

One Stop Investment Avenue



**GEPL
CAPITAL**

UNION



BUDGET

2021 –22 Preview

Macro Overview

- ⇒ Fiscal deficit relative to GDP at 9.5% in FY21 and 6.8% in FY22.
- ⇒ Capital expenditure is estimated to increase from 1.6% of GDP in FY20 to 2.3% of GDP in FY21 Revised Estimates (RE) and further to 2.5% of GDP in FY22 Budget Estimates (BE).
- ⇒ 14.4% Nominal GDP growth rate for FY22.
- ⇒ Disinvestment plan has been planned for FY22 with receipts from disinvestment budgeted to increase to INR1.75 lakh crores from INR32,000 crores in FY21.

Key Announcements

- ⇒ Privatization of 2 PSBs and 1 General Insurance company in FY22
- ⇒ The gross borrowing from the market for the next year estimated at around Rs. 12 lakh crores.
- ⇒ IPO of LIC to be undertaken in FY22.
- ⇒ Agriculture Infrastructure and Development Cess (AIDC) For the purpose of financing the agriculture infrastructure and other development expenditure on import of notified goods. Also on manufacture of petrol and high speed diesel.

As per our expectations...

- ⇒ **Increased healthcare allocation**—PM Atma Nirbhar Swasth Bharat Yojana to be launched with an outlay of INR 64,180 crores over 6 years
- ⇒ **Asset reconstruction and management** companies to be set up to handle stressed assets of PSBs
- ⇒ A sum of INR 20,000 crores allocated to set up the **Development Financing Institution**.
- ⇒ **Voluntary vehicle scrapping policy**, to phase out old and unfit vehicles
- ⇒ Increased **FDI in insurance** from 49% to 74%
- ⇒ **Negative Surprise**—Decrease in the MGNREGA scheme, rural allocation lesser than expected
- ⇒ **Positive surprise**—No change of tax regime, disinvestment target by FY22 rationalized and set target by FY22. Fiscal consolidation through asset monetization

Agriculture

Agriculture credit target increased from INR 15 lakh crores to INR 16.5 lakh crores

Allocation to Rural Infrastructure Development Fund increased from INR 30,000 crores to INR 40,000 crores

Allocation to Micro Irrigation Fund increased from INR 5,000 crores to INR 10,000 crores

Implications

Allocation to the MGNREGA came in lower than expected, however, investments in rural development came in much higher in the revised and budget estimates for FY22.

We expect this to have a multiplier effect for the farmer's income.

Stocks to watch—UPL, Kaveri Seeds, Avanti Feeds, 2 Wheelers and Tractor companies

Automotive

Announcement of Voluntary Vehicle Scrapage Policy

Reduction in BCD rate of certain metals by 2.5%

New scheme to augment public bus transport service of Rs 180bn

Duty on lithium ion cell increased to 5% from 0% which is used in Hybrid and EVs vehicles.

Agriculture Infrastructure and Development Cess imposed on petrol and diesel with a consequent reduction in other duties and cess to ensure no additional burden on the consumer

Announcement of significant allocation for construction of highways and roads.

Implications

The scrappage policy has been long awaited and as a positive surprise for the CV segment. The incentive structure is yet to be discovered.

Higher infra spending and allocation towards buses is a step towards increasing the demand for commercial vehicles

The duty hike will promote indigenous manufacturing of critical lithium ion cell critical for EVs

Stocks to watch— Tractor companies like M&M, Escorts. Commercial Vehicles—Tata Motors, Ashok Leyland.

EV Battery—Lithium ion cell production is positive for Exide and Tata Chemicals.

Increased duty on carbon black is positive for Himadri Specialty, Phillips Carbon Black

Defence

Defence budget allocation of INR 1350.60 bn for capital expenditure and INR 2120.27 bn for revenue expenditure

Increase in budget allocation for capital defence expenditure by 18.75% over 2020-21 (BE)

Implications

Defence allocation has improved even in the revised estimates for FY21 and sustained the BE of FY22.

We expect order inflows to remain robust for the defence PSUs

Stocks to watch—BEL, BHEL, HAL are the front liners in the defence space

BFSI

Increase in FDI limit in the insurance sector from 49% to 74%

Recapitalization of INR20,000 crores to consolidate the financial capacity of PSBs

Set up of an Asset Reconstruction Company and Asset Management Company (Bad Bank)

Develop an institutional framework for the bond market

Privatization of two PSBs and one General Insurance company

Implications

Will help insurance co. in meeting capital requirements and bring necessary global expertise.

The bad bank is a positive for the PSBs as this may quicken the resolution process of stressed accounts, many of which are fully provided and help clean up bank's books. However, execution will remain key.

Public sector banks with favorable valuations will remain in focus as the government looks to privatize

Improvement in the NCLT procedures and reduction in ticket size for stressed resolution is positive for mid size banks

Stocks to watch— HDFC Life, SBI Life, Max Life, HDFC Bank, ICICI, Axis

Vehicle financers would also be positively affected by increased transportation and infra allocation—Shriram Transport

Infrastructure

Rise of 26.2% (30.8% up in FY21RE) in capital expenditure to Rs5.5 tn (15.9% of total expenditure)

Centre will provide more than Rs2 tn to states and autonomous bodies for capex.

Allocation to NHAI increased by 16.9% to Rs574 bn.

Much on expectations - Development Financial Institution ('DFI') to be set-up and professionally managed with budgetary allocation of INR 20,000 crores for funding infrastructure projects - Lending Portfolio to be INR 5 lakh crores in 3 years

Oil and gas pipelines, Warehousing assets under CPSE to be monetized.

Adding 100 districts to city gas networks over a period of 3 years

Implications

Positive for Industrial manufacturing companies and construction companies, cement and building material companies.

Access of finance to InVITS and REITs thus augmenting funds for infrastructure and real estate sectors

Construction materials and infra players are a key beneficiary of the increased allocation.

Roads & Highways were clearly the most resilient segment of infrastructure

Stocks to watch—KNR Constructions, L&T, IRB Infra, Cummins, BEML, Ircon, KEC, RITES, NBCC, Kejarla Ceramics

CGD addition is on expected lines and sentimentally positive for CGD sector—MGL, IGL, GAIL

Healthcare

The total budget outlay for healthcare is INR2.23 lakh crore vs. INR94,452 crores in FY 20-21 resulting in an increase of 137%

Pradhan Mantri AtmaNirbhar Swasth Bharat Yojana proposed to be launched with outlay of about INR 64,180 crore over 6 years to develop capabilities of primary, secondary and tertiary care health systems, strengthen existing national institutions, and create new institutions including set up of integrated public health labs, critical care hospital blocks, expansion of Integrated Health Information Portal, etc.

Implications

Increase in healthcare budget is broadly on expected lines. API and KSM players will also benefit from the PLI scheme allocations.

Stocks to watch—Positive for Hospitals and diagnostics companies like Apollo, Fortis, Max, Metropolis, Dr Lal and Thyrocare

NOTES

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