Growth Focused Budget, Augurs Well For Economic Recovery

We believe the FY22 Budget continued from where we left last year. Higher allocation is given towards Infrastructure, Social spending and Healthcare, rather than subsidies. The Government also announced bigger Infrastructure spending with 26% higher capex led by roads, railways and urban infra. No incremental taxes on individuals and corporates is positive. Headline fiscal deficit (as a % of GDP) at 9.5% in FY21 and 6.8% in FY22 seems reasonable given the severe impact of the pandemic on the economy. The revenue assumptions seem reasonable and continued capex push is balanced by borrowings. While the execution on divestments will be critical, overall the budget seems positive for pushing growth in the economy.

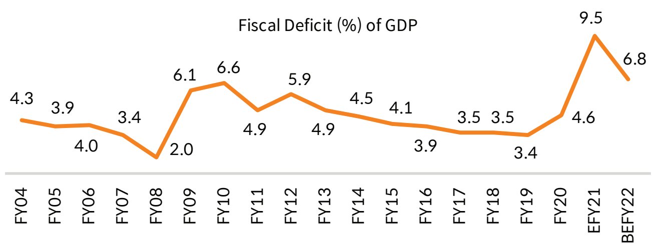
Fiscal Deficit

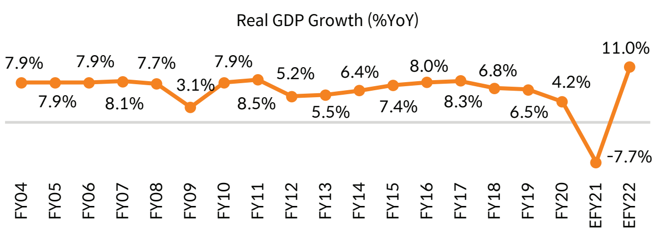
I. FY21 Fiscal deficit (as a % of GDP) at 9.5% and FY 22 at 6.8%

II. Additional borrowing of ₹80,000 Crores in remaining two month of FY 21

III. The gross borrowing from the market for the FY 22 would be around ₹12 Lakh Crores

IV. Govt targets to reach a fiscal deficit level below 4.5% of GDP by 2025-2026 with a fairly steady decline over the period





Source: Bloomberg

Budget Math

Government of India increased its expenditure to INR 34.83 Lakh Crore from INR 30.42 Lakh Crore in the Budgeted Estimates for FY20-21 and INR 34.50 Lakh Crore in the revised estimates for FY20-21 marking a small increase in the overall expenditure for FY22.

On the other hand the government expects its gross tax revenue to increase by 16.7% from 19.0 Lakh Crore (RE, FY20-21) to 22.17 Lakh Crore. Net tax revenue is expected to increase from 13.4 Lakh Crore (RE,FY20-21) to 15.5 Lakh Crore in FY22.

The government has budgeted for 1.75 Lakh Crore as disinvestment proceeds in FY22 up from 32 Thousand crore in FY21 (RE). The government intends to complete divestment of BPCL, CONCOR, SCI in FY22 as well as bring out the IPO of LIC. The country's fiscal deficit is likely to be at 9.5% in 2020-21 and will be targeted at 6.8% in 2021-22.

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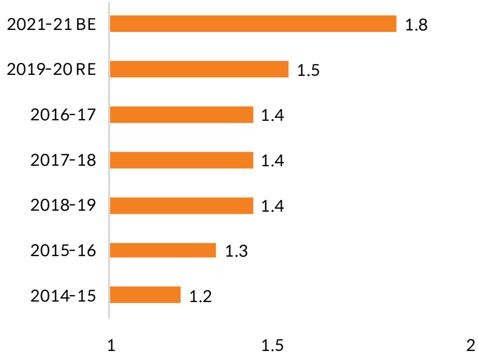
The Budget proposals for 2021-2022 rest on 6 pillars.

I. Health and Wellbeing
II. Physical & Financial Capital, and Infrastructure
III. Inclusive Development for Aspirational India
IV. Reinvigorating Human Capital
V. Innovation and R&D
VI. Minimum Government and Maximum Governance

Health and Wellbeing.

I. Supplementary Nutrition Programme and Poshan Abhiyan to be merged and launched as Mission Poshan 2.0.
II. Outlay ₹64180 crore over 6 years and support for Health and Wellness centres
III. Setting up of Integrated Public Health Labs and establishing critical care hospital blocks
IV. Introduction of National Commission for Allied Healthcare Professionals Bill
V. Overall expenditure on Health as a percentage of GDP has increased.

Expenditure on Health as a percentage of GDP

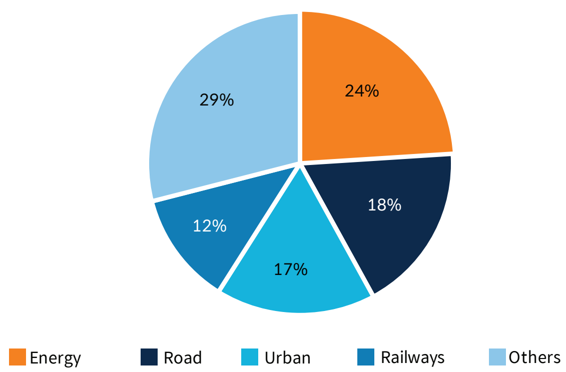


Source: www.indiabudget.gov.in

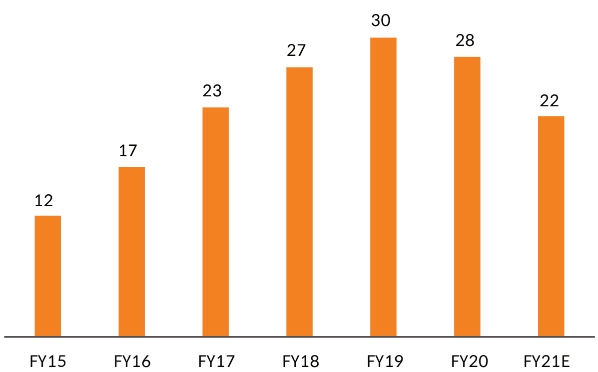
Physical & Financial Capital, and Infrastructure

I. PLI(Production Linked Incentive) Scheme launched to create manufacturing global champions across 13 sectors with amount committed nearly ₹1.97 lakh crore in next 5 years starting FY2021-22
II. Scheme to create world class infrastructure for global champions in textile sector leading to creation of 7 textile parks over 3 years.
III. Aim to develop adequate rail infrastructure by 2030 and cater to the projected traffic requirements up to 2050.
IV. Focus on Road Construction which has increased in the last 5 Years from 12 KM/Day in FY 15 to 28 KM/Day in FY 20.
V. Huge commitment of investment in electrification, power distribution, port, shipping and waterways
VI. Urban Swachh Bharat Mission with outlay ₹1,41,678 crore over 5 years

NIP (National Infrastructure Pipeline) Projects by Sector



Road Construction Per Day in KM



Source: www.indiabudget.gov.in

Important Reforms for the Financial and Securities Markets

I. Rationalised single Securities Markets Code by 2022

II. Permanent institutional framework for Corporate bond market

III. SEBI as regulator and greater role for WDRA for development of commodity market ecosystem

IV. Amending the Insurance Act,1938 to increase the FDI limit to 74% with safeguards

V. Asset Reconstruction Company Limited and Asset Management Company to resolve stressed assets problem of PSBs.

Inclusive Development for Aspirational India

I. Extending coverage of SWAMITVA Scheme to all states/UTs.

II. 1000 more mandis to be integrated with e-NAM

III. Development of modern fishing harbours and fish landing centres

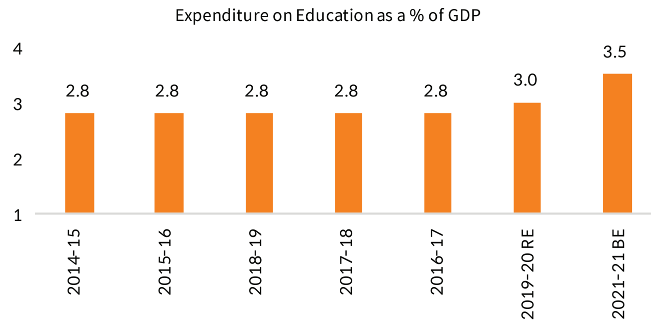
IV. One nation one ration card scheme under implementation in 32 states and UTs.

Reinvigorating Human Capital

I. Realigning National Apprenticeship Training scheme for graduates and diploma holders in Engineering.

II. Deep Ocean Mission for ocean exploration and biodiversity conservation

III. National Research Foundation with outlay of ₹50,000 crore over 5 years



Source: www.indiabudget.gov.in

Innovation and R&D

I. Outlay of ₹50000 Crores spread over 5 Years for National Research Foundation.

II. ₹1,500 crores for a proposed scheme that will provide financial incentive to promote digital modes of payment.

III. Deep Ocean Mission with a budget outlay of more than ₹4,000 crores, over five years.

IV. The New Space India Limited (NSIL), a PSU under the Department of Space will execute the PSLV-CS51 launch

Minimum Government, Maximum Governance

I. Allocation of 3,768 crores for the forthcoming Census which could be the first digital census in the history of India.

II. Provide 1,000 crores for the welfare of Tea workers especially women and their children in Assam and West Bengal.

III. Many steps to bring reforms in Tribunals in the last few years for speedy delivery of justice.

Key Infrastructure Spending

Road Infrastructure

NHAI: would be awarding 8,500 KM projects by Mar'22. Further, NHAI would target completing construction of additional 11000 KM highways by Mar'22.

In addition, highway corridors across several states are planned as follows: 1) Kerela: 1100km highway corridors worth ₹65000 Crores (including 600km of Mumbai-Kanyakumari corridor) 2) West Bengal: 675km corridors worth ₹25000 Crores (including upgradation of Kolkata-Siliguri route) 3) Assam: 1300km of National Highways worth ₹34000 Crores

Water Infrastructure

Jal Jeevan Mission (Urban) to be launched to provide 2.86 Crore household tap connections in 500 Amrut Cities.

This would be implemented over 5 years with an outlay of ₹2.87 Lakh Crore.

Waste water treatment infrastructure to be created with outlay of ₹1.42 Lakh Crore over 5 years, beginning from FY21.

Micro irrigation corpus doubled to ₹10000 Crore.

Railways:

Dedicated Freight Corridor (DFC): Western and Eastern DFCs to be completed by June-2022.

Railways budget increased to ₹1.15 Lakh Crore for FY22, of which ₹1.07 Lakh Crore is towards CAPEX

100% of electrification of broad guage railways would be completed by Dec'23

Urban Infrastructure:

702km of conventional metro is operational and further 1,016km is under construction in 27 cities

2 new technologies: Metro Lite and Metro Neo would be bought up in Tier 2 cities and peripheral areas of Tier 1 cities

Major upcoming metro projects: Chennai Metro Ph-1: 118.9km worth ₹63000 Crore, Bangalore Metro Ph-2A/2B: 58km worth ₹14700 Crore ,Nagpur Metro: 2 phases worth ₹7000 Crore

Power Infrastructure

Added 139GW of installed capacity and added 4.41 lakh circuit km of transmission lines. Schemes to assist discoms will be launched worth ₹3.05trn

Hydrogen energy mission to be launched in FY21-22

Non-Conventional sector boost: ₹10bn allocated to Solar Energy corporation and ₹15bn to Renewable Energy Development Agency

Tax Proposals

I. Exemption from filing income tax returns for senior citizens (75 years and above) who only have pension and interest income. The paying bank will deduct the necessary tax on their income.

II. Reducing time limit for reopening of income tax assessment

III. Increase in limit for tax audit for persons who carry out 95% of their transactions digitally

IV. Additional deduction of ₹1.5 lakh shall be available for loans taken up till 31 March 2022 for purchase of affordable house

V. Eligibility for claiming tax holiday for start ups proposed to be extended by one more year

Things That Impact You as an Investor

I. A uniform body to register complaints against all financial products: The government has proposed to set up an investment charter, which will enable an investor to lodge a complain and register grievances against all financial products.

II. Equity Markets did heave a sigh of relief that there was no increase in STT, Long Term Capital Gains Tax etc. and we saw the biggest rally (in point's perspective) from the markets.

III. SEBI likely to regulate commodities like Gold, Silver and Copper. SEBI may set up necessary infrastructure like custodian, exchange and other infrastructure requirements.

IV. Investors of Real estate investment trust(REITs) and infrastructure investment trust (INVITs) are exempted from paying Dividend Distribution tax(DDT). This has removed the double taxation for investors.

V. Govt. to set up infrastructure debt funds through which asset managers can raise funds through zero coupon bonds

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Market Outlook

The FY22 Budget was presented in the backdrop of pandemic situation and thus increased fiscal deficit (9.5% for FY21 and 6.8% for FY22) can be justified. While the funding continues through higher borrowing, increased transparency via inclusion of some off-balance sheet items within the deficit number is positive with a glide path of 4.5% fiscal deficit by FY26. The government, while projecting moderate revenue growth, maintained its focus on infra capex (FY22 capex is 2x of FY18) and disinvestments.

Budget FY 22 is a welcome budget reemphasizing focus on Atmanirbhar Bharat, aimed at an accelerated revival of economy still recovering from covid shock. In line with indications earlier, with covid situation having improved significantly, Govt has provided major fiscal stimulus to industries, infrastructure and rural sector alike, with a bold decision to opt for higher market borrowing rather than increasing direct taxes. This will provide a "double engine" tailwind to economy with spending power remaining intact and with further support from govt stimulus. Structural reforms, focus on healthcare, liberalization in insurance FDI, setting up ARC for bad debts are other significant features.

Continued focus on infra capex: FY22 capex is up 26% YoY to INR 5.5 Lakh Crore led by road and highways (INR 1.0 Lakh Crore), railways (INR 1.0 Lakh Crore) and other infra projects (urban water and housing, power and ports). The higher capex was partly balanced by lower revenue expenditure (-3% YoY) on account of fall in subsidies, which was unusually high in FY21 due to one-off support given during the COVID pandemic.

The revenue side of the budget builds in a 23% increase on the back of a 14.4% nominal GDP growth, higher custom duties (to boost local manufacturing), and a disinvestment target of INR 1.75 Lakh Crore. The increase in capex is being funded through borrowing, hence the gross borrowings are down only 6% to INR 12 Lakh Crores.

The government focused on providing a stable tax regime with no major changes to the direct taxes and minor tweaking on indirect taxes (a new Agri Infra Cess on few products) mainly to boost domestic manufacturing were introduced.

Some of the key reforms, which could also boost job creation include – (a) focus on monetizing of public infra, (b) setting up of asset reconstruction company and (c) commitment towards Atmanirbhar Bharat through PLI scheme.

Debt Market Outlook

Higher borrowings may initially be somewhat concerning for debt markets but with inflation having eased in recent months and with RBI likely to remain supportive, bond markets should stabilize shortly with a minor uptick in market yields

Equity Market Outlook

The budget, in our view augurs well for the equity markets, given the growth oriented approach. While there was no negative surprise on the tax front, we will continue to monitor the execution on disinvestment front.

We believe that over the next few years, India will be at the cusp of multi-year growth driven by low interest rates, buoyancy in the rural sector and acceleration in manufacturing exports.

We would advise investors to not to time the market and invest in a disciplined way in equities for the long-term within their earmarked asset allocation (based on one's risk profile). In the current market scenario, staggered investments through SIPs or STPs would remain one of the best ways to invest in equities.

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