

Superb Union Budget 2021-22 presented by FM; sentiments have improved significantly on bold and reformist measures announced..

- 1) Indian equities witnessed stellar rally post an extraordinary Budget presented by Finance Minister Nirmala Sitharaman to meet challenging demands of extraordinary times owing to COVID-19. The S&P BSE Sensex saw a massive rally of over 2,300 points to settle at 48,601 levels. The Nifty50, on the other hand rallied by over 4 per cent during the day to reclaim 14,200 levels.
- 2) 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.
- 3) 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.
- 4) 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.
- 5) 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.
- 6) Besides, foreign portfolio investors (FPIs), too, had something to cheer about as the Budget proposed to rationalised the tax on dividends, bringing them at par with treaty rates.
- 7) Overall, the market capitalization of the BSE-listed companies increased by Rs. 6.78 trillion to Rs. 192.9 trillion. Among the headline indices, the S&P BSE Sensex gained 2,315 points, or 5 per cent, to 48,601 level. The broader Nifty50 index also reclaimed the psychological level of 14,000 level and closed the session at 14,281. IndusInd Bank (up 15%), ICICI Bank (up 12%), and Bajaj Finserv (up 11%) were the top Sensex gainers.
- 8) All the Nifty sectoral indices, except Nifty Pharma index, ended the day in green, led by Nifty Bank index up 8 per cent, which recorded its fresh lifetime high. The index also logged its biggest one-day gain.
- 9) In the broader markets, the S&P BSE MidCap and SmallCap indices were up 3 per cent and 2 per cent, respectively.
- 10) India VIX cooled off 8 per cent to 23.3 levels.

Index	Today's Close	Prev. close	Change	% change	Open	High	Low
Sensex	48,600.61	46,285.77	+2314.84	5.00	46,617.95	48,764.40	46,433.65
Nifty	14,281.20	13,634.60	+646.60	4.74	13,758.60	14,336.35	13,661.75

Sectors and stocks

- 1) Shares of insurance companies rallied by up to 12 per cent on the NSE on Monday after the government proposed to increase foreign direct investment in the sector to 74 per cent, a move aimed at attracting overseas players. The limit on FDI in Indian insurance companies will be lifted from 49 per cent to 74 per cent, said Finance Minister Nirmala Sitharaman on Monday in her Budget speech for 2021-22, accepting a demand the industry had proposed for long. The law presently says an Indian insurance company has to be "Indian-owned and controlled". This gives



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the Indian partner the right to appoint a majority of directors or control the management of a company. The Insurance Act will be updated to allow foreign ownership in insurance with safeguards.

- 2) Among individual stocks, Bajaj Finserv rallied by 11.45 per cent to Rs. 9,721 on the NSE. The company held 74 per cent stake in Bajaj Allianz General Insurance Company Limited, the second largest private General insurer in India in terms of Gross Premium. General Insurance Corporation of India, too, rallied 9 per cent to Rs. 144 on the BSE. ICICI Prudential Life Insurance Company has rallied 6 per cent to Rs. 510 on back of two-fold jumped in trading volumes in intra-day trade. HDFC Life Insurance Company and Max Financial Services advanced 5 per cent, while SBI Life Insurance Company and ICICI Lombard General Insurance Company were up 4 per cent each on the BSE. The Indian insurance sector has been growing substantially over the past few years. Life insurance continues to dominate domestic insurance premium. Covid-19 affected the entire economy but life insurance companies suffered on two accounts namely loss of sales and outgo in terms of claims settlement. However, a silver lining is that the more consumers have realized the importance of insurance. CARE expects the domestic industry to grow driven by pension products, life cover products, supportive regulations, effective distribution and improving customer services. However frauds and high lapse-ratio are some of the key challenges. The outlook for the insurance industry is not just a function of the economic growth but industry specific factors such as expansion in insurance penetration, evolution and change in the share of various distribution channels, enabling regulatory movement, also affect the premium growth, the rating agency said in recent Indian Life Insurance sector update.
- 3) Shares of ICICI Bank rallied by 12.44 per cent to Rs. 603.8 on the NSE after reporting strong December quarter (Q3FY21) results, with net profit increasing 19 per cent at Rs 4,940 crore, on steady revenue growth. The private sector lender had posted a net profit of Rs 4,146 crore in the quarter ended December 2019 (Q3FY20). The stock surpassed its previous high of Rs 561, touched on January 13, 2021. The bank's net Interest Income (NII) in the reporting quarter rose by 16 per cent at Rs 9,912 crore from Rs 8,545 crore in Q3FY20. Net Interest Margin for the reporting quarter declined to 3.67 per cent from 3.77 per cent in the year-ago quarter. Following an order by the Supreme Court, no new non-performing assets (NPAs) were recognised since September 1 of last year. If such NPAs were recognised, the pro forma gross NPAs were 5.42 per cent and Net NPAs were 1.26 per cent. The resultant pro forma provision coverage ratio (PCR) was 77.6 per cent. ICICI Bank's loan growth is showing a strong revival in both wholesale, small and medium-sized enterprises (SME), and retail, with disbursement in many business segments crossing pre-COVID levels, led by festive demand, improving economic outlook, and strong digital ecosystem build by the bank across business segments. The restructuring pursuant to Reserve Bank of India (RBI) resolution framework stood at Rs 2,546 crore (0.4 per cent of advances) at December 31, 2020. This is less than the earlier guidance of one per cent of loan book as corporate India and the broader economy seem to be doing better than anticipated, the bank said in a media call after announcing the results.

Key recent major developments..

- 1) 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.
- 2) 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.
- 3) The extension of tax exemption schemes in Affordable Housing will have a strong positive effect on various sectors related to it.
- 4) 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.

- 5) India forecast robust economic growth of 11% for the fiscal year beginning on April 1 in its annual economic survey on 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, which has killed 153,847 Indians, 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.
- 6) India provides a "predictable environment" for doing business and its commitment to economic self-reliance will strengthen globalization, said Prime Minister Narendra Modi on 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.
- 7) India has given the first dose of covid antidote to 37,58,843 beneficiaries in the nation-wide vaccination drive. India has flattened its COVID-19 graph and 146 districts have reported no new case of the viral disease in the last seven days, 18 in 14 days, six in 21 days and 21 districts in the last 28 days, Union Health Minister Harsh Vardhan said on last Thursday. This has been achieved due to pro-active testing with more than 19.5 crore COVID-19 tests conducted in the country so far, Vardhan, who chaired the 23rd meeting of the high-level Group of Ministers (GoM) on COVID-19 through a video-conference, said, according to a statement issued by the health ministry.
- 8) 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
- 3) 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



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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.

- 4) 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.
- 5) 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 were enthusiastic 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. Sentiments were buoyant 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.
- 2) FPIs too cheered Budget announcements and were on a buying spree after selling heavily in the last week. Previous week's significant fall was covered in today's trading session.
- 3) 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 is likely to happen.
- 4) Domestically, all eyes would be on ongoing Q3FY21 earnings season after strong result by Companies like TCS, Hindustan Unilever, Maruti, Tata Motors, Colgate, HDFC Bank, Avenue Supermarts (Dmart), Tata Elxsi, Bajaj Auto, Ceat, JK Tyre, Bajaj Auto, ICICI Bank etc. Union Budget and budget related stocks especially in Defence and Railways will continue to remain focus in next few days ahead of Union Budget to be announced on 1st February 2021.
- 5) CY20 would always be remembered in the history of Indian Capital markets. The S&P BSE Sensex and Nifty50 rallied by 16 per cent and 15 per cent, respectively, in 2020 (CY20) despite COVID-19 crisis (Lockdown to contain the virus, brought the economy activity to a standstill for nearly three months which affected India's GDP significantly). Indian benchmark indices declined significantly by around 40 percent during February-March from its peak in January but after hitting a four-year low on March 24, 2020. Both the indices have rallied by nearly 87 per cent from March 24, 2020 low. However, the broader index, S&P BSE500, which gained 17 per cent in CY20 has recorded its best performance in the past three years. The S&P BSE Midcap and S&P BSE Small-cap index have rallied 20 per cent and 32 per cent respectively in CY20, after registering negative returns in the past two consecutive calendar years - 2018 and 2019. The rally was led by strong liquidity from foreign portfolio investors who pumped in \$22.4 billion (Rs 1.66 trillion) in equities during the year. The flows in November and December are



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one of the highest ever seen in Indian equities. In the last two months alone, FIIs have poured almost Rs 1.18-trillion in Indian equities, data show.

- 6) Globally, sentiments have improved after the United Kingdom's historic trade deal with the European Union and US President Donald Trump signed into law a \$2.3 trillion pandemic aid and spending package. 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.
- 7) With Union Budget 2021-22 presented; all eyes would be on Q3FY21 earnings season and FPI liquidity.



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