers was announced as well, and we believe take it as an encouraging sign for DBT of Kerosene to be introduced as well.

- **Marketing division to drive profitability:** Post de-regulation, we expect marketing division profitability to grow rapidly, hence should also command a higher valuation. An INR0.5/ltr increase in petrol and diesel marketing margins increases HPCL's FY18E EPS by 25%. We model gross per liter diesel margin of INR1.6/1.9/2.2 in FY16/FY17/FY18.

  Pure play marketing companies trade at higher valuations: Pure play petroleum marketing companies - US based CST Brands (CST US; M Cap: USD2.4b) and New Zealand based Z Energy (ZEL NZ; M Cap: USD1.5b) trade (1 year forward basis) at 10x EV/EBITDA. These valuations (in-line with the underlying business dynamics) are more similar to consumer business than refining or oil & gas.

- **Valuation and view:** In 3QFY16 we had increased our FY16 earnings led by actual 9MFY16 outperformance by ~14%. We value HPCL at 5.5x for refining and 8x for marketing to arrive at a fair value of INR1,299 implying a 89% upside. The stock attractively trades at 6.2x/5.5x FY17E/FY18E EPS of INR111.4/INR124.7 and 1.1/1.0.x FY17E/FY18E BV. Dividend yield is attractive at 4-5%. **Maintain Buy.**

Stock Info

Bloomberg	HPCL IN
Equity Shares (m)	338.6
52-Week Range (INR)	991/557
1, 6, 12 Rel. Per (%)	-8/-5/33
M.Cap. (INR b)	233.0
M.Cap. (USD b)	3.4
Avg Val (INRm)	1,180.1
Free float (%)	48.9

Financials Snapshot (INR b)

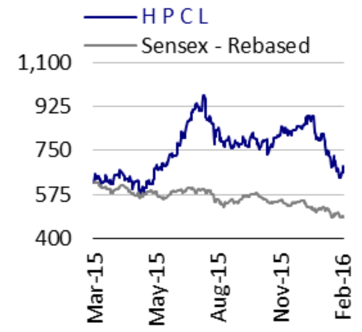
Y/E MAR	2016E	2017E	2018E
Net Sales	1,868	1,762	2,114
EBITDA	70.2	77.9	86.4
Adj PAT	32.6	37.8	42.3
EPS (INR)	96.3	111.4	124.7
Gr. (%)	19.4	15.7	12.0
BV/Sh INR	535	607	688
RoE (%)	19	20	19
RoCE (%)	14	15	15
P/E (x)	6.9	6.0	5.3
P/BV (x)	1.2	1.1	1.0

Shareholding pattern (%)

As On	Sep-15	Jun-15	Sep-14
Promoter	51.1	51.1	51.1
DII	14.7	15.5	20.1
FII	19.8	18.9	14.0
Others	14.4	14.6	14.8

FII Includes depository receipts

Stock Performance (1-year)



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Financials and Valuations

Income Statement								(INR Million)
Y/E Mar	**2011**	**2012**	**2013**	**2014**	**2015**	**2016E**	**2017E**	**2018E**
Net Sales	**1,309,342**	**1,781,392**	**2,065,293**	**2,231,454**	**2,063,804**	**1,867,924**	**1,761,850**	**2,113,622**
Change (%)	19.9	36.1	15.9	8.0	-7.5	-9.5	-5.7	20.0
EBITDA	**33,088**	**34,082**	**39,424**	**52,081**	**54,176**	**70,178**	**77,856**	**86,448**
EBITDA Margin (%)	2.5	1.9	1.9	2.3	2.6	3.8	4.4	4.1
Depreciation	14,070	17,129	19,315	21,884	19,712	26,824	28,125	30,725
EBIT	**19,018**	**16,953**	**20,109**	**30,197**	**34,465**	**43,354**	**49,731**	**55,724**
Interest	8,840	16,977	18,377	15,046	7,066	6,086	5,828	5,640
Other Income	13,435	12,222	12,300	11,004	14,142	12,190	13,316	13,225
Extraordinary items	-152	-5	714	0	0	0	0	0
PBT	**23,461**	**12,192**	**14,746**	**26,155**	**41,541**	**49,457**	**57,219**	**63,308**
Tax	8,071	3,077	5,699	8,817	14,209	16,815	19,454	21,029
Tax Rate (%)	34.4	25.2	38.6	33.7	34.2	34.0	34.0	33.2
Min. Int. & Assoc. Share	0	0	0	0	0	0	0	0
Reported PAT	**15,390**	**9,115**	**9,047**	**17,338**	**27,333**	**32,642**	**37,764**	**42,279**
Adjusted PAT	**15,390**	**9,115**	**9,047**	**17,338**	**27,333**	**32,642**	**37,764**	**42,279**
Change (%)	18.3	-40.8	-0.7	91.6	57.6	19.4	15.7	12.0

Balance Sheet								(INR Million)
Y/E Mar	**2011**	**2012**	**2013**	**2014**	**2015**	**2016E**	**2017E**	**2018E**
Share Capital	3,390	3,390	3,390	3,390	3,390	3,390	3,390	3,390
Reserves	122,068	127,835	133,874	146,732	156,831	177,851	202,368	229,813
Net Worth	**125,458**	**131,225**	**137,264**	**150,122**	**160,221**	**181,241**	**205,758**	**233,204**
Debt	250,212	298,312	324,583	319,301	170,556	188,000	188,000	188,000
Deferred Tax	31,956	30,853	35,984	39,084	41,036	41,036	46,758	53,089
Total Capital Employed	**407,626**	**460,390**	**497,830**	**508,506**	**371,813**	**410,277**	**440,516**	**474,292**
Gross Fixed Assets	296,484	334,590	370,062	424,668	481,749	530,493	594,493	634,493
Less: Acc Depreciation	110,039	126,094	144,575	165,545	191,121	217,946	246,070	276,795
Net Fixed Assets	**186,445**	**208,496**	**225,487**	**259,122**	**290,628**	**312,548**	**348,423**	**357,699**
Capital WIP	37,987	44,445	51,729	45,856	34,744	30,000	8,000	8,000
Investments	113,350	103,705	106,269	108,598	112,415	112,415	112,415	112,415
Current Assets	**265,910**	**354,427**	**378,962**	**362,204**	**237,719**	**254,639**	**265,257**	**307,301**
Inventory	166,223	194,545	164,387	187,754	129,723	133,502	131,100	156,576
Debtors	26,544	35,652	49,350	54,660	36,031	33,469	31,568	37,871
Cash & Bank	800	2,264	1,471	347	171	23,174	38,094	48,358
Loans & Adv, Others	72,343	121,967	163,754	119,444	71,796	64,495	64,495	64,495
Curr Liabs & Provns	**196,066**	**250,683**	**264,617**	**267,275**	**303,693**	**299,404**	**293,659**	**311,202**
Curr. Liabilities	178,018	230,847	241,622	243,978	273,903	268,125	260,815	276,716
Provisions	18,048	19,836	22,995	23,296	29,790	31,279	32,844	34,487
Net Current Assets	**69,844**	**103,744**	**114,345**	**94,930**	**-65,974**	**-44,765**	**-28,402**	**-3,901**
Total Assets	**407,626**	**460,390**	**497,830**	**508,506**	**371,813**	**410,198**	**440,436**	**474,212**

Financials and Valuations

Ratios

Y/E Mar	2011	2012	2013	2014	2015	2016E	2017E	2018E
Basic (INR)								
EPS	**45.4**	**26.9**	**26.7**	**51.1**	**80.6**	**96.3**	**111.4**	**124.7**
Cash EPS	143.0	127.4	143.0	204.8	240.4	303.3	341.1	379.7
Book Value	370.1	387.1	404.9	442.8	472.6	534.6	606.9	687.9
DPS	14.0	8.5	8.5	15.5	24.5	29.3	33.4	37.4
Payout (incl. Div. Tax.)	36.1	37.0	37.3	35.5	35.6	35.6	35.1	35.1
Valuation(x)								
P/E	0.0	25.6	25.8	13.5	8.5	7.1	6.2	5.5
Cash P/E	0.0	5.4	4.8	3.4	2.9	2.3	2.0	1.8
Price / Book Value	0.0	1.8	1.7	1.6	1.5	1.3	1.1	1.0
EV/Sales	0.0	0.3	0.2	0.2	0.2	0.2	0.2	0.1
EV/EBITDA	0.0	13.4	12.3	9.3	6.1	4.7	4.1	3.6
Dividend Yield (%)	0.0	1.2	1.2	2.3	3.6	4.3	4.9	5.4
Profitability Ratios (%)								
RoE	12.8	7.1	6.7	12.1	17.6	19.1	19.5	19.3
RoCE	8.6	6.7	6.8	8.2	11.0	14.2	14.8	15.1
Turnover Ratios (%)								
Asset Turnover (x)	4.8	5.6	5.9	5.6	4.6	3.7	3.1	3.4
Debtors (No. of Days)	7	6	8	9	8	7	7	6
Inventory (No. of Days)	0	0	0	0	0	0	0	0
Creditors (No. of Days)	0	0	0	0	0	0	0	0
Leverage Ratios (%)								
Net Debt/Equity (x)	2.0	2.3	2.4	2.1	1.1	0.9	0.7	0.6

Cash Flow Statement (INR Million)

Y/E Mar	2011	2012	2013	2014	2015	2016E	2017E	2018E
Adjusted EBITDA	33,088	34,082	39,424	52,081	54,176	70,178	77,856	86,448
Non cash opr. exp (inc)	10,913	16,632	14,859	9,322	14,142	12,190	13,316	13,225
(Inc)/Dec in Wkg. Cap.	-25,876	-27,301	-30,945	21,121	124,486	1,794	-1,444	-14,236
Tax Paid	-5,645	-2,715	-1,072	-3,668	-7,622	-16,815	-13,733	-14,699
Other operating activities	-2,456	-5,407	-10,771	-1,556	-6,772	-6,289	-7,763	-8,617
CF from Op. Activity	**10,024**	**15,291**	**11,496**	**77,301**	**178,411**	**61,057**	**68,232**	**62,121**
(Inc)/Dec in FA & CWIP	-46,101	-41,359	-36,807	-41,358	-41,762	-44,000	-42,000	-40,000
Free cash flows	**-36,077**	**-26,068**	**-25,312**	**35,943**	**136,649**	**17,057**	**26,232**	**22,121**
(Pur)/Sale of Invt	5,371	6,378	-2,404	-1,297	4,161	0	0	0
Others	12,330	3,579	15,383	10,289	-3,396	6,210	7,763	8,617
CF from Inv. Activity	**-28,400**	**-31,401**	**-23,828**	**-32,365**	**-40,997**	**-37,790**	**-34,237**	**-31,383**
Inc/(Dec) in Net Worth	0	0	0	0	0	0	0	0
Inc / (Dec) in Debt	30,408	37,919	37,072	-25,648	-123,807	17,444	0	0
Interest Paid	-8,933	-14,836	-22,187	-17,045	-7,647	-6,086	-5,828	-5,640
Divd Paid (incl Tax) & Others	-4,731	-5,509	-3,344	-3,367	-6,136	-11,621	-13,247	-14,834
CF from Fin. Activity	**16,744**	**17,574**	**11,540**	**-46,060**	**-137,590**	**-264**	**-19,075**	**-20,474**
Inc/(Dec) in Cash	**-1,631**	**1,464**	**-793**	**-1,124**	**-176**	**23,003**	**14,920**	**10,264**
Add: Opening Balance	2,431	800	2,264	1,471	347	171	23,174	38,094
Closing Balance	**800**	**2,264**	**1,471**	**347**	**171**	**23,174**	**38,094**	**48,358**

Ashok Leyland

BSE SENSEX	S&P CNX
23,002	6,987

ASHOK LEYLAND

Stock Info

Bloomberg	AL IN
Equity Shares (m)	2,845.9
52-Week Range (INR)	100/64
1, 6, 12 Rel. Per (%)	6/11/47
M.Cap. (INR b)	249.3
M.Cap. (USD b)	3.6
Avg Val (INRm)	1,277.8
Free float (%)	61.2

Financials Snapshot (INR b)

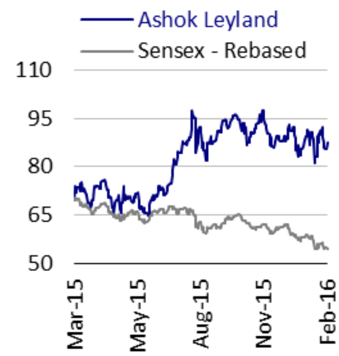
Y/E MAR	2016E	2017E	2018E
Net Income	188.8	246.3	295.0
EBITDA	21.3	33.0	38.4
Adj. EPS (INR)	3.7	6.8	8.7
EPS Gr. (%)	348.4	83.9	28.0
BV/Sh. (INR)	20.4	25.4	32.3
P/E (x)	23.8	12.9	10.1
P/BV (x)	4.3	3.4	2.7
EV/EBITDA (x)	13.0	8.0	6.5
Div. Payout %	27.1	22.1	17.3
Div. Yld (%)	1.1	1.7	1.7
RoE (%)	19.2	29.6	30.1

Shareholding pattern (%)

As On	Sep-15	Jun-15	Sep-14
Promoter	38.8	38.8	38.8
DII	11.1	12.4	13.3
FII	33.0	32.6	33.8
Others	17.1	16.2	14.1

FII Includes depository receipts

Stock Performance (1-year)



CMP: INR88 TP: INR107(+22%) Buy

Budget 2016 provides several impetus for CV demand

Multiple demand drivers for FY17, to drive profitability to new highs

- **Budget 2016 focus on infrastructure to drive recovery in tipper demand:** The budget's focus on infrastructure with ~29% increased allocation to infrastructure/transport to ~INR2.3tn, with focus on roads (+49% to ~INR1.03tn). This increase in road construction is expected to drive recovery in demand for tippers (25-30% of M&HCV industry), the only CV segment yet to see meaningful recovery. AL, being market leader in tippers, would be one of the biggest beneficiaries of pick-up in the road construction activity.
- **Bus demand to benefit from higher AMRUT allocation and intention to open-up public road transportation:** Increase of ~20% in outlay for AMRUT (erstwhile JNNURM) to ~INR72b, would improve demand for buses from STUs. Demand from STUs has been weak due to transition from JNNURM to AMRUT scheme. This coupled with intention to open up passenger road transport sector, with objective of abolishing of permit-raj, augurs well bus demand (~15% of M&HCV industry).
- **Higher tipper + bus volumes = Better ASPs & margins:** Increase in contribution of tippers and buses augurs well for ASPs and EBITDA margins of AL. This coupled with further operating leverage and benefit of cost cutting initiatives would drive AL's margins to new highs. While our estimates partly factor in for this improvement in mix, we estimate EBITDA margins to improve by ~210bp in FY17 to ~13.4%. We estimate ~34% CAGR in EBITDA for AL over FY16-18E.
- **Aggressive focus on curtailing debt and generating cash:** To emerge leaner and stronger from the downturn, AL has focused on generating cash and curtailing debt through working capital reduction, controlled capex and monetizing non-core assets. Further, capex (incl. Investment) for FY16 is expected to be under INR1.5b (v/s INR5bin FY15 v/s INR5.5b in FY14 v/s 15.4b in FY13). We estimate AL's net debt to reduce to ~INR28.9b, as against ~INR25.4b in FY16E and peak debt of ~INR46.8b in FY14.
- **Strong earnings growth, re-rating to continue:** We estimate AL's EPS to grow by 53% CAGR over FY16E-18E on back of ~34% EBITDA CAGR and decline in interest cost by ~20% CAGR. Management's focused approach is paying-off in a) market share gains, b) rising ASPs, c) controlled cost, d) reducing working capital, e) significant control on capex and f) debt reduction. Strong volume recovery coupled with weak commodity prices would drive significant margin expansion and EPS growth. AL trades at 12.9x/10.1 FY17E/FY18E EPS and EV/EBITDA of 8x/6.5x respectively. Maintain Buy with target price of ~INR107 (~8x FY18 EV/EBITDA, ~10% discount to with LPA of 9x).

Jinesh Gandhi (Jinesh@MotilalOswal.com); +91 22 3982 5416

Financials and valuations

Income Statement							(INR Million)
Y/E March	**2012**	**2013**	**2014**	**2015**	**2016E**	**2017E**	**2018E**
Volumes ('000 units)	103	115	89	105	141	175	203
Growth (%)	9.2	11.5	-22.1	17.4	34.1	24.3	16.2
Net Sales	**129,034**	**124,812**	**99,434**	**135,622**	**188,807**	**246,272**	**295,037**
Change (%)	15.4	-3.3	-20.3	36.4	39.2	30.4	19.8
EBITDA	**13,175**	**8,765**	**1,666**	**10,266**	**21,318**	**32,995**	**38,419**
Change (%)	8.6	-33.5	-81.0	516.4	107.6	54.8	16.4
EBITDA Margins (%)	10.2	7.0	1.7	7.6	11.3	13.4	13.0
Depreciation	3,528	3,808	3,770	4,163	4,400	4,602	4,875
EBIT	**9,647**	**4,957**	**-2,105**	**6,103**	**16,918**	**28,393**	**33,544**
Interest & Fin. Charges	2,553	3,769	4,529	3,935	2,850	2,287	1,837
Other Income	404	624	665	1,245	1,130	1,450	2,350
PBT	**7,514**	**4,707**	**-912**	**4,422**	**15,081**	**27,556**	**34,057**
Tax	1,240	370	(1,206)	1,074	4,711	8,267	9,366
Effective Rate (%)	16.5	7.9	132.2	24.3	31.2	30.0	27.5
Rep. PAT	**6,274**	**4,337**	**294**	**3,348**	**10,370**	**19,289**	**24,691**
Change (%)	-0.6	-30.9	-93.2	1,039.6	209.7	86.0	28.0
% of Net Sales	-0.6	-30.9	-93.2	1,039.6	209.7	86.0	28.0
Adjusted PAT	**6,258**	**1,669**	**-4,763**	**2,339**	**10,487**	**19,289**	**24,691**
Change (%)	-0.9	-73.3	-385.4	-149.1	348.4	83.9	28.0

Balance Sheet							(INR Million)
Y/E March	**2012**	**2013**	**2014**	**2015**	**2016E**	**2017E**	**2018E**
Sources of Funds							
Share Capital	2,661	2,661	2,661	2,846	2,846	2,846	2,846
Reserves	39,421	41,890	41,818	48,341	55,287	69,441	88,997
Net Worth	**42,082**	**44,551**	**44,479**	**51,187**	**58,133**	**72,287**	**91,843**
Loans	32,630	43,554	46,903	32,913	30,413	20,413	20,413
Deferred Tax Liability	4,904	5,274	4,068	5,103	5,862	7,240	8,943
Foreign currency translation	42	-	-	-	-	-	-
Capital Employed	**79,657**	**93,379**	**95,450**	**89,203**	**94,409**	**99,940**	**121,199**
Application of Funds							
Gross Fixed Assets	72,564	83,796	86,723	85,553	87,004	90,004	97,504
Less: Depreciation	23,429	25,588	30,124	32,997	37,398	42,000	46,875
Net Fixed Assets	**49,135**	**58,208**	**56,599**	**52,556**	**49,607**	**48,004**	**50,629**
Capital WIP	5,482	6,889	1,815	1,201	1,250	1,250	1,250
Investments	15,345	23,376	27,897	26,488	27,853	29,853	31,853
Curr.Assets, L & Adv.	**49,195**	**47,883**	**41,769**	**49,592**	**69,816**	**92,090**	**121,817**
Inventory	22,306	18,960	11,887	13,985	23,278	30,362	36,374
Sundry Debtors	12,302	14,194	12,990	12,577	23,278	30,362	36,374
Cash & Bank Balances	326	139	117	7,513	1,535	4,377	17,544
Loans & Advances	14,261	14,589	16,775	15,517	21,726	26,989	31,524
Current Liab. & Prov.	**39,501**	**37,588**	**32,630**	**40,635**	**54,117**	**71,258**	**84,351**
Sundry Creditors	27,725	24,854	22,142	28,283	38,796	50,604	60,624
Other Liabilities	6,807	8,862	8,929	9,005	10,346	13,494	16,166
Provisions	4,969	3,872	1,560	3,347	4,975	7,159	7,560
Net Current Assets	**9,695**	**10,295**	**9,139**	**8,958**	**15,699**	**20,833**	**37,467**
Application of Funds	**79,657**	**98,769**	**95,450**	**89,203**	**94,409**	**99,940**	**121,199**

E: MOSL Estimates

Financials and valuations

Ratios							
Y/E March	**2012**	**2013**	**2014**	**2015**	**2016E**	**2017E**	**2018E**
Basic (INR)							
EPS	**2.4**	**0.6**	**-1.8**	**0.8**	**3.7**	**6.8**	**8.7**
EPS Fully Diluted	**2.4**	**0.6**	**-1.8**	**0.8**	**3.7**	**6.8**	**8.7**
EPS Growth (%)	-0.9	-73.3	-385.4	-145.9	348.4	83.9	28.0
Cash EPS	3.7	2.1	-0.4	2.3	5.2	8.4	10.4
Book Value per Share	15.8	16.7	16.7	18.0	20.4	25.4	32.3
DPS	1.0	0.6	0.0	0.45	1.0	1.5	1.5
Payout (Excl. Div. Tax) %	42.5	95.6	0.0	54.8	27.1	22.1	17.3
Valuation (x)							
P/E	37.2	139.6	-48.9	106.6	23.8	12.9	10.1
Cash P/E	23.8	42.6	-234.9	38.3	16.7	10.4	8.4
EV/EBITDA	19.6	30.7	163.7	26.6	13.0	8.0	6.5
EV/Sales	2.0	2.2	2.7	2.0	1.5	1.1	0.8
Price to Book Value	5.5	5.2	5.2	4.9	4.3	3.4	2.7
Dividend Yield (%)	1.1	0.7	0.0	0.5	1.1	1.7	1.7
Profitability Ratios (%)							
ROE	15.3	3.9	-10.7	4.9	19.2	29.6	30.1
RoCE	13.4	6.4	-1.5	8.0	19.7	30.7	32.5
Turnover Ratios							
Debtors (Days)	35	42	48	34	45	45	45
Inventory (Days)	63	55	44	38	45	45	45
Creditors (Days)	78	73	81	76	75	75	75
Working Capital (Days)	19	24	10	-5	15	15	15
Fixed-Asset Turnover (x)	2.6	2.1	1.8	2.6	3.8	5.1	5.8
Leverage Ratio							
Debt/Equity (x)	0.8	1.0	1.1	0.6	0.5	0.3	0.2

Cash flow Statement							(INR Million)
Y/E March	**2012**	**2013**	**2014**	**2015**	**2016E**	**2017E**	**2018E**
OP/(Loss) before Tax	6,900	4,707	-912	4,422	16,918	28,393	33,544
Interest/Dividends Received	168	264	220	290	1,130	1,450	2,350
Depreciation & Amortisation	3,528	3,808	3,789	4,182	4,400	4,602	4,875
Direct Taxes Paid	-1,500	-1,100	-297	-502	-3,951	-6,889	-7,663
(Inc)/Dec in Working Capital	218	-350	3,701	6,948	-12,719	-2,292	-3,467
Other Items	2,024	218	-495	2,906	0	0	0
CF from Oper. Activity	**11,338**	**7,547**	**6,005**	**18,246**	**5,777**	**25,264**	**29,640**
Extra-ordinary Items	0	0	0	1,009	-117	0	0
CF after EO Items	**11,338**	**7,547**	**6,005**	**19,255**	**5,660**	**25,264**	**29,640**
(Inc)/Dec in FA+CWIP	-6,906	-6,438	-2,071	-2,059	-1,500	-3,000	-7,500
Free Cash Flow	**4,432**	**1,109**	**3,935**	**17,196**	**4,160**	**22,264**	**22,140**
CF from Inv. Activity	**-10,743**	**-11,907**	**-1,102**	**1,117**	**-2,865**	**-5,000**	**-9,500**
Inc/(Dec) in Debt	3,239	11,004	1,827	-14,239	-2,500	-10,000	0
Interest Rec./(Paid)	-2,256	-3,742	-4,446	-4,219	-2,850	-2,287	-1,837
Dividends Paid	-3,092	-3,092	-1,868	0	-3,423	-5,135	-5,135
CF from Fin. Activity	**-2,109**	**4,170**	**-4,486**	**-11,791**	**-8,773**	**-17,422**	**-6,972**
Inc/(Dec) in Cash	**-1,513**	**-190**	**417**	**8,580**	**-5,978**	**2,842**	**13,167**
Add: Beginning Balance	1,755	241	52	469	9,050	3,072	5,914
Closing Balance	**241**	**52**	**469**	**9,050**	**3,072**	**5,914**	**19,081**

Sectoral Impact

Budget 2016 has been largely non-event for most of the sectors

Sector	Key Highlights	Impact	Page No.
Automobiles	Levy of 1-4% Infrastructure Cess on all PVs	**Neutral**	33
	Higher allocation to Agri/rural will benefit 2Ws & PVs, while higher infra allocation will benefit tipper (CV) demand		
Aviation		**Positive**	35
Capital Goods/Infra	Road capex planned at INR1.03trn in FY17e (+49% YoY) over FY16BE of INR0.7trn; Rail capex at INR1.21trn(+24% YoY)	**Neutral**	36
	Reduction in Accelerated Depreciation to 40% (earlier 80%) from Apr-17 is a negative for the wind energy segment (~10-15% of the demand)		
Cement	Increase in allocation in Road (49% YoY), Railways (+26% YoY), Irrigation (+80% YoY), Rural development, MNREGA etc.	**Positive**	40
	Excise duty exemption extended to Ready Mix Concrete manufacturers from 6% (with ITC) and 2% (w/o ITC) currently		
Consumer	Weighted average of 10% increase in excise duty for cigarettes for ITC	**Neutral**	41
	Excise duty of 1% imposed on Jewelry, import duty unchanged at 10%		
Financials	PSU bank recapitalization amount remains unchanged at INR250b for FY17	**Neutral**	43
	Lower government borrowing will drive rate-cuts by RBI, which is positive for financials		
Financials Debt Market		**Positive**	47
Healthcare	Phasing out of weighted deduction on R&D investment from ~200% currently to ~150% in FY18 and ~100% from FY21	**Neutral**	49
	The benefit of Section 10AA to new SEZ units which commence activity before March 31, 2020 (v/s earlier sunset period of March 31, 2017)		
Metals/Mining	Doubling of cess on coal to INR 400/t would increase cost fo Aluminum (by ~USD40/t) and Steel (by ~USD4/t)	**Positive**	50
	Increase in import duty on primary aluminum from 5% to 7.5% and on other aluminum products from 7.5% to 10%		
Oil & Gas	FY17 petroleum subsidy budgeted at ~INR292b; estimate factors Brent crude price of USD45/bbl	**Neutral**	52
	Changed cess on crude production from INR4,500/MT to ad-valorem rate of 20%, positively impacting upstream companies in FY17		
Real Estate	100% deduction of Profit for housing projects of <=30sq mt in metros and <=60 sq mt in other location approved during June-16 and Mar-19, provided completed in 3 years of approvals (MAT will be applicable)	**Positive**	55
	Additional deduction of interest of INR50K for loan upto 35 lakhs (house value <=INR 50lakhs)		
Technology/E-Commerce	The benefit of Section 10AA to new SEZ units which commence activity before March 31, 2020 (v/s earlier sunset period of March 31, 2017)	**Neutral**	56
	Positive for MCX: investment limit for foreign entities in Indian stock exchanges will be enhanced from 5% to 15%, and development of new commodity derivative products.		
Telecom	Increase in the FY16 estimate for revenue from 'other communication services' from INR429b to INR560b. After deducting the 'recurring' revenue sharing license fee and spectrum charges, one time revenue from spectrum sale in FY17 likely estimated at ~INR690b	**Negative**	58
Utilities	Allocation to the IPDS and DDUGJY scheme, critical part of UDAY scheme, for up-gradation of transmission and distribution infrastructure is increased to INR85b for FY17BE from ~INR56b in FY16RE	**Neutral**	59
	Plan outlay on new and renewable energy is increased to ~INR142 for FY17BE from ~INR57b in FY16RE		
Others (Midcaps)	Increase in allocation for micro irrigation subsidy from INR18b to INR23.4b	**Neutral**	60
	Increase in excise of branded apparel with retail sales price of INR1,000 or more from 0% (6%/12.5% with ITC) to 2% (12.5% with ITC)		

** ITC = Input tax credit* Source: MOSL

Automobiles

Budget Impact: Neutral **Sector Stance: Positive**

At a glance

Major proposals	Impact
Levy of 1-4% Infrastructure Cess on all Passenger Vehicles.	Negative
1% TDS deduction on purchase of luxury car over ~INR1m	Negative
Phasing out of weighted deduction on R&D investment from ~200% currently to ~150% in FY18 and ~100% from FY21.	Neutral
Focus on agriculture and rural segment with higher allocation of ~INR360b and ~INR878b respectively	Positive
Increase of ~29% in outlay for Transport (incl roads) to ~INR2.3tn	Positive
Increase of ~20% in outlay for AMRUT (erstwhile JNNURM) to ~INR72b	Positive
Opening up of the passenger road transport sector, with objective of abolishing of permit-raj	Positive

Flashback

Budget Proposals (2015)

- Allocation to infrastructure sector spending increased substantially for all sector Road, Rail, Power and Defense positive for CVs.
- Marginal increase in excise duty from 12.36% to 12.5%, as it now subsumes Education and Secondary Higher Education Cess.
- Marginal reduction in excise duty beyond base rate of 12% as it now fully exempts Education and Secondary Higher Education Cess.

Overall budget impact, Sector outlook and Recos

- **Lexvy of 1-4% Infrastructure cess on PVs (excl taxis):** There is levy of infrastructure cess on passenger vehicles, viz 1% (petrol/CNG/LPG <4mts and <1,200cc), 2.5% (diesel <4mts and <1,500cc) and 4% (all others). While this cess is part of excise duty, it wouldn't be eligible for off-set with any of the central levies. This would increase effective excise duty burden by ~1.5% for MSIL and ~4% for MM, which we believe would be fully passed on.
- TDS of 1 % on purchase of luxury cars exceeding value ~INR1m to improve tax compliance. This wouldn't increase tax burden on the consumer as it would be adjusted in his annual tax liability.
- Weighted deduction on R&D investments would be phased out from current ~200% to ~150% from FY18 and ~100% from FY21.
- Budget 2016 provides much needed attention to rural markets, with higher allocation for agriculture and rural markets. Some of the measures include a) allocation of ~INR360b for agriculture and farmers welfare, b) ~INR385b for MGNREGS (v/s ~INR347b in FY16), c) ~INR190b for rural roads under PMGSY (v/s ~INR143b in FY16) etc. These measures coupled with possibility of normal monsoon would drive recovery in rural demand for tractors, 2Ws and PVs.
- ~29% increase in outlay for infrastructure/transport to ~INR2.3tn, with ~38% increase in allocation to roads under MoRTH to INR550b. This would drive recovery of demand for tippers/construction trucks – segment which is yet to see recovery.
- Increase of ~20% in outlay for AMRUT (erstwhile JNNURM) to ~INR72b, would improve demand for buses from STUs. Demand from STUs has been weak due to transition from JNNURM to AMRUT scheme.
- **Outlook & Recos:** Budget has been mixed bag for the auto sector, with PVs bearing burden of additional levies while 2Ws and CVs well placed to benefit from rural push and focus on infrastructure. Our top-picks are Tata Motors, Hero MotoCorp and Maruti in large caps, and TVS Motor, Ashok Leyland and Eicher in mid-caps.

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Comparative valuation

Sector / Companies	CMP (INR)	Reco.	EPS (INR) FY16E	EPS (INR) FY17E	EPS (INR) FY18E	PE (x) FY16E	PE (x) FY17E	PE (x) FY18E	EV/EBIDTA (x) FY16E	EV/EBIDTA (x) FY17E	EV/EBIDTA (x) FY18E	RoE (%) FY16E	RoE (%) FY17E	RoE (%) FY18E
Automobiles														
Amara Raja Batt.	852	Buy	30.3	40.3	48.9	28.1	21.1	17.4	16.6	13.0	10.3	25.8	25.4	23.1
Ashok Leyland	88	Buy	3.7	6.8	8.7	23.8	12.9	10.1	11.7	7.1	5.7	19.2	29.6	30.1
Bajaj Auto	2,200	Buy	129.0	157.8	177.2	17.1	13.9	12.4	10.6	8.9	7.6	32.7	34.7	33.9
Bharat Forge	746	Buy	33.1	40.6	53.6	22.6	18.4	13.9	11.6	10.1	8.1	20.8	22.1	24.8
Bosch	16,779	Buy	377.8	486.9	660.9	44.4	34.5	25.4	26.9	21.0	16.3	15.2	17.3	20.3
Eicher Motors	18,895	Buy	347.5	540.8	772.8	54.4	34.9	24.5	27.8	17.9	12.8	31.6	41.2	45.3
Exide Inds.	128	Buy	7.2	9.1	10.5	17.7	14.1	12.2	8.8	7.1	5.9	13.7	15.4	15.6
Hero Motocorp	2,500	Buy	156.3	182.7	217.0	16.0	13.7	11.5	10.2	8.7	7.2	43.0	41.3	40.2
Mahindra & Mahindra	1,227	Neutral	59.6	73.4	87.5	20.6	16.7	14.0	5.4	4.5	3.9	15.0	15.3	15.3
Maruti Suzuki	3,243	Buy	162.5	209.6	255.9	20.0	15.5	12.7	9.0	7.3	5.8	17.6	19.8	20.9
Tata Motors	300	Buy	32.9	42.7	58.7	9.1	7.0	5.1	3.6	3.0	2.5	17.1	17.8	20.4
TVS Motor	268	Buy	9.4	15.5	18.4	28.3	17.3	14.5	16.9	11.0	9.3	24.9	32.5	30.1
Sector Aggregate						**17.9**	**13.8**	**10.9**	**7.2**	**5.9**	**4.8**	**18.5**	**20.4**	**21.7**

Source: Company, MOSL

Aviation

Budget Impact: Positive **Sector Stance: Positive**

At a glance

Major proposals	Impact
Increased excise duty on ATF from 8% to 14%. However, airlines operating flights on routes under the Regional connectivity scheme will be exempt.	Marginally Negative
To revive 160 unutilized/under-underutilized airstrips and airports with an estimated cost of INR500-1,000b each	Positive
Customs on imported goods for Maintenance, Repair and Overhaul (MRO) industry made nil. Exemption from excise duty for tools and kits by MROs subject to a certification by DGCA	Positive

Flashback

Budget proposals (FY16)

- Withdrawal of exemption on construction, commissioning, erection or installation of works related to airports

Multiple initiatives to boost domestic aviation industry

- Increased excise duty on ATF from 8% to 14%. However, airlines operating flights on routes under the Regional connectivity scheme (also part of a Draft Aviation Policy) will be exempt.
- If were to assume 75% pass through of excise duty increase through higher ticket prices (possible in the backdrop of healthy passenger growth trend, 21% growth YTD till Jan 2016), we estimate ~1% impact of Indigo's EBITDAR.
- Government will revive 160 underutilized/unutilized airports at a cost of INR500m-1,000m each to increase aviation reach in India.
- Government has exempted tools and kits being imported by MROs subject to certification of DGCA. Similarly, excise duties on tools and kits procured have been made nil. Govt. has also simplified availing exemptions from custom duties for MROs. Positive for airlines as maintenance costs would be reduced.
- We remain positive on Indigo – given its market leadership, superior cost structure leading to profitability ahead of competitors and reasonable valuations.

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Capital Goods/Infra Budget Impact: Neutral Sector Stance: Neutral

At a glance

Major proposals	Impact
Reduction in Accelerated Depreciation for the Wind Industry to 40% (earlier 80%) from Apr, '17 (FY18) is a negative since ~10-15% of the industry is driven by captive consumers who prefer the AD route	Negative
Defense capex at INR858b in FY17 (+6% YoY) is disappointing. FY16BE capex was at INR946b while the revised FY16 is INR810b	Negative
R&D deduction under Sec 35 (2AB) for in house R&D expenditure restricted to 150% from FY18-20 and 100% from FY21 onwards (currently 200%)	Negative
Sec 801A/80IAB/80IB to not be available for infrastructure units commencing operations from FY18 onwards. This is part of the sunset clause to bring down exemptions given to the corporate sector	Negative
Increase in basic customs duty by 2.5% to 10% across Capital goods categories such as Reactors, Boilers, Machinery, Electrical equipment etc. to reduce imports	Marginally Positive
Budgetary allocation to Ministry of Water Resources, River Development and Ganga Rejuvenation raised to INR39b(+101% YoY)	Positive
Road capex planned at INR1.03trn in FY17e (+49% YoY) over FY16BE of INR0.7trn; 10,000kms of national highways to be awarded in FY17 and 50,000kms of state highways to be taken up for up gradation to National Highways. Rail capex at INR1.21trn(+24% YoY)	Positive

Flashback

Budget proposals (2015)

- Increased investment plans in Roads (+194% YoY, INR824b) and Railways (+53% YoY, INR1t).
- Five new metro projects in Lucknow, Nagpur, Pune, Vijaywada and Vizag witnessed initial allocations from budget
- Setting up of National Investment & Infrastructure Fund of INR200b is aimed at boosting infrastructure investments
- Clean Energy Cess fund has been increased from INR100 to INR200 per tonne of coal to finance clean environment initiatives
- Capital expenditure in defence at INR946b, up 15% YoY

Overall budget impact, sector outlook and recommendations

- **Focus on infrastructure**, with higher allocation to infrastructure sector, viz. Roads (+49%to INR 1.03trn), Railways (+24% to INR1.2trn), Power (+20%to INR 799b), Urban Development (+11% to INR166b) is positive.
- Key negatives for the sector are the reduction in the Accelerated Depreciation benefits from FY18, subdued growth in defense capex at INR858b (+6% YoY), lower deduction from R&D starting FY18 and sunset clause for Sec80IA/IAB/IB from FY18 onwards.
- Our top pick is L&T in the large cap space and Voltas, Havells, VA Tech Wabag and Bharat Electronics in midcaps.

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Comparative valuation

Sector / Companies	CMP (INR)	Reco.	EPS (INR)			PE (x)			EV/EBIDTA (x)			RoE (%)		
			FY16E	FY17E	FY18E	FY16E	FY17E	FY18E	FY16E	FY17E	FY18E	FY16E	FY17E	FY18E
Capital Goods														
ABB	1,015	Neutral	15.8	21.1	25.8	64.4	48.1	39.4	29.0	22.9	19.4	10.7	12.6	13.3
BHEL	91	Neutral	-1.8	7.2	7.5	-51.7	12.7	12.1	-7.3	5.4	3.5	-1.3	5.1	5.2
Bharat Electronics	1,029	Buy	56.5	64.1	68.0	18.2	16.0	14.0	14.2	11.6	9.5	15.2	15.0	15.1
Crompton Greaves	130	Neutral	-3.3	1.7	2.8	-39.6	76.0	46.9	82.0	24.9	18.6	-5.2	2.8	4.4
Cummins India	810	Neutral	27.9	33.4	37.5	29.0	24.3	21.6	27.2	21.9	18.1	25.3	26.9	26.8
Havells India	272	Buy	7.4	11.0	12.8	36.7	24.8	21.2	19.6	16.3	13.2	20.2	26.2	26.9
Inox Wind	218	Buy	20.2	30.8	31.6	10.8	7.1	6.9	7.9	5.4	4.7	28.7	34.2	27.8
Larsen & Toubro	1,079	Buy	43.8	57.6	67.9	24.6	18.7	15.9	16.1	12.7	10.9	9.7	11.8	12.7
Siemens	989	Neutral	16.9	22.0	28.9	58.3	45.0	34.2	33.7	26.0	21.1	11.8	13.9	16.4
Solar Inds.	3,007	Buy	88.5	102.1	120.3	34.0	29.4	25.0	19.6	16.4	14.3	19.1	18.9	19.1
Thermax	752	Neutral	24.0	28.4	32.9	31.4	26.4	22.8	16.8	14.2	12.0	12.8	13.9	14.7
Va Tech Wabag	450	Buy	20.6	28.5	34.0	21.8	15.8	13.2	10.4	8.3	7.0	11.9	14.8	15.6
Voltas	223	Buy	9.9	12.6	15.2	22.5	17.7	14.6	15.0	11.5	9.2	14.7	16.6	17.7
Sector Aggregate						**33.6**	**20.8**	**17.8**	**19.8**	**13.5**	**11.3**	**7.5**	**11.1**	**11.9**

Source: Company, MOSL

Key budget proposals & Impact

The key highlight has been the meaningfully increased investment plans with higher allocation to infrastructure sector, viz. Roads (+49%to INR 1.03trn), Railways (+24% to INR1.2trn), Power (+20%to INR 799b) and Urban Development (+11% to INR166b). Incremental clean cess fund of INR200/ton can mobilize additional INR110b+ to promote renewables. On the flipside, reduction in the Accelerated Depreciation benefits from FY18, subdued growth in Defense capex at INR858b (+6% YoY), Lower deduction from R&D and sunset clause for Sec80IA/IAB/IB from FY18 onwards are the key negatives.

Planned spending by ministries

INR Bn	FY12 (A)	FY13 (A)	FY14 (A)	FY15 (A)	FY16 (RE)	FY17 (BE)
Ministry of Agriculture	125	134	144	81	104	187
Dept of Atomic Energy	73	76	88	102	150	158
Ministry of Chemicals & Fertilizers		37	20	29	40	43
Ministry of Civil Aviation		84	81	77	63	44
Ministry of Coal	68	72	91	104	139	166
Ministry of Communications and IT	92	86	195	103	253	280
Ministry of Consumer Affairs, Food & Public Distribution		3	11	4	5	14
Ministry of Drinking Water and Sanitation	100	130	119	1	29	15
Ministry of Finance	174	178	231	176	448	455
Ministry of Health	232	233	245	59	77	114
Ministry of Heavy Industries and Public Enterprises	15	13	12	10	9	9
Ministry of Home Affairs	59	60	68	42	68	70
Ministry of Housing and Urban Poverty Alleviation	150	65	128	83	183	170
Ministry of HRD	507	555	576	148	166	202
Ministry of New and Renewable Energy		30	18	38	57	142
Ministry of Petroleum and Natural Gas	642	681	1,099	892	771	893
Ministry of Power	461	510	579	653	664	799
Ministry of Road Transport and Highways	323	211	287	287	694	1,033
Ministry of Rural Development	666	531	611	54	62	78
Ministry of Steel	146	127	140	117	0	123
Ministry of Railways	470	493	520	565	975	1,210
Ministry of Water Resources	-	-	5	16	19	39
Ministry of Urban Development	78	83	91	98	150	166
Total	**5,086**	**4,985**	**6,036**	**4,209**	**5,827**	**7,062**

Reduction in Accelerated Depreciation for the Wind Industry to 40% (earlier 80%) is a negative

Impact: Negative

Reduction in the accelerated depreciation benefits from 80% to 40% in FY18 is a negative for the wind industry. We estimate that ~10-15% of the wind installations are driven by AD benefits and the reduction to 40% makes it less attractive for captive users to set up wind power plants.

Capital outlay in Defense to increase 6% to INR858b

Impact: Negative

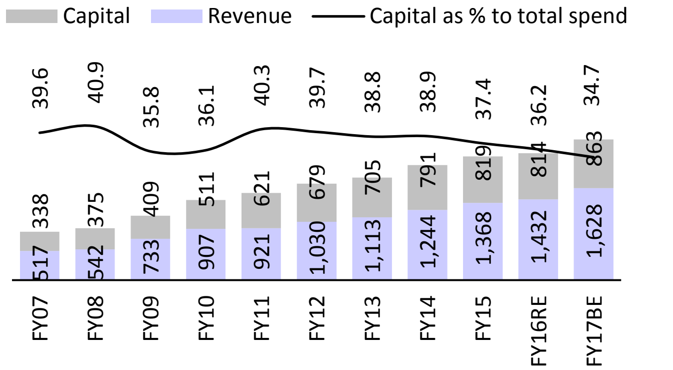
Overall defense capex planned in FY17e at INR2, 491b (+11% YoY). Capital budget allocation has witnessed an increase in allocation by 6% YoY to INR858b. However, this comes in the backdrop of a reduction in the FY16RE to INR810b vs. the budgeted spending of INR946b Within defense, Navy has witnessed increased allocation of 11% YoY to INR220b, supported mainly by increased allocation to Naval dock yard and naval fleet (17% and 24% growth YoY respectively). Allocation to army has increased by 11% YoY to INR269b whereas allocation to air force has remained flat (INR294b).

R&D benefits under Sec 35 (2AB) for R&D expenditure restricted to 150% from FY18-20 and 100% from FY21 onwards (currently 200%)

Impact: Negative

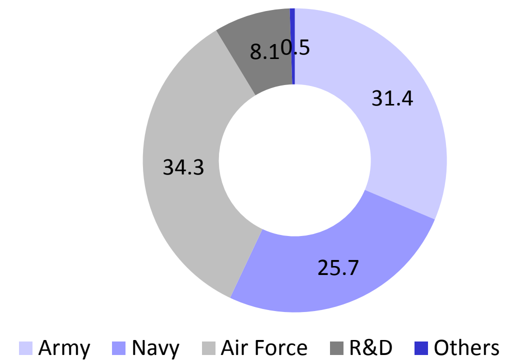
R&D spending deduction under Sec 35 (2AB) is proposed to be bought down to 150% from FY18-20 onwards from the current 200% - this a negative for companies such as Bharat Electronics who incur ~8% of sales on R&D. Beyond FY20, the deduction would further come down to 100% of spending. We cut our FY18e EPS for Bharat Electronics by 4% as a result of lower deduction from FY18 onwards.

Defense allocation bifurcation between revenue and capital



Source: Budget 2016, MOSL

Segment wise bifurcation of defense allocation



Source: Budget 2016, MOSL

Capex by CPSU have increased supported by Roads and Railways

INR B	FY12 (A)	FY13 (A)	FY14(A)	FY15 (A)	FY16(RE)	FY17(BE)
Nuclear Power Corporation of India	28	44	47	61	84	92
Coal India	37	29	43	52	68	77
Neyveli Lignite	17	18	18	20	30	63
Singareni Colleries	11	20	25	28	36	23
BHEL	11	8	6	4	5	4
BPCL	16	38	44	69	73	106
GAIL	68	60	41	19	19	18
HPCL		29	26	27	15	20
IOC	98	94	167	143	115	138
ONGC	292	295	325	300	315	293
ONGC Videsh	80	109	370	72	85	149
Oil India	17	29	94	125	113	114
NHPC	31	30	26	22	42	40
NTPC	160	198	217	232	250	300
PGCIL	178	204	232	225	225	225
NHAI	125	29	79	0	280	593
NMDC	15	16	25	31	38	40
SAIL	110	97	99	68	65	60
Indian Railways	270	251	249	264	655	760
Total	**2,002**	**1,937**	**2,631**	**2,291**	**3,216**	**3,981**

Source: Budget 2016, MOSL

Cement

Budget Impact: Positive **Sector Stance: Positive**

At a glance

Major proposals	Impact
Strong indirect benefits with increase in allocation in Road (49% YoY), Railways (+26% YoY), Irrigation (+80% YoY), Rural development, MNREGA etc.	Positive
Excise duty exemption extended to Ready Mix Concrete manufacturers from 6% (with ITC) and 2% (w/o ITC) currently	Positive for Prism, UTCEM, ACC etc
Increase in clean energy cess on coal from INR200/ton to INR400/ton to marginally increase energy cost.	Marginally Negative

Flashback

Budget proposals (2015)

- Excise duty marginally increased to 12.5%(from 12.36%) of MRP plus INR6/bag less 30% abatement
- Continued focus on infrastructure development(by increasing allocation and positive addressing funding issues) augurs well for cement demand from infrastructure
- Increase in clean energy cess on coal from INR100/ton to INR200/ton to marginally increase energy cost

Boost in demand drivers; Excise exemption in RMC; Energy cess rise marginally negative

- Strong indirect benefits with rise in allocation in various infrastructure areas viz. Road (49% YoY), Railways (+26% YoY), Irrigation (+80% YoY), Rural development, MNREGA etc. Tax incentives provided for boost in low cost housing to both developers and consumers viz. higher interest deduction, lower service tax etc. Infrastructure contribution to demand which is sub-20% is expected to rise.
- It plans to approve 10,000KM of NHAI in FY16-17, while the pace of execution would also rise to match the run-rate. 50,000KM of state highway would be taken upgradation. Allocation to Pradhan Mantri Gram Sadak Yojana (PMGSY) has increased to INR190b in FY17 (v/s INR90-100b in FY13/FY14). Goal is to complete 2.23 lakh kms of roads by 2019. The pace of construction is currently 100 kms per day and rising further, versus average of 73.5 kms during 2011-14, will be substantially stepped up.
- Excise duty exemption extended to Ready Mix Concrete manufacturers from 6% (with ITC) and 2% (w/o ITC) currently. It should benefit players with RMC contribution viz. Prism, UTCEM ACC etc. For UTCEM and ACC, benefits would be <1%, while low base makes benefits higher for Prism (4-6% at EBITDA).
- Increase in clean energy cess on coal from INR200/ton to INR400/ton to marginally increase energy cost. Assuming 10% conversion rate, we expect marginal cost impact of INR10-20/ton depending on pet coke mix.
- Our top picks are **UTCEM** in large caps, and **JKLC and JKCE** in midcaps.

Comparative valuation

Sector / Companies	CMP	Reco.	EPS (INR)			PE (x)			EV/EBIDTA (x)			RoE (%)		
	(INR)		FY16E	FY17E	FY18E	FY16E	FY17E	FY18E	FY16E	FY17E	FY18E	FY16E	FY17E	FY18E
Cement														
ACC	1,191	Buy	32.0	45.6	80.4	37.3	26.1	14.8	17.8	12.9	8.0	7.2	10.2	17.5
Ambuja Cements	188	Buy	5.5	7.8	12.4	34.4	24.2	15.1	16.8	7.3	4.8	8.2	7.9	12.1
Birla Corporation	329	Buy	13.6	22.4	42.9	24.2	14.7	7.7	9.1	6.2	3.3	4.0	6.3	11.2
Dalmia Bharat	623	Buy	11.5	38.7	73.5	54.1	16.1	8.5	8.8	6.9	5.1	3.0	8.7	14.8
Grasim Industries	3,317	Buy	239.1	306.6	389.7	13.9	10.8	8.5	5.7	4.3	3.2	8.8	10.2	11.5
India Cements	67	Neutral	4.8	7.7	12.2	13.9	8.7	5.5	7.4	6.5	5.3	3.2	5.8	8.1
J K Cements	478	Buy	0.9	22.0	48.9	558.9	21.7	9.8	12.8	9.2	6.4	0.8	9.4	18.4
JK Lakshmi Cem.	270	Buy	-2.3	6.6	25.4	-118.9	41.1	10.6	17.3	11.5	6.9	-2.1	6.0	21.4
Orient Cement	138	Neutral	1.5	3.4	9.6	92.2	40.9	14.3	28.4	13.1	8.1	3.2	7.2	18.7
Prism Cement	62	Buy	-0.4	3.3	7.1	-168.6	19.1	8.8	15.1	8.6	5.7	-1.8	15.2	26.9
Ramco Cements	360	Buy	19.6	22.4	29.3	18.4	16.1	12.3	10.6	9.1	7.0	16.4	16.3	18.3
Shree Cement	10,078	Neutral	171.8	309.8	447.1	58.7	32.5	22.5	19.7	14.9	10.6	11.0	17.7	21.5
Ultratech Cement	2,767	Buy	74.8	96.2	158.0	37.0	28.8	17.5	18.3	14.9	10.3	10.4	12.2	17.6
Sector Aggregate						**31.6**	**21.0**	**13.4**	**12.6**	**9.3**	**6.5**	**8.1**	**10.4**	**14.5**

Source: Company, MOSL

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Consumer

Budget Impact: Neutral | **Sector Stance: Neutral**

At a glance

Major proposals	Impact
Weighted average of 10% increase in excise duty for cigarettes for ITC.	Neutral
Excise duty of 1% imposed on Jewelry, import duty unchanged at 10%.	Marginal Negative for Titan
Enhanced spending in Rural and Agri sector	Positive
Service Tax increased from 14.5% to 15.1%	Marginal Negative

Flashback

Budget proposals (2015)

- Weighted average of 16.5% increase in excise duty for Cigarettes for ITC.
- PAN mandatory for any purchase or sale higher than INR 100,000.
- Gold monetization and sovereign gold bond.
- The Service Tax increased from 12.36% to 14%.
- Reduction in Corporate tax to 25% (vs. 30%) over the next four years.

Overall budget impact, sector outlook and recommendations

- **Cigarettes**: This was the fifth consecutive year of double digit excise increase in cigarettes. However, at 10% hike, it was below our expectations of 15% increase. Also, the pace of excise duty increase has come off progressively over FY13-17.
- What is also noteworthy is <65mm segment has not seen disproportionate excise hike unlike previous two budgets. This had been a volume recruiter for ITC in FY13 and FY14. However excise duty in this segment had gone up >2x over FY14-16. We expect 2-3% volume decline in Cigarettes v/s our earlier expectation of 5% decline in volumes for FY17 and expect ITC to implement a weighted average ~8% price hike, to pass on the excise duty hike.
- **Jewelry:** Imposition of 1% excise duty on jewelry (for manufacturers with turnover > INR 60mn). Incrementally negative for Titan, TBZ, PC Jeweler and other unlisted branded players. Industry will pass on the impact to consumer. For Titan, bulk of the studded jewelry (26-27% of topline) is manufactured at Pantanagar plant (tax exempt location) – thus eventual excise duty impact will be lower than 1% for Titan.
- **Staples:** Enhanced allocation for Rural, Agriculture and Social sector spends is a macro positive from consumption viewpoint. Higher allocation for MNREGA at INR385b coupled with potential normal monsoon could aid rural consumption going forward.
- **GST:** Lack of progress on GST is a negative from medium term perspective for both FMCG and Retail.

- **Our top picks**: Budget has been a mixed bag for Consumer sector with Cigarettes excise increase coming in lower than our expectations, enhanced allocation for Rural, Agri and Social sector schemes providing consumption stimulus and Jewelry sector coming under the spell of excise duty. Our top ideas in consumer space include Pidilite, Britannia, Emami and United Spirits. With budget overhand behind, muted expectations and attractive valuations, we now like ITC. We have upgraded ITC from NEUTRAL to BUY.

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Comparative valuation

Sector / Companies	CMP (INR)	Reco.	EPS (INR)			PE (x)			EV/EBIDTA (x)			RoE (%)		
			FY16E	FY17E	FY18E	FY16E	FY17E	FY18E	FY16E	FY17E	FY18E	FY16E	FY17E	FY18E
Consumer														
Asian Paints	849	Neutral	18.8	21.7	23.8	45.1	39.1	35.6	30.9	26.4	23.8	35.2	34.6	32.7
Britannia	2,759	Buy	71.7	85.2	97.2	38.5	32.4	28.4	26.8	21.9	18.7	57.8	50.2	43.4
Colgate	822	Neutral	22.0	25.2	28.7	37.3	32.7	28.6	22.8	20.3	18.2	72.6	72.6	72.4
Dabur	238	Neutral	7.0	8.1	9.1	34.1	29.3	26.1	27.2	23.1	20.5	33.0	31.7	29.7
Emami	984	Buy	24.6	30.2	35.3	39.9	32.6	27.8	33.1	27.3	23.5	40.6	40.0	37.4
Godrej Consumer	1,189	Neutral	33.2	39.8	45.6	35.8	29.8	26.1	25.9	21.4	18.8	23.2	23.6	22.8
GSK Consumer	5,579	Buy	166.6	192.6	210.7	33.5	29.0	26.5	23.6	20.1	17.7	30.5	30.0	28.1
Hind. Unilever	830	Neutral	18.4	20.4	23.3	45.1	40.7	35.7	31.3	28.6	25.2	110.3	134.2	167.4
ITC	296	Buy	12.3	13.9	15.9	24.0	21.2	18.6	15.8	14.1	12.5	30.4	30.8	31.4
Jyothy Labs	257	Buy	8.9	8.1	9.1	29.0	31.7	28.2	24.1	20.2	17.9	19.6	16.4	17.0
Marico	237	Neutral	5.6	6.5	7.3	42.4	36.7	32.6	28.4	24.3	21.5	35.5	33.5	31.1
Nestle	5,012	Neutral	101.8	124.2	150.4	49.2	40.4	33.3	29.5	24.0	20.2	34.2	40.6	47.3
Page Industries	9,892	Buy	212.6	265.8	349.1	46.5	37.2	28.3	29.1	23.6	18.3	46.9	45.4	45.9
Pidilite Inds.	586	Buy	14.9	16.4	18.9	39.4	35.8	31.1	24.7	21.7	18.7	29.8	26.9	26.0
Radico Khaitan	95	Buy	6.4	8.5	10.9	14.7	11.2	8.7	9.5	7.8	6.5	9.5	11.3	13.2
United Spirits	2,651	Buy	28.7	50.8	74.5	92.2	52.2	35.6	42.8	30.9	23.1	48.1	51.1	37.9
Sector Aggregate						**35.1**	**30.5**	**26.5**	**23.7**	**20.7**	**18.1**	**34.1**	**34.5**	**34.5**

Source: Company, MOSL

Financials

Budget Impact: Neutral **Sector Stance: Positive**

At a glance

Major proposals	Impact
PSU bank recapitalization amount remains unchanged at INR250b for FY17	Negative
Comprehensive Bankruptcy Code of global standards to be brought in FY17	Positive
FDI and sponsor shareholding in ARCs at 100%	Positive
Bank Board Bureau will be operationalized during 2016-17	Positive
A roadmap for consolidation of Public Sector Banks will be spelt out	Neutral
Deduction for additional interest of INR50,000 per annum for loans up to INR3.5mn sanctioned in 2016-17 for first time home buyers, where house cost does not exceed INR5mn	Positive
Announcements for increasing the depth in the corporate bond market	Positive

Flashback

Budget proposals (2015)

- An autonomous Bank Board Bureau to be set up to improve the governance of public sector bank
- Capital allocated for PSU banks is INR250b for FY16
- Comprehensive Bankruptcy Code of global standards to be brought in FY16
- MUDRA Bank with a corpus of INR200b, and credit guarantee corpus of INR30b to be created, for refinancing all MFIs

Overall budget impact: Medium to Long term positive; Lacks near term triggers

- Net market borrowing program of INR4.25T is below our economist/market consensus building hope for rate cut by RBI which is positive for financials as a whole and wholesale funded entities (NBFC, Mid-sized banks) in particular
- Announcements have been made for addressing issues/challenges faced by corporate for the stalled infrastructure projects. Execution on the same will reduce the fear on asset quality of banks, especially PSBs, in the ensuing days
- PSBs bank capitalization amount of INR250b (no change vs FY15 budget announcement) disappointed us. However, GOI has assured the continued as and when needed. Process of privatization of IDBI started; GOI will also consider the option of reducing its stake in IDBI bank to below 50%
- Allowed tax deduction upto 5% of total income for provisions on NPA for NBFCs. This will not change accounting tax rate change as companies were creating DTA, however will release some capital as DTA is deducted will calculating Tier I capital
- Boost to ARC business: a) 100% FDI in Asset Reconstruction Companies (ARCs) will be permitted through automatic route b) Sponsor shareholding allowed upto 100% (vs 49% earlier) c) Foreign Portfolio Investors (FPIs) will be allowed up to 100% of each tranche in securities receipts issued by ARCs subject to sectoral caps and d) permitting non-institutional investors to invest in Securitization Receipts. Further clarity provided for taxation at the SPV level.
- **Other major announcements** a) Additional deduction on interest of upto INR50K p.a. for first time home buyers (loans up to INR3.5mn sanctioned in FY17 – house value INR5Mn) b) Government plans to list state owned general insurance companies in FY17 c) Foreign investment will be allowed in the insurance and pension sectors in the automatic route up to 49% d) Under Mudra Yojana, total disbursement targets increased to INR1.8T v/s INR1.25T this year
- Our top picks are **YES, HDFCB, ICICIBC, BOB** and **SBIN** in banks, and **LICHF, SKSM** and **MUTH** in NBFCs.

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Financials

Sector / Companies	CMP	Reco	EPS (INR)			PE (x)			PB (x)				RoE (%)		
	(INR)		FY16E	FY17E	FY18E	FY16E	FY17E	FY18E	FY15	FY16E	FY17E	FY18E	FY16E	FY17E	FY18E
Banks-Private															
Axis Bank	375	Buy	35.8	40.0	47.7	10.5	9.4	7.9	2.0	1.7	1.5	1.3	17.6	17.0	17.6
DCB Bank	71	UR	5.9	6.9	7.7	12.0	10.3	9.2	1.3	1.2	1.0	0.9	10.2	10.8	10.8
Federal Bank	46	Neutral	3.9	4.7	5.7	11.8	9.7	8.0	1.0	1.0	0.9	0.8	8.4	9.5	10.7
HDFC Bank	973	Buy	48.7	58.5	70.4	20.0	16.6	13.8	3.9	3.4	3.0	2.5	18.4	19.2	19.8
ICICI Bank	190	Buy	20.6	22.2	26.7	9.2	8.6	7.1	1.6	1.5	1.3	1.1	14.3	13.4	14.4
IndusInd Bank	831	Buy	38.6	49.8	62.8	21.5	16.7	13.2	4.3	2.8	2.5	2.1	16.5	15.8	17.3
J&K Bank	63	Neutral	16.2	18.0	21.6	3.9	3.5	2.9	0.5	0.5	0.4	0.4	12.3	12.4	13.5
Kotak Mahindra Bank	630	Neutral	18.4	24.7	31.3	34.3	25.5	20.2	3.8	3.5	3.1	2.7	10.6	12.7	14.1
South Indian Bank	17	Buy	2.5	3.1	3.7	6.5	5.4	4.5	0.7	0.6	0.5	0.5	9.4	10.3	11.4
Yes Bank	688	Buy	60.4	75.9	94.0	11.4	9.1	7.3	2.5	2.1	1.8	1.5	19.9	21.2	22.1
Pvt Bank Aggregate						**15.2**	**13.1**	**10.8**	**2.6**	**2.3**	**2.0**	**1.8**	**14.9**	**15.3**	**16.3**
Banks-PSU															
Andhra Bank	46	Buy	17.8	22.8	27.9	2.6	2.0	1.7	0.3	0.3	0.2	0.2	10.3	12.2	13.6
Bank of Baroda	132	Buy	-7.7	17.0	20.7	-17.1	7.8	6.4	0.8	0.8	0.8	0.7	-4.8	10.1	11.3
Bank of India	83	Neutral	-21.1	9.3	19.5	-3.9	8.9	4.3	0.2	0.2	0.2	0.2	-6.3	2.7	5.4
Canara Bank	159	Neutral	24.1	44.7	53.6	6.6	3.5	3.0	0.3	0.3	0.3	0.3	4.7	7.9	8.9
Corporation Bank	32	Neutral	12.6	18.7	21.6	2.5	1.7	1.5	0.3	0.2	0.2	0.2	9.5	12.9	13.4
Dena Bank	26	Neutral	1.5	10.0	15.6	17.7	2.6	1.7	0.2	0.2	0.2	0.2	1.2	8.0	11.6
IDBI Bank	58	Neutral	5.3	8.5	13.0	11.0	6.9	4.5	0.4	0.4	0.4	0.4	3.7	5.7	8.2
Indian Bank	77	Buy	15.8	21.1	27.4	4.8	3.6	2.8	0.3	0.3	0.3	0.2	5.9	7.5	9.1
Oriental Bank	77	Neutral	0.0	25.0	32.2	-	3.1	2.4	0.2	0.2	0.2	0.2	0.0	5.6	6.8
Punjab National Bank	71	Neutral	3.1	15.3	20.1	22.9	4.7	3.5	0.4	0.4	0.3	0.3	1.6	7.3	8.9
State Bank	158	Buy	18.7	23.8	28.4	8.5	6.7	5.6	0.8	0.7	0.6	0.6	9.2	10.5	11.5
Union Bank	107	Buy	21.5	28.2	38.4	5.0	3.8	2.8	0.4	0.4	0.3	0.3	7.6	9.1	11.3
PSU Bank Aggregate						**11.6**	**5.7**	**4.5**	**0.6**	**0.5**	**0.5**	**0.5**	**4.7**	**9.0**	**10.5**
NBFC															
Bajaj Finance	5,927	Buy	243.6	302.6	372.2	24.3	19.6	15.9	6.2	4.3	3.7	3.1	21.5	20.3	21.0
Dewan Housing	154	Buy	25.5	32.1	40.0	6.0	4.8	3.8	1.0	0.9	0.8	0.7	15.1	16.9	18.6
GRUH Finance	229	Buy	6.6	8.3	10.5	34.4	27.6	21.8	11.7	9.7	8.1	6.5	28.3	27.8	33.2
HDFC	1,062	Buy	41.3	46.7	53.2	25.7	22.7	20.0	5.4	4.9	4.4	4.0	23.6	21.9	22.0
Indiabulls Housing	575	Buy	54.5	67.6	82.0	10.5	8.5	7.0	3.1	2.1	1.9	1.7	25.4	23.6	25.7
LIC Housing Fin	422	Buy	33.5	42.0	47.5	12.6	10.0	8.9	2.7	2.3	2.0	1.7	19.9	21.2	20.2
M & M Financial	205	Buy	10.6	13.3	16.9	19.4	15.4	12.1	2.0	1.9	1.7	1.6	10.1	11.8	13.5
Muthoot Finance	174	Buy	18.9	24.4	31.4	9.2	7.1	5.5	1.4	1.2	1.1	1.0	14.2	16.5	18.9
Power Finance Corp	154	Neutral	48.3	41.6	43.0	3.2	3.7	3.6	0.6	0.6	0.5	0.5	18.4	14.1	13.2
Repco Home Fin	572	Buy	24.5	32.7	41.9	23.4	17.5	13.6	4.4	3.8	3.2	2.6	17.4	19.7	21.0
Rural Electric. Corp.	156	Neutral	57.9	44.1	50.5	2.7	3.5	3.1	0.6	0.5	0.5	0.4	21.1	14.0	14.4
Shriram Trans. Fin.	804	Buy	62.6	73.5	91.9	12.9	10.9	8.8	2.0	1.8	1.6	1.4	14.2	15.1	16.5
SKS Microfinance	483	Buy	24.6	34.3	45.8	19.7	14.1	10.5	5.8	4.5	3.4	2.7	25.8	27.5	28.8
NBFC Aggregate						**12.1**	**11.7**	**10.1**	**2.5**	**2.1**	**1.9**	**1.7**	**17.6**	**16.3**	**16.8**
Sector Aggregate						**13.5**	**10.4**	**8.6**	**1.6**	**1.4**	**1.3**	**1.2**	**10.7**	**12.7**	**13.9**

Key budget proposals & impact

Capitalization and consolidation of PSU Banks

Impact: Negative	In line with 'Indradhanush', PSU bank re-capitalization for FY16 and FY17 has remained unchanged at INR250b. We were expecting this figure to get revised upwards given the further deterioration in asset quality and weak capital position. However, some announcement on bank recapitalization could still be announced in Gyan Sangam II (March 4th/5th, 2016). Setting up the bank investment/holding company structure could be one of the enablers. Roadmap related to consolidation of PSBs is likely to laid out soon. This would be a structural positive for PSBs. However, it will increase the overhang of merger of weak PSBs with relatively strong PSBs until the integrities are laid down

Boost to ARC business

Impact: Positive	Full FDI (100%) in Asset Reconstruction Companies (ARCs) will be permitted through automatic route. Further, Sponsor shareholding is allowed upto 100% (vs 49% earlier). Foreign Portfolio Investors (FPIs) will be allowed up to 100% of each tranche in securities receipts issued by ARCs subject to sectoral caps and GOI has allowed non-institutional investors to invest in Securitization Receipts. We believe this is a significant positive as it will induce more players to invest capital to buy from the pile of distressed assets and benefit existing non-bank sponsored ARCs

Specific steps to resolve stress assets in the system

Impact: Positive	Bankruptcy law reform would bring about legal certainty and speed up the resolution process – also, a key priority for improving the ease of doing business. It is medium to long term positive for all financials as it will help improve credit culture in the system. The code is expected to be significantly comprehensive and meet global standards, providing necessary judicial capacity. A Public Utility (Resolution of Disputes) Bill will be introduced during 2016-17 to streamline institutional arrangements for resolution of disputes in infrastructure related construction contracts, PPP and public utility contracts Guidelines for renegotiation of PPP Concession Agreements will be issued, keeping in view the long term nature of such contracts and potential uncertainties of the real economy, without compromising transparency A new credit rating system for infrastructure projects which gives emphasis to various in-built credit enhancement structures will be developed, instead of relying upon a standard perception of risk which often result in mispriced loans A comprehensive Code on Resolution of Financial Firms will be introduced as a Bill in the Parliament during 2016-17. This Code, together with the Insolvency and Bankruptcy Code 2015, when enacted, will provide a comprehensive resolution mechanism for our economy Proposes to make necessary amendments in the SARFAESI Act 2002 to enable the sponsor of an ARC to hold up to 100% stake (49% currently) in the ARC and permit non-institutional investors to invest in Securitization Receipts.

Important change for the development of corporate bond market

Impact: Positive	LIC of India will set up a dedicated fund to provide credit enhancement to infrastructure projects. The fund will help in raising the credit rating of bonds floated by infrastructure companies and facilitate investment from long term investors. RBI will issue guidelines to encourage large borrowers to access a certain portion of their financing needs through market mechanism instead of the banks Investment basket of foreign portfolio investors will be expanded to include unlisted debt securities and pass through securities issued by securitization SPVs For developing an enabling eco system for the private placement market in corporate bonds, an electronic auction platform will be introduced by SEBI for primary debt offer A complete information repository for corporate bonds, covering both primary and secondary market segments will be developed jointly by RBI and SEBI A framework for an electronic platform for repo market in corporate bonds will be developed by RBI.

Other reforms related to Financials

- General insurance companies owned by the Government will be listed in the stock exchanges
- The RBI Act 1934, is being amended to provide statutory basis for a Monetary Policy Framework and a Monetary Policy Committee through the Finance Bill 2016
- A Financial Data Management Centre under the aegis of the Financial Stability Development Council (FSDC) will be set up to facilitate integrated data aggregation and analysis in the financial sector
- To improve greater retail participation in Government securities, RBI will facilitate their participation in the primary and secondary markets through stock exchanges and access to NDS-OM trading platform
- New derivative products will be developed by SEBI in the Commodity Derivatives market
- GOI to bring in comprehensive Central legislation in 2016-17 to deal with illicit deposit taking schemes

FinancialsDebt Market Budget Impact: Positive Sector Stance: Positive

At a glance

Major proposals	Impact
The RBI to issue guidelines encouraging large borrowers to shift a portion of their funding requirements to the debt markets	Positive
LIC to set up a dedicated fund to provide credit enhancement to infrastructure projects	Positive
Investment basket of foreign portfolio investors to be expanded to include unlisted debt securities and pass-through securities issued by securitization SPVs	Positive
Code for resolution of financial firms to be introduced as a Bill in the Parliament during 2016-17 (this is in addition to the Insolvency and Bankruptcy Code 2015 that is currently pending in the Parliament)	Positive

Overall budget impact, sector outlook and recommendations

- Yields on the 10-year G-sec fell nearly 16bps to 7.62% (from 7.78%) as the bond market rallied largely on the back of a lower-than-anticipated net market borrowing figure of INR4.27t in the budgeted estimates for 2016-17. The budgeted estimate for 2016-17 is also nearly 7% lower in absolute terms compared to the revised estimates for 2015-16 at INR4.56t. While there could be some debate around the credibility of the fiscal deficit arithmetic, the bond market has clearly taken the Budget estimates at face value.
- Given that the RBI generally pays attention to the fiscal deficit as well as the quality of the fiscal deficit, the lower-than-anticipated market borrowing may also open up headroom for further rate cuts. The bond markets may be optimistic about the chances of an "out-of-turn", unscheduled rate cut by the RBI in the near-term.
- More importantly, as a signal of intent, a lower borrowing number clearly indicates that the government will not "crowd out" any potential large-scale borrowings by the private sector.
- The lack of a healthy corporate bond market has often been touted as a chief contributor to the various ills that currently plague the Indian banking system. The corporate bond market accounts for less than 8% of GDP in India (Dec'14), compared to an average in the mid-teens (14-17%) for other emerging economies.
- Given the lack of depth and breadth in the debt market (a fleeting reference to raise retail participation in the government debt market), the Budget proposals on increasing the range of qualifying instruments and offering creditor protection should ideally be a starting point to build a healthy bond market over the next few years.
- A sound bankruptcy regime is a prerequisite for deeper bond markets. The bankruptcy code, once passed by both Houses of the Parliament, will increase creditors' ability to resolve distress and help raise their confidence to participate in the debt market. Since a large value of issuances in the corporate bond market is by financial institutions (banks and NBFCs), the code for "resolution of financial firms" also assumes critical importance.
- In India, the corporate bond market suffers from a narrow investor base forcing banks to play a central role even in the bond markets. This defeats the very purpose of developing a bond market that is aimed at gradually de-risking the Indian banking system. Hence, encouraging other potential long-term investors such as insurance companies and pension funds with a corresponding change in their investment guidelines is equally necessary (moving from "ownership criteria" to "rating criteria"). The Budget proposal to get LIC to provide credit enhancement for infrastructure projects appears to be a step in this direction aimed at enhancing the credit rating of such bonds and build adequate risk appetite among providers of debt capital.

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Healthcare

Budget Impact: Neutral **Sector Stance: Positive**

At a glance

Major proposals	Impact
The benefit of deduction of Research would be limited to 150% from FY18 and 100% from FY21.	Negative
On expected lines, benefits of section 10AA to new SEZ units will be available to those units which commence activity before FY20.	Neutral
Special patent regime with 10% rate of tax on income from worldwide exploitation of patents developed and registered in India.	Positive
Custom and excised duties remained unchanged	Neutral
Niramaya Health Insurance Scheme launched and also proposed to reinvigorate the supplies of generic drugs through 3000 new stores (under Jan Aushadhi Yojana.)	Positive

Flashback

Budget Proposals (2015)

- Incentives for manufacturing units in the state of Andhra Pradesh and Telangana.
- Rate of income tax on royalty and fees for technical services reduced from 25% to 10% to facilitate technology inflow
- Three preconditions proposed relating to maintenance of accounts and audit to be fulfilled by the approved in house R&D facility to become eligible for 200% weighted deduction. Effective from FY17.

Overall budget impact, Sector outlook and Recos

- **Budget continues to remain a non-event for the healthcare sector.**
  Industry demands continue to remain unmet on (1) infrastructure improvement for the healthcare industry along, (2) significant increase in healthcare expenditure (still remains low at 1.5% of total expenditure), (3) boost to R&D activity by increasing R&D incentives.
- **The outlook for the sector continues to remain positive.** We expect strong earnings growth over the next two-three years led by increasing contribution from US, and India. Currency volatility in emerging markets continues to remain a concern for some companies. However, we believe investments in complex therapy areas are important long term drivers for the sector. Strong earnings growth will lead to continuous improvement in balance sheet and return ratios for the sector.
- Post the budget, we have not made any changes to our earnings forecast for FY17 and FY18.
- Our top picks are Sun pharma, Aurobindo and Alkem.

Comparative valuation

Sector / Companies	CMP	Reco.	EPS (INR)			PE (x)			EV/EBIDTA (x)			RoE (%)		
	(INR)		FY16E	FY17E	FY18E	FY16E	FY17E	FY18E	FY16E	FY17E	FY18E	FY16E	FY17E	FY18E
Healthcare														
Alembic Pharma	618	Neutral	26.2	29.5	35.6	23.6	20.9	17.4	10.5	14.6	11.5	40.0	31.1	29.5
Aurobindo Pharma	655	Buy	34.5	43.5	55.0	19.0	15.1	11.9	12.9	10.4	8.2	33.1	31.0	29.4
Biocon	469	Sell	22.0	26.2	30.2	21.4	17.9	15.5	11.3	9.4	8.0	11.8	12.8	13.4
Cadila Health	315	Buy	15.2	14.5	21.0	20.7	21.7	15.0	14.8	14.0	9.9	31.3	25.2	29.5
Cipla	515	Neutral	23.0	24.8	33.3	22.4	20.8	15.5	14.4	12.0	9.2	14.9	14.1	16.1
Divis Labs	951	Neutral	39.8	47.4	58.0	23.9	20.0	16.4	17.9	14.5	11.7	27.9	28.5	29.7
Dr Reddy' s Labs	3,031	Neutral	152.4	154.4	183.4	19.9	19.6	16.5	12.5	12.1	9.9	19.5	17.0	17.2
Glenmark Pharma	736	Neutral	29.8	39.9	48.9	24.7	18.4	15.1	14.4	9.2	7.9	17.9	18.6	18.0
GSK Pharma	3,156	Neutral	46.1	62.6	78.2	68.5	50.4	40.4	58.4	38.7	30.3	24.8	37.3	47.2
IPCA Labs.	565	Neutral	10.9	26.0	40.1	51.7	21.8	14.1	21.2	12.3	8.9	6.1	13.5	18.1
Lupin	1,752	Buy	49.7	73.0	90.0	35.3	24.0	19.5	27.6	17.9	14.3	22.8	27.1	26.4
Sanofi India	4,305	Buy	103.2	143.6	174.0	41.7	30.0	24.7	20.4	16.9	13.9	14.2	18.0	19.5
Sun Pharma	855	Buy	19.9	28.9	39.0	43.0	29.6	21.9	23.6	16.8	13.9	17.5	21.7	24.0
Torrent Pharma	1,261	Buy	64.2	71.6	90.0	19.6	17.6	14.0	8.3	12.9	10.3	34.1	28.4	29.6
Sector Aggregate						**29.4**	**23.4**	**18.2**	**17.8**	**14.5**	**11.7**	**19.5**	**20.4**	**21.6**

Source: Company, MOSL

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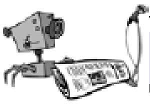

Media

Budget Impact: Neutral **Sector Stance: Positive**

At a glance

Major proposals	Impact
Service tax increased from 14.5% to 15%	Neutral. Service tax will be passed through in case of subscription as well as advertising.
Exemption of Basic Customs Duty, CVD and SAD on parts and components of Routers, Broadband and TV set-top boxes	Neutral. As economics still favor imports. (Majority of the Set-top boxes are imported).
Excise Duty structure on Routers, broadband and TV Set-top box modems reduced from 12.5% to 4% (without input credit) or 12.5% with input credit	Neutral. Most Distribution Platforms currently pay 12.5% CVD and avail input credit against it.
Basic Customs Duty exemption on newsprint	Will marginally reduce raw material cost for print companies. (RM cost as % of rev ranges ~25-30%)

Flashback

Budget Proposals (2015)

- Service tax increased from 12.36% to 14%
- Reduced customs duty on black Light Unit Module for use in the manufacture of LCD/LED TV panels and on organic LED (OLED) TV panels from 10 per cent to Nil

Overall budget impact, Sector outlook and Recos

- **Service tax:** Service tax has been increased from 14.5% to 15%. While this will have an impact on advertising as well as subscription revenue of the media companies, the hike will be passed-through.
- **Customs duty:** Reduced duty for certain components of Routers, Broadband and TV set-top boxes to incentivize indigenous set-top box manufacturing. Majority of the set-top boxes are currently imported and hence, the impact is expected to be negligible, if any.
- **Customs Duty exemption on Newsprint:** The proposed exemption of Basic Customs Duty from 5% is expected to marginally reduce raw material costs for Print companies. RM costs range between~25-30% for Print Companies.
- Budget is **Neutral** for the media sector.
- Our top picks are **Zee Entertainment, DISHTV** and **DBCL**.

Comparative valuation

Sector / Companies	CMP (INR)	Reco.	EPS (INR)			PE (x)			EV/EBIDTA (x)			RoE (%)		
			FY16E	FY17E	FY18E	FY16E	FY17E	FY18E	FY16E	FY17E	FY18E	FY16E	FY17E	FY18E
Media														
D B Corp	307	Buy	17.0	20.4	23.1	18.1	15.1	13.3	9.6	8.1	7.0	22.9	24.7	25.0
Den Networks	74	Neutral	-3.4	-1.5	9.0	-21.7	-48.4	8.2	9.7	7.7	3.0	-3.3	-1.5	8.4
Dish TV	68	Buy	2.7	6.6	9.6	25.5	10.2	7.1	7.5	5.0	3.6	NA	NA	85.9
Hathway Cable	30	Buy	-0.7	1.8	4.7	-45.0	16.9	6.3	8.3	4.9	3.0	-3.9	10.0	21.7
Hindustan Media	260	Buy	24.1	26.6	28.9	10.8	9.8	9.0	5.6	4.4	3.3	21.0	18.8	17.6
HT Media	79	Neutral	5.9	5.6	7.0	13.3	14.0	11.2	3.4	2.5	1.4	6.3	5.5	6.4
Jagran Prakashan	149	Buy	9.2	10.3	11.4	16.2	14.5	13.1	9.0	8.0	7.1	22.9	21.6	21.0
PVR	699	Buy	22.2	31.1	44.5	31.5	22.5	15.7	13.0	9.2	7.5	16.4	15.8	19.2
Siti Cable	35	Buy	0.9	0.1	3.4	38.9	674.5	10.5	9.3	10.4	5.3	21.2	1.1	49.3
Sun TV	321	NR	21.9	26.0	30.5	14.6	12.3	10.5	6.4	5.3	4.5	23.6	26.0	27.8
Zee Entertainment	373	Buy	11.4	15.6	20.8	32.7	23.9	17.9	22.9	16.4	12.0	28.2	31.4	32.9
Sector Aggregate						**24.7**	**17.5**	**12.4**	**10.8**	**8.3**	**6.2**	**18.3**	**22.0**	**25.2**

Source: Company, MOSL

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Metals and Mining   Budget Impact: Positive   Sector Stance: Neutral

At a glance

Major proposals	Impact
Cess on coal increased from INR 200/t to INR 400/t.	Negative
Increase in import duty on primary aluminum from 5% to 7.5% and on other aluminum products from 7.5% to 10%.	Positive
Removing export duty on iron ore below 58% Fe content from earlier 10% on fines and 30% on lumps.	Positive
Lowering export duty on bauxite from 20% to 15%.	Negative

Flashback

Budget proposals (2014)

- Increase in Clean Energy cess on coal by INR100/t to INR200/t.
- No change in import duty on steel products against the expectation of a hike. However, tariff rate (cap) on imports is raised to 15% from 10% earlier.
- Reduction in SAD on metal scrap imports to 2% from 4% earlier.

Overall budget impact, sector outlook and recommendations

- Doubling of cess on coal again this year to INR 400/t would negatively impact the aluminum and steel sector. For aluminum smelters, we expect cost of production to increase by ~USD40/t. Steel companies would see their CoP increase by ~USD4/t.
- Import duty on primary aluminum was raised by 2.5% to 7.5% and on other aluminum products to 10%. At current LME of USD1,600/t it would lead to ~USD40/t increase in realization on domestic sales volumes, offsetting the impact of coal cess hike discussed above.
- Cess on crude oil production was changed from fixed-rate INR4,500/t to 20% ad-valorem. At our FY17E Brent crude forecast of USD39/bbl, the savings on cess v/s. the earlier fixed-rate is ~USD4/bbl.
- Export duty on low grade iron ore (< 58% Fe) is cut to Nil from 10%/30% for fines/lumps. This is positive for iron ore mines in Goa. Vedanta will gain marginally but iron ore earnings are now insignificant for it.
- We have cut estimates for JSW Steel and Tata Steel by 0-4% and TP by 1-2%. For JSW Steel we believe impact of cess increase will be partly offset by higher volumes (upgrade by 0.5mt to 15mt for FY17E) as steel demand is likely to get a boost on higher infrastructure spend by the government. Our revised TP for JSW Steel is INR1,374. Maintain Buy on the stock.
- Vedanta's EBITDA is upgraded by 3-1% for FY17-18E on benefit of lower crude oil cess. The DCF value of Oil business is largely unaffected because near term earnings upgrade is mostly offset by higher cess in because of higher oil price assumption in later years. At our FY17E Brent crude estimate of ~USD39/bbl it would be earnings accretive for Cairn.

Comparative valuation

Sector / Companies	CMP	Reco.	EPS (INR)			PE (x)			EV/EBIDTA (x)			RoE (%)		
	(INR)		FY16E	FY17E	FY18E	FY16E	FY17E	FY18E	FY16E	FY17E	FY18E	FY16E	FY17E	FY18E
Metals														
Hindalco	69	Buy	-1.6	7.5	9.4	-44.0	9.1	7.3	8.1	6.8	5.8	-1.5	7.3	8.6
Hindustan Zinc	160	Buy	17.8	13.5	14.2	9.0	11.9	11.3	4.9	5.7	4.7	16.5	11.5	11.3
JSPL	53	Neutral	-21.4	-25.3	-20.1	-2.5	-2.1	-2.7	16.2	13.8	12.7	-9.9	-13.4	-12.2
JSW Steel	1,125	Buy	-14.5	113.6	145.5	-77.4	9.9	7.7	13.5	6.4	5.3	-1.6	12.4	14.1
Nalco	33	Buy	2.3	2.3	2.9	14.5	14.3	11.2	3.1	3.0	1.8	4.5	4.6	5.7
NMDC	81	Sell	8.0	5.5	4.9	10.2	14.9	16.5	5.3	9.9	10.5	15.4	8.5	6.6
SAIL	35	Sell	-11.1	-16.3	-15.6	-3.2	-2.1	-2.3-		-30.7		-11.1	-19.4	-23.6
Tata Steel	249	Sell	-4.8	-11.1	25.7	-52.3	-22.4	9.7	15.7	8.9	6.4	-2.6	-6.3	14.9
Vedanta	71	Neutral	6.3	2.4	5.6	11.2	29.3	12.7	5.5	6.0	5.0	5.4	2.2	5.2
Sector Aggregate						**39.4**	**64.4**	**21.3**	**10.4**	**8.7**	**7.1**	**1.9**	**1.2**	**3.5**

Source: Company, MOSL

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Key budget proposals & impact

The budget provide significant boost to infrastructure investment. The expenditure in the transportation sector (Rail and road) is expected to increase 34% to INR2.2trillion in FY17BE over FY16RE. This is coming after an already huge jump of 78% in FY16RE. Similarly, the Energy sector will see 21% jump in investment to INR2.1trillion in FY17E. This is likely to boost the demand of steel to 7-7.5% in FY17E (v/s 4-5% inFY16E). With curb in imports as consequence to implementation of MIP, BIS, and safeguard duty, we will see demand for domestically produced steel growing even faster. With continued emphasis on investment in transmission of power and rural electrification, the demand of aluminum too is likely to witness boost.

We have adjusted our estimates for impact of coal cess on steel companies. EBITDA estimate for JSW Steel and Tata Steel stands cut by 0-4% for FY17-18E, respectively. For SAIL, we estimate the EBITDA loss would widen further. TP for the companies is cut by 1-3%. Although challenges remain for steel sector due to global oversupply and high level of debt, we believe that the worst for steel sector is behind as Indian Govt. has finally started taking steps to curb import in light of predatory pricing and dumping. INR depreciation too is now helping improve pricing power. JSW Steel remains our top pick because of strong 17% cagr volume growth over next 2 years and expansion of margins on account of falling iron ore cost and improving steel prices. We maintain sell on Tata Steel and SAIL due to their high fixed cost structure. We maintain neutral on Jindal steel and power.

The earnings of Hindalco and Nalco remain unchanged. However for Vedanta, the attributable EBITDA is increased by 3% / 1% for FY17-18E due to reduction in cess on crude oil.

Coal India will remain unaffected by increase in cess. The cess will be pass through for supplies under FSA. There may be some impact on E-auction coal prices depending upon market forces. We however don’t see much impact on pricing power because the cess is applicable even on captive production and imports. Petcoke imports may see further boost as it doesn’t attract cess, which may crowd out some demand for E-auction coal. We maintain BUY on Coal India.

Change in estimates

	old			New			Change		
	EBITDA (INR b)		TP	EBITDA (INR b)		TP	EBITDA (INR b)		TP
	FY17E	FY18E		FY17E	FY18E		FY17E	FY18E	
JSW Steel	116	135	1393	115	130	1,374	0%	-4%	-1%
Tata Steel	125	170	167	122	167	164	-3%	-2%	-2%
SAIL	-16	0	30	-20	-4	29	25%		-3%
Vedanta	97	115	68	100	116	69	3%	1%	1%

Source: MOSL, Company

Oil & Gas

Budget Impact: Neutral **Sector Stance: Positive**

At a glance

Major proposals	Impact
FY17 petroleum subsidy budgeted at ~INR292b; estimate factors Brent crude price of USD45/bbl	Neutral
Changed cess on crude production from INR4,500/MT to ad-valorem rate of 20%	Positive
Increased excise duty on ATF from 8% to 14%.	Neutral
Increased excise duty (with Input tax credit) on PSF and PFY manufactured from plastic scrap or plastic waste including waste PET bottles from 6% to 12.5%.	Neutral

Flashback

Budget proposals (FY16)

- Budgeted FY16 government subsidy stands at INR300b.
- Petrol and diesel excise duty maintained at INR17.46/INR10.26.ltr. However, formula tweaked to increase road cess by INR4/ltr to 6/ltr.
- To reduce corporate tax rate from 30% to 25% over next four years
- Reduced customs duty from 2.5% to 2% and SAD from 4% to 2% on some polymer raw materials.

Largely neutral; cess relief could have been more

- FY17 petroleum sector budgeted amount stands at INR292b (vs actual INR313b in FY16). We estimate that government's budgeted subsidy numbers assume INR12/ltr subsidy on kerosene and INR15/kg (INR213/cylinder).
- Cess on crude production has been revised from INR4,500/MT to 20% ad-valorem which will positively impact upstream companies in FY17.
- The government has targeted providing LPG connections of 15 million below poverty line (BPL) households with a total expenditure of INR20b. The scheme will continue for at least another two years and cover 50 million households. A total of 7.5m middle class and lower middle class households have voluntarily given up LPG subsidy.
- The government will incentivize gas production from deep-water, ultra deep-water and high pressure-high temperature regions by providing some marketing freedom to producers and providing a pre-determined ceiling price based on landed price of alternative fuels.
- Excise duty on ATF has been revised from 8% to 14%. Expect this increase to be passed on by OMC's.
- Excise duties for petrol and diesel remained unchanged. Crude oil customs duty remains nil.

Comparative valuation

Sector / Companies	CMP	Reco.	EPS (INR)			PE (x)			EV/EBIDTA (x)			RoE (%)		
	(INR)		FY16E	FY17E	FY18E	FY16E	FY17E	FY18E	FY16E	FY17E	FY18E	FY16E	FY17E	FY18E
Oil & Gas														
BPCL	770	Buy	88.5	94.7	112.6	8.7	8.1	6.8	6.7	6.3	5.2	26.0	23.8	24.3
Cairn India	118	Neutral	7.3	3.8	6.3	16.2	31.1	18.9	2.2	1.7	0.9	2.3	1.2	2.0
GAIL	305	Neutral	17.4	25.4	30.7	17.5	12.0	9.9	11.7	8.0	6.7	7.3	10.1	11.3
Gujarat State Petronet	126	Neutral	8.2	9.7	10.9	15.5	13.1	11.5	9.1	7.7	6.6	12.0	12.8	13.0
HPCL	688	Buy	96.3	111.4	124.7	7.1	6.2	5.5	6.3	5.9	5.4	19.1	19.5	19.3
Indraprastha Gas	508	Neutral	30.4	35.5	39.3	16.7	14.3	12.9	8.9	7.5	6.6	18.8	19.0	18.2
IOC	367	Buy	41.4	60.8	72.7	8.9	6.0	5.1	7.2	5.3	4.3	13.8	18.0	19.1
MRPL	57	Buy	3.1	11.5	11.9	18.7	5.0	4.8	7.3	5.0	4.3	7.3	31.8	26.2
Oil India	310	Buy	35.7	37.8	45.3	8.7	8.2	6.8	6.7	7.0	5.9	9.5	9.5	10.8
ONGC	194	Buy	18.3	17.6	24.5	10.6	11.0	7.9	3.9	3.8	3.1	8.4	7.7	10.1
Petronet LNG	234	Neutral	11.6	14.5	19.9	20.1	16.2	11.8	11.6	9.9	7.3	14.5	16.1	19.2
Reliance Inds.	967	Neutral	94.5	107.4	123.8	10.2	9.0	7.8	8.5	6.9	5.6	12.1	12.6	13.0
Sector Aggregate						**10.9**	**9.3**	**7.7**	**6.5**	**5.6**	**4.5**	**10.3**	**11.1**	**12.3**
Ex OMCs						**11.8**	**10.5**	**8.5**	**6.3**	**5.6**	**4.5**	**9.1**	**9.5**	**10.7**

Source: Company, MOSL

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Key budget proposals & impact

The budget was neutral for the Oil & Gas sector. Absolute excise duties on Petrol and Diesel were kept unchanged while no customs duty was re-imposed on the crude oil.

Govt. share of subsidy well provided @INR12/ltr for kero and INR213/cyl for LPG

Impact: Neutral	Government has provided INR292b for Oil & Gas sector subsidy in FY17. Assuming INR55b subsidy (LPG + kero) for 4QFY16 (to be paid in 1QFY17) and INR20b for LPG to poor households; remainder amount available for LPG and kero subsidy will be INR215b. We estimate that government's budgeted subsidy numbers assume INR12/ltr subsidy on kerosene and INR15/kg (INR213/cylinder). The remainder amount of INR215b can take care of gross under recovery (without upstream help) till Brent crude price is below USD40/bbl for full year and below USD45/bbl for 9MFY17. (assuming product cracks remain range bound; INR/USD@67) We continue to model that downstream companies will not have to share any subsidy. Clarity is awaited on the long term rational subsidy sharing mechanism.

LPG connections to be increased for BPL families

Impact: Neutral	The government is targeting providing LPG connections to 15 million below poverty line (BPL) households and has allocated INR20b towards the same. The scheme will continue for atleast another two years and is expected to cover 50 million households. A total of 7.5m middle class and lower middle class households have voluntarily given up LPG subsidy. Taking cues from the success of DBT in LPG, govt. has introduced DBT in Fertilizers as well. We believe this to be an encouraging sign for the introduction of DBT in Kerosene.

Cess rate on crude oil revised from fixed to ad-valorem

Impact: Positive	Government has revised cess rate from INR4,500/MT (~USD9/bbl) to an-advalorem rate of 20% (USD7/bbl at Brent of USD35/bbl). However, the 20% ad-valorem cess rate negates the benefit if net realization goes above USD45/bbl. At 20% and USD45/bbl cess will be USD9/bbl – equal to earlier fixed rate. The revision of cess will positively benefit the upstream companies in FY17 and result in decline in government income. We revise our FY17 estimates for ONGC/OINL by +2%/+3%. On our base case Brent oil price assumption of USD50/bbl in FY18, however, we expect cess to marginally negatively impact ONGC and OINL. We revise our FY18 estimates for ONGC/ OINL by -2%/-2%

Gas production from challenging areas to be incentivized

Impact: Positive	The government will incentivize gas production from deep-water, ultra deep-water and high pressure-high temperature regions by providing some marketing freedom to producers and providing a pre-determined ceiling price based on landed price of alternative fuels. While the government is yet to announce details and provide clarity on multiple fronts (for ex: what constitutes alternative fuels, time period etc.), we believe this a highly positive

step as it addresses one of the largest concerns of the industry. However do not anticipate any impact on companies in the short run, as usually DW projects have lead times of multiple years.

Excise duty on ATF increased from 8% to 14%

Impact: Neutral

Government has increased excise duties on ATF from 8% to 14%. However, ATF meant for aircraft operating on routes under the regional connectivity scheme shall be exempt from the revision. We estimate minimal impact on OMCs even if they do not pass through the hike to airlines.

INR292b budget of FY16 implies INR215b available for 9MFY17

INR Billion	FY10	FY11	FY12	FY13	FY14	FY15	FY16E	FY17E	Remarks
Budget provision	**253**	**384**	**685**	**970**	**856**	**627**	**313**	**292**	**Budget provisioning**
Less: Kero/LPG/other direct support	30	34	35	34	32	32	27	2	
Less: LPG DBT for BPL								20	
Net Budgetary Subsidy Support	**223**	**350**	**650**	**936**	**823**	**596**	**287**	**270**	**Net government subsidy support**
Of Which									
Previous Year Subsidy (typically of 4Q)	103	140	200	385	450	349	52	55	Required 4QFY16 govt. subsidy; nil sharing by upstream in 4QFY16
Current Year Subsidy - (A) (typically of 9 months)	120	210	450	551	373	246	234	215	Subsidy available to be shared for 9MFY17 (LPG + Kerosene)
Sub-total	**223**	**350**	**650**	**936**	**823**	**596**	**287**	**270**	

Source:

Oil & Gas: Under recoveries and its sharing

(INR b)	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16E	FY17E	FY18E
Fx Rate (INR/USD)	40.3	46.0	47.5	45.6	47.9	54.5	60.6	61.1	65.4	67.0	69.0
Brent (USD/bbl)	82	85	70	86	114	111	108	86	48	45	50
Product-wise Gross Under recoveries (INR b)											
Petrol	73	52	52	27	0	0	0	0	0	0	0
Diesel	353	523	93	348	819	915	628	109	0	0	0
Kerosene	191	282	174	200	278	296	306	248	116	107	122
LPG	156	176	143	205	284	399	465	366	**Part of DBTL now**		
Total	**773**	**1,033**	**461**	**780**	**1,385**	**1,610**	**1,399**	**723**	**116**	**107**	**122**
Sharing of Gross Under recoveries (INR b)											
Government	353	713	260	410	829	1,000	707	273	96	92	86
Upstream	257	329	145	303	552	600	671	428	20	15	36
OMC's	163	(9)	56	67	0	10	21	22	0	0	0
Total	**773**	**1033**	**461**	**780**	**1,385**	**1,610**	**1,399**	**723**	**116**	**107**	**122**
Sharing of Gross Under recoveries (%)											
Government	46	69	56	53	60	62	51	38	83	86	70
Upstream	33	32	31	39	40	37	48	59	17	14	30
OMC's	21	(1)	12	9	0	1	2	3	0	0	0
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

Source: GoI, MoPNG, MOSL

Real Estate

Budget Impact: Positive **Sector Stance: Positive**

At a glance

Major proposals	Impact
DDT removed at SPV (holding assets) for distributing dividend to REIT	Positive
Incentive for affordable housing 100% deduction of Profit for housing projects of <=30sq mt in metros and <=60 sq mt in other location approved during June-16 and Mar-19, provided completed in 3 years of approvals (MAT will be applicable)	Positive for players in affordable segment viz. MLIFE, Ashiana
Additional deduction of interest of INR50K for loan upto 35 lakhs (house value <=INR 50lakhs)	Positive
Service tax exemption for low cost house upto carpet area of 60sq mt under any government State scheme or PPP from 5.6% now	Positive

Flashback

Budget proposals (2015)

- Rental income of Real Estate Investment Trust (REITs) from their own assets was allowed to have pass through facility.
- Rationalization of capital gains regime for the sponsors exiting at the time of listing of the units of REITs, subject to payment of STT
- Service tax increased from 12.36% to 14%; Tax surcharge increased from 10% to 12%
- No moderation in taxation for SEZ, no increase in tax exemption limit on interest paid

REIT framework was made further tax efficient - a positive;

- With dividend distribution tax (DDT) removed at SPV (holding assets) for distributing dividend to REIT, it adheres to one of the key demand of the industry for efferent tax structure. While the issues of MAT and stamp duty remains, clearly the current framework makes it more attractive than the beginning. We believe the MAT will depend on existing holding structure of the company and age of assets. Therefore, depending on the impact, select sponsors may start evaluating REIT option. In listed domain, DLF, PEPL, BRGD, OBER would be beneficiaries.
- Multiple incentives on affordable housing viz. (a) 100% deduction of Profit for housing projects of <=30sq mt in metros and <=60 sq mt in other location approved during June-16 and Mar-19, provided completed in 3 years of approvals (MAT will be applicable) - which positive for players in affordable segment viz. MLIFE, Ashiana etc, (b) Additional deduction of interest of INR50K for loan upto 35 lakhs (house value <=INR 50lakhs), (c) Service tax exemption for low cost house upto carpet area of 60sq mt under any government State scheme or PPP from 5.6% now. The listed space lacks participation in this category baring select few.
- Our preferred picks are **Prestige, Oberoi, Brigade.**

Comparative valuation

Sector / Companies	CMP	Reco.	EPS (INR)			PE (x)			EV/EBIDTA (x)			RoE (%)		
	(INR)		FY16E	FY17E	FY18E	FY16E	FY17E	FY18E	FY16E	FY17E	FY18E	FY16E	FY17E	FY18E
Real Estate														
DLF	89	Buy	2.9	3.8	4.4	30.7	23.5	20.1	10.1	11.7	10.8	1.8	2.3	2.7
Brigade Enterprises	134	Buy	11.3	13.9	19.2	11.9	9.7	7.0	6.3	5.4	4.6	9.1	10.3	12.9
Godrej Properties	268	Neutral	13.1	16.1	21.2	20.5	16.7	12.6	20.4	14.6	10.2	13.3	14.6	16.9
Indiabulls Real Estate	46	Buy	7.3	8.2	10.0	6.2	5.5	4.6	9.7	8.7	7.1	4.0	4.4	5.1
Jaypee Infratech	9	Neutral	2.9	2.6	3.2	3.2	3.6	2.9	6.4	6.0	6.2	6.3	5.4	6.6
Mahindra Lifespace	444	Neutral	17.7	33.1	40.9	25.1	13.4	10.9	20.0	11.1	8.7	4.8	8.1	9.0
Oberoi Realty	231	Buy	13.1	25.6	30.2	17.6	9.0	7.6	12.0	5.6	3.4	8.6	14.8	15.4
Phoenix Mills	241	Buy	7.7	19.0	26.5	31.5	12.7	9.1	9.3	6.7	5.2	5.8	12.8	15.6
Prestige Estates	149	Buy	9.5	9.0	11.0	15.7	16.6	13.5	9.9	10.0	8.6	9.0	7.9	9.1
Sobha	239	Buy	18.8	21.1	29.9	12.7	11.3	8.0	8.7	7.4	5.9	7.4	8.0	11.0
Sector Aggregate						**16.9**	**12.7**	**10.2**	**9.9**	**8.9**	**7.4**	**4.5**	**5.8**	**6.8**

Source: Company, MOSL

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Technology / Ecommerce Budget Impact: Neutral Sector Stance: Overweight

At a glance

Major proposals	Impact
The benefit of Section 10AA to new SEZ units will be available to those units which commence activity before March 31, 2020 as opposed to the earlier sunset period of March 31, 2017.	Marginally positive
Investment limit for foreign entities in Indian stock exchanges will be enhanced from 5% to 15% on par with domestic institutions, and development of new derivative products in the Commodity Derivatives market.	Positive for MCX
For start-ups set up during April 2016 to March 2019, 100% deduction of profits would be allowed for 3 out of 5 years. Moreover, capital gains will not be taxed if invested in regulated/notified Fund of Funds and by individuals in notified start-ups in which they hold majority shares.	Neutral

Flashback

Budget Proposals (2015)

- Establishment of SETU as a TechnoFinancial Programme to support all aspects of start-up businesses particularly in technology-driven areas.
- Speeding up of Digital India initiative by allowing willing states to undertake execution of National Optical Fibre Network Programme of 750,000 kms, on reimbursement of cost as determined by the DoT.
- Launch of a National Skills Mission which will consolidate skill initiatives.

Overall budget impact, Sector outlook and Recos

- **Extension of SEZ tax benefits:** The benefit of section 10AA to new SEZ units will be available to those units which commence activity before March 31, 2020. This was proposed at March 31, 2017 previously. This would help IT companies with ongoing/planned capacity expansion to optimally plan projects to benefit from exemptions, and could mean that the tax rate fall before they rise, given the corporate taxation rate decline may precede the sunset on SEZ benefits.
- **Net positive implication for MCX:** [1] Investment limit for foreign entities in Indian stock exchanges will be enhanced from 5% to 15% on par with domestic institutions. [2] Rate of Securities Transaction Tax in case of 'Options' is proposed to be increased from 0.017% to 0.05% - correspondingly, CTT in commodity exchanges for options too, could be 0.05%, whenever options are allowed. [3] New derivative products will be developed by SEBI in the Commodity Derivatives market.
- **Tax benefits for the start-up ecosystem:** 100% deduction of profits for 3 out of 5 years for start-ups set up during April 2016 to March 2019. MAT will apply in such cases. Capital gains will not be taxed if invested in regulated/notified Fund of Funds and by individuals in notified startups, in which they hold majority shares.
- **Tapping tax on income accruing to foreign e-companies from India:** A person making payment to a nonresident, who does not have a permanent establishment, exceeding in aggregate INR100,000 in a year, as consideration for online advertisement, will withhold tax at 6% of gross amount paid, as Equalization levy. The levy will only apply to B2B transactions.
- Our top picks are **INFO, HCLT** and **MCX**.

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Comparative valuation

Sector / Companies	CMP (INR)	Reco.	EPS (INR) FY16E	EPS (INR) FY17E	EPS (INR) FY18E	PE (x) FY16E	PE (x) FY17E	PE (x) FY18E	EV/EBIDTA (x) FY16E	EV/EBIDTA (x) FY17E	EV/EBIDTA (x) FY18E	RoE (%) FY16E	RoE (%) FY17E	RoE (%) FY18E
Technology														
HCL Technologies	812	Buy	39.6	61.6	69.7	20.5	13.2	11.7	15.2	9.0	7.5	21.1	28.1	26.5
Hexaware Tech.	234	Neutral	12.9	14.9	17.4	18.1	15.7	13.5	12.4	10.7	8.9	28.9	30.5	33.4
Infosys	1,084	Buy	58.2	68.2	76.4	18.6	15.9	14.2	12.7	10.4	8.8	24.4	25.2	24.8
KPIT Tech.	134	Neutral	13.6	14.9	17.3	9.8	9.0	7.7	4.8	3.8	2.8	18.8	17.1	16.7
Mindtree	1,422	Neutral	73.0	89.2	110.4	19.5	15.9	12.9	14.1	10.7	8.4	27.8	28.3	28.6
MphasiS	420	Neutral	34.6	38.5	42.3	12.1	10.9	9.9	8.6	7.9	6.7	12.9	13.6	14.2
Persistent Systems	608	Neutral	37.6	43.3	51.7	16.2	14.0	11.7	9.6	7.6	6.3	20.0	20.2	22.0
TCS	2,182	Neutral	121.6	136.3	157.1	17.9	16.0	13.9	13.2	11.5	9.7	38.2	35.6	33.3
Tata Elxsi	1,694	Buy	48.6	64.9	85.0	34.9	26.1	19.9	20.5	15.3	11.5	47.0	49.2	50.1
Tech Mahindra	415	Neutral	33.3	37.1	43.4	12.5	11.2	9.6	8.8	7.4	6.1	22.0	20.9	18.6
Wipro	520	Neutral	36.5	41.6	46.9	14.2	12.5	11.1	10.4	9.3	8.0	20.7	20.8	20.6
Sector Aggregate						**17.4**	**14.8**	**13.0**	**12.5**	**10.3**	**8.7**	**24.8**	**24.9**	**24.2**

Source: Company, MOSL

Telecom

Budget Impact: Negative **Sector Stance: Neutral**

At a glance

Major proposals	Impact
Increase in service tax from 14.5% to 15%.	To be passed-through
-Exemption on basic customs duty, CVD and SAD on charger/adaptors, batteries for manufacture of mobile phone has been withdrawn -Withdrawal of SAD (now 2%) on populated PCBs on mobile handsets/tablets	Increased price of imported mobile handsets
Increase in the FY16 estimate for revenue from 'other communication services' from INR429b to INR560b. After deducting the 'recurring' revenue sharing license fee and spectrum charges, one time revenue from spectrum sale in FY17 likely estimated at ~INR690b	Negative
Right to use radio frequency spectrum and its subsequent transfers classified as "Service" and hence service tax leviable	Spectrum trading/sharing deals to become

Flashback

Budget Proposals (2015)

- Increase in FY16 estimates for revenue from 'other communication services' to INR560b vs INR429b earlier

Overall budget impact, sector outlook and recos

- **Service tax:** Effective Service tax increased from 14.5% to 15%. We do not expect much financial impact as service tax is a pass-through item for operators. Spectrum trading included under the purview of service tax as spectrum is classified as service and not an intangible asset. While there would be a corresponding input credit that can be availed by the spectrum buyer, spectrum trading deals and hence cost of services are expected to increase.
- **Customs/CVD/SAD duty:** Exemption on basic customs duty, CVD and SAD on charger/adaptors, batteries for manufacture of mobile phone has been withdrawn. With a BCD of 10%, CVD of 12.5% and SAD of 4%, the total duty cost to ~29%. This coupled with withdrawal of exemption on SAD (now 2%) on populated PCBs on mobile handsets/tablets is expected to increase the costs of mobile handsets.
- **Spectrum sale revenue estimate of ~INR690b in FY17:** Government has revised the 'other communication revenue estimate for FY16 to INR560b (vs. earlier INR429b) of which spectrum sale is estimated to be ~INR22b. The total other communications earmarked for FY17 has been significantly increased YoY to ~INR990b, of which spectrum sale revenue estimate for FY17 is likely estimated at ~INR690b. "Recurring" revenue sharing license fee and spectrum charges, is estimated at ~INR300b for FY17. The government would be auctioning spectrum in 800MHz, 900MHz, 1,800 MHz, 2100 MHz, 2300Mhz and 2500Mhz bands and the coveted 700Mhz band in the forthcoming auctions likely to be held in 1HFY16.
- **Negative impact from budget likely for the telecom sector.**
- Our top pick is **BHIN**.

Comparative valuation

Sector / Companies	CMP (INR)	Reco.	EPS (INR)			PE (x)			EV/EBIDTA (x)			RoE (%)		
			FY16E	FY17E	FY18E	FY16E	FY17E	FY18E	FY16E	FY17E	FY18E	FY16E	FY17E	FY18E
Telecom														
Bharti Airtel	317	Buy	10.3	11.8	16.3	30.8	26.8	19.4	6.4	5.9	5.2	6.1	6.7	8.7
Bharti Infratel	357	Buy	12.5	15.2	19.3	28.5	23.5	18.5	12.6	10.8	9.0	13.7	16.1	19.7
Idea Cellular	104	Neutral	8.3	4.4	6.7	12.5	23.8	15.6	6.2	5.6	4.6	12.3	6.0	8.5
Reliance Comm	52	Sell	1.6	2.1	3.6	31.8	25.2	14.3	7.5	7.1	6.3	1.2	1.6	2.7
Sector Aggregate						**24.7**	**25.2**	**18.1**	**7.0**	**6.5**	**5.6**	**7.1**	**6.7**	**8.7**

Source: Company, MOSL

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Utilities

Budget Impact: Neutral **Sector Stance: Positive**

At a glance

Major proposals	Impact
Additional depreciation of 20% on new equipment extended to transmission sector	Neutral
Increase in cess on coal from INR200/t to INR400/t	Neutral
Increase in allocation for IPDS	Positive
Increase in spending in renewable energy	Positive

Flashback

Budget Proposals (2015)

- Benefit U/s 80IA extended till Mar-17
- Clean energy cess on Coal increased to INR200/ton, vs INR100/ton earlier.
- Allocation of DDUGJY scheme up by 55% to INR42b.
- Roadmap to award 5 UMPP projects.

Overall budget impact, sector outlook and recos

- In line with the accelerated depreciation scheme available for the generation and distribution sector, the budget proposes to extend the scheme to include even the transmission sector. Accelerated depreciation of 20% is available under the provision. This is neutral for companies in regulated business like Power Grid. Even for competitively bid projects, this is unlikely to bring any benefits to players in transmission companies.
- Allocation to the IPDS and DDUGJY scheme for up-gradation of transmission and distribution infrastructure is increased to INR85b for FY17BE from ~INR56b in FY16RE. This is positive for DISCOMs. It is also a critical part of the UDAY scheme where states joining UDAY and adhering to the AT&C losses reduction target would be allocated higher share of funding from the IPDS and DDUGJY scheme.
- Plan outlay on new and renewable energy is increased to ~INR142 for FY17BE from ~INR57b in FY16RE. This is likey to boost investments in the energy sector.
- Increase in clean energy cess is neutral to power generating companies as it will be treated as change in law and the additional cost will be allowed to pass through. According to our estimates, the additional cost of ~INR110b will be borne by DISCOMs. This will increase average cost of supply by 2% on all India basis.
- We like Power Grid because the projects under construction under regulated structure will nearly double earnings over FY15-FY20E, improve RoE by ~300bps to 15-16% and re-rate stock. NTPC's earnings are likely to grow at CAGR of 14% over next 5 years on accelerated commissioning of 23GW projects under construction and higher specific capex.

Comparative valuation

Sector / Companies	CMP	Reco.	EPS (INR)			PE (x)			EV/EBIDTA (x)			RoE (%)		
	(INR)		FY16E	FY17E	FY18E	FY16E	FY17E	FY18E	FY16E	FY17E	FY18E	FY16E	FY17E	FY18E
Utilities														
Coal India	311	Buy	22.9	25.4	31.4	13.6	12.3	9.9	9.0	8.0	6.2	34.6	37.0	43.7
NTPC	120	Buy	10.8	12.6	16.1	11.0	9.5	7.4	9.7	7.8	6.2	11.3	13.1	15.5
Power Grid Corp.	130	Buy	11.7	13.9	16.0	11.1	9.4	8.1	9.3	8.0	6.9	14.9	15.6	15.8
Sector Aggregate						**15.5**	**13.3**	**11.8**	**11.0**	**9.5**	**8.5**	**13.4**	**14.9**	**15.4**

Source: Company, MOSL

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Midcaps

Budget Impact: Neutral

At a glance

Major proposals	Impact	Stocks impacted
Increase in allocation for micro irrigation subsidy from INR18b to INR23.4b.	Positive	Jain Irrigation
Increase in excise of branded apparel with retail sales price of INR1,000 or more from 0% (6%/12.5% with input tax credit) to 2% (12.5% with input tax credit)	Neutral	Arvind, ABFRL

Overall budget impact on individual stocks

Jain Irrigation - Positive

Increase in allocation towards irrigation under PMKSY to INR57b from INR53b in FY16. This includes allocation of micro-irrigation (per drop more crop) which increased from INR18b in FY16 (revised to INR8.69b for FY16) to INR23.4b in FY17. Our interaction with management suggests hectare under irrigation is expected to go up from 0.7m hectares in FY16 to 2.85m hectares in FY17.

Arvind Limited- Neutral

Increase in excise of branded apparel with retail sales price (RSP) of INR1,000 or more from 0% (6%/12.5% with input tax credit) to 2% (12.5% with input tax credit). Tariff value for the same has changed from 30% of RSP to 60% of RSP, effective impact of which shall be 1.2%. Brands and retail contributes ~30% of FY15 revenues of Arvind (~37% in FY18E). We believe excise shall be a pass through given the impact will be equal or less than 1.2%.

ABFRL – Neutral

Increase in excise of branded apparel with retail sales price (RSP) of INR1,000 or more from 0% (6%/12.5% with input tax credit) to 2% (12.5% with input tax credit). Tariff value for the same has changed from 30% of RSP to 60% of RSP, effective impact of which shall be 1.2%. ABFRL received close to 67% revenues from Madura in FY15 while balance was Pantaloons. For Madura 80-85% sales are above INR1,000 while for Pantaloons close to 15-20% sales are above INR1,000. Accordingly, blended impact stands at approx 70-80bp, which we believe can be passed through.

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Ready reckoner: Valuations

Sector / Companies	CMP	Reco.	EPS (INR)			PE (x)			EV/EBIDTA (x)			RoE (%)		
	(INR)		FY16E	FY17E	FY18E	FY16E	FY17E	FY18E	FY16E	FY17E	FY18E	FY16E	FY17E	FY18E
Automobiles														
Amara Raja Batt.	852	Buy	30.3	40.3	48.9	28.1	21.1	17.4	16.6	13.0	10.3	25.8	25.4	23.1
Ashok Leyland	88	Buy	3.7	6.8	8.7	23.8	12.9	10.1	11.7	7.1	5.7	19.2	29.6	30.1
Bajaj Auto	2,200	Buy	129.0	157.8	177.2	17.1	13.9	12.4	10.6	8.9	7.6	32.7	34.7	33.9
Bharat Forge	746	Buy	33.1	40.6	53.6	22.6	18.4	13.9	11.6	10.1	8.1	20.8	22.1	24.8
Bosch	16,779	Buy	377.8	486.9	660.9	44.4	34.5	25.4	26.9	21.0	16.3	15.2	17.3	20.3
Eicher Motors	18,895	Buy	347.5	540.8	772.8	54.4	34.9	24.5	27.8	17.9	12.8	31.6	41.2	45.3
Exide Inds.	128	Buy	7.2	9.1	10.5	17.7	14.1	12.2	8.8	7.1	5.9	13.7	15.4	15.6
Hero Motocorp	2,500	Buy	156.3	182.7	217.0	16.0	13.7	11.5	10.2	8.7	7.2	43.0	41.3	40.2
Mahindra & Mahin.	1,227	Neutral	59.6	73.4	87.5	20.6	16.7	14.0	5.4	4.5	3.9	15.0	15.3	15.3
Maruti Suzuki	3,243	Buy	162.5	209.6	255.9	20.0	15.5	12.7	9.0	7.3	5.8	17.6	19.8	20.9
Tata Motors	300	Buy	32.9	42.7	58.7	9.1	7.0	5.1	3.6	3.0	2.5	17.1	17.8	20.4
TVS Motor	268	Buy	9.4	15.5	18.4	28.3	17.3	14.5	16.9	11.0	9.3	24.9	32.5	30.1
Sector Aggregate						**17.9**	**13.8**	**10.9**	**7.2**	**5.9**	**4.8**	**18.5**	**20.4**	**21.7**
Capital Goods														
ABB	1,015	Neutral	15.8	21.1	25.8	64.4	48.1	39.4	29.0	22.9	19.4	10.7	12.6	13.3
BHEL	91	Neutral	-1.8	7.2	7.5	-51.7	12.7	12.1	-7.3	5.4	3.5	-1.3	5.1	5.2
Bharat Electronics	1,029	Buy	56.5	64.1	73.4	18.2	16.0	14.0	14.2	11.6	9.5	15.2	15.0	15.1
Crompton Greaves	130	Neutral	-3.3	1.7	2.8	-39.6	76.0	46.9	82.0	24.9	18.6	-5.2	2.8	4.4
Cummins India	810	Neutral	27.9	33.4	37.5	29.0	24.3	21.6	27.2	21.9	18.1	25.3	26.9	26.8
Havells India	272	Buy	7.4	11.0	12.8	36.7	24.8	21.2	19.6	16.3	13.2	20.2	26.2	26.9
Inox Wind	218	Buy	20.2	30.8	31.6	10.8	7.1	6.9	7.9	5.4	4.7	28.7	34.2	27.8
Larsen & Toubro	1,079	Buy	43.8	57.6	67.9	24.6	18.7	15.9	16.1	12.7	10.9	9.7	11.8	12.7
Siemens	989	Neutral	16.9	22.0	28.9	58.3	45.0	34.2	33.7	26.0	21.1	11.8	13.9	16.4
Solar Inds.	3,007	Buy	88.5	102.1	120.3	34.0	29.4	25.0	19.6	16.4	14.3	19.1	18.9	19.1
Thermax	752	Neutral	24.0	28.4	32.9	31.4	26.4	22.8	16.8	14.2	12.0	12.8	13.9	14.7
Va Tech Wabag	450	Buy	20.6	28.5	34.0	21.8	15.8	13.2	10.4	8.3	7.0	11.9	14.8	15.6
Voltas	223	Buy	9.9	12.6	15.2	22.5	17.7	14.6	15.0	11.5	9.2	14.7	16.6	17.7
Sector Aggregate						**33.6**	**20.8**	**17.8**	**19.8**	**13.5**	**11.3**	**7.5**	**11.1**	**11.9**
Cement														
ACC	1,191	Buy	32.0	45.6	80.4	37.3	26.1	14.8	17.8	12.9	8.0	7.2	10.2	17.5
Ambuja Cements	188	Buy	5.5	7.8	12.4	34.4	24.2	15.1	16.8	7.3	4.8	8.2	7.9	12.1
Birla Corporation	329	Buy	13.6	22.4	42.9	24.2	14.7	7.7	9.1	6.2	3.3	4.0	6.3	11.2
Dalmia Bharat	623	Buy	11.5	38.7	73.5	54.1	16.1	8.5	8.8	6.9	5.1	3.0	8.7	14.8
Grasim Industries	3,317	Buy	239.1	306.6	389.7	13.9	10.8	8.5	5.7	4.3	3.2	8.8	10.2	11.5
India Cements	67	Neutral	4.8	7.7	12.2	13.9	8.7	5.5	7.4	6.5	5.3	3.2	5.8	8.1
J K Cements	478	Buy	0.9	22.0	48.9	558.9	21.7	9.8	12.8	9.2	6.4	0.8	9.4	18.4
JK Lakshmi Cem.	270	Buy	-2.3	6.6	25.4	-118.9	41.1	10.6	17.3	11.5	6.9	-2.1	6.0	21.4
Orient Cement	138	Neutral	1.5	3.4	9.6	92.2	40.9	14.3	28.4	13.1	8.1	3.2	7.2	18.7
Prism Cement	62	Buy	-0.4	3.3	7.1	-168.6	19.1	8.8	15.1	8.6	5.7	-1.8	15.2	26.9
Ramco Cements	360	Buy	19.6	22.4	29.3	18.4	16.1	12.3	10.6	9.1	7.0	16.4	16.3	18.3
Shree Cement	10,078	Neutral	171.8	309.8	447.1	58.7	32.5	22.5	19.7	14.9	10.6	11.0	17.7	21.5
Ultratech Cement	2,767	Buy	74.8	96.2	158.0	37.0	28.8	17.5	18.3	14.9	10.3	10.4	12.2	17.6
Sector Aggregate						**31.6**	**21.0**	**13.4**	**12.6**	**9.3**	**6.5**	**8.1**	**10.4**	**14.5**
Consumer														
Asian Paints	849	Neutral	18.8	21.7	23.8	45.1	39.1	35.6	30.9	26.4	23.8	35.2	34.6	32.7
Britannia	2,759	Buy	71.7	85.2	97.2	38.5	32.4	28.4	26.8	21.9	18.7	57.8	50.2	43.4
Colgate	822	Neutral	22.0	25.2	28.7	37.3	32.7	28.6	22.8	20.3	18.2	72.6	72.6	72.4
Dabur	238	Neutral	7.0	8.1	9.1	34.1	29.3	26.1	27.2	23.1	20.5	33.0	31.7	29.7
Emami	984	Buy	24.6	30.2	35.3	39.9	32.6	27.8	33.1	27.3	23.5	40.6	40.0	37.4
Godrej Consumer	1,189	Neutral	33.2	39.8	45.6	35.8	29.8	26.1	25.9	21.4	18.8	23.2	23.6	22.8

Ready reckoner: Valuations

Sector / Companies	CMP (INR)	Reco.	EPS (INR) FY16E	EPS (INR) FY17E	EPS (INR) FY18E	PE (x) FY16E	PE (x) FY17E	PE (x) FY18E	EV/EBIDTA (x) FY16E	EV/EBIDTA (x) FY17E	EV/EBIDTA (x) FY18E	RoE (%) FY16E	RoE (%) FY17E	RoE (%) FY18E
GSK Consumer	5,579	Buy	166.6	192.6	210.7	33.5	29.0	26.5	23.6	20.1	17.7	30.5	30.0	28.1
Hind. Unilever	830	Neutral	18.4	20.4	23.3	45.1	40.7	35.7	31.3	28.6	25.2	110.3	134.2	167.4
ITC	296	Buy	12.3	13.9	15.9	24.0	21.2	18.6	15.8	14.1	12.5	30.4	30.8	31.4
Jyothy Labs	257	Buy	8.9	8.1	9.1	29.0	31.7	28.2	24.1	20.2	17.9	19.6	16.4	17.0
Marico	237	Neutral	5.6	6.5	7.3	42.4	36.7	32.6	28.4	24.3	21.5	35.5	33.5	31.1
Nestle	5,012	Neutral	101.8	124.2	150.4	49.2	40.4	33.3	29.5	24.0	20.2	34.2	40.6	47.3
Page Industries	9,892	Buy	212.6	265.8	349.1	46.5	37.2	28.3	29.1	23.6	18.3	46.9	45.4	45.9
Pidilite Inds.	586	Buy	14.9	16.4	18.9	39.4	35.8	31.1	24.7	21.7	18.7	29.8	26.9	26.0
Radico Khaitan	95	Buy	6.4	8.5	10.9	14.7	11.2	8.7	9.5	7.8	6.5	9.5	11.3	13.2
United Spirits	2,651	Buy	28.7	50.8	74.5	92.2	52.2	35.6	42.8	30.9	23.1	48.1	51.1	37.9
Sector Aggregate						**35.1**	**30.5**	**26.5**	**23.7**	**20.7**	**18.1**	**34.1**	**34.5**	**34.5**
Healthcare														
Alembic Pharma	618	Neutral	26.2	29.5	35.6	23.6	20.9	17.4	10.5	14.6	11.5	40.0	31.1	29.5
Aurobindo Pharma	655	Buy	34.5	43.5	55.0	19.0	15.1	11.9	12.9	10.4	8.2	33.1	31.0	29.4
Biocon	469	Sell	22.0	26.2	30.2	21.4	17.9	15.5	11.3	9.4	8.0	11.8	12.8	13.4
Cadila Health	315	Buy	15.2	14.5	21.0	20.7	21.7	15.0	14.8	14.0	9.9	31.3	25.2	29.5
Cipla	515	Neutral	23.0	24.8	33.3	22.4	20.8	15.5	14.4	12.0	9.2	14.9	14.1	16.1
Divis Labs	951	Neutral	39.8	47.4	58.0	23.9	20.0	16.4	17.9	14.5	11.7	27.9	28.5	29.7
Dr Reddy' s Labs	3,031	Neutral	152.4	154.4	183.4	19.9	19.6	16.5	12.5	12.1	9.9	19.5	17.0	17.2
Glenmark Pharma	736	Neutral	29.8	39.9	48.9	24.7	18.4	15.1	14.4	9.2	7.9	17.9	18.6	18.0
GSK Pharma	3,156	Neutral	46.1	62.6	78.2	68.5	50.4	40.4	58.4	38.7	30.3	24.8	37.3	47.2
IPCA Labs.	565	Neutral	10.9	26.0	40.1	51.7	21.8	14.1	21.2	12.3	8.9	6.1	13.5	18.1
Lupin	1,752	Buy	49.7	73.0	90.0	35.3	24.0	19.5	27.6	17.9	14.3	22.8	27.1	26.4
Sanofi India	4,305	Buy	103.2	143.6	174.0	41.7	30.0	24.7	20.4	16.9	13.9	14.2	18.0	19.5
Sun Pharma	855	Buy	19.9	28.9	39.0	43.0	29.6	21.9	23.6	16.8	13.9	17.5	21.7	24.0
Torrent Pharma	1,261	Buy	64.2	71.6	90.0	19.6	17.6	14.0	8.3	12.9	10.3	34.1	28.4	29.6
Sector Aggregate						**29.4**	**23.4**	**18.2**	**17.8**	**14.5**	**11.7**	**19.5**	**20.4**	**21.6**
Media														
D B Corp	307	Buy	17.0	20.4	23.1	18.1	15.1	13.3	9.6	8.1	7.0	22.9	24.7	25.0
Den Networks	74	Neutral	-3.4	-1.5	9.0	-21.7	-48.4	8.2	9.7	7.7	3.0	-3.3	-1.5	8.4
Dish TV	68	Buy	2.7	6.6	9.6	25.5	10.2	7.1	7.5	5.0	3.6	NA	NA	85.9
Hathway Cable	30	Buy	-0.7	1.8	4.7	-45.0	16.9	6.3	8.3	4.9	3.0	-3.9	10.0	21.7
Hindustan Media	260	Buy	24.1	26.6	28.9	10.8	9.8	9.0	5.6	4.4	3.3	21.0	18.8	17.6
HT Media	79	Neutral	5.9	5.6	7.0	13.3	14.0	11.2	3.4	2.5	1.4	6.3	5.5	6.4
Jagran Prakashan	149	Buy	9.2	10.3	11.4	16.2	14.5	13.1	9.0	8.0	7.1	22.9	21.6	21.0
PVR	699	Buy	22.2	31.1	44.5	31.5	22.5	15.7	13.0	9.2	7.5	16.4	15.8	19.2
Siti Cable	35	Buy	0.9	0.1	3.4	38.9	674.5	10.5	9.3	10.4	5.3	21.2	1.1	49.3
Sun TV	321	NR	21.9	26.0	30.5	14.6	12.3	10.5	6.4	5.3	4.5	23.6	26.0	27.8
Zee Entertainment	373	Buy	11.4	15.6	20.8	32.7	23.9	17.9	22.9	16.4	12.0	28.2	31.4	32.9
Sector Aggregate						**24.7**	**17.5**	**12.4**	**10.8**	**8.3**	**6.2**	**18.3**	**22.0**	**25.2**
Metals														
Hindalco	69	Buy	-1.6	7.5	9.4	-44.0	9.1	7.3	8.1	6.8	5.8	-1.5	7.3	8.6
Hindustan Zinc	160	Buy	17.8	13.5	14.2	9.0	11.9	11.3	4.9	5.7	4.7	16.5	11.5	11.3
JSPL	53	Neutral	-21.4	-25.3	-20.1	-2.5	-2.1	-2.7	16.2	13.8	12.7	-9.9	-13.4	-12.2
JSW Steel	1,125	Buy	-14.5	113.6	145.5	-77.4	9.9	7.7	13.5	6.4	5.3	-1.6	12.4	14.1
Nalco	33	Buy	2.3	2.3	2.9	14.5	14.3	11.2	3.1	3.0	1.8	4.5	4.6	5.7
NMDC	81	Sell	8.0	5.5	4.9	10.2	14.9	16.5	5.3	9.9	10.5	15.4	8.5	6.6
SAIL	35	Sell	-11.1	-16.3	-15.6	-3.2	-2.1	-2.3-		-30.7		-11.1	-19.4	-23.6
Tata Steel	249	Sell	-4.8	-11.1	25.7	-52.3	-22.4	9.7	15.7	8.9	6.4	-2.6	-6.3	14.9
Vedanta	71	Neutral	6.3	2.4	5.6	11.2	29.3	12.7	5.5	6.0	5.0	5.4	2.2	5.2
Sector Aggregate						**39.4**	**64.4**	**21.3**	**10.4**	**8.7**	**7.1**	**1.9**	**1.2**	**3.5**

Ready reckoner: Valuations

Sector / Companies	CMP (INR)	Reco.	EPS (INR) FY16E	FY17E	FY18E	PE (x) FY16E	FY17E	FY18E	EV/EBIDTA (x) FY16E	FY17E	FY18E	RoE (%) FY16E	FY17E	FY18E
Oil & Gas														
BPCL	770	Buy	88.5	94.7	112.6	8.7	8.1	6.8	6.7	6.3	5.2	26.0	23.8	24.3
Cairn India	118	Neutral	7.3	3.8	6.3	16.2	31.1	18.9	2.2	1.7	0.9	2.3	1.2	2.0
GAIL	305	Neutral	17.4	25.4	30.7	17.5	12.0	9.9	11.7	8.0	6.7	7.3	10.1	11.3
Guj. State Petronet	126	Neutral	8.2	9.7	10.9	15.5	13.1	11.5	9.1	7.7	6.6	12.0	12.8	13.0
HPCL	688	Buy	96.3	111.4	124.7	7.1	6.2	5.5	6.3	5.9	5.4	19.1	19.5	19.3
Indraprastha Gas	508	Neutral	30.4	35.5	39.3	16.7	14.3	12.9	8.9	7.5	6.6	18.8	19.0	18.2
IOC	367	Buy	41.4	60.8	72.7	8.9	6.0	5.1	7.2	5.3	4.3	13.8	18.0	19.1
MRPL	57	Buy	3.1	11.5	11.9	18.7	5.0	4.8	7.3	5.0	4.3	7.3	31.8	26.2
Oil India	310	Buy	35.7	37.8	45.3	8.7	8.2	6.8	6.7	7.0	5.9	9.5	9.5	10.8
ONGC	194	Buy	18.3	17.6	24.5	10.6	11.0	7.9	3.9	3.8	3.1	8.4	7.7	10.1
Petronet LNG	234	Neutral	11.6	14.5	19.9	20.1	16.2	11.8	11.6	9.9	7.3	14.5	16.1	19.2
Reliance Inds.	967	Neutral	94.5	107.4	123.8	10.2	9.0	7.8	8.5	6.9	5.6	12.1	12.6	13.0
Sector Aggregate						**10.9**	**9.3**	**7.7**	**6.5**	**5.6**	**4.5**	**10.3**	**11.1**	**12.3**
Ex OMCs						**11.8**	**10.5**	**8.5**	**6.3**	**5.6**	**4.5**	**9.1**	**9.5**	**10.7**
Real Estate														
DLF	89	Buy	2.9	3.8	4.4	30.7	23.5	20.1	10.1	11.7	10.8	1.8	2.3	2.7
Brigade Enterprises	134	Buy	11.3	13.9	19.2	11.9	9.7	7.0	6.3	5.4	4.6	9.1	10.3	12.9
Godrej Properties	268	Neutral	13.1	16.1	21.2	20.5	16.7	12.6	20.4	14.6	10.2	13.3	14.6	16.9
Indiabulls Real Est.	46	Buy	7.3	8.2	10.0	6.2	5.5	4.6	9.7	8.7	7.1	4.0	4.4	5.1
Jaypee Infratech	9	Neutral	2.9	2.6	3.2	3.2	3.6	2.9	6.4	6.0	6.2	6.3	5.4	6.6
Mahindra Lifespace	444	Neutral	17.7	33.1	40.9	25.1	13.4	10.9	20.0	11.1	8.7	4.8	8.1	9.0
Oberoi Realty	231	Buy	13.1	25.6	30.2	17.6	9.0	7.6	12.0	5.6	3.4	8.6	14.8	15.4
Phoenix Mills	241	Buy	7.7	19.0	26.5	31.5	12.7	9.1	9.3	6.7	5.2	5.8	12.8	15.6
Prestige Estates	149	Buy	9.5	9.0	11.0	15.7	16.6	13.5	9.9	10.0	8.6	9.0	7.9	9.1
Sobha	239	Buy	18.8	21.1	29.9	12.7	11.3	8.0	8.7	7.4	5.9	7.4	8.0	11.0
Sector Aggregate						**16.9**	**12.7**	**10.2**	**9.9**	**8.9**	**7.4**	**4.5**	**5.8**	**6.8**
Retail														
Jubilant Foodworks	996	Buy	18.1	26.8	37.8	55.1	37.2	26.3	22.2	16.0	11.8	16.1	20.3	23.6
Shopper's Stop	339	Neutral	6.5	8.8	12.3	52.3	38.5	27.5	12.7	10.9	9.0	6.8	8.6	11.0
Titan Company	316	Neutral	8.6	10.4	11.8	36.8	30.4	26.9	27.6	22.6	19.8	21.2	21.8	21.0
Sector Aggregate						**39.9**	**31.9**	**26.8**	**24.4**	**19.5**	**16.3**	**18.3**	**19.7**	**20.1**
Technology														
HCL Technologies	812	Buy	39.6	61.6	69.7	20.5	13.2	11.7	15.2	9.0	7.5	21.1	28.1	26.5
Hexaware Tech.	234	Neutral	12.9	14.9	17.4	18.1	15.7	13.5	12.4	10.7	8.9	28.9	30.5	33.4
Infosys	1,084	Buy	58.2	68.2	76.4	18.6	15.9	14.2	12.7	10.4	8.8	24.4	25.2	24.8
KPIT Tech.	134	Neutral	13.6	14.9	17.3	9.8	9.0	7.7	4.8	3.8	2.8	18.8	17.1	16.7
Mindtree	1,422	Neutral	73.0	89.2	110.4	19.5	15.9	12.9	14.1	10.7	8.4	27.8	28.3	28.6
MphasiS	420	Neutral	34.6	38.5	42.3	12.1	10.9	9.9	8.6	7.9	6.7	12.9	13.6	14.2
Persistent Systems	608	Neutral	37.6	43.3	51.7	16.2	14.0	11.7	9.6	7.6	6.3	20.0	20.2	22.0
TCS	2,182	Neutral	121.6	136.3	157.1	17.9	16.0	13.9	13.2	11.5	9.7	38.2	35.6	33.3
Tata Elxsi	1,694	Buy	48.6	64.9	85.0	34.9	26.1	19.9	20.5	15.3	11.5	47.0	49.2	50.1
Tech Mahindra	415	Neutral	33.3	37.1	43.4	12.5	11.2	9.6	8.8	7.4	6.1	22.0	20.9	18.6
Wipro	520	Neutral	36.5	41.6	46.9	14.2	12.5	11.1	10.4	9.3	8.0	20.7	20.8	20.6
Sector Aggregate						**17.4**	**14.8**	**13.0**	**12.5**	**10.3**	**8.7**	**24.8**	**24.9**	**24.2**
Telecom														
Bharti Airtel	317	Buy	10.3	11.8	16.3	30.8	26.8	19.4	6.4	5.9	5.2	6.1	6.7	8.7
Bharti Infratel	357	Buy	12.5	15.2	19.3	28.5	23.5	18.5	12.6	10.8	9.0	13.7	16.1	19.7
Idea Cellular	104	Neutral	8.3	4.4	6.7	12.5	23.8	15.6	6.2	5.6	4.6	12.3	6.0	8.5

Ready reckoner: Valuations

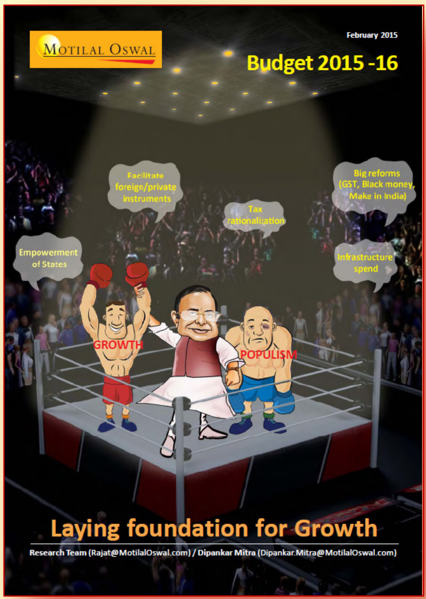
Sector / Companies	CMP (INR)	Reco.	EPS (INR) FY16E	EPS (INR) FY17E	EPS (INR) FY18E	PE (x) FY16E	PE (x) FY17E	PE (x) FY18E	EV/EBIDTA (x) FY16E	EV/EBIDTA (x) FY17E	EV/EBIDTA (x) FY18E	RoE (%) FY16E	RoE (%) FY17E	RoE (%) FY18E
Reliance Comm	52	Sell	1.6	2.1	3.6	31.8	25.2	14.3	7.5	7.1	6.3	1.2	1.6	2.7
Sector Aggregate						**24.7**	**25.2**	**18.1**	**7.0**	**6.5**	**5.6**	**7.1**	**6.7**	**8.7**
Utilities														
CESC	436	Buy	54.1	65.3	69.2	8.1	6.7	6.3	5.4	4.8	4.3	9.6	10.6	10.2
Coal India	311	Buy	22.9	25.4	31.4	13.6	12.3	9.9	9.0	8.0	6.2	34.6	37.0	43.7
RattanIndia Power	9	Buy	-0.6	3.0	3.9	-15.4	3.1	2.4	10.2	5.3	3.9	-3.5	16.9	18.9
JSW Energy	62	Neutral	8.1	10.2	10.2	7.7	6.0	6.1	5.5	4.3	4.0	16.4	18.3	16.1
NHPC	20	Neutral	1.9	2.1	2.2	10.4	9.6	9.2	6.3	5.8	4.9	6.8	7.1	7.2
NTPC	120	Buy	10.8	12.6	16.1	11.0	9.5	7.4	9.7	7.8	6.2	11.3	13.1	15.5
Power Grid Corp.	130	Buy	11.7	13.9	16.0	11.1	9.4	8.1	9.3	8.0	6.9	14.9	15.6	15.8
PTC India	60	Buy	11.4	12.6	14.6	5.2	4.8	4.1	3.6	2.4	1.1	8.4	8.5	9.3
Reliance Infra.	410	Buy	67.3	61.6	61.8	6.1	6.6	6.6	3.2	3.1	2.7	8.1	6.9	6.6
Tata Power	57	Neutral	4.3	5.1	5.8	13.4	11.3	9.8	7.9	9.6	10.1	9.0	6.1	6.3
Sector Aggregate						**11.7**	**10.0**	**8.4**	**8.5**	**7.3**	**6.1**	**14.4**	**15.6**	**17.2**
Others														
Arvind	239	Buy	13.4	15.7	20.7	17.8	15.2	11.5	9.3	8.2	7.0	12.1	13.0	15.3
Bajaj Electrical	158	Buy	10.5	15.4	18.4	15.1	10.2	8.6	7.2	5.5	4.7	14.6	18.8	19.2
Bata India	457	Neutral	11.3	14.3	17.7	40.3	31.9	25.9	20.3	16.6	13.9	13.4	15.5	17.7
Castrol India	367	Neutral	12.0	13.5	14.8	30.5	27.1	24.8	19.9	18.1	16.4	76.6	109.2	104.7
Century Plyboards	148	Buy	7.7	8.1	9.5	19.3	18.2	15.6	12.9	11.5	9.8	37.4	30.6	28.6
Concor	1,159	Buy	44.8	54.2	63.7	25.9	21.4	18.2	16.3	13.2	11.1	11.2	12.4	13.4
Coromandel Intern.l	170	Buy	12.9	20.0	25.7	13.2	8.5	6.6	7.6	5.3	4.3	16.4	22.8	25.1
Cox & Kings	147	Buy	13.8	21.2	29.0	10.7	6.9	5.1	4.9	4.0	3.0	8.5	11.7	14.2
Dynamatic Tech.	1,537	Buy	15.7	70.1	119.8	97.9	21.9	12.8	11.4	8.4	6.8	3.7	15.1	21.5
Eveready Inds.	222	Buy	9.3	14.7	19.5	23.9	15.1	11.4	13.1	9.7	7.4	10.5	15.3	18.2
Gateway Distriparks	236	Buy	12.1	15.7	24.0	19.4	15.0	9.8	9.4	7.5	5.6	10.5	12.8	18.1
Gujarat Pipavav	147	Buy	4.5	5.6	6.8	32.9	26.5	21.7	16.1	13.2	10.5	11.9	12.5	13.3
Indo Count Inds.	827	Buy	66.6	89.9	111.6	12.4	9.2	7.4	7.4	5.7	4.2	47.0	40.3	34.0
Info Edge	705	Buy	12.0	17.4	21.9	58.5	40.5	32.1	65.9	41.2	31.9	8.6	11.7	13.6
Inox Leisure	185	Buy	6.0	12.0	15.3	30.8	15.5	12.1	10.2	7.2	5.9	8.3	14.0	15.4
Insecticides India	327	Buy	32.2	44.7	57.4	10.2	7.3	5.7	6.5	5.0	4.1	19.0	21.8	22.9
Interglobe Aviation	810	Buy	54.1	71.4	68.3	15.0	11.3	11.9	10.0	7.3	7.3	152.3	97.1	67.2
Jain Irrigation	55	Buy	3.1	5.4	7.6	17.4	10.1	7.2	6.1	4.9	4.3	5.7	8.9	11.3
Just Dial	537	Buy	19.3	16.7	25.9	27.8	32.2	20.8	18.0	19.2	10.9	20.7	17.1	22.3
Kaveri Seed	351	Neutral	26.1	32.5	39.9	13.5	10.8	8.8	9.9	7.6	5.8	22.3	24.5	26.1
Kitex Garments	343	Buy	23.3	31.7	40.1	14.7	10.8	8.5	7.8	5.9	4.4	35.6	36.1	34.6
MCX	813	Buy	19.9	34.2	54.7	40.8	23.7	14.9	68.5	25.3	12.8	3.5	14.0	20.5
Monsanto India	1,582	Buy	47.1	72.0	90.3	33.6	22.0	17.5	26.5	17.5	14.2	22.4	35.3	42.4
P I Industries	579	Buy	21.0	26.9	34.3	27.5	21.5	16.9	18.0	13.9	11.0	28.4	28.9	29.2
Sintex Inds.	65	Buy	13.8	16.8	22.2	4.7	3.9	2.9	5.3	3.9	3.2	12.2	13.0	15.0
SRF	1,056	Buy	74.2	90.0	104.3	14.2	11.7	10.1	8.2	7.1	6.1	17.3	18.3	18.6
Symphony	1,973	Sell	35.3	56.0	73.0	55.9	35.2	27.0	44.6	27.3	20.5	37.2	55.7	61.1
TTK Prestige	4,229	Buy	97.3	135.5	171.6	43.5	31.2	24.6	27.4	20.5	16.1	16.6	20.5	22.5
UPL	382	Buy	29.4	36.2	43.7	13.0	10.5	8.7	5.8	4.9	4.1	19.7	20.5	20.5
V-Guard Inds	798	Neutral	31.8	41.6	50.6	25.1	19.2	15.8	15.2	12.9	10.6	23.1	25.3	25.5
Wonderla Holiday	351	Buy	9.9	13.0	16.5	35.6	27.0	21.2	22.1	15.2	11.5	14.7	17.2	18.9
Sector Aggregate						**19.9**	**15.1**	**12.7**	**11.0**	**8.8**	**7.4**	**17.7**	**20.2**	**20.7**

Financials

Sector / Companies	CMP (INR)	Reco	EPS (INR) FY16E	EPS (INR) FY17E	EPS (INR) FY18E	PE (x) FY16E	PE (x) FY17E	PE (x) FY18E	PB (x) FY15	PB (x) FY16E	PB (x) FY17E	PB (x) FY18E	RoE (%) FY16E	RoE (%) FY17E	RoE (%) FY18E
Banks-Private															
Axis Bank	375	Buy	35.8	40.0	47.7	10.5	9.4	7.9	2.0	1.7	1.5	1.3	17.6	17.0	17.6
DCB Bank	71	UR	5.9	6.9	7.7	12.0	10.3	9.2	1.3	1.2	1.0	0.9	10.2	10.8	10.8
Federal Bank	46	Neutral	3.9	4.7	5.7	11.8	9.7	8.0	1.0	1.0	0.9	0.8	8.4	9.5	10.7
HDFC Bank	973	Buy	48.7	58.5	70.4	20.0	16.6	13.8	3.9	3.4	3.0	2.5	18.4	19.2	19.8
ICICI Bank	190	Buy	20.6	22.2	26.7	9.2	8.6	7.1	1.6	1.5	1.3	1.1	14.3	13.4	14.4
IndusInd Bank	831	Buy	38.6	49.8	62.8	21.5	16.7	13.2	4.3	2.8	2.5	2.1	16.5	15.8	17.3
J&K Bank	63	Neutral	16.2	18.0	21.6	3.9	3.5	2.9	0.5	0.5	0.4	0.4	12.3	12.4	13.5
Kotak Mahindra Bank	630	Neutral	18.4	24.7	31.3	34.3	25.5	20.2	3.8	3.5	3.1	2.7	10.6	12.7	14.1
South Indian Bank	17	Buy	2.5	3.1	3.7	6.5	5.4	4.5	0.7	0.6	0.5	0.5	9.4	10.3	11.4
Yes Bank	688	Buy	60.4	75.9	94.0	11.4	9.1	7.3	2.5	2.1	1.8	1.5	19.9	21.2	22.1
Pvt Bank Aggregate						**15.2**	**13.1**	**10.8**	**2.6**	**2.3**	**2.0**	**1.8**	**14.9**	**15.3**	**16.3**
Banks-PSU															
Andhra Bank	46	Buy	17.8	22.8	27.9	2.6	2.0	1.7	0.3	0.3	0.2	0.2	10.3	12.2	13.6
Bank of Baroda	132	Buy	-7.7	17.0	20.7	-17.1	7.8	6.4	0.8	0.8	0.8	0.7	-4.8	10.1	11.3
Bank of India	83	Neutral	-21.1	9.3	19.5	-3.9	8.9	4.3	0.2	0.2	0.2	0.2	-6.3	2.7	5.4
Canara Bank	159	Neutral	24.1	44.7	53.6	6.6	3.5	3.0	0.3	0.3	0.3	0.3	4.7	7.9	8.9
Corporation Bank	32	Neutral	12.6	18.7	21.6	2.5	1.7	1.5	0.3	0.2	0.2	0.2	9.5	12.9	13.4
Dena Bank	26	Neutral	1.5	10.0	15.6	17.7	2.6	1.7	0.2	0.2	0.2	0.2	1.2	8.0	11.6
IDBI Bank	58	Neutral	5.3	8.5	13.0	11.0	6.9	4.5	0.4	0.4	0.4	0.4	3.7	5.7	8.2
Indian Bank	77	Buy	15.8	21.1	27.4	4.8	3.6	2.8	0.3	0.3	0.3	0.2	5.9	7.5	9.1
Oriental Bank	77	Neutral	0.0	25.0	32.2	-	3.1	2.4	0.2	0.2	0.2	0.2	0.0	5.6	6.8
Punjab National Bank	71	Neutral	3.1	15.3	20.1	22.9	4.7	3.5	0.4	0.4	0.3	0.3	1.6	7.3	8.9
State Bank	158	Buy	18.7	23.8	28.4	8.5	6.7	5.6	0.8	0.7	0.6	0.6	9.2	10.5	11.5
Union Bank	107	Buy	21.5	28.2	38.4	5.0	3.8	2.8	0.4	0.4	0.3	0.3	7.6	9.1	11.3
PSU Bank Aggregate						**11.6**	**5.7**	**4.5**	**0.6**	**0.5**	**0.5**	**0.5**	**4.7**	**9.0**	**10.5**
NBFC															
Bajaj Finance	5,927	Buy	243.6	302.6	372.2	24.3	19.6	15.9	6.2	4.3	3.7	3.1	21.5	20.3	21.0
Dewan Housing	154	Buy	25.5	32.1	40.0	6.0	4.8	3.8	1.0	0.9	0.8	0.7	15.1	16.9	18.6
GRUH Finance	229	Buy	6.6	8.3	10.5	34.4	27.6	21.8	11.7	9.7	8.1	6.5	28.3	27.8	33.2
HDFC	1,062	Buy	41.3	46.7	53.2	25.7	22.7	20.0	5.4	4.9	4.4	4.0	23.6	21.9	22.0
Indiabulls Housing	575	Buy	54.5	67.6	82.0	10.5	8.5	7.0	3.1	2.1	1.9	1.7	25.4	23.6	25.7
LIC Housing Fin	422	Buy	33.5	42.0	47.5	12.6	10.0	8.9	2.7	2.3	2.0	1.7	19.9	21.2	20.2
M & M Financial	205	Buy	10.6	13.3	16.9	19.4	15.4	12.1	2.0	1.9	1.7	1.6	10.1	11.8	13.5
Muthoot Finance	174	Buy	18.9	24.4	31.4	9.2	7.1	5.5	1.4	1.2	1.1	1.0	14.2	16.5	18.9
Power Finance Corp	154	Neutral	48.3	41.6	43.0	3.2	3.7	3.6	0.6	0.6	0.5	0.5	18.4	14.1	13.2
Repco Home Fin	572	Buy	24.5	32.7	41.9	23.4	17.5	13.6	4.4	3.8	3.2	2.6	17.4	19.7	21.0
Rural Electric. Corp.	156	Neutral	57.9	44.1	50.5	2.7	3.5	3.1	0.6	0.5	0.5	0.4	21.1	14.0	14.4
Shriram Transport Fin.	804	Buy	62.6	73.5	91.9	12.9	10.9	8.8	2.0	1.8	1.6	1.4	14.2	15.1	16.5
SKS Microfinance	483	Buy	24.6	34.3	45.8	19.7	14.1	10.5	5.8	4.5	3.4	2.7	25.8	27.5	28.8
NBFC Aggregate						**12.1**	**11.7**	**10.1**	**2.5**	**2.1**	**1.9**	**1.7**	**17.6**	**16.3**	**16.8**
Sector Aggregate						**13.5**	**10.4**	**8.6**	**1.6**	**1.4**	**1.3**	**1.2**	**10.7**	**12.7**	**13.9**

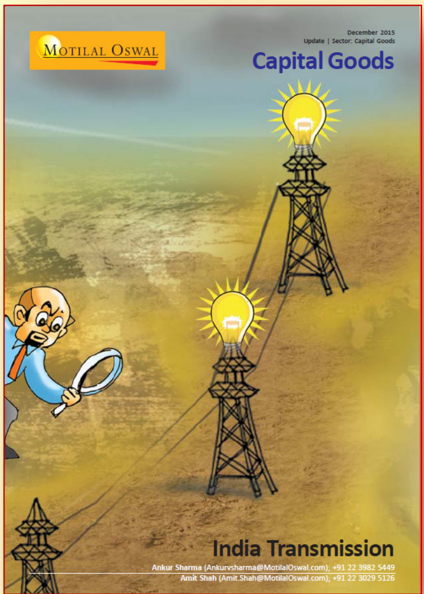
NOTES

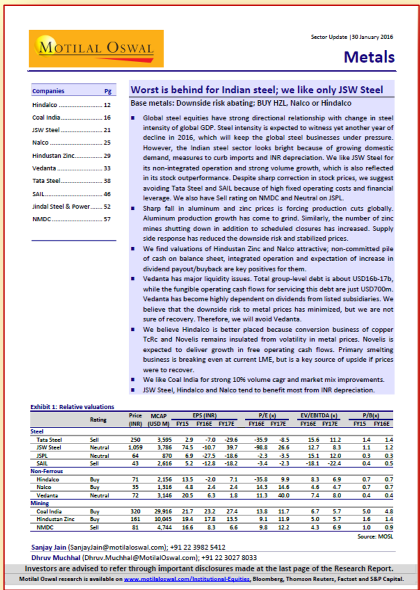
INDIA BUDGET GALLERY



INDIA STRATEGY GALLERY

DETAILED SECTOR & THEMATIC REPORT





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