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INTERIM UNION BUDGET
2019 - 2020

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UNION BUDGET

Though the Union Budget is essentially a Statement of Account of public finances, it has historically become a significant opportunity to indicate the direction and the pace of India's economic policy. The 2019-20 Interim Union Budget was presented amidst a backdrop of the present government completing their 5 years term at the centre. A lot has transpired since the current government took charge: - the introduction of GST, Direct Benefit Transfer (DBT), Demonitisation of high value currency, Insolvency and Bankruptcy code (IBC) and improvement in ease of doing business to name a few. Overall, the Indian society, polity and economy have shown remarkable resilience in adjusting with the structural reforms. This year's budget assumes importance for the current political regime due to the upcoming general elections. With this background, we present the key highlights of Interim Union Budget 2019-20.

ECONOMY

- Total expenditure in BE* 2019-20 is slotted to increase by 14.7% over RE* 2018-19 (i.e. 13.3% of estimated GDP).
- Gross tax revenues are expected to grow by 13.5% in FY20, maintaining a double digit growth rate for the fifth year in a row.
- Nominal GDP* is estimated to grow at 11.5% in 2019-20. Real GDP growth is expected to be 7.5% (assuming a 4% target inflation rate as per BE).
- Direct taxes in 2019-20BE are projected to grow at 15.0% over 2018-19 RE; Indirect taxes are expected to grow at 11.8% over 2018-19RE.
- Fiscal deficit projections revised slightly; 2019-20BE target at 3.4%, projections for both 2020-21 and 2021-22 at 3.0%.
- Disinvestment receipts anticipated to be Rs.90,000 crore in 2019-20BE.
- Gross market borrowings are slated at Rs.7,10,000 crore, while net market borrowings are slated at 4,73,122 crore.

BE=Budget Estimates, RE=Revised Estimates; GDP=Gross Domestic Product

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AGRICULTURE AND RURAL ECONOMY

- Total Agricultural & Rural Development spends hiked by 30% to Rs 2.89tn for FY20BE.
- Providing assured income support to 12 crore small and marginal farmers through ***‘PM-KISAN’*** (Pradhan Mantri Kisan Samman Nidhi) programme. Under this programme, vulnerable landholding farmer families, having cultivable land upto 2 hectares, will be provided direct income support at the rate of Rs.6,000 per year via direct transfers in three equal installments. This programme will entail an annual expenditure of Rs.75,000 crore.
- Rs.60,000 crore is being allocated for MGNREGA for 2019-20BE.
- Under the Pradhan Mantri Gram Sadak Yojana, construction of rural roads has been tripled and will reach 15.80 lakh habitations out of a total of 17.84 lakh habitations; the budget allocated Rs.19,000 crore for 2019-20BE as against Rs.15,500 crore in 2018-19RE.
- To support Animal Husbandry and Fisheries sector, allocation to Rashtriya Gokul Mission has been increased to Rs.750 crore. Also proposed is the facility of extention of Kisan Credit Card by providing 2% interest subvention and an additional 3% interest subvention in case of timely repayment of loan.

INFRASTRUCTURE OUTLAY

- Total road sector outlay for FY20 is Rs. 1.47 lakh Cr, up 13%.
- Total defense budget outlay is Rs 3.1 lac crore growth of 7% yoy .
- Capital support expenditure for railway is Rs.64,587 crore for FY2019-20BE. Overall capital expenditure programme is of Rs.1,58,658 crore.
- Introducing container cargo movement in North East via inland waterways (Brahmaputra river) after their success from Kolkata to Varanasi.
- Allocation for development of North Eastern areas proposed to be increased by 21% to Rs.58,166 crore for FY2019-20BE

AFFORDABLE HOUSING PUSH

- Benefits under Section 80-IBA of the Income Tax Act is being extended for another year, i.e. to the housing projects approved till 31st March, 2020.
- Decisive push to the second home market via exemption of notional rent on second self-occupied homes.
- The period for taxing unsold inventory has been extended up to two years.
- Rollover of capital gains to be increased from investment in one residential house to two houses for capital gains up to INR 2 crore (u/s 54).

OTHER INITIATIVES

- Approval of a technology intensive project which envisages that all income tax returns should be processed in 24 hours; moreover, verification and assessment of returns shall be fully automated in next 2 years
- Launch a pension yojana namely 'Pradhan Mantri Shram-Yogi Maandhan' for the unorganised sector workers with monthly income upto Rs.15,000; allocated Rs.500 crore for the Scheme.
- The New Pension Scheme (NPS) has been liberalized. Keeping the contribution of the employee at 10%, the budget proposes to increase the Government contribution by 4%, to14%. Maximum ceiling of the bonus given to the labourers has been increased from Rs.3,500 pm to Rs.7,000 pm and the maximum ceiling of the pay has been increased from Rs.10,000 pm to Rs.21,000 pm. The ceiling of payment of gratuity has been enhanced from Rs.10 lakhs to Rs.20 lakhs.
- Single window clearance for ease of shooting films, available only to foreigners, will now also be made available to Indian filmmakers

VISION 2030

With an aim to make India a modern, technology-driven, high-growth, equitable and transparent society as it becomes a US$5tn economy in 5 years and US$10tn in the next 8 years, the government proposes to focus on 10 key areas:

1. Build physical & social infrastructure for ease of living through better roads, railways, airports, education,
2. Create a Digital India through digitisation of government processes & private transactions,
3. Make India a pollution-free nation through focus on EV,
4. Rural industrialisation through Make in India,
5. Clean rivers, safe drinking water, efficient use of water in irrigation,
6. Utilising India's coastline through Sagarmala programme and developing other inland waterways faster,
7. India becoming a launch-pad of satellites for the world and placing an Indian astronaut in space by 2022,
8. Making India self-sufficient in food and produce food the organic way,
9. Create an environment of health assurance/infra with a focus towards a distress-free health care, and
10. Having a proactive and responsible bureaucracy transforming India into a Minimum Government Maximum Governance nation.

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DIRECT TAX

- No change in Income Tax Slab rates for Individuals and corporates
- Relief through full tax rebate under section 87A to the individual taxpayer who is having total income up to INR 5,00,000
- Standard deduction has been increased to Rs.50,000 from Rs.40,000.
- TDS threshold on interest earned on bank/post office deposits is being raised from Rs.10,000 to Rs.40,000.
- TDS threshold for deduction of tax on rent is proposed to be increased from Rs.1,80,000 to Rs.2,40,000
- Benefit of rollover of capital gains under section 54 of the Income Tax Act will be increased from investment in one residential house to two residential houses for a tax payer having capital gains up to Rs.2 crore and can be availed once in a life time.

INDIRECT TAX

- GST aims to benefit small traders, manufacturers and service providers; thus exemptions for small businesses has been doubled from Rs.20 lakh to Rs.40 lakh.
- Further, small businesses having turnover of up to Rs.1.5 crore have been given a composition scheme wherein they pay only 1% flat rate and have to file one annual return only.
- Similarly, small service providers with turnover upto Rs.50 lakhs can now opt for composition scheme and pay GST at 6% instead of 18%.
- Businesses comprising over 90% of GST payers will be allowed to file quarterly return.
- GST registered SME units will get 2% interest rebate on incremental loan of Rs. 1 Crore. The requirement of sourcing from SMEs by Government enterprises has been increased to 25%. Of this, the material to the extent of at least 3% will be sourced from women owned SMEs.

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EQUITY MARKET

- The Union Budget reinforces Government's intention to improve the rural economy by boosting credit and investment in the farming sector.
- The Budget was focused with allocation given to priority segments that are needed to lay the foundation for India's long term sustainable growth, with only a marginal slippage on the fiscal deficit.
- Equity markets remained volatile on the Budget day. At market closing, the S&P BSE Sensex closed at 36,469 levels, a gain of 0.59%.

- Among the BSE sector indices, Auto, Consumer Discretionary and Real Estate indices gained 2.65%, 1.77% and 1.33% respectively. Metal and Bank sectors lost by -3.8% and -1.04% respectively.
- Among Sensex stocks, Hero Moto (+7.48%), Maruti (+4.96%) and HCL Tech (+3.86%) were the top gainers while Vedanta (-17.82%), Yes Bank (-4.45%) and SBI (-3.09%) were among the major losers.

DEBT MARKET

- The budget laid emphasis on farmers, laborers and retired workers of unorganized sector and the middle-class.
- Bond yields reacted negatively as gross market borrowings of Rs.7.10 lakh crore was higher than consensus estimates of Rs.6.50 lakh crore. In addition, FY20 estimate for tax revenue and total expenditure growth at 13.5% and 14.7% respectively, remained less than impressive.
- The 10 year benchmark yield (7.26% 2029 paper) closed the day at 7.38%, up 10 basis points from its previous close while the 7.17% 2028 paper closed at 7.61%, up 13 basis points.
- Concerns regarding fiscal slippages which were much talked about, have materialised. In supporting growth, the government set itself on an expansionary path, causing the fiscal deficit to slip.
- The disinvestment target for 2018-19 was Rs.80,000 crore and target for 2019-20 is Rs.90,000 crore.

FY19 and FY20 fiscal deficit at 3.4% of GDP – assumption of improved GST collections critical to meeting targets

- **FY20BE gross tax revenues at Rs 25.52 tn, up 13.5% YoY over FY19RE**
  - ✓ Income tax budgeted to grow at 17.2% in FY20BE, over 22.8% YoY growth in FY19RE(despite Apr-Nov growth at 16.4%)
  - ✓ Corporation tax growth pegged at 13.3% in FY20, FY19 growth revised upwards from 8.7% in BE to 13.3% in RE based on current trends
  - ✓ FY20 excise collections flat at Rs 2.60 tn, could be higher on increasing demand/consumption of petroleum products
  - ✓ Central GST collections budgeted at Rs 6.10 tn, expected to grow by strong 21.1% YoY in FY20, despite FY19RE collections being cut by Rs 1 tn to Rs 5.04 tn, due to higher exemptions and lower tax rates
  - ✓ Custom duties to grow by 11.8% in FY20BE. FY19 estimates revised upwards on increased duty on products to contain current account deficit
- **Non-tax revenue budgeted at Rs 2.73 tn, up 11.2% YoY,** on increased dividends from PSU, PSBs, RBI and other financial institutions
- **Disinvestments in FY20 target at Rs 900 bn,** FY19 target kept unchanged at Rs 800 bn despite only Rs 350 bn of disinvestment done till date
- **Revenue expenditure at Rs 24.48 tn in FY20, up 14.4% YoY**
  - ✓ Interest payments to rise by 13.2% YoY to Rs 6.65 tn
  - ✓ Subsidies to rise by 11.7% YoY to Rs 3.34 tn with food subsidy higher at Rs 1.84 tn (partly on account of repayment of Rs 250 bn to NSSF). Petroleum subsidy budgeted to rise by 50.9% to Rs 370 bn on higher LPG subsidy
  - ✓ Income support scheme receives highest allocation at Rs 750 bn, MGNREGA receives Rs 600 bn. Focus on supporting farm and rural sectors
- **Budgeted capital expenditure to rise by 6.2% YoY to Rs 3.36 tn in FY20**
  - ✓ Overall capital expenditure lower on account of lower budgeted capex by PSEs

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Risks to achieving the 3.4% fiscal deficit target exposed to risks of revenues not catching up with estimates

Quality of expenditure not as strong: Revenue expenditure growth kept at 14.4% YoY while Capital expenditure cut down to 6.2% YoY in FY20

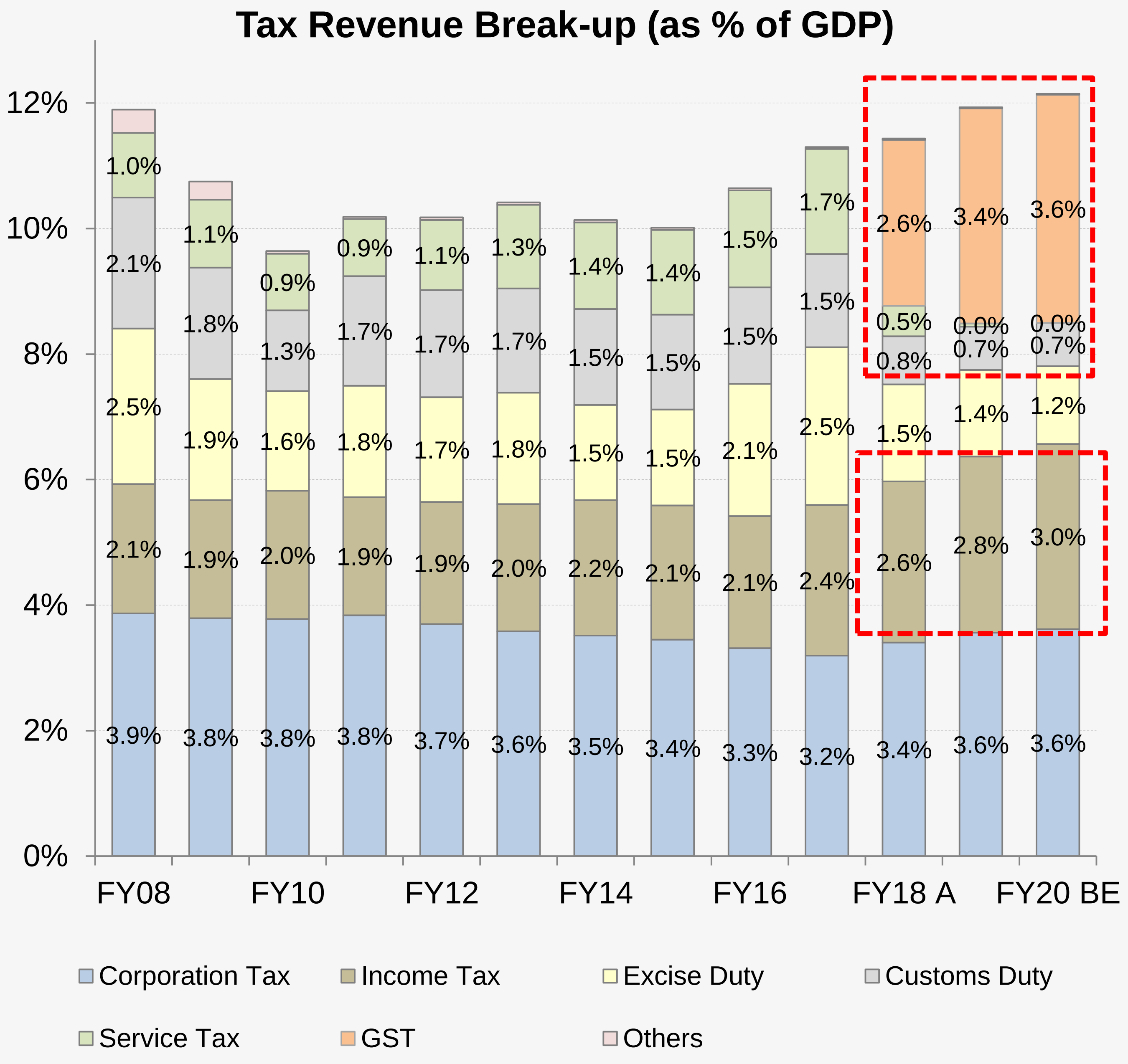
Rs. Tn	FY18 (A)	FY19 (BE)	FY19 (RE)	FY20 (BE)		FY18 (A)	FY19 (BE)	FY19 (RE)	FY20 (BE)
GDP	167.8	187.2	188.4	210.1		10.5%	11.5%	12.2%	11.5%
Tax Receipts (Net)	12.42	14.81	14.84	17.05		12.8%	19.2%	19.5%	14.9%
Non Tax Revenue	1.93	2.45	2.45	2.73		-29.4%	27.2%	27.3%	11.2%
Divestments & Others	1.16	0.92	0.93	1.03		77.0%	-20.3%	-19.5%	10.0%
Total Receipts	**15.51**	**18.18**	**18.23**	**20.80**		**7.7%**	**17.2%**	**17.5%**	**14.1%**
Revenue Expenditure	18.79	21.42	21.41	24.48		11.1%	14.0%	13.9%	14.4%
Capital Expenditure	2.63	3.00	3.17	3.36		-7.5%	14.2%	20.3%	6.2%
Total Expenditure	**21.42**	**24.42**	**24.57**	**27.84**		**8.4%**	**14.0%**	**14.7%**	**13.3%**
Fiscal Deficit	**5.91**	**6.24**	**6.34**	**7.04**		**3.5%**	**3.3%**	**3.4%**	**3.4%**

Nominal GDP growth assumed to be 11.5% for FY20

Source: Axis Bank Economic Research, Axis Bank Investment Research

Revenue projections exposed to risk of weaker GST collections, given higher limits and lower rates

Expectations of improved compliance leading to higher income tax collections another source of risk

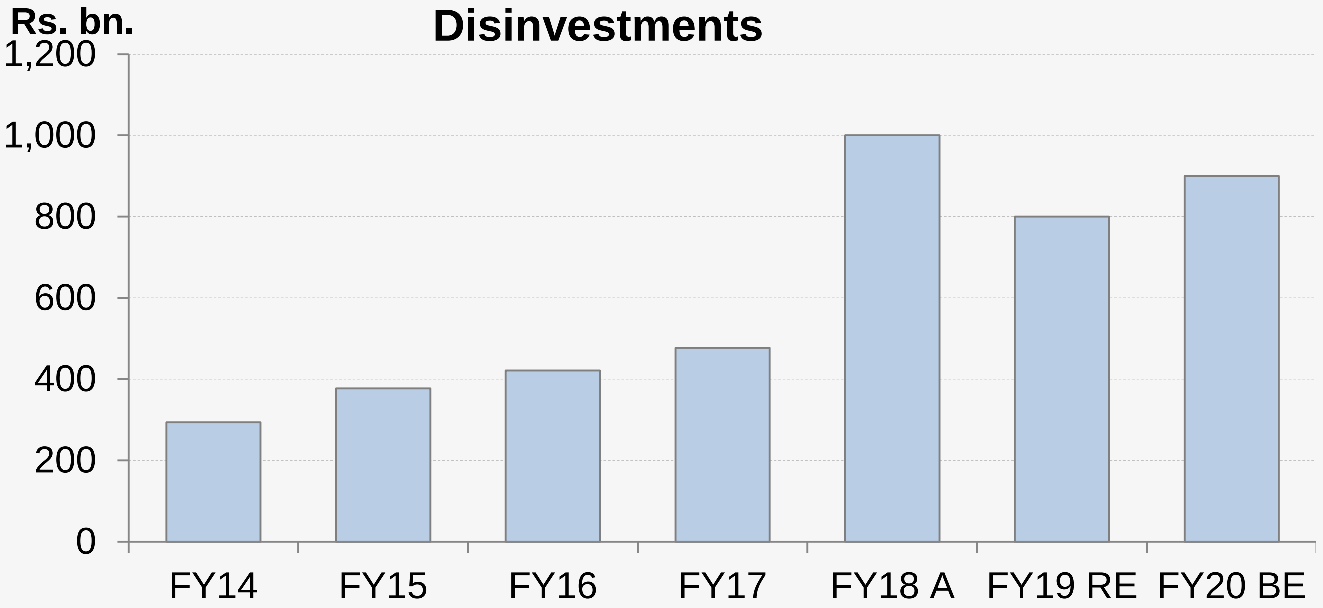


Note: FY19RE

Source: Axis Bank Economic Research

Centre sticks to disinvestment target in FY19, increases it by Rs 100 bn in FY20 to Rs 900 bn.

FYTD19 Centre has done disinvestment of Rs 350 bn, additional 150 bn is expected to come from REC, PFC deal, with around 100 bn from PSU share buyback may leave collections short



Source: Axis Bank Economic Research

Food subsidy rises in FY20 to Rs 1.84 tn, on scheduled repayment of Rs 270 bn to NSSF; Fertilizer and petroleum subsidy also to rise

FCI has taken a net loan of Rs 700 bn in FY17 and Rs 51 bn in FY18 from NSSF and is expected to repay Rs 270 bn each in FY19 and FY20

Rs. Tn	FY18 (A)	FY19 (BE)	FY19 (RE)	FY20 (BE)		FY18 (A)	FY19 (BE)	FY19 (RE)	FY20 (BE)
Expenditure	**21.42**	**24.42**	**24.57**	**27.84**		**8.4%**	**14.0%**	**14.7%**	**13.3%**
Subsidies	2.24	2.93	2.99	3.34		-4.4%	30.5%	33.3%	11.7%
o/w Food	1.00	1.69	1.71	1.84		-9.0%	68.8%	70.8%	7.5%
Fertilizers	0.66	0.70	0.70	0.75		0.2%	5.5%	5.5%	7.0%
Petroleum	0.24	0.25	0.25	0.37		-11.2%	1.9%	1.9%	50.9%
Interest	5.29	5.76	5.88	6.65		10.0%	8.9%	11.1%	13.2%
Revenue Expenditure	**18.79**	**21.42**	**21.41**	**24.48**		**11.1%**	**14.0%**	**13.9%**	**14.4%**
Capital Expenditure	**2.63**	**3.00**	**3.17**	**3.36**		**-7.5%**	**14.2%**	**20.3%**	**6.2%**

Source: Axis Bank Economic Research, Axis Bank Investment Research

Newly introduced income support scheme receives highest allocation in FY20; Allocation to health and education also increased

FY20 budget focus heavily on supporting farm and rural sectors

Sr. No.	Scheme (In Rs. Cr.)	Ministry	FY17	FY18	FY19 (BE)	FY19 (RE)	FY20 (BE)
1	Income support scheme	Agriculture				20,000	75,000
2	MNREGA	Rural Development	48,215	55,166	55,000	61,084	60,000
3	National Education Mission	HRD	27,616	29,455	32,613	32,334	38,572
4	National Health Mission	Health and Family Welfare	22,870	32,000	30,634	31,187	32,251
5	Pradhan Mantri Awas Yojana	Rural and Urban Development	20,952	31,163	27,505	26,405	25,853
6	Integrated Child Development Services	Women and Child Development	15,893	19,234	23,088	23,357	27,584
7	Pradhan Mantri Gram Sadak Yojana	Rural Development	17,923	16,862	19,000	15,500	19,000
8	Swach Bharat Mission	Rural and Urban Development	12,619	19,427	17,843	16,978	12,750
9	Interest Rate Subsidy for short term credit to farmers	Agriculture	13,397	13,046	15,000	14,987	18,000
10	Green Revolution	Agriculture	10,105	11,057	13,909	11,802	12,612
11	Pradhan Mantri Fasal Bima Yojana	Agriculture	11,055	9,419	13,000	12,976	14,000
12	Atal Mission for Rejuvenation and Urban Transformation & Smart Cities Mission	Urban Development	9,277	9,463	12,169	12,569	13,900

Source: Axis Bank Economic Research, Axis Bank Investment Research

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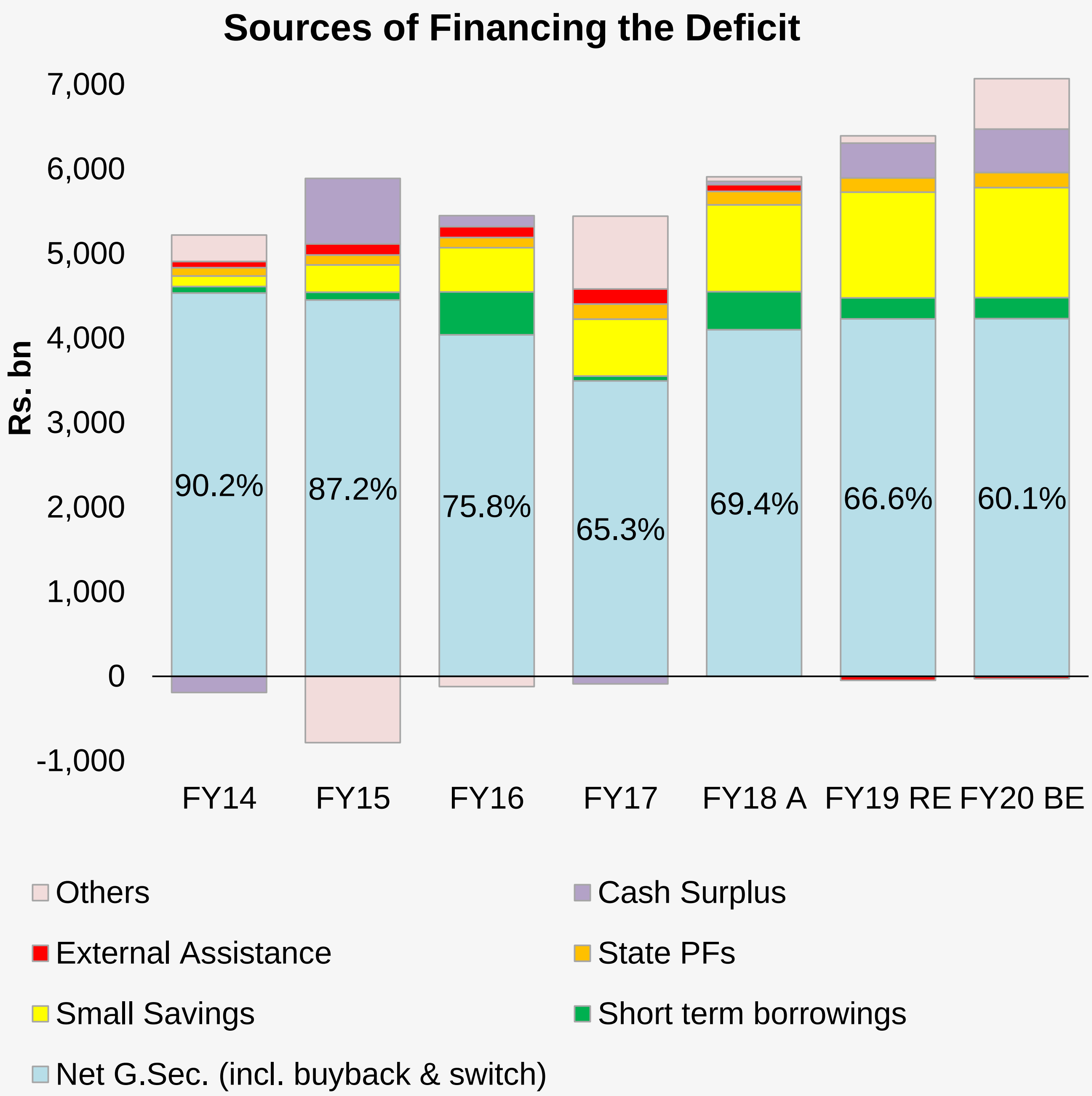
FY20 gross G-sec issuance at a high Rs. 7.1 tn (as GOI forgoes buybacks in FY19) to increase duration supply even as net issuance steady

Rs. Tn.	FY18(A)	FY19(BE)	FY19(RE)	FY20(BE)
Fiscal Deficit % GDP	3.52%	3.33%	3.4%	3.4%
Fiscal Deficit	**5.91**	**6.24**	**6.34**	**7.04**
Financing of Deficit				
Net Borrowings (incl. Short Term)	4.55	4.07	4.48	4.48
Small Savings	1.03	0.75	1.25	1.30
State PF's	0.16	0.17	0.17	0.18
Others	0.05	0.85	0.08	0.60
External Assistance	0.08	-0.03	-0.05	-0.03
Cash Surplus	0.04	0.43	0.41	0.51
Gross G.Sec. Supply	**5.88**	**6.06**	**5.71**	**7.10**
Redemptions (-)	1.37	1.43	1.48	2.37
Net G.Sec. Supply	**4.51**	**4.62**	**4.23**	**4.73**
Buybacks (Net) (-)	0.42	0.72	-	0.50
Net Market Borrowings	**4.10**	**3.90**	**4.23**	**4.23**
Short Term Borrowings (Net)	0.45	0.17	0.25	0.25
Net Borrowings (incl. Short Term)	**4.55**	**4.07**	**4.48**	**4.48**

- Gross market borrowing in FY19 cut by Rs 350 bn from BE levels, but higher by 360 bn as opposed to calendar levels
  - Higher gross borrowing necessitated by weaker inflows from other public accounts and the slippage, despite stronger small savings collections
  - Short term borrowing might be higher than the 250 bn assumed, given current non-competitive demand
- FY20 gross market borrowings higher at Rs. 7.1 tn as omission of FY19 buybacks keeps maturities high; net borrowing the same
- Room to cut FY20 issuance if buyback amount in FY20 lowered as well
- Drawdown of cash surplus remains high for the second consecutive year, can set up stress FY21 onwards

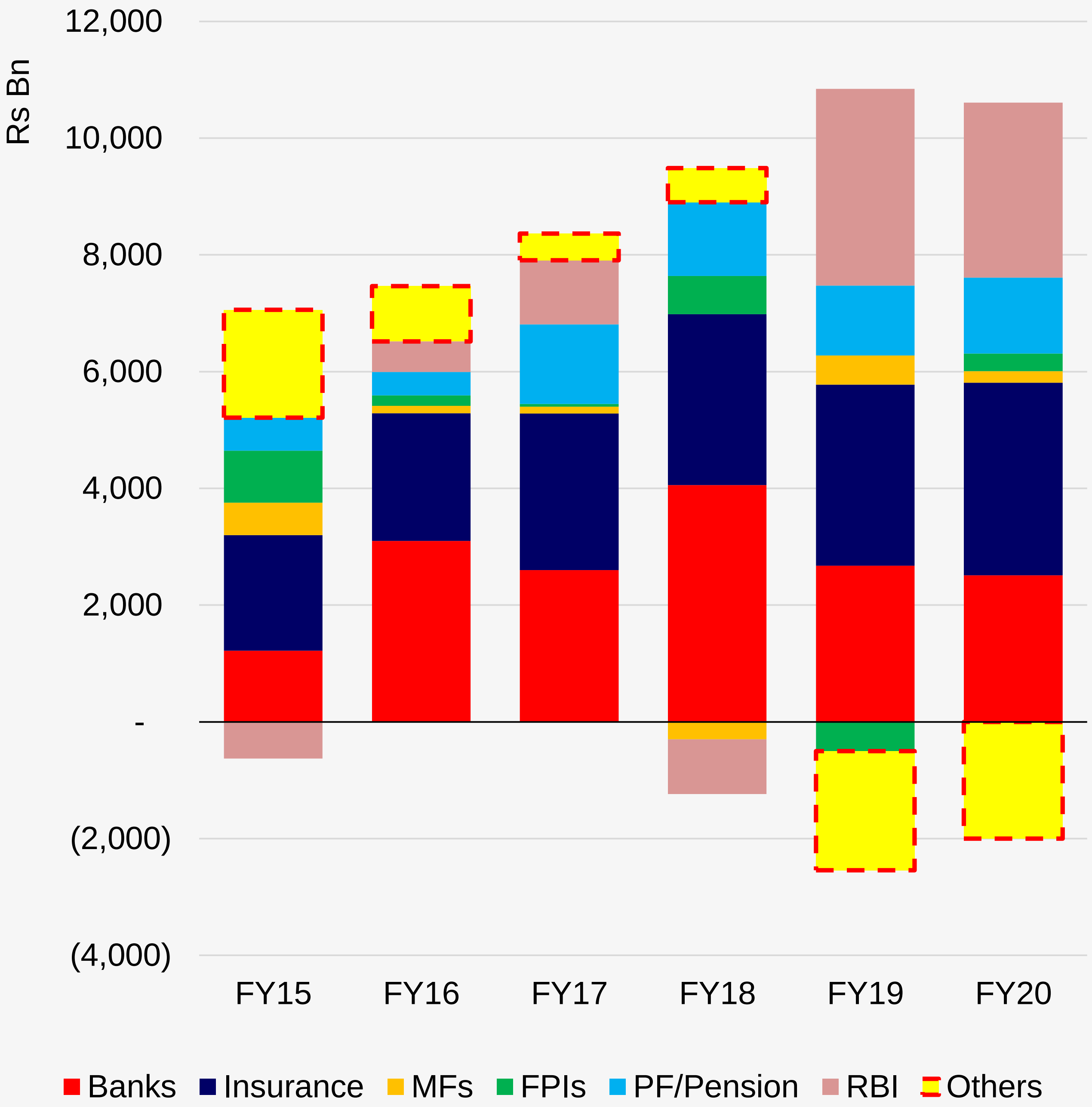
Source: Axis Bank Economic Research, Axis Bank Investment Research

Dependence on small savings as a source of financing centre's deficit has increased over time



Source: Axis Bank Economic Research

RBI OMOs expected to take the sting out of heavy SLR supply



Note: FY19 and FY20: Axis Estimates

Source: Axis Bank Economic Research

Agri & Consumers:

Key Budget Measures	Beneficiaries
Rural : • Under the 'PM-KISAN 'scheme farmers owning upto 2 hectares of land to get Rs 6,000 per year • 2% interest subvention to the farmers pursuing the activities of animal husbandry and fisheries, who avail loan through Kisan Credit Card. Further, in case of timely repayment of loan, they will also get an additional 3% interest subvention **Urban:** • Individual taxpayers having taxable annual income up to Rs 5 lakhs will get full tax rebate and therefore will not be required to pay any income tax. • Standard deduction raised by Rs 10k for salaried • Exempt levy of income tax on notional rent on a second self-occupied house • TDS threshold on interest earned on bank/post office deposits is being raised from Rs10,000 to Rs40,000	**Positive** India Auto/ Auto ancillaries Staples/ Discretionary

Banking and Financial Services:

Key Budget Measures	Beneficiaries
• Budget boost to retail/ rural consumption to benefit BFSI players, esp. private banks and players in the retail lending space. • Tax incentives (TDS for interest exempt up to Rs 40,000, up from Rs 10,000 earlier) to aid accretion in liability franchise of banks, thereby channeling more long term resources for better ALM management	**Positive** for large players with strong liability franchise and robust capitalization

Source: Axis Capital

Engineering & Infrastructure:

Key Budget Measures	Beneficiaries
• Budgetary allocation towards capex up by 10% YoY: Bulk of the increase in railways (up 14%), Defense (up 10%), Roads (MoRTH up 6%, Rural up 23%), metros (up 19%) and urban infra (up 9%) • Budgetary allocation muted in rural housing (down 5%), rural electrification (down 38%) as well as renewable energy (up 2%) • PSU capex through extra budgetary resources is expected to be flat on diminishing under construction pipeline of power generation and T&D PSUs. NHAI capex to rise by 21%. Coal and steel capex to rise 15% YoY. Higher capex on hydropower and renewables. • Overall, government capex (incl. PSU) is expected to be up 6% YoY, which could be at risk in case of shortfall in tax revenues	**Positive** for large players in Capital Goods space with strong execution capability and also for EPC Companies

Item	Current status	Budget proposals
Road capex (Urban + Rural + NHAI)	Rs 1.6 trn in FY19E (up 22% YoY)	increased by 13% to Rs 1.8 trn for FY20E with focus on NHAI (+21%), urban roads (+6%) and rural roads (+23%)
Railway capex	Rs 1.4 trn in FY19E (up 36% YoY)	Increased by 14% to Rs 1.6 trn
Metro capex	Rs 155 bn in FY19E (up 12% YoY)	Increased by 19% to Rs 184 bn
Defense outlay	Rs 962 bn in FY19 (+4% YoY)	Increased by 10% to Rs 1,059 bn
Capex for urban Infrastructure	Rs 223 bn in FY19, up 5% YoY	Increased by 9% to Rs 243 bn with large allocation for urban infra and smart cities

Source: Axis Capital

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Information Technology:

Key Budget Measures	Beneficiaries
• Two schemes (NEBPS and IBPS) under IT for Jobs pillar have been launched under Digital India Programme • Decide the policy guidelines on flow-based lending using GSTN to MSMEs through Fintech companies • National Programme on AI has been envisaged	**Positive** for large players in the industry

Oil & Gas:

Key Budget Measures	Beneficiaries
• Fuel subsidy budgeted at Rs 375 bn for FY20 (vs. Rs 248 bn in FY19E and Rs 245 bn in FY18). As per recent media articles, some portion of FY19E (we calculate Rs 380 bn) fuel subsidy may have been carried over to FY20E	**No subsidy impact** on oil PSUs. OMCs may incur higher interest from increase in working capital due to deferral in subsidy payments

Source: Axis Capital

Real Estate:

Key Budget Measures	Impact
• Notional rent in respect of unsold inventory shall not be charged to tax up to two years, instead of existing one year • 80IB tax benefit for affordable housing extended by one year to 31st March, 2020 • Tax exempt on the second house (vs. earlier taxed based on notional rent) • Proceeds from sale of house can be used to purchase or construct two residential houses (provided capital gain does not exceed Rs 20 mn) • Limit for rental income increased from Rs 0.18 mn to Rs 0.24 mn, for deduction of tax at source	**Positive** Continued push to affordable housing; spur demand for second homes and reinvestment in property; reduce tax pressure on Developers

Item	Current status	Budget proposals
Tax paid by developers on their unsold ready Inventory	Tax on notional rent on unsold ready inventory after one year from receiving completion Certificate	Tax on notional rent will now be applicable after two years
Tax benefits for developers for Affordable Housing Projects	Deduction of 100% profits to Affordable Housing projects which have received approvals before 31st Match, 2019	Tax benefit for Affordable Housing extended by one year to 31st March, 2020
Tax on the second and more houses (not self occupied)	Second or additional property are treated as rented property (even if vacant) and are subject to income tax on notional rent	Second house will not be taxed. However, additional houses will be taxed accordingly
Capital gains on sale of property	Proceeds from sale of house can be used to purchase/ construct another house within one/ three years.	Proceeds from sale of house can be used to purchase/ construct two houses
TDS on rental income	TDS if rent paid was more than Rs 0.18 mn per FY	Increased the limit to Rs 0.24 mn per annum

Source: Axis Capital

Telecom :

Key Budget Measures	Beneficiaries
• Government expects marginal growth in revenue from telecom sector at Rs 415 bn in FY20 vs. Rs 392.5 bn expected in FY19 (budgeted provision was Rs 487 bn for FY19). • The government plans to convert 0.1 mn villages into digital villages over next five years.	**Positive** for telecom infrastructure provider

Item	Current status	Budget proposals
Revenue from Telecom sector	Rs 392 bn expected in FY19 (budgeted provision was Rs 487 bn for FY19 – shortfall of ~Rs 95 bn). Government had raised Rs 321 bn in FY18.	Government expects 5.8% YoY growth in revenue from telecom sector at Rs 415.2 bn in FY20 vs. Rs 392.5 bn expected in FY19
Digital villages	N/A	The government plans to convert 0.1 mn villages into digital villages over next 5 years
Bharatnet	Rs 40 bn expected to be spent in FY19 (budgeted provision was Rs 82 bn).	Budgeted provision of Rs 60 bn
Optical Fibre Cable based network for Defense Services	Rs 25 bn expected to be spent in FY19 (budgeted provision was Rs 45 bn).	Budgeted provision of Rs 47 bn

Source: Axis Capital

EQUITY MARKET OUTLOOK AND STRATEGY

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- It was an election budget which appears to be well balanced and in line with market expectations on most counts, while keeping fiscal deficit within limits at 3.4%.
- Budget focused on 1) significant measures to support/provide relief to farmers, the middle class and vulnerable sections, 2) correcting some anomalies and fine tuning provisions to provide relief to the real estate sector and 3) providing a vision which might form the basis for policy-making if returned to power.

- Since, this is an interim budget before elections, government has accelerated revenue expenditure over capital expenditure.
- As growth in capital expenditure is lower versus over last few years, capital formation may take a backseat in the economy; however the full picture will emerge in the final budget.
- One needs to watch out for the continued normalization of the economy and trend in GST revenue, interest rates and oil prices for the way forward.
- We believe that the earnings revival will be the most important driver for the markets during CY2019, despite several global and domestic events.

- Largecaps continue to be attractively valued relative to their mid-small cap counterparts.
- Any sharp correction caused by any extraneous events should be treated as an opportunity to accumulate quality stocks and mutual funds with tried & tested management.
- Overall the budget proposals are well balanced – they are targeted, not stretching the fiscal boundaries and contributing to consumption growth.
- **Investors can consider accumulating equities with a 3 to 5 years investment horizon. They can also consider hybrid asset allocation funds as such funds allow investors to free themselves from market timing.**

DEBT MARKET OUTLOOK AND STRATEGY

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- The government has changed its fiscal deficit target at 3.4%(2019-20BE). This was primarily due to income support to farmers provided of Rs. 20,000 crore in 2018-19 RE and Rs.75,000 crore in 2019-20 BE. It has adopted a revised Fiscal Responsibility and Budget Management target for fiscal deficit and now will pursue 3.0% for FY20 and in FY21 as well.
- Gross market borrowings for FY2020 are pegged at Rs. 7.10 trillion, higher than the revised borrowing of Rs. 5.71 trillion for FY2019.
- Further, the net borrowings (including short term) remain unchanged at Rs 4.48 bn

- Outlook for Fixed Income remains mixed as conflicting forces are at work that appear to be evenly balanced.
- On the positive side factors such as muted oil prices (should ease pressure on CAD), high real yields in India, softening global commodity prices, slowdown in pace of Fed rate hikes, trade war tensions and moderation of global growth favours lower interest rates. However, on the negative side, strong credit growth outpacing deposits growth, excess SLR within banking system, volatile FII flows, global liquidity tightening etc. might impact interest rates adversely.
- Demand from Foreign Portfolio Investors and OMO sales by RBI will act to counter-balance each other. In FY2018, RBI conducted OMO sales to the tune of Rs. 0.90 trillion thereby negating the portfolio flows of around USD 18 billion (in debt and equity combined). Until 25 Jan 2019, OMO purchases of 2.2 tn have been carried out, with 3.26 tn expected for the year as a whole. This offsets around USD 12.5 bn of FPI flows until date.
- Bond market will take fresh cues from upcoming RBI policy. As such, the budget was over-all neutral for bond market.

- **We remain constructive on short term income funds which can be considered by investors with minimum investment horizon of 12 to 18 months. Medium duration funds, Corporate Bond funds and Credit risk funds forming a part of the Axis Select list can be considered by investors with minimum investment horizon of 24 to 36+ months to benefit from accruals and ensuing capital appreciation in the event of yields heading lower.**
- **If the holding period is 3yrs+, investors will also get the indexation benefit resulting in a lowering of the LTCG**

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