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UNION BUDGET 2020

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Budget 2020: Good Attempt, but fell short of expectations

The FM's budget speech started on a promising note with an aim to 'boost income and enhance purchasing power'. However, as the announcements came in, it became evident that the government had not loosened its purse strings enough to meet the high expectations. In fact, the expectations were way too high this time, considering the immediate need to boost growth and consumption. But, we're not surprised by the budget announcements as the government hardly had any headroom due to lower tax collections owing to the economic slowdown. In our opinion, the government did make a good attempt to cater to the needs of all sections of society and at the same time provide fiscal stimulus to key social sectors in the budget.

Fiscal stimulus for key sectors to revive growth

The budget focused on achieving the government's goal of doubling farmers' incomes by 2022, with its 16 action points for the agriculture sector. There was an emphasis on modernising the agriculture sectors, making farmers more independent (providing solar pumps to 20 lakh farmers under PM-KUSUM scheme), facilitating viability gap funding via public-private partnership (PPP) for stimulating agriculture growth and increasing agriculture credit target. Overall, agriculture and allied activities, irrigation and rural development received a total allocation of ~Rs 2.83 lakh cr. Similarly, infrastructure and 'Housing for all' by 2022 was also a key focus encompassing all the key segments. However, low allocation in sectors like defense and rural development was a let-down.

Slippage in fiscal deficit target; ambitious disinvestment target for FY21E

As widely anticipated by the markets, the government increased the fiscal deficit target to 3.8% for FY20, a deviation of 0.5% from earlier target resorting to the trigger mechanism as per the FRBM Act. It also set the FY21 target lower at 3.5%. The fiscal deficit target came in higher than our estimate of 3.6%. We believe that this may lead to prolonged pause in interest rate cuts by the RBI as theoretically, higher fiscal deficit usually leads to higher interest rates in the economy. However, the government plans to stick to its fiscal consolidation trajectory and has therefore has lowered its fiscal deficit target for FY21E to 3.5%. In order to achieve the fiscal balance in FY21, the government has set an ambitious disinvestment target of Rs 2.1 lakh cr. This is the highest-ever divestment target and the government wishes to achieve this largely by selling a partial stake in its insurance behemoth - Life Insurance Corporation of India (LIC) through an initial public offering (IPO).

On the taxes front, couple of hits but few misses

Keeping up with the expectations, the government introduced a new tax regime with reduced tax rates but with the caveat of having to forego earlier exemptions and deductions. Therefore, the individual tax payers has an option of either having more disposable income by adopting the new tax regime or continuing to avail deduction and exemptions under the current regime. In our opinion, the new tax regime has the potential to revive consumption growth to a certain extent, however it remains to be seen how the tax payers adopt to the changes.

Further, abolition of dividend distribution tax (DDT) for companies (currently DDT is at 20.6%) seems to be positive for MNCs and PSUs. At the same time, it means that the shareholders will have to pay tax at their end. While this will encourage companies to pay more dividends or increase investments, individual investors may have to shell out more tax and that could have a mixed impact on the market sentiments. However, abolition of DDT was being demanded since long by the FPIs due to non-availability of credit of DDT in their home jurisdiction. Hence, this could lead to more foreign fund flows in the markets. Contrary to the expectations, no relief on the long term capital gains tax disappointed the markets.

To conclude…

We had stated in our pre-budget note that while expectations of investors/taxpayers would remain high, the government had limited scope to dole out many positive surprises given the present health of the economy. Despite the constraints, the government did try to appease all the sections of the society as well as the capital markets. Hence, overall the FM has done a decent balancing act in the backdrop of a challenging economic environment. In addition, the growth measures introduced earlier should also start bearing the desired results in terms of demand and consumption growth. We opine that the budget 2020 is a step in the right direction and should stimulate the economic revival in the medium to long-term and help achieve the estimated GDP growth of 6-6.5% in FY21E.

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Budget at a glance

Sr.No		Particulars (Rs. in crore)	2018-2019	2019-2020	2020-2021	2021-2022
			Actuals	Budget Estimates	Revised Estimates	Budget Estimates
1		**Revenue Receipts**	**1552916**	**1962761**	**1850100**	**2020926**
	a)	Tax Revenue (net to centre)	1317211	1649582	1504587	1635909
	b)	Non-Tax Revenue	235705	313179	345513	385017
2		**Capital Receipts**	**762197**	**823588**	**848451**	**1021304**
	c)	Recovery of Loans	18052	14828	16604	14967
	d)	Other Receipts	94727	105000	65000	210000
	e)	Borrowings and Other Liabilities	649418	703761	766846	796337
3		**Total Receipts (1+2)**	**2315113**	**2786349**	**2698551**	**3042230**
4		**Total Expenditure**	**2315113**	**2786349**	**2698552**	**3042230**
	f)	On Revenue Account of which	2007399	2447780	2349645	2630145
	g)	Interest Payments	582648	660471	625105	708203
	h)	Grants in Aid for creation of Capital Assets	191781	207333	191737	206500
	i)	On Capital Account	307714	338569	348907	412085
5		**Revenue Deficit**	**454483**	**485019**	**499545**	**609219**
		Revenue Deficit at % of GDP	-2.4	-2.3	-2.4	-2.7
6		**Effective Revenue Deficit**	**262702**	**277686**	**307808**	**402719**
		Effective Revenue Deficit at % of	-1.4	-1.3	-1.5	-1.8
7		**Fiscal Deficit**	**649418**	**703760**	**766848**	**796337**
		Fiscal Deficit as % of GDP	-3.4	-3.3	-3.8	-3.5
8		**Primary Deficit**	**66770**	**43289**	**141743**	**88134**
		Primary Deficit as % of GDP	-0.4	-0.2	-0.7	-0.4

Source : Budget Documents

Sectoral Impact

Agriculture / Fisheries		
Announcements	**Impact**	**Stocks**
Encourage states to follow modern farm techniques that are already approved by central government with a view to double farmers income	Higher rural income would help in picking up consumption as well as in improving demand	Positive for the entire agriculture sector
Under PM Kusum Scheme the government would provide solar pumps to 20 lakh farmers on standalone basis and further 15 lakh for grid connected pumps	Positive for the agriculture and chemical sector, and solar pump producers	Positive for stocks like Crompton Consumer elec., KSB pumps, Shakti pumps; etc
Increase in agriculture credit target to Rs 15 lakh cr (vs Rs 12 lakh cr for previous year)	This would help farmers in getting more financing for short term from Banks & NBFC's, at an affordable rate and also would help in boosting farm output	Positive for the entire agriculture sector
To set up 'Kisan Rail' through PPP for perishable items. In addition 'Krishi Udan' to be launched on national and international routes	Would promote transportation of perishable food items	It would benefit companies like Parag Milk, Heritage Foods and Godrej Agrovet
Rs 2.83 lakh cr to be allocated for agriculture and irrigation sector	Allocation of funds would help in expanding the sector	Positive for the agriculture/irrigation sector
To expand fish production capacity to 200 lakh tonne	To support growth of fishery sector	Positive for Avanti Feeds and Apex Frozen Foods
Allocated Rs 19,500cr each for Pradhan Mantri Awas Yojana-Grameen and the Pradhan Mantri Gram Sadak Yojana as compared to Rs 19,000cr in the last budget. Also allocation of Rs 61,500cr under MGNREGA scheme	This would help in developing rural infrastructure, job creation and boost housing for all in rural area	Positive for the entire agriculture sector

Auto and Auto ancillary		
Announcements	**Impact**	**Stocks**
The government announced that it remained focused on achieving its target of doubling farmers income by 2022. It has increased allocation for Agriculture, Irrigation and rural development schemes for FY21E	Higher rural income would augur well for demand revival in two wheelers as well as PVs growth	Stocks like M&M, Escorts, Maruti, Bajaj Auto, Hero Motocorp and TVS Motors to benefit
Government announced a new tax regime (optional) with reduced tax rate but without any exemptions and deductions	Higher disposable income in the hands of consumer would be positive for PVs and Two Wheelers	Stocks like M&M, Maruti, Bajaj Auto, Hero Motocorp and TVS Motors to benefit

BFSI		
Announcements	**Impact**	**Stocks**
The fiscal deficit target came in higher than our estimates at 3.8% for FY20E and 3.5% for FY21E	Higher deficit would lead to higher interest rates and could slow the credit growth	Negative for all banks
Government increased the deposit insurance coverage for depositor to Rs. 5 lakh from Rs. 1 lakh earlier	This would increase confidence of customers in the banking system	Positive for all banks
Increase agricultural credit to Rs. 15 lakh cr	This would increase credit growth for NBFCs	Positive for select NBFC companies
The limit for NBFCs to be eligible for debt recovery under the SARFAESI Act 2002 is proposed to reduce to Rs. 100 cr as against Rs. 500 cr AUM or loan size from existing Rs. 1 cr to Rs. 50 lakhs	This would aid faster recovery of bad loans	Positive for all NBFC companies

Cement		
Announcements	**Impact**	**Stocks**
To allocate Rs. 12,300 cr for Swach Bharat Abhiyan	This would drive volumes for cement and other building material	Positive for entire building material and cement sector so stocks like ACC, Ambuja, Ramco Cements would benefit
Increase in allocations towards large infrastructure projects	It would increase demand for cement	Positive for ACC, Ambuja, Ultra tech, Ramco Cements
Allocation of Rs 19,500cr (up from Rs 19,000cr) to Pradhan Mantri Awas Yojna (PMAY)	This is likely to promote housing for all in rural and push demand for the sector	Positive for all cement companies

FMCG/Consumer Durables

Announcements	Impact	Stocks
Measures to boost mobile phone, electronics equipment and semiconductor manufacturing in the country	This would help in boosting domestic growth by creating jobs as well as helping electronic companies to manufacture at lower cost	Positive for stocks like Dixon technologies and Amber Enterprise
Push towards Agriculture, irrigation and rural development will help boost rural consumption	Not Directly but indirectly it would help in developing and revive demand for rural consumer space	Positive for companies like HUL, Colgate, Britannia, Nestle, ITC, etc
Allocation of Rs 61,500cr under MGNREGA scheme	Would aid in creation of more jobs in rural india and boost the consumption	Positive for FMCG companies, especially those having greater focus on rural areas like Britannia, HUL, Dabur, ITC
Changes in income tax slab (0-5lakh is exempted, 5-7.5 lakhs - 10%, 7.5 lakh -10 lakh - 15%, 10-12.5 lakh - 20%, 12.5-15 lakh - 25% and above 15 lakh maintained at 30%) This is optional and will not get any benefit from existing exemptions	Would lead to higher discretionary spending depending on consumers income bracket	Positive for the entire consumer space
Increase in excise duty on cigarettes (in range of Rs 200-735 per thousand) and tobacco products (10% to 25%)	Would lead to increase in prices of cigarettes and tobacco products	Negative for ITC Godfrey Phillips and VST Industries
Increase in custom duty on electric appliances such as fans, grinder mixers, water heaters, irons from 10% to 20%	Negative for consumer electric appliances makers which import these products, positive for domestic manufacturers	Positive for Crompton Greaves Consumer Electricals, Bajaj Electricals
Increase in custom duty on compressors of refrigerators and air conditioners from 10% to 12.5%	Negative for companies importing compressors as it will increase cost	Mildly negative for Voltas, Blue Star and IFB Industries

Infrastructure/Capital Goods

Announcements	Impact	Stocks
Proposal to set up 5 more smart cities in collaboration with states via public private partnership model (PPP)	Will boost order book of capital goods and infrastructure companies	Positive for L&T, Siemens India, ABB India
Setting up Project Preparation Facility (PPF) for fast tracking infrastructure projects. Monetisation of 12 sets of national highway bundles of 6000 km by 2024. Completion of Delhi-Mumbai expressway by 2023	Fast tracking of projects shall benefit infrastructure players	Positive for the entire sector
100 more airports to be developed by 2024 to support "Udaan Scheme"	Shall benefit developers and contractors in the infrastructure space	Positive for Stocks like L&T, GMR Infra
National logistics policy to be released soon to create single window electronic clearance	Would benefit the logistics players	Positive for the logistics sector

Oil & Gas

Announcements	Impact	Stocks
Expansion of national gas grid to 27,000 km from 16,200 km	Would help strengthen gas markets in India	Positive for GAIL, Gujarat state petronet and city gas distributors like IGL, MGL and Gujarat Gas

Power

Announcements	Impact	Stocks
Allocation of Rs 22,000 cr to power and renewable sector	Would help in boosting renewable power capacity	Positive for Tata Power, Inox Wind, Adani Green Energy
Advise to shut thermal power units if emission is beyond permissible limits	Would negatively impact the order book of thermal power developers	Marginally negative for players like NTPC, BHEL

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S. No.	Statement	Answer	
		Tick appropriate	
		Yes	No
	I/we or any of my/our relative has any financial interest in the subject company? **[If answer is yes, nature of Interest is given below this table]**		No
	I/we or any of my/our relatives, have actual/beneficial ownership of one per cent. or more securities of the subject company, at the end of the month immediately preceding the date of publication of the research report or date of the public appearance?		No
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	I/we have received any compensation from the subject company in the past twelve months?		No
	I/we have managed or co-managed public offering of securities for the subject company in the past twelve months?		No
	I/we have received any compensation for brokerage services from the subject company in the past twelve months?		No
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...

Name(s) with Signature(s) of RA(s).

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SS..No.	Name(s) of RA.	Signtures of RA	Serial Question of question which the signing RA needs to make a separate declaration / answer	Yes	No.