Union Budget 2018-19 Analysis Report

ICRA

Focus on rural and social sectors, however expenditure growth restrained

The NDA Government's last - full-fledged budget, before the elections next year, was widely expected to deviate modestly from the fiscal deficit targets, while prioritising its expenditure outlays on areas that could support the ongoing economic recovery and also address some of the critical issues plaguing the rural and agricultural sectors. Additionally, an area of interest was the forecast on revenue buoyancy for FY2019, given that the series of structural reforms carried out over the last couple of years was primarily expected to provide a fillip to tax revenues - both direct and indirect.

The Budget has expectedly focused on the rural, agricultural and the MSME sector with a series of policy announcements designed to improve farmers' income, provide extensive health coverage, facilitate credit flow to the MSMEs and significantly increase targets for disbursements under the MUDRA Yojana. Similarly, there has been an increase in the outlay on the infrastructure sectors.

However, the total capital outlay, including gross budgetary support and the internal extra budgetary resources of various ministries is estimated to grow by only 3.8% in FY2019 Budget Estimates (BE) compared to FY2018 RE. Clearly, more than budgetary allocations, there would be increased reliance on funding public investments through borrowings by the public sector units, SPVs like the Affordable Housing Fund and through monetisation of assets like the Toll-Operate-Transfer model being implemented by the NHAI.

Given the disruption in revenues following structural changes such as the introduction of the Goods and Services Tax (GST), and the need to boost Government expenditure to prop up growth, the GoI has expectedly indicated a deviation of 30 bps each in its fiscal deficit, relative to the previously announced targets for FY2018 and FY2019. However, following a pause in FY2018, it intends to revert to fiscal consolidation, aiming to pare its fiscal deficit-to-GDP ratio to 3.3% in FY2019 BE from 3.5% in FY2018 RE.

The forecast of 11.5% for growth of nominal GDP for FY2019 appears realistic. Excluding the GST compensation cess, the pace of growth of the gross tax revenues of the GoI is estimated to rise sharply to 15.7% in FY2019 BE from 9.8% in FY2018 RE, led by an expected stabilisation of indirect taxes after the disruption related to the GST. Moreover, non-tax revenues of the GoI are forecast to rise by 3.9% in FY2019 BE after having contracted by 13.5% in FY2018 RE, led by lower dividends from the PSUs and the RBI as well as a dip in inflows from the telecom sector. While the target for disinvestment and strategic divestment has been reduced to Rs. 80,000 crore in FY2019 BE from Rs. 1.0 lakh crore in FY2018 RE, it may nevertheless be challenging to complete solely through the market route.

With the GST having been implemented there were no changes expected on the indirect tax front. There has been an increase in customs duty on several items which is expected to provide a boost to local manufactures of such products . The reduction in tax rates for corporates with a turnover of less than Rs 250 crore would primarily benefit sectors like textiles, leather and ceramic tiles, which are highly fragmented and have a large number of small players. The ongoing resolution process under the National Company Law Tribunal (NCLT) has been provided favourable tax treatment in terms of carry forward of unabsorbed depreciation and brought forward losses even in the case of change of ownership.

The Budget reiterated its commitment to support and deepen the corporate bond markets, including lowering the threshold rating level for investments, rationalising stamp duty across states and possibility of the Securities and Exchange Board (SEBI) mandating large corporates to meet one-fourth of their financing requirements through the bond route. The extent to which this provides a fillip, to lower-rated corporates accessing the bond markets, remains to be seen, given the presence of several other headwinds.

Overall, the budget is clearly focussed on the rural and social sectors with the objective of increasing agricultural income and improving the quality of rural infrastructure and healthcare. Smaller corporates would benefit from the tax rate cut. However, with the hardening of bond yields, there will be some impact on the cost of borrowings for all entities. Also, the funding pattern of many of the ambitious schemes is not clear, and the provision for the oil and fertiliser subsidy appears modest. These could pose some additional downside risks for the fiscal deficit.

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In its Budget Estimates (BE) for FY2018, the GoI had pegged its fiscal deficit at Rs. 5.5 lakh crore (3.2% of GDP; based on the assumption that the nominal GDP for FY2018 would be Rs. 168.5 lakh crore). The Revised Estimates (RE) for FY2018 have indicated that the fiscal deficit would be higher than the BE by Rs. 48,317.0 crore, while the nominal GDP for FY2018 has also been revised down to some extent to Rs. 167.8 lakh crore. As a result, the fiscal deficit has increased to 3.5% of GDP in the RE for FY2018, higher than the budgeted target of 3.2% (refer *Table 1* and *Chart 1*). Moreover, the fiscal deficit-to-GDP ratio remains unchanged in FY2018 RE from the level in FY2017.

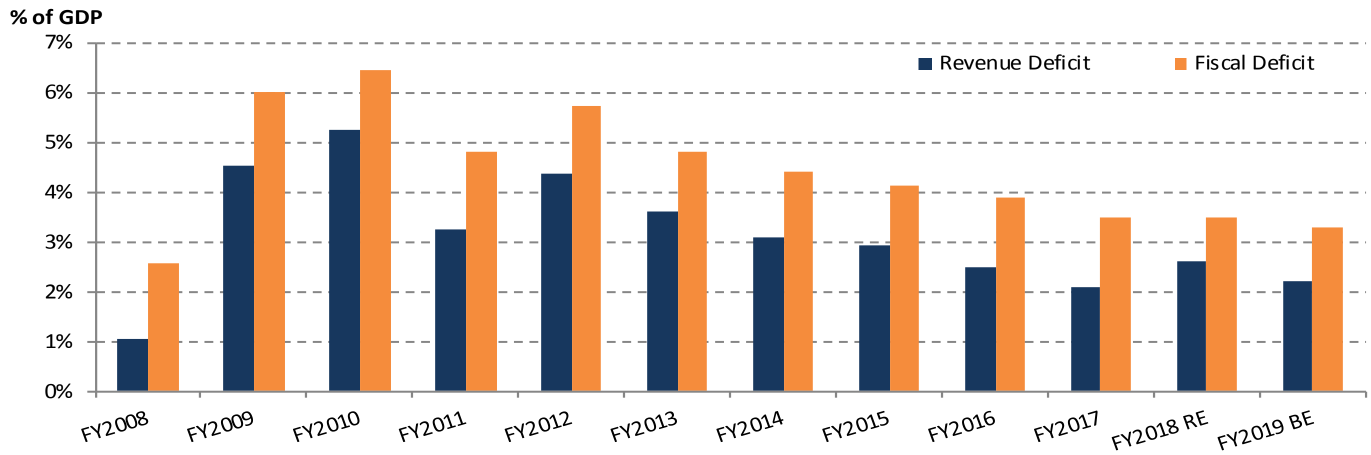
The BE for FY2019 indicates an increase in the fiscal deficit in absolute terms, to Rs. 6.2 lakh crore. However, as a percentage of GDP, the fiscal deficit is estimated to correct to 3.3% in the BE for FY2019 (assuming nominal GDP of Rs. 187.2 lakh crore in FY2019) from 3.5% in the RE for FY2018. Accordingly, the Union Budget for FY2019 indicates a slippage of 30 bps each relative to the previously announced targets of 3.2% of GDP and 3.0% of GDP, respectively, for FY2018 and FY2019. Fiscal consolidation is set to resume at the earlier pace of 20 bps in FY2019, following the pause in the current year. However, the curtailment of the fiscal deficit to 3.0% of GDP has now been deferred to FY2021.

Table 1: GoI's Fiscal Balances

	Rs. Lakh Crore			Growth	
	FY2017 Actual	FY2018 RE	FY2019 BE	FY2018 RE	FY2019 BE
Revenue Receipts	13.7	15.1	17.3	9.5%	14.6%
Tax Revenues$	11.0	12.7	14.8	15.3%	16.6%
Non-Tax Revenues	2.7	2.4	2.5	-13.5%	3.9%
Revenue Expenditure	16.9	19.4	21.4	15.0%	10.2%
Revenue Deficit	3.2	4.4	4.2	38.7%	-5.2%
% of GDP	*2.1%*	*2.6%*	*2.2%*		
Capital Receipts (Non Debt)	0.7	1.2	0.9	79.7%	-21.5%
Capital Expenditure	2.8	2.7	3.0	-3.9%	9.9%
Fiscal Deficit	5.4	5.9	6.2	11.1%	4.9%
% of GDP	*3.5%*	*3.5%*	*3.3%*		

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

Chart 1: GoI's Revenue and Fiscal Deficit as a Percentage of GDP



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

The GoI has decided to drop targeting the revenue deficit in the proposed FRBM Architecture, and focus on the fiscal deficit as the operational target. Additionally, the Government is targeting to reduce its total debt to 40% of GDP by FY2025, from 50.1% of GDP in FY2018 RE.

<u>Fiscal situation as per FY2018 RE:</u> In line with expectations, the fiscal deficit in FY2018 RE has been revised above the BE for FY2018, with lower revenue receipts and higher revenue expenditure, offsetting the impact of a contraction in capital expenditure and higher-than-expected disinvestment proceeds.

The fiscal deficit for April-December FY2018 stood at Rs. 6.2 lakh crore, a considerable 23.9% higher than the same recorded in April-December FY2017 (Rs. 5.0 lakh crore), reflecting a substantial increase in revenue and capital expenditure, and lower non-tax revenues. Moreover, the fiscal deficit for April-December FY2018 is equivalent to ~104% of the RE for FY2018.

The BE for FY2018 had estimated the aggregate of customs duty, excise duty and service tax at Rs. 9.3 lakh crore. With the implementation of the GST, many components of indirect taxes of the GoI have been subsumed into the former. The RE for FY2018 pegs inflows of CGST, IGST and UTGST at Rs. 3.8 lakh crore, in addition to service tax, excise duty and customs duty inflows of Rs. 0.8 lakh crore, Rs. 2.8 lakh crore and Rs. 1.4 lakh crore, respectively (refer Table 2). Accordingly, the aggregate indirect tax inflows are placed at around Rs. 8.8 lakh crore in FY2018 RE, lower than the budgeted level of Rs. 9.3 lakh crore. This is partly because a portion of the GoI's indirect tax revenues in FY2018 would be collected for 11 months instead of the full year, following the implementation of the GST, which allows the collections for March 2018 to be remitted up to April 20, 2018. Moreover, the cut in the Central excise duty of Rs. 2/litre on petrol and diesel, with effect from October 2017, was estimated to result in a revenue loss of Rs. 13,000 crore in the ongoing fiscal.

The collections of the GST compensation cess have been placed at Rs. 61,331 crore in FY2018 RE, which would entirely be transferred into a non-lapsable fund in the public account; this would concomitantly increase the revenue expenditure, and is, therefore, revenue neutral, with no impact on the GoI's revenue or fiscal deficits. The GST compensation cess would be provided to those states that require compensation after the transition to the GST.

Table 2: Trends in Tax Revenue Receipts in FY2018 RE and FY2019 BE

Rs. Lakh Crore	FY2018 BE (1)	FY2018 RE (2)	FY2019 BE (3)	Variation in FY2018 (2)-(1)	Growth in FY2019 BE (3)/(2)
Gross Tax Revenues	**19.1**	**19.5**	**22.7**	**0.3**	**16.7%**
- Corporation Tax	5.4	5.6	6.2	0.3	10.2%
- Income Tax	4.4	4.4	5.3	0.0	19.9%
- Customs Duty	2.5	1.4	1.1	-1.1	-16.8%
- Union Excise Duty	4.1	2.8	2.6	-1.3	-6.3%
- Service Tax	2.8	0.8	0.0	-2.0	-
- GST	NA	4.4	7.4	3.0	67.3%
- CGST	NA	2.2	6.0	2.2	172.8%
- IGST	NA	1.6	0.5	1.6	-69.1%
- GST Compensation Cess	NA	0.6	0.9	0.6	46.7%

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

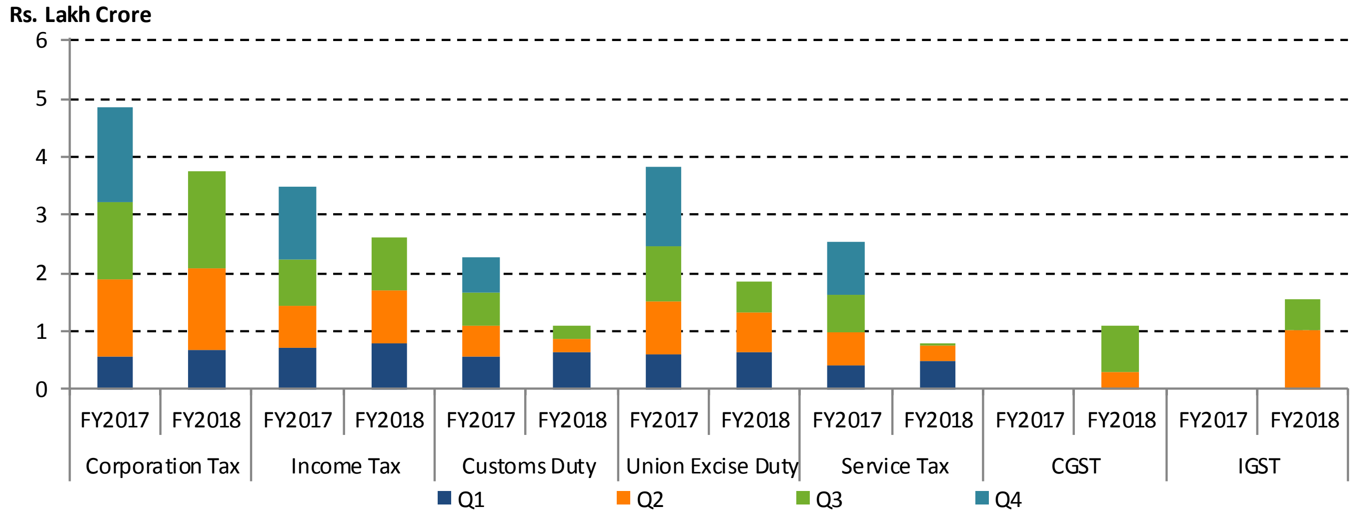
The FY2018 RE for direct tax collections have been revised upwards, on account of a rise in estimated corporate tax collections to Rs. 5.6 lakh crore from Rs. 5.4 lakh crore. The estimates for personal income tax have been kept unchanged.

Overall, the gross tax revenues of the GoI have been revised upward by Rs. 0.3 lakh crore in the RE for FY2018 relative to the BE for the year, essentially reflecting the trend for corporate tax collections. However, the states' share in Union taxes has been revised downwards by Rs. 0.02 lakh crore, while the net tax revenues of the GoI have been revised upwards by Rs. 0.4 lakh crore.

The FY2018 RE pegs the growth of the gross tax revenues of the GoI at 13.4%, considerably lower than the 17.3% growth recorded in the first nine months of this fiscal. The tax collections during April-December FY2018 include a large unsettled sum of IGST inflows. The Fiscal Policy Strategy Statement released by the GoI, indicates that the undivided portion of IGST would be split up between the Centre and the states in the same ratio as the tax devolution of other shareable taxes. Moreover, the introduction of the e-way bill in February 2018 may boost compliance, going forward. Additionally, lesser incidence of refunds etc. related to the transitional tax credit, may result in proportionately higher CGST inflows in the remainder of FY2018.

Cumulatively, 68.7% of the RE for FY2018 for gross tax revenues had been collected in April-December FY2018 (based on the provisional data released by the CGA; refer Chart 2 and Table 3), higher than the level in April-December FY2017 (66.4%).

Chart 2: Trends in Tax Collections (Net of Refunds, Gross of States' Share in Central Taxes, Rs. Lakh Crore)



Source: GoI Budget Documents; CGA; ICRA research

Non-tax revenues have been revised downwards by Rs. 0.5 lakh crore, to Rs. 2.4 lakh crore in FY2018 RE from Rs. 2.9 lakh crore in FY2018 BE, reflecting lower dividends and profits, interest receipts, and other non-tax revenues. The downward revision in dividends and profits in FY2018 RE is led by lower inflows from the RBI, nationalised banks and financial institutions, as well as, public sector enterprises.

The estimated receipts from other communication services have been revised to Rs. 0.3 lakh crore in FY2018 RE from Rs. 0.4 lakh crore in FY2018 BE, largely in line with ICRA's forecasts. Notably, non-tax revenues of the GoI during April-

December FY2018 stood at 48.1% of the RE for FY2018, significantly lower than the level in the corresponding period of the previous fiscal (66.9%).

The estimate for disinvestment proceeds has been raised to Rs. 1.0 lakh crore in the RE for FY2018 from Rs. 0.7 lakh crore in FY2018 BE. The GoI has raised around ~Rs. 0.5 crore through disinvestment in the first nine months of FY2018 (53.7% of FY2018 RE). Moreover, the acquisition of the GoI's stake of 51% in Hindustan Petroleum Corporation Limited by Oil and Natural Gas Corporation would net the former around Rs. 37,000 crore. In addition, with a robust pipeline of potential disinvestment/divestment of PSEs such as Dredging Corporation of India, Rail Vikas Nigam Limited, Indian Medical Pharmaceuticals Corporation Limited etc., the GoI appears to be in a favourable position to meet its target for FY2018 RE.

Revenue expenditure has been revised upwards by a sharp Rs. 1.1 lakh crore in FY2018 RE compared to the budgeted level, led by defence and the transfer of the GST compensation cess to the public account, and offset by lower interest payments and other items (refer Table 5). The RE for FY2018 indicate a growth of 15.0% in revenue expenditure relative to FY2017, higher than the YoY growth of 13.5% in the first nine months of the fiscal. Revenue spending in April-December 2017 was equivalent to 75.2% of the RE for FY2018, marginally lower than the level in the corresponding period of the previous fiscal (76.2%). ICRA estimates that there is scope for revenue expenditure to grow by ~20% during Q4 FY2018 on a YoY basis, to achieve the RE for such spending.

Table 3: Trends in Tax Revenue Receipts in 9M FY2018

	FY2018 RE	9M FY2018		
	Rs. Lakh Crore	Rs. Lakh Crore	% of RE	Growth
Gross Tax Revenues^	**19.5**	**13.4**	**68.7%**	**17.3%**
Corporation Tax	5.6	3.8	66.5%	17.1%
Income Tax	4.4	2.6	59.4%	17.0%
CGST	2.2	1.1	49.5%	NA
IGST	1.6	1.6	96.0%	NA
Customs Duty	1.4	1.1	81.4%	-34.2%
Union Excise Duty	2.8	1.8	66.1%	-25.7%
Service Tax	0.8	0.8	100.5%	-51.2%
Compensation cess for GST	0.6	0.4	63.3%	NA

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

The allocation for food subsidy (refer Table 4) has been revised down to Rs. 1.4 lakh crore in the RE for FY2018 from Rs. 1.5 lakh crore in FY2018 BE. Nearly 96.5% of the RE for FY2018 had already been released by December 2017. Moreover, the allocation for fuel subsidy has also been reduced to Rs. 0.2 lakh crore in FY2018 RE from Rs. 0.3 lakh crore in FY2018 BE. Nearly99.9% of the RE for FY2018 has been released in April-December FY2018. Similarly, the allocation for fertiliser subsidy has been reduced to Rs. 0.6 lakh crore in FY2018 RE from Rs. 0.7 lakh crore in FY2018 BE; 81.8% of this allocation had been released in the first nine months of this fiscal.

Table 4: Total Expenditure for Key Ministries/ Departments in FY2018

Rs. Lakh Crore	FY2018 RE	9M FY2018 (Prov.)	Percentage of RE
Department of Fertiliser	0.7	0.5	81.8%
Department of Food & Public Distribution	1.5	1.4	96.5%
Ministry of Petroleum & Natural Gas	0.3	0.3	99.9%
Total	2.4	2.3	93.0%

Source: GoI Budget Documents; CGA; ICRA research

An area of concern is the sharp rise in the revenue deficit in FY2018 RE to Rs. 4.4 lakh crore from the budgeted level of Rs. 3.2 lakh crore, which has resulted in a worsening of the quality of the fiscal deficit. The increase in the revenue deficit was chiefly on account of the shortfall in indirect taxes (net of GST compensation cess) and non-tax revenues, as well as higher-than-budgeted revenue expenditure (net of GST compensation cess).

Capital expenditure has been revised downwards by Rs. 0.4 lakh crore to Rs. 2.7 lakh crore in FY2018 RE, compared to the budgeted level, primarily led by rationalisation of support provided to the Railways as well as rationalisation of the mechanism for transferring externally-aided project (EAP) loans to state governments.

The total capital expenditure incurred during April-December FY2018 stood at 86.5% of the RE for FY2018, significantly higher than the level in the corresponding period of the previous fiscal (59.9%). While the RE for FY2018 indicates a contraction of 3.9% in capital expenditure, relative to FY2017, spending had expanded by 38.8% on a YoY basis in the first nine months of the fiscal, attributable to frontloading of government expenditure in FY2018. ICRA estimates that capital expenditure would need to contract by 68.0% during Q4 FY2018 on a YoY basis, to achieve the RE for such spending.

<u>Fiscal situation as per FY2019 BE:</u> The following sections briefly discuss the revenue and expenditure trends forecast by the GoI in the Union Budget for FY2019.

<u>Revenue receipts:</u> The GoI's revenue receipts are estimated to rise by 14.6% in FY2019 BE compared to FY2018 RE, with a 16.6% growth in net tax revenue and a moderate 3.9% growth in non-tax revenues.

The Budget has forecast nominal and real GDP growth at 11.5% and 7.2%, respectively, for FY2019, largely in line with our expectations (11.4% and 7.1%, respectively).

The growth of gross tax revenues is projected to rise to 16.7% in FY2019 BE from 13.4% in FY2018 RE. Excluding the GST compensation cess, the pace of growth of the gross tax revenues of the GoI would rise to 15.7% in FY2019 BE from 9.8% in FY2018 RE. ICRA estimates that the growth of indirect tax collections (excluding the GST compensation cess) would rise to 17.3% in FY2019 BE from 1.7% in FY2018 RE, benefiting from the receipt of GST for the full year and improved compliance after the introduction of the e-way bill. Few changes have been introduced in indirect taxes following the introduction of the GST, such as an increase in customs duty on mobile phones from 15% to 20%, on certain mobile parts and accessories to 15% and on certain parts of television sets to 15%.

The growth of corporate tax and personal income tax is estimated to decline to 10.2% and 19.9%, respectively, in FY2019 BE, from 16.3% and 21.0%, respectively in FY2018 RE. The corporate tax rate for firms with a turnover between Rs. 50 crore and Rs. 250.0 crore has been reduced to 25% from 30%, which is estimated to result in a revenue loss of ~Rs. 7,000 crore. This is an extension of the measure already announced in the FY2018 Budget to reduce the corporate tax to 25% for firms with a turnover of below Rs. 50 crore.

In addition, the growth of personal income tax collections is estimated to slow somewhat to 19.9% in FY2019 BE from 21.0% in FY2018 RE, largely on account of the high base. An allowance of standard deduction of Rs. 40,000 per year for salaried taxpayers and pensioners, as well as certain tax incentives for senior citizens, are estimated to result in a revenue loss of ~Rs. 12,000 crore. However, this is largely offset by an increase in health and education cess to 4% from 3%, which is estimated to increase revenues by ~Rs. 11,000 crore. The GoI has continued with other levies such as the surcharge of 10% on personal income tax on those with annual taxable income between Rs. 50.0 lakh and Rs. 1.0 crore and the surcharge of 15% on personal income tax of those with taxable income in excess of Rs. 1.0 crore. Other revenue augmentation measures include bringing long-term capital gains from listed equities under the tax net, by levying long-term capital gains tax of 10% (without the benefit indexation) for gains exceeding Rs. 1 lakh. Overall, the growth of direct tax collections forecast in the BE for FY2019 appears to be achievable.

Table 5: Trends in Revenue and Capital Expenditure

Rs. Lakh Crore	FY2018 BE (1)	FY2018 RE (2)	FY2019 BE (3)	Variation in FY2018 (2)-(1)	Growth in FY2019 BE (3)/(2)
Revenue Expenditure	18.4	19.4	21.4	1.0	10.3%
Interest	5.2	5.3	5.8	0.1	9.4%
Subsidies	2.7	2.7	2.9	0.0	7.4%
Fertiliser	0.7	0.6	0.7	-0.1	16.7%
Food	1.5	1.4	1.7	-0.1	21.4%
Fuel	0.3	0.2	0.2	-0.1	1.9%
Pensions	1.3	1.5	1.7	0.2	13.3%
Defence	1.7	1.8	1.8	0.1	0.0%
Grants Capital Assets	2.0	1.9	2.0	-0.1	5.3%
Balance	8.9	9.8	10.8	0.9	10.2%
Capital Exp. Gross Loans & Adv.	3.1	2.7	3.0	-0.4	11.1%
Defence	0.9	0.9	0.9	0.0	0.0%
Recapitalisation of Banks etc.	0.1	0.1	0.0	0.0	-
Balance	2.1	1.7	2.1	-0.4	23.5%

Source: GoI Budget Documents; CGA; ICRA research

The BE for FY2019 has forecast a mild increase of 3.9% in non-tax revenues to Rs. 2.5 lakh crore from Rs. 2.4 lakh crore in FY2018 RE. Revenues from communication services are estimated to increase to Rs. 48,661.4 crore in FY2019 BE from Rs. 30,736.5 crore in FY2018 RE. While there has been no announcement so far of the spectrum auctions to be held in FY2019, the deferred payments related to earlier auctions and normal fees such as spectrum usage charges and licence fees, would accrue an estimated Rs. 44,000-46,000 crore in the coming fiscal, in ICRA's view.

The receipts from dividends and profits of PSEs are estimated to increase by a marginal 0.8% in FY2019 BE, primarily led by higher surplus transfer from the RBI and nationalised banks and financial institutions to Rs. 0.55 lakh crore in FY2019 BE from Rs. 0.52 lakh crore in FY2018 RE. Notably, dividends and profits from other PSEs are estimated to decline by 4.2% in FY2019 BE.

The BE for FY2019 for non-loan capital receipts at Rs. 0.9 lakh crore, is 21.5% lower than the Rs. 1.2 lakh crore included in the RE for FY2018. The former includes Rs. 80,000.0 crore as receipts from disinvestment of the GoI's stake in the PSUs, which is equivalent to 0.4% of GDP. While the target for disinvestment and strategic divestment has been pared from Rs. 1.0 lakh crore in FY2018 RE, it may pose a challenge to complete through the market route alone. Nevertheless, the Government has already approved the listing of 14 CPSEs, including two insurance companies, on the stock exchanges, and initiated the process of strategic disinvestment in 24 CPSEs, including the strategic privatisation of Air India. The manner in which the disinvestment programme is executed remains to be seen and would depend on the market appetite as well as how swiftly the stake sale programme is started.

<u>Revenue expenditure:</u> Revenue expenditure is budgeted to increase by 10.2% in FY2019 BE to Rs. 21.4 lakh crore. The allocation for interest payments has been increased by 8.5% to Rs. 5.8 lakh crore in FY2019 BE from Rs. 5.3 lakh crore in FY2018 RE. The grants for creation of capital assets have been enhanced by a mild 3.2% to Rs. 2.0 lakh crore in FY2019 BE from Rs. 1.9 lakh crore in FY2018 RE. The increase in the allocation for these two items accounts for 25.9% of the absolute rise in revenue spending in FY2019 BE relative to FY2018 RE.

The allocation for NREGA has been maintained at Rs. 55,000.0 crore in FY2019 BE, in line with the RE for FY2018. The allocation for major subsidies has been increased to Rs. 2.6 lakh crore in the BE for FY2019 from Rs. 2.3 lakh crore in the RE for FY2018, led by an increase in the food subsidy (to Rs. 1.7 lakh crore from Rs. 1.4 lakh crore). The latter is along expected lines, given the universal implementation of the National Food Security Act 2013, which is likely to expand the coverage of food subsidy coverage to around 80 crore beneficiaries. The allocation for fertiliser subsidy has been increased modestly to ~Rs. 70,000 crore in FY2019 BE from ~Rs. 65,000 crore in FY2018 RE. The subsidy on petroleum products is estimated to rise marginally to Rs. 24,932.8 crore in FY2019 BE from Rs. 24,460.5 crore in FY2018 RE, which might be somewhat optimistic in the current scenario of rising oil prices.

Table 6: Fiscal Deficit Targets for GoI

	Performance/ Targets in Budget FY 2019	Performance/ Targets in Budget FY 2018	Targets set by FFC
FY2018	3.5%	3.2%	3.0%
FY2019	3.3%	3.0%	3.0%
FY2020	3.1%	3.0%	3.0%
FY2021	3.0%	NA	NA

Source: GoI Budget Documents; CGA; ICRA research

<u>Capital expenditure:</u> Capital expenditure is budgeted to rise by 9.9% to Rs. 3.0 lakh crore in FY2019 BE. The budgetary outlays for capital spending for the Ministry of Railways and the Ministry of Road Transport and Highways have been augmented by 32.7% and 16.9%, respectively, in FY2019 BE relative to FY2018 RE. Additionally, the Defence allocation has been increased by 8.7% to ~Rs. 94,000 crore in the BE for FY2019 from ~Rs. 86,000 crore in FY2018 RE. However, the allocation for Urban Development has declined by 12.6% to Rs. 3,000 crore.

The lower 9.9% growth of capital expenditure compared to the 10.2% rise in revenue expenditure in FY2019 BE relative to FY2018 RE, would result in deterioration in the quality of spending.

<u>Fiscal balances:</u> The GoI has indicated that it would restrict its fiscal deficit to 3.3% of the GDP in FY2019 (refer Table 6), higher than the 3.0% target indicated in the MTFP statement published along with the FY2018 budget. As a percentage of GDP, the revenue deficit, effective revenue deficit and fiscal deficit are all budgeted to improve in FY2019 BE relative to FY2018 RE. At an absolute level, the revenue deficit and the effective revenue deficit are estimated to narrow in FY2019 BE, while the fiscal deficit is estimated to widen, compared to the RE for FY2018 (refer Table 7). Notably, the quality of the

fiscal deficit is expected to improve, with the share of the revenue deficit in the total fiscal deficit easing to 66.6% in FY2019 BE from 73.8% in FY2018 RE.

The rolling targets, indicated by the GoI in the Union Budget for FY2019, aim to curtail the fiscal deficit to 3.1% of GDP in FY2020 and 3.0% in FY2021. Outstanding liabilities are projected to decline to 46.7% of GDP in FY2020 and further to 44.6% of GDP in FY2021, an improvement from 50.1% in FY2018 RE and 48.8% in FY2019 BE. The Government has targeted to reduce its total debt to 40% of GDP by FY2025.

Table 7: Fiscal Balances for GoI

Rs. Lakh Crore	FY2018 BE	FY2018 RE	FY2019 BE	FY2020 Rolling Targets	FY2021 Rolling Targets
Revenue Deficit	3.2	4.4	4.2		
Percentage of GDP	1.9%	2.6%	2.2%	1.8%	1.6%
Effective Revenue Deficit	1.3	1.2	0.9		
Percentage of GDP	0.7%	1.5%	1.2%	NA	NA
Fiscal Deficit	5.5	5.9	6.2		
Percentage of GDP	3.3%	3.5%	3.3%	3.1%	3.0%
Total Outstanding Liabilities as a Percentage of GDP#	44.7%	50.1%	48.8%	46.7%	44.6%

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.

Borrowings: The GoI has indicated gross borrowings of Rs. 6.1 lakh crore in FY2019 (refer Table 8), which is slightly higher than the level in FY2018. The net long-term borrowings (net of redemptions) are estimated to remain nearly unchanged at Rs. 4.6 lakh crore in FY2019 from the amount indicated for FY2018. However, this is somewhat higher than the market expectations.

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 FY2019 Budget as well. The GoI has indicated that it would buy back securities amounting to Rs. 0.7 lakh crore in FY2019, slightly higher than the Rs. 0.6 lakh crore to be bought back in FY2018. Additionally, securities worth Rs. 0.3 lakh crore are proposed to be switched in FY2019, which is slightly lower than the amount of Rs. 0.4 lakh crore proposed to be completed in FY2018.

Table 8: GoI's Long-Term Market Borrowings (Rs. lakh crore)

	FY2018	FY2019
Gross Borrowing	6.0	6.1
Redemptions	1.4	1.4
Net Borrowing	4.6	4.6
Buyback	0.6	0.7
Net Borrowing Adjusted for Buyback	4.0	3.9

Source: RBI; ICRA research

AGRICULTURE

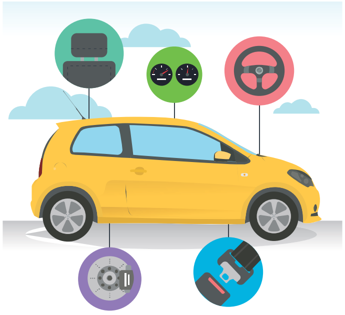
Proposals

- Emphasis on boosting farmer income; proposal to revise Minimum Selling Price (MSP) to 1.5 times the cost of production; efforts by the Government will be aimed at ensuring farmers receive fair price
- Highest ever allocation of Rs. 11 lakh crore to farm credit (as against Rs. 10 lakh crore in 2017-18)
- Allocation of Rs. 2,600 crore under the Pradhan Mantri Krishi Sinchayi Yojna (PMKSY) for 96 severely under-irrigated districts
- 470 Agricultural Produce Market Committees (APMCs) linked to National Agricultural Market (e-NAM) till date; remaining 115 APMCs to be linked by March 2018
- Proposal to upgrade 22,000 rural haats into Grameen Agricultural Markets (GrAMs)
- Allocation of Rs. 2,200 crore towards setting up of an agricultural market fund
- Focus on boosting agricultural exports by setting up 42 mega food parks across the country

Impact: **Positive**

The 2018-19 Union Budget has laid significant emphasis on agriculture and the Government of India's (GoI's) endeavour to double the farmer's income by FY2022. Steps to boost farmer income include timely implementation of key initiatives announced in the past as well as new policy measures. The GoI has proposed to have a structure in consultation with the Niti Aayog and the state governments to ensure that farmers get a Minimum Selling Price (MSP). The MSP for kharif crops is proposed to be fixed at 1.5 times the cost of production, which is aimed at boosting farmer income. Further, to ensure adequate and timely availability of farm credit, the target for agriculture credit has been raised to Rs. 11 lakh crore for FY2019 from Rs. 10 lakh crore last year. To address farm productivity of severely under-irrigated districts, Rs. 2,600 crore has been allocated under the Pradhan Mantri Krishi Sinchayi Yojna (PMKSY) for 96 districts across the country. With respect to its initiative of expanding the coverage of the National Agricultural Market (e-NAM) to 585 APMCs in the country, the GoI has announced that 470 Agricultural Produce Market Committees (APMCs) have been linked to e-NAM till date, while the remaining 115 APMCs are proposed to be linked by March 2018. The GoI has also proposed to upgrade about 22,000 rural *haats* across the country into Grameen Agricultural Markets (GrAMs), aimed particularly to benefit small and marginal farmers owing to difficulties faced by them while transacting with APMCs. Further, a sum of Rs. 2,200 crore has been allocated towards setting up an agricultural market fund, which will be set up for developing and upgrading agricultural marketing infrastructure across the 22,000 GrAMs and 585 APMCs, wherein bulk purchasers will directly procure produce from farmers. The GoI has also announced plans for setting up 42 mega food parks to better realise the export potential for agricultural produce.

AUTO: AUTO COMPONENTS



Proposals

- Customs duty on specific imported auto components hiked from 7.5%/10% to 15%
- Customs duty on truck & bus radial tyre increased to 15% from 10%
- Increased outlay for rural infrastructure and proposed hike in minimum support prices for crops benefit rural income; positive for 2W and tractor segment
- Reduction in income tax rate for the MSME sector with annual turnover below Rs 250 crore to Rs 25% is positive for MSMEs; will boost investment

Impact: **Positive**

The hike in customs duty on select auto components namely spark-ignition and compression-ignition internal combustion engines, and its sub-components (crankshafts, pistons, piston rings, sparkling plugs, fuel nozzles, among others) and several other auto-components like bumpers, safety seat belts and air bags, mounted brake linings, radiators, shock absorbers, drive and non-drive axles, radiators and wheels; including several components used in two-wheelers (including cycles) is a strong positive for domestic auto component manufacturers and will promote the Made-in-India brand.

The proposed hike in customs duty on imported truck & bus radial tyres, coupled with the recently announced anti-dumping duty, will improve competitiveness of the Indian tyre manufacturers, against Chinese imports.

The Government's increased outlay for the rural and agrarian segment would lead to higher disposable incomes and demand for the automotive sector especially in 2W, PV and tractor; these together account for 70% of domestic OE demand for components.

Considering the prevalence of MSMEs in the auto component value chain (tier II and III suppliers), the reduction in corporate tax rates (for companies with turnover <Rs. 250 crore) is a positive.

AUTO: COMMERCIAL VEHICLES

Proposals

- Allocation for infrastructure increased to Rs. 5.97 lakh crores for FY2019, up by 21%
- Higher allocation for road sector (including Bharatmala project – estimated to be 5.35 lakh crore)
- Greater focus on strengthening rural economy through multi-faceted schemes
- Increase in custom duty on completely built trucks & buses to 25% from 20%

Impact: **Neutral**

In line with expectations, the budget for FY2018-19 didn't provide any direct benefits on the indirect tax front to the automobile sector. Accordingly, the Commercial Vehicle (CV) sector will continue to reap benefits of the Government's plans to significantly increase allocation towards the rural economy and the infrastructure sector, especially development of roads and highways including the Bharatmala project and those in the rural areas. These investments will not only support sales of vehicles used for providing last mile connectivity but will also be positive for tipper sales that constitute approximately 25-30% of M&HCV Truck sales in India and have registered healthy growth (~25-30%) during the 12-15 months.

However, in the absence of any clarity on implementation of vehicle fleet modernisation programme (for older vehicles) and announcement of incentives to promote usage of electric vehicles in public transportation, the announcements made in Budget 2018-19 would overall be neutral for the sector.

The increase in custom duty on CBUs to 25% from 20% is unlikely to have a material impact on the CV sector as only a miniscule proportion of vehicles are imported in CBU format as most foreign OEMs either have complete manufacturing or assembly operations in India.

AUTO: PASSENGER VEHICLES

Proposals

- Increased outlay for rural infrastructure and proposed hike in minimum support prices for crops benefit rural income; rural segment accounts for about 30% of the overall domestic PV sales

Impact: **Neutral**

The Government has increased the outlay for the rural sector, with special thrust in doubling rural income over the next five years and improving road connectivity. These are positives for the passenger vehicle industry, especially entry level cars and the utility vehicle segment. The Government has also hiked the import duty on auto components from 7.5%/10% to15% to boost "Make in India" initiative.

In the absence of any direct benefits such as scrappage scheme for older vehicles or greater incentives to promote usage of electric/hybrid vehicles, the announcements made in Budget 2018-19 would overall be neutral for the sector.

AUTO: TRACTORS

Proposals

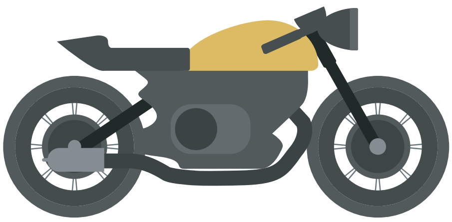
- Total allocation for rural, agri and allied sectors enhanced by 20.5% to Rs 14.34 lakh crore
- Institutional farm credit target increased by 10% to Rs. 11 lakh crore
- Increase in minimum support prices for kharif 2018-19 and corpus allocated to strengthen agricultural markets

- Allocation under MNREGA increased by 14.6% to Rs 55,000 crore; allocation of Rs 5750 crore to the National Rural Livelihood Mission
- Increase in allocation for Pradhan Mantri Fasal Bimal Yojana by 44% to Rs 13,000 crore
- Rural infrastructure development; allocation of Rs 19,000 crore for Pradhan Mantri Gram Sadak Yojana and Rs 33,000 crore to Pradhan Mantri Awas Yojana
- Allocations of i) Rs 1400 crore for establishment of specialised agro-processing institutions ii) Rs 500 crore under 'Operation Green' to promote farmer produce organisations, agri-logistics and processing facilities
- Export of agri-commodities to be liberalised

Impact: **Positive**

The Government's thrust of promoting rural development and farmer welfare in the budget remains a positive for the farm sector. The Government remains committed towards improving farm credit availability through increased institutional agri-credit targets; additionally, continued healthy allocation to schemes aimed at enhancing irrigation penetration and increasing the coverage of crop insurance schemes would help reduce the dependence of the agricultural sector on monsoon rainfall and improve crop yields and consequently farm incomes. The proposal to create a mechanism to ensure adequate price for crop produce, if implemented successfully, would help aid farm cash flows.

AUTO: TWO-WHEELERS



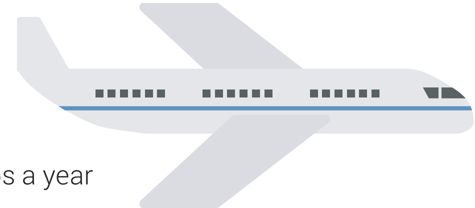
Proposals

- Continued focus on agriculture and rural sectors
- Total allocation for rural, agri and allied sectors enhanced by 20.5% to Rs 14.34 lakh crore
- Continued focus on rural infrastructure development through (i) Rs 33,000 crore allocated to Pradhan Mantri Awas Yojana, (ii) Rs 19,000 crore allocated towards Pradhan Mantri Gram Sadak Yojana
- Increase in allocation for Pradhan Mantri Fasal Bimal Yojana to Rs 13,000 crore
- Increase in minimum support prices for kharif 2018-19 and corpus allocated to strengthen agricultural markets
- Increase in allocation under the MNREGA by 14.6% to Rs 55,000 crore

Impact: **Marginally Positive**

The budget focussed on enhancing farm incomes by improving crop realisations following a policy of linking minimum support prices for kharif crops with the margin of minimum 50% over the cost of production, budgetary allocations for strengthening of Agricultural Produce Market Committees (APMC) and Gramin Agricultural Markets for better price discovery. Additionally, enhanced allocations for various rural-focused employment and infrastructure development schemes as well as higher agricultural institutional credit targets also indicates farmer welfare being a priority for the Government. Given that demand for entry level motorcycles, has strong dependence on rural markets, such initiatives that allow expansion of farm income as well as provide higher access to credit for agricultural use augur well for the sector.

AVIATION



Proposals

- Expansion of airport capacity by five times, thereby facilitating one billion trips a year
- Development of 10 prominent tourist sites into iconic tourist destinations

Impact: **Marginally Positive**

The Budget has reiterated the focus on improving regional connectivity through the UDAN scheme. The focus on expansion of airport capacity will help address the current airport infrastructure constraints being faced by the airlines, improve connectivity and thus boost tourism. Along with measures being undertaken to develop iconic tourist destinations to further promote tourism, this will support the growth of the Indian aviation industry.

While the Budget proposes to make the Railways more competitive through measures like modernisation and improved passenger convenience, it should not have any major impact on air passenger traffic.

AVIATION INFRASTRUCTURE

Proposals

- Increase in airport capacity in the country by five times; the Airports Authority of India (AAI)'s balance sheet to be leveraged to raise required resources
- Increased planned outlay for the Ministry of Civil Aviation to Rs. 4,086 crore in FY2018-19 from Rs. 2,543 crore in FY2017-18, with focus on airports capacity enhancement

Impact: **Positive**

The Budget has emphasised on developing the airport infrastructure in the country, which is lagging the robust growth in air traffic. The Government's plan to increase the capacity by five times is a positive development and is targeted to meet the future air traffic growth in the country. The AAI is expected to play a greater role and increase the pace of infrastructure development. The budget proposal of leveraging the AAI's healthy balance sheet is expected to generate sizeable resources for the AAI to undertake required capacity enhancement initiatives.

BFSI: BANKING FINANCE

Proposals

- A 10% hike in agriculture credit, capital raising by regional rural banks (RRBs) from market sources and MSP for all crops to be kept at 1.5X of production costs
- Electronic receivable discounting of MSMEs by Public Sector Banks (PSBs) and review of refinancing policy of MUDRA for better refinancing of NBFCs
- Reducing regulatory threshold of credit rating from "AA" to "A" for investment in corporate bonds; SEBI to mandate large corporates for borrowing 25% of financing from bond market
- Providing micro insurance and pension benefits through Jan Dhan accounts
- Increasing exemption of interest income for senior citizens and 10% tax on long-term capital gain from equity investments

Impact: Neutral

The 10% hike in agriculture credit to 11 lakh crore and proposal to hike MSP of all crops at 1.5X of production costs augurs well for the rural income and spending. This shall benefit the banks through improved credit offtake as well as improvement in asset quality in the agriculture segment. Proposal to allow RRBs to raise market capital will enable these institutions to support credit flow to the rural sector while improving the financial stability of the system. Proposals to review the refinancing norms for NBFCs under the MUDRA scheme and receivable discounting by PSBs will improve the credit supply to MSMEs and support the credit growth of banks and NBFCs. With more than 80% of the bond issuances restricted to "AAA" and "AA" rating categories and top 10 issuers accounting for ~40% of the bond issuances the proposed amendments will broaden the debt capital markets. Despite imposition of capital gain tax on equities and increase in exempted interest income – it is unlikely to significantly improve deposit base as the tax exemption is restricted to senior citizens who prefer bank deposits. However, the proposal to provide insurance and pension benefits to the poor through Jan Dhan accounts can improve the deposit base on banks to some extent.

BFSI: INSURANCE

Proposals

- Launch of the National Health Protection Scheme for 10 crore families with coverage of Rs. 5 lakh per family
- Merging three General insurance companies to single entity and its subsequent listing

Impact: Positive

Increased medical insurance coverage is likely to provide more business opportunities; however, given the precarious profitability of the earlier schemes, the pricing will remain a key factor. The proposed merger of three general insurance companies is expected to impact the insurers positively, given the benefits from better economies of scale and reduction in unhealthy competition, thereby benefiting private-sector insurers also. Merger prior to listing would result in better valuation of the combined entity.

BFSI: HOUSING FINANCE COMPANIES

Proposals

- Allocation for the Pradhaan Mantri Awas Yojna (PMAY) at Rs. 27,414 crore for FY2019 against Rs. 28,951 crore last year.
- Under PMAY (Gramin), 51 lakh houses to be constructed in FY2019; in urban areas, assistance for constructing 37 lakh houses has been sanctioned.
- The Affordable Housing Fund (AHF) to be set up in the National Housing Bank, to be funded from priority-sector lending shortfall and fully-serviced bonds authorised by the Government of India.
- Thrust on increasing rural income through hike in minimum support price (MSP) for most of the kharif crops, MSP should be at least one-and-a-half times of the production cost.
- Reducing regulatory threshold of credit rating from “AA” to “A” for investment in corporate bonds

Impact: **Positive**

The Union Budget for FY2018 has maintained its focus on the agenda ‘Housing for All’ by 2022. The allocation is marginally lower than the last fiscal. Nevertheless, the allocation remains sizeable, which is likely to support the growth momentum in the affordable-housing sector. Thrust on increasing rural income is also likely to boost demand for housing and is likely to be positive for the housing-finance companies from the growth perspective, especially for players with good presence in rural/semi-urban areas. In addition to the credit-linked Subsidy Scheme (CLSS), setting up of AHF is likely to increase the funding options for housing finance companies (HFCs) operating in affordable housing space. HFCs operating in the affordable housing space (total portfolio of Rs. 926 billion as on September 30, 2017, which was 10% of HFC credit) could benefit from lower funding costs, which is likely to improve affordability of end borrowers. Reduced rating threshold will help in broadening the investor base and is likely to increase avenues for HFCs rated in “A” category to raise longer-tenure funds and hence manage liquidity profile better.

CAPITAL GOODS

Proposals

- Mechanism proposed to buy surplus solar energy from solar pumps by discoms at reasonable price
- Allocation of Rs. 3,800 crore and Rs. 4,900 crore for Deendayal Upadhyaya Gram Jyoti Yojna (DUGJY) and Integrated Power Development Scheme (IPDS), respectively
- Allocation of Rs. 16,000 crore (of which Rs. 2,750 crore was allocated in FY2019) under the Saubhagya Scheme to enable last mile connectivity for rural households
- Increased capex by Railways, particularly for electrification and augmentation of line network
- Capital expenditure proposed under the Smart City programme for deployment of roof-top solar capacity
- Customs duty lowered to nil from 5% for solar tempered glass
- Reduction in corporate tax rate to 25% for entities with turnover of up to Rs. 250 crore

Impact: **Marginally Positive**

The mechanism proposed to buy surplus solar energy from solar pumps by the distribution utilities as well as push for deployment of solar energy under the Smart City programme are a positive for PV module manufacturers, EPC and system integrators / channel partners. Moreover, the duty reduction from 5% to nil on solar tempered glass would result in a marginal reduction in module cost and would be a positive for domestic solar PV module manufacturers. Further, the allocation towards rural electrification and system strengthening of the distribution network under the Saubhagya scheme, DUGJY and IPDS, as well as higher allocation for capex in the Railways and the Defence sectors would boost order inflows for the capital goods segment. Further, the reduction in corporate tax rate for entities with a turnover of up to Rs. 250 crore remains a positive for capital goods and EPC companies with such eligibility.

CEMENT

Proposals

- Higher rural credit- increased allocation for credit for the rural, agriculture and allied sector from Rs. 10 lakh crore in 2017-2018 to Rs. 11 lakh crore in 2018-2019
- Increased MSP for all previously uncovered kharif crops to at least one-and-a-half times of their production cost
- Focus on infrastructure investments continues in FY2019 with increase in the allocation by 21% to Rs. 5.97 lakh crore in FY2019
- Budgetary allocation for the roads sector (including PMGSY) raised by Rs. 5,644 crore, an increase of 7% to Rs. 89,544 crore in FY2019. For Railways, the capital expenditure outlay increased by 12% to Rs. 1.46 lakh crore
- Affordable housing fund to be set up under the National Housing Bank (NHB)
- Total outlay (Budgetary support + borrowings) for housing (HUDCO and PMAY Urban) increased from around Rs. 20000 crore in FY2017-FY2018 to over Rs. 44000 crore in FY2018-FY2019

Impact: **Positive**

Improved rural incomes, higher rural credit and increased allocation for the rural, agricultural and allied sector are likely to boost rural demand including the requirement for rural housing. This, in turn, will have a positive impact on the cement sector as rural housing demand is a significant contributor to the overall cement demand mix.

The PMAY continues to be a major driver for the cement demand, with around 50 lakh houses targeted in the rural areas and 37 lakh houses targeted in the urban areas. Higher outlay on urban housing and increased thrust on infrastructure as reflected in 21% higher allocation primarily led by roads and railways is likely to boost the cement demand.

FERTILISERS

Proposals

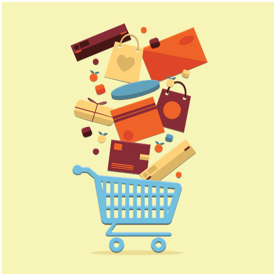
- Downward revision of subsidy provision to Rs. 64,999 crore in 2017-2018 (RE) as against Rs. 70,000 crore estimated earlier; budgetary provision for 2018-2019 (BE) at Rs. 70,080 crore
- Subsidy on urea: Rs. 45,000 crore (BE) against Rs. 42,748 crore (RE) for 2017-2018
- Subsidy on decontrolled fertilisers: Rs. 25,090 crore (BE) against Rs. 22,252 crore (RE) for 2017-2018
- Rs. 2,600-crore allocation for groundwater irrigation under the Pradhan Mantri Krishi Sinchayi Yojna (PMKSY) for 96 severely under-irrigated districts
- Several measures to revive the health of the rural economy

Impact **Neutral**

Reduction in subsidy budget for 2017-2018 and marginal increase for 2018-2019 would lead to continuation of subsidy delays, which could be accentuated further in the event of a nationwide roll-out of the DBT scheme for paying subsidy

The 10% upward revision in the budgeted subsidy for P&K fertilisers indicates any further reduction in the per nutrient subsidy rates is unlikely. Measures aimed at rural economy will help the fertiliser marketers through better affordability.

FMCG



Proposals

- Increased outlay for farm and rural sector will boost consumption demand
- Standard deduction of Rs. 40,000 in lieu of the current medical and transport allowance, will marginally increase disposable income
- Benefits of the Kisan Credit Card scheme as well as a separate infrastructure fund for fisheries and the animal husbandry sector is a positive for the poultry and seafood sector

Impact: **Positive**

Increased outlay for the farm and the rural sector will boost consumption demand, especially in the rural segment. The additional focus on animal husbandry and fisheries segment, with incentives like the Kisan Credit Card scheme and a dedicated Rs. 10,000-crore infrastructure fund will lend indirect support to rural income. The proposal for an increase in the standard deduction in lieu of the current medical and transport allowances will marginally increase disposable income; though for most income categories this is offset by the hike in education and the healthcare cess. While there are no material benefits rolled out for the urban middle-class population, the rural demand will benefit from the increased expenditure towards boosting rural infrastructure and income.

HEALTHCARE

Proposals

- Launch of the flagship National Health Protection Scheme to cover over 10 crore poor families (~50 crore beneficiaries) with a coverage of up to Rs. 5 lakh per family per year for secondary and tertiary hospitalisation.
- Allocation of Rs. 1,200 crore towards 1.5 lakh health and wellness centres where comprehensive primary healthcare will be provided apart from providing free essential drugs and diagnostics; private-sector players would be encouraged to sponsor the health and wellness centres.
- Twenty four new medical colleges and hospitals to be set up, including upgrading certain district-level facilities. The Government proposes to ensure that there is at least one medical college for every three parliamentary constituencies and at least one Government medical college in each state of the country.
- Increase in the limit of deduction of health insurance premium for senior citizens from Rs. 30,000 to Rs. 50,000 under Section 80D of Income-tax Act.

Impact: Positive

Two major initiatives under the "Ayushman Bharat" programme linked to improvement of primary healthcare infrastructure and increasing the insurance coverage for poor families are major positives for the sector. Launch of a Government-funded healthcare plan of this scale, coupled with the increase in the limit of deduction for senior citizen health insurance under Section 80D, has the potential to significantly increase the mandatory as well as discretionary healthcare spend in the country. Further, many patients may go for better class of facilities, boosting revenues of larger private-sector players. Setting up of 24 new medical colleges and hospitals (including upgrading some of the existing ones) will address the shortage of medical talent and beds in the country to some extent.

HOTELS

Proposals

- Development of ten prominent tourist sites into iconic tourist destinations, supported by investment in infrastructure and skill development, branding and marketing, technology, and attracting private investment
- Upgradation of tourist amenities at 100 Adarsh monuments of the Archaeological Survey of India to improve visitors' experience
- Preservation of heritage cities in India, the National Heritage City Development and Augmentation Yojana (HRIDAY) has been taken up in a major way
- Construction of a new tunnel in Sela Pass, Arunachal Pradesh to promote tourism in the North East
- Increasing connectivity through investment in Railways and Airports: Capacity of airports to be increased five times to handle 1 billion trips a year, under a new initiative called NABH Nirman
- Regional connectivity to be improved under the UDAN scheme; to connect 56 un-served airports and 31 un-served helipads
- Government to encourage investment in sea-plane activities to promote tourism and emergency medical care

Impact: **Neutral**

The GoI has reinforced its commitment to improve regional connectivity through spend on enhancing airport capacity and establishing connectivity to un-served airports/helipads. Encouraging investment in sea-plane activities and building a new pass at Sela in Arunachal Pradesh would promote tourism. Focused efforts to preserve India's heritage cities, improve visitors' experience at 100 Adarsh monuments by making the monuments visitor friendly, along with upgrading sanitation and supporting infrastructure would help drive domestic tourism. Again, development of 10 prominent tourist sites through improved infrastructure and marketing efforts by roping in private investment is also targeted at increasing tourist footfalls.

While the GoI has continued to focus on its core theme for tourism development in India, several of these efforts have been initiated periodically in the past also. Industry demands like requests for lowering the minimum project cost (from Rs. 200 crores) for inclusion under the Infrastructure lending list and GST on actual rates (instead of card rates) have not been addressed.

INFRASTRUCTURE

Proposals

- Capital outlay towards the infrastructure sector up to Rs. 5.97 lakh crore in FY2018-19 (up 20.8% over FY2018RE), with major increase for segments like Railways, Telecommunication and Affordable Housing
- Railways and Roads sectors continue to be the focus areas, contributing to over 45% of the total infrastructure capital outlay. Capital outlay for the Railways budgeted to increase by 22.1% while that of Roads by 10.2%
- Outlay for the Housing and Urban Development increased sharply by 57% with the increased amount coming from higher expenditure under the Pradhan Mantri Awas Yojana (Urban)
- Allocation for the Pradhan Mantri Krishi Sinchai Yojana (PMKSY) increased by 27.5% to Rs. 9,429 crore. Under this, Rs. 6,000 crore is to be spent on 48 irrigation projects under the Accelerated Irrigation Benefits Programme (AIBP) and command area development
- Government along with the regulators to promote investments in bonds with credit rating of A and above from the current rating threshold of AA and above

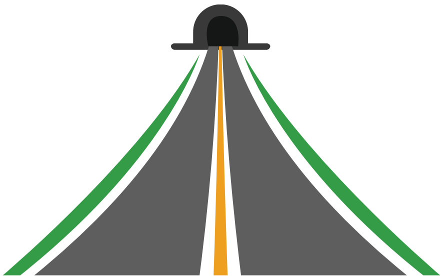
Impact: **Positive**

The total capital outlay for the infrastructure sector has been budgeted to increase by 20.8% to Rs. 5.97 lakh crore in FY2019. Apart from the core Railways and Roads, the special focus of this Budget has been on rural infrastructure through development of rural roads, houses, sanitation, irrigation and water supply which will provide a significant boost to the rural economy. To meet the Government's target of 'Housing for All' by 2022, construction of additional 51 lakh houses will be made in the rural areas. Similarly, the capital outlay under the PMAY (Urban) has been increased sharply, which includes assistance for constructing 37 lakh homes in urban areas. The Budget emphasised on the completion of on-going high-priority irrigation projects and increased allocation under the PMKSY-AIBP.

The Budget also provided direction on the long-term projects being undertaken under the Smart Cities Mission and the AMRUT programme. So far, out of 100 cities planned for upgradation under the Smart Cities Mission, 99 cities have been selected. The programme will involve a capital outlay of Rs. 2.04 lakh crore (projects worth Rs. 2,350 crore completed and work of Rs. 20,852 crore under progress). Similarly, under the AMRUT programme, state-level plans for providing water supply to 500 cities with capex of Rs. 77,640 crore have been approved.

Deepening of bond markets is required to support long-term infrastructure financing, especially given the twin challenges faced by commercial banks - asset-liability management and increasing share of stressed assets. Relaxation of rating threshold (from AA to A) is a positive as it would encourage more participation from domestic insurance companies and pension funds in the infrastructure sector.

INFRASTRUCTURE: ROAD



Proposals

- Total budgetary allocation for the sector (including PMGSY) raised by 6.7% to Rs. 89,544 crore from Rs. 83,900 crore in the previous year.
- The Government has continued its thrust on the Pradhan Mantri Gram Sadak Yojana (PMGSY) as allocation towards the same remained at Rs. 19,000 crore – same as that of FY2018. The Phase-III of PMGSY has been launched to connect hospitals and schools - major link routes in the interiors of villages. The Government's target is to construct 57,000 km, involving 28.35 crore man days.
- Equity-raising plans proposed for the NHAI to part fund the ambitious Bharatmala programme.
- The Government along with the regulators to promote investments in A-rated bonds against the current rating threshold of AA.

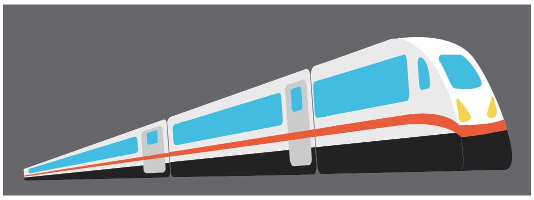
Impact: **Neutral**

The total budgetary allocations including the performance-based funding (PBFF), the Central Road Fund (CRF) and GBS to fund the ambitious new highway-development programme (including Bharatmala) is estimated at Rs. 3,43,045 crore over FY2019-FY2022. Therefore, starting this budget, the allocations to the Road Ministry was expected to increase substantially. However, the budgetary allocation (excluding PMGSY) was raised 8.7% to Rs. 70,544 crore from Rs. 64,900 crore in the previous year. A major part of the Bharatmala is expected to be undertaken through NHAI. To bridge the shortfall in budgetary allocation, the NHAI is expected to raise funds by monetising more assets through toll-operate-transfer and Infrastructure Investment Trust routes (by transferring mature assets to SPVs).

Thrust on the PMGSY continued through advancement of completion target to 2019. Allocation towards PMGSY remained at Rs. 19,000 crore – same as that of FY2018. This is expected to boost the order-book of medium-sized road construction companies over the next two years. Further, Phase-III of PMGSY is planned to be launched to connect hospitals and schools with major link routes in the interiors of villages.

Deepening of bond markets is required to support long-term infrastructure financing especially given the twin challenges faced by commercial banks - asset-liability management and increasing share of stressed assets. Proposal to relax the rating threshold (from AA to A) is a positive as it would encourage more participation from domestic insurance companies and pension funds in the infrastructure sector.

INFRASTRUCTURE: RAILWAY



Proposals

- Higher capital expenditure outlay for the Railways (increased by 11.8% from 2017-18 BE and 22.1% from 2017-18 RE) at Rs. 1.46 lakh crore to support infrastructure projects. Of this, the budgetary allocation from the Government stands at Rs. 53,060 crore (up from Rs. 40,000 crore in 2017-18 RE, and marginally lower than 2017-18 BE).
- Increased expenditure on new line construction (up by 34.5%), track renewals (up by 37.8%), and electrification projects (up by 82.6%) over the previous Budget to help upgrade railway infrastructure; execution of these to benefit construction companies.
- Railway lines commissioning target increased to 4,100 route km in FY 2019 from the target of 3,500 route km in FY2018 and 2,800 route km in FY2017; target for electrification projects increased from 4,000 route km in FY2018 to 6,000 route km in FY2019.
- Redevelopment/modernisation of 600 railway stations is being undertaken.
- Mumbai suburban rail network to be expanded and augmented by adding 90 km of double-line tracks (capex of Rs. 11,000 crore), and 150 km of addition to the suburban network (capex of Rs. 40,000 crore). Similarly, there are plans for sub-urban network of 160 km in Bengaluru (estimated capex of Rs. 17,000 crore)

Impact: Positive

The capital and development expenditure of Railways are projected to increase to Rs. 1,46,000 crore in FY2019 from Rs. 1,20,000 crore in FY2018RE (Rs. 1,31,000 crore in FY2018BE). The increase of 22% in FY2018 is in line with expectations, and will be required to meet the Railways Vision 2022. The Budget has also emphasised on setting higher execution targets with commissioning of 4,100 km of railway lines in FY2019 compared to 3,500 km during FY2018BE. The Budget continued to emphasise on electrification of Railways by sharply increasing electrification projects capex (up by 82.6%) and target (up by 50%). In addition, the Budget also highlighted the redevelopment of 600 railways stations, which is being undertaken by Indian Railway Station Development Co. Ltd. Other major announcements in the Budget include initiation of suburban rail network projects in Mumbai and Bengaluru with an estimated project cost of Rs. 68,000 crore.

METALS: IRON AND STEEL

Proposals

- Increase of 21% in allocation for the infrastructure sector from Rs. 4.94 lakh crore to Rs. 5.97 lakh crore
- Growth of 22% in investments in Railways towards capacity creation
- Construction of 51 lakh rural and 37 lakh urban new houses
- Higher budgetary allocation for the Pradhan Mantri Krishi Sinchai Yojna and the AMRUT scheme expected to benefit steel pipe manufacturers

Impact: **Moderately Positive**

The Government's thrust on infrastructure, which is one of the key end-user industries for the steel industry, is a positive for steel demand. Within infrastructure, significantly higher capital expenditure, earmarked for affordable housing, power transmission and Railways is likely to augment steel demand. Given that the sector is freight-intensive, investments in Railway capacity would help the industry in addressing transportation bottlenecks over a longer term. Overall, the impact on the iron and steel sector remains moderately positive.

OIL & GAS

Proposals

- Provision of revenue expenditure/subsidy for sensitive petroleum products of ~Rs. 217 billion for FY2019/2018-2019 (BE), excluding allocation of new LPG connections to poor families
  Impact: Shortfall of Rs. 110-120 billion in petroleum subsidy allocation if crude oil price remains ~$70/bbl or higher

- Allocation of Rs. 32 billion for new LPG connections to poor (BPL) families for FY2019
  Impact: Increased LPG penetration to aid sales volumes and marketing profits of OMCs

- Allocation of Rs. 16.7 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

- Allocation of Rs. 13 billion for the National Seismic Programme
  Impact: Help E&P sector companies with improved data repository

- Allocation of Rs. 7.8 billion for strategic oil reserve projects
  Impact: Strategic reserves to provide comfort for oil security of the country in case of emergency

- Introduction of Rs. 8/litre 'Road and Infrastructure Cess' on petrol and diesel; abolition of Rs. 6/litre 'Additional Duty of Excise (Road Cess)'; reduction in basic excise duty on petrol and diesel by Rs. 2/litre
  Impact: No impact on prices of auto fuel and sector companies

Impact: **Moderately Negative**

Petroleum subsidy RE of ~Rs. 222 billion (excluding new LPG connections) for FY2018 is lower than the expected burden of Rs. 258 billion in the current year, which may not impact the companies considering the over-allocation for FY2017. However, the petroleum subsidy allocation of Rs. 217 billion for FY2019 would materially fall short by Rs. 110-120 billion. As per ICRA estimates, the Government of India (GoI) subsidies are projected to be ~Rs. 330-340 billion against gross under-recoveries of ~Rs. 400 billion (at crude oil price of $70/bbl and INR/$ of 65). However, upstream oil companies may have to bear the balance burden of ~Rs. 60 billion as per extant under-recovery sharing mechanism. The under-allocation for FY2019 may lead to marginally higher debt and interest levels for the OMCs.

As the GoI revised the target of LPG connections for the poor (BPL) households to 8 crore for FY2019 (from 5 crore for FY2018), allocation for the same has also been increased to Rs. 32 billion for FY2019 (up from Rs. 22.5 billion for FY2018). The move would lead to an increase in LPG penetration, thereby boosting LPG sales volumes and marketing profits for OMCs. However, it may lead to a rise in LPG subsidies at current or higher crude oil prices.

For the gas sector, an allocation of Rs. 16.7 billion for FY2019 (BE) along with Rs. 4 billion for FY2018 (RE) for GAIL's Phulpur-Dhamra-Haldia Pipeline Project provides clarity on disbursement. The pipeline, being 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. This could lead to revival of three fertiliser units and CGD networks in many cities.

The Budget allocates Rs. 13 billion for the National Seismic Programme (NSP), which is to be spent for fresh appraisal in all sedimentary basins across India, especially where no/scanty data is available. NSP, which is to be conducted by ONGC and OIL, can help the upcoming bidding rounds for oil and gas areas with better 2D seismic data repository. The allocation of Rs. 7.8 billion for FY2019 (against Rs. 11.4 billion for FY2018) for payment to Indian Strategic Petroleum Reserves Limited (ISPRL) is aimed to build crude oil reserves, which would provide comfort for oil consumption by the country in case of an emergency. The introduction of Rs. 8/litre 'Road and Infrastructure Cess' on petrol and diesel, along with the abolition of Rs. 6/litre 'Additional Duty of Excise (Road Cess)', offsets Rs. 2/litre fall in basic excise duty on petrol and diesel. Thus, there would be no impact on prices of auto-fuels and oil and gas companies.

PHARMACEUTICALS

Proposals

- The National Health Protection Scheme to insure 10 crore families and offer a cover of Rs 5 lakh per family for approximately 50 crore beneficiaries
- Creation of 1.5 lakh Health and Wellness centres as a part of the National Health Policy, 2017 providing free essential drugs and diagnostic services with a total outlay of Rs. 1,200 crore

Impact: **Marginally Positive**

The Pharmaceutical sector will benefit from the cascading effect of the schemes announced under the Ayushman Bharat programme targeting universal health coverage under National Health Protection and opening up of Health and Wellness centres dispensing free drugs and diagnostic services to patients. These outlays, along with the increase in healthcare insurance premium limit for senior citizens, will lead to deeper and wider healthcare penetration and lead to higher consumption of drugs in the near-to-medium term. Overall, low-cost generic manufacturers, especially unbranded generics, are expected to benefit from the Government's thrust on low-cost healthcare.

PORTS

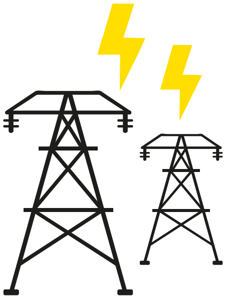
Proposals

- Budget allocation of Rs. 600.0 crore for projects under Sagarmala (PY RE Rs. 480.0 crore), Rs. 322.6 crore for development of ports (PY RE Rs. 171.5 crore) and Rs. 508 crore for grants to the Inland Water Transport Authority of India (PY RE Rs. 477.3 crore)
- Plan to develop a National Logistics Portal as a single window online market place to link all stakeholders.

Impact: **Neutral**

Allocation to Sagarmala and Inland Waterways in terms of budgetary support remains low as compared to the cost of planned initiatives under these schemes. Development of a National Logistics Portal will improve the ease of doing business and also help reduce costs by way of efficiency improvements and boost the volume prospects for port and port logistics players

POWER AND GREEN ENERGY



Proposals

- Allocation of Rs. 3,800 crore and Rs. 4,900 crore for the Deendayal Upadhayaya Gram Jyoti Yojna (DUGJY) and Integrated Power Development Scheme (IPDS), respectively
- Allocation of Rs. 16,000 crore (of which Rs. 2,750 crore has been allocated for FY2019) under the "Saubhagya" scheme to enable last mile connectivity for rural households
- Mechanism proposed to buy surplus solar energy from solar pumps by the discoms at reasonable price
- Increased capex by Railways, particularly for electrification and augmentation of line network
- Allocation of Rs. 4,200 crore for capacity addition in wind power, solar power and green energy corridor
- Measures proposed to facilitate access to bond market to meet 25% of the debt needs by large corporates, including those rated in the "A" category
- Reduction in corporate tax rate to 25% for entities with turnover of up to Rs. 250 crore

Impact: **Positive**

Thrust towards ensuring 24-hour electricity access to all rural households under the "Saubhagya" and the "DUGJY" schemes is likely to boost energy demand to some extent as well as improve the quality of life for rural households. Further, the mechanism proposed to buy surplus solar energy from solar pumps by the distribution utilities as well as push for deployment of solar energy under the smart city programme would facilitate solar capacity addition, given the improved tariff competitiveness of solar energy. However, the uncertainty over the imposition of duties (import duty/safeguard duty/anti-dumping duty), including timelines and the quantum thereof, continues for the solar energy sector. The measures proposed to facilitate access to bond market to meet 25% of the debt needs by large corporates will allow the entities in the power and renewables sector to diversify the funding sources at cost competitive rates, given the highly capital-intensive nature of the sector and large funding requirements. The reduction in tax rate to 25% for entities with a turnover of Rs. 250 crore is a positive for renewable independent power producers (IPPs) as most of these have capacities of less than 200 MW and thus garner revenues within the prescribed limit.

REAL ESTATE

Proposals

- The Affordable Housing Fund (AHF) to be created under the National Housing Bank (NHB), funded from priority sector lending shortfall and fully-serviced bonds authorised by the Government of India
- Decline of 5% in the budgetary allocation for the Pradhan Mantri Awas Yojana (PMAY); however, the total outlay has increased by 122% to Rs. 64,500 crore
- No additional adjustment to be considered on sale of immovable assets in case circle rate value does not exceed 5% of the transaction value

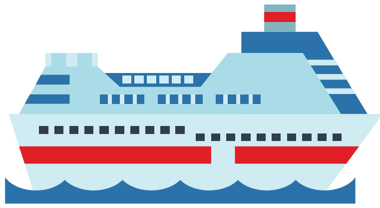
Impact: **Neutral**

The Union Budget 2018-2019 has no major announcement for the real-estate sector, unlike the previous year. The focus of the Government, however, remains on existing programmes, especially 'Housing for All' by 2022. In this respect, the Government has introduced a dedicated fund for affordable housing under the NHB. Setting up of such a fund will help address the funding requirements of the sector by offering an alternative funding avenue.

The total financial spending target under the PMAY, the flagship scheme under 'Housing for All' by 2022, is Rs. 64,500 crore. This includes extra-budgetary resources of Rs. 37,000 crore. The budgetary support is Rs 27,500 crore, which is a 5% decline from the corresponding figure from 2017-2018. Therefore, reliance on external resources to meet the targets remains high. Through the PMAY, the Government aims to achieve construction of another 51 lakh houses in the rural areas in FY2019.

Further, change in computation of taxable income/gains on sale of immovable property, where the circle rates do not exceed the transaction value by more than 5%, provide a marginal relief for real-estate transactions.

SHIPPING AND SHIP BUILDING



Proposals

- Budget allocation of Rs. 1,881.1 crore for 2018-2019 for the Ministry of Shipping as against revised estimate of Rs. 1,568.2 crore for 2017-2018.
  - Rs. 600.0 crore for projects under Sagar Mala (PY RE Rs. 480.0 crore)
  - Rs. 322.6 crore for development of ports (PY RE Rs. 171.5 crore)
  - Rs. 508 crore for grants to Inland Water Transport Authority of India (PY RE Rs. 477.3 crore)

Impact: Neutral

The Government's focus on the inland waterways sector and the Sagar Mala project is a positive for the shipping sector with 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. In the absence of any major specific announcement for the shipping and ship-building sectors, the impact on the same is expected to be neutral.

TELECOMMUNICATION

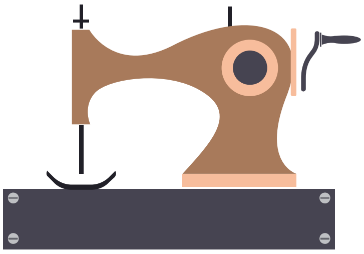
Proposals

- Increase in planned outlay for the Bharatnet project to Rs. 16,986 crore along with allocation of Rs. 10,000 crore for augmentation of telecom infrastructure to set up 5 lakh wi-fi hotspots and high-speed broadband connectivity
- Increase in allocation to Rs. 3,073 crore in FY2018-FY2019 from Rs. 1,426 crore in FY2017-FY2018 for various digitisation initiatives, including investment in research, training and skill development in robotics, artificial intelligence, digital manufacturing, big data analysis, quantum communication and internet of things
- Proposal for Department of Telecom to support establishment of an indigenous 5G Test Bed at IIT-Chennai
- Increase in custom duties on cellular mobile phones to 20% from 15% and increase in custom duties on specified parts and accessories to 15% from 7.5-10%
- Budget estimate of non-tax revenues from communication services for FY2019 stands at Rs. 48,661 crore. For FY2018, revised estimate stands at Rs. 30,736 crore, which is 31% lower than the budgeted estimate of Rs. 44,342 crore

Impact: Positive

Emphasis on digitisation, improved broadband connectivity and increased rural access to high-speed data services (as reflected in higher outlay) are likely to increase data offtake for telcos. Higher allocation will also benefit domestic telecom equipment players, primarily optic fibre manufacturers and contractors. The proposal to support establishment of an indigenous 5G Test Bed at IIT-Chennai is forward-looking. Further, increased allocation for investment in research and development activities will be helpful in the advancement of a strong telecom infrastructure in the country.

TEXTILES



Proposals

- Increase in allocation for textile sector package to Rs. 7,148 crore from Rs. 6,000 crore earlier
- Increase in budgetary allocation for Remission of State Levies (ROSL) scheme to Rs. 2,164 crore in FY2019 from Rs. 1,855 crore in FY2018
- Increase in budgetary allocation for the Amended Textile Up-gradation Fund Scheme (TUFS) to Rs. 2,300 crore from Rs. 1,956 crore
- Corporate tax rate cut to 25% for companies with turnover up to Rs. 250 crore
- Increase in Minimum Support Price (MSP) for kharif crops to at least 1.5 times the production cost

Impact: **Moderately Positive**

The textile sector has experienced pressure on exports across segments in recent times. A 20% increase in allocation for the textile package to Rs. 7,148 crore from Rs. 6,000 crore earlier, and a ~17% increase in allocation for the Remission of State Levies (ROSL) scheme to Rs. 2,300 crore from Rs. 1,956 crore are expected to help the textile exporters.

Further, the sector is largely dominated by the small and medium enterprises (SMEs). Announcements to support credit availability for the SMEs and reduce corporate taxation rates to 25% for entities with the turnover of up to Rs. 250 crore are expected to address liquidity issues for the segment.

Subsidies available under the Textile Upgradation and Fund Scheme (TUFS) are the key drivers for investments in the textile sector. The increase in allocation would continue to support the pace of capacity additions.

The Decision to increase the Minimum Support Prices (MSP) to support farmers is estimated to result in an increase in the cotton fibre floor price to ~Rs. 110/kg from ~Rs. 105/kg at present. Considering that cotton fibre is trading at ~4-5% higher than this level, the impact is likely to be neutral for the cotton-based sector.

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