BONANZA WEALTH MANAGEMENT RESEARCH

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Union Budget 2020-21

04-02-2020

Macros

- The revenue and capital receipts are expected to be at Rs 20.20 lakh cr and Rs 2.24 lakh cr and are likely to grow by 9.2% y-o-y in FY21E.
- The revenue and capital expenditure are expected to be to at Rs 26.30 lakh cr and Rs 4.12 lakh cr and are likely to grow by 12.7% y-o-y in FY21E.
- The nominal GDP is expected to grow by 10% in FY21E.
- The fiscal deficit for FY21E is estimated to be 3.5% of GDP.
- The Gross market borrowing for FY21E 7.8 Lakh cr rupees.
- Disinvestment target for FY21 is budgeted at Rs 2.1 Lakh cr of which proceeds from LIC and IDBI is expected to be Rs 90 thousand cr. Also, rollover of proposed stake sale in BPCL, Shipping Corp could be helpful in reaching the targets. In nutshell, achieving disinvestment targets is key to meet fiscal deficit target of FY21.
- The limit for FPI in corporate bonds, currently at 9% of outstanding stock, will be increased to 15% of the outstanding stock of corporate bonds.

Direct and Indirect Tax

- New Income Tax Regime has been introduced as an option with reduced tax rates subject to foregoing of exemptions and deduction benefits.
- The concessional corporate tax rate of 15 percent on newly formed domestic manufacturing companies has been extended to electricity generation companies.
- Tax benefits to Start- ups by way of deduction of 100 percent of their profits are enhanced by increasing turnover limit to Rs 100 cr vs previous 25 cr and period of eligibility to10 years (previous 7 years).
- Dividend Distribution Tax has been removed, and the classical system of dividend taxation adopted.
- Additional deduction of Rs.1,50,000 for interest on Home Loan on affordable housing has been extended for one more year.

- Simplified GST return shall be implemented from 1st April 2020. It will make return filing simple with features like SMS based filing for nil return, return pre-filling. There fund process to be fully automated.

- Health cess to be imposed on imports of medical equipment given these are made significantly in India.

- A proposed increase in custom duty for the apparel and furniture industry.

- Customs duty raised on items like footwear and furniture in the wake of promoting production by domestic MSMEs.

Current Option	
Taxable Income Slab	**Tax Rate**
0 - 2.5 Lakhs	Exempt
2.5 - 5 Lakhs	5%
5 - 10 Lakhs	20%
Above 10 Lakhs	30%

New Option	
Taxable Income Slab	**Tax Rate**
0 - 2.5 Lakhs	Exempt
2.5 - 5 Lakhs	5%
5 - 7.5 Lakhs	10%
7.5 - 10 Lakhs	15%
10 - 12.5 Lakhs	20%
12.5 - 15 Lakhs	25%
Above 15 Lakhs	30%

Sector Impact

Automobiles & components

- Proposals: Increase in customs duty on CBUs of traditional commercial vehicles to 40% from 30% earlier.

- Implications: No major impact, as all Indian OEMs (Ashok Leyland, M&M, Tata Motors and VECV) manufacture in India.

- Proposals: Increase in customs duty to 7.5% from 5% earlier on parts used to manufacture catalytic converters.

- Implications: We believe import content for manufacturing of catalytic converters will be low. Cummins and Bosch are the two leading manufacturers of catalytic converters. There will be limited impact on prices due to hike in customs duty.

- Proposals: Introduction of new personal income tax regime with lower tax rates for income up to Rs15 Lakh and no deductions and exemptions.

- Implications: We believe this will have no impact on PV and modest impact on 2-Ws demand from a section of taxpayers opting for the lower taxation regime.

Banks/Diversified financials/Insurance

- Proposals: No capital infusion for public banks.

- Implications: Negligible impact though there was an expectation that it would help bolster lending, which is slowing sharply. However, given that CAR levels have improved for banks, we don't see a near-term requirement for the same.

- Proposals: Increase in insurance costs to cover deposits up to Rs 5 Lakh as compared to Rs 1 Lakh.

- Implications: Deposit insurance cost is 4% of the overall costs currently. We expect this to rise marginally although banks could offset the increase in costs from other segments.

- Proposals: Removal of DDT and transferring tax liability on dividend income to the recipient.

- Implications: Insurance companies have enjoyed tax exemption on dividend income. Their effective tax rates may increase henceforth the impact will be negative.

Construction Materials

- Proposals: FY2021BE capital outlay towards major construction-related sectors is lower versus FY2020RE amount. Allocation towards ministries of housing, roads and railways for FY2021E is down 7% YoY against +25% YoY in FY2020RE.

- Implications: Demand for cement from government-led expenditure in housing and infrastructure may be muted in FY2021. Despite a favorable base of flat demand in FY2020, cement demand growth in FY2021E may be lower than long-term average of 1.2X GDP.

Consumer Staples

- Proposals: National Calamity Contingent Duty on cigarettes raised.

- Implications: ITC: (1) Effective tax/stick increase range is 5.4-13.8% for different stick lengths. Higher hikes at the lower end (DSFT, 64 mm sticks) and progressively lower, (2) effective tax hike is around 10% portfolio level from around Rs 4.1/stick to Rs 4.5/stick, (3) to protect its current net revenues/stick, price hikes needed are (a) 10-14% in the 64 mm segment, (b) around 5-5.5% in the premium RSFT segment (69 mm), and (c) 6- 7% in the KSFT (84 mm segments).

Electric utilities

- Proposals: Corporate tax rate of 15% (plus surcharge and cess) for new domestic power generation companies.

- Implications: This will not benefit companies operating under the cost-plus regime. Companies setting up new merchant capacities will benefit from lower tax rate, however, the current demand-supply situation does not warrant new investment in power-generation capacities.

- Proposals: Proposal to replace conventional meters with smart meters over the next three years.

- Implications: The proposal to replace conventional meters with smart pre-paid meters may result in lower financial stress for distribution utilities.

- Proposals: Closure of thermal plants with emission levels above the prescribed norms, and consequent use of the vacant land for alternate purposes.

- Implications: NTPC has old plants that may not be able to meet the prescribed emission norms. It has resisted the closure of such plants in the past but the current proposal may require NTPC to revisit its stance.

Industrials/Infrastructure

- Proposals: Abolition of dividend distribution tax.
- Implications: Infrastructure companies owning assets would now be able to pass through cash flows to shareholders without any risk of dividend leakage. This simplifies the means of accessing cash flows for holding companies and thus enhances value of assets for shareholders.
- Proposals: Flattish to modest increase in key verticals for capital expenditure spends for the government in defense, railways, power, roads, metros and highways and O&G. Key ministry showing increase in the Ministry of Housing and Urban Affairs.
- Implications: This would limit scope of growth for construction companies over FY2020 base.

IT services

- Proposals: Abolition of dividend distribution tax.
- Implications: Abolition of dividend distribution tax is positive for all IT companies as it makes return of capital easier. After abolition of dividend distribution tax, dividend would likely be the preferred route of payout in future.

Media

- Proposals: Reduction in basic customs duty on imports of newsprint to 5% from 10%.
- Implications: Newsprint cost is about 33% of print business revenues. Imported/domestic newsprint accounts for 20%/80% of newsprint consumption. Domestic newsprint price usually tracks international newsprint price. Thus, reduction of custom duty could have some deflationary impact on domestic newsprint prices. This is marginally positive for newsprint companies.

Oil, gas & consumable fuels

- Proposals: Expansion of gas grid to 27,000 km from 16,200 km currently.
- Implications: This will lead to higher penetration of gas, enabling shift to cleaner fuel.
- Proposals: Anti-dumping duty on PTA abolished.
- Implications: Modest negative for RIL given likely reduction in realization on external sales of PTA.
- Proposals: Increase in divestment target to Rs 2.10 Lakh cr.
- Implications: Overhang on energy PSUs due to likely stake-sale in the form of CPSE ETFs.

Pharmaceuticals and healthcare

- Proposals: Viability gap funding to be introduced for PPP models of hospitals in Tier-2 and Tier-3 cities.

- Implications: Unlikely to impact listed peers as the companies are unlikely to pursue expansion in Tier-3 cities through VGF-based models.

- Proposals: Jan Aushadhi budget remains unchanged.

- Implications: Neutral to marginally positive for domestic pharmaceutical companies.

Real Estate

- Proposals: Extension of tax benefits by another year (up to March 31, 2021) for (1) development of affordable housing, and (2) additional deduction of Rs1,50,000 on interest component for buyers of affordable homes.

- Implications: The provision will maintain the momentum on development and purchase of affordable housing projects in India.

- Proposals: Abolishment of dividend distribution tax and taxability of dividends in the hands of the investors at their applicable tax rates.

- Implications: REITs already enjoyed exemption from dividend distribution tax. However, taxability of dividends in the hands of the recipient makes the yields taxable at the applicable tax rate. Post-tax dividend yield would be substantially lower for individuals, the impact on institutional investors will depend on their applicable tax rates.

Telecommunication Services

- Proposals: Receipts from communication services for FY2021BE pegged at Rs1.33 Lakh cr; FY2020RE pegged at Rs 59 thousand cr, raised from FY2020BE of Rs 55 thousand cr.

- Implications: For FY2021E, given the moratorium already offered on deferred spectrum payouts, there would be no inflows on that front. LF + SUC could go up to Rs 250 thousand cr. The balance Rs 1.08 lakh cr could be a combination of (1) assumed AGR case-related payments and (2) assumed spectrum auction proceeds. It remains to be seen if the telecom operators will commit to such high payments.

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