

UNION BUDGET 2019-20



EXPECTATIONS

Rural development to remain at top

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The interim union budget of 2018-19 plays an important role for the current government to portray its medium term economic priorities ahead of the upcoming general election. The focus this time would be on improving rural-agriculture incomes on account of high levels of farm distress. There would also be an emphasis on infrastructure as the government spending in this space would form an important driver of capex due to weak participation from the private sector. However, the Government's map to fiscal consolidation would have to be observed as there is a high likelihood of fiscal slippage for the second consecutive year attributable to the populist approach being pursued ahead of election.

The FY19 GFD/GDP ratio is expected to be at 3.5% exceeding the budget estimate of 3.3% due to non curtailment of expenditure. The government could use a mixture of new as well as existing schemes to ease the farm stress. On the income side, the GST collections are expected at ~Rs 4.5 Trillion and it is also expectation of increased threshold exemption in personal income tax from the current levels. The Disinvestments are expected to remain in focus with the government sticking to its Rs 800 Bn target for FY19.

Capex is expected to slowdown on account of lower GST collections in the medium term. However, Capex is expected to pick up from FY20 onwards with an allocation towards roads, railways and defense. The subsidy bill for FY20 would be ~Rs 3 Trillion with a major focus on food, followed by fertilizer and fuel. Higher borrowings are expected to put upward pressure on yields.

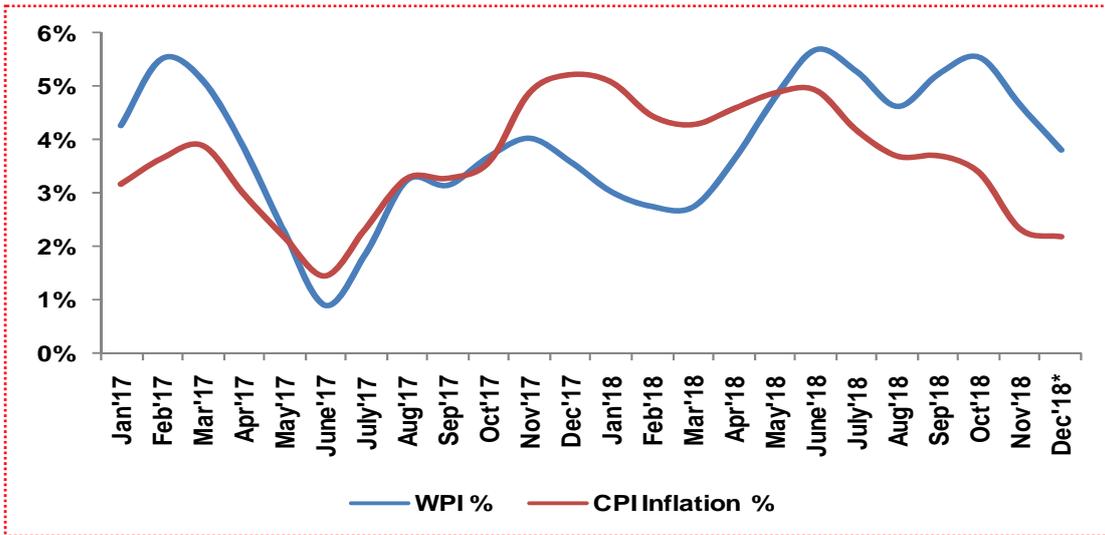
Personal Taxation

- ⇒ Increase in exemption under 80C to move up from Rs150,000 to encourage individuals to save and invest.
- ⇒ The standard deduction for salaried employees to increase from current Rs 40,000
- ⇒ Rationalize personal income tax rates as follows:

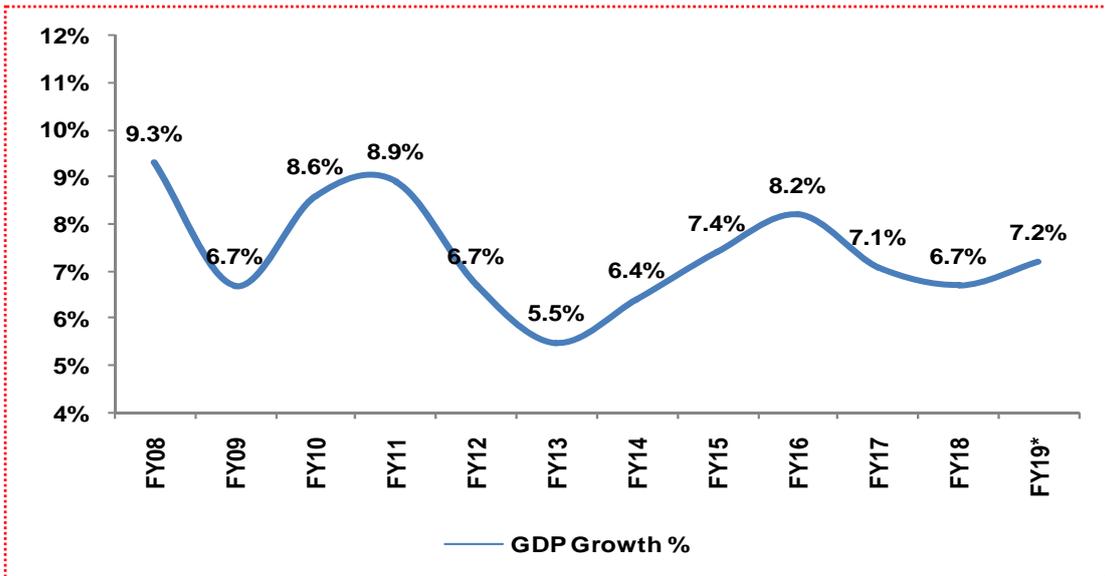
Income Tax Slab—Expectation

Assessment Year/ Rate	Nil	5%	20%	30%
2018-19 Actual	Up to 2,50,000	2,50,001 to 5,00,000	5,00,001 to 10,00,000	10,00,001 and above
2019-20 Expected	Up to 3,00,000	3,00,001 to 5,00,000	5,00,001 to 10,00,000	10,00,001 and above

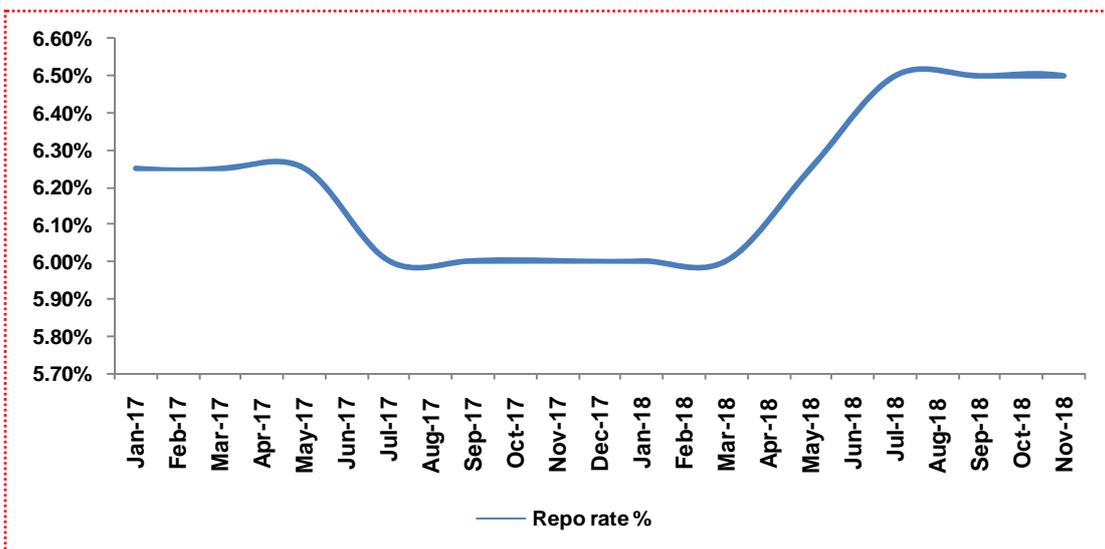
Union Budget Expectation 2019-2020



The inflation for FY19 is expected to remain benign within the lower end of RBI's target range. This is being contributed by lower food prices and falling oil prices leaving room for further interest rate cuts.



GDP growth is expected to reach 7.2% for FY19 as per CSO estimates. The growth would be supported by rural demand aided by election related spending and lower oil prices leading to higher disposable incomes.



Repo rate is expected to inch lower on account of softening inflation and slowdown in growth, with the RBI moving towards a more data driven approach.

Union Budget Expectation 2019-2020

Auto & Ancillary

Expectation	Impact	Company
Government to provide one-time tax rebate or benefits on on-road vehicles older than 15 years	Positive: Increase in vehicle purchase and a significant uptick in commercial vehicle sales over the next 2-3 years	All auto companies
Rate cut from 28% to 18% on two wheelers	Positive: Augment demand and increase sale volumes	All two wheelers OEM
Special rate cut on electric vehicles	Positive: Will bolster government's aggressive transition to electrification	All auto companies
Budget to allocate 20,000 Cr to the ancillary industry	Positive: To target one million electric vehicles in top 10 most polluted cities	All ancillary companies
Lessen import duties on steel and aluminum	Positive: The cost of material of making components will be reduced	All ancillary companies
Uniform GST rate of 18% across all ancillary components	Positive: Counterfeit grey operations in the market	All ancillary companies

BFSI (Insurance)

Expectation	Impact	Company
Period of carry forward and set-off of losses in case of Insurance Business	Positive: The Insurance industry entails a high gestation period resulting in a longer break-even period. The current limit of 8 years to carry forward business losses is not enough and would benefit the industry if the limit would be extended to an indefinite period.	HDFC Standard Life Insurance, ICICI Lombard, ICICI Prudential Life, Max Financial Services, SBI Life Insurance ,Bajaj Finserve
Separate section to be created under the income tax act over and above 80C for higher tax rebate on premium paid towards pure life insurance policies	Positive: Higher tax rebate would incentivize life insurance policies aiding in improving penetration levels	HDFC Standard Life Insurance, ICICI Prudential Life, SBI Life Insurance, Bajaj Finserve, Max Financial Services
GST waiver for pure protection plans that includes both term life and health insurance policies. The current GST rate applicable is 18%	Positive: GST rate of 18% is considered high and therefore removing this would lead to a higher adoption of such policies	HDFC Standard Life Insurance, ICICI Lombard, ICICI Prudential Life, Max Financial Services, SBI Life Insurance, Bajaj Finserve
Reduce the lock in period for ULIP from 3 years to 5 years(comparable to ELSS) and also a GST waiver from the current rate of 18%	Positive: On account of high popularity of ULIP, this would help in improving penetration levels	HDFC Standard Life Insurance, ICICI Lombard, ICICI Prudential Life, Max Financial Services, SBI Life Insurance, Bajaj Finserve

Union Budget Expectation 2019-2020

BFSI (NBFC)

Expectation	Impact	Company
Extend the benefit of section 43D of the income tax act to include NBFCs (HFCs are already covered)	Positive: Interest income on non-performing assets should be taxed only on receipt basis. This would help in improving cash flows and liquidity situation of NBFCs	Bajaj Finance, Cholamandalam, IIFL Holdings, L&T Finance Holdings, Magma Fincorp, Mahindra & Mahindra Financial, Muthoot Finance, Shriram City Union Finance, Shriram Transport
Exclusion of interest/processing charges paid to NBFC from the provisions of Section 194A	Positive: Presently, 10% TDS is required to be deducted on interest payment including processing charges under loan/finance arrangement. Exclusion of this charge would provide a level playing field to NBFCs similar to banking companies & other financial institutes, resulting in improving cash flows and spreads.	Bajaj Finance, Cholamandalam, IIFL Holdings, L&T Finance Holdings, Magma Fincorp, Mahindra & Mahindra Financial, Muthoot Finance, Shriram City Union Finance, Shriram Transport, HDFC, PNB housing finance
Taxability of Excess Interest Spread (EIS) in Direct Assignment transaction be made on receipt basis-clarify needed	Negative: Due to change in the revenue recognition policy as per the Ind-AS there is no explicit directive issued by the RBI on booking of such EIS. NBFC's may now be asked to offer such EIS income to be taxed on an upfront basis instead of being realized in the future years. Therefore clarification is needed on this front	Bajaj Finance, Cholamandalam, IIFL Holdings, L&T Finance Holdings, Magma Fincorp, Mahindra & Mahindra Financial, Muthoot Finance, Shriram City Union Finance, Shriram Transport, HDFC, PNB Housing Finance

Capital Goods

Expectation	Impact	Company
Increasing budgetary allocation towards roads, railways, metro, defense, Oil & Gas, Power distribution and smart cities	Positive : Capex further increase by 10-15% in FY19	L&T, Dilip Buildcon, Sadbhav, ABB, Siemens, VA Tech and EPC players

Cement

Expectation	Impact	Company
Reducing the GST tax slab from 18% to 28% on cement	Positive: Reduce cost of construction	All cement companies
Additional financial incentives for housing	Positive: It leads to better volume growth and higher realization as sales happen in this segment from trade channel	All cement companies



Chemical

Expectation	Impact	Company
Increase basic customs duty on imports of caustic soda and soda ash from 7.5% to 15%	Positive: This will lead to higher plant capacity utilization and a level playing field for domestic manufacturers. Further, higher domestic production will reduce dependency on imports and save precious foreign exchange.	GACL, GHCL, Lords Chloro Alkali Ltd, Punjab Alkalies, Sree Rayalaseema Alkalies And Chemicals Ltd, Tata Chemicals Ltd

Construction

Expectation	Impact	Company
Increase capital outlay towards infrastructure sector by 12-18 percent	Positive: Boost order books of construction companies	All construction companies
Majorly the increased outlay can be budgeted towards roads and railway	Positive: Enhance visibility of conversion of the planned projects like Bullet trains, Bharatamala, Sagarmala, Smart Cities, Inland Waterways development, etc.	L&T , Dilip Buildcon, Sadbhav Engineering
To increase capital outlay under PMAY rural and urban	Positive: To meet the government's target of affordable housing for all by 2022	Brigade Enterprises, Prestige Estates Projects, Sobha, Sunteck Realty

Fertilizer

Expectation	Impact	Company
Amended New Investment Policy (NIP) involving investment benefits for Urea manufactures	Positive: Investment benefits for Urea manufacturer will see fresh capacity addition. As domestic urea capacity is falling short, and as a result, the government has to rely on imported urea for meeting the urea demand.	GSFC, NFL, RCF , Chambal, Coromandel International
Raising farm credit target to Rs 11Lac crore from Rs 10 Lac crore	Positive : This will improve credit flow in the agriculture sector	Overall fertilizer Sector

FMCG

Expectation	Impact	Company
Higher Cess on Cigarette	Negative: Domestic cigarette to become more costlier which is expected to lead to volumes shifting to illegal cigarettes	ITC, VST Industries,
Increase in MGNREGA spending	Positive: Rural demand roughly contributes to 50% of consumer companies revenues.	HUL, Dabur, Emami and Marico

Union Budget Expectation 2019-2020

Metals & Mining

Expectation	Impact	Company
Reduction in basic customs duty on graphite electrodes from 7.5% to nil, imposition of 30% export duty	Negative: Indian Producers are major suppliers in the international market. Around 60% of production is exported creating shortage in domestic market.	Graphite India and HEG
Increase in basic customs duty for certain steel products from 10% and 12.5% to 25% on steel imports such as hot rolled steel, cold rolled steel, galvanised steel, colour coated steel etc.	Positive: Higher duty on import of steel products will provide level playing field for indian producers	Tata Steel, JSW Steel, JSPL and SAIL

Oil & Gas

Expectation	Impact	Company
Exemption from Payment of Customs Duty on Import of Liquefied Natural Gas (LNG)	Positive: Recognizing the shortage of gas production, Government has encouraged import of LNG. Exempting duty on gas import would benefit the entire supply chain and bring major relief to priority sectors and various industries	Petronet LNG, GAIL, IGL, MGL, GGL and various other companies
Exemption of Excise Duty for compression of natural gas into Compressed Natural Gas (CNG)	Positive: Exemption of excise duty will encourage transition to environmental friendly fuel used in transportation sectors.	IGL, MGL, GGL, Adani Gas
Reduction in Oil Cess to 10%	Positive: Oil cess creates significant disadvantage to Domestic producers compared to imported oil. Reduction to 10% will boost the oil and gas sector and is necessary to become more self efficient.	ONGC, IOC, Reliance Ind

Power

Expectation	Impact	Company
Generation and distribution of power to covered by provisions of section 80IA of the Act should also be covered by section 35AD of the Act.	Positive: Investment linked deduction for the capital expenditure is allowed for infrastructure facilities in section 35AD of the Act. However, power is not included in the definition of 'infrastructure facility' as per the section of the act. Inclusion of power would not only help the companies but also the government in achieving its "Power for all" objective.	NTPC, Tata Power, JSW energy, Torrent Power, Adani Power
Lower interest rates and provide attractive long-term financing options for renewable generation	Positive: The move would encourage more people to own and adopt renewable generation in view of the 100 Gigawatt solar capacity target and the larger aim to provide electricity for all	Tata Power, Suzlon energy and Ujaas energy

Real Estate

Expectation	Impact	Company
Grant industry status to the entire real estate sector to facilitate the realty developer in raising capital at lower cost.	Positive: Lower cost of funds would be beneficial for real estate developers	Brigade Enterprises, DLF, Godrej Properties, Oberoi Realty, Prestige Estates Projects, Sobha, Sunteck Realty
Reduce GST on under construction housing projects from 12% to 5% tax slab	Positive: The move would result in increasing overall demand and also reduce working capital stress on developers	Brigade Enterprises, DLF, Godrej Properties, Oberoi Realty, Prestige Estates Projects, Sobha, Sunteck Realty
Affordable housing in priority sector list for lending institutions	Positive: Easy affordability of funds would make it easier for developers to enter into the segment and therefore boost the sector.	Brigade Enterprises, Prestige Estates Projects, Sobha, Sunteck Realty
Widen the qualification carpet criteria (30 sq. mt. in metros and 60 sq. mt. in elsewhere) under section 80-IBA	Positive: This would permit 100% deduction in respect of the profits earned from affordable housing projects and ensure wider project coverage and encourage more developers to avail the benefits of the income tax deduction	Brigade Enterprises, Prestige Estates Projects, Sobha, Sunteck Realty
Raise deduction limit of interest paid on residential house property which has been capped at Rs2 lakh under section 24.	Positive: Higher funding limits would improve affordability for consumers	Brigade Enterprises, DLF, Godrej Properties, Oberoi Realty, Prestige Estates Projects, Sobha, Sunteck Realty

**Disclaimer Appendix****Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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