PGIM
India Mutual Fund

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Union Budget FY 2020-21
Decoded

View from the Equity Desk

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The Union Budget has focused on three themes – Aspirational India, Economic development and Caring society. Economic Survey has done good job of identifying what is best for Indian Economy and suggested policies that can foster wealth creation in India. The Survey presents empirical evidence on benefits of following market economy, both in economic thinking and policy making.

While the stock market has reacted harshly to the Union Budget, we believe, there is nothing particularly negative for either economy or markets in this budget. Expectations were elevated especially on stimulus to revive/kickstart the economy. But markets were clearly disappointed as it was against expectations. Everyone including the government, acknowledges that economy is going through tough times and there were enough indicators from various quarters in government on eagerness to take steps, including bold ones to revive the economy. In this context, there were expectations of a) revival spending on consumption b) accelerated spending on infrastructure. The Street was also expecting relief on long-term capital gains and or lower income tax rates leading to increased disposable income and higher spending. While the government has simplified income taxes and reduced tax rates for tax payers who will not avail any exemptions, it has fallen short of expectations.

Over a period, we have to look at budget as a routine exercise aimed at tweaking few things to balance annual revenues and expenditure of the Government of India for the year and less importance needs to be given to the Budget. One should remember that if something needs to be done for the economy, it can happen outside Budget also as we have seen in September 2019, when historical corporate tax rate cut was announced.

Some of the key positives from the Budget are

a) benefits for domestic manufacturing
b) tax exemptions given to sovereign funds to invest in India
c) extending concessional corporate tax of 15% to power sector
d) removal Dividend Distribution tax
e) Plans to list LIC of India.

The key disappointment though was slippage of fiscal deficit – while the slippage was in-line with expectations, the absence of any concrete measures to accelerate spends on core sectors like infrastructure is a concern.

Overall, we continue to believe in gradual recovery of the economy. Lower interest rates are essential for the revival of economic growth. Government. intention and focus is in the right direction. Corporate India (NIFTY) is showing decent earnings growth driven by a) lower tax rates and b) lower base. This trend should continue in the coming quarters.

Key Numbers

- Fiscal Deficit pegged at 3.8% for FY20 and 3.5% for FY21. Some risks remain, as FY20RE still assumes a sharp pick-up in taxes in the last three months
- Nominal GDP growth estimate of 10% for FY21
- States appear to be bearing a large part (50%) of the tax slippages.
- Disinvestment targets of Rs 2.1 tn look aggressive. Also, increase in divestment target imply higher supply of PSU paper.
- LIC IPO a big policy statement in addition to the fiscal support it provides, but getting it done in 12 months itself is not going to be easy.
- Rs1.33 tn revenues from telecom in FY21 assumes spectrum sales and/or AGR receipts.

Impact of Budget proposals on Sectors

Sr. No	Key Proposals	Impact
	Consumption Sector	
1.	New tax slabs for income below Rs1.5mn can help in increasing disposable income and increase spending	Positive
2.	Contrary to expectations, no major steps for rural and agri sectors, cut in NREGA allocation	Negative
3.	National Calamity Contingent Duty on cigarettes raised. Effective tax/stick increase range is 5.4-13.8% for different stick lengths	Negative
4.	Increase in custom duty for some consumer items such as footwear from 20% to 35%	Positive
5.	Increase in custom duty for palm oil	Negative
6.	Hike in custom duties for durables/electronics to promote make/assemble in India	Positive
	Infrastructure/Construction/ Capital Goods/Power	
1.	Absence of relief package to Real estate; no exemption under new tax regime	Negative
2.	Increase in defence capex budget by ~10%	Positive
3.	New Power generation companies to attract concessional tax rate of 15% (plus surcharge and cess)	Positive
4.	Marginal increase in budgetary allocation for infrastructure subsectors such as roads, metro, RE	Positive
5.	100% tax exemption for investment in infrastructure made by sovereign wealth funds for income from interest, dividend and capital gain tax, if such investments are made before March 31, 2024 and with a minimum lock-in of three years	Positive
6.	Closure of thermal plants with high emission levels and consequent use of the vacant land for alternate purposes	Positive
7.	Replacement of conventional meters with smart meters	Positive
8.	Marginal hike in railway expenditure	Neutral
9.	FY2021BE capital outlay towards major construction-related sectors is lower versus FY2020RE amount. Allocation towards ministries of housing, roads and railways for FY2021E is down 7% yoy against +25% yoy in FY2020RE	Negative
10.	Extension of benefits on loans taken for purchase of affordable housing by 1 year.	Positive

Sr. No	Key Proposals	Impact
11.	Increase in allocation on PMAY for FY21 by 9% to Rs 275bn.	Positive
12.	Infrastructure pipeline over next five years at Rs1.03tn across 6,500 projects across various verticals.	Positive
13.	Extension of tax holiday is provided on profits earned by developers of affordable housing projects by one year.	Positive
	Agro Chemicals and Fertilizers	
1.	The government has budgeted (1) Rs1.3 tn for agriculture and farmers' welfare (32% growth in FY2021BE)	Positive
2.	In order to bring in new technologies for agriculture in storage, distribution, processing, and marketing, the budget laid out 16 actions points.	Positive
3.	Fertiliser subsidy allocation reduced by 11% yoy to Rs 713bn. Budget being silent on partial/full decontrol of urea prices (risk of increase in subsidy backlog). Government also announced that it plans to discourage excessive use of chemical fertilisers.	Negative
	Healthcare Sector	
1.	Ayushman Bharat budget remains unchanged at Rs64 bn	Neutral
2.	Expansion of Jan Aushadhi Kendra to all districts by 2024 and 1.5 lakh health and wellness centres by 2022	Negative
3.	Introduced a "health cess" of 5% on the import of medical devices covering – medical, surgical, dental, veterinary equipment, therapy appliances, radio-therapy equipment, breathing appliances, and orthopaedic appliances, etc. The cess proceeds shall be used for funding health infrastructure in India, which will facilitate universal healthcare schemes under Ayushman Bharat.	Neutral
4.	Viability gap funding to be introduced for PPP models of hospitals in Tier-2 and Tier-3 cities.	Neutral
	Banking	
1.	RBI to extend MSME restructuring window by another year to March 31, 2021. Will lead to lower provision requirements and maintain asset quality.	Positive
2.	Under the new personal income tax regime, individuals have no compulsion or incentive to invest in financial saving products such as ELSS schemes to save tax or ULIP schemes to avail 80C benefits. Will impact fee income and third-party distribution of products.	Negative
3.	The absence of any material recapitalisation plan for PSU banks was disappointing.	Negative
4.	Agriculture credit target for the year FY21E has been set at Rs 15 trillion (up from Rs 12 trillion target last year). Will help in credit growth.	Positive
5.	Rise in insurance coverage for deposits from Rs 0.1 mn to Rs 0.5 mn. This would mean marginal rise in insurance costs but could be compensated by improved confidence of the depositors.	Negative
6.	Proposal to sell the balance Government holding in IDBI Bank to private, retail and institutional investors.	Positive
	Insurance and Diversified Financial Services	
1.	Removal of 80C benefits under the new alternative personal income system	Negative for Insurance, AMCs, HFCs
2.	Dividend taxed in the hands of investors	Negative for Life Insurance Cos

Sr. No	Key Proposals	Impact
3.	No new measures to support liquidity of NBFCs	Negative
4.	Extension by one more year for the additional deduction of interest payments on Affordable housing and tax holiday on the affordable housing projects.	Positive for HFCs
	Information Technology Sector	
1.	Removal of Dividend Distribution tax in the hands of corporates and the dividends shall be taxed in the hands of recipients only. This will improve payout yields for companies.	Positive
	Oil, gas & consumable fuels	
1.	FY20 revised fuel subsidy provision raised marginally to Rs 386bn (from Rs 375bn); FY21 fuel subsidy provision at Rs409bn	Positive
2.	No hike in excise duty on diesel and petrol	Neutral
3.	Expansion of gas grid to 27,000 km from 16,200 km currently	Neutral
4.	Transparent price discovery and ease of transaction to be pursued in gas sector	Positive
5.	Anti-dumping duty on PTA abolished	Negative
	Telecommunications	
1.	Receipts from communication services for FY2021BE pegged at Rs 1.33tn; FY2020RE pegged at Rs 590bn, raised from FY2020BE of Rs 505 bn. For FY2021E, given the moratorium already offered on deferred spectrum payouts, there would be no inflows on that front. LF + SUC could go up to Rs 250 bn. The balance Rs 1.08tn could be a combination of (1) assumed AGR case-related payments and (2) assumed spectrum auction proceeds. It remains to be seen if the telecom operators will commit to such high payments	Negative

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