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Generating Wealth

Budget Preview (FY20-21)

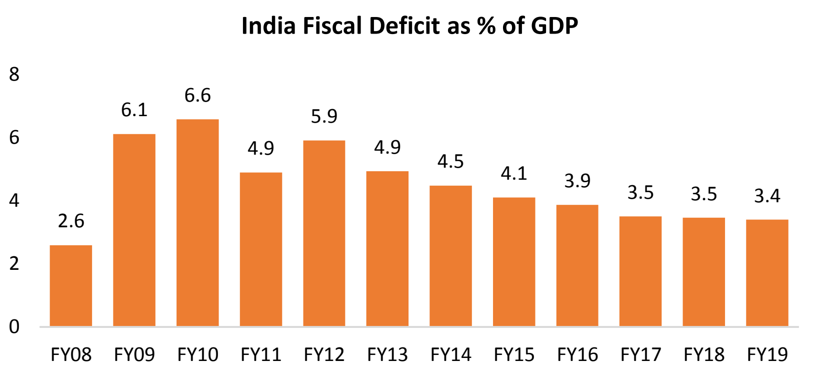
Key Budget Expectations:

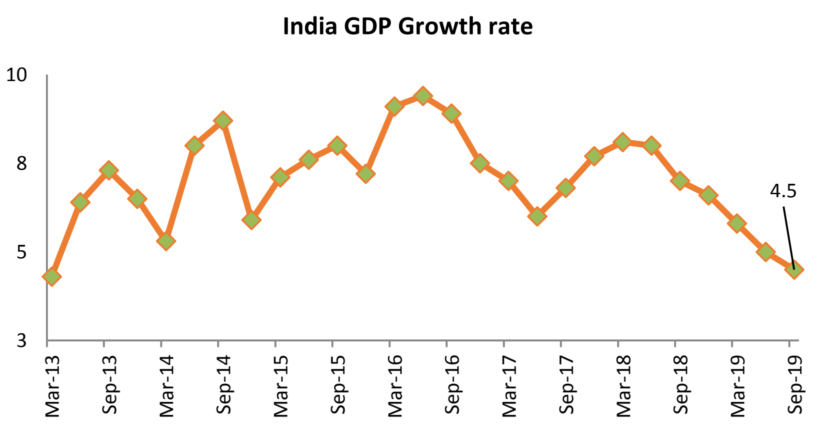
- **Introduction of vehicle scrappage scheme.**
- **Reduction in personal taxation.**
- **Increase in FDI in insurance companies to 74% from 49% currently.**
- **Budget likely to unveil 'Fund of Funds' for MSME sector.**
- **For new pneumatic tyres of rubber, it is proposed to hike Customs duty to 40 % from the current 10-15%.**
- **Healthtech businesses want FM Sitharaman to focus on preventive healthcare.**
- **Give cash in hand to push demand: FMCG.**
- **Potential increase in Customs Duty on Gold to bridge budget deficit remains a cause for concern for jewellery players.**
- **Hike in Customs duty on toys, certain paper, footwear products.**

Will Fiscal Deficit breach Budget target..

On 1st February 2020, Honourable Finance Minister Nirmala Sitharaman will present the second Budget of Modi Government 2.0. While the GDP growth numbers have come down substantially, expectations are high from the FM to come out with largesse for several industries currently in doldrums, especially the likes of core sectors including Manufacturing, Infrastructure and Healthcare, amongst others.

*The Budget is expected to incentivise some upcoming technological breakthroughs in the industry along with lowering of GST rates for some sectors suffering from slowdown. However, the allocation of limited cash reserves at disposal will be the key challenge for the FM. We are expecting the Fiscal Deficit for FY20 to witness 30-40bps slippage from the budgeted target 3.3%. The net tax revenue for current year has increased by only 2.6% YoY till Nov 2019 which is only 46% of its targeted Tax receipts for the year. Hence, key areas of focus for the budget will be: **1)** Uplifting the low GDP growth rate of 4.5-5% to historical highs of last couple of decades. **2)** Aligning GST rates at such levels, where actual collection does not remain below the estimates **3)** Finding ways to meet its investment targets while providing large Corporate Tax rate cut which had cost the Government Rs 1.46 lakh Cr.*





India: Budget (FY20BE) vs M8FY20 actual at a glance

Amount in INR b	FY18	FY19	M8FY20 Actual	FY20BE	% of FY20BE	% YoY vs M8FY19
Revenue receipts	**14,352**	**17,297**		**19,777**		
Gross tax revenue	**19,183**	**22,482**	**11,741**	**25,521**	**46.0**	**0.8**
Corporation Tax	5,712	6,710		7,600		
Income Tax	4,308	5,290		6,200		
Wealth Tax	1	0		0		
Customs	1,290	1,300		1,454		
Excise Tax	2,588	2,596		2,596		
Service Tax	812	93		0		
Taxes on Union Territories	47	53		59		
Central Goods and Services Tax (CGST)	2,033	5,039		6,100		
Integrated Goods and Services Tax (IGST)	1,767	500		500		
GST Compensation Cess	626	900		1,012		
Goods and service tax	4,426	6,439		7,612		
Indirect Taxes	9,164	10,482		11,721		
Less : NCCD transferred to NCCF / NRDF	-35	-23		-25		
Less : State's share	-6,730	-7,369		-8,446		
Less: share adjustment as per Actual	0	-246		0		
Tax Revenue (net to centre)	12,425	14,844	7,506	17,050	44.0	2.6
Non-Tax Revenue	1,927	2,453	2,326	2,726	85.3	67.8
Capital Receipts of which	**7,067**	**7,276**		**8,065**		
Recovery loans	156	132	109	125		
Other receipts	1,000	800	180	900		
Borrowing and other liabilities	5,911	6,344	8078	7,040		
Total Receipts	**21,420**	**24,572**	**16549**	**27,842**	**59.4**	**12.7**
Expenditure on other than Schemes						
On Revenue Account	18,788	21,406	16062	24,479	67.8	13.0
of which,						
Interest Payments	5,290	5,876	3418	6,651	51.3	-1.8
Of which Grants for creation of capital assets	1,910	2,003	1292	2,007	64.3	-4.1
On Capital Account	2,631	3,166	2138	3,363	63.6	11.7
Total Expenditure	**21,420**	**24,572**	**16549**	**27,842**	**59.4**	**12.7**
Revenue Deficit	4,436	4,109	6230	4,702	132.4	13.0
Effective Revenue Deficit	2,526	2,106	4937	2,695	183.1	18.5
Fiscal Deficit	**5,911**	**6,344**	**8078**	**7,040**	**114.7**	**12.7**
Fiscal Deficit as % of GDP	-3.5	-3.4	3.9	-3.4	-50.0	
Primary Deficit	621.1	468.3	4660	389.4	119.6	26.5

Source: Arihant Research, Company Filings, Ace Equity, Bloomberg

Sector	Expected Budget Announcement	Key Beneficiaries
Direct Tax Rate	Expectation of reduction in Dividend Distribution Tax rate, Tax rebate of Rs 12,500 to be extended for Income of 5lac to 10lac.	Positive for high Dividend companies like MNCs, IT, Auto, Metals, Oil & Gas. Positive for all consumption linked Companies
Agrochemicals	Increase in the subsidy allocation of urea complex	Agrochemical Companies
City Gas Distribution	In view of high expense of petrol and diesel, Government can provide incentive for conversion to CNG to existing vehicle owners, also GST reduction. Increase in targets for adoption of PNG for household use.	Gas Companies
Auto/Auto-Ancillaries	If Government increases budgetary spending on rural and agriculture & allied activities, it would have positive impact for tractor businesses.	2 wheelers, car Companies, Tractor makers
Bank & NBFCs	The Fiscal deficit for FY20 is running at 115% of the Budget expectations, therefore higher than expected borrowings could adversely impact G-Sec yield curve. It would have impact on investment portfolio of all Banks. Higher borrowings can also impact liquidity, leading to rise in cost of funds and thus affecting margins of Banks. Government announced merger of State owned Bank in 2QFY20 (Aug 30, 2019). We can expect more such mergers in coming times to enhance liquidity and credit flow for NBFCs.	Negative for Banks Positive for relevant PSBs and NBFCs
IT/ITES	Potential extension of SEZ tax policy scheduled to lapse on 31 Mar'20. MAT credit on Companies operating in SEZ from current rate of 15% is expected to be removed. Removal will boost profitability of companies in IT sector.	Positive for relevant IT sector stocks
Metals & Mining	Expectation of reduction in Import duty of coking coal and coke. Increase in Import duty on aluminum scrap and primary aluminum.	Relevant Metals Companies

Source: Finance Ministry; BE = Budget estimate; RE = budget receipts. FY ends Mar

Power	Increase of coal production in India and removal of levied cess which will reduce the input costs for Power generation companies. Also, inclusion of power sector in the GST slabs could benefit the demand growth of power. A subsidy scheme to revive the 25 GW of gas power plants is also in the talks.	Power generation companies
Insurance	Expectations of increase in FDI in insurance companies to 74% from 49% currently.	Positive for selected private insurance companies
Housing	Expand definition of affordable housing by either carpet area and ticket price **1)**Increase in deduction limit for home buyers **2)**Improving liquidity in real estate sector by relaxing criteria of projects for 250bn AIF fund	Positive for real estate companies
Infrastructure/Cement	Budgeted amount allotted to metro projects should be more than INR 200bn, up 10% over revised FY20. 1)The overall Railway Capital expenditure could be pegged at INR1.74 trn. 2)Expenditure on Roads in excess of INR 724bn, up 10% over Revised FY20.3)Expect announcement of Atal Distribution System Improvement Yojana (ADITYA) - scheme involves cutting of losses. Centre to provide funding of Upto INR 1.1 trillion which will work in three phases till 2024.4)Focus to reduce overall logistic cost	Positive for Logistics, Commercial Vehicle, Quality Industrials, Cement and Infrastructure Companies With strong execution capabilities.

Conclusion

Expectation from the upcoming Union Budget are soaring considering the sluggish GDP growth and a dampened consumer demand across all sectors. As per the market expectation, the budget will focus particular sectors to add fuel in the economy where liquidity is available to limited hands. We expect an improvement in economic growth front led by government pushed reforms which will combine a mix of infrastructure spending along with empowering consumer's disposable expenses.

On the other hand, any reduction in Fiscal Deficit could result in a negative credit impulse in the near term and will need to be balanced with credible consolidation plan further out. The government needs to focus on key primary sectors like Housing & Infrastructure, SME businesses and Agri stressed businesses with measures to boost spending power with either personal Tax rate cuts for creating demand and new schemes to support farm Income, since half the population still relies on Agriculture & Allied activities. Also, it need to focus on easing tension in MSME and Housing sector where a sudden fall in demand has hit the growth rate of the entire sector. While other expectation from government to roll back or extend the time range of the LTCG Tax to 2-3 years, will be beneficial for the Investors.

Overall, we expect to see a more business oriented & liberal budget on account of macro-economic scenario affecting the entire outlook of the nation's economy.

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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