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UNION BUDGET
2021 - 2022

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KEY HIGHLIGHTS

Though the Union Budget is essentially a statement of account of public finances, it has historically become a significant opportunity to indicate the direction and the pace of India's economic policy. The 2021-22 Union Budget was presented amid the COVID-19 pandemic to give an impetus to the covid-hit economy. The COVID-19 pandemic has led to massive economic disruptions worldwide while in India, we have witnessed a flattening of the curve. While there is still a long way to go, but a ray of hope due to availability and distribution of vaccine has overcome the fear which prevailed in CY2020. We are witnessing a strong (albeit slow and gradual) opening up of the economy. This year's budget has laid down a path for bringing the derailed economic activity and growth back on track. It has focused on the following key outlays, viz., health & wellness, physical infrastructure (roadways & railways), governance, inclusive growth and human capital.

With this background, we present the key highlights of the Union Budget 2021-22.

ECONOMY

- Total expenditure in FY22BE is pegged at Rs.34,83,236 crore, up by 1%, whereas capital expenditure is set to see whopping rise by 34.5% and 26.2% over FY21BE and FY21RE, respectively.
- Gross tax revenues are expected to grow by 16.7% in FY22BE, estimated to be at 9.8% of GDP for FY21RE and 9.9% of GDP for FY22BE.
- The growth rate of GDP witnessed a slide in FY21 on account of nationwide pandemic and related restrictions. Nominal GDP showed negative growth rate of 4.2% in FY21 and is expected to grow at the rate of 14.4% in FY22.
- Direct taxes for FY22BE are projected to grow at 22.4% over FY21RE, at Rs.11.08 lakh crore; Indirect taxes are pegged at Rs.11.05 lakh - crore an increase of 11.4%
- Fiscal deficit projected at 6.8% of GDP for 2021-22 BE with an intent to reach a fiscal deficit level below 4.5% of GDP by 2025-26, with a fairly steady decline over the period. The fiscal deficit in RE 2020-21 is pegged at 9.5% of GDP.
- Disinvestment receipts anticipated to be Rs.1,75,000 crore in FY22BE.
- Gross market borrowings are slated at Rs.12.06 lakh crore, while net market borrowings are slated at 9.25 lakh crore.

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

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KEY HIGHLIGHTS

SIX PILLARS TO STRENGTHEN THE VISION FOR ATMANIRBHAR BHARAT

HEALTH & WELLNESS	• PM AtmaNirbhar Swasth Bharat Yojana • Support for Health and Wellness Centers • Setting up integrated public health labs • Establishing critical care hospital blocks • Pnuemococcal vaccine and Covid-19 Vaccine
INFRASTRUCTURE	• National Rail Plan by 2030 • “National Monetization Pipeline” of potential brownfield infrastructure assets • More economic corridors planned to augment road infrastructure • Reforms-based result-linked power distribution sector scheme
INCLUSIVE GROWTH	• Government committed to the welfare of farmers. • Development of modern fishing harbours and fish landing centres. • Migrant workers and labourers • Social security benefits to be extended to gig and platform workers for the first time
HUMAN CAPITAL	• National education policy: strengthening of schools • Special scheme for welfare of women & children
GOVERNANCE	• Set up Conciliation Mechanism and mandate its use for quick resolution of contractual disputes
INNOVATION AND R&D	• National Research Foundation with outlay of ₹50,000 crore over 5 years • National Language Translation Mission to boost internet access • Deep Ocean Mission for ocean exploration

1. HEALTH & WELLNESS

- The budget **outlay for Health and Wellbeing** is Rs.2.24 lakh crores in FY22BE as against FY21BE of Rs.94,452 crores an increase of 137%.
- **PM AtmaNirbhar Swasth Bharat Yojana,** to be launched to develop primary, secondary and tertiary healthcare with an outlay of about Rs. 64,180 crores over 6 years. The main interventions under the scheme are:
    - Support for 17,788 rural and 11,024 urban Health & Wellness Centers
    - Setting up integrated public health labs in all districts and 3382 blocks of public health units in 11 states;
    - Establishing critical care hospital blocks in 602 districts and 12 central institutions;
    - Strengthening of the National Centre for Disease Control (NCDC), its 5 regional branches and 20 metropolitan health surveillance units;
    - 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, that is at 32 Airports, 11 Seaports and 7 land crossings;
    - Setting up of 15 Health Emergency Operation Centers & 2 mobile hospitals;
    - Setting up of a national institution for One Health, a Regional Research Platform for WHO South East Asia Region, 9 Bio-Safety Level III laboratories and 4 regional National Institutes for Virology.
- **Mission POSHAN 2.0** to improve nutritional outcomes across 112 aspirational districts.
- **Jal Jeevan Mission** will be launched with an outlay of Rs. 2.87 lakh crores, aiming to provide full-fledged water supply to all urban local bodies with household tap connections.
- The **Urban Swachh Bharat Mission 2.0** is proposed with a total financial allocation of Rs. 1.41 lakh crores over a period of 5 years from 2021-2026.
- The **Pneumococcal Vaccine,** presently limited to only 5 states will be rolled out across the country and Rs. 35,000 crores is provided for **Covid-19 vaccine** in FY22BE, committed for more funds.
- India has two COVID19 vaccines made available and two more will be made accessible soon.
- The **voluntary vehicle scrapping policy** aims to remove inefficient vehicles to reduce vehicular pollution and oil import bills.
- Rs. 2,217 crore to tackle air pollution, for 42 urban centers with a million-plus population

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2. INFRASTRUCTURE

- Outlay of Rs.1.18 lakh crores is provided for Ministry of **Road Transport and Highways**, of which Rs. 1,08,230 crores is for capital.
- Rs.1.10 lakh crores is provided for **Railways** of which Rs.1,07,100 crores is for capital expenditure.
- Rs.3.06,984 crore over 5 years for reforms-based and result-linked new **power distribution sector scheme.**
- **Capital expenditure** for FY22 will be Rs.5.54 lakh crore, 34.5% more than BE 2020-21.
- Proposed an amount of Rs.1.97 lakh crores, over 5 years for **Product Linked Incentive Schemes (PLI)** in 13 sectors.
- Scheme of ***Mega Investment Textiles Parks (MITRA)*** will be launched in addition to the PLI scheme, 7 Textile Parks will be established over 3 years.
- Proposed to set up a professionally managed **Development Financial Institution** (DFI). A sum of Rs.20,000 crores is provided to capitalise this institution.
- **Debt Financing of InVITs and REITs** by Foreign Portfolio Investors will be enabled by making suitable amendments in the relevant legislations.
- **National Asset Monetising Pipeline** of potential brownfield infrastructure assets is to be launched and a dashboard to monitor asset monetisation process.
- **National Rail plan 2030** is prepared to create a 'future ready' Railway system.
- A new scheme will be launched at a cost of Rs.18,000 crores to support augmentation of public bus transport services.
- Two new technologies i.e., '**MetroLite' and 'MetroNeo**' will be deployed in Tier-2 cities and peripheral areas of Tier-1 cities.
- Capital infusion of Rs 1,000 crore to **Solar Energy Corporation of India** and Rs 1,500 crore to **Indian Renewable Energy Development Agency**
- **Ujjwala Scheme** which has benefited 8 crores households will be extended to cover 1 crores more beneficiaries.
- Projects worth more than Rs.2,000 crores will be offered by the Major Ports on PPP mode in FY22. Recycling capacity of ports to be doubled by 2024.
- Target of **100% electrification by 2023.**
- Western Dedicated Freight Corridor (DFC) and Eastern DFC will be commissioned by June 2022.
- Bharatmala Pariyojana project of which 3,800 kms have been constructed. By March 2022, another 8,500 kms will be awarded and complete an additional 11,000 kms of national highway corridors.
- Highways projects in Tamil Nadu, Kerala, West Bengal and Assam.

3. INCLUSIVE GROWTH

- **Agricultural credit target** enhanced to Rs 16.5 lakh crore in FY22, with focus on increased credit flows to animal husbandry, dairy, and fisheries.
- The MSP regime has undergone a change to provide 1.5 times the product cost across all commodities.
- Enhancing the allocation to the **Rural Infrastructure Development Fund** from Rs. 30,000 crores to Rs. 40,000 crores.
- The **Micro Irrigation Fund**, with a corpus of Rs.5,000 crores has been created under NABARD, proposed to double by another Rs.5,000 crores.
- The scope of '**Operation Green Scheme**' that is presently applicable to tomatoes, onions & potatoes, will be enlarged to include 22 perishable products.
- Integration of 1,000 more Mandis with the electronic national market
- The Agriculture Infrastructure Fund would be made available to APMCs for augmenting their infrastructure facilities.
- The government will take up the **development of fishing harbors and fish landing centers** along the banks of rivers and waterways. Kochi, Chennai, Visakhapatnam, Paradip, and Petuaghat – will be developed as hubs of economic activity.
- A **Multipurpose Seaweed Park** to be established in Tamil Nadu is proposed to promote seaweed cultivation.
- '1 nation-1 ration card' plan has been implemented by 32 States and UTs reaching 69 crores of beneficiaries(86%).
- **Social security benefits will extend to gig and platform workers.** Minimum wages will apply to all categories of workers, and they will all be covered by the Employees State Insurance corporation.
- **Women will be allowed to work in all categories** and also in the night-shifts with adequate protection.
- Compliance burden on employers will be reduced with single registration and licensing and online returns.
- A portal will be launched that will collect relevant information on gig, building, and construction-workers among others. This will help formulate Health, Housing, Skill, Insurance, Credit, and food schemes for migrant workers.
- Under the scheme of Stand Up India for SCs, STs, and women, the margin money requirement is reduced from 25% to 15%, and loans for activities allied to agriculture are also included.
- Rs 15,700 cr budget allocation to MSME Sector, more than double of this year's BE.

4. HUMAN CAPITAL

- **More than 15,000 schools** will be qualitatively strengthened to include all components of the **National Education Policy**. They shall emerge as exemplar schools in their regions, handholding and mentoring other schools to achieve the ideals of the Policy.
- **100 new Sainik Schools** will be set up in partnership with NGOs/ private schools/states.
- Many of our cities have various research institutions, universities, and colleges supported by the Government of India. It is proposed to create formal umbrella structures so that these institutions can have better synergy, while also retaining their internal autonomy. A Glue Grant will be set aside for this purpose.
- it is proposed to set up a Central University in Leh, for access to higher education in Ladakh.
- **Target set to establish 750 Eklavya model** residential schools in tribal areas. Proposed to increase the unit cost of each such school from Rs.20 crores to Rs.38 crores, and for hilly and difficult areas, to Rs.48 crores.
- To amend the **Apprenticeship Act** with a view to further enhance apprenticeship opportunities for youth. Will realign the existing scheme of **National Apprenticeship Training Scheme (NATS)** for providing post-education apprenticeship, training of graduates and diploma holders in Engineering. Over Rs.3,000 crores will be provided for this.
- **Revamped the Post Matric Scholarship Scheme**, for the welfare of Scheduled Castes. Also enhanced the Central Assistance by allocating Rs.35,219 crores for 6 years till 2025-2026, that shall benefit 4 crores SC students.
- Initiative is underway, in **partnership with the United Arab Emirates** (UAE), to benchmark skill qualifications, assessment and certification, accompanied by the deployment of certified workforce.
- Collaborative **Training Inter Training Programme** (TITP) between India and Japan to facilitate transfer of Japanese industrial and vocational skills, technique and knowledge, also open to take this initiative with many more countries.

5. INNOVATION AND RESEARCH & DEVELOPMENT

- **National Research Foundation** outlay will be of Rs.50,000 crores, over 5 years. It will ensure that the overall research ecosystem of the country is strengthened with focus on identified national-priority thrust areas.
- To give a further boost to digital transactions, Rs.1,500 crores is earmarked for a proposed scheme that will provide financial incentive to promote digital modes of payment.
- Proposed to **set up a Central University in Leh**, for access to higher education in Ladakh.
- **National Language Translation Mission (NTLM)** will enable the wealth of governance-and-policy related knowledge on the Internet being made available in major Indian languages.
- Launched a **Deep Ocean Mission** with a budget outlay of more than Rs.4,000 crores, over five years. This Mission will cover deep ocean survey exploration and projects for the conservation of deep sea bio-diversity.

6. GOVERNANCE

- Set up Conciliation Mechanism and mandate its use for quick resolution of contractual disputes
- Forthcoming Census could be the first digital census, allocated Rs.3,768 crores for FY22.
- Propose to provide Rs.1,000 crores for the welfare of Tea workers especially women and their children in Assam and West Bengal. A special scheme will be devised for the same.

FINANCIAL SECTOR

- **Increased market borrowing** by Rs.80,000 crore to fund the 9.5% fiscal deficit for FY21.
- Set **divestment target** at Rs.1.75 lakh crore in FY22.
- Proposed to set up a professionally managed **Development Financial Institution** (DFI). A sum of Rs.20,000 crores is provided to capitalise this institution.
- **Debt Financing of InVITs and REITs** by Foreign Portfolio Investors will be enabled by making suitable amendments in the relevant legislations.
- Proposed to amend the Insurance Act to introduce **additional FDI to insurance companies** from the **existing 49% to 74%**.
- Set up an **Asset Reconstruction Company (ARC) and Asset Management Company** (AMC) to provide resolution to stressed assets in PSUs.
- **Infrastructure Debt Funds** (IDF) to issue zero-coupon bonds to channelize investment in infrastructure sector.
- Rules for international Sovereign Wealth Fund (SWF) and pension fund rationalized to aid infrastructure financing in India
- **Proposed to amend the DICGC Act, 1961** to streamline its provision where the depositors of the bank can get easy access to deposits through insurance in the case of a stressed bank.
- De-criminalization under the Companies Act, 2013 is complete and now the decriminalization of LLP Act, 2008 will be in force.
- Modified the definition of small companies: companies with a paid-up capital not exceeding Rs.2 crore & a turnover not exceeding Rs.20 crore are to be considered small companies. Over Rs.2 lakh+ companies benefit from this provision.
- **Intent to establish a system of regulated gold exchanges** in the country, SEBI will be notified as the regulator and Warehousing Development and Regulatory Authority.
- **IPO of the LIC** will be carried out in FY22. Also, for the disinvestment strategy, other than IDBI Bank, two PSUs and 1 insurance company will be considered.
- Proposed to focus on the various allied laws of the securities market to be merged to the Securities Market Code.
- **Recapitalization for Public Sector Banks (PSBs)** of Rs.20,000 crore in FY22 to strengthen the financial capacity.
- Contribution beyond Rs.2.5 lakhs p.a. in unit-linked insurance plans (ULIPs) and provident fund to be taxed in line with equity mutual funds.

DIRECT TAX PROPOSAL

Relief for Individual Income Tax Payer:

- For senior citizens who are 75 years of age and above, who only have pension and interest income, it is proposed to exempt them from filing their income tax returns. The paying bank will deduct the necessary tax on their income.
- Notify the rules for removing their hardship of double taxation for Non-Resident Indians (NRIs) in case of return to India.
- No changes in income tax slabs.

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

Relief for Dividend Income:

- TDS exemption for dividend payments on ReITs and InVITs.
- Proposed that advance tax liability on dividend income shall arise only after the declaration/payment of dividend.
- Tax treaty benefits to be available to Foreign Portfolio Investors (FPI) at lower treaty rate.
- Minimum Alternate Tax (MAT) exemption to foreign companies in respect of dividend income if applicable tax rate is less than MAT rate

Reduction in time for Income tax proceedings:

- Time limit for reopening assessment reduced from 6 years to 3 years. In serious tax evasion cases, where there is evidence of concealment of income of Rs. 50 lakh or more in a year, the assessment can be re-opened ‘after’ up to 10 years.
- To further reduce litigation for small taxpayers, it is proposed to constitute a Dispute Resolution Committee for them, which will be faceless to ensure efficiency, transparency and accountability.

DIRECT TAX PROPOSAL

Corporate Tax:

- Tax audit exemption limit is increased from INR50 million to INR100 million for persons who are undertaking 95% of their transactions digitally
- Rate of TDS/ TCS shall be double of the specified rate or 5% whichever is higher in case of non-filing of income tax return for last two years and where TDS /TCS is INR 50,000 or more for last two years (Salary income, payment to NR, lottery etc. excluded)
- Late deposit of employees' contribution to labour welfare found by the employer shall not be allowed as deduction to the employer.

Faceless ITAT:

- A National Faceless Income-tax Appellate Tribunal Centre to be established to eliminate human interface during Income Tax Appellate Tribunal (ITAT) proceedings.
- Faceless dispute resolution committee will be constituted for small taxpayer having taxable income up to Rs.50 lakh and disputed income up to Rs.10 lakh.

Attracting foreign investment into infrastructure sector:

- Infrastructure Debt Funds eligible to raise funds by issuing tax efficient Zero Coupon Bonds.
- Relaxation in conditions (viz. prohibition on loans or borrowings, restriction on commercial activities, direct investment in entity owning infrastructure) for exemption to Sovereign Wealth Fund & Pension Fund.

Affordable Housing/Rental Housing:

- Tax holiday for affordable housing extended for migrant workers till March 31, 2022. Additional deduction of Rs.1.5 lakh shall therefore be available for loans taken up till 31st March 2022, for the purchase of an affordable house.
- Proposed that affordable housing projects can avail a tax holiday for one more year till 31st March, 2022.

Other Tax Proposals:

- Tax Holiday for Capital Gains for Aircraft Leasing Companies and Tax Exemption to Lease paid to Foreign Persons
- Relief for charitable trusts running Hospitals and Educational Institutions increased from Rs.1 crore to Rs.5 crore
- The details of capital gains from listed securities, dividend income, and interest from banks, post office, etc. will also be pre-filled in order to further ease filing of returns.
- Contribution beyond Rs.2.5 lakhs p.a. in unit-linked insurance plans (ULIPs) and provident fund to be taxed in line with equity mutual funds.

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INDIRECT TAX PROPOSAL

Custom Duty Rationalization:

- Review more than 400 old exemptions this year.
- Propose that any new customs duty exemption henceforth will have validity up to the 31st March following two years from the date of its issue.

Items where duty has been reduced:

- Customs duty on semis, flat, and long products of non-alloy, alloy, and stainless steels -7.5%
- Copper scrap from 5% to 2.5%;
- BCD rates on caprolactam, nylon chips and nylon fiber & yarn reduced to 5%.
- Naptha to 2.5% to correct inversion.
- Exempted duty on steel scrap for a period up to 31st March, 2022
- Rationalizing custom duty on gold and silver.

Items where duty has been increased

- Solar invertors from 5% to 20%, and on solar lanterns from 5% to 15%.
- Auto parts to 15% to bring them on par with general rate on auto parts.
- Leather, textile goods, compressors, auto-components, tunnel boring machine, parts of mobile phones from Nil to 2.5%.
- Some parts of mobiles will move from ‘nil’ rate to a moderate 2.5% rate.
- On steel screws and plastic builder wares from 10% to 15%.
- On prawn feed, duty increased from 5% to 15%.
- Raising customs duty on cotton from nil to 10% and on raw silk and silk yarn from 10% to 15%.
- Propose an Agriculture Infrastructure and Development Cess (AIDC) on a small number of items

MARKET MOVEMENT

EQUITY MARKET

- 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, wherein the government aimed to kickstart the economy.
- The Equity markets reacted positively 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.
- Equity markets ended in green on the Budget day. The S&P BSE Sensex closed at 48,601 levels, an uptick of 5.0% (+2315 points).

- Among the S&P BSE sector indices, all sectors ended in positive territory. Bankex (+8.33%), Realty (+6.65%) and Capital Goods (+5.48%) were the top 3 sectors, while Telecom (+1.62%), Information Technology (+1.19%) and Healthcare (+0.26%) being 'laggards'.
- Among Sensex stocks, Indusind Bank (+14.75%), ICICI Bank (+12.47%) and Bajaj Finserv (+11.23%) were the top gainers while Dr. Reddy's Labs (-3.70%), Tech Mahindra (-2.09%) and Hindustan Unilever (-0.63%) were among the major losers.

DEBT MARKET

- The budget has given precedence to growth over fiscal consolidation
- The debt market was surprised as fiscal deficit for FY21 was revised higher to 9.5% of the GDP. This was sharply higher than market expectations of ~8%.
- The upwardly revised fiscal deficit for FY21 was accompanied by announcement of additional borrowing of Rs.80,000 crore to be completed in the next two months. This should take the total gross borrowing to Rs.13.9 trillion in FY21.
- The Budget has projected a fiscal deficit of 6.8% of GDP for FY22 and gross borrowing of Rs.12.06 trillion.
- Prices of sovereign bonds reacted negatively on the announcement of additional borrowing for FY21 as well as higher-than-expected gross borrowing & fiscal deficit for FY22. Yield of the 10-year benchmark (5.85% G-sec 2030) hardened by around 16 bps from its lowest level of the day to 6.06%. Similarly, yield of 5 year G-sec (5.15% IGB 2025) hardened by around 25 bps from its low to 5.53%
- We expect yields to remain range bound in the near term due to several supporting factors. RBI is likely to maintain the accommodative stance in FY22 and keep sufficient liquidity and headline consumer inflation is expected to trend lower and likely to remain within the RBI's range of expectations in H1FY22.

ECONOMIC UPDATE

FY22 fiscal deficit target at 6.8% of GDP (9.5% in FY21), provides major boost to capital expenditure

Revenue targets look slightly optimistic, achieving disinvestment target key to contain deficit

- Gross Tax revenues budgeted at Rs.22.17 trillion, up 16.7% YoY in FY22 with 22-23% growth assumed in income and corporate tax collections.
- Improvement in economic activity will likely support increase in GST collections while customs will get a boost from increase in duties or withdrawal of exemption in multiple sectors.
- Excise duty to contract by 7.2% YoY in FY22 – excise duty on petrol and diesel may be cut if crude oil prices increase further.
- Non-Tax Revenue budgeted at Rs.2.43 trillion, up 15.4% YoY on expectation of higher collections of TSPs and dividends from PSUs.
- Disinvestment target for FY22 set at Rs.1.75 trillion – stake sale in LIC, two PSBs, one general insurance company in addition to BPCL, Air India among others on the cards.
- Total receipts of the centre budgeted at Rs.19.76 trillion, up 23.4% YoY from FY21 revised estimates.

Expenditure growth driven by capital expenditure, along with substantial rise in food subsidy bill

- Revenue expenditure budgeted at Rs.29.29 trillion in FY22 down 2.7% YoY, on account of lower allocation to rural development, defence pensions and other pensions.
- Food subsidy bill at Rs.4.23 trillion in FY21 and Rs.2.43 trillion in FY22, on repayment of loans from National Small Savings Fund (NSSF).
- Capital expenditure at Rs.5.54 trillion up in FY22 from Rs.4.39 trillion in FY21RE (revised upwards from Rs.4.13 trillion in FY21BE) on increase in spending on roads transport, highways, railway, defence, urban development etc.
- In addition, CPSEs are expected to fund capital expenditure of Rs.5.82 trillion in FY22 though internal and extra budgetary resources.

ECONOMIC UPDATE

Duration supply to remain heavy in FY22 with Gross Borrowing of Rs.12.06 trillion; Financing through Small Savings boosted by FCI repayments

Net market loans (incl. short term borrowings) at Rs.9.68 trillion for FY22, making up 64% of the deficit

- Reliance on financing through smalls savings fund sharply higher at Rs.4.81 trillion in FY21 and Rs.3.92 trillion in FY22, as repayment by FCI is chaneled to financing the deficit.
- Other non-market sources limited: Financing from state PFs at a steady Rs. 180 bn in FY22, external assistance and 'others' small. Though external assistance in FY21 increased to Rs.550 billion from Rs.90 billion in the previous financial year.
- Notably, FY21 budgeted to build cash by Rs.170 billion, much lower than the current cash balances of the government (~ Rs 2.5-3 trillion).
- Cash balances are again expected to be drawn down by Rs 710 bn in FY22
- Heavy short term borrowings at Rs.2.25 trillion in FY21, expected to be at Rs.500 billion in FY22.
- Above numbers take **gross auction supply of G-sec in FY22 to Rs.12.06 trillion – higher than market expectations. FY21 gross borrowing at Rs.12.8 trillion – implying additional borrowing of Rs.800 billion in current fiscal.**
- RBI is expected to continue to support government's borrowing programme with OTs and OMOs.

ECONOMIC UPDATE

Controlled revenue expenditure, hefty disinvestments and improvement in tax and non-tax revenues to shave off around 2.7% of deficit in FY22

Rs. Tn	FY19 (A)	FY20 (A)	FY21 (RE)	FY22 (BE)		FY19 (A)	FY20 (A)	FY21 (RE)	FY22 (BE)
GDP	189.7	203.5	194.8	222.9		11.0%	7.3%	-4.3%	14.4%
Tax Receipts (Net)	13.17	13.57	13.45	15.45		6.0%	3.0%	-0.9%	14.9%
Non Tax Revenue	2.36	3.27	2.11	2.43		22.3%	38.8%	-35.6%	15.4%
Divestments & Others	1.13	0.69	0.46	1.88		-2.5%	-39.2%	-32.2%	304.3%
Total Receipts	**16.66**	**17.53**	**16.02**	**19.76**		**7.4%**	**5.2%**	**-8.6%**	**23.4%**
Revenue Expenditure	20.07	23.51	30.11	29.29		6.8%	17.1%	28.1%	-2.7%
Capital Expenditure	3.08	3.36	4.39	5.54		16.9%	9.1%	30.8%	26.2%
Total Expenditure	**23.15**	**26.86**	**34.50**	**34.83**		**8.1%**	**16.0%**	**28.4%**	**1.0%**
Fiscal Deficit	**-6.49**	**-9.34**	**-18.49**	**-15.07**		**3.4%**	**4.6%**	**9.5%**	**6.8%**

Source: Budget Document (Various Years), CGA, MOSPI, Axis Bank Economic Research , Axis Bank Investment Research

ECONOMIC UPDATE

Slightly optimistic assumptions on direct tax and GST collections in FY22; Lower excise collections may be on account of likely cut in taxes if crude oil rises further

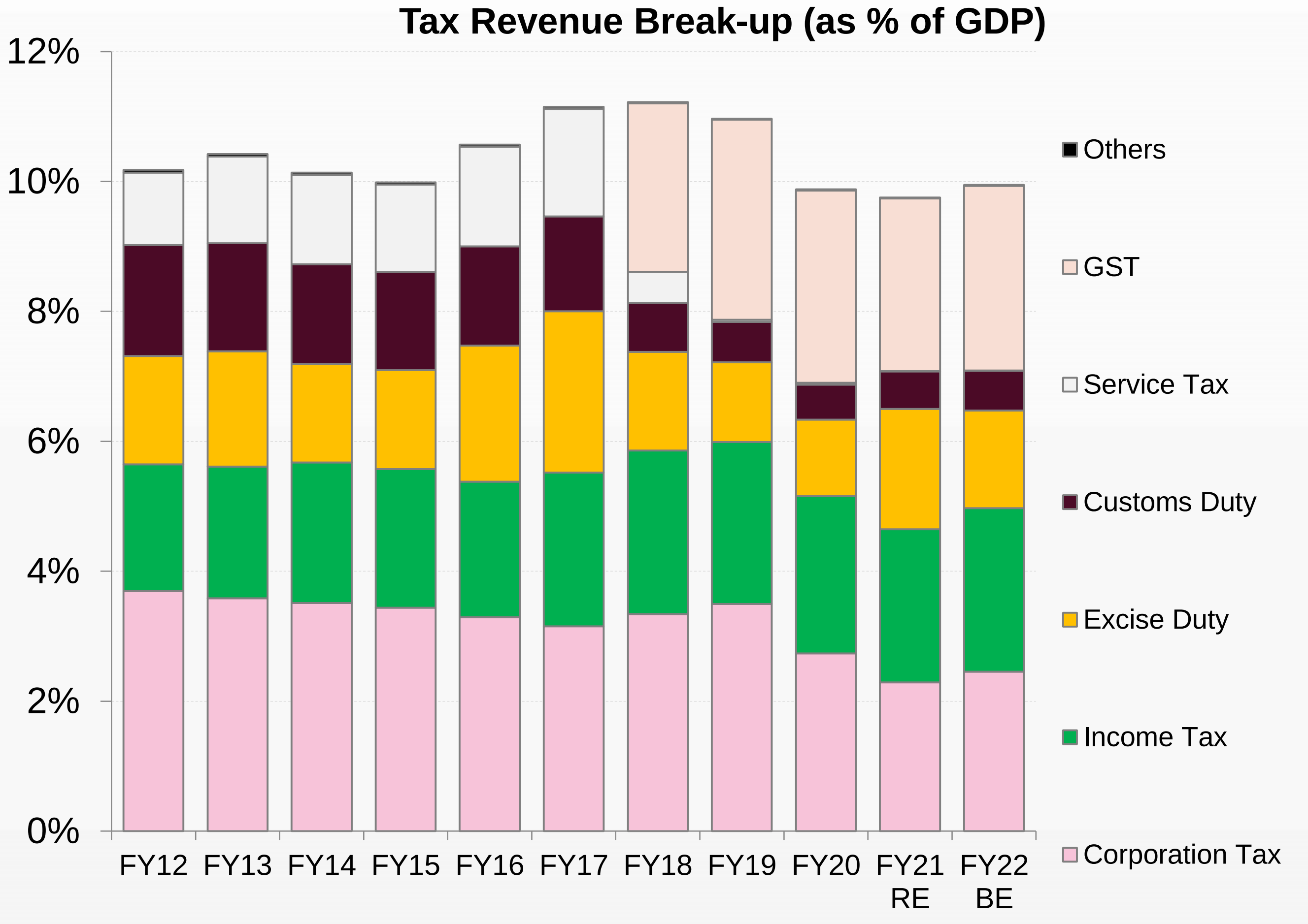
Rs. Tn	FY19 (A)	FY20 (A)	FY21 (RE)	FY22 (BE)		FY19 (A)	FY20 (A)	FY21 (RE)	FY22 (BE)
Gross Tax Revenue	**20.80**	**20.10**	**19.00**	**22.17**		**8.4%**	**-3.4%**	**-5.5%**	**16.7%**
Income	4.73	4.93	4.59	5.61		9.8%	4.2%	-6.8%	22.2%
Corporation	6.64	5.57	4.46	5.47		16.2%	-16.1%	-19.9%	22.6%
Excise	2.32	2.39	3.61	3.35		-10.6%	3.2%	50.8%	-7.2%
Customs	1.18	1.09	1.12	1.36		-8.7%	-7.2%	2.5%	21.4%
Service	0.07	0.06	0.01	0.01		-91.5%	-12.7%	-76.8%	-28.6%
Central GST	4.58	4.94	4.31	5.30		125.1%	8.0%	-12.8%	23.0%
UT GST	0.03	0.03	0.03	0.03		69.9%	9.2%	-10.4%	22.3%
Integrated GST	0.29	0.09	0.00	0.00		-83.6%	-68.5%		
Compensation Cess	0.95	0.96	0.84	1.00		51.9%	0.5%	-12.0%	18.9%
Total GST	**5.84**	**6.02**	**5.18**	**6.33**		**31.5%**	**3.0%**	**-14.0%**	**22.3%**
Direct Tax	**11.37**	**10.50**	**9.05**	**11.08**		13.4%	-7.7%	-13.8%	22.4%
Indirect Tax	**9.41**	**9.57**	**9.92**	**11.05**		3.0%	1.6%	3.7%	11.4%
Tax Revenues (Net to Centre)	**13.17**	**13.57**	**13.45**	**15.45**		**6.0%**	**3.0%**	**-0.9%**	**14.9%**

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

UNION BUDGET

ECONOMIC UPDATE

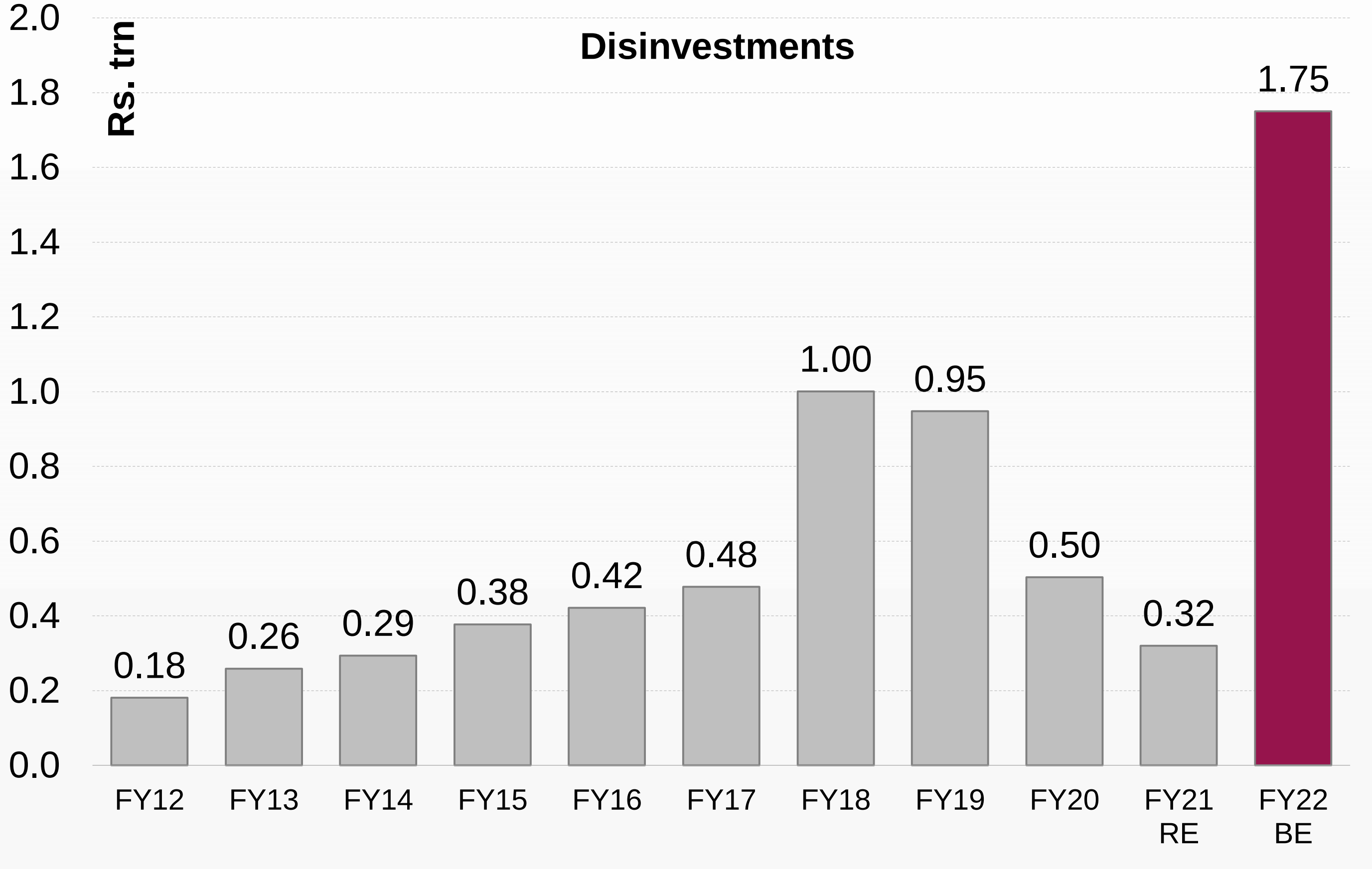
Tax revenue (% of GDP) remains lower than historical trends on corporation tax cuts in FY20; Improvement in GST collections imperative for the improvement in ratio



Source: Budget Document (Various Years), MOSPI, Axis Bank Economic Research

ECONOMIC UPDATE

Heavy disinvestments lined up in FY22 – LIC IPO, 2 PSBs, 1 General Insurance company in addition to Air India, BPCL among others



Source: Budget Document (Various Years), CGA, Axis Bank Economic Research

ECONOMIC UPDATE

Gross market borrowing for FY22 budgeted at Rs 12.06 tn, borrowing for FY21 increased by Rs 800 bn

Strong collections in Small Savings + the repayment of FCI debt help in financing the deficit

Rs. Tn.	FY19(A)	FY20(A)	FY21(RE)	FY22(BE)
Fiscal Deficit % GDP	3.42%	4.59%	9.49%	6.76%
Fiscal Deficit	**6.49**	**9.34**	**18.49**	**15.07**
Financing of Deficit				
Net Borrowings (incl. Short Term)	4.30	6.24	12.82	9.68
Small Savings	1.25	2.40	4.81	3.92
State PF's	0.16	0.12	0.18	0.20
Others	0.74	0.44	0.31	0.54
External Assistance	0.06	0.09	0.55	0.02
Cash Surplus	-0.01	0.05	-0.17	0.71
Gross G.Sec. Supply	**5.71**	**7.10**	**12.88**	**12.06**
Redemptions (-)	1.48	2.36	2.31	2.88
Net G.Sec. Supply	**4.23**	**4.74**	**10.57**	**9.18**
Buybacks (Net) (-)	-	-	-	-
Switch (Net)	0.01	0.00	-	-
Net Market Borrowings	**4.23**	**4.74**	**10.57**	**9.18**
Short Term Borrowings (Net)	0.07	1.50	2.25	0.50
Net Borrowings (incl. Short Term)	**4.30**	**6.24**	**12.82**	**9.68**

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

SECTOR UPDATES

Auto:

Key Budget Measures	Impact and Beneficiaries
• Introduction of Voluntary Vehicle Scrappage policy where personal vehicles will undergo fitness tests in automated fitness centers after 20 years and commercial vehicles after 15 years	Awaited Details yet to be made available but if incentivized properly can aid demand for CVs (no meaningful impact on PVs/2Ws).
• New scheme to be launched to support augmentation of public bus transport services and expansion of metro rail network in urban areas (spend of Rs. 180 bn and facilitate deployment of innovative PPP models, operate and maintain over 20k buses)	Positive for MHCV OEMs to drive recovery.
• Customs duty hike on imported auto parts (safety glass, windscreen wipers, ignition wiring sets, electric motors, relays etc.) from 7.5%/10% to 15%	Neutral for auto makers as imports are low for auto parts
• Customs duty hike on carbon black from 5 to 7.5%	Marginally Negative for tyre companies.
• Customs duty hike on inputs or raw materials (except lithium ion cell and PCBA) of lithium-ion battery or battery pack from nil to 2.5%	Neutral given negligible EV penetration, overall impact is immaterial

Agri/Chemicals:

Key Budget Measures	Impact and Beneficiaries
• Set up an agriculture infra fund	Positive given significant rise in building infra outlay.
• Provide fertilizer subsidy at Rs. 790 bn	Positive for fertilizer companies
• Proposal to make the effective custom duty on Fertilizers like Urea, DAP, MoP etc at 5% ((basic duty cut to 0% basic duty + Agri Infra cess of 5%)	Neutral as effective duty remains unchanged
• Hike in custom duty on imported crude palm oil from effective rate of 27.5% to 32.5%	Positive for manufacturer of palm oil; Negative for companies producing Fine Organic

Source: Axis Capital

SECTOR UPDATES

Banking and Financial Services

Key Budget Measures	Impact and Beneficiaries
• Proposal to set up an asset reconstruction company/Bad Bank	Positive for PSU banks
• Proposed privatization of 2 PSU banks, 1 PSU General Insurance company and IPO of LIC	Positive for PSU insurers
• FDI limit in insurance increased to 74% from 49%	Positive for foreign participation
• Additional deduction of Rs 0.15 mn on interest paid on housing loan to be available for loan sanctions up to Mar'22 (earlier Mar'21)	Positive for HFCs
• ULIP with annual premium >Rs 0.25 mn post 1st Feb 2021) to attract capital gains tax on maturity proceeds (making ULIP at par with MFs on tax benefits)	Negative for Life Insurers
• Development Financial Institution (DFI) to be set up with initial capital of Rs 200 bn and target Rs 5 trn loan book over 3 years	Positive for infra space and reduces burden on banks to lend to large and long duration assets.
• Proposal to do a fitness test (determinant for scrappage benefits) for personal vehicles over 20 years and commercial vehicles over 15 years	Positive for vehicle financiers

Cement:

Key Budget Measures	Impact and Beneficiaries
• Complete execution of 11,000 km of national highways by Mar-22 and award 8,500 km highways (FY22 Budget proposals to spend Rs. 1.08 trillion)	Positive for Cement especially for East region where demand is strong but cement prices are weak.
• Exempting duty on steel scrap for a period up to 31st March, 2022 vs.2.5% earlier	Positive for Cement sector as this will lead to some price weakness in long steel, boosting construction activities

Source: Axis Capital

AXIS BANK

SECTOR UPDATES

Consumer:

Key Budget Measures	Impact and Beneficiaries
• No increase in tax on Cigarettes	Positive for Cigarettes as this relieves them from the pressure of increasing cigarette prices
• Levy of custom duty on import of leather from nil to 10%	Marginally Negative for footwear companies
• Rise in import tax on crude palm oil from 27.5% to 32.5%	Negative for food makers and soap companies
• Proposal to increase rural infra spend from Rs. 300 bn to 400 bn	Positive for FMCG sector (likely to boost rural spending)

Healthcare / Pharmaceuticals

Key Budget Measures	Impact and Beneficiaries
• Budget allocation to healthcare expenditure raised by 10% to Rs. 713 bn for health and family welfare; additional Rs. 642 bn for healthcare infrastructure under Atmanirbhar Swasth Bharat Yojana	Positive for healthcare industry. Positive for Hospital/Diagnostic players if government moves to PPP model.
• Allotment of Rs. 350 bn for Covid vaccination	Positive for Pharma companies
• Removed health cess on imports of select medical equipment from earlier 5%	Positive for healthcare service
• Omitted tariff on Placebos and blinded (or double blinded) clinical trial kits for a recognized clinical trial, put up in measured doses.	Positive for companies with R&D pipeline ongoing in India

Source: Axis Capital

SECTOR UPDATES

Infrastructure, Industrials & Power

Key Budget Measures	Impact and Beneficiaries
• "National Monetization Pipeline" of brownfield infrastructure assets to be launched	Positive for infra companies
• Establishment of DFI's ambition to have a lending portfolio of Rs 5 trn in 3 years	
• Dividend payment to InvIT exempt from TDS. Debt financing of InvITs by FPIs will be enabled.	
• Duty on solar invertors raised from 5% to 20%. To notify a phased manufacturing plan for solar cells and solar panels.	Positive for solar companies
• Revamped 'reforms-based result-oriented power distribution scheme' of ~Rs 3 trn over 5 years	Positive for power companies

Infrastructure & Engineering

Item	Current status	Budget proposals
Road capex	Rs 1.67 trn in FY21 (up 9% YoY)	Rs 1.83 trn in FY22 (up 10% YoY)
Railway capex	Rs 2.44 trn in FY21 (up 62% YoY)	Rs 2.18 trn in FY22 (down 11% YoY)
Metro capex	Rs 99 bn in FY21 (up 51% YoY)	Rs 248 bn in FY22 (up 151% YoY)
Defense capex	Rs 1.34 trn in FY21 (up 21% YoY)	Rs 1.35 trn in FY22 (up 0.4% YoY)
Drinking water and sanitation	Rs 170 bn in FY21 (down 7% YoY)	Rs 600 bn in FY22 (down 253% YoY)

Source: Axis Capital

SECTOR UPDATES

IT Services and Internet:

Key Budget Measures	Impact and Beneficiaries
• Government to launch data analytics, artificial intelligence, machine learning driven MCA21 Version 3.0 during fiscal 2021-22,. • Allocation of Rs 37.68 bn for forthcoming Census (first digital census in the history of India) in the year 2021-22	**Marginally** positive for IT companies
To give a boost to digital transactions, • Earmarked Rs 15 bn for a proposed scheme that will provide financial incentive to promote digital modes of payment. • Tax audit for persons who are undertaking 95% of their transactions digitally to Rs. 100 mn	**Marginally positive** for CPaaS companies

Metals

Key Budget Measures	Impact and Beneficiaries
• Reduced customs duty on steel uniformly to 7.5% from earlier 10% and 12.5%.	**Marginally negative** for Steel companies
• Exempting duty on steel scrap for a period up to 31st March, 2022, current custom duty at 2.5%	**Negative** for long products

Source: Axis Capital

SECTOR UPDATES

Oil and Gas:

Key Budget Measures	Impact and Beneficiaries
Changes in Central excise duties on Diesel & Petrol • Basic excise duty: 1.80/1.40 (earlier 4.83/2.98) • Special additional excise duty: 8.00/11.00 (9.00/12.00) • Road and infra cess: 18.00/18.00 • Agriculture Infrastructure and Development Cess: 4.00/2.50	**Neutral** for OMCs. All in, total Central excise duty flattish to marginally down
• For FY21 RE, total LPG subsidy marginally down at Rs 361 bn and Kerosene subsidy cut by 18% to ~Rs 30 bn • For FY22 BE, total LPG subsidy cut by ~60% YoY to Rs 140 bn and Kerosene subsidy made 'Nil'	**Positive** for OMCs
• 100 new districts will be bid under 11th CGD bidding round and Transport System Operator (TSO) set up to oversee 'common carrier' capacity allotment	**Positive** for City Gas Distribution companies
• Monetization of Oil & Gas pipeline assets (Oil and Gas pipelines of GAIL, IOCL and HPCL will also be considered for asset monetization via InvIT route)	**Positive** for the respective companies
• Customs duties reduced for Naphtha at 2.5% and Nylon fibre and yarn at 5%	**Marginal negative** for domestic refiners and yarn producers

Source: Axis Capital

SECTOR UPDATES

Real Estate:

Key Budget Measures	Impact and Beneficiaries
• Additional interest deduction of Rs 0.15 mn on affordable housing units extended by one year to 31st March 22 • Deadline to acquire approvals for such projects extended by a year to 31st March 22	**Marginally positive:** Affordable housing players
• Benefit of 100% deduction of profits extended to affordable rental housing projects • To ease compliance for investors ,TDS on dividend income has been exempted.	**Marginally positive for** Real Estate investors
• FPIs allowed to invest in REIT debt, thereby lowering the cost of borrowing for REITs	**Positive** for REITs

Telecom:

Key Budget Measures	Impact and Beneficiaries
• Withdrew a few exemptions on parts of chargers and sub-parts of mobiles. Further, some parts of mobiles will move from 'nil' rate to a moderate 2.5%. • The rate of customs duty on Printed Circuit Board Assembly [PCBA] of charger or adapter increased from 10% to 15%.	**Marginally negative** for telecom companies
• Budgeted estimate spending of Rs 52 bn on Optical fiber cable-based network for Defense services	**Positive** for optical fibre companies

Source: Axis Capital

EQUITY MARKET OUTLOOK AND STRATEGY

- Budget commentary clearly indicates government has prioritized growth over fiscal consolidation.
- The government held committed to its objective of stimulating growth by way of enhancing its expenditure programs. This is despite weaker than expected revenue collections. This translated to 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 2025-26.
- Big push to domestic manufacturing and boost to infrastructure are the key elements. Huge focus on privatization of PSUs and monetization of government assets is meant to raise resources but will also improve productivity. Government has also taken bold steps to encourage foreign investment and untie banks' hands to support growth.
- Focusing on strengthening fiscal math, the Budget estimates have come up with an ambitious Divestment target. Revenue collections are modest and expected to be higher than the Budgeted number at the year end, if the current economic recovery is not interrupted by a spike in the reported Covid cases.
- Overall, the Government is directionally trying to focus on growth and that's good news for equities as an asset class.

- We are constructive on Indian equity markets with a long term investment horizon.
- Q3 earnings have been above consensus estimates. Cyclical sectors and companies who have proven market leadership have seen a good earnings quarter. 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.
- Volatility is expected to remain in the near term, as the economy is in a transition phase due to pandemic. Any sharp correction caused by any extraneous events should be treated as an opportunity to accumulate quality stocks and MFs.
- Overall the budget proposals are well balanced and targeted to kick-start the long term growth for the economy while keeping in mind fiscal boundaries, and a thrust to revive growth.
- **Investors can consider accumulating equities with a 3 to 5 years investment horizon. They can also consider hybrid asset allocation funds as such funds allow investors to free themselves from market timing as well as asset allocation calls.**

DEBT MARKET OUTLOOK AND STRATEGY

- India's debt market landscape is marked by multiple policy concerns with RBI trying to play a balancing act between yields, inflation and forex markets.
- The Union Budget 2021-22 threw a negative surprise for debt markets, as fiscal deficit continues to remain high with glide path being moderated.
- The additional borrowing of Rs.80k crore for this fiscal and higher borrowing for both centre and state for next fiscal was not expected by the bond markets, and thus we have witnessed a sharp sell off in 10 year G-Sec yields that rose by about 16 bps at close. Similar sell off was also seen in corporate bonds.
- This is because the government has been consistently running very high cash balances lately, revenues have picked up dramatically, and even though spending has gone up it hasn't been tracking anywhere close to what is required to yield the revised budget numbers.
- Even for the next financial year, market participants were expecting a gross borrowing number between Rs.10.5 – 11 lakh crores and the Rs.12.06 lakh crores in the budget is certainly higher than expected. Hence, it will be a key monitorable as to how RBI responds to the budget in the upcoming monetary policy announcement later this week.. Finally, the future path to consolidation is also somewhat gradual with the government projecting a 5 year time frame to achieve below 4.5% deficit.
- The process of withdrawal will be gradual and there won't be large knee jerk adjustments in yield; post the current repricing in yields the shorter end of the curve looks poised to perform better compared to the longer end of the curve as surplus liquidity is expected to remain in the system and there is expected continued supply on the longer end of the yield curve.

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

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