

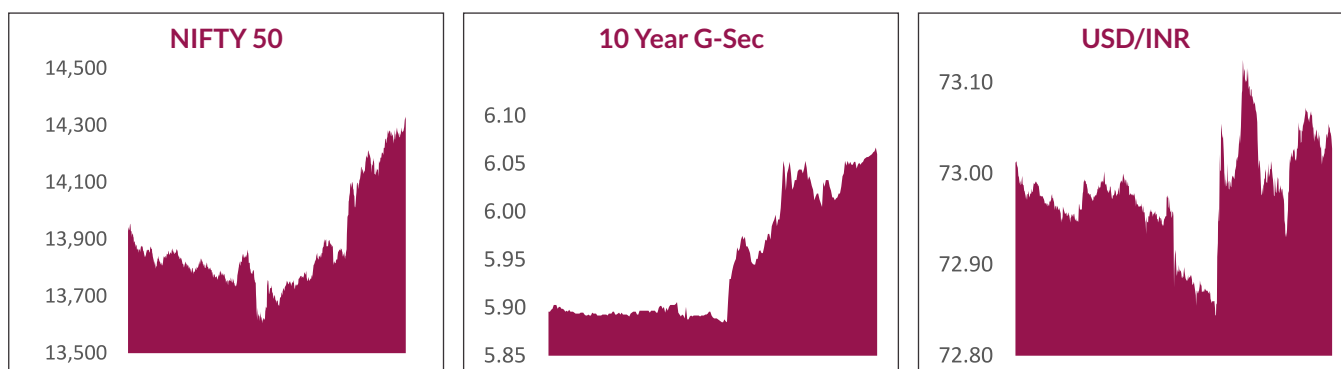
# BUDGET 2021 - GO GO GROWTH

“Crisis provides the opportunity for us to do things that you could not do before – Rahm Emanuel.”

## Introduction

In a bold move the honourable finance minister, Nirmala Sitharaman, delivered a pro-growth budget. Spearheaded by government spending on long term projects including infrastructure, the government aims to get the economy out of the Covid shadow. The budget also aims to build on the work done during the lockdown in supporting growth and making structural reforms. As expected given higher deficits and pro-growth tilt the debt markets sold off while equity markets were sharply positive.

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.



Source: Bloomberg, Axis MF Research. Price movement for 1st February 2021.

## Key highlights

- Fiscal deficit for FY 2020-21 pegged at 9.5% (RE), FY 2021-22 at 6.8%.
- No changes to personal income tax limits or tax brackets.
- LIC proposed to be listed; 2 public sector banks and 1 general insurance company likely to be privatised.
- Gross government borrowing for FY 22 pegged at ₹ 12 lakh crore.
- Innovative asset monetization program.
- FDI cap in the insurance sector raised to 74%.

## Budget takeaways

The government held steadfast to its objective of stimulating growth by way of enhancing its expenditure programs. This is despite weaker than expected revenue collections. The result is significantly higher borrowings from the market to fund the widening fiscal deficit. The government has extended its fiscal consolidation timeline in the process to reach a fiscal deficit level below 4.5% of GDP by 2025-2026.

### Capex all the way

The government has gone all guns blazing on its proposed infrastructure spending. The budget outlines a new National Infrastructure pipeline comprising of 7,400 projects. The comprehensive plan also includes an asset monetization game plan comprising of assets including airports, toll roads, rail infra assets, warehousing assets of CPSE's and even sports stadiums.

To help fund infrastructure, the government has proposed a development financial institution (DFI) with a proposed capital infusion of ₹ 20,000 crore. The institution is part of a larger three pronged plan to increase investments in the economy. It is expected to build a lending portfolio of at least ₹ 5 lakh crore within three years' time.

For FY21 (BE) – Capex will end at ₹ 4.39 Lakh Crore. For FY22, the government has forecasted a stupendous 35% increase. The government will also activate state bodies and the state machinery with a ₹ 2 lakh crore budget.

### Cleaning the books

The government over the last few years has been using off-balance sheet funding to make payments for food & fertilizer related subsidies. The fiscal deficit number of 6.8% budgets a significant shift of off balance sheet liabilities to the tune of ~₹ 3.7 lakh Cr to the government's books explaining partially the jump in the fiscal deficit.

Furthermore, since this is an annual expenditure, the government by virtue of kicking the proverbial fiscal consolidation can down the road to FY26 effectively means it is looking to clean up its books over the next few years.

### An ode to health & wellbeing

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 with an outlay of about ₹ 64,180 crores over 6 years. This will develop capacities of primary, secondary, and tertiary care Health Systems, strengthen existing national institutions, and create new institutions, to cater to detection and cure of new and emerging diseases. This will be in addition to the National Health Mission. In addition, to promote healthy living, the government has budgeted ~₹ 3 lakh Crores across 5 years to improve facilities in the areas of sanitation, clean air and nutrition.

### Bolstering 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.

Notably the textile sector will be given impetus above and beyond the PLI scheme by way of launching 7 large textile parks over the next 3 years. The Mega Investment Textiles Parks (MITRA) aims to build and provide plug & play facilities to enable and create global champions in exports.

### Capital markets & financial services

Continuing its sweeping reforms, the budget envisages a slew of changes to promote further to promote channelizing domestic savings and attracting foreign flows. Some key announcements include

- 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
- Creating a 'Bad bank' to consolidate and take over the existing stressed debt and then manage and dispose of the assets
- Public sector bank re-capitalization of ₹ 20,000 Cr
- Decriminalizing of the procedural and technical compoundable offences under the Companies Act, 2013
- Amendments to the LIC act to pave the way for an IPO
- FDI cap in Insurance sector raised to 74%
- Amending procedural and TDS related aspects for NRI/foreign investors

## Way forward & market view

Budget day saw markets post its single largest daily gain as markets cheered several positives. On the debt side there is significant headwinds as we anticipate higher yields over the coming year.

## Equity markets

The equity markets see the budget favourably primarily on 2 fronts – Higher capex spending by the government & status quo on direct taxes and no incremental taxes on capital gains. The booster shot by way of capex and a strong market signal to promote growth through structural reforms are key positives for domestic and foreign investors alike.

Q3 earnings have been above consensus estimates. Cyclical sectors and companies who have proven market leadership have seen a good earnings quarter. We believe this is here to stay. While valuations remain elevated, equity markets are likely to continue to outperform as budgetary tailwinds aid economic growth and investors assign higher valuation premiums to FY22 growth.

## Debt markets

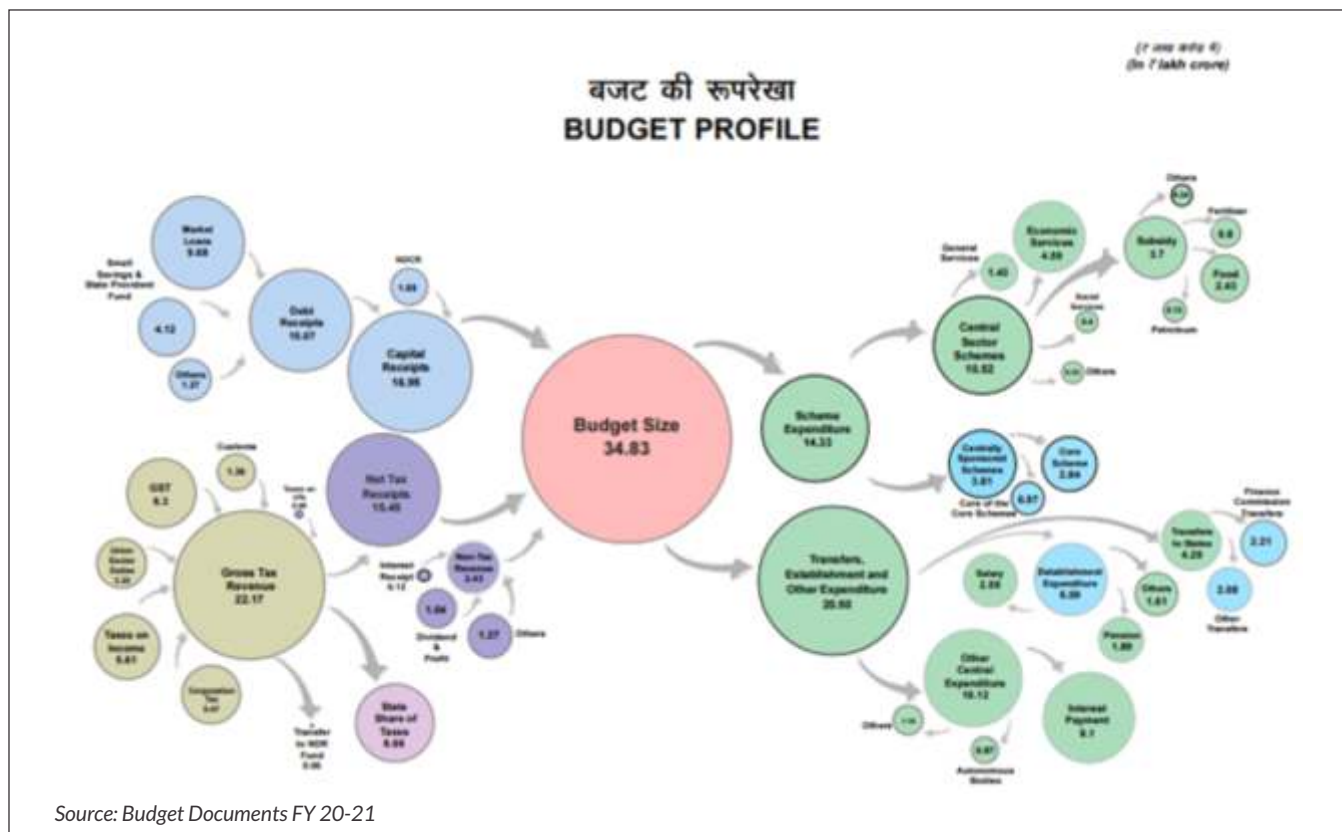
The budget was a surprise for the debt markets. The deviation in FY 21 fiscal deficit entails additional supply of ₹ 80,000 Cr of market borrowing. In addition, the FY 22 fiscal deficit estimates point to significant borrowing expectations. The gross borrowing target of FY 22 is pegged at ₹ 12 lakh crore. 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 result in rates rising over the next few quarters. In line with our view, we believe rates are likely to rise with a flattening bias across the curve and across the credit spectrum.

## Focus funds

Equity Funds	Debt Funds	Hybrid Funds
<ul style="list-style-type: none"> <li>• Axis Focused 25 Fund</li> <li>• Axis Flexicap Fund</li> <li>• Axis Midcap Fund</li> <li>• Axis Growth Opportunities Fund</li> </ul>	<ul style="list-style-type: none"> <li>• Axis Ultrashort Term Fund</li> <li>• Axis Banking &amp; PSU Debt Fund</li> <li>• Axis Strategic Bond Fund</li> <li>• Axis Dynamic Bond Fund</li> </ul>	<ul style="list-style-type: none"> <li>• Axis Equity Hybrid Fund</li> <li>• Axis Triple Advantage Fund</li> <li>• Axis Dynamic Equity Fund</li> </ul>

## Annexure

### Budget Snapshot



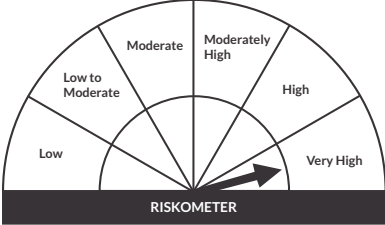
### Key Facts

	2017	2018	2019	2020	2021 (BE)	2022 (E)
Fiscal Deficit (%)	3.5	3.5	3.4	4.6	9.5	6.8
CAD (%)	0.7%	1.8%	2.1%	0.8%	-1.3%	NA
Forex Reserves	370	424	412	475	585*	NA
USD/INR	64.85	65.18	69.15	75.39	73.02*	NA

Source: Bloomberg, Axis MF Research. All Numbers as of respective Financial Year ends.


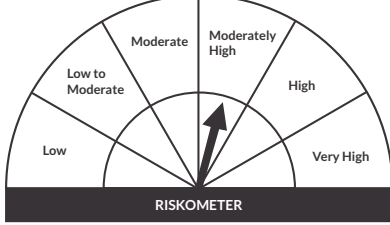
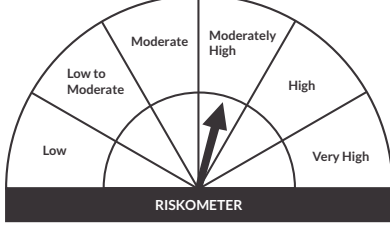
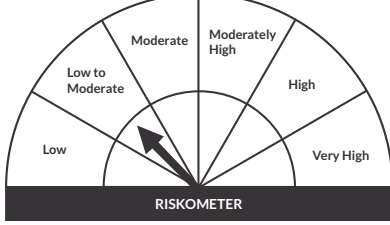
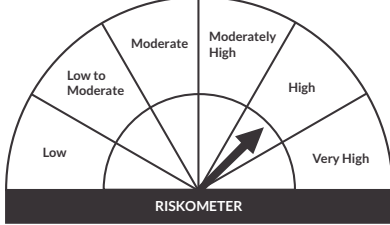
\* As of 1st Feb 2021

## Product labelling

Fund Name / Product Labelling	Riskometer
<p><b>Axis Midcap Fund</b> (An open ended equity scheme predominantly investing in Mid Cap stocks) This product is suitable for investors who are seeking*</p> <ul style="list-style-type: none"> <li>• Capital appreciation over long term</li> <li>• Investing predominantly in equity &amp; equity related instruments of Mid Cap companies.</li> </ul>	 <p><b>RISKOMETER</b></p> <p>Investors understand that their principal will be at very high risk</p>
<p><b>Axis Flexicap Fund</b> (An open ended dynamic equity scheme investing across large cap, mid cap, small cap stocks) This product is suitable for investors who are seeking*</p> <ul style="list-style-type: none"> <li>• Capital appreciation over medium to long term.</li> <li>• Investment in a dynamic mix of equity and equity related instruments across market capitalization.</li> </ul>	
<p><b>Axis Focused 25 Fund</b> (An open ended equity scheme investing in maximum 25 stocks investing in large cap, mid cap and small cap companies.) This product is suitable for investors who are seeking*</p> <ul style="list-style-type: none"> <li>• Capital appreciation over long term</li> <li>• Investment in a concentrated portfolio of equity &amp; equity related instruments of up to 25 companies</li> </ul>	
<p><b>Axis Growth Opportunities Fund</b> (An Open-ended Equity Scheme investing in both large cap and mid cap stocks) This product is suitable for investors who are seeking*</p> <ul style="list-style-type: none"> <li>• capital appreciation over long term</li> <li>• investment in a diversified portfolio predominantly consisting of equity and equity related instruments both in India as well as overseas</li> </ul>	
<p><b>Axis Triple Advantage Fund</b> (An open ended scheme investing in equity, debt and gold) This product is suitable for investors who are seeking*</p> <ul style="list-style-type: none"> <li>• Capital appreciation &amp; generating income over long term.</li> <li>• Investment in a diversified portfolio of equity and equity related instruments, fixed income instruments &amp; gold exchange traded funds.</li> </ul>	
<p><b>Axis Equity Hybrid Fund</b> (An open ended hybrid scheme investing predominantly in equity and equity related instruments) This product is suitable for investors who are seeking*</p> <ul style="list-style-type: none"> <li>• Capital appreciation along with generation of income over medium to long term</li> <li>• Investment in equity and equity related instruments as well as debt and money market instruments.</li> </ul>	

\* Investors should consult their financial advisers if in doubt about whether the product is suitable for them.

## Product Labelling

Fund Name / Product Labelling	Riskometer
<p><b>Axis Dynamic Bond Fund</b>            (An open ended dynamic debt scheme investing across duration)            This product is suitable for investors who are seeking*</p> <ul style="list-style-type: none"> <li>• Optimal returns over medium to long term</li> <li>• To generate stable returns while maintaining liquidity through active management of a portfolio of debt and money market instruments.</li> </ul>	 <p>Investors understand that their principal will be at moderate risk</p>
<p><b>Axis Ultrashort Term Fund</b>            (An open ended ultra-short term debt scheme investing in instruments such that the Macaulay duration of the portfolio is between 3 months and 6 months)            This product is suitable for investors who are seeking*</p> <ul style="list-style-type: none"> <li>• Regular income over short term</li> <li>• Investment in Debt &amp; Money Market instruments such that the Macaulay duration of the portfolio is between 3 months - 6 months.</li> </ul>	 <p>Investors understand that their principal will be at low to moderate risk</p>
<p><b>Axis Strategic Bond Fund</b>            (An open ended medium term debt scheme investing in instruments such that the Macaulay duration of the portfolio is between 3 years to 4 years)            This product is suitable for investors who are seeking*</p> <ul style="list-style-type: none"> <li>• Optimal returns over medium term</li> <li>• Investment in diversified portfolio of debt and money market securities to generate optimal risk adjusted returns while maintaining liquidity.</li> </ul>	 <p>Investors understand that their principal will be at moderately high risk</p>
<p><b>Axis Banking &amp; PSU Fund</b>            (An open ended debt scheme predominantly investing in debt instruments of Banks, Public Sector Undertakings &amp; Public Financial Institutions)            This product is suitable for investors who are seeking*</p> <ul style="list-style-type: none"> <li>• Regular income over short to medium term</li> <li>• Investment in debt and money market instruments issued by Banks, PFIs &amp; PSUs.</li> </ul>	 <p>Investors understand that their principal will be at low to moderate risk</p>
<p><b>Axis Dynamic Equity Fund</b>            (An open ended dynamic asset allocation fund)            This product is suitable for investors who are seeking*</p> <ul style="list-style-type: none"> <li>• Capital appreciation while generating income over medium to long term</li> <li>• Investment in equity and equity related instruments as well as debt and money market instruments while managing risk through active asset allocation</li> </ul>	 <p>Investors understand that their principal will be at high risk</p>

\* Investors should consult their financial advisers if in doubt about whether the product is suitable for them.

## Disclaimers

**Source:** Axis MF Internal Analysis, Budget Documents 2021.

**Statutory Details:** Axis Mutual Fund has been established as a Trust under the Indian Trusts Act, 1882, sponsored by Axis Bank Ltd. (liability restricted to ₹ 1 Lakh).

**Trustee:** Axis Mutual Fund Trustee Ltd.

**Investment Manager:** Axis Asset Management Co. Ltd. (the AMC)

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**Mutual Fund Investments are subject to market risks, read all scheme related documents carefully.**