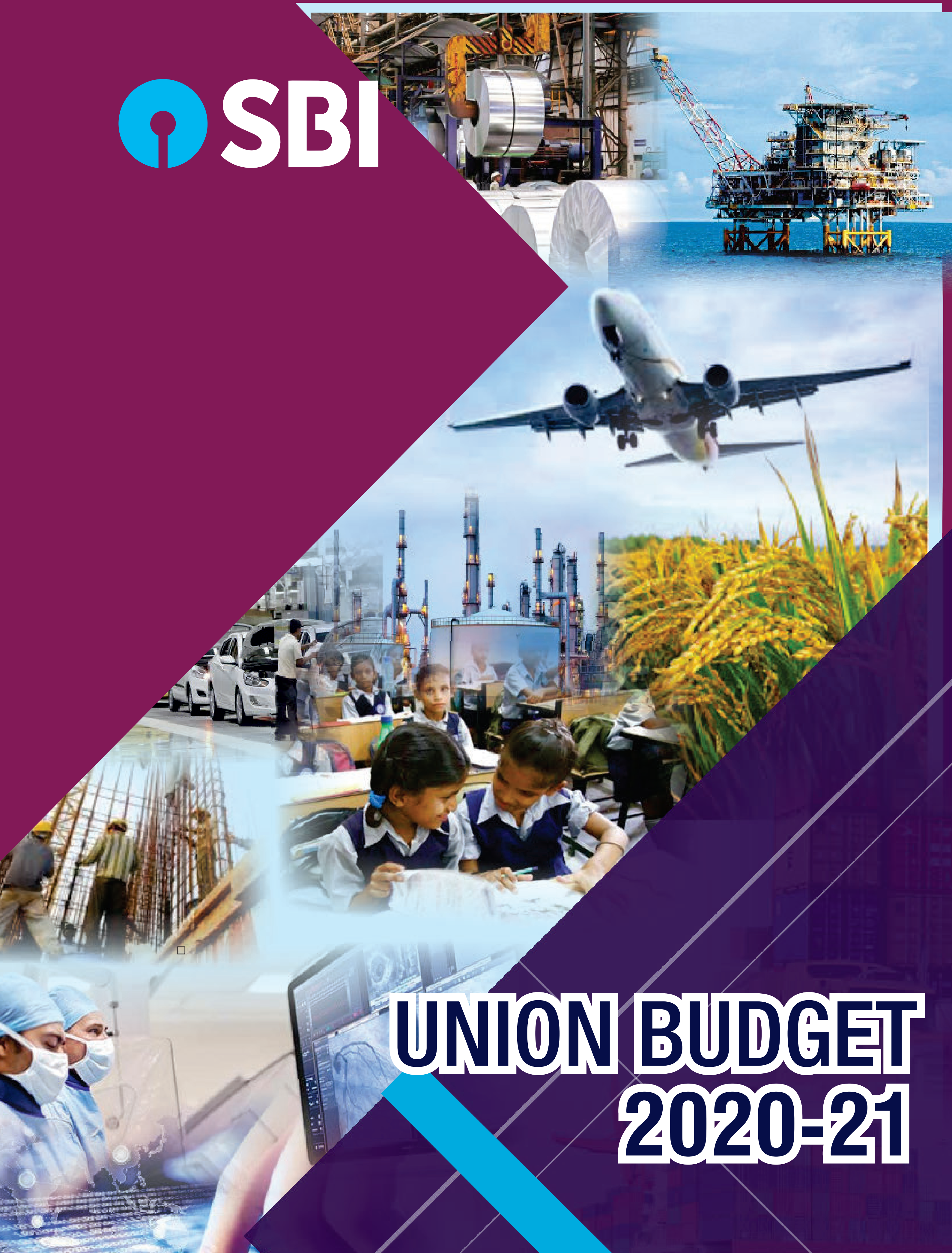
SBI



UNION BUDGET 2020-21

Rajnish Kumar
Chairman
State Bank of India
Mumbai

FOREWORD

The first Union Budget of the third decade of 21st century presented by the Hon. Finance Minister today is interesting in many respects. To start with, the basic macro strategy has remained intact – a thrust to rural economy which supports the bulk of the population and simultaneous enabling measures to transform India through ease of doing business, quality infrastructure and gladiator sprit entrepreneurship.

But within this broad strategy, the ingredients signal a very different story which the truncated budget of July 2019 was not able to communicate. Standing on three pillars – **aspiration, economic development and caring society** - this year's budget offers very detailed road map to revive demand which has seen some erosion due to many reasons.

Agriculture under *Aspirational India* has received a massive thrust of Rs 2.83 lakh Crore. The focus is now on infusing investment into agriculture sector. The proposed investments aim at connectivity through rail and air thereby widening the agriculture market. There is now a greater consciousness to preserve the quality of land through balanced use of all kinds of fertilizers, natural farming and better utilisation of fallow land by setting up solar units. The budget talks about farmers' sovereignty over seeds through *Dhaanya Lakshmi* and augmenting allied activities - horticulture and dairy with an eye on exports.

Thrust to creating additional capacity using PPP mode for warehousing agriculture produce is also a good move as it reduces wastages, allows farmers to better time the market. The geo-tagging of the warehouse along with other remote sensing technique is indicative of government's effort at making Indian agriculture smart, optimise its supply chain thereby aiming at better price stability and creating a unified market in agriculture commodities.

Aspirations cannot reach their logical conclusion without the power of right skills and domain knowledge. The budget must be complimented for giving a massive thrust to skill development and education. The New Education Policy to be announced will carry the fine imprints. The Budget envisages India as a preferred destination for education for foreign students, which implies export of education services from India. Just as brick and mortar model in banks is challenged by digital technology the same disruption is happening in education with brick and mortar models becoming expensive. The budget's announcement to start a degree level full-fledged online education program by Top-100 institutions is right direction in keeping the cost of education and skill augmentation affordable.

India is young but the world around us is ageing fast. This has created a massive shortage of trained staff in emergency medical technicians and paramedics across many advanced countries. To exploit this opportunity, the budget is right in proposing a special bridge courses to be designed by the Ministries of Health and Skill Development to narrow the gap between desired standards in ageing countries for emergency medical technicians and paramedics. This measure will surely diversify India's geography of remittances and in the process lift the domestic standards of education in emergency medicine and paramedics in India.

No long-term objective can be fulfilled unless there is short term adjustment. Aspirations require immediate resources and measures to boost economic development to address these immediate concerns. The Budget has allocated Rs. 27,300 crores for 2020-21 for development and promotion of Industry and Commerce. Textile, infrastructure and digital infrastructure are major focus areas. Notably the proposal to formulate a National Logistics Policy which clarifies roles of the Union Government, State Governments and key regulators is very good move and compliments the efforts under the GST. The budget has also suggested digital refund of duties and taxes levied at the Central, State and local levels, which are otherwise not exempted or refunded for exporters. This will reduce the cascading impact of hidden taxes in inputs for exporters and increase the competitiveness of exports. On new economy, the budget contemplates a policy to enable private sector to build Data Centre parks throughout the country which compliments the current policy on data localisation and is in national interest.

One of the most notable announcements of this budget is the massive Rs.8000 crore allocation over five years for National Mission on Quantum Technologies and Applications. Never in the history of Indian budget has one seen such a massive allocation to fundamental research. With size of the transistor approaching the size of a silicon atom, quantum computing opens a new paradigm in data processing, communication and network security. It is expected that quantum computers will be many more times faster than current computers, quantum communication and quantum cryptology more secure than current known methods. Breakthrough in this technology will have implications for many sectors such as banking, IoT, fintech and defence, smart city, cyber security etc and can transform the digital landscape of India.

But in the end, financial resources are the ultimate substratum of all aspirations and economic growth. The budget has touched upon several issues to address concerns in financial sector. The proposal to carry out governance reforms to bring in transparency and greater professionalism in PSBs is a good move. This must be looked in light of the proposal made in the Economic Survey. The budget has also increased deposit insurance coverage to Rs. 5 lakhs from Rs.1 lakh per depositor thereby addressing any fear in the mind of public due to certain unfortunate events. The NBFC sector will also benefit from reduced eligibility limit for debt recovery. The new scheme to provide subordinate debt with quasi-equity feature for entrepreneurs of MSMEs by the banks widens banks' option to take exposure to MSME sector. Considering the sluggish growth, the proposal to extend the window for MSME's debt restructuring by RBI to March 31, 2021 is also appropriate.

Turning to fiscal math, the Finance Minister has walked a tight rope on three counts. First, the tax buoyancy has been low; two, recommendation of the Finance Commission has to be taken into considerations and third, general demand needed a boost. On all the three counts some balance has been sought by appropriately altering the direct and indirect taxes. The calculated and transparent deviation from fiscal consolidation was the need of the hour. The Fiscal deficit of 3.8% estimated in RE 2019-20 and 3.5% for BE 2020-21 can not be termed as worrisome. The proposed slabs and tax rates for personal taxes need some clarity but move towards a simplified personal income tax with minimal exemption is right.

In a nutshell, the budget is a good start as it tries to put forth a series of far-reaching reforms, aimed at energizing the Indian economy through a combination of short-term, medium-term, and long-term measures. The budget is sensitive to immediate concerns of the economy, gender needs and future challenges of climate change and adaption. It is inward looking, drawing from the experience and enhances India's soft power by giving due recognition to its culture and heritage.

Rajnish Kumar

Section 1

The Macro Picture

KEY HIGHLIGHTS OF THE UNION BUDGET 2020-21

- The Budget unveiled a series of reforms, aimed at energizing the Indian economy through a combination of short-term, medium-term and long-term measures.
- As widely expected, Government has taken a deviation of 0.5% of GDP in FY20 fiscal deficit which is consistent with Section 4(3) of FRBM Act. The revised estimates of FY20 reveal a revenue shortfall of around Rs 2.60 lakh crores, of which states are losing Rs 1.09 lakh crores. After adjusting for the expenditure rationalisation of around Rs 88,000 crores, the increase in fiscal deficit in FY20 revised estimates comes to around Rs 63,086 crores over the Budgeted fiscal deficit estimates of FY20. The saving grace is the jump in non-tax revenue of around Rs 32,335 crores / 20 bps of fiscal deficit in the remaining months of current fiscal possibly reflecting the AGR payments (in part or otherwise) / interim dividend from RBI in lieu of telecom. Clearly, the Supreme Court judgement has helped the Government contain the fiscal deficit at 3.8% instead of 4%. If this amount goes up (potentially up to RS 90,000 crores) the fiscal deficit number could even be lower than 3.8% or alternatively it could be possible that any slippage in disinvestment receipts / tax receipts could be taken care of.
- Revised estimates show that income tax collections are expected to grow at 18% (vs 20% in FY20 BE), which in our opinion, is a tad optimistic as the YTD FY20 collections as on Dec'19 is only 5.1% higher vs. YTD FY19 numbers. Other revised tax estimates for FY20 look reasonable, assuming GST numbers keep current pace.
- The nominal GDP growth for FY21 is projected at a reasonable 10%. We expect real GDP numbers for FY21 to be around 5.5%-6%. Fiscal deficit for FY21 is Rs 29,491 crore more than the FY20 revised number / 3.5% of GDP. Government has set an all-time high target of Rs 2.1 lakh crore of disinvestment for FY21 on back of LIC IPO and the pending/remaining disinvestments of FY20. The disinvestment target of FY20 is now revised downwards from Rs 1.05 lakh crore to Rs 65,000 crore.
- We believe the nominal GDP growth for FY21 could surprise on the upside, benefitting from a lower base in FY20. This is because, with FY19 growth numbers now at 6.1%, FY20 GDP growth on an unchanged base could potentially be at 5.7%, against 5% earlier. This implies there could downside bias to 5% GDP estimate in forthcoming CSO releases that could push up nominal GDP growth in FY21.
- Gross tax revenue is expected to grow by 12% in FY21 to Rs 24.2 lakh crore. This revenue target from taxation is supported by 10.4% growth in custom duty, 14% in income tax and 11.5% rise in corporation tax. The tax buoyancy for FY21 is estimated at 1.2 (based on gross tax revenue). GST collection target is Budgeted to increase at 12.8% to Rs 6.9 lakh crore over FY20 revised estimates. Major subsidies will remain flat at Rs 2.28 lakh crore.
- For FY21, the Government Borrowing is Budgeted at Rs 7.8 lakh crore and net borrowing requirement is pegged at Rs 5.40 lakh crore considering repayments of Rs 2.39 lakh crore.
- Deposit Insurance and Credit Guarantee Corporation (DICGC) has been permitted to increase deposit Insurance coverage to Rs 5 lakh per depositor from Rs 1 lakh previously.
- Budget has proposed 16 action points for Agriculture, Irrigation and Rural Development. Agriculture credit target has been set at an ambitious Rs 15 lakh crore for FY21. Kisan Rail is proposed to be setup by Indian Railways through PPP. Krishi Udaan is to be launched by the Ministry of Civil Aviation. One-Product One-District for better marketing and export in the Horticulture sector is to be introduced.
- The total dividend from the Reserve Bank of India, nationalised banks and financial institutions is estimated at Rs 89,648 crore for FY21, almost 41% lower than revised estimated of FY20 (Rs 1,51,636 crores), basis a lower dividend transfer from RBI.

- The Budget proposes to bring a new personal income tax regime wherein income tax rates will be significantly reduced for the individual taxpayers who forgo certain deductions and exemptions. The new personal income tax rates will entail estimated revenue forgone of Rs 40,000 crore per year. Taxpayers can choose to stay with the current slabs to avail of the various exemptions, but Government plans to slowly remove the exemptions available, which will eventually push all taxpayers to the new tax slabs.
- Assuming a marginal propensity to consume of 0.70, the proposed revenue foregone of Rs 40,000 crore will translate into a consumption boost of Rs 1.33 lakh crore, but only if people migrate to the new tax regime. Our estimates suggest that given the increased tax liability under the alternative dispensation, such a possibility of migration looks remote. We are thus sceptical of a consumption boost.
- Budget has proposed 'Vivad Se Vishwas' Scheme (No dispute but trust) which aims at reducing litigations in the direct taxes payments. Under the proposed scheme a taxpayer would be required to pay only the amount of the disputed taxes and will get complete waiver of interest and penalty provided he pays by 31st March 2020. There are 4,83,000 direct tax cases pending in various appellate forums i.e. Commissioner (Appeals), ITATs, High Courts and the Supreme Court.
- In order to increase the attractiveness of the Indian Equity Markets, to provide relief to a large class of investors and to make India an attractive destination for investment, the Budget proposed to remove the Dividend Distribution Tax. This will lead to estimated annual revenue forgone of Rs 25,000 crore.
- In the health sector, the Budget proposes more than 20,000 empanelled hospitals under PM Jan Arogya Yojana for poor people and expansion of Jan Aushadhi Kendra Scheme to all districts offering 2000 medicines and 300 surgicals by 2024.
- Infrastructure has received a boost, with 100 more airports by 2024 to support Udaan scheme and operation of 150 passenger trains to be done through PPP mode.
- Starting apprenticeship embedded courses through 150 higher educational institutions by March 2021 and a proposal to establish Indian Institute of Heritage and Conservation are some of the other major highlights.
- Cooperative Banks are to be strengthened by amending Banking Regulation Act for increasing professionalism, enabling access to capital and improving governance and oversight for sound banking through the RBI.
- NBFCs eligibility limit for debt recovery is to be reduced from Rs. 500 crores to Rs 100 crore asset size and Rs 1 crore to Rs 50 lakh loan size.
- MSMEs turnover threshold for audit increased to Rs 5 crores from Rs 1 crore for businesses carrying out less than 5% business transactions in cash to boost less-cash economy. Factor Regulation Act 2011 to be amended to enable NBFCs to extend invoice financing to the MSMEs through TReDS. New scheme is to provide subordinate debt for entrepreneurs of MSMEs by the banks, which would be counted as quasi-equity and would be fully guaranteed through the CGTMSE. Window for MSME's debt restructuring by RBI is to be extended till March 31, 2021, which would benefit more than five lakh MSMEs. Export promotion of MSMEs for selected sectors such as pharmaceuticals, auto components and others will be done. A Rs 1000 crore scheme anchored by EXIM Bank together with SIDBI has been proposed.
- A Partial Credit Guarantee scheme for the NBFCs will be formulated post the Union Budget 2019-20 to address their liquidity constraints.
- Start-ups with turnover up to Rs 100 crore will enjoy 100% deduction for 3 consecutive assessment years out of 10 years. Tax payment on ESOPs deferred.
- For Deepening Bond Market certain specified categories of Government securities are to be opened fully for non -resident investors. FPI limit in corporate bonds has been increased to 15% from 9% of its outstanding stock.

MACRO VIEW

Global headwinds and challenges in the domestic financial sector moderated the growth of Indian economy in 2019-20. The real GDP growth moderated to 5.0% in 2019-20 as compared to 6.8% in 2018-19. Despite a temporary moderation in the Gross Domestic Product (GDP) growth in 2019-20, the fundamentals of Indian economy remain strong and GDP growth is expected to rebound from the first quarter of 2020-21.

Following a rise in vulnerabilities in 2018-19, India's external sector has regained some stability in the first half of 2019-20, with improvement in Balance of Payments (Bop) position anchored in narrowing of current account deficit from 2.1% in 2018-19 to 1.5% in H1 of 2019-20, growing inflows of foreign direct investment (FDI), rebounding of portfolio flows from net outflow to net inflow and receipt of robust remittances, all showing up in higher accretion of foreign exchange reserves, which as on end December, 2019 stood at $457.5 billion.

Monetary policy remained accommodative during 2019-20. Five meetings of the Monetary Policy Committee (MPC) have been held so far in financial year 2019-20.

Considering the above, the Union Budget 2020-21 has tried to take a calculated path to revive demand and boost economic growth. The underlying assumption in the Budget's economic strategy is that the economy appears to have bottomed out and is expected to pick up in 2020-21. Further the prospects for Indian economy for the year 2020-21 need to be assessed in the light of emerging global and domestic challenges and opportunities. Major challenges for the economy arising from the external front are geo-political tensions in Middle East and rising crude oil prices due to supply disruption which may decelerate growth and increase inflation.

Considering declining tax revenues, an important issue that needs to be looked at is the use of non-tax revenues for meeting fiscal deficit by the Government. Using the data from FY1972 to FY2017, our econometric estimates show that neither non-tax revenue growth causes GDP growth, nor the GDP growth causes non-tax revenue growth. Thus, while the Government taking recourse to non-tax revenue until and unless growth picks up is perfectly justified, in the long run that needs to be corrected. In fact, higher non-tax revenue growth can cause sectoral imbalance. Case in point is the telecom sector which witnessed an increase in leverage in 2010 when major spectrum auction happened. Leverage which stabilized in FY17, increased in the past years. For FY19, leverage ratio has increased largely due to erosion in net worth.

The alternative to targeting fiscal deficit is that like most advanced economies and several emerging market economies India should target a structural deficit, which serves as an automatic counter-cyclical stabiliser. As non-tax revenue and GDP do not have causal relationship, non-tax revenues (including telecom auction) and even disinvestments receipts should be excluded while calculating Government balance. If we exclude its revenue and also the disinvestment receipts FY21 structural fiscal deficit increases to 6.2% in FY21 from 5.8% of GDP in FY20.

Even IMF comes up with the structural fiscal balance for every country which is an extension of the cyclically adjusted balance that also corrects for other non-recurrent effects that go beyond the cycle, such as one-off operations and other factors whose cyclical fluctuations do not coincide with the output cycle (for instance, asset and commodity prices and output composition effects). Based on this, projected balance for India comes to an average of 6.3% for 2018-23 period, not significantly different from our estimate of 6.2%.

Interestingly, a recent RBI paper on emerging market economies using the structural balance approach found out that in the post-crisis years (2008-10), the impact of fiscal stimulus turned out to be positive and statistically significant. The study concludes that the observed slump in growth in the post-crisis period would have been much sharper in the absence of stimulus, implying that fiscal activism pursued by these EMEs was successful in arresting the downslide of growth.

Against this background, the policy makers should thus strive to make specific country-mandated fiscal rules which are credible, transparent and achievable for India! Thus, the slippage in fiscal deficit should be taken positively by the market as long it is a growth enabler.

The Budget has given massive thrust to capital formation in rural sector. There are several innovative features in the Budget. The NBFC sector has been further supported in the Budget. A new scheme to provide subordinate debt with quasi-equity feature for entrepreneurs of MSMEs by the banks is also proposed. The Budget has also suggested digital refund of duties and taxes levied at the Central, State and local levels, which are otherwise not exempted or refunded for exporters. This will reduce the cascading impact of hidden taxes in inputs for exporters and increase the competitiveness of exports.

DIRECT TAX PROPOSALS

- In order to increase the attractiveness of the Indian Equity Market, to provide relief to a large class of investors and to make India an attractive destination for investment, the Union Budget proposed to remove the Dividend Distribution Tax. Further, in order to remove the cascading effect, Budget has proposed to allow deduction for the dividend received by holding company from its subsidiary. The removal of DDT will lead to estimated annual revenue forgone of Rs 25,000 crore.
- A new section 115 BAC has been introduced for the income-tax payable in respect of the total income of a person (individual or HUF).

Direct tax rates		
Taxable Income Slab (Rs)	**Existing Tax Rates**	**New Tax Rates**
0-2.5 Lakh	0	0
2.5-5 Lakh	5%	5%
5-7.5 Lakh	20%	10%
7.5-10 Lakh	20%	15%
10-12.5 Lakh	30%	20%
12.5-15 Lakh	30%	25%
Above 15 Lakh	30%	30%

Source: SBI Research, Union Budget Documents

- Although this appears as a lucrative proposition at first blush, a deeper analysis shows that for a person who does investments of Rs 1.5 lakh under 80C and claims various other exemptions, moving to the new regime will lead to increased tax burden. Sub-section (2) of section 80CCD (employer contribution on account of employee in notified pension scheme) and section 80JJAA (for new employment) cannot be claimed in new tax dispensation. Then there are other important exemptions such as for health insurance under 80D which are reckoned separately while calculating tax liability that will not be available. The new regime thus also militates against health insurance and to that extent is contrary to accepted principles on social security.

Calculation of Tax Liability in Old & New Tax Regime					
	With NO Housing Loan				**With Housing Loan**
Income	7,50,000	10,00,000	12,50,000	15,00,000	15,00,000
80C	1,50,000	1,50,000	1,50,000	1,50,000	1,50,000
HRA (10% of salary)	75,000	1,00,000	1,25,000	1,50,000	
Housing loan	-	-	-	-	2,00,000
Mediclaim	15,000	15,000	15,000	15,000	15,000
Standard deduction	40,000	40,000	40,000	40,000	40,000
Total deductions	2,80,000	3,05,000	3,30,000	3,55,000	4,05,000
Taxable income	4,70,000	6,95,000	9,20,000	11,45,000	10,95,000
Tax Liability (Old Regime)	0	51,500	96,500	1,56,000	1,38,000
Tax Liability (New Regime)	37,500	75,000	1,25,000	1,87,500	1,54,500
Difference (New-Old)	-37,500	-23,500	-28,500	-31,500	-16,500

Source: SBI Research; Negative represent loss in savings; Without 80CCD (2) exemptions

- The new income tax regime may not promote financial savings of the households. The estimated financial savings that has declined sharply in FY19 to 10.4% of GNDI from 11.9% of GNDI in FY18 might decline as almost all calculations shows decline in savings in the range of Rs 20,000 to Rs 40,000 per year per taxpayer if opting for the new tax regime. The good thing is that savings in physical assets has witnessed a trend reversal since FY16.
- Non-resident Indians (NRIs) who don't pay taxes in a foreign country will now be taxed in India, the Union Budget has proposed. This will hit those who have moved out of India to tax havens but have not yet got their foreign citizenship. It has also said that a person, to be categorised as an NRI, will now have to stay abroad for 240 days as opposed to the earlier stipulated period of 182 days. This means that those who have their businesses in India and stay in India for more than 120 days while they are resident elsewhere, would now become resident in India. Alternatively, the move could have a negative impact too. These changes in definition may deter people from coming to India.
- The savings investment data shows that in 2018-19, there was a savings investment gap of 2.1% of GDP in FY19. This was financed through external sources. With the aim of India becoming a $5 trillion economy, the investment must go up significantly. Assuming that the investment as a % of GDP goes to 35% by FY25, the domestic savings need to be around 32%-33%, so that the CAD remains sustainable at around 2%-3% of GDP. Otherwise, there will be heavy borrowings from external sources which can pose challenges to India's external balance. Although the spirit of decluttering the direct tax regime is in the right spirit, there is a trade-off between reduced savings and a clutter-free tax regime as the exemptions provide significant incentives for the general public to save.
- In principle, the new tax proposals though noble in intention might not stimulate consumption demand immediately as India is a country with limited social security access and it is imperative that we incentivise household financial savings. For example, the current exemptions under 80C are a big contributor to flows into Mutual Funds (ELSS), insurance companies, etc. If these are taken away, flows to these savings schemes can see a drop.

Financial Saving of the Household Sector (As % of GNDI)

Item	FY15	FY16	FY17	FY18	FY19
A. Gross financial saving	9.9	10.7	10.4	11.9	10.4
Of which:					
1. Currency	1.0	1.4	-2.0	-	-
2. Deposits	4.8	4.6	6.3	-	-
3. Shares and debentures	0.2	0.3	0.2	-	-
4. Claims on government	0.0	0.5	0.4	-	-
5. Insurance funds	2.4	1.9	2.3	-	-
6. Provident and pension funds	1.5	2.1	2.0	-	-
B. Financial liabilities	3.0	2.7	3.0	4.3	4.0
C. Net financial saving (A-B)	6.9	8.0	7.4	7.6	6.4
Memo:					
Saving in physical assets	11.9	9.4	10.2	11.0	11.3

Source: RBI

Budget at a glance (Rs Crore and as a % of GDP)									
	FY18	FY19	FY20 (RE)	FY21 (BE)	FY21 (BE)/FY20 (RE)/ (%Gr)	FY20 (RE)/ FY19 (%Gr)	FY19/ FY18 (%Gr)	5 Yr CAGR (FY16-20 in %)	Decadal CAGR (FY11-20 in %)
1.1 Revenue Receipts	14,35,233	15,52,916	18,50,101	20,20,926	9.2	19.1	8.2	11.5	9.7
% of GDP	8.4	8.2	9.1	9.0					
1.1.1 Tax Revenue (Net to centre)	12,42,488	13,17,211	15,04,587	16,35,909	8.7	14.2	6.0	12.4	11.4
% of GDP	7.3	6.9	7.4	7.3					
1.1.2 Non-Tax Revenue	1,92,745	2,35,705	3,45,514	3,85,017	11.4	46.6	22.3	8.3	5.2
% of GDP	1.1	1.2	1.7	1.7					
1.2 Capital Receipts	7,06,742	7,62,197	8,48,451	10,21,304	20.4	11.3	7.8	9.2	8.4
% of GDP	4.1	4.0	4.2	4.5					
1.2.1 Recoveries of Loans	15,633	18,052	16,605	14,967	-9.9	-8.0	15.5	-5.5	3.3
% of GDP	0.1	0.1	0.1	0.1					
1.2.2 Other Receipts	1,00,045	94,727	65,000	2,10,000	223.1	-31.4	-5.3	11.4	12.3
% of GDP	0.6	0.5	0.3	0.9					
1.2.3 Borrowings and other liabilities	5,91,064	6,49,418	7,66,846	7,96,337	3.8	18.1	9.9	9.5	8.3
% of GDP	3.5	3.4	3.8	3.5					
1. Total Receipts	21,41,975	23,15,113	26,98,552	30,42,230	12.7	16.6	8.1	10.8	9.5
% of GDP	12.5	12.2	13.2	13.5					
2. Total Expenditure	21,41,975	23,15,113	26,98,552	30,42,230	12.7	16.6	8.1	10.8	9.5
% of GDP	12.5	12.2	13.2	13.5					
2.a) Revenue Expenditure	18,78,835	20,07,399	23,49,645	26,30,145	11.9	17.0	6.8	11.2	9.5
% of GDP	11.0	10.6	11.5	11.7					
2.a).1 Grants for creation of Capital Assets	1,91,034	1,91,781	1,91,737	2,06,500	7.7	0.0	0.4	9.8	9.1
% of GDP	1.1	1.0	0.9	0.9					
2. a).2 Interest Payments	5,28,952	5,82,648	6,25,105	7,08,203	13.3	7.3	10.2	9.1	11.5
% of GDP	3.1	3.1	3.1	3.1					
2.b) Capital Expenditure	2,63,140	3,07,714	3,48,907	4,12,085	18.1	13.4	16.9	8.4	9.3
% of GDP	1.5	1.6	1.7	1.8					
3. Revenue Deficit (2.a)-1.1)	4,43,602	4,54,483	4,99,544	6,09,219	22.0	9.9	2.5	9.9	7.9
% of GDP	2.6	2.4	2.4	2.7					
4. Effective Revenue Deficit (2.a)-2a).1)	2,52,568	2,62,702	3,07,807	4,02,719	30.8	17.2	4.0	9.9	7.2
% of GDP	1.5	1.4	1.5	1.8					
5. Fiscal Deficit {2-(1.1+1.2.1+1.2.2)}	5,91,064	6,49,418	7,66,846	7,96,337	3.8	18.1	9.9	9.5	8.3
% of GDP	3.5	3.4	3.8	3.5					
6. Primary Deficit	62,112	66,770	1,41,741	88,134	-37.8	112.3	7.5	11.7	0.2
% of GDP	0.4	0.4	0.7	0.4					
Revenue Deficit / Fiscal Deficit (%)	75.1	70.0	65.1	76.5					
Memo:									
Nominal GDP	1,70,98,304	1,89,71,237	2,04,42,233	2,24,89,420					
Growth rate	11.1	11.0	7.8	10.0					

Source:Union Budget Documents & SBI Research

Expenditure of Major Items (Rs crore and as a % of GDP)							
	FY18	FY19	FY20 (RE)	FY21 (BE)	FY21 (BE)/ FY20 (RE) (%Gr)	FY20 (RE)/ FY19 (%Gr)	FY19/ FY18 (%Gr)
Pension	1,45,745	1,60,211	1,84,147	2,10,682	14.4	14.9	9.9
% of GDP	0.9	0.8	0.9	0.9			
Defence	2,76,572	2,90,802	3,16,296	3,23,053	2.1	8.8	5.1
% of GDP	1.6	1.5	1.5	1.4			
Subsidy	1,91,210	1,96,769	2,27,255	2,27,794	0.2	15.5	2.9
% of GDP	1.1	1.0	1.1	1.0			
Agriculture & allied Activities	52,628	63,259	1,20,835	1,54,775	28.1	91.0	20.2
% of GDP	0.3	0.3	0.6	0.7			
Commerce and Industry	24,087	27,851	28,608	27,227	-4.8	2.7	15.6
% of GDP	0.1	0.1	0.1	0.1			
Education	80,215	80,345	94,854	99,312	4.7	18.1	0.2
% of GDP	0.5	0.4	0.5	0.4			
Energy	42,155	45,461	42,458	42,725	0.6	-6.6	7.8
% of GDP	0.2	0.2	0.2	0.2			
Finance	17,392	14,920	24,880	41,829	68.1	66.8	-14.2
% of GDP	0.1	0.1	0.1	0.2			
Health	52,994	54,477	63,830	67,484	5.7	17.2	2.8
% of GDP	0.3	0.3	0.3	0.3			
Home Affairs	87,547	98,116	1,24,083	1,14,387	-7.8	26.5	12.1
% of GDP	0.5	0.5	0.6	0.5			
Interest	5,28,952	5,82,648	6,25,105	7,08,203	13.3	7.3	10.2
% of GDP	3.1	3.1	3.1	3.1			
Others	66,306	74,497	76,782	84,256	9.7	3.1	12.4
% of GDP	0.4	0.4	0.4	0.4			
Rural Development	1,34,973	1,32,803	1,43,409	1,44,817	1.0	8.0	-1.6
% of GDP	0.8	0.7	0.7	0.6			
Social Welfare	37,440	43,664	48,210	53,876	11.8	10.4	16.6
% of GDP	0.2	0.2	0.2	0.2			
Tax Administration	71,756	69,416	1,37,307	1,52,962	11.4	97.8	-3.3
% of GDP	0.4	0.4	0.7	0.7			
Transfer to States	1,07,501	1,19,144	1,55,447	2,00,447	28.9	30.5	10.8
% of GDP	0.6	0.6	0.8	0.9			
Transport	1,10,399	1,43,626	1,58,207	1,69,637	7.2	10.2	30.1
% of GDP	0.6	0.8	0.8	0.8			
Urban Development	40,061	40,612	42,267	50,040	18.4	4.1	1.4
% of GDP	0.2	0.2	0.2	0.2			
Grand Total	21,41,973	23,15,113	26,98,552	30,42,230	12.7	16.6	8.1
% of GDP	12.5	12.2	13.2	13.5			

Source:Union Budget Documents & SBI Research

FISCAL MANAGEMENT

As was widely expected the fiscal deficit target of 3.3% of GDP has been revised upwards to 3.8% of GDP for FY21, as the revenue receipts have seen a downward revision of Rs 1.13 lakh crore and the GDP growth rate has been lacklustre. While expenditure has been curtailed to the tune of Rs 87,797 crore it has not been enough to compensate for the above mentioned factors, thus pushing the fiscal deficit higher. For FY21, the fiscal deficit as % of GDP has been projected at 3.5% of GDP, with nominal GDP growth rate expected at 10%. The Capital Expenditure has been kept at a higher level, in line with the infrastructure push that the Government is planning to give to the slowing economy.

Fiscal deficit is expected to decrease to 3.1% of GDP by 2022-23 as growth returns to the economy.

SUBSIDY TRENDS

The subsidy expenditure under three major heads is Budgeted at Rs 2.27 lakh crore for FY21. The petroleum and food subsidy are expected to increase by 6% each to Rs 40,915 crore and Rs 1.15 lakh crore respectively. Meanwhile, fertilizer subsidy is Budgeted to decline by 11% to Rs 71,309 crore.

Subsidy Trends (Rs crore and as a % of GDP)

	FY18	FY19	FY20 (RE)	FY21 (BE)	FY21 (BE)/ FY20 (RE) (%Gr)	FY20 (RE)/ FY19 (%Gr)	FY19/ FY18 (%Gr)	5 Yr CAGR (FY16-20 in %)	Decadal CAGR (FY11-20 in %)
Total 3 Major Subsidies	191210	196769	227255	227794	0.2	15.5	2.9	-1.5	3.7
% of GDP	1.1	1.0	1.1	1.0					
Fertiliser Subsidy	66468	70605	79998	71309	-10.9	13.3	6.2	2.5	2.8
% of GDP	0.4	0.4	0.4	0.3					
Food Subsidy	100282	101327	108688	115570	6.3	7.3	1.0	-6.0	6.1
% of GDP	0.6	0.5	0.5	0.5					
Petroleum Subsidy	24460	24837	38569	40915	6.1	55.3	1.5	6.5	0.1
% of GDP	0.1	0.1	0.2	0.2					

Source: Union Budget documents & SBI Research

TAX REVENUE TRENDS

The Centre's gross tax revenue for FY20 has been revised downwards to Rs 21.63 lakh crore (4.0% growth over FY19), which is Rs 2.98 crore lesser over the Budget estimate for FY20. All the heads under gross tax revenue have seen a downward revision from the Budget estimates of FY20 as the economy faces a slowdown and reduction in corporation tax rates amid a newly implemented GST regime.

Coming to FY21 projections, corporation tax growth rate has been kept at 11%, income tax growth rate is pegged at 14%, customs growth is at 10.4% and excise growth is at 7%. Given the past trends the growth numbers look reasonable for FY21, except the personal income tax which seems a tad ambitious, given the growth concerns in the economy.

For the GST revenue, the growth rate for FY21 is projected at 12.8%. Notably, so far, during 2019-20, despite the rationalisation of GST rates, the gross GST monthly collections have crossed the mark of Rs one lakh crore, for a total of five times, including the consecutive months of November 2019 and December 2019.

The Government has taken several measures which have led to improvement in GST compliance and revenue collection. The economic survey has mentioned various initiatives including extensive automation of business processes, application of e-way bill mechanism, targeted action on compliance verification, enforcement based on risk assessment and proposed introduction of electronic invoice system among others all of which have helped in higher GST collections crossing one lakh mark in 5 months so far this fiscal. Furthermore, GSTN has taken several initiatives to incorporate behavioural parameters to induce voluntary compliance by taxpayers. These include electronic generation of e-way bill for transportation of goods above a certain threshold, inclusion of origin and destination PIN Codes in the e-way bill portal to prevent any over-reporting of distance and thereby its misuse, regular SMSs to taxpayers about mismatch in GSTR-2A & GSTR-3B data and GSTR-1 & GSTR-3B data, free accounting & billing software provided to small taxpayers, compliance rating score of the taxpayers available in the public domain among others.

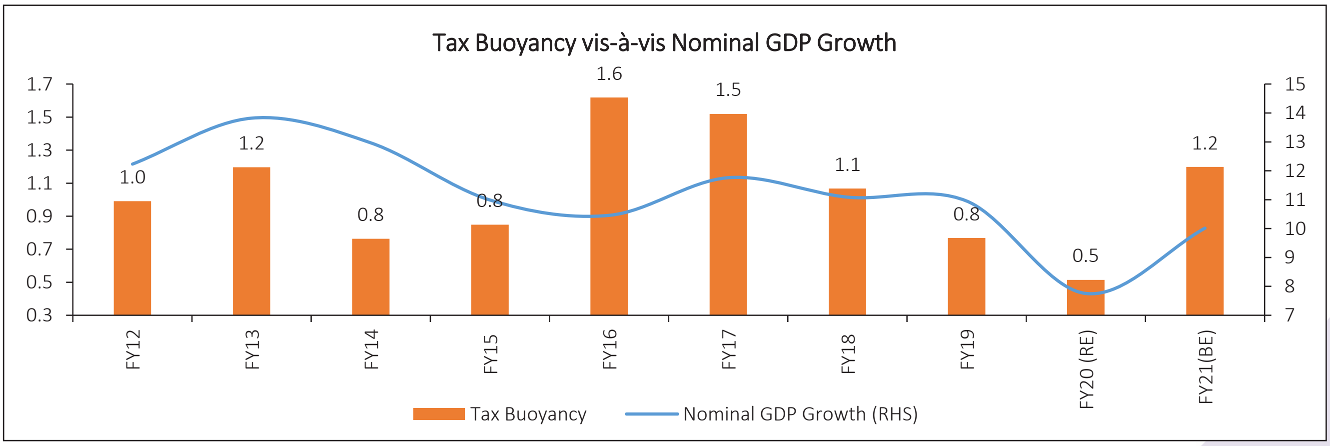
Direct and Indirect taxes (Rs crore and as a % of GDP)

	FY18	FY19	FY20 (RE)	FY21 (BE)	FY21 (BE)/ FY20 (RE) (%Gr)	FY20 (RE)/ FY19 (%Gr)	FY19/ FY18 (%Gr)	5 Yr CAGR (FY16-20 in %)	Decadal CAGR (FY11-20 in %)
Gross Tax Revenue	19,19,009	20,80,465	21,63,423	24,23,020	12.0	4.0	8.4	10.4	11.8
% of GDP	11.2	11.0	10.6	10.8					
Direct Tax									
Corporation Tax	5,71,202	6,63,572	6,10,500	6,81,000	11.5	-8.0	16.2	7.7	8.3
% of GDP	3.3	3.5	3.0	3.0					
Taxes on Income Other than Corporation Tax	4,30,772	4,73,003	5,59,500	6,38,000	14.0	18.3	9.8	18.1	16.7
% of GDP	2.5	2.5	2.7	2.8					
Indiect Taxes									
Customs	1,29,030	1,17,813	1,25,000	1,38,000	10.4	6.1	-8.7	-12.2	-0.9
% of GDP	0.8	0.6	0.6	0.6					
Union Excise Duty	2,59,431	2,31,982	2,48,012	2,67,000	7.7	6.9	-10.6	-3.7	6.8
% of GDP	1.5	1.2	1.2	1.2					
Service Tax	81,228	6,904	1,200	1,020	-15.0	-82.6	-91.5	-72.6	-36.5
% of GDP	0.5	0.0	0.0	0.0					
Goods and Services Tax	4,42,561	5,81,559	6,12,327	6,90,500	12.8	5.3	31.4	---	
% of GDP	2.6	3.1	3.0	3.1					

Source: Union Budget documents & SBI Research

TAX BUOYANCY

The tax buoyancy (based on gross tax revenues) for FY21 is estimated at 1.2 as nominal GDP growth is projected only 10% for FY21.



Interestingly our estimation of decadal tax buoyancy (total tax revenue and other individual tax revenues) using double log model reveals that tax buoyancy of total tax revenue and income tax and corporation tax has declined in the current decade (2011-12 to 2019-20) compared to the last decade (2000-01 to 2009-10). The most critical situation is regarding the corporation tax buoyancy and income tax buoyancy which is the lowest in five decades and three decades respectively. Thus, the decline in tax revenue in the current decade is more to do with corporate tax shortfall rather than others and this result is indeed an eye-opener. Against this background it will be interesting to see whether the cut in corporate taxes reverses this trend.

We also estimated the long-run and short-run buoyancy for the entire period (1970-2020) based on ARDL model. We have found that the long-run and short-run buoyancy of total tax revenue are 1.01 and 0.98, respectively. The speed of adjustment, which is generally negative, measures the speed of adjustment towards the long-run equilibrium. The speed of adjustment for the total tax revenue is came out at - 0.33, i.e., adjustment towards its long-term buoyancy is quite moderate. Similarly, more detailed analysis of buoyancies of individual taxes were also carried out for income tax, corporation tax, excise and custom duty, and the result reported in the below table. This gives both direction and magnitude of tax buoyancies in India.

The present slowdown is having a toll on the Union tax revenue. This will also have a deleterious effect on the fiscal health of the economy. The consensus that a fall in aggregate demand is the main culprit for the slow down. So, steps need to be initiated to shore up aggregate demand. These interventions can be on both revenue and expenditure sides. On the revenue side, a reduction in taxes that will benefit the relatively poorer sections and rationalisation of GST will have a high multiplier effect. Expenditure on infrastructure and upscaling programmes like MGNREGA will also have a higher multiplier effect, leading to revival of growth.

Tax Buoyancy

Decade	Total Tax Revenue	Income tax	Corporation tax	Excise	Customs
	Double Log Model				
	Coefficient	Coefficient	Coefficient	Coefficient	Coefficient
1970-71 to 1979-80	1.29	1.85	1.30	1.07	1.56
1980-81 to 1989-90	1.18	0.89	0.94	1.05	1.45
1990-91 to 1999-00	0.85	1.48	1.29	0.66	0.73
2000-01 to 2009-10	1.28	1.46	1.95	0.50	0.86
2011-12 to 2019-20	1.05	1.23	0.75	0.92	-0.17
	ARDL				
Long run	1.01	1.39	1.17	0.83	0.89
Short run	0.98	0.8	1.01	0.25	0.52
Speed of Adjustment	-0.33	-0.2	-0.16	-0.3	-0.1

Source: SBI Research; All coefficients are significant at 1% significance level

NON-TAX REVENUE TRENDS

Government has Budgeted 11.4% growth in non-tax revenues to Rs 3.85 lakh crore for FY21 on the back of 63.8% growth in other non-tax revenues. The total dividend from the Reserve Bank of India, nationalised banks and financial institutions is estimated at Rs 89,648 crore for FY21, almost 41% lower than revised estimated of FY20 (Rs 1,51,636 crores). Though dividends from Public Sector Enterprises & other investments is expected to increase by 36.2% to Rs 65,747 crore.

Non-Tax Revenue (Rs Crore)

	FY19	FY20 BE	FY20 RE	FY21 BE	Growth (FY20 RE/ FY19), %	Growth (FY21 BE/ FY20 RE), %
Non-Tax Revenue	235704	313179	345513	385017	46.6	11.4
Interest receipts	12145	13711	11027	11042	-9.2	0.1
Dividends and Profits, *of which*	113421	163528	199893	155395	76.2	-22.3
Dividends from Public Sector Enterprises & other investments	43052	57487	48256	65747	12.1	36.2
Dividend/Surplus of RBI, Nationalised Banks & Financial Institutions	70368	106042	151637	89649	115.5	-40.9
External Grants	1063	1006	974	812	-8.4	-16.6
Other Non Tax Revenue	107187	132784	131525	215465	22.7	63.8
Receipts of UTs	1890	2149	2094	2303	10.8	10.0

Source: Union Budget Documents, SBI Research

GOVERNMENT BORROWINGS

Central Government Borrowings

For FY21, the Gross Government Borrowing is Budgeted at Rs 7.8 lakh crore against Rs 7.1 lakh crore in FY20, while net borrowing after considering of repayment (Rs 2.39 lakh crore) is pegged at Rs 5.40 lakh crore compared to revised estimate of Rs 4.74 lakh crore in FY20. Furthermore, the Government has Budgeted Rs 25,000 crore short-term borrowings through various (91-day- Rs 3159 crore, 182 day- Rs 13655 crore, 364 day- Rs 8184 crore) treasury bills. Buyback of Rs 30,000 crore has been Budgeted in FY21 as against the revised figure of nil in FY20.

The Government has also Budgeted Rs 2.5 lakh crore as borrowing against cash management bills in FY21. In FY20 also, the amount borrowed against cash management bills has been revised to Rs 2.4 lakh crore in FY20 as against Rs 1 lakh crore in BE FY20. We expect the Government to net an additional around Rs 40,000-50,000 crore of the direct tax under dispute (total of Rs 8.02 lakh crore by end-2018-19). Also, another Rs 40,000 crore can come through AGR dues of telecoms. This will help the Government to square off against CMBs.

The Government has also announced switch of Rs 2.7 lakh crore in FY21 as against the revised Rs 1.65 lakh crore in the current fiscal. Notably, the Government stocks repurchased by means of switch will not have any impact on the fiscal situation as they will get prematurely redeemed and interest will cease to accrue on such redeemed Government stocks. But on the flip side, the Government buys short term and lends long term in case of switch due for which the duration goes up and thus appetite of market players will decline.

State Government Borrowings

States gross borrowings were Rs 6.3 lakh crore while net borrowings were Rs 4.8 lakh crore in FY20. For FY21, gross borrowings are expected to come around Rs 7.0 lakh crore and after taking a repayment of around Rs 1.35 lakh crore, the net borrowings are pegged at Rs 5.6 lakh crore. In FY20 (RE), devolution to states is lower by Rs 1.05 lakh crore from FY19 figure and if this trend continues and Government revenue estimates are again revised downwards in FY21, then it could push States to borrow from Market through SDLs to finance their deficit.

The state wise data on SDLs borrowing indicates that, the bigger States like Maharashtra, Tamil Nadu, Uttar Pradesh, Gujarat, West Bengal, Andhra Pradesh and Karnataka have contributed to more than 55% of total SDLs issued in the last seven years. North Eastern States borrow the least, perhaps because of more central assistance but interestingly in the last two to three years their dependence on market borrowing has increased.

Market Borrowings (Rs lakh crore)

	FY19	FY20 (RE)	FY21 (BE)	FY21 (BE)/FY20 (RE) (%Gr)	FY20 (RE)/ FY19 (%Gr)
Centre					
Gross Market Borrowings	5.7	7.1	7.8	9.9	24.3
Less repayments	1.5	2.4	2.4	1.3	59.2
Net Market Borrowings	4.2	4.7	5.4	14.1	12.1
State					
Gross Borrowing	5.4	6.3	7.0	10.0	17.5
Repayments	1.3	1.5	1.4	-4.8	13.4
Net Borrowing	4.1	4.9	5.6	14.5	18.8

Source: Union Budget documents & SBI Research

Maturity Profile of Outstanding Central Government Dated Securities (% of total)

Maturity Bucket	End March 2011	End March 2012	End March 2013	End March 2014	End March 2015	End March 2016	End March 2017	End March 2018	End Mar 2019	End Jun 2019	End Sep 2019
Less than 1 year	3.41	3.50	3.10	3.95	3.65	4.00	3.30	3.18	4.27	6.60	5.41
1-5 years	25.54	26.70	27.90	25.99	24.59	22.90	21.70	22.98	24.00	22.28	23.65
5-10 years	34.09	34.70	35.00	31.52	30.35	29.60	33.30	32.14	31.21	29.73	34.54
10-20 years	21.42	22.00	22.90	25.20	28.32	30.30	29.30	28.57	25.99	25.95	20.51
20 years and above	15.53	13.10	11.20	13.34	13.09	13.30	12.40	13.33	14.53	15.45	15.89

Source: SBI Research, DEA

To finance the fiscal deficit, States borrows from the market through dated securities, backed by sovereign guarantees. The data shows, the share of market borrowing to finance fiscal deficit has gone up from 27% during 2000-05 period to 88% in 2019.20. During past 8 years, the total amount of market borrowing through SDLs has increased from Rs 1.5 lakh crore in FY12 to Rs 4.8 lakh crore in FY19 with a CAGR of 17.6%. This explains States are highly depending on market borrowing to generate additional resources to finance their fiscal deficit. Even though special category States borrow lower amount compared to non-special category States, the share of market borrowing to their GSDP is very high. For e.g., Nagaland and Manipur, J&K and Meghalaya have more than 3.5% while Maharashtra, Gujarat and Karnataka have a share of less than 2%. This could be due to limited tax generating capacity of non-special category States. Historical trend of market borrowing by States through SDLs shows, 10 years tenure is more common across the Sates even though few states have recently started issuing SDLs in different tenure with reissuing norm.

Financing of Gross Fiscal Deficit throug market borrowing by States in India (Rs Crore)

Year	Market Borrowings	Gross Fiscal Deficit	market borrowing / Fiscal Deficit
2000-05 (Avg.)	28,019	102,063	27%
2005-10 (Avg.)	59,800	113,291	53%
2010-15 (Avg.)	148,087	220,066	67%
2015-19 (Avg.)	361,027	482,267	75%
2019-20 (BE)	485,586	552,429	88%

Source: SBI Research, RBI

Post Fourteenth Finance Commission States are not allowed to operate NSSF to mobilize extra Budgetary resources. The commission has recommended that "*We are, therefore, of the opinion that it would be appropriate to exclude the States from the operations of the scheme in future, even as they should honor the obligations already entered into insofar as* *servicing and repayment of outstanding debt is concerned. Accordingly, we recommend that State Governments be excluded from the operations of the NSSF, with effect from 1 April 2015"*. This exclusion hampered their borrowing programme, as they have to solely depend on open market borrowings.

In addition to this, the commission has recommended some criteria to borrow through open market. All the States are not eligible for additional market borrowing in a particular year. As per the criteria fixed by the Commission, all States are required to maintain fiscal deficit of 3% of GSDP annually for the period of 2015-16 to 2019-20. Additional relaxation will be given only to those States for market borrowing who are compliant to both necessary and sufficient criteria of fiscal prudence prescribed by the Commission.

The Necessary Condition (NC) is that the States should have zero revenue deficit in the year for which the borrowing limit has to be fixed and in the immediately preceding year. The Sufficient Condition (SC) is (i) States' Debt-GSDP ratio should be less than or equal to 25% in the preceding year and (ii) interest payment/revenue receipts (IP/RR) should be less than or equal to 10% in the preceding year. States meeting one or both of the above criteria are allowed a relaxation in their fiscal deficit targets by 0.25% or 0.50% of GSDP provided they meet the Necessary Condition. Additionally, if a State is not able to fully utilise its sanctioned borrowing limit of 3% of GSDP in any particular year during the first four years of award period (2015-16 to 2018-19), it will have the option of availing the un-utilised borrowing amount only in the following year but within award period.

Against this background, out of the 15 major States in our analysis, only eight States satisfy the Necessary Condition (NC) and at least one of the Sufficient Conditions (SCs) was eligible for additional borrowing in 2019-20. Out of these 8 States, 4 States (Karnataka and Madhya Pradesh, Odisha & Telangana) satisfied both the SC along with NC and eligible for additional borrowing up to 0.5% over and above of fiscal deficit upper limit of 3%. In other words, these States may have a maximum GFD/GSDP ratio of 3.50% whereas remaining four States (Gujarat, Uttar Pradesh, and Jharkhand & Bihar) satisfied only one SC, becoming eligible to have a maximum GFD/GSDP ratio of 3.25% in 2019-20.

Interestingly, except Karnataka and Madhya Pradesh, remaining five States i.e., Assam, J&K, Rajasthan, Chhattisgarh and Punjab, who have waived farm loan in 2018-19 are not eligible for any relaxation for additional market borrowing in 2019-20. However, the worrying thing is that States that are eligible for additional borrowing in current fiscal, have recently witnessed a deterioration in fiscal deficit. This indicate that there is pressure even on the well-off States for mobilizing resources.

Deficit Indicators of State Governments (%) and Their Eligibility for additional Market Borrowing in FY21

State	RD/ GSDP 2018-19 (RE)	RD/ GSDP 2019-20 (BE)	Debt/ GSDP 2018-19 (RE)	IP/RR 2018-19 (RE)	NC	SC I	SC II	Relaxation on FD in FY21 (% of GSDP)	GFD/GSDP 2019-20 (BE)
Andhra Pradesh	1.2	0.2	32.8	12.5				×	3.3
Bihar	-1.7	-3.8	31.0	6.8	✓		✓	0.25	2.8
Chhattisgarh	2.0	-0.3	21.9	5.3				×	3.2
Gujarat	-0.1	-0.2	19.8	14.5	✓	✓		0.25	1.8
Haryana	1.2	1.5	26.0	18.0				×	2.9
Jharkhand	-2.3	-2.4	27.2	7.9	✓		✓	0.25	2.0
Karnataka	0.0	0.0	19.8	9.4	✓	✓	✓	0.50	2.5
Kerala	1.7	1.0	30.6	15.6				×	3.0
Madhya Pradesh	0.0	-0.1	24.7	8.1	✓	✓	✓	0.50	3.5
Maharashtra	0.6	0.7	16.6	11.8				×	2.0
Odisha	-2.2	-1.2	22.9	5.7	✓	✓	✓	0.50	3.5
Punjab	2.3	2.0	40.7	23.2				×	3.4
Rajasthan	2.7	2.6	33.0	14.7				×	3.2
Tamil Nadu	1.2	0.8	21.7	15.9				×	2.4
Telangana	0.0	-0.2	16.7	9.8	✓	✓	✓	0.50	2.4
Uttar Pradesh	-3.1	-1.8	38.1	8.4	✓		✓	0.25	3.0
West Bengal	0.6		34.0	19.1				×	2.0

Source: RBI, Note: Revenue Surplus (-)/ Deficit (+), RD-Revenue Deficit, IP-Interest Payment, RR-Revenue Receipts, FD- Fiscal Deficit

With revenue shortfall post GST, implementation of pay commission and farm loan debt waiver had derailed the States' fiscal condition. To overcome such fiscal challenges, many States have cut their capital expenditure to attain the targeted fiscal deficit figure of 3%.

State wise Expenditure budget 2019-20 (in Rs crore)					
States	**FY19 (BE)**	**FY19 (RE)**	**FY20 (BE)**	**FY19 (RE)/ FY19 (BE) %**	**FY20 (BE)/FY19 (RE) %**
Andhra Pradesh	40,792	35,795	47,499	-12	33
Assam	18,941	26,486	19,677	40	-26
Bihar	40,251	42,222	45,270	5	7
Chhattisgarh	16,820	14,702	15,222	-13	4
Gujarat	47,312	48,956	51,004	3	4
Haryana	30,012	35,041	37,924	17	8
Himachal Pradesh	7,872	10,217	8,299	30	-19
Karnataka	52,199	51,748	52,548	-1	2
Kerala	11,432	11,645	17,855	2	53
Madhya Pradesh	43,559	39,713	50,267	-9	27
Maharashtra	65,938	71,775	69,861	9	-3
Odisha	29,808	28,797	30,262	-3	5
Punjab	43,346	45,098	68,296	4	51
Rajasthan	43,156	39,250	41,924	-9	7
Tamil Nadu	47,911	48,422	52,520	1	8
Telangana	48,999	42,196	35,436	-14	-16
Uttar Pradesh	1,06,864	1,16,799	1,15,744	9	-1
Uttarakhand	9,958	8,734	9,731	-12	11
West Bengal	68,211	66,788	73,636	-2	10

Source: SBI Research

RBI Private Placement may be the option for meeting increased demand for Borrowing

With total net borrowings of Center and State around Rs 11 lakh crore, we believe demand of securities from banks will be around Rs 3.7 lakh crore (considering NDTL increase of 10% and 27% of SLR). The insurance sector could subscribe to Rs 3.85 lakh crore. The rest amount will be borrowed from PD's, Mutual Funds, FPI and others. However, in the current scenario when market appetite is already low it seems difficult how such a huge amount will be raised. Since insurance sector and pensions funds are the key players for long-term securities of 15 years and above, we believe RBI can make some special arrangement with insurance sector or pension funds for long-term bonds and go for exclusive placement in long bonds with these investors.

Financing through small savings

Apart from the market borrowings, the Government has also dipped into Small Saving scheme to meet a part of its expenditure. The issuance of securities against small savings came at Rs 2.40 lakh crore for FY20 as against the Budgeted Rs 1.3 lakh crore. For FY21, the Government has again estimated a huge amount of Rs 2.4 lakh crore (30% of fiscal deficit) issuance of securities against small savings. This increased reliance on small savings in turn would make it difficult for the Government to cut small savings interest rate and thus bank deposit rates are unlikely to witness a material decline from the current levels or could even increase. This will make it difficult for interest rates to decline.

Sources of Financing Fiscal Deficit (Rs Crore)							
	FY18	FY19	FY20 (RE)	FY21 (BE)	FY21 (BE)/ FY20 (RE) (%Gr)	FY20 (RE)/ FY19 (%Gr)	FY19/ FY18 (%Gr)
Fiscal Deficit	5,91,064	6,49,418	7,66,846	7,96,337	3.8	18.1	9.9
% of GDP	3.5	3.4	3.8	3.5			
Market Borrowings	4,55,207	4,30,164	4,98,972	5,35,870	7.4	16.0	-5.5
% of GDP	2.7	2.3	2.4	2.4			
Securities against Small Savings	1,02,628	1,25,000	2,40,000	2,40,000	0.0	92.0	21.8
% of GDP	0.6	0.7	1.2	1.1			
State Provident Funds	15,799	16,059	18,000	18,000	0.0	12.1	1.6
% of GDP	0.1	0.1	0.1	0.1			
Other Receipts (Internal Debts and Public Account)	5,406	73,997	4,941	50,848	929.1	-93.3	1268.8
% of GDP	0.0	0.4	0.0	0.2			
External Debt	7,931	5,519	4,933	4,622	-6.3	-10.6	-30.4
% of GDP	0.0	0.0	0.0	0.0			
Draw-Down of Cash Balance	4,091	-1,321		-53,003			-132.3
% of GDP	0.0	0.0	0.0	-0.2			

Source:Union Budget Documents & SBI Research

Off Balance Sheet Borrowings

The Government is using its off-Budget borrowing on a massive scale through public sector agencies to avoid showing such borrowing in its own books. For FY21, extra Budgetary resources for PSUs have been reduced to Rs 4.60 lakh crore from revised estimate of Rs 4.88 lakh crore for FY20. EBR for Petroleum and Natural Gas has increased while that of others have declined or remained the same.

Extra Budgetary Resources for PSUs (Rs Crore)			
	FY20 (RE)	FY21 (BE)	FY21 (BE)/FY20 (%Gr)
Coal	6998	5414	-22.6
Ministry of Housing and Urban Affairs	46131	30240	-34.4
Petroleum and Natural Gas	24830	28219	13.6
Power	35478	33172	-6.5
Steel	3377	3385	0.2
Others	371267	360098	-3.0
Total	488081	460528	-5.6
% of GDP	2.4	2.0	
GDP	20442233	22489420	

Source: Union Budget Documents & SBI Research

Off-Budget financing has been used for deferring fertiliser subsidy arrears through special banking arrangements; implementing the irrigation scheme (AIBP) through borrowings by NABARD; railway projects financed through borrowings of the IRFC and power projects through the PFC.

The major drawback is that in addition to its implications for fiscal indicators, it creates future liabilities and can increase future subsidies provided for interest payments. Since this practice affects the cash flow of these public companies, the Finance Ministry has 'Special Banking Arrangements' (SBAs) in which loans from public sector banks are arranged to make payments against arrears of subsidies with some selected companies. The Government makes payments of interest on these loans at Government Security (G-sec) rate, but interest over and above this rate is borne by the companies.

Total Borrowing Requirements (Rs lakh crore)			
Borrowing	**FY 19**	**FY 20 (RE)**	**FY21 (BE)**
Centre	4.2	4.7	5.4
State	4.1	4.9	5.6
Extra Budgetary Resources for PSUs	4.1	4.9	4.6
Total	12.5	14.5	15.6
% of GDP	6.6	7.1	6.9
GDP	189.7	204.4	224.9

Source: Union Budget Documents & SBI Research

We made an attempt to calculate the Public Sector Borrowing requirement (PSBR) of the Centre, States and other major Public Sector Agency including FCI and NABARD to come out the average yearly PSBR. Our estimate shows yearly PSBR as % GDP is coming out to be 7.1% in FY20 against 6.6% in FY19. Further, our estimate shows that the public sector borrowing will be at 6.9% of GDP in FY21. This could again go up if GDP growth remains tepid in FY21.

DISINVESTMENT

Government has set an all-time high disinvestment target of Rs 2.1 lakh crore for FY21 on the back of LIC IPO and the remaining IPOs of FY20. The disinvestment target of FY20 is now revised downwards from Rs 1.05 lakh crore to Rs 65,000 crore.

Disinvestment – Target vs. Actual (in Rs crore)			
Year	**Budget Estimate**	**Revised Estimate**	**Actual**
FY16	69,500	25,312	42,132
FY17	56,500	45,500	34,939
FY18	72,500	1,00,045	1,00,057
FY19	80,000	80,000	94,727
FY20	1,05,000	65,000	-
FY21	2,10,000	-	-

Source: Union Budget Documents, CGA, SBI Research

DEBT SUSTAINABILITY

The Centre is going to give a push to infrastructure investment in the coming fiscals. This will impact the expenditure. If we look at the past data, the years in which India saw infrastructure investment push, the public debt saw an increase of around 11% on an average. If we take that as a proxy for public debt increase in the next two years and then gradually bring it down to 7% (this happened only in FY17) by FY25, then the outstanding central liabilities would be around Rs 159 lakh crore. Given the Government's estimate of GDP of Rs 365 lakh crore, this translates into a public debt to GDP ratio of 43.5% for the Centre. If the 40% goal that was set by the FRBM committee is to be achieved by FY25, it would require massive expenditure rationalization and substantial increase in tax revenues so that the additional Rs 52 lakh crore worth of resources is generated to make interest and debt repayments. Given the Government's stance to pursue expansionary fiscal policy at least in the coming year, 40% is too ambitious a target.

However, if we look at the sustainability perspective, most of our debt is domestic in nature and is of a longer time horizon, there is slim chance of debt servicing becoming a problem. Even IMF acknowledges that India's debt profile is conducive to debt sustainability. External debt remains low at 19% of GDP, with Centre's external liabilities at 5.9%, as on 31 March 2019. According to IMF's analysis also, if the Government embarks upon the path of expenditure savings from rationalizing subsidies as well as revenue gains from expanding the tax base, especially on personal income it would lower the debt-to-GDP ratio (Centre and State) to only 62.4% by FY25. Further additional measures to offset the estimated revenue loss from the recent Corporate Income Tax rate reduction would also be needed to achieve the current FRBM debt target by FY2024/25.

Public Debt Management

	FY20	FY21	FY22	FY23	FY24	FY25
Estimated GDP (lakh crore)	205	227	254	286	323	365
Estimated Public Debt(Rs Lakh crore)	103	114	126	138	149	159
Estimated Public Debt as % of GDP	49.9	50.1	49.7	48.1	46.0	43.5
Glide path to reach 40% Debt to GDP if debt is reduced uniformly	49.9	47.9	46.0	44.0	42.0	40.0
Excess Debt as % of GDP	0.0	2.2	3.7	4.1	4.0	3.5
Excess Debt (Rs Lakh crore)	0	5	9	12	13	13

Source: SBI Research

MSME & START-UPS

In the Budget, Government has continued its focus on MSME sector, with a particular emphasis on Start-ups, to give a boost to the Entrepreneurs in the small and medium size industrial units which have emerged as engines of growth for the Indian economy as they are the innovators, job creators and risk-takers.

Some of the important initiatives announced in the Budget to enhance economic and financial sustainability of MSMEs are

- To meet the problem of delayed payments and consequential cash-flow mismatch in MSMEs, Government has proposed to enable NBFCs to extend invoice financing through TReDS, by amendment to the Factor Regulation Act, 2011.
- To meet the working capital needs of the MSMEs, Government proposed banks to provide subordinate debt, which would count as quasi-equity, and be fully guaranteed through CGTMSE. Though this is a very good step but may not motivate banks to lend more, as NPA in this sector has mounted.
- Government has allowed debt restructuring window for MSMEs till March 31, 2021. With this more than 5 lakh MSMEs would be benefitted.
- MSMEs turnover threshold for audit increased to Rs 5 crore from Rs 1 crore for businesses carrying out less than 5% business transactions in cash to boost less-cash economy. This will reduce the compliance burden on small retailers, traders, shop keepers, and will encourage them to accept the digital payments from customers through Cards, QR Code, UPI etc.

Start-Ups

- Government has eased the tax burden of taxation on ESOPs by 5-years or till they leave the company or when they sell their shares, whichever is earlier. Usually, Start-ups issue ESOP in the formative years to attract and retain talented employees, which is a significant component of compensation for these employees. As ESOPs are taxable at present as perquisites at the time of exercise, employees don't sell them and hold for a longer period of time, which leads to cash-flow problem for the employee. This will create a liquid market for the employees to sell their share, however, the issue is that who will buy them, as most of the start-ups do not get registered before 10-years of operations.
- In order to support larger start-ups, Budget has proposed to extend the turnover limit from existing Rs 25 crores to Rs 100 crores to get 100% of its profits deduction from the existing 7-years to 10-years. This will give a boost to the large technology start-ups as they not only create scale but also generate efficiency. In the last couple of years, start-

ups landscape in India has been seeing a tremendous growth towards a creation of innovative start-ups. As per the estimates, India continues to be the third largest start-up base, marginally behind the UK. Indian start-ups raised $7.5 billion in funding in 2018, and the number of start-ups registered & recognised is more than 27,000 in 2019.

- The Budget steps will boost entrepreneur motivation and create employment in the economy. However, we recommend to include start-up industries under MSME segment and further Government should include the medium enterprises under the CGTMSE scheme, which will help the banks to manage their assets, in case of economy slowing down.

BANKING

- Government has proposed to increase the deposit insurance coverage to Rs 5 lakh per depositor from Rs 1 lakh previously. This is an excellent and anticipated step and with this coverage in India is 3.7 times India's per capita income, followed by Brazil (7.1) and US (4.2). Furthermore, if we compare India with BRICS group of countries like Brazil & Russia, the comparative insurance figure rises to Rs 42 lakhs & Rs 12 lakhs respectively!

Cross Country Deposit Insurance Coverage & Per capita Income (in USD)

Country	Deposit Insurance Coverage	Percapita Income (PCI)	Coverage as times of PCI
Australia	1,82,650	57,821	3.2
Brazil	64,025	8,959	7.1
Canada	72,254	45,288	1.6
France	1,08,870	41,287	2.6
Germany	1,08,870	47,615	2.3
India	7,540	2,041	3.7
Italy	1,08,870	34,488	3.2
Japan	88,746	39,313	2.3
Russia	19,210	11,288	1.7
UK	1,11,143	42,978	2.6
US	2,50,000	59,484	4.2

Source: IADI, World Bank, CEIC, SBI Research

- The Government has proposed to disinvest in IDBI Bank Ltd through stock exchange. This will release capital for the Government and also give an option to the retail investors.
- Government had infused Rs 3.5 lakh crore into PSBs and asserted that governance reforms would be carried out to make more competitive, transparent and professional and thereby ensure a robust banking system. Further, to meet the additional capital needs, PSBs would also be encouraged to approach capital market. Government has proposed to amend the Banking Regulation Act to increase professionalism, facilitate access to capital and improve oversight through RBI to create strong cooperative banks. This will give RBI more power to supervise the cooperative banks at par with commercial banks.
- To strengthen NBFCs through improved governance, Government has reduced the limits for NBFCs to be eligible for Debt Recovery Mechanism via SARFAESI Act, 2002, to Rs 100 crores from the existing asset size limits of Rs 500 crore or loan size of Rs. 50 lakh from the existing Rs 1 crore. This will increase the recovery of loans of NBFCs as the NBFC pool has got enlarged.

AGRICULTURE

- Agriculture has been one of the focus areas of the NDA Government since 2014 and various reforms were initiated to double farmer income by 2022. Some of the major initiatives were: introduction of PMFBY for crop insurance, PMKSY for improvement in Agri-productivity, PM-AASHA to plug the holes in the procurement system, increasing MSP for major kharif and rabi crops by 1.5 times of cost of production & introducing PM-KISAN scheme to provide income support etc. Despite these various efforts, Agri-GVA is declining in recent periods and the share of investment to Agri-GVA is also falling.

- To address the shortcomings in agriculture sector, the Union Government proposed a 16-point formula to revive it and link it with allied sector to attain the desired goal in next two years. Some of these announcements are:
- Implementation of model laws such as Model Agricultural Land Leasing Act, 2016, Model Agricultural Produce and Livestock Marketing (Promotion and Facilitation) Act, 2017 and Model Agricultural Produce and Livestock Contract Farming and Services (Promotion and Facilitation) Act, 2018, to improve farm income. Since, agriculture is a State subject, so States should be encouraged to implement them.
- Model Agriculture Land Leasing Act, 2016 will help to legalise the entire tenancy process for agricultural land at the national level and it will enable tenant cultivators to access institutional loans and insurance schemes for crops and other farming inputs.
- Agricultural Produce and Livestocks Marketing (APLM) Act of 2017 will help in removing the entry barriers and trade barriers in the agricultural marketing system of the country. Further, it will make marketing system more competitive by attracting new players and do away with the monopolistic and oligopolistic tendencies of the present players of the APMC markets.

State wise Fallow and Barren Land available (in thousand hectares)

States	Fallow and Barren Land
Andhra Pradesh	2260
Assam	175
Bihar	1008
Chhattisgarh	525
Gujarat	395
Haryana	108
Jharkhand	2507
Karnataka	2097
Kerala	120
Madhya Pradesh	871
Maharashtra	2587
Odisha	1549
Punjab	89
Rajasthan	3925
Tamil Nadu	2732
Telangana	2206
Uttarakhand	144
Uttar Pradesh	1631
West Bengal	350
All India	26182

Source: Land use Statistics of India 2014-15, SBI Research

- Agricultural Produce and Livestock Contract Farming and Services Act, 2018 will help to transfer the risk of post-harvest market unpredictability from the farmer to the sponsor. The small and marginal farmer thereby gets to enjoy additional benefits of operational efficiency.
- Agriculture credit target for the year 2020-21 has been set at Rs 15 lakh crore and all eligible beneficiaries of PM-KISAN will be covered under the KCC scheme. Under PM-KISAN, Government has announced to provide Rs 6000 per annum to 14.5 crore farmers. The data shows, Government had disbursed Rs 54,370 crore in FY20 out of the Budgetary provision of Rs 75,000 crore and nearly 8 crore farmers got benefited. The decision to cover all beneficiaries of PM-KISAN under the KCC scheme, will provide financial support to farmers and at the same time it will benefit banks. Currently there are 6.92 crore active KCCs against 14.5 crore farmers.
- The PM-KUSUM scheme which was introduced last year to remove farmers' dependence on diesel and kerosene is expanded further to provide funds for 20 lakh farmers for setting up stand-alone solar pumps. Further, the scheme is intended to enable farmers to set up solar power generation capacity on their fallow/barren lands and to sell it to the grid which will raise additional income to farmers. Presently, there are 26,182 thousand hectares of barren and fallow land lying ideal in India.
- Government has announced to encourage balanced use of all kinds of fertilizers including the traditional organic and other innovative fertilizers to change the prevailing incentive regime. Further, Government has proposed to create warehousing, in line with Warehouse Development and Regulatory Authority (WDRA) norms. Further, Government will provide Viability Gap Funding for setting up such efficient warehouses at the block/taluk level.

- As a backward linkage, a Village Storage scheme is proposed to be run by the SHGs. This will provide farmers a good holding capacity and reduce their logistics cost.
- To build a seamless national cold supply chain for perishables, inclusive of milk, meat and fish, the Indian Railways will set up a "Kisan Rail" – through PPP arrangements.
- Krishi Udaan will be launched by the Ministry of Civil Aviation on international and national routes to improve value realisation especially in North-East and tribal districts.
- For better marketing and export of horticulture products, Government will support States on adopting a cluster basis and will focus on "one product one district". Negotiable Warehousing Receipts (e-NWR) will also be decided to integrate with e-NAM.
- Integrated farming systems in rainfed areas shall be expanded. The portal on "Javakheti" – online national organic products market will also be strengthened. Government also proposed to make comprehensive measures for one hundred water stressed districts.
- Government announced to facilitate doubling of milk processing capacity from 53.5 million MT to 108 million MT by 2025.
- By 2022-23, Government is planning to raise fish production to 200 lakh tonnes. Further, growing of algae, seaweed and cage Culture will also be promoted. Government is also trying to involve youth in fishery extension through 3477 SagarMitras and 500 Fish Farmer Producer Organisations. This will raise fishery exports to Rs 1 lakh crore by 2024-25.
- The fund allocation for the 16 different steps is Rs 2.83 lakh crore for the year 2020-21. The breakup of this amount shows, for Agriculture, Irrigation & Allied activities Rs 1.60 lakh crore allocated while for Rural development & Panchayati Raj Rs 1.23 lakh crore allocated in the Budget. Surprisingly, if we look at the expenditure incurred on agriculture and allied activities during FY20, there is a decline of Rs 21,000 crore from the Budgetary provision of Rs 1.51 lakh crore. This is largely due to the cutback under PM-KISAN.

Expenditure on Agriculture and Allied Activities (in Rs Crore)						
	FY19	FY20 (BE)	FY20 (RE)	FY21 (BE)	FY20 (RE)/ FY19 %	FY21 (BE)/ FY20 (RE) %
Pradhan Mantri Fasal Bima Yojana	11937	14000	13641	15695	14	15
Interest Subsidy for Short Term Credit to Farmers	11496	18000	17863	21175	55	19
Market Intervention Scheme and Price Support Scheme (MIS-PSS)	1400	3000	2010	2000	44	-1
Pradhan Mantri Annadata Aay Sanrakshan Yojna (PM-AASHA)	4721	1500	321	500	-93	56
Pradhan Mantri Kisan Samman Nidhi (PM-Kisan)	1241	75000	54370	75000	-	38
Pradhan Mantri Kisan Man Dhan Yojana	...	900	200	220	-	10
Formation and Promotion of 10,000 Farmer Producer Organizations (FPOs)	...	...	...	500	-	-
Total-Central Sector Schemes/Projects	**31379**	**113800**	**89370**	**116490**	185	**30**
Agriculture and Allied Activities	**63259**	**151518**	**120835**	**154775**	91	**28**

Source: Budget Documents, SBI Research

HEALTH

- In the Budget FY21, the Government has allocated Rs 69,000 crore for the health sector, an increase of about 8% as compared to the previous year. Budget has announced expanding of Government's flagship scheme-Ayushman Bharat scheme, billed as the World's largest Government funded health insurance scheme.
- Even though the Ayushman Bharat-Pradhan Mantri Jan Arogya Yojna (AB-PMJAY) didn't see any Budgetary increase this year, it still gets about Rs 6,400 crore of the total amount assigned to the health sector.

- The expansion of Ayushman Bharat scheme will see setting up more hospitals in Tier-II and Tier-III cities under the PPP model. Government has emphasised on viability gap funding for setting up hospitals in those districts with no empanelled hospitals under its insurance scheme-Ayushman Bharat. It will go a long way in creating robust health infrastructure especially in areas where Ayushman Bharat benefits have not reached yet especially to the weaker section. Presently, under PM Jan Arogya Yojana (PMJAY), there are more than 20,000 empanelled hospitals.
- Further, to achieve the twin objectives of giving impetus to the domestic industry and also to generate resource for health services, Government propose to impose a nominal health cess, by way of a duty of customs, on the imports of medical equipment which are now being made significantly in India. Proceeds from tax on medical devices will be used for funding Government hospitals in tier II and tier III towns, while allocating Rs 6000 crore for the Pradhan Mantri Jan Aarogya Yojana.
- Stressing on the shortage of medical professionals in the country, the Union Budget propose to convert existing district hospitals to medical colleges through PPP mode. Further, Government also announced to strengthen its effort on "TB Harega Desh Jeetega" campaign to end Tuberculosis by 2025 and decided to expand Jan Aushadhi Kendra Scheme to all districts offering 2000 medicines and 300 surgicals by 2024.
- In order to sustain ODF behaviour and to ensure that no one is left behind, Government is committed ODF plus where more needs to be done towards liquid and grey water management. Further Government announce to give more focus on Solid waste collection, source segregation and processing.

HOUSING

In line with the Government's 'Housing for All' initiative, the Union Budget has proposed extending the tax holiday provided to developers building affordable housing projects by a year to March 2021. Government also plans to extend the additional reduction of ₹1.5 lakh for interest paid on home loans taken for the purchase of affordable housing by another year.

INFRASTRUCTURE

Under this year's Budget theme of Economic Development a key focus area is "infrastructure". India's infrastructure spend has hovered in the range of 5.3%-6.2% of Nominal GDP between FY13-FY19. If we look at the breakup among Centre, State and Private players, the share of states and Centre has declined which has been compensated by the increase in private spend.

In order to improve the physical quality of life and improve growth, the Government has come up with an infrastructure investment plan till FY25 which entails investment worth Rs 102.5 lakh crore with highest investment in roads, urban infrastructure, railways and power. FY 21 and FY22 are going to see the major push in spending which is going to taper off by 2025. The industrial infrastructure as % of GDP is projected to grow to 9% in FY21 and then go down to 7% in FY22.

Given the nature of infrastructure as a public good, investment is being primarily funded by Centre and States. The Budgetary Support to the capital outlay by Centre is around 41%. The rest will be through off-balance sheet items. How much scope it has to push off-balance sheet items remains to be seen.

Financing the NIP for the Centre (Rs lakh crore)

	FY19 (RE)	FY20 (BE)	FY21 (P)	FY22 (P)	FY23 (P)	FY24 (P)	FY25 (P)
Capital outlay by Centre (infra) A	3.54	3.77	4.58	5.56	6.76	8.21	9.97
Budgetary support (infra) B	1.39	1.53	1.86	2.25	2.74	3.33	4.04
C = B/A	39%	41%	41%	41%	41%	41%	41%
Budgetary support/GDP (D = B/E)	0.73%	0.74%	0.82%	0.89%	0.96%	1.03%	1.11%
Incremental budgetary support/GDP vs FY20			0.07%	0.14%	0.21%	0.29%	0.36%
GDP in Rs lakh crore (E)	190.1	205.4	227.0	254.3	286.4	323.3	365.5

Source: SBI Research

The onus of digital and renewable energy infrastructure is on private sector. Interestingly, the share of private investment is absent in rural and agriculture infrastructure spending. The New Agri Export Policy aims to push India's agricultural exports to ~$60+Billion by 2022 and reach $100 Billion in the next few years thereafter, with a stable trade policy regime. It also strives to double India's share in world agri exports by integrating with global value chain at the earliest. We believe private players should be encouraged to invest in this domain as these areas can yield substantial returns on investment.

Funding of Infrastructure Projects (FY20-25) in %

Sector	Center	State	Private
Road	25	36	39
Energy	37	57	6
Petroleum & natural gas	74	11	15
Renewable energy	0	0	100
Atomic	100	0	0
Railways	87	1	12
Port	50	39	11
Airport	23	38	39
Urban	31	68	1
Digital infrastructure	24	5	71
Irrigation	22	78	0
Rural	76	24	0
Agriculture	54	46	0
Health	29	71	0
Higher education	38	62	0

Source: SBI Research

Around 22% of the infrastructure investment is expected to be funded by the private sector. This translates into an amount of roughly Rs 22 lakh crore between FY20-FY25. The 2018-19 Gross fixed capital formation by Private Sector in buildings, dwellings was Rs 4.78 lakh crore. So private sector can comfortably achieve this target in the coming years.

Looking at the external sources of funding, the FDI in infrastructure (communication, energy, construction, transport, Education, Research and Development) has grown from Rs 28825 crore in FY15 to Rs 79736 crore in FY19. This was less than 0.5% of GDP. If the FDI in these sectors increased gradually to 1% of GDP, then by FY25, the FDI amount would be Rs 12.9 lakh crore, given the target of $5 trillion economy by FY25. This will give further boost to infrastructure sector. Keeping this in mind too, the Budget has introduced 100% tax exemption to the interest, dividend and capital gains income in respect of investment made in infrastructure and other notified sectors before 31st March, 2024 and with a minimum lock-in period of 3 years by the Sovereign Wealth Fund of foreign Governments.

As regards to the human resources National Skill Development Agency will give special thrust to infrastructure focused skill development opportunities. A project preparation facility for infrastructure projects is also to be set up which would actively involve young engineers, management graduates and economists from our Universities.

Funding requirements are going to be huge for infrastructure sector and without a well-developed corporate bond market it will be an onerous task to raise the resources. Keeping this in mind, FPI investment limit in Corporate Bonds is to be increased to 15% from the current 9% of outstanding. However, current investment limits are only 57.99% utilised, so no immediate impact is likely. Government may be preparing for inclusion in Global Bond indices with this relaxation.

DIGITAL INDIA

Finance minister proposed to link 1,00,000 gram panchayats with fibre-to-home internet connectivity in 2020-21 through telecom infrastructure provider BharatNet (Rs 6,000 crore allocated for this purpose). This will fulfil the vision of providing digital connectivity to all public institutions like Anganwadis, health and wellness centres, Government schools, etc. at Gram Panchayat level. This move will also boost regional language content streaming, audio and video, in India's small towns and will place rural India on the digital map. The growth of BharatNet will have a direct impact on expediting cord cutting beyond the metros. Cord-cutting refers to cancelling or forgoing a pay TV subscription in favour of an alternative Internet-based service. Currently 1.34 lakh gram panchayats are connected through optical fibre and are ready for service.

EDUCATION AND SKILL DEVELOPMENT

Government proposed a total outlay of Rs 99,300 crore for the education sector in 2020-21 and Rs 3000 crore for Skill Development. FM announced that about 150 Higher Educational Institutions will start apprenticeship embedded degree/ diploma courses by March 2020-21. This will help to improve the employability of students in the general stream (vis-a-vis services or technology stream). There are around 2.86 crore under-graduates enrolled in the country out of which 38.5 lakh are engineers. The Government will also start a program whereby urban local bodies across the country would provide internship opportunities to fresh engineers for a period of up to one year. National Skill Development Agency will give special thrust to infrastructure-focused skill development opportunities, the Minister explained. Government will announce a New Education Policy soon.

Enrolment at Under Graduate Level in Major Disciplines (in Lakh)

Discipline	Male	Female	Total
Arts	43.9	49.6	93.5
Science	23.1	24.0	47.1
Commerce	20.6	19.7	40.3
Engineering & Technology	27.4	11.1	38.5
Education	5.1	9.4	14.5
Medical Science	4.7	7.3	12.0
Others	21.9	18.2	40.0
Total	146.7	139.3	286.0

Source: AISHE 2018-19; SBI Research

Government has proposed "Study in India" programme, an Ind-SAT to be held in Asian and African countries for benchmarking foreign candidates who receive scholarships for studying in Indian higher education centres. The total number of foreign students enrolled in higher education is 47,427. The foreign students come from 164 different countries from across the globe. The top 10 countries constitute 63.7% of the total foreign students enrolled. Highest share of foreign students come from the neighbouring countries of which Nepal is 26.88% of the total, followed by, Afghanistan (9.8%), Bangladesh (4.38%), Sudan (4.02%), Bhutan constitutes (3.82%) and Nigeria (3.4%).

RAILWAYS

The major highlights of Railways financial for FY21 are as follows:

- Gross tariff receipts will increase by 9.6% to Rs 2.25 lakh crore in FY21, with passenger earnings grew by 8.9% to Rs 61,000 crore and freight earnings will estimated to increase by 9.1% to Rs 1.47 lakh crore.

- Operating Ratio is expected to improve marginally from 97.4% in FY20 to 96.2% in FY21.
- To build a seamless national cold supply chain for perishables, inclusive of milk, meat and fish, the Indian Railways will set up a "Kisan Rail" – through PPP arrangements. There shall be refrigerated coaches in Express and Freight trains as well.
- Budget has proposed five measures for Indian Railways: (i) Setting up a large solar power capacity alongside the rail tracks, on the land owned by the railways. A proposal is under consideration, (ii) Four station re-development projects and operation of 150 passenger trains would be done through PPP mode. The process of inviting private participation is underway, (iii) More Tejas type trains will connect iconic tourist destinations, (iv) High speed train between Mumbai to Ahmedabad would be actively pursued, and (v) 148 km long Bengaluru Suburban transport project at a cost of Rs 18,600 crore, would have fares on metro model. Central Government would provide 20% of equity and facilitate external assistance up to 60% of the project cost.

Railway Financial (Rs Crore)

	FY18	FY19	FY20 (RE)	FY21 (BE)	FY21 (BE)/ FY20 (RE) (%Gr)	FY20 (RE)/ FY19 (%Gr)	FY19/ FY18 (%Gr)	5 Yr CAGR (FY16-20 in %)	Decadal CAGR (FY11-20 in %)
1. Total Railway Receipts	178930	190507	206269	225913	9.5	8.3	6.5	5.2	8.8
2. Gross Traffic Receipts	178725	189907	205833	225613	9.6	8.4	6.3	5.8	9.0
2.1 Passenger Earnings	48643	51067	56000	61000	8.9	9.7	5.0	6.0	9.0
PassengerEarnings/GrossTrafficReceipts(%)	27.2	26.9	27.2	27.0					
2.2 Freight Earnings	117055	127433	134733	147000	9.1	5.7	8.9	5.4	8.8
Freight Earnings / Gross Traffic Receipts (%)	65.5	67.1	65.5	65.2					
2.3 Other Earnings*	13027	11407	15100	17613	16.6	32.4	-12.4	8.6	11.0
3. Total Miscellaneous Receipts	204	601	436	300	-31.2	-27.4	194.0	-42.7	-16.2
4. Total Expenditure from railway revenues	177264	186734	202458	219413	8.4	8.4	5.3	7.9	9.4
5. Revenue net of dividend payouts	1666	3774	3811	6500	70.6	1.0	126.6	-33.3	-5.5
Memoranda									
Gross Traffic Receipts (% of GDP)	1.05	1.00	1.01	1.00					
Net Revenue (% of GDP)	0.01	0.02	0.02	0.03					
Operating Ratio	98.4	97.3	97.4	96					

Note:1. *Other earnings are defined as the sum of other coaching earnings, sundry other earnings and suspense.

Source: Railway Budget & SBI Research

INSURANCE & PENSION

Insurance

- In the previous Budgets, Government has given thrust to the sector by offering a number of schemes like PMJSY, PMJJBY etc. Many taxpayers use life insurance policies and ULIPS to fill their quota of deductions, which may not apply anymore in the new dispensation. This will affect the insurance business and may also affect the insurance penetration and density in India, which is lagging compared to other developed countries. India's insurance penetration is at 3.7%, compared to US at 7.14%, UK at 10.61% and in Asian countries like Japan at 8.86%, South Korea at 11.16% and Singapore at 7.82%.
- ECGC Insurance cover for banks up to 90 percent for working capital loans and moderation in premium incidence for the MSME sector to provide additional support to the banks in the wake of a global slowdown and rising NPAs. The

enhanced insurance cover will ensure that foreign and rupee export credit interest rates will be below 4 and 8 percent respectively for the exporters. It will catalyze the banks to enhance the volume of export credit lending, especially to the MSME Sector with optimal pricing due to capital and risk optimization.

NPS & Pension

- The Budget has announced two important measures in the pension sector. These measures can be seen in light of the Code on Social Security, 2019.
- To help easy mobility while in jobs, the Budget has proposed the Universal Pension coverage with auto enrolment of employee upon joining an organisation. It is also suggested that a mechanism will be devised which can enable inter-operability and provide safeguards for the accumulated corpus.
- While automatic enrolment will ensure that there is no time lag between date of joining of organisation and investment of pension corpus; inter-operability will ensure ease of mobility between an establishment covered under EPFO and under the NPS.
- The Budget also suggests amendments in Pension Fund Regulatory Development Authority of India (PFRDAI) Act that will also facilitate separation of NPS trust for Government employees from PFRDAI. This would also enable establishment of a Pension Trust by the employees other than Government.
- The separation of PFRDAI and NPS trust is in line with accepted model that a regulator should not be a service provider. Such an arrangement creates moral hazard in policy making. Further separation of NPS trust from PFRDAI allows for creating company specific exemptions similar to ones provided for in the Section 17 of the EPFO Act.

ASSEMBLE IN INDIA

The Union Budget 2020-21 proposes scheme to encourage manufacture of mobile phones, electronic equipment and semi-conductor packaging proposed. This proposal comes very close to proposal of 'Assemble in India' proposed in the Economic Survey.

Economic Survey recommends integrating "Assemble in India" into "Make in India" to focus on labour-intensive exports and thereby create jobs at large scale. The underlying logic is similar to what was done in China. During the initial phase of China's economic transformation, a lot of semi-processed goods (electronics and other) were imported from South East Asia, Japan and South Korea. This were then assembled and given final shape for final export to the US and EU. The assemble strategy worked because China's labour was cheaper in comparison to similar labour labour in South East Asia.

With rise in wage rate in China and her economic restructuring, the wage arbitrage does not exist. Hence there is opportunity to divert some the semi-processed trade of South East Asia with China to India. In the recent time some relocation has happed; the notable success story being the Modified Special Incentive Package Scheme (M-SIPS) was announced to counter-balance heavy costs and attract investments in the Electronics System Design and Manufacturing (ESDM) sector by providing a capital subsidy of 20 per cent for units located in special economic zones (SEZs) and 25 per cent for units in non-SEZ areas.

Such a strategy changes composition of imports from final consumption to intermediate goods offers some counter-balance in terms of higher investment, higher domestic value addition and more domestic employment.

Section 2
Corporate & Industry

SYNOPSIS OF BUDGET IMPACT

Targeted sectoral push in airports, roads positive for cement steel and construction. Otherwise, a somber budget for corporates. There is a discretion of taxpayers to decide consumption pattern especially for income earners below Rs 15 lakh slab.

From the perspective of corporates there were no major expectations since corporate tax cuts were announced in September 2019. Overall, for corporates operating in various sectors, except for abolishing dividend distribution tax, no direct benefit would accrue.

Sectors that are likely to benefit include construction, cement, steel and real estate largely on account of thrust on hospitals, building 100 new airports, targeted high traffic density road projects (Delhi ~ Mumbai Expressway; new Chennai Bengaluru highway etc.) are likely to provide impetus. Realty and property development around 100 new airports may be undertaken by the private sector players offering opportunities to new real estate developers thus attracting the private investment to some extent.

In affordable housing, the budget has extended the tax holiday benefit of interest paid of Rs 1.50 lakh by one year up to March 2021. However, post March 2021, questions on promotion of affordable housing would require some direction from the government.

Discretion by the tax payer of deployment of his saving surplus resulting from opting out of non-statutory deduction that erstwhile earned him/her tax deduction would now be available for alternate deployment. Buying additional property under affordable housing may have no real incentive and hence, may take a back seat for now.

FMCG would continue to draw benefits from last budget measures (Refer Section FMCG). Doubling of farmers income and increase in credit in agriculture is likely to shape the volume growth in rural areas. However, it would be pertinent to mention that the FMCG sector, recently, has relied more on price increase rather than on volume for its profit margins.

The salaried class is the largest consumer and for new young employee the incentive to save and invest in property or tax saving instruments would serve as a disincentive. Employees who are already availing tax deduction benefits through investment in affordable housing (through loan), insurance policies, mediclaim, pension etc. would now need to introspect but are more likely to continue with the existing tax regime..

Personal loan, housing loan and insurance companies may be affected without going much into the fine print. However, banks and NBFCs are likely to efficiently use its resources to maintain its capital adequacy ratio.

Overall, the budget moves are trending away from the service sector and gradual shift may happen towards infrastructure, urbanisation and discretion spending.

OVERALL IMPACT : POSITIVE | SECTOR : IRON & STEEL

Budget Proposals and Impact

- 100 more airports to be developed by 2024 to support Udaan scheme
- Four railway stations to go under-development projects and operation of 150 passenger trains through PPP.
- 148 km long Bengaluru Suburban transport project at a cost of Rs 18600 crore, to have fares on metro model.
- Rs.1.7 lakh crore proposed for transport infrastructure in 2020-21
- Expansion of national gas grid from the present 16200 km to 27000 km proposed
- National Infrastructure Pipeline:
  - Rs. 103 lakh crore worth projects; launched on 31st December 2019.
  - More than 6500 projects across sectors, to be classified as per their size and stage of development.

With the Government ambitious plan to invest Rs.100 lakh crore on infrastructure and investing massively on building infrastructure to support India's long-term growth plan, we expect lots of opportunity ahead for the sector.

Backdrop

In FY19, India produced 131.57 million tonnes (MT) and 106.56 MT of gross finished steel and crude steel, respectively. Exports and imports of finished steel stood at 4.02 MT and 3.94 MT, respectively, in FY20P (up to September). India's finished steel consumption grew at a CAGR of 5.86 per cent to 50.8 MT in FY20 (till September'19). India's steel production is expected to increase from 106.56 MT in FY19 to 128.6 MT by 2021.

The Government has taken various steps to boost the sector including the introduction of National Steel Policy 2017 and allowing 100 per cent Foreign Direct Investment (FDI) in the steel sector under the automatic route. Between April 2000 and March 2019, inflow of US$ 113.12 billion has been witnessed in the metallurgical industries as Foreign Direct Investment (FDI).

Performance of Indian Steel industry

Category	April-Sept 2019 * (mt)	April-Sept 2018 (mt)	% change
Crude Steel Production	55.136	53.91	2.3
Hot Metal Production	36.798	36.129	1.9
Pig Iron Production	3.055	3.136	-2.6
Sponge Iron Production	18.423	17.192	7.2
Total Finished Steel (alloys/stainless + non alloys)			
Production	51.82	49.242	5.2
Import	4.018	4.001	0.4
Export	3.935	3.232	21.8
Conumprion	50.837	48.447	4.9

Source: JPC; * provisional; mt = million tonnes

Government of India has approved the National Steel Policy (NSP) 2017, as it seeks to create a globally competitive steel industry in India. NSP 2017 envisages 300 million tonnes (MT) steel-making capacity and 160 kgs per capita steel consumption by 2030-31.

Some of the key previous announcements for the sector

- Estimated Railway infrastructure need in excess of Rs 50 lakh crore between 2018 and 2030 and propose adoption of PPP route for faster development
- Massive programme of Railway Station modernization to be lunched

- Construction of 1.95 crore houses under phase II of PMAY-Gramin
- 17 Iconic tourism destinations to be developed as world class tourist destination
- Policy for Development of Maintenance, Repair and Overhaul (MRO), to achieve self- reliance in aviation segment

Government is investing massively in building infrastructure to support India's long term growth. India is far ahead than many emerging economies in terms of providing qualitative transportation related infrastructure. In view of the above, the sector has already looking up well as also can be seen from financials and rating tables and will continue to do well in the coming period

Credit Ratios

Credit ratio in steel sector worsened by 98 bps during 9MFY2020 as compared to 9MFY2019. With 125 upgrades and 210 downgrades during 9 months of FY2020 while credit ratios stood at 0.60 as compared to 1.58 in 9 months of FY2019.

Credit Ratio

Sector	Total No. of Companies (o/s as on Jan 2020)	9MFY19			9MFY20		
		Upgrades	Downgrades	Ratio	Upgrades	Downgrades	Ratio
Iron & Steel	2266	217	137	1.58	125	210	0.60

Source: CRISIL; SBI Research; numbers are for all rating agencies

Sectors Performance - Key Financials of Select Companies (Standalone)

Key Financials of Select Iron & Steel Companies for H1FY20 vis-à-vis H1FY19 (Rs in Crore)

Name of the Company	H1FY20			H1FY19			Growth H1FY20 on H1FY19		
	Net Sales	EBIDTA	PAT	Net Sales	EBIDTA	PAT	Net Sales	EBIDTA	PAT
Tata Steel Ltd	30299	7392	5377	33734	10705	5586	-10%	-31%	-4%
JSW Steel Ltd	32562	6628	4356	37706	9622	4471	-14%	-31%	-3%
Steel Authority of India Ltd	28947	2742	-274	32625	4630	1094	-11%	-41%	PTL
Jindal Steel & Power Ltd	13658	2863	239	13583	3097	715	1%	-8%	-67%
Jindal Stainless Steel Ltd	6237	631	119	6206	538	54	1%	17%	118%

Source: CLine; SBI Research

In Q3FY2020, we expect EBITDA of our coverage universe to grow by 25-30% QoQ (down 25% YoY) on the back of softening of key input prices. However, realisations are expected to fall by ~Rs2,000/t to Rs3,500/t QoQ in Q3FY2020. Steel volumes of coverage universe would grow sharply by 15% QoQ (+8.4% YoY) largely due to increase in restocking demand and exports. Trade disputes between USA and China, weakness in auto segment and surging inventory level would keep steel prices under pressure.

Market Reaction

Market Movement from Previous Budget (1st Feb'19) and on Budget Day (1st Feb'20)

Sector - Iron & Steel Name of the Companies	01-Feb-19	5-Jul-19	31-Jan-20	1-Feb-20	Movement Over 01-Feb-19		Movement on Budget Day	
					Price	%	Price	%
Tata Steel Ltd	475	478	439	423	-52.10	-10.98%	-16.10	-3.67%
JSW Steel Ltd	275	267	251	245	-29.70	-10.80%	-5.45	-2.17%
Steel Authority of India Ltd	46	48	47	44	-2.00	-4.32%	-2.25	-4.84%
Jindal Steel & Power Ltd	130	134	176	167	37.30	28.76%	-8.90	-5.06%
Jindal Stainless Steel Ltd	27	33	40	39	12.50	46.64%	-1.00	-2.48%

Source: NSE; closing price as on date

OVERALL IMPACT : NEUTRAL SECTOR : FMCG

Budget Proposals and Impact

- No major direct impact except for increased allocation for agriculture, irrigation and rural development will percolate down increasing farmers income. Improving logistics and higher agriculture credit is also likely to spur spending. Proposal to raise seamless national cold storage chain would also help some farmers.
- Continuation of rural push by way of rural housing, toilet, gas etc., which increase disposable surplus, along with steps like skilling agro-rural entrepreneurs, forming FPOS serve as enablers for the sector.

Backdrop

Most of the budget announcements during the years through indirect measures concerning disposable income of the masses has had a beneficial impact. In case of cost increase, the companies have been able to pass on the increase. During last year FMCG companies have shown increase in margins largely on price increases rather than on volumes. Shopping through alternate channels and home delivery has helped counter lean period especially during monsoons.

Once a key volume driver for Consumer companies, rural growth has been on a continuous slide for the past several quarters. Nielsen's data released on 21st Jan'20 also reflects continued slowdown in rural growth for the Dec'19 quarter. In fact, rural growth has slipped below urban growth for two successive quarters now.

Some of the key previous announcements for the sector

- Self-sufficiency and export of food-grains, pulses, oilseeds, fruits and vegetables.
- Electricity and clean cooking facility to all willing rural families by 2022.
- Eligible beneficiaries to be provided 1.95 crore houses with amenities like toilets, electricity and LPG connections during its second phase (2019-20 to 2021-22).
- Robust fisheries management framework through Pradhan Mantri Matsya Sampada Yojana (PMMSY) to address critical gaps in the value chain including infrastructure, modernization, traceability, production, productivity, post-harvest management, and quality control
- 75,000 entrepreneurs to be skilled in agro-rural industry sectors
- 10,000 new Farmer Producer Organizations (FPOs) to be formed, to ensure economies of scale for farmers.
- Government to work with State Governments to allow farmers to benefit from e-NAM.
- Agri-Market Infrastructure Fund with a corpus of Rs 2000 crore to be set up for developing and upgrading agricultural marketing infrastructure in the 22000 GrAMs and 585 APMCs.
- Measures to provide livelihood, agriculture and allied activities and construction of rural infrastructure would entail a budget of Rs 14.34 lakh crore, including Rs 11.98 lakh crore extra-budgetary and non-budgetary resources.

Credit Ratios

Sector Credit Ratios (Upgrade vis-à-vis downgrades) during 9MFY2020 as compared to previous year for the same period. With 780 upgrades and 308 downgrades, credit ratios for the 9MFY2020 stood at 0.39 against 0.75 for the same period previous year.

Credit Ratio

Sector	Total No. of Companies (o/s as on Jan 2020)	9MFY19			9MFY20		
		Upgrades	Downgrades	Ratio	Upgrades	Downgrades	Ratio
FMCG	6763	354	471	0.75	308	780	0.39

Source: CRISIL; SBI Research; numbers are for all rating agencies; consumer staples

Sectors Performance - Key Financials of Select Companies (Standalone)

Key Financials of Select FMCG Companies for H1FY20 vis-à-vis H1FY19 (Rs in Crore)									
Name of the Company	H1FY20			H1FY19			Growth H1FY20 on H1FY19		
	Net Sales	EBIDTA	PAT	Net Sales	EBIDTA	PAT	Net Sales	EBIDTA	PAT
Hindustan Unilever Ltd	19692	5023	3603	18494	4176	3054	6%	20%	18%
Marico Ltd.	3231	592	510	3181	514	439	2%	15%	16%
Godrej Consumer Products Ltd	2780	704	575	2759	676	516	1%	4%	11%
Britannia Industries Ltd	5421	859	743	5073	792	530	7%	8%	40%
Dabur India Ltd	3240	631	583	3010	608	538	7.65%	3.81%	8%

Source: CLine; SBI Research

Marico, in Q3FY20, reported 2% decline in revenue from operations at Rs. 1824 cr. While reported gross margin expansion of 286 bps on a year-on-year basis. EBITDA margin expanded by 116 bps to 20.4% and PAT grew by 11% to Rs.272 cr. During Q3FY20, HUL reported top line growth of 4% while EBIDTA and net profit grew by 14% and 12% respectively.

Dabur reported standalone revenue growth, in Q3FY20, of 5% to Rs.1748 cr. (PY Rs.1664 cr.) and EBIDTA and PAT growth of 7.1% and 5.7% respectively. Healthcare and Home & Personal care vertical grew by 10.7% and 3.5% respectively where as food business recorded a growth of 1.7% only. Whereas Godrej Consumer reported only 1% growth in India business by value and 7% by volume.

Growth in Q3FY20 in terms of value and volume of select companies is summarized as under: -

Growth in Q3FY20 vis a vis Q3FY19			
Company	Net Sales Value	Volume	Remarks
Hindustan Unilever Ltd.	4.0	5	Food & refreshment and Home care segment grew by 8% and 10% respectively, while Beauty and Personal care section reported de-growth of 1% by value
Nestle India Ltd.	10.5	-	Food and Dairy Products
Marico Ltd.	-5.0	-1	Parachute Coconut Oil (Rigid packs) and value aded hair oil both de-grew by 2% and 7% respectively whereas Saffola (Refined Edible Oil) grew by 11% by volume
Dabur India Ltd	5.6	5.6	Healthcare and Home and personal care vertical grew by 10.7% and 3.5% respectively; Food business recorded a growth of 1.7% only
Hatsun Agro Product Ltd.	4.7	-	Food and Dairy Products
Godrej Consumer Products Ltd.	1.0	7	Household insecticides and other categories grew 3% and 7% respectively, while Soap and Haircolours degrew by 4% each by volume terms
Colgate-Palmolive (India) Ltd.	4.1	2.3	Personal Care

Source: Company reports; SBI Research; Nestle Q3 2019 ended Sept'19

Market Reaction

Market Movement from Previous Budget (1st Feb'19) and on Budget Day (1st Feb'20)								
Sector - FMCG Name of the Companies	1-Feb-19	5-Jul-19	31-Jan-20	1-Feb-20	Movement Over 01-Feb-19		Movement on Budget Day	
					Price	%	Price	%
Hindustan Unilever Ltd	1799	1791	2034	2074	274.7	15.27%	39.75	1.95%
Marico Ltd.	376	379	315	305	-71.1	-18.87%	-9.95	-3.16%
Godrej Consumer Products Ltd	711	672	673	662	-48.7	-6.85%	-10.70	-1.59%
Britannia Industries Ltd	3251	2825	3201	3088	-163.3	-5.02%	-113.00	-3.53%
Dabur India Ltd	452	407	496	484	31.7	7.00%	-12.25	-2.47%
NIFTY FMCG INDEX	30200	29973	30775	30197	-3.3	-0.01%	-578.65	-1.88%

Source: NSE; closing price as on date

OVERALL IMPACT : NEGATIVE | SECTOR : AUTOMOBILE

Budget Proposals and Impact

- Off budget announcements generally, lends policy direction. No major direct impact on automobiles has been touched upon.
- Discretionary spending resulting from surplus arising out of removal of tax exemptions are not likely to make a major impact.
- Earlier announcements in this sector stated here-below in *Italics* are likely continue.
- Phase II of Fame India Scheme (Faster Adoption and Manufacturing of Hybrid and Electric Vehicles) for three years commencing from April 1, extending total budgetary support of Rs 10,000 crore
- Income tax deduction of up to Rs 1.5 lakh on the interest paid on loan for purchase of electric vehicle
- Upfront incentive proposed on purchase and charging infrastructure, to encourage faster adoption of Electric Vehicles
- Global Hub for Electric Vehicle

Backdrop

Auto manufacturers in India witnessing one of the worst phases in recent times with continuous decline in sales owing to weak consumer sentiments across all segments. Both rural and urban regions are going through demand distress. The automobile segment has been registering degrowth for the past couple of quarters. The broad reasons which could be associated with the negative sentiments generated in this sector are:

- Increase cost of acquisition owing to implementation of strict safety regulations etc.
- Falling liquidity due to the NBFC crisis
- Rural distress resulting in falling rural incomes
- Overall slowing economy and decelerating income hikes
- Impacting of increased axle norms leading to suspending of purchase plans
- Muted performance of core sectors such as Mining and Infrastructure
- Increase in used car market
- Impact of car rentals and mobility options
- Absence of Clear migration and incentive policy towards EV

In the 9MFY20 (April to Dec) domestic auto sector reported declined of around 16%, across category, as compared to meager growth of 5.15% in FY19. Export sales of commercial vehicle and three wheelers also declined by 38.74% and 8.80% respectively. Though two wheelers and passenger vehicle recorded growth of 6.86% and 5.89% respectively. Tables showing growth in each category is as under: -

Automobile - Domestic Industry 9M FY19 vis-à-vis 9MFY20

Category	9MFY20	9MFY19	YoY %
Two Wheeler	13914974	16526785	-15.80%
Three Wheeler	506756	520813	-2.70%
Four Wheeler - PV	2117837	2533255	-16.40%
Commercial Vehicle	570782	723182	-21.07%
Total All Auto	17111303	20304213	-15.73%

Source: SIAM; SBI Research

Automobile - Export Industry 9M FY19 vis-à-vis 9MFY20			
Category	9MFY20	9MFY19	YoY %
Two Wheeler	2685700	2513189	6.86%
Three Wheeler	390747	428458	-8.80%
Four Wheeler - PV	540384	510305	5.89%
Commercial Vehicle	46320	75608	-38.74%
Total All Auto	3667585	3531232	3.86%

Source: SIAM; SBI Research

Thrust on E-Vehicles

The Government has approved Phase II of Fame India Scheme (Faster Adoption and Manufacturing of Hybrid and Electric Vehicles) for three years commencing from April 1, extending total budgetary support of Rs 10,000 crore as per last budget announcement. Under the Phase II of Fame, the Government intends to support about 7,000 e-buses with a total outlay of Rs 3,500 crore by extending demand incentives for deployment of electric buses using operational cost model to be adopted by State and City Transport Corporations. All efforts are being made to make this scheme a success.

Credit Ratios

Sector Credit Ratios (Upgrade vis-à-vis downgrades) during 9MFY19 (April'2019 to Dec'2020) as compared to previous year for the same period is as under:

Credit Ratio							
Sector	Total No. of Companies (o/s as on Jan 2020)	9MFY19			9MFY20		
		Upgrades	Downgrades	Ratio	Upgrades	Downgrades	Ratio
Automobile	57	4	1	4	1	4	0.25

Source: CRISIL; SBI Research; numbers are for all rating agencies

Credit ratios for the sector detoriated to 0.25 in 9MFY2020 as compared to 4 in 9MFY2019. The ratio reflects weakness in the sector on the back of increase in cost of acquisition, uncertainty towards EV transition etc., as we see 4 downgrades against only one upgrade in 9MFY2020.

Sectors Performance - Key Financials of Select Companies (Standalone)

Key Financials of Select Automobile Companies for H1FY20 vis-à-vis H1FY19 (Rs in Crore)									
Name of the Company	H1FY20			H1FY19			Growth H1FY20 on H1FY19		
	Net Sales	EBIDTA	PAT	Net Sales	EBIDTA	PAT	Net Sales	EBIDTA	PAT
Tata Motors Ltd	23164	312	-1379	34236	2145	1297	-32%	-85%	PTL
Maruti Suzuki India Ltd	34856	3654	2794	43363	6782	4216	-20%	-46%	-34%
Mahindra & Mahindra Ltd	23999	3014	3526	26508	3477	2870	-9%	-13%	23%
Hero Motocorp Ltd	15601	2199	2132	17901	2756	1885	-13%	-20%	13%
Ashok Leyland Ltd	9480	681	269	13646	1458	949	-31%	-53%	-72%
Bajaj Auto Ltd	15064	2476	2528	15099	2753	2268	-0.2%	-10%	11%

Source: CLine; SBI Research

All major players, across sector, reported negative growth in top line and operating income during H1FY2020 as compared to H1FY2019.

Market Reaction

Market Movement from Previous Budget (1st Feb'19) and on Budget Day (1st Feb'20)								
Sector - Automobile Name of the Companies	**01-Feb-19**	**5-Jul-19**	**31-Jan-20**	**1-Feb-20**	**Movement Over 01-Feb-19**		**Movement on Budget Day**	
					Price	**%**	**Price**	**%**
Tata Motors Ltd	182	160	177	165	-16.3	-8.95%	-11.20	-6.34%
Maruti Suzuki India Ltd	6962	6360	6914	6775	-187.3	-2.69%	-138.50	-2.00%
Mahindra & Mahindra Ltd	688	642	567	545	-143.3	-20.82%	-22.05	-3.89%
Hero Motocorp Ltd	2807	2512	2502	2420	-387.3	-13.79%	-81.85	-3.27%
Ashok Leyland Ltd	84	87	82	77	-6.5	-7.72%	-4.85	-5.92%
Bajaj Auto Ltd	2603	2843	3180	3145	542.3	20.83%	-35.05	-1.10%
NIFTY AUTO INDEX	8441	7849	8087	7880	-561.0	-6.65%	-206.3	-2.55%

Source: NSE; closing price as on date

SECTOR : CONSTRUCTION | **OVERALL IMPACT : POSITIVE**

Budget Proposals and Impact

- Rs 100 lakh crore to be invested on infrastructure over the next 5 years
  - National Infrastructure Pipeline:
    - Rs. 103 lakh crore worth projects; launched on 31st December 2019.
    - More than 6500 projects across sectors, to be classified as per their size and stage of development.
- 100 more airports to be developed by 2024 to support Udaan scheme
- Four station re-development projects and operation of 150 passenger trains through PPP.
- 148 km long Bengaluru Suburban transport project at a cost of Rs 18600 crore, to have fares on metro model.
- Rs 1.7 lakh crore proposed for transport infrastructure in 2020-21
- 27000 Km of Railway tracks to be electrified
- Expansion of national gas grid from the present 16200 km to 27000 km proposed

With the Government ambitious plan to invest Rs 100 lakh crore on infrastructure, we see lots of opportunity for the construction sector. Rs 22,000 crore provided to cater to the equity support to Infrastructure Finance Companies such as IIFCL and a subsidiary of NIIF is further an enabler for the sector.

Backdrop

In view of the focused policy decision of government's investments in public infrastructure, and its policies to provide affordable housing to all by FY2022, construction sector is expected to grow at a strong rate over the next few years. These reforms have improved the overall attractiveness of the market, and paved way for investments from private and foreign companies.

Further, rapid growth of urban population which requires immediate improvement in urban transportation, utility infrastructure, and provision of affordable housing. The government has steadily increased focus on construction and, infrastructure.

Government is consistently increasing public expenditure in Infrastructure in order to provide renewed impetus to economic growth. Special thrust of this drive is on key development sectors including Rural Roads, Housing, Railways, Power, Highways and Digital Infrastructure.

Some of the key previous announcements for the sector

- Estimated Railway infrastructure need in excess of Rs 50 lakh crore between 2018 and 2030 and propose adoption of PPP route for faster development
- Massive programme of Railway Station modernization to be lunched
- National Highway Grid
- Construction of 1.95 crore houses under phase II of PMAY-Gramin
- 17 Iconic tourism destinations to be developed as world class tourist destination
- 99 Cities have been selected with an outlay of Rs.2.04 lakh crore
- AMRUT programme focuses on providing water supply to all households in 500 cities. State level plans of Rs.77,640 crore for 500 cities have been approved. Water supply contracts for 494 projects worth Rs.19,428 crore and sewerage work contract for 272 projects costing Rs.12,429 crore has been awarded
- Regional connectivity scheme of UDAN to connect 56 unserved airports and 31 unserved helipads across the country

Credit Ratios

Sector Credit Ratios (Upgrade vis-à-vis downgrades) during 9MFY2020 as compared to previous year for the same period show upgrades of 181 and downgrades of 666 during 9MFY2020 and thus credit ratio worsening by 44 bps to 0.27 from 0.71 for 9MFY2019.

Credit Ratio							
Sector	Total No. of Companies (o/s as on Jan 2020)	9MFY19			9MFY20		
		Upgrades	Downgrades	Ratio	Upgrades	Downgrades	Ratio
Constructions	4357	227	318	0.71	181	666	0.27

Source: CRISIL; SBI Research; numbers are for all rating agencies

Sectors Performance - Key Financials of Select Companies (Standalone)

Key Financials of Select Constructions Companies for H1FY20 vis-à-vis H1FY19 (Rs in Crore)									
Name of the Company	H1FY20			H1FY19			Growth H1FY20 on H1FY19		
	Net Sales	EBIDTA	PAT	Net Sales	EBIDTA	PAT	Net Sales	EBIDTA	PAT
Larsen & Toubro Ltd	35251	2769	3376	31660	2614	2666	11%	6%	27%
Sadbhav Engineering Ltd	1403	174	65	1095	108	42	28%	61%	55%
NCC Ltd	3920	483	161	5464	585	229	-28%	-17%	-30%
Simplex Infrastructures Ltd	2484	330	28	3063	348	53	-19%	-5%	-46%
JMC Projects (India) Ltd	1846	202	75	1422	148	57	30%	36%	32%

Source: CLine; SBI Research

In Q3FY20 L&T, standalone, reported 6% decline in net revenue to Rs 19885 crore as compared to Rs 21102 crore in the same period previous year. Net profit too declined by 18% to Rs 1343 crore in Q3FY2020 from Rs 1634 crore for the same period a year before. However, group order inflow increased by 11% to Rs 1286 bn during 9MFY2020 as compared to Rs 1157 bn during 9MFY2019. Order book too improved by 9% to Rs 3063 bn as on Dec'2019 from Rs 2812 bn as on Dec'2018.

Market Reaction

Market Movement from Previous Budget (1st Feb'19) and on Budget Day (1st Feb'20)								
Sector - Construction Name of the Companies	01-Feb-19	5-Jul-19	31-Jan-20	1-Feb-20	Movement Over 01-Feb-19		Movement on Budget Day	
					Price	%	Price	%
Larsen & Toubro Ltd	1325	1558	1369	1287	-38.0	-2.87%	-82.7	-6.04%
Sadbhav Engineering Ltd	196	222	130	121	-75.2	-38.32%	-8.6	-6.67%
NCC Ltd	79	96	55	51	-28.5	-35.94%	-4.0	-7.21%
Simplex Infrastructures Ltd	156	116	41	43	-113.3	-72.65%	2.0	4.92%
JMC Projects (India) Ltd	93	135	98	92	-1.1	-1.18%	-6.1	-6.22%
NIFTY INFRA INDEX	2998	3373	3252	3155	157.4	5.25%	-96.7	-2.97%

Source: NSE; closing price as on date

SECTION : ROAD **OVERALL IMPACT : POSITIVE**

Budget Proposals and Impact

- Rs 1.7 lakh crore proposed for transport infrastructure in 2020-21
- Accelerated development of highways to be undertaken, including:
  - 2500 Km access control highways.
  - 9000 Km of economic corridors.
  - 2000 Km of coastal and land port roads.
  - 2000 Km of strategic highways.
- Delhi-Mumbai Expressway and two other packages to be completed by 2023
- Chennai-Bengaluru Expressway to be started
- Proposed to monetise at least 12 lots of highway bundles of over 6000 Km before 2024
- Rs 100 lakh crore to be invested on infrastructure over the next 5 years

Projects including 1,25,000 kilometers of road length to be upgraded over the next five years under PMGSY III with an estimated cost of Rs 80,250 crore and Bharatmala Pariyojana to develop about 35000 kms in Phase-I at an estimated cost of Rs 5.35 lakh crore coupled with Rs 1.75 lakh crore proposed for transport infrastructure are definitely positive for the sector and provide clear path for sector for near term.

Backdrop

The Ministry of Road Transport and Highways has fixed a target for construction of 12,000 km national highways in FY20. The length of national highways constructed reached 1,31,326 kms. The Government of India aims to construct 65,000 km of national highways at the cost of Rs 5.35 lakh crore by 2022. In the month of December 2018, the Ministry of Road Transport and Highways (MoRTH) touched a record 31.87 kilometre per day average of national highway construction. In the coming years, NHAI's increased delegation autonomy along with Bharatmala Pariyojana initiative is expected to enable growth in awarding momentum. NHs under the Bharatmala Pariyojana programme which aims to optimise the productivity of freight and passenger movement by filling the critical infrastructure gaps also sight to increase the number of districts with national highway linkages from 300 to 550.

With the Government permitting 100 per cent foreign direct investment (FDI) in the road sector, several foreign companies have formed partnerships with Indian players to capitalise on the sector's growth. Cumulative FDI in construction development since April 2000 stood at US$ 25.30 billion as of September 2019.

National Highway Authority of India (NHAI) has built a robust tendering project pipeline worth ~Rs1trn. We believe many these 113 packages totaling ~4000km would be awarded by the end of FY20. Of these, 17 projects worth Rs120bn are already in advanced stages of being awarded. These packages fall under Delhi-Vadodara, Amritsar-Jamnagar and Amaravati-Chikhli corridors. We expect ordering activity to improve significantly over next 2-3 months, given NHAI's target to award 4,000km and its large tendering pipeline. Hybrid Annuity Model (HAM) would remain the preferred mode of tendering, given that it comprises 63% of NHAI's tender pipeline. NHAI has awarded 1,164km of projects (Rs204bn) YTDFY20E, of which, 100km was on HAM basis, with the remaining on EPC basis until Dec 2019.

- The current tendering pipeline comprises 113 projects worth ~Rs 1 trn. Of the total tendering pipeline, HAM constitutes Rs 633bn (70 projects), Engineering, Procurement and Construction (EPC) is Rs325bn (41 projects) and BOT-Toll is at Rs40bn (2 in number). NHAI has floated new draft model concession agreements for BOT–Toll, which it expects to finalise soon.
- As on 16 Jan 2020, NHAI accepted technical bids for 17 projects worth ~Rs120bn, which are expected to be awarded over the next few days. Of these, development of Delhi-Vadodara corridor constitutes 7 packages worth Rs63bn,

Amritsar-Jamnagar corridor constitutes 5 packages worth Rs25bn and Amravati-Chikhli corridor constitutes 4 packages worth Rs24bn.

- The major contenders for these 17 projects are, HG Infra (12 projects worth Rs88bn), Dilip Buildcon (7 projects worth Rs 42bn), PNC Infra (7 projects worth Rs63bn), Adani Enterprises (5 projects worth Rs30bn), Ashoka Buildcon (4 projects worth Rs 39bn), Welspun Enterprises (4 projects worth Rs 24bn), Larsen & Toubro (L&T; 2 large projects worth Rs 21bn) and various other private players.
- NHAI has accepted financial bids for two of the 17 packages, both of which fall under the Delhi-Vadodara corridor in Madhya Pradesh and the awardees would be announced over the next few days. Key contenders for the 2 packages (valued at ~Rs9bn each) include HG infra, IRCON, Ashoka Buildcon and PNC Infratech (among other private players).
- Of the 113 projects in the pipeline, ~40 are valued at more than Rs10bn, which we believe should benefit companies with stronger balance sheets.
- NHAI awarded Rs 204bn worth of projects (of ~1,164km) YTDFY20E, of which, EPC constituted Rs 147bn (of 1,064km) and HAM comprised Rs 57bn (of 100km).
- As per the target set forth by Ministry of Road Transport and Highways (MoRTH), NHAI is expected to award ~4,000km in FY20E. To date, NHAI has awarded ~Rs204bn worth of projects (of ~1,164km). With projects worth ~Rs1trn (of the ~4,000km) under various stages of the ordering pipeline, we expect a spurt in ordering activity over the next two months.

Companies with strong balance sheets to be key beneficiaries include Ashoka Buildcon, Sadbhav Engineering and PNC Infra etc. A robust tendering pipeline and increased proportion of HAM projects should bode well for these companies, enabling them to bid for projects at attractive margins/IRR. Additionally, with several projects in the pipeline worth >Rs 10bn (37 projects of worth ~Rs 508bn), larger players should benefit the most, in our view.

Some of the key previous announcements for the sector

- Bharatmala Phase-II to be lunched
- State Road network to be developed
- National Highway Grid
- 1,25,000 kilometers of road length to be upgraded over the next five years under PMGSY III with an estimated cost of Rs 80,250 crore

With ambitious Bharatmala Pariyojana for providing seamless connectivity of interior and backward areas and borders of the country to develop about 35000 kms in Phase-I at an estimated cost of Rs 5,35,000 crore, road sector to travel a long way in the coming year.

Credit Ratios

Sector Credit Ratios (Upgrade vis-à-vis downgrades) during 9MFY2020 as compared to previous year for the same period show 25 upgrades and 68 downgrades during 9MFY2020 and thereby credit ratio worsening to 0.37 as compared to 0.55 during 9MFY2019.

Credit Ratio

Sector	Total No. of Companies (o/s as on Jan 2020)	9MFY19			9MFY20		
		Upgrades	Downgrades	Ratio	Upgrades	Downgrades	Ratio
Road	459	28	51	0.55	25	68	0.37

Source: CRISIL; SBI Research; numbers are for all rating agencies

Sectors Performance - Key Financials of Select Companies (Standalone)

Key Financials of Select Road Sector Companies for H1FY20 vis-à-vis H1FY19 (Rs in Crore)									
Name of the Company	H1FY20			H1FY19			Growth H1FY20 on H1FY19		
	Net Sales	EBIDTA	PAT	Net Sales	EBIDTA	PAT	Net Sales	EBIDTA	PAT
JMC Projects (India) Ltd	1846	202	75	1422	148	57	30%	36%	32%
PNC Infratech Ltd	2502	437	307	1294	204	138	93%	114%	123%
Gayatri Projects Ltd	1682	252	63	1434	240	71	17%	5%	-11%
IRB Infrastructure Developers Ltd	1958	234	155	1600	198	198	22%	18%	-22%
Ashoka Buildcon Ltd	1699	232	137	1448	185	126	17%	26%	9%

Source: CLine; SBI Research

All the above companies reported double digit growth in topline in H1FY20. However, Gayatri Projects Ltd. and IRB Infrastructure Developers Ltd. reported decelerating trend in PAT.

Market Reaction

Market Movement from Previous Budget (1st Feb'19) and on Budget Day (1st Feb'20)								
Sector - Roads Name of the Companies	01-Feb-19	5-Jul-19	31-Jan-20	1-Feb-20	Movement Over 01-Feb-19		Movement on Budget Day	
					Price	%	Price	%
JMC Projects (India) Ltd	93	135	98	92	-1.1	-1.18%	-6.1	-6.22%
PNC Infratech Ltd	143	204	198	191	48.2	33.75%	-7.4	-3.73%
Gayatri Projects Ltd	171	152	54	52	-119.0	-69.79%	-2.7	-4.98%
IRB Infrastructure Developers Ltd	145	94	107	98	-46.7	-32.21%	-8.3	-7.74%
Ashoka Buildcon Ltd	121	141	114	106	-15.3	-12.63%	-8.5	-7.39%

Source: NSE; closing price as on date

OVERALL IMPACT : POSITIVE SECTOR : CEMENT

Budget Proposals and Impact

- Targeted development of 100 new airports, road projects, building of hospitals are some of the big takeaways for the Cement sector.
- Indirect measures such as creation of national logistics policy and encouraging credit MSMEs and agriculture are likely to make a positive impact on the sector.
- National Highway Grid and State Road network is being developed alongside these measures
- 1,25,000 kilometers of road length upgrade over the next five years under PMGSY III with an estimated cost of Rs 80,250 crore as per last announcement.

While challenges in financing of Rs102 trillion national infrastructure pipeline remain, other areas such as Bharatmala Pariyojana is being undertaken separately. The ambitious Bharatmala Pariyojana announced in year 2017 to develop key corridors detailed out the first phase of the scheme for development of approximately 35,000 km of roads at an overall capital outlay of Rs 5.35 lakh crore. In line with this vision, the Ministry of Road Transport and Highways, along with its agencies, namely NHAI and NHIDCL, have ramped up road construction from 2 km per day in 2014 to 30 km as on Dec 2019.

In January 2020, the Government lowered its fourth bid for monetization of toll assets by about Rs 2000 crore. This has been done to attract retail investor helping accelerate monetization quicker. Earlier, the government was planning to monetise toll assets by raising through equity. However, cumulative resources garnered through new financial instruments like Infrastructure Investment Trusts (InvITs), Real Estate Investment Trusts (REITs) as well as few models like Toll-Operate-Transfer (ToT) exceed Rs 24,000 crore.

Backdrop

Cement companies last week hiked prices by Rs.10-20/50kg across markets expecting demand pick-up from second half of January. While hikes in 3Q were rolled back, channel expects current hikes to sustain and companies to take similar hikes in Feb'20. Recent rally in cement stocks suggests investors too are confident hikes will sustain. Both hikes, if sustained through 4Q, alongside falling petcoke prices could drive ~Rs300/t unitary EBITDA expansion on average. This could drive upgradation in FY20 EBITDA estimate.

Cement production capacity presently stood at around 470 million tonnes per year (mtpa). Capacity addition of 20 million tonnes per annum (MTPA) is expected in FY19- FY21. Due to the increasing demand in various sectors such as housing, commercial construction and industrial construction, cement industry is expected to reach 550-600 Million Tonnes Per Annum (MTPA) by the year 2025.

The eastern states of India are likely to be the newer and virgin markets for cement companies and could contribute to their bottom line in future. In the next 10 years, India could become the main exporter of clinker and gray cement to the Middle East, Africa, and other developing nations of the world. Cement plants near the ports, for instance the plants in Gujarat and Visakhapatnam, will have an added advantage for exports and will logistically be well armed to face stiff competition from cement plants in the interior of the country

We expect following key trends to emerge in coming year: -

- recovery in volume growth backed by pick-up in spends on infrastructure development (roads, irrigation, metros, etc.)
- limited clinker expansion, which should help clinker utilization rise to 79%
- front-ended price hikes after continuous decline in the past six months
- benign costs in H1 on lower petcoke prices

Further, demand is expected to improve on the back of measures announced by government to improve liquidity and demand. Further, Government of India announced a detailed roadmap for National Infrastructure Pipeline with Rs.100 lakh crore infrastructure investment planned over FY20-25. The largest planned outlay is in sectors, which directly support cement demand – 19% in roads, 16% in urban infrastructure (metro projects, housing, etc.), 8% in irrigation, 4% in rural infrastructure, etc.

Some of the key previous announcements for the sector

- Estimated Railway infrastructure need in excess of Rs 50 lakh crore between 2018 and 2030 and propose adoption of PPP route for faster development
- Massive programme of Railway Station modernization to be lunched
- Construction of 1.95 crore houses under phase II of PMAY-Gramin
- 17 Iconic tourism destinations to be developed as world class tourist destination
- Policy for Development of Maintenance, Repair and Overhaul (MRO), to achieve self- reliance in aviation segment

Government is investing massively in building infrastructure to support India's long term growth. India is far ahead than many emerging economies in terms of providing qualitative transportation related infrastructure. In view of the above, the sector is already looking up well as also can be seen from financials and rating tables and will continue to do well in the coming period.

Credit Ratios

Sector Credit Ratios (Upgrade vis-à-vis downgrades) during 9MFY2020 as compared to previous year for the same period with 6 upgrades and 5 downgrades during 9MFY2020, credit ratio stands at 1.20 as compared to 1.37 during 9MFY2019.

Credit Ratio

Sector	Total No. of Companies (o/s as on Jan 2020)	9MFY19			9MFY20		
		Upgrades	Downgrades	Ratio	Upgrades	Downgrades	Ratio
Cement	115	11	8	1.375	6	5	1.20

Source: CRISIL; SBI Research; numbers are for all rating agencies

Sectors Performance - Key Financials of Select Companies (Standalone)

Key Financials of Select Cement Companies for H1FY20 vis-à-vis H1FY19 (Rs in Crore)

Name of the Company	H1FY20			H1FY19			Growth H1FY20 on H1FY19		
	Net Sales	EBIDTA	PAT	Net Sales	EBIDTA	PAT	Net Sales	EBIDTA	PAT
UltraTech Cement Ltd	20276	4604	1906	18048	3011	923	12%	53%	106%
Shree Cement Ltd	5838	1746	672	5657	917	329	3%	90%	104%
Prism Johnson Ltd	2814	268	57	2826	261	77	0%	2%	-26%
The Ramco Cements Ltd	2631	655	360	2327	497	239	13%	32%	50%
J K Cements Ltd	2582	558	263	2216	320	114	17%	74%	130%

Source: CLine; SBI Research

Ultra Tech, Ramco and JK Cement reported double digit growth in topline during H1FY20. All the above companies except Prism reported excellent growth in both EBIDTA and PAT during the same period.

Q3 Result expectations - We expect EBITDA to grow by 20-30% YoY, led by higher realisations and lower costs. Volumes would grow marginally by 1-2% YoY, hampered by lower govt spending on infrastructure and continued sluggishness in real estate sector

Market Reaction

Market Movement from Previous Budget (1st Feb'19) and on Budget Day (1st Feb'20)

Sector - Cement Name of the Companies	01-Feb-19	5-Jul-19	31-Jan-20	1-Feb-20	Movement Over 01-Feb-19		Movement on Budget Day	
					Price	%	Price	%
UltraTech Cement Ltd	3484	4522	4416	4247	763.35	21.91%	-169.10	-3.83%
Shree Cement Ltd	15782	21366	23007	22278	6496.25	41.16%	-728.65	-3.17%
Prism Johnson Ltd	67	92	69	66	-1.45	-2.15%	-3.20	-4.62%
The Ramco Cements Ltd	602	777	781	769	166.70	27.68%	-12.35	-1.58%
J K Cements Ltd	712	1001	1386	1319	606.85	85.21%	-66.95	-4.83%

Source: NSE; closing price as on date

MARKET MOOD: MOVEMENT IN KEY INDICES FROM PREVIOUS BUDGET DAY AND ON BUDGET DAY

Market Movement of Key Indices from Previous Budget (1st Feb'19) and on Budget Day (1st Feb'20)

Indices	01-Feb-19	5-Jul-19	31-Jan-20	1-Feb-20	Movement Over 01-Feb-19		Movement on Budget Day	
					Price	Percentage	Price	Percentage
BSE SENSEX	36,469	39,513	40,723	39,736	3266.1	8.96%	-988.0	-2.43%
NIFTY 50	10,894	11,811	11,962	11,662	768.2	7.05%	-300.3	-2.51%
NIFTY MIDCAP 100	16,990	17,530	18,010	17,521	530.3	3.12%	-489.7	-2.72%
NIFTY AUTO	8,441	7,849	8,087	7,880	-561.0	-6.65%	-206.3	-2.55%
NIFTY BANK	27,086	31,476	30,834	29,821	2735.0	10.10%	-1012.7	-3.28%
NIFTY FMCG	30,200	29,973	30,775	30,197	-3.3	-0.01%	-578.6	-1.88%
NIFTY INFRA	2,998	3,373	3,252	3,155	157.4	5.25%	-96.7	-2.97%
NIFTY PHARMA	8,970	7,927	8,139	8,014	-955.8	-10.66%	-124.9	-1.53%
NIFTY REALITY	231	282	331	305	73.6	31.81%	-26.1	-7.87%
NIFTY MEDIA	2,097	2,053	1,835	1,756	-341.4	-16.28%	-79.4	-4.33%
NIFTY METAL	2,816	2,851	2,569	2,481	-335.1	-11.90%	-88.4	-3.44%

Source: NSE; BSE; closing points as on date

Notes

Notes

Contact Details:

Dr. Soumya Kanti Ghosh
Group Chief Economic Adviser
Economic Research Department
State Bank Bhawan, Corporate Centre
M C Road, Nariman Point
Mumbai - 400 021
Phone: 022-22742440
Email: soumya.ghosh@sbi.co.in | gcea.erd@sbi.co.in