ICICI direct Research

UNION BUDGET REVIEW 2021-22

The Union Budget 2021-22 was clearly growth focussed with sharp increase in capex allocation (up ~26% YoY), and outlining manufacturing as the key pillar for the economy, while rightly allowing for higher fiscal deficit, given the low interest scenario. Most importantly, along with capex path, the budget has also outlined the additional financial avenues to attain the same, through setting up Development Financial Institution (DFI), monetization of infra assets and divestment plans of non-core asset.

Key budget highlights :

- Given the need for high growth push to revive the economy from pandemic shock, the government has significantly revised fiscal deficit target upwards to 9.5% for FY21E and 6.8% for FY22E vs 3.8% reported in FY20
- The government has pegged nominal GDP growth at 14.4% for FY22BE. The numbers assumed in the budget estimates for FY22 are realistic and achievable
- As expected, the government has pegged capital expenditure at ₹ 5.54 lakh crore (up 26%) in budget. It has also allocated ₹2.0 lakh crore towards additional capex for states.
- The key focus for allocation to spur infra growth is spread across segments like railways, roads, water, urban infrastructure like metros and healthcare etc.
- On the disinvestment front, the government has remained realistic by revising target downwards to ₹1.75 lakh crore vs budgeted target of ₹2.1 lakh crore for FY21BE
- PLI launched to create manufacturing global champions across 13 sectors with amount committed nearly ₹1.97 lakh crore in next 5 years starting FY2021-22
- The Budget also proposes a new centrally sponsored scheme, PM Atmanirbhar Swasth Bharat Yojana, to be launched at an outlay of about ₹ 64180 crore over six years. Apart from this, additional ₹ 35000 crore was allocated for Covid-19 vaccine
- Further, the biggest positive surprise was no major tweaking in the direct and indirect taxes.

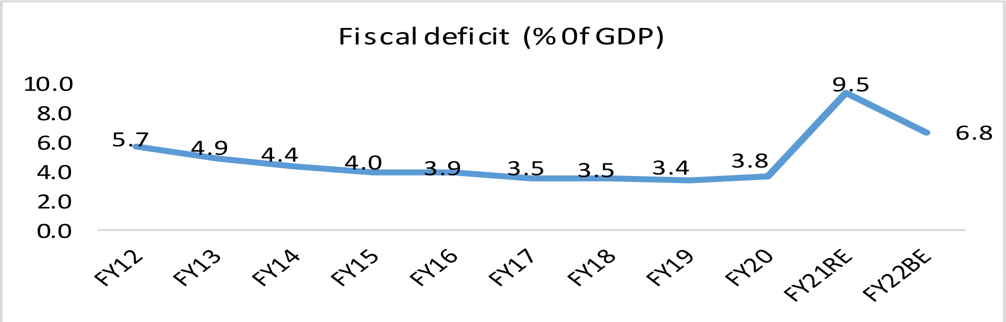
Growth takes precedence over fiscal deficit…

- Nominal GDP growth has been pegged at 14.4% for FY22BE after likely contraction in FY21BE
- Given the need for high growth push to revive the economy from the pandemic shock, the government has significantly revised the fiscal deficit target upwards to 9.5% for FY21E and 6.8% for FY22E vs. 3.8% reported in FY20
- Significant emphasis is being put on the capital expenditure front with budgeted growth of 30.8% YoY for FY21BE (₹ 4.39 lakh crore) and 26.2% for FY22BE (₹ 5.54 lakh crore). While revenue expenditure is expected to increase substantially by 27.4% to ₹ 30.1 lakh crore in FY21BE due to a sharp spike in total subsidy, the same is likely to contract by 2.7% in FY22BE with stabilisation of the economy

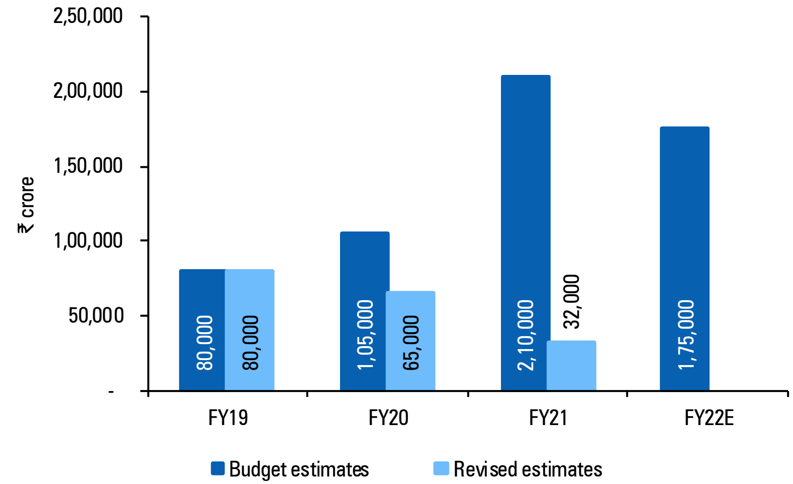
Fiscal deficit pegged at 9.5% for FY21BE, 6.8% for FY22E

Govt's fiscal position (₹ crore)	FY19	FY20	FY21RE	FY22BE
Direct Tax revenues	1136616	1170000	905000	1108000
Indirect Tax revenues	943851	993423	995280	1109059
Net Tax revenues [A]	1317213	1504587	1344501	1545396
Non-tax revenues [B]	235704	345513	210654	243028
Disinvestmt & Others [C]	112779	81605	46497	188000
Total Revenue [A+B+C]	1665696	1931705	1601652	1976424
Capital Exp [D]	307714	335726	439163	554236
Revenu Exp [E]	2007400	2350604	3011142	2929000
Total Expenditure [D+E]	2315114	2686330	3450305	3483236
Fiscal Deficit	**-649418**	**-754625**	**-1848653**	**-1506812**
Nominal GDP (In Lakh)	190	204	195	223
Fiscal deficit as (%) of GDP	**3.4**	**3.7**	**9.5**	**6.8**

Ten year's fiscal deficit trend (as percentage of GDP)



Disinvestment agenda receives solid push



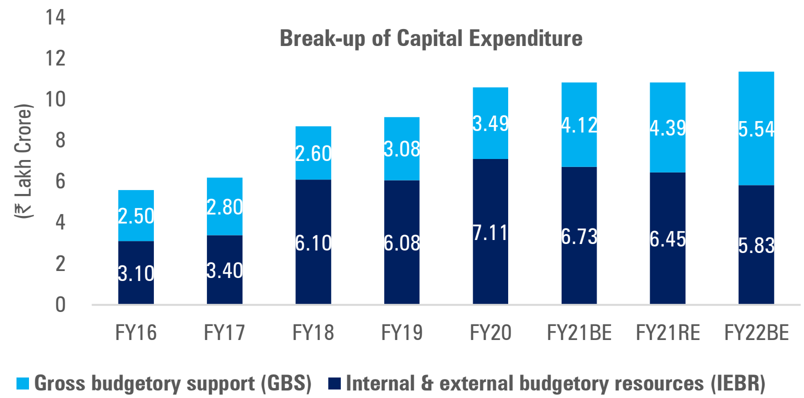
- On the disinvestment front, the government has remained realistic by revising its target downwards to ₹ 1.75 lakh crore vs. budgeted target of ₹ 2.1 lakh crore for FY21BE
- The government said that all disinvestments announced earlier would be completed in FY22E with Niti Aayog tasked with identifying new targets
- Two public sector banks, one public general insurer and, importantly, LIC of India would also form part of FY22 disinvestment agenda
- Separately, the government also announced an asset monetisation plan for encashing several operational assets such as NHAI toll roads, power transmission projects, oil & gas pipelines, tier II, III airport assets, warehousing assets & sports stadia, etc

*Source:: Ministry of Finance, ICICI Direct Research; *IE = I-direct Estimates*

Infrastructure spending at epicentre of higher public capex in Budget..

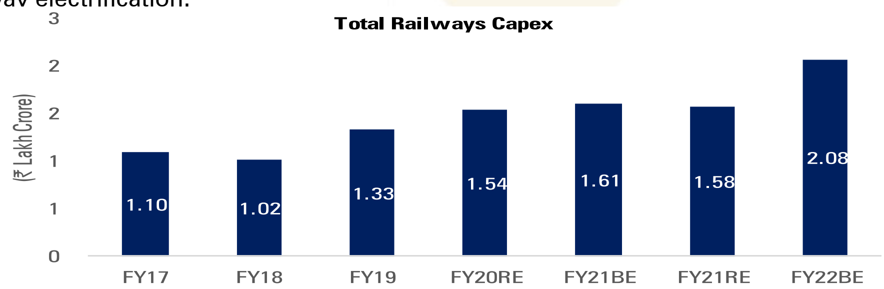
- As expected, the government has stepped up its capital expenditure gross budgetary support (GBS) allocation at by 26% YoY to ₹ 5.54 lakh crore in the Budget to ramp-up infrastructure spending with focus on economic revival
- Further, ₹ 2 lakh crore towards additional capex to nudge states, allocation of ₹ 20000 crore toward setting up DFI to have lending portfolio of ₹ 5 lakh crore over the next three year with an aim to mobilise funding required to fulfil NIP and create opportunities in key segments like railways, roads, infrastructure power, defence, etc

Capital Expenditure Gross Budgetory Support (₹ Crore)	FY17	FY18	FY19	FY20	FY21BE	FY21RE	FY22BE
MoRTH	41493	50752	67646	72059	81975	92053	108230
Railway	45232	43418	52837	65837	70000	108398	107100
Defence	86357	95431	95231	110394	113734	135510	135061
Housing & Urban Affairs	16511	15346	15773	19197	21149	10162	25759
Power, Renewable Energy, Coal	3826	1942	2061	1893	1134	319	1565
Petroleum & Natural Gas	3451	1131	1908	619	907	773	427
Other	88039	55120	72258	78908	123186	91870	176094
Total	**284909**	**263140**	**307714**	**348908**	**412085**	**439085**	**554236**
Additional Stimulus Capex	0	0	0	0	25000		0
Grand Total	**284909**	**263140**	**307714**	**348908**	**437085**	**439085**	**554236**
YoY		-8%	17%	13%	25%	26%	26%



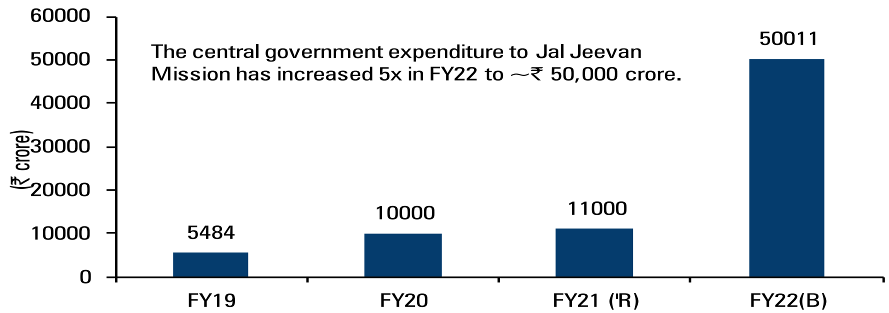
Railways

Railways capex allocation at ₹ 2.07 lakh crore, up 32%, YoY including IEBR capex (done by PSUs) of ₹ 1.07 lakh crore with focus on Dedicated Freight Corridors (DFC), Regional rapid transit system (RRTS), new line gauge conversions and railway electrification.



Jal Jeevan Mission

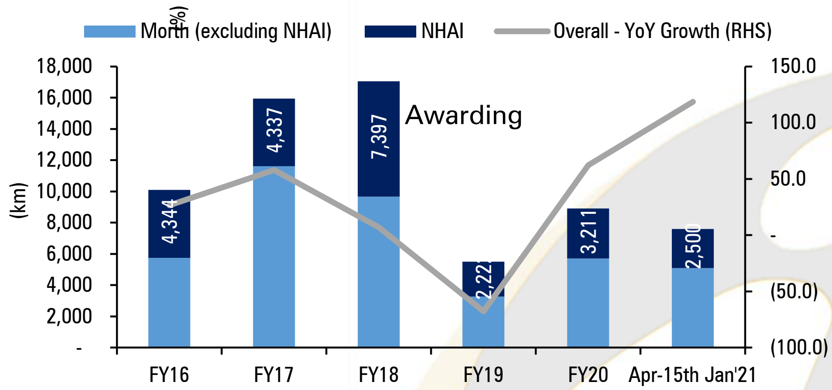
- Government plans to provide tap water connection to ~13 crore rural household by 2024 and ~2.8 crore urban household by 2026



*Source:: Ministry of Finance, ICICI Direct Research; *BE- Budget Estimates, RE-Revised Estimates*

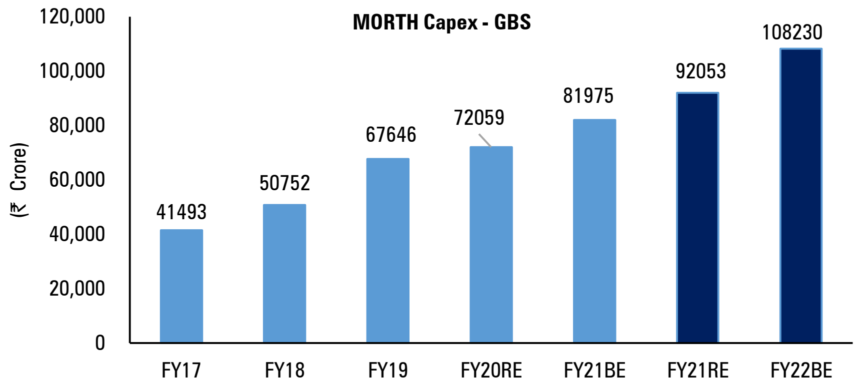
Infrastructure spending at epicentre of higher public capex in Budget..

Roads & Highways



- Roads & Highways were clearly the most resilient segment of infrastructure. On the overall capex front, for Roads and Highways, the revised estimates (RE) FY21E spends is pegged ~12% higher at ₹ 92053 crore vs. budgeted estimates (BE) of ₹ 81975. Even for FY22E, the government has pegged the road capex at ₹ 108230 crore, growth of 17% YoY on a decent RE base. The government is also looking to provide alternative financing source by monetising five operating projects worth ₹ 5000 crore through NHAI INVIT
- On expected lines, the FM indicated that MoRTH is likely to surpass their 11000 km target in FY21E with ~8500 km likely road award in H2FY21. We believe key drivers of the same have been a) strong order pipeline having 80%+ land availability, b) favourable changes in Public private partnership models certifying higher acceptability and c) monthly payment to contractors ensuring decent cash flows and ability to bid

MoRTH Capex (GBS)



Defence

- Overall defence budget to grow 1.4% to ₹ 4.78 lakh crore while capital outlay on defence is budgeted at ₹ 1.35 lakh crore, up 1% YoY on a revised base

Overall Defence Expenditure (₹ Crore)	FY17	FY18	FY19	FY20RE	FY21BE	FY21RE	FY22E
Capital Outlay on Defence	86357	95431	95231	110394	113734	134510	135060
Ministry of Defence (Civil)	15014	15143	10880	14713	14500	15914	15257
Defence Services (Revenue)	162353	182121	195572	205902	209319	209312	212027
Defence Pensions	87826	92000	101775	117810	133825	125000	115850
Total Defence Expenditure	**351550**	**384695**	**403457**	**448819**	**471378**	**484736**	**478194**
YoY (%) Growth [R.H.S.]		9.4%	4.9%	11.2%	5.0%	8.0%	1.4%

Source:: NHAI, MoRTH, Media Articles, ICICI Direct Research

Focussed sectors – Manufacturing & Healthcare

PLI

Sectors	Estimated Exp (₹ crore)
Mobile phone manufacturing	47240
API & others	6940
Manufacturing of Medical devices	3420
Advanced Cell Chemistry Battery	18100
Electronic/Technology products	5000
Automobiles & Auto Components	57042
Pharmaceutical Drugs	15000
Telecom & Networking products	12195
Textile products	10683
Food products	10900
High Efficiency Solar PV Modules	4500
White Goods (Acs & LED)	6238
Specialty Steel	6322
Total	203580

- PLI launched to create manufacturing global champions across 13 sectors with amount committed at nearly ₹ 1.97 lakh crore in the next five years starting FY21-22

Healthcare

Healthcare budgetary allocation

₹ in crore	2019-20A	BE 2020-21	BE 2021-22	YoY %
Dep of Health & Family Welfare	**62397**	**65012**	**71269**	**10%**
- NHM	34660	33400	36576	**10%**
- NRHM	29987	27039	30100	**11%**
- PMSSY	4683	6020	7000	**16%**
- Ayushman Bharat	3200	6400	6400	**0%**
Dep. Of Health Research	1861	2100	2663	**27%**
Ministry of Health & Family Welfare	**64258**	**67112**	**73932**	**10%**
Covid vaccination	**-**	**-**	**35000**	

- Allocation to health & welfare increased by 10% YoY. Apart from this, additional ₹ 35000 crore was allocated for Covid-19 vaccine
- The Budget also proposes a new centrally sponsored scheme, PM Atmanirbhar Swasth Bharat Yojana, to be launched at an outlay of about ₹ 64180 crore over six years. Among others, it includes an important aspect of establishing critical care hospital blocks in 602 districts and 12 central institutions. We expect the government to involve private hospital players in this intervention via PPP model as proposed by Niti Aayog in sync with NHP 2017

Source:: NHAI, MoRTH, Media Articles, ICICI Direct Research

Capex financing expanding beyond traditional mode

The government launched the National Infrastructure Pipeline (NIP) in December 2019 with the aim of boosting infrastructure activities. Keeping in focus the long term financing need for infrastructure, the government has proposed enhancing the share of capital expenditure in central as well as state budget. Along with this, for the first time, the government has focused on non-conventional sources of funding, which includes creating institutional structure and monetising assets.

INFRA FUNDING

Setting up of DFI

Set up new DFI as infrastructure financier with capital outlay of ₹ 20,000 crore. Lending target set at ₹ 5 lakh crore in the next three years

Monetisation of assets

Monetisation of five operational road projects (estimated enterprise value of ₹ 5,000 crore) & grid assets valued at ₹ 7,000 crore via InvIT

High budgetary allocation

Budgetary allocation of ₹ 5.54 lakh crore with additional outlay of ₹ 2 lakh crore to states and autonomous bodies

Zero Coupon Bond

Allowing Infrastructure Debt Funds (IDF) to raise funds by issuing tax efficient zero coupon bonds

Source: Budget, ICICI Direct Research

Personal Income Tax: No major changes

- No major changes in income tax rates or slabs for individuals or corporates
- Unit linked insurance products (Ulips) with higher premium above ₹ 2.5 lakh per annum will be subject to taxed on maturity. It will bring the taxation on higher value Ulips at par with mutual funds
- Additional deduction of ₹ 1.5 lakh on interest on housing loan for affordable housing has been extended on home loans till March 31, 2022. The scheme was first introduced in the 2019 budget and has seen extension since then
- Tax exemption on interest earned on employee's contribution towards various provident funds has been restriction to the annual contribution of ₹ 2.5 lakh
- No requirement of filing income tax returns for senior citizens above the age of 75 years if they have income only from pension and interest income
- Time limit for re-opening of income tax cases has been reduced to three years from six years earlier except for serious cases where it can be re-opened up to 10 years
- Tax-efficient zero coupon infrastructure bonds will be issued by infrastructure debt funds
- A faceless tax dispute resolution committee will be set up for small tax payers for taxable income up to ₹ 50 lakh and disputable income of ₹ 10 lakh to ensure transparency and reduce litigation
- Income tax returns will be pre-filled with capital gains and interest from banks, post office, etc, to ensure convenience and prevent under/non reporting

Source:: Ministry of Finance, ICICI Direct Research;

Budget beneficiaries…

Company	Impact	Comment
Larsen & Toubro, UltraTech Cement	Positive	Budget allocation of ₹ 5.54 lakh crore for infrastructure spending, ₹ 2 lakh crore to states & further ₹ 20000 crore for setting up DFI should create robust tendering opportunity for L&T
Narayana Hrudayalaya, Apollo Hospital, Shalby	Positive	Proposes PM AtmaNirbhar Swasth Bharat Yojana to be launched at an outlay of about ₹ 64180 crore over six years. Among others, it includes establishing critical care hospital blocks in 602 districts and 12 central institutions. We expect the government to involve private hospital players via PPP model as proposed by the Niti Ayog in sync with NHP 2017
Titan Company	Positive	Rationalisation of custom duty on gold from current 12.5% to 7.5% could be positive for Titan's jewellery division as reduction in gold prices may lead to enhanced demand for gold grammage and lower import via unofficial channel
KPR Mill, Gokaldas Exports, Arvind Ltd	Positive	To enable the textile industry to become globally competitive, a scheme of Mega Investment Textiles Parks (MITRA) will be launched in addition to the PLI scheme. This will create world class infrastructure with plug & play facilities to enable create global champions in exports. Seven textile parks will be established over three years
Supreme Industries, Astral Poly	Positive	In Jal Jeeval Mission for Urban households, the government would be setting up 2.86 crore water tap connection at an outlay of ₹ 2.87 lakh crore over the next five years. This would benefit plastic pipe companies with incremental demand of PVC pipes
Ashok Leyland, Tata Motors, JK Tyre, Apollo Tyres	Positive	1) Support to the commercial vehicle space through allocation of ₹ 18,000 crore for procurement of over 20,000 buses for urban transport. It is aimed to be implemented deploying PPP model. 2) Announcement of voluntary scrappage policy for commercial vehicles >15 years of age and private vehicles >20 years of age
Phillips Carbon Black	Positive	Increase in basic customs duty on carbon black (tyre chemical) from 5% to 7.5%
Mahindra EPC Irrigation	Positive	Doubling the corpus fund under Nabard for micro-irrigation at ~₹ 10,000 crore vs. ~₹ 5,000 crore earlier
Action Construction Equipment	Positive	Allocation of ₹ 5.54 lakh crore for capex spending and overall push in infrastructure space should boost demand for Action Construction Equipment
ITC, VST Industries	Positive	No tax or duty increases on cigarettes is relief for cigarette companies. We have seen stable taxation on tobacco post GST implementation in last three years with only one year tax increase (only in 2020 Budget). Major beneficiaries ITC, VST Industries
IOC, Gail	Positive	Oil & gas pipeline assets of IOC & Gail will be monetised under Asset Monetisation Programme. This move will help to unlock the value of pipeline business for companies and will be value accretive to shareholders
Indraprastha Gas, Mahanagar Gas, Gujarat Gas, Adani Total Gas & Gail	Positive	In the next three years, 100 districts will be added to existing CGD network. Addition of new areas will provide incremental opportunity of volume growth for CGD companies
Tata Steel, JSW Steel	Negative	The announcement of revoking ADD and CVD on certain steel products and reduction in custom duties uniformly to 7.5% on semis, flat, and long products (from 10%/12.5% earlier), is negative for steel sector

Budget beneficiaries…

Company	Impact	Comment
Jindal Stainless, Jindal Stainless Hisar	Negative	Revoking of provisional countervailing duty on imports of flat products of stainless steel, originating in or exported from Indonesia is negative for stainless steel players
TTK Prestige, Hawkins Cooker	Positive	After achieving target of 8 crore LPG connections, Pradhan Mantri Ujjwala Yojana would cover another additional 1 crore beneficiaries. We believe it could boost demand for kitchen appliances
HDFC AMC, Nippon AMC	Positive	Aggregate premium on unit linked products higher than ₹ 2,50,000 to be disallowed benefit under section 10D wherein it will be taxable and capital gains will be charged like mutual funds
All PSU Banks	Positive	Divestment of two PSU banks in a bid to expedite long-awaited reforms bode well for multiple re-rating of all PSU banks
PNC Infratech, KNR Constructioi	Positive	Increase in roads & highways capex allocation by ~17% YoY at ₹ 108230 crore to boost order inflows for road EPC players

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