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A FEEL GOOD BUDGET

Economic Research Department **February 2019**

The Interim Budget 2019-20, while encapsulating all that the present Government has done in its tenure, has introduced a slew of measures aimed at farmers, rural population, middle class/salaried class and underprivileged through various schemes and increased allocation of money. There is a big fillip for affordable housing. The Budget has broadly imparted a vision on a ten year horizon laying the basis for a regular budget that is likely to come up during July 2019.

Fiscal arithmetic of FY20 is largely dependent upon FY19 numbers. Given the trends in revenue and expenditure till Dec, the FY20 numbers look aggressive. For FY20, gross borrowing is projected at Rs 7.1 lakh crore and net borrowing at Rs 4.73 lakh crore. For FY19, an additional borrowing of Rs 19,000 crore is envisaged. For FY20, extra budgetary resources for PSUs has also been budgeted at Rs 3.97 lakh crore. Though lower than Rs 4.46 lakh crore in FY19, it is still substantial. The issuance of securities against small savings has also been increased to Rs 1.25 lakh crore for FY19 as against the budgeted Rs 75,000 crore (FY20 at Rs 1.30 lakh crore).

India will be the first country in the world that will be providing some sort of direct income transfer to more than 12 crore farmers which is 40,000 times higher than the average number of beneficiaries benefited in those countries which have implemented such cash transfer schemes. The Government has also proposed a mega pension scheme for 10 crore labourers and workers in the unorganised sector.

Individual taxpayers having taxable annual income up to Rs 5 lakh will not be required to pay any income tax. All tax payers will save on an average Rs 3000 per annum in taxes. The TDS limit on interest earned on bank deposits has been increased to Rs 40,000 from Rs 10,000 currently. This will incentivize investors to invest in bank deposits.

ANALYSIS OF INTERIM BUDGET 2019-20

MACRO VIEW

- Fiscal arithmetic of FY20 is largely dependent upon FY19 numbers. Given the trends in revenue and expenditure till Nov, the FY20 numbers look aggressive. Deviating from fiscal consolidation path, fiscal deficit for FY19 and FY20 is pegged at 3.4% of GDP. The slippage in fiscal deficit is primarily attributed to allocation of funds to the farmers: Rs 20,000 crore is proposed in FY19 and Rs 75,000 crore in FY20 for PM-KISAN. In actual terms, fiscal deficit for FY20 is Rs 69,600 crore more than the FY19 revised number. The Budget estimates 11.5% nominal GDP growth rate for FY20 (same as the previous year). Assuming 7% real GDP growth rate, this translates into an inflation of around 4.5%, which is reasonable.
- Gross tax revenue is expected to grow by 13.5% in FY20 to Rs 25.5 lakh crore. This revenue target from taxation is supported by 13.3% growth in corporation tax and 17.2% rise in income tax from direct tax side. We believe that FY20 GST numbers at Rs 7.6 lakh crore (Rs 63,433 crore per month) compared to Rs 6.4 lakh crore, is achievable as GST process is stabilizing. The Government is expecting more compliance and hence better collection in FY19.
- Even if we a make a modest shortfall in gross tax revenue shortfall of 10% in FY19, it will translate into gross tax revenue growth rate of 26.1% in FY20. If there is a 5% shortfall, this growth rate becomes 19.5%. If we look at the decadal CAGR in FY10-19, it is 15.3%. For the sake of next year's revenue projection fulfillment, it is necessary that this year's target are not missed.
- Disinvestment target for FY20 is budgeted at Rs 90,000 crore which is Rs,10,000 crore more than the FY19 revised estimate. We believe that Government will be able to achieve this target given that it has approvals for a list of companies for public offerings both through initial and follow on public offers. Major subsidies will increase by a whopping 11.4% to Rs 2.97 lakh crore.
- The Interim budget, while encapsulating all that the present Government has done in its tenure, has introduced a slew of measures aimed at farmers, rural population, middle class/salaried class and underprivileged through various schemes and increased allocation of money. There is a big fillip for housing.
- Providing direct income support at the rate of Rs 6,000 per year to farmer families (around 12 crore small & marginal farmers), having cultivable land upto 2 hectares is a good beginning. Providing 2% interest subvention to the farmers pursuing the activities of animal husbandry and fisheries, who avail loan through Kisan Credit Card and an additional 3% interest subvention in case of timely repayment of loan will reduce the interest burden on poor farmers
- Individual taxpayers having taxable annual income up to Rs 5 lakh will not be required to pay any income tax. Around 30 million taxpayers will benefit from this with a cost of Rs 18,500 crore to the exchequer. For salaried persons, standard deduction is being raised from the current Rs 40,000 to Rs 50,000. This will provide additional tax benefit of Rs 4,700 crore to more than 3 crore salary earners and pensioners on an average of around Rs 3000 per person.
- One of the most remarkable and long-pending demand that has been met in this Budget is the increase of TDS threshold limit on interest earned on bank/post office deposits from Rs 10,000 to Rs 40,000. As of Mar'18 there were 239 million term deposit accounts in banks with per account balance at Rs 2.75 lakh. Assuming 7.5% rate of interest, on an average every term-deposit holder accrued interest of Rs 20,000, out of which he/she has to pay TDS on Rs 10,000. Now that interest earned upto Rs 40,000 is exempted this will bring large relief to all the small depositors and they may deposit upto Rs 5 lakh in term deposits. Banks may see surge in term deposits going forward.
- Total Gross Market Borrowings of the Government is projected at Rs 5.71 lakh crore in FY19 (BE of Rs 6.05 lakh crore). However, after taking into account repayments of Rs 1.48 lakh crore (adjusting for switch of Rs 17,000 crore) net borrowings is estimated at Rs 4.22 lakh crore. For FY20, gross borrowing is projected at Rs 7.1 lakh crore and net borrowing at Rs 4.73 lakh crore (after adjusting for switch and buyback of Rs 50,000 each). To subscribe to this government borrowing programme in the absence of matching demand, the yields may see an uptick, as witnessed today.

- A higher borrowing can be matched only in a scenario where the NDTL of the banks go up leading to increased SLR requirements, which can be met through purchase of G-Secs. The catch in this, however, would be the latest decision of revising the TDS exemption which in an ideal scenario should bring depositors back to the banks. The depositor will exercise option based on the trade-off between the deposit rates and the benefits out of TDS exemption.
- The total dividend from the Reserve Bank of India, nationalised banks and financial institutions is estimated around Rs 82,911 for FY20, slightly higher than the revised estimated of FY19 (Rs 74,140 crores). For FY19, Government has revised upwards its estimation from Rs 54,817 crore to Rs 74,140 crores due to better financial positions of banks post Q3. For FY20, we believe that Government will manage to get the estimated amount as implementation of IBC, relaxation in PCA and better economic growth will prop up banks' bottom line.
- People working under the informal sector have been duly acknowledged with a mega pension yojana namely 'Pradhan Mantri Shram-Yogi Maandhan' for the unorganised sector workers with monthly income upto Rs 15,000. This pension yojana shall provide them an assured monthly pension of Rs 3,000 from the age of 60 years on a monthly contribution of a small affordable amount during their working age. The Government will deposit equal matching share in the pension account of the worker every month.
- Some next gen steps like a National Programme on 'Artificial Intelligence', making 1 lakh villages into Digital Villages over next five years, technology intensive project to transform the Income-tax Department into a more assessee-friendly one with 24 clearance window also provide the momentum to an India which is technology driven and efficient.

Budget at a glance (Rs Crore and as a % of GDP)	FY17	FY18	FY19 (RE)	FY20 (BE)	FY20/ FY19 (%Gr)	FY19/ FY18 (%Gr)	FY18/ FY17 (%Gr)	5 Yr CAGR (FY15-19 in %)	Decadal CAGR (FY10-19 in %)
1.1 Revenue Receipts	1,374,203	1,435,233	1,729,682	1,977,693	14.3	20.5	4.4	11.9	13.1
% of GDP	**8.9**	**8.4**	**9.2**	**9.4**					
1.1.1 Tax Revenue (Net to centre)	1,101,372	1,242,488	1,484,406	1,705,046	14.9	19.5	12.8	13.2	14.0
% of GDP	**7.2**	**7.3**	**7.9**	**8.1**					
1.1.2 Non-Tax Revenue	272,831	192,745	245,276	272,647	11.2	27.3	-29.4	5.5	8.6
% of GDP	**1.8**	**1.1**	**1.3**	**1.3**					
1.2 Capital Receipts	600,991	706,742	727,553	806,507	10.9	2.9	17.6	6.7	5.4
% of GDP	**3.9**	**4.1**	**3.9**	**3.8**					
1.2.1 Recoveries of Loans	17,630	15,633	13,155	12,508	-4.9	-15.9	-11.3	-1.1	4.8
% of GDP	**0.1**	**0.1**	**0.1**	**0.1**					
1.2.2 Other Receipts	47,743	100,045	80,000	90,000	12.5	-20.0	109.5	20.7	14.0
% of GDP	**0.3**	**0.6**	**0.4**	**0.4**					
1.2.3 Borrowings and other liabilities*	535,618	591,064	634,398	703,999	11.0	7.3	10.4	5.6	4.7
% of GDP	**3.5**	**3.5**	**3.4**	**3.4**					
1. Total Receipts	1,975,194	2,141,975	2,457,235	2,784,200	13.3	14.7	8.4	10.2	10.2
% of GDP	**12.9**	**12.5**	**13.0**	**13.3**					
2. Total Expenditure	1,975,194	2,141,975	2,457,235	2,784,200	13.3	14.7	8.4	10.2	10.2
% of GDP	**12.9**	**12.5**	**13.0**	**13.3**					
2.a) Revenue Expenditure	1,690,584	1,878,835	2,140,612	2,447,907	14.4	13.9	11.1	9.9	9.9
% of GDP	**11.0**	**11.0**	**11.4**	**11.7**					
2.a).1 Grants for creation of Capital Asse	165,733	191,034	200,300	200,740	0.2	4.9	15.3	11.3	...
% of GDP	**1.1**	**1.1**	**1.1**	**1.0**					
2. a).2 Interest Payments	480,714	528,952	587,570	665,061	13.2	11.1	10.0	9.9	11.9
% of GDP	**3.1**	**3.1**	**3.1**	**3.2**					
2.b) Capital Expenditure	284,610	263,140	316,623	336,293	6.2	20.3	-7.5	12.6	12.2
% of GDP	**1.9**	**1.5**	**1.7**	**1.6**					
3. Revenue Deficit (2.a)-1.1)	316,381	443,602	410,930	470,214	14.4	-7.4	40.2	3.0	2.2
% of GDP	**2.1**	**2.6**	**2.2**	**2.2**					
4. Effective Revenue Deficit (2.a)-2a).1)	150,648	252,568	210,630	269,474	27.9	-16.6	67.7	-2.7	...
% of GDP	**1.0**	**1.5**	**1.1**	**1.3**					
5. Fiscal Deficit {2-(1.1+1.2.1+1.2.2)}	535,618	591,064	634,398	703,999	11.0	7.3	10.4	5.6	4.7
% of GDP	**3.49**	**3.46**	**3.37**	**3.35**					
6. Primary Deficit	54,904	62,112	46,828	38,938	-16.8	-24.6	13.1	-18.9	-15.1
% of GDP	**0.4**	**0.4**	**0.2**	**0.2**					
Revenue Deficit / Fiscal Deficit (%)	**59.1**	**75.1**	**64.8**	**66.8**					
Memoranda									
Nominal GDP	15,362,386	17,095,005	18,840,731	21,007,439					
Growth rate	11.5	11.3	10.2	11.5					

Source:Union Budget Documents & SBI Research

Expenditure of Major Items (Rs crore and as a % of GDP)							
	FY17	FY18	FY19 (RE)	FY20 (BE)	FY20/ FY19 (%Gr)	FY19/ FY18 (%Gr)	FY18/ FY17 (%Gr)
Pension	1,31,401	1,45,745	1,66,618	1,74,300	4.6	14.3	10.9
% of GDP	**0.9**	**0.9**	**0.9**	**0.8**			
Defence	2,51,781	2,76,574	2,85,423	3,05,296	7.0	3.2	9.8
% of GDP	**1.6**	**1.6**	**1.5**	**1.5**			
Subsidy	2,04,025	1,91,183	2,66,206	2,96,684	11.4	39.2	-6.3
% of GDP	**1.3**	**1.1**	**1.4**	**1.4**			
Agriculture & allied Activities	50,184	52,628	86,602	1,49,981	73.2	64.6	4.9
% of GDP	**0.3**	**0.3**	**0.5**	**0.7**			
Commerce and Industry	21,364	24,087	28,394	27,660	-2.6	17.9	12.7
% of GDP	**0.1**	**0.1**	**0.2**	**0.1**			
Education	72,016	80,215	83,626	93,848	12.2	4.3	11.4
% of GDP	**0.5**	**0.5**	**0.4**	**0.4**			
Energy	30,964	42,155	46,150	44,101	-4.4	9.5	36.1
% of GDP	**0.2**	**0.2**	**0.2**	**0.2**			
Finance	41,549	17,392	18,852	19,812	5.1	8.4	-58.1
% of GDP	**0.3**	**0.1**	**0.1**	**0.1**			
Health	39,005	52,994	55,949	63,538	13.6	5.6	35.9
% of GDP	**0.3**	**0.3**	**0.3**	**0.3**			
Home Affairs	78,360	87,547	99,034	1,03,927	4.9	13.1	11.7
% of GDP	**0.5**	**0.5**	**0.5**	**0.5**			
Interest	4,80,714	5,28,952	5,87,570	6,65,061	13.2	11.1	10.0
% of GDP	**3.1**	**3.1**	**3.1**	**3.2**			
Others	63,667	66,333	74,905	75,822	1.2	12.9	4.2
% of GDP	**0.4**	**0.4**	**0.4**	**0.4**			
Rural Development	1,13,877	1,34,973	1,35,109	1,38,962	2.9	0.1	18.5
% of GDP	**0.7**	**0.8**	**0.7**	**0.7**			
Social Welfare	31,812	37,440	46,492	49,337	6.1	24.2	17.7
% of GDP	**0.2**	**0.2**	**0.2**	**0.2**			
Tax Administration	22,146	71,755	67,448	1,17,285	73.9	-6.0	224.0
% of GDP	**0.1**	**0.4**	**0.4**	**0.6**			
Transfer to States	1,32,704	1,07,501	1,41,353	1,66,883	18.1	31.5	-19.0
% of GDP	**0.9**	**0.6**	**0.8**	**0.8**			
Transport	1,02,200	1,10,399	1,45,399	1,56,187	7.4	31.7	8.0
% of GDP	**0.7**	**0.6**	**0.8**	**0.7**			
Urban Development	36,946	40,061	42,965	48,032	11.8	7.2	8.4
% of GDP	**0.2**	**0.2**	**0.2**	**0.2**			
Grand Total	19,75,194	21,41,975	24,57,235	27,84,200	13.3	14.7	8.4
% of GDP	**12.9**	**12.5**	**13.0**	**13.3**			
Source:Union Budget Documents & SBI Research							

- Deviating from fiscal consolidation path, fiscal deficit for FY19 and FY20 is pegged at 3.4% of GDP. The slippage in fiscal deficit is primarily attributed to allocation of funds to the farmers. The Budget estimates 11.5% nominal GDP growth rate for FY20 (same as the previous year). Assuming a 7.5% real GDP growth rate, this translates into an inflation of around 4.0%. This seems to be quite realistic.
- However, what does not appear very realistic is the FY19 tax revenue projections, despite their downward revision, if we go by the actual collections. The tax revenue projections have been revised downward by Rs 23067 crore, due to reduction in CGST collection by Rs 1.00 lakh crore. Some compensation in tax revenue shortfall is sought from increased projection of Corporation and Customs Tax. However, going by the data from CGA, even the revised projections seem to be bordering on the aggressive side. For example, Corporation tax actual collection till Nov'18 is around 43% of the revised annual estimates. For GST also the, despite the reduced estimates, the target appears optimistic (60% of the Revised estimates achieved till Nov'18). How much IGST has the Centre kept and how much it is going to allocate to states will only be clear after March.
- Fiscal arithmetic of FY20 is largely dependent upon FY19 numbers. Since FY19 numbers are optimistic given the trends in revenue and expenditure till Dec, the FY20 numbers look reasonable. However, once the numbers for FY19 are revised downward, the FY20 projections will swell. Even if we are looking at a gross tax revenue shortfall, of 10% in FY19, it will translate into gross tax revenue growth rate of 26.1% in FY20. If there is 5% shortfall this growth rate becomes 19.5%. If we look at the Decadal CAGR in FY10-19, it is 15.3%. For the sake of next year's revenue projection fulfillment, it is necessary that this year's target are not missed.

Direct and Indirect taxes (Rs crore and as a % of GDP)

	FY17	FY18	FY19 (RE)	FY20 (BE)	FY20/ FY19 (%Gr)	FY19/ FY18 (%Gr)	FY18/ FY17 (%Gr)	5 Yr CAGR (FY15-19 in %)	Decadal CAGR (FY10-19 in %)
Gross Tax Revenue	17,15,822	19,19,009	22,48,175	25,52,131	13.5	17.2	11.8	15.9	15.3
% of GDP	**11.2**	**11.2**	**11.9**	**12.1**					
Direct Tax									
Corporation Tax	4,84,924	5,71,202	6,71,000	7,60,000	13.3	17.5	17.8	11.8	11.9
% of GDP	**3.2**	**3.3**	**3.6**	**3.6**					
Taxes on Income Other than Corporation Tax	3,49,436	4,30,772	5,29,000	6,20,000	17.2	22.8	23.3	19.6	17.7
% of GDP	**2.3**	**2.5**	**2.8**	**3.0**					
Indiect Taxes									
Customs	2,25,370	1,29,030	1,30,038	1,45,388	11.8	0.8	-42.7	-8.8	5.1
% of GDP	**1.5**	**0.8**	**0.7**	**0.7**					
Union Excise Duty	3,81,756	2,58,834	2,59,612	2,59,600	0.0	0.3	-32.2	8.4	10.8
% of GDP	**2.5**	**1.5**	**1.4**	**1.2**					
Service Tax	2,54,499	81,228	9,283	...	...	-88.6	-68.1	-51.5	-18.5
% of GDP	**1.7**	**0.5**	**0.0**						
Goods and Services Tax	...	4,42,561	6,43,900	7,61,200	18.2	45.5		...	
% of GDP		**2.6**	**3.4**	**3.6**					

Source: Union Budget documents & SBI Research

Direct and Indirect taxes (Rs crore and Estimated Vs Actual)

	FY19 BE	FY19 RE	FY19 Actuals Till Nov'18	Achievement Rate till Nov'18
Gross Tax Revenue	**2271242**	**2248175**	**1155118**	**51.4**
Corporation Tax	621000	671000	291254	**43.4**
Taxes on Income	529000	529000	250412	**47.3**
Customs	112500	130038	86788	**66.7**
Union Excise Duties	259600	259612	138123	**53.2**
Service Tax	..	9283	5630	**60.6**
GST	743900	643900	381904	**59.3**

Source: CGA, Union Budget Dcuments, SBI Research

Sources of Financing Fiscal Deficit (Rs Crore)	FY17	FY18	FY19 (RE)	FY20 (BE)	FY20/ FY19 (%Gr)	FY19/ FY18 (%Gr)	FY18/ FY17 (%Gr)
Fiscal Deficit	5,35,618	5,91,064	6,34,398	7,03,999	11.0	7.3	10.4
% of GDP	**3.5**	**3.5**	**3.4**	**3.4**			
Borrowings	3,55,206	4,55,207	4,47,737	4,48,122	0.1	-1.6	28.2
% of GDP	**2.3**	**2.7**	**2.4**	**2.1**			
Securities against Small Savings	67,435	1,02,628	1,25,000	1,30,000	4.0	21.8	52.2
% of GDP	**0.4**	**0.6**	**0.7**	**0.6**			
State Provident Funds	17,745	15,799	17,000	18,000	5.9	7.6	-11.0
% of GDP	**0.1**	**0.1**	**0.1**	**0.1**			
Other Receipts (Internal Debts and Public Account)	86,130	5,406	8,353	59,532	612.7	54.5	-93.7
% of GDP	**0.6**	**0.0**	**0.0**	**0.3**			
External Debt	17,997	7,931	-4,893	-2,952	-39.7	-161.7	-55.9
% of GDP	**0.1**	**0.0**	**0.0**	**0.0**			
Draw-Down of Cash Balance	-8,895	4,093	41,201	51,297	24.5	906.6	-146.0
% of GDP	**-0.1**	**0.0**	**0.2**	**0.2**			
Source:Union Budget Documents & SBI Research							

Subsidy Trends (Rs crore and as a % of GDP)	FY17	FY18	FY19 (RE)	FY20 (BE)	FY20/ FY19 (%Gr)	FY19/ FY18 (%Gr)	FY18/ FY17 (%Gr)	5 Yr CAGR (FY15-19 in %)	Decadal CAGR (FY10-19 in %)
Total 3 Major Subsidies	204025	191183	266206	296684	11.4	39.2	-6.3	0.8	7.3
% of GDP	**1.3**	**1.1**	**1.4**	**1.4**					
Fertiliser Subsidy	66313	66441	70075	74986	7.0	5.5	0.2	-0.4	1.5
% of GDP	**0.4**	**0.4**	**0.4**	**0.4**					
Food Subsidy	110173	100282	171298	184220	7.5	70.8	-9.0	9.8	12.7
% of GDP	**0.7**	**0.6**	**0.9**	**0.9**					
Petroleum Subsidy	27539	24460	24833	37478	50.9	1.5	-11.2	-19.9	5.8
% of GDP	**0.2**	**0.1**	**0.1**	**0.2**					
Source: Union Budget documents & SBI Research									

Maturity Profile of Outstanding Central Government Dated Securities (% of total)

Maturity Bucket	End March 2011	End March 2012	End March 2013	End March 2014	End March 2015	End March 2016	End March 2017	End March 2018	End June 2018
Less than 1 year	3.41	3.50	3.10	3.95	3.65	4.00	3.30	3.18	3.00
1-5 years	25.54	26.70	27.90	25.99	24.59	22.90	21.70	22.98	24.01
5-10 years	34.09	34.70	35.00	31.52	30.35	29.60	33.30	32.14	32.28
10-20 years	21.42	22.00	22.90	25.20	28.32	30.30	29.30	28.57	26.89
20 years and above	15.53	13.10	11.20	13.34	13.09	13.30	12.40	13.33	13.82

Source: SBI Research, DEA

- As against the budgeted estimate of Rs 6.05 lakh crore, total Gross Market Borrowings of the Government is projected at Rs 5.71 lakh crore in FY19. The Government has reduced the borrowing target by a whopping Rs 70,000 crore for FY19 in Sep'18, thereby reducing the estimate to Rs 5.35 lakh crore. However, the revised estimate for FY19 is again raised by Rs 36,000 crore. Net borrowing is Rs 4.73 lakh crore in FY19 as against Rs 4.50 lakh crore in FY18, after taking into account a switch of Rs 17000 crore in FY19. Thus it implies there is an effective addition of Rs 19,000 crore from the FY19BE. Meanwhile, the short-term borrowing is now estimated at Rs 25,000 crore as against the budgeted Rs 17,000 crore.
- For FY20, the Government Borrowing is budgeted at Rs 7.10 lakh crore and the net borrowing requirement is pegged at Rs 4.73 lakh crore taking into account repayments of Rs 2.36 lakh crore (with switch of Rs 50,000 and buyback of Rs 50,000 crore). Notably, the Government stocks repurchased by means of switch/buyback will not have any impact on the fiscal situation as they will get prematurely redeemed and interest will cease to accrue on such redeemed Government stocks. Furthermore, the Government has budgeted Rs 25,000 crore short-term borrowings through various (91-day- Rs 21000 crore, 182 day- Rs 2049 crore, 364 day- Rs 1948 crore) treasury bills.

Financing through small savings

- Apart from the market borrowings, the Government has also dipped into Small Saving scheme to meet a part of its expenditure. The issuance of securities against small savings has also been increased to Rs 1.25 lakh crore for FY19 as against the budgeted Rs 75,000 crore which was later increased to Rs 1.00 lakh crore. So far only Rs 45,396 crore has been raised through small savings during Apr'18-Nov'18. Thus the additional amount of Rs 79,604 crore will have to be raised in the remaining five months of this fiscal. Coupled with Rs 19,000 crore additional market borrowing, this will put pressure on yields in coming months.

Government Borrowings (Rs crore and as a % of GDP)

	FY18	FY19 (RE)	FY20 (BE)	FY20/ FY19 (%Gr)	FY19/ FY18 (%Gr)
Gross Market Borrowings	588000	571000	710000	24.3	-2.9
% GDP	3.4	3.0	3.4		
Less repayments #	137272	148263	236878	59.8	8.0
% GDP	0.8	0.8	1.1		
Net Market Borrowings	450728	422737	473122	11.9	-6.2
% GDP	2.6	2.2	2.3		

Source: Union Budget documents & SBI Research, # adjusted for net switch and buyback

Increasing use of Extra Budgetary Resources (EBR)

- Of late, the Government has been increasingly using the off-balance sheet measures to finance its expenditure, both revenue as well as capital. As per the CAG report on Compliance of the Fiscal Responsibility and Budget Management Act, 2003 for the year 2016-17, off-balance sheet financing is used for deferring fertilizer arrears/bills through special banking arrangements; food subsidy bills/arrears of FCI through borrowings and for implementation of irrigation scheme (AIBP) through borrowings by NABARD under the Long Term Irrigation Fund (LTIF) in case of revenue expenditure. Meanwhile, it is also used to finance capital expenditure including financing of railway projects through borrowings of the IRFC and financing of power projects through the PFC.
- Off-balance sheet financing does not come under parliamentary scrutiny. They also affect the cash flow of public companies. The Ministry has made 'Special Banking Arrangement' (SBA) in which loans from PSU banks are arranged to make payments against arrears of subsidies with some selected companies. Government makes payments of interest on these loans at G-sec rate. Interest over and above G-sec rate is borne by the companies. Since these measures are used by the Government to defer current liabilities and increase the future cost of interest payment, thereby adversely affecting inter-generational equity, CAG report recommended increasing transparency and appropriate disclosures of off-balance sheet financing to the Parliament.

- This year again a sizeable chunk of the spending on public infrastructure takes place indirectly via Government owned companies (PSUs) rather than through Budget. These PSUs in turn utilize the internal accruals as well as borrowings or extra budgetary resources (EBR) to fund their spending. For FY20, extra budgetary resources for PSUs have been budgeted at Rs 3.97 lakh crore. Though lower than Rs 4.46 lakh crore in FY19 (RE) it is still substantial. EBR for Coal has increased while that of others have declined.

Extra Budgetary Resources for PSUs (Rs Crore)

	FY19 (RE)	FY20 (BE)	Growth (%)
Coal	6200	6605	6.5
Ministry of Housing and Urban Affairs	18589	18238	-1.9
Petroleum and Natural Gas	32382	24458	-24.5
Power	57474	26979	-53.1
Steel	4433	3601	-18.8
Others	326947	317316	-2.9
Total	446025	397197	-10.9
% of GDP	2.4	1.9	
GDP	18840731	21007439	

Source: Union Budget Documents & SBI Research

Disinvestment – Target vs. Actual (in Rs crore)

Year	Budget Estimate	Revised Estimate	Actual
FY15	63,425	31,350	37,737
FY16	69,500	25,312	42,132
FY17	56,500	45,500	34,939
FY18	72,500	1,00,000	1,00,057
FY19	80,000	80000	35533*
FY20	90,000	-	-

Source: Union Budget Documents, SBI Research; *till Jan'19

DISINVESTMENT

- The Government has set an ambitious target of Rs 90,000 crore under Disinvestment for FY20. Though it is much higher than the achievement numbers of Rs 35,533 Cr *(upto 29.01.2019)* so far, it falls in line with the budgeted number of Rs 80,000 crore for FY19. Though, only 2 months are left for FY19, the Government seems confident of achieving this number.
- The FM, while delivering his address recalled meeting of the FY 18 disinvestment target of Rs 100,000 crore. There are 57 CPSEs, which are listed with total market capitalisation of over Rs 13 lakh crore and the Government appears to be banking on this number to meet the disinvestment targets.

PENSION REFORMS

Pradhan Mantri Shram-Yogi Maandhan

- Pradhan Mantri Shram-Yogi Maandhan is a pension Scheme for the unorganised sector workers with monthly income up to Rs 15,000. This pension scheme shall provide an assured monthly pension of Rs 3,000 from the age of 60 years on a monthly contribution during their working age.
- It is proposed that an unorganised sector worker joining pension scheme at the age of 29 years will have to contribute Rs 100 per month till the age of 60 years. The Government in turn will deposit equal matching share in the pension account of the worker every month. Thus on an annual basis, the pension account per individual will accumulate Rs 2,400 (ignoring the interest accumulation during the year).
- It is expected that at least 10 crore labourers and workers in the unorganised sector will avail the benefit of Pradhan Mantri Shram-Yogi Maandhan within next five years.

Financial of the Scheme

- The pension scheme is a DB-DC kind of arrangement similar to the EPFO's Employees' Pension Scheme. It is unclear how the Scheme will be administered. The most commonly used arrangement is to create a separate trust where the premiums are accumulated. Since the scheme is a deferred annuity, the pension liability is due after 31 year for a participant age 29 joining today. Thus depending upon the coverage, the cost to exchequer is Rs 1200 per person per year for the first 31 years.
- However, since the Scheme creates a deferred pension liability, a calculation could be made on an inter-temporal basis using the actuarial principles. Assuming that entire population of 10 crore is covered in the Scheme, then at median population age of 29 years, the total cost to the exchequer on an inter-temporal basis will be substantial.

BANKING SECTOR

- In the last two years, Government has implemented a number of measures to ensure clean banking, which will create strong banks in future. To meet the capital requirements under Basel III, Government has done with an investment of Rs 2.6 lakh crore as recapitalization in PSBs. Further, amalgamation of banks has also been done to reap the benefits of economies of scale, improved access to capital and to cover a larger geographical spread.
- As of December 2018, a total amount of Rs 51,513 crore has been infused into PSBs. It is desirable that Government should infuse the promised recapitalisation amount of Rs 54,487 crore (net of promised Rs 1,06,000 crores) by March 2019. This will act as a big enabler for banks! For the record, PSBs may require another Rs 50,000 crore of growth capital in FY20.
- Recently, RBI has deferred the implementation of the last tranche of 0.625% of Capital Conservation Buffer (CCB) from March 31, 2019 to March 31, 2020. This one year window has afforded an opportunity to PSBs by an estimated relief of around Rs 35,000-38,000 crore.
- On review of performance of PCA Banks, RBI has removed three Banks i.e. Bank of India, Bank of Maharashtra and Oriental Bank of Commerce, out of PCA frameworks.
- Assuming a 11% credit growth in FY20 with credit risk weighted assets of 70% (RWAs to Gross Advances ratio declined from 80.26% in Sep-17 to 71.20% in Sep-18), PSBs may be requiring around Rs 50,000 crore growth capital in FY20. However, the same also depends upon some major variables i.e. alternate long term investor, recoveries from NCLT, investment environment, out of NCLT settlements/auctions, treasury gains / loss, MTM provisioning of investments, additional or provision write-back.
- The TDS limit on interest earned on bank deposits has been increased to Rs 40,000 from Rs 10,000 currently. This was a long pending demand from banks and will reduce the work load of banks in collecting and filling return to the Government. If banks interest rate rise further and TDR remain an attractive savings instrument, then this will incentivize some investors to shift from other instruments to bank deposits to get higher return. It is estimated that around Rs 3-5 lakh crore of deposits may surge in TDR in post offices and banks over the year.

REFORMS IN AGRICULTURE

PM-KISAN Scheme

- To address farmer distress and declining farm income, the government in Union Budget 2019-20 announced implementation of Pradhan Mantri Kisan Samman Nidhi (PM-KISAN), which will provide an assured income support to the small and marginal farmers.
- 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, in three equal instalments of Rs 2,000 each will be credited to bank accounts of beneficiary farmers. Around 12 crore small and marginal farmer families are expected to benefit from this. This programme will entail an annual expenditure of Rs 75,000 crore in 2019-20. The direct income support scheme is much better and possibly the ideal one as the payment is purely a cash transfer to small and marginal farmers who are more vulnerable to price distress.
- We believe, the PM-KISAN scheme is scaled down version of Rythu Bandhu Scheme and more similar with Odisha's KALIA scheme, where marginal and small farmers are rewarded individually and the fiscal cost is significantly low in compare to the other two schemes.

Cost Structure under Direct Income Support Scheme

As per Agricultural Census 2015-16	Unit	Total
Number of Operational Holdings	Crore	14.6
Marginal Farmers	%	68%
	Crore	10.0
Small Farmers	%	18%
	Crore	2.6
Total Small + Marginal Farmers	%	86%
	Crore	12.6
Income Support of Rs 6,000 per farmer per year	Crore	75520

Source: SBI Research

- The PM-KISAN programme would be made effective from 1st Dec'18 and the first instalment for the period upto 31st March 2019 would be paid during this year itself, for which Government provided Rs 20,000 crore in the Revised Estimates (RE) of FY 2018-19.
- One of the major challenges is to identify the beneficiary, as tenant and landless labours will be excluded under the proposed scheme. Second, 100% digitalisation of land record is still pending across many States and even for States like Jharkhand, Bihar, Gujarat, Kerala & Tamil Nadu where it is less than 80%. We believe, the amount of Rs 6000 under PM-KISAN could be enhanced in future with improvement in fiscal space and sharing of burden between Centre and States.

International Experience

- According to the OECD, no country has instituted basic income as "a principal pillar of income support for the working-age population." But several countries are experimenting with the idea in a small sample of the population. Experiments have been conducted by other countries like USA and Iran.
- USA's Alaska Permanent Fund is a state-owned investment fund established using oil revenues. Since 1982, it has paid out an annual dividend to every individual in Alaska. Another experiment was conducted by Iran in 2011. The monthly transfer amounted to 29% of median household income, or about $1.50 extra per head of household, per day. Similarly, new basic income pilots have been announced in Canada, Finland, and the Netherlands. There have been several attempts from countries as varied as India, Switzerland, France, New Zealand, Namibia, Scotland, and Germany.
- The argument against UBI is the moral hazard - free money makes people lazy and they drop out of the labour market. The simplest explanation is that unlike in kind programmes, cash transfers (conditional and unconditional) raise the income of households for each unit of labour it already supplies and so can afford to reduce labour without necessarily affecting the household's income.
- Banerjee, Hanna, Kreindler and Olken (2015) studied the impact of government cash transfer programs on labour supply in 6 developing countries (Honduras, Morocco, Mexico, Philippines, Indonesia and Nicaragua). They find no significant reduction in labour supply (inside and outside the household) for men or women from the provision of cash transfers.
- India will be the first country in the world which is going to provide some sort of direct income transfer to more than 12 crore farmers which is 40,000 times higher than the average number of beneficiaries in these countries who have implemented such cash transfer scheme. We believe, though the present amount is only $7 per month which is very low in comparison to other countries, but with the improvement in fiscal space, the amount could be increased to $13 per month.
- The negative is, many countries who have tried UBI and have found that it does not really impact the economy's structural problems that keep people poor or generate vast inequalities. But the positive is UBI, apart from ensuring social equity and dignity is a way to get around the leakage and coverage problems associated with current social sector schemes. The danger is once introduced, UBI will be very difficult to repeal.

Cross Country Implementation of Some Form of Basic Income

Country	Program	Evaluation Years	Number of Households at Endline	Targeting Method	Transfer Type and Amount	Transfer Consumption Ratio
Honduras	Programa de Asignación	2000-2002	3,185	Geographic and family demographics	CCT ranging from $4 to $23 per month depending on family structure	4.0%
Morocco	Tayssir	2008-2010	4,268	Geographic	CCT and labelled CCTs: between $8 to $13 per month per child (depending on age of child)	5.0%
Mexico	Progresa	1998-1999	18,351	Geographic and PMT	CCT: $12.5/month + $8–$30.5/month per child (depends on child grade) + $11-$20.5 grant for school materials per child, Max grant per HH (1999): $75/month	20.0%
India	PM-KISAN	2018-19	12,00,00,000	Geographic. All who have less than 2 hactre land	CCT: $7/month	10.0%
Mexico*	Programa de Apoyo Alimentario (PAL)	2004-2005	2,866	Geographic	UCT: $13 per month	11.5%
Philippines	Pantawid Pamilyang Pilipino Program	2009-2011	1,410	Geographic and PMT	CCT: $11–$30 per month depending on number of kids	11.0%
Indonesia	Program Keluarga Harapan (PKH)	2007-2009	14,665	Geographic and PMT	CCT: $44–$161 per year	17.5%
Nicaragua	Red de Protección Social (RPS)	2000-2002	1,433	Geographic. All except 6% who owned vehicle or ≥ 14ha land	CCT: $224/year + $112/year (school attendance) + $21/child/year	20.0%

Note: * The experiment included two treatments: a food transfer and a cash transfer. CCT: Conditional Cash Transfer, UCT: Unconditional Cash Transfer, PMT: Proxy Means Test. Source: Banerjee, Abhijit, Rema Hanna, Gabriel Kreindler and Benjamin A. Olken (2016), "Debunking the Stereotype of the Lazy Welfare Recipient: Evidence from Cash Transfer Programs", Forthcoming, World Bank Research Observer & SBI Research

Other Announcements

- Government has declared that all farmers affected by severe natural calamities and where assistance is provided from National Disaster Relief Fund (NDRF), will be provided the benefit of interest subvention of 2% and prompt repayment incentive of 3% for the entire period of reschedulement of their loans. Presently, the crop loans are rescheduled for such affected farmers and they get benefit of interest subvention of 2% only for the first year of the rescheduled loan.
- To provide support to Animal Husbandry and Fisheries sector Government have increased the allocation for Rashtriya Gokul Mission to Rs 750 crore in the current year itself, extension of Kisan Credit Card scheme (KCC) to Animal Husbandry and Fisheries farmers.
- Like agricultural sector, the benefit of 2% interest subvention will be provided 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. This initiative will enhance credit flow to agriculture and allied activities and lower interest burden on farmers there by chances of NPA will come down.
- Government has also decided to create separate Department of Fisheries to provide sustained and focused attention towards development of Fisheries. Presently India is the second largest fish producing nation in the world accounting for 6.3% of global production, registering an average annual growth of more than 7% in recent years. The sector provides livelihood to about 1.45 crore people at the primary level.
- Government has announced to set up "Rashtriya Kamdhenu Aayog" to upscale sustainable genetic up-gradation of cow resources and to enhance production and productivity of cows. The Aayog will also look after effective implementation of laws and welfare schemes for cows. There is a growing awareness about the nutritional superiority of milk from Indian breed cows across the world. So, there is an opportunity for India to improve its research and export milk which has a larger demand.
- In future Government may also consider to provide milk in Mid-day meals for children which will improve nutrition of the child and to augment farmers' income across India. This is expected to cost Rs 10000 crore. But it will provide extra income (around Rs 7,000 per annum) to farmers, will also augment the overall health standards of 10 crore Indian children.

Estimates on providing milk in mid-day meal Scheme

Indicator	Unit	
Total Students	million	98.3
School Days (Avg)		225
Per Child Milk Consumption per day	ml	125
Total Milk Consumption per year	million litres	2765
Price of milk per litre	Rs	40
Total Milk Expenditure per year	Rs million	110588
Burden on Central Government	million	66353
Number of Farmers under dairy corporative societies	million	15.83
Per Farmer Extra Income	Rs	6986

Source: Department of School Education & Literacy, Ministry of Agriculture

MSME

- The Government has stayed on its resolve for the growth of MSME sector, which provides employment to crores of people. Towards this, a scheme of sanctioning loans upto Rs 1 crore in 59 minutes has already been launched.
- The FM has reiterated the Government decision of 2% interest rebate on incremental loan of Rs 1 Crore to the GST-registered SME units. To provide support to the sector, the requirement of sourcing from SMEs by Government enterprises has been increased to 25%, within which at least 3% of such requirement will be sourced from women owned SMEs. The step of recognising the GST compliant small scale registered businesses for granting loan at concessional rate is likely to encourage compliance behavior among small scale business units. Further, the decision of allowing of filing quarterly tax returns as against monthly for businesses having an annual turnover less than Rs 5 crore is a welcome move. It would reduce cost of compliance and will bring in efficiency in the system. It may be noted that this decision would be comprising of over 90% of GST payers.
- All these announcements have come against the backdrop of the Government pushing the RBI to provide relief to the stressed MSME sector that has been hurt by the disruption caused by demonetisation in late 2016 and the implementation of the GST in July the following year. In March 2016, the RBI had notified a mechanism for resolving stressed MSME loans of up Rs 25 crore. There are around 30 million establishments in India's informal economy, with MSMEs having a 32% share.
- The Budget has lauded the performance of its e-Marketplace (GeM). Under GeMs, transactions of over Rs 17,500 crore have taken place, resulting in average savings of 25-28%. The decision of extending the GeM platform to all CPSEs will further increase the volumes and benefit the MSMEs. Presently there are more than 300000 products, 47279 sellers and 18230 buyer organizations associated/registered with GeM. As GeM has taken the entire process of public procurement online, it is also a step in India's digital journey.
- The budget while acknowledging the young demographic profile of the country, points towards the 1 crore youth who have been trained under the Pradhan Mantri Kaushal Vikas Yojana to help them earn a livelihood. The FM said that The Government has harnessed 'Yuva Shakti' through self-employment schemes including MUDRA, Start-up India and Stand-up India. Under MUDRA Yojana 15.56 crore loans have been disbursed amounting to Rs 7,23,000 crore.

INFRASTRUCTURE

- Though the budget does not give any specific numbers towards infrastructure development, the FM has reiterated that Infrastructure is the backbone of any nation's development and quality of life, whether it is highways or railways or airways. The FM has highlighted the UDAN scheme, under which there are 100 functional airports in India. Besides improving connectivity it has led to doubling of traffic and creation of large number of jobs.
- In case of Rail transport, all unmanned level crossings in broad gauge network have been completely eliminated alleviating the security concerns of road traffic. The Capital expenditure programme of Railways has been kept at an all-time high of Rs 1.58 lakh crore in the next fiscal. The FM has also spoken about first indigenously developed and manufactured semi high-speed "Vande Bharat Express" which aims at providing Indian passengers world class experience with speed, service and safety fulfilling the objectives of Make In India.
- Under road infrastructure, the Government has allotted a sum of Rs 19,000 crore to the Pradhan Mantri Gram Sadak Yojana (PMGSY), under which the construction of rural roads has tripled.
- Renewable energy holds the future of the world. Recognising the same, the budget renews Government's commitment to promote renewable energy, which is reflected in setting up the International Solar Alliance, the first treaty based international inter-governmental organisation headquartered in India. It may also be noted that India's installed solar generation capacity has grown over ten times in last five years and this sector is now creating lakhs of new age jobs.
- The FM has also shown the Government's intent to moderate the increasing demand of crude oil and natural gas through usage of bio fuel and alternate technologies and has emphasised for urgent action to increase hydrocarbon production to reduce imports. As per the numbers and as per the guidance of the Government, which speaks of India becoming a $5 trillion economy in the next five years, the country will need state of the art next-generation infrastructure in terms of roads, railways, seaports, airports, and urban transport. It should be borne in mind that India has emerged as one of the fastest highway developers in the world with 27 km of highways built each day.

RAILWAYS

- In keeping with the Government's focus on strengthening the Railways network in the country the Union Budget FY20 has enhanced the allocation for the Ministry. The major highlights are as follow:
  - Railways' Capex for the year FY20 has been pegged at Rs 1,58,658 crore. Capital support of Rs 64,587 crore proposed in FY20 (BE) from the budget.
  - Gross tariff receipts will increase by 10.1% to Rs 2.17 lakh crore in FY20, with passenger earnings grew by 7.7% to Rs 56,000 crore and freight earnings will estimated to increase by 10.2% to Rs 1.43 lakh crore.
  - Operating Ratio is expected to improve from 98.4% in FY18 to 96.2% in FY19 & further 95% in FY20.

Railway Financial (Rs Crore)

Components (Rs Cr)	FY17	FY18	FY19 (RE)	FY20 (BE)	FY20/ FY19 (%Gr)	FY19/ FY18 (%Gr)	FY18/ FY17 (%Gr)	5 Yr CAGR (FY15-19 in %)	Decadal CAGR (FY10-19 in %)
1. Total Receipts	165382	178930	197214	216935	10.0	10.2	8.2	5.2	9.2
2. Gross Traffic Receipts	165292	178725	196714	216675	10.1	10.1	8.1	5.8	9.5
2.1 Passenger Earnings	46280	48643	52000	56000	7.7	6.9	5.1	5.4	9.2
Passenger Earnings / Gross Traffic Receipts (%)	28.0	27.2	26.4	25.8					
2.2 Freight Earnings	104339	117055	129750	143000	10.2	10.8	12.2	5.2	9.3
Freight Earnings / Gross Traffic Receipts (%)	63.1	65.5	66.0	66.0					
2.3 Other Earnings*	14673	13027	14964	17675	18.1	14.9	-11.2	14.4	13.0
3. Total Miscellaneous Receipts	90	204	500	260	-48.0	144.7	126.3	-41.6	-15.5
4. Total Expenditure	160469	177264	191200	207900	8.7	7.9	10.5	7.3	9.6
5. Revenue net of dividend payouts	4913	1666	6014	9035	50.2	261.1	-66.1	-5.9	171.5
Memoranda									
Gross Traffic Receipts (% of GDP)	1.1	1.0	1.0	1.0					
Net Revenue (% of GDP)	0.0	0.0	0.0	0.0					
Operating Ratio	96.5	98.4	96.2	95.0					

Note:1. *Other earnings are defined as the sum of other coaching earnings, sundry other earnings and suspense.

Source: Railway Budget & SBI Research

VISION FOR INDIA 2030

Infrastructure	• To create physical and social infrastructure for ten trillion dollar economy and to provide ease of living • Besides scaling up Sagarmala, India's coastline and ocean waters will power development
Digital India	• Digital India led by the youths with innumerable start-ups and million of jobs.
Clean India	• To make India pollution free by focusing on Electrical Vehicles and renewables. • Clean rivers, with safe drinking water to all Indians and efficient use of water in irrigation using micro-irrigation techniques.
Space	• Through our space programme – Gaganyaan, India becoming the launch-pad of satellites for the World
Healthy India	• Self sufficiency in food production and producing food in the most organic way. • A healthy India by 2030 and a distress free health care and wellness system for all. Ayushman Bharat and women participation would be an important component in it.
Employment	• Rural industrailisation using modern technologies to generate massive employment.
Governance	• Employees working with elected Government, transforming India into Minimum Government Maximum Governance nation.

- Along with the expectations of the common man, the Government has announced a slew of tax proposals in the interim budget for the year 2019-20. The main tax proposal will still be deliberated and brought at the time of the regular budget. The major budget proposals are:
- Individuals with income upto Rs 5 lakh will get full tax rebate under section 87A. In other words, if the net taxable income (after all deductions) does not exceed Rs 5 lakh, then there is no need to pay any tax. However, if it exceeds Rs 5 lakh then taxes will be calculated as per the current tax structure. This is a welcome move to increase the tax base and give relief to around 3 crore middle class tax payers such as self-employed, small business, small-traders, salary earners, pensioners and senior citizens. The total revenue loss would be around of Rs 18,500 crore.
- For the salaried people, Government has raised the standard deduction limit to Rs 50,000 from the current Rs 40,000. This benefit of standard deduction from salary was introduced in Budget FY19, in lieu of medical reimbursement and transport allowance, which were common tax-exempt components of salary structure till FY FY18. This will benefit the salaried individuals at max amount of Rs 3000 (excl. cess) per person in a year, depending upon the income tax structure. This will have fiscal cost of around Rs 4700 crore to provide tax relief to approximately 3.85 crore salary earners and pensioners.
- The Budget has proposed to raise the limit of TDS threshold for interest earned on bank and post office deposits to Rs 40,000 from Rs 10,000 currently. This was a long pending demand from banks and will be a huge relief to those taxpayers who invest their money largely in bank fixed deposits and various post office deposit schemes. As of Mar'18, there were 239 million term deposit accounts in banks with per account balance is Rs 2.75 lakh. Assuming 7.5% rate of interest, on an average every term-deposit holder accrued interest of Rs 20,000, out of which he/she has to pay TDS on Rs 10,000. Now since interest earned upto Rs 40,000 is exempted this will bring large relief to all the small depositors. This may incentivize some risk averse individuals to shift from other instruments to bank deposits to get higher return. It is estimated that around Rs 3-5 lakh crore of deposits may surge in TDR in post offices and banks over the year.
- Further, the TDS threshold for deduction of tax on rent is proposed to be increased from Rs 1.8 lakh to Rs 2.4 lakh for providing relief to small taxpayers. This gives convenience relief to those who depend on rental income.
- Capital gain tax U/S 54 of the IT tax has been revised to 2 residential houses for tax payers having capital gains up to Rs 2 crore. This benefit can be availed once in a lifetime.
- Exempt levy of income tax on notional rent on a 2nd self-occupied house. This will help the middle class who is required to maintain families at two locations on account of their job, children's education, care of parents etc.
- Additionally, in the next two years, almost all verification and assessment of returns selected for scrutiny will be done electronically, without any personal interface between taxpayers and tax officers. Overall, the focus of the budget this time has been simplifying the taxation process and providing relief to the middle class tax payers.

KEY HIGHLIGHTS

- The budget has broadly imparted a vision on a ten year horizon laying the basis for a regular budget that is likely to come up during July 2019. Given the current nature of budget, no major announcements directly benefitting the corporates were made. FMCG, Entertainment, Oil Exploration and Housing appear to benefit from the announced measures.
- Sensex opened at 36,311 in the morning touching a high of 36,778 but declined thereafter to close at 36,469 broadly depicting the swaying sentiment during budget being announced. We present below the Nifty Indices on Midcap, FMCG and Pharma among others. For corporates, as expected, an indirect benefit would percolate through higher disposable income accruing through various social benefit schemes and nil tax for gross total income up to Rs 5 lakh.
- In affordable housing, benefits under Section 80-IBA (Deductions in respect of profits and gains from housing projects) have been extended to approved housing projects for one year till 31st March 2020. This benefit extends to real estate developers. Home buyers under affordable housing would continue to get interest rate subvention under Pradhan Mantri Awas Yojana Interest Subsidy Scheme for Economically Weaker Section and Low Income Group. Also, under Section 54 of the Income Tax Act (profit on sale of property used for residence), the benefit of capital gains has been increased by way of investment in one residential house to two residential houses for tax payer having capital gains up to Rs 2 crore. This is also likely to perk up demand for affordable housing for families going nuclear.
- In case of MSMEs, the benefits continuing through various measures such as interest rate subvention and sourcing priority would enhance their promotion. GST registered SME units will continue to get 2% interest rebate on incremental loan of Rs 1 crore. The other benefit of the requirement of sourcing from SMEs by Government enterprises has been increased to 25% has found favour. MSMEs which are not GST registered may not be able to avail interest rebate. This would encourage MSMEs to enroll into GST.
- Entities or MSMEs supplying its products to Railways would also benefit. The budget has proposed capital support for railways at Rs 64587 crore in FY20 (BE). The railways' overall capital expenditure plan is of Rs 1,58,658 crore.
- In Entertainment sector, the Government is proposing a single window clearance for ease of shooting films in India. The Government is also introducing anti camcording provisions in the Cinematograph Act to control the ills of piracy. Companies such as PVR Ltd, largest multiplex operator may see surge in patrons / viewership.
- In oil exploration, the Government is undertaking measures to reduce import of hydrocarbon and increase domestic production. The Government constituted a high level inter-ministerial committee looking to change the system of bidding for exploration from - revenue sharing to exploration programme for Category II and III basins. This may encourage large players to invest and increase hydrocarbon production.
- Recent quarter Q3FY19 results of 576 corporates, sector such textiles, entertainment, chemicals, consumer durables, capital goods (Non-Electrical Equipment) appear to be trending with a positive bias.
- Overall, the budget is transitory in nature and the full impact can be only be effected when a regular budget takes shape for the vision to be implemented. The Government has announced off-budget measures time and again. We attempt to capture some important updates on Insolvency and Bankruptcy Code, Capital Infusion in Public Sector Banks (PSBs) and market mood on the day of the interim budget.

CORPORATE RESULTS Q3FY19 - EARLY TRENDS

- As per the Q3FY19 results declared by around 576 listed entities, we observed a top line growth of 20%. While operating profit grew at 6.2%, bottom line showed de-growth of 9.5%. Excluding Banking BFSI and refineries 439 entities reported top line growth of 15.6% and bottom line growth of 3% with operating profit growing at 7.7%.
- Some of the sectors which reported all-round growth include Capital Goods – Non-Electrical Equipment, Textile, Chemicals, Steel, FMCG etc. List of sectors with growth in key parameters, as per early trends are:

Growth in key parameters Q3FY19 vis a vis Q3FY18

Sector	No of Cos.	Net Sales	PBIDT	PAT *
Textiles	14	20	21	24
IT - Software	42	18	9	-1
Entertainment	13	18	42	69
Pharmaceuticals	24	17	6	-3
Cement	8	16	7	1
Chemicals	34	16	6	6
Power Generation & Distribution	7	16	10	-9
Consumer Durables	9	14	48	56
Capital Goods-Non Electrical Equipment	14	14	21	45
Plastic products	11	13	-9	-10
Healthcare	5	13	1	14
Packaging	7	12	12	40
Steel	23	12	3	375
Paper	9	12	63	136
FMCG	11	10	14	12
Hotels & Restaurants	10	9	26	26
Automobile	5	8	-2	-3
Auto Ancillaries	16	8	27	46
Realty	14	1	5	8
Trading	20	-19	96	137

Source: Cline; SBI Research; *PAT = Adjusted PAT

MARKET MOOD: MOVEMENT OF KEY INDICES

Market Movement of Key Indices in last One Month and on Budget Day

Indices	01-Jan-19	31-Jan-19	01-Feb-19	Movement Over 01-Jan-19		Movement on Budget Day	
				Points	Percentage	Points	Percentage
BSE SENSEX	36,255	36,257	36,469	214	0.59%	212	0.58%
NIFTY 50	10,910	10,831	10,894	-16	-0.15%	63	0.58%
NIFTY MIDCAP 100	17,894	16,905	16,990	-904	-5.05%	85	0.50%
NIFTY AUTO	9,182	8,218	8,441	-741	-8.07%	223	2.71%
NIFTY BANK	27,392	27,295	27,086	-306	-1.12%	-209	-0.77%
NIFTY FMCG	30,398	29,801	30,200	-198	-0.65%	399	1.34%
NIFTY INFRA	3,191	2,977	2,998	-193	-6.05%	21	0.71%
NIFTY PHARMA	8,882	8,825	8,970	88	0.99%	145	1.64%
NIFTY REALITY	238	228	231	-7	-2.94%	3	1.32%
NIFTY MEDIA	2,574	2,173	2,097	-477	-18.53%	-76	-3.50%
NIFTY METAL	3,135	2,916	2,816	-319	-10.18%	-100	-3.43%

Source: NSE; BSE; closing price as on date; amount rounded off

- Government has notified Insolvency and Bankruptcy code, 2016 post substitution of 6 decade old Companies Act 1956 by new enactment of Companies Act 2013 and has constituted National Company Law Tribunal (NCLT) under section 408 of the Companies Act, 2013.
- The intent is to have a time-bound settlement of insolvency, faster turnaround of businesses in commercial viability and creation of a database of serial defaulters. Further, the code will make it easier for financial institutions and banks to deal with non-performing assets (NPAs) and have a faster and non-invasive resolution process.
- As per the latest available number with IBBI, 1484 cases have been admitted up to Dec 2018, wherein 586 cases are being closed either by way of appeal/review, Resolution plan, Liquidation, withdrawal etc. and 898 cases are undergoing the process.
- Further, out of 898 ongoing cases, we can see from the table that 31% cases are pending for more than 270 days from the date of admission, while 643 cases i.e. 72% are pending for more than 90 days.

Corporate Insolvency Resolution Processs

Quarter	No. of CIRPs at the beginning of the Quarter	Admitted	Closure by				No. of Corporates undergoing Resolution at the end of the Quarter
			Appeal / Review	Withdrawal under section 12A	Approval of Resolution Plan	Commencement of Liquidation	
Jan-Mar, 2017	-	37	1	-	-	-	36
Apr-Jun, 2017	36	129	8	-	-	-	157
July-Sept, 2017	157	232	18		2	8	361
Oct-Dec, 2017	361	147	38		7	24	439
Jan-Mar, 2018	439	195	20		11	59	544
Apr-June, 2018	544	245	20	1	14	50	704
July-Sept, 2018	704	235	30	26	32	83	768
Oct-Dec, 2018	768	264	7	36	13	78	898
Total	**NA**	**1484**	**142**	**63**	**79**	**302**	**898**

Source: IBBI, Data compiled from details available on NCLT Website

Initiation of Corporate Insolvency Resolution Process

Quarter	No. of Resolutions Processes Initiated By			
	Financial Creditor	Operational Creditor	Corporate Debtor	Total
Jan-Mar, 2017	8	7	22	37
Apr-Jun, 2017	37	58	34	129
July-Sept, 2017	92	101	39	232
Oct-Dec, 2017	64	69	14	147
Jan-Mar, 2018	84	89	22	195
Apr-June, 2018	99	128	18	245
July-Sept, 2018	83	136	16	235
Oct-Dec, 2018	95	154	15	264
Total	**562**	**742**	**180**	**1484**
Share	**38%**	**50%**	**12%**	**100%**

Source: IBBI; SBI Research

Status of CIRPs - Dec'2018

Status of CIRPs	Number of Cases	
Admitted	**1484**	
Closed on Appeal/ Review /Settled	142	
Closed on Withdrawl	63	
Closed by Resolution	79	
Closed by Liquidation	302	
Ongoing CIRP	**898**	
> 270 days	275	31%
> 180 days ≤ 270 days	166	18%
> 90 days ≤ 180 days	202	22%
≤ 90 days	255	28%

Source: IBBI; SBI Research

Realisation Rate: 48.3%

- More than Rs.65000 crore has been realized so far, up to Dec'18, under IBC by Financial Creditors (FC) from around 80 entities against total claim by FC of around Rs 1.36 lakh resulting in realization of 48.3% with a haircut of 51.7%.

Claims Admitted vs Realisation of FC (Rs in Cr)

Period	Total Claims Admitted	Realisation	Realisation %
Q3FY18	5,524	1,856	33.60%
Q4FY18	4,405	3,070	69.70%
Q1FY19	76,239	42,885	56.30%
Q2FY19	42,270	11,079	26.20%
Q3FY19	7,691	6,906	89.80%
Total	**136,129**	**65,796**	**48.30%**

Source: IBBI; SBI Research; FC: Financial Creditor

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