

UNION BUDGET

2020-21

Update & Analysis



CONTENTS

Union Budget 2020-21:	
Preface	3
Budget Highlights	4-5
Budget at a Glance.....	6
Economic review.....	7-9
Tax proposals	10-11
Sectoral Impact & Analysis	12-15
Budget Top Picks	16-19
Disclosure & Disclaimer	20-23

PREFACE

Union Budget 2020-21 lacked the much needed steroid to boost the slumping economic growth immediately, however, several measures were announced in bits and parts that may fire power the economy in the long run and broaden the economic growth.

From the stock market point of view, the Union Budget 2020-21 makes it even more prudent to follow a bottoms up approach to investing as the opportunity lies in certain pockets and only efficient and compliant companies would benefit from the current policies, budgetary allocations, announcements.

Union Budget 2020-21: Lacks steroids - intents in place!

Union Budget 2020-21 lacked the much needed steroid to boost the slumping economic growth immediately, however, several measures were announced in bits and parts that may fire power the economy in the long run and broaden the economic growth. Fiscal deficit target for FY20 was raised to 3.80% against 3.3% pegged earlier and for FY21 it was raised at 3.5%. Although this was largely expected, it gives Global rating Agencies reason to be concerned. LTCG on Equities was left unchanged and this puts to rest expectation or proposals to tweak the same in future. Dividend Distribution Tax was removed from the company and now it will be taxable in the hands of the recipient. Listing of Life Insurance Corporation of India on the stock exchanges was on expected lines as the same was being recommended for long.

Measures have been taken to boost income and purchasing power of individuals through rationalizing the direct tax rates. However, the complex structure may take time to decipher the exact savings from an individual point of view. Though the measure will boost consumption, it may bring down savings to that extent and in India consumption and savings is equally important. Though budget speech highlights increase in insurance penetration, no such measure has been announced to increase the same.

Agriculture, Irrigation, Rural Development and Growth remains a priority of the Budget. This will keep consumption sectors in India strong and help broad base economic growth in the country.

Reiterating Infrastructure development thrust, National Logistics Policy to be launched and accelerated development of Highways and Railways along with 150 passenger trains through PPP mode and more Tejas type trains for tourist destinations will be undertaken. 100 more airports to be developed under UDAAN. Efforts to replace conventional energy meters by prepaid smart meters and expand National Gas Grid to 27,000 km has been announced. The government's plan to encourage the manufacture of mobile phones, electronic equipment, and semiconductor manufacturing and medical devices will boost domestic manufacturing.

From the stock market point of view, the Union Budget 2020-21 makes it even more prudent to follow a bottoms up approach to investing as the opportunity lies in certain pockets and only efficient and compliant companies would benefit from the current policies, budgetary allocations, announcements. **Details of Budget Table, Sectoral Impact and Top Picks follows in the ensuing pages.**

**Team
Stewart & Mackertich Research**

Budget Highlights

Tax

- 3 Budget themes: Aspirational India, Economic Development, Caring Society.
- FY21 fiscal deficit target at 3.5% of GDP.
- FY20 fiscal deficit revised to 3.8% from 3.3% of GDP.
- FY21 net government borrowing estimated at INR5.36 lakh crore.
- INR4.99 lakh crore government borrowing estimated in FY20.
- A good part of government borrowing will go into capex.
- Government to strive to ensure ease of living for every citizen.
- A new tax regime has been announced. Those who want to be in the old regime with exemptions, can continue to pay at the old rates.
- Around 70 exemptions removed under the new regime.
- Companies will no longer be required to pay Dividend Distribution Tax (DDT).
- Aadhaar-based verification for GST compliance to be introduced.
- Aadhar-based quick issuance of PAN announced.

Finance

- Bank deposit insurance cover had been increased from INR1 lakh to INR5 lakh per depositor.
- Government plans to amend the Companies Act to decriminalise civil offences.
- Government to sell part of its stake in LIC via public offering.

Agriculture

- Doubling farmers incomes by 2022.
- Agri-credit availability set at INR15 lakh crore for FY21.
- Comprehensive measures for 100 water stressed districts.
- Provide 20 lakh farmers to set up standalone solar pumps. Help another 15 lakh farmers to solarise their power grid.
- Village storage scheme proposed to be run by women SHGs.
- Indian Railways to have refrigerated coaches capability in 'kissan trains' to carry perishables and milk.
- Krishi UDAN on international and national routes.

Budget Highlights

Education

- INR99,300 crore for education sector in 2021 and about INR3,000 crore for skill development.
- Urban local bodies to provide internship to young engineers for a year.
- Degree-level full fledged online education programmes by institutions ranked in top 100 in NIRF rankings, especially to benefit underprivileged students.
- A national police university and a national forensic science university is proposed to be setup.
- IND SAT exam for students of Asia and Africa to promote “study in India” programme.

Infrastructure

- Budget proposes to provide INR1.7 lakh crore for transport infrastructure in 2021
- National Logistics Policy to be released soon.
- Chennai-Bengaluru Expressway to be started.
- Aim to achieve electrification of 27000 km of lines.
- Plan to have a large solar power capacity for Indian Railways.
- The government also proposes a Bengaluru suburban rail project at a cost of INR18,600 crore.
- Govt to monetise 12 lots of national highways by 2024.
- 100 more airports will be developed by 2024 to support UDAN.

Health and Sanitation

- An allocation of INR69,000 crore for the health sector.
- INR12,300 crore for Swachh Bharat this year.
- Proposal to set up hospitals in Tier-II and Tier-III cities with the private sector using PPP.
- Expand Jan Aushadhi scheme to provide for all hospitals under Ayushman Bharat by 2025.

Budget at a Glance

In INR Crores

Sl. No.	Particulars	FY2018-19	FY2019-20	FY2019-20	FY2020-21
		Actual	Budget Estimates	Revised Estimates	Budget Estimates
1.	Revenue Receipts	1552916	1962761	1850101	2020926
	2. Tax Revenue (Net to Centre)	1317211	1649582	1504587	1635909
	3. Non-Tax Revenue	235705	313179	345514	385017
4.	Capital Receipts	762197	823588	848451	1021304
	5. Recoveries of Loans	18052	14828	16605	14967
	6. Other Receipts	94727	105000	65000	210000
	7. Borrowing and Other Liabilities 1	649418	703760	766846	796337
8.	Total Receipts (1+4)	2315113	2786349	2698552	3042230
9.	Total Expenditure (10+13)	2315113	2786349	2698552	3042230
10.	On Revenue Account of which	2007399	2447780	2349645	2630145
	11. Interest Payment	582648	660471	625105	708203
	12. Grants in Aid for Creation of Capital Assets	191781	207333	191737	206500
	13. On Capital Account	307714	338569	348907	412085
14.	Revenue Deficit (10-1)	454483	485019	499544	609219
		(2.4)	(2.3)	(2.4)	(2.7)
15.	Effective Revenue Deficit (14-12)	262702	277686	307807	402719
		(1.4)	(1.3)	(1.5)	(1.8)
16.	Fiscal Deficit {9-(1+5+6)}	649418	703760	766846	796337
		(3.4)	(3.3)	(3.8)	(3.5)
17.	Primary Deficit (16-11)	66770	43289	141741	88134

1. Includes drawdown of Cash Balance

Notes:

(i) GDP for BE FY2020-21 has been projected at INR22489420 crore assuming 10% growth over the estimated GDP of INR20442233 crore for FY2019-20 (RE). (ii) Individual items in this document may not sum up to the totals due to rounding off (iii) Figures in parenthesis are as a percentage of GDP

Economic Review

Three prominent themes of this year's budget are Aspirational India, Caring Society, Economic Development.

Budget propose to expand PM Kusum Scheme, which helped remove farmers' dependence on kerosene.

Finance Minister Nirmala Sitharaman started her speech, saying the budget was aimed at boosting income and enhancing purchasing power. She said the budget aims to give aspiration and address the hopes of the citizens of the country. She mentioned GST has been the most historic move in the country. Sitharaman laid out three prominent themes of this year's budget: Aspirational India, Caring Society, Economic Development.

16 Action Points To Double Farmers' Income:

With an aim to doubling farmer income by 2022, the budget proposed a 16 action point plan to aid the farmers.

- ◆ Focus on cultivation of pulses has raised India's self-reliance.
- ◆ Prosperity to farmers can be ensured through competition.
- ◆ Distortion to farm, livestock markets need to be removed.
- ◆ Livestock, fishery industries need to be handheld.
- ◆ Farm markets need to be liberalized.
- ◆ Will encourage balanced use of all types of fertilizer.
- ◆ Farmers can convert barron land into solar farms.
- ◆ Help 15 lakh farmers to solarise grid-connected farm.
- ◆ To promote 20 Lakh farmers to set up solar-powered pumps.
- ◆ Necessary to reduce excessive use of chemical fertilizer.
- ◆ Propose to expand PM Kusum Scheme, which helped remove farmers' dependence on kerosene.
- ◆ 'Krishi Udan' will be launched for domestic and international routes.
- ◆ Will facilitate doubling of milk production capacity.
- ◆ MGNREGA to be dovetailed to create fodder farms.
- ◆ FY21 Agriculture credit target set at INR15 Lakh Crore.
- ◆ Aim to give high focus at district-level for horticulture produce.
- ◆ Horticulture sector with 311 million MT exceeds foodgrain production.
- ◆ 'Krishi Udan' will be launched for domestic and international routes.
- ◆ Indian rail to set up Kisan Rail to bolster cold supply chain.
- ◆ Village storage scheme to be run by self-help groups.
- ◆ To provide viability gap funding for warehousing.
- ◆ NABARD to map and geotag land available for Agri Warehousing.
- ◆ India has estimated capacity 152 million MT of Agri Warehousing.
- ◆ Aim to raise fish production to 200 lakh tones.

Health Sector To Get INR69,000 Crore:

Budget proposed PPP mode hospitals set up under viability gap funding to look at areas where there are no hospitals.

Key announcement for the sector:

- ◆ Mission Indradhanush has been extended to cover new diseases and new vaccines.
- ◆ Provide INR69,000 crore to health sector in FY21.
- ◆ Swachh Bharat Mission allocation INR12,300 crore in FY21
- ◆ INR3.6 lakh crore approved for Jal Jeevan Scheme.
- ◆ To expand Jan Aushadi Kendra Scheme.
- ◆ Proceeds from taxes on medical devices to support health infra.

Economic Review

Budget aim to attach medical college to district hospital in PPP mode.

Budget to provide INR22,000 crore for power, renewable energy in FY21.

Budget To Provide INR99,300 Crore For Education Sector:

Key announcement for the sector:

- ◆ Aim to attach medical college to district hospital in PPP mode.
- ◆ National police & forensic science universities being proposed.
- ◆ To start online education programme for deprived section.
- ◆ Urban local bodies to provide internship to engineers for 1 year.
- ◆ Aim to attach medical college to district hospital in PPP mode.
- ◆ INR3,000 crore allocated for skill development in FY21.

NIRVIK Scheme For Exporters:

To achieve higher export credit disbursement, a new scheme NIRVIK is being launched which provides for higher insurance cover, reduction in premium for small exports and simplified procedure for claim settlement. Refund to exporters the duties levied including electricity and VAT which have been not refunded. This will be launched this year. Investment clearance cell to provided end to end facilitation and support including pre-investment advisory, information related to land bank and facilitate clearances at the central and state level. It will work through a portal. A total allocation of INR27,300 crore for development of industry and commerce in FY21 has been announced.

Budget announces INR1.7-Lakh-Crore Allocation For Transport Infra In FY21:

Key announcement for the sector:

- ◆ National infra pipeline of INR106 lakh crore addresses country's infra needs.
- ◆ To set up project preparation facility for infrastructure projects.
- ◆ National logistics policy to soon be released.
- ◆ Logistics policy to create single-window E-Logistics market.
- ◆ Delhi-Mumbai express way to be completed by 2023.
- ◆ To monetise 12 lots of highway bundles by 2024.
- ◆ Indian railways commissioned 550 Wi-Fi facilities.
- ◆ Solar power capacity to be set-up alongside rail tracks.
- ◆ Four station redevelopment projects to be done through PPP mode.
- ◆ More Tejas-type trains to connect iconic tourist destinations.
- ◆ 100 more airports to be developed by 2024.
- ◆ To provide 20% equity, external assistance for metro projects.
- ◆ To provide INR22,000 crore for power, renewable energy in FY21.
- ◆ To expand national gas grid to 27,000 Km From 16,200 Km.
- ◆ Propose to provide INR6,000 crore to Bharat Net.

Wealth Creators Will Be Respected In India:

Budget proposed reforms and amendments to improve confidence of entrepreneurs, in an effort to increase ease of doing business and to show the government's faith in them.

Economic Review

Key announcement :

- ◆ To enshrine a taxpayer charter in the statutes.
- ◆ Tax harassment will not be tolerated.
- ◆ National security is the top priority of this Government.
- ◆ Amendments in companies act to correct criminal action on civil offences.
- ◆ Propose to amend rules for hiring in non-gazetted posts.
- ◆ Propose to set up Independent National Recruitment Agency.

Government Pegs FY20 Fiscal Deficit at 3.8%:

India's central government fiscal deficit settled at 3.8% of GDP in FY20 and will be targeted at 3.5% of GDP in FY21. For FY20, the fiscal deficit was estimated at 3.3% of GDP at the time of the budget presentation in July.

Key Budget Numbers:

- ◆ FY20 revised estimate of Expenses at INR26.99 lakh crore.
- ◆ FY20 revised estimate of Receipts at INR19.3 lakh crore.
- ◆ FY21 Nominal Growth estimated at 10%.
- ◆ FY21 Receipts estimated at INR22.46 lakh crore.
- ◆ FY21 Expenditure seen at INR30.42 lakh crore.
- ◆ Estimate Fiscal Deficit of 3.8% in FY20, 3.5% in FY21.
- ◆ FY20 Net Market Borrowing seen at INR4.99 lakh crore and FY21 Net Market Borrowing seen at INR5.36 lakh crore.
- ◆ Budget said to peg asset sale target at INR2.1 lakh crore In FY21.
- ◆ INR89,600 crore dividend seen from RBI, PSU banks in FY21.
- ◆ FY21 Divestment target set at INR2.1 lakh crore.

Budget Proposes To List LIC:

The finance minister said the government is planning to sell part of its holding in public sector behemoth Life Insurance Corporation of India.

Tax proposals

In the new tax regime, the benefits will be accrued depending upon the exemptions a person avails as switching to the new regime is optional for taxpayers.

Cut In Personal Tax Rate:

Budget proposed to lower personal direct tax.

New Personal Income Tax Regime

10% : INR5 – 7.5 lakh (Versus earlier 20%)

15%: INR7.5 – 10 lakh (Versus earlier 20%)

20%: INR10 – 12.5 lakh (Versus earlier 30%)

25%: INR12.5 – 15 lakh (Versus earlier 30%)

30%: Above INR15 lakh (Continued at 30%, No Exemptions)

In the new tax regime, the benefits will be accrued depending upon the exemptions a person avails as switching to the new regime is optional for taxpayers. The government has estimated INR40,000 crore in forgone revenue under the new tax revenue, according to budget estimates. In the old structure, more than 100 exemptions of different nature are provided in the Income Tax Act. Now the budget has removed 70 of those codes while the remaining will be examined in the coming year to further simplify the personal tax system.

Government To Abolish Dividend Distribution Tax:

The Dividend Distribution Tax will be done away with. The dividend from investment in a company will now be taxed in the hands of the recipient, at whichever tax bracket the person falls under. The deduction allowed for dividends received by holding company from a subsidiary. So far, companies were required to pay DDT at 15 percent, though including surcharge and cess put the effective rate at 20.56 percent. DDT was introduced in 1997 at a 7.5% flat rate in an effort towards efficient tax collection.

Government Defers ESOP Tax In Boost To Startups:

The government proposed to defer tax on Employee Stock Option Plan to a period of 5 years/leave the company/sell their shares (whichever is earlier), to help startups retain talented employees and boost the startup ecosystem.

Plan To Hike FPI Limit In Corporate Bonds:

The government plans to increase the investment limit of foreign portfolio investors in corporate bonds from 9% to 15%. The finance minister said certain government securities will be open for foreign investors. She also proposed debt-exchange traded funds comprising mainly government securities, while stating that INR22,000 crore has already provided as support to infrastructure project pipeline. To address liquidity constraints of NBFCs and housing finance corporations, a partial credit guarantee scheme will be launched by the government.

Tax proposals

Budget Announces The 'Vivad Se Vishwas' Scheme:

The Finance Ministry announced the 'Vivad Se Vishwas' scheme for tax litigations under which, only the disputed tax amount will have to be paid on or before March 31, 2020. No interest or penalty will be charged. People who pay after this deadline, but before June 30 will have to pay some charge.

Key announcement :

- ◆ 'Vivad Se Vishwas' Scheme to reduce Direct Tax litigation.
- ◆ To amend the Income Tax Act to enable faceless appeal.
- ◆ Under Scheme, assesses to pay only tax amount, not interest, penalty.
- ◆ March 31 deadline for paying tax claim, avoid interest, penalty.
- ◆ Those who avail after March 31 but before June 30 will have to pay some extra amount.

Sectoral Impact & Analysis

Sectoral Impact Analysis

Consumer Durables

Proposals	Impact
The Government plans to encourage the manufacture of mobile phones, electronic equipment and semiconductor manufacturing as well as medical devices .	Positive for Dixon Technologies, Amber Enterprises, Subros .

Water

Proposals	Impact
Under the ' Jal Jeevan Mission ' Scheme, the Government has allotted INR11500 crore to promote water harvesting and de-salination. Cities with over 1 million population will be encouraged to meet this during the current year itself.	Positive for pipe makers Supreme Industries, Jindal Saw Limited, Astral Poly Technik Limited, Tata Metaliks Limited
Proposal for undertaking of comprehensive measures to help farm sector growth in hundred water stressed districts .	Positive for VA Tech Wabagh Limited , which designs and builds water & sewage treatment plants.

Infrastructure

Proposals	Impact
Rail service will be equipped with air conditioned freight cars and the Government will provide viability gap funding for warehousing .	Positive for Container Corporation of India
Proposed allocation of INR1.7 trillion for transport infrastructure that includes the accelerated development of highways and plans to monetize 12 lots of highways bundles .	Positive for L&T, KNR Constructions, IRB Infra

Sectoral Impact Analysis

Agriculture and Agrochemicals

Proposals	Impact
Government has encouraged balanced use of all kinds of fertilizers including the traditional organic and other innovative fertilizers traditional Organic fertilizer.	Positive for Bio-fertilizer manufacturers: Sharda Crop Chem
Govt. has proposed necessary step to change the prevailing incentive regime, which encourages excessive use of chemical fertilizers.	Negative for Chemical Fertilizer Manufacturers: Rashtriya Chemical, Chambal Fertilizer, Deepak fertilizer.
Government proposes to set up a framework for management and conservation of marine fishery resources. Government targets to raise fishery exports to INR1 lakh crore by 2024-25.	Positive for fish feed & fish meal producers: Avanti feed, Apex frozen food.

Education

Proposals	Impact
Govt. has proposed to start degree level full-fledged online education program to provide quality education.	Positive for online technology education provider: NIIT Tech

Construction, Real Estate & Cement

Proposals	Impact
Currently, while taxing income from capital gains, business profits and other sources in respect of transactions in real estate, if the consideration value is less than circle rate by more than 5 %, the difference is counted as income both in the hands of the purchaser and seller. Hon'ble finance minister has proposed to increase the limit by 5% to 10% to give relief to the purchaser & the developer.	Positive for Real Estate developers: DLF, Sobha, Prestige estate, Godrej Property

Telecom

Proposal	Impact
Govt. has reiterated Fibre to the Home (FTTH) connections through Bharatnet to link 100000 gram panchayats this year. Govt. has proposed to allocate INR6000 cr for Bharat Net project.	Positive for Fibre optic manufacturers: Sterlite Technology, HFCL

Sectoral Impact Analysis

Oil & Gas

Proposals	Impact
Govt. has proposed to expand National Gas grid from the present 16200 km to 27000 km.	Positive for Mahanagar Gas Ltd, Gujarat Gas, Indraprastha Gas, Gail, Petronet LNG.

Information Technology

Proposal	Impact
Govt. is likely to bring out soon a policy to enable private sector to build Data Centre parks throughout the country for skillful incorporation of data in every step of the value chain for the firms.	Positive IT companies: TCS, Wipro, HCL Tech

Capital Goods

Proposal	Impact
The PM-KUSUM scheme already removed farmers' dependence on diesel and kerosene and linked pump sets to solar energy. In this budget, Govt. propose to expand the scheme to provide 20 lakh farmers for setting up stand-alone solar pumps and to help another 15 lakh farmers to solarize their grid-connected pump sets.	Positive for Solar Pump manufacturers: Shakti Pump, KSB, Crompton

Budget Top Picks

- **ABB Limited**
- **Dixon Technologies Ltd.**
- **Finolex Industries Ltd.**
- **Hindustan Unilever Limited**
- **Larsen & Toubro Ltd.**

ABB Limited
CMP: INR1270.0
Target Price: INR1872.0
**Market Cap (INR Cr.):
INR26911.3**
Face Value (INR) : INR2.0
TTM P/E (x): 75.71
Investment Rationale

Steady revenue growth with improved operating margin: Amidst macro concerns during Q3FY20, Co. reported 17% YoY to INR1745.6 crore owing to strong execution and diversification of the business. Barring Robotics & Discrete Automation (14% YoY de-growth) all other segments posted double digit YoY growth. Slowdown in auto space and muted demand in other manufacturing sector have dented the performance of the robotics & automation business. Despite the dearth of large orders Co. managed to expand its EBITDA margin by 270 bps YoY to 7.1% on the back of favourable product mix, improved value offering and higher capacity utilization. With continued investment in facility expansion, R&D, dedicated customer outreach program to increase penetration in tier-II & tier-III cities and strategic decision to offer safe & energy efficient solutions are likely to keep the Co. on the right growth trajectory.

Robust Orderbook: Total orders were at INR1606 crore, up 5% YoY during the quarter (Electrification had orders worth INR635 crore, Motion had INR603 crore, Robotics had INR47 crore and Industrial Automation had INR344 crore approximately) and YTD orders were at INR5374 crore. Service orders were up 16% YoY led by process improvement and production optimization initiatives when private capex continues to lag. Going forward the company plans to leverage its order backlog of INR4372 crore with proper execution. Lower visibility in the order book is attributable to short-cycle nature of business and dearth of traditional large orders.

In the budget Government aims to achieve electrification of 27000 kms of tracks . Being one of the prominent player in that space a major chunk of that amount which is expected to improve its topline and profitability.

Dixon Technologies Ltd.
CMP: INR4400.0
Target Price: INR5500.0
**Market Cap (INR Cr.):
INR5104.0**
Face Value (INR) : INR10.0
TTM P/E (x): 49.16
Investment Rationale

Strong presence in the growing Indian LED TV market: Addition of Xiaomi (~35% market share in the Indian Smart TV space) as a client has been a game changer for Dixon Technologies (DT) as Xiaomi accounts for ~65% of the Co.'s TV sales by value and as a result Co.'s sales jumped 129% to INR510 crore in the last quarter. Currently Dixon supplies 1.5-1.6 lakh TV sets per month to Xiaomi while meeting 75% of its requirement. During the ongoing festive season Xiaomi has already sold more than 2.5 lakh LED TVs and being the largest supplier to Xiaomi, Co. with 36 lakh per annum capacity, is likely to experience a strong growth in the topline and with backward integration of LCM (Liquid Crystal Monitor) and SMT (Surface Mount Technology) and higher volume operating margin is likely to improve going forward.

Undisputed leadership in the rising Indian Lighting market: With the annual capacity of 240 million LED bulbs Dixon Technologies is the world's fifth largest LED bulb manufacturer. Due to addition of many new clients DT has become the preferred supplier for most of the Tier 1 and Tier 2 brands operating out of India and as a result Co. managed to post a robust growth of 71% YoY to INR320 crore and its dependence on Philips has reduced to 47% from earlier 76%. Considering increasing demand for LED lights, Co.'s decision to increase its batten and downlighter capacity in two phases to 1.5 million per month and 1 million per month respectively is likely to help the Co. to increase its market share in the industry which generates a demand of 4-5 million units per annum.

The Government's plan to encourage the manufacture of mobile phones, electronic equipment, and semiconductor manufacturing as well as medical devices is likely to augur well for the company going forward.

Finolex Industries Ltd
CMP: INR557.2
Target Price: INR829
**Market Cap (INR Cr.):
INR6915**
Face Value (INR) : INR10.00
TTM P/E (x): 18.83
Investment Rationale
Capacity expansion to boost growth

The company is expanding its Pipes & Fittings business by 30,000-40,000MT each year for the next 3 years with an estimated Capex of INR100-120 cr every year. Given a strong brand recognition, increasing dealer counts the company is likely to cater the increasing demand of the irrigation sector as well as the housing pipe sector.

Entry into CPVC segment is likely to help margin expansion

Finolex tied up with Lubrizol in 2017 to manufacture and sell CPVC pipes and fittings in India under the brand "Flowguard". CPVC pipes & fittings commands a higher margin than PVC pipes & fittings. Fast ramping up volume sold would give further impetus to the margin going forward

Backward Integrated PVC manufacturing capacity helps better control of margin

FIL is the only PVC pipe player in India which is backward integrated for making PVC resin. The company is the second largest PVC resin manufacturer in the country with a capacity of 272,000MT at Ratnagiri.

In the budget Government has announced an allocation of INR2.83 lakh crore towards irrigation and rural development . 70% of piping revenue of the company is contributed by the Agri-pipe segment . Being one of the key irrigation pipe manufacturer FIL is likely to become a beneficiary of the announcement.

Hindustan Unilever Limited
CMP: INR2074.0
Target Price: INR2489.0
**Market Cap (INR Cr.):
INR448979.5**
Face Value (INR) : INR1.0
TTM P/E (x): 65.98
Investment Rationale

Strong business model & deeply entrenched distribution network enables Hindustan Unilever Limited (HUL) to manage cyclical downturns better: Given the long standing history of HUL, strong product portfolio, best in class margins and reaching 8 million outlets (distribution network) allows HUL to manage downturns better than peers as has been observed in times of demonetization and GST. Although, it's parent Unilever Plc. has revised guidance downwards for CY19 and H1CY20, we believe in the Indian context HUVR is better placed to wade through cyclical downturns following it's robust processes and balanced strategy of tactically prioritizing between topline and bottom-line growth by offering most consumer value by keeping a check on costs.

GSK Consumer merger - hugely value-accretive: GSK Consumer's merger with HUL's would raise HUL's presence in foods (malted foods) category and could aid ~5-7% accretion to earnings upon successful integration of the merger. Besides, the management indicated that's EBITDA Margins are likely to add 100bps more to current ~25% margin profile. Health Foods, which is a INR7700 crore category in India has just 14% rural penetration, HUL with vast distribution reach (3x direct distribution reach over GSK Consumer) has huge growth potential in this category.

Allotment of INR12300 crore for 'Swachh Bharat Mission' for 2020-21 and reduction in Individual income tax rate (higher disposable income) is likely to be beneficial for the Co. going forward.

Larsen & Toubro

CMP: INR1286.6

Target Price: INR1544.0

**Market Cap (INR Cr.):
INR180600.04**

Face Value (INR) : INR2.0

TTM P/E (x): 18.49

Investment Rationale

Stellar performance continues on order inflow front: L&T registered strong order inflows worth INR41579 crore, up 2% YoY at the group level, predominantly led by international orders (worth INR17901 crore) while cumulative order inflows for 9MFY20 were at INR128600 crore, up 11% YoY. While domestic orders declined 20% YoY to INR23700 crore. Key drivers for order inflows were infrastructure (INR28115 crore). L&T's order backlog was at INR306300 crore, up 9% YoY with international orders constituting 24% (consisting of 11% from non-Middle East countries). The expected strong bid pipeline of INR3.0 lakh crore is expected to ensure 10-12% order inflow growth in FY20E.

Working capital, cash flows to support operational performance: L&T maintained its revenue guidance of 12-15% for FY20E despite a challenging environment. During the quarter, net working capital remained largely stable at 23.5% owing to L&T's strategy to preserve working capital at current levels. Borrowings (ex-services) were at INR44200 crore (against INR43900 crore in Q2FY20). L&T generated net cash flow from operations (CFO) of INR2490 crore suggesting sufficient levels of cash on balance sheet to pickup execution in Q4FY20.

In the budget Government has announced an allocation of INR1.7 trillion to provide boost to the infrastructure development . Being the largest player in that space a major chunk of that amount which is expected to improve its topline and profitability.

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