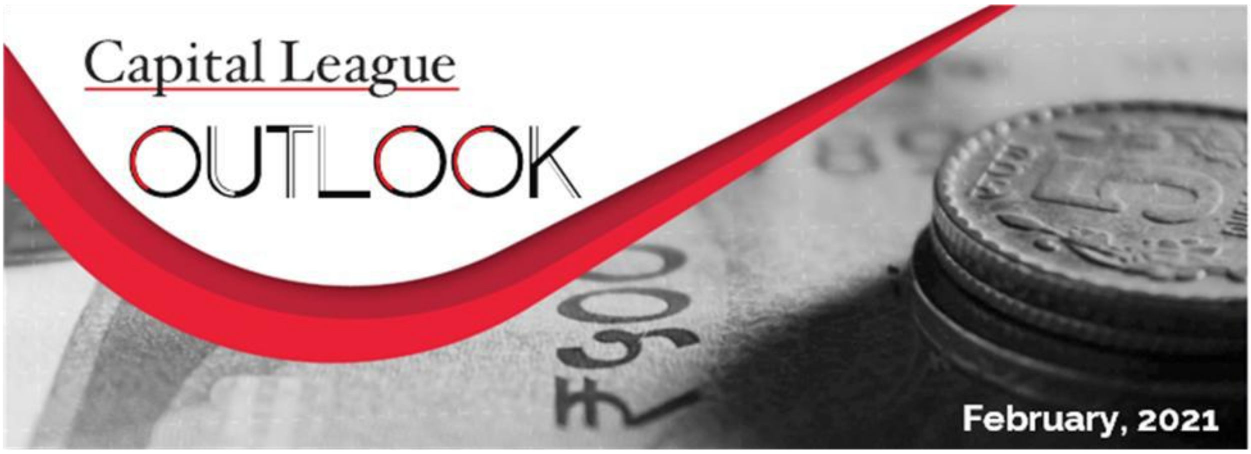
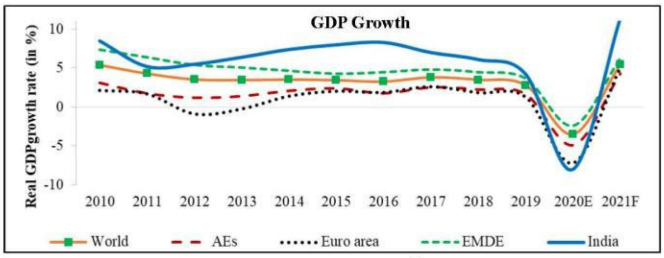
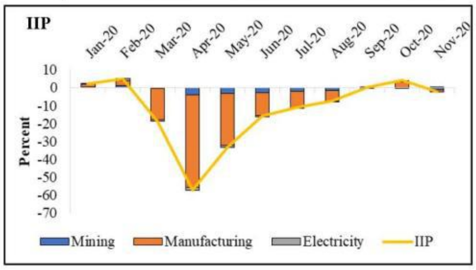
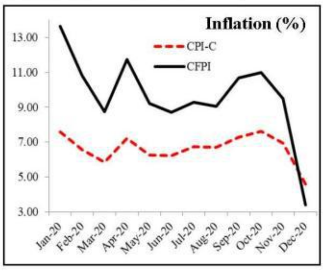



# Indian Economy

- A V-shaped recovery after a black swan event.

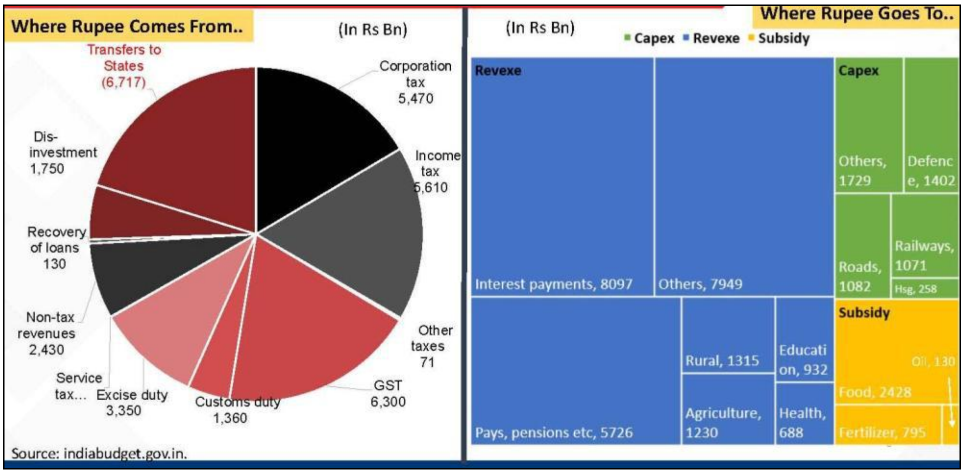


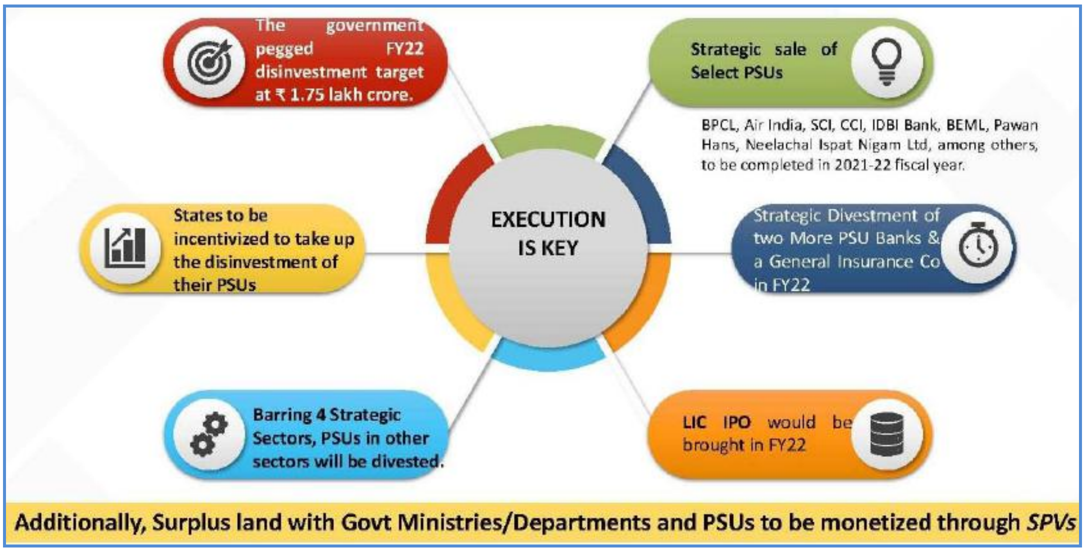




- **Budget 2021**: The Budget prioritises stimulating growth over fiscal consolidation without an increase in taxes. This is in line with recommendation of Economic Survey which provided that expansionary fiscal policy in times of crisis will boost GDP through direct and indirect multiplier effects. The Budget offers huge stimulus to Infrastructure, Capex, Healthcare and boosted the credit flow by taking out the toxic assets of the Banking System.
- Six Pillars of the Budget:
  - **Health & Wellness** – Record outlay of INR 2.2 lac Crs, INR 35,400 Crs for Covid vaccination. INR 64,180 Crs over 6 yrs for PM AtmaNirbhar Swasth Bharat.
  - **Infrastructure** – INR 5.5 lac Crs. 26% increase from FY21 and 65% above FY20.
  - **Inclusive Development** – INR 40,000 Crs. Focus on Rural Infrastructure. Social security benefits to be extended to gig workers. Over 15,000 schools to be qualitatively strengthened. INR 15,700 Crs to MSME sector.
  - **Human Capital** – INR 15,000 Crs. Focus Schools, National Education Policy
  - **Innovation and R&D**- INR 50,000 Crs over 5 yrs. National Research Foundation. Tax exemption on the Revenue & Investments to Start-ups extended by one more year.
  - **Governance** – INR 3,768 Crs. First Digital Census in 2021-22
- The focus is on pushing growth through supply side measures, which should help in boosting medium term growth potential of the economy besides creating near term

demand. Government is utilising the space provided by the current low interest rate regime and global fiscal consensus of higher deficit to give push to growth.




- Nominal GDP growth forecast of 14.4% for 2021-22.
- Fiscal deficit projected at 9.5% for FY21 and 6.8% for FY22. Glide path to reduce fiscal deficit to 4.5% by FY26.
- High level of Capex spending will be directed towards a big infrastructure push with capital outlay for Roads & highways significantly higher than previous years.




- **Foreign Investment**- FDI limit for Insurance sector increased from 49% to 74%. For REITs and InvITs, no withholding tax on dividends.
- **Real Estate** – No tax for developer working on affordable housing extended till March'22. Additional deduction of INR 1.5 lacs on affordable housing loan. Differential between circle rate and agreement value widened to 20% vs 10% earlier.
- **ULIPs** – Removal of tax exemption on maturity proceeds (u/s 10(10D) of IT Act) on or after Feb1, 2021 for ULIPs with annual premium in excess of INR 2.5 Lacs. Taxability of maturity proceeds will be brought on par with mutual funds.
- **Bad Bank & DFI** – Setting up of a new asset reconstruction company (ARC) and asset management company (AMC) to buy the bad loans of public sector banks and manage recoveries while originating banks can focus on their business. Also setting up a development financial institution (DFI) to enable long term funding worth INR 5 lakh crore in 3 years for infrastructure projects.
- **IPO of LIC -** as part of government's disinvestment plans, it will sell 10% stake in LIC in FY22

- **Privatisation of PSU banks/other PSUs and monetisation of spare assets like land, etc. –** Can lead to huge incremental FDI flows and incremental resources for the govt expenditure
- **Relief to all tax payers** – individual and corporate. Re-opening limit for direct tax assessment reduced to 3 yrs.
- **Voluntary vehicle scrapping policy -** Vehicles required to undergo fitness test in automated fitness centres after 20 years(personal) and 15 years(commercial). Increase in registration renewal cost, fitness certificate cost and green tax by state governments to make it costly to retain old vehicles. Simultaneous boost to Automobile sector and improving air quality.

# Global Economy

- Easy monetary policy of FED and other large central banks, continues to support equity market rally.
- Globally, investors are keeping an eye out on further signs that economic recovery following the coronavirus pandemic is not too far away, as vaccination rollouts continue and new infections and fatalities start to slowly decline amid lockdowns.
- China -The world's second largest economy showed GDP growth of 6.5% in fourth quarter of 2020, expanding at 6.5% compared to a year ago. It beat market expectations, and made China one of the few major economies in the world to record positive growth for 2020.

# Outlook

**Equity**

- Government focus clearly on reviving and growing economy. Budget tilted towards growth to support employment and demand generation by spending and borrowing rather than worrying about fiscal position.
- Economic environment is becoming more conducive for business cycle recovery.
- Easy global liquidity will continue to support global equities as an asset class, till any of these triggers play out:
  - US acknowledging inflation and pausing stimulus
  - US treasury Yields reaching 2%
  - Crude Oil touching $60- $65, which may lead to higher inflation
- We continue to remain positive on equities and expect returns to be front-ended. We expect greater opportunity for alpha creation as polarisation reduces and broad economy recovers. Thus we continue to recommend allocation to diversified equity funds including mid and small cap funds. Conservative investors can also take entry through Balanced Advantage funds which have lower allocation to equity at higher valuations.

**Debt**

- Government's higher borrowing program to meet increased expenditure expectedly had negative impact on Indian bond prices and interest rates are expected to harden over the next few months.
- We recommend a cautious stance and to stay invested at the lower end of the duration in products like Ultra short term, low duration, short term, corporate bond and Banking & PSU Bond funds. One should wait to lock-in long duration products like tax-free bonds at current levels as interest rates are expected to go up in next few quarters.