UNION BUDGET 2021

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Macroeconomic Aspects

The amelioration of economic growth in India should be ensured by increasing income and purchasing power of people by providing employment

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GDP (FY20-21): INR 1,34,44,373 crores

GDP (FY21-22): INR 1,49,23,254 crores

11%

V-shaped recovery is underway amid India adopting a four-pillar strategy of containment, fiscal, financial, and long term structural reforms

Our Expectations

- 2021-22 budget should drive the revival of animal spirits in the economy through enhanced capital expenditure and by boosting public sector investments
- Government should be comfortable working with a higher fiscal deficit to kickstart the economy, and national debt should be looked at from a 5 year perspective
- The continued momentum in third quarter of 2020 needs to be built upon. Inflation to be targeted through supply-side measures, with robust social protection measurers already implemented.

Key Announcements

- Fiscal deficit of FY21 is pegged at 9.5 per cent of GDP
- Government plans to continue with fiscal consolidation, and intend to reach a fiscal deficit level below 4.5 per cent of GDP by 2025-2026
- For 2021-22, fiscal deficit is estimated at 6.8 per cent of GDP with gross borrowings expected to be around Rs. 12 lakh crore
- Capital expenditure outlay of INR5.54 lakh crore in FY22, 34 per cent higher than budgeted estimate of INR4.12 lakh in the last fiscal
- The Contingency Fund of India is being proposed to be augmented from INR500 crores to INR30,000 crores through Finance Bill

Why it Matters?

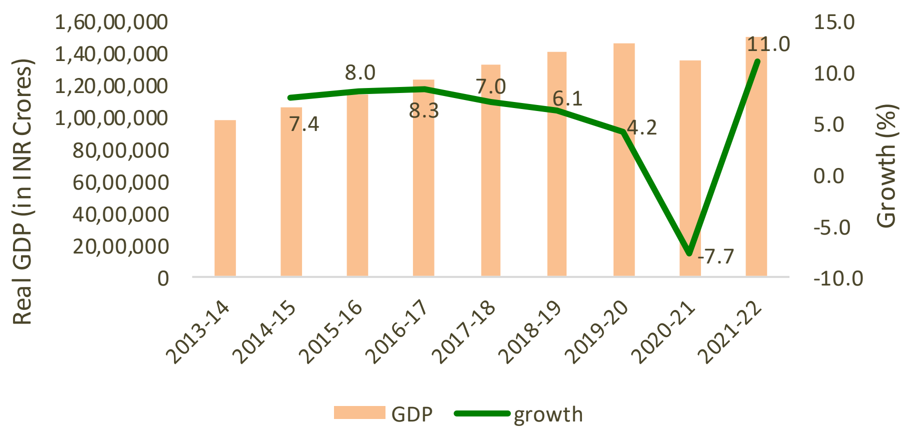
Amelioration of economic growth in India should be ensured by increasing income and working on measures that ensure equitable growth. The pandemic has underlined need for resilience in low-income families.

Economy has witnessed negative growth (-7.7 per cent) in FY 2020-21 but expected a sustained recovery in 2021-22 with 11 per cent growth

During April - October 2020, net FDI flows recorded an inflow of US$27.5 billion, 14.8 per cent higher as compared to first seven months of 2019-20

Budget has aimed at Counter-cyclical Fiscal Policy, with RBI promising to keep a watch on growth and step in with accommodative monetary steps as needed. This appears appropriate to the need in the short term.

India's Economic Growth and Recovery Path



Our Take

Nilaya Varma
CEO & Co-Founder, Primus Partners

The Indian economy was already witnessing subdued growth, which was further exacerbated due to the unforeseen outbreak of the COVID-19 pandemic. The unavoidable economic losses due to the ongoing COVID-19 pandemic were felt in H1FY21, but there have been green shoots of recovery. Such macroeconomic issues posed heightened challenges to the Union Budget 2021-22, and in this regard, this budget has charted a medium-term growth path, by taking a pragmatic view to tide over the crisis. It is expected that the steps taken will lead to growth and good jobs, lifting the bottom half of India's citizens and restore their growth path.

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Infrastructure

Focus on infrastructure is key to long-term growth… Many initiatives taken… Timely implementation will be key

Budget allocation (FY20-21): INR 3.30 lacs crores

Budget allocation (FY21-22): INR 5.54 lacs crores

68%

The allocation represents transport, railway, communication and housing and urban affairs allocations for 2020-21

Our Expectations

- Adequate allocation for the development of the country's infrastructure sector in view to increase the job opportunities
- To ease fundraising norms and implement alternative investment funds.
- A quick acting project monitoring system to reduce the time and cost overrun of projects.

Key Announcements

- A sharp increase in capital expenditure at INR5.54 lakh crore in 2022, which has been increased from INR4.39 lakh crore in 2021.
- Development Finance Institution (DFI) to be setup to act as a provider, enabler, and catalyst for infrastructure financing
- A national monetization pipeline of potential brownfield infrastructure assets will be launched.
- An asset monetization dashboard will be created for tracking the progress and to provide visibility to investors. NHAI and PGCIL to set up infrastructure investment trust to attract global funds.
    - Five operational roads with estimated enterprise value of Rs 5,000 crore are being transferred to NHAI InvIT.
    - Transmission assets worth Rs 7,000 crore to be transferred to PGCIL InvIT
- A sharp increase in capital expenditure — INR5.54 lakh crore for 2021-22, which is 34.5 per cent more than budget estimate of 2020-21.
- To provide more than INR2 lakh crore for states and autonomous bodies for their capital expenditure.
- Setting up of ARC/AMC to deal with stressed assets

Why Infrastructure Matters?

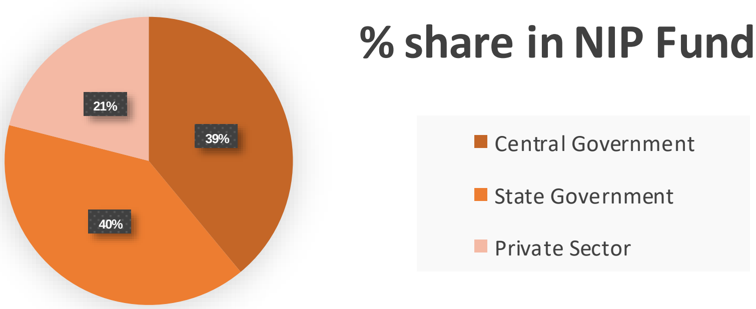
Contributes around 9 per cent to the country's GDP

FDI during April-June 2020
- Construction US$ 25.69 billion
- Infrastructure US$ 16.97 billion

2nd largest employer
51 million people employed in construction industry
More than 45 million additional jobs created
Indian construction space predicted to employ more than 76 million people by 2022

INR 1.70 lakh crore (US$ 24.27 billion) allocated to transport infrastructure sector was in the 2020-21 Union Budget

NIP Fund share



Our Take

Devroop Dhar
MD& Co-Founder, Primus Partners

The budget announcements related to the national monetization pipeline would lead to the expanded involvement of the private sector and would enable the Government to improve the supply of funds for the construction of essential infrastructure properties. Debt financing of InvITs and REITS by foreign portfolio investors will be enabled which will help to fund in infrastructure and real estate. New Development Finance Institution (DFI) would assist large-scale investment programmes with a start-up fund of $2.7 billion. It would kick start investments and provide assured and concessional finance for public infrastructure. The proposed Asset Maintenance Company would unshackle commercial banks balance sheets from a pile of debt. Taken together, these actions are a welcome step for India's infrastructure aspirations.

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Transport and Logistics – Roads & Highways

Roads open up more areas and stimulate economic and social development by improving logistics

Budget allocation (FY20-21): INR 101,823crores

Budget allocation (FY21-22): INR 118,101 crores

15.98%

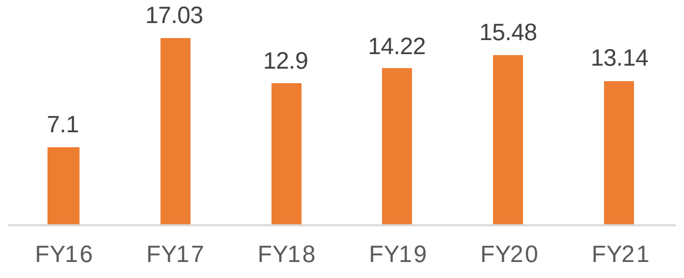
Our Expectations

- Compensating developers for their losses incurred due to COVID 19
- Increased focus towards the maintenance of the roads
- Reform in the financing of the projects

Key Announcements

- An enhanced outlay of INR1,18,101 crores for Ministry of Road Transport and Highways, of which INR1,08,230 crores is for capital, the highest ever.
- Tamil Nadu will get INR1.03 lakh crore for building of 3,500 km of roads, Kerala will get INR65,000 crores for 1,500 km of roads and West Bengal will get INR95,000 crores for 675 km road.
- In Assam, 1,300 km roads will be constructed at a cost of INR3,400 crore in the coming three years
- NHAI to monetize 12 highway bundles and NHAI Operational Toll Roads will be rolled out under the Asset Monetization Programme
- Under Bharatmala Pariyojana project, by March 2022 award of another 8,500 kms and complete an additional 11,000 kms of national highway corridors.
- Advanced Traffic management system with speed radars, variable message signboards, GPS enabled recovery vans will be installed in all new four and six lane highways.

Outlay for roads under the respective Union Budgets (US$ billion)



Source: Respective Union Budgets, IBEF report

Why Roads And Highways matters?

With the Government permitting 100% Foreign Direct Investment (FDI) in the road sector, several foreign companies have formed partnerships with Indian players to capitalise on the sector's growth.

Cumulative FDI in construction development^ stood at US$ 25.66 billion between April 2000 and March 2020. The Government's move to cut GST rates on construction equipment from 28% to 18% is expected to give boost to the industry.

The Government of India has allocated Rs. 111 lakh crore (US$ 1.4 trillion) under the National Infrastructure Pipeline for FY 2019-25. The roads sector is likely to account for 18% capital expenditure over FY 2019-25

Our Take

The budget increased its focus on the development of roads and highways .The Bharatmala Pariyojana will serve as a driver which will help in enhancing the connectivity and access to underserved areas .This year budget also takes into the account that greater use of technology will help in enhancing quality of road and highway infrastructure and safety.

Transport and Logistics – Railways

Need emphasis to fulfill National Rail Plan objectives

Budget allocation (FY20-21): INR 111,233.63 crores

Budget allocation (FY21-22): INR 110,054.64 crores

1.05%

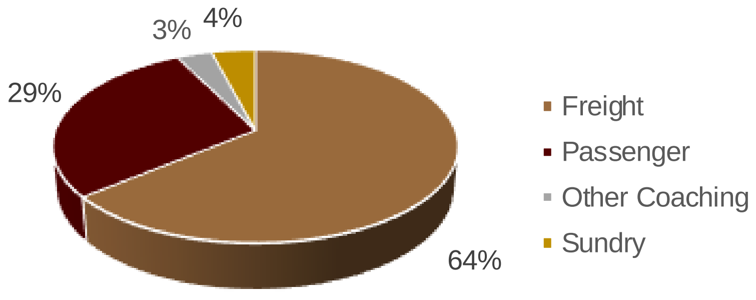
Our Expectations

- Increased focus on winning back modal share in both freight and passenger sector..
- The success of the PPP model in station development and trains also needs constant appraisal and updating, given its importance to modernizing the sector.
- Enhancement in safety and punctuality of passenger trains, and time-tabled movement of freight trains.
- Setting up a Railway Regulatory Authority.

Key Announcements

- Providing a sum of INR1,10,055 crores, for Railways of which INR1,07,100 crores is for capital expenditure
- Railways will monetize Dedicated Freight Corridor assets for operations and maintenance, after commissioning.
- Introduction of aesthetically designed Vista Dome Linke Hoffman Bushce (LHB) coach on tourist routes to give a better travel experience to passengers
- Keeping in mind passenger safety, high density network and highly utilized network routes of Indian railways will be provided with an indigenously developed automatic train protection system that eliminates train collision due to human error
- Mulls setting up large solar power capacity alongside rail track Rs 18,600 crore Bangalore local train project proposed with 20 per cent central equity
- Other Railway Infrastructure Assets under the Asset Monetization Programme and Planning to raise the share of public transport in urban areas through expansion of metro rail network

Revenue Break-Up By Segment (FY20)



Source: Railway Budget 2019-20, Ministry of Railways

Why Railway Matters?

Indian Railways' gross revenue stood at Rs 183,092.74 crore (US$ 26.20 billion) in FY20 (till February 2020)

Foreign Direct Investment (FDI) inflow in railway-related industry needs to be enhanced for inducting latest technologies.

Indian Railway network is growing at a healthy rate. In the next five years and will be accounting for 10% of the global market. Efficient railways are essential for both cost and emission reductions.

Indian Railways is targeting to increase its freight traffic to 3.3 billion tonnes by 2030 and plans to achieve 2 billion tonnes loading by 2024.

Our Take

This year union budget aims to fulfill the vision of Railway that is in line with the National Rail Plan. The dedicated freight corridors will help in enhancing the process of efficient transportation of freight by rail and in turn leading to increase in modal share. With a considered path for private participation and asset monetization, the union budget may have paved a path for railway sector to become financially independent in the long run.

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Transport and Logistics – Ports and Airport

Ports and Airports will help in enhancing crucial connection between domestic and worldwide transportation network

Budget allocation in crores (FY20):

Ministry of Ports, Shipping & Waterways:INR1433.65
Ministry Of Aviation:INR4131.63

Budget allocation in crores (FY21):

Ministry of Ports, Shipping & Waterways:s:INR1702.35 ↑ **18.74%**

Ministry Of Aviation:INR3224.67 ↓ **21.95%**

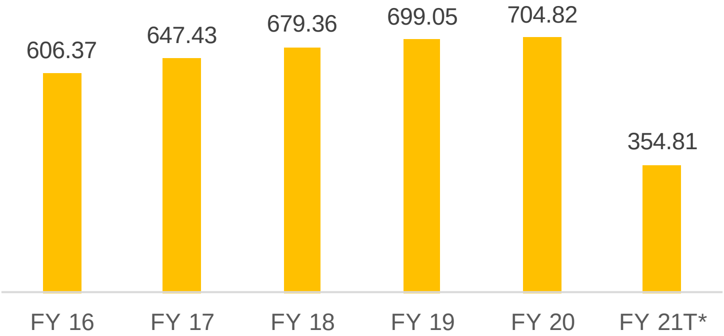
Our Expectations

- Increased support from the government for the developments of the ports as Coastal Economic Zones
- Aviation sector expects to bring aviation turbine fuel under the GST regime.
- Keep GST rates on travel by both private and commercial flights at 5 per cent to incentivize domestic tourism and business travel.

Key Announcements

- 7 Major Ports projects worth Rs2000 crore under PPP mode announced
- Efforts will be made to bring more ships under Hong Kong Convention, leading to doubling of recycling capacity of around 4.5 million Light Displacement Tonne by 2024.
- A scheme to promote flagging of merchant ships in India will be launched. This will include providing subsidy support of an amount of 1624 crores to Indian shipping companies over 5 years.
- The next lot of Airports will be monetized for operations and management concession.
- Roll out of AAI Airports in Tier II and III cities under the under the Asset Monetization Programme.

Cargo Traffic At Major Ports (Millions tonnes)



Note: P - Provisional, T-Tentative, *- Till October 2020

Source: Ministry of Shipping -GOI, Care Ratings, Indian Ports Association

Why Ports And Airways Matters?

Ports in India handle around 95% of international trade volume of the country. Increasing trade activities and private participation in port infrastructure is set to support port infrastructure activity in India.

India's aviation industry has potential for continued growth opportunities, for majority of the country's population, of which nearly 40% is the upwardly mobile middle class.

Our Take

An increased focus has been placed on adoption of PPP model this will help in increased efficiency and effectiveness. Incentive for Indian flagging for merchant vessels has also been provided to Indian shipping Companies, and this will help in boosting their operations, especially for coastal shipping. Airport assets will also be monetized, for enhanced revenue and bringing in efficiencies.

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Healthcare

Focus of healthcare needs to be on health outcomes and not just access

Budget allocation (FY20-21): INR 69,234 crores

Budget allocation (FY21-22): INR125,094 crores

80%

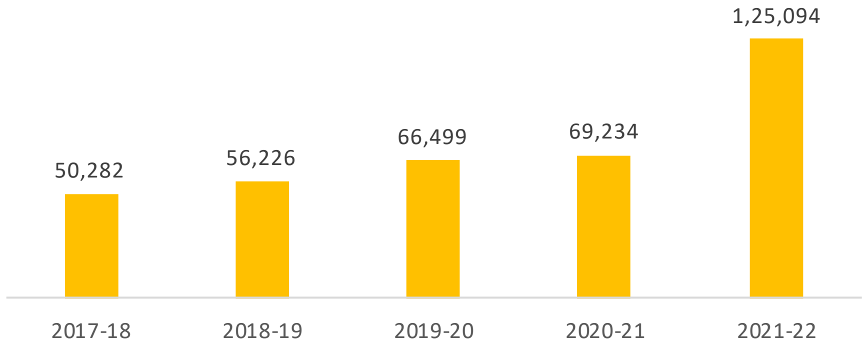
Our Expectations

- Significantly increasing public healthcare expenditure from existing around 1 per cent of GDP
- High focus on creating new primary healthcare infrastructure along with modernization of existing infrastructure
- Increased coverage of Ayushman Bharat Yojana
- Boost to Digital Health Ecosystem and effective implementation of National Digital Health Mission

Key Announcements

- New Centrally Sponsored Scheme – *PM Atmanirbhar Swastha Bharat Yojana* to develop capacities of health care systems, develop institutions for detection and cure of new and emerging diseases, expansion of Integrated Health Information Portal etc. with an outlay of INR64,180 crore over 6 years
- INR35,000 crore for COVID-19 vaccines in the year 2021-22 which can be further extended
- Launch of *Mission POSHAN* 2.0 by merging Supplementary Nutrition Program and *POSHAN Abhiyaan* for improving nutritional outcomes in 112 aspirational districts
- INR2,217 crore outlay announced for 42 urban centers to tackle burgeoning problem of air pollution
- Rolling out Made in India pneumococcal vaccine across country, expected to avert 50,000 child deaths annually

Budget Allocation for Healthcare Sector* (INR Crore)



** Budget for Health & Family Welfare, Health Research, AYUSH and special provisions*

Why Healthcare Matters?

- COVID-19 pandemic has highlighted the importance of accessible and quality healthcare
- Citizens look forward to higher spending on public healthcare infrastructure
- High requirement of quality manpower and skilled workforce in the sector
- COVID-19 vaccination drive to be taken up in the coming months, and the exercise leveraged for building medical and equipment supply chain
- As has been demonstrated by many countries, India should focus on the development of the Digital Health ecosystem, by leveraging its technological prowess

Our Take

Nilaya Varma
CEO & Co-Founder,
Primus Partners

The healthcare sector finally gets its focus. The newly announced 'PM Atmanirbhar Swastha Bharat Yojana' is a welcome step, and it will undoubtedly strengthen the existing infrastructure. The ongoing pandemic has re-established the importance of quality and accessible healthcare. The increased allocation to achieve these factors and dedicated allocation for COVID-19 vaccination will ensure our win in the fight against the pandemic. The move to expand the Integrated Health Information Portal to all States and UTs and connect all public health labs is a step ahead in building Digital Health ecosystem. Key pain points have been rightly identified and addressed; the coverage and timely implementation need to be ensured.

Aerospace and Defence

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Clarion call for Atmanirbhar Bharat needs to be supported on the ground by orders to private industry coupled with policy support

Budget allocation (FY20-21): INR 4.71 lacs crores

Budget allocation (FY21-22): INR 4.78 lacs crores

1.4%

The allocation represents all allocations to MoD including capital, revenue, pensions and civil

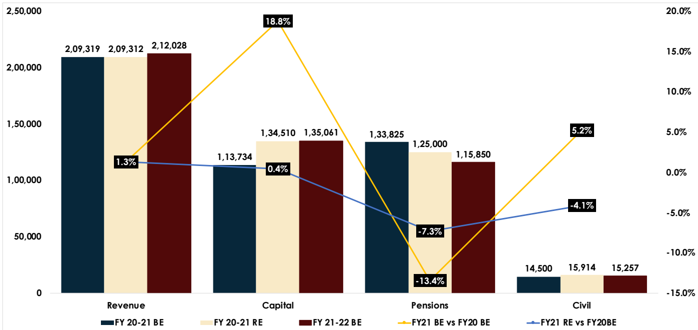
Our Expectations

- Higher allocation to capital expenditure to meet the pressures of emergency purchases done earlier and planned procurements and higher allocation to R&D
- (1) Enhanced long term tax benefit provisions for R&D (2) Enhanced budget for indigenous procurements (3) A Defence Modernization Corpus to cater to tri-service defence procurements (4) A non-lapsable defence fund

Key Announcements

- Overall defence budget remained flat with a nominal 1% increase. Ex-pensions, the budget is 1.63 per cent of GDP and the total capital and revenue component of the budget reported a ~7% increase. Allocation for capital procurements increased by ~19%. However, a ~13% decrease in pensions resulting in a flat total budget YoY.
- The increase in BE FY21-22 is insignificant vs the RE FY20-21. If the situation with China continues to unfold as-in in the previous financial year, the increase does not appear to be much, and funds would have to be catered for an increase during RE.
- In capital procurements, the Army witnessed an increase compared to ~INR 800cr both BE and RE of FY20-21. However, the Navy and Air Force saw a decline compared to the RE of FY20-21 by ~INR 4,000cr and ~INR 2,000cr, respectively.
- Revenue procurements were relatively flat YoY with 1.6%, 2.2%, 2.2% and 3.2% increase in allocations for Army, Navy, Air Force and DRDO respectively, being offset by 11.8% reduction in allocations for Ordnance Factories
- BE for FY21-22 in R&D witnessed an increase of ~INR 800cr. RE for FY20-21 witnessed a decline of ~INR 2500cr compared to the BE of same year. Measures will have to be put in to ensure utilization, else we are likely to see re-allocation in the RE.
- The decrease in pension allotment both between BE FY2020-21 and RE FY2020-21 and now again in BE 2021-22 of ~INR 9,000 cr, each time.
- Considering the drive for indigenization, allocation for Make projects which was rather small has been decreased (~INR 20cr vs BE FY20-21 and ~INR 50cr vs RE FY20-21).
- A long-outstanding demand of the Services of non-lapsable fund being created, has neither been announced in this budget.

The key numbers from the defence budget



Why Defence matters?

- Security of nation in hands of a million+ strong Army, Air Force and Navy
- Minimal FDI in defence ever since the sector was opened up for foreign investments
- ~65 per cent of current weapons are reported to be in vintage mode
- R&D spend in defence is lower than global benchmark and needs to be significantly increased to be able to meet requirements
- An ~1.5 per cent allocation towards revenue and capital procurements does not meet the demands of the nation and the soldiers protecting it
- From clothing to weapons - there is a large import content that needs to be indigenized
- MSMEs are the backbone of the defence industry and need to be supported to be able to further value add

Our Take

Maj. Gen. Rohit Gupta
Sector Head – A&D, Primus Partners

The current capital allocations in FY 21-22 budget, at almost similar levels as RE of last year, seemingly falls short of the requirement to address new procurement purchases. On the R&D front, while the budget allocations have increased vis-à-vis last year, there are chances of reallocation unless measures are taken to expend the entire allocation. In light of a possible two-front war being considered, emergency purchases (especially from foreign companies) may still continue for a while before the planned assembly lines and facilities are ready with the indigenous industry, putting greater pressure on the capital budget.

The development of domestic ecosystem therefore needs to be fast tracked. Government has already announced the leasing option for procurements, and such innovative financing strategies are need of the hour, to continue funding new programs and modernization.

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Information Technology

A Digital Budget with focused allocations for technology enablers. Appropriate scale & implementation strategies will drive intended outcome.

Budget allocation (FY20-21): INR6,899 crores

Budget allocation (FY21-22): INR9,720 crores

62.3%

The FY 20 allocation represents the Technology related announcements made towards BharatNet and National Mission on Quantum Computing and Technology 2020-21 and the FY 21 allocation represents the Technology related announcements made towards Fintech and Digital Platforms.

Our Expectations

- Public expenditure and investment in Tech R&D and Infrastructure
- Public investment in organized & Innovative Cyber Crime Management Policies, Cells & Mechanisms
- Public investment in Digital Infrastructure for Schools, Colleges & Edtech
- Higher funding for Technology Startups and grassroot innovations
- Clarifications on regulations around digital and crypto currencies as well as ambiguities regarding policies from BEPS initiative like Equalisation Levy (EQL) and Significant Economic Presence (SEP)

Key Announcements

- Government to support the development of a world-class fintech hub at GIFT city
- Rs 1,500 crore allocated for promoting digital modes of payment
- Data Analytics, AI, ML driven MCA 21 version 3.0
- Labour Portal to maintain information on gig workers and construction workers
- Establishment of National Faceless Income Tax Appellate Tribunal Centre (ITAT)
- INR3,768 crore allocated for forthcoming first digital census
- Setting up of National Digital Educational Architecture (NDEAR)
- Setting up of National Language Translation Mission (NTLM)
- eCourt Systems for MSMEs
- One Nation One Ration Card
- Integrated Health Information System
- Tax Holidays and reduced restriction on paid up capital for Startups

30 Digital themes with potential to create US$ 1 trillion economic value by 2025 – Ministry of Electronics & IT

Why Information Technology Matters?

Contributed 7.7 per cent to the GDP in FY20 and is expected to contribute 10 per cent to GDP by 2025

Tops the sectors contributing to exports and stands at 49 per cent share in Indian services export during April – September 2020 amounting to US$ 20.4 billion.

Ranked 2nd in FDI inflows

Leading sourcing destination across the world, accounting for approximately 55 per cent market share

Largest employer within the private sector, employing 3.9 million people

2nd largest tech startup hub of the world and 2nd highest number of internet subscribers in the world

IT spending expected to reach US$ 88.8 billion in 2021, an increase of 6.8 per cent from the last year

Our Take

Devroop Dhar
MD& Co-Founder,
Primus Partners

The Government's first Digital Union Budget 2021 designed on the core theme of minimum Government and maximum governance, is a progressive budget creating robust platforms and digital enablers to not just promote emerging technologies including Artificial Intelligence (AI), Machine Learning (ML), and Data Analytics, but also embeds technology into our governance & reforms. Initiatives and allocation to promote digital e-payments will enhance our ecosystem's competitiveness and take us one step toward an innovation-driven economy. National Digital platforms will pave the way for our policymakers to facilitate better governance, wider beneficiary reach, seamless & wireless assistance & support from Government agencies.

Agriculture and Rural Economy

The agricultural sector has been the beacon of hope, promising India's economic revival post COVID

Budget allocation (FY20-21): INR 3.29 lacs crores

Budget allocation (FY21-22): INR 4.58 lacs crores

39%

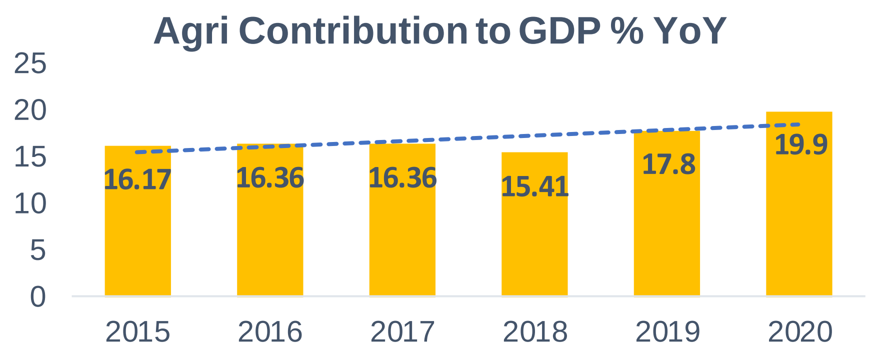
The allocation represents Agriculture and allied activities, Rural Development

Our Expectations

- Investments into infrastructure development to promote fisheries export, farm produce storage
- Promotion of research and innovation system in agriculture towards resource optimization and nutrition enhancement Spending on fertilizer subsidy be balanced with that invested towards development of high productivity technologies, chemicals

Key Announcements

- Agricultural sector credit target increased to 16.5 lakh crores with increased flow to dairy and fisheries
- INR40,000 crores for rural infrastructure development fund
- 1.68 crore farmers registered as beneficiaries,1000 mandis integrated with e-NAM
- Micro-irrigation allocated additional INR5,000 crores
- 5 new fishing hubs identified, development of modern harbour and fishing centers for enhancing economic activity
- Agri infrastructure and development cess on items such as fuel



Sources: Economic Survey report by PRS; www.downtoearth.org.in

Why Agriculture & Rural Development Matters?

The second largest sector with over 17 per cent contribution to the country's GDP

The sector is the primary source of livelihood for about half of India's population

During 2019-20 crop year, food grain production was estimated to have reached a record 295.67 million tonnes (MT).

1 lakh crore for strengthening farm infrastructure — cold storage, supply chain

Fisheries Industry generates an estimated export earnings of INR 33,441 crores

As of 2019, around 65 per cent of India's population lived in rural areas

Our Take

Anurag Singh
MD, Primus Partners

The announcements are aimed at enhancing economic activity and increasing farmers' income. The increased procurement in categories such as wheat, paddy, pulses, cotton and the increase in the amount paid to farmers over the years is a positive indicator of the sector's growth and effective policy implementation.
Investments towards infrastructural development in farms and fisheries are expected to contribute with greater employment opportunities, and the availability of a larger credit-bank would further assist the same. The agricultural infrastructure development initiatives' corpus would be well funded with the introduction of agri infrastructure and development cess. The sector has been promising, keeping strong even during the pandemic times, and the announced measures would further strengthen the foundation for future growth.

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Energy

Energy Security is key for Atmanirbhar India

Budget allocation (FY20-21): INR 22,510.43 crores

Budget allocation (FY21-22): INR 21,609.88 crores

(-)4%

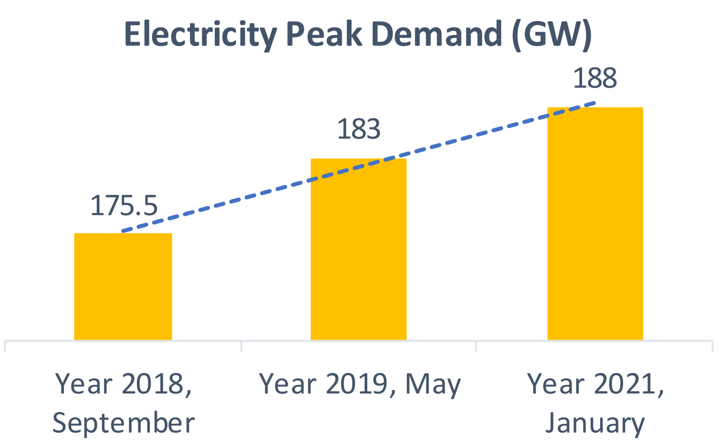
The allocation represents Ministry of Power, Coal and Ministry of New and Renewable Energy

Our Expectations

- Scale Renewable Energy capacity to 175 GW in coming years
- Reform the Discoms and prompt implementation of the liquidity scheme
- Power for all

Key Announcements

- Boost to renewable energy sector: Additional capital infusion of INR 1,000 crore to solar energy corporation and INR1,500 to renewable energy development agency.
- The Government has allocated close to INR3,05,984 crore in the Budget towards launching a "revamped", reforms-based, result-linked power distribution sector scheme.
- The Government is proposing to create a framework to give consumers alternatives to choose from more than one power distribution company.
- 100 per cent electrification of broad-gauge routes will be completed by Dec 2023.



Why Energy Sector Matters?

Contributes around 2.65 per cent to the country's GDP

- Government Saubhagya Scheme is successful
- Signs of robust demand in power sector post COVID
- The peak demand for power in January 21 grew to186-188 GW from September 175.5 GW in September 2018

Atmanirbhar Energy Sector will drive efforts in evolving a comprehensive energy security architecture in the country

India, as world's third largest consumer of energy, will define the way how global energy trends would emerge

Our Take

Nilaya Varma
CEO & Co-Founder,
Primus Partners

The government has focused on capturing the emerging energy transition trends- from Renewables to Hydrogen. At the same time, it has ramped up focus and outlay for traditional areas of the energy sector - like discom revival and stressed assets- where reforms have been long pending. Government has announced a INR3.05 trillion electricity distribution reform schemes. The Reforms-Linked, Result-Based Scheme for Distribution aims to help power discoms trim electricity losses to 12-15 per cent from current levels and gradually narrow the deficit between the cost of electricity and the price to zero.

Education

Focus on access and quality is key to providing inclusive opportunities and driving economic growth

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Budget allocation (FY20-21): INR 160,346 crores

The allocation represents Ministry of Education allocation

Budget allocation (FY21-22): INR 169,024 crores

5%

Our Expectations

Alignment of budget to National Education Policy indicates gradual move towards NEP target of 6 per cent spend of GDP on education

Key Announcements

School education

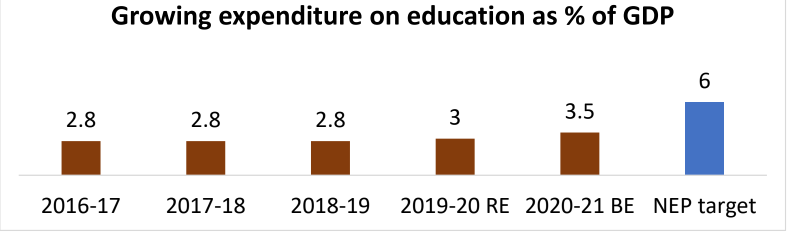
- 15,000 Exemplar schools strengthened to include all components of National Education Policy to function as mentor schools
- 100 Sainik Schools to be set up
- Revamped Post Matric Scholarship Scheme (INR 35,219 crores for 6 years) for the welfare of 4 crore Scheduled Castes students
- 750 Eklavya model residential schools in tribal areas (with supplementary budgets)
- National Professional Standards for all 92 lakh teachers in India
- Toy-based learning pedagogy for all levels of school education to shift from rote learning
- Revamping Board exams for conceptual understanding and using assessments for identifying unique talents
- Technology driven education: PM eVidya, National Foundational Literacy and Numeracy Mission

Higher education

- Legislation to set up Higher Education Commission for standard-setting, accreditation, regulation, and funding
- Umbrella structures for higher education institutions in nine cities
- Central University in Leh

Other

- Standardization of Indian Sign language
- National Digital Educational Architecture (NDEAR) to support teaching, learning, planning, governance, administration
- Collaboration with foreign institutions



Source: Economic Survey 2020-21, Volume II, p.327

Why Education and Skilling Matters?

India ranked 131 out of 189 countries on Human Development Index: *Education, Health, Income metrics* (in 2019)

Mean years of schooling: 6.5 years, with expected years of schooling 12.2 years

Over 1.5 lac education institutions in India

Limited pre-school attendance : 33.1 per cent

High attendance (~95 per cent) from ages 6 to 13, declining to 78.5 per cent for 14 to 17 years, and 28.8 per cent for 18 to 23 years

Our Take

Charu Malhotra, Co-Founder and MD

Two key developments impacting the education sector this year have been the National Education Policy launched in 2020, the digital divide exacerbated by students in the midst of the Covid-19 pandemic and teachers' capabilities in this transformed teaching-learning environment. In this context, the budgetary provisions to set up model schools, introduce toy-based pedagogies and revamping assessment methodologies are steps in the right direction to begin the nation's shift from rote learning to conceptual understanding. At the same time, the budget takes steps towards inclusion education of SC, ST and physical disabled.

PRIMUS PARTNERS

Manufacturing

This sector provides the maximum domestic value addition, generates jobs and fundamental to long term economic security of the country

PRIMUS PARTNERS

Revised FY20-21 Budget estimates: INR 1.63 lac crore

FY21-22 Budget estimates: INR 1.90 lac crore

16.2 %

The allocation represents Defence, Chemicals, Pharma, Electronics and IT, Food Processing, Heavy Industries, MSME, Biotechnology, Space, Steel and Textiles

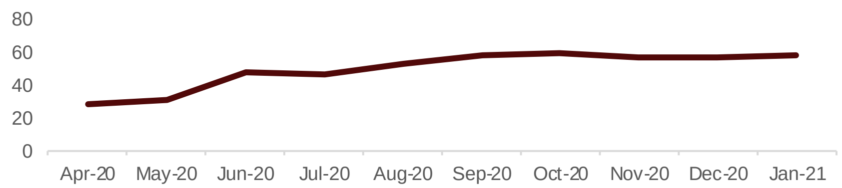
Our Expectations

- Increase domestic value addition while creating India as the global manufacturing hub for the world
- Self-reliance with greater thrust on domestic manufacturing through import substitution
- Increased funding for R&D for new product development

Key Announcements

- Production Linked scheme launched for 13 sectors with an outlay of INR1.97 lakh crore for a period of 5 years starting from FY22.
- Scrapping policy launched | 20 years in case of personal vehicles, and after 15 years in case of commercial vehicles.
- 7 Mega Investment Textiles Parks (MITRA) will be launched in addition to the PLI scheme in the next three years.
- Custom Duty Rationalization
  - Withdrawal of custom duty exemptions on parts of chargers and sub-parts of mobiles. Some parts of mobiles will move from 'nil' rate to a moderate 2.5 per cent.
  - Reduction of Customs duty uniformly to 7.5 per cent on semis, flat, and long products of non-alloy, alloy, and stainless steels.
  - BCD rates on caprolactam, nylon chips and nylon fiber and yarn to 5 per cent.
  - Reduction of customs duty on Naptha to 2.5 per cent to correct inversion.
  - To benefit MSMEs, increased customs duty from 10 per cent to 15 per cent on steel screws and plastic builder wares and on prawn feed increased it from 5 per cent to 15 per cent.
- Outlay of INR50,000 crore for the R&D in the National Research Foundation, over 5 years with focus on identified national-priority thrust areas.

Monthly PMI Trends (Apr-Jan'FY21)



Latest	Previous	Highest	Lowest	Frequency
57.70	56.40	58.90	27.40	Monthly

Why Manufacturing Matters?

Contributes around 14.5 per cent to the country's GVA

FDI inflow during Apr'00-Sep'20
- Auto INR146,904 crore
- Chemicals INR101,842 crore

FY21 Budget Estimates for Major Schemes
- Faster Adoption and Manufacturing of (Hybrid and) Electric Vehicle in India-(FAME - India) – INR757 crore
- Promotion of Electronics and IT HW Manufacturing (MSIPS, EDF and Manufacturing Clusters) - INR 2,631 crore

Around 24 per cent of India's total employed population was working in the industrial sector in 2018

India's manufacturing Purchasing Manufacturers Index stood at 58.9 in October 2020

Our Take

Kanishk Maheshwari, Co-Founder and MD

India is on the crossroads to establish itself as a major investment destination to become a manufacturing hub for the world. Government of India's push for nation building through the 'Make in India for the World" initiative is a quantum jump in this regard. Under the "Make in India" initiative in the manufacturing sector, the objective of the Government of India is to increase the share of the manufacturing sector and create a robust domestic manufacturing ecosystem in the country to make the country 'Atma Nirbhar'.

However, self reliance through domestic value addition and import substitution will need focused attention in today's competitive world. Increased R&D funding for new product development, boosting quality standards should be a key focus area. This budget helps to work in this regard.

PRIMUS PARTNERS

Metal and Mining

Country holds a fair advantage in cost of production and conversion costs in steel

Budget allocation in crores (FY20-21): Ministry of Mines:INR1370.68
Ministry Of Steel:INR79.44

Budget allocation in crores (FY21-22): Ministry of Mines:INR1466.82 ↑
Ministry Of Steel:INR39.25 ↓

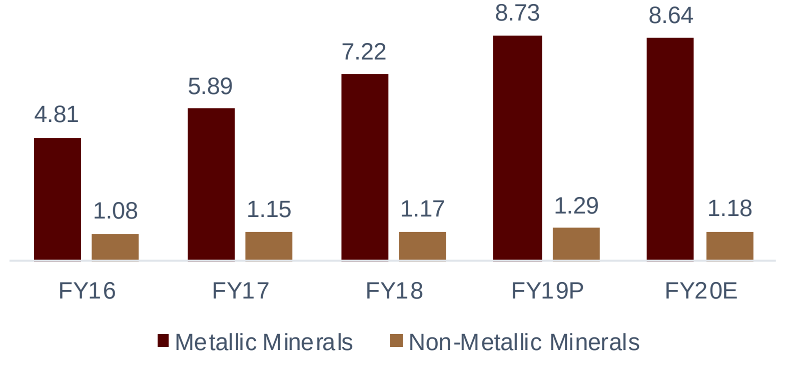
Our Expectations

- Usher in incentives for large-scale investments with respect to latest technologies in mining
- Cut down in the custom duty of basic raw material like anthracite coal, metallurgical coke, coking coal, and graphite electrode in the upcoming Budget
- Exemption of import duty on copper concentrate because of limited domestic availability of one of the key components in copper metal manufacturing. India produces only 4 per cent of copper concentrates demanded by its domestic industries.

Key Announcements

- To boost MSMEs and other user industries, Reduced customs duty to 7.5 per cent on imports of semi-, flat and long products of non-alloy, alloy and stainless steel
- Exempted duty on steel scrap till March 2022
- Revoked Anti Dumping Duty (ADD) and Countervailing Duty (CVD) on certain steel products
- To help small businesses and copper recyclers custom duty on copper scrap cut to 2.5 per cent from 5 per cent

Production of Metallic and Non-Metallic Minerals (US$ billion)



Notes: MMT- Million Metric Tonnes, E-Estimate, ^ - excluding fuel, atomic and minor minerals, P- Provisional, *- Till February 2020
Source: Ministry of Mines

Why Metal And Mining Matters?

India produces 95 minerals 4 fuel-related minerals, 10 metallic minerals, 23 non-metallic minerals, 3 atomic minerals and 55 minor minerals (including building and other minerals). Being a core Sector, its efficiency has a crucial impact on national infrastructure and manufacturing costs.

In June 2020, iron and steel recorded more than 100% growth in exports shipments of US$ 1.32 billion against US$ 653.52 million in June 2019.

3rd largest producer of coal
India ranks fourth in terms of iron ore production worldwide, and the production of iron ore in FY20 stood at 206.45 MT.
India has ~8 per cent of the world's iron ore deposits.

The mining and metals sector is one of the largest employers and has potential to create more good jobs.

Our Take

While in the budget there were no major changes announced with respect to metal and mining sector, but continued sector reform has been under process through the year. This includes a policy that frees mining from captive use criteria, and encourages a commodities market, with India as a global player. The waiving and reduction in customs duty will help in increasing the opportunities for small market players, but there is need for continued reform to ensure the growth of metal and mining sector.

Skilling

Focus on access and quality is key to providing inclusive opportunities and driving economic growth

Budget allocation (FY20-21): INR2,785 crores

Budget allocation (FY21-22): INR 3,002 crores

8%

The allocation represents Ministry of Skill Development and Entrepreneurship allocation
In addition skilling programme are also carried out by other Multiple Departments

Our Expectations

Revitalization of skilling of youth for jobs, upskilling to meet the changing industry requirements and supporting the bottom of the pyramid still out of jobs due to COVID

Key Announcements

Skilling

- Enhanced National Apprenticeship Training Scheme for engineering graduates
- Partnership with the United Arab Emirates (UAE) to benchmark skill qualifications, assessment, certification and deploy workforce
- Model of Partnership with Japan to facilitate transfer of Japanese industrial and vocational skills, technique and knowledge to be extended to other countries
- Portal with information on migrant workers

Research

- Research Foundation with outlay of INR50,000 crore over 5 years
- Deep Ocean Mission for ocean exploration and biodiversity conservation
- National Language Translation Mission to boost internet access

Why Education and Skilling Matters?

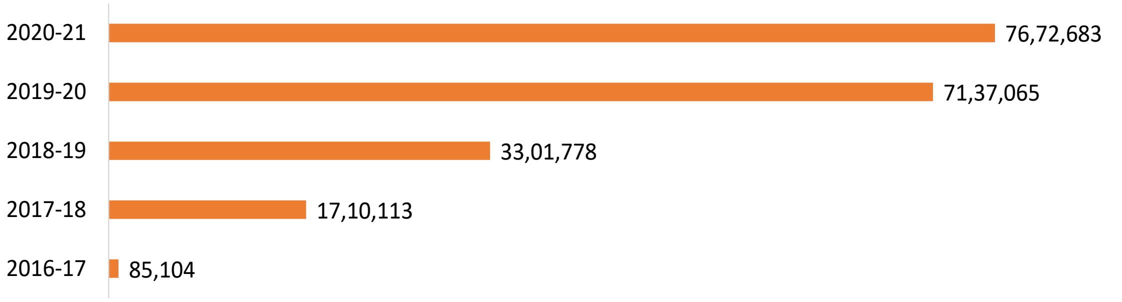
Only 2.4 per cent of workforce (15-59 years) received formal vocational / technical training

Urban youth unemployment rate: over 20 per cent

Female labour force participation rate lower than males (26.5 per cent vs 80.3 per cent)

Govt focus on skilling: Over 76 lac candidates certified under PMKVY scheme

Cumulative number of trainees



Our Take

Charu Malhotra, Co-Founder and MD

The budget takes steps towards enabling India to benefit from its demographic dividend. A key challenge facing the country is the unemployability of graduates. The revitalization of the apprenticeship schemes would improve the employability of graduates. At the same time, international partnerships would bring global best practice to India. The emphasis on research is essential to bring India at par with developed economies.

Housing

Focus on Building Construction & Real Estate is a direct and indirect investment in several allied industries of construction

Budget allocation (FY20-21): INR 50,039 crores

Budget allocation (FY21-22): INR 54,581 crores

9%

MOHUA allocation - Budget is inclusive of Housing and Urban Development

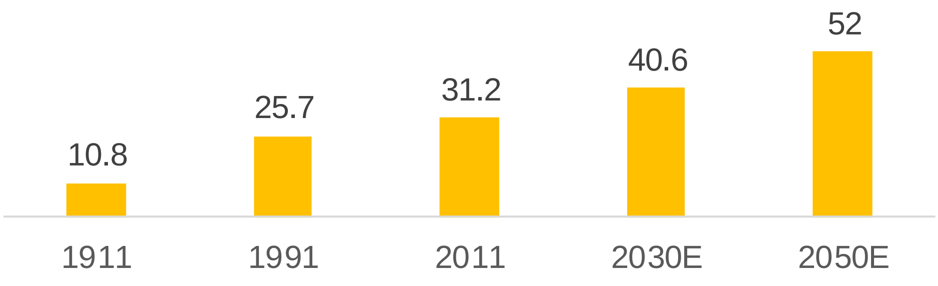
Our Expectations

- Promotion of Rental and Affordable Housing in the Country.
- Relief to Building and Construction Labours who were deeply affected by Covid-19 pandemic.
- Enhancing the Financing / Liquidity in the sector and bring more investments

Key Announcements

- Extension for the deduction of interest, amounting to 1.5 lakh, for loan taken on purchase an affordable house up till 31st March 2022
- Affordable housing projects can avail a tax holiday for one more year – till 31st March 2022.
- To promote supply of Affordable Rental Housing for migrant workers, tax exemption will be allowed for notified Affordable Rental Housing Projects.
- The dividend paid to Real Estate Infrastructure Trusts or Infrastructure Investment Trusts (REIT/InvIT) shall be exempted from TDS
- In order to incentivize home buyers and real estate developers, it is proposed to increase safe harbour limit from 10 per cent to 20 per cent for the specified primary sale of residential units.
- Launching of unified portal that will collect relevant information on gig, building, and construction-workers among others.

Urban Population in India (in %)



Why Housing Matters?

Contributes around 8 per cent to the country's GDP

By 2040, Real Estate market will grow to INR65,000 crore (US$ 9.30 billion) from INR12,000 crore (US$ 1.72 billion) in 2019.

Government of India's 'Housing for All' initiative is expected to bring US$1.3 trillion investment in the housing sector by 2025

Construction is the third-largest sector in terms of FDI inflow. FDI in the sector (includes construction development and construction activities) stood at US$ 42.66 billion between April 2000 and June 2020

Our Take

Aarti Harbhajanka, Co-Founder and MD

The announcements made with respect to housing sector will help in uplifting the sector which was going through rough patches over the last couple of years and was also affected the most due to COVID-19. It is for the first time; the budget focused on rental housing sector, wherein, to promote supply of Affordable Rental Housing for migrant workers, tax exemption will be allowed for notified ARHC Projects. The launch of a portal to collect the relevant information on building and construction-workers among others, will help formulate Health, Housing, Skill, Insurance, Credit, and food schemes for migrant workers. The exemption provided on the dividends received on REIT investment will increase the liquidity in the Real Estate Sector.

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Nutrition and WASH

Multiple schemes with ambitious targets… Timely implementation will be key

PRIMUS PARTNERS

Budget allocation (FY20-21): INR 30,507 crores

Budget allocation (FY21-22): INR 24,935 crores

18%

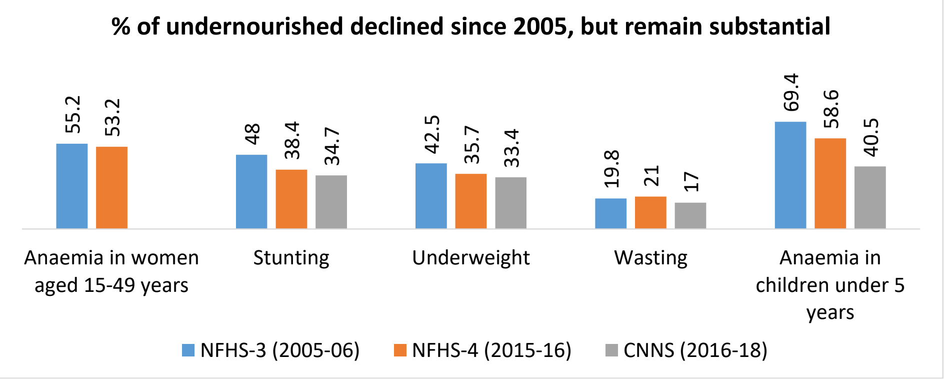
The allocation represents Ministry of Women and Child allocations for 2020-21

Our Expectations

- Increased funding for POSHAN Abhiyaan to achieve annual undernutrition reduction targets
- Focus on women and child development: Integrated Child Development Scheme
- Impetus on ODF sustainability and Solid & Liquid Waste Management
- Continued emphasis on Jal Jeevan Mission for tap water supply for all rural households by 2024

Key Announcements

- Mission POSHAN 2.0 launched (merging Supplementary Nutrition Programme and Mission POSHAN) to improve nutritional outcomes around 112 aspirational districts
- Jal Jeevan Mission Urban (INR2.87 lac crore over five years): providing 2.86 crore household tap connections across all 4378 ULBs, and liquid waste management in 500 AMRUT cities
- Urban Swachh Bharat Mission 2.0 (INR1,41,678 crores over five years): faecal sludge management, wastewater treatment, source segregation of garbage, reduction in single-use plastic, reduction in air pollution by effectively managing waste from construction-and-demolition activities, bio-remediation of all legacy dump sites



Why Health, Nutrition, WASH Matters?

27.9 per cent of population suffers from multi-dimensional poverty (health: *nutrition, child mortality*, standard of living: *cooking fuel, sanitation, drinking water, electricity, housing, assets*, education: *years of schooling, school attendance*)

Poor nutrition in first 1000 days of child's life causes irreversible damage to brain and leads to chronic diseases over lifetime

500 kcal/day increase in nutrition estimated to lead to 0.5 per cent increase in long-term GDP per capita growth rate

India ranked 123 on gender inequality index (*reproductive health, empowerment, labour market*)

Toilet construction impact: 91 per cent women save an hour of time and up to one km walk for defecation

Inadequate WASH in health facilities estimated to result in 5 per cent of neonatal mortality and 11 per cent of maternal mortality

Our Take

Charu Malhotra, Co-Founder and MD

The recent National Family Health Survey-5 has brought to the fore the continued challenges faced with respect to undernourishment and undernutrition in several states in India. This is a complex challenge at the intersection of sanitation, hygiene and nutrition. POSHAN 2.0 holds promise as it is expected to secure nutrition security with a vigilant eye on nutritional reform for management of malnutrition. The initiative is likely to help the nation through a nutritional transition with a foundational understanding of practices that nurture health, wellness and immunity to disease which has also been experienced in the COVID-induced circumstances. Hopefully it will create a synergy between different schemes to reach a common goal with the coordinated efforts of different ministries – Agriculture, Forest, Health, Education and AYUSH. The urban emphasis of the Jal Jeevan Mission and Swachha Bharat Mission in this budget may be expected to bring about transformative change to quality of health and living in cities.

PRIMUS PARTNERS

Financial Services

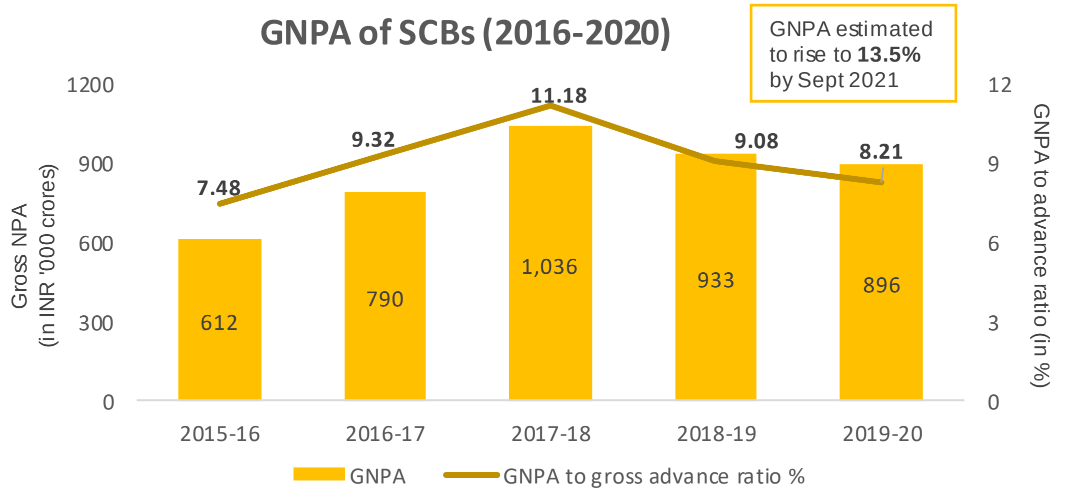
Banking reforms are key to long term growth. Many initiatives have been announced, timely implementation will be key

Our Expectations

- Banks - Fund recapitalization of banks due to high NPAs
- Insurance - FDI in Insurance is currently 49 per cent, to be hiked to 74 per cent
- Investment - Bond market development expected to continue, Equity markets expecting reduced Capital gains, Dividend tax

Key Announcements

- Recapitalization of INR20,000 crores for public sector banks to further consolidate the financial capacity of PSBs
- Setting up a Development Financial Institution (DFI) with capital INR20,000 crores. Aiming to have lending portfolio of at least INR 5 lakh crores in 3 years
- Setup of Asset Reconstruction Company Limited and Asset Management Company to resolve stressed assets problem of PSBs
- Disinvestment of 2 PSU banks and one public sector insurance company including the IPO of LIC. FY22 disinvestment revenue target is INR1.75 lakh crore
- FDI in insurance hiked to 74 per cent from 49 per cent
- World class Fintech hub at GIFT IFSC
- Consolidation of the provisions of SEBI Act, Depositories Act, Securities Contracts (Regulation) Act, and Government Securities Act into a rationalized single Securities Markets Code by 2022
- INR1,500 crores earmarked for proposed scheme providing financial incentive to promote digital payments
- Debt Financing of InVITs and REITs by FPIs will be enabled with suitable legislation amendments
- Permanent institutional framework for Corporate bond market
- Towards establishing a system of regulated gold exchanges, SEBI to act as regulator and greater role for WDRA for development of commodity market ecosystem
- For NBFCs with minimum asset size of INR 100 crores, the minimum loan size eligible for debt recovery under the SARFAESI Act is proposed to be reduced from existing level of INR 50 lakhs to INR20 lakhs
- Government to bring LIC IPO in 2022
- Investor charter as a right across all financial products



Why Financial Services Matters?

Total Banking Assets of US$2.33 trillion, growing at a 6.64 per cent CAGR from FY14-19

Increase in working population and growing disposable income will raise the demand for banking and related services

Post 2014, new banking licenses have been issued to 2 new private sector banks, 7 payment banks and 10 small finance banks

Largest microfinance market in the world, 179 bank accounts opened in India every minute

India to become the third-largest domestic banking sector by 2050

Banks hold gross NPAs of around 7 per cent, which is expected to rise to 13-15 per cent by Sept. '21

Our Take

Shravan Shetty
MD -BFSI

Avani Shah
MD - BFSI

Divestment of the public sector banks and general Insurance company will not only enable flow of capital but will also help bridge the fiscal deficit. It will be one more step towards strengthening the financial architecture of the country. Also, Creation of ARC to handle bad loans will help free bandwidth of banks so they can concentrate on funding growth.

Insurance industry, and especially the Life Insurance, has been capital intensive. The increase in FDI limit will ensure capital flow into this sector providing relief to the Indian promoter along with bringing in growth and efficiency capital. The industry will witness renewed activity from Foreign players and funds.

Taxes

Simplification of tax compliance and promoting key sectors and segments through appropriate tax incentives

Total Estimated Tax Revenue (FY2020-21): INR 13.44 lacs crores

Total Budgeted Tax Revenue estimate (FY2021-22): INR 15.45 lacs crores

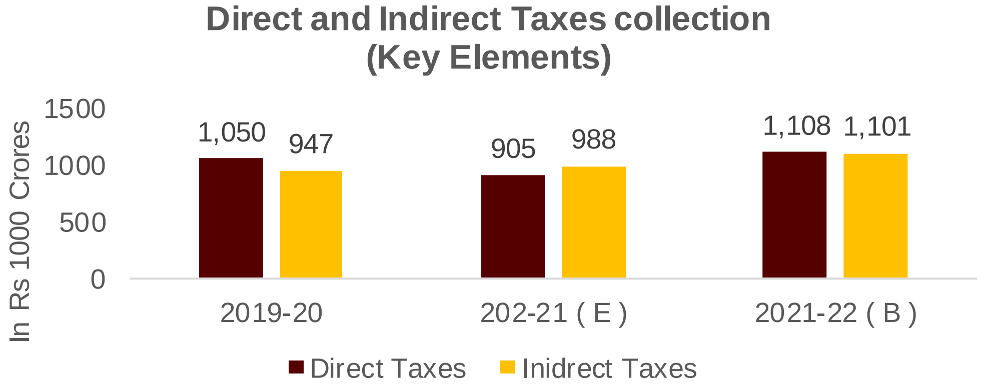
~15%

Our Expectations

- Ease of GST burden for sectors like textiles, steel etc. and simplification of processes in terms of GST filling.
- Promote key sectors like housing, Infrastructure with tax incentives
- Support key segments like MSMEs, Start-ups etc. with tax incentives
- Simplification of personal tax compliance and relief to taxpayers by increasing tax exemption slabs.

Key Announcements

- For senior citizens of age 75 years or above, who only have pension and interest income, exemption from filing their income tax returns. The paying bank will deduct the necessary tax on their income.
- Reduction in time-limit for re-opening of assessment to 3 years from the present 6 years for tax fraud. In serious tax evasion cases too, only where there is evidence of concealment of income of `50 lakh or more in a year, can the assessment be re-opened up to 10 years.
- National Faceless Income Tax Appellate Tribunal Centre: Income Tax Appellate Tribunal to be faceless. All communication between the Tribunal and the appellant to be electronic and where hearing needed, vide-conferencing to be used
- Rules for removing their hardship of double taxation to NRI faced due to mismatch in taxation periods.
- Exemption of Audit from 5 Cr turnover to 10 Cr turnover if 95% transactions done digitally
- Relaxation of some of the conditions relating to prohibition on private funding, restriction on commercial activities, and direct investment in infrastructure.
- Tax holiday for affordable housing projects for one more year – till 31st March 2022
- Ease filing of returns: Details of capital gains from listed securities, dividend income, and interest from banks, post office, etc. will also be pre-filled.
- Eligibility for claiming tax holiday for start-ups extended by one more year – till 31st March 2022.
- GSTN system has also been enhanced. Deep analytics and Artificial Intelligence to identify tax evaders and fake billers and special drives against them.
- Customs duty on copper scrap cut to 2.5% and on solar lanterns cut to 5%
- Customs duty on some auto parts to be raised to 15% and on cotton increased to 10%
- There has been no change proposed in IT slabs



The elements considered for direct taxes are: corporation tax, taxes on income. Indirect tax components: Customs, Excise Duty, GST. Value includes tax collected on behalf of state. (E- Estimate, B – Budget)

Key facts

Reduction of Corporate tax rate together with pandemic has seen a 20% reduction in the estimated corporate tax collection in 2020-21 compared 2019-20

The drop in Income tax for 2020-21 is estimated to be 7% lower compared to 2019-20 but was ~30% below budget estimates

GST collection estimated for 2020-21 also saw a drop of 14% compared to 2019-20 but was ~25% below budget estimates

51% jump in Excise duty driven by increase in duty on fuel helped cover part of the drop in tax from other sources

Our Take

Shravan Shetty
MD - BFSI

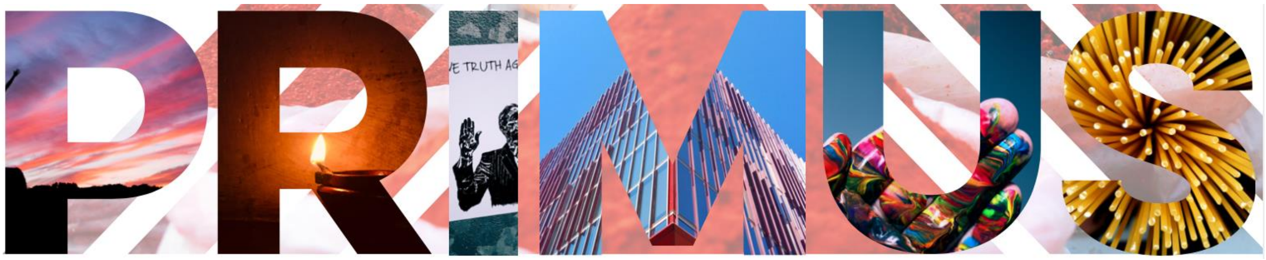
The Budget has continued on the road of tax reforms by simplifying tax compliance. Initiatives like reduction of time-limit for re-opening tax fillings, faceless ITAT, pre-filling of returns etc. will help improve tax-payer experience, while use of AI technologies in GSTN system will help reduce tax evasion.

The Budget has also provided tax and other incentives for key segments\sectors, especially affordable housing and Start-ups, to promote their growth. Rationalization of custom duty including review of 400 old exemptions would help in promoting Atmanirbhar Bharat.

PRIMUS PARTNERS

About Primus Partners

Primus Partners is one of the fast-growing boutique management consulting firm, set up with “India at the core”. Primus Partners vision is to create a truly Indian consulting firm, advising Indian Companies on Policy and Regulatory matters. It is setup by a group of professionals having worked in major consulting organizations from around the world. Primus Partners has been set up to partner with clients in ‘exploring’ India, by experts with decades of experience in doing so for large global firms. Set up on the principle of ‘Idea Realization’, it brings to bear ‘experience in action’. Primus Partners brings experience of working in more than 30 countries with private and public sector, including working with Government of India.



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