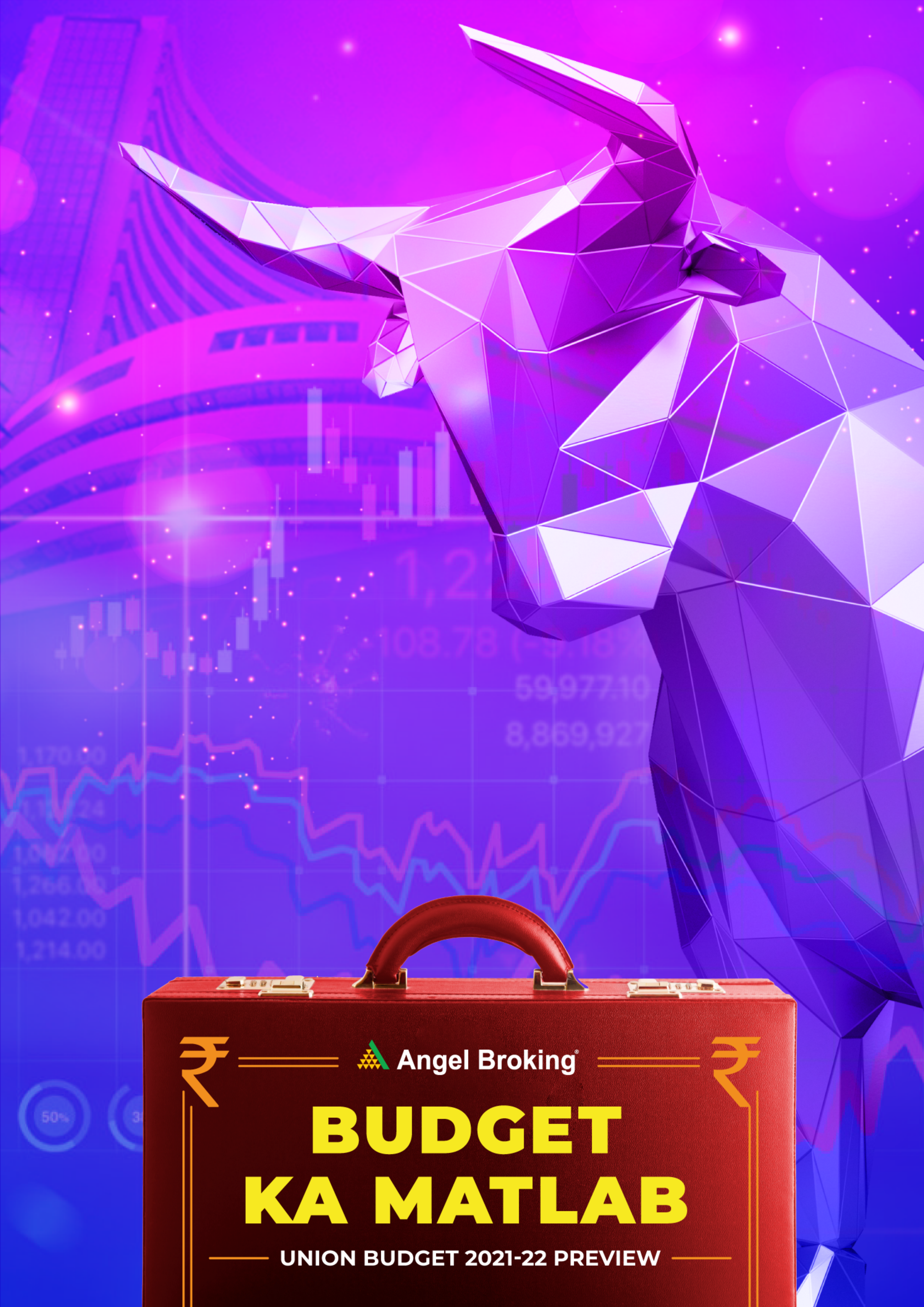

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BUDGET KA MATLAB

UNION BUDGET 2021-22 PREVIEW

Government spending to support growth

Post the Covid-19 pandemic there are expectations that the budget would contain measures to boost the economy. In the aftermath of the Covid-19 pandemic, the Government had undertaken targeted fiscal measures aimed at supporting the most critical sectors given the lack of fiscal space to provide support to the economy in the form of large cash spending.

We expect the Union Budget 2021-22 to focus on boosting growth through a combination of higher spending along with targeted tax breaks, which will help boost consumption. We expect continued focus on critical sectors like Housing infrastructure and manufacturing along with continued thrust on boosting the rural economy.

As per the RBI, real GDP is expected to contract by 7.5% in FY2021, which will have an adverse impact on Government finances in FY2021. As a result, fiscal deficit is expected to be significantly higher than the Budget estimates of 3.6% for FY2021 as spending is likely to be in line with budgeted estimates. However the Government will try and keep its gross borrowing program within the revised figure of ₹12 Lakh cr. which will be positive for the markets.

While total receipts for the financial year till Nov'20 are down by 17.9% YoY to ₹8,309 Lakh cr., expenditure is up by 4.7% YoY to ₹19,064 lakh cr. led by a 12.8% increase in capital expenditure. With improvement in tax collections from Q3FY21 we expect Government spending will remain close to budgeted levels.

Major expectations from the Union Budget

1) **Infrastructure** - Infrastructure development will be one of the priorities of government's efforts to revive economy, to stimulate growth and create jobs. Government key focus will be on defense, railway and road infrastructure. Addition to the National Infrastructure Pipeline is also possible in the budget.

2) **Housing** – There is a possibility that the Government may increase the deduction available on interest paid on self occupied house from current levels of ₹2 Lakh. There is also strong possibility of increased allocation to PMAY and extension of tax holiday for affordable housing projects till March 2022.

3) **Manufacturing** – In order to boost the manufacturing sector we expect the Government to announce hike in import duties on more items along with expanding the scope of the ₹1.46 Lakh cr. PLI schemes to include more sectors.

4) **Personal income tax** – The Government can try and address the slump in consumer spending by providing tax breaks to the middle class. This Government may extend the new optional tax regime to individuals earning greater than ₹15 Lakh per annum and also increase the limit of the deductions under Sec 80 C for individuals under the old income tax regime.

5) **Auto** - While there has been a strong rebound in the Auto sector from the Covid lows led by 2 wheelers, PV and Tractors, the MHCV space still has a long way to recover to pre Covid levels. There is high probability that the Government will announce an incentive based scrappage plan in the budget which will be beneficial for the MHCV space.

Gross borrowing expected to be within revised figure of ₹12 Lakh cr.

Due to the shortfall in tax collections it is given that fiscal deficit for FY2021 will be well ahead of budget estimates of 3.6% for the year. However markets are expecting fiscal deficit figure for FY201 will not exceed 7.0% of GDP given strong rebound in tax revenues in 2HFY2021.

Fiscal deficit till November 2020 is up by 33.0% YoY and stood at 135% of full year's budgeted estimates. There has been a shortfall in revenue receipts till date which along with lower disinvestment proceeds which will lead to significant revenue shortfall for the Government in FY2021.

Total receipts for the financial year till Nov'20 are down by 17.9% YoY to ₹8,309 Lakh cr. Revenue receipts are down by 17.3% YoY while non-debt capital receipts are down by 37.2% YoY. Tax revenue for the financial year till date is down by 8.3% YoY to ₹6.9 Lakh cr. and has held up much better than expected.

The Government has already increased its gross borrowing plan to ₹12 Lakh crore from the budgeted ₹7.8 Lakh cr. in light of revenue shortfall due the Covid-19 pandemic. We think that the Government will try and stick to the revised gross borrowing figure and can shift some of the spending off balance sheet if required.

Government spending to remain along budgeted lines

Despite the shortfall in revenues the Government has so far shown no signs of cut back in spending. Till Nov'20 total Government expenditure is up by 4.7% YoY to ₹19.1 Lakh cr. While revenue expenditure are up by 3.7% YoY to ₹16.7 Lakh cr., capital expenditure are up by 12.8% YoY to ₹2.4 Lakh cr.

While the Government has in the past tried to keep its fiscal deficit figure in check by cutting back expenditure, we do not envisage any cut back in spending this year. Boosting growth is of paramount importance for the Government especially in the backdrop of improving economic conditions and tax collections. The economic rebound from the Covid lows has been quicker than expected which has led to GST collections registering a growth of 7.7% YoY to ₹3.25 Lakh crore in Q3FY2021.

With the economy showing continued signs of improvement we expect tax collections to improve further in the fourth quarter which will provide revenues for the Government to help meet its budgeted expenditure. However it is possible that the Government could either rollover of some expenditure to the next financial year or shift some of the expenditure off balance sheet.

As per various rating agencies real GDP is expected to expand by 9-10% in FY2022 which should result in nominal GDP growth of ~14%. As a result tax collections are expected to rebound in FY2022 due to strong growth in nominal GDP as well as increased tax buoyancy. This should help the Government increase spending in FY2022 while ensuring a lower fiscal deficit as compared to FY2021. Markets are also expecting that the Government will provide a revised medium term glide path for lowering fiscal deficit in the Union Budget.

Exhibit 1: Budget 2020-21 at a glance

Particular	Budget (₹ cr)				YOY (%)	
	FY19A	FY20BE	FY20RE	FY21BE	FY20RE	FY21BE
(A) Revenue Receipts (1+2)	**15,52,915**	**19,62,761**	**18,50,100**	**20,20,926**	**19.1**	**9.2**
Gross Tax Revenue (a+b)	20,80,465	24,61,195	21,63,423	24,23,020	4.0	12.0
Devolution to States/Trf to NCCD	7,63,254	8,09,133	6,58,836	7,87,111	-13.7	19.5
%	36.7%	32.9%	30.5%	32.5%		
1) Tax Revenue (Net to Centre)	**13,17,211**	**16,49,582**	**15,04,587**	**16,35,909**	**14.2**	**8.7**
a) Direct Taxes	**11,36,574**	**13,35,000**	**11,70,000**	**13,19,000**	**2.9**	**12.7**
Income Tax	4,73,003	5,69,000	5,59,500	6,38,000	**18.3**	14.0
Corporate Tax	6,63,572	7,66,000	6,10,500	6,81,000	-8.0	11.5
b) Indirect taxes	**9,43,891**	**11,26,195**	**9,93,423**	**11,04,020**	**5.2**	**11.1**
Custom Duties	1,17,813	1,55,904	1,25,000	1,38,000	6.1	10.4
Excise Duties	2,31,982	3,00,000	2,48,012	2,67,000	**6.9**	7.7
Service Tax	6,904	0	1,200	1,020	-82.6	-15.0
GST	5,81,559	6,63,343	6,12,327	6,90,500	5.3	12.8
Others	5,633	6,948	6,884	7,500	22.2	8.9
2) Non Tax Revenue	**2,35,704**	**3,13,179**	**3,45,513**	**3,85,017**	**46.6**	**11.4**
(B) Capital Receipts (3+4+5)	**7,63,518**	**7,72,529**	**8,48,450**	**10,78,306**	**11.1**	27.1
3) Recovery of Loans	18,052	14,828	16,604	14,967	-8.0	-9.9
4) Disinvestment	94,727	1,05,000	65,000	2,10,000	-31.4	223.1
5) Borrowings and Other Liabilities	6,50,739	6,52,702	7,66,846	8,53,340	17.8	11.3
Total Receipt(A+B)	**23,15,112**	**27,86,349**	**26,98,551**	**30,46,230**	**16.6**	**12.9**
(C)Revenue expenditure	20,07,399	24,47,780	23,49,645	26,30,145	17.0	11.9
6) Of which interest payments	5,82,648	6,60,471	6,25,105	7,08,203	7.3	13.3
(D) Capital expenditure	3,07,714	3,38,569	3,48,907	4,12,085	13.4	18.1
Total Expenditure (C+D)	**23,15,113**	**27,86,349**	**26,98,552**	**30,42,230**	**16.6**	**12.7**
(E) Fiscal Deficit (C+D-A-3-4)	**6,49,419**	**7,03,761**	**7,66,847**	**7,96,337**	**18.1**	**3.8**
(F) Revenue Deficit (C-A)	**4,54,484**	**4,85,019**	**4,99,545**	**6,09,219**	**9.9**	**22.0**
(G) Primary Deficit (E -6)	**66,771**	**43,290**	**1,41,742**	**88,134**	**112.3**	**-37.8**
GDP	**1,90,10,200**	**2,11,00,607**	**2,04,35,965**	**2,24,79,562**	**7.5**	**10.0**
Fiscal Deficit (% of GDP)	3.4%	3.3%	3.8%	3.6%		

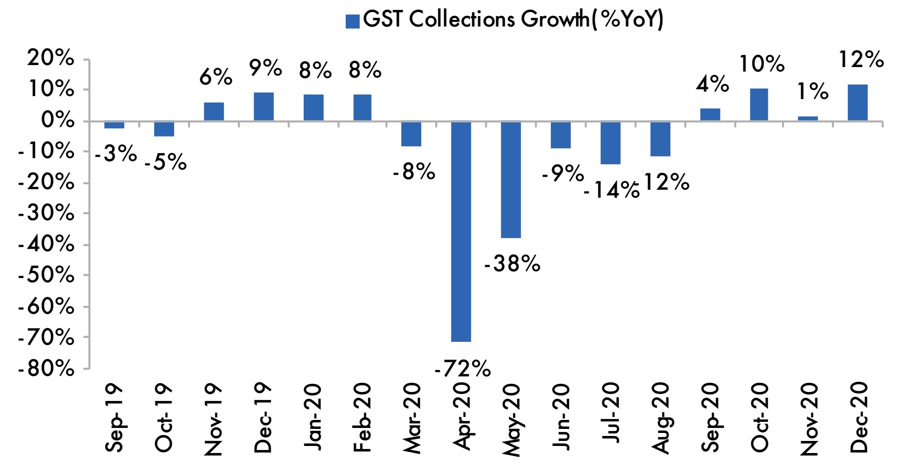
Source: Budget documents, Angel Research

Exhibit 2: Key Financial Indicators (% of GDP)

Particular	FY19RE	FY19A	FY20BE	FY20RE	FY21BE
Gross Tax Revenue	12.0%	10.9%	11.7%	10.6%	10.8%
Devolution to States	4.1%	4.0%	3.8%	3.2%	3.5%
Net Tax to Centre	8.0%	6.9%	7.8%	7.4%	7.3%
Direct Taxes	6.4%	6.0%	6.3%	5.7%	5.9%
Indirect taxes	5.6%	5.0%	5.3%	4.9%	4.9%
Capital Receipt (ex-borrowing)	0.5%	0.6%	0.6%	0.4%	1.0%
Revenue Expenditure	11.5%	10.6%	11.6%	11.5%	11.7%
Subsidies	1.6%	1.2%	1.6%	1.3%	1.2%
Total Capital Expenditure	1.7%	1.6%	1.6%	1.7%	1.8%
Total Expenditure	13.2%	12.2%	13.2%	13.2%	13.5%
Revenue Deficit	2.2%	2.4%	2.3%	2.4%	2.7%
Fiscal Deficit	3.4%	3.4%	3.3%	3.8%	3.5%
Primary Deficit	0.3%	0.4%	0.2%	0.7%	0.4%

Source: Budget documents, Angel Research

Exhibit 3: GST Collections have rebounded strongly in Q3FY21



Source: GoI, Angel Research

Likely focus areas in Union Budget

- **Agriculture** - Government expected to reiterate its focus on the rural sector.
- The Government is also expected to increase outlays on the MNREGA scheme and continue its focus on rural electrification and roads.

- **Infrastructure** – Given that Infrastructure is one of the key focus area of the Government we don't think that there is going to be any cut back in capital expenditure despite shortfall in revenues.
- We believe that the Government would use the Union Budget to highlight their plans and execution over the next few years. National Infrastructure Pipeline (NIP) gives us broad idea about investment by Government in Infrastructure.

- **Housing** - The Government would like to increase the tax bracket available to Interest paid on housing loans to create demand in residential real estate. As real estate faces slow down since demon. Several state governments have also cut duties to boost the demand.
- The government can also give some additional benefit to first time home buyers or can also expand the definition of affordable housing to increase the scope for new home buyers.

- **Pharma** - The government can incentivise the domestic manufacturing of APIs, as of now more than 70% of APIs have been imported from China.
- The Government can also increase the export link benefit to domestic manufacture to boost the export of formulations and finished dosages. As of now India exports more than USD 20 billion every year.

Impact on sectors

- Positive for all Agri input related companies like Coromandel International as farmer income will go up marginally.
- This will be positive for the FMCG sector, as it will increase the disposable income in the hands of rural households. Positive for FMCG companies like Dabur, Marico, etc.
- Positive for tractor companies like Escorts, M&M and Swaraj Engine as there will be increased demand for farm equipments.

- Positive for L&T and other infrastructure companies such as PNC Infratech, KNR Constructions etc
- Positive for cement companies such as Ultractech, ACC, Shree Cement, JK Laxshmi etc.
- Positive for railways allied companies like Titagarh Wagons, Texmaco Rail etc.

- Positive for residential real estate companies like Oberoi Realty Ltd and Brigade enterprises.
- Positive for different housing allied sectors and company like Asian Paints, Century Plyboards.

- Positive for companies who will set up new manufacturing plants for manufacturing APIs.
- Positive for export oriented companies like - Lupin, Cadila.

- **Make in India** – There are expectations that there could be sector specific increase in import duties on specific items while the inverted duty structure on certain sectors could also be rationalized.
- There are expectations that the Government could significantly increase the expanding the scope of the ₹1.46 Lakh cr. PLI schemes and also expand the applicability of the scheme from the current 10 sectors.
- **Auto-** The year 2020 was one of the toughest years the Indian automobile industry as sales were adversely impacted due to the Covid-19 crisis immediately post implementation of BS6 norms. While 2 wheeler, PV and tractor sales have rebounded strongly MHCV sales are still languishing. One of the key demands from the auto sector has been introduction of an Incentive-based scrap page policy.

- Positive for domestic consumer durable companies with strong domestic manufacturing capabilities and for ODM firms.
- Positive for sectors like footwear, chemicals & agrochemicals
- The policy will make it obligatory to dispose of old vehicles (older than a specified period of holding) which will create demand for new (commercial) vehicles in the market. (Positive for companies like Ashok Leyland, Tata Motors, Automotive axle etc in CV space.

Budget Picks

Exhibit 4: Non BFSI Picks

	Market Cap (₹ cr)	CMP (₹)	Target Price (₹)	Sales (₹)		PAT (₹)		ROE (%)		P/E (x)	
				FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Ashok Leyland	34,448	117	140	13,952	20,958	(178)	758	(0.6)	2.5	-	45.4
NRB Bearings	1,005	104	135	697	898	33	72	6.8	13.2	30.4	14.0
Escorts	16,250	1,225	1,573	6,523	7,464	773	882	15.2	15.1	21.4	18.7
Coromandel Inter.	24,603	839	971	14,460	15,658	1,452	1,578	29.8	26.3	16.9	15.6
JK Lakshmi Cement	3,828	325	422	4,151	4,505	315	333	14.5	17.0	12.2	11.5
Page Industries	32,653	29,276	31,625	2,443	3,214	190	411	18.0	34.0	171.9	79.4
Radico Khaitan	6,668	499	575	2,414	2,728	221	276	12.2	13.9	30.2	24.4
Whirlpool India	33,850	2,668	3,032	5,607	6,448	337	485	18.0	24.0	100.5	69.8

Source: Company, Angel Research (Note: Closing Price is of Jan 25, 2021)

Exhibit 5: BFSI Picks

	Market Cap (₹ cr)	CMP (₹)	Target Price (₹)	NII (₹)		PAT (₹)		EPS (₹)		ROE (%)		P/BV (x)	
				FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Banking													
LIC Housing Finance	20,978	414	570	5,149	5,874	3252	3577	64.4	70.8	16.3	15.3	1.3	1.0
Shriram Trans.	30,394	1,201	1,440	8,352	8,924	2106	2714	92.8	119.6	11.1	12.9	1.7	1.5

Source: Company, Angel Research (Note: Closing Price is of Jan 25, 2021)

Research Team Tel: 022 - 39357800 E-mail: research@angelbroking.com Website: www.angelbroking.com

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