Research

Bold vision, incremental action

Budget 2019-20 analysis

July 2019

Economy

On the glide path

The Union Budget 2019-20 has tried to boost animal spirits in the economy by focusing on industry and the financial sector, and to some extent, infrastructure, even as it returned to fiscal consolidation. The government has targeted to reduce its fiscal deficit to 3.3% of the gross domestic product (GDP) in fiscal 2020 from 3.4% of GDP the previous fiscal.

The budget was characterised by some measures for the manufacturing sector, such as expanding the ambit of companies eligible for lowest corporate tax and benefits for micro, small, and medium enterprises (MSMEs) etc. Recognising investment as a critical driver of growth, the government has proposed to ease various regulations for foreign portfolio investment and foreign direct investment.

Efforts have also been made to adapt to the changing global trade scenario. Income tax exemptions in high-value add sectors like semiconductors can help India gain from trade diversion due to US-China trade war. Implementation of these measures can help boost manufacturing in the medium run.

Moreover, the budget has attempted to ease frictions in financial sector through measures such as one-time partial credit guarantee on purchase of certain NBFC assets, recapitalisation of public sector banks, transferring regulation of housing finance companies to the Reserve Bank of India (RBI), deepening the bond markets, etc.

At the same time, some support to consumption, especially in the rural economy, was given through income support scheme to farmers, higher spending on rural roads construction, and increased allocation to welfare schemes. This, coupled with normal monsoons, and softer interest rates could help revive household consumption spending.

To its credit, the government has shunned ‘steroidal’ boosts to the economy and moderated the fiscal deficit target to 3.3% of GDP for this fiscal.

CRISIL expects GDP growth to accelerate to 7.1% in fiscal 2020, if crude oil prices remain below $70 per barrel and monsoons are normal. However, both these factors remain external risks to watch out for. Any adverse movement in either could pull growth to sub-7%.

The macroeconomic backdrop

The first budget of the National Democratic Alliance (NDA) 2 comes against the challenging backdrop of a slowing domestic economy and mounting global risks. Coincidentally, that’s not very different from what NDA 1 faced in its first budget.

India’s real GDP growth came in at 5.8% on-year in the fourth quarter of fiscal 2019 and 6.8% for the full year – a five-year low. The slowdown has also been broad-based. Private consumption, the bulwark of the economy in the last few years, has been on a downtrend. Investments are yet to see a material pick up.

Stress in the financial sector, particularly certain sections of non-banking financial companies (NBFCs), is limiting its ability to expand credit.

To boot, global headwinds are flying fast and furious, as escalating trade tensions between the US and China have hit global trade flows, investments, and GDP growth.

Leading high frequency indicators such as auto sales, export growth, and Purchasing Managers' Index point at growth continuing to wobble in the first quarter of fiscal 2020.

As it stands, the onus to kick-start the economy seems to fall on the government. However, its ability to do so depends on the fiscal wiggle room available. But the debt-to-GDP ratio for the Centre, as well as for the Centre and states together, is among the highest when compared with similarly rated sovereigns. Besides, the government has missed its fiscal deficit target set under the Fiscal Responsibility and Budget Management (FRBM) Act in the past two fiscals. Reining it in remains top priority, which constraints its ability to spend aggressively.

If there's a break in the clouds, it is India's benign inflation. That gives monetary policy enough legroom to sync with an expansionary fisc. Crude oil prices, too, have not been a significant risk so far.

How fiscal 2019 deficit target stayed on the mark though revenue moderated

Fiscal 2019, the last year of NDA 1, was marked by continuing pressures on the fisc and deterioration in fiscal marksmanship. Yet the government managed to 'show' fiscal deficit for fiscal 2019 at 3.4% (same as the revised estimates). The devil in the details tells us another thing. The nominal GDP estimate for fiscal 2019 was revised up by Central Statistics Office, which helped the fiscal deficit ratio to accordingly come down. The actual fiscal deficit for fiscal 2019 in absolute terms, however, turned out to be Rs 10,969 crore more than the revised estimate of Rs 6.34 lakh crore. As such, the achieved 3.4% fiscal deficit is higher than the 3.3% budgeted in the beginning of the year.

Notably, going by the provisional estimates of the Controller General of Accounts (CGA) the government's net tax revenue fell short at 6.9% of GDP, compared with the budgeted target of 7.9%. Further, to contain the fiscal deficit, government cut expenditure. While revenue expenditure was curtailed to 10.57% of GDP (11.44% BE), capital expenditure was marginally down to 1.59% (1.60% BE).

Government sets modest revenue targets, stretches fiscal consolidation path

At the outset, it is important to highlight that this section uses revised estimates for fiscal 2019 – in sync with the final budget presented today - and not the provisional figures provided by the CGA.

- The government announced a fiscal deficit target of 3.3% for fiscal 2020, down from the revised estimate of 3.4% in fiscal 2019, thereby continuing with fiscal consolidation. However, the fiscal 2020 fiscal deficit target is still higher than 3.1% envisaged as per the fiscal glide path in accordance with the FRBM Act
- The lower fiscal deficit comes at a cost of lower capital expenditure, which is projected at 1.6% of GDP in fiscal 2020, down from 1.7% in fiscal 2019 and moderation of tax collections
- Growth in gross tax revenue is expected to slow to 9.5% on-year in fiscal 2020 compared with 17.2% in fiscal 2019. The slower growth will largely be on account of normalisation in income tax collections (see table below) which had got a fillip in last few years on account of measures such as demonetisation and voluntary income disclosure schemes. That said, it is worrying that tax collections are projected to grow slower than nominal GDP growth, implying reduction in tax buoyancy
- Indirect tax collection, too, is projected to slow down, which is largely a reflection of modest Goods and Services Tax (GST) collections last fiscal as the new indirect tax regime continues to undergo overhauling
- Since the tax revenues are expected to be subdued, the government is harping on other sources of incomes, viz. non-tax revenues and non-debt capital receipts. One of the key items in the former is dividend from the RBI which is projected at Rs 1.06 lakh crore, significantly up from Rs 0.74 lakh crore in fiscal 2019. As for the

latter, it is the sharp rise in disinvestment receipts (Rs 1.05 lakh crore vs. Rs 0.8 lakh crore) that the government is aiming at, to shore up its overall revenues. In addition, the budget has announced hiking the Special Additional Excise Duty and Additional Excise Duty (Road and infrastructure Cess) on petrol and diesel by Re 1 each

Tax receipts have moderated over the fiscals

	Rs lakh crore					Growth					
	FY16	FY17	FY18	FY19RE	FY20BE	FY16	FY17	FY18	FY19RE	FY20BE	Average FY16-FY19
Gross tax revenue	14.6	17.2	19.2	22.5	24.6	16.9	17.9	11.8	17.2	9.5	15.9
Direct tax	7.4	8.5	10.0	12.0	13.4	7.8	14.7	17.9	19.8	11.3	14.7
- Corporation tax	4.5	4.8	5.7	6.7	7.7	5.7	7.0	17.8	17.5	14.2	12.0
- income tax	2.9	3.6	4.3	5.3	5.7	8.2	26.8	18.1	22.8	7.6	19.0
Indirect tax	7.1	8.7	9.2	10.5	11.3	30.0	21.4	5.9	14.3	7.4	17.9
-GST	--	--	4.4	6.4	7.6	--	--	--	45.5	3.0	--

Note: BE: Budget estimate; RE: Revised estimate

Source: Budget documents, CRISIL

Interim vs full budget: How different?

In general, the full budget does not deviate much from the interim, unless in case of exigency. Tax revenue and capex estimates are the two key items that vary in the two budgets. Fiscal 2020 was no different, with the full budget making minor tweaks to the interim budget's estimates on the following estimates:

- ***Tax revenue*** lowered due to downward revision in GST collection, possibly a correction made to align with the lower revenue realisation in fiscal 2019; threshold for applicability of lower corporate tax rate of 25% increased from Rs 250 crore to Rs 400 crore; enhanced interest deduction up to Rs 3.5 lakh for purchase of an affordable house. The lowering of tax receipts has led to a bump-up in the revenue deficit in the full budget as compared with the interim
- ***Non-tax revenue***, like in previous years, was increased in the full budget reflecting an increase in expected dividends from the RBI and nationalised banks, and other non-tax revenue from communication services such as license fees and spectrum usage charges
- ***Capex***, unlike the previous budgets, remains almost unchanged from the interim
- While ***fiscal deficit*** appears to have come down from 3.4% to 3.3% for fiscal 2020 in the full budget, the actual change is of 2 basis points (bps). Rounding off of fiscal deficit from 3.35% in the interim to one decimal creates the optical illusion
- **FRBM compliance**: The fiscal consolidation path has been maintained, with the fiscal deficit expected to reach 3% of GDP by fiscal 2021
- ***Debt ratio*** has worsened by 70 bps compared with the interim budget

The table below captures key changes between full and interim budget for fiscal 2020, as well as for fiscals 2015, 2010 and 2005.

Change from interim to full budget

	FY05	FY10	FY15	FY20
Tax/GDP	Increased	Decreased	Decreased	Decreased
Non-tax revenue / GDP	Increased	Increased	Increased	Increased
Revenue expenditure / GDP	Maintained	Increased	Increased	Marginally decreased
- Subsidies /GDP	Maintained	Increased	Maintained	Maintained
- Interest payment / GDP	Marginally decreased	Increased	Maintained	Marginally decreased
Capex /GDP	Increased	Increased	Increased	Maintained
Borrowing & other liabilities / GDP	Maintained	Increased	Maintained	Marginally decreased
Fiscal deficit / GDP	Maintained	Increased	Maintained	Marginally decreased
Primary deficit / GDP	Increased	Increased	Maintained	Maintained
Revenue deficit / GDP	Decreased	Increased	Marginally decreased	Increased
Debt ratio (outstanding debt / GDP)	N/A	Increased	Increased	Increased
Fiscal consolidation path	N/A	Deferred	Maintained	Maintained
Debt consolidation path	N/A	Deferred	Maintained	Maintained

Note: Normalised using GDP estimated in the respective budget document; marginal changes indicate changes of less than or equal to 5 bps but which shows changes of over 10 bps in rounding off to one decimal place

Source: Budgets documents, CRISIL

Does the math add up?

Government's revenue collection targets appear realistic. As a result of the moderation in tax growth, revenue deficit is projected to increase to 2.3%, from 2.2% in fiscal 2019. There are, however, a few things to watch out for:

a. Disinvestment target: While it is true that the government was able to exceed its disinvestment target in fiscal 2019 (which is a welcome aberration going by the recent past when it consistently missed the targets), a 31.3% growth in disinvestment receipts targeted in fiscal 2020 appears too ambitious. According to the finance minister, this banks on strategic sale of Air India, which may be difficult to achieve

b. Spectrum sales: The government is expecting a receipt of ~Rs 50,520 crore from telcos in fiscal 2020, of which, as per CRISIL estimates, ~Rs 11,520 crore should accrue from upcoming spectrum auction. As there has been no announcement of timelines and final pricing of upcoming auction, CRISIL believes total receipt from it is unlikely to be realised in fiscal 2020, i.e., majority of the collection from spectrum auction, if conducted in fiscal 2020, will be realised in fiscal 2021 and beyond

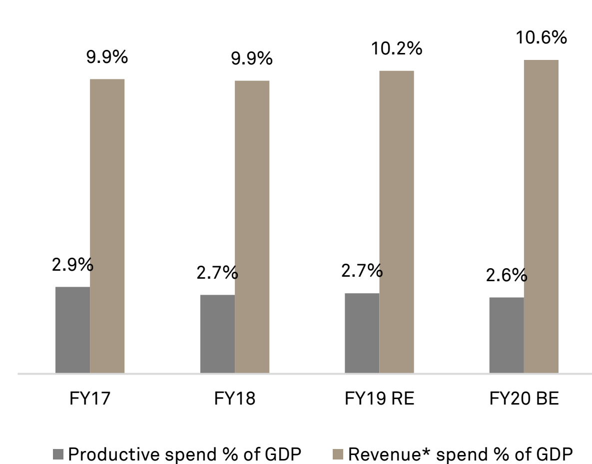
In sum, achieving the fiscal deficit target of 3.3% of GDP this fiscal will be a challenge unless growth stays on track as per budget estimates, the government meets its aggressive divestment target, succeeds with the spectrum sales, and garners GST revenues as budgeted.

Budget tilts mix towards revenue spending to create quick growth impact

- Typically, an increase in revenue spending induces consumption demand. But it also reduces the government's ability to incur capex, which negatively impacts private investment. This offsets the positive impact from the consumption channel. The multiplier impact on output is higher for capex than revenue spend. An RBI paper[1] finds that for every rupee of revenue spent by the Centre, output rises by only 42 paise, whereas for one rupee of capex, it rises by Rs 3.25. But here's the catch. **Though capex has a bigger positive impact over time, revenue expenditure has a more immediate impact. And that is what the economy needs at the moment, to pull itself out of the cyclical downturn. The budget acknowledges this and shows a clear tilt towards growth-inducing revenue spending**
- For fiscal 2019, the government undershot its revenue spend target marginally, but overshot capex spend target by over 5%. For fiscal 2020, however, the spending mix shows a tilt towards revenue spend. This is not very different from what was seen in the interim budget
- Revenue spend is about 14.3% higher on-year in fiscal 2020, compared with only a 6.9% increase in capex. In fiscal 2019, revenue spend had grown 13.9%, while capex was a phenomenal 20.3% higher. Accordingly, as a share in GDP, revenue spend rises to 11.6% from 11.3% while capex falls marginally to 1.6% from 1.7%
- Higher revenue spend is in lieu of the income support scheme to farmers (Rs 75,000 crore), GST compensation to states (doubling to Rs one lakh crore), higher interest and subsidy payments and welfare spending towards some of the government's core schemes
- Typically, a large part of the revenue spending also goes towards the core schemes of the government. The budget has announced a sharp increase in allocation for PM Sadak Yojana and health and education imperatives
- Another way to look at the spending mix is through the lens of productive and revenue* spends. Taking away revenue grants given for asset creation and adding it to capex gives a measure of productive spend. For fiscal 2020, growth in productive spend is budgeted to more than halve to 5.6%, while the revenue* spending growth stays unchanged from last year at 15.5%. Revenue* spend as a proportion of GDP rises to 10.6% from 10.2% in fiscal 2019, while productive spend is modestly lower at 2.6% from 2.7%

[1] RBI Bulletin, April 2019

Revenue spend finds preference…



…as allocation on core schemes increases

Overall spending growth (%, y-o-y)	FY18	FY19 RE	FY20 BE
All core schemes	**18.3**	**6.8**	**8.8**
National Social Assistance Programme	-1.8	2.4	3.4
MGNREGA	14.4	10.7	-1.8
Pradhan Mantri Krishi Sinchai Yojna	28.8	24.8	17.3
Pradhan Mantri Gram Sadak Yojna	-5.9	-8.1	22.6
Pradhan Mantri Awas Yojna (PMAY)	48.7	-15.3	-2.1
National Health Mission	39.9	-2.5	7.9
National Education Mission	6.7	9.8	19.2
Umbrella ICDS	21.0	21.4	18.1
Swachh Bharat Mission	53.9	-12.6	-25.5
Urban Rejuvenation Mission: AMRUT and Smart Cities Mission	2.0	32.8	9.4

Note: BE=Budget estimates, Revenue is revenue spend after taking off grants in aid for asset creation*

Decline	Slower growth	Faster growth

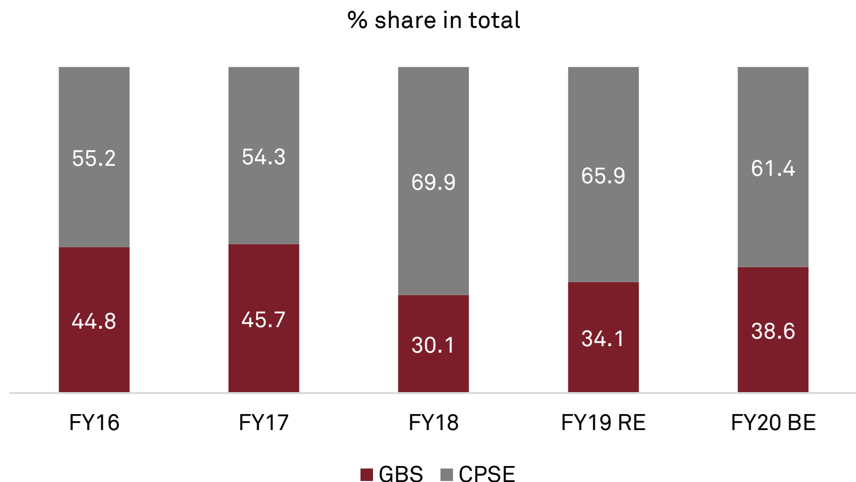
Source: Budget documents, CRISIL

The capex crunch is here

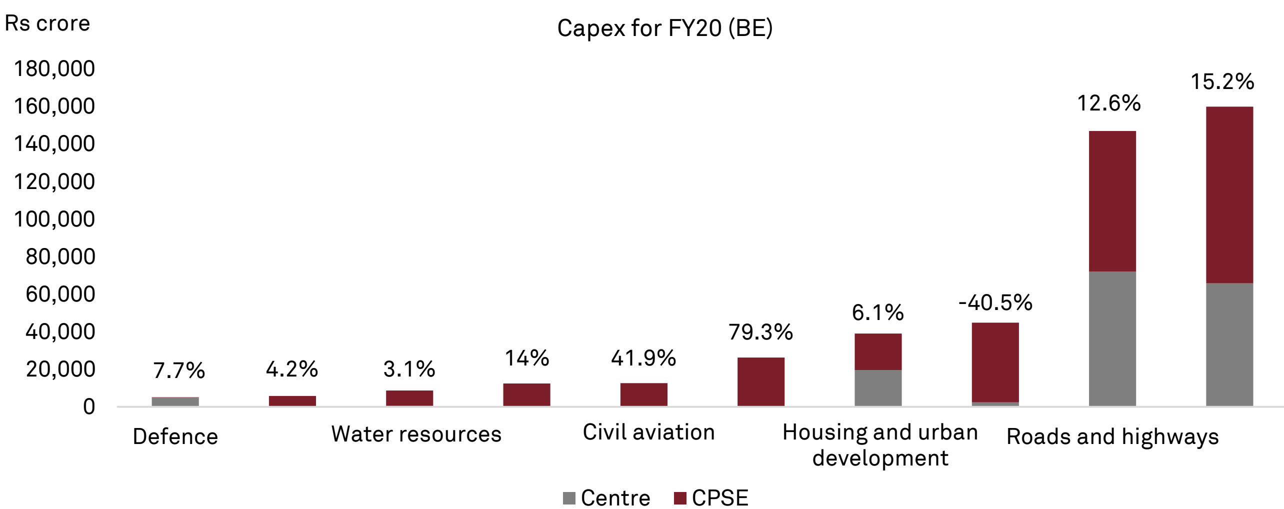
Tighter fiscal space has clearly restricted the government's ability to take on higher capex. At the same time, public sector enterprises are no longer doing the heavy lifting on investments

- Overall capex spending (via gross budgetary spending, or GBS, and spending by central public sector enterprises, or CPSEs) is budgeted to fall 5.7% in fiscal 2020, compared with 6.3% growth in fiscal 2019. This number is 8% lower than the interim budget estimates, marked down by a lower spending by CPSEs. The ratio of overall capex in GDP is, therefore, down to 4.1% from 4.9%
- While GBS is 6.9% higher, CPSE capex sees a sharper fall of 12.2% in fiscal 2020 budget compared with a 0.3% rise in fiscal 2019. This brings down the share of CPSEs in total capex to 61.4% from a peak of 69.9% in fiscal 2018
- The focus of GBS is essentially on areas such as railways, shipping, housing, power and defence. While overall CPSE spend is lower in fiscal 2020, there is higher allocation for rural development, roads, highways and railways. CPSEs mainly fund their expenditure from internal resources (~41% of total requirement, up from ~31% in fiscal 2019) and market borrowings (at 40% down from 37% in fiscal 2019)

CPSEs' share in capex declines



Where is capex funding?



Note: Figures in brackets indicate on-year growth in total capex (Centre plus CPSE's)

If not capex, then what? The funding challenge calls for out-of-the-box alternatives

The country's gargantuan infrastructure spending needs juxtaposed with a funding crunch calls for innovative ways to raise resources. Asset monetisation, asset recycling, and attracting private capital for funding infrastructure in key sectors of roads, power, and railways are a few options before the government. What is critical though is for it to identify the suitable asset monetisation option to attract the right investors. The government has budgeted a receipt of Rs 50,520 crore from spectrum sales and Rs 1.05 lakh crore in fiscal 2020. CRISIL believes there exist a number of options to monetise infrastructure assets such as:

- **Sale of land, real estate parcels, and non-operational assets:** Effectively monetises real assets/land parcels with PSUs which are not required for operational purposes
- **Toll-operate-transfer (ToT) model:** Preferred by “patient capital,” viz., institutional investors seeking stable cashflow generating assets with appropriate risk-adjusted yield
- **Infrastructure investment trusts (InvITs):** Preferred by patient capital investors and developers seeking asset recycling post project completion to generate growth capital
- **Portfolio sale of infrastructure assets to a strategic investor:** Helps unlock capital, allows for participation of institutional investors and asset aggregators seeking control and buyout transactions
- **Securitisation of pool of infrastructure loan assets:** Encourages public sector banks to release long term infrastructure loan assets for participation from investors seeking better risk-adjusted returns

Make in India push

The manufacturing sector received special attention in this budget. It has tried to address various aspects of manufacturing through the following measures:

The first has been reducing the tax burden on the sector. The scope of companies eligible for lowest corporate tax rate of 25%, has been expanded to Rs 400 crore annual turnover from Rs 250 crore. With this, 99.3% of companies are eligible for lowest corporate tax.

The second has been providing easier financing conditions for MSMEs, which constitute about 85% of manufacturing sector in India.[2] MSMEs have been offered speedy disbursal of loans, interest subvention of loans, and pension benefits to traders and shopkeepers.

Last, but not the least, several measures have been announced to attract foreign investment. In particular, the government aims to invite global companies to set up mega-manufacturing plants in upcoming advanced technology sectors, i.e., high value-added sectors such as semi-conductor fabrication, solar photo voltaic cells, lithium storage batteries, laptops, etc. Such companies will be given income tax exemptions and other indirect tax benefits.

It must be noted that electrical machinery and equipment (which includes the above mentioned commodities) is the sector getting most hit by the US-China trade war. While this raises the possibility of trade diversion to other economies, only few economies have the competitiveness and scale in these sectors. However, over the long run, the companies in these sectors can shift their base out of the US and China. The government’s efforts to attract investment in this regard is welcome as it can help India plug in newly evolving global supply chains.

[2] Economic Survey 2019-20

Outlook for fiscal 2020

	FY19	FY20F	
GDP growth (% y-o-y)	6.8	7.1	• Growth will pick up if monsoons are normal and well-distributed and crude prices remain below $70 per barrel • We expect growth to be supported by softer interest rates and budgetary measures that push consumption
CPI inflation	3.4	3.8	• Inflation could see some upside from higher food prices on account of base effect and possible risks from inadequate monsoons • Consumer-friendly fiscal policy and softer monetary policy stance also add to the upside
Fiscal deficit	3.4	3.3	• Meeting fiscal 2020 target will be a challenge unless growth stays on track, the government achieves its aggressive divestment target and GST revenue goes up as envisaged
10 year G-Sec yield (%)	7.5	7.3	• Reduction in fiscal deficit target for fiscal 2020 will help soften bond yields. While gross market borrowing target at Rs. 7.1 lakh crore for fiscal 2020 is same as projected in the interim budget, it remains significantly higher than Rs 5.7 lakh crore previous year. However, tapping the global market for borrowing can help ease pressure on the domestic bond market • The three rate cuts by the RBI so far, along with change in stance from neutral to accommodative, will help soften bond yields. Global interest rates too, are benign. S&P Global expects one rate cut by US Federal Reserve this year

Risks to outlook

At this juncture, risks are tilted to the downside:

1. Inadequate monsoons: A below-normal and non-uniform monsoon can hurt India's GDP growth through lower agricultural growth. It can also cause CPI inflation to spike through higher food inflation (the largest component in India's CPI basket).

2. Oil price spurt: India remains vulnerable to any sharp rise in crude oil prices. Given that oil is India's largest import item, a jump in oil prices can significantly widen India's current account deficit. It could also indirectly put pressure on domestic inflation and fiscal deficit.

3. Global slowdown: Downside risks to global growth are slowly materialising, as rising trade tensions, especially between the US and China, are impacting global trade flows and investment. This can adversely impact India's export growth, which could drag GDP growth, as well as increase upside risks on the current account deficit.

Capital market

Slew of small measures announced, some short-term benefits likely

- The government plans to borrow a part of its funding requirement from the overseas market in foreign currency to free up domestic savings for private investments
- The budget has proposed a one-time, six-month partial credit guarantee to be given to public sector banks for first loss of up to 10% for purchase of high-rated pooled assets up to Rs 1 lakh crore from financially sound non-banking financial companies (NBFCs)
- The government will work with stock exchanges to allow trading of AA rated bonds as collateral for the corporate tri-party repo market. Further, the RBI has been given more teeth to regulate NBFCs and housing finance companies (HFCs)
- To encourage capital inflows, foreign portfolio investors (FPIs) have been allowed to subscribe to listed debt securities issued by real estate investment trusts (ReITs) and infrastructure investment trusts (InvITs). They will also be permitted early exit from debt securities of IDF–NBFCs. Further, the non-resident Indian portfolio investment scheme route is proposed to be merged with the FPI route to channel more money into the domestic capital market. The budget also proposes to rationalise and streamline the existing know-your-customer norms for FPIs to make them more investor-friendly without compromising the integrity of cross-border capital flows
- On the pension front, the government launched the Pradhan Mantri Karam Yogi Maandhan Scheme to provide pension to about 3 crore retail traders and small shopkeepers, whose annual turnover is less than Rs 1.5 crore. Enrolment into the scheme has been kept simple, requiring only Aadhaar card and a bank account and the remaining information on self-declaration. Further, the total available withdrawal facility of 60% from the National Pension System vesting corpus has been made tax-free as against 40% previously. The government has separated the NPS trust from the regulator – Pension Fund Regulatory Authority – to maintain an arm's length relationship
- In equities, the government plans to ask the Securities Exchange Board of India to consider raising the minimum public listing norm to 35% from 25%. It has also proposed a social stock exchange for listing social enterprises and voluntary organisations working for the realisation of a social welfare objective so that they can raise capital as equity, debt or as units like a mutual fund. Further, the government proposes to give relief in the levy of Securities Transaction Tax (STT) by restricting it only to the difference between the settlement and strike price in case of exercise of options
- In terms of personal finance, the government plan to offer an investment option in exchange-traded funds (ETFs) on the lines of equity-linked savings schemes

Steps and impact

Sector	Impact	Comments
Debt market		• The proposal to borrow overseas is favourable, as it will reduce the cost of borrowing but will involve cost of hedging the exchange rate risk • The partial credit guarantee proposal for NBFCs could soothe sentiments in the short term, but might not have a great impact in the long term • Success of trading of AA-rated bonds as collaterals for the corporate tri-party repo market remains to be seen, as currently there is low traction in trading of repos of AAA-rated bonds
FPI		• FPI entry into ReITs and InvITs will increase inflows, while the exit option will provide leeway for foreign investors in IDF-NBFC
Pension		• Expansion of the pension fold to cover the unorganised small retailer/trader will expand the social security market • The extension of tax benefit for the entire lump sum withdrawal available for NPS investors will bring parity with other major retirement products in the country
Equity market		• Raising minimum public listing norms to 35% is expected to make promoters of nearly 1,500 companies offload their stake, increasing the supply in the stock market • Reduction in STT incidence is a relief for option traders
Personal finance		• An investment option in ETFs will allow investors to save tax. However, since it is a part of the Rs 1.5 lakh Section 80 C bracket, its overall impact is expected to be nominal

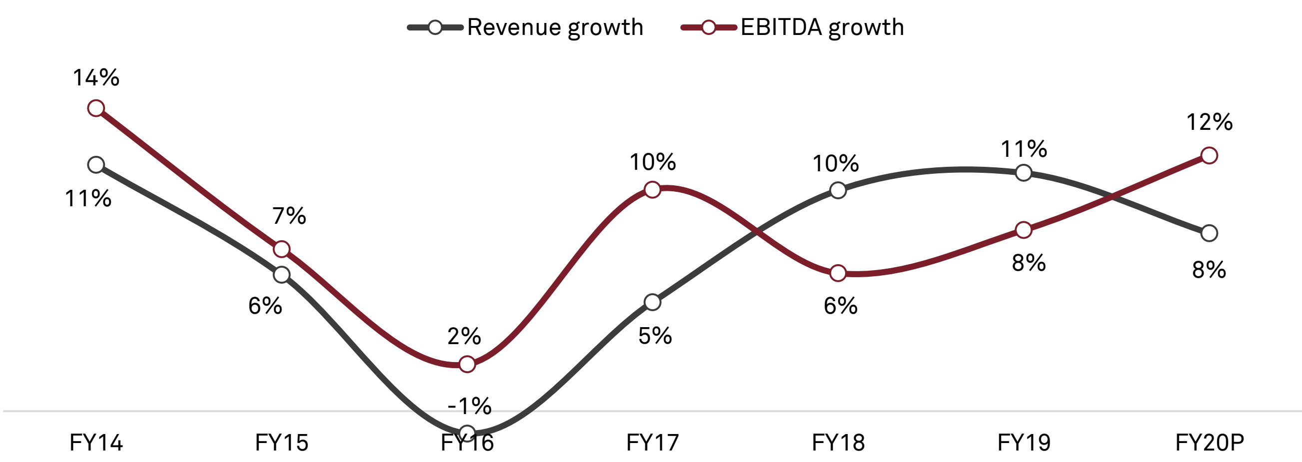
Industry research

Bold vision, incremental action

The Union Budget 2019-20, the first budget of Modi Government 2.0, has stayed the course and not gone overboard with concessions in the backdrop of slowing consumption and clamour for tax incentives. It has maintained a prudent fiscal stance by maintain the deficit at 3.34% of GDP – in line with the interim budget. At the same time, despite a very strong mandate and a full five-year course of the current term to run, the budget follows a largely incremental, though directionally apt, approach, rather than unleashing bold reforms.

The budget addresses some key aspects pertaining to financial sector. These include providing Rs 70,000 crore for bank recapitalisation, offering partial guarantees for up to six months for asset purchases of up to Rs 1 lakh crore from NBFCs, and shifting the regulatory authority for housing finance companies (HFCs) to the RBI. These much-needed measures aim to address the critical issues of capital adequacy, liquidity and improved regulatory oversight, to reduce systemic risks.

India Inc revenue growth and profitability



Source: CRISIL Research

Among sectors, housing – specifically affordable housing – and infrastructure would continue to perform better, led by public sector investments. Notably, the dependence on internal and extra budgetary resources (IEBR) at 62% has inched up even higher from 60% of fiscal 2019. Therefore, the government's ability to fund these investments would remain a key monitorable. The impact on consumption revival would remain muted, leading to a moderation in Indian Inc's revenue growth to 7-9% in fiscal 2020 from 11%.

On the other hand, divestment targets of a little over Rs 1 lakh crore, interest subvention of 2% up to Rs 350 crore for MSME loans, a lower tax rate of 25% for companies with a turnover of Rs 400 crore (compared with Rs 250 crore earlier), foreign investment promotion in sectors such as aviation, and additional tax exemption of Rs 1.5 lakh for affordable housing are appropriate, but incremental, steps.

Further, the increase in road cess and excise duty on petrol and diesel by Rs 2 would only aggravate the woes of sectors such as automobiles, transporters, and also adversely impact inflation. The hike in import duty on many items, including select auto components, chemicals and consumer durables, is also unlikely to meaningfully spur localisation.

Assessment of impact on key verticals

Vertical name	Impact	Comments
Agriculture	Neutral	• Limited increase in price-support schemes • Initiatives such as farmer producer organisations (FPOs), are structural and may give staggered benefits
Affordable housing	Positive	• Higher tax exemption may aid absorption of supply, as affordable houses account for a large portion of the supply
Consumption	Neutral	• EVs to become more favourable. However, no meaningful impact on overall automobile demand
Financial services	Positive	• Infusion of Rs 70,000 crore provides for recapitalisation as well as growth capital for weak public sector banks (PSBs) • Better regulatory oversight and liquidity situation of NBFCs
Infrastructure	Positive	• Roads and railways continue higher allocations • Dependence on IEBR and private sector for funding a key monitorable
MSMEs	Positive	• Focus on platforms such as TReDS a step in the right direction • Interest subvention would benefit not more than 9% of incremental MSME loans

Agriculture: Structural reforms untouched — Neutral

- The increase in the Market Intervention Scheme and Price Support Scheme (MIS-PSS) allocation to Rs 3,000 crore from Rs 2,000 crore will lead to only a marginal improvement in procurement for pulses and oil seeds; the procurement stood at only 2% of production in fiscal 2019
- Allocation to the Pradhan Mantri Annadata Aay SanraksHan Abhiyan (PM-AASHA) raised to Rs 1,500 crore from Rs 1,400 crore. This would be insufficient as the deficit payment for oilseeds and pulses requires Rs 30,000 crore
- About 10,000 new FPOs to ensure economies of scale for farmers in the next five years. There are around 6,000 FPOs in India now; the 10,000 new FPOs will cater to an additional 1 crore farmers (~7% of farmer households)
- Launch of the Department of Fisheries with a budget outlay of Rs 804 crore will aid in infrastructure development to meet the stringent export norms (especially from the US, which constitutes ~33% of India's exports basket in value terms)
- The increase in development expenditure allocation to crop husbandry to Rs 87,396 crore from Rs 34,293 (RE fiscal 2019) crore will aid in the development of infrastructure, crop storage, exports, providing higher domestic prices to farmers

Housing: Tax benefits to affordable housing may reduce inventory for 40% of the supply — Positive

- Interest deduction on loans taken until March 31, 2020, for the purchase of a house valued up to Rs 45 lakh has been enhanced to Rs 3.5 lakh from Rs 2 lakh. The additional interest deduction of Rs 1.5 lakh would reduce the effective home loan interest rate by 40-50 bps for a typical 15-year loan
- Under the Pradhan Mantri Awas Yojana (Gramin), as many as 1.5 crore houses have been constructed so far. The government has set up a construction target of 1.95 crore houses up to fiscal 2022 under Phase II. CRISIL Research believes mere budgetary allocations for the scheme will be insufficient. As a result, the scheme will rely heavily on extra budgetary resources raised through NABARD (National Bank for Agriculture and Rural Development) bonds. The flow of funds for the second phase will be key with an investment requirement of Rs 1.6 lakh crore, or Rs 80,000 per house. Only Rs 19,000 crore has been provided for fiscal 2020 with almost Rs 1.4 lakh crore additional needs over next two years to achieve PMAY-G targets
- Under Pradhan Mantri Awas Yojana (Urban), out of the estimated 1 crore houses to be constructed over seven years from fiscal 2016 to fiscal 2022, 84 lakh houses have been sanctioned as of July 2019. Of these, while 26 lakh houses have been constructed, 22 lakh houses are under construction. Like PMAY-G, PMAY-Urban also relies heavily on extra budgetary resources raised through HUDCO (Housing and Urban Development Corporation Ltd) bonds. The flow of funds from the Central government remains crucial for scheme's success, as it needs nearly Rs 1.5 lakh crore over the remaining life of the scheme – an average of Rs 150,000 per house; this could be quite challenging, given that only 34%, i.e., Rs 51,400 crore, is released until now. With this, the Central government needs almost Rs 98,600 crore to achieve PMAY-U completions

Consumption: Autos may remain moderate-paced in the near term, gold to be hit — Neutral

- The reduction in GST on EVs from 12% to 5% and tax deduction up to Rs 1.5 lakh on the interest component of EV loans should aid EV adoption:
  - Two-wheeler EVs to cost 10% lower than traditional scooters; currently, they are at par
  - For taxi-fleet owners, the acquisition cost will be 5% lower for EVs, compared with vehicles with internal combustion engines
  - However, the acquisition cost of personal electric small cars will remain unfavourable
- Custom duty on EV components such as e-drive assembly, e-compressors, charging gun and on-board charger, has been kept at nil. In March 2019, the government had indicated that duty on these components will increase to 15% from April 1, 2020
- Higher customs duty on key parts such as brake parts, filters and wipers will lead to higher realisation for domestic manufacturers in the replacement market (~16% of auto-component players' revenue). Higher duty on catalytic convertors should aid localisation in view of the upcoming BS VI norms
- Higher petrol and diesel prices (by Rs 2.5 each) to increase the cost of ownership for cars and two-wheelers by around 1%. This is after the 6% and 13% increase, respectively, in fiscal 2019
- Increase in customs duty on gold from 10% to 12.5% will result in a price increase of 2.3% at the consumer level. Gold constitutes more than 80% of the total domestic gems and jewellery consumption. Higher prices are expected to affect demand, hurting growth in the gems and jewellery sector

- Ease of local-sourcing norms for single-brand retail sector is expected to help foreign players stabilise their sourcing base and scale up operations. This step conforms with the 100% FDI in single-brand retail trade announced in 2018. However, the announcement is unlikely to impact domestic consumption in the immediate term

Financial services: Steps in the right direction — Positive

- Capital infusion of Rs 70,000 crore will help the four remaining PSBs to come out of PCA framework. It will also provide growth capital for weak PSBs and allow them to grow at 4-6% in fiscal 2020
- Credit guarantee by the government to PSBs on purchase of assets from NBFCs should narrow the prevailing trust deficit and boost investor confidence in NBFCs. The assumption here is that the credit guarantee is for the entire tenure of the pooled assets purchased by PSBs over the next six months
- Transferring the regulatory power on HFCs from National Housing Bank to the RBI will have more streamlined regulations and implementation as well as better risk management framework for HFCs
- Strengthening the regulatory authority of the RBI over NBFCs will enhance the central bank's power to increase NBFC capital requirements, suspend or remove directors of NBFCs and take actions against auditors. This would enable the RBI to have prudent risk-focused surveillance over NBFCs
- Taxing interest on NPAs on receipt basis should improve cash flows and profitability of NBFCs in the short term
- Amendments in relation to the Debenture Reserve Ratio (DRR), deepening bond market, and giving NBFCs access to the TreDS platform should impact positively in the long term

Infra: Roads and railways would continue to lead the pack, funding a monitorable — Positive

- The investment of Rs 100 lakh crore for infrastructure over the next five years was announced in the speech, implying Rs 20 lakh crore of spending per year. The central government allocation to infrastructure is Rs 4.7 lakh crore for fiscal 2020, including IEBR. Further, continuation of state government allocations of fiscal 2019 in fiscal 2020 would facilitate another Rs 3.5 lakh crore. This would imply a 60% private participation, which may be a key monitorable, considering the limited number of private players and the low risk-appetite of banks, which are the largest lenders. The increase in road and infrastructure cess by Re 1 per litre should aid higher budgetary allocations for railways. Cess allocation for roads has declined
- The overall allocation for the roads sector has increased for fiscal 2020. However, the budgetary support to the National Highways Authority of India (NHAI) has fallen. The IEBR limit for NHAI has been increased to Rs 75,000 crore from Rs 62,000 crore, leading to an increase in borrowings. The NHAI's borrowing has increased significantly at a five-year CAGR of 46% to Rs 1.6 lakh crore in fiscal 2019, due to significant increase in land prices (four-year CAGR at 36% to Rs 2.7 crore per hectare) as well as higher share of engineering, procurement, construction and hybrid annuity model projects in the past few fiscals. Awarding has declined sharply to 2,200 km in fiscal 2019 from 7,400 km in fiscal 2018, amid land-acquisition worries. The risk would remain in fiscal 2020 as well

- The budget allocates Rs 80,250 crore for rural-roads construction of 1,25,000 km under PMGSY over the next five years . However, this would be significantly lower compared with 2,18,000 km constructed between fiscals 2015 and 2019

Snapshot of infra investments

Figures in Rs crore	Budget 2018-19			Revised 2018-19			Budget 2019-20			Growth in outlay	
	Budget	IEBR	Total	Budget	IEBR	Total	Budget	IEBR	Total	vs FY19 RE	vs FY19 BE
Ministry of Railways	53,060	93,440	1,46,500	53,060	85,798	1,38,858	65,837	94,071	1,59,908	15%	9%
Ministry of Road Transport and Highways	59,440	62,000	1,21,440	68,564	62,000	1,30,564	72,059	75,000	1,47,059	13%	21%
National Highway Authority of India	29,663			37,321			36,691			-2%	24%
Ministry of Power	2,211	53,469	55,680	2,076	73,189	75,265	2,400	42,407	44,807	-40%	-20%
Ministry of Housing and Urban Affairs	16,415	16,252	32,668	17,010	19,690	36,700	19,544	19,413	38,957	6%	19%
Ministry of Rural Development	5		5	5	14,646	14,651	100	26,170	26,270	79%	NM
Pradhan Mantri Gram Sadak Yojana#	19,000		19,000	15,500		15,500	19,000		19,000	23%	0%
Ministry of Civil Aviation	721	4,601	5,322	4,000	4,875	8,875	25	12,566	12,591*	42%	137%
Ministry of New and Renewable Energy	40	10,317	10,357	40	10,835	10,876	45	12,354	12,399	14%	20%
Ministry of Water Resources	708	6,000	6,708	343	8,102	8,445	391	8,313	8,704	3%	30%
Ministry of Shipping	362	4,830	5,191	186	5,423	5,610	267	5,578	5,845	4%	13%
Total	**1,51,962**	**2,50,909**	**4,02,871**	**1,60,784**	**2,84,558**	**4,45,344**	**1,79,668**	**2,95,872**	**4,75,540**	**7%**	**18%**

**Total outlay for Ministry of Civil Aviation in FY20 has increased from 5,591 crores in interim Budget 2020 to Rs 12,591 in this budget #PMGSY investments have been considered as revenue expenditure in the Ministry of Rural Development allocations; however, the investments include construction of roads*

- Railway allocation significantly increased from Rs 2.6 lakh crore of capex incurred between fiscals 2011 and 2015 to close to Rs 6.1 lakh crore over fiscals 2016 and 2020. However, it would still miss the Rs 8.5 lakh crore target set for the same period
- The outlay for the Ministry of Civil Aviation increased 42% in fiscal 2020 versus the revised estimate of fiscal 2019. This was due to 23% increase (versus the fiscal 2019 revised estimate) in investments by the Airports Authority of India to Rs 5,125 crore and a new investment of Rs 7,000 crore through IEBR towards Air India Asset Holding Ltd – a special purpose vehicle formed by the central government to transfer debt worth Rs 29,464 crore from Air India and its subsidiaries

MSMEs: Benefits retained, transparency reinforced — Positive

- NBFCs to be allowed to register and participate on the TReDS platform. As of March 2019, only 71 banks and five NBFC factors were registered on TReDS. Since inception in 2014, TReDS has seen 2.5 lakh transactions of Rs 6,700 crore only and needs a further participation push. The move to allow NBFC participation on TReDs is a welcome, given the chronic issue around working-capital funding that the MSMEs face. This opens up a new lending avenue for NBFCs, which accounted for about 13% of MSME lending last fiscal
- The allocation of Rs 350 crore in fiscal 2020 to fund 2% interest subvention for all GST-registered MSMEs on fresh loans would benefit a fifth of MSMEs. However, this would support only 10% of incremental SME lending
- Creation of a new payment platform by the central government for MSMEs to facilitate faster payments for vendors will ease working capital and cash flow stress. Many new measures, including the removal of the angel tax, should help the startup ecosystem, and that is a key positive

Modi 1.0: Not much to complain

Scheme	Objective	Timeline	Target	% target achieved YTD March 2019
Housing For All	(Urban) To meet urban housing shortage	2015-2022	Construct 1-1.2 crore houses	30-35%
	(Rural) To meet rural housing shortage	2015-2022	Construct 2.95 crore houses	35-40%
Ayushman Bharat	To provide health insurance to poor families	2018 onwards	Cover 50 crore beneficiaries, Upgrade 1.5 lakh HWCs	–
AMRUT	To provide basic services to households	2016-2020	Expenditure of Rs 50,000 crore	50%
SMART cities	To promote sustainable cities	2016-2020	Expenditure of ~Rs 2 lakh crore	10-15%
UJALA	To promote efficient lighting	2015-2019	Replace 77 crore incandescent bulbs with LED bulbs	46%
Swacch Bharat Mission	To achieve universal sanitation coverage	2015-2019	16 crore households entered IHHL application	>99%
Mudra Yojana	To provide loans to SMEs	2016-2019	~Rs 8 lakh crore loan disbursed	>100%
Bharatmala	To optimise efficiency of goods and people across the country	2018-2022 (Phase I)	Construct 34,800 km of highway	35-40%*
Sagarmala	To reduce logistics cost for EXIM and domestic trade	2015-2035	Rs 8.5 lakh crore for port modernisation	<5%
Jan-Dhan Yojana	To provide basic services to households	2016-2020	Bank accounts opened in 7.5 crore households under PMJDY	>99%
UDAY	Sustainable financial & operational turnaround of DISCOMs	2016-2019	Reduce AT&C loss from 22% to 15%	Loss reduced to 18.29%
UDAN	To stimulate scheduled air connectivity	2018 onwards	Connect 326 under served airports	~Rs. 1100 crore allocated

*km awarded

Source: CRISIL Research

Annexure

Duty changes across sectors

		Rate of customs duty		Rate of excise duty			
Sector	**Commodity**	**From**	**To**	**From**	**To**	**Impact**	**Remarks**
			ENERGY				
Crude oil	Petroleum crude	Nil	Re.1 / tonne	-	-		OMCs' procurement cost to rise marginally (India imports ~84% of its crude oil requirement)
Refining & Marketing	Petrol	-	-	*Rs. 7/ltr **Rs. 8/ltr	*Rs. 8/ltr **Rs. 9/ltr		Petrol & diesel price for the end consumers to rise by Rs 2.5 per litre
	Diesel	-	-	*Rs. 1/ltr **Rs. 8/ltr	*Rs. 2/ltr **Rs. 9/ltr		
Petrochemicals	Ethylene dichloride (EDC)	2.0%	0.0%	-	-		To reduce the manufacturing cost for PVC (net importer of EDC)
	Polyvinyl chloride (PVC)	7.5%	10.0%	-	-		To increase import prices; however, imports to be still cheaper than domestic PVC
	Propylene oxide (PO)	7.5%	5.0%	-	-		To reduce raw material cost for PO derivatives such as polyols (net importer of PO)
	Naphtha	5.0%	4.0%	-	-		No material impact (net exporter of naphtha)
Power	Uranium ore	2.50%	0%				To lower capital cost for nuclear power plants, thereby being positive for power tariffs
	Enriched nuclear fuel	7.50%	0%				
	Components for nuclear power plant	Applicable rate	0%				
Power Transformers	CRGO steel	5.0%	2.5%				To be marginally positive for transformer supply contracts for private entities; neutral for govt. contracts (CRGO largely imported)
			INDUSTRIALS				
Steel	Inputs for CRGO steel	5.0%	2.5%				To benefit manufacturing costs given raw material is primarily imported
	Stainless steel	5.0%	7.5%				To benefit domestic manufacturers as imports form ~17% of domestic consumption
	Alloy steel	5.0%	7.5%				To benefit domestic manufacturers as imports form ~20% of domestic consumption
Gems & jewellery	Gold	10.0%	12.5%				To result in price rise of 2.3%, thereby weighing on demand marginally

		Rate of customs duty		Rate of excise duty			
Sector	Commodity	From	To	From	To	Impact	Remarks
Paper	Newsprint	0.0%	10.0%				India imports 60% of its newsprint paper requirement. However, ~90% is with FTA countries, thereby negating any major benefit
Ceramic tiles	Ceramic roofing tiles, ceramic flags/ pavings	10.0%	15.0%				No major impact as imports constitute only 1% of consumption
			CONSUMPTION PRODUCTS & SERVICES				
Electronics	Populated printed circuit board	10.0%	0.0%	-	-		To promote assembling in short run given that we currently lack ecosystem for production of complex electronic components
	Camera module of cellular mobile phones, Charger/adaptor of cellular mobile phone, lithium ion cell	15.0%	0.0%	-	-		
Household appliances	Indoor and outdoor unit of split system air conditioner	10.0%	20.0%	-	-		Not significant impact as large proportion of completely built units of AC with custom duty of 20% is imported in India. Further, large domestic players have their own manufacturing base in India
			AUTOMOBILES				
Auto components	Catalytic convertors	5.0%	10.0%				To boost localisation levels for the upcoming BS VI norms.
	CBU of vehicles falling under heading 8702,8704 (commercial vehicles)	25.0%	30.0%				To aid domestic manufacturers
	Friction material for brakes and clutches, glass mirrors, locks, lighting, horns, windscreen wipers, defrosters, sealed beam lamp units and other bodies	10.0%	15.0%				To benefit replacement market which is ~16% of auto component revenue
	Oil or petrol filters, intake air filters for internal combustion engines, air purifiers, other visual or sound signalling equipment	7.5%	10.0%				Replacement market, which accounts for ~16% of auto component revenue stands to benefit as higher duty on key parts would aid domestic manufacturers.

**Special additional excise duty*

***Road and infrastructure cess*

Notes

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