

January 24, 2019

## Budget Preview 2019

Interim Budget will be valid till Lok Sabha elections.

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Fiscal deficit to be in the range of 3.5% - 3.75% of the GDP.

The government is very much focused on doubling the rural income by FY2022.

The government might cut down on custom duty on fertilizer to help the rural people

The historic reform of GST has started flowing revenues to the tune of 90k Crs which is contributing to bring GDP back to earlier growth rate of 7%.

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FM Jaitley is all ready to present the interim budget on 1<sup>st</sup> February 2019 before the 2019 general election. This budget will be valid till the Lok Sabha Elections. In the last bud get of the NDA led BJP government; the market is expecting it to be a populist budget. The ruling government has also hinted for a populist budget which will come at the cost of higher fiscal deficit. Despite the hint, the capital market will be closely watching the maintenance of fiscal deficit which will be in the range of 3.5% - 3.75% of the GDP.

As it is the interim budget, the implementation will be done by the new government at the helm. Hence, we do not see government controlling on the expenditure front and might come out with innovative ways to double the farm income. We strongly feel government will increase on the disinvestment front and other non-tax revenue method to maintain fiscal deficit.

Being the last budget of the BJP government, this budget will be skewed towards rural people as hinted by the present government. The budget will concentrate on providing basic infrastructure facilities like roads, housing and irrigation to the rural economy which in turn would benefit the corporates. The government is very much focused on doubling the rural income by FY2022 as a result might lay the foundation towards that goal in this interim budget. The government might cut down on custom duty on fertiliser's to help the rural people.

The historic reform of GST has started flowing revenues to the tune of 90k Crs which is contributing to bring GDP back to earlier growth rate of 7%. We believe being an election year, public capital expenditure growth will be higher in FY20 and will eventually settle down post elections. Private capex by way of government orders has increased in the past few years and will continue to grow thereby continuing to grow India's capex cycle.

Individual consumption, on the other hand, is expected to stay strong primarily on account of an increase in 7th pay commission and expectations of reducing the direct tax slab. Job situation seems to be gradually improving and PMI (Purchasing Manufacturing Index) data has shown pick-up both in manufacturing and service sector. The government is expected to increase the income tax exemption threshold from Rs 2.5 lakh. Industry bodies have already demanded an increase in deduction limit under Section 80-C from Rs 1,50,000. This will spur investments and consumption within the economy.

We feel the current government will present a good populist budget which will be more inclined towards doubling rural income, increasing growth, job creation, and rural welfare and try to bring in more non-tax revenue by way of disinvestments as the current budget will be a make or break budget for the BJP Government.

The following are key sectorial agendas, its impact on the industry/ stocks and the probability of being addressed in the coming Union Budget:-

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Sectors to affect due to budget proposals are as follow:-

Sector	Key Budget Proposals	Stocks to be impacted	Potential Impact
<b>Automobile</b>	Custom duty concession extension for electric vehicles.	ASHOKLEY, BAJAJAUTO, M&M	Positive
	Long-term measures for agriculture sector to push farmers productivity.	BAJAJAUTO, HEROMOTOCO, TVSMOTOR	Positive
<b>Aviation</b>	UDAN to connect unserved airports and unserved helipads	INDIGO	Positive
<b>BFSI</b>	Increase in rural allocation towards farm and infrastructure segment.	BAJAJFINANCE, L&TFH	Positive
	Higher efforts to boost affordable housing segment.	HDFC & LICHSGFIN	Positive
<b>Cement</b>	Increased allocation towards road infrastructure, railways affordable housing.	ULTRACEMCO, ACC, AMBUJACEM	Positive
	Increased allocation towards smart cities.		
<b>FMCG</b>	Higher incentives to Rural economy in the form of increased allocation to MNREGA, Pradhan Mantri Fasal Bima Yojana (PMFBY) and hike in MSP (Minimum Selling Price).	BRITANNIA, HUL, MARICO	Positive
<b>Fertilisers</b>	Reduction in Custom duty on Fertilisers	GSFC, UPL & COROMANDEL	Positive
<b>Infrastructure</b>	Increase in Budgetary support to the Roads and Highways sector.	ASHOKA, NBCC, IRB	Positive
<b>Oil &amp; Gas</b>	Higher chances of subsidy Sharing for FY20 due to higher crude price.	ONGC, OIL	Negative
<b>Reality</b>	Higher deduction limit on housing interest and principal which will boost affordable housing segment.	GODREJPROP, DLF	Positive

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