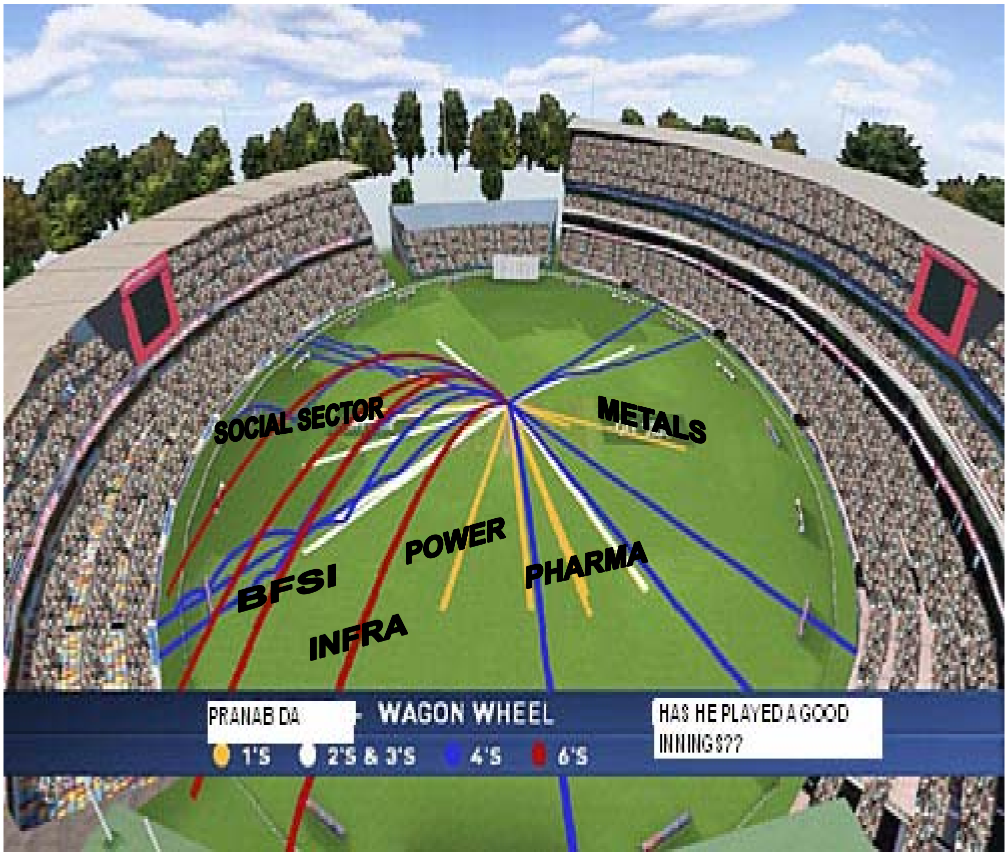
BNK SECURITIES PVT. LTD

BUDGET ANALYSIS 2011-12



The Honorable Finance Minister Mr. Pranab Mukherjee presented the Union Budget for 2011-12 on the 28th February 2011, in midst of rising cricket fever in the country. While he had to face some serious bowling attack by Inflation, Fiscal Deficit, Growth, Industry demands and Populist forces, it does seem like he has played a good innings.

We conduct a sector wise analysis of the industry and the impacts it would have of the announcements made in this budget.

Budget Highlights 2011-12

- Swift and broad based growth in 2010-11 has put the economy back to its pre-crisis growth trajectory. Fiscal consolidation has been impressive.
- The Gross Domestic Product (GDP) of India is estimated to have grown at 8.6 % in 2010-11 in real terms. In 2010-11 agriculture is estimated to have grown at 5.4 %, industry at 8.1 % and services at 9.6 %.
- Exports have grown by 29.4 %, while imports have recorded a growth of 17.6 % during April to January 2010-11 over the corresponding period last year.
- Amendment to Centre's FRBM Act, 2003 laying down the fiscal road map for the next five years to be introduced in the course of the year.
- Direct Taxes Code (DTC) to be finalized for enactment during 2011-12. DTC proposed to be effective from April 1, 2012.
- Rs 40,000 Cr. to be raised through disinvestment in 2011-12.
- Rs 3,000 Cr. to be provided to NABARD to provide support to handloom weaver co-operative societies which have become financially unviable due to non-repayment of debt by handloom weavers facing economic stress.
- Provision under Rural Housing Fund enhanced to Rs 3,000 Cr.
- Allocation under Rashtriya Krishi Vikas Yojana (RKVY) increased from ` 6,755 Cr. to Rs 7,860 Cr. to improve rice based cropping system in this region, allocation of Rs 400 Cr. has been made.
- Allocation of Rs 300 Cr. for Accelerated Fodder Development Programme to benefit farmers in 25,000 villages.
- Credit flow for farmers raised from Rs 3,75,000 Cr. to Rs 4,75,000 Cr. in 2011-12.
- Allocation of Rs 2,14,000 Cr. for infrastructure in 2011-12. This is an increase of 23.3 % over 2010-11. This also amounts to 48.5 % of total plan allocation.
- IIFCL to achieve cumulative disbursement target of Rs 20,000 Cr. by March 31, 2011 and Rs 25,000 Cr. by March 31, 2012.
- Under take out financing scheme, seven projects sanctioned with debt of Rs 1,500 Cr. Another Rs 5,000 Cr. will be sanctioned during 2011-12.
- Allocation for social sector in 2011-12 (Rs1,60,887 Cr.) increased by 17 % over current year. It amounts to 36.4 % of total plan allocation.
- Allocation for Bharat Nirman programme proposed to be increased by ` 10,000 Cr. from the current year to Rs 58,000 Cr. in 2011-12.
- In pursuance of last years budget announcement to provide a real wage of ` 100 per day, the Government has decided to index the wage rates notified under the MGNREGA to the Consumer Price Index for Agricultural Labour. The enhanced wage rates have been notified by the Ministry of Rural Development on January 14, 2011.
- From 1st April, 2011, remuneration of Anganwadi workers increased from ` 1,500 per month to Rs 3,000 per month and for Anganwadi helpers from ` 750 per month to Rs 1,500 per month.
- Allocation for primitive Tribal groups increased from Rs 185 Cr. in 2010-11 to Rs 244 Cr. in 2011-12.
- Allocation for education increased by 24 % over current year.
- Additional Rs 500 Cr. proposed to be provided for National Skill Development Fund during the next year.
- Rs 200 Cr. proposed to be allocated for Green India Mission from National Clean Energy Fund.
- Rs 200 Cr. proposed to be allocated for launching Environmental Remediation Programmes from National Clean Energy Fund.

- Special allocation of Rs 200 Cr. proposed to be provided for clean-up of some more important lakes and rivers other than Ganga.
- Rs 8,000 Cr. provided in current year for development needs of Jammu and Kashmir.
- Allocation made in 2011-12 to meet the infrastructure needs for Ladakh (Rs 100 Cr.) and Jammu region (Rs 150 Cr.).
- Allocation under Backward Regions Grant Fund increased by over 35 %.
- Funds allocated under Integrated Action Plan (IAP) for addressing problems related to Left Wing extremism affected districts. 60 selected Tribal and backward districts provided with 100 % block grant of Rs 25 Cr. and Rs 30 Cr. per district during 2010-11 and 2011-12 respectively.
- A lump-sum ex-gratia compensation of Rs 9 lakh for 100 % disability to be granted for personnel of Defence and Para Military forces discharged from service on medical ground on account of disability attributable to government service.
- Provision of Rs 1,64,415 Cr., including Rs 69,199 Cr. for capital expenditure to be made for Defence Services in 2011-12.
- To build judicial infrastructure, plan provision for Department of Justice increased by three fold to Rs 1,000 Cr

Budget Estimates 2011-12

- Gross Tax receipts are estimated at Rs 9, 32,440 Cr.
- Non-tax revenue receipts estimated at Rs 1, 25,435 Cr.
- Total expenditure proposed at Rs 12, 57,729 Cr.
- Increase of 18.3 % in total Plan allocation.
- Increase of 10.9 % in the Non-plan expenditure.
- XI Plan expenditure more than 100 % in nominal terms than envisaged for the Plan period.
- Increase of 23 % in Plan and Non-plan transfer to States and UTs.
- Fiscal Deficit brought down from 5.5 % in BE 2010-11 to 5.1 % of GDP in RE 2010-11.
- Fiscal Deficit kept at 4.6 % of GDP for 2011-12.
- Fiscal Deficit to be progressively reduced to 3.5 % by 2013-14.
- Effective Revenue Deficit estimated at 2.3 % of GDP in the Revised Estimates for 2010-11 and 1.8 % for 2011-12.
- Net market borrowing of the Government through dated securities in 2011-12 would be Rs 3.43 lakh Cr.
- Central Government debt estimated at 44.2 % of GDP for 2011-12 as against 52.5 % recommended by the 13th Finance Commission.

Tax Proposals

Direct Taxes

- Exemption limit for the general category of individual taxpayers enhanced from Rs 1,60,000 to Rs 1,80,000 giving uniform tax relief of Rs 2,000.
- Current surcharge of 7.5 % on companies proposed to be reduced to 5 %.
- Rate of Minimum Alternative Tax proposed to be increased from 18 % to 18.5 %.
- Additional deduction of Rs 20,000 for investment in long-term infrastructure bonds proposed to be extended for one more year.

- Lower rate of 15 % tax on dividends received by an Indian company from its foreign subsidiary.
- Benefit of investment linked deduction extended to businesses engaged in the production of fertilisers.
- Weighted deduction on payments made to National Laboratories, Universities and Institutes of Technology to be enhanced to 200 %.

Indirect Taxes

- Central Excise Duty to be maintained at standard rate of 10 %.
- Reduction in number of exemptions in Central Excise rate structure.
- Nominal Central Excise Duty of 1 % imposed on 130 items entering in the tax net.
- Lower rate of Central Excise Duty enhanced from 4 % to 5 %.
- Optional levy on branded garments or made up proposed to be converted into a mandatory levy at unified rate of 10 %.
- Basic Custom Duty reduced for specified agricultural machinery from 5 % to 2.5 %.
- Basic Custom Duty reduced on micro-irrigation equipment from 7.5 % to 5 %.
- De-oiled rice bran cake to be fully exempted from basic Custom Duty. Export Duty of 10 % to be levied on its export.
- Rate of Export Duty for all types of iron ore enhanced and unified at 20 % ad valorem. Full exemption from Export Duty to iron ore pellets.
- Basic Custom Duty on two critical raw materials of cement industry viz. petcoke and gypsum is proposed to be reduced to 2.5 %.
- Concessional Excise Duty of 10 % to vehicles based on Fuel cell technology.
- Exemption granted from basic custom duty and special CVD to critical parts/assemblies needed for Hybrid vehicles.
- Reduction in Excise Duty on kits used for conversion of fossil fuel vehicles into Hybrid vehicles.
- Excise Duty on LEDs reduced to 5 % and special CVD being fully exempted.
- Basic Customs Duty on solar lantern reduced from 10 to 5 %.
- Full exemption from basic Customs Duty to Crude Palm Stearin used in manufacture of laundry soap.
- Full exemption from basic Excise Duty granted to enzyme based preparation for pre-tanning.
- Parallel Excise Duty exemption for domestic suppliers producing capital goods needed for expansion of existing mega or ultra mega power projects.
- Full exemption from basic Customs Duty to bio-asphalt and specified machinery for application in the construction of national highways.
- Scope of exemptions from basic Customs Duty for work of art and antiquities extended to apply for exhibition or display in private art galleries open to the general public.
- Exemption from Import Duty for spares and capital goods required for ship repair units extended to import by ship owners.
- Concessional basic Custom Duty of 5 % and CVD of 5 % available to newspaper establishments for high speed printing presses extended to mailroom equipment.
- Jumbo rolls of cinematographic film fully exempted from CVD by providing full exemption from Excise Duty.
- Out right concession to factory-built ambulances from Excise Duty.

- Relief measures proposed for raw pistachio, bamboo for agarbatti, lactose for the manufacture of homoeopathic medicines, sanitary napkins, baby and adult diapers.

Service Tax

- Standard rate of Service Tax retained at 10 %, while seeking a closer fit between present regime and its GST successor.
- Hotel accommodation in excess of ` 1,000 per day and service provided by air conditioned restaurants that have license to serve liquor added as new services for levying Service Tax.
- Tax on all services provided by hospitals with 25 or more beds with facility of central air conditioning.
- Service Tax on air travel both domestic and international raised.
- Services provided by life insurance companies in the area of investment and some more legal services proposed to be brought into tax net.
- All individual and sole proprietor tax payers with a turn over up to Rs 60 lakh freed from the formalities of audit.
- Proposals relating to Service Tax estimated to result in net revenue gain of Rs 4,000 Cr.
- Proposals relating to Direct Taxes estimated to result in a revenue loss of Rs 11,500 Cr. and those related to Indirect Taxes estimated to result in net revenue gain of Rs 11,300 Cr.

Budget at a glance

	2009-2010	2010-2011 BE	2010-2011 RE	2011-2012 BE
Revenue Receipts	**572,811**	**682,212**	**783,833**	**789,892**
Tax Revenue (net to Centre)	456,536	534,094	563,685	664,457
Non-tax Revenue	116,275	148,118	220,148	125,435
Capital Receipts	**451,676**	**426,537**	**432,743**	**467,837**
Recoveries of Loans	8,613	5,129	9,001	15,020
Other Receipts	24581	40,000	22,744	40,000
Borrowings and other Liabilities	418,482	381,408	400,998	412,817
Total Receipts	**1,024,487**	**1,108,749**	**1,216,576**	**1,257,729**
Non-plan Expenditure	**721,096**	**735,657**	**821,552**	**816,182**
On Revenue Account	657,925	643,599	726,749	733,558
Interest Payments	213,093	248,664	240,757	267,986
On Capital Account	63,171	92,058	94,803	82,624
Plan Expenditure	**303,391**	**373,092**	**395,024**	**441,547**
On Revenue Account	253,884	315,125	326,928	363,604
On Capital Account	49,507	57,967	68,096	77,943
Total Expenditure	**1,024,487**	**1,108,749**	**1,216,576**	**1,257,729**
Revenue Expenditure	911,809	958,724	1,053,677	1,097,162
Of Which, Grants for creation of Capital Assets		31,317	90,792	146,853
Capital Expenditure	112,678	150,025	162,899	160,567
Revenue Deficit	**338998 (5.2)**	**276512(4.0)**	**269844(3.4)**	**307270(3.4)**
Effective Revenue Deficit		**245195(3.5)**	**179052(2.3)**	**160417(1.8)**
Fiscal Deficit	**418482(6.4)**	**381408(5.5)**	**400998(5.1)**	**412817(4.6)**
Primary Deficit	**205389(3.1)**	**132744(1.9)**	**160241(2.0)**	**144831(1.6)**

Particulars	**2009-2010 Actuals**	**2010-2011 Budget Estimates**	**2010-2011 Revised Estimates**	**2011-2012 Budget Estimates**
Revenue Receipts				
1. Tax Revenue				
Gross Tax Revenue	**624,527**	**746,651**	**786,888**	**932,440**
Corporation tax	244,725	301,331	296,377	359,990
Income tax	132,315	128,066	149,066	172,026
Other taxes and Duties	506	603	557	635
Customs	83324	115,000	131,800	151,700
Union Excise Duties	103,621	132,000	137,778	164,116
Service Tax	58,422	68,000	69,400	82,000
Taxes of the Union Territories	1,614	1,651	1,910	1,973
Less- NCCD transferred to the National Calamity Contingency Fund	3,160	3,560	3,900	4,525

Less States' Share	164,831	208,997	219,303	263,458
Non-Tax Revenue	**456,536**	**534,094**	**563,685**	**664,457**
Interest Receipts	21,756	19,253	19,728	19,578
Dividend and Profits	50,248	51,309	48,727	42,624
External Grants	3,141	2,060	2,756	2,173
Other Non-Tax Revenue	39,912	74,571	147,794	59,891
Receipts of Union Territories	1218	925	1,143	1169
2. Total Non-Tax Revenue	**116275**	**148118**	**220148**	**125435**
Total Revenue Receipts	**572811**	**682212**	**783833**	**789892**
A. Non-debt Receipts				
Recoveries of Loans & Advances	8,613	5,129	9,001	15,020
Miscellaneous Capital receipts	24581	40,000	22,744	40,000
Total	33,194	45,129	31,745	55,020
B. Debt Receipts				
Market Loans	398,424	345,010	335,414	343,000
Short term borrowings	-9769	...	10,000	15000
External assistance (Net)	11,038	22,464	22,264	14,500
Securities issued against Small Savings	13,256	13,256	17,781	24,182
State Provident Funds (Net)	16,056	7,000	10,000	10,000
Other Receipts (Net)	-9,136	-6,322	20,539	-13,866
Total	**419,869**	**381,408**	**415,998**	**392,816**
Total Capital Receipts	**453,063**	**426,537**	**447,743**	**447,836**

BUDGET EXPENDITURE (PLAN EXPENDITURE)			**Fig in crores**	
Particulars	**2009-2010 Actuals**	**2010-2011 Budget Estimates**	**2010-2011 RevisedEstimates**	**2011-2012 Budget Estimates**
PLAN EXPENDITURE				
A. Revenue Expenditure				
Central Plan	**178802**	**230881**	**242034**	**268287**
Central Assistance for State & Union				
Territory Plans	**75082**	**84244**	**84894**	**95317**
State Plan	**71254**	**81683**	**82489**	**92168**
Union Territory Plan	**3828**	**2561**	**2405**	**3149**
Total-Revenue Plan Expenditure	**253884**	**315125**	**326928**	**363604**
B. Capital Expenditure				
Central Plan	40099	39550	41326	49719
Central Assistance for State & Union				
Territory Plans	9408	8248	11518	10709
State Plan	7904	7241	10490	9067
Union Territory Plan	1504	1007	1028	1642
Total Capital Plan Expenditure	**49507**	**57967**	**68096**	**77943**
Total -Plan Expenditure	**303391**	**373092**	**395024**	**441547**
Total Budget Support for Central Plan	218901	280600	298612	335521
Total Central Assistance	84490	92492	96412	106026
for State & UT Plans				
TOTAL EXPENDITURE	**1024487**	**1108749**	**1216576**	**1257729**

BUDGET EXPENDITURE (NON-PLAN EXPENDITURE)				Fig in crores
Particulars	**2009-2010 Actuals**	**2010-2011 Budget Estimates**	**2010-2011 Revised Estimates**	**2011-2012 Budget Estimates**
NON-PLAN EXPENDITURE				
A. Revenue Expenditure				
Interest Payments and Prepayment Premium	213093	248664	240757	267986
Defence	90669	87344	90748	95216
Subsidies	141351	116224	164153	143570
Grants to State and U.T. Governments	45946	46001	52606	66311
Pensions	56149	42840	53262	54521
Police	25999	22154	27587	29685
Assistance to States from National	3262	3560	3560	4525
Calamity Contingency Fund				
Economic Services	24106	24928	32216	25391
(Agriculture Industry Power Transport	14938	18729	19309	17487
Communications Science & Technology etc.)				
Other General Services	16386	17487	18682	19105
(Organs of State tax collection external affairs etc.)				
Social Services (Education	32791	29483	35085	20862
Health Broadcasting etc)				
Postal Deficit	6438	3596	5854	5018
Expenditure of Union	3334	3190	3660	3592
Territories without Legislature				
Amount met from National Calamity	-3160	-3560	-3560	-4525
Contingency Fund				
Grants to Foreign Governments	1561	1688	2139	2301
Total Revenue Non-Plan Expenditure	657925	**643599**	**726749**	**733558**
B. Capital Expenditure				
Defence	51112	60000	60833	69199
Other Non-plan Capital Outlay	10952	31051	27696	13212
Loans to Public Enterprises	548	539	5871	496
Loans to State and U.T. Governments	83	89	85	85
Loans to Foreign Governments	124	--	--	--
Others	352	379	318	-368
Total Capital Non-Plan Expenditure	63171	92058	94803	82624
Total Non-Plan Expenditure	721096	735657	821552	816182

We now look into sector-wise impact analysis of the budget announcements:

Sector-- Page No

Agriculture - Positive		
Existing Scenario	**Budget Change**	**Impact**
➢ Allocation under Rashtriya Krishi Vikas Yojana (RKVY) was ₹ 6,755 Cr. in budget 2010-11	➢ Allocation under Rashtriya Krishi Vikas Yojana (RKVY) increased from ₹ 6,755 Cr. to ₹ 7,860 Cr..	➢ Thrust on boosting agriculture, more allocation towards RKVY brings more funds to the sector.
➢ ₹ 400 Cr. provided to extend the green revolution to the eastern region of the country comprising Bihar, Chattisgarh, Jharkhand, Eastern UP, West Bengal and Orissa. ➢ ₹ 200 Cr. provided for sustaining the gains already made in the green revolution areas through conservation farming, which involves concurrent attention to soil health, water conservation and preservation of biodiversity.	➢ To improve rice based cropping system in Eastern region, allocation of ₹ 400 Cr. has been made.	➢ Stock to watch: KRBL ltd, REI Agro, Kohinoor Foods, Advanta India, Kaveri Seed, United Phosphorous, Monsanto, RCF, Nagarjuna Fertilizers, Chambal Fertilisers, Coromandel International
➢ ₹ 300 Cr. provided to organise 60,000 “pulses and oil seed villages” in rain-fed areas during 2010-11 and provide an integrated intervention for water harvesting, watershed management and soil health, to enhance the productivity of the dry land farming areas.	➢ Allocation of ₹ 300 Cr. to promote 60,000 pulses villages in rainfed areas. ➢ Allocation of ₹ 300 Cr. to bring 60,000 hectares under oil palm plantations. Initiative to yield about 3 lakh Metric tonnes of palm oil annually in five years. ➢ Allocation of ₹ 300 Cr. for implementation of vegetable initiative to provide quality vegetable at competitive prices.	➢ This will strengthen agricultural sector. Stock to watch: KRBL ltd, REI Agro, Kohinoor Foods, Advanta India, Kaveri Seed, United Phosphorous, Monsanto, RCF, Nagarjuna Fertilizers, Chambal Fertilisers Coromandel International Stock to watch: KRBL ltd,

	➢ Allocation of ₹ 300 Cr. to promote higher production of Bajra, Jowar, Ragi and other millets, which are highly nutritious and have several medicinal properties. ➢ Allocation of ₹ 300 Cr. to promote animal based protein production through livestock development, dairy farming, piggery, goat rearing and fisheries. ➢ Allocation of ₹ 300 Cr. for Accelerated Fodder Development Programme to benefit farmers in 25,000 villages.	REI Agro, Kohinoor Foods, Advanta India, Kaveri Seed, United Phosphorous, Monsanto, RCF, Nagarjuna Fertilizers, Chambal Fertilisers Coromandel International
➢ Banks have been consistently meeting the targets set for agriculture credit flow in the past few years. For the year 2010-11, the target has been set at ₹ 3,75,000 Cr..	➢ Credit flow for farmers raised from ₹ 3,75,000 Cr. to ₹ 4,75,000 Cr. in 2011-12.	➢ The move would boost repayment of loans in the farming communities besides increasing credit flow. It will ensure more liquidity to the farmers
➢ Incentive of additional 1 % interest subvention to farmers who repay short-term crop loans as per schedule, increased to 2% for 2010-11.	➢ Interest subvention proposed to be enhanced from 2 % to 3 % for providing short-term crop loans to farmers who repay their crop loan on time. ➢ In view of enhanced target for flow of agriculture credit, capital base of NABARD to be strengthened by ₹ 3,000 Cr. in phased manner. ➢ ₹ 10,000 Cr. to be contributed to NABARD's Short-term	➢ The capital base of the National Bank for Agriculture and Rural Development is to be strengthened that enables it to refinance short-term crop loans of cooperative credit institutions and regional rural banks at concessional rates.

	Rural Credit fund for 2011-12.	
➢ Five additional mega food parks to be set up.	➢ Approval being given to set up 15 more Mega Food Parks during 2011-12. ➢ In pursuance of last years budget announcement to provide a real wage of ₹ 100 per day, the Government has decided to index the wage rates notified under the MGNREGA to the Consumer Price Index for Agricultural Labour. The enhanced wage rates have been notified by the Ministry of Rural Development on January 14, 2011.	
	➢ From 1st April, 2011, remuneration of Anganwadi workers increased from ₹ 1,500 per month to ₹ 3,000 per month and for Anganwadi helpers from₹ 750 per month to ₹ 1,500 per month.	➢ More disposable income to the hand of farmers.
➢ Provide concessional customs duty of 5 % to specified agricultural machinery not manufactured in India	➢ Basic Custom Duty reduced for specified agricultural machinery from 5 % to 2.5 %. ➢ Basic Custom Duty reduced on micro-irrigation equipment from 7.5 % to 5 %. ➢ De-oiled rice bran cake to be fully exempted from basic Custom Duty. Export Duty of 10 % to be levied on its export.	➢ Agricultural Machinery will be available at cheaper rates to the farmers.

Automobiles - Positive		
Existing Scenario	**Budget Change**	**Impact**
➢ Currently small cars which are less than 4 metres in length and have engine displacement of up to 1200cc petrol or 1500cc diesel, are charged 10% excise duty, and the higher powered vehicles at 22%. Cars more than 2000cc have to pay an additional Rs 15,000.	➢ With interest rates and raw material prices going up, the government has decided to retain the current levels of excise duty.	➢ It will boost the demand for new cars and bikes as industry was expected to hike in excise duty. Stocks to watch: M&M, Tata Motors, Maruti – Suzuki
	➢ The Union Budget 2011-12 has proposed to extend the excise duty refund available to taxis having a seating capacity of less than 7 to vehicles having a seating capacity of up to 13 passengers.	➢ It is expected to marginally aid the sales of utility vehicles in the specified category. Stocks to watch: M&M, Tata Motors, Maruti – Suzuki
	➢ The Union Budget 2011-12 has proposed to extend the concessional excise duty of 10 % has been extended to vehicles based on fuel cell and hydrogen cell technology.	➢ Boost the sales volume of utility vehicles in the specified category. Stocks to watch: M&M, Tata Motors, Maruti – Suzuki
➢ Hybrid vehicles enjoy a concessional excise duty rate of 10 %. Import dependence for their critical parts/ sub-assemblies is still quite high	➢ It is proposed to grant specified parts of hybrid vehicles have been exempted from basic customs duty and special CVD. In addition, excise duty on these parts has been reduced to 5 %.	➢ Incentivise domestic production and reduce import dependence. Stocks to watch: M&M, Tata Motors, Maruti – Suzuki
➢ Excise duty on kits and their parts which is used to convert fossil	➢ Propose to reduce the excise duty on such kits and their parts from 10	➢ Boost the demand lead to increase sales volume of hybrid

fuel vehicles into Hybrid vehicles charged at 10% ➢ Existing exemption limits of tax slabs for individual general tax payers is ₹ 1.6 lakh for individual	% to 5 %. ➢ The increase in exemption limits of tax slabs for individual tax payers from ₹1.6 lakh to ₹ 1.8 lakh ➢ Announcement of the launch of 'National Mission for hybrid and electric vehicles. ➢ Propose to allocate ₹ 200 Cr. from the National Clean Energy Fund to begin its implementation in 2011-12. ➢ Raising the target of credit flow to the farmers from ₹3,75,000 Cr. to ₹4,75,000 Cr. in 2011-12.	vehicles. Stocks to watch: M&M, Tata Motors, Maruti ➢ It is likely to lead to increase disposable incomes of addressable households, and thus aid auto sales. Stocks to watch: M&M, Tata Motors, Maruti – Suzuki, Hero Honda, Bajaj Auto, ➢ It is expected to benefit sales of hybrid and electric vehicles over the longer term. ➢ The company can utilize this fund for their production. The company like M&M can utilize through recently acquired REVA. ➢ Demand for farm equipment and vehicles in rural areas will increase. Stock to watch: M&M, Ashok Leyland

Auto Components & Tyres - Positive		
Existing Scenario	**Budget Change**	**Impact**
	➢ There is no change in customs duty on the auto components industry.	➢ Stock to watch: Bharat Forge Ltd, Bosch Ltd, Amtek Auto Ltd, Sona Koyo Steering Systems Ltd, Sundaram Fasteners Ltd, Exide Industries Ltd
	➢ Full exemption from basic customs duty and a concessional rate of central Excise duty of 4 % was provided to certain specified parts of electrical vehicles. This concession has been extended to batteries imported by vehicle manufacturers for the replacement markets.	➢ The reduction in customs duty will bring down the maintenance cost of these vehicles. Stock to watch: Exide Industries Ltd, Eveready Industries Ltd.
➢ A concessional rate of basic customs duty of 5 % was provided to specified agricultural machinery in the last budget.	➢ This duty is being reduced further to 2.5 % and the concession is also being extended to parts of such agricultural machinery.	➢ Encourage productions for agricultural machinery. Stock to watch: M&M
	➢ In December 2010, the government had reduced the basic customs duty on natural rubber (upto the limit of 40,000 tonnes) to 7.5 % from 20 % for January-March 2011. This customs duty will be revised to 20 % or Rs 20 per kg, whichever is lower, effective from April 2011.	➢ This will not change the landed cost of natural rubber significantly from the current price levels, thus having no significant impact on the tyre industry.
➢ Customs duty on caprolactum was 10%	➢ The customs duty on Carbon Black Feedstock (which is used to manufacture carbon black) has been reduced	➢ It lowers input cost of tyre. Stock to watch: Apollo Tyres Ltd, Ceat Ltd,

	to 2.5 % from 5 % ➢ Customs duty on caprolactum, which is used to produced Nylon Tyre Cord (NTC), has been reduced to 7.5 % ➢ The government has proposed to introduce the GST bill in current budget session.	Goodyear India Ltd, JK Industries Ltd, MRF Ltd ➢ This would lead to a removal of indirect taxes & single point of taxation, resulting in reduced prices for auto products. Stocks to watch: Amtek Auto, Amara Raja Batteries, Autoline Industries, Bosch Ltd, Clutch Auto, Exide Inds.

Banking and Financial Services - Positive		
Existing Scenario	**Budget Change**	**Impact**
➢ RBI is considering giving some additional banking licenses to private sector players.	➢ To table the bill in the parliament in order to enable RBI to issue more private banking licenses.	➢ Positive for NBFC's and other private players looking to enter the banking business. Also positive for smaller PSU banks as their widespread presence makes them easy takeover targets. Stocks to watch: UCO Bank, AB Money, Vijaya Bank, Indiabulls.
➢ Rs.20157 crores provided to ensure that the Public Sector Banks are able to maintain a minimum 8% Tier-I capital to Weight Asset Risk Ratio (CRAR) by March 31, 2011. Regional Rural Banks were provided Rs. 350 crores to maintain a CRAR of 9%.	➢ A sum of 6000 crores further provided for the purpose of capitalizing PSU Banks. Further, a sum of 500 crores has been provided to recapitalize regional rural banks.	➢ This will strengthen the banking sector. Positive for smaller PSU Banks like Dena Bank, Union Bank, Vijaya Bank.

➢ FII and sub accounts registered with SEBI and NRI's are allowed to invest in the mutual funds.	➢ SEBI registered MF's can accept subscriptions from FII's who are able to meet KYC requirements	➢ Positive for the Mutual Fund Industry and markets as a whole as this will increase fund inflows. Stocks to watch: Brokerages/ Financial Services companies that have Mutual Funds like DBS, Motilal Oswal, JM financial etc
➢ No funds were allocated to Microfinance companies and SHG's	➢ Creation of the India Microfinance Equity fund with a corpus of 100 crores with SIDBI and creation of Women's SHG's Development Fund with a corpus of 500 crores.	➢ Positive for SME's and Microfinance companies. Stocks to watch: SKS Microfinance.
➢ Interest subvention on housing loans of upto Rs. 10 lacs for property cost of upto Rs 20 lacs. Housing loan limit at Rs. 20 lacs under priority sector lending. Allocation to Rural Housing Fund is Rs. 2000 crores	➢ The interest subvention limit has been further liberalized to Rs. 15 lacs and 20 lacs respectively. Housing loan limit under priority sector lending raised to Rs. 25 lacs. Allocation to Rural Development Fund increased to 3000 crores.	➢ Positive for housing finance companies. Stocks to watch: LIC Housing Finance, HDFC, Dewan Housing.
	➢ Proposal to table in the parliament, bills like Insurance Law (Amendment) Bill, Banking Laws Amendment Bill, The State Bank of India (Subsidiary Bank Laws) bill etc.	➢ Passing of any of these bills may be good news for Insurance and Banking Sectors.

Capital Goods – Positive		
Existing Scenario	**Budget Change**	**Impact**
➢ Allocation to Bharat Nirman scheme was Rs. 10000 crores	➢ Allocation increased to 58000 crores in 2011-12	➢ Positive for the sector as this would result in more projects and more demand for Capital Goods. Stocks to watch: LT, BHEL, BEML
➢ Allocation for Defence was made at Rs. 147344 crores	➢ Allocation for defence increased to Rs. 164415 crores. This includes Rs. 69199 crores for capital expenditure.	➢ Positive for defence equipment manufacturers.
	➢ Allocation of Rs. 214000 crores for Infrastructure in 2011-12. This is an increase of 23% over last year and amounts to 48% of total plan expenditure.	➢ Positive for the sector as this will see coming of new projects ensuring robust order books of companies manufacturing capital goods.
➢ Domestic producers of capital goods used in UMPP's were charged excise duty.	➢ Parallel excise duty exemption for domestic suppliers producing capital goods for expansion of UMPP's	➢ Positive for domestic capital goods producers for power sector, as they will be at par with Chinese producers.
➢ Bio-asphalt machinery attracted basic customs duty.	➢ Full exemption from basic custom duty to bio-asphalt and specific machinery used in construction of highways.	➢ Positive for companies producing earth-moving equipments. Stocks to watch: BHEL, BEML.
➢ Excise duty of 10% of specified textile machinery. Sewing machines without motors attracted excise duty.	➢ Excise duty on specified machinery reduced to 5%. Sewing machines parts (without motors) get full exemption from excise duty.	➢ Positive for companies producing textile-manufacturing machinery.

Cement - Negative		
Existing Scenario	**Budget Change**	**Impact**
➢ Customs duty on petcoke and gypsum was 5 %	➢ Basic customs duty on two critical raw materials of this industry viz. petcoke and gypsum is proposed to be reduced to 2.5 %.	➢ Raw material cost will decrease, Reduction in customs duty on petcoke will bring a downside impact of 50-70 paisa a bag of cement while that of reduction in gypsum will be around ₹1/ bag Stock to watch: ACC, Gujarat Ambuja Cement Ltd, India Cement Ltd, Shree Cement Ltd, UltraTech Cement Ltd
➢ Cement companies used to pay 10% excise duty on the MRP ➢ Two price slabs below ₹190 a bag of 50 kg and above ₹190 a bag.	➢ Proposed for the replacement of existing excise duty rates with a 10 % ad valorem rate and an additional Rs 160 per tonne of cement. ➢ The existing two price slabs were retained	➢ All India average prices currently is hovering around ₹250-260 for a bag, the second slab has gained importance on which the government has imposed 10 % ad valorem and an additional ₹160 per tonne. The additional charges would mean an increase of ₹8 for a cement bag.
➢ ₹ 173552 Cr. provided for infrastructure development which accounts for over 46 % of the total plan allocation.	➢ An allocation of over ₹ 2,14,000 Cr. is being made for this sector, which is 23.3 % higher than current year. This amounts to 48.5 % of the Gross Budgetary Support to plan expenditure.	➢ Higher allocation towards infrastructure sectors and emphasis on timely execution are likely to increase demand for cement. Stock to watch: ACC, Gujarat Ambuja Cement Ltd, India Cement Ltd, Shree Cement Ltd, UltraTech Cement Ltd

Education - Positive		
Existing Scenario	**Budget Change**	**Impact**
➢ Plan allocation for school education increased by 16 % from ₹ 26,800 Cr. in 2009-10 to ₹ 31,036 Cr. in 2010-11. States will have access to ₹ 3,675 Cr. for elementary education under the Thirteenth Finance Commission grants for 2010-11.	➢ Propose an allocation of ₹ 52,057 Cr., which is an increase of 24 % over the current year.	➢ This will strengthen educational system in our country. Stocks to watch: Navneet Publications, Blue Bird (India) Ltd, Educomp Solutions, Everonn Systems, NIIT
➢ Propose to allocate ₹ 15,000 Cr. in the Budget for 2010-11 under Sarva Shiksha Abhiyan.	➢ Propose to allocate ₹ 21,000 Cr. which is 40 % higher than last year under Sarva Shiksha Abhiyan. ➢ "Vocationalisation of Secondary Education" will be implemented from 2011-12 to improve the employability of our youth.	➢ Free and compulsory education to children of ages 6–14. Educate more people from the ground level. Stocks to watch: Navneet Publications, Blue Bird (India) Ltd, Educomp Solutions, Everonn Systems, NIIT
	➢ Connectivity to all 1,500 institutions of Higher Learning and Research through optical fiber backbone to be provided by March, 2012. ➢ ₹ 658 Cr. was already sanctioned for 26 NSDC projects.	➢ Higher education through online is possible for institutions in India. Stocks to watch: Navneet Publications, Blue Bird (India) Ltd, Educomp Solutions, Everonn Systems, NIIT

Fertilizer- Positive		
Existing Scenario	**Budget Change**	**Impact**
➢ Nutrient based subsidy (NBS) does not cover urea.	➢ Government actively considering extension of the NBS regime to cover urea.	➢ +ve for Nagarjuna, Chambal, Coromandel International, RCF etc,
➢ Budgetary provision for subsidy: Rs. 49981 Cr (2010-11 BE)	➢ Budgetary provision for subsidy: Rs. 49,998 Crore	➢ Neutral
➢ Government has decided to extend subsidy in cash, thereby bringing all subsidy related liabilities into Government's fiscal accounting	➢ Government to move towards direct transfer of cash subsidy to people living below poverty line in a phased manner for better delivery of fertilizers.	➢ +ve all Fertiliser companies
	➢ The fertilizer industry has been included under Section 35 AD of the Income Tax Act in the Union Budget 2011-12, whereby investment-linked tax incentives are provided by way of 100% deduction of capital expenditure.	➢ +ve for all fertilizer companies
	➢ Capital investment in fertilizer production as an infrastructure sub sector	➢ +ve for all fertilizer companies. More investment is expected in near term.

FMCG : Positive		
Existing Scenario	**Budget Change**	**Impact**
Rural Expenditure	Rural Expenditure	
➢ Rural infrastructure programmes under Bharat Nirman is allocated to Rs. 48,000	➢ Rural infrastructure programmes under Bharat Nirman is increased by Rs 10,000 to Rs. 58,000.	➢ +ve for ITC, HUL, Dabur, Marico, Britania, Nestle, Emami, Godrej Consumers etc.
➢ Personal Income Tax exemption limit is Rs 1.6 lakhs	➢ Increase in personal income tax exemption limits from 1.6 lakh to 1.8 lakh.	➢ +ve for ITC, HUL, DABUR, MARICO, BRITANIA, Nestle, EMAMI, Godrej Consumers etc.
➢ Current excise duty is 10%.	➢ Certain revision in excise duty: • Lower rate of Central Excise Duty enhanced from 4 per cent to 5 per cent. • On branded garment 10% excide is levied. • Excise duty on sanitary napkins, baby & clinical diapers and adult diapers is being reduced from 10% to 1% with no Cenvat credit.	➢ -ve marginal ➢ -ve for Provogue, Koutons, Raymond etc, ➢ +ve for P&G, WIPRO, HUL etc,
➢ Excise duty on Cigarette & tobacco	➢ Unchanged	➢ +ve for ITC, Godfrey Phillips, Golden Tobacco & VST Inds.
➢ Customs duty	➢ Peak rate of custom duty remain unchanged in view of the global economic situation • Full exemption from basic Customs Duty to Crude Palm Stearin used in manufacture of laundry soap.	➢ Neutral

Hospitality Sector - Negative		
Existing Scenario	**Budget Change**	**Impact**
	➢ Hotel accommodation, in excess of declared tariff of ₹1,000 per day with an abatement of 50 % so that the effective burden is only 5 % of the amount charged. ➢ Service provided by air-conditioned restaurants that have license to serve liquor, by giving an abatement of 70 %. Thus, the effective burden will be 3 % of the bill.	➢ Brings hotel accommodation under the service tax net, room rents will go up which may impact on demand. Competition is intense in the current operating environment, hence, the ability of hotel players to pass on levy of service tax by way of higher charges is limited. It is Negative for the hospitality sector. Stock to watch: Hotel Leela Venture Limited, Kamat Hotels (India) Limited, Jaypee Hotels, EIH Ltd. Indian Hotels Ltd.,

Infrastructure - Positive		
Existing Scenario	**Budget Change**	**Impact**
➢ Rs 1, 73,552 crore provided for infrastructure development which accounts for over 46 per cent of the total plan allocation.	➢ Rs 2, 14,000 crore provided for infrastructure development which is 23.3% higher than previous year and also it accounts 48.5 per cent of the total plan allocation.	➢ +ve for all infrastructure companies
➢ An amount of Rs.48, 000 crore allocated for rural infrastructure programmes under Bharat Nirman.	➢ An amount of Rs.58, 000 crore allocated for rural infrastructure programmes under Bharat Nirman which is 10,000 crore higher than Previous year.	➢ +ve for IRB Infra, L&T, IVRCL, NCC, GMR Infra, Reliance Infra, GVK power, IL&FS Transport, Unity Infra
➢ IIFCL to achieve cumulative disbursement target of `20,000 crore in FY11	➢ IIFCL to achieve 25,000 crore in FY12.	➢ +ve for L&T, GMR Infra, GVK Power, IRB Infra, IL&FS Transport
➢ Rs.20, 000 for an investment in long-term infrastructure bonds over and above of existing limit of Rs.1 lakh on tax savings.	➢ Extended for one more year	➢ L&T, GMR Infra, GVK Power, IRB Infra, IL&FS Transport
➢ MAT is 18%.	➢ MAT increased to 18.5% but Surcharged reduced from 7.5% to 5%.	➢ Neutral
	➢ FIIs limit in corporate bond in Infrastructure sector is being raised by additional USD 20bn, taking total limit to USD 25bn.	➢ +ve for L&T, Pipavav Shipyard, IRB Infra, KNR construction etc
	➢ To boost infrastructure, tax free bonds worth of Rs. 30,000 Crror are proposed to be issue.	➢ +ve for all Infrastructure companies
	➢ Creation of Infrastructure debt Fund	➢ +ve for sector
	➢ SEZ brought under MAT	➢ -ve for Mundra Port

	➢ Proposed to take up Delhi Metro phase –III and Mumbai Metro Line – III. To provide the financial assistance to on going metro projects to Bengluru, Kolkatta and Chennai.	➢ +Ve for Reliance Infra, Gammon India, L&T, HCC etc,

IT and IT Enabled Services – Positive to Neutral		
Existing Scenario	**Budget Change**	**Impact**
➢ Benefits under the STPI scheme to end on 31st March 2011.	➢ These benefits are NOT extended as per the industry wish list.	➢ Negative for IT Services industry. Stocks to watch: TCS, Infosys, Wipro, Tech Mahindra
➢ Goods like microprocessors, hard drives, pen drives, CD/DVD drives were fully exempted from excise duty	➢ Full exemption withdrawn from these goods and now they will attract an excise duty of 5%.	➢ Negative for computer hardware and peripherals manufacturers.
➢ MAT was 18%	➢ MAT increased to 18.5%	➢ Marginally negative as it will increase cash outflow.
➢ The focus on IT initiatives to improve governance has been of prime importance in this budget. A number of measures have been put forward by CBDT and CBEC to enhance taxpayer services. For e.g. Centralised Processing Center, IT consolidation project, Ayakar Seva Kendras (ASK's) and E-filing of TDS. This has been successful to a great extent in improving governance.	➢ The focus on these initiatives remains constant and more such projects are likely to come up soon. The FM had made a body called Technology Advisory Group for Unique Projects or TAGUP. This group has submitted its report and its recommendations have been in principal approved.	➢ Positive for software and ERP providers as it is not only adding to their revenues but also it will give them an opportunity to de-risk their USD dependent revenue stream by diversifying into India based business. Stocks to watch: TCS, Infosys, Tech Mahindra

Media and Entertainment Sector – Neutral		
Existing Scenario	**Budget Change**	**Impact**
	➢ Jumbo rolls of cinematographic film fully exempted from CVD by providing full exemption from Excise Duty. ➢ Concessional basic Custom Duty of 5 % and CVD of 5 % presently applicable to high-speed printing presses imported by newspaper establishment is being extended to mailroom equipment.	➢ It is positive for the company as it would bring down their input cost marginally. Stock to watch: Dish TV, Balaji Telefilms Ltd, HT Media Ltd, PVR Ltd, Zee Entertainment Enterprises Ltd

Metals – Neutral to Positive		
Existing Scenario	**Budget Change**	**Impact**
➢ Export duty on Iron Ore was 15% and that on iron lumps was 5%	➢ A single Ad-Valorem duty of 20% is imposed on all types of Iron Ore	➢ Negative for iron ore producers and positive for steel makers as it would make raw material available more easily. Stocks to watch: Tata Steel, SAIL, Jindal Steel, Sesa Goa (-) and NMDC (-)
➢ Import if Stainless Steel scrap attracted custom duty	➢ Basic custom duty on import of stainless steel scrap waived off	➢ Positive for stainless steel producers like Jindal Stainless and Jindal Saw.
	➢ Allocation of Rs. 214000 crores for Infrastructure in 2011-12. This is an increase of 23% over last year and amounts to 48% of total plan expenditure.	➢ Positive for the sector as a whole as it would create more demand for base metals as more project come up.

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OIL & GAS - Neutral		
Existing Scenario	**Budget Change**	**Impact**
Current MAT is 18%	MAT increased to 18.5% but surcharged reduced from 7.5% to 5%.	Neutral
	To Provide direct cash Subsidy to people living below poverty line on Kerosene and LPG in phased manner	+ve for OMCs, HPCL, BPCL & IOC

Pharmaceutical & Healthcare : Positive		
Existing Scenario	**Budget Change**	**Impact**
The planned allocation for FY10-11 was Rs. 22300 Cr.	The planned allocation for FY11-12 raised by 20% to Rs. 26760 Crore.	+ve for all Pharmaceuticals Companies
Weighted deduction on R&D is 175%.	Weighted deduction on R&D proposed to increase to 200%	+ve for Biocon, Sun Pharma Adv, Piramal Life science
Excise duty on bulk drugs is 10%	Unchanged	Neutral
Excise duty of 4% is imposed on blood glucose monitoring system (Glucometer) and test strips and patent ductus arteriosus/artial septal defect occlusion devices.	Excise duty on drugs increased from concessional rate from 4% to 5%	Marginal negative
	Tax on all services provided by hospitals with 25 or more beds with facility of central air conditioning.	Neutral (Service charge will be borne by Customers)
	Allowed 100% investment-linked deduction on capital expenditure under Sec. – 35AD(8)© for building and operating with bed capacity of 100 or more in India.	+ve for Apollo Hospital, Fortis Healthcare etc,

Power - Positive		
Existing Scenario	**Budget Change**	**Impact**
➢ Custom duty on photovoltaic cells was 5%	➢ Custom duty reduced to NIL. In line with the Industry wish list	➢ Positive for solar cell producers and in turn positive for solar power plants. Stocks to watch: Moser Baer, Reliance Energy, Indosolar Limited
➢ Domestic suppliers of capital goods used in UMPP's were not exempted from excise duty.	➢ Parallel excise duty exemption for domestic suppliers of capital goods used in UMPP's	➢ This will create a level playing field for domestic and foreign players. Effectively it should reduce cost and improve margins. Stocks to watch: BHEL, L&T

Real Estate - Positive		
Existing Scenario	**Budget Change**	**Impact**
➢ Rural Housing fund for 2010-11 is Rs. 2000 crore	➢ Rural Housing increased from Rs. 2,000 crore to Rs. 3,000 crore.	➢ +ve for Small Housing Companies who focus in Rural Area
➢ The scheme of 1% interest subvention on housing loan up to Rs10 lakh, where the cost of the house does not exceed Rs. 20 lakh is continued.	➢ The scheme of 1% interest subvention is continued for one more year and the amount is increased by Rs. 5 lakh i.e., on housing loan up to Rs15 lakh, where the cost of the house does not exceed Rs. 25 lakh.	➢ +ve for Puravnakra, HDIL, Sobha Dev., etc,
	➢ To create a Mortgage Risk Guarantee Fund under Rajiv Awas Yojana. This would guarantee housing loans taken by Economically Weaker Sections and LIG households.	➢ +ve for HDIL, DLF, Sobha Dev., Unitech, Parsvnath, Ansal, Puravankara etc.

Telecommunications – Positive to Neutral		
Existing Scenario	**Budget Change**	**Impact**
Exemption from SAD for parts, components and mobile phones accessories was supposed to end by June 2010	Full exemption from SAD for these goods has been extended till March 2012	No impact on telecom sector.
MAT was @ 18% and Corporate tax surcharge was @ 7.5%	MAT increased to 18.5% and corporate tax surcharge reduced to 5%. This is nothing in comparison to what the industry was expecting. After the huge investments done last year, the industry was expecting sizable tax relief.	Negative for the sector. Companies with huge payoffs in the 3G auctions will be facing the heat.
Ambiguity related to charging of service tax to the subscriber.	Clarification was made that the service tax is chargeable on the gross amount charged to the subscriber.	Marginally positive as it would increase transparency.
Credit of duty paid on providing input and input services used in civil construction not available.	Credit has still not been made available.	Will impact telecom infrastructure companies. Stocks to watch: LITL
No rules for Point of sales	Point of sales rules has been issued.	The provisions and the ambiguities surrounding it would impact the cash flows of companies and also increase difficulty in compliances.

Textiles Sector – Neutral		
Existing Scenario	**Budget Change**	**Impact**
➢ Currently under a 4 % optional excise duty regime.	➢ A mandatory excise duty of 10 % is being imposed on branded readymade garments (RMG) and textile made-ups.	➢ In order to enable branded RMG players to claim Cenvat credit, yarn and fabric manufacturers may be forced to pay a higher excise duty of 5 % vis-à-vis an optional and concessional 4 % duty that they paid earlier. This will exert further pressure on the margins of RMG and made-ups manufacturers who are already struggling with an unprecedented rise in input costs. It can dampen growth recovery in the sector. Stock to watch: Alok Industries Ltd, Gokaldas Exports Ltd, Vardhaman Textiles Ltd, JBF Industries Ltd, Arvind Mills Ltd, Raymond Ltd
	➢ Customs duties on acrylonitrile and rayon grade wood pulp reduced from 5 % to 2.5 % each.	➢ It will reduce raw material costs of acrylic and viscose fibre manufacturers, and improve the price competitiveness of these fibres vis-à-vis cotton and polyester.
	➢ An excise duty of 5 % has been imposed on automatic looms and projectile looms	➢ It is negative for the sector. Stock to watch: Alok Industries Ltd, Gokaldas Exports Ltd, Vardhaman Textiles Ltd, JBF Industries Ltd, Arvind Mills Ltd, Raymond Ltd
➢ Basic customs duty on raw silk was 30%	➢ Reduce basic customs duty on raw silk from	➢ It is positive for the sector.

	30% to 5 % ➢ Excise duty halved from 10 % to 5 % on parts of specific textile machinery, which includes 40 items. ➢ Full exemption is being granted to specified part of sewing machines other than those with in built motors.	➢ Textile machinery costs may go down. It is positive for the sector. This is a big boost for the textile machinery sector. Stock to watch: Alok Industries Ltd, Gokaldas Exports Ltd, Vardhaman Textiles Ltd, JBF Industries Ltd, Arvind Mills Ltd, Raymond Ltd

BNK Securities Pvt. Ltd.

CORPORATE OFFICE
Mayfair Tower, 2 Palm Avenue,
Kolkata 700 019, India
Phone: 91-33-22810560/61/62 Fax: 91-33-22800457

MUMBAI OFFICE
1st Floor, Buona Casa, Sir PM Road,
Homji Street, Fort, Mumbai- 400001.
Phone: 91-22-22705389 Fax: 91-22-22702410
E-mail: research@bnkcapital.com
Email: corporate@bnkcapital.com
URL: www.bnkcapital.com

Other Offices at: Mumbai, Jaipur, Chennai, Ahmedabad, New Delhi

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