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INTERIM BUDGET 2019 REVIEW

Fiscal Slippage a much needed fiscal stimulus

Fiscal deficit for FY19 at 3.4% was below estimates while FY20 fiscal deficit at 3.4% was above estimate.

As expected, this interim Budget turned out to be much more than expected. There was a fiscal slippage in FY19 to 3.4% against budgeted estimates of 3.3%, though it was less than market estimates of 3.5%. However, fiscal deficit for FY2020 at 3.4% was ahead of market estimates and significantly ahead of 3.1% as mandated by the FRBM Act.

Expansionary budget would stimulate growth without stoking inflation

We believe that tight fiscal and monetary policy over the past few years coupled with major structural changes have taken a toll on growth and the dynamics are not conducive for an inflationary environment. On the contrary, we believe that slippage of 30bps for FY20 (in relation to FRBM mandated rate) was a much needed fiscal stimulus and would actually go a long way in addressing the current rural distress and stimulating growth without stoking inflation.

Budget was focused on addressing agri distress

The interim Budget was rural focused, which was on the expected lines, given the recent loss by the incumbent government in some of the key states like Rajasthan, Madhya Pradesh and Chhattisgarh. One of the primary reasons for the losses in the assembly elections was anger against the incumbent government for failing to address agri distress effectively.

Farm income support a better and more effective scheme then conventional measures like price support.

For the first time an income support scheme was introduced as conventional measures like MSP hikes and farm loan waivers have proved to be ineffective against addressing agri distress. Under the Pradhan Mantri Kisan Samman Nidhi (PM-KISAN) scheme, the government will transfer ₹6,000 per year to small & marginal farmers in three equal installments. The government has already allocated ₹20,000cr to the scheme for FY2019, while the budgeted outlay for the scheme is ₹75,000cr for FY2020.

This is over and above other subsidies like fertilizer and food wherein budget outlays have also increased for FY2020. The PM-KISAN scheme along with increased outlay in other schemes should address the issue of agri distress to some extent in FY2020 and we believe that the outlay for the scheme would increase and may subsume other schemes going forward.

Buoyancy in tax collections is heartening

The government was able to achieve fiscal deficit target of 3.4% in FY2019 without resorting to any major off balance sheet spending like that in FY2018.

Tax revenue growth at 1.64x GDP growth in FY19

Gross tax revenues grew by 17.2% against nominal GDP growth of 10.5%, which translates to tax buoyancy of 1.64x and is pegged at 1.23x for FY2020. We believe that with most GST related issues and rate cuts behind, government would be able to meet fiscal targets for FY2020 even if GDP growth is slower than budgeted 11% or there is some shortfall in disinvestments targets.

Farm package along with tax changes to stimulate growth

Given that inflation is expected to remain well below RBI's mid range of 4% in FY2020, there is a real likelihood of nominal GDP growth coming in below expected growth rate of 11%. The farm package along with marginal changes in personal tax would provide a much needed fiscal stimulus in the backdrop of slowing nominal GDP growth.

Key Budget Highlights

FY19 Fiscal deficit within market expectations

The FM has revised FY2019 fiscal deficit target to 3.4% and set a target of 3.4% for FY2020, which is higher than the earlier target of 3.3% for FY2019 and 3.1% for FY2020. Slippage for FY2019 has come in below market expectations of 3.5%, though FY2020 budget estimates are above market expectations of 3.3%. Slippage in FY2020 is largely on account of PM-KISAN.

Along expected lines, there is a shortfall of ₹100,000cr in GST collection for the centre, which was partially on account of rate cuts and partially due government going slow on compliance measures. Shortfall in GST collections was partially offset by other indirect taxes ₹26,833cr, corporate tax ₹50,000cr and lesser devolution to states ₹23,067cr. As a result, net tax revenue to centre was ahead of budget estimates by ₹3,757cr. Shortfall in dividends from PSUs and Telecom revenues would be made up from additional interim dividend from the RBI.

The government has not resorted to off balance sheet funding or expenditure compression as was feared. Only some portion of petroleum subsidy has been rolled over to FY2020, which does not make any material difference to FY20 budget numbers. Overall tax revenues were good, considering the slip in nominal GDP growth to 10.5% against expectations of 11.3%.

FY20 Fiscal deficit and borrowing numbers ahead of market estimates

While fiscal deficit & gross borrowing numbers are well within market expectations, bond markets are a bit worried about issuances in FY2020. Fiscal deficit at 3.4% of GDP is well ahead of glide path of 3.1% for FY2020. While net borrowing figures are manageable at ₹4.73 lakh cr, gross market borrowings are significant at ₹7.6l lakh cr in FY2020 against ₹5.71 lakh cr in FY2019. This is likely to spook the bond markets.

The government has clearly stated that focus would be to address rural distress in FY2020. In order to address the rural distress, the government announced the PM-KISAN scheme, which is over and above food & fertilizer subsidies. Against budget allocation of ₹46,700cr, the government is going to allocate ₹67,800cr to the department of agriculture this year, which is further going to increase to ₹129,585cr in FY2020. The sharp jump in allocation is largely on account of the PM-KISAN scheme.

However, the government needs to be credited for not resorting to below the line accounting just to show a better fiscal deficit number. We believe that the income transfer scheme was necessary to boost rural income and is a much better way to address rural distress then large MSP hikes and farm loan waivers.

Budget Math – Realistic and achievable

The tax-to-GDP ratio for FY2019 came in at 12.1% against budgeted estimates of 12% despite a shortfall in tax collection by ₹23,067cr. This was largely on account of GDP growth being lower at 10.5% against expected growth of 11.3%. Indirect taxes came in lower at 5.6% of GDP against budget estimates of 5.9% largely on account of shortfall in GST collections. This was however, made up by buoyancy in direct tax collections, which came in at 6.4% of GDP against BE of 6.1%.

We believe that government estimates for FY2020 are very reasonable and achievable with gross tax collections expected to grow at 13.5% yoy against a growth of 17.2% in FY2019. Net tax collections are expected to grow at 14.9% in FY2020. Indirect tax collections are expected to grow by 11.8% yoy marginally ahead of GDP estimates at 11.8% yoy with GST collections expected to grow by 18.2% yoy. We believe that most issues with GST have been ironed out and targets set for FY2020 are very much achievable. Direct tax growth at 14.9% yoy is also very much achievable, as the tax net is winding due to various initiatives taken by the government. Non-tax revenue growth of 11.1% is in-line with projected GDP growth of 11%.

While the government has managed to achieve their disinvestment targets for the past few years, the manner in which they are being achieved may not be convincing to some. Disinvestment targets for FY2020 have been pegged at ₹90,000cr, which we believe the government will achieve one way or the other.

Tax growth numbers for FY2019 was heartening at 1.64x of nominal GDP growth, which signifies increasing tax compliance. Tax growth for FY2020 is estimated at 1.23x nominal GDP growth. Even if there is some slippage on growth or shortfall in disinvestment targets, we believe that the government has room to achieve revenue receipt growth of 14.3%.

Exhibit 1: Key Fiscal indicators (% of GDP)

% of GDP	FY18A	FY19BE	FY19RE	FY120BE
Gross Tax Revenue	11.4%	12.0%	12.1%	12.3%
Devolution to States	4.0%	4.2%	4.1%	4.1%
Net Tax to Centre	7.4%	7.8%	8.0%	8.2%
Direct Taxes	5.9%	6.1%	6.4%	6.7%
Indirect taxes	5.4%	5.9%	5.6%	5.7%
Capital Receipt (ex borrowing)	0.7%	0.5%	0.5%	0.5%
Revenue Expenditure	11.1%	11.3%	11.5%	11.8%
Subsidies	1.3%	1.6%	1.6%	1.6%
Total Capital Expenditure	1.6%	1.6%	1.7%	1.6%
Total Expenditure	12.7%	12.9%	13.2%	13.4%
Revenue Deficit	2.6%	2.2%	2.2%	2.3%
Fiscal Deficit	3.5%	3.3%	3.4%	3.4%
Primary Deficit	0.4%	0.3%	0.2%	0.2%

Source: Budget documents, Angel Research

Exhibit 2: Budget 2019-20 at a glance

Particular		Budget (₹ cr)			YOY (%)	
	FY18A	FY19BE	FY19RE	FY20BE	FY19RE	FY20BE
(A) Revenue Receipts (1+2)	**14,35,233**	**17,25,738**	**17,29,882**	**19,77,693**	**20.5**	**14.3**
Gross Tax Revenue (a+b)	19,19,009	22,71,242	22,48,175	25,52,131	17.2	13.5
Devolution to States/Trf to NCCD	6,73,006.0	7,88,093	7,61,454.0	8,44,605.0	13.1	10.9
%	35.1%	34.7%	33.9%	33.1%		
1) Tax Revenue (Net to Centre)	**12,42,488**	**14,80,649**	**14,84,406**	**17,05,046**	**19.5**	**14.9**
a) Direct Taxes	10,01,974	11,50,000	12,00,000	13,80,000	19.8	15.0
Income Tax	430772	5,29,000	5,29,000.0	6,20,000.0	**22.8**	17.2
Corporate Tax	5,71,202.0	6,21,000	6,71,000.0	7,60,000.0	17.5	13.3
b) Indirect taxes	**9,16,972**	**11,21,242**	**10,48,175**	**11,72,131**	**14.3**	**11.8**
Custom Duties	1,29,030.0	1,12,500	1,30,038.0	1,45,388.0	0.8	11.8
Excise Duties	2,59,431.0	2,59,600	2,59,612.0	2,59,600.0	**0.1**	0.0
Service Tax	81,228.0	0	9,283.0	0.0	-88.6	-100.0
GST	4,42,562.0	7,43,900	6,43,900.0	7,61,200.0	45.5	18.2
Others	4,721.0	5,242	5,342.0	5,943.0	13.2	11.3
2) Non Tax Revenue	**1,92,745**	**2,45,089**	**2,45,476**	**2,72,647**	**27.4**	**11.1**
Interest receipt	**13,574.0**	**15,162**	**12,047.0**	**12,911.0**	**-11.2**	**7.2**
Dividend and profits receipts	**91,361.0**	**1,07,312**	**1,19,264.0**	**1,36,072.0**	**30.5**	**14.1**
Others	**87,810.0**	**1,22,615**	**1,14,165.0**	**1,23,664.0**	**30.0**	**8.3**
(B) Capital Receipts (3+4+5)	**7,02,649**	**6,73,409**	**6,86,352**	**7,55,210**	**-2.3**	10.0
3) Recovery of Loans	15,633.0	12,199	13,155.0	12,508.0	-15.9	-4.9
4) Disinvestment	1,00,045.0	80,000	80,000.0	90,000.0	-20.0	12.5
5) Borrowings and Other Liabilities	5,86,971.0	5,81,210	5,93,197.0	6,52,702.0	1.1	10.0
Total Receipt(A+B)	**21,37,882**	**23,99,147**	**24,16,234**	**27,32,903**	**13.0**	**13.1**
(C)Revenue expenditure	18,78,835.0	21,41,772	21,40,611.0	24,47,908.0	13.9	14.4
6) Of which interest payments	5,28,951	5,75,795	5,87,570.0	6,65,061.0	11.1	13.2
(D) Capital expenditure	2,63,140.0	3,00,441	3,16,624.0	3,36,292.0	20.3	6.2
Total Expenditure (C+D)	**21,41,975**	**24,42,213**	**24,57,235**	**27,84,200**	**14.7**	**13.3**
(E) Fiscal Deficit (C+D-A-3-4)	**5,91,064**	**6,24,276**	**6,34,198**	**7,03,999**	**7**	**11**
(F) Revenue Deficit (C-A)	**4,43,602**	**4,16,034**	**4,10,729**	**4,70,215**	**-7**	**14**
(G) Primary Deficit (E -6)	**5,91,064**	**48,481**	**46,628**	**38,938**	**-92**	**-16**
GDP	**1,68,87,543**	**1,89,17,464**	**1,86,52,882**	**2,07,05,853**		
Fiscal Deficit (% of GDP)	3.50%	3.3%	3.40%	3.40%		

Source: Budget documents, Angel Research

Subsidy Burden to remain stable

Since BJP came into power in 2014, the subsidies have been falling as a % of GDP due to couple of favorable factors like falling prices of oil and fertilizers raw material, coupled with reforms in agriculture sector like DBT and regularization of Urea pricing. Subsidies as a % of GDP has come down from 2.2% of GDP in FY2014 to 1.6% of GDP and may only go down gradually from current levels, as the government starts placing a greater emphasis on income support rather than price support.

However, the change is expected to be gradual and will happen over a period of time. We expect that subsidies along with income support will form the backbone of the government's effort to address the issue of agri distress. In FY2020, subsidies are budgeted to grow by 11.7%, in-line with GDP growth.

Exhibit 3: Subsidy

Subsidy Break-down	FY15	FY16	FY17	FY18	FY19RE	FY20BE
Major Subsidies	**2,49,016**	**2,41,857**	**2,32,705**	**1,91,183**	**2,66,206**	**2,96,684**
Fertilizer Subsidy	71,076	72,438	70,000	66,441	70075.2	74986
yoy growth (%)	6%	1.9%	-3.4%	-5.1%	0.0%	7.0%
Food Subsidy	1,17,671	1,39,419	1,35,173	100281	171298	184220
yoy growth (%)	28%	18.5%	1.0%	-25.8%	1.2%	7.5%
Petroleum Subsidy	60,269	30,000	27,532	24,461	24833.18	37478
yoy growth (%)	-29%	-50.2%	-8%	-11.2%	-0.4%	50.9%
Interest Subsidy	7,632	13,808	18865	22,146	22676.64	25146.05
yoy growth (%)	-6%	80.9%	4%	17.4%	-1.7%	10.9%
Other Subsidy	1,610	2,136	3,128	11,099	10327.59	12404.56
yoy growth (%)	-9%	32.7%	46%	254.8%	27.5%	20.1%
Total Subsidy	**2,58,258**	**2,57,801**	**2,54,698**	**2,24,429**	**2,99,211**	**3,34,235**
yoy growth (%)	1%	-0.2%	-1%	-11.9%	1.3%	11.7%
% to GDP	2.0%	1.8%	1.7%	1.3%	1.6%	1.6%

Source: Budget documents, Angel Research

Farm package along with marginal tax relief to boost growth

- The government has not made any major changes in the personal tax rate except that the standard deduction of ₹40,000 has been increased to ₹50,000, while tax rates for people with taxable income of up to ~₹5lakh have been effectively reduced to zero.
- While the changes in personal tax are marginal, we believe that combined with the farm package announced by the government, it was a much needed fiscal boost for the economy, given falling growth rates and inflation.

Sectoral Impact

Agriculture

Positive

Announcement

- Government is launching a programme namely "Pradhan Mantri Kisan Samman Nidhi (PM-KISAN)". Under this programme, vulnerable landholding farmer families, having cultivable land up to 2 hectares, will be provided direct income support of ₹6,000/year. This income support will be transferred directly into the bank accounts of beneficiary farmers, in three equal instalments of ₹2,000 each. The programme would be made effective from December 01, 2018 and the first instalment for the period up to March 31, 2019 would be paid during this year itself. This programme will entail an annual expenditure of ₹75,000cr.
- Government has now decided that all farmers affected by severe natural calamities, where assistance is provided from National Disaster Relief Fund (NDRF), will be provided the benefit of interest subvention of 2% and prompt repayment incentive of 3% for the entire period of re-schedulement of their loans.

Impact

- Positive for all Agri input related companies, as farmer income will go up marginally.
- Will ease the burden on farmers and hence on Agri related product manufactures.

Automobile

Positive

Announcement

- MGNREGA allocation has increased from ₹55,000cr in FY2019 to ₹60,000cr in FY2020. Further, under PM-KISAN scheme, government would provide direct income support of ₹6,000 per year to farmers.

Impact

- This is likely to create a positive sentiment among first time buyers for entry-level small cars, two wheelers and tractors.

Banks & Financial Services (BFSI)

Neutral

Announcement	Impact
The fiscal deficit for FY2019 has been increased by 10bps to 3.4% and for FY2020E fiscal deficit is set at 3.4%, which is 30bps higher than that estimated in FY2018.	This will increase government's borrowing plan and would reduce possibility of near term rate cut.
The commitment of the Finance Minister is to increase allocation for recapitalization to beyond ₹2.60 lakh cr if required.	Positive for Public Sector Banks.
The Government's higher spending towards rural under PM Kisan scheme will aid farmers to get ₹6,000 per year directly into bank accounts.	Higher spending toward rural is positive for NBFCs such as M&M Financial Services, Shriram Transport and Direct transfer under PM Kisan Scheme is overall positive for Public Sector Banks.

Capital Good

Positive

Announcement	Impact
Higher capital outlay to Defence by 10% to ₹103,380cr.	Positive for BEL, L&T, Bharat Forge.
Higher allocation towards mass rapid transit system and metro projects by 23% to ₹19,152cr.	Positive for L&T, BEL & BEML.
Allocation to Railways has been increased by 7% to ₹58,932cr as against the allocation last year of ₹55,010cr.	Positive for Titagarh Wagons, Texmaco & Alstom India.

Consumption Discretionary

Positive

Announcement

- 6cr connections have already been given and the remaining 2cr connections to get free gas connections by next year.
- By March, 2019, all willing families will get electricity connection under 'Saubhagya Yojna'.
- Various direct benefit transfer and tax rebates would help in boosting consumption in the economy.

Impact

- This will be positive for the kitchen appliances companies like TTK Prestige, Hawkins Cooker, Butterfly Gandhimathi Appliances.
- Would be positive for all B2B focused companies in the electrical equipment space like Havells, V-Guard Industries, Crompton Greaves Consumer Electricals and Bajaj Appliances.
- Positive for all the companies in the consumption space.

FMCG

Positive

Announcement

- MGNREGA allocation has increased from ₹55,000cr in FY2019 to ₹60,000cr in FY2020. Further, under PM-KISAN scheme, government would provide direct income support of ₹6,000 per year to farmers.
- Flat ₹50,000 as a standard deduction to the salaried class of taxpayers and pensioners.

Impact

- This will be positive for the FMCG sector, as it will increase the disposable income in the hands of rural households. Positive for FMCG companies like HUL, Dabur, Marico, etc.
- It will leave more money in the hands of consumers, which would boost the demand for FMCG companies.

Infrastructure/Cement

Positive

Announcement

- Pradhan Mantri Gram Sadak Yojana (PMGSY) is being allocated ₹19,000cr in BE 2019-20 as against ₹15,500cr in RE 2018-19.
- Allocation for the North Eastern areas is being proposed to be increased by 21% to ₹58,166cr in 2019-20 BE over 2018-19 BE.

Impact

- Positive for Infrastructure (Road) companies and cement companies such as Ultractech, ACC, Shree Cement, Star cement, etc.
- Infrastructure activity has improved in North East region and announcement of increase in allocation by 21% to ₹58,166cr will lead to additional demand for infra activity in the region. Sectors like Road Infrastructure and Cement companies will benefit out of it such as Star Cement and Dalmia Bharat.

Pharma

Neutral

Announcement

- Government launched Ayushman Bharat, to provide medical treatment to nearly 50cr people. Already close to 10 lakh, patients have benefited from medical treatment, which would have cost them ₹3,000cr through free treatment made available under the scheme. Lakhs of poor and middle class people are also benefiting from reduction in the prices of essential medicines, cardiac stents and knee implants, and availability of medicines at affordable prices through Pradhan Mantri Jan Aushadhi Kendras.

Impact

- Positive for consumers and volumes to rise for pharmaceutical companies; though in long run would put pressure on prices of the medicines, for pharmaceutical companies, especially MNCs. Currently, the situation is not clear as the price-controlled medicines are allowed inflation adjusted price hikes. Therefore, as of now neutral, though in long run could impact the profitability of Indian companies, given the scope of the programme.

Power

Positive

Announcement

- Government will meet its target of universal household electrification by the end of March 2019.

Impact

- Positive for the sector.

Real Estate

Positive

Announcement	Impact
Exempt levy of Income Tax on notional rent on a second self-occupied house.	Positive, as investment in second home will increase. Stocks like Sobha, Kolte Patil Developers, Godrej Properties will benefit out of it.
Making more homes available under affordable housing, the benefits under Section 80-IBA of the Income Tax Act is being extended for one more year, i.e. to the housing projects approved till March 31, 2020.	This will encourage more launches under Affordable Housing project, which will lead to increase in demand of Steel, Cement and other building materials.
TDS threshold for deduction of tax on rent is proposed to be increased from ₹1,80,000 to ₹ 2,40,000 for providing relief to small taxpayers.	Will increase the savings in the hands of home owner.
Exemption from levy of tax on notional rent, on unsold inventories, from 1 year to 2 years.	Will provide short term relief for Real Estate developers with OC received unsold stocks. Companies like Sunteck Reality, Oberoi Reality, Prestige, Ashiana Housing, Godrej Properties.

Budget-Picks

Budget Picks

Company	Market Cap (₹ Cr)	CMP (₹)	Target (₹)	*Upside (%)*	Rationale
Blue Star	5,803	602	867	43.9	Gaining market share in AC segment and Favorable outlook for the AC industry to augur well for Blue Star
Safari Industries	1,732	781	1,000	28.9	Third largest brand play in luggage segment Increased product offerings and improving distribution network is leading to strong growth in business. Likely to post robust growth for next 3-4 years.
Siyaram Silk Mills	1,594	340	606	78.2	Strong brands and distribution network would boost growth going ahead. Stock currently trades at an inexpensive valuation.
Maruti Suzuki	2,10,144	6,957	10,820	55.5	New facelift and the Gujarat plant are expected to improve the company's sales volume and margins, respectively.
M&M	85,544	688	1,050	52.6	We expect strong PAT growth on the back of healthy growth in automobile segment (new launches and facelifts in some of the models) and strong growth in tractors segment coupled with its strong brand recall and improvement in rural sentiment.
Bata India	14,707	1,144	1,243	8.6	We expect BIL to report net PAT CAGR of ~16% to ~`3,115cr over FY2018-20E mainly due to new product launches, higher number of stores additions and focus on women's high growth segment coupled with margin improvement.
Shriram Transport Finance	23,685	1,044	1,764	69.0	SHTF is in the sweet spot with benefits from stronger CV volumes, NIMs unaffected by rising bond yields on the back of stronger pricing power and an enhancing ROE by 750bps over FY2018-20E, supported by decline in credit cost.
TTK Prestige	8,978	7,705	8,200	6.4	TTK Prestige has emerged as one of the leading brands in kitchen appliances in India after its successful transformation from a single product company to offering an entire gamut of home and kitchen appliances. We are expecting a CAGR of 18% in revenue and 25% in PAT over FY2018-20.
Ashok Leyland	24,570	84	156	86.4	Considering the strong CV demand due to change in BS-VI emission norms (will trigger pre-buying activities), pick up in construction activities and no significant impact on industry due to recent axle load norms, we recommend BUY on Ashok Leyland at current valuations.

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