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# The "Make or Break" Union Budget - Expectations 2021-22

The sentiment surrounding the Union Budget 2020-21 is that the government would announce a series of measures that would help in the revival of the domestic economy. Budget would primarily be directed towards raising investment and consumption levels which involves substantial employment generation. This could largely be through the infrastructure development route entailing higher capex. Higher allocations towards capital (infrastructure) spending and the resultant employment opportunities generated would in turn lead to higher consumption.

## Expectations From The Finance Minister

### Agriculture Sector

• With rising protests regarding the recent three farm bills, it is imperative that the government shows some support to the rural economy, with announcements around the MSP which is not linked to government procurement

• In October 2020, amid the COVID-19 pandemic, the demand for work under MGNREGA was 88 per cent higher than in October 2019, and there was an unmet demand of around 8 million households. Allocation For MGNREGA To Be Maintained At ₹ 1 Lakh Crore.

• Investment in agri-infrastructure such as cold chain, warehousing, logistics, and irrigation also needs to be increased as these would improve rural connectivity and demand in rural areas.

• Improved price discovery mechanisms for farmers will be key

**Frontliners: Kaveri Seed Company, Avanti Feeds Ltd.**

### Automobiles:

• Government could raise budgetary spending on rural, which would be positive for Tractors and 2Ws.

• Also, to get outdated and polluting old vehicles (trucks and buses) off the road, we expect the government to rollout an incentive-based scrappage policy to be implemented soon.

• Additionally we expect the Budget to provide incentives for local manufacturing of EV batteries.

• Focus will also be on the fine print of the Production Linked Incentive scheme to boost local manufacturing.

• Any reduction in GST rates for vehicles would be a positive surprise but the same remains unlikely.

**Frontliners: M&M, Maruti Ltd, Escorts Ltd. & Amara Raja for the batteries**

### Banking and Financials:

• According to the Reserve Bank of India (RBI), gross non-performing assets (NPAs) could balloon to 14.8% by September under the worst-case scenario. India's upcoming budget may set out a framework for setting up a bad bank to handle the expected influx of bad loans post-pandemic.

• A bad bank would allow regular banks to sell their bad loans and focus on bringing in new business.

• Non-banking finance companies expect the government to provide continued liquidity support by encouraging banks to lend more to the sector. Any funds set up to fund the lower rated NBFCs undergoing liquidity stress will be a positive.

**Frontliners: SBI, HDFC Bank, Bajaj Finance Ltd, Kotak Bank.**

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**Consumer:**

• Finance Minister Nirmala Sitharaman's first full year Budget is expected to provide short-term stimulants to boost consumer demand, and such measures will get a positive response from markets.

• Any increase in tax deductions would increase the discretionary income in the hands of the consumer and spur demand.

• Measures to incentivize employment will also be keenly watched to reduce the rate of unemployment.

• Direct reduction in personal income tax rates will be a huge positive surprise.

• Extension of the LTC cash voucher scheme will also be a positive for demand

**Frontliners:** Bata India, Colgate, Dabur, HUL.

**Healthcare:**

• The government of India has already introduced a production-linked incentive scheme to promote local manufacturing of critical Key Starting Materials (KSMs), Drug Intermediaries (DIs), Active Pharmaceutical Ingredients (APIs), and the scheme on promotion of bulk drug parks

• Promoting health insurance for individuals by enhancing the quantum of deduction towards medical insurance premium payment under section 80D of the ITA.

• Viability Gap funding for healthcare infrastructure in rural areas, along with subsidized land and loan funding.

• The public spending on health expenditure, the total expenditure by the centre and the states for FY 20 was 1.29% of GDP, which is far below many EM's and needs to be looked at carefully post the pandemic.

**Frontliners: IPCA Labs, Divis Labs, Apollo Hospitals, Cipla, Cadilla & SBI Life, HDFC Life for Insurance**

**Infrastructure:**

• Increased focus on already existing mechanisms such as InvITs, Infrastructure Debt Funds.

• The creation of sector-focused infrastructure financing institutions.

• Develop a market for Long Term Infrastructure Bonds for the private sector, with sufficient secondary market liquidity as well.

• Successful completion of the NIP requires huge capital inflows, this can be encouraged through further tax incentives and foreign investor participation.

**Frontliners:** KNR Construction Ltd, Larsen & Toubro Ltd.

**Real Estate:**

• The government has already announces reduction in stamp duty and premiums in Maharashtra. Further, the industry hopes that the budget will introduce GST reforms by bringing back the Input Tax Credit. This will help in bringing down the cost of construction thus reducing the property prices.

• In order to give relief to homebuyers of stalled projects, SWAMIH fund has been created in Sept 2020 to provide last-mile funding to affordable and middle-income housing projects. SWAMIH funds need to be continued and more capital is required to be allocated to ensure a larger number of projects across Tier II and III towns to get benefitted.

**Frontliners:** Godrej Properties Ltd, DLF Ltd.

## NOTES

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