



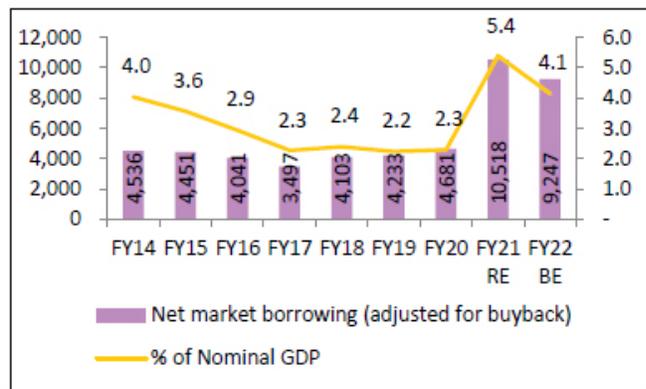
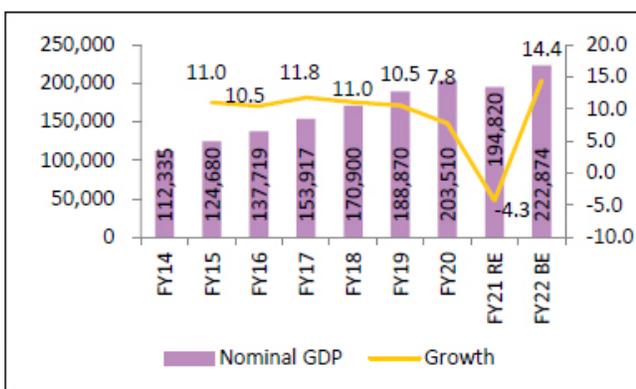
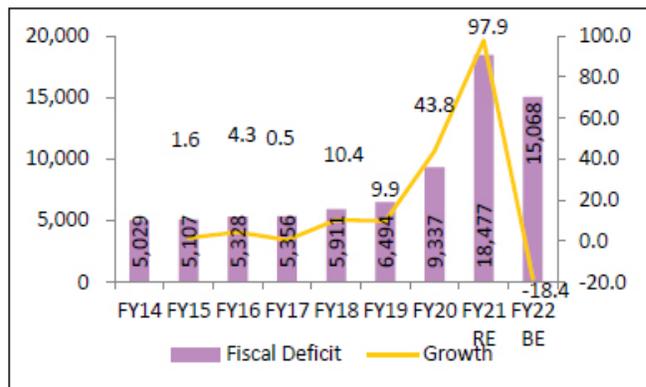
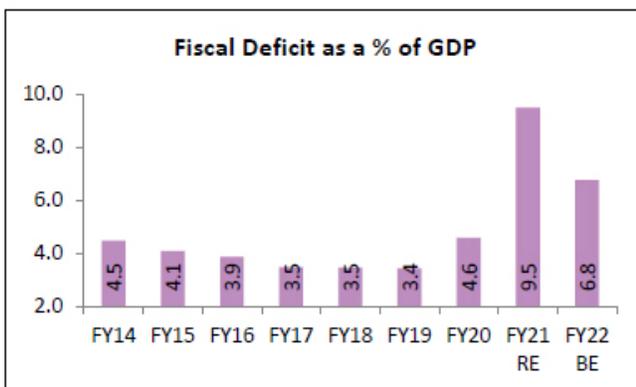
U N I O N BUDGET 2021

Budget 2021

Announcing the budget, honourable finance minister, Nirmala Sitharaman said the Budget proposals for 2021-22 rest on six pillars including — **health & well-being, physical & financial capital & infrastructure, inclusive development for aspirational India, reinvigorating human capital, innovation & R&D, Minimum Govt & Maximum Governance.** While the budget lacks direct boost to consumption, countercyclical expansionary fiscal policy adoption and lower interest rates bode well for bolstering consumption growth through multiplier effects. The Key themes in the Budget were **a) Infrastructure, b) Manufacturing and c) Agriculture & Social.** Given the weak macro, markets widely expected additional taxes and/or reduced spending to manage the Fiscal deficit within the FRBM targets. Amending the FRBM act is a clear indication of the government focusing on growth over consolidation. Equity markets cheered the budget with a sharp 5%+ rally. Debt markets sold off ~15 bps in response to a weaker than expected fiscal outlook.

BUDGET MATH

Fiscal deficit estimates were a miss due to COVID-19 as it increased sharply to 9.5% of GDP v/s economist estimates of ~7-8%. Budget builds in 6.8% deficit for FY22 and then to follow a glide path to achieve 4.5% of GDP by FY26. Net market borrowing (adjusted for buyback) form 5.4% of the nominal GDP in FY21RE. Though the budget deficit may be highest ever, the fiscal math is far more believable. Even the glide path to reduce the fiscal deficit is moderate in its assumptions, a rarity in fiscal forecasts as compared to the past.



INFRASTRUCTURE BOOST

The government has gone all guns blazing on its proposed infrastructure spending. It will not be wrong if we say budget 2021 was an infra budget.

- National Infrastructure Pipeline expanded to 7,400 projects. 217 projects worth INR 1.1 tn have been completed.
- National Monetization Pipeline for financing of infrastructure projects including toll roads, gas pipelines, airports, railway assets, warehousing assets and sport stadiums.
- A new Development Finance Institution (DFI) with an initial outlay of INR 200 billion created to provide long term debt financing for infra projects. Target INR 5 tn funding in 3 years.
- Suitable amendments to be made to legislations governing debt financing of InVITs and REITs by Foreign Portfolio Investors to augment funds for infrastructure and real estate sectors.
- More than 13,000 km length of roads, has already been awarded under the Bharatmala Pariyojana project of which 3,800 kms have been constructed. By March 2022, an additional 8,500 kms to be awarded and an additional 11000 to be completed.
- Eastern and western freight corridor for railways to be commissioned by June 2022.
- JAL Jeevan Mission launched to provide household tap water and liquid waste management in 500 cities. To be implemented in 5 years with an outlay of INR 2.87 tn.
- Hydrogen energy mission to be launched in FY22 for generating hydrogen from green resources.
- 7 projects worth more than INR 20 billion will be offered on PPP mode in FY22.
- 100 more districts to be included in the City Gas distribution network.

FINANCIAL SECTOR

- Asset reconstruction company created to help accelerate the NPA resolution. (Bad Bank)
- PSU Banks to be recapitalised with INR 200 bn.
- FDI in insurance companies increased to 74% from 49%.
- Two PSBs and a general insurance company stated to be divested in FY22.
- Consolidate the provisions of SEBI Act, 1992, Depositories Act, 1996, Securities Contracts (Regulation) Act, 1956 and Government Securities Act, 2007 into a rationalized single Securities Markets Code.
- Amendments to the LIC act to pave the way for an IPO.
- Amending procedural and TDS related aspects for NRI/foreign investors.

PERSONAL INCOME TAX

There are no changes to personal income tax limits or tax brackets. Key announcements are as below

- Senior citizens above 75 yrs of age having only pension and interest income will no longer be required to file ITR
- Tax assessment period is now reduced to 3 years from 7 years for all tax payers
- Dividend on REIT's & INVT exempted from TDS
- Exemption on Tax Audit- Limit enhanced to INR 100 mn of revenues from INR 50 mn till last year
- Tax holiday for Affordable housing to be extended by one year till 31st March 2022
- Tax holiday for Start ups to be extended by one year till 31st March 2022
- No tax exemption for maturity proceeds of unit-linked insurance policies (Ulips) with an annual premium above ₹2.5 lakh, according to the budget provisions announced on Monday. The rules

will apply for Ulips issued on or after 1 February 2021. However, the amounts received under such Ulip policies on death of the policyholder will remain exempt from tax.

- Interest earned on your EPF balance if the contribution exceeds Rs 2.5 lakh in a year will be taxable.

AGRICULTURE AND RURAL SECTOR

- Agricultural credit target to INR 16.5 trn in FY22 to enhance credit flows to farmers
- Enhanced allocation to the Rural Infrastructure Development Fund at INR 400 bn.
- Additional allocation of INR 50 bn to the Micro Irrigation Fund which has been created under NABARD, with an existing corpus of INR 50 bn
- Operation Green Scheme to boost value addition in agriculture and allied products and exports
- 1,000 more mandis to be integrated with e-NAM, to augment transparency and competitiveness in agriculture market.

MANUFACTURING

With an eye on Atma Nirbhar Bharat and generating jobs for the youth, the government has taken the enhanced the Production Linked Incentive scheme. The budget also envisages tweaks on imported products via customs duty to promote import substitution. Key highlights are as below

- Production linked incentive (PLI) scheme announced for 13 sectors with outlay of INR 1.97 trn, over 5 years starting FY 2021-22.
- Mega Investment Textiles Parks (MITRA) will be launched in addition to the PLI scheme for textile industry. 7 Textile Parks will be established over 3 years.
- Revision in customs duty structure to promote domestic manufacturing and helping India get onto global value chain and export better.
- Notification of a phased manufacturing plan for solar cells and solar panels. A rise in duty on solar invertors.
- Rise in customs duty on certain auto parts to 15% to bring them on par with general rate on auto parts.
- Rationalization of exemption on imports of select duty-free items to incentivize exporters of garments, leather, and handicraft items – a support to MSMEs

HEALTHCARE

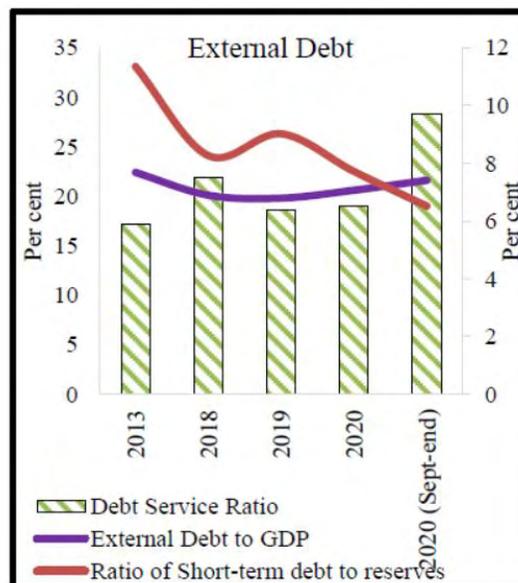
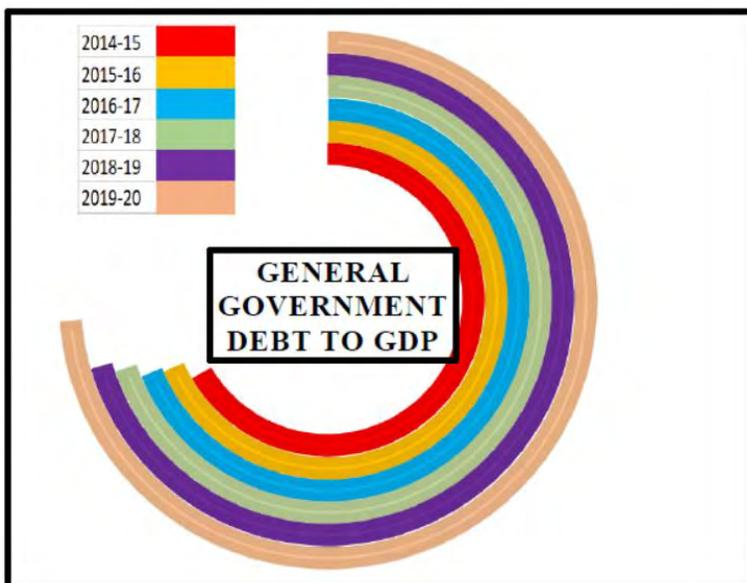
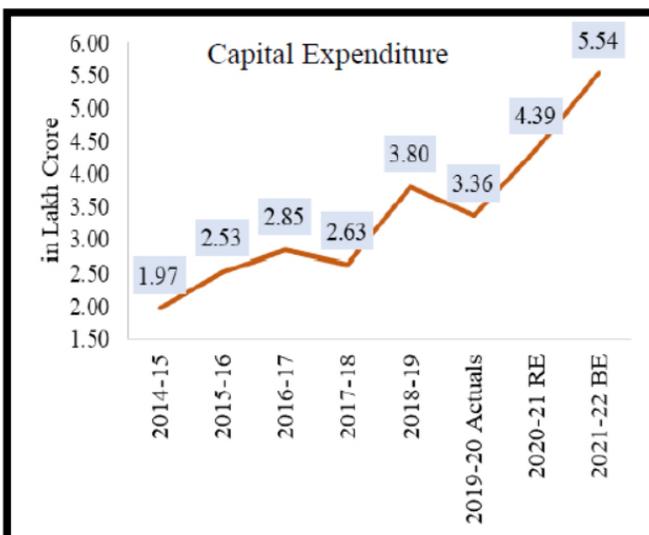
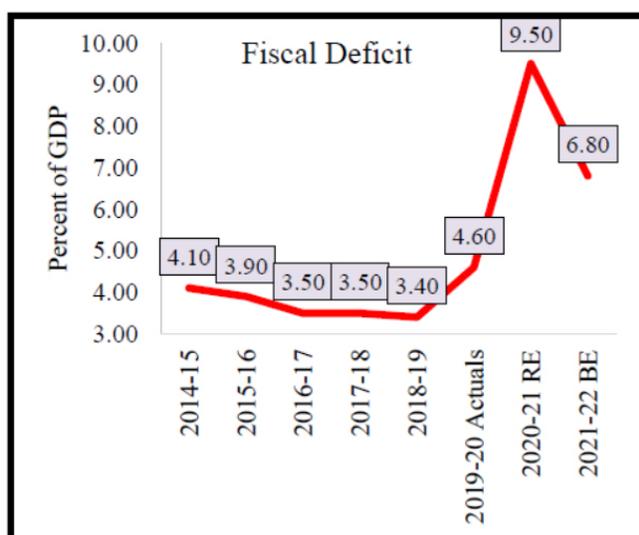
As part of her six pillar approach the FM has emphasised on the need for health and wellness. To that effect A new centrally sponsored scheme, PM Atma Nirbhar Swasth Bharat Yojana, will be launched.

- Total budget outlay for health and wellbeing stands at INR 2.23 trn for FY22 (137% increase from FY21)
- Launch of PM Atma Nirbhar Swasth Bharat Yojana with an outlay of about INR 641.8 bn over 6 years to augment primary and secondary healthcare network—critical care hospitals, Health and Wellness centres, etc.
- Strengthening of the National Centre for Disease Control (NCDC), Expansion of the Integrated Health Information Portal to all States/UTs to connect all public health labs;
- Operationalisation of 17 new Public Health Units and strengthening of 33 existing Public Health Units at points of entry. Setting up of 15 Health Emergency Operation Centers and 2 mobile hospitals

- Launch of Mission Poshan 2.0 to merge supplementary Nutrition Programme and the Poshan Abhiyan
- Allocation for water sanitation and air pollution control
- 35 crores allocated for COVID-19 vaccine in the financial year 2021-22.

FISCAL POSITION

Fiscal deficit for FY 21 at 9.5% and for FY 22 at 6.8% are both higher than market estimates (7% and 5.5% respectively). However, as it can be seen from table a significant portion of an increase in spending comes from taking on the food subsidy bill on the budget instead of financing FCI (Food Corporation of India) via the NSSF (National Small Savings Fund). This in turn frees up NSSF resources which the government has used. Apart from this, capital spending through budget has been stepped up and is expected to go up further in the next financial year.



EQUITY MARKET OUTLOOK

A focused approach to achieving the much-needed long term growth stability is the essence of the Union Budget 2021-22, especially in the post-pandemic period that the economy is entering. This expansionary budget endeavors to put the economy back in the high growth trajectory by emphasizing on infrastructure and manufacturing thrust. As the Union Budget primarily dwells on infrastructure and manufacturing sectors to attract capital and augment sustainable long-term growth, we view this budget as a directionally positive one with special emphasis on boosting cyclical growth. And the status quo on direct taxes and no incremental taxes on capital gains or wealth tax came as a relief.

FIXED INCOME OUTLOOK

Despite notable positives in the budget as discussed above, the bond market has understandably been disappointed for now. This is because of higher-than-expected fiscal deficit numbers leading to higher-than-expected gross borrowing numbers. The INR 80,000 crores extra borrowing for this year is especially a bolt from the blue for the bond market. The market will closely watch the RBI monetary policy for indication on the additional borrowing and overall guidance. We believe the RBI may step in to support the markets by way of OMO's if it deems necessary. The higher-than-expected supply is likely to result in rates rising over the next few quarters.



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