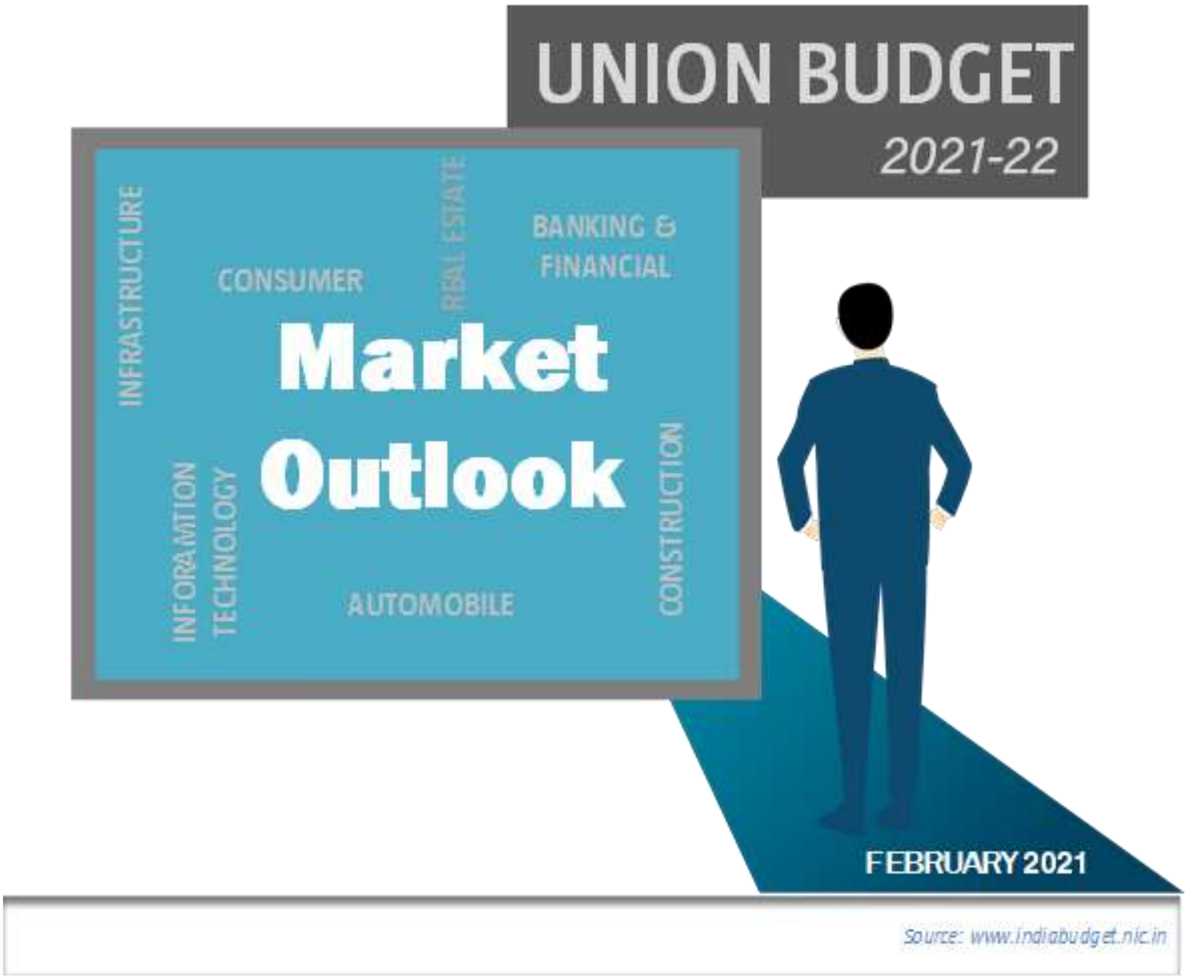
CANARA ROBECO
Mutual Fund



Mutual Fund investments are subject to market risks, read all Scheme related documents carefully

Union Budget FY2021 – Key Highlights

Presenting the Union Budget for FY2021-22, Finance Minister Nirmala Sitharaman said that the Budget proposals for this financial year rest on six pillars — health and well-being, physical and financial capital and infrastructure, inclusive development for aspirational India, reinvigorating human capital, innovation and R&D, and 'Minimum Government, Maximum Governance'. Presenting her third budget under the National Democratic Alliance (NDA) government led by Prime Minister Narendra Modi, the Finance Minister presented a budget which was not printed and was only made available in a digital format.

The Finance Minister had earlier promised to present a "budget like no other". It was hoped that this year it will be a Budget like no other for taxpayers as well. The finance minister was expected to provide relief to the pandemic-hit common man as well as focus more on driving economic recovery. Experts believed that Budget 2021 could be the starting point for picking up the pieces after the economic destruction caused by COVID-19 pandemic. The salaried individuals were hoping that the government would broaden some tax advantages through the Budget. In the run-up to the Budget presentation, several experts and professional bodies like ICAI had recommended the government to increase the deduction limit under Section 80C of the Income Tax Act, however no changes were made in the tax structure. Yet some relief in filing ITR for senior citizens above 75 and NRIs were announced. The details of the budget are as follows:

AtmaNirbhar Bharat Abhiyan:

- AtmaNirbhar Bharat Abhiyan has been a significant step towards becoming self-reliant and strengthening the economy
- 9% stimulus has been provided under AtmaNirbhar Bharat out of the total stimulus. 15% stimulus is by the combination of the Government and the RBI

Health and Wellbeing:

- A holistic approach to health will be taken which will focus on strengthening 3 areas: Preventive, Curative and Wellbeing
- A new centrally sponsored scheme, PM AtmaNirbhar Swasth Bharat Yojana, will be launched with an outlay of about INR 64,180 crores over 6 years which will support Health and Wellness centres
- It will also be a prime focus of the scheme to set up integrated public health labs in all districts and establish critical care hospitals in 602 districts
- Strengthening of the National Centre for Disease Control (NCDC) and expansion of the Integrated Health Information Portal to all States/UTs to connect all public health labs is also part of the scheme
- The Pneumococcal Vaccine, which is presently limited to only 5 states, will be rolled out across the country. This will avert more than 50,000 child deaths annually.
- INR 35,000 crores will be provided for Covid-19 vaccines during the financial year
- The Supplementary Nutrition Programme and the Poshan Abhiyan to be merged and the Mission Poshan 2.0 to be launched
- The Jal Jeevan Mission (Urban), will be launched which aims at universal water supply in all 4,378 Urban Local Bodies with 2.86 crores household tap connections and will be implemented over 5 years, with an outlay of INR 2,87,000 crores
- The National Commission for Allied Healthcare Professionals Bill has been introduced in Parliament, with a view to ensure transparent and efficient regulation of the 56 allied healthcare professions

- The Budget outlay for Health and Wellbeing is INR 2,23,846 crores in BE 2021-22 as against this year's BE of INR 94,452 crores which is an increase of 137 percentage

Agriculture:

- Agricultural credit target has been enhanced to INR 16.5 lakh crores in FY 2021-22 to provide adequate credit to the farmers
- The allocation to the Rural Infrastructure Development Fund will be enhanced from INR 30,000 crores to INR 40,000 crores.
- The Micro Irrigation Fund, with a corpus of INR 5,000 crores which has been created under NABARD, is to be enhanced by another INR 5,000 crores
- The Agriculture Infrastructure Fund is to be made available to APMCs for augmenting their infrastructure facilities.

Industry:

- Production Linked Incentive (PLI) launched to create manufacturing global champions across 13 sectors with amount committed nearly ₹1.97 lakh crore in the next 5 years starting FY2021-22
- To enable the textile industry to become globally competitive, attract large investments and boost employment generation, a scheme of Mega Investment Textiles Parks (MITRA) is to be launched which will lead to the creation of 7 textile parks over 3 years
- The National Infrastructure Pipeline (NIP) which was launched in December 2019 with 6835 projects has now expanded to 7,400 projects

Infrastructure:

- Indian Railways have prepared a National Rail Plan for India – 2030 to create a 'future ready' Railway system by 2030 and to cater to the projected traffic requirements up to 2050
- The objective of the plan is to increase the modal share of rail in freight from the current level of 27 per cent to 45 per cent
- 100% electrification of Broad Gauge Routes to be completed by December, 2023
- High density network and highly utilized network routes of Indian railways will be provided with an indigenously developed automatic train protection system that eliminates train collision due to human error
- More economic corridors are being planned in the states of Tamil Nadu, Kerala, West Bengal and Assam.
- Under urban infrastructure, a new scheme will be launched at a cost of INR 18,000 crores to support augmentation of public bus transport services. The scheme will facilitate deployment of innovative PPP models to enable private sector players to finance, acquire, operate and maintain over 20,000 buses.

Energy:

- Ujjwala Scheme which has benefited 8 crores households will be extended to cover 1 crores more beneficiaries
- An independent Gas Transport System Operator will be set up for facilitation and coordination of booking of common carrier capacity in all-natural gas pipelines on a non-discriminatory open access basis
- A revamped reforms-based result-linked power distribution sector scheme will be launched with an outlay of INR 3,05,984 crores over 5 years

Banking and Insurance:

- The permissible limit of FDI to be increased from 49% to 74% in the insurance sector
- A new asset reconstruction company (ARC) and asset management company (AMC) to be set up in order to clean up the banks' balance sheets
- INR 20,000 crores has been allocated for PSU bank recapitalization
- Two public sector banks are to be privatised along with IDBI bank and one insurance company

Fiscal Position:

- A normal ceiling of net borrowing for the states at 4% of GSDP for 2021-22 is to be allowed
- Additional Borrowing ceiling of 0.5% of GSDP subject to conditions. States are expected to reach a fiscal deficit of 3% of GSDP by 2023-24, as recommended by the 15th Finance Commission
- NSSF loan to FCI for food subsidy to be replaced by making budget provisions
- INR 1,18,452 crore as Revenue Deficit to be granted to 17 states in 2021-22

Direct Tax:

- For senior citizens (aged 75 and above) who only have pension and interest income do not have to file their income tax returns. The paying bank will deduct the necessary tax on their income
- The time limit for reopening of income tax assessment is to be reduced from 6 years to 3 years
- Direct Tax Vivad Se Vishwas Scheme has been announced which is to give taxpayers an opportunity to settle long pending disputes and be relieved of further strain on their time and resources
- A Dispute Resolution Committee is to be established for small taxpayers (taxable income up to INR 50 lakhs and disputed income up to INR 10 lakhs), which will be faceless to ensure efficiency, transparency and accountability
- Dividend payment to REIT/ InvIT to be exempt from TDS
- Additional deduction of ₹1.5 lakh shall be available for loans taken up till 31 March 2022 for purchase of affordable house

Indirect Tax:

- Customs duty structure to be rationalized by eliminating 80 outdated exemptions
- MSMEs and other user industries have been severely hit by a recent sharp rise in iron and steel prices which is to be dealt with by reducing Customs duty uniformly to 7.5% on semis, flat, and long products of non-alloy, alloy, and stainless steels
- Rationalisation of duties on raw material inputs to man made textiles to be done
- Rationalisation of custom duty on gold and silver also to be done
- Increase in duty on solar invertors and lanterns to promote domestic production
- Agriculture Infrastructure and Development Cess on small number of items has been proposed

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Equity Market - Outlook

Shridatta Bhandwaldar
Head - Equities

Budget commentary clearly indicates focus towards growth and shedding of inhibitions about higher fiscal deficit. The internals of increase in FD numbers reveal limited expansion as compared to headline numbers. While the FY22 growth of capital expenditure over FY21BE is 34%, its ~25% when one looks at it over RE for FY21. Sector focus remains railways, roads and Urban housing which has contributed to most part of the incremental capital expenditure. Government is also gradually reducing state contribution in taxes, helping it to direct spending better.

From equity market perspective, the growth focus (vs Fiscal Deficit control focus over last 6 years) may keep the animal spirit going and encourage private investments and availability of risk capital from investors to good businesses. At sectoral level, there are limited changes. To name a few ; Positives (Voluntary scrappage policy for auto, no additional tax on tobacco, indication of privatisation of PSU banks, FDI limit increase in Insurance, Foreign borrowings allowed for REITs and INVITs etc, deduction of 1.5 lac/yr for affordable housing extended to FY22 etc) and Negatives (No reduction in excise for OMCs, reduction in customs duty for steel etc.).

Overall, the Government is directionally trying to focus on growth and that's a good news for equities as an asset class. Caution remains from valuation perspective.

Debt Market – Outlook

Avnish Jain
Head – Fixed Income

The Union Budget 2021-22 threw a huge negative surprise for debt markets, as fiscal deficit continues to remain high with glide path being moderated. Further gross borrowings numbers increased for current fiscal by INR 80000cr, pushing the already stretched gross borrowings to Rs.14 trillion. For FY2022 there is only marginal drop in gross borrowings at INR 12.06 trillion (net borrowing of INR 9.75 trillion). This is sharp jump from gross borrowings in pre-pandemic era of around INR 7.2 trillion (FY2020). While it was expected that gross borrowing numbers are likely to remain high, only marginal downward change in borrowing, from FY2021, surprised markets. Fiscal deficit is now pegged at 9.5% for FY2021 and then coming down to 6.8% in FY2022. The government is planning to introduce a new glide path in FRBM, so as to take fiscal deficit to 4.5% in FY2025. This is much higher than earlier envisaged FRBM target of 3% in medium term. This may be viewed as a negative by international bond investors.

Markets have already reacted sharply to the Budget with across the board selloff. 10Y yield climbed by about 16bps at close. Similar sell off was also seen in corporate bonds. With higher borrowings, greater RBI support may be required for smooth passage of borrowings. FII flows in debt have also been marginal in FY2021 and with higher projected fiscal numbers, foreign investors may choose to stay away further impacting the demand side. With the Monetary policy scheduled by end of the week, market participants may keenly watch views from MPC members on the enhanced fiscal stimulus as well change in fiscal glide path, as well as likely impact of large fiscal on inflation. The change in fiscal glide path may also be negative from the country rating perspective and any adverse comments from international rating agencies may be bond negative. In the short-term markets are likely to remain negative awaiting further clarity from government / RBI on steps taken to ensure smooth passage of large borrowing programme.

Source: www.indiabudget.nic.in