#BUDGET 2020 withHDFCSEC

HDFC securities

UNION BUDGET 2020-21

Staying Prudent, Economic Recovery likely to be Gradual...

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Staying prudent, economic recovery likely to be gradual….

FY21 budget tilted more towards fiscal conservatism, underwhelming high expectations given backdrop of weak macros. Fisc induced economic recovery can be pushed back a bit. While R.E. for FY20 fiscal deficit at 3.8% overshot B.E by 50bps, FY21 fisc deficit has been pegged lower at 3.5% - albeit driven by somewhat aggressive assumptions. While govt. followed on its stated path of simplifying tax regime and lowering tax rates, its approach seems more gradual. Focus on rural India has stayed - with allocation for agri+rural development rising 13% YoY - this should be consumption positive. A key disappointment was lack of material measures to heal the strained NBFC and real estate sectors.

- Budget was devoid of any big-bang reform but contained some structural changes, i.e. (i) a new optional personal tax regime – some benefits expected for low/middle income tax payers, (ii) <u>abolition of Dividend Distribution Tax (DDT)</u> – while this will reduce taxes at corporate level further, the investor in higher tax bracket will end up bearing more taxes, (iii) <u>insurance on bank deposits raised to INR5lakh vs. INR 1lakh earlier</u> – a long awaited reform with rising clamor after recent crisis in few banks
- FM heralded a new optional tax regime of lowering personal income tax rates and dispensing complex maze of exemptions/deductions. The adoption rate towards new regime may be lower than expected. Nonetheless, the path towards lower rates is now becoming an inevitability.
- <u>Fiscal deficit est. rests on some aggressive assumptions</u> i.e. (i) 16.3% yoy higher total receipts driven by highest ever disinvestment proceeds (INR2.1trn up 2.2x yoy) which prima facie looks a stretch and relies on chunky strategic stake sales (inc IDBI Bank-INR180bn) and IPO of LIC (~INR720bn) – 30-40bps miss could be a possibility; (ii) 64% yoy jump in other non tax revenues driven by telecom receipts; These could be partially offset by likely lower net revenue foregone on dividend distribution.
- FM indicated limited tax buoyancy with gross tax revenue expected to rise by 12%yoy and net tax revenue by 9% yoy Devolution to states expected to rise by 20%yoy, with some onus of infra creation falling on states
- Total expenditure is expected to rise by 13% YoY with 28% jump in agri+allied. Defence expenditure is budgeted to rise by a mere 2% yoy which may be difficult to achieve; Encouragingly, overall capex is budgeted to rise by 18%, taking share of capex to 13.6%.
- The glide path also factors in lower fisc deficit to 3.3% (FY22) and 3.1% (FY23). implying monetary policy will likely continue to be accommodative.
- Key winners: Consumer, IT, Industrials
- Key losers: LI, AMC, cigarettes; Autos, RE (vs. expectations)

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Receipts Budget

PARTICULARS (Rs bn)	FY19A	FY20 RE	%YoY	FY21 BE	% YoY
Income Tax - Corp	6,636	6,105	-8.0%	6,810	11.5%
Income Tax - Indiv	4,730	5,595	18.3%	6,380	14.0%
Total Income Tax	11,366	11,700	2.9%	13,190	12.7%
Customs	1,178	1,250	6.1%	1,380	10.4%
Excise + Svc Tax, etc.	2,389	2,492	4.3%	2,680	7.5%
GST	5,816	6,123	5.3%	6,905	12.8%
Total Indirect Tax	9,383	9,865	5.1%	10,965	11.1%
Total Tax Collected	20,787	21,606	3.9%	24,201	12.0%
Less : States' share, etc	7,615	6,560	-13.8%	7,842	19.5%
Net Tax Revenues	13,172	15,046	14.2%	16,359	8.7%
Interest, dividend, grants	1,266	2,119	67.3%	1,672	-21.1%
Others	18.9	20.94	10.8%	23.03	10.0%
Non Tax Revenues	1,072	1,315	22.7%	2,155	63.8%
REVENUE RECEIPTS	15,529	18,501	19.1%	20,209	9.2%
Debt receipts (net)	6,507	7,668	17.8%	8,493	10.8%
Other capital receipts (net)	1,128	816	-27.6%	2,250	175.7%
CAPITAL RECEIPTS	7,635	8,485	11.1%	10,743	26.6%
TOTAL RECEIPTS	23,164	26,986	16.5%	30,952	14.7%

Factors INR250bn lower DDT

Factors INR400bn lower tax owing transition to new regime

Could be achieved given low base and recent uptick

Factors lower dividend from RBI

Driven primarily by telecom receipts

Mostly driven by divestment aggression

Expenditure Budget (reclassified)

EXPENDITURE HEAD	FY19A	FY20 RE	%YoY	FY21 BE	% YoY
Interest	5,826	6,251	**7.3%**	7082.03	**13.3%**
Defence/external/home affairs	4,044	4,578	**13.2%**	4547.87	**-0.6%**
Infrastructure/energy/industry	2,972	3,152	**6.1%**	3,790	**20.2%**
Agriculture/rural devpt	1,961	2,642	**34.8%**	2995.92	**13.4%**
SUBSIDIES					
- Fertiliser	706	800	**13.3%**	713.09	**-10.9%**
- Food	1,013	1,087	**7.3%**	1,156	**6.3%**
- Petroleum	248	386	**55.3%**	409.15	**6.1%**
Education/health/welfare	1,785	2,069	**15.9%**	2206.72	**6.7%**
Transfer to states & UTs	1,332	1,705	**28.0%**	2,533	**48.6%**
Pension	1,602	1,841	**14.9%**	2,107	**14.4%**
Others	1,661	2,474	**49.0%**	2,882	**16.5%**
TOTAL	23,151	26,986	**16.6%**	30,422	**12.7%**

Lower rates may help

Defence slated to rise by 2%..could be difficult

Some uptick, driven by Telecom spends

Reasonable growth on high base, driven by PM-Kisan

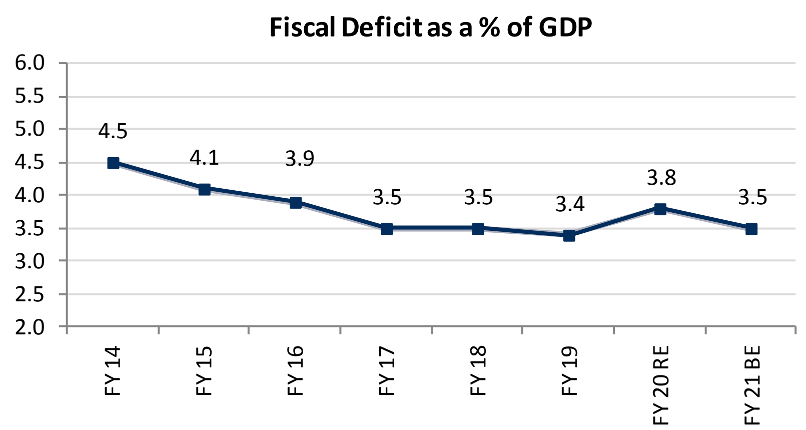
Likely benefits of DBT?

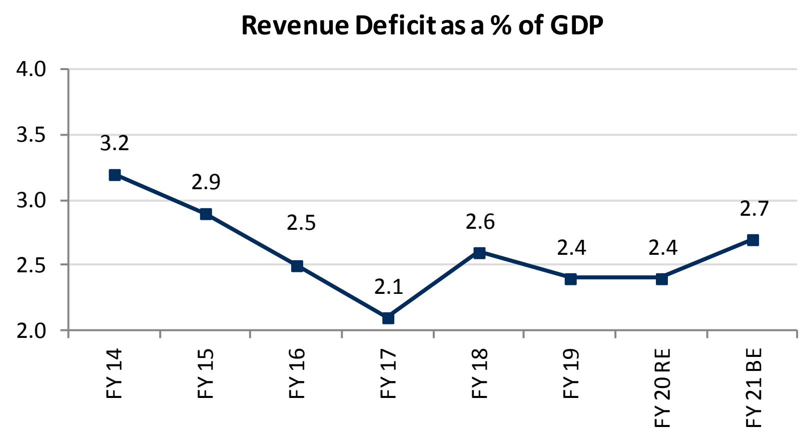
Slowdown in welfare spends

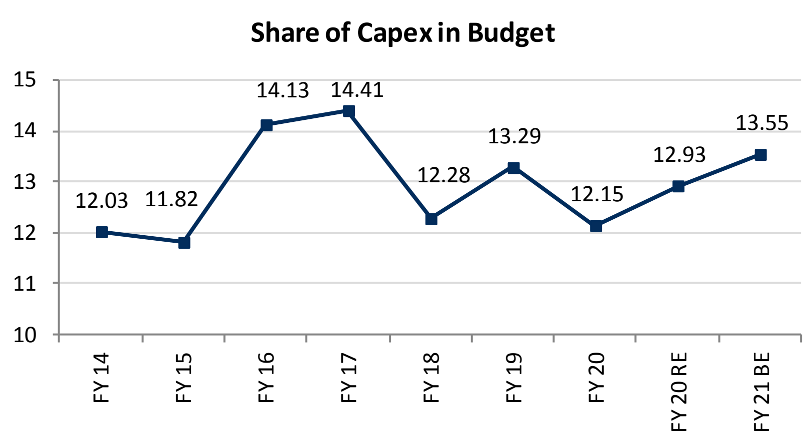
High transfers to states persist in FY21 as well

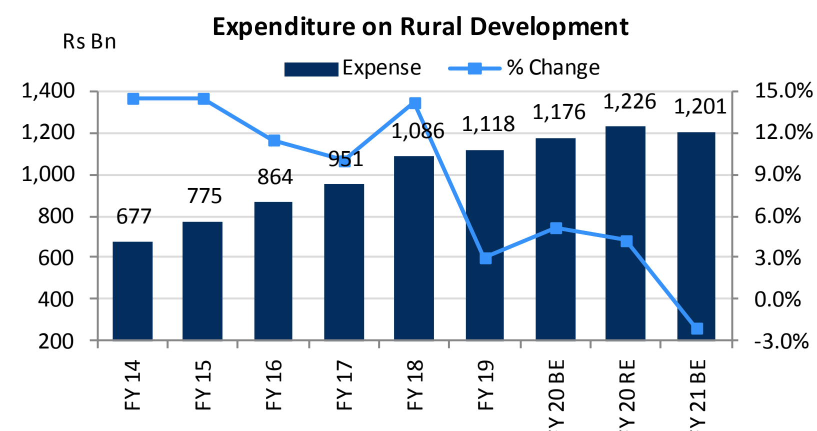
Outlay on Major Schemes

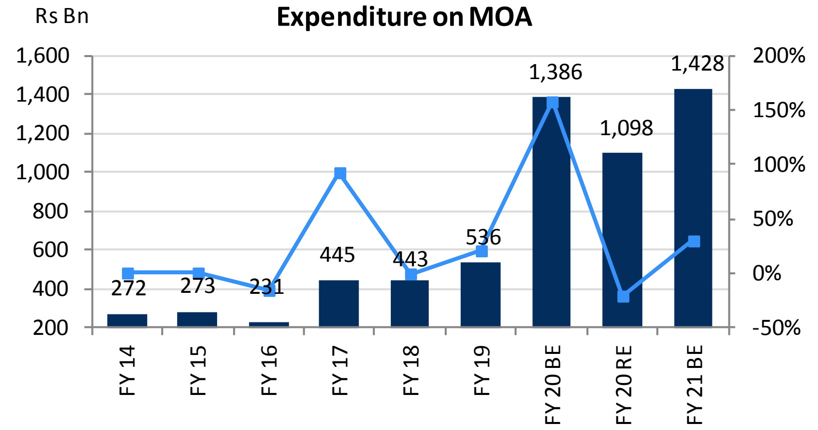
PARTICULARS (Rs bn)	FY19A	FY20 RE	FY21 BE	% YoY
Pradhan Mantri Kisan Samman Nidhi (PM-Kisan)	12	544	750	37.9%
Budgetary Support to Schemes of Ministry of Railways	549	700	722	3.2%
Mahatma Gandhi National Rural Employment Guarantee Program	618	710	615	-13.4%
National Highways Authority of India	378	459	488	6.3%
National Health Mission	315	343	341	-0.5%
Pradhan Mantri Awas Yojna (PMAY)	254	253	275	8.6%
Pradhan Mantri Gram Sadak Yojna	154	141	195	38.6%
Crop Insurance Scheme	119	136	157	15.1%
AMRUT and Smart Cities Mission	121	98	138	39.7%
Jal Jeevan Mission (JJM)	55	100	115	15.0%
Pradhan Mantri Krishi Sinchai Yojna	81	79	111	40.9%
Swachh Bharat Mission (Gramin)	129	83	100	19.9%
Swachh Bharat Mission (Urban)	25	13	23	76.9%
PMJAY-Ayushman Bharat	26	33	64	94.0%

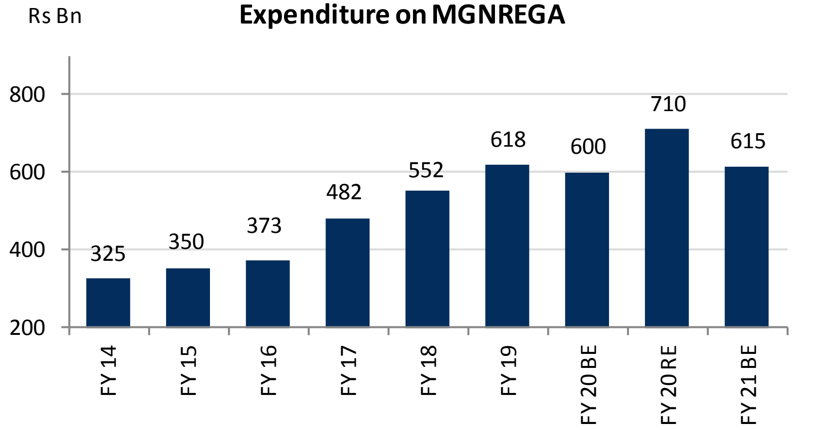

Fiscal Deficit as a % of GDP
6.0
5.5
5.0
4.5
4.0
3.5
3.0
2.5
2.0
4.5
4.1
3.9
3.5
3.5
3.4
3.8
3.5
FY 14
FY 15
FY 16
FY 17
FY 18
FY 19
FY 20 RE
FY 21 BE

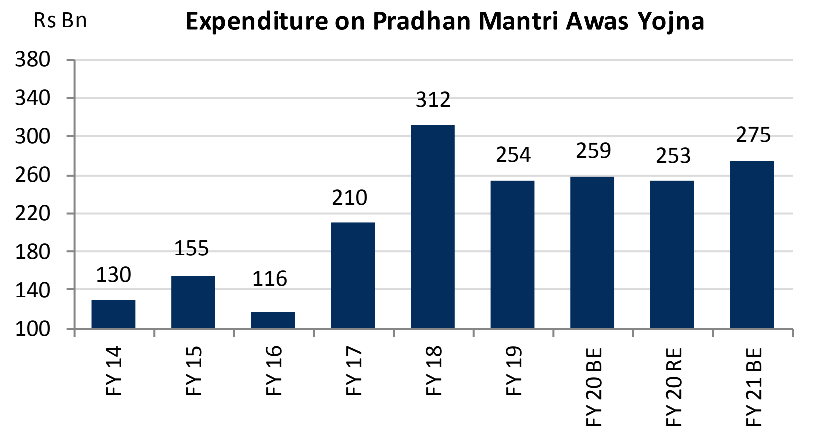

Revenue Deficit as a % of GDP
4.0
3.5
3.0
2.5
2.0
3.2
2.9
2.5
2.1
2.6
2.4
2.4
2.7
FY 14
FY 15
FY 16
FY 17
FY 18
FY 19
FY 20 RE
FY 21 BE

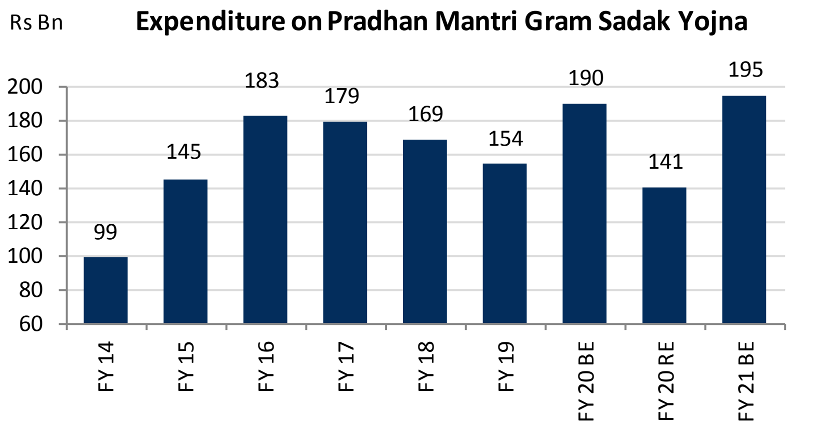

Share of Capex in Budget
15
14
13
12
11
10
12.03
11.82
14.13
14.41
12.28
13.29
12.15
12.93
13.55
FY 14
FY 15
FY 16
FY 17
FY 18
FY 19
FY 20
FY 20 RE
FY 21 BE


Expenditure on Rural Development
Rs Bn
Expense
% Change
1,400
1,200
1,000
800
600
400
200
15.0%
12.0%
9.0%
6.0%
3.0%
0.0%
-3.0%
677
775
864
951
1,086
1,118
1,176
1,226
1,201
FY 14
FY 15
FY 16
FY 17
FY 18
FY 19
FY 20 BE
FY 20 RE
FY 21 BE


Rs Bn
Expenditure on MOA
1,600
1,400
1,200
1,000
800
600
400
200
200%
150%
100%
50%
0%
-50%
272
273
231
445
443
536
1,386
1,098
1,428
FY 14
FY 15
FY 16
FY 17
FY 18
FY 19
FY 20 BE
FY 20 RE
FY 21 BE


Rs Bn
Expenditure on MGNREGA
800
600
400
200
325
350
373
482
552
618
600
710
615
FY 14
FY 15
FY 16
FY 17
FY 18
FY 19
FY 20 BE
FY 20 RE
FY 21 BE


Rs Bn
Expenditure on Pradhan Mantri Awas Yojna
380
340
300
260
220
180
140
100
130
155
116
210
312
254
259
253
275
FY 14
FY 15
FY 16
FY 17
FY 18
FY 19
FY 20 BE
FY 20 RE
FY 21 BE


Rs Bn
Expenditure on Pradhan Mantri Gram Sadak Yojna
200
180
160
140
120
100
80
60
99
145
183
179
169
154
190
141
195
FY 14
FY 15
FY 16
FY 17
FY 18
FY 19
FY 20 BE
FY 20 RE
FY 21 BE

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Autos

Sector	Budget Highlights	Impact	Recommendations
Autos	Due to the higher fiscal deficit, the government is constrained to increase spending in the rural segment. In this context, they have done a balancing act across their key schemes. While rural credit target has been raised to Rs 15 trillion, the spends on key rural schemes are constant over FY20.	The rural development stands at Rs 1,201 bn (which is down 2% YoY). Within this, the flagship MNREGA scheme will witness a 13% YoY decline in FY21, while the PMSGY rural road building scheme is expected to rise 23% YoY.	This is negative on sentiment for most auto OEMs across PV and 2Ws as rural exposure is upwards of 30%
	The government has raised duties on imported components/CBUs to further promote Make in India. The duty on parts required to manufacture catalytic converters have witnessed an increase of 2.5-5% (on base duty of 5%).	This will increase component cost for auto OEMs in the near term, though localization initiatives in the medium term will offset the price rises due to the above	This is negative for auto OEMs in the near term
	Further, the duty on CBUs/CKDs/SKDs for buses and electric vehicles has been raised by 5-15% (on base duty of 10-30%)	This is done to encourage local manufacturing of EVs. Bajaj, TVS, Tata Motors have launched EVs and will benefit from the same, though volumes are yet nominal	Marginal positive for auto OEMs
	Changes in the tax slabs by the government	Limited impact as individuals can adhere to the earlier scheme	Marginal positive for the OEMs

AMC, Broking

Sector	Budget Highlights	Impact	Recommendations
Asset Management	▪ Provides alternate tax computation methodology for individuals; this new methodology allows for lower tax rates without requirement for purchase of insurance/savings products.	▪ Flows in ELSS (10.8% of equity in FY19) schemes may reduce.	▪ Dec-19 ELSS AuM as percentage of equity AuM for HDFCAMC/NAM is 5.0/11.5%. ▪ NAM is more dependent on ELSS flows vs. HDFCAMC. We see no material impact on MOFS.
	▪ We are concerned about the loss of investor confidence which debt schemes face given significant write-downs/offs on exposures to stressed corporates. While we are hopeful of the market share re-gain, we believe the recovery will take longer than street expectations. Lastly despite our positive bias towards Nippon Life as sole promoter, increased credibility to raise HNI/institutional capital, and valuation discount (xx8% on FY21E P/E) to HDFCAMC, we retain NEUTRAL with an unchanged TP of Rs 321 (30x Dec-21E NOLPAT + cash).		

Sector	Budget Highlights	Impact	Recommendations
Broking	▪ Provides alternate tax computation methodology for individuals; this new methodology allows for lower tax rates without requirement for purchase of insurance/savings products.	▪ Will impact purchase of life, general insurance products and flows to MF ELSS schemes.	▪ Negative, as distribution income will get marginally impacted by lower sales.
	▪ While volumes increase deteriorating mix is expected to keep yields under check. Distribution revenues have bottomed out. ISEC is rapidly building loan assets which will drive earnings in the near term. All the above, along with cost control will drive earnings at FY20-22E CAGR of 17.9%. We continue to rate ISEC a SELL with a TP of Rs 376 (16x Dec-21E EPS). We believe 16x is a fair multiple for the stock given market linked nature of its business. A rally in equity markets coupled with increased retail participation remains a key risk.		

Life Insurance

Sector	Budget Highlights	Impact	Recommendations
Life Insurance	▪ LIC to IPO. ▪ Abolition of dividend distribution tax	▪ Increase in supply of life insurance paper. ▪ Dividend will be taxed in the hands of the holder, thus life insurers will have to pay tax of ~14.5% on dividends.	▪ Continue to prefer pvt. insurers. ▪ This will result in reduction of VNB margins in the range of 1-1.5%. ▪ Impact will be higher for companies with higher ULIP AuMs- IPRU.
	▪ Provides alternate tax computation methodology for individuals; this new methodology allows for lower tax rates without requirement for purchase of insurance/savings products.	▪ Will impact rural/mass low ticket size segments more than the urban/high ticket segments. ▪ Limited impact on ULIP/NPAR savings (annuity/ pension). ▪ Higher impact on PAR segment.	▪ We however believe that most (by value) buyers purchase insurance for tax savings and hence we do not envisage any large reduction in sales as we do not foresee buyers opting for the alternate tax regime.

- While the budget does not make any direct changes for the life insurers, changes in personal tax regime have a bearing on demand of life insurance products.
- In this context we believe that the budget proposals are negative for the industry as insurance buyers will be able to avail lower tax rates without making significant purchases of insurance.
- Given that average ticket sizes for ULIP/NPAR savings are significantly high, we believe that only a small proportion of sales will be impacted. The impact will be higher for the PAR segment.
- We believe a smaller proportion of sales is to individuals in the Rs 0.5-1.5mn range, who may choose to move to the alternate tax regime.
- Additional details will emerge from insurers over the next few days.
- We continue to prefer SBI Life over other insurers owing to the strong distribution footprint of its parent SBI and other partner banks, protection led improvement in VNB margin, and lowest operating cost ratios in the industry. We have a BUY rating with TP of Rs 1,230 (Dec 20E EV + 25.4x FY22E VNB).

General Insurance

Sector	Budget Highlights	Impact	Recommendations
General Insurance	▪ Rs 69.5bn re-capitalization of PSU general insurance companies namely National, Oriental and United India Assurance.	▪ Expect increased competitive intensity as these PSUs (26.3% market share FY19) will now have additional capital.	▪ Negative for ICICIGI and NIA as competitive intensity is expected to increase.
	▪ Provides alternate tax computation methodology for individuals; this new methodology allows for lower tax rates without requirement for purchase of insurance/savings products.	▪ Might impact medi-claim sales (allowed as deduction u/s 80D) hence impact growth of the profitable health segment.	▪ We don't see this materially impacting ICICIGI or NIA.
	▪ ICICIGI is best positioned to benefit from changing regulations in motor which will drive down both claims and tariffs. However, we expect high competitive intensity and lower motor TP tariffs (de-tariffication/price reduction) to restrict underwriting margins and investment profits. Accordingly, we rate ICICIGI a SELL with a reduced TP of Rs 1,126 (Dec-21E P/E of 26x and a P/ABV of 5.7x).		

Banks & NBFCs/HFCs

Sector	Budget Highlights	Impact	Recommendations
Banks & NBFCs/HFCs	▪ Extension of the time limit (eligibility based on loan sanction date till Mar-21) to avail the benefits under Section 80EEA (deduction related to affordable housing loans).	▪ Banks, NBFCs and HFCs could see an uptick in demand for affordable housing loans. ▪ These benefits may be offset to a certain extent, as described below	▪ Marginally positive for Banks, NBFCs and HFCs.
	▪ Lower tax rates for individuals and HUFs under Sections 115 BAC, which prohibits the utilisation of benefits u/s 24(b) and Chapter VI-A , amongst other provisions of the Income Tax Act	▪ Banks' distribution income could be impacted by reduced demand for life insurance and mutual fund products. ▪ Non-availability of deductions for interest on home loans could impact the demand for these products.	▪ Negative for Banks (esp. PVT with substantial distribution fees) ▪ Negative for Banks & HFCs (with a focus on eligible home loans).
	▪ Removal of dividend distribution tax.	▪ Negligible impact on BVs, given very low payout ratios.	▪ Neutral for Banks and NBFCs.
	▪ Increase in the limit on deposit insurance from Rs 0.1mn to Rs 0.5mn	▪ Sentimentally positive for banks. ▪ Impact on deposit growth is difficult to ascertain.	▪ Positive for Banks.
	▪ Availability of NABARD re-finance to NBFCs and co-operatives which are active in the agricultural credit space through expansion of the re-finance scheme.	▪ Mild positive for AFCs engaged in tractor financing. ▪ Positive for rural-focused NBFC-MFIs.	▪ Positive for AFCs like MMFs and CIFC

Banks & NBFCs/HFCs

Sector	Budget Highlights	Impact	Recommendations
Banks & NBFCs/HFCs	▪ Eligibility limit under SARFAESI to be reduced (Asset size limit from Rs 5bn to Rs 1bn, Loan size from Rs 10mn to Rs 5mn).	▪ NBFCs and HFCs to benefit on the recoveries front.	▪ Positive for LICHF, REPCO, INDOSTAR and CIFC.
	▪ Proposed sale of balance GoI holding in the IDBI	▪ A possible impetus for privatisation.	▪ Positive for IDBI (Not Rated)
	▪ Provision of subordinated debt to MSMEs by banks. This would be considered quasi-equity and would be fully guaranteed by the CGTMSE.	▪ Theoretical increase in addressable opportunity and hence credit growth for banks, with limited credit risk.	▪ Marginally positive for Banks.
	▪ Extension of the window for MSME restructuring by a year till FY21E.	▪ Further re-structuring would theoretically limit MSME slippages. ▪ The impact on eventual credit losses is difficult to ascertain.	▪ Mild positive for Banks (esp. regional banks).
	▪ Increase in the limit for FPI in corporate bonds from 9% to 15% of the o/s stock.	▪ Yields could moderate if demand sees an uptick.	▪ Marginally positive for NBFCs and HFCs.
	▪ Government support for NBFC/ HFC debt, by way of guaranteeing securities floated.	▪ An increase in the availability of funds for NBFCs/ HFCs. ▪ The conditions/ criteria and amount is not certain at present.	▪ Positive for NBFCs and HFCs.

Cement

Sector	Budget Highlights	Impact	Recommendations
Cement	▪ Total fund allocation (including IEBR) for road projects under Ministry of Road Transport and Highways remains flat YoY at Rs 1.5tn.	▪ No major uptick for cement demand	▪ Neutral for cement sector
	▪ For FY21, allocation to Pradhan Mantri Gram Sadak Yojana has been increased 38% YoY to Rs 195bn. In FY20, the govt spending has fallen 26% YoY.	▪ Should marginally boost cement demand recovery	▪ Neutral
	▪ For FY21, allocation to Pradhan Mantri Awas Yojana (Urban) has been increased 17% YoY to Rs 80bn. In FY20, the govt spending has increased by 12% YoY.	▪ Should boost cement demand recovery	▪ Neutral
	▪ For FY21, allocation to Pradhan Mantri Awas Yojana (Rural) has been increased 3% YoY to Rs 195bn. In FY20, the govt spending has fallen 4% YoY.	▪ Should marginally boost cement demand recovery	▪ Neutral

Consumer

Sector	Budget Highlights	Impact	Recommendations
Consumer	▪ Kissan credit card scheme budget increase to Rs 15tn vs. Rs 12tn. Agri and rural budget increased by healthy 13% ▪ Change in personal tax rates/slabs	▪ We believe these measures would not only increase rural incomes but also improve rural consumer sentiments. We expect these measures would result into higher consumption demand ▪ Savings through personal tax will also spur consumption, particularly when consumption is reeling under pressure	▪ Most FMCG companies will be beneficiary of higher liquidity in the rural market
	▪ Increase in excise duty (NCCD) on cigarette by Rs 0.50/stick for 84mm Rs 0.40/stick for 74mm Rs 0.35/stick for 69mm Rs 0.35/stick for 64mm	▪ As per our estimates, tax increase will be ~10% for ITC. Tax increase is sharper on small cigarettes (84mm/74mm/69mm/64mm saw an increase of 5/8/10/13%) ▪ At portfolio level, co will require to take price increase of ~7% to pass on this burden. ▪ Cig taxes were stable during the last 2 years as last hike was in GST implementation (in July'17). Co will take around 9-10% price hike to support EBIT growth. It will impact volume growth in FY21. We were modeling 6.5% cig revenue growth (vol/price 3.5/3%) for FY21. We change it to 4% cig revenue growth (vol/price -5/+9%) for FY21	▪ On account of near term challenges on cigarette volume growth, we cut cig EV/EBITDA multiple to 16x vs. 18x earlier. ▪ Considering ITC has been consistently delivering quality earnings, market is giving excessively low valuation. ITC's last 3/5 years earnings CAGR is 12/8% which is close to other FMCG companies and superior to global cig cos. Co is also committed to drive non-cigarette business which is not the case for global cig players. ▪ We remain believers of better valuation multiple for ITC. Our SOTP TP for ITC is Rs 335 (earlier Rs 360).

Consumer Appliances

Sector	Budget Highlights	Impact	Recommendations
Consumer Appliances	▪ Custom duty on RAC compressor increased to 12.5% vs. 10% (last year increased from 7.5%) ▪ Custom duty on Fans increased to 20% vs. 10% ▪ Custom duty increase on small appliances to 20% vs. 10%	▪ Negligible impact on RAC companies ▪ Most major players have less dependence on imported fans. In-house manufacturing and local outsourcing contributes major part for fans ▪ Most small appliances are being imported, hence they will see increase in cost of imports. However, small appliances have limited contribution to revenues for most large companies	▪ We do not see any meaningful impact on appliances companies. We have BUY rating on Havells, Voltas, Crompton and Symphony

Industrials

Sector	Budget Highlights	Impact	Recommendations
Industrials	▪ The total allocation (including IEBR) to Ministry of Road Transport and Highways remains flat YoY at Rs 1.5tn	▪ Will boost order flows	▪ Positive for most Infra companies
	▪ For FY21, the total capital and development expenditure (including IEBR) of Railways has been pegged at Rs 1.6tn- a marginal increase of 3%	▪ Will aid order pipeline	▪ Positive for KEC , L&T, Siemens, RVNL, RITES, IRCON, BEML , Titagarh, Texmaco, etc.
	▪ Allocation to Pradhan Mantri Gram Sadak Yojana has been increased to Rs 195bn vs Rs 141bn YoY	▪ Lends strong visibility to road sector ordering	▪ Positive for smaller infra players
	▪ 100 new airports will be developed by 2024 to augment UDAN Scheme	▪ Will add to orders flows in civil infrastructure space	▪ Positive for developers involved in civil infrastructure segment like LT, NCC, ITD, HG Infra & JKIL
	▪ Sovereign Wealth Funds to be granted 100% tax exemption on interest, dividend and capital gains in respect of investments made in Infrastructure sector before 31st March 2024, subject to a minimum lockin period of 3 years	▪ Positive for the sector as it will enable capital churning for existing Infra projects, enabling further order intake	▪ Positive for most Infra companies
	▪ Capital outlay on Defence services is pegged at Rs 1.2tn an increase of 2.8% YoY	▪ Will open diversification outside traditional Infra	▪ Big positive for L&T, Defence PSUs viz. Garden Reach, BEL, BEML, HAL etc

Industrials

Sector	Budget Highlights	Impact	Recommendations
Industrials	▪ 148km Bengaluru Suburban rail transport project at a cost of Rs 186bn. Central govt to provide 20% of the equity and facilitate external assistance of upto 60% of the project cost	▪ Will boost order flows	▪ Positive for ITD, LT, JKIL, KEC, Siemens, BEML etc
	▪ Rs 45bn allocation under DDUGJY (against Rs 41bn in FY20RE)	▪ This is in line with the target to achieve 100% rural electrification. It would lead to increase in Power T&D capex	▪ Positive for companies in T&D space (Kalpataru Power and KEC International)
	▪ MRTS and Metro projects outlay has been increased to Rs 183bn, which is 1.5% higher YoY	▪ Will add to orders flows	▪ Positive for JKIL, KEC, ITD, Siemens, BEML etc
	▪ FY20BE capex target for Power Grid (under IEBR) at Rs 105bn (vs Rs 150bn in FY20RE)	▪ Negative from ordering perspective due to lower allocation	▪ Positive for companies in T&D space (Kalpataru Power and KEC International
	▪ Integrated Power Development scheme outlay decreased to Rs 53bn which is 6.4% lower	▪ Will aid order pipeline	▪ Positive for KEC, Kalpataru, etc.
	▪ Rs 137.3bn capex target for IREDA and SECI (under IEBR) vs. Rs 124.7bn in FY20RE	▪ Will aid order pipeline	▪ Positive for power generation companies
	▪ Tax holiday on profits earned by developers of affordable housing projects approved by 31st March 2020 extended by one year	▪ Emphasizes govt's focus on housing for all project, thus will further boost order inflow	▪ Positive for contractors in the affordable housing segment like Capacite, PSP Projects, NCC etc.

IT Services, Exchanges

Sector	Budget Highlights	Impact	Recommendations
IT Services	▪ Removal of Dividend Distribution Tax and moving to taxing in the hands of shareholders ▪ Setup of National Recruitment Agency (NRA) to conduct online Common Eligibility Test for recruitment of Non Gazetted posts in Govt. and public sector banks. ▪ Policy to build data centre parks and outlay of Rs 80bn over 5 years for National Mission on Quantum Technologies and Applications	▪ Increase in dividend/payout yield for the companies with higher scope for dividends. ▪ Opportunity for product/platform supporting online tests/recruitment services ▪ Opportunity to provide data centre support services and consulting for quantum technologies (eg supply chain)	▪ Positive for IT companies esp. Wipro, TCS, Infosys, Sonata being higher dividend/payout yield. ▪ Positive for TCS (ION) ▪ Slight positive for TCS, HCL Tech
Exchanges	▪ CTT is now applicable on Commodity Indices and Sale of options on goods. ▪ Setting up of International Bullion Exchanges in GIFT IFSC ▪ Permission to launch USD INR derivative contract in GIFT IFSC.	▪ Improvement in clarity related to new product like Indices . The rate of CTT remains the same. ▪ Dedicated Gold exchange will be setup in Gift city. BSE already has a operational International exchange but Gold exchange will require additional investments. ▪ Launch of USD INR derivative contract will boost INX volume.	▪ Positive for MCX, Indices launch is now a reality. ▪ Positive for BSE, MCX in the long run if they launch gold exchange. ▪ No impact for MCX. Only foreign entities can trade in GIFT IFSC and domestic bullion volume will not shift to GIFT. ▪ Neutral for BSE as trading on INX is free as of now.

Logistics, Aviation

Sector	Budget Highlights	Impact	Recommendations
Logistics	▪ The capex for Indian Railways has been maintained at elevated levels of Rs 1,676 bn. This will ensure timely completion of the DFC corridor.	▪ Government has reiterated its commitment to railways	▪ These initiatives are positive for CONCOR/GDL
	▪ Divestment targets have been rolled over to FY21	▪ CONCOR's stake sale likely in next 12 months	▪ Positive for CONCOR
	▪ Government to announce national logistics policy shortly	▪ This will ensure integrated transport development	▪ We await details of the same
	▪ Focus on inland waterways by the government	▪ This will develop multi-modal transportation	▪ Medium term positive for CONCOR
Aviation	▪ 100 more airports would be developed by 2024 to support Udaan scheme. It is expected that the air fleet number shall go up from the present 600 to 1200 during this time.	▪ This will encourage air travel	▪ Medium term positive for IndiGo and SpiceJet

Oil & Gas

Sector	Budget Highlights	Impact	Recommendations
Oil & Gas	▪ FY21BE total subsidy provision is Rs 409.15bn (LPG subsidy Rs 372.56 and Rs 36.59 for Kerosene)	▪ We believe that subsidy provision is adequate with the average crude oil price of USD 65/bbl	▪ Neutral for OMCs and upstream companies
	▪ Dividend Distribution Tax (DDT) has been removed and the dividend shall be taxed only in the hands of the recipients at their applicable rate	▪ It can led to higher dividend from PSUs	▪ Positive for PSU companies
	▪ Allocation for the Phular-Dhamra-Haldia Pipeline project is Rs 7.28bn from Rs 15.52bn in FY20	▪ This will expedite the project and we expect this project to be completed by FY21. Total government capital grant for this project is Rs 51.76bn, of which the government has allocated ~ Rs 38.78bn.	▪ Positive for GAIL

Pharma & Healthcare

Sector	Budget Highlights	Impact	Recommendations
Healthcare	▪ Health spend increased by 6% YoY to Rs 675bn, ~2.2% of the total budgeted expenditure in FY21BE	▪ Government's spend on healthcare is significantly lower than the global average	▪ Neutral for the sector
	▪ Allocation to PMJAY –Ayushman Bharat is Rs 64bn compared to Rs 33Bbn (RE)/ Rs 65bn (BE) of FY20	▪ Wider insurance coverage to poor and vulnerable families	▪ Neutral for the sector
	▪ Proposed to set up viability gap funding for hospitals in the PPP mode where there are no Ayushman empanelled hospitals	▪ Facilitates development of infrastructure for setting up hospitals in tier II/III towns	▪ Positive for Hospitals – Apollo hospitals, Fortis, Narayana Hrudyalaya, HCG
	▪ Health cess of 5% to be imposed on imports of medical equipment. Health Cess shall not be imposed on medical devices which are exempt from basic customs duty	▪ Marginal increase in the cost of services	▪ Neutral for the sector
	▪ Removal of Dividend Distribution Tax	▪ Lower cash outflow for high dividend paying companies	▪ Positive for Torrent, Glaxo, Novartis & Sanofi

Real Estate

Sector	Budget Highlights	Impact	Recommendations
Real Estate	▪ Tax holiday on profits earned by developers of affordable housing projects has been extended by 1-yr. All affordable housing projects approved before 31st Mar 2021 will stand to benefit. This step is taken to promote affordable housing development	▪ Positive for affordable housing players as this will promote more affordable housing projects	▪ Positive for Kolte Patil, Prestige, Sobha, Brigade etc.
	▪ DDT removal on dividend payments by corporate. The dividend will now be taxed in the hand of recipient at applicable tax rate	▪ REITs/InVITs were exempt from DDT hence no change. Even investors will be exempt	▪ No impact
	▪ Additional Rs 0.15mn interest deduction (over and above Rs 0.2mn currently) under new section 80EEA was allowed for Loans taken from 1st Apr2019 to 31st Mar 2020 during FY20 budget. This has been extended by 1-yr. The affordable housing conditions include (1) Stamp duty value of house upto Rs 4.5mn; (2) Assesses doesn't own any residential property and (3) 60/90sqm carpet area in Metro/Non –Metro	▪ Positive for affordable housing players as this will promote more affordable housing projects	▪ Positive for Kolte Patil, Prestige, Sobha, Brigade etc.
	▪ Union Budget seems to be moving away to Direct Tax Code with two Tier tax slabs, with and without exemptions/deductions. Over period of time Interest deduction towards housing loan may get removed. Though currently buyers have option to remain in deduction tier	▪ We will have to wait and watch how the tax rate and slabs will move with shift towards adoption of Direct tax code and applicability of same in future. It may be NEUTRAL	▪ All real estate developers

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