



February 02, 2020

## Union Budget 2021

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### The Energizer

In the backdrop of an unprecedented pandemic there were a lot of policy announcements throughout the last year. Manoeuvring a tight fiscal space, not much was expected in the budget. But the Finance Minister surprised with a growth-oriented budget. The budget primarily focused on infrastructure, manufacturing and healthcare. Announcements like creation of asset restructuring company to acquire and manage bad loans, privatization of public sector banks were big, positive announcements. While the government announced larger than expected fiscal deficit, given the circumstances, equity markets are unlikely to fret over it. Lack of negative surprises on tax front has also been a relief. Overall, the budget aims to deliver a 11% GDP growth in FY22 while providing further impetus to the government's policy agenda of 'Atmanirbhar Bharat' which has a high multiplier effect.

#### Key Budget Highlights

##### Infrastructure and Manufacturing

Most budget announcements around infrastructure have been fraught with lack of clarity on funding sources and have faced execution challenges as well. The Development Finance Institution (DFI) announcement for infra-projects lends credibility to the intent of an infra push described in the budget. The said DFI would have

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a potential of providing long term debt of over INR 5 lakh crores in 3 years. Also, the budget covers several sectors of infrastructure like roads, port, airways, metros etc. By March 2022, government would be awarding 8,500 kms and completing an additional 11,000 kms of national highway corridors.

The budget has also proposed a significant jump in capital expenditure to INR 5.54 lakh crore from INR 4.39 lakh crore<sup>1</sup> a jump of about 26%. Additionally, INR 2 lakh crores will be provided to states for capex.

### Healthcare

After decades of under investment, healthcare saw a significant rise in budgetary allocation. Health outlay more than doubled to INR 2.2 lakh crore from INR 0.94 lakh crore. This includes support for urban health and wellness centres, setting up of integrated public health labs and critical care hospital blocks, strengthening National Centre for Disease Control and expanding integrated health information portal. INR 35,000 Cr was also set aside for Covid-19 vaccine.

### Asset Restructuring Company

The Indian financial sector has been burdened by high NPAs for a few years now and setting up a bad assets bank has often been a topic of debate. Finally, the budget provides for setting up of an asset restructuring company (ARC) to acquire and manage bad loans. This is a very important step in easing credit flow to various sections of the economy. An effective framework of the ARC will be crucial to its success.

### Disinvestment and Asset Monetisation

To balance the increased government expenditure, asset monetisation and disinvestment were a key part of this budget. The government announced a disinvestment target of INR 1.75 lakh crore. LIC IPO will be key in meeting the target this year. In order to help deleverage infrastructure PSEs, the government announced monetisation of various assets like railways freight corridors, AAI airports, NHA operational toll roads, power grid transmission assets etc. Additionally, InvITs by NHA and Power Grid will also be listed. These steps will create further headroom for these PSEs to invest in new projects.

Additionally, the privatisation of two public sector banks (PSBs) is also a positive step.

### Fiscal Deficit

On account of the pandemic, tax revenues dropped sharply in FY21 and consequently fiscal deficit expanded to 9.5% of GDP. The government has opted to retain a slightly higher fiscal deficit (6.8%) for FY22 in order to fund its growth agenda. While optically 6.8% looks high, it's on account of a one-time adjustment bringing on an off-balance sheet item (subsidy to Food Corporation of India).

### Taxes

The budget was surprisingly benign on taxes with only a few tweaks such as exempting a meaningful section of senior citizens (75 years and above) from filing tax returns, reducing the time limit for reopening of income tax assessment, extending deductions for purchase of affordable housing etc. The government also rationalised certain custom duty structures including a reduction in duty on gold and silver from 12.5% to 7.5%. An Agriculture Infrastructure and Development cess was also introduced on few items.

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<sup>1</sup> FY21 revised estimates

## Other Key Budget Highlights

- FDI limit in insurance increased from 49% to 74%.
- Jal Jeevan Mission to provide universal water supply to all urban households will be launched with an outlay of INR 2.87 lakh crores.
- National Research Foundation to be setup with an outlay of INR 50,000 crore over 5 years.
- Urban Swachh Bharat 2.0 Mission to be launched with an outlay of ₹1.41 lakh crore over 5 years.
- A voluntary vehicle scrapping policy shall be separately announced.

## Market Outlook

### Equities

In our recently published annual outlook we wrote that manufacturing, industrials and housing were turning a new leaf supported by policy and deleveraging. The budget has a higher capex outlay that will serve as a major push to both manufacturing and industrials strengthening our case. We will also look to identify pockets in infrastructure that could benefit in the long run due to the renewed focus in the budget.

The augmenting of financial services sector by unlocking capital as a result of the ARC and hike in FDI limit in insurance also reaffirms our view. Also, the sector will be a key beneficiary of the second order impact of the policy support to capital intensive sectors like infrastructure and manufacturing.

We will continue to build our various strategy portfolios to reflect these views.

### Fixed Income

In apprehension of an expansionary fiscal budget, yields have been hardening for the past few days. The INR 80,000 crore additional borrowing to be done over the next two months was a rude surprise in the budget. While the fiscal math for FY22 seems largely realistic, the divestment target of Rs 1.75 lakh crore needs to be taken with a pinch of salt considering that the government has missed its target 8 out of the last 10 years. The 10-year G-sec yield moved up almost 16bps in response to the budget. The strength of the economic recovery, the pro-growth budget, inflationary forces at work suggest the bottom of the current yield cycle is past us. We continue to recommend a combination of low duration funds, direct investment in good quality, tax efficient papers and some exposure to carefully selected higher yielding, collateralized debt.

### Technical Commentary

The markets reacted positively to the Budget as Nifty rallied 4.74% to close at 14,281. The 1-day rally has helped Nifty cross 61.8% Fibonacci retracement of the fall seen over the last few days. If Nifty remains above 14,300, it could test its all-time of 14,753 and then 15,630. Recent low of 13,597 will become key support for the market. 13,000 is the next support in case the level of 13,597 is broken. The Bank Nifty led the rally with a gain of 8.26% to close at 33,089. With this rally Bank Nifty has touched new all-time after failing to sustain all-time high levels achieved in mid-January. Now the next level for Bank Nifty is at 34,640 and then at 36,595. On the downside 30,000 becomes key support level for the index and followed by 26,100.

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