

UNION BUDGET 2019-20

Update & Analysis



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PREFACE

The Union Budget of 2020 has pegged the fiscal deficit to 3.3% against 3.4% as estimated in the Interim Budget has come as major surprise, and bond and INR has responded accordingly with gains. From Global ratings perspectives, India has made a case through this number to ask for a better rating after slew of NBFC crisis in the country. The fiscal math may look too ambitious, it puts to rest naysayers on domestic growth factors and investors may stay put in Indian markets, especially foreign investors.

Union Budget 2020: Reflection of a strong mandate, targets for a growth equilibrium

The Union Budget of 2020 has pegged the fiscal deficit to 3.3% against 3.4% as estimated in the Interim Budget has come as major surprise, and bond and INR has responded accordingly with gains. From Global ratings perspectives, India has made a case through this number to ask for a better rating after slew of NBFC crisis in the country. The fiscal math may look too ambitious, it puts to rest naysayers on domestic growth factors and investors may stay put in Indian markets, especially foreign investors.

PSU Bank recapitalization amount of INR70000 crores would provide the much needed growth capital and PSU divestment target of INR105000 crores for FY20 is also robust initiative. INR400000 crores recovery through IBC is positive for PSU Banks. Proposal to bring public holdings in companies to 35% from 25% after SEBI's approval has both, positive and negative implications. A larger float in companies is likely to raise MSCI weightage in Indian companies, thereby evincing global investor's interest in Indian equities. However, some MNCs may delist shares from Indian market post its implementation.

The Union Budget 2020 has put to rest expectations from high income elite class of any sympathy with respect to taxation and raised surcharge on direct tax by 3% between income of INR2-5crores and by 7% above 5crores. As if this was not enough, the unanimous demand to do away with dividend distribution tax was met with 20% tax on buyback of listed shares, putting to rest any such recommendations in future. From capital market perspective this may not augur well as buybacks are earnings accretive and increase shareholder value, thereby raising interest in equity investments.

Road Cess on petrol and diesel does not bode well for the already sagging automobile industry. However, indication of a software oil prices in FY20 in the Economic survey may negate the actual impact. Also, GST on EV from 12% to 5% may shift manufactures and buyers towards EV, raising demand of Electric vehicle and partially meeting environment norms. Reduction of Corporate Tax for companies up to turnover of INR400crores from INR250crores to 25% is a move in the right direction. Doing away with Angel tax and several measures to boost investment in SMES may help generate employment. Investment of INR100 lacs crores over a period of 5 years in infrastructure development, thrust on farm sector, and other socio-economic measures is likely to spur growth and employment in the country.

As laid down in the Economic Survey, the Union Budget 2019-20, lays the blueprint for a \$5trillion economy through data and behavioral science to set the virtual cycle of investment, growth and employment in the country.

Team

Stewart & Mackertich Research

Economy

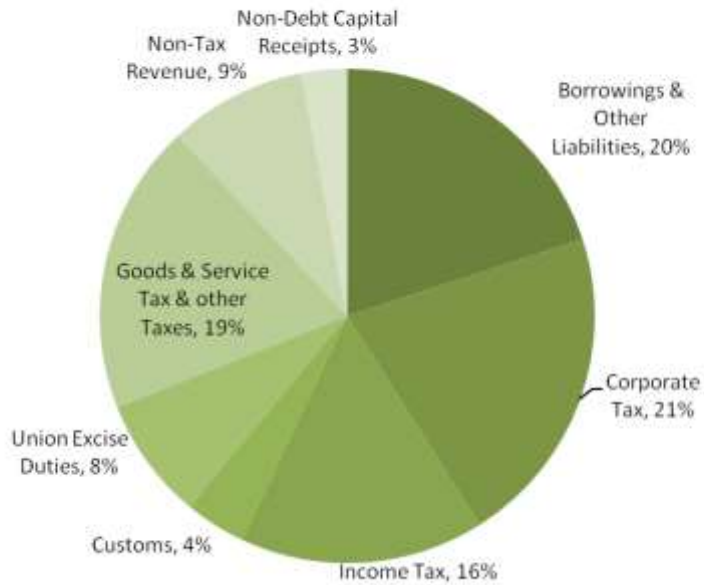
- India will become \$3 trillion economy this year. Structural reforms need to be continued to achieve \$5 trillion economic goal.
- Local sourcing norms will be relaxed for the single-brand retail sector.
- Government to open FDI in aviation, insurance, animation AVGC and media.
- New Jal Shakti ministry will work with states to ensure Har Ghar Jal for all rural houses by 2024.
- Pradhan Mantri Gram Sadak Yojana phase 3 is envisaged to upgrade 1,25,000 km of road length over the next 5 years.
- Government to invest INR80,250 crore for up gradation of roads under PM Gram Sadak Yojana.
- Every single rural family, except those unwilling, to have electricity by 2022.
- NPAs recover INR4 lakh crore over the last four years, NPAs down by INR1 lakh crore in the last one year.
- Schemes such as BharatMala, Sagarmala and UDAN are bridging rural urban divide and improving transport infrastructure.
- Railways will require investment of INR50 lakh crore from FY2018-30.
- Government to promote innovative zero Budget farming and 10,000 new farm produce organizations will start.
- 80 Livelihood business incubators and 20 technology business incubators to be set up in FY2019-20 under ASPIRE to develop 75,000 skilled entrepreneurs in agro-rural industries.
- Government to launch 'Study in India' programme to attract foreign students in higher education.
- Government allocate INR400 crore for world-class higher education institutions in FY20.
- Government to unveil a new education policy.
- INR1 lakh loan to be provided for SHG women members.
- INR3,000 pension per month for workers from the informal sector.

Fiscal Snapshot

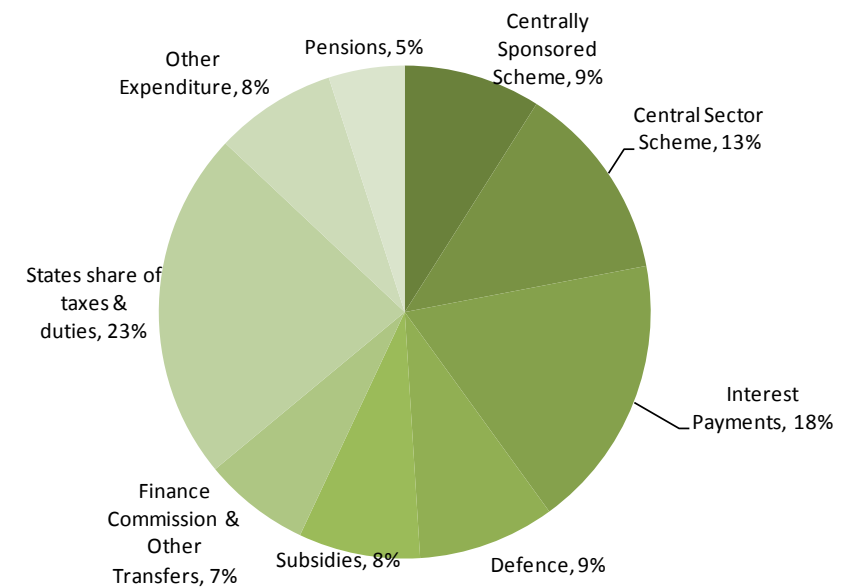
- Fiscal deficit has been estimated at 3.3% of the GDP in FY20.
- Government will start raising part of borrowing in foreign currency.
- Government external debt to GDP is among the lowest in the world.
- Divestment target of INR1.05 lakh crore for FY20.

Sl. No.	Particulars	FY2017-18	FY2018-19	FY2018-19	FY2019-20
		Actual	Budget Estimates	Revised Estimates	Budget Estimates
1.	Revenue Receipts	1435233	1725738	1729682	1962761
	2. Tax Revenue (Net to Centre)	1242488	1480649	1484406	1649582
	3. Non-Tax Revenue	192745	245089	245276	313179
4.	Capital Receipts 1	706740	716475	727553	823588
	5. Recoveries of Loans	15633	12199	13155	14828
	6. Other Receipts	100045	80000	80000	105000
	7. Borrowing and Other Liabilities 2	591062	624276	634398	703760
8.	Total Receipts (1+4)	2141973	2442213	2457235	2786349
9.	Total Expenditure (10+13)	2141973	2442213	2457235	2786349
10.	On Revenue Account of which	1878833	2141772	2140612	2447780
11.	Interest Payment	528952	575795	587570	660471
12.	Grants in Aid for Creation of Capital Assets	191034	195345	200300	207333
13.	On Capital Account	263140	300441	316623	338569
14.	Revenue Deficit (10-1)	443600	416034	410930	485019
		(2.6)	(2.2)	(2.2)	(2.3)
15.	Effective Revenue Deficit (14-12)	252566	220689	210630	277686
		(1.5)	(1.2)	(1.1)	(1.3)
16.	Fiscal Deficit {9-(1+5+6)}	591062	624276	634398	703760
		(3.5)	(3.3)	(3.4)	(3.3)
17.	Primary Deficit (16-11)	62110	48481	46828	43289
		(0.4)	(0.3)	(0.2)	(0.2)

Sources of Revenue in FY20



Heads of Expenditure in FY20



Source: Budget Documents

State of the Economy

Global confidence on the Indian economy has improved as seen from indicators like improvement in ease of doing business and gross FDI inflows.

Overview of the Economy:

Despite a moderation in real GDP growth by 40 basis points in FY19, Indian economy remained the fastest growing major economy along with macroeconomic stability. There was a pickup in fixed investment rate in FY19. Fiscal situation remained comfortable and the consolidation process continues to bring down the elevated level of public debt. Consumer price inflation was within the targeted limits set by the monetary policy committee of RBI. Current Account Deficit increased from 1.9% of GDP in FY18 to 2.4% in April-December FY19. Global confidence on the Indian economy has improved as seen from indicators like improvement in ease of doing business and gross FDI inflows. According to World Bank's Ease of Doing Business 2019 Report, India's ranking improved by 23 positions to 77th rank in 2018. India has emerged as an important player in the world and the medium term growth prospects of the economy are bright mainly on the back of the important structural reforms initiated in the last few years.

Economic growth:

India's real growth was 6.8% in FY19, as compared to 7.2% in FY18. This moderation in GDP growth momentum is mainly attributed to the lower growth in 'agriculture & allied' sector, and in services sector (except financial, real estate and professional services). The growth of gross value added (GVA) was 6.6% in FY19, as compared to the growth of 6.9% achieved in FY18. The growth in agriculture, industry and services was 2.9%, 6.9% and 7.5% respectively in FY19, as compared to 5.0%, 5.9% and 8.1% respectively in FY18. From the demand side, private final consumption expenditure is an important driver of growth and has a major share (close to 60%) in the economy's GDP, with its growth rate mostly being higher than the overall GDP growth rate. The growth of fixed investment increased from 9.3% in FY18 to 10.0% in FY19. Exports and imports of goods and services grew at 12.5% and 15.4% respectively in FY19, as compared to 4.7% and 17.6% respectively in FY18.

Prices :

Inflation based on Consumer Price Index declined to 3.4% in FY19 from 3.6% in FY18. CPI inflation stood at 3% in May 2019. In terms of food inflation, average consumer food price index (CFPI) declined to 0.1% in FY19 from 1.8% in FY18, 4.2% in FY17 and 4.9% in FY16. Inflation based on CFPI stood at 1.8% in May 2019.

The average inflation measured in terms of Wholesale Price Index (WPI) stood at 4.3% in FY19, as compared to 3.0% in FY18. WPI Inflation stood at 2.5% in May 2019. WPI food inflation declined to 0.6% in FY19 from 1.9% in FY18. WPI food inflation stood at 5.1% in May 2019.

CPI food inflation declined to 0.1% in FY19 from 4.9% in FY16.

The revised estimates place fiscal and revenue deficits at 3.3% of GDP and 2.3% of GDP respectively in FY20.

During April-December FY19, net FDI was US\$24.8 billion as compared to US\$23.9 billion in April-December 2017-18.

Central Government Finances:

The fiscal deficit target for FY18 was budgeted at 3.2% of GDP, but there was a bump of 0.3% and the Fiscal Deficit was 3.5% of GDP. Fiscal deficit and revenue deficit were budgeted at higher level in FY19 i.e. INR6,24,276 crore (3.3% of GDP) and INR4,16,034 crore (2.2% of GDP) respectively. As per the Provisional Actuals (PA), Fiscal deficit was 3.4% of GDP and revenue deficit was 2.3% of GDP in FY19. The budget estimates (BE) for FY19 envisaged a growth for gross tax revenue (GTR) of 16.7% over RE of FY18. The total expenditure in FY19 BE was estimated to increase by 10.1% over RE of FY18. As per the PA data for FY19, the GTR increased by 8.4% over FY18 and was at 91.6% of BE of FY19. The non-tax revenue registered an increase of 27.7% over FY18. Major subsidies increased by 3.1% during FY19 over FY18. Food subsidy increased by INR1,622 crore, petroleum subsidy increased by INR104 crore while fertilizer subsidy increased by INR4157 crore during FY19 over FY18. Fiscal deficit and revenue deficit are at 103% of BE and 107% of the BE respectively in FY19. The revised estimates place fiscal and revenue deficits at 3.3% of GDP and 2.3% of GDP respectively in FY20.

External Sector:

Trade deficit increased to US\$183.5 billion during FY19, from US\$162.1 billion in the previous year. The value of India's merchandise exports increased by 8.6% to US\$329.5 billion in FY19 from US\$303.5 billion in the previous year. Imports also increased by 10.2% in FY19 to US\$513.1 billion from US\$465.6 billion in the previous year. Imports of petroleum, oil and lubricants (POL) increased by 29.7% in FY19 to US\$140.9 billion from US\$108.7 billion in the previous year, mainly on account of the increase in international crude oil prices. Non-POL imports for FY19 increased by 4.3% to US\$372.2 billion from US\$356.9 billion in the previous year. The growth of merchandise exports and imports both slowed down in FY19, however the decline in growth in imports was much sharper than that of exports. Based on the Balance of Payments (BoP) data available for the first three quarters of FY19, the trade deficit on BoP basis increased to US\$145.3 billion in April-December 2018 from US\$118.4 billion in April-December 2017. Net invisibles surplus in April-December 2018 increased to US\$93.4 billion from US\$82.8 billion in April-December 2017, with increase observed in net services and net private transfers. Net services receipts increased by 5.0% in April-December 2018 over the corresponding period of the previous year.

During April-December FY19, net FDI was US\$24.8 billion as compared to US\$23.9 billion in April-December FY18. In case of net portfolio there was an outflow of US\$10.1 billion in April-December FY19, as against net inflow of US\$19.8 billion in the corresponding period of the previous year. India's current account deficit (CAD) increased from US\$35.7 billion (1.8% of GDP) in April-December 2017 to US\$51.9 billion (2.6% of GDP) in April-December 2018. On BoP basis, there was net depletion to India's foreign exchange reserves by US\$17.5 billion in April-December 2018, which including the valuation changes stood at US\$29.0 billion. The stock of foreign exchange reserves was US\$395.6 billion at end-December 2018. While trade deficit widened in April-December 2018 as compared to April-December 2017, the improvement in invisibles balance and banking capital were not sufficient to finance the CAD, leading to depletion in foreign exchange reserves in April-December 2018.

Nominal growth of the economy is expected to be 11.0% in FY20

Prospects of the economy according to budget documents: The growth momentum of the economy is expected to strengthen in FY20. The prospects for Indian economy for FY20 need to be assessed in the light of emerging global and domestic developments. Global economic growth is expected to slow down in 2019 which could limit India's export growth. However, growth of the Indian economy is expected to pick up. There are signs of revival of investment activity in the economy and the recent pick up in the growth of fixed investment can be expected to maintain momentum in the coming year. In line with the projections for strengthening of India's growth by international institutions, the nominal growth of the economy is expected to be 11.0% in FY20.

MACROECONOMIC FRAMEWORK STATEMENT (ECONOMIC PERFORMANCE AT A GLANCE)

Sl. No.	Particulars	Absolute value		Percentage change	
		FY2017-18	FY2018-19	FY2017-18	FY2018-19
1.	GDP at market prices (thousand crore)				
	a) at current prices	17095	19010	11.3	11.2
	b) at 2011-12 prices	13180	14078	7.2	6.8
2.	Index of Industrial Production	125.3	129.8	4.4	3.6
3.	Wholesale Price Index	114.9	119.8	3.0	4.3
4.	Consumer Price Index	135.0	139.6	3.6	3.4
5.	Money Supply (M3) (thousand crore)	13962.6	15430.9	9.2	10.5
6.	Imports at current prices				
	a) In INR Crore	3001033	3587684	16.4	19.5
	b) In US\$ million	465581	513086	21.1	10.2
7.	Exports at current prices				
	a) In INR Crore	1956515	2303898	5.8	17.8
	b) In US\$ million	303526	329536	10.0	8.6
8.	Trade Deficit (US\$ million)	-162055	-183550	49.4	13.3
9.	Foreign Exchange Reserves (at March) (US\$ million)	424545	412871	14.8	-2.7
10.	Current Account Balance (US\$ million)	-35651	-51865		

Direct Tax Proposals

The government also announced INR1.5 lakh income tax deduction on interest paid on loans for purchase of electric vehicles.

The government also announced 2% TDS on cash withdrawal on amount exceeding INR1 crore in a year.

Surcharges on individuals having taxable income of INR2 crore to INR5 crore and INR5 crore and more have been raised by around 3% and 7%, respectively.

'Angel tax' issue resolved start-ups and investors filing requisite declarations and providing information in their returns not to be subjected to any kind of scrutiny in respect of valuations of share premiums.

- Increasing surcharge on income over INR2 crore/year.
- Faceless tax scrutiny case selection to be on random basis.
- Propose 2% TDS on INR1 crore/year cash withdrawal from bank.
- Propose to take slew of measures to boost digital payments.
- Launching automated, faceless assessment of tax.
- To make pre-filled tax return forms available.
- To make Aadhaar, PAN interchangeable to file tax returns.
- Tax proposals aim to stimulate growth, housing.
- Direct tax mop up INR11.37 trillion in FY19 vs INR6.38 trillion in FY14.
- Seeing double-digit growth in direct tax revenue annually.
- Corporate tax now 25% for cos with INR400 crore/year revenue.
- Corporate tax cut to cover 99.3% of all companies.

Indirect Tax Proposals

Basic Customs Duty increased on cashew kernels, PVC, tiles, auto parts, marble slabs, optical fibre cable, CCTV camera etc.

- To raise road, infra cess on petrol, diesel by INR1/litre.
- Raising customs duty on precious metals to 12.5% from 10%.
- Customs duty being exempted on some parts of e-vehicles.

Exemptions from Custom Duty on certain electronic items now manufactured in India withdrawn.

- 5% customs duty being imposed on imported books.
- To implement fully-automated GST refund module.

Defence equipment not manufactured in India exempted from basic customs duty

- GST led to lower rates on almost all commodities
- Tax deduction of INR150,000 on e-vehicle loan interest.

Legacy Dispute Resolution Scheme for quick closure of pending litigations in Central Excise and Service tax from pre-GST regime

- Extra INR150,000 tax deduction on some small home loans.
- RBI, banks to absorb merchant discount rate at small shops.
- No merchant discount rate on e-transaction at small shops.

Sectorial Impact & Analysis

Agriculture and Agrochemicals

Proposals	Impact
<p>Considering the fact that majority of people still live in villages and depend on agriculture and traditional industries, the 'Scheme of Fund for Up-gradation and Regeneration of Traditional Industries' (SFURTI) aims to set up more Common Facility Centers (CFCs) to facilitate cluster based development . The focused sectors are Bamboo, Honey and Khadi clusters.</p>	<p>This will increase productivity & profitability of the traditional sector & also will help employment generation in the rural sector.</p>
<p>Rural Industry and Entrepreneurship' (ASPIRE) has been consolidated for setting up of Livelihood Business Incubators (LBIs) and Technology Business Incubators (TBIs). The Scheme contemplates to set up 80 Livelihood Business Incubators (LBIs) and 20 Technology Business Incubators (TBIs) in 2019-20 to develop 75,000 skilled entrepreneurs in agro-rural industry sectors.</p>	<p>This will bring innovation & will help to develop entrepreneurship in the rural sector.</p>
<p>Investment in agricultural infrastructure will be boosted up. Support will be provided to private entrepreneurs in driving value-addition to farmers' produce from the field and for those from allied activities, like Bamboo and timber from the hedges and for generating renewable energy .'. Annadata can also be Urjadata'</p>	<p>This will improve profitability of rural produce & will boost up entrepreneurship in the rural economy.</p>
<p>Dairying through cooperatives shall be encouraged by creating infrastructure for cattle feed manufacturing, milk procurement, processing & marketing .</p>	<p>Cattle feed Industry & Dairy Industry will be boosted up in the rural economy & rural entrepreneurship will be developed in these sector.</p>
<p>This Government will work with State Governments to allow farmers to benefit from e-NAM. The Agriculture Produce Marketing Cooperatives (APMC) Act should not hamper farmers from getting a fair price for their produce.</p>	<p>This will improve farmers' income.</p>
<p>Department of Drinking Water and Sanitation, will focus on integrated demand and supply side management of water at the local level, including creation of local infrastructure for source sustainability like rainwater harvesting, groundwater recharge and management of household wastewater for reuse in agriculture. The Jal Jeevan Mission will converge with other Central and State Government Schemes</p>	<p>This is aimed to sustainable water supply management across the country.</p>
<p>To ensure Har Ghar Jal to all rural households by 2024 under Jal Jeevan Mission</p>	<p>This will ensure well being of rural people. Also will boost up piping Industry.</p>

Auto & Auto Ancillary

Proposals	Impact
<p>Boost to Electric Vehicles: Additional income tax deduction of INR150,000 on interest paid on electric vehicle loans. Customs duty exempted on certain parts of electric vehicles</p>	Decision to exempt certain parts of EVs from customs duty is expected to reduce the cost of production of EVs and reduction in income tax deduction will reduce the cost of ownership of EVs which will in turn make EVs attractive to the potential buyers.
<p>Incentives for Electric Vehicles: Outlay of INR10000 crore for 3 years approved for Phase-II of FAME Scheme. Upfront incentive proposed on purchase & charging infrastructure.</p>	The amount will be primarily used to incentivize the EV buyers and developing charging infrastructure to give electric mobility a genuine push and this scheme is expected to make EVs more affordable and help OEMs to achieve economies of scale.

Aviation

Proposals	Impact
<p>The UDAN Scheme is providing air connectivity to smaller cities and enabling the common citizens of our country to avail air travel. All these programmes are also helping bridge the rural-urban divide.</p>	<p>Today, an ordinary citizen is also travelling by air. Domestic passenger traffic has doubled during the last five years leading to large number of jobs being created also. Now with the new Income Tax structure, higher disposable income would lead to higher growth in domestic passenger and the demand would outpace supply leading to rise in air fares. Players with increased capacity likely to be benefitted like Indigo and SpiceJet.</p>
<p>As the world's third largest domestic aviation market, the time is ripe for India to enter into aircraft financing and leasing activities from Indian shores. This is critical to the development of a self-reliant aviation industry, creating aspirational jobs in aviation finance, besides leveraging the business opportunities available in India's financial Special Economic Zones (SEZs), namely, International Financial Services Centre (IFSC). Government will implement the essential elements of the regulatory roadmap for making India a hub for such activities.</p>	<p>Government will unveil measures for aircraft financing and leasing activities in India as a means to make India's aviation market self-reliant. This is expected to reduce the foreign currency exposure to the airline companies. Thus volatility with respect to exchange rate is expected to be reduced.</p>
<p>Provide an enable ecosystem for growth in India of Maintenance, Repair and Overhaul (MRO) industry, it is proposed to leverage India's engineering advantage and potential to achieve self reliance in this vital aviation segment. Government will adopt suitable policy interventions to create a congenial atmosphere for the development of MRO in the country.</p>	<p>Government will come up with policy interventions for development of maintenance, repair and overhaul (MRO) in India. Only 10% of the total MRO business in Indian aviation market comes to Indian market thus leading to a huge exposure to currency risk for the airlines. This move by the government can reduce the exchange rate exposure by boosting the sector whereby larger chunk of the MRO can be done in India. SpiceJet Technic Private Ltd, a wholly owned subsidiary of SpiceJet Ltd. established in Oct'16 is engaged in engineering related services including but not limited to MRO of aircrafts and its parts.</p>

Banks & NBFCs

Proposals	Impact
INR70000 crore proposed to be provided to PSBs to boost credit.	This move is expected to boost credit for a strong impetus to the economy.
For purchase of high-rated pooled assets of financial sound NBFCs amounting to a total of INR1 lakh crore during the current financial year, the government will provide a one-time six-month partial credit guarantee to public sector banks for the first loss of up to 10%	This proposal is likely to restore the liquidity in the NBFC sector which plays a very important role in sustaining consumption demand as well as capital formation in small & medium enterprises.

Consumer Durables

Proposals	Impact
By March, 2019, all willing families will get electricity connection. provided 143 crore LED bulbs with the participation of private sector.	Positive for Havells India, Bajaj Electricals
Individual taxpayers having taxable annual income up to INR5 lakhs will get full tax rebate and therefore will not be required to pay any income tax.	Positive for Havells India, Bajaj Electricals, Whirlpool of India

Hospitality

Proposals	Impact
The Government is developing 17 iconic Tourism Sites into world class tourist destinations and to serve as a model for other tourism sites. The Iconic Tourism Sites would enhance visitor experience which would lead to increase visits of both domestic and international tourists at these destinations.	This is extremely positive for the hospitality players primarily in the budget and upper midscale segment like Indian Hotels Company Ltd, Royal Orchid Hotels Ltd, Lemon tree Hotels Ltd, etc.

Real Estate and Housing

Proposals	Impact
<p>Deduction of interest for affordable housing: In order to incentivise purchase of affordable house, it is proposed to provide a deduction upto Rs. 1,50,000 for interest paid on loan taken for purchase of residential house having value upto Rs. 45 lakh. This shall be in addition to the existing interest deduction of Rs. 2 lakh.</p> <p>Alignment of definition of affordable housing with GST Acts: In order to align the definition of affordable housing in the Income-tax Act with the GST Acts, it is proposed to increase the limit of carpet area from 30 square meters to 60 square meters in Metropolitan regions and from 60 square meters to 90 square meters in nonmetropolitan regions. It is also proposed to provide the limit on cost of the house at Rs. 45 lakh in line with the definition in the GST Acts.</p>	<p>The Govt has propped several measure to boost the sluggish Real Estate sector. For example: the interest on loan for purchase of house (under the definition of affordable housing) will give an individual a benefit of total INR3.5 lakh per annum. This move is expected to translate into a benefit of around Rs 7 lakh to middle-class homebuyers over their loan period of 15 years.</p> <p>Other benefits given in budget is also focused to make a turnaround in the much needed realty sector.</p>

Infrastructure & Technology

	Impact
<p>Government has pushed Pradhan Mantri Gram Sadak Yojana for building road network in the rural areas. 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 Total infrastructure push by the government proposed to be INR100 Lk crore in 5 yrs.</p>	<p>Pradhan mantra Gram Sadak Yojana will mobilize rural economy.</p>
<p>Government has given thrust for Dedicated Freight Corridors</p>	<p>This will mitigate congestion in the rail network.</p>
<p>Government also emphasized Sagarmala & Jal Marg Vikas project</p>	<p>Sagarmala would help to improve the infrastructure for external trade. The Jal Marg Vikas project for capacity augmentation of navigation on National Waterways is aimed at smoothening internal trade carried through inland water transport. These initiatives will improve logistics sector reducing cost of transportation.</p>
<p>The ambitious programme of Bharatmala would help develop national road corridors and highways, while Sagarmala would enhance port connectivity, modernization and port-linked industrialization. National Highway Programme to be restructured to ensure a National Highway Grid, using a financeable model.</p>	<p>This will be positive for Infrastructure development companies.</p>
<p>Scheme to invite global companies to set up mega-manufacturing plants in areas such as Semi-conductor Fabrication (FAB), Solar Photo Voltaic cells, Lithium storage batteries, Computer Servers, Laptops, etc .Investment linked income tax exemptions to be provided along with indirect tax benefits.</p>	<p>Positive for Semi conductor, Solar Photo voltaic cell manufacturers.</p>

Logistics

Proposals	Impact
<p>The Government has given a massive push to all forms of physical connectivity through Pradhan Mantri Gram Sadak Yojana, industrial corridors, dedicated freight corridors, Bharatmala and Sagarmala projects, Jal Marg Vikas and UDAN Schemes. While the industrial corridors would improve infrastructure availability for greater industrial investment in the catchment regions.</p> <p>The Jal Marg Vikas project for capacity augmentation of navigation on National Waterways is aimed at smoothening internal trade carried through inland water transport.</p>	<p>The dedicated freight corridors would mitigate the congestion of our railway network benefitting the common man. The ambitious programme of Bharatmala would help develop national road corridors and highways, while Sagarmala would enhance port connectivity, modernization and port-linked industrialization. These initiatives will improve logistics tremendously, reducing the cost of transportation and increasing the competitiveness of domestically produced goods.</p>

Budget Top Picks FY2020

- **Larsen & Toubro Ltd.**
- **Mahindra & Mahindra Ltd**
- **Supreme Industries Ltd**
- **Siemens Ltd**
- **Ultratech Cement Ltd**

L&T Ltd

CMP: INR1558.35

Target Price: INR2103.7

**Market Cap (INR Cr.):
INR218652**

Face Value (INR) : INR2.00

TTM P/E (x): 24.6

Investment Rationale

Strong order inflows drive a robust backlog; bid pipeline of INR9-10 trillion:

Order inflow grew 14.1% YoY to INR565 billion in Q4FY19 on an already high base led by strong overseas order wins in the Hydrocarbon segment. FY19 order inflow grew 15.6% YoY to INR1.8 trillion and order backlog as on March 2019 was INR2.9 trillion, 2.7x FY19 E&C revenue. Bid pipeline for FY20 is robust at INR9-10 trillion mainly from the Infra (~50%), Hydrocarbons (~25%) and Power (Generation and T&D - ~15%) segments.

Guidance largely on expected lines; focus on ROE improvement to continue:

For FY20 L&T has guided for order inflow growth of 10-12% (~INR2 trillion), revenue growth of 12-15% and YoY flat EBITDA margins (ex-services). While L&T expects its Infrastructure margins to improve on a lower base, the gains in FY19 from asset sales in the realty business are unlikely to recur in FY20, which may keep blended margins flat. L&T continuing to stay away from asset heavy businesses.

In the budget Government has announced an allocation of INR100 lakh crore to provide boost to the infrastructure development . Being the largest player in that space a major chunk of that amount which is expected to improve its topline and profitability.

Mahindra & Mahindra Ltd

CMP: INR642.05

Target Price: INR802.0

**Market Cap (INR Cr.):
INR79819**

Face Value (INR) : INR5.00

TTM P/E (x): 15.13

Investment Rationale

New products:

The new compact UV – XUV300 has received a positive response and despite benign PV demand it is commanding a waiting period of ~1.5 months. The recently launched Marazzo MPV's volumes are expected to gradually improve due to its growing acceptance from fleet operators. In addition, launches in CVs (Furio I&LCVs) and EVs (Treo 3W, eKUV) are expected to aid volume growth.

Focus on improving market share in the domestic tractor industry:

M&M is focusing on states where it has a less than national average market share of 43%, which amount to roughly half the states. It plans to introduce crop-specific products, which should help in regaining market share in these states. Apart from this it is going to pursue three brand strategy, namely: Mahindra as a high-tech product, Swaraj as a reliable product with high resale value and Trakstar for the price sensitive segment (5-10% cheaper than cheapest national competitor).

NBFC led liquidity crunch and poor consumer sentiment has slowed the auto sales significantly in India. Currently India is suffering from the highest ever unemployment rate and being one of the largest employer after agriculture it will play a crucial role in addressing that concern. Banks purchase of high rated pooled assets from NBFCs to address the liquidity concern, Allocation of INR10000 crore under FAME II scheme and tax deduction on EV purchase are likely to boost the EV sales in India. M&M as a major player in the Indian EV space is expected to reap rich dividends going forward.

Supreme Industries Ltd

CMP: 1108.0

Target Price: INR1385.0

**Market Cap (INR Cr.):
INR14072.0**

Face Value (INR): 2.00

TTM P/E (x): 31.48

Investment Rationale

Water for all:

Government is targeting piped water supply ('Nal Se Jal' Scheme) to all homes by 2024. In this Budget 2019, there may be some announcement for implementation of the scheme. So demand of PVC & CPVC pipes is likely to grow significantly. Supreme , being one of the key players in this segment, may find demand boost up.

Fall in the Crude price is positive for the company:

As crude prices fell sharply & the raw materials used by the company, PVC & polymer, are crude derivative hence likely to be cheaper. Soft input cost will increase profitability of the company.

Moderate Volume growth for FY19:

The company witnessed weak volume growth in Q4FY19 however for the full year the company witnessed 9% volume growth in the Plastic piping segment, 5% volume growth in the packaging products, 5% in the consumer products for the full year FY19. The company also witnessed 16% value growth in the plastic piping segment, 10% value growth in the Industrial products, 2% in the packaging products & 13% in the consumer products segment for the same period.

In the Union Budget 2019-20, Government has emphasized 'Har Ghar Jal' to rural households by 2024. This is likely to boost the performance of the company.

Siemens Ltd

CMP: 1259.6

Target: INR1574.0

**Market Cap (INR Cr.):
44854**

Face Value (INR):2.00

TTM P/E (x): 50.02

Investment Rationale

Infrastructural push is expected in the Union Budget 2019:

Union Budget 2019 may witness stimulus in the Railways & Infrastructure sector. Siemens being a key player in the Railways & in infrastructure development may be beneficiary of this budget.

Building Technology segment has strong growth potential

During Q2FY19. Building Technologies segment has grown by 7% YoY. With expected growth of infrastructure & real estate, building technology vertical is likely to grow faster. Siemens provides solution for safe, secure, energy efficient & eco-friendly buildings. The company provides solution for fire safety, building automation, ventilation, energy management which has huge potential to grow.

Mobility segment is expected to get a Phillip from Indian Railways:

Indian railway set a target of 100% electrification of tracks by 2022. Indian Railways achieved INR1320 cr Capex in FY19. Siemens is a pioneer in Railway electrification projects hence has huge potential to grow in this segment. Expansion of Metro Railways in various cities in India also provides growth opportunity for Siemens. During Q2FY19, mobility segment grew 65% YoY with 18% Margin. This segment contributes 19.5% to the revenue of the company.

In the Union Budget 2019-20, Finance Minister has announced Railway Modernization. There are proposal for Metro railway initiatives through PPP Model. This may increase the order inflow & revenue of the company.

Ultratech Cement Ltd

CMP: INR4522.0

Target: INR5426.0

**Market Cap (INR Cr.):
INR124221**

Face Value (INR) : INR10.0

EV/EBITDA (x): 20.49x

Investment Rationale

Demand Pickup - Infrastructure demand will continue to remain strong. The company had commissioned 12 MTPA of capacity in FY19. The demand is growing faster than the capacity expansion. It is expected that incremental demand of 28—30 MTPA will arise in FY20.

Cost Optimization - The company is currently at 72% capacity utilization. Ultratech also plans to exit all non core businesses & it should be completed by FY20. Cost reduction of INR50/ton is expected to be achieved in FY20.

Turnaround in Jaypee assets - Jaypee assets are operating at par. A major shutdown was witnessed in one of the Jaypee plants in January but operations have started & will start delivering results in coming months which will lead to breakeven in PBT levels.

Lower input prices - There has been some relaxation in input prices for cement companies. The cement companies witnessed favourable cost condition in Q4FY19 & it is expected to continue till H1FY20. Diesel prices have declined from their peak levels by 6% -7% & this will help the company as major transportation is by road.

Infrastructure Push - We expect the upcoming budget to have significant push to the infra segment, which will in turn lead to higher cement demand.

In the budget Government has announced an allocation of INR100 lakh crore to provide boost to the infrastructure development . Being the largest cement player with pan india presence a major chunk of that amount which is expected to improve its topline and profitability.

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