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Union Budget

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Looking beyond convention

- **The policymakers have looked beyond convention to ensure that the effective fiscal stance does not become staunchly pro-cyclical ahead, while policy adherence to medium-term fiscal sustainability is signaled. We reckon innovative financial sector reforms, better resource allocations, stable tax regime and fiscal funding by aggressive asset sales in the form of existing functional infrastructure monetization, reinstitution of the DFI model, core and strategic disinvestment, etc. as positive for medium-term growth potential. We remain OW on domestic-cyclicals (Banks and Autos), Building materials and Pharma.**
- **FY22BE GFD/GDP is pegged at 6.8% after a whopping slippage to 9.5% in FY21, implying net and gross borrowings of Rs9.25tn and Rs12.05tn respectively. Tax revenue assumptions are rather conservative and could surprise on the upside. The Rs1.7tn disinvestment target and mix of capital and revenue spending appear reasonable too.**
- **Capex-led stimulus over a consumption-focused stimulus is the focus, especially amid its larger multiplier effect on employment and growth. Centre's capex-to-GDP ratio is budgeted to jump to 2.5%. Even as the Centre's capex is likely to jump 26%yoy, total public Capex funding of direct fiscal and IEBR route may see a modest growth of 5%.**

Fiscal consolidation amid shifting economic ideologies; Remain OW on domestic cyclicals
Policymakers have looked beyond convention to ensure that an effective fiscal stance does not become pro-cyclical ahead, while policy adherence to medium-term fiscal sustainability is signaled. Key steps such as 1) Innovative financial sector reforms; 2) better resource allocation; 3) stable tax regime and economic certainty; and 4) possible fiscal funding by aggressive asset sales in the form of existing functional infrastructure monetization, disinvestment and strategic sale – will contribute to better growth potential in the medium term. The reinstitution of the modified DFI model to fund the infrastructure pipeline is a significant step. New financial sector initiatives, such as recapitalization, ARC-led resolution and PSU bank divestment, should improve the efficacy of financial sector's ability to better fund the recovery. Overall a healthy fiscal impulse is led by: 1) a high expenditure/GDP ratio of 15.6%; and 2) front-loaded investment-focused stimulus over a consumption-focused stimulus be given, especially amid the higher growth and job multiplier effect, especially in cyclical downturns. Overall, there is a huge shift in the narrative backed by numbers, intent and political capital. We remain OW on domestic-cyclicals (Banks and Autos), Building materials and Pharma.

FY22BE GFD/GDP to consolidate at 6.8% after 9.5% in FY21; Conservative revenue assumptions
Central GFD/GDP has been pegged at 6.8% of GDP in FY22BE after a sharp slippage in FY21 GFD/GDP to 9.5% of GDP amid the inclusion of past FCI and fertilizer arrears. However, adjusted for expected asset monetization, FY22BE deficit is less pro-cyclical at 7.8% vs. 9.8% in FY21E. Tax revenue assumptions are rather conservative and could surprise to the positive. The disinvestment target of Rs1.7tn and the mix of capital and current spending also appear reasonable.

Government Capex/GDP shoots up to 2.5% in FY22BE; Including IEBR, Capex growth modest
The spending mix has favored capex (26%yoy+some policy innovations) over revex focus (-3%yoy + lower outlays for rural schemes amid fading pandemic impact). FY22BE Capex/expenditure at 16% (12.7% in FY21) is the highest since FY08. However, including IEBR, the capex numbers look less robust, seeing 5% growth from 11% in FY21RE. That said, innovative funding levers such as DFI, if successfully implemented, could have a much higher multiplier effect on infra financing in the medium term. Meanwhile, Revex focus continues on healthcare, while the subsidy bill will come down in FY22BE.

Net market borrowings to remain elevated at Rs9.25tn; Pressure on bonds to remain
After having slipped in FY21 revised borrowing targets by Rs800bn, FY22BE Net/Gross borrowing remains elevated at Rs9.25tn/Rs12.05tn. This implies RBI support in the form of OMOs will be required to maintain demand-supply balance. Amid massive supply, the evolution of G-sec demand outlook ahead will become crucial. With liquidity normalization picking further pace by mid-CY21 and policy rates likely having bottomed out, the appetite for duration risk on G-sec will likely fade. Thus, RBI support in the form of OMOs will be required to maintain demand-supply balance. We expect actions such as Operation twists/OMOs will continue to smoothen the distribution of liquidity across the yield curve and will reinstate the RBI's preference for curve flattening. The upcoming MPC policy will likely reinstate we are still far from a state of financial tightening, which is neither optimal nor desirable at the current juncture. We reckon coordinated fiscal and monetary stance as the need of the hour to catalyze a nascent growth recovery.

Please see our model portfolio (Emkay Alpha Portfolio): **Nifty (Page 13)**

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Key Highlights:

- FY22BE targets GFD/GDP of 6.8% vs. 9.5% in FY21RE.
- Tax/GDP ratio to stay a tad below 10%; Budgeted divestment proceeds at 0.8% of GDP.
- Govt. Capex growth to outgrow revex growth and will likely to jump to 2.5% of GDP.
- Net/Gross market borrowing to remain elevated at Rs9.25tn/Rs12.05tn in FY22BE; Pressure on bonds to remain despite curve flattening.
- We remain OW on domestic-cyclicals (Banks and Autos), Building Materials and Pharma.

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The delicate act of maximizing fiscal impulse while consolidating

The policy trade-offs have been extremely delicate over the past few years, especially with the secular slide in growth and steady increase in net public borrowing requirements hovering around 9% of GDP in recent years. With Covid-19 disturbing the aim of fiscal consolidation in a significant way, these policy trade-offs have become even more acute and the consolidation path from here on looks even more daunting.

In line with the guidance from the Economic Survey, the government chose to prioritise cyclical growth revival rather than being driven purely by fiscal consolidation. The policy aim clearly is to squeeze the gap between the pre-pandemic growth trend and the current path as much and as fast as possible by pushing the long-term growth trajectory up.

The policy approach in this budget becomes even more crucial amid a nascent and patchy K-shaped growth recovery post Covid-19, potentially scarring and divided labor market. The income shock at the bottom of the pyramid and transfer of income from the bottom to the top, if permanent, could also mean the growth and demand levers could lose their vigour in the medium term once the pent-up pressures are exhausted.

Hence, it was even more pertinent that the budget maximizes the fiscal impulse available by focusing expenditure on both demand management and domestic production. Thus, the budget also lays out the path to revert to more medium-term debt sustainability path, as they aim to increase the growth potential over the years.

Focus on health and infra ahead, giving both demand and supply-side push

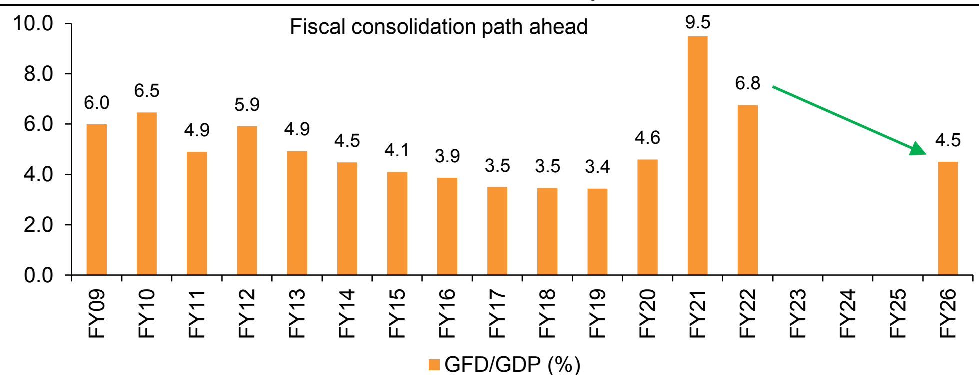
The government outlined six key pillars in the budget, focusing on health, infrastructure, inclusive growth, and innovation among other areas. There were large increases in allocations for health programs, focus on major textile manufacturing industrial parks, along with an increase in infrastructure spending and asset monetization targets, at both the centre and state levels. The tax structure were not changed as such in the direct taxes while custom duties on a wide variety of goods were raised to encourage domestic manufacturing.

Sharp slippage in FY21 fiscal math but medium-term consolidation still in place

Abided by the recommendations of the 15th Finance Commission, the government has proposed to change the FRBM required fiscal deficit targets, hinting a glide path to lower the deficit to 4.5% of GDP by FY25-26E.

Central GFD/GDP has been pegged at 6.8% in FY22BE after a sharp slippage in FY21E GFD/GDP to 9.5% as some off-budget spending items were taken on the balance sheet (for instance, part of food subsidy and outstaning liability to the FCI) and arrears were paid for fertilizer subsidy. The total expenditure to GDP ratio has been lowered to 15.6% in FY22BE from 17.7% in FY21E, driven by a fall in Revex, while Capex continues to grow.

Exhibit 1: Governement overhauls the fiscal consolidation path



Source: CEIC, India Budget, Emkay Research

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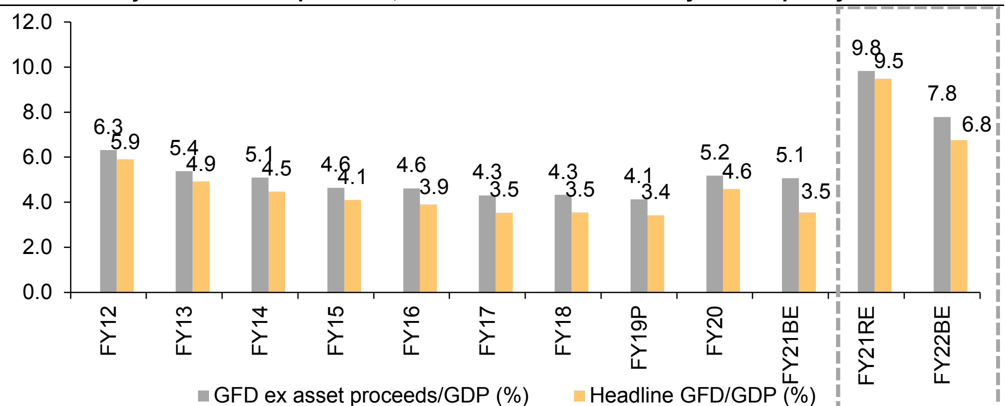
Execution of aggressive asset sales to be the key to effective fiscal response

While revenue expenditure remains biased toward the health and rural sectors, increase in quality capex spending would be the key for sustainable trend growth beyond the statistical rebound in FY22BE. The policy makers reckoned the need for large infrastructure push. However, amid rising debt sustainability concerns, the Budget rightly recognized the need to accommodate a large infrastructure push but simultaneously lay out a plan to bring headline deficits down. The most effective way to achieve it is to pledge to aggressively sell public sector assets.

We reckon the public sector has a large quantum of monetizable assets and as discussed above, effective execution of it will remain key. While historically the goverment has been doing strategic and direct divestments, it will be further complemented this by by off-loading some of the functional infrastructure assets to the private sector. Thus, overall aggressive asset sales (existing public infra monetization, disinvestment, strategic sales, etc.) will likely be used to fund an expanded infrastructure push in the coming years.

- This should allow the headline fiscal deficit to come down significantly, but will also ensure that the **underlying fiscal impulse remains healthy** because asset sales, unlike tax revenues, are not contractionary and actually have no direct fiscal multiplier effect.
- We will also see some **collateral benefits** in the form of improved and optimal resource allocation, as generally private sector management seeks to extract greater value from existing public assets.

Exhibit 2: Adjusted for asset proceeds, the fiscal stance would likely be less pro-cyclical



Source: CEIC, Emkay Research; Note: Asset proceeds include divestment and telecom proceeds

Reasonable revenue projections for FY22E add credibility to the GFD/GDP print

FY22BE tax revenue growth has been taken modest at 16.7% over nominal GDP of 14.4%. This comes after a decline of 5% in FY21E. The tax/GDP ratio is assumed to have increased marginally to 9.9% from 9.8% in FY21RE, driven largely by an improvement on the GST front, helped in part by better compliance.

- **Modest tax bouyancy assumed**: We reckon that the government may surprise to the positive here if growth momentum remains steady given the non-linear relationship between economic activity and taxes. Tax buoyancy has been taken a mere 1.2x vs. 1.3x experiecned in the Pandemic year. We believe this print will likely be better than expected in BE and could actullay surpise to positive. Even for GST, the assumptions have been modest. A monthly run-rate of ~Rs1tn/month is required to meet the target and given the imporved compliance in GST collections, this number looks acheivable.

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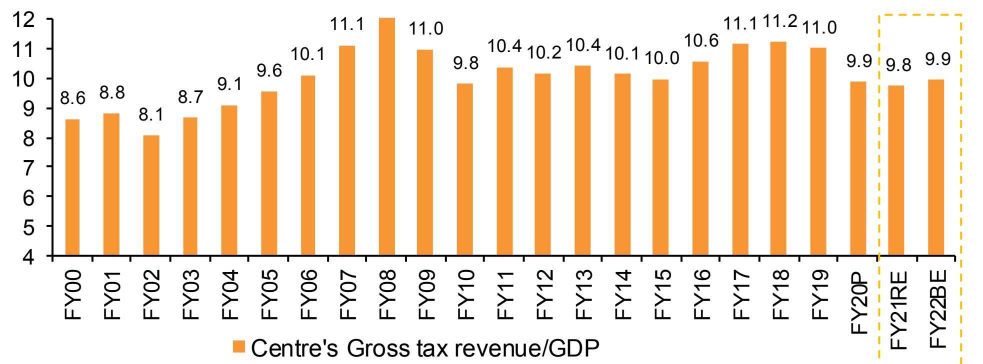
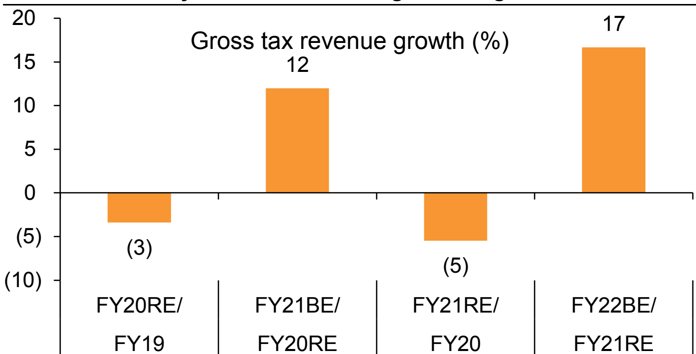
Exhibit 4: Gross tax/GDP ratio to increase modestly to 9.9% in FY22BE



Source: CEIC, India Budget, Emkay Research

Exhibit 3: …led by sub-20% assumed growth in gross taxes



Source: CEIC, India Budget, Emkay Research

Exhibit 4: Tax growth assumed a tad higher than FY21 growth

	Growth (%YoY)				
	FY19/ FY18RE	FY20/ FY19	FY21BE/ FY20RE	FY21RE/ FY20P	FY22BE/ FY21RE
Receipts breakdown					
Gross tax revenues	8	-3	12	-5	17
Direct taxes	14	-8	13	-14	22
Corporation tax	18	-16	12	-20	23
Income tax	7	4	14	-7	22
Indirect taxes	2	3	11	4	11
Goods and Services Tax	31	3	13	-14	22
Customs duty	-9	-7	10	2	21
Transfers to states, UTs and national funds	13	-14	19	-15	21
Net tax revenues	6	3	9	-1	15

Source: CEIC, India Budget, Emkay Research

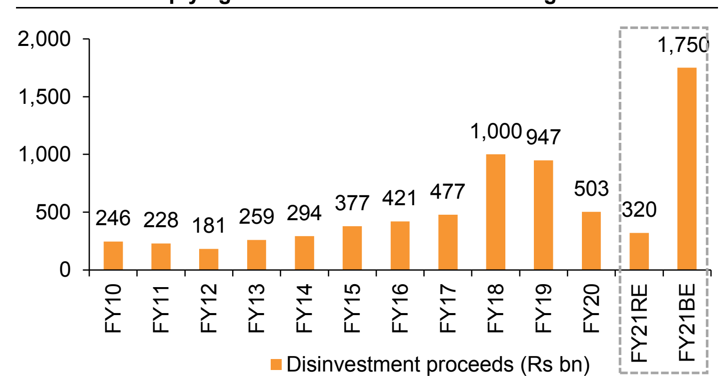
- **Divestment proceeds in FY22BE to be the key**. So far, divestments have been meagre – merely 6.6% of FY21BE and will likely be ~0.2% of GDP in FY21RE. The Finance Minister indicated that the sale of SOEs, including BPCL,Concor, Pawan Hans and Air India, will be completed this year.
  - The overall divestment target is taken as Rs1.7tn vs. Rs2.1tn in FY21BE. The governemnt has also proposed to sell a part of its holding in LIC by way of an Initial Public Offer (IPO). The monetization of non-core assets, such as pipelines, mobile towers, etc., of PSUs has not seen much traction and could see an improvement ahead. More pertinently, the monetization of existing public infra or even idle land monetization through structures such as REITS and InVITS could further help them raise resources. The policymakers also aim to privatize two PSU banks and one General Insurance Company, which will require parliamentary amendments. The much-awaited National Monetization Pipeline of public infrastructure assets is a step in the right direction. The measures under this would include NHAI operational toll roads, dedicated freight corridor assets, airports, transmission assets, gas pipelines, warehousing assets and sport stadiums.

Exhibit 5: Less than 7% of the budgeted divestment in FYTD21

Divestment so far in FY21	Rs. Bn
Hindustan Aeronautics Ltd	49.2
Bharat Dynamics Shipbuilders Ltd	7.7
Mazagon Dock	4.4
RITES Ltd	1.7
Others	18.4
IRCTC	44.76
KIOCL Ltd	1.6
NTPC	10.7
NMDC Ltd.	13.8
SAIL Ltd	27.4
Total	**179.6**

Source: DIPAM, Emkay Research

Exhibit 6: …implying divestment shortfall will be huge in FY21E



Source: CEIC, Emkay Research

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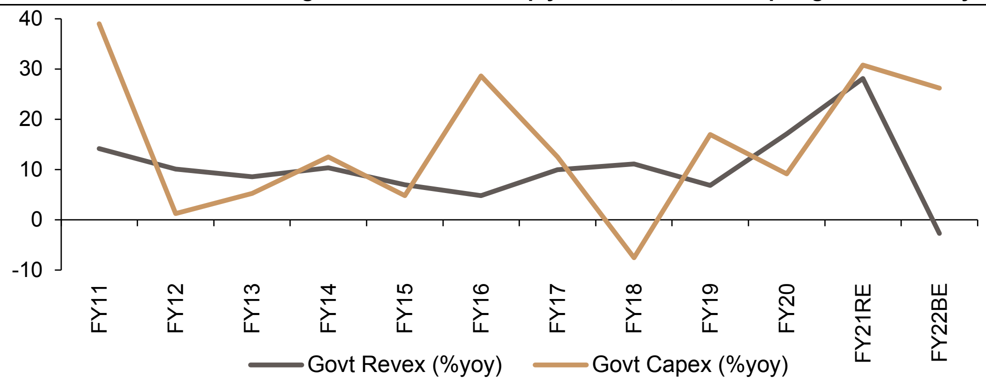
- Other non-tax revenue streams have been tracking weaker in FYTD20. The pandemic has affected profitability; thus, dividends as well as surplus transfer from the RBI and PSU banks has been lower in FY21 at Rs618bn. FY22 estimates take a modest increase of 15% after a 36% contraction in FY21 and do not assume any 5G spectum windfall either.

Expenditure side clearly prioritises Capex over Revex

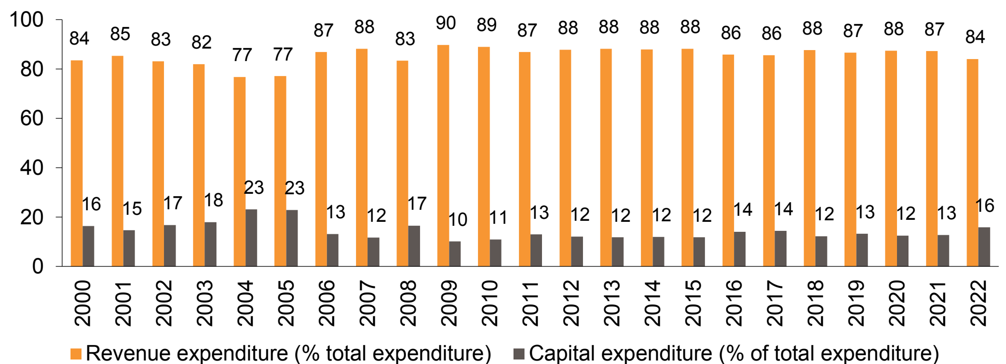
FY21 expenditure target was raised to Rs34.5tn from Rs30.4tn in BE, driven largely by an increase in the food subsidy bill and FCI arrears and somewhat by higher capex spending. FY21 government spending was largely focused on the rural sector, owing to the health crisis. However, FY22 budget has shown an inclination toward capital spending in order to boost overall growth. Overall expenditure is targeted to increase by 14.5% in FY22BE (Rs34.8tn).The government has budgeted capex worth Rs5.5tn for FY22, a 34.5% increase over FY21 BE (and 26.2% over FY21 RE). Revenue expenditure is projected to increase by 11.4% in FY22, lower than 28% recorded in FY21.

Exhibit 4: Government Revex growth to correct sharply in FY22BE, while Capex grows modestly



Source: CEIC, India Budget, Emkay Research

Exhibit 4: Capex share in total expenditure increased to pre-GFC levels



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Governement Capex/GDP ratio increase to 2.5% in FY22BE

Capex and infra were clearly the dominant themes. The share of capex is now at 15.9% of overall expenditure in FY22 - the highest since FY08 and meaningfully higher than last year's 12.7%.

The fiscal impulse has been maximized with Capex through Infrastructure and Manufacturing- building on the PLI scheme. New DFI (Development Financial Institution) with Rs200bn capital will lend Rs5trn in five years. With government doing an equity injection and debt leveraging by multiple times, the fund could garner global capital to finance the infra sector, especially as domestic private sector agents remain strained to fund infra growth.

Exhibit 7: Direct capex to GDP ratio to increase to 2.5%

	Growth (%YoY)				% of GDP				
	FY20/ FY19	FY21BE/ FY20RE	FY21RE/ FY20P	FY22BE/ FY21RE	FY19A	FY20P	FY21BE	FY21RE	FY22BE
Capital expenditure	**9**	**18**	**31**	**26**	**1.6**	**1.7**	**1.8**	**2.3**	**2.5**
Defence	11	3	21	4	0.5	0.5	0.5	0.7	0.6
Railways	28	3	60	-1	0.3	0.3	0.3	0.6	0.5
Roads and Highways	1	14	35	18	0.4	0.3	0.4	0.5	0.5
Housing and urban affairs	22	10	-47	150	0.1	0.1	0.1	0.1	0.1
Others	-4	62	36	84	0.4	0.3	0.5	0.5	0.8

Source: CEIC, India Budget, Emkay Research

Overall, direct Capex spending is tilted toward Railways, Roads, and (Affordable) Housing and stands at a whopping 2.5% of GDP. However, Capex via IEBR continues to contract, implying most borrowing focussed via centre governemnt route. The total capex (government + IEBR) to GDP ratio has fallen to 5.1% in FY22BE from 5.6% of GDP in FY21E. However, we note that the reinstating of capex spend in innovative vehicles such as DFI will have a favourable long-term funding impact on infra sector.

Revex focus on healthcare, while subsidy bill to come down in FY22

The government plans to lower the fertilizer and food subsidy bill in FY22 vis-à-vis revised estimates; however, it still remains higher than previous years. In FY22, the total subsidy bill stands at 1.7% of GDP, with 1.1% just on food. Besides subsidy, due to the large borrowing program, the government's interest payments are estimated to increase to Rs8.1tn vs. Rs6.9tn (RE) and Rs7.1trn (BE).

On the employment front, although FY22 MGNREGA allocation was cut to Rs730bn from Rs1.1tn in FY21 RE, compared to previous years the allocation continued to remain high.

Exhibit 8: Major subsidies/GDP to reduce but remain above 2%

Major Subsidy trends								
(Rs bn)	**FY16**	**FY17**	**FY18**	**FY19**	**FY20A**	**FY21BE**	**FY21RE**	**FY22BE**
Food Subsidy	1,394	1,102	1,003	1,013	1,087	1,156	4,226	2,428
%GDP	1.0	0.7	0.5	0.5	0.5	0.5	2.2	1.1
Fertiliser Subsidy	724	663	665	706	811	713	1,339	795
%GDP	0.5	0.4	0.4	0.4	0.4	0.3	0.7	0.4
Petroleum Subsidy	300	275	245	248	385	409	388	130
%GDP	0.2	0.2	0.1	0.1	0.2	0.2	0.2	0.1
Total Major subsides	**2,418**	**2,040**	**1,912**	**1,968**	**2,283**	**2,278**	**5,954**	**3,354**
%GDP	**1.8**	**1.3**	**1.0**	**1.0**	**1.1**	**1.0**	**3.1**	**1.5**

Source: CEIC, India Budget, Emkay Research

Exhibit 9: MNREGA spending to moderate in FY22

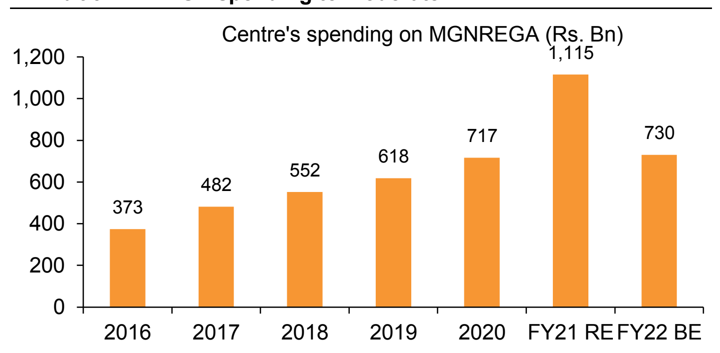

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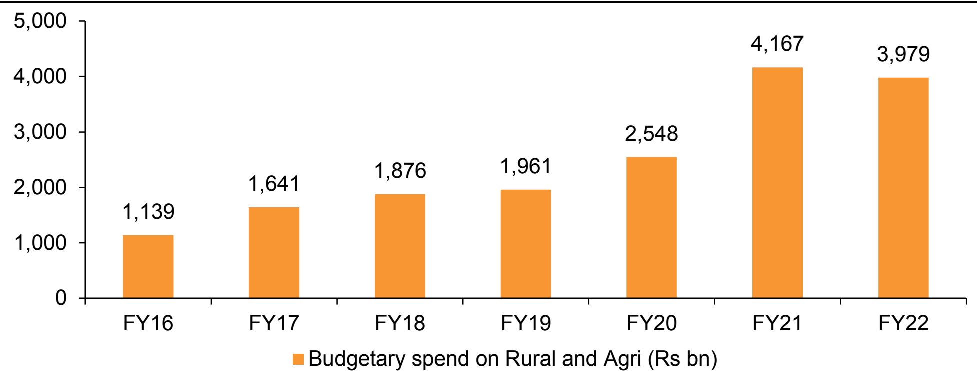
Exhibit 10: Rural and Agri sector to see reduced spending as the pandemic impact fades



Source: CEIC, India Budget, Emkay Research

Exhibit 11: GFD/GDP to print 6.8% in FY22BE

% of GDP	FY19	FY20	FY21BE	FY21RE	FY22BE
Receipts breakdown					
Gross tax revenues	10.9	9.9	10.8	9.8	9.9
Direct taxes	6.0	5.2	5.9	4.7	5.0
Corporation tax	3.5	2.7	3.0	2.3	2.5
Income tax	2.5	2.4	2.8	2.4	2.5
Indirect taxes	4.9	4.7	4.9	5.1	4.9
Goods and Services Tax	3.1	2.9	3.1	2.6	2.8
Customs duty	0.6	0.5	0.6	0.6	0.6
Transfers to states, UTs and national funds	4.0	3.2	3.5	2.9	3.0
Net tax revenues	6.9	6.7	7.3	6.9	6.9
Non-tax revenues	1.2	1.6	1.7	1.1	1.1
RBI and nat banks' transfer of surplus	0.4	0.7	0.4	0.3	0.2
Non-debt capital receipts	0.6	0.3	1.0	0.2	0.8
Disinvestments	0.5	0.2	0.9	0.2	0.8
Total Revenue receipts	**8.8**	**8.6**	**10.0**	**8.2**	**8.9**
Expenditure breakdown					
Revenue expenditure	**10.6**	**11.6**	**11.7**	**15.5**	**13.1**
Interest payments	3.1	3.0	3.1	3.6	3.6
Subsidies	1.2	1.3	1.2	3.3	1.7
Capital expenditure	**1.6**	**1.7**	**1.8**	**2.3**	**2.5**
Total expenditure	**12.2**	**13.2**	**13.5**	**17.7**	**15.6**
Deficit summary					
Primary deficit	0.4	1.6	0.4	5.9	3.1
Revenue deficit	2.4	3.3	2.7	7.5	5.1
Gross fiscal deficit (GFD)	**3.4**	**4.6**	**3.5**	**9.5**	**6.8**

Source: CEIC, India Budget, Emkay Research

Gross market borrowings to be elevated at Rs12.05tn in FY22BE

Gross market borrowing for FY22 is pegged at Rs12.1tn, a tad higher than revised FY21RE of Rs12.8tn – a slippage of ~ Rs800bn more in FY21. Net borrowings remain high at Rs9.2tn. This does not bode well for bond markets and would require the RBI's support for demand-supply balance of G-secs. The government also continues to tap into other sources of financing like NSSF. Net small savings nearly doubled in FY21 vs. BE and is expected to fund 26% of the deficit in FY22. We note that the reliance on NSSF has increased to as high as 20% vs. ~10% four years ago. Now with off-balance sheet and PSU borrowing also getting sourced from NSSF, there may incrementally be limited space to dip into NSSF funds ahead.

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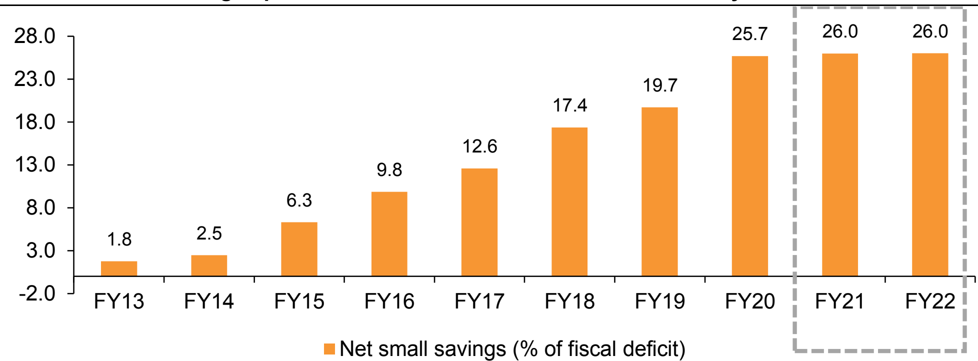
Exhibit 12: Net market borrowings to be 60% of fiscal deficit

(Rs bn)	FY20A	FY21BE	FY21RE	FY22BE
Sources of financing deficit				
Gross borrowings (dated securities)	7,100	7,800	12,800	12,055
Net market borrowing (dated)	4,740	5,449	10,528	9,247
Short-term borrowing (T-bills)	1,501	250	2250	500
External financing	87	46	545	15
State Provident fund	116.353	180	180	200
Cash balance drawdown	50	-530	-174	714
Small Savings	2,400	2,400	4,806	3,919
Others	443	508	391	543
POLIF repayment	-40	40	40	70
Net debt buyback	*0*	*300*	*0*	*0*
Switch	*1,650*	*2,700*	*1,600*	*1,800*
Repayment to states (GST)			*1,100*	
Net market borrowing (% of GFD)	**50.8**	**68.4**	**56.9**	**61.4**

Source: CEIC, India Budget, Emkay Research

Exhibit 13: The funding dependence on NSSF has increased substantially



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Budget impact on sectors

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Exhibit 14: Budget announcements and its impact on BFSI sector

Sector	Major announcements	Sector impact	Impact on stocks
BFSI - Banks	1) Voluntary Vehicle Scrappage Policy (20 yrs for Personal/15 yrs for CVs)	Positive	Positive for vehicle financiers such as IndusInd, HDFCB, ICICI, Kotak, AU SFB, Equitas SFB
	2) ARC/AMC for buying stressed loans from PSBs based on some formula as indicated by FM. The assets will then be disposed to AIFs and other investors.	Positive	PSBs have nearly Rs6trn of stressed loans and even part take-out of this stress will lead to strengthening of B/S, capital/provision release and improve capital-raising prospects from market for weaker banks. We believe take-out of stress could also facilitate privatise of some banks otherwise being one of the key concern for investors
	3) Rs200bn for recapitalization of PSBs.	Positive	To be Positive for weak banks IOB, UCO, Central, BOI and PJSB. Large banks like Canara/PNB too have faced difficulty in raising capital and thus may need support.
	4) Govt. to disinvest stake in 2 PSBs apart from IDBI and 1 General Insurance company in FY21-22.	Positive	Government had lined up IDBI, BOM, UCO and PJSB for privatisation. As of now, barring BOM no other bank has generated meaningful interest from Buyers.
	5) Tax relief for Affordable Housing projects/Interest on Affordable housing loans extended for one more year	Positive	Marginally positive for banks engaged in affordable housing finance space like SBI, PSBs, Bandhan and so on
	6) Institutional framework/body to Buy Investment grade bonds	Marginally Positive	Development of corporate bond market may provide alternate investors for better rated small/mid-size NBFCs
	7) NCLT framework will be strengthened with e-courts being set up.	Marginally Positive	Positive for Banks in general as the same may improve the TAT of NCLT resolutions
	8) Increased FDI limit in insurance to 74% from 49%. Under the new ownership structure, 50% of the directors need to be independent and a specified % of profits to be retained as general reserve	Marginally Positive	Foreign partners have been selling their stakes in Tier I insurance cos and thus increase in limit may not be much useful. However, it could be beneficial for Tier II insurance companies in life/general insurance space.
	9) Development Financial Institution (DFI) for Infra Funding	Negative	DFI may compete with corporate banks and cannibalise their growth, unless DFI also has the mandate to refinance banks. Nonetheless, higher system credit growth possible due to multiplier effects.
	10) Higher fiscal deficit + Borrowings	Negative	Negative for G-sec/bond yields and thus MTM hit for PSBs like SBI, Canara, Union, BOI & so on
	11) Tax neutrality for Urban Co-op Banks conversion in to SFBs	Neutral	Similar tax neutrality benefit for SCBs will be needed as per RBI's IWG recommendation to create a holdco structure of existing conglomerates
BFSI - Insurance	1) Increase in FDI Limit for Insurance from 49% to 74% 2) Removal of tax exemption over ULIPS: Proposed to allow tax exemption for maturity proceed of the ULIP having annual premium up to Rs2.5 lakh. Thus all large ticket ULIPs (Annual premium of more than Rs2.5L) would be chargeable to tax.	Neutral	1. The move is directed to bring parity between insurance companies and AMCs. The main advantage of preferring ULIP over AMC plan was tax exemption benefits which is likely to be gone at least for large ticket ULIPs for now. 2. I PRU Life has elevated share of ULIPs (48% of portfolio) - any decline in sales could impact revenues. However average ticket size of Rs0.1mn do provide comfort 3. Increase in FDI will have limited impact as historical trends suggest least interest among Foreign investors in managing highly regulated Indian insurance sector. Exit of standard life is one of example.
BFSI - NBFCs	1) Voluntary Scrappage policy 2) Tax relief for Affordable Housing projects/Interest on Affordable housing loans extended for one more year 3) Buying of investment grade bonds: Government will create a permanent Institutional Body Framework to enable purchasing of investment grade corporate debt paper both in times of stress and normal times. 4) A reforms-based result-linked power distribution sector scheme will be launched with an outlay of Rs3.1 trillion over 5 years	Positive	1. Voluntary scrappage policy would benefit used vehicle financiers like SHTF, CIFC and MMFS. However extent of reward etc. needs to be checked. 2. Extending tax relief for affordable housing would benefit HFCs like HDFC Limited and LIC Housing. 3. Buying of investment grade bonds from NBFCs would further support liquidity position of NBFCs 4. Any improvement in operational else financial health of power distribution companies would be beneficial for PFC and REC

Source: Emkay Research

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Exhibit 15: Budget announcements and its impact on other sectors

Sector	Major announcements	Structural reforms	Sector impact	Impact on stocks
Agri Input & Chemicals	1) Fertilizer subsidy allocation of Rs80bn 2) For Urea/DAP/NPK imports, Agri cess of 5% instead of customs duty of 5% 3) Customs duty on Ethanol increased from 2.5% to 5%		Neutral	None
Auto & Auto Ancillaries	1) New scheme to be announced for public bus transport with outlay of Rs180bn. Includes procurement of over 20,000 buses under PPP model. 2) Government Thrust on Infrastructure with higher capital outlay 3) Custom duty increased on auto parts in areas of electronics and accessories (up to 5%). 4) Custom duty increased on Carbon black by +2.5%.	5) Voluntary vehicle scrappage policy to be announced shortly	(1), (2) and (5) are Positive (3) and (4) are Marginally Negative	(1), (2) and (5) are positive for CV related entities like Tata Motors, Ashok Leyland, Eicher Motors and Bharat Forge. (3) Marginal impact on OEMs as it forms a small portion of RM cost. (4) Tyre companies such as Apollo Tyres to be impacted (Carbon black cost is ~10% of revenue).
Building Materials	1) Extension of Tax relief for Affordable Housing projects/Interest on Affordable housing loans for one more year		Positive	Push demand for building materials
Cement	1) Extension of Tax relief for Affordable Housing projects/Interest on Affordable housing loans for one more year 2) Increase in overall capex target to Rs5.54tn for infra projects (this includes increase in capex to road infrastructure to Rs1.08tn)		Positive	Positive for volume growth: Our pecking order is UltraTech, Ambuja, Ramco Cement, Birla Corp, JK Cement, JK Lakshmi Cement
Consumer Durables	1) Increase in customs duty for compressors to 15% from 12.5% 2) Duty for inputs and parts of LED lights (incl. LED lamps) raised to 10% from 5% 3) PCBA for mobile component and charger/adapter raised to 2.5% and 15% respectively		Neutral	1) Positive for Dixon
Consumer Goods	1) Cigarettes - No increase in taxes 2) Alcohol beverages - AIDC of 100% imposed but Basic custom duty has been reduced to 50% from 100% (no change in end consumer prices)		Neutral	Positive for ITC; Neutral for Alcobev
Engineering & Capital Goods	1) Creation of a specialised DFI for infrastructure with INR200bn committed capital and intent of lending Rs5tn in 3 years. 2) Setting up of National Asset Monetisation Pipeline similar to the National Infra Pipeline. This will bring in transparency for asset monetisation plans of the Government and help fund infra capex in the long run		Positive	L&T, Cummins India, KNR, PNC
Metals & Mining	1) BCD on steel scrap revoked from 2.5% to nil 2) Reduction in BCD on steel imports – Flats from 12.5 to 7.5% 3) Reduction in BCD on steel imports – Longs and Semis 4) Temporary revocation of ADD (Anti-Dumping Duty from Indonesia (currently at 22-24%) and China (currently 18-19%) to nil 5) Revocation of ADD on imports of Zinc + Aluminum Coated steel. The ADD was about $173.1/t for 5 yrs	1) This is positive for scrap based steel making (Electric Arc Furnaces) and will encourage clean steel making in the country 2) The idea of the government seems to bring down steel prices and lower the cost of infrastructure creation. 3) None 4) None, this is a temporary measure for 8 months from Feb-Sep 21 5) None, as the impact is negligible	1) Positive 2) This is a negative signal to the market that the government has taken cognizance of the steep hike in steel prices 3) Neutral 4) Negative 5) Marginally negative	1) JSL and JSHL - Both use imported stainless steel scrap as input to produce steel. Hence, it is positive to that extent 2) This is sentimentally negative as 70% of the imports happen from FTA countries where the BCD is anyways NIL. 3) India hardly imports sizeable quantities of long products, which is largely a localized market, hence the impact is negligible. 4) This will result in higher imports from Indonesia and China in near term and put pressure on realization. This is negative for stainless steel companies like JSL and JSHL 5) A very small quantity (about 0.3mtpa) of imports of Zinc and Aluminum coated steel happened before the imposition of ADD also. Hence, the impact on domestic prices is unlikely to be material. Tata Steel and JSW Steel manufacture this steel.
Oil & Gas	1) Agriculture & infrastructure cess introduced of Rs2.5/4/ltr for petrol/diesel 2) Naphtha customs duty reduced from 4% to 2.5% 3) Nylon chips import duty reduced from 7.5% to 5% 4) Independent gas TSO to be set up for handling open access 5) National monetization pipeline for brownfield assets (InvITs)	1) National monetization pipeline for brownfield assets (InvITs) – GAIL/HPCL/IOCL pipelines. InvITs can lead to higher asset valuation and fund inflow to companies	Neutral	RIL - Reduction in customs duty for naphtha/nylon chips will negatively impact petchem margins. GAIL/IOCL/HPCL - To benefit from national monetization pipeline as it can lead to higher asset valuation and fund inflows.
Real Estate	1) Removal of TDS for REITs and InVITs		Neutral	
Retail	1) Gold Basic Custom Duty has been reduced from 12.5% to 7.5% + 2.5% AIDC imposed		Positive	Marginal positive for Titan; reduction in gold prices is positive for jewellery demand
Speciality Chemicals	1) Customs duty reduced from 7.5% to 5% in Caprolactam, Nylon Tyre yarn and Nylon Chip		Positive	Positive for SRF
Pharmaceuticals and Healthcare	1) Net allocation to Ministry of health & family welfare has been increased by ~10% YoY to Rs713bn. 2) Govt. has allocated Rs350bn for Covid-19 vaccination, which in our view is positive for all vaccine players especially listed players such as Cadila (BUY) and Dr Reddy's labs (BUY) 3) Pradhan Mantri Atmanirbhar Swasth Bharat Yojana, a new centrally sponsored scheme with an outlay of Rs642bn over the next 6 years has been launched to develop capacities of primary, secondary and tertiary care health systems, strengthen existing national institutions, and create new institutions 4) Ayushman Bharat allocation maintained at Rs64bn 5) Jan Aushadhi allocation is maintained		Neutral	Covid-19 vaccine budget allocation came in higher than our expectations which bodes well for Cadila and Dr Reddy's labs. At an estimated price of Rs300/dose, the budget allocation suggests potential purchase of 1.1-1.2bn vaccine doses by the Government. This should likely absorb limited capacity production from Cadila and DRL.

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Emkay Alpha Portfolio – Nifty

EAP-Nifty (25 stocks)

Company Name	Nifty Weight	Nifty EAP Weight	OW/UW (%)	OW/UW (bps)
Agri Input & Chemicals	**0.52**	**0.00**	**-100%**	**-52**
UPL	0.52	0.00	-100%	-52
Auto & Auto Ancillaries	**5.91**	**10.02**	**70%**	**412**
Bajaj Auto	0.89	0.88	-1%	-1
Eicher Motors	0.65	2.19	237%	154
Hero Motocorp	0.72	2.13	197%	141
Mahindra & Mahindra	1.22	0.00	-100%	-122
Maruti Suzuki India	1.63	2.68	64%	105
Tata Motors	0.80	2.14	168%	134
BFSI-Banks	**26.32**	**35.96**	**37%**	**964**
Axis Bank	2.80	5.55	99%	275
Bandhan Bank	0.00	2.78	NA	278
HDFC Bank	10.29	7.68	-25%	-261
ICICI Bank	6.31	10.27	63%	397
Indusind Bank	0.82	2.92	257%	210
Kotak Mahindra Bank	4.27	0.00	-100%	-427
State Bank of India	1.84	6.76	267%	492
BFSI-Insurance	**1.48**	**2.28**	**54%**	**80**
HDFC Life	0.91	0.00	-100%	-91
SBI Life	0.57	2.28	298%	171
BFSI-NBFCs	**10.30**	**7.34**	**-29%**	**-296**
Bajaj Finserv	0.90	0.00	-100%	-90
Bajaj Finance	2.14	0.00	-100%	-214
HDFC	7.27	7.34	1%	7
Cement & Building Materials	**2.26**	**3.78**	**67%**	**152**
Grasim Industries	0.70	0.00	-100%	-70
Shree Cements	0.52	0.00	-100%	-52
Ultratech Cement	1.05	3.78	261%	273
Consumer Goods & Retail	**11.05**	**9.44**	**-15%**	**-161**
Asian Paints	1.85	0.00	-100%	-185
Britannia Industries	0.70	0.42	-40%	-28
Hindustan Unilever	3.44	0.00	-100%	-344
ITC	3.02	3.60	19%	58
Nestle India	1.04	0.00	-100%	-104
Titan Company	1.01	2.19	117%	118
United Breweries	0.00	3.23	NA	323
Engineering & Capital Goods	**2.74**	**0.00**	**-100%**	**-274**
Larsen & Toubro	2.74	0.00	-100%	-274
Information Technology	**17.13**	**12.31**	**-28%**	**-482**
HCL Tech	1.69	3.35	99%	167
Infosys	7.81	5.66	-28%	-215
TCS	5.56	0.00	-100%	-556
Tech Mahindra	1.01	3.30	226%	229
Wipro	1.06	0.00	-100%	-106
Metals & Mining	**2.39**	**2.22**	**-7%**	**-17**
Coal India	0.45	2.22	394%	177
Hindalco	0.56	0.00	-100%	-56
JSW Steel	0.60	0.00	-100%	-60
Tata Steel	0.77	0.00	-100%	-77
Oil & Gas	**12.00**	**3.99**	**-67%**	**-801**
BPCL	0.52	3.99	662%	346
GAIL	0.39	0.00	-100%	-39
Indian Oil	0.40	0.00	-100%	-40
ONGC	0.55	0.00	-100%	-55
Reliance Industries	10.13	0.00	-100%	-1013
Pharmaceuticals	**3.47**	**6.66**	**92%**	**319**
Cipla	0.71	3.10	334%	238
Divi's Lab	0.73	0.00	-100%	-73
Dr. Reddy's Lab	0.95	3.57	275%	262
Sun Pharma	1.08	0.00	-100%	-108
Ports & Logistics	**0.63**	**0.63**	**-1%**	**-1**
Adani Ports	0.63	0.63	-1%	-1
Power	**1.54**	**2.18**	**42%**	**64**
NTPC	0.73	2.18	197%	144
Power Grid Corporation	0.80	0.00	-100%	-80
Telecommunications	**2.26**	**3.19**	**41%**	**93**
Bharti Airtel	2.26	3.19	41%	93
Cash		**0.00**		
Nifty	**100.0**	**100.00**		

*Source: Emkay Research; Note: *We have internally capped single stock exposure to 10% in our EAP*

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Sector portfolio NAV

	Base					Latest
	1-Apr-19	31-Jan-20	31-Jul-20	30-Oct-20	30-Dec-20	29-Jan-21
EAP - Nifty	100.0	102.4	93.0	92.9	112.6	111.3
Nifty50	100.0	102.5	94.9	99.8	119.8	116.8

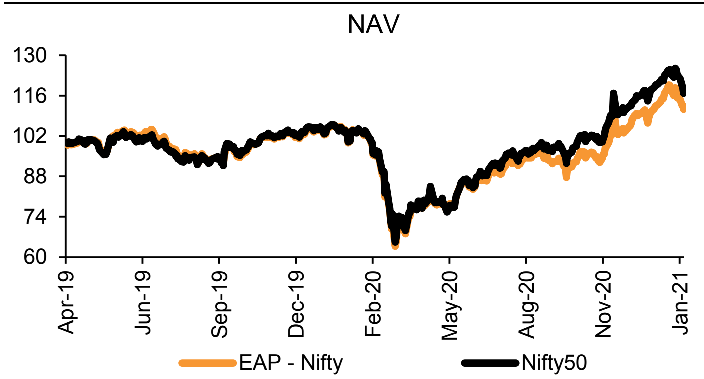
**Performance measurement base date 1st April 2019*
Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - Nifty	-1.1%	19.9%	19.6%	8.7%
Nifty50	-2.5%	17.1%	23.1%	14.0%

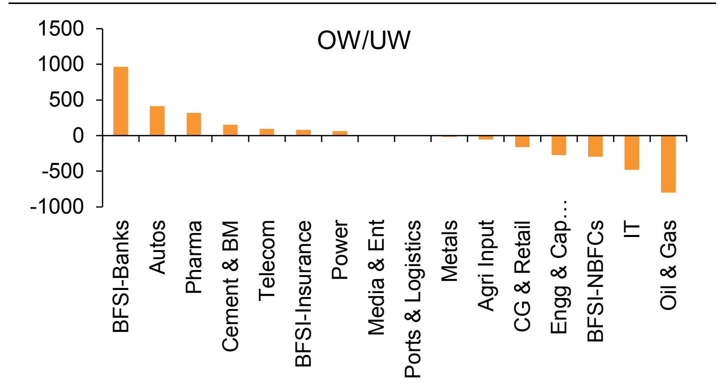
Source: Emkay Research

NAV chart



Source: Emkay Research

Sector OW/UW



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): SMID

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HOLD	Between -5% to 15%
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