Angel Broking

UNION BUDGET 2020-21 REVIEW

Government tries to balance growth with fiscal prudence

Fiscal deficit for FY2021 at 3.5%, while fiscal deficit for FY2020 was revised up to 3.8%.

As widely expected by the markets the Government decided to strike a balance between growth and fiscal prudence and did not cut back aggressively on expenditure. Fiscal deficit for for FY20 was relaxed to 3.8% while fiscal deficit for FY21 was also relaxed by 50bps to 3.5%. Total Government expenditure for the year was cut back to ₹ 26.98 lakh cr. against budget estimates of ₹ 27.86 lakh cr up by 16.6% yoy. Cutback in expenditure was largely on account of lower subsidies (₹ 74,596 cr.) and interest payments (₹ 35,366 cr.).

Government trying to stimulate the economy through mix of spending and tax cuts.

The cutback in food subsidy clearly reflects the Government's focus to shift away towards a more targeted spending regime. Some of the highly successful targeted schemes are the DBT, Ujjawala, PMAY, Ayushman Bharat, Swach Bharat and Jal Jeevan scheme. Targeted spending allows the Government to achieve the desired results by lower spending as they are able to plug leakages.

Key highlight of budget was focus on make in India.

Key highlight of the Budget was the Government's focus on boosting domestic manufacturing as they increased import duties on a wide range of goods which will help domestic manufacturing companies. Some of the sectors which are expected to be the key beneficiary would be consumer durables, household appliances, pipes and solar pumps.

Government trying to boost consumption by spending and tax cuts

The Government is clearly looking to stimulate the economy through increased spending and tax cuts. Government expenditure in budgeted to grow by 12.7% yoy to ₹ 30.45 lakh cr. in FY2021. Revenue expenditure is budgeted to grow 11.9% yoy to ₹ 26.3 lakh cr., while capital expenditure is budgeted to grow at 18.1% yoy to ₹ 4.12 lakh cr.

Government to forego revenues of ₹40,000cr.due to New optional income tax regime

On the direct tax front the Government has introduced a new optional tax regime wherein individual earning less than ₹ 15 lakh can take advantage of lower tax rates but will have to forego deductions like sec 80 C, HRA, Sec 80 D, standard deduction and interest deduction on housing loan. The new regime would be beneficial only for individuals who are not able to fully utilize the deductions available. As per Government estimates revenue foregone on account of new tax regime will be to the extent of ₹ 40,000 cr.

Hike in import duties in line with make in India theme

Government decision to hike import duties on many items in line with expectations.

In order to boost domestic manufacturing the Government has hiked import duties on various items:

- Import duties on household appliances like fans, mixer, grinder, water heaters, etc. have been hiked from 10% to 20%.
- Custom duties on various kitchenware items have been increased from 10% to 20%.
- Custom duties on water cooler, Refrigerated farm tanks, industrial ice cream freezer have been increased from 7.5% to 15%
- Custom duties on footwear have been increased from 25% to 30%.

We believe that the hike in import duties would boost local manufacturing and is in line with the Government's make in India theme.

Tax revenue assumptions for FY21 look realistic and achievable

Gross tax collections for FY2021 are expected to grow at 12.0% yoy against a growth of 4.0% in FY2020. Net tax collections growth is expected to be lower at 8.7% in FY2020 given that devolution to states are expected to grow by 19.5%. Direct taxes are expected to grow by 12.7% yoy driven by personal income tax which is budgeted to grow by 14.0% yoy while corporate taxes are expected to grow by 11.5% yoy.

Indirect tax collections are expected to grow by 11.1% yoy which is in line with GDP estimates of 10.0% yoy. GST collections are expected to grow by 12.8% yoy. Similarly excise and customs duties are expected to grow by 10.4% and 7.7% respectively.

Tax revenue growth for FY2021 seems to be realistic and it is highly unlikely that there could be major shortfall especially given that the economy is expected to revive in FY2021.

Non tax revenue budgeted to grow significantly

Non-tax revenue are expected to grow by 11.4% yoy predominantly driven by telecom revenues which are budgeted to grow by 125.5% yoy to ₹133,027 cr. It seems that the Government is factoring in additional revenues either from spectrum auction or from settlement of AGR claims with telecom companies.

Disinvestment targets for FY2020 has been revised significantly higher to ₹210,000 cr. from revised target of ₹65,000 cr. in FY2020. While the disinvestment targets are stiff they could be achieved if the Government is successful in it's attempt to strategic sales of Air India, BPCL etc. and is able to push through the IPO of LIC.

Therefore we believe that there is a chance of revenue shortfall in FY2021 if the Government is unable to push through it's plan of strategic divestments in companies like Air India and BPCL. However we don't think that the shortfall would be as large as FY2020 given that tax collections assumptions are realistic.

Exhibit 1: % of GDP

Particular	FY19RE	FY19A	FY20BE	FY20RE	FY21BE
Gross Tax Revenue	12.0%	10.9%	11.7%	10.6%	10.8%
Devolution to States	4.1%	4.0%	3.8%	3.2%	3.5%
Net Tax to Centre	8.0%	6.9%	7.8%	7.4%	7.3%
Direct Taxes	6.4%	6.0%	6.3%	5.7%	5.9%
Indirect taxes	5.6%	5.0%	5.3%	4.9%	4.9%
Capital Receipt (ex borrowing)	0.5%	0.6%	0.6%	0.4%	1.0%
Revenue Expenditure	11.5%	10.6%	11.6%	11.5%	11.7%
Subsidies	1.6%	1.2%	1.6%	0.0%	0.0%
Total Capital Expenditure	1.7%	1.6%	1.6%	1.7%	1.8%
Total Expenditure	13.2%	12.2%	13.2%	13.2%	13.5%
Revenue Deficit	2.2%	2.4%	2.3%	2.4%	2.7%
Fiscal Deficit	3.4%	3.4%	3.3%	3.8%	3.5%
Primary Deficit	0.3%	0.4%	0.2%	0.7%	0.4%

Source: Budget documents, Angel Research

Exhibit 2: Budget 2019-20 at a glance

Particular	Budget (₹ cr)				YOY (%)	
	FY19A	FY20BE	FY20RE	FY21BE	FY20RE	FY21BE
(A) Revenue Receipts (1+2)	15,52,915	19,62,761	18,50,100	20,20,926	19.1	9.2
Gross Tax Revenue (a+b)	20,80,465	24,61,195	21,63,423	24,23,020	4.0	12.0
Devolution to States/Trf to NCCD	7,63,254	8,09,133	6,58,836	7,87,111	-13.7	19.5
%	36.7%	32.9%	30.5%	32.5%		
1) Tax Revenue (Net to Centre)	13,17,211	16,49,582	15,04,587	16,35,909	14.2	8.7
a) Direct Taxes	11,36,574	13,35,000	11,70,000	13,19,000	2.9	12.7
Income Tax	4,73,003	5,69,000	5,59,500	6,38,000	18.3	14.0
Corporate Tax	6,63,572	7,66,000	6,10,500	6,81,000	-8.0	11.5
b) Indirect taxes	9,43,891	11,26,195	9,93,423	11,04,020	5.2	11.1
Custom Duties	1,17,813	1,55,904	1,25,000	1,38,000	6.1	10.4
Excise Duties	2,31,982	3,00,000	2,48,012	2,67,000	6.9	7.7
Service Tax	6,904	0	1,200	1,020	-82.6	-15.0
GST	5,81,559	6,63,343	6,12,327	6,90,500	5.3	12.8
Others	5,633	6,948	6,884	7,500	22.2	8.9
2) Non Tax Revenue	2,35,704	3,13,179	3,45,513	3,85,017	46.6	11.4
(B) Capital Receipts (3+4+5)	7,63,518	7,72,529	8,48,450	10,78,306	11.1	27.1
3) Recovery of Loans	18,052	14,828	16,604	14,967	-8.0	-9.9
4) Disinvestment	94,727	1,05,000	65,000	2,10,000	-31.4	223.1
5) Borrowings and Other Liabilities	6,50,739	6,52,702	7,66,846	8,53,340	17.8	11.3
Total Receipt(A+B)	23,15,112	27,86,349	26,98,551	30,46,230	16.6	12.9
(C)Revenue expenditure	20,07,399	24,47,780	23,49,645	26,30,145	17.0	11.9
6) Of which interest payments	5,82,648	6,60,471	6,25,105	7,08,203	7.3	13.3
(D) Capital expenditure	3,07,714	3,38,569	3,48,907	4,12,085	13.4	18.1
Total Expenditure (C+D)	23,15,113	27,86,349	26,98,552	30,42,230	16.6	12.7
(E) Fiscal Deficit (C+D-A-3-4)	6,49,419	7,03,761	7,66,847	7,96,337	18.1	3.8
(F) Revenue Deficit (C-A)	4,54,484	4,85,019	4,99,545	6,09,219	9.9	22.0
(G) Primary Deficit (E -6)	66,771	43,290	1,41,742	88,134	112.3	-37.8
GDP	1,90,10,200	2,11,00,607	2,04,35,965	2,24,79,562	7.5	10.0
Fiscal Deficit (% of GDP)	3.4%	3.3%	3.8%	3.6%		

Source: Company, Budget documents, Angel Research

Sharp fall in subsidy burden on account of lower food subsidy

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 for FY20 are expected to come at ₹ 227,555 cr, which is significantly below budgeted estimates of ₹ 301,694 cr. Most of the savings on subsidies has been on account of food subsidies which is now expected to come in at ₹ 108,688 cr. as against budget estimates of ₹ 184,220 cr. Subsidies are expected to remain stable for FY21E also. As a % of GDP subsidies are expected to go down to 1.2% of GDP as compared to 1.6% which was budgeted for FY20.

Exhibit 3: Subsidy

Subsidy Break-down	FY16	FY17	FY18	FY19A	FY20BE	FY20RE	FY21BE
Major Subsidies	**2,41,857**	**2,32,705**	**1,91,183**	**1,96,769**	**3,01,694**	**2,27,255**	**2,27,794**
Fertilizer Subsidy	72,438	70,000	66,441	70604.8	79996	79997.85	71309
yoy growth (%)	1.9%	-3.4%	-5.1%	6.3%	13.3%	13.3%	-10.9%
Food Subsidy	1,39,419	1,35,173	100281.69	101327	184220	108688.35	115569.68
yoy growth (%)	18.5%	1.0%	-25.8%	1.0%	81.8%	7.3%	6.3%
Petroleum Subsidy	30,000	27,532	24,461	24836.95	37478	38568.86	40915.21
yoy growth (%)	-50.2%	-8%	-11.2%	1.5%	50.9%	55.3%	6.1%
Interest Subsidy	13,808	18865	22,146	20008.78	26116.63	25946.02	28178.86
yoy growth (%)	80.9%	4%	17.4%	-9.7%	30.5%	29.7%	8.6%
Other Subsidy	2,136	3,128	11,099	6176.22	10343.04	10356.25	6136.01
yoy growth (%)	32.7%	46%	254.8%	-44.4%	67.5%	67.7%	-40.8%
Total Subsidy	**2,57,801**	**2,54,698**	**2,24,429**	**2,22,954**	**3,38,154**	**2,63,557**	**2,62,109**
yoy growth (%)	-0.2%	-1%	-11.9%	-0.7%	51.7%	18.2%	-0.5%
% to GDP	1.8%	1.7%	1.3%	1.2%	1.6%	1.3%	1.2%

Source: Company, Budget documents, Angel Research

Government trying to stimulate economy through mix of spending, tax cuts and thrust on domestic manufacturing

- The government surprised the market and did not go for any major expenditure cuts in the budget. With this budget the Government has made its intentions clear that they will try and maximize spending while staying within the limits prescribed by the FRBM act.
- The move on the direct tax front by the Government would be beneficial for individuals who are not able to fully utilize the deductions available and will put more disposable income in the hands of certain section of people which will help boost spending to a certain extent.
- Domestic manufacturing is the biggest beneficiary of the budget as hike in custom duties would boost local manufacturing and would be beneficial for domestic manufacturing firms.

Sectoral Impact

AC/Freezer/Refrigerators

Neutral

Announcement

- Custom duty increased on refrigerators and AC compressors from 10% to 12.5%.
- Custom duty increased on water coolers, refrigerated farm tanks, industrial ice cream freezer from 7.5% to 15%.

Impact

- It would increase the cost of refrigerators and ACs, which is negative for companies like Voltas, Blue Star, Hitachi, Havells, Whirlpool India, etc.
- Positive for commercial refrigerator/ manufacturers like Blue Star, Voltas, etc.

Agriculture & Rural Development

Negative

Announcement

- Government stick to its target to double farmer income by 2022, which looks difficult to achieve. Allocation to agriculture, irrigation and rural development decreased by 2% to ₹2.83 lakh crore.
- Agriculture credit target was raised to ₹15 lakh crore from ₹12 lakh crore in previous budget.

Impact

- Negative for companies such as Coromandel International, Chambal Fertilizers etc.
- Positive for agriculture sector.

Automobile

Positive

Announcement

- Custom duty was increased in completely built units of commercial vehicles and commercial electric vehicles to 40% from 30% and 25% respectively. Custom duty was also increased in semi knocked units of commercial electric vehicles by 10-15%.

Impact

- This will be positive for the electric vehicle manufacturer companies like Tata Motors and M&M

Banks & Financial Services (BFSI)

Negative

Announcement

- Credit guarantee scheme for NBFCs extended
- The FM said that RBI has asked to extend debt-restructuring window for MSMEs by one more year.
- The limit for FPIs in corporate bonds is to be raised from 9% to 15% and select government securities are to be fully opened for NRIs
- In order to opt for the new tax regime, taxpayers will not be allowed to take exemptions under Section 80C, HRA, etc.
- The tax support provided to Sovereign funds to invest in the infrastructure sector. This will support infra sector and investments in renewable space.
- Eligibility limit for NBFCs for debt recovery under SARFAESI Act proposed to be reduced to asset size of Rs100cr or loan size of `50 lakh.
- Tax holiday for Affordable Housing to increase for one more year.

Impact

- This announcement will help address NBFCs/HFCs resolve their temporary liquidity or cash flow mismatch issues, and also enable them to continue contributing to credit creation and provide last mile lending to borrowers, thereby, spurring economic growth.
- Positive for NBFCs and Banks.
- This will help to deepen the bond market and will be positive for rating companies.
- Negative for Insurance and AMC companies, it will also negatively affect banks as they earn fees by selling third party products.
- Positive for NBFCs and Infrastructure Finance companies.
- Positive for smaller NBFCs as they can improve recovery..
- Positive for HFCs.

Broadband Connectivity

Positive

Announcement

- Government proposed to provide ₹6,000cr to Bharatnet programme in 2020-21 to further enhance broadband connectivity in rural areas.

Impact

- This would benefit Polycab India.

Cement/Infra/Real Estate

Neutral

Announcement	Impact
Government has highlighted their intent to invest over ₹100 lakh crore in Infrastructure over the next 5 years. Allocation to Pradhan Mantri Awas Yojana increased by 8.6% to ₹27,500cr.	Positive for Infrastructure and cement sector as a whole. Positive for cement companies such as UltraTech Cement, JK Cement, ACC, JK Laxshmi etc.
Allocation to roads & railways projects increased by 10.6% and 3.3% to ₹91,823cr and ₹72,215cr respectively. Government under the Pradhan Mantri Gram Sadak Yojana (PMGSY) increased allocation by 38.6% to ₹19,500cr. Government proposed ₹1.7 lakh cr. for transport infrastructure against ₹1.56 lakh cr. in last budget.	Positive for road infrastructure companies such as L&T, PNC Infratech, KNR Constructions etc. and neutral for railway companies such as Titagarh Wagons, Texmaco rail etc.
Government plans 100 more airport by 2024 was a key positive coming from the budget for infrastructure sector.	Positive for infrastructure development companies such as L&T.
Affordable Housing project - In order to incentivize building affordable houses to boost supply, the period of approval of the Affordable Housing project by the competent authority is proposed to be extended by one year to March 31, 2021.	Real Estate developers will launch more projects in the near future under Affordable Housing such as Sobha Ltd.
It has been proposed to extend the time limit for sanctioning of loans for Affordable Housing for availing deduction under section 80EEA of the Act.	

Consumer Durables

Positive

Announcement	Impact
■ Custom duty increased on household appliances from 10% to 20%. Household appliances include fans, mixer, grinder, shavers, hair-removing appliances, water heaters, hair dryers, irons, ovens, grillers, roasters, coffee & tea makers, toasters, cooking plates, etc.	■ Positive for Indian Fan manufacturers like Crompton, Orient, Havells, Bajaj and household appliances manufacturers like TTK Prestige, etc
■ Custom duty increased on water filters from 10% to 20%.	■ Positive for companies like Blue Star, HUL, etc.

FMCG

Negative

Announcement	Impact
■ National Calamity Contingency Duty (NCCD) on various lengths of cigarettes have been raised by ₹105-500 for thousand units, which translate hike in the range of 1.7-4x. ■ NCCD on various tobacco products has increased by 15%	■ This will create negative sentiment in the near term for cigarette manufacturers like ITC, VST Industries, and Godfrey Phillips. However, in our view, cigarette manufacturers would pass on the hike in the duty to consumers.

Footwear

Positive

Announcement	Impact
■ Custom duty increased on footwear from 25% to 35%.	■ Positive for Indian Footwear Industry like Bata, Relaxo.

Household Appliances

Positive

Announcement	Impact
■ Custom duty increased on household items from 10% to 20%. Household items include ceramic tableware, glassware used for tables, kitchens, toilets.	■ Positive for tableware & glassware manufacturers like La Opala RG, etc.
■ Custom duty increased on kitchenware, pans utensils and pressure cookers from 10% to 20%.	■ This will be positive for kitchen appliances companies like TTK Prestige, Hawkins Cooker and Butterfly Gandhimathi Appliances.

Mattresses

Positive

Announcement	Impact
Custom duty increased on mattresses from 20% to 25%.	Positive for Indian mattress manufacturers like Sheela Foam, Nilkamal, etc.

Pipes

Positive

Announcement	Impact
Government has approved ₹11500cr for Jal Jeevan Mission.	Key pipe companies will be the beneficiaries viz. Finolex Industries, Prince Pipes, etc.

Power

Positive

Announcement	Impact
Government proposed to replace conventional energy meters by prepaid smart meters over the next 3 years in all States and Union Territories. This would give consumers the freedom to choose the supplier and rate as per their requirements.	This is positive for meter manufacturing companies like HPL Electric & Power.

Print Media

Positive

Announcement

- Government proposed to reduce basic customs duty on import of newsprint, uncoated paper & light-weight coated paper from 10% to 5%.

Impact

- Print media companies importing newsprint (as key raw material) for manufacturing newspaper. This move to reduce the manufacturing cost for these companies. Positive for DB Corp, Jagran Prakashan, HT Media, etc.

Solar Pumps

Positive

Announcement

- PM KUSUM to cover 20 lakh farmers for standalone solar and 15 lakh farmers grid-connected pump sets.

Impact

- Key pump companies that stand to benefit are Shakti Pumps, Crompton Greaves Consumer Electricals, etc.

Budget Picks

Particular	CMP	Target Price	Sales (₹ Cr)		OPM (%)		PAT (₹ Cr)		ROE (%)		P/E (x)		EV/Sales (x)	
			FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Hawkins Cooker	4,247	5,110	856	976	14.6	14.6	87	100	46.7	42.8	25.7	22.4	2.6	2.3
Bata India	1,797	2,133	3,622	4,056	26.5	26.7	456	549	18.5	18.8	50.7	42.1	5.9	5.2
Orient Electric	241	294	2,487	2,835	8.4	8.5	111	136	22.9	22.3	46.2	37.7	2.1	1.8
Blue Star	835	930	6,651	7,449	6.7	6.9	269	312	25.9	26.0	29.8	25.7	1.2	1.1
Polycab India	964	1,070	9,282	10,624	11.6	11.6	710	815	20.0	18.6	20.2	17.6	1.5	1.3

Source: Company, Angel Research

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