



FCA, Insead,

Indian Market View

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Brief Summary:

- GDP growth for FY 22 expected to be 9.2% (FY21 revised at -6.6% from earlier estimate of -7.7%) *Highest recovery for any large economy in FY22*
- Revised Fiscal Deficit 6.9% of GDP in FY22 and Fiscal deficit at 6.4% in FY23
- Total Expenditure in FY23 estimated at INR 39.45 trillion (@14.3% growth)
- Total Resources mobilization INR 22.84 trillion other than borrowing

Sector Tailwind (where we have interest)because of Budget push /reforms :

- Unblended fuel to be levied additional duty of Rs. 2 per litre from Oct22. This will further accelerate promotion of ethanol blended fuel - a game changer.

According to our thesis in 2021, few sugar companies would be now **bio fuel companies** - they will be fuel companies who would also produce sugar -the earnings will be more structural hence the industry will get re-rated

- The government will bring a **battery swapping policy** to boost use of electric vehicles in the country in view of space constraints for setting up charging stations. The policy will facilitate faster rollout of battery swapping centres where EV owners would be able to

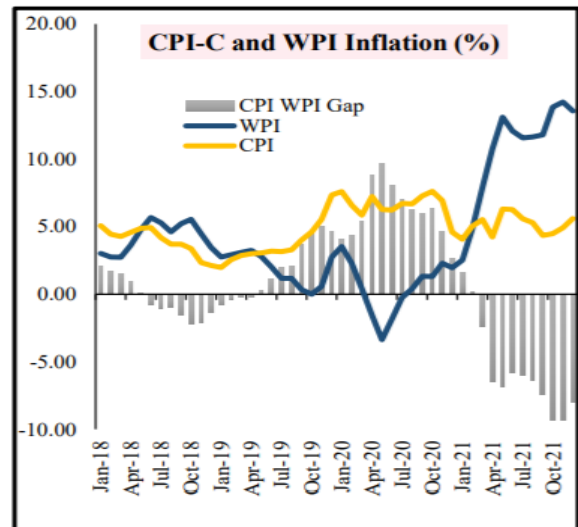
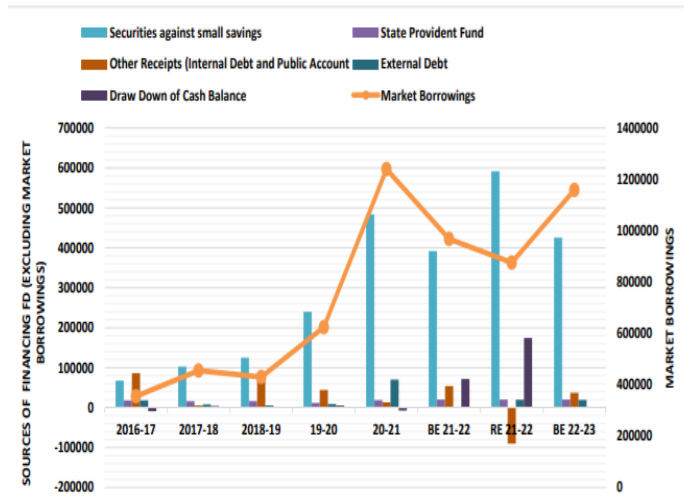
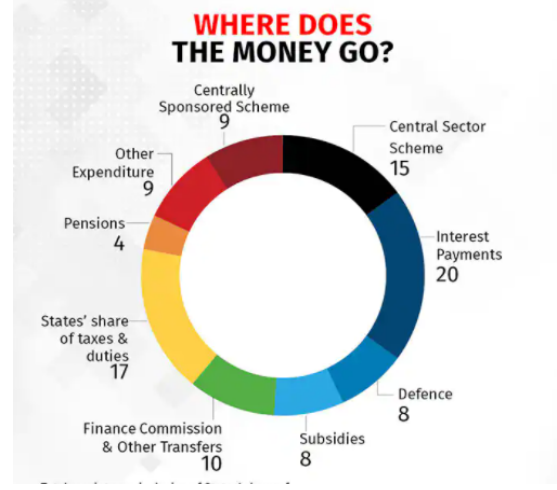
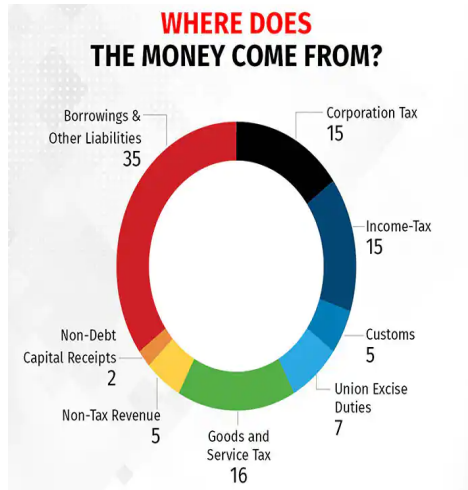
refuel their EV by replacing exhausted batteries with charged ones. This will also save time taken in charging the embedded batteries in EVs. At present, a few such options are available in the country and EV owners have to spend hours for charging their vehicles at charging stations especially in cities.

- **Super Infrastructure** push will lead to good demand of constructions sectors, real estate, steel, cement etc and will create employment and consumer expenditure growth

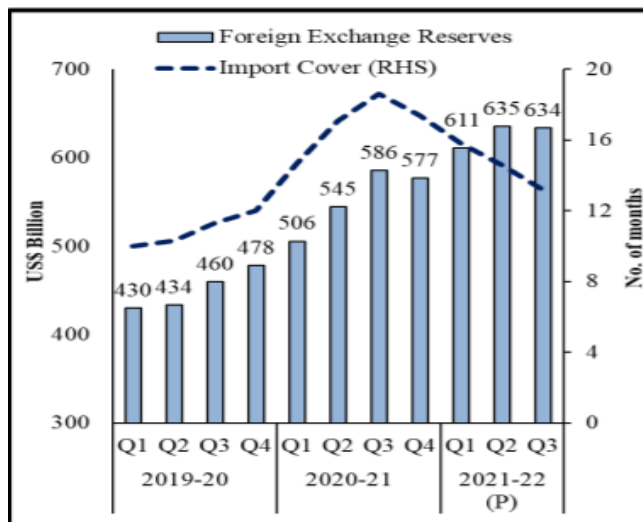
Other Highlights of Budget 2022 (What we find worth Noting)

- **PLI (Production Linked Incentive scheme)** in 14 sectors for **Aatmanirbhar Bharat** to create 6 million jobs*, additional allocation of Rs 19,500 crore for PLI in solar PV module manufacturing.
- **Promoting Fintech and digital economy a focus area for this Budget.**
- **75 digital banking systems in 75 districts by scheduled commercial banks.**
- **Core Banking Services to start in Post offices 150,000 Post offices will be connected**
- **ECLGS (Emergency Credit Line Guarantee Scheme) to be extended upto March 2023, guaranteed cover extended by another Rs 50,000 crore**
- **8 million new dwelling in rural, urban areas to be completed under PM Awas yojana**
- **Rs 2.37 trillion worth of MSP direct payments to wheat and paddy farmers.**
- **Rs 2 trillion outlay for MSMEs, Additional loans for 13 mn MSMEs.**
- **No change** in income tax slab. However, a **2 year window** will be given for **filing updated Tax return. All Long Term capital Gain will be taxed @ 15% (some relief)**
- RBI led **Digital Rupee** using blockchain to be launched in FY23, 1% TDS* on transfer of **Virtual Digital Assets** and Income to be taxed at 30% flat with no set-off for losses and no consideration of other Expenses.
- **68% of capital outlay for Domestic Defence industry. Defence R& D will be open to Domestic Industry, Start-ups and academia (upto 25% of outlay)**
- **5G Spectrum Auction by 2022-23 and roll out by 2025**

Budget In Graphs



How Deficit is Financed



Source : Money Control, Indiabudget.gov.in

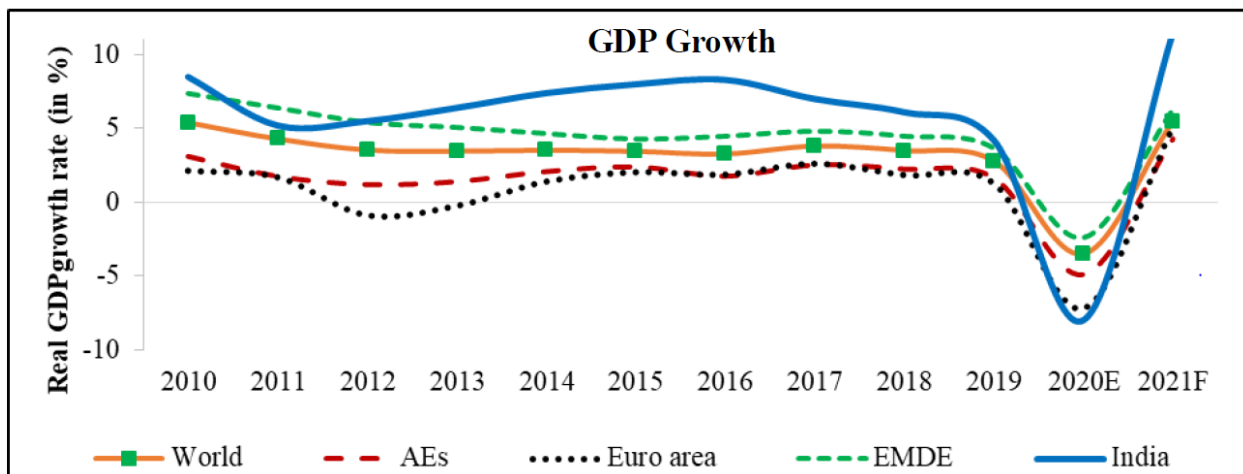


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View from Washington DC

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This year budget is crucial since India and the world is still recovering from **COVID 19 pandemic** and post Budget, **5 states going for election** in India including the biggest state Uttar Pradesh. In addition, **Government recently withdrew 3 legislations relating to farming** after protest by farmers over a year, so **what will be there for the farmers** in the Budget to win them back. The other one is **rising unemployment and inflation**.

Finance Minister has been able to deliver a relatively short speech (if compared with 2020 and 2021 Budget), a balanced and focused one. The government accommodated the farmer's demand by :

- significantly raising the Budget allocation for the **Minimum Support Pricing (MSP)** especially for wheat and paddy Farmers, (**1.5 times** the cost of production -all produce)
- NABARD to provide blended capital for start-ups in Agricultural and rural enterprises;

Now let's see what is the Government's plan for **generating employment and reduction of inflation**. Employment generation will be coming out of supply side Investment from Government, FDI and Private sectors.

Projected : 6 million employment will be generated from PLI given to 14 sectors

The **four pillars** of the Budget 2022 are - **PM Gati Shakti, Productivity/Climate Action/Sunrise Sectors, Inclusive Development, Financing Investment** these are having the potential for **supply-led growth**. In effect, this is an Infrastructure centered budget – be it **Green economy, Digital and Virtual Infrastructure, and Physical core Infrastructure**.

a) **Green Economy** : The government has kept its promise to achieve its goal towards carbon neutrality – 280 GW of Green power by 2030 by providing PLI for Solar. Bio-mass from agriculture sector to be converted to Thermal Power. Plus, focus on EV especially in Public Transportation.

b) **Digital & Virtual Infrastructure** : Ease of doing Business 2.0 will focus on second generation digitalization of all Government approval process, land records, one nation one ration, epassport, e Government procurement and settlement payment,

- 5 G roll out - to create the backbone for digital india with focus on rural India
- Special support for Animation/visual effects/ Gaming/Comic (AVGC)
- Special incentive for **R&D in Sunrise Opportunities** like Artificial Intelligence, Geospatial Systems and Drones, Semiconductor and its eco-system, Space Economy, Genomics, Green Energy, and Clean Mobility Systems (*too many areas – plan not clear but first move so we shall see in the next budget*)
- Digital banks in Districts and linking post office to Banks
- Digital Re through Bloc-chain – first move as a major country
- Digital Assets (not only cryptos) to be controlled through TAX – another first
- Widening definition of Infrastructure Projects to include digital and clean energy

c) **Physical core Infrastructure** :

PM Gati shakti framework with 7 engines of physical growth - Roads, Railways, Airports, Ports, Mass Transport, Waterways and Logistics Infrastructure

- National HW to be increased by 25000 km in a year (15% growth)
- Multimodal Logistics Parks at four locations through PPP

This will create significant boost for cost reduction in logistics sector by 400-500 bps

- Focus on Tier 2 and Tier 3 cities for providing ultra modern facilities; 8 million houses in 2022-23 under PM Awas Yojana
- 38 million households in 2022-23 under Har Ghar, Nal se Jal (*After Toilets/ gas comes Tap water*)
- After textile in 2021 Government focused on Incentives for Electronics Sector (*another effort to reduce dependence on China - what is called Atma Nirbhar Bharat*)

If spent properly and in time, all these investments have the potential to create direct and indirect employment opportunities

Micro SME (Micro-SME)

Another major initiative taken by the Government for the last couple of years promoting MSME (Like USA and China) including start-ups and skilling. Emergency Credit Linked Guarantee Scheme (ECLGS) is working well and extended till 2023 to cover INR 5 trillion Through credit Guarantee Scheme another INR 2 Trillion will be extended.

Where the fund will be coming from ?

For huge capital expenditure you need identification of source of funds and then generation from the same. This government has moved from traditional divestment to many new and unique avenues of Capital funding.

- LIC will be going public in 2022 along with other 8 major Listed PSUs in the public sector
- **Monetization from Operating Public Infrastructure Assets** (NHA toll roads, Transmission assets of PGCIL, Dedicated Freight Corridor of railways, Airports (tier 2 & 3)
- Oil and Gas Pipelines of Gail/HPCL and Warehousing Assets
(not fully realized in 2021, there will be some spill over in '22/23 for sure)
- Public shareholding to increase from 25% to 35% in case of listed companies – so from public sector companies Government would also generate fund liquidity apart from more broad basing retail folding
- Sovereign Green Bond to be floated to raise funds for the Green Economy

For the first time I have noticed an effort from the Government towards State - Financial Assistance to State governments to INR 1 trillion (50 years Interest free loans) **7.5 times increase** for investing in **designated infrastructure projects** - this will help linking to central projects at state level. This kind of support is required for overall growth. This will also see in the **GST collection – INR 1.41 Trillion** in January 2022, the highest monthly collection – hopefully now GST getting streamlined.

What the Government could have done differently?

Since the economy is coming out of COVID the Government could have given more direct transfer a) **Through MNREGA** b) **Tax reduction Middle income earner etc.** This is followed by USA and developed world but **that will surely increase the Inflation** although the effect would have been faster. Instead the Government has gone for medium to long Term recovery which may reduce the inflationary pressure

Secondly, Government did not directly do something for **Covid- hit sector Aviation, Tourism and Hospitality**. Govt instead is expecting demand revival in these sectors will take care of the issues @ may not be so.

Overall, this year budget is less complex and not packed with programs unlike the last , the growth is coming back and there is prudent fiscal management with 6.4% targeted fiscal gap. For the Investors in the Indian market there are few good themes on the formation till 2024, the markets will react positively given this mega spending plan.

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