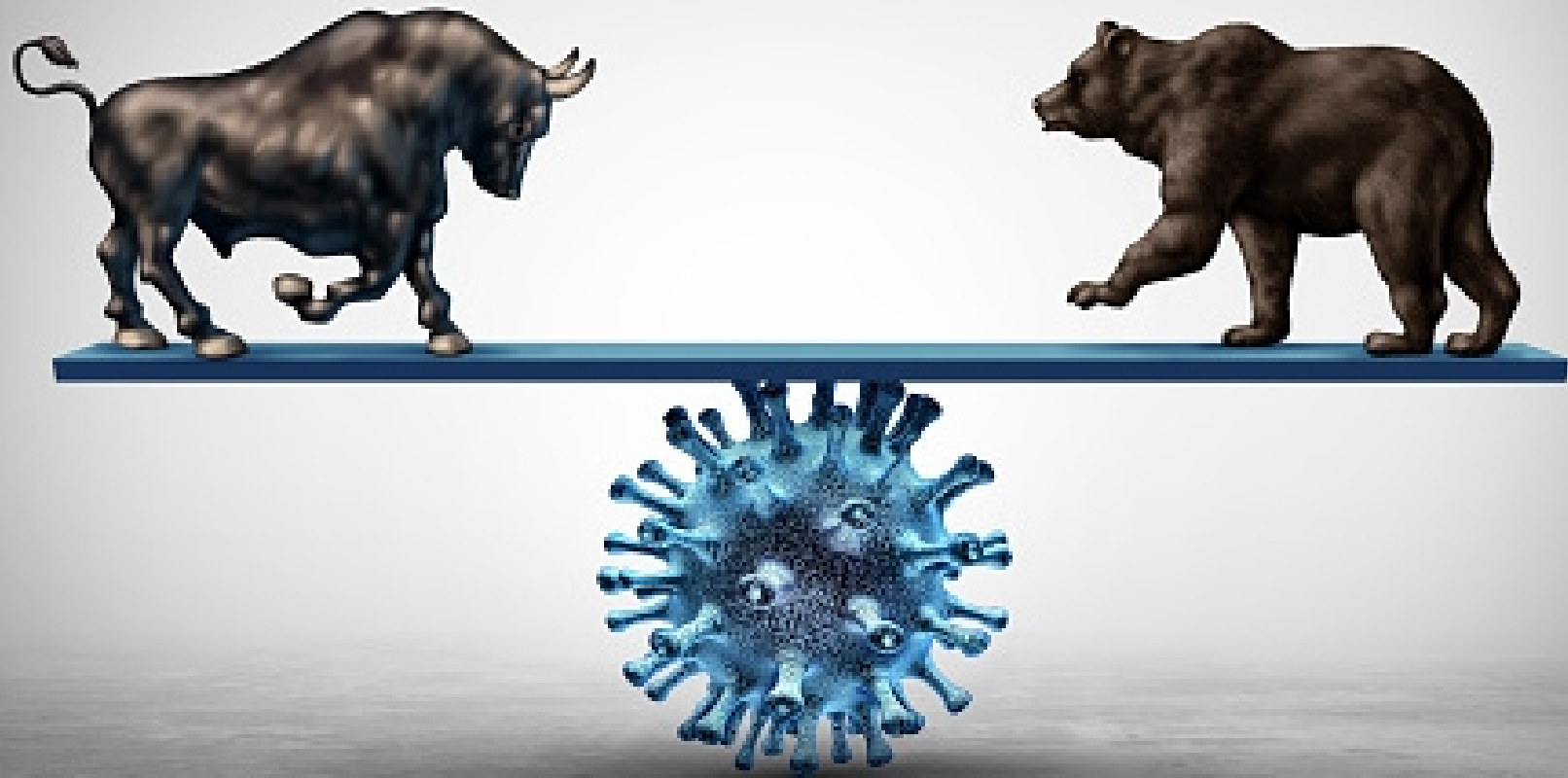


JANUARY 21, 2022

PRE-BUDGET REPORT 2022 - 23

- Major Announcements Expected
- Major Beneficiary Sector



Moneywise. Be wise.

Two years of Covid pandemic has left the economy fragile, but with tax collections looking up, there is a huge expectation from the government in the upcoming budget. Last year the Government had announced multiple stimulus packages to revitalise the economy impacted by the COVID pandemic. It could be seen that government followed the counter-cyclical fiscal policy to stabilise the business cycle. This year too we expect both reformist and pro-growth budget. It is expected that government would announce some of the allocation of funds that can genuinely be absorbed for capital expenditure and infrastructure spending, to help fuel the investment cycle, creating jobs and improve domestic demand, while at the same time rationalising Centrally-sponsored schemes and Central sector schemes to further improve the quality as well as efficiency of the expenditure. In the last couple of years the government has been emphasizing on building robust infrastructure. The National Infrastructure Pipeline (NIP) envisaged an infrastructure investment of Rs. 111 lakh crore over a period of five year starting 2020. In the last budget the Finance Minister upheld the investment planned in NIP and a three-pronged strategy was laid out, Firstly, creating institutional structure, secondly, asset monetization, and thirdly enhancing share of capital expenditure in the center and state budget, to complete the ambitious target. Apart from core infrastructure sectors such as roads, highways and railways, logistics can be a key focus area to ease transportation costs and reduce the elevated logistics across the country. In this regard, the Government has reportedly proposed a new warehousing policy in Dec 2021 that will set the roadmap for development of exclusive warehousing zones in public-private partnership mode. Hence, it is expected that the budget allocation for the railways is set to hit a record level next fiscal as the government gears up to support a major makeover for the national transporter. Besides, there is a possibility of excise duty reduction on petroleum products. The market is also looking for support measures for sectors such as housing, autos, and auto ancillaries, PLI-related measures in multiple sectors.

The government may announce asset monetisation of public sector undertakings under National Monetization Pipeline (NMP). It can also monetise the housing and commercial real estate it owns by floating REITs. The disinvestment plan is likely to become clearer with the Budget. The government is trying to narrow the gap via its disinvestment plan. So far, the government has been able to raise Rs 9,330 crore through selling its stakes in PSUs. But the LIC IPO, which is expected to hit the market in March end 2022, and may help the government in a big way by raising over Rs 1 lakh crore. The total disinvestment target of the government is Rs 1.75 lakh crore for the current fiscal. The pending big ticket divestment apart from IPO of LIC, include IDBI Bank, Bharat Petroleum Corporation, Pawan Hans, Shipping Corporation of India, BEML, Container Corporation of India, among others.

Real estate is one of the key pillars of the Indian economy contributing around ~ 8% to the overall GDP. The sector has witnessed a strong comeback last year as housing sales in top cities jumped to 90% of the pre-covid levels while newly launched units reached the 2019 levels. The general expectation is that this budget will incentivise both the rental housing market and the affordable housing sector. The sector has huge expectations from the upcoming Budget such as demands of industry status and easy availability of finance. A single window clearance mechanism has remained a demand for many years now.

Globally, the price of fertilizers surged significantly adversely affecting India which depends on import, the price of Urea, which is most commonly used, tripled to \$990/tonne while the DAP price doubled to \$700-800 per tonne as compared to prices that existed one and half year ago. Besides, the recent spurt in natural gas, which accounts for 80% cost of urea production, is expected to continue to raise the production cost of Urea. Currently, the farmers are facing shortage of fertilizer and the agriculture department has urgent intervention of the center to ensure adequate supply of fertilizer. The farmers are already in distress due to the second wave of the pandemic which hit hard on the rural India, higher price and shortage of fertilizer would further impact the financial position. Government is thus expected to focus on improving the farmers' earnings through enhanced support for the agricultural economy. This will benefit the entire ecosystem of agri-inputs, i.e seed, fertilizer, crop protection and chemical and tractors etc. In the last few budgets the government has raised the budgetary allocation towards the fertilizer subsidy and in the forthcoming budget, we expect fertilizer subsidy of Rs. 1.3 lakh crore. Besides, the government may also raise the farm credit to 18 lakh crore up from 16.5 lakh crore for the current year, continuing with the same policy adopted earlier, to support the farmer to recover from the pandemic.

ECLGS (Emergency Credit Linked Guarantee Scheme) was introduced by the government in March 2020 to provide financial support to the pandemic hit MSME sector and later extended to other stressed industries along enhancing the credit limit from Rs. 3 lakh crore to Rs.4.5 lakh crore. The scheme is extended till March 2022. The pandemic has severely affected them and the stress in the sector is still very high and many of the eligible MSME are under various stages of restructuring. We expect government to further extend the scheme till March 2023 or till such time the economy regains strength, this would enable the banks to continue the liquidity support.

In an environment of high inflation due to higher input cost and high unemployment caused due to pandemic the government is expected to provide relief to individuals and increase disposable income to boost consumption. Government may increase the limits on standard deduction from Rs.50,000 to Rs. 100,000. Expect increase in the tax benefit on home loan interest and principal repayment by Rs. 50,000 each, higher from the current level of Rs. 200,000 and 150,000 respectively. Government may provide interest subsidy of 3-4% on home loan for 3 years.

Sector	Key Stocks to focus related to Budget
Capital Goods	Larsen Toubro, Siemens, Bharat Electronics and Finolex Cables
Banks	State Bank of India, ICICI Bank, Canara Bank and Bank of Baroda
Real Estate	DLF, Oberoi Realty and Prestige Estate
FMCG	ITC and Dabur India
Healthcare	Sun Pharmaceuticals and Gland Pharma
Automobiles	Bajaj Auto, Mahindra and Mahindra and Endurance Technologies
Power	Tata Power and Power Grid Corporation
Consumer Durables	Crompton Graves
Construction	PNC Infratech, Action Construction & Equipments and Ahluwalia Contract

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