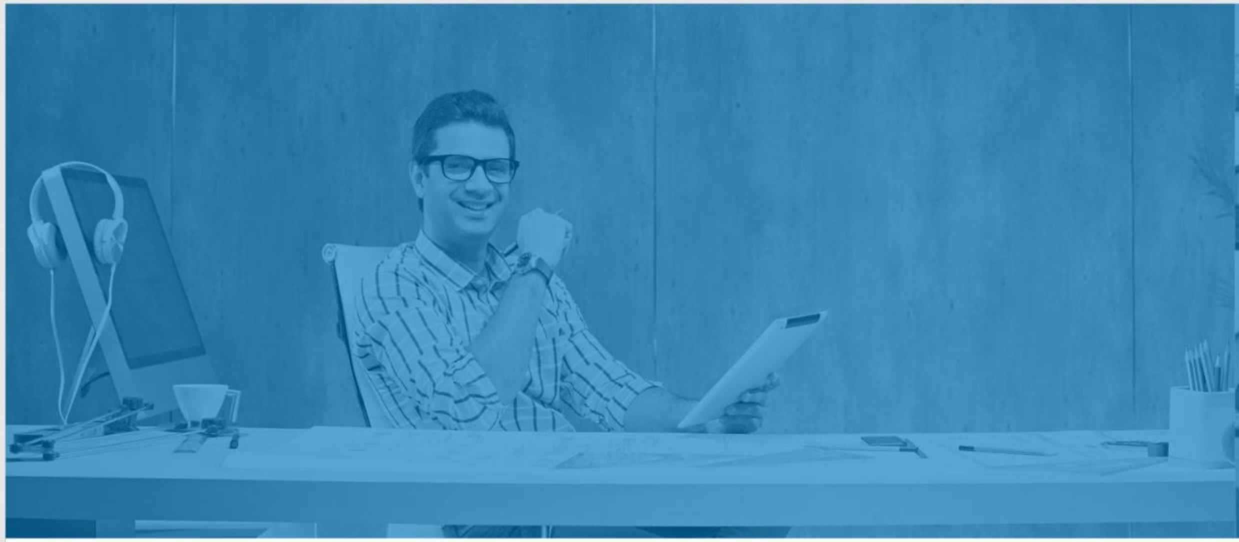
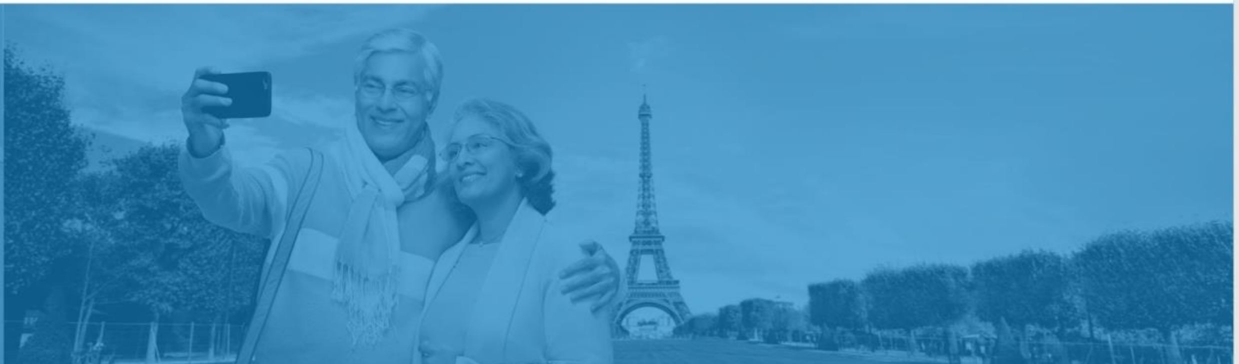



# De-coding Union Budget FY21-22

LIFE GOALS. **DONE.**

BAJAJ | Allianz

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# Budget Highlights – A growth-oriented one, and expansionary in nature

- The budget was growth-oriented and expansionary--allowing fiscal slippage (higher than market estimates) for FY21 & FY22—to aid in economic growth recovery. The government has indicated that it wants to gradually bring down fiscal deficit to 4.5% by FY26.

- The govt. has re-iterated its push to infrastructure & capex:
  - ➢ Capital expenditure (capex) budgeted to grow by a healthy 26% in FY22.
  - ➢ The govt. has expanded its 'National Infrastructure Pipeline' to cover more projects; FM mentioned projects worth Rs. 1.1 trln already completed
  - ➢ Setting up a new development finance institution with a capital base of Rs. 200 bln for long-term infra financing (lending target of Rs. 5 trln over 3 years)
  - ➢ PLI scheme to boost local manufacturing across 13 sectors with an outlay of Rs.1.97 trln

- Increased allocation to healthcare sector:
  - ➢ Total healthcare & wellness outlay increased by a lofty 137% in FY22 to Rs. 2.24 trln. Govt has allocated Rs.350 bn for Covid-19 vaccination.
  - ➢ New scheme with outlay of Rs 642 bln over 6 years to augment health infrastructure under PM AtmaNirbhar Swasth Bharat Yojana; in addition to the National Health Mission budget

- With capital markets being buoyant, the govt. is back with its privatization push--with a budget of Rs. 1.75 trillion for FY22

- The govt. has made various announcements to benefit the financial sector:
  - ➢ For FY22 PSU bank recapitalization plan of Rs. 200 bln announced; not be enough and may have to tap financial markets
  - ➢ Announced an increase in FDI for insurance sector from 49% to 74%, which is a positive move and will help attract foreign capital flows into the sector
  - ➢ An asset reconstruction firm (bad bank) to be set up to address stressed assets of banks; manage & dispose off such assets to AIFs & potential investors
  - ➢ Affordable housing: Extended eligibility by 1 more year for additional deduction of Rs 1.5 lacs for purchase of affordable houses till March 2022

# Budget Highlights (Contd.)

- Gross tax revenue for FY22 budgeted to grow at 16.7%YoY vs -5.5%YoY in FY21 (RE). FY22 is expected to see tax buoyancy with both direct and indirect taxes growing at a healthy pace.

- Nominal GDP to grow by a strong 14.4%YoY in FY22 compared to a contraction of 4.4%YoY in FY21.

- Despite drop in revenue collections, total expenditure growth for FY21 (RE) has been strong at 28.4%YoY helped by capex and strong revenue expenditure (primarily due to higher food subsidy). For FY22, total expenditure growth is flat--with revenue expenditure normalizing (lower food subsidy), although capex growth is strong.

- Subsidies have seen strong growth in in FY21 (primarily due to higher food and fertilizer subsidy); but is budgeted to fall in FY22

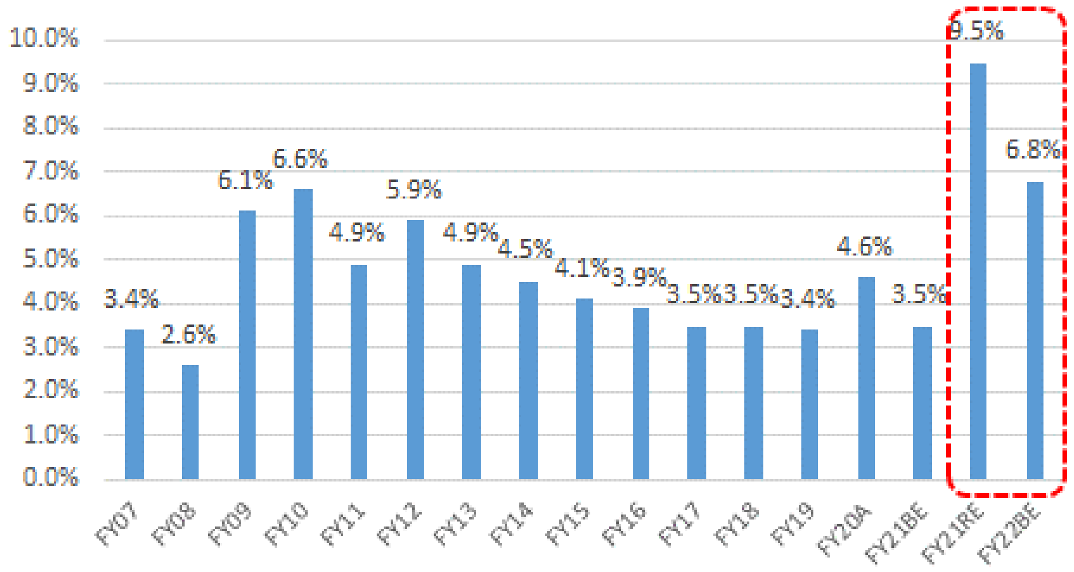
- Custom duty on gold and silver cut to 7.5% from 12.5%. Custom duty on steel down from 12.5% to 7.5%. However, the government has raised duties on mobile components, compressors, cotton, silk and automobile parts—to encourage domestic manufacturing.

- ULIP policies bought post 1st Feb 2021 with an annual premium of greater than Rs. 2.5 lacs (aggregate of all ulips) will be subject to taxation on maturity. However, in case of death of the ULIP policyholder the payout made to nominee will not be subject to any taxation.

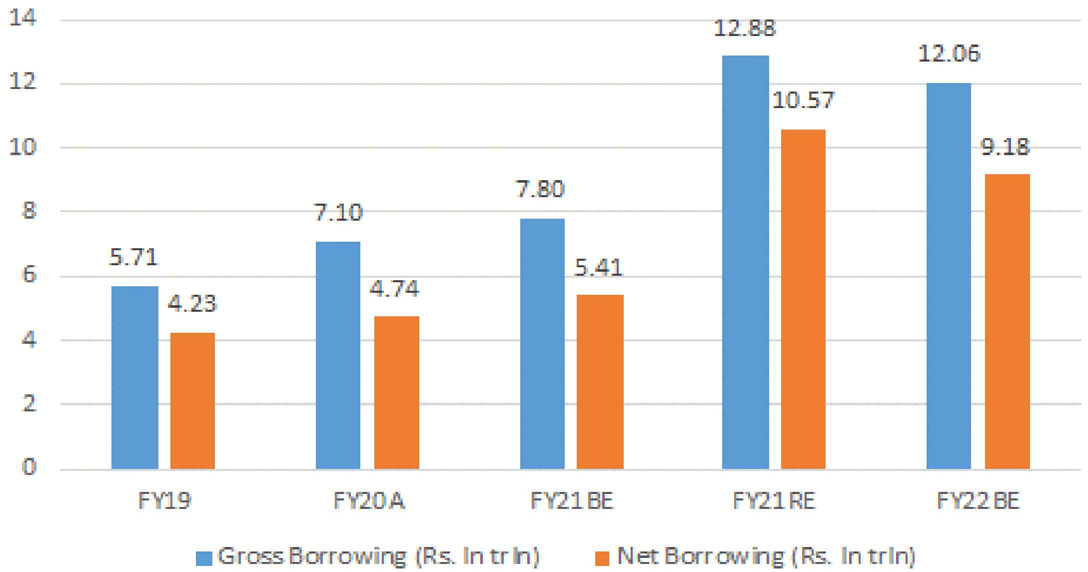
- All ULIP policies bought prior to 1st Feb 2021 would continue to enjoy the erstwhile tax benefits, and so will traditional insurance products (both par & non-par).

# Fiscal deficit and market borrowing higher than market estimate

Centre Fiscal Deficit Trend (as % of GDP)




Gross & Net Market Borrowing Trend (Rs. In trillion)

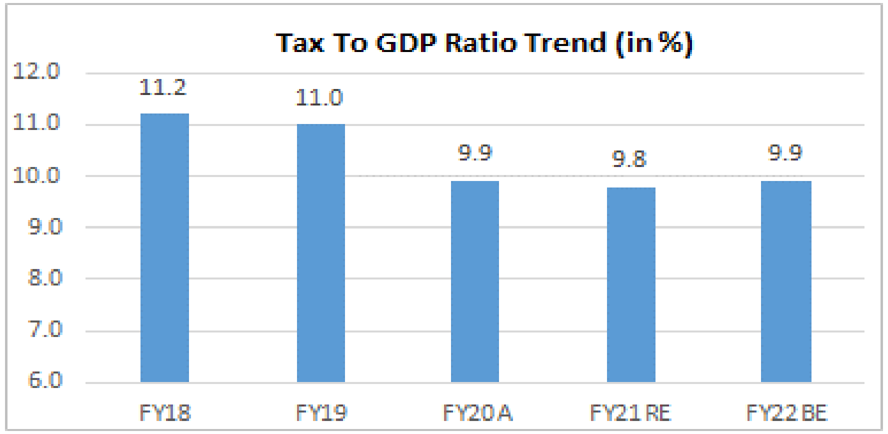


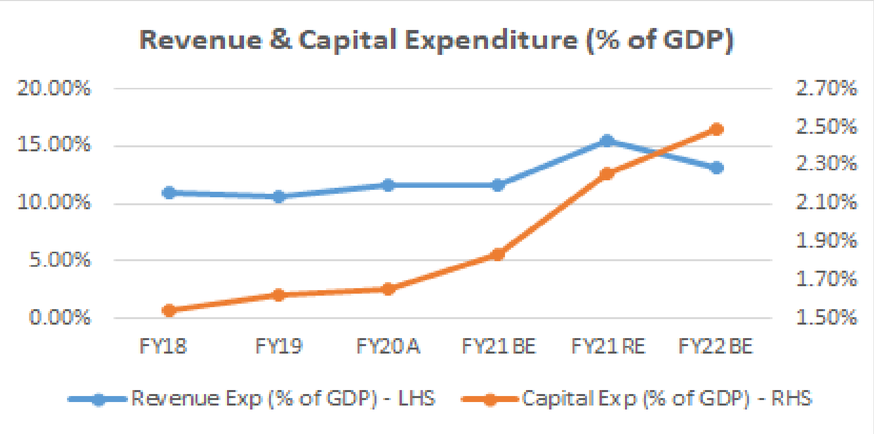

Source: Budget Documents. A = Actual, BE = Budgeted Estimate, RE = Revised Estimate

- Fiscal deficit for FY21 has been pegged at 9.5% (versus budgeted estimate of 3.5%) and for FY22 at 6.8%, which has been higher than market estimates. FY21 fiscal deficit is elevated due to govt. bringing off-balance sheet items (FCI borrowing for food & fertilizer subsidy) on to its own books. Glide path for fiscal consolidation (4.5%) delayed to FY26.
- Net market borrowing for FY22 is quite elevated at Rs. 9.2 trillion vs Rs. 10.6 trillion in FY21 (RE). The higher borrowing figure to create supply side pressure.
- Govt will need heightened RBI support for meeting the borrowing target and hence RBI's stance would be important.

# Tax to GDP ratio has fallen from earlier peak; expenditure aided by capital expenditure

| Budget at a glance | | | | | | | |
|---|---|---|---|---|---|---|---|
| | (INR in Bln) | | | | YoY Growth (in %) | | |
| | FY20A | FY21BE | FY21RE | FY22BE | FY20A | FY21RE | FY22BE |
| **Revenue receipts** | **16,841** | **20,209** | **15,552** | **17,884** | **8.4** | **(7.7)** | **15.0** |
| Net Tax Revenue | 13,569 | 16,359 | 13,445 | 15,454 | 3.0 | (0.9) | 14.9 |
| Non Tax Revenue | 3,272 | 3,850 | 2,107 | 2,430 | 38.8 | (35.6) | 15.3 |
| **Capital Receipts** | **10,023** | **10,213** | **18,952** | **16,948** | **31.5** | **89.1** | **(10.6)** |
| Recovery of loans | 183 | 150 | 145 | 130 | 1.1 | (20.8) | (10.3) |
| Other Receipts (mainly divestment) | 503 | 2,100 | 320 | 1,750 | (46.9) | (36.4) | 446.9 |
| Borrowings & other liabilities | 9,337 | 7,963 | 18,487 | 15,068 | 43.8 | 98.0 | (18.5) |
| **Total Receipts** | **26,863** | **30,422** | **34,503** | **34,832** | **16.0** | **28.4** | **1.0** |
| Total Revenue Expenditure | 23,506 | 26,301 | 30,111 | 29,290 | 17.1 | 28.1 | (2.7) |
| Total Capital Expenditure | 3,357 | 4,121 | 4,392 | 5,542 | 9.1 | 30.8 | 26.2 |
| **Total Expenditure** | **26,863** | **30,422** | **34,503** | **34,832** | **16.0** | **28.4** | **1.0** |
| | | | | | | | |
| **Fiscal Deficit** | **9,337** | **7,963** | **18,487** | **15,068** | **43.8** | **98.0** | **(18.5)** |
| Nominal GDP | 2,03,510 | 2,24,894 | 1,94,820 | 2,22,874 | 7.3 | (4.3) | 14.4 |
| **Fiscal Deficit (% of GDP)** | **4.6** | **3.5** | **9.5** | **6.8** | | | |
| | | | | | | | |
| **Gross Market Borrowing** | **7,100** | **7,800** | **12,880** | **12,055** | 24.3 | 81.4 | (6.4) |
| **Net Market Borrowing** | **4,740** | **5,409** | **10,568** | **9,177** | 12.1 | 123.0 | (13.2) |




- Tax to GDP ratio fell from a peak of 11.2% in FY18 to 9.8% in FY21 (RE), but has been maintained in FY22, despite the strong nominal GDP growth. Divestment revenue (under capital receipts) and non tax revenue to pick-up in FY22.
- Total expenditure growth strong at 28.4%YoY in FY21, helped by higher expenditure amidst pandemic. Exp. growth is flat for FY22--with revenue exp. normalizing (lower food subsidy), although capex growth is strong (at 26.2%YoY). <u>Share of capex (% of GDP) has been rising over the years to a 14-year high in FY22.</u>

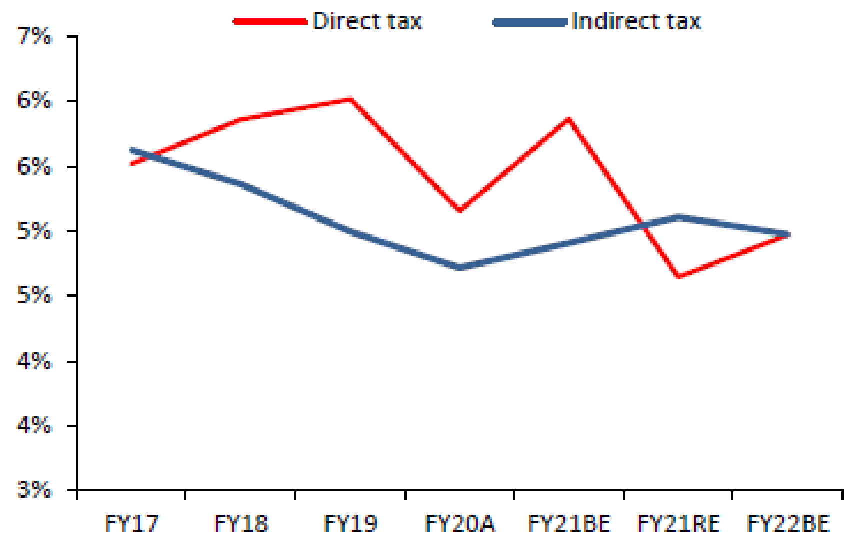


Source: Budget Documents. A = Actual, BE = Budgeted Estimate, RE = Revised Estimate

# Gross tax revenues to grow 16.7% in FY22 after a contraction in FY21; direct taxes contribution has come down

| Gross Tax Components | (INR in Bln) | | | | YoY Growth (in %) | | |
|---|---|---|---|---|---|---|---|
| | FY20A | FY21BE | FY21RE | FY22BE | FY20A | FY21RE | FY22BE |
| **Gross Tax Revenue** | **20,101** | **24,230** | **19,003** | **22,171** | **(3.4)** | **(5.5)** | **16.7** |
| **Direct Tax** | **10,495** | **13,190** | **9,050** | **11,080** | **(7.7)** | **(13.8)** | **22.4** |
| Personal Income Tax | 4,927 | 6,380 | 4,590 | 5,610 | 4.2 | (6.8) | 22.2 |
| Corporate Tax | 5,569 | 6,810 | 4,460 | 5,470 | (16.1) | (19.9) | 22.6 |
| **Indirect tax** | **9,605** | **11,040** | **9,953** | **11,091** | **1.8** | **3.6** | **11.4** |
| GST | 5,988 | 6,905 | 5,151 | 6,300 | 3.0 | (14.0) | 22.3 |
| Customs/Excise/Service Tax | 3,617 | 4,135 | 4,802 | 4,791 | (0.2) | 32.8 | (0.2) |

**Direct & Indirect Tax Trend (% of GDP)**




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

- Gross tax revenue for FY22 budgeted to grow by 16.7%YoY vs a contraction of 5.5%YoY in FY21 (RE).
  - Indirect Tax revenue contraction for FY21 has been stemmed by strong excise duty collection (50% YoY growth, driven by higher excise on fuel).
  - FY22 is expected to see tax buoyancy with both direct and indirect taxes growing at a healthy pace.
  - Under direct taxes, both income tax and corporate tax budgeted to grow by ~22%YoY in FY22
  - Under indirect taxes, GST to see strong growth of 22.3%YoY in FY22, excise duty collection expected to de-grow during the year.
- The contribution of direct taxes has been decreasing over the past few years, as indicated by direct tax as % of GDP — and is now is expected at similar level to indirect taxes in FY22. Indirect taxes projected to be helped by strong GST collections, as economy recovers.

# The govt. is depending on optimistic divestment revenue in FY22; subsidies to fall—helped by food & fertilizer subsidy normalization in FY22

| Non Tax Revenue & Capital Receipts Break-up | (INR in Bln) | | | | |
|---|---|---|---|---|---|
| | FY19 | FY20A | FY21BE | FY21RE | FY22BE |
| **Disinvestment** | 947 | 503 | 2,100 | 320 | 1,750 |
| **Telecom** | 408 | 698 | 1,330 | 337 | 540 |
| **Dividends** | 1,134 | 1,861 | 1,554 | 965 | 1,035 |
| Public Sector Enterprises | 431 | 355 | 657 | 347 | 500 |
| RBI | 704 | 1,506 | 896 | 618 | 535 |

| Subsidies Break-up | (INR in Bln) | | | | |
|---|---|---|---|---|---|
| | FY19 | FY20A | FY21BE | FY21RE | FY22BE |
| Subsidies | 2,229 | 2,623 | 2,621 | 6,487 | 3,699 |
| Food | 1,013 | 1,087 | 1,156 | 4,226 | 2,428 |
| Fertilizers | 706 | 811 | 713 | 1,339 | 795 |
| Petroleum | 248 | 385 | 409 | 391 | 141 |
| Other Subsidies | 262 | 340 | 343 | 531 | 335 |

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

- With buoyancy in capital markets the govt. has announced a large target of Rs. 1.75 trillion via divestment route in FY22, after significantly underachieving the lofty FY21 target on the back of market volatility and economic contraction
  - The divestment receipts for FY21 has been revised from earlier Rs. 2.1 trillion to Rs. 320 billion (as revised estimate).
  - The govt. has planned IPO of LIC and divestment of stake in BPCL, CONCOR, BEML, Air India etc. in FY22.
  - Two PSU banks and a general insurance company to be privatized in FY22
- Telecom revenue for FY21 revised down significantly but expected to see some recovery in FY22. Dividend income from public sector enterprises also revised down significantly for FY21 but expected to see some recovery in FY22.
- Subsidies (esp. food & fertilizer) had increased sharply in FY21 amidst the pandemic to provide support & as the govt. brought off-balance sheet items on its own books. However, it is expected to somewhat normalize in FY22.

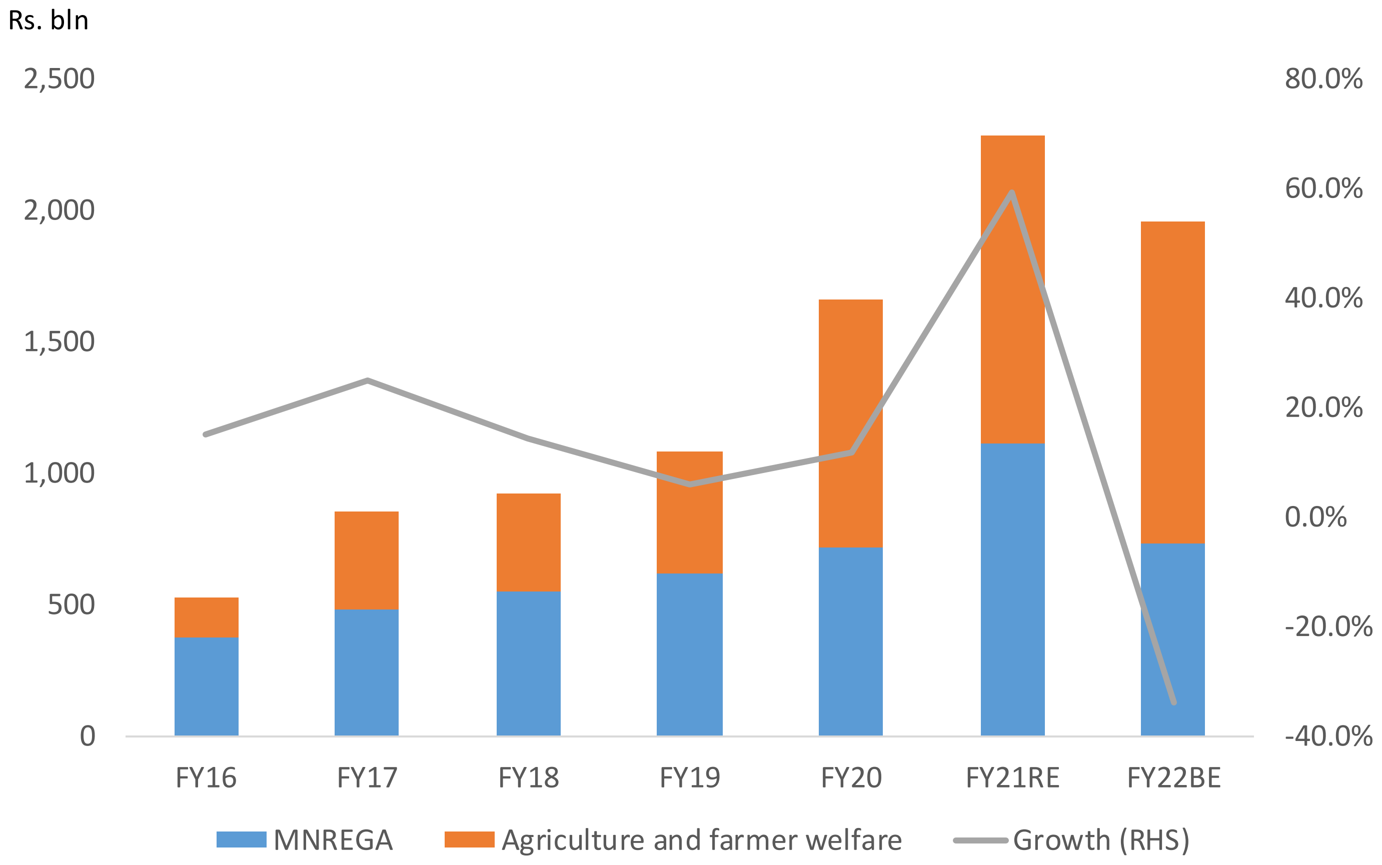
# Infrastructure spending is strong; doubling in 4 years

| In INR bln | FY18 | FY19 | FY20 | FY21RE | FY22BE |
|---|---|---|---|---|---|
| Total centre capex | 2,631 | 3,077 | 3,357 | 4,392 | 5,542 |
| YoY | -7.5% | 16.9% | 9.1% | 30.8% | 26.2% |
| | | | | | |
| | | | | | |
| Capital outlay (inc. IEBR) (INR b) | | | | | |
| Roads | 1,013 | 1,289 | 1,434 | 1,571 | 1,732 |
| YoY | 36.3% | 27.2% | 11.3% | 9.6% | 10.3% |
| | | | | | |
| Railways | 1,020 | 1,334 | 1,480 | 2,408 | 2,149 |
| YoY | -7.2% | 30.8% | 11.0% | 62.7% | -10.8% |
| | | | | | |
| Defence | 904 | 952 | 1,111 | 1,345 | 1,351 |
| YoY | 4.7% | 5.3% | 16.7% | 21.1% | 0.4% |
| | | | | | |
| Major schemes (INR b) | | | | | |
| Pradhan Mantri Gram Sadak Yojna | 169 | 154 | 140 | 137 | 150 |
| YoY | -5.9% | -8.6% | -9.1% | -2.2% | 9.4% |
| | | | | | |
| Pradhan Mantri Awas Yojna | 312 | 254 | 250 | 405 | 275 |
| YoY | 48.7% | -18.4% | -1.9% | 62.2% | -32.1% |
| | | | | | |
| Jal Jeevan Mission | 70 | 55 | 100 | 110 | 500 |
| YoY | 17.7% | -22.1% | 82.9% | 9.7% | 354.6% |
| | | | | | |
| Metro Projects | 138 | 143 | 182 | 65 | 190 |
| YoY | -9.9% | 3.3% | 27.3% | -64.3% | 193.0% |

- Government capex has seen a strong impetus for growth.
- Railways have seen a quantum jump in outlay for FY21, but decline in FY22.
- Jal Jeevan mission (drinking water scheme of govt.) seeing a strong impetus.

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

# Rural spend to be muted




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

- Govt. focus on capex--leading to muted spending on rural sector.
- Spending on rural dominated schemes/ segments such as MNREGA / agriculture spending to decline by 34% in FY22, after growing by 59% in FY21

# Equity Outlook

- No increase in taxation (as was widely feared) and government's focus on infrastructure is positive.
- Unlike the previous years, the budgeted numbers are realistic and transparent
- With the launch of Covid vaccines, worst seems to be behind us
- Easy global liquidity scenario/monetary policy stance expected to continue for a while—to help in economic recovery
- Corporate earnings to see strong recovery, with Nifty EPS growth expected to grow ~30% in FY22. However, market valuations are elevated, with Nifty index trading at ~22X FY22 EPS.
- At this juncture, investors should systematically invest in equities, or use an asset allocation approach (based on their risk profile).
- We are turning positive on domestically focused sectors like Infrastructure and cement and continue to like private banks.
- We also believe global export oriented sectors like IT, pharma would continue to do well

# Fixed Income outlook

- Fiscal deficit target for FY21 and FY22 is above market expectations, owing to one time clean-up of FCI (Food Corporation of India) accounts and healthy increase in Capital Expenditure.
  - *The bond yields reacted adversely due to higher than expected borrowings*.
- Fiscal consolidation path of gradually reducing deficit to 4.5% by FY26 is elongated and will lead to extended period of high market borrowings.
  - *This is also likely to result in supply side pressure and lead to risk of crowding out private borrowers*
- Heightened RBI support is essential to meet govt’s borrowing program and hence RBI’s stance and extent of support would be keenly watched by the bond markets.
- Revenue target seems achievable for FY21 and FY22--limiting scope for further slippage from budgeted estimates

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# THANK YOU



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