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The Union Budget 2022 – unremarkable, but not unimportant

Dear Investor,

Today (1st February 2022) saw the Finance Minister present the annual Union Budget. Gone are the days when the Budget used to be **the** most important economic event of the year, and when minute details of taxes on different items used to be analysed for days on end.

This budget of today did no big bang announcements. But it is important that the broad roadmap announced in previous policy measures over the last two years have been continued.

- Continued emphasis on infrastructure development. Big allocation increases have been made to development of physical infrastructure in the Road, Railway, and urban infrastructure sectors, with a 35% jump in allocation to such sectors in the next fiscal year.
- Focus on infrastructure development and job creation as the means to reducing poverty, rather than giving subsidies and direct transfers in a bid to raise consumption.

These are the other highlights that we found important:

- We are gratified to see Revenue receipts rise by 27% (2021-22 compared to 2020-21), but revenue expenditure rise only by 3% during the same period.
- Gross tax receipts have risen by 24% during the year, including direct tax collections showing a rise of 32% and Indirect tax collections rise by 17%.
- Subsidies have fallen by 39% during the period and pay and allowances rose by 6%.
- Capital expenditure grew by 41% during FY 2021-22, including investments in Road sector by 36% and Housing and Urban infrastructure by a whopping 152%.
- The Finance Minister also announced (not as a part of the formal Budget speech) that the collections under the Goods and Services Tax (GST) for the month of January 2022 was Rs.141000 crores, the highest ever.

We find these points to be important indicators. The government has chosen to tread the path of creating jobs through infrastructure projects, rather than giving fiscal sops to the needy. Fiscal sops were given during the pandemic period, but it is encouraging to see the government push for capital formation projects.

India announced the launch of its own digital currency, which is amongst the first in the world by a government.

We are happy with the announcement of modernization of technology in post offices through implementation of core banking software that links the post offices to the banking system seamlessly. This would bring lakhs of small savers who use post offices for their savings into the fold of further financial inclusion.

Another remarkable feature (which sadly did not get the publicity it deserved in the media) was the announcement of the establishment of Unique Identity Numbers for each land plot (like the Aadhaar for individuals). This would go a long way in bringing in transparency in land records, which have been notoriously non-transparent for too long.

The extension of the Emergency Credit Line Guarantee Scheme by another year would be beneficial to the Micro, Small and Medium Enterprises (MSMEs) that were among the worst-affected sectors during the pandemic.

Rs.525000 crores is the allocation to the Defence ministry in the next fiscal, and it has been announced that 68% of the capital expenditure by the Defence ministry would be towards indigenous procurement. This is a crucial step forward in helping the domestic defence manufacturers.

There is continued focus on the North-eastern part of the country. This, coupled with the increased focus on oilseed production, and production of traditional foods such as millets, would hopefully bring greater economic prosperity to the region.

Rs.2.37 lakh crores have been earmarked for Minimum Support Price (MSP) for wheat and paddy farmers, an obvious palliative for the farming community that has been outraged lately over the proposed and now abandoned farm laws.

Other adjustments in taxes announced were the reduction of surcharge on Capital gains taxes, and the announcement of 30% tax on the profits on sale of digital assets.

Reductions in personal income tax rates did not come this year. It was too much to expect at a period when the country is just trying to get back to normalcy after a devastating pandemic. No increases in tax rates is good news, we guess.

Speaking about your portfolio, this Budget changes nothing about the way your portfolio is managed. We would continue to focus on strong businesses and buy them when they are not exorbitantly expensive. Some companies that would see the benefit from the effects of this budget are:

- Larsen & Toubro would be an obvious beneficiary of the massive push to infrastructure and urban development
- Companies such as Rites should benefit from increased capital expenditure on the Railways and railway modernization.
- Container Corporation would be an important player in the creation of multimodal logistics parks and farmer-specific logistics efforts announced in the budget’
- We expect a good increase in financial inclusion amongst segments of the population that are still outside the formal banking system. With Non-banking Finance Companies (NBFCs), Housing Finance Companies (HFCs) and post offices providing this service and the latter getting integrated with the banking system, the scope for core banking solutions, and therefore for companies like Oracle would be good.
- Indirectly, companies such as HDFC, HDFC Bank and SBI should benefit from the thrust on increased focus on housing, and on financial inclusion.
- The improvement of road infrastructure is good news for the two auto parts companies in the portfolio – Bosch and Wabco.
- We expect that the thrust on battery exchanges would eventually benefit companies such as Exide Industries.

Overall, we like the thrust and focus on job creation through capital investment projects, rather than focus on fiscal sops and freebies.

With Warm Regards,

Yours sincerely,

(E A Sundaram)
Chief Investment Officer and Portfolio Manager

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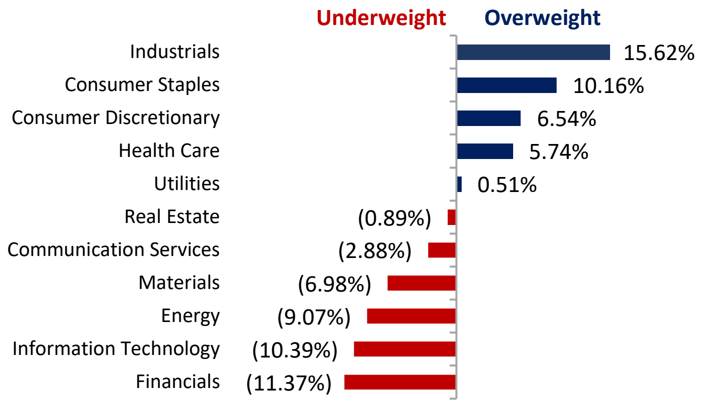
Top 10 Holding of o3 Core Value Investment Approach - Regular Option as on 31st January 2022		
Name	**GICS Sector**	**Weight**
ITC	Consumer Staples	6.81%
HDFC Ltd	Financials	4.73%
HDFC Bank	Financials	4.64%
Sanofi India	Health Care	4.62%
Asian Paints Ltd	Materials	4.44%
Bosch Ltd	Consumer Discretionary	4.43%
Blue Dart Express Ltd	Industrials	4.24%
Indraprastha Gas Ltd	Utilities	4.21%
Colgate-Palmolive (India)	Consumer Staples	4.18%
Larsen & Toubro Ltd	Industrials	4.12%
		46.42%

Overweight / Underweight of Regular Model Portfolio Compared to Nifty 500 as on 31st January 2022



Investment Objective: The investment objective is to achieves capital appreciation through investment in a diversified portfolio of strong businesses, purchased at reasonable valuation.

Regular Model Portfolio Details as on 31st January 2022	
Weighted Average ROCE	24.54%
Portfolio PE (1 year forward PE, Based on FY23)	25.98
Portfolio Dividend Yield	1.75%
Average Age of companies	62 Years

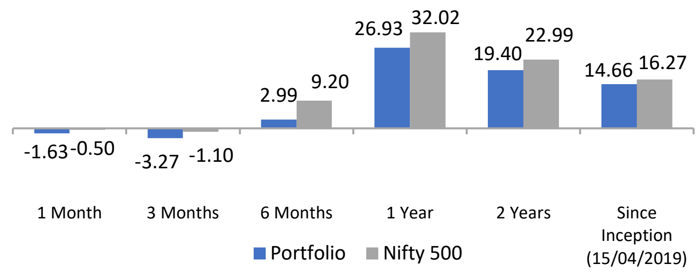
Regular Model Portfolio Composition as on 31st January 2022	
Large Cap	36.00%
Midcap	40.50%
Small Cap	20.50%
Cash	3.00%

- Large Cap: Market cap of the 100th company in the Nifty 500 (sorted by market cap in descending order)*
- Midcap: Market cap below 100th company to the market cap of the 250th company in the Nifty 500 (sorted by market cap in descending order)*
- Small Cap: Market cap lower than the 250th company in the Nifty 500 (sorted by market cap in descending order)*

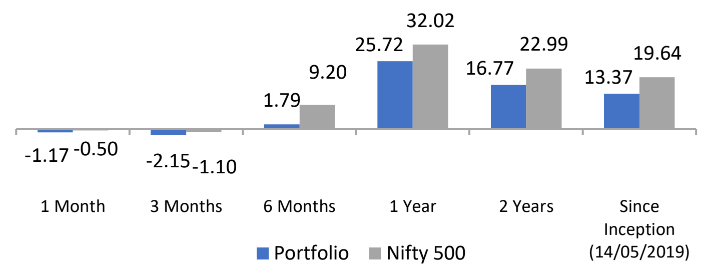
**As on last working day i.e. 31st January 2022*

Regular Model Portfolio Composition as on 31st January 2022			
Model Portfolio Overlap with Nifty 500	19.63%	Model Portfolio Overlap with Nifty 50	22.00%

Consolidated Portfolio Performance of o3 Core Value Investment Approach Concentrated Option 31st January 2022



Consolidated Portfolio Performance of o3 Core Value Investment Approach Regular Option 31st January 2022



- Benchmark is Nifty 500, the portfolio is spread across different market capitalization, hence Nifty 500 is chosen as benchmark
- Since inception date stated is considered to be the date on which the first client investment was made under the investment approach

Disclaimer: Performance depicted is based on all the client portfolios existing as on such date, using Time Weighted Rate of Return (TWRR) of each client and then computing *arithmetic* average for the overall strategy. Past performance is no guarantee of future returns. The above portfolio performance is after charging of expenses. *The performance related information provided here is not verified by SEBI nor has SEBI certified the accuracy or adequacy of the contents of this Document.*