Morning Insight

JULY 8, 2019

		% Chg		
	5-Jul	1 Day	1 Mth	3 Mths
Indian Indices				
SENSEX Index	39,513	(1.0)	(1.4)	1.7
NIFTY Index	11,811	(1.1)	(1.8)	1.2
NSEBANK Index	31,476	0.0	(0.4)	4.6
NIFTY 500 Index	9,658	(1.2)	(2.2)	(0.3)
CNXMcap Index	17,530	(1.6)	(3.3)	(3.9)
BSESMCAP Index	14,142	(1.4)	(5.2)	(6.0)
World Indices				
Dow Jones	26,922	(0.2)	3.6	2.2
Nasdaq	8,162	(0.1)	5.4	2.6
FTSE	7,553	(0.7)	3.0	1.4
NIKKEI	21,746	0.2	3.2	(1.0)
Hangseng	28,775	(0.1)	4.7	(6.2)
Shanghai	3,011	0.2	3.3	(10.0)

Value traded (Rs cr)	5-Jul	% Chg Day
Cash BSE	2,768	38.2
Cash NSE	33,368	19.2
Derivatives	1,046,887	(46.9)

Net inflows (Rs cr)	4-Jul	MTD	YTD
FII	556	(3,141)	75,939
Mutual Fund	191	(29)	8,705

Nifty Gainers & Losers 5-Jul	Price (Rs)	Chg (%)	Vol (mn)
Gainers			
Indiabull Housing	727	3.3	21.9
Indusind Bank	1,533	2.6	5.2
Kotak Mahindra	1,517	1.3	3.0
Losers			
Yes Bank	88	(8.4)	220.5
NTPC	137	(4.8)	21.5
UPL	666	(4.7)	12.1

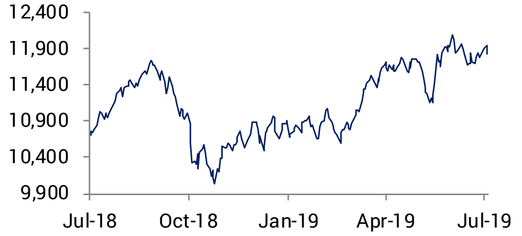
Advances / Declines (BSE)

5-Jul	A	B	T	Total	% total
Advances	86	237	39	362	100
Declines	371	739	56	1,166	322
Unchanged	1	34	7	42	12

Commodity		% Chg		
	5-Jul	1 Day	1 Mth	3 Mths
Crude (US$/BBL)	64.2	(0.0)	1.4	(9.7)
Gold (US$/OZ)	1,399.3	(1.2)	4.3	7.8
Silver (US$/OZ)	15.0	(1.9)	(0.0)	(1.6)

Debt / Forex Market	5-Jul	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	6.7	6.7	7.0	7.4
Re/US$	68.4	68.5	69.3	69.2

Nifty



Source: Bloomberg

News Highlights

- The National Company Law Appellate Tribunal (NCLAT) has directed the Mumbai bench of the NCLT to pass an order over the insolvency plea against 15 Videocon group companies within next three weeks. (Mint)
- Monsoon has covered almost the entire country, but three-fourths of MeT department's sub-meteorological divisions still fall under the "deficient" rainfall category, the India Meteorological Department's data shows. (Businessstandard)
- **Mangalore Refinery and Petrochemicals Ltd (MRPL)** is planning to open 251 retail outlets in Karnataka and Kerala in the next few years, according to M Venkatesh, Managing Director of the company. (Business Line)
- **Punjab National Bank** said it has detected a fraud of more than Rs 3,800 crore by Bhushan Power & Steel Ltd (BPSL) and has reported it to the Reserve Bank of India (RBI). PNB said Bhushan Power & Steel Ltd misappropriated bank funds and manipulated its books of accounts to raise funds from consortium lender banks. (Moneycontrol)
- **Mindtree** co-founders Krishnakumar Natarajan, N.S. Parthasarathy and Rostow Ravanan resigned on Friday, two days after infrastructure construction behemoth L&T acquired controlling stake in the global IT services firm. (ET)
- **JSW Steel,** the company said it has received the letter of intent from the committee of creditors of Asian Colour Coated Ispat for acquiring the debt-ridden firm through the insolvency process (ET)
- **Siemens** sold its lease hold interest in Gujarat for Rs 1.59 bn to LM Wind Power Bladed and further assignment to be sold worth Rs 350 mn is subject to receipt of approval from authorities. (Bloombergquint).
- **Maruti Suzuki India (MSI)** has cut vehicle production for the fifth consecutive month in June, according to a regulatory filing. (ET)
- India Grid Trust completed acquisition of two power transmissions assets from **Sterlite Power** for an enterprise value of Rs 50.25 bn. Asset acquisition from Sterlite Power to boost IndiGrid's AUM to Rs 106.6 bn. (Bloombergquint)
- CARE Ratings revised its rating outlook on **Reliance Capital** to credit watch with negative implications on long-term debt program, market linked debentures and subordinated debt worth Rs 210 bn.
- The build-up to **Air India** privatisation has taken off in full swing with the Union Budget it as the centrepiece of divestment this year. The government is targeting October as the deadline for announcing the deal. (Business Standard)
- **Unichem Laboratories** incorporated its China arm under the name of Younikaimo Pharma for sale in China of formulations and API ingredients manufactured by the company.(Bloombergquint)
- **Oil India** clarified that it has only given consent to explore possibilities of Russia block's sale. No firm decision has been undertaken on the sale. (Bloombergquint)

What's Inside

- **Pick of the week:** Aegis Logistics Ltd
- **Budget Analysis: 2019-20**

Source: ET = Economic Times, BS = Business Standard, FE = Financial Express, IE = Indian Express, BL = Business Line, BQ = BloombergQuint, ToI: Times of India, BSE = Bombay Stock Exchange, MC = Moneycontrol

July 8, 2019

kotak Securities

Aegis Logistics Ltd

Analyst: Amit Agarwal (Email: agarwal.amit@kotak.com; Contact: +91 22 6218 6439)

CMP (Rs)	Target Price (Rs)	Potential Upside (%)	52 Week H/L (Rs)	Mkt Cap (Rs mn)
210	270	28.6%	252 / 170	69973

Key Highlights:

- We expect domestic production of LPG to record a CAGR of 5.2% over the next 12 years to FY30 at 25 mmtpa, while demand is estimated to grow at 6.5% CAGR to 50 mmtpa. This mathematics suggest that India would have to import 25 mmtpa of LPG by 2030 at an implied CAGR of 6.8%.
- With petrochemical industry growing at ~9-10% per annum, demand for POL products would remain strong for the company. Aegis is well positioned to handle imported LPG and POL with its terminals at key ports.
- Aegis currently has three operational LPG terminals with static capacity of around 63,000mt and throughput capacity of around 5.0 mmtpa. In FY18, Aegis doubled its static capacity to 63,300 MMT (and quadrupled its throughput capacity to 5 mn MMT) with an investment of Rs 3.68 bn.
- Based on our interaction with the management, we estimate the company to double its through-put capacity from here to 10 mmtpa with an investment of Rs 10-12 bn over the next 5/6 years. A capacity of 10 mmtpa would enable the company to capture a market share of around 40% in the LPG import business.
- Aegis is also a leading liquid terminal operator with six terminals strategically located Pan India with a total capacity of 689,000 KL.
- We forecast an EBITDA CAGR of ~27% for FY18-21E. We expect EBITDA margins to improve on an increase in utilization levels at the Haldia LPG and Pipavav liquid terminals.
- With improvement in utilization at its new and existing terminals, we estimate the return ratios of the company to improve going forward.
- We continue have a BUY rating on Aegis with a TP of Rs 270 at 25x FY21 earnings. We forecast EBITDA CAGR of 27% and EPS CAGR of 21% during FY19-21E.

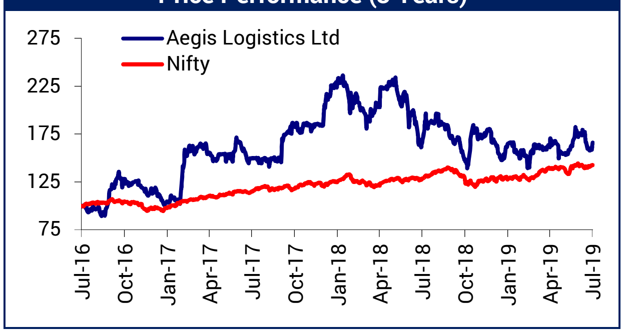
Financials (Rs mn)*	FY19	FY20E	FY21E
Sales	56,158	65,244	75,296
Growth (%)	17.2	16.2	15.4
EBITDA	3,709	4,678	5,407
EBITDA margin (%)	6.6	7.2	7.2
PBT	3,024	4,049	4,741
Net profit	2,522	3,158	3,698
Adjusted EPS (Rs)	7.6	9.5	11.1
Growth (%)	17.7	25.2	17.1
P/E (x)	*11.8*	*8.3*	*12.2*
BV (Rs/share)	38.8	46.7	56.0
Dividend / share (Rs)	1.4	1.5	1.8
ROE (%)	19.5	20.2	19.8
ROCE (%)	18.3	20.6	20.8
Net cash (debt)	(151)	2,227	2,574

*Source: Company; Kotak Securities - Private Client Research *Consolidated*

Financials (Rs mn)*	Q4FY18	Q4FY19	% Chg
Revenues	12,519	18,526	48.0
EBITDA	698	1,031	47.7
EBITDA Margin (%)	5.6%	5.6%	
PAT	545	702	28.8
PAT Margin (%)	4.4%	3.8%	
EPS (Rs)	1.6	2.1	31.3

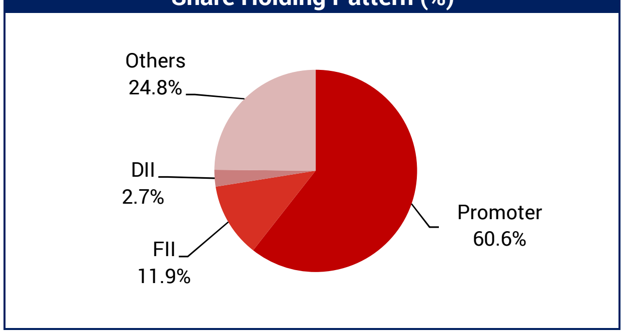
*Source: Kotak Securities - Private Client Research; *Consolidated*

Price Performance (3 Years)



Source: Bloomberg

Share Holding Pattern (%)



Source: Bloomberg

This one pager on the company is extracted from last Kotak Securities – Private Client Research update dated 31 May 2019 and it does not contain events beyond that date. Above company recommendation is of Kotak Securities – Private Client Research. Detailed rating scale and disclaimer is provided at the end of this report. It is advisable to read the last report of Kotak Securities – Private Client Research before taking any investment decision on the above company recommendation.

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UNION BUDGET
2019-20

- Rural Focus
- Affordable Housing
- Taxes
- Disinvestment
- Banking & NBFCs
- Fiscal Deficit

Rusmik Oza
Rusmik.oza@kotak.com
Contact: +91 22 6218 6441

BUDGET ANALYSIS: 2019-20

Union Budget Summary

Overall, a good budget for bond market but lacks fiscal stimulus which equity market was expecting. There is a moderate risk to the government's central Fiscal Deficit Target of 3.3% to the GDP. However, equity markets may take cue from the bond market and may not be perturbed by a 10-20 bps slippage in the Fiscal Defcit/GDP target. Low global bond yields due to dovish monetary policies of major central banks along with Indian government's intent to raise part of the deficit financing from overseas markets should keep Indian G-Sec yields on the lower side. The budget has laid emphasis on increasing private investment and higher focus on social welfare schemes (increased allocation by 22% to Rs.3.5 trillion). Except for Housing sector there was no major fiscal stimulus coming from the budget.

The GST Target translates to Rs.1.06 trillion monthly run-rate, which is decently higher than the monthly run-rate of ~Rs.891 bn based on collection for Mar-May 2019. Nevertheless, if we consider FY19RE numbers then the growth assumed in FY20BE from central GST collection is hardly going up by 3%. For equity markets, the cut in tax rate from 30% to 25% for companies having revenue of less than Rs.4 bn could be less material. Based on FY19 results there are only 37 companies in the BSE 500 universe that have revenue less than Rs.4 bn (source: Capitaline). The government's intention to increase minimum public shareholding from current 25% to 35% (assuming the proposal is accepted by SEBI) will result in large overhang of shares (~ Rs.3.6 trillion).

We see the following implications for various sectors: 1) modest financial flexibility to NBFCs and regulation of housing finance companies by the RBI, 2) moderate stimulus to housing, which is a positive for residential real estate stocks, 3) increased focus on investment, which may be a positive for capital goods, construction and infrastructure companies subject to potential investment-related reforms and 4) nominal change in excise duty on cigarettes, which is a positive versus expectations.

Earnings & Valuations

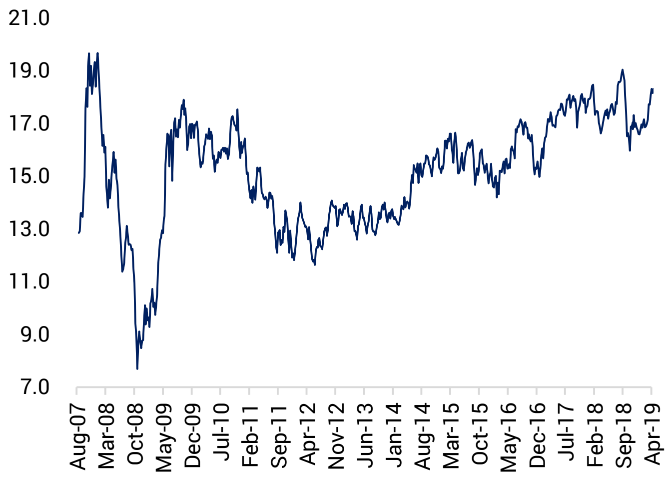
Based on our in-house Q1-FY20 preview, earnings of Nifty-50 is expected to grow by just 1.3% on yoy basis. Earnings of Kotak Institutional Equities universe is expected to grow by 1.3% in Q1-FY20 and if we exclude banking sector then earnings should decline by 6.7% yoy (Source: KIE). On a full year basis we are modelling Nifty-50 earnings to increase by 24% in FY20E and by 16% in FY21E (on Full float basis) led largely by recovery in profits of certain banks. We see potential downside risk to our earnings estimates in several sectors, especially if the domestic situation was to deteriorate further versus our expectations of a recovery in 2H-FY20.

On free float basis, the Nifty-50 trades at 19.2x FY20E and 16.3x FY21E. The rich valuations could remain at elevated levels as they are supported by low global bond yields and high expectations of economic reforms & recovery. One needs to keep in mind that fall in bond yields is due to growing concern about global slowdown which could potentially impact corporate earnings too thereby nullifying the benefits coming from lower bond yields. The current 10-Yr G-Sec bond yield of 6.7% translates into bond PE of 14.9x which can justify Fw Equity PE of 17.5-18x. On a one year Fw Basis (i.e. Jul'20E) the Nifty-50 is trading at 18.2x, which is slightly on the higher side leaving less room for further expansion. Our one year forward Nifty-50 target works to 13,000 based on 17.5-18x Fw PE multiples. Based on our one year forward target we see upside of ~10% in the Nifty-50.

Market Outlook & Portfolio Strategy

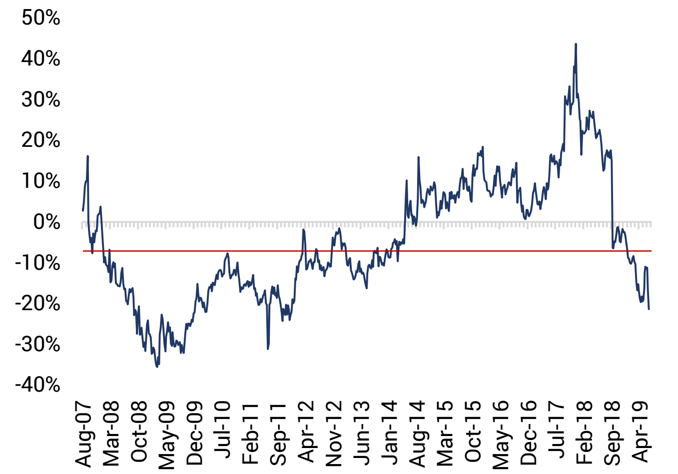
We expect Nifty-50 to be range bound with a downside bias from current levels. Within the large caps, we find risk-reward ratio quite unfavourable for many of the 'growth' stocks. We continue to see more value and upside in the mid & small caps Vs the large caps in the longer run. Based on Bloomberg consensus estimates the Mid Cap Fw PE is 14.4x Vs Nifty-50 Fw PE of 18.2x (i.e. 21% discount to Nifty-50 Fw PE). Today there is lack of buying interest in the mid & small cap space due to rich valuations of Nifty-50 and some kind of risk aversion. Broader participation in the market could take some time and improve as the micro lead indicators show signs of improvement. However, this lean period also offers a very good opportunity to long term investors with a two-three years view to accumulate good quality mid & small cap stocks trading at reasonable valuations (i.e.<15x). One needs to have a proper check-list and avoid stocks which have any concerns linked to financials or management quality.

One Year Rolling Fw PE chart of Nifty-50



Source: Bloomberg

Mid Cap Fw PE - Discount to Nifty-50 FW PE



Source: Bloomberg

Key Budget Highlights

Segment	Budget Provision
Revenue	Gross Tax Revenue growth of 9.5% built in FY20BE
Expenditure	Total Expenditure to grow by 13.4% in FY20BE
GST Target	GST collection target of Rs 6.6 trn is building in 3.0% growth for FY20BE
Fiscal Deficit	Fiscal Deficit pegged at 3.3%. Absolute amount works out to Rs.7.04 trn.
Borrowings	Gross borrowings has been pegged at Rs 7.0 trn, a rise of 10.9% over FY19RE
Disinvestment	The government has increased the disinvestment target to Rs 1.05 trn for FY20BE an increase of 17% YoY over FY19RE.
Minimum Public Shareholding	To consider increasing minimum public shareholding in the listed companies. SEBI to consider raising the current threshold of 25% to 35%
Banking	Public Sector Banks to be further provided Rs 700 bn capital to boost credit.
Housing	An additional deduction of up to Rs.1,50,000/- for interest paid on loans borrowed up to 31st March, 2020 for purchase of an affordable house valued up to Rs 4.5 mn
	Pradhan Mantri Awas Yojana – Gramin (PMAY-G) aims to achieve the objective of “Housing for All” by 2022.
Electric Vehicles	Government has already moved GST council to lower the GST rate on electric vehicles from 12% to 5%. To make electric vehicle affordable to consumers, government will provide additional income tax deduction of Rs.1,50,000 on the interest paid on loans taken to purchase electric vehicles
Corporate Tax	The lower corporate tax rate of 25% is extended to companies having annual turnover of up to Rs.4.0 bn.
Personal Tax	Enhanced surcharge on individuals having taxable income from Rs 20 mn to Rs 50 mn and Rs 50 mn and above
Buy back of shares	It is proposed to provide that listed companies shall also be liable to pay additional tax at 20% in case of buy back of share, as is the case currently for unlisted companies.
Customs Duty	Duty hiked on Gold imports from 10% to 12.5%
	Duty on indoor and outdoor unit of split system air conditioner raised from 10% to 20%

Source: Annual Budget 2019-20

Nominal GDP Growth

In the Budget the government has pegged the Nominal GDP growth rate at 12%, which looks incredibly high considering FY19 growth rate of 10.2% and the recent slowdown seen since the start of this fiscal year. Recently the RBI has reduced its FY20E growth rate of GDP to 7% and CPI to less than 3.5%. Hence, Nominal GDP growth rate of ~10.5% could have looked more realistic.

Revenue Growth: Looks muted on FY19RE but could be high on actuals

Considering the Nominal GDP growth estimates the assumptions built in for Direct and Indirect Tax revenue look quite reasonable and on the lower side. However, a point to note is that FY19RE numbers have not been changed from what was presented in the Interim Budget. As per our in-house estimates the actual tax revenue in FY19 could be lower by Rs.1.7 trillion than the FY19RE budgeted in the Interim Budget. If we consider the slippage in likely revenue of FY19 then the FY20BE Gross Tax revenue goes up by 18% as compared the budgeted 9.5% growth assumed over FY19RE. Then the tax buoyancy goes up to 1.5x as compared to less than 1x being budgeted for FY20 numbers.

Government has estimated Gross Tax Revenues to increase by just 9.5% in FY20BE as compared to 17.2% growth of FY19RE. For FY20BE It has built in 11.3% growth coming from Direct Taxes and only 7.3% coming from Indirect Taxes. It has increased the Divestment target for FY20 from Rs.900 bn considered in the Interim Budget to Rs.1.05 trn in the Final Budget. Within Direct Tax Revenue, Individual Tax revenue is estimated to rise by only 7.6% in FY20BE as compared to 22.8% rise seen in FY19RE. Corporate Tax Revenue is projected to rise by 14.2% in FY20BE as compared to 17.5% rise built in FY19RE.

In Indirect Taxes, the FM has hardly built in 3% rise in Central GST collection. Due to rise in import duties on series of items, including gold the Customs Duty collection is expected to rise by 20% in FY20BE. The Finance Minister has raised Special Additional Excise Duty and Road & Infrastructure Cess by one rupee each litre on petrol and diesel. This is leading to 15.6% rise in Excise Duty revenue in FY20BE. Non-Tax revenue growth is estimated to go up sharply by 28% to Rs.3.13 trn in FY20BE. Bulk of the rise in Non-Tax revenue is coming from RBI surplus transfer pegged at Rs.900 bn in FY20BE as compared to Rs.680 bn in FY19RE. Amount coming from telecom spectrum has been estimated at Rs.505 bn in FY20BE as compared to Rs.392 bn estimated in FY19RE.

Central Government Finances (Summary)

(Rs bn)	FY17 Actual	FY18 Actual	FY19 RE	FY20 BE	% chg FY19	% chg FY20
Gross Tax Revenue	**17,158**	**19,190**	**22,482**	**24,612**	**17.2**	**9.5**
Direct taxes	8,539	10,074	12,053	13,419	19.7	11.3
Indirect taxes	8,620	9,117	10,428	11,192	14.4	7.3
(Transfers to states, Uts)	-6,145	-6,765	-7,638	-8,116	12.9	6.3
Tax Revenue (Net to Centre)	**11,014**	**12,425**	**14,844**	**16,496**	**19.5**	**11.1**
Non-Tax Revenue	2,728	1,927	2,453	3,132	27.3	27.7
Recoveries of Loans	176	156	132	148	-15.9	12.5
Other Receipts (Incl. Divestments)	477	1,000	800	1,050	-20.0	31.3
Total Receipts	**14,396**	**15,509**	**18,228**	**20,826**	**17.5**	**14.3**
Total Expenditure	**19,752**	**21,420**	**24,572**	**27,863**	**14.7**	**13.4**
Fiscal Deficit	5,356	5,911	6,344	7,038	7.3	10.9
as % of GDP	-3.5	-3.5	-3.4	-3.3		
Nominal GDP	**153,624**	**170,950**	**188,407**	**211,006**	**10.2**	**12.0**
GDP Growth Rate (%)		11.3	10.2	12.0		

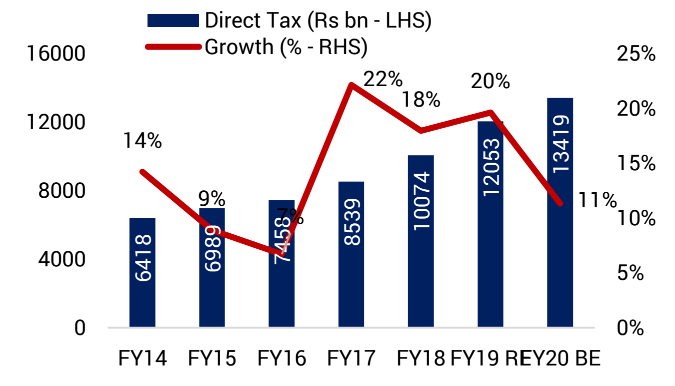
Source: Annual Budget 2019-20

Break-up of Revenues

(Rs bn)	FY17 Actual	FY18 Actual	FY19 RE	FY20 BE	% chg FY19	% chg FY20
Direct taxes	**8,539**	**10,074**	**12,053**	**13,419**	**19.7**	**11.3**
Corporation tax	4,849	5,712	6,710	7,660	17.5	14.2
Income tax	3,646	4,308	5,290	5,690	22.8	7.6
Other taxes	43	54	53	69	-0.8	30.1
Indirect taxes	**8,620**	**9,117**	**10,428**	**11,192**	**14.4**	**7.3**
Central GST		4,426	6,439	6,633	45.5	3.0
Customs duty	2,254	1,290	1,300	1,559	0.8	19.9
Excise duty	3,821	2,588	2,596	3,000	0.3	15.6
Service tax	2,545	812	93	NA	-88.6	NA

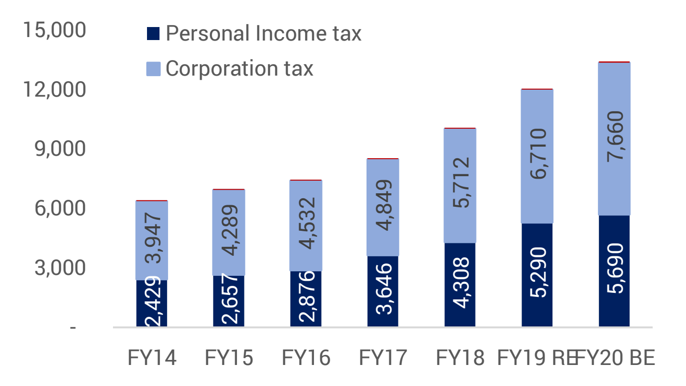
Source: Annual Budget 2019-20

Direct Taxes



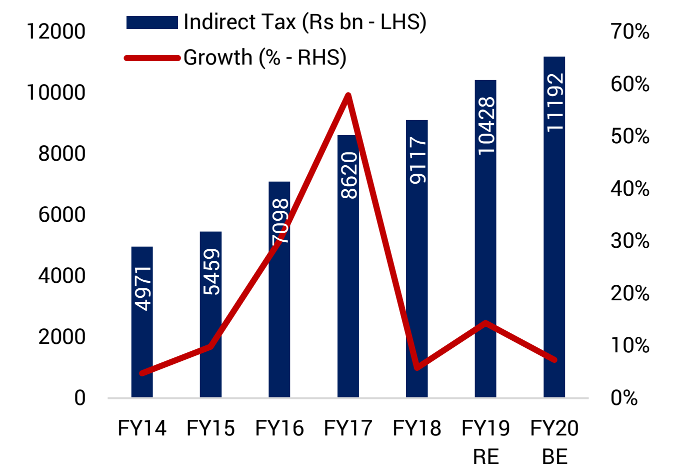
Source: Annual Budget 2019-20

Direct Taxes Breakup (Rs bn)



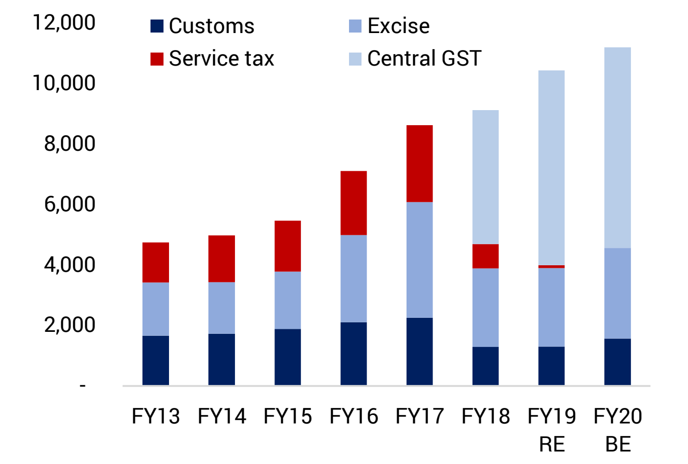
Source: Annual Budget 2019-20

Indirect Taxes



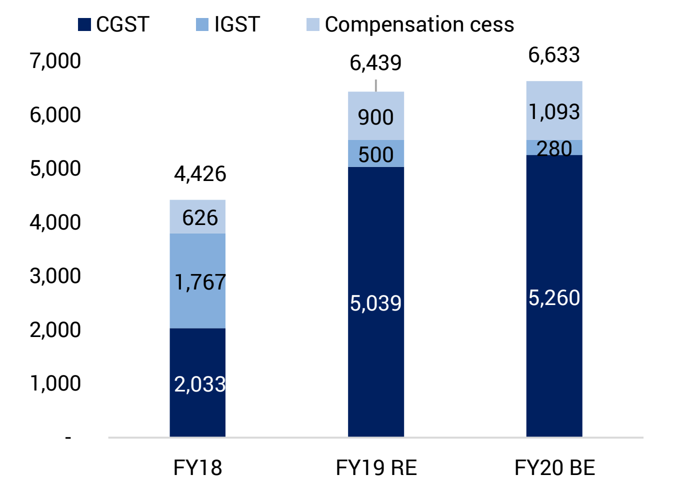
Source: Annual Budget 2019-20

Indirect tax breakup (Rs bn)



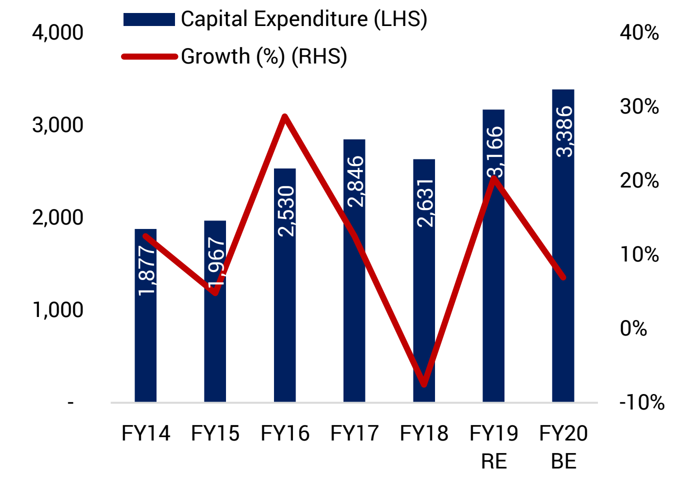
Source: Annual Budget 2019-20

GST Breakup (Rs bn)



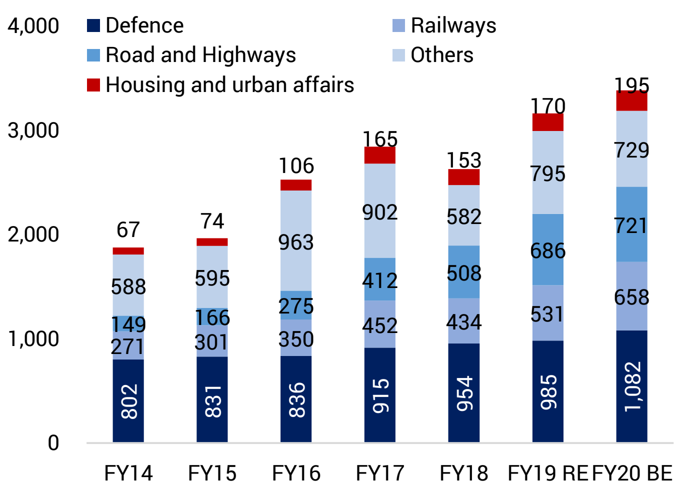
Source: Annual Budget 2019-20

Capital Expenditure (Rs bn)



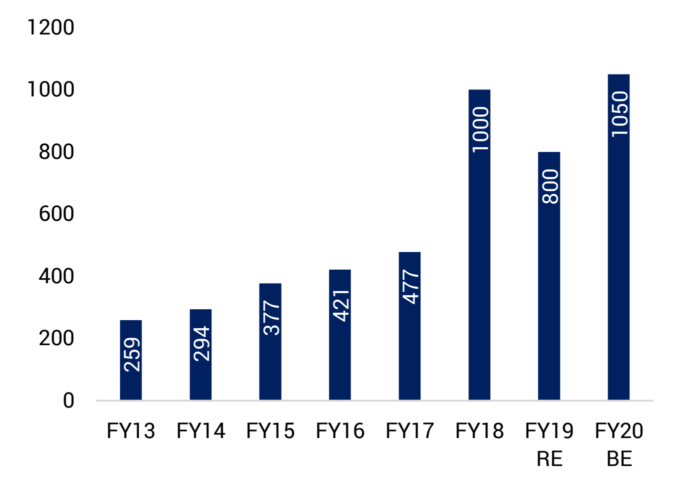
Source: Annual Budget 2019-20

Capital Expenditure Breakup (Rs bn)



Source: Annual Budget 2019-20

Disinvestment (Rs bn)



Source: Annual Budget 2019-20

Disinvestment: Target increased to Rs.1.05 trn

Disinvestment continues to remain an important focus area for the Government to boost its revenues. In the budget, the Finance Minister announced a target of Rs1.05 trillion of disinvestment receipts for FY20. Government has been following the policy of disinvestment in non-financial public sector undertakings maintaining its stake not to go below 51%. Government is considering, in case where the undertaking is still to be retained in Government control, to go below 51% to an appropriate level on case to case basis. Government has also decided to modify present policy of retaining 51% Government stake inclusive of the stake of Government controlled institutions. This would allow government entities like LIC to own 51% along with Government in PSUs.

Government intends to encourage retail participation in CPSEs by realigning its holding in CPSEs, including banks. The Government will also offer an investment option in ETFs on the lines of Equity Linked Savings Scheme (ELSS) in order to encourage long term investment in CPSEs. Government would be reinitiating the process of strategic divestment of Air India and also offer more CPSEs for strategic participation by the private sector. The Government will undertake strategic sale of PSUs and also continue consolidation of PSUs in the non-financial space as well.

The government has multiple options to achieve its disinvestment target that includes its holding in listed PSU companies (including banks/financial PSU's) and SUUTI stake sale. Residual stake of Government in Hindustan Zinc and its holding in private companies held under SUUTI are low hanging fruits from disinvestment perspective. Government's 29.5% stake in Hindustan Zinc is valued at ~Rs.293 bn and its holdings in SUUTI is valued at ~Rs.410 bn.

Expenditure Growth: Revenue expenditure to rise by 14.4%

The Finance Minister has budgeted 13.4% rise in expenditure for FY20BE over FY19RE. Revenue expenditure is estimated to increase by 14.4% in FY20BE while Capital expenditure is estimated to rise by just 6.9% in FY20BE. Bulk of the revenue expenditure is going towards Interest servicing (i.e. 26%) followed by Pay, allowances & Pension (i.e. 21%). Around 20% of Revenue Expenditure is going towards Agriculture & farmers welfare, which includes the spending on PM-KISAN scheme.

The growth estimates for capital expenditure in FY20BE is much lower than the 20.3% estimated for FY19RE due to lower capex growth estimates in Defence and Roads & Highways. Capital expenditure towards Roads and highways for FY20BE is estimated to increase by just 5.2% on a higher base of FY19RE. On the other hand, capital expenditure towards Housing & Urban affairs and Railways is estimated to grow at higher rate of 14.6% and 24%, respectively. We note that substantial portion of expenditure has been shifted to internal and external budgetary resources (i.e. NHAI & FCI).

The higher growth in revenue expenditure in FY20BE is due to 92.6% increase in Agriculture & farmers' welfare. PM-KISAN scheme is a big stimulus from the government side putting Rs.870 bn in the hands of all farmers. Interest payments is estimated to rise by 12.4% in FY20BE on increased borrowings. The Finance Minister has estimated 13.3% growth in subsidy for FY20BE, with oil subsidy estimated to grow by 51% yoy and food subsidy estimated to increase by 7.5% yoy.

Break-up of Expenses

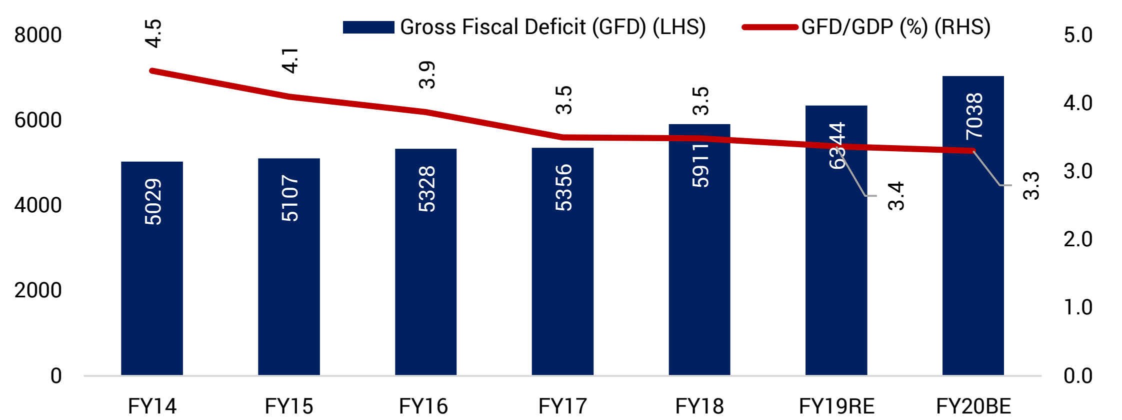
(Rs bn)	FY17 Actual	FY18 Actual	FY19 RE	FY20 BE	% chg FY19	% chg FY20
Total Expenditure	**19,752**	**21,420**	**24,572**	**27,863**	**14.7**	**13.4**
Revenue Expenditure	**16,906**	**18,788**	**21,406**	**24,478**	**13.9**	**14.4**
Interest Payments	4,807	5,290	5,876	6,607	11.1	12.4
Subsidies	2,040	1,912	2,662	3,017	39.2	13.3
Food Subsidy	1,102	1,003	1,713	1,842	70.8	7.5
Fertilizers Subsidy	663	664	701	800	5.5	14.2
Petroleum Subsidy	275	245	248	375	1.5	50.9
Pay, allowances & Pensions	3,996	4,464	4,936	5,258	10.6	6.5
Agriculture & farmers welfare	369	374	678	1,305	81.3	92.6
Education	720	800	809	927	1.1	14.7
Health & Family Welfare	364	483	518	609	7.3	17.5
Rural development	951	1,086	1,124	1,175	3.5	4.6
Others	3,658	4,381	4,803	5,579	9.6	16.2
Capital Expenditure	**2,846**	**2,631**	**3,166**	**3,386**	**20.3**	**6.9**
Defence	915	954	985	1,082	3.2	9.9
Railways	452	434	531	658	22.2	24.0
Roads and Highways	412	508	686	721	35.1	5.2
Housing and urban affairs	165	153	170	195	10.8	14.6
Others	902	582	795	729	36.6	-8.3

Source: Annual Budget 2019-20

Fiscal Deficit: Goes down to 3.3% of GDP

In FY20BE Expenditure growth is budgeted to go up by 13.4% as compared to Gross tax revenue growth of 9.5%. The Fiscal Deficit target for FY20BE has been reduced from 3.4% of GDP projected in the interim budget to 3.3% of GDP in the Final Budget. The government has retained its absolute Fiscal Deficit figure at Rs.704 bn (similar to Interim Budget estimates). The Fiscal Deficit target is based on Nominal GDP growth being 12%, which looks very optimistic. If the Nominal GDP growth in reality goes down to 10-10.5% then the Fiscal Deficit figure could go up marginally. Other way, if the government would like to maintain Fiscal Deficit at 3.3% of GDP then it would have to prune expenditure in the course of the year.

Fiscal Deficit (Rs bn)



Source: Annual Budget 2019-20

Government schemes

Pradhan Mantri Karam Yogi Maandhan: The government has allocated Rs. 7.5 bn v/s NIL for FY19RE to Pradhan Mantri Karam Yogi Maandhan. Encouraged by the overwhelming response, the Government of India has decided to extend the pension benefit to about 30 mn retail traders & small shopkeepers whose annual turnover is less than Rs.15 mn under a new Scheme namely Pradhan Mantri Karam Yogi Maandhan Scheme. Enrolment into the Scheme will be kept simple requiring only Aadhaar and a bank account and rest will be on self-declaration.

Pradhan Mantri Awas Yojna (PMAY): The government has allocated Rs. 258.5 bn v/s Rs.264 bn for FY19RE to Pradhan Mantri Awas Yojna which aims to achieve the objective of "Housing for All" by 2022. A total of 15.4 mn rural homes have been completed in the last five years.

In the second phase of PMAY-G, during FY20 to FY22, 19.5 mn houses are proposed to be provided to the eligible beneficiaries. These houses are also being provided with amenities like toilets, electricity and LPG connections. With the use of technology, the DBT platform and technology inputs, average number of days for completion of houses has reduced from 314 days in 2015-16 to 114 days in 2017-18.

Pradhan Mantri Gram Sadak Yojana (PMGSY): The government has allocated Rs. 190 bn v/s Rs.155 bn for FY19RE to Pradhan Mantri Gram Sadak Yojana. PMGSY has brought many socio economic gains in the rural areas. To accelerate the speed of achieving universal connectivity of eligible habitations, the target of connecting the eligible and feasible habitations was advanced from 2022 to 2019. This has been possible by maintaining a high pace of road construction of 130 to 135 km per day in the last 1,000 days. Committed to the agenda of sustainable development, 30,000 kms of PMGSY roads have been built using Green Technology, Waste Plastic and Cold Mix Technology, thereby reducing carbon footprint. With the changing economic scenario, it is important to upgrade roads connecting villages to rural markets. For this PMGSY-III is envisaged to upgrade 1,25,000 kms of road length over the next five years, with an estimated cost of 802.5 bn.

Pradhan Mantri Kisan Sampada Yojana (PMMSY): The government has allocated Rs. 11 bn v/s Rs.8.7 bn for FY19RE to Pradhan Mantri Kisan Sampada Yojana. Fishing and fishermen communities are closely aligned with farming and are crucial to rural India. Through a focused Scheme, PMMSY, the Department of Fisheries will establish a robust fisheries management framework. This will address critical gaps in the value chain, including infrastructure, modernization, traceability, production, productivity, post-harvest management, and quality control.

Swachh Bharat Mission: The government has allocated Rs. 126.4 bn v/s Rs.169.8 bn for FY19RE to Swachh Bharat Mission. Swachh Bharat Abhiyan has touched the very conscience of the nation besides bringing enormous health and environmental benefits. 96 mn toilets have been constructed since Oct 2, 2014. More than 5.6 lakh villages have become Open Defecation Free (ODF). The Union budget propose to expand the Swachh Bharat Mission to undertake sustainable solid waste management in every village.

Under the Interest Subvention Scheme for MSMEs, Rs.3.5 bn has been allocated for FY 2019-20 for 2% interest subvention for all GST registered MSMEs, on fresh or incremental loans. For ease of access to credit for MSMEs, Government has introduced providing of loans upto Rs.10 mn for MSMEs within 59 minutes through a dedicated online portal.

Allocation for the flagship government schemes (Rs bn)

					Percent Change	
Scheme	FY18	FY19BE	FY19RE	FY20BE	FY19RE/FY18	FY20BE/19RE
Mahatma Gandhi National Rural Employment Guarantee Program (MNREGA)	552	550	611	600	10.7	-1.8
Pradhan Mantri Gram Sadak Yojna	169	190	155	190	-8.1	22.6
Pradhan Mantri Awas Yojna (PMAY)	312	275	264	259	-15.3	-2.1
National Health Mission (NHM)	320	306	312	337	-2.5	7.9
National Education Mission	295	326	323	385	9.8	19.2
Swachh Bharat Mission	194	178	170	126	-12.6	-25.5
Umbrella ICDS	192	231	234	276	21.4	18.1
Urban Rejuvenation Mission: AMRUT and Smart Cities Mission	95	122	126	138	32.8	9.4
Green Revolution+White Revolution+ Blue Revolution	130	168	147	154	13.8	4.3
Pradhan Mantri Krishi Sinchai Yojna	66	94	83	97	24.8	17.3
National Rural Drinking Water Mission	70	70	55	100	-21.9	81.8
National Programme of Mid Day Meal in Schools	91	105	99	110	9.4	10.6
Jobs and Skill Development	27	51	68	73	150.8	6.3
National Livelihood Mission-Ajeevika	49	61	63	98	27.8	55.3
National Social Assistance Progamme	87	100	89	92	2.4	3.4
Rashtriya Swasthya Bima Yojna	5	20	27	66	434.7	142.8

Source: Annual Budget 2019-20

Tax Highlights

- Direct tax collection has increased by over 78% from Rs.6.38 trn in Financial Year 2013-14 to around Rs.11.37 trn in Financial Year 2018-19.

Individuals

- Surcharge rate increased for higher income slabs:
  - Individual earnings More than Rs20 mn but less than 50 mn, will have to pay 3% surcharge, which means effective tax rate will go up to 39%, and
  - Individual earnings More than 50 mn, will have to pay 7% surcharge, which means effective tax rate will go up to 42.7%
- In addition to the deduction of Rs2 lakh in respect of self-occupied property. The budget proposed an additional deduction of up to Rs.1,50,000/- for interest paid on loans borrowed up to 31st March, 2020 for purchase of an affordable house valued up to Rs45 lakh.
- TDS at the rate of 2% will be charged on cash withdrawals of Rs10 mn annually from a bank account. This is a smart move to make people use more digital platforms rather than dealing in cash.

Tax Slabs

	FY2019	FY2020
Individual tax rates	Up to Rs250,000 - Nil Above Rs250,000 - Rs500,000 - 5% Above Rs500,000 - Rs1,000,000 - 20% Above Rs1,000,000 - 30%	Up to Rs250,000 - Nil Above Rs250,000 - Rs500,000 - 5% Above Rs500,000 - Rs1,000,000 - 20% Above Rs1,000,000 - 30%
Senior citizen (60 years)	Exemption limit - Rs300,000	Exemption limit - Rs300,000
Very senior citizen (80 years+)	Exemption limit - Rs500,000	Exemption limit - Rs500,000
Surcharge	10% on income between Rs5 mn and Rs10 mn 15% on income exceeding Rs10 mn	10% on income between Rs5 mn and Rs10 mn 15% on income between Rs10 mn and Rs20 mn 25% on income between Rs20 mn and Rs50 mn 37% on income exceeding Rs50 mn
Education cess	4% (health and education cess)	4% (health and education cess)

Source: Ministry of Finance

Notes:

Standard deduction of Rs50,000 in lieu of medical and transport allowance.

For senior citizens, exemption of interest income on deposits increased to Rs50,000 from Rs10,000

Individual tax-payers having taxable income upto Rs0.5 mn will get full tax rebate

Exemption of income tax on notiional rent of second self-occupied house.

Corporate

- Company having annual turnover up to Rs4 bn (raised from Rs2.5 bn), will pay 25% tax rate. This will cover 99.3% of the companies.
- Listed companies shall also be liable to pay additional tax at 20% in case of buy back of shares, as is the case currently for unlisted companies.

Others

Securities Transaction Tax

- Budget proposed levy of Securities Transaction Tax (STT) by restricting it only to the difference between settlement and strike price in case of exercise of options.

Startup

- Startups and their investors will not be subject to IT scrutiny regarding share premium valuation provided they file requisite declarations and provide information in their returns. Exemption of capital gains arising from sale of residential house property for investment in startups has been extended upto 31.03.2021. No scrutiny of valuation of shares issued to Category- II Alternate Investment Funds. Relaxation of conditions for carry forward and set off of losses

NBFC

- Interest on Bad and doubtful debts by deposit taking as well as systemically important non deposit taking NBFC to be taxed in the year in which interest is actually received

Sector and company highlights

- Focus on electric vehicles – Government is looking at making India a global hub for manufacturing electric vehicles. In order to give boost to electric vehicle, government earlier announced FAME Scheme – II (outlay of Rs10 bn spread over three year period) and announced lowering of GST on electric vehicle from 12% to 5%. To further bolster demand, the government announced in the budget that they will provide additional income tax deduction of Rs150,000 on the interest paid on loans taken to purchase electric vehicles. Government also exempted custom duty on certain parts of electric vehicle. Currently, electric vehicles form small part of few OEM players. Hence, we do not see any meaningful near term impact on the sector.

- Creation of Infrastructure at ports under Sagarmala - This would lead to improvement in trade and commerce, hinterland connectivity benefitting Logistics companies.

- Capital Outlay on Defence Services - The budget has been increased from Rs 940 bn to Rs 1.03 trn (+10% YoY) which should benefit companies in the defence sector.

- In order to discourage the practice of avoiding Dividend Distribution Tax (DDT) through buy back of shares by listed companies, the Union budget has proposed to provide that listed companies shall also be liable to pay additional tax at 20% in case of buy back of share, as is the case currently for unlisted companies. Additionally, the Union budget has asked SEBI to consider raising the current threshold of minimum public shareholding in the listed companies from 25% to 35%. We believe the above announcements may have a negative impact on the IT sector.

Sector Impact

Sector	Proposal	Impact
Automobiles & components	1) Proposal to reduce GST on electric vehicles (EV) from 12% to 5%. 2) Interest rate subsidy on electric vehicles up to Rs0.15 mn to buyer of an EV. 3) Exemption from customs duty on parts for exclusive use in electric vehicles.	**Positive.** Reduction in cost of EV. Currently EV revenues are small part of few OEMs. So not likely to have meaningful impact in near term.
Banks and Fin Services	1) Recapitalisation of public sector banks by Rs70 bn through recapitalization bonds. 2) Regulatory amendments to increase RBI's control over NBFCs and HFCs. 3) Partial credit guarantee by government up to 10% for six months on high-rated loan pool of NBFCs sold to PSU banks	**Positive** for public sector banks. This will provide comfort to debt markets participants and other stakeholders. Will improve financial flexibility of NBFCs to some extent
Construction Materials	The government aims to construct 19.5 mn rural houses under the PMAY	**Positive.** The target appears ambitious, nonetheless, focus on rural housing should continue to support cement demand growth.
Consumer Durables	Increase in customs duty on Indoor and outdoor unit of split –system air conditioner to 20% from 10% earlier	This is **negative** as most of the AC companies import fully built indoor unit currently but positive for Contract Manufacturers as production can shift to India.
Consumer Staples	Basic custom duty of 7.5% on palm stearin and other oils (having 20% or more free fatty acid), Palm Fatty Acid Distillate (PFAD) and other industrial monocarboxylic fatty acids used in manufacture of soaps	**Negative.** It will result in some increase in production cost of soaps.
Jewellery	Increase in custom duty on gold and silver to 12.5% from 10%	**Negative.** Increase in duty may encourage smuggling. Further, increase in gold price could impact demand in the short term.
Electric utilities	Income tax exemptions for investments in PV manufacturing.	**Positive.** Likely to further bring down cost of development of PV panels, which will bring down renewable tariffs
Oil, gas & consumable fuels	1) The government's proposal to include holding of the government controlled entities in its calculation of requisite promoter stake of 51% provides it significantly higher headroom for divestments in energy PSUs going forward. 2) Increase in excise duties on auto fuels.	**Negative.** Technical overhang on the stocks. Reduction in headroom on auto fuel margins for OMCs
Infrastructure	Increase in central road and infrastructure cess by Rs1 per liter of diesel and petrol.	**Positive.** Cess accounts for 15% of the funding for NHAI and would support increase in related spending on roads construction.
Industrials	Proposal to reduce the cap on promoter shareholding in listed companies to 65% from 75%.	**Neutral.** Promoters of select MNCs owning 75% shareholding have to consider whether to delist the entities or to lower their shareholding.
Defence Companies	Capital outlay on defence hiked by 10%	**Positive.**
Media	Basic custom duty on newsprint increased to 10% from nil	**Negative.** Thus, introduction of custom duty could have some inflationary impact on domestic newsprint price (newsprint is 33% of print business revenue).
Metals and Mining	Increase in custom duty on silver to 12.5% from 10%	**Positive.**
Pharmaceuticals	Ayushman Bharat budget remains unchanged at Rs64 bn. No proposals for pharmaceuticals	**Neutral.** With Ayushman Bharat budget remaining unchanged, procedure prices are unlikely to see an upward revision
Real Estate	Increased deduction on income tax on interest payment on home loan from Rs 0.2mn to Rs0.35 mn for houses with value up to Rs4.5 mn	**Positive.** Lower interest cost. Positive for players in affordable housing

Sector Impact

Sector	Proposal	Impact
IT services	Imposition of tax at the rate of 20% on buyback of shares listed on recognized stock exchanges	**Negative.** All Tier 1 IT companies have payout ratios of 50-100%. They partly used buyback as more tax efficient form of payout. The change will increases tax liability on payout and make it difficult for companies to have structured buyback program
Telecommunication Services	Total receipts from communication services pegged at Rs505 bn, 29% yoy higher than Rs392 bn in FY2019. The increase reflects commencement of payment for spectrum auctioned in October 2016	**Neutral.** The government has not factored receipts from fresh spectrum auctions in the budget (despite giving some indications of the same)
Logistics	Creation of infrastructure at ports	**Positive.** Improvement in Trade and Commerce.
Miscellaneous	Increase in import duty on PVC from 7.5% to 10%. Reduction in import duty on EDC from 2% to nil	**Positive.** Positive for PVC resin manufacturers.

Source: Kotak Institutional Equities Research; Kotak Securities – Private Client Research

Changes in custom duties

Particulars	From	To	Sector Impact
Rubber			
Butyl Rubber	5.0%	10.0%	Neutral - Accounts for small part of raw material cost
Chlorobutyl rubber or bromobutyl rubber	5.0%	10.0%	
Ceramic products			
Ceramic roofing tiles and ceramic flags and pavings, hearth or wall tiles etc.	10.0%	15.0%	Neutral - Imports account for small portion of ceramic floor and wall tiles
Automobile and automobile parts			
Friction material and articles thereof etc.	10.0%	15.0%	Neutral - Auto ancillary companies generally have cost pass through clause with OEM's
Glass mirrors, whether or not framed, including rearview mirrors	10.0%	15.0%	
Locks of a kind used in motor vehicles	10.0%	15.0%	
Catalytic Converter	5.0%	10.0%	
Oil or petrol filters for internal combustion engines	7.5%	10.0%	
Intake air filters for internal combustion engines	7.5%	10.0%	
Lighting or visual signaling equipment of a kind used in bicycles or motor vehicles	10.0%	15.0%	
Vehicle Horns	10.0%	15.0%	
Other visual or sound signalling equipment for bicycle and motor vehicle	7.5%	15.0%	
Parts of visual or sound signaling equipment, windscreen wipers, defrosters and demisters of a kind used in cycles or motor vehicles	7.5%	10.0%	
"Windscreen wipers, defrosters and demisters, Sealed beam lamp units, Other lamps for automobiles	10.0%	15.0%	
Completely Built Unit (CBU) of vehicles	25.0%	30.0%	Neutral
Chassis fitted with engines, for the motor vehicles of headings 8701 to 8705	10.0%	15.0%	Neutral
Bodies (including cabs), for the motor vehicles of headings 8701 to 8705	10.0%	15.0%	Neutral
Changes in Customs duty to address the problem of duty inversion			
Marble Slabs	20.0%	40.0%	Neutral
Chemicals			
Naphtha	5.0%	4.0%	Neutral
Steel and other base metals			
Inputs for the manufacture of CRGO steel:	5.0%	2.5%	Neutral
Amorphous alloy ribbon	10.0%	5.0%	Neutral
Cobalt mattes and other intermediate products of cobalt metallurgy	5.0%	2.5%	Neutral
Paper Industry			
Newsprint	Nil	10.0%	Positive
Printed books (including covers for printed books) and printed manuals	Nil	5.0%	Positive
Steel and base metal products			
Stainless steel products	5.0%	7.5%	Neutral
Other alloy steel	5.0%	7.5%	Neutral
Wire of other alloy steel (other than INVAR)	5.0%	7.5%	Neutral
Electronic goods and machine			
Indoor and outdoor unit of split system air conditioner	10.0%	20.0%	Negative
Optical Fibres, optical fibre bundles and cables	10.0%	15.0%	Positive
Duty rationalization/ withdrawal			
Petroleum crude	Nil	Rs1/tonne	Neutral
Excise on filter cigarattes	0.0%	10.0%	Negative

Source: Annual Budget 2019-20

Economic Survey

Key highlights

- The Economic Survey 2019 focused on promoting growth and jobs by having private investment as the central driver which will spark off a 'virtuous cycle' of savings, investment, exports and growth.
- Supported by a stable macro environment, the survey projected FY20 GDP growth to improve to 7% (FY2019: 6.8%) as political stability is expected to aid the animal spirits of the economy. It pointed out that the investment rate has bottomed out and is expected to pick up pace in FY20 due to higher credit growth, higher capacity utilization and uptick in business expectations
- Greater investment will result in productivity gains which will make the economy more competitive and creating more jobs.
- To spur investment into the economy, the survey proposes to deregulate the labor laws for higher job creation and reform the 'size-based incentives' for firms to encourage growth of MSMEs. It argues for removing policies which incentivize firms to stay small for long such that young firms grow faster.
- To resolve the 35 mn cases that are pending (mostly in lower courts), the Survey believes that 100% clearance rate can be achieved with the addition of merely 2,279 judges in the lower courts and 93 in High Courts, even without the efficiency gains.
- The survey called for reducing economic policy uncertainty by ensuring predictable policy actions which can further spur both domestic and foreign investment.
- On the fiscal front, the survey pointed out the importance of improving the quality of expenditure. It also acknowledged that multiple challenges exist for the fiscal in FY20. It highlights that the recommendations of the Fifteenth Finance Commission (for the period starting April 2020) will have implications for central government finances.
- Due to the water intensive nature of many crops, the survey highlighted that focus should shift from land productivity to 'irrigation water productivity'. In this context, techniques like micro-irrigation should be encouraged.

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Definitions of ratings

BUY	–	We expect the stock to deliver more than 15% returns over the next 12 months
ADD	–	We expect the stock to deliver 5% - 15% returns over the next 12 months
REDUCE	–	We expect the stock to deliver -5% - +5% returns over the next 12 months
SELL	–	We expect the stock to deliver < -5% returns over the next 12 months
NR	–	**Not Rated.** Kotak Securities is not assigning any rating or price target to the stock. The report has been prepared for information purposes only.
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NA	–	**Not Available or Not Applicable.** The information is not available for display or is not applicable
NM	–	**Not Meaningful.** The information is not meaningful and is therefore excluded.
NOTE	–	Our target prices are with a 12-month perspective. Returns stated in the rating scale are our internal benchmark.

FUNDAMENTAL RESEARCH TEAM

Rusmik Oza
Head of Research
rusmik.oza@kotak.com
+91 22 6218 6441

Arun Agarwal
Auto & Auto Ancillary
arun.agarwal@kotak.com
+91 22 6218 6443

Amit Agarwal
Transportation, Paints, FMCG
agarwal.amit@kotak.com
+91 22 6218 6439

K. Kathirvelu
Support Executive
k.kathirvelu@kotak.com
+91 22 6218 6427

Sanjeev Zarbade
Cap. Goods & Cons. Durables
sanjeev.zarbade@kotak.com
+91 22 6218 6424

Jatin Damania
Metals & Mining, Midcap
jatin.damania@kotak.com
+91 22 6218 6440

Deval Shah
Research Associate
deval.shah@kotak.com
+91 22 6218 6425

Sumit Pokharna
Oil and Gas, Information Tech
sumit.pokharna@kotak.com
+91 22 6218 6438

Pankaj Kumar
Midcap
pankajr.kumar@kotak.com
+91 22 6218 6434

Krishna Nain
M&A, Corporate actions
krishna.nain@kotak.com
+91 22 6218 7907

TECHNICAL RESEARCH TEAM

Shrikant Chouhan
shrikant.chouhan@kotak.com
+91 22 6218 5408

Amol Athawale
amol.athawale@kotak.com
+91 20 6620 3350

Faisal Shaikh, FRM, CFTe
Research Associate
faisalf.shaikh@kotak.com
+91 22 62185499

Siddhesh Jain
Research Associate
siddhesh.jain@kotak.com
+91 22 62185498

DERIVATIVES RESEARCH TEAM

Sahaj Agrawal
sahaj.agrawal@kotak.com
+91 79 6607 2231

Malay Gandhi
malay.gandhi@kotak.com
+91 22 6218 6420

Prashanth Lalu
prashanth.lalu@kotak.com
+91 22 6218 5497

Prasenjit Biswas, CMT, CFTe
prasenjit.biswas@kotak.com
+91 33 6625 9810

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