ICRA ANALYSIS ON GOVERNMENT OF INDIA UNION BUDGET 2019-20

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Assessment of Government of India’s Fiscal Situation

In the Union Budget for 2019-20 ("Revised Budget Estimates" or RBE), the GoI pegged its fiscal deficit at Rs. 7.0 lakh crore, largely in line with the level indicated in the Interim Budget Estimates (IBE) for 2019-20 presented in January 2019 (refer Exhibit 1). Substantially lower tax revenues and mildly higher expenditure were offset by an increase in the forecast for non-tax revenues and disinvestment proceeds. Additionally, an increase in the level of GDP estimated for FY2020 (Rs. 211.0 trillion in RBE vs. Rs. 210.1 trillion in IBE), has resulted in the fiscal deficit now being projected at 3.3% of GDP for the current fiscal, compared to 3.4% of GDP in the Interim Budget. In contrast, the revenue deficit for FY2020 RBE widened to Rs. 4.9 lakh crore from the Rs. 4.7 lakh crore in FY2020 IBE, which has resulted in a deterioration in the quality of the fiscal deficit.

The RBE for FY2020 indicates a rise in the fiscal deficit at an absolute level to Rs. 7.0 lakh crore from Rs. 6.6 lakh crore in FY2019 Prov. (according to provisional data released by the controller general of accounts or CGA). However, the Government has forecast a mild dip in the fiscal deficit target to 3.3% of GDP in FY2020 from 3.4% of GDP in FY2019.

The following sections briefly discuss the revenue and expenditure trends forecast by the GoI in the Union Budget for 2019-20.

Exhibit 1: GoI's Fiscal Balances

	Rs. Lakh Crore					Growth		
	FY2018 Actual (1)	FY2019 RE (2)	FY2019 Prov. (3)	FY2020 IBE (4)	FY2020 RBE (5)	FY2019 RE (2)/(1)	FY2020 RBE (5)/(2)	FY2020 RBE (5)/ (3)
Revenue Receipts	14.4	17.3	15.6	19.8	19.6	20.5%	13.5%	25.6%
Tax Revenues$	12.4	14.8	13.2	17.1	16.5	19.5%	11.1%	25.3%
Non Tax Revenues	1.9	2.5	2.5	2.7	3.1	27.3%	27.7%	27.2%
Revenue Expenditure	18.8	21.4	20.1	24.5	24.5	13.9%	14.3%	21.9%
Revenue Deficit	**4.4**	**4.1**	**4.5**	**4.7**	**4.9**			
% of GDP	***2.6%***	***2.2%***	***2.3%***	***2.2%***	**2.3%**			
Capital Receipts (Non Debt)	1.2	0.9	1.0	1.0	1.2	-19.5%	28.6%	16.5%
Capital Expenditure	2.6	3.2	3.2	3.4	3.4	20.3%	6.9%	5.5%
Fiscal Deficit	**5.9**	**6.3**	**6.6**	**7.0**	**7.0**			
% of GDP	***3.5%***	***3.3%***	***3.5%***	***3.3%***	***3.3%***			

Source: GoI Budget Documents; CGA; ICRA research
$ Net of Refunds, Net of States' share in Central Taxes

Revenue receipts: The GoI's revenue receipts are estimated to grow by 25.6% in FY2020 RBE, relative to the level in FY2019 Provisionals (Prov.)., with a considerable 25.3% rise in net tax revenues and a significant 27.2% expansion in non-tax revenues.

Notably, the estimate for overall revenue receipts for FY2020 has been revised downwards by Rs. 14,932 crore in the RBE for FY2020 as compared to the IBE, owing to a correction of Rs. 55.464 crore in net tax revenues (driven by GST and personal income tax), while non-tax revenues have been revised upwards by Rs. 40,532 crore.

Gross tax revenues are estimated to expand by 18.3% in FY2020 RBE (relative to FY2019 Prov.), sharply higher than the growth of 8.4% in FY2019 (Prov.; relative to FY2018 Actuals). Personal income tax is projected to grow by 23.3% in FY2020 RBE, significantly higher than the provisional estimates for FY2019 (7.2%), which is likely to benefit from higher surcharges to be levied on individuals with incomes above Rs. 2 crore per year. Meanwhile, the pace of growth of corporate tax collections is expected to ease only mildly to 15.4% in FY2020 RBE, from 16.2% in FY2019 Prov., despite the proposal to reduce the corporate tax rate to 25% for firms with a turnover below Rs. 400 crore.

After an 11.0% contraction in FY2019 (Prov.; led by the full year impact of the transition to the GST regime), excise duty collections are expected to expand by a substantial 29.9% in FY2020 RBE, led by the proposal to increase special additional excise duty as well as road and infrastructure cess by Rs 1/litre each on petrol and diesel. Similarly, after the 8.6% decline in FY2019 Prov., revenue from custom duties is budgeted to increase by 32.2% in FY2020 RBE, benefitting from the hike in duty on gold and precious metals to 12.5% from 10.0%.

GST collections are forecast to rise by 14.4% in FY2020 RBE relative to FY2019 Prov. While the CGST collections are expected to grow by 15.0% in FY2020 BE, IGST collections are projected to post a decline (3.3%).

Exhibit 2: Trends in Tax Revenue Receipts in FY2019 RE and FY2020 BE

Rs. Lakh Crore	FY2018 Actuals (1)	FY2019 RE (2)	FY2019 Prov. (3)	FY2020 IBE (4)	FY2020 RBE (5)	Growth in FY2020 RBE (5)/(2)	Growth in FY2020 RBE (5)/(3)
Gross Tax Revenues	19.2	22.5	20.8	**25.5**	24.6	9.5%	18.3%
- Corporation Tax	5.7	6.7	6.6	7.6	7.7	14.2%	15.4%
- Income Tax	4.3	5.3	4.6	6.2	5.7	7.6%	23.3%
- Customs Duty	1.3	1.3	1.2	1.5	1.6	19.9%	32.2%
- Union Excise Duty	2.6	2.6	2.3	2.6	3.0	15.6%	29.9%
- Service Tax	0.8	0.9	0.1	0.0	0.0		--
- GST	4.4	6.4	5.8	7.6	6.6	3.0%	14.4%
- CGST	2.0	5.0	4.6	*6.1*	5.3	4.4%	15.0%
- IGST	1.8	0.5	0.3	*0.5*	0.3	-44.0%	-3.3%
- GST Compensation Cess	0.6	0.9	1.0	*1.0*	1.1	21.5%	15.0%

Source: GoI Budget Documents; CGA; Economic Survey 2014-15; ICRA research

The RBE for FY2020 has projected an increase of 27.2% in non-tax revenues to Rs. 3.1 lakh crore from Rs. 2.5 lakh crore in FY2019 RE (Rs. 2.5 lakh crore in FY2019 Prov. as well). Revenues from communication services are estimated to increase to Rs. 50,519.8 crore in FY2020 RBE from Rs. 39,245 crore in FY2019 RE. Assuming no spectrum auctions, ICRA's estimate for non-tax revenue from telecom receipts in FY2020 is Rs. 39,000-41,000 crore based on the deferred payments pertaining to earlier auctions and normal fees such as spectrum usage charges and licence fees.

The receipts from dividends and surplus from the Reserve Bank of India (RBI), Nationalised Banks and Financial Institutions and Public Sector Enterprises (PSEs), are estimated to increase by 37.1% in FY2020 RBE, led primarily by higher surplus transfer expected from the RBI and nationalised banks and financial institutions to Rs. 1.1 lakh crore in FY2020 BE from Rs. 0.7 lakh crore in FY2019 RE. The awaited recommendations of the Jalan Committee, which was appointed to review the economic capital framework for the Central Bank, with respect to the transfer of the RBI's surplus to the GoI, may crucially influence the government's collections from this source in the ongoing fiscal. Dividends and profits from other PSEs are estimated to rise by 27.4% to Rs. 0.57 lakh crore in FY2020 RBE from Rs. 0.45 lakh crore in FY2019 RE.

Moreover, the RBE for FY2020 for non-loan capital receipts at Rs. 1.2 lakh crore is 16.5% higher than the Rs. 1.0 lakh crore included in the provisional estimates for FY2019. The former includes Rs. 1.05 lakh crore as receipts from disinvestment of the GoI's stake in PSUs, 23.5% higher than the Rs. 850.5 billion included in FY2019 Prov. The speed with which the disinvestment programme kicks off, as well as the interest shown by potential buyers in the PSUs being offered for strategic disinvestment such as Air India, will be crucial to prevent a slippage relative to this target.

Overall, the realisation of direct taxes and GST collections, dividends and surplus from the RBI, Nationalised Banks and Financial Institutions and PSEs, the revenues raised from the telecom sector, and disinvestment proceeds, will also be crucial to prevent a revenue slippage in FY2020.

Exhibit 3: Trends in Revenue and Capital Expenditure

Rs. Lakh Crore	FY2019 RE (1)	FY2019 Prov. (2)	FY2020 IBE (3)	FY2020 RBE (4)	Growth in FY2020 RBE (4)/(1)	Growth in FY2020 RBE (4)/(2)
Revenue Expenditure	**21.4**	**20.1**	**24.5**	**24.5**	**14.3%**	**21.9%**
Interest	5.9	5.8	6.7	6.6	12.4%	13.4%
Subsidies	3.0	2.0	3.3	3.4	13.3%	72.0%
Fertiliser	0.7	0.7	0.7	0.8	14.2%	13.3%
Food	1.7	1.0	1.8	1.8	7.5%	80.8%
Fuel	0.2	0.2	0.4	0.4	50.9%	52.6%
Pensions	1.7	2.0	1.7	1.7	4.6%	-11.6%
Defence	3.1	3.0	3.2	3.2	5.2%	6.2%
Direct Benefit Transfer - LPG	0.2	NA	0.3	0.3	79.0%	NA
National Health Mission	0.3	NA	0.3	0.3	6.5%	NA
Grants Capital Assets	2.0	NA	2.0	2.1	3.5%	NA
Capital Exp. Gross Loans & Adv.	**3.2**	**3.0**	**3.4**	**3.4**	**6.9%**	**11.8%**
Defence	1.0	1.0	1.1	1.1	9.9%	8.9%
Road	0.7	0.7	0.7	0.7	5.0%	6.5%
Railways	0.5	0.5	0.6	0.7	24.1%	24.6%
Metro Projects	0.1	NA	0.2	0.2	19.2%	NA

Source: GoI Budget Documents; CGA; ICRA research

Revenue expenditure: Revenue expenditure is budgeted to increase by 21.9% to Rs. 24.5 lakh crore in FY2020 RBE from Rs. 20.1 lakh crore in FY2019 Prov, remaining in line with the amount allocated in FY2020 IBE (refer Exhibit 3). The allocation for interest payments has been increased by 13.4% to Rs. 6.6 lakh crore in FY2020 RBE from Rs. 5.8 lakh crore in FY2019 Prov. Moreover, the grants for creation of capital assets were placed at Rs. 2.1 lakh crore in FY2020 RBE.

The allocation for major subsidies (food subsidy, fuel subsidy and fertilizer subsidy) has been increased to Rs. 3.0 lakh crore in the RBE for FY2020 from Rs. 2.0 lakh crore in the FY2019 Prov., led primarily by a sharp increase in the food subsidy (to Rs. 1.8 lakh crore from Rs. 1.0 lakh crore). The allocation for fertiliser subsidy has been enhanced somewhat to Rs. 0.8 lakh crore in FY2020 RBE from ~Rs. 0.7 lakh crore in FY2019 Prov. The subsidy on petroleum products is estimated to rise to ~Rs. 37,500 crore in FY2020 RBE from ~Rs. 24,500 crore in FY2019 BE. ICRA estimates the fuel subsidy requirement for FY2020 at ~Rs. 31,500 crore, assuming the price of the Indian crude oil basket at USD70/bbl and INR at Rs. 70/USD. While the subsidy provided for in FY2020 RE appears adequate, the backlog related to the previous year will continue to necessitate high working capital borrowings for the PSU OMCs, as was witnessed in FY2019.

The allocation for NREGA has been placed at Rs. 60,000 crore in FY2020 RBE, lower than the same in FY2019 RE (Rs. 61,084 crore). Notably, the allocation for PM-Kisan, which was launched in January 2019, has been increased sharply to Rs. 75,000 crore in FY2020 RBE from Rs. 20,000 crore in FY2018 RE.

Capital expenditure: Capital expenditure is budgeted to rise by a modest 11.8% to Rs. 3.4 lakh crore in FY2020 RBE from Rs. 3.0 lakh crore in FY2019 Prov. The capital expenditure in FY2020 RBE is similar to the level included in FY2020 IBE. The budgetary outlays for capital spending for the Ministry of Railways, and the Ministry of Road Transport and Highways have been augmented by a 24.6%, and 6.5% to Rs. 0.7 lakh crore, each, respectively, in FY2020 RBE relative to FY2019 Prov. Additionally, the allocation for Defence has been increased by 8.9% to ~Rs. 1.1 lakh crore in the RBE for FY2020 from ~Rs. 1.0 lakh crore in FY2019 Prov. However, the capital allocation for Ministry of Civil Aviation was reduced to a nominal ~25 crore in FY2020 RBE from Rs. 3,975 crore in FY2019 Prov. on account of shelving of the turnaround plan for Air India.

A higher than expected amount of Rs. 70,000 crore is to be provided as capital support to the public sector banks in FY2020, through the issuance of special securities.

The lower growth of capital expenditure relative to FY2019 Prov., compared to the high 21.9% rise in revenue expenditure would result in deterioration in the quality of spending in FY2020.

Exhibit 4: Fiscal Balances for GoI

Rs. Lakh Crore	FY2019 BE	FY2019 RE	FY2020 IBE	FY2020 RBE	FY2021 Rolling Targets	FY2022 Rolling Targets
Revenue Deficit	4.2	4.1	4.7	4.9	-	-
Percentage of GDP	*2.2%*	*2.2%*	*2.2%*	2.3%	1.9%	1.7%
Fiscal Deficit	6.2	6.3	7.0	7.0	-	-
Percentage of GDP	*3.3%*	*3.4%*	*3.4%*	3.3%	*3.0%*	*3.0%*
Total Outstanding Liabilities as a Percentage of GDP#	47.1%	48.4%	47.3%	48.0%	46.2%	44.4%

Source: GoI Budget Documents; CGA; ICRA Research

 # Scope of the definition for the GoI's debt has widened to include all outstanding liabilities including those in the Public Account of India from FY2018 RE.

Fiscal balances: The GoI has indicated a fiscal deficit of 3.3% of GDP in the RBE for FY2020 (refer Exhibit 4), higher than the 3.1% target indicated in the MTFP statement published along with the FY2019 budget (refer Exhibit 5). As a percentage of GDP, the revenue deficit is budgeted to remain unchanged in FY2020 RBE relative to FY2019 Prov. at 2.3% of GDP. Notably, this is higher than the revenue deficit of 2.2% of GDP in FY2020 IBE. However, the fiscal deficit, as a percentage of GDP is estimated to improve to 3.3% of GDP in FY2020 RBE from 3.4% of GDP, each in FY2019 Prov. and FY2020 IBE.

At an absolute level, the revenue deficit, the effective revenue deficit and the fiscal deficit are estimated to widen in FY2020 RBE compared to the provisional amount for FY2019 (refer Table 5). Notably, the quality of the fiscal deficit is expected to improve mildly, with the share of the revenue deficit in the total fiscal deficit decreasing to ~68.9% in FY2020 RBE from ~70.0% in FY2019 Prov.

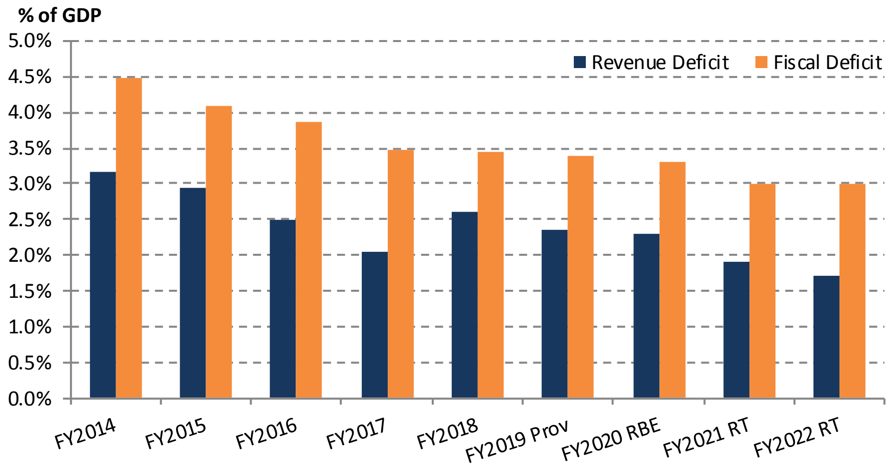
Subsequently, the GoI has pegged its rolling targets for fiscal deficit at 3.0% of GDP in FY2021 and FY2022 (refer Exhibit 5). However, the GoI's fiscal glide path would need to be revisited after the Fifteenth Finance Commission's (FFC) recommendations are published. In addition, the trend for states' share of tax revenues, which would crucially affect the net tax revenues of the GoI, would also be determined by the FFC's report. The Central government debt outstanding is projected to decline to 46.2% of GDP in FY2021 and further to 44.4% of GDP in FY2022.

Exhibit 5: Fiscal Deficit Targets for GoI

	Performance/ Targets in Revised Budget FY2020	Performance/ Targets in Budget FY2019	Targets set by FFC
FY2019	3.4%	3.3%	3.0%
FY2020	3.3%	3.1%	3.0%
FY2021	3.0%	3.0%	NA
FY2022	3.0%	NA	NA

Source: GoI; FFC Report; ICRA Research

Exhibit 6: GoI's Revenue and Fiscal Deficit as a Percentage of GDP



Source: GoI Budget Documents; CGA, Ministry of Finance, GoI; ICRA research

Borrowings: The GoI has retained the gross borrowings estimate at Rs. 7.1 lakh crore for FY2020 (refer Exhibit 7), in line with the amount indicated in the Interim Budget, which is significantly higher than the level in FY2019. Moreover, the net long-term borrowings (net of redemptions) are estimated to rise to Rs. 4.7 lakh crore in FY2020 from Rs. 4.2 lakh crore for FY2019.

In continuation with the strategy of easing the near-term redemption pressure pursued by the GoI in recent years, buyback and switching of shorter tenor securities with longer tenor securities have been proposed in the FY2020 Budget as well. The GoI has indicated that it would buy back securities amounting to Rs. 0.5 lakh crore in FY2020, compared to nil in FY2019. The net borrowing (adjusted for buy back) of Rs. 4.2 lakh crore is projected to fund 60% of the gross fiscal deficit in FY2020. Additionally, securities worth Rs. 0.5 lakh crore are proposed to be switched in FY2020, which is higher than the Rs. 0.3 lakh crore of securities switched in FY2019.

Moreover, the budget speech mentioned that the GoI would start funding a part of its gross borrowing from external markets in external currencies. Details regarding the same are awaited.

The mild downward revision in the targeted level of the Government of India's fiscal deficit for FY2020, combined with the proposal to raise a portion of the borrowings from external markets in foreign currencies, as well as the expectations of continued repo rate cuts and a benign outlook for global interest rates, will help to cap yields on Government of India securities in the near term. Regardless, the evolving trends for revenues and expenditures will be closely gauged to assess the likelihood of a fiscal slippage in FY2020.

Exhibit 7: GoI's Long-Term Market Borrowings (Rs. lakh crore)

	FY2019	FY2020
Gross Borrowing	5.7	7.1
Redemptions	1.5	2.4
Net Borrowing	4.2	4.7
Buyback	0.0	0.5
Net Borrowing Adjusted for Buyback	4.2	4.2

Source: RBI; ICRA research

ICRA Sectoral Analysis

AGRICULTURE

Proposals

- 10,000 new Farmer Produce Organisations (FPOs) to be setup by 2022
- Budgetary allocation for Crop Insurance Scheme increased to Rs. 14,000 crore for 2019-20(BE) from Rs. 12,975 crore for 2018-19(RE)
- Interest subsidy for farm credit increased to Rs. 18,000 crore for 2019-20(BE) from Rs. 14,987 crore for 2018-19 (RE)
- Allocation for Pradhan Mantri Krishi Sinchayi Yojna (PMKSY) increased to Rs. 3500 crore for 2019-20(BE) from Rs. 2954 crore for 2018-19(RE)
- Allocation of Rs. 75,000 crore for 2019-20(BE) towards the Pradhan Mantri Kissan Samman Nidhi Yojna (PM-Kisan) against Rs. 20,000 crore allocation for 2018-19 (RE)
- Levy of Special Additional Excise Duty and Road & Infrastructure Cess of Rs.1/litre each on diesel

Impact: Neutral

The 2019-20 Union Budget laid significant emphasis on agriculture infrastructure and laid down steps to double farmers' income by FY2022. GoI has proposed to form 10,000 new Farmer Producer Organizations (FPO) over the next five years. This would provide benefit of economies of scale to the small and marginal farmers in terms of pricing their products as well as resolution of other problems related to logistics and storage. Further, to ensure adequate and timely availability of farm credit, the budgetary allocation for interest subsidy on farm credit was increased to Rs. 18,000 crore for FY2019-20 from Rs. 14,987 crore for FY2018-19. To address farm productivity of severely under irrigated districts, allocation under the Pradhan Mantri Krishi Sinchayi Yojna was increased to Rs. 3500 crore for FY2019-20 from Rs. 2954 crore for FY2018-19. Further, the allocation for crop insurance scheme has also been increased to Rs. 14000 crore in FY2019-20 from Rs. 12,975 crore in FY2018-19. To provide income support to farmers, GoI allocated Rs. 75,000 crore to the PM-Kisan scheme, wherein all the farmers will get Rs. 6000 per year as income support. However, levy of special additional excise duty and Road & Infrastructure Cess of Rs. 1/ liter each would increase the diesel prices, which in turn will increase the input cost for farmers.

AUTO: Auto Components

Proposals

- Customs duty on select EV components (like E-drive assembly, on-board charger, e-compressor and charging guns) reduced to nil
- Increase in customs duty on various auto components (like friction material, glass, lighting or visual signalling equipment, horns, etc) by 2.5-5%
- Scheme to provide global companies with tax incentives to set up mega-manufacturing plants in sunrise and advanced technology areas such as Lithium storage batteries
- Access to credit for MSMEs eased with the Government introducing loans up to Rs. 1 crore within 59 minutes through a dedicated online portal; 2% interest subvention for all GST registered MSMEs, on fresh or incremental loans; Rs. 350 crore provided under the Interest Subvention Scheme
- Increase in turnover threshold to Rs. 400 crore for lower income tax of 25%

Impact: Neutral

Demand impetus for EVs (interest deduction of Rs. 1.5 lakh, reduction in GST rates to 5% from 12.5%); the reduction in customs duty on select EV components and steps to create domestic Lithium ion battery capacities augers well for domestic EV demand and creation of a local supply ecosystem. This could eventually provide cost benefits for the end vehicle. Increase in customs duty on various other components will support future prospects of the local ancillary industry.

Further, steps to support MSMEs through interest subventions and reduced taxation on mid-sized companies will support auto component manufacturers. Liquidity easing for NBFCs will have a positive impact on automotive demand, which will in turn trickle down to the ancillaries.

AUTO: Commercial Vehicles (CV)

Proposals

- Rs. 100 lakh crore investment proposed for infrastructure development over next five years
- 1.25 lakh km of rural roads to be upgraded at a cost of Rs. 80,250 crore under Phase III of the Pradhan Mantri Gram Sadak Yojana
- 1.95 crore houses proposed under Phase II of Pradhan Mantri Awas Yojana (PMAY)
- Government to carry out comprehensive restructuring of National Highway Programme to ensure National Highway Grid of desirable length and capacity; after completing Phase I of Bharatmala, states will be aided to develop state road networks under Phase II of programme
- Proposal to improve liquidity of NBFCs like removal of DRR, retail pool sell-downs to public sector banks based on partial Government guarantee
- Rs. 10,000 crore allocated to Phase II of the FAME scheme to promote EVs; customs duty exemption on certain EV parts; IT deduction of interest on loans for EV purchase

Impact: Positive

The CV sector will reap benefits of the Government's continued focus on infrastructure development through ambitious projects like the Bharatmala, Sagarmala, DFC and Jal Marg Vikas, etc. In addition to the large infrastructure projects, the Government's continued thrust on segments like rural road development and affordable housing will also augur well for M&HCV (truck) demand, especially for tippers. The upgradation of India's rural road network, and the resultant improvement in last-mile connectivity, will also act as a demand driver for the Light Commercial Vehicle (LCV) segment over the medium term.

The M&HCV segment, which had been reeling under the liquidity crisis faced by the NBFC sector in recent months, will also stand to benefit from the measures proposed to ease liquidity pressures on the sector.

The thrust on EVs and electrification continues, meanwhile, with increased allocation under Phase II of the FAME scheme. Demand incentives under the scheme by way of subsidies and customs duty exemption on certain EV parts are expected to reduce the capital cost associated with electric buses, and improve their viability and adoption.

AUTO: Passenger Vehicles

Proposals

- Government's commitment towards electric vehicles (EVs) positive; reduction in GST for EVs to 5% from 12%; no revision in GST rate for other vehicle categories
- Income tax deduction of Rs. 1.5 lakh on interest paid on loans for EV purchases; total benefits of Rs. 2.5 lakh over the loan period
- Custom duty reduced to NIL on EV components like E-drive assembly, charging gun, on-board charger and e-compressor
- Government will invite global companies to set up mega-manufacturing units for Lithium storage batteries and solar electric charging infrastructure; eligible for investment linked income tax exemption under section 35D
- Re-capitalisation of PSU banks and liquidity support for NBFCs
- Increase in Special Additional Excise Duty and Road and Infrastructure Cess by Re. 1 each on a litre of petrol and diesel

Impact: Positive

The Government has increased the outlay for the rural sector, with special thrust on rural income and improved road connectivity. The same is positive for the passenger vehicle (PV) industry, especially for entry level cars and the utility vehicle (UV) segment. We notice a major thrust on EV penetration, with the Government announcing a reduction in GST for EVs down to 5% from 12% as well as an income tax deduction of Rs. 1.5 lakh on interest paid on loans for EV purchases. Moreover, to incentivise the manufacturing of key EV components, the Government has proposed investment linked income tax exemption for setting up mega-manufacturing units for lithium storage batteries and solar electric charging infrastructure. The fuel price increase by Rs. 2 per litre because of a hike in excise duty and infra cess has been a deterrent in an otherwise positive budgetary proposal for the PV industry.

The NBFC sector, which accounts for ~30% of the total PV financing in India, has also been given a breather with a proposed credit enhancement for higher rated securitisation transactions. Overall, the liquidity support to the NBFC sector and the re-capitalisation of banks are positive factors for the sector.

AUTO: Tractors

Proposals

- Assured income support (up to Rs. 6,000/annum for each household) to farmers under the Pradhan Mantri Kisan Samman Nidhi; budgeted outlay of Rs. 75,000 crore for FY2020
- Allocation under MNREGA increased to Rs. 60,000 crore, to aid rural employment
- Dedicated fund of Rs. 3,000 crore for market intervention and price support scheme for protecting crop realisations
- Allocation to Interest Subsidy for Short Term Credit to farmers enhanced by 20% to Rs. 18,000 crore
- Allocation of Rs. 14,000 crore for Pradhan Mantri Fasal Bima Yojana
- Continued focus on rural infrastructure development; allocation of Rs. 9,682 crore to Pradhan Mantri Krishi Sinchai Yojna (PMKSY), Rs. 19,000 crore for Pradhan Mantri Gram Sadak Yojana (PMGSY) and Rs. 25,853 crore to Pradhan Mantri Awas Yojana (PMAY)

Impact: Neutral

The Union Government continued its initiatives for promoting rural development and farmer welfare in the budget. An enhanced allocation to various ongoing farmer welfare schemes (irrigation, crop insurance and rural employment) will help in reducing the exposure of the agricultural sector to the vagaries of the monsoons over a medium term. Additionally, the assured income support for farmers will likely aid in the timely procurement of key crop inputs like seeds and fertilisers. Despite these initiatives, however, nothing material has been announced in the current budget to favourably impact consumer sentiments in the near term for triggering a volume recovery.

AUTO: Two-Wheelers

Proposals

- Assured income support (up-to Rs 6000/annum for each household) to farmers under the Pradhan Mantri Kisan Samman Nidhi; Budgeted outlay of Rs. 75,000 crore for FY2020
- Allocation under MNREGA increased to Rs 60,000 crore from Rs, 55,000 crore;
- Dedicated fund of Rs. 3,000 crore for market intervention and price support scheme, with a view of protecting crop realisations
- Allocation for Interest Subsidy for Short Term Credit to Farmers enhanced by 20% to Rs. 18,000 crore
- Increase in allocation for Pradhan Mantri Fasal Bimal Yojana to Rs 14,000 crore
- Continued focus on rural infrastructure development; allocation of Rs 19,000 crore for Pradhan Mantri Gram Sadak Yojana and Rs 9,682 crore to Pradhan Mantri Krishi Sinchai Yojna
- Interest subvention scheme for MSMEs at 2%, with an allocation of Rs. 350 crore
- Income tax deduction of Rs. 1.5 lakhs on interest paid for electric vehicle loans (including two-wheelers) and GST reduction from 12% to 5% on electric vehicles

Impact: Neutral

Focus on the farm community and rural sector through higher allocations has been one of the critical highlights of the Union Budget which is expected to aid in relieving the distress in the farm community to an extent. While these initiatives are directionally positive, nothing material has been announced in the current budget that can favourably impact consumer sentiments in the near term. The support to MSMEs, with the help of interest subvention of 2% and loan up-to Rs. 1 crore in less than 59 minutes increases the ease of doing business for MSMEs and might help in employment generation in urban areas to an extent. Apart from this, the income tax deduction of Rs. 1.5 lakh for interest on loan taken for electric vehicles (including electric two-wheelers) as well as GST reduction from 12% to 5% is likely to increase the demand of electric two-wheelers.

AVIATION

Proposals

- Proposal to further open up foreign direct investment (FDI) in aviation
- Development of 17 iconic tourist destinations
- Steps to develop India as a hub for aircraft financing and leasing activities for the creation of a self-reliant aviation industry
- Blueprint to be made for the development of regional airports
- Government remains committed towards privatisation of Air India

Impact: Marginally Positive

The proposal to increase the FDI in aviation and the steps to develop India as a hub for aircraft financing and leasing activities are a positive as this will provide access to much needed capital. The Budget has reiterated its focus on improving regional connectivity through the Ude Desh Ka Aam Nagrik (UDAN) scheme and making flying affordable to the masses. The focus on the development of regional airports will help improve connectivity with underserved/unserved airports and thus boost tourism. This, along with the measures being taken to develop iconic tourist destinations to boost tourism, will support the growth of the Indian aviation industry. In line with the Government's increasing thrust on Make in India, the Budget has focussed on incentivising the maintenance, repair and overhaul (MRO) sector so as to retain the MRO activities in the country.

BANKING AND FINANCE

Proposals

- Capital infusion of Rs 70,000 crore in Public Sector Banks (PSBs)
- Interest subvention of 2% for GST registered MSMEs on their fresh or incremental loans
- Partial credit guarantee for first loss up to 10% for pooled asset purchases from NBFCs by PSBs
- Increased deduction on interest paid on housing loans and continuity of credit linked subsidy scheme for housing to support credit demand

Impact: Positive

The bank recapitalisation of Rs 70,000 crore appears to be positive as it will not only address regulatory capital requirements by also the growth capital. In our view, with this capital infusion, all the PSBs should be able to exit the PCA framework and facilitate the merger among PSBs. Further, in our view, the dependence on banks for raising capital from market sources also stands substantially reduced and the credit growth of 12-13% is assured, even if PSBs are unable to raise capital from markets.

Interest subvention for MSMEs will improve the debt servicing ability of MSMEs and aid the credit quality for banks.

Banks have emerged as a large buyer of pooled assets from NBFCs given the liquidity issues faced by the sector during FY2019. Proposal to provide one time six months partial credit guarantee to PSBs for first loss of up to 10% will reduce any credit risk in such assets. It must be noted that the minimum holding period and hence seasoning of underlying loans in the pool for certain assets classes like housing loans was also reduced from 12 months to 6 months during FY2019.

Higher interest deduction on interest paid on housing loans shall improve the affordability of house purchase and will improve housing credit demand for banks as well as HFCs. This apart, improved housing sales can also improve the cash flows of developers and reduce any asset quality pressures in this segment for banks as well as HFCs.

INSURANCE

Proposals

- 100% FDI allowed in insurance intermediaries
- Net Owned Funds (NOF) requirement for branches of foreign re-insurance companies reduced to Rs. 1,000 crore from Rs. 5,000 crore
- Tax shall be withheld on taxable payout of life insurance companies on net basis at 5%, instead of 1% on gross as at present.
- Expenditure outlay for crop insurance under Pradhan Mantri Fasal Bima Yojana increased to Rs. 14,000 crore from Rs. 13,000 crore
- NPS trust will be separated from PFRDA organizational structure. Increase on tax exemption from the current 40% to 60% payment on final withdrawal from NPS. Deduction for employer's contribution upto 14% of salary from current 10%, in case of Central Government employee.

Impact: Positive

The 100% FDI allowance in insurance intermediaries (from 49% at present) will benefit the insurance companies (both life and general), by widening the channels of distribution. ICRA expects higher foreign participation in insurance brokers, and insurance aggregator channels. The lowering of NOF for foreign branches of re-insurance companies should foster more re-insurance companies to set up branches in India. This would primarily benefit the general insurance companies, in getting more competitive re-insurance treaties, and subsequently enabling higher underwriting bandwidth. The higher outlay for crop insurance would not necessarily result in higher participation from the general insurance companies, as the previous budgeted expenditure was utilized only till ~72%.

ICRA also notes the absence of any capital infusion plan for the public sector general insurance companies, most of whom require capital to avoid breaching regulatory solvency ratio. The importance and focus on the National Pension Scheme by GOI, is evident with the separation of NPS trust from the PFRDA structure.

NBFCs / HFCs

Proposals

- Strengthening of Regulation authority of RBI over NBFCs and regulations over the housing finance sector to move from NHB to RBI.
- One time six months' partial credit guarantee for first loss up to 10%, to be provided to Public Sector Banks for purchase of high-rated pooled assets of financially sound NBFCs
- Requirement of creating a DRR to be done away with for NBFCs to raise funds in public issues
- To allow all NBFCs to directly participate on the TReDS platform.
- Also, Under the Interest Subvention Scheme for MSMEs Rs.350 crore has been allocated for FY 2019-20 for 2% interest subvention for all GST registered MSMEs, on fresh or incremental loans.
- Inclusion of NBFCs under Section 43D of Income Tax Act providing parity with banks
- Additional deduction of up to 1,50,000/- for interest paid on loans borrowed up to 31st March, 2020 for purchase of an affordable house valued up to 45 lakh.
- Measures to promote rental housing
- In the second phase of PMAY-G, during 2019-20 to 2021-22, 1.95 crore houses are proposed to be provided to the eligible beneficiaries. Allocation of Rs. 25,853 crore under PMAY and extra budgetary allocation of Rs. 20,000 crore for PMAY-Urban.
- Permit investments made by FIIs/FPIs in debt securities issued by IDF-NBFCs to be transferred/sold to any domestic investor within the specified lock-in period.
- A Credit Guarantee Enhancement Corporation for infrastructure financing to be set up in 2019-20.
- Reduction in GST rate on electric vehicles from 12% to 5%. Also, additional income tax deduction of Rs. 1.5 lakh on the interest paid on loans taken to purchase electric vehicles.
- Proposal to increase Special Additional Excise duty and Road and Infrastructure cess each by one rupee a litre on petrol and diesel.
- Proposal to expand the Women SHG interest subvention programme to all districts. Also, every verified women SHG member having a Jan Dhan Bank Account, an overdraft of 5,000 shall be allowed. One woman in every SHG will also be made eligible for a loan up to 1 lakh under the MUDRA Scheme.

Impact: Positive

The regulatory supervision for NBFCs expected to increase. Also, with regulatory authority over HFCs moving to RBI from NHB there would lead to greater parity of regulations for NBFCs and HFCs

The partial credit guarantee from GoI would help NBFCs raise funds from PSU banks thus providing the funding support to NBFC/HFCs. However, with the guarantee being available for only six months, the preference could be for relatively shorter-term retail assets.

The negative carry and liquidity for NBFCs raising money through retail issuances expected to reduce following removal of DRR requirements

Access to TReDS platform will be a give NBFCs wider market opportunity and also give borrowers more options for discounting/receivable funding. This coupled with the interest subvention would enhance financing and improve affordability for MSME segment.

Applicability of section 43D on NBFCs would help in improving the cashflows and augment profits by about 10-15 bps.

The focus on "Housing for All" continues with sizeable allocation (Rs. 25,853 crore in 2019-20 against Rs. 26,405 core for 2018-19) under PMAY and extra budgetary allocation of Rs. 20,000 crore for PMAY-Urban. This coupled with higher tax incentives on self-occupied properties up to Rs. 45 lakh could push the housing demand and augurs well for banks and HFCs. Also, measures to promote rental housing could support the overall housing demand.

Credit guarantee for infrastructure financing likely to support fund flow to infrastructure sector. Also, permitting investments made by FIIs/FPIs in debt securities issued by IDF-NBFCs to be transferred/sold to any domestic investor within the specified lock-in period would help improve the liquidity of such papers and hence attract investors.

Tax incentives for loans on e-vehicles would support sales and be a positive for vehicle financing NBFCs. However, increase in fuel costs could impact the viability of transport operations, unless there is a pass-through, and thus could impact the commercial vehicle finance segment.

Focus and incentives to MSMEs augur well for the NBFC/HFC considering their significant exposure to them

CAPITAL GOODS

Proposals

- Allocation of Rs. 40.66 billion and Rs. 52.80 billion for Deendayal Upadhyaya Gram Jyoti Yojana (DDUGJY) and Integrated Power Development Scheme (IPDS), respectively
- Allocation of Rs. 46.5 billion for renewable energy sector to promote wind and solar capacity addition and to augment green energy transmission infrastructure
- Promoting mega manufacturing plants for solar photo voltaic cells and solar electric charging infrastructure and for storage devices; providing them with direct and indirect tax benefits
- Increase in capital expenditure for Metros, Railways and transportation infrastructure projects
- Focus on ensuring piped water supply for all households under Har Ghar Jal Yojana by FY2024 and implementation of waste-to-energy-management-projects

Impact: Positive

The higher budgetary allocation for schemes like DDUGJY and IPDS, continued focus on household electrification as well as allocation towards transmission projects in the renewable energy sector are a positive for equipment suppliers as well as engineering, procurement and construction (EPC) companies in the power transmission and distribution equipment space as this would boost their order inflows. Further, the focus on promoting mega manufacturing plants for solar photo voltaic cells, solar electric charging infrastructure and lithium storage batteries is a positive for the domestic capital goods sector. Moreover, the increased capex for metro & urban railways as well as the focus on water supply & waste energy management projects would augment the demand for companies servicing these segments in the EPC and capital goods sector. The continued focus on the renewable energy segment is another positive for the original equipment manufacturers (OEMs) in the wind and solar power segment.

CEMENT

Proposals

- Increased tax exemptions and extension of the existing benefits to real estate developers and homebuyers
    - An additional deduction of up to Rs. 1.5 lakh for interest paid on loans borrowed up to March 31, 2020 for purchase of an affordable house valued up to Rs. 45 lakh.
    - Reform measures to promote rental housing
- The budgetary allocation for the road sector (including Pradhan Mantri Gram Sadak Yojana; PMGSY) raised by Rs. 7,839 crore (8% compared with 15% increase in the previous year) to Rs. 1,01,581 crore from Rs. 93,742 crore in FY2019 (RE)
- Substantial infrastructure spend (Rs. 100 lakh crore) proposed over the next five years
- Focus on affordable housing under Pradhan Mantri Awas Yojana (PMAY), with construction of 1.95 crore houses in rural areas under the second phase from FY2019-20 to FY2021-22.
- Rs. 2/litre additional duty on diesel for funding infrastructure

Impact: Positive

Proposed construction of 1.95 crore houses in rural areas under PMAY, boost to the urban housing market by encouraging the rental market and tax breaks on housing loan interest are likely to improve cement demand, given that the housing segment is a significant offtaker of cement. Higher infrastructure spend, especially continued thrust on the road sector, is also likely to push cement demand. Imposition of Rs. 2/litre additional duties on diesel is expected to result in higher freight costs and thus have a negative impact on the cost structures and the profitability of cement companies.

CHEMICALS & PETROCHEMICALS

Proposals

- Increase in customs duty on PVC to 10% from 7.5%; reduction in ethylene dichloride to nil from 2%
  Impact: To improve the margins of PVC manufacturers as well as incentivise investment for domestic production and reduce reliance on imports
- Decrease in customs duty on Naphtha to 4% from 5%
  Impact: Reduce the input costs for naphtha based petrochemical manufacturers, thereby improving tolling margins
- Decrease in customs duty on Propylene Oxide to 5% from 7.5%
  Impact: Decrease the input costs for polyol manufacturers
- Increase in customs duty on butyl rubber and chlorobutyl or bromobutyl rubber to 10% from 5%
  Impact: Improve the realisations and margins of synthetic rubber manufacturers

Impact: Positive

The increase in customs duty on Poly Vinyl Chloride (PVC) would increase the realisations for PVC manufacturers such as Reliance Industries Limited, Chemplast Sanmar, Finolex Industries Limited, DCW Limited, DCM Shriram Limited. The reduction in customs duty on ethylene di-chloride would reduce the input/import parity price of this important feedstock for Poly vinyl chloride and would improve the margins of EDC-based producers such as Reliance Industries Limited, Chemplast Sanmar and Finolex. These measures are also expected to incentivise investment in the production of PVC, almost two thirds of the domestic consumption of which is imported. The decrease in the customs duty on naphtha is expected to reduce the input/import parity price and improve the tolling margins of naphtha-based petrochemical producers such as Haldia Petrochemicals, Indian Oil Corporation, Reliance Industries Limited and ONGC Petro Additions. The reduction in customs duty on Propylene Oxide would reduce the import parity price/input cost for polyols manufacturers such as Manali Petrochemicals and Expanded Polymer Systems. The increase in customs duty on butyl rubber and chlorobutyl or bromobutyl rubber would improve the realisations of synthetic rubber manufacturers such as Reliance Industries, Indian Synthetic Rubber Private Limited etc.

FERTILISER

Proposals

- Upward revision in the fertiliser subsidy allocation to Rs. 79,996 crore (BE) for 2019-20 from Rs. 70,085 crore (RE) for 2018-19
    - Subsidy on Urea for 2019-20: Rs. 53,629 crore (BE) against Rs. 44,995 crore (2018-19 RE)
    - Subsidy on Decontrolled fertilisers for 2019-20: Rs. 26,367 crore (BE) against allocation for 2018-19 at Rs. 25,090 crore (RE)
- 10,000 new Farmer Produce Organizations (FPOs) to be setup by 2022
- Budgetary allocation for Crop Insurance Scheme increased to Rs. 14,000 crore for 2019-20(BE) from Rs. 12,975 crore for 2018-19(RE)
- Interest subsidy for farm credit increased to Rs. 18,000 crore for 2019-20(BE) from Rs. 14,987 crore for 2018-19 (RE)
- Allocation for Pradhan Mantri Krishi Sinchayi Yojna (PMKSY) increased to Rs. 3,500 crore for 2019-20(BE) from Rs. 2,954 crore for 2018-19(RE)

Impact: Neutral

The upward revision in the budgetary estimates for the fertiliser subsidy for FY2019-20 to Rs. 79,996 crore vis-à-vis revised estimate for FY2018-19 of Rs. 70,085 crore and budgetary estimate in the interim budget for FY2019-20 of Rs. 74,996 crore is a key positive for the fertiliser industry. While the annual fertiliser subsidy requirement stands at around Rs. 1-1.1 lakh crore, the increase in the budgeted subsidy will help in reducing the subsidy backlog, which currently stands at around Rs. 30,000-35000 crore. The subsidy allocation for indigenous urea has been increased by Rs. 8060 crore, which is a positive for the newly commissioned urea plants. The increase in subsidy for imported urea is marginal, which given the moderation in the international prices of urea, should be adequate to meet the subsidy requirement for the imported urea. In case of P&K fertilisers, subsidy allocation for domestic production has been mostly kept unchanged, while for imports, it has been increased by 12%. Overall, ICRA believes there could be a shortfall of around Rs 25000 crore, which is a marginal reduction from the carried forward amount of 2018-19. The industry players have repeatedly been complaining about the under-provision of subsidy and significant delays in the payment of subsidy, especially in the second half of fiscal year. In view of the under budgeting of subsidy, liquidity profile of the industry will continue to be weak with spikes in short-term borrowings in the second half of the year, and higher interest costs on the same. P&K fertiliser manufacturers will get some relief on margins, as the raw material prices have eased and the rupee has appreciated, giving them some headroom to face the challenges arising from weak monsoons in the current fiscal. The government continues to focus on improving farm income and hence has increased the budgetary allocation for various schemes like Crop insurance scheme (PMFBY), price support mechanisms, interest subsidy for farm credit and irrigation projects (PMKSY) across the country. While there was some emphasis on Zero Budget Farming, which aims to reduce reliance on credit and external inputs, the same is not expected to impact fertiliser demand as such projects take several years to achieve scale and attain productivity similar to the chemical fertilisers on a large scale. Outside the budget, the healthy increase in the Minimum Support Price (MSP) for the current kharif season should lead to improved realisation for the farmers and support the sale of fertilisers. The government continues its focus to improve farmers' income through various schemes such as doubling of Farmer Producer Organisation (FPO) by 2022, and enhance their economies of scale in terms of access to markets and inputs.

FMCG & CONSUMER DURABLES

Proposals

- Increased outlay for farm and rural sector will boost consumption demand, especially in rural segment
- Basic excise duty of Rs. 5-10 per thousand for cigarettes from NIL earlier
- Abolishment of custom duty on import of capital goods for manufacturing camera module of mobile phones, lithium ion cells and display module

Impact: Neutral

The increased outlay for the farm and rural sector will boost consumption demand, especially in the rural segment where growth has slowed down in the backdrop of weak farm income. The effort to boost consumption and the income support scheme for marginal farmers augur well for the agricultural and rural sector. The absence of any incremental tax relief to salaried taxpayers was a missed opportunity though the 100% tax rebate proposed in the Interim Budget for taxable income under Rs. 5 lakh remains in place.

GOLD JEWELLERY - RETAIL

Proposals

- 250 bps hike in customs duty rate on import of gold and other precious metals
- Waiver of merchant discount rate (MDR) for business establishments with turnover of over Rs. 50 crore

Impact: Negative

The proposed hike in customs duty on the import of gold (includes bars and coins) to 12.5% from 10.0% and dore gold bars (to 11.85% from 9.35%) is a negative for jewellery retailers. With the domestic industry primarily dependent on imports, the customs duty action shall push the gold prices higher. Amid rising prices (up 8% in the last one month) and subdued demand (up 1.1% in FY2019), the likely rise in gold prices, post the import duty hike, shall keep the demand subdued in FY2020. The MDR waiver, however, is moderately positive as it reduces the cost to customers and increases the formalisation of the industry.

INFRASTRUCTURE

Proposals

- Capital outlay towards transportation infrastructure sector — roads and highways (excluding rural roads) — increased to Rs. 1.47 lakh crore in FY2019-20 budget estimate [BE] (up by 12.6% over FY2018-19 revised estimate [RE]), Railways increased to Rs. 1.60 lakh crore in FY2019-20 BE (up by 15.4% over FY2018-19 RE), and Metro Rail projects increased to Rs. 17,714 crore (up by 19.2% over 2018-19 RE)
- Budgetary support to the Railways increased by 24.6% to Rs. 64,587 crore, while that for the National Highways Authority of India (NHAI) was marginally lowered to Rs. 36,691 crore over FY2018-19 RE. Consequently, NHAI's dependence on Internal and Extra Budgetary Resources (IEBR) was increased by 21% to Rs. 75,000 crore
- Capital outlay towards other key schemes of the infrastructure sector, such as the Pradhan Mantri Gram Sadak Yojana (PMGSY) was increased by 22.4% to Rs. 18,925 crore, Pradhan Mantri Krishi Sinchayee Yojana (PMKSY) increased by 17.3% to Rs. 9,681 crore, AMRUT and Smart Cities Mission (Urban Rejuvenation) increased by 9.4% to Rs. 13,750 crore compared to FY2018-19 RE
- Allocation towards Pradhan Mantri Awas Yojana (PMAY) was marginally lowered to Rs. 25,853 crore compared to the last fiscal year
- Budgetary allocation towards the National Investment and Infrastructure Fund (NIIF) remained modest at Rs. 1,000 crore
- The increase of Road and Infrastructure Cess on petrol and diesel by Rs. 1 per litre will provide more funds for the infrastructure sector. The total Road and Infrastructure Cess is estimated to increase to Rs. 1.27 lakh crore in FY2019-20 from Rs. 1.13 lakh crore in FY2018-19 RE – an increase of 12.4%
- Budgetary focus on measures to improve capital availability for the infrastructure sector; setting up of credit guarantee enhancement corporation and action plan to deepen the bond markets are steps in right direction

Impact: Marginally Positive

The capital outlay for roads, railways, and metro projects have been budgeted to increase by 12-19% in FY2019-20 over the FY2018-19 RE. The increased capital outlay is proposed to be supported by higher budgetary allocations in Railways and metro projects, while in case of NHAI, it is primarily met by IEBR for roads.

The capital outlay towards some key schemes of the infrastructure sector has also been projected to increase in FY2019-20 BE. The capital outlay towards PMGSY is being increased by 22.4% to Rs. 18,925 crore, PMKSY by 17.3% to Rs. 9,681 crore, and AMRUT and Smart Cities Mission (Urban Rejuvenation) by 9.4% to Rs. 13,750 crore in FY2019-20 BE over FY2018-19 RE.

On the other hand, budgetary allocation towards NIIF remained modest at Rs. 1,000 crore. NIIF, India's sovereign wealth fund, which was proposed to have a corpus of Rs. 40,000 crore in FY2015, has gradually started gaining traction. Given the huge capital requirement for the infrastructure sector, NIIF can play a vital role in augmenting available capital for the sector. A higher allocation would have provided more visibility to NIIF for investments in the country's infrastructure.

On the funding side, an increase in Road and Infrastructure Cess should provide additional funding for infrastructure projects as this fund has been allocated for the infrastructure sector only. With this, the total Road and Infrastructure Cess is estimated to increase to Rs. 1.27 lakh crore in FY2019-20 from Rs. 1.13 lakh crore in FY2018-19 RE – an increase of 12.4%. Availability of long-term infrastructure financing has been a challenge given the problems faced by commercial banks - asset-liability mismatch and increasing share of stressed assets. Setting up of the Credit Guarantee Enhancement Corporation, action plan to deepen the market for long-term bonds with special focus on infrastructure and permitting foreign portfolio investment/ foreign institutional investment to transfer/sell their debt securities in infrastructure debt funds within the specified lock-in period are some of the measures proposed in the Budget, which are expected to improve debt availability for the sector.

INFRASTRUCTURE - ROADS

Proposals

- Total capital outlay increased by 14% to Rs. 1,66,044 crore for FY2019-20 BE against Rs. 1,46,057 crore for HY2018-19 RE and 18% higher when compared to FY2019 BE at Rs. 1,40,425 crore
- The budgetary allocation for the sector (including PMGSY) raised by 8% (compared to a 15% increase in the previous year) to Rs. 101,582 crore from Rs. 93,742 crore in FY2019 (RE)
- Continued thrust on the Pradhan Mantri Gram Sadak Yojana (PMGSY), allocation to PMGSY remained at Rs. 19,000 crore; though the allocation remained same as that of FY2019 BE, it is higher by 23% than the revised estimates
    - PMGSY-III is envisaged to upgrade 1,25,000 km of road length over FY2020-FY2024, with an estimated cost of Rs. 80,250 crore
- The Budget focused on measures to improve capital availability for the infrastructure sector; setting up of Credit Guarantee Enhancement Corporation and action plan to deepen the bond markets are steps in right direction

Impact: Neutral

The budgetary allocation towards capital spend for the Ministry of Road Transportation and Highways for FY2019-20 stood at Rs. 72,044 crore, around 21%[1] lower than what is required. A part of this shortfall has been met by higher IEBR (including market borrowings and asset monetisation) for NHAI at Rs. 75,000 crore for FY2019-20 against Rs. 62,000 crore in FY2018-19 RE. NHAI is also expected to raise equity by monetising more assets through toll-operate-transfer and Infrastructure Investment Trust routes (by transferring mature assets to SPVs). Therefore, timely monetisation of mature road assets is important to get funding to support the ambitious execution targets set for the Bharatmala programme. If the same fails, the shortfall has to be met through additional borrowings, increasing the debt of NHAI further.

Thrust on PMGSY continued through sustained high allocations and launch of the third phase of PMGSY to connect villages to rural markets. Under this, 1,25,000 km of roads is expected to be upgraded over the next five years with a total outlay of Rs. 80,250 crore. This is expected to bolster order books of small to mid-sized road construction companies over the medium term.

Availability of long-term infrastructure financing has been a challenge given the problems faced by commercial banks - asset-liability mismatch and increasing share of stressed assets. Setting up of the Credit Guarantee Enhancement Corporation, action plan to deepen the market for long-term bonds with special focus on infrastructure and permitting FPIs/FIIs to transfer/sell their debt securities in IDFs within the specified lock-in period are some of the measures proposed in the Budget. These are expected to improve debt availability for the sector.

[1] The budgetary allocations to the ambitious new highway development programme is estimated at Rs. 3,43,045 crore over FY2019-FY2022, implying an average allocation of around Rs. 86,000 crore per annum. Of this, the FY2019 RE allocation stood at Rs. 68,557 crore. Therefore, the remaining Rs. 2,74,488 crore is required to be allocated over FY2020-FY2022 averaging at Rs.91,496 crore per annum.

INFRASTRUCTURE - RAILWAYS

Proposals

- Railways infrastructure will require investment of Rs. 50 lakh crore over the 12 years between FY2018 and FY2030; a sizeable capex has been budgeted towards new line constructions, doubling of lines, track renewals, electrification projects
- Increase in capital outlay towards Railways to Rs. 1.6 lakh crore in FY2020 BE (up by 15.4% over FY2019 RE), with budgetary support increasing to Rs. 66,105 crore (up by 24.6% over FY2019 RE)
- Significant increase investments in non-Government undertakings, including JVs/SPVs, to Rs. 15,806 crore in FY2020 BE from Rs. 9,377 crore in FY2019 RE; the Union Budget also mentioned that Railways will be encouraged to invest more in suburban railways through SPVs
- Increase public private partnership (PPP) in Railways
- Launch a massive programme for railway station modernisation

Impact: Marginally Positive

Recognising the massive investment requirement of the Railways (estimated: more than Rs. 50 lakh crore over the 12 year period between FY2018 and FY2030 at an average of over Rs. 4 lakh crore per year), the capital outlay for the same has been budgeted to increase by 15.4% in FY2020 over FY2019 RE. The increased capital outlay is proposed to be supported by higher budgetary allocations in Railways (up by 24.6%). A higher budgetary allocation will reduce the dependence of Railways on extra-budgetary resources and will bring more certainty on fund availability.

The increased planned capital outlay will be distributed across various projects including construction of new lines, doubling of lines, track renewals, electrification projects, which will support construction sector orders. The Finance Minister has also proposed to increase PPP in Railways and has increased the allocation towards investment in JVs/SPVs significantly. Further, railway station modernisation programme, which has so far been slow, is expected to gain momentum.

IT SERVICES

Proposals

- No scrutiny for start-ups in respect of valuation of share premium and investor identity
- Relaxation in criteria for carry forward and set-off of losses in the case of start-ups
- Threshold for applicability of lower corporate tax rate of 25% increased to Rs. 400-crore annual turnover from Rs. 250 crore

Impact: Neutral

The IT services sector, which boasts of a large number of start-ups (more than 7,200 as per Nasscom estimates), has been plagued by angel tax issues. However, 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 the valuation of the share premiums. This, coupled with the e-verification of investor identity, will obviate income tax scrutiny of the funds raised by start-ups.

Certain relaxations in the carry forward and set-off of losses criteria for start-ups and a lower tax rate for small and mid-size IT services companies will also benefit the sector. The Government's focus on starting a news channel to promote start-ups, including matchmaking with venture capitalists, funding and tax planning, will incentivise the sector's growth. Overall, the benefit from the tax proposal is largely directed towards micro, small and medium enterprises (MSMEs) in the IT services sector, leading to a Neutral impact for the overall sector.

LOGISTICS

Proposals

- Rs. 100 lakh crore investment proposed for infrastructure development over next five years
- 1.25 lakh km of rural roads to be upgraded at a cost of Rs. 80,250 crore under Phase III of the Pradhan Mantri Gram Sadak Yojana (PMGSY)
- Government to carry out a comprehensive restructuring of National Highway Programme to ensure National Highway Grid of desirable length and capacity; after completing Phase I of Bharatmala, states will be aided to develop state road networks under Phase II of programme
- Development of inland waterways likely to shift significant proportion of inland cargo movement from road and rail to rivers
- Investment of Rs. 50 lakh crore in railway infrastructure from 2018-2030; PPP model proposed to unleash faster development and completion of tracks, rolling stock manufacturing and delivery of passenger and freight services
- Proposal to improve liquidity of NBFCs like removal of DRR, retail pool sell-downs to public sector banks based on partial Government guarantee
- Increase in Special Additional Excise Duty and Road and Infrastructure Cess by Re. 1 each on a litre of petrol and diesel

Impact: Neutral

The Government's focus on infrastructure development, especially on ambitious projects like the Bharatmala, Sagarmala, Jal Vikas Marg and DFCC, etc, is a positive for the Indian logistics sector. There continues to be a thrust on improving the road network in the country—including rural roads, the National as well as the state highway networks—which augurs well for the logistics sector, as 60% of India's freight moves through its roads.

However, there is also an increasing focus on the need to shift cargo movement towards cheaper modes of transportation like railways, inland waterways and seaways. To this extent, the projects under Sagarmala, Jal Vikas Marg and DFC will play a key role. The proposal to bring in private players for developing the railway infrastructure is also a positive factor, as private participation is expected to improve efficiency in the segment.

For fleet operators who had been facing financing constraints from the NBFC crisis, the Government's proposal to ease liquidity pressures for NBFCs is a positive. However, the increase in excise duty and cess on petrol and diesel would increase their operating costs.

MEDIA & ENTERTAINMENT

Proposals

- Proposal to further open up foreign direct investment (FDI) in media and animation
- Levy of 10% customs duty on newsprint and uncoated paper used for printing newspapers

Impact: Neutral

The proposal to increase the FDI in media is a positive as it will provide access to better technology as well as capital. However, the levy of a customs duty of 10% on newsprint and uncoated paper used for printing newspapers, so as to provide a level playing field to domestic manufacturers, is a negative for the newspaper publishing industry. This is because the industry mainly imports newsprint due to its scarcity in India as well as the better quality of the imported newsprint.

METALS – IRON & STEEL

Proposals

- Continued focus on infrastructure with an aspirational investment target of Rs. 100 lakh crore till 2024
- Construction of 1.95-crore rural houses in the next three years; enhanced interest deduction up to Rs. 3.5 lakh on loans taken in FY2020 for affordable housing
- Increase of 82% allocation in FY2020 towards rural drinking water projects under the flagship Har Ghar Jal Mission
- Increase of 15% and 12% in capital outlay towards railways and roads; 16% increase in allocation to Metro Railway projects
- Increase of 9% allocation for the AMRUT and Smart City mission
- Increase in import tariff on some stainless and alloy steel products to 7.5% from 5%

Impact: Moderately Positive

About 50-60% of the domestic steel consumption is driven by the construction and infrastructure sectors, which are likely to receive a boost from the announcement of 1.95-crore rural houses in the next three years, in addition to an incremental infrastructure investment of Rs. 100 lakh-crore by 2024. Additionally, increased tax incentives for affordable house purchases are a positive for long steel demand. The Government has set itself a target to provide drinking water to all households by 2024 under the flagship Har Ghar Jal Mission, which would benefit domestic steel pipe manufacturers.

Increased capital allocation towards roads, railways and urban infrastructure is expected to support domestic steel consumption growth of 7-7.5% over the medium term. Moreover, a reduction in import duty on some stainless and alloy steel products would provide some relief to domestic manufacturers, who have been facing pressures from high imports in the recent past.

OIL AND GAS

Proposals

- Provision of fuel subsidy worth Rs. ~207 billion in 2018-19 (RE) and Rs ~336 billion in 2019-20 (BE) for sensitive petroleum products
  Impact: Material shortfall in petroleum subsidy in FY2019, leading to carryover and shortfall of ~Rs 310 billion in petroleum subsidy allocation for FY2020 for Indian basket crude price at ~US$ 70/bbl or higher levels
- Allocation of Rs. 15.5 billion as capital expenditure for Phulpur-Dhamra-Haldia Pipeline Project of GAIL
  Impact: Increased clarity on disbursement of grant approved for GAIL's natural gas pipeline
- Increase in Special Additional Excise Duty and Road and Infrastructure Cess on Petrol and Diesel
  Impact: Neutral impact on the oil marketing companies
- Decrease in basic customs duty on Naphtha
  Impact: Reduction in realisation for refining companies on Naphtha sales
- Rs. 16 billion allocated for National Seismic Programme
  Impact: Improved data repository for E&P companies
- Allocation of Rs. 1.2 billion for strategic oil reserves projects
  Impact: Strategic reserves to provide oil security to the country in case of emergency

Impact: Negative

As per ICRA's estimates, there may be a shortfall of around Rs 310 billion in fuel subsidy for FY2019-20 versus (the subsidy in FY2019-20 was Rs 335 billion). The deficit is caused by payment of arrears worth Rs 330 billion, which the Govt had not paid the OMCs in 2018-19 because of under provisioning of subsidy. As per ICRA's estimates, subsidy requirement for FY2019-20 will be Rs 315 billion, assuming the Indian basket crude price of $70/bbl and INR/USD of 70. While the subsidy provided for FY2020 is adequate, the backlog will continue to remain, necessitating high working capital borrowings for the PSU OMCs, as witnessed in FY2019. Hence, the under provision of subsidy will be a marginal credit negative for the PSU OMCs. Any sharp fall in oil prices and appreciation in INR will give some relief to the OMCs.

The continued emphasis on free LPG connections under the "Ujjwala Yojana" will be a positive for the PSU OMCs as it will lead to faster growth in LPG sales. However, it may also increase the LPG subsidies at current or higher crude oil prices.

The decline in customs duty on Naphtha would impact the realisations of the refining companies as products are priced on import parity basis, albeit if they are integrated with naphtha-based petrochemicals, the latter segment will be benefited. Increase of tax incidence on Petrol and Diesel would be largely neutral for the oil marketing companies.

Adequate subsidy provided to Phulpur-Dhamra gas pipeline will be a positive for GAIL, as it will improve the viability of the project. The pipeline, laid with a capital grant of ~Rs. 51.7 billion out of the total estimated capital outlay of Rs. 129.4 billion, is expected to connect the natural gas grid with the eastern part of the country, potentially reviving three fertiliser units and CGD networks in many cities.

The budget allocates Rs. 16 billion for National Seismic Programme (NSP) for FY2020 as against Rs 13 billion for FY2019 (RE), which would be spent for fresh appraisal in all sedimentary basins across India, especially where no/scanty data is available. The allocation of Rs. 1.2 billion in FY2020 (as against Rs. 7.8 billion in FY2019) for payment to Indian Strategic Petroleum Reserves Limited (ISPRL) is aimed to build crude oil reserves to be consumed during emergency.

PORTS

Proposals

- Budget allocation of Rs. 550.0 crore for the Sagarmala project (2018-19 RE- Rs. 384.95 crore). Around Rs. 200 crore additional funding to come from the Central Road and Infrastructure Fund (CRIF) (2018-19 RE- Rs. 125 crore funded from CRIF)
- Budget allocation of Rs. 208.3 crore for development of ports (2018-19 RE- Rs. 280.6 crore)
- Grants of Rs. 757 crore to the Inland Water Transport Authority of India (2018-19 RE- Rs. 882.5 crore)
- Plan to scale up efforts under the Sagarmala project and speed up the development of Inland Waterways

Impact: Neutral

The government reiterated its support to the Sagarmala plans by committing to develop the ports and coastal areas of the country. It announced that the multimodal terminal at Varanasi has become functional in November 2018 and two more would be completed on the Ganga during 2019-20. Along with other developments, the movement of cargo volume on the river is estimated to increase by nearly four times in the next four years. This will make movement of freight/passengers cheaper and reduce the country’s import bill. Further, the announcement to speed up the development of other inland waterways (apart from National Waterway 1) is also a positive. However, the budget allocation to Sagarmala projects is lower than the cost of planned initiatives. The spending under Sagarmala in 2018-19 was low—64% of the Rs 600-crore budget allocation. The budget allocation for 2019-20 has been reduced to Rs 550 crore. Overall, the impact of the budget is neutral on the sector.

POWER

Proposals

- The Government of India (GoI) to announce structural reforms in tariff policy for the power sector; to work with state governments to improve discom finances, remove cross-subsidy surcharge and undesirable duties on open access procurement
- Focus on better utilisation of stranded gas-based as well as old/inefficient thermal projects
- Allocation of Rs. 40.66 billion and Rs. 52.80 billion for Deendayal Upadhyaya Gram Jyoti Yojana (DDUGJY) and Integrated Power Development Scheme (IPDS), respectively
- Allocation of Rs. 46.5 billion for renewable energy sector to promote wind and solar capacity addition as well as augmentation of green energy transmission infrastructure
- Higher capital expenditure for metros and urban railways; continued emphasis on household electrification
- Scheme proposed to set up mega-manufacturing plants in sunrise and advanced technology areas such as solar power-related equipment and materials as well as storage devices and infrastructure; and provide the same with direct and indirect tax benefits
- Measures proposed towards encouragement for deployment of electric vehicles (EV), such as reduction in GST, customs duty exemption for certain parts in EVs as well as Rs. 1.5 lakh annual interest deduction limit for loan availed in purchase of EV
- Proposed deepening of the corporate bond market
- Proposed reduction in customs duty to promote renewable energy, including nuclear power

Impact: Positive

The GoI's continued focus on household electrification, coupled with a significant boost towards Railways, urban railways and metros, and measures proposed towards increased deployment of EVs is likely to improve the energy demand in the country. These, coupled with focus on utilisation of stranded gas-based assets, is a positive for gencos. Schemes proposed for boosting domestic manufacture of solar power-related equipment, materials and storage devices will enable better integration of renewables in the energy mix through battery storage. The reduction in customs duty for fuel and parts used for setting up nuclear power projects will improve cost competitiveness of nuclear energy and benefit consuming utilities. Higher budgetary allocation in FY2020 for schemes like DDUGJY and IPDS is likely to help discoms reduce losses in their licence areas. The budgetary allocation towards renewable energy sector in FY2020 will help meet the funding requirements for the renewable energy segment, including those for building a green energy transmission corridor. The GoI's intention to closely work with state governments to improve the financial position of their respective state-owned distribution utilities is also a positive development for the sector. Further, the GoI intends to carry out significant tariff reforms, including those pertaining to open access charges to create a more competitive marketplace. This will also benefit gencos that are dependent on selling power through the open access route through short-term and medium-term PPAs. Given the large funding requirements and the significant focus on the renewable sector, measures proposed for deepening the corporate bond market is also positive for the power sector.

REAL ESTATE

Proposals

- Additional deduction of up to Rs. 1.5 lakh permitted for interest paid on home loans borrowed up to March 31, 2020 for purchase of an affordable house valued up to Rs. 45 lakh
- Affordable housing projects to be taken up in joint development on land parcels held by the Central ministries and Central Public Sector Enterprises
- Reforms measures to be undertaken to promote rental housing
- Foreign portfolio investment (FPIs) permitted to subscribe to listed debt securities issued by real estate investment trust (REITs)

Impact: Positive

In the Union Budget for FY2019-20, the Government continued to support the affordable housing sector by permitting an additional deduction of up to Rs. 1.5 lakh for interest paid on loans taken till Mach 31, 2020, for the purchase of an affordable house valued up to Rs. 45 lakh. This takes the total tax deduction on such interest paid up to Rs. 3.5 lakh, which is expected to positively impact demand in the affordable housing segment. Moreover, the Government reiterated its commitment towards providing land for such projects out of the land pools available with Central Ministries and Central Public Sector Enterprises. With such focus, progress under both the rural and urban schemes has been significant, with 1.54 crore rural homes having been constructed under PMAY-G over the past five years, and over 81 lakh houses having been sanctioned under PMAY-U, of which over 26 lakh houses have been completed. Going forward, the second phase of PMAY-G between FY2019-20 and FY2021-22 proposes to provide 1.95 crore houses to eligible beneficiaries. The overall budgetary allocation for PMAY, however, remains in line with that declared in the Interim Budget, at Rs. 25,853.26 crore, of which Rs. 19,000 crore has been allocated for PMAY-G and Rs. 6,853.26 crore for PMAY-U.

Focus was also given on rental housing and REITs. The Government has announced its intention to take up reforms in the rental housing space. Given that the current tenancy laws are largely skewed in favour of the lessees, the measures should focus on creating a positive impact on the supply of such housing. REITs have been opened up to FPI investment through the debt security route. The overall focus on increased connectivity, through encouragement of metro rail, rapid transport systems, and transit-oriented development are expected to encourage real-estate development in peripheral areas.

RETAIL

Proposals

- Local sourcing norms in single brand retail trade to be relaxed
- Low-cost digital modes of payment for customers – no charges or merchant discount rate to be imposed on customers
- Reduced corporate tax rate of 25% for companies with annual turnover of up to Rs. 400 crore
- Simplification of GST process for small retailers and traders
- Pension benefit to be extended to three crore retail traders and small shopkeepers with annual turnover of less than Rs. 1.5 crore under Pradhan Mantri Karam Yogi Maandhan Scheme

Impact: Marginally Positive

The proposal to relax the local sourcing norms in single brand retail trade is a positive, which has otherwise been a constraining factor for foreign direct investment (FDI) in the segment. The relaxation of norms will be a boost for specialty stores planning to increase their presence in India. Moreover, the Government's continued focus on infrastructure development should have a positive impact as it would help reduce inefficiencies in the retail supply chain. Low-cost digital modes of payment for consumers may boost consumption, thereby providing a fillip to the retail industry. The simplification of the GST process and the reduced corporate tax rate of 25% for companies with an annual turnover of up to Rs. 400 crore are also positives.

SHIPPING AND SHIPBUILDING

Proposals

- Budget allocation of Rs. 1,902.5 crore for FY2019-2020 for the Ministry of Shipping against the revised estimate of Rs. 1,938.8 crore for FY2018-2019
    - Rs. 550.0 crore for projects under SagarMala (FY2018-2019 RE: Rs. 381.1 crore)
    - Rs. 214.3 crore for development of ports (FY2018-2019 RE: Rs. 284.7 crore)
    - Rs. 757.0 crore for grants to Inland Water Transport Authority of India (FY2018-2019 RE Rs. 891.1 crore)
    - Rs. 97.0 crore for assistance to shipbuilding, research and development (FY2018-2019 RE: Rs. 28.3 crore)

Impact: Neutral

The Government has reemphasised its focus on the inland waterways sector and the SagarMala project with an aim to increase the movement of cargo through waterways and reduce the country's import bill. This would be a positive for the shipping sector, with the potential to boost coastal as well as inland shipping in the medium term. The budgetary allocation, however, remains low in comparison to the overall requirement for these projects. Although the allocation for assistance to shipbuilding, research and development is higher than the previous year, it remains at a moderate level. In the absence of any major specific announcement for the shipping and shipbuilding sector, the impact on this sector is expected to be Neutral.

TELECOM

Proposals

- Continued focus on creating robust digital infrastructure and expanding telecommunication connectivity to local bodies in every panchayat across the country
- Basic customs duty increased to 15% from 10% to boost domestic manufacturing of optical fibre cables
- Budget estimate of non-tax revenues from communication services for FY2020 stands at Rs. 50,520 crore. For FY2019, revised estimate stood at Rs. 39,245 crore, which is 19% lower than the budgeted estimate of Rs. 48,661 crore.

Impact: Neutral

The budget emphasised the importance of increasing mobile penetration and digitisation, whether through access to information, development of e-markets, direct benefit transfer, or digital delivery of services. The Government's continued focus on creating a robust digital infrastructure and increasing connectivity across the country will provide greater opportunities to telecom operators and drive higher data offtake—especially in rural areas. A strong optic fibre network using higher technologies is essential for building the backbone of telecom connectivity in the country. To promote domestic manufacturing of optical fibre cables, the basic customs duty has been increased to 15% from the earlier 10%.

The revised estimate (RE) of non-tax revenues from communication services for FY2019 stands at
Rs. 39,245 crore, which is 19% lower than the budget estimate (BE) of Rs. 48,661 crore, and closer to our earlier estimates. The reduction in RE is primarily because of lower than projected revenues generated by the telecom sector, resulting in a lower share to the Government. The BE for FY2020 stands at Rs. 50,520 crore, 29% higher than the RE for FY2019.

TEXTILE

Proposals

- A Rs. 1000-crore reduction in the textile sector allocation in the Union Budget 2019-20 from that of the interim budget because of the discontinuance of the Rebate of State Levies (RoSL) scheme from March 2019
- Customs duty on wool fibre and wool tops reduced to 2.5% from 5%

Impact: Neutral

The overall allocation for the textile sector was reduced by Rs. 1,000 crore or ~17% to Rs. 4,831 crore in the final Union Budget 2019-20 from Rs. 5,831 crore provided in the interim budget, which was presented in February 2019. The reduction follows the discontinuance of the ROSL scheme. ICRA notes that the Government replaced the ROSL scheme with the Rebate of State and Central Taxes and Levies (RoSCTL) scheme in March 2019 to make exports of apparel and made-ups zero rated. However, it is not clear whether the envisaged support in the form of RoSCTL scheme has been factored elsewhere in the Budget provisions. Apart from this and a downward revision in custom duty on wool fibre and wool tops to 2.5% from the earlier 5%, which will marginally lower the cost for woolen textile players, there is no incremental change in the Budget provisions for the sector.

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