

## Retail Equity Research

# Union Budget Analysis 2021-22

# Positive

SENSEX : 48,601

NIFTY : 14,281

### A dream budget...

It is a radical budget, providing all the aspects of social benefits, reforms and growth in the economy, without an increase in direct tax. Introduction of cess is not expected to increase inflation, due to reduction in basic custom duty. Possible hike in public debt is noticeable, however, it does provide incentive to generate more wealth in the economy.

- The budget forecast domestic GDP to grow at 14.4% in FY22 supported by higher government spending.
- The govt. is taking the vital burden of reviving the economy by spending 34.5% more capex, assuming low private expenditure during pandemic.
- This extra spending will be supported by Agri-Infra Cess and extra borrowing from the debt market, without a direct burden on household & private sector.
- The key beneficiary will be Banking industry including PSBs, Insurance and cyclical sectors like Infra, Cement and Construction.
- The only concern from the growth plan is that inflation and interest cost can increase in the future, which may impact private investment & real growth.
- The budget will provide buoyancy for the equity market & corporates, adding more avenues for growth without additional taxes. The broad risk for the equity market is high valuation and global trend, which recently witnessed high volatility.

### Social, Reform and Growth measures...

The budget provided all the dimension of social responsibilities, reform and growth. Vaccination, Healthcare & AtmaNirbhar scheme is provided in FY22 with flexibility to add more traction, as required in the future. Key reforms included are increase in FDI limit in insurance, privatisation of two PSUB and big divestment plan. Growth comes from high government spending and measures to develop India as an export hub.

### Introduction of cess... for extra tax revenue

Agri-Infra cess has been introduced to address high social and growth expenditure, to improve the infrastructure of Indian agriculture sector, and to reduce the high food-grain inflation in the long-term, For petrol it is at Rs. 2.5 and Rs. 4 for diesel, per litre. For gold and silver 2.5% and at varied rates on specified imported goods. The food inflation in India has been very rigid, during low demand period too, like Covid-19.

### Can lead to moderate inflation...but no increase in direct tax is a boom

New cess, borrowing and expenditure can lead to hike in inflation in the short-term, but better Agri-Infra in the long-term will bring food inflation under control. Implementation of Agri reforms can have extra help. In spite of this short-term limitation, no increase in direct tax and high government spending will generate extra growth in the economy, which is the main benefit to the economy & equity market.

### What could be the risk in the market...

Given the impetus on growth, during weakening fiscal & global position, the money will come from borrowings, which can add risk. The public debt in the economy will increase with higher printing of money by RBI, which can impact sovereign rating and interest rate in the system.

### Key beneficiary sectors...

- Banks: Privatization of PSBs will make the banking sector more lucrative while development of Asset Restructure Company will reduce NPA concerns.
- Insurance: More investment can be expected from foreign players leading to re-rating of the industry.
- Infrastructure: Construction, Cement, Real Estate and Metals will be the key beneficiaries.

### Market View...

The budget has provided more to the economy than what the market has anticipated. This will certainly provide a boom to the market in which cyclical sectors like Banks, Infrastructure and Metals will be the key beneficiaries. The point of concern is that valuations is at new peak levels, which can limit future momentum. Any discrepancy in the global market and domestic debt market are the watch list in the medium-term.

Stock Ideas: Positive	Rationale
State Bank of India	PSU privatisation & ARC
HDFC Life	Hike in FDI limit
L&T and PNC infra	Infrastructure spending
Ashok Leyland, Tata motors	Scrappage and Infra CAPEX
Ramco Cement & Ultra tech	Affordable housing & Infra spending

Stock Ideas: Negative	Rationale
Hospitality, Tourism & Aviation	Heavily impacted by Covid-19 but no support provided.

Tax Collections (Rs bn)	FY20(A)	FY21(RE)	FY22(BE)
Corporate Tax	5,569	4,460	5,470
Income Tax	4,927	4,590	5,610
Customs Duty	1,093	1,120	1,360
Excise	2,406	3,610	3,350
Tax on UTI	58	58	71
GST (CGST+ IGST +cess)	5,988	5,151	6,300
<b>Gross Tax Revenue</b>	<b>20,101</b>	<b>19,003</b>	<b>22,171</b>

Budget Plan (Rs bn)	FY20(A)	FY21(RE)	FY22(BE)
Tax Collections	13,569	13,445	15,454
Change (%)	3.0	(0.9)	14.9
Non Tax revenue	3,272	2,107	2,430
Change (%)	38.8	-35.6	15.4
Capital receipts	10,023	18,952	16,948
<b>Total Receipts</b>	<b>26,863</b>	<b>34,503</b>	<b>34,832</b>
Change (%)	16.0	28.4	1.0
<b>Total Exp</b>	<b>26,863</b>	<b>34,503</b>	<b>34,832</b>
Change (%)	16.0	28.4	1.0
<b>Revenue deficit (%)</b>	<b>3.3</b>	<b>7.5</b>	<b>5.1</b>
<b>Fiscal Deficit (%)</b>	<b>4.6</b>	<b>9.5</b>	<b>6.8</b>

A - Actual, RE - Revised Estimates, BE - Budgeted Estimates

## Budget Outcomes : Sector wise

Budget Highlights	Impact
<b>Banking &amp; Financial Services</b>	
<ul style="list-style-type: none"> <li>PSU Bank recapitalisation amounting Rs. 20,000 cr.</li> <li>Privatisation of 2 public sector banks .</li> <li>Govt. to setup Asset reconstruction and management company to take over existing stressed debt of banks.</li> </ul>	<ul style="list-style-type: none"> <li>Positive for PSU banks. SBI</li> <li>Promote better governance structure in PSU banks.</li> <li>Positive for banks with huge non performing assets in their books.</li> </ul>
<b>Insurance</b>	
<ul style="list-style-type: none"> <li>Increase in FDI limit from 49% to 74%.</li> <li>Privatisation of one general insurance company.</li> </ul>	<ul style="list-style-type: none"> <li>Positive for HDFC Life, ICICI Prudential Life and ICICI Lombard.</li> </ul>
<b>Water &amp; Sanitation</b>	
<ul style="list-style-type: none"> <li>Allocation of Rs. 2.86 lakh cr. for Jal Jeevan Mission Urban.</li> <li>Allocation of Rs. 1.42 lakh cr. for Urban Swatch Bharat Mission.</li> </ul>	<ul style="list-style-type: none"> <li>Increased focus on water and sanitation. Positive for VA Tech Wabag.</li> </ul>
<b>FMCG</b>	
<ul style="list-style-type: none"> <li>Sharp increase in capital expenditure, provided Rs. 5.54 lakh cr. which is 34.5% more than the BE of 2020-21.</li> <li>Enhanced the agricultural credit target to Rs. 16.5 lakh cr. in FY22.</li> </ul>	<ul style="list-style-type: none"> <li>Positive for FMCG players like HUL, Britannia, Nestle, DMart.</li> </ul>
<b>Consumer discretionary</b>	
<ul style="list-style-type: none"> <li>Ujjwala Scheme which has benefited Rs. 8 cr. households will be extended to cover 1 cr. more beneficiaries.</li> </ul>	<ul style="list-style-type: none"> <li>Positive for Pressure cooker manufacturers like TTK Prestige.</li> </ul>
<b>Infrastructure</b>	
<ul style="list-style-type: none"> <li>To award 8,500km of national highway by March, 2022 and complete an additional 11,000kms of national highway corridors.</li> <li>Allocation for roads &amp; highways increased by 28% to Rs. 1.18 trillion for FY22, will provide ample push for road construction segment.</li> <li>Further, Govt. planned to award 6,575kms of NH worth Rs. 2.27 lakh cr. to various states including Tamil Nadu, Kerala, West Bengal &amp; Assam.</li> </ul>	<ul style="list-style-type: none"> <li>Increased order inflow and execution for Road Infra companies .</li> <li>Positive for KNR construction, Dilip Buildcon, L&amp;T , PNC Infratech.</li> </ul>
<b>Railway</b>	
<ul style="list-style-type: none"> <li>Allocated Rs. 1.1 lakh cr. for Railways of which Rs. 1,07 lakh cr. is for capital expenditure.</li> <li>New National Railway Plan for India 2030 for a total allocation of Rs 1.15 lakh cr.</li> <li>Push for Private participation in railway station and running trains on the network to promote Atma Nirbar. Hoping for 150 private trains by first half of year.</li> <li>100% electrification of the broad gauge network by December 2023 and enhance LHB coaches (passenger coaches) for tourist destination route.</li> </ul>	<ul style="list-style-type: none"> <li>Positive for Railway Infra companies: Texmaco, NCC, BEML .</li> <li>Positive for KEC International .</li> </ul>

## Budget Outcomes : Sector wise

Budget Highlights	Impact
<b>Auto &amp; Auto Ancillary</b>	
<ul style="list-style-type: none"> <li>Proposed Incentives for scrap page policy for personal vehicle (upto 20yrs) and Commercial vehicle (upto 15 yrs.).</li> </ul>	<ul style="list-style-type: none"> <li>Incremental sales for Automobile Manufactures</li> </ul>
<ul style="list-style-type: none"> <li>Announcement of capital investment of Rs. 5.54 trillion (Rs. 4.39 trillion FY21) in developing infrastructure around the country.</li> </ul>	<ul style="list-style-type: none"> <li>Positive for Ashok Leyland, Tata Motors</li> </ul>
<ul style="list-style-type: none"> <li>Invest Rs. 18,000 cr. for a scheme to augment public transportation in India . Procure 20000 buses for this scheme.</li> </ul>	<ul style="list-style-type: none"> <li>Positive for Ashok Leyland, Eicher Motors</li> </ul>
<ul style="list-style-type: none"> <li>The rise in customs duty on from 10% to 15% on certain auto parts clubbed with Production Linked Incentives (PLI) scheme</li> </ul>	<ul style="list-style-type: none"> <li>Boost Auto Parts manufactures</li> </ul>
<ul style="list-style-type: none"> <li>33% increase ( Rs. 30000 cr. FY21) in rural infrastructure spending for FY22.</li> </ul>	<ul style="list-style-type: none"> <li>Positive for 2W, LCV Manufactures</li> </ul>
<b>Real Estate</b>	
<ul style="list-style-type: none"> <li>Dividend payments to REIT and InvITs to be exempted from TDS.</li> </ul>	<ul style="list-style-type: none"> <li>Debt financing by FPIs will augment funds into the sector.</li> </ul>
<ul style="list-style-type: none"> <li>Affordable housing projects to avail tax holiday for 1 more year (till March 31, 2022) and Rs. 1.5 lakh deduction on payment of interest for affordable housing extended by 1 year.</li> </ul>	<ul style="list-style-type: none"> <li>Boost demand &amp; supply in the affordable housing segment.</li> </ul>
<ul style="list-style-type: none"> <li>Tax exemption for notified Affordable Renting Housing Projects for migrant workers.</li> </ul>	
<b>Textiles</b>	
<ul style="list-style-type: none"> <li>7 Mega Investment Textile Parks (MITRA) to be launched over the next three years.</li> </ul>	<ul style="list-style-type: none"> <li>Will attract investment , boost employment opportunities.</li> </ul>
<ul style="list-style-type: none"> <li>Basic Customs Duty on nylon raw materials reduced to 5% from 7.5%.</li> </ul>	<ul style="list-style-type: none"> <li>Positive for Textile Companies</li> </ul>
<b>Cement</b>	
<ul style="list-style-type: none"> <li>Sharp increase in capital expenditure, Rs. 5.54 lakh cr. which is 34.5% more than the BE of FY21.</li> </ul>	<ul style="list-style-type: none"> <li>To boost construction and cement demand.</li> </ul>
<ul style="list-style-type: none"> <li>An enhanced outlay of Rs. 1.18 lakh cr. for Ministry of Road Transport and Highways to augment road infrastructure.</li> </ul>	
<ul style="list-style-type: none"> <li>To incentivise purchase of affordable house extended to 31st March 2022.</li> </ul>	
<b>Fisheries</b>	
<ul style="list-style-type: none"> <li>Prawn Feed customs duty increased from 5% to 15%.</li> </ul>	<ul style="list-style-type: none"> <li>Positive for domestic Feed manufacturing companies like Avanti Feeds Ltd.</li> </ul>
<ul style="list-style-type: none"> <li>Substantial investments in the development of modern fishing harbours and fish landing centres.</li> </ul>	<ul style="list-style-type: none"> <li>Positive for the sector.</li> </ul>
<b>Healthcare</b>	
<ul style="list-style-type: none"> <li>Allocation toward healthcare increased from Rs. 0.94 lakh cr. to Rs. 2,24 lakh cr. an increase of 137% YoY.</li> </ul>	<ul style="list-style-type: none"> <li>Positive for Cadila, Torrent pharma, Cipla.</li> </ul>
<ul style="list-style-type: none"> <li>New centrally sponsored PM- Aatmanirbhar Swasth Yojana scheme launched with an outlay of Rs. 64,180 cr. to upgrade health systems in the country.</li> </ul>	
<ul style="list-style-type: none"> <li>Under the Swasth Yojana scheme, 17000 rural and urban centres will be supported, new health labs and 3000+ public block units to be set up across different states.</li> </ul>	
<ul style="list-style-type: none"> <li>Rs. 35,000 cr. allocated towards Covid-19 vaccination.</li> </ul>	

## Rural Development & Agriculture

### Budget Highlights

#### Agriculture, Fertiliser & Chemicals, Dairy

- Increased allocation to rural infrastructure development fund from Rs. 30,000 cr. to Rs. 40,000 cr.
- 1000 more Mandis to be integrated to National Agriculture Market (E-NAM).
- Number of perishable products under "operation green scheme" increased from 3 to 22.
- Increase in agriculture credit target to Rs. 16.5 lakh cr. in FY22.
- Increase in Micro Irrigation Fund allocation by Rs. 5,000 cr.
- Increase in demand for fertilizers, tractors, pumps and other agri products. Positive for KSB pumps, Mahindra & Mahindra and Coromandel International.
- Improves financing for farmers to purchase agri products.
- Demand for agri-pumps to improve. Positive for KSB Pumps, Shakti Pumps and Kirloskar.

#### Welfare & development schemes

- Mission Poshan 2.0- merging the Supplementary Nutrition Programme and the Poshan Abhiyan. Also adopt an intensified strategy to improve nutritional outcomes across 112 Aspirational Districts.
- The Urban Swachh Bharat Mission 2.0 -To focus on complete faecal sludge management and waste water treatment, source segregation of garbage, reduction in single-use plastic, reduction in air pollution by effectively managing waste from construction-and-demolition activities and bio-remediation of all legacy dump sites.
- Provided Rs. 35,000 cr. for Covid-19 vaccine in BE 2021-22. The Pneumococcal Vaccine will be rolled out across the country which will avert more than 50,000 child deaths annually.
- Ujjwala Scheme will be extended to cover 1 crores more beneficiaries. Add 100 more districts in next 3 years to the City Gas Distribution network. A special scheme provide Rs. 1,000 cr. for the welfare of Tea workers especially women and their children in Assam and West Bengal.
- 'Operation Green Scheme' enlarged to include 22 perishable products. The Micro Irrigation Fund is doubled to Rs. 10,000 cr. The Agriculture Infrastructure Fund would be made available to APMCs for augmenting their infrastructure facilities.
- One Nation One Ration Card plan is under implementation by 32 states and Uts benefitting especially migrant workers, – that's a total of 86% beneficiaries covered. The remaining 4 states and UTs will be integrated in the next few months.

#### Other highlights

### Budget Highlights

- 100 new Sainik Schools will be set up in partnership with NGOs/ private schools/states. More than 15,000 schools will be qualitatively strengthened to include all components of the National Education Policy.
- Under the scheme of Stand Up India, the margin money requirement reduced from 25% to 15%, and to also include loans for activities allied to agriculture.
- The Government would support the development of a world class Fin-Tech hub at the GIFT-IFSC.
- Revised the definition for Small Companies by increasing their thresholds for Paid up capital from "not exceeding Rs.50 Lakh" to "not exceeding Rs. 2 cr." and turnover from "not exceeding Rs. 2 cr." to "not exceeding Rs. 20 cr."
- Incentivize the incorporation of One Person Companies (OPCs) by allowing OPCs to grow without any restrictions on paid up capital and turnover.

## Macroeconomics

### Budget Highlights

#### Fiscal Scenario

- Total expenditure for FY22 estimated at Rs. 34.8 lakh cr.
- Disinvestment target pegged at Rs 1.75 lakh cr.
- Fiscal deficit for FY22 estimated to be 6.8 percent of GDP.
- Gross market borrowing for FY22 projected at Rs 12 lakh cr.

#### Direct Tax - Individuals

- Senior citizens (75 years and above), who have only pension and interest income, exempted from filing IT returns.

#### Indirect Tax

- Increased basic customs duty for creating level playing field for the benefit of farmer, MSME and other domestic manufacturers in sectors like agriculture, chemicals, plastics, jewellery, auto ancillary in the range of 2.5% to 15%
- Increased customs duty to promote value addition in the Electronics sector in the range of 2.5% - 15%.
- Decreased customs duty on raw materials and inputs used by domestic manufacturers for reducing cost of inputs and correction of inverted duty structure in the range of 1.5% - 5%.
- Imposition of Agriculture Infrastructure and Development Cess (AIDC) on specified goods like gold, alcoholic beverages, crude palm oil, apples Coal on customs side (in the range of 2.5% - 100%) and Rs.2.5 per litre on petrol & Rs.4 per litre on diesel on excise side. However, Basic customs duty rates has been reduced on certain items in the range of 1% - 50% so that overall consumer does not bear additional burden on most of the items.
- SWS (Social Welfare Surcharge) on Agriculture Infrastructure and Development Cess is exempted for Gold and Silver

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