Union Budget 2019-20

July 5, 2019

The finance minister presented the Union Budget for FY20, against a backdrop of economic conditions that have been showing signs of slowdown. The economic activity seems to be gradually weakening (as reflected by the GDP data) on the back of weak global growth, declining consumer demand, recuperating corporate balance sheets and issues with the NBFC sector. **Since, this was the first full budget after the landslide election win for the NDA and BJP in particular, the markets were anticipating big reform push and growth impulse to come from the budget.** On the one hand, there was expectation of some sort of stimulus to agriculture, rural employment and middle class. On the other hand, there was also an expectation by some segment of the market that the government would continue to move on the path of fiscal consolidation and adhere to the fiscal roadmap provided prior to the elections. **The current administration has been known for its commitment to keep the fiscal deficit under control and to push through large structural reforms. On the one side, fiscal stability and consolidation offers limited room for government capex and growth push and on the other side fiscal expansion would help the government to support growth. Given the slow revival of the private capex, there were also expectations that the government would roll out more allocation to infrastructure so as to revive the private capex cycle, create more jobs and boost the economic growth.** The GDP data also suggested that apart from Government spending, the private contributions to Gross Fixed Capital Formation (GFCF) has been lacking. Focus on infrastructure is a key to drive government's flagship programs like Housing for all, electricity for all and Make in India. With expectations on both sides of the spectrum, the government had to do a balancing act between growth and fiscal deficit dynamics.

The economic survey released a day prior to the budget, projected that the GDP growth for FY20 could come in at 7%, on the back of macroeconomic situation and the structural reforms being undertaken by the government, which would still make India amongst the fastest growing large economy in the world. It suggested that with the micro-economic and macro-economic foundations laid over the last five years, the Indian economy is ready to shift gears so that economic growth, jobs and exports can be pushed up to the next level. The Economic survey suggested that, for India to grow into a USD 5 trillion economy by 2024-25, it requires real annual growth rate in GDP of 8%, with a 4% inflation (Monetary Policy Framework specified by the Government for the Reserve Bank of India). To achieve such a target, requires a virtuous cycle of savings, investment, exports and growth with investment as the key driver. The economic survey also suggests that investment, especially private investment, is the "key driver" that drives demand, creates capacity, increases labour productivity, introduces new technology, allows creative destruction, and generates jobs. The survey believes that the recent slowdown witnessed in the economy was on the back of poll related uncertainty and NBFC sector stress. It believes that the current political stability, leading to reform and policy continuity could help revive the animal spirits in the economy which could lead to virtuous cycle led by rising investments. The policy also called for lower real rates of interest to boost investments in the economy. The Survey believes that, when the economy is in a virtuous cycle, investment, productivity growth, job creation, demand and exports feed into each other and enable animal spirits in the economy to thrive. **The survey was cautious on some fronts. As per the Survey, FY20 will pose several challenges on the fiscal front.** Firstly, there are apprehensions of slowing of growth, which will have implications for revenue collections. Secondly, the FY19 has ended with shortfall in GST collections. Therefore, revenue buoyancy of GST will be key to improved resource position of both Central and State Governments. Thirdly, resources for now expanded Pradhan Mantri Kisan Samman Nidhi (PM-KISAN) and Ayushmaan Bharat, as well as new initiatives of the new Government, will have to be found without compromising the fiscal deficit target as per the revised glide path. Fourthly, US sanctions on oil import from Iran is likely to have impact on oil prices and thereby on the petroleum subsidy, apart from implications for current account balances. Finally, Fifteenth Finance Commission will submit its report for next five years beginning April 2020. Its recommendations especially on tax devolution will have implications for Central Government finances. **Nevertheless, the economic survey suggested that the Indian economy seems to be well poised to takeoff and higher growth rates could be expected in the medium term.**

Given all the above issues, the government chose to a move towards focusing on keeping the fiscal deficit target intact. Infact, the Fiscal deficit for FY20 is now pegged at 3.3% of the GDP, lower than 3.4% of the GDP expected in the interim budget for FY20. The budget came out as a statement of intent of the government for the next five years and road map was laid out for key projects of the government for such period. **The government has also laid down plans to bring down the fiscal deficit to 3.0% of GDP for each of the years FY21 and FY22. The budget for FY20 therefore reflected government's commitment to substantially boost Rural/Agri sector, Infrastructure, Ease of living and Employment generation.** The key element of the budget was the government's focus on maintaining continuity in infrastructure spending and giving rural India a much needed fillip.

The gross fiscal deficit was pegged at Rs.7.03 trillion or 3.3% of the GDP in FY20 as against 3.4% in FY19. Most of the major estimates on the Expenditure, Revenue receipts and Capital receipts looked credible, given that the government expects the nominal GDP to rise by ~12% to Rs.211 trillion and expects higher proceeds from Non tax receipts. Infact, given that the government did divestment to the tune of Rs.800 bn in FY19, the target of Rs.1.05 trillion for FY20 looks reasonable, especially since the government has stated objective of divesting Air India and is also looking at strategic disinvestments of more central PSU's apart from scaling down its shareholding in others. The tax revenues are expected to grow by 11.13% YoY (tax revenues net to centre) to Rs.16.49 trillion on the back of broadening of the tax base, improved corporate/personal incomes tax collection and higher GST/customs collection along with 12% YoY projected growth in the nominal GDP. It is expected that direct taxes would be 6.3% of GDP at the end of FY20 and indirect taxes are budgeted at 5.3% of GDP, making the total tax to GDP ratio at 11.6%. Improvement in Tax/GDP ratio going forward would give more fiscal room to the finance minister to push up investment spending in the economy. Total expenditure in FY20 is pegged at Rs.27.8 trillion, which is an increase of 13.4% over FY19RE (Revised Estimates). Revenue Expenditure is estimated to be Rs.24.47 trillion in FY20BE reflecting a growth of 14.3% YoY over FY19RE. This increase is mainly on account of support to the agricultural sector. Capital expenditure is expected to increase to Rs.3.38 trillion in FY20BE (Budgeted Estimates) growing by 6.9% YoY. **We think that the key to manage the fiscal deficit number would be the ability of the government to go ahead with the planned sale of securities/disinvestment to the tune of Rs.1.05 trillion, transfer from RBI and financial institutions to the tune of Rs.1.06 trillion (vs Rs.741 bn in FY19RE), communication (Spectrum) receipt of Rs.505 bn and managing the current subsidy burden on Food, Petroleum and Fertilizer at Rs.3.01 trillion (growth of 13.3% against FY19RE). With Fiscal deficit remaining under control and the fiscal numbers looking credible, structural downside to the interest rates could be looked forward to.**

There were three major focus areas of the budget- Rural, Social and Infrastructure. Strong emphasis was given to Job creation, Financial sector reforms and Agriculture, along with pushing ahead with infrastructure thrust through increased investment on roads, railways and airports.

Considering the recent Rural and agri stress, rural growth and social infrastructure continued to be the key focus areas for the government. There have been many reports of rising rural distress due to lower crop prices and inadequate market infrastructure. The budget proposed strong vision to transform rural India. The vision included for every rural family to have cooking gas connection, all rural families to have electricity connection by 2022, strong investment into in agriculture infrastructure, supporting private companies to add value for farm producers, creation of infrastructure for cattle feed manufacturing, investment of Rs.802.5 bn to upgrade 125,000 km of rural roads in 5 years, providing all-weather roads to 97% of habitation, giving 19.5 mn homes till 2022 in PM Awas Yojna- Rural and exporting of food grains. The budget also spoke about improved access of credit to Self Help Groups. **With all these proposals, the focus of the government would be on providing maximum livelihood opportunities in the rural areas by spending more on livelihood, agriculture and allied activities and construction of rural infrastructure. The total budget allocation to be spent to Agriculture and Allied Activities rose by 73.1% YoY to ~Rs.1.5 trillion for FY20BE.**

Another big focus area of the government was on Infrastructure and Job creation. Investments in infrastructure are key to pushing the Make in India agenda of the government and also help in driving economic growth and capex cycle. **The focus in the infrastructure sector was Roads, Urban development, Shipping, Aviation and Railways. Total investment in the Road sector is projected at**

Rs.830 bn reflecting a growth of 6% over FY19RE. For FY20, the total government support to Railways has been pegged at Rs.681 bn, a jump of 24% over FY19RE. The government is also envisaging to allow private players into the railways sector though the PPP route to help fund the sector and improve efficiency. Urban development allocation saw 13% increase to Rs.411.8 bn; within this, the Metro rail segment saw allocation rising by 23% YoY. The budget also envisages higher use of the waterways to cut logistics costs and boost productivity, its allocation for the coastal shipping project - Sagarmala rose by 44% YoY. It also envisaged the launch of Bharat Mala phase 2 with focus on state road networks. The budget also spoke about tax incentives to new age industries. Given the inability for many companies in the infrastructure sector to access easy credit, the budget also proposed to create Credit Guarantee Enhancement Corporation, deepen the long term bonds market and permit transfer of FII/FPI investment in debt securities issued by IDFNBFCs (infrastructure development finance) to domestic investors. To help job creation and help the struggling MSME sector, the budget has proposed to give interest subvention to the MSME sector, build a payment platform for bill filing for MSMEs to address delay of payment on account of government contracts. The MGNREGA outlay for FY20BE has been increased by 9% YoY to Rs.600 bn. **Continued focus on infrastructure creation by the government is likely to have two benefits, firstly it would lead to increased job creation in the economy and secondly it would also lead to pickup in the allied sectors like steel, metals, cement etc which can drive capex in these sectors and drive further economic growth.**

Financial sector issues also seem to be on top of the Government agenda. Considering the tightness in the credit availability and slowing down of economic activity, the government decided to put in large corpus for PSU Bank recapitalization. **The bank recapitalization proposal of Rs.700 bn was higher than market expectations.** The government believes that it would help ease the liquidity tightness in the economy as many PSU banks who could not lend due to low net worth could come into the market to start lending activities. To support the NBFC sector the government also proposed, **One time six months' partial credit guarantee to PSBs (on first loss of up to 10%) for purchase of high-rated pooled assets of financially sound NBFCs, amounting to a total of Rs.1 trillion during FY20.** The requirement of creating a Debenture Redemption Reserve (DRR) in the case of NBFCs to raise funds in public issues has been done away with. The Government also proposed to allow all NBFCs to directly participate on the TReDS platform. With the recent weakness seen in the housing finance space, the budget proposed to return the regulation authority over the housing finance sector from the National Housing Bank (NHB) to the RBI. This would help in better integration of all financial services companies' regulation by a single institution. **The bond markets were also enthused by the budget proposal to raise a part of the government debt in the external markets though foreign exchange borrowings, as it would lead to lower demand pressure in the domestic markets and help crowd-in private sector borrowings.** The budget also proposed to rationalize existing KYC norms for FPIs and merge NRI, FPI investment scheme routes. It asked the SEBI to mull hiking minimum public shareholding to 35% in listed companies. The budget also talked about increasing FDI limits in sectors like media, insurance and animation and proposed 100% FDI in insurance intermediaries. The government seems to have also opened doors for strategic disinvestment into PSUs, as it mentioned that it may look to bring its shareholding below 51% into companies on a case to case basis. It also said that the 51% shareholding of the government would also include the government institutions holdings into PSUs.

While the corporate sector was not anticipating any further cuts in the tax rate, the government extended the lower corporate tax rate of 25% + surcharge and cess, to companies with turnover of upto Rs.4 bn. **The government believes that this would benefit about 99.3% of the total companies that file income tax returns. However, the budget also proposed increased tax for the super-rich in lines with what has been seen in the developed nations. The surcharge on tax for assessees earnings between Rs.20 mn- Rs.50 mn and Rs.50 mn and above was raised to 25% and 37%, respectively.** The budget talked about making available prefilled tax form, which could be revolutionary, as such a form would contain most of the income data of the assessees without him/her having to fill them. The budget also talked about a slew of measures for improving ease of doing business especially for the startups and talked about addressing the "angel tax" issue. To cut the usage of cash in the economy it proposed 2% TDS on Rs.10 mn per year cash withdrawal from banks, while incentivizing digital payments. It also spoke about launching automated, faceless assessment of tax and to make Aadhaar, PAN interchangeable to file tax returns.

Clearly, the focus of the budget was to give a strong fillip to the rural economy and create more jobs through infrastructure creation apart from making attempts to improve the conditions of the financial sector of the country. The budget was not used to make lot of new flagship programs, but was an exercise to divide the resources into existing flagship programs. This government is known to come out of big ticket reforms and policy measures outside the budget and this is a trend we expect to see in the next fiscal also. The strong infrastructure and rural income generation push in the budget is likely to drive the growth in the capital formation and improve demand conditions in the economy. In a world where growth is weakening, it is very important for India to be able to create robust domestic market which would allow it to leverage its demographic dividend and bring in more global capital.

The markets ended on a negative note post the budget as there were expectations of more spending initiatives by the government. However, we believe that with the current budget the government wants to show that it is looking forward to minimum government and maximum governance. By keeping the fiscal deficit low, the gates have opened for lower interest rates and easy liquidity regime which would help the corporate sector. From here on the Indian equity markets are likely to move on the back of improved corporate earnings and upcoming macro-economic data points. Given the strong DII flows and the improving FPI flows, we remain positive on the Indian equity markets over the medium term.

We continue to recommend that the investment strategy should be 60% lumpsum and rest 40% staggered over the next 3-4 months. From investment perspective, focus should be on Large cap Funds and Multicap funds for Lumpsum investments, while SIP could be considered for Midcap and Smallcap funds with investment horizon for 2-3 years.

Sectoral Impact

Agriculture & allied activities and Chemical

Budget Expectations

- Increase in allocation towards rural focused schemes
- Increase allocation to Pradhan Mantri Krishi Sinchai Yojana, Rashtriya Krishi VikasYojana and Pradhan Mantri Gram Sadak Yojana
- Enhancing agri credit limits, interest rate subvention and higher spending on rural infrastructure
- Interest rate subvention and higher spending on rural infrastructure
- Extension of the direct benefits transfer (DBT) scheme to food and fertilizer subsidy

Budget Recommendations

- Fertiliser subsidy seen at ~Rs.750 bn in FY20BE against ~Rs.700 bn in FY19RE
- Allocation for total expenditure on Agriculture and Allied Activities increased to ~Rs.1500 bn in FY20BE vs Rs.866 bn in FY19RE
- Increased allocation to Pradhan Mantri Krishi Sinchai Yojna by 17.3% to ~Rs.97 bn in FY20BE over ~Rs.83 bn in FY19RE
- Propose to increase allocation to Crop Insurance Scheme by 7.9% YoY over FY19RE
- Propose to boost agro-rural industries through cluster based development under SFURTI scheme with focus on bamboo, honey and khadi clusters
- Launched Pradhan Mantri Matsya Sampada to address critical gaps in strengthening value chain, including infrastructure, modernization, production, productivity and quality control in Fishery sector
- Proposed to create infrastructure for cattle feed manufacturing, milk procurement, processing & marketing
- Proposed to increase basic customs duty on Poly Vinyl Chloride (PVC) to 10% from 7.5%

View:

The Budget has sharply increased allocation to Agriculture and allied activities. While the government has increased allocation to Crop insurance marginally, Irrigation scheme has seen 17% YoY jump over FY19RE. The government has also proposed various schemes to promote allied activities like Fisheries, Animal Husbandry, etc. The budget looks positive for Agriculture and allied activities. However, budget was neutral for other chemical companies as there was no major announcement apart from an increase in basic custom duty increase on PVC, which would be positive for plastic manufacturing companies. A general announcement of increase in threshold limit for lower taxation would be positive for companies with turnover under Rs.4.0 bn, as it may improve the profitability for such companies.

Automobiles and Auto Ancillary

Budget Expectations

- Increase in allocation towards rural focused schemes
- Focus on infrastructure segment with higher allocation
- Incentive for scrapping old heavy commercial vehicles that are more than 10-15 years old
- Allocation of funds for manufacturing of hybrid/electric vehicles
- Additional incentives such as exemption of road tax to promote sales of electric vehicles
- Increase in exemption limit/tax bracket to increase spending power
- Incentives for setting up electric vehicle charging infrastructure

Budget recommendations

- Allocation for total expenditure on Agriculture and Allied Activities increased to ~Rs.1500 bn in FY20BE vs Rs.866 bn in FY19RE
- Allocation for Road transport and highways increased to ~Rs.830 bn in FY20BE, 5.7% YoY over FY19RE
- Proposed to increase basic customs duty on Automobile parts like (sheets, rolls, strips, segments, discs, washers, pads, Glass mirrors, Locks, Horns, Lighting, Windscreen wipers) to 12.5% from 10%
- Proposed to increase basic customs duty on Completely Built Unit of vehicles to 30% from 25%
- Proposed to raise Road and Infrastructure Cess on Petrol and Diesel by Re.1 per litre on each
- Proposed to raise special additional excise duty on Petrol and Diesel by Re.1 per litre on each
- Proposed GST Council to lower GST rate on electric vehicle from 12% to 5%
- Proposed to provide for a deduction in respect of interest on loan taken for purchase of an electric vehicle from any financial institution up to Rs.150000 during the period beginning on the 1st April, 2019 to 31st March, 2023
- Inclusion of Solar storage batteries and charging infrastructure in the proposed scheme inviting global companies to set up mega-manufacturing plants in sunrise and advanced technology areas such as Lithium storage batteries, Solar electric charging infrastructure, etc. and provide them investment linked income tax exemptions under section 35 AD of the Income Tax Act, and other indirect tax benefits
- Threshold for applicability of lower corporate tax rate of 25% increased from Rs.2.5 bn to Rs.4.0 bn

View:

The major outcome for Automobiles sector in the budget was the focus on promoting electric vehicle in the country. The budget has proposed to provide incentive for the purchase of electric vehicle. It also proposed to set mega manufacturing plants for Lithium storage batteries, Solar electric charging infrastructure etc. In order to promote Make in India, custom duty of many auto parts has been increased which would be positive for Auto component sectors. In addition, there were many announcements on the long-term structural drivers for the sector, which was overall positive for the sector. The focus of the government on improving the income for agricultural sector and Rural India is likely to be positive for Tractor and two wheeler sectors. On the

Commercial vehicle segment, the budget did not mentioned on the Scrappage policy, which the industry was awaiting for quite some time have once again disappointed commercial vehicle sector.

Banking and Insurance

Budget Expectations

- Sticking to fiscal consolidation roadmap
- Details of recapitalization programme for PSU banks.
- Reduction in tenure of Fixed Deposit for tax savings purpose
- Higher allocation of funds to core sectors like infrastructure, housing and urban development
- Incentivize cashless/digital transactions, impose taxation on high value cash transactions
- Increase in tax exemption limit for home loans to boost low cost housing demand
- Relaxation in banks' lending to infrastructure sector
- Raising limit on tax deducted at source on interest paid on bank deposits
- Priority-sector lending status to MSMEs and SMEs to provide better access to credit
- Setting up of a refinance window for NBFCs
- Interest subvention loans for small businesses

Budget recommendations

- Recapitalization of Public Sector Banks to the tune of Rs.700 bn
- Increase allocation to Rashtriya Swasthya Bima Yojna to ~Rs.66 bn in FY20BE vs Rs.27 bn in FY19RE
- Proposed to levy a 2% TDS on cash withdrawal exceeding Rs.10 mn from bank account in a year to promote less cash economy
- Proposed to provide one time six months' partial credit guarantee to Public Sector Banks for first loss of up to 10% on purchase of high-rated pooled assets of financially sound NBFCs
- Proposed to return the regulation authority over the housing finance sector from National Housing Bank to RBI
- Proposed that interest on bad or doubtful debts in the case of deposit-taking NBFC and systemically important non deposit-taking NBFC shall be charged to tax on receipt basis
- Propose that the business establishments with annual turnover more than Rs.500 mn shall offer low cost digital modes of payment to their customers and no charges or Merchant Discount Rate (MDR) shall be imposed on customers as well as merchants
- Proposed to permit 100% Foreign Direct Investment (FDI) for insurance intermediaries.
- Proposed to examine suggestions of further opening up of FDI insurance sector in consultation with all stakeholders

View:

The budget was largely positive for PSU banks and NBFCs where government has tried to ease the ongoing pressure. The budget has proposed to provide Rs.700 bn capital infusion for PSU banks. Similarly, in order to provide liquidity to sound NBFCs, the budget proposed to provide one time guarantee for them. In addition, some more level playing field as compared to schedule banks have been provided by allowing changes in taxation norms. The budget also proposed to eliminate the MDR for some transactions, which is to be borne by banks, which could be marginally negative in near term but positive for long term. The announcement pertaining to FDI in Insurance and insurance intermediaries seems to be positive in long term for the sector.

Capital Goods

Budget Expectation

- Increased allocation towards Defence, especially capital expenditure in the defence for modernization of the existing fleets and promotion of domestic manufacturing industries.

- Increased budgetary support towards Indian Railways with focus towards electrification and laying of new railway lines apart from safety and speed. Additionally, increased allocation towards new metro projects and Dedicated Freight Corridors (DFCs).
- Increase allocation for Namami Ganga or Clean Ganga.
- Reducing general corporate tax to 25%
- Providing an exemption from IGST to export oriented industries and also rationalization of basic customs duty of key inputs to solve the issues related to inverse duty structure.
- Higher incentives for installation of wind or solar capacities.
- Announcement of revival scheme for Banking and NBFC sector to support the lending business and thereby private capex

Budget Recommendation

- Allocation of Rs.1033.9 bn for defence capital expenditure against Rs.939.8 bn in FY19RE, up by 10% YoY. While the overall defence expenditure excluding pension provided for FY20BE stood at Rs.3.05 trillion vs FY19RE of Rs.2.85 trillion.
- Proposed allocation of Rs.658.37 bn (FY20BE) for Railway capex via budgetary support vs FY19RE allocation of Rs.530.6 bn, up by 24.1% YoY
- In the Railway capital expenditure, target for doubling of lines has been increased to 2650 Route Kms (RKM) in FY20BE vs 2100 RKM in FY19RE. Similarly, target for Electrification projects has been increased to 7000 RKM vs 6000 RKM in FY19RE. Target for wagon procurement has been increased to 15000 vehicle units' vs 11000 units in FY19RE and that for coaches has been increased to 7960 units' vs 5836 units in FY19RE.
- Increased Basic Customs duty on Indoor and outdoor unit of split –system air conditioner from 10% to 20%
- Increased Basic Customs duty on Optical Fibres, optical fibres bundle and cables from 10% to 15%
- Reduction in Basic Custom Duty (BCD) from the respective applicable rate to Nil on specified defence equipment and their parts imported by the Ministry of Defence or the Armed Forces which are not manufactured in the country.
- Reduction in Basic Custom Duty (BCD) from the respective applicable rate to Nil All on all goods for use in generation of Nuclear power
- Reduction in Basic Custom Duty (BCD) from the respective applicable rate to Nil on capital goods used for manufacturing of following electronic items, namely Populated PCBA, Camera module of cellular mobile phones, Charger/Adapter of cellular mobile phone, Lithium Ion Cell, Display Module, Set Top Box and Compact Camera Module
- Threshold for applicability of lower corporate tax rate of 25% increased from Rs.2.5 bn to Rs.4 bn.

View:
The budget was moderately positive for the capital goods space. Increased allocation towards defence capital outlay for third year in a row would be beneficial for domestic companies involved in the manufacturing of defence equipments. However, removal of Basic Custom duties on specified defence equipments and their parts imported by Ministry of Defence may have negative impact on the domestic manufacturers. The budget also provided higher allocation for railways capital expenditure which is also likely to be positive for the sector. Moreover plans to electrify 7000 route kms railway line and target to procure 15000 vehicle units of wagons is further likely to benefit the sector. Moreover reduction in corporate tax rate from 30% to 25% for companies with turnover of under Rs.4 bn is further likely to improve the profitability for Micro, Small and Medium enterprises in the sectors. Lastly, proposal to increase the Basic Customs duty on Indoor and outdoor unit of split –system air conditioner from 10% to 20% is likely to be negative for the AC manufactures as most of the players import the same. Similarly, proposal to remove the Basic Custom Duty on various electronic items like Populated PCBA, Camera module of cellular mobile phones, Charger/Adapter of cellular mobile phone, Lithium Ion Cell, Display Module, Set Top Box and Compact Camera Module may impact domestic manufacturers.

Cement/Construction

Budget Expectations

- Announcement of continued or higher spending on infrastructure and affordable housing.
- Continuation of tax sops on housing loans under Pradhan Mantri Awas Yojana (PMAY), Housing for All.
- Any announcement to revive Real estate sector as housing contributes ~65% of cement demand in the country.

Budget Recommendations

- Increased investments in the road sector to ~Rs.830 bn for FY20BE vs ~Rs.785 bn in FY19RE.
- Increased allocation to Pradhan Mantri Gram Sadak Yojana (PMGSY) to Rs.190 bn for FY20BE vs Rs.155 bn in FY19RE, up by 22.6%YoY. Announced construction of 1,25,000 kms of roads under PMGSY over the next 5 years with total expenditure of Rs.802.5 bn
- Continuation of steady allocation towards Metro projects to Rs.177.13 bn in FY20BE vs Rs.148.64 bn in FY19RE, up by 19.2% YoY.
- Total allocation towards PMAY stood at Rs.258.53 bn in FY20BE vs Rs.264.05 bn in FY19 RE. Also announced construction of 19.5 mn houses under the second phase – PMAY - Gramin.
- Increased allocation to Urban Rejuvenation Mission (AMRUT & Smart Cities Mission) increased from Rs.125.69 bn in FY19RE to Rs.137.5 bn in FY20BE.
- Enhanced interest deduction up to Rs.0.35 mn for purchase of an affordable house vs Rs.0.2 mn currently.
- Constitution of Jal Shakti Mantrayala and proposal to ensure Har Ghar Jal to all rural households by 2024 under Jal Jeevan Mission
- Implementation of incremental cess of Re.1/litre each by way of Special Additional Excise Duty & Road and Infrastructure Cess for both diesel and petrol.

View:

Overall the budget was positive for the cement sector. Announcement of continued investments into infrastructure development and affordable housing made sure that cement and construction sector could be big beneficiaries from the budget. The announcement of increased allocation for road sector is positive for the entire sector as it will result in continuation of steady demand for the cement witnessed in the last one year. For cement sector, infrastructure contributes ~15-20% of the demand which would be benefitted with increased allocation towards roads, metros and other large infra projects. Despite, a slight lower allocation towards PMAY, government's thrust on timely construction of houses under the programme is likely to drive the cement demand in the country. Also proposal to allow an additional deduction of up to Rs.0.15 mn for interest paid on loans borrowed up to 31 March, 2020 for purchase of an affordable house valued up to Rs.4.5 mn is further likely to provide impetus to demand for affordable housing. While the announcement of implementation of incremental cess of Re.1/litre each by way of Special Additional Excise Duty & Road and Infrastructure Cess for both diesel and petrol could be negative on the back drop of marginal increase in freight cost (road transport constitutes ~70% of freight mix). We believe, the overall budget announcement is likely to be positive for the cement sector.

Consumer Goods / Retail / Media

Budget Expectations

- Benign hike in excise duty on cigarettes of all lengths
- Increase in allocation towards rural focused schemes
- Increase in exemption limit/tax bracket to increase spending power
- Reduction in corporate income-tax rate
- Reduction in import duty on gold/diamond
- A reduction in duty on titanium dioxide (TiO2) (key raw material for paints sector)

- Grant Infrastructure Status to cable and satellite distribution companies

Budget recommendations

- Allocation for total expenditure on Rural Development increased to ~Rs.1390 bn in FY20BE vs Rs.1351 bn in FY19RE
- Mahatma Gandhi National Rural Employment Guarantee Program (MGNREGA) Outlay increased by 9% YoY to Rs.600 bn for FY20BE over FY19BE.
- Proposed to levy a 2% TDS on cash withdrawal exceeding Rs.10 mn from bank account in a year
- Proposed to increase basic customs duty on Paper and Paper products (Newsprint, Uncoated paper, Lightweight coated paper) to 10% from Zero
- Proposed to increase basic customs duty on Printed books to 5% from Zero
- Proposed to increase excise duty on other than filter cigarettes, of length exceeding 65 millimeters but not exceeding 70 millimeters to Rs.5 per thousand sticks
- Proposed to increase excise duty on Cigarettes containing tobacco to Rs.10 per thousand sticks
- Propose that the business establishments with annual turnover more than Rs.500 mn shall offer low cost digital modes of payment to their customers and no charges or Merchant Discount Rate shall be imposed on customers as well as merchants
- Proposed to examine suggestions of further opening up of FDI in media (animation, AVGC) sector in consultation with all stakeholders
- Proposed to ease local sourcing norms for FDI in Single Brand Retail sector
- Threshold for applicability of lower corporate tax rate of 25% increased from Rs.2.5 bn to Rs.4.0 bn

View:

The budget has been mixed for the FMCG sector with few sub sectors facing the heat of higher custom duty while others being escaped with marginal rise in excise duty. However, excise duty on Cigarettes seems to be on lower side and hence positive for Cigarettes companies. While removal of transaction charges on some digital payment is likely to be marginally positive, steady allocation to rural and agriculture related schemes is likely to be positive for FMCG companies as it would boost the rural consumption. However, there was minor disappointment with no major announcements on reduction in individual taxation that could have boosted the discretionary spending.

Healthcare

Budget Expectations

- Priority sector status to healthcare including hospitals and diagnostics centers along with tax benefits
- Increase budgetary allocation for healthcare
- Increase tax exemption on preventive health check-up from the current Rs.5000 per person
- Increase exemption limit under Section 80D for health insurance
- Promote Health Insurance penetration
- Increase in Medical re-imbursement limit from current limit of Rs.15000
- Curtailment of benefit of weighted average deduction on approved expenditure incurred on R&D activities
- Increase in allocation to National Health Mission, Ayushman Bharat Scheme

Budget Recommendations

- Allocation for total expenditure on Healthcare increased to ~Rs.635 bn in FY20BE vs Rs.559 bn in FY19RE
- Allocated Rs.1.87 bn to Ayushman Bharat - Pradhan Mantri Jan Arogya Yojana (PMJAY)
- Allocation for total expenditure on National Health Mission increased to ~Rs.336 bn in FY20BE vs Rs.312 bn in FY19RE

View:
The overall budget was neutral for Healthcare sector. There was no major announcement for Pharmaceutical companies. The budget did not announce anything on infrastructure status to the hospital industry. There was marginal increase in allocation to healthcare related schemes, which is also unlikely to bring any major benefits to the sector in near term.

Infrastructure

Budget Expectations

- Higher allocation to Infrastructure, with outlay for Roads and Highways and Pradhan Mantri Gram Sadak Yojana to rise sharply.
- Higher allocation towards urban infra via metro projects and also increased spending on Smart Cities project.
- Increased allocation for irrigation projects.
- Announcement of higher allocation for Jal Shakti Abhiyan to workout measures for rainwater harvesting and water conservation. Also announcement of new schemes to make piped water available in rural houses.

Budget Recommendations

- Proposal to invest ~Rs.100 trillion into infrastructure over next 5 years.
- Allocation of Rs.828.61 bn for construction of Roads and Highways vs FY19RE allocation of Rs.784.98 bn, up by 5.6% YoY.
- Increased allocation to Pradhan Mantri Gram Sadak Yojana to Rs.190 bn for FY20BE vs Rs.155 bn in FY19RE, up by 22.6%YoY. Further, proposed construction of 125000 km of roads under Pradhan Mantri Gram Sadak Yojana in FY19-24 period.
- Proposed allocation of Rs.658.37 bn (FY20BE) for Railway capex via budgetary support vs FY19RE allocation of Rs.530.6 bn, up by 24.1% YoY and total capital and development expenditure for Railways has been pegged at Rs.1.60 trillion vs Rs.1.39 trillion for FY19RE.
- Proposed construction of 500 Route Kms of new railway lines, gauge conversion for 600 route Kms, doubling of 2650 route kms and electrification of 7000 route kms in FY20BE.
- Increased allocation for metro projects of Rs.177.13 bn in FY20BE vs Rs.148.64 bn in FY19RE, up by 19.2% YoY.
- Allocation of Rs.480.32 bn for Ministry of Housing and Urban Development against Rs.429.65 bn in FY19RE.
- Allocation to Pradhan Mantri Awas Yojana kept at Rs.258.53 bn for FY20BE vs Rs.264.05 bn in FY19RE. Allocation to PMAY-G at Rs.190 bn and PMAY-U at Rs.68.5 bn in FY20BE.
- Increased allocation to Urban Rejuvenation Mission (AMRUT & Smart Cities Mission) increased from Rs.125.69 bn in FY19RE to Rs.137.5 bn in FY20BE.
- Constitution of Jal Shakti Mantrayala and proposal to ensure Har Ghar Jal to all rural households by 2024 under Jal Jeevan Mission
- Public infrastructure to be built on land parcels held by Central Ministries and CPSE.
- Plan to develop gas grids, water grids, i-ways, and regional airports

View:
The Government continued with steady allocation towards the infrastructure sector with increased allocation towards Roads & Highways, Railways, airports, ports and inland waterways. Moreover steady increase in allocation towards AMRUT schemes for smart cities, affordable housing and big ticket metro projects will help in reviving the sector further. We believe government continued to focus on the long term development of the infrastructure in the country and thus these announcements are likely to see major benefits accruing in long term. Further apart from the allocation towards the Railways (up by 24.1% YoY), rest all segments saw a steady growth in the allocation in line with the inflation growth which to some extent dampened the sentiments.

Information Technology/E-commerce/ Start-ups

Budget Expectations

- Measures to bring ease of doing business for startups
- Incentives for digital payments companies
- Focus on India digitization.
- Reduction in corporate tax to 25%.
- Schemes or initiatives towards the training and skill development of the youth, thus, addressing the employability issues.

Budget Recommendations

- Announced various schemes for developing policies to promote the growth of Fintech companies in India.
- Proposal to levy a 20% tax on share buybacks
- Threshold for applicability of lower corporate tax rate of 25% increased from Rs.2.5 bn to Rs.4 bn.

View:

The budget was negative from IT sector perspective as announcement on taxation on buyback, could have negative impact as large buyback announcements were seen in the recent past for companies in the IT sector. However, incentivizing digitization and schemes towards improving skills of the youth would be positive for the sector in the long term. Also measures announced to resolve the 'angel tax' issue, with the start-ups and their investors who file requisite declarations and provide information in their returns, not subjected to any kind of scrutiny in respect of valuations of share premiums would provide boost to startup investments.

Metals & Mining

Budget Expectations

- Waiver of import duties on certain key raw materials.
- Announce measures to accelerate minerals exploration for expanding the pipeline of mining leases.
- To reduce import duty on metallic scrap, sole raw material for metal recycling industry, to nil from the existing 2.5-5%.

Budget Recommendations

- Higher allocation towards housing and infra to propel demand for building material like steel.
- Increased in Basic Custom Duty on imports of Gold and other precious metals from 10% to 12.5%
- Reduction of Basic Custom Duty on various inputs required for manufacturing of CRGO (cold rolled grain oriented) steel from 5% to 2.5%.
- Increased in Basic Custom Duty on stainless steel in ingots or other primary forms and semi-finished products of stainless less from 5% to 7.5%
- Increased allocation towards development of smart cities.

View:

Overall, the budget announcements were neutral on the specific announcement and demand for the metal sectors as the government remained muted on major budget expectations. However, increased allocation on infrastructure and steady allocation towards Housing for All is likely to enhance demand for key building material like steel and aluminium. Additionally, the decrease in custom duty on key inputs for manufacturing of cold rolled grain oriented steel would be neutral to marginally positive for the domestic manufacturers. While increased Basic Custom Duty on Gold and other precious metals may be negative for the domestic players in gold and jewellery segment.

Oil & Gas

Budget Expectations

- Increased allocation for Petroleum Subsidy for FY20 as the government did not clear subsidy payments worth Rs.339 bn for liquefied petroleum gas (LPG) and kerosene in FY19.
- Inclusion of petroleum fuels in GST
- Increased investments in midstream and downstream sector to overcome infrastructure constraints in LNG, gas pipelines and CGD.

Budget Recommendations

- Provided Rs.374.78 bn subsidy on petroleum for FY20BE against Rs.248.33 bn allocation in FY19RE.
- Increase in effective rate of Special Additional Excise Duty on Petrol and Diesel by Re.1 per litre.
- Increase in effective rate of Road and Infrastructure Cess, levied as additional duty of excise, on Petrol and Diesel by Re.1 per litre.
- Increase in Basic Custom Duty on Petroleum crude import from Nil to Re.1 per ton.
- Plan to develop gas-grid

View:
The budget announcements were mixed for the Oil & Gas sector. The petroleum subsidy for FY20BE provided at Rs.374.78 bn is lower than the expectation given the large deferred payments from FY19 and volatile crude prices. This may affect the profitability of Oil and Gas companies given likely increase in working capital requirements. However, increased thrust of government on City Gas distribution is likely to drive the demand for Gas in the country and thereby announcement is likely to remain positive for companies in the Gas infrastructure. Construction of gas grid and proposals to revive gas based power plants is likely to accelerate demand for gas in the country. Announcement of Special Additional Excise duty and Road and Infrastructure Cess is likely to remain neutral for the sector as it is a pass through item.

Power

Budget Expectations

- Increased allocation towards National Clean Energy towards development of clean energy via renewable energy for achieving target of installed capacity of 175 GW till 2022.
- Policies to encourage e-vehicles.
- Mechanism for timely payment from discoms

Budget Recommendations

- Reduction in Basic Custom Duty on fuels for nuclear power plants
- Proposals to develop gas-grids and addressing the issue of low capacity utilization of the Gas based power plants
- Proposal to work with the State Governments to remove barriers like cross subsidy surcharges, undesirable duties on open access sales or captive generation for Industrial and other bulk power consumers.
- Also, a package of power sector tariff and structural reforms would soon be announced
- Proposed to provide for a deduction in respect of interest on loan taken for purchase of an electric vehicle from any financial institution up to Rs.150000 during the period beginning on the 1 April, 2019 to 31st March, 2023.

View:
The budget was marginally negative for the power sector with no major policy announcement for addressing the issues of stressed assets in the power sector. However, government highlighted

its intention for reviving the gas based power plants and development of gas-grids which is positive for the sector. While the Finance Minister announced that a package for power sector tariffs would be announced soon, muted stance on the same in the budget dampened the sentiments for the power generators. Certain announcements for removal of cross subsidy charges and reduction/removal of certain duties on open access sales of power to industrial sector would be positive for the power generators in the long term. Additionally, measures announced to drive the sales of electric vehicles is also likely to drive the power demand in the country over the long term.

Real Estate

Budget Expectations

- More financial protection for home buyers by raising limit for tax claims especially during under-construction phase
- Increase in tax exemption limit on interests for home loans (currently Rs.0.2 mn) to boost the housing demand. Also, providing interest deduction of up to Rs.0.2 mn separately for each of self-occupied properties, i.e. a total deduction of up to Rs.0.4 mn for two self-occupied properties. The Interim Budget 2019 provided relief from taxing the notional rental income for the second self-occupied property.

Budget Recommendations

- Allocation to Pradhan Mantri Awas Yojana kept at Rs.258.53 bn for FY20BE vs Rs.264.05 bn in FY19RE. Allocation to PMAY-G at Rs.190 bn and PMAY-U at Rs.68.5 bn in FY20BE.
- Increased allocation to Urban Rejuvenation Mission (AMRUT & Smart Cities Mission) increased from Rs.125.69 bn in FY19RE to Rs.137.5 bn in FY20BE.
- Enhanced interest deduction up to Rs.0.35 mn for purchase of an affordable house vs Rs.0.2 mn currently.
- Proposal to construct 19.5 mn houses proposed for second phase of PMAY - G.

View:
The Budget was marginally positive for Real estate mainly for companies with higher focus on affordable housing. Also proposal to allow an additional deduction of up to Rs.0.15 mn for interest paid on loans borrowed up to 31 March, 2020 for purchase of an affordable house valued up to Rs.4.5 mn is further likely to provide impetus to demand for affordable housing.

Capital Market

Budget Expectations

- Changes in Long-term capital gains tax structure in equity
- Holding period for short-term capital gains (STCG) tax on listed securities
- Encouraging Systematic investment plans to divert the flow of savings into equities
- Reduction in the dividend distribution tax

Budget Recommendations

- Proposed SEBI to consider raising minimum public shareholding in the listed companies to 35% from the current threshold of 25%
- Proposed levy of Securities Transaction Tax (STT) by restricting it only to the difference between settlement and strike price in case of exercise of options
- Proposed to levy 20% tax on the distributed income on buy-back of shares of listed companies effective from July 5, 2019.

View:
From Capital market perspective, announcement on raising minimum public shareholding in the listed companies would mean higher supply of equity shares especially from Multinational companies which generally has high promoter holding.

Personal Income Tax

Following are the Income Slabs and Tax Rates

For individual Tax Payers

Tax Slabs	**(2019-20)**
Income (Rs)	**Tax Rate (%)**
0 mn – 0.25 mn	0%
0.25 mn – 0.5 mn	5%
0.50 mn – 1 mn	20%
Above 1 mn	30%

The following points were proposed in case of taxation for the individual tax payers,

- **Surcharge on income-tax:**

Following changes have been proposed in case of levy of surcharge

- of 10% for income exceeding Rs.5 mn but not exceeding Rs.10 mn.
- of 15% for income exceeding Rs.10 mn but not exceeding Rs.20 mn.
- of 25% for income exceeding Rs.20 mn but not exceeding Rs.50 mn.
- of 37% for income exceeding Rs.50 mn.

- **It is proposed to make PAN and Aadhaar interchangeable** and allow those who do not have PAN to file Income Tax returns by simply quoting their Aadhaar number and also use it wherever they are required to quote PAN.
- Interest paid on housing loans is allowed as a deduction to the extent of Rs.0.20 mn in respect of self-occupied property. In order to provide further impetus to affordable housing, it is proposed to allow an additional deduction of up to Rs.0.15 mn for interest paid on loans borrowed up to 31st March, 2020 for purchase of an affordable house valued up to Rs.4.50 mn. Therefore, a person purchasing an affordable house will now get an enhanced interest deduction up to Rs.0.35 mn.
- It is proposed to make return filing compulsory for persons, who have deposited more than Rs.10 mn in a current account in a year, or who have expended more than Rs.0.20 mn on foreign travel or more than Rs.0.10 mn on electricity consumption in a year or who fulfils the prescribed conditions, in order to ensure that persons who enter into high value transactions, also furnish return of income. It is also proposed to provide that a person whose income becomes lower than maximum amount not chargeable to tax due to claim of rollover benefit of capital gains shall also be required to furnish the return. These amendments will take effect from 1st April, 2020 and will, accordingly apply in relation to assessment year 2020-21 and subsequent assessment years.
- It is proposed that for the purpose of tax deduction at source from payment made for acquisition of immovable property, consideration shall include other charges in the nature of club membership fee, car parking fee, electricity and water facility fee, maintenance fee, advance fee or any other charges of similar nature which are incidental to the purchase of immovable property. This amendment will take effect from 1st September, 2019.
- In order to discourage cash transactions and move towards less cash economy, it is proposed to insert a new section 194N in the Act to provide for levy of TDS at the rate of 2% on cash payments in excess of Rs.10 mn in aggregate made during the year by a person with account in

a scheduled commercial bank or cooperative bank or post office. Low-cost digital modes of payment such as BHIM UPI, UPI-QR Code, Aadhaar Pay, certain Debit cards, NEFT, RTGS etc. which can be used to promote less cash economy.

- In order to rationalise the levy of Securities Transaction Tax (STT) where the option is exercised, it is proposed to levy of STT by restricting it only to the difference between settlement and strike price in case of exercise of options. This amendment will take effect from 1st September, 2019.

- **Incentives to National Pension System (NPS) subscribers**

  In order to give effect to the cabinet decision already taken to incentivize NPS, it is proposed to,-
  (i) increase the limit of exemption from current 40% to 60% of payment on final withdrawal from NPS;
  (ii) allow deduction for employer's contribution upto 14% of salary from current 10%, in case of Central Government employee;
  (iii) allow deduction under section 80C for contribution made to Tier II NPS account by Central Government employees.

These amendments will take effect from 1st April, 2020 and will, accordingly, apply in relation to assessment year 2020-21 and subsequent assessment years.

- **In order to incentivise purchase of electric vehicle by an individual**, it is proposed to provide deduction of an amount upto Rs.0.15 mn for interest paid on loan taken for purchase of electric vehicle. The loan is required to be taken on or before 31st March, 2023.

- It is proposed to provide concessional rate of short term capital gains tax to fund of funds set up for disinvestment of Central Public Sector Enterprises (CPSEs), to which concessional rate of long term capital gains tax has already been extended. This amendment will take effect from 1st April, 2020 and will, accordingly, apply in relation to assessment year 2020-21 and subsequent assessment years.

- Government will offer an investment option in ETFs on the lines of Equity Linked Savings Scheme (ELSS) to encourage long term investment in CPSEs.

- In order to incentivize relocation of **Mutual Fund in International Financial Services Centre (IFSC),** it is proposed to amend the said section so as to provide that no additional income-tax shall be chargeable in respect of any amount of income distributed, on or after the 1st September, 2019, by a Mutual Fund of which all the unit holders are non-residents and which fulfills certain other specified conditions.

Debt Market Outlook

The Union Budget FY20 is fairly positive from the perspective of Indian bond markets, as the budget seemed to be prudent. As hoped by markets and also as per the expectations that had built up after the release of the Economic Survey 2019-20, the fiscal deficit has not been revised upwards; rather it has been revised down marginally. **The Fiscal Deficit Target for FY20 has been estimated at 3.3% of GDP as against 3.4% budgeted in the interim budget.** Also the government has stuck to the fiscal consolidation, by outlining the glide path. **The Government has projected the fiscal deficit to come down to 3% in both 2020-21 and 2021-22 financial years. This is a big positive as far as the bond markets are concerned as the market participants had been worried about the upward revision in fiscal deficit in the wake of economic growth slowdown.**

Another positive from this budget was that the estimated market borrowing numbers. **The government has also retained borrowing numbers at similar levels as that in interim budget.** The Gross borrowing numbers for FY20 are estimated at Rs.7.10 trillion and the net market borrowing at Rs. 4.73 trillion. The revised estimates on the gross market borrowing for FY19 were at Rs.5.71 trillion; and that for net market borrowings at Rs.4.23 trillion. **Another important announcement in regards to government borrowing was that the Government would start raising a part of its gross borrowing programme in external markets in external currencies.** The Finance Minister stated in her speech that "this will also have beneficial impact on demand situation for the government securities in domestic market." **This is positive for bond markets domestically as it is likely to prevent the impact of additional borrowings on bond yields domestically and also not lead to crowding of capital markets for the private sector.**

On the corporate bonds also the government announced a slew of measures. Some of these measures are as follows:-

- To deepen the Corporate tri-party repo market in Corporate Debt securities, Government will work with regulators RBI/SEBI to enable stock exchanges to allow AA rated bonds as collaterals.
- User-friendliness of trading platforms for corporate bonds will be reviewed, including issues arising out of capping of International Securities Identification Number (ISIN).
- FPIs will be permitted to subscribe to listed debt securities issued by ReITs and InvITs.
- An action plan to deepen the market for long term bonds including for deepening markets for corporate bond repos, credit default swaps etc., with specific focus on infrastructure sector, will be put in place.
- It is proposed to permit investments made by FIIs/FPIs in debt securities issued by Infrastructure Debt Fund – Non-Bank Finance Companies (IDF-NBFCs) to be transferred/sold to any domestic investor within the specified lock-in period.

Acknowledging that recent stress faced by certain sectors of the financing markets, the government proposed various measures like:-

- For purchase of high-rated pooled assets of financially sound NBFCs, amounting to a total of Rupees one lakh crore during the current financial year, Government will provide one time six months' partial credit guarantee to Public Sector Banks for first loss of up to 10%.
- The Reserve Bank of India (RBI) is the regulator for NBFCs; however, RBI has limited regulatory authority over NBFCs.
- NBFCs which do public placement of debt have to maintain a Debenture Redemption Reserve (DRR) and in addition, a special reserve as required by RBI, has also to be maintained. To allow NBFCs to raise funds in public issues, the requirement of creating a DRR, which is currently applicable for only public issues as private placements are exempt, will be done away with.
- The budget also proposed to return the regulation authority over the housing finance sector from NHB to RBI.
- It is proposed that interest on bad or doubtful debts in the case of deposit-taking NBFC and systemically important non deposit-taking NBFC shall be charged to tax on receipt basis instead of accrual basis. It is also proposed to provide that deduction of such interest shall be allowed to the payer on actual payment.

The measures proposed for the corporate bonds including those for NBFCs may lead to some decline in the corporate bond spreads, as these measures have shown the government's intention to ensure financial stability amidst stress in the financial markets.

The yield of the 10-year benchmark G-sec declined sharply when the budget was being presented, after the Finance Minister announced that the government may also borrow part of its gross borrowing program in external markets in external currencies. However at the end of the trading session G-secs gave up most of the gains. Yield on the 10 year benchmark G-sec 7.26% 2019 closed at 6.69% as compared to its previous close of 6.75%; after declining to a level of 6.56% intermittently during the trading session today.

Investment Strategy

The markets entered the budget with caution on both fiscal deficit, as well government's market borrowing. However, it is evident from today's budget presentation that the government is trying to do a balancing act; on one hand trying to push the slowing economic growth and on the other hand remaining on the fiscal consolidation path. The government has also shown that it is cognizant of the stress in the financial sector and shall do its bit to restore/maintain financial stability. In terms of economic growth, it will now be upon the RBI to further provide monetary policy support to supplement the government's efforts.

With a seemingly prudent budget, muted inflation and week global growth scenario, the markets are likely to start building in deeper interest rate cuts going forward. Inflation has remained muted over the past several months helped by 1. muted food inflation and 2. recent decline in the core inflation. While food inflation has remained muted over the past few months there has been an uptick. Some of the food items have also seen a reversal in the trend eg; prices of 'Pulses and products' which deflated on year on year (YoY) basis for over two years, witnessed an increase in prices in May 2019. **This also has to be seen in light of the monsoon progress so far which has not been very encouraging; even sowing of Kharif crops so far has been lower compared to the previous year**. **That said headline retail inflation may remain muted in the near term, possibly due to; 1.) with the global geopolitical tensions hurting global economic growth, demand for crude oil prices may remain muted and thus, the prices too; and 2.) with the government managing the food supply and prices well, the impact of possible sub normal monsoon may remain contained.** However, any shocks in crude oil prices and/or food prices could still be risks to inflation. It will also be important to see how the government manages the fiscal math given the tax revenues may be constrained given the economic growth slowdown.

In terms of the yield curve, the shorter end of the yield curve has witnessed a sharp decline over the past few months tracking the rate cuts by the RBI as well as RBI's liquidity support measures. The short term rates may consolidate in the near term as the bond issuances both by the government as well the corporates are likely to prevent the yields from declining further; whereas RBI's focus on transmission of rate cuts is likely to keep the short terms rates anchored. The medium and the longer end of the yield curve may decline further in the near term as the expectations of further interest rate cuts by the RBI stay alive and also as the demand and supply dynamics for bonds remain balanced.

Fixed Income Mutual Fund Strategy:- Investments in Medium Duration Funds can be considered by moderate and aggressive investors with a horizon of 15 months and above. Investors, who are comfortable with intermittent volatility, can also look at strategies that focus at the longer end of the yield curve. i.e. Long duration funds, with a horizon of 24 months and above. Investments into Short Duration Funds can be considered with an investment horizon of 12 months and above. Investors looking to invest with a horizon of up to 3 months can consider Liquid Funds, while Ultra Short Duration Funds and Arbitrage can be considered for a horizon of 3 months and above.

Budget at a Glance

Particulars Rs. Bn	2017-18 Actual	2018-19 BE	2018-19 RE	2019-20 BE	% Change
A. Revenue Receipts	14352.33	17257.38	17296.82	19627.61	13.48%
Tax Revenue (net to centre)	12424.88	14806.49	14844.06	16495.82	11.13%
Non-tax Revenue	1927.45	2450.89	2452.76	3131.79	27.68%
B. Capital Receipts	7067.42	7164.75	7275.53	8235.88	13.20%
Total Receipts (A+B)	**21419.75**	**24422.13**	**24572.35**	**27863.49**	**13.39%**
Total Expenditure (C+D)	**21419.75**	**24422.13**	**24572.35**	**27863.49**	**13.39%**
Revenue Expenditure	18788.35	21417.72	21406.12	24477.8	14.35%
Capital Expenditure	2631.40	3004.41	3166.23	3385.69	6.93%
Revenue Deficit	**4436.02**	**4160.34**	**4109.30**	**4850.19**	**18.03%**
as a % of GDP	**-2.60**	**-2.20**	**-2.20**	**-2.30**	
Fiscal Deficit	**5910.64**	**6242.76**	**6343.98**	**7037.6**	
as a % of GDP	**-3.50**	**-3.30**	**-3.40**	**-3.30**	
GDP	**167731.45**	**187223.02**	**188407.31**	**211006.07**	

***All figures in Rs. Bn, except the YoY % figures. % Change is FY20BE over FY19RE.**

****Please refer to Disclaimer on the next page***

HDFC Bank House, 1 st Floor, C.S. No. 6 \ 242, Senapati Bapat Marg, Lower Parel, Mumbai 400 013. Phone: (91)-22-66521000, ext 1311, Fax: (91)-22-24900983 \ 24900858