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Budget 2019: Hits and Misses

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Market View still unchanged - range-bound market with single digit returns

Overall, there is no change to our market views post-budget. While there are positives in the budget to help kick start lending, the stimulus is not enough to assure the markets that earnings recovery is imminent.

1. We think returns will be led by earnings growth with valuations already pricing an earnings recovery.

2. With Q1FY20 likely to be a poor earnings growth, we think near term markets are likely to be range-bound with a negative bias. Over the rest of the fiscal year, we are looking at single digit returns in the market.

3. The market has essentially been bipolar: a concentrated 10-15 stocks that have driven the Nifty and Sensex to new highs and the mid-caps and small caps that have sharply under-performed. We think the mid-caps and small caps are cheap and would outperform once earnings growth becomes more visible.

The Budget - The Hits

1. Bank recapitalization of Rs70,000 crores: This was a clear positive and more than street expectations. While some of this money is required for meeting the regulatory capital adequacy requirements, we think the banks have some growth capital. This will, hopefully, push the banks towards lending more, especially at a time when the NBFC crisis has created a vacuum.

2. Measures to boost NBFCs: There are 2 broad measures. First as we had stated in an earlier note, the RBI will now be given regulatory oversight of the NBFCs. An Asset Quality Review (AQR) of the NBFCs will hopefully give the market more comfort on the NBFC book. Secondly, given the current liability crunch of the NBFCs, Public Sector Banks can buy highly rated pooled assets of NBFCs upto Rs 1 lakh crores. The Government has given a credit guarantee to Public Sector Banks upto a loss of 10% for the above purchase.

3. Fall in bond yields: The bond yields were down today and have fallen nearly 25 bps over last few weeks led by (a) fiscal deficit forecast at 3.3% of GDP and (b) proposal to raise part of its borrowings in international markets. This will reduce the pressure on domestic markets of the Government borrowings. However, it is also a step that will increase India's vulnerability to global factors and hence an area Government must tread very cautiously.

4. Possible increase in India's MSCI weight in indices: One of the provisions ignored by the market is the increase in statutory FPI limit in companies from the current 24% to the sectoral foreign investment limit. This will increase the free float factor for companies in the MSCI indices and hence increase our weights thereby attracting more FII flows. The proposal to reduce promoter holding from 75% to 65% will further boost the MSCI weight.

5. Strategic disinvestment on the cards: The Finance Minister emphasized that Air India strategic investment would be revived and more companies would be put up for strategic sale. Apart from that the Government would reduce their stake in select PSUs below 51%. This marks a refreshing change in the thought process of the Government.

The Budget Misses

1. Lack of stimulus missing: The economy is in a slow-down and A Government stimulus was required to kick-start the economy in the absence of private sector capex. Unfortunately, while aiming for a fiscal deficit of 3.3%, the Government has budgeted for a capital expenditure increase of only 3.5%. The allocation to many of the key infrastructure ministries has also seen a very disappointing increase. **(See Table 1)** Thus, while the Government is committed to sharp growth in infra capex, market is a little disappointed by the lack of a big budget stimulus.

2. Regressive tax increases? For the past 20 years, India had adopted a stable tax rate regime which worked on the principle of moderate rates incentivizing tax payers to pay their dues. As part of this process, estate duty and wealth tax were abolished since cost of collecting these taxes was prohibitive. The big question now is whether we are going to reverse this whole tax principle by getting estate duty back and raising tax rates. The "super rich" surcharge has now taken tax rates above 40% for the first time in more than 25 years. While the 20% tax on buyback is aimed at plugging the "tax arbitrage" versus dividends, given the triple taxation on dividends, there exists a huge "tax arbitrage" between limited companies and LLPs.

3. **Raising minimum public share-holding:** The Finance Minister has asked SEBI to examine raising the minimum public share-holding in listed companies to 35% (from the current 25%). The market has got spooked by this since it will mean existing listed companies will need to issue nearly Rs 4 lakh crores of shares over say next 3 years (SEBI will decide the time to be given). Apart from the negative impact on market due to supply of paper, we have two concerns over this. Firstly, having a high promoter share-holding means he has skin in the game. So a lower promoter holding is not necessarily good. Secondly, mandating a very high public share-holding will mean lot of large companies (especially in technology sector) may prefer listing outside India.

Table 1: Infrastructure budgetary allocations (Rs. billion)

Budget Support	FY18	FY19BE	FY19RE	FY20BE Feb-19	FY20NBE Jul-19	% YoY Increase
Roads	610.0	710.0	786.3	830.2	830.2	6%
NHAI	238.9	296.6	373.2	366.9	366.9	-2%
Urban development*	340.2	352.6	364.6	411.8	411.8	13%
Smart cities etc	45.3	61.7	61.7	66.0	64.5	5%
AMRUT	50.0	60.0	64.0	73.0	73.0	14%
Metro projects	139.8	150.0	156.0	191.5	191.5	23%
Railways	452.3	550.9	551.4	667.7	681.2	24%
Shipping	14.9	18.8	19.4	19.0	19.0	-2%
Sagar mala, ports	4.8	6.0	3.8	5.5	5.5	44%
Inland transport	4.7	5.1	8.9	7.6	7.6	-15%
Power	139.8	150.5	156.3	158.7	158.7	2%
Aviation	26.6	66.0	97.0	45.0	45.0	-54%
Jal Shakti	**53.1**	**88.6**	**76.1**	**82.5**	**82.5**	**8%**
Namami Gange	7.0	23.0	7.5	7.5	7.5	0%
River Basin Management	2.3	2.3	2.0	2.0	2.0	0%
PMGSY	**168.6**	**190.0**	**155.0**	**190.0**	**190.0**	**23%**
PMAY	**311.6**	**275.1**	**264.1**	**258.5**	**258.5**	**-2%**
Urban	85.9	65.1	65.1	68.5	68.5	5%
Rural	225.7	210.0	199.0	190.0	190.0	-5%
Swachh Bharat	**192.5**	**178.4**	**169.8**	**127.5**	**126.4**	**-26%**
Urban	25.4	25.0	25.0	27.5	26.5	6%
Rural	169.5	153.4	144.8	100.0	99.9	-31%

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Table 2: Budget at a Glance (Rs. Crore)

Particulars	2017-18 Actuals	2018-19 Budget Estimates	2018-19 Revised Estimates	2019-20 Budget Estimates	BEFY19 vs Actuals	REFY19 vs Actuals	BE20 vs RE19
1. Revenue Receipts	**1435233**	**1725738**	**1729682**	**1962761**	**20.2%**	**20.5%**	**13.5%**
2. Tax Revenue (Net to Centre)	1242488	1480649	1484406	1649582	19.2%	19%	11.1%
3. Non Tax Revenue	192745	245089	245276	313179	27.2%	27%	27.7%
4. Capital Receipts [1]	**706740**	**716475**	**727553**	**823588**	**1.4%**	**2.9%**	**13.2%**
5. Recovery of Loans	15633	12199	13155	14828	-22.0%	-16%	12.7%
6. Other Receipts	100045	80000	80000	105000	-20.0%	-20%	31.3%
7. Borrowings and Other Liabilities[2]	591062	624276	634398	703760	5.6%	7%	10.9%
8. Total Receipts (1+4)	**2141973**	**2442213**	**2457235**	**2786349**	**14.0%**	**14.7%**	**13.4%**
9. Total Expenditure (10+13)	**2141973**	**2442213**	**2457235**	**2786349**	**14.0%**	**14.7%**	**13.4%**
10. On Revenue Account	1878833	2141772	2140612	2447780	14.0%	14%	14.3%
of which							
11. Interest Payments	528952	575795	587570	660471	8.9%	11%	12.4%
12. Grants in Aid for creation of capital assets	191034	195345	200300	207333	2.3%	5%	3.5%
13. On Capital Account	263140	300441	316623	338569	14.2%	20%	6.9%
14. Revenue Deficit (10-1)	**443600**	**416034**	**410930**	**485019**	**-6.2%**	**-7.4%**	**18.0%**
	-2.6	**-2.2**	**-2.2**	**-2.3**	**-15.4%**	**-15.4%**	**4.5%**
15. Effective Revenue Deficit (14-12)	**252566**	**220689**	**210630**	**277686**	**-12.6%**	**-16.6%**	**31.8%**
	-1.5	**-1.2**	**-1.1**	**-1.3**	**-20.0%**	**-26.7%**	**18.2%**
16. Fiscal Deficit [9-(1+5+6)]	**591062**	**624276**	**634398**	**703760**	**5.6%**	**7.3%**	**10.9%**
	-3.5	**-3.3**	**-3.4**	**-3.3**	**-5.7%**	**-2.9%**	**-2.9%**
17. Primary Deficit (16-11)	**62110**	**48481**	**46828**	**43289**	**-21.9%**	**-24.6%**	**-7.6%**
	-0.4	**-0.3**	**-0.2**	**-0.2**	**-25.0%**	**-50.0%**	**0.0%**

[1] Excluding receipts under Market Stabilisation Scheme
[2] Includes drawdown of Cash Balance

Notes:
(i) GDP for BE 2019-2020 has been projected at Rs.21100607 crore assuming 12% growth over the estimated GDP of Rs.18840731 crore for 2018-19 (RE).
(ii) Individual items in this document may not sum up to the totals due to rounding off
(iii) Figures in parenthesis are as a percentage of GDP

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Table 3: Receipts (Rs. Crore)

	2017-18 Actuals	2018-19 Budget Estimates	2018-19 Revised Estimates	2019-20 Budget Estimates	BEFY19 vs Actuals	REFY19 vs Actuals	BE20 vs RE19
REVENUE RECEIPTS							
1. Tax Revenue							
Gross Tax Revenue	**1919009**	**2271242**	**2248175**	**2461195**	**18.4%**	**17.2%**	**9.5%**
a. Corporation Tax	571202	621000	671000	766000	8.7%	17.5%	14.2%
b. Taxes on Income	430772	529000	529000	569000	22.8%	22.8%	7.6%
c. Wealth Tax	63						
d. Customs	129030	112500	130038	155904	-12.8%	0.8%	19.9%
e. Union Excise Duties	259431	259600	259612	300000	0.1%	0.1%	15.6%
f. Service Tax	81228		9283				
g. GST#	442562	743900	643900	663343	68.1%	45.5%	3.0%
h. Taxes of Union Territories	4721	5242	5342	6948	11.0%	13.2%	30.1%
Less - NCCD transferred to the NCCF/NDRF	**3515**	**2500**	**2315**	**2480**	**-28.9%**	**-34.1%**	**7.1%**
Less - State's share	**673006**	**788093**	**761454**	**809133**	**17.1%**	**13.1%**	**6.3%**
1a Centre's Net Tax Revenue	**1242488**	**1480649**	**1484406**	**1649582**	**19.2%**	**19.5%**	**11.1%**
2. Non-Tax Revenue	**192745**	**245089**	**245276**	**313179**	**27.2%**	**27.3%**	**27.7%**
Interest receipts	13574	15162	12047	13711	11.7%	-11.2%	13.8%
Dividends and Profits	91361	107312	119264	163528	17.5%	30.5%	37.1%
Other Non Tax Revenue	82338	117886	110619	133790	43.2%	34.3%	20.9%
Receipts of Union Territories	1890	2062	2076	2149	9.1%	9.8%	3.5%
Total- Revenue Receipts (1a + 2)	**1435233**	**1725738**	**1729682**	**1962761**	**20.2%**	**20.5%**	**13.5%**
3. CAPITAL RECEIPTS							
A. Non-debt Receipts	**115678**	**92199**	**93155**	**119828**	**-20.3%**	**-19.5%**	**28.6%**
(i) Recoveries of loans and advances@	15633	12199	13155	14828	-22.0%	-15.9%	12.7%
(ii) Miscellaneous Capital Receipts	100045	80000	80000	105000	-20.0%	-20.0%	31.3%
B. Debt Receipts*	**586971**	**581210**	**593197**	**652702**	**-1.0%**	**1.1%**	**10.0%**
Total Capital Receipts (A+B)	**702649**	**673409**	**686352**	**772529**	**-4.2%**	**-2.3%**	**12.6%**
4. Draw-Down of Cash Balance	**4093**	**43066**	**41201**	**51059**	**952.2%**	**906.6%**	**23.9%**
Total Receipts (1a+2+3)	**2137882**	**2399147**	**2416034**	**2735290**	**12.2%**	**13.0%**	**13.2%**

 # includes GST compensation cess
** The receipts are net of payment.*
@ Excludes recoveries of short term loans and advances from States, loans to Government servants, etc..

Table 4: Deficit Statistics (Rs. Crore)

	2017-18 Actuals	2018-19 Budget Estimates	2018-19 Revised Estimates	2019-20 Budget Estimates
1. Fiscal Deficit	**591062**	**624276**	**634398**	**703760**
	-3.5	-3.3	-3.4	-3.3
2. Revenue Deficit	**443600**	**416034**	**410930**	**485019**
	-2.6	-2.2	-2.2	-2.3
3. Effective Revenue Deficit	**252566**	**220689**	**210630**	**277686**
	-1.5	-1.2	-1.1	-1.3
4. Primary Deficit	**62110**	**48481**	**46828**	**43289**
	-0.4	-0.3	-0.2	-0.2

Note: Figures in parenthesis are as a percentage of GDP

Table 5: Sources of Financing Fiscal Deficit (Rs. Crore)

	2017-18 Actuals	2018-19 Budget Estimates	2018-19 Revised Estimates	2019-20 Budget Estimates
1. Debt Receipts (Net)				
2. Market Borrowings (G-Sec + T Bills)	455207	407120	447737	448122
3. Securities Against Small Savings	102628	75000	125000	130000
4. State Provident Funds	15799	17000	17000	18000
5. Other Receipts (Internal Debt and Public Account)	5406	84679	8353	59531
6. External Debt	7931	(-) 2589	(-) 4893	(-) 2952
7. Draw Down of Cash Balance	**4091**	**43066**	**41201**	**51059**
8. Grand Total	**591062**	**624276**	**634398**	**703760**

Table 6: Likely divestment for top companies (Rs. Crore)

Sr.No.	Company Name	Mcap (Rs. Cr.)	Promoter Holding	Likely Public divestment (Rs. Cr.)
1	Tata Consultancy Services Ltd.	808920	72.05	57029
2	Wipro Ltd.	164132	73.85	14526
3	Avenue Supermarts Ltd.	85521	81.20	13854
4	HDFC Life Insurance Co Ltd	96860	76.14	10790
5	IDBI Bank Ltd.	28160	97.46	9141
6	Coal India Ltd.	149230	70.96	8894
7	General Insurance Corporation of India Ltd.	41395	85.78	8602
8	Hindustan Unilever Ltd.	388636	67.19	8511
9	HDFC Asset Management Company Ltd.	42604	82.72	7549
10	Bank Of India	31098	87.05	6857
11	Interglobe Aviation Ltd.	60683	74.93	6026
12	Hindustan Aeronautics Ltd.	23971	89.97	5985
13	ICICI Prudential Life Insurance Company Ltd.	57477	74.98	5736
14	The New India Assurance Co. Ltd.	25363	85.44	5184
15	Corporation Bank	17053	93.50	4860
16	Siemens Ltd.	45076	75.00	4508
17	UCO Bank	14430	93.29	4082
18	Bharti Airtel Ltd.	187281	67.14	4008
19	Punjab National Bank	37914	75.41	3947
20	Allahabad Bank	18497	85.82	3851
21	SBI Life Insurance Company Ltd.	76260	69.80	3660
22	ABB India Ltd.	33122	75.00	3312
23	DLF Ltd.	47278	71.91	3267
24	Indian Overseas Bank	11701	92.52	3220
25	Berger Paints India Ltd.	30591	74.98	3053
26	Oriental Bank Of Commerce	12962	87.58	2927
27	Pidilite Industries Ltd.	61394	69.75	2916
28	Larsen & Toubro Infotech Ltd.	28877	74.80	2830
29	Reliance Nippon Life Asset Management Ltd.	13537	85.75	2809
30	KIOCL Ltd	8157	99.06	2778
31	Bosch Ltd.	48984	70.54	2714
32	Bank Of Maharashtra	9726	92.49	2674
33	Central Bank Of India	10104	91.20	2647
34	3M India Ltd.	25583	75.00	2558
35	United Bank of India	7963	96.83	2535
36	NMDC Ltd.	34415	72.28	2505
37	Adani Power Ltd.	24877	74.97	2480
38	Mangalore Refinery & Petrochemicals Ltd.	10498	88.58	2475
39	Adani Transmission Ltd.	24806	74.92	2461
40	L&T Technology Services Ltd.	17684	78.88	2454
41	Glaxosmithkline Consumer Healthcare Ltd.	32797	72.46	2447
42	Oracle Financial Services Software Ltd.	28558	73.50	2427
43	Gillette India Ltd.	24146	75.00	2415
44	Kansai Nerolac Paints Ltd.	23559	74.99	2354
45	Cadila Healthcare Ltd.	23674	74.79	2318
46	SJVN Ltd.	9687	88.78	2304

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