

July 08, 2019

## Union Budget Summary 2019

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The budget had for the first time plugged the loophole by levying additional tax of 20% on Buy-Backs on the public listed companies.

FM Sitharaman proposed to increase the public shareholding from current 25% to 35%.

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Government is aiming at long term growth to drive the economy towards the 5 trn.

Finance Minister delivered her maiden Union Budget of the new government and it was on the expected lines of being a growth driven budget which in-turn will lead to consumption boost. Government has laid a projection of economy will grow to USD 3 trillion for FY20. The government is confident of fetching Rs. 1,05,000 Crs from disinvestments in FY20 as against Rs.90,000 crs estimated in interim budget which will infuse more liquidity in the system. The government slashed the fiscal deficit target to 3.3% for FY20 as against 3.4% estimated in interim budget. The finance minister projected a strong growth environment and laid down the paths to achieve it.

The budget was very much a historic pro-growth budget where the government had put a lot of emphasis on the connectivity and announced historic allocation of Rs. 100 lakhs Crs. over a period of 5 years. The budget also spoke on the need to revamp all the railway stations at the earliest. The new initiatives introduced in the budget to fund the dedicated freight corridor and urban transportation projects through PPP projects and commitment of fresh investment in Electric Vehicles reflects government's priorities in the right direction.

The budget had for the first time plugged the loophole by levying additional tax of 20% on Buy-Backs on the public listed companies. The move, aimed at discouraging the practice of avoiding the dividend distribution tax, came into effect on July 5, 2019. The effect of this provision is that a listed company whose buyback is open now would be taxed at 20%, plus the surcharge and cess on the amount of consideration paid. FM Sitharaman proposed to increase the public shareholding from current 25% to 35%. Though the fine print says that the decision will be taken by the SEBI but we feel that this step will increase the liquidity in the stock market and help in reducing manipulation thereby unlocking 10% of the blocked equity. If this step is implemented then it will force all the companies to dilute its stake by more 10% especially, the IT and the MNC companies. The budget also slashed corporate tax to 25% on companies having turnover up-to Rs.400 Crs which is very positive.

### Budget Views:-

We feel the government is aiming at long term growth to drive the economy towards the 5 trillion USD mark by FY2024. The government realizes the need of connectivity and as a result has given lot of impetus to infrastructure sector across segments like roads, railways, airports and waterways. The government also has a vision of "Housing for all" by 2024 and as a result has given enhanced exemption on interest of the housing loan. The government has also announced 1.9Crs additional houses will be built over a period of 5 years which will lead to sectorial rotation thereby increasing demand for the paint, cables and cement industries. We expect, it is a growth oriented budget which will lead the economy towards 3 trillion dollar by FY20 as a result will attract FIIs and in-turn pickup consumption demand.

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Sectors to benefit out of budget proposals are as follow:-

Sector	Key Budget Proposals	Stocks to be impacted	Potential Impact
<b>Automobile</b>	<p>Customs duty has been increased from 7.5%-10% to 10%-15% on multiple automobile parts like friction materials, mirrors, locks, oil or petrol filters, intake air filters, Lighting or visual signaling equipment, horns, windscreen wipers, defrosters and few other parts</p> <p>Interest up-to Rs. 1.5 Lacs shall be allowed as deduction for the purchase of EV (subject to the buyer not owing an EV already)</p>	MARUTI, HEROMOTORCOP, BAJAJAUTO, TVSMOTOR	Negative
<b>Banking</b>	Recapitalization of Rs. 70,000 Crs	SBI, BOB, CANARA BANK	Positive
<b>Cement</b>	Increased allocation towards road infrastructure, railways affordable housing.	ULTRACEMCO, SHREECEM, RAMCOCEM	Positive
<b>FMCG</b>	<p>Excise duty on various cigarettes has been increased by Rs 5 per 1000 sticks</p> <p>Customs duty increased on few electronics and electrical equipment's including indoor and outdoor unit of split-system air conditioner</p>	ITC  HAVELLS, VOLTAS, BLUESTAR	Negative
<b>Infrastructure</b>	To allocate 100 lakhs Crores towards infrastructure	ASHOKA, LT	Positive
<b>Insurance</b>	Government raises FDI limit to insurance companies to 100% from current 49%.	SBILIFE, HDFCLIFE, ICICIPRULI	Positive
<b>Power</b>	"One Power One Grid " for affordable power to states	TATAPOWER, POWERGRID	Positive
<b>Realty</b>	<p>Enhanced interest deduction up-to Rs. 3.5 lac from Rs. 2 lac earlier for purchase of an affordable houses</p> <p>To build additional 1.95 Crs houses by FY 2022</p>	SOBHA, GODREJPRO, OBEROI RLTY	Positive

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