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Budget view @ Dalal & Broacha

The Budget and the Market

The equity markets in India have a strange fixation for the annual Union budget. And the market participants keenly await for incentives that the Finance minister is likely to give industries or tax concessions for the individual tax payers.

The budget that was presented this year has disappointed the investors on both these counts and as such the investors are likely to feel dejected. The fall in the market today probably was an indication of a trend that is likely in the short term.

The budget speech was long on declaration of intent but short on actual specifics. e.g the budget does speak about giving boost to manufacturing by coming up with schemes for mega manufacturing projects in sunrise industries but then no specifics on tax concessions or any details about the scheme are mentioned.

A lot was expected on the employment generation effort as well but again the budget has fallen short on that.

The Government has continued with its focus on reducing cash transactions in the economy by introducing a withdrawal tax of 2% on cash withdrawals over one crore in a year.

The Finance minister also announced that the Government may be looking at raising money externally which could ease yields in the Indian market.

Though the expectation was of a reduction in tax rate, the FM has raised taxes on assesses earning more than 2 crores. This is likely to be another sentiment dampener

On a broader front, the overall fiscal deficit is maintained at 3.3% which could be achieved in case of normal monsoon and if the economy revives post September.

Looking at the revenue receipts, In case of GST, the growth budgeted is only 3%. This may be an indication of reduction in GST rates at a later stage. Overall, growth in tax revenues is about 11%.

The receipt from divestment at INR 1,05,000 crores looks a bit ambitious

Overall, it is a normal presentation of the expected revenue and expenditure which falls short on expectations

Fertiliser

There is a distinct increase of nearly 23% in the budget for urea subsidy payment in 2019-20 which could benefit all the urea producers.

<u>Propose to increase public holding to 35% in listed companies</u>

In view of increasing public shareholding in listed companies, the Union Budget has *proposed* to raise the public shareholding from 25% to 35% post consultation with SEBI. Companies with promoter stake in excess of 65% will need to divest their stake.

A lot of MNC companies as well as some of Indian large-cap companies such as TCS, Wipro, Coal India, Avenue Supermart would be required to do the needful.

<u>Tax Exemptions to push affordable Housing</u>

Government since inception of the dream “housing for all”, 5 years back has built over 1.5 crore houses till date. In order to achieve this dream, in the 2nd phase the government has set a target to build 1.95 crore additional affordable houses. The finance minister announced tax deductions of Rs. 1.5 lacs for a home buyer (bring the total tax benefit to 3.5 lacs) under a newly introduced section, 80EEA in the act subject to fulfilling the set criteria which are:

- The loan sanctioned by any financial institution should be during the period beginning 1st April, 2019 – 31st March, 2020.
- The stamp duty value on the house property does not exceed Rs. 45 lacs
- The assesse does not own any residential house property on the sanction date of the loan.

This section would be applicable from 1st April, 2020 and subsequently apply in the assessment year 2020-21 and further years.

This move will be beneficial for the companies in the construction sector in general.

<u>Banks and Financial Services</u>

Banks

- Finance Minister has proposed an additional push of Rs 70,000 crores to public sector banks (PSBs), which will enhance their lending capacity. As most of the pain has been already recognized as NPA and credit costs are nearing its peak, this capital infusion will help PSBs to meet their minimum capital requirements and boost credit growth in the economy. In the last five years, PSBs have been recapitalized to the extent of Rs 3.19 lakh crore, with infusion of Rs. 2.5 lakh crore by the Government and mobilization of over Rs 66,000 crore by PSBs.

NBFCs

- In order to restore liquidity in the sector, Finance Minister has proposed a one-time 6-month partial guarantee of Rs 1 lakh crore to PSUs for purchasing consolidated high-rated pooled assets of fundamentally sound NBFCs. This will cover their first loss of up to 10% of the pooled amount.
- The government has allowed FIIs/FPIs to invest in debt securities issued by IDF-NBFCs. This will allow the NBFC sector, currently facing a liquidity crunch, to raise more funds.
- Finance Minister has proposed to transfer regulatory authority over housing finance companies from National Housing Bank (NHB) to the Reserve Bank of India (RBI). (NHB, besides being a refinance and lender, is the regulator of the housing finance sector).
- To treat important NBFCs at par with banks, the government has proposed that interest on bad or doubtful debts in case of deposit-taking NBFC and other important non deposit-taking NBFC shall be charged tax on receipt basis as against accrual basis earlier.
- NBFCs that provide public placement of debt have to maintain a Debenture Redemption Reserve (DRR) in addition to a special reserve required by the central bank. It is currently applicable only for public issues as private placements have no such requirement.

The budget has provided some support to the financially sound NBFCs, like Bajaj Finance, HDFC, Mahindra & Mahindra Financial Services (MMFSL) & LIC Housing Finance. Due to the proposed developments in the NBFC space, this may help lift fears of the liquidity crunch in the NBFC sector. With the government giving greater power to the central bank to regulate mortgage lenders and NBFCs, we expect this move will bring better governance in the financial services industry.

Impact on IT Sector

Proposal to increase in Minimum Public Shareholding from 25% - 35%

The FM has proposed to the SEBI to increase the Minimum Public Shareholding from 25% to 35% in listed companies. If implemented, it could keep IT companies such as TCS (72%), Wipro (74%), L&T Infotech and LTTS (75% each) under pressure as the companies will have to reduce stake through an OFS which is typically at a discount to the prevailing market price.

20% tax implication on Buyback of shares

Tax levy of 20% on buyback of shares should impact earnings of majority of the IT companies as it became the preferable route after a same tax rate was applied on dividend distribution.

Telecom Equipment

Basic Customs Duty (BCD) on Optical Fibre, Optical Fibre Bundles and Cables increased from 10% to 15%

Increase in BCD on Optic Fibre importers should increase operating costs of cable manufacturers which do not have domestic fibre manufacturing capacity. Except Sterlite Technologies, none of the domestic cable manufacturers have fibre manufacturing capabilities. Therefore we expect Sterlite Technologies to have a competitive advantage over its peers.

Retail

Increase in FPI investment in a company from 24% to sectoral foreign investment limit with an option given to the concerned corporates to limit it to a lower threshold. In case of Trent this is 24% currently and has an option to increase the same.

Consumer Goods

Earlier, in FY2018, government had increased custom duties on import of air conditioners from 10% to 20% and in the current budget the government hiked custom duty on Indoor and outdoor unit of split –system from 10% to 20% to promote make in India initiative. In the said scenario, RAC companies Voltas, Bluestar etc would be affected. However, Voltas would be less affected as compared to its peers as its new manufacturing unit at Tirupati would start commercial operations by H2FY20 thereby reducing import dependency.

Logistics:

Jal Marg Vikas Project: will enhance navigational capacity of Ganga. Multi modal terminal at Varanasi is functional since November 2018. Two more terminals, namely Sahibganj and Haldia and a navigational lock at Farakka would be completed in 2019-20.

Movement of cargo volume on Ganga is estimated to increase by four times in the next four years. This would help reduce coastal logistics cost.

Indian Railways & Metros

Rs 50 lacs crores is aspired investment towards railways by 2030. Overall budget outlay for the year is estimated at Rs1.6lac crores.

The New Metro Rail Projects for a total route length of 300 kilometers have been approved during 2018-19. Also, during 2019, about 210 kms metro lines have been operationalized. With this, 657 kms of Metro Rail network has become operational across the country. Increased investment in railways and metros is likely to benefit infrastructure and railways companies.

Major Beneficiaries: Concor, BEML, L&T, Siemens, Titagarh Wagons, Texmaco Rail

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Infrastructure

The sector has given lot of emphasis in this budget. Pradhan Mandtri Gram Sadak Yojana- II (PMGSY) is envisaged to upgrade 1, 25,000kms of road length over the next five years, with an estimated cost of 80,250 crore. Infrastructure investment is estimated at Rs20lakh cr every year. Budget has allocated Rs36691cr towards NHAI and Rs45880cr towards road works.

Major Beneficiaries: L&T, Siemens, ABB, Voltas, NCC, Sadbhav Infra, Ashoka Buildcon

Power

All villages, and almost 100% households across the country have been provided with electricity. Govt. has vision of creating 'One Nation One Grid'. It is likely to benefit distribution companies.

Major Beneficiaries: KEC International, Kalpataru Transmission

Auto

Proposed to insert new section 80EEB in the act so as to provide for a deduction up to Rs. 1.5 lac in respect of interest on loan taken for purchase of an electric vehicle from any financial institution. Market share of electric cars currently at only 0.06% in India while it is 2% in China and 39% in Norway.

Phase-II of FAME Scheme, got approved with an outlay of 10,000 crore for 3 years, from 1st April, 2019 onwards. This will further aid manufacturing of electric vehicles.

Major Beneficiaries: Maruti Suzuki, Tata Motors and M&M.

GST rate on electric vehicles reduced from 12% to 5%. Further custom duty rates on below have changed:

	FY19	**FY20**
Glass mirrors, whether or not framed, including rear-view mirrors	10%	15%
Locks of a kind used in motor vehicles	10%	15%
Oil or petrol filters for internal combustion engines	8%	10%
Vehicle Horns	10%	15%
Other visual or sound signalling equipment for bicycle and motor vehicle	8%	15%
Completely Built Unit (CBU) of vehicles	25%	30%

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