The Finapolis

Nirmala's Big-Picture Budget 2020 Offers No Quick Fix For Growth

Author: **Kumar Shankar Roy** / Wednesday, February 5, 2020 / Categories: **Exclusive**

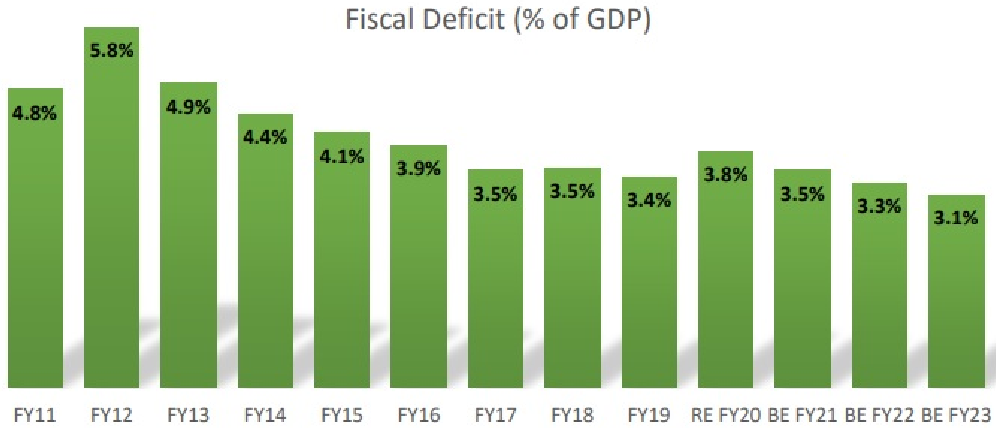
If you expected the Union Budget to quickly revive economic growth with big-bang announcements, you are disappointed. But if you expected the Union Budget to delve into multiple areas and work towards a long-term vision, you will be more or less satisfied. Finance Minister Nirmala Sitharaman's first full-budget, after the Narendra Modi government won a second term, falls short of embarking on substantial structural reforms to reverse the sluggish trend and revive the investment climate to accelerate growth. Given that the next Lok Sabha election is due in 2024, the latest Budget has taken a long-term view of things, rather than deliver short-term growth boosters.

It seems the Finance Minister is more comfortable in bringing out mini-budgets and follow-up measures, aka like a T20 cricket player, than the test-match performance that many expected her to deliver. Her Budget speech, which lasted a full two hours and 40 minutes, was high on decibel, but lacked the immediate punch that was anticipated especially after the Economic Survey, authored by her chief economic adviser K. Subramanian, on Friday laid out a refreshing preamble. While there is focus on developing rural economy, infrastructure, healthcare and education, massive job-creation remains the need of the hour --- an area where the government has to play catch-up.
For a market that remained buoyant even in the face of poor economic growth, the immediate reaction is telling. The Sensex closed nearly 1000 points or 2.4% down on Saturday, underlining its disillusionment. Most of the Corporate India, which last year was given a Rs 1.45-lakh crore tax cut dole, remained indebted, played its role as a

cheerleader and stayed on the sidelines in terms of expressing the disappointment that is writ large on the faces of home-makers, retired individuals, HNIs and others. Read on to know more.

Long-term vision, digital focus

The Union Budget 2020-21 has carried forward the government's vision of developing India as a key manufacturing hub. But where it has not lived up to the expectations is in being pragmatic and quick-footed about addressing the economic growth challenge that we are currently facing. One may argue that the government cannot quickly reverse the slowdown. However, this government was formed on the 'Acche Din' (good days) promise and so there will always be heightened expectations.



Source: Budget Documents. RE = Revised Estimates, BE = Budgeted Estimates

Government Revenue & Expenditure						
₹ crore	FY19	FY20RE	YoY (%)	FY21BE	YoY (%)	Comments
Direct Taxes	1136616	1170000	2.9	1319000	12.7	With recovery in GDP in FY21 and a low base of current year, the target pegged for gross tax collections seems achievable at 12%. On the GST front, the estimates indicate a monthly average collection of ₹ 115000 crore, which seems reasonable
Indirect Taxes & Others	943851	993423	5.3	1104020	11.1	
Gross Tax Revenues	**2080467**	**2163423**	4.0	**2423020**	12.0	
Less: State Shares	763254	658836	(13.7)	787111	19.5	
Net Tax revenue	**1317213**	**1504587**	14.2	**1635909**	8.7	
Non Tax Revenues	235704	345513	46.6	385017	11.4	
Total Revenue Receipts	**1552917**	**1850100**	19.1	**2020926**	9.2	
Capital Receipts						
Recovery of Loans	18052	16605	(8.0)	14967	(9.9)	Disinvestment target pegged at ₹ 210000 crore. Out of this, the government expects to receive ₹ 90000 crore from strategic disinvestment in IDBI Bank and insurance major LIC
Disinvestments	94727	65000	(31.4)	210000	223.1	
Total	112779	81605	(27.6)	224967	175.7	
Total Receipts	**1665696**	**1931705**	16.0	**2245893**	16.3	
Total Expenditure	**2315114**	**2698553**	16.6	**3042230**	12.7	Focus on revving up growth has been key takeaway as government has pegged 18.1% growth in caex for FY21BE (21.7% on FY20 BE). This allocation is significantly higher compared to last five year's average allocation of ₹ 291478 crore vs.₹ 412084 crore for FY21BE
On Revenue Account	2140612	2349645	9.8	2630146	11.9	
On Capital Account	316624	348908	10.2	412084	18.1	
Fiscal deficit	**649418**	**766848**	18.1	**796337**	3.8	
Primary Deficit	61848	141743	129.2	88134	(37.8)	
GDP estimates	19010643	20442233	7.5	22489420	10.0	Fiscal expansion of 50 bps (from 3.0% as per FRBM to 3.5%) to provide additional buffer of over ₹ 1.12 lakh crore in FY21BE
Fiscal deficit as % of GDP	**3.4%**	**3.8%**		**3.5%**		

** ICICI Direct Research estimates*

"Growth resurrection takes the center-stage this year, as the budget tries to deliver on multiple fronts. It, however, stops short of focusing on any single impactful measure. The budget doesn't put forth immediate measures to support faltering consumption," according to Franklin Templeton.

"The prominent theme of Budget 2020 was the ease of living with improved Governance, such as improved savings for an average household, benefits to MSMEs through enhanced threshold and composition limits thus converting the Indian society to aspire for a better standard of living coupled with greater economic development and care. However, the fine print doesn't seem to support this theme," points out Jimmy Patel, CEO and Managing Director, Quantum Asset Management.

While the Budget tries to strike the notes by focusing on areas like digital revolution, experience with digital things has showed that things are far from being as simple as was portrayed. "We are happy to see the push for adopting AI and ML particularly in the healthcare sector, which will help boost access to services as well as quality of care for more people, and further infuse growth in the economy. It is also interesting to see that the government has invested Rs 8,000 crore to the National Mission on Quantum Technologies, which will ensure India remains a key global technology player," says KT Prasad, Country Sales Director, Zendesk India.

Prakash Mallya, V-P, and MD (Sales and Marketing Group), Intel India, says the Union Budget highlights the role technology-enabled innovation can play in leapfrogging the nation. From integration in priority sectors like agriculture and healthcare to a continued focus on smart cities, the first budget of the new decade clearly outlines the significance of a digital-first India in realizing the country's potential.

"I am especially encouraged by the efforts to use artificial intelligence (AI) and machine learning (ML) to improve disease detection and pre-emption as part of the PM Jan Arogya Yojana. Such applications of emerging technologies combined with the focus on increasing the penetration of fibre connectivity in the nation have the potential to fundamentally impact the lives of millions in the coming years," adds Mallya.

Give some, take some

An increase in the insurance coverage for deposits from Rs 1 lakh per depositor to Rs 5 lakh per depositor, will help re-instill confidence in bank fixed deposits. After the PMC Bank and other cooperative bank failures, there has been a fear that bank deposits are not safe. The increase in deposit insurance was overdue given that the Rs 1 lakh limit was set in 1993. This will certainly give a sense of security to depositors, especially senior citizens, who rely on their deposit interest for regular income needs in their golden years.

But if the deposit insurance hike has been given, new tax complications have been introduced. Individual salary tax payers will be the worst hit as more complexities have been introduced in the form of alternate Income Tax slabs with the removal of exemptions and deductions.

For those who earn Rs 5 lakh a year or those who earn above Rs 15 lakh a year, the new and old rates are tax-neutral. Individuals who now take help of tax exemptions linked to investments in ELSS (mutual funds), life insurance, PPF, mediclaim, etc., will have to compare their tax outgo in both structures to see which suits them.

"The move to increase tax-exempted income through the introduction of new tax slabs, as well as through the reported rationalization of deductions and exemptions, may be welcomed by taxpayers seeking simplicity in taxation. However, tax-payers own and want to continue with their tax-saving investments. Therefore, they must calculate whether they benefit by moving to the new regime without deductions or remaining in the old regime to continue claiming deductions," says Adhil Shetty, Cofounder and CEO, BankBazaar.

Plus, the new tax rates pose a major risk. "With the removal of incentives/deductions for individuals on savings linked products the impetus seems to be towards spending, rather than focusing on longer-term financial security for individuals. If an individual opts for the

Budget Impact

Sector	Budget Impact (Gainer/Loser/Neutral)	Why?
Agrochemicals	Gainer	Agriculture credit target growth set at 25% to ₹15 trn (US$ 210bn). While a lot depends on the rainfall during the upcoming Kharif season, we like the two schemes, particularly in the 16 action points taken by the government to boost agriculture, the warehousing initiative, and resolving challenges in 100 water stressed areas.
Automobiles	Neutral	Marginal increase in allocation to agriculture, rural, and infrastructure, together with targeted 25% rise in agriculture credit for farmers and supporting MSMEs will provide some support to 2Ws and PVs demand. We prefer PVs over 2Ws and CVs, as channel inventory is low and least affected by the BS-VI transition.
BFSI	Gainer	Benefits to MSME and agriculture, and investments are expected to expedite stuck investments and improve investment sentiment. While the extent of migration because of the new tax regime is yet to be gauged, in the event of migration there is likely to be shift form insurance savings to other financial investments.
Capital Goods	Gainer	Capex allocations marginally increased, compared to the last budget in most areas, such as railways, defence.
Cement	Neutral	Nothing specific in demand revival.
Chemicals	Neutral	NA
Consumer	Negative	No real measures to boost demand; Increase in duty on cigarettes; Increase in customs duty on footwear.
Consumer Durables	Neutral	Custom duty increased 2.5% to 12.5%, which is negative for ACs. Increase in duties on fans from 10% to 20% is positive for domestic fan makers.
Energy	Gainer	Promoting gas infrastructure, which will increase gas consumption.
Hotels	Gainer	Increase in expenditure budget for the tourism sector and 100 new airports under Udaan scheme by 2024.
Infra and Construction	Gainer	Higher budgetary allocation and reiteration of infrastructure push.
Information Technology	Gainer	Payout yield to increase by 20% across companies.
Logistics and Ports	Neutral	National logistics Policy will soon be released; Viability gap funding for creation of efficient warehouses on PPP model.
Media	Gainer	Reduction in custom duty on Newsprint from 10% to 5%.
Pipes	Neutral	Water for all to propel demand for pipes and fittings.
Power & Utilities	Gainer	Tax rate of 15% of new power plants; Smart metering to be fully done in three years.
Telecom	Loser	Significant increase in projected revenue receipts from the sector, raises concern over likely support package over the SC judgment.

Source: DART Research (Dolat Capital)

new tax regime slabs, they would be forgoing tax exemptions, which are a part of the earlier tax regime, and may end up spending money than use it towards their financial safety and security," says Tarun Chugh, MD & CEO, Bajaj Allianz Life Insurance.

DDT out, but burden on recipients

The Budget 2020 proposes to remove Dividend Distribution Tax (DDT) and make dividend made taxable in the hands of the recipient at the applicable rate. This is good for individuals with low taxable income, but bad for individuals with high income.

Currently, companies are required to pay DDT on the dividend paid to its shareholders at the rate of 15 per cent plus applicable surcharge and Cess in addition to the tax payable by the company on its profits. It has been argued that the system of levying DDT results in increase in tax burden for investors.

"DDT is removed, but individual taxpayers will need to pay tax on the same. Those falling in 30 per cent tax bracket will end up paying more taxes compared to earlier as they used to pay no tax on dividend income of up to Rs 10 lakh," pointed out Kuldip Kumar, Leader Personal Tax, PwC India.

Plus, while Dividend Distribution Tax has been done away with in the hands of corporates, it will increase the tax outflow and bureaucratic burden of maintaining records and offering the same for tax in individual returns. Retired individuals who use dividends to generate regular income are also at a disadvantage.

"Infrastructure Investment Trusts (InvITs) and Real Estate Investment Trusts (REITs) seem to be bearing the brunt of this change with dividend income which was earlier exempt from DDT now being subject to tax in hands of investors of the InvITs and REITs," according to Nishith Desai Associates.

However, for holding companies, abolition of DDT leads to increase in cash flow to the extent of 17.65 per cent of dividend given by subsidiaries. This translates to ~3-17% positive impact on profitability on consolidated basis, PSU players like Coal India, which receive large dividends from subsidiaries, are expected to witness substantial gain on an absolute basis.

One of the interesting proposals in the Budget is the proposed of Life Insurance Corp. (LIC). The government has announced the disinvestment of LIC which will not only help it raise finances but will also improve governance at one of the largest corporate entities in the country, says Sameer Kaul, Managing Director & CEO, Trust-Plutus.

The Government's decision to list LIC is a welcome move. "This will result in better governance and greater transparency given the disclosure requirements of listed entities. It will also contribute materially to the efforts of the Government to raise funds through divestments." Sandeep Ghosh, Partner & Leader - Financial Services Advisory, EY India.

LIC

But if getting a good market value of LIC is the key, the removal of insurance premium exemption from new tax rate structure is self-defeating. It will have a major negative effect on the growth of the sector since insurance policies are normally offered based on such exemptions. The way listed stocks were of life insurers were dumped on Saturday - ICICI Prudential Life (down 10.9%), SBI Life (down 10%) and HDFC Life (down 6%) - this shows that even private life insurance companies are worried.

"While, listing of LIC is a good move which will bring focus on the life insurance sector, other expectations of sector could have been met better. The insurance industry will be watchful of the implication of the direct tax changes in the new tax regime," said Kamlesh Rao, CEO Aditya Birla Sun life Insurance.

Infra push: But bets will take time

A welcome measure in Budget 2020 is a 100 per cent tax break for sovereign funds on investment in infrastructure projects. The 100 per cent tax exemption has been proposed to be given to the interest, dividend and capital gains income on investment made in infrastructure and priority sectors before March 31, 2024, with a minimum lock-in period of three years by the Sovereign Wealth Fund (SWF) of foreign governments.

"So, we are working towards improving our infrastructure, the government has taken some very big steps. By allowing zero tax on a yielding asset, we believe it will send a very positive signal to sovereign funds," argues Abhishek Bansal, Chairman and Managing Director, Abans Group of Companies.

However, in a global situation that is fragile at the best, it remains to be seen whether SWFs will be attracted to Indian government's efforts. A lot of work on infrastructure takes a long time to show results. For example, the National Infrastructure Pipeline (NIP) worth Rs 102 lakh crores is spread over the next five years.

The government's capital expenditure gross budgetary support increased 13.4 per cent YoY to Rs 3.48 lakh crore vs. budgeted Rs 3.38 lakh crore in FY20E and is expected to grow 18 per cent YoY to Rs 4.1 lakh crore in FY21E. Out of total, 80 per cent of capex is planned towards five core sectors viz. power, roads, housing, railways and irrigation.

"Despite slipping from the fiscal prudence path in FY20RE and FY21BE, the incremental slippage has been allocated to higher infrastructure spend," says ICICI Securities.

Budgetary allocations towards Infrastructure rose, however the increase does not look adequate enough to address the ongoing slow-down in investment activity, pointed out Rajesh Cheruvu, Chief Investment Officer, Validus Wealth.

Nilesh Shah, MD & CEO, Kotak Mahindra Asset Management Company says: "The budget is good on intent. However, the key is efficient execution in a time-bound manner. There are many positives to simplify things and encourage entrepreneurs but again, key will be execution in a time-bound manner. Intent needs to be converted into implementation."

Subsidy, duties

The Budget has not addressed the present demand slackening that has contributed to the growth slowdown, and particularly rural consumption, which might delay the revival of the economy in the near term.

"There is not much structural reform agenda in the Budget proposal, though there are no freebies and hike in the unproductive expenditures. The FM leaves the challenges of the growth revival to the market, as factors that would hinder would be higher interest rates going forward, unclear infrastructure financing plan, and specific measures to enhance credit flows from the banks and NBFC sector," says Dr HK Pradhan, Professor of Finance and Economics at XLRI – Xavier School of Management.

The Budget has announced lowering of subsidy estimates for FY20E from initial estimates of Rs 3.2 lakh crore to Rs 2.5 lakh crore due to rationalisation of food subsidies. For FY21BE, subsidy is expected at Rs 2.6 lakh crore, a marginal increase YoY. The food subsidy is expected to increase from Rs 1.1 lakh crore in FY20RE to Rs 1.2 lakh crore in FY21E. There is a dramatic reduction in allocation to Food Corporation of India (FCI) (budgeted amount of
Rs. 1,51,000 crore in FY20 that has reduced to
Rs 75,000 crore in the revised estimate and is budgeted at Rs 77,983 crore in FY21). Fertilizer subsidy is expected to decline by Rs 8,700 crore to Rs 71,300 crore. Oil subsidy is expected to marginally increase to Rs 40,900 crore due to increase in LPG subsidy.

With a target to double farm incomes by 2022, the government has announced multiple measures or action points to strengthen the agricultural ecosystem in the country. Agriculture credit target growth has been set at 25 per cent to Rs 15 lakh crore ($ 210 billion). While a lot depends on the rainfall during the upcoming Kharif season, schemes, particularly in the 16 action points taken by the government to boost agriculture, the warehousing initiative, and resolving challenges in 100 water stressed areas are key. At the risk of repeating, getting results in them will take time.

On the expenditure side, there has been a sharp compression of revenue expenditure by four per cent and the capital expenditure is shown at three per cent higher in 2019-20 over the previous year. Much of the compression in revenue expenditures was in central sector (12%) and centrally sponsored schemes (4%). In 2020-21, the revenue and capital expenditures are estimated at 12% and 18% higher than the current year.

"Despite many announcements in the budget on schemes relating to subjects in the States' domain like agriculture, irrigation, rural development and health, the expenditure on central sector and centrally sponsored schemes is budgeted to increase respectively at 7.6 per cent and 7.3 per cent next year. In other words, a considerable part of the expenditure compression in 2019-20 was borne by the States and while the overall expenditure of the Centre is budgeted to increase by 12.7 per cent next year, the increase in the transfers on account of Central sector and centrally sponsored schemes would be just about 7.4 per cent," says Dr. M Govinda Rao, Chief Economic Advisor, Brickwork Ratings.

As anticipated, continuing with the Government's focus on 'Make in India' initiative, custom duty has been increased on import of certain goods, such as electrical appliances and household items, in order to de-incentivise their imports. Custom duty increased 2.5 per cent to 12.5 per cent, which is negative for ACs. Increase in duties on fans from 10 per cent to 20 per cent is positive for domestic fan makers.

Anita Rastogi, Partner (Indirect Tax & GST), PwC India, says that "the government has also strengthened safeguard duty provisions in order to protect domestic industry against the serious injury from surge in imports. Additionally, the provisions for checking dumping of goods and import of subsidized goods have also been strengthened for ensuring a level playing field for domestic manufacturing players. On import of certain medical equipments, Health Cess has also been imposed, over and above the Customs duties. Since undue claims under Free Trade Agreements have posed threat to domestic manufacturers of goods, certain measures such as review of Rules of Origin requirements would be taken, for certain sensitive items."

Zero DDT benefit flowing to holding companies....

Company (FY19)	Dividend Income (₹ crore)	Dividend pre tax (₹ crore)	Benefit (₹ crore)	Impact on PBT	Impact on PAT*
Max Financial	281	341	60	13%	17%
CESC Ventures	56	68	12	5%	14%
Tata Inv.Corpn.	105	127	22	15%	13%
JSW Holdings	57	69	12	12%	9%
Coal India	8933	10847	1915	7%	8%
Sundaram Fin.Hol	65	79	14	33%	8%
Kirloskar Indus.	38	46	8	4%	7%
Bajaj Holdings	609	739	130	4%	3%
JM Financial	114	138	24	2%	3%
Aditya Birla Cap	162	197	35	3%	3%
Bengal & Assam	55	67	12	3%	3%
L&T Fin.Holdings	344	417	74	2%	2%
Rain Industries	85	103	18	2%	2%
I D F C	121	147	26	3%	2%
Bajaj Finserv	287	348	61	1%	1%
Chola Financial	58	71	12	1%	1%

** Corporate tax assumed at 25%*

Source: Capital Line, Budget documents, ICICI Direct Research

Getting Fiscal

The Budget provides credible numbers in terms of the fiscal math, recognising the revenue shortfall faced this year. It uses up the 50 bps point leeway that the FRBM act provides for both this and the next year which is a welcome step, points out Abheek Barua, Chief Economist, HDFC Bank.

The economy has slowed down considerably owing to various global and macro factors. As a result, the fiscal deficit for FY20 has been revised to 3.8 per cent from 3.3 per cent earlier. For FY21, the fiscal deficit target has been revised to 3.5 per cent with a nominal GDP growth assumption of 10 per cent. The marginal increase in the fiscal deficit is broadly in line with the investor expectations, however, for FY21 the reduction in fiscal deficit is more through divestment, which is targeted at a whopping Rs 2.1 lakh crore, double the amount targeted in FY20.

The FM has done well in abiding by the fiscal prudence principles for FY21 and the targets set by her look achievable. But it will be crucial for her to stick to it for FY21, else the international rating agencies may have adverse views, warns Dhiraj Relli, MD & CEO, HDFC Securities.

Pressure points remain. According to Suyash Choudhary, Head – Fixed Income, IDFC AMC, among the important pressure points that one has to be cognizant of is a possibility of downward revisions to the revised estimates for FY20 versus when the actuals come about like what happened in FY19, although the magnitude of such revisions is likely to be less adverse. This may make the budgeted growth rates for tax items look more challenging. Even as things stand some items, personal income tax growth for instance, are prima-facie looking somewhat aggressive.

"The nominal GDP growth assumption at 10 per cent is an undershoot in our view, given our less sanguine expectation on India's cyclical recovery prospects. This is especially true now with a new headwind to global growth in the form of the Corona virus," says Choudhary of IDFC AMC.

Under non-tax receipts, the budget amount for communication services seems aggressive (Rs 1,33,027 crore in FY21 versus Rs 58,990 crore for revised estimate in FY20) given the well- known general stress in the sector which may impede the ability to pay. Also, while there are new levers for generating capital receipts (including disinvestment of government stake in public sector banks and financial institutions), it may still be an uphill task and may require continuous action over the course of the year.

(The writer is a journalist with 14 years of experience)