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INDIA

Strategy

Budget 2021: Counter-cyclical fiscal policy with focus on reviving investments

As per the need of the hour, Union Budget FY22 delivered by being expansionary and provided a counter-cyclical fiscal policy with focus on reviving growth while ensuring adequate resources for tackling the pandemic by expanding the fiscal deficit to a higher than expected level of 9.5% for FY21 and 6.8% for FY22.

Progressive reforms: Key steps include mooting of a bad bank or ARC and AMC for taking over stressed assets, increase in FDI in insurance sector to 74% and Development Financial Institution (DFI) for financing infrastructure projects, amongst others.

Quality of spending improves: There is a clear focus on improving the quality of spending with FY22 capex spend budgeted at Rs5.54trn (YoY growth of 26% over an upward revised number of Rs4.39trn for FY21RE) with emphasis on transportation infrastructure (roadways and railways). Overall expenditure remains flattish in FY22BE over FY21RE at Rs34.8trn indicating rationalisation of revenue expenditure with subsidies are expected to fall by 44% to Rs3.36trn in FY22BE against FY21RE of Rs5.95trn. **Recent spike in government spending seen in Q3FY21 will sustain** as till Dec 2020, the government has spent Rs22.8trn, implying it will spend a significantly higher Rs11.7trn in Q4FY21.

Revenue receipt expectations achievable: Overall revenue receipt expectations are modest with gross tax / GDP expected to remain constant at ~9.9% while disinvestment target has been revised lower to Rs1.75trn from the FY21BE. Non-tax revenue (largely dividends and telecom receipts) is budgeted at a modest Rs2.4trn for FY22 against a FY21BE of Rs3.85trn.

Borrowing programme for FY22 lower than FY21: Fiscal expansion would mean additional borrowing in FY21 at Rs800bn and FY22 gross borrowing remaining a bit elevated but lower than FY21 at Rs12trn. Given the excess liquidity in the banking system, the higher borrowing programme should not be an issue especially in an environment of higher government spending and foreign flows which can augment banking system liquidity further.

For detailed sector wise budget announcements and impact, please refer comments by our analysts on pages 8 to 14.

Other key highlights include:

- Higher spending towards health and well-being: Increased allocation towards health and well-being from 0.9trn in BE21 to 2.2trn in BE22, which includes Covid vaccination costs of Rs350bn and higher spending towards drinking water and sanitation.
- Scrappage policy: Working towards cleaner air and better fuel utilisation, to phase out old and unfit vehicles.
- PLI scheme outlay of Rs5trn over 5 years; scheme for mega investment in textiles
- To float a DFI with Rs200bn capital; to lend at least Rs5trn in 3 years.
- Asset monetisation: Infra assets such as NHAI roads, PGCIL transmission assets, O&G pipelines (OMCs), airports, and warehousing assets.
- Enhanced agri lending target of Rs16.5trn
- Migrant workers and labour – One Nation, One Ration Card is under implementation by 32 states and UTs; remaining 4 in next few months. Social security benefits to gig and platform workers as well, including minimum wages and ESIC.
- Financial inclusion: MSME allocation doubled to Rs157bn.

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Budget numbers in details

Table 1: Fiscal math – Budget 2021-22

Rs bn	FY20 (Actuals)	FY21 (BE)	FY21 (RE)	FY22 (BE)	FY22 BE over FY21 RE
Revenue Receipts	16,841	20,209	15,552	17,884	15%
Gross Tax Revenue	20,101	24,230	19,003	22,171	17%
Net Tax Revenue	13,569	16,359	13,445	15,454	15%
Direct Taxes	10,495	13,190	9,050	11,080	22%
Indirect Taxes	9,547	10,965	9,895	11,020	11%
Non Tax Revenue	3,272	3,850	2,107	2,430	15%
Non-debt Capital Receipts	686	2,250	465	1,880	304%
Total Receipts	26,863	30,422	34,503	34,832	1%
Total Expenditure	26,863	30,422	34,503	34,832	1%
Revenue	23,506	26,301	30,111	29,290	-3%
Capital	3,357	4,121	4,392	5,542	26%
Fiscal Deficit	9,337	7,963	18,487	15,068	-18%
as % of GDP	4.6%	3.5%	9.5%	6.8%	

Source: CEIC, Budget docs, CGA, I-Sec Research

Expenditure to remain flattish in BEFY22 over REFY21

- Interestingly, revised total expenditure for FY21 stands at Rs34.5trn, up from budgeted number of Rs30.4trn. Till Dec'20, the government has spent Rs22.8trn, implying it will spend significantly high Rs11.7trn in Q4FY21.
- Budgeted total expenditure in FY22 stands at Rs34.8trn, almost flat from FY21RE.
- In terms of expenditure as a % of GDP, the government has pencilled a reduction in FY22 over FY21. In FY21, total expenditure as a % of GDP is seen at 17.7% while in FY22 it is budgeted to decline to 15.6%.

MNREGA allocation lower by Rs385bn; capital outlay up by Rs1.8trn

- The government had hiked the allocation under MNREGA from Rs615bn to Rs1.11trn in FY21 to absorb the flow of returning migrants who demanded work under the rural jobs guarantee programme in their native places. However, as the economy recovers and migrant workers start returning to cities, demand for work under MNREGA is likely to fall. Keeping this in mind, the government reduced allocation for MNREGA to Rs730bn in FY22.
- On the other hand, government expects to spend Rs3.78trn on capital outlay (excluding defence) in FY22, sharply up from ~Rs1.98trn in FY21. Most of the expenditure under this head will be spent on infrastructure projects, railways, roads and bridges and investment in BSNL/MTNL. Interest payments are also expected to be higher by Rs1.16trn in FY22 (FY22BE Rs8.09trn vs FY21RE Rs6.93trn). Also, the government has budgeted to spend an additional Rs490bn on grants-in-aid to state governments in terms of post devolution revenue deficit grant.
- Revised estimate of capital expenditure in FY21 stands at Rs4.39trn, up from BE of Rs4.12trn. Till Dec'20, government has spent Rs3.1trn towards capex. This implies it will spend Rs1.3trn in Q4FY21 towards capex.
- For FY22, the government has budgeted Rs5.5trn towards capital expenditure. This marks an increase of 26% YoY over FY21RE and 34% YoY over FY21BE. Historically, revenue expenditure accounts for ~87% of total expenditure while capital expenditure accounts for the remaining 13%. However, budgeted expenditure numbers for FY22 show the share of revenue expenditure in total

expenditure may fall to 84% while the share of capex is likely to increase to 16%. This indicates improving quality of expenditure.

- As per FY21RE, capital and revenue expenditure as a % of GDP will stand at 2.3% and 15.5%. As per FY22BE, their shares will stand at 2.5% and 13.1% respectively.

Revenue receipts seen at 8% of GDP in both FY21 and FY22

- Revenue receipts in FY21 are seen at Rs15.5trn, sharply down from the budgeted number of Rs20.2trn. In FY22, revenue receipts are budgeted at Rs17.8trn. As a % of GDP, revenue receipts in FY21 are likely to be ~8% (down from budgeted 10.4%) and remain largely flat at 8% in FY22.
- In a separately released report, the Fifteenth Finance Commission recommended maintaining vertical devolution (i.e. states' share) at 41% of the divisible pool. Accordingly, gross tax revenue in FY21RE and FY22BE is seen at Rs19trn and Rs22.17trn respectively while net tax revenue to the centre is seen at Rs13.4trn and Rs15.45trn respectively.
- In FY22, direct taxes are budgeted to grow 22.4% against REFY21and estimated to be Rs11.08trn. Indirect taxes are estimated at Rs11.05trn showing an increase of 11.4% over REFY21. Total gross tax revenue is expected to increase 16.7% between FY22BE and FY21RE. The expected nominal GDP growth of 14.4% in FY22 implies a tax buoyancy of 1.16. We believe the assumed tax buoyancy is reasonable and achievable.
- Non-tax revenue collection in FY22 is estimated at Rs2.4trn with 15.4% growth over REFY21.

Fiscal deficit in FY22 is seen at 6.8% of GDP

- Budget was above estimates in terms of being expansionary. The revised fiscal deficit (FD) target for FY21 is 9.5% of GDP, sharply higher from consensus estimate of ~7.5%. Government will borrow Rs800bn from the market during Feb-Mar 2021
- Budgeted fiscal deficit in FY22 is 6.8% of GDP. Out of this 2.7 percentage point reduction in fiscal deficit between FY22BE and FY21RE, reduction in expenditure (from 17.7% of GDP in FY21RE to 15.6% in FY22BE) is likely to account for lion's share while the contribution of marginal increase in gross tax revenue will be relatively modest at 0.1% of GDP.
- In absolute terms, FD stands at Rs18.5trn in FY21 and Rs15trn in FY22.
- The government plans to bring down FD to 4.5% of GDP by FY26. This implies average reduction of ~60bps in fiscal deficit during FY23-FY26.
- Another measure of improving quality expenditure is the declining share of revenue deficit (RD) in fiscal deficit. As per FY21RE, RD as a % of FD stands at 78.8. In FY22BE, the share of RD in FD is likely to fall to 75.7. This shows that the government may use less of the borrowings to finance current consumption and use it more to fund capital outlay. Main reasons for the expected fall in RD as a % of FD are (i) likely lower levels of interest rates and (ii) lower YoY expenditure on subsidies and pension.

Disinvestment target for FY22 set at Rs1.75trn

- The government plans to divest stakes in entities such as LIC, Concor, Air India, 2 public sector banks and a general insurance company in FY22. Budgeted revenue from disinvestment in FY22 is Rs1.75trn (down from FY21BE of Rs2.1trn, but sharply up from FY21RE of Rs320bn).

Tax devolution as per FFC

- Tax devolution to states is budgeted at Rs6.65trn in FY22, up from state share of Rs5.49trn in REFY21. Finance Commission's Grants to the States in FY22 are budgeted at Rs2.2trn, up from Rs1.8trn in REFY21

Major subsidies budgeted to fall 44% in FY22

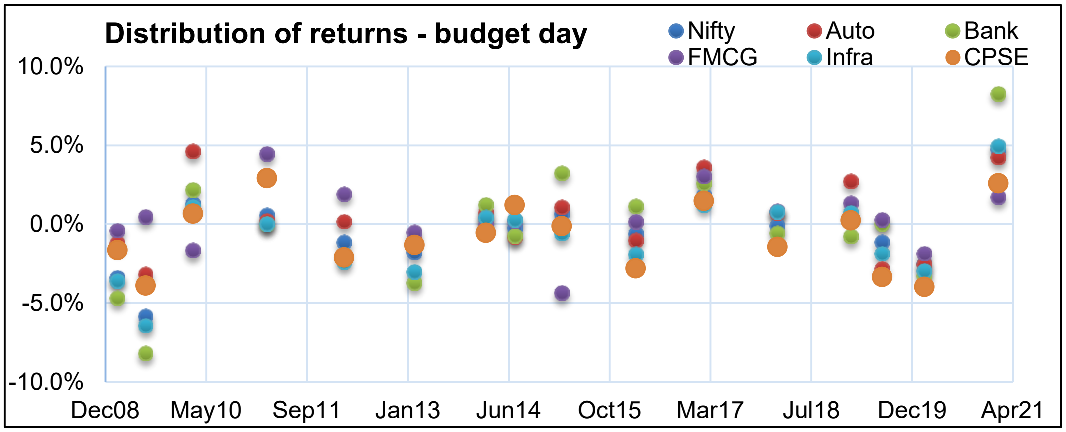
- In FY21RE, major subsidies (food, petroleum, fertilizers) stood at Rs5.95trn sharply up from FY21BE of Rs2.27trn. This was mainly on account of the government providing free ration to citizens during the lockdown and provisioning for the pre-payment of NSSF loans with FCI of about Rs1.5trn.
- In BEFY22, major subsidies are seen at Rs3.36trn, marking a reduction of ~44% from FY21RE. This also indicates subsidy rationalisation and improving quality of expenditure.

Nominal GDP growth in FY22 seen at 14.4% YoY

- The government expects nominal GDP to grow 14.4% YoY in FY22. Nominal GDP in FY21 (RE) is assumed at Rs194.8trn and is seen increasing to ~Rs223trn in FY22(BE). Given the low base in FY21 (in which nominal GDP is expected to contract 4.2%), a growth of 14.4% YoY in FY22 seems reasonable.

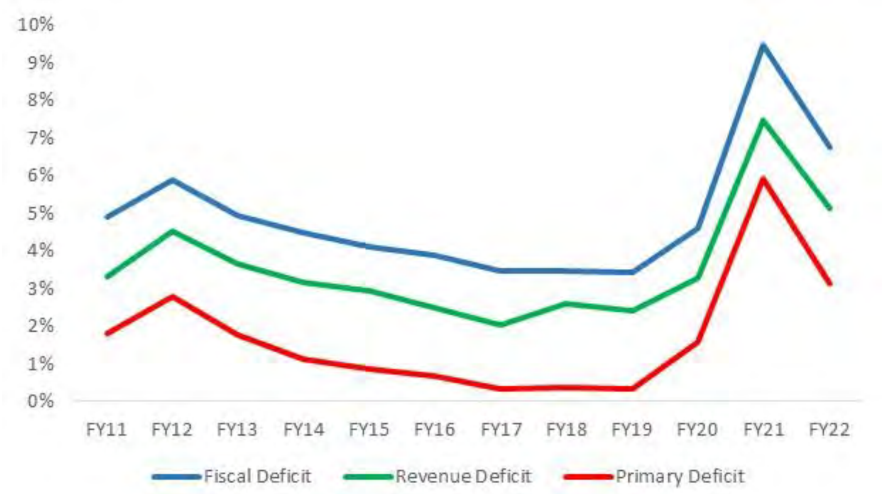
Key exhibits

Chart 1: Expansionary budget saw high returns on budget day



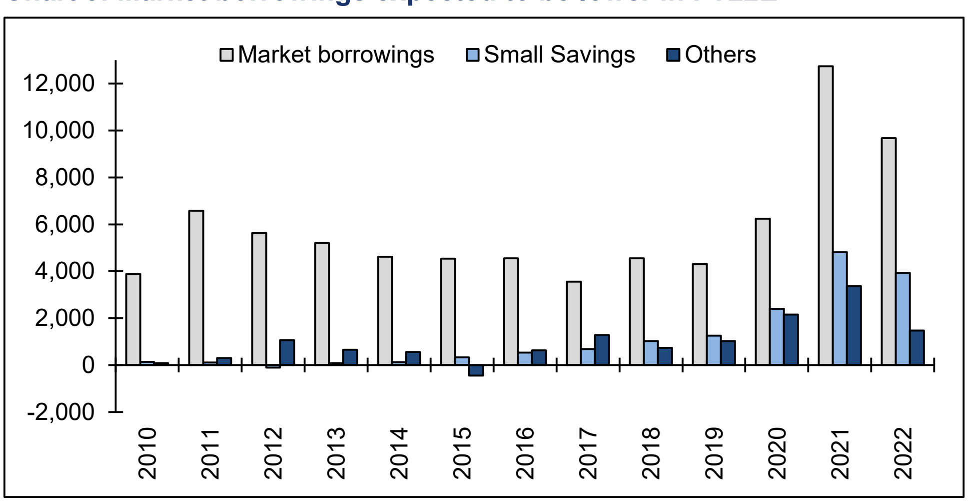
Source: Bloomberg, I-Sec research

Chart 2: Fiscal deficit pegged at 9.5% of GDP in FY21 and 6.8% in FY22



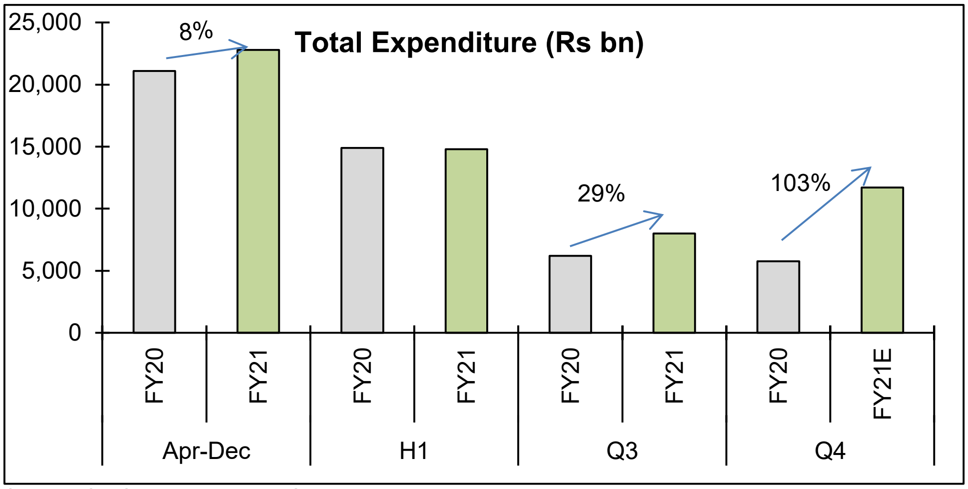
Source: CEIC, Budget docs, I-Sec Research

Chart 3: Market borrowings expected to be lower in FY22E



Source: CEIC, Budget docs, I-Sec Research

Chart 4: Q4FY21 to see continuation of higher government spends



Source: CEIC, Budget docs, I-Sec Research

Table 2: Expenditure of major items

(Rs bn)

Expenditure of Major Items	FY20A	FY21BE	FY21RE	FY22BE	22BE over 21 RE
Interest	6,121	7,082	6,929	8,097	17%
Defence	3,187	3,231	3,438	3,471	1%
Subsidy	2,283	2,278	5,954	3,354	-44%
Transfer to States	1,489	2,004	2,070	2,933	42%
Transport	1,534	1,696	2,186	2,331	7%
Rural Development	1,424	1,448	2,163	1,946	-10%
Pension	1,840	2,107	2,044	1,893	-7%
Agriculture and Allied Activities	1,125	1,548	1,454	1,483	2%
Tax Administration	1,693	1,530	1,477	1,311	-11%
Home Affairs	1,199	1,144	981	1,135	16%
Education	894	993	851	932	10%
Finance	185	418	506	919	82%
Health	634	675	824	746	-10%
Urban Development	421	500	468	546	17%
IT and Telecom	206	593	322	531	65%
Union Territories	151	529	513	530	3%
Social Welfare	446	539	396	485	22%
Energy	435	427	334	428	28%
Commerce and Industry	273	272	235	346	47%
Scientific Departments	274	300	224	306	37%
External Affairs	172	173	150	182	21%
Development of North East	27	30	19	27	43%
Planning and Statistics	55	61	22	25	14%
Others	795	843	944	875	-7%
Total	**26,863**	**30,422**	**34,503**	**34,832**	**1%**

Source: CEIC, Budget docs, CGA, I-Sec Research

Table 3: Top changes in expenditure – FY22 and FY21

(Rs bn)

Particulars	FY21RE	FY22BE	Variation Saving(-) /Excess(+)	Increase / decrease due to:
Capital Outlay (excluding Defence)	1,977	3,788	1,811	higher provisions made for infrastructure projects in pipeline, higher outlay for Railways, Roads and Bridges and investments in BSNL/MTNL.
Interest Payments	6,929	8,097	1,168	higher requirements mainly on account of interest on Market Loans and interest on small savings and provident funds.
Grants in aid to State Governments	5,081	5,571	491	higher provision made for post devolution revenue deficit grant and grants for health sector.
Medical & Public Health	339	675	336	provision of financial assistance to meet expenditure on COVID-19 vaccination.
Water Supply and Sanitation	12	191	179	higher requirement for Jal Jeevan Mission/National Rural Drinking Water Mission and Swachh Bharat Mission (Gramin).
North Eastern Areas	418	558	141	earmarking of higher allocations for development of North Eastern Areas
Customs	46	180	134	implementation of scheme 'Remission of Duties and Taxes on Exported Products'
Village and Small Industries	61	155	94	provision for Guarantee Emergency Credit Line facility to eligible MSME borrowers.
Police	880	930	50	increased requirements for internal security.
Defence	3,438	3,471	33	higher requirements for payment of salaries and other functional requirements and capital expenditure of Defence Services.
Census, Surveys and Statistics	24	54	30	higher requirement for various schemes of Registrar General of India, including National Population Register (NPR) and expenditure on Census, 2021.
Rural Employment	1,115	730	-385	lower requirement under Mahatma Gandhi National Rural Employment Guarantee programme.
Other Expenditure	14,183	10,432	-3,751	
Total Expenditure	**34,503**	**34,832**	**329**	

Source: Budget docs, I-Sec Research

Budget implication – sector wise

Banks

Budget announcement	Implications	Impact on stocks
Sharp rise in allocation for capex.	Higher capex will start re-leveraging of the system and aid financial systems credit growth	Positive for Axis & SBI.
Setting up of reconstruction company and asset management company.	Stress asset resolution – to clean up bank book: Reconstruction company and asset management company will be set up to consolidate and take over the existing stressed debt and then manage and dispose of the assets to alternate investment funds and other potential investors for eventual value realisation.	Positive for banks with higher corporate stress pool, largely PSBs.
Margin money requirement for agri financing lowered from 25% to 15%; also includes loans in allied activities within agri classification.	An initiative to push lending activities in agri and allied activities.	
A special scheme will be devised for the same for Rs10bn assistance for the welfare of tea workers especially women and their children in Assam and West Bengal.	To allay some concerns prevailing in these states for MFIs.	Positive for Bandhan Bank & other MFI players having exposure in that region.
Recapitalisation of PSU banks	Further recapitalisation of Rs200bn is proposed in FY22 – this is at lower end of expectations of Rs200-400bn. It was expected that after the infusion of Rs3.16trn in the last five years in PSU banks, this year it would be set lower in the range of Rs200-400bn.	Positive for PSU banks.
Tamil Nadu has higher budget allocation to state.	State credit growth was hovering around single digit for almost 5/6 years. Upon successful execution, targeted capex could revive growth and also help MSMes sustain the current demand.	Tamil Nadu based banks - positive for City Union Bank, Karur Vysya Bank.

NBFC

Budget announcement	Implications	Impact on stocks
SARFAESI Act limit for NBFCs will be reduced from the existing level of Rs5mn to Rs2mn.	NBFCs with minimum asset size of Rs1bn, the minimum loan size eligible for debt recovery under SARFAESI Act will be reduced from the existing level of Rs5mn to Rs2mn.	To benefit NBFCs with collateralised lending in this category – Chola, SCUF, Magma etc.
Affordable housing & rental housing – mere extension of benefits by 1 year.	Additional deduction of Rs0.15mn for interest loans on the purchase of affordable houses extended by 1 more year to FY22.	Positive for HFCs.
A revamped reforms-based result-linked power distribution sector scheme will be launched with an outlay of Rs3.06trn over 5 years.	Revamped reforms-based result-linked power distribution sector scheme will be launched with an outlay of Rs3trn over 5 years which will be positive for financiers to power projects.	Positive for PFC/REC.
Voluntary vehicle scrapping policy	Vehicle will undergo fitness test after 20 years in case of personal vehicles and 15 years in case of commercial vehicles – not much stringent as expected for used vehicle financiers. Lower threshold would have led to lower potential pool and second hand pricing.	Shriram Transport will be a key beneficiary.
Gold import duty is rationalised from 12.5% to 7.5%.	Can weigh on gold prices in the interim	Can weigh on gold prices and gold financiers in the interim.

Insurance

Budget announcement	Implications	Impact on stocks
Removal of tax exemption on ULIPs beyond annual premium of Rs250K.	• This limits the overall ULIP intensity. Technically, no person should have a prospective ULIP portfolio with more than annual premium of Rs250K. • High ULIP ticket size players will remain impacted. • Insurance companies will now be focussed on widening reach. • Actuarial valuation may not be impacted much but multiples can go down.	– **Incrementally negative for all life insurance companies.**

Capital Goods

Budget announcement	Implications	Impact on stocks
Strong increase in capital outlay to Rs5.5trn in FY22BE vs Rs4.4trn during FY21RE. Outlay during FY21BE was estimated at Rs4.2trn.	Major thrust towards infrastructure, roads, railways, metro and multi-lateral funded projects to propel growth.	Positive for L&T, Cummins, KEC, Kalpataru.
Healthy increase in railway capex outlay for FY22BE to Rs2.1trn vs Rs1.6trn in FY22RE. Budgetary support for this is pegged at Rs0.78trn for FY22BE. Major thrust is towards new lines, doubling and metropolitan projects.	Clear indication to focus on investments towards rail infrastructure.	Positive for L&T, KEC, Kalpataru, Texmaco Rail.
Revamped reforms based research oriented distribution reforms scheme will be introduced with an outlay of Rs3trn over 5 years targeting infrastructure creation, including pre-paid smart meter, feeder separation, system upgradation etc.	This will aid in demand for distribution-related products, solutions and projects	Positive for L&T, Siemens, GE T&D, Techno Electric.
Water supply and sanitation outlay increased to Rs191bn in FY22BE vs Rs11.9bn in FY21RE.	Higher requirement for *Jal Jeevan Mission* / National Rural Drinking Water Mission and *Swachh Bharat Mission* (Gramin).	Positive for L&T, VA Tech Wabag
Capital outlay towards Ministry of Road Transport and Highways increased to Rs1.1trn in FY22BE vs Rs0.9trn in FY21RE and this was Rs0.81trn under FY21BE.	Impetus towards road infrastructure development.	Positive for L&T, Cummins

Cement

Budget announcement	Implications	Impact on stocks
Government capex expected to increase by 35% YoY to Rs5.54trn to give boost to higher infrastructure spends.	Positive for cement demand based on execution	Positive for all stocks: Top picks UltraTech Cement, Shree Cement and Ambuja Cement.
Allocation to Pradhan Mantri Gram Sadak Yojana (PMGSY) to increase 9% YoY to Rs150bn; roads and bridges: allocation has increased by 15% YoY to Rs603bn.		
Allocation to metro projects increased 2.6x YoY to Rs235mn. Focus on metro projects especially in tier 2-3 cities.		
Tax on affordable housing projects extended by a year.		
Allocation to affordable housing scheme (PMAY urban + rural) declined 32% YoY to Rs275bn (up 10% from FY20A) after a sharp increase of 62% YoY to Rs405bn in FY21.		

Auto

Budget announcement	Implications	Impact on stocks
Scrappage policy	Voluntary scrappage based on fitness tests for commercial, personal vehicles above 15/20 years, respectively, could aid replacement demand.	Positive for CV stocks like Tata Motors, Ashok Leyland. Limited impact on personal vehicle demand.
Urban mobility plan to support acquisition of 20,000 buses via PPP model	Allowing private players to participate is a long-term positive for urban mobility.	Positive for bus/CV stocks like Tata Motors, Ashok Leyland, Eicher Motors.
Raising customs duty on select auto parts	Duty increases in select auto parts e.g. glass, ignition wiring from 10% to 15%.	Positive for local manufacturers like Motherson Sumi, Asahi India Glass.

Consumer Staples & Discretionary

Budget announcement	Implications	Impact on stocks
Gold: Effective customs duty reduced to 7.7%* from 12.5% **(7.5% customs duty and 2.5% agri cess)*	We don't expect any benefit of consumer demand from this rate cut. However, this, in our opinion, will likely aid formalisation thesis as illicit procurement could reduce.	Sentiment positive for jewellery companies (Titan in our coverage)
Crude Palm Oil: Effective customs duty reduced to 17.6%* from 27.5% **(15% customs duty and 17.5% agri cess)*	This will ease the inflationary pressure for soap companies – crude palm oil has been inflationary (+33% YoY over Q3FY21).	Eases margin pressure on soap companies (HUL, GCPL and JYL in our coverage).
Cigarettes: No tax hike	No news in this regard is actually good news for cigarette companies – any tax hike could have put pressure on volume recovery. Having said that, the potential risk from increase in GST remains.	Sentiment positive (ITC in our coverage).

Real Estate

Budget announcement	Implications	Impact on stocks
REITs - debt financing of REITs by FPIs will be enabled and TDS on dividend announced by SPVs to the REIT will now be exempt	Debt financing for REITs by FPIs was allowed in 2019 Budget. However, RBI is yet to permit the same. Await clarity on RBI permits this time around. TDS on dividend being done away with streamlines the tax process and removes the hassle of having to claim tax refunds or TDS filing.	Neutral for listed REITs – Embassy and Mindspace REIT
Differential between circle rates and agreement value allowed has been hiked to 20% (from 10% earlier)	This was a part of the *Atmanirbhar Bharat 3.0* announced in November 2020, so no incremental benefit.	Neutral for the overall sector
Provision of additional Rs150,000/p.a. under section 80EEA for exemption for interest on housing loan over and above the existing limit of Rs200,000 for affordable housing projects. Affordable housing projects are defined as those having a stamp duty agreement value of up to Rs4.5mn. Loan has to be sanctioned between 1st April 2019 and 31st March 2020. The timeline has been extended by another 12 months to 31st March, 2022 for both home buyers and developers (under section 80IBA). Certain notified projects by Central Government for rental housing will also be extended under section IBA	Developers looking to launch more affordable housing projects will be benefited as buyers will get an additional tax benefit on interest payment.	Oberoi Realty - possible launch of affordable housing project in Thane in FY21, Sunteck Realty - launch of further phases of Naigaon/Vasai/Vasind affordable housing project in FY22-22E, Brigade/Sobha - launch of new affordable housing projects.

Paints

Budget announcement	Implications	Impact on stocks
Provision of additional Rs150,000/p.a. exemption for interest on housing loan over and above the existing limit of Rs200,000 for affordable housing projects. Affordable housing projects are defined as those having a stamp duty agreement value of up to Rs4.5mn.	Higher housing/real estate construction indicating more demand for paints	Benefit for all paint companies

Building Materials

Budget announcement	Implications	Impact on stocks
Finance minister announces outlay of Rs2.87trn for *Jal Jeevan Mission* for next 5 years. The mission will be launched across all urban local bodies. **The allocation for 2020-21 increased from Rs110bn to Rs500bn.** Micro irrigation corpus in NABARD will be doubled to Rs100bn.	Positive for pipe manufacturers	Positive for pipe manufacturers like Supreme Industries, Astral Poly Technik and Prince Pipes.
Affordable housing related announcements 1) Additional deduction of Rs0.15mn for interest loans on purchase of affordable houses extended by one more year to FY22. 2) Tax holiday to affordable housing developer too extended by 1 year to ensure steady supply.	Positive for mid-market building material brands	Positive for pipe players and mildly positive for other building material sector in general
In order to boost the demand in real estate sector and to enable real estate developers to liquidate their unsold inventory at a lower rate to home buyers, it is proposed to increase the safe harbour threshold from existing 10% to 20% under section 43CA of the Act, if the following conditions are satisfied: - 1) Transfer of residential unit takes place during the period from 12th November, 2020 to 30th June, 2021. 2) Transfer is by way of first time allotment of the residential unit to any person. 3) The consideration received or accruing as a result of such a transfer does not exceed two crore rupee	Positive for wood panel space	Positive for wood panel players

Oil & gas

Budget announcement	Implications	Impact on stocks
Budget estimate of excise duty on auto fuels in FY22E at Rs3.2trn. Including agriculture infrastructure & development cess (AIDC) of Rs2.5/l on petrol and Rs4.0/l on diesel, budget estimate of excise duty at Rs3.7trn in FY22E.	Budget estimate of excise duty on auto fuels in FY22E at Rs3.2trn is down 8% YoY. FY22E excise revenue in auto fuels including AIDC is estimated at Rs3.7trn, which implies 7% YoY rise. We estimate FY22E auto fuels' excise duty revenue at Rs4.35trn to be up 26% YoY if FY22E auto fuel sales volumes are back to FY20 levels. It also means excise duty on auto fuels will be in-line with FY22 budget estimate of Rs3.7trn even if excise duty is cut by Rs4.75/l from 1-Apr'21.	FY22E budget estimate of excise duty on auto fuels leaves room for cut in excise duty by Rs4.75/l from 1-Apr'21 or by higher amount later in FY22; excise duty on auto fuels would be 17% higher than budget estimate if there is no excise duty cut and in-line with budget estimate if excise duty is cut by Rs4.75/l from 1-Apr'21. This augurs well for marketing margin outlook for OMCs, as their marketing margin (currently at Rs1.04/l) can increase to the expected level of Rs2-2.5/l in FY22, not just through price hikes but also by cutting excise duty which has not been fully passed on to consumers.
Subsidy provision in budget for FY22E at Rs124.8bn.	FY22E LPG subsidy provision in the budget at Rs124.8bn is down 56% YoY vs FY21 revised estimate of LPG and kerosene subsidy of Rs282bn.	The subsidy amount is very modest and will be entirely borne by GoI and will not be borne by oil PSUs as has been the case since H2FY16.
Monetising oil pipelines of OMCs and gas pipelines of GAIL.	Though the time frame/roadmap has not been revealed, any such monetisation will help reduce debt of OMCs and GAIL. However, OMCs trying to convince GoI against monetising their pipelines cannot be ruled out as pipelines provide some stability to their earnings and have strategic importance for their marketing operations.	Difficult to monetise pipeline given the tariffs on these pipelines are not regulated and are linked to an outside benchmark (railway freight). In the near-term, it will reduce debt of OMCs and GAIL if it goes through.
Setting up an independent gas transport system operator for facilitation and coordination of booking of common carrier capacity in all-natural gas pipelines on a non-discriminatory open access basis.	Having presence both in transmission and marketing/trading of gas may have helped boost GAIL's transmission volumes. Setting up an independent operator may thus hurt GAIL's marketing/trading volumes or their growth in the long term.	Negative for GAIL in long term.
Gas pipeline project will be taken up in Jammu & Kashmir.	A JV of GSPL with the three OMCs had won the bid for Mehsana-Bhatinda-Jammu-Srinagar gas pipeline. The Mehsana-Bhatinda segment is set to complete soon.	Heating demand is likely to be significant in J&K which will boost gas demand. Positive for GSPL.

Metals

Budget announcement	Implications	Impact on stocks
Sharp rise in capex allocation. Capex expenditure is up 35% to Rs5.4trn – primarily led by railways, roads, bridges etc.	Positive for the sector	Benefit for all metal companies
Anti-dumping duty is being temporarily revoked for the period commencing from 2.2.2021 till 30.09.2021, on imports of the following) • Straight length bars and rods of alloy-steel, originating in or exported from China, (ADD dated 18.10.2018) • High speed steel of non-cobalt grade, originating in or exported from Brazil, China and Germany, imposed 25.09.2019 • Flat rolled product of steel, plated or coated with alloy of aluminum or zinc, originating in or exported from China, Vietnam, Korea, imposed on 23.06.2020.	Marginally negative for the sector	
Countervailing duty is being temporarily revoked for the period commencing from 2.2.2021 • Till 30.09.2021, on imports of certain hot rolled and cold rolled stainless steel flat products, originating in or exported from China, imposed on 07.09.2017. • Provisional countervailing duty is being revoked on imports of flat products of stainless steel, originating in or exported from Indonesia, imposed vide on 9.10.2020. • In sunset review, anti-dumping duty on cold-rolled flat products of stainless steel of width 600mm to 1,250mm and above 1,250mm of non-bonafide usage originating in or exported from China, Korea, European Union, South Africa, Taiwan, Thailand and USA has been discontinued upon expiry of the anti-dumping duty on 11th December, 2015 and on 24th October, 2017.	Marginally negative for the sector	

Pharma

Budget announcement	Implications	Impact on stocks
1. Nearly Rs642bn will be spent over the next 6 years for creating and strengthening healthcare infrastructure in terms of hospitals, health & wellness centres, public health labs, etc. 2. Nearly Rs350bn will be spent onCovid-19 vaccines and additional funds will be provided, if required.	The proposal will help in improving healthcare infrastructure for public particularly in smaller towns and availability of vaccines to public at large.	Negligible impact on pharmaceutical and healthcare companies

Power

Budget announcement	Implications	Impact on stocks
Framework will be put in place to give consumers alternatives to choose from more than one distribution company.	1. Will lead to improved service for consumers at reduced prices, nudging more consumers to pay for what they actually consume. 2. Will incentivise state-owned discoms to either improve or privatise. 3. Will improve the financial health of the entire value chain	Stocks with distribution businesses including CESC and Torrent Power
Revamped reforms-based result-linked power distribution sector scheme will be launched with an outlay of Rs3.6trn over 5 years.	1. This is a revamp of the UDAY scheme which helped the sector on several fronts. 2. The new scheme is being targeted to bring AT&C losses below 15%, promote discom infrastructure improvement, smart metering, digitisation, nudge for privatisation, and improve power availability, reliability and services for the consumer and reduce tariffs.	Will positively impact all the companies in the sector
Stressed asset resolution by setting up a new Structure: existing stressed assets will be taken over and managed and sold to alternative investment funds and other investors to realise value.	1. Will expedite stressed asset resolution in power sector	Positive for PFC and REC
Agri Infra. and dev. cess on coal import: The new proposal splits this into 1.5% agricultural infrastructure and development cess, in addition to 1% basic customs duty (same for import of lignite and peat)	1. No impact, since previously, the basic customs duty on coal import was 2.5%.	None.

Agriculture

Budget announcement	Implications	Impact on stocks
Increase in subsidy from Rs713bn in FY21 to Rs795bn in FY22.	Increase in 12% subsidy is positive for fertiliser companies.	Positive: All fertiliser companies
Imposition of agriculture infrastructure and development cess.	Cess will be used to finance agriculture infrastructure and other development expenditure.	Beneficial for all agri companies
Expenditure on agriculture and allied activities to decline from Rs1,548bn in FY21 to Rs1,483bn in FY22.	Slightly negative for agriculture sector	Negative for all agri companies

Specialty Chemicals

Budget announcement	Implications	Impact on stocks
Increase in custom duty on HFCs from 5% to 10%.	This will increase the cost of imported HFCs. SRF is the largest domestic HFC (used as refrigerant gas) producer. In fact, SRF is the sole manufacturer of R-134a, largest HFC in India.	This is slightly positive for SRF
Reduction of custom duty on caprolactam, nylon chip and nylon fibres to 5% (from ~17.5%)	This is key raw material for nylon tyre cord fibric. Reduction in duty will reduce input cost; however, considering the competitive nature of the business, reduction in input cost will largely get passed-on.	Neutral to slightly positive for SRF

Source: I-Sec research

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