



Budget increases our confidence in our expectation of strong earnings growth

Our view on the market for 2021 (see our report https://www.linkedin.com/posts/valentis-advisors-pvt-ltd_where-will-markets-go-in-2021-activity-6757592909400326145-XFE9) had 3 major elements:

1. Valuations are rich but strong earnings growth will help stock market returns
2. There will be a sectoral shift from high quality but expensive consumer stocks to more value cyclical stocks.
3. Rising inflation and consequent rising bond yields pose the biggest risk to the market apart from the resurgence of the virus if the vaccine fails.

The budget has further reinforced these thoughts:

- 1. Growth in GDP and earnings:** The Finance Minister has gone for a massive growth stimulus with a thrust on infrastructure. This could help in reviving the capex cycle and provide the base for a stronger and more balanced GDP growth. Earnings have been in a slow lane since 2008. We are expecting earnings to double over next few years. If the budget succeeds in stimulating growth, we could see a strong earnings cycle next few years and the spell of earnings downgrade behind us.
- 2. Time for cyclical stocks?** After every market crash of 30-50%, sector leadership in the market changes. We believe value stocks in the cyclical sector will outperform in the next few years. The budget reinforces this view with its strong thrust on infrastructure spend.
- 3. Rising bond yields a risk:** The Government has opted for a growth oriented budget while sacrificing the FRBM targets for fiscal deficit. With Government borrowings at Rs12.1 lakh crores, we see a spike in bond yields as the biggest risk to equity markets.

Equity markets: Rich valuations; earnings growth to drive returns

1. We continue to expect positive returns for markets this year led by a 30% growth in earnings for FY21. Stock market returns will be lower than earnings growth as valuations will likely compress.
2. Market will see both time and price correction led mainly by global markets.
3. Small and mid-caps will outperform large caps.



Budget: Key points

1. **Significant pro-growth thrust – focus on infra:** The Finance Minister has provided a strong pro-growth thrust to the budget by direct spending as well as improving avenues for infrastructure financing.
 - a. In FY21 the Government will likely exceed its budgeted spend on capital expenditure in spite of much lower revenues. For FY22, it has forecast a 26% growth in capex over the higher spend of FY21 (see Table 2).
 - b. In order to improve infra financing, the Government proposes to set up a Development Financial Institution to provide long term financing.
 - c. Lastly, the Government proposing to monetize a whole host of assets to free up resources to finance new projects eg. InvITs for road and power transmission projects.
2. **Reforms in banking and insurance:** Apart from capitalization of PSU banks, major announcements were:
 - a. Creation of a 'bad bank' to take-over stressed assets of banks.
 - b. Increase in FDI limit in insurance to 74%
3. **Privatization vs disinvestment:** The Finance Minister stressed that the Government would get out of sectors except 4 strategic areas. In a bold announcement, 2 public sector banks and 1 insurance company will be privatized this year.
4. **Simplification of tax laws:** The Government is carrying forward the process of a stable tax regime by not changing taxes this year as well has announced many measures like increasing threshold for audit requirements, freeing senior citizens from filing tax returns in some cases and
 - a. Re-opening of tax assessments for only 3 years vs 6 years earlier in normal cases.
 - b. Faceless income Tax Appellate Tribunal
5. **Budget assumptions appear reasonable:** The Government has provided for an aggregate revenue growth of 16.7% (see Table 3). This appears reasonable given that we expect nominal GDP growth to be around 15%. Secondly, the Government has provided receipts of Rs 175,000 crores from disinvestment/privatization. If the LIC IPO materializes, we could see this figure being exceeded.
6. **High fiscal deficit; slower glide path:** Some economists will be worried that fiscal deficit in FY21 will be close to 9.5% and we are forecasting a high 6.8% for FY22. More importantly, the Finance Minister stated that we are now looking to reduce this to 4.5% by FY26, a far cry from the earlier target of 3% in a few years. We think this may worry the bond market and the RBI now has to deal with the challenge of cooling off the bond market if required. The other critical point to watch is the reaction of the global rating agencies. From our point of view, we think fiscal deficit should be counter-cyclical and opting for higher growth in the growth vs fiscal consolidation trade-off is a welcome step.

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Table 1: CapEx Outlay (Rs. bn)

Particulars	FY17	FY18	FY19	FY20	FY21RE	FY22BE	FY20A/ FY20RE	FY21RE/ FY21BE
Total centre capex	2,846	2,631	3,077	3,357	4,392	5,542	-3.80%	6.60%
YoY	12.5%	-7.5%	16.9%	9.1%	30.8%	26.2%		
Capital outlay (inc. IEBR)								
Roads	743	1,013	1,289	1,434	1,571	1,732	-2.60%	6.90%
YoY	33.8%	36.3%	27.2%	11.3%	9.6%	10.3%		
Railways	1,099	1,020	1,334	1,480	2,408	2,149	-5.20%	49.80%
YoY	17.6%	-7.2%	30.8%	11.0%	62.7%	-10.8%		
Defence	864	904	952	1,111	1,345	1,351	0.60%	18.30%
YoY	20.5%	4.7%	5.3%	16.7%	21.1%	0.4%		
Major schemes								
PMGSY	179	169	154	140	137	150	-0.40%	-29.70%
YoY	-2.0%	-5.9%	-8.6%	-9.1%	-2.2%	9.4%		
PMAY	210	312	254	250	405	275	-1.40%	47.30%
YoY	80.6%	48.7%	-18.4%	-1.9%	62.2%	-32.1%		
Jal Jeevan Mission	60	70	55	100	110	500	0.30%	-4.30%
YoY	36.8%	17.7%	-22.1%	82.9%	9.7%	354.6%		
Metro Projects	153	138	143	182	65	190	3.10%	-62.90%
YoY	64.8%	-9.9%	3.3%	27.3%	-64.3%	193.0%		



Table 2: Budget at a Glance (Rs. Crore)

Particulars	2019-20	2020-21	2020-21	2021-22	BEFY21	REFY21	BE22
	Actuals	Budget Estimates	Revised Estimates	Budget Estimates	vs Actuals	vs Actuals	vs RE21
1. Revenue Receipts	1684059	2020926	1555153	1788424	20.0%	-7.7%	15.0%
2. Tax Revenue (Net to Centre)	1356902	1635909	1344501	1545396	20.6%	-0.9%	14.9%
3. Non Tax Revenue	327157	385017	210652	243028	17.7%	-35.6%	15.4%
4. Capital Receipts	1002271	1021304	1895152	1694812	1.9%	89.1%	-10.6%
5. Recovery of Loans	18316	14967	14497	13000	-18.3%	-20.9%	-10.3%
6. Other Receipts	50304	210000	32000	175000	317.5%	-36.4%	446.9%
7. Borrowings and Other Liabilities ¹	933651	796337	1848655	1506812	-14.7%	98.0%	-18.5%
8. Total Receipts (1+4)	2686330	3042230	3450305	3483236	13.2%	28.4%	1.0%
9. Total Expenditure (10+13)	2686330	3042230	3450305	3483236	13.2%	28.4%	1.0%
10. On Revenue Account of which	2350604	2630145	3011142	2929000	11.9%	28.1%	-2.7%
11. Interest Payments	612070	708203	692900	809701	15.7%	13.2%	16.9%
12. Grants in Aid for creation of capital assets	185641	206500	230376	219112	11.2%	24.1%	-4.9%
13. On Capital Account	335726	412085	439163	554236	22.7%	30.8%	26.2%
14. Revenue Deficit (10-1)	666545	609219	1455989	1140576	-8.6%	118.4%	-21.7%
	-3.3	-2.7	-7.5	-5.1	(60)bps	420 bps	(240)bps
15. Effective Revenue Deficit (14-12)	480904	402719	1225613	921464	-16.3%	154.9%	-24.8%
	-2.4	-1.8	-6.3	-4.1	(60)bps	390 bps	(220)bps
16. Fiscal Deficit [9- (1+5+6)]	933651	796337	1848655	1506812	-14.7%	98.0%	-18.5%
	-4.6	-3.5	-9.5	-6.8	(110)bps	490 bps	(270)bps
17. Primary Deficit (16-11)	321581	88134	1155755	697111	-72.6%	259.4%	-39.7%
	-1.6	-0.4	-5.9	-3.1	(120)bps	430 bps	(280)bps

¹ Includes drawdown of Cash Balance

Notes:

(i) GDP for BE 2021-2022 has been projected at Rs.22287379 crore assuming 14.4% growth over the estimated GDP of Rs.19481975 crore for 2020-2021 (RE).

(ii) Individual items in this document may not sum up to the totals due to rounding off

(iii) Figures in parenthesis are as a percentage of GDP



Table 3: Receipts (Rs. Crore)

Particulars	2019-20	2020-21	2020-21	2021-22	BEFY21	REFY21	BE22
	Actuals	Budget Estimates	Revised Estimates	Budget Estimates	vs Actuals	vs Actuals	vs RE21
REVENUE RECEIPTS							
1. Tax Revenue							
Gross Tax Revenue	2010059	2423020	1900280	2217059	20.5%	-5.5%	16.7%
a. Corporation Tax	556876	681000	446000	547000	22.3%	-19.9%	22.6%
b. Taxes on Income	492654	638000	459000	561000	29.5%	-6.8%	22.2%
c. Wealth Tax	20			
d. Customs	109283	138000	112000	136000	26.3%	2.5%	21.4%
e. Union Excise Duties	240615	267000	361000	335000	11.0%	50.0%	-7.2%
f. Service Tax	6029	1020	1400	1000		-76.8%	-28.6%
g. GST	598750	690500	515100	630000	15.3%	-14.0%	22.3%
-CGST	494072	580000	431000	530000	17.4%	-12.8%	23.0%
-IGST	9125			
-GST Compensation Cess	95553	110500	84100	100000	15.6%	-12.0%	18.9%
h. Taxes of Union Territories	5835	7500	5780	7059	28.5%	-0.9%	22.1%
Less - NCCD transferred to the NCCF/NDRF	2480	2930	5820	6100	18.1%	134.7%	4.8%
Less - State's share	650678	784181	549959	665563	20.5%	-15.5%	21.0%
1a Centre's Net Tax Revenue	1356902	1635909	1344501	1545397	20.6%	-0.9%	14.9%
2. Non-Tax Revenue							
Interest receipts	12349	11042	14005	11541	-10.6%	13.4%	-17.6%
Dividends and Profits	186132	155396	96544	103538	-16.5%	-48.1%	7.2%
External Grants	373	812	1422	747	117.7%	281.2%	-47.5%
Other Non Tax Revenue	126540	215465	96602	124671	70.3%	-23.7%	29.1%
Receipts of Union Territories	1762	2303	2081	2531	30.7%	18.1%	21.6%
Total- Revenue Receipts (1a + 2)	1684059	2020926	1555153	1788424	20.0%	-7.7%	15.0%
3. CAPITAL RECEIPTS							
A. Non-debt Receipts							
(i) Recoveries of loans and advances@	18316	14967	14497	13000	-18.3%	-20.9%	-10.3%
(ii) Miscellaneous Capital Receipts	50304	210000	32000	175000	317.5%	-36.4%	446.9%
B. Debt Receipts*	928680	849340	1866013	1435428	-8.5%	100.9%	-23.1%
Total Capital Receipts (A+B)	997301	1074306	1912510	1623428	7.7%	91.8%	-15.1%
4. Draw-Down of Cash Balance	4970	-53003	-17358	71383	-1166%	-449%	-511%
Total Receipts (1a+2+3)	2681360	3095233	3467663	3411853	15.4%	29.3%	-1.6%

* The receipts are net of payment. @ Excludes recoveries of short term loans and advances.



Table 4: Deficit Statistics (Rs. Crore)

	2019-20	2020-21	2020-21	2021-22
	Actuals	Budget Estimates	Revised Estimates	Budget Estimates
1. Fiscal Deficit	933651	796337	1848655	1506812
	-4.6	-3.5	-9.5	-6.8
2. Revenue Deficit	666545	609219	1455989	1140576
	-3.3	-2.7	-7.5	-5.1
3. Effective Revenue Deficit	480904	402719	1225613	921464
	-2.4	-1.8	-6.3	-4.1
4. Primary Deficit	321581	88134	1155755	697111
	-1.6	-0.4	-5.9	-3.1

Note: Figures in parenthesis are as a percentage of GDP

Table 5: Sources of Financing Fiscal Deficit (Rs. Crore)

	2019-20	2020-21	2020-21	2021-22
	Actuals	Budget Estimates	Revised Estimates	Budget Estimates
1. Debt Receipts (Net)				
2. Market Borrowings (G-Sec + T Bills)	624089	535870	1273788	967708
3. Securities Against Small Savings	240000	240000	480574	391927
4. State Provident Funds	11635	18000	18000	20000
5. Other Receipts (Internal Debt and Public Account)	44273	50848	39129	54280
6. External Debt	8682	4622	54522	1514
7. Draw Down of Cash Balance	4971	(-)53003	(-)17358	71383
8. Grand Total	933651	796337	1848655	1506812

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