



**Prudent Budget**

## Prudent Budget

Expectations were high from the budget given the larger mandate of the new government. This excitement met with a weak financial position, limiting the government from announcing eventful new measures. Though below expectation, it provides a prudent plan for FY20 with a conservative approach to not overspend during this slowing economy. Overall we believe it was prudent budget but rise in taxation for HNIs could have hurt sentiment, but that should be momentary. The government introduced a lot of structural reforms at the macro level, and big infra-push should support the economy.

## Confidence crisis to ease

The government's recognition of financial issues faced by the NBFC sector has also provided a big relief. The partial credit guarantee to the banks for investing in the securitized debt of the NBFC sector will uplift the confidence in the sector. It also gives hope that the government and RBI will finally intervene to ensure that more liquidity is available to the NBFC sector.

The government is taking more and more initiatives to ease compliance and broaden tax ambit. A major one in this Budget is the replacement of physical scrutiny by a faceless electronic. This is a welcome step as it would eliminate the harassment caused by income tax officers wielding unjust powers.

## Highlights Of Budget

- ⇒ The budget has been presented with a 10-year vision in mind. The startups are being given a whole set of tax benefits.
- ⇒ The budget is for a New India has a roadmap to transform the agriculture sector of the country,
- ⇒ Fully automated GST Refund module shall be implemented; multiple tax ledgers to be replaced by one; invoice details to be captured in a central system
- ⇒ Surcharge on individuals with taxable income of Rs. 2-5 crore raised to 3 per cent, and Rs. 5 crore to 7 per cent
- ⇒ Additional deduction of INR 1 lakh on interest paid for affordable house of Rs. 45 lakh, borrowed on or before March 31, 2020
- ⇒ Corporate tax with turnover of up to Rs 400 crore slashed to 25 per cent from a current rate of 30 per cent.
- ⇒ 2% TDS on withdrawals of INR 1 crore in a year from your bank account for business payments.
- ⇒ Rs 3,000 pension per month for workers from the informal sector
- ⇒ Government envisions using rivers for cargo transport to decongest roads and railways.
- ⇒ INR 1 lakh loan to be provided for SHG women members
- ⇒ On purchase of high-rate pooled assets of NBFC amounting of INR 1 lakh core in this FY, govt will provide one-time 6 month credit guarantee
- ⇒ Railway infrastructure will need an investments of INR 50 lakh crore during 2018 to 2030
- ⇒ 2% interest subvention for GST-registered MSME on fresh or incremental loans.
- ⇒ Pension benefit extended to retail traders with annual turnover less than Rs 1.5 crore
- ⇒ Allocate Rs 400 crore for world-class higher education institutions in FY 20
- ⇒ Govt will take up measures to make RBI & SEBI depositories inter-operable

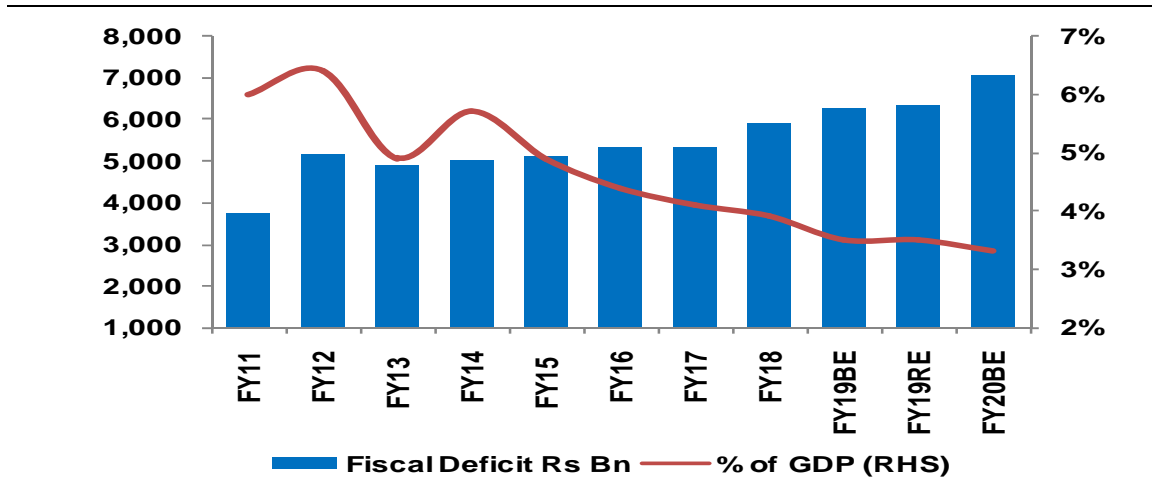
# Union Budget Analysis 2019-2020

## Budget at a Glance (table)

Rs Bn	FY16	FY17	FY18	FY19BE	FY19RE	FY20BE	Growth Rate
1. Revenue Receipts (i+ii)	11,950	13,741	14,352	17,257	17,297	19,628	13.5%
i) Tax Revenue (Net)	9,438	11,013	12,425	14,806	14,844	16,496	11.1%
ii) Non-Tax Revenue	2,513	2,728	1,927	2,451	2,453	3,132	27.7%
2. Capital Receipts	5,957	6,098	7,067	7,165	7,276	8,236	13.2%
iii) Recoveries of loans	208	176	156	122	132	148	12.7%
iv) Other Receipts	421	477	1,000	800	800	1,050	31.3%
v) Borrowings & other Liabilities	5,328	5,445	5,911	6,243	6,344	7,038	10.9%
Total Receipts (1 + 2)	17,908	19,839	21,420	24,422	24,572	27,863	13.4%
3. On revenue account of which	15,378	16,905	18,788	21,418	21,406	24,478	14.3%
vi) Interest Payments	4,417	4,807	5,290	5,758	5,876	6,605	12.4%
4. Capital Account	2,530	4,503	2,631	3,004	3,166	3,386	6.9%
Total Expenditure (3 + 4)	17,908	21,408	21,420	24,422	24,572	27,863	13.4%
5. Revenue Deficit	3,427	3,163	4,436	4,160	4,109	4,850	18.0%
% of GDP	2.5%	2.1%	2.6%	2.2%	2.2%	2.3%	0.0%
6. Effective Revenue Deficit	2,110	1,506	2,525	2,206	2,106	2,777	31.9%
% of GDP	1.6%	1.0%	1.5%	1.2%	1.1%	1.3%	0.0%
7. Fiscal Deficit	5,328	5,356	5,910	6,242	6,344	7,038	10.9%
% of GDP	3.9%	3.5%	3.5%	3.3%	3.4%	3.3%	0.0%
8. Primary Deficit	911	549	621	484	468	433	-7.5%
% of GDP	0.7%	0.4%	0.4%	0.3%	0.2%	0.2%	0.0%

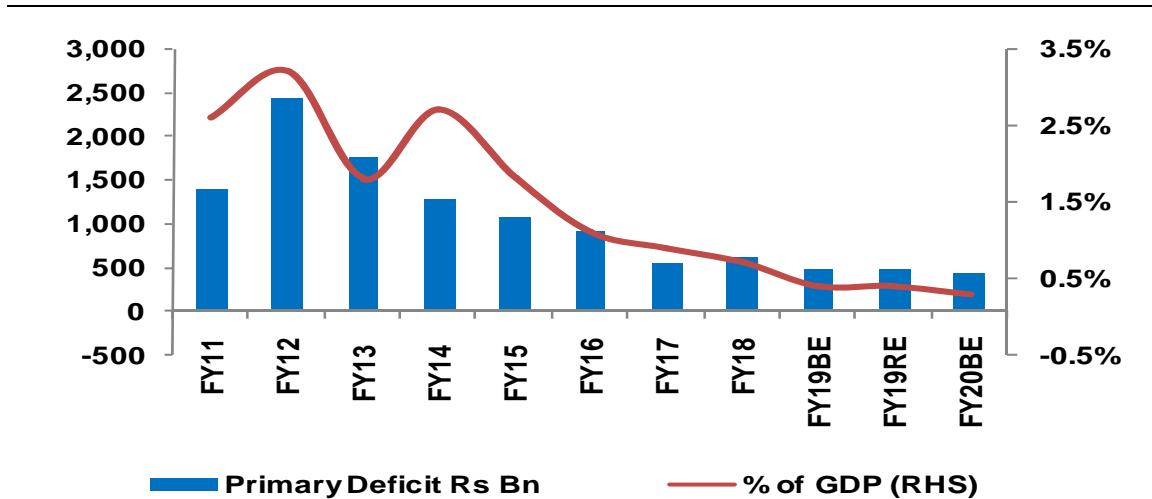
Source: Budget Documents, BP Equity Research

## Fiscal Deficit as % of GDP



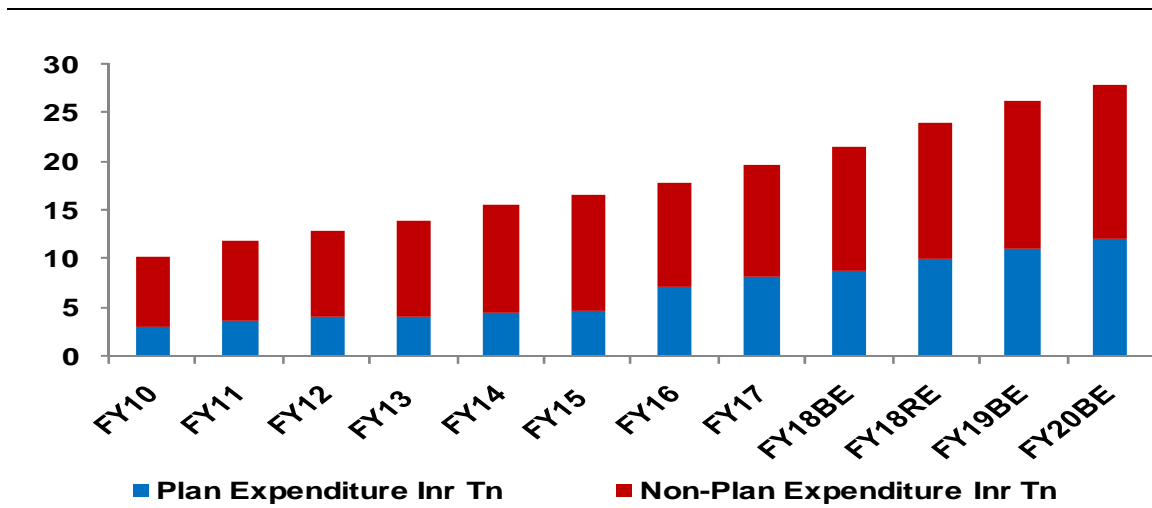
Source: Budget Documents, BP Equities

## Primary Deficit as % of GDP



Source: Budget Documents, BP Equities

## Plan and Non plan Expenditure Breakup



Source: Budget Documents, BP Equities

## Union Budget Analysis 2019-2020

Announcement	Impact	Company
Increase in cess on cigarettes (INR5 /1000 sticks )	<b>Neutral:</b> We expect company can successfully pass this hike to its customer.	ITC, Godfrey Phillips, VST Industries
Increase in custom duty on gold and other precious metals from 10% to 12.5%	<b>Negative :</b> The existing import duty on gold is 10% which is now revised to 12.5%. In addition, gold prices attract GST of 3%. Hence the present total tax incidence on gold would be about 15.5% this will lead to higher prices for gold in the country	Titan, Tribhovandas Bhimji Zaveri, Thangamayil Jewellery, PC Jewellery
Reduction in custom duty on Wool fiber and Wool Tops	<b>Positive :</b> We expect this will result into reduction in raw material cost.	Raymond, Monte carlo fashion
Custom duty on imported AC increase from 10% to 20%	<b>Neutral :</b> Most of the big brands are already manufacturing split ACs in India and hence will not have any impact on pricing	Voltas, Bluestar, Whirlpool
Proposal for public-private partnership for completion of track, rolling stock & delivery of passenger freight services	<b>Positive:</b> Speeding up of existing and new projects with private partnership	SKF, Schaeffler, Esscorts
Proposed to provide 20% tax on Buy back of shares	<b>Negative:</b> Lots of companies especially high payout IT companies had shifted to do buyback than to pay a dividend (as DDT is 20%). Now, with this taxation, amount shared among investor to be reduce by 20% may lead to negative impact on shareholders return as acceptance ratio will decrease in buy back.	Sentimentally negative for companies announcing buyback like Infosys, TCS, Wipro etc
100% FDI permitted for insurance intermediaries	<b>Positive</b> for insurance sector to raise capital from foreign entities	SBI Life, ICICI Prudential, HDFC Life, New India Insurance Ltd

Announcement	Impact	Company
FPI allowed to invest in listed debt securities issued by ReITs and InvITs	<b>Positive</b> for ReITs and InvITs to raise capital from foreign entities	Embassy, Indigrid
Through PMAY 1.95 crore houses are proposed to be provided during FY20-FY22	<b>Positive:</b> Would create demand for housing related sectors like building materials, construction companies, cement sector etc.	Major cement, real estate sector companies
Through PMGSY it is envisaged to upgrade 125000km of road over next 5 years with an estimated cost of INR 80250 crores	<b>Positive:</b> Provide higher revenue visibility for road infrastructure companies	Sadbhav Engineering, Welspun Enterprise, Dilip Buildcon, IRB Infra etc
Massive railway station modernization programme to be launched this year	<b>Positive:</b> It directly improves revenue visibility for railway sector companies	RITES, RVNL
Government has set disinvestment target of INR 105000 crore for FY20	<b>Negative:</b> Selling its stake in PSEs shows uncertainty over tax collection especially the GST.	Majority of Public sector enterprises
Tax exemption and other benefits on setting up FAB, Solar PV cells, Lithium storage batteries, electric charging infrastructure etc.	<b>Positive</b> for companies looking for capex in these areas	Tata Power, BHEL, Exide, Amaraja Batteries etc
A person purchasing an affordable house will now get an enhanced interest deduction up to 3.5 lakh.	<b>Positive:</b> Greater deduction in tax makes home loan more lucrative for first time buyers	Ashiana Housing, HDFC, Canfin homes, LIC housing Finance etc
It is proposed to provide deduction of INR 1.5lac for interest paid on loan for purchase of electric vehicle	<b>Positive:</b> It would boost demand for electric vehicle and financing activities	Majority of automobile sector companies

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