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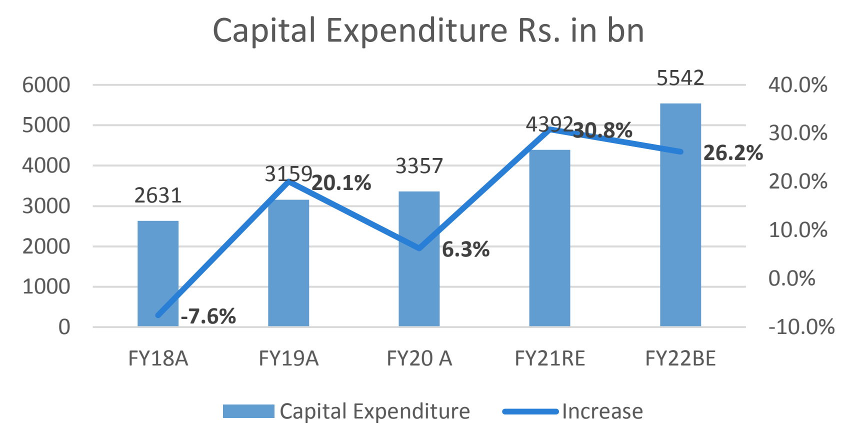
BUDGET 2021-22

GOVT. BITES THE FISCAL DEFICIT BULLET TO SPUR GROWTH

STIMULUS FOR REVIVAL

- FM has chosen to further stimulate economy through this budget
- Fiscal deficit kept high at 6.8% for FY22BE and 9.5% for FY21RE
- And spending is more diverted to capital Expenditure

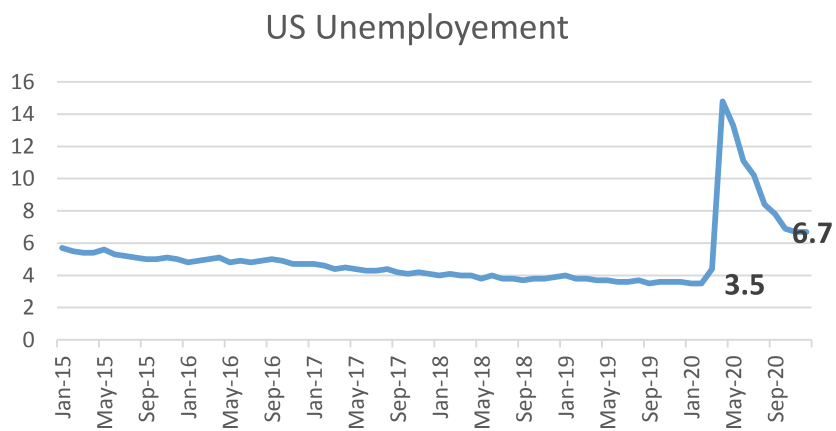


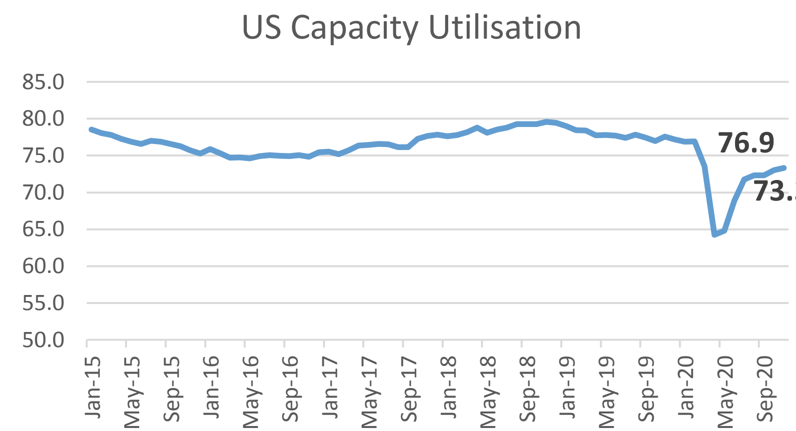
- The revival of Economy can benefit more to Financial, Capital goods, Infrastructure sectors in long run and there is no major up gradation of earning due to this budget.
- As such key is implementation
- Looking at liquidity infusion across the world risk to Credit rating down grades are limited

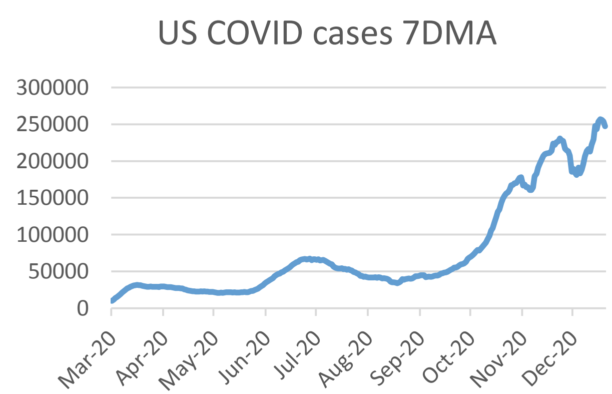
NO NEGATIVE IS BIG POSITIVE

- No Short term or Long term Capital gain tax change
- No STT Change
- No major Cess
- No increase in Individual / Corporate tax
- No increase in Duty on even Cigarette
- No change in law related to FII
- In fact changes to duty structure of any type is minimum in this Budget

TAP CAN REMAIN ON TILL ECONOMY REVIVE OR INFLATION INCREASES

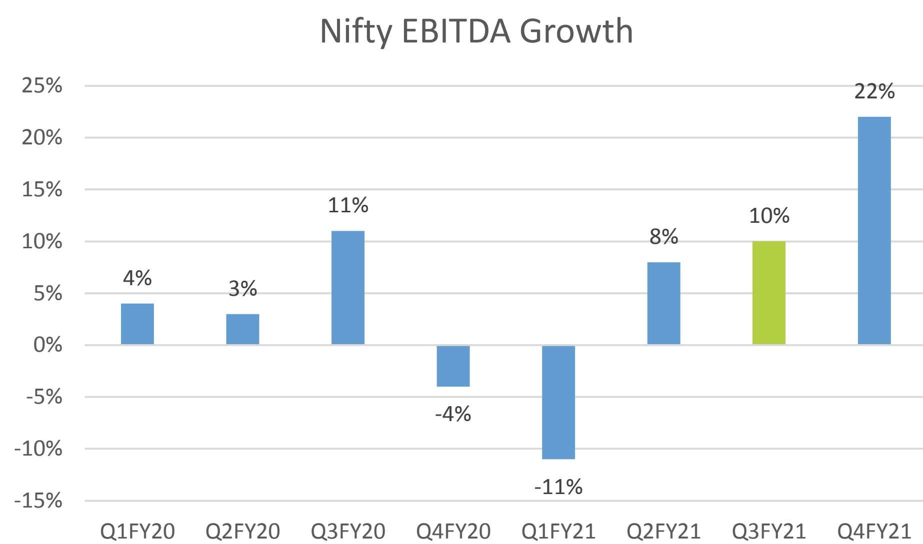






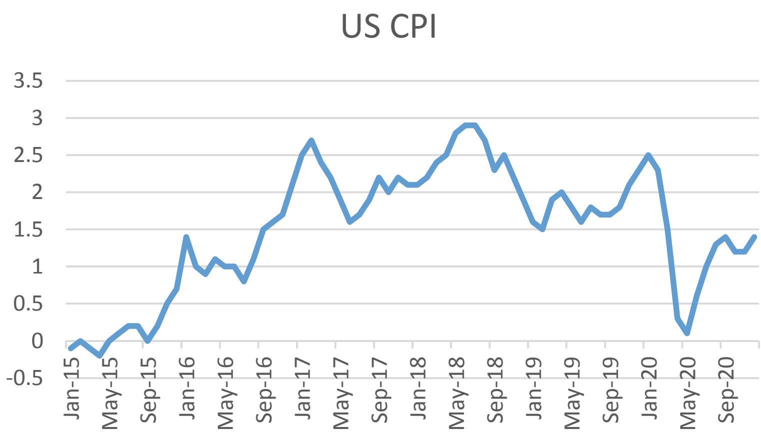
- US Economy has not yet revived as such liquidity tap can remain on
- Vaccine administration is on, COVID cases are also increasing and Economy revival still seems will take some more time

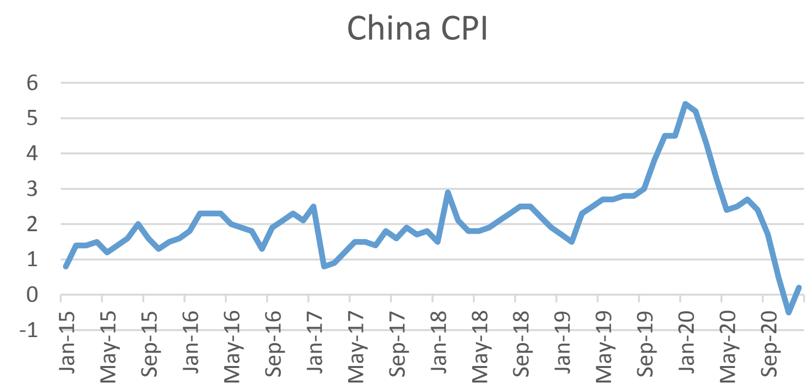
Q3FY21 RESULT SHOWING YOY GROWTH

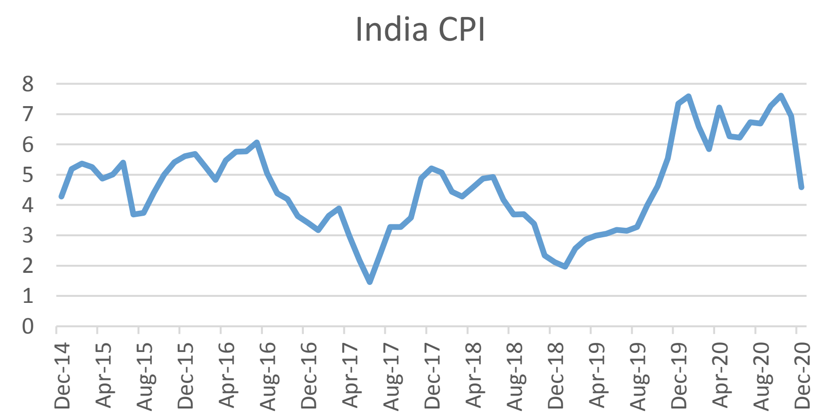


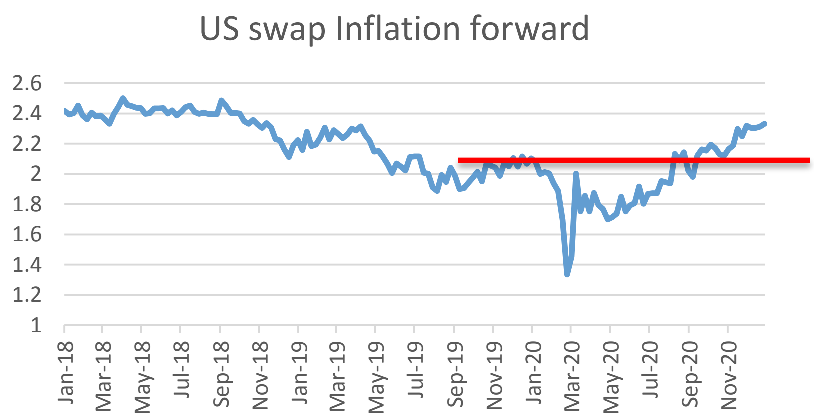
- 68 companies in BSE 200 has shown 2% sales growth, 11% EBITDA Growth in Aggregate
- Q3 EBITDA growth is also driven by pent up demand, restocking and festival demand, inflationary commodity prices, logistic issue which may or may not persist in coming quarters
- But current budget can support the organic growth as such stimulus at right time

CONCERN ON INFLATION POPPING UP









- Inflation expectation in US are continuously moving up and are over Pre COVID level.

LIQUIDITY INFUSION IS STILL ON IN DEVELOPED ECONOMY

Stimulus in 2020 of GDP	India	Developing Economy	Developed Economy
Fiscal	2.20%	4.70%	8.50%
Monetry	6.00%	1.60%	14.20%
Credit	7%	1.90%	10.80%
Top 10 Trends - Ruchir Sharma, NDTV			

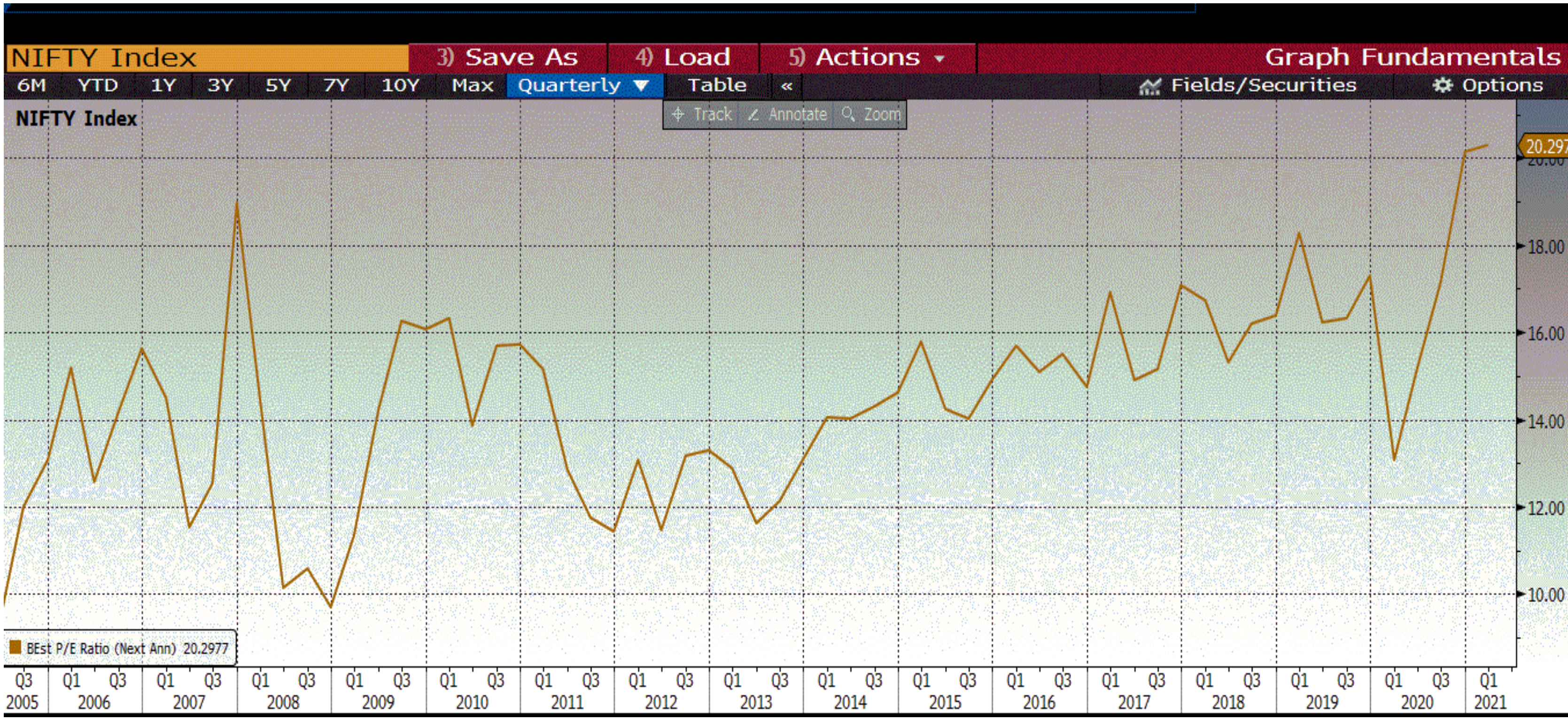
- 2020 stimulus was 5 x 2008-09 stimulus
- In Dec US approved $900bn stimulus plan
- In Dec EU approved $2.2 trillion stimulus plan
- Recently New US president already announced plan of another $1.9 trillion stimulus to provide direct payment support to people
- And US again planning to announce $2 trillion accelerated Investment stimulus in February.
- FOMC and ECB has promised to keep the interest rate at Zero for very long period to revive the economy

RECENTLY VARIOUS EMERGING MARKET SAW OUTFLOW

Equity Indices Country	Down from High	High Date
India – Pre Budget	-6.9%	20-Jan-21
India – Post Budget	-2.5%	
Hong Kong	-6.3%	25-Jan-21
Brazil	-6.5%	25-Jan-21
Russia	-6.0%	14-Jan-21
Indonesia	-8.9%	13-Jan-21
Korea	-7.3%	25-Jan-21
Taiwan	-6.3%	21-Jan-21

- Market corrected in various countries from Peak in January like India
- Correction may also be due to what is happening in US penny stocks
- But one need to be watchful of this reversal of liquidity

VALUATION AT LIFE HIGH



- Valuation higher than 2007 peak
- FY22 PE 20.3x vs 10 year average of 15x
- Valuation is more driven by liquidity then fundamental as need to be watchful of liquidity flow.

MACRO SUMMARY

- FM has provided timely stimulus to economy through this budget
- This support shall continue in coming year as well
- No negative in the budget, itself acted as a positive
- Q3 results are seeing growth YoY and have reached higher than pre COVID levels
- Stimulus will help revive growth
- Benefit of this budget will be indirect, No major direct up-gradation of earning due to budget
- As such implementation will be the key
- Valuation has gone throughthe roof which will cap the upside in near term
- Budget is long term positive

DIRECT TAXES

DIRECT TAXES

There was not any significant changes in Direct Taxes which is perceived POSITIVE. Basically Government tried to ease the compliance for the assesees

- No I-T filing for sr citizens above 75 yrs having only pension, interest income
- Timeline for re-opening of tax returns reduced to 3 yrs from 6 yrs
- Tax audit threshold raised to Rs 10 cr for digital transactions
- Dividend payment to REIT/InvIT to be exempted from TDS
- Additional deduction of Rs. 1.5 lakh shall be available for loans taken up till 31 March 2022 for purchase of affordable house.
- Eligibility for claiming tax holiday for start ups proposed to be extended by one more year till 31st March 2022

INDIRECT TAXES

- Government has imposed Additional cess on certain commodities however the overall impact is NEUTRAL as the government has reduced the rate of customs/excise in few segments
- There was not any significant changes in Customs Duty and the overall effect is NEUTRAL

Segments	Sub-segment	From	To
Textile	Nylon fibre and yarn	7.5%	5.0%
	Raw Silk, Silk yarn, yarn spun from silk waste	10.0%	15.0%
	Raw Cotton	0%	5%
	Cotton waste	0%	10%
Aviation Sector	Components or parts, including engines, for manufacture of aircrafts by PSUs of Ministry of Defence	2.5%	0%
Chemicals	Carbon Black	5.0%	7.5%
Parts of Automobiles	Safety glass, consisting of toughened (tempered) or laminated glass.Parts of Electrical lighting and signalling equipment, windscreen wipers, defrosters and demisters, of a kind used for cycles or motor vehicles , Ignition wiring sets and other wiring sets of a kind used in vehicles, aircraft or ships, Instrument Panel Clocks and Clocks of a similar type for vehicles, Aircraft, Spacecraft or Vessels	10%	15%

SECTOR IMPACT

Automobile - Positive

- Government will announce a separate voluntary vehicle scrapping policy, to phase out old and unfit vehicles. Vehicles would undergo fitness tests in automated fitness centres after 20 years in case of personal vehicles, and after 15 years in case of commercial vehicles – **Positive for Ashok Leyland, SML Isuzu, Maruti.**
- A new scheme will be launched at a cost of Rs. 18,000 crores to support augmentation of public bus transport services. The scheme will facilitate deployment of innovative PPP models to enable private sector players to finance, acquire, operate and maintain over 20,000 buses - **Positive for Ashok Leyland, Force Motors, SML Isuzu.**
- Enhancement of allocation to the Rural Infrastructure Development Fund from Rs. 30,000 Cr to Rs. 40,000 Cr – **Positive for Hero Motocorp, TVS Motors, Bajaj Auto, Maruti.**
- Customs duty on certain auto parts is increased to 15% to bring them on par with general rate on auto parts – **Marginally Negative.**
- Increase in custom duty for carbon black from 5% to 7.5% - **Positive for Philips Carbon**

SECTOR IMPACT

Banks – Positive

- Two PSBs would be privatised in FY22 apart from IDBI Bank.
- An Asset Reconstruction Company and Asset Management Company would 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 realization – **Positive for all PSU banks with high GNPAs like IDBI Bank, Central Bank of India, Bank of India, Indian Overseas Bank, Punjab & Sind Bank, PNB, UCO Bank, Union Bank of India.**
- To further consolidate the financial capacity of PSBs, further recapitalization of Rs. 20,000 Cr is proposed – **Positive for all PSBs**

Insurance - Mixed

- FDI limit is hiked from 49% to 74% and foreign ownership has been allowed – **Positive for ICICI Lombard, HDFC Life, Max Financial, SBI Life, ICICI Prudential Life.**
- For ULIPs taken on or after Feb. 1, the maturity proceeds of policies with an annual premium of more than Rs 2.5 lakh will be taxable on par with equity-linked mutual fund schemes – **Negative for ICICI Prudential Life Insurance**

SECTOR IMPACT

NBFC - Positive

- Government will separately announce a voluntary vehicle scrapping policy, to phase out old and unfit vehicles. Vehicles would undergo fitness tests in automated fitness centres after 20 years in case of personal vehicles, and after 15 years in case of commercial vehicles – **Positive for vehicle financiers especially CV financiers like Shriram Transport Finance, Cholamandalam Investment & Finance, Sundaram Finance, M&M Finance.**
- To instill confidence amongst the participants in the Corporate Bond Market during times of stress and to generally enhance secondary market liquidity, it is proposed to create a permanent institutional framework. The proposed body would purchase investment grade debt securities both in stressed and normal times and help in the development of the Bond market.
- To improve credit discipline while continuing to protect the interest of small borrowers, for NBFCs with minimum asset size of Rs. 100 Cr, the minimum loan size eligible for debt recovery under the SARFAESI Act, 2002 is proposed to be reduced from the existing level of Rs. 50 Lac to Rs. 20 Lac – **Positive for HDFC, Repco Home Finance, Cholamandalam Investment & Finance, Shriram City Union Finance.**
- Extension of additional deduction of Rs. 1.5 Lac towards affordable home loans by one year – **Positive for HDFC, LIC Housing Finance, Can Fin Homes, Repco Home Finance, Aavas Financiers.**

SECTOR IMPACT

INFRA: Roads, Railways, Defence, Power, Capital Goods - Positive

- Three important steps taken towards NIP (National Infrastructure Pipeline) which requires a major increase in funding -
  - In order to provide long term debt financing, a DFI (Development Financial Institution) shall be formed with a capital of Rs. 20,000 Cr. The DFI shall have a goal of achieving a lending portfolio of Rs. 5 Lac Cr in next 3 years. Further, debt financing of InVITs and REITs will be facilitated by FPIs and suitable legislative amendments will be made.
  - A "National Monetization Pipeline" of potential brownfield infrastructure assets will be launched.
- Five operational roads with an estimated enterprise value of Rs. 5,000 Cr are being transferred to the NHAI InvIT. Similarily, transmission assets of a value of Rs. 7,000 Cr will be transferred to the PGCIL InvIT. Railways will monetise Dedicated Freight Corridor assets for operations and maintenance, after commissioning – **Positive for NCC, Dilip Buildcon, PNC Infra, KNR Construction, HG Infra, KEC, Kalpataru Power.**
- The next lot of Airports will be monetised for operations and management concession – **Positive for GMR Infra and GVK Power & Infra.**

SECTOR IMPACT

(Continued) **INFRA: Roads, Railways, Defence, Power, Capital Goods – Positive**

- Capital expenditure towards infra has been increased from Rs. 4.39 Lac Cr in FY21 to Rs. 5.54 Lac Cr in FY22, an increase of 34.5%. Over and above this expenditure, more than Rs. 2 Lac Cr will be provided to States and Autonomous Bodies for their Capital Expenditure.
- Capex on Roads and Highways has been hiked from Rs. 1,76,859Cr in FY21 to Rs. 2,07,850 Cr for FY22, an increase of 18% - **Positive for NCC, Dilip Buildcon, KNR Construction, PNC Infra, HG Infra**
- Railways' capex for the year FY22 has been pegged at Rs. 3,04,736 Cr v/s Rs. 1,92,729 Cr in FY21, an increase of 58%. FY21 capex declined by 11% due to Covid. Focus is on electrification - **Positive for KEC International, Hind Rectifiers, RVNL, IRCON, RITES.**

Textile

- A scheme of Mega Investment Textiles Parks will be launched in addition to the PLI scheme. To enable create global champions in exports 7 Textile Parks will be established over 3 years.
- Custom duty on -Nylon fibre and yarn has been reduced to 5% from 7.5%
  - Raw cotton has been increased to 5% from 0%
  - Cotton waste to 10% from 0%
  - Raw Silk, Silk yarn, yarn spun from silk waste has been increased to 15% from 10%

SECTOR IMPACT

Metal

Steel

- Govt has slashed ferrous scrap import duty to 0% from 2.5% earlier and CVD's on few steel products- **this is marginally negative for long product players**
- Reduced custom duty to 7.5% on Semis, flats , non alloys, alloys and stainless steel till March 2022- **Neutral for steel players.**
- CVD recently imposed for import of Stainless steel specially to protect import from Indonesia is rolled back till 30th Sep 2021, **Negative for Jindal Stainless and Jindal Stainless (Hisar)**
- Government has proposed the increase in infra spending to Rs 5.54lakh crore up by 34% as compared to last year- **increase in infrastructure spending will escalate the steel demand (Positive)**

Pipe

- The outlay designed for Jal jeevan yojna of Rs 287000cr spread across next 5 year- **this is positive for pipe players especially for the DI manufacturers. (Major beneficiary- Tata metaliks)**

Overall we believe the duty reduction is marginally negative for players but if the government is able to meet the capex and spending on infrastructure this would provide a great stimulus for steel demand.

SECTOR IMPACT

Cement

- Potential rise in rural incomes and increased outlay on urban housing scheme will result in boosting the demand for cement
- Capital outlay on Pradhan Mantri Awas Yojana-Urban boosted to Rs 31505cr-will aid some recovery in urban housing demand which comprises 30% of cement demand.
- Outlay for the Ministry of Road transport and Highways and Railways increased 11% and 22% respectively. Infrastructure share estimated at 20% of cement demand likely drive demand for cement.
- The replaced cost of 3% education cess on custom duty with a 10% social welfare surcharge will marginal increase the cost of imported inputs**- Pet coke and imported non coking coal prices to increase 0.6-0.8% and 0.1-0.25% respectively**

TOP PICKS

	CMP	Target Price
Cholamandalam Invest & Fin	442	570
Eicher Motors	2843	3520
Eris Lifesciences	627	726
Infosys	1261	1544
Tata Consumer Products	584	680

CHOLAMANDALAM INVESTMENT & FINANCE LTD

CMP: Rs 443

Target: Rs 570

- Chola incorporated in 1978, is the financial services arm of the Murugappa Group having 28 businesses including 9 listed companies. Chola has emerged as a comprehensive credit provider offering vehicle finance (74% mix), SME/LAP (21% mix) & Home loans (5% mix) having a network of 1132 branches (82% in rural areas) with a total loan book of Rs. 74,471 Cr.
- As a conscious strategy, Chola has diversified in multiple new segments since FY12 which has helped it navigate slowdown faced in certain segments. Since FY12, Chola entered Tractors/Home loans/CE and they today constitute 7%/5%/4% of AUM.
- There are three aspects of Chola's vehicle finance business that stand out compared to peers: (i) well diversified across product segments – LCV (26%), HCV (11%), Used CV (26%), Car (10%), MUV (7%), Tractor (9%), CE (6%), 2W (5%) (ii) gained market share by growing vehicle book at a CAGR of 20% over FY15-20 compared to 15%/13%/9% for MMFS/Sundaram/SHTF; and (ii) there is no state-level concentration – the largest state Maharashtra accounts for only 10% of total AUM.
- Strong asset quality has been a hallmark for Chola. The company has historically maintained low credit costs (75 bps) compared to peers like MMFS (230 bps) & SHTF (260 bps). AUM constituting customers who have not paid a single installment since moratorium began, stands at 2% while the Covid provisions held by Chola are at 1%. Thus we believe the credit costs will normalise starting FY22.
- Backed by best in class asset quality track record, AUM/PAT growth of 20%/30% over FY21-23 and ROE of ~20%, we recommend BUY on the stock for a target price of Rs 570 at 3.3x FY23 BVPS (at +1 Std. Dev.).

Figures in Rs Cr

Year	NII	Growth	PAT	Growth	EPS	PE	BVPS	P/BV	ROA	ROE
FY20	3,250	12%	1,052	-11%	12.8	30.4	100	4.3	1.7%	14.7%
FY21E	4,375	35%	1,639	56%	20.0	19.5	118	3.6	2.4%	18.4%
FY22E	5,057	16%	2,090	27%	25.5	15.3	141	3.1	2.8%	19.7%
FY23E	5,843	16%	2,802	34%	34.2	11.4	173	2.5	3.3%	21.8%

EICHER MOTORS

CMP: Rs 2844 **Target: Rs 3,520**

- Royal Enfield's niche positioning and strong brand acceptance in the cruise bike segment have provided the co with immense pricing power (Gross margins of 48% vs 24-31% for the top three 2W companies).
- After witnessing headwinds over the last 18 months, we expect volumes to recovery from hereon. RE is now focusing on expanding the addressable market through (a) distribution expansion (via smaller format stores), (b) focus on increase in penetration in states like UP, MP, Rajasthan, Gujarat (where penetration is <5%), (c) price laddering (offering multiple 'trim' levels), (d) focus on exports with middle weight motorcycle segment gaining traction in key exports markets (250-650cc) in the price range of USD 3-7k, and (e) new product launches (Meteor and more in pipeline).
- With healthy response to the new 650 Twins, Interceptor GT and Continental GT both in Indian as well as international markets and recovery in domestic sales, we expect RE volumes to recover from H2FY21.
- RE demand is back to pre-COVID levels and is expected to further improve, on the back of new launches and ongoing expansion in the international markets. We expect RE volumes to grow by 25% in FY22E. We recommend to buy the stock with a target price of Rs. 3,520 valuing it at 33x FY23E EPS.

Figures in Rs Cr

Year	Revenue	Growth	EBITDA	Margin	PAT	Growth	EPS	PE	EV/EBITDA	ROE
FY20	9154	-7%	2180	23.8%	1827	-17%	67	42.0	31.2	19.3%
FY21E	8638	-6%	1866	21.6%	1452	-21%	53	53.0	36.4	14.0%
FY22E	11423	32%	2812	24.6%	2381	64%	87	32.2	24.2	19.6%
FY23E	13185	15%	3329	25.2%	2914	22%	107	26.4	20.4	20.4%

ERIS LIFESCIENCES LTD

CMP: Rs.615

Target: Rs 726

- Eris Lifesciences is Ahmedabad based chronic specialist pharma company
- Chronic and Vitamines-Minerals-Nutraceuticals (VMN) portfolio collectively consists 75% of company's portfolio which gives revenue stickiness and visibility to the company
- ERIS **continues to outperform IPM** growth which would continue in future given the healthy pipeline it has. The company believes in going deep in the covered market and gaining leadership position in segment, which has paved well for it. With nearly Rs 30bn worth of patented drugs going off-patent in 3-5 years, we believe ERIS has a strong base to tap these opportunities
- **Launching Derma in FY22** – To further expand its portfolio, the company is venturing into another attractive segment – Dermatology in 1HFY22.
- Eris is a pure play domestic company with minimal regulatory risk from international agencies.
- Eris has **strong balance sheet** with robust cash generation abilities and debt free status. The company has healthy working capital cycle as well
- In last year, Eris has not taken part in the Pharma rally and currently trading at attractive valuations of 18.4x FY23E consensus earnings. However, going forward, given the strong growth momentum, steady margins, ERIS is likely to catch up with Pharma biggies.

Figures in Rs cr

Year	Revenues	Growth	EBIT	Margin	PAT	Margin	EPS	PE	ROE
FY20A	1074	9.4%	368	34.3%	296	27.6%	21.8	28.7	22.9%
FY21E	1199	11.7%	412	34.4%	350	29.2%	25.7	24.4	25.4%
FY22E	1333	11.1%	456	34.2%	389	29.2%	28.6	21.9	24.5%
FY23E	1513	13.5%	517	34.2%	452	29.9%	33.3	18.9	24.9%

INFOSYS LTD

CMP: Rs.1261

Target: Rs 1544

- Under the leadership of CEO Salil Parekh, since Jan 2018, with company's new strategy of continued focus On Scaling digital, Energising core (deepening AI & automation), Reskilling Employees, Expanding localisation to accelerate growth is showing results.
- Over FY18-20, deal pipeline grew at a CAGR of 71.4%.Inspite of the pandemic, in Q3FY21, the company reported its best ever TCV of $ 7129 mn (net new wins of 73%), taking 9M FY 21 TCV to $ 12018 mn (+63% Over 9MFY20) The growth in TCV is much higher then TCS.
- With higher deal wins, we feel, Infosys will record a Double Digit growth of around 15% in FY22E
- Infosys has consistently out performed TCS in last 4 quarter on QoQ growth parameter
- We feel with the consistent out performance in growth and deal win, the gap between the valuation of Infosys trading at 20.9x FY23E EPS and TCS trading at 26.4x FY23E EPS will reduce
- Share is trading at 20.9x FY23E EPS which we feel is attractive

Figures in Rs cr

Year	Revenues	Growth	EBIT	Margin	PAT	Margin	EPS	PE	ROE
FY20A	90791.0	9.8%	19374.0	21.3%	16594.0	18.3%	39.0	31.8	25.4%
FY21E	100474.3	10.7%	24511.9	24.4%	19412.5	19.3%	45.5	27.3	18.5%
FY22E	115293.0	14.7%	27495.5	23.8%	22297.4	19.3%	52.4	23.7	19.1%
FY23E	129594.0	12.4%	31196.4	24.1%	25277.2	19.5%	59.4	20.9	19.3%

TATA CONSUMER PRODUCTS LTD

CMP: Rs.584 **Target: Rs 680**

- Tata Consumer Products Ltd (TCPL) has upgraded from mere a beverage company to food products company post the integration of Tata Chemicals' portfolio. TCPL is world's second largest branded tea player. Apart from Foods and Beverages business, it has a JV with Starbucks in India
- **New Management** – Mr Chandrasekaran joining at Chairman level has envisioned integrating consumer business of Tata Chemicals with Tata Consumer which has broadened the product portfolio and opened up more diversified opportunities for latter. Recently Mr Sunil D-Souza has joined at MD & CEO level to take the integration ahead. In his previous role, he served as MD of Whirlpool India Ltd. With over 26 years of rich experience, he has strong domain knowledge of the consumer products business with distinct focus on strategy, growth and execution.
- **Increased Opportunities in Diversified Portfolio** – The company has two stable steady base businesses with Tea and Salt. The other portfolio of spices, pulses are growing and provides immense opportunities as Pulses is mostly unorganised segment with only 9% of the segment being branded
- **Driving Innovation** – The company is driving ahead on innovation and have test launched a host of new food product categories in the e-commerce outlets, including Nutrimixes (Chilla), Poha, Chutney, Organic Pulses and Sattu. We believe this would accelerate the growth momentum going forward.
- **Attractive Valuation** – We have seen a run-up rally in TCPL post the merger with Tata Chemical's portfolio, with other FMCG players. However, it is available at attractive valuations of 38.7x FY23E consensus earnings. With integration benefits still to play out fully, we believe TCPL is good bet for long term gains

Figures in Rs cr

Year	Revenues	Growth	EBIT	Margin	PAT	Margin	EPS	PE	ROE
FY20A	9637	32.9%	1292	13.4%	460	4.8%	5.0	117.2	3.1%
FY21E	11176	16.0%	1663	14.9%	991	8.9%	10.8	54.4	7.1%
FY22E	12069	8.0%	1859	15.4%	1148	9.5%	12.5	46.9	7.8%
FY23E	13112	8.6%	2080	15.9%	1331	10.2%	14.4	40.5	8.5%

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