AXIS BANK

UNION BUDGET
2019 - 2020

INDEX

KEY HIGHLIGHTS

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 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 it being the first budget of the government after coming back to power with a thumping majority. With this background, we present the key highlights of the Union Budget 2019-20.

ECONOMY

- Total expenditure in BE* 2019-20 is slotted to increase by 13.4% over RE* 2018-19 (i.e. 13.2% of GDP), driven by support to agricultural sector
- 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 12.0% in 2019-20BE. Real GDP growth is expected to be 8.0% (assuming a 4% target inflation rate as per BE).
- Direct taxes in 2019-20BE are projected to grow at 11.3% over 2018-19 RE (i.e. 6.3% of GDP); Indirect taxes budgeted at Rs.11.22 lakh crore which is 5.3% of GDP.
- Fiscal deficit projections lowered marginally; 2019-20BE target at 3.3%, projections for both 2020-21 and 2021-22 at 3.0%.
- Disinvestment receipts anticipated to be Rs.1,05,000 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

AGRICULTURE AND RURAL ECONOMY

- Total Agricultural & Rural Development spends hiked by ~32% to Rs 2.92 lakh crore for FY20BE.
- Government to invest widely in agricultural infrastructure.
- Dairying through cooperatives shall also be encouraged by creating infrastructure for cattle feed manufacturing, milk procurement, processing & marketing.
- Government will urge farmers to adopt zero-budget farming which will help in doubling farmer's income by 2022.
- Rs.60,000 crore is being allocated for MGNREGA for 2019-20BE.
- Under the **Pradhan Mantri Gram Sadak Yojana**, the budget allocated Rs.19,000 crore for 2019-20BE as against Rs.15,500 crore in 2018-19RE.
- Under **Pradhan Mantri Matsya Sampada Yojana** (PMMSY) a robust fisheries management framework shall be established.
- The budget talks of ensuring ***Har Ghar Jal*** (piped water supply) to all rural households by 2024 under the Jal Jeevan Mission.
- To develop skilled entrepreneurs through ASPIRE (Scheme for Promotion of Innovation, Rural Industry and Entrepreneurship)

INFRASTRUCTURE OUTLAY

- Intends to invest Rs.100 lakh crore in infrastructure over the next 5 years
- Total road sector outlay for FY2019-20BE is Rs. 1.12 lakh Cr, up 12%.
- Budgeted defense outlay is Rs 3.1 lakh crore, up by 7% over FY19RE.
- Capital support expenditure for Railways is Rs.65,837 crore for FY2019-20BE. Overall capital expenditure programme is of Rs.1,60,000 crore.
- One Nation, One Grid to develop gas, water, i-ways and regional airports
- Public infrastructure to be built on land parcels held by Central Ministries and CPSE

FINANCIAL SECTOR REFORM

- Rs.70,000 crore capital infusion into PSBs in an effort to boost credit.
- Centre proposes RBI to be regulator for housing finance companies instead of the National Housing Board (NHB) currently.
- Government will provide partial credit guarantee to PSBs for the first loss of up to 10% on high rated pooled assets of NBFCs.
- Proposed to allow institutions to raise loan against AA rated securities
- Tax parity on treatment of interest for doubtful debts currently available to banks extended to both deposit and non-deposit taking NBFCs.
- 100% FDI allowed in insurance intermediaries
- Steps to be taken to separate NPS trust from PFRDA

OTHER INITIATIVES

- New model tenancy law would be announced to promote rental housing
- 1.95 crore houses will be provided to eligible beneficiaries by 2022 under the Pradhan Mantri Awas Yojana (PMAY).
- Merging NRI Portfolio Investment Scheme route with Foreign Portfolio Investment route
- Considering increasing the minimum public share holding to 35% from 25%
- Create an electronic fund raising platform for listing social enterprises and voluntary organizations
- Start-ups are not required to justify fair market value of shares issued to certain investors. This benefit to be extended to Category II AIFs as well
- Disinvestment ETFs to be on the lines of ELSS offering tax benefits under Section 80C
- Overdraft of Rs.5,000 to be allowed for every verified women Self Help Group (SHG) member having a Jan Dhan Bank Account,
- One woman in every SHG will also be made eligible for a loan up to Rs.1 lakh under the MUDRA Scheme.

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VISION FOR THE DECADE

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

1. Building physical and social infrastructure,
2. Digital India reaching every sector of the economy,
3. Pollution free India with green Mother Earth and Blue Skies,
4. Make in India with particular emphasis on MSMEs, Start-ups, defence manufacturing, automobiles, electronics, fabs and batteries, and medical devices,
5. Water, water management, clean rivers;
6. Blue Economy;
7. Space programmes, Gaganyan, Chandrayan and Satellite programmes;
8. Self-sufficiency and export of food-grains, pulses, oilseeds, fruits and vegetables;
9. Healthy society – Ayushman Bharat, well-nourished women & children. Safety of citizens; and
10. Team India with Jan Bhagidari. Minimum Government Maximum Governance.

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DIRECT TAX

- No change in Income Tax Slab rates for Individuals and corporates
- Surcharge enhanced on individuals with income of Rs. 2-5 crore by 3%, Rs. 5 crore and above by 7%.
- Impetus to affordable housing; additional deduction of Rs.1.5 lakh on interest paid on loans borrowed on or before 31 March 2020 for purchase of house up to Rs.45 lakh.
- 2% TDS on cash withdrawal exceeding Rs.1 crore in a year from a bank account.
- Additional income tax deduction of Rs.1.5 lakh on the interest paid on the loans taken to purchase electric vehicles.
- Corporate tax rate of 25% extended to all companies having annual turnover up to Rs. 400 crore
- Relief in levy of Securities Transaction Tax (STT) by restricting it only to the difference between settlement and strike price in case of exercise of options.
- Faceless e-assessments for income tax disputes
- PAN card and Aadhaar card will be made interchangeable

INDIRECT TAX

- Proposed to increase custom duty on gold from 10% to 12.5%
- Special additional excise duty and Road and Infrastructure Cess each increased by Re.1 per litre on petrol and diesel.
- Further simplifying the GST processes; taxpayer having annual turnover of less than Rs 5 crore shall file quarterly return.
- Nominal basic customs duty has been imposed on tobacco products
- Proposed defense equipment not being manufactured in India to be exempted from customs duty with the objective to "securing our borders".

EQUITY MARKET

- The Union Budget reinforces Government's intention to improve the rural economy by boosting credit and investment in the agriculture sector and addressing financial sector concerns.
- The Budget was focused with allocation given to priority segments that are needed to lay the foundation for India's long term sustainable growth, and also contained fiscal deficit concerns
- Equity markets remained negative on the Budget day. At market closing, the S&P BSE Sensex closed at 39,513 levels, a downtick of 0.99%.

- Among the BSE sector indices, FMCG and Bankex indices gained 0.18%, and 0.14% respectively. Metal, Realty and Power sectors lost by -3.9%, -3.6% and -3.4% respectively.
- Among Sensex stocks, Indusind Bank (+2.56%), Kotak Mahindra Bank (+1.32%) and SBI (+0.90%) were the top gainers while Yes Bank (-8.36%), NTPC (-4.81%) and M&M (-4.41%) were among the major losers.

DEBT MARKET

- The budget has laid a blueprint for creating a $5 trillion economy by 2025, with a rural focus.
- Bond yields reacted positively as gross market borrowings of Rs.7.10 lakh crore was intact from the Interim Budget. In addition, FY20 estimates for tax revenue and total expenditure growth are laid out at 13.5% and 13.4% respectively.
- The 10 year benchmark yield (7.26% 2029 paper) closed the day at 6.70%, down by 6 basis points from its previous close.
- Furthermore, the government has decided to start raising a part of its gross borrowing programme in external markets in external currencies. The bond market has been positively surprised by a net fiscal consolidation as well as the gross borrowing number remaining intact from the interim budget.
- The disinvestment target for 2018-19 was Rs.80,000 crore and target for 2019-20 is Rs.1,05,000 crore.

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FY20 fiscal deficit target rounded down to 3.3% of GDP. Receipts numbers remain on the higher side

- FY20BE gross tax revenues at Rs 24.6 tn, up 18.3% YoY over FY19PE
  - Number is more realistic than the 25.5 tn projection of the interim budget
  - Despite reduction from interim, 23.3% rise in income tax projections is high
  - Corporation tax projected to rise 18.3% YoY, despite lowered tax rates
  - Excise collection targets up 29.9%, remain high even after effects of higher duty on petrol and diesel stripped
  - GST projections lowered significantly from interim budget, 13.6% growth targeted looks achievable, but some uncertainty around lowered GST rates
  - Customs duty projected up 32.2%, on the back of levy on precious metals
  - Non-tax revenue budgeted at Rs 3.13 tn as opposed to 2.73 tn in the interim budget and 2.46 tn in FY19PE
  - Upside potential here given that 5G spectrum sales not yet accounted for
- Disinvestments target raised to Rs 1.05 tn from 0.9 tn in interim budget:
  - Revenue expenditure held at Rs. 24.48 tn of the interim budget, up from 20.08 tn in FY19PE
  - Interest payments to rise by 13.4% YoY to Rs 6.6 tn
  - Subsidies to rise by 47.2% YoY to Rs 3.39 tn, with sharp growth in food subsidy of 80.8% (on repayment to NSSF against a low base last year as funds were taken from NSSF instead of GOI). Petroleum subsidy higher by 52.6% to Rs 375 bn
  - Income support scheme receives highest allocation at Rs 750 bn, MGNREA receives Rs 600 bn. Focus on supporting farm and rural sectors seen in numbers
- Capital expenditure to rise by 11.8% YoY to Rs 3.36 tn,
  - However, adding lower PSE capex leads total projection down 9% YoY

Cut in net tax receipts offset by increase in non-tax revenue and non debt capital receipts

Quality of expenditure not as strong:

- Revenue expenditure growth kept at 21.9% YoY (21.2% ex subsidy and interest) while Capital expenditure at 11.8% YoY in FY20
- Higher nominal GDP at Rs 2.11 tn in comparison to Rs 2.10 tn assumed in interim budget helps government in trimming the deficit target

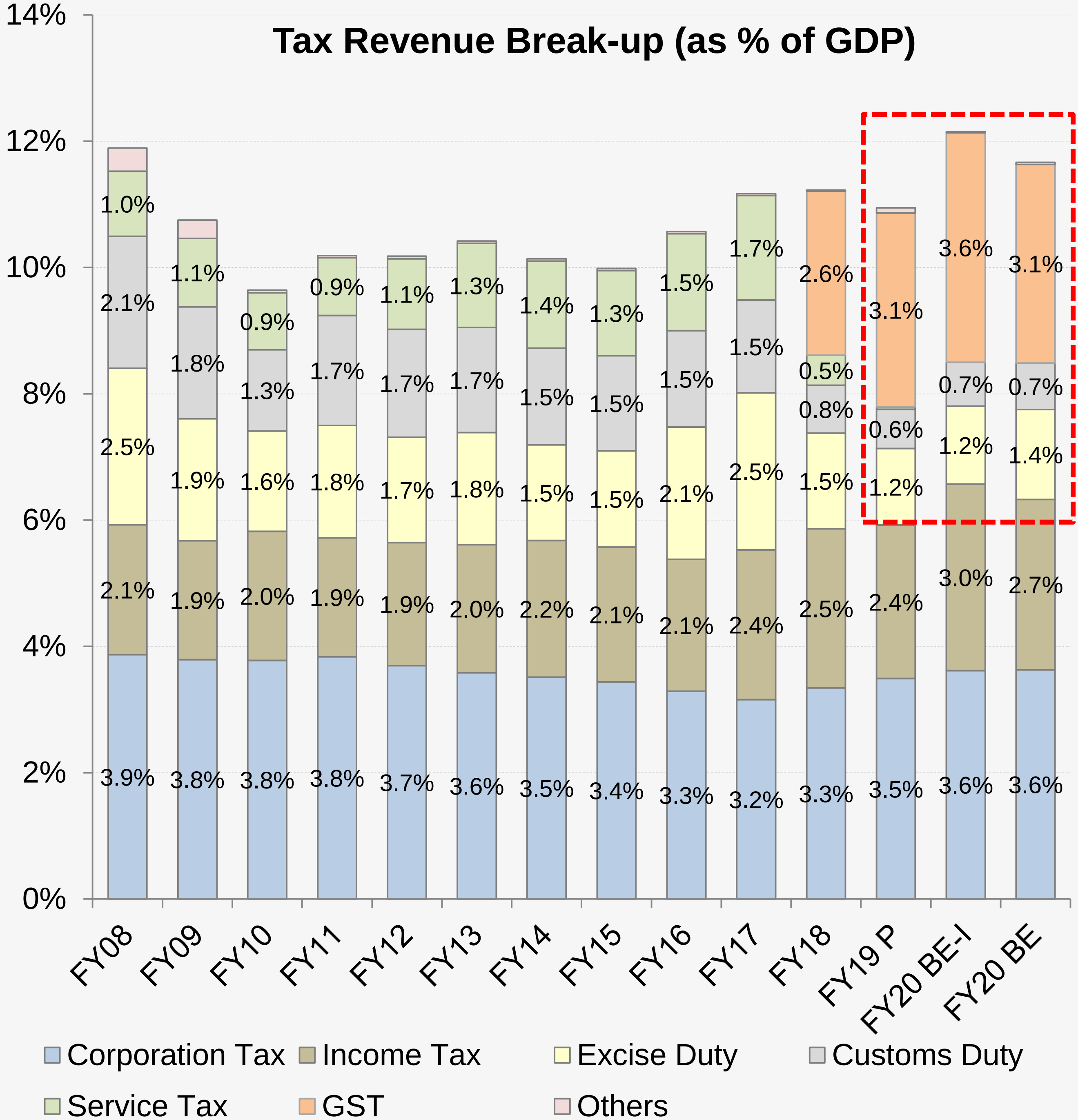
Rs. Tn	FY18 (A)	FY19 (P)	FY20 (BE-I)	FY20 (BE)		FY19 (P)	FY20 (BE-I)	FY20 (BE)
GDP	171.0	190.1	210.1	211.0		11.2%	10.5%	11.0%
Tax Receipts (Net)	12.42	13.17	17.05	16.50		6.0%	29.5%	25.3%
Non Tax Revenue	1.93	2.46	2.73	3.13		27.7%	10.7%	27.2%
Divestments & Others	1.16	1.03	1.03	1.20		-11.1%	-0.4%	16.5%
Total Receipts	**15.51**	**16.66**	**20.08**	**20.83**		**7.4%**	**24.9%**	**25.0%**
Revenue Expenditure	18.79	20.08	24.48	24.48		6.9%	21.9%	21.9%
Capital Expenditure	2.63	3.03	3.36	3.39		15.1%	11.0%	11.8%
Total Expenditure	**21.42**	**23.11**	**27.84**	**27.86**		**7.9%**	**20.5%**	**20.5%**
Fiscal Deficit	**5.91**	**6.45**	**7.04**	**7.04**		**3.4%**	**3.4%**	**3.3%**

Nominal GDP growth assumed to be 12% for FY20

Source: Budget Documents, CGA, Axis Bank Economic Research, Axis Bank Investment Research

GST and custom duty targets look achievable; Direct tax collections a source of risk to revenue projections

Government betting on strong improvement in compliance to boost income tax

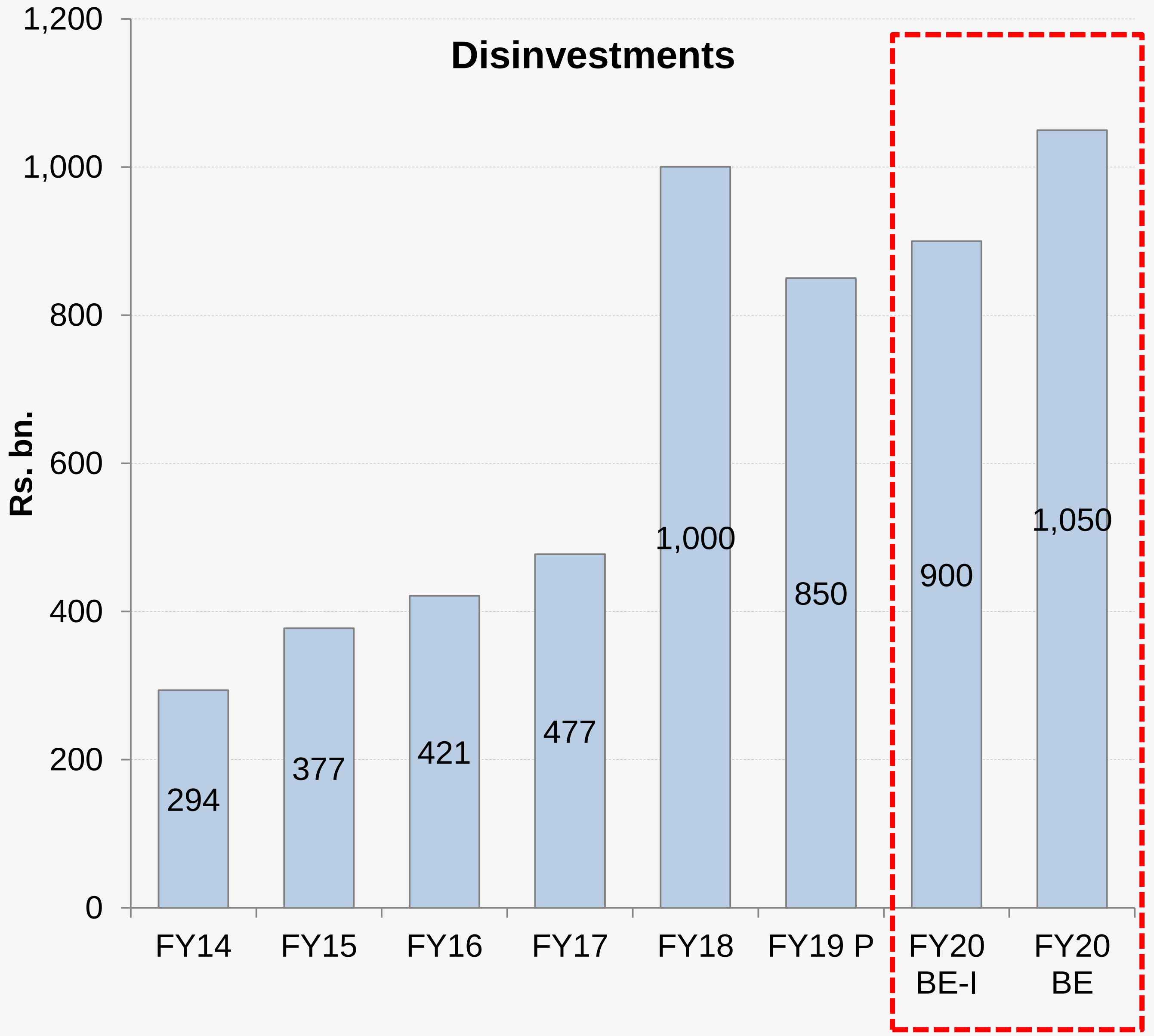


Note: FY19RE

Source: Budget Documents, CGA, Axis Bank Economic Research

Disinvestments target also revised up by Rs 150 bn; achievement may prove to be an uphill task

FY19 total disinvestment at Rs 850 bn, exceeded revised estimate by Rs 50 bn: M&A of PSUs used to exploit cash surpluses available with these



Source: Budget Documents, CGA, 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 rise

FCI has taken a net loan of Rs 700 bn in FY17, Rs 510 bn in FY18 and Rs 650 bn in FY19 from national small savings fund (NSSF)

Rs. Tn	FY18 (A)	FY19 (P)	FY20 (BE-I)	FY20 (BE)		FY19 (P)	FY20 (BE-I)	FY20 (BE)
Expenditure	**21.42**	**23.11**	**27.84**	**27.86**		**7.9%**	**20.5%**	**20.5%**
Subsidies	2.24	2.30	3.34	3.39		2.6%	45.1%	47.2%
o/w Food	1.00	1.02	1.84	1.84		1.6%	80.8%	80.8%
Fertilizers	0.66	0.71	0.75	0.80		6.3%	6.2%	13.3%
Petroleum	0.24	0.25	0.37	0.37		0.4%	52.6%	52.6%
Interest	5.29	5.83	6.65	6.60		10.2%	14.1%	13.4%
Revenue Expenditure	**18.79**	**20.08**	**24.48**	**24.48**		**6.9%**	**21.9%**	**21.9%**
Capital Expenditure	**2.63**	**3.03**	**3.36**	**3.39**		**15.1%**	**11.0%**	**11.8%**

Source: Budget Documents, CGA, 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	38,547
4	National Health Mission	Health and Family Welfare	22,870	32,000	30,634	31,187	33,651
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	12,644
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	12,561
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	13,750

Source: Budget Documents, 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), though pressure may be let off through foreign currency issuance

Rs. Tn.	FY18(A)	FY19(P)	FY20(BE-I)	FY20(BE)
Fiscal Deficit % GDP	3.46%	3.4%	3.4%	3.3%
Fiscal Deficit	**5.91**	**6.34**	**7.04**	**7.04**
Financing of Deficit				
Net Borrowings (incl. Short Term)	4.55	4.48	4.48	4.48
Small Savings	1.03	1.25	1.30	1.30
State PF's	0.16	0.17	0.18	0.18
Others	0.05	0.00	0.60	0.60
External Assistance	0.08	-0.05	-0.03	-0.03
Cash Surplus	0.04	0.41	0.51	0.51
Gross G.Sec. Supply	**5.88**	**5.71**	**7.10**	**7.10**
Redemptions (-)	1.37	1.48	2.37	2.37
Net G.Sec. Supply	**4.51**	**4.23**	**4.73**	**4.73**
Buybacks (Net) (-)	0.42	-	0.50	0.50
Net Market Borrowings	**4.10**	**4.23**	**4.23**	**4.23**
Short Term Borrowings (Net)	0.45	0.25	0.25	0.25
Net Borrowings (incl. Short Term)	**4.55**	**4.48**	**4.48**	**4.48**

- 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
- Government has announced 10%-15% of issuance will be through foreign currency bonds, to be seen in H2. Coupled with some amount of OMOs, though should reduce pressure

Source: Axis Bank Economic Research, Axis Bank Investment Research

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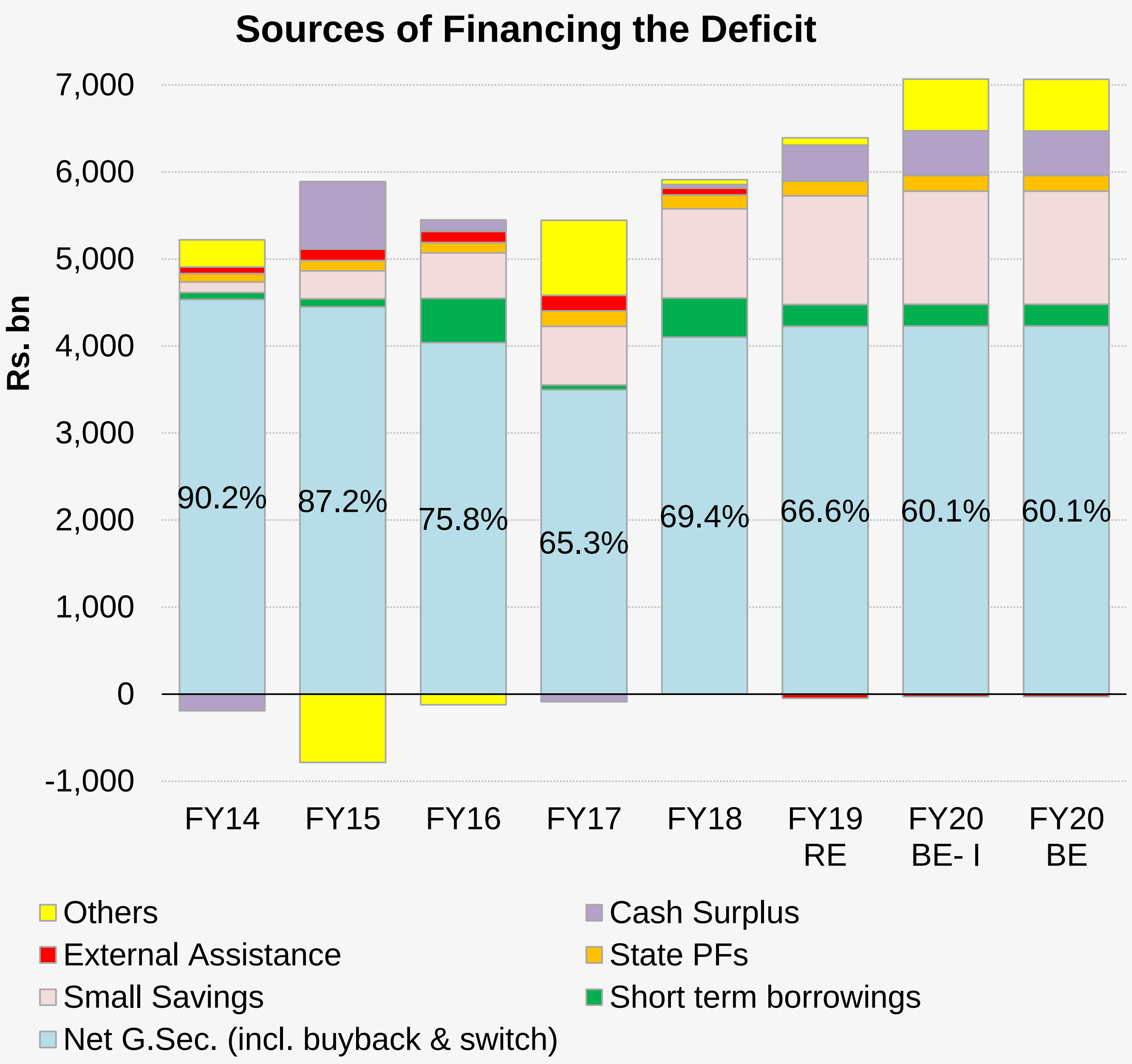
Dependence on small savings, as a source of financing the deficit, increasing over time

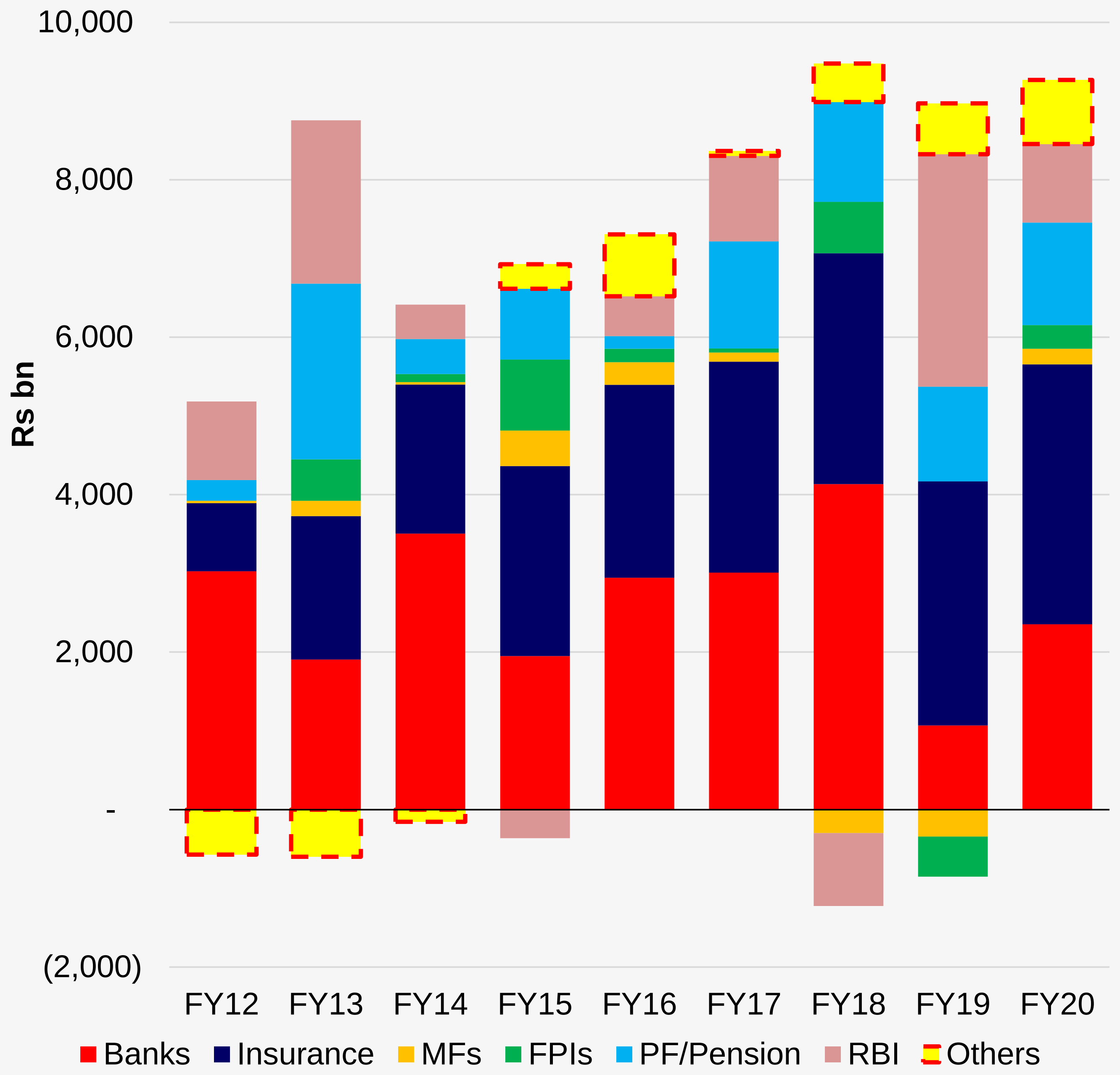
Higher small savings collections + repayment by states has led to significant increase in the small savings funds which can either be used to finance the deficit or push expenditure off-budget



Source: Budget Documents, Axis Bank Economic Research

RBI OMOs continue to balance net demand and supply of SLR paper, but duration creeping higher

Bank demand to recover on stronger deposit growth and rates down cycle



Note: FY19 Axis Est. and FY20: Axis forecast

Source: RBI, Axis Bank Economic Research

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Auto:

Key Budget Measures	Impact and Beneficiaries
• GST rate on Electric Vehicles (EVs) which is currently at 12%, is proposed to be reduced to 5%. • Propose an Income tax deduction on interest of Rs. 1.5 lakh, for loan taken for purchasing EVs	**Minor Positive** OEMs with a ready EV presence or offering shortly
• Propose to increase basic customs duty on certain auto parts	Positive for auto suppliers.

Banking and Financial Services:

Key Budget Measures	Impact and Beneficiaries
• Recapitalization of PSU banks, liquidity and credit guarantee for NBFCs will aid in reducing the stress in the system. • Focus on revamping the UDAY scheme, incentives for affordable housing and significant capex plans in the infra space to boost credit demand. • HFCs coming under the RBI ambit to improve regulatory oversight. • Funding support to purchase high-rated pooled assets of financially sound NBFCs amounting to a total of Rs 1 tn • Creation of debenture redemption reserve is exempted for NBFCs • Interest income on bad or doubtful debts to be charged on receipt basis vs. accrual basis earlier • Interest deduction increased to Rs 3.5 lakh (from Rs 2 lakh currently) for affordable housing loan costing up to Rs 4.5 mn	**Positive** Key beneficiaries are PSU banks, corporate lenders and select NBFCs/ HFCs

Source: Axis Capital

Consumer:

Key Budget Measures	Impact and Beneficiaries
• Imposition of basic excise duty on Cigarettes of Rs 5/1,000 cigarettes for lengths below 75mm and Rs 10/1,000 cigarettes for lengths above 75mm	**Neutral** for tobacco industry
• Customs duty on Gold/Silver imports hiked to 12.5%	**Negative** for organized players
• Custom duty of 7.5% imposed on Palm Fatty Acid Distillate (PFAD)	**Negative** for soap makers
• Local sourcing norms (currently 30% mandatory local sourcing) to ease for FDI in single brand retail	-

Oil & Gas:

Key Budget Measures	Impact and Beneficiaries
• Special additional excise duty and Road & infrastructure cess have been increased by Re 1/lt each in Petrol and Diesel. Total excise duty after this change would be Rs 19.88/lt on Petrol and Rs 15.83/lt on Diesel (Note above figures are based on Budget speech, though Finance bill mentions Rs 3/lt and Rs 2/lt increase respectively) • Excise duty on domestic crude production imposed at Re 1/tonne(nil earlier)	**Neutral** No impact on OMCs as they would pass on the hike to customers.

Source: Axis Capital

Information Technology:

Key Budget Measures	Impact and Beneficiaries
• **Two schemes (NEBPS and IBPS) under IT for Jobs pillar** have been launched under Digital India Programme to incentivize BPO/ITES operations across the country, creation of employment opportunities. • **Cyber Security Projects (NCCC & others):** The objective of the scheme is to adopt a holistic approach towards securing the cyber space of the country by pursuing multiple initiatives like Security Policy, Compliance and Assurance, Security, Incident-Early warning & Response, R&D • **Champion Service Sector Scheme:** IT/ITES has been identified under the scheme for promoting development, realizing potential to increase export, generate employment and improving quality and standards. • **Mission Mode Project on e-Panchayats:** Under e-Panchayat, efforts to drive internal automation of Panchayats and enable electronic service delivery through all the Panchayats in the country to achieve the objectives of Digital India programme of the Government of India.	**Positive** for the sector

Realty:

Key Budget Measures	Impact and Beneficiaries
• Increase in interest deduction for Affordable Housing • 80IB tax benefit for affordable housing to have an additional criteria for houses with ticket size of up to Rs 4.5 mn • FPI will now be allowed to invest in REITs • Increase in TDS on purchase of immovable property	**Positive** Continued push to affordable housing; improve liquidity for REITs

Source: Axis Capital

Engineering & Infrastructure:

Key Budget Measures	Impact and Beneficiaries
• **Need to invest heavily in Infra and kickstart virtuous cycle of domestic investments**: Rs 100 trn (USD 1.4 trn) on infra in 5 years. • **Focus on ECBs:** India's sovereign external debt to GDP is amongst the lowest globally at less than 5%; hence ECBs will be raised in a meaningful way to fund infra sector. • **Railways :** Rs 1.58 tn capex - proposed to use PPP for passenger freight, rolling stock manufacturing, etc • **Budgetary allocation towards capex up by 6% YoY:** Bulk of the increase in railways (up 16%), Rural (Urban+Rural, up 13%), Defense (up 7%). PSU capex through extra budgetary resources is expected to be flat on diminishing under construction pipeline of power generation and T&D PSUs. • **Make-in-India push:** Invitation to global companies for mega industry investments in semiconductor, solar PV cells, Li-ion storage batteries, EV charging, laptops, etc. and provide income tax relief on investments.	**Positive** Large conglomerate companies in capital good and Engineering, Procurement and Construction (EPC) Companies

Item	Current status	Budget proposals
Road capex (Urban + Rural + NHAI)	Rs 1.6 trn in FY19 (up 22% YoY)	Increased by 13% to Rs 1.8 trn for FY20E – NHAI (+21%), urban roads (+6%), rural roads (+23%)
Railway capex	Rs 1.39 trn in FY19 (up 36% YoY)	Increased by 15% to Rs 1.59 trn for FY20E
Metro capex	Rs 155 bn in FY19 (up 12% YoY)	Increased by 19% to Rs 184 bn for FY20E
Defense outlay	Rs 962 bn in FY19 (+4% YoY)	Increased by 7% to Rs 1,034 bn
Capex for urban Infrastructure	Rs 223 bn in FY19, up 5% YoY	Increased by 8% to Rs 240 bn with higher allocations for urban infra

Source: Axis Capital

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Telecom:

Key Budget Measures	Impact and Beneficiaries
• All villages to be connected through high speed optical fiber (OF) network by 2022. • Customs duty on optical fibers, optical fiber bundles and cables increased from 10% to 15%. Customs duty on water blocking tapes for manufacture of optical fiber cables at 20% vs. nil earlier.	**Positive** For optical fibre /network companies

Other Sectoral Measures:

Key Budget Measures	Impact and Beneficiaries
• 20% tax on buyback: In order to discourage the practice of avoiding Dividend Distribution Tax (DDT) through buy back of shares, 20% additional tax is proposed for listed companies in case of buyback	**Negative** IT cos have been adopting buyback route instead of paying dividends
• Proposal to increase minimum public shareholding to 35%	**Negative** for companies with high promoter ownership
• Custom duty on import of indoor and outdoor split ACs increased to 20% from current 10%.	**Negative** for RAC makers
• Custom duty on import of ceramic tiles increased to 15% from current 10%.	**Neutral** for tile manufacturers
• Consideration for TDS shall include other charges in the nature of club membership fee, car parking fee, electricity and water facility fee, maintenance fee, advance fee or any other charges of similar nature which are incidental to the purchase of immovable property	**Marginally negative** for home buyers

Source: Axis Capital

EQUITY MARKET OUTLOOK AND STRATEGY

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- The Union budget by the returning government appears to be poised for inclusive long term growth instead of short term setbacks, which is evident in the policies announced, while keeping fiscal discipline at 3.3%.
- Budget tried to boost spirits in the economy by focusing on attaining US$5 tn GDP by 2025 through creating a conducive ecosystem with focus on overall demand creation for various industries, raising intellectual and financial capital and labour.

- The government has reiterated its reformist agenda by laying out a 10 point mission statement with an aim to combine its societal agenda for better living standards for all with capitalist ideals of active private partnerships.
- Key thrust from the Budget includes (i) measures for the manufacturing sector by lowering corporate tax to support MSMEs; (ii) clean & green energy push – electric vehicle and renewable energy; (iii) capital investment as major driver for growth – ease of various regulations for FPIs and FDIs; (iv) rationalization of duty structure to promote Make in India; (v) ease frictions in financial sector; (vi) support consumption especially for the rural economy through infra spending and support to farmers; (vii) developing intellectual capital by increasing spend on education and skilled developments; (viii) affordable housing push

- We are constructive on Indian equity markets with a long term investment horizon. In addition, given the CY2018 correction in mid and small cap stocks, the current valuations appear attractive compared to its larger counterparts on a relative basis. Thus, in terms of business growth, these companies are likely to fare well over longer horizon as Indian economy continues to grow and benefits of scale and efficiency come into play.
- Volatility is expected to remain in the near term, as the economy is in a transition phase. Any sharp correction caused by any extraneous events should be treated as an opportunity to accumulate quality stocks and MFs.
- Overall the budget proposals are well balanced and targeted to kick-start the long term growth for the economy while keeping in mind fiscal boundaries, and a thrust to revive consumption spending.
- **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 as well as asset allocation calls.**

DEBT MARKET OUTLOOK AND STRATEGY

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- The government has lowered its fiscal deficit target at 3.3% (2019-20BE) from its projection made in Interim Budget of 3.4%, which is a big positive for the market. It has adopted a projected Fiscal Responsibility and Budget Management target for fiscal deficit and now will pursue 3.0% for FY21 and in FY22 as well.
- Gross and net market borrowings for FY2020BE have been left unchanged as pegged in Interim Budget at Rs. 7.10 tn and Rs.4.73 tn, respectively.
- Further the intention of the government to tap the overseas debt markets to finance government deficits will be viewed positively by the debt and currency markets. Furthermore, certain encouraging measures have been proposed to increase capital flows from FPIs by subscribing to listed debt securities.

- Reacting to the budget, 10 year benchmark paper saw a sharp rally. Yields fell 15 bps intraday as the government surprised the street on fiscal. However, yields ended the day by registering a fall of 6 bps to end the day at 6.70%.
- As the supply of G-Sec in the domestic market may reduce, the duration story may have limited opportunities going forward as overseas issuances may help balance demand –supply in government bonds. Given that, bond market will take fresh cues from upcoming RBI policy on the rate cut and yield trajectory, future inflation prints and the spatial distribution of monsoon in the near term.
- On the positive side factors such as muted oil prices (should ease pressure on CAD), high real yields in India, softening global commodity prices, change of stance by Fed to support growth, ease in trade war tensions and moderation of global growth favours lower interest rates. However, on the negative side, tighter liquidity conditions, lack of participation in debt market (by MFs) due to issues in the credit environment led by several downgrades and defaults, volatile FII flows, global liquidity tightening, etc. might impact interest rates adversely.

- **Given the current liquidity conditions and the market environment, we remain constructive on the shorter end of the yield curve and 2 – 3 years corporate bonds segment. Short Duration funds, Corporate Bond funds, Banking & PSU Debt Funds, Low Duration Funds and Ultra Short Duration Funds can be considered by investors with an investment horizon commensurate with the maturity and duration of the schemes, due to their steady accrual profile and possible capital appreciation in case of a fall in yields. Having said this, one should consider aspects such as exit load, capital gains tax and asset allocation amongst others while evaluating their investment options.**

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