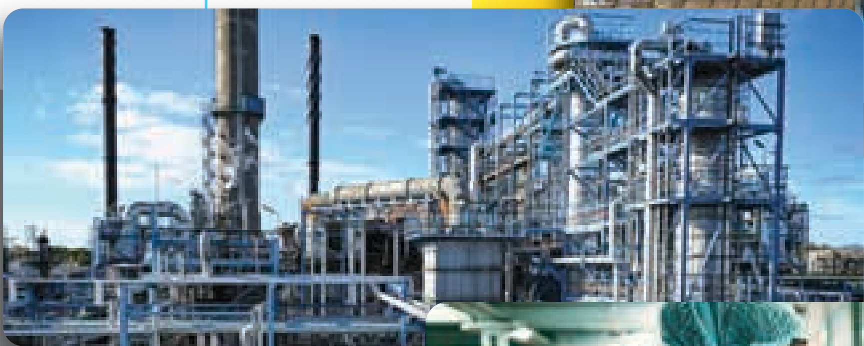
Azadi Ka Amrit Mahotsav

SBI

The banker to every indian

UNION BUDGET 2022-23



yono by SBI

Dinesh Khara
Chairman
State Bank of India
Mumbai

FOREWORD

The union budget for 2022-23 is a continuation of the previous two budgets. The budget scores high on two counts – one, the stability of tax regime and two, continuity and momentum in vision. The budget draws a roadmap for the 25-year-long runup to India@100. The Budget seeks to lay the foundation and give a blueprint to steer the economy over the next 25 years – from India at 75 to India at 100.

The budget continues to strike a balance between the challenges posed by recurring COVID-19 and the need to contain the economic damage due to pandemic. The budget achieves this delicate balance quite well. The emphasis going forward will be on seven parallel tracks - PM GatiShakti, Inclusive Development, Productivity Enhancement & Investment, Sunrise Opportunities, Energy Transition, and Climate Action and Financing of Investments.

On the macroeconomic front, the estimated economic growth at 9.2% is the highest among all large economies. The fiscal deficit is expected to be contained within 6.4% of the GDP in line with medium term fiscal policy glide path. The budget envisages significant increase in the outlay for capital expenditure by 35.4% to ₹7.50 lakh crore in 2022-23. Effective Capital Expenditure of Central Government is estimated at ₹10.68 lakh crore in 2022-23, which is about 4.1% of GDP.

The spending on infrastructure continues to be the important focus of the government. Augmenting the National Infrastructure Pipeline with PM GatiShakti Master Plan, the scope of infrastructure spending has been widened considerably. In a very relevant move, Data Centres and Energy Storage Systems have been given infrastructure status which will give impetus to large investments in data storage infrastructure .

On specifics, National Highways network will be expanded by 25,000 km in 2022-23 involving a capital expenditure of ₹20,000 crore. There is also a plan to create a Unified Logistics Interface Platform so that different modes of transports can seamlessly interact with one another. 'One Station-One Product' concept will be popularized to help local businesses & supply chains. Implementation of the Ken-Betwa Link Project, at an estimated cost of ₹44,605 crore will be taken up in FY23.

In terms of sector focus, the budget has primarily focused on agriculture and MSME, which cover roughly 50% of the economy. The budget envisages transition of a unique chemical-free natural farming throughout the country, with a focus on 5-km wide corridors along river Ganga. If successful, this model can reduce future fertilizer subsidy bill considerably. Budget has also given thrust to millets which are better suited in the context of climate adaptation and nutrition. 'Kisan Drones' will be promoted for crop assessment, digitization of land records, spraying of insecticides, and nutrients and will give major thrust to precision agriculture.

In respect of MSMEs, Udyam, e-Shram, NCS and ASEEM portals will be interlinked. The budget also recognises that hospitality and related services, especially those by micro and small enterprises, are yet to regain their pre-pandemic level of business. Considering these aspects, the ECLGS will be extended up to March 2023 and its guarantee cover will be expanded by ₹50,000 crore with the additional amount being earmarked exclusively for the hospitality and related activities. The revamp of Credit Guarantee Trust for Micro and Small Enterprises (CGTMSE) scheme is also a welcome measure for the MSME sector.

In the renewables sector, the ambitious goal of 280 GW of installed solar capacity by 2030 has been proposed, with an allocation of ₹19,500 crore for Production Linked Incentive for manufacture of high efficiency modules.

It is also proposed that a design led manufacturing scheme to be launched to build a strong ecosystem for 5G as part of the Production Linked Incentive Scheme. In respect of sunrise opportunities, government contribution will be provided for R&D in Artificial Intelligence, Geospatial Systems and Drones, Semiconductor and its eco-system, Space Economy, Genomics and Pharmaceuticals, Green Energy, and Clean Mobility Systems.

On the banking and finance side the announcements are few but significant. 75 Digital Banking Units (DBUs) are proposed to be setup in 75 districts of the country by Scheduled Commercial Banks. The financial support for digital payment ecosystem announced in the previous budget will continue in 2022-23. It is also proposed that amendments in the IBC will be carried out to enhance the efficacy of the resolution process and facilitate cross border insolvency resolution.

A very significant announcement is the introduction of Central Bank Digital Currency (CBDC) which will give a big boost to digital economy. Digital Rupee to be issued by RBI in FY 23 will be a reality using blockchain and other technologies.

Under the ease of doing business, the budget proposes to widen the scope of single window portal PARIVESH. States will be encouraged to adopt Unique Land Parcel Identification Number to facilitate IT-based management of records. Linkage with National Generic Document Registration System (NGDRS) with the 'One-Nation One-Registration Software' will be promoted as an option for uniform process for registration and 'anywhere registration' of deeds & documents.

On the financing aspect of the proposals, budgetary allocation remain the mainstay of financing with PPP wherever feasible. The outlay for capital expenditure in the Union Budget has been stepped up sharply by 35.4 per cent from ₹5.54 lakh crore in the current year to ₹7.50 lakh crore in 2022-23. As a part of the government's overall market borrowings in 2022-23, sovereign Green Bonds will be issued for mobilizing resources for green infrastructure.

Lastly, on the taxation side, there has been remarkable stability in terms of announcements on personal income tax and corporate taxation. Surcharge on long term capital gains arising on transfer of any type of assets has been capped at 15 per cent, gradual phasing out of the concessional rates in capital goods and project imports to encourage domestic production; and applying a moderate tariff of 7.5 percent, customs duty on cut and polished diamonds and gemstones being reduced to 5 per cent and unblended fuel to attract an additional differential excise duty of Rs 2/ litre from the 1st of October 2022 - to encourage blending of fuel.

In all, this budget has achieved a balanced demand stimulus to correct the output gap. The measures for ease of doing business, energy transition and infrastructure development have only gathered pace. The budget is sensitive to the immediate concerns of the economy. It is a very well-crafted statement of intent, drawing from the experience and enhances India's growth prospects in a post COVID world.

Dinesh Khara

Section 1

The Macro Picture

KEY HIGHLIGHTS OF THE UNION BUDGET 2022-23

- India's per capita GDP in FY21 stands at Rs 1.46 lakh, while the taxable income threshold is Rs 2.5 lakh. This shows that the average Indian is not required to pay an income tax. In many countries around the world, the income tax limit is below the average income of its people. Only India and Bangladesh have income tax limits that are much higher than the average income.
- The Budget 2022-23 is presented with a vision of achieving *Amrit Kaal*, the 25-year-long leadup to India@100. By achieving certain goals during the Amrit Kaal, Government aims to attain the vision of (i) Complementing the macro-economic level growth focus with a micro-economic level all-inclusive welfare focus, (ii) Promoting digital economy & fintech, technology enabled development, energy transition, and climate action, and (iii) Relying on virtuous cycle starting from private investment with public capital investment helping to crowd-in private investment.
- As widely expected, fiscal deficit for FY22 is estimated at a tad higher at 6.9% of GDP as against BE of 6.8% (in absolute terms an increase of Rs 84,277 crore). For the next fiscal, the fiscal deficit is pegged at 6.4% of GDP (or Rs 16.6 lakh crore). The nominal GDP for FY23 is estimated at Rs 258 lakh crore, a 11.1% growth over FY22. Assuming a conservative 8% real GDP growth rate (Economic Survey projected real GDP growth of 8-8.5%), this translates into an inflation of around 3.0%. We believe, if growth comes back riding on the spending prowess, the nominal GDP projection will clearly be an underestimate. This may thus provide even some more additional spending room for the Government.
- The Centre's gross tax revenue for FY22 has been revised upwards to Rs 25.2 lakh crore, which is almost Rs 3.0 lakh crores greater over the Budget estimate for FY22. Regarding FY23 projections, Government has budgeted 9.6% growth to Rs 27.6 lakh crore. The revenue target from taxation is supported by 12.7% growth in custom duty, 13.8% in income tax and 13.4% rise in corporation tax. The tax buoyancy for FY23 is estimated at 0.9 (based on gross tax revenue). GST collection target is budgeted to increase at 15.6% to Rs 7.8 lakh crore over FY22 revised estimates. Major subsidies will decline by 27% to Rs 3.2 lakh crore.
- Non-tax revenue for FY22 has been revised upwards to Rs 3.13 lakh crore from Rs 2.43 lakh crore in FY22 BE, owing to higher dividends and profits and other non-tax receipts. Accordingly, the Government estimates lower non-tax revenue at Rs 2.69 lakh crore for FY23.
- For FY23, the Gross Government Borrowing is Budgeted at Rs 14.9 lakh crore and net borrowing requirement is pegged at Rs 11.8 lakh crore (71% of the Fiscal Deficit) considering repayments of Rs 3.1 lakh crore.
- The outlay for capital expenditure has been stepped up sharply by 35.4% from Rs 5.54 lakh crore in the current year to Rs 7.50 lakh crore in FY23. The capital expenditure has thus increased to more than 2.2 times the expenditure of FY20 and it would be 2.9% of GDP in FY23. With capital expenditure taken together with the provision made for creation of capital assets through Grants-in-Aid to States, the '*Effective Capital Expenditure*' of the Central Government is estimated at Rs 10.68 lakh crore in FY23, which will be about 4.1% of GDP.
- For FY23, Government has set a modest target of Rs 65,000 crore of disinvestment as against Rs 78,000 crore revised estimate for FY22 (BE was Rs 1.75 lakh crore).
- Sovereign Green Bonds would be issued for mobilizing resources for green infrastructure as a part of the government's overall market borrowings in FY23. The proceeds would be deployed in public sector projects which help in reducing the carbon intensity of the economy.
- In accordance with the recommendations of the 15th Finance Commission, the States will be allowed a fiscal deficit of 4% of GSDP of which 0.5% will be tied to power sector reforms, for which the conditions have already been communicated in 2021-22.

- The total dividend from the Reserve Bank of India, nationalised banks and financial institutions is estimated at Rs 73,948 crore for FY23, almost 27% less than revised estimated of FY22 (Rs 1,01,353 crores).
- The Special Economic Zones Act will be replaced with a new legislation that will enable the states to become partners in Development of Enterprise and Service Hubs.
- The Emergency Credit Line Guarantee Scheme (ECLGS) will be extended up to March 2023 and its guarantee cover will be expanded by Rs 50,000 crore, purely for the hospitality sector. The total cover will now be Rs 5 lakh crore. ECLGS has provided much-needed additional credit to more than 130 lakh MSMEs. CGTMSE Scheme will be revamped with required infusion of funds.
- 30% tax on any income from transfer of any virtual digital asset is proposed. Digital Rupee to be issued by the RBI starting 2022-23 that will give a big boost to digital economy.
- The Government, to provide a level playing field between co-operative societies and companies proposes to reduce the Alternate Minimum Tax rate for co-operative societies to 15% from the current 18.5%. Reduction of surcharge on co-operative societies from 12% to 7% for those having total income of more than Rs 1 crore and up to Rs 10 crore.
- Proposed to launch a scheme for design-led manufacturing to build a strong ecosystem for 5G as part of the Production Linked Incentive (PLI) Scheme. The PLI in 14 sectors for achieving the vision of AtmaNirbhar Bharat has received excellent response, with potential to create 60 lakh new jobs, and an additional production of Rs 30 lakh crore during next 5 years.
- An additional allocation of Rs 19,500 crore for PLI for manufacture of high efficiency modules is proposed in the budget. This will also ensure the domestic manufacturing required for achieving the ambitious goal of 280 GW of installed solar capacity by 2030.
- Energy efficiency and saving measures through setting up of Energy Service Company (ESCO) business model in large commercial buildings will also facilitate capacity building and awareness for energy audits, performance contracts, and common measurement & verification protocol.
- An allocation of Rs 60,000 crore has been made to cover 3.8 crore households in 2022-23 under Har Ghar, Nal Se Jal Scheme.
- Proposed to set up 75 Digital Banking Units in 75 districts of the country by Scheduled Commercial Banks. 100 per cent of 1.5 lakh post offices will come on the core banking system enabling financial inclusion and access to accounts through net banking, mobile banking, ATMs, and provide online transfer of funds between post office accounts and bank accounts.
- A new open platform for the National Digital Health Ecosystem will be rolled out. It will comprehensively consist of digital registries of health providers and health facilities, unique health identity, consent framework, and shall provide universal access to health facilities.
- Affordable housing has also got a boost with Rs 48,000 crore allocated for the completion of construction of 80 lakh houses under PM Awas Yojana.
- The Budget has proposed to phase out the concessional rates in capital goods and project imports gradually and apply a moderate tariff of 7.5%.
- The scope of PM GatiShakti National Master Plan will encompass the seven engines for economic transformation, seamless multimodal connectivity and logistics efficiency. It will also include the infrastructure developed by the state governments as per the GatiShakti Master Plan. The focus will be on planning, financing including through innovative ways, use of technology, and speedier implementation.
- The surcharge on the long-term capital gains (LTCG) has been capped at 15%. The rate of LTCG varies between 10% to 20%, depending upon the type or class of assets. Currently, LTCG surcharge is available only for listed shares and units of mutual funds. The budgeted revenue projections from STT are estimated at Rs 20,000 crores, unchanged from FY22.
- The allocation for the Ministry of Rural Development has remained flat at Rs 2.1 lakh crore for FY23. Budget has allocated Rs 73,000 crore for the rural jobs guarantee programme MGNREGA for FY23, 25.5% lower than the revised estimate for the current financial year.

MACRO VIEW AND FISCAL MANAGEMENT

"*When people have hope, you have a middle class*."

In 1995, economist Robert Lucas was awarded the Nobel prize in economics for his seminal work in 1976 postulating much of the textbook macroeconomic hypothesis could change because of shift in agent's behaviour. Interestingly, 1970's was one of the most disruptive periods in economics with inflation and unemployment in US reaching peaks. This exactly contrast with what is happening currently across the globe with the pandemic wreaking havoc in terms of invalidating inferences based on interlinkage between past data and future policy making. Against this background, the Union Budget represents a clear interlinkage between real time data and policy suggestions.

The FY23 Union Budget follows a simple rule: committed expenditure juxtaposed against sombre budgeted revenue projections. In essence, total revenue of the Centre and States jumped by Rs 2.8 lakh crore in FY22 and was exactly counterbalanced by an expenditure jump of Rs 2.9 lakh crore. Interestingly, of the Rs 2.9 lakh crore increase, if we net out the excise duty collections the total increase was Rs 1.7 lakh crores in FY22. In FY23, the total increase in tax collections is at Rs 1.6 lakh crores (expenditure increase at Rs 1.7 lakh crores) nearly equivalent to FY22 numbers. This shows that the budgeted fiscal deficit at Rs 16.6 lakh crores is a pragmatic and reasonable assumption. The nominal GDP growth at 11.1 per cent implies a tax buoyancy at 0.9 and it is likely that it will possibly overachieve its revenue projections. While a large part of growth in Q4 of FY22 may shift to Q1 of FY23 because of omicron/other variants of concern, it is likely that GDP of FY23 may surpass Government's real GDP projections at 8%, thus putting an upward bias on 11.1%

We believe if growth comes back riding on the spending prowess, the nominal GDP projection may be an underestimate. This may thus provide even some more additional spending room for the Government. Consider this. The story of increase in household debt during pandemic turned on its head right now with the release of NSO data on 31 Jan'22. While the total gross financial savings jumped by a massive Rs 7.1 lakh crore in FY21 (highest ever in any FY), the total financial liabilities increased by only Rs 18,669 crore. In the previous two fiscals (i.e., FY20 & FY21), the cumulative gross financial savings increased by Rs 8.5 lakh crore while during the same period, financial liabilities increased by only Rs 34,000 crore. The estimated HH debt has now declined from 37.3% in FY21 to 34% in Q1FY22 with the rise in GDP. It thus seems that the household decline in PFCE may be attributable to risk aversion.

The borrowing numbers for FY23 however are on the higher side. Gross market borrowing through dated securities has been budgeted at Rs 14.95 lakh crore and taking repayments of Rs 3.1 lakh crore (post-adjustment of Rs 64,000 crore switch announced recently), net market borrowing stands at Rs 11.8 lakh crore (71% of fiscal deficit). This is much higher than historical trends and could put pressures on the bond market. At this level of net market borrowings, ASCBs and insurance companies need to take an investment of close to Rs 7.3 lakh crores. Even after such, RBI may still have to do an OMO of Rs 2 lakh crores to absorb the papers.

For FY23, with ceiling of net borrowing at 4% of GDP and additional 0.5% of GDP conditional borrowing by States announced by the Government, the net borrowings are pegged at Rs 6.6 lakh crore and gross borrowings are expected to come around Rs 9 lakh crore after taking a repayment of around Rs 2.4 lakh crore. Thus, total gross borrowing of the Centre and States for FY23 comes to Rs 24 lakh crores while net borrowing stands at Rs 18.4 lakh crore.

Interestingly, with the 10 year yield crossing 6.8%, one wonders what will be the impact of MTM on bank treasuries as well as RBI own balance sheet. RBI net purchase have been to the extent of Rs 5.8 lakh crores through OMOs in past two fiscal. The MTM on this portfolio of could be up Rs 25,000 crores assuming a modified duration of 4 years and adverse yield movement of 100bps.

We believe, if India's bond inclusion comes through and GDP growth surpasses budget projections, the Government just might shelve its large borrowing plan. Clearly, there is an element of unanticipated surprise that will be a source of comfort and surprise for bond vigilante.

We believe that we must interpret the borrowing numbers a little differently. This year the Government has reduced the EBR which was mobilised through NSSF and fully serviced bonds to nil and the amount for FY22 has also been revised down to Rs 752 crore from Rs 30,000 crore in FY21 BE. Thus, there has been a complete movement away from off-balance sheet borrowing. When we look at NSSF the Government has projected net increase in collection of Rs 3.86 lakh crore in FY23 from the revised Rs 3.59 lakh crore in FY22. Interestingly, when the investment of NSSF funds is looked at it is observed that investment in public agencies like FCI and BMTPC has been reduced to nil. The PSU borrowing in FY23 is also 15% lower as borrowings through NHAI (Rs 65,000 crore) has been absorbed by the Government into its own budget into the capital expenditure. This is also a reflection of better fiscal transparency and the markets must appreciate such credibility in terms of a better risk reward.

Overall, we find remarkable similarity of the Union Budget in Thomas Freidman's 2005 seminal work "The World is Flat". The Budget for 2022-23 presented today by the Union Finance Minister seems to have taken a cue from the sanguinity, which cogently asserts that middle class is a perpetual state of mind, not just numbers, ensuring diverse cross-sections of the population remaining upwardly mobile and hooked to the path of continual upliftment in a self-replicating loop.

The budget, brought forth in the third year of pandemic has done rather well on juggling the innumerable fireballs while laying the brickwork for unparalleled future growth in core as well as sunshine sectors of immense possibilities and, simultaneously suturing the deep fault lines that would run parallel to our sojourn to build back better in a post pandemic world.

Elsewhere, the budget has rightly dubbed Roads, Railways, Airports, Ports, Mass Transport, Waterways, and logistics infrastructure as the growth engines on which the very future of country hinges on.

MoRTH has built ~13,400 km of national highways in 2020-21, approximately 37 km per day. The second wave ensured that targets were curtailed mid-way during 2021-22 to 12,000 km from the originally envisaged 14,600 km. Taking that into account, the length of national highways would reach close to 1,50,000 km by end March'22. Till early 2014, we had built highways aggregating ~91,000 km only. The target for 2022-23, set at an ambitious 25,000 km would ensure that attaining even 80% of targeted goal could be a game changer in our quest to connect the mofussil towns with urban and metro centres, creating new chains of uninterrupted supplies to fuel the economy. Also, a good road is a conduit to aspirations and hopes for a large population living alongside and in peripheries, easing two-ways movement restrictions, cutting cost and time considerably while facilitating better price discovery for goods and services. Monetization of surplus, non-core railway assets viz. land parcels as also enhancing private participation in railway infrastructure should open new vistas of growth along proposed integration of Postal and Railways network facilitating parcel movement and One station, One product schemes.

Interlinkage of rivers for irrigation and potable water while generating power, as successfully demonstrated through proposed Ken-Betwa project will open up new bankable propositions as five more such projects would be taken up next year.

Education and Skill Development also gets a fillip, making good the 'lost years' as thrust on digital delivery through dedicated, customised content while encouraging virtual labs and skilling e-labs should create better simulation-based learning accessible to a wide section of all those living at the fringe of economy, critical for ultimate success of a nation and its core competencies. Establishing a Digital University and over 200 channels covering multiple regional languages under the 'One Class-One Channel' scheme and setting up 5 academic institutions on urban planning as centres of excellence are two innovative and pathbreaking initiatives announced in Education sector.

Bringing Post Offices in the rapidly changing financial connectivity loop should be a big bang trial by the policy makers as the humongous presence of Indian Postal system through ~1.50 lakh branches across the length and breadth of country should bring financial inclusion to the fore, as the synergy between banks and post offices fans out to better access to services and social security benefits while making available incremental funds from the postal investments in no time.

Calendar year 2021 was truly a watershed year in the Start-up funding in India, with close to US$ 42 Billion investment flowing in from PEs/VCs, bootstrapping to angel to series C/D/E investors globally with active investors in the ecosystem reaching ~2500, all eager to find a niche place in the uniquely resilient Indian economy. While the country added 42 new Unicorns (start-ups with valuation in excess of US$ 1 Billion) during the preceding 12 months (the total number of Unicorns rose to 85), the overall funding till date crossed well past US$ 110 Billion while the cumulative valuation of Indian start-ups is inching towards US$ 300 Billion now. With close to 61,000 start-ups formed in the third largest start-up ecosystem (after US and China), more than 4,400 start-ups have received funding through one or more series as they embrace scale in a Dream BIG environment.

In 2021, even with the hangover of pandemic, big cheque/mega deals (single investments in excess of US$ 100 Million) stood at 108 in number with enterprise-tech and ecommerce being the preferred themes being perused. Bengaluru remained the top destination for seed stage/bridge/growth stage funding with Delhi NCR closely cementing the distance in 2021. Fintech and ecommerce were the most funded sectors during the year. Agri-tech emerged as the sunshine sector for the start-ups based on jump seen on both funding amount as well as deal counts. Bengaluru, Delhi NCR, Mumbai, Pune and Hyderabad are now the five top funded start-up hubs in India, with share of Mumbai, Bengaluru and Delhi NCR based start-ups in overall funding exceeding 90% during 2021 (above 80% between 2014 and 2021). The listing of select start-ups and the value unlocking should ensure unabated funding during the current year too as we have seen 4 additions in the Unicorn club during January' 22 till date with funding believed to be topping US$ 4 billion. However, right policy initiatives by state governments would be needed to make the revolution more inclusive, geographically diversified and sector agnostic to scale up to the next level.

Various measures announced in budget today giving leeway to investors in equity shares of start-ups through capping the surcharge at 15%, extension of tax holiday, greater focus on sectoral thematic funds in agri, health and deep-tech, higher allocation to NABARAD, formation of committee to study various issues in the ecosystem should go a long way in strengthening the foundations while making it ready for the next leap of faith. A digital currency (CBDC) coming from the regulator much before the timeline should colloquially uplift the sentiments for enhanced innovation.

Finally, there is always a lot of hullaballoo regarding the income tax structure in India. It is true that in some countries, including India, the top marginal personal income tax rate exceeds the corporate income tax by a significant margin, providing strong incentives for taxpayers to choose the corporate form of doing business for purely tax reasons. Good tax policy should ensure that the top marginal personal income tax rate does not differ materially from the corporate income tax rate.

However, on the other hand, India's per capita GDP in FY21 stands at Rs 1.46 lakh, while the taxable income threshold is Rs 2.5 lakh. Which then means the average Indian is not required to pay an income tax. In many countries around the world, that income tax limit is below the average income of its people. Only India and Bangladesh have income tax limits that are much higher than the average income.

This implies that there is indeed food for thought for lowering direct taxes but ensuring such a system is equitable and not regressive.

The genesis of fiscal deficit in incremental terms (Rs lakh crore)

Item		FY22 RE /BE	FY23 BE/ FY22 RE
Gross Corporation Tax gain	A	0.9	0.9
Gross Income tax gain	B	0.5	0.9
Gross Customs and Union Excise Duties surplus	C	1.1	-0.4
Gross Goods and Services Tax (GST) gain	D	0.5	1.1
Disinvestment receipts gain	E	0.0	-0.1
Gain in other heads (Interest income, other non tax revenue, recovery of loans)	F	-0.7	-0.5
Gain on account of Dividend & Profits due from instituions	G	0.5	-0.3
Total Revenue Loss	H=Sum: A to G	2.8	1.6
Revenue loss of States	I	0.8	0.7
Net Revenue gain to Center after adjusting for States transfer	J=H-I	2.0	0.8
Expenditure increase	K	2.9	1.7
Fiscal Deficit BE	L	15.1	16.6
Revised Fiscal Deficit	M = L+K-J	15.9	-
New Fiscal Deficit (% of GDP)	N	6.9	6.4
Memo:			
Increase in Food Subsidy		**0.4**	**-0.8**

Source: Negative numbers indicate a shortfall; SBI Research

Budget at a glance (Rs Crore and as a % of GDP)										
	FY 20	FY 21	FY 22 (BE)	FY 22 (RE)	FY 23 (BE)	FY23 (BE)/ FY 22(RE) (% Gr)	FY22 (RE)/ FY21 (%Gr)	FY21/ FY20 (%Gr)	5 Yr CAGR (FY 18-22 in %)	Decadal CAGR (FY 13-22 in %)
1.1 Revenue Receipts	16,84,059	16,33,920	17,88,424	20,78,936	22,04,422	6.0	27.2	-3.0	9.7	10.0
% of GDP	8.3	8.3	8.0	9.0	8.5					
1.1.1 Tax Revenue (Net to centre)	13,56,902	14,26,287	15,45,396	17,65,145	19,34,771	9.6	23.8	5.1	9.2	10.1
% of GDP	6.7	7.2	6.9	7.6	7.5					
1.1.2 Non-Tax Revenue	3,27,157	2,07,633	2,43,028	3,13,791	2,69,651	-14.1	51.1	-36.5	13.0	9.6
% of GDP	1.6	1.1	1.1	1.4	1.0					
1.2 Capital Receipts	10,02,271	18,75,916	16,94,812	16,91,064	17,40,487	2.9	-9.9	87.2	24.4	13.7
% of GDP	4.9	9.5	7.6	7.3	6.7					
1.2.1 Recoveries of Loans	18,316	19,729	13,000	21,975	14,291	-35.0	11.4	7.7	8.9	4.3
% of GDP	0.1	0.1	0.1	0.1	0.1					
1.2.2 Other Receipts	50,304	37,897	1,75,000	78,000	65,000	-16.7	105.8	-24.7	-6.0	13.0
% of GDP	0.2	0.2	0.8	0.3	0.3					
1.2.3 Borrowings and other liabilities*	9,33,651	18,18,291	15,06,812	15,91,089	16,61,196	4.4	-12.5	94.8	28.1	14.0
% of GDP	4.6	9.2	6.8	6.9	6.4					
1. Total Receipts	26,86,330	35,09,836	34,83,236	37,70,000	39,44,909	4.6	7.4	30.7	15.2	11.5
% of GDP	13.2	17.8	15.6	16.2	15.3					
2. Total Expenditure	26,86,330	35,09,836	34,83,236	37,70,000	39,44,909	4.6	7.4	30.7	15.2	11.5
% of GDP	13.2	17.8	15.6	16.2	15.3					
2.1 Revenue Expenditure	23,50,604	30,83,519	29,29,000	31,67,289	31,94,663	0.9	2.7	31.2	13.9	10.9
% of GDP	11.6	15.6	13.1	13.6	12.4					
2.1.1 Grants for creation of Capital Assets	1,85,641	2,30,865	2,19,112	2,37,685	3,17,643	33.6	3.0	24.4	11.4	11.2
% of GDP	0.9	1.2	1.0	1.0	1.2					
2.1.2 Interest Payments	6,12,070	6,79,869	8,09,701	8,13,791	9,40,651	15.6	19.7	11.1	5.6	8.3
% of GDP	3.0	3.4	3.6	3.5	3.6					
2.2 Capital Expenditure	3,35,726	4,26,317	5,54,236	6,02,711	7,50,246	24.5	41.4	27.0	23.0	15.3
% of GDP	1.6	2.2	2.5	2.6	2.9					
3.Effective Capital Expenditure(2.1.1+2.2)	5,21,367	6,57,182	7,73,348	8,40,396	10,67,889	27.1	27.9	26.0	16.6	12.9
% of GDP	2.6	3.3	3.5	3.6	4.1					
4. Revenue Deficit (2.1-1.1)	6,66,545	14,49,599	11,40,576	10,88,352	9,90,241	-9.0	-24.9	117.5	25.2	12.9
% of GDP	3.3	7.3	5.1	4.7	3.8					
5. Effective Revenue Deficit (4-2.1.1)	4,80,904	12,18,734	9,21,464	8,50,667	6,72,598	-20.9	-30.2	153.4	35.5	14.6
% of GDP	2.4	6.2	4.1	3.7	2.6					
6. Fiscal Deficit {2-(1.1+1.2.1+1.2.2)}	9,33,651	18,18,291	15,06,812	15,91,089	16,61,196	4.4	-12.5	94.8	28.1	14.0
% of GDP	4.6	9.2	6.8	6.9	6.4					
7. Primary Deficit (6-2.1.2)	3,21,581	11,38,422	6,97,111	7,77,298	7,20,545	-7.3	-31.7	254.0	88.1	17.9
% of GDP	1.6	5.8	3.1	3.3	2.8					
Revenue Deficit / Fiscal Deficit (%)	71.4	79.7	75.7	68.4	59.6					
Memo:										
Nominal GDP	2,03,51,013	1,97,45,670	2,22,87,379	2,32,14,703	2,58,00,000					
Growth rate	7.8	-3.0	12.9	17.6	11.1					

Source: Union Budget Documents & SBI Research,* Includes drawdown of cash Balance

Expenditure of Major Items (Rs crore and as a % of GDP)								
	FY 20	FY 21	FY 22 (BE)	FY 22 (RE)	FY 23 (BE)	FY23 (BE)/FY22 (RE) (%Gr)	FY22 (RE)/ FY21 (% Gr)	FY21/FY20 (% Gr)
Pension	1,83,955	2,08,473	1,89,328	1,98,962	2,07,132	4.1	-4.6	13.3
% of GDP	0.9	1.1	0.8	0.9	0.8			
Defence	3,18,665	3,40,094	3,47,088	3,68,418	3,85,370	4.6	8.3	6.7
% of GDP	1.6	1.7	1.6	1.6	1.5			
Subsidy	2,28,341	7,07,707	3,36,439	4,33,108	3,17,866	-26.6	-38.8	209.9
% of GDP	1.1	3.6	1.5	1.9	1.2			
Agriculture & allied Activities	1,12,452	1,34,420	1,48,301	1,47,764	1,51,521	2.5	9.9	19.5
% of GDP	0.6	0.7	0.7	0.6	0.6			
Commerce and Industry	27,299	21,554	34,623	45,833	53,116	15.9	112.6	-21.0
% of GDP	0.1	0.1	0.2	0.2	0.2			
Education	89,437	84,219	93,224	88,002	1,04,278	18.5	4.5	-5.8
% of GDP	0.4	0.4	0.4	0.4	0.4			
Energy	43,542	32,728	41,747	48,684	49,220	1.1	48.8	-24.8
% of GDP	0.2	0.2	0.2	0.2	0.2			
Finance	18,535	37,038	91,916	51,904	21,354	-58.9	40.1	99.8
% of GDP	0.1	0.2	0.4	0.2	0.1			
Health	63,425	80,026	74,602	85,915	86,606	0.8	7.4	26.2
% of GDP	0.3	0.4	0.3	0.4	0.3			
Home Affairs	1,19,850	96,652	1,13,521	1,15,550	1,27,020	9.9	19.6	-19.4
% of GDP	0.6	0.5	0.5	0.5	0.5			
Interest	6,12,070	6,79,869	8,09,701	8,13,791	9,40,651	15.6	19.7	11.1
% of GDP	3.0	3.4	3.6	3.5	3.6			
Others	79,523	91,998	87,528	1,01,864	1,13,301	11.2	10.7	15.7
% of GDP	0.4	0.5	0.4	0.4	0.4			
Rural Development	1,42,384	2,14,246	1,94,633	2,06,948	2,06,293	-0.3	-3.4	50.5
% of GDP	0.7	1.1	0.9	0.9	0.8			
Social Welfare	44,649	37,563	48,460	44,952	51,780	15.2	19.7	-15.9
% of GDP	0.2	0.2	0.2	0.2	0.2			
Tax Administration	1,69,331	1,46,439	1,31,100	1,95,351	1,71,677	-12.1	33.4	-13.5
% of GDP	0.8	0.7	0.6	0.8	0.7			
Transfer to States	1,48,907	2,11,475	2,93,302	2,85,394	3,34,339	17.1	35.0	42.0
% of GDP	0.7	1.1	1.3	1.2	1.3			
Transport	1,53,437	2,16,795	2,33,083	3,25,443	3,51,851	8.1	50.1	41.3
% of GDP	0.8	1.1	1.0	1.4	1.4			
Urban Development	42,054	46,701	54,581	73,850	76,549	3.7	58.1	11.1
% of GDP	0.2	0.2	0.2	0.3	0.3			
Grand Total	26,86,330	35,09,836	34,83,236	37,70,000	39,44,909	4.6	7.4	30.7
% of GDP	13.2	17.8	15.6	16.2	15.3			

Source: Union Budget Documents & SBI Research

VISION 2047 – TOWARDS ONE INDIA AND ONE WORLD: AN ECONOMIST AND A BANKER'S PERSPECTIVE

In 2022 India will complete 75 years of independence. Beyond 2022, as India march towards its 100th year of Independence in 2047, India will be facing many challenges. India needs to convert such challenges into opportunities as it did so successfully during the pandemic by creating a vision for Atmanirbhar India.

The Budget 2022-23 is presented with a vision of achieving *Amrit Kaal*, the 25-year-long leadup to India@100. By achieving certain goals during the *Amrit Kaal*, Government aims to attain the vision of (i) Complementing the macro-economic level growth focus with a micro-economic level all-inclusive welfare focus, (ii) Promoting digital economy & fintech, technology enabled development, energy transition, and climate action, and (iii) Relying on virtuous cycle starting from private investment with public capital investment helping to crowd-in private investment.

However, some the main challenges that might be visible and that provides significant window of opportunities could be:

- Technology and all-pervasive algorithms
- New crop of entrepreneur's consequent upon maturity of startups
- Climate change and adaptations
- Economic growth, employment, and inequality
- Supply chains and self-sufficiency constraint
- Food and Social Security
- Education & Health for all – foundation of any developed nation / economy

Contribution by Public Sector Banks / Banking 4.0 Model

The PSBs can play a significant role in India's quest towards truly Atmanirbhar by ensuring a simplification of lending process to ensure credit delivery catering to all segments of the population, especially to the agriculture and manufacturing sectors. The eco system created now in terms of CRILC, IBBI etc. will mature and enhance confidence of the lenders to take professional decisions expeditiously. This transition will enable the PSBs to truly own the customer value chain.

In next decade, PSBs need to increasingly connect or forge partnerships with technology partners and move towards the Banking as a Service (BaaS) model / Banking 4.0 model. This will allow banks to rapidly innovate and expand their product and service offerings through a collaborative partner ecosystem. This could happen in many ways:

- At present there are roughly 6.33 crore MSME units in India contributing to 29% of India's GDP and employing over 11 crore workers. Easy access to digital lending to SME with minimal paperwork.
- Digitalizing agriculture lending by bringing in GIS and other data intensive technology. Sharper focus on per hectare yield consequent upon leverage best practices of Agri-tech will enhance credit absorption capacity.
- Green financing will be the focus to promote Sustainability goals. Liabilities will be raised through Green bonds and similar liability raising instruments. Projects having carbon footprints will get into negative finance list.

The interplay between Banking 4.0 Model and Industry 4.0 Model

India stands on the brink of a technological revolution that is fundamentally altering the way we live, work, and relate to one another. In its scale, scope, and complexity, the transformation will be dramatic and the response to it must be integrated and comprehensive, involving all stakeholders, from the public and private sectors to academia and civil society and to banks! The First Industrial Revolution used water and steam power to mechanize production. The Second used electric power (mostly fossil fuel) to create mass production. The Third used electronics and information technology to automate production. Now the Fourth Industrial Revolution will use Green Hydrogen & EV (carbon neutral fuels) is building on the digital revolution that has been occurring since the last four decades. It is characterized by a fusion of technologies that is blurring the lines between the physical, digital, and biological spheres.

It is this interlinkage between an Industry 4.0 Model and Banking 4.0 model that we must constantly pursue in the next 25 years i.e., during *Amrit Kaal*!

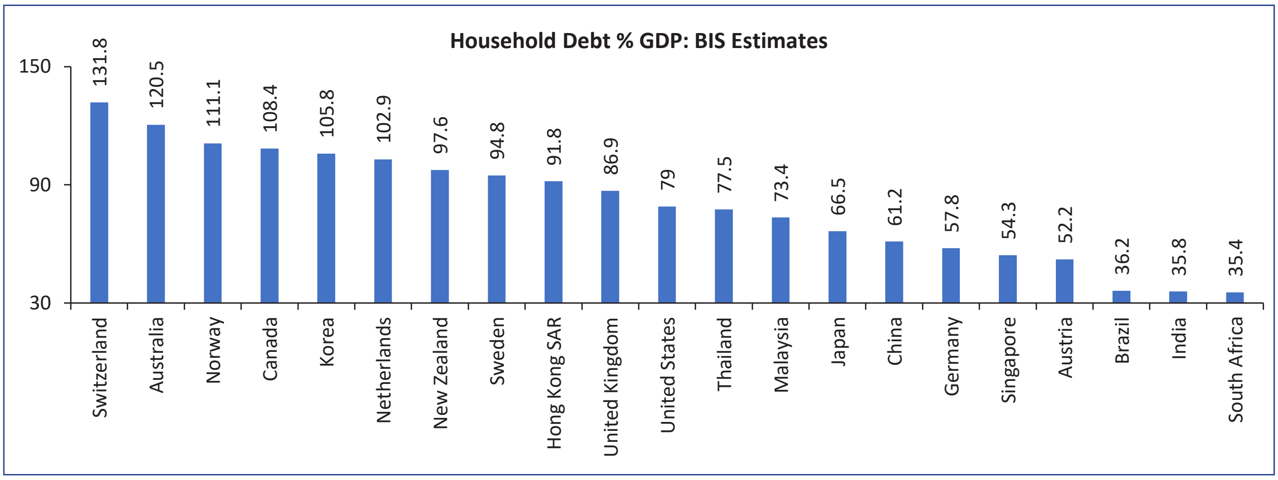
THE STORY OF HOUSEHOLD DEBT OR HOUSEHOLD RISK AVERSION?

- The story of increase in household debt during pandemic turned on its head right now with the release of NSO data on 31 Jan'22. While the total gross financial savings jumped by massive Rs 7.1 lakh crore in FY21 (highest ever in any FY), the total financial liabilities increased by only Rs 18,669 crore. In the previous two fiscals (i.e., FY20 & FY21), the cumulative gross financial savings increased by Rs 8.5 lakh crore while during the same period financial liabilities increased by only Rs 34,000 crore.
- The savings in the form of gold and silver ornaments exhibited decline in FY21 as people choose to save in the form of financial assets. This indicates the changing behaviour of savers.

Household Savings During Pandemic						
Level (Rs crore)						
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Gross Savings	42,82,259	48,25,113	54,80,741	60,00,390	59,95,942	55,92,446
of which, Household sector	24,74,913	27,87,134	32,96,596	38,44,582	39,29,148	43,90,584
Gross financial saving	14,96,232	16,14,677	20,56,405	22,63,690	23,99,087	31,08,997
Financial liabilities	3,85,388	4,68,648	7,50,700	7,71,245	7,86,619	8,05,289
Saving in physical assets	13,17,599	15,94,573	19,44,226	23,09,463	22,73,544	20,48,432
Saving in the form of gold and silver ornaments	46,469	46,532	46,665	42,673	43,136	38,444
Incremental Growth (Rs crore)						
Gross Savings	2,62,302	5,42,854	6,55,628	5,19,649	-4,448	-4,03,496
of which, Household sector	35,809	3,12,221	5,09,462	5,47,985	84,566	4,61,436
Gross financial saving	2,38,985	1,18,445	4,41,728	2,07,285	1,35,397	7,09,910
Financial liabilities	8,556	83,260	2,82,052	20,546	15,374	18,669
Saving in physical assets	-1,95,527	2,76,974	3,49,653	3,65,237	-35,919	-2,25,112
Saving in the form of gold and silver ornaments	907	63	133	-3,991	463	-4,693

Source: NSO; SBI Research

- We estimate the HH debt (% to GDP) based on overall macro data. To calculate HH Debt, we have considered, retail loans, crop loans and business loans from financial institutions, viz., commercial banks, credit societies, NBFCs, HFCs etc. The estimated HH debt has increased sharply to 37.3% in 2020-21 from 32.5% in 2019- 20 (BIS estimates are at 37.7% as on Dec'20) but declined to 34% in Q1FY22 (BIS: 35.8% June'21) with the rise in GDP. However, in absolute numbers the HH debt has estimated to reach to Rs 75.0 lakh crore in FY22 from Rs 73.6 lakh crore in FY21. India household debt to GDP ratio is still lower than other countries, though we need to supplement wage income.



Source: BIS, SBI Research

Change in Behavioural Habits is having an impact on inflation

The COVID-19 pandemic is far more than a health crisis: it has unpredictably changed our whole way of life. As suggested by the analysis of PFCE data, this dramatic scenario has also heavily impacted individuals' consumption pattern. While the consumption on food and non-alcoholic drinks had increased by Rs 3.5 lakh crore in FY21, the spending on categories like 'Transport,' 'Clothing and footwear' and 'Restaurants and Hotels' declined by whopping Rs 6.1 lakh crore. Overall the PFCE declined by Rs 2.83 lakh crore during FY21.

Change in Private Final Consumption Expenditure (Rs crore)

By purpose	FY20	FY21
Food and non-alcoholic beverages	357892	351074
Alcoholic beverages, tobacco and narcotics	15776	-20865
Clothing and footwear	3992	-140305
Housing, water, electricity, gas and other fuels	95864	72378
Furnishings, household equipment and routine household maintenance	8757	-43185
Health	73484	17555
Transport	209715	-330668
Communication	12028	3175
Recreation and culture	4834	-8859
Education	46108	-1049
Restaurants and Hotels	24185	-137608
Miscellaneous goods and services	188883	-45399
Total	**1041518**	**-283758**

Source: NSO; SBI Research

SUBSIDY TRENDS

The subsidy expenditure under three major heads is budgeted at Rs 3.2 lakh crore for FY23, a massive decline of 26.6%. As compared to FY22 (RE) almost all subsidies are postulated to decline.

Subsidy Trends (Rs crore and as a % of GDP)

	FY 20	FY 21	FY 22 (BE)	FY 22 (RE)	FY 23 (BE)	FY23(BE) / FY22 (RE) (%Gr)	FY22 (RE)/ FY21 (%Gr)	FY21/ FY20 (%Gr)	5 Yr CAGR (FY 18-22 in %)	Decadal CAGR (FY 13-22 in %)
Total 3 Major Subsidies	228341	707707	336439	433108	317866	-26.6	-38.8	209.9	15.2	6.4
% of GDP	1.1	3.6	1.5	1.9	1.2					
Fertiliser Subsidy	81124	127922	79530	140122	105222	-24.9	9.5	57.7	4.6	8.8
% of GDP	0.4	0.6	0.4	0.6	0.4					
Food Subsidy	108688	541330	242836	286469	206831	-27.8	-47.1	398.1	24.7	14.5
% of GDP	0.5	2.7	1.1	1.2	0.8					
Petroleum Subsidy	38529	38455	14073	6517	5813	-10.8	-83.1	-0.2	-12.9	-25.9
% of GDP	0.2	0.2	0.1	0.0	0.0					

Source: Union Budget documents & SBI Research

TAX REVENUE TRENDS

The Centre's gross tax revenue for FY22 has been revised upwards to Rs 25.6 lakh crore (24.1% increase over FY21), which is Rs 3.0 lakh crore more over the Budget estimate for FY22. All the heads under gross tax revenue have seen an upward revision from the Budget estimates of FY22 as the economy recovered following the slowdown due to Covid-19.

Coming to FY23 projections, almost all components of taxes are expected to exhibit double digit growth (except excise and service tax). Gross tax collection in FY23 is projected at 9.6% more than the FY22 (RE). For FY23 the GST revenue is projected at Rs 7.8 lakh crore or 15.6% yoy growth over FY22 RE.

GST REVENUE: TOWARDS RS 1.5 LAKH CRORE MONTHLY COLLECTION?

GST revenue crossed Rs 1.3 lakh crore mark for the 4th straight month with the highest ever monthly collection at Rs 1.41 lakh crore in January 2022. Revenues for month of January 2022 was 15% higher than GST revenues in the same month last year and 25% higher than the GST revenues in January 2020. Interestingly, the monthly GST collections have been above Rs 1 lakh crore since October 2020, except for June 2021 when the second wave of COVID-19 hit the economy. The revenues however quickly recovered in July 2021, indicating limited impact of the second wave on GST revenues than the first wave.

The GST has emerged as a buoyant source of revenue for both the Centre and the States. Gross GST collections, Centre and States taken together were Rs 12.12 lakh crore during April 2021 to January 2022, which is an increase of 61.5% over April 2020 to January 2021 and 18.9% over April 2019 to January 2020.

The improvement in GST collections has been due to the combined effect of the rapid economic recovery post pandemic, the nation-wide drive against GST evaders and fake bills along with many systemic changes introduced recently, and various rate rationalization measures undertaken by the GST Council to correct inverted duty structure.

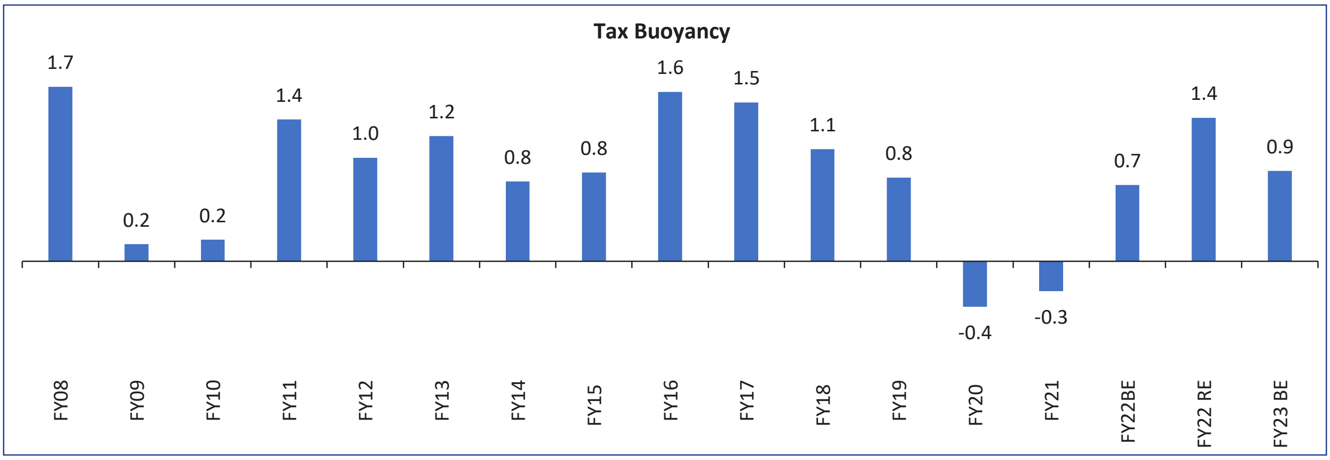
Direct and Indirect taxes (Rs crore and as a % of GDP)

	FY 20	FY 21	FY 22(BE)	FY 22(RE)	FY 23(BE)	FY23(BE)/ FY22(RE) (%Gr)	FY22 (RE)/ FY21 (%Gr)	FY21/ FY20 (%Gr)	5 Yr CAGR (FY 18-22 in %)	Decadal CAGR (FY 13-22 in %)
Gross Tax Revenue	20,10,059	20,27,104	22,17,059	25,16,059	27,57,820	9.6	24.1	0.8	7.0	10.4
% of GDP	9.9	10.3	9.9	10.8	10.7					
Direct Tax										
Corporation Tax	5,56,876	4,57,719	5,47,000	6,35,000	7,20,000	13.4	38.7	-17.8	2.7	6.6
% of GDP	2.7	2.3	2.5	2.7	2.8					
Taxes on Income Other than Corporation Tax	4,92,654	4,87,144	5,61,000	6,15,000	7,00,000	13.8	26.2	-1.1	10.0	13.5
% of GDP	2.4	2.5	2.5	2.6	2.7					
Total Direct Taxes	1049530	944863	1108000	1250000	1420000	13.6	32.3	-10.0	6.0	9.5
% of GDP	5.2	4.8	5.0	5.4	5.5					
Indirect Taxes										
Customs	1,09,282	1,34,750	1,36,000	1,89,000	2,13,000	12.7	40.3	23.3	10.0	1.5
% of GDP	0.5	0.7	0.6	0.8	0.8					
Union Excise Duty	2,40,615	3,91,749	3,35,000	3,94,000	3,35,000	-15.0	0.6	62.8	11.1	9.4
% of GDP	1.2	2.0	1.5	1.7	1.3					
Service Tax	6,029	1,615	1,000	1,000	2,000	100.0	-38.1	-73.2	-66.7	-41.9
% of GDP	0.0	0.0	0.0	0.0	0.0					
Goods and Services Tax	5,98,749	5,48,778	6,30,000	6,75,000	7,80,000	15.6	23.0	-8.3	11.1	-
% of GDP	2.9	2.8	2.8	2.9	3.0					
Major Indirect taxes	954675	1076892	1102000	1259000	1330000	5.6	16.9	12.8	8.4	11.5
% of GDP	4.7	5.5	4.9	5.4	5.2					

Source: Union Budget documents & SBI Research

TAX BUOYANCY

The tax buoyancy (based on gross tax revenues) for FY23 is reasonably estimated at 0.9 as nominal GDP growth is projected by 11.1% while gross tax revenues are projected to grow by 10.7%. For FY22 (RE) the tax buoyancy is estimated at 1.4.



Source: SBI Research

Interestingly our estimation of decadal tax buoyancy (total tax revenue and other individual tax revenues) using double log model reveals that tax buoyancy of total tax revenue and income tax and corporation tax has declined in the current decade (2010-11 to 2019-20) compared to the last decade (2000-01 to 2009-10). The most critical situation is regarding the corporation tax buoyancy and income tax buoyancy which is the lowest in five decades and three decades respectively. Thus, the decline in tax revenue in the current decade is more to do with corporate tax shortfall rather than others and this result is indeed an eye-opener. Against this background with corporate taxes are now picking up significantly, it is likely that tax buoyancy will be overachieved. For FY23, as per the budget estimates the tax buoyancy is expected to be 0.9. The largest buoyancy is projected for income tax (at 1.24) followed by corporation tax and customs.

We also estimated the long-run and short-run buoyancy for a 50-year period (1970-2020) based on ARDL model. We found that the long-run and short-run buoyancy of total tax revenue are 1.01 and 0.98, respectively. The speed of adjustment, which is generally negative, measures the speed of adjustment towards the long-run equilibrium. The speed of adjustment for the total tax revenue is came out at - 0.33, i.e., adjustment towards its long-term buoyancy is quite moderate. Similarly, more detailed analysis of buoyancies of individual taxes were also carried out for income tax, corporation tax, excise and custom duty, and the result reported in the below table. This gives both direction and magnitude of tax buoyancies in India.

Tax Buoyancy					
Decade	Total Tax Revenue	Income tax	Corporation tax	Excise	Customs
	Double Log Model				
	Coefficient	Coefficient	Coefficient	Coefficient	Coefficient
1970-71 to 1979-80	1.29	1.85	1.30	1.07	1.56
1980-81 to 1989-90	1.18	0.89	0.94	1.05	1.45
1990-91 to 1999-00	0.85	1.48	1.29	0.66	0.73
2000-01 to 2009-10	1.28	1.46	1.95	0.50	0.86
2010-11 to 2019-20	1.05	1.23	0.75	0.92	-0.17
2021-22 RE	1.37	1.49	2.20	0.03	2.29
2022-23 BE	0.86	1.24	1.20	-1.34	1.14
	ARDL				
Long run	1.01	1.39	1.17	0.83	0.89
Short run	0.98	0.8	1.01	0.25	0.52
Speed	-0.33	-0.2	-0.16	-0.3	-0.1

Source: SBI Research; All coefficients are significant at 1% significance level

GOVERNMENT BORROWINGS

Central Government Borrowings

Gross market borrowing of the Centre for FY22 has been revised to Rs 10.5 lakh crore (excluding Rs 1.59 lakh crore passed on to States in lieu of GST compensation), with net borrowing at Rs 7.8 lakh crore as against Rs 9.2 lakh crore in BE. With Rs 9.34 lakh crore gross borrowing done so far, Rs 1.12 lakh crore more borrowing is remaining for this fiscal. The Government has undertaken switch of Rs 1.2 lakh crore against the budgeted Rs 1.8 lakh crore. Meanwhile, the buyback has been nil. Besides, abundant liquidity and demand for short-bills being high, the Government has used the short-term borrowing more which has been increased to Rs 1.0 lakh crore through various (91-day- Rs 1.07 lakh crore, 182 day- Rs 51,038, 364 day- - Rs 58341 crore) treasury bills as against the budgeted Rs 50,000 crore.

For FY23, Gross market borrowing through dated securities has been budgeted at Rs 14.95 lakh crore and taking repayments of Rs 3.1 lakh crore (adjusted for Rs 64,000 crore switch announced recently) net market borrowing stands at Rs 11.8 lakh crore (71% of fiscal deficit). The Government has also announced switch of Rs 1.0 lakh crore in FY23 as against the revised Rs 1.2 lakh crore in the current fiscal. Notably, the Government stocks repurchased by means of switch will not have any impact on the fiscal situation. The short-term borrowing for FY23 has been pegged at Rs 50,000 crore, that we expect might be scaled up if need arises.

Based on the ownership pattern of Government of India dated securities as on Sep'21 and given the total net borrowings of Center at Rs 11.8 lakh crore, we believe demand of securities from banks to be around Rs 4.5-4.6 lakh crore (considering NDTL increase of 10% and 27% of SLR). The insurance sector could subscribe to Rs 3.0 lakh crore. Further, RBI would have to ensure demand/OMO purchase of Rs 2.0 lakh crore. The rest amount will be purchased by PD's, Mutual Funds, FPI and others.

State Government Borrowings

States' gross borrowings were also revised downwards to Rs 7.8 lakh crore while net borrowings to Rs 5.8 lakh crore in FY22. For FY23, with ceiling of net borrowing at 4% of GDP and additional 0.5% of GDP conditional borrowing by States announced by the Government, the net borrowings are pegged at Rs 6.6 lakh crore and gross borrowings are expected to come around Rs 9 lakh crore after taking a repayment of around Rs 2.4 lakh crore.

Thus, total gross borrowing of the Centre and States for FY23 comes to 24 lakh crore while net borrowing stands at Rs 18.4 lakh crore.

Market Borrowings through Dated Securities (Rs lakh crore)

	FY 21	FY 22 (BE)	FY 22 (RE)	FY 23 (BE)
Centre				
Gross Borrowing	12.8	12.1	10.5	15.0
Repayments	2.3	2.8	2.7	3.1
Net Borrowing	10.5	9.2	7.8	11.8
State				
Gross Borrowing	8.7	11.0	7.8	9.0
Repayments	1.5	2.1	2.1	2.4
Net Borrowing	7.2	8.9	5.8	6.6
Total				
Gross Borrowing	21.5	23.0	18.3	24.0
Net Borrowing	17.8	18.1	13.5	18.4

Source: SBI Research

Maturity Profile of Outstanding Central Government Dated Securities (% of total)

Maturity Bucket	End Mar 2015	End Mar 2016	End Mar 2017	End Mar 2018	End Mar 2019	End Mar 2020	End Mar 2021	End Jun 2021	End Sep 2021
Less than 1 year	3.65	4.00	3.30	3.18	4.27	3.90	3.69	4.57	5.59
1-5 years	24.59	22.90	21.70	22.98	24.00	25.07	25.64	24.15	24.97
5-10 years	30.35	29.60	33.30	32.14	31.21	30.01	28.98	27.94	26.46
10-20 years	28.32	30.30	29.30	28.57	25.99	24.10	22.52	24.66	23.73
20 years and above	13.09	13.30	12.40	13.33	14.53	16.91	19.17	18.68	19.25

Source: SBI Research, DEA

State Finances will Improve significantly in FY22

States have budgeted a GFD of 3.0% of GDP for 2021-22, as against 4.7% in 2020-21 (RE). The state finances are also expected to show signs of improvement in FY22. In Q1:2021-22, their GFD stands at 3.2% of quarterly GDP which, although lower than in Q1:2020-21, is significantly higher than the trend in pre-pandemic years. In H1:2021-22, GFD of States stands at 42.2% of budget estimates.

Our observation is based upon the state-wise analysis of CGA receipts and expenditure data for 18 major states.

- Revenue data indicate that majority of states (12 out of 18) have already collected more than 55% of their budgeted tax receipts, of which collection of own tax revenue (GST, excise/sales tax, land registration, etc.) also crossed more that 55% share of budgeted estimates. The better own tax revenue numbers indicate behavioural shift of consumers post pandemic. On the expenditure side, 9 states out of 18 have spent less than 50% of their budgeted estimate in first 8 months of the fiscal.
- This lower expenditure and better tax revenue will have positive impact on fiscal deficit. As per our estimate, the actual fiscal deficit of 18 major states will be almost Rs 1.0-1.5 lakh crore less than their FY22 budged numbers.

In the Budget for FY23, Government has Enhanced outlay for 'Scheme for Financial Assistance to States for Capital Investment' from Rs. 10,000 crore in Budget Estimates to Rs. 15,000 crore in Revised Estimates for current year. Further, Rs. 1 lakh crore in 2022-23 has allocated to assist the states in catalysing overall investments in the economy: fifty-year interest free loans, over and above normal borrowings.

In 2022-23, States will be allowed a fiscal deficit of 4% of GSDP, of which 0.5% will be tied to power sector reforms, for which the conditions have already been communicated in 2021-22.

State Finances in FY22 (Rs crore)									
States	Tax Receipts			*of which*, Own Tax Revenue			Total Expenditure		
	BE FY22	Apr-Nov'21	% of BE	BE FY22	Apr-Nov'21	% of BE	BE FY22	Apr-Nov'21	% of BE
Andhra Pradesh	112216	62962	56	93968	52257	56	213395	138005	65
Arunachal Pradesh	13594	8114	60	1152	1037	90	22313	8205	37
Bihar	126231	51475	41	60330	31343	52	209103	91694	44
Chhattisgarh	48425	29650	61	25750	15928	62	99180	50975	51
Gujarat	134854	75741	56	104227	61733	59	197576	108004	55
Haryana	60162	37009	62	52888	34669	66	138403	67703	49
Jharkhand	41316	26231	58	23256	12912	56	89248	36579	41
Karnataka	135767	89498	66	119337	79851	67	228763	122265	53
Kerala	89881	41350	46	77880	36257	47	162326	104086	64
Madhya Pradesh	117161	69371	59	64914	37753	58	213638	118546	55
Maharashtra	285534	149269	52	243490	123826	51	453008	207366	46
Odisha	67637	43384	64	37500	25145	67	145355	67166	46
Punjab	49461	30034	61	37434	22756	61	118014	56584	48
Rajasthan	130156	71295	55	90050	47024	52	235268	135849	58
Tamil Nadu	153792	91709	60	126644	75280	59	309623	147439	48
Telangana	106900	64858	61	98179	59298	60	198430	101417	51
Uttar Pradesh	305740	163284	53	224921	115826	51	515986	227635	44
West Bengal	145918	72873	50	75416	42573	56	246125	130295	53
All States	**2124746**	**1178108**	**55**	**1557334**	**875468**	**56**	**3795755**	**1919813**	**51**

Source: CAG; SBI Research: BE: Budget Estimate

Off Balance Sheet Borrowings

The Government was using its off-Budget borrowing on a massive scale through public sector agencies to avoid showing such borrowing in its own books. However, there has been a progressive decline in extra budgetary resources (EBR) for PSUs to Rs 2.14 lakh crore in FY23 from the revised Rs 2.53 lakh crore in FY22, a 15% decline. EBR for Coal, Housing & Urban Affairs, Petroleum and Natural Gas and power all has increased while that of steel and others has declined. For National Highway Authority of India (NHAI) the EBR has been reduced from Rs 65,000 crore in FY22 RE to almost nil amount as the Government has taken that into its account thereby leading to huge capital expenditure budgeted for FY23. This is also a reflection of better fiscal transparency and the markets must appreciate such credibility in terms of a better risk reward. We thus expect a climb down in 10-year yields from the current levels

This year the Government has reduced the EBR which was mobilised through NSSF and fully serviced bonds to nil and the amount for FY22 has also been revised down to Rs 752 crore from Rs 30,000 crore in FY21 BE. Thus, there has been a movement away from off-balance sheet borrowing. When we look at NSSF the Government has projected net increase in collection of Rs 3.86 lakh crore in FY23 from the revised Rs 3.59 lakh crore in FY22. Interestingly, when the investment of NSSF funds is looked at it is observed that investment in public agencies like FCI and BMTPC has reduced to nil. This is good for transparency.

Extra Budgetary Resources for PSUs (Rs Crore)				
	FY 22(BE)	FY 22(RE)	FY 23(BE)	FY23(BE)/FY22(RE) (%Gr)
Coal	1980	1892	2616	38.3
Ministry of Housing and Urban Affairs	23046	10488	15788	50.5
Petroleum and Natural Gas	47876	23486	43008	83.1
Power	41277	25587	29505	15.3
Steel	7602	4055	2852	-29.7
Others	225769	187785	121009	-35.6
Total	347550	253293	214777	-15.2
% of GDP	1.6	1.1	0.8	
GDP	22287379	23214703	25800000	11.1

Source: Union Budget Documents & SBI Research

NSSF Fund allocation (Rs crore)				
	FY21	FY22BE	FY22 RE	FY 23 BE
Net collection during the year	**305564**	**340305**	**359215**	**386322**
Net additional allocation during the year	**217891**	**354663**	**524886**	**428870**
Central Government securities (Budgetary borrowing from NSSF)	**483733**	**391927**	**591524**	**425449**
Special Central Government Securities	399958	258095	460863	238554
Reinnvestment in Central Government Special Securities	83774	133832	130661	186895
Special State Government Securities	**-24932**	**-22264**	**-26002**	**-26579**
Public Agencies	**-240910**	**-15000**	**-40636**	**30000**
FCI	-254600	-55000	0	0
BMTPC	10000	0	-33000	0
Other Public Agencies	0	40000	-7636	30000

Source: SBI Research

Financing of Fiscal Deficit

The Government continues to rely on small savings for financing its fiscal deficit, with the revised number at Rs 5.91 lakh crore compared to Rs 3.91 lakh crore in BE FY22. For FY23 again financing from small savings is pegged at a significant Rs

4.25 lakh crore or 25.6% of the fiscal deficit. This in turn underlines the importance of small savings collections for the Government and bond market.

On the flipside, there are no buybacks penciled for this year and next year. Further the Government has revised its cash draw down for FY22 to Rs 1.74 lakh crore from Rs 71,383 crore as per BE FY22. For FY23, the Government has penciled for Rs 752 crore cash draw-down in FY23, or a mere 0.05% of fiscal deficit.

Sources of Financing Fiscal Deficit (Rs Crore)								
	FY 20	FY 21	FY 22 (BE)	FY 22 (RE)	FY 23 (BE)	FY23(BE)/ FY22(RE) (%Gr)	FY22(RE)/ FY21 (%Gr)	FY21/ FY20 (%Gr)
External Debt	8,682	70,181	1,514	19,746	19,251	-2.5	-71.9	708.4
% of GDP	0.0	0.4	0.0	0.1	0.07			
Market Borrowing(Gsec+ Tbills)	624089	1239737	967708	875771	1158719	32.3	-29.4	98.6
% of GDP	3.1	6.3	4.3	3.8	4.5			
Securities against Small Savings	2,40,000	4,83,733	3,91,927	5,91,524	4,25,449	-28.1	22.3	101.6
% of GDP	1.2	2.4	1.8	2.5	1.6			
State Provident Funds	11,635	18,514	20,000	20,000	20,000	0.0	8.0	59.1
% of GDP	0.1	0.1	0.1	0.1	0.1			
Other Receipts (Internal Debts and Public Account)*	44,273	13,315	54,280	-90,140	37,025	-141.1	-777.0	-69.9
% of GDP	0.2	0.1	0.2	-0.4	0.1			
Draw-Down of Cash Balance	4,971	-7,188	71,383	1,74,187	752	-99.6	-2523.3	-244.6
% of GDP	0.0	0.0	0.3	0.8	0.0			
Fiscal Deficit	9,33,651	18,18,291	15,06,812	15,91,089	16,61,196	4.4	-12.5	94.8
% of GDP	4.6	9.2	6.8	6.9	6.4			
Memo:								
Net Borrowing as a % of FD	67	68	64	55	70			

Source: Union Budget Documents & SBI Research, *Negative receipts in FY22 RE is due to higher investment than collection under NSSF, on account of surplus cash available for investment in the beginning of the year.

DISINVESTMENT

Government has set a target to garner ₹65,000 crore from divestment in FY23. The divestment target for FY21-22 was lowered to ₹78,000 crore from ₹1.75 lakh crore, indicating that major divestment proceeds expected from LIC's IPO and strategic divestments of BPCL and others may not come through by March 2022.

Disinvestment – Target vs. Actual (in Rs crore)			
Year	**Budget Estimate**	**Revised Estimate**	**Actual**
FY16	69,500	25,312	42,132
FY17	56,500	45,500	34,939
FY18	72,500	1,00,045	1,00,057
FY19	80,000	80,000	94,727
FY20	1,05,000	65,000	50,304
FY21	2,10,000	32,000	37,897
FY22	1,75,000	78,000	-
FY23	65,000	-	-

Source: Union Budget Documents, CGA, SBI Research

HEALTH & EDUCATION

- The healthcare sector in India came in for little disappointment as the total budget allocated for it is only Rs 86,200 crore for FY23, just 0.2 % higher than the RE of FY22. There was no major announcement for the sector in the Budget except for a declaration to launch the national tele-mental health programme under which 23 centres of excellence are planned to be set up, led by the National Institute of Mental Health and Neurosciences, Bengaluru.
- A fine print of the Budget document showed that the Government has proposed to spend a total of Rs 15,163 crore in FY23 for various central sector schemes such as Pradhan Mantri Swasthya Suaraksha Yojana and national digital health mission, among others.
- On a positive note, the amount for several autonomous institutes under the Ministry such as AIIMS, New Delhi and PGI, Chandigarh, apart from many others has been raised from Rs 8,782 crore to Rs 10,022 crore. Also, for the Government's flagship Pradhan Mantri Jan Arogya Yojana the Budgeted amount has been raised from Rs 3,199 crore to Rs 6,412 crore.
- A thrust also appears to be given to the National Digital Health Mission which will receive a total of Rs 200 crore in the coming fiscal, as compared to only Rs 75 crore that was allocated to this initiative in FY22.
- Regarding Education sector, establishing a Digital University and over 200 channels covering multiple regional languages under the 'One Class-One Channel' scheme are two innovative and pathbreaking initiatives announced in Education sector. This is likely to open opportunities in the banking system for education loans.

INDIA SAVED AROUND 1 LAKH LIVES DURING THE 3RD WAVE OF COVID-19

- During the last 2 years, the global economy has continued to be under pressure with the emergence of new variants of COVID-19. The world has seen many rounds of infections led by lockdowns and affected the lives and livelihoods of many. During the first wave, the cumulative number of COVID-19 cases started rising progressively from the month of May 2020 and peaked in mid-September 2020. Thereafter, the country faced a massive surge in COVID-19 cases beginning March 2021, with a peak of more than four lakh daily cases in May 2021 and more than 4400 daily deaths in end of May 2021. A fresh surge of cases and a new variant Omicron had surfaced in December 2021 and the third wave has been possibly past its peak in mid-Jan'22 due to better vaccination.

- India is among few countries that produced COVID vaccines. The country started with two Made in India COVID vaccines and has given emergency authorisation to 8 vaccines to ensure seamless vaccination in the country. On 16th January 2021, India commenced the world's largest vaccination program with an ambitious target to inoculate its entire eligible population by 31st December 2021, with at least the first dose. With the Government's efforts, India has achieved the highest vaccination of 2.26 crore in a day (17 Sep 2021) and cumulatively vaccinated more than 166 Crore of eligible adults, 70% fully (both the doses) and around 92% with single dose. Compared to developed countries, India has vaccinated highest number of people in a year. Further, Government has further extended the vaccination to the age group of 15-18 years starting 3rd January, 2022, with more than 50 per cent of eligible population in this age group having received their first dose of the vaccine.

India's Vaccination Drive is the World's Fastest		
Country	Start Date	Total Doses (in Million)
US	14-Dec-20	491.19
Brazil	17-Jan-21	338.39
Germany	26-Dec-20	147.26
Russia	05-Dec-20	130.27
France	27-Dec-20	121.31
UK	08-Dec-20	119.07
India	16-Jan-21	1556.3

Source: SBI Research

- To understand the importance of vaccines, we tested a two stage least square (2-SLS) panel model with 20-major states considering the daily data during the 3rd Wave, i.e, from 28 December 2021 to 31 January 2022. In this 2SLS regression, we first regressed the state-wise test data on population to gauge the number of tests that should have been done given the population difference. In Stage 2, the number of confirmed cases was regressed on estimated test numbers calculated in equation 1 to arrive at model estimate of number of cases if the tests were done in accordance with the population size.

  $T = \alpha + \beta P\ \mu$ .....(1)

  $C = \sigma + \rho T + £$ .....(2)

  Where, T = Number of Tests, P= Population, C = Confirmed Cases

  We then used the fatality rate on the number of cases arrived at , to get an idea on the number of lives saved during the 3rd wave of the pandemic if there was no vaccine available.

Vaccination averted deaths due to COVID-19

- Based on the model, COVID-19 vaccines prevented more than 90,000 deaths during the third wave (28 Dec 2021 to 31 Jan 2022). About 14,756 COVID-19 deaths have occurred in India during the 3rd Wave; the model projected about 93,000 deaths would have occurred without the vaccines.

Lives Saved due to Vaccination during the 3rd Wave: Reported Deaths vs Estimated Deaths

	3rd Wave (28 December 2021 to 31 January 2022)			
	Reported Deaths	% of Fully Vaccinated	Estimated Deaths	Lives Saved
Andhra Pradesh	116	65%	1160	1044
Arunachal Pradesh	6	69%	44	38
Assam	284	78%	1194	910
Bihar	126	65%	2698	2572
Chandigarh	40	54%	405	365
Chhattisgarh	236	75%	2111	1875
Delhi	721	77%	11897	11176
Goa	163	73%	1453	1290
Gujarat	324	96%	3648	3324
Haryana	224	83%	3219	2995
Himachal Pradesh	122	101%	799	677
Jammu and Kashmir	135	112%	1345	1210
Jharkhand	158	50%	1703	1545
Karnataka	626	91%	11533	10907
Kerala	6844	78%	4375	-2469
Lakshadweep	1	89%	4	3
Madhya Pradesh	84	93%	2453	2369
Maharashtra	1118	67%	38118	37000
Manipur	39	53%	140	101
Meghalaya	39	45%	124	85
Mizoram	66	78%	173	107
Nagaland	33	37%	75	42
Odisha	141	76%	814	673
Puducherry	48	42%	504	456

Lives Saved due to Vaccination during the 3rd Wave: Reported Deaths vs Estimated Deaths				
	3rd Wave (28 December 2021 to 31 January 2022)			
	Reported Deaths	% of Fully Vaccinated	Estimated Deaths	Lives Saved
Punjab	574	60%	4284	3710
Rajasthan	282	77%	3230	2948
Sikkim	20	106%	71	51
Tamil Nadu	800	69%	8223	7423
Telangana	63	107%	598	535
Tripura	66	78%	139	73
Uttar Pradesh	274	68%	6677	6403
Uttarakhand	120	93%	2214	2094
West Bengal	857	72%	3436	2579
India	**14756**	**75%**	**108418**	**93662**

AEFI Rate for Covid-19: India vs. US

Although all vaccines are safe and effective if used correctly, no vaccine is completely risk-free and adverse events will occasionally result after an immunization. An adverse event following immunization (AEFI) is any untoward medical occurrence which follows immunization, and which does not necessarily have a causal relationship with the usage of the vaccine. The adverse event may be any unfavourable or unintended sign, abnormal laboratory finding, symptom or disease.

The very low AEFI rate of 0.005% for Covid-19 vaccine in India is an achievement and an indication of effectiveness of India-made vaccines. In India as of Nov'21, 49,819 adverse events (or side-effects) were reported of which 47,691 were minor, 163 severe and 1,965 were serious side-effects. In Jan'22 India recorded 3899 AEFI cases. In US, as against India, a total 9.5 lakh adverse events were reported post Covid-19 immunization according to VAERS database. Top five side-effects in the order of Fever, Joint pain, Dizziness, Fatigue and Headache accounted for 1.7 lakh (or 18%) adverse events. The AEFI rate for US is around 0.18%.

AEFI Rate for Covid-19: India vs. US	
India	0.005%
US	0.18%

Source: VAERS; COWIN; SBI Research

MSME & START-UPS

The Budget has announced several measures for the Micro, Small and Medium Enterprises (MSMEs) sector that included:

- The Emergency Credit Line Guarantee Scheme (ECLGS) will be extended up to March 2023 and its guarantee cover will be expanded by Rs 50,000 crore. The total cover will now be Rs 5 lakh crore. ECLGS has provided much-needed additional credit to more than 130 lakh MSMEs. This is a much-sought measure since as per our research, juxtaposing the experience of SBI for ASCBs, almost 13.5 lakh MSMEs accounts were saved due to launch and implementation of ECLG scheme for becoming NPA. In absolute terms, MSME loan accounts worth Rs 1.8 lakh crore have improved (or have been saved from becoming NPA) during the period. This means that around 14% of the outstanding MSME credit has been saved from becoming NPA because of the ECLG scheme. The impact of ECLG scheme is huge for saving employment also. As per our analysis, if these units would have become non-performing due to transitory challenging business environment than 1.5 crore employees would have been impacted. Thus, the ECLG scheme may have saved the livelihood for 6.0 crore families (assuming four family members per worker including herself).

- Further, the Centre has announced CGTMSE scheme would be revamped with required infusion of funds. This would facilitate additional credit of ₹2 lakh crore for Micro and Small Enterprises and expand employment opportunities. To help the MSME sector become more resilient, competitive and efficient, the Centre would also roll out Raising and Accelerating MSME Performance (RAMP) programme with an outlay of ₹6,000 crore over five years.
- The budget has also said that Customs duty exemption given to steel scrap last year was being extended for another year to provide relief to MSME secondary steel producers.

Start-ups

In a big boost for start-ups, the existing tax benefits for such businesses, which were offered redemption of taxes for three consecutive years, has been now extended by one more year. The Economic Survey released on 31.01.2022 had said that India now has more than 61,400 startups recognised by the Department for Promotion of Industry and Internal Trade (DPIIT). At least 14,000 recognised startups were added in the FY22. The survey has said that 555 districts in India had at least one new startup, highlighting that startups in India have grown remarkably over the past six years, with most of them in the IT/knowledge-based sectors.

CGTMSE and US's SBA

The current credit guarantee scheme of the GoI for Small and Medium Enterprises, CGTMSE in vogue since Aug'2000 has met with little success since inception, as evidenced through sub-10% coverage of eligible loan books of Financial Intermediaries on date. Given the enormous challenges and opportunities India has in doubling up its economy in the imminent future, scaling up of SMEs takes center stage to considerably enhance their share in GDP, job creation, exports, local supply-chain ecosystems, and overall equitable prosperity for all in a sustainable way.

A quick back-of-the-envelope calculation would tell us that restricting the CGTMSE to a non-binding, pure guarantee providing entity for the intended classes of borrowers has been an innate flaw ab-initio as the focus of the lending institutions tilted more towards exclusion from the scheme, with temporary, transitory comfort from tangible collaterals offered by borrowers becoming a formidable barrier in universal acceptance of the scheme. Tiered premia payments, with unfavorable and unjustifiable mark-ups based on individual member institution's prevailing delinquency ratio only accentuated the shift away from the scheme in what can rightly be called the lost decades for a well-intended mechanism. It would be hard to exactly pinpoint numbers, but the traction the scheme could have brought to SME proliferation across sectors and its accretive contribution to various facets of economy (from the current ~30%) can only be extrapolated in imagination.

Fixing the scheme would take a do-whatever-it-takes attitude, plugging the loopholes while building on spirited collaboration from diverse stakeholders, financial intermediaries to policy makers to create a self-sustaining environment that addresses the major concerns, from equity infusion to information asymmetry to tech innovation of the sector in an on-going mode. A good model to follow and build around should be the U.S. Small Business Administration (USSBA) running an impressively successful credit guarantee scheme for America's 30 million plus small business owners since 1953. The SBA is headed by the SBA Administrator, a cabinet-level position in US Federal government. The administration works with federal agencies to award at least 23 percent of all prime government contract dollars to small businesses, other than being a platform for matching borrower's equity requirements with a wide array of lenders at market discovered rates. Forward and backward integration of markets, while creating a robust technical architecture is another major duty SBA carries out to ensure SMEs have a competitive advantage in staying incrementally relevant in the ecosystem.

We need to come out of the piquant situation whereby the CGTMSE portfolio of banks despite having a healthy recovery rate (if the loan is in default) and a low capital requirement remain still an unpopular product, ceding the space to collateral covered (non CGTMSE) portfolio, a popular portfolio (volume-wise) despite having minimal recovery rate amidst insurmountable legal hassles.

While the full details pertaining to changes in the CGTMSE scheme in the budget would be known shortly (extent of funding infusion etc), tweaking the existing foundations comprehensively should be the only way forward towards setting up / reorienting of an institution along the lines of SBA as a facilitator towards starting and expanding business by SME enterprises. Such an agency should be singularly entrusted with a complete end-to-end digital platform to ensure real time sanction, disbursement and claim for the guaranteed portfolio, with a primary focus on cash flow-based lending. Such an institution should even engage some of the fintech specialists to process/review loan applications as is done by SBA. In the interregnum, till such an institution is set up, the banks should be allowed to have a seamless access to GST returns of SME units to facilitate cash flow-based lending. This could be a God send for the 6.3 crore SME units in India who are well entrenched on the road to shared prosperity in a resurgent India!

BANKING, FINANCE & INSURANCE

- **Infrastructure status for Data Centres** and Energy Storage Systems. This will facilitate credit availability for digital infrastructure and clean energy storage.
- **Digital Banking by Post Offices**: Finance Minister has proposed for 100% of post offices to come on the core banking system. In other words, all the 1.5 lakh post offices in India will be brought under the core banking system. This will enable financial inclusion and access to accounts through net banking, mobile banking, ATMs, and also provide online transfer of funds between post office accounts and bank accounts. This will be helpful especially for farmers and senior citizens in rural areas, enabling interoperability, and financial inclusion.
- **Digital Payments:** In recent years, digital banking, digital payments and fintech innovations have grown at a rapid pace in the country. The government is continuously encouraging these sectors to ensure that the benefits of digital banking reach every nook and corner of the country in a consumer-friendly manner. Taking forward this agenda, and to mark 75 years of our independence, it is proposed to set up 75 Digital Banking Units (DBUs) in 75 districts of the country by Scheduled Commercial Banks. The financial support for the digital payment ecosystem announced in the previous Budget will continue in 2022-23. This will encourage further adoption of digital payments.
- **Promoting Fintech and Digital Economy** has also emerged as a focus area in this budget. We believe that RBI is also working on a regulatory framework for it. As a result of it, Debit cards (DC), EMI Loan (POS EMI and Online EMI both) and BNPL (Buy Now Pay Later) will become accessible and available to more and more customers. As this market is supposed to grow from current 22,500-26,250 crore level to Rs 3.37-3.35 lakh crore by 2026 (*as per RedSeer Consultancy Group report*), banks would be able to build a healthy portfolio of Unsecured loan.
- Budget proposed IBC amendments to enhance efficiency of resolution process and facilitating cross-border insolvency resolution. This will help banks to enhance quick resolution of stressed assets as well as reduce provisions.

DIGITAL RUPEE BY RBI

- In the Union Budget, Finance Minister has announced that the digital rupee will be introduced by RBI in 2022-23 using blockchain and other technologies. The digital rupee or Central Bank Digital Currency (CBDC) will give a big boost to digital economy and India would be the first major country to officially launch its currency in such a manner.
- A CBDC is an electronic record or digital token of a country's official currency, which fulfils the basic functions as a medium of exchange, unit of account, store of value, and standard of deferred payment. Till December 2021, there are 87 countries (representing over 90% of global GDP) exploring a CBDC, compared to only 35 countries who were considering a CBDC in May 2020. Out of these, 9 countries (Bahamas, 7 eastern Caribbean & Nigeria) have now fully launched a digital currency. Nigeria is the latest country to launch a CBDC, the e-Naira, the first outside the Caribbean. However, the major countries with the 4 largest central banks (the US, the Euro Area, Japan, and the UK), are furthest behind. There are 14 countries, including China and South Korea, who are now in the pilot stage with their CBDCs and preparing a possible full launch soon.
- In comparison with existing forms of money, the CBDC can offer benefits to users in terms of liquidity, scalability, acceptance, ease of transactions with anonymity and faster settlement. The adoption of CBDC will improve and make it easier for people to use with the supporting infra provided by the govt. The development will make digital currencies more accessible to the people just as UPI made digital cash easier to use. We expect that RBI will leverage the existing infrastructure through NPCI for a faster introduction and adoption of digital rupee across the economy through QR code system.

- Digital Rupee can have many use case scenarios in real world such as programmable payments for subsidies and use by financial institutions for faster lending and payments. We could see a pragmatic shift to cashless economy in the near future. This can give impetus to government's stress on cashless payments and positively change the banking scenario. As the usage of the Digital Rupee increases, it could also benefit things like cross-border remittances, an environment could be created for interoperability whereby faster real-time remittance occurs. Overall, the cost of transactions would reduce for the government and businesses. For example: a worker in UAE receives 50% salary as digital money, allowing him to send money to relatives in any other country more cheaply and efficiently. Fees for wiring money often take up to 7% of the value of a transaction, and the World Bank estimates that cutting fees to 2% could give $16 billion a year boost to remittances to low-income countries.
- While an IMF study in 2021 found that financial inclusion may mean trade-offs when it comes to privacy and competition policy, digital payment companies are increasingly capturing and monetizing consumer data. Without collateral to offer, poorer households and microenterprises can offer their data, but at the cost of their privacy. So, regulation will have to strike just the right balance, including to incentivize market entry of new payment companies while limiting their dominance. Further, without new standards and international coordination, the financial system may face a significant interoperability problem in the future.

TAX PROPOSALS

In the Budget, the Government has left direct taxes unchanged, but has taken steps in direct tax incentives to ease compliance for taxpayers. Some of the major announcements are as under:

- Permit taxpayers to file an updated return on payment of additional tax within two years from the end of the relevant assessment year. It is an affirmative step in the direction of voluntary tax compliance.
- Government proposes to increase the tax deduction limit to 14% from 10% on employer's contribution to the NPS account of State Government employees. The decision has been taken to bring in parity between state as well as central government employees and enhance their social security benefits.
- The surcharge on the long-term capital gains (LTCG) has been capped at 15%. The rate of LTCG vary between 10% to 20% depending upon the type or class of assets. Currently, LTCG surcharge is available only for listed shares and units of mutual funds. This is beneficial for the individual investors who are holding shares for more than 12 months and selling it thereafter, thus, to treat gains on sale of such shares as long-term capital gains.
- Any income from transfer of any virtual digital asset (say, crypto asset) shall be taxed at the rate of 30%. Further, to capture the transaction details, Budget also proposed to provide for TDS on payment made in relation to transfer of virtual digital asset at the rate of 1% of such consideration above a monetary threshold.

AGRICULTURE

Finance Minister has announced a grand plan to deal with India's chronic agrarian distress.

- The use of Kisan drones will be promoted for crop assessment, digitisation of land records, spraying of insecticides and nutrients. This is expected to drive a wave of technology in the agriculture sector.
- States will be encouraged to revise the syllabi of agricultural universities to meet the needs of natural, zero-budget, and organic farming, modern-day agriculture.
- Funds will be facilitated through NABARD to finance startups for agriculture and rural enterprise, relevant for the farm produce value chain. Startups will support FPOs and provide tech to farmers. This will promote Agri Entrepreneurs, FPOs, Start-ups and Agri value chain, thereby providing avenue for Bank finance.
- FM also announced the implementation of the Ken Betwa Linking project at an estimated cost of Rs 44,605 crore. This is aimed at providing irrigation benefits to 9.0 lakh hectare farmland, drinking water supply to 62 lakh people, 103 MW hydropower, and 27 MW solar power generation.

- Natural farming will be promoted along the Ganga river corridor. Chemical-free natural farming will be promoted throughout the country with a focus on farmers' land in the five km wide corridors along the river Ganga in the first stage.
- Procurement of wheat in Rabi season 2021-22 and the estimated procurement of paddy in Kharif season 2021-22 will give cover of 1208 lakh metric tonnes of wheat and paddy from 163 lakh farmers & Rs 2.37 lakh crores will be the direct payment of MSP value to their accounts.
- To reduce our dependence on import of oilseeds, a rationalised and comprehensive scheme to increase domestic production of oilseeds will be implemented.
- 2023 has been announced as the International Year of Millets. Support will be provided for post-harvest value addition, enhancing domestic consumption, and for branding millet products nationally and internationally.

INFRASTRUCTURE

Gati Shakti: The Gati Shakti programme includes the expansion of roads, railways, ports, airports, mass transport, waterways and logistics infrastructure. Government has launched the Gati Shakti master plan in October 2021. As part of the multi-model logistics plan, all these key areas are expected to work together. The roadmap is lined up to drive India's infrastructure growth for the next 25 years.

As part of its mega investment plan, India is set to see its highest addition in National Highways in 2022-23, adding 25,000 kilometers as part of the ambitious, Rs 100 trillion plan for multi-modal connectivity. The current expansion plan is expected to help the faster movement of people and goods. Around Rs 20,000 crore will be mobilised through innovative ways of financing to complement the public resources. The rise in addition of national highways is compared to 13,327 km of roads constructed in 2020-21 and 10,237 km in 2019-20. During the financial year 2021-22, around 3,824 km has been added till September. In 2020-21, the construction of roads per day had increased to 36.5 per cent as against 28 km in 2019-20.

SEZ: Government has proposed to replace the existing law governing Special Economic Zones (SEZs) with a new legislation to enable states to become partners in 'Development of Enterprise and Service Hubs'. The existing SEZ Act was enacted in 2006 with an aim to create export hubs and boost manufacturing in the country. However, these zones started losing their sheen after imposition of minimum alternate tax and introduction of sunset clause for removal of tax incentives. These zones are treated as foreign entities in terms of provisions related to customs.

Solar: The additional allocation of Rs 19,500 crore for PLI (Production Linked Incentive) in Solar PV module manufacturing. We believe, it will further improve affordability for the end consumers for Solar Rooftops.

HOUSING

Government's renewed push for greater infrastructure development and massive allocations for the subsidised housing scheme will bring cheers for the country's real estate and construction companies.

A Rs 48,000 crore budget allocation for the Pradhan Mantri Away Yojana (PMAY) has been announced for the fiscal year 2022-23. This is 75% higher than the Rs 27,500 crore budget allocation made in FY22 and marginally higher than the Rs 47,390 crore in the revised estimate for the current fiscal.

To ramp up the 'housing for all' initiative and boost the economic activities the Government increased the allocation substantially in the current year. And to keep the momentum going has kept the funds at similar levels for the next year, with a target of handing over 80 lakh homes to urban and rural dwellers. This will be a big boost for the housing sector in the country.

RAILWAYS

The major highlights of Railways financial for FY23 are as follows:

- Gross tariff receipts will increase by 18.8% to Rs 2.39 lakh crore in FY23 due to high base.
- Operating Ratio is expected to improve marginally from 98.9% in FY22 to 97.0% in FY23.
- Railways will develop new products and efficient logistics services for small farmers and Small and Medium Enterprises, besides taking the lead in the integration of Postal and Railways networks to provide seamless solutions for the movement of parcels.
- 'One Station-One Product' concept will be popularized to help local businesses & supply chains.
- As part of Atmanirbhar Bharat, 2,000 km of network will be brought under Kavach, the indigenous world-class technology for safety and capacity augmentation in 2022-23.
- Four hundred new-generation Vande Bharat Trains with better energy efficiency and passenger riding experience will be developed and manufactured during the next three years. These new trainsets are going to be made of light-weight aluminium, as opposed to steel, making each around 50 tonnes lighter in weight, consuming much less energy than their steel counterparts.
- One hundred PM GatiShakti Cargo Terminals for multimodal logistics facilities will be developed during the next three years.
- Innovative ways of financing and faster implementation will be encouraged for building metro systems of appropriate type at scale.
- Multimodal connectivity between mass urban transport and railway stations will be facilitated on priority. Design of metro systems, including civil structures, will be re-oriented and standardized for Indian conditions and needs.

Railway Financial (Rs Crore)

	FY 20	FY 21	FY 22 (BE)	FY 22 (RE)	FY 23 (BE)	FY23 (BE) / FY22 (RE) (%Gr)	FY22 (RE) / FY21 (%Gr)	FY21/ FY20 (%Gr)	5 Yr CAGR (FY 18-22 in %)	Decadal CAGR (FY 13-22 in %)
1. Total Railway Receipts(2+3)	174695	140784	217460	202000	240000	18.8	43.5	-19.4	3.1	5.4
2. Gross Traffic Receipts	174357	140571	217110	201750	239600	18.8	43.5	-19.4	3.1	5.6
2.1 Passenger Earnings	50669	15248	61000	44375	58500	31.8	191.0	-69.9	-2.3	3.9
PassengerEarnings/GrossTrafficReceipts(%)	29.1	10.8	28.1	22.0	24.4					
2.2 Freight Earnings	113488	117232	137810	145275	165000	13.6	23.9	3.3	5.5	6.1
Freight Earnings / Gross Traffic Receipts (%)	65.1	83.4	63.5	72.0	68.9					
2.3 Other Earnings*	10200	8090	18300	12100	16100	33.1	49.6	-20.7	-1.8	6.0
3. Total Miscellaneous Receipts	338	213	350	250	400	60.0	17.4	-37.0	5.2	-22.4
4. Total Expenditure from railway revenues	173105	138236	210899	201125	234640	16.7	45.5	-20.1	3.2	6.7
5. Revenue net of dividend payouts	1590	2547	6561	875	5359	512.5	-65.7	60.3	-14.9	-26.3
Memo:										
Gross Traffic Receipts (% of GDP)	0.86	0.71	0.97	0.87	0.93					
Net Revenue (% of GDP)	0.01	0.01	0.03	0.00	0.02					
Operating Ratio	98.4%	97.5%	96.2%	98.9%	97.0%					

Note: *Other earnings are defined as the sum of other coaching earnings, sundry other earnings and suspense.
Source: Railway Budget & SBI Research

ATMANIRBHAR BHARAT ABHIYAAN: PROGRESS SO FAR

Atmanirbhar Bharat Abhiyaan or Self-reliant India campaign is the vision of new India envisaged by the Government. The aim is to make the country and its citizens independent and self-reliant in all senses. The budget further outlined five pillars of Atmanirbhar Bharat – Economy, Infrastructure, System, Vibrant Demography and Demand. The Finance Minister further announced Government Reforms and Enablers across Seven Sectors under Atmanirbhar Bharat Abhiyaan. The Government has taken several bold reforms such as Supply Chain Reforms for Agriculture, Rational Tax Systems, Simple & Clear Laws, Capable Human Resource and Strong Financial System.

Atmanirbhar Bharat Abhiyaan: Key Measures and their Progress so far

Sector	Measures	Progress so far
MSMEs	Rs 4.5 lakh crores Collateral free Automatic Loans for Business (ECLG)	As of Nov 12, 2021, loans amounting to Rs 2.28 lakh crore were disbursed under ECLGS to MSMEs and other businesses by banks, out of Rs 2.82 lakh crore loans sanctioned
	Rs 20,000 crore Subordinate Debt for MSMEs	708 guarantees amounting to Rs 75 crore have been issued under the scheme
	Rs 50,000 cr equity infusion through MSME Fund of Funds	Self Reliant India (SRI) Fund is a Category-II Alternative Investment Fund registered with SEBI with Mother Fund / Daughter Fund structure. The Government of India is the sole anchor investor with the initial budgetary support of Rs 10,000 crore to the mother fund in phased manner. Within 3 months of signing of the Contribution Agreement, Rs 2,640 crore has been committed. By the end of FY22, it is expected another Rs 500 crore worth of commitments will be provided.
EPF	Rs 2500 crores EPF support for Businesses and Workers for 3 more months	Benefits amounting to Rs 2,567.22 crore have been credited in the Aadhaar seeded UANs (universal PF account numbers) of 38.84 lakh eligible EPFO members and 2.63 lakh eligible firms.
	EPF contribution reduced for Business & Workers for 3 months- Rs 6750 crores	In July'20, 1,41,045 firms (1,24,093 firms and 1,38,773 firms in May/June'20) and 180.93 lakh subscribers (157.83 lakh/175.44 lakh in May/June'20) benefited due to reduction in EPF contributions to 10 per cent.
NBFC	Rs 30,000 crores Liquidity Facility for NBFC/HCs/MFIs	As on 30th September 2020, 39 proposals involving an amount of Rs.11,120 crore have been approved. Out of this sanctioned amount, Rs 7,227 crore has been disbursed whereas Rs 182 crore will not be availed. The remaining sanctions of Rs 3,707 crore have lapsed. This Scheme has been closed on 30th September,2020.
	Rs 45,000 cr Partial Credit Guarantee Scheme 2.0 for NBFC	As in October'2020, Banks had approved purchase of portfolio of Rs27,794 crore and were in process of approval/ negotiations for Rs. 1,400 crore with disbursal of Rs 25,000 crore by them. Rs 5,000 crore under Special Liquidity Facility (SLF) allocated to NABARD by RBI for NBFCs / NBFCs-MFIs.

Atmanirbhar Bharat Abhiyaan: Key Measures and their Progress so far		
Sector	**Measures**	**Progress so far**
Poor, including migrants and farmers	Free Food grain Supply to Migrants	The Centre had to discontinue the Rs 3,100-crore scheme of free grains for an estimated 8 crore migrant workers (Migrant workers, who were neither NFSA or State Card beneficiaries in the state they were stationed) under the Atmanirbhar Bharat scheme after completion of two months due to lack of response from the states. However, 2.13 crore migrant workers availed the benefit of free grains in May-June'20.
	One Nation One Ration Card	The One Nation One Ration Card (ONORC) scheme has been rolled out in 34 states and UTs covering 75 crore beneficiaries
	Rs. 1500 crores Interest Subvention for MUDRA-Shishu Loans	Rs 775 crore had been released to Small Industries Bank of India (SIDBI) under the Rs 1500 crore interest subvention scheme applicable on MUDRA loans up to Rs 50,000. Of this Rs 206.73 cr already disbursed to Member Lending Institutions (MLIs), till early December'20.
	Rs 5000 cr Special Credit Facility for Street Vendors	Rs 3340 crore sanctioned to 32.5 lakh street vendors
	Rs 70,000 crore boost to housing sector and middle-income group through extension of CLSS	Rs 39,620 crore interest subsidy released under CLSS covering 17.35 lakh beneficiaries
	Rs 6000 crore employment push using CAMPA funds	The Compensatory Afforestation Fund Management and Planning Authority (CAMPA) has till Dec'21 disbursed ₹48,606 crore to 32 States cumulatively out of a corpus of Rs 54,000 crore collected from industry as environmental compensation.
	Rs 30,000 crores Additional Emergency Working Capital Funding for farmers through NABARD	Rs 25,000 crore stood disbursed for farmers through NABARD
	Rs 2 lakh crore Concessional credit boost to 2.5 crore farmers through Kisan Credit Cards (KCC)	Banks have issued KCC to 2.70 crore eligible farmers as on January 17, 2022.
Agriculture	Rs 1 lakh crore Agri Infrastructure Fund for farm-gate infrastructure for farmers	Till date, a total of 8702 projects have been sanctioned under the scheme with a loan amount of Rs 6254 crores, out of which, Rs 2291 crores have been disbursed for 4315 projects.
	Rs 10,000 crores scheme for Formalisation of Micro Food Enterprises (MFE)	Total 14,110 enterprises applied for the scheme

Atmanirbhar Bharat Abhiyaan: Key Measures and their Progress so far		
Sector	**Measures**	**Progress so far**
	Rs 20,000 crores for Fishermen through Pradhan Mantri Matsya Sampada Yojana (PMMSY)	Rs 5234 crore sanctioned so far
	Animal Husbandry Infrastructure Development Fund - Rs. 15,000 crore	Term Loan amount of Rs 1215.11 crore disbursed from AIHDF till Dec'21
	From 'TOP' to TOTAL - Rs 500 crores	Rs 38.21 crore disbursed in 2020-21 and Rs 15.84 crore disbursal till Aug'21 (FY 21-22)
	Amendments to Essential Commodities Act to enable better price realisation for farmers	The Essential Commodities (Amendment) Bill 2020 with provisions to remove commodities like cereals, pulses, oilseeds, edible oils, onion and potatoes from the list of essential commodities was passed by Rajya Sabha ON 22ND September'20. The freedom to produce, hold, move, distribute and supply will lead to harnessing of economies of scale and attract private sector/foreign direct investment into agriculture sector while allaying fears of private investors of excessive regulatory interference in their business operations.
	Agriculture Marketing Reforms to provide marketing choices to farmers	Formation and Promotion of Farmers' Producer Companies (FPOs) to form and promote 10,000 FPOs, setting up Agriculture Infrastructure Fund (AIF) of Rs 1.00 Lakh crore to provide a medium-long term loan facility for investment in viable projects for post-harvest market infrastructure including warehousing facility and community farming assets through interest subvention and financial support, Agricultural Marketing Infrastructure (AMI), a sub-scheme of Integrated Scheme for Agricultural Marketing (ISAM) under which assistance is provided for construction/ renovation of godowns/ warehouses in the rural areas in the States to enhance the storage capacity for agriculture produce
	Support for Agriculture Rs 65,000 crores for subsidised Fertilisers	Rs 62,638 crore subsidy from the earmarked amount of Rs 65,000 utilised. Also, regular subsidy amount of Rs 71,309 crore disbursed during the year 2020-21.
Policy Reforms	Introduction of Commercial Mining in Coal Sector	Government till date launched the four rounds of auction of coal mines for commercial mining. Total 99 mines have been put on sale so far.
	Diversified Opportunities in Coal Sector - Investment of Rs 50,000 crores	Coal India Ltd has spent Rs 7,000 crore capex so far during FY 2021-22 and have advised their ₹ 17,000-crore capex target for the current fiscal is on track. CIL looks forward to investing around ₹ 40,000-50,000 crore in the next 4-5 years on capex.
	Enhancing Self Reliance in Defence Production	'Positive Indigenisation List' of 200 plus defence items, with continual additions from time-to-time, which will be manufactured within India / measures to add volume to the domestic defence industry through FDI in defence sector raised to 74% from 49%, Defence capital outlay increased by ~19% in budget 2021-22, roping in private sector for enhanced defence acquisition

Atmanirbhar Bharat Abhiyaan: Key Measures and their Progress so far		
Sector	**Measures**	**Progress so far**
	Reduction in Flying cost Rs. 1000 crores - Efficient Airspace Management for Civil Aviation	Better management of airports by AAI including privatisation of select airports
	More World-class Airports through PPP	Both Mumbai and New Delhi are getting world class airports
	Boosting private sector investment in Social Infrastructure through revamped Viability Gap Funding Scheme - Rs 8100 crores	Scheme notified in Nov'20 with bifurcation- Rs 6,100 cr outlay for economic infrastructure and Rs 2,100 cr outlay for social infrastructure VGF through PPP mode till 2024-25.
Government Reforms	Rs 40,000 crores increase in allocation for MGNREGS to provide employment boost	In FY20, Rs 71,686.70 crore was spent on the programme. BE for 2020-21 was initially Rs 71,500 crore and the additional Rs 40,000 crore announced under Atmanirbhar Bharat package took it to Rs 1,11,500 crore which was completely consumed. Budget FY22 allocated Rs 73,000 crore for MGNREGA.
	Further enhancement of Ease of Doing business through IBC related measures	The Government raised the threshold of default under section 4of the IBC, 2016 to 1 crore (from the existing threshold of Rs 1 lakh) on 24.06.2020. A special resolution under section 240A of the Code, to provide relief to the MSMEs was finalized. Insolvency and Bankruptcy Code (Second Amendment) Act, 2020 notified on 23rd September,2020 with effect from 5th June, 2020 thereby providing insertion of Section 10A in the Insolvency and Bankruptcy Code 2016 (Code) to temporarily suspend initiation of Corporate Insolvency Resolution Process (CIRP) under Sections 7, 9 and 10 of the Code for a period of six months or such further period, not exceeding one year, from 25th March, 2020. The benefit of the proposed suspension will be available to all those defaults of the corporate debtor that occur from 25th March 2020 and till the end of the period of suspension.
	Supporting State Governments	Under AtmaNirbhar Bharat Package, it was announced that Special interest free 50-year loans will be given to States for capital expenditure for Rs. 12,000 crore. As on 07.12.2020, so far, 27 State Governments had submitted proposals under the Scheme for new and ongoing capital works/ projects. Projects amounting to Rs. 8455.61 crore under Part-I and Part-II of the Scheme had been approved so far and an amount of Rs. 4227.80 crore, as 1stinstallment, had been released to the States.

Atmanirbhar Bharat Abhiyaan: Key Measures and their Progress so far		
Sector	**Measures**	**Progress so far**
Other Measures	Atmanirbhar Bharat Rozgar Yojana	As on 18 Dec-21 total benefits of Rs. 2966.28 Crore have been given to 42,82,688 beneficiaries through 1,20,697 Establishments under ABRY
	Rs 1.46 lakh crore boost for Atmanirbhar Manufacturing Production-linked incentives for 10 Champion Sectors	Sectors enhanced to 13 and incentive outlay enhanced to 1.97 lakh crore over a five-year period. Further, an additional 14th PLI scheme for semi-conductors has been announced recently to counter the supply glut and establish India as the new hub.
	Rs 18,000 crores additional outlay for PM Awaas Yojana (PMAY) – Urban	Against the total assessed demand of 1.12 Cr houses, 1.14 Cr houses have been sanctioned (from 2015). Of these, total of 91.5 lakh houses were grounded for construction and 53 lakhs houses were completed / delivered, as on 12th Dec' 2021. A total of 17.35 Lakh beneficiaries have availed subsidy on housing loans through Credit Linked Subsidy Scheme (CLSS), out of which 6.15 Lakh beneficiaries are from Middle Income Group.
	Rs 1.10 lakh crore Platform for Infra Debt Financing – Rs 6000 crores Equity infusion in NIIF Debt Platform	In end November'20, government approved equity infusion of ₹6,000 crore in NIIF Debt Platform sponsored by National Investment and Infrastructure Fund.
	Boost for Rural Employment – Enhanced outlays under PM Garib Kalyan Rozgar Yojana	Government of India launched Garib Kalyan Rojgar Abhiyaan (GKRA) of 125 days on 20th June, 2020 with a resource envelop of Rs.50,000 crore, to boost employment and livelihood opportunities for returnee migrant workers and similarly affected citizens in rural areas, in the wake of COVID-19 pandemic. 25 works in 116 selected districts across 6 States of Bihar, Jharkhand, Madhya Pradesh, Odisha, Rajasthan and Uttar Pradesh saw expenditure of Rs 39,293 crore under the scheme with participation from 12 ministries / departments from the GoI.
	Boost for Project Exports - Rs 3000 crore to EXIM bank for Lines of Credit	Rs.3,000 crore released to EXIM Bank for promoting the export projects in developing countries through lines of credit under the IDEAS scheme.
	Rs. 10,200 crore additional budget outlay will be provided towards Capital and industrial expenditure	₹10,200 Crore additional budget stimulus provided for capital and industrial expenditure on domestic defence equipment, industrial infrastructure and green energy.
	Rs 90,000 cr Liquidity Injection for DISCOMs	The liquidity infusion package was later increased to Rs 1.2 lakh crore and further to Rs 1.35 lakh crore. Rs. 118,273 crore worth of loans had been sanctioned and Rs. 31,136 crore had been disbursed/ released by Dec'20. Another release of Rs 30,000 crore to various states was under process at that time.
	Rs 50,000 cr liquidity through TDS/TCS reductions	Payment for contract, professional fees, interest, rent, dividend, commission, brokerage, etc were eligible for this reduced rate of TDS (other than salaried taxpayers) through 25% cut in the rate of tax deducted/collected at source (TDS/TCS), applicable till March 31'2021. Additionally, Income Tax refunds of Rs 50,793 crore had been issued to over 1.42 crore non-corporate entities till Dec'20.

Source: SBI Research

Section 2

Corporate & Industry

THE STAGE IS SET FOR A PRIVATE INVESTMENT REVIVAL

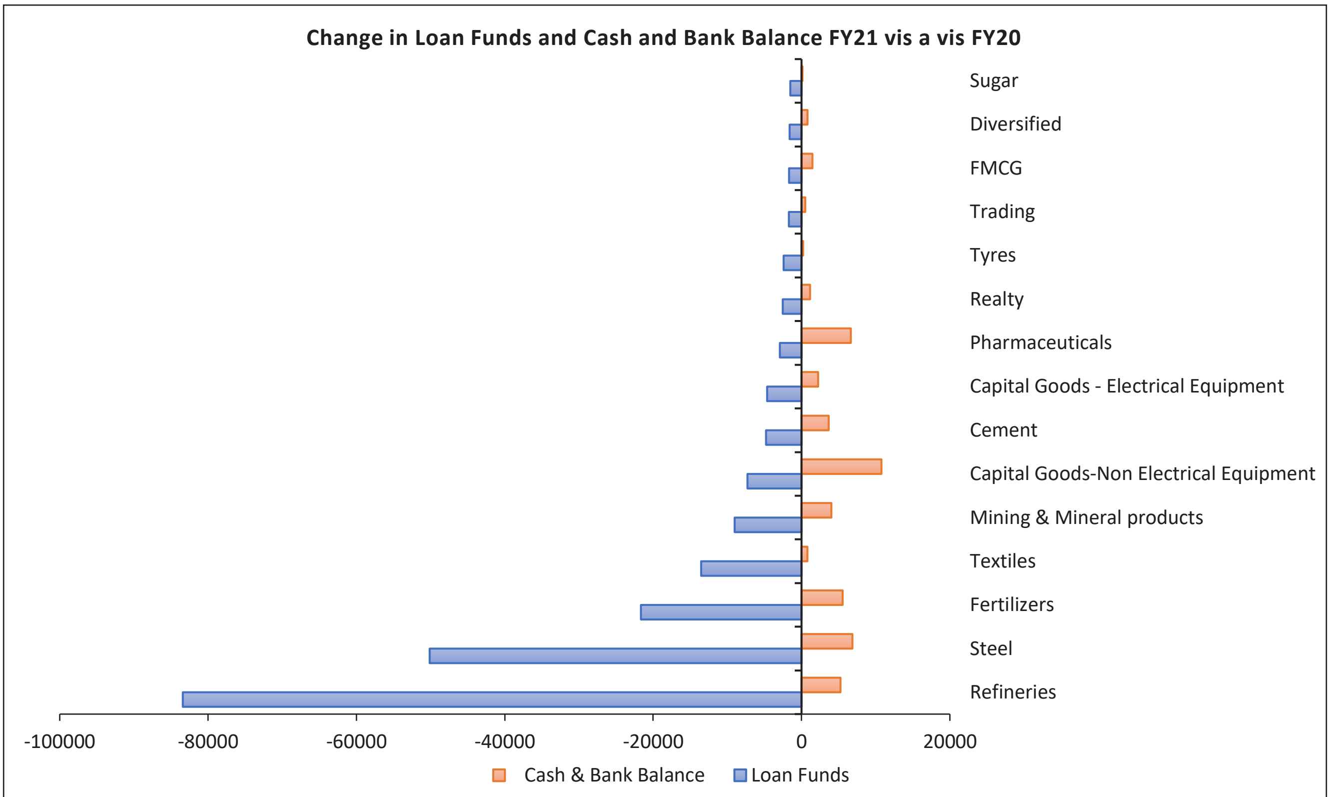
After witnessing pandemic waves in last two years with a roller coaster ride, we are now witnessing visible positive trend across various parameters of corporate health. Whether its deleveraging, preserving cash, mobilising funds through equity market or to increase promoters holding, corporates are leaving no stone unturned to utilize the opportunity in the pandemic to stay relevant and keep the balance sheet in shape and preparing for a future ready organization.

Banks have also reported healthy improved asset quality with the gross non-performing assets (GNPA) and net NPA (NNPA) ratios declining to 6.9 per cent and 2.3 per cent respectively, as on September'2021.

While private participation in the investment announcements increased to 70% from around 50% a year ago, indicating revival of the capex in the economy, improvement in credit ratios across sectors in 9MFY22 as compared to 9MFY21 suggest improving balance sheet strength and outlook. Further, credit growth of ASCBs also look optimistic as Q3 of current fiscal has witnessed, with Incremental CD (credit to deposit) ratio of 113% in Q3FY22 as compared to only 2% in the first half of FY22, a visible expansion in credit growth across sectors.

Corporate deleveraging and increase in cash balances of corporates

It has been a roller coaster ride in the corporate space in FY21 and even FY22. Even as around 4000 listed entities for FY21 reported 5% decline in top line, EBIDTA and PAT grew by 24% and 105% respectively over FY20. Most importantly, 15 sectors have reduced loan funds by around Rs 2.09 lakh crore during pandemic year FY21. Sectors such as Refineries, Steel, Fertilisers, Textiles, Mining, etc. have reduced their loan funds in the range of 6% to 64% in FY21. Interestingly, in some sectors, where loan reduction has been a trend have also reported increase in cash and bank balance at the end of FY21



Source: CLIne; SBI Research

Increase in promoter holding

During the pandemic, more than 1000 corporates increased their promoter's shareholding by average 4 per cent. The shareholding of these companies listed on the NSE increased by nearly 400 basis points to 56.99 per cent at the end of December 2021 from 52.97 per cent on March'2020.

Sectors where increased promoter's shareholding reported includes Finance, Textiles, Trading, Chemicals, Pharmaceuticals, IT -Software, Steel, Capital Goods – Non Electrical Equipment, Auto Ancillary etc.

Mobilization from IPO in equity markets

Despite FY21 being overshadowed by the pandemic, Indian corporates have raised an all-time high amount of Rs 1.89 lakh crore through public equity markets (including FPO/OFS/QIP/InvITs etc.), more than double of the Rs 91,670 crore raised in FY20. Strong retail participation in IPOs, huge listing gains and highest-ever amount raised through QIPs and InvITs/ReITs were the main contributors for the same. In current year also, in first nine months i.e., up to Dec'2021, corporates raised equity of more than Rs 1.50 lakh crore through public equity market.

Asset quality of banks remain satisfactory

- As per the latest RBI report, the capital to risk-weighted assets ratio (CRAR) of scheduled commercial banks (SCBs) rose to a new peak of 16.6 per cent and their provisioning coverage ratio (PCR) too increased from 67.6% in March 2021 to 68.1 per cent in September 2021
- Further, the asset quality of banks showed improvement, with the gross non-performing assets (GNPA) and net NPA (NNPA) ratios declining to 6.9 per cent and 2.3 per cent respectively, as on September'2021.

Asset Quality of ASCBs

As on	GNPA Ratio	NNPA Ratio
Mar-17	9.3	5.3
Mar-18	11.2	6
Mar-19	9.3	3.8
Mar-20	8.4	2.9
Sep-20	7.5	2.1
Mar-21	7.5	2.4
Sep-21	6.9	2.3

Source: RBI; SBI Research

Increasing private participation in new investment announcements

- New investment announcements which were around Rs 10 trillion in last two years, as per Projects Today, improved to Rs 12.78 trillion in first nine months of FY22 (April – Dec), and can report a 50% growth in FY22 as compared to previous year.

New Investment Announcements

Year	Amount Rs lakh crore			Share (%)	
	Govt.	Private	Total	Govt.	Private
FY17	10.17	4.08	14.25	71.36	28.64
FY18	8.23	3.92	12.16	67.72	32.28
FY19	10.24	7.01	17.25	59.37	40.63
FY20	5.57	5.28	10.85	51.34	48.66
FY21	5.28	5.43	10.71	49.30	50.70
FY22	4.04	8.75	12.79	31.59	68.41

Source: CLine; SBI Research

- The share of private participation in the investment announcements increased to 70% from around 50% a year ago, indicating revival of the capex in the economy.
- Major industries where new announcements were made during last nine month includes Roadways (Rs 1.79 lakh crore), Community Services (Rs 1.16 lakh crore), Real Estate (Rs 1.19 lakh crore), Iron & Steel (Rs 1.08 lakh crore) and Non-Conventional power (Rs 0.80 lakh crore).
- Top five States i.e. Gujarat, Maharashtra, Tamil Nadu, Karnataka and Uttar Pradesh contribute around 55% of the new investment announcement in FY22.

New Investment Announcements Sectorwise (major sector)		
Sectors	**Number of Projects**	**Amount Rs Crore**
Food Products	221	13,648
Textiles	67	10,190
Basic Chemicals	940	1,66,873
Plastic & Plastic Products	96	39,212
Cement & Asbestos	57	22,878
Iron & Steel	214	1,07,820
Non Ferrous Metals	19	21,838
Electronics	60	72,262
Automobiles	27	31,005
Automobile Ancillaries	48	7,037
Mining	107	51,616
Electricity	25	39,915
Non Conventional Energy	158	79,748
Community Services	2,056	1,16,082
Roadways	1,207	1,79,203
Shipping Infrastructure	40	12,427
Pipelines	85	10,677
Power Distribution	221	4,702
Commercial Complexes	293	31,996
Real Estate	1,148	1,19,224
Industrial & Software Parks	107	25,416
Storage & Distribution	102	19,212
All Sectors	**7,774**	**12,78,105**

Source: Projects Today; SBI Research

National Infrastructure Pipeline, National Monetization Pipeline and Performance Linked Incentive and Expected Debt Requirement

The Government has remarkably increased its capital expenditure in FY23. With over Rs 7.5 lakh crore budgeted funds, the National Infrastructure Pipeline (NIP) will see considerable traction. The Trends in NIP allocation are given below:

National Infra Piepline Investment (Rs Lakh Crore)				
	FY20	**FY21**	**FY22**	**FY23**
Total NIP Expenditure(FY20-25)	111.0			
Centre's Expenditure (Pro-rata basis @ 39% share)	7.2	7.2	7.2	7.2
Centre's Capex BE	3.4	4.1	5.5	7.5
Centre's Capex RE/Actual	3.4	4.3	6.0	
Gap between NIP investment and Centre's Actual, Revised or Budgeted Capex	3.8	2.9	1.2	-0.3

Govt. Investment/Monetisation plans during 2022-2025 and debt requirement				
Sl No.	**Description**	**Expected Investment/ Monetisation Value**	**Expected Debt Rquirement (with Debt Equity of 70:30)**	**Remarks**
1	National Infrastructure Pipeline (NIP)	72.3	30.4	Assuming 60% projects required debt support. Focus Sectors – Energy, Roads, Railways and Urban Infrastructure etc.
2	National Monetization Pipeline (NMP)	5.8	4.0	Focus Sectors – Roads, Railways, Power Generation & Transmission, Gas & Petroleum pipeline etc,
3	Performance Linked Incentive (PLI) Schemes	2.2	1.5	Major sectors – Mobile and Specified Electronic Components, Automobiles and Auto Components, ACC Battery, Semiconductors and High Efficiency Solar PV modules etc.
4	Disinvestment of Public Entities	1.8	1.2	
	Total	**82.1**	**37.1**	

Source: Government of India; SBI Research; Rs lakh crore.

The financing of NIP including the Gati Shakti projects will have more options in FY23. This will include National Bank for Financing Infrastructure and Development (NaBFID) which will begin business by approving the first loan for the project in the first quarter of FY23 beginning April 2022.

With increased private participation, credit growth of ASCBs also look optimistic as Q3 of current fiscal has witnessed, with Incremental CD (credit to deposit) ratio of 113% in Q3FY22 as compared to only 2% in the first half of FY22, a visible expansion in credit growth across sectors. Sectors where demand for credit started picking up during last three months includes NBFCs, Telecom, Petroleum, Chemical, Electronics, Gems & Jewellery and Infrastructure including Power and Roads.

Short term rates, Commercial Paper (CP), also favourable and weighted average yield in CP market is currently around 4% i.e. in Jauary'22 as compared to above 5% at the start of pandemic i.e. April'2020.

Order book of capital goods and other companies

Order book position, of major construction/capital goods companies, too reflects improvement as of Sept'21 as compared to March'21 level (see table). In L&T also, though the order book position seems flat, the order inflow for H1FY22 is 33% higher than the same period previous year i.e., order inflow of Rs 687 bn reported in H1FY22 as compared to Rs 516 bn in H1FY21 with major inflows from Hydrocarbon, Infrastructure, Heavy Engineering, Realty and Industrial Machinery businesses.

Order Book Position Rs. in Bn				
Company	**March-20**	**March-21**	**Sept-21**	**Growth over March' 21**
BHEL	1,084	1,021	1,100	7.74%
L&T	3,039	3,274	3,305	0.95%
KEC International Ltd.	205	191	212	10.99%
Dilip Buildcon Ltd	191	274	231	-15.69%
Kalpataru Power Transmission Ltd.	133	279	311	11.47%

Source: SBI Research; company/market reports

Improvement in credit ratio (upgrade to downgrade)

Sectorise rating upgrades to downgrades reflects improvement in credit ratios across sectors post in 9MFY22 as compared to 9MFY21. Sectors such as Healthcare, Pharmaceuticals, Fertilisers & Agriculture Chemicals, Cement, Energy, NBFC, etc. has shown better improvement ratio. A comparative table of credit ratios (upgrade to downgrade) 9MFY21 and 9MFY22 is mentioned in the table below.

Sectorwise Rating Upgrade and Downgrade (select sector)							
Sector	9MFY21			9MFY22			Change in U/D Ratio
	Rating Upgrades	Rating Downgrades	U/D Ratio	Rating Upgrades	Rating Downgrades	U/D Ratio	
Capital Goods-Non Electrical Equipment	276	2273	0.12	474	1935	0.24	0.12
Construction & Engineering	150	978	0.15	197	868	0.23	0.07
Healthcare	106	333	0.32	177	228	0.78	0.46
Consumer Durables & Apparel	116	1458	0.08	253	1096	0.23	0.15
Textiles	79	960	0.08	156	724	0.22	0.13
Metals and Mining	82	552	0.15	187	449	0.42	0.27
Pharmaceuticals	56	177	0.32	86	111	0.77	0.46
Steel	75	410	0.18	155	316	0.49	0.31
Capital Goods - Electrical Equipment	29	251	0.12	41	231	0.18	0.06
IT	27	212	0.13	60	158	0.38	0.25
Sugar	20	42	0.48	35	46	0.76	0.28
Auto Components and Ancilliaries	19	249	0.08	45	160	0.28	0.20
Fertilizers & Agriculture chemicals	13	46	0.28	22	28	0.79	0.50
Cement	12	22	0.55	27	14	1.93	1.38
Energy	9	49	0.18	26	37	0.70	0.52
FMCG	2	11	0.18	5	11	0.45	0.27
Automobiles	3	18	0.17	3	11	0.27	0.11
Gems & Jewellery-Diamonds Polishing	2	48	0.04	8	28	0.29	0.24
Telecommunicatin Services	2	18	0.11	9	12	0.75	0.64
Hotels Restaurants & Leisure	3	197	0.02	22	160	0.14	0.12
Tyres & Rubber	-	30	0.00	10	22	0.45	0.45
Gems & Jewellery-Diamonds jewellery retailing	5	34	0.15	15	26	0.58	0.43
NBFC	11	95	0.12	41	62	0.66	0.55
Financials	40	188	0.21	84	119	0.71	0.49

Source: Crisil; SBI Research; U/D - upgrade to downgrades

LEVERAGING PLI CAN ADD UPTO $20 BN IN GDP

Highest ever monthly trade figures in Dec’21

India witnessed a robust export performance in Dec’21, with the highest ever monthly exports of $ 37.8 billion representing 38.9% yoy growth. Engineering goods, petroleum products, textiles, organic and inorganic chemicals, drugs and pharmaceuticals, electronic goods have been the major exports during the month.

Meanwhile, imports too grew significantly to $59.48 (38.5% yoy), again highest ever monthly numbers, thereby leading to huge total trade of $97.3 billion. Trade deficit during the month came at $21.7 billion, lower than $22.9 billion in the previous month. The good thing is that non-oil non-gold imports too grew strongly driven by chemicals, fertilisers, and electronics and agriculture goods.

Commodity wise exports

2-digit HS classification shows that top 15 commodity exports accounted for more than 72% in our total exports during Apr-Nov’21. A large number of these commodities showed higher export growth not only vis-a-vis 2020, but also in relation to corresponding periods of 2019 as well as 2018. In particular, exports of iron and steel showed robust growth of more than

100% over the past three years. Electrical machinery is another component whose exports increased more than 50% in Apr-Nov'21 when compared to Apr-Nov'20 and also Apr-Nov'18. Export of aluminium also grew strongly vis-a-vis the previous 3 years. Mineral fuel, oil and products which is our biggest export component grew significantly over 2020, but it can also be attributed to higher oil prices besides increase in volume growth. Gems and jewellery, Apparel & clothing (knitted or crocheted), vehicles (other than railway or tramway) and nuclear reactor, boiler and machinery grew strongly during Apr-Nov'21 when compared to Apr-Nov'20. However, their growth was less when compared to the previous two years. Cotton is another component whose exports grew abundantly over 2020 as well as 2019. Exports of cereals too grew during Apr-Nov'21 specially when compared to the same period in 2019 and 2018. If we look at the total agriculture exports, that have increased significantly around 18% to $41.9 billion in FY21 from $35.6 billion in FY20. Pharma exports are another interesting component as their growth stalled this year when compared to last year, however its growth is decent when compared to Apr-Nov of 2019 and 2018.

It is pertinent to note that the major sectors in which the PLI scheme has been introduced includes automobiles, food products, specialty steel, pharmaceuticals, electronics/technology goods, textiles, aviation. Thus, PLI scheme has benefited many of the top 15 commodity exports, specially mobile and electronic goods, drugs and pharma.

Commodity Exports ($ mn)					
	Apr-Nov 2021	% yoy over 2020	% yoy over 2019	% yoy over 2018	PLI
Mineral Fuels, Oils & Products	40,664	154.9	37.8	21.4	
Gems & Jewelery	26,024	80.8	1.3	-4.7	
Iron And Steel	15,926	106.2	149.1	144.0	
Nuclear Reactors, Boilers, Machinery	15,856	41.1	13.6	16.5	Y
Organic Chemicals	14,320	25.4	22.1	21.4	Y
Pharmaceutical Products	12,617	0.1	16.8	32.6	Y
Vehicles other than Railway or Tramway	12,594	67.1	11.0	5.9	Y
Electrical Machinery	12,203	50.7	22.8	53.2	Y
Cereals	7,725	30.9	93.6	54.8	Y
Cotton	6,547	91.5	93.7	27.5	Y
Aluminium And Articles	6,064	69.3	81.3	56.5	
Plastic And Articles	5,908	29.6	21.9	10.3	
Articles of Iron Or Steel	5,474	40.4	17.6	17.0	
Apparel & Clothing (Knitted Or Crocheted)	5,149	36.8	2.0	2.9	Y
Fish & other Aquatic Invertabrates	4,884	38.5	10.5	10.2	
Total of top 15	**1,91,955**	**63.2**	**28.8**	**23.4**	
India's Total Export	**2,65,776**	**52.6**	**25.9**	**22.9**	

Source: SBI Research, Ministry of Commerce

India continues to reduce Trade Deficit with China in FY21

The annual data shows that we imported $5 billion less from China in FY20 than in FY19 and further $48 million decline in FY21. Going back in history, in 1996-97 when petroleum products was a separate category in country wise classification, given its importance in our import basket, China was our 18th largest importer, with just about 1.9% share in total merchandise imports. However, China has steadily climbed the ladder and now commands 16.5% share of our merchandise imports. Imports from China climbed rapidly from FY01 till FY08, stayed at the same level till FY13, and started climbing rapidly from FY13 and hit a peak in FY18 and has since then declined in FY19 and stayed at the same level in FY21. When we compare the CAGR of India's overall merchandise growth rate between FY97 and FY21, with China's CAGR, the result is shocking. The CAGR for India overall is 10.1% % and that for China is 20.4%, almost double. No wonder, China is our biggest importer!

When we look at our exports to China, share of China in our total exports has been rising since FY17 and it now stands at 7.3%. Exports to China climbed steadily till FY08, again started rising in FY10 till FY18 and has declined in FY19 and FY20 but again increased significantly in FY21. When we compare the CAGR of India's overall merchandise growth rate between FY98 and FY21, with China's CAGR, there is good news. The CAGR for India overall is 9.6% % and that for China is 15.8%.

Coming back to imports in FY21 of $ 65 billion of imports around 39.5 billion is commodities and goods where PLI scheme has been announced (textile, agri, electronics goods, pharmaceuticals & chemicals). If because of the scheme we can reduce our dependence on China even to the extent of 20%, then we can add around $8 billion to our GDP and overtime if we reduce our dependence by 50%, we can add $20 billion to GDP because of the incentives to domestically manufacture these goods owing to the PLI scheme.

Imports from China in sectors where PLI has been announced ($ mn)	
Agriculture goods	302
Electronics	23731
Textiles	2193
Chemicals	13599
Total imports	39825
If reduce our dependence by 20%, addition to GDP	7965
If reduce our dependence by 30%, addition to GDP	11948
If reduce our dependence by 50%, addition to GDP	19913

Source: SBI Research, CMIE

Nonetheless, the most important imports from China for FY22 so far are personal computers and parts of telephonic and telegraphic equipment, electronic integrated circuits, Solar cells, urea and micro-assemblies' lithium-ion and diammonium phosphate. There are other goods also under the electrical and electronics imports. Our dependence on China is huge in these products, constituting around 48% of total imports of these. Drastic reduction in these areas can only be possible if, we source from other countries, while building a domestic manufacturing base for these.

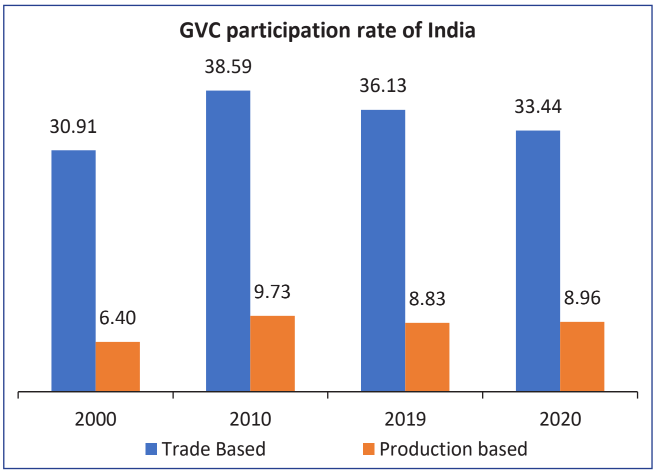
Global Value Chains and India

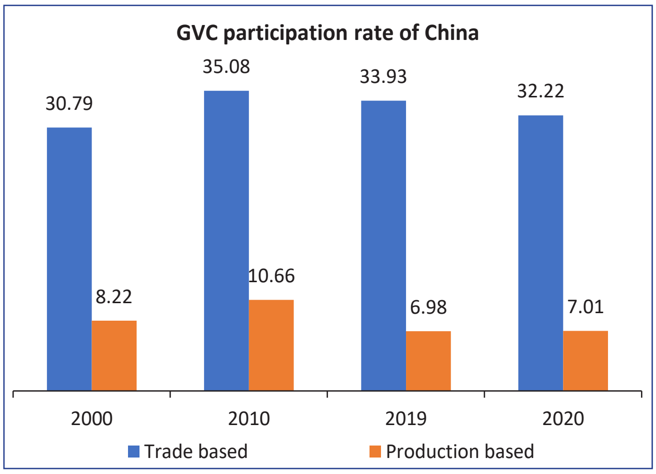
India should integrate more and more into the Global Value Chains (GVCs). GVCs refer to international production sharing, a phenomenon where production is broken into activities and tasks carried out in different countries. Countries can participate in GVCs by engaging in either backward or forward linkages.

Backward linkages are created when country A uses inputs from country B for domestic production. Forward linkages are created when country A supplies inputs that are used for production in country B. Products cross several borders in GVCs in different stages of production before they are turned into final goods.

The Global Value Chain Development Report 2021 of ADB calculates GVC in two ways. In the trade-based approach of Borin and Mancini (2019), the GVC participation rate is measured as the share of indirect trading in gross exports. This is the portion of exports whose underlying value added crosses two or more borders before final consumption. The production-based approach is based on forward GVC participation rate of Wang et al. (2017), and measures the GVC participation rate as the share of the unfinished exports of domestic value added in total value added generated. This is the portion of gross domestic product that goes into exports of intermediates.

India's participation has improved over the years in production-based GVC. The good thing is that there has been a significant improvement in case of medium to high technology manufacturing. When compared to China, India's participation is higher in case of both trade based and production based GVC.





With Atmanirbhar Bharat, the Government hopes to increase our forward participation in GVC. Although India is fairly integrated in global value chains and has a higher level of upstreamness than many other nations, ultimately what matters is how much the exports of a country can command in value terms, because of their level of sophistication or quality. India's overall exports are more tilted towards consumer and intermediate goods and sophisticated merchandise exports in the form of capital goods needs to be encouraged too.

Furthermore, the focus should be on building the right infrastructure which can help in making India's exports more cost competitive. Also, the government should focus more and more on easing the processes for businesses to function easily. Another area is increased investment in R&D spend so that more innovative products are developed. India is planning to get integrated more and more into the global value chains and if India does not spend more on building its research capabilities it will get stuck in exporting low value intermediate inputs.

SECTOR : IRON & STEEL

OVERALL IMPACT : POSITIVE

Budget Proposals and Impact

- PM Gati Shakti master plan driven by seven engines - Roads, Railways, Airports, Ports, Mass Transport, Waterways, and Logistics Infrastructure.
- National Master Plan aimed at world class modern infrastructure and logistics synergy
- 4 Multimodal Logistics parks through PPP to be awarded in 2022-23
- Integration of Postal and Railways Network facilitating parcel movement.
- 400 new generation Vande Bharat Trains
- Multimodal connectivity between mass urban transport and railway stations
- National Ropeways Development Plan as sustainable alternative to conventional roads.
- PM Awas Yojana - 80 lakh houses to be completed in 2022-23
- Rs 48000 crore allocated to housing scheme under PM housing scheme for FY23
- Extension of customs duty exemption to steel scrap
- Allocation to Ministry of Defence Rs 5.25 lakh crore

Backdrop

In FY2021, India reported crude steel production of 103.04 MT, a decline of 5.6% YoY as compared to production of 109.14 MT in FY2020. Between FY2016 and FY2021, India's crude steel production increased at a CAGR of 2.8%. In FY2021, finished steel production was at 95.12 MT as compared to 102.6mn tonnes in FY2020. Exports and imports of finished steel stood at 10.78 MT and 4.75 MT respectively in FY21P.

During April-Oct'2021, Crude Streel Production reported a growth of ~25% with production of 66.8 MT as compared to 53.52 MT a year ago. Accordingly, finished steel production also reported a growth of ~ 30% with production of 62.88 MT as compared to 48.40 MT during April-Oct'2020.

The Government has taken various steps to boost the sector including the introduction of National Steel Policy 2017 and allowing 100 per cent Foreign Direct Investment (FDI) in the steel sector under the automatic route. The National Steel Policy 2017 (NSP) was adopted with the vision to create a globally competitive steel industry in India. The NSP aims at achieving objectives such as building a globally competitive industry with a crude steel capacity of 300mn tonnes by FY2031, increasing the per capita steel consumption to 160kg by FY2031, meeting domestically the entire demand of various types of steel by FY2031 etc.

In July 2021, the Union Cabinet has approved the Production Linked Incentive (PLI) Scheme for specialty steel. The duration of the scheme will be five years from FY2024 to FY2028 with a budgetary outlay of Rs 63 billion and expected to bring in investment of approximately Rs 400 bn and capacity additions of 25 MT for speciality steel. Speciality steel has been chosen as the target segment because only 17% of India's value-added steel/speciality steel requirement was produced in the country in FY2021.

Further, the Rs 1 trillion Gati Shakti Master Plan scheme which will offer multi-modal connectivity to more than 1,200 industrial clusters, including two defence corridors across the country is expected to largely benefit the steel sector owing to the large demand for building the infrastructure under the scheme.

Performance of Indian Steel industry						
Category	April-Mar (2020-21)* (mt)	April-Mar (2019-20) (mt)	% change	April-Oct 2021 * (mt)	April-Oct 2020(mt)	% change
Crude Steel Production	103.04	109.14	-5.6	66.8	53.52	24.8
Hot Metal Production	69.19	73.01	-5.2	44.81	36.48	22.8
Pig Iron Production	4.84	5.42	-10.7	3.444	2.565	34.3
Sponge Iron Production	34.16	37.10	-7.9	22.36	18.06	23.8
Total Finished Steel (alloys/stainless + non alloys)						
Production	95.12	102.62	-7.3	62.88	48.40	29.9
Import	4.75	6.77	-29.8	2.75	2.35	17.2
Export	10.78	8.35	29.1	8.81	7.10	24.1
Consumption	94.14	100.17	-6.0	57.90	45.93	26.1

Source: JPC; * provisional; mt = million tonnes

Overall, exports of total finished steel (8.81 mt) were up by 24.1% during April-Oct'2021, as compared to previous year, while import grew by 17.2% during the same period.

Some of the key previous announcements for the sector

- 100 more airports to be developed by 2024 to support Udaan scheme
- Expansion of national gas grid from the present 16200 km to 27000 km proposed
- National Infrastructure Pipeline: Rs. 103 lakh crore worth projects

Credit Ratios

Sector Credit Ratios (Upgrade vis-à-vis downgrades) during 9MFY2022 as compared to previous year for the same period.

Credit Ratio							
Sector	Total No. of Companies (o/s as on Jan 2022)	9MFY21			9MFY22		
		Upgrades	Downgrades	Ratio	Upgrades	Downgrades	Ratio
Iron & Steel	2124	75	410	0.18	155	316	0.49

Source: CRISIL; SBI Research; numbers are for all rating agencies

Credit ratio in steel sector improved by 31 bps during 9MFY2022 as compared to 9MFY2021. With 155 upgrades and 316 downgrades during 9MFY2022 credit ratios stood at 0.49 as compared to 0.18 in 9MFY2021.

Sectors Performance - Key Financials of Select Companies (Standalone)

Key Financials of Select Iron & Steel Companies for H1FY22 vis-à-vis H2FY21 (Rs in Crore)									
Name of the Company	H1FY22			H2FY21			Growth H1FY22 on H2FY21		
	Net Sales	EBIDTA	PAT	Net Sales	EBIDTA	PAT	Net Sales	EBIDTA	PAT
Tata Steel Ltd	58690	26728	17488	38487	15446	10208	52%	73%	71%
JSW Steel Ltd	53098	18164	10641	42953	13268	6847	24%	37%	55%
Steel Authority of India Ltd	47469	13580	8154	43119	11230	4727	10%	21%	72%
Jindal Steel & Power Ltd	23677	9043	5372	19206	8620	5652	23%	5%	-5%
Jindal Stainless Steel Ltd	8656	1290	634	7262	966	417	19%	34%	52%

Source: CLine; SBI Research

Steel companies have reported excellent result in H1FY22 as compared to both H1FY21 and H2FY21. Most of the big companies (see table) reported significant improvement in EBIDTA because of better realization and various cost cutting measures initiated during pandemic year. Tata Steel reported a 52% rise in net sale while JSW Steel reported a 24% growth in net sales during H1FY22, sequentially.

In Q3FY2022, we expect the similar kind of revenue growth YoY and EBITDA also to grow by more than 20% in our coverage universe. JSW Steel Ltd., which has declared Q3 result, reported 50% growth in net sales in Q3FY22 as compared to Q3FY21 and EBIDTA growth of 20.6% during the same period.

Market Reaction

Market Movement from Previous Budget (1st Feb'21) and on Budget Day (1st Feb'22)							
Sector - Iron & Steel Name of the Companies	01-Feb-21	31-Jan-22	1-Feb-22	Movement Over 01-Feb-21		Movement on Budget Day	
				Price	%	Price	%
Tata Steel Ltd	636.1	1085.55	1167.35	531.25	83.52%	81.80	7.54%
JSW Steel Ltd	380.85	628.95	654.3	273.45	71.80%	25.35	4.03%
Steel Authority of India Ltd	63.6	98.45	103.3	39.70	62.42%	4.85	4.93%
Jindal Steel & Power Ltd	277.5	386.00	411.15	133.65	48.16%	25.15	6.52%
Jindal Stainless Steel Ltd	74.15	202.90	207.00	132.85	179.16%	4.10	2.02%

Source: NSE; closing price as on date

SECTOR : CONSTRUCTION

OVERALL IMPACT: POSITIVE

Budget Proposals and Impact

- PM Gati Shakti master plan driven by seven engines - Roads, Railways, Airports, Ports, Mass Transport, Waterways, and Logistics Infrastructure.
- National Master Plan aimed at world class modern infrastructure and logistics synergy
- Formulation of Master Plan for expressways. Completing 25000 km national highways in 2022-23
- Unified Logistics Interface Platform allowing data exchange among all mode operators
- 4 Multimodal Logistics parks through PPP to be awarded in 2022-23
- Integration of Postal and Railways Network facilitating parcel movement.
- Multimodal connectivity between mass urban transport and railway stations
- National Ropeways Development Plan as sustainable alternative to conventional roads.
- PM Awas Yojana - 80 lakh houses to be completed in 2022-23
- Har Ghar, Nal Se Jal: 3.8 crore households to be covered in 2022-23
- Vibrant Villages Programme - Targeting development of villages on the Northern Border left out from the development gains
- Allocation to Ministry of Road Transport and Highways Rs 1.99 lakh crore for 2022-23
- Allocation to Ministry of Railways Rs 1.40 lakh crore for 2022-23

Backdrop

Infrastructure sector is a key driver for the Indian economy and developing India's infrastructure will play a vital role in achieving USD 5 trillion economy. The sector is distinctly responsible for driving India's overall development and accordingly enjoys intense focus from Government from all front whether it is policy measures or announcements of new projects for creation of world class infrastructure in the country. Infrastructure sector includes power, bridges, dams, roads, and urban infrastructure development etc.

In FY22, Government initiatives such the National Infrastructure Pipeline, National Monetisation Pipeline, Bharatmala Pariyojana, changes in the Hybrid Annuity Model (HAM) and fast pace of asset monetization to boost road construction sector were announced.

Further, Gati Shakti will incorporate the infrastructure schemes of various Ministries and State Governments like Bharatmala, Sagarmala, inland waterways, dry/land ports, UDAN etc. Economic Zones like textile clusters, pharmaceutical clusters, defence corridors, electronic parks, industrial corridors, fishing clusters, agri zones will be covered to improve connectivity & make Indian businesses more competitive. It will also leverage technology extensively including spatial planning tools with ISRO and will also give boost to the construction sector.

Some of the key announcements in previous budget for the sector

- More than Rs 100 lakh crore to be invested on infrastructure over the next 5 years - National Infrastructure Pipeline: Rs 111 lakh crore worth projects
- 100 more airports to be developed by 2024 to support Udaan scheme
- 27000 Km of Railway tracks to be electrified
- Expansion of national gas grid from the present 16200 km to 27000 km proposed

Credit Ratios

Sector Credit Ratios (Upgrade vis-à-vis downgrades) during 9MFY2022 as compared to previous year for the same period

Credit Ratio							
Sector	Total No. of Companies (o/s as on Jan 2022)	9MFY21			9MFY22		
		Upgrades	Downgrades	Ratio	Upgrades	Downgrades	Ratio
Constructions	4250	150	978	0.15	197	868	0.23

Source: CRISIL; SBI Research; numbers are for all rating agencies; Constructions & Engineering

With upgrades of 197 and downgrades of 868 during 9MFY2022, credit ratio improved by 8 bps to 0.23 from 0.15 for 9MFY2021.

Sectors Performance - Key Financials of Select Companies (Standalone)

Key Financials of Select Constructions Companies for H1FY22 vis-à-vis H2FY21 (Rs in Crore)									
Name of the Company	H1FY22			H2FY21			Growth H1FY22 on H2FY21		
	Net Sales	EBIDTA	PAT	Net Sales	EBIDTA	PAT	Net Sales	EBIDTA	PAT
Larsen & Toubro Ltd	30170	2429	2775	49374	5454	4314	-39%	-55%	-36%
Rail Vikas Nigam Ltd	7895	455	433	9310	574	625	-15%	-21%	-31%
Dilip Buildcon Ltd	4302	511	8	5392	863	238	-20%	-41%	-97%
NCC Ltd	4092	436	156	4536	529	186	-10%	-18%	-16%
PNC Infratech Ltd	3474	697	388	3486	1048	380	0%	-33%	2%

Source: CLine; SBI Research

The sector is coping with pandemic's after affects and not out of woods yet. In H1FY22, most of the companies in listed space reported 25% degrowth in revenue, sequentially, and EBIDTA and PAT too declined by more than 30% during the same period. L&T reported a revenue degrowth of 39% while Rail Vikas Nigam Ltd. and Dilip Buildcon reported a decline of 15% and 20% respectively in H1FY22 as compared to H2FY21.

Initial trend Q3FY22 - Around 10 companies, which have declared Q3FY22 results, reported 8% growth in revenue. However, the EBIDTA and PAT declined by around 8% as compared to Q3FY21. L&T declared a 10% revenue growth in Q3FY22, as compared to Q3FY21. However, reported a decline of 7.69% in EBIDTA during the same period.

Market Reaction

Market Movement from Previous Budget (1st Feb'21) and on Budget Day (1st Feb'22)							
Sector - Construction Name of the Companies	01-Feb-21	31-Jan-22	1-Feb-22	Movement Over 01-Feb-21		Movement on Budget Day	
					%	Price	%
Larsen & Toubro Ltd	1448.85	1909.20	1990.50	541.7	37.38%	81.3	4.26%
Rail Vikas Nigam Ltd	30.30	36.00	35.70	5.4	17.82%	-0.3	-0.83%
Dilip Buildcon Ltd	440.60	364.90	367.75	-72.9	-16.53%	2.9	0.78%
NCC Ltd	67.05	74.90	75.15	8.1	12.08%	0.3	0.33%
PNC Infratech Ltd	196.75	295.00	297.90	101.2	51.41%	2.9	0.98%
NIFTY INFRA INDEX	3,853.40	5,056.75	5,109.90	1256.5	32.61%	53.1	1.05%

Source: NSE; closing price as on date

SECTOR : AUTOMOBILE

OVERALL IMPACT: NEUTRAL

Budget Proposals and Impact

- Battery Swapping Policy – big push for Electric Vehicles (EVs)
- Unified Logistics Interface Platform allowing data exchange among all mode operators
- Open-Source Mobility Stack for seamless travel of passengers

An alternative battery recharging method that is receiving global attention is battery swapping, in which a depleted EV battery is removed from the vehicle and replaced with a fully charged one. The technology is being tried out for various EV segments, including e-2Ws, e-3Ws, e-cars and even e-buses. Announcement of Battery swapping policy is a positive step for the EV space.

Swapping standardization is expected to go a long way in easing the woos of end users. The Ministry of Road Transport and Highways (MoRTH) has allowed the sale and registration of EVs without batteries, which should provide a huge boost to battery swapping solutions ecosystem. However, non- standardization in adopting uniform specifications, high cost of battery leasing over the life of the EV and higher GST on separate battery (18%) as compared to battery sold with EV (5%) are the few challenges that need to be addressed for accelerated shift to battery swapping.

Backdrop

In the 9MFY22 (April to Dec'2021) domestic Auto sector (except two-wheeler) reported more than 30% growth, across categories, as compared to same period previous year. Two-wheeler sector reported a de-growth of 6% during the same period. Export sales also reported growth of more than 50% in 9MFY22 as compared to the same period last year. Commercial Vehicle exports more than doubled in 9MFY22 to 64939 units as compared to 30294 units in 9MFY21. Tables showing growth in each category is as under: -

Automobile - Domestic Industry 9MFY22 vis-à-vis 9MFY21			
Category	**9MFY22**	**9MFY21**	**YoY %**
Two Wheeler	10115915	10767245	-6.0%
Three Wheeler	177777	132229	34.4%
Four Wheeler - PV	2148838	1638475	31.1%
Commercial Vehicle	466763	358203	30.3%
Total All Auto	12909293	12896152	0.1%

Source: SIAM; CEIC; SBI Research

Automobile - Export Industry 9MFY22 vis-à-vis 9MFY21			
Category	**9MFY22**	**9MFY21**	**YoY %**
Two Wheeler	3340942	2177109	53.46%
Three Wheeler	385285	271334	42.00%
Four Wheeler - PV	422656	290907	45.29%
Commercial Vehicle	64939	30294	114.36%
Total All Auto	4213822	2769644	52.14%

Source: SIAM; CEIC; SBI Research

Government has recently notified PLI Scheme for Automobile & Auto components. The PLI Scheme for the auto sector envisages to overcome the cost disabilities of the industry for manufacture of Advanced Automotive Technology products in India. The incentive structure will encourage industry to make fresh investments for indigenous global supply chain of Advanced Automotive Technology products. It is estimated that over a period of five years, the PLI Scheme for Automobile and Auto Components Industry will lead to fresh investments of over Rs 42,500 crores, incremental production of over Rs 2.3 lakh crore and will create additional employment opportunities of over 7.5 lakh jobs. Further this will increase India's share in global automotive trade.

This PLI Scheme for automotive sector along with the PLI scheme for Advanced Chemistry Cell (ACC) and Faster Adaption of Manufacturing of Electric Vehicles (FAME) will enable India to leapfrog from traditional fossil fuel-based automobile transportation system to environmentally cleaner, sustainable, advanced, and more efficient Electric Vehicles (EV) based system in the times to come.

Electric vehicles have become an integral part of the automotive industry. They represent a pathway toward achieving energy efficiency, and reduced emissions of pollutants and greenhouse gases. Increasing environmental concerns and favorable government initiatives are the major factors driving this growth.

The automobile majors, largely waiting on the sidelines hitherto, are expected to announce big-ticket investments in product diversification, either directly or through substantial stake in JVs aligning with the shifting preferences of customers for whom the cost efficiency offered by EVs could be the ultimate USP once the enabling infrastructure is put in place by policy makers.

Credit Ratios

Sector Credit Ratios (Upgrade vis-à-vis downgrades) during 9MFY22 (April'2021 to Dec'2021) as compared to previous year for the same period is as under:

Credit Ratio							
Sector	Total No. of Companies (o/s as on Jan 2022)	9MFY21			9MFY22		
		Upgrades	Downgrades	Ratio	Upgrades	Downgrades	Ratio
Automobile	80	3	18	0.17	3	11	0.27

Source: CRISIL; SBI Research; numbers are for all rating agencies

Credit ratios for the sector improved to 0.27 bps in 9MFY2022 as compared to 0.17 in 9MFY2021. The ratio, though still much below 1, but has shown an improvement of 10 bps in last 9Months.

Sectors Performance - Key Financials of Select Companies (Standalone)

Key Financials of Select Automobile Companies for H1FY22 vis-à-vis H2FY21 (Rs in Crore)									
Name of the Company	H1FY22			H2FY21			Growth H1FY22 on H2FY21		
	Net Sales	EBIDTA	PAT	Net Sales	EBIDTA	PAT	Net Sales	EBIDTA	PAT
Maruti Suzuki India Ltd	36097	1676	916	45195	4217	3108	-20%	-60%	-71%
Mahindra & Mahindra Ltd	25068	2958	2287	27262	2448	734	-8%	21%	212%
Tata Motors Ltd	17397	-359	-1980	34334	1861	1008	-49%	-119%	-297%
Bajaj Auto Ltd	15602	2521	2336	17143	3254	2888	-9%	-23%	-19%
Hero MotoCorp Ltd	13940	1581	1160	18462	2625	1949	-24%	-40%	-41%
Ashok Leyland Ltd	7361	-7	-365	11762	779	222	-37%	-101%	-265%

Source: CLine; SBI Research

All major players, across sector, reported negative growth in top line during H1FY2022 as compared to H2FY2021. Around 17% listed entities, reported 24% decline in top line and around 40% decline in EBIDTA during H1FY22 as compared to H1FY22. However, on YoY basis, the same set reported a 60% growth in top line and 112% growth in EBIDTA.

Initial trend in Q3FY2022 – In Q3FY2022, 4 listed entities, reported almost flat growth in revenue as compared to Q3FY2021 with a 25% degrowth in EBIDTA. However, we expect Automobile sector to report better growth numbers in Q4FY22 and onwards.

Market Reaction

Market Movement from Previous Budget (1st Feb'21) and on Budget Day (1st Feb'22)							
Sector - Automobile Name of the Companies	01-Feb-21	31-Jan-22	1-Feb-22	Movement Over 01-Feb-21		Movement on Budget Day	
					%	Price	%
Maruti Suzuki India Ltd	7399.80	8597.30	8559.40	1159.6	15.67%	-37.90	-0.44%
Mahindra & Mahindra Ltd	795.15	885.80	869.70	74.6	9.38%	-16.10	-1.82%
Tata Motors Ltd	279.60	517.75	504.30	224.7	80.36%	-13.45	-2.60%
Bajaj Auto Ltd	4114.70	3564.65	3534.45	-580.3	-14.10%	-30.20	-0.85%
Hero Motocorp Ltd	3340.65	2724.30	2726.75	-613.9	-18.38%	2.45	0.09%
Ashok Leyland Ltd	122.05	132.55	130.45	8.4	6.88%	-2.10	-1.58%
NIFTY AUTO INDEX	10,227.95	11,703.50	11,616.10	1388.2	13.57%	-87.4	-0.75%

Source: NSE; closing price as on date.

SECTOR : CEMENT

OVERALL IMPACT: POSITIVE

Budget Proposals and Impact

- PM Gati Shakti Driven by seven engines: Roads, Railways, Airports, Ports, Mass Transport, Waterways, and Logistics Infrastructure.
- National Master Plan aimed at world class modern infrastructure and logistics synergy
- Formulation of Master Plan for expressways - completing 25000 km national highways in 2022-23
- 4 Multimodal Logistics parks through PPP to be awarded in 2022-23
- Integration of Postal and Railways Network facilitating parcel movement.
- Multimodal connectivity between mass urban transport and railway stations
- PM Awas Yojana - 80 lakh houses to be completed in 2022-23
- Rs 48000 crore allocated to housing scheme under PM housing scheme for FY23

Backdrop

India is the second-largest producer of cement in the world, accounting for more than 7% of the global installed capacity. The consumption demand of cement industry is expected to reach 450-500 million tons per annum (MTPA) by 2025 because of the expanding demand of different sectors, i.e., housing, commercial construction, and industrial construction. In FY2021, domestic production of cement stood at 294 million tons, down from 334 million tons in FY 2020, declining by 12% year-on-year on account of economic slowdown. Cement consumption is valued at 266 million tons in terms of volume in FY2021 and is projected to reach about 420-450 million tons in FY2027. At present, the installed capacity of cement is around 550 MTPA with production of 294 MTPA.

As India has a high quantity and quality of limestone deposits through-out the country, the cement industry promises huge potential for growth.

The housing sector is the key contributor to cement market growth. It is estimated that about 60% of cement is consumed by the sector. In FY 2021, the urban housing segment accounted for 25% – 27% of the aggregate demand for cement. In terms of low-cost housing, the cement demand is showing exceptional growth. Cheap home loans, extension of the Credit Linked Subsidy Scheme (CLSS) and the need for individual space have spurred demand.

Several government initiatives such as the low-cost housing (housing for all) project under the PMAY scheme are expected to drive the industry during the forecast period. The Government has planned Atmanirbhar Bharat package, creating a provision for an additional outlay of Rs 180 billion for the urban housing scheme (PMAY-U). The allocated amount is more than the budget estimates for FY 2021 (Rs 80 billion) and was provided through additional allocation and extra-budgetary resources. Demand is further gaining momentum with the restart of construction work of public infrastructure projects such as roadways and metros post-lockdown. There has been a boost in real estate activities in tier II, tier III towns from the second quarter of FY2022, supported by the current low-interest cost regime, and other benefits being offered by the concerned authorities to home buyers as well as to developers.

According to the data released by Department for Promotion of Industry and Internal Trade (DPIIT), cement and gypsum products attracted Foreign Direct Investment (FDI) worth US$ 5.42 billion between April 2000 and September 2021.

Some of the key announcements in last budget

- Targeted development of 100 new airports, road projects, building of hospitals are some of the big takeaways for the Cement sector.

- National Highway Gris and State Road network is being developed alongside these measures
- 1,25,000 kilometers of road length upgrade over the next five years under PMGSY III with an estimated cost of Rs 80250 crore as per last announcement.

Credit Ratios

Sector Credit Ratios (Upgrade vis-à-vis downgrades) during 9MFY2022 as compared to previous year for the same period

Credit Ratio							
Sector	Total No. of Companies (o/s as on Jan 2022)	9MFY21			9MFY22		
		Upgrades	Downgrades	Ratio	Upgrades	Downgrades	Ratio
Cement	135	12	22	0.55	27	14	1.93

Source: CRISIL; SBI Research; numbers are for all rating agencies

With 27 upgrades and 14 downgrades during 9MFY2022, credit ratio stands at 1.93, an improvement of 138 bps, as compared to 0.55 during 9MFY2021.

Sectors Performance - Key Financials of Select Companies (Standalone)

Key Financials of Select Cement Companies for H1FY22 vis-à-vis H2FY21 (Rs in Crore)									
Name of the Company	H1FY22			H2FY21			Growth H1FY22 on H2FY21		
	Net Sales	EBIDTA	PAT	Net Sales	EBIDTA	PAT	Net Sales	EBIDTA	PAT
UltraTech Cement Ltd	23025	5772	2981	25796	6457	3328	-11%	-11%	-10%
Shree Cement Ltd	6655	1912	1239	7321	2291	1394	-9%	-17%	-11%
J K Cements Ltd	3469	729	377	3813	721	302	-9%	1%	25%
Nuvoco Vistas Corporation Ltd	3246	583	75	3582	696	81	-9%	-16%	-8%
The Ramco Cements Ltd	2658	758	686	2949	846	416	-10%	-10%	65%

Source: CLine; SBI Research

In H1FY22, 33 listed companies reported 10% declined in both revenue and EBIDTA as compared to H2FY21. However, on YoY basis, the same set of companies reported 31% growth in top line and 22% growth in EBIDTA. Ultratech reported 11% declined in both revenue and EBIDTA while Shree Cement reported 9% decline in revenue and 17% decline in EBIDTA during H1FY22 as compared to H2FY21.

Q3 Result early trend and expectations - We expect revenue to grow by 8-10% YoY in Q3FY22 as compared to Q3FY21. Ultratech Cement reported 5% growth in both top line and bottom line in Q3FY22 as compared to Q3FY21. Around 10 listed companies reported 7% growth in top line during Q3FY22 on YoY basis but reported a negative growth in both EBIDTA and PAT during the same period.

Market Reaction

Market Movement from Previous Budget (1st Feb'21) and on Budget Day (1st Feb'22)							
Sector - Cement Name of the Companies	01-Feb-21	31-Jan-22	1-Feb-22	Movement Over 01-Feb-21		Movement on Budget Day	
					%	Price	%
UltraTech Cement Ltd	5744.15	7216.40	7516.25	1772.10	30.85%	299.85	4.16%
Shree Cement Ltd	24543.60	24267.10	25489.65	946.05	3.85%	1222.55	5.04%
J K Cements Ltd	2164.60	3307.95	3358.85	1194.25	55.17%	50.90	1.54%
Nuvoco Vistas Corporation Ltd	NA	450.95	460.95	NA	NA	10.00	2.22%
The Ramco Cements Ltd	836.45	869.10	895.50	59.05	7.06%	26.40	3.04%

Source: NSE; closing price as on date

SECTOR : TEXTILE

OVERALL IMPACT : NEUTRAL

Budget Proposals and Impact

- Customs exemptions and tariff simplification - simplifies the customs rate and tariff structure for textiles sector
- To incentivise exports, exemptions are being provided to bonafide exporters of textiles goods
- Raising and Accelerating MSME Performance (RAMP) programme and revamping CGTMSE scheme will benefit many MSME players in the textile sector

Backdrop

The Indian textile industry is one of the largest in the world with a huge, unmatched raw material base and manufacturing strength across the value chain. It is the 2nd largest producer of MMF Fibre after China. India is the 6th largest exporter of Textiles & Apparel in the world. India's textiles and clothing industry is one of the mainstays of the national economy.

According to the Ministry of Textile FY2021 Annual Report, there are approximately 25 lakh power looms in the country, with the technology level of the sector varying from plain loom to high tech shuttle-less looms. In India, the power loom segment contributed 60% to total cloth production in the country and more than 60% of the fabric meant for export is also sourced from the power loom sector.

Out of the total textile and apparel market, more than 70% is accounted for by the apparel industry, which alone is expected to reach USD 135bn by FY2026. The apparel industry in India encompasses many small players.

Indian government has come up with several export promotion policies for the textiles sector. It has also allowed 100% FDI in the sector under the automatic route. Cumulative FDI inflows in the Textiles (including Dyed, Printed) sector stood at over USD 3.84 bn between April 2000 and September 2021. Other Initiatives taken by Government of India are:

- The Indian government has notified uniform goods and services tax rate at 12% on man-made fabrics (MMF), MMF yarns, MMF fabrics and apparel, which will come into effect from January 1, 2022.
- The Textile Minister has announced a mega handloom cluster in Manipur and a handloom and handicraft village at Moirang in Bishnupur. The mega cluster will be set up under the National Handloom Development Programme (NHDP). In October 2021, the creation of 100 textile machinery champions in the country was announced and to promote it in the global market. Through this, the government aims to make India a global player in textiles machinery.
- In October 2021, the Ministry of Textiles approved continuation of the comprehensive handicrafts cluster development scheme with a total outlay of Rs. 160 crore (US$ 21.39 million). Through this scheme, the government aims to support domestic SMEs and local artisans.
- In October 2021, the government introduced SAMARTH training at 75 training centers across the country, to accelerate the scheme's coverage among artisans.
- The government has allocated funds worth Rs 17822 crore (USD 2.38 billion) between FY16 and FY22 for the 'Amended Technology Up-gradation Fund Scheme' (A-TUFS), to boost the Indian textile industry and enable ease of doing business.
- Production linked incentive scheme to provide incentives for manufacture and export of specific textile products made of man-made fibre. Incentives worth Rs 10,683 crore will be provided over five years for manufacturing man-made fabrics, garments — jerseys, overcoats, trousers, polyester suitings and shirtings among others.
- It will also be provided for technical textiles, which is a new-age textile that can be used for the production of PPE kits, airbags and bulletproof vests.
- Under Union Budget 2020-21, a National Technical Textiles Mission was proposed for a period from 2020-21 to 2023-24 at an estimated outlay of Rs 1480 crore

Textile exports slowed in FY2020-21 due to the pandemic that disrupted the supply chain and demand. However, hints of improvement can be seen in 2021-22. Textiles and Apparel, including handicrafts, saw exports of USD 29.8 billion from April to December 2021, up from USD 21.2 billion in the same period last year, a 41% increase over previous year. Growth indicates that the economy is on the mend off late.

Even in comparison to the pre-pandemic year 2019-20, textile sector exports (Textiles & Apparel including Handicrafts) has climbed by 14.6% from April to December 2021 as compared to April to December 2019. Textiles saw a 31% increase in exports, Cotton Yarn/Fabrics/Made-ups, Handloom items, etc. saw a 43% increase, and Jute products saw a 33% increase from April to December 2021, compared to April to December 2019.

The government has set a target of USD 44 billion export for Textiles and Apparel, including Handicrafts, with about 68% of the annual objective already met.

Credit Ratios

Sector Credit Ratios (Upgrade vis-à-vis downgrades) during 9MFY2022 as compared to previous year for the same period

Credit Ratio							
Sector	Total No. of Companies (o/s as on Jan 2022)	9MFY21			9MFY22		
		Upgrades	Downgrades	Ratio	Upgrades	Downgrades	Ratio
Textile	4430	79	960	0.08	156	724	0.22

Source: CRISIL; SBI Research; numbers are for all rating agencies

With only 156 upgrades as compared to 724 downgrades during 9MFY2022, credit ratio stands at 0.22 as compared to 0.08 during 9MFY2021.

Sectors Performance - Key Financials of Select Companies (Standalone)

Key Financials of Select Textile Companies for H1FY22 vis-à-vis H2FY21 (Rs in Crore)									
Name of the Company	H1FY22			H2FY21			Growth H1FY22 on H2FY21		
	Net Sales	EBIDTA	PAT	Net Sales	EBIDTA	PAT	Net Sales	EBIDTA	PAT
Grasim Industries Ltd	8696	1541	1461	7008	1289	814	24%	20%	79%
Vardhman Textiles Ltd	4181	1103	744	3484	600	359	20%	84%	107%
Welspun India Ltd	3513	590	295	3459	625	322	2%	-6%	-8%
Arvind Ltd	3329	275	77	2866	343	99	16%	-20%	-22%
Trident Ltd	3140	782	432	2640	474	235	19%	65%	84%

Source: CLine; SBI Research

In H1FY22, most of the companies from the covered universe (see table) reported double digit growth in revenue. Grasim reported net sales of Rs 8696 crore in H1FY22 as compared to Rs 7008 crore in H2FY21 and Rs 4296 crore in H2FY21, reporting a growth of 24% above H2FY21 and 102% over H1FY21. Similarly, Vardhman Textile reported 20% growth in H1FY22, sequentially, and 80% on YoY basis.

Q3FY22 early trend – Around 43 listed entities in the Textile space declared their Q3FY22 results reported around 50% growth in revenue and more than 10% growth in EBIDTA as compared to the same period previous year.

Market Reaction

Market Movement from Previous Budget (1st Feb'21) and on Budget Day (1st Feb'22)							
Sector - Textile Name of the Companies	01-Feb-21	31-Jan-22	1-Feb-22	Movement Over 01-Feb-21		Movement on Budget Day	
					%	Price	%
Grasim Industries Ltd	1125.65	1727.50	1771.35	645.70	57.36%	43.85	2.54%
Vardhman Textiles Ltd	1036.20	2403.90	2399.55	1363.35	131.57%	-4.35	-0.18%
Welspun India Ltd	67.60	141.95	143.10	75.50	111.69%	1.15	0.81%
Arvind Ltd	52.45	145.05	141.25	88.80	169.30%	-3.80	-2.62%
Trident Ltd	14.45	60.90	60.30	45.85	317.30%	-0.60	-0.99%

Source: NSE; closing price as on date

SECTOR : POWER

OVERALL IMPACT: NEUTRAL

Budget Proposals and Impact

- PM Gati Shakti Driven by seven engines: Roads, Railways, Airports, Ports, Mass Transport, Waterways, and Logistics Infrastructure.
- National Master Plan aimed at world class modern infrastructure and logistics synergy

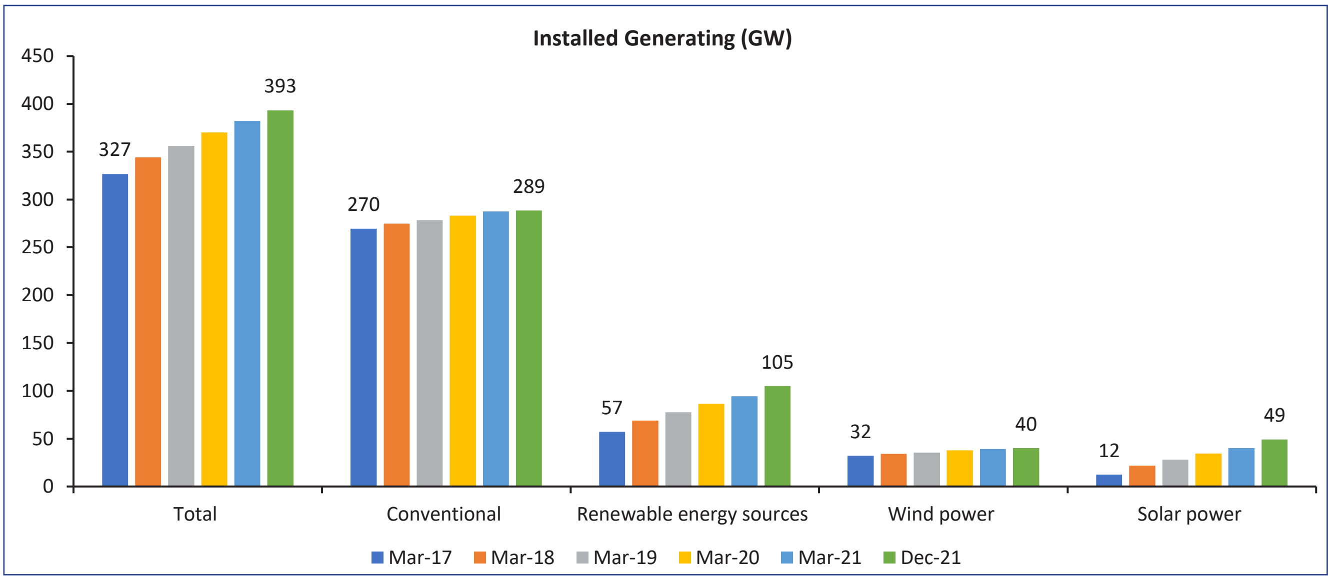
Infrastructure sector is a key driver for the Indian economy and Power sector is the heart of it. Though no special package/ scheme has been announced, around Rs 20 lakh crore of investment is estimated in energy sector during 2022-25 under National Infrastructure Pipeline (NIP).

Backdrop

Indian power sector has evolved over the years and so does the share of fuel mix, comprising conventional sources such as coal, hydro etc. and environmentally sustainable sources including solar and wind. Sustained economic growth will continue to drive electricity demand in India. The share of renewable energy (RE) increased from 17.5% in March 2017 to 26.7% in Dec'2021 and the share of solar power increased from 3.76% to 12.54% during the same period.

The government has announced its intent to achieve renewable energy capacity of 500 GW by 2030, at COP26. India's current RE capacity is at just above 100 GW as on Dec'2021. This means another 400 GW of RE has to be added by 2030 to meet the commitment. The 500 GW mission is translating a target of nearly 40-45 GW of RE capacity to be added per annum over the next eight-nine years, that is by 2030, suggesting huge opportunity in the renewable space.

Total installed generation capacity, as on December'2021, is 393.3 GW comprises of 48.4% (190 GW) from private sector, 25.1% (98.5 GW) from Central and 26.5% (104.3 GW) from State sector.



Source: SBI Research; CMIE

It is important to note that while conventional capacity is growing at a CAGR of 1.37% in last five years, renewable energy grew at a CAGR of 12.8% and within which solar power grew at a CAGR of 32% during the same period.

The Government of India has allocated Rs 111 lakh crore under the National Infrastructure Pipeline for FY2019-25. The energy sector is likely to account for 24% capital expenditure over FY2019-25. Union Budget 2020-21 has also allocated Rs 15,875 to the Ministry of Power and Rs 5,500 crore to Deen Dayal Upadhyay Gram Jyoti Yojana (DDUGJY).

Credit Ratios

Sector Credit Ratios (Upgrade vis-à-vis downgrades) during 9MFY2022 as compared to previous year for the same period.

Credit Ratio							
Sector	Total No. of Companies (o/s as on Jan 2022)	9MFY21			9MFY22		
		Upgrades	Downgrades	Ratio	Upgrades	Downgrades	Ratio
Power	1313	97	144	0.67	152	94	1.62

Source: CRISIL; SBI Research; numbers are for all rating agencies; includes Power utilities, IPP and Energy Traders

With 152 upgrades and 94 downgrades during 9MFY2022, credit ratio improved by 95 bps to 1.62 as compared to 0.67 during 9MFY2021.

Sectors Performance - Key Financials of Select Companies (Standalone)

Key Financials of Select Power Companies for H1FY22 vis-à-vis H2FY21 (Rs in Crore)									
Name of the Company	H1FY22			H2FY21			Growth H1FY22 on H2FY21		
	Net Sales	EBIDTA	PAT	Net Sales	EBIDTA	PAT	Net Sales	EBIDTA	PAT
NTPC Ltd	54368	14663	6358	51076	13875	7795	6%	6%	-18%
Power Grid Corporation of India Ltd	19706	17357	9424	19619	17208	6839	0%	1%	38%
Torrent Power Ltd	6447	1518	555	5785	1681	760	11%	-10%	-27%
Adani Green Energy Ltd	6293	41	138	2247	62	204	180%	-34%	-32%
NHPC Ltd	4916	3075	2217	3434	1611	1212	43%	91%	83%

Source: CLine; SBI Research

Power companies reported growth in top line in H1FY22 as compared to H2FY21 and on most of the companies, from above table, on YoY basis also. NTPC reported 6% growth in revenue, however reported a 18% declined in PAT, sequentially.

Q3FY22 early trend – Around 7 listed entities in the Power space declared their Q3FY21 results reported around 20% growth in revenue as well as EBIDTA as compared to the same period previous year.

Market Reaction

Market Movement from Previous Budget (1st Feb'21) and on Budget Day (1st Feb'22)							
Sector - Power Name of the Companies	01-Feb-21	31-Jan-22	1-Feb-22	Movement Over 01-Feb-21		Movement on Budget Day	
				Price	%	Price	%
NTPC Ltd	92.00	142.05	141.15	49.15	53.42%	-0.90	-0.63%
Power Grid Corporation of India Ltd	188.90	215.40	214.65	25.75	13.63%	-0.75	-0.35%
Torrent Power Ltd	307.45	545.70	545.60	238.15	77.46%	-0.10	-0.02%
Adani Green Energy Ltd	NA	1877.85	1904.00	NA	NA	26.15	1.39%
NHPC Ltd	23.70	30.00	29.90	6.20	26.16%	-0.10	-0.33%

Source: NSE; closing price as on date

MARKET MOOD: MOVEMENT IN KEY INDICES FROM PREVIOUS BUDGET DAY AND ON BUDGET DAY

Market Movement of Key Indices from Previous Budget (1st Feb'21) and on Budget Day (1st Feb'22)							
Indices	01-Feb-21	31-Jan-22	1-Feb-22	Movement Over 01-Feb-21		Movement on Budget Day	
				Price	Percentage	Price	Percentage
BSE SENSEX	48,600.61	58,014.17	58,862.57	10261.96	21.11%	848.40	1.46%
NIFTY 50	14,281.20	17,339.85	17,576.85	3295.65	23.08%	237.00	1.37%
NIFTY MIDCAP 100	21,600.90	30,273.95	30,611.60	9010.70	41.71%	337.65	1.12%
NIFTY AUTO	10,227.95	11,703.50	11,616.10	1388.15	13.57%	-87.40	-0.75%
NIFTY BANK	33,089.05	37,975.35	38,505.50	5416.45	16.37%	530.15	1.40%
NIFTY FMCG	33,689.65	36,467.25	37,183.80	3494.15	10.37%	716.55	1.96%
NIFTY INFRA	3,853.40	5,056.75	5,109.90	1256.50	32.61%	53.15	1.05%
NIFTY PHARMA	12,103.55	13,179.90	13,744.50	1640.95	13.56%	564.60	4.28%
NIFTY REALITY	324.95	480.25	488.65	163.70	50.38%	8.40	1.75%
NIFTY MEDIA	1,706.60	2,235.35	2,247.20	540.60	31.68%	11.85	0.53%
NIFTY METAL	3,227.25	5,473.50	5,719.40	2492.15	77.22%	245.90	4.49%

Source: NSE; BSE; closing points as on date

Notes

The banker to every indian

Contact Details:

Dr. Soumya Kanti Ghosh
Group Chief Economic Adviser
Economic Research Department
State Bank Bhavan, Corporate Centre
M C Road Nariman Point
Mumbai - 400 021
Email - soumya.ghosh@sbi.co.in | gcea.erd@sbi.co.in

@TheOfficialSBI
@kantisoumya

bank.sbi