Research

# A quiver of arrows

## Union Budget 2020-21

February 2020

# Contents

# The big picture

India is facing its worst economic slowdown in years. Consumption and investment have stopped firing. The first advance estimates for fiscal 2020 pegs gross domestic product (GDP) growth at an 11-year low of 5%, down from 6.1% in fiscal 2019. Nominal growth estimate is at a weak 7.5% for fiscal 2020.

If that sounds bad, financial sector stress has been looping into real sector weakness, dragging down growth some more. The external front has landed the domestic economy a few blows, too: slower global growth, falling trade intensity, and uncertainties from trade and geopolitical conflicts.

What makes this 'shrinking' feeling stranger and last longer is the long-overdue financial sector clean-up, at a time when the economy is suffering from other ailments.

To be sure, monetary policy has done its bit, but with moderate and slow success. The Reserve Bank of India (RBI) cut the repo rate cumulatively by 135 basis points (bps) through calendar 2019, but lending rates tarried with just ~50-bps decline. Even as credit demand has fallen, risk aversion and weak sentiment have affected the willingness to supply credit, too.

So, with the burden of hauling the economy out of the hole falling squarely on the government and fiscal policy – even if its hands are tied – everyone was looking to Union Budget 2020-21 to read directions for a revival. How has it delivered?

## Fiscal deficit stretched to fund capex and spending mildly supportive of growth

The budget sets the fiscal deficit target for fiscal 2021 at 3.5%, higher than the previous target of 3.0%. The additional fiscal space is to be funded by aggressive disinvestment, asset monetisation and telecom revenue targets, optimistic tax-buoyancy assumptions and some tightening in overall expenditure. But the space so created is being used to fund capital expenditure (capex) and rural sector spending that support consumption.

The relaxation in target to nudge up growth was inevitable, and, simply, more realistic. With this budget, fiscal policy appears to be doing its bit. But fiscal pressures have also intensified in the past two years, leaving the government with limited ability to stimulate growth.

There is some support to growth, but nothing substantial in the short term. However, the government is still eyeing the long term and has, therefore, pushed capex. The multiplier impact of this will be positive but lagged.

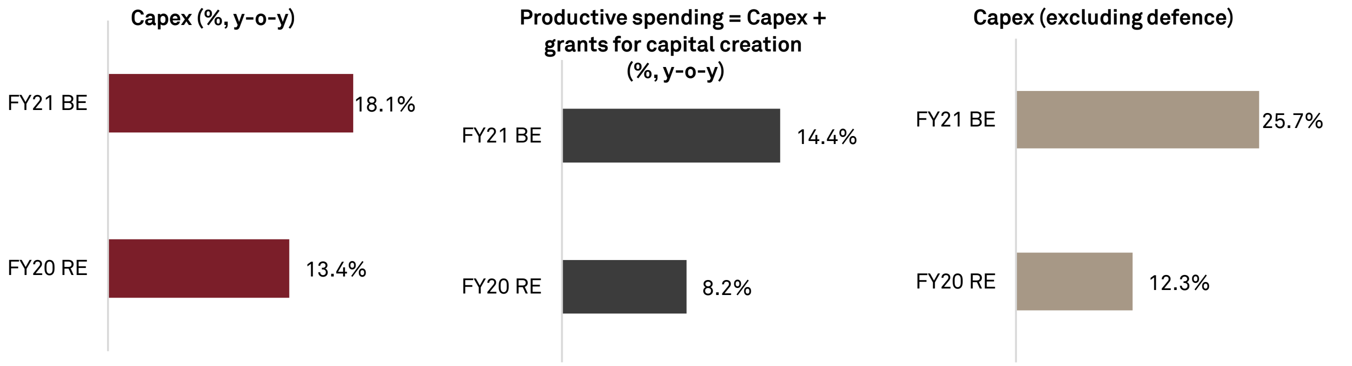
In the absence of growth kickers, growth pick-up in fiscal 2021 is expected to be largely led by the base effect and supported by somewhat better farm income (led by a good rabi crop) and the delayed impact of monetary easing. Critical to this forecast is the assumption of a normal monsoon in calendar 2020 and benign global crude oil prices.

## A quiver of arrows

The government has aimed at some measured moves in the budget to bolster growth. Most of these, however, are not expected to provide a short-term boost.

- **Despite tight fiscal conditions, the budget makes room for higher capex.** Overall capex is budgeted to increase ~18% in fiscal 2021. A large part of this is because of spending on infrastructure creation. Overall infrastructure spending, however, is budgeted to decline 7% in fiscal 2021. This is because of lower reliance on extra budgetary spending through central public sector enterprises (CPSEs) despite higher budgetary support. Lower spending is especially seen in roads and highways, urban infrastructure, and power

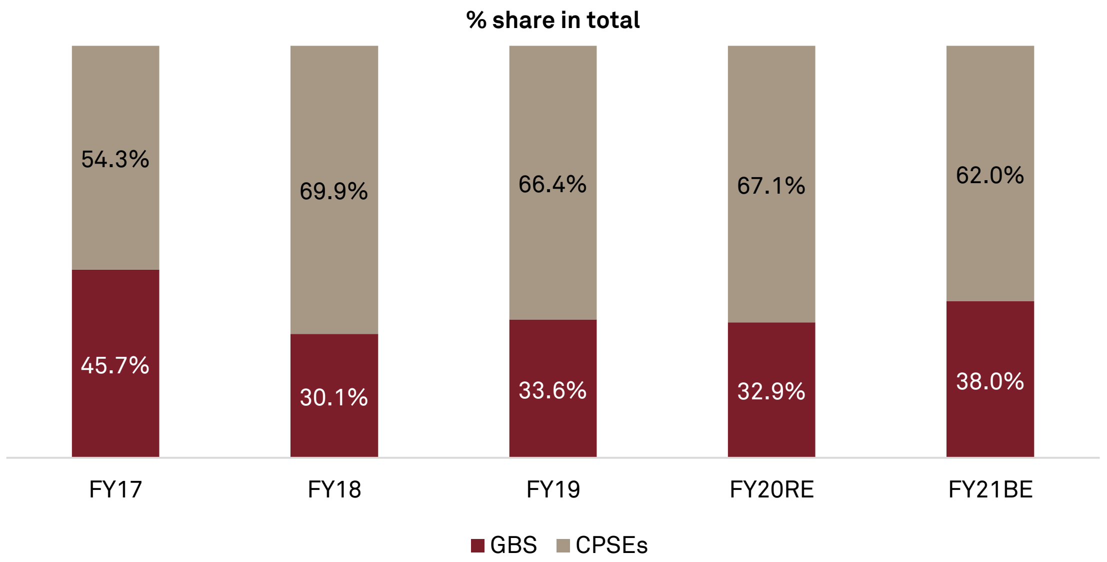
**No matter how you see it, budgetary support to capex is higher in fiscal 2021…**




*BE: Budget estimate; RE: Revised estimate*

*Source: Budget documents, CRISIL*

**…But reduced reliance on CPSEs is responsible for lower infrastructure spending**




*RE: Revised estimate; BE: Budget estimate; GBS: Gross budgetary support; CPSEs: Central public sector enterprises*

*Source: Budget documents, CRISIL*

- **Budget tightens revenue expenditure, but makes way for higher social-sector spending.** Growth in revenue expenditure is expected to slow down in fiscal 2021, led by lower burden of food, fuel and fertiliser subsidies. The budget, however, makes way for higher allocations on some of the flagship programmes, such as Pradhan Mantri Gram Sadak Yojna (PMGSY), Pradhan Mantri Krishi Sinchai Yojna (PMKSY), Pradhan Mantri Awas Yojna (PMAY) and Pradhan Mantri Kisan Samman Nidhi (PM Kisan), spending on which is revenue in nature. Most of these schemes faced the axe in fiscal 2020. So higher spending next fiscal can support rural employment, income and consumption

**Most of the government's core schemes find support**

| Major core schemes of the government | Rs crore | %, on-year | |
|---|---|---|---|
| | FY21 BE | FY20 | FY21 BE |
| Mahatma Gandhi National Rural Employment Guarantee Programme | 61,500 | 14.9 | -13.4 |
| National Education Mission | 39,161 | 22.2 | 4.0 |
| National Health Mission | 34,115 | 8.9 | -0.5 |
| Umbrella Integrated Child Development Services | 28,557 | 15.3 | 14.4 |
| Pradhan Mantri Awas Yojna | 27,500 | -0.4 | 8.6 |
| Pradhan Mantri Gram Sadak Yojna | 19,500 | -8.7 | 38.6 |
| Urban Rejuvenation Mission: AMRUT and Smart Cities Mission | 13,750 | -18.6 | 39.7 |
| Jal Jeevan Mission /National Rural Drinking Water Mission | 11,500 | 82.4 | 15.0 |
| Pradhan Mantri Krishi Sinchai Yojna | 11,127 | -3.0 | 40.9 |
| National Programme of Mid-Day Meal in Schools | 11,000 | 4.2 | 11.0 |

| Slower growth | Higher growth | Decline |
|---|---|---|

*BE: Budget estimate; AMRUT: Atal Mission for Rejuvenation and Urban Transformation*

*Source: Budget documents, CRISIL*

## How does the budget impact key demand-side components of GDP?

| Demand component | Current situation | Budget announcements that will shape the FY21 outlook |
|---|---|---|
| **Private consumption expenditure** | A drop in private consumption growth has played a big role in bringing down GDP growth to an 11-year low. Private consumption growth slowed to 5.8% in fiscal 2020, from 7.2% in fiscal 2019. A dent to incomes, declining household savings ratio and higher household leverage have kept the Indian consumer's risk aversion high | • Some support to rural demand is expected, given the higher budgetary allocation to schemes, such as PMGSY and PMAY, which will augment incomes. PM Kisan spending for fiscal 2021 has been maintained at the previous fiscal's budgetary level, but the focus should be on ensuring that part of the amount does not remain unspent<br>• Changes in the personal income tax structure is unlikely to give a push to consumption |

| Demand component | Current situation | Budget announcements that will shape the FY21 outlook |
|---|---|---|
| **Investment** | Investment growth dropped to 1% in fiscal 2020 from 9.8% in fiscal 2019. While private investments have been weak, the government's ability to fund capex also remains constrained | • Government support to capex (including infrastructure) despite tight fiscal conditions is somewhat supportive of growth<br>• But overall infrastructure capex is expected to be lower, as CPSE spending is budgeted to decline<br>• Given sluggish domestic demand, private industrial investment is expected to stay muted<br>• The impact on overall investment will be modest, as states play a greater role in driving government capex |
| **Government consumption expenditure** | Government consumption spending supported growth in fiscal 2020. A large part of the government revenue spending was on the social sector, including NREGA | • The government has continued to focus on social sector schemes (including those that augment rural incomes, such as PMGSY, PMAY, NREGA and PM Kisan) |
| **Exports** | Decelerating global growth, falling trade intensity, and uncertainties from the US-China trade war are hurting India's exports. India's exports is estimated to fall 2% in fiscal 2020, compared with a growth of 12% in fiscal 2019 | • Support to MSMEs a mild positive for exports |

*NREGA: National Rural Employment Guarantee Act; MSMEs: Micro, Small and Medium Enterprises*

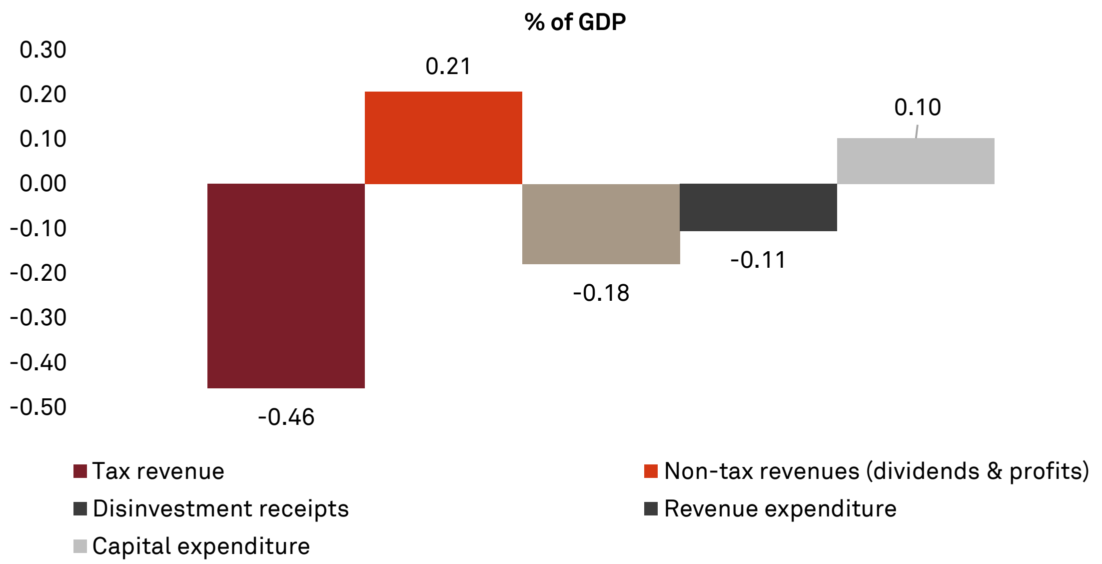
*Source: CRISIL*

# Fiscal arithmetic

## Poor marksmanship in fiscal 2020

Nominal GDP growth for this fiscal, as per the first advance estimates, is 7.5%, markedly lower than 12% assumed in the Union Budget 2019-20. This has drastically strained the government's fiscal position, resulting in a fiscal deficit of 3.8%, versus the budgeted 3.3%. Both revenue (direct and indirect taxes) and capital (disinvestments) receipts have fallen short. Higher-than-budgeted non-tax revenue, in the form of increased dividends and profits, has helped, but that is still not sufficient to offset the total shortfall in receipts. The government, therefore, has had to cut expenditure, mainly revenue expenditure, to contain the slippage in fiscal deficit to 0.5% bps. It is noteworthy that the finance minister justified this slippage with the trigger mechanism provided by the Fiscal Responsibility and Budget Management Act (FRBM Act). The Act allows for a deviation of 0.5% from the estimated fiscal deficit because of structural reforms in the economy.

**Why fiscal deficit slipped 0.5% in fiscal 2020**

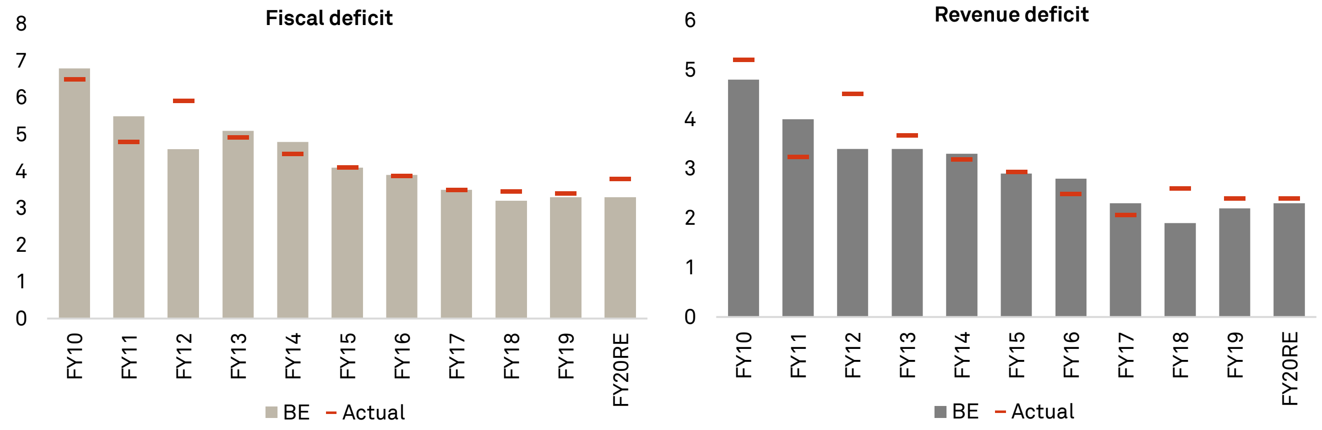



*Source: Ministry of Finance, CRISIL*

## How accurate is the fiscal marksmanship?

- Fiscal marksmanship refers to the accuracy of budgetary forecasting. The budget estimates for the upcoming year's expenditure and revenue serve as signals of the government's plans, such as the intention to spend and expectations for financing the expenditure based on tax and non-tax collections. Hence, it is important to assess the variation in forecast errors, as these impact the fiscal position of the government
- In fiscal 2020, the fiscal deficit target as per the budget estimate was 3.3% of GDP; however, the growth slowdown led to a shortfall in receipts, contributing to a slippage in fiscal deficit, which reached 3.8% as per the revised estimates
- This is the third consecutive year when fiscal deficit breached its budget-estimate target, indicating worsening fiscal marksmanship in recent times
- The slippage in fiscal 2020 fiscal deficit was due to a shortfall in tax revenue and higher-than-budgeted capital expenditure
- However, in the past decade, we find that the forecast error – i.e., difference between the budget estimate (BE) and actual – is more frequent for revenue deficit (largely because of overestimation of revenue receipts) than fiscal deficit
- Larger and more frequent errors in revenue deficit (compared with fiscal deficit) indicate that the government's accuracy in forecasting even the committed expenditure (salaries, pensions and interest payments) is off the mark. On the revenue receipts side, tax-collection targets are not being met

**Breach in revenue deficit budget estimate more frequent and larger than that for fiscal deficit**




*RE: Revised estimate; BE: Budget estimate*

*Source: Union Budget documents (various years), Ministry of Finance, National Statistical Office (NSO)*

## Does the fiscal math add up for fiscal 2021?

**Nominal GDP growth:** For fiscal 2021, the government has pegged the nominal GDP growth at 10%, which appears realistic. Given the subdued environment, both domestically and globally, there are downside risks to this number, though. Hence, CRISIL forecasts nominal GDP growth a tad lower, at 9.5%.

**Tax buoyancy:** As opposed to a gross tax revenue buoyancy[1] of 0.5 achieved in fiscal 2020, the government has budgeted a buoyancy of 1.2 for fiscal 2021 (also higher than the last 10-year average of 1.0), which could be challenging to achieve in an environment of subdued growth. While the corporate tax buoyancy may take time to go up (because of the last year's corporate tax cut), continuous changes to the Goods and Services Tax (GST) regime do not bode well for GST compliance in the short run. Therefore, the government's budgeted GST tax buoyancy of 1.3 for fiscal 2021 appears optimistic compared with 0.7 achieved in fiscal 2020.

**Tax receipts**

| | Rs lakh crore | | | | | Growth (%) | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | FY17 | FY18 | FY19 | FY20 RE | FY21 BE | FY17 | FY18 | FY19 | FY20 RE | FY21 BE | Average FY17-FY20 |
| **Gross tax revenue** | 17.2 | 19.2 | 20.8 | 21.6 | 24.2 | 17.6 | 11.8 | 8.4 | 4.0 | 12.0 | 15.9 |
| **Direct tax** | 8.5 | 10.0 | 11.4 | 11.7 | 13.2 | 14.5 | 17.9 | 13.4 | 2.9 | 12.7 | 14.7 |
| *Corporation tax* | 4.8 | 5.7 | 6.6 | 6.1 | 6.8 | 7.0 | 17.8 | 16.2 | -8.0 | 11.5 | 12.0 |
| *Income tax* | 3.6 | 4.3 | 4.7 | 5.6 | 6.4 | 26.8 | 18.1 | 9.8 | 18.3 | 14.0 | 19.0 |
| **Indirect tax** | 8.7 | 9.2 | 9.4 | 9.9 | 11 | 21.4 | 5.9 | 2.9 | 5.3 | 11.1 | 17.9 |
| *GST* | -- | 4.4 | 5.8 | 6.1 | 6.9 | -- | -- | 31.4 | 5.3 | 12.8 | -- |

*RE: Revised estimate; BE: Budget estimate*

*Source: Source: Ministry of finance, CRISIL*

## Two possible areas of slippage other than tax revenue

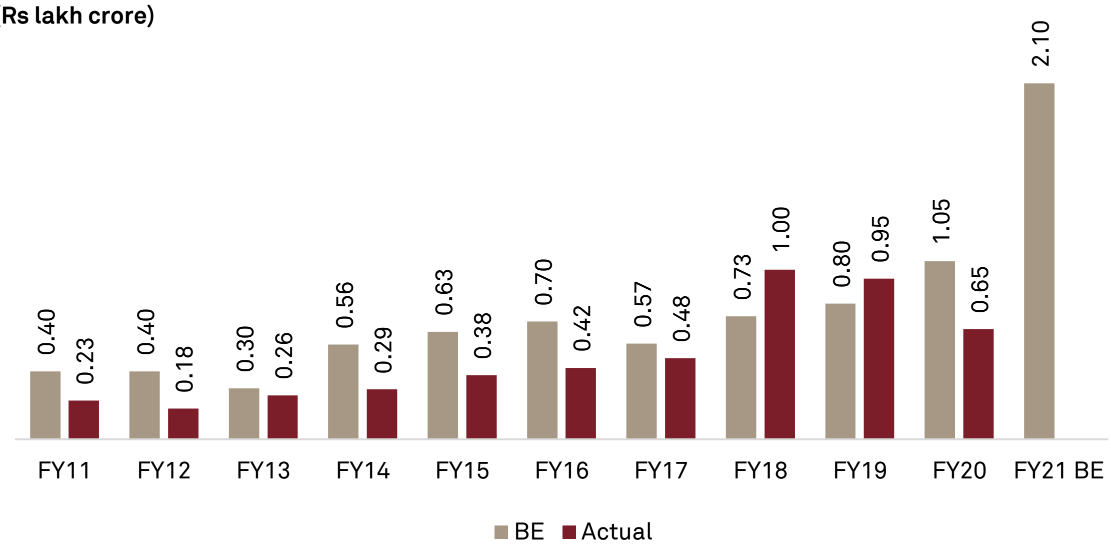
**Telecom receipts**: The budget targets a telecom revenue of Rs 1.33 lakh crore, which apparently includes auction proceeds along with renewal charges, licence fees and spectrum usage charges, and adjusted gross revenue (AGR) dues. As per CRISIL Research estimate, this revenue could be lower at Rs 0.8-0.9 lakh crore, and could entail a fiscal deficit slippage of about 0.2% of GDP.

**Disinvestment receipts**: Despite shaper focus this fiscal, proceeds from disinvestments fell short by Rs 0.4 lakh crore, compared with the budgeted Rs 1.05 lakh crore – implying a shortfall of 38%. For fiscal 2021, the government has again set an ambitious target of Rs 2.1 lakh crore, which hinges, among others, on strategic disinvestment in Air India, Bharat Petroleum Corporation and Life Insurance Corporation of India. The disinvestment target may again miss the mark, if these sales do not proceed as planned. If the last fiscal's trend continues, the shortfall in disinvestment could set fiscal deficit in fiscal 2021 off by ~0.3% of GDP. It is worth noting that the government has been able to meet its disinvestment target only twice in the past 10 years.

[1] Tax buoyancy reflects the efficiency of revenue mobilisation in response to growth in GDP. It is measured as a ratio of change in tax collections to change in nominal GDP growth.

**Disinvestments remain a tall order**

(Rs lakh crore)




*RE: Revised estimate; BE: Budget estimate*
*Note: FY20 orange bar is RE and not actual.*
*Source: Ministry of Finance, CRISIL*

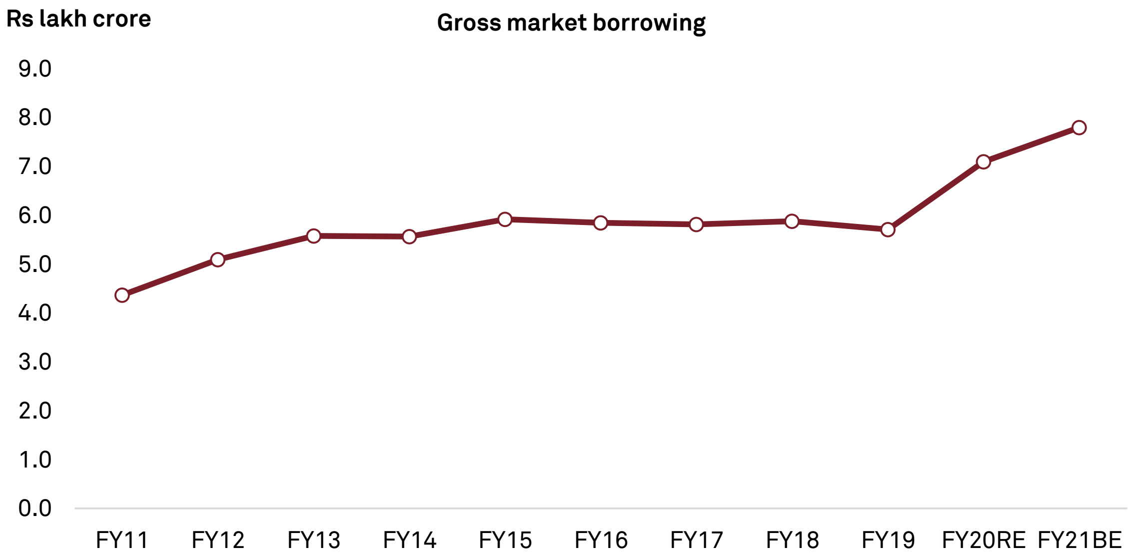
## Borrowing targets revised upwards, with greater reliance on NSSF

Higher government borrowings result in higher interest rates and lower private investments

Fiscal deficit essentially reflects the net government borrowing in a given fiscal year. About 65% of this borrowing is from the market in the form of government securities (G-secs) and short-term treasury bills. As such, a higher fiscal deficit would also mean higher supply of government bonds in the market.

The Centre has significantly revised up its net market borrowing for fiscal 2020 to Rs 4.99 lakh crore, compared with Rs 4.5 lakh crore budgeted earlier. The gross market borrowing, which indicates fresh issuances of G-secs, has grown 24%, the highest rate since fiscal 2010. This was a break from the moderating trend during the preceding six years. In fiscal 2021, market borrowing is budgeted to increase further to Rs 7.8 lakh crore, 9.9% higher on-year.

**Gross market borrowing has surged**



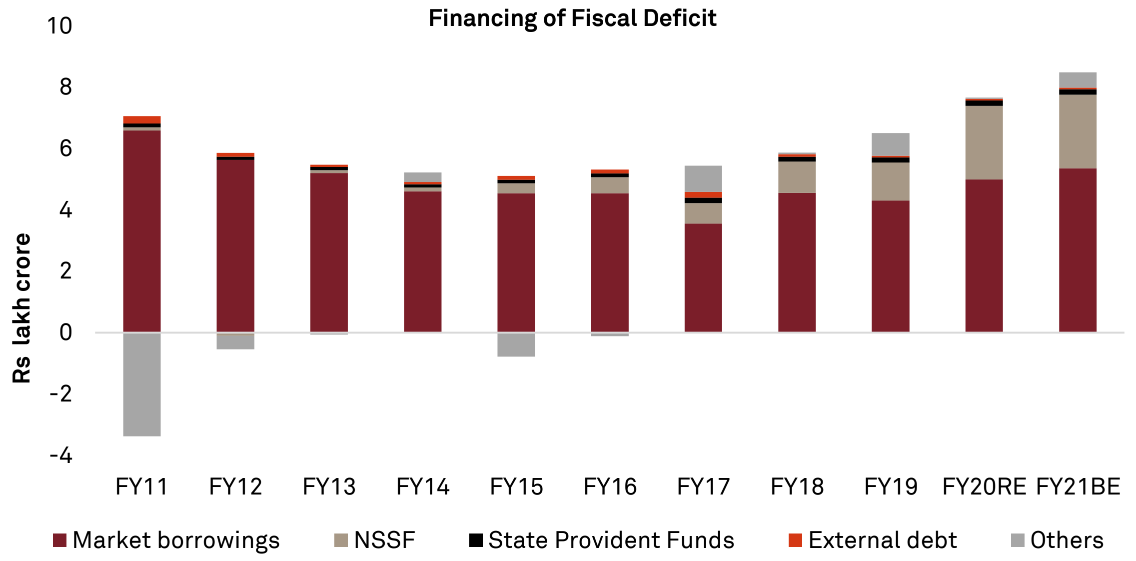

*RE: Revised estimate; BE: Budget estimate*

*Source: Budget documents, CRISIL*

The burden on market borrowing is being mitigated by a greater reliance on non-market sources of funding, particularly the National Small Savings Fund (NSSF). Borrowing in the form of securities against NSSF has been revised up to Rs 2.4 lakh crore, almost double the Rs 1.3 lakh crore budgeted. This is also 92% higher on-year. Fiscal 2021 budgets this borrowing to stay at Rs 2.4 lakh crore.

The share of NSSF in fiscal deficit's financing has gone up from 1.6% in fiscal 2013 to 31.3% in fiscal 2020, compared with a reduction in market borrowing (net) from 96% to 65%.

**The Centre has increased its reliance on NSSF**




*RE: Revised estimate; BE: Budget estimate*

*Note: Data for each category is net of repayments.*

*Source: Budget documents, CRISIL*

Such a surge in borrowings has adversely impacted the economy through:

- **Elevated interest rates:** Higher supply of G-Secs puts upside pressure on yields, offsetting monetary easing by the RBI, lower global interest rates and benign crude oil prices. In fiscal 2020 so far, while the central bank cut rates by a cumulative 110 bps, 10-year G-Sec yields declined by a lower 81 bps. Term premium – or the difference between the yield on the 10-year G-Sec over short-term treasury bills – crossed 150 bps, much above the long-term trend of 40-50 bps. Even 'Operation Twist'[2] by the RBI could not sustainably reduce this term premium. This shows that the RBI's policy easing is not adequately getting transmitted to long-term interest rates. This has also hindered the transmission of easing to other bond market players, given that G-Sec yields serve as a benchmark for other bond yields
- **Crowding out private players**: In an environment of weak sentiment and risk aversion, investors prefer safer G-Secs over corporate bonds, leading to lower availability of funds for private players. The yield spread of 10-year AAA-rated corporate bonds over 10-year G-Secs has averaged 85 bps in fiscal 2020 so far, the highest since fiscal 2012. Spreads for lower-rated corporate bonds have been higher, particularly for non-banking finance companies (NBFCs) and housing finance companies
- **Higher NSSF borrowings are also hindering the transmission** of rate cuts to the economy, as banks are competing with high NSSF rates to maintain deposit growth

Overall, government borrowing, whether from market or non-market sources, is lending upside pressure to funding cost. This, coupled with the stress in the financial sector, is hindering credit growth and economic recovery.

[2] Operation Twist refers to RBI's special open market operations, in which it simultaneously purchased 10-year and other long-tenor G-Secs and sold 1-year G-Secs. These operations were intended to reduce the term premium.

# Outlook for fiscal 2021

The measures in the Union Budget 2020-21 are expected to be mildly supportive of growth. Higher capex and spending on social sector will provide some uptick.

| Macro variable | FY19 | FY20F | FY21F | Outlook |
|---|---|---|---|---|
| GDP growth (%, y-o-y) | 6.1 | 5.0* | 6.0 | • Growth in fiscal 2021 to be aided by a weak base and a mild support from the budget to consumption. Forecast assumes a normal monsoon and Brent crude prices at $60-$65 per barrel<br>• Monetary policy would provide some support to growth, mainly through improved transmission<br>• However, a recovery should be gradual, with the limited ability of fiscal and monetary policies, and risk aversion in the financial sector |
| CPI inflation (%, y-o-y) | 3.4 | 4.5+ | 4.0 | • An unusual and prolonged surge in food prices has driven up headline number this fiscal, and continues to pose upside risks<br>• However, we expect inflation to soften in fiscal 2021, as: (a) the unusual surge in food inflation is expected to correct; (b) core inflation may remain moderate, as economic recovery is expected to be mild; and (c) a high-base effect will kick in during the second half and keep a check on inflation |
| Fiscal deficit (% of GDP) | 3.4 | 3.8^ | 3.5# | • For achieving the fiscal 2021 target, a nominal GDP growth assumption of 10% appears achievable, given the GDP growth and inflation expectations<br>• However, tax buoyancy has been estimated to be higher than what was achieved in the past 10 years; this will require extra tax effort<br>• Ambitious divestment target has been set; this could slip, unless the government frontloads its efforts |
| 10 year G-Sec yield (%, March) | 7.5 | 6.8 | 7.0 | • Higher government borrowing in fiscal 2021 and a pause in the RBI's rate cuts are expected to put pressure on 10-year G-Sec yields<br>• The government's gross market borrowing is budgeted to increase to Rs 7.8 lakh crore in fiscal 2021 from Rs 7.1 lakh crore in fiscal 2020<br>• We expect the RBI to keep rates unchanged in the near term, given the spike in inflation and fiscal slippage<br>• The US Federal Reserve is also expected to keep rates unchanged in calendar 2020, compared with three rate cuts in 2019<br>• Increasing the access of overseas investors to G-Secs can also help boost demand<br>• However, crude oil prices are expected to remain benign, capping the upside in yields |

| Macro variable | FY19 | FY20F | FY21F | Outlook |
|---|---|---|---|---|
| Current account deficit (% of GDP) | 2.1 | 1.4 | 1.8 | • Benign crude oil prices are expected to keep current account deficit (CAD) in a safe zone. CRISIL expects Brent crude to range $60-65 per barrel in calendar 2020, compared with an average of $64 per barrel in calendar 2019<br>• A recovery in domestic demand will mildly lift imports in fiscal 2021 |
| Rupee/dollar (March) | 69.5 | 71.0 | 72.0 | • Low CAD will ease depreciation pressures on the rupee<br>• However, any escalation in geopolitical tensions could hurt foreign capital flows, especially short-term flows such as foreign portfolio investments. Rising domestic vulnerability amid weakening growth, rising inflation and fiscal stress could also dent investor sentiment |

**Advance estimate by NSO; + with upside bias, ^ RE, # BE*

*RE: Revised estimate; BE: Budget estimate*

*Source: NSO, budget documents, RBI, CRISIL*

## Risks to outlook

**Persisting stress in financial sector**: This has been one of the major drags on GDP growth this fiscal. Liquidity issues faced by NBFCs and risk aversion hampered credit growth as well as transmission of monetary policy easing. Easing of constraints in the financial system – a key monitorable – is critical for a pick-up in growth.

**Geopolitical developments:** External developments, most importantly the US-China trade war, have proved to significantly impact global GDP growth as well as export earnings and capital flows to emerging markets such as India. While there is some respite with the signing of Phase 1 of the US-China trade deal, several issues remain unresolved. Any re-escalation of tensions could again work adversely. Geopolitical developments in the Middle East could also disrupt crude oil supply and prices, likely hurting a wide range of domestic macroeconomic parameters, including current account deficit, inflation and GDP growth.

# Capital market

## Key budget proposals

- Launch debt ETF consisting primarily of government securities
- Fully open certain categories of government securities to non-resident investors
- Increase foreign portfolio investor (FPI) limit to 15% from 9%
- Expand the scope of credit default swaps (CDS)
- Abolish dividend distribution tax (DDT)
- Modify income-tax slabs
- Facilitate separation of the National Pension System Trust for government employees

## Budget impact Neutral

- The plan to launch another debt ETF, comprising primarily of government securities, will provide an investment opportunity for individual investors and widen the bond market in the country, currently limited to institutional investors and pension funds. ETFs also provide investors with higher liquidity compared with the illiquid secondary market. However, the efficacy of the investment avenue is yet to be proven as gilt funds and gilt ETFs, despite a decent history, account for less than 0.5% of the mutual fund industry pie
- Fully opening certain categories of government securities to non-resident investors, which are already available to domestic investors, will enhance individual participation
- Enhance of FPI limit for the corporate bond segment is a positive signal to foreign investors, though it may not benefit in the short term due to underutilised current limits (~60%)
- The government's proposal for netting of financial contracts has been a key demand of the industry and will help build market infrastructure for CDS
- Abolition of DDT at source will increase money in the hands of investors in the lower tax brackets and remove the double taxation impact on mutual fund investors. However, this might increase the tax liability for investors in higher tax brackets, especially equity and debt fund investors who earlier paid 10% and 25%, respectively
- Adoption of tax-saving sops for individuals would depend on their income and savings pattern. However, transition to the new system would be contingent on them preferring the current regime as well as their lack of wherewithal to generate higher returns. Transition to the new regime could impact investment flows in mutual funds, insurance and pension products
- The separation of NPS trust for government employees will strengthen the regulating role of Pension Fund Regulatory and Development Authority of India. Further, the plan to auto-enrol for a universal pension plan would ease job mobility, enable inter-operability and safeguard the accumulated corpus

# Sectoral impact

## Agriculture and allied sectors

Positive

### Key budget proposals

- Allocation for providing interest subsidy for short-term credit to farmers raised to Rs 21,175 crore from Rs 18,000 crore (BE) and Rs 17,863 crore (revised estimate or RE) in fiscal 2020
- Allocation for dairy development increased to Rs 5,344 crore from Rs 4,558 crore (BE) and Rs 4,558 (RE)
- Allocation for Department of Fisheries increased to Rs 825 crore from Rs 800 crore (BE) and Rs 700 crore (RE) in fiscal 2020
- Allocation under Market Intervention Scheme and Price Support Scheme (MIS-PSS) reduced to Rs 2,000 crore from Rs 3,000 crore (BE) and Rs 2,010 crore (RE) in fiscal 2020
- Rs 500 crore allocated for the formation of 10,000 new farmer producer organisations (FPOs)
- Allocation for fertiliser subsidy reduced to Rs 71,345 crore from Rs 80,034 crore (budget estimate or BE) in fiscal 2020
- Allocations under various government schemes is as under:

| S.No. | Parameter | BE 2020 (Rs crore) | RE 2020 (Rs crore) | BE 2021 (Rs crore) |
|---|---|---|---|---|
| 1 | Mahatma Gandhi National Rural Employement Guarantee Act (MGNREGA) | 60,000 | 71,002 | 61,500 |
| 2 | Pradhan Mantri Gram Sadak Yojana (PMGSY) | 19,000 | 14,000 | 19,500 |
| 3 | Pradhan Mantri Kisan Samman Nidhi (PM-Kisan) Yojana | 75,000 | 54,370 | 75,000 |
| 4 | Pradhan Mantri Fasal Bima Yojana | 14,000 | 13,641 | 15,695 |
| 5 | Pradhan Mantri Krishi Sinchai Yojna (PMKSY) | 3,000 | 2,032 | 4,000 |
| 6 | Pradhan Mantri Annadata Aay SanraksHan Abhiyan (PM_AASHA) | 1,400 | 321 | 500 |
| **Total** | **Agriculture, allied sectors, and rural development** | **292,280** | **264,244** | **299,592** |

*RE: Revised estimate; BE: Budget estimate*

- Import duty on farm equipment introduced at 7.5%
- Basic custom duty on raw sugar reduced to 25% from 100% for imports upto 0.3 million tonne

### Budget impact

- The government has raised allocation for the agriculture sector and rural development by 13% on fiscal 2020 expenditure. Effective implementation of the government schemes is expected to lead to employment generation (under MGNREGA and PMGSY) and higher rural income (through PM-KISAN)
- MGNREGA provides income support to 34% of the rural households. Rural wages contribute nearly a third of total household income. Thus, an additional allocation of 2.5% in this budget should aid rural sentiment

- Although, allocation under PMGSY has been increased by 39% over expenditure of fiscal 2020, the achievement ratio slipped to 74% from 81% in fiscal 2019. Thus, we believe expenditure against allocation remains a monitorable
- Effective implementation of PM-KISAN could increase cash in farmers' hands by 25% at C2 cost (comprehensive cost that includes imputed rent on land and interest cost on capital equipment). In fiscal 2020, 60% of the rural households are estimated to have reaped the benefit of PM-KISAN from the effective disbursement of 74% of the allocated amount. However, identification of beneficiaries is a key monitorable
- To improve the credit discipline and ensure timely repayment of short-term debt, interest subsidy for short-term credit to farmers raised 18% over expenditure of fiscal 2020
- Addition of 10,000 new FPOs (to the existing 6,000) will cater to ~7% of the farmer population, increasing the number of farmers serviced by FPOs to ~11% from 4%
- To develop the irrigation sector, an additional allocation of Rs 1,000 crore has been made under PM- Krishi Sinchai Yojana. Effective implementation would lead to 3.5 million hectares of land being covered under micro irrigation until fiscal 2021
- Also, allocations to sectors such as fisheries, dairy processing, and poultry have been increased, showing support towards diversifying farmer incomes. However, these are structural in nature and will take time to have a meaningful impact
- Under the Deficit Payment Scheme of PM-AASHA, to ensure differential payment between the minimum support price and the mandi prices for oilseeds and pulses, the government will have to bear an extra exchequer burden of Rs 30,000 crore. Therefore, the revised allocation of Rs 500 crore for this scheme is insufficient
- Similarly, a decline in MIS-PSS allocation will lead to a decline in procurement of agricultural/ horticultural commodities
- An 11% reduction in fertiliser subsidy will continue to stretch the working capital of companies in fiscal 2021
- Increase in import duty on farm equipment is expected to have a positive impact on the domestic industry. In general, farm equipment imports are negligible, but those of tillers and weeders have a 10% share. In contrast, a decline in import duty of raw sugar for importing up to 0.3 million tonne (compared to domestic production of 32.7 million tonne in Sugar Season 2018-19) will put downward pressure on domestic sugar prices

## Banking & financial services — Neutral

### Key budget announcements

- Eligibility limit for non-banking financial companies (NBFCs) for debt recovery under the Securitisation and Reconstruction of Financial Assets and Enforcement of Securities Interest (SARFAESI) Act, 2002, reduced to an asset size of Rs 100 crore from Rs 500 crore, or to a loan ticket size of Rs 50 lakh from Rs 1 crore currently
- Bank deposit insurance coverage increased to Rs 5 lakh per depositor from Rs 1 lakh at present, through the Deposit Insurance and Credit Guarantee Corporation (DICGC)
- Proposed scheme to provide subordinate debt for entrepreneurs of micro, small and medium enterprises (MSMEs) by banks as quasi-equity, fully guaranteed through the Credit Guarantee Trust for Medium and Small Enterprises (CGTMSE)
- Debt restructuring window for MSMEs extended to March 31, 2021
- Amendments to the Factor Regulation Act, 2011, to enable NBFCs to extend invoice financing to MSMEs through the TReDS platform
- Infusion of Rs 10,000 crore equity into India infrastructure finance company limited (IIFCL)
- Infusion of Rs 6950 crore of equity capital into three public sector general insurance companies

### Budget impact

- Reduction in loan ticket size of NBFCs for applicability of the SARFEASI Act to Rs 50 lakh from Rs 1 crore is a positive. It will bring an additional 12-15% of NBFCs' loan against property (LAP) book (~Rs 1 lakh crore as of March 2019) under the Act's applicability
- Increase in deposit insurance coverage for bank deposits by DICGC to Rs 5 lakh from Rs 1 lakh per depositor will boost the confidence of small depositors considering the recent issues faced by a prominent cooperative bank. The scheme covers all types of accounts - savings, current and term deposits. The higher limit of Rs 5 lakh will increase coverage to over 75% of all term depositors compared with 61% earlier
- The proposal to enable banks to extend subordinate debt to MSMEs under the CGTMSE guarantee scheme will help MSMEs augment long-term working capital and reduce requirement of high-cost & scarce equity capital
- The proposal to extend the scheme permitting restructuring of MSME loans without being classified as non-performing accounts till March 31, 2021, will keep delinquencies under check. Although permitting restructuring of loans en masse is not financially prudent, given the sluggish economy, it is essential to ensure uninterrupted credit flow to the sector
- NBFCs have not be able to penetrate the working capital finance segment, unlike banks. The government's move to permit NBFCs to operate on the TReDs platform (hitherto restricted to NBFC factors) and engage in invoice financing will give them a major opportunity to extend working capital loans. Though NBFCs are cost inefficient when it comes to competing with banks, they can cater to segments that are not the focus of the latter. Nevertheless, the existing challenges in scaling up volumes on TReDs platforms, including lack of adequate participation from large corporates and MSME registrations, need to be addressed before NBFCs could benefit from the proposed move
- Capital infusion of Rs 10,000 crore into IIFCL gives a major boost to infrastructure finance in the country and can help meet additional Rs 50,000-60,000 crore of funding requirements of the sector

- The move to infuse Rs 6,950 crore equity into 3 general insurers will help them meet solvency margin of 1.5 times. But to sustain, it is critical for the insurance companies to improve their underwriting performance in the medium to long term
- No fresh capital infusion plans have been announced for public sector banks. While banks with mergers underway may not require significant capital infusion in fiscal 2021, CRISIL Research believes banks under prompt corrective action (PCA) may need Rs 9,000 crore. They could get fresh capital, on need basis, given the government's track record of infusing capital to needy banks. The remaining public sector banks, which are in better shape, are estimated to require Rs 30,000 crore for growth till March 2021, for which they can access the capital market

## Consumption — Mildly positive

### Key budget proposals

- Revision in personal income tax brackets. The new tax regime, if chosen by the taxpayer, will not permit deductions currently allowed

**Tax slabs have been changed as follows:**

| Income up to (Rs) | Existing tax rate | New tax rate |
|---|---|---|
| 250,000 | 0% | 0% |
| 500,000 | 5% | 5% |
| 750,000 | 20% | 10% |
| 1,000,000 | 20% | 15% |
| 1,250,000 | 30% | 20% |
| 1,500,000 | 30% | 25% |
| Above 1,500,000 | 30% | 30% |

- Allocation for rural India at Rs 2.99 lakh crore is a 3% increase over budgeted estimates (BE) for 2019-20 and a 13% increase over revised estimates (RE). For details, please refer the note on Rural India

### Budget impact

- As per the revision in the personal income tax regime for salaried individuals, a taxpayer would have to forego the deductions allowed currently if she/he prefers the new tax regime. CRISIL Research's assessment, based on scenario analysis (as shown below), indicates that moving to the new regime makes sense for those who are not availing any deduction today, compared with those who are. Given that a large proportion of those availing deductions will not move to the new regime, the announcement will at best be a mild positive for taxpayers. Also, there were no major announcements to tackle the current slowdown in the economy and address stress in the non-banking financial companies (NBFC) and housing sectors. We believe that urban income growth, sentiment, and hence, spending on big-ticket items such as automobiles and real estate, are likely to remain muted over the short term
- **Scenario analysis:** While comparing the existing and new income tax regimes, CRISIL has considered a total of three cases – two involving the old tax regime and one with the new

**CASE A: A taxpayer trying to minimise his tax payout**

We have considered some of the major deductions under the following sections in the old tax regime, which are not allowed as per the new regime:

- Section 16 – Standard deduction of Rs 0.50 lakh
- Section 80C – Total deduction of Rs 1.50 lakh
- Section 80 CCD (1B) – Deduction of Rs 0.50 lakh
- Section 80 D – Premium on medical insurance policies up to Rs 0.25 lakh
- Section 24 B – interest on housing loan up to Rs 2 lakh

**CASE B: A taxpayer who does not avail any deduction**

We have only considered Section 16 – Standard deduction of Rs 0.50 lakh.

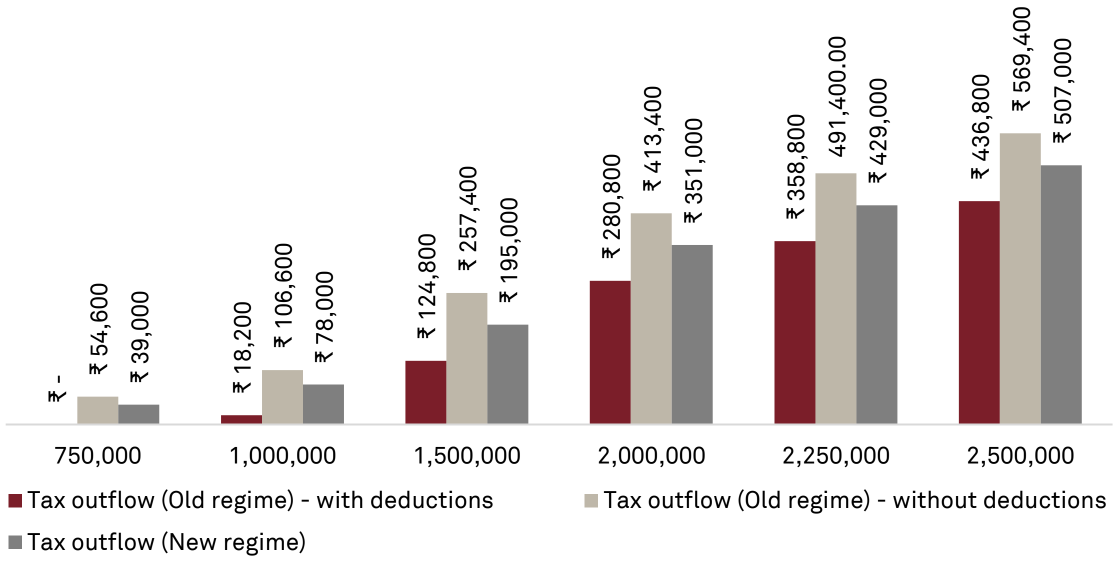
**CASE C: New regime**

The three cases for an individual with a gross annual income of Rs 1,000,000 are summarised in the table below.

| Particulars | Existing IT regime (with deductions) (A) | Existing IT regime (without deductions) (B) | New IT regime (C) |
|---|---|---|---|
| Gross income | 1,000,000 | 1,000,000 | 1,000,000 |
| Less: U/s 16 - Standard deduction | 50,000 | 50,000 | - |
| **Total income** | **950,000** | **950,000** | **1,000,000** |
| | | | |
| Less: Other deductions available: | | | |
| U/s 80C | 150,000 | | |
| U/s 80CCD (1B) - NPS | 50,000 | | |
| U/s 80D – Medical insurance policies | 25,000 | | |
| U/s 24B - Interest on housing loan | 200,000 | | |
| **Taxable income** | **525,000** | **950,000** | **1,000,000** |
| Income tax | 17,500 | 102,500 | 75,000 |
| Add: Education cess | 700 | 4,100 | 3,000 |
| **Tax payout** | **18,200** | **106,600** | **78,000** |

*Note: We have not considered deductions for house rent allowance and leave travel allowance in this analysis.*

**Scenario analysis for the above three cases with different gross incomes:**




| | Gross income | | | | | |
|---|---|---|---|---|---|---|
| | Rs 7.5 lakh | Rs 10.0 lakh | Rs 15.0 lakh | Rs 20.0 lakh | Rs 22.5 lakh | Rs 25.0 lakh |
| Increase in tax outflow under new regime over old regime (with deductions) | * | 329% | 56% | 25% | 20% | 16% |
| Increase in tax outflow under new regime over old regime (without deductions). Negative percentages indicate lower outgo under new regime. | -29% | -27% | -24% | -15% | -13% | -11% |

*Note: * – no tax was paid under previous regime, as compared to tax of Rs 39,000 in new regime*

- However, increase in allocations for rural India is a positive, although overall implementation remains a monitorable. For example, while PM KISAN scheme has an allocation of Rs 75,000 crore, similar to last year's BE, the RE in 2019-20 is Rs 54,370 crore, showing constraints on the disbursals side. Mahatma Gandhi National Rural Employment Guarantee Act allocation at Rs 61,500 crore shows a 2.5% increase over BE levels and a 13% decline over RE levels, indicating an upside from past experiences. Further, PM Krishi Sinchai Yojna and PM Gramin Sadak Yojna schemes have seen a 15% and 2.5% increase, respectively, over BE levels, which should aid rural wage payments. This, along with support from higher mandi prices, should aid rural household income, providing much-needed support to rural consumption, especially low-ticket categories such as fast moving consumer goods
- Considering the announcements for both urban and rural India, we believe the budget provides an overall mild positive stimulus to consumption

## Infrastructure **Negative**

### Key budget proposals

- 100% tax exemption on interest, dividend, and capital gains income on investments by sovereign wealth funds of foreign governments in infrastructure
- Mumbai-Ahmedabad high speed rail project to be actively pursued
- Redevelopment of four railway stations, operation of 150 passenger trains, and five new smart cities under public-private partnership (PPP) announced
- Large solar power capacity alongside rail tracks to be developed
- 12 highway stretches of ~6,000 km to be monetised
- 100 more airports to be developed under UDAN-Regional Connectivity Scheme by 2024
- Krishi UDAN services to be launched
- Import duty exemption for very low sulphur fuel oil (VLSFO) compared with 10% currently

**How the proposed infrastructure investments stack up**

| | FY20BE | | | FY20RE | | | FY21BE | | | Growth in Outlay | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Budget | IEBR | Total | Budget | IEBR | Total | Budget | IEBR | Total | vs FY20RE | vs FY20BE |
| Ministry of Railways | 65,837 | 94,071 | 1,59,908 | 67,837 | 88,247 | 1,56,084 | 70,000 | 90,792 | 1,60,792 | 3% | 1% |
| Ministry of Road Transport and Highways | 72,059 | 75,000 | 1,47,059 | 72,162 | 75,000 | 1,47,162 | 81,975 | 65,000 | 1,46,975 | 0% | 0% |
| National Highway Authority of India | 36,691 | | 36,691 | 36,691 | | 36,691 | 42,500 | | 42,500 | 16% | 16% |
| Ministry of Urban Development | 19,544 | 18,414 | 38,957 | 18,162 | 47,682 | 65,844 | 19,571 | 31,887 | 51,458 | -22% | 32% |
| Ministry of Power | 2,400 | 42,407 | 44,807 | 1,822 | 52,447 | 54,269 | 1,082 | 49,884 | 50,967 | -6% | 14% |
| Pradhan Mantri Gram Sadak Yojana | 19,000 | - | 19,000 | 14,070 | | 14,070 | 19,500 | | 19,500 | 39% | 3% |
| Ministry of New and Renewable Energy | 45 | 12,354 | 12,399 | 71 | 12,466 | 12,537 | 52 | 13,727 | 13,779 | 10% | 11% |
| Ministry of Rural Development | 100 | 26,170 | 26,270 | 55 | 10,000 | 10,055 | 100 | 10,000 | 10,100 | 0% | -62% |
| Ministry of Water Resources | 391 | 8,313 | 8,704 | 319 | 4,960 | 5,279 | 386 | 5,078 | 5,464 | 3% | -37% |
| Ministry of Civil Aviation | 25 | 12,566 | 12,591 | 25 | 34,817 | 34,842 | 26 | 5,190 | 5,216 | -85% | -59% |
| Ministry of Shipping | 267 | 5,578 | 5,845 | 252 | 3,929 | 4,181 | 85 | 3,715 | 3,800 | -9% | -35% |
| | | | | | | | | | | | |
| **Total budget** | **1,79,668** | | | **1,74,776** | | | **1,92,777** | | | **10%** | **7%** |
| **Total IEBR** | | **2,94,873** | | | **3,29,548** | | | **2,75,273** | | **-16%** | **-7%** |

| | FY20BE | | | FY20RE | | | FY21BE | | | Growth in Outlay | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Budget | IEBR | Total | Budget | IEBR | Total | Budget | IEBR | Total | vs FY20RE | vs FY20BE |
| **Total Outlay** | | | **4,75,540** | | | **5,04,324** | | | **4,68,050** | **-7%** | **-2%** |

*RE: Revised estimate; BE: Budget estimate*
*Note:*
*1. Outlay for Ministry of Civil Aviation has declined 85% in fiscal 21 BE vs fiscal 20 RE due to a one-time transfer of Air India's debt to the special purpose vehicle (SPV) Air India Asset Holding Ltd (AIAHL) in fiscal 2020 and an anemic 1.5% on-year expected growth in internal and extra-budgetary resources (IEBR) of Airports Authority of India (AAI) in fiscal 2021.*
*2. Pradhan Mantri Gram Sadak Yojana (PMGSY) investments have been considered as revenue expenditure in the Ministry of Rural Development allocations, however, the investments include construction costs*

### Budget impact

- For the first time in years, overall infrastructure capital expenditure (capex) has fallen to Rs 4.7 lakh crore for fiscal 2021 from Rs 5.1 lakh crore in fiscal 2020 RE. Moreover, a 16% reduction in IEBR implies a higher burden on budgetary support and strain on government finances. Lower spend on infrastructure would also lower chances of revival in allied sectors, particularly steel and cement
- The national infrastructure pipeline of Rs 103 lakh crore over fiscal 2020-25 includes investments in core and allied infrastructure sectors. Excluding allied sectors such as industrial, digital, and social infrastructure, the annual core infrastructure investment amounts to Rs 15 lakh crore, or Rs 90 lakh crore over the five-year period. Of this, Rs 4.7 lakh crore would come from the Centre and Rs 2.6 lakh crore from states, leaving ~52% to the private sector. However, considering the limited number of private players and low risk-appetite of banks, private participation is a key monitorable in achieving these targets
- Tax exemptions for sovereign funds to increase foreign investor participation across infrastructure sectors with investments already visible in roads, power and airports
- Allocation for railways has increased 3% to Rs 1.6 lakh crore in fiscal 2021. But this falls way short of the Rs 3.8 lakh crore annual investment envisaged as part of Rs 50 lakh crore investment over fiscals 2018-30. A capex of Rs 6 lakh crore was incurred between fiscals 2016 and 2020, missing the Rs 8.5 lakh crore target set for this period
- IEBR declined 6% in fiscal 2020 (RE over BE) under the Ministry of Railways, indicating headwinds in raising external finance. This may not bode well for the budgeted IEBR for fiscal 2021, too
- The high speed Mumbai-Ahmedabad rail project is still in the land acquisition stage (hardly 47% has been acquired as on December 2019), despite the SPV being set up in February 2016
- Though operation of 150 passenger trains and re-development of four stations on PPP basis were announced, past success on similar front has been low
- Overall allocation to the Ministry of Roads is flat on-year, but budgetary support has risen 14%, which is positive. NHAI's IEBR allocation has fallen from Rs 75,000 crore in fiscal 2020 RE to Rs 65,000 crore in fiscal 2021, indicating a reduction in the authority's dependence on debt as percentage of total expenditure. NHAI's borrowings grew 10x from Rs 0.2 lakh crore in fiscal 2015 to Rs 2 lakh crore as of September 2019
- Monetisation of 6,000 km either via toll-operate-transfer (TOT) or through the recently-approved infrastructure investment trusts (InvIT) route would be a funding impetus for road construction by the

NHAI. CRISIL Research expects NHAI to be able to raise Rs 9,000-10,000 crore per year via TOT over the medium term

- Allocation under the PMGSY has increased 39% to Rs 19,000 crore over fiscal 2020 RE. On the other hand, achievement ratio declined to 74% in fiscal 2020 from 94% in fiscal 2017 which makes the budgeted target for fiscal 2021 aggressive. Moreover, rural road construction targets over the next five years under PMGSY III are lower at 125,000 km, compared with 218,000 km constructed over the past five years
- The drop of 22% in the capex under Ministry of Urban Development for fiscal 2021 over fiscal 2020 RE is due to a one time grant of Rs 15,000 crore to the Building Material and Technology Promotion Council in fiscal 2020 RE. Excluding the grant, there is a 1.2% rise in capex allocation for fiscal 2021 over fiscal 2020 RE
- CRISIL Research's analysis of 106 airports awarded under UDAN so far reveals that 62 of these remain non-operational due to lack of basic airport infrastructure. An estimated capex of Rs 4,500-5,000 crore is needed for their revival. Accordingly, awarding of routes on new 100 airports would be a monitorable. With no cargo services operationalised under the existing RCS since the 2016 launch, implementation of the Krishi UDAN scheme too, remains to be seen
- Reduction of custom duty on imports of International Maritime Organization (IMO)-compliant VLSFO from 10% to nil is positive for the shipping sector, as India is partly dependent on imported marine fuel for its bunkering needs. Following IMO's requirement of low sulphur fuel oil effective January 2020, the demand for it has increased. However, as per our interactions with market participants, the east coast faces supply constraints for LSFO
- Budgetary allocation for Pradhan Mantri Awas Yojana (PMAY) has increased by 9% over the last fiscal's RE. PMAY-Urban has an overall target of constructing 1.12 crore houses by 2022. Of these, 1.03 crore houses have been sanctioned as of January 2020. PMAY-Rural has an overall target of 2.95 crore, of which about 0.9 crore units stand completed as of December 2019

## MSMEs — Positive

### Key budget proposals

- Provision of subordinate debt for micro, small and medium enterprises (MSMEs)
- Extension of restructuring loans for another year
- Non-banking financial companies ( NBFCs) to be allowed to register and participate on TReDS platform via amendment in Factoring Regulation Act, 2011
- Launch of new scheme, NIRVIK (Niryat Rin Vikas Yojana) offering higher insurance cover for exports
- Simplification of the GST filing process
- No audit for MSMEs with turnover up to Rs 5 crore
- Launch of app-based invoice financing loans
- Full tax exemption for 3 out of 10 years for companies with turnover up to Rs 100 crore (up from Rs 25 crore)
- Setting up of tech clusters
- Deferral of tax payment on employee stock ownership plans (ESOPs) for start-ups

- Launch of a Rs 1,000 crore scheme for technological upgradation, R&D, etc, for mid-sized companies in selected sectors, to be funded by EXIM Bank and Small Industries Development Bank of India (SIDBI)

**Budget impact**

- Provision of subordinate debt for MSMEs is a positive as working capital requirements account for over 50% of an MSME's debt, as seen in the ~13,000 entities evaluated in CRISIL Quantix for fiscal 2019
- Extension of restructuring loans for another year (till March 2021) will provide relief to a sector that already faces ~9% of gross non-performing assets (GNPA)
- While it was announced in the last budget that NBFCs could register and participate on the TReDS platform, the current budget lays out an amendment in the Factoring Regulation Act to implement this. As of March 2019, only banks and five NBFC factors were registered on TReDS. Since its inception in 2014, TReDS has seen only 2.5 lakh transactions, totaling Rs 6,700 crore, and needs a further participation push. While the move to allow NBFC participation on TReDs is welcome, it may not be sufficient, given the concerns linked to large corporates' participation and MSME registrations
- Enhancement of risk cover at competitive rates through schemes such as NIRVIK by providing higher insurance coverage, lower premium for MSME exporters and simplified procedure for claim settlements is a positive
- Easier and reduced cost of compliance with simplification in the GST filing process and no audit for MSMEs with turnover up to Rs 5 crore
- While app-based invoice financing loans are to be launched, their modalities and execution are monitorables
- Full tax exemption provided for 3 out of 10 years for companies with a turnover up to Rs 100 crore (up from Rs 25 crore) is a positive
- Setting up of tech clusters, deferral of tax payment on ESOPs for start-ups by five years or till the employee exits the organisation, and launch of a Rs 1,000 crore scheme for technological upgradation, R&D, etc, for mid-sized companies in selected sectors, to be funded by EXIM Bank and SIDBI, are steps in the right direction

## Crude oil and refining — Positive

**Key budget announcements**

- Budgetary allocation for subsidy on liquefied petroleum gas and kerosene increased 6% on-year for fiscal 2021 to Rs 40,915 crore
- Allocation for strategic reserves increased 600% to Rs 855 crore for fiscal 2021

**Budget impact**

- Against a budgetary allocation of Rs 40,915 crore, under-recovery for fiscal 2021 is expected at Rs 30,000-35,000 crore, based on CRISIL Research's crude oil price outlook of $60-65 per barrel and taking into account the increase in volume of petroleum products
- Hence, the higher budgetary allocation will go towards paying off a part of the rolled over subsidy of over Rs 20,000 crore since fiscal 2018 – in fiscals 2018 and 2019, the budgeted amount of Rs 28,684 crore and Rs 24,837 crore covered only ~85% and 57% of the actual under-recoveries

- The increased allocation towards building of strategic reserves will provide substantial cushion against global supply disruptions

## Power and renewable energy — Positive

### Key budget proposals

- Ministry of New and Renewable Energy's budget hiked by 48% over the revised budget of fiscal 2020
- Rs 1,000 crore allocated for Kisan Urja Suraksha evam Utthan Mahabhiyan (KUSUM)
- Scheme to install solar projects along railway tracks announced
- Basic custom duty (BCD) levied at 20% for solar modules and cells
- New power generation companies included as manufacturing entities for corporate tax cut
- Smart metering and prepaid meters to be implemented across states by utilities
- Thermal plants not meeting emission norms to be shut down

### Budget impact

- Budgetary allocation hiked by 27% and 10% for wind and solar power, respectively, compared with the revised budget of fiscal 2020. This will help improve central financial assistance to schemes for solar rooftops, solar parks, off-grid renewable energy, etc.
- While the KUSUM scheme was announced in the previous budget, this is the first time a significant allocation has been provided. We expect this allocation to boost the scheme where implementation remains tardy
- Installing solar projects along tracks translates to a potential 22-25 GW solar capacity addition (given 0.52 lakh hectare of vacant land with the Railways). Implementation will depend on location feasibility, power evacuation, and operation and maintenance-related challenges in the projects
- 20% BCD on solar modules and cells will have a minimal impact as it replaces the existing safeguard duty of 15%. Further, the on-year decline in module prices means the impact on capital costs and tariffs for solar projects will be slight
- Reduced tax rate of 15% coupled with the earlier reduction in Minimum Alternate Tax is a positive. We expect 80-100 basis points (bps) improvement in the equity IRRs (internal rate of return) of renewable companies and a 50-60 bps rise for conventional projects (for setting up of new capacities)
- Effective smart and prepaid metering implementation would improve:
  - Billing and collection efficiency, leading to a reduction in aggregate technical and commercial losses from the current ~21% (Source: UDAY portal);
  - Grid management and reduce the manpower requirement owing to digitalisation, helping discoms lower operating costs
- The government proposes to close thermal power plants where the emission levels are higher than the prescribed limit. Based on CEA data, ~10 GW of thermal power plants could be impacted by this. This will help ease overcapacity in the sector to an extent

## Telecom services

**Neutral**

### Key budget proposals

- Budgeted allocation from communications services under revenue receipts at Rs 1.33 lakh crore
- BharatNet spending pegged at Rs 6,000 crore

### Budget impact

- The budgeted revenue receipt from the sector is higher by ~126%. However, AGR payments will be crucial for the realisation of this, given the financial stress in the sector
- We believe around Rs 40,000 crore (considering that players get a relief in the form of extended payment timeline on AGR dues) may be received in fiscal 2021, given the financial stress of these players. Another Rs 20,000 crore can be received under license fees and spectrum usage charges
- As deferred spectrum payments were given a two-year moratorium in November 2019, sales of renewal spectrum and fresh 5G spectrum would be needed to cover up the balance Rs 70,000 crore. This appears highly unlikely, given the 5G trial delays and tighter capex budgets amid financial stress. Players are also looking at refarming the existing spectrum to avoid renewal
- We expect a maximum of Rs 80,000-90,000 crore to be a reality in fiscal 2021
- BharatNet spending is estimated at the same level as that in the previous budget. However, execution remains a monitorable, as the revised estimate of fiscal 2020 is only 30% of the budget estimate

**Split of receipts under various categories (in Rs crore)**

| | FY20 | FY21 |
|---|---|---|
| Spectrum auction proceeds | 0 | 35,000-40,000 |
| License fees and spectrum usage charges | 20,000-25,000 | 18,000-20,000 |
| AGR dues | 0 | 30,000-35,000 |
| Deferred spectrum liabilities | 20,000-21,000 | 0 |
| Total (CRISIL Research estimate) | 45,000-50,000 | 80,000-90,000 |
| Budget estimate | 58,989 | 1,33,027 |

*Source: CRISIL Research*

# Annexure

| | Rate of customs duty | | Rate of surcharge | | | |
|---|---|---|---|---|---|---|
| Commodity | From | To | From | To | Impact | Remarks |
| Charger/power adapter | Nil/10%/15% | 20% | 0% | 10% | | Increase in custom duties will promote domestic manufacturing of electronic components/ sub-components and provide an impetus to electronic manufacturing companies to gradually move up the value chain from a pure assembly hub currently |
| Printed circuit board assembly (PCBA) | 10% | 20% | 0% | 10% | | |
| Vibrator motor, display assembly, touch panel/cover glass assembly | 0% | 10% | 0% | 10% | | |
| Newsprint & coated paper | 10% | 5% | | | | Given that India imports 50-60% of newsprint, reduction in duty will further impact domestic manufacturers<br>Reduction in import duty for coated paper will impact domestic manufacturers in future (currently, coated paper is a quarter of total paper imports) |
| Calcined pet coke (CPC) | 10% | 7.50% | | | | CPC is used for making electrodes, used in aluminium smelters and electric arc furnaces. Fall in customs duty will lead to better margins for aluminium and steel manufacturers. However, the benefits will be minuscule as CPC forms a very small part (less than 1%) of the overall cost |
| Very low sulphur fuel oil (VLSFO) | 10% | 0.00% | | | | India is partly dependent on imported IMO-compliant marine fuel -- VLSFO (0.5% sulphur content) -- and hence a positive step for the shipping sector |
| Propane and butane | 5% | 2.50% | | | | Would be applicable for the non-domestic LPG segment. Price of industrial LPG is expected to reduce 2.1-2.3% and that of commercial LPG 1.7-1.9% |
| Footwear | 25% | 35% | | | | Footwear imports, especially from China, have been increasing fast. Increase in customs duty will support local players |
| Parts of footwear | 15% | 25% | | | | Footwear imports, especially from China, have been increasing fast. Increase in customs duty will support local players |

| | Rate of customs duty | | Rate of surcharge | | | |
|---|---|---|---|---|---|---|
| **Commodity** | **From** | **To** | **From** | **To** | **Impact** | **Remarks** |
| Medical devices (HS codes 9018-9022) | Basic customs duty or BCD (5-15%) | BCD (5-15%)+ Health cess of 5% | | |  | Nearly 70-80% of medical devices in India are imported. So increased cess on BCD will provide an impetus to domestic manufacturers and improve price competitiveness of their products. However, this could increase the cost of medical equipment |
| Compressors for refrigerators | 10% | 12.50% | | |  | The industry is highly dependent on imports for compressors and hence prices will go up marginally. Domestic manufacturers will benefit |
| Refrigerating equipment like freezers | 7.5%/10% | 15% | | |  | India has limited manufacturing capabilities for such refrigeration equipment and the hike in import duties will aid domestic manufacturing |
| Patent leather | 0% | 10% | | |  | Increase in customs duty will support domestic manufacturers. However, as it forms a negligible part of the industry, it would not have a major impact |
| Raw sugar | 100% | 25% /100% | | |  | Import of 0.3 million tonne of sugar has been permitted at 25% BCD, with 100% BCD applicable beyond this. This would marginally increase closing inventory levels for sugar season 2020, limiting a sharp rise in sugar prices |
| Completely buily units (CBU) of electric vehicles | 25% | 40% | | |  | Such vehicles account for less than 1% of sales, but this would aid domestic production of electric vehicles in the medium to long term |
| Semi knocked down (SKD) of electric vehicles | 15% | 30% | | | | |
| SKD of electric vehicles | 15% | 25% | | | | |
| CKD of electric vehicles | 10% | 15% | | | | |
| CBUs of vehicles other than electric vehicles | 30% | 40% | | | | |
| Crude palm oil | 37.50% | 44% | | |  | Increase in customs duty will support domestic oilseed prices. This will boost production and import of other oils, such as sunflower and soybean oil. As such, 70% of the edible oil consumed in the country is imported |
| Solar cells whether or not assembled into panels | Nil | 20% | | |  | New BCD of 20% will have minimal impact as it replaces the existing safeguard duty of 15% that expires on July 2020. Further, the on-year decline in module prices means the impact on capital costs and tariffs for solar projects will be minimal |
| Tillers and weeders | Nil | 7.50% | | |  | Import duty of 7.5% introduced on tillers and weeders. Of the total farm equipment industry, imports occupy a negligible share. However, imports constitute a 10% share in the tillers and weeders segment. Thus, higher import duty will boost domestic manufacturing |

## About CRISIL Limited

CRISIL is a leading, agile and innovative global analytics company driven by its mission of making markets function better.

It is India's foremost provider of ratings, data, research, analytics and solutions, with a strong track record of growth, culture of innovation and global footprint.

It has delivered independent opinions, actionable insights, and efficient solutions to over 100,000 customers.

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## About CRISIL Research

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