

Asit C. Mehta
INVESTMENT INTERMEDIATES LTD



2019-20

UNION BUDGET

P R E V I E W






Interim Finance Minister Mr. Piyush Goyal is most likely to present the interim budget under Modi Government ahead of Lok Sabha election on February 1, 2019. Traditionally, an interim budget gets parliament's approval for expenses for the financial year starting in April till a new government is in place. However, we believe, upcoming Union Budget could be more of interim cum full-fledged budget compared with just vote on accounts. The incoming government presents a fresh budget for the rest of the financial year. With the General Elections coming as early as April-May 2019, we believe the Modi-led BJP government will present a pure play election Budget amid rising agri distress, tight liquidity conditions, and subdued GDP growth. This Budget would also keep in mind the backdrop of the ruling party's losing state election in major key states held during 2018.





Further, farm relief package or financial support schemes has already taken centre stage in run up to Lok Sabha election in a couple of months. We believe this may put stress to Fiscal Deficit target for FY19. Further, lower than expected GST tax collection and higher election year spending would further weigh on Fiscal Deficit target of 3.2%. We believe the current Budget is crucial for the government to be re-elected for second term as it offers one last opportunity to announce some populist measures in order to woo rural and urban middle class voters.





Key things to watch out in Union Budget 2019-20:




1. Measures to boost distress agrarian economy.
2. Measures to boost job creation in the system.
3. Reduction in corporate tax rate.
4. Increase in income tax exemption limit for salaried class people.
5. Policies promoting investment cycle particularly private capex.

Below mentioned are some of the industry expectations from the Union Budget 2019-20

Industry	Proposed	Impact	Stocks in Focus
Agriculture 	<p>Hike in allocation under Grameen Agriculture market above Rs 2000cr (FY19 budget allocation was Rs 2000cr)</p> <p>Hike in institutional credit for agriculture sector from Rs 11lakh crores in FY19</p> <p>Hike in Krishi Sinchai Yojna from Rs 2600cr in FY19</p>	<p>Positive for pipe, FMCG & auto cos</p>	<p>HUL, Marico, Finolex Ind, HeroMoto, M&M etc</p>
Aluminium 	<p>Reduction in import duty from 10% to 2.5% on Calcined Petroleum Coke & 5% to NIL on Calcined Alumina</p> <p>Reduction in import duty on caustic soda to 2.5% from 7.5%</p> <p>Imposition of import duty on primary & scrap aluminium to 10% from 2.5% & 7.5% respectively</p>	<p>Positive for aluminium cos</p>	<p>Hindalco, Nalco & Vedanta</p>
Automobiles 	<p>Increase in depreciation rates on electric vehicles from 15% to 70% maximum.</p> <p>Cut in GST rate on two wheelers from 28% to 18%.</p>	<p>Positive for electric vehicle manufacturers.</p> <p>Positive for two wheeler manufacturers.</p>	<p>Mahindra & Mahindra, Maruti, Ashok Leyland, Tata Motors</p> <p>Bajaj Auto, TVS Motors, Hero MotoCorp Limited</p>
Banks & Financial Services 	<p>Recapitalization of PSU banks & easing of tight liquidity condition by providing special windows to NBFC</p> <p>Taxing interest income on non-performing assets under receipt basis under Section 43D</p> <p>Exemption of 10% TDS on interest payment & processing charges under loan/finance arrangements</p> <p>Lower Net market borrowings as compared to FY19</p>	<p>Positive for PSU Banks, Private banks & NBFCs</p>	<p>SBI, ICICI Bank, HDFC Bank, Kotak Bank, Bajaj Finance, Shriram Transport Fin, Chola Finance, LIC Housing etc</p>
Capital Goods 	<p>Increase in basic custom duty on imported capital goods</p>	<p>Positive for Capital goods cos</p>	<p>ABB, Siemens, Cummins India, Thermax & BHEL etc</p>

Industry	Proposed	Impact	Stocks in Focus
Cement 	<p>Cut in GST rates from 28% to 18%</p> <p>Increase in government thrust on infrastructure spending (FY19-government outlay was Rs 6 lac cr)</p> <p>Reduction in import duty on pet coke from current 10% to 2.5%</p>	<p>Positive for cement sector</p>	<p>Ultratech Cement, ACC, Shree Cement, Heidelberg Cement, JK Cement etc</p>
Chemical Industries 	<p>Reduction of Customs Duty on Feedstock Ethyl Alcohol/ Ethanol from 2.5% to 0%.</p> <p>Basic import duty on Acetic Acid should be reduced to Nil from the current level of 7.5%</p> <p>Customs Duty on Hydrogen Peroxide be increased from 7.5% to 10%.</p> <p>Import duty on Butadiene to reduce from 2.5% to nil and on Crude Butadiene from 5% to nil.</p>	<p>Will be a Negative for companies that manufacture ethanol locally. However, it would be a Positive for companies that use ethanol as a raw material to manufacture finished product.</p> <p>Positive for domestic chemical manufacturers</p> <p>Positive: Local producers will have a competitive advantage over importers. However, it will be a negative for Textile and FMCG companies that use Hydrogen Peroxide as raw material to manufacture end products.</p> <p>Positive: Synthetic rubber manufacturers and users would be benefited.</p>	<p>All sugar Companies</p> <p>Gujarat Alkalies & Chemicals, Meghmani Organics, Tata Chemicals</p> <p>National Peroxide</p> <p>Mirza Intl, Bata, Relaxo, Khadim, Apollo Tyres, JK Tyres, Ceat</p>
Copper 	<p>Hike in custom duty on imports of Copper rod for application of Jelly filled telecom cables to 5% from NIL</p>	<p>Positive for Copper cos</p>	<p>Vedanta, Hindustan Copper etc</p>
Electronics 	<p>Reduce Import duty on compressors used in ACs from 10% to 5%</p> <p>Tax benefit on export of electronics devices</p> <p>GST rate on ACs & Dishwashers to cut from existing 28% to 18%</p>	<p>Positive for consumer durable cos</p>	<p>Voltas, Bluestar, Whirlpool, IFB Ind, Havells India etc.</p>

Industry	Proposed	Impact	Stocks in Focus
Fertilizers 	Status Quo on Fertilizer Subsidy at Rs 70,000cr	Negative for fertilizers cos	RCF, NFL, Chambal Fertilizers etc.
Health Care/Pharma 	<p>Hike in tax exemption on preventive health checkups from Rs 5000 to Rs 20,000 under section 80D</p> <p>Increase weighted deduction limit in respect of capital expenditure to 150% from 100% under section 35AD</p> <p>Healthcare sector should be accorded with National Priority Sector or Infrastructure Status</p> <p>Inclusion of pharma sector under Safe Harbour rules for contract manufacturing & loan licensee</p> <p>Exemption of life saving equipment from import duty</p>	Positive for Healthcare & Pharma Sector	Dr. Lal PathLab, Thyrocare, Apollo Hospital, Lupin, Merck Ltd, Aurobindo Pharma, Eris Life etc
Insurance 	<p>Allow to carry forward and set off business losses for an indefinite period which is currently eight years.</p> <p>Exemption of annuity received from pension Funds</p> <p>Enhance deduction limit U/S 80C to Rs.2,00,000 for insurance premium with an overall increase to Rs.3,00,000 under the section 80C</p>	<p>Positive: Insurance companies will be benefited</p> <p>Positive: This will improve demand for the insurance products</p>	ICICI Life Prudential, SBI Life, HDFC Life, National India Insurance
Paper & Paper board 	Increase of custom duty on paper & paper boards from current 10%. Import of capital goods for technological up-gradation should be permitted at NIL rate	Positive for paper cos	JK Paper, West Coast Paper, TNPL, IPAPAM etc

Industry	Proposed	Impact	Stocks in Focus
Steel 	Reduction in import of pet coke & met coke from 2.5% & 5% respectively to NIL duty Increase in basic custom duty on imports of certain steel products from 10% to 15% -25%	Positive for Steel Cos	JSW Steel, Tata Steel, SAIL etc
Telecom 	Hike in allocations for BharatNet Programme (FY19- government spend was Rs`10,000cr)	Positive for optical fibres cos	Sterlite Techno, Tejas Network & Vindhya Telelinks, etc.
Textiles /Footwear 	Imposition of safe guard duty of 10% on imports of silk fabrics. Reduction in import duty on textile machinery from 18% GST rate on footwear priced above Rs 1000 to cut from 18% to 12%	Positive for textile & footwear cos	Bata, Relaxo Footwear, Himatsingka Siede, Trident, Arvind Ltd Nitin spinners, Siyaram Silk, KPR Mills etc

Source: FICCI, Company Research

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