Union Budget 2021-22

Better transparency leads to higher fiscal deficit

No tax hikes and higher capital spending to support growth

Budget 2021-22 was presented on 1 Feb'21 amid a challenging macro environment. With the first decline in nominal/real GDP in four decades, the Government of India (GoI) had to walk the tightrope, which they seem to have done. Though there is no large fiscal stimulus, the absence of any tax hikes and better fiscal math by this renewed and bold GoI provides extreme comfort.

- **A large part of the higher fiscal deficit is due to better accounting: The GoI has pegged fiscal deficit at 9.5% of GDP in FY21RE (Revised Estimate), much higher than consensus estimates of 7% of GDP. While the headline number looks scary, almost four-fifth (or 2pp of GDP) of this surprise was due to food/fertilizer subsidy, which the GoI has decided to take up on its books rather than keeping it off-Budget (through the Food Corporation of India, FCI). This transparency in fiscal math is highly appreciated and commendable (as we had demanded in CY19).**
- **Higher market borrowings disliked by the debt market: The GoI announced additional borrowings of INR800b in Feb-Mar'21. In fact, the budgeted fiscal deficit of 6.8% of GDP for FY22 is also higher than consensus (of 5.5% of GDP), due to which net market borrowings are pegged at INR9.2t, higher than our expectations of INR8-8.2t.**
- **After many years, tax receipt estimates look realistic: Apart from better accounting, it was refreshing to see that the GoI has budgeted achievable growth (16.6% YoY) in FY22, implying a tax buoyancy of 1.2x. While it is not ambitious, it is also not conservative. The government has budgeted ~22% growth in direct taxes, customs, and Goods & Services Tax (GST), along with a 7% YoY decline of in excise duties. Non-tax revenue receipts (expected to grow by 15.4% YoY) and the disinvestment target of INR1.75t are on the optimistic side. After many years, the receipt estimates are not as ambitious and more on the realistic side. The absence of any tax hikes were extremely comforting.**
- **Focus on capital spending is also commendable: With achievable receipt estimates, GoI has budgeted for 1% growth in total spending in FY22. It is important to note that this is on the back of 28.4% growth in FY21RE, which was due to very high subsidies. Excluding subsidies, spending is expected to grow 16% YoY in FY21RE, like in FY20. The same is budgeted to increase 11% YoY in FY22. The GoI has budgeted to grow capital spending substantially next year, so that it accounts for 16% of total spending, much higher than the 12.5% in the past few years.**
- **While the government has refrained from any kind of direct fiscal stimulus, there was nothing surprising in today's Budget data. While the higher fiscal deficit number looks astonishing, it is due to better accounting procedure, which is a much-needed welcome move. No change on the tax front is also highly appreciated. The much awaited rural spending allocation, which slows a considerable contraction in FY22, is largely on account of a very high base in FY21. We do not think there is much to worry about on this front too. However, the higher-than-expected market borrowing number may send jitters through the bond market.**

Research Team (Gautam.Duggad@MotilalOswal.com)
Nikhil Gupta – Research Analyst (Nikhil.Gupta@MotilalOswal.com)

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Market strategy

The FY22 Union Budget, the first since the COVID-19 pandemic outbreak, has been announced amid a challenging backdrop. While the economy and markets have rebounded sharply from the lows triggered by COVID, the economy still has massive ground to catch up. Ahead of the budget, a) fears/concerns of a potential increase in taxation for the super-rich / the imposition of a COVID 'cess' and b) hikes in capital gains taxes had kept the market nervous for the past couple of weeks.

However, these fears fortunately did not materialize, which cheered the markets. They rose ~5%, marking the best rally since 1997 on a budget day.

Growth revival is the central theme for this budget, and the finance ministry (FM) has chosen to use capex / infra investments as a vehicle to drive growth. The FM has significantly increased allocation to Healthcare given the backdrop of the COVID-19 pandemic. Allocations to several infrastructure schemes have also been enhanced (Roads and Water – Jal Jeevan Mission). Numerous important structural measures – such as a) the setting up of a development finance institution (DFI), b) establishment of asset reconstruction co. (ARC) / asset management co. (AMC) for the disposal of stressed assets, c) a comprehensive asset monetization plan, d) a scrappage scheme for the Automobile sector, e) an FDI hike in insurance to 74%, and f) potential divestments of two PSU banks and a GIC – stood as the key highlights.

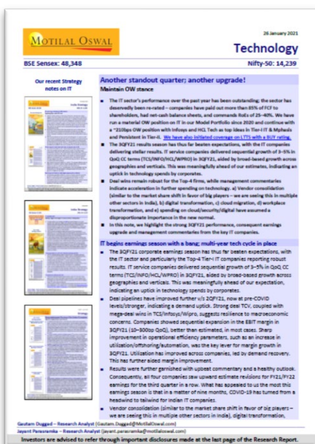
No material push was seen in terms of consumption in the budget. However, we note from 3QFY21 corporate earnings that consumption demand revival is progressing quite well, with high-double-digit volume growth footprints from many staples and discretionary companies.

We would have also liked to see more incentives/push for the Real Estate sector, which is showing early signs of recovery after a prolonged period of stagnation.

Overall, from an equity market perspective, we believe the budget, on balance, has turned out well, with no negatives on the taxation front and several long-term structural initiatives that augur well for medium-term growth. The push for capex and investments could trigger the revival of an investment cycle, in our view, which could then spread to multiple sectors – Cement, Auto, BFSI, Metals, and Capital Goods. This is further corroborated by the commentary on capacity utilization from corporates that have reported 3QFY21 earnings thus far.

We believe once the fine-print is absorbed, the market focus would return to the fundamentals, viz. corporate earnings growth, which is showing tangible momentum – MOFSL Universe earnings growth is at 32% for 102 companies (v/s the expectation of 13% growth) and Nifty earnings growth is at 24% for 29 companies (v/s the expectation of 4% growth) that have posted earnings thus far. Earnings upgrades are seen for the second consecutive quarter. Incrementally, earnings drivers are shifting to cyclical, with Corporate Banks, Cement, and Metals driving growth. In our recent **model portfolio revision**, we have doubled our weights in Cement and added several cyclical plays from Auto/Metals, while maintaining our preference for Corporate Banks.

Top ideas: Large-caps: ICICI Bank, SBI, Axis Bank, UltraTech, M&M, L&T, Hindalco, Infosys, HCL Tech, Titan, Sun Pharma, HUL
Mid-caps: Ashok Leyland, SAIL, Shriram Transport, JK Cement, AU Finance, ICICI Securities, IEX, Crompton Consumer, Varun Beverages, L&T Technology

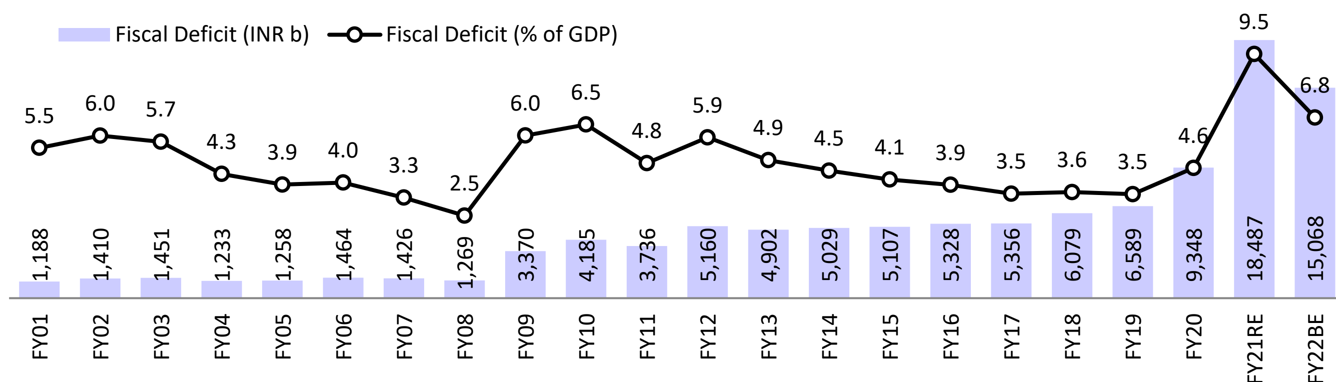


Headline numbers scary, but details comforting

Fiscal deficit estimated at 9.5%/6.8% of GDP in FY21/FY22

Considering the exceptionally challenging economic environment, the government has revised its fiscal deficit target to 9.5% of GDP (higher than the previous peak of 8.1% of GDP in FY87) in FY21 as against the expectation of ~7% of GDP. On the assumption of a 14.4% YoY nominal GDP growth, the government expects a fiscal deficit of 6.8% of GDP in FY22 *(Exhibit 1)*. Both FY21/FY22 estimates are higher than market consensus and our expectations.

Exhibit 1: Trends in fiscal deficit over the past two decades



Source: Government, MOFSL

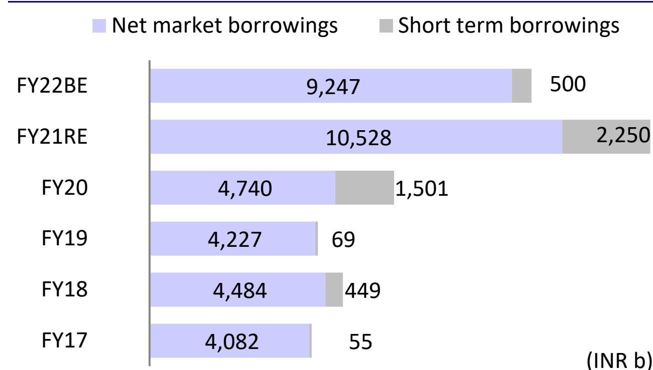
Although the fiscal deficit number is scary, it is primarily due to better accounting, which is actually commendable. The Finance Minister stated in her speech today that the government would discontinue with the process of FCI taking a loan from the NSSF and Budget provisions would be made instead in FY21RE and FY22BE. Through this, the government has allocated an additional ~INR3.5t to their subsidy burden in FY21, which alone accounts for ~2% of GDP for the year. This is a welcome move as we have already demanded the same in one of our earlier notes of CY19.

The government has revised its market borrowing program by adding another INR800b of gross market borrowing (GMB), taking the total to INR12.8t and net market borrowing (NMB) to INR10.5t in FY21

However, the government has revised its market borrowing by adding another INR800b of gross market borrowing (GMB), taking the total to INR12.8t and the net market borrowing (NMB) to INR10.5t in FY21. The government also plans to fund a large part of its deficit through treasury bill issuances, amounting to INR2.3t. The GMBs/NMBs are pegged marginally lower at INR12.1t/INR9.2t for FY22, which are higher than the market expectation of INR8-8.2t *(**Exhibit 2**)*. The additional borrowing amount for FY21, along with a higher-than-expected borrowing program for FY22, might impart an additional pressure on bond yields.

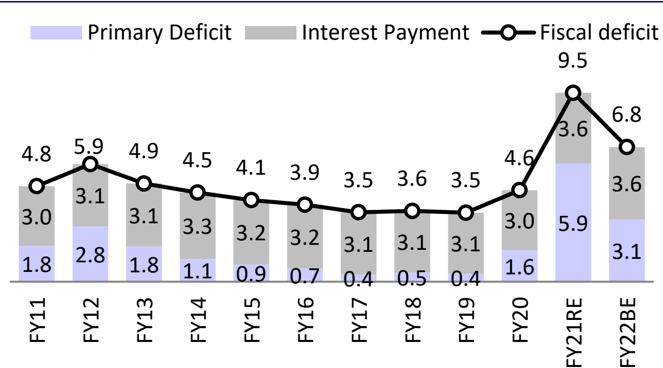
The primary deficit (fiscal deficit *excluding* interest payments), which is expected to increase to a multi-decade high of 5.9% of GDP in FY21RE, is estimated to almost reduce to half at 3.1% of GDP in FY22BE *(**Exhibit 3**).*

Exhibit 2: Market borrowings to grow massively…



Excluding switching and buybacks

Exhibit 3: …but primary deficit may decelerate in FY22BE



Source: Government, MOFSL

Exhibit 4: Union Budget 2021-22 in numbers

	FY20	FY21RE			FY22BE			FY22BE/FY20
	INR t	INR t	% YoY	% of GDP	INR t	% YoY	% of GDP	%
Total Receipts	**17.5**	**16.0**	**-8.6**	**8.2**	**19.8**	**23.4**	**8.9**	**12.8**
Revenue receipts	16.8	15.6	**-7.6**	**8.0**	17.9	**15.0**	**8.0**	**6.3**
Gross Taxes	20.1	19.0	**-5.4**	**9.8**	22.2	**16.6**	**9.9**	**10.3**
Net Taxes	13.6	13.4	**-0.8**	**6.9**	15.5	**14.9**	**6.9**	**14.0**
Direct taxes	10.4	9.1	**-13.8**	**4.6**	11.1	**22.4**	**5.0**	**5.6**
Corporation Taxes	5.6	4.5	**-19.9**	**2.3**	5.5	**22.6**	**2.5**	**-1.8**
Income Taxes	4.8	4.6	**-6.8**	**2.4**	5.6	**22.2**	**2.5**	**13.9**
Indirect taxes	9.7	10.0	**3.7**	**5.1**	11.1	**11.3**	**5.0**	**15.5**
Customs	1.1	1.1	**2.5**	**0.6**	1.4	**21.4**	**0.6**	**24.4**
Excise Duties	2.4	3.6	**50.8**	**1.9**	3.4	**-7.2**	**1.5**	**39.9**
Services tax	0.1	0.0	**-76.8**	**0.0**	0.0	**-28.6**	**0.0**	**-83.4**
Goods & Services Tax (GST)	6.0	5.2	**-14.0**	**2.6**	6.3	**22.3**	**2.8**	**5.2**
Devolution to states	6.5	5.6	**-14.9**	**2.9**	6.7	**20.8**	**3.0**	**2.8**
Non-tax revenue	3.3	2.1	**-35.6**	**1.1**	2.4	**15.4**	**1.1**	**-25.7**
Non-debt capital receipts	0.7	0.5	**-32.2**	**0.2**	1.9	**304.3**	**0.8**	**174.0**
Divestment	0.5	0.3	**-36.4**	**0.2**	1.8	**446.9**	**0.8**	**247.9**
Total Expenditure	**26.9**	**34.5**	**28.4**	**17.7**	**34.8**	**1.0**	**15.6**	**29.7**
Total excl. Subsidies	24.1	28.0	**0.8**	**14.4**	31.1	**11.1**	**14.0**	
Revenue expenditure	23.5	30.1	**28.1**	**15.5**	29.3	**-2.7**	**13.1**	**24.6**
Interest payments	6.1	6.9	**13.2**	**3.6**	8.1	**16.9**	**3.6**	**32.3**
Defense	2.1	2.2	**3.9**	**1.1**	2.1	**-3.6**	**0.9**	**0.2**
Subsidies	2.8	6.5	**147.3**	**3.3**	3.7	**-43.0**	**1.7**	**41.0**
Pensions	1.7	1.9	**11.4**	**1.0**	1.7	**-8.2**	**0.8**	**2.3**
Grants to states/UTs	4.5	5.7	**6.8**	**2.9**	6.1	**8.4**	**2.8**	**15.8**
Non-defense Pay/allowances	2.3	2.0	**-10.0**	**1.1**	2.5	**22.9**	**1.1**	**10.6**
Other	3.7	4.9	**44.5**	**2.5**	5.0	**1.7**	**2.3**	**46.9**
Capital expenditure	3.4	4.4	**30.8**	**2.3**	5.5	**26.2**	**2.5**	**65.1**
Fiscal Deficit	**9.4**	**18.5**		**9.5**	**15.1**		**6.8**	
Revenue Deficit	**6.7**	**14.6**		**7.5**	**11.4**		**5.1**	
Capital Deficit	**2.7**	**3.9**		**2.0**	**3.7**		**1.6**	
Primary Deficit	**3.2**	**11.6**		**5.9**	**7.0**		**3.1**	
Nominal GDP	**203.4**	**194.8**			**222.9**			

Source: Union Budget documents, MOFSL

FY22 receipt estimates are achievable

Following a 4.8% YoY decline in total receipts in Apr-Dec'20, the government now expects receipts to fall by 8.6% YoY for FY21. It has budgeted it to grow by 23.4% YoY in FY22

Following a 4.8% YoY decline in total receipts in Apr-Dec'20, the government now expects receipts to fall by 8.6% YoY for FY21. It has budgeted it to grow by 23.4% YoY in FY22 (***Exhibit 5***). As a percentage of GDP, total receipts are first expected to drop to 8.2% in FY21 and touch a four-year high of 8.9% in FY22.

Within total receipts, the government has estimated a decline of ~1% YoY in net taxes and massive 35.6% fall in non-tax receipts (including non-debt capital receipts) in FY21. On account of this low base, the government has budgeted a growth of 16.7%/19.4% in gross/net taxes next year *(Exhibit 6)*. It implies that taxes are expected to account for only ~78% of total receipts in FY22.

Exhibit 5: Receipts expected to grow stronger in FY22BE…

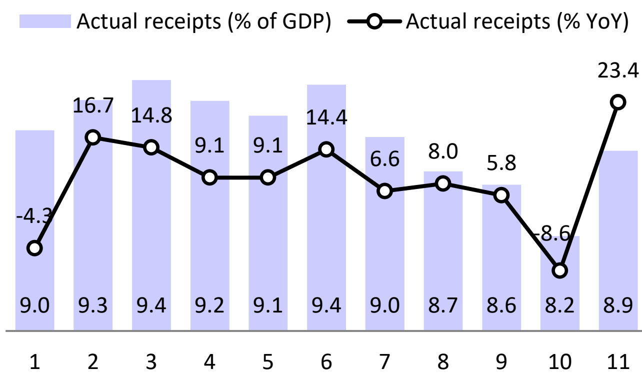
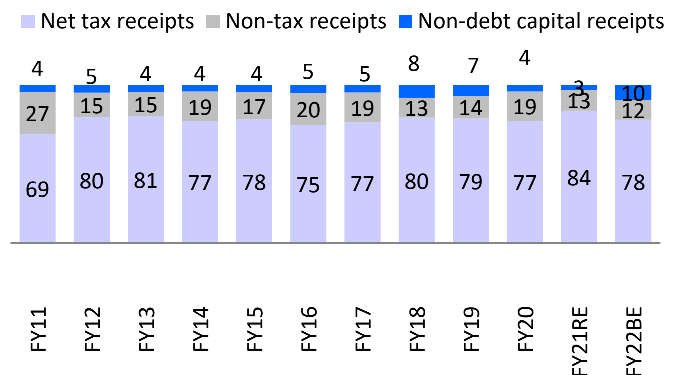


Exhibit 6: …and taxes to account for only 78% of all receipts



Source: Union Budget documents, MOFSL

On the back of a 5.3% decline in gross taxes, the government has budgeted a growth of 16.7% YoY in FY22. Though this may look like a conservative estimate, details suggest that it is not

Tax estimates may look conservative, but they are not

On the back of a 5.3% decline in gross taxes, the government has budgeted a growth of 16.7% YoY in FY22. Though this may look like a conservative estimate, details suggest that it is not.

Gross taxes have five major components – personal income tax, corporate income tax, excise duties, customs, and GST. The government has budgeted a growth of ~22% each in all but excise duties for FY22 *(refer Exhibit 7)*. Since the government garnered additional resources of up to INR1.5t due to higher taxes/duties on petrol/diesel in FY21, it has budgeted a fall of 7% YoY in FY22.

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The tax buoyancy of 1.2x in FY22 is not conservative, assuming that most components are expected to grow ~22% each in FY22.

As far as non-tax revenue receipts are concerned, the government again seems realistic considering that RBI dividends will be limited this year on account of: a) nine-month accounting year, and b) high banking sector's surplus in FY21.

Exhibit 7: Details of receipts in Union Budget 2020-21

	FY20	FY21RE			FY22BE			FY22EBE/
	INR t	INR t	% YoY	% of GDP	INR t	% YoY	% of GDP	FY20 %
Total Receipts	**17.5**	**16.0**	**-8.6**	**8.2**	**19.8**	**23.4**	**8.9**	**12.8**
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Direct taxes	10.4	9.1	**-13.8**	**4.6**	11.1	22.4	5.0	5.6
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Indirect taxes	9.7	10.0	**3.7**	**5.1**	11.1	11.3	5.0	15.5
Customs	1.1	1.1	**2.5**	**0.6**	1.4	21.4	0.6	24.4
Excise Duties	2.4	3.6	**50.8**	**1.9**	3.4	-7.2	1.5	39.9
Services tax	0.1	0.0	**-76.8**	**0.0**	0.0	-28.6	0.0	-83.4
Goods & Services Tax (GST)	6.0	5.2	**-14**	**2.6**	6.3	22.3	2.8	5.2
Non-tax revenue	3.3	2.1	**-35.6**	**1.1**	2.4	15.4	1.1	-25.7
Dividends from financial sector	1.5	0.6	**-58.9**	**0.3**	0.5	-13.5	0.2	-66.7
Telecom receipts	0.7	0.3	**-51.7**	**0.2**	0.5	60	0.2	-28.6
Non-debt capital receipts	0.7	0.5	**-32.2**	**0.2**	1.9	304.3	0.8	174.0
Divestment	0.5	0.3	**-36.4**	**0.2**	1.8	446.9	0.8	247.9

Source: Union Budget documents, CGA, MOFSL

…although disinvestment target still looks optimistic

The disinvestment target of INR1.75t in FY22, after achieving a bare INR320b in FY21RE, looks ambitious to us. We will carefully watch for progress on this front.

"In spite of COVID-19, we have kept working towards strategic disinvestment. A number of transactions namely BPCL, Air India, Shipping Corporation of India, Container Corporation of India, IDBI Bank, BEML, Pawan Hans, Neelachal Ispat Nigam, among others, would be completed in 2021-22. Other than IDBI Bank, we propose to take up the privatization of two Public Sector Banks and one General Insurance company in 2021-22," the Finance Minister said in her speech today.

Total spending to grow ~1% YoY in FY22…

…implying limited fiscal stimulus

Total spending is budgeted to grow 28.4% YoY in FY21, and at 1% in FY22

Despite an 8.1% YoY increase in total spending during Apr-Dec'20, the government expects total expenditure to grow sharply by 28.4% in FY21. This implies that the government is assuming a growth of 103% YoY in the remainder of FY21, which might be challenging (*Exhibit 8*). The government expects total spending at INR34.8t in FY22BE, a meager growth (1% YoY) over FY20RE. This in turn indicates limited fiscal support. As a percentage of GDP, total expenditure is expected to rise to a 30-year high of 17.7% in FY21, followed by its deceleration to 15.6% in FY22 (*Exhibit 9*).

Exhibit 8: Total spending growth budgeted to grow 1% in FY22BE (% YoY)

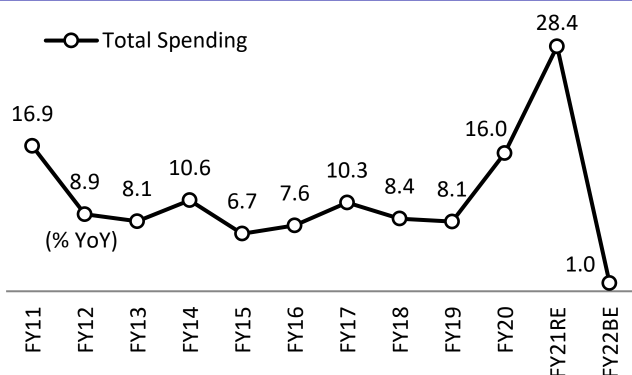
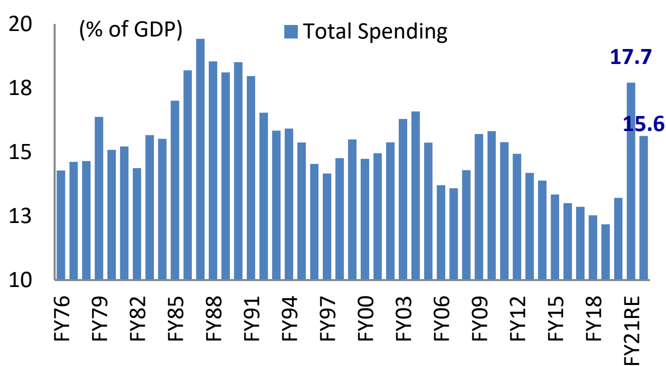


Exhibit 9: Total spending budgeted to rise to 17.7% of GDP in FY21RE, followed by deceleration to 15.6% in FY22BE



Source: Government, MOFSL

Massive growth in total spending in FY21 is expected on the back of both revenue and capital spending

Massive growth in total spending in FY21 is expected on the back of both revenue and capital spending. Revenue spending is expected to grow by 28.1% YoY in FY21 (v/s a 6.3% YoY growth during Apr-Dec'20), followed by a contraction of 2.7% YoY in FY22. Capital spending is estimated to have grown by 30.8% YoY (v/s 20.9% YoY growth in Apr-Dec'20), followed by a 26.2% growth in FY22, indicating that the share of capital spending in FY22 is likely to increase to 16% from 13% in FY21 (*Exhibit 10-11*).

Exhibit 10: Capital spending is budgeted to rise as a percentage of total spending in FY22BE…

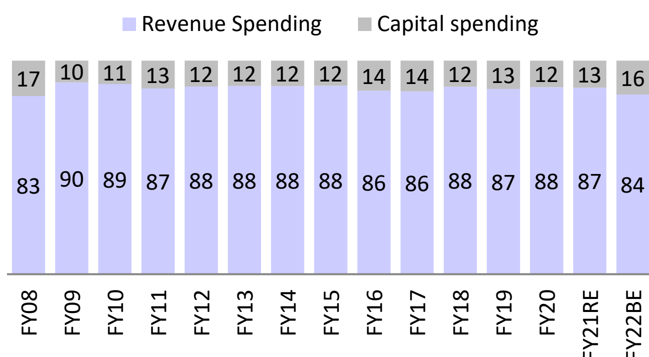
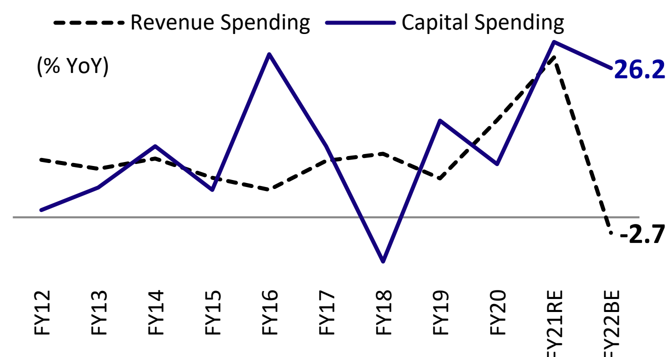


Exhibit 11: …as capex is expected to grow faster than revenue spending



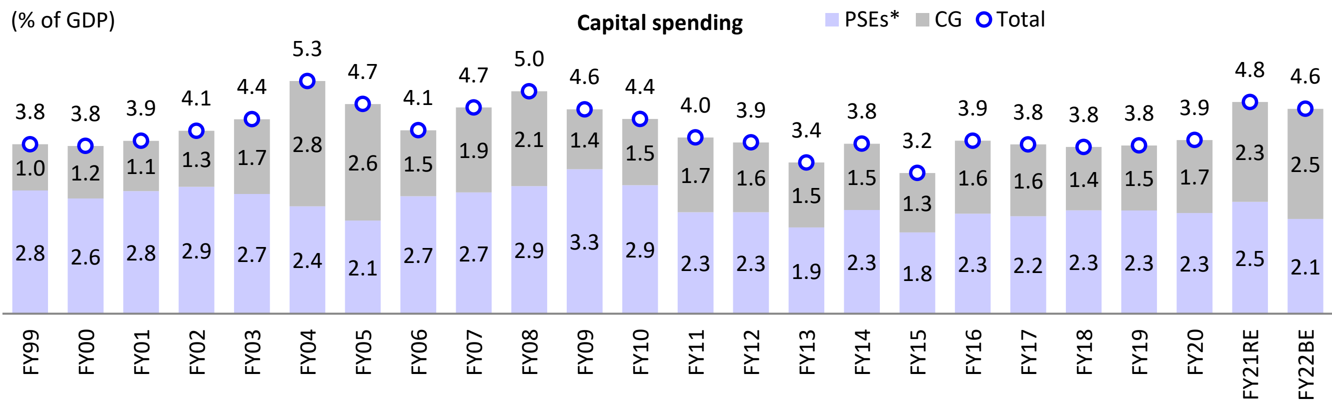
Source: Union Budget documents, MOFSL

Total government capex as a percentage of GDP is expected to reduce to 4.6% in FY22 from 4.8% in FY21

Focus on capex is reassuring

Although the central government has targeted a growth of 30.8%/26.2% YoY in capital spending in FY21/FY22, the same for Central Public Sector Enterprises (PSEs) is not as high, leading to a growth of ~16%/11% YoY in FY21/FY22 for the entire central system (government + PSEs) as a whole, which is a believable growth target. As a percentage of GDP, while PSEs capex is expected to reduce to 2.1% of GDP in FY22 from 2.5% in FY21 that of the government is expected to rise to 2.5% of GDP in FY22 from 2.3% of GDP in FY21. Total government capex as a percentage of GDP is expected to reduce to 4.6% in FY22 from 4.8% in FY21 (*Exhibit 12*).

Exhibit 12: While the Center has planned higher capex growth, CPSEs capex growth in budgeted rather low



Source: Union Budget documents, MOFSL

Rural spending by the central government is expected to contract sharply by 14.6% YoY in FY22 due to 46.2% YoY growth in FY21RE

Few other noticeable points in government spending estimates are:

1. FY21RE capex stands at INR4.4t from INR4.1t (FY21BE). Excluding INR 794b as 'special loan for COVID-related resource gap' to the Ministry of Railways, the same stands ~INR3.6t (up 7.2% YoY).
2. Rural spending by the central government is expected to contract sharply by 14.6% YoY in FY22. While this seems unpleasant, a major reason why rural spending shows a decline in FY22 is because of a massive 46.2% YoY growth expected in FY21 (*Exhibit 13-14*). As a percentage of total expenditure, rural spending is assumed to have increased to a 10-year high of 13.8% in FY21, followed by some deceleration to 11.7% in FY22.

Exhibit 13: Rural spending is budgeted to decline 15% in FY22BE, followed by a massive 46% growth in FY21RE…

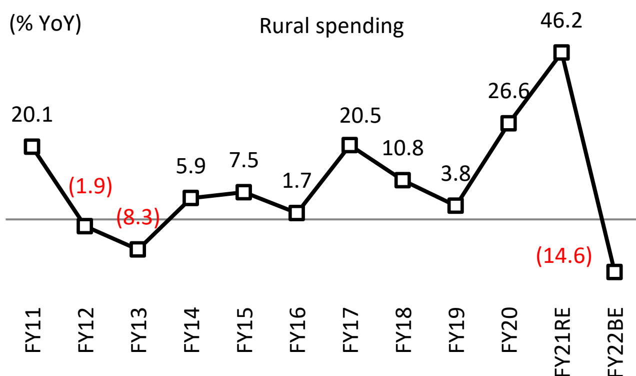
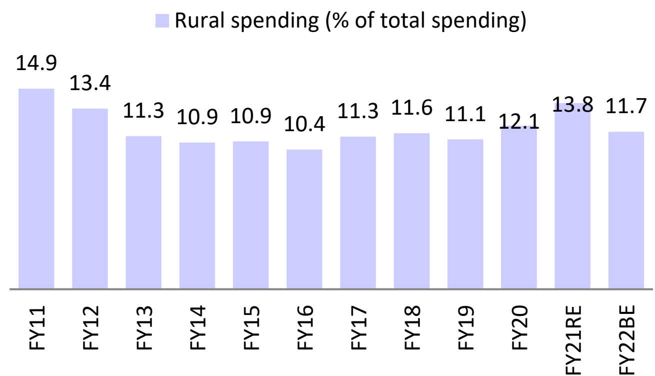


Exhibit 14: …leading to its share in total spending falling to 11.7% in FY22BE



Source: Union Budget documents, MOFSL

Better transparency explains the higher fiscal deficit

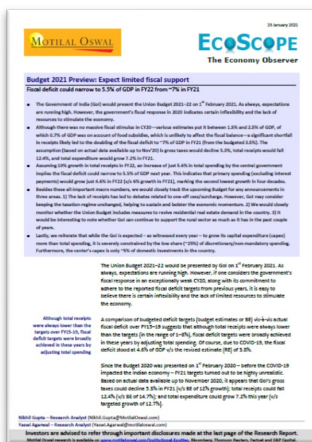
Almost four-fifth (or 2pp of GDP) of this surprise was on account of food/fertilizer subsidy, which the government has decided to take on its books, rather than keeping it off-budget (through FCI)

Although the government has relaxed its FY21/FY22 fiscal deficit target, its estimates are way higher than expected. Detail suggest that a large part of that can be explained by better transparency by the GoI. As against our fiscal deficit expectation of ~7% of GDP in FY21, the government estimates it at 9.5% of GDP. However, almost four-fifth (or 2pp of GDP) of this surprise was on account of food/fertilizer subsidy, which the government has decided to take on its book, rather than keeping it off-budget (through FCI). This transparency in fiscal math is highly appreciated and commendable (as had been demanded by us in CY19).

For the first time in many years, the tax receipt estimates look more realistic. Following a fall of 5.3% YoY in FY21RE, gross taxes are expected to grow 16.7% next year, which is neither too ambitious nor conservative. While the divestment target of INR1.75t is uncertain, revenue receipt targets look achievable.

The quality of spending has also improved as GoI pans to grow its capex at much faster pace to take it to ~165% of total spending next year, up from 12.5% in the past few years

Since the government has decided to increase the budget allocation on subsidies, total spending is pegged to grow 28.4% YoY in FY21RE. Due to this high base, total spending growth is budgeted at just 1% YoY in FY22, which implies limited fiscal stimulus. Also, the quality of spending has also improved as GoI pans to grow its capex at much faster pace to take it to ~165% of total spending next year, up from 12.5% in the past few years.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The Economy Observer

Budget 2021 Preview: Expect limited fiscal support

Fiscal deficit could narrow to 5.5% of GDP in FY22 from ~7% in FY21

- The Government of India (GoI) would present the Union Budget 2021-22 on 1st February 2021. As always, expectations are running high. However, the government's fiscal response in 2020 indicates certain inflexibility and the lack of resources to stimulate the economy.
- Although there was no massive fiscal stimulus in CY20—various estimates put it between 1.5% and 2.5% of GDP, of which 0.7% of GDP was on account of food subsidies, which is unlikely to affect the fiscal balance—a significant shortfall in receipts likely led to the doubling of the fiscal deficit to ~7% of GDP in FY21 (from the budgeted 3.5%). The assumption (based on actual data available up to Nov'20) is gross taxes would decline 5.3%, total receipts would fall 12.4%, and total expenditure would grow 7.2% in FY21.
- Assuming 19% growth in total receipts in FY22, an increase of just 5.6% in total spending by the central government implies the fiscal deficit could narrow to 5.5% of GDP next year. This indicates that primary spending (excluding interest payments) would grow just 4.6% in FY22 (v/s 6% growth in FY21), marking the second lowest growth in four decades.
- Besides these all-important macro numbers, we would closely track the upcoming Budget for any announcements in three areas. 1) The lack of receipts has led to debates related to one-off cess/surcharge. However, GoI may consider keeping the taxation regime unchanged, helping to sustain and bolster the economic momentum. 2) We would closely monitor whether the Union Budget includes measures to revive residential real estate demand in the country. 3) It would be interesting to note whether GoI can continue to support the rural sector as much as it has in the past couple of years.
- Lastly, we reiterate that while the GoI is expected – as witnessed every year – to grow its capital expenditure (capex) more than total spending, it is severely constrained by the low share (~25%) of discretionary/non-mandatory spending. Furthermore, the center's capex is only ~5% of domestic investments in the country.

The Union Budget 2021–22 would be presented by GoI on 1st February 2021. As always, expectations are running high. However, if one considers the government's fiscal response in an exceptionally weak CY20, along with its commitment to adhere to the reported fiscal deficit targets from previous years, it is easy to believe there is certain inflexibility and the lack of limited resources to stimulate the economy.

Although total receipts were always lower than the targets over FY15-19, fiscal deficit targets were broadly achieved in these years by adjusting total spending

A comparison of budgeted deficit targets (budget estimates or BE) vis-à-vis actual fiscal deficit over FY15–19 suggests that although total receipts were always lower than the targets (in the range of 1–8%), fiscal deficit targets were broadly achieved in these years by adjusting total spending. Of course, due to COVID-19, the fiscal deficit stood at 4.6% of GDP v/s the revised estimate (RE) of 3.8%.

Since the Budget 2020 was presented on 1st February 2020 – before the COVID-19 impacted the Indian economy – FY21 targets turned out to be highly unrealistic. Based on actual data available up to November 2020, it appears that GoI's gross taxes could decline 5.3% in FY21 (v/s BE of 12% growth); total receipts could fall 12.4% (v/s BE of 14.7%); and total expenditure could grow 7.2% this year (v/s targeted growth of 12.7%).

Nikhil Gupta – Research Analyst (Nikhil.Gupta@MotilalOswal.com)

Yaswi Agarwal – Research Analyst (Yaswi.Agarwal@motilaloswal.com)

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The only area of concern is the upward revision in market borrowings in FY21 and higher-than-expected borrowings in FY22. Considering that it is higher-than-anticipated, even after assuming INR4t from NSSF, it may lead to some disappointment in the debt market.

While the government has refrained from any kind of fiscal stimulus to the economy, we believe there was nothing anti-growth in the Budget as well. As we had mentioned in our Budget preview: *"…The lack of receipts has led to debates related to one-off cess/surcharge. However, GoI may consider keeping the taxation regime unchanged, helping to sustain and bolster the economic momentum…"* No tax hike is a big relief and better transparency is the key highlight. While there is some concern for the debt market, which we hope would be offset by RBI intervention, the equity market has given BIG thumbs up.

Agri Budget Impact: Positive Sector Stance: Positive

The Budget 2021-22 reflects the government's commitment towards increasing farmers' income. Key announcements directly influencing the Agri sector, or farmers, are:

Area	Key proposal	Impact
Fertilizer subsidy increased 12% to INR795b *(over FY21 Budgeted allocation)*	❖ Fertilizer subsidy allocation has increased by 12% (over FY21 Budgeted allocation) to INR795b. Allocation towards urea has increased by 23% to INR588b. The same for Nutrient Based Subsidy *(indigenous and imported P and K fertilizers and city composts)* allocation has declined by 12% to INR208b. In Nov'20, the government announced an additional fertilizer subsidy allocation of INR626b over and above the Budgeted amount of INR713b. The additional allocation is on the back of clearing of old dues of Fertilizer companies, thereby reducing their working capital requirements. The 12% growth in allocation over FY21 Budgeted allocation is sufficient for the industry.	Positive
Cost of importing palm oil to increase	❖ The government has reduced custom duty on crude palm oil to 15% from 27.5%. However, there will be an additional Agricultural Infra Cess of 17.5% on imported crude palm oil. With the levy of 15% custom duty and Agricultural Infra Cess of 17.5%, the overall cost of importing crude palm oil will be 32.5% v/s 27.5% earlier. This move would encourage farmers to enter into palm cultivation. ***Positive for Godrej Agrovet***.	Positive
Agriculture Infrastructure Fund will be utilized for improving Infra facilities at APMC	❖ The Agriculture Infrastructure Fund would be made available to APMCs for augmenting their infrastructure facilities. The amount allocated towards the Agriculture Infrastructure Fund stood at INR9b in the FY22 Budget v/s an allocation of INR2.1b in the revised FY21 Budget.	Positive
Increase the Agricultural credit target to INR16.5t	❖ The government enhanced the agricultural credit target to INR16.5t in FY22. The focus will be on ensuring increased credit flows to Animal Husbandry, Dairy, and Fisheries.	Positive
Imposition of AIDC on urea, ammonium nitrate, MOP, and DAP	❖ An Agriculture Infrastructure and Development Cess (AIDC) of 5% is being imposed on Fertilizers namely urea, ammonium nitrate, Muriate of Potash (MOP), and Diammonium Phosphate (DAP) v/s nil earlier. Simultaneously, basic custom duty on these items has been reduced to zero (excluding ammonium nitrate, which attracts an import duty of 2.5%). Hence, there is no impact.	**Neutral**
Creation of a micro irrigation fund	❖ A Micro Irrigation Fund with a corpus of INR50b has been created under NABARD and government has proposed to double the allocation to INR100b.	Positive

Outlook and recommendations

For the Agriculture sector, the Budget focused on: i) increasing allocation towards the Fertilizer sector, ii) raising Agriculture credit, iii) creation of a Micro Irrigation Fund, and (iv) an Agriculture Infrastructure Fund for improving Infra facilities at APMCs. The government has introduced an Agriculture Infrastructure and Development Cess on a few items, which will be deployed towards improving Agricultural Infrastructure. This would increase production while also conserving and processing Agricultural output efficiently. The proposals put forward are stepping stones toward its objective of increasing farmers' income. The major beneficiaries of these proposals would be Agrochemical and Fertilizer companies.

Autos | Budget Impact: Positive | Sector Stance: Positive

The Budget 2021 continued to focus on road infrastructure investments. More importantly, it touched upon the Voluntary Vehicle Scrappage Policy, the details of which would be shared separately. Lastly, a new scheme to boost public bus transport services was announced. These should augur well for the CV industry. Key announcements directly influencing the sector are:

At a glance

Area	Key proposal	Impact
Road investments	❖ Capital outlay, incl. IEBR (internal and extra budgetary resources), stands at INR1.7t for FY22BE (+10% YoY). IEBR support is expected at INR650b (flat YoY). Thus, budgetary support toward capex is expected to be strong, with growth of 18% YoY.	Positive
Scrapping Policy	❖ The details of the Voluntary Vehicle Scrappage Policy would be shared by the ministry to phase out old and unfit vehicles. Vehicles would undergo fitness tests in automated fitness centers – this would apply to personal vehicles that have exceeded 20 years and commercial vehicles that have exceeded 15 years.	Positive
New scheme for public bus transport services	❖ A new scheme would be launched at an expenditure of INR180b to support the augmentation of public bus transport services. The scheme would facilitate the deployment of innovative PPP models to enable private sector players to finance, acquire, operate, and maintain over 20,000 buses.	Positive
Basic customs duty increase on components	❖ Customs duty on certain components – such as safety glass, parts of certain electrical items, wiring sets, instrument panel clocks, etc. – has been increased. However, a large portion of these components is locally manufactured for mainstream OEMs.	Neutral

Outlook and recommendations

The Budget 2021 has not touched upon any parameters that would have influenced demand (through improving disposable incomes or improving affordability) for Autos in a material manner (except buses). Our sector outlook is positive as we are in the early phase of recovery after 2.5 years of a weak demand environment across segments. Current valuations suggest recovery is likely to sustain (our base case), leaving limited margin for safety from any negative surprises. We prefer companies with: a) higher visibility in terms of demand recovery, b) a strong competitive positioning, c) margin drivers, and d) balance sheet strength. MM and MSIL are our top OEM picks. Among the auto component stocks, we prefer ENDU and MSS.

Capital Goods/Infra | Budget Impact: Positive | Sector Stance: Positive

Capex spending trend unaffected by pandemic – Roads the key beneficiary; Defence trails

At a glance

Area	Key proposal	Impact
Roads	❖ Total capex for the Roads sector is pegged at 1.7t (+10% v/s FY21RE). Of this, total NHAI capex is estimated at 1.2t (+7% YoY). Notably, budgetary support has seen strong growth of 18% in FY22BE v/s FY21RE, while the IEBR (internal and extra budgetary resources) component is expected to be flat at INR650b.	Positive
Railways	❖ Total Railways capex is estimated at INR2.15t in FY22BE. While this translates to de-growth of 11% over FY21RE, we note that FY21RE included special loan for COVID-related resource gap of ~INR800b. Adjusted for the same, FY22BE growth stands at a strong 33% YoY.	Positive
Defence	❖ Defence capex spending would be muted at INR1.35t.	Negative
Capex funding	❖ To secure long-term debt financing, a professionally managed development financial institution (DFI) is proposed to be set up with an initial allocation of INR200b in FY22BE. The aim is to have a lending portfolio of at least INR5t for the DFI within three years.	Positive
Others	❖ Metro project allocations were raised to INR190b (v/s INR65b in FY21RE, but muted growth over FY20). ❖ **INR440b in funds is set aside under the Head of the Department of Economic Affairs as provision toward projects/programs/departments that show good progress on capex and are in need of further funds. This is a key monitorable and could boost spending for an overachieving sector.**	Positive

Import duty hikes across product categories suggest emphasis on increasing local manufacturing

At a glance

Area	Key proposal	Impact
Import duty on compressors	❖ Import duty on compressors used in air conditioners and refrigerators has been raised to 15% (from 12.5% earlier). This is along expected lines as India targets import substitution in ACs and would unravel a detailed PLI scheme in ACs soon.	Neutral
Import duty on mobile sub-components, PCBA, and raw materials of chargers and PCBA	❖ Import duty on mobile sub-components has been raised to 2.5% from nil earlier, while duty on raw materials of chargers and PCBA has been raised to 10% from nil earlier. This could be a positive for contract manufacturers. For PCBA of chargers and adapters, duty has been raised to 15% (from 12.5%).	Positive
Import duty on solar lamps and solar inverters	❖ Import duty has been hiked to 15% (from 5% earlier). This could be a positive for domestic manufacturers such as Havells, Crompton, and V-Guard.	Positive

Outlook and recommendations

- **Capital Goods / Infrastructure:** Overall, capex growth fails to suggest a big impetus on infrastructure spending, but is in-line with our expectation of decent growth. Setting up of a development financial institution (DFI) could go a long way in securing long-term debt financing for the sector. Roads capex is decent, while Defence capex has disappointed. **Our top picks: L&T** is our preferred play on overall capex in the country; **KNR Construction** is our niche idea to play Roads sector capex.
- **Consumer Durables:** While custom duty hikes for compressors in air conditioners and refrigerators could lead to some cost escalation, this is along expected lines. However, it remains to be seen whether OEMs would be able to pass on this price increase – as they have all recently hiked their product prices owing to commodity price inflation. Hence, this could lead to a minor impact on margins in the near term. Moreover, an import duty hike could present an opportunity for local manufacturers of other mobile sub-components and solar lamps. **Our top pick: Crompton Consumer**.

Cement/Metals — Budget Impact: Neutral — Sector Stance: Positive

The huge thrust on infrastructure spending by the government in the Union Budget 2021–22 bodes well for construction materials such as cement and steel. While there was no direct proposal for the Cement industry, certain changes in import duties for steel products were announced, which are highlighted below.

At a glance

Product	Key proposal	Impact
Steel scrap	❖ Import duty on steel scrap (incl. stainless steel) was slashed from 2.5% to 0% up to 31st Mar'22. This is moderately positive for secondary steel producers as it would reduce their cost of production.	**Neutral**
Finished steel products	❖ Import duty on steel products was slashed to 7.5% from 10%/12.5% currently. This is only marginally negative as nearly 60% of imports are from FTA countries (South Korea, Japan, etc.) – which anyways have 0% duty.	**Negative**
Certain steel products	❖ Anti-dumping duties on certain steel products – a) straight-length bars and rods of alloy-steel from China, b) high-speed steel of non-cobalt grade from Brazil, China, and Germany and c) flat-rolled steel products (plated or coated with alloys of zinc or aluminum) from China, Korea RP, and Vietnam – have been temporarily revoked up to 30th Sep'22. This is only marginally negative for steel players. Anti-dumping duties on HRC/CRC imports from China/Japan/Korea remain in place until they expire in Aug'21 (may be extended further) – a positive.	**Neutral**
Stainless steel (SS)	❖ a) CVD was revoked on flat SS products from China up to 30th Sep'21, b) provisional CVD was imposed on flat SS products from Indonesia, and c) anti-dumping duties on cold-rolled SS (imposed on various countries in 2017) were discontinued. This is a negative for SS producers such as Jindal Stainless and Jindal Stainless (Hissar) as imports meet ~20% of India's flat product SS demand.	**Negative**
Silver	❖ Import duty on silver was reduced from 12.5% to 7.5%; however, an additional 2.5% ADIC would be levied, implying an effective duty rate of 10%. This would reduce silver prices by ~2.5%. This is marginally negative for Hindustan Zinc as ~40% of its earnings come from silver, implying a net impact of ~1% on earnings.	**Negative**

Outlook and recommendations

- **Cement:** The govt's thrust on infrastructure spending and affordable housing bodes well for cement demand. We expect cement demand to remain flat in FY21, but grow 11% YoY in FY22 – on the back of govt spending on infrastructure and affordable housing. We prefer companies that: a) are moving down the cost curve, b) have the potential to gain market share, and c) provide valuation comfort. UltraTech is our top large-cap pick, and Dalmia Bharat is our top mid-cap pick.
- **Steel:** With 60–65% of steel demand coming from the Infrastructure and Construction industries, we expect domestic demand for steel to remain strong in FY22. We expect domestic steel demand to decline ~11% to ~89mt in FY21, but recover 17% YoY to ~104mt in FY22. As a result, we expect steel supplies from companies under our coverage to improve 11% YoY on the back of improved domestic demand and ramp-up in new capacities, offset by lower share of exports. We remain positive on JSP, SAIL, and JSW.
- The import duty reduction across steel products does not materially impact the steel pricing scenario in India as nearly ~60% of imports to India come from FTA countries (at 0% duty). However, the revocation of CVD/ADD on stainless steel imports would hurt margins of stainless steel producers.

Consumer — Budget Impact: Neutral — Sector Stance: Neutral

There was no material announcement in the Budget that would significantly impact any of the stocks in our Consumer universe. Given the encouraging pace of recovery in the economy, the outlook for the Consumer sector is immensely optimistic. While some commodities used as raw materials saw an imposition of an Agriculture Infrastructure and Development Cess (AIDC), a simultaneous and proportionate reduction in the Basic Customs Duty (BCD) means that the overall impact would be largely neutral in nature. The lack of additional GST or cess on cigarettes and a marginal reduction in the net import duty on gold is seen as minor positives for ITC and TTAN.

At a glance

Area	Key proposal	Impact
GST + cess on cigarettes	❖ There was no increase in GST or cess on cigarettes – a temporary positive for ITC. In the past, the absence of such an announcement during the Budget would be met with exultation. However, the positive impact may be short lived as a GST increase on cigarettes could be part of any subsequent GST Council meets.	Marginally Positive
Import duty on gold	❖ There was a minor reduction of 2.5% in gold import duty, which is marginally positive for TTAN. The effective rate is now 10% (7.5% import duty and 2.5% AIDC).	Marginally Positive
BCD reduction + imposition of AIDC (Alcoholic Beverage)	❖ Imposition of 100% AIDC cess on Alcohol imports is completely offset by a reduction in BCD. While there has been a 5% increase in BCD on denatured ethyl alcohol, the rise is minor. Moreover, imports constitute a small portion of consumption of this commodity.	**Neutral**
BCD reduction + imposition of AIDC (Soaps)	❖ While there has been imposition of 17.5% AIDC on crude palm oil, there has been a reduction in BCD, leading to an effective 5% increase in the commodity. Since the key RM for Soaps is PFAD, which would be unaffected by this increase, the overall impact is neutral.	**Neutral**

Outlook and recommendation

With a sharp recovery in the economy after the COVID-19 disruption, consumer sentiment is exceedingly buoyant. The recovery is broad-based as urban markets see a resurgence, while rural markets continue their strong run.

Among Staples, we prefer HUVR, MRCO, and DABUR. Resumption of growth in HUVR's high margin categories (discretionary products, Detergents), coupled with its strengths of best-of-breed analytics and exceptional execution capabilities, indicates that the company is poised to deliver high-teen earnings growth from FY22 onwards.

MRCO's strong volume growth momentum, increased confidence, focused new launches, and benign commodity environment offers an encouraging outlook on both sales and earnings growth. Multifold transformative changes in DABUR's business, along with strong traction across its business verticals, led to a robust outlook for the company.

Among discretionary, we prefer TTAN and UNSP. With a less than 10% market share in India's jewelry sector, TTAN is well placed to capture this opportunity, driven by its trusted brand, quality products, increased focus on innovation, and a strong digital backbone. In the Alcoholic Beverage space, Spirits stand to benefit vis-à-vis Beer as the on-trade channel sees a slow recovery, leading to higher in-home consumption. Resumption of premiumization, benign commodity outlook, and a deleveraging Balance Sheet would lead to strong earnings growth for UNSP going forward.

Financials — Budget Impact: Positive — Sector Stance: Overweight
Life Insurance — Budget Impact: Neutral — Sector Stance: Overweight

Life Insurance: The Union Budget 2021 was broadly neutral for the Life Insurance industry. On the positive side, the government proposed an increase in the FDI limit to 74% (from 49%) and allowed foreign ownership and control with safeguards. On the other hand, proceeds received on the maturity of ULIPs were made taxable (except in the case of death) for policies with an aggregate annual premium in excess of INR2.5L. The government also proposed an IPO of LIC in FY22 and the privatization of one general insurance company.

Banks: The Union Budget 2021 was positive for Banks as the government recommended – (i) the setting up of an asset reconstruction co. (ARC) and asset management co. (AMC) for value realization in existing stressed debt, and the disposal of these assets to AIF and other potential investors, (ii) the recap of INR200b for PSBs, (iii) the further strengthening of the existing NCLT framework. The government also proposed the privatization of two PSBs (apart from IDBI Bank).

At a glance

Area	Key proposal	Impact
Divestment and strategic sale	❖ It proposed to privatize two PSBs and one general insurance company over FY21–22. Furthermore, the IPO of LIC would also be over FY21–22.	Positive
Recapitalization of PSBs	❖ Recapitalization of INR200b has been proposed over FY21–22.	Positive
Stressed asset resolution by setting up a new structure	❖ An ARC and AMC would be set up to consolidate and take over existing stressed debt, and then manage and dispose of the assets to AIF and other potential investors for eventual value realization.	Positive
FDI on Insurance	❖ It proposed to increase the FDI limit to 74% (from 49%) in insurance companies and allow foreign ownership and control with safeguards.	Positive
Taxation on ULIPs	❖ For ULIPs with an annual premium in excess of INR2.5L, the proceeds received on maturity would be taxable (except for death) for policies taken after 1st Feb'21. ❖ Furthermore, non-exempt ULIPs would be provided the same concessional capital gains taxation regime as available to the mutual fund.	Negative
Affordable Housing	❖ Additional interest deduction of INR150k on affordable housing loans was extended by one year – up to 31st Mar'22. ❖ The deadline for affordable housing project approvals, on which a tax holiday was provided to the developer, has been extended from Mar'21 to Mar'22. ❖ For affordable rental housing for migrant workers, it has proposed to allow a new tax exemption for notified affordable rental housing projects.	Positive
Tax neutrality on conversion of UCB to SFB	❖ An urban cooperative bank (UCB) would be provided a 'tax neutral' status for transitioning to a small finance bank (SFB). Hence, UCBs would not be required to pay capital gains for assets transferred to SFBs.	Neutral
SARFAESI	❖ The minimum loan size for invoking SARFAESI was reduced to INR2m from INR5m.	Positive
Others	❖ To ensure faster resolution, the NCLT framework would be strengthened, the e-Courts system would be implemented and alternate methods of debt resolution and a special framework for MSMEs would be introduced.	Positive
Agriculture credit target	❖ The agriculture credit target has been increased to INR16.5t for FY21 from INR15t for FY20.	Neutral

Outlook and recommendations

Life Insurance: The government has increased the FDI limit to 74% (from 49%) – a positive for the industry. While the taxability of the amount received on the maturity of ULIPs could have a negative bias, we believe this would have a limited impact on life insurers as most players have average ticket sizes of <2L (IPRU's is ~1.8L). Although the HNI category may see some impact, the impact on premium volumes should be limited. Also, the mix of ULIPs has been reducing across insurers, and most players are focusing on Traditional/Non-PAR and Protection products.

Banks: The budget has underscored the government's continued focus on the Affordable Housing segment. The budget is positive for banks such as SBI and ICICIBC (besides HFCs) as they stand to benefit from the sustained growth in the Mortgage business. The focus on privatization, along with the listing of LIC, would enable long-term value creation. The setup of the structure for stress resolution through ARCs/AMCs would lead to better value realization. The government's higher fiscal deficit projections could adversely impact bond yield and thus increase MTM provisions for banks on their investment portfolios. We believe PSBs would be the more impacted ones by the potential tightening of bond yield.

Oil and Gas — Budget Impact: Positive — Sector Stance: Positive

The Budget 2021-22 continues to focus on creating gas economies (to reduce air pollution, which has a huge health implication) in India, in line with Vision 2030 (which aims to boost Gas mix to 15% from 6-7% at present). Asset monetization and privatization has been highlighted as a key agenda for the government for FY22. Subsidy on Petroleum has been reduced to INR130b for FY22 (from FY21RE of INR390b). Key announcements directly influencing the Oil and Gas sector are:

At a glance

Area	Key proposal	Impact
Agriculture Infrastructure and Development Cess (AIDC)	❖ An AIDC of INR2.5/INR4 per liter has been imposed on petrol/diesel. This has been done while reducing the Basic Excise Duty (BED) and Special Additional Excise Duty (SAED) rates, so that consumers do not bear any additional burden.	**Neutral**
Asset monetization and privatization	❖ Asset monetization program for Oil and Gas pipelines of GAIL, HPCL, and IOCL will be launched. An asset monetization dashboard will be created for tracking the progress and to provide visibility to investors. ❖ The privatization of BPCL will be completed in FY22.	**Positive**
Gas transmission	❖ An independent gas pipeline operator will be appointed for all gas pipelines on a non-discriminatory basis.	**Positive**
City gas distribution and LPG scheme	❖ The government plans to add 100 more districts under city gas distribution network over the next three years. ❖ The LPG Ujjwala scheme, which benefitted around eight crore people, will be extended to another one crore people.	**Positive**
Curbing air pollution	❖ A Budget allocation of INR22b has been made to encourage large cities (with a population of over 1m) to formulate and implement plans for cleaner air.	**Positive**
Subsidy	❖ Subsidy on Petroleum reduced to INR130b for FY22 (from FY21RE of INR390b).	**Neutral**
Petchem	❖ Reduced custom duty on Naphtha to 2.5% (from 4% earlier).	**Positive**

Outlook and recommendation

The Finance Minister said that the increase in excise won't create any additional burden on end-consumers. We believe it to be re-categorization of cess into a new basket. We reiterate our belief in the sustainability of marketing margin around the long-term average (if not higher) – while aiding poor refining margins in the short term. The government's impetus continues on curbing air pollution. It has allocated INR22b for cities to formulate and implement plans for cleaner air. Various government/organized bodies are working towards curbing pollution (NGT, commissions on air quality management, etc. – to curb air pollution and reduce the harmful impacts on human health). We understand that any directive launched as a pollution control measure, or impetus on growing gas consumption in India, would benefit GUJGA to a huge extent (v/s the other two incumbents namely IGL and MAHGL). The growing impetus on Gas should also aid Gas transporter (GAIL, GUJS) and importer (PLNG). AGIS has been a key beneficiary of the government's initiative to boost the penetration of LPG in the country. Extension to the Ujjwala scheme, along with an increase in Gas consumption per connection by domestic consumers, could boost demand. The government has reduced custom duty on Naphtha to 2.5% (from 4% earlier), which would aid Petchem producers like RIL and IOCL.

Our top picks are GAIL, PLNG, and GUJGA in the Gas space and IOCL in OMCs.

Real Estate — Budget Impact: Positive — Sector Stance: Positive

In Budget 2021-22, the government exhibited a continued commitment towards Affordable Housing (AFH) by extending the timeline for availing additional tax benefits for both buyers and developers. Key announcements directly influencing the Real Estate sector:

At a glance

Area	Key proposal	Impact
Interest deduction benefit on AFH – demand-side push	❖ The government extended additional tax benefit (of INR150,000) on interest paid on AFH loans by one-year till Mar'22.	Positive
Tax holiday for developers of AFH – supply-side push	❖ Date of approval of AFH projects for availing tax holiday on profits earned by developers extended by one-year till Mar'22.	Positive
Rental Housing for migrant workers	❖ Tax exemption for notified affordable rental Housing projects to promote supply of houses for Migrant workers.	Positive
Easy debt financing for REITs/InvITs	❖ Debt financing of InviTs and REITs by Foreign Portfolio Investors will be enabled by making suitable amendments in the relevant legislations, thus attracting investments in Infrastructure and Real Estate sectors.	Positive

Outlook and recommendations

The Indian government continued its push for AFH by extending tax benefits for another year. To stimulate growth and evolution of REIT as an asset class, easing of debt financing norms is a positive step. Our top picks in the sector are BRGD (over 20% of the product portfolio is skewed towards AFH) and OBER (forays into AFH segment via the upcoming Thane project and creation of platform, which can then be monetized via REIT).

Telecom Budget Impact: Neutral Sector Stance: Positive

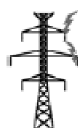
In the Union Budget 2021-22, the government has proposed to withdraw tax exemptions from some smartphone components. These would attract a 2.5% tax rate.

At a glance

Area	Key proposal	Impact
Telecom receipts accounting for auction	❖ Estimated Telecom receipts for FY21 have been sharply revised down to INR340b from INR1.3t. This is largely due to the anticipated INR1.1t AGR repayment. It has received INR10b from VIL and is expected to receive an additional INR150b as part of the 10% upfront payment by Mar'21. ❖ In FY22, it is targeting a 60% rise in Telecom receipts to INR540b due to the upcoming spectrum auction in Mar'21. We expect INR117b/INR197b from annual AGR repayment/license fee and spectrum usage charge, while the balance (INR226b) could possibly be from spectrum auction. ❖ Assuming ~30% as upfront spectrum payment, the government is expecting to sell INR700-750b of spectrum in the upcoming auction v/s the total auctioned spectrum of INR1.9t (excluding 700MHz spectrum). ❖ Of this, spectrum renewal at the reserve price for all the three telcos (RJio, Bharti and VIL) could be INR490b, which forms ~65% of the total spectrum that the government is expected to sell in this auction.	**Neutral**
Smartphone prices may inch up a bit	❖ It has proposed withdrawal of tax exemption on some smartphone components and imposed a 2.5% tax rate on them. This could marginally raise the price of smartphones, but seems insignificant to impact adoption of smartphones.	**Negative**

Outlook and recommendations

The decision to withdraw tax exemption from some components could increase the prices of smartphones. However, this would have a small impact on adoption of smartphones as over 50% of unique subscribers in the market are low ARPU feature phone subscribers. Our top pick remains **Bharti**.



Utilities

Budget Impact: Positive **Sector Stance: Positive**

The Budget 2021 has emphasized revamping the Distribution sector. The budget has suggested the opening up of the Distribution sector by providing consumers the freedom to choose their DISCOM / electricity supplier. It has also called for the launch of a result-linked Power Distribution sector scheme with an outlay of INR3t.

At a glance

Area	Key proposal	Impact
Distribution	❖ A framework was proposed to give consumers the alternative to choose from more than one DISCOM.	Positive
Distribution	❖ It has called for the launch of a result-linked Power Distribution sector scheme with an outlay of INR3t. This would assist in infra creation through prepaid metering, feeder separation, and system upgrades.	Positive
Green Hydrogen	❖ The launch of a Hydrogen Energy Mission has been proposed in FY22 for generating hydrogen from green power sources.	Positive
Renewable	❖ Customs duty on solar inverters has been increased to 20% (from 5%).	Negative
Divestment	❖ The divestment target of INR1,750b could lead to a supply overhang on PSUs such as Coal India.	Negative

Outlook and recommendations

While the government has suggested measures for the Distribution sector, the details and implementation timelines are awaited. Also, much of the Distribution sector remains a state subject. Accordingly, the move to open up the Distribution sector would need to be watched. As per the budget, the outlay of INR3t for the Distribution sector would be result-linked; hence, progress in terms of infra creation and system upgrades may not be swift. While higher custom duty on solar inverters would drive up costs, the impact is expected to be marginal at ~1%. The increase in the divestment target could be an overhang on PSU stocks such as Coal India.

NOTES

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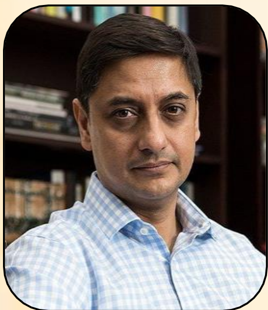
OUR ESTEEMED GUESTS FOR THE EVENT

2:00 – 3:00 PM IST – PROF. ANANTH NARAYAN, SPJIMR

Prof. Ananth Narayan is an international banking and financial markets expert. He was previously Standard Chartered Bank's Regional Head of Financial Markets for ASEAN and South Asia, managing foreign currency, interest rates, commodities, derivatives and debt capital markets businesses across 12 countries. He was Vice Chairman of FIMMDA and FEDAI, and also served on the boards of CDSL, SCSI and SCB Nepal Ltd. He has been part of several working groups and committees of RBI. Ananth continues to serve on the SEBI Mutual Fund committee. Prior to Standard Chartered, Ananth has worked in Deutsche Bank and Citibank, also in the area of financial markets sales and trading.



3:00 – 4:00 PM IST – MR SANJEEV SANYAL, PRINCIPAL ECONOMIC ADVISER –MINISTRY OF FINANCE, GOI

Mr Sanjeev Sanyal is currently the Principal Economic Adviser to the Indian government. He is an Indian economist and author. He also serves as the co-chair of the Framework Working Group of the G20 and represents India on a number of international forums. Mr Sanyal had worked in financial markets since the mid-nineties. He was Managing Director and Global Strategist at Deutsche Bank till 2015. Mr Sanyal is well known for applying chaos theory and the Complex Adaptive Systems framework to economic and urban issues. He is seen as a strong advocate of using a codified insolvency and bankruptcy processes to allow creative destruction in an evolving economy.

4:00 – 5:00 PM IST – MR BRENDEN SALDANHA, PARTNER – ERNST & YOUNG LLP

Brenden Saldanha is a Partner with EY's Financial Services Tax practice, based in Mumbai. He specializes in the financial services and banking industry and has over 16 years of experience in advising and assisting financial services clients on a range of tax and regulatory issues. Brenden works with several global financial services entities on their Indian and international tax matters including inbound structuring. He has also worked extensively with capital market participants and asset managers and has represented to the Government on promoting the onshore management regime in India. He is a Chartered Accountant and a graduate from Mumbai University.

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THEMATIC/STRATEGY RESEARCH GALLERY

MOTILAL OSWAL

Thematic | Economy

Economy

2020s: Decade to regain lost economic strength

- The third decade of the 21st Century has begun on an unprecedentedly weak note. Due to the physical lockdown on account of COVID-19, global GDP decline has been the fastest in the peacetime era. This makes the 2020s decade highly unusual, but interesting. How strong or weak India's economic recovery could be and what could be done to make it stronger is what we have addressed in this note.
- India's average GDP growth in the first two decades of the 21st Century remained the same; however, the drivers varied drastically. After both decades reported strong growth in the first year, economic growth weakened. It then strengthened considerably in the middle and faltered once again towards the end, creating sleeping S-shaped growth curves. Nonetheless, the growth in the 2000s decade was led by investments, while consumption was the key driver in the 2010s decade.
- Although the third decade begins at the absolute bottom – which could only improve over the course of the decade – the scars of COVID-19 may mean limited economic strength in the recovery phase. Nevertheless, it does provide an unmatched opportunity to address difficult structural economic issues – this would help the nation move from low growth in the first half to high-single-digit growth before the end of the 2020s decade, and on a sustainable basis too.
- Besides these structural issues, there are five more areas wherein improvement is needed to support India's economic growth. Many of these areas have already shown some promise in 2020; however, sustained improvement in these areas is needed, without which lost economic strength cannot be regained.

IMPROVEMENT IN THESE FIVE AREAS IN THE 2020S DECADE WOULD BE FOLLOWED CLOSELY

01 — Without a strong Financial sector, no nation can witness high economic growth. Unlike in the first decade, India's Financial sector diversified and struggled in the 2010s decade. While it has been extremely resilient in 2020, supported by regulatory changes and strong capital injection, credit growth remains tepid. Continued efforts to keep the system clean, further consolidation, and adequate capital bode very well for higher credit growth over a period of time.

02 — India's Residential Real Estate (RRE) sector has been at the core of economic slowdown. A large reduction in interest costs and various sops by central/state governments have complemented low-to-stable home prices and low-to-stable income growth in prospective buyers to support robust recovery in the RRE sector. Although the resilience of this recovery is in question at this stage, it certainly provides a template of how the RRE sector may be revived.

03 — From being a member of the Fragile Five over 2012–14, India has come a long way in securing its position as one of the most favored investment destinations. As the country has the world's 5th largest stock of foreign exchange (FX) reserves, the external sector has turned from an area of concern to comfort. Going forward, although BoP surplus would reduce, FX reserves of USD585b provide enough insurance to follow the long-term roadmap, without worrying too much about external vulnerability.

04 — *"No crisis should be wasted,"* and the Government of India (GoI) seems to have taken this very seriously. In the past few months, GoI has announced a number of structural reforms, ranging from labor, agricultural, to educational reforms. The beauty of reforms is that they disturb the existing ecosystem and nudge the present beneficiaries to compete with new players. As a result, they are almost certain to bring efficiency or productivity improvements.

05 — Lastly, GoI has shown renewed drive toward India's Manufacturing sector. The Production-Linked Incentive (PLI) Scheme was announced for 13 shortlisted sectors in 10 ministries/departments, with the approved financial outlay totaling INR1.97t over the next five years. While the government's Make in India initiative has failed to yield the desired results in the last five years, the focused approach and linked incentives are expected to yield better results in PLIs.

Nikhil Gupta – Research Analyst (Nikhil.Gupta@MotilalOswal.com)
Yaswi Agarwal – Research Analyst (Yaswi.Agarwal@motilaloswal.com)

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Thematic | 16 April 2019

Economy

Income Tax
GST
Farm loan waiver
Central Government
State Governments
Direct income support
Fiscal deficit

When will government accept fiscal policy limits?

Nikhil Gupta - Research analyst (Nikhil.Gupta@MotilalOswal.com); +91 22 6129 1555
Yaswi Agarwal - Research analyst (Yaswi.Agarwal@MotilalOswal.com); +91 22 7193 4196
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Thematic | April 2018

Economy

Private investment
Fiscal spending
Private consumption

Fiscal policy has reached limits

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January 2021 | Thematic

Housing Finance

HFC
Government

A Home Run!

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2010-20
A Decade of Triumphs and Trials

Jio
CHAMPIONS
NIFTY Index
GST TAX

Gautam Duggad
Gautam.Duggad@motilaloswal.com
Deven Mistry
Deven@motilaloswal.com

JANUARY 2021

MOTILAL OSWAL

23 September 2020
Sector update | Sector: NBFCs

Gold Finance

The Gold Rush!

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January 2021

India Strategy

Nifty 2Q 11,000
Nifty 3Q 14,000
RBI
FED
EARNINGS

Booster shots!

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October 2020

India Strategy

HOSPITAL
COVID-19 CENTER
Domestic Unlocking
Global Recovery

Back in the saddle!

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July 2020

India Strategy

Lockdown
Liquidity

Tug of War!

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- Best Execution
- Best Sales Trading Team
- Best Overall Sales
- Best Sales People Team
- Best Team Financials (Non-banking)
- Best Analyst ESG
- Best Sales Person
- Best Overall Research 2nd Rank

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