



**Dr. Ashok Ajmera (FCA), CMD & CEO**

Dr. Ashok Ajmera's column as on Feb. 06, 2021

**A bold reformist blueprint announced in Union Budget 2021-22; infrastructure, financial, auto and ancillaries stocks would remain in focus..**

- 1) On a weekly basis, both, the Sensex and Nifty has witnessed a stellar rally of around 9 percent. The whole week record rally can be attributed to growth-driven Budget with no COVID-Tax, faster economic recovery expected, positive global cues, healthy FII buying and status-quo in the Reserve Bank of India's February monetary policy continued to please investors.
- 2) For the week, Nifty Bank Index was up by around 17 percent. SBI witnessed a massive rally of 39 percent in one week owing to re-rating led by robust Q3FY21 result followed by IndusInd Bank (up 21 percent) and Kotak Mahindra Bank (up 16 percent). Nifty PSU Bank Index surged 25.5 percent and Nifty Metal and Realty indices added more than 11 percent each.
- 3) BSE Midcap index was up by 7.3 percent while BSE Smallcap index rallied by 6 percent.
- 4) Last week, foreign institutional investors (FIIs) bought equities worth Rs. 13,595.16 crore, while domestic institutional investors (DIIs) sold equities worth of Rs. 4,712.60 crore.

**Ajcon's verdict on Union Budget 2021-22**

- 1) Bold, ambitious and unconventional thinking which will propel Indian economy into a higher growth orbit..
- 2) Not just a one year stimulus; this is a multilayer Investment push..
- 3) Realignment of fiscal consolidation trajectory over the next 5 years..
- 4) Targeting to glide its fiscal deficit from 6.8% in FY22 to 4.50% by FY2026..

**Key recent major developments..**

- 1) The RBI kept the repo rate unchanged at 4 per cent and maintained the policy stance as 'accommodative' in its bi-monthly monetary policy meeting. Besides, it projected the GDP growth of 10.5 per cent in FY22 for India while projection for CPI-based inflation was revised to 5.2 per cent for Q4FY21. RBI governor Shaktikanta Das also announced normalisation of CRR which, he said, would open up space for a variety of market operations to inject additional liquidity. Furthermore, absence of any concrete measures as expected by a set of bond traders weighed on the yields with 10-yr Gsec yields jumping 8bps from 6.07 per cent to 6.15 per cent. In another development, Das announced direct online participation by retail investors in Government securities in both primary and secondary market is a big initiative which will broaden the investor base.
- 2) Activity in India's services sector expanded for the fourth straight month in January as the Covid-19 vaccination roll-out drove business optimism, a private survey showed on Wednesday. The IHS India Services Business Activity

Index rose to 52.8 in January from 52.3 in December, suggesting the pace of growth was moderate. The 50-point mark separates expansion from contraction. But it should be noted that the PMI is a month-over-month indicator, showing improvement over the previous month, and not over the previous year. "The Indian services sector enjoyed good levels of activity in January, with new business volumes rising for the fourth successive month and growth rates for both measures picking up from December," said Pollyanna De Lima, Economics Associate Director at IHS Markit. "The service sector looks set to sustain growth and confidence towards hiring may improve as COVID-19 concerns diminish," De Lima added.

- 3) The Supreme Court on Tuesday directed Franklin Templeton Mutual Fund to disburse Rs. 9,122 crore to unitholders of its six shut debt schemes. The money has to be distributed to unitholders in 20 days and the parties are at liberty to move applications in case of difficulties arising out of the process. The six schemes have received total cash flows of Rs. 14,391 crore till January 29, 2021 from maturities, coupons and prepayments. The total number of cash positive schemes stands at five. These schemes have Rs. 9,770 crore cash available to return to unitholders, subject to fund running expenses. The balance Rs. 4,621 crore has been used to repay borrowings and interest thereon of the six schemes. Individually, Franklin India Low Duration Fund, Franklin India Ultra Short Bond Fund, Franklin India Dynamic Accrual Fund, Franklin India Credit Risk Fund and Franklin India Short Term Income Plan have 65 per cent, 53 per cent, 41 per cent, 27 per cent and 11 per cent of their respective AUM in cash. The asset manager had shut six debt schemes on April 23, 2020 citing redemption pressures and lack of liquidity in the debt market.
- 4) On Monday in the Union Budget 2021-22, the FM announced capital expenditure of Rs. 5.54 trillion for FY22 (sharp increase of 34.5%) over last year's Rs. 4.39 trillion for FY21. Further, she announced the FY22 disinvestment target at Rs 1.75 trillion. Life Insurance Corporation of India (LIC) will go for an initial public offering (IPO) in FY22 as well. Further, allocation of Rs. 20,000 crore toward setting up a development financial institution (DFI) to have lending portfolio of Rs. 5 trillion over the next three year with the aim to mobilise funding required fulfilling National Infrastructure Plan (NIP).
- 5) FY21 fiscal deficit was pegged at 9.5 per cent of GDP. The optimism despite higher borrowing and a wider fiscal deficit, was on account of the positive measures to revive the Covid-19 hit economy. That said, while the fiscal deficit number and the gross borrowing estimates are a tad higher-than-expected, the money is being put to good use. The government plans to borrow around Rs. 12 trillion in FY22 and has pegged fiscal deficit at 6.8 per cent of the gross domestic product (GDP). Sitharaman said the government will be borrowing an additional Rs. 80,000 crore in this fiscal to meet its deficit for 2020-21, pegged at 9.5 per cent of the GDP. Therefore, the total gross borrowing this fiscal would be Rs. 14 trillion.
- 6) As per the budget proposals, the government plans to start the process of privatisation for two more public sector banks, other than IDBI Bank, and two insurance companies in fiscal 2021-22. Remember, privatisation of banks has been promised long by successive governments but there has not been much of a progress. The present government has taken a bold step. PSU stocks have rallied post the announcements as investors cheered the proposal. Privatisation of PSBs has not been taken by governments also because this is a politically sensitive decision.
- 7) Stressed Asset Resolution: Asset Reconstruction Company Limited and Asset Management Company to be set up. This entity, called as a 'bad bank', will give a big reprieve to NPA-ridden banks by absorbing the toxic assets and freeing them to pursue fresh lending. A bad bank will act as an aggregator of all stressed assets in the system. It is set up to buy the bad loans and other illiquid holdings of another financial institution. Once toxic assets are transferred to this entity, attempts for an early resolution by experts begins while originating banks can focus on their business. The bad bank idea has been supported by senior bankers and other financial sector experts citing that the idea will help for quicker bad asset resolution. The recovery through debt recovery tribunals and Insolvency and bankruptcy code (IBC) mechanism has been limited to only a few large cases. A bad bank could help in better bad loan resolution through an ARC model. In May 2020, when the IBA submitted its proposal to a government but the concept didn't take off at that point.
- 8) The extension of tax exemption schemes in Affordable Housing will have a strong positive effect on various sectors related to it.
- 9) The Government provided benefits to sectors which focus "Aatmanirbhar Bharat" or a self-reliant India in difficult times of COVID-19. The Budget would encourage industries to be 'vocal for local' for a future-ready India.
- 10) To make India future ready for any pandemic crisis in future, Healthcare sector got benefits with increased allocation and more specific allocation of Rs. 35,000 crores towards COVID-19 vaccination drive.

- 11) GST collections surged to an all-time high of about Rs. 1.20 lakh crore in January, 2021 as economic activities picked up after the withdrawal of stringent lockdown restrictions. Mop-up from the Goods and Services Tax (GST), which is levied when a consumable item is sold or a service such as travel booking rendered, in January was 8 per cent higher than such receipts in the same month of 2020. In a statement, the Finance Ministry said the January collections were the highest ever since the implementation of the nationwide tax in July 2017. The previous best was in December 2020 when Rs 1,15,174 crore was collected. This is the fourth straight month of over Rs 1 lakh crore tax collections, a sign of strong recovery.
- 12) India forecast robust economic growth of 11% for the fiscal year beginning on April 1 in its annual economic survey on last Friday, on the back of the beginning of a nationwide coronavirus vaccination drive and a rebound in consumer demand. The Indian economy, which the International Monetary Fund singled out as a global bright spot only a few years ago, is set to contract 7.7% in this fiscal year, to March 31, the deepest contraction in four decades, the government said in the survey. But the government predicts the rollout of vaccines against COVID-19 will re-energise Asia's third-largest economy with 11% growth next year, putting it on track to post the strongest growth since India liberalised its economy in 1991. The survey's projections form the basis for key figures in the budget, due to be delivered on Monday by Finance Minister Nirmala Sitharaman. While the survey forecast a "V-shaped" economic recovery, it also cautioned that it would take at least two years to revert to pre-pandemic gross domestic levels. "With the economy's returning to normalcy brought closer by the initiation of a mega vaccination drive, hopes of a robust recovery in services sector, consumption, and investment have been rekindled," said the survey.
- 13) India provides a "predictable environment" for doing business and its commitment to economic self-reliance will strengthen globalization, said Prime Minister Narendra Modi on last Thursday as he addressed World Economic Forum's online Davos Agenda Summit. PM Modi said India's Atmanirbhar Abhiyan is committed towards global good and supply chain, adding that the country has the capacity, capability and reliability to strengthen the global supply chain. "Indian government has taken major steps to spur manufacturing. corporate tax was brought down to 15 per cent for new manufacturing units, GST rates have been reduced. Tax structure has been simplified Through GST and faceless assessment and Labour laws have been reformed," said Modi at the virtual summit where more than 400 CEOs from across the globe were in attendance. Hailing India's pandemic response, Modi said the country has transformed fight against coronavirus into people's movement. "Today India is among most successful in saving lives." "Many around the world thought India would be worst-affected country by Covid-19 and face tsunami of corona infections," he said, indicating the country has lined up more vaccines for the disease after using two for its nationwide inoculation. "Right now there are two made in India vaccines. World Economic Forum will be relieved to know that in the time to come many more vaccines will come from India," he said. "India also ensuring a global responsibility; we sent essential drugs to over 150 countries, we're sending Covid vaccines abroad too," PM Modi said.
- 14) India has given the first dose of covid antidote to 54,16,849 beneficiaries in the nation-wide vaccination drive. India became the fastest country in the world to reach the 5 million Covid-19 vaccination mark.
- 15) The Ministry of Road Transport and Highways on Monday approved a proposal to levy 'Green Tax' on old vehicles which are polluting the environment. It is estimated that commercial vehicles, which constitute about 5% of the total vehicle fleet, contribute about 65-70% of total vehicular pollution. The older fleet, typically manufactured before the year 2000 constitute less than 1 % of the total fleet but contributes around 15% of total vehicular pollution. These older vehicles pollute 10-25 times more than modern vehicles, the ministry added. The proposal will now go to the states for consultation before it is formally notified, said Union Minister for Road Transport and Highways Shri. Nitin Gadkari. Along with that, the minister also approved the policy of deregistration and scrapping of vehicles owned by government department and PSU, which are above 15 years in age. Prasad also said that it would come into effect from 1st April, 2022. The main principles to be followed while levying the Green Tax are:
  - a) Transport vehicles older than 8 years could be charged Green Tax at the time of renewal of fitness certificate, at the rate of 10 to 25 % of road tax;
  - b) Personal vehicles to be charged Green Tax at the time of renewal of Registration Certification after 15 years;
  - c) Public transport vehicles, such as city buses, to be charged lower Green tax;
  - d) Higher Green tax (50% of Road Tax) for vehicles being registered in highly polluted cities
  - e) Differential tax, depending on fuel (petrol/diesel) and type of vehicle;
  - f) Vehicles like strong hybrids, electric vehicles and alternate fuels like CNG, ethanol, LPG etc to be exempted;
  - g) Vehicles used in farming, such as tractor, harvester, tiller etc to be exempted;
  - h) Revenue collected from the Green Tax to be kept in a separate account and used for tackling pollution, and for States to set up state-of-art facilities for emission monitoring
- 16) India's non-banking finance companies (NBFC) need tighter regulation through creation of a multilayer model, said a discussion paper by the Reserve Bank of India on Friday. The paper proposed a structure to categorise NBFCs, or

shadow banks, depending on their size and interconnectedness with the system. NBFCs in the lower layer will be known as NBFC-Base Layer (NBFC-BL). NBFCs in the middle layer will be known as NBFC-Middle Layer (NBFC-ML). An NBFC in the Upper Layer will be known as NBFC-Upper Layer (NBFC-UL) and will invite a new regulatory superstructure. It proposed a NBFC non-performing classification norm of 180 days be "harmonised" to 90 days. "In view of the recent stress in the sector, it has become imperative to reexamine the suitability of this regulatory approach, especially when failure of an extremely large NBFC can precipitate systemic risks," said the paper.

- 17) State-owned telecom companies BSNL and MTNL turned EBITDA positive in the first half of financial year 2020-21, DoT said on Monday. The Department of Telecom (DoT) also said that the process for spectrum allocation for 4G services to Bharat Sanchar Nigam Ltd (BSNL) on pan-India basis, including Delhi and Mumbai, has been initiated and funds have been provisioned in FY2020-21. Summing up the developments in the sector in its year-end review for 2020, the DoT in a release said that overall 92,956 employees of both the public sector companies (PSUs) who opted for Voluntary Retirement Scheme (VRS) have retired on January 31, 2020. "The salary expenditure in BSNL and MTNL (Mahanagar Telephone Nigam Ltd) has reduced by around 50 per cent (about Rs. 600 crore per month) and 75 per cent (about Rs 140 crore per month), respectively. EBITDA (Earnings before Interest, Taxes, Depreciation and Amortisation) have become positive in first half of FY 2020-21 in both BSNL and MTNL," it said.
- 18) Manufacturing sector activities showed a marginal improvement in December compared to the previous month even as employment generation remained low, showed the widely-tracked IHS Markit purchasing managers' index (PMI) survey. PMI inched up to 56.4 in December compared to 56.3 in November. However, it remained lower than 58.9 in October and 56.8 in September, the two months during which the economy saw a gradual lifting of lockdowns. A reading above 50 shows growth, while the print below 50 means contraction. While firms were able to lift input stocks, and did so at the quickest rate in nearly a decade, holdings of finished goods decreased sharply due to the ongoing increase in new work. Output growth eased to a four-month low, but remains strong. Manufacturing, in the Index of Industrial Production (IIP) rose by 3.5 per cent in October, according to the latest figures. However, it might come down going forward in line with PMI results, warned Pollyanna De Lima, Economics Associate Director at IHS Markit.

### **Ajcon Global's view**

- 1) Investors enthusiasm was seen throughout the week after one of its kind of Budget presented with significant outlay for investment led spending across infrastructure building like roads, power, railways, airports, ports, shipping, waterways etc. and with no changes in capital gains taxes or securities transaction tax (STT) or any form of Covid-19 pandemic-related tax which brought happiness at Dalal Street. During the week, significant buying was witnessed in PSUs especially in PSU banks. With robust rally of around 9 percent in benchmark indices which reflects upsurge in Largecaps in just a week's time; we believe its turn of midcaps and smallcaps to join the party too. Jan. 2018 levels may soon approach fast considering the intensity of the euphoria post the Budget proposals.
- 2) Sentiments were buoyant post Budget as Government chose to revive growth which is the need of the hour owing to unprecedented crisis of COVID-19 and let fiscal prudence take a backseat (allowed fiscal deficit to remain high). Overall, the FM presented a reformist budget and good measures for the banking sector in 2021 especially with respect to the privatisation agenda. We rate this Union Budget as 8.5/10 and will be remembered for a long time.
- 3) FPIs too cheered Budget announcements and have re-rated various sectors. They were on a significant buying spree the whole week after selling heavily in the previous week of the Union Budget 2021-22 presentation.
- 4) The Nifty valuations are trading around 35x which looks expensive but with recent budget proposals one will need to watch out the effect on corporate earnings. Q3FY21 earnings season has been good for majority of the players till date and re-rating has already happened in infrastructure, Banks, NBFCs, auto and overall PSUs sector.
- 5) Domestically, all eyes would be on ongoing Q3FY21 earnings season after strong result by Companies like TCS, Hindustan Unilever, Maruti, Tata Motors, Colgate, SBI, Union Bank of India, HDFC Bank, Shriram Transport Finance, Ajanta Pharma, Avenue Supermarts (Dmart), Tata Elxsi, Bajaj Auto, Ceat, JK Tyre, Bajaj Auto, ICICI Bank etc.
- 6) Globally, sentiments have improved after the United Kingdom's historic trade deal with the European Union. All eyes would be on the new strain of coronavirus developments in other parts of the world after its emergence in UK and Europe. China is also witnessing rise of COVID-19 cases after nearly 10 months. Investors will keep an eye on the progress of COVID-19 vaccine roll out and its efficacy in India and various countries after these new developments. Any negative news especially on the new strain of COVID-19 will play spoilsport after the massive rally.



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- 7) With Union Budget 2021-22 presented and RBI's Monetary Policy keeping rates unchanged, all eyes would be now on ongoing Q3FY21 earnings season which has been robust and FPI liquidity after stellar run.

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