

Asit C. Mehta


INVESTMENT INTERMEDIATES LTD.

JAN BHAGIDARI

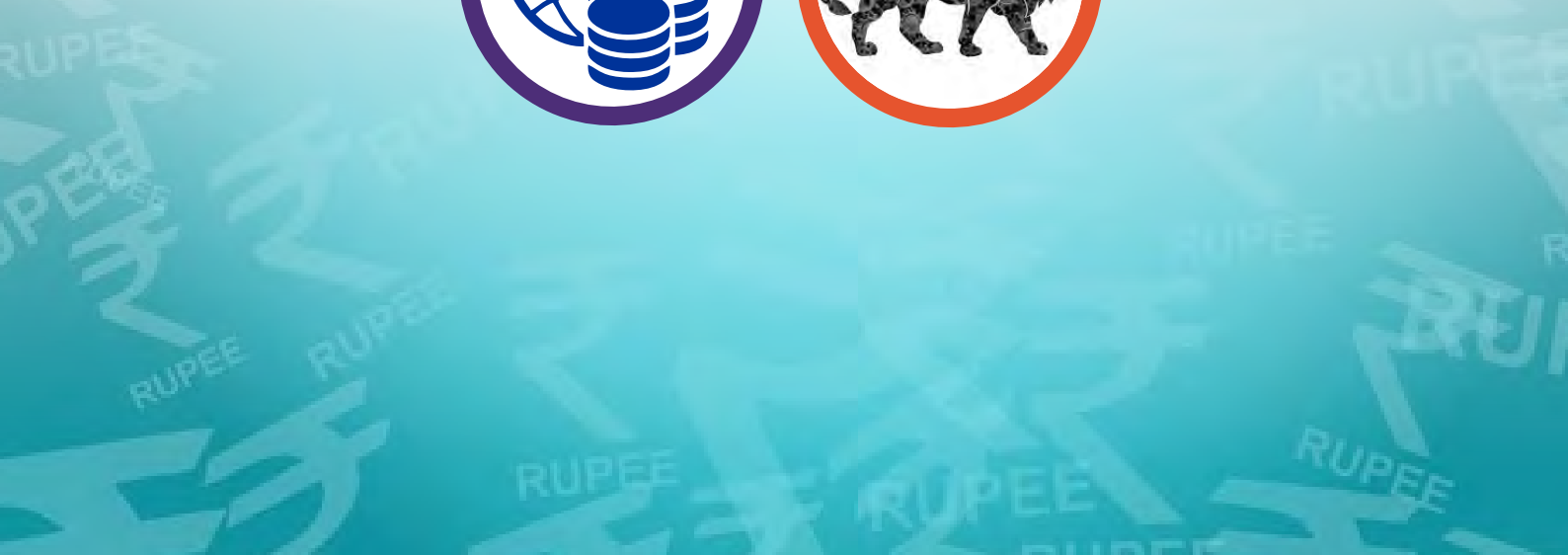
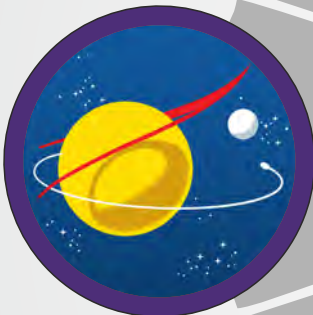
Minimum
Government
Maximum
Governance



UNION BUDGET REVIEW



2019-20



Union Budget 2019-20 Review

Finance Minister Ms. Nirmala Sitharaman presented her first maiden Budget of the re-elected Narendra Modi government in the Parliament for 2019-20. The Modi government presents their vision for next decade in Budget 2019-20. Ms. Nirmala Sitharaman's maiden Budget gave an indication of development of the infrastructure sector in the country and further opening up the economy to FDI. We believe this Budget also focused on resolving problems faced by stress related sectors such as housing, financial, MSMEs, water, and rural. Further, the domestic economy has reached \$2.7 trillion in 2018-19 from \$1.85 trillion in 2013-14. Moreover, the government is hopeful that the domestic economy has full capacity to reach \$5 trillion economy in the next few years led by virtuous cycle of investment, and it will become \$3 trillion economy in the current year itself.

Budget Estimates (INR Cr)

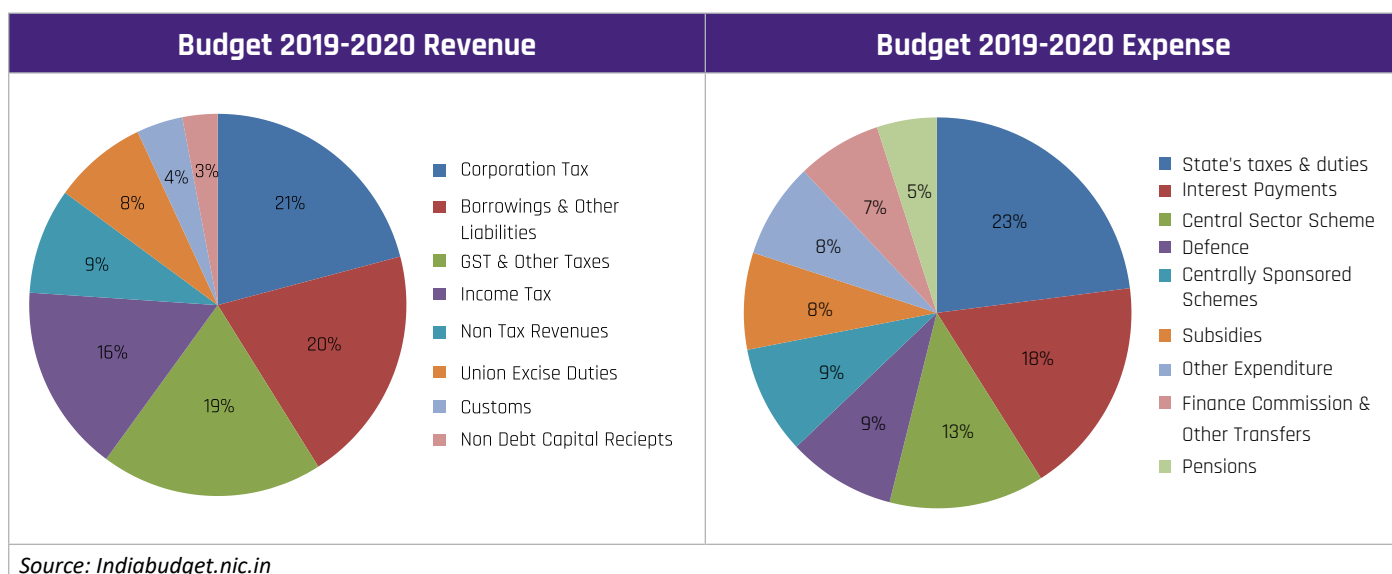
Particulars	BE 2018-2019	RE 2018-2019	BE 2019-2020
Revenue Receipts	1725738	1729682	1962761
Capital Receipts	92199	93155	119828
Total Receipts	1817937	1822837	2082589
Revenue Expenditure	2141772	2140612	2447780
Capital Expenditure	300441	316623	338569
Total Expenditure	2442213	2457235	2786349
Fiscal Deficit	624276	634398	703760
Fiscal Deficit (% of GDP)	3.3	3.4	3.3

Source: indiabudget.nic.in

Key Sector wise Expenditure (INR Cr)

Sectors	RE 2018-2019	BE 2019-2020
Agriculture & Allied Activities	86602	151518
Commerce & Industry	28394	27043
Education	83626	94854
Health	55949	64999
Rural Development	135109	140762
Social Welfare	46492	50850
Transport	145399	157437
Urban development	42965	48032

Source: indiabudget.nic.in



Sector highlights of Union Budget 2019-20

Auto

- GST on Electric Vehicles lowered from 12% to 5%, to encourage manufacturing within the country under Make In India.
- An additional income tax deduction of Rs. 1.5 lakh on the interest paid on loan for purchasing Electric Vehicles has been proposed to encourage the demand.
- Under the Faster Adoption and Manufacture of Electric Vehicles (FAME) II scheme, the government had approved Rs. 10,000Cr in Interim Budget. Now, further subsidies are approved for the manufacture of solar energy storage and photo voltaic cells. Electric two-wheelers below Rs. 1.5 lakh will be subsidised by Rs. 20,000 per vehicle and three wheelers of Rs.5 lakh will be subsidised by Rs. 50,000. Electric cars that are priced up to Rs. 15 lakh and made in India will get subsidy of Rs.1.5 lakh.
- Special additional duty and road and infrastructure cess on diesel and petrol to be increased by Rs.2/ litre.
- GST on transportation of natural gas, petroleum crude, petrol, high speed diesel through pipeline, where input tax credit (ITC) is availed is reduced to 12% from 18%.

Stock to watch will be Ashok Leyland, Tata Motors, Mahindra & Mahindra, Bajaj Auto, Hero MotoCorp

Aviation

- India is the third largest domestic aviation market globally. The government is focusing to develop it as a self-reliant aviation industry.
- It is proposed to leverage engineering advantage to form a Maintenance, Repair, and Overhaul (MRO) ecosystem. This will create job opportunities as well.
- Aircraft financing and leasing activities would be enhanced.
- GST on transportation of aviation turbine fuel through pipeline is proposed to reduce to 12% from 18%.

Stock to watch will be Interglobe Aviation, Spice Jet

Banking & Financial

Finance Minister Ms Nirmala Sitharaman has clearly understood the importance of stable financial sector for an economy & hence announces slew of measures to fix the problem of financial system.

- Allocation of Rs 70000cr capital boost to PSU bank credit growth for strong impetus to the economy.
- Return of regulatory authority from NHB to RBI proposed, over the housing finance sector.
- Government will provide Rs 1lac cr for one time six months' partial credit guarantee to Public Sector Banks to purchase high rated pooled assets of financially sound NBFCs for first loss of up to 10%.
- NBFCs which do public placement of debt have to maintain a Debenture Redemption Reserve (DRR) and in addition, a special reserve as required by RBI, has also to be maintained.
- Requirement of creating a Debenture Redemption Reserve will be done away with to allow NBFCs to raise funds in public issues.
- TDS of 2% on cash withdrawal exceeding Rs. 1 crore in a year from single bank account.

Stock to watch will be SBIN, BOB, Indian Bank, Union Bank, Canara Bank, HDFC Ltd, M&M Fin, LIC Housing, L&T Fin

Capital Market

- Finance Minister Nirmala Sitharaman proposed to extend the buyback tax at 20% to listed companies.
- Have proposed SEBI to consider raising public-holding in listed companies to 35% from 25%.
- Budget propose to give relief in levy of Securities Transaction Tax (STT) by restricting it only to the difference between settlement and strike price in case of exercise of options
- Budget proposes to increase the statutory limit for FPI investment in a company from 24% to sectoral foreign investment limit.
- A social stock exchange to be set up to list social enterprises and voluntary organizations working for social welfare.
- Trading in corporate bonds would be made user-friendly
- To merge NRI portfolio route with FPI route to increase more NRI portfolio flows into India

- Electronic fund raising platform under the regulatory ambit of SEBI
- Know Your Customer (KYC) norms for Foreign Portfolio Investors to be made more investor friendly.
- Government to supplement efforts by RBI to get retail investors to invest in government treasury bills and securities, with further institutional development using stock exchanges.

Stock to watch will be TCS, Avenue Supermart, Siemens, P&G, OFSS, Wipro, HUL, Bandhan bank, DLF

Defence

- To modernize and upgrade Defence, specified military equipment and their parts imported by Ministry of Defence or Armed forces will be exempted from the basic customs duty.
- To emphasis on more of defence related manufacturing under Make India.

Stocks to watch: Cochin Shipyard, BEL, Hindustan Aeronautics, Bharat Dynamics

Divestment

- For FY20, the government has set a disinvestment target to Rs. 1.05 Lakh Crore, up 16% from last year's revised collections. During FY19, the government received Rs.85,000Cr against the target of Rs.80,000Cr.
- ETFs have proved to be a good instrument for divestment programme. Therefore, the government plans to offer an investment option in ETFs on the lines of ELSS. This would also encourage long term investment in CPSEs.

Stocks to watch: All PSUs

Education

Looking at the stress faced by real estate sector due to high inventory and RERA implementation, Interim FM also announces slew of measure in Interim Union Budget 2019-20, which include:

- New National Education Policy to be brought which proposes major changes in both school & higher education
- Allocated Rs 94853cr for education sector in 2019-20, an increase of almost Rs 10,000cr on YoY basis.
- Of the total Rs 94853cr education budget, Rs 56536cr has been pegged for the school sector and rest Rs3 8317 cr has been allocated to the higher education.
- An amount of Rs 400 crore has been provided under the head, "World Class Institutions", for FY 2019-20, more than three times the revised estimates for the previous year.
- Propose to start a programme, 'Study in India', that will focus on bringing foreign students to study in our higher educational institutions.
- National Sports Education Board for development of sportspersons to be set up under Khelo India, to popularize sports at all levels.
- To prepare youth for overseas jobs, focus to be increased on globally valued skill-sets including language training, AI, IoT, Big Data, 3D Printing, Virtual Reality and Robotics.

Stock to watch will be Navneet Education, Aptech Ltd, MPS Ltd, JK Paper, Repro India

FDI

- India's FDI inflows in FY19 remained strong at US\$ 64.375 billion, up 6% YoY despite the global headwinds. The government plans to increase FDI across sectors to enlarge economic growth.
- It is suggested to open up FDI in aviation, media (animation,AVGC), and insurance sectors.
- 100% FDI will be permitted for insurance intermediaries, which would bring in international exposure in terms of technology and innovative products
- Local sourcing norms will be eased for FDI in Single Brand Retail sector.
- Relaxation of FDI restrictions on certain sectors, easier KYC norms for FPIs and external borrowing is a positive for foreign flows.

Stocks to watch: All aviation and insurance companies

Infrastructure Push

Reiterating that infrastructure sector is the backbone of domestic economy, Finance Minister Ms Nirmala Sitharaman announces Rs 100 lakh crore for infrastructure sector in next 5 years.

- India requires investment averaging Rs 20lac crore every year for sustainable economic growth
- Eligible beneficiaries to be provided 1.95 crore houses with amenities like toilets, electricity and LPG connections during its second phase (2019-20 to 2021-22).
- "Credit Guarantee Enhancement Corporation" to be set up in 2019-2020.
- Action plan to be put in place to deepen the market for long term bonds with focus on infrastructure.
- State road networks to be developed in second phase of Bharatmala project.
- Blueprints to be made available for gas grids, water grids, i-ways, and regional airports.
- For PMGSY-III, to upgrade 125,000kms of road length over the next five years, with an estimated cost of 80,250 crore.
- National Highway Programme to be restructured to ensure a National Highway Grid, using a financeable model.
- Rs. 50 lakh crore investments needed in Railway Infrastructure during 2018-2030.
- Public-Private-Partnership proposed for development and completion of tracks, rolling stock manufacturing and delivery of passenger freight services.
- In the second phase of PMAY, during 2019-20 to 2021-22, 1.95 crore houses are proposed to built. These houses are also being provided with amenities like toilets, electricity and LPG connection.
- Higher investment in suburban railways through SPV like Rapid Regional Transport System.

Stock to watch will be L&T, KEC Intl, ITD Cementation, Ultratech Cement, JK Cement, Heidelberg cement, Container Corporation, Adani Ports, Titagarh Wagon

Power

- To implement 'One Nation One Grid' in the power sector for the availability of power to all states at affordable prices.
- A package of power sector tariff and structural reforms would soon be announced.
- Cross subsidy surcharges, undesirable duties on open access sales or captive generation for industrial and other bulk power consumers to be removed under Ujjwal DISCOM Assurance Yojana (UDAY).
- Low utilization of gas based power plants due to paucity of natural gas would be taken up for implementation.
- To examine performance of UDAY scheme & it will be further improved.

Stock to watch will be Power Grid, NTPC, Kalpataru Power, KEC Intl, KEI Ind, Crompton Greaves, Vguard, Havells India, Polycab India

Rural India / Grameen Bharat

Ms Nirmala Sitharaman reiterated the government's commitment to the welfare of farmers and doubling farmers' income by 2022. Keeping this in mind, Budget 2019-20 announces a slew of measure for Goan, Garib, and Kisan.

- Ujjwala Yojana and Saubhagya Yojana have transformed the lives of every rural family, dramatically improving ease of their living.
- Electricity and clean cooking facility to all willing rural families by 2022.
- Pradhan Mantri Awas Yojana aims to achieve "Housing for All" by 2022.
- Zero Budget Farming in which few states' farmers are already being trained to be replicated in other states also.
- A robust fisheries management framework through "Pradhan Mantri Matsya Sampada Yojana" to be established by the Department of Fisheries.
- Allocation under MGNREGA increased by 9% to Rs 60000cr in FY20 from Rs 55000cr in FY19
- Allocation under Pradhan Mantri Gram Sadak Yojana increased by 22.6% to Rs 19000cr in FY20 from Rs 15500cr in FY19.
- Swatch Bharat Mission to undertake solid waste management in every village.
- Scheme of Fund for Upgradation and Regeneration of Traditional Industries' (SFURTI)
- 100 new clusters to be setup during 2019-20 with special focus on Bamboo, Honey and Khadi, enabling 50,000 artisans to join the economic value chain.
- 75,000 entrepreneurs to be skilled in agro-rural industry sectors.
- Government to work with State Governments to allow farmers to benefit from e-NAM.

Stock to watch will be M&M, HeroMotocorp, HUL, Britannia, Dabur, Marico, Apex Frozen, Avanti feeds, Rallis India, UPL

Water

- A new ministry, Jal Shakti Mantralaya has been formed integrating the Ministry of Water Resources, River Development and Ganga Rejuvenation and Ministry of Drinking Water and Sanitation. This ministry will manage water resources and supply in integrated manner, ensuring water security and access to clean drinking water to all regions. The government has identified 1592 Blocks, which are critical and over exploited, spread across 256 District for the Jal Shakti Abhiyan.
- "Jal Jeevan Mission" will focus on integrated demand and supply side management of water at the local level, developing local infrastructure for rainwater harvesting, groundwater recharge, and management of household wastewater for reuse in agriculture.
- "Har Ghar Jal" scheme under Jal Jeevan Mission targets to supply piped water to all rural households by 2024.
- "Jal Marg Vikas" project will augment capacity for navigation on National Waterways, boosting inland water transportation. It will improve logistics reducing the transportation cost and increasing the competitiveness of domestically produced goods. Cargo movement in Ganga is expected to increase by 4 times in next 4 years.

Stocks to watch: VA Tech Wabaag, Ion Exchange, APL Apollo Pipe, Indian Hume Pipes, Finolex Industries

MSME

The Finance Minister has announced various measures to boost MSME sector in order to lift job creations in the system & spur consumption demand. Following are the slew of measures:

- For ease of access to credit for MSMEs, Government has introduced providing of loans up to 1 crore for MSMEs within 59 minutes through a dedicated online portal.
- Levy of 25% corporate tax rate for company's turnover up to Rs 400cr from earlier level of Rs 250cr.
- Under the Interest Subvention Scheme for MSMEs, Rs 350 crore has been allocated for FY 2019-20 for 2% interest subvention for all GST registered MSMEs, on fresh or incremental loans.
- Payment platform for MSMEs to be created to enable filing of bills and payment thereof, to eliminate delays in government payments.
- Small retailers with an annual turnover of less than Rs 1.5 crore will get pension benefit under the Pradhan Mantri Man Dhan Yojna. More than 3 crore shop owners will benefit for the scheme.

Startup

- No angel tax for startups registered with the government. Funds raised by starts-up to not attract I-T scrutiny.
- Valuation of shares issued to category II AIF will not see I-T scrutiny
- Capital gains exemption for realty sale for start up capital extended to FY21-end.

Particulars	Impact	Stock in Focus
Direct Taxes:		
Affordable housing		
Additional deduction up to Rs. 1.5 lakhs for interest paid on loans borrowed up to 31st March, 2020 for purchase of house valued up to Rs. 45 lakh. Overall benefit of around Rs. 7 lakh over loan period of 15 years.	Positive for housing finance companies as borrowing will increase. It is also positive for real estate developers	LIC Housing Finance, HDFC Ltd, PNB Housing, Can Fin homes, Mahindra Lifespace, Prestige Estate etc
NBFCs		
Interest on certain bad or doubtful debts by deposit taking as well as systemically important non-deposit taking NBFCs to be taxed in the year in which interest is actually received which was earlier taxed on accrual basis.	Positive for NBFCs	HDFC, L & T Fin, M&M Fin
Indirect Taxes:		
Increase of custom duty on gold and other precious metals from 10 % to 12.5 %	Negative for Jeweller manufacturers and retailer	Titan co, PC Jeweller, Vaibhav Global & Tribhovandas Bhimji Zaveri
Levy of 10 % custom duty on Newsprint, Uncoated paper used for newspapers & Lightweight coated paper used for magazines	Negative for Media companies	D B corp, HT Media, Jagran Prakashan
Increase of custom duty on Indoor and outdoor unit of split system air conditioner from 10 % to 20 %	Positive for Consumer Durable	Amber and Dixon Tech
	Negative for companies which, import Air conditioners	Havells (Lloyd), Voltas and Blue star
Increase of Fertilizer subsidy from Rs.70,125 Crore to Rs. 80,035 Crore	Positive for fertilizer companies	Chambal Fert, RCF, Coromandel Inter
Increase of custom duty on Optical Fibres, optical fibre bundles and cables from 10 % to 15 %	Positive for Optical fibre companies	Sterlite Tech, Birla Cable, Vindhya Telelink
Hike of custom duty on Glass mirrors, locks, horns, air filter, wiper, etc.	Positive for Auto ancillary	Minda Ind, Minda Corp, Fiem ind, Lumax Ind
Levy of 7.5% Custom duty on Palm Oil	Negative for FMCG	HUL and Godrej consumer
Increase of custom duty on Ceramic roofing tiles and ceramic flags and pavings, hearth or wall tiles etc from 10 % to 15%	Positive for Tiles manufacturer	Kajaria ceramics, Cera Sanitary and Somany Ceramic
Hike of custom duty on Stainless steel products from 5 % to 7.5 %	Positive for stainless steel companies	Jindal Stainless
Increase of custom duty on Butyl Rubber, Chlorobutyl rubber or Bromobutyl rubber from 5 % to 10 %	Negative for Tyre Companies	Tyre companies
Increase of Excise duty on Petrol from Rs.17.98 to Rs.18.98 & increase of Road & Infra cess from Rs. 8 to Rs.9	Negative for Oil marketing companies	IOCL, BPCL, IOC, Reliance Industry
Increase of Excise duty on Diesel from Rs.13.83 to Rs.14.83 & increase of Road & Infra cess from Rs. 8 to Rs.9		

For Individual:

- In Union Budget 2019 -2020 Income tax slabs and rates remain unchanged however in case of an individual, an enhanced surcharge of 25 % is leviable on taxable income exceeding Rs. 2 Crore till Rs. 5 Crore and 37 % on taxable income exceeding Rs. 5 Crore.

Source: indiabudget.nic.in, ACMIL Research

ACMIIL Retail Research

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