LIC MUTUAL FUND

BUDGET 2020 EQUITY OUTLOOK

LIC MUTUAL FUND

The Union Budget FY21 continued to prioritize capital expenditure for pushing growth. We view this as a positive as it improves productivity of economy and lays the foundation for long term growth

While market may be disappointed by the:
(a) lack of meaningful sector-specific stimulus,
(b) proposed taxation changes and
(c) low visibility on the government's medium-term plans for PSUs,
the government's commitment on improving "ease of doing business" was visible through further reforms (MSME) and abolishment of DDT for companies.

Government maintained its focus on **tax reform; clearly stated objective of eliminating all the exemptions will simplify the taxation in the country and improve the compliance**.

It is a win-win for:

- Consumer facing businesses,
- Efficiencies in the system,
- Small smaller businesses will able to scale up as cost of delivery goes down,
- Consumer will have greater access to credit
- Transparency in the system will go up

BUDGET 2020 DEBT OUTLOOK

LIC MUTUAL FUND

Debt market looks promising for FY2020 however uncertainty prevails in FY2021

- The government has projected central government fiscal deficit for FY2020 at 3.8% as against earlier target of 3.3%. However, net borrowing is capped at INR 4.99trn like budgeted earlier. Hence, no additional borrowing announced in the budget is positive for debt market.
- During FY2020, additional government bonds worth INR.40000cr are expected to get switched by issuing similar size of longer tenure bonds. This is negative for debt market.
- The government has projected central government fiscal deficit for FY2021 at 3.5% lower than 3.8% projected for FY2020. The gross borrowing and net borrowing are assumed at INR 7.8 trn and INR 5.36 trn respectively. We believe this could fall even further in the event of successful stake sell from LIC IPO. However, a significant higher bond switch program of INR 2.7trn in FY2021 looks huge and will be a negative for Debt market.
- The shortfall funding of fiscal deficit assumes INR 2.4trn from Small savings in FY2021 (almost double of FY2020). However, if households move towards the new income-tax regime collections might take a hit. Consequently, additional market borrowing would be required to fund the shortfall. This is negative for the debt market.
- No cap on certain government securities is positive from FPI’s point of view. Although clarity is awaited on this hence it will materialize over a period

BUDGET 2020 HIGHLIGHTS

LIC MUTUAL FUND

Nominal GDP growth rate for FY21 estimated at 10% and increase in capital expenditure from 13.4% to 18.1%

Government's divestment target doubled from INR 1.05 trillion to INR 2.10 trillion

MAKE IN INDIA

Increase of customs duty and promotion of make in India for various electrical appliances and equipment

MSME
MICRO, SMALL & MEDIUM ENTERPRISES
सूक्ष्म, लघु एवं मध्यम उद्यम

Facilitation by invoice financing, NIRVIK scheme, subordinate debt issuances and exposure to export market

Expansion of PM KUSUM, Viability Gap Funding for creation of warehouses, KISAN RAIL and KISAN UDAAN

Focus on tourism and creation of 5 archaeological sites

Uplifting Indian society via digital governance, expansion of Ayushman Bharat, PM Jan Arogya Yojana and Jan Aushadhi Kendra and setting up hospitals via PPP

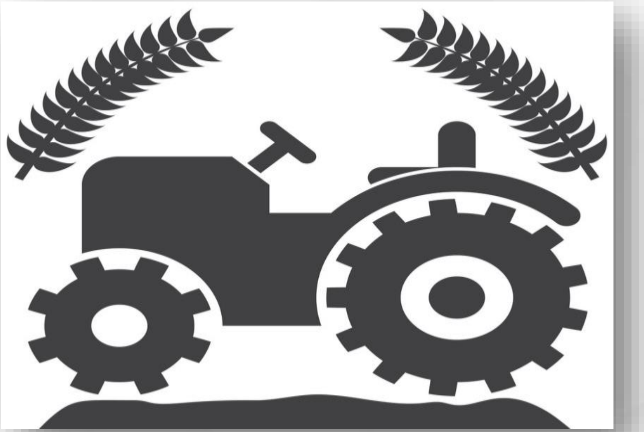
Focus on Affordable Housing and extension of project registrations till March 2021

Decline of 0.9% in total infrastructure spend

Net market borrowings budgeted at INR5.36 trillion and revision of fiscal deficit target to 3.8% vs 3.3%

BUDGET 2020 HIGHLIGHTS

LIC MUTUAL FUND



- Increase in agri-credit target
- Set-up of Krishi UDAAN and Kisan Rail
- Doubling of milk processing capacity and increase in fish production target
- Zero budget farming focus of the government

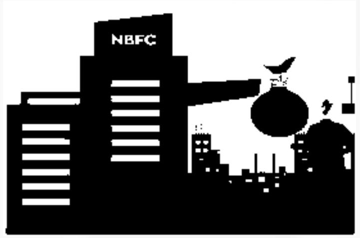
- Accelerated development of highways and roads
- INR 103 lakh crore National Infrastructure pipeline announced
- Concessional corporate tax rate of 15% to new domestic companies in manufacturing and power sector

- Alternative reduced personal tax regime
- Abolition of Dividend Distribution Tax; dividend income to be taxed
- Approximately 70 from the existing 100+ income tax exemptions and deductions have been removed

BUDGET 2020 SECTORAL VIEW

No Material measures on Banking sector, except thrust on Agri/MSME segment. The optional removal of exemption to investment in financial savings (Insurance products and ELSS) could marginally impact commission revenues from distribution of third party products.

The limit for NBFC to be eligible for debt recovery under the SARFAESI ACT is proposed to be reduced from existing INR10 mn to INR5 mn (loan size) and from INR5bn in asset size to INR 1bn (AUM size). Beneficiaries would be smaller NBFCs having reached an AUM size of INR1bn.



No direct changes for the life insurers. Changes in personal tax regime have a bearing on demand of life insurance products.
Negative for the industry as insurance buyers will be able to avail lower tax rates without making significant purchases of insurance products.

NCCD increase in cigarettes, a major negative. Minimal impact for staple companies due to increase in basic customs duty on safflower oil, molasses, infant food preparations

BUDGET 2020 SECTORAL VIEW

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Import duty on compressors/fans & small appliances raised from 10% to 12.5%/20%. Marginal impact of compressors on AC OEMs. Positive for domestic fan players.

Replacement of conventional meters with prepaid smart meters to help lower AT&C losses and improve working capital management
Setup of solar capacities alongside railway tracks and at barren land of farmers to increase renewable generation
Tax rate of 15% for new power generation companies a positive

No direct impact. Abolition of DDT could increase dividend/pay-out yield for the companies with higher scope for dividends; dividend income to be taxed at income tax rates as applicable.

India's expenditure on healthcare is significantly lower than the global average
Proposal to set up viability gap funding window for setting up hospitals in the PPP mode is unlikely to be a significant impact for private healthcare service providers

Statutory Details Sponsor: Life Insurance Corporation of India.
Investment manager: LIC Mutual Fund Asset Management Ltd. CIN: U67190MH1994PLC077858

For further details, please refer to the Scheme Information Document, Statement of Additional Information & Key Information Memorandum cum Application forms, available on our website www.licmf.com and at the official points of acceptance of LIC Mutual Fund Asset Management Ltd.

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MUTUAL FUND INVESTMENTS ARE SUBJECT TO MARKET RISKS, READ ALL SCHEME RELATED DOCUMENTS CAREFULLY.