

# Pakistan Research

Annual  
Budget  
FY22

Best budget  
in history

June 11,  
2021

2021 2022





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## “Budget Size”

FY22 Budget size to be  
Pkr8.48trillion

# Budget Positive for Capital Market & Industry

▲ Growth oriented  
budget – GDP target  
4.8%

– company valuations to be upgraded

▲ Capital gains tax (CGT)  
reduced to 12.5% from  
15% for investors at  
*Active Tax List*

▲ Exemption on BMR  
projects of existing  
refineries for 10yrs

– Positive for PRL BYCO

▲ Turnover tax reduced  
to 1.25% from 1.5%

– Positive for PSX and market



# Key Highlights

## BUDGET ALERT

- ▲ 4.8% GDP growth target set by government for FY22
- ▲ Rs20 Lac house loan provided by government to general public
- ▲ *Sehat card* & technical training provided by government
- ▲ Private power debt to be restructured
- ▲ Public Sector Development Program (PSDP) to be Rs900bn
- ▲ Government set Rs 260bn for *Ehsas Program*
- ▲ Natural Agriculture Program initiated for live Stocks
- ▲ Dams to be build for cure of water shortage
- ▲ Rs57bn allocated for Basha dam
- ▲ Rs14bn for Neelum Jehlum Hydro
- ▲ Rs118 bn for electricity distribution and transmission line – to end loadshedding

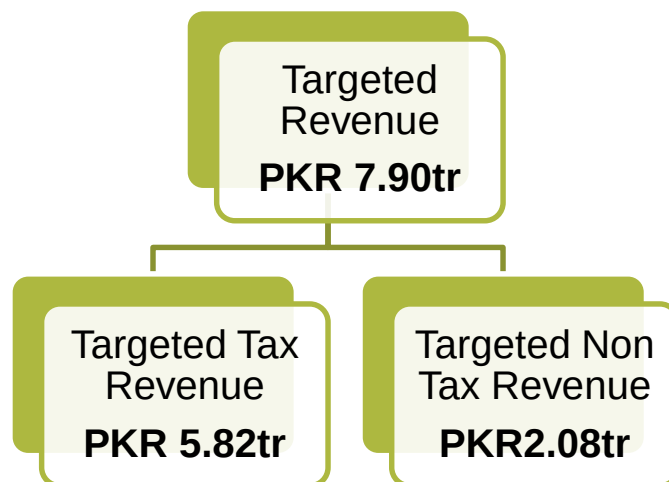


## Karachi in limelight

- ▲ Rs165bn for K1 & K2 project
- ▲ Karachi transmission to be Rs730bn



# Budget outlay Rs8.4tr



(Rs. in Billion)

| RESOURCES                                |              | EXPENDITURE                                |              |
|------------------------------------------|--------------|--------------------------------------------|--------------|
| Tax Revenue (FBR)                        | 5,829        | A. Current                                 | 7,523        |
| Non-Tax Revenue                          | 2,080        | Interest Payments                          | 3,060        |
| a) Gross Revenue Receipts                | 7,909        | Pension                                    | 480          |
| b) Less Provincial Share                 | 3,412        | Defence Services                           | 1,370        |
| I. Net Revenue Receipts (a-b)            | 4,497        | Grants and Transfers to Provinces & Others | 1,168        |
| II. Non Bank Borrowing (NSSs & Others)   | 1,241        | Subsidies                                  | 682          |
| III. Net External Receipts               | 1,246        | Running of Civil Govt.                     | 479          |
| IV. Estimated Provincial Surplus         | 570          | Provision for Contingencies & Fund         | 25           |
| V. Bank Borrowing (T-Bills, PIBs, Sukuk) | 681          | Provision for Disaster / Emergency/ Covid  | 100          |
| VI. Privatization Proceeds               | 252          | Provision for Pay & Pension                | 160          |
| <b>TOTAL RESOURCES (I to VI)</b>         | <b>8,487</b> | B. Development                             | 964          |
|                                          |              | Federal PSDP                               | 900          |
|                                          |              | Net Lending                                | 64           |
|                                          |              | <b>TOTAL EXPENDITURE(A+B)</b>              | <b>8,487</b> |

▲ FBR assured International Monetary Fund (IMF) of raising PKR 4.96tr as against PKR 3.99tr in FY20, projected increase of 24.4%



# Fiscal deficit Rs3.99tr

| Fiscal Deficit                        |        | Financing                          |       |
|---------------------------------------|--------|------------------------------------|-------|
|                                       |        | (Rs. in Billion)                   |       |
| A) Federal Revenue (Net)              | 4,497  | A) Net External Financing          | 1,246 |
| B) Total Federal Expenditure (i+ii)   | 8,487  | Multilateral & Bilateral Sources   | 369   |
| i) Current Expenditure                | 7,523  | Commercial Sources                 | 877   |
| ii) Development and Net Lending (a+b) | 964    | B) Net Domestic Financing          | 2,492 |
| a) Federal PSDP                       | 900    | National Saving Schemes and Others | 74    |
| b) Net Lending                        | 64     | Bank (Govt. Securities)            | 2,417 |
| C) Federal Deficit (A-B)              | -3,990 | C) Privatization Proceeds          | 252   |
|                                       |        | Total Financing (A+B+C)            | 3,990 |

▲ Fiscal deficit for FY22 will be around Rs 3.990tr. whereas the current expenditures are of 7tr.

▲ Government expects to set debt and interest payment target of Rs 3.06tr for FY22.



# Tax revenue Rs5.8tr

|                                       | (Rs. in Billion)  |                   |
|---------------------------------------|-------------------|-------------------|
|                                       | Budget<br>2020-21 | Budget<br>2021-22 |
| Revenue Receipt (FBR)                 | 4,963             | 5,829             |
| Non Tax Revenue                       | 1,610             | 2,080             |
| Gross Revenue (FBR+NTR)               | 6,573             | 7,909             |
| Less: Transfer to Provinces (-)       | -2,874            | -3,412            |
| Net Revenue for Federal<br>Government | 3,700             | 4,497             |
| Expenditure                           | 7,137             | 8,487             |
| Federal Budget Deficit                | -3,437            | -3,990            |
| Provincial Surplus                    | 242               | 570               |
| Overall Budget Deficit                | -3,195            | -3,420            |
| Overall Fiscal Deficit as %GDP        | -7.0%             | -6.3%             |
| Primary Deficit                       | -249              | -360              |
| Primary Deficit as %GDP               | -0.5%             | -0.7%             |
| Nominal GDP                           | 45,567            | 53,867            |

▲ FBR has to increase its revenue target by 24.4%

▲ Fiscal deficit as a % of GDP is estimated at 7%



# Tax break up Rs5.8tr

| (Rs in Million)                      |                   |                    |                   |
|--------------------------------------|-------------------|--------------------|-------------------|
| Classification                       | Budget<br>2020-21 | Revised<br>2020-21 | Budget<br>2021-22 |
| <b>FBR TAXES (I + II)</b>            | <b>4,963,000</b>  | <b>4,690,999</b>   | <b>5,829,000</b>  |
| <b>I. Direct Taxes</b>               | <b>2,043,000</b>  | <b>1,788,999</b>   | <b>2,182,000</b>  |
| - Income Tax                         | 2,032,557         | 1,779,924          | 2,171,839         |
| - Workers Welfare Fund               | 3,969             | 7,193              | 8,054             |
| - Workers' Profit Participation Fund | 3,750             | 1,380              | 1,545             |
| - Capital Value Tax                  | 2,724             | 502                | 562               |
| <b>II. Indirect Taxes</b>            | <b>2,920,000</b>  | <b>2,902,000</b>   | <b>3,647,000</b>  |
| - Customs Duties                     | 640,000           | 700,000            | 785,000           |
| - Sales Tax                          | 1,919,000         | 1,927,000          | 2,506,000         |
| - Federal Excise                     | 361,000           | 275,000            | 356,000           |

▲ FBR taxes estimated at Rs5.8tr

▲ Sales tax estimated at a very high – Rs 2.5tr

▲ Income tax estimation also increased to Rs2.18tr



# Payment to provinces Rs3.3tr

| Classification                                        | (Rs in Million)   |                   |
|-------------------------------------------------------|-------------------|-------------------|
|                                                       | Budget<br>2020-21 | Budget<br>2021-22 |
| <b>A. DIVISIBLE POOL TAXES</b>                        | <b>2,817,212</b>  | <b>3,310,489</b>  |
| - Income Tax                                          | 1,156,193         | 1,232,877         |
| - Capital Value Tax                                   | 1,744             | 322               |
| - Sales Tax (Excl. GST on Services)                   | 1,098,916         | 1,435,588         |
| - Federal Excise (excl. Excise Duty on Natural Gas)   | 198,403           | 197,285           |
| - Customs Duties (excl. Export Development Surcharge) | 361,957           | 444,416           |
| <b>B. STRAIGHT TRANSFERS</b>                          | <b>106,506</b>    | <b>101,370</b>    |
| - Gas Development Surcharge                           | 15,867            | 16,468            |
| - Royalty on Natural Gas                              | 52,736            | 51,564            |
| - Royalty on Crude Oil                                | 23,199            | 21,604            |
| - Excise Duty on Natural Gas                          | 14,705            | 11,733            |
| <b>TOTAL (A + B):</b>                                 | <b>2,923,719</b>  | <b>3,411,858</b>  |
| - Tax Refund                                          | 50,000            | -                 |
| <b>AFTER TAX REFUND</b>                               | <b>2,873,719</b>  | <b>3,411,858</b>  |
| <b>PROVINCE- WISE SHARE</b>                           |                   |                   |
| Punjab                                                | 1,439,116         | 1,691,098         |
| Sindh                                                 | 742,030           | 848,208           |
| Khyber Pakhtunkhwa                                    | 477,519           | 559,257           |
| Balochistan                                           | 265,054           | 313,296           |
| Tax Refund                                            | -50,000           | -                 |
| <b>TOTAL PROVINCIAL SHARE</b>                         | <b>2,873,719</b>  | <b>3,411,858</b>  |



# External Loans Rs2.69tr

| (Rs in Million)                                   |                   |                   |
|---------------------------------------------------|-------------------|-------------------|
| Classification                                    | Budget<br>2020-21 | Budget<br>2021-22 |
| <b>I. EXTERNAL LOANS (A to C)</b>                 | <b>2,157,500</b>  | <b>2,693,338</b>  |
| <b>A. Project Loans (i+ii)</b>                    | <b>218,153</b>    | <b>259,943</b>    |
| i Federal Government                              | 66,822            | 93,713            |
| ii Provinces                                      | 151,331           | 166,231           |
| <b>B. Programme Loans</b>                         | <b>503,567</b>    | <b>438,195</b>    |
| <b>C. Other Aid</b>                               | <b>1,435,781</b>  | <b>1,995,200</b>  |
| <b>II. EXTERNAL GRANTS</b>                        | <b>20,667</b>     | <b>31,636</b>     |
| <b>D. External Resources (I + II):</b>            | <b>2,178,167</b>  | <b>2,724,974</b>  |
| <b>E. Project Loans &amp; Grants Outside PSDP</b> | <b>44,751</b>     | <b>22,817</b>     |
| <b>GROSS EXTERNAL RESOURCES (D+E):</b>            | <b>2,222,918</b>  | <b>2,747,792</b>  |
| Foreign Loans and Repayment (-)                   | 1,228,880         | 1,427,592         |
| Repayment of Foreign Credits (-)                  | 183,691           | 74,405            |
| <b>NET EXTERNAL RESOURCES:</b>                    | <b>810,347</b>    | <b>1,245,795</b>  |



# FY22 Budget Targets

FY22

GDP Growth  
Target

4.8%

FY22

Agriculture  
Growth  
Target

3.5%

FY22

Industry  
growth  
target

6.5%

FY22

construction  
sector

8.3%

FY22

services

4.7%

FY22

livestock  
growth  
target

3.7%

FY22

cotton  
ginned target

10%

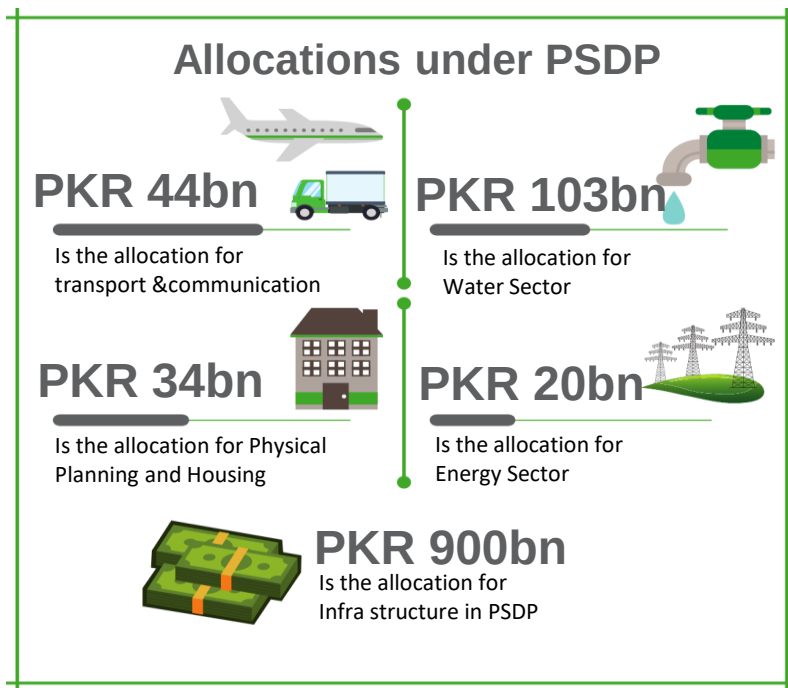
FY22

large scale  
manufacturing

6%



# PSDP allocation



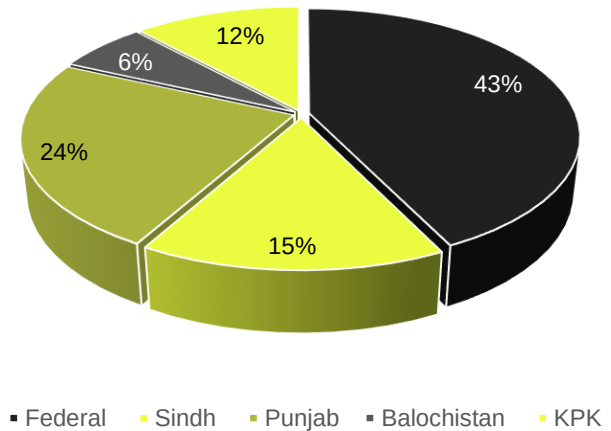
- ▲ The federal development budget will be Rs900 bn.
- ▲ Sukkur-Hyderabad Motorway project was worth Rs200bn and added that other projects, worth Rs530bn, would be approved by the public-private authority.
- ▲ Water projects in Sindh, Umar said that the new budget also had allocations for the K-IV and Nai Gaj Dam, adding that water projects worth Rs25bn already exists in Sindh.
- ▲ Rs100bn is being spent on the power transmission system, while funds are being set aside for the Tarbela expansion project.
- ▲ A sum of Rs44bn has been earmarked for the higher education sector.
- ▲ As for the social sector, 20% has been set aside instead of 11%.
- ▲ The government has set aside Rs14bn for the government's flagship Rs10bn Tree Tsunami initiative



# Fiscal Payments

- ▲ Outlay for public sector spending for FY22 will be PKR2.102tr.
- ▲ The outlay of spending will be higher by 36.4%, up from 1,527 bn of FY21
- ▲ Federal spending for public sector proposed to show a rise of 36% to Rs 900 bn.
- ▲ Punjab spending proposed to show a rise of 61% to Rs 500 bn
- ▲ Sindh spending proposed to show a rise of 65% to Rs 321 bn
- ▲ Baluchistan spending proposed to show a rise of 49% to Rs 133 bn
- ▲ KPK spending proposed to show a decline of 10% to Rs 248 bn.

**FY22 Public Sector spending**



- ▲ Distribution provinces to get Rs 3412 bn.
- ▲ Civil and military pension spending will be around Rs 480 bn.
- ▲ subsidies to different sectors would be Rs 682 bn
- ▲ To combat corona the budget set for FY22 bn is for Rs 100 bn.
- ▲ Salaries volume for FY22 would be around Rs 160 bn



# Auto Sector – Positive

FED abolished on 850CC car; whilst sales tax reduced from 17% to 12.5%

- Positive for PSMC

Locally EV cars – VAT & FED exempted  
Sales tax decreased to 1%

- Positive for INDU



# Food Sector - Positive

Reduction / exemption on inputs / raw materials of food processing industry

- Positive for NAFT FCEPL MFL FFL Unity TOMCL PREMA NESTLE etc

Incentivizing feed additives to the dairy sector

- Positive for PREMA FCEPL NESTLE FFL

FED on juices withdrawn

- Positive for NESTLE FCEPL FFL MUREB QUICE



# Construction - Positive

Allocation of Rs900bn PSDP

Allocation for dams for instance  
Rs57bn for Dasu Hydro, Rs23bn for DB  
dam, Rs6bn for Mohmand and Rs14bn  
Neelum Jehlum Hydro

**In particular**, there is reduction in  
Custom Duty and RD on import of HRC  
and stainless steel

- Positive for INIL, ISL and ASL

Particularly in cements, Rs 33bn  
allocated for low income housing  
scheme

- Positive for FCCL



# IT & Telecom Sector - Positive

Rs 8.11bn allocated for Science and Technology

Zero rating for IT sector exports

- Positive for SYS NETSOL AVN

Import of plant and machinery in Special Technological Zone would be exempted

FED on Telecommunication by 1% to 16%

- Positive for PTC

Reduced rate of WHT of 3% on Telecom services

- Positive for PTC



# Pharma Sector - Positive

To incentivize the pharmaceutical sector  
and to keep the prices stable in the  
market

Exemption of CD & ACD on more than  
350 APIs

- Positive for Citi Pharma GSKCH

Exemption of CD & ACD on raw material  
of auto-disable syringes and Reduction in  
tariff on finished auto-disable syringes

- this is positive for OTSU

Reduction / exemption of Custom Duty  
on Vaccines for veterinary medicines



# Fertilizer Sector – Positive

Government will provide up to 2 lac interest free loan to farmer for purchase of tractor and machinery

Rate on advanced tax on dealers reduced 0.25% for those whose names appeared on Active Tax List

- Positive for EFERT FFBL & FFC in general



PSX Market Composition



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Source: SCS Research

# Banks – Non event

Collection of WHT on cash withdrawal is now gone

Collection of WHT other than transaction ended

- Positive for depositors

Corporate Tax remains same for banks



# Miscellaneous sectors

Reduction of duties on raw material/inputs of footwear industry

- Positive for SGF

Exemption of Income Tax on Bagasse fired power units and reduced rates of taxes

- Positive for sugar mills especially MIRKS SML ALNRS

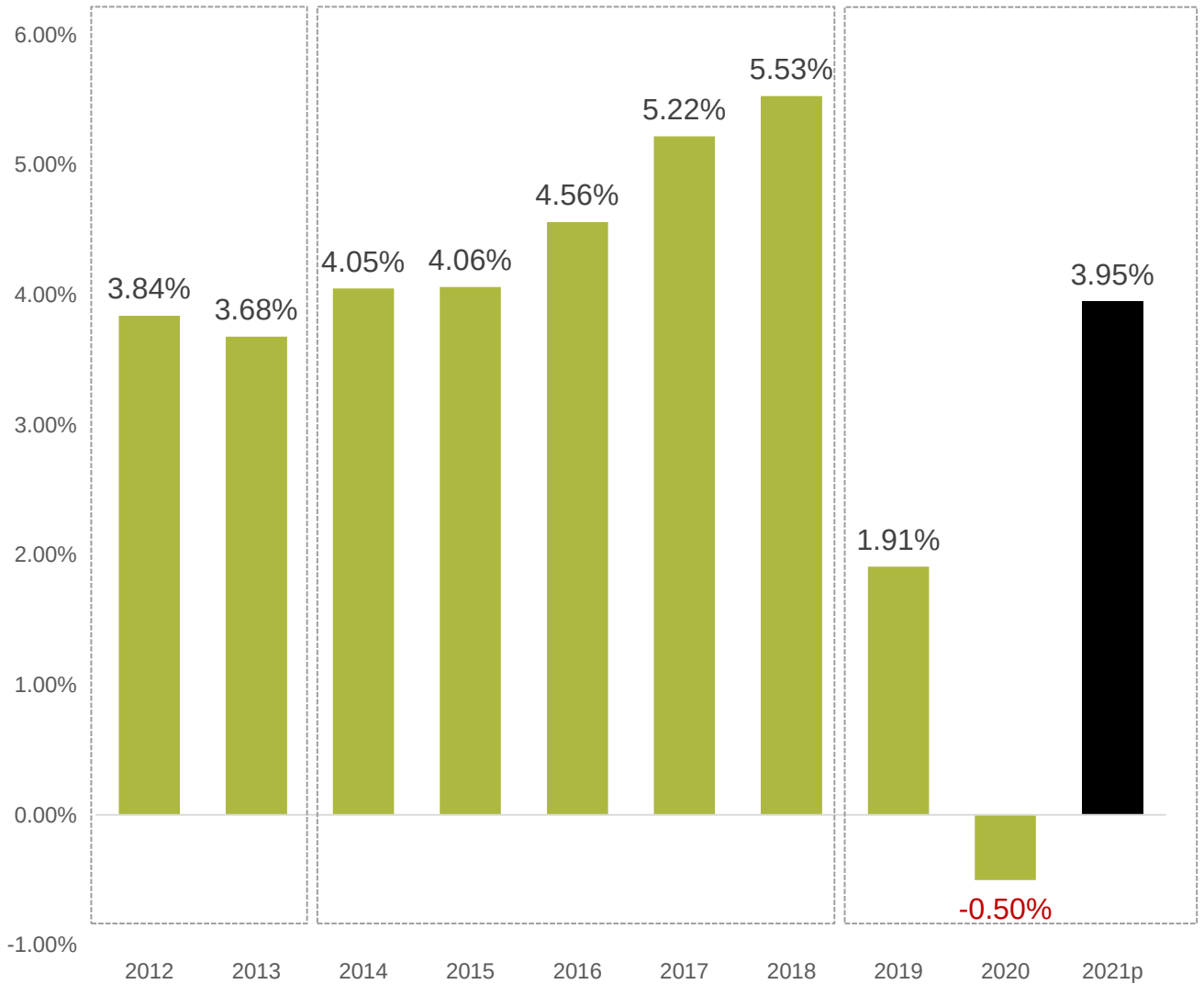
Rs 20bn allocated for PIA

- Positive for PIAA



# GDP Growth Rate

Pakistan's GDP growth rate estimated at 3.94% provisionally against a target of 2.1% previously. Hopefully it can come even higher than that....



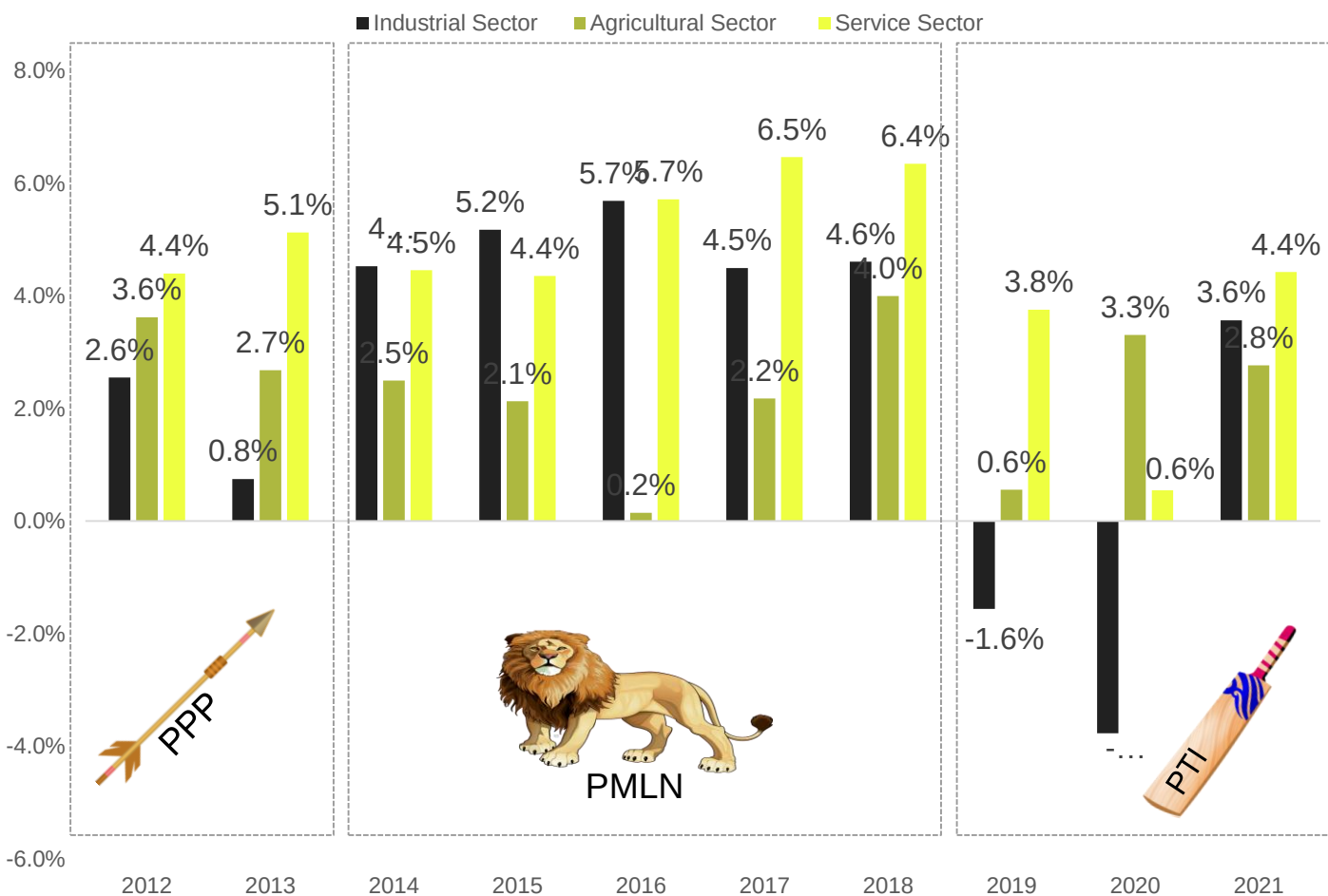
PMLN

PTI



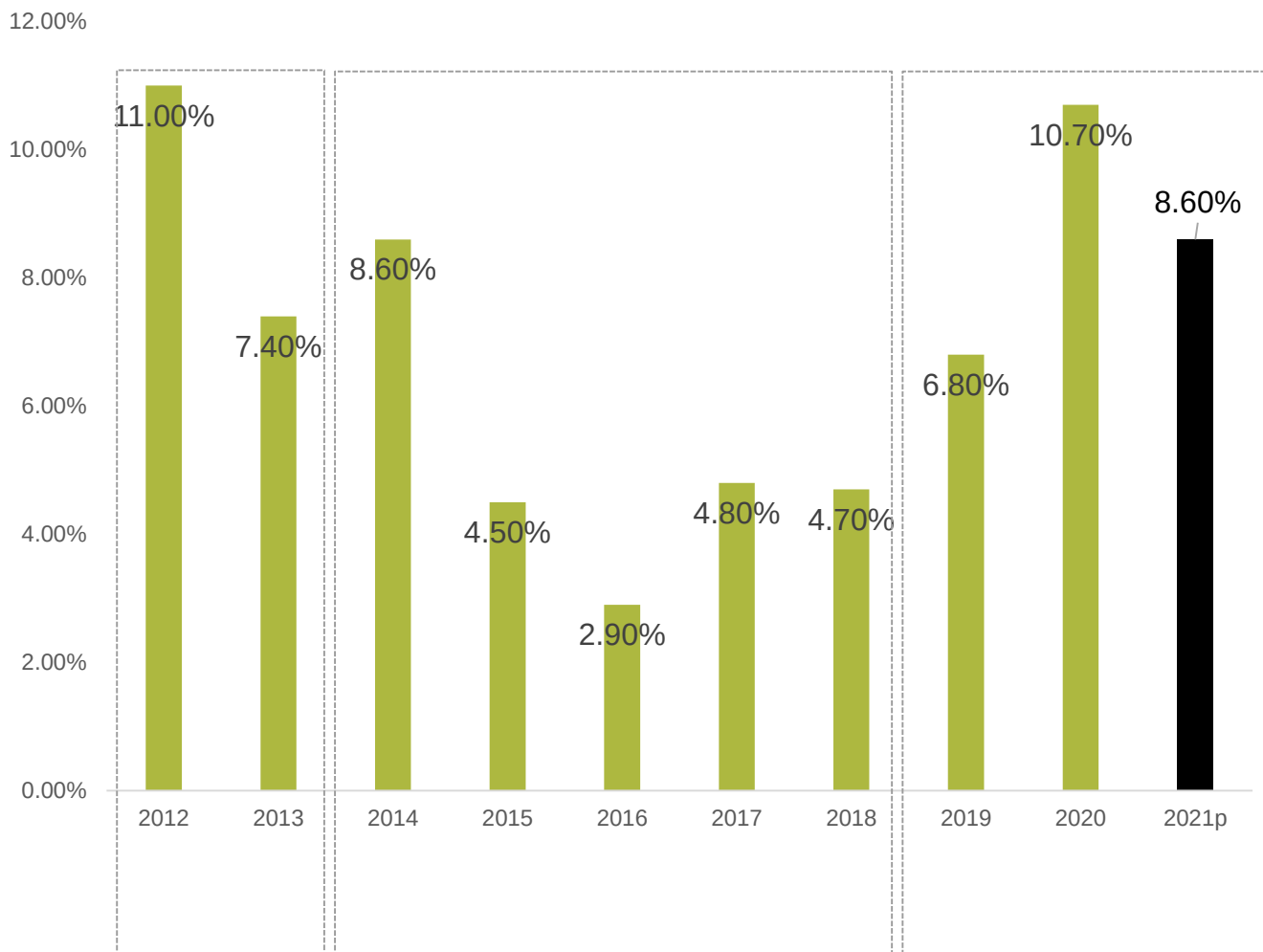
# Sector – Wise Growth Rate

Services sector continues to post highest growth rate



# Consumer Price Index (CPI)

Inflation saw a slight decline from 10.7% last year to 8.6% during Jul – Mar 2021 – yet still impact on general public is higher



PPP



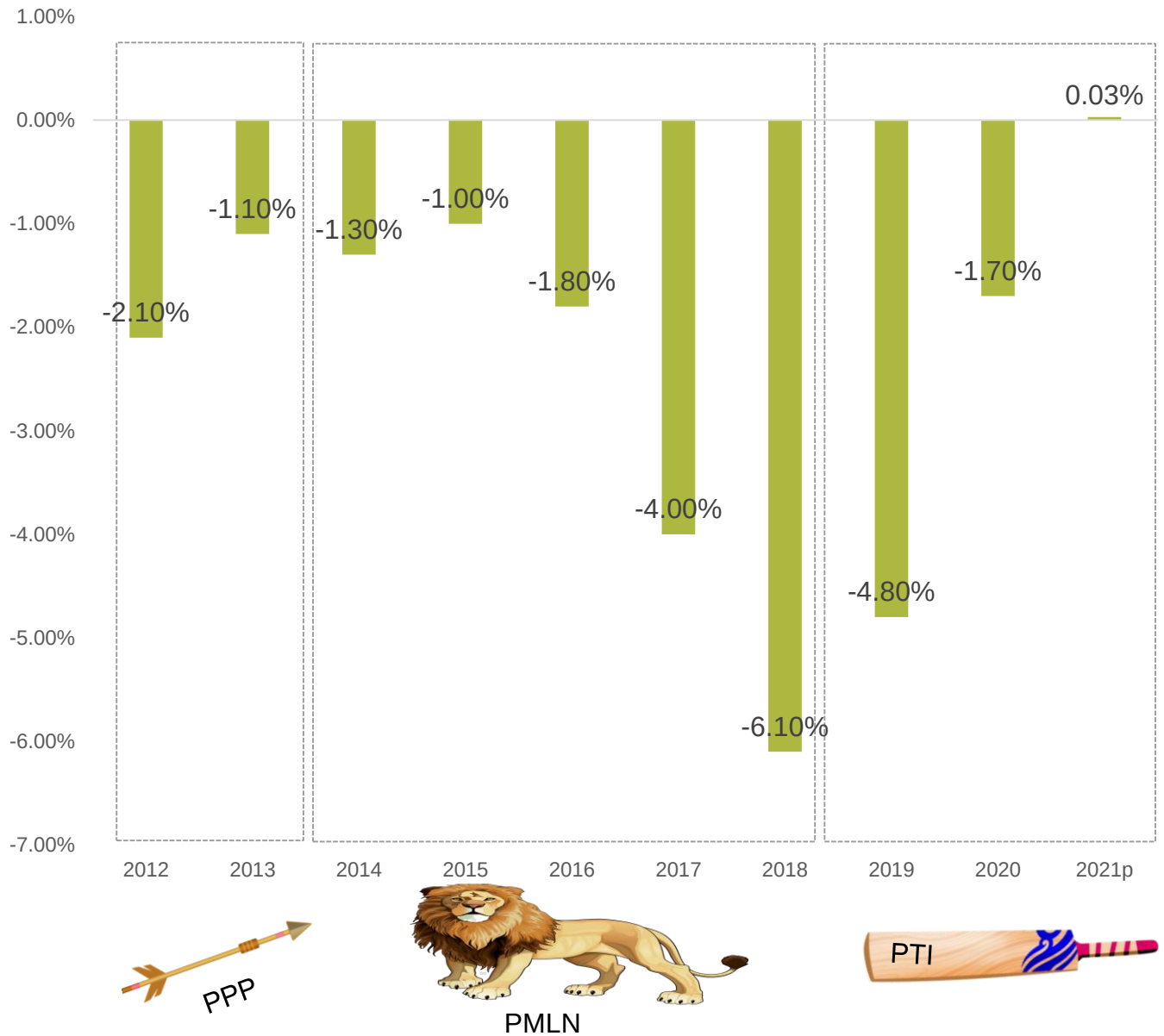
PMLN



PTI

# Current Account Balance

Pakistan reports its first current account **surplus** since FY2010-11



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- The time duration is the financial reporting period of Subject Company.

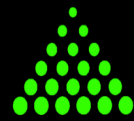
## Valuation method

Following research techniques adopted to calculate target price/recommendation

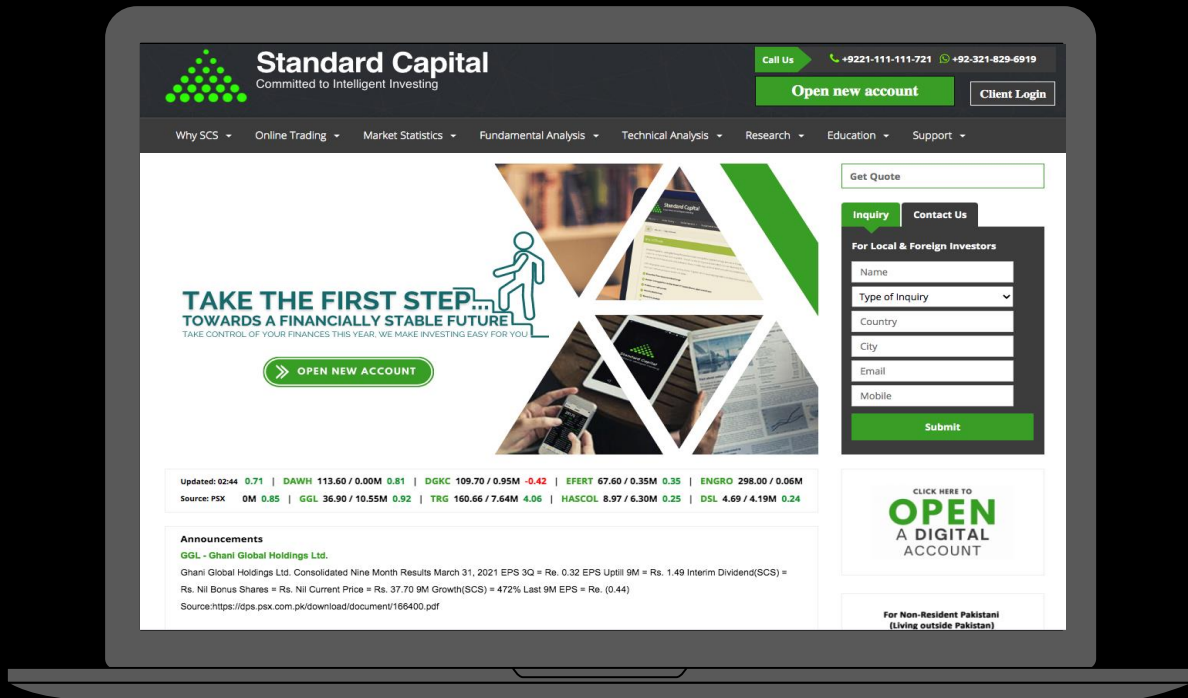
Price to earnings & Price to Book, EV-EBITDA multiple

Discounted Cash flows or Dividend Discount Model or Enterprise Value





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