Budget FY23 – TDS Budget

Target focused + Detail oriented + Strategic thought process budget without any tinkering around

Feb 1, 2022

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Presentation flow

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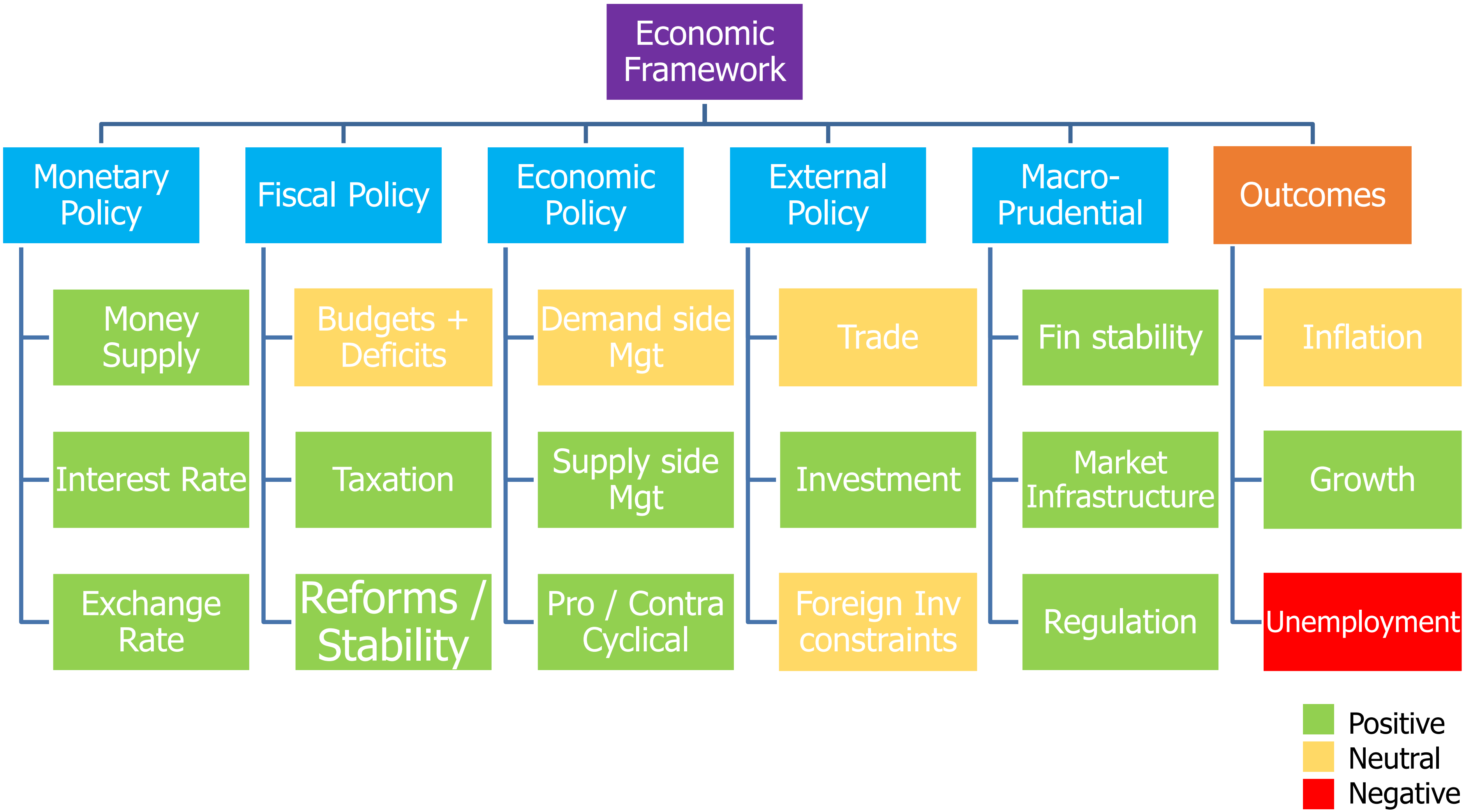
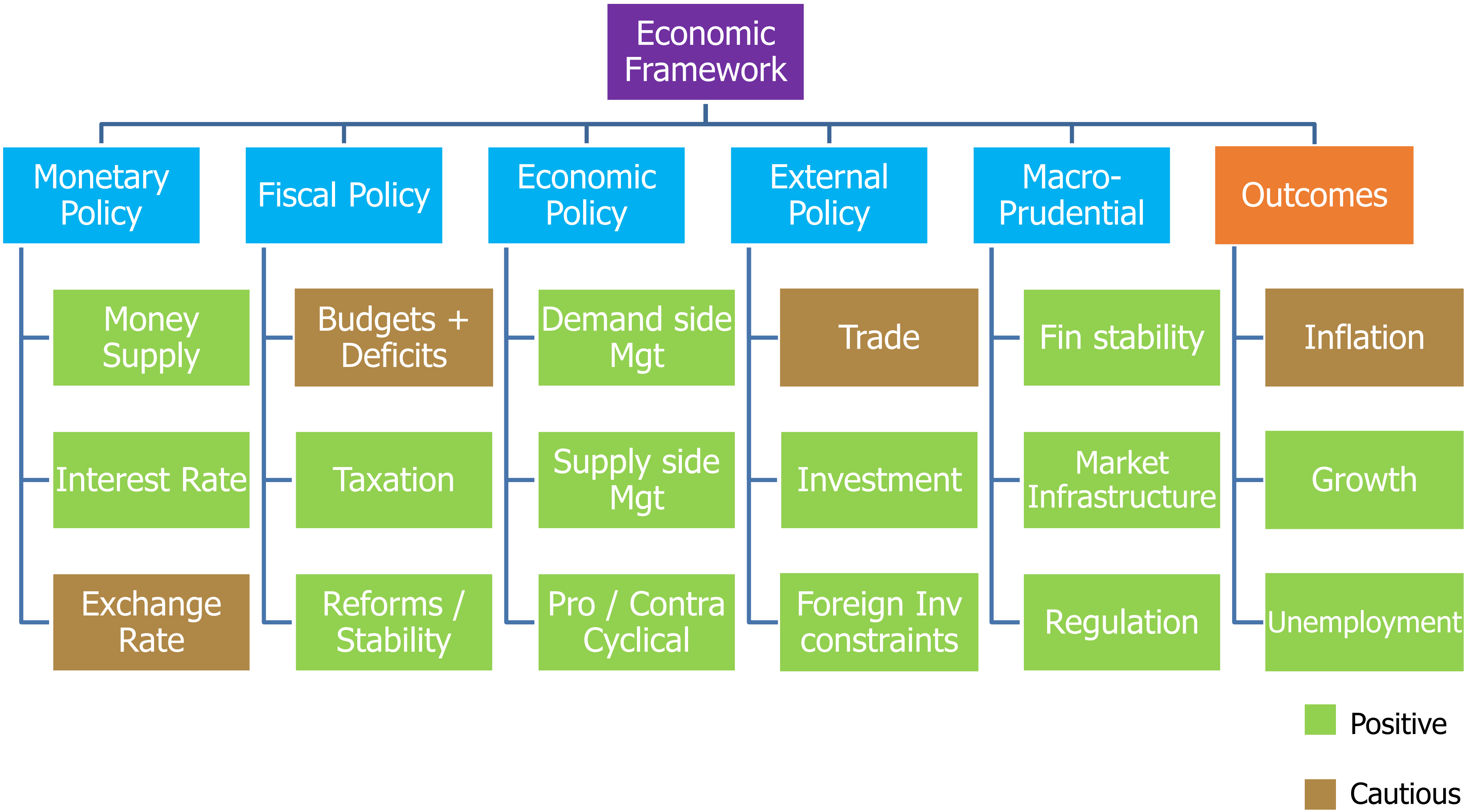
Economic Framework : Building Blocks – Pre Budget



Economic Framework : Building Blocks – Post Budget



Target Focused & Detail Oriented Strategic Budget

- **Infrastructure thrust and Capex Focus:** The FY2022-23 budget will see a r**ecord thrust on infrastructure and capex** public spending, which is crucial for economic growth and the creation of productive employment. The budget envisions a capital **outlay of ₹10.7 lakh crore** (capex spending + grants for creating capital assets) for FY23. This represents more than twice the capex in 2019-20 and is **38% higher than** BE **2021-22.**

- **Policy Continuity and Simplification:** The Budget continues with the government's declared policy of a stable and predictable tax regime which is starting to bear fruit by raising the tax to GDP ratio structurally. The **BE 2021-22** envisaged **a tax to GDP ratio of 9.9%,** which is estimated to grow to **10.7% in BE 2022-23**. With the very conservative revenue numbers, this is underestimated, likely coming in at **12%**, bringing **India closer** to similar levels as major **developed economies**

- **Geared toward New Economy Segments:** In addition to various measures such as the PLI and Corporate Capacity incentives, the budget is geared toward new economy sectors such as **AVGC, electronics, 5G and organic farming**, which offer the potential for job creation and further diversify the economy.

Overall, we believe this is a target focused budget designed to expedite the government's stated goal of inclusive and investment-led growth. The budget provides specific detailed proposals pursuant of this goal without tinkering around but instead focused on a stable policy regime.

Key Pillars of the Budget FY23: Digital + Growth

- **PM GatiShakti – a transformational program for growth:** Driven by the engines of Roads, Railways, Airports, Ports, Mass Transport, Waterways, and Logistics Infrastructure, the govt has aimed to create a **sustainable demand environment through heavy capex of >₹100L crores** in FY23 across **central and states government combined**.

- **Leading the Digital Revolution:** The current govt has successfully led the digital economy from the forefront through large scale implementation **of UPI, Aadhaar** and **Jandhan Yajna**. Additionally, it is now creating a **digital foundation** across the economy by rolling out a **national digital health** ecosystem, skill development through **e-schools**, **digital services** for **farmers**, **Digital banking** for **Post offices**, **digitalizing land records, e-passports and EV battery swapping policies**. The above measures will result in a system-wide **increase** in **productivity**.

- **Inclusive Development:** Built on promoting and supporting core sectors of the economy such as **Agriculture**(higher procurement at MSP for ₹2.37L crores), **Education** (skill development, universalization of quality education) and **Health.** Other welfare schemes include PM **Awas Yojna**, 100% of **post offices** to come on **the core banking system**, **expansion** of **ECLGS** scheme by **₹50,000 crs** with a focus on **the hospitality** sector.

- **Productivity Enhancements and Investments:** Focus on "**ease of doing business 2.0",** promoting an investment-friendly environment and **"ease of living"** by enhancing the quality of citizen's life through **modern infrastructure and clean energy.**

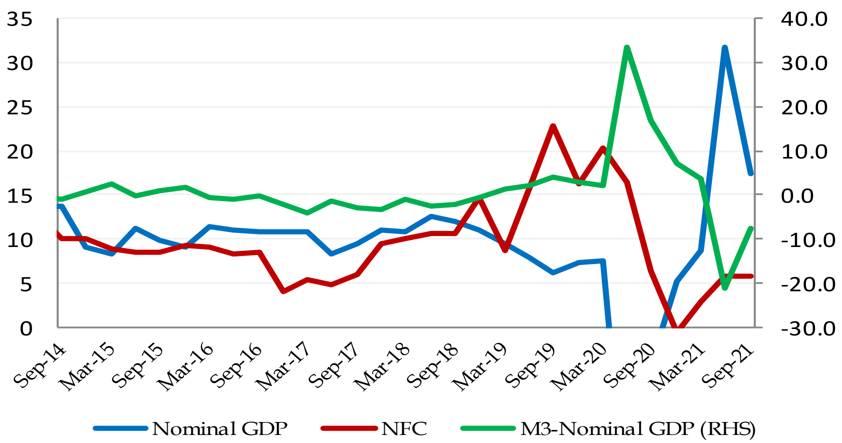
- **Financing of Investment:** Continuity of govt's investment to pump-prime private investment and demand. It also introduces **Digital Rupee** by **RBI**, **Green bonds,** aid **investment** by **PE and VC,** and **blended finance** for **sunrise sectors.**

Macro Background: Global Context

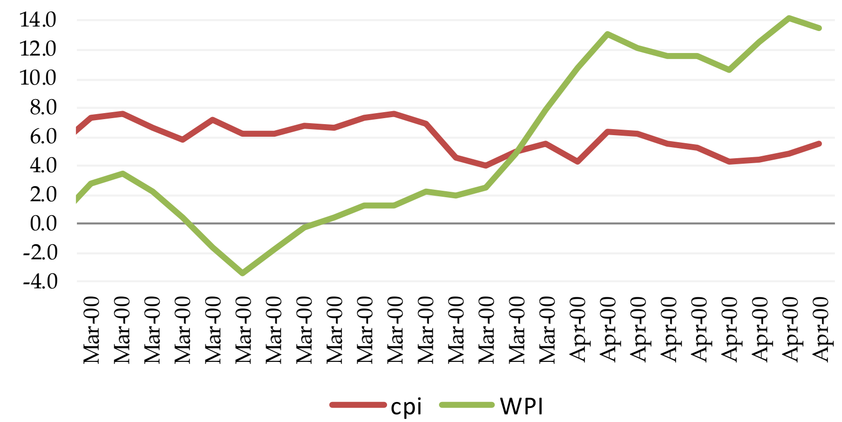
- Budget presented in a challenging and uncertain global environment
  - The **global economy** faces a significant amount of **uncertainty** going into 2022.
  - Global **growth** sustaining at above-trend **4.4%** in **2022** from 5.9% in 2021.
  - **Rising energy prices and supply disruptions** have resulted in broad-based **inflation**.
  - With inflation and wage pressures broadening, **monetary** conditions have **tightened**.
  - The **Fed** has **accelerated** the **taper** of its **asset purchase** program and has signaled it is prepared to **raise rates**, while the ECB has also announced it will end its pandemic emergency purchase program.
  - As advanced economies increase policy rates, **emerging markets' risks** also **rise** through impacts on currencies, capital flows, and general financial stability, especially in light of higher debt levels accumulated over recent periods.
  - With **global debt** at **record** levels, public finances will come under strain with higher interest rates making borrowing more expensive.
  - Furthermore, **geopolitical risks** remain high with the situation in Ukraine concerning.
  - With all the uncertainty, **global financial conditions**, which mainly had remained favorable, are **starting to tighten**.
  - Global long term **interest rates have risen** at the beginning of 2022, which in turn have **weighed on risk assets.**

Macro Background: Indian Context – Economy expected to overcome constraints and challenges

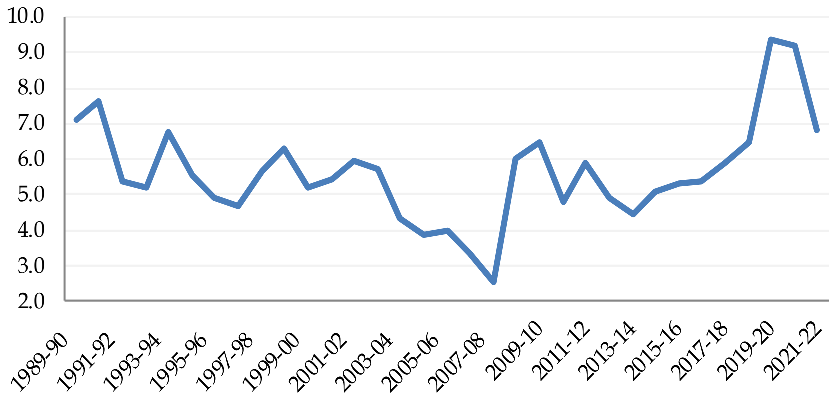
M1 Growth, Credit Growth and Monetary Slack



India CPI and WPI: Has Edged up in Recent Readings

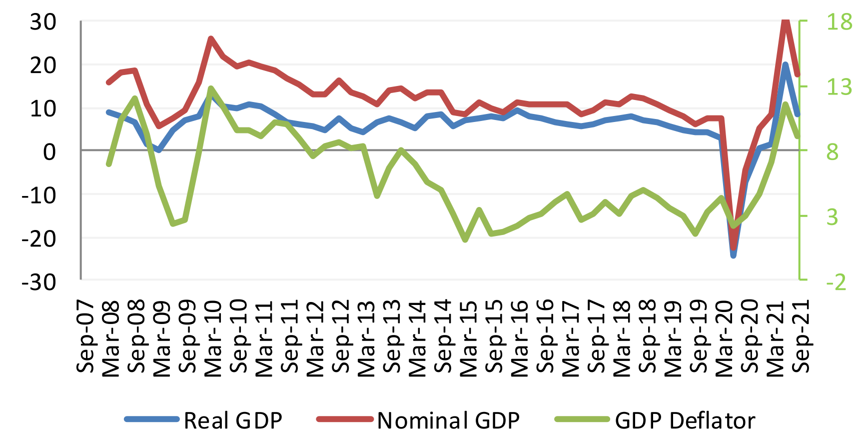


Centre Fiscal Deficit (%GDP): Significant Fiscal Stimulus



FY23 fiscal deficit has been at pegged 6.4% in the Budget. India strong economy has allowed it to provide both fiscal monetary stimulus .

GDP Growth (2011-12 series): Robust Growth in FY22



FY23 nominal GDP growth pegged at 11.1% in the Budget

Macro View - INDIA

Indian financial markets have performed strongly since September 2013. However, the market environment has shifted since then, with important implications

2013-2020	Current
CPI was running as high as 10.5% in Sept 2013 and has steadily declined over time	CPI had remained elevated despite the pandemic in 2021 but has mostly remained with in the 4% +/_2% range.
Reflecting the high inflation environment policy rates peaked out at 8% in 2014 but have been brought down steadily over time to 6.5%	The RBI has adopted an accomodative stance but is currently on hold. Government has also been providing fiscal stimulus.
Liqudity conditions were very tight and have improved over time with RBI's change in liqudiy management approach to keep in liquidity in surplus	The RBI has continued to keep systemic liquidiyt in large surplus. As the economy has been recovering reserve money has increased signficantly driven by an increase in currency demand. This liquidity support has resulted in benign financial conditions.
Commodity prices fell signficantly benefiting the fiscal and current account deficits. Oil prices moved from $110 in Sept 2013 to $30/bbl by January 2016	Crude oil prices have picked up on optimism of global demand recovery, and more recently heightened geoplitoica risks around Ukraine and are expected to remain volatile.
FII holdings espeially in debt markets were very low providing room for signficant inflows	FII inflows have been volatile reflecting the uncertainlty associated with pandemic. However there has been FDI increase despite the COVID challenge.

Budget Numbers

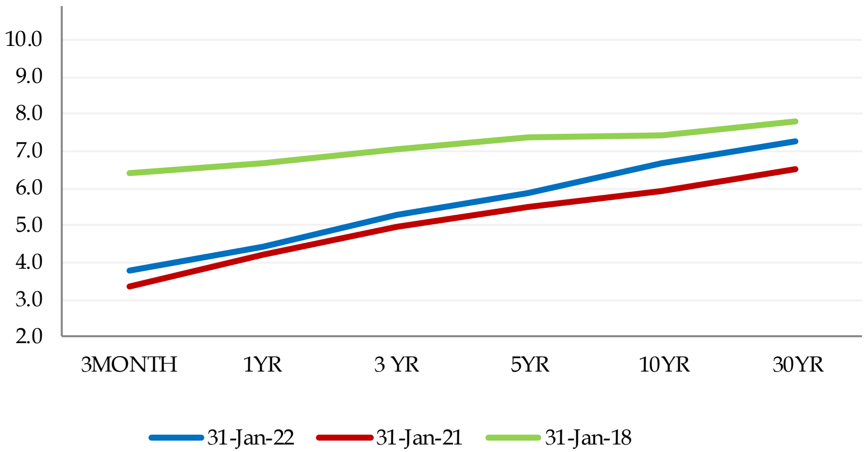
Particulars	FY21 A	FY22 RE	% Chg	FY23 BE	% Chg
		RECEIPTS (₹ Crs)			
Revenue Receipts	**16,33,920**	**20,78,936**	**27.2%**	**22,04,422**	**6.0%**
Corporate Tax	4,57,719	6,35,000	38.7%	7,20,000	13.4%
Taxes on Income	4,87,144	6,15,000	26.2%	7,00,000	13.8%
Customs	1,34,750	1,89,000	40.3%	2,13,000	12.7%
Excise	3,91,749	3,94,000	0.6%	3,35,000	-15.0%
GST	5,48,778	6,75,000	23.0%	7,80,000	15.6%
Capital Receipts	**18,83,105**	**15,16,877**	**-19.4%**	**17,39,735**	**14.7%**
Disinvestments	37,897	78,000	105.8%	65,000	-16.7%
GDP	**1,97,64,033**	**2,30,59,261**	**16.7%**	**2,59,56,188**	**12.6%**
		EXPENDITURE (₹ Crs)			
Revenue Expenditure	**30,83,519**	**31,67,289**	**2.7%**	**31,94,663**	**0.9%**
Capital Expenditure	**4,26,317**	**6,02,711**	**41.4%**	**7,50,246**	**24.5%**
Fiscal Deficit	**18,18,291**	**15,91,089**	**-12.5%**	**16,61,196**	**4.4%**
(% of GDP)	***9.2%***	***6.9%***		***6.4%***	
Revenue Deficit	14,49,599	10,88,352	-24.9%	9,90,241	-9.0%
Effective Revenue Deficit	12,18,734	8,50,667	-30.2%	6,72,598	-20.9%
Primary Deficit	**11,38,422**	**7,77,298**	**-31.7%**	**7,20,545**	**-7.3%**
(% of GDP)	***5.8%***	***3.4%***		***2.8%***	

Debt Capital Market Takeaways (1/2)

- Total **net–borrowings** is projected at **₹11.09 lakh cr** compared to ₹7.76Lakh cr in 2021-22.
- The debt market has seen a **spike in yields** in response to the higher borrowing amount. However, it is important to note that the current borrowing reflects historically off-balance-sheet debt being brought onto the balance sheet and not relying on EBR.
- We believe the **higher fiscal deficit** is a more **accurate reflection** of the government's actual financial position and cannot be compared to the prior non-transparent numbers.
- We, therefore, do **not expect G-sec yields to breach 7%,** especially in light of the high yield differential between India and the U.S, which has moved north of 500bps.
- At the current juncture, we believe the government focuses on bringing the **Debt to GDP ratio** down rather than on the quantum of debt. The government debt, including liabilities on account EBR raised through government fully serviced bonds, is estimated to reduce from **61.8% of GDP in FY21 to 59.9% in FY22** and is estimated to be **60.2% in FY23.**
- We also believe the **revenue estimates** are **conservative** and have **upside potential** with additional revenue levers like the **LIC IPO**. In addition, we expect that the borrowing program's market impact will be mitigated partially by RBI OMO and additional foreign demand through the FAR route.
- The debt market is disappointed with the lack of global bond **market index inclusion**, but we do not rule out this **can still occur outside the Budget.**
- Looking ahead, we expect the **yield curve to flatten** in the coming months.

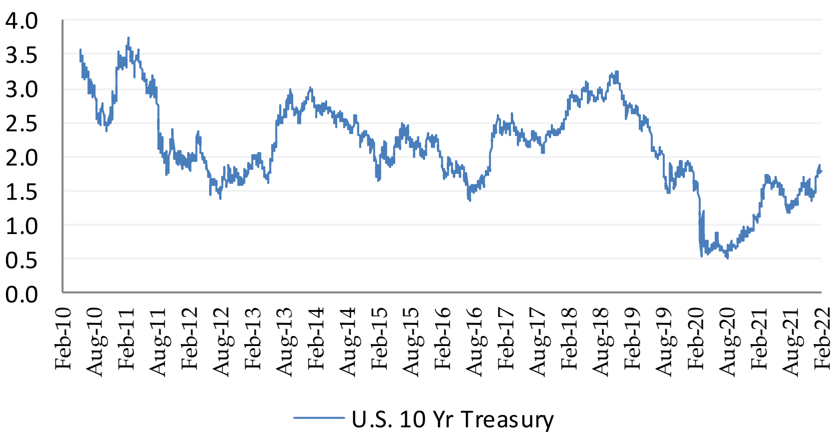
Debt Capital Market Takeaways (2/2)

India Yield Curve

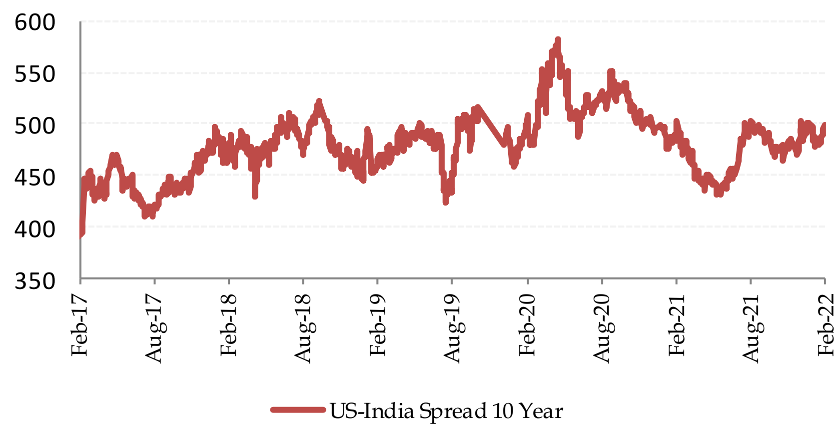


India 10 Year G-sec

US 10 Year Yield: Treasury yields have moved up



India US Spread still Remains Elevated



Equity Capital Market Takeaways

- **Nifty50** FY23 EPS is expected **to grow at 19.33%** (Bloomberg estimates) with current **FY23E P/E** of **19.88x**.
- On the back of the Indian micro growth thrust, we expect **markets** to be **range-bound**, albeit with some degree of **volatility.**
- The recent market **corrections** have resulted in **froth cleaning** and a reduction in over-exuberance. **Global uncertainty** will also act as a potential **cap**.
- We expect **rotation** in equity markets **towards banking** (credit cycle behind us and capex cycle ahead of us) and **domestic manufacturing** (demand stimulus, greater protection, and import substitution themes).
- Budget geared to new economy segments – **AVGC, Electronics, EV, 5G, Organic farming**
- Thrust for domestic manufacturing and services – across the board import substitution, protection and encouragement through PLI, New Corporate Capacity incentives
- **Surcharge** on **LTCG** capped at **15%** (for income slabs >₹2 crores p.a.)
- Highly **credible FY22RE and FY23BE numbers**, on the more conservative side.
- Lower than expected dis-investment target for FY23 may have a **potential positive surprise**, as Dis-investment revenue only 65,000cr
- FY22 RE numbers seem to understate Net Tax Revenue significantly, though LIC dis-investment numbers seem to be included in FY22RE. The lower Net Tax Revenue estimate seems a strategic move to hedge against LIC IPO getting delayed and to **justify a 6.4% Fiscal Deficit for FY23BE as a consolidation from FY22RE of 6.9%** (which should have been lower)

Appendices

Sector Impact (1/3)

Infrastructure

- National Highway network to be expanded by 25,000 km during FY23
- 4 multi-modal logistics park through PPP
- 400 new Vande Bharat trains to be introduced
- 100 PM Gati Shakti terminals to be set up in next three years
- 2,000 km of the rail network to be brought under indigenous technology KAWACH for safety and capacity augmentation

Agriculture

- Govt to pay ₹ 2.37L Cr. Towards procurement of wheat & paddy
- Ken Betwa river linking project worth ₹44,600 Cr announced
- Draft DPRs for five river links have been finalized
- Kisan Drones for crop assessment, land records, spraying of insecticides

Health Care

- Roll out of Open platform for the national digital health ecosystem
- A National Tele Mental Health Program to be launched for mental health

Finance

- ₹1L Cr financial assistance to states to be provided in 2022-23 to catalyse investments
- Proposed to introduce Digital Rupee by RBI using blockchain technology, starting 2022-23
- 100% of 1.5 lakh post offices will come on the core banking system
- 75 digital banks in 75 districts to encourage digital payments
- World-class university to be allowed in GIFT IFSC free from domestic regulation

Sector Impact (2/3)

MSMEs & Startups

- ₹6,000 crore program to rate MSMEs to be rolled out over five years
- A fund with blended capital raised under co-investment model facilitated through NABARD to finance startups in agriculture & rural enterprises for farm produce value chain
- PE/VC has invested Rs 5.5 lakh crore in startups - an expert committee will be set up to suggest measures to help attract investment

Housing & Urban

- ₹48,000 Cr allotted for PM Awas Yojana.
- In 2022-23, 80 lakh houses will be completed for identified beneficiaries of PM Awas Yojana; 60,000 houses will be identified as beneficiaries for PM Awas Yojana in rural & urban areas
- 60,000 crore allocated for providing access to tap water to 3.8 crore households
- 5 existing academic institutions for urban planning to be designated as Centre for Excellence with an endowment fund of Rs 250 cr

Electric Vehicles

- Battery swapping policy to allow EV charging stations for automobiles will be framed
- Private sector will be encouraged to create sustainable and innovative business models for Battery and energy as a service, improving the efficiency in the EV ecosystem

Education

- States to be encouraged to revise syllabi of agricultural universities to meet needs of natural, zero-budget & organic farming, modern-day agriculture
- One class, one TV channel' program of PM eVIDYA will be expanded from 12 to 200 TV channels

Sector Impact (3/3)

Telecom

- Spectrum auction will be conducted in 2022 for the rollout of 5G
- Scheme for design-led manufacturing to be launched for 5G ecosystem as part of PLI scheme to enable affordable broadband and mobile communication in rural and remote areas
- 5 pc of USO Fund to be provided for R&D and technology upgradation
- contracts for laying optical fibre in villages to be awarded under BharatNet project under PPP in 2022-23

Defense

- 68 per cent of capital for defence sector to be earmarked for local industry
- Defense R&D will be opened up for industry, startups and academia with 25% of the defence R&D budget.
- 68% of capital procurement budget in defence will be earmarked for the domestic industry in 2022-23 (up from the 58% last fiscal)

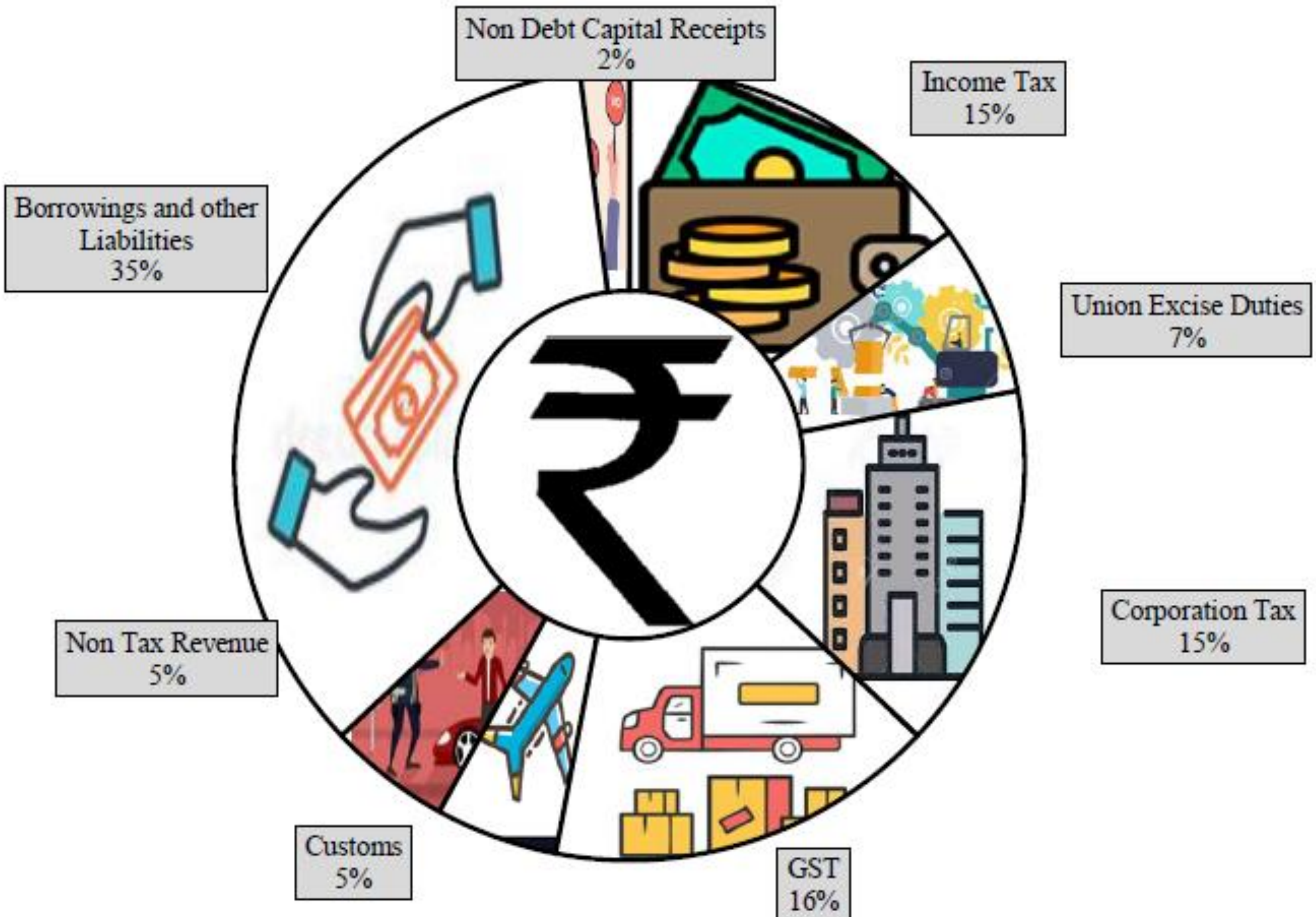
Miscellaneous

- ePassports (with an embedded chip) will be rolled out in 2022-23 for convenience in overseas travel
- four pilot projects for coal gasification to be set up
- Rs 19,500 cr additional allocation for PLI for manufacturing high-efficiency solar modules has been made recognising the importance of 'Nari Shakti', three schemes were launched to provide integrated development for women and children
- 2 lakh Anganwadis to be upgraded for improving child health
- ECLGS extended till March 2023, 60 lakh jobs eyed in next five years

Taxation

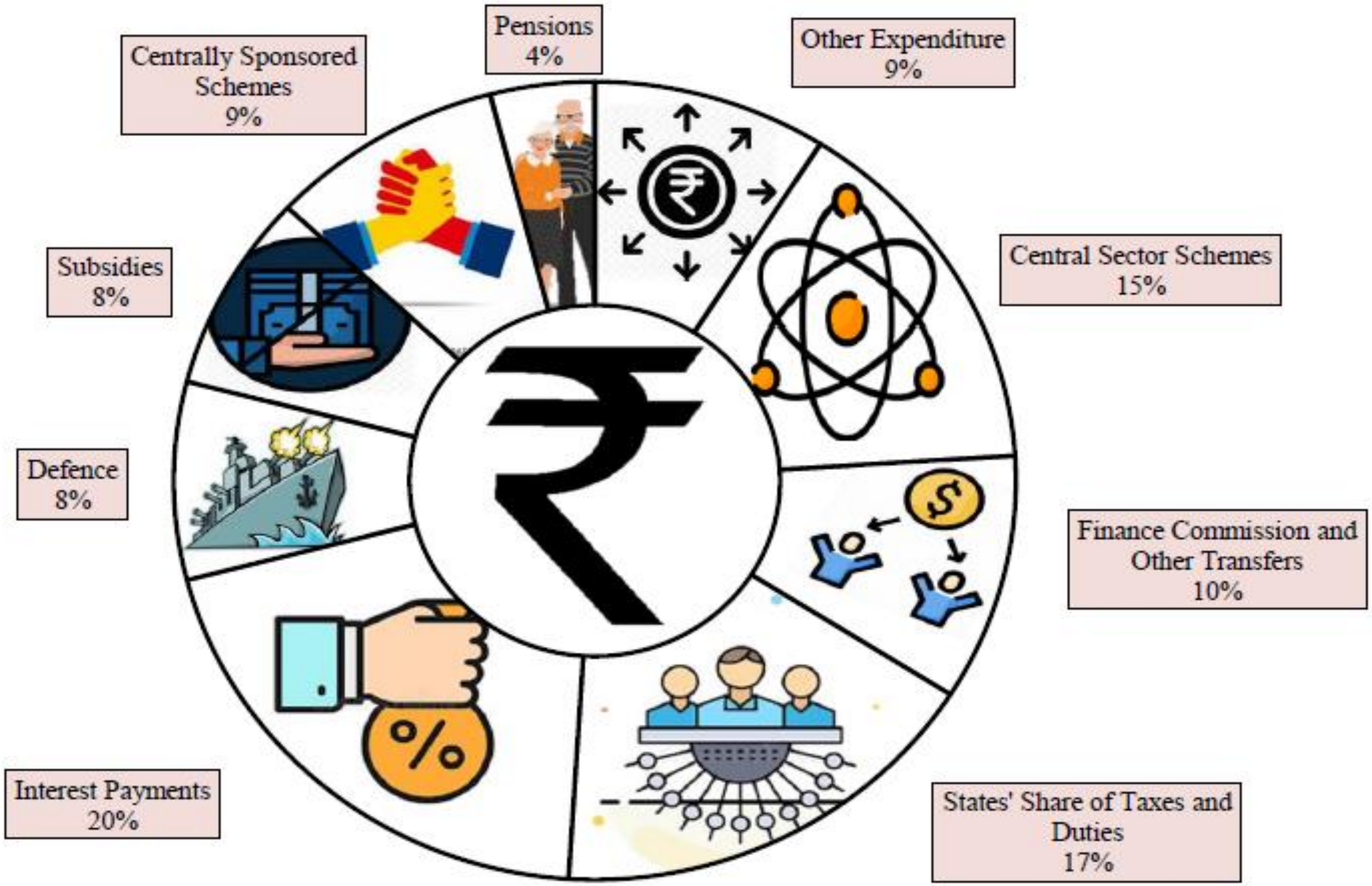
- **1 per cent TDS** on transfer of **virtual assets** above a certain threshold
- Income from **digital asset** transfers **taxed at 30%**
- **Surcharge** on **LTCG** capped at **15%** (for income slabs >₹2 crores p.a.)
- **Gift of cryptocurrencies** to be **taxed at receiver's end**
- **Updated returns** can be **filed** within **two years** from the end of the relevant assessment year.
- **Alternate Minimum Tax** for **cooperative societies** to be **cut** to **15%**
- Surcharge on cooperative societies reduced to 7%, for those whose Income is between Rs 1 crore and Rs 10 crore
- Tax **deduction** limit **increased to 14%** on employers' **contribution to NPS account** of state govt employees

Rupee Comes from (Inflow)



Source: GoI

Rupee Goes To (Outflow)



Source: GoI

Rates and Credit Research
Binyam Taddese
+91 22 42245000
binyam.taddese@trustgroup.in

Institutional Sales
Pranav Inamdar
+91 22 40845031
pranav.inamdar@trustgroup.in

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Trust Group

109/110, 1st Floor, Balarama, Bandra Kurla Complex, Bandra (E), Mumbai -400 051, Maharashtra.

Ph: +91 22 4084 5000 • Fax: +91 22 4084 5052 • www.trustgroup.co.in