Decoding the Union Budget 2019-20: *Primum non nocere**

8 July 2019

Mumbai

*From the Hippocratic oath, meaning, "First do no harm."

Top five takeaways from the Budget

- **We would rate the budget 8/10. By staying on the glide path, despite fiscal expansion pressure, the Budget remains faithful to the US$5trn-by-2025 objective. However, tax estimates remain ambitious.**
  - ✓ **Markets:** Increase in free float requirement (35%), creation of a social stock exchange, deepen corporate bond markets, rationalization and simplification of KYC norms for FPIs, tax incentives for IFSC.
  - ✓ **Consumption/Rural:** Boost to rural development through better roads, e-NAM, skilled labour force, water conservation schemes, push to e-vehicles (EVs), rural electrification, certain consumer items made cheaper.
  - ✓ **Tax strategy:** Lower corporate tax for a wider base (99.3%), simplified GST, higher income tax on HNIs.
  - ✓ **Infra spending:** Increased spending on roads, long-term infrastructure funding, affordable housing, smart-cities, REITS, ports, shipping, inland waterways and aviation.
  - ✓ **On the US$5trn path:** Encourage FDI, raise FPI investment limit in companies, cheaper transportation of domestic goods, commercialization of space products, Digital India, Make in India, Blue economy, Health for All, Self-sufficiency and export of food grains, Physical and social infrastructure, Pollution-free India.

A deeper look…for the long-term picture

❖ We envision the Budget across the following dimensions:

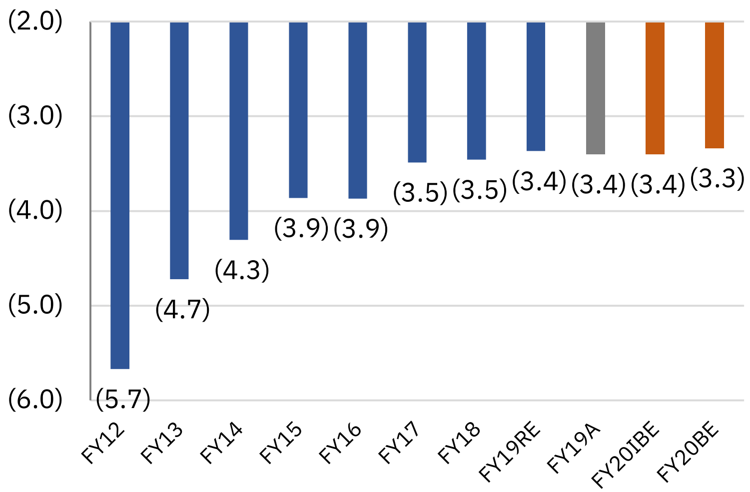
- ✓ **<u>Fiscal strategy</u>**: Tax collections look ambitious, *barely achievable, going by FY19A performance*; part-funded by higher non-tax revenues. Expenditure levels maintained vis-à-vis interim budget, subsidies raised marginally, hike in disinvestment to over Rs1.05trn, first-time ever; Borrowings witness a sharp uptick to Rs7.1trn, would need support from ext. borrowing (with attendant risks). Specifically: 1) Higher taxes on HNIs (higher surcharges); 2) Tax hike on fuel prices (in excess of Rs2/litre); 3) Lower tax (25%) now extended to Cos with Revs <Rs4bn; 4) Allocation of Rs700bn towards bank recapitalisation is a positive step for reviving growth.

- ✓ **<u>Fiscal prudence</u>**: Importantly, the fisc has been maintained at 3.3%, with an assurance of meeting FRBM guidelines, i.e., taking the fisc deficit to 3% of GDP by FY21 and FY22.

- ✓ **<u>Sector implications</u>**: Sector-specific announcements include hike in customs, push to corporate bonds FDI in insurance/aviation/media, and sops/higher allocation to the infra sector. Details follow later.

- ✓ **<u>Market implications</u>**: Fiscal prudence, support to banks, NBFCs is a positive. 35% float a long-term positive, but would weigh in the near-term. Higher tax on HNIs, FPIs (Trusts) a negative.

Fiscal deficit trend (% of GDP)



A quick glance at fiscal balances

	FY19A	%YoY	FY20BE	%YoY
Net tax revenues	13,170	6.0	16,495	25.3
Non-tax revenues	2,462	27.7	3,132	27.2
Non-debt cap receipts	1,029	(11.1)	1,198	16.5
Total receipts	**16,661**	**7.4**	**20,825**	**25.0**
Revenue Expenditure	20,085	6.9	24,478	21.9
Capital Expenditure	3,030	15.1	3,386	11.8
Total expenditure	**23,114**	**7.9**	**27,863**	**20.5**
Fiscal deficit	**(6,454)**	**9.2**	**(7,038)**	**9.1**
% GDP	(3.4)		(3.3)	

Source: Budget documents, NSE

Fiscal deficit snapshot (%)

Items (%)	FY19BE (%YoY)	FY19RE (%YoY)	% change from FY19BE	FY19A (%YoY)	FY20 IBE over FY19RE (%YoY)	FY20 IBE over FY19A (%YoY)	FY20 BE over FY19RE (%YoY)	FY20 BE over FY19A (%YoY)	% change from FY20 IBE
Central govt. net tax revenue	**19.2**	**19.5**	**0.3**	**6.0**	**14.9**	**29.5**	**11.1**	**25.3**	**(3.3)**
Of which:									
Direct Tax	**16.0**	**21.1**	**4.3**	**13.5**	**15.0**	**22.6**	**11.3**	**18.6**	**(3.3)**
Corporation tax	8.7	17.5	8.1	16.2	13.3	14.5	14.2	15.4	0.8
Income tax	26.0	26.0	-	9.9	17.2	34.3	7.6	23.3	(8.2)
Indirect Tax	**22.4**	**14.4**	**(6.6)**	**3.1**	**11.8**	**24.1**	**7.3**	**19.1**	**(4.0)**
Goods and service tax	68.1	45.5	(13.4)	32.0	18.2	30.3	3.0	13.6	(12.9)
Custom Duties	(12.8)	0.8	15.6	(8.6)	11.8	23.3	19.9	32.2	7.2
Excise Duties	0.4	0.4	0.0	(10.7)	(0.0)	12.4	15.6	29.9	15.6
Others	(68.5)	(67.9)	1.9	(7.9)	11.3	(61.2)	30.2	(54.6)	16.9
States Share	17.1	13.1	(3.4)	13.1	10.9	10.9	6.3	6.3	(4.2)
Transferred to NCCD	(28.9)	(34.1)	(7.4)	(48.8)	7.1	37.9	7.1	37.9	-
Non-Tax Revenue	**27.2**	**27.3**	**0.1**	**27.7**	**11.2**	**10.7**	**27.7**	**27.2**	**14.9**
Dividends and profits	17.5	30.5	11.1	24.1	14.1	20.0	37.1	44.2	20.2
Telecom auctions	51.8	22.4	(19.4)		5.8		28.7		21.7
Central govt. revenue receipts	**20.2**	**20.5**	**0.2**	**8.9**	**14.3**	**26.5**	**13.5**	**25.6**	**(0.8)**
Non-Debt Capital Receipts	(20.3)	(19.5)	1.0	(11.1)	10.0	(0.4)	28.6	16.5	16.9
Divestment proceeds	(20.0)	(20.0)	-	(15.0)	12.5	5.8	31.3	23.5	16.7
Total Receipts	**17.2**	**17.5**	**0.3**	**7.4**	**14.1**	**24.9**	**14.2**	**25.0**	**0.1**
Revenue Expenditure	14.0	13.9	(0.1)	6.9	14.4	21.9	14.3	21.9	(0.0)
Subsidy outgo	30.5	33.3	2.2	(12.2)	11.7	69.6	13.3	72.0	1.4
Capital Expenditure	14.2	20.3	5.4	15.1	6.2	11.0	6.9	11.8	0.7
Total Expenditure	**14.0**	**14.7**	**0.6**	**7.9**	**13.3**	**20.5**	**13.4**	**20.5**	**0.1**
Fiscal Deficit	**5.6**	**7.3**	**1.6**	**9.2**	**11.0**	**9.1**	**10.9**	**9.1**	**(0.0)**

Source: indiabudget.gov.in BE – Budget Estimate, RE – Revised Estimate, A – Actual, IBE – Interim Budget Estimate

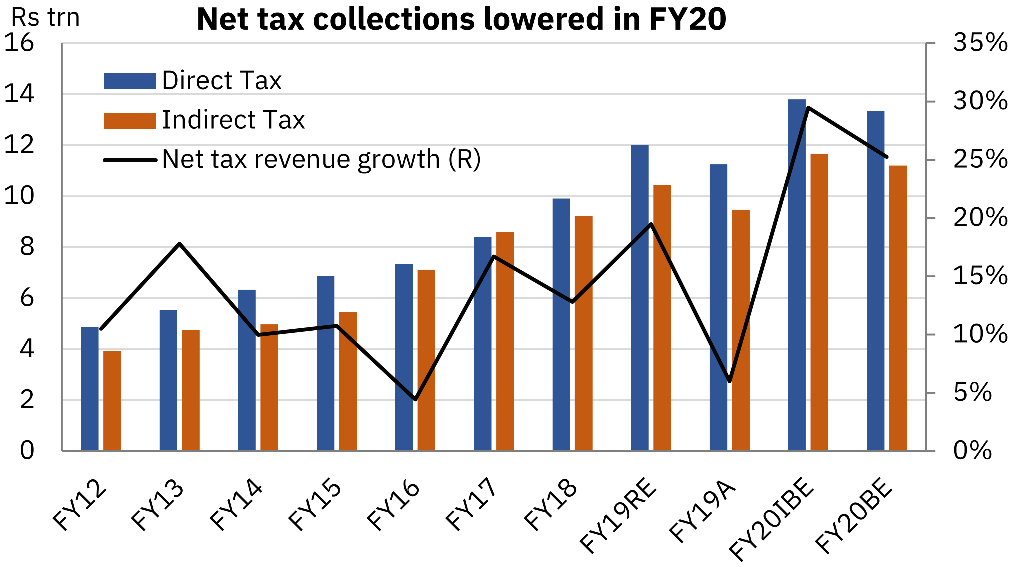
Fiscal deficit snapshot (Rs bn)

Items (Rs bn)	FY19BE	FY19RE	FY19A	FY20 IBE	FY20 BE
Central govt. net tax revenue	**14,806**	**14,844**	**13,170**	**17,050**	**16,495**
Of which:					
Direct Tax	**11,500**	**12,000**	**11,252**	**13,800**	**13,350**
Corporation tax	6,210	6,710	6,636	7,600	7,660
Income tax	5,290	5,290	4,617	6,200	5,690
Indirect Tax	**11,160**	**10,428**	**9,398**	**11,662**	**11,192**
Goods and service tax	7,439	6,439	5,840	7,612	6,633
Custom Duties	1,125	1,300	1,179	1,454	1,559
Excise Duties	2,596	2,596	2,310	2,596	3,000
Others	52	53	152	59	69
States Share	(7,881)	(7,615)	(7,615)	(8,446)	(8,091)
Transferred to NCCD	(25)	(23)	(18)	(25)	(25)
Non-Tax Revenue	**2,451**	**2,453**	**2,462**	**2,726**	**3,132**
Dividends and profits	1,073	1,193	1,134	1,361	1,635
Telecom auctions	487	392		415	505
Central govt. revenue receipts	**17,257**	**17,296**	**15,632**	**19,777**	**19,627**
Non-Debt Capital Receipts	922	932	1,029	1,025	1,198
Divestment proceeds	800	800	850	900	1,050
Total Receipts	**18,179**	**18,228**	**16,661**	**20,802**	**20,825**
Revenue Expenditure	21,418	21,406	20,085	24,479	24,478
Subsidy outgo	2,928	2,992	1,971	3,342	3,389
Capital Expenditure	3,004	3,166	3,030	3,363	3,386
Total Expenditure	**24,422**	**24,572**	**23,114**	**27,842**	**27,863**
Fiscal Deficit	**(6,243)**	**(6,344)**	**(6,454)**	**(7,040)**	**(7,038)**
Fiscal Deficit/GDP	**(3.3)**	**(3.4)**	**(3.4)**	**(3.4)**	**(3.3)**

Source: indiabudget.gov.in BE – Budget Estimate, RE – Revised Estimate, A – Actual, IBE – Interim Budget Estimate

Tax collections pared but remain ambitious

- Overall tax collections lowered by 3.3% from interim budget figures, **implying a growth of 25% from FY19A (6%YoY).**
- Direct tax: Income tax lowered despite rise in surcharge levels for high-income individuals. Corporate tax cut to 25% further extended to companies with a turnover of upto Rs 400cr.
- Indirect tax: GST collections lowered possibly due to the lower revenue realisation in FY19. Indirect tax buoyancy reliant on excise and custom duties.



Tax revenue assumptions have been reduced from the interim budget: Share of direct tax collections remains higher than indirect taxes

Rs bn	FY19RE	%YoY	FY19A*	%YoY	FY20 IBE	%YoY from FY19A	FY20BE	%YoY from FY19A	% Change from IBE
Direct Tax	**12,000**	**21.1%**	**11,252**	**13.5%**	**13,800**	**22.6%**	**13,350**	**18.6%**	**-3.3%**
Corporation tax	6,710	17.5%	6,636	16.2%	7,600	14.5%	7,660	15.4%	0.8%
Income tax	5,290	26.0%	4,617	9.9%	6,200	34.3%	5,690	23.3%	-8.2%
Indirect Tax	**10,428**	**13.1%**	**9,467**	**2.6%**	**11,662**	**23.2%**	**11,192**	**18.2%**	**-4.0%**
Goods and service tax	6,439	45.5%	5,840	32.0%	7,612	30.3%	6,633	13.6%	-12.9%
Customs	1,300	0.8%	1,179	-8.6%	1,454	23.3%	1,559	32.2%	7.2%
Union excise duty	2,596	0.4%	2,310	-10.7%	2,596	12.4%	3,000	29.9%	15.6%
Other taxes	203	-80.6%	152	-85.5%	128	-15.8%	69	-54.6%	-46.1%
Gross tax collections	**22,482**	**17.2%**	**20,802**	**8.4%**	**25,521**	**22.7%**	**24,612**	**18.3%**	**-3.6%**
Net tax collections	**14,844**	**19.5%**	**13,170**	**6.0%**	**17,050**	**29.5%**	**16,495**	**25.2%**	**-3.3%**

Source: Budget documents, NSE
*provisional numbers from CGA.nic.in

Revision in direct tax rates

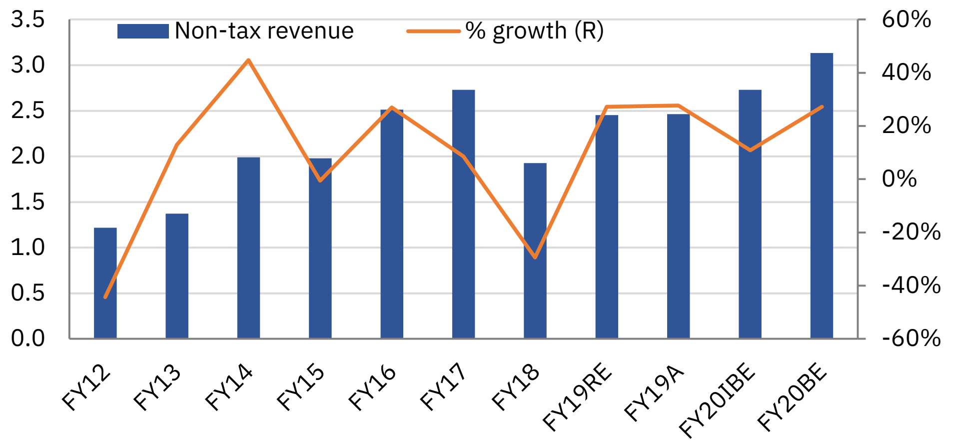
Revision in direct tax regulations	Old	New
Income tax rate for individuals having total taxable income up to Rs0.5m	Below 60 years: Nil upto Rs0.25m and 5% above Rs0.25m to Rs0.5m 60-80 years: Nil upto Rs0.3m and 5% above Rs0.3m to Rs0.5m Above 80 years: Nil upto Rs0.5m	No income-tax is payable by an individual having taxable income up to Rs0.5m.
Deduction limit on interest paid on electric vehicle loan	Nil	Rs 1,50,000
Deduction limit on interest paid on loan borrowed up to March 31, 2020 for purchase of affordable house valued up to Rs4.5m	Rs 2,00,000	Rs 3,50,000
Surcharge on high income individuals	10% of tax on incomes between Rs5-10m, 15% on incomes above Rs10m. Surcharge not to exceed income above the threshold. Peak effective tax: 35.88%	10% of tax on incomes between Rs5-10m, 15% on incomes between Rs10-20m, 25% on incomes between Rs20-50m, and 37% on incomes above Rs50m. Surcharge not to exceed income above the threshold. Peak effective tax: 42.74%.
TDS on cash withdrawal	NIL	2% on cash withdrawal exceeding Rs10m in a year from a bank account for a business.
Corporate tax rate for companies having annual turnover above Rs2.5bn upto Rs4bn	30%	25%
Tax incentive for IFSC	100% of profits for first five consecutive years and 50% for next five consecutive years from the year of commencement. Exemption of DDT available for distribution from current income.	100% profit-linked deduction of income for any 10 consecutive years out of 15 years from the year of commencement. Exemption of DDT from current and accumulated income to companies and mutual funds. Exemption on capital gain tax to Category-III AIF.
Tax incentive for NBFCs	Earlier this provision was available for scheduled banks and other financial institutions	Deposit taking and systemically important non-deposit taking NBFCs can now pay tax in the year they receive interest for certain bad or doubtful debts.
TDS on payment by individuals or HUF to resident contractor or professional for personal use	Nil	5% if the annual payment exceeds Rs5m.

Source: Budget documents, NSE

Tax shortfall to be compensated by non-tax revenues

- Shortfall in tax collections to be compensated from higher non-tax revenues.
- Non-tax revenue growth budgeted at 27%, 14.7% higher than interim budget estimates, on higher revenues from dividends (RBI and PSUs) & profit sharing (up 20.2% from interim budget estimates) and Economic services (big jump coming from Communication (Telecom) and Transport services).

Non tax collections have increased



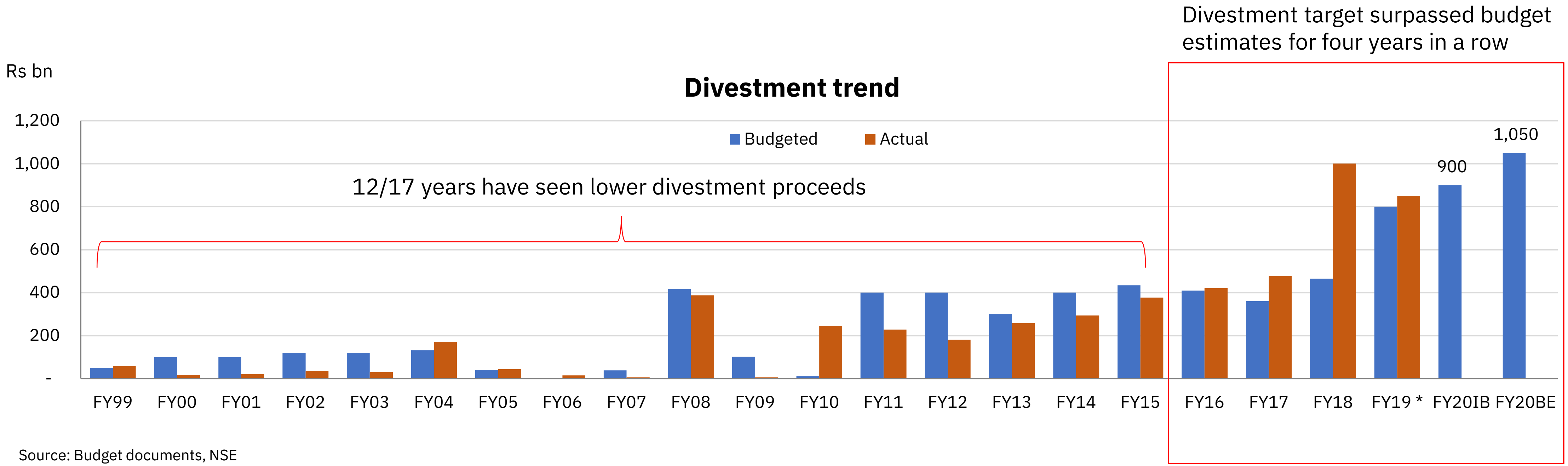
Non-tax revenue assumptions seem ambitious but achievable: Budget estimates raised by ~15% from interim estimate

Rs bn	FY18	FY19RE	%YoY	FY19A*	%YoY	FY20 IBE	%YoY	FY20BE	%YoY	% Change from IBE
Non-tax revenue	**1,927**	**2,453**	**27.3%**	**2,462**	**27.7%**	**2,729**	**10.9%**	**3,132**	**27.2%**	**14.7%**
Interest receipt	136	120	-11.2%	128	-5.6%	129	0.7%	137	7.0%	6.2%
Dividends and profits	914	1,193	30.5%	1,134	24.1%	1,361	20.0%	1,635	44.2%	**20.2%**
Union Territories	19	21	9.8%	19	-1.6%	21	15.6%	21	15.6%	0.0%
Other non-tax revenue	859	1,119	30.2%	1,181	37.5%	1,218	3.1%	1,338	13.3%	9.8%
Fiscal services	7	4	-39.9%	8	7.8%	4	-43.6%	4	-43.6%	0.0%
General services	173	179	3.5%	195	13.1%	217	11.0%	234	20.1%	8.2%
Social and community services	37	27	-26.5%	30	-18.1%	40	34.9%	42	39.3%	3.3%
Economic services	888	897	0.9%	938	5.6%	944	0.6%	1,047	11.7%	**11.0%**

Source: Budget documents, NSE
*provisional numbers from CGA.nic.in

Divestment revised up to Rs 1.05 trn – stretched but achievable

- Disinvestment target revised up from Rs 900bn in the interim budget to Rs 1.05trn—slightly stretched but achievable.
- Realignment of holdings in CPSEs, inclusion of the stake of govt. controlled institutions in the 51% govt. holding and continued focus on strategic divestment to help meet the target.
- Proposal to make CPSE ETFs eligible for tax exemption under Section 80C (similar to ELSS) is likely to provide a boost to CPSE ETF issuances. Notably, the govt. raised nearly Rs 450bn or 53% of the overall divestment target for FY19 through CPSE and Bharat 22 ETFs.

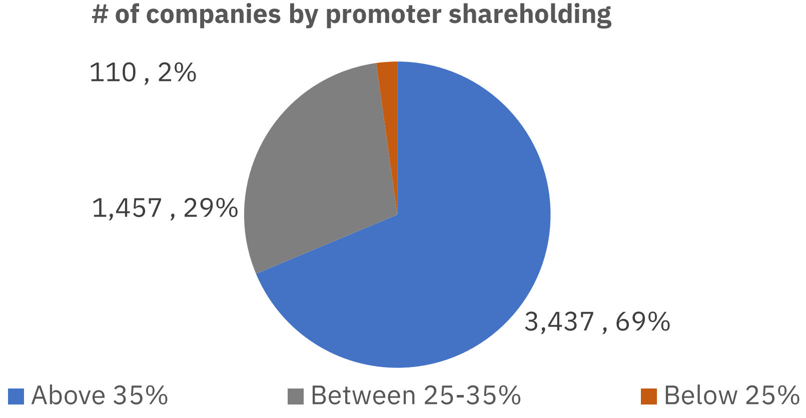


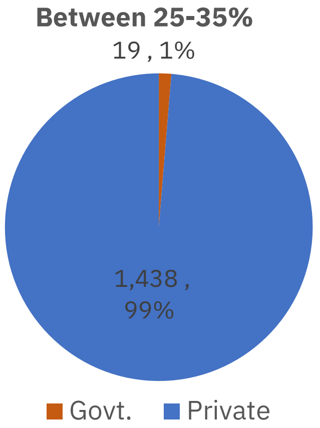
Source: Budget documents, NSE
*provisional numbers for FY19 actuals from CGA website

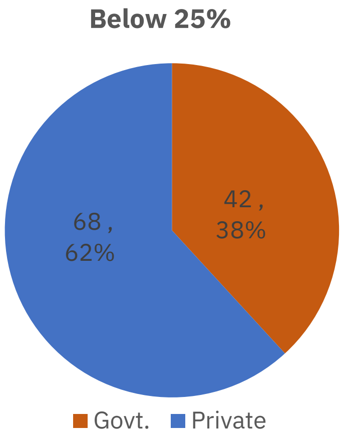
Increase in free float to 35% => fresh equity supply of Rs 3.6trn

- Nearly 31% of the listed universe has promoter shareholding of less than 35%.
- Increase in free float to 35% to result in fresh equity supply of Rs 3.6trn, of which ~71% would be by the private sector.

Distribution of companies by private and govt. wise promoter shareholding







Potential fresh equity supply on increase in min. free float from 25% to 35%

	# of companies	Fresh equity supply (Rs bn)	% of total supply
Between 25% and 35%			
Government	**19**	**218**	**6%**
Centre	17	216	6%
State	2	2	0%
Private Sector	**1,438**	**2,065**	**58%**
Foreign	92	527	15%
Indian	1,345	1,538	43%
Joint	1	0	0%
Below 25%			
Government	**42**	**808**	**23%**
Centre	40	806	23%
State	2	2	0%
Private Sector	**68**	**469**	**13%**
Foreign	3	8	0%
Indian	65	461	13%
Total	**1,567**	**3,560**	**100%**

Source: Prowess, NSE.
Price data is as of June 30, 2019

Increase in free float to 35% – Company-level analysis

Fresh paper on offer for top 10 companies in government, Indian private and foreign private sectors

	Free float (%)	Market cap (Rs bn)	Paper on offer (Rs bn)
Government			
I D B I Bank	2.5	278	90
Coal India	29.0	1,491	89
Bank Of India	10.9	308	74
Hindustan Aeronautics	10.0	233	58
Allahabad Bank	8.0	181	49
Corporation Bank	6.5	170	48
Punjab National Bank	24.6	376	39
UCO Bank	9.8	144	36
Indian Overseas Bank	7.5	117	32
OBC	12.4	128	29
Rest		3,564	484
Top 10 share		**49%**	**53%**

	Free float (%)	Market cap (Rs bn)	Paper on offer (Rs bn)
Indian private			
TCS	28.0	8,114	572
Wipro	26.2	1,641	145
Avenue Supermarts	18.8	847	137
Bandhan Bank	17.7	653	113
HDFC Asset Management	17.3	420	74
Interglobe Aviation	25.1	600	60
DLF	28.1	463	32
Berger Paints India	25.0	304	30
Pidilite Industries	30.3	613	29
L&T Infotech	25.2	289	28
Rest		10,699	779
Top 10 share		**57%**	**61%**

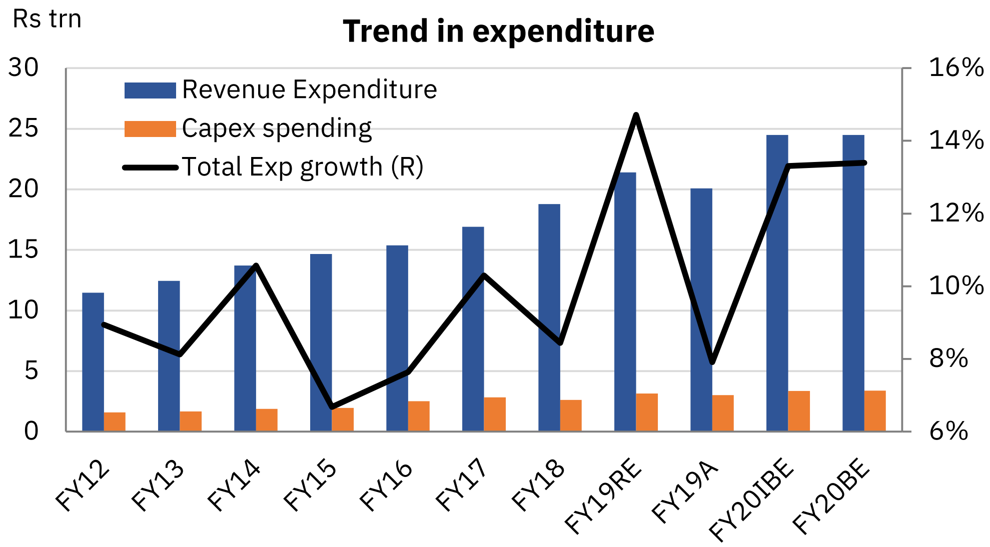
	Free float (%)	Market cap (Rs bn)	Paper on offer (Rs bn)
Foreign private			
HUL	32.8	3,878	85
Siemens	25.0	449	45
ABB India	25.0	327	33
Bosch	29.5	487	27
3M India	25.0	256	26
GlaxoSmithKline Consumer Healthcare	27.5	327	24
Gillette India	25.0	240	24
Oracle Financial Svs. Software	26.5	283	24
Kansai Nerolac Paints	25.0	236	24
Honeywell Automation India	25.0	217	22
Rest		3,564	484
Top 10 share		**49%**	**53%**

Source: Prowess, NSE.
Price data is as of June 30, 2019

Top 10 companies (Public+Private+Foreign) to account for ~59% of the fresh equity supply on account of increase in free float from 25% to 35%.

Expenditure broadly unchanged

- Total expenditure raised 20.5% in FY20 vs. 14.7% in FY19RE.
- Capital expenditure share has fallen from 12.9% in FY19RE to 12.2% in FY20BE.
- IEBR for food and public distribution has fallen vs. the interim budget estimate.
- Focus on railways, roads, transport and highways continues.

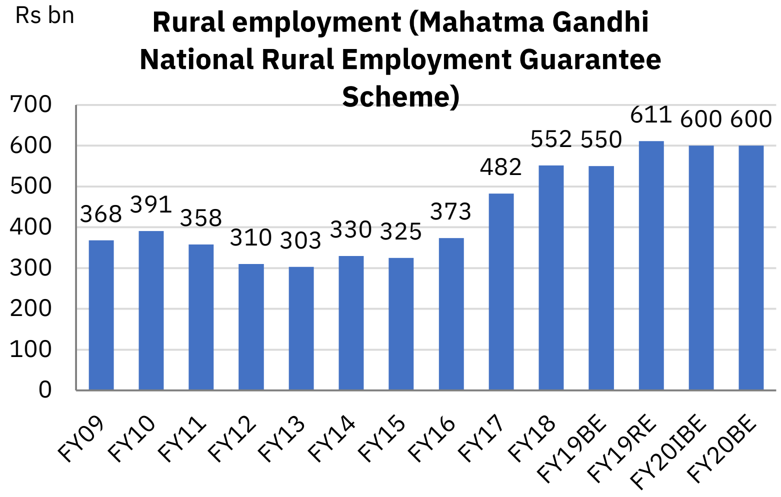


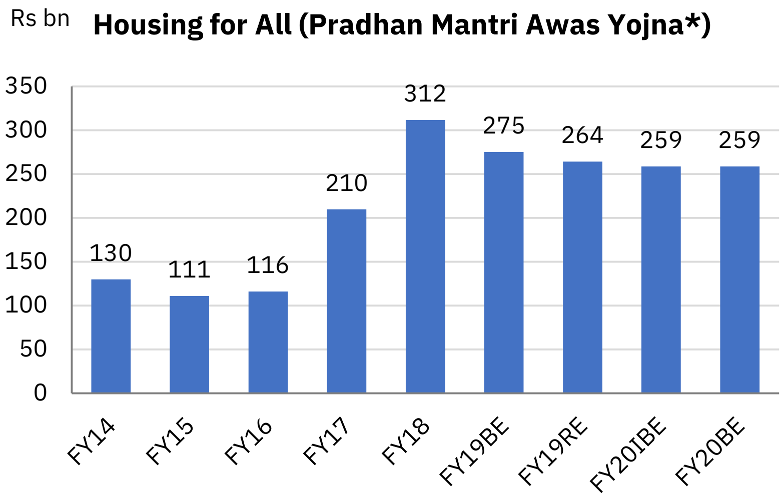
Ministry-wise capital expenditure (includes IEBR*): Top sectors account for 93% of the IEBR in FY20, total IEBR down 13% from interim budget

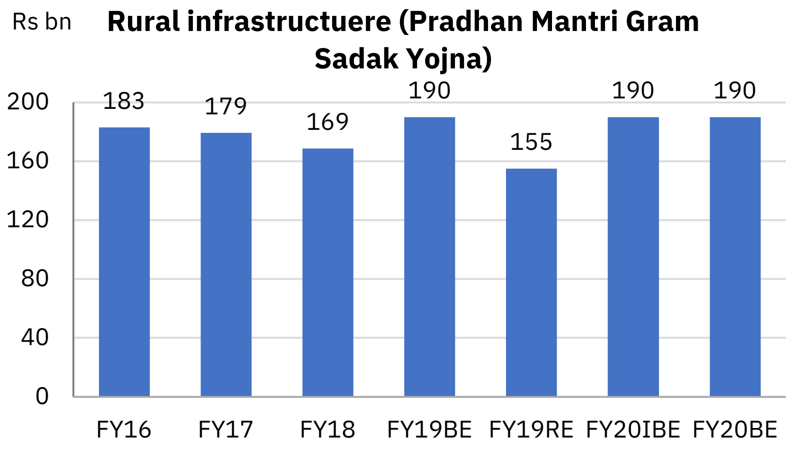
Rs bn	FY19RE		FY20IBE			FY20BE		
	GBS	IEBR	GBS	IEBR	%YoY (for total GBS+IEBR)	GBS	IEBR	%YoY (for total GBS+IEBR)
Ministry of Railways	551	858	646	941	12.6%	658	941	13.5%
Ministry of Petroleum and Natural Gas	20	944	17	936	-1.2%	17	936	-1.2%
Department of Food and Public Distribution	14	1,643	13	1,782	8.4%	13	905	-44.6%
Ministry of Roads, Transport and Highways	686	620	720	750	12.6%	721	750	12.6%
Ministry of Power	21	732	26	430	-39.4%	24	424	-40.5%
Department of Rural Development	0	146	1	262	79.5%	1	262	79.5%
Ministry of Coal	-	175	-	201	14.7%	-	201	14.7%
Ministry of Housing and Urban Affairs	170	197	195	194	6.1%	195	194	6.1%
Department of Telecommunications	35	157	50	139	-1.2%	50	139	-1.2%
Ministry of Civil Aviation	40	49	0	56	-36.6%	0	126	42.3%
Ministry of New and Renewable Energy	0	108	0	124	14.4%	0	124	14.4%
Total	**3,166**	**6,126**	**3,363**	**6,170**	**2.6%**	**3,386**	**5,376**	**-5.7%**

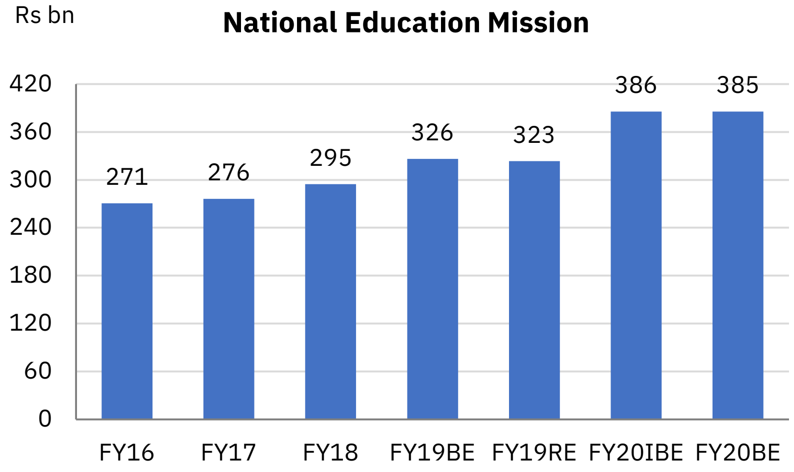
Source: Budget documents, NSE
*IEBR – internal and Extra Budgetary Resources GBS – Gross Budgetary Support

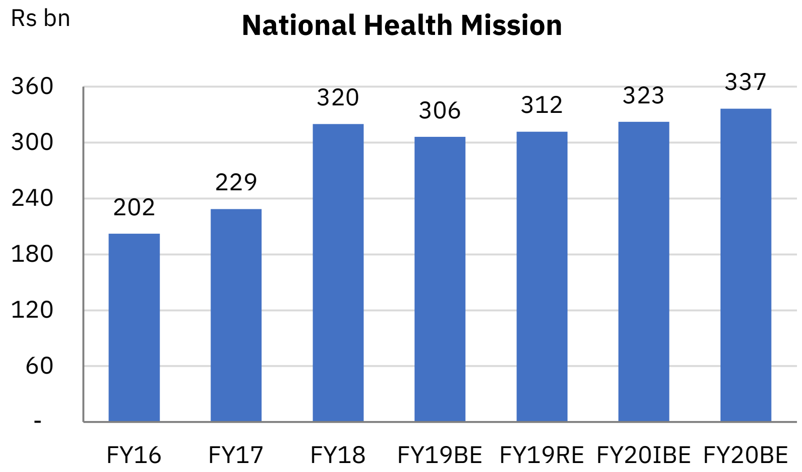
Spending in social programs remains broadly intact

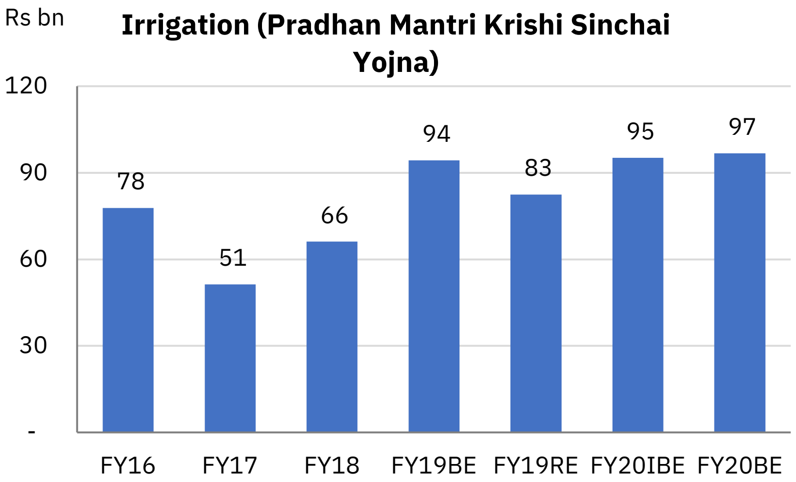












NSE

Source: Budget documents, NSE
* Erstwhile Indra Awas Yojna

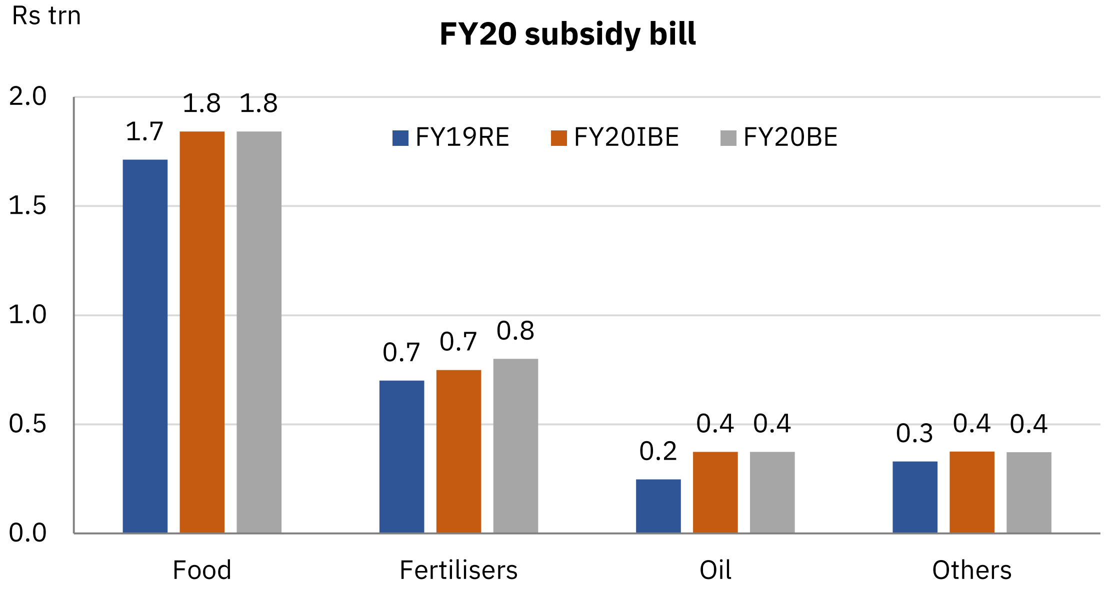
Subsidy bill continues to remain high

- Subsidies' budgeted estimate revised up by ~Rs47bn from interim budget estimates to Rs 3.4trn, implying a 1.4% growth. Mainly increase in fertilizer subsidy.
- About 66% of the subsidies allocated in FY19 have been utilized; **food subsidy backlog remains high.**
- Subsidy share of expenditure has come off sharply, but still remains high at 12% in FY20.

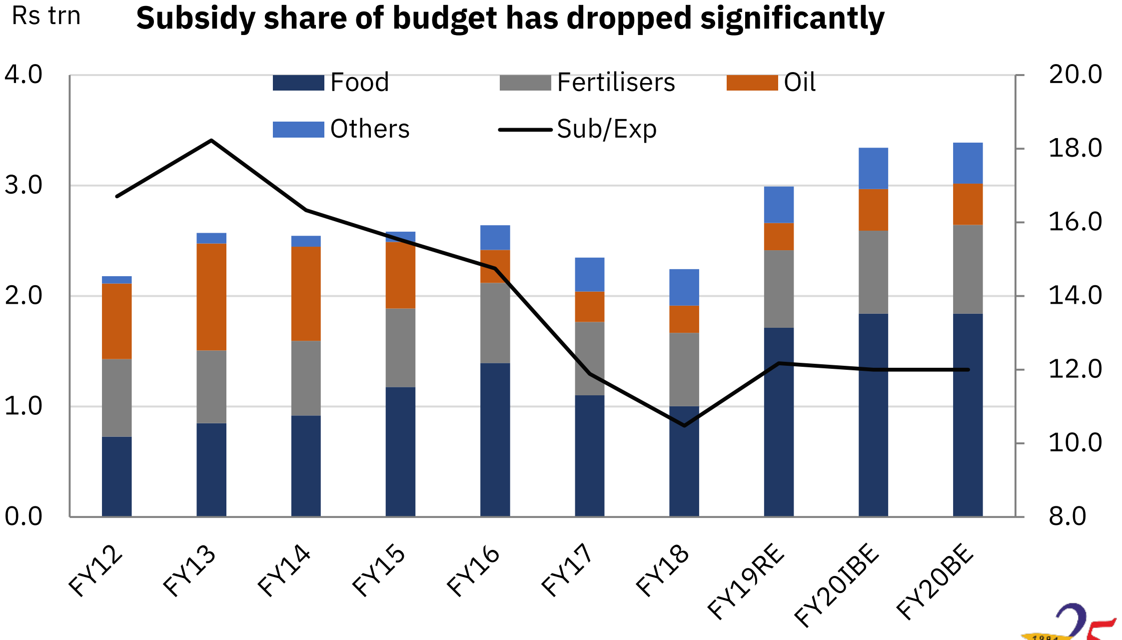
About 66% of the subsidies utilized in 2019-20

Rs bn	FY19BE	FY19RE	FY19 Actual subsidy bill*	% utilised in FY19	FY20IBE	FY20BE
Subsidies	**2,928**	**2,992**	**1,971**	**65.9%**	**3,342**	**3,389**
Food	1,693	1,713	1,019	59.5%	1,842	1,842
Fertilisers	701	701	706	100.7%	750	800
Oil	249	248	246	98.9%	375	375
Others	285	330	-	0.0%	376	373

Source: Budget documents, NSE
*provisional numbers for FY19 actuals from CGA website



Source: Budget documents, NSE



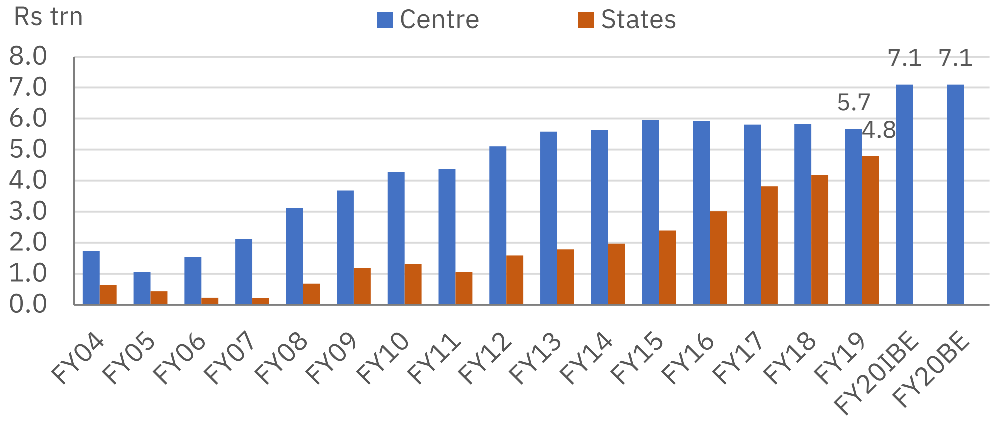
Borrowing target retained at Rs 7.1trn

- ❖ A part of the market borrowings to be raised in external markets – to ease domestic demand environment and reduce crowding out of the private sector.

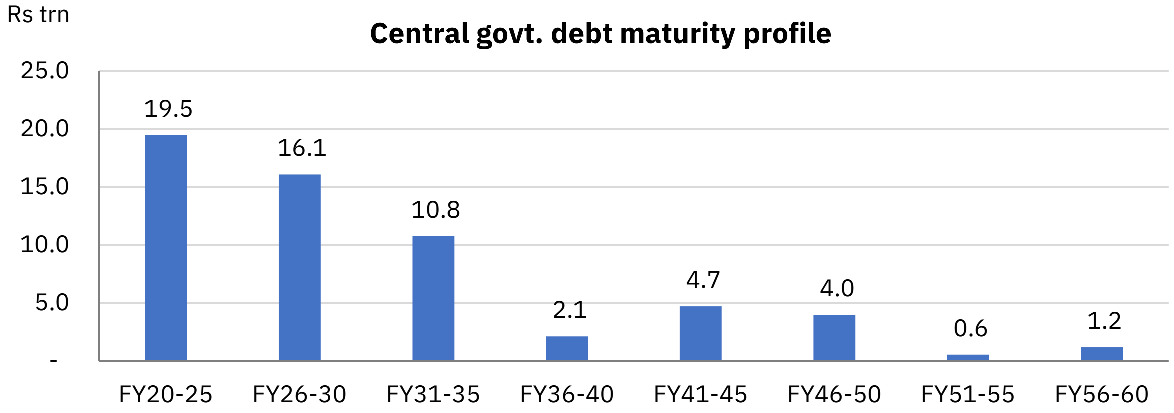
Sources of funding the deficit

Rs bn	FY19RE	% of total	FY20IBE	FY20BE	% of total	% YoY
Gross market borrowings	5,710		7,100	7,100		24%
Net market borrowings	4,227	67%	4,231	4,231	60%	0%
Short-term borrowings	250	4%	250	250	4%	0%
External assistance (net)	-49	-1%	-30	-30	0%	-40%
Small savings (net)	1,250	20%	1,300	1,300	18%	4%
State provident funds (net)	170	3%	180	180	3%	6%
Draw down of cash balance	412	6%	513	511	7%	24%
Other capital receipts	84	1%	595	595	8%	613%
Total	**6,344**	**100%**	**7,040**	**7,038**	**100%**	**11%**

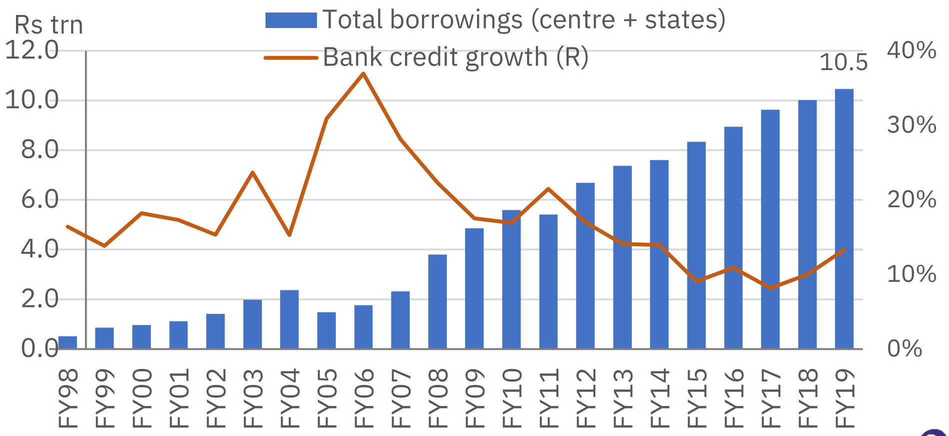
Market borrowing trend of the Centre and states



Nearly 33% of central govt. debt maturing by March 2025



Crowding out of the private sector on rising govt. borrowings



NSE Source: Budget documents, RBI, CMIE, NSE

Key announcements and implications for capital markets

Announcement	Implication
Equity markets	
Increase in minimum public shareholding from 25% to 35%	*Positive:* To ensure wider ownership through institutional investors, more market depth, better price discovery and enhanced corporate governance standards. *Negative:* Potential delisting of companies with high promoter shareholding. Higher supply in the primary market would remain an overhang on liquidity from the secondary market.
Imposition of 20% tax on buy-back of shares for listed companies.	*Negative:* To discourage share buybacks; particularly negative for cash-rich companies.
Disinvestment: Enhanced disinvestment target of Rs 1.05trn. Govt. holding of 51% in PSUs to include stake of govt. controlled institutions. Meet public shareholding norm of 25% for all listed PSUs.	*Positive:* Better public ownership and governance standards. To help government meet revenues targets
Govt. to realign its holdings in CPSEs, including banks	*Positive:* To encourage retail participation in CPSEs and improve depth of its market. Realign retail savings towards markets.
Direct participation of NBFCs on TReDS platform	*Positive:* To bring more participants on TReDS, help supply chain finance
Lower corporate tax rate of 25% for companies with annual turnover of Rs 450cr vs. Rs 250cr earlier	*Positive:* To improve profitability of MSMEs
Annual Global Investors Meet in India, using National Infrastructure Investment Fund (NIIF) as the anchor	*Positive* for the global outreach of Indian capital markets

Source: Budget documents, NSE

Key announcements and implications for capital markets

Announcement	Implication
Bond markets	
Enable stock exchanges to allow AA-rated bonds as collaterals in repo market	*Positive:* To deepen corporate bond market
Review of user friendliness of trading platforms for corporate bonds, including issues arising out of capping of number of ISINs.	*Positive* for corporates issuing for very short tenures.
An action plan to deepen markets for long-term bonds with specific focus on infra sector to be put in place.	*Positive*: To increase depth and liquidity of long tenure bond market
Raising part of market borrowings in external markets in FX currency	*Positive* for demand situation for govt. securities in domestic market and consequently reduce crowding out effect on private sector. Negative: Rise in external debt; increases EM contagion risk
Commodities	
e-NAM: Government to work with State Governments to allow farmers to benefit from e-NAM. To replicate "Zero Budget Farming" model practiced in a few states	Positive for development of National Agriculture Market. To result in better price discovery of farm produce.

Source: Budget documents, NSE

Key announcements and implications for capital markets

Announcement	Implication
Collective investment vehicles	
ETFs: Investment option in ETFs in CPSEs on the lines of ELSS (tax exemption under 80C)	*Positive:* To encourage retail investments in CPSEs.
Offshore funds: Easing conditions to facilitate location of fund managers of offshore funds in India	*Positive* for offshore funds
National Pension System: Exemption limit on withdrawals from NPS raised from current 40% to 60%	*Positive:* To bring NPS closer to EPF/PPF in terms of tax treatment
Alternative Investment Funds (AIFs): a) allowing pass-through of losses (other than business losses) to the unit holders of Category I and II AIFs, b) extending exemption to investment by Category II AIF from the deeming taxation related to issue of shares at a value higher than fair market value by start-ups.	*Positive* for development of alternative investment vehicles, consequently making it easy for start-ups to raise funds through this route
Taxation	
Relief in levy of STT on options by restricting it only to the difference between settlement and strike price in case of exercise of options	*Positive:* To increase market depth by reducing cost
Concessional rate on short-term capital gains for fund of funds set up for **disinvestment of CPSEs**	*Positive* for government disinvestment programme
Higher income tax on high net-worth investors (HNIs): Increase in effective tax rate (through surcharge) for individuals earning Rs20-50m by 3% and Rs50m and above by 7%.	*Negative:* To hurt investments by HNIs in capital markets

Source: Budget documents, NSE

NSE

Key announcements and implications for capital markets

Announcement	Implication
Foreign Portfolio Investors (FPIs)	
Rationalisation and simplification of KYC norms for FPIs	*Positive:* To make it more investor-friendly; to facilitate more FPI inflows in capital markets
FPIs allowed to invest in listed debt securities issued by REITs and InVits	*Positive* for high FPI inflows in such asset monetisation vehicles - crucial for infra development
Increase in FPI investment limit in a company from 24% to sectoral FPI limit with option given to the concerned corporates to limit it to a lower threshold. Raise the foreign shareholding limits to max permissible sector limits for all PSU companies which are part of EM Index.	*Positive* for FII inflows. This would allow higher weightage of Indian companies in emerging market and global equity indices
NRI portfolio investment scheme route to be merged with FPI route.	*Positive:* To encourage higher NRI investments into capital markets
Investments made by FIIs/FPIs in debt securities issued by Infrastructure Debt Fund – Non-Bank Finance Companies (IDF-NBFCs) permitted to be transferred/sold to any domestic investor within the specified lock-in period	*Positive:* To encourage higher FII inflows in infrastructure sector through IDFs
Higher income tax on high net-worth investors (HNIs): Increase in effective tax rate on incomes Rs20-50m by 3% and Rs50m and above by 5%, to also apply on Overseas Funds registered as AoPs or Trusts.	Negative: Would translate into an effective rate of 42% on long-term capital gains on listed equities.

Source: Budget documents, NSE

Key announcements and implications for capital markets

Announcement	Implication
Financial infrastructure	
Creation of **Social Stock Exchanges** (SSE) for social enterprises and voluntary organisations to raise capital in the form of debt, equity or mutual funds.	*Positive:* Easier capital access for such organisations. Social Stock Exchange already exist in the UK, Canada, Singapore, South Africa, Brazil, Jamaica and Kenya.
Inter-operability of RBI depositories and SEBI depositories	*Positive:* To encourage more retail participation in T-bills and govt. securities through seamless transfer of T-bills and G-secs between RBI and Depository ledgers.
Direct tax incentives for IFSC (International Financial Service Centre) : a) 100 % profit-linked deduction under section 80-LA in any 10-year block within a 15-year period (currently 100% deduction allowed for first five years and 50% for next five years), b) Exemption from DDT tax from current and accumulated income to companies and MFs, c) Exemptions on capital gain to Category-III AIF and interest payment on loan taken from non-residents.	*Positive* for the development of IFSC at par with similar IFSCs in other countries
Operational	
Interchangeability of PAN and Aadhaar	*Positive*: To bring ease of doing KYC for individuals who don't have PAN (required for KYC in banks/Demat etc.)
Pre-filling of income tax returns containing details of salary income, capital gains from securities, bank interests, and dividends etc. and tax deductions	*Positive:* To reduce time taken to file a tax return and ensure accuracy of reporting of income and taxes

Source: Budget documents, NSE

NSE

Key sector-wise announcements and implications

Sector	Announcement	Implication
Automobile	Extended income tax exemption on interest up to Rs1.5lakh on loans for electric vehicles.	*Positive:* May increase demand for electric cars.
	GST on electric vehicle has been declined from 12% to 5%	
	Increase in customs duties on selected auto components	*Negative*: May have limited impact on final price.
Housing	Additional income tax deduction of Rs1.5 lakh on home loans for affordable houses costing below Rs45 lakh, translating into total deduction of Rs 3.5lakhs. This benefit will be available for home loans taken till March 2020.	*Positive:* for cement and building-materials sectors and the realty sector.
	Pradhan Mantri Awas Yojana – Gramin (PMAY-G) aims to achieve the objective of "Housing for All" by 2022.	
Building materials	Har Ghar Jal (piped water supply) to all rural households by 2024 under the Jal Jeevan Mission.	*Positive* impact on manufacturing units of building materials.
	Expand the Swachh Bharat Mission to sustainable solid waste management in every village.	
	Customs duty on ceramic roofing tiles and ceramic flags and pavings, hearth or wall tiles, etc. increased from 10% to 15%.	*Positive*: May benefit domestic industries.
	GST has been reduced from 28% to 18% on particle-/fibre-boards and plywood, ceramic tiles of all kinds, sanitary ware, floor-coverings, baths, showers, sinks, washbasins, seats, plastic sanitary-ware, etc.	*Positive* impact on these manufacturing industries.

Source: Budget documents, NSE

Key sector-wise announcements and implications

Sector	Announcement	Implication
Infrastructure	A total metro-route length of 300km has been approved during 2018-19. Also, during 2019, about 210km of metro lines have been operationalized.	*Positive*: Improve public transport in metro cities.
	Emphasise on several infrastructure projects such as Bharatmala, Sagarmala and UDAN.	*Positive*: To bridge rural-urban gap through better infrastructure and connectivity.
	PMGSY-III is envisaged to upgrade roads of 125,000km in the next five years, at an estimated Rs 803bn	
	Rising investments in the Railways via the PPP model to speed up execution and rural electrification.	*Positive*: Will improve connectivity and may have positive impact on the cable & wire sector.
Consumer goods	Increase in import duty on gold from 10% to 12.5%	*Positive*: May decline total import bill. *Negative*: May have negative impact on gold jewellery industry.
	Duties (including Cess) on petrol and diesel is hiked by Rs2/l	*Negative*: May increase inflationary pressure.
	Customs duty on fatty acids is proposed at 7.5%, from nil currently	*Negative*: Increase raw material prices for soap manufacturers
Education	National Research Foundation (NRF) will be established to fund, coordinate and promote research in the country. NRF will assimilate the research grants being given by various Ministries independent of each other.	*Positive*: Better allocation of research funds.
	Increase in allocation on National Education Mission	*Positive* impact on literacy
Health	Increase in allocation on National Health Mission	*Positive* impact on health indicators

Source: Budget documents, NSE

Key sector-wise announcements and implications

Sector	Announcement	Implication
MSMEs	Credit upto Rs 1cr will be granted to MSMEs within 59 minutes through a dedicated online portal	*Positive*: Will help to increase total investment of MSMEs.
	Start an e-commerce platform on the lines of 'Amazon and Alibaba' to sell products from MSMEs and the Khadi and Village Industries Commission	*Positive*: Easy access to market for MSMEs
	Pradhan Mantri Karam Yogi Maandhan Scheme: Extend pension benefit to about three crore retail traders and small shopkeepers whose annual turnover is less than Rs 1.5 cr.	*Positive*: Assured pension income to retail traders and small shopkeepers.
	Interest Subvention Scheme: Rs350 cr has been allocated for 2019-20 for 2% interest subvention for all GST registered MSMEs, on fresh or incremental loans.	*Positive*: Encourage MSMEs to get GSTN that may broaden tax base, and cost of capital will decline.
	Scheme of Fund for Upgradation and Regeneration of Traditional Industries (SFURTI): 100 new clusters will be set up during 2019-20 enabling 50,000 artisans to join the economic value chain. SFURTI aims to set up Common Facility Centres (CFCs) to facilitate cluster based development.	*Positive*: Traditional industries will be more productive, profitable and capable for generating sustainable employment opportunities.
	The Scheme for Promotion of Innovation, Rural Industry and Entrepreneurship will be initiated for setting up of 80 Livelihood Business Incubators (LBIs) and 20 Technology Business Incubators (TBIs) in 2019-20 to develop 75,000 skilled entrepreneurs in agro-rural industry sectors.	*Positive* for job creation.
	Basic customs duty will be increased on items such as cashew kernels, PVC, Vinyl flooring, tiles, metal fittings, mountings for furniture, auto parts, certain kinds of synthetic rubbers, marble slabs, optical fibre cable, CCTV camera, IP camera, digital and network video recorders etc.	*Positive*: for these SMEs.

Source: Budget documents, NSE

Key sector-wise announcements and implications

Sector	Announcement	Implication
Start-ups	The start-ups and their investors who file requisite declarations and provide information in their returns will not be subjected to any kind of scrutiny in respect of valuations of share premiums.	*Positive*: May resolve 'angel tax' issue.
	Special administrative arrangements shall be made by Central Board of Direct Taxes (CBDT) for pending assessments of start-ups and redressal of their grievances.	*Positive*: for start-ups
	Start-ups will not be required to justify fair market value of their shares issued to both Category-I and Category-II Alternative Investment Funds.	*Positive*: Additional source of capital.

Source: Budget documents, NSE

Revision in indirect tax rates

Revision in GST rates for select goods and services	Old	New
Construction material, furniture, soaps and detergents, domestic electrical goods, glass articles, consumer electronic goods, plastic articles, office machines, commercial vehicles, rubber and leather articles, cinema tickets above Rs 100	28%	18%
Tableware, kitchenware, other house articles, tanks and other armoured fighting vehicles	28%	12%
Engines, tyres and seats used in aircrafts	28%	5%
Specified parts of specified agricultural, horticultural, forestry, harvesting or threshing machinery, parts in sewing machine, bamboo furniture, handbags, drip irrigation systems, works contract services supplied to the Government entitles, third party insurance premium of goods carrying vehicles, cinema tickets up to Rs. 100	18%	12%
Fertilizer grade Phosphoric acid, pastic and rubber waste, Solid bio fuel pellets, ebooks, transportation of natural gas, petroleum crude, petrol, high speed diesel or aviation turbine fuel, air travel of pilgrims	18%	5%
Electric vehicles, Medicines (Ayurvedic, Unani and Homeopathy), Walnuts, textile items	12%	5%
Diamonds and precious stones including industrial diamonds	3%	0.25%

Revision in excise duties	Old	New
Special additional excise Duty and road and infrastructure cess on petrol and diesel	Nil	Re 1 per litre
Excise duty on cigarettes and tobacco products	Nil	Rs 5 - 10 per thousand
Excise duty on petroleum crude	Nil	Re. 1 per tonne
Special excise duty on high speed diesel oil	Re 1 per litre	Re 2 per litre

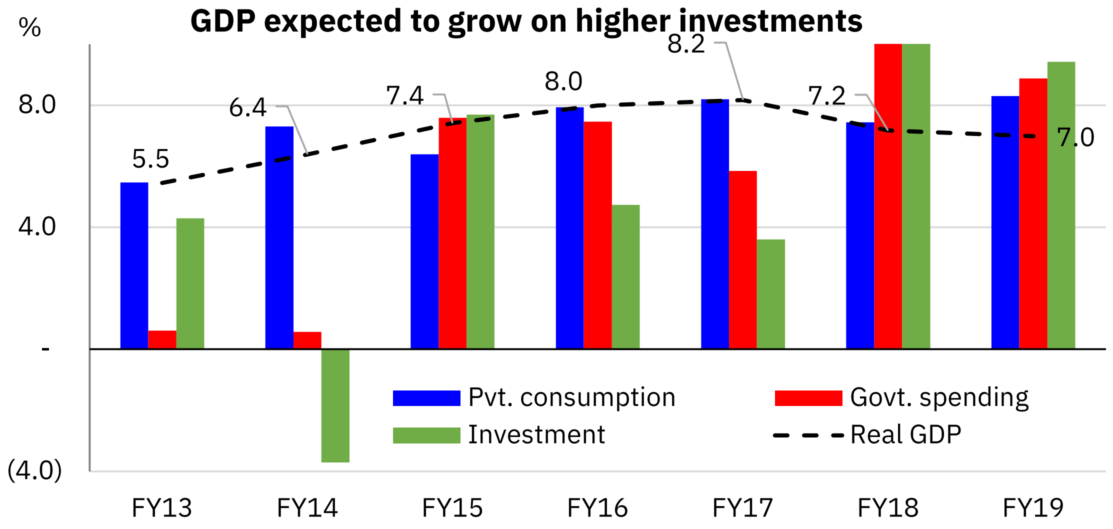
Source: Budget documents, NSE

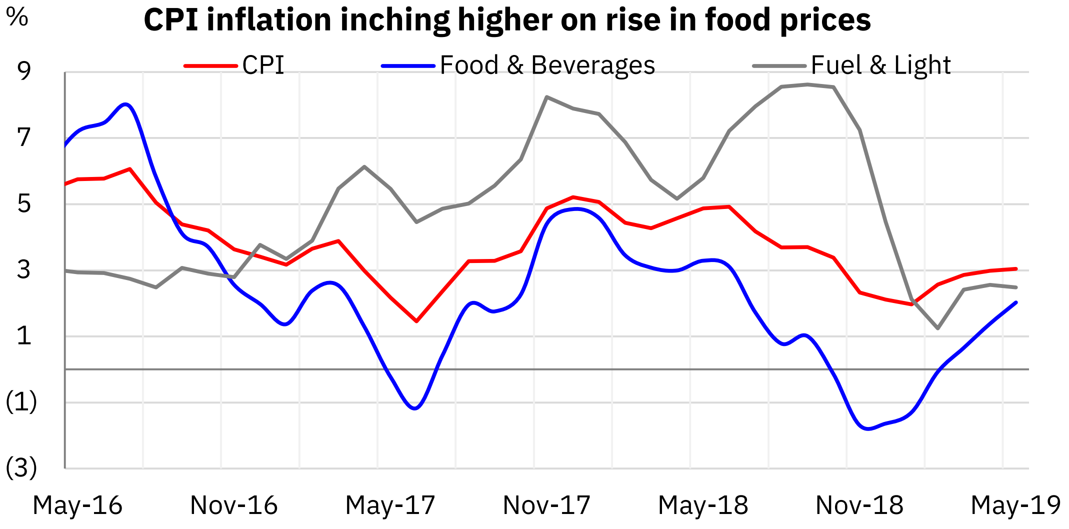
Revision in indirect tax rates (contd.)

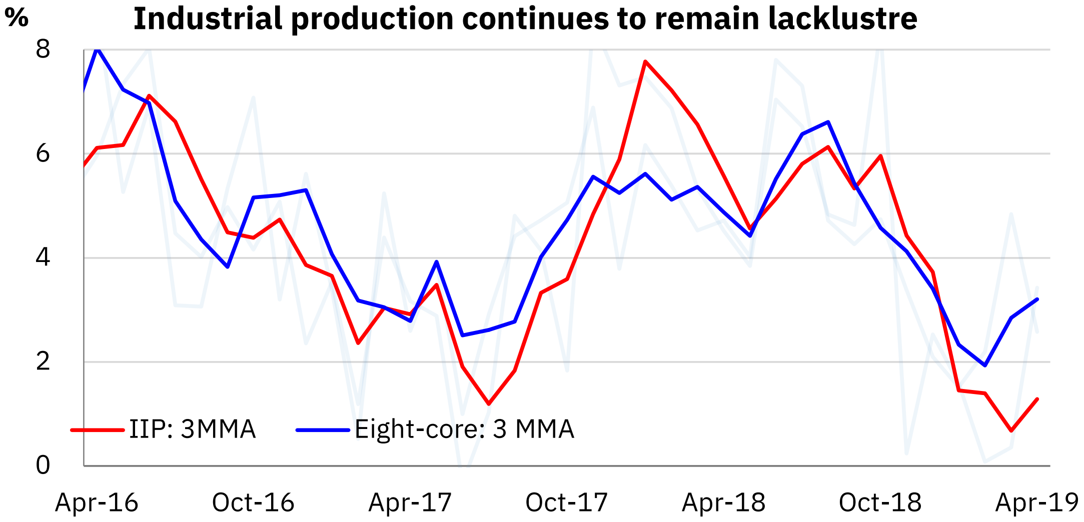
Revision in GST rates for select goods and services	Old	New
Gold and other precious metals	10%	12.5%
Printed books and manuals	Nil	5%
Automobile and automobile parts	10%	15%
Textiles, Steel and base metals	5%	2.5%
Capital goods used for manufacturing of following electronic items	Applicable rates	Nil
Uncoated and coated paper	Nil	10%
Ceramic products	10%	15%
Steel and base metal products	5%	7.5%
Parts for exclusive use Evs	Applicable rates	Nil
Raw material, parts or accessories for use manufacture of artificial kidneys, disposable sterilized dialyzer and micro-barrier of artificial kidney	Applicable rate	Nil

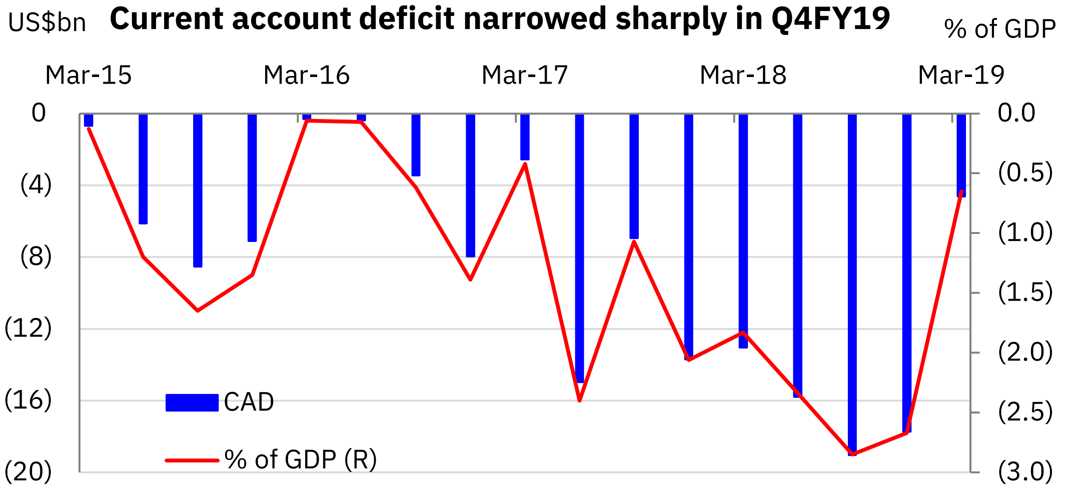
Source: Budget documents, NSE

A quick macro snapshot









Source: CSO, RBI, NSE

Economic Policy and Research

Tirthankar Patnaik, PhD	tpatnaik@nse.co.in	+91-22-26598149
Saloni Agarwal, CFA	sagarwal@nse.co.in	+91-22-26598163
Prerna Singhvi	psinghvi@nse.co.in	+91-22-26598163
Runu Bhakta, PhD	rbhakta@nse.co.in	+91-22-26598163
Ashiana Salian	asalian@nse.co.in	+91-22-26598163

Disclaimer

Thank you