Budget 2018-19

Union Budget Expectations: What's in whose kitty?

Question is rife whether the budget will be populist

India's Union Budget 2018-19 will be presented on 1st February 2018. Expectations and excitement run high as it will be the first post-GST and last full-year budget before the General Elections in 2019.

- **We note that the 2018-19 Budget will be presented against the backdrop of uncertainty over tax collections post implementation of the Goods & Services Tax (GST). We expect the government to revise its deficit target to 3.4% of GDP for FY18 (higher than the budgeted estimate of 3.2%) and to 3.2% of GDP for FY19 (higher than the target of 3% set last year). It means that the plan to meet the 3% deficit target will be postponed by one year (to 2019-20) for the third time.**
- **As the current government will present its last full-year budget before the 2019 General Elections, many in the market expect a heavier dose of populism. However, we believe that the government has limited financial resources to propose any targeted scheme for the poor. We also do not expect much relief on the tax front, except some reduction in the corporate tax rate for medium-sized companies.**
- **From an equity market perspective, it is important to see how the Budget is able to make a difference to the rural sector, how the government is able to carry the burden of expectations, and whether the Budget strikes a right balance between good economics and good politics, especially with the General Elections around the corner next year. Also, as GST-related dust is still settling down, the markets will be keenly watching fiscal deficit projections and whether the long-term fiscal consolidation path is adhered to. We do expect the government to focus on rural and capex spending to boost sentiment and revive growth further. However, given the hard-achieved gains on fiscal consolidation, flexibility to go overboard on spending is limited, in our view. Consumption pick-up (especially rural and discretionary), cyclical recovery in corporate facing banks and gradual pick-up in private capex are our key themes to play in CY18. TITAN, EMAMI, UNSP, ICICI BANK, RBL, HDFC, SHTF, PETRONET, HPCL, TATA MOTORS, M&M, L&T, JSP, BHARTI are among our top ideas.**

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- 3% fiscal deficit target postponed to 2019-20, peg FY19 deficit at 3.2% of GDP
- Gross borrowings to touch INR7t, implying net borrowings to rise to INR4.9t (or 2.6% of GDP) in FY19

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In its previous budget, the center had budgeted 12-year slowest growth of 6.6% in total spending, making it clear that fiscal policy is reaching its limits (**refer our report for detailed analysis**). Not surprisingly then, economic activity weakened considerably in FY18, further pressurizing the government. Following the fiscal consolidation path amid growing demand to support economic recovery is the biggest challenge for the government. An anemic rural economy and a weak investment cycle add to the concerns. It would, thus, be interesting to see how the Center handles the fires that are already raging.

Exhibit 1: Motilal Oswal's expectations on key fiscal indicators from Union Budget 2018-19

Economic indicators	Unit	FY16	FY17	FY18BE	FY18F	FY19F
Gross fiscal deficit	INR b	5,328	5,261	5,465	5,601	5,861
	% of GDP	**3.9**	**3.5**	**3.2**	**3.4**	**3.2**
Gross market borrowings	INR b	6,233	6,225	5,820	6,250	7,000
	% of GDP	**4.6**	**4.1**	**3.5**	**3.7**	**3.8**
Net market borrowings	INR b	4,416	4,067	3,502	3,932	4,920
	% of GDP	**3.2**	**2.7**	**2.1**	**2.4**	**2.6**
Nominal GDP	INR b	136,820	151,837	168,475	167,067	186,062
	% YoY	**9.9**	**11.0**	**11.8**	**10.0**	**11.4**

BE = Budget estimates, F = Our Forecasts
Source: Union Budget documents, MoSL

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- We will discuss four key themes in this note. *First*, we provide our projections of FY18 revised estimates (RE) and budget estimates (BE) for FY19. We believe that the deficit target of 3% of GDP will be postponed by one year for the third time to 2019-20. We expect the government to revise the deficit target to 3.4% of GDP for FY18 (higher than the budgeted estimate of 3.2%) and to 3.2% of GDP for FY19 (higher than the target of 3% set last year).
- *Second*, we believe that capital spending of the government will be budgeted to grow ~10% in FY19, following ~7% growth in FY18.
- *Third*, we believe that rural spending may be revised upward for FY18; however, limited financial resources will make it difficult for the government to announce a targeted scheme for the poor.
- *Fourth*, we expect the government to continue on its commitment to reduce the corporate tax rate by lowering tax for companies with turnover of up to INR25b. Such a measure could cost the government ~INR100b. Apart from this, we do not expect the government to provide further direct/indirect tax relief.

Exhibit 2: Motilal Oswal's expectations from Union Budget 2018-19

	FY17A	FY18BE		FY18F			FY19F		
	INR b	INR b	% of GDP	INR b	% YoY	% of GDP	INR b	% YoY	% of GDP
Total Receipts	**14,487**	**16,002**	**9.5**	**15,867**	**9.5**	**9.5**	**17,749**	**11.9**	**9.5**
Revenue receipts	13,852	15,158	**9.0**	14,867	**7.3**	**8.9**	16,749	**12.7**	**9.0**
Gross Taxes	17,206	19,116	**11.3**	18,997	**10.4**	**11.4**	21,525	**13.3**	**11.6**
Net Taxes	11,110	12,270	**7.3**	12,267	**10.4**	**7.3**	13,899	**13.3**	**7.5**
Direct taxes	8,645	9,800	**5.8**	9,997	**15.6**	**6.0**	11,285	**12.9**	**6.1**
Corporation Taxes	4,939	5,387	**3.2**	5,700	**15.4**	**3.4**	6,400	**12.3**	**3.4**
Income Taxes	3,532	4,413	**2.6**	4,250	**20.3**	**2.5**	4,900	**15.3**	**2.6**
Indirect taxes	8,561	9,316	**5.5**	9,000	**5.1**	**5.4**	10,240	**13.8**	**5.5**
Non-tax revenue	2,742	2,888	**1.7**	2,600	**-5.2**	**1.6**	2,850	**9.6**	**1.5**
Non-debt capital receipts	635	844	**0.5**	1,000	**57.5**	**0.6**	1,000	**0.0**	**0.5**
Divestment	478	725	**0.4**	850	**78.0**	**0.5**	800	**-5.9**	**0.4**
Total Expenditure	**19,749**	**21,467**	**12.7**	**21,467**	**8.7**	**12.8**	**23,610**	**10.0**	**12.7**
Total excl. Subsidies	17,444	18,745	**11.1**	18,745	**7.5**	**11.2**	20,610	**10.0**	**11.1**
Revenue expenditure	16,846	18,369	**10.9**	18,369	**9.0**	**11.0**	20,200	**10.0**	**10.9**
Interest payments	4,805	5,231	**3.1**	5,231	**8.9**	**3.1**	5,794	**10.8**	**3.1**
Defense	2,480	2,624	**1.6**	2,624	**5.8**	**1.6**	2,900	**10.5**	**1.6**
Subsidies	2,304	2,723	**1.6**	2,723	**18.2**	**1.6**	3,000	**10.2**	**1.6**
Grants to states & UTs	2,932	3,076	**1.8**	3,076	**4.9**	**1.8**	3,229	**5.0**	**1.7**
Pensions	1,282	1,312	**0.8**	1,312	**2.4**	**0.8**	1,450	**10.5**	**0.8**
Police	624	656	**0.4**	656	**5.1**	**0.4**	689	**5.0**	**0.4**
MGNREGA	480	480	**0.3**	500	**4.2**	**0.3**	550	**10.0**	**0.3**
Other	1,938	2,269	**1.3**	2,249	**16.0**	**1.3**	2,588	**15.1**	**1.4**
Capital expenditure	2,903	3,098	**1.8**	3,098	**6.7**	**1.9**	3,410	**10.1**	**1.8**
Fiscal Deficit	**5,261**	**5,465**	**3.2**	**5,601**		**3.4**	**5,861**		**3.2**
Revenue Deficit	**2,993**	**3,212**	**1.9**	**3,503**		**2.1**	**3,451**		**1.9**
Nominal GDP	**151,837**	**168,475**		**167,067**	**10.0**		**186,062**	**11.4**	

BE = Budget estimates, F = Our Forecasts

Source: Union Budget documents, MoSL

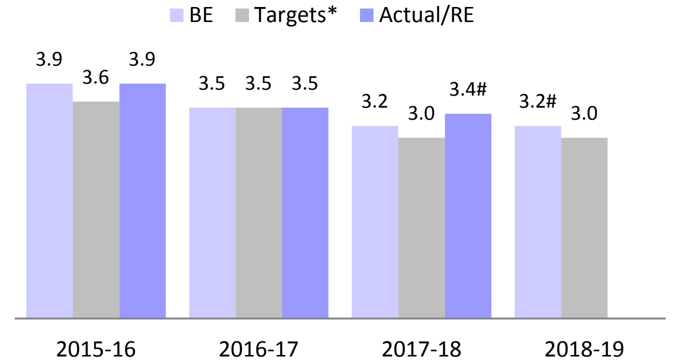
1 3% deficit target to be postponed for the third time

Expect FY19 fiscal deficit to be budgeted at 3.2% of GDP

We believe that the 3% deficit target will be postponed for the third time to 2019-20

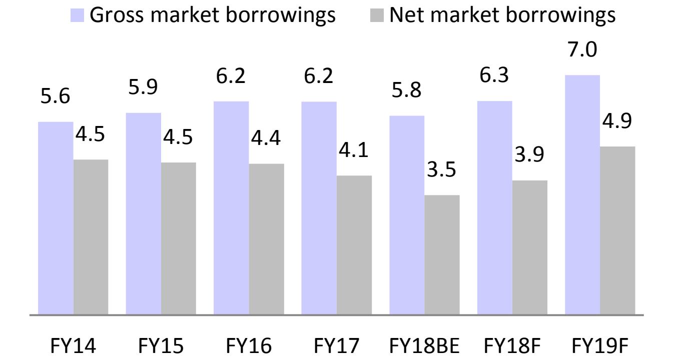
In its first Union Budget on 10th July 2014, the current government's roadmap for fiscal consolidation proposed to reduce fiscal deficit to 3% of GDP by 2016-17. In the following two budgets, the 3% target was postponed to 2017-18 first and then to 2018-19. However, in the 2017-18 Budget, while the target was maintained for 2018-19, it appears highly susceptible once again. Considering that the government is almost certain to miss its 2017-18 budget estimates (BE) of fiscal deficit of 3.2% of GDP, we believe that the 3% deficit target will be postponed for the third time to 2019-20. According to our calculations, fiscal deficit for FY18 could be revised higher by up to 20 basis points (bp) to 3.4% of GDP, and it could be pegged at 3.2% of GDP for FY19 *(Exhibit 3)*.

Exhibit 3: 3% fiscal deficit target may be postponed by one year yet again (% of GDP)



* One-year forward target
# Our expectations for 2017-18 and 2018-19

Exhibit 4: Gross market borrowings expected to rise to INR7t in FY19 (INR t)



Source: Union Budget documents, MOSL

Scheduled repayments of about INR2.1t imply net market borrowings of ~INR4.9t in FY19 – up from INR3.9t in FY18

In line with our deficit estimates, we believe that gross market borrowings could rise from the revised estimate of INR6.3t in FY18 to INR7t in FY19. Scheduled repayments of about INR2.1t imply net market borrowings of ~INR4.9t in FY19 – up from INR3.9t in FY18 *(Exhibit 4)*.

It, however, is also important to note that net market borrowings will be 2.6% of GDP in FY19, higher than 2.4% in FY18, but lower than the levels seen in the previous years *(Exhibit 5)*. It also implies that market borrowings will finance ~84% of fiscal deficit in FY19, higher than in the past two years, but lower levels than in the previous years *(Exhibit 6)*. It is obvious that one-off events such as demonetization helped the government garner more resources from non-market sources and, thus, the share of market borrowings in FY17 and FY18 was much lower.

Exhibit 5: Net market borrowings may rise in FY19 vis-à-vis FY18, but will be lower than in previous years (% of GDP)

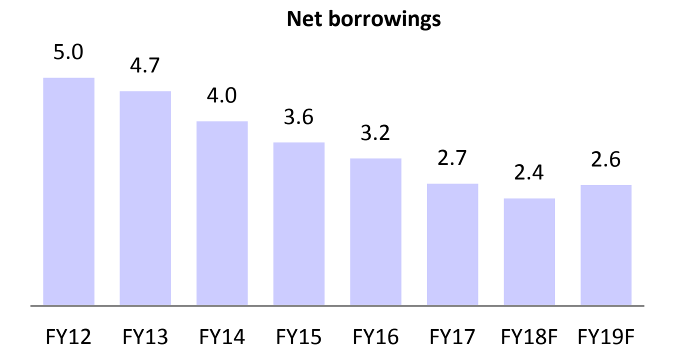
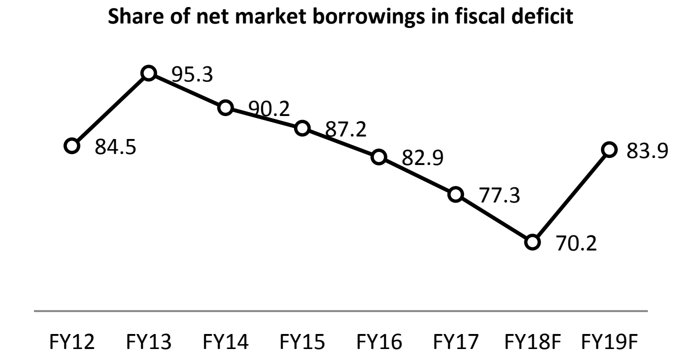


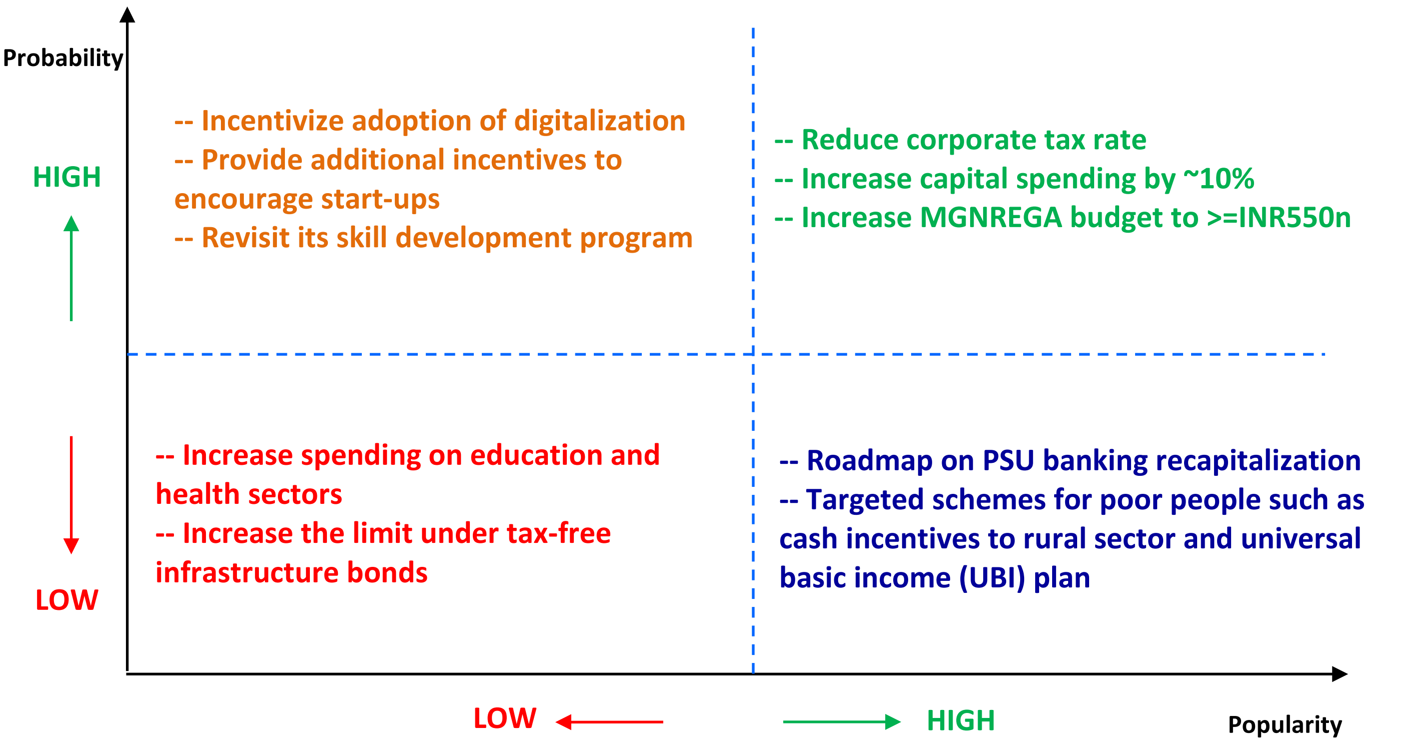
Exhibit 6: Expect net borrowings to account for ~84% of FD in FY19 (%)



Source: Union Budget documents, MOSL

What to expect from the 2018-19 Budget? *Exhibit 7* below categorizes major expectations from the Union Budget, based on the probability of these measures being adopted and their popularity (measured by its potential impact on the equity market). A reduction in the corporate tax rate, higher allocation to MGNREGA and a focus on capex appear to be high on agenda. On the contrary, we hope that the government will resist from announcing any targeted schemes for the poor.

Exhibit 7: How do various expectations rank in terms of probability and popularity?



By Popularity, we imply its potential impact on the stock markets

Source: MoSL

2 Limited role of the Center in reviving investment cycle

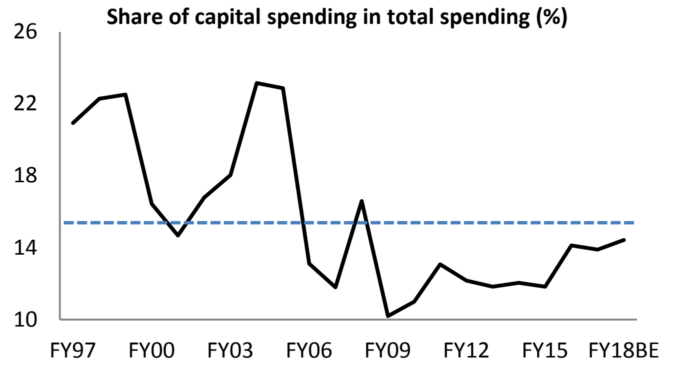
Center's thrust to revive capex cycle

Over the past three years, capital spending of the central government has grown at an average of 16.7%, more than double the average growth of 7.8% in revenue spending

As private investment has remained considerably weak over the past few years, the burden of reviving the capex cycle in the economy is also borne by the Central government. *Higher fiscal capex will help crowd-in the private sector* is a widely held general argument. In response, the Center has certainly increased its capital spending. Over the past three years, capital spending of the central government has grown at an average of 16.7%, more than double the average growth of 7.8% in revenue spending. Consequently, the share of capital spending in the Center's total spending was budgeted to increase to 14.4% in FY18, the highest level in a decade *(Exhibit 8)*.

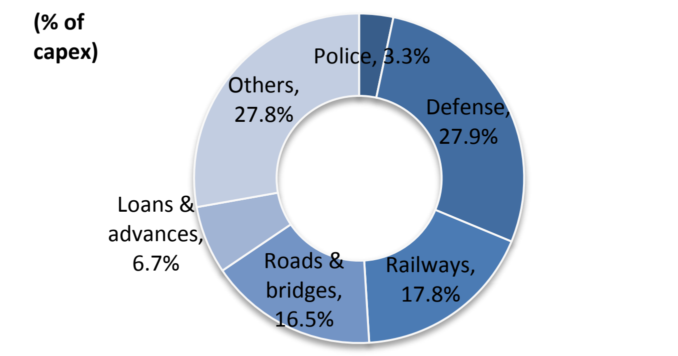
It is also important to note that capital spending of the government is highly concentrated, as almost three fifths is spent on three areas – defense (27.9%), railways (17.8%) and roads & bridges (16.5%). Spending on police and loans to states/UTs/foreign governments are the only other two items with budgeted spending of over INR100b. Together, these five areas account for more than 70% of the Centers' total capex *(Exhibit 9)*.

Exhibit 8: Share of capex in total spending was budgeted at the highest level in a decade



Source: Union Budget documents, MOSL

Exhibit 9: Where does the Center invest – defense, railways and roads?

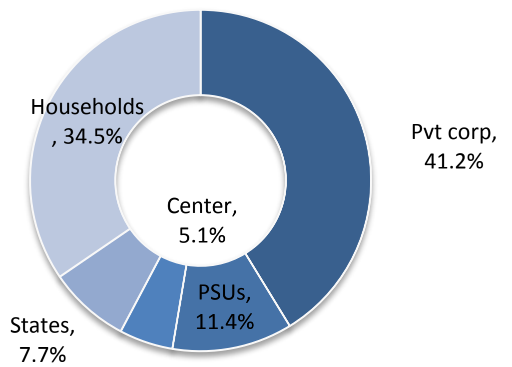


Areas with budgeted spending of >INR100b

How big is the Center in the overall scheme of things?

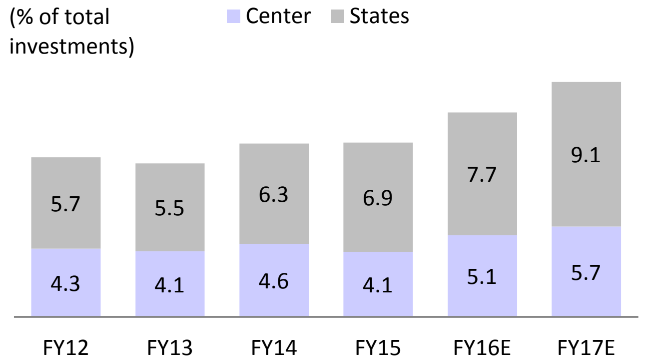
Considering the fiscal constraints, the Center may have probably tried its best to increase capital spending. What, however, is more important to note is the share of the center's capex in total investments in the economy? According to recent data for FY16, the private corporate sector (financial + non-financial) accounted for ~41% of total investments, while households (primarily real estate) contributed another ~35% *(Exhibit 10)*. Of the remaining ~24%, public sector undertakings (PSUs) accounted for ~11%, and the center and state governments formed ~13%. Our analysis of the monthly finances of the Center and states makes us believe that states accounted for ~8%, while the Center's contribution was ~5%.

Exhibit 10: Who are the key investors in the economy?



RS = Revenue spending

Exhibit 11: Center's share in total investments has increased



Source: Central Statistics Office (CSO), Budget documents, MOSL

The Center still remains the smallest player in the economy's overall investment milieu, accounting for <6%

In FY17 (for which official data are not yet available), we believe that the share of government(s) increased further at the cost of households *(Exhibit 11)*. However, the Center still remains the smallest player in the economy's overall investment milieu, accounting for <6%. There is, thus, a serious limit on the ability of the Center to revive the investments cycle by crowding-in the private sector.

We expect the Center to continue growing capital spending by ~10% YoY in FY19 (following the past years' strategy) and keeping the share at ~14.5% of total spending.

3 How much more can the government support rural sector?

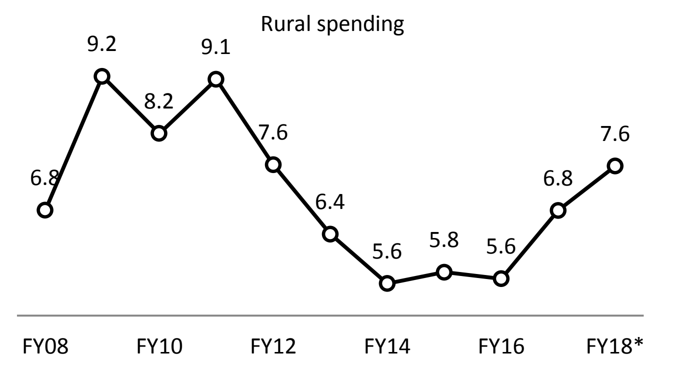
Considerable increase in government's rural spending

The share of rural spending has increased from sub-6% between FY14 and FY16, to 7.6% in FY18

The government has increased its rural spending (Ministry of Agriculture & Allied Activities + Ministry of Rural Development) sharply over the past three years. As against average growth of ~9% in total spending, rural spending has grown at an average of ~16%. Consequently, the share of rural spending has increased from sub-6% between FY14 and FY16, to 7.6% in FY18 *(Exhibit 12)*. Total rural spending amounted to ~INR1.6t, with major allocation toward rural employment (under Mahatma Gandhi National Rural Employment Guarantee Act, MGNREGA). About a decade ago, spending under MGNREGA was raised from INR120b to INR300b in FY09 (election year). We note that spending on MGNREGA continued to hover at INR300-350b up to FY15, which was then raised to INR373b in FY16 and further to ~INR480b each in FY17 and FY18BE *(Exhibit 13)*.

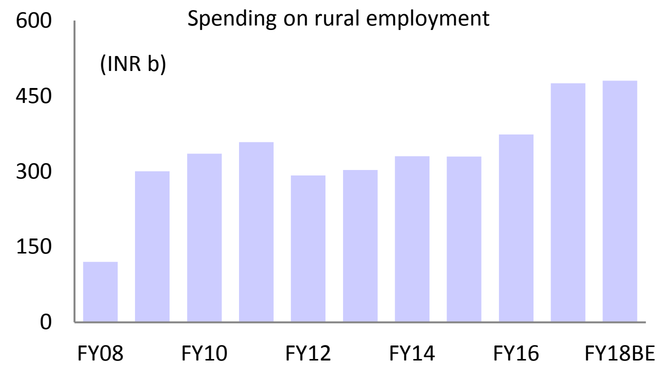
It is obvious that the government will revise its MGNREGA spend higher for FY18, as more than INR493b has already been spent under the program (up to 22nd January 2018).

Exhibit 12: Share of rural spending in total spending has increased over the past few years (%)



* Ministry of Agriculture & allied activities + Ministry of Rural development

Exhibit 13: Spending on MGNREGA is likely to touch INR500b in FY18



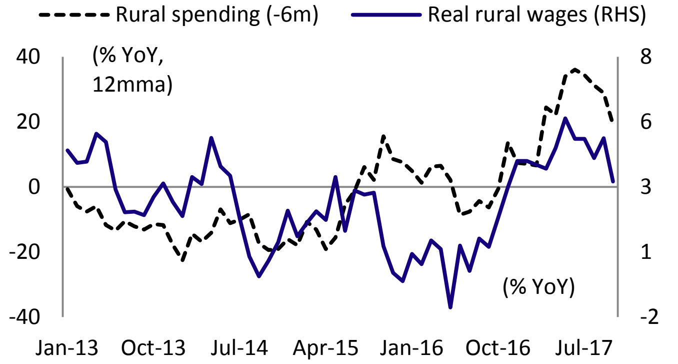
Values up to 2008-09 are revised estimates, not actual
Source: Union Budget documents, MOSL

Trade-off between rural spending and inflation is for real

Rural spending of the central government has a serious impact on rural wage growth – a good proxy for buoyancy in the rural sector

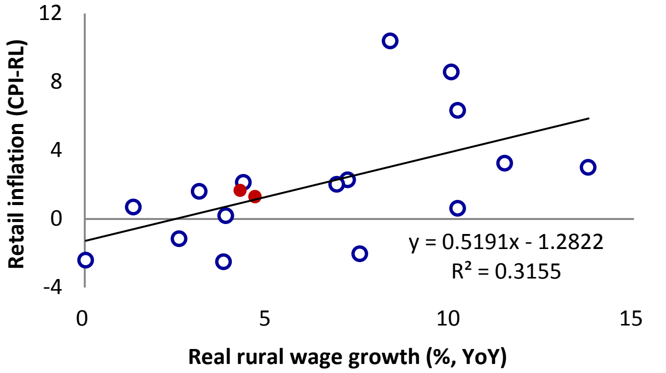
Although the industry is asking the government to allocate INR600b for MGNREGA in FY19, some serious thinking is required, in our view. This is because rural spending of the central government has a serious impact on rural wage growth – a good proxy for buoyancy in the rural sector. *Exhibit 14* confirms a very high positive correlation between the Center's rural spending (with a lag of six months) and real rural wages. The recovery in rural wages in FY17 and FY18 was also mirrored by a sharp rise in rural spending by the central government.

Exhibit 14: Strong correlation between central government rural spending and rural wages…



RS = Revenue spending

Exhibit 15: …translates into higher retail inflation for the economy



Red dots represent FY16 and FY17

Source: Controller General of Accounts (CGA), Labour Bureau, MOSL

This triangular correlation between the government's rural spending, rural wages and inflationary pressures in the economy says it all

However, we also note that rural wages have a direct correlation with inflationary pressures in the economy *(Exhibit 15)*. Higher growth in (real) rural wages coincides with higher inflation. This triangular correlation between the government's rural spending, rural wages and inflationary pressures in the economy says it all. Thus, the government needs to remain cautious about spending too much on the rural sector, as it may fuel further inflationary pressures in the economy.

4 What kind of tax reliefs do we expect?

Government may continue reducing corporate tax rate…

In 2015, the Finance Minister, Mr Arun Jaitley, had announced a proposal to bring down the corporate tax rate from 30% to 25% over the next four years (beginning 2016-17). In its 2016-17 Budget, the corporate tax rate for companies with turnover not exceeding INR50m was reduced by 1% to 29% (plus surcharges and cess). In the last budget (2017-18), the income tax rate for smaller companies with annual turnover up to INR500m was reduced to 25%. Although the government provides data on the effective corporate tax rate based on profit before taxes (PBT), the announcements are made based on turnover of companies. However, since the effective tax rate for smaller companies was in excess of 29%, the reduction must have provided them significant relief *(Exhibit 16)*. It is also important to note that the effective tax rate for large companies, with PBT of over INR5b, was ~26% in 2015-16, primarily because of many exemptions they enjoyed.

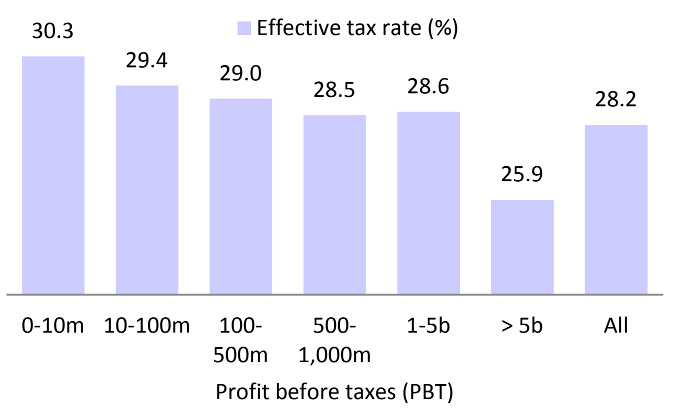
The real challenge is to cut tax rates for larger companies, which account for more than 85% of total corporate taxes

Assuming a PBT margin of ~20%, the effective tax rate would be applicable to companies with PBT of up to INR100m, which account for only 14% of total corporate tax liability *(Exhibit 17)*. Thus, the cost of cutting corporate tax rate for smaller companies would have been much smaller. The real challenge is to cut tax rates for larger companies, which account for more than 85% of total corporate taxes. Our calculations suggest that in order to reduce the tax rate from ~29% to 25% for companies (with turnover up to INR25b and assumed PBT of up to INR5b), it could cost in excess of INR200b to the exchequer in 2018-19. Further, for largest companies (with PBT above INR5b), a reduction in the corporate tax rate by 1% would cost in excess of INR100b to the exchequer.

We believe that the government could cut the tax rate for companies with turnover of up to INR5b (PBT of ~INR1b, assuming ~20% PBT margin), and risk gross tax collection of ~INR100b this year

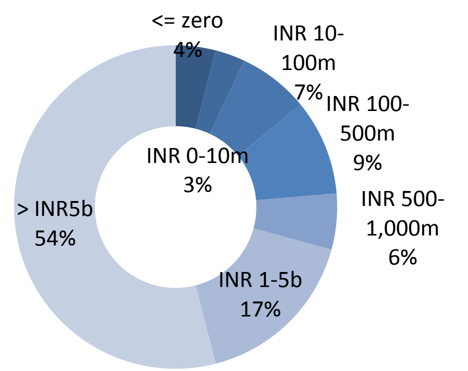
With the tax collections – due to recently implemented GST – remaining uncertain, we expect the government to remain cautious in its third year of commitment too. Accordingly, we believe that the government could cut the tax rate for companies with turnover of up to INR5b (PBT of ~INR1b, assuming ~20% PBT margin), and risk gross tax collection of ~INR100b this year. Larger companies may have to wait for at least one more year.

Exhibit 16: Effective tax rate highest for smaller companies…



Data for 2015-16

Exhibit 17: …which account for <15% of total tax receipts



Source: Union Budget documents, MOSL

…however, we don't expect any more relief

Further, while the government may continue on its path to reduce the corporate tax rate for small-to-medium sized companies (with turnover of over INR500m and up to INR25b), it may resist any further changes in direct taxes. Consequently, it is likely to keep the income tax rates (and slabs) unchanged in 2018-19 Union Budget.

Moreover, on the indirect tax front too, while rationalization of GST is a continuous development, we believe the government should try to broaden the coverage of GST rather than reducing GST rates on different baskets. The former will make it a comprehensive tax structure and lead to efficiency gains.

Key budget expectations

Sector	Current state of the sector	Major budget expectations	Expected change, if expectations are met	Key stocks to watch out for
Auto	❖ Demand recovery is underway across segments, after experiencing multiple shocks (demonetization, BS3 to BS4 transition, and GST, among others) over the last 12 months.	✓ We do not expect any changes in indirect taxes. However, we expect higher allocation toward rural-focused schemes.	❖ Focus on rural markets could place the 2W industry back on the growth path. This, coupled with the benefit of normal monsoon and 7th Pay Commission, could drive 2W volume CAGR of 10-12% over FY17-19E.	✓ Hero MotoCorp, TVS Motor, M&M
	❖ CV volume growth moderated to ~9% in 9MFY18.	✓ We expect introduction of a scrappage scheme, which would incentivize scrapping of trucks older than 10 years.	❖ The scrappage scheme (depending on whether it is mandatory/voluntary, and also magnitude of incentives) can drive 15-18% CAGR for CVs (v/s current estimate of ~12%).	✓ Ashok Leyland, Bosch
		✓ Infrastructure would be one of the focus areas in the Budget; this segment is likely to see higher allocation.	❖ Ramp-up in infrastructure activity will aid demand for tippers and lead to overall CV demand CAGR of 12-15% (v/s current estimate of 8-10%) over the next two years.	
Capital Goods & Infrastructure	❖ Defense: Sector companies await an increase in orders from the government post the thrust toward "Make in India". FY18 budgetary allocation at INR865b for capital spending.	✓ Increased allocation toward capital spending in the Budget.	❖ An increase in budgeted spending would be positive for companies as it implies higher ordering and execution.	✓ Bharat Electronics, L&T, Bharat Forge
	❖ Roads: Increased budgetary support in FY18 (INR1.2t), along with various steps taken by the government, has helped the sector revive.	✓ Increased budgetary support for road is expected to help maintain continuity in ordering and execution. We expect an increase of 10-15% in budgetary allocation.	❖ Higher road ordering and construction would be a positive for the companies in the sector.	✓ L&T, Sadbhav, KNR, Ashoka Buildcon, Cummins India
	❖ Railways: Government is taking steps to decongest the existing network, improve safety of passengers and return the railways to profitability. Budgetary support in FY18 stood at (INR1.3t)	✓ Increased budgetary support and, in turn, spending by the Indian Railways. Expect the allocation to increase by 10% for FY19.	❖ Higher railway spending is a key positive for rail equipment suppliers and contractors.	✓ L&T, Siemens India, ABB India, Crompton Greaves, KEC Intl.
	❖ Namame Gange: While much ground work has been laid, ordering for the Namame Gange mission is yet to pick up. FY18 allocation was at INR23b.	✓ National Mission for Clean Ganga: Increased allocation under this mission would imply pick-up in orders and execution.	❖ Higher allocation toward Ganga clean-up would be positive in terms of orders for companies in the wastewater treatment space.	✓ VA Tech Wabag, L&T, KEC Intl
Cement	❖ Cement dispatches increased 17% MoM in November 2017, and are expected to increase in double-digits owing to low base. ❖ Demonetization had affected cement dispatches pan-India, except south, last year. This has resulted in a low base for most of the regions.	✓ Increased infrastructure spending to benefit the cement sector. ✓ Benefits offered under low-cost housing are likely to boost demand from the individual housing segment, which was impacted by demonetization.	❖ Higher spend toward infrastructure and low-cost housing could boost cement demand.	✓ SRCM, JKCE, BCORP,UTCEM,TRCL,DBEL

Key budget expectations

Sector	Current state of the sector	Major budget expectations	Expected change, if expectations are met	Key stocks to watch out for
	❖ Prices have seen an uptick in most regions in Jan 2018. ❖ Higher operating cost due to increase in fuel on account of rising petcoke prices and freight on account of rising diesel prices.	✓ Budget announcement on Pradhan Mantri Awas Yojana (which was INR29,000 crore last year) will be a key monitorable.		
Consumer	❖ Cigarette volumes have come under pressure after a 16% increase over earlier levels of GST.	✓ We expect a blended GST increase of ~15%.	❖ We expect ITC to implement a weighted-average price hike of 14-15% to pass on impact of higher GST rate. Any increase in ad valorem duty needs to be watched out. Unlike earlier years, the company has not taken any price increase ahead of the Budget this year. If the expected increase comes through, volumes could come under further pressure. We model in cigarette volume increase of 4% in FY19.	✓ ITC
	❖ Government's allocation toward rural schemes has increased over the past year. Rural growth has resumed over the past two quarters, and now stands higher than urban growth (we note that, in FY15, rural markets were growing at 1.5-1.6x of urban markets)..	✓ We expect an increase in allocation toward the rural sector ahead of upcoming elections in a few states in FY19 and then the general election in May 2019. ✓ Any increase in rural spending/infrastructure spending/tax exemption will boost consumers' pockets, benefiting the FMCG sector.		✓ We see broad implication across our coverage universe; however, rural salience is higher for HMN, HUVR, Colgate, Dabur and Britannia.
Financials: Banks & Insurance	❖ Slow recovery environment with continued stress in core sectors. Worries on asset quality have impacted growth in affordable housing space.	✓ Higher allocation of funds to core sectors like infrastructure, housing – particularly affordable housing and urban development.	❖ Would help kick-start investment cycle and boost government's objective of providing housing for all.	✓ PSU banks and large private banks
	❖ Continued stress addition and NCLT referral of large accounts have led to elevated provisioning requirements.	✓ Higher tax relief/concessions for loan loss provisions.	❖ Will boost profitability and lead to more capital available for lending.	✓ All corporate banks – particularly SBI, PNB, ICICIBC
	❖ Capital position of PSU banks remains weak, which limits their ability to cleanse their balance sheet and boost lending.	✓ Government can announce/give further clarity on the recapitalization package that it recently announced.	❖ Would boost capitalization levels and enable PSU banks to make adequate provisions. This would, thus, enable PSU banks to focus on loan growth.	✓ All PSU banks – particularly SBI, PNB, BOB
	❖ Tax deducted at source limit for banks stands at INR10,000. Tax on term deposits also needs to be rationalized given muted deposit growth/lower returns v/s other products	✓ TDS limit of INR10,000 needs to be increased, as this was last set in 1997. Also, the tax rate on FDs can be made lower to help them compete better with debt mutual funds.	❖ This will incentivize savers and enable banks to boost their deposit growth which currently has been quite tepid.	✓ All banks will benefit – particularly the larger ones
	❖ Transitioning from paper money to digital payments.	✓ To encourage more MSMEs to adopt cashless payments, GOI may offer tax rebate on	❖ Reduced operating costs, higher transaction fee income and increased float	✓ Retail-focused banks

Key budget expectations

Sector	Current state of the sector	Major budget expectations	Expected change, if expectations are met	Key stocks to watch out for
		digital transactions with a cap.	in the banking system.	
	❖ Life insurance penetration is low in India and GST of 18% on insurance premium is a drag.	✓ Lowering GST rate applicable to insurance premiums.	❖ Improved incentive to buy life insurance and higher AUM growth.	✓ All life insurance companies
	❖ Penetration of term insurance in the country is very low, despite significant reduction in mortality charges	✓ Introduction of separate tax benefits on term insurance	❖ This will aid growth in high-margin protection business, the composition of which in total industry premium still remains in single-digit	✓ Positive for life insurance companies, particularly ICICI PruLife and HDFC Life
Financials: NBFC	✓ Allocation under MUDRA scheme currently stands at INR2.44t.	✓ We expect higher budgetary allocation for the MUDRA scheme.	✓ This will encourage flow of credit and reduce cost for the MSME segment.	✓ All HFCs – biggest beneficiaries are likely to be REPCO, DEWH and HDFC. Among asset financiers, SCUF and CIFC are likely to be the key beneficiaries.
	✓ Exemption limit for interest deductible for housing loans u/s 24 for tax calculation purpose stands at INR0.2m.	✓ Increase in the exemption limit.	✓ Boost to housing and, in turn, housing loan growth.	
	✓ PMAY allocation was INR290b in FY18.	✓ Expect increased allocation for the PMAY.	✓ Boost to housing and, in turn, housing loan growth.	
Healthcare	❖ Increased taxes on inputs and input services consumed by healthcare providers – they are not eligible to claim any input tax credit. This results in increased cost to patients.	✓ To allow claim on input tax credit.	❖ Effective cost to patients would reduce, improving outlook for the hospital and diagnostic business.	✓ Sun Pharma, Alkem, Lupin, Dr Lal PathLabs, Thyrocare, Apollo hospitals, Fortis Healthcare
	❖ No incentives for hospitals and diagnostic centers to undergo accreditation.	✓ 100% deduction of expenses related to accreditation would enable hospitals and diagnostic laboratories to improve/maintain quality of service as required by NABH and NABL.	❖ This would not only reduce cost (which would drive profitability), but also improve quality of service.	
	❖ Medical re-imbursement limit of INR15,000.	✓ Increase the limit to INR35,000-50,000.	❖ Higher re-imbursement would incentivize patients to take better quality medicines, driving business for top pharma companies in India.	
	❖ Weighted deduction of ~150% on approved expenditure incurred on R&D activities.	✓ Allow weighted deduction of at-least 200% on approved expenditure incurred on R&D activities pertaining to indigenous development of medical technology or bio-technology. Also, extend benefit to expenses outside approved facilities.	❖ This measure would provide boost to R&D effort for building complex molecule pipeline.	
Media	❖ Ads on digital media are subject to 18% GST rate (while print at 5%). ❖ Set-top boxes (STBs) are subject to 20% import duty (raised recently).	✓ GST rate on digital advertising may be reduced. ✓ Some relief on import duty on STB.	❖ Lower rates to further boost digital advertising. ❖ Relief would provide impetus to the ongoing digitization drive	✓ Zee Entertainment Enterprises ✓ Dish TV

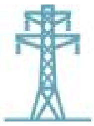
Key budget expectations

Sector	Current state of the sector	Major budget expectations	Expected change, if expectations are met	Key stocks to watch out for
Metals/ Mining 	❖ Rise in coking coal prices is impacting cost of production of steel.	✓ Reducing in import duty.	❖ This will improve margins of Indian steel companies.	✓ Tata Steel, SAIL, JSW Steel, Jindal Steel
	❖ Iron ore supply has tightened after recent closure of mines in Odisha	✓ Miners are lobbying for a reduction in export duty on iron ore up to 60% Fe.	❖ We believe it is unlikely because the steel industry is aggrieved by the spike in iron ore prices recently.	✓ NMDC
Oil & Gas 	❖ Government had increased cess from INR4,500/mt to 20% ad valorem for upstream companies.	✓ Cess may be reduced to 10%.	❖ Lowering of cess will be positive for upstream companies.	✓ ONGC, OIL, CAIR IN
	❖ Inclusion of natural gas under the purview of GST.	✓ Expect natural gas inclusion in GST, possibly in the 5% slab, in line with GST on coal.	❖ Inclusion will make natural gas competitive compared to dirtier fuels like coal and FO.	✓ GAIL, GSPL, PLNG, IGL, MGL, GUJGA
	❖ In H1FY18, subsidy on LPG and kerosene amounted to INR90b. Higher crude oil prices are expected to result in INR470b under-recoveries in FY19.	✓ Expect clarity on modality for FY19; we build in nil subsidy burden for OMCs and upstream.	❖ Clarity on subsidy burden would impact upstream and downstream companies.	✓ IOCL, BPCL, HPCL, ONGC, OIL
	❖ Compression of gas is viewed as 'manufacturing' of goods and attracts excise duty of 14.4%.	✓ Reduction or exemption of excise duty charged on CNG/PNG volumes of CGDs.	❖ Reduction in excise duty would be earnings-neutral for CGDs, but lower retail gas prices may boost consumption.	✓ IGL, MGL, GUJGA
	❖ Last year, import duty on LNG was reduced to 2.5% from 5%.	✓ To increase affordability of natural gas (cleaner fuel), we expect removal of 2.5% customs duty on LNG imports, irrespective of the usage.	❖ Lower import tax will boost gas usage in India, benefiting companies across the gas value chain. Positive for CGD companies and LNG importers.	✓ IGL, GUJGA, MGL, PLNG, GAIL, GSPL
Real Estate	❖ 100% tax exemption for developers with 30 sq.mt. projects in metros (60sq.mt. – non metro) shall be entitled for benefits.	✓ Increase in carpet area in case of metro cities from 30sq.mt. to 60sq.mt.	❖ This will incentivize developers to take up projects.	✓ All real estate companies
	❖ Currently, principal repayment toward housing loan is allowed as a deduction u/s 80C (INR150,000), interest u/s 24 (INR200,000) and 80EE (INR50,000).	✓ Increase in deduction limit on principal and interest on housing loans.	❖ This should lead to increased demand in the sector.	✓ All real estate companies
	❖ 18% GST shall be charged for under construction property, of which 1/3rd is allowed as rebate, converting to an effective rate of 12%.	✓ Reduction in GST rate to 8-12% shall aid in pushing demand ahead	❖ This should boost demand.	✓ All real estate companies
	❖ LTCG exemption is allowed on REITs if held for 36months.	✓ Reduce holding period of REITs to 12 months.	❖ Make REITs an attractive asset class for investment.	✓ Real estate companies with retail, commercial and hotel assets
	❖ In the last budget, INR29,000 crore was allocated toward PMAY scheme to build houses.	✓ Further increase in budget allocation toward PMAY scheme.	❖ This would boost construction activity and aid in creating affordable houses.	

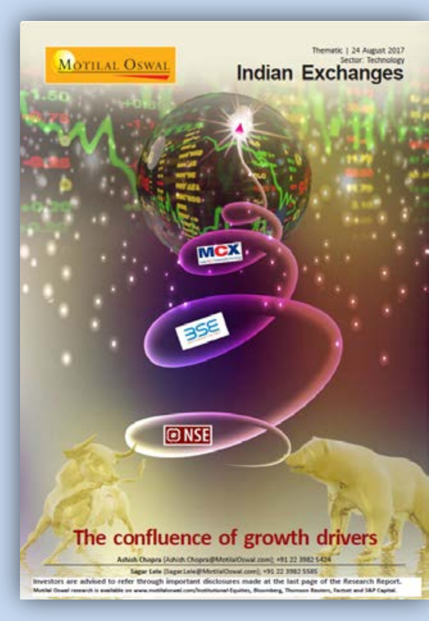
Key budget expectations

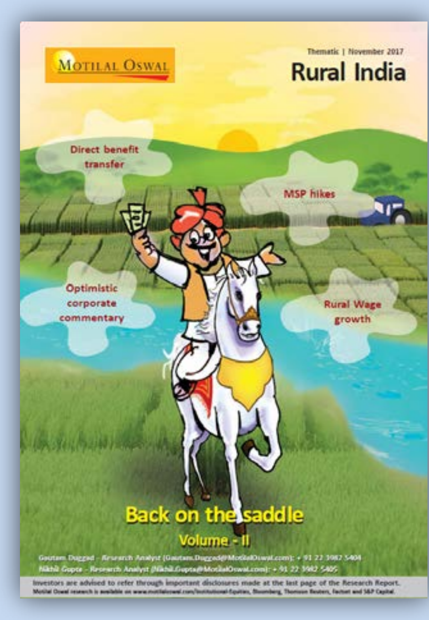
Sector	Current state of the sector	Major budget expectations	Expected change, if expectations are met	Key stocks to watch out for
Retail	❖ Sector sentiment is showing revival over a weak base, led by structural changes happening in the jewellery segment.	✓ Any move to boost income at the hands of the consumer will be a positive. We also await if any fat tax is imposed on QSRs.	❖ Any increase in disposable consumption is a positive. ❖ Fat tax will be a negative for QSRs.	✓ Broad implications across our coverage universe.
Technology	❖ Duality of pressure in traditional services and growing opportunity in emerging technologies have been impacting companies based on portfolios and strategies. ❖ Margins are under pressure in the near term, led by regulatory risks around H1B visas in the US.	✓ Tax holiday in 11-15 years of operation of SEZ is available only on creation and utilization of the SEZ re-investment reserve. Clarifications are needed on (i) if reserve can be utilized in the year of creation and (ii) if the reserve can be used for any other unit.	❖ Better and optimal utilization of the SEZ re-investment reserve; promotion of continued investments in SEZs and incurring of capital expenditure.	✓ N.A.
Exchanges	❖ Apart from the pick-up in activity on equity exchanges, regulatory reform has been encouraging increased products, higher participation and allowing exchanges to trade multiple asset classes.	✓ Reintroduction of Section 80E of the Act of the Securities Transaction Tax allowing STT and CTT as a rebate against tax instead of being allowed as expense for computing taxable income. ✓ STT exemption on commodity options as they converge into respective underlying futures contracts upon which CTT would anyway be applicable.	❖ Double taxation would be avoided, boosting confidence in the markets, and positively impacting volumes. ❖ Avoidance of double taxation, thereby resulting in a pick-up in trading volume on commodity options.	✓ MCX, BSE
Telecom	❖ The tenure for spectrum payment is 10 years. However, Telecom Commission has approved the same be increased to 16 years.	✓ Financial relief in the form of more time (16 years) to make spectrum payments.	❖ Approval of increased (16 years) tenure for spectrum payment and lower government levies will increase the cash flow of the deb-laden telecom operators.	✓ Bharti Airtel, Idea, Reliance Ind.
	❖ License fee (8%) and SUC (3-4%) of AGR.	✓ Redefining adjusted gross revenue (AGR) and bringing down license fee and SUC to a uniform 1% of AGR.	❖ Exempting 4G network equipment from BCD will reduce the cost of rolling out networks and boost 4G penetration (especially in rural areas).	
	❖ Industry has enough spectrums across bands at-least for next one year.	✓ No new spectrum auction for at least a year.	❖ High spectrum investment done in the last 4-5 years through M&A may offer little incentive to participate in spectrum auction, thus limiting telecom receipts from auction	
	❖ Telecom services, at present, fall in the 18% slab of GST rate.	✓ Industry demands that the GST rate be brought down to 12%.		
	❖ Telecom towers (at present) do not fall within the purview of 'plant and machinery' under the GST law	✓ Telecom towers may be included within the scope of 'plant and machinery'.	❖ Tower operators to get the benefit of input tax credit on towers under the GST law.	

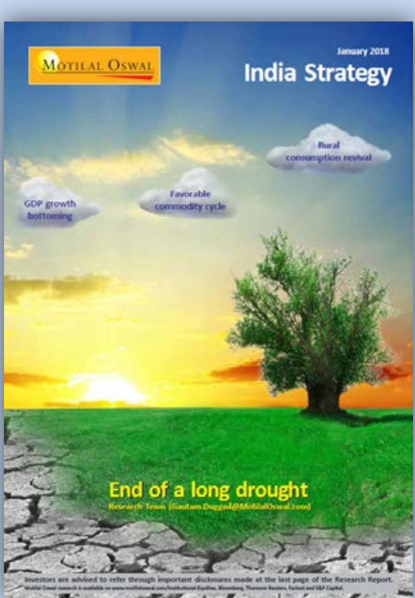
Key budget expectations

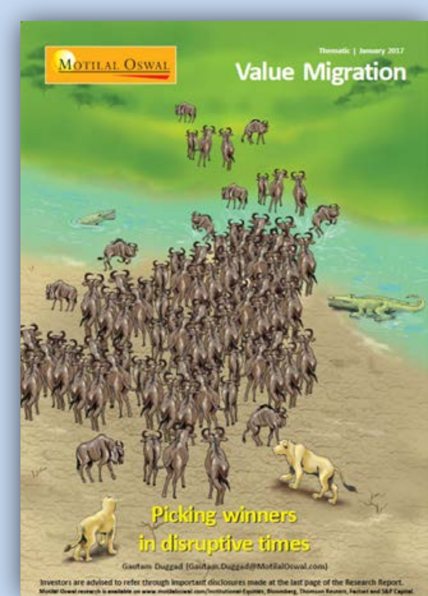
Sector	Current state of the sector	Major budget expectations	Expected change, if expectations are met	Key stocks to watch out for
Utilities 	❖ The Ministry of Power (MoP) has initiated a series of reforms in terms of domestic coal supply improvement, subsidy for LNG for gas power project, DISCOMs restructuring, etc. However, with supply being higher than demand, operating rates remain low.	✓ Extension of Sec 80-IA till FY20E.	❖ The measures are more facilitator in nature and would help keep up investment.	✓ NPTC, PWGR, JSW Energy, CESC and COAL
Others				
Agro chemicals	❖ Monsoon has been good this year, although not evenly spread compared to the previous year. Farmers have been impacted by lower commodity prices.	✓ Increase in MSP on food grains and pulses. ✓ Increased investments in agricultural infrastructure such as irrigation facilities, warehousing and cold storage to boost farm income. ✓ Enhancement in capital subsidy for cold stores and its extension to all capital investments in back-end supply chain logistics.	❖ Increased focus on improving warehousing and cold storage would help lower wastage, as 8-10% of food grains in India are lost every year only due to post harvest wastages. This would in turn boost farm income.	✓ PI Industries, Insecticides India, ✓ Dhanuka Agritech, Monsanto India, ✓ Coromandel International
Fertilizers		✓ Passing on of the subsidy benefit for fertilizers to farmers through implementation of DBT. ✓ Amendment in New Investment Policy (NIP) involving investment benefits for urea manufacturers to tackle shortage in domestic capacity.	❖ The backlog of existing fertilizer subsidy (INR230b) if cleared before implementation of DBT would provide significant boost to the industry. The companies would receive subsidy in their account within 7 days of completion of sale to the farmer.	✓ Coromandel International

THEMATIC/STRATEGY RESEARCH GALLERY



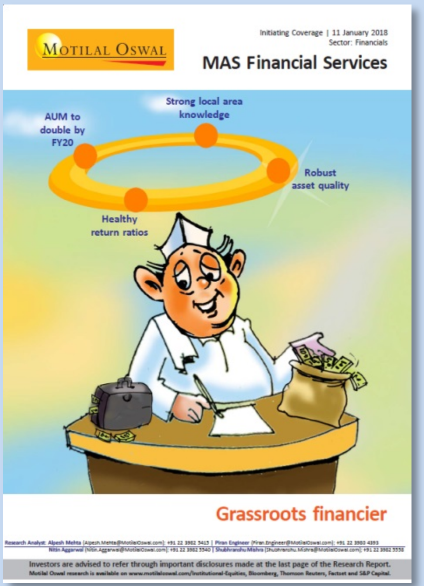


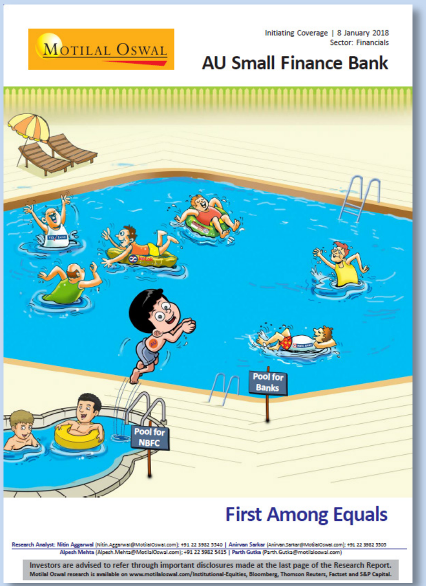


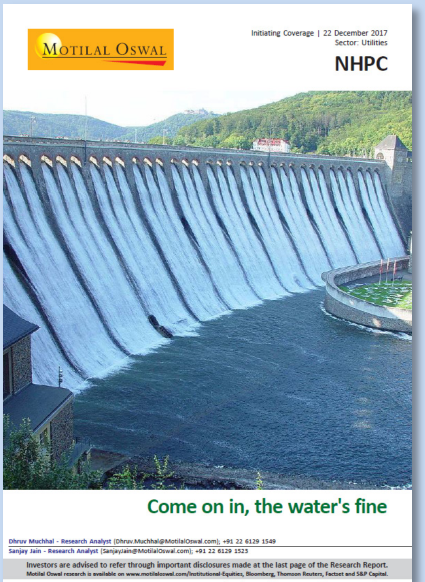


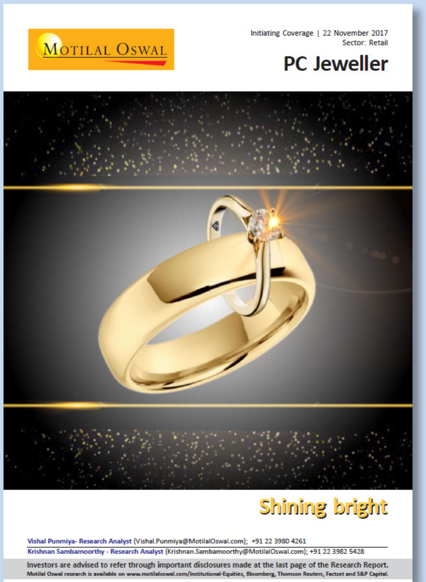
REPORT GALLERY

RECENT INITIATING COVERAGE REPORTS









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