

Union Budget 2021 positions itself as a high expenditure budget with an estimated spending of INR 34.8 trillion including INR 5.54 trillion which is an increase of 34.5% compared to INR 4.12 trillion in the previous year. As our title “No news is good news!” suggests, that as opposed to financing expenditure through increased taxes, it will be done through government borrowing, Dis-investment and asset monetisation. Doing away with all rumours (Covid Cess, Wealth tax, taxes on notional gains etc), markets reacted positively with benchmark indices rising as much as 5% in a single day!

Fiscal Deficit for FY21 is estimated to be at 9.5% of GDP and 6.8% in FY22e with gradual decrease each year after till reach 4.5% by FY25e.

It is a bold budget purely focusing on driving growth through investments, re-forms and any such measures in healthcare sector, BFSI and agriculture sector. In **Banking**, it is aimed to privatise 2 state run PSBs' and creation of an Asset Reconstruction Company (ARC) to buy stressed assets and sell them to Alternative Investment Funds (AIF). While only a proposal currently, if implemented and executed well, would help bring back stuck monies into circulation. In **Healthcare**, spending is increased 1.37x to INR 2.2 trillion which is the highest ever so far.

The much awaited **Scrappage policy** though on a **voluntary basis** was announced and as per Federation of Automobile Dealers Association (FADA), 3.7mn Commercial Vehicles (CV) and 5.2mn Personal Vehicles (PV) are eligible for the same, taking 1990's as a base year. In addition to this, 6575kms highway work construction proposed for Tamil Nadu, Kerala and West Bengal and another 19500km work for Bharat Mala project is a big push for M&HCV sector.

Even the under-penetrated insurance industry in India received their shot in the arm with FDI limit increase to 74% from 49% earlier.

We believe this budget is in the direction with more focus on upgrading Health, Education and Infrastructure but also not losing sight on youth talent (encouraging start-up), and easing tax compliance and reporting.

Fiscal Deficit pegged @ 9.5% of GDP

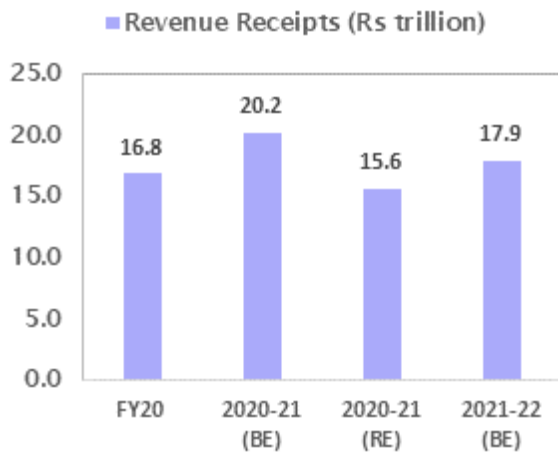
Finance Minister in the current budget has decided to spend big on infrastructure across various sectors to give a greater impetus to the economy which is recovering from the impact of COVID-19. This year's budget proposals rest on six pillars - health and well-being, physical, financial capital and infrastructure, inclusive development for aspirational India, reinvigorating human capital, innovation and R & D and Minimum Government and Maximum Governance.

As the government spending increased and revenue declined due to global pandemic, the fiscal deficit for FY21 was pegged to 9.5% of the GDP against the target of 3.5%. India's fiscal deficit had breached its previous Budget target in July itself as the economy faced the most stringent lockdown in Q1FY21 to contain the outbreak of the coronavirus pandemic. Fiscal deficit for 9MFY21 stood at Rs 11.58 trillion, 145.5% of the budgeted target. However, the ability of the government to take a bold position on fiscal deficit is commendable. The government has fixed the fiscal deficit target of 6.8% of the GDP for next fiscal, suggesting continuous support to ongoing series of economic stimulus packages. The main reduction in the deficit is anticipated to be carried out by a reduction in expenditure from 17.7% of GDP in RE 2020-21 to 15.6% in BE 2021-22 and a marginal increase in gross tax revenues to the tune of 0.1% of GDP. The gross market borrowing will be Rs 12 trillion, which is 68.9% of total borrowings. The other sources of financing like National Small Savings Fund constitutes around 26%. The government intends to reach a fiscal deficit level below 4.5% of GDP by 2025-2026.

Speed-Up Disinvestment Programs

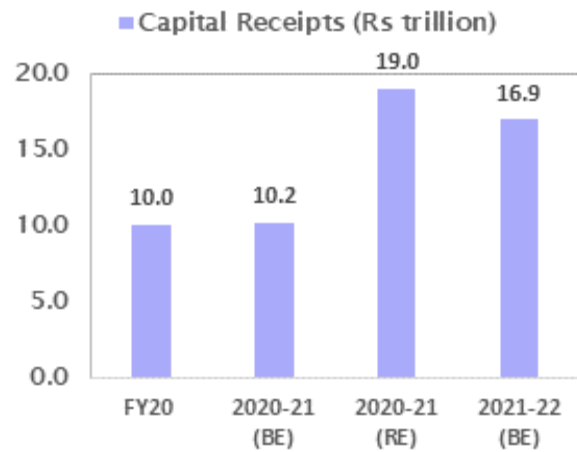
The government has planned to speed-up disinvestment programs and targeting to raise Rs 1.75 lakh-crore through the disinvestment 2021-22. However, during FY21, the total proceeds of disinvestment and share buyback is at a five-year low of Rs 0.19 trillion so far. It is only about 8% against the target of Rs 2.10 trillion. The government proposed to divest two public sector banks and a general insurance company. NITI Aayog has been asked to work on the next list of CPSUs for strategic disinvestment. The disinvestment of the IDBI Bank, Air India, BPCL, Shipping Corp, Neelanchal Ispat Nigam, etc is in the list of the government to divest in 2021-22.

Exhibit 1:



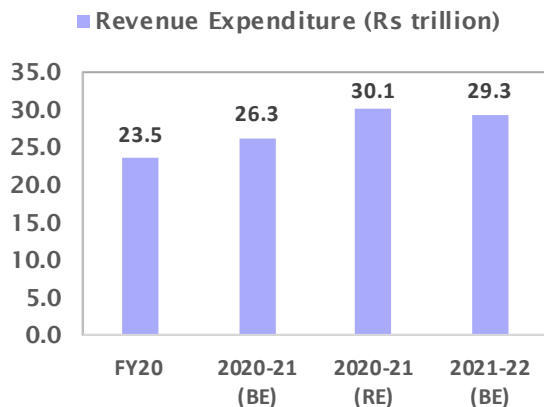
Source: Dalal & BroachaResearch

Exhibit 2:



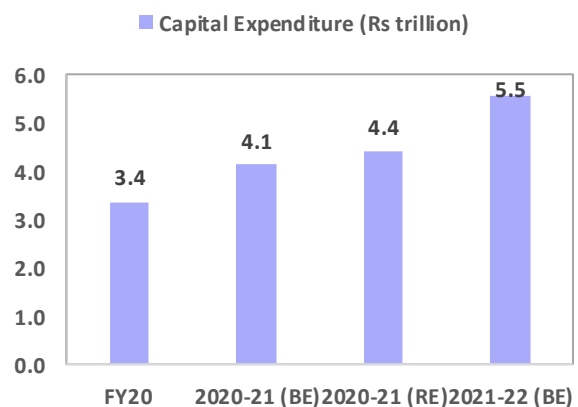
Source: Dalal & BroachaResearch

Exhibit 3:



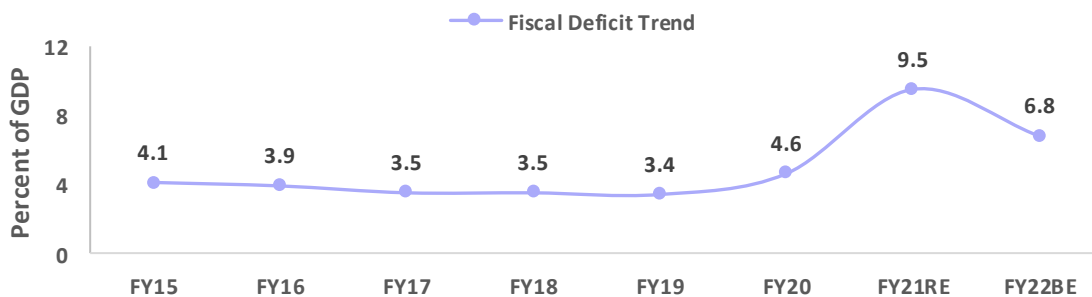
Source: Dalal & BroachaResearch

Exhibit 4:



Source: Dalal & BroachaResearch

Exhibit 5



Source: Dalal & BroachaResearch

SECTORAL HIGHLIGHTS

A. BANKING

1. **Privatization of two Public Sector Banks and one General Insurance company in the year 2021-22-** . Other than IDBI Bank, Government proposes to take up the privatization of two Public Sector Banks and one General Insurance company in the year 2021-22.

Our View: Bringing in private investors who have both financial and technological skillset will make the PSU banks more efficient. Recapitalizing of banks is not working as most of the problems are structural in nature. Even the recent amalgamations that were done were not successful and privatization is probably the last throw of the dice. Many factors like suitable buyer, workers union can prove to be a roadblock. It's highly unlikely that big PSU banks like SBI, PNB and Bank of Baroda will be privatized.

Stocks that can benefit Smaller ones like BOI, IOB, Bank of Maharashtra and UCO Bank

2. **Stressed Asset Resolution by setting up An Asset Reconstruction Company and Asset Management Company-** The high level of provisioning by public sector banks of their stressed assets calls for measures to clean up the bank books. An Asset Reconstruction Company Limited 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.

Our View: According to RBI estimates Gross bad loans on bank balance sheets could rise to 13.5% by Sept. 30 and setting up a bad bank like structure where all the bad loans can be placed will help in cleaning up the balance sheets of major banks. The ARC's that are operational are finding it difficult to unload the bad debt that they hold in their books and are unwilling to take over more bad assets. But it is a step in the right direction.

Stocks that can benefit: PSU banks and slightly weaker private banks like BOI, IOB, Bank of Maharashtra and Yes Bank

3. **Recapitalization of PSB:** To further consolidate the financial capacity of PSBs, further recapitalization of Rs. 20,000 crores is proposed in 2021-22.

Our View: Recapitalization is a short-term fix but capital will help the weaker PSU banks in their provisioning requirement. Weaker banks will be getting this round of capital.

Stocks that can Benefit: Banks with stressed asset books PNB, Bank of India, Indian Overseas Bank, Bank of Maharashtra and UCO Bank.

4. **Tax deduction for Affordable Housing Buyers:** Additional deduction of 1.5 lakh will be available for loans taken up till 31st March 2022, for the purchase of an affordable house. Affordable housing projects can also avail a tax holiday for one more year till 31st March, 2022.

Our View: With interest rates at an all-time low and various soaps like reduction of stamp duty in various cities, this is a much-needed nudge to make first time home buyers go for buying a home. First time home buyers and value of the house property should not exceed Rs 45 lakhs.

Stocks that can Benefit Affordable housing Finance companies like Can Fin Homes, Repco Home Finance, HUDCO, Bandhan Bank and real estate companies.

5. **Infrastructure financing - Development Financial Institution (DFI):** A professionally managed Development Financial Institution is necessary to act as a provider, enabler and catalyst for infrastructure financing. Accordingly, a DFI has been set up. A sum of Rs. 20,000 crores to capitalize this institution. The ambition is to have a lending portfolio of at least Rs. 5 lakh crores for this DFI in three-year time.

Our View: We feel DFI will fund PSU banks who will in turn fund the infrastructure projects. This will benefit the loan growth for PSU banks.

Stocks that can benefit SBI, PNB, Bank of Baroda

6. **Reduction of the eligible loan amount for recovery under the SARFAESI Act for NBFCs:** To improve credit discipline while continuing to protect the interest of small borrowers, for NBFCs with minimum asset size of Rs. 100 crores, the minimum loan size eligible for debt recovery under SARFAESI Act, 2002 is proposed to be reduced from the existing level of Rs. 50 lakhs to Rs. 20 lakhs.

Our View: It will help in strengthening the NBFC sector by improving credit discipline among borrowers.

Stocks that can benefit: Gold loan financiers like Muthoot, Manapurram Finance can benefit thanks to quick resolution.

7. **Social security benefits will extend to gig and platform workers:** For the first time globally, social security benefits will extend to gig and platform workers. Minimum wages will apply to all categories of workers, and they will all be covered by the Employees State Insurance Corporation.

Our View: It will help the small finance banks and microfinance institutions that give small ticket loans to the unorganized sector.

Stocks that can benefit: Small finance banks like Equitas, Ujjivan, Bandhan Bank and microfinance institution Credit Access Grameen.

8. **Allotment of INR 15,700 crores to MSME sector and INR 1.97 lakh crores over five years starting FY21-22 for the manufacturing sector.**

Our View: Covid has impacted MSME's the most. This capital infusion along with restructuring and Credit Guarantee Scheme will go a long way in eliminating stress of banks that have MSME exposure.

Stocks that can benefit: Banks with high exposure to MSME's like Federal Bank and City Union Bank.

B. INSURANCE

1. Increase FDI limit to 74% from 49%

- The government has proposed to increase FDI limit in the insurance sector to 74% from 49%, a move aimed at attracting overseas players.
- Under the new structure, the majority of directors on the board and key management persons would be resident Indians with at least 50% of directors being independent directors and specified percentage of profits being retained as general reserve.

Our View:

- Increase in FDI limits will help insurance companies to raise funds to ensure their solvency is maintained in line with growing business needs.
- This may also help increase M&A in the sector while paving the way for PE funds to enter the space.
- Large private insurers may see increased competition if smaller players get better capitalized.

2. Tax Exemption on ULIP Proceeds Capped

- ULIPs with annual premiums over Rs 2.5 lakh will now be treated as capital assets and profits & gains from such ULIPs will now be taxable as capital gains
- The rules will apply for Ulips issued on or after 1 February 2021.

Our View: Given large portion of people invest in ULIPs for tax benefit, this will be negative for all life insurance companies

Key Beneficiaries Given ICICI Pru Life and SBI Life have the higher share of ULIPs, we like Max Financial Services & HDFC Life (both have relatively lower ULIP exposure) in life insurance, while in general insurance we like ICICI Lombard GIC.

C. INFRASTRUCTURE

1. Railways

- It is expected that Western Dedicated Freight Corridor (DFC) and Eastern DFC will be commissioned by June 2022. In the budget sum of Rs1.1lac cr, has been provided for railways of which Rs1.07lac cr is for capital expenditure.
- 72% of the total railway network has been electrified as on 1st Oct, 2021. 100% electrification will get completed by December, 23.

Key Beneficiaries Concor, KEC, L&T

2. Roads and Highway Infrastructure

- By March 22, 8000Kms road projects to get awarded to complete additional 11000kms of national highway corridors. An enhanced outlay of Rs1.18lac cr is provided for Ministry of Road Transport and Highways, of which Rs1.08lac cr is for capital expenditure.

- National Monetisation Pipeline for brownfield projects to be launched. NHA and PGCIL have sponsored one InvIT each.

3. Urban Infrastructure

- A new scheme with Rs18000cr support for Public Bus Transport.
- Central funding will be provided to: Kochi Metro (Rs1957cr), Chennai Metro (Rs63246cr), Bengaluru Metro (Rs14788cr), Nagpur (Rs5976cr) and Nashik Metro (Rs2092cr).
- The Jal Jivan Mission with an outlay of Rs 2.87 lac crore to be spent in 4378 urban local bodies over six years.

4. Power

- A power distribution sector scheme will be launched with an outlay of Rs3.06lac cr over 5 years.
- Rs 1.41 lakh cr allocated for Urban Clean India Mission.
- Customs duty for solar inverters increased from 5% to 20%.

5. Ports, Shipping & Waterways

- 7 projects worth more than Rs2,000 cr will be offered by the Major Ports on Public Private Partnership mode in FY21-22.

Key Beneficiaries: L&T, NCC, PNC Infra, Kalpataru Power etc.

6. Petroleum & Natural gas

- Ujjawala Scheme will be extended to 1cr more beneficiaries.
- We will add 100 more districts in next 3 years to the City Gas Distribution network.

Key Beneficiaries: MGL, IGL, GujaratGas

7. Others

- Outlay of Rs 500 Bn for National Research Foundation over 5 years. Will ensure overall R&D eco-system strengthened.
- India to launch Deep Ocean Mission, with an allocation of Rs 40 Bn over 4 years.

L&T remains our top pick in infrastructure segment.

D. HEALTHCARE

- The Government is expanding the health infrastructure across India with more hospitals and testing centres to cover both rural and urban India.
- Increase in healthcare spend 137% to Rs 2,23,846 crs, the highest ever spend so far.
- Launched Atma Nirbhar Swasthya Yojana with an outlay of Rs 64,186 crs over 6 years. The scheme will support 17,788 health & wellness centres in rural and 11,024 in urban India. The Atma Nirbhar Swasthya Yojana is in addition to the National Health Mission.
- Setting up **integrated public health labs in each district** and 3382 block public health units in 11 states.
- Widening the reach of **Made in India pneumococcal vaccine** from current levels of 5 districts to across the country. **Serum Institute** launched its indigenously developed pneumococcal vaccine (10 valent) in January'21.
- Allocation for Covid vaccines at Rs 35000 crs, with a commitment to increase funding, if required.
- The setting up of OneHealth, a **regional research platform for WHO** South East Asia, 9 Biosafety level III labs and 4 regional national centres for virology.
- Strengthening the healthcare infrastructure across Rural & Urban India will benefit medical equipment, improve volumes in pharmaceuticals, information systems and help generate employment across India.

The move may over a period of time impact GlaxoSmithKline Pharmaceuticals (10 valent - Synflorix vaccine that generates Sales of Rs 220-250crs) and marginally impact Pfizer (13 valent - Prevenar 13 that generates ~ 120crs in revenues).

One Health will help companies supplying medicines to WHO like Cadila, IPCA and some more

Other Key Takeaways

- **No tax returns for Senior Citizens, age 75 years and above who have pension and interest income.**
- **Reduce time limit for reopening of tax assessments to 3 years.** Reduction in Time for Income Tax Proceedings - Presently an assessment can be opened in 6 years, and in serious tax fraud cases for up to 10 years. FM proposes to revise this limit for reopening of assessments to 3 years from the present 6 years.
- **Government has increased spend (online payments) from 300 Cr to 1500 Crore** - this is positive for payments company like Infibeam Avenue.

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