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UNION BUDGET 2020 - 2021

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KEY HIGHLIGHTS

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Though the Union Budget is essentially a Statement of Account of public finances, it has historically become a significant opportunity to indicate the direction and the pace of India's economic policy. The 2020-21 Union Budget was presented in continuation to strengthen its blueprint laid last year for creating a $5 trillion economy by 2025. This budget is woven around three prominent themes dedicated to provide "Ease of Living" to all citizens and to reinforce the Government's intention to improve the rural economy by boosting credit and investment in the agriculture and rural sector. Overall, the Indian society, polity and economy have shown remarkable resilience in adjusting with the structural reforms. This year's budget assumes importance for the current political regime due to it being the first full year budget of the government after coming back to power with a thumping majority. With this background, we present the key highlights of the Union Budget 2020-21.

ECONOMY

- Total expenditure in BE* 2020-21 is slotted to increase by 12.7% over RE* 2019-20.
- Gross tax revenues are expected to grow by 10.8% in FY21, maintaining a double digit growth rate for the sixth year in a row.
- Nominal GDP* is estimated to grow at 10% in 2020-21BE. Real GDP growth is expected to be 6.0% (assuming a 4% target inflation rate as per BE).
- Direct taxes in 2020-21BE are projected to grow at 12.7% over 2019-20 RE; Indirect taxes budgeted at Rs. 10.99 lakh crore an increase of 11.1%
- Fiscal deficit projections 2020-21BE targeted at 3.5%, 3.3% and 3.1% for 2021-22 and 2022-23 respectively.
- Disinvestment receipts anticipated to be Rs.2,10,000 crore in 2020-21BE.
- Gross market borrowings are slated at Rs.7.8 lakh crore, while net market borrowings are slated at 5.36 lakh crore.

BE=Budget Estimates, RE=Revised Estimates; GDP=Gross Domestic Product

PROMINENT THEMES OF THE BUDGET

Aspirational India

- Agriculture, Irrigation & Rural Development
- Wellness, Water and Sanitation
- Education and Skills

Economic Development

- Industry, Commerce and Investment
- Infrastructure
- New Economy

Caring Society

- Women & Child, Social Welfare
- Culture and Tourism
- Environment and Climate Change

AGRICULTURE AND RURAL ECONOMY

- Total Allocation towards Agricultural and allied activities, Irrigation & Rural Development spends is Rs 2.83 lakh crore for FY21BE.
- Government committed towards doubling farmer income by 2022.
- Agriculture credit target for the year 2020-21 set at Rs. 15 lakh crore. Expansion of NABARD Refinancing Scheme, while MGNREGS to be used to develop fodder farm.
- Expansion of PM-KUSUM scheme to provide 20 lakh farmers for setting up stand-alone solar pumps and help another 15 lakh farmers solarize their grid-connected pump sets.
- Scheme to enable farmers to set up solar power generation capacity on their fallow/barren lands and to sell it to the grid.
- Indian Railways will set up a “Kisan Rail” in PPP mode to build a seamless national cold supply chain for perishables.
- Krishi Udan scheme to boost agricultural exports in both international as well as domestic routes.
- e-NAM to be integrated with financing of negotiable warehousing receipts.
- Village Storage scheme to provide farmers a good holding capacity and reduce their logistics cost. More focus on Zero Budget farming.
- One product for one district, so that focus is given at district level for better marketing and export of horticulture.
- Change in incentive scheme for chemical fertilizers, shall encourage balanced use of all kinds of fertilizers including the traditional organic and other innovative fertilizers.
- Doubling of milk processing capacity from 53.5 million MT to 108 million MT by 2025.
- Raising fish production to 200 lakh tonnes by 2022-23 and fishery exports to Rs.1 lakh crore by 2024-25.
- Take up comprehensive measures for 100 water-stressed districts

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INFRASTRUCTURE OUTLAY

- Allocation towards transport infrastructure is Rs. 1.70 lakh crores for FY21BE; defense outlay is Rs. 4.71 lakh crore for FY21BE.
- National Infrastructure Pipeline of Rs.103 lakh crore launched in Dec 2019 which consists of more than 6500 projects, focused on improving ease of living for the citizens.
- Development of 2500 Km access control highways, 9000 Km of economic corridors, 2000 Km of coastal and land port roads and 2000 Km of strategic highways.
- Delhi-Mumbai Expressway and two other packages would be completed by 2023 . Chennai-Bengaluru Expressway would also be started.
- Monetize at least twelve lots of highway bundles of over 6000 Km before 2024.
- Allocation towards power and renewable energy is Rs. 0.22 lakh crores for FY21BE. Promote replacement of conventional metering system by “smart” metering system.
- Expand the national gas grid from the present 16200 km to 27000 km.
- “Arth Ganga”. Plans are afoot to energise economic activity along river banks. The Jal Vikas Marg on National Waterway-1 will be completed. Further, the 890 Km Dhubri-Sadiya connectivity will be done by 2022.
- 100 more airports would be developed by 2024 to support Udaan scheme. Air fleet number shall go up from the present 600 to 1200 during this time.
- Budgeted Railway improvement measures are setting up a large solar power capacity alongside the rail tracks, 4 station re-development projects, operation of 150 passenger trains, more Tejas type trains, high speed train between Mumbai-Ahmedabad and 148 kms long Bengaluru Suburban transport project at a cost of Rs. 18600 crore.
- Providing digital connectivity to all “public institutions” at Gram Panchayat level through FTTH connections under Bharatnet programme in 2020-21. 6000 Crores have been allocated towards Bharatnet.

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FINANCIAL SECTOR REFORM

- Deposit Insurance Coverage to increase from Rs.1 lakh to Rs.5 Lakh per depositor.
- Eligibility limit for NBFCs for debt recovery under SARFAESI Act proposed to be reduced to asset size of Rs.100 crore or loan size of Rs.50 Lakh.
- Separation of NPS Trust for government employees from PFRDAI.
- Proposed to introduce a scheme to provide subordinate debt by banks for entrepreneurs of MSMEs that shall be counted as quasi-equity and would be fully guaranteed through the Credit Guarantee Trust for Medium and Small Entrepreneurs (CGTMSE).
- Proposal to sell balance holding of government in IDBI Bank.
- FPI Limit for corporate bonds to be increased to 15% from 9% of outstanding stock.
- New debt ETF proposed mainly for government securities.
- Specified categories of government securities would be opened for non resident investors
- Proposes to sell a part of its holding in LIC by way of Initial Public Offer.
- Start-ups with turnover up to Rs.100 crore to enjoy 100% deduction for 3 consecutive assessment years out of 7 years.
- Turnover threshold for audit of MSMEs to be increased from Rs.1 crore to Rs.5 crore, to those businesses which carry out less than 5% of their business in cash.
- Dividend Distribution Tax shifted to individuals instead of companies
- Propose to extend handholding support in selected sectors such as pharmaceuticals, auto components and others to successful mid-size companies to encourage export. A scheme of Rs.1000 crore will be anchored by EXIM Bank along with SIDBI.
- To launch new direct tax dispute settlement scheme -- Vivaad se Vishwaas scheme.

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OTHER INITIATIVES

- To promote Textile Export, National Technical Textiles Mission proposed with a four-year implementation period from 2020-21 to 2023-24 at an estimated outlay of Rs. 1480 crore.
- Set up Viability Gap funding window for setting up hospitals in the PPP mode, giving priority to districts where there are no Ayushman empanelled hospitals. Allocation towards health sector is at Rs. 69,000 crores
- Commitment to end Tuberculosis by 2025.
- Expand Jan Aushadhi Kendra Scheme to all districts offering 2000 medicines and 300 surgicals by 2024.
- Total allocation for Swachh Bharat Mission is about Rs.12,300 crore in 2020-21.
- Rs.11,500 crore allocated towards Jal Jeevan Mission, which aims to provide piped water supply to all households.
- About Rs.99,300 crore allocated towards education sector in 2020-21 and about Rs.3,000 crores for skill development.
- About Rs.27,300 crore allocated towards Industry and Commerce.
- Propose to develop five new smart cities in collaboration with States in PPP mode.
- To achieve higher export credit disbursement, NIRVIK is being launched, to provide higher insurance coverage, reduction in premium for small exporters and simplified procedure for claim settlements.
- Digitally refund to exporters, duties and taxes levied at the Central, State and local levels.
- Proposed outlay of Rs.8000 crore over a period of five years for the National Mission on Quantum Technologies and Applications.
- An allocation of Rs.3,150 crore towards Ministry of Culture for 2020-21, to develop 5 archaeological sites as iconic sites, and take up several museums across the country for renovations.

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DIRECT TAX

INTRODUCTION OF NEW TAX REGIME:

- A new taxation regime has been introduced. Individuals can choose to forego deductions and exemptions, and avail lower tax rates upto a limit. Viability will depend on list of exemptions given up – projected tax revenue loss of Rs. 40,000 crore in the year.
- Under the new regime, a person earning Rs.15 lakh in a year and not availing any deductions etc. will pay Rs.1,95,000 as compared to Rs.2,73,000 in the old regime. Thus, his tax burden shall be reduced by 78,000 in the new regime.

Income (INR)	Existing rates/old regime			New Regime (Optional)
	Age less than 60 years	Age 60 years or more	Age 80 years or more	
Up to 2.5 lacs	Nil	Nil	Nil	Nil
2.5 lacs to 3 lacs	5%	Nil	Nil	5%
3 lacs to 5 lacs	5%	5%	Nil	5%
5 lacs to 7.5 lacs	20%	20%	20%	10%
7.5 lacs to 10 lacs	20%	20%	20%	15%
10 lacs to 12.5 lacs	30%	30%	30%	20%
12.5 lacs to 15 lacs	30%	30%	30%	25%
Above 15 lacs	30%	30%	30%	30%

The new Tax Regime is for taxpayers who forego deductions and exemptions such as:-

- Standard Deduction
- Leave Travel Allowance
- House Rent Allowance
- Interest and principal repayment in respect of self-occupied property
- PPF, insurance premium, mediclaim premium, NPS contribution

However, opting the new tax regime is optional for tax payers

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DIRECT TAX

- Introduced TDS on capital gains in mutual fund for resident individuals.
- Contributions exceeding Rs.7,50,000 made by employer to an employee's account in a recognized provident fund, notified pension scheme or approved superannuation fund would be taxable perquisite in the hands of the employees.
- Securities issued by startups under Employee Stock Benefit Plans by employers are taxable in the hands of the employees at the time of their exercise.
- It is proposed to remove the dividend distribution tax payable by companies and tax the dividend from such companies and mutual funds in the hands of the recipients at the tax rates applicable to the respective recipients.
- An additional deduction of Rs.1,50,000 is available in the Finance Act 2019 in relation to interest on loan taken for acquisition of house property worth less than Rs. 45 Lakhs, taken before 31 March 2021.
- Permanent Account Number (PAN) based on Aadhaar would be introduced by which PAN would be instantly allotted online.
- Incorporation of a "Taxpayer's Charter" in the statute with the objective of ending tax payer harassment.
- **Tightening of Residence rules:**
    - A citizen of India not taxable in any country on account of residence / domicile etc will be deemed to be a resident of India.
    - Residency threshold for NRI/ PIOs inter-alia on an India visit reduced from 182 days to 120 days.
    - Criteria of determining Not Ordinarily Resident in India modified as under:
        - Individual – who is an NR in 7 out of 10 preceding years.
        - HUF – Karta has been an NR in 7 out of 10 preceding years.

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INDIRECT TAX

- Customs duty raised on footwear to 35% from 25% and on furniture goods to 25% from 20%.
- Excise duty proposed to be raised on Cigarettes and other tobacco products, no change made in the duty rates of bidis.
- Basic customs duty on imports of news print and light-weight coated paper reduced from 10% to 5%.
- Customs duty rates revised on electric vehicles and parts of mobiles.
- 5% health cess to be imposed on the imports of medical devices, except those exempt from BCD.
- Lower customs duty on certain inputs and raw materials like fuse, chemicals, and plastics
- Higher customs duty on certain goods like auto-parts, chemicals, etc. which are also being made domestically.
- Tax burden on employees due to tax on ESOPs to be deferred by five years or till they leave the company or when they sell, whichever is earliest.
- New Simplified return for GST from April 2020.
- Propose to extend the concessional corporate tax rate of 15% to new domestic companies engaged in the generation of electricity.
- Anti dumping duty on PTA abolished to benefit the textile sector.

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EQUITY MARKET

- The Union Budget is dedicated to provide "Ease of Living" to all citizens and to reinforce Government's intention to improve the rural economy by boosting credit and investment in the agriculture and rural sector.
- On the backdrop of weaker economic growth as well as widening fiscal deficit, the Budget was delivered with major focus towards Agriculture, Rural Economy, Infrastructure and Healthcare.
- Equity markets ended in deep red on the Budget day. The S&P BSE Sensex closed at 39,735 levels, a downtick of 2.43% (-988 points).

- Among the S&P BSE sector indices, IT was the only index which gained by 1.4%. All other indices closed in red led by Realty (-7.8%), Capital Goods (-4.8%), PSU (-4.0%), Metal (-3.5%), Bankex (-3.2%), Power (-3.0%), Oil & Gas (-2.6%) and Auto (-2.5%).
- Among Sensex stocks, TCS (+4.1%), Hindustan Unilever (+2.0%) and Infosys (+0.5%) were the top gainers while Tata Motors DVR (-7.7%) & Tata Motors (-6.1%), ITC (-7.0%) and Larsen & Tourbo (-6.0%) were among the major losers.

DEBT MARKET

- The budget has continued to strengthen its blueprint laid last year for creating a $5 trillion economy by 2025, with a rural focus.
- Bond markets were closed for the day. One needs to watch reaction of bond market when it opens on Monday. Gross market borrowings was up to Rs.7.8 lakh crore as expected by market participants. In addition, fiscal numbers are also in line with the market expectations.
- Furthermore, the FM announced to open up our local bond market to off-shore investors. Thus, she has hiked participating limit for foreign portfolio investors (FPIs) in corporate bonds from 9% of outstanding currently to 15%. Also importantly, certain specified categories of government securities would be opened fully for non-resident investors, apart from being available to domestic investors as well.
- The disinvestment target for 2020-21 is Rs.2,10,000 crore as against for 2019-20 is Rs.1,05,000 crore.

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FY21 fiscal deficit targeted at 3.5% of GDP after slippage in FY20 to 3.8% - Both revenue and spending targets padded

- **Revenue targets look reasonable at first glance, but likely miss of FY20RE numbers makes achievement of FY21BE target difficult**
  - Net tax revenues, which is budgeted to rise 8.7% in FY21, is based on a more ambitious 12% rise in gross tax collections (ahead of transfer to states); growth of 14.2% in net taxes to centre in FY20RE seems high.
  - Non tax revenue projection of Rs. 3.85 tn in FY21 based on increased revenues from telecom, which is likely in line with collections of AGR, but this will offset lower income from dividends as RBI transfers normalise.
  - Scope for RBI dividend to come in larger than Rs. 600 bn indicated, but this depends on extent of provisions in the year.
  - Receipts from disinvestments at Rs. 2.25 tn; disinvestments of 2.1 tn through BPCL, Air India sales and CPSE ETFs are known; announcement of LIC IPO came as a surprise on the upside.

- **Expenditure growth of 12.7% is based on stronger growth of capex at 18.1% so as to improve quality, but actual growth is likely to be higher given low likelihood that RE levels will be achieved**
  - Expenditure increases driven by agriculture and allied (28% increase), IT & telecom (271%), union territories (252% on inclusion of the erstwhile J&K) and transfer to states for schemes (29%).
  - On revenue expenditure side, agriculture and rural sector schemes predominate growth.
  - Food subsidy rising 6% as loans to FCI from NSSF continues to be envisioned ahead, rather than repayment usually budgeted.

Duration supply likely to be heavy in FY21, but buyback and cash buildup targeted can provide a cushion if required

Net market loans at Rs. 5.45 tn in FY21, making up 68% of the total fiscal deficit

- Reliance on financing through collections of the small savings fund sharply higher at Rs. 2.4 tn in FY21BE and FY20RE – up from 1.25 tn in FY20BE and 1.03 tn in FY19.
- Other non-market sources limited; Financing from state PFs at a steady Rs. 180 bn, external assistance and 'others' small.
- Notably, FY21 budgeted to rebuild cash balances by Rs. 530 bn, while FY20RE numbers have no draw of cash balances (as against 510.5 bn draw in FY20BE): The RE number provides a buffer for when ambitious receipts numbers will not materialise, and FY21 buildup can get minimised since revenues will most likely be deficient.
- Short term borrowings for FY20 and FY21 see an increase in T-bills outstanding of Rs. 250 bn.
- Above numbers take gross auction supply of G-sec in FY21 to Rs. 7.8 tn – around market expectations. But budgeted switch of Rs. 2.7 tn introduces a large amount of duration supply in the year.
- As against this, RBI is expected to continue with twist operations – but stock on RBI's balance sheet of FY21 paper is far more limited.

Higher non-tax revenue and ambitious disinvestment target expected to offset weaker growth in tax receipts in FY21

Quality of expenditure expected to improve with revenue expenditure growth at 12% for FY21 and capital expenditure growth at 18%

Rs. Tn	FY19 (A)	FY20 (BE)	FY20 (RE)	FY21 (BE)		FY19 (A)	FY20 (BE)	FY20 (RE)	FY21 (BE)
GDP	189.7	211.0	204.4	224.9		11.0%	11.2%	7.8%	10.0%
Tax Receipts (Net)	13.17	16.50	15.05	16.36		6.0%	25.2%	14.2%	8.7%
Non Tax Revenue	2.36	3.13	3.46	3.85		22.3%	32.9%	46.6%	11.4%
Divestments & Others	1.13	1.20	0.82	2.25		-2.5%	6.3%	-27.6%	175.7 %
Total Receipts	**16.66**	**20.83**	**19.32**	**22.46**		**7.4%**	**25.0%**	**16.0%**	**16.3%**
Revenue Expenditure	20.07	24.48	23.50	26.30		6.8%	21.9%	17.0%	11.9%
Capital Expenditure	3.08	3.39	3.49	4.12		16.9%	10.0%	13.4%	18.1%
Total Expenditure	**23.15**	**27.86**	**26.99**	**30.42**		**8.1%**	**20.4%**	**16.6%**	**12.7%**
Fiscal Deficit	**6.49**	**7.04**	**7.67**	**7.96**		**3.4%**	**3.3%**	**3.8%**	**3.5%**

Nominal GDP growth assumed to be 10% for FY21

Source: Budget Documents, Axis Bank Economic Research, Axis Bank Investment Research

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Optimistic assumptions on revenue collections in FY20 will make it difficult to achieve revenue targets in FY21 as well

Rs. Tn	FY19 (A)	FY20 (BE)	FY20 (RE)	FY21 (BE)		FY19 (A)	FY20 (BE)	FY20 (RE)	FY21 (BE)
Gross Tax Revenue	**20.80**	**24.61**	**21.63**	**24.23**		**8.4%**	**18.3%**	**4.0%**	**12.0%**
Income	4.73	5.69	5.60	6.38		9.8%	20.3%	18.3%	14.0%
Corporation	6.64	7.66	6.11	6.81		16.2%	15.4%	-8.0%	11.5%
Excise	2.32	3.00	2.48	2.67		-10.6%	29.3%	6.9%	7.7%
Customs	1.18	1.56	1.25	1.38		-8.7%	32.3%	6.1%	10.4%
Service	0.07	0.00	0.01	0.01					
Central GST	4.58	5.26	5.14	5.80			15.0%	12.3%	12.8%
UT GST	0.03	0.03	0.07	0.08					
Integrated GST	0.29	0.28	0.00	0.00			-3.3%		
Compensation Cess	0.95	1.09	0.98	1.11			15.0%	3.4%	12.4%
Total GST	**5.84**	**6.66**	**6.19**	**6.98**			**14.0%**	**6.0%**	**12.7%**
Direct Tax	**11.37**	**13.35**	**11.70**	**13.19**		**13.4%**	**17.5%**	**2.9%**	**12.7%**
Indirect Tax	**9.41**	**11.22**	**9.93**	**11.04**		**3.0%**	**19.2%**	**5.6%**	**11.1%**
Tax Revenues (Net to Centre)	**13.17**	**16.50**	**15.05**	**16.36**		**6.0%**	**25.2%**	**14.2%**	**8.7%**

Source: Budget Documents, Axis Bank Economic Research, Axis Bank Investment Research

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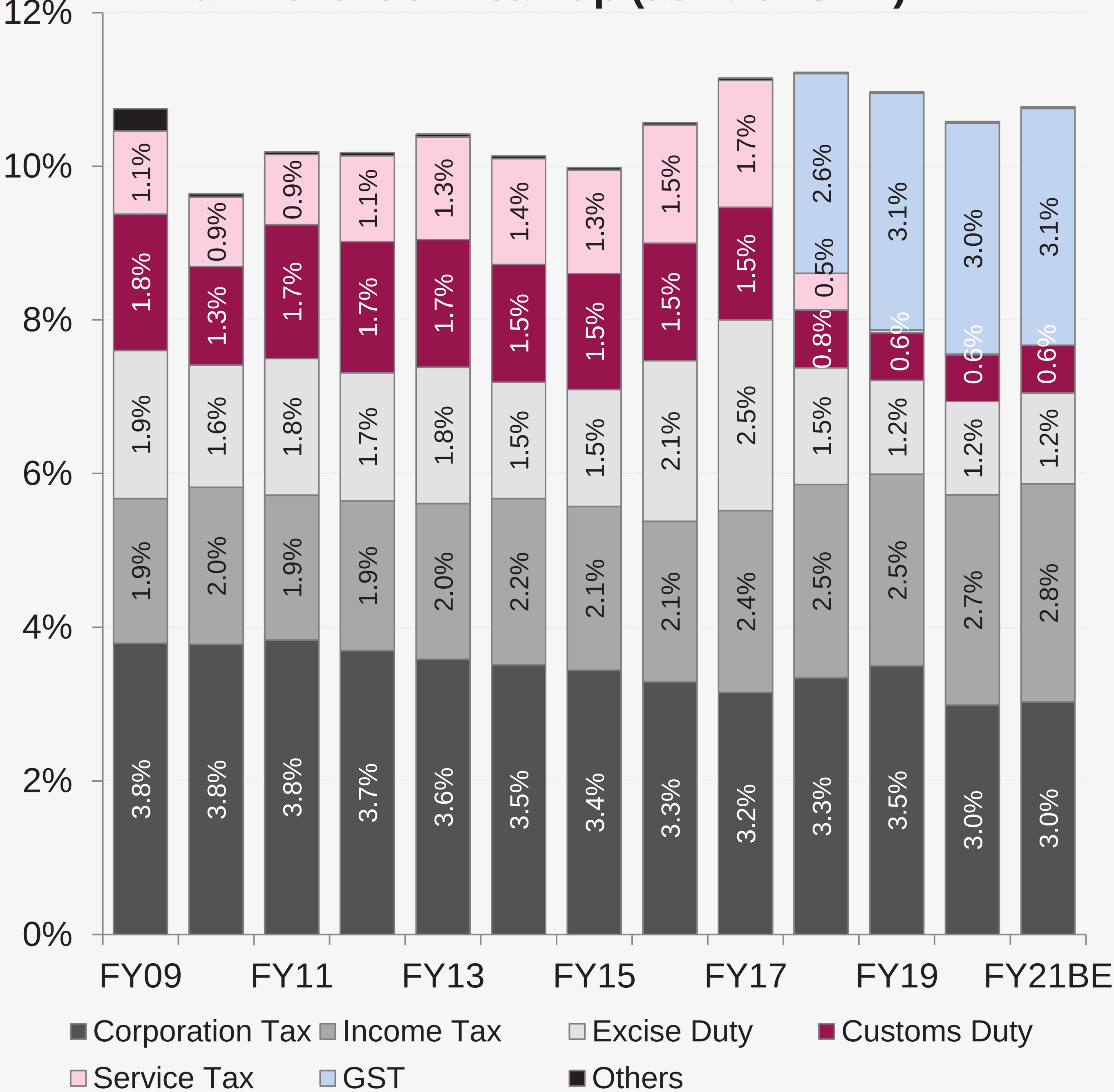
Among ambitious tax targets, GST looks the most achievable

Government requires strong improvement in compliance to meet the revenue targets, given weak economic environment

Tax Revenue Break-up (as % of GDP)



Source: Budget Documents, Axis Bank Economic Research, Axis Bank Investment Research

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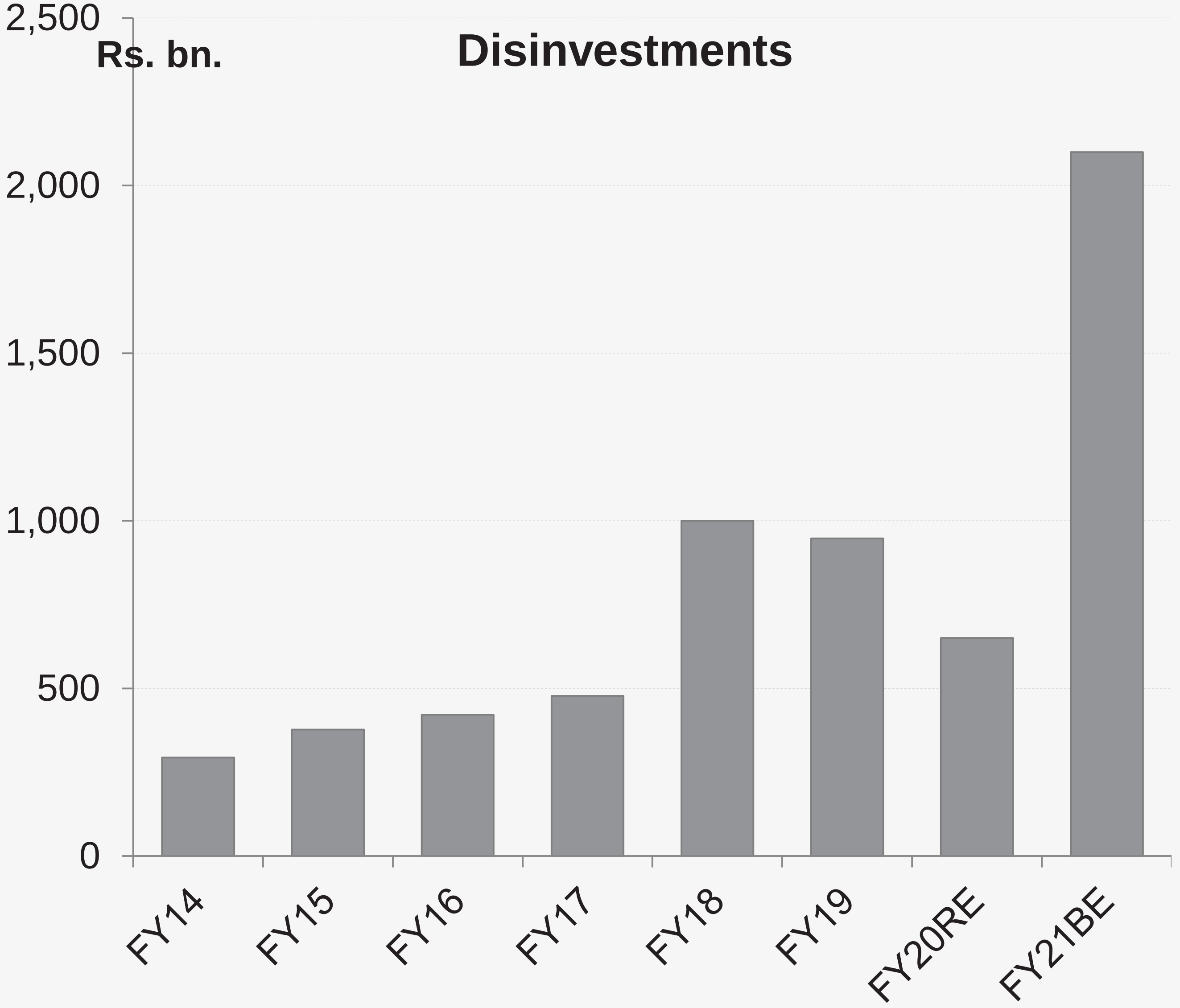
Government sets an ambitious target of Rs 2.1 lakh crore disinvestment, including Rs.90K cr. from PSBs and FIs – puts LIC on the block

FY20 disinvestment target reduced to Rs 65,000 cr from Rs 1.05 lakh cr set in the previous budget – FYTD20 disinvestment proceeds at meagre Rs 18,000 cr



Source: Budget Documents, Axis Bank Economic Research, Axis Bank Investment Research

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Marginal increase in food subsidy in FY21 as bulk of it is financed through National Small Savings Fund (NSSF)

Fertilizer subsidies budgeted at Rs 71,000 in FY21 down from Rs 80,000 cr in FY20 RE

Rs. Tn	FY19 (A)	FY20 (BE)	FY20 (RE)	FY21 (BE)		FY19 (A)	FY20 (BE)	FY20 (RE)	FY21 (BE)
Expenditure	**23.15**	**27.86**	**26.99**	**30.42**		**8.1%**	**20.4%**	**16.6%**	**12.7%**
Subsidies	2.23	3.39	2.64	2.62		-0.7%	52.0%	18.2%	-0.5%
o/w Food	1.01	1.84	1.09	1.16		1.0%	81.8%	7.3%	6.3%
Fertilizers	0.71	0.80	0.80	0.71		6.3%	13.3%	13.3%	-10.9%
Petroleum	0.25	0.37	0.39	0.41		1.5%	50.9%	55.3%	6.1%
Interest	5.83	6.60	6.25	7.08		10.2%	10.2%	13.4%	7.3%
Revenue Expenditure	**20.07**	**24.48**	**23.50**	**26.30**		**6.8%**	**21.9%**	**17.0%**	**11.9%**
Capital Expenditure	**3.08**	**3.39**	**3.49**	**4.12**		**16.9%**	**10.0%**	**13.4%**	**18.1%**

Source: Budget Documents, Axis Bank Economic Research, Axis Bank Investment Research

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Major schemes' allocation continue to show focus on farm and rural sector

Allocation to major Health and Education schemes roughly the same

Sr. No.	Scheme (In Rs. Cr.)	Ministry	FY17	FY18	FY19	FY20 (RE)	FY21 (BE)
1	PM-KISAN	Agriculture			1,241	54,370	75000
2	MNREGA	Rural Development	48,215	55,166	61,815	71,002	61,500
3	National Education Mission	HRD	27,616	29,455	30,830	37,672	39,161
4	National Health Mission	Health and Family Welfare	22,870	32,000	31,502	34,290	34,115
5	Pradhan Mantri Awas Yojana	Rural and Urban Development	20,952	31,163	25,443	25,328	27,500
6	Integrated Child Development Services	Women and Child Development	15,893	19,234	21,642	24,955	28,557
7	Pradhan Mantri Gram Sadak Yojana	Rural Development	17,923	16,862	15,414	14,070	19,500
8	Swach Bharat Mission	Rural and Urban Development	12,619	19,427	15,374	9,638	12,294
9	Interest Rate Subsidy for short term credit to farmers	Agriculture	13,397	13,046	11,495	17,863	21,175
10	Green Revolution	Agriculture	10,105	11,057	11,758	9,965	13,320
11	Pradhan Mantri Fasal Bima Yojana	Agriculture	11,055	9,419	11,937	13,641	15,695
12	Urban rejuvenation mission, AMRUT, Smart cities mission	Urban Development	9,277	9,463	12,085	9,842	13,750

Source: Budget Documents, Axis Bank Economic Research, Axis Bank Investment Research

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Financing: Gross G-sec higher at Rs. 7.8 tn, but buffer available in buyback and cash build-up budgeted

Numbers include switch of Rs. 2.7 tn as GOI extends maturities – leading to higher duration supply to markets

Rs. Tn.	FY19(A)	FY20(BE)	FY20(RE)	FY21(BE)
Fiscal Deficit % GDP	3.42%	3.34%	3.75%	3.54%
Fiscal Deficit	**6.49**	**7.04**	**7.67**	**7.96**
Financing of Deficit				
Net Borrowings (incl. Short Term)	4.30	4.48	4.99	5.40
Small Savings	1.25	1.30	2.40	2.40
State PF's	0.16	0.18	0.18	0.18
Others	0.74	0.60	0.05	0.47
External Assistance	0.06	-0.03	0.05	0.05
Cash Surplus	-0.01	0.51	0.00	-0.53
Gross G.Sec. Supply	**5.71**	**7.10**	**7.10**	**7.80**
Redemptions (-)	1.48	2.37	2.36	2.35
Net G.Sec. Supply	**4.23**	**4.73**	**4.74**	**5.45**
Buybacks (Net) (-)	-	0.50	-	0.30
Switch (Net)	0.01			
Net Market Borrowings	**4.23**	**4.23**	**4.74**	**5.15**
Short Term Borrowings (Net)	0.07	0.25	0.25	0.25
Net Borrowings (incl. Short Term)	**4.30**	**4.48**	**4.99**	**5.40**

Source: Budget Document, Axis Bank Economic Research, Axis Bank Investment Research

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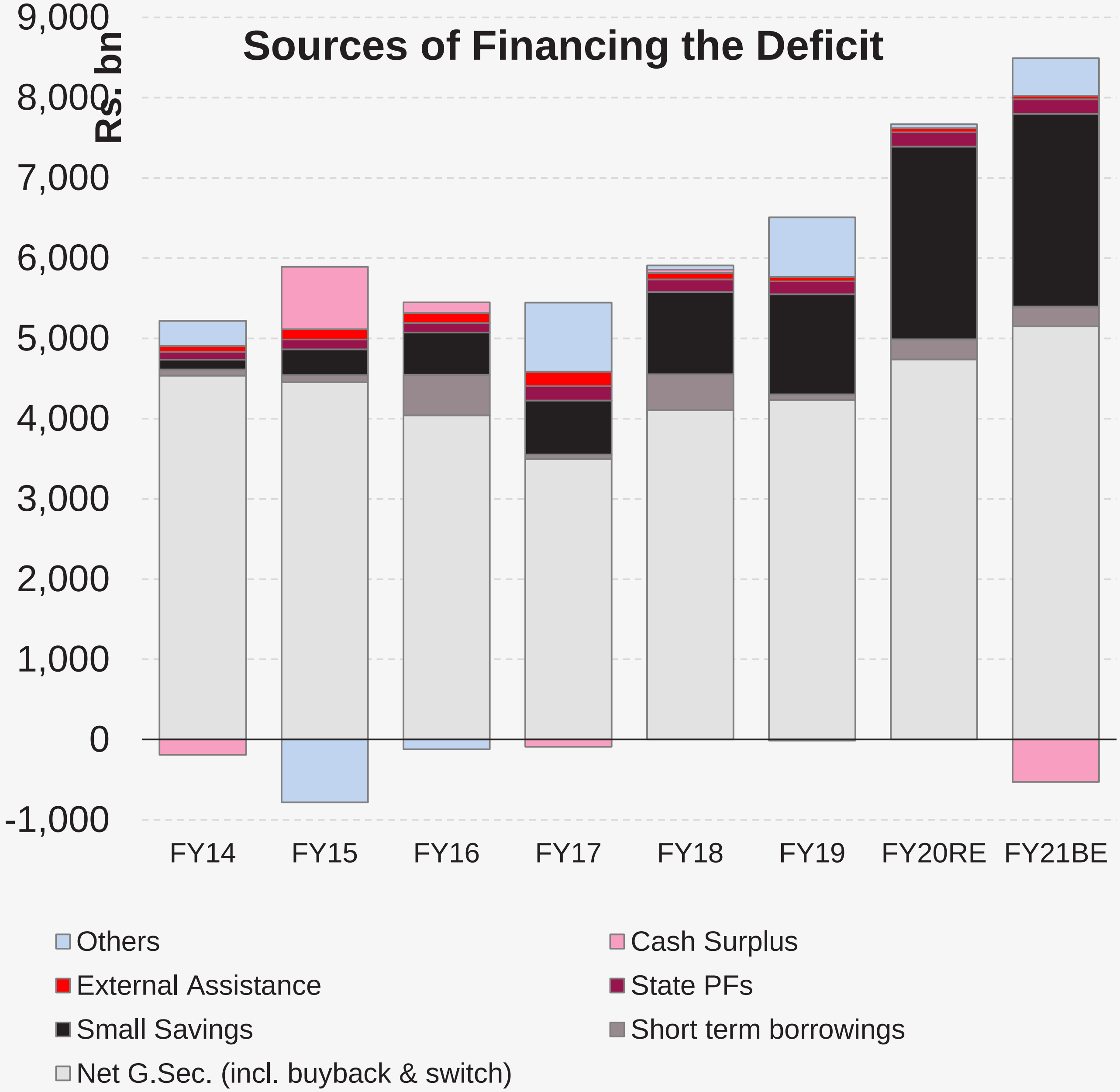
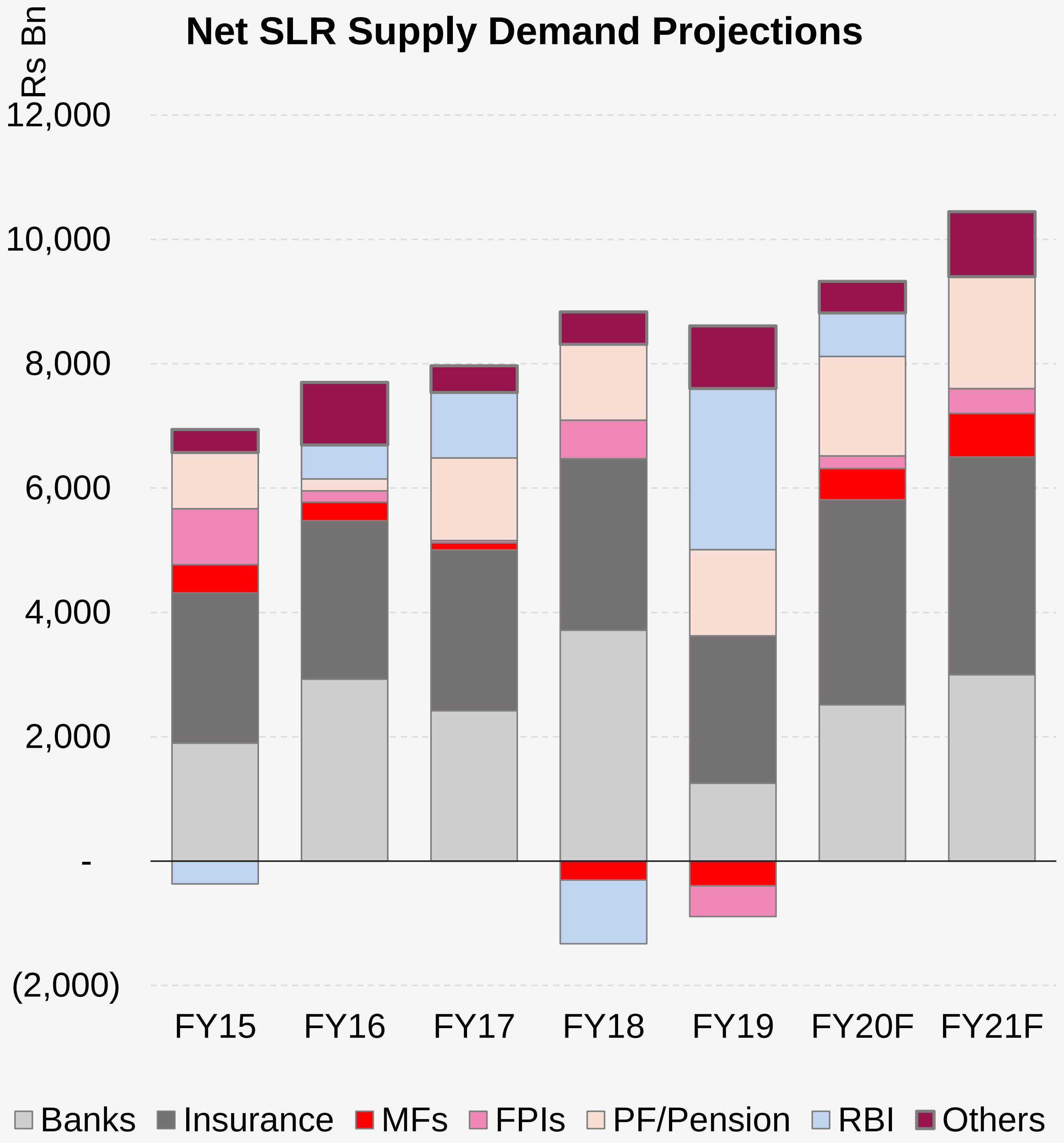
Dependence on small savings, as a source of financing the deficit, increasing over time

Higher small savings collections + repayment by states has led to significant increase in the small savings funds which can either be used to finance the deficit or push expenditure off-budget



Source: Budget Documents, Axis Bank Economic Research, Axis Bank Investment Research

Net supply continues to increase, but duration supply, helped by switches is the real worry going ahead



Source: RBI, Axis Bank Economic Research, Axis Bank Investment Research

Auto:

Key Budget Measures	Impact and Beneficiaries
• Customs duty on import of complete built units (CBU) electric bus and trucks which is currently at 25%, is proposed to be increased to 40%. • Customs duty on semi-knocked down EVs which is currently 15%, is proposed to be increased to 25% for Bus, trucks and 2Ws and 30% for PVs and 3Ws • Customs duty on completely knocked down EVs which is currently 10%, is proposed to be increased to 15%	**Neutral:** Increase in customs duty is intended to spur local manufacturing of EVs. Sector is in a very nascent stage in India, the impact on listed Auto companies will be negligible
• Customs duty on parts used to manufacture catalytic converters which is currently 5% is proposed to be increased to 7.5%	**Marginally Negative** add to the BS-VI related cost

Banking and Financial Services:

Key Budget Measures	Impact and Beneficiaries
• New personal income tax proposes a lower tax rate across brackets, however forgoes all deductions (life insurance, ELSS, PPF, NSCs etc) this is optional as of now	**Negative** for life insurance companies, HFCs
• Deposit insurance coverage under Deposit Insurance and Credit Guarantee Corporation (DICGC) Act increased to Rs.5 lakh from Rs.1 lakh	**Negative** for banks as elevated insurance costs
• Provide working capital facility to MSMEs in the form of subordinate debt to be provided by banks • Debt restructuring window of MSMEs extended till Mar'21	**Positive** for small finance banks
• Extended benefit to affordable housing on interest paid on housing loan for loans sanctions upto Mar'21	**Positive** for HFCs, but offset by change in personal tax change
• Eligibility limit for NBFCs for debt recovery under SARFAESI Act	**Positive** for smaller NBFCs

Source: Axis Capital

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Consumer:

Key Budget Measures	Impact and Beneficiaries
• Increase in NCCD on cigarettes, weighted average tax hike of ~9% • Rise in import tax on crude palm oil to 44% • Hike in excise duty on footwear/footwear parts to 35%/20% • Expenditure towards agri/rural has increased by ~13% to Rs 3.5 bn	**Negative:** For cigarette manufacturers/food companies. **Positive:** For domestic footwear manufacturers/FMCG players with significant presence in rural markets.

Item	Current status	Budget proposals
Cigarettes	NCCD on filter cigarettes is Rs 90/1,000 cigarettes for lengths below 70mm, Rs 145/1,000 for cigarettes above 70mm and below 75mm and Rs 235/1,000 for lengths above 75mm	Increase in NCCD on cigarettes to Rs 440/1,000 for lengths below 70mm and Rs 545/1,000 for cigarettes of lengths above 70 mm and below 75 mm and Rs 735/1,000 for lengths above 75 mm
Footwear	Customs duty on imports for footwear/footwear parts is currently 25%/15%	Hike in excise duty on footwear/footwear parts to 35%/20%
Crude palm Oil	Import tax on crude palm oil is currently at 37.5%	Rise in import tax on crude palm oil to 44%
Rural spending	Total expenditure allocated toward the agri sector, rural development and social welfare in FY20 was Rs 3.1 bn	Expenditure towards agri/rural has increased by ~13% to Rs 3.5 bn

Source: Axis Capital

Engineering & Infrastructure:

Key Budget Measures	Impact and Beneficiaries
• Budgetary allocation by the government to the infrastructure sector increased ~8% at Rs 4.65 trn (vs. 10% growth in PY) – equalling 2.1% of GDP as NIP targets. PSU capex is expected to drop 6% YoY – thus, total Infra capex is expected to grow only 2% YoY (vs. 7% in FY20).	**Infra – increase in govt spending offset by weakness in PSU capex**
• **Roads:** 2,000 km highway, 9,000 km economic corridor, 2,000 km land and port roads, 2,000 km strategic highways – totalling to 15,000 km have been proposed. NHAI has been allowed to raise funds via 12 TOTs by 2024 for 6,000 km • **Railways:** 27000 km of electrification. Large solar power capacity along tracks to reduce energy cost, Bangalore Chennai high speed train approved at Rs 186 bn. • **Construction:** 27,000 km gas grid from present 16,200 km	**Positive** Large conglomerate companies
• Capital Goods/ Manufacturing – positive tailwinds for Automation business from electronics manufacturing/data centres	**Positive** for Automation companies

Item	Current status	Budget proposals
Road capex (Urban + Rural + NHAI)	Rs 1.72 trn in FY20 (up 12% YoY)	Increased by 2% to Rs 1.76 trn for FY21E – NHAI (-13%), urban roads (+11%), rural roads (+39%)
Railway capex	Rs 1.56 trn in FY20 (up 17% YoY)	Increased by 3% to Rs 1.61 trn; 20% increase for Signaling (Rs 17 bn)
Metro capex	Rs 182 bn in FY20 (up 26% YoY)	Increased by 8% to Rs 196 bn
Defense outlay	Rs 1.10 trn in FY20 (+16% YoY)	Increased by 3% to Rs 1,137 bn (+33 bn) – of which Rs 52 bn goes to aircraft procurement
Capex for urban Infrastructure	Rs 183 bn in FY20, down by 14% YoY	Increased by 35% to Rs 249 bn – Namami Gange & Smart Cities

Source: Axis Capital

Information Technology:

Key Budget Measures	Impact and Beneficiaries
• Outlay for quantum technologies and applications: It is proposed to provide an outlay of Rs 80 bn over a period of five years for the National Mission on Quantum Technologies and Applications. • Turnover aspiration for Government e-Marketplace (GeM): Currently, ~Rs 3.24 lakh vendors are already on GeM platform. As per media reports, total sales through GeM were ~Rs 22,00-23,0 bn in FY19. It's proposed to take its turnover to Rs 3,000 bn. • Policy to build Data center parks • Digital refund to exporters: It is proposed to digitally refund duties and taxes to exporters which are levied at the Central, State and local levels.	**Mildly Positive:** For Sector

Oil & Gas:

Key Budget Measures	Impact and Beneficiaries
• LPG subsidy allocation has been increased to Rs 356 bn for FY21 (up 20% from Rs 296 bn in FY20). Kerosene subsidy allocation reduced to Rs 32 bn for FY21 (down 22% from Rs 41 bn in FY20), largely in line with 28% reduction in SKO demand in 9MFY19	**Positive** for oil downstream companies
• Budget speech highlighted reforms like facilitation of transparent price discovery for gas (possibly through trading hub) to increase gas share of energy from current 6.5% to 15% by 2030	**Positive** for PSU upstream companies but marginal negative for City Gas Distributor

Source: Axis Capital

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Pharmaceuticals / Healthcare:

Key Budget Measures	Impact and Beneficiaries
• Budget allocation on Healthcare expenditure: Raised by 4% to Rs 650 bn towards health and family welfare and doubled to Rs 64 bn for PMJAY	**Positive** for overall healthcare industry
• Imposed 5% health cess on imports of select medical equipment	**Marginally Negative** for hospitals as cost increased Infra push overall **positive** for healthcare industry
• R&D Deduction: 150% in FY20 and 100% in FY21, nothing mentioned in the current budget	**Marginally Negative** for Pharma companies under MAT

Power:

Key Budget Measures	Impact and Beneficiaries
• 15% corporate rate will be available for power generation too like for new manufacturing units. Will benefit RE companies in the medium to long term. • Prepaid smart meters all over the country in 3 years. Will allow consumers to choose supplier and rate • Kusum scheme for solar pumps to extend to 2 mn farmers and excess production can be sold to grid.	**Positive** For renewable companies
• PGCIL capex again proposed to fall ~30% to Rs 105 bn in FY21E (down from Rs 258 bn; 2 years ago).	**Negative** For T&D Companies
• Transparent price discovery for gas will be promoted – positive for IEX; starting a gas exchange in FY21.	**Positive** For gas exchange

Source: Axis Capital

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Real Estate:

Key Budget Measures	Impact and Beneficiaries
• Increase in interest deduction for Affordable Housing & Deduction of Profits in Affordable Housing Projects extended by a year to 31st March 21	**Marginally Positive:** Affordable housing players
• Capital gains/Income from other sources on Property, variance between sales consideration and circle rate allowed up to 10%	**Marginally Positive:** Real estate developers and investors
• Deduction of interest and principal for home purchases (option of lower tax rates without deductions/exemptions)	**Marginally negative**: Will dis-incentivise first time home buyers

Telecom:

Key Budget Measures	Impact and Beneficiaries
• Government expects Rs 1,330 bn in receipts from communication services (including telecom) in FY21 vs. Rs 590 bn expected in FY20. from AGR liability collection (principal portion only). This could be a major relief for the incumbents, as government has not included penalty, interest and interest on penalty in its calculation. • Bharatnet budgeted provision of Rs 60 bn (FY21) for providing broadband connectivity to all the Gram Panchayats in the country • Optical fiber cable-based network for Defense Services, budgeted provision of Rs 50 bn	**Positive** for Telecom service providers as well as telecom infrastructure providers

Source: Axis Capital

EQUITY MARKET OUTLOOK AND STRATEGY

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- The Union budget has introduced some measured moves to bolster growth and address areas that are crucial to India's goal of achieving a USD 5 trillion economy. The budget envisaged under three themes, viz., aspirational India, economic development and caring society would drive the economy towards holistic development and focus on welfare of citizens.
- The sixteen action points proposed in Agriculture, Irrigation, Rural Development & Allied Sectors will provide impetus to further strengthen these sectors making it more productive and sustainable.
- Additionally, focus on developing infrastructure and high emphasis on health, education, skill development, innovations, tourism, MSMEs, agriculture and allied areas will contribute to economic growth.
- Overall budget expenditure is pegged to grow at 12.7% YoY against nominal GDP growth of 10% and hence offers modest support to growth. However, total spending of budget & PSUs capex is projected to grow just 9% YoY, in line with nominal growth. An additional growth impulse comes from lower personal taxes which can spur consumption by boosting disposable income.

- We are constructive on Indian equity markets with a long term investment horizon. In addition, given correction in mid and small cap stocks, the current valuations appear attractive compared to its larger counterparts on a relative basis.
- As growth has nearly bottomed, we should see gradual recovery ahead. In the medium term, we are likely to be in low growth low inflation phase and companies that demonstrate volume growth (given pricing power) would do well.
- Volatility is expected to remain in the near term, as the economy is in a transition phase. Any sharp correction caused by any extraneous events should be treated as an opportunity to accumulate quality stocks and MFs.
- Overall the budget proposals are well balanced and targeted to kick-start the long term growth for the economy while keeping in mind fiscal boundaries, and a thrust to revive consumption spending.
- **Investors can consider accumulating equities with a 3 to 5 years investment horizon. They can also consider hybrid asset allocation funds as such funds allow investors to free themselves from market timing as well as asset allocation calls.**

DEBT MARKET OUTLOOK AND STRATEGY

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- India's economic growth momentum has slipped in the last 3-4 quarters. This prompted regular policy interventions from both the RBI and the government during the current fiscal to address slowdown & boost growth. There was an expectation that the budget would further provide impetus to growth, but the government was concerned about fiscal profligacy.
- The goal of fiscal consolidation, as prescribed by the new FRBM framework, has not been abandoned. It now stands revised basis current macroeconomic conditions. At the outset, the fiscal deficit for FY21 has been projected at 3.5% of GDP as per the medium term fiscal policy strategy. It is expected that fiscal deficit would be lowered to 3.3% in FY22, and further towards 3.1% in FY23.
- Gross and net market borrowings for FY2021BE have been increased to Rs. 7.8 tn and Rs.5.36 tn, respectively, against FY20RE of Rs.7.1 tn, however it is in line with expectation of market participants.
- Reliance on financing through collections of the small savings fund sharply higher at Rs. 2.4 tn in FY21BE and FY20RE – up from 1.25 tn in FY20BE and 1.03 tn in FY19
- High inflation and concerns about optimistic nature of revenue targets impart an upward bias to interest rates. However, to a large extent, interest rate trajectory depends on RBI action going forward. What could positively impact interest rate outlook is the opening of certain categories of government securities for foreign investors and raising FPI limit in corporate bonds to 15% from 9%.
- Bond markets were closed on budget day; hence will react to the budget fine print on Monday. 10 year benchmark paper on the eve of budget was at 6.6%.

- **Given the current liquidity conditions and the market environment, we remain constructive on the shorter end of the yield curve. Short Duration funds, Corporate Bond funds, Banking & PSU Debt Funds, Low Duration Funds and Ultra Short Duration Funds can be considered by investors with an investment horizon commensurate with the maturity and duration of the schemes,** due to their steady accrual profile and possible capital appreciation in case of a fall in yields. Having said this, one should consider aspects such as exit load, capital gains tax and asset allocation amongst others while evaluating their investment options.

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