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BUDGET 2019

POST BUDGET IMPACT ANALYSIS 2019-20

1ST FEBRUARY 2019

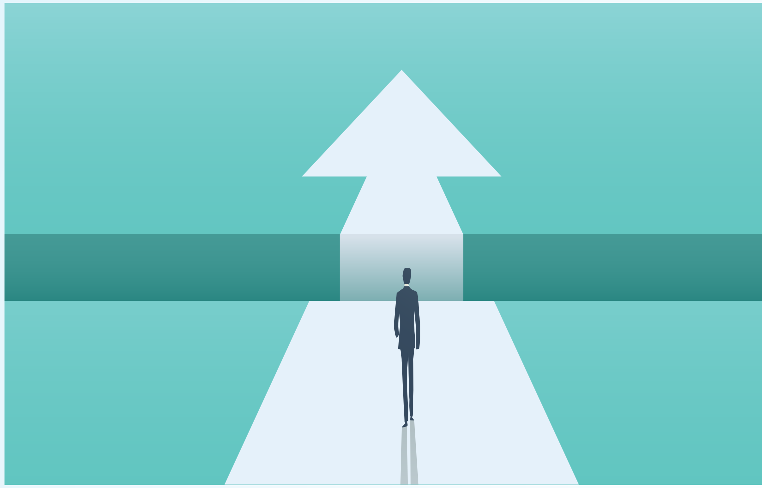
The Union Budget 2019-20 is better than what most economists expected, although it seemed to be drafted with the impending general elections in mind. The Finance minister in the first part of his speech expectedly focussed on claiming credit for what his Government has done in the past 4+ years.

The FY20 allocation towards direct income support to farming families - PM Kisan - at Rs.75,000 cr per annum is much less than expected, while dividend transfer from RBI is also not unusually high. Rural/Agri related measures require involvement of State Governments. Their implementation will depend on how far and soon the States come on board. How well will this be implemented and how far this package will make a difference to the farm distress and whether the current ruling alliance will be able to halt the reverses it has seen recently will need to be seen.

An income support scheme in lieu of things like price support or subsidized inputs is welcome. However, in this Budget proposal there is an additional amount paid directly to farmers without reducing indirect support. Therefore, it is not a move from less efficient schemes/subsidies that are being provided, to a better one. So whether this transfer would really translate into any sustainable/productive improvements in the rural sector remains questionable. Further there may be a clamor in future for increasing this amount, in which case the source of funding for the higher number may have to be found.

The series of income tax reliefs to the tax paying middle class is well received. This as well as the farmer income support package could boost consumption demand. Automobile and FMCG stocks were expectedly up in reaction to these measures.

Although there could be displeasure towards the high fiscal deficit target for FY20 at 3.4%, given the global slowdown fears and liquidity issues in India, we think at this point this is a fair target, though one would have ideally liked a lower target.



The possible challenges in achieving the targeted fiscal deficit for FY20 include:

- GST receipts for the centre have fallen short of the budget estimates for FY19 by about Rs 1 trillion. However, the Budget assumes an increase of around Rs 1.2 trillion for FY20 over FY19's revised estimates.

- Non-corporate income tax projections are projected to grow at 17.2% for FY20 (on the top of 26.9% growth in FY19). However, the exit of a large number of taxpayers from the net due to the new income tax exemptions introduces an element of doubt about next year's collections. Adjusting the Rs.23,000 cr revenue foregone from the base, the non-corporate income tax is expected to rise 22.7% which is a stretch.

- The budget has targeted disinvestment receipts of Rs 90,000 cr for FY20 on the back of Rs 80,000 cr for FY19. The divestment collections till end of Jan 2019 are Rs 36000 cr.

- Total expenditure has risen to show a 14.7% increase in FY19 RE, higher than the 10.1% assumed in the budget estimates. While the FY20's budget projects a lower growth rate of 13.3% for the overall expenditure, the political and economic realities may push it way higher, as the case turned out to be in FY19.

From a money market perspective, the government has missed its fiscal deficit target of 3.3% for FY19 by 0.1%. While that is not a big calamity, it is the second year in a row that the government has missed its target. Besides, the finance minister has kept the deficit at 3.4% for FY20 instead of even trying to reduce it. Does this have the makings of a reversal in the path with prudence being abandoned?

If yes, this revives the risk of rising inflation and interest rates in the medium term. The international rating agencies are also unlikely to be happy with this development. The government plans to fund its fiscal deficit (and repayments of past borrowings) for FY20 by issuing Rs 7.1 trillion of fresh bonds (24% higher than the estimated figure for FY19 and the highest increase in market borrowings since the fiscal stimulus phase of 2008-10 (global financial crisis)). This is up a whopping Rs 1.4 trillion from FY19's amount. The reassuring part though is that the net borrowings are flat at Rs.4.8 trillion, though this figure may be exceeded by the end of the year.

The benchmark 10-year yield rose by around 13 bps on 1st Feb. Short-term relief, if any, could come on account of two factors – a rate cut by the RBI and a possible fall in the global crude oil prices.

The outstanding internal and external debt and other liabilities of the Government of India at the end of FY20 is estimated to amount to Rs. 97.97 trillion as against Rs. 90.56 trillion at the end of FY19 (RE). Interest payment at Rs.6.65 trillion in FY20 will be ~24% of total receipts of the Government.

We hope that this straying from the prudence path may be temporary due to political compulsions.

Reaction of FIIs and international credit rating agencies to the Budget provisions will be keenly watched. However, we feel that this Budget may not cause any heartburn or major disappointment. The markets will, over the next few days, take their own trajectory (based on other triggers – local and foreign) after this small time window of anticipation of and reaction to the Budget.

Given below is a gist of measures announced in the Budget impacting-

• Agrarian sector • Tax paying middle class • Real estate sector and other

Agrarian Sector

Announcement: The Finance Minister announced **"Pradhan Mantri Kisan Samman Nidhi"** scheme to provide direct income support of Rs 6,000 per year to farmers with land holding up to two hectares, which would benefit about 12 crore people. This income support will be transferred directly into the bank accounts of beneficiary farmers, in three equal instalments of Rs 2,000 each.

Impact: Additional income for farmers could increase demand for agrochemicals, two wheelers, farm equipment, seeds, fertilizer and consumer goods. This scheme could also help agri-associated businesses like poultry, animal; husbandry, horticulture etc.

Announcement: The Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGA) scheme has been provided Rs 60,000cr in FY20 and more funds will be poured in if required.

Impact: Allocation for the MGNREGA, the world's largest job-creation scheme has increased 9% to Rs 60,000cr, though it remained 1.8% lower that the revised estimates of Rs 61,084cr.

Announcement: Increased the allocation to Rs 750cr for Animal Husbandry and Fisheries sector under Rashtriya Gokul Mission, and decision to create a separate Department of Fisheries.

Impact: Government measure to develop and conserve indigenous breeds of cattle to enhance production and productivity of cows is positive for dairy sector. India is the second-largest fish-producing nation, accounting for 6.3 percent of the total global production with an annual growth of over 7 percent in recent years. By creating a separate department of fisheries government can bring attention for financial support and promotion.

Announcement: Government allocated Rs 19,000cr under Pradhan Mantri Gram Sadak Yojana (PMGSY) vs. Rs 15,500cr in the previous RE budget.

Impact: This can trigger consumption wave with increased demand for automobile, FMCG, and building materials. Easy access to market could help farmers to increase its farm income.

Announcement: National Disaster Relief Fund will provide interest subvention-interest subsidy to farmers on short-term credit--of 2%, and prompt-repayment incentive of 3% for the entire period of loan re-schedulement.

Impact: All farmers affected by severe natural calamities under National Disaster Relief Fund will get an incentive of 3 percent on repaying their loans on time. This will be in addition to the 2 percent interest subvention that they get now. This is positive for farmers.

Announcement: The benefit of 2 percent interest subvention will be provided to the farmers under Kisan Credit Card scheme (KCC) pursuing activities of animal husbandry and fishery who avail of a loan through the Kisan Credit Card (KCC). Further, in case of timely repayment of loan, they will get 3 percent additional interest subvention.

Impact: It could promote animal husbandry and fishery activities because of easy access to financial institutions. Apart from this, timely repayment of loan could reduce the risk of provisioning going forward.

Taxpaying Middle Class

Announcement: Announcement of full tax rebate for individual taxpayers with annual taxable income up to Rs 5 lakh u/s 87A of the Income Tax Act due to which such taxpayers will save income tax of Rs.12,500 per year.

Impact: The tax rebate announced would benefit as many as 3 cr million middle class taxpayers, the deduction under Section 80C has been kept constant at Rs 150,000. This rebate will raise demand for FMCG products, as tax rebate will improve the disposable income. This might also fuel the inflation rate in future, if not handled carefully.

Announcement: The government has raised standard tax deduction for salaried persons from Rs 40,000 to Rs 50,000 per year. TDS threshold on rental income has also been raised to Rs 2.4 lakh from Rs 1.8 lakh. TDS threshold on interest earned on bank/post office deposits has been raised from Rs 10,000 to Rs 40,000.

Impact: For salaried persons, the announcement of standard deduction increase will provide additional tax benefit of Rs 4,700 cr to more than 3 cr salary earners and pensioners. Per tax payer it would amount to Rs.500 to Rs.3,000 + surcharge and cess depending on the tax slab. Currently, income tax on notional rent is payable if one has more than one self-occupied house. The government has exempted levy of income tax on notional rent on a second self-occupied house.

The TDS announcements is going to positively impact the small depositors, nonworking spouses and small taxpayers from the hassles of filing forms and/or claiming refunds.

Announcement: Under section 54 of Income Tax Act, where previously, the capital gains (upto Rs.2 cr) were allowed to be invested in only one property, now the investment can be made in two residential properties.

Impact: This would help taxpayers who want to shift from one house to two houses due to family split (or any other reason) to avail tax exemption. This is available once in a lifetime.

Real Estate

Announcements: The Union Budget 2019-20 has given some relief to the real estate industry which has been grappling with low demand. The Finance Minister (FM) reaffirmed the government's intentions to provide housing for all by 2022.
Certain tax sops have been granted to the real estate players which include:

- Extension of time period upto March 2020 for approval of projects (affordable housing) under section 80-IBA to claim 100% tax exemption on profits from such projects;
- No taxing of notional rent earnable on residential units held as stock in trade upto a period of 2 years (against 1 year previously);

Tax sops have also been granted to home-buyers incentivising them to invest in new properties:

- Individuals, who were required to pay taxes on notional rent on the second of the two self-occupied residential properties, are now not required to pay taxes on such notional income upto a total of two self-occupied house properties.
- Also, FM has permitted investment of capital gains upto Rs 2cr in two residential properties as against one property permitted previously (section 54 of Income Tax Act).

Impact:

- Government maintaining its focus on housing for all is a positive move for the real estate sector in the coming two fiscals.
- Under section 80-IBA of income tax act, prior to finance bill 2019, companies undertaking and getting approved housing projects (affordable housing) before March 2019 were allowed to claim full tax exemption on profits from such benefits. Realizing the need to boost the slowing growth in the real estate sector and its persisting liquidity issues on account of Housing Finance Companies' liquidity squeeze, GoI has extended the period for approval of such tax exempt projects. This step is expected to not only boost the profitability of the sector but also to increase its activities – in turn resulting in better operational environment for derived industries like construction, building materials, cement, etc.
- Under section 23 of Income Tax Act, 1961, GoI has now allowed real estate players to hold ready to sale residential units (held as stock in trade) for upto two years without payment of tax on notional income of such residential units. This will improve the profitability of major real estate players.
- Individuals are now permitted to hold and self-occupy upto two residential properties without paying tax on any notional rent incomes. This will induce more investments by the HNIs and help revive the lost interest in real estate sector due to demonetisation/liquidity freeze.
- Under section 54 of Income Tax Act, where previously, the capital gains were allowed to be invested in only one property, now the investment can be made in two residential properties. This is another demand driver for the sector and sectors deriving demand from real estate.

Positive for sectors:
Real estate, construction, building materials, cement, banks/NBFCs/HFCs (having exposure to real estate) are expected to benefit.

Others

Defence, rail and infra allocations:

- The FM for the current year has announced a hike of about Rs 20000cr in its defence budget allocation to Rs 3.05 lakh cr which is the highest ever allocation to defence segment. Of above about Rs 1.03 lakh cr is towards capex, which may not be sufficient, but will surely help the DPSUs and some private players in the defence industry.

- Following the trend set in past years, FM announced a whooping Rs 4.58 lakh cr for infrastructure spend including allocations towards roadways, railways, shipping and aviation. Despite allocating Rs 19000cr (against Rs 15500cr in FY19) for PMGSY, roads as a whole received a relatively lower hike in allocation for FY20. Roads, especially built in rural areas will boost the economy with growing trade, booming automobiles segment, growing logistics segment and better operational environment for cement and other building materials. FM allocated Rs 550cr for Sagarmala (as against Rs 381cr in FY19) indicating urge to expand on its vision of blue economy and taking full benefit of available long coastline and inland water-bodies. This will help the ports, logistics and ship building industry in the nation.

- FM has allocated about Rs 1.58 lakh cr for the railways capex (as against Rs 1.48 lakh cr allocated in last year), the highest ever for the national transporter, in an effort to put its flagging revenues back on track. The operating ratio, a measure of Indian Railways financial health, improved and further improvement is being eyed from 96.2% to 95% expected in FY20. We expect these benefits to major railways serving industries and companies.

Entertainment industry benefits and Digital villages:

Single window clearance for film making to domestic players and increased anti-piracy measures for films will aid the movie makers as well as multiplex operators. The higher level impact of said would be increased income for large workforce engaged in the industry and thus bettering consumption story in the country.

GoI aims at making at least one lakh villages digitally equipped called as "Digital Villages", which is a positive sign for telecom players and their volume growth story in tier two and tier three cities/villages.

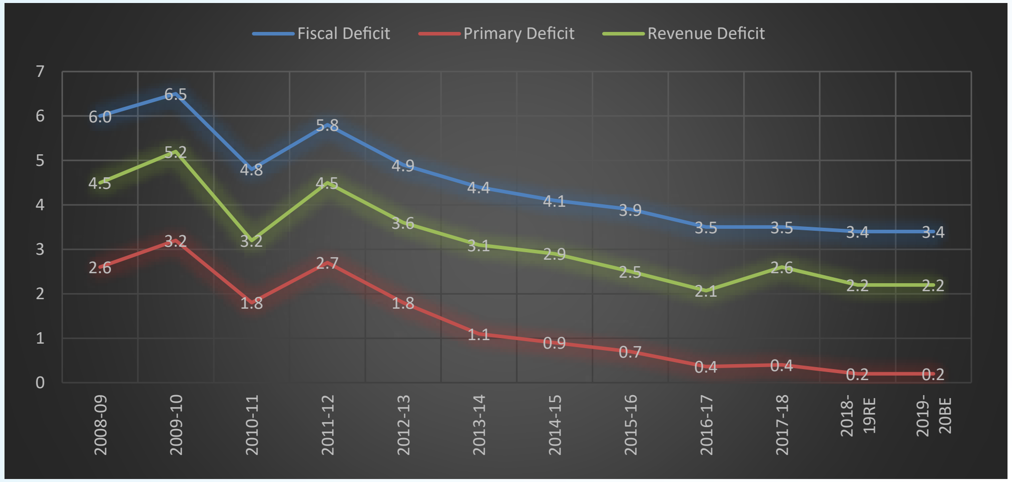
Announcement: Government announced to launch **'Pradhan Mantri Shram-Yogi Maandhan'** for the unorganised sector workers with monthly income of up to Rs 15,000. This pension yojana shall provide them an assured monthly pension of Rs 3,000 from the age of 60 years. To avail the facility, an unorganised sector worker is required to contribute a minimum amount of Rs 100 (if he joins at the age of 29), and Rs 55 (if he joins at the age of 18) per month, till he attains the retirement age of 60.

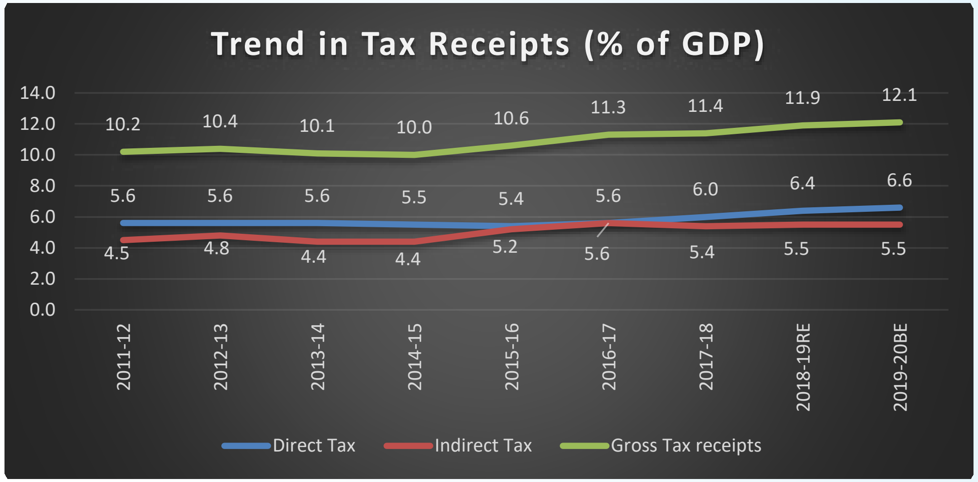
Impact: Up to 90% of India's workforce are currently employed in the informal sector (employed as domestic help, drivers or construction workers) and have a non-contractual relationship with their employer. Thus far, they have had almost no social security or benefits. Modi government expects to cover up to 10 cr (100 million) workers to sign up for the scheme. An amount of Rs 500 cr has been allocated for the Scheme, and would be implemented from the current year.

Government Finances:

Particulars	Rs Crore				% change		
	FY18 Actual	FY19BE	FY19RE	FY20BE	FY19RE vs FY18A	FY19RE vs FY19BE	FY20BE vs FY19RE
Revenue Receipts	1,435,233	1,725,738	1,729,682	1,977,693	20.5%	0.23%	14.34%
Tax Revenue (Net to Centre)	1,242,488	1,480,649	1,484,406	1,705,046	19.5%	0.25%	14.86%
Non-Tax Revenue	192,745	245,089	245,276	272,647	27.3%	0.08%	11.16%
Capital Receipts	706,742	716,475	727,553	806,507	2.9%	1.55%	10.85%
Recoveries of Loans	15,633	12,199	13,155	12,508	-15.9%	7.84%	-4.92%
Other Receipts	100,045	80,000	80,000	90,000	-20.0%	0.00%	12.50%
Borrowing and Other Liabilities	591,064	624,276	634,398	703,999	7.3%	1.62%	10.97%
Total Receipts (1+4)	2,141,975	2,442,213	2,457,235	2,784,200	14.7%	0.62%	13.31%
Total Expenditure (10+13)	2,141,975	2,442,213	2,457,235	2,784,200	14.7%	0.62%	13.31%
On Revenue Account	1,878,835	2,141,772	2,140,612	2,447,907	13.9%	-0.05%	14.36%
Interest Payments	528,952	575,795	587,570	665,061	11.1%	2.04%	13.19%
Grants in Aid of creation of capital assets	191,034	195,345	200,300	200,740	4.9%	2.54%	0.22%
On Capital Account	263,140	300,441	316,623	336,293	20.3%	5.39%	6.21%
Revenue Deficit (10-1)	443,602 (2.60%)	416,034 (2.20%)	410,930 (2.20%)	470,214 (2.20%)	-7.4%	-1.23% 0.00%	14.43% 0.00%
Fiscal Deficit [9-(1+5+6)]	591,064 (3.50%)	624,276 (3.30%)	634,398 (3.40%)	703,999 (3.40%)	7.3%	1.62% 0.10%	10.97% 0.00%
Primary Deficit (15-11)	62,112 (0.40%)	48,481 (0.30%)	46,828 (0.20%)	38,938 (0.20%)	-24.6%	-3.41% -0.10%	-16.85% 0.00%
GDP nominal terms	16,784,679	18,547,070	18,849,721	21,017,439	12.3%	1.63%	11.50%

Government Finances:





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