

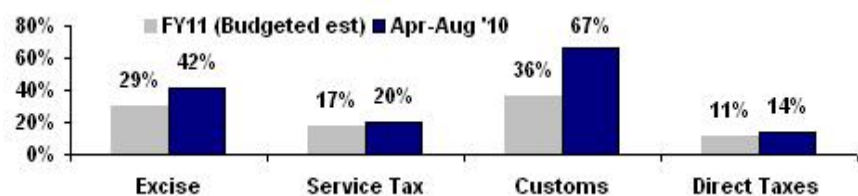
14 Sep 2010 - 08:04:09 PM IST

STRATEGY ALERT**Strategy Update****Indirect tax collections reaffirm strong economic momentum**

India's indirect tax collections continue to remain robust: Growth in indirect tax collections for Apr-Aug'10 came in extremely strong at 46% yoy - underscoring the strength in aggregate domestic demand. Import duties were the biggest driver, rising at a robust +67% yoy (reflecting strong demand for imported goods), followed by excise duties, which rose by 42% yoy - reflecting an elevated growth in IIP. Service tax collections however grew at a lower 19.8% yoy, but still remain above the government's estimates for full year.

Tax collections running ahead of full year budgeted estimates: Growth in tax collections (both indirect and direct) is running convincingly ahead of government's budgeted estimates for FY11. While indirect tax collections have grown at 46% yoy (vs. budgeted 29% for FY11), direct tax collections have risen by 14% yoy (vs. the budgeted 11%). The quantum of cyclical rebound in taxes has surprised us positively and should help the government to better manage its fiscal deficit. This, coupled with surprise on non tax revenues front (3G/BWA receipts and likely achievement of disinvestment target), has given enough room to the government to increase its social/developmental outlays without jeopardising its ability to meet its fiscal deficit target of 5.5% of GDP.

Maintain bullish stance on market with year end Sensex target of 22,000: We remain convinced that over the next six months economic newsflow will remain highly positive. The current run rate in tax collections is a clear manifestation of a robust aggregate domestic demand - which should receive a further boost from the imminent rise in rural consumption on the back of a better-than-expected monsoon season (till date 101% of long term average).

Apr-Aug'10 growth in tax collections ahead of FY11 BE

Source: Ministry of Finance, Government of India

Abhay Lajiwala

Research Analyst

(+91) 22 6658 4205

abhay.lajiwala@db.com

Abhishek Saraf

Research Associate

(+91) 22 6658 4221

abhishek.saraf@db.com

Deutsche Bank AG/Hong Kong

All prices are those current at the end of the previous trading session unless otherwise indicated. Prices are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Deutsche Bank and subject companies. Deutsche Bank does and seeks to do business with companies covered in its research reports. Thus, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

THE VIEWS EXPRESSED ABOVE ACCURATELY REFLECT PERSONAL VIEWS OF THE AUTHORS ABOUT THE SUBJECT COMPANY(IES) AND ITS(THEIR) SECURITIES. THEY HAVE NOT AND WILL NOT RECEIVE ANY COMPENSATION FOR PROVIDING A SPECIFIC RECOMMENDATION OR VIEW IN THIS REPORT. FOR OTHER DISCLOSURES PLEASE VISIT [HTTP://GM.DB.COM](http://GM.DB.COM) MICA(P) 007/05/2010