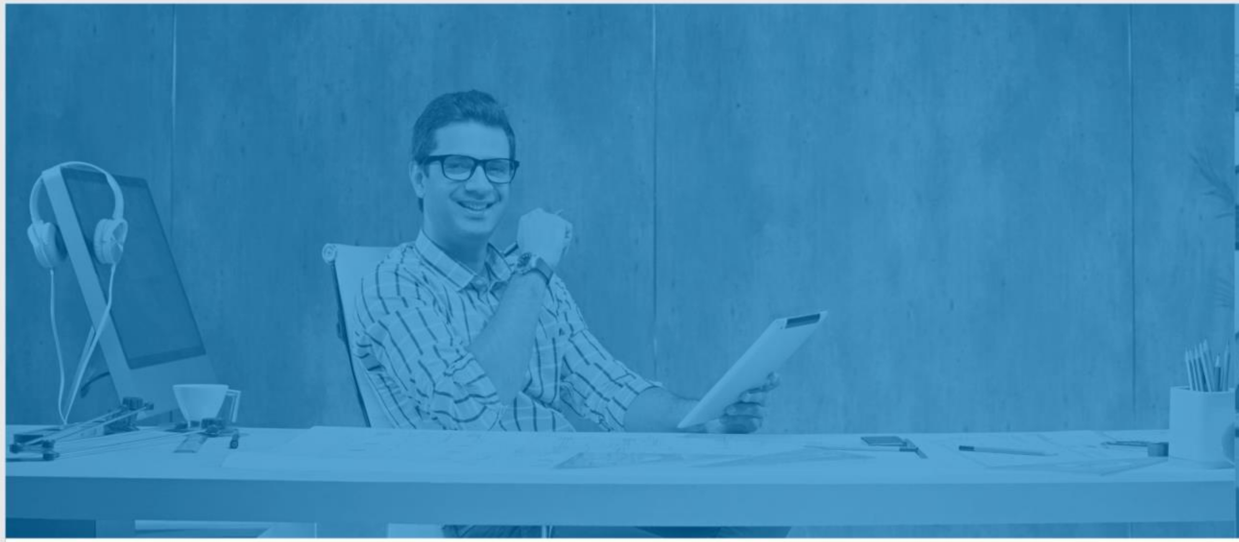
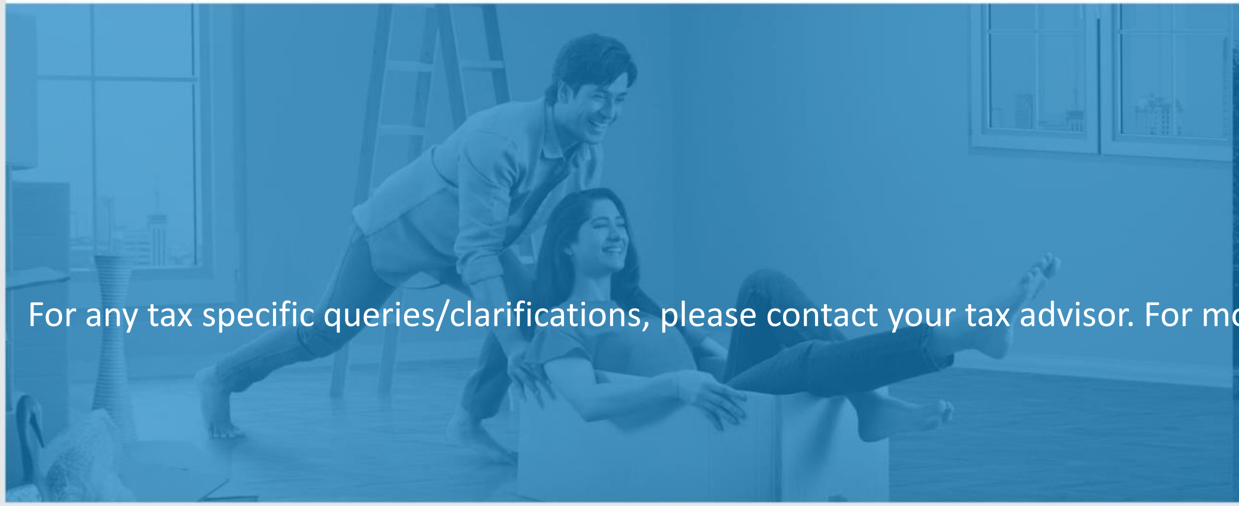
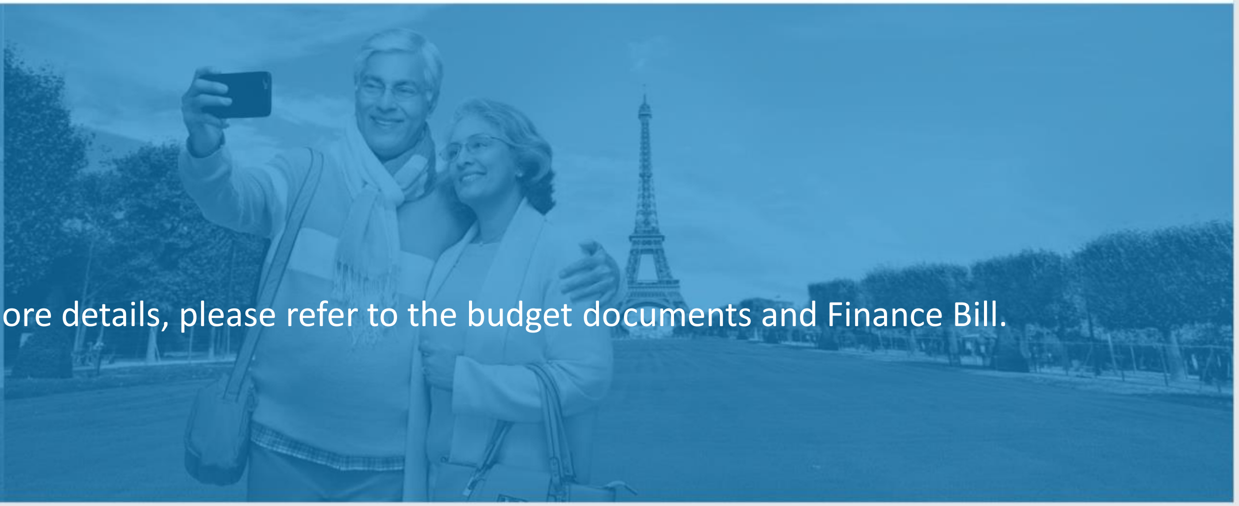


De-coding Union Budget FY2020-2021

LIFE GOALS. **DONE.**

BAJAJ | Allianz





For any tax specific queries/clarifications, please contact your tax advisor. For more details, please refer to the budget documents and Finance Bill.

Budget Highlights – A growth-oriented one, and to aid consumption & foreign investment

- The budget was a growth-oriented one, with an intent to increase disposable income in the hands of individuals and thus aid consumption. Also some incentives & higher allocation were provided to agriculture/rural and infrastructure sectors.

- A new income tax regime introduced (with tweak in tax slabs, and removal of most deductions / exemptions), and individuals can choose to stay in the old regime or the new regime (whichever is more beneficial to them). This tax relief is expected to aid consumption.

- Some leeway in fiscal slippage allowed to deal with the economic slowdown—by providing stimulus.

- Dividend distribution tax at the company level has been removed and is now taxable only in the hands of investors (to avoid double-taxation). Tax burden to reduce for individuals in lower tax slabs, but to increase for HNIs and super-rich. Also 10% TDS on dividend payment from mutual funds introduced.

- The govt. announces various measures to attract foreign capital:
    - Increased FPI (Foreign Portfolio Investor) limits for corporate bonds from 9% to 15%, and this should help to deepen the corporate bond market.
    - 100% tax exemption to Sovereign Wealth Funds for their interest, dividend and capital gains income w.r.t investment made in infrastructure before March, 2024, with a lock-in period of 3 years.
    - Certain specified categories of government securities to be opened to non-resident investors.

- Increased insurance deposit coverage for bank deposits from Rs. 1 lakh to Rs. 5 lakhs.

- Tax revenue for FY20 revised down (due to lower corporate tax and indirect tax collections). However, for FY21, gross tax revenue budgeted to grow 12%YoY vs 4%YoY in FY20 (RE).

Budget Highlights (Contd.)

- Projections for divestment revenue (under capital receipts) and telecom revenue (under non-tax revenue) for FY21 are quite optimistic. Also IPO of LIC and stake sale in IDBI bank announced.

- Commitment to ~Rs. 1 trillion National Infrastructure Pipeline over 5 year period (announced before budget). Capital expenditure budgeted to rise 18%YoY in FY21 vs 13%YoY in FY20 (RE).

- Subsidies are budgeted to fall in FY21 (compared to the earlier budgeted numbers for FY20), helped by lower food and fertilizer subsidy.

- Allocation to agri/rural sectors has seen an increase in FY21, although not for all schemes (e.g. MGNREGA).

- Agriculture credit of Rs. 15 trillion for FY21. Govt. also reiterated commitment to double farmer's income by 2022. This to benefit the rural sector.

- Customs / excise duty increased for a number of items.

- The employer's contribution exceeding Rs 7.5 lakh in a financial year to retirement funds such as EPF, NPS or any other superannuation fund is proposed to be made taxable in the hands of the employee. This will impact higher salary individuals.

- The Budget proposed to reduce the period of stay in India to 120 days from 182 days earlier, to qualify as NRI. The FM clarified that NRIs would be taxed only on Indian income, not foreign income.

New Income Tax Regime introduced by tweaking tax slabs – to aid in consumption recovery

Earlier Personal Income Tax Structure (Individuals below 60 years of Age)	
Taxable Income (Rs.)	Tax Rates
Upto 2,50,000	Nil
2,51,000 to 5,00,000	5%
5,00,001 to 10,00,000	20%
10,00,001 and above	30%

Revised Personal Income Tax Structure (Individuals & HUF)	
Taxable Income (Rs.)	Tax Rates
Upto 2,50,000	Nil
2,51,000 to 5,00,000	5%
5,00,001 to 7,50,000	10%
7,50,001 to 10,00,000	15%
10,00,001 to 12,50,000	20%
12,50,001 to 15,00,000	25%
Above 15,00,000	30%

Source: Budget Documents. Surcharge and cess also applicable on the above. For any tax specific queries/clarifications, please contact your tax advisor. For more details please refer to the budget document and Finance Bill

- Tax relief has been provided to individuals by introducing a new income tax regime. This is expected to leave more disposable income in the hands of individuals and promote consumption. However, the new regime dis-incentivizes savings to some extent, by removing most of the key deductions/exemptions.
- Individuals can decide to shift to the new tax regime or stay under the existing regime (whichever is more beneficial)—as a number of exemptions/deductions have been done away with under the new regime.
- The govt. also reiterated the stance of doubling farmer's income by 2022 and this would be beneficial for the rural economy from a consumption perspective.
- These measures should help to address some of the demand related issues amidst the economic slowdown. The govt. has earlier addressed the supply side, by providing fiscal stimulus through a significant corporate tax cut. We expect a gradual recovery in the economy going forward in FY21.

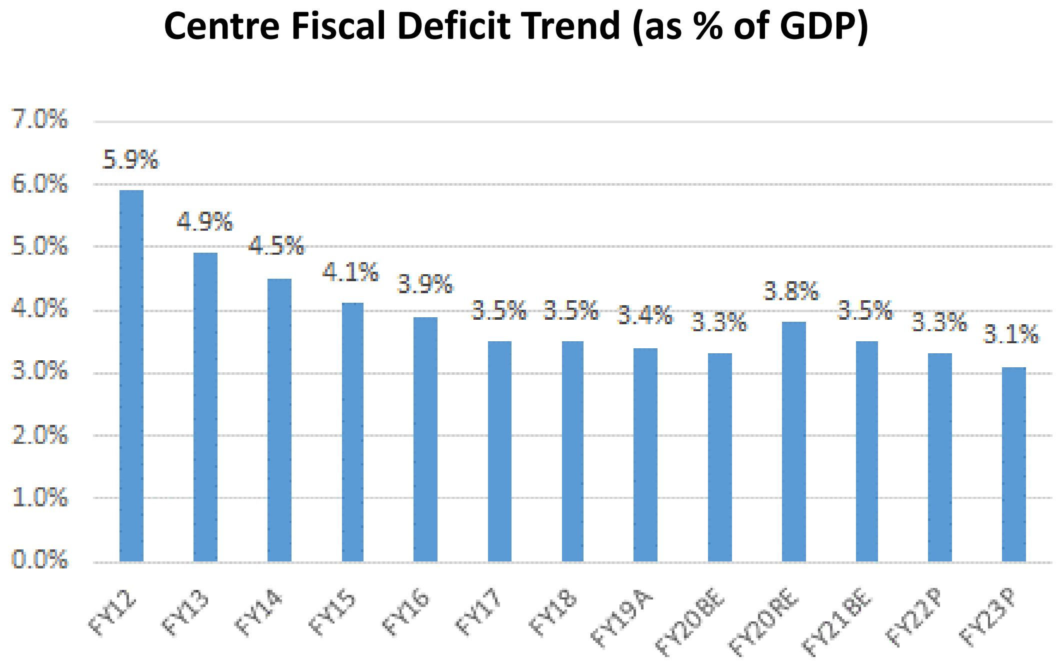
Analysis of the new income tax structure shows that it is more beneficial for individuals not claiming deductions / exemptions

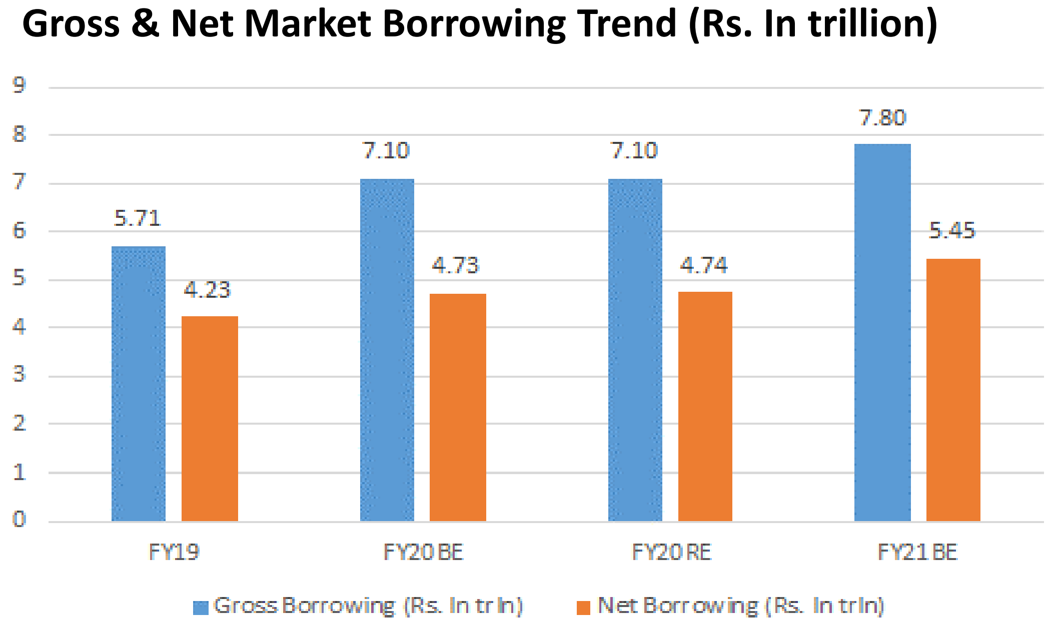
	Current regime (with exemptions)				Alternate regime (without exemptions)			
Total Income	750,000	1,000,000	1,500,000	2,500,000	750,000	1,000,000	1,500,000	2,500,000
Rented house								
HRA exemption (assuming 20% of salary)	150,000	200,000	300,000	500,000				
Deduction u/s 80C (Chapter VI-A)	150,000	150,000	150,000	150,000				
Standard deduction	50,000	50,000	50,000	50,000				
Taxable income	400,000	600,000	1,000,000	1,800,000	750,000	1,000,000	1,500,000	2,500,000
Tax payable (excluding cess)	—	32,500	112,500	352,500	37,500	75,000	187,500	600,000
Cess	—	1,300	4,500	14,100	1,500	3,000	7,500	24,000
Total tax payable	—	33,800	117,000	366,600	39,000	78,000	195,000	624,000
Post-tax income	400,000	566,200	883,000	1,433,400	711,000	922,000	1,305,000	1,876,000
Minimum investments					150,000	150,000	150,000	150,000
Post-tax income (post investments)	400,000	566,200	883,000	1,433,400	561,000	772,000	1,155,000	1,726,000
Own house (with housing loan)								
Interest and principal deduction	200,000	200,000	200,000	200,000				
Deduction u/s 80C (Chapter VI-A)	150,000	150,000	150,000	150,000				
Standard deduction	50,000	50,000	50,000	50,000				
Taxable income	350,000	600,000	1,100,000	2,100,000	750,000	1,000,000	1,500,000	2,500,000
Tax payable (excluding cess)	—	32,500	142,500	442,500	37,500	75,000	187,500	600,000
Cess	—	1,300	5,700	17,700	1,500	3,000	7,500	24,000
Total tax payable	—	33,800	148,200	460,200	39,000	78,000	195,000	624,000
Post-tax income	350,000	566,200	951,800	1,639,800	711,000	922,000	1,305,000	1,876,000
Minimum investments					150,000	150,000	150,000	150,000
Post-tax income (post investments)	350,000	566,200	951,800	1,639,800	561,000	772,000	1,155,000	1,726,000

- Analysis of the new income tax structure shows that it is more beneficial for individuals not claiming deductions / exemptions. This could primarily include individuals working in the un-organized sector, younger salaried class & some senior citizens who do not utilize the various exemptions/deductions shown above.
- For the salaried class (who claim these exemptions/deductions), as can be seen in several scenarios above--their tax incidence is lower in the older regime.

Source: Kotak Institutional Equities. This is not exhaustive and just an illustration. For any tax specific queries/clarifications, please contact your tax advisor.
For more details please refer to the budget document and Finance Bill

Some leeway in fiscal slippage allowed to deal with the economic slowdown; along expected lines





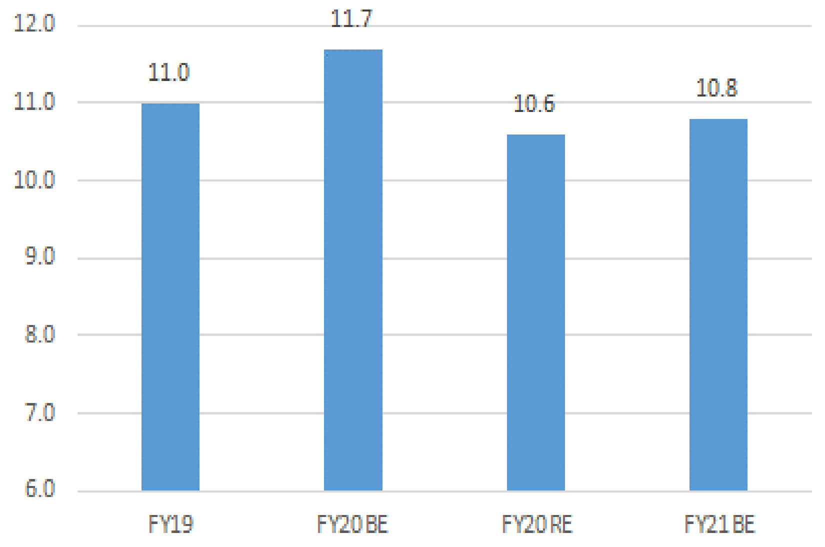
Source: Budget Documents. BE = Budgeted Estimate, BE = Budgeted Estimate, P= Projection

- The fiscal deficit for FY20 has been revised to 3.8% of GDP (vs 3.3% earlier), and for FY21 at 3.5% (from 3.0% earlier). This has been done to deal with the economic slowdown and due to lower tax collections. However, the glide path for FY22 & FY23 indicates fiscal consolidation.
- Net market borrowing for FY20 has been revised to Rs. 4.74 lakh crore (from Rs. 4.73 lakh crore earlier) and for FY21 has been budgeted at Rs. 5.44 lakh crore.
- The borrowing figure has been along expected lines. This along-with some positive measures for the bond markets, has provided some respite, and led to some easing of bond yields post the budget announcement.

Tax to GDP ratio falls due to lower tax collections, expenditure aided by capital expenditure

Budget at a glance	(INR in Bln)				YoY Growth (in %)		
	FY19	FY20BE	FY20RE	FY21BE	FY20BE	FY20RE	FY21BE
Revenue receipts	**15,529**	**19,628**	**18,501**	**20,209**	**26.4**	**19.1**	**9.2**
Net Tax Revenue	13,172	16,496	15,046	16,359	25.2	14.2	8.7
Non Tax Revenue	2,357	3,132	3,455	3,850	32.9	46.6	11.4
Capital Receipts	**7,622**	**8,236**	**8,485**	**10,213**	**8.1**	**11.3**	**20.4**
Recovery of loans	181	148	166	150	(18.2)	(8.3)	(9.6)
Other Receipts (mainly divestment)	947	1,050	650	2,100	10.9	(31.4)	223.1
Borrowings & other liabilities	6,494	7,038	7,668	7,963	8.4	18.1	3.8
Total Receipts	**23,151**	**27,863**	**26,986**	**30,422**	**20.4**	**16.6**	**12.7**
Total Revenue Expenditure	20,074	24,478	23,496	26,301	21.9	17.0	11.9
Total Capital Expenditure	3,077	3,386	3,489	4,121	10.0	13.4	18.1
Total Expenditure	**23,151**	**27,863**	**26,986**	**30,422**	**20.4**	**16.6**	**12.7**
Fiscal Deficit	**6,494**	**7,038**	**7,668**	**7,963**	**8.4**	**18.1**	**3.8**
Nominal GDP	1,89,712	2,11,006	2,04,422	2,24,894	11.2	7.8	10.0
Fiscal Deficit (% of GDP)	**3.4**	**3.3**	**3.8**	**3.5**			
Gross Market Borrowing	**5,710**	**7,100**	**7,100**	**7,800**	24.3	24.3	9.9
Net Market Borrowing	**4,227**	**4,731**	**4,740**	**5,449**	11.9	12.1	15.0

Tax to GDP ratio Trend (in %)



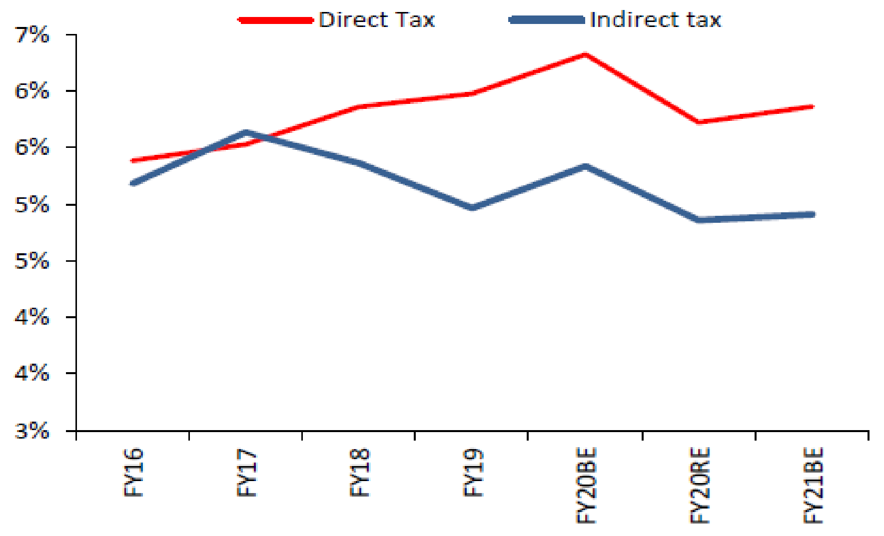
Source: Budget Documents. BE = Budgeted Estimate, RE= Revised Estimate

- Tax to GDP ratio fell from a budgeted 11.7% for FY20 to a revised estimate of 10.6%, primarily on account of lower corporate tax and GST collections. Tax to GDP ratio for FY21 budgeted at 10.8%. However, divestment revenue (under capital receipts) and non tax revenue (esp. from telecom) to pick-up in FY21.
- On the expenses side, total expenditure is budgeted to rise 12.7%YoY in FY21 vs 16.6%YoY in FY20 (RE). This is being aided by capital expenditure, which is budgeted to rise 18.1%YoY in FY21 vs 13.4%YoY in FY20 (RE). Revenue expenditure is budgeted to rise 11.9%YoY in FY21 vs 17.0%YoY in FY20 (RE).

Tax revenues to revive in FY21 after being revised down in FY20; direct taxes contribution increasing

Gross Tax Components	(INR in Bln)				YoY Growth (in %)		
	FY19	FY20BE	FY20RE	FY21BE	FY20BE	FY20RE	FY21BE
Gross Tax Revenue	**20,805**	**24,612**	**21,634**	**24,230**	**18.3**	**4.0**	**12.0**
Direct Tax	**11,366**	**13,350**	**11,700**	**13,190**	**17.5**	**2.9**	**12.7**
Personal Income Tax	4,730	5,690	5,595	6,380	20.3	18.3	14.0
Corporate Tax	6,636	7,660	6,105	6,810	15.4	(8.0)	11.5
Indirect tax	**9,439**	**11,262**	**9,934**	**11,040**	**19.3**	**5.2**	**11.1**
GST	5,816	6,633	6,123	6,905	14.0	5.3	12.8
Customs/Excise/Service Tax	3,623	4,629	3,811	4,135	27.8	5.2	8.5

Direct & Indirect Tax Trend (% of GDP)



Source: Budget Documents. BE = Budgeted Estimate, RE= Revised Estimate

- Gross tax revenue for FY20 has been revised down significantly, and to see 4.0%YoY growth vs 18%YoY budgeted earlier.
  - ➢ This has been primarily due to lower than budgeted corporate tax and indirect tax collections. The revised growth for FY20 is significantly lower than budgeted growth.
- However, the gross tax revenue growth for FY21 budgeted at 12.0%YoY, which seems reasonable, amidst a gradual recovery in the economy.
- The contribution of direct taxes has been increasing over the past few years, as indicated by direct tax as % of GDP—which has been higher than that of indirect taxes.

The govt. is depending on optimistic divestment and telecom revenue in FY21; subsidies to fall—helped by lower/muted food & fertilizer subsidy

Non Tax Revenue & Capital Receipts Break-up	(INR in Bln)			
	FY19	FY20BE	FY20RE	FY21BE
Disinvestment	**947**	**1,050**	**650**	**2,100**
Telecom	**408**	**505**	**590**	**1,330**
Dividends	**1,134**	**1,635**	**1,999**	**1,554**
Public Sector Enterprises	431	575	483	657
RBI	704	1,060	1,516	896

Subsidies Break-up	(INR in Bln)			
	FY19	FY20BE	FY20RE	FY21BE
Subsidies	**2,229**	**3,382**	**2,636**	**2,621**
Food	1,013	1,842	1,087	1,156
Fertilizers	706	800	800	713
Petroleum	248	375	386	409
Other Subsidies	262	365	363	343

Source: Budget Documents. BE = Budgeted Estimate, RE= Revised Estimate

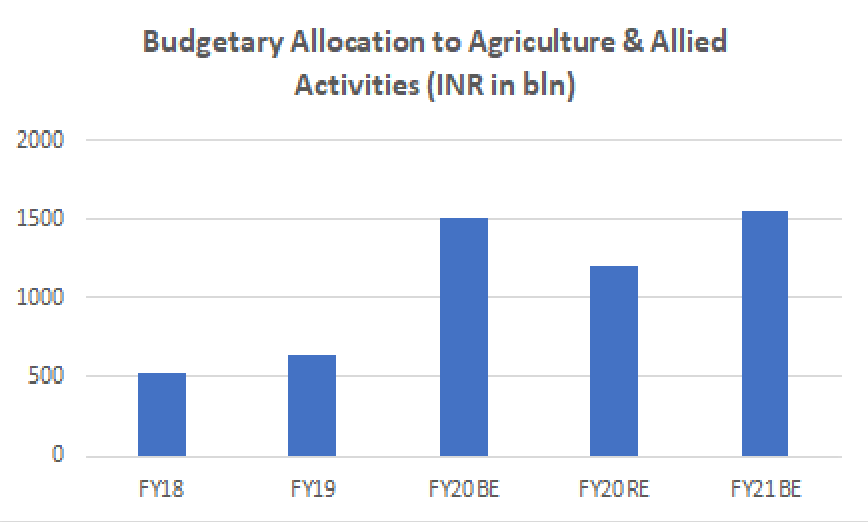
- Divestment revenue target for FY20 has been revised down significantly to Rs. 650 bln from Rs. 1,050 bln earlier. However, for FY21 the govt. has budgeted a very robust figure of Rs. 2,100 bln. This is because some of the big strategic divestments are expected to be pushed to next fiscal year.
  - The govt. has also announced IPO for LIC and stake sale in IDBI bank.
  - Overall, divestment revenue seems optimistic and would also depend on market conditions & execution.
- Telecom revenue budgeted to see healthy growth in FY21, and seems quite optimistic. RBI dividend for FY20 has been revised upwards due to one time transfer (under the revised economic capital framework).
- Subsidies are budgeted to fall in FY21 (compared to the earlier budgeted numbers for FY20), helped by lower food and fertilizer subsidy.

Allocation to agri/rural sectors has seen an increase in FY21, although not for all schemes

Budgetary allocation to various rural/welfare schemes (Rs. in bln) – Fiscal year-wise

	2017	2018	2019	2020RE	2021BE	2021BE/ 2020RE (%)
Food subsidy to FCI under National Food Security Act	783	1,020	701	750	780	4
Income support scheme for farmers (PM-KISAN)			200	544	750	38
Mahatma Gandhi National Rural Employment Guarantee Program (NREGS)	482	550	618	710	615	(13)
Food subsidy for decentralized procurement of foodgrains under NFSA	273	380	310	335	373	11
Pradhan Mantri Awas Yojna (PMAY)	210	290	254	253	275	9
Pradhan Mantri Gram Sadak Yojna (PMGSY)	179	169	154	141	195	39
Interest subsidy for short term credit to farmers	134	148	115	179	212	19
Crop insurance scheme	111	107	119	136	157	15
Green revolution	101	112	118	100	133	34
Pradhan Mantri Krishi Sinchai Yojna (PMKSY)	51	74	81	79	111	41
National Rural Drinking Water Mission	60	71	55	100	115	15
Market intervention scheme and price support scheme	1	10	14	20	20	(0)
LPG connection to poor households	25	23	32	37	11	(70)
White Revolution	13	16	24	18	18	0
Total	2,424	2,968	2,796	3,402	3,766	11

Source: Budget Documents, Kotak Institutional Equities. BE = Budgeted Estimate, RE = Revised Estimate



Source: Budget Documents, Phillip Capital.

- Budgetary allocation to agriculture & allied activities has risen in FY21.
- The budget allocation to various rural / social welfare schemes has gone up by 11% in FY21.
- However, certain rural/welfare schemes like MGNREGA, LPG connection for poor households have seen a drop in budgetary allocation in FY21. Schemes like food subsidy, PMAY, price support scheme have seen muted growth in FY21.

Sectoral Impact of Budget

Sector	Budget Announcement
Agriculture	**PM-KISAN**-To provide an assured income support to the small and marginal farmers. FY21BE at INR 750bn is 38% higher than FY20RE
	Fertilizer subsidy-Total fertilizer subsidy allocated is INR 713bn vs INR 800bn in FY20 RE
	National Rural Drinking Water Mission -Has been increased by 15% in FY21BE vs FY20RE to INR 100bn .
	Crop Insurance -Pradhan Mantri Fasal Bima Yojna (PMFBY) budget provision of INR 157bn in FY21 vs revised estimate of INR 136bn in FY20.
	PM KUSUM Scheme to be expanded to provide 20 lakh farmers for setting up stand-alone solar pumps.
	MGNREGA allocation has been reduced by 13% to INR 615bn in FY21BE from INR 710bn in FY20RE
Infrastructure	**National Infrastructure Pipeline (NIP)** was announced with Rs.103 trn capex with 6,500 identified projects.
	Allocation to Ministry of Road and Transport stood at Rs. 1.47 tn registering no growth over previous year
	Indian Railways FY21 capex is budgeted to grow 3% to Rs 1.61 tn on a 2% lower revised base of FY20.
	Defence - Capital expenditure in defence is likely to grow by 2% in FY21 to Rs 1tn on 8%
	Allocation to metro and MRTS increased 6% YoY, at Rs 200bn (from Rs 186bn in FY20RE)
	Allocation to PMAY schemes increased by ~9% YoY (at Rs 275bn from Rs 253bn in FY20RE).
	Government allocated Rs 195bn (against Rs 141bn in FY20RE), up ~39% for **Pradhan Mantri Gram Sadak Yojna.**

Sectoral Impact of Budget...contd.

Sector	Budget Announcement
Financial Services	**Increase in bank deposit insurance limit from Rs.1 lac to Rs.5 lacs** This would increase the cost of deposits for the banks
	Impact of new tax regime on Savings products like Insurance & Mutual Funds New tax regime proposes lower tax-rates at the cost of taking away deductions on investments in Insurance and Mutual Fund products. This is negative for Insurance and MFs as it takes away the demand from customers buying these products purely with a tax-planning objective.
	Plan to list LIC and proposed IDBI stake sale
Healthcare	Government has allocated Rs.69000 crore for healthcare sector and this include Rs.6430 crore for **Ayushman Bharat**
	Government want to increase **Jan Aushadi** penetration from current Jan Aushadi product basket of 800 drugs to 2000 drugs by 2024
	Proposal to set up viability gap funding for setting up hospitals in ~112 districts in the PPP mode. These districts don't have any Ayushman Bharat empaneled hospitals.
Real Estate	Benefits under section 80-IBA extended till March 2021 (no tax for developer working on affordable housing)
	Additional deduction of INR 1.5 lakhs on affordable housing loan extended for March 2021. Offtake for affordable housing units will continue to see strong demand
Consumption	**Personal income tax cut** : An optional lower income tax slab was introduced if assesses decide to let go of a host of deductions/expemtions available under the existing regime. Consumption for the tax payer gets a boost, but for those foregoing tax exemptions
	The 16-point action plan that FM announced for the agriculture sector is likely to result in significant increase in **rural income.**

Market Outlook & Strategy

Budget reactions	• The budget was a growth-oriented one, with an intent to increase disposable income in the hands of individuals and thus aid consumption. • Also some incentives were provided to agri/rural and infra sectors, and for foreign investment. • We feel that economic growth has bottomed out, and expect it to gradually recover.
Valuations are reasonable except for “quality”	• Barring a few “quality stocks”, where valuations are elevated, for the rest of the markets (especially mid/small-caps) valuations are in line with the long term average.
Corporate Earnings	• Corporate earnings to also gradually recover, and Nifty earnings growth to pick-up from 12% in FY20 to 19% in FY21. This will help to drive the markets going forward.
Equity Investment Strategy	• Investors should continue to invest systematically into equities. • We continue to prefer large-caps, but also see some attractive bottom-up opportunities in the mid-cap segment—from a valuation perspective.
Debt Markets & Strategy	• The market borrowing & fiscal deficit was along expected lines. This, along-with some positive measures for bond markets have helped yields to soften a bit. • We continue to prefer the shorter to medium term part of the yield curve.
Factors to watch out for	• Eye needs to be kept on the impact of Novel Coronavirus outbreak, progress on US-China trade resolution, global monetary policy stance, global growth trajectory, geo-political events, and global risk appetite.

THANK YOU

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