UNION BUDGET 2019-20

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FOREWORD

The Union Budget 2019-20 carries forward the 10-point Vision for the decade articulated in the Interim Budget in February 2019 and the goal of becoming a $5 trillion economy further over the next five years. The economic strategy involves a three-pronged thrust to infrastructure, digital economy and MSME sector. Initiatives proposed are intended to kick-start the virtuous cycle of investments.

Among the trinity, infrastructure sector related to connectivity has received a very detailed attention in the Budget Speech. The cost logistics and transport can be reduced by at least 2% in India which in turn will improve time and cost efficiency. Thus, Budget envisages scaling up the existing projects in this segment along with use of inter-operable transport card for payment of user cost. Importantly, the focus on railways continues even in this budget. Public-Private-Partnership has been proposed for development and completion of tracks, rolling stock manufacturing and delivery of passenger freight services.

In line with the Make in India goals, the thrust to aviation sector is praise worthy. The proposed policy interventions for the development of Maintenance, Repair and Overhaul (MRO), to achieve self- reliance in aviation segment is a welcome measure. Furthermore, a regulatory roadmap for making India a hub for aircraft financing and leasing activities will be positive for the overall prospects of this sector.

Other infrastructure initiatives such as the One Nation, One Grid for power sector, gas grids, water grids are ambitious and well thought out in consonance with challenges faced today. Innovative methods such as setting up of Credit Guarantee Enhancement Corporation is welcome. Other proposals, such as deepening the market for long term bonds with focus on infrastructure, transfer/sale of investments by FIIs/FPIs and an annual Global Investors Meet at the national level will ensure that sufficient funds are garnered to execute critical public projects.

The Budget has tried to sort out issues related to MSME and Start-up sectors. The issue of Angel tax has been addressed. The Rs 350 crore allocation for 2% interest subvention (on fresh or incremental loans) to all GST-registered MSMEs and rationalization of labour laws will accelerate the formalization of Indian economy.

Coming to the measures and proposals announced for the financial sector, the Budget has put lot of emphasis on financial stability, financial governance and market deepening. Accordingly, Rs 70,000 crore has been provided to PSBs to boost credit. The regulatory authority of NHB over Housing Finance Companies has now been entrusted to RBI for better coordination and monitoring.

Furthermore, the dispensing away with the requirement of creating a Debenture Redemption Reserve for NBFCs to raise funds in public issues and allowing NBFCs to directly participate on the TReDS platform will help address balance sheet problems of NBFCs.

In the insurance and pension sector, the Government has permitted on-shoring of international insurance transactions and accordingly Net Owned Fund requirement have been reduced from Rs 5,000 crore to Rs 1,000 crore. 100% FDI is now allowed in Insurance Intermediaries which is certain to give a thrust to marketing of insurance products. For better governance, keeping in view the wider interest of the subscribers, the Budget proposes to separate the NPS Trust from PFRDA with appropriate organizational structure. Since Bank employees are also a part of NPS, this is a good measure to boost confidence in the scheme at large.

The idea of retail participation in financial markets has received considerable attention. Henceforth, stock exchanges will be enabled to allow AA rated bonds as collateral. In the G-Sec markets, Government will supplement efforts by RBI to get retail investors to invest in government treasury bills and securities.

The innovative proposal of creation of a social stock exchange under SEBI for listing social enterprises and voluntary organizations may turn out to be State promoted equity cum reward crowd funding mechanism.

The Budget announcements are also likely to help develop altogether a new segment called rental housing. From banks' perspective, interchangeability of PAN and Aadhaar would ease the operational aspect.

Overall the Budget has tried to achieve rapid economic growth with a human face. The measures to address development of Human Resource through New National Education Policy and National Research Foundation are efforts is this direction. The Budget is a great start in the journey to $5 trillion economy.

Rajnish Kumar

Section 1
The Macro Picture

KEY HIGHLIGHTS OF THE UNION BUDGET 2019-20

- Sticking to the fiscal consolidation path, fiscal deficit for FY20 is estimated at 3.3% of GDP compared to 3.4% of GDP in FY19. However this fiscal arithmetic depends upon projected nominal GDP growth rate of 12.0% for FY20 which is optimistic given the fact that real GDP is expected to grow by 7% and inflation at 4%. In actual terms, fiscal deficit for FY20 is Rs 69,362 crore more than the FY19 revised number.
- Specific thrust has been given to infrastructure, rural economy, housing, farmer welfare, water security, labour and youth welfare.
- Government will pump in Rs 70,000 crore into public sector banks (PSBs) to strengthen them and enhance their lending capacity.
- Government has increased disinvestment target to over Rs 1 lakh crore for FY20 from Rs 90,000 crore estimated in Interim budget. Strategic disinvestment of select public sector undertakings will remain a priority area. 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.
- Government will focus on imparting new-age skills in areas like artificial intelligence, Internet of Things, big data, 3-D printing, virtual reality and robotics to equip youth to take up high-paying jobs overseas
- For FY20, the Government Borrowing is budgeted at Rs 7.10 lakh crore and net borrowing requirement is pegged at Rs 4.73 lakh crore taking into account buybacks, switches and repayments.
- The total dividend from the Reserve Bank of India, nationalised banks and financial institutions is estimated at Rs 1,06,041 for FY20, considerably higher than the revised estimated of FY19 (Rs 74,140 crores). This jump indicates that the Government is expecting higher dividends from RBI and better performance of PSUs.
- The lower rate of 25% Corporate Tax has been extended to all companies with annual turnover up to Rs 400 crore. Currently, this rate is only applicable to companies having annual turnover upto Rs 250 crore. This will cover 99.3% of the companies.
- Gross tax revenue is expected to grow by 9.5% in FY20 to Rs 24.6 lakh crore. This revenue target from taxation is supported by 20% growth in custom duty, 15.6% in excise duty and 14.2% rise in corporation tax. The overall tax collections estimates have been reduced by Rs 90,936 crore with downward revised projections for GST and income tax accounting for the same. The estimated tax buoyancy at 0.8 (on the basis of gross tax revenue) is at 6-year low for FY20.
- Super-rich will have to contribute more towards tax collection. Going forward those earning between Rs 2 crore and Rs 5 crore will have to pay 25% surcharge on the tax amount, whereas those earning over Rs 5 crore will have to pay 37% as surcharge on tax amount, till now they were paying 15% as surcharge. Therefore effective tax rate will now be 39% and 42.74%, respectively for two segments of incomes.
- GST collection target exhibited slight increase of 3% to Rs 6.6 lakh crore over FY19 revised estimates.
- The Payment platform for micro, small and medium enterprises (MSMEs) will enable filing of bills and facilitate timely payments. Investment in MSMEs will receive a big boost if delays in payment are eliminated.
- The enhancement of foreign direct investment in the civil aviation sector could ease the proposed divestment of Air India. This will help create jobs in the maintenance, repair and overhaul facilities in the country.

- Government has outlined a "One Nation, One Grid" initiative to bring affordable power to all states. Since 100% electrification has been achieved, the Government's focus is now to provide consistent electricity at affordable rates.
- Government has announced a host of incentives to release the entrepreneurial spirit. These include a TV programme exclusively for start-ups, easing foreign direct investment rules into start-up segments like grocery, e-commerce and food delivery, proposing a host of enhancements to the digital payment systems ecosystem that would help fintech start-ups, incentives for electric vehicles that would help EV start-ups, and ensuring that start-ups do not feel the heat of angel tax from I-T authorities.
- Government has proposed to build 1.95 crore houses under Pradhan Mantari Awas Yojna (Rural), adding 100 new clusters in 2019-20 to enable 50,000 artisans to come into economic value chain.
- There will be additional deduction upto Rs 1.5 lakh for interest paid on loans borrowed up to 31st March, 2020 for purchase of house valued up to Rs. 45 lakh. Overall benefit will be of around Rs 7 lakh over loan period of 15 years.
- Major subsidies will be increased by whopping 13.3% to Rs 3.02 lakh crore.

MACRO VIEW: TOWARDS A $5 TRILLION ECONOMY

To achieve the objective of becoming a $5 trillion economy by 2024-25, India needs to sustain a real GDP growth rate of 8% per annum. International experience, especially from high-growth East Asian economies, suggests that such growth is possible but can only be sustained by a virtuous cycle of savings, investment and exports catalysed and supported by a favourable demographic phase. Investment, especially private investment, is the key driver that drives demand, creates capacity, increases labour productivity, introduces new technology, allows creative destruction, and generates jobs. Exports must form an integral part of the growth model because higher savings preclude domestic consumption as the driver of final demand. Similarly, job creation is driven by this virtuous cycle. We here provide some of the enablers that could help India to become a $5 trillion economy by FY25.

Some of these enablers have already been initiated in the Budget and some of these measures will possibly be forthcoming in subsequent budgets. Specifically, we believe India's road to $5 trillion will be a clear function of how much structural enablers can we put in the interregnum. India became a $1 trillion economy in 57 years, $2 trillion in 7 years, $3 trillion in 5 years. We believe, with a favourable external environment and a stable exchange rate, India could achieve $4 trillion in next 3 years and $5 trillion in next 2 years, by 2024! Currently India is the sixth largest economy and could break into top 5 by 2022 at this rate. We are where China was in 2006 and an 8% plus growth could propel us to a $5 trillion economy by 2024. For this, we need a pro-growth policy of enhancing productivity, strong and inclusive income and boosting demand.

Sector-wise Enablers	
Sector	**Enablers**
Agriculture	• Accelerate digitization of land records. Progress is non-uniform E.g. Kerala (43%), Assam (49%), Bihar (65%), Chhattisgarh (85%) • Need to improve farmer productivity & access to market- while debt per farmer has increased from Rs 18,000 in 1991 to Rs 1.54 lakh in 2012 (CAGR: 11%), output grew by merely 3.5%
MSME and Exports	• Implement change in definition of MSMEs to be based on turnover • Support to establish a paper-less eTrade model leveraging National Digital & Document exchange (Digilocker) system • Create a single MSME data repository, uniquely identifying individual MSMEs • Augment flow of affordable credit for high-priority export sectors (E.g. Textiles, Garments) by bringing it under CGTMSE and ECGC cover- eliminate collateral requirements and pass on reduction in capital costs to exporters. Incentives to exports linked to meeting targets • Digitize manual ports and customs- including acceptance of e-bills of lading • Ensuring timely payments of receivables for better cash flow management

Sector-wise Enablers	
Sector	**Enablers**
Infrastructure and construction	• Extend structural reforms to infrastructure sector o Increase Government spending in building infrastructure for power, airports, drinking water, transportation (e.g., railways, urban mobility), defence and solid waste o Accelerate DFCs, Railway Infrastructure modernization, power sector reforms o Implement mega asset recycling, based on ToT model, across power transmission lines, petroleum and natural gas networks, telecom towers, power plants, railway tracks and ports over next 2 years • Re-invigorate private investment: New projects driven by growing Government investment - capacity utilization at 74%- will need demand to scale up before further investments are expected • Attract long term foreign capital (sovereign wealth funds/pension funds) to invest in infrastructure- provide credit enhancement for long term investments
Services/ Retail	• Drive rapid growth in affordable housing through central & state Government initiatives o Create innovative financing schemes & support creation of factory / pre-fabrication set-up o Unlock land pools to drive affordable housing supply • Digitize land records to facilitate mortgage lending

Source: SBI Research

The FY20 budget was a pleasant surprise to markets with a 3.3% fiscal deficit. Borrowings numbers were retained at Rs 7.1 lakh crores with a deliberate focus on overseas borrowings (sovereign dollar bond). We believe this will provide a dollar yield curve for Indian borrowers and will also lead to substantive savings in borrowing costs, and a decline in domestic G-sec yields. It may be noted that for India, only 4% debt is external (Even Japan at 5% with a debt/GDP ratio at 253%)!

There are several innovative features in the budget that may have escaped attention. The NBFC sector has been provided specific focus in the budget. Regulatory control of NBFCs will shift to RBI and this will create a level playing field in the market. The banks will be provided with a recapitalisation of Rs 70,000 crore and have been also incentivised for purchasing assets from NBFCS. The SME sector will be provided interest subvention at 2% provided they are GST registered. This will facilitate fund flow to SME as well as increased formalisation. Exclusive payment platform will be designed by Government for MSMEs to ensure timely payment of dues.

The Budget has also given a big push to affordable housing with an additional deduction upto Rs 1.5 lakh for interest paid on loans borrowed till March 2020. Rental housing will be promoted through a model tenancy law. The Budget also contains measures for the Agri sector by promoting FPOs.

Besides, the Budget contains a slew of measures for the Corporate Bond Market. Some of the steps include measures to augment retail participation in G-sec market and several schemes to increase FPI flows.

In FY19, the Budget had introduced a long term tax on capital gains exceeding Rs 1 lakh at the rate of 10% without allowing the benefit of any indexation. This was expected to mobilise Rs 27,500 crore (including Rs 7,500 crore from equity mutual funds). In FY20 Budget estimates, the total budgeted collection under this head is expected to increase further by an additional Rs 2,723 crore. It is not clear, how much of this is because of the surcharge on super rich and how much through capital gains. Conservative estimates suggest that mobilisation surcharge on super rich could be higher by Rs 2,723 crore, indicating shortfall in capital gains tax realisation in FY19.

Overall, the budget has pegged a reasonable tax revenue number at 11.1% (5 year CAGR at 13.2%). However, the budget has pegged non-tax revenue at 27.7% (5 year CAGR at 5.5%, though FY19 expanded at 27.3%), riding on a Rs 44,000 crore jump on dividend transfers. The expenditure numbers are reasonable and are in fact lower than historical trends. Nevertheless, the commitment to fiscal deficit target is most reassuring and the markets will be glad with a reasonable fiscal deficit number.

Budget at a glance (Rs Crore and as a % of GDP)

	FY18	FY19 (RE)	FY20 (Interim BE)	FY20 (BE)	FY20 (BE)/ FY19	FY20 (Interim BE)/ FY19 (% Gr)	FY19/ FY18 (% Gr)	5 Yr CAGR (FY15-19 in %)	Decadal CAGR (FY10-19 in %)
1.1 Revenue Receipts	1,435,233	1,729,682	1,977,693	1,962,761	13.5	14.3	20.5	11.9	13.1
% of GDP	8.4	9.2	9.3	9.3					
1.1.1 Tax Revenue (Net to centre)	1,242,488	1,484,406	1,705,046	1,649,582	11.1	14.9	19.5	13.2	14.0
% of GDP	7.3	7.9	8.0	7.8					
1.1.2 Non-Tax Revenue	192,745	245,276	272,647	313,179	27.7	11.2	27.3	5.5	8.6
% of GDP	1.1	1.3	1.3	1.5					
1.2 Capital Receipts	706,742	727,553	806,507	823,588	13.2	10.9	2.9	6.7	5.4
% of GDP	4.1	3.9	3.8	3.9					
1.2.1 Recoveries of Loans	15,633	13,155	12,508	14,828	12.7	-4.9	-15.9	-1.1	4.8
% of GDP	0.1	0.1	0.1	0.1					
1.2.2 Other Receipts	100,045	80,000	90,000	105,000	31.3	12.5	-20.0	20.7	14.0
% of GDP	0.6	0.4	0.4	0.5					
1.2.3 Borrowings and other liabilities*	591,064	634,398	703,999	703,760	10.9	11.0	7.3	5.6	4.7
% of GDP	3.5	3.4	3.3	3.3					
1. Total Receipts	2,141,975	2,457,235	2,784,200	2,786,349	13.4	13.3	14.7	10.2	10.2
% of GDP	12.5	13.0	13.1	13.2					
2. Total Expenditure	2,141,975	2,457,235	2,784,200	2,786,349	13.4	13.3	14.7	10.2	10.2
% of GDP	12.5	13.0	13.1	13.2					
2.a) Revenue Expenditure	1,878,835	2,140,612	2,447,907	2,447,780	14.3	14.4	13.9	9.9	9.9
% of GDP	11.0	11.4	11.5	11.6					
2.a).1 Grants for creation of Capital Assets	191,034	200,300	200,740	207,333	3.5	0.2	4.9	11.3	...
% of GDP	1.1	1.1	0.9	1.0					
2.a).2 Interest Payments	528,952	587,570	665,061	660,471	12.4	13.2	11.1	9.9	11.9
% of GDP	3.1	3.1	3.1	3.1					
2.b) Capital Expenditure	263,140	316,623	336,293	338,569	6.9	6.2	20.3	12.6	12.2
% of GDP	1.5	1.7	1.6	1.6					
3. Revenue Deficit (2.a)-1.1)	443,602	410,930	470,214	485,019	18.0	14.4	-7.4	3.0	2.2
% of GDP	2.6	2.2	2.2	2.3					
4. Effective Revenue Deficit (2.a)-2a).1)	252,568	210,630	269,474	277,686	31.8	27.9	-16.6	-2.7	...
% of GDP	1.5	1.1	1.3	1.3					
5. Fiscal Deficit {2-(1.1+1.2.1+1.2.2)}	591,064	634,398	703,999	703,760	10.9	11.0	7.3	5.6	4.7
% of GDP	3.5	3.4	3.3	3.3					
6. Primary Deficit	62,112	46,828	38,938	43,289	-7.6	-16.8	-24.6	-18.9	-15.1
% of GDP	0.4	0.2	0.2	0.2					
Revenue Deficit / Fiscal Deficit (%)	75.1	64.8	66.8	68.9					
Memoranda									
Nominal GDP	17,095,005	18,840,731	21,196,333	21,100,607	-				
Growth rate	11.3	10.2	11.5	12.0	-				

Source: Union Budget Documents & SBI Research.

Budget at a glance (Rs Crore and as a % of GDP)							
	FY18	FY19 (RE)	FY20 (Interim BE)	FY20 (BE)	FY20 (BE)/ FY19 (% Gr)	FY20 (Interim BE/ FY19 (% Gr)	FY19/ FY18 (% Gr)
Pension	145,745	166,618	174,300	174,300	4.6	4.6	14.3
% of GDP	0.9	0.9	0.8	0.8			
Defence	276,572	285,423	305,296	305,296	7.0	7.0	3.2
% of GDP	1.6	1.5	1.4	1.4			
Subsidy	191,210	266,217	296,684	301,694	13.3	11.4	39.2
% of GDP	1.1	1.4	1.4	1.4			
Agriculture & allied Activities	52,628	86,602	149,981	151,518	75.0	73.2	64.6
% of GDP	0.3	0.5	0.7	0.7			
Commerce and Industry	24,087	28,394	27,660	27,043	-4.8	-2.6	17.9
% of GDP	0.1	0.2	0.1	0.1			
Education	80,215	83,626	93,848	94,854	13.4	12.2	4.3
% of GDP	0.5	0.4	0.4	0.4			
Energy	42,155	46,150	44,101	44,638	-3.3	-4.4	9.5
% of GDP	0.2	0.2	0.2	0.2			
Finance	17,392	18,852	19,812	20,121	6.7	5.1	8.4
% of GDP	0.1	0.1	0.1	0.1			
Health	52,994	55,949	63,538	64,999	16.2	13.6	5.6
% of GDP	0.3	0.3	0.3	0.3			
Home Affairs	87,547	99,034	103,927	103,927	4.9	4.9	13.1
% of GDP	0.5	0.5	0.5	0.5			
Interest	528,952	587,570	665,061	660,471	12.4	13.2	11.1
% of GDP	3.1	3.1	3.1	3.1			
Others	66,306	74,895	75,822	76,665	2.4	1.2	12.9
% of GDP	0.4	0.4	0.4	0.4			
Rural Development	134,973	135,109	138,962	140,762	4.2	2.9	0.1
% of GDP	0.8	0.7	0.7	0.7			
Social Welfare	37,440	46,492	49,337	50,850	9.4	6.1	24.2
% of GDP	0.2	0.2	0.2	0.2			
Tax Administration	71,756	67,448	117,285	117,285	73.9	73.9	-6.0
% of GDP	0.4	0.4	0.6	0.6			
Transfer to States	107,501	141,353	166,883	155,447	10.0	18.1	31.5
% of GDP	0.6	0.8	0.8	0.7			
Transport	110,399	145,399	156,187	157,437	8.3	7.4	31.7
% of GDP	0.6	0.8	0.7	0.7			
Urban Development	40,061	42,965	48,032	48,032	11.8	11.8	7.2
% of GDP	0.2	0.2	0.2	0.2			
Grand Total	2,141,973	2,457,235	2,784,200	2,786,349	13.4	13.3	14.7
% of GDP	12.5	13.0	13.1	13.2			

Source: Union Budget Documents & SBI Research

FISCAL MANAGEMENT

Indian policy makers have taken recourse to fiscal consolidation path to reach a target of 3% in FY21 as suggested by the FRBM committee. In FY19 the Government has been able to meet the revised fiscal deficit estimate of 3.4% of GDP. However, there has been Rs 1.45 lakh crore reduction in expenditure exactly matching Rs 1.57 lakh crore reduction in total receipts. For FY20, the fiscal deficit has been pegged at 3.3% of GDP. Meanwhile, the GDP growth rate has been assumed at 12%. Given the growth trajectory that is panning out, 12% growth is the best-case scenario and therefore, fiscal deficit at 3.3% is a tad optimistic.

In this context, questions are often raised over the appropriate level of Public Sector Borrowing Requirements (PSBR). However, this is an unsettled question. In 2005 the Government of Japan did an extensive survey of this idea. This report concluded that: "*Generally, the size of Government is expressed either as the amount of spending and burden or as the strength of Government involvement in terms of regulation. In either case, when Government becomes large, the effective distribution of resources by the economy as a whole will not be achieved, and economic activity is likely to be less vigorous than it is under a smaller Government*".

Estimates using OECD country data found that as the size of Government spending becomes large, a negative effect is exerted on the economic growth rate, suggesting that there is a close relationship between the size of Government spending and macro-economic activity. The results of the study also indicated that as the strength of regulation increases, productivity declines. In light of this evidence, certain checks must be imposed on the expansion of Government size".

However, noted economist Blanchard has recently emphasized that in a situation of low interest rate (being less than the nominal growth rate), higher Government debt may not result in substantial fiscal cost which in turn reinforces the case for relying on fiscal policy for propelling growth.

We believe that the Government in developing countries like India should strive to make credible, transparent fiscal rules that are achievable. Also, the Government should target structural deficit as an alternative to targeting fiscal deficit. Such structural deficit acts as an automatic counter-cyclical stabilizer unlike the current target that has been set from the outset as a fixed percentage of GDP and is a statistical artefact!

Fiscal Deficit to GDP (% of nominal GDP)

	2008	2010	2012	2014	2016	2018
UK	-5.20	-9.30	-8.10	-5.40	-2.90	-1.50
US	-3.11	-8.72	-6.77	-2.80	-3.15	-3.84
Germany	-0.18	-4.22	-0.03	0.57	0.91	1.69
Greece	-10.18	-11.20	-8.87	-3.56	0.49	1.08
Portugal	-3.80	-11.20	-5.70	-7.20	-2.00	-0.50
India	-6.11	-4.89	-4.93	-4.10	-3.50	-3.40
Brazil	-1.18	-1.62	-1.80	-5.03	-7.72	-7.45
Indonesia	-0.08	-0.68	-1.78	-2.14	-2.49	-1.75
Russia	**4.87**	**-3.42**	**0.38**	**-1.07**	**-3.65**	**2.92**

Source: CEIC, SBI Research

Government Debt to GDP Ratio						
	2008	**2010**	**2012**	**2014**	**2016**	**2018**
UK	49.69	75.24	84.09	87.01	87.91	86.77
US	72.72	93.55	101.46	103.54	106.79	107.22
France	68.80	85.30	90.60	94.90	98.00	98.40
Germany	65.15	81.81	80.67	75.28	68.55	60.93
Spain	39.50	60.10	85.70	100.40	99.00	97.10
Portugal	71.70	96.20	126.20	130.60	129.20	121.50
India	50.51	50.10	47.77	47.28	46.88	45.62
Brazil	55.98	51.77	53.67	56.28	69.86	77.22
Indonesia	-	**24.43**	**22.95**	**24.68**	**28.35**	**29.78**

Source: CEIC, SBI Research

Subsidy Trends

The subsidy expenditure of three major subsidies is budgeted to increase by 13.3% to Rs 3.02 lakh crore for FY20. The petroleum subsidy is expected to increase by 1.5x to Rs 37,478 crore which is not a healthy sign. Fertilizer and food subsidies are supposed to increase by 14.1% and 7.5%, respectively.

Subsidy Trends (Rs crore and as a % of GDP)									
	FY18	**FY19 (RE)**	**FY20 (Interim BE)**	**FY20 (BE)**	**FY20 (BE)/ FY19 (% Gr)**	**FY20 (Interim BE)/ FY19 (% Gr)**	**FY19/ FY18 (% Gr)**	**5 Yr CAGR (FY15-19 in %)**	**Decadal CAGR (FY10-19 in %)**
Total 3 Major Subsidies	191183	266206	296684	301694	13.3	11.4	39.2	0.8	7.3
% of GDP	1.1	1.4	1.4	1.4					
Fertiliser Subsidy	66441	70086	74986	79996	14.1	7.0	5.5	-0.4	1.5
% of GDP	0.4	0.4	0.4	0.4					
Food Subsidy	100282	171298	184220	184220	7.5	7.5	70.8	9.8	12.7
% of GDP	0.6	0.9	0.9	0.9					
Petroleum Subsidy	24460	24833	37478	37478	50.9	50.9	1.5	-19.9	5.8
% of GDP	0.1	0.1	0.2	0.2					

Source: Union Budget Documents & SBI Research.

TAX REVENUE TRENDS

The gross tax revenue projections for FY20 has been revised downwards to Rs 24.6 lakh crore (9.5% growth over FY19), which is Rs 90,936 crore decline over the estimate in the interim budget presented in Feb'19. The decline has been majorly because of income tax (Rs 51,000 crore) and GST collections (Rs 97,857 crore). However, this has been partially compensated by the increase in the budget estimate of Custom Duty (Rs 10,516 crore) and Excise Duty (Rs 40,400 crore).

Direct and Indirect taxes (Rs crore and as a % of GDP)									
	FY18	FY19 (RE)	FY20 (Interim BE)	FY20 (BE)	FY20 (BE)/ FY19 (% Gr)	FY20 (Interim BE)/ FY19 (% Gr)	FY19/ FY18 (% Gr)	5 Yr CAGR (FY15-19 in %)	Decadal CAGR (FY10-19 in %)
Gross Tax Revenue	19,19,009	22,48,175	25,52,131	24,61,195	9.5	13.5	17.2	15.9	15.3
% of GDP	11.2	11.9	12.1	11.7					
Direct Tax									
Corporation Tax	5,71,202	6,71,000	7,60,000	7,66,000	14.2	13.3	17.5	11.8	11.9
% of GDP	3.3	3.6	3.6	3.6					
Taxes on Income Other than Corporation Tax	4,30,772	5,29,000	6,20,000	5,69,000	7.6	17.2	22.8	19.6	17.7
% of GDP	**2.5**	**2.8**	**3.0**	**2.7**					
Indiect Taxes									
Customs	1,29,030	1,30,038	1,45,388	1,55,904	19.9	11.8	0.8	-8.8	5.1
% of GDP	0.8	0.7	0.7	0.7					
Union Excise Duty	2,58,834	2,59,612	2,59,600	3,00,000	15.6	0.0	0.3	8.4	10.8
% of GDP	1.5	1.4	1.2	1.4					
Goods and Services Tax	4,42,561	6,43,900	7,61,200	6,63,343	3.0	18.2	45.5	-	
% of GDP	2.6	3.4	3.6	3.1					

Source: Union Budget Documents & SBI Research.

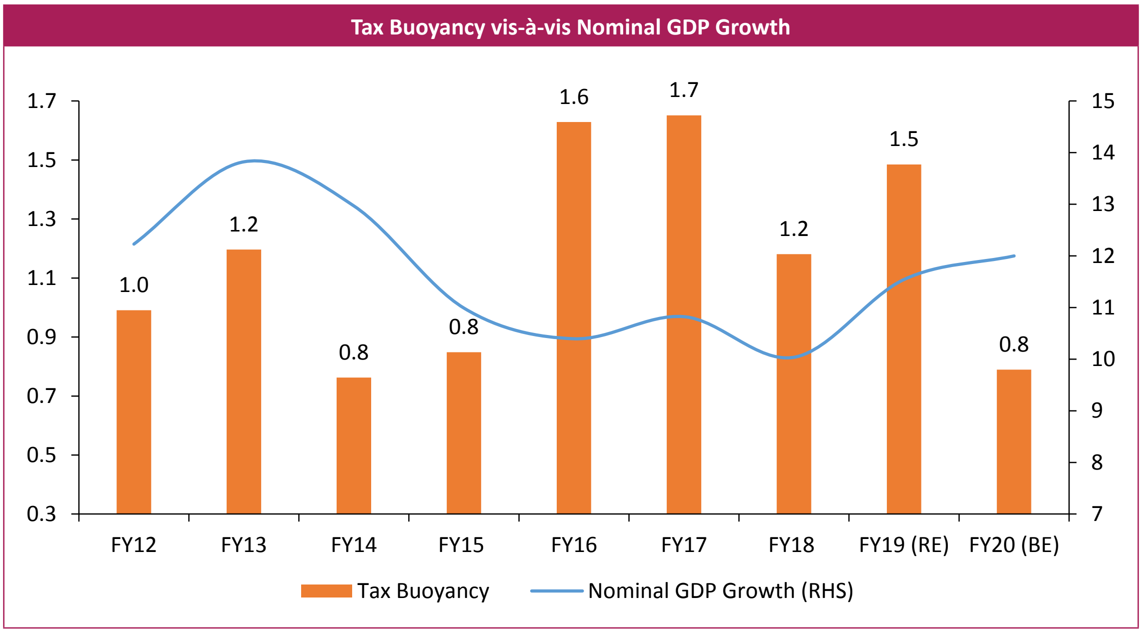
DIRECT TAX BUOYANCY

Direct tax revenue has increased significantly over the past couple of years due to the efforts taken by the Government. From Rs 6.38 lakh crore in FY 2013-14 to around Rs 11.37 lakh crore in FY 2018-19, the growth in direct tax collections is more than 78%. It is now growing at double digit rate every year. Moreover, due to various initiatives and taxpayer outreach programmes undertaken by the Government, the number of taxpayers has also increased by approximately 48% over the period 2013-14 to 2017-18, from 5.71 crore taxpayers to 8.44 crore taxpayers. The increase in tax collection and number of tax payers is due to some of the major direct tax policy initiatives taken by the Government to moderate the tax rate to reduce the tax burden and increase compliance

Number of Direct Tax Payer and Direct tax Collection				
Year	Number of Tax Payers		Direct Tax Collection	
	(in Number)	Growth (%)	(Rs crore)	Growth (%)
2013-14	57158811	8%	638596	14%
2014-15	61523699	8%	695792	9%
2015-16	69273834	13%	741945	7%
2016-17	74127250	7%	841713	13%
2017-18	84446376	14%	1002741	19%
2018-19 (P)	-	-	**1137686**	**13%**

Source: SBI Research

The tax buoyancy for FY20 has declined to 6-year low of 0.8 in FY20 as Gross tax revenue has increased by only 9.5% (6-year low) while nominal GDP growth has projected at 12%.



Source: SBI Research

INDIRECT TAX REVENUE TRENDS

Total GST collections for FY19 were Rs 11.77 lakh crore of which CGST amounted to Rs 2.02 lakh crore, SGST at Rs 2.79 lakh crore, IGST at Rs 5.99 lakh crore and remaining Rs 0.97 lakh crore as compensation cess. If we consider IGST amount equally divided between the Center and the States the total amount of CGST stands at Rs 5.01 lakh crore (against budgeted Rs 5.04 lakh crore).

Tax Revenue (Rs crore)

Year	FY19 RE	FY20 (Interim Budget)	FY20 BE	Change (FY20 BE over FY20 Interim)
Gross Tax Collection	**2248175**	**2552131**	**2461195**	**-90936**
Corporation Tax	671000	760000	766000	6000
Income Tax	529000	620000	569000	-51000
Customs Duty	130038	145388	155904	10516
Excise Duty	259612	259600	300000	40400
GST	643900	761200	663343	-97857
CGST	503900	610000	526000	-84000
IGST	50000	50000	28000	-22000
GST compensation cess	90000	101200	109343	8143
Taxes on UT	5342	5943	6948	1005

Source: Budget Documents, SBI Research

NON-TAX REVENUE TRENDS

Government has budgeted 27.7% growth in non-tax revenues to Rs 3.13 lakh crore for FY20 on the back of higher dividend payout from the central bank and state-owned lenders. The Government estimates that it will receive Rs 1.06 lakh crore in income from the Reserve Bank of India, state-run banks and financial institutions in the fiscal year to March 2020. This is higher than the Rs 82,910 crore estimated in February's interim budget and Rs 74,140 crore pegged last year. Though the situation of PSBs has improved significantly in FY19 and is expected to generate profits in FY20, still we believe that the numbers are ambitious. RBI has already approved Rs 28,000 crore as an interim dividend to the Government in Feb'19.

Non-Tax Revenue (Rs Crore)						
	FY18	**FY19 BE**	**FY19 RE**	**FY20 BE**	**Growth (FY19 RE/ FY18), %**	**Growth (FY20 BE/ FY19 RE)**
Non-Tax Revenue	192745	245089	245276	313179	27.3	27.7
Interest receipts	13574	15162	12047	13711	-11.2	13.8
Dividends and Profits, *of which*	91361	107312	119264	163528	30.5	37.1
Dividends from Public Sector Enterprises & other investments	46499	52495	45124	57487	-3.0	27.4
Dividend/Surplus of RBI, Nationalised Banks & Financial Institutions	44862	54817	74140	106042	65.3	43.0
External Grants	3582	2667	1270	1006	-64.5	-20.8
Other Non Tax Revenue	82338	117886	110619	132784	34.3	20.0
Receipts of UTs	1890	2062	2076	2149	9.8	3.5

Source: Union Budget Documents, SBI Research

GOVERNMENT BORROWINGS

Central Government Borrowings

For FY20, the Government Borrowing is budgeted at Rs 7.10 lakh crore (Rs 6.05 lakh crore) and the net borrowing requirement is pegged at Rs 4.73 lakh crore (Rs 4.23 lakh crore) considering 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.

State Government Borrowings

States gross borrowings were Rs 4.78 lakh crore while net borrowings were Rs 3.5 lakh crore in FY19. For FY20, gross borrowings are expected to come at Rs 5.5 lakh crore and after taking a repayment of around Rs 1.30 lakh crore, the net borrowings is estimated at Rs 4.20 lakh crore. In FY20 (BE), devolution to states is lowered by Rs 35,472 crore which may further push Sates to borrow from Market through SDLs to finance their deficit.

The state wise data on SDLs borrowing indicates that, the bigger States like Maharashtra, Tamil Nadu, Uttar Pradesh, Gujarat, West Bengal, Andhra Pradesh and Karnataka have contributed to more than 55% of total SDLs issued in the last seven years. North Eastern States borrow the least, perhaps because of more central assistance but interestingly in the last two to three years their dependence on market borrowing has increased. Regulator is recently pressing States to go for public rating and States who have better fiscal parameter, i.e., lower fiscal deficit, lower debt to GSDP ratio and low interest cost could get a finer pricing on their loans. We however believe, SDL ratings is counter productive as it will result in capital charge for banks.

Market Borrowings (Rs lakh crore)					
Centre	**FY16**	**FY17**	**FY 18**	**FY 19**	**FY 20**
Gross Borrowing	5.85	5.82	5.88	5.71	7.10
Repayments	1.81	2.35	1.37	1.48	2.37
Net Borrowing	4.04	3.47	4.51	4.23	4.73
State					
Gross Borrowing	2.95	3.82	4.19	4.78	5.50
Repayments	0.34	0.39	0.78	1.28	1.30
Net Borrowing	2.61	3.43	3.41	3.5	4.20

Source: Budget Documents, SBI Research

Maturity Profile of Outstanding Central Government Dated Securities (% of total)									
	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 March 2019**
Less than 1 year	3.41	3.50	3.10	3.95	3.65	4.00	3.30	3.18	4.27
1-5 years	25.54	26.70	27.90	25.99	24.59	22.90	21.70	22.98	24.00
5-10 years	34.09	34.70	35.00	31.52	30.35	29.60	33.30	32.14	31.21
10-20 years	21.42	22.00	22.90	25.20	28.32	30.30	29.30	28.57	25.99
20 years and above	15.53	13.10	11.20	13.34	13.09	13.30	12.40	13.33	14.53

Source: SBI Research, DEA

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 came at 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. For FY20, the Government has estimated a total of Rs 1.30 lakh crore (18.5% of fiscal deficit) issuance of securities against small savings.

Budget at a glance (Rs Crore and as a % of GDP)							
	FY18	**FY19 (RE)**	**FY20 (Interim BE)**	**FY20 (BE)**	**FY20 (BE)/FY19 (% Gr)**	**FY20 (Interim BE/ FY19 (% Gr)**	**FY19/ FY18 (% Gr)**
Fiscal Deficit	5,91,064	6,34,398	7,03,999	7,03,760	10.9	11.0	7.3
% of GDP	3.5	3.4	3.3	3.3			
Borrowings	4,55,207	4,47,737	4,48,122	4,48,122	0.1	0.1	-1.6
% of FD	77.0	70.6	63.7	63.7			
Securities against Small Savings	1,02,628	1,25,000	1,30,000	1,30,000	4.0	4.0	21.8
% of FD	17.4	19.7	18.5	18.5			
State Provident Funds	15,799	17,000	18,000	18,000	5.9	5.9	7.6
% of FD	2.7	2.7	2.6	2.6			
Other Receipts (Internal Debts and Public Account)	5,406	8,353	59,532	59,531	612.7	612.7	54.5
% of FD	0.9	1.3	8.5	8.5			
External Debt	7,931	-4,893	-2,952	-2,952	-39.7	-39.7	-161.7
% of FD	1.3	-0.8	-0.4	-0.4			
Draw-Down of Cash Balance	4,091	41,201	51,297	51,059	23.9	24.5	906.6
% of FD	0.7	6.5	7.3	7.3			

Source: Union Budget Documents & SBI Research

Household savings

The household savings growth, which had declined in FY17, has picked up in FY18. This has helped in assuaging the concerns that in absence of domestic financial savings investment will suffer. Also, the approach of residual calculation of household financial savings might be revisited with a bottom up approach, so that a true picture of savings patterns emerges. In the savings space, the private non-financial corporations have increased their share in overall savings. Thus, the fear of Government borrowings crowding out private investment seems exaggerated.

Financing through Sovereign Bonds

The Union Budget has proposed that Government would start raising a part of its gross borrowing programme in external markets in external currencies.

The Government is at a comfortable position when it comes to its external debt. As at end-March 2019, the Government External Debt as % of GDP was 3.8%, amounting to $103.8 billion. With an interest differential of more than 3%, borrowings can get cheaper for the Government despite the Rupee depreciating. If we consider the crowding out argument, this move will make domestic savings available for private sector investment.

Off Balance Sheet Borrowings

The Government is very clear of the fiscal consolidation path and it has decided to keep the fiscal deficit at 3.3% for FY20 and to 3% in FY21 as growth comes back to system. However, more often the Government is using its off-budget borrowing on a massive scale through public sector agencies to avoid showing such borrowing in its own books. For FY20, extra budgetary resources for PSUs have been reduced to Rs 3.17 lakh crore from Rs 3.97 lakh crore estimated as per the Interim budget presented in Feb’19. EBR for Coal has increased while that of others have declined.

Extra Budgetary Resources for PSUs (Rs Crore)

	FY19 (RE)	FY20 (Interim BE)	FY20 (BE)	FY20 (BE)/ FY19 (% Gr)	FY20 (Interim BE)/ FY19 (% Gr)
Coal	6200	6605	6605	6.5	6.5
Ministry of Housing and Urban Affairs	18589	18238	18238	-1.9	-1.9
Petroleum and Natural Gas	32382	24458	24458	-24.5	-24.5
Power	57474	26979	26503	-53.9	-53.1
Steel	4433	3601	3601	-18.8	-18.8
Others	295166	317316	238153	-27.2	-2.9
Total	414244	397197	317558	-23.3	-4.1
% of GDP	2.2	1.9	1.5	-	

Source: Union Budget Documents & SBI Research

Off-Budget financing has been used for deferring fertiliser subsidy arrears through special banking arrangements; implementing the irrigation scheme (AIBP) through borrowings by NABARD; railway projects financed through borrowings of the IRFC and power projects through the PFC.

The major drawback is that in addition to its implications for fiscal indicators, it creates future liabilities and can increase future subsidies provided for interest payments. Since this practice affects the cash flow of these public companies, the Finance Ministry has ‘Special Banking Arrangements’ (SBAs) in which loans from public sector banks are arranged to make payments against arrears of subsidies with some selected companies. The Government makes payments of interest on these loans at Government Security (G-sec) rate, but interest over and above this rate is borne by the companies.

Yearly Public Sector Borrowing Requirement (in Rs crore)						
Year	**GDP (MP)**	**Market Borrowing (States + Centre)**	**FCI Borrowing**	**NABARD Borrowing**	**Total Borrowing**	**Borrowing to GDP Ratio (%)**
2017-18	17095005	805850	242995	43741	1092586	6.4%
2016-17	15362386	739341	155495	34200	929036	6.0%
2015-16	13771874	704835	117495	20584	842914	6.1%
2014-15	**12467959**	**672907**	**110616**	**9470**	**792993**	**6.4%**

Source: RBI, SBI Research

We made an attempt to calculate the PSBR of the Centre, States and two major Public Sector Agency such as FCI and NABARD to come out the average yearly PSBR. Our estimate shows yearly PSBR is around 6% (excluding State public sector agency). We did not include the off-budget loans of State Government and their agencies. If these are included, the full PSBR may exceed 7% of GDP. PSBR for the Centre, states, off-balance sheet and Government-owned entities, when taken together, was at 6.39% of GDP in 2017-2018 and no different from four years earlier.

Presently, States are aggressively borrowing from market through SDLs and their share of market borrowing to GDP is increasing over the years. It was 1.5% in 2013-14 has now reached to 2.0%. This is sustainable as long as GSDP growth remains rapid.

DISINVESTMENT

The disinvestment target, which was fixed at Rs 90,000 crore in the vote on account has been finalized at Rs 105,000 crore. For FY19, the Government had exceeded its disinvestment target and this year too it seems confident of achieving its target.

The Government has also decided to modify present policy of retaining 51% Government stake to retaining 51% stake inclusive of the stake of Government controlled institutions. There was also a hint of going below the 51% level on case to case basis.

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	100,045	100,057
FY19	80,000	80000	85,045
FY20	105,000	-	-

Source: Union Budget Documents, CGA, SBI Research

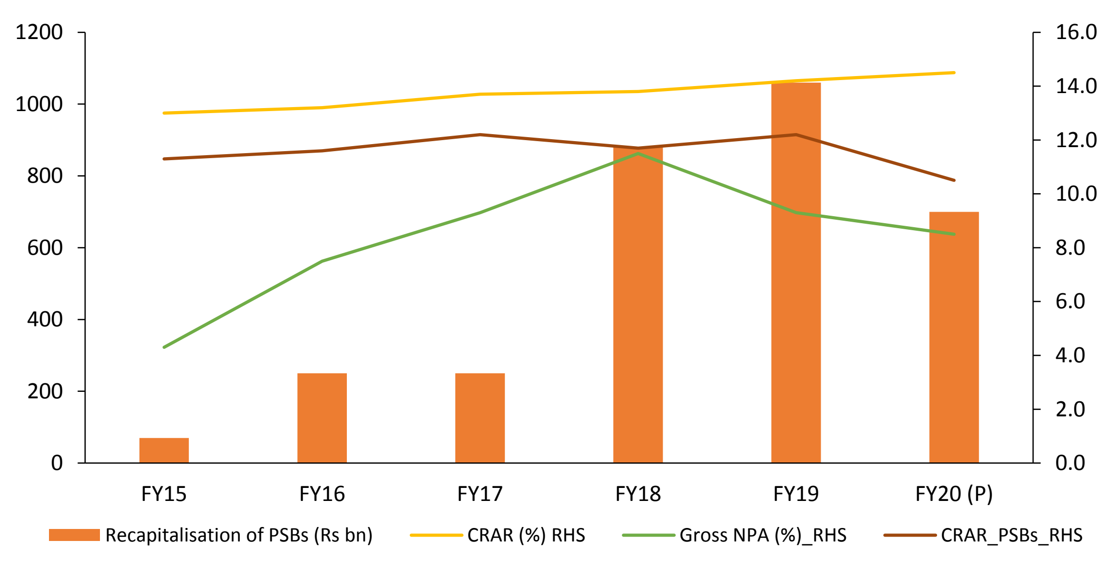
BANKING: BUDGET ADDRESSED LEGACY ISSUES IN PSBs

To strengthen the PSBs, Government has taken comprehensive steps under its 4R's strategy: (i) Recognising NPAs transparently, (ii) Resolving and recovering value from stressed accounts through clean and effective laws and processes, (iii) Re-capitalising Banks and (iii) Reforming banks through the PSB Reforms Agenda.

(i) **NPA Resolution:** The increased pace at which NPAs were recognised led to the NPA cycle peaking in March 2018. With most of the NPAs already recognised, the NPA cycle turned around with GNPA ratio declining to 9.3% in March 2019 (PSBs: 12.6%, Pvt Banks: 3.7% & FBs: 3.0%). Robust recovery of Rs. 3.59 lakh crore has been effected over the last four years, including record recovery of Rs 1.23 lakh crore in FY19. Asset quality has greatly improved, which is reflected in 45% year-on-year reduction in slippage into NPAs in FY19 and 63% reduction in 31 to 90 days overdue corporate accounts by March 2019 from their peak level in June 2017. With stress recognition largely completed, significant headway in recovery and resolution under IBC and reduced slippages because of improved underwriting and monitoring, gross NPAs of PSBs have started declining, after peaking in March 2018, registering a decline of Rs 89,189 crore from Rs. 8.96 lakh crore in March 2018 to Rs 8.06 lakh crore in March 2019. The loan loss provision overage ration of all SCBs increased sharply to 60.6% in March 2019 (PSBs: 60.8%, Pvt Banks: 57.0% & FBs: 82.6%).

(ii) **Recapitalisation of PSBs:** In line with our expectations, Government has made provision of Rs 70,000 crore of capital for the recapitalization of PSBs. In the last five years (FY15-19), PSBs have been recapitalised to the extent of Rs 3.19 lakh crore, with infusion of Rs 2.5 lakh crore by the Government and mobilisation of over Rs 0.66 lakh crore by PSBs themselves. With the recapitalization, SCBs' capital to risk-weighted assets ratio (CRAR) improved from 13.0% in FY15 to 14.3% in FY19. PSBs' CRAR also improved from 11.3% to 12.2% during the period.

Recapitalisation of PSBs & Its Impact



Source: SBI Research

This will help to boost credit for a strong impetus to the economy and will remove some of the weak banks from RBI's PCA norms. Additionally, the empirical evidences through correlation matrix indicate that there is a high correlation of 0.84 between recapitalisation and credit growth and negative correlation of-0.25 with investments.

Correlation Matrix: FY08 to FY19

	Deposits	**Credit**	**Investments**	**Recapitalisation**
Deposits	1			
Credit	0.43	1		
Investments	0.32	-0.42	1	
Recapitalisation	**0.31**	**0.84**	**-0.25**	**1**

Source: SBI Research

To further improve ease of living, Government expects that the PSBs will leverage technology, offering online personal loans and doorstep banking, and enabling customers of one PSBs to access services across all PSBs.

(iii) **Reforming PSBs:** Some of the key reforms made by Government are as under:

- 8 PSBs have merged to create big-banks to fulfil the credit needs of the economy.
- To ensure proper due diligence in project financing, Board-approved Loan Policies of PSBs now mandate before disbursement, scrutiny of group balance-sheet and ring-fencing of cash flows, and appraised of non-fund and tail risk.
- For clean and effective monitoring, monitoring roles have been strictly segregated from sanctioning roles in high-value loans and specialised monitoring agencies combining financial and domain knowledge have been deployed for effective monitoring of loans above Rs 250 crore.
- To strengthen governance at the Board level, the position of Chairman and Managing Director (CMD) has been bifurcated into separate positions of a Non-executive Chairman and a Managing Director (MD) and Chief Executive Officer (CEO). A professional Banks Board Bureau (BBB) has been created for arm's length selection of non-executive Chairmen and whole-time directors. However, there was a need for more flexibility in HR rules, which may be carried out in the post budget discussion.

Apart from the above, in the Budget has given focus on digital payments by multiple means of incentivizing digital transactions as well as penalizing use of cash beyond a limit. Some of the steps are:

- To discourage the practice of making business payments in cash, the Government has proposed to levy a 2% tax at source on cash withdrawal exceeding Rs 1 crore in a year from a bank account.
- Business establishments with annual turnover more than Rs 50 crore will need to offer low cost digital modes of payments like BHIM UPI, UPI-QR Code, Aadhaar Pay, Debit cards, NEFT and RTGS to their customers. There would be no Merchant Discount Rate (MDR) to be imposed on customers as well as merchants and 'RBI and Banks' will absorb these costs from the savings that will accrue to them because handling less cash as people move to these digital modes of payment. This will be an added incentive to slightly larger retailers to move towards digital transactions.
- In the recent past too the Government and the RBI have taken multiple measures to boost digital transactions. The Ministry of Electronics and IT (MeitY) has come out with Merchant Discount Rate (MDR) Reimbursement Scheme up to Rs 2000 for a period of 2-years from 1st January 2018. As per the scheme, Government is reimbursing MDR charges on transactions up to Rs 2,000 made through Debit Cards, BHIM-UPI and Aadhaar-enabled payment systems (AePS). The RBI also issued a circular recently to waive charges on NEFT and RTGS transactions from 1 July.

NBFC SECTOR

Government has acknowledged the role played by the NBFC sector in sustaining consumption demand. To enable public issuances of debt by NBFCs the requirement to maintain Debenture Redemption Reserve, as required by RBI, has been done away with. However, the mandatory special reserve as required by RBI would have to be maintained.

Further, the budget proposed to allow investments made by FIIs/FPIs in debt securities issued by Infrastructure Debt Fund – NBFC to be transferred/sold to any domestic investor within the specified lock-in period. Housing Finance Companies (part of NBFCs) would now come under the regulatory ambit of RBI rather than National Housing Bank. Uniform regulatory measures would allow better administration and execution.

NBFCs have long been expecting favourable amendments in Section 43D of the Income Tax Act, so that taxable income on their non-performing assets (NPAs) could be computed on realized basis and TDS may not be deducted on the interest payments received by them. Currently, accrued income even on NPAs of NBFCs is included as part of their taxable income and TDS is deducted on interest payments made to the NBFCs. Today's announcement, which is a favourable development on the above, would improve NBFC profitability and augment their cash flow position.

For purchase of high-rated pooled assets of financially sound NBFCs, amounting to a total of Rs 1 lakh crore during the current financial year, the Government has proposed to provide one time six months' partial credit guarantee to Public Sector Banks for first loss of up to 10%. The securitization market more than doubled in last year (FY19) to Rs.1.98 lakh crore from Rs.0.84 lakh crore in previous year (FY18). This will further boost the securitisation market.

Post budget, the RBI has announced Additional Liquidity Facility to Banks for Purchase of Assets from and/or on-lending to NBFCs/HFCs thus, helping the good NBFCs. In any case, top rated NBFCs continue to avail debt resources from banks and mutual funds at competitive rates.

To bring more participants, especially NBFCs, not registered as NBFCs-Factor, on the TReDS platform, amendment in the Factoring Regulation Act, 2011 is in the process to allow all NBFCs to directly participate on the TReDS platform.

CORPORATE BOND MARKET

To achieve $5 trillion economy by 2025, it is estimated that India requires investments averaging Rs 20 lakh crore every year and this investment-driven growth requires access to low cost capital. Indian bond market which is presently at nascent stage needs some policy reforms. The Government in Budget FY20 has announced that an action plan will be formulated to deepen the market for long term bonds including for deepening markets for corporate bond repos, credit default swaps etc., with specific focus on infrastructure sector, will be put in place. Further, several measures have been proposed.

To work with regulators for AA bonds as collateral for tri-party repo through stock exchanges: This will lead to development of secondary corporate bond market and increase demand for corporate bonds up to AA rating. The NSE and the BSE recently launched an electronic platform for repos. However, the securities allowed include only AAA category bonds, A+ rated commercial papers and certificates of deposits.

To take steps for RBI, SEBI depositories' inter-operability: Improving retail participation in G-Secs as retail investors will be able to purchase G-Secs and keep them in their demat account. This has been a major hurdle in developing retail interest in G-Secs.

A Credit Guarantee Enhancement Corporation will be set up in 2019-20. This will help improve issuance of corporate bonds by lower rated issuers.

Apart from this, Government also asked SEBI to mull hiking minimum public shareholding to 35% from 25%. Globally, the MPS requirements generally vary between 10-25% in certain developed securities markets, like Singapore, UK, US and Hong Kong. There are many Central Public Sector Enterprises (CPSEs), public sector banks (PSBs) and State-level public enterprise (SLPE) which are listed, having less than 35% minimum public shareholding.

MSME SECTOR

Government's continued focus on MSME has found place as one of the Vision statements. The Vision statement, amongst others speaks about Make in India with particular emphasis on MSMEs, Start-ups, Defence manufacturing, automobiles, electronics, fabs and batteries and medical devices. For this, the Budget contains a series of initiatives to ensure healthy growth in this sector.

- For ease of access to credit for MSMEs, Government has reiterated its interim budget announcement of providing of loans upto Rs 1 crore for MSMEs within 59 minutes through a dedicated online portal.
- Under the Interest Subvention Scheme for MSMEs, Rs 350 crore has been allocated for FY20 for 2% interest subvention for all GST registered MSMEs, on fresh or incremental loans. This should certainly spur the growth of credit under this segment and hasten formalization.

- MSME is one segment, where the credit cycle is sometimes quite long and for want of funds the small industries sit ideally waiting for the working capital to get realised. Government will create a payment platform for MSMEs to enable filing of bills and payment thereof on the platform itself.

While the Budget speech re-affirms the commitment of the Government towards MSME segment, the Economic survey released a day before has bluntly put forward arguments favouring the MSMEs concomitant with the Government's objective of job creation. The Survey also questions the smaller sized firms, which by their size are not able to give a push to the broader goal of job creation and productivity. The young and large firms have forward linkages which allows them to grow faster and contribute more to employment generation as well. As per data, the younger large firms (firms that have more than 100 employees and are not more than 10 years old) account for only 5.5% of firms by number but contribute 21.2% of the employment and 37.2 % of the Net value added (NVA).

The small firms account for only 23% of the total employment in organized manufacturing in 2016-17, while the large firms accounted for over 77% of the total employment (with only 15% of all the firms in organized manufacturing).

We believe there is a need for change in definition of Micro, Small and Medium enterprises from 'investment in plant & machinery/equipment' to 'annual turnover'. This will make the norms of classification growth oriented and align them to the new tax regime revolving around GST. It may also be noted that the contribution of MSME sector to India's GDP is estimated to touch 15% by 2020 and increase the sector's share of employment to over 50% of total employment.

Classification of enterprises as micro, small and medium enterprises (in Rs)

Investment in Equipment	MSME Act 2006		Our Suggestion
	Manufacturing	Services	
	Investment in Plant and Machinery	Investment in Equipment	All enterprises
Micro	25 lakh	10 lakh	5 crore
Small	25 lakh to 5 crore	10 lakh to 2 crore	5 to 75 crore
Medium	**5 to 10 crore**	**2 to 5 crore**	**75 to 250 crore**

Source: SBI Research

AGRICULTURE

The budget, though beginning with its focus on the 5 trillion-dollar economy did not lose sight of its agenda 'Grameen Bharat'. While keeping 'Antyodaya,' which means upliftment of the weakest section of the society, at its core, the Government has retained its focus on "gaon, garib, aur kisan". The agenda of doubling our farmers' income in time for our 75th year of Independence has been at the core of all initiatives suggested in the budget.

While previous few budgets have also been agri-oriented budget, with focus on pricing related issues like MSP and other issues such as creating of physical infrastructure, the present budget focusses on social and indirect support to the rural India. The following steps have been taken to achieve the objectives stated above:

- The Government envisions that every single rural family, except those who are unwilling to take the connection will have an electricity and a clean cooking facility.
- The Pradhan Mantri Awas Yojana – Gramin (PMAY-G) aims to achieve the objective of "Housing for All" by 2022. A total of 1.54 crore rural homes have been completed in the last five years. During 2019-20 to 2021-22, 1.95 crore houses are proposed.
- The non-farm activities contribute in a big way to rural India. Through a focused Scheme – the Pradhan Mantri Matsya Sampada Yojana (PMMSY) – the Department of Fisheries will establish a robust fisheries management framework, which would address issues in the value chain, including infrastructure, modernization, traceability, production, productivity, post-harvest management and quality control.

- With majority of people still depending on agriculture and traditional industries, the Scheme of Fund for Upgradation and Regeneration of Traditional Industries' (SFURTI) aims towards cluster-based development to make the traditional industries more productive, profitable and capable for generating sustained employment opportunities. The SFURTI envisions setting up 100 new clusters during 2019-20 which should enable 50,000 artisans to join the economic value chain.
- To create value in the rural segment, the Government intends to invest widely in agricultural infrastructure, even through private entrepreneurships in driving value-addition to farmers' produce from the field and for those from allied activities, like Bamboo and timber from the hedges and for generating renewable energy.
- The Government recognising the positive impact of Farmer Producer Organisation (FPOs), hopes to form 10,000 new Farmer Producer Organizations, to ensure economies of scale for farmers over the next five years. A strong mention of the Agriculture Produce Marketing Cooperatives (APMC) Act and communicating that it should not hamper farmers from getting a fair price for their produce speaks volume about their intent to bring reforms in this area. Ease of doing business and ease of living both should apply to farmers too.
- The Government has again shown its intent to work with State Governments to allow farmers to benefit from e-NAM. However, we feel that a robust mechanism of logistics must be developed to ensure that the benefit of best price discovery is available to the farmers, as through e-NAM local traders as well as traders on the electronic platform sitting in other State/ Mandi can also bid for the produce. In the event of other trader winning the bid, logistics would hold the key.
- Zero Budget Farming. The Government is of the view to replicate this innovative model through which in a few States farmers are already being trained in this practice. The model is good as besides reducing the cost burden of the farmers, it eventually helps in retaining the soil productivity which otherwise gets depleted due to excess use of fertilisers. However, whether large scale cropping is possible remains to be seen.

Due to various reforms in past five years, the Gross Value Added (GVA) in agriculture has improved from a negative 0.2% in 2014-15 to 6.3% in 2016-17 only to decelerate to 2.9% in 2018-19. As per the 3rd Advance Estimates released by Ministry of Agriculture & Farmers Welfare, the total production of food grains during 2018-19 is estimated at 283.4 million tonnes, as compared to 285 million tonnes in 2017-18 (final estimate). There was a significant decline in food prices in 2018-19. There has been a modest compositional shift within the 'Agriculture and allied' sectors i.e., from crop to livestock sectors and within crop sector from cereals to horticultural produce. The share of crops in GVA has reduced from 12.1% in 2013-14 to 10.0% in 2017-18, and that of livestock increased from 4.1% to 4.9% (at current prices) during the same period.

HOUSING

The Budget has proposed a one-time provision to enable public sector banks to buy high-rated pooled assets worth Rs 1 lakh crore from financially sound non-banking finance companies, supported by a partial credit guarantee by the Government for six months. This is expected to ease liquidity pressure faced by the sector.

For affordable housing, the Budget has proposed a further tax deduction of Rs 1.5 lakh for interest paid on housing loans sanctioned in the current fiscal year up to March 31, 2020. This is applicable for homes priced below Rs 45 lakh in tier II, III and peripheral areas of metros. It is expected to provide a total benefit of Rs 7 lakh for loan tenures of up to 15 years. While the new additional deduction will benefit home buyers in smaller towns, its benefit in tier-1 and metro cities will be limited due to higher real estate prices.

The model tenancy regulation is likely to enhance housing supply in metros through schemes for rental housing projects that have remained a non-starter so far, and is also likely to promote a structured rental housing market.

In a bid to augment housing supply, the Government has also proposed to develop public infrastructure and affordable housing on land owned by central ministries and central public sector enterprises through joint development and concession.

As part of its efforts to achieve 'Housing for All by 2022', the Government has proposed to provide an additional 1.95 crore houses to beneficiaries under the second phase of the Pradhan Mantri Awas Yojna (PMAY) between 2020 and 2022. It has already provided 1.54 crore houses to beneficiaries under the first phase of the PMAY.

It is announced that regulatory control of Housing Finance Companies will shift from NHB to RBI. This will create a level playing field for all players in the Real Estate Market. This will also ensure better governance for the sector. Also, RBI may now permit to start lending on co-origination model with HFCs. Co-origination will give a sizeable boost to our priority sector portfolio.

INFRASTRUCTURE

Budget 2019-20 stresses upon the need for heavy investment in infrastructure, digital economy and job creation in small and medium firms to fulfil the aspiration of making India a $5 trillion economy.

In the civil aviation sector, the Government will implement the essential elements of a regulatory roadmap for making India a hub for aircraft financing and leasing activities. This is critical to the development of a self-reliant aviation industry, creating aspirational jobs in aviation finance, besides leveraging the business opportunities available in India's financial Special Economic Zones (SEZs),- International Financial Services Centre (IFSC).

For the highways sector, the Government will carry out a comprehensive restructuring of National Highway Programme to ensure that the National Highway Grid of desirable length and capacity is created using financeable model. After completing the Phase 1 of Bharatmala, states will be helped to develop State road networks in the second phase.

The movement of cargo volume on Ganga is estimated to increase by nearly four times in the next four years. This will make movement of freight, passenger cheaper and reduce our import bill. In this regard the Jal Marg Vikas Project for enhancing the navigational capacity of Ganga, and two multi-modal terminals at Sahibganj and Haldia and a navigational lock and Farrakka would be completed this year.

In order to take connectivity infrastructure to the next level the Government will make available a blueprint this year for developing gas grids, water grids, i-ways and regional airports. This is based on the successful, One Nation, One Grid model that has ensured power connectivity to states at affordable rates.

LABOUR REFORMS

The Government is proposing to streamline multiple labour laws into a set of four labour codes. Of the four codes, the one on wages has been introduced in the Lok Sabha while other three codes are at the pre-legislative consultation stage and should be completed urgently. Some of the steps which may be taken from both State and Central legislation to take the labour reforms forward are:

- National Policy for Domestic Workers needs to be brought in at the earliest.
- The companies on their own should lay down SOPs for all segments of business, which clears all ambiguity on policies such as hiring, lay-offs etc.
- The companies should also maintain reasonable pay parity between the superior and subordinates.
- A Government driven mechanism should be devised to ensure that the workers at set-ups with no trade union representation or because of not being fully literate are not deprived of the basic wages and benefits.

START-UPS

In the last couple of years, Government has been providing various incentives to create a vibrant ecosystem for start-ups. Due to this, India is now ranked third in the world in the start-up ecosystem with a growing number of domestic Indian enterprises developing solutions aimed at managing and solving urban challenges. While most of these are tech start-ups concerned with e-commerce and consumer products and services, 2018 was touted as the year of food start-ups.

In a major boost to thousands of start-ups in India, Government has announced a host of incentives to "release the entrepreneurial spirit" in this Budget. These include a TV programme exclusively for start-ups, easing foreign direct investment rules into start-up segments like grocery, e-commerce and food delivery, proposing a host of enhancements to the digital payment systems ecosystem that would help fintech start-ups, incentives for electric vehicles that would help EV start-ups and ensuring that start-ups do not feel the heat of angel tax from I-T authorities.

The ‘Stand up India’ scheme, launched in 2016, to support entrepreneurship among women and marginalized segment of the society, will be further extended during the entire period of 2020–25. However, currently only brown-field projects are included in the scheme and there is a need to include the green-fields projects also to make this scheme a real success.

RAILWAYS

Railways financial for FY20 in this Budget has kept as same as it was in Interim Budget. The major highlights are as follows:

- 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 96.0% in FY19 & further 94.8% in FY20.
- Railway Infrastructure would need an investment of Rs 50 lakh crores between 2018 and 2030.
- Railways to be encouraged to invest more in suburban railways through SPV structures like Rapid Regional Transport System (RRTS) proposed on the Delhi-Meerut route.
- Budget has proposed using Public-Private Partnership to unleash faster development and completion of tracks, rolling stock manufacturing and delivery of passenger freight services.
- India’s first indigenously developed inter-operable transport card based on National Common Mobility Card (NCMC) standards that was launched in March this year will make travel across various modes convenient for people.Proposal to enhance the metro-railway initiatives by: encouraging more PPP initiatives, ensuring completion of sanctioned works, supporting transit oriented development (TOD) to ensure commercial activity around transit hubs.

Railway Financial (Rs Crore)

Components (Rs Cr)	FY18	FY19 (RE)	FY20 (Interim BE)	FY20 (BE)	FY20 (BE)/ FY19 (%Gr)	FY20 (Interim BE)/ FY19 (% Gr)	FY19/ FY18 (%Gr)	5 Yr CAGR (FY15-19 in %)	
1. Total Receipts	178930	197214	216935	216935	10.0	10.0	10.2	5.2	9.2
2. Gross Traffic Receipts	178725	196714	216675	216675	10.1	10.1	10.1	5.8	9.5
2.1 Passenger Earnings	48643	52000	56000	56000	7.7	7.7	6.9	5.4	9.2
Passenger Earnings / Gross Traffic Receipts (%)	27.2	26.4	25.8	25.8					
2.2 Freight Earnings	117055	129750	143000	143000	10.2	10.2	10.8	5.2	9.3
Freight Earnings / Gross Traffic Receipts (%)	65.5	66.0	66.0	66.0					
2.3 Other Earnings*	13027	14964	17675	17675	18.1	18.1	14.9	14.4	13.0
3. Total Miscellaneous Receipts	204	500	260	260	-48.0	-48.0	144.7	-41.6	-15.5
4. Total Expenditure	177264	191200	207900	207900	8.7	8.7	7.9	7.3	9.6
5. Revenue net of dividend payouts	1666	6014	9035	9035	50.2	50.2	261.1	-5.9	171.5
Memoranda									
Gross Traffic Receipts (% of GDP)	1.0	1.0	1.0	1.0					
Net Revenue (% of GDP)	0.01	0.03	0.04	0.04			-		
Operating Ratio	98.4	96.2	94.8	94.8					

Note: *Other earnings are defined as the sum of other coaching earnings, sundry other earnings and suspense.
Source: Railway Budget & SBI Research

TAX PROPOSALS

Though, Government has kept the income tax slab rates unchanged but has announced a slew of new tax proposals that could impact many tax payers. Some of the major proposals are as under:

- Aadhaar and PAN would be made interchangeable for tax-filing purpose. This will increase the tax base in the country and will benefit crores of individuals who don't have a PAN, but have Aadhaar. In India, there are around 45 crore PAN card holders, while 120 crore Indians have Aadhaar Card. From banks' perspective, interchangeability of PAN and Aadhaar would ease the operational aspect.
- Income tax deduction of Rs 1.5 lakh on home loans for affordable houses costing below ₹45 lakh. This benefit will be available for home loans taken till March 2020. Cumulatively, the interest paid on home loan deduction will go up to ₹3.5 lakh, from the current ₹2 lakh for self-occupied house property. This is applicable only to the individual who don't own any residential house property on the date of sanction of loan.
- Rs 1.5 lakh income tax deduction on interest paid on loans for purchase of electric vehicles. This amounts to a benefit of around Rs 2.5 lakh over the loan period to the taxpayers who take loans to purchase electric vehicle.
- Increased income tax surcharge for HNIs (high net worth individuals) earnings more than Rs 2 crore a year. Those earning between ₹2-5 crore will have shell out 3% more, with surcharge rate being increased from 15% to 25%. Those earning above ₹5 crore will have to shell out a surcharge of 37%, from current 15%.
- The lower rate of 25% Corporate Tax has been extended to all companies with annual turnover up to Rs 400 crore. Currently, this rate is only applicable to companies having annual turnover up to Rs 250 crore. This will cover 99.3% of the companies.

INSURANCE & PENSION REFORMS

Insurance

- Though, there were several demands from the insurance sector but Government has not proposed any measures except 100% FDI in the insurance intermediaries. Insurance intermediaries include insurance brokers, insurance repositories, third-party administrators as well as web aggregators like Policybazaar. Several foreign companies like Marsh and JLT are present in the insurance broking space. It is expected that the 100% FDI will help in infusion of capital into the intermediaries segment and will lead a better insurance distribution in the country. We can say this is an additional step by Government to increase insurance penetration in the country.
- To facilitate on-shoring of international insurance transactions and to enable opening of branches by foreign reinsurers in the International Financial Services Centre (IFSC), it is proposed to reduce Net Owned Fund requirement from Rs 5,000 crore to Rs 1,000 crore. India's first IFSC is in Gujarat at GIFT City, a Special Economic Zone (SEZ). This is a welcome move that will promote the growth of the insurance intermediary business in the IFSC. The competitive tax and regulatory regime in the IFSC will encourage both foreign and Indian Insurance Intermediaries to set up their business in the IFSC.
- Going forward, we still believe that, insurance should not be taxed in India, as it is an instrument that provides financial protection against risk. As insurance business needs huge amount of capital, we believe Government should think about hiking the FDI limit in the insurance companies further.

NPS & Pension

- To increase the pension penetration in the country, in line with the 'Pradhan Mantri Shram-Yogi Maandhan scheme, Government has targeted 3 crore retail traders & small shopkeepers whose annual turnover is less than Rs 1.5 crore under a new Scheme namely Pradhan Mantri Karam Yogi Maandhan Scheme.

- In a bid to incentivise the National Pension Scheme (NPS), Government has raised the limit of exemption on withdrawal from 40% to 60%. For central Government employees, the Government has further allowed deduction for employer's contribution up to 14% of salary from current 10%.
- Government has proposed to separate the NPS Trust from pension regulator PFRDA in order to address issues over conflict of interest. The matter of conflict of interest arises as PFRDA is the regulator of the pension sector in India, at the same time it runs pension schemes such as NPS and APY. The proposal to separate the two job roles was under consideration for last few years and will have long-term benefits.

WOMEN DEVELOPMENT

In the last 5-years, Government has supported and encouraged women entrepreneurship through various schemes to transform the lives of women in every rural family and dramatically improved their ease of living. Some of the measures include:

- As on 10 Jun'19, 7.2 crore free LPG connections (3.8 crore women) released under Ujjwala Yojana. Further, in the budget, Government has proposed to give additional 8 crore free gas connections and cover all the households by 2022.
- All villages, and almost 100% households across the country have been provided with electricity. A combination of efficient implementation and enthusiastic adoption has significantly improved access to energy for rural households.
- In order to further encourage women enterprise, the budget proposes to expand the Women SHG interest subvention programme to all districts. Every verified woman SHG member having a Jan Dhan Bank Account will be allowed an overdraft of Rs 5,000. There are around 75 lakh exclusive women SHG, so this will help at least 1 crore women in the country.
- In addition to that, one woman in every SHG will also be eligible for a loan of up to Rs 1 lakh under the MUDRA Scheme. There are 70% of women beneficiaries under MUDRA scheme. Till now, more than 9-crore women have jointly benefitted from MUDRA and StandUp India. Empowering women SHGs is in line with Odisha Mission Shakti Model of Women SHGs that has been a great success.

Section 2
Corporate & Industry

SYNOPSIS OF BUDGET IMPACT

Credible Intentions and Matching Steps to create a New India.

The pre-budget sentiments, as usual, are generally euphoric on expectations with the BSE Sensex touching 40000. However, the markets waited for fine print to arrive and hence, profit booking brought in immediate reactions. One of the key notable push is incentivizing adoption of E-Vehicles segment which allows not only upfront incentive from the Rs 10000 crore outlay under FAME Scheme (Faster Adoption and Manufacturing of Hybrid and Electric Vehicles) but income tax deduction on interest on loans for e-vehicles purchase. Customs duty on certain parts of electric vehicles is also being exempted. The government has already sensitised the GST Council to reduce GST on electric vehicles from 12% to 5%. The benefits over the loan period to the consumer is likely to be around Rs.2.50 lakh.

The infrastructure investment is likely to continue to push the economy and jobs. The announcement on infrastructure investment of Rs 100 lakh crore spread over five years sounds good but a roadmap to raise such huge resources would only come from overseas borrowing given that Government's external debt to GDP ratio is comfortably placed at less than 4%. The increase in expenditure or support to agriculture is also likely to sustain the existing pace of growth. Under roads, the government plans to launch Phase 2 of Bharatmala and emphasis on state road network is accordingly laid down in the budget. The outlay on metro projects has increased from Rs.14265 cr (BE 2018-19) to Rs. 17714 cr (BE 2019-20). Measures such as enhanced interest deduction for affordable housing loan aims at reviving the demand in the sector. The FMCG sector, as discussed below, is unlikely to aid any significant upside, except for the fact that encouraging digital payments may support its effort in market penetration.

The construction sector would get its incremental potential from the above sectors and may possibly diversify in creating e-charging stations for E-Vehicles.

Tax incentives on affordable housing, easing FDI in aviation, media (animation etc), insurance and local sourcing norms for single brand retail, mooting model tenancy law replacing the archaic current rental laws are some of the measures announced that would pave the way for a long and a sustainable journey for the Indian economy.

From banks perspective, interchangeability of PAN and Aadhaar would ease the operational aspect for banks. With more than 120 crore Indian having Aadhaar, this measure would take a sigh of relief. Again, prefilled tax returns would be made available to taxpayers helping ease the operational aspect for banks.

Overall, the budget has credible simple intentions to take India to a new horizon.

SECTOR : FMCG **OVERALL IMPACT : NEUTRAL**

Budget Proposals and Impact

- Self-sufficiency and export of food-grains, pulses, oilseeds, fruits and vegetables.
- Electricity and clean cooking facility to all willing rural families by 2022.
- Eligible beneficiaries to be provided 1.95 crore houses with amenities like toilets, electricity and LPG connections during its second phase (2019-20 to 2021-22).
- Robust fisheries management framework through Pradhan Mantri Matsya Sampada Yojana (PMMSY) to address critical gaps in the value chain including infrastructure, modernization, traceability, production, productivity, post-harvest management, and quality control
- 75,000 entrepreneurs to be skilled in agro-rural industry sectors
- 10,000 new Farmer Producer Organizations (FPOs) to be formed, to ensure economies of scale for farmers.
- Government to work with State Governments to allow farmers to benefit from e-NAM.

Continuation of rural push by way of rural housing, toilet, gas etc., which increase disposable surplus, along with steps like skilling agro-rural entrepreneurs, forming FPOs would definitely serve as enablers for the sector.

Backdrop

Budget during the years has had relatively indirect measures concerning disposable income of the masses. Any tax / GST increase is generally passed by FMCG companies to consumers.

Exceptional financial performance for the sector as a whole was observed for listed companies. FMCG appear to be least affected through budget measures. Measures that increase disposable incomes at rural and urban level act as a key positive for the sector as a whole. A lot of MSME units supplying to large FMCG companies also benefit from volume growth.

In the past, FMCG companies have been effective in passing on additional cost. Increased footprint through alternate market channels have benefitted these companies. Clients can now order through app based services sitting in the confines of the home. During monsoons, this has helped the FMCG companies increase its presence across all consumer strata.

Key announcements are continuing work in progress

- Facilitate rural consumption through increasing farm incomes.
- Develop and upgrade existing 22000 rural Haats into Gramin Agricultural Markets (GrAMs) to provide farmers facility to directly sell to consumer and bulk purchasers.
- GrAMs to be linked electronically to E-NAM (Electronic-National Agricultural Market) and exempt from regulations of APMC for sales to end consumers.
- Enable price discovery through direct sale of produce to consumers.
- Agri-Market Infrastructure Fund with a corpus of Rs 2000 crore to be set up for developing and upgrading agricultural marketing infrastructure in the 22000 GrAMs and 585 APMCs.
- Measures to provide livelihood, agriculture and allied activities and construction of rural infrastructure would entail a budget of Rs 14.34 lakh crore, including Rs 11.98 lakh crore extra-budgetary and non-budgetary resources. FMCG are in for good times in the year ahead.

Credit Ratios

Sector Credit Ratios (Upgrade vis-à-vis downgrades) during FY19 as compared to previous year for the same period:

Credit Ratio							
Sector	**Total No. of Companies (o/s as on 4th July 19)**	**FY18**			**FY19**		
		Upgrades	**Downgrades**	**Ratio**	**Upgrades**	**Downgrades**	**Ratio**
FMCG	220	25	30	0.83	21	24	0.88

With 21 upgrades and 24 downgrades, credit ratios for the FY19 stood at 0.88 against 0.83 for the same period previous year.

Sectors Performance - Key Financials of Select Companies (Standalone)

Key Financials of Select FMCG Companies for FY19 vis-à-vis FY18 (Rs in Crore)									
Name of the Company	**FY19**			**FY18**			**Growth FY19 on FY18**		
	Net Sales	**PBIDT**	**PAT**	**Net Sales**	**PBIDT**	**PAT**	**Net Sales**	**PBIDT**	**PAT**
Hindustan Unilever Ltd	37660	9074	6036	33926	7783	5237	11%	17%	15%
Nestle India Ltd	11216	2876	1607	9953	2273	1225	13%	27%	31%
Godrej Consumer Products Ltd	5557	1607	1755	5163	1404	1000	8%	14%	76%
Britannia Industries Ltd	10389	1853	1122	9206	1566	948	13%	18%	18%
Dabur India Ltd	6273	1642	1264	5609	1498	1072	11.84%	9.65%	18%

Source: Cline; SBI Research; Nestle numbers are for 12M ended on Dec'18 vis a vis Dec'17

All round growth in Net Sales, PBIDT and PAT for top five companies in the sector depict a positive trend. These companies generally, are immune to budget announcement except, unless they are of significant nature.

Market Reaction

Market Movement from Interim Budget and on Budget Day							
Sector - FMCG Name of the Companies	**01-Feb-19**	**4-Jul-19**	**5-Jul-19**	**Movement Over 01-Feb-19**		**Movement on Budget Day**	
				Price	**%**	**Price**	**%**
Hindustan Unilever Ltd	1799.30	1793.60	1791.40	-7.9	-0.44%	-2.2	-0.12%
Nestle India Ltd	11556.55	11884.45	11956.90	400.4	3.46%	72.4	0.61%
Godrej Consumer Products Ltd	710.65	674.70	671.85	-38.8	-5.46%	-2.9	-0.42%
Britannia Industries Ltd	3251.00	2841.35	2824.85	-426.2	-13.11%	-16.5	-0.58%
Dabur India Ltd	451.85	402.95	407.30	-44.6	-9.86%	4.4	1.08%
NIFTY FMCG INDEX	30199.90	29889.45	29973.25	-226.7	-0.75%	83.8	0.28%

Source: NSE; closing price as on date

SECTOR : AUTOMOBILE | OVERALL IMPACT : NEGATIVE (TRANSITORY)

Budget Proposals and Impact

- Phase II of Fame India Scheme (Faster Adoption and Manufacturing of Hybrid and Electric Vehicles) for three years commencing from April 1, extending total budgetary support of Rs 10,000 crore
- Upfront incentive proposed on purchase and charging infrastructure, to encourage faster adoption of Electric Vehicles
- Global Hub for Electric Vehicle
- Proposed reduction of GST on Electric Vehicle from 12% to 5%
- Custom duty on certain parts of electric vehicle being exempted
- Income tax deduction of up to Rs 1.5 lakh on the interest paid on loan for purchase of electric vehicle

Backdrop

Domestic Auto sector reported a meagre growth of 5.15% in FY19 pulled by near no growth in Passenger Vehicle and two-wheeler sales. However, the good news is that commercial vehicle sales grew by 17.55% during FY19. Export sales recorded double digit growth of 14.44% in FY19 driven by robust growth in three-wheeler and two-wheeler sales.

Automobile - Domestic Industry FY19 vis-à-vis FY18 (in Number)

Category	FY19	FY18	YoY %
Two Wheeler	21181390	20200117	4.86%
Three Wheeler	701011	635698	10.27%
Four Wheeler- PV	3377436	3288581	2.70%
Commercial Vehicle	1007319	856916	17.55%
Total All Auto	26267156	24981312	5.15%

Source: SIAM; SBI Research

Automobile - Export Industry FY19 vis-à-vis FY18 (in Number)

Category	FY19	FY18	YoY %
Two Wheeler	3280841	2815003	16.55%
Three Wheeler	567689	381002	49.00%
Four Wheeler- PV	676193	748366	-9.64%
Commercial Vehicle	99931	96865	3.17%
Total All Auto	4624654	4041236	14.44%

Source: SIAM; SBI Research

Amid the slowing down in the month of May 2019, the sector is grappling with high base and liquidity with dealer is under duress. However, the used car sales is likely to report double digit growth. Also, the sector is transitioning from fossil based fuel to electric based vehicles (e-vehicles). States have started taking the initiatives to promote e-vehicles and thus reduce import bill of fossil fuel. Dependence on fossil fuel / crude oil has been a drag on trade deficit and also on foreign exchange. A transition to e-vehicles would help us close the gap on trade deficit. Recently, Kerala Automobiles Ltd signed a MoU with HESS, AG to make E-Buses. Maharashtra government is already implement an E-Buses project for commuting.

Government Push for E-Vehicles:

Under the phase II of Fame, the Government intends to support about 7,000 e-buses with a total outlay of Rs 3,500 crore by extending demand incentives for deployment of electric buses using operational cost model to be adopted by State and City Transport Corporations. All efforts are being made to make this scheme a success. In June 2019, the Heavy Industry department invited EoI for 5000 electronic buses and also avail incentives.

Used Car Market:

While the fresh or new automobile sales numbers may not be encouraging, the used car market is clocking double digit growth. Organised market players expect the growth to trend 15% per annum until 2022.

New Units in Automobile sector:

About 40 units announced plans setting up new units in the automobiles and auto ancillaries sector. About 7 new units of them are under execution. Some of these units may also cater to e-vehicles. About 30 units are in nascent or in planning stage. The total project outlay for these 40 units amounting close to Rs 6000 crore, some of the units have foreign ownership.

Credit Ratios

Sector Credit Ratios (Upgrade vis-à-vis downgrades) during FY19 (April'2018 to March'2019) as compared to previous year for the same period is as under:

Credit Ratio							
Sector	Total No. of Companies (o/s as on Mar 19)	FY18			FY19		
		Upgrades	Downgrades	Ratio	Upgrades	Downgrades	Ratio
Automobile	74	5	2	2.5	7	3	2.33

Source: CRISIL; SBI Research; numbers are for all rating agencies

Credit ratios for the sector deteriorated to 2.33 in FY19 as compared to 2.5 in FY18. However, the ratio is quite impressive as we see 7 upgrades against only 3 downgrades in FY19.

Sectors Performance - Key Financials of Select Companies (Standalone)

Key Financials of Select Automobile Companies for FY19 vis-à-vis FY18 (Rs in Crore)									
Name of the Company	FY19			FY18			Growth FY19 on FY18		
	Net Sales	PBIDT	PAT	Net Sales	PBIDT	PAT	Net Sales	PBIDT	PAT
Tata Motors Ltd	68765	7291	2021	57441	3899	-1035	20%	87%	LTP
Maruti Suzuki India Ltd	83027	13560	7501	78105	14107	7722	6%	-4%	-3%
Mahindra & Mahindra Ltd	53614	8299	4796	48686	7694	4356	10%	8%	10%
Hero Motocorp Ltd	33651	5621	3385	32230	5806	3697	4%	-3%	-8%
Ashok Leyland Ltd	28614	3188	1983	25966	3132	1718	10%	2%	15%
Bajaj Auto Ltd	29567	6973	4675	24700	6099	4068	20%	14%	15%

Source: CLine; SBI Research

The mid and topline growth is slower than expected. While Tata Motors has reported profit from year before loss, concerns on sales volumes of Jaguar Land Rover, sizeable capex plans and leverage pose perceived risk on the outlook of the company. Mahindra & Mahindra Ltd, Bajaj Auto Ltd and Ashok Leyland Ltd are well poised to leverage the incremental opportunities offered in e-vehicles space. There should be a policy of wait and watch for these companies in the coming years.

Market Reaction

Market Movement from Interim Budget and on Budget Day							
Sector - Automobile Name of the Companies	**01-Feb-19**	**4-Jul-19**	**5-Jul-19**	**Movement Over 01-Feb-19**		**Movement on Budget Day**	
				Price	**%**	**Price**	**%**
Tata Motors Ltd	181.65	165.20	160.20	-21.5	-11.81%	-5.0	-3.03%
Maruti Suzuki India Ltd	6962.30	6544.45	6360.00	-602.3	-8.65%	-184.5	-2.82%
Mahindra & Mahindra Ltd	688.40	672.15	642.05	-46.4	-6.73%	-30.1	-4.48%
Hero Motocorp Ltd	2807.25	2606.15	2512.30	-295.0	-10.51%	-93.8	-3.60%
Ashok Leyland Ltd	83.55	89.95	87.05	3.5	4.19%	-2.9	-3.22%
Bajaj Auto Ltd	2602.75	2894.80	2842.55	239.8	9.21%	-52.3	-1.80%
NIFTY AUTO INDEX	8441.25	8077.20	7849.1	-592.2	-7.01%	-228.1	-2.82%

Source: NSE; closing price as on date

OVERALL IMPACT : POSITIVE | SECTOR : CONSTRUCTION

Budget Proposals and Impact

- Estimated Railway infrastructure need excess of Rs 50 lakh crore between 2018 and 2030 and proposed adoption of PPP route for faster development
- Massive programme of Railway Station modernization to be launched
- National Highway Grid
- Construction of 1.95 crore houses under phase II of PMAY-Gramin
- 17 Iconic tourism destinations to be developed as world class tourist destination

There is an unlimited opportunity for the construction sector with the Government spending on entire Infrastructure ecosystem i.e. Road, Railways, Port, Air has been increasing. Other opportunities in areas such as Railway, Smart City, Road, Udan etc. along with new announcement of construction of 17 Iconic Tourism destinations offer incremental potential.

Backdrop

Construction, Real Estate and Infrastructure are inter-twined and the fortunes are also inter-linked. While central projects offer opportunities, some of the projects are state subject and hence, construction sector may be at the mercy of State level policies. Recently, Karnataka government indicated its intent to ban construction of flats in Bengaluru. Companies such as Sobha Developers, Brigade Enterprises may face some issues on execution in Bangalore. Local construction companies in State are dependent on its policies.

Government is consistently increasing public expenditure on Infrastructure in order to provide renewed impetus to economic growth. Special thrust of this drive is on key development including Rural Roads, Housing, Railways, Power, Highways and Digital Infrastructure.

In Railways, the estimated infrastructure need is around Rs 50 lakh crore in next 10 years. The main thrust of Railway is on upgrading the infrastructure to improve safety, modernisation of platforms, laying of new lines and providing passenger amenities.

In view of all the above, we believe the construction sector should do well in coming period.

Key announcements are continuing work in progress

- Estimated infrastructure need more than Rs.50 lakh crore connecting and integrating the nation with a network of roads, airports, railways, ports and inland waterways
- Allocation to Railways was Rs 1.48 lakh crore for 2018-19. A large part of the Capex is devoted to capacity creation which includes 18,000 kilometers of doubling, third and fourth line works and 5000 kilometers of gauge conversion
- 99 Cities have been selected with an outlay of Rs 2.04 lakh crore
- AMRUT programme focuses on providing water supply to all households in 500 cities. State level plans of Rs 77,640 crore for 500 cities have been approved. Water supply contracts for 494 projects worth Rs 19,428 crore and sewerage work contracts for 272 projects costing Rs 12,429 crore have been awarded
- Regional connectivity scheme of UDAN has been launched to connect 56 unserved airports and 31 unserved helipads across the country

Credit Ratios

Sector Credit Ratios (Upgrade vis-à-vis downgrades) during FY19 as compared to previous year for the same period:

Credit Ratio							
Sector	Total No. of Companies (o/s as on 4th July 19)	FY18			FY19		
		Upgrades	Downgrades	Ratio	Upgrades	Downgrades	Ratio
Construction	4286	341	440	0.78	305	488	0.63

Source: CRISIL; SBI Research; numbers are for all rating agencies

With upgrades of 305 and downgrades of 488 during FY19, credit ratio deteriorated by 15 bps to 0.63 from 0.48 for FY18.

Sectors Performance - Key Financials of Select Companies (Standalone)

Key Financials of Select Construction Companies for FY19 vis-à-vis FY18 (Rs in Crore)									
Name of the Company	FY19			FY18			Growth FY19 on FY18		
	Net Sales	PBIDT	PAT	Net Sales	PBIDT	PAT	Net Sales	PBIDT	PAT
Larsen & Toubro Ltd	86988	11928	6678	74463	9744	5387	17%	22%	24%
Sadbhav Engineering Ltd	3549	464	187	3505	431	221	1%	8%	-15%
NCC Ltd	12080	1482	564	7559	864	287	60%	72%	97%
Simplex Infrastructures Ltd	6041	822	123	5766	786	117	5%	5%	5%
JMC Projects (India) Ltd	3253	362	142	2756	302	106	18%	20%	34%

Source: CLine; SBI Research

Most of the construction companies from above, reported a double digit growth in top line except Sadbhav Engineering Ltd and Simplex Infrastructures Ltd. In PAT margins, while NCC Ltd was the best performer, Sadbhav was the worst hit. Sadbhav group is likely to close or sell few road projects to Canadian Pension Fund and Allianz Capital Partners through Infrastructure Investment Trust.

Market Reaction

Market Movement from Interim Budget and on Budget Day							
Sector - Construction Name of the Companies	01-Feb-19	4-Jul-19	5-Jul-19	Movement Over 01-Feb-19		Movement on Budget Day	
				Price	%	Price	%
Larsen & Toubro Ltd	1324.60	1571.70	1558.35	233.8	17.65%	-13.4	-0.85%
Sadbhav Engineering Ltd	196.10	238.15	222.25	26.2	13.34%	-15.9	-6.68%
NCC Ltd	79.30	97.30	95.65	16.4	20.62%	-1.6	-1.70%
Simplex Infrastructures Ltd	155.95	117.80	115.90	-40.1	-25.68%	-1.9	-1.61%
JMC Projects (India) Ltd	93.00	136.75	135.25	42.3	45.43%	-1.5	-1.10%
NIFTY INFRA INDEX	2997.95	3437.55	3373.45	375.5	12.53%	-64.1	-1.86%

Source: NSE; closing price as on date

OVERALL IMPACT : POSITIVE | SECTOR : ROAD

Budget Proposals and Impact

- Bharatmala Phase-II to be launched
- State Road network to be developed
- National Highway Grid
- 1,25,000 kilometers of road length to be upgraded over the next five years under PMGSY III with an estimated cost of Rs 80,250 crore

With ambitious Bharatmala Pariyojana for providing seamless connectivity to the interior and backward areas and borders of the country to develop about 35000 kms in Phase-I, at an estimated cost of Rs 5,35,000 crore, road sector is set to travel a long way in the coming year.

Policy decisions announced last year i.e. raising equity from the market through use of innovative monetizing structures like Toll, Operate and Transfer (TOT) and Infrastructure Investment Funds (InvITs) are yielding results for the sector. Cumulative resources garnered through new financial instruments like Infrastructure Investment Trusts (InvITs), Real Estate Investment Trusts (REITs) as well as models like Toll-Operate-Transfer (ToT) exceed Rs 24,000 crore.

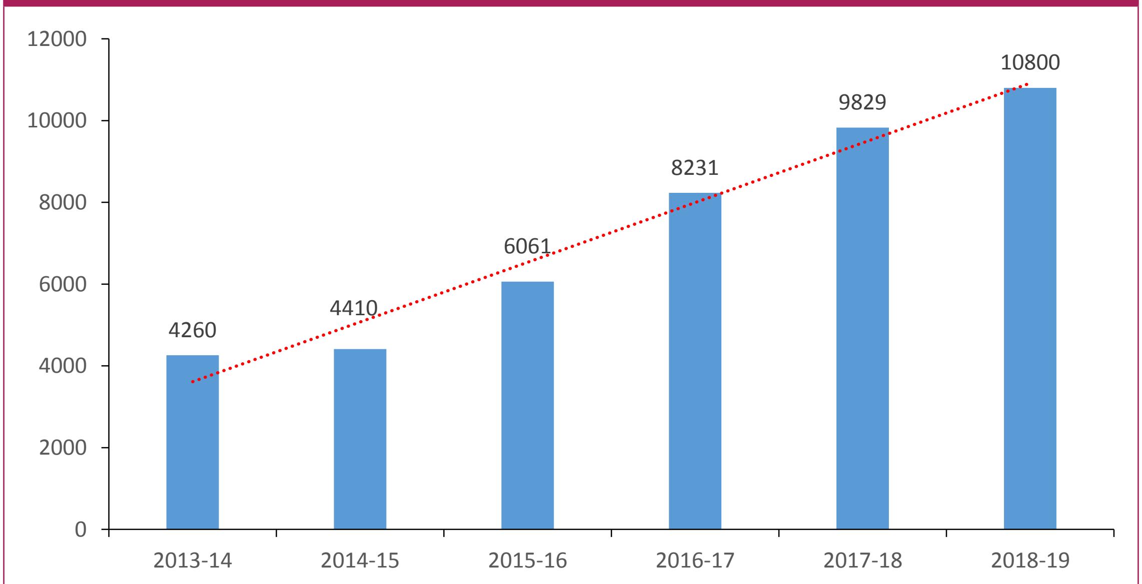
Backdrop

With an aim to achieve USD 5 trillion economy, Government is investing massively on building infrastructure to support India's long term growth. India is far ahead of many emerging economies in terms of providing network of qualitative transportation related infrastructure.

Last year Government approved Rs 7 trillion road construction plan, including Bharatmala Pariyojana with Rs 5.35 trillion outlay for 34,800 km. NHAI is also likely to spend Rs 1.57 trillion for 48,877 km of roads which will boosts the demand for other sectors such as cement and steel.

Under the Union Budget 2019-20, the Government of India has allocated Rs 1.12 trillion (US$ 15.48 billion) under the Ministry of Road Transport and Highways. The government thus, has expressed its intention to keep the momentum in building road expansion projects. Highway construction increased to 10800 kms in FY19 from 4260 kms in FY14.

Highway Construction (km)



Source: MORTH, SBI Research

The highway construction in India reported 20.45% CAGR from FY14-19. However, some legacy projects operating under old model are facing difficulties on account of debt servicing based on overestimated traffic estimates. Hence, some well-known Infrastructure companies under stress are facing downgrades. Recently the Sadbhav Infra group announced that 9 road assets are likely to be acquired by an InVit (Infrastructure Investment Trust) led by Canadian Pension Plan Investment Board and Allianz Capital Partners for Rs. 6610 cr. Both these acquirers, hold 55% in the IndInfravit Trust floated by L&T Infrastructure Development Projects Ltd (Trust Sponsor holds 15%). The trust is likely to pay Rs.2600 cr and own up debt in its books.

The government now appears to be selective on road expansion. For example, in December 2018, the Municipal Corporation of Greater Mumbai awarded Mumbai Coastal Road Project estimated at Rs.21260 cr. The project is likely to find favour since, it goes to reduce traffic congestion in the city for better time saving commute.

Out of 107 tollway entities that were rated between 1st April 2019 to 30th June 2019, 13 entities were upgraded, 31 downgraded while the balance were reaffirmed / under advisory.

Key announcements are continuing work in progress

- Estimated infrastructure need more than Rs 50 lakh crore to increase growth of GDP, connect and integrate the nation with a network of roads, airports, railways, ports and inland waterways
- 99 Cities selected with an outlay of Rs.2.04 lakh crore, have started implementing various projects like Smart Command and Control Centre, Smart Roads, Intelligent Transport Systems etc.
- NHAI to organize road asset in SPV and to use innovative monetizing structures like Toll, Operate and Transfer (TOT) and Infrastructure Investment Funds (InvITs) to raise equity from market

Credit Ratios

Sector Credit Ratios (Upgrade vis-à-vis downgrades) during FY19 as compared to previous year for the same period:

Credit Ratio							
Sector	Total No. of Companies (o/s as on 4th July 19)	FY18			FY19		
		Upgrades	Downgrades	Ratio	Upgrades	Downgrades	Ratio
Road	473	30	40	0.75	37	39	0.95

Source: CRISIL; SBI Research; numbers are for all rating agencies

With 37 upgrades and 39 downgrades during FY19, credit ratio stand improved at 0.95 as compared to 0.75 during FY18.

Sectors Performance - Key Financials of Select Companies (Standalone)

Key Financials of Select Road Sector Companies for FY19 vis-à-vis FY18 (Rs in Crore)									
Name of the Company	FY19			FY18			Growth FY19 on FY18		
	Net Sales	PBIDT	PAT	Net Sales	PBIDT	PAT	Net Sales	PBIDT	PAT
JMC Projects (India) Ltd	3253	362	142	2756	302	106	18%	20%	34%
PNC Infratech Ltd	3097	500	325	1857	342	251	67%	46%	29%
Gayatri Projects Ltd	3463	553	211	2912	477	188	19%	16%	12%
IRB Infrastructure Developers Ltd	3385	688	329	2899	741	444	17%	-7%	-26%
Ashoka Buildcon Ltd	3821	584	286	2446	391	237	56%	49%	21%

Source: CLine; SBI Research

All the above companies reported double digit growth in topline. IRB Infrastructure Developers Ltd showed a decelerating trend in PBIDT and PAT. Companies such as PNC Infratech Ltd have strong order book position and the near-term visibility on revenue growth in the ensuing FY appears healthy. The prospects of other companies may require monetization of tolling or revenue yielding assets.

Market Reaction

Market Movement from Interim Budget and on Budget Day

Sector - Roads Name of the Companies	01-Feb-19	4-Jul-19	5-Jul-19	Movement Over 01-Feb-19		Movement on Budget Day	
				Price	%	Price	%
JMC Projects (India) Ltd	93.00	136.75	135.25	42.3	45.43%	-1.5	-1.10%
PNC Infratech Ltd	142.80	211.90	203.95	61.2	42.82%	-8.0	-3.75%
Gayatri Projects Ltd	170.50	152.30	151.75	-18.8	-11.00%	-0.6	-0.36%
IRB Infrastructure Developers Ltd	145.00	95.90	93.75	-51.3	-35.34%	-2.2	-2.24%
Ashoka Buildcon Ltd	121.15	145.75	141.25	20.1	16.59%	-4.5	-3.09%

Source: NSE; closing price as on date

SECTOR : IRON & STEEL OVERALL IMPACT : POSITIVE

Budget Proposals and Impact

- Estimated Railway infrastructure need in excess of Rs 50 lakh crore between 2018 and 2030 and proposed adoption of PPP route for faster development
- Massive programme of Railway Station modernization to be launched
- Construction of 1.95 crore houses under phase II of PMAY-Gramin
- 17 Iconic tourism destinations to be developed as world class tourist destination
- Policy for Development of Maintenance, Repair and Overhaul (MRO), to achieve self- reliance in aviation segment

Government is investing massively on building infrastructure to support India's long term growth. India is far ahead than many emerging economies in terms of providing qualitative transportation related infrastructure. In view of the above, the sector has already looking up well as also can be seen from financials and rating tables and will continue to do well in the coming period.

Backdrop

India surpassed Japan to become the world's second largest steel producer in 2018. Steel production in the country is booming, driven by government incentives and the rapidly expanding economy, as well as the rebalancing of supply and demand on the global markets. Total crude steel production in India has increased at a CAGR of 6.40 percent during FY08–19P, with country's output reaching 106.40 million tonnes (MT) in FY19P.

The Indian government sees the sector as strategically important for the ongoing industrialisation of the country and as a key enabler for its ambitious infrastructure and construction projects. At the same time, the authorities are pushing for both self-sufficiency and foreign trade surpluses in steel, in line with its policy of reducing the current account deficit.

Moreover, capacity has increased to 137.98 MT in 2017-18, while in the coming ten years the figure is anticipated to rise to 300 MT of steel, as India has set an ambitious target of ramping up its steel-making capacity to 300 MT by 2030-31.

Key announcements are continuing work in progress

- Estimated infrastructure need in excess of Rs 50 lakh crore to increase growth of GDP, connect and integrate the nation with a network of roads, airports, railways, ports and inland waterways
- Allocation to Railway was Rs 1.48 lakh crore for 2018-19 with large part of the Capex devoted to capacity creation, which was 18,000 kilometers of doubling, third and fourth line works and 5000 kilometers of gauge conversion.
- Mumbai-Ahmedabad bullet train project
- Adding 90 kilometers of double line tracks at a cost of over Rs 11,000 crore and 150 kilometers of additional suburban network is being planned at a cost of over Rs 40,000 crore in Mumbai
- Elevated corridors on some sections
- 99 Cities have been selected (Smart City) with an outlay of Rs 2.04 lakh crore
- Regional connectivity scheme of UDAN to connect 56 unserved airports and 31 unserved helipads across the country

Higher Infra spending along with push on affordable housing, giving infra status, redevelopment of stations, increase in airport operations will boost steel demand in coming years.

Credit Ratios

Sector Credit Ratios (Upgrade vis-à-vis downgrades) during FY19 as compared to previous year for the same period:

Credit Ratio							
Sector	Total No. of Companies (o/s as on 4th July 19)	FY18			FY19		
		Upgrades	Downgrades	Ratio	Upgrades	Downgrades	Ratio
Iron & Steel	2269	195	259	0.75	290	190	1.53

Source: CRISIL; SBI Research; numbers are for all rating agencies

Credit ratio in steel sector improved by 78bps during FY19 as compared to FY18. With 290 upgrades and 190 downgrades during FY19 credit ratios stood at 1.53 as compared to 0.75 in FY19.

Sectors Performance - Key Financials of Select Companies (Standalone)

Key Financials of Select Iron & Steel Companies for FY19 vis-à-vis FY18 (Rs in Crore)									
Name of the Company	FY19			FY18			Growth FY19 on FY18		
	Net Sales	PBIDT	PAT	Net Sales	PBIDT	PAT	Net Sales	PBIDT	PAT
Tata Steel Ltd	68923	22854	10533	57947	13176	4170	19%	73%	153%
JSW Steel Ltd	74769	18922	8259	64976	13720	4625	15%	38%	79%
Steel Authority of India Ltd	66967	9878	2179	57558	5129	-482	16%	93%	LTP
Jindal Steel & Power Ltd	27432	4633	-263	16861	3629	-362	63%	28%	-27%
Jindal Stainless Steel Ltd	12585	1170	139	10785	1328	318	17%	-12%	-56%

Source: CLine; SBI Research

Tata Steel Ltd, JSW Steel Ltd, SAIL – all large integrated steel players reported healthy financial performance in all three parameters Net Sales, PBIDT and PAT. The financial performance is backed by optimal product mix, volume and margin growth. In terms of PAT, Jindal Steel and Jindal Stainless exhibited de-growth, with former posting a loss in FY2019.

Market Reaction

Market Movement from Interim Budget and on Budget Day							
Sector - Iron & Steel Name of the Companies	01-Feb-19	4-Jul-19	5-Jul-19	Movement Over 01-Feb-19		Movement on Budget Day	
				Price	%	Price	%
Tata Steel Ltd	474.70	495.30	478.35	3.7	0.77%	-17.0	-3.42%
JSW Steel Ltd	274.95	275.05	266.65	-8.3	-3.02%	-8.4	-3.05%
Steel Authority of India Ltd	46.25	51.90	48.35	2.1	4.54%	-3.6	-6.84%
Jindal Steel & Power Ltd	129.70	142.10	134.10	4.4	3.39%	-8.0	-5.63%
Jindal Stainless Steel Ltd	26.80	33.25	32.70	5.9	22.01%	-0.5	-1.65%

Source: NSE; closing price as on date

MARKET MOOD: MOVEMENT IN KEY INDICES FROM INTERIM BUDGET DAY AND ON BUDGET DAY

Market Movement of Key Indices from Interim Budget Day and on Budget Day

Indices	01-Feb-19	4-Jul-19	5-Jul-19	Movement Over 01-Feb-19		Movement on Budget Day	
				Point	Percentage	Point	Percentage
BSE SENSEX	36,469.43	39,908.06	39,513.39	3043.96	8.35%	-394.67	-0.99%
NIFTY 50	10,893.65	11,946.75	11,811.15	917.50	8.42%	-135.60	-1.14%
NIFTY MIDCAP 100	16,990.25	17,814.10	17,529.70	539.45	3.18%	-284.40	-1.60%
NIFTY AUTO	8,441.25	8,077.20	7,849.10	-592.15	-7.01%	-228.10	-2.82%
NIFTY BANK	27,085.95	31,471.85	31,475.80	4389.85	16.21%	3.95	0.01%
NIFTY FMCG	30,199.90	29,889.45	29,973.25	-226.65	-0.75%	83.80	0.28%
NIFTY INFRA	2,997.95	3,437.55	3,373.45	375.50	12.53%	-64.10	-1.86%
NIFTY PHARMA	8,969.55	8,046.80	7,926.50	-1043.05	-11.63%	-120.30	-1.50%
NIFTY REALITY	231.40	292.55	282.10	50.70	21.91%	-10.45	-3.57%
NIFTY MEDIA	2,097.25	2,103.60	2,053.15	-44.10	-2.10%	-50.45	-2.40%
NIFTY METAL	2,815.65	2,962.50	2,851.25	35.60	1.26%	-111.25	-3.76%

Source: NSE; BSE; closing Point as on date

INSOLVENCY AND BANKRUPTCY CODE (IBC): STATUS CHECK

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 (18 of 2013) w.e.f. 01st June 2016.

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, 1858 cases has been admitted up to Mar 2019, wherein 715 cases are being closed either by way of appeal/review, Resolution plan, Liquidation, withdrawal etc. and 1143 cases are ongoing the process (details in table).

Corporate Insolvency Resolution Processs (upto March 2019)

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	246	20	1	14	51	704
July-Sept, 2018	704	238	29	27	32	86	768
Oct-Dec, 2018	768	275	7	36	14	77	909
Jan-Mar, 2019	909	359	11	27	14	73	1143
Total	**NA**	**1858**	**152**	**91**	**94**	**378**	**1143**

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

It is also observed that out of 1858 cases admitted, around 738 cases i.e. 40% are initiated by financial creditors, whereas 50% i.e. 920 cases are initiated by operational creditors and remaining 11% by corporate debtors.

Initiation of Corporate Insolvency Resolution Processs				
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	129	18	246
July-Sept, 2018	84	138	16	238
Oct-Dec, 2018	98	161	16	275
Jan-Mar, 2019	172	168	19	359
Total	**738**	**920**	**200**	**1858**
Share	**39.7%**	**49.5%**	**10.8%**	**100%**

Source: IBBI; SBI Research

Further, out of 1143 ongoing cases, we can see from the table that 32% cases are pending for more than 270 days from the date of admission, while 795 cases i.e. 70% are pending for more than 90 days.

Status of CIRPs - Mar'2019		
Status of CIRPs	**Number of Cases**	
Admitted	**1858**	
Closed on Appeal/ Review /Settled	152	
Closed on Withdrawl	91	
Closed by Resolution	94	
Closed by Liquidation	378	
Ongoing CIRP	1143	
> 270 days	362	32%
> 180 days ≤ 270 days	186	16%
> 90 days ≤ 180 days	247	22%
≤ 90 days	**348**	**30%**

Source: IBBI; SBI Research

REALISATION RATE: 43.04%

More than Rs.75000 cr has been realized so far, up to Mar'19, under IBC by Financial Creditors (FC) from around 94 entities against total claim by FC of around Rs.1.75 lakh resulting realization of 43.04% with a haircut of around 57%.

Initiation of Corporate Insolvency Resolution Processs			
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	8,448	7,303	86.45%
Q4FY19	38,054	9,107	23.93%
Total	**174,940**	**75,300**	**43.04%**

Source: IBBI; SBI Research; FC: Financial Creditor

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Notes

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