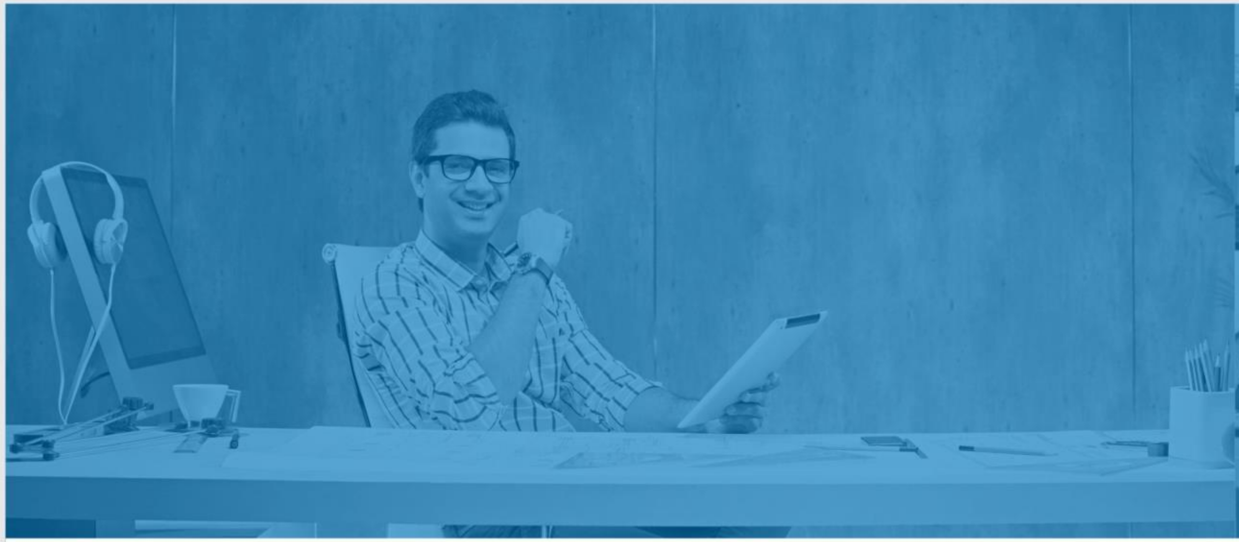

Interim Budget FY19-20: An Analysis

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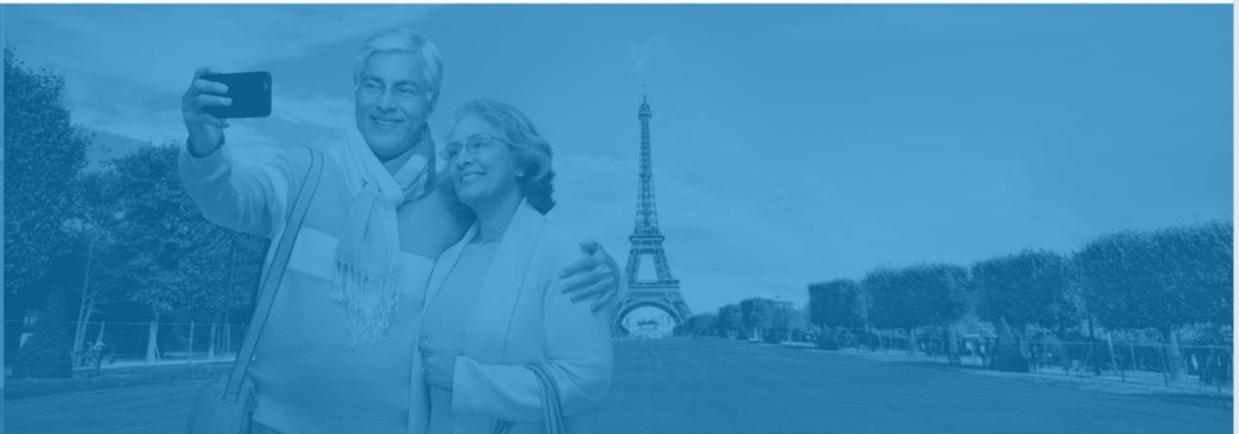


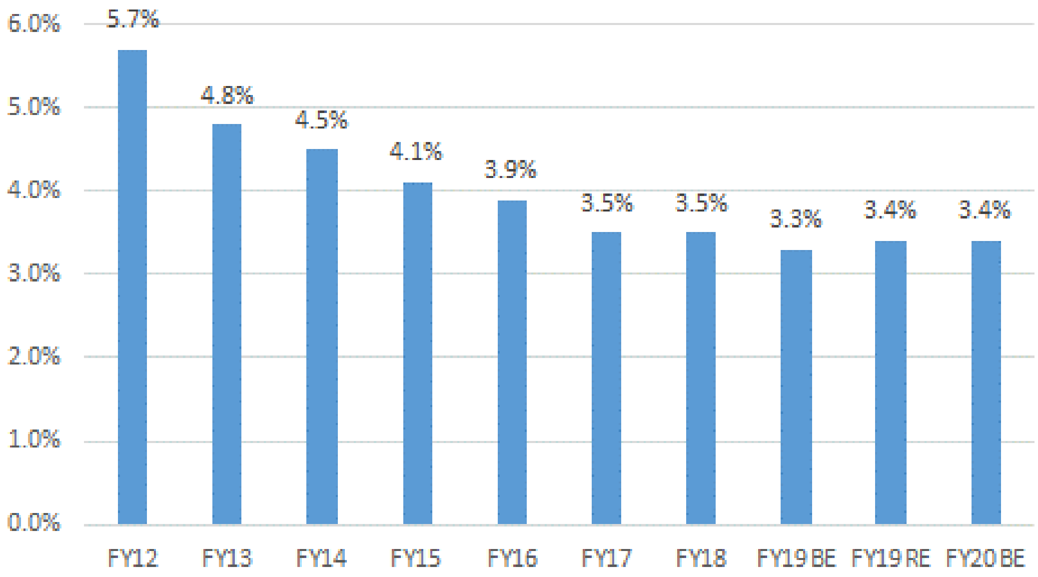
For any tax specific queries/clarifications, please contact your tax advisor. For more details, please refer to the budget documents and Finance Bill.

Budget Highlights – Expansionary in nature, and benefiting various sections like farmers, middle class & unorganized sector

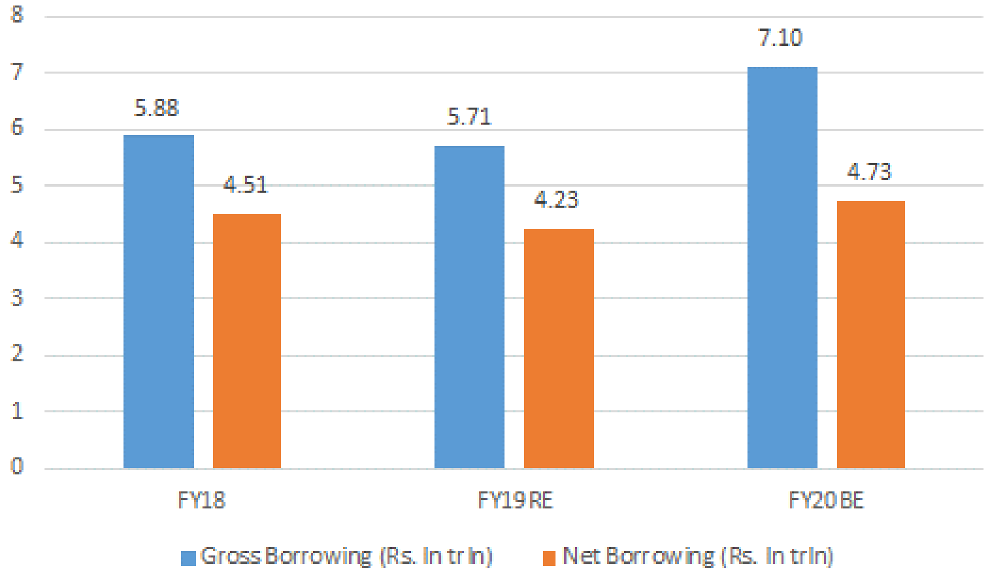
- **The interim budget was a pragmatic and well balanced one, and expansionary in nature**
- **Farm Package announced with direct income support, and also interest subvention on loans**
  - Introduced Pradhan Mantri Kisan Samman Nidhi; this scheme will provide direct income support of Rs. 6,000 per year for those farmers owning up to 2 hectares of land.
  - The budget outlay for this package is Rs. 75,000 crore in FY20.
  - Besides this, interest subvention benefit was also announced on loans for both the farming and animal husbandry sectors.
  - These measures are along expected lines, and the impact of this on fiscal deficit is priced in.
- **Numerous benefits for the 'middle class' – To help increase disposable income & boost consumption (esp. small ticket)**
  - The budget has left more money in the hands of the consumer, and also addressed some Real Estate sector issues as well.
  - Individual tax payers having net taxable income up to Rs. 5 lakhs, would receive full tax rebate (compared to Rs. 2.5 lakhs exemption before).
  - For individuals above Rs. 5 lakhs income, this rebate does not apply and the earlier income tax rates/slabs are applicable.
  - Standard deduction has been increased from current 40,000 per year to Rs. 50,000 per year.
  - TDS limits raised on various savings instruments (for bank deposits & post office deposits hiked from Rs. 10,000 to Rs. 40,000)
  - **Various tax benefits for individuals for housing / real estate sector:**
    - Capital gains exemption under sec 54 to be available now on 2 house properties (vs one earlier)
    - No TDS on house rent up to Rs. 2.4 lakhs per year. (vs Rs. 1.8 lakhs earlier). Exempt levy of income tax on notional rent on 2nd self-occupied house.
- **Mega Pension Scheme announced for Unorganized sector**
  - Named as Pradhan Mantri Shram Yogi Maandhan), under which individuals having monthly income up to Rs. 15,000 will be provided a pension of Rs. 3,000 per month, post retirement. Initial outlay for the scheme at Rs. 500 crore for FY20.
  - Could turn out to be one of the largest pension schemes in the world in the coming years.

Some fiscal slippage seen, as expected – Interest Rates to be firm

Centre Fiscal Deficit Trend (as % of GDP)



Gross & Net Market Borrowing Trend (Rs. In trillion)



Source: Budget Documents. BE = Budgeted Estimate, RE = Revised Estimate

- The revised fiscal deficit for FY19 stands at 3.4% of GDP (vs 3.3% earlier), and for FY20 has been budgeted at 3.4% too (vs 3.1% earlier). The fiscal slippage for FY20 has been due to the farm package and various tax sops.
- As a result, the gross market borrowing for FY20 has come in slightly higher at Rs. 7.1 lakh crore (or trillion), compared to the market expectation of ~Rs. 6.5 lakh crore, and the net market borrowing for FY20 is Rs. 4.73 lakh crore (or trillion).
- This is expected to put some upward pressure of bond yields (as been seen post budget announcement). The RBI may also tag the budget a bit inflationary in nature.

Comparison of various farmer aid packages / schemes

Scheme Name	State	No. of Beneficiaries	Scheme Outlay Amount (Rs. In crore)	Benefit to farmer
Rythu Bandhu	Telegana	60 lakh	12,000	Rs 8,000 per acre, per year
KALIA Yojana	Odisha	~30 lakh	14,000 (100% coverage)	Rs. 10,000 per family, per year
PM KSN (Interim Budget FY20)	Pan - India	~12.5 crore	75,000	Rs. 6,000 per farmer, per year (with upto 2 hectares land)

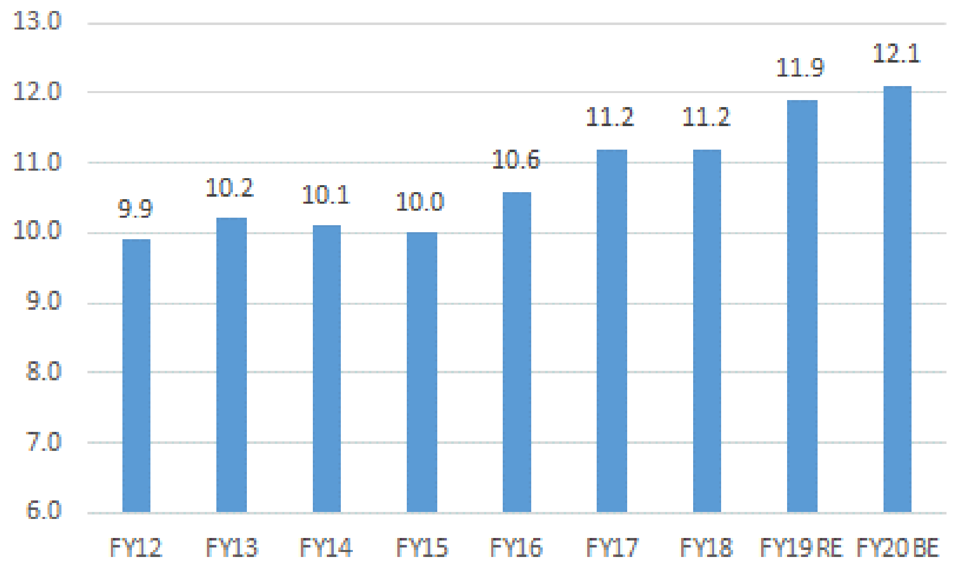
Source: Anand Rathi, Budget documents

- Even though the benefit to farmer is relatively lower for the PM Kisan Samman Nidhi (PM KSN) announced in Interim Budget FY20, the beneficiaries for the scheme is much larger (being a pan-India scheme).

Budget at a Glance – Tax to GDP ratio continues to rise

Budget at a glance	(INR in Bln)				YoY Growth (in %)		
	FY18	FY19BE	FY19RE	FY20BE	FY19BE	FY19RE	FY20BE
Revenue receipts	**14,352**	**17,257**	**17,297**	**19,777**	**20.2**	**20.5**	**14.3**
Net Tax Revenue	12,425	14,806	14,844	17,050	19.2	19.5	14.9
Non Tax Revenue	1,927	2,451	2,453	2,726	27.2	27.3	11.1
Capital Receipts	**7,105**	**7,165**	**7,276**	**8,065**	**0.8**	**2.4**	**10.8**
Recovery of loans	156	122	132	125	(21.8)	(15.4)	(5.3)
Other Receipts (divestment)	1,000	800	800	900	(20.0)	(20.0)	12.5
Borrowings & other liabilities	5,948	6,243	6,344	7,040	5.0	6.7	11.0
Total Receipts	**21,458**	**24,422**	**24,572**	**27,842**	**13.8**	**14.5**	**13.3**
Total Revenue Expenditure	18,788	21,418	21,406	24,479	14.0	13.9	14.4
Total Capital Expenditure	2,631	3,004	3,166	3,363	14.2	20.3	6.2
Total Expenditure	**21,420**	**24,422**	**24,572**	**27,842**	**14.0**	**14.7**	**13.3**
Fiscal Deficit	**5,911**	**6,243**	**6,344**	**7,040**	**5.6**	**7.3**	**11.0**
Nominal GDP	167,847	187,223	188,407	210,074	11.5	12.2	11.5
Fiscal Deficit (% of GDP)	**3.5**	**3.3**	**3.4**	**3.4**			
Gross Market Borrowing	**5,880**	**6,055**	**5,710**	**7,100**	**3.0**	**(2.9)**	**24.3**
Net Market Borrowing	**4,507**	**4,621**	**4,227**	**4,731**	**2.5**	**(6.2)**	**11.9**

Tax to GDP ratio Trend



Source: Budget Documents. BE = Budgeted Estimate, RE = Revised Estimate

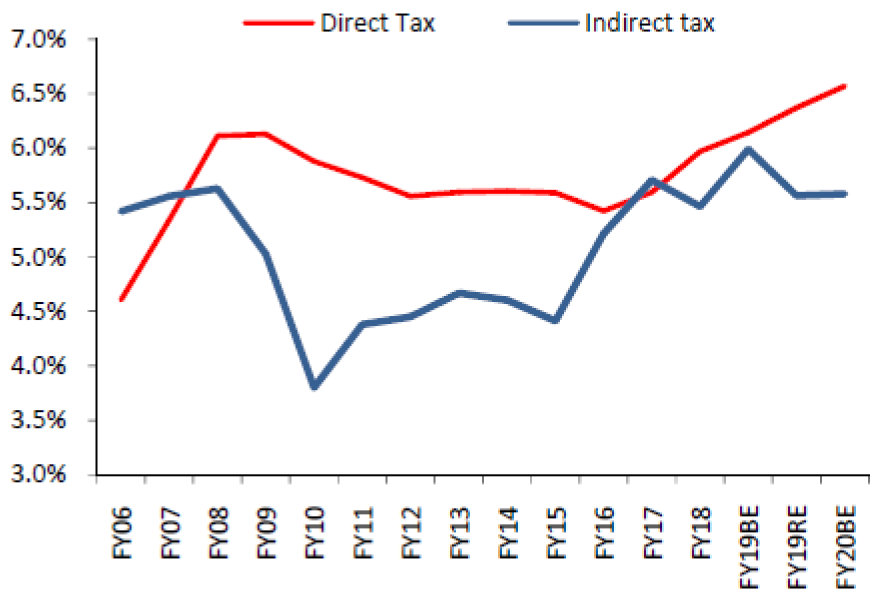
- Tax buoyancy continues, with Tax to GDP ratio expected to rise further.
- On the revenue side, budgeted tax revenue growth is healthy . Capital receipts growth is also expected to pick-up.
- On the expenses side, revenue expenditure growth is budgeted to rise, while capital expenditure growth is budgeted to slow down considerably in FY20.

Overall, tax revenue assumptions seem reasonable; direct taxes contribution increasing

Gross Tax Components	(INR in Bln)				YoY Growth (in %)		
	FY18	FY19BE	FY19RE	FY20BE	FY19BE	FY19RE	FY20BE
Gross Tax Revenue	**19,190**	**22,712**	**22,481**	**25,521**	**18.4**	**17.1**	**13.5**
Direct Tax	**10,020**	**11,500**	**12,000**	**13,800**	**14.8**	**19.8**	**15.0**
Personal Income Tax	4,308	5,290	5,290	6,200	22.8	22.8	17.2
Corporate Tax	5,712	6,210	6,710	7,600	8.7	17.5	13.3
Indirect tax	**9,170**	**11,212**	**10,481**	**11,721**	**22.3**	**14.3**	**11.8**
GST	4,426	7,439	6,439	7,612		45.5	18.2
Customs/Excise/Service Tax	4,744	3,773	4,043	4,109		(14.8)	1.6

Source: Budget Documents. BE = Budgeted Estimate, RE = Revised Estimate

Direct & Indirect Tax Trend (% of GDP)



Source: Phillip Capital

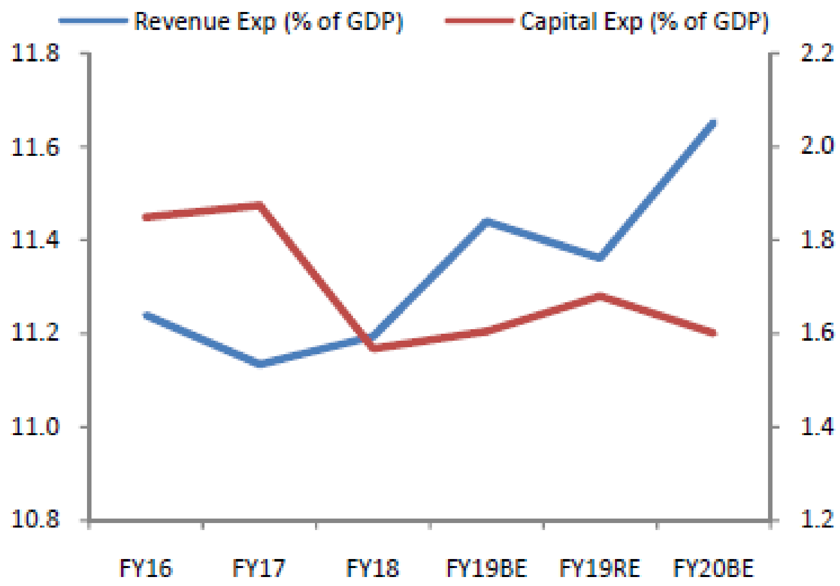
- Direct taxes (includes Personal income tax & Corporate tax) to see healthy growth in FY20. The contribution of direct taxes has been increasing over the past few years, as indicated by direct tax as % of GDP—which has been higher than that of indirect taxes
- On the indirect taxes front, GST collections revised estimate for FY19 fall short by Rs. 1 trillion. ~18% YoY growth budgeted for GST in FY20, which seems reasonable, but we will have to see how collections pan out if there are more GST rate cuts.

Capex growth to slowdown in FY20, but some key ministries still gee healthy allocation/growth

Plan Outlay Expenditure of some Key Ministries	(INR in Bln)				YoY Growth (in %)		
	FY18	FY19BE	FY19RE	FY20BE	FY19BE	FY19RE	FY20BE
Ministry of Railways	1,020	1,465	1,389	1,587	43.6	36.2	14.3
Ministry of Road & Highways	744	917	993	1,117	23.3	33.5	12.5
Ministry of Petroleum & Natural Gas	1,320	893	944	936	(32.3)	(28.5)	(0.8)
Ministry of Power	599	543	738	443	(9.3)	23.2	(40.0)
Ministry of Coal	159	158	175	201	(0.6)	10.1	14.9
Ministry of Urban Development	21	221	171	196	952.4	714.3	14.6
Department of Atomic Energy	85	77	126	114	(9.4)	48.2	(9.5)
Ministry of Steel	89	113	79	90	27.0	(11.2)	13.9

Source: Budget Documents, Kotak Institutional Equities. BE = Budgeted Estimate, RE = Revised Estimate

Revenue & Capital Exp. Trend (% of GDP)



Source: Phillip Capital

- Due to fiscal constraints, capital expenditure growth for FY20 is budgeted to slow down to ~6%YoY, from ~20%YoY growth in FY19 (RE).
- Also, capital expenditure as a % of GDP as been reducing over the past few years, while revenue expenditure as % of GDP has been going up.
- Most ministries have seen some growth moderation in plan outlay in FY20, when compared to FY19. However, certain major ministries, like Railways, Road & Highways, Coal etc. have still received healthy allocation in FY20.
- Defence capital spending is budgeted to increase 10%YoY in FY20 vs sluggish growth of 3-4%YoY in FY19.

The govt. is depending on healthy dividend from RBI & PSUs; divestment revenue will depend on market conditions

Non Tax Revenue & Capital Receipts Break-up							
	(INR in Bln)				YoY Growth (in %)		
	FY18	FY19BE	FY19RE	FY20BE	FY19BE	FY19RE	FY20BE
Disinvestment	1,000	800	800	900	(20.0)	(20.0)	12.5
Telecom	307	487	392	415	58.6	27.7	5.9
Dividends	914	1,073	1,193	1,361	17.4	30.5	14.1
Public Sector Enterprises	465	525	451	532	12.9	(3.0)	18.0
RBI	449	548	741	829	22.0	65.0	11.9

Source: Budget Documents. BE = Budgeted Estimate, RE = Revised Estimate

- Although the govt. till now has achieved only ~45% of the budgeted Rs. 800 bln divestment target in FY19, it said that it is confident of achieving the full year target. Divestment target for FY20 has been budgeted at Rs. 900 bln and achievement will depend on market conditions.
- Telecom revenue growth budgeted to slow down in FY20.
- The govt. is depending on healthy dividends from the RBI & PSUs
  - For RBI dividend, the revised estimate for FY19 is Rs. 741 bln (a 65% YoY growth). For FY20 Rs. 829 bln dividend has been budgeted (12% YoY growth).
  - For PSU dividend, the revised estimate for FY19 are lower vs earlier budgeted. However, healthy growth of 18%YoY has been budgeted for FY20.

Market Outlook

Provide consumption boost: With the budget being expansionary in nature, it is more consumption oriented.

Sectors to benefit: Consumption oriented sectors to benefit from the budget. Realty sector to also benefit from the various tax sops given.

Markets to move on to fundamental factors: The markets will soon digest the budget and move on to fundamental factors like corporate earnings etc.

US Fed has turned dovish recently: This is beneficial for emerging markets (incl. India).

Investors should continue to invest systematically in equities, to benefit from the long term India growth story and recovery in corporate earnings.

We expect **RBI to change policy stance** from "calibrated tightening" to "neutral" in upcoming Feb 2019 policy. There is possibility of also rate cut going forward, if inflation remains within trajectory.

Moderate upward pressure on bond yields: Due to higher than expected market borrowing & some fiscal slippage. There could also be some pressure on yields due to liquidity & credit crunch. **We continue to prefer short end of yield curve.**

THANK YOU

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