

RESEARCH

BOB Economics Research | Union Budget 2020-21

Counter cyclical Budget

Infrastructure

FY21 Budget: Reduced funding for infrastructure

SUMMARY

India Economics: Union Budget 2020-21

With a 3.8% and 3.5% fiscal deficit in FY20 and FY21, the FM delivered a counter cyclical Budget to boost consumption and investment. Private sector participation is encouraged through higher disinvestments and strategic sales. Effort is to reduce tax litigation. Lower tax slabs will boost consumption. The higher deficit has not resulted in any extra borrowing this year. Next year's net borrowing at Rs 5.45tn will be taken well by the bond market. We believe this will open room for RBI to cut rates when inflation cools later in the year.

[Click here for the full report.](#)

Infrastructure

Overall fund allocation for key infrastructure sectors has declined 4% YoY in Union Budget FY21 to Rs 5.5tn, with gross budgetary support at Rs 2.7tn (+10% YoY) – the latter includes Rs 1.6tn (+7% YoY) towards roads and railways. A sum of Rs 220bn has also been provided for the recently announced National Infrastructure Pipeline (NIP). Lastly, a 100% tax exemption granted on income from interest, dividend and capital gains in select sectors including infrastructure is aimed at attracting foreign investment.

[Click here for the full report.](#)

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Bajaj Finance	Buy	5,200
Cipla	Buy	570
Eicher Motors	Buy	25,000
Petronet LNG	Buy	400
Reliance Industries	Buy	1,860

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	2,290
Future Supply	Buy	680
Greenply Industries	Buy	210
Laurus Labs	Buy	510
Ashok Leyland	Sell	68

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.59	0bps	(29bps)	(104bps)
India 10Y yield (%)	6.56	(2bps)	1bps	(73bps)
USD/INR	71.49	(0.3)	(0.2)	(0.6)
Brent Crude (US\$/bbl)	58.29	(2.5)	(14.8)	(5.8)
Dow	28,859	0.4	1.4	15.4
Shanghai	2,977	(2.8)	(2.1)	15.2
Sensex	40,914	(0.7)	(1.6)	12.8
India FII (US\$ mn)	29 Jan	MTD	CYTD	FYTD
FII-D	41.2	(1,596.7)	(1,596.7)	1,347.4
FII-E	(202.6)	1,897.0	1,897.0	9,286.2

Source: Bank of Baroda Economics Research

BOBCAPS Research

research@bobcaps.in



UNION BUDGET 2020-21

01 February 2020

Counter cyclical Budget

With a 3.8% and 3.5% fiscal deficit in FY20 and FY21, the FM delivered a counter cyclical Budget to boost consumption and investment. Private sector participation is encouraged through higher disinvestments and strategic sales. Effort is to reduce tax litigation. Lower tax slabs will boost consumption. The higher deficit has not resulted in any extra borrowing this year. Next year's net borrowing at Rs 5.45tn will be taken well by the bond market. We believe this will open room for RBI to cut rates when inflation cools later in the year.

Sameer Narang

Sonal Badhan | Jahnvi

Dipanwita Mazumdar | Aditi Gupta

chief.economist@bankofbaroda.com

Fiscal deficit at 3.8%: Amidst slowing global and domestic economy, Centre opted for 0.5% expansion in its FY20 fiscal deficit to 3.8% of GDP. While gross tax revenues are estimated to increase only by 4% (FY20BE: 18.2%), expenditure is estimated to increase by 16.6%. However, gross and net market borrowings have been left unchanged due to higher non-tax revenues and inflows into small saving schemes. Bond markets will take it positively.

FY21 revenue estimates are credible: Centre's revenues are expected to increase by 12% in FY21 on the back of 11.5% increase in corporate tax (-8% in FY20) and 14% increase in income tax (18.3% increase in FY20). Indirect taxes will too see an increase of 11.1% (5.3% in FY20), led by GST and higher custom duties. Disinvestment receipts at 0.9% of GDP in FY21 to boost spending.

Buoyant spending to support growth in FY21: Centre's expenditure is estimated to increase by 12.7% to Rs 30.4tn in FY21 led by 11.9% increase in revenue expenditure to Rs 26.3tn and 18.1% increase in capital expenditure to Rs 4.1tn. IEBR is also expected to remain elevated at Rs 6.7tn, with major allocation towards railways, road, transport and highways.

Fiscal Deficit at 3.5% in FY21: Bond markets are likely to take the Budget favourably as gross borrowing in FY21 is estimated at Rs 7.8tn, Rs 700bn more than FY20 and net borrowing is at Rs 5.45tn (Rs 4.74tn in FY20).

Push for consumption and investment: The new tax slabs proposed in the Budget will result in more income at the hands of consumer and thus higher consumption. At the same time, investments have been given an additional push through sustained capex by Centre (18% increase) and increase of FPI limit in corporate bonds, 100% tax exemptions to SWFs for investments in infrastructure sector and creation of an investment clearance cell.

KEY HIGHLIGHTS

- Agriculture, infrastructure and asset monetisation to be key focus areas of FY21 Budget
- Fiscal deficit for FY20/FY21 estimated at 3.6%/3.3% of GDP
- Gross/net borrowings in FY21 estimated at Rs 8.2tn/Rs 5.1tn



INFRASTRUCTURE

01 February 2020

FY21 Budget: Reduced funding for infrastructure

Overall fund allocation for key infrastructure sectors has declined 4% YoY in Union Budget FY21 to Rs 5.5tn, with gross budgetary support at Rs 2.7tn (+10% YoY) – the latter includes Rs 1.6tn (+7% YoY) towards roads and railways. A sum of Rs 220bn has also been provided for the recently announced National Infrastructure Pipeline (NIP). Lastly, a 100% tax exemption granted on income from interest, dividend and capital gains in select sectors including infrastructure is aimed at attracting foreign investment.

Jiten Rushi

research@bobcaps.in

Rs 3.3tn for transportation sector: Allocation to the transportation sector slipped 7% YoY to Rs 3.3tn, with gross budgetary support (GBS) at Rs 1.7tn (+7% YoY). The share of GBS for roads increased 600bps YoY to 59% but remained flat for rail at 44%. Overall allocation to NHAI declined 3.8% YoY to Rs 1.1tn but its share of GBS was up 670bps to 39.5%, decreasing dependence on external resources. Given the focus on rural road connectivity, Rs 195bn (+39% YoY) was allotted under the PMGSY scheme. Within railways, allocation for new lines/track renewal jumped 52%/25% YoY to Rs 120bn/Rs 106bn.

Impetus to urban development: Key urban development schemes saw higher funding: AMRUT (+122% YoY to Rs 73bn), Smart Cities (+87% to Rs 65bn), PMAY (urban & affordable housing: +17% to Rs 80bn) and Metro-MRTS projects (+8% to Rs 209bn). Affordable housing also received a boost with a one-year extension of loan interest incentives up to 31 Mar 2021 for purchase of an affordable house valued up to Rs 4.5mn (additional tax deduction of Rs 0.15mn, taking the total benefit to Rs 0.35mn).

Tax exemption for foreign investments: To drive investment in priority sectors from sovereign wealth funds of foreign governments, the finance ministry has proposed to grant 100% tax exemption on interest, dividend and capital gains income from investment made in infrastructure (and other notified sectors) before 31 Mar 2024 that have a minimum lock-in period of three years. In our view, this will boost funding avenues and fast-track the asset monetisation plans of NHAI through the TOT/InvIT route and support funding of future awards.

Outlook: Budgetary spending on infrastructure has declined, but the recent NIP announcement suggests the government's thrust on the sector remains intact. We prefer asset-light companies and select asset owners with sound financials: BUY PNC Infra, HG Infra, KNR Constructions, Ashoka Buildcon.

RECOMMENDATION SNAPSHOT

Ticker	Price	Target	Rating
ASBL IN	105	190	BUY
DBL IN	393	560	BUY
HGINFRA IN	259	400	BUY
KNRC IN	290	340	BUY
PNC IN	192	245	BUY
SADE IN	122	160	BUY

Price & Target in Rupees



Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

Rating distribution

As of 31 January 2020, out of 85 rated stocks in the BOB Capital Markets Limited (BOBCAPS) coverage universe, 50 have BUY ratings, 18 are rated ADD, 8 are rated REDUCE and 9 are rated SELL. None of these companies have been investment banking clients in the last 12 months.

Analyst certification

Each of the analysts mentioned in this research report certify, with respect to the sections of the report for which they are responsible, that (1) all of the views expressed in this report accurately reflect his/her personal views about the subject company or companies and its or their securities, and (2) no part of his/her compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of BOBCAPS.

Important disclosures

This product is a compilation of previously published research notes. To view the complete report along with the associated Analyst certifications and Company-specific disclosures, please click on the hyperlink accompanying each excerpt.

General disclaimers

BOBCAPS is engaged in the business of Institutional Stock Broking and Investment Banking. BOBCAPS is a member of the National Stock Exchange of India Limited and BSE Limited and is also a SEBI-registered Category I Merchant Banker. BOBCAPS is a wholly owned subsidiary of Bank of Baroda which has its various subsidiaries engaged in the businesses of stock broking, lending, asset management, life insurance, health insurance and wealth management, among others.

BOBCAPS's activities have neither been suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years. BOBCAPS has not been debarred from doing business by any stock exchange or SEBI or any other authority. No disciplinary action has been taken by any regulatory authority against BOBCAPS affecting its equity research analysis activities.

BOBCAPS has obtained registration as a Research Entity under SEBI (Research Analysts) Regulations, 2014, having registration No.: INH000000040 valid till 03 February 2020. BOBCAPS is also a SEBI-registered intermediary for the broking business having SEBI Single Registration Certificate No.: INZ000159332 dated 20 November 2017.

BOBCAPS prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, BOBCAPS prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of BOBCAPS's clients. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice.

The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. BOBCAPS does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment in certain transactions — including those involving futures, options, and other derivatives as well as non-investment-grade securities — that give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavour to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so.

We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have “long” or “short” positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein and may from time to time add to or dispose of any such securities (or investment). We and our affiliates may act as market makers or assume an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis, and may also perform or seek to perform investment banking or advisory services for or relating to these companies and may also be represented in the supervisory board or any other committee of these companies.

For the purpose of calculating whether BOBCAPS and its affiliates hold, beneficially own, or control, including the right to vote for directors, one per cent or more of the equity shares of the subject company, the holdings of the issuer of the research report is also included.

BOBCAPS and its non-US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non-US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies, effectively assume currency risk. In addition, options involve risks and are not suitable for all investors. Please ensure that you have read and understood the Risk disclosure document before entering into any derivative transactions.

In the US, this material is only for Qualified Institutional Buyers as defined under rule 144(a) of the Securities Act, 1933. No part of this document may be distributed in Canada or used by private customers in the United Kingdom.

No part of this material may be (1) copied, photocopied, or duplicated in any form by any means or (2) redistributed without BOBCAPS's prior written consent.

Other disclosures

BOBCAPS does not have any financial interest in the subject company. BOBCAPS does not have actual/beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS is not engaged in any market making activities for the subject company.

BOBCAPS or its associates may have material conflict of interest at the time of publication of this research report.

BOBCAPS's associates may have financial interest in the subject company. BOBCAPS's associates may hold actual / beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS or its associates may have managed or co-managed a public offering of securities for the subject company or may have been mandated by the subject company for any other assignment in the past 12 months.

BOBCAPS may have received compensation from the subject company in the past 12 months. BOBCAPS may from time to time solicit or perform investment banking services for the subject company. BOBCAPS or its associates may have received compensation from the subject company in the past 12 months for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory services in a merger or specific transaction. BOBCAPS or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.