ICRA ANALYSIS ON GOVERNMENT OF INDIA UNION BUDGET 2020-21

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CONTENTS

1. Overview on Macro Economy ---------- **04-16**

2. Sectoral Impact Analysis ---------- **17-49**

Agriculture & Fertilisers

Auto:

- *Auto Components*
- *Commercial Vehicles*
- *Passenger Vehicles*
- *Two-Wheelers*
- *Construction Equipments*

Aviation

BFSI:

- *Banking & Finance*
- *Insurance*
- *NBFC & HFCs*

Capital Goods

Cement

Chemicals & Petrochemicals

FMCG & Consumer Durables

Gold Jewellery - Retail

Healthcare

Infrastructure

Infrastructure – Road

Logistics

Media & Entertainment

Metals – Steel

Oil & Gas

Pharmaceuticals
Ports
Power and Green Energy
Real Estate
Retail
Telecom
Textile
Tourism

Overview

As expected, the Union Budget for FY2021 has targeted a sharply higher fiscal deficit of 3.5% of GDP in the budget estimates (BE) for the coming fiscal, relative to the rolling target of 3.0% of GDP that had been set in July 2019. However, the fiscal deficit is expected to decline in FY2021 from the 3.8% of GDP included in the revised estimates (RE) for FY2020, which appears somewhat challenging. Moreover, the Government has invoked the 'escape clause' provided for in the amended Fiscal Responsibility and Budget Management Act, to allow the fiscal deficit to rise to 3.8% of GDP in the FY2020 RE from the budgeted 3.3% of GDP.

Gross tax revenues are budgeted to expand by 12.0% in FY2021 BE, which may appear reasonable in light of the 10.0% growth expected in nominal GDP. However, the revenue assumptions made for FY2020 seem aggressive. In particular, the GoI's gross tax revenues are effectively forecast in the FY2020 RE to expand by 19% in Q4 FY2020 relative to the year-ago period, which seems unlikely given the modest recovery expected in GDP growth.

Moreover, the underlying assumptions behind the doubling in the non-tax revenues expected from other communications services to Rs. 1.33 trillion in the BE for FY2021 from Rs. 0.6 trillion in FY2020 RE are somewhat unclear, especially in light of the two-year moratorium on spectrum payments. With participation in the 5G spectrum auctions expected to be muted, the GoI may be expecting the bulk of the AGR-related dues to be settled in FY2021.

The receipts from disinvestment, divestment etc have been scaled up sharply to Rs. 2.1 trillion in FY2021 BE from Rs. 0.65 trillion in FY2020 RE. Although a pipeline of announcements provides some visibility for raising funds from this source, unless significant progress is made in H1 FY2021 itself, doubts will start building up about the credibility of the fiscal correction being targeted by the GoI in FY2021.

While there are several well-intentioned schemes that have been announced in the Union Budget for FY2021 across diverse areas, encompassing agriculture, irrigation, infrastructure and solar power, the overall increase in allocations have been modest, given the fiscal challenges.

The Government of India (GoI) has sharply pared the food subsidy allocation that it would provide to the Food Corporation of India (FCI) from the budget to Rs. 1.1 trillion in FY2020 RE from Rs.1.8 trillion in FY2020 BE. An additional Rs 1.1 trillion is being provided to the FCI as a loan from the National Small Savings Fund (NSSF) in FY2020 RE, to finance a portion of the food subsidy requirement as well as the debt servicing of loans availed from the NSSF in the previous years. In FY2021, the GoI has budgeted Rs. 1.2 trillion as food subsidy from the budget, and has allocated an even higher off-budget amount of Rs. 1.4 trillion as loan to FCI from NSSF in that year.

The budgetary allocation for capital expenditure has been increased by Rs. 103 billion in the FY2020 RE relative to the budgeted level, setting aside fears of a cut in capex. Moreover, the capital expenditure for FY2021 has been enhanced by a healthy 18% or Rs. 632 billion, although this is partly offset by a disappointing reduction of Rs. 379 billion in the internal extra budgetary resources in FY2021 BE relative to FY2020 RE.

Overall, the incoming data on receipts from tax revenues, non-tax revenues from other communication services, and disinvestment proceeds in FY2021, would determine the credibility of the fiscal math for FY2021. This would also have an impact on the trend in yields of Government securities, even though the net borrowing requirement announced for FY2021 is within the range expected by the market.

Notably, the funding of the GoI's fiscal deficit from small savings is expected to go up sharply from Rs. 1.25 trillion in FY2019 to Rs. 2.4 trillion each in FY2020 RE and FY2021 BE. This suggests that small savings interest rates are unlikely to undergo any meaningful correction in the coming four to five quarters, irrespective of the policy action that is undertaken by the Monetary Policy Committee.

A note of caution for state fiscal trends: as expected, the central tax devolution (CTD) to the states has undergone a substantial correction in the RE for FY2020 to Rs. 6.6 trillion from the budgeted level of Rs. 8.1 trillion, on account of both the adjustment for FY2019 (Rs. 0.6 trillion), with the balance on account of the downward revision in the GoI's tax forecast for FY2020. This entails a considerable contraction relative to the Rs. 7.6 trillion that had been transferred to the states as CTD in FY2019. Moreover, the balance central taxes to be devolved in Q4 FY2020 would decline sharply to Rs. 1.8 trillion from Rs. 2.7 trillion in Q4 FY2019, posing a key risk to managing state finances in the last quarter of FY2020, as well as sustaining the momentum of economic growth.

If the gross central tax collections of the GoI do not evolve in line with the 12% growth assumed in the budget relative to the FY2020 RE, then the expansion in CTD to Rs. 7.8 trillion in FY2021 BE would come under a cloud. Moreover, 10 of the 28 states have seen a reduction in their inter se share in central tax devolution as per the interim report of the Fifteenth Finance Commission for FY2021, and would need to carefully assess their revenue situation.

In our view, the proposals made in the budget may not be able to trigger a substantive revival in demand in the immediate term. For instance, the income tax cut in the lower slabs may only have a marginal impact in terms of increasing disposable income and boosting consumer sentiment.

Customs duty has been increased on several items to enhance the competitiveness of Indian manufacturers. SMEs have also been an area of focus, with invoice financing by NBFCs through the TREDs platform, provision of subordinate debt fully guaranteed through Credit Guarantee Trust and allowing banks to restructure loans up to March 31, 2021, subject to concurrence by Reserve Bank of India.

There are some positive announcements for the financial markets and encouraging foreign investments, including increase in FPI limits on corporate bonds, increase in deposit insurance, proposed launch of Exchange Traded Funds in G-Secs and full tax exemption to Sovereign Wealth Funds for investment in the infrastructure sector.

While there were expectations on some specific measures for stressed sectors like Real Estate and the Non-Banking Finance Companies, the same has not been met. There are also apprehensions that the withdrawal of exemptions on tax saving schemes in case of opting for lower income tax rates could impact the fund flows to Insurance and Mutual Funds.

Assessment of Government of India’s Fiscal Situation

In its Revised Budget Estimates (RBE) for FY2020, released in July 2019, the GoI had pegged its fiscal deficit at Rs. 7.0 lakh crore (3.3% of GDP), based on the assumption that the nominal GDP for FY2020 would be Rs. 211.0 lakh crore. The Revised Estimates (RE) for FY2020 have indicated that the fiscal deficit would be higher than the RBE by Rs. 0.6 lakh crore, while the nominal GDP for FY2020 has been revised down to Rs. 204.4 lakh crore. As a result, the fiscal deficit has increased sharply to 3.8% of GDP in the RE for FY2020, relative to the budgeted target of 3.3% (refer Table 1 and Chart 1).

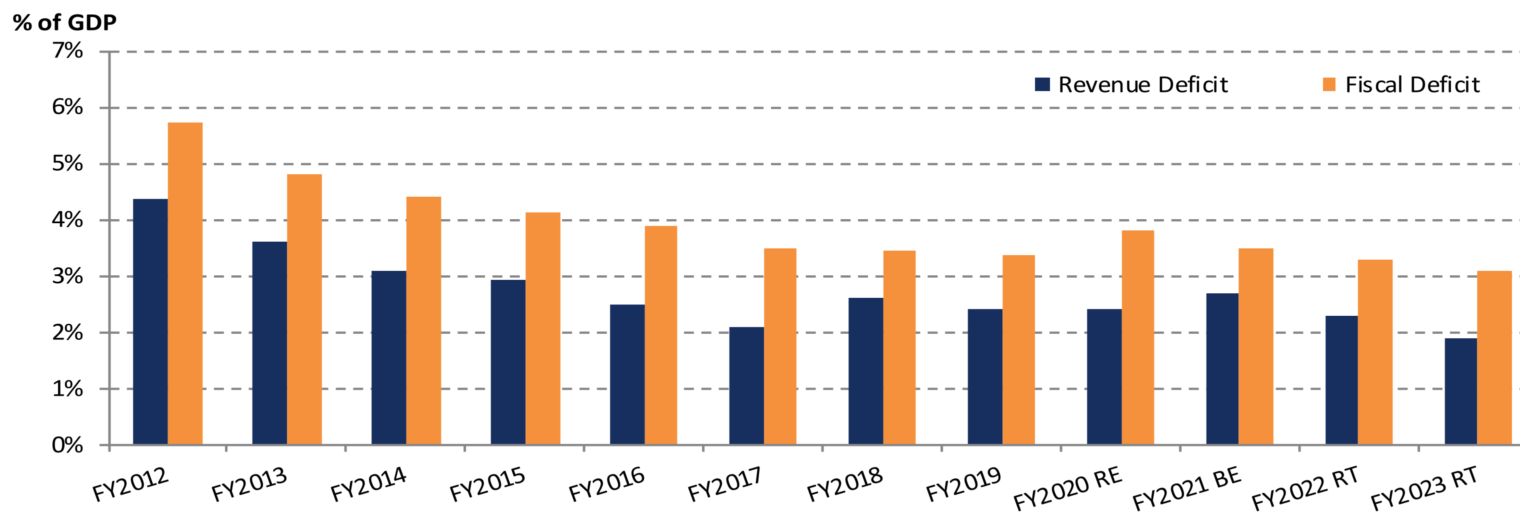
The BE for FY2021 indicates an increase in the fiscal deficit in absolute terms, to Rs. 8.0 lakh crore. However, as a percentage of GDP, the fiscal deficit is estimated to narrow to 3.5% in the BE for FY2021 (assuming nominal GDP of Rs. 224.9 lakh crore in FY2021), compared to the RE for FY2020 (3.8% of GDP). Accordingly, the Union Budget for FY2021 indicates a slippage of 41 bps and 24 bps, respectively, relative to the previously announced targets of 3.3% of GDP and 3.0% of GDP, respectively, for FY2020 and FY2021. Subsequently, the rolling target for FY2022 released in the Union Budget 2020-21 also indicates a higher fiscal deficit of 3.3% of GDP in FY2022, compared to the rolling target of 3.0% of GDP released in the Union Budget for 2019-20. Additionally, the Government is targeting to reduce its total debt to 45.5% of GDP by FY2023, from 50.3% of GDP in FY2020 RE.

Table 1: GoI's Fiscal Balances

	Rs. Lakh Crore			Growth	
	FY2019 Actual	FY2020 RE	FY2021 BE	FY2020 RE	FY2021 BE
Revenue Receipts	15.5	18.5	20.2	19.1%	9.2%
Tax Revenues$	*13.2*	*15.0*	*16.4*	*14.2%*	*8.7%*
Non-Tax Revenues	*2.4*	*3.5*	*3.9*	*46.6%*	*11.4%*
Revenue Expenditure	20.1	23.5	26.3	17.0%	11.9%
Revenue Deficit	**4.5**	**5.0**	**6.1**		
% of GDP	***2.4%***	***2.4%***	***2.7%***		
Capital Receipts (Non-Debt)	1.1	0.8	2.2	-27.6%	175.7%
Capital Expenditure	3.1	3.5	4.1	13.4%	18.1%
Fiscal Deficit	**6.5**	**7.7**	**8.0**		
% of GDP	***3.4%***	***3.8%***	***3.5%***		

Source: GoI Budget Documents; CGA; ICRA research
$ Net of Refunds, Net of States' share in Central Taxes

Chart 1: GoI's Revenue and Fiscal Deficit as a Percentage of GDP



Source: GoI Budget Documents; CGA, Ministry of Finance, GoI; ICRA research

Fiscal situation as per FY2020 RE: The fiscal deficit in FY2020 RE has been revised above the RBE for FY2020, led by the downward revision in tax revenue and disinvestment receipts, as well as well as a slight upward revision in capital expenditure, which offset the fall in revenue expenditure.

Overall, the gross tax revenues of the GoI have been revised downward by ~Rs. 3.0 lakh crore in the RE for FY2020 relative to the RBE for the year. The FY2020 RE for direct tax collections have been revised downwards relative to the FY2020 RBE, primarily on account of a reduction in the estimated corporate tax collections (to Rs. 6.1 lakh crore from Rs. 7.7 lakh crore, following the cut in the corporate tax rates), as well as a mild revision in income tax receipts (to Rs. 5.6 lakh crore from Rs. 5.7 lakh crore). Provisional data released by the Controller General of Accounts (CGA) indicated that the direct tax inflows recorded a YoY contraction of 5.8% to Rs. 6.9 lakh crore in 9M FY2020, and accounted for only 58.7% of the RE for FY2020. Going forward, direct taxes would need to increase by 18.6% in Q4 FY2020 to meet the RE for the year. In particular, the GoI's income tax collections would need to rise by a sharp 41.6% in Q4 FY2020 to meet the FY2020 RE, which appears unlikely. In contrast, corporate tax collections would need to rise by a muted 2.1% in Q4 FY2020 to meet the RE for the year.

The RBE for FY2020 had estimated indirect taxes (CGST, IGST, UTGST, customs duty, excise duty and service tax) at Rs. 10.1 lakh crore. The RE for FY2020 pegs these inflows at a substantially lower Rs. 8.9 lakh crore (refer Table 2), reflecting the broad-based downward revision in most components such as excise duty (by Rs. 0.5 lakh crore), CGST and IGST (by Rs. 0.4 lakh crore), and customs duty (by Rs. 0.3 lakh crore) in FY2020 RE ccompared to FY2020 RBE. Despite the downward revision, the indirect tax collections included in FY2020 RE remain optimistic, in our view. For instance, during 9M FY2020, indirect taxes remained stagnant on a YoY basis at Rs. 6.1 lakh crore (68.9% of FY2020

RE). This implies that the indirect tax collections would need to rise by a high 19.4% in Q4 FY2020 to meet the RE, which is unlikely, given the limited expectation of rebound in economic growth.

The collections of the GST compensation cess have been placed at Rs. 1.0 lakh crore in FY2020 RE, slightly lower than the RBE of Rs. 1.1 lakh crore. The GST compensation cess collections stood at Rs. 0.7 lakh crore in 9M FY2020, as per CGA data.

The net tax revenues have been revised downwards by a lower Rs. 1.4 lakh crore in FY2020 RE relative to the RBE for the year. The CTD to the states has undergone a substantial correction in the RE for FY2020 to Rs. 6.6 lakh crore from Rs. 8.1 lakh crore in FY2020 RBE, on account of both the adjustment for FY2019 (Rs. 0.6 lakh crore, in line with ICRA's estimate), as well as the downward revision in the GoI's tax forecast for FY2020. This entails a sharp contraction relative to the Rs. 7.6 trillion that had been transferred in FY2019. During 9M FY2020, the CTD to the states contracted by 2.2% to Rs. 4.8 trillion (72.6% of FY2020 RE) from Rs. 4.9 lakh crore in 9M FY2019 (62.1% of FY2019 Actuals). Accordingly, the balance central taxes to be devolved in Q4 FY2020 would decline sharply to Rs. 1.8 trillion from Rs. 2.7 trillion in Q4 FY2019, posing a key risk to managing state finances in the last quarter of FY2020.

Table 2: Trends in Tax Revenue Receipts in FY2019 RE and FY2020 RBE

Rs. Lakh Crore	FY2020 RBE (1)	FY2020 RE (2)	FY2021 BE (3)	Variation in FY2020 (2)-(1)	Growth in FY2021 BE (3)/(2)
Gross Tax Revenues	**24.6**	**21.6**	**24.2**	**-3.0**	**12.0%**
- Corporation Tax	7.7	6.1	6.8	-1.6	11.5%
- Income Tax	5.7	5.6	6.4	-0.1	14.0%
- Customs Duty	1.6	1.3	1.4	-0.3	10.4%
- Union Excise Duty	3.0	2.5	2.7	-0.5	7.7%
- Service Tax	0.0	0.0	0.0	0.0	-15.0%
- GST	6.6	6.1	6.9	-0.5	12.8%
- CGST	5.3	5.1	5.8	-0.1	12.8%
- IGST	0.3	0.0	0.0	-0.3	--
- GST Compensation Cess	1.1	1.0	1.1	-0.1	*12.4%*

Source: GoI Budget Documents; CGA; Economic Survey 2014-15; ICRA research

Non-tax revenues have been revised upwards by Rs. 0.4 lakh crore, to Rs. 3.5 lakh crore in FY2020 RE, reflecting higher dividends and profits, which mitigated the impact of lower interest receipts. The upward revision in dividends and profits in FY2019 RE is led by higher inflows from the RBI, nationalised banks and financial institutions (to Rs. 1.5 lakh crore from Rs. 1.1 lakh crore). Non-tax revenues stood at Rs. 2.4 lakh crore in 9M FY2020, as per the CGA data (70.0% of FY2020 RE). Going forward, the GoI's non-tax revenues would need to rise by 17.7% in Q4 FY2020 to meet the RE for the fiscal.

The estimated receipts from other communication services have been mildly revised up to Rs. 0.6 lakh crore in FY2020 RE from Rs. 0.5 lakh crore in FY2020 RBE.

The estimate for disinvestment proceeds has been reduced to Rs. 0.7 lakh crore in the RE for FY2020 from Rs. 1.1 lakh crore in FY2020 RBE. However, the GoI has raised a limited ~Rs. 0.2 crore through disinvestment so far in FY2020 (27.8% of FY2020 RE), as per the data released by the CGA. Accordingly, there remains lack of certainty on whether this target would be achieved.

Revenue expenditure has been revised downwards by Rs. 1.0 lakh crore to Rs. 23.5 lakh crore in FY2020 RE compared to the budgeted level (Rs. 24.5 lakh crore), primarily led by a sharp fall in food subsidy allocation to Rs. 1.1 lakh crore from Rs. 1.8 lakh crore, as well as a smaller downtick in the allocation for interest payments (to Rs. 6.3 lakh crore from Rs. 6.6 lakh crore, respectively). Moreover, the allocation for PM-Kisan has been reduced to Rs. 0.5 lakh crore in FY2020 RE from Rs. 0.8 lakh crore in FY2020 RBE, as expected. The RE for FY2020 indicate a growth of 17.0% in revenue expenditure relative to FY2019.

In terms of major subsidies, the allocation for food subsidy has been revised down sharply to Rs. 1.1 lakh crore in FY2020 RE from Rs. 1.8 lakh crore in FY2020 RBE, against which the GoI had already paid Rs. 1.4 lakh crore in 9M FY2020 (131.2% of FY2020 RE). Notably, the downward revision in food subsidy allocation was offset by a loan to the FCI from the NSSF for an amount of Rs. 1.1 lakh crore in FY2020 RE (Rs. 970.0 billion in FY2019 Actuals; refer Table 3). This loan to the FCI would be used to finance a portion of the food subsidy requirement, as well as the debt servicing of loans availed from the NSSF in the previous years, as per the GoI's budget documents. In contrast, the allocation for fuel subsidy was raised mildly to 0.39 lakh crore in FY2020 RE from Rs. 0.37 lakh crore in FY2020 RBE, whereas the allocation for fertilizer subsidy was kept unchanged kept at Rs. 0.8 lakh crore. Data released by the CGA indicates that the amount of fuel subsidy and fertilizer subsidy released during 9M FY2020 stood at 83.6% and 96.5%, respectively, of FY2020 RE.

The revenue expenditure during 9M FY2020 stood at Rs. 18.5 lakh crore (79.8% of FY2020 RE). The GoI's revenue expenditure would need to grow by a high 28.0% in Q4 FY2020 to meet the FY2020 RE of Rs. 23.5 lakh crore. Accordingly, further saving in expenditure relative to the FY2020 RE can't be ruled out.

Overall, the revenue deficit for FY2020 RE worsened to Rs. 5.0 lakh crore from the budgeted level of Rs. 4.9 lakh crore, on account of a sharper downtick in revenue receipts compared to revenue expenditure.

Setting aside fears of a cut in capex, capital expenditure has been revised up by Rs. 0.1 lakh crore to Rs. 3.5 lakh crore in FY2020 RE, compared to the budgeted level of Rs. 3.2 lakh crore, led by enhanced allocation towards capital outlay on defence services, as well as railways. Data released by the CGA indicated that the GoI's capital expenditure stood at Rs. 2.1 lakh crore in 9M FY2020 (73.2% of FY2020 RE). Capital expenditure would need to decline on a YoY basis by 2.6% in Q4 FY2020 to meet the RE for FY2020. Overall, the RE for FY2020 indicated a moderate 13.4% growth in capital expenditure relative to FY2019.

The upward revision in capital expenditure, coupled with a downward revision in the revenue expenditure led to an improvement in the quality of the fiscal deficit in FY2020 RE, compared to FY2020 RBE and FY2019.

Fiscal situation as per FY2021 BE: The following sections briefly discuss the revenue and expenditure trends forecast by the GoI in the budget for FY2021.

Revenue receipts: The GoI's revenue receipts are estimated to rise by a moderate 9.2% in FY2021 BE compared to 19.1% in FY2020 RE, with an 8.7% growth in net tax revenues and an 11.4% rise in non-tax revenues.

The growth of the GoI's gross tax revenues is projected to improve to 12.0% in FY2021 BE from the low 4.0% in FY2020 RE, which bore the brunt of the cut in corporate tax rates, as well as slowing economic growth. Although a gross tax revenue expansion of 12.0% may seem reasonable, in light of the 10.0% growth expected in nominal GDP in FY2021, the revenue assumptions made for FY2020 are aggressive, in our view.

The growth of direct tax collections is estimated to improve substantially to 12.7% in FY2021 BE from 2.9% in FY2020 RE, which seems optimistic. Following an 8.0% contraction in FY2020 RE, corporate tax collections are forecast to grow by 11.5% to Rs. 6.8 lakh crore in FY2021 BE from Rs. 6.1 lakh crore in FY2020 RE, despite the proposal to abolish the dividend distribution tax (DDT), which is estimated to result in a revenue loss of Rs. 0.3 lakh crore. However, the impact of this would be partly offset by the taxation of dividends in the hands of tax payers. In contrast, the growth of personal income tax collections is estimated to slow to 14.0% in FY2021 BE from an optimistic 18.3% in FY2020 RE, with collections expected to rise to Rs. 6.4 lakh crore in FY2021 BE from Rs. 5.6 lakh crore in FY2020 RE. The GoI has estimated the total revenue loss from the changes in the income tax slabs if an individual tax payer chooses to forgo his/her tax exemptions at Rs. 0.4 lakh crore per year.

The growth of indirect tax collections is estimated to improve to 11.2% in FY2021 BE from 5.8% in FY2020 RE. The CGST collections are budgeted to expand by 12.8% to Rs. 5.8 lakh crore in FY2021 BE from Rs. 5.1 lakh crore in FY2020 RE. Moreover, the GoI has budgeted Rs. 1.1 lakh crore as GST compensation in FY2021.

Excise duty collections are forecast to increase to Rs. 2.7 lakh crore in FY2021 BE from Rs. 2.5 lakh crore in FY2020 RE, led by increase in National Calamity Contingent duty (NCCD) on cigarettes and tobacco products (except bidis). In addition, custom duty receipts are projected to rise to Rs. 1.4 lakh crore in FY2021 BE from Rs. 1.3 lakh crore in FY2020 RE, led by wide ranging changes in the duty structure to promote "Make in India".

The BE for FY2021 has forecast an increase of 11.4% in non-tax revenues to Rs. 3.9 lakh crore from Rs. 3.5 lakh crore in FY2020 RE. Revenues from other communication services are projected to double to Rs. 1.3 lakh crore in FY2021 BE from Rs. 0.6 lakh crore in FY2020 RE. The reason for the same is unclear as the participation in 5G spectrum auctions is expected to be muted on account of unfavourable financial situation of some telecom companies, and there is a two-year moratorium on spectrum payments. However, the GoI could be expecting the bulk of the AGR-related dues to be settled in FY2021.

The receipts from dividends and profits are estimated to decline by 22.3% to Rs. 1.6 lakh crore in FY2021 BE from Rs. 2.0 lakh crore in FY2020 RE, primarily led by lower dividends/surplus from the RBI and nationalised banks and financial institutions (to Rs. 0.9 lakh crore from Rs. 1.5 lakh crore, respectively). In contrast, dividends and profits from other PSEs are estimated to rise by 36.2% to Rs. 0.7 lakh crore in FY2021 BE from Rs. 0.5 lakh crore in FY2020 RE.

The non-debt capital receipts are forecast to increase sharply to Rs. 2.2 lakh crore in FY2021 BE from Rs. 0.8 lakh crore in FY2020 RE. This includes Rs. 2.1 lakh crore as receipts from disinvestment of the GoI's stake in PSUs in FY2021 BE, sharply higher than the Rs. 0.7 lakh crore included in FY2020 RE. The speed with which the disinvestment pipeline of the already announced sale of GoI's stake in PSUs (namely Air India, Bharat Petroleum Corporation Limited, Shipping Corporation of India etc. and some smaller PSUs) and its stake in Life Insurance Corporation (LIC) by way of Initial Public Offer (IPO), is undertaken will be crucial to achieve this target. Unless significant progress is made in H1 FY2021 itself, doubts will start building up about the credibility of the fiscal correction being targeted by the GoI in FY2021.

Table 3: Trends in Revenue and Capital Expenditure

Rs. Lakh Crore	FY2020 RBE (1)	FY2020 RE (2)	FY2021 BE (3)	Variation in FY2020 (2)-(1)	Growth in FY2021 BE (3)/(2)
Revenue Expenditure	**24.5**	**23.5**	**26.3**	**-1.0**	**11.9%**
Interest	6.6	6.3	7.1	-0.4	13.3%
Subsidies	3.4	2.6	2.6	-0.7	-0.5%
Fertiliser	0.8	0.8	0.7	0.0	-10.9%
Food	1.8	1.1	1.2	-0.8	6.3%
Fuel	0.4	0.4	0.4	0.0	6.1%
Pensions	1.8	1.9	2.1	0.1	14.3%
Civilians' Salary	2.4	2.5	2.5	0.0	3.9%
Defence	2.3	2.5	2.7	0.2	9.6%
Income Support Scheme	0.8	0.5	0.8	-0.2	37.9%
NREGA	0.6	0.7	0.6	0.1	-13.4%
National Education Mission	0.4	0.4	0.4	0.0	4.0%
Balance	6.3	6.2	7.5	-0.1	--
Capital Exp. Gross Loans & Adv.	**3.4**	**3.5**	**4.1**	0.1	18.1%
Defence	1.0	1.1	1.1	0.1	3.0%
Roads	0.7	0.7	0.8	0.0	13.6%
Railways	0.7	0.7	0.7	0.0	3.2%
Recapitalization of Public Sector Banks	0.7	0.7	0.0	0.0	-100.0%
Balance	0.3	0.3	1.5	0.1	--

Source: GoI Budget Documents; CGA; ICRA research

Revenue expenditure: Revenue expenditure is budgeted to increase by 11.9% to Rs. 26.3 lakh crore in FY2021 BE from Rs. 23.5 lakh crore in FY2020 RE. The allocation for interest payments has been increased by 13.3% to Rs. 7.1 lakh crore in FY2021 BE from Rs. 6.3 lakh crore in FY2020 RE. Moreover, the grants for creation of capital assets were placed at Rs. 2.1 lakh crore in FY2021 BE, 7.7% higher than the outlay for FY2020 RE (Rs. 1.9 lakh crore).

The allocation for major subsidies (food subsidy, fuel subsidy and fertilizer subsidy) has been increased marginally to Rs. 2.28 lakh crore in the BE for FY2021 from Rs. 2.27 lakh crore in the FY2020 RE, with an increase in the food subsidy (to Rs. 1.2 lakh crore from Rs. 1.1 lakh crore; in addition, the loan to FCI from NSSF is estimated to rise to Rs. 1.4 lakh crore from Rs 1.1 lakh crore) and, to a milder extent, fuel subsidy (to Rs. 0.41 lakh crore from Rs. 0.39 lakh crore), whereas the allocation for fertiliser subsidy has been reduced (to Rs. 0.7 lakh crore BE from Rs. 0.8 lakh crore).

As per ICRA's estimates, there may be a shortfall of around Rs. 0.2 lakh crore in fuel subsidy for FY2020 relative to the subsidy provided in FY2020 RE. This is largely on account of opening arrears of Rs. 0.3 lakh crore, which the Govt had not paid the OMCs in FY2019 on account of under provisioning of subsidy. As per ICRA's estimates, the subsidy requirement for FY2021 will be Rs. 0.3 lakh crore, assuming a price of the Indian basket of crude oil of $65/bbl and INR/USD of 71. While the subsidy provided for FY2021 is adequate, the backlog will continue to persist.

The downward revision in the fertiliser subsidy allocation to Rs. 71,309 crore in the FY2021 BE from Rs. 79,998 crore in FY2020 RE has been led by urea (to Rs. 47,805 crore from Rs. 53,629 crore), while there has been a marginal increase in the same for decontrolled fertilisers (to Rs. 23,504 crore from Rs. 23,369 crore). While the annual subsidy requirement stands at around Rs. 1.1-1.2 lakh crore (including Rs. 45,000-50,000 crore of backlog), the subsidy allocation for FY2021 remains inadequate, in our view.

The allocation for Defence (salaries and pensions) has been increased by 9.6% to Rs. 2.7 lakh crore in the BE for FY2021 from Rs. 2.5 lakh crore in FY2020 RE.

Notably, the allocation for PM-Kisan, which was launched in January 2019, has been budgeted to rise to Rs. 75,000 crore in FY2021 BE from the revised Rs. 54,370 crore in FY2020 RE, while remaining in line with the amount allocated in the BE for FY2020 (Rs. 75,000 crore). Surprisingly, the allocation for NREGA has been reduced to Rs. 61,500 crore in FY2021 BE from Rs. 71,002 crore in FY2020 RE.

Capital expenditure: Capital expenditure is budgeted to rise by a considerable 18.1% to Rs. 4.1 lakh crore in FY2021 BE from Rs. 3.5 lakh crore in FY2020 RE, although this is partly offset by a reduction of Rs. 0.4 lakh crore in the internal extra budgetary resources in FY2021 BE relative to FY2020 RE.

The report of the task force for the NIP, which was released at the end of December 2019 indicated that the there are plans to invest over ~Rs. 103.0 trillion in various infrastructure projects during FY2020-FY2025. The share of total infrastructure investment by GoI and states was placed at 39%, each, in the NIP, whereas the same for private sector is lower at 22%. As per the NIP, a combined investment of Rs. 19.5 trillion is estimated for FY2021 by the Centre, states, and private sector. Of this, Rs. 4.6 trillion would be provided by the GoI through capital outlay, although the budgetary support from the Centre is meant to be restricted to Rs. 1.9 trillion.

However, the budgetary outlays for capital spending for the Ministry of Railways have been augmented by a muted 3.2%, to Rs. 70,000 crore in FY2021 BE relative to Rs. 67,837 crore in FY2020 RE, while the capital outlay for the Ministry of Road Transport and Highways has been increased by 13.6% to Rs. 0.8 lakh crore in FY2021 BE from Rs. 0.7 lakh crore placed in FY2020 RE. Additionally, the allocation for Defence in FY2021 BE has been placed similar to the amount in the RE for FY2020 (Rs. 1.1 lakh crore).

The allocation for recapitalization of other institutions in FY2021 BE has been placed at Rs. 17,000 crore. Given the government's continued thrust on infrastructure development, capital is to be provided to the tune of Rs 10,000 crore for IIFCL and Rs 7,000 crore to the subsidiary of NIIF, along with Rs 6,950 crore for the public sector general insurance cos to help them meet the regulatory solvency levels, which are positives. With over Rs 3.5 lakh crore capital infusion into the public sector banks (PSBs) over the last five years, no additional capital infusion has been indicated in the Union Budget for FY2021, in line with our expectations.

Notably, the higher 18.1% growth of capital expenditure compared to the 11.9% rise in revenue expenditure in FY2021 BE, would result in improvement in the quality of spending in FY2021.

Fiscal balances: The GoI has indicated a fiscal deficit of 3.5% of GDP in the BE for FY2021 (refer Table 4), much higher than the 3.0% target indicated in the MTFP statement published along with the FY2020 budget (refer Table5). However, the fiscal deficit is estimated to improve from 3.8% of GDP in FY2020 RE. in contrast, the revenue deficit is budgeted to increase to 2.7% of GDP in FY2021 BE from 2.4% of GDP in FY2020 RE.

At an absolute level, the revenue deficit, the effective revenue deficit and the fiscal deficit are estimated to widen in FY2021 BE compared to the revised estimate amount for FY2020. Notably, the quality of the fiscal deficit is expected to worsen, with the share of the revenue deficit in the total fiscal deficit increasing to ~76.5% in FY2021 BE from ~65.1% in FY2020 RE, as a consequence of the rise in the estimated receipts from disinvestment.

Subsequently, the GoI has pegged its rolling targets for the fiscal deficit at 3.3% and 3.1% of GDP, respectively, in FY2022 and FY2023. However, the GoI's fiscal glide path may need to be revisited after the Fifteenth Finance Commission's (FFC) recommendations are published. In addition, the trend for states' share of tax revenues, which would crucially affect the net tax revenues of the GoI, would also be determined by the FFC's report. The Central government debt outstanding is projected to improve from 50.3% of GDP in FY2020 RE and 50.1% in FY2021 BE, to 48.0% of GDP in FY2022 and further to 45.5% of GDP in FY2023.

Table 4: Fiscal Deficit Targets for GoI

	Performance/ Targets in Budget FY2021	Performance/ Targets in Budget FY2020	Targets set by FFC
FY2020	3.8%	3.3%	3.0%
FY2021	3.5%	3.0%	NA
FY2022	3.3%	3.0%	NA
FY2023	3.1%	NA	NA

Source: GoI; FFC Report; ICRA Research

Table 5: Fiscal Balances for the GoI

Rs. Lakh Crore	FY2020 RBE	FY2020 RE	FY2021 BE	FY2022 Rolling Targets	FY2023 Rolling Targets
Revenue Deficit	4.9	5.0	6.1		
Percentage of GDP	**2.3%**	**2.4%**	**2.7%**	2.3%	1.9%
Fiscal Deficit	7.0	7.7	8.0		
Percentage of GDP	**3.3%**	**3.8%**	**3.5%**	3.3%	3.1%
Total Outstanding Liabilities as a Percentage of GDP#	48.0%	50.3%	50.1%	48.0%	45.5%

Source: GoI Budget Documents; CGA; ICRA research

Borrowings: The GoI has indicated a rise in its gross market borrowings to Rs. 7.8 lakh crore in FY2021 (refer Table 6) from Rs. 7.1 lakh crore in FY2020. The net long-term borrowings (net of redemptions) are estimated to rise by 15.2% to Rs. 5.5 lakh crore in FY2021 from Rs. 4.7 lakh crore in FY2020. The gross and net market borrowings are largely in line with the market expectations.

In continuation with the strategy of easing the near-term redemption pressure pursued by the GoI in recent years, buyback and switching of shorter tenor securities with longer tenor securities have been proposed in the FY2021 Budget as well. The GoI has indicated that it would buy back securities amounting to Rs. 0.3 lakh crore in FY2021, compared to nil in FY2020. Additionally, securities worth Rs. 2.7 lakh crore are proposed to be switched in FY2021, which is considerably higher than the Rs. 1.7 lakh crore of securities to be switched in FY2020 (Rs. 1.3 lakh crore securities switched till January 2020)

Table 6: GoI's Long-Term Market Borrowings (Rs. lakh crore)

	FY2020	FY2021
Gross Borrowing	7.1	7.8
Redemptions	2.4	2.4
Net Borrowing	4.7	5.5
Buyback	0.0	0.3
Net Borrowing Adjusted for Buyback	4.7	5.2

Source: RBI; ICRA research

Off-budget debt:

Bank recapitalization bonds: During FY2018-FY2020 RE, the PSBs had subscribed to the special securities/recapitalization bonds of a sizable Rs. 2.66 lakh crore issued by the GoI. The proceeds of these recap bonds were invested by the GoI as equity capital in the PSBs during the same period. As the recap bonds are serviced by the GoI, it increases the revenue expenditure and the deficit levels of the GoI to that extent. In contrast, if the equity capital was infused by the GoI without issuing the recap bonds, it would have led to a much sharper increase in its expenditure in that fiscal year.

In the Union Budget for FY2021, the GoI has not provisioned for any further infusion of equity capital into the PSBs, and accordingly there may not be any issuance of recapitalisation bonds in FY2021. In contrast, in FY2020 RE, the GoI has indicated recapitalisation bonds of Rs. 0.7 lakh crore or 0.3% of GDP.

Fully Serviced Bonds (FSBs): Since FY2017, the GoI has been according approval to certain Ministries for raising Extra Budgetary Resources (EBR) for meeting the expenditure towards various schemes designed by the GoI for such Ministries. The EBRs have been raised by issuance of bonds by various public sector enterprises (PSEs) and/or special purpose vehicles on behalf of such Ministries. Since the GoI makes a budgetary allocation for the servicing of these bonds, they are referred to as the GoI's FSBs. In the Union Budget for FY2021, the GoI expects the issuance of the FSBs to increase to Rs. 0.5 lakh crore from Rs. 0.4 lakh crore in FY2020.

Loan to FCI from NSSF: The GoI has reduced the food subsidy allocation that it would provide to the FCI from the budget to Rs. 1.1 lakh crore in FY2020 RE from Rs.1.8 lakh crore in FY2020 RBE. An additional Rs 1.1 lakh crore is being provided to the FCI as a loan from the NSSF in FY2020 RE, to finance a portion of the food subsidy requirement as well as the debt servicing of loans availed from the NSSF in the previous years. In FY2021, the GoI has budgeted Rs. 1.2 lakh crore as food subsidy from the budget, and has allocated an even higher off-budget amount of Rs. 1.4 lakh crore as loan to FCI from NSSF in that year.

ICRA Sectoral Analysis

AGRICULTURE & FERTILISERS

Proposals

- Downward revision in the fertiliser subsidy allocation to Rs. 71,309 crore (BE) for FY2020-21 from Rs. 79,998 crore (RE) for FY2019-20
  - Subsidy on Urea: Rs. 47,805 crore (BE) for FY2020-21 against Rs. 53,629 crore for FY2019-20 (RE)
  - Subsidy on Decontrolled fertilisers: Rs. 23,504 crore (BE) for FY2020-21 against Rs. 23,369 crore (RE) for FY2019-20(BE)
- Allocation for farm credit increased to Rs. 15 lakh crore for FY2020-21(BE) from Rs. 12 lakh crore for FY2019-20(RE)
- Comprehensive measures for 100 water-stressed districts
- Solarisation of irrigation infrastructure and solar power sale through grid connectivity under the Pradhan Mantri Kisan Urja Suraksha Evam Utthan Mahabhiyan (PM-KUSUM) scheme to supplement farmers income
- Improve farm-market connectivity to enable transfer of perishable goods, lower wastage and increase farm realisation
- Budgetary allocation of Rs. 75,000 crore for PM-Kisan Samman Nidhi (PM-KISAN) for FY2020(BE) as against Rs. 54,370 crore for FY2019-20(RE)
- Budgetary allocation for Crop Insurance Scheme increased to Rs. 15,695 crore for FY2020-21(BE) from Rs. 13,640 crore for FY2019-20(RE)
- Interest subsidy for farm credit increased to Rs. 21,175 crore for FY2020-21(BE) from Rs. 17,863 crore for FY2019-20(RE)
- Allocation for Pradhan Mantri Krishi Sinchayi Yojna (PMKSY) increased to Rs. 11,124 crore for FY2020-21(BE) from Rs. 7895 crore for FY2019-20(RE)
- Allocation of Rs. 500 crore for setting up of 10,000 Farmer Produce Organisations (FPOs)

Impact: Negative

The downward revision in the budgetary allocation for the fertiliser subsidy— Rs.71,309 crore for FY2020-21(BE) as against the revised estimate of Rs. 79,998 crore for FY2019-20(BE)—is a major negative for the fertiliser industry. The issue of inadequate subsidy provisioning and the consequent subsidy backlog impacting the liquidity position of the industry has been highlighted by the industry repeatedly. Additionally, two new urea capacities under the New Urea Investment Policy-2012 (NIP-2012) are expected to start production, which will increase the indigenous urea subsidy requirement. In such a scenario, a steep reduction in the subsidy budget is a major negative for the industry. ICRA expects the industry's credit profile to face headwinds in the upcoming fiscal due to low subsidy provision. With an annual subsidy requirement of around Rs. 1.1-1.2 lakh crore, including a Rs. 45,000-50,000 crore of backlog, the subsidy allocation remains woefully inadequate. In such a scenario, indigenous urea players are expected to witness elevated working capital borrowings and deteriorated working capital cycle in the upcoming fiscal. The subsidy for imported urea is expected to be adequate as international prices moderated significantly in CY2019 and would remain subdued. The reduction in the subsidy for the phosphatic fertilisers is in line with the steep decline in the international prices of raw material as well as finished fertilisers.

While there have been announcements on organic farming and balanced nutrients, actual implementation would be a challenge and to that they should not impact chemical fertilisers manufacturers. On the agricultural front, the government has continued it focus on augmenting farmer income through various steps. Increased allocation across schemes to drive irrigation facilities, improve agricultural markets, augment allied sectors that support income, set up FPOs, provide crop insurance and income supplementation scheme is a major positive. With these steps, ICRA expects a positive rub-off effect on fertiliser offtake. However, subsidy reduction remains a major negative takeaway for the fertiliser sector from the current Union Budget.

AUTO: Auto Components

Proposals

- Handholding support for research and development (R&D) and technology support for micro, small and medium enterprises (MSMEs)
- Relaxation in audit requirement for MSMEs up to Rs. 5-crore turnover
- NBFCs to extend invoice financing to MSMEs through Trade Receivables Discounting System (TReDS); extension of debt restructuring window till March 2021 for MSMEs
- The Government to review rules of origin requirement, given increasing imports through free trade agreement (FTAs)
- Increase in custom duty by 5–15% on imported electric vehicles
- Increase in customs duty on select auto components: catalytic converters (to 15% from 10%) and on parts/commodities used for its manufacture (like noble metal solutions and noble metal compounds; platinum or palladium; and other parts/ specified inputs)

Impact: Neutral

No direct incentive/support has been given to the automobile industry. However, the Government's measure to ease the liquidity position of MSMEs should benefit several tier II and tier III auto ancillaries. The Government also announced plans to review rules of origin requirements, to avoid unfair advantage of FTAs; this could check the import of Chinese components, benefiting the replacement market. The Government has also increased custom duty on imported electric vehicles and catalytic converters/parts to incentivise local manufacturing.

ICRA

AUTO: Commercial Vehicles (CV)

Proposals

- Approximately 7% increase in budgetary allocation towards transportation sector to Rs. 1.69 lakh crore
- Continued focus on expansion of rural road network with allocation of Rs. 19,500 crore under Pradhan Mantri Gram Sadak Yojana (PMGSY)
- Widened coverage of infrastructure with focus on affordable housing, inland waterways, sanitation projections and other allied sectors
- Proposal to improve liquidity of NBFCs
- Proposal to launch National Logistics Policy shortly
- Significant increase in custom duty on completely built units (CBU) on commercial electric vehicles to 40% from 25% and semi knocked down (SKD) units to 25% from 15% on electric buses and trucks

Impact: Neutral

In line with expectations, the automobile sector, especially commercial vehicles (CV) would continue to reap the benefits of the Government's continued thrust on infrastructure development. Over the past few years, the focus has been on enhanced coverage for affordable housing, inland waterways, water and sanitation projects, and other allied sectors. In ICRA's views, the Government's effort to mobilise funds through multiple avenues, besides addressing the inherent bottlenecks to ensure faster execution of infrastructure projects will be critical for uplifting the sentiments of the construction equipment segment, including tipper trucks.

The medium and heavy commercial vehicle (M&HCV) truck segment, which has witnessed sharp demand contraction (down 41% in 9M FY2020) during the current fiscal, may get some support from the increased allocation towards the infrastructure sector. In addition, further liquidity support to the NBFC sector through extension of partial guarantee scheme will help in improving finance availability for smaller fleet operators with weaker credit profile.

The Government's focus on improving the quality of clean air in cities with population of more than 1 million will also augur well towards enhancing the penetration of electric buses in key cities. In addition, the increase in custom duty on CBUs and SKDs will trigger domestic manufacturing and backward integration into manufacturing/assembly of electric motors, batteries and EPUs.

AUTO: Passenger Vehicles

Proposals

- Basic customs duty increased by 5–15% on imported electric vehicles
- Revision in personal tax rate, especially for taxpayers below Rs. 15 lakh income bracket

Impact: Neutral

The domestic passenger vehicle (PV) industry has passed through one of its worst downcycles in the last three-four quarters and had been pinning hopes on a large infrastructure push and reduction in personal income tax rate. Revision in personal tax rate slabs for those who had not been availing deductions earlier, will increase disposable income in the hand of such taxpayers, which augurs well for the industry. Specific to the PV industry, the Government has hiked custom duty on imported electric vehicle to support local manufacturing.

AUTO: Two-Wheelers

Proposals

- Total outlay on agriculture and allied activities increased by 28% for FY2021 to Rs. 1.55 lakh crore
- Agricultural credit targeted at Rs. 15 lakh crore for FY2021; National Bank for Agriculture and Rural Development (NABARD) refinance scheme to be extended
- Assured income support to farmers under the Pradhan Mantri Kisan Samman Nidhi with budgeted outlay of Rs. 75,000 crore
- Allocation under MNREGA increased to Rs 61,500 crore from Rs, 60,000 crore
- Dedicated fund of Rs. 500 crore to be created for formation and promotion of 10,000 farmer producer organisations (FPOs)
- Increase in allocation for Pradhan Mantri Fasal Bima Yojana to Rs. 15,659 crore (from 14,000 crore in the last budget)
- Continued focus on rural infrastructure development; allocation of Rs. 19,500 crore for Pradhan Mantri Gram Sadak Yojana and Rs. 4,000 crore to Pradhan Mantri Krishi Sinchai Yojana
- Allocation for micro, small and medium enterprises (MSMEs) increased by 70% to Rs. 7,011 crore
- Increase in custom duty on completely built units (CBUs) on two wheelers to 15% from 10% and semi knocked down (SKD) units to 25% from 15%
- Focus on increasing purchasing power of middle-class consumers by cutting down income tax rates

Impact: Neutral

The Government's continued initiatives towards rural development and farmer welfare in the budget remain positives for the farming community. The Government's focus on providing a holistic solution for the agri-economy with initiatives such as increasing insurance coverage, enhancing rural income through effective use of barren land (for setting up solar power units) and improving agri-logistics/warehousing facilities will augur well to uplift rural sentiments and hence, are positives for the two-wheeler segment. Further, the Government remains committed towards improving farm credit availability through increased institutional agri-credit targets (by 25% to Rs. 15 lakh crore). Additionally, continued healthy allocation to schemes aimed at enhancing irrigation penetration would help reduce dependence of the agricultural sector on monsoon, and improve farm incomes.

Further, the changes in the income tax slabs and discontinuation of dividend distribution tax (DDT) will result in higher disposable income for middle-class households and will thus, will be favourable for reviving demand for the two-wheeler sector, especially during a period when vehicle prices have been trending upward.

AUTO: CONSTRUCTION EQUIPMENT

Proposals

- Accelerated development of highways, including development of 2,500 km access control highways, 9,000 km of economic corridors, 2,000 km of coastal and land port roads and 2,000 km of strategic highways
- Outlay on major schemes broadly in line with the past-year budget estimates/revised estimates (BE/RE). The FY2021 BE for Sagarmala stands at Rs. 297 crore (FY2020 BE at Rs. 550 crore and FY2020 RE at Rs. 381 crore). The FY2021 BE for Pradhan Mantri Gram Sadak Yojana (PMGSY) stands at Rs. 19,500 crore (FY2020 BE at Rs. 19,000 crore and FY2020 RE at Rs. 14,070)

Impact: Neutral

Unlike the heavy infrastructure focus in the past budgets, Budget 2020 referred to the already announced umbrella project, the Rs. 103-lakh crore National Infrastructure Pipeline (NIP) announced in December 2019, which will include all investments in infrastructure over the next five years. The Government's continued thrust on infrastructure development bodes well for the prospects of the industry over the medium term.

AVIATION

Proposals

- Development of 100 more airports proposed by 2024 to support the Ude Desh ka Aam Naagrik (UDAN) scheme
- Focus on tourism development through allocation of Rs. 25 billion for FY2021; development of five archaeological sites in India as iconic sites

Impact: Neutral

The Budget has reiterated the focus on improving regional connectivity through the UDAN scheme by development of 100 more airports by 2024. This will help improve connectivity of underserved/unserved airports and thus, improve passenger growth. Coupled with the measures being taken to develop iconic tourist destinations to boost tourism, this will support the passenger growth of the Indian aviation industry.

BANKING AND FINANCE

Proposals

- Deposit insurance coverage increased to Rs. 5 lakh per depositor from Rs. 1 lakh per depositor with assurance on safety of depositor money
- Proposal to include cooperative banks under Banking Regulation Act, 1949 to improve governance and oversight through Reserve Bank of India (RBI)
- Divestment of Government of India's (GoI) balance stake of 47.11% in IDBI Bank to private, retail and institutional shareholders
- Subordinated debt to be provided by banks to MSMEs with full guarantee from Credit Guarantee Trust for Medium and Small Enterprises (CGTMSE)
- Restructuring window for loans availed by MSMEs from banks to be extended by one year till March 31, 2021 after RBI approval
- Limit of foreign portfolio investors (FPIs) in corporate bonds to be increased to 15% of outstanding corporate bonds from 9%
- Debt exchange traded fund (ETF) comprising Government securities (G-Secs) to be offered to retail investors among others
- Capital infusion of Rs. 1,300 crore in EXIM Bank, Rs. 1,000 crore in NABARD, Rs. 10,000 crore in IIFCL, Rs. 200 crore in regional rural banks (RRBs) and Rs. 200 crore in IFCI; nil for public sector banks (PSBs)

Impact: Neutral

Unlike the past Budgets, where the capital allocation for the banking sector had always remained a focus, there has been no capital allocation for PSBs, in line with ICRA's estimates of limited capital requirements of PSBs in FY2021. ICRA expects most of the PSBs to turn profitable in FY2021 and raise capital from the markets for their growth requirements. Other key financial institutions such as NABARD, IIFCL and EXIM Bank have been provided enough capital, in ICRA's view, for their growth requirements.

The proposal to increase the deposit insurance coverage and to provide assurance regarding the safety of depositor money in scheduled commercial banks is a highly confidence-boosting measure and should support the deposit accretion of banks. However, as the size of the insured deposits is likely to increase, the deposit insurance premium paid by banks will increase their operating expenses and will be a negative for their profitability to the extent they are not able to pass it on to their customers. As on March 31, 2019, ~28% of the deposits (in value terms) and ~92% of the depositors (in terms of number of accounts) were covered by deposit insurance, with the same likely to increase to ~40-50%.

The proposal to offer subordinated debt (quasi-equity) to MSMEs by banks, which, in turn, will be guaranteed by the CGTMSE is a positive for MSMEs. However, the proposal to extend the MSME loan restructuring window by another year is a credit negative for banks over the medium to long term in case of any adverse impact on the credit behaviour of the borrowers.

Regarding the debt capital markets, the proposal to float a debt-ETF with G-Secs as the underlying securities is a positive for improving retail participation in debt markets as well as for addressing the demand issues of G-Secs. Also, the proposal to increase the FPI holding to 15% of outstanding bonds from 9%, at present, will have a positive impact on the debt capital markets over the medium term as the current utilisation is estimated at ~6.1%

INSURANCE

Proposals

- Niryat Rin Vikas Yojana (NIRVIK) provides higher export insurance cover and lower premium for small exporters
- Life Insurance Corporation of India (LIC) to come out with initial public offer (IPO)
- Personal direct income tax to have a dual tax regime, with an option to file taxes under the new or old regime; no additional tax exemptions, including deductions under Sections 80C, 80CC, and 80D, in the new regime
- Increase in expenditure outlay for crop insurance under Pradhan Mantri Fasal Bima Yojana to Rs. 15,695 crore from Rs. 14,000 crore
- Recapitalisation for public sector insurance companies; capital outlay of Rs. 6,950 crore for 2020-21

Impact: Positive for public sector insurance companies

While the new optional simplified direct tax structure has reduced the overall tax rates for individuals, it removes all deductions allowed earlier (specifically deductions under Sections 80C, 80CC, and 80D). ICRA notes this development as a negative for life insurance companies and general insurance companies with a high retail health premium book. A large part of the companies' retail premium is driven by tax exemptions for individuals. The higher crop insurance expenditure outlay is a credit neutral for the general insurance industry, as the earlier budgeted expenditure was not fully utilised. The recapitalisation capital outlay for the public sector insurance companies would be a credit positive for the three public sector general insurance companies (all of them are undercapitalised). The IPO for LIC would likely improve product transparency and efficiency across the entire life insurance sector, which should be a credit positive.

NBFCs / HFCs

Proposals

- The limit for non-banking finance companies (NBFCs) to be eligible for debt recovery under the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002 is proposed to be reduced to an asset size of Rs. 100 crore from Rs. 500 crore or the loan size to Rs. 50 lakh from the existing Rs. 1 crore
- Additional deduction of up to Rs. 1,50,000 for interest paid on loans taken for purchase of affordable house valued up to Rs. 45 lakh extended up to March 31, 2021
- Allocation under PMAY to Rs. 27,500 crore for 2020-21 from Rs. 25,328 crore for 2019-20; extra budgetary allocation of Rs. 10,000 crore each for PMAY-Urban and PMAY-Rural
- Government will offer support by guaranteeing securities floated under the Partial Credit Guarantee Scheme to provide liquidity to NBFCs/housing finance companies (HFCs)
- Equity support of Rs. 22,000 crore to IIFCL and a subsidiary of NIIF to cater to funding requirement of infrastructure projects under National Infrastructure Pipeline
- Amendments to the Factor Regulation Act, 2011 to enable NBFCs to extend invoice financing to MSMEs through TReDS
- Expansion of NABARD refinance scheme for NBFCs and cooperatives

Impact: Positive

The inclusion of more NBFCs under the SARFAESI Act, 2002 and the reduction in the minimum loan amount for recovery under SARFAESI is a positive for NBFCs from a recovery perspective. However, the minimum loan amount for HFCs under SARFAESI is much lower at Rs. 1 lakh.

The focus on Housing for All continues with a sizeable allocation (Rs. 27,500 crore in 2020-21 against Rs. 25,328 crore for 2019-20) under PMAY and extra budgetary allocation of Rs. 10,000 crore each for PMAY-Urban and PMAY-Rural. This, coupled with the higher tax incentives on self-occupied properties up to Rs. 45 lakh, could push the housing demand. This augurs well for banks and HFCs. Also, the change in the personal tax rates can potentially improve the net incomes and hence the debt-servicing ability of retail borrowers.

The proposed guarantee from the GoI on securities issued under the Partial Credit Guarantee Scheme is aimed at improving the liquidity of NBFCs/HFCs. Also, increased refinance from NABARD could support the liquidity of agriculture-focused NBFCs.

IIFCL and NIIF’s subsidiary are expected to be key vehicles for credit flow to infrastructure projects under the National Infrastructure Pipeline. However, the availability of long-term funds for these entities to be able to leverage this equity and hence fund the projects would be critical.

The overall focus on improving the rural income levels and credit flow via self-help groups (SHGs) could help uphold the rural economy. The impact of the above on rural-focused NBFCs/HFCs would be positive though the impact on the microfinance sector, if any, on account of a possible borrower-level overleveraging, needs to be assessed. Also, the amendments to the Factor Regulation Act, 2011 will give NBFCs a wider market opportunity and will provide MSME borrowers with more options for discounting/receivables funding.

CAPITAL GOODS

Proposals

- Proposal to expand coverage of solar agriculture pumps to 20 lakh farmers and 15 lakh farmers to solarise their grid connected pumps under the KUSUM scheme
- Measures to facilitate the use of barren land available with farmers and land alongside railway tracks for setting up solar power projects.
- Proposal to boost prepaid smart metering programme over next three-year period
- Increased funding outlay for central government schemes in power distribution, transmission and renewable segments

Impact: Positive

Given the continued policy focus on renewables, the expanded coverage of solar agriculture pumps to 22 lakh farmers and 15 lakh farmers to solarise their grid connected pumps under the KUSUM scheme are positive for solar equipment manufacturers. Also, the proposal to use barren land available with farmers on setting up solar powered capacity alongside the railway tracks are positive measures for solar cell/module manufacturers. Further, the proposal to boost coverage of smart meters over next three-year period would benefit the meter manufacturers. The higher budgetary allocation for central government schemes in the power sector are a positive for equipment suppliers as well as engineering, procurement and construction (EPC) companies in the power transmission & distribution equipment and renewable space as this would boost their order inflows. Further, fiscal measures like abolition of dividend distribution tax and lower corporate tax rate of 15% for new power generation projects is likely to attract more capital for power sector and thus provide demand boost to manufacturers and contractors in both generation and transmission space.

CEMENT

Proposals

- Budgetary allocation for agri sector is Rs. 2.83 lakh crores for FY 2020-21.
- Proposed agricultural credit at Rs. 15 lakh crores for FY 2020-21.
- Proposal to double farm income by FY2022.
- Fiscal sops to continue for affordable housing segment.
- Infrastructure spends under the national infrastructure pipeline proposed at Rs. 100 lakh crore over the next five years, with focus on transport infrastructure.
- Abolition of dividend distribution tax (DDT)

Impact: Positive

Proposals for rural segment are likely to boost rural income and the consequent demand for rural housing, which is a major offtaker of the cement industry. Cement demand is likely to be driven by sops for affordable housing and higher spend on transportation infrastructure. The abolition of dividend distribution tax is expected to marginally improve the cashflow generation of cement companies.

CHEMICALS & PETROCHEMICALS

Proposals

- Removal of anti-dumping duty on PTA and reduction in customs duty very low sulfur fuel oil, calcined petroleum coke. Increase in customs duty on Butyl Acrylate and miscellaneous chemicals. Additionally, suitable provisions are to be incorporated in the Customs Act to curb undue claims of FTA benefits and dividend distribution tax removed on companies.

Impact: Neutral

The removal of anti-dumping duty on Purified Terephthalic Acid (PTA) and reduction in customs duty very low sulfur fuel oil and calcined petroleum coke would adversely impact the realisations for manufacturers. Also, the customs duty increase on Butyl Acrylate and miscellaneous chemicals which would improve realisations for manufacturers. Additionally, suitable provisions are to be incorporated in the Customs Act to curb undue claims of FTA benefits which would benefit the chemicals and petrochemicals industry which has been reeling under the impact of large scale imports especially from ASEAN and North East Asian countries. The removal of dividend distribution tax on companies is positive as this measure will leave higher surplus.

FMCG & CONSUMER DURABLES

Proposals

- Increase In healthcare budget to Rs. 69,000.0 crore from ~Rs. 63,000 crore last year
- Revision in personal tax rate, especially for tax-payers below Rs 15 lakh income bracket
- Duties increased in the way of national calamity contingent duty on cigarettes and tobacco product
- Increase in custom duty for electronic components in mobile phones
- Government to provide viability gap funding for warehouses at each block/taluk level; refrigerated coaches will be introduced by Indian railways to build national cold supply chain

Impact: Marginally Positive

Revision in personal tax rate slabs for those who were not availing deductions earlier, will increase disposable income in the hand of such tax payers which augurs well for the FMCG industry. There is increased thrust on strengthening cold-chain infrastructure and warehousing network, which augurs well for industry participants, especially in the processed food segment. The focus on strengthening warehouse infrastructure will be a long-term positive for the industry. The FM has proposed increase in custom duties for several electronic components used in mobile phones, to incentivise make-in-India initiative.

GOLD JEWELLERY - RETAIL

Proposals

- Set up of International Bullion exchange to create more jobs and lead to better price discovery
- Rejig of tax slabs to reduce tax liabilities

Impact: Neutral

The proposal to setup an international bullion exchange in the Gujarat International Finance Tec-City (GIFT) is aimed at providing better price discovery and creating more jobs. While this move supports the formalization story, availability of gold bullion has not been a challenge with supply primarily met through imports. On the contrary, the domestic gold jewellery demand has been weak in the current fiscal (down 12% in 9M FY2020) as consumer sentiments were largely bearish and prices increased sharply (up by over 20% in the last one year). While movement in gold prices will continue to play a significant role in influencing jewellery purchases of consumers, the Government's announcement on various pro-rural schemes supported by expectation of improved rural output on the back of better monsoons shall support jewellery demand in FY2021. In this background, recalibration of tax slabs can provide fillip to the jewellery demand as consumers opting for new tax-regime with lower rates shall have better disposable income and can be expected to shift their investments from traditional insurance products to alternate asset-classes like gold.

HEALTHCARE

Proposals

- Increase in allocation to healthcare sector by a modest 4.5%
- Nominal health cess of 5% on import of medical equipment
- Viability gap funding and public-private-partnership (PPP) model for setting up hospitals in 112 districts and for setting up medical colleges adjacent to existing district hospitals

Impact: Neutral

At Rs. 67,484 crore, the budgetary allocation for the healthcare sector for FY2021 will translate into a modest 4.5% increase vis-à-vis the revised estimate of Rs. 63,830 crore for FY2020. With a nominal estimated GDP growth of 10%, this also translates into a fall in public healthcare expenditure as a percentage of the GDP. Thus, the public sector spend on healthcare will continue to lag at less than ~1.5% of the GDP. Also, the increase in healthcare spend was a healthy ~15% in the previous Budget and the current allocation is below expectations.

Nonetheless, the proposal to set up hospitals in the PPP mode in 112 districts is likely to encourage much-needed investment in this sector. This, coupled with the focus on increasing the empanelment of hospitals, will also provide a thrust to the Ayushman Bharat scheme. Furthermore, the proposed viability gap funding for setting up medical colleges adjacent to existing district hospitals will help address the shortage of skilled medical professionals.

Though the health cess of 5% on the import of medical equipment will augment resources for the funding of expenditure in the healthcare sector, the hike will increase the cost of equipment, which is a near-term negative for the players.

INFRASTRUCTURE

Proposals

- Capital outlay towards key infrastructure sectors in 2020-21 BE increased marginally—to Rs. 1.66 lakh crore (3% higher than 2019-20 RE) for roads and highways, including rural roads, to Rs. 1.61 lakh crore (higher by 3% over 2019-20 RE) for the railways, and to Rs. 17,482 crore (similar to 2019-20 RE) for Metro Rail projects
- Budgetary support to the National Highways Authority of India (NHAI) increased by 16% to Rs. 42,500 crore (over Rs. 36,691 crore in 2019-20 RE), and by 6% for other road works and the railways
- Capital outlay towards other key schemes related to the infrastructure sector, such as the Pradhan Mantri Krishi Sinchai Yojana (PMKSY) is now higher by 41% to Rs. 11,127 crore, AMRUT and Smart Cities Mission (Urban Rejuvenation) by 40% to Rs. 13,750 crore, the Jal Jeevan Mission by 15% to Rs. 11,500 crore and Pradhan Mantri Awas Yojana (PMAY) by 15% to Rs. 27,500 crore over 2019-20 RE
- Support of Rs. 22,000 crore envisaged for the recently announced National Infrastructure Pipeline (NIP) with allocation towards equity infusion in India Infrastructure Finance Company Limited (IIFCL) and subsidiary of National Investment and Infrastructure Fund (NIIF)
- Tax exemptions for Sovereign Wealth Fund for investments in infrastructure projects before March 31, 2024

Impact: Neutral

The capital outlay for roads, railways, and metro projects have been budgeted to increase marginally in 2020-21 BE over 2019-20 RE. Though there has been some increase in the budgetary allocations towards roads and railways, the increase in overall capital outlay has remained significantly lower than the requirement highlighted in the NIP.

On the positive side, capital outlay towards some key infrastructure schemes like AMRUT, Jal Jeevan Mission and PMKSY have been projected to increase significantly in 2020-21 BE over 2019-20 RE. The capital outlay towards PMGSY is projected to increase by 41% to Rs. 11,127 crore, AMRUT and Smart Cities Mission (Urban Rejuvenation) by 40% to Rs. 13,750 crore, Jal Jeevan Mission by 15% to Rs. 11,500 crore, and PMAY by 15% to Rs. 27,500 crore over that in 2019-20 RE. Overall, the outlay towards the above mentioned schemes is 24% higher than that in 2019-20 RE; however, the increase is a modest 7% over that in 2019-20 BE.

Availability of long-term infrastructure financing has been a challenge, given the problems faced by commercial banks, such as asset-liability mismatches and increasing share of stressed assets. To improve the financing availability for the infrastructure sector, given the significant increase in investment required as per the recently announced NIP, the Budget has made a provision of Rs. 22,000 crore as equity infusion in IIFCL and subsidiary of NIIF. This is planned to be leveraged by these entities to provide about Rs. 1 lakh crore financing to the infrastructure sector.

The Budget has also made tax exemptions for Sovereign Wealth Fund for making investments in infrastructure projects before March 31, 2024. This is positive for the sector and can support long-term capital inflows into the sector through routes like NIIF and infrastructure investment trusts (InvITs).

INFRASTRUCTURE - ROADS

Proposals

- Total capital outlay, including Pradhan Mantri Gram Sadak Yojana (PMGSY), remains flat at Rs. 1,66,474 crore for budget estimate (BE) FY2021 compared to BE FY2020 of Rs. 1,66,044 crore, and 3% higher than revised estimate (RE) FY2020 of Rs. 1,61,232 crore
- The budgetary allocation for the sector (including PMGSY) rises by Rs. 10,430 crore (11%; compared to 16% increase in the previous year) to Rs. 1,01,474 crore from Rs. 91,044 crore in FY2020 (BE), an 18% increase compared to RE of Rs. 86,232 crore for FY2020
- Continued thrust on PMGSY with allocation of Rs. 19,500 crore
- Monetisation of 12 TOT bundles (6,000 km) over the next four years partly addresses funding concerns for National Highways Authority of India (NHAI)
- DDT exemption could attract more foreign capital into road sector
- 100% exemption of taxes for sovereign wealth funds
- Fund allocation of Rs. 22,000 crore to India Infrastructure Finance Company Limited (IIFCL) and National Investment and Infrastructure Fund (NIIF), which would enable these to leverage and fund infra projects worth Rs. 1 lakh crore

Impact: Neutral

The budgetary allocation towards capital spend for the Ministry of Road Transport and Highways for FY2021 stands at Rs. 81,974 crore, around 18%[1] lower than the amount required to fund the ongoing Bharatmala programme. Even, IEBR (which includes market borrowings and asset monetisation) for NHAI is lower at Rs. 65,000 crore for FY2021 as against Rs. 75,000 crore in RE FY2020. As a result, the total capital outlay is expected to remain flat for FY2021.

With Bharatmala and the allied programmes facing funding challenges, investors expected funding roadmap for the ambitious National Infrastructure Pipeline (which includes Bharatmala), involving an outlay of around Rs. 19.38 lakh crore over next five years. However, no road map has been provided in the Budget. Therefore, the successful asset monetisaton through toll-operate-transfer (TOT) route and the ability of NHAI to raise funds through Infrastructure Investment Trust (InvIT) would remain critical. In this context, 100% exemption of taxes for Sovereign Wealth Funds is hugely positive for infrastructure. This would enable NHAI and other developers to lap up funds for proposed InvITs.

The thrust on PMGSY continues through sustained high allocations and the launch of the third phase of PMGSY to connect villages to rural markets. Under this, 1,25,000 km of roads is expected to be upgraded over next five years with a total outlay of Rs. 80,250 crore. This will support the order books of small-to-mid-sized road construction companies over the medium term.

The availability of long-term infrastructure financing remains a challenge, given the twin problems faced by commercial banks – asset-liability mismatch and increasing share of stressed assets. While the fund allocation of Rs. 22,000 crore made to IIFCL and NIIF would enable them to leverage and fund infra projects, this can support only a small portion of the overall funding requirement.

[1] The budgetary allocation to the ambitious new highway development programme is estimated at Rs. 3,43,045 crore over FY2019–FY2022, implying average allocation of around Rs. 86,000 crore per annum. Of this, the RE FY2019 and RE FY2020 allocations stood at Rs. 68,557 crore and Rs. 72,162 crore, respectively. Therefore, the allocations are expected to be around Rs. 1.01 lakh crore for FY2021 to make up for the shortfall in the previous years.

LOGISTICS

Proposals

- Approximately 7% increase in budgetary allocation towards transportation sector to 1.69 lac crore
- Continued focus on expansion of rural road network with allocation of Rs. 19,500 crore under Pradhan Mantri Gram Sadak Yojana (PMGSY)
- Viability gap funding to develop agri-warehousing infrastructure and focus towards improving cold chain related to agriculture produce
- Development of inland waterways likely to shift significant proportion of inland cargo movement from road and rail to rivers; However, extent of budgetary allocation has reduced vis-a-vis the previous year
- Ongoing investments in railway infrastructure; PPP model proposed to unleash faster development and completion of tracks, rolling stock manufacturing and delivery of passenger and freight services
- Proposal to launch National Logistics Policy shortly

Impact: Neutral

In line with expectation, the logistics sector, especially road transportation would continue to reap benefits of Government's continued thrust on infrastructure development. Over the past few years, the focus has widened with enhanced coverage towards affordable housing, inland waterways, water and sanitation projects and other allied sectors. In ICRA's views, the Government's effort to mobilize funds through multiple avenues besides addressing inherent bottlenecks to ensure faster execution of infrastructure projects will be critical for uplifting the sentiments of the sector. The Government remains committed to improving India's transportation mix by enhancing usage of inland waterways for transportation of bulk commodities.

MEDIA & ENTERTAINMENT

Proposals

- Reduction in basic customs duty on imports of newsprint, uncoated paper used in printing of newspaper, and lightweight coated paper weighing up to 70 g/m for printing of magazines to 5% from 10% for establishments registered with the Registrar of Newspapers, India

Impact: Marginally Positive

Indian newspaper publishers mainly import newsprint due to its scarcity in India as well as the better quality of the imported newsprint. The proposal to reduce the customs duty on newsprint and uncoated paper used for printing newspapers is marginally positive for the newspaper publishing industry, especially at a time when the industry is going through a difficult phase.

METALS – STEEL

Proposals

- Increase in import duty on certain tinplate items to 10% from 5%
- 15% higher allocation towards Jal Jeevan Mission
- 9% increase in PMAY scheme allocation
- Expansion of gas grid from 16200 km to 27000 km
- 3% increase in allocation to Railways and Metro projects
- 40% increase in allocation for the AMRUT and Smart City Mission

Impact: Marginally positive

Domestic tinplate manufacturers would benefit from the duty hike. Flat steel producers and pipe-makers on the other hand would benefit from the 15% higher allocation towards the Jal Jeevan Mission and expansion of the gas grid from 16200 km to 27000 km. Additionally, increased allocation for the Pradhan Matri Awas Yojana (PMAY) would lead to higher consumption of long steel, while increased allocation for the Railways, Metro projects, the Atal Mission for Rejuvenation and Urban Transformation (AMRUT), the Smart City Mission and new airports would spur demand for alloy and long steel products.

OIL AND GAS

Proposals

- Provision of fuel subsidy for sensitive petroleum products worth Rs. ~337 billion for FY2020 (RE) and Rs. ~388 billion for FY2021 (BE)
- Allocation of Rs. 7.3 billion as capital expenditure for Phulpur-Dhamra-Haldia Pipeline Project of GAIL
- Expansion of the National Gas Grid to 27,000 km from the present 16,200 km; additionally, to deepen gas markets in India, further reforms to be undertaken to facilitate transparent price discovery and ease of transactions
- Rs. 2 billion allocated for the National Seismic Programme
- Allocation of Rs. 1.6 billion for strategic oil reserves projects
- Removal of Dividend Distribution Tax for companies

Impact: Positive

As per ICRA's estimates, there may be a shortfall of around Rs. 229 billion in fuel subsidy for FY2020 against the subsidy provided of Rs. 337 billion for FY2020 (RE). This is largely on account of opening arrears of Rs. 330 billion, which the Government had not paid the OMCs in FY2019 because of under provisioning of the subsidy. As per ICRA's estimates, the subsidy requirement for FY2021 will be Rs. 275 billion, assuming Indian basket crude price of $65/bbl and INR/USD of 71. While the subsidy provided for FY2021 is adequate, the backlog will continue to remain, necessitating high working capital borrowings for the PSU OMCs, as witnessed in FY2020. Hence, the under provision of subsidy will be a marginal credit negative for the PSU OMCs. Any sharp fall in oil prices and appreciation of the INR will give some relief to the OMCs.

The continued emphasis on free LPG connections under the Ujjwala Yojana will be a positive for the PSU OMCs as the same will lead to faster growth in LPG sales. However, it may also lead to a rise in LPG subsidies at the current or higher crude oil prices.

Additionally, the announcement to expand the National Gas Grid to 27,000 km from 16,200 km at present and further reforms plans to facilitate transparent price discovery and ease of transactions are positives for gas utilities such as gas transmission, LNG regassification and city gas distribution companies as many of these are grappling with lack of pipeline connectivity. As the GoI aims to increase the share of natural gas in the overall energy mix of the country from the current level of 6%, there could be subsequent announcements during the year regarding setting up of a gas trading hub and change in the tariff model for gas transmission companies.

Adequate subsidy provided for Phulpur-Dhamra gas pipeline will be a positive for GAIL as the same will improve the viability of the project. The pipeline, being laid with a capital grant of ~Rs. 51.7 billion out of the total estimated capital outlay of Rs. 129.4 billion, is expected to connect the Natural Gas Grid with the eastern part of the country, which could lead to revival of three fertiliser units and City Gas Distribution networks in many areas.

In the Budget, Rs. 2.1 billion has been allocated for the National Seismic Programme for FY2021 against Rs. 5.8 billion for FY2020 (RE), which is to be spent for fresh appraisal in all sedimentary basins across India, especially where no/scanty data is available. The allocation of Rs. 1.6 billion in FY2021 (against Rs. 1.2 billion in FY2020) for payment to the Indian Strategic Petroleum Reserves Limited is aimed to build crude oil reserves, which would provide comfort for oil consumption in case of emergency.

The removal of Dividend Distribution Tax on companies is positive for the PSU oil and gas companies as their dividend payout has been traditionally high and the measure will leave higher surplus for funding their large capex plans.

PHARMACEUTICALS

Proposals

- Increase In healthcare budget to Rs. 69,000.0 crore from ~Rs. 63,000 crore last year
- Focus on developing more hospitals under PPP mode
- Mission Indhradhanush (Immunization) coverage has been expanded to cover 12 diseases including five new vaccines
- Establish Jan Aushadhi Kendra or medical stores that provide quality drugs at affordable rates across all districts in the country by 2024
- Technology upgradation support for Pharmaceutical MSMEs

Impact: Neutral

The focus of the budget has been to improve accessibility of healthcare services through opening of hospitals, increasing scope of immunization and dispensing generic drugs through Jan Aushadhi Kendra which will have a positive cascading effect on the pharmaceutical sector in the long run. The Indian pharma sector has predominantly been a branded generics market and has demonstrated stable growth over the past years. However, with more Jan Aushadhi Kendra, the proportion of generics penetration (versus branded generics) is expected to increase, in line with Governments agenda of reducing cost of drugs. Overall, the budget is expected to have neutral impact on the pharmaceutical sector.

PORTS

Proposals

- Plans to develop inland waterways to continue to be supported; grants of Rs. 550 crore to the Inland Water Transport Authority of India for creation of capital assets (FY2020 RE- Rs. 423 crore)
- Plans to corporatise at least one major port and subsequently list it on the stock exchanges
- Budgetary allocation of Rs. 286 crore for the Sagarmala project for capital asset creation (FY2020 RE- Rs. 140 crore).

Impact: Neutral

The Government announced that the National Waterway-1 is expected to be completed shortly and the 890-km Dhubri-Sadiya connectivity will be completed by 2022. This will make movement of freight/passengers cheaper. The announcement to continue support for development of other inland waterways (apart from the National Waterway 1) is a positive. Further, plan to corporatise at least one of the 12 major ports and subsequently list it on the stock exchanges is a positive step towards Government disinvestment in the ports sector. However, as seen in the previous years, budgetary allocation to the Sagarmala projects has been lower than the cost of planned initiatives. The revised estimates for Sagarmala in FY2020 were low — 44% of the Rs. 317-crore Budget estimate for asset creation. The budgetary allocation for FY2021, accordingly, has been reduced to Rs. 297 crore. Overall, the impact of the Budget is neutral on the sector.

POWER AND GREEN ENERGY

Proposals

- Expanding coverage of KUSUM scheme to provide solar agriculture pumps to over 20 lakh farmers and solarise existing grid connected pumps of 15 lakh farmers
- Setting up solar power plants on barren lands of farmers and vacant lands adjacent to railway lines
- Boosting coverage of smart metres over next three years, along with promises of future distribution reforms
- Shutting down old polluting thermal power plants
- Abolishing dividend distribution tax (DDT)
- Extending the concessional tax rate of 15% to new power generation entities
- Continuing equity support allocation towards infrastructure finance companies (IFCs)
- National Infrastructure Plan (NIP) envisages investment outlay of over Rs. 22 lakh in power sector alone (total target of over Rs. 100 lakh crore) for the FY2020-FY2025 period

Impact: Positive

The proposed measures on solar energy generation are likely to improve off-take of renewable energy (RE) as well as reduce subsidy dependence of power distribution companies (discoms). On the negative side, higher captive RE off-take by the railways will spell the loss of a high quality remunerative customer base for discoms. Smart metre programme and proposed distribution reforms would aid discoms in curtailing their distribution losses, besides benefiting retail consumers by giving them the flexibility to choose their power suppliers. Shutting down old power plants is likely to shift energy generation to newer, currently under-utilised thermal power plants as well as RE capacities. This will provide a moderate boost to the PLFs of the aforesaid new thermal units.

The fiscal measures are likely to boost fresh capital investments, especially by overseas equity investors in the domestic power sector, including RE and transmission. Lower taxes will also enable newer gencos to offer lower tariffs, which will lower costs for off-taking utilities. Equity support for IFCs, which would enable them to increase long-term project debt funding, as well as the large NIP allocations, augur well for investment in the power sector.

While the Budget is largely positive for the power sector, the realisation of its promises would depend upon the on-ground progress in achieving them. Key sectoral concerns include distribution sector viability and the resolution of various structural issues affecting greenfield thermal power projects.

REAL ESTATE

Proposals

- An extension of one year is provided on the deduction permitted for interest paid on housing loans availed for affordable housing, as well as for the tax holiday on profits generated by developers of affordable housing. Moreover, capital gains tax relief has been provided on property valuations, which are upto 10% below circle rates, as against the earlier provision of 5%. Further, the focus on supply chain development is expected to benefit the warehousing segment.

Impact: Marginally Positive

With the total tax deduction available on interest paid on affordable housing loans staying at Rs. 3.5 lakhs for one more year, demand in the affordable housing segment is expected to be positively impacted. Moreover, segmental supply is also expected to be favourably impacted by the one-year extension in the tax holiday currently available to developers of affordable housing. Some positive impact is also expected on the warehousing segment, given the overall focus on the creation of efficient warehousing. The capital gains tax relief provided on property valuations is also expected to support investor demand in the segment. However, developer and investor community expectations on budget provisions, pertaining to increased sectoral allocations and deductions, remain largely unmet. Moreover, the non-applicability of the deduction on housing loans under the new optional individual tax structure can act as a significant deterrent for those contemplating availing housing loans.

RETAIL

Proposals

- Viability gap funding for setting up efficient warehouses
- Building a seamless National Cold Supply Chain for perishables
- Continued focus on infrastructure development

Impact: Marginally Positive

Steps taken to boost and improve cold supply chain and warehousing a positive for cash and carry wholesale retailing. Moreover, the Government's continued focus on infrastructure development should have a positive impact as it would help reduce inefficiencies in the retail supply chain.

TELECOM

Proposals

- Continued focus on creating robust digital infrastructure and expanding telecommunication connectivity to local bodies in every *panchayat* across the country with emphasis on fibre connectivity across *gram panchayats* under the Bharat Net project
- Focus on indigenous manufacturing of mobile handsets in line with the 'Make in India' initiative
- Budget estimate of non-tax revenues from communication services for FY2021 stands at Rs. 133,027 crore. For FY2020, revised estimate stands at Rs. 58,990 crore, which is 17% higher than the budgeted estimate of Rs. 50,520 crore

Impact: Neutral

The Budget emphasised the importance of creating a robust digital infrastructure and increasing connectivity across the country. This will provide greater opportunities to telecom operators and drive higher data offtake—especially in rural India. A strong optic fibre network using higher technologies is essential for building the backbone of telecom connectivity in the country. Thus, the focus continues to remain on the connectivity of gram panchayats through a fibre network. Moreover, the development of new technologies like machine learning, internet of things (IoT) and artificial intelligence (AI) continues to remain the focus area.

The RE of non-tax revenues from communication services for FY2020 stood at Rs. 58,990 crore, which is 17% higher than the BE of Rs. 50,520 crore as well as higher than ICRA's estimates. The BE for FY2021 stands at Rs. 133,027 crore, 125% higher than the RE for FY2020. Despite deferral of spectrum payments due in FY2021 and FY2022, the higher BE for FY2021 can be attributed to some participation in 5G spectrum auctions and expectation of payments of AGR-related dues.

TEXTILE

Proposals

- Reduction of Rs. 1,300 crore in textile sector allocation in Union Budget 2020-21 from the previous one, primarily because of the discontinuance of allocation for the procurement of cotton by The Cotton Corporation of India under the price support scheme
- National Technical Textile Mission proposed with a capital outlay of Rs. 1,480 crore over a four-year implementation period (2020-21 to 2023-24)

Impact: Neutral

The discontinuance of the allocation to The Cotton Corporation of India is expected to limit its financial flexibility for the procurement of cotton. This is likely to result in the cotton prices remaining soft in the coming quarters and is, therefore, a positive for the sector. There has been no allocation under the Rebate of State and Central Taxes and Levies (RoSCTL) scheme in the Budget, and the quantum of support made available to the sector remains unclear. The allocation under the National Technical Textile Mission is expected to reduce the import dependence of technical textiles over the medium term.

TOURISM

Proposals

- Increased allocation to the Ministry of culture and tourism: Rs. 3,150 crore for Ministry of culture and Rs. 2,500 crore for the Ministry of tourism
- Focus on heritage and museums:
  - Set up an Indian Institute of Heritage and Conservation under the Ministry of Culture: Deemed university
  - Five archaeological sites to be developed as iconic sites. [1] Rakhigarhi in Haryana [2] Hastinapur in Uttar Pradesh [3] Shivsagar in Assam [4] Dholavira in Gujarat [5] Adichanallur in Tamil Nadu
  - Renovation and re-curation of four museums
  - Tribal museum in Rachi, Jharkhand; maritime museum at Lothal near Ahmedabad, by Ministry of Shipping: the Harrapan age maritime site; museum on Numismatics and Trade in Kolkata
  - States to develop a roadmap for certain identified destinations and formulate financial plans during 2021 against which specified grants will be made available to the States in 2020-21
- More Tejas-type trains to connect iconic tourist locations
- Development of 100 airports under the Ude Desh Ka Aam Nagrik (UDAN) scheme by 2024

Impact: Neutral

Compared to Budget 2019, Budget 2020 has rolled out several measures to promote domestic tourism in India. The Government of India has called out tourism as a key sector for development and the employment opportunities it provides. Improved connectivity through air and rail; development and maintenance of heritage destinations; establishment of new museums are some measures the government plans to focus on. Higher allocation to the Ministries of culture and tourism and set up of a deemed university - the Indian Institute of Heritage and Conservation is a positive. However, timely implementation of these measures would be critical. Past budgets have also focused on iconic site developments and improving connectivity under the UDAN scheme.

ABOUT ICRA

ICRA Limited (formerly Investment Information and Credit Rating Agency of India Limited) was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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