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## Budget 2021: Booster shot required

The countdown for the Union Budget 2021 has started and all eyes would be on the government on how they have planned to address the challenge to reinstate the economy on a growth path. To give a backdrop, the Indian economy has had its share of problems even before the pandemic, triggered by a combination of factors including consumption slowdown, NBFC crisis and tepid rural demand, etc. However, just as when some green shoots of recovery were visible, the economy got hit by the pandemic which led the government to announce a strict lockdown, which we had never experienced before. This not only brought the entire economy to a halt but also led to a loss of millions of livelihood across sectors.

The strict lockdown had severe ramifications on the economy as India's GDP contracted by 23.9%, which was one of the worst amongst developed as well emerging nations. To control further damage, the plateauing out of COVID cases prompted the governments globally including India to focus on easing restrictions and resuming economic activities. Additionally, the government and the RBI have been proactive in handling the economic crisis, as they both announced a series of measures amounting to nearly Rs. 20 trillion to get the economy back on track. While very little was done in terms of handing out cash to people, the package largely focused on providing adequate liquidity and credit support to businesses which seems prudent considering the limited fiscal space and as the quantum of the impact of the pandemic was still unknown.

Nonetheless, easing restrictions, pent-up demand and festive season coupled with support from the government and RBI has led to decent economic recovery however, sustenance of the same continues to remain a key question. Despite facing fiscal challenges, we believe the focus of the government would be to provide multiple demand boosters to get the economic growth back on track.

### Increased spending is the way forward

With growth still below normal, the upcoming budget is likely to focus more on increasing spending especially in priority sectors like Infrastructure, Rural and Healthcare. This would not only aid in employment opportunities for low and semi-skilled workers but also improve demand for goods and services offered by MSMEs and increase overall consumption. Additionally, to build on India's mission to become 'Atma Nirbar', we expect several measures to be announced on structural challenges obstructing MSMEs' growth; skill development opportunities, including upskilling and reskilling talent, as well as announcing more schemes and incentives for the agriculture sector.

### Little scope for tax relief

Just like in every budget, this year as well the expectations are rife for a tax cut both on the indirect and direct tax front. Given that the government is already running a high deficit owing to lower tax collections, we believe any large cuts would be unlikely. However, some relief to certain distressed sectors and tinkering in personal income tax could be on the cards.

### Rollover of disinvestment target

The government's disinvestment plans for FY21 took a big hit due to the pandemic as the government only managed to garner Rs. 22,000cr as against an ambitious target set by the government of Rs. 2.1 lakh cr. We expect the government to roll over its disinvestment plans to FY22 which would provide support to funding infrastructure projects. The government disinvestment plan would include privatization of Air India, BPCL, Concor, Shipping Corporation, etc. Besides, the listing of LIC IPO is also on the cards.

### Time to overlook fiscal deficit

The government's fiscal maths has gone south as the pandemic has significantly impacted tax collections. Even though the recent recovery in the economy has improved tax collections, the government is likely to end the year with a deficit of over 7% as against the original estimate of 3.5%. Going forward for FY22 as well, we expect the government would continue to focus on improving economic growth and follow an expansionary fiscal policy.

### To conclude….

From a stock market perspective, investors and businesses are pinning high hopes on the budget and any disappointment could lead to profit-taking. While we do believe the focus would be on growth however the approach would be gradual considering tight fiscal space. We expect the underlying theme of the budget could be a greater push towards Infrastructure, Make in India, Distressed sectors and Digitalization, with the aim of job creation, support to rural and consequently to bring back the economy on the growth track.

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# Sectoral Budget Wishlist

## Agriculture

| Expectations | Impact | Likely Meter |
|---|---|---|
| To allocate more funds in the initiatives like MNREGA, PM-Kisan schemes, crop protection, fertilizers subsidy scheme, job creation and farm infrastructure investments | Would help in increasing farmers income, employment and building farm infrastructure. Companies like **Coromandel, Rallis and Godrej Agrovet**, etc would benefit | Least likely Likely Most likely |
| Introduce farmer centric policy which may include compensation and measures related to MSP | Overall thrust towards doubling farm income by 2022 and financially supporting farmers | Least likely Likely Most likely |
| Higher allocations towards rural development and infrastructure projects | This will boost growth in rural economy and benefit companies focusing on rural such as **HUL, Dabur, Emami** | Least likely Likely Most likely |

## Auto

| Expectations | Impact | Likely Meter |
|---|---|---|
| Introduction of vehicle scrappage policy | It would lead to scrappage of older vehicles and spur demand for the industry. Positive for CV manufacturers **Ashok Leyland, M&M, and Tata Motors** | Least likely Likely Most likely |
| Reduction in GST rate from 28% to 18% to boost growth | It would attract first time buyers to buy automobiles. Positive for the overall industry | Least likely Likely Most likely |
| Removal of restrictions to avail the input tax credit of GST paid on automobiles for businesses | It would make automobile cheaper and spur demand growth. Positive for CV players like **Ashok Leyland, M&M, and Tata Motors** | Least likely Likely Most likely |
| Special deductions for interest on auto loans | It would help in increasing demand for two wheelers and PVs. Positive for **Bajaj Auto, Hero Motocorp, Maruti & M&M** | Least likely Likely Most likely |
| Specific details for Production Linked Incentive scheme for the auto sector | Promote Make in India and reduce import dependency. Positive for auto ancillary companies like **Minda Industries, Subros, Fiem Industries** | Least likely Likely Most likely |

## Banking and Finance

| Expectations | Impact | Likely Meter |
|---|---|---|
| Creation of Bad Bank | It would limit the capital required by PSU banks. Positive for overall sector | Least likely Likely Most likely |
| Announcement of mergers of more PSU banks | Positive/Negative for select PSU banks depending on selection | Least likely Likely Most likely |
| Re-capitalization of some PSU banks | Possible spike in NPAs would require capital infusion from the government. Positive for select PSU banks | Least likely Likely Most likely |
| Promote credit growth through income tax incentive (Home, Auto etc) | It would lead to healthy growth in loans. Positive for overall sector | Least likely Likely Most likely |

## Capital Goods

| Expectations | Impact | Likely Meter |
|---|---|---|
| Increase allocation and widening of production linked incentive schemes | It will help to boost manufacturing. Positive for select manufacturing companies across sectors like power, consumer electronics, infrastructure | Least likely Likely Most likely |
| Increase allocation to defense | Will boost demand for defence equipment's leading to healthy revenues for capital goods players. Positive for **BEML, BEL, Bharat Forge, Bharat Dynamics** | Least likely Likely Most likely |
| Increase allocation to infrastructure (Pradhan Mantri Gram Sadak Yojana (PMGSY), Atal Mission for Rejuvenation and Urban Transformation (AMRUT), etc.) | Likely to boost order book of capital goods players. Positive for **L&T, Thermax, Siemens India, ABB India** | Least likely Likely Most likely |

## Cement/Infrastructure

| Expectations | Impact | Likely Meter |
|---|---|---|
| Increase spending on infrastructure, affordable housing and real estate sector | This could help in job creation as well as spur activities in allied sectors such as cements as well as drive volume growth. Positive for all cement companies such as **Ramco Cements, Ultratech, ACC, Ambuja** | Least likely Likely Most likely |
| Setting up Development Finance Institution for Infra project progress | This new institution will help revival of stalled projects as well as push growth for new ones. Beneficial for all infrastructure companies | Least likely Likely Most likely |

## FMCG/Consumer Durables

| Expectations | Impact | Likely Meter |
|---|---|---|
| Announcement of stimulus package in the form of increase in income tax slabs | Saving higher discretionary income would improve spending power and drive the demand for consumer goods. All FMCG companies would benefit | Least likely Likely Most likely |
| Higher allocations towards rural development and infrastructure projects | To improve demand, increase rural income and spending power in rural area for FMCG sector. Positive for companies like **HUL, Colgate, Britannia, Nestle**, etc | Least likely Likely Most likely |
| Increase in cess or taxes on cigarettes in range of 5-10% | Increase in cost of cigarettes could impact the cigarettes volumes of companies. Negative of **ITC, VST, Godfrey Phillips** | Least likely Likely Most likely |
| Increase in import duty for electronics, smartphones, etc | Electronics, smartphones could get costlier. At the same time, it will boost 'Make in India' program | Least likely Likely Most likely |
| More allocation towards Production Linked Incentive (PLI) schemes | Positive for companies such as Dixon Tech, Amber Enterprise, etc | Least likely Likely Most likely |

## IT

| Expectations | Impact | Likely Meter |
|---|---|---|
| Measures for boosting start-up technological companies | This will help strengthening growth of economy as well as Indian tech companies. Also will drive 'Make in India' program | Least likely Likely Most likely |

## Pharma/Healthcare

| Expectations | Impact | Likely Meter |
|---|---|---|
| To allocate funds towards health infrastructure and R&D | Higher spending towards healthcare will help in saving more life as well as stabilize large expense towards health. All pharma companies would benefit | Least likely Likely Most likely |
| Reducing taxes and GST for essential drugs | Essential drugs will be available at affordable price which would help in stabilizing health expense | Least likely Likely Most likely |

## Real Estate

| Expectations | Impact | Likely Meter |
|---|---|---|
| Announcement with respect to increase in deduction limit under income tax section 80C for loans and interest | Increase in demand for houses from first time buyers. Companies such as **Oberoi Realty, Godrej Properties**, etc will benefit | Least likely Likely Most likely |
| Reduction in GST rates on input cost | Would help in savings and better cash flow. Companies such as **Oberoi Realty, Godrej Properties**, etc will benefit | Least likely Likely Most likely |
| To provide industry status | This will help in raising funds for projects. Beneficial for entire sector | Least likely Likely Most likely |

## Telecom

| Expectations | Impact | Likely Meter |
|---|---|---|
| Investment incentive in the form of accelerated depreciation or investment allowance on capital investments | This will provide an impetus to foreign gear manufacturing companies to set up manufacturing facilities in India and aid in job creation and boost MSMEs | Least likely Likely Most likely |
| Incentive plans and relaxation from tax/regulatory fee for few years on 5G acquisition | To ease the stress of financial outlay. Positive for the overall sector | Least likely Likely Most likely |

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| S. No. | Statement | Answer | |
|---|---|---|---|
| | | Tick appropriate | |
| | | Yes | No |
| | I/we or any of my/our relative has any financial interest in the subject company? **[If answer is yes, nature of Interest is given below this table]** | | No |
| | I/we or any of my/our relatives, have actual/beneficial ownership of one per cent. or more securities of the subject company, at the end of the month immediately preceding the date of publication of the research report or date of the public appearance? | | No |
| | I / we or any of my/our relative, has any other material conflict of interest at the time of publication of the research report or at the time of public appearance? | | No |
| | I/we have received any compensation from the subject company in the past twelve months? | | No |
| | I/we have managed or co-managed public offering of securities for the subject company in the past twelve months? | | No |
| | I/we have received any compensation for brokerage services from the subject company in the past twelve months? | | No |
| | I/we have received any compensation for products or services other than brokerage services from the subject company in the past twelve months? | | No |
| | I/we have received any compensation or other benefits from the subject company or third party in connection with the research report? | | No |
| | I/we have served as an officer, director or employee of the subject company? | | No |
| | I/we have been engaged in market making activity for the subject company? | | No |

**Nature of Interest ( if answer to F (a) above is Yes :**

**.........................................................................................................................................................**

**Name(s) with Signature(s) of RA(s).**

**[Please note that only in case of multiple RAs and if the answers differ inter-se between the RAs, then RA specific answer with respect to questions under F (a) to F(j) above , are given below]**

| SS..No. | Name(s) of RA. | Signtures of RA | Serial Question of question which the signing RA needs to make a separate declaration / answer | Yes | No. |
|---|---|---|---|---|---|
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