



Current Market Scenario

12 Feb 2022

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Union Budget Review

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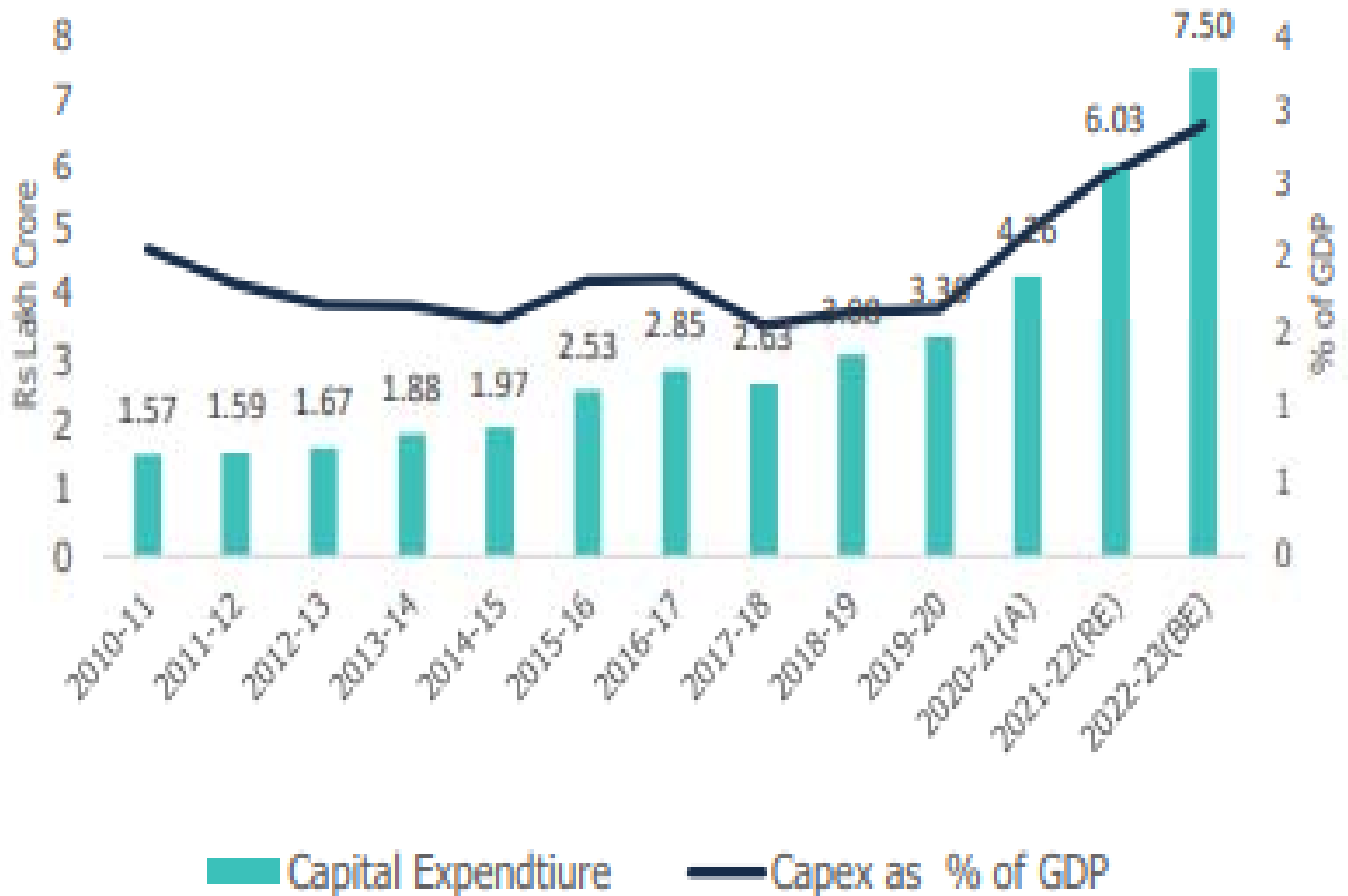
Union Budget Highlights



- Government continues its “Keynesian Policy” of spending money to support economy
- Fiscal consolidation postponed further
- Major tax rates untouched indicating stable tax regime
- No populist measures
- Conservative Budget Estimates

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Capital Expenditure (Budgetary Allocation)

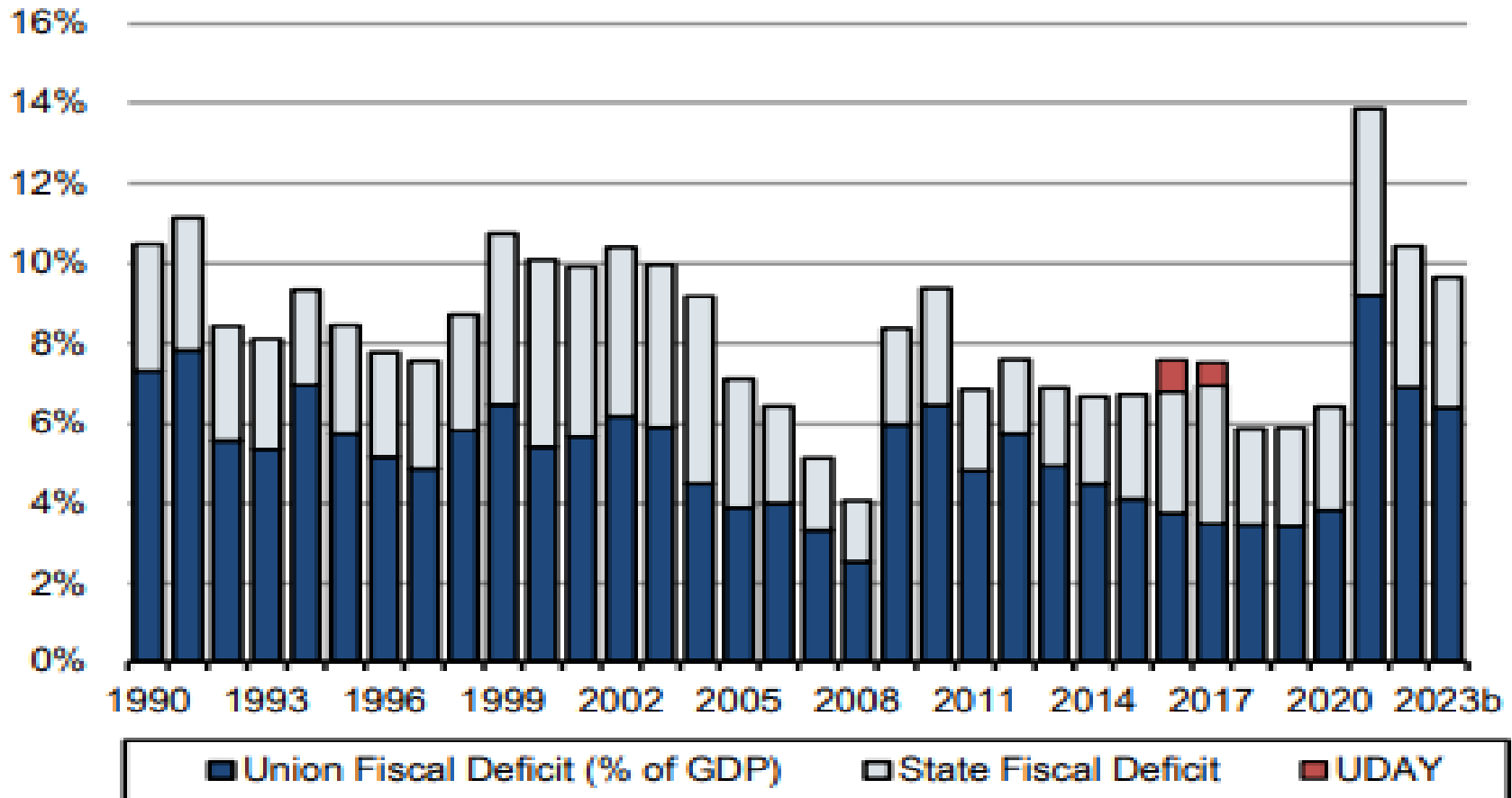


Conservative Budget



	FY22 (RE)	FY23 (BE)	% Change
Net Tax Revenue Lakh Cr.	20.7	22.0	+ 6
Divestment Receipts Lakh Cr.	0.78	0.65	- 16

Fiscal Deficit



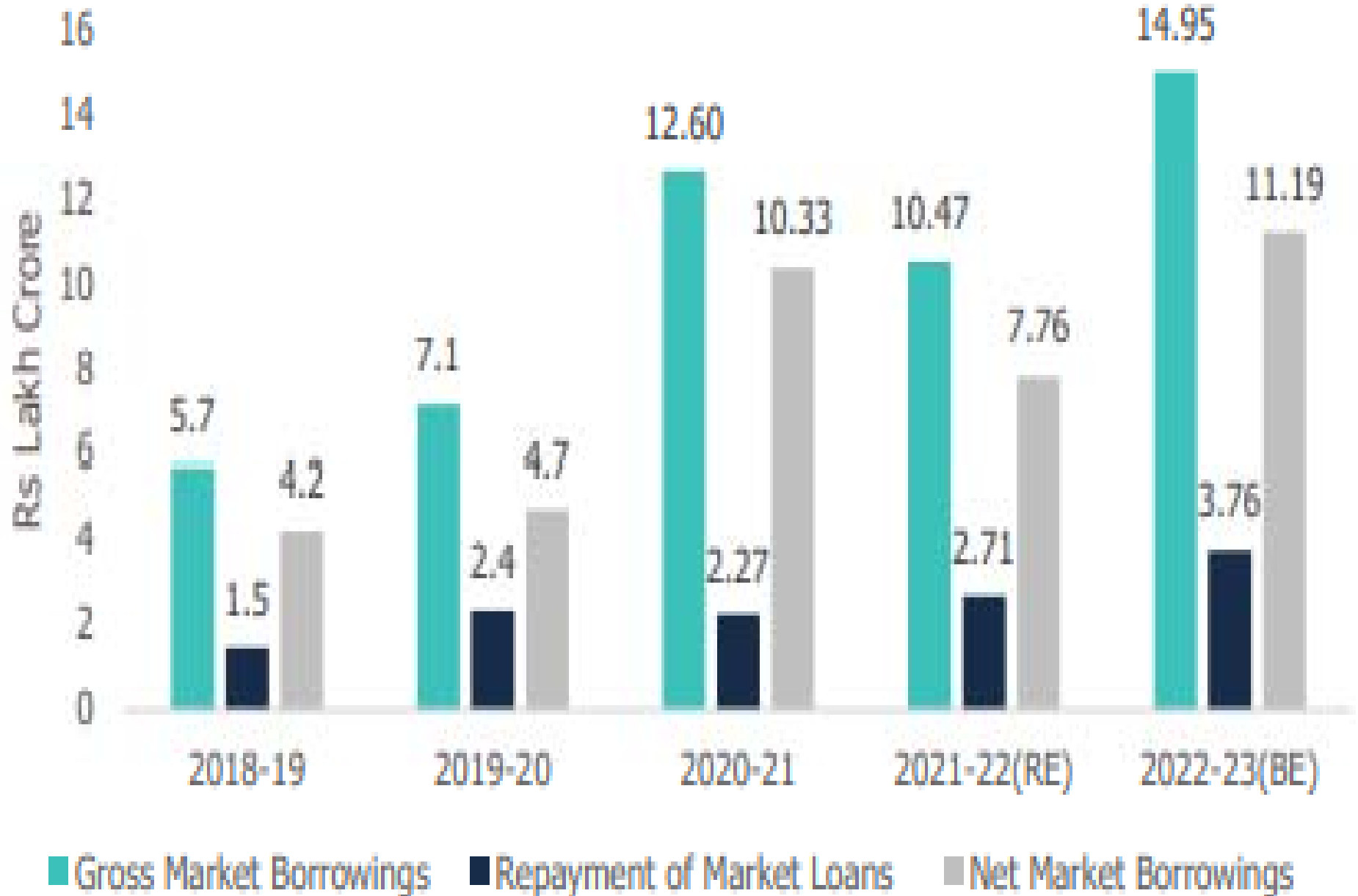
Fiscal Deficit - Never Ending Burden.....



Year	Fiscal Deficit Lakh Cr.	% GDP
FY23(BE)	16.6	6.4
FY22(RE)	15.9	6.9
FY21	18.1	9.2
FY20	7.6	3.8
FY19	6.3	3.4
FY18	5.9	3.5
FY17	5.3	3.5
FY16	5.3	3.9
FY15	5.1	4.1
FY14	5.0	4.5

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Market Borrowings



राजकोषीय घाटा वित्तपोषण के स्रोत *Sources of Financing Fiscal Deficit*

(₹ करोड़) (In ₹ crore)

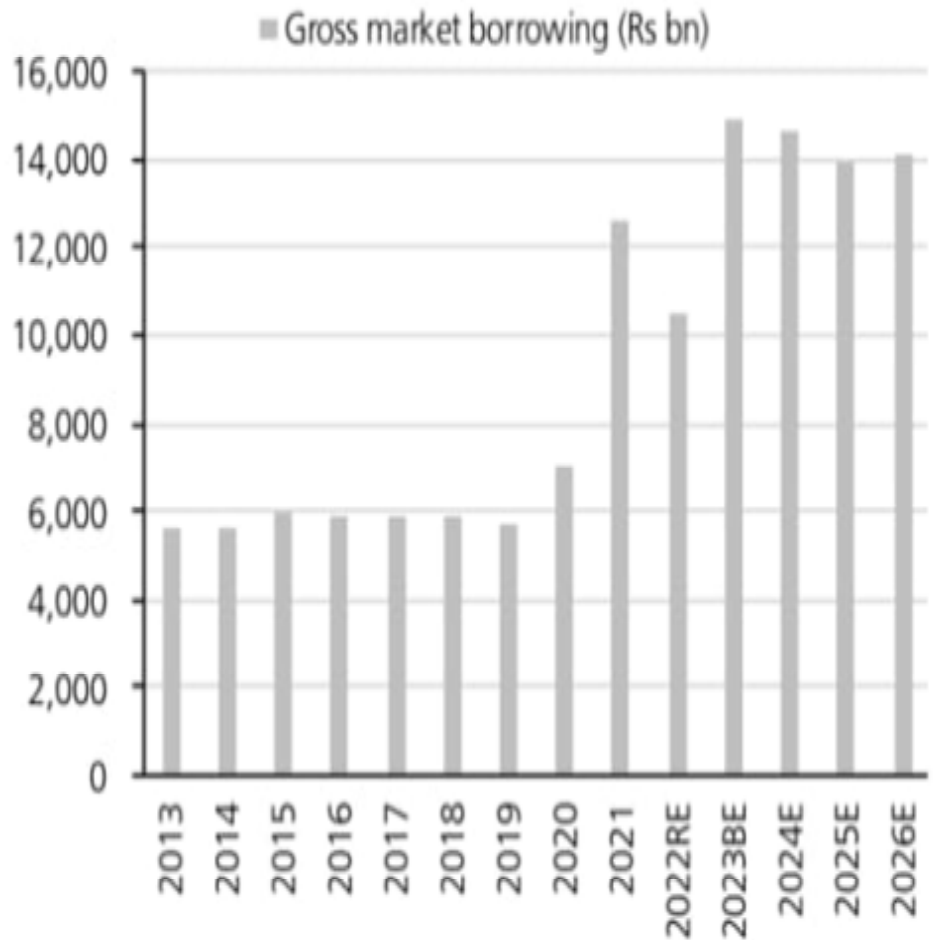
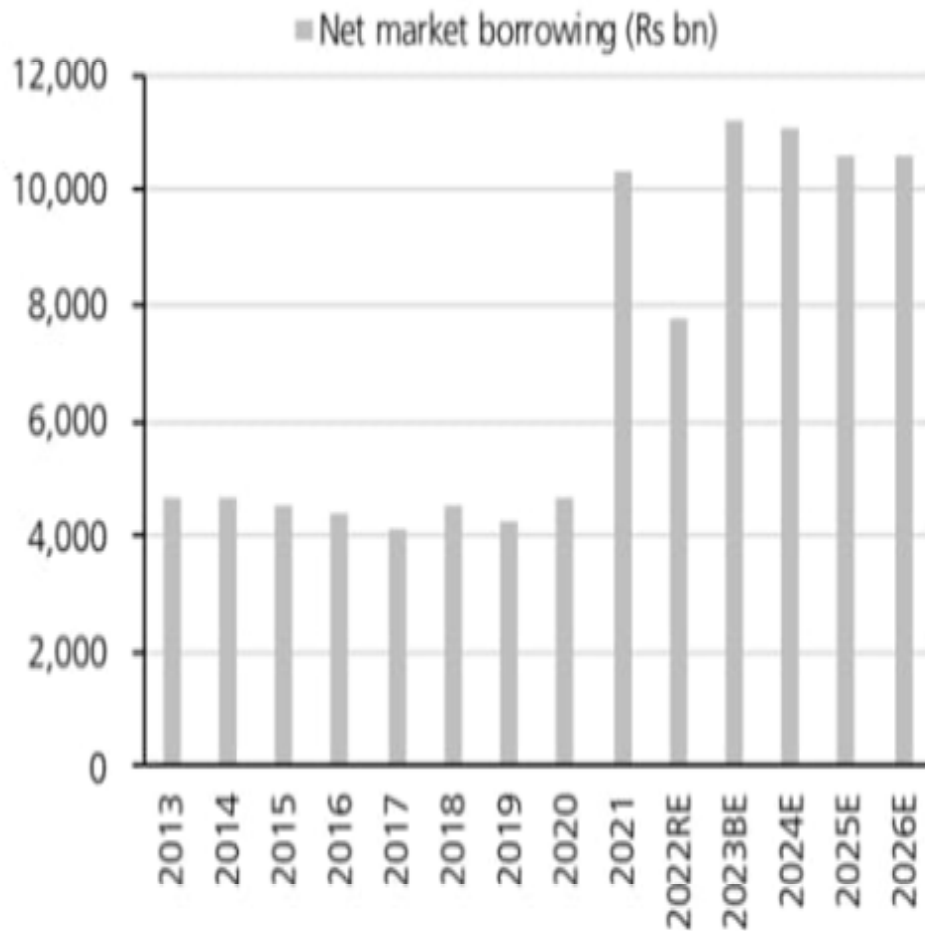
		2020-2021 वास्तविक Actuals	2021-2022 बजट अनुमान Budget Estimates	2021-2022 संशोधित अनुमान Revised Estimates	2022-2023 बजट अनुमान Budget Estimates
1. ऋण प्राप्तियां (निवल)	1. Debt Receipts (Net)	1825479	1435428	1416902	1660444
2. बाजार उधार (सरकारी प्रतिभूति+ राजकोषीय ऋण)	2. Market Borrowings (G-sec +T Bills)	1239737	967708	875771	1158719
3. अन्य बचतों के बदले प्रतिभूतियां	3. Securities against Small Savings	463733	391927	591524	425449
4. राज्य सविध निधियां	4. State Provident Funds	18514	20000	20000	20000
5. अन्य प्राप्तियां (आंतरिक ऋण तथा लोक लेखा)	5. Other Receipts (Internal Debts and Public Account)	13315	54280	(-)90140*	37025
6. विदेशी ऋण	6. External Debt	70181	1514	19746	19251
7. नकदी सेव का कम आहरण	7. Draw Down of Cash Balance	(-)7188	71383	174187	752
8. कुल जोड़	8. Grand Total (1+7)	1818291	1506812	1591089	1661196

Impact of High Fiscal Deficit – More Interest Expenses



	FY20(Actual)	FY21 (Actual)	FY22 (RE)	FY23 (BE)
Revenue Receipts Lakh Cr.	16.8	16.3	20.7	22.0
Interest Expenses Lakh Cr.	6.1	6.7	8.1	9.4
Interest expense as % of Revenue Receipts	36.3	41.1	39.1	42.7

Borrowing To Remain At Elevated Level



Source: RBI, Union budget, Kotak Economics Research estimates

Bond Markets Reaction



Govt. Debt and Liabilities



(In ₹ crores)

	As on 31 st March 2022	As on 31 st March 2023
Internal debt and other liabilities	131,58,490.37	147,48,875.77
External debt #	4,29,402.79	4,69,034.52
Total	135,87,893.16	152,17,910.29

External debt at historical rate of exchange.

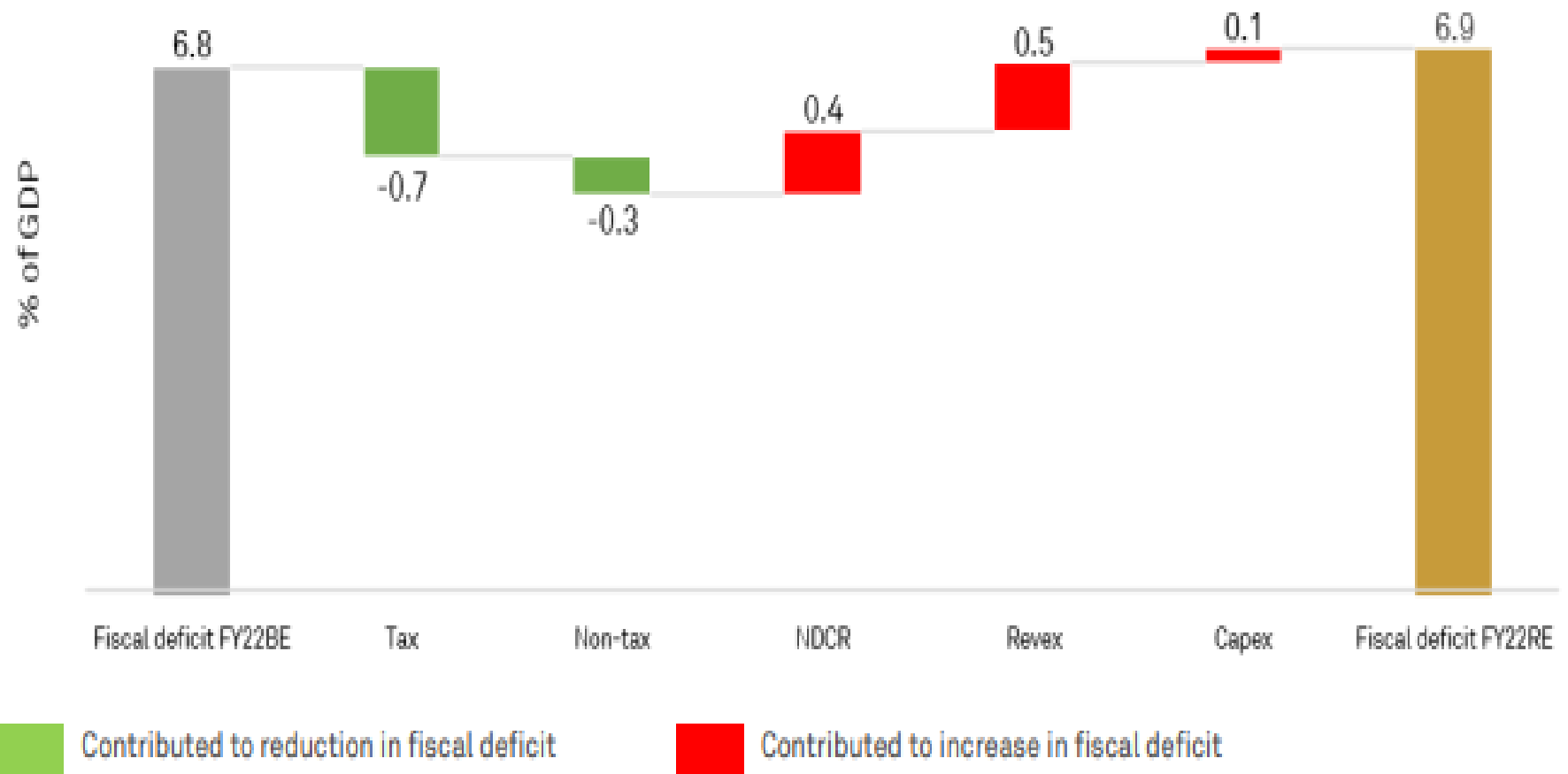
Note : The Central Government debt/liabilities, including external debt at current exchange rate, EBRs and adjusting cash balance, is estimated at about ₹139 lakh crore and ₹155.31 lakh crore as on 31st March, 2022 & 31st March, 2023, respectively.

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How does the budget spend on major schemes?

Budgetary outlay on select major schemes (Rs crore)	FY20	FY21	FY22RE	FY23BE
Food Subsidy to FCI	75,000	462,789	210,929	145,920
Investment in NHAI	31,691	46,062	65,060	134,015
MGNREGA	71,687	111,170	98,000	73,000
PM Kisan	48714	60990	67500	68,000
Food Subsidy for Decentralized Procurement of Foodgrains	33,508	78,338	75,290	60,561
Jal Jeevan Mission / National Rural Drinking Water Mission	10,030	10,998	45,011	60,000
Pradhan Mantri Awas Yojna (PMAY)	24,964	40,260	47,390	48,000
National Education Mission	33,654	28,088	30,796	39,553
National Health Mission	35,155	37,478	34,947	37,800
Pradhan Mantri Gram Sadak Yojna (PMGSY)	14,017	13,688	14,000	19,000

How the fiscal deficit changed between FY22 BE and RE



Note: NDCR= Non-debt capital receipts, Revex= Revenue expenditure, Capex= capital expenditure

Source: Union budget documents, CRISIL

Income Tax Untouched



- Govt. wants economic recovery to be led by investment
- Consumption led recovery will be more inflationary in current environment due to supply shock on Covid disruption

Sector Impact



Sector	Impact
Banks	Positive
Capital Goods	Positive
Infra	Positive
FMCG	Negative
Discretionary Consumption	Negative

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Economy on K Shape Recovery



- Covid disruption and Steep increase in Raw material prices led to K- Shape recovery in economy

Our View on Union Budget



- Govt. has taken risk to borrow and spend without bothering on fiscal deficit
- Govt. has less options apart from following “Keynesian”
- If economy fails to revive sharply , oil prices continue at elevated level, tax collection falters due to low growth there is a risk of stagflation
- Next one year will see huge volatility globally on Fed rate hike and elevated commodity prices

Markets on Consolidation



- Markets on Side ways
- FPI are sellers
- Global markets adjusting to Fed Rate Hike
- Oil Price zooms

INDEX WATCH

INDEX	11, Feb	7, Jan	% Change
Nifty	17,374	17,812	-2.4
Sensex	58,152	59,744	-2.6
Nifty Midcap	29,729	31,111	-4.4
BSE Small Cap	28,691	30,032	-4.4

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Q3 Results



- Overall Q3 results were mixed
- Banks, IT posted good results
- Metals posted YoY increase in profit while QoQ dip
- Cement posted below expected results
- Margin pressure in Consumer oriented and FMCG companies
- Mixed results from Textiles space

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Q3 Result Performance



	% Change (YoY)	
	Dec 2021	Dec 2020
Sales	26.9	1.5
Net Profit	33.2	75.2

Results of 1,138 companies

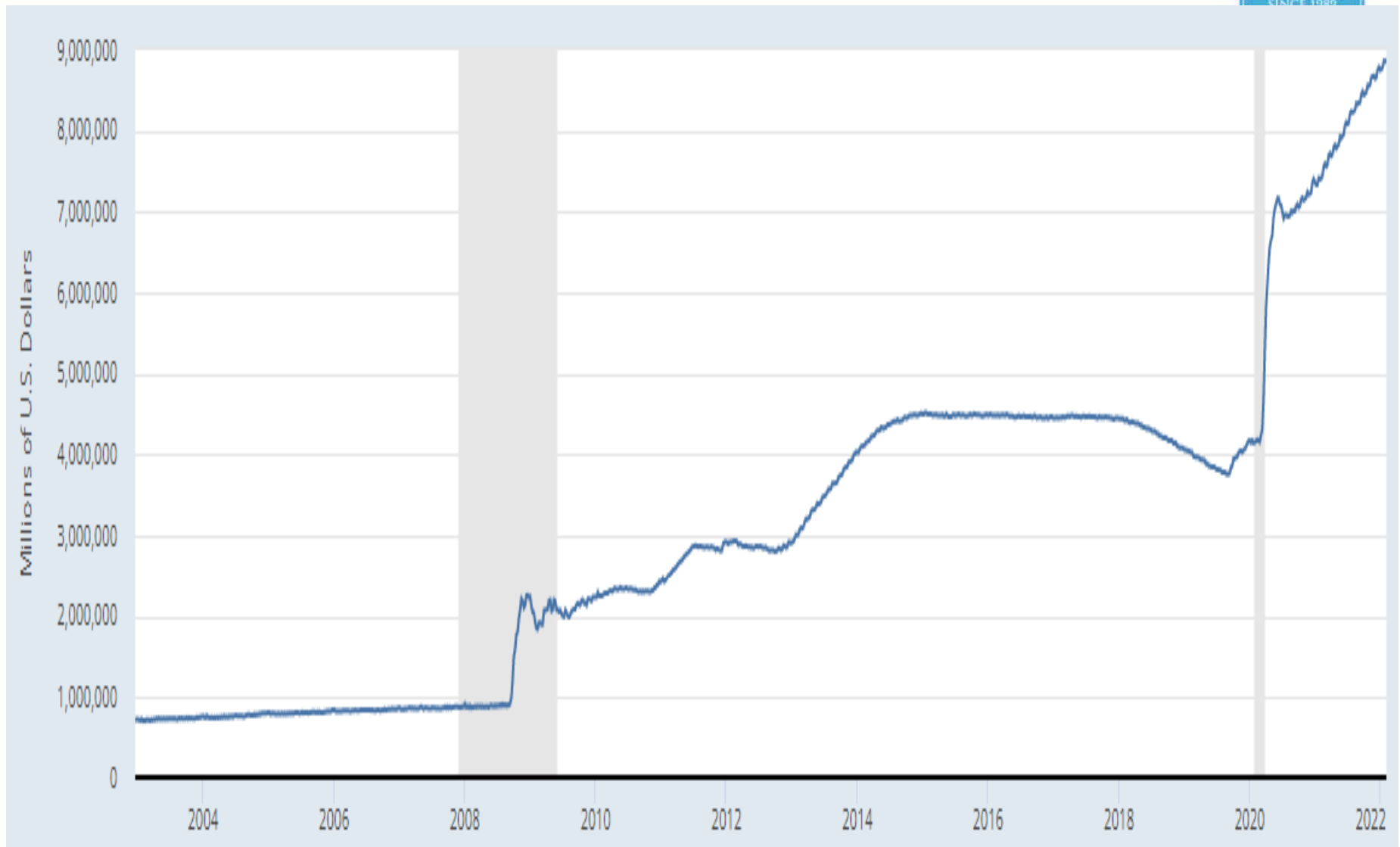
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US Fed Rate Hike

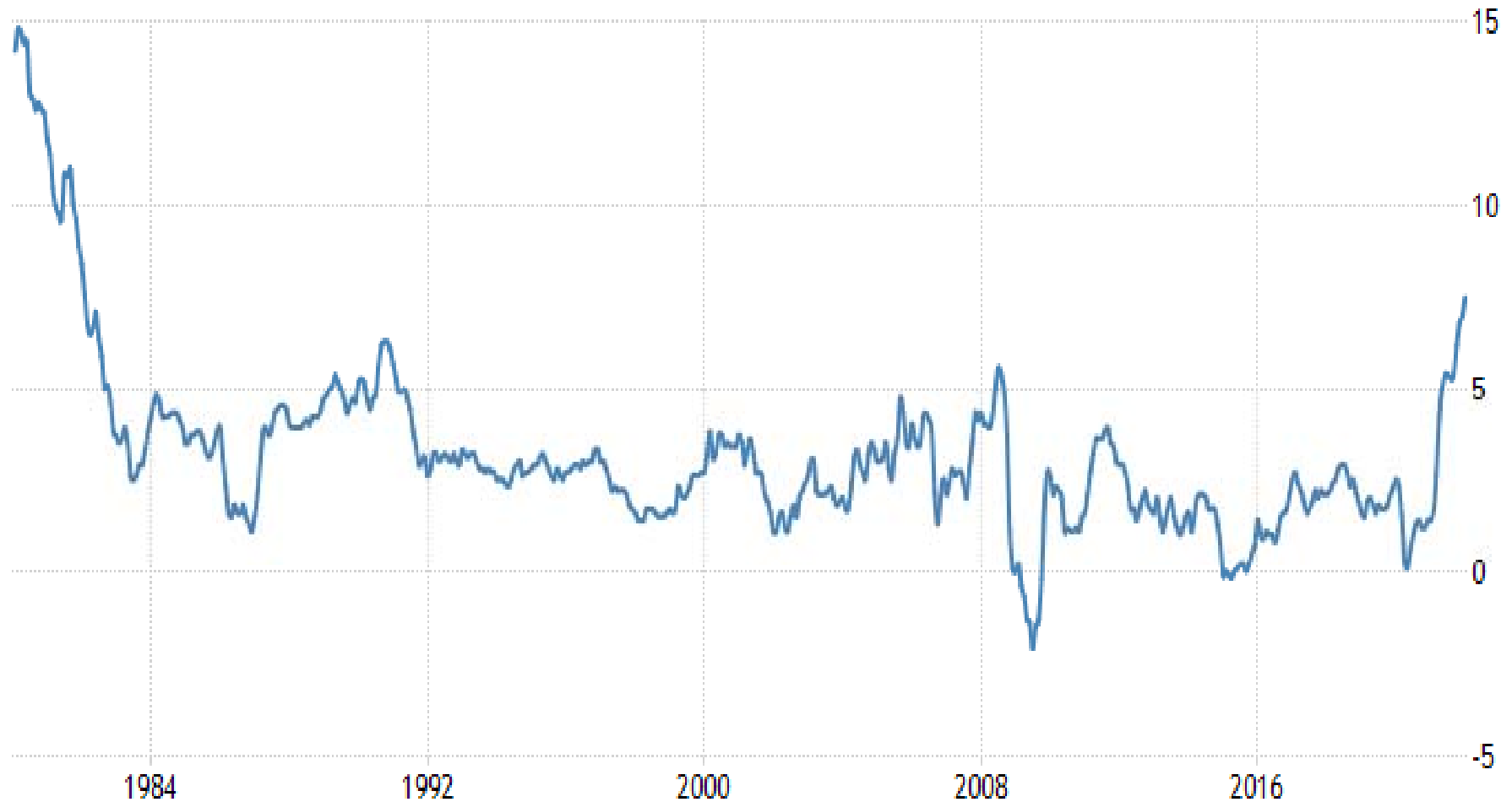


- Fed will hike rates in March 16 meeting
- Equities and Bond markets started discounting rate hike
- More than rate hike, Fed balance sheet shrinkage may affect valuations of tech companies

US Fed Balance Sheet



US CPI Inflation – 40 Year High



US Bond Yield crosses 2%



Crude Oil – Marching Towards \$100



Will Crude Oil sustain at \$100



- US shale oil production to increase sharply as many fields are commercially viable at high crude oil prices
- Higher crude oil prices unlikely to hold for longer period

RBI Vs Global Central Banks



- RBI is super dovish while major central banks US FED, ECB are hawkish
- RBI will be behind the curve by vast margin
- Cannot remain isolated from the world
- Rupee will react and reflect the reality

Will Bond Money shift to Equities



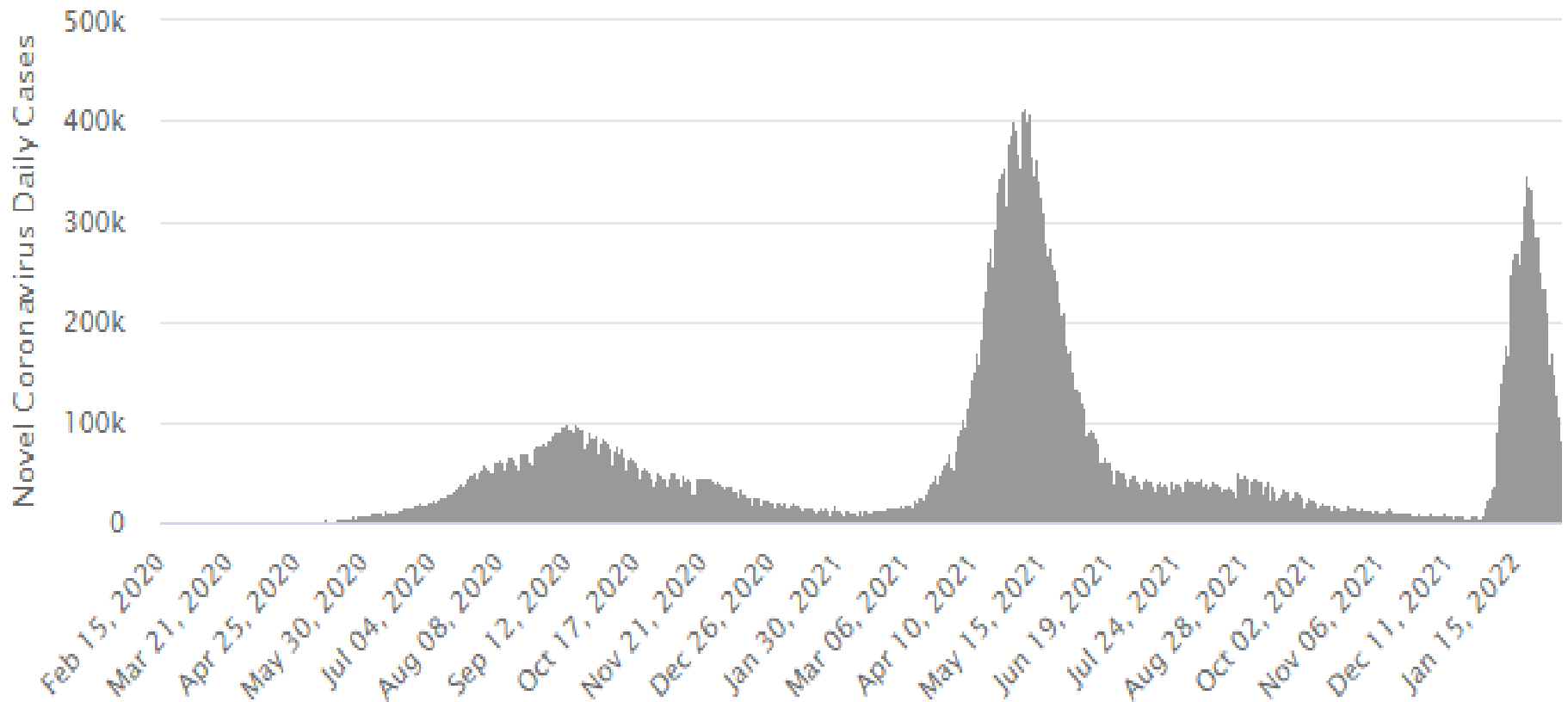
- Bond investments will give negative returns if yields continuously goes up
- \$46 Trillion alone there in US Bond market
- Possibility of part of bond market may move to equities if bond yield continuously goes up and equity valuation falls

India Third Covid Wave – Less Damage



Daily New Cases

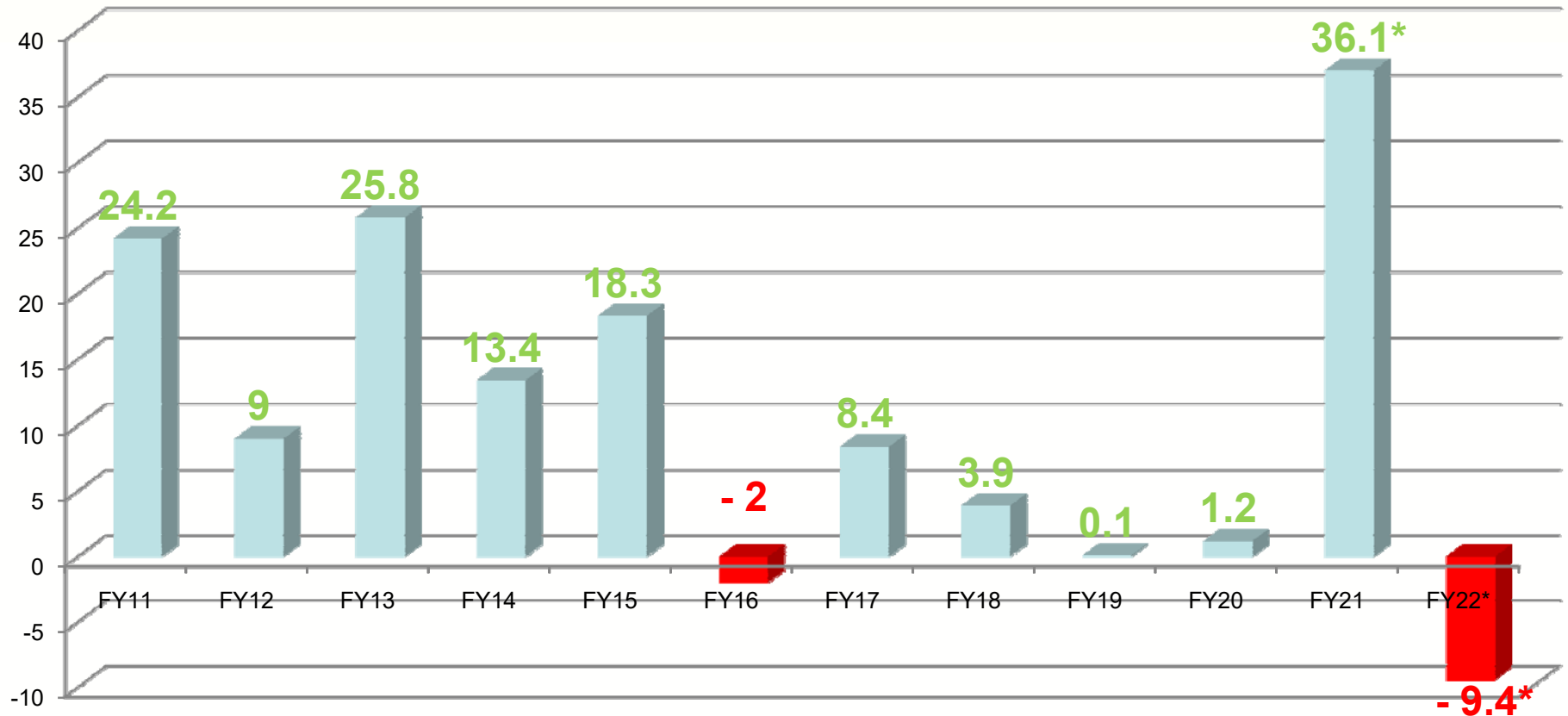
Cases per Day
Data as of 0:00 GMT+0



FPI on Continuous Selling Mode



FPI Flows in US Bn \$



•Till Feb 10th

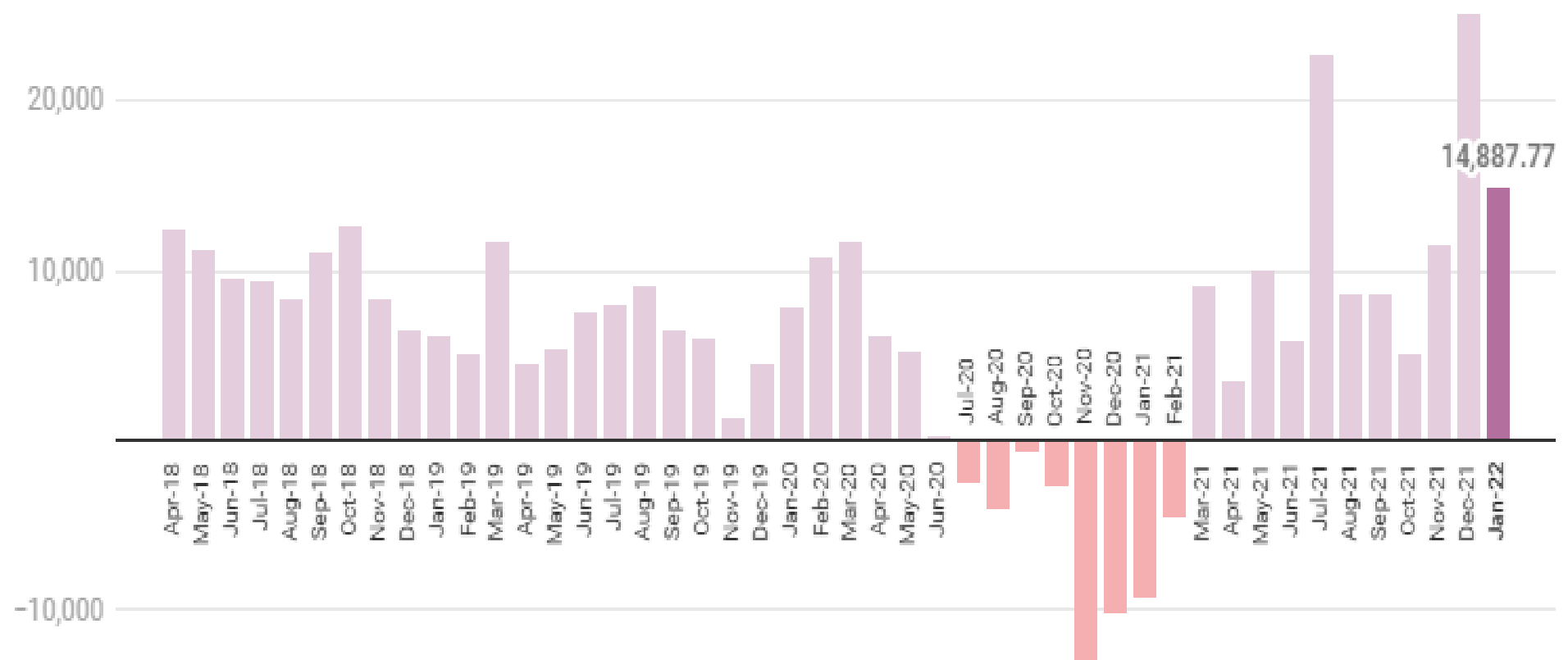
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Equity Mutual Fund Flows



Net Equity Inflows

(Rs crore)



Conclusion



- Equity markets will discount before US rate hike happens
- Heightened volatility expected
- Govt will try to complete the LIC listing before March end

Events To Watch



- Foreign flows
- Global markets
- Geopolitical tension
- LIC IPO



Thank You

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