

# UNION BUDGET 2020-21



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# Union Budget 2020-21

India Research - Stock Broking

Amid a challenging environment and with adversities all around, the government has presented its annual budget for the fiscal FY20-21. Government has hit a mid path in attempting to provide much needed boost to the consumption and the economy and yet not compromising the fiscal prudence. While it is commendable that it has set a fiscal deficit target at 3.5%, it revised FY20's fiscal deficit target to 3.8%. In doing so, it has used the escape clause of FRBM Act to avail the relaxation of 50 bps the clause provides.

Government's focus on middle class by tinkering the tax rates for lower income tax breaks should increase the disposable income in the hands of middle class consumers. This should support consumption. This coupled with focus on Aspirational India, which focuses on Agriculture, rural development, wellness, education and skills should indirectly aid rural spending and revive rural economy in the long run. Government's focus on healthcare and skills & education should provide a boost for the standard of living in the rural economy in the long run. Schemes like providing internship for fresh engineers in government's projects for the first year of their completion is a more productive utilization of the engineering talent we produce each year.

Other positives include continuation of tax amnesty scheme, simplification of tax structure and address the issue of tax harassment by tax authorities. This will to some extent arrest tax slippages and bring more assesses into the tax bracket. To promote entrepreneurship and boost start up ecosystem government has allowed several tax sops for the start ups. Simplification of tax incidence to address cash flow problem in the hands of employees should encourage more to join the start ups. By bringing in more number of firms to enjoy tax benefits like deduction of 100% profits for 3 consecutive years out of first 7 years is a positive. To support and encourage loss making start ups, government has extended the eligibility for claim of deduction from existing 7 to 10 years is also a big positive.

Despite government's focus on rural economy and consumption, there are quite a few disappointments, where government's action was lacking. For instance, the budget completely missed out on reviving auto sector, improving liquidity situation for the NBFCs. Spending on infra is not as required. Also, we believe concrete measures were not announced to revive the economy and to support the banking sector. Overall, there are many misses and few hits.

## Summary of announcements for key sectors and stocks to focus

### Announcements

- ◆ Government will grant 100% exemptions for sovereign wealth funds in infrastructure and other notified sectors with minimum lock-in period of three years
- ◆ FPI limit in corporate bonds is increased from 9% to 15% of the outstanding stock of corporate bonds
- ◆ New Debt-ETF scheme is proposed consisting primarily of government securities
- ◆ Sovereign Wealth Funds investing in priority sectors will be granted 100% tax exemption to their interest, dividend and capital gains income in respect of investment made in infrastructure and other notified sectors before 31st March, 2024 and with a minimum lock-in period of 3 years
- ◆ Lower rate of withholding tax of 5% under section 194LD for interest payment to Foreign Portfolio Investors (FPIs) and Qualified Foreign Investors (QFIs) in respect of bonds issued by Indian companies and government securities has been extended till 30th June 2023
- ◆ Reduction of withholding rate from 5% to 4% on interest payment on the bonds listed on its exchange is proposed

### Impact

- ◆ Bond market ETF schemes will be channelled via financial services and will bring capital for mutual funds
- ◆ FPI and local institutional investments will see longer holding period in mutual fund schemes
- ◆ New portfolio schemes will come into existence from mutual funds to bring benefits from FPI on sovereign wealth funds
- ◆ Bond market mutual fund schemes might see higher participation due to increased FPI limits.

### Stocks to focus

- ◆ HDFC AMC and Reliance Nippon Mutual Fund will see higher participation coming for bond schemes from both domestic and foreign investors

### **Announcements**

- ◆ Amalgamated banks will be allowed to take the benefit of unabsorbed losses and depreciation of the target banks and so proposal is made for necessary amendments to the provisions of the Income-tax Act
- ◆ To strengthen the Co-operative Banks, amendments to the Banking Regulation Act are proposed for increasing professionalism, enabling access to capital and improving governance and oversight for sound banking through the RBI
- ◆ Proposal is made to sell the balance holding of Government of India in IDBI Bank to private, retail and institutional investors through the stock exchange
- ◆ Proposal is made to provide MSMEs with subordinate debt to be provided by banks to meet their working capital needs. This would count as quasi-equity and would be fully guaranteed through the Credit Guarantee Trust for Medium and Small Entrepreneurs (CGTMSE)
- ◆ Scheme of Rs. 1000 crore will be anchored by EXIM Bank together with SIDBI with contribution of 50 Cr. each is made from banks towards equity and technical assistance and rest will be used for debt financing

### **Impact**

- ◆ PSU banks will benefit from Income Tax Act amendment to absorb losses and depreciation of the amalgamating entities and it will inhibit the creation of new NPLs from financing activities from merged entities
- ◆ Stake sale in PSU co-operative bank will help them raise capital from exchanges
- ◆ Banks loan book improvement will happen on increasing subordinated loan with 100% hedge facility
- ◆ Export financing will improve the loan book from export oriented industry

### **Stocks to focus**

- ◆ ICICI Bank, HDFC Bank, Axis Bank, IndusInd Bank will benefit from increasing capacity to issue subordinated debts

### **Announcements**

- ◆ Lowering of tax rate should increase disposable income in the hands of middle class is expected to drive consumption
- ◆ India continues to be largely agrarian and increase in farm output through inclusion of 20 lakh farmers under the PM KUSUM will aid in lowering costs in the hands of farmers and uninterrupted power supply for farming. Govt. continues to be committed to doubling farm income by 2024
- ◆ Govt. plans to raise fishery output to Rs. 1 lakh Cr. by 2024-25 and double milk processing capacity by 2025
- ◆ Increase in customs duty for footwear and furniture will make domestic manufacturers more competitive
- ◆ Execution rates of Infrastructure projects to be accelerated and new projects have also been announced (100 new airports)

### **Impact**

- ◆ Budget's focus was largely on increasing demand and to that extent, higher focus on increasing disposable income should increase consumption. However, we need to wait and watch regarding the acceptance of the new tax regime and the execution rates of these projects to gauge the overall impact on consumption

### **Stocks to focus**

- ◆ Consumption stocks such as HUL, GCPL, Marico, Jyothy Laboratories Ltd
- ◆ Aquaculture segment – Avanti Feeds, Apex Frozen Foods and Waterbase Ltd
- ◆ Footwear - Relaxo Footwears Ltd, Bata India Ltd

### Announcements

- ◆ Proposal to increase empanelled hospitals under PM Jan ArogyaYojana (PMJAY) from the currently empanelled 20000 hospitals in Tier-2 and Tier-3 cities for poorer people
- ◆ It is proposed to set up Viability Gap funding window for setting up hospitals in the PPP mode. In the first phase, those Aspirational Districts will be covered, where presently there are no Ayushman empanelled hospitals. This would also provide large scale employment opportunities to youth. Proceeds from taxes on medical devices would be used to support this vital health infrastructure
- ◆ Proposal to expand Jan Aushadhi Kendra Scheme to all districts offering 2000 medicines and 300 surgicals by 2024
- ◆ The Finance Minister has provided for the health sector about Rs 69,000 crores that is inclusive of Rs 6400 crores for Prime Minister Jan Arogya Yojana (PMJAY)
- ◆ Proposal to strengthen efforts to end Tuberculosis by 2025

### Impact

- ◆ The push for increasing empanelled hospitals will help hospital chains in the private sector such as Apollo Hospitals, Shalby and others
- ◆ Expansion of Jan Aushadi Kendra scheme should help smaller cos in unlisted space and also aid growth of medical awareness which in turn should benefit larger companies in the lower price point category

### Stocks to focus

- ◆ Sun Pharma, Cipla, Dr Reddys, Alembic, Lupin , Torrent Pharma, Cadila Healthcare and Ipca would be among the beneficiaries. Zota Healthcare being in the low price point category would also benefit with increase in the no of stores in Tier 2 and Tier3 cities
- ◆ Lupin being a major producer of anti- TB formulations will benefit

## Announcements

### Removal of Dividend Distribution Tax

- ◆ As expected, government has abolished Dividend Distribution Tax (DDT). Henceforth, DDT will be levied in the hands of receivers and not companies

### Tax sops for Start ups

- ◆ Start ups are allowed to deduct 100% of their profits for three consecutive assessment years out of seven years, if the turnover is less than Rs. 25 Cr. Now the government has extended this benefit for companies with a turnover of Rs. 100 cr
- ◆ To enable loss making start ups to avail this benefit, the cap on the number of years to avail this benefit has been increased from 7 years to 10 years
- ◆ Further to address the issue of cash flow problem in the hands of employees receiving ESOPs, government has changed the tax incidence rules such that tax is payable at the earliest of actual sale of shares, relieving date from current employment or five years

### Other announcements

- ◆ Allotted Rs. 6000 Cr to Bharatnet programme to link 100000 gram panchayats to FTTH network through Bharatnet
- ◆ Provide an outlay of Rs. 8000 cr for next five years for the national mission on Quantum Technologies and Applications

### Impact

- ◆ Abolition of DDT in the hands of corporates should reduce the tax outgo in the hands of companies as it is over and above the taxes they pay on their profits. It would further improve the attractiveness of Indian businesses and lowers the cost of doing business in India. Further, depending on the tax treaty, foreign investors can avail tax credit on the dividend tax they are paying in their home country.
- ◆ Tax sops for startups is a big boost for the start ups and should aid the start up eco system and encourage many employees to join the start ups partially addressing the talent shortage

### Stocks to focus

- ◆ Infosys, TCS, HCL Technologies, Mphasis and Persistent Systems

### **Announcements**

- ◆ Social security through pension and insurance penetration will be aimed and guidelines will be announced soon
- ◆ PM Jan Arogya Yojana expansion has been proposed to reach tier-2 and tier-3 cities via PPP mode to set up new hospitals
- ◆ NIRVIK scheme is being launched which provides higher insurance coverage, reduction in premium for small exporters and simplification procedure for claim settlements on export credits
- ◆ Jal Vikas Marg on National Waterway-1 will be completed and further proposal is made to build 890 Km of Dhubri-Sadiya connectivity which will complete by 2022
- ◆ Deposit Insurance and Credit Guarantee Corporation (DICGC) has been permitted to increase Deposit Insurance Coverage for a depositor from Rs. 1 lakh to Rs. 5 lakhs per depositor
- ◆ Pension Fund Regulatory Development Authority of India Act that also facilitate separation of NPS trust for government employees from PFRDAI would enable establishment of a Pension Trust by the employees other than Government to bring India under universal pension coverage with auto enrollment mechanism
- ◆ Disinvestment is proposed in LIC by way of Initial Public Offer (IPO)

### **Impact**

- ◆ Pension and annuity policy schemes will get benefitted as higher contribution will come from retail investors in superannuation, pension and protection annuity schemes
- ◆ PM Jan Arogya Yojana will add specified disease set to include in health insurance policies which is expected to increase the premium for such schemes with proposed reach and increased penetration will add volume to these scheme sales via life insurer and health insurer alike
- ◆ Proposed new tax structure to remove health insurance scheme from section 80CCD if adopted will impact the sales of health insurance schemes
- ◆ Proposal of NIRVIK scheme will add volume to micro insurance scheme sales on export business line for micro and multi-line insurer
- ◆ Proposal to add water ways for export push will benefit to volume sales in marine-hull and marine-cargo insurance schemes in coming years for multi-line insurers
- ◆ Credit insurance business line will benefit from higher sum assured with increased premium ticket size for life and multi-line insurer
- ◆ Disinvestment in LIC will add higher capital inflow from both institutional and retail investors which will add directly to LIC equity and government alike to fill the deficit shortage and will increase the capital outflow from private insurers and market will see correction

### **Stocks to focus**

- ◆ HDFC Life, ICICI Pru Life, SBI Life, Bajaj Finserv Ltd. will benefit from innovative annuity products and will benefit from increasing pension fund business

### **Announcements**

- ◆ NABARD re-finance scheme will be further expanded by bringing beneficiaries of PM-KISAN to come under Kisan Credit Card (KCC) facility with agriculture credit target for the year 2020-21 has been set at Rs. 15 lakhs crore
- ◆ NBFCs which were eligible for debt recovery under the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act 2002 is proposed to be reduced from 500 crore to asset size of 100 crore or loan size from existing 1 crore to 50 lakh
- ◆ Amendments to the Factor Regulation Act 2011 has been made to enable NBFCs to extend invoice financing to the MSMEs through TReDS
- ◆ Partial Credit Guarantee scheme for the NBFCs has been expanded with support of providing liquidity by govt. by guaranteeing securities so floated
- ◆ 'Housing for All' and affordable housing was announced an additional deduction of up to one lakh fifty thousand rupees for interest paid on loans taken for purchase of an affordable house is proposed to extend to 1 more year

### **Impact**

- ◆ Rural credit loan schemes and MSME schemes will benefit from the proposed budget for NBFC
- ◆ Haircut on loan recovery for NBFCs will get negatively impacted

### **Stocks to focus**

- ◆ Bajaj Finance, M&M Finance will benefit with increased loan books

### **Announcements**

- ◆ 1 year extension in availing interest subsidy on loan for affordable house
- ◆ In order to boost the supply of affordable houses in the country, a tax holiday is provided on the profits earned by developers of affordable housing project approved by 31st March, 2020. The same has now been extended by one more year
- ◆ Accelerated development of highways will be undertaken. This will include development of 2500 Km access control highways, 9000 Km of economic corridors, 2000 Km of coastal and land port roads and 2000 Km of strategic highways
- ◆ Proposal to monetise at least twelve lots of highway bundles of over 6000 Km before 2024.
- ◆ Govt. aims to achieve electrification of 27000 Km of tracks
- ◆ More Tejas type trains will connect iconic tourist destinations
- ◆ 148 km long Bengaluru Suburban transport project at a cost of Rs. 18600 crore, would have fares on metro model. Central Government would provide 20% of equity and facilitate external assistance up to 60% of the project cost

### **Impact**

- ◆ More projects will be launched under affordable housing
- ◆ Road transport system to become efficient with development of new highways
- ◆ Monetization of highways will help in deleveraging of NHAI's balance sheet

### **Stocks to focus**

- ◆ Sunteck Realty, Sobha, L&T, HG Infra, J Kumar Infra, KNR Constructions and GMR Infra

**Exhibit: Budget at a Glance (Rs. Cr.)**

	2018-2019	2019-2020	2020-2021
	Actual	RE	BE
<b>1 Revenue Receipts</b>	<b>1552916</b>	<b>1850100</b>	<b>2020926</b>
2. Tax Revenue (Net to Centre)	1317211	1504587	1635909
3. Non Tax Revenue	235705	345513	385017
<b>4 Capital Receipts <sup>1</sup></b>	<b>762197</b>	<b>848450</b>	<b>1021304</b>
5. Recovery of Loans	18052	16604	14967
6. Other Receipts	94727	65000	210000
7. Borrowings and Other Liabilities <sup>2</sup>	649418	766846	796337
<b>8 Total Receipts (1+4)</b>	<b>2315113</b>	<b>2698551</b>	<b>3042230</b>
<b>9 Total Expenditure (10+13)</b>	<b>2315113</b>	<b>2698552</b>	<b>3042230</b>
<b>10. On Revenue Account of which</b>	<b>2007399</b>	<b>2349645</b>	<b>2630145</b>
<b>11. Interest Payments</b>	<b>582648</b>	<b>625105</b>	<b>708203</b>
<b>12. Grants in Aid for creation of capital assests</b>	<b>191781</b>	<b>191737</b>	<b>206500</b>
<b>13. On Capital Account</b>	<b>307714</b>	<b>348907</b>	<b>412085</b>
<b>14 Revenue Deficit (10-1)</b>	<b>454483</b>	<b>499545</b>	<b>609219</b>
	(2.4)	(2.4)	(2.7)
<b>15 Effective Revenue Deficit</b>	<b>262702</b>	<b>307808</b>	<b>402719</b>
(14-12)	(1.4)	(1.5)	(1.8)
<b>16 Fiscal Deficit</b>	<b>649418</b>	<b>766848</b>	<b>796337</b>
<b>[9-(1+5+6)]</b>	<b>(3.4)</b>	<b>(3.8)</b>	<b>(3.5)</b>
<b>17 Primary Deficit (16-11)</b>	<b>66770</b>	<b>141743</b>	<b>88134</b>
	(0.4)	(0.7)	(0.4)

Source: Budget Documents, Karvy Research; RE: Revised Estimates, BE: Budget Estimates

<sup>1</sup> Excluding receipts under Market Stabilisation Scheme

<sup>2</sup> Includes drawdown of cash Balance

Notes:

(i) GDP for BE 2020-2021 has been projected at Rs. 22489420 crore assuming 10.0 % growth over the estimated GDP of Rs. 20442233 crore for 2019-2020(RE).

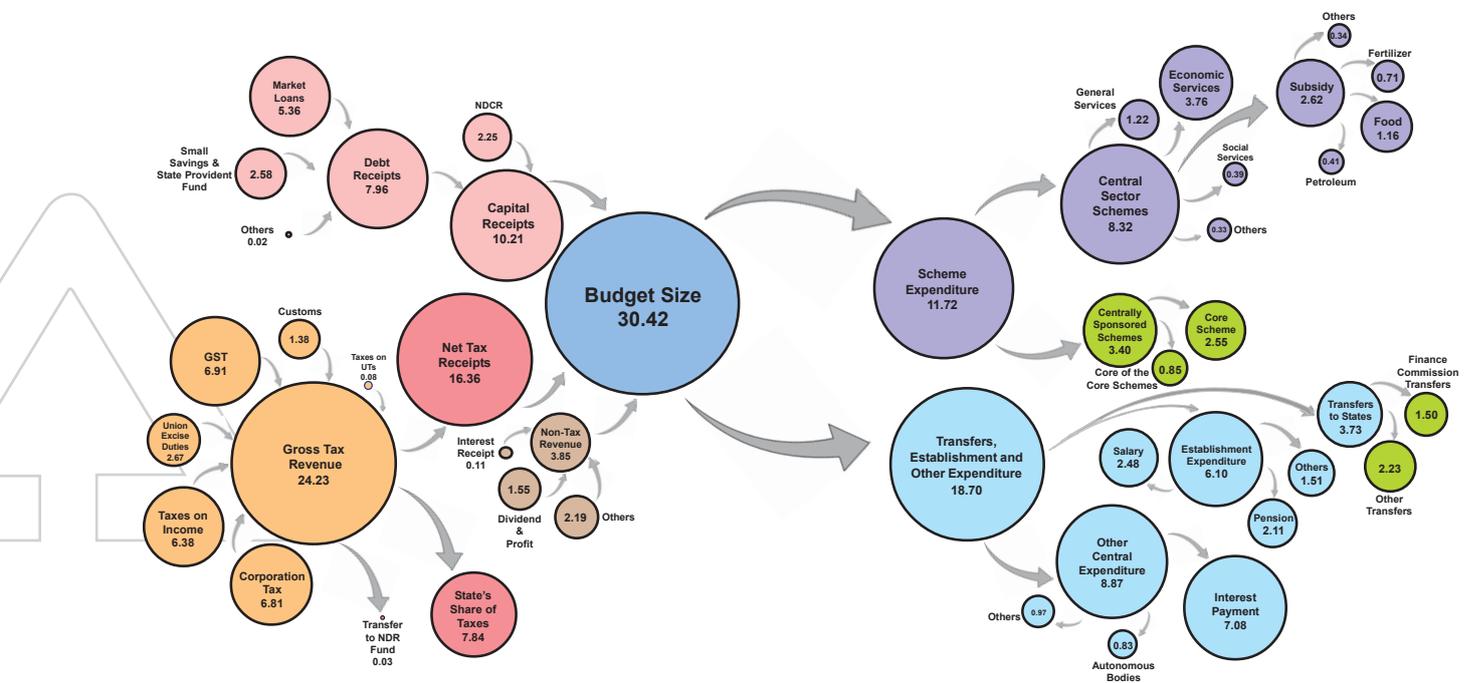
(ii) Individual items in this document may not sum up to the totals due to rounding off

(iii) Figures in parenthesis are as a percentage of GDP

# Budget Profile

(Money Comes From Money Goes To)

(In Rs. lakh crore)



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