

Budget 2022

Expectations



AIM

could lead to revival of spending in the economy



Agriculture



Infrastructure



**Mobilizations
of Funds**

Budget FY23 - Preview

Budget to boost spending; fiscal deficit to be contained on robust tax revenue

Executive Summary

- India remains the fastest growing economy compared to its global peers despite the Covid fallout. The country is structurally well placed in a global/EM context with high savings rate, low debt burden (both household and government debt) and sound forex reserves with enough headroom to increase tax revenue contribution to GDP.
- The series of coordinated measures between the Government and Central Bank has helped revive the economy smartly from the Covid induced slowdown and the country is headed to achieve the widely anticipated target of USD 5 trillion economy by 2025.
- We expect Budget FY23 to primarily focus on the following three themes,---
 - Agriculture – A** (to support agri-economy to increase farmers’ income)
 - Infrastructure – I** (boosting infrastructure spending)
 - Monetisation – M** (focus on monetisation of assets)
- With robust tax collection, lower spending and a possible divestment of LIC during the Q4FY22, the fiscal deficit target is likely to be contained at 6.5% of GDP against Budgeted target of 6.8%.
- Given the limited headroom for monetary policy action, fiscal measures have become imperative; and we expect the Government to address “Demand” side factors in the upcoming budget.
- This Budget is widely expected to continue with the measures announced in the previous budgets like Atmanirbhar Bharat, Make in India and PLI schemes etc. One can expect more measures with focus on boosting consumption and help revive private sector investments.
- We expect the following developments as a key consideration in the upcoming budget
 - Aggressive asset divestures for FY23E; and expect disinvestment target of INR 2-2.1 trillion
 - Public sector reforms in the form of privatization, recapitalization and improving corporate governance
 - Reduce the burden on tax compliance requirements for startups
 - Stress Asset Funds to address banking sector asset quality aspects

Notable sector specific expectations include:

- Auto – Reduction of GST rate on 2-Wheelers; re-introduction of the depreciation scheme
- Financials – Setting- up of refinance window for NBFCs; focus on digital initiatives
- Pharma – Reinstatement of weighted tax deduction at 200% of inhouse R&D spending
- Consumers – GST/Import duty relief to curb high inflation; implementation of National Retail Policy
- Insurance - Increase in deduction limit under 80C & 80D; GST rate reduction
- IT/Technology – Digital initiatives; incentives for 5G rollout
- Agriculture/Chemicals - Introduction of PLI scheme; levy of import/anti-dumping duty
- Infra/Capital Goods/Cement – Higher allocation to PMAY; boost infrastructure financing avenues

Budget FY23 - Preview

‘A-I-M’ could lead to revival of spending in the economy

A - Agriculture

Government's credit target for the agriculture sector stands at INR 16.5 trillion for the current financial year FY22. With a view to give a boost to the agriculture sector, the government has been increasing the credit target for the farm sector every year and this time also, we believe the target is likely to be increased to INR 18-18.5 trillion for FY23 in the upcoming budget. Reforms like the Pradhan Mantri Fasal Bima Yojana, crop insurance, profitability for farmers, facilities to trade electronically, and improvement in agro-processing will help in the revival of the segment as a whole and boost farmer income.

The FY23 Budget is expected to be momentous also in the context of finally resolving the issue of a legal guarantee of minimum support price (MSP) for crops. As food inflation becomes a global phenomenon, FY23 will also test the government's resolve to free up agricultural trade. It may be recalled that, protesting farmers lobby and state government carried the apprehensions about ability of the government and its agency like FCI for their ability to pay MSP across all crops. They also expressed their concerns for loss of income amounting to 2-9% when trades were allowed to take place outside APMC markets. And the third reason was, allowing contract farming which would have allowed participation of private enterprise which in turn would have reduced the government obligations to pay MSP to farmers. These were the prime reasons for repeal of the three farm laws.

The subsidy requirement for the fertiliser sector has sharply increased in FY22 following the elevated prices of key inputs and finished fertilisers in the international markets. In FY22, the fertiliser availability witnessed significant headwinds due to non-availability in the global markets as well as elevated international prices. The government is expected to outline steps to increase domestic production through incremental investments. Some of these may include rationalisation of duties, improve the competitiveness of domestic players, develop a roadmap to increase the balanced use of fertilisers and reduce dependence on imports.

The government's focus will be to support the agri-economy to improve farmers' income. Credit is a critical input in achieving higher farm output. Institutional credit will also help delink farmers from non-institutional sources where they are compelled to borrow at usurious rates of interest. Normally, farm loans attract an interest rate of 9%. However, the government has been providing interest subvention to make short-term crop loan available at an affordable rate thereby helping to boost farm output. The government fixes annual agriculture credit, including crop loan targets for the banking sector. The agricultural credit flow have increased consistently over the years, exceeding the target set for each fiscal. Therefore, we expect similar trend to continue going ahead in the upcoming budget too.

I - Infrastructure

In the upcoming budget, the Government is expected to announce more steps to achieve its infrastructure investment target of INR 111 trillion as per the NIP (National Infrastructure Pipeline). More clarity is awaited on the current status of the NIP, its financing avenues and its capex phasing over the next few years. Government is likely to increase its Gross Budgetary Support towards the infrastructure sector with focus on roads, railways and urban infrastructure segments. To expedite projects like high-speed rail (including bullet trains), Sagar Mala, smart cities, inland waterways developments etc, government should provide some dedicated allocations towards these projects in the budget. Increased allocation for NHAI will help achieve Bharat Mala project targets.

The key ask for the infrastructure sector is to improve the long-term funding availability for the sector. Much of the infrastructure financing in the country is currently supported by the banking sector. Measures like higher outlay for the newly set up NaBFID (National Bank for Financing Infrastructure and Development) and the NIIF (National Investment and Infrastructure Fund), along with initiatives towards strengthening the corporate bond market can play vital roles to bridge the infrastructure funding gap. The ambitious NIP involves an outlay of INR 20.3 trillion in the road sector over FY20-25. However, in the past, the budgetary allocation did not keep pace with these plans. Consequently, the sectors' dependence on debt remained elevated. Given the government's thrust on infrastructure spending to revive the economy, the FY23 budgetary outlay remains crucial to complete the ambitious Bharatmala and allied projects in a timely manner.

Budget FY23 - Preview

'A-I-M' could lead to revival of spending in the economy

As discussed earlier, the availability of long term infrastructure financing continues to remain a challenge, given the two main problems faced by the commercial banks, 1) asset liability mismatch and 2) high share of stressed assets. Although a new DFI namely NaBFID was announced in the last year's budget, it is yet to become fully operational. There is a need to deepen the bond market for the infrastructure sector. Permitting some reputed public sector enterprises to raise long term funds by way of infrastructure bonds or tax-free bonds can be thought of by the government, which may support the funding availability for the infrastructure sector. We also expect the government to lay focus on measures to attract private investments in the infrastructure sector. Speedier resolution of claims/disputes, need to be considered to improve private sector sentiments, which is expected to play a crucial role in the NIP.

India can boast of a vibrant capital market with market capitalization of about USD 3.8 trillion. An instrument similar to CPSE ETF when allowed to be created by allowing MF AMCs to float infrastructure ETFs, it could lead to systematic collections of savings funds and channelize them to fund infrastructure. Also, the recently announced INR 100 trillion Gati Shakti Yojna (GSY) by the PM in October 2021, would lead to significant investments in infrastructure.

M - Monetisation

Asset Monetisation initiative has three critical stakeholders, the government (Centre or State) which monetises the asset, private investor taking on ownership/ management and the general public who are typically the users of the asset. There are considerations of each of these stakeholder groups which must be met in order to effectively roll out a successful asset monetisation programme. The imperatives to give a thrust to asset monetisation are anchored across three themes – (1) Expansion of the investor base and scaling of monetisation instruments (2) Strengthening demand-side capacity, and (3) Creating effective frameworks to aid monetisation.

The upcoming 2022-23 Union Budget may have asset monetisation as one of its key themes with a target, similar to goals set for divestment and tax and non-tax revenue. The platform of asset monetisation will be the National Monetisation Pipeline (NMP), which estimates an aggregate potential of INR 6 trillion from core assets over a four year period from 2022-2025.

The current fiscal year's asset monetisation target of INR 80,000 cr was spelt out when the NMP was announced and not in a budget document. That is set to change from the upcoming budget onwards. The NMP, unveiled by the government in September 2021, aims to unlock value in brownfield projects by engaging private sector participants, transferring to them revenue rights while their ownership remains with the government. This arrangement would make it similar to public-private partnerships. It is expected that funds will be mobilized from the buoyant capital markets by suitably creating product offering in debt and equity markets. The much awaited IPO of LIC is expected to garner about INR 900-1000 bn under its maiden public offering. Capital Markets are attracting lots of investments from local and global investors. Government is expected to incentivize the investments by rural masses using LIC IPO as a way to penetrate rural India for mobilization of funds. Unlike privatisation or the stake sale of state-owned companies, the Central government will not get any funds from asset monetisation. Instead, public sector units and government agencies that own the assets will get the money.

The companies can then transfer part of the proceeds to the Centre through dividend payments and share buybacks. In the case of unlisted PSUs like the National Highways Authority of India (NHAI), Airports Authority of India (AAI), Bharat Sanchar Nigam (BSNL), the Centre will get the entire share buyback and dividend amounts. The Budget estimate for dividend from non-financial PSUs is ~INR 500 bn for the current financial year (FY22). If the asset monetisation drive goes through as planned, the dividend from non-financial PSUs could increase substantially from FY23 or FY24 onwards.

As per the NMP roadmap, over 66% of the assets to be monetised are from roads, railways and power. The remaining are from sectors including telecom, mining, aviation, ports, natural gas and petroleum product pipelines, warehouses and stadiums. These mobilisation of funds will help achieve the future roadmap of the government. We do not expect any major changes in tax laws in the budget but do expect the Government to come out with measures which will incentivise the private sector to allocate incremental amount towards **A I M projects** which could lead to revival of spending in the economy.

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Budget FY23 - Preview

India remains the fastest growing economy despite virus fallout

India – In a Global /EM Context

Country	GDP Growth Outlook (5 Year Average 2020E-2025E)	Public Consumption: % of GDP	Private Consumption: % of GDP	Gross Savings Rate	FX Reserves (% OF GDP)	Import Cover (Months)	Current Account Balance: % of GDP	External Debt to GDP (%)	Household Debt: % of GDP	Government Debt: % of GDP	Consolidated Fiscal Balance: % of GDP	Tax Revenues (% of GDP)**
Australia	3.0%	21.5%	48.8%	29.8%	2.5%	1.5	4.4%	131.9%	129.2%	43.3%	-13.6%	28.6%
Brazil	2.5%	18.3%	60.4%	19.2%	21.6%	15.6	-0.6%	38.4%	36.2%	89.1%	-13.4%	17.2%
Canada	3.0%	20.3%	54.9%	24.8%	4.1%	1.7	0.2%	142.5%	110.6%	73.8%	-11.7%	13.5%
China	5.7%	16.6%	37.7%	45.7%	8.9%	12.7	1.8%	16.3%	62.1%	20.6%	-5.8%	4.7%
France	2.7%	24.3%	53.1%	14.2%	1.9%	0.9	-0.1%	261.7%	79.3%	115.7%	-9.3%	15.0%
Germany	2.1%	21.8%	51.0%	27.2%	0.9%	0.3	7.7%	163.3%	58.7%	69.7%	-4.2%	23.7%
Greece	3.0%	18.7%	65.5%	15.8%	1.8%	0.5	3.5%	299.1%	64.9%	205.6%	-1.3%	32.3%
India	7.2%	11.1%	57.3%	31.4%	3.5%	10.4	0.9%	21.1%	14.6%	56.6%	-6.0%	8.1%
Indonesia	5.3%	8.9%	54.3%	36.8%	3.5%	6.9	1.5%	39.4%	10.4%	39.4%	-6.2%	7.3%
Italy	2.4%	18.5%	60.4%	21.2%	2.5%	1.0	4.0%	140.2%	58.7%	155.8%	-8.6%	37.0%
Japan	1.5%	20.7%	54.8%	26.1%	0.8%	17.6	3.3%	92.8%	65.2%	224.9%	-7.8%	9.7%
Malaysia	5.1%	12.8%	59.7%	24.4%	2.0%	5.5	3.1%	67.6%	93.2%	62.2%	-7.0%	10.8%
Russia	2.5%	19.4%	49.3%	31.3%	27.7%	18.1	8.8%	31.5%	20.2%	17.7%	-4.0%	20.0%
Singapore	3.3%	12.4%	33.0%	45.8%	107.5%	10.8	21.6%	471.3%	68.5%	150.2%	-6.8%	16.7%
South Africa	2.1%	18.9%	60.1%	14.4%	11.5%	5.0	3.6%	50.8%	47.6%	77.1%	-10.6%	25.2%
Turkey	4.2%	12.9%	55.2%	31.9%	9.4%	3.5	0.9%	60.4%	17.9%	39.5%	-3.5%	18.4%
UK	3.1%	22.5%	60.8%	16.7%	4.4%	2.2	-1.5%	337.2%	96.6%	104.5%	-11.0%	31.8%
US	3.1%	14.1%	68.5%	19.0%	0.2%	0.2	-3.3%	102.2%	69.5%	133.6%	-19.4%	15.7%
Average	3.4%	17.4%	54.7%	26.4%	11.9%	6.4	3.3%	137.1%	61.3%	93.3%	-8.3%	18.7%

Source: CEIC; IMF; Latest Fiscal Period

**Note: Annualized figures

Key Observations

- India stands out amid global context:** While the growing concerns over recent outbreak of Omicron virus and economic recovery is on roller coaster ride over the last 2 years; India still remains a high economic growth story (average GDP growth of 7.2% YoY for FY20-25E) and expected to outpace global growth (3.4% for FY20-25E). In our view, Indian economy is fundamentally well placed in a global context with high savings rate (31.4% vs 26.4% globally); low debt burden (both household and government debt) and sound FX reserves (~10 months of import cover vs 6 months globally) with enough headroom to increase tax revenue contribution to GDP (8.1% vs 18.7% average for global/EM economies).
- Prolonged pandemic is contributing to lower medium-term growth:** Investment has dropped sharply and lagged impact of pandemic on corporate and financial sectors would likely contribute to lower investment and capital accumulation, including in MSMEs. While the country gains from favourable demographics of a relatively young population, the reduced access to education and training, owing to the pandemic, could weigh on the developments of human capital, thereby impacting labor markets.
- Multiple risk factors have elevated the uncertainty about economic outlook:** Emergence of new variants of the Covid virus, coupled with potential future waves continue to remain key risk factors globally which can lead to additional lockdowns, dampening consumer and investor confidence, delaying economic recovery and undermining medium-term growth. A widespread global risk-off event and capital outflows from emerging markets could be triggered by a reassessment of global market fundamentals. This in turn would adversely affect corporate, households and financial institutions' balance sheets.
- Expect fiscal policy to support the vulnerable and post-pandemic recovery:** A series of fiscal support packages composed of both above-the-line (~4.1% of GDP) and below-the-line (~6.2% of GDP) were announced by central government. While above-the-line measures focused on social protection, employment support and healthcare, below-the-line measures included loan-guarantee programs to support businesses, farmers, NBFCs and distressed electricity distribution companies. A projected decline in deficit to around 4.9% of GDP by FY26E/27E implies a fiscal consolidation of about 2% of potential GDP in the medium-term in terms of the cyclically-adjusted primary deficit and reflects a gradual withdrawal of fiscal support and recovery in revenue. RBI is expected to walk a fine line of balance between tackling inflation and financial risks supporting the economic recovery.

Amidst prolonged pandemic and economic slowdown, India still remains the fastest growing economy in the world from a longer term perspective. While the Government's efforts for reviving demand in the previous budget saw decent results we hope that it continues to focus on accelerating the recovery amid resurgence of new Covid variants.

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Budget FY23 - Preview

Fiscal deficit to be lower than the budget estimate

Macro & Budget Snapshot

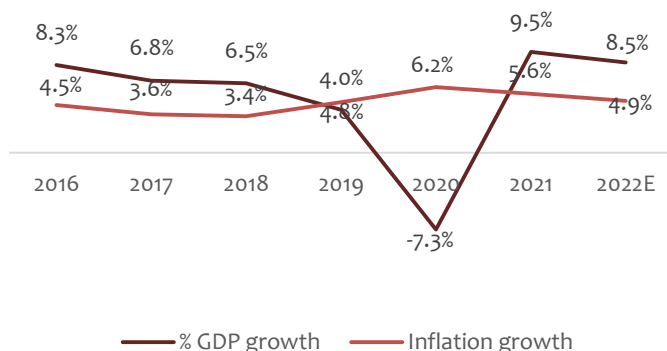
Parameters (in INR tn)	2017	2018	2019	2020	2021	2022E
Nominal GDP	153.9	170.9	188.9	203.5	197.5	225.9
Fiscal Deficit	5.4	5.9	6.5	9.3	18.5	15.1
% of GDP	3.5%	3.5%	3.4%	4.6%	9.4%	6.8%
Net Borrowing	10.6	12.1	15.0	25.2	25.3	24.9
Gross Revenue Receipts	14.4	15.5	16.7	17.5	16.0	19.8
Tax (net)	11.0	12.4	13.2	13.6	13.4	15.5
Non-tax	2.7	1.9	2.4	3.3	2.1	2.4
Capital Receipts	0.7	1.2	1.1	0.7	0.5	1.9
Revenue Expenditure	16.9	18.8	20.1	23.5	30.1	29.3
Capital Expenditure	2.8	2.6	3.1	3.4	4.4	5.5
Total expenditure	19.8	21.4	23.2	26.9	34.5	34.8
GST Revenue	-	4.4	5.8	6.0	5.2	6.3

Source: Bloomberg, IMF, RBI, PRS India

Budget Preview – Key Themes

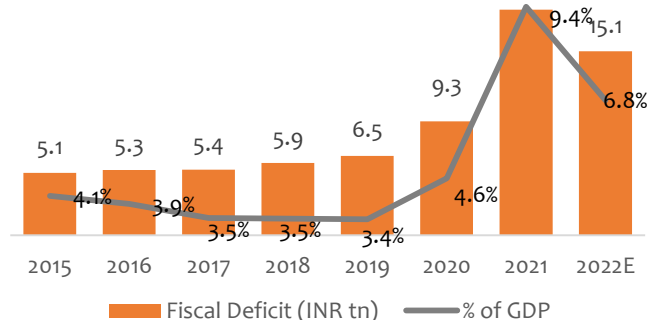
- Fiscal deficit target to be lower than the budget estimate:** Unlike the previous year, where fiscal deficit was headed towards a miss, fiscal deficit is likely to be lower at 6.5% vs budget estimate of 6.8% of GDP during 2021-22. This 30 bps improvement would be due to the robust revenue collections coupled with under-spending by many ministries (Tourism, Petroleum, Skill development ministries expenses remains below 30% of budget) and lower subsidy disbursement. Food subsidies might rise by an additional INR 938.7 bn over budget estimated of INR 2.4 tn during 2021-22 and fertilizer subsidies might also require extra provisioning of INR 420 bn over budget estimates of INR 794.3 bn. We are of the opinion that fiscal deficit would be 30 bps lower than the target which can be possible if government meets its disinvestment target (assuming LIC disinvestment in March Quarter) and retains more than the budgeted collection from excise duties on fuel.

GDP Growth - Inflation



Source: IMF

Fiscal Deficit / GDP



Source: Union Budget 2021

- Gradual economic recovery witnessed in the calendar year 2021 post pandemic disruptions:** Indicators for economic activity point towards early signs of a recovery. The PMI eased to 55.5 in Dec'21, indicates rise in sales and output for sixth consecutive month, encouraging performance of Indian manufacturing sector. While the output remains bullish, the business sentiments were slightly restrained due to inflationary pressure and outbreak of new strains of Covid-19.

We expect the Government to contain the fiscal deficit target to 6.5% of GDP against estimated 6.8%, primarily due to higher than expected tax revenues coupled with under spending by multiple ministries. We also see continued signs of recovery in the economy as order book of the companies improved with restoration of supply chain.

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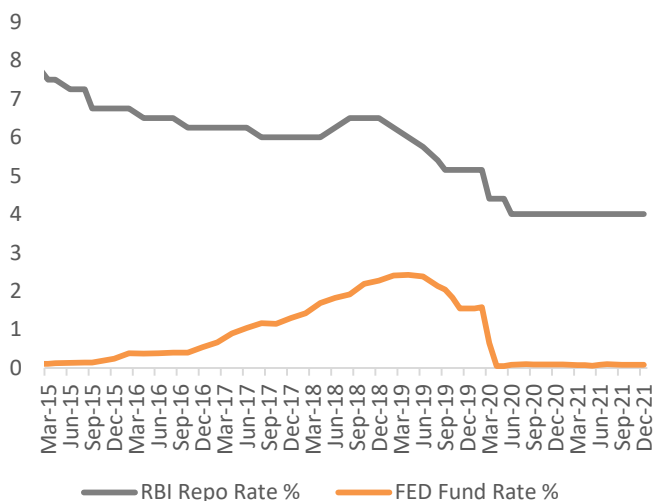
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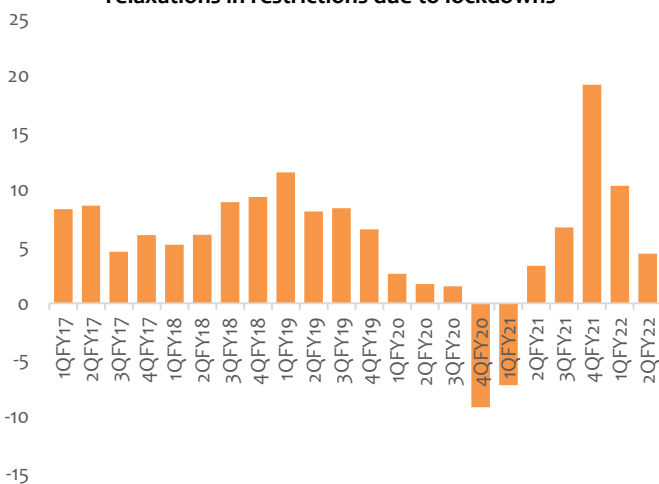
Budget FY23 - Preview

Present Repo Rate in sync with global monetary policy actions



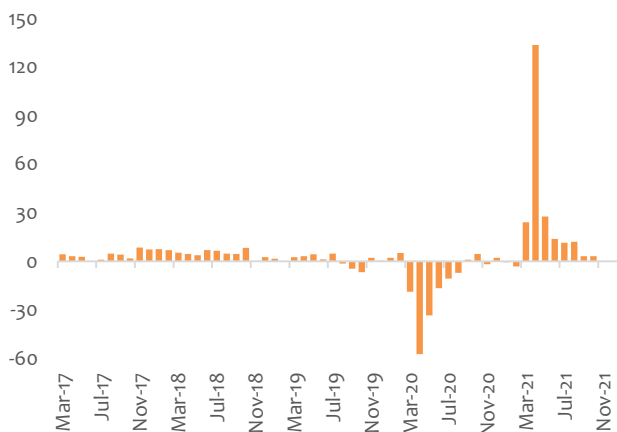
Source: Bloomberg

Real GDP growth (%YoY): Marked recovery seen after major relaxations in restrictions due to lockdowns



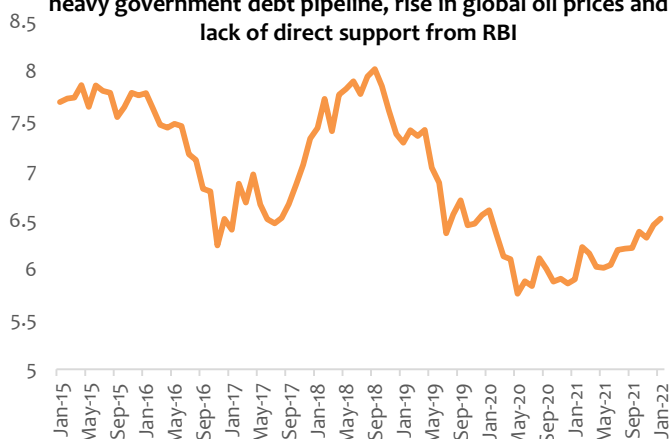
Source: Bloomberg

IIP: After recovering from negative zone stabilization expected in eight core industries output



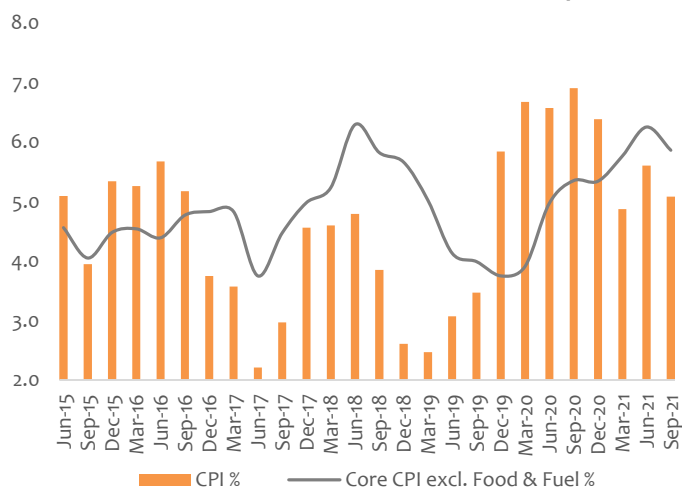
Source: Bloomberg

Bond Yield (10Y): Borrowing costs trending higher owing to heavy government debt pipeline, rise in global oil prices and lack of direct support from RBI



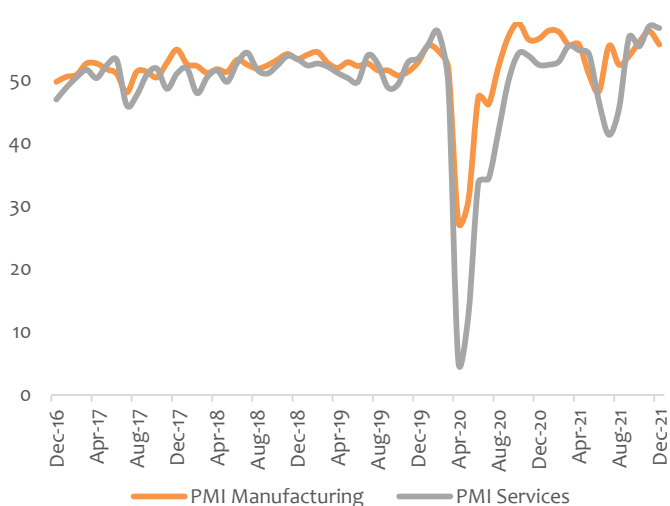
Source: Bloomberg

Inflation: To remain elevated due to rise in input cost



Source: Bloomberg

PMI: Service/ Manufacturing sector showing signs of revival



Source: Bloomberg

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Budget FY23 - Preview

Revenue collection remained high; capex spending halts

Budget: What is achieved so far ?

Budget at a glance: Robust Tax Revenue collection

Sr. No	Particulars (INR Crores)	Budget Estimates 2021-2022	Actuals upto Nov-21	% of Actuals to Budget Estimates
1	Revenue Receipts	1,788,424	1,358,920	75.90%
2	Tax Revenue (Net)	1,545,396	1,135,264	73.50%
3	Non-Tax Revenue	243,028	223,026	91.80%
4	Non-Debt Capital Receipts	188,000	20,703	11.00%
5	Recovery of Loans	13,000	11,339	87.20%
6	Other Receipts	175,000	9,364	5.40%
7	Total Receipts (1+4)	1,976,424	1,378,993	69.80%
8	Revenue Expenditure	2,929,128	1,800,977	61.50%
9	of which Interest Payments	809,701	460,323	56.90%
10	Capital Expenditure	554,108	273,630	49.40%
11	of which Loans disbursed	40,374	24,372	60.40%
12	Total Expenditure (8+10)	3,483,236	2,074,607	59.60%
13	Fiscal Deficit (12-7)	1,506,812	695,614	46.20%
14	Revenue Deficit (8-1)	1,140,704	442,687	38.80%
15	Primary Deficit (13-9)	697,111	235,291	33.80%

Source: CGA

Source of financing the deficit: Well within borrowing limit

Sr. No	Particulars (INR Crores)	Budget Estimates 2021-2022	Actuals upto Nov-21	% of Actuals to Budget Estimates
1	External Financing	1,514	10,150	670.00%
2	Domestic Financing	1,505,297	685,464	46.00%
3	(a) Market Borrowings	967,708	540,069	56.00%
4	(b) Securities against Small Savings	391,927	277,126	71.00%
5	(c) State Provident Funds	20,000	(289)	-1.00%
6	(d) Special Deposits	0	(10,510)	
7	(e) National Small Saving Fund	0	(23,175)	
8	- i- Savings Deposit and Certificates	245,783	151,379	62.00%
9	- ii- Public Provident Funds	94,522	22,747	24.00%
10	- iii- Investment In Securities	(354,663)	(265,099)	75.00%
11	- iv- Income/Expenditure of NSSF	14,358	67,798	472.00%
12	(f) Others	54,279	(2,358)	-4.00%
13	(g) Cash Balance {Decrease(+)/Increase(-)}	71,383	4,990	7.00%
14	(h) Investment (-) / Disinvestment(+) of Surplus Cash		(100,388)	
15	(i) Ways & Means Advances		0	
16	Total Financing	1,506,811	695,614	46.00%

Source: CGA

Key Observations:

- Decline in loan Provision dropped for Public Sector Banks (PSBs):** Non-Performing Assets (NPAs) of PSBs dropped by about 8.3% YoY and 9.1% YoY as on March 31, 2020 and March 31, 2021, respectively. Provision Coverage Ratio (PCR) rose to a high of 84% as on March 31, 2021. Comprehensive steps and reforms such as recognition, resolution and recapitalisation were taken to boost and control recovery in NPAs due to which PSBs recovered around INR 5,015 bn over the past six financial years.
- Boost in financial health of PSBs:** Net Profit of PSBs rose to INR 140 bn and further to INR 171 bn during Q1FY22 and Q2FY22, respectively and this combined profit of two quarters is near to total profit earned during FY21. During FY21, PSBs raised capital funds of about INR 587 bn, which is the highest amount mobilised in a fiscal. While banks have been asked to focus on the recovery process, they are also working towards expanding their balance sheet under the credit outreach programme started on October 16, 2021. PSBs in aggregate recorded a profit of INR 318 bn during FY21, the highest in last five years despite significant contraction in the economy due to COVID-19.
- Capital infusion unlikely for PSBs:** Capital infusion for PSBs by the Government is unlikely to happen in Budget 2022-23 as banks' financial health has improved considerably backed by reduction in bad loans. Banks would be encouraged to raise funds from market as well as sell non-core assets to supplement their resources.

We see fiscal deficit to be lower than the target and expect a deficit of 6.5% against budget estimate of 6.8%; due to robust tax collection and assuming possible disinvestment of LIC during Q4FY22.

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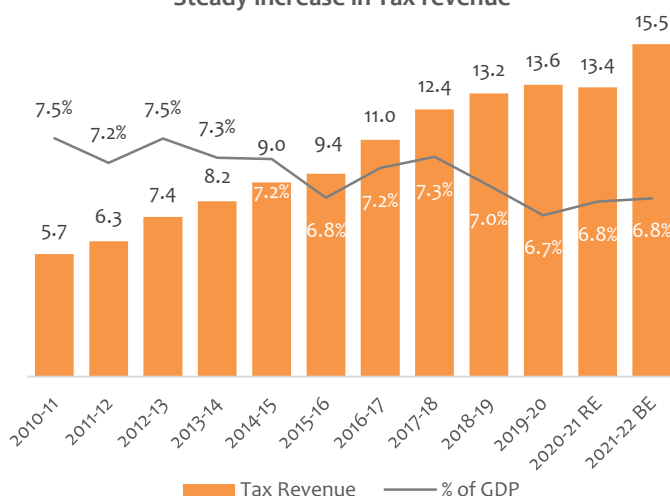
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Budget FY23 - Preview

Both tax and non-tax revenue collection remained high

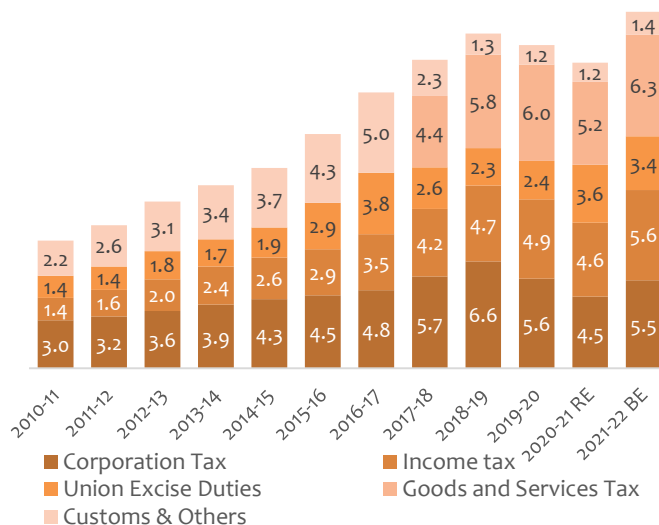
- **Tax revenue collection remains at higher level, offers cushion to fiscal deficit:** The tax revenue has risen at a CAGR of 7.3% from INR 9.4 trillion in FY16 to INR 13.4 trillion in FY21 and is estimated to rise to INR 15.5 trillion in FY22, out of which 73.5% of the target (INR 11.4 trillion) has already been achieved as of November 2021. This massive growth in net direct tax collection, of 60%+ over FY21 and 40%+ over FY20, reflects the robust economic recovery from Covid fallout and improved profitability and earnings of Indian corporates.
- **Non-tax revenue collection** is also on right path with ~92% of budgeted collection already been collected.
- With better than expected direct tax revenue collection numbers, in H1FY22, the government stepped up public capital expenditure in infrastructure by 28.3% over previous period with a focus on urban affairs, the railways, highways, and housing.

Steady increase in Tax revenue



Source: Union Budget 2021, IMF

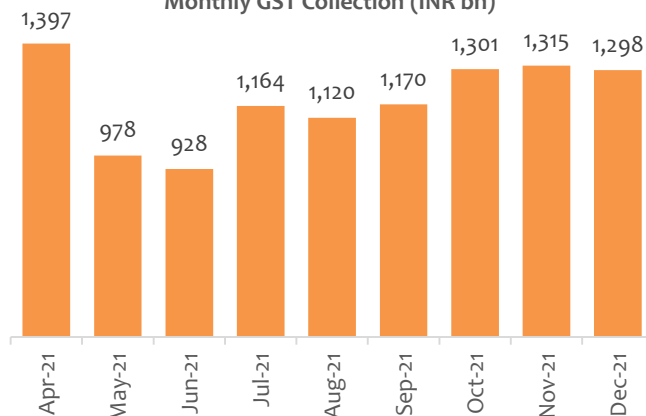
Gross Tax revenue (INR Tn)



Source: Union Budget 2021

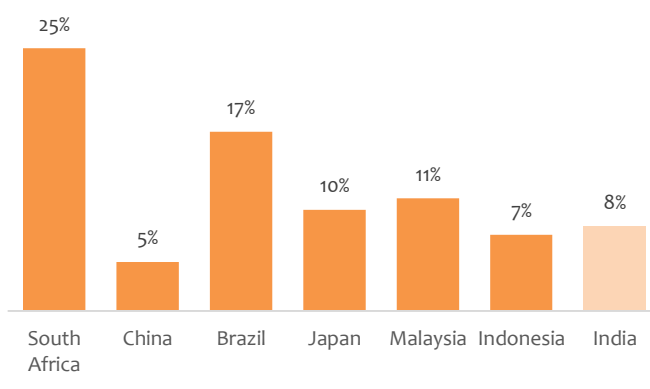
- Monthly Goods and Services Tax (GST) witnessed 13% YoY increase to INR 1,297.8 billion for the month of December 2021. The average monthly collection during FY2022 has been steadily rising with INR 1.10 lakh crore, INR 1.30 lakh crore and INR 1.30 lakh crore collected during the first three quarters of FY2022 respectively. Economic recovery coupled with rate rationalization measures undertaken by the GST Council for rectifying the inverted duty structure and anti-evasion activities have all together contributed towards enhanced GST collection.

Monthly GST Collection (INR bn)



Source: Ministry of Finance

Tax collection (% of GDP)



Source: CEIC

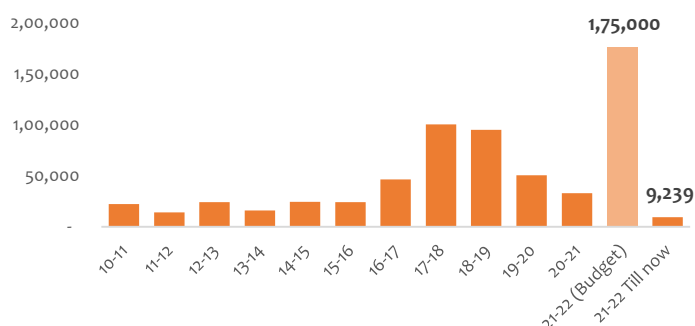
GST collections remained above the INR 1 trillion mark for the sixth month in a row; reflecting the continuing improvement in various macroeconomic parameters and established a consistent trend over the past few months.

Budget FY23 - Preview

Big miss on disinvestment continues; LIC Stake sale in Q4 may be savior

- Muted progress on disinvestment/asset divestures:** The government's earlier plans to raise INR 1750 bn through IPO of two state-run financial institutions Life Insurance Corporation of India (LIC) and IDBI Bank in FY22 might spill over into next fiscal year due to the valuation related mismatch for LIC and some hurdles faced in IDBI stake sale. Similarly, the privatization of Container Corp. of India Ltd (Concor) (30.8% stake sale) and Bharat Petroleum Corp Ltd. (BPCL) (53.29% stake sale) is unlikely to be completed in this fiscal year; and expected to be pushed into FY23. The government has miserably failed to meet the target of INR 1750 bn of disinvestment plan and has only achieved ~5% of the total target till date. As per latest updates, LIC IPO may hit the market in Mid March of 2022 which may increase divestment proceedings by INR 900-1000 bn. However, it may get delayed due to regulations and volatile market conditions arising from Covid. Thus, it is expected that the government would shift its budgeted value in the upcoming disinvestment plan to target total disinvestment of INR 2-2.1 trillion for FY23E.

Disinvestments (in INR Crore)



Key Disinvestments FY22 (till December 2021)

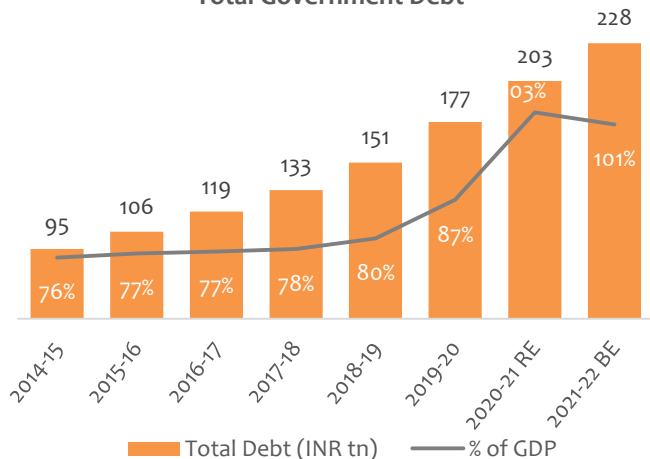
Largely through Offer-for-sale / Employee Offer-for-sale / Others)

- INR 3,994.33 crore SUTTI Axis Bank
- INR 3,653.82 crore NMDC
- INR 720.46 crore HUDCO
- INR 741.95 crore HCL
- INR 219.34 crore IPCL

Source: DIPAM

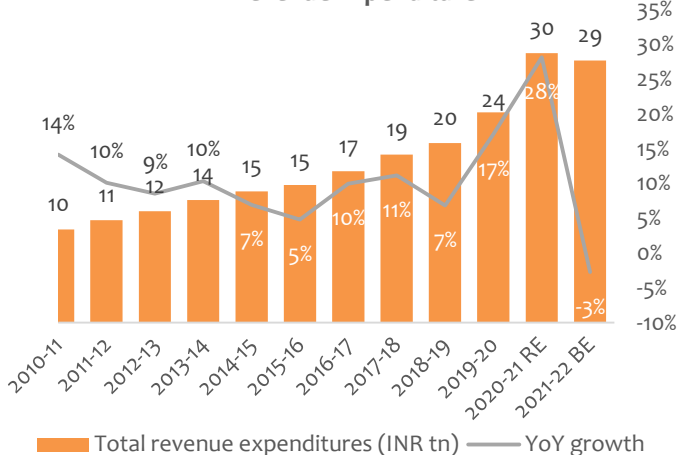
- Limited requirement for external Debt/borrowing to meet expenditure plans amid better than expected revenue receipts, low expenditure and planned divesture of LIC:** The LIC IPO is likely to generate cash to the tune of INR 900-1000 bn which may materialize either in Q4 FY22 or early FY23. In either scenario, it offers good amount of comfort to the government and will bolster future expenditure. Besides, the Government's cash balances with RBI stood at a comfortable INR 3.7 trillion as of December 2021. With this, we do not foresee any requirement for external borrowings by the government in next fiscal year. Further, the external debt to GDP ratio fell to 20.1% as on September 2021 (20.2% in June 2021).
- The Indian government's debt is expected to reach ~62% of the GDP as of March 31, 2022. The Government has undertaken several measures such as improving efficiency and effectiveness of public expenditure, divestment and privatization to control the fiscal deficit and the debt burden.

Total Government Debt



Source: IMF

Revenue Expenditure

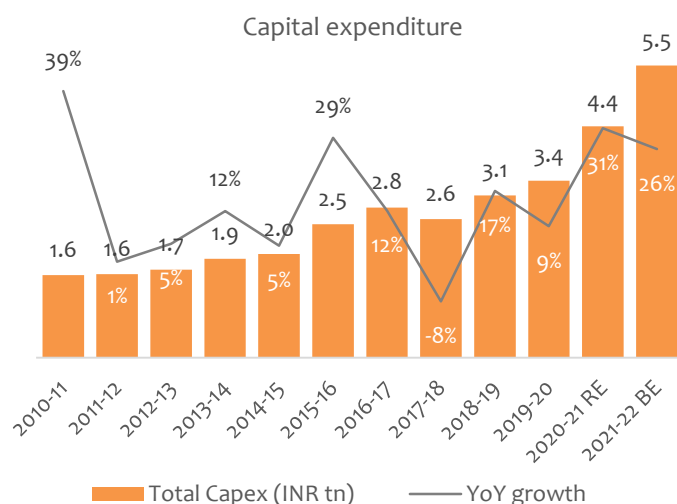


Source: Union Budget 2021

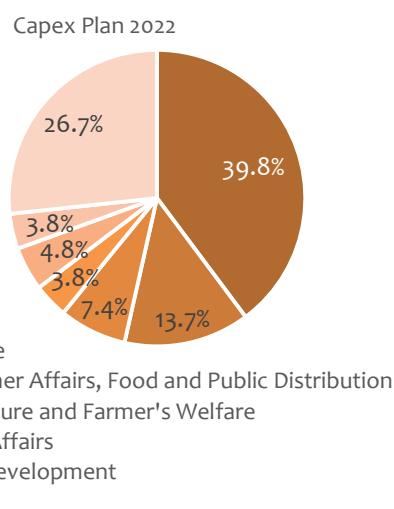
Budget FY23 - Preview

Budget is expected to put major thrust on infra spending to help capex recovery

- Major thrust on Infrastructure and healthcare expected to continue:** The government is likely to put major thrust on infrastructure spending to help capex recovery. An outlay of INR 5.54 trillion was allocated for the infrastructure sector in the previous year. We expect this to increase by around 20-25% in Union Budget 2022-23. Furthermore, the budget is likely to prioritize CAPEX and infrastructure projects under the National Infrastructure Pipeline (NIP) programme to accelerate recovery. The rise in lifestyle diseases is expected to drive up healthcare expenses over 15 years. The government will likely spend on the Genome Mapping Project, which will aid in disease monitoring and data analysis to cure diseases. Furthermore, the government may consider investing in research and development capabilities. Affordable and rental housing will continue to be incentivized in the housing industry.



Source: Union Budget 2021



Source: Union Budget 2021

- More focus on tax compliance; some select GST rate hike might happen:** Government will put more focus on tax compliance by being more vigilant, also there might be some hike in GST rates of some selected product and services by the GST council to boost GST revenue further. There might be some changes in InvIT and REIT tax structures with the objective of bringing long term capital gains treatment at par with other asset classes. With robust direct tax collection, we do not envisage any tinkering with the existing income tax slabs. Though some incremental tax benefits measures by the government cannot be ruled out.
- As per IMF, the Indian economy is expected to grow by 8.5% in FY 2022, which is the highest among global peers.** The upcoming budget is expected to focus primarily on fixing COVID-19 hit sectors besides boosting key areas of growth. The government is expected to further target infrastructure spending to create multiplier effect and increase job opportunities. Moreover, it may continue to introduce structural reforms and boost privatization to attract long term capital from foreign institutional investors. The government may also consider incremental tax benefits to increase net disposable income of citizens to boost demand.

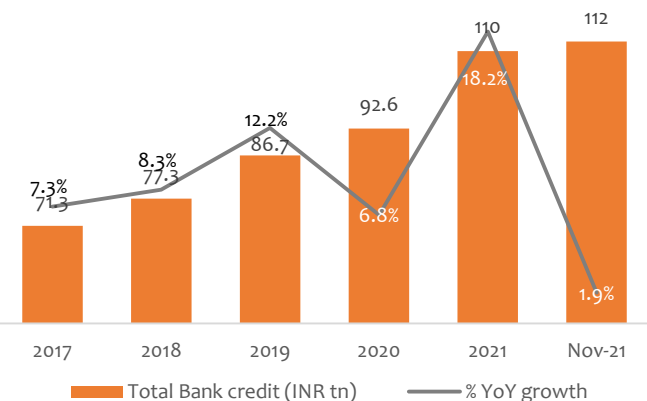
As per IMF, the Indian economy is expected to grow by 8.5% in FY 2021-22, which is the highest among the global peers. Government may consider incremental tax benefits to increase net disposable income of citizens to boost the nascent recovery in demand. Furthermore, we expect a major thrust on infrastructure in the upcoming budget.

Budget FY23 - Preview

Credit growth to be driven by recovery in economic activity

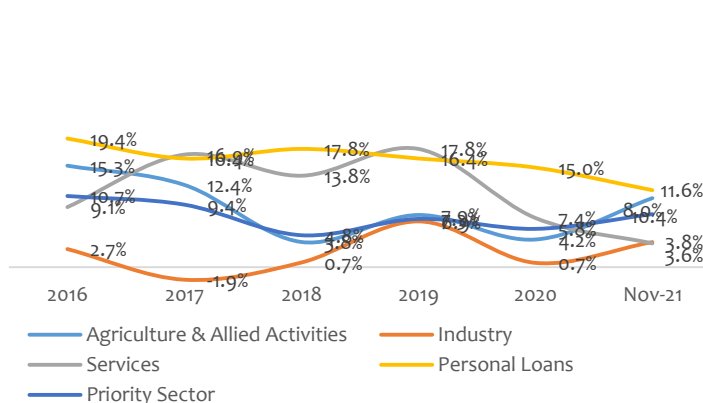
India's economy is expected to recover in the upcoming 12-18 months and this pick-up is expected to drive credit growth of about 10-13%. Risk factors for banks such as weak corporate financials and funding constraints at finance companies have receded. While on the corporate side, quality of corporate loans has improved, quality of retail loans has deteriorated, but this is only to a certain extent as large scale job losses have not occurred despite the severe second Covid wave.

Bank credit improves after pandemic woes



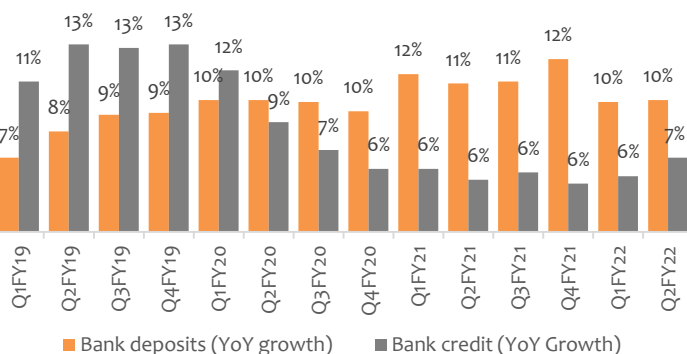
Source: RBI

Non-food credit by sector (% growth): Growth in Agri



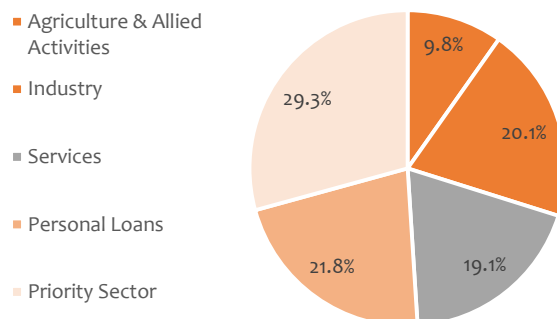
Source: RBI

Deposit growth continues to outpace credit growth



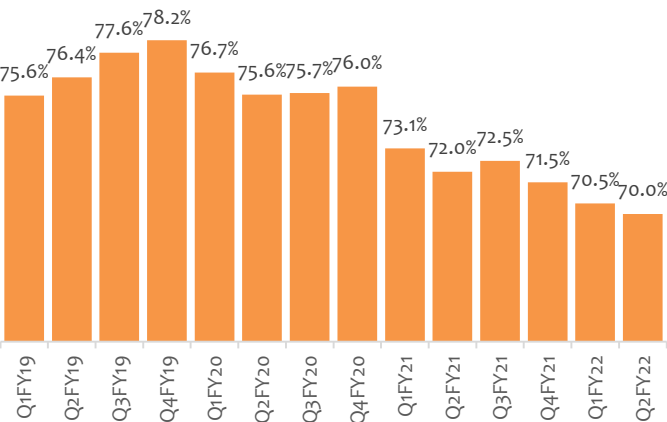
Source: RBI

Lending Mix (as of Nov 21): Priority Sector is a major contributor



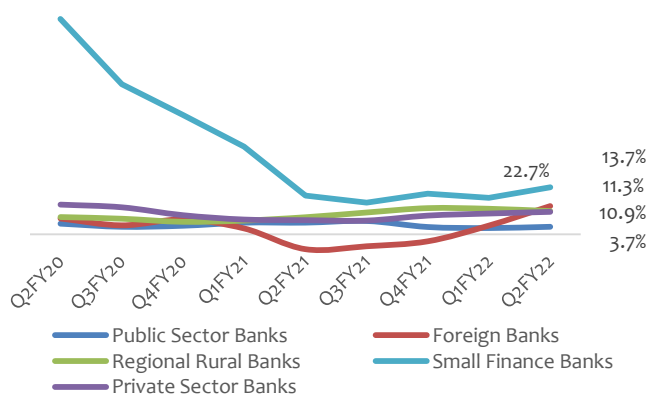
Source: RBI

Loan to Deposit Ratio falling



Source: RBI

Small Finance Banks still outpace Public Sector Banks in lending growth



Source: RBI

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Budget FY23 - Preview

Policy initiatives expected to improve capex investment and consumption

Corporate balance sheet gained strength and showed resilience in broad-based expansion post pandemic era:

Sales of manufacturing companies and IT companies grew double-digit during Q1 and Q2 of FY22. Large Corporates continue to deleverage and increase liquidity on their balance sheet post pandemic backed by positive demand outlook. This can be witnessed by lower growth in corporate credit since May and improved balance sheet. Their share of advances and share in GNPA have further fallen to 34.9% and 62.1% respectively. We believe a large part of recovery is driven by Make in India regime, Atmanirbhar Bharat schemes, multiple PLI schemes, as well as sharp cut in corporate tax rate. Though of late, the corporate earnings got impacted due to high inflationary pressures in their input costs. We do not foresee any new policy announcement for corporate sector in the upcoming budget.

Asset Quality Sector-wise

Lending Sectors	Asset Quality*	Stressed advance ratio
Industries	9.9%	13.2%
Agriculture	10.2%	9.8%
Services	6.7%	7.4%
Personal Loans	2.5%	1.8%

Source: RBI ; * As of December 2021 ; % of Total advances in respective sectors

Sector wise share - Credit & Slippages

Key Sectors	Share of Credit to Total Credit	GNPA*
Automobiles/Parts	2.6%	6.1%
Basic Metals	8.9%	8.2%
Cement	1.5%	7.4%
Chemicals	5.3%	6.1%
Construction	4.2%	21.1%
Engineering	4.7%	18.0%
Food Processing	6.1%	14.2%
Gems & Jewellery	2.7%	20.7%
Electricity	19.0%	6.8%
Infrastructure	40.1%	9.2%
Mining & Quarrying	1.5%	14.3%
Paper Products	1.3%	9.7%
Petroleum & Coal	2.9%	3.8%
Rubber/Plastic	1.9%	9.6%
Textiles	6.6%	11.7%

Source: RBI ; * As of December 2021

Debt/Asset Ratio (x) (Corporates)

Type of Corporate*	H2'20	H1'21	H2'21	H1'22
Large	29.1	27.5	24.4	26.0
Small borrowers	11.8	11.4	10.4	10.8

Source: RBI calculation
* By Aggregate exposure

Debt/Operating Profit (x)

Type of Corporate	2018	2019	2020	2021
Large (>100Cr. Upto 5000 Cr.)	2.1	2.0	1.9	1.9
Very Large (> 5000 Cr.)	3.7	3.6	3.6	3.2

Source: RBI ; Non-Financial companies

Share of Large borrowers in SCB loan portfolios

Large borrower share in	2019	2020	2021	Sep-21
Gross Advances	53.0%	51.3%	38.1%	34.9%
Gross NPAs	82.2%	78.3%	68.1%	62.1%

Source: RBI ; Non-Financial companies

We believe shift to organized sector of the Indian economy is helping companies to gain market share from unorganized and fragmented sectors.

Budget FY23 - Preview

Sector: Auto	Key Stocks: Tata Motors/ Maruti Suzuki / Bajaj Auto
Industry Expectations	Details
Reduction in GST Rate	To boost demand for automobiles especially 2-wheelers, the industry wants the government to regulate and reduce GST rates on 2-wheelers to 18% from the present 28%. Industry body also wants the government to reduce/remove the 2% cess, as 2-wheelers are not used as luxury items but is a necessity to travel distances by lower class and rural segments for their daily working needs. Hence the rationale of 28% GST + 2% cess which is for luxury / sin products does not hold merit for the 2-wheeler category as per industry body FADA (Federation of Automobile Dealers Association).
ACMA seeks uniform GST rate on Auto Components	The Automotive Components Manufacturers Association (ACMA) is seeking a uniform Goods and Services Tax of 18% as compared to current 28% on all auto parts to curb the impact of counterfeits in the after-market operations.
Re-introduction of the depreciation scheme	The industry body FADA wants the government to re-introduce the depreciation scheme which was valid till 31 st March, 2020 to be extended to FY23. Also it has requested the to introduce benefits of claiming depreciation on vehicles for individual tax payers (salaried class) in the same way like corporates. The vehicles depreciate for both the corporate and the individuals and it would hence be judicial to extend the benefit to the salaried class.
FADA seeks uniform GST rate of 5% for all used vehicles	FADA has requested for a uniform GST rate of 5% on the margin for all used vehicles. The rate of GST on used cars is currently 12% for vehicles below 4,000 mm and 18% for vehicles above 4,000 mm.
Utilization of FAME-II funds a worry – a revision to increase the incentive uptake	The government's extension of the FAME-II (Faster Adoption and Manufacturing of Hybrid and Electric Vehicles) till March 2024 was a bold move but it has failed to take off as only 5% of the funds were utilized in the second phase. Experts are suggesting some revisions to increase the incentive uptake.
Expecting some more measures to boost faster EV adoption in the country	Electric mobility is another major theme and a key priority area for the government. Ongoing focus on electric mobility is bearing fruits and many Indian promoters and international groups are willing to invest in the electric vehicle (EV) segment. Industry expects announcement of some more measures for the EV segment, which will boost faster EV adoption in the country.
Reconsideration and upward revision in RoDTEP rates	The industry is seeking an early implementation of the RoDTEP scheme, under which the central, state and local duties and taxes will be refunded and credited in an exporter's ledger accounts with customs. This can be used to pay the basic customs duty on imported goods. The RoDTEP scheme will replace the popular Merchandise Exports from India scheme (MEIS), wherein the suggested remission rates are likely to be higher than 2/3/5% payable as a % of realised free-on-board value as incentives under MEIS.

Budget FY23 - Preview

Budget expectations by Sector

Sector: Banks/NBFC's	Key Stocks: Axis/Kotak/SBI/ICICI/HDFC Bank/ Cholamandalam/Bajaj FinServ
Industry Expectations	Details
Privatization/ Divestments	We would see privatization of the public sector banks and divestment of IDBI Bank in this upcoming fiscal year that was announced in last year's Budget.
Revival of economy remains the key	The banking sector's outlook will be determined by the economy's resuscitation through increased consumption and budgetary measures implemented by the Government.
Focus on digital initiatives	The government is likely to prioritize initiatives that would improve the banking industry's digital journey. To strengthen the overall financial system, the government would consider spending on PSU bank digital infrastructure.
Setting- up of refinance window for NBFCs	The introduction of a refinancing window for NBFCs may be included in the Union Budget, lowering their reliance on bank borrowings.
Innovative schemes to boost cashless payments	We expect the implementation of new schemes in the semi-rural and rural sectors to boost digital transactions.

Sector: Pharmaceuticals	Key Stocks: DRL/Sun/Lupin/Cadila/Aurobindo/Glenmark/Alembic
Industry Expectations	Details
Set up research and innovation hubs and enhance research grant by 3-4x under National Research Foundation (NRF)	NRF was set up in Budget 2021 with a corpus of INR 500 Bn to be spent over 5 years period to support research at academic institutions and also support any multi-institution and multi-nation projects in collaboration with the government. In 2019, nearly USD 2.3 Tn was spent by organisations on R&D (2% of GDP, half from industry and rest from academic institutes) across the world, while India's spend on R&D is around ~ 0.7% of GDP.
Budget allocation against Counterfeit drug issues	Build a policy framework to ensure implementation of active-counterfeiting mechanisms and ensure appropriate budget allocation towards it.
Reinstatement of weighted tax deduction at 200% of inhouse R&D spending under the IT Act	To boost indigenous R&D spend for production of generic and innovative drugs. The Finance Act, 2016 had amended Section 35(2AB) of the Income Tax (IT) Act where it reduced the weighted deduction under Section 35(2AB) from 200% to 150% effective from April 1, 2017, till March 31, 2020. Thereafter, it was reduced to 100% only.
Additional tax incentives	Extension of lower 15% tax rate (under 115BAB) for expansion by existing companies, exemption of capital gains on start-up investments and allowing depreciation on goodwill after acquisition. Also, grant of interest subsidies and lowering GST on clinical trials and research activities.
Aatmanirbhar Bharat initiative	Using PLI scheme to boost production capacity of sensitive APIs, complex excipients, drug intermediates, biopharmaceuticals, and medical devices.

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Budget FY23 - Preview

Budget expectations by Sector

Sector: Consumers	Key Stocks: HUL/ITC/Godrej Consumers/Nestle/Britannia/Emami
Industry Expectations	Details
Expect a surprise reduction in taxes on cigarettes	PHD Chamber of Commerce and Industry (PHDCCI) has urged government to consider reducing taxes on cigarettes to help organized sector recover volumes and discourage illicit trade in illicit cigarettes. The trade body has also requested centre to abolish levy of National Calamity and Contingent Duty (NCCD) on tobacco products.
Implementation of National Retail Policy	Ahead of the Union Budget, the Retail Association of India (RAI) has urged the Centre for formulation and implementation of the national retail policy and let the retailers register under the MSMEs to get several benefits including an insurance scheme for traders. The expectations are on two major points i.e. 'ease of doing business' and 'access to funds' necessary for growth.
Expect elevated farm credit target	Any major boost for agriculture sector will accelerate revival of the rural economy, In a bid to revive the rural economy the centre is expected to increase farm credit target to INR 18-18.5 trillion in the current budget as compared to last year's target of INR 16.5 trillion.
GST/Import duty relief to curb record high inflation	Top FMCG companies are witnessing slowdown in consumption patterns mainly due to record high inflation levels, weaker sentiments and a strong base. This has resulted in muted volumes and dilution in margins, A GST/Import duty relief on essential and non-essential products may provide immediate boost to consumer sentiments.
To set-up favourable manufacturing and digital eco-system	Another critical area for the economy is the domestic manufacturing space as incentives will be needed from the government with more emphasis on self-reliance and job creation. For this the government also needs to set up favorable manufacturing and digital ecosystem. This will encourage domestic businesses to operate, spur private spending and also attract foreign companies to set up base in India.

Sector: Insurance	Key Stocks: HDFC Life/SBI Life/ICICI PruLife/Max Financial Services
Industry Expectations	Details
Increase in deduction limit under 80C & 80D	We expect an increase in the tax deduction limit under Section 80C & 80D which will improve the uptake of health insurance products.
GST rate reduction	As health remains the most important factor in the pandemic phase, health insurance is becoming a crucial part in every individual's life. We expect a reduction in the GST rate for health insurance from 18% to 5%, which will boost the accessibility to health insurance products.
Removal of double taxation on reinsurance brokerage	We could expect that reinsurance brokerages will no longer be subject to double taxation.
GST exemption for small ticket products	The exemption of GST on small-ticket insurance products will give such products a push and make them more accessible to those looking for affordable insurance products.

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Budget FY23 - Preview

Budget expectations by Sector

Sector: IT/Technology	Key Stocks: IT Firms/ Infibeam / IndiaMart/ Just Dial/ InfoEdge
Industry Expectations	Details
Exclusion of export oriented units (EOUs) and SEZ units to sell goods in the domestic tariff area (DTA) on a duty foregone basis (on raw material) rather than the current arrangement of full customs duties.	View: Positive; Budget expectation: Allow producers in SEZs to sell their output to the domestic market without treating them as imports. Impact on companies: An advantage for producers to expand production with world-class infrastructure in SEZs. Further, this will help IT vendors to utilize idle capacities.
Majority of the employees, including contractual employees, are working from home (WFH) /remote locations, away from SEZs.	View: Positive; Budget Expectation: Clarify that work-from-home by SEZ employees would not affect eligibility of tax holiday Impact on companies: As many companies are exploring hybrid models, there is a need to explicitly recognize this model for SEZ units without any impact on indirect tax benefits claimed by companies.
A buyback tax was introduced to curb tax avoidance by companies that were resorting to buyback of shares	View: Positive; Budget Expectation: Abolition of the buyback tax. Impact on companies: Introducing of taxing capital gains in the hands of shareholders would help foreign investors to be eligible for credit of tax in their home countries and improve their return on investment.

Sector: Agriculture & Chemicals	Key Stocks: Navin Flourine / Rossari Biotech / UPL / Supreme Petrochemicals
Industry Expectations	Details
Levy of Import duty/ Additional dumping duty	Increase in import duties or additional dumping duties of certain technicals, intermediates, formulations to boost domestic production and curb imports.
Introduction of PLI scheme	Expect government to include chemicals under the PLI scheme to protect and support domestic industry.
Announcement of certain incentives	Government should provide additional incentives for development of infrastructure through PCPIR (Petroleum, Chemicals and Petrochemicals Investment Region) and SEZs
Subsidy allocation	Increase in subsidy allocation and prioritizing Minimum support price for agricultural products will support agrochemical industry.
Extension of duties & taxes	Government must adopt various measures to push export sales of chemicals like extending export incentives under RoDTEP scheme (Remission of Duties and Taxes on Export Products).

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Budget FY23 - Preview

Budget expectations by Sector

Sector: Infrastructure/ Power/ Capital Goods/ Cement	Key Stocks: ABB India/ Ultratech Cement/ Ramco Cements
Industry Expectations	Details
Boost to Housing sector	It is expected that government will take initiative in order to revive the struggling housing sector. Initiative like increasing the tax rebate on housing loan interest and incentive for private sector investment in affordable housing are key industry asks. Government allocation towards PM Awaas Yojana (PMAY) is expected to increase.
Increased Fund allocation under Pradhan Mantri Gram Sadak Yojana (PMGSY)	Aims to develop rural road infrastructure
Increased allocation for capital expenditure for infrastructure to boost cement consumption	Capital expenditure for FY21 was INR 4.39 trillion and government increased the outlay by 26% in last years' budget. For FY23 budget we expect another 25% increase in capital expenditure, which will help boost cement consumption
Reduction in the customs duty (Cement)	Rationalization of duties in Pet Coke, Coking Coal and packaging of cement bags
Indian Railways	Indian Railways require as estimated INR 50 trillion between 2018-2030 to strengthen its infrastructure, electrification and signaling process. We expect capital expenditure allocation for railways to be increased substantially.
Boost Infrastructure financing avenue	In order to complete National Infrastructure Pipeline on time by 2025, government is expected to announce steps to boost infrastructure financing avenue.
Availability of Bank guarantee limits	Without adequate BGs, neither can bids for new projects be made, nor can the contracts be efficiently executed. The Central government had recently taken measures to reduce the BG requirement, however, this has been done for a limited period and more policy initiatives are needed. We expect with view to boost the infrastructure government would take initiative to resolve this problem faced by contractor.

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Budget FY23 - Preview

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