Angel Broking

UNION BUDGET 2019-20 REVIEW

Government sticks to fiscal deficit target for FY2020

Fiscal deficit for FY2019 at 3.4%, while fiscal deficit for FY2020 was revised down to 3.3%.

The Government stuck to it's fiscal deficit target for FY2020 despite a significant shortfall in revenues collections for FY19. Gross tax revenues for FY19 fell way short of expectations at ₹ 20.8 lakh cr. as compared of revised target of ₹ 22.5 lakh cr. As a result net tax revenue came in short at ₹ 13.17 lakh cr. as compared to revised estimates of ₹ 14.84 lakh cr.

The Government stuck to the interim budget fiscal deficit figure of ₹ 7.03 lakh cr. for FY2020 in the final budget, though relying more on non tax revenues and disinvestment proceeds in order to make up for the shortfall in tax revenues. While the fiscal deficit for FY2020 in absolute numbers was maintained at ₹ 7.03 lakh cr. upward revisions in GDP numbers for FY2020 resulted in the fiscal deficit falling to 3.3% against 3.4% of GDP as projected in the interim budget.

Various policy measures announced to address liquidity issues faced by the NBFC sector.

The NBFC sector had also been going through a crisis post the collapse of IL&FS and was unable to extend credit. The Government has announced a slew of policy measures for the NBFC sector in order to address the liquidity issues faced by the sector, including a one time six months partial credit guarantee given to banks to buy pooled asset of NBFCs. PSU bank recapitalization of ₹ 70,000 cr. would also provide growth capital to the banking sector.

Higher Government spending to stimulate growth in FY2020

Government trying to stimulate the economy by significant increase in expenditure by 20.5% in FY2020.

Given the slowdown in growth post the IL&FS crisis there was a significant slowdown in tax collection in FY19. It was largely expected by the markets that the Government would resort to cut back in expenditure in FY2020 due to lower tax collections. However given the increased social outlay in FY20 and thrust on rural economy it was evident that there was much that the Government could do to cut back revenue expenditure.

Therefore in a way it is not surprising that Government maintained expenditure in line with the interim budget estimates of ₹ 27.9 lakh Cr. which represents a growth of 20.5% over FY2019. Revenue expenditure is budgeted to grow 21.9% to ₹ 24.5 lakh cr. while capital expenditure is budgeted to grow at 11.8% to ₹ 3.4 lakh cr. which is again in line with the interim budget. In order to budget for the higher spending the Government has resorted to hikes in both direct as well as indirect taxes.

Surcharge on Income tax to be hiked significantly for individuals in highest tax brackets.

On the direct tax front surcharge for individuals earning between ₹ 2 - 5 cr. has been proposed increased from 15% to 25%. Similarly for individuals earning above ₹ 5 cr. surcharge has been proposed to be increased from 15% to 37%. This is expected to augment personal income tax collection which had fallen significantly short of estimates in FY19.

On the indirect tax front the Government has also hiked taxes on petrol and diesel which is by ₹ 2 each and also increased import duties on many commodities. These measures are expected boost indirect tax collections given sluggish growth in GST collections.

FY20 Fiscal deficit target is challenging though achievable

Borrowing figures for FY20 have been kept at the same level as that of the interim budget. Both gross and net borrowing figures have been kept unchanged at ₹4.73 lakh cr, and ₹7.6l lakh cr in FY2020.

Gross tax collections for FY2020 are expected to grow at 18.3% yoy against a growth of 8.4% in FY2019. Net tax collections are expected to grow at 25.3% in FY2020 given that devolution to states are expected to grow by 6.0%. Direct taxes are expected to grow by 18.6% yoy driven by personal income tax which is budgeted to grow by 23.3% yoy while corporate taxes are expected to grow by 15.4% yoy.

Indirect tax collections are expected to grow by 17.9% yoy which is well ahead of GDP estimates of 11.2% yoy. GST collections are expected to grow by 13.6% yoy. With GST collections struggling to pick up growth in indirect tax collections are expected to be driven by excise and customs duties which are expected to grow by 29.9% and 32.2% respectively.

Non-tax revenue are expected to grow by 27.2% yoy predominantly driven by Dividend and profit receipts from PSU's and the RBI. It seems that the Government is factoring in marginal transfer of some surplus reserves from the RBI in the budget estimates. Disinvestment targets for FY2020 has been revised higher to ₹105,000 cr. from ₹90,000 cr.in the interim budget.

Revenue growth for FY2020 seems to be aggressive and there is a possibility of shortfall in tax collections in FY2020. Tax increases proposed by the Government in the budget is likely to provide buoyancy to tax collections. However transfer of surplus RBI reserves to the Government would help the Government in meeting fiscal deficit target in case there is any shortfall in tax collections.

Exhibit 1: Key Fiscal indicators (% of GDP)

% of GDP	FY18A	FY19RE	FY19A	FY120BE
Gross Tax Revenue	11.2%	12.0%	10.9%	11.7%
Devolution to States	3.9%	4.1%	4.0%	3.8%
Net Tax to Centre	7.3%	8.0%	6.9%	7.8%
Direct Taxes	5.9%	6.4%	5.9%	6.3%
Indirect taxes	5.4%	5.6%	5.0%	5.3%
Capital Receipt (ex borrowing)	0.7%	0.5%	0.5%	0.6%
Revenue Expenditure	11.0%	11.5%	10.6%	11.6%
Subsidies	1.3%	1.6%	1.6%	1.6%
Total Capital Expenditure	1.5%	1.7%	1.6%	1.6%
Total Expenditure	12.5%	13.2%	12.2%	13.2%
Revenue Deficit	2.6%	2.2%	2.3%	2.3%
Fiscal Deficit	3.5%	3.4%	3.4%	3.3%
Primary Deficit	0.4%	0.3%	0.3%	0.2%

Source: Budget documents, Angel Research

Exhibit 2: Budget 2019-20 at a glance

Particular	Budget (₹ cr)				YOY (%)	
	FY18A	FY19RE	FY19A	FY20BE	FY19A	FY20BE
(A) Revenue Receipts (1+2)	**14,35,233**	**17,29,882**	**15,63,170**	**19,62,761**	**8.9**	**25.6**
Gross Tax Revenue (a+b)	19,19,009	22,48,175	20,80,203	24,61,195	8.4	18.3
Devolution to States/Trf to NCCD	6,73,006.0	7,61,454.0	7,63,252	8,09,133	13.4	6.0
%	35.1%	33.9%	36.7%	32.9%		
1) Tax Revenue (Net to Centre)	**12,42,488**	**14,84,406**	**13,16,951**	**16,49,582**	**6.0**	**25.3**
a) Direct Taxes	**10,01,974**	**12,00,000**	**11,25,220**	**13,35,000**	**12.3**	**18.6**
Income Tax	4,30,772	5,29,000	4,61,650	5,69,000	**7.2**	23.3
Corporate Tax	5,71,202.0	6,71,000	6,63,570	7,66,000	16.2	15.4
b) Indirect taxes	**9,16,972**	**10,48,175**	**9,54,983**	**11,26,195**	**3.9**	**17.9**
Custom Duties	1,29,030	1,30,038	1,17,930	1,55,904	-8.6	32.2
Excise Duties	2,59,431	2,59,612	2,30,900	3,00,000	**-11.0**	29.9
Service Tax	81,228	9,283	6,880	0	-91.5	-100.0
GST	4,42,562	6,43,900	5,83,970	6,63,343	32.0	13.6
Others	4,721	5,342	15,303	6,948	224.1	-54.6
2) Non Tax Revenue	**1,92,745**	**2,45,476**	**2,46,219**	**3,13,179**	**27.7**	**27.2**
(B) Capital Receipts (3+4+5)	**7,02,649**	**6,86,352**	**7,48,252**	**7,72,529**	**6.5**	3.2
3) Recovery of Loans	15,633	13,155	17,840	14,828	14.1	-16.9
4) Disinvestment	1,00,045	80,000	85,045	1,05,000	-15.0	23.5
5) Borrowings and Other Liabilities	5,86,971	5,93,197	6,45,367	6,52,702	9.9	1.1
Total Receipt(A+B)	**21,37,882**	**24,16,234**	**23,11,422**	**27,86,349**	**7.9**	**20.5**
(C)Revenue expenditure	18,78,835	21,40,611	20,08,463	24,47,780	6.9	21.9
6) Of which interest payments	5,28,951	5,87,570.0	5,82,675	6,60,471	11.1	13.4
(D) Capital expenditure	2,63,140	3,16,624	3,02,959	3,38,569	15.1	11.8
Total Expenditure (C+D)	**21,41,975**	**24,57,235**	**23,11,422**	**27,86,349**	**7.9**	**20.5**
(E) Fiscal Deficit (C+D-A-3-4)	**5,91,064**	**6,34,198**	**6,45,367**	**7,03,761**	**9.2**	**9.0**
(F) Revenue Deficit (C-A)	**4,43,602**	**4,10,729**	**4,45,293**	**4,85,019**	**0.4**	**8.9**
(G) Primary Deficit (E -6)	**5,91,064**	**46,628**	**62,692**	**43,290**	**-6.9**	**-30.9**
GDP	**1,70,95,000**	**1,86,52,882**	**1,90,10,200**	**2,11,00,607**	**11.2**	**11.0**
Fiscal Deficit (% of GDP)	3.5%	3.3%	3.4%	3.3%		

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 in FY19. In the final budget subsides are estimates to gow by 13.3% yoy to ₹ 3,38,949 cr. which is more or less in line with the interim budget estimates of ₹ 334,235 cr. Small increment is on account of ₹ 5010 cr. of additional fertilizer subsidies.

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**	**301,694**
Fertilizer Subsidy	71,076	72,438	70,000	66,441	70075.2	749996
yoy growth (%)	6%	1.9%	-3.4%	-5.1%	0.0%	14.2%
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	24833.2	37478
yoy growth (%)	-29%	-50.2%	-8%	-11.2%	-0.4%	50.9%
Interest Subsidy	7,632	13,808	18865	22,146	22676.6	25056.0
yoy growth (%)	-6%	80.9%	4%	17.4%	-1.7%	10.5%
Other Subsidy	1,610	2,136	3,128	11,099	10327.6	12199.5
yoy growth (%)	-9%	32.7%	46%	254.8%	27.5%	18.1%
Total Subsidy	**2,58,258**	**2,57,801**	**2,54,698**	**2,24,429**	**2,99,211**	**3,38,949**
yoy growth (%)	1%	-0.2%	-1%	-11.9%	1.3%	13.3%
% to GDP	2.0%	1.8%	1.7%	1.3%	1.6%	1.6%

Source: Budget documents, Angel Research

Government trying to stimulate economy through Farm package, spending and liquidity measures

- The government surprised the market and did not go for any major tax cuts in the budget. With this budget the Government has made its intentions clear that they will try and spend their way out of the economic slump rather than go for tax cuts in order to stimulate the economy.
- Increased social outlays in FY2020 through various Government scheme like the PM-KISAN would ensure additional income in the hands of the poorest of the poor. This would go a long way in supporting rural income and boosting growth.
- The budget also tried to address the liquidity issues faced by the NBFC sector through various policy measures. PSU bank recapitalization of ₹ 70,000 cr. would also ensure that PSU banks are in a position to extend credit to industry.

Sectoral Impact

Agriculture

Positive

Announcement

- Fishery focused scheme - Pradhan Mantri Matsya Sampada Yojana (PMMSY) was introduced to establish a robust fisheries management framework. It will address critical gaps in the value chain, including infrastructure, modernization, traceability, production, productivity, post-harvest management, and quality control.

Impact

- Positive for fishery industry, as PMMSY scheme shall boost income for fishermen and shall also improve productivity due to superior infrastructure development. Stocks like Avanti Feeds stands to benefit from this.

Automobile

Positive

Announcement

- To make electric vehicle affordable to consumers, the government has proposed to provide additional income tax deduction of ₹ 1.5 lakh on the interest paid on loans taken to purchase electric vehicles. This amounts to a benefit of around ₹ 2.5 lakh over the loan period to the taxpayers who take loans to purchase electric vehicle.
- Increase in customs duty in the range of 2.5-7.5% on various auto ancillary equipments like Glass mirrors, rear view mirrors, locks, lighting or visual signaling, horns, windscreen wipers, Completely Built Unit (CBU), etc.
- Reduction in customs duty on parts exclusively used for Electric vehicles like E-drive assembly, on board charger, E-compressor, Charging Gun to zero.

Impact

- This will be positive for the electric vehicle manufacturer companies like Tata Motors and M&M
- This would be positive for domestic auto ancillary equipment manufacturers.
- Positive for all electric vehicle manufacturers.

Banks & Financial Services (BFSI)

Positive

Announcement	Impact
The Fiscal deficit for FY2020 has been reduced by 10bps to 3.3% of GDP and government has kept gross borrowings unchanged. The government also proposed to raise some part of borrowing through global bond markets.	This will reduce crowding out effect in domestic market and ease G-Sec yield.
Continuing with its focus to realize the goal of 'Housing for All' by 2022, (1) 1.95cr houses are proposed to be provided to eligible beneficiaries under PMAY-Grameen; (2) The interest deduction limit has increased by ₹1,50,000 to ₹3,50,000 for self occupied properties on loans borrowed up to March 31, 2020 and purchase value of up to ₹45 lakh.	Positive for Housing Finance Companies such as GIC Housing, CanFin Homes, Gruh Finance, PNB Housing.
₹70,000cr capital infusion in public sector banks	Positive for PSU banks, as they will be able to meet regulatory requirement and step up lending activity.
NBFCs will not have to maintain debenture redemption reserve (DDR) for debt raised through public issue. One time six months partial credit guarantee given to banks to buy pooled asset of NBFCs.	Positive for NBFCs (STFC, AB Capital, Piramal Ent., etc.), as these steps will help them to improve their liquidity position.
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.	Positive for NBFC

Ceramic

Positive

Announcement	Impact
Increase in customs duty on ceramic roofing tiles, ceramic flags and hearth or wall tiles, etc. from 10% to 15%.	Positive for domestic ceramic companies like Kajaria Ceramics, Asian Granite, Somany Ceramics, etc.

Consumption discretionary

Negative

Announcement

- Increase in customs duty on indoor and outdoor unit of split system air conditioner from 10% to 20%.

Impact

- Negative for Air Conditioner manufacturers like Voltas, Blue Star, etc. However, we believe industry would pass on the hike to consumers.

FMCG

Negative

Announcement

- Removal of custom duty exemption on palm oil & other industrial fatty acids used in manufacturing of soaps. Custom duty of 7.5% is proposed to be levied.

Impact

- Imposition of custom duty on Palm Oil shall effect companies like Godrej consumer which uses palm oil as raw material in manufacturing soaps.

Infrastructure/Cement/ Real Estate

Positive

Announcement

- Government under the Pradhan Mantri Gram Sadak Yojana (PMGSY) aims to upgrade 1.25 lakh kms of rural roads over the next five years with an outlay of ₹ 80,250 cr.
- Government has highlighted their intent to invest over ₹ 100 lakh crore in Infrastructure over the next 5 years.
- Government looking to develop inland waterways under the Jal Amrg Vikas project which will ease movement of goods in the domestic market.
- The interest deduction limit has increased by ₹1,50,000 to ₹3,50,000 for self occupied properties on loans borrowed up to March 31, 2020 and purchase value of up to ₹45 lakh..

Impact

- Positive for Infrastructure (Road) companies and cement companies such as Ultractech, ACC, Shree Cement, Star cement, etc.
- Positive for Logistics companies like container corporation and companies involved in developing inland waterways like dredging corporation
- Positive for real estate companies like Sobha Developers who cater to the affordable housing segment.

Jewellery

Negative

Announcement

- Increase in customs duty on gold from 10% to 12.5%.

Impact

- Negative for Jewellery companies like Titan Company, PC Jeweller, TBZ, etc. It will increase overall cost of jewellery, which will result in negative sentiment in consumers

Paper

Positive

Announcement	Impact
■ Increase in customs duty on Newsprint from 0% to 10%.	■ Positive for domestic paper companies like Tamil Nadu Newsprint & Paper.

Textile

Positive

Announcement	Impact
■ Reduction in customs duty on wool fibre & wool tops from 5% to 2.5%.	This would be positive for textile companies like Monte Carlo Fashions.

Others

Positive

Announcement	Impact
■ Pradhan Mantri Awas Yojana – Gramin (PMAY-G) aims to achieve the objective of "Housing for All" by 2022. A total of 1.54 crore rural homes have been completed in the last five years. In the second phase of PMAY-G, during 2019-20 to 2021-22, 1.95 crore houses are proposed to be provided to the eligible beneficiaries.	■ It would create demand for steel, cement and other building materials. This will be positive for companies in these sectors.

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