Union Budget 2020: Impact Analysis

Key Messages

- The fiscal deficit for FY20 expectedly, has witnessed a spurt to 3.8% given the weakness in the economy and the corporate tax rate cuts effected earlier and could have been higher had it not been for the tighter control on revenue expenditure. While the budgetary projections have been relatively moderate, the achievement of a 3.5% fiscal deficit figure in FY21 will be primarily dependent on a moderate revival in the economy and the success of the ambitious disinvestment programme that has seen delays in the current year.

- One of the key elements in Union Budget 2020 is the intent to kick-start farm sector reforms. With a target to double farm incomes by 2022, the government has announced multiple measures or action points to strengthen the agricultural ecosystem in the country. The state governments would be urged to adopt the model acts on land leasing and contract farming. Use of solar pumps and installation of solar generation units in barren farm lands for income augmentation is a longer term positive. Substantial investment in warehousing infrastructure for perishable produce will improve the pricing power of farmers; Rail and air logistics support have also been envisaged for farm produce, animal husbandry and horticulture.

- An important aspect in the budget has been the attempt to simplify the taxation mechanism and take the agenda ahead on tax reforms. While lower tax slabs have been announced for personal income taxes, these are applicable only without exemptions currently applicable and therefore the net savings on taxes may not be significant. However, the attempt to simplify the tax code is a step in the right direction. The government has also proposed a scheme to reduce litigation in direct taxes and faster settlement of disputed tax amounts. Another significant measure is the removal of the dividend distribution tax which will improve the corporate profitability further subsequent to the corporate tax cuts announced in the early part of the year.

- The third important measure has been to strengthen the financial sector. To address concerns on the safety of bank deposits, the insurance coverage under DICGC has been raised substantially to Rs. 5 lakhs from Rs. 1 lakh. IBC has already been a game changer for loan recoveries, smaller NBFCs have now been given the access to SARFAESI Act. The amendment to the Factor Regulation Act will enable NBFCs to provide invoice financing to MSMEs through the TReDS platform, thereby increasing its size and depth. The proposal to provide subordinate debt to MSMEs by banks, duly guaranteed by CGTMSE is a significant step which will enhance the borrowing capacity of small and medium enterprises.

- In Acuité's opinion, the budget has primarily attempted to strengthen the long term fundamentals of the economy by taking steps towards agricultural and tax reforms. No significant measures, however have been announced to boost the near term growth momentum in the economy, as expected by market participants except the rationalisation of personal income tax rates that can push up demand to a moderate extent.

Fiscal Trajectory

India has witnessed a significant decline in its GDP growth print from 6.1% (revised figure) in FY19 to an estimated 5.2% in FY20. With the projections of a growth rate band of 6.0%-6.5% in FY21 in the Economic Survey, the budgetary projections have expectedly, witnessed a moderation in FY21. The revenue receipts are expected to grow at just over 9.0% as compared to 19.1% estimated for the current year. While tax revenue is projected to grow by 8.7% (as compared to 14.2% in FY20), non-tax revenues are expected to grow at a higher rate of 11.4% with substantial income from the disinvestment programme (as compared to 46.6% in FY20 which is largely driven by the special RBI dividend).

Clearly, lower revenue receipts will continue to lead to tighter control on revenue expenditure; subsidies are estimated at Rs. 2.63 Lakh Cr, significantly lower than the budgeted figure of Rs. 3.38 Lakh Cr and is projected to remain at the same level in FY21. It is however, encouraging to note that capital expenditure has been an exception, given that the expenditure on capital account is estimated to grow by over Rs. 30,000 Cr in FY20 and by a substantially higher amount of Rs. 64,000 Cr in FY21, primarily as a result of the massive commitment towards the National Infrastructure Plan (NIP). This will have its costs with the fiscal deficit estimated to rise by over Rs. 60,000 Cr against the budgeted figure for FY20 and another Rs. 30,000 Cr in FY21, largely due to a projected surge in interest payments by Rs. 83,000 Cr. Overall, the budgets have adopted a pro-investment stance, which the economic survey identifies as the key to a revival of demand in the economy.

While the government's attempt to balance the fiscal position through tighter expenditure control is clearly visible, the commitment to higher public investments will lead to the elevated fiscal deficit in FY20 moderating only marginally in FY21. From an estimated 3.8% of GDP in the current year, the fiscal deficit is pegged at 3.5% of GDP for FY21; the net market borrowings are expected to rise from the Rs. 4.99 Lakh Cr to Rs. 5.35 Lakh Cr next year. This may push the bond yields higher in the near term.

Sectoral impact analysis

	Infrastructure	Agro and allied	Cement
Textile	Real-estate	Ferrous metals	
Health Care		Power - Conventional	Power - Renewable
Gems & Jewellery	Machinery	Fertilizers	Auto & Ancillary

Positive Slightly Positive Neutral Negative

Agro and allied industries: **Positive**

With a target to double farm incomes by 2022, the government has announced multiple measures or action points to strengthen the agricultural ecosystem in the country. The state governments would be urged to adopt the model acts on land leasing and contract farming. 20 Lakh farmers are expected to benefit from the solar pump scheme; further, they would be permitted to set up solar generation capacity on their barren lands and supply power to the grid, thereby augmenting income. Substantial investment in warehousing infrastructure for perishable produce will improve the pricing power of farmers; government proposes to provide viability gap funding for such warehouses at the taluk level on a PPP basis. Rail and air logistics support have also been envisaged for farm produce, animal husbandry and horticulture. Negotiable Warehousing Receipts is intended to become an accepted method of rural credit and is to be integrated with the digital National Agricultural Market (e-NAM). Further, ambitious targets have been set for expanding milk production and exports in the fishery segment.

The allocation for agriculture, allied activities and rural development has been significantly increased to Rs.2.83 Lakh Cr in FY21. This is a 14% increase over and above the 35% increase in allocation that has already been reported in FY20 (RE), reflecting the government's intent to develop the necessary ecosystem for doubling farm incomes by 2022. Agriculture credit, with the refinance support of NABARD has been targeted at Rs.15 Lakh Cr. Such large investments in the agricultural sector, therefore should have positive implications for agro and food processing sectors, enabling them to tap a steadily evolving national agricultural market.

Infrastructure: **Positive**

The outlook for the overall infrastructure sector is positive with the government proposing a national infrastructure pipeline (NIP) for five years with implementation of 6,500 projects. For FY21, the total allocation in infra sector has increased 17 percent y-o-y to Rs. 3.5 Lakh Cr in order to support NIP.

The government expenditure towards NHAI has been lowered slightly to Rs. 1 Lakh Cr. However, allocation under PMGSY has been ramped up by 39% to 19,500 Cr which would push up infra spending in rural areas.

For railways, the proposed capital investment in FY21 is Rs. 1.6 Lakh Cr, with the government funding support to the extent of Rs. 70,000 Cr. This is expected to be significantly positive for the order book of the companies engaged in contracting for the sector. As part of its agenda to improve regional air connectivity, the government has also proposed to construct 100 more airports in the country by 2024 under project Udaan.

Auto and Auto ancillaries: **Slightly Positive**

The budget has been slightly positive for auto and auto ancillary sector with an expectation of a moderate revival in demand from the income tax cuts. The reduced income tax rates are expected to boost disposable incomes to some extent from the middle class segment which has delayed vehicle purchases over the last two years.

The government has also increased custom duties on automobile parts which is expected to boost the domestic production and is likely to support the domestic manufacturers.

With the focus on higher rural investments in schemes such as PMGSY and higher incomes, the rural demand especially for two wheelers along with tractors are likely to witness an improvement. However, the budget has not announced any specific steps to address the structural headwinds in automobile sector demand.

Cement: **Positive**

Cement sector will benefit from the government's focus on infrastructure and its ambitious plan to facilitate an investment of over Rs 100 Lakh Cr in this sector over the next 5 years. As part of that plan, an amount of Rs. 1.7 Lakh Cr has been provided for transport infrastructure in FY21.

Textile: **Slightly Positive**

A National Technical Textiles Mission is proposed with a four-year implementation period from 2020-21 to 2023-24 at an estimated outlay of Rs.1480 Cr to substitute the high imports of US$ 16 billion every year in this segment. This will stimulate investments in the textile sector although the outlay towards TUFS has seen a decline.

The procurement of cotton by the public sector, Cotton Corporation of India under the price support scheme is allocated Rs. 2018 Cr for FY19-20 as against Rs. 924 Cr in previous budget, a 118% increase that is likely to mitigate the volatility in the cotton prices.

Anti-dumping duty on Purified terephthalic acid (PTA) is being abolished. PTA is a critical input for textile fibres and yarns. This is expected to make PTA easily available at competitive prices for the polyester and blended yarn manufacturers.

Fertilizers: **Negative**

An amount of Rs. 71,309 Cr has been allocated towards the payment of fertiliser subsidy for FY21 in the Union Budget. This is 11% lower compared to the previous year's revised estimate of Rs. 79,996 Cr. India is highly dependent on the usage of chemical fertilizers like urea and DAP. With the decline in subsidies from the government and an intent to encourage traditional organic fertilizers, the demand and production of chemical fertilizers can be impacted adversely.

Ferrous metals: **Slightly Positive**

The steel sector is expected to benefit from the increased focus on infrastructure projects and a moderate revival in the real estate and the automobile sector.

Real Estate: **Slightly Positive**

The government will continue to lay priority on the affordable housing segment in the real estate sector. The benefits under Section 80-IBA of the Income Tax Act have been extended for one more year till March, 2021 i.e. to the housing projects approved till 31st March, 2020. Under Section 80-IBA, 100% profits are exempted for housing builders & developers (affordable housing) subject to some conditions. This will facilitate the supply of more affordable housing projects in the country.

Also, an additional deduction of up to Rs.1.5 lakhs for first time buyers on interest paid on loans taken for purchase of an affordable house upto Rs. 45 lakhs (announced in the budget of July 2019) has been extended for another one year. This would encourage more people to avail this benefit and further incentivise the affordable housing segment.

Therefore, incentivisation of both supply and demand is likely to push up the activity in the affordable home segment and provide some relief to the real estate sector which has been subject to weak demand for the last few years. The major cities where affordable housing sales are expected to pick up include Hyderabad, Kolkata, Navi Mumbai, Ghaziabad(NCR) etc.

Health Care: **Positive**

The budget 2020 continues to take forward the agenda on universal health care. Under the Ayushman Bharat scheme, it aims to provide medical treatment to 50 Cr people. Rs. 69,000 Cr has been allocated to healthcare sector. Nominal health cess on import of medical equipment to be introduced to encourage the domestic industry and generate resources for health services. Indradhanush immunization plan has been expanded to cover 12 new diseases.

One significant measure to improve the healthcare infrastructure is to provide viability gap funding for district hospitals under PPP, with priority given to aspirational districts that don't have hospitals empanelled under Ayushman Bharat. Rs 35,600 Cr nutrition-related plan has been proposed. While measures taken on medical equipments/devices may increase the costs for certain equipment, the focus on building healthcare infrastructure and increase healthcare awareness in the semi-urban and rural areas, are positive for private sector investments in healthcare.

Gems and Jewellery: **Neutral**

While Increased disposable incomes due to revised income tax brackets may serve as tailwinds for demand in the gold jewellery, the impact is likely to be limited as the sector depends largely on the spending from the higher income segment.

Power (Conventional): **Neutral**

The sector's total outlay (Capital expenditure + IEBR) reflects a decline of 6% y-o-y to Rs. 50,967 Cr, from the previous year's revised estimates of Rs. 54,269 Cr. The drop can be attributed to reduced investments in building new coal based capacities coupled with improved focus towards pushing renewable energy.

With most of the thermal power capacities missing the deadline last year to install Flue Gas Desulphurization (FGD) units and minimise emissions levels, the government has advised utilities to close down thermal power plants with higher emissions. This, however may drive higher investments in modernization and renovation in the coal based thermal plants, particularly for installation of FGD infrastructure.

Power (Renewable): **Slightly Positive**

The Renewable Energy sector's fund allocation (Capital expenditure + IEBR) reflects a rise of 10% y-o-y to Rs. 13,779 Cr, from the previous year's revised estimates of Rs. 12,537 Cr. The rise in fund allocation is expected to stimulate growth in the sector witnessing a moderation during last year. However, with the ambitious target of 175 GW by 2022, investments will require further stimulus going ahead.

Further, the PM-KUSUM scheme has been expanded to provide 20 Lakh farmers with standalone solar pumps. Further, farmers with barren lands are being permitted to install solar energy panels and supply power to the grid. The government also plans to power railways through solar farms on land near tracks. All these steps augur well for the renewable sector.

Capital Goods: **Slightly Positive**

The budget has raised import duties on certain goods deployed in high voltage power transmission projects, railway carriage fans, compressors of refrigerators and air conditioners as also specified medical equipment. This is likely to impact imports of capital goods and support a level playing field for domestic producers thereby improving the competiveness of domestic capital goods players.

Budget Summary:

	FY19 (Actual)	FY20 BE	FY20 RE	FY21 BE	%age in FY20	%age in FY21
Revenue	15,52,916	19,62,761	18,50,101	20,20,926	19.14%	9.23%
Tax revenue	13,17,211	16,49,582	15,04,587	16,35,909	14.23%	8.73%
Non-tax	2,35,705	3,13,179	3,45,514	3,85,017	46.59%	11.43%
Total Receipts	23,15,113	27,86,349	26,98,552	30,42,230	16.56%	12.74%
Total Expenditure	23,15,113	27,86,349	26,98,552	30,42,230	16.56%	12.74%
Fiscal Deficit (FD)	6,49,418	7,03,760	7,66,846	7,96,337	18.08%	3.85%
FD/GDP	3.4	3.3	3.8	3.5		

Budget Allocation Major Sectors:

Sectors	FY19 (Actual)	FY20 BE	FY20 RE	FY21 BE	%age in FY20	%age in FY21
Agro & Allied Sectors	53,620	1,38,564	1,09,750	1,42,762	104.68%	30.08%
Rural Development	1,13,706	1,19,874	1,24,549	1,22,398	9.54%	-1.73%
Infrastructure	2,66,526	2,98,247	3,00,883	3,52,869	12.89%	17.28%
of which Transport	1,32,214	1,51,035	1,52,983	1,64,039	15.71%	7.23%
Education and Health	1,35,027	1,59,413	1,59,463	1,66,423	18.10%	4.37%
Ministry of Defence	4,03,457	4,31,011	4,48,820	4,71,378	11.24%	5.03%

Subsidies:

	FY19 (Actual)	FY20 BE	FY20 RE	FY21 BE	%age in FY20	%age in FY21
Food	1,01,327.0	1,84,220.0	1,08,688.4	1,15,569.7	7.26%	6%
Fertilizer	70,604.8	79,996.0	79,997.9	71,309.0	13.30%	-11%
Petroleum	24,837.0	37,478.0	38,568.9	40,915.2	55.29%	6%
Interest Subsidies	20,008.8	26,116.6	25,946.0	28,178.9	29.67%	9%
Other subsidies	6,176.2	10,343.0	10,356.3	6,136.0	67.68%	-41%
Total	2,22,953.8	3,38,153.7	2,63,557.3	2,62,108.8	18.21%	-1%

Note: Amount in Rs. Cr, RE- Revised Estimate, BE – Budget Estimate

About Acuité Ratings & Research Limited:
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