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Post budget note, Indian Budget presented today

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Main Issue-Assessing Sustainability

In my note of yesterday, I had argued that 'assessing sustainability' of 8% economic growth would be a major pointer towards how Indian investment performance would be.

Overall Verdict

There the Budget was very impressive giving rise to expectations of even stronger than 8% growth. It outlined growth orientated plan based on deepening reforms and within a framework of responsible fiscal policy and a stable monetary policy. It bolsters the much-needed infrastructure and combines it with social initiatives that would facilitate benefiting all sections of population.

Highlights

- Sound and prudent fiscal policy with fiscal and revenue deficits coming out to be lower than targeted
- Stable monetary policy with controlled inflation
- Infrastructure development being given a major boost
- Power reforms
- Incentives to attract FDI, FII and to channelize domestic savings
- Inclusive growth with much enhanced allocation to health and education
- Reducing excise and custom duties on a plethora of products
- Major agriculture and rural development initiatives
- Maintaining favorable investment taxation including zero tax on long term capital gain
- Continuing support to sectors with maximum job generation potential

Initial stock market response

Sensex jumped up nicely from 10280 to 10375. Mid cap index moved slightly from 4390 to 4396. Small cap index also remained at almost the same level.

Forecast & Action Step

With an economy growing at such a fast pace, corporate earnings growth is expected to be impressive. The present valuation ratios, notably PEG (price earning to growth) still show the market to be undervalued.

With a 2-year horizon for the invested funds, probability of significant gain is high with little downside. My recommendation will be to stay invested and actually add more funds to the portfolio.

As always, we will continue to monitor and analyze important factors impacting the markets including corporate earnings growth and various risk factors.

To reiterate, the markets move in a volatile way and with corrections and therefore only those investments should be in stock markets where the horizon is for at least 2-3 years.