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ICRA ANALYSIS ON GOVERNMENT OF INDIA INTERIM BUDGET 2019-20

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FOREWORD

The big themes in the NDA Government's last Budget has been income support for small farmers, the pension programme for the unorganised sector and the tax breaks for people with up to Rs 5 lakh in taxable income. However, despite the substantial 13% growth in expenditure forecast for FY2020, only a modest slippage in fiscal deficit has been projected at 3.4% as against 3.3% widely anticipated though the projected gross market borrowing programmes at Rs 7.04 lakh crore are higher than the market expectations. Further, the quality of expenditure also shows signs of deterioration with the capex rising by 6%, whereas revenue expenditure is projected to rise by 14%.

The Interim Budget has expectedly focussed on the rural, agricultural and the middle-class tax payers. The income support scheme for farmers and tax breaks are expected to cost the Government close to Rs 90000 crore. This is clearly expected to provide a significant fillip to consumption and would be a positive for growth, which has been showing signs of sagging since November last year. However, the implementation of the ambitious cash transfer scheme, in terms of identifying the beneficiaries and ensuring no leakages, remains to be seen. Also, the inflationary impact of these measures is something that will pan out over a period of time.

We did not expect major changes in indirect tax rates in the Interim Budget for FY2020. In any case, after the implementation of the GST, indirect tax rates on a few items remain under the control of the GoI, as the GST Council decides on changes in the rates. However, there are some direct tax changes specifically meant for the real estate sector. For instance, income tax on notional rental income on a second self-occupied house will be done away with; in addition, the capital gains tax rollover benefit on sale of residential property will be extended to the purchase of two residential properties now. For real estate developers, the tax on notional rental income on unsold inventory will not apply for two years from completion, as against the exemption of one year earlier. The Government also reiterated its intent to further rationalise the GST rates on purchase of residential homes by referring the decision to a group of ministers for recommendations.

Contrary to expectations, there is no major step-up in allocations towards infrastructure sectors like affordable housing, national highways or power. However, there is a substantial increase in allocations towards rural roads (by 26%) and railways (by 20%). Surprisingly, there is also no provision for bank recapitalisation in FY2020.

The Government is confident of meeting its disinvestment target of Rs 80000 crore for the current year, though less than half of the amount has been mobilised so far and has further stepped up the target to Rs 90000 crore for the next year. Despite the increase in crude prices during the year, the petroleum subsidy for FY2019 remains unchanged, which as per ICRA estimates, indicates a shortfall of Rs 17000 crore. Similarly, we estimate a shortfall of Rs 30000 crore in the fertiliser subsidy.

The forecast of 11.5% for growth of nominal GDP for FY2020 appears realistic. The GoI has factored in a growth rate of 13.5% for tax revenues during FY2020. Direct taxes are projected to rise at ~15% in FY2020, supported by a wider tax base. Indirect taxes are expected to rise at around 12%, benefitting from the expected stabilisation of the GST. However, the ~21% growth in Central GST collections for FY2020 seems optimistic. While the gross borrowings are projected at over Rs 7 lakh crore, net borrowing figures are almost unchanged because of the increasing reliance on borrowings from the National Small Savings Fund.

Overall, the Budget is clearly focussed on providing a boost to the consumption space and alleviating the stress in the farm sector. It also provides some relief to sectors like real estate because of its large multiplier effect. It has also laid down the vision document for the next 10 years in addition to highlighting the Government's achievements over the last five years. Overall, though the focus is clearly on prioritising revenue expenditure over capex, what view the Monetary Policy Committee (MPC) takes on the slippage in fiscal consolidation remains to be seen.

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Assessment of Government of India’s Fiscal Situation

In its Budget Estimates (BE) for FY2019, the GoI had pegged its fiscal deficit at Rs. 6.2 lakh crore (3.3% of GDP; based on the assumption that the nominal GDP for FY2019 would be Rs. 187.2 lakh crore). The Revised Estimates (RE) for FY2019 have indicated that the fiscal deficit would be higher than the BE by Rs. 0.1 lakh crore, while the nominal GDP for FY2019 has also been revised up to some extent to Rs. 188.4 lakh crore. Overall, the fiscal deficit has increased to 3.4% of GDP in the RE for FY2019, relative to the budgeted target of 3.3% (refer Table 1 and Chart 1). However, the fiscal deficit-to-GDP ratio has decreased in FY2019 RE from the level in FY2018 (3.5% of GDP).

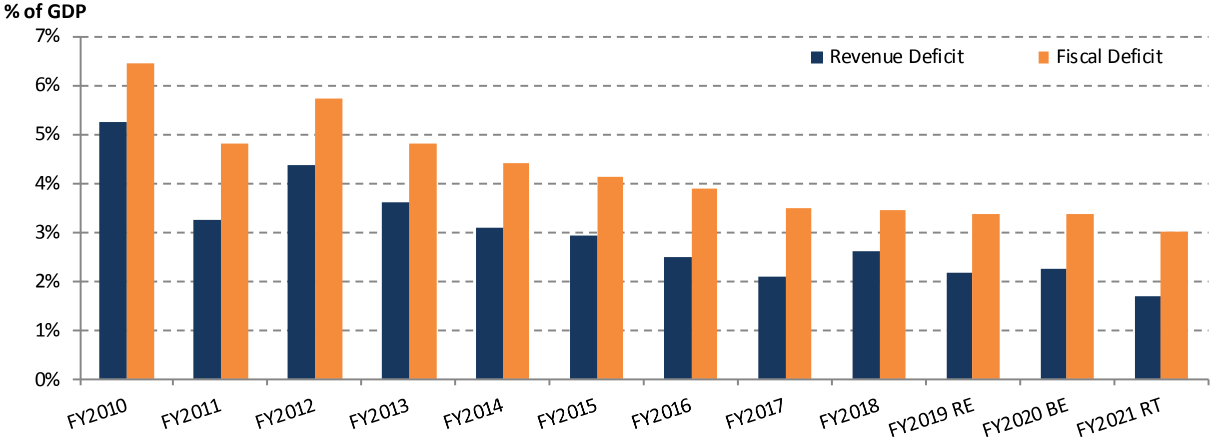
The BE for FY2020 indicates an increase in the fiscal deficit in absolute terms, to Rs. 7.0 lakh crore. However, as a percentage of GDP, the fiscal deficit is estimated remain unchanged at 3.4% in the BE for FY2020 (assuming nominal GDP of Rs. 210.1 lakh crore in FY2020), in line with the RE for FY2019. Accordingly, the Union Budget for FY2020 indicates a slippage of 10 bps and 30 bps, respectively, relative to the previously announced targets of 3.3% of GDP and 3.1% of GDP, respectively, for FY2019 and FY2020. This suggests a pause in fiscal consolidation in FY2020. However, the curtailment of the fiscal deficit to 3.0% of GDP has been retained for FY2021.

Table 1: GoI's Fiscal Balances

	Rs. Lakh Crore			Growth	
	FY2018 Actual	FY2019 RE	FY2020 BE	FY2019 RE	FY2020 BE
Revenue Receipts	14.4	17.3	19.8	20.5%	14.3%
Tax Revenues$	12.4	14.8	17.1	19.5%	14.9%
Non-Tax Revenues	1.9	2.5	2.7	27.3%	11.2%
Revenue Expenditure	18.8	21.4	24.5	13.9%	14.4%
Revenue Deficit	**4.4**	**4.1**	**4.7**		
% of GDP	***2.6%***	***2.2%***	***2.2%***		
Capital Receipts (Non Debt)	1.2	0.9	1.0	-19.5%	10.0%
Capital Expenditure	2.6	3.2	3.4	20.3%	6.2%
Fiscal Deficit	**5.9**	**6.3**	**7.0**		
% of GDP	***3.5%***	***3.4%***	***3.4%***		

Source: GoI Budget Documents; CGA; ICRA research
$ Net of Refunds, Net of States' share in Central Taxes

Chart 1: GoI's Revenue and Fiscal Deficit as a Percentage of GDP



Source: GoI Budget Documents; CGA, Ministry of Finance, GoI; ICRA research

The GoI has decided to drop targeting the revenue deficit in the proposed FRBM Architecture, and focus on the fiscal deficit as the operational target. Additionally, the Government is targeting to reduce its total debt to 43.4% of GDP by FY2022, from 48.9% of GDP in FY2019 RE.

Fiscal situation as per FY2019 RE: In line with expectations, the fiscal deficit in FY2019 RE has been revised above the BE for FY2019, with higher capital expenditure offsetting a mild rise in revenue receipts.

The BE for FY2019 had estimated indirect taxes (CGST, IGST, UTGST, customs duty, excise duty and service tax) at Rs. 10.3 lakh crore. The RE for FY2018 pegs these inflows at a lower Rs. 9.6 lakh crore (refer Table 2), reflecting the sharp downward revision in CGST inflows of Rs. 1.0 lakh crore. This was partly mitigated by a mild upward revision in customs duty and service tax. Notably, the excise duty collections in FY2019 RE have been kept nearly in line with the BE, despite the cut in the Central excise duty of Rs. 1.5/litre on petrol and diesel (w.e.f. October 2018), which was estimated to result in a revenue loss of Rs. 10,500 crore in the ongoing fiscal.

The collections of the GST compensation cess have been placed at Rs. 0.9 lakh crore in FY2019 RE, which would entirely be transferred into a non-lapsable fund in the public account; this would concomitantly increase the revenue expenditure, and is, therefore, revenue neutral, with no impact on the GoI's revenue or fiscal deficits. The GST compensation cess would be provided to those states that require compensation after the transition to the GST.

Table 2: Trends in Tax Revenue Receipts in FY2019 RE and FY2020 BE

Rs. Lakh Crore	FY2019 BE (1)	FY2019 RE (2)	FY2020 BE (3)	Variation in FY2019 (2)-(1)	Growth in FY2020 BE (3)/(2)
Gross Tax Revenues	**22.7**	**22.5**	**25.5**	**-0.2**	**13.5%**
- Corporation Tax	6.2	6.7	7.6	0.5	13.3%
- Income Tax	5.3	5.3	6.2	0.0	17.2%
- Customs Duty	1.1	1.3	1.5	0.2	11.8%
- Union Excise Duty	2.6	2.6	2.6	0.0	0.0%
- Service Tax	0.0	0.1	0.0	0.1	-100.0%
- GST	7.4	6.4	7.6	-1.0	18.2%
- CGST	*6.0*	*5.0*	*6.1*	*-1.0*	*21.1%*
- IGST	*0.5*	*0.5*	*0.5*	*0.0*	*0.0%*
- UTGST	*0.9*	*0.9*	*1.0*	*0.0*	*12.4%*
- GST Compensation Cess	*22.7*	*22.5*	*25.5*	*-0.2*	*13.5%*

Source: GoI Budget Documents; CGA; Economic Survey 2014-15; ICRA research

The FY2019 RE for direct tax collections have been revised upwards, on account of a rise in estimated corporate tax collections to Rs. 6.7 lakh crore from Rs. 6.2 lakh crore. The estimates for personal income tax have been kept unchanged.

Overall, the gross tax revenues of the GoI, and the states' share in Union taxes, have been revised downward by ~Rs. 0.2 lakh crore and ~Rs. 0.3 lakh crore, respectively, in the RE for FY2019 relative to the BE for the year, reflecting the trend for CGST. In contrast, the net tax revenues of the GoI was mildly revised upwards by Rs. 3,757.0 crore in FY2019 RE relative to the BE.

Non-tax revenues have been marginally revised upwards by Rs. 187.0 crore, to Rs. 2.5 lakh crore in FY2019 RE, reflecting higher dividends and profits, which mitigated the impact of lower interest receipts. The upward revision in dividends and profits in FY2019 RE is led by higher inflows from the RBI, nationalised banks and financial institutions.

As expected, the estimated receipts from other communication services have been revised to Rs. 0.4 lakh crore in FY2019 RE from Rs. 0.5 lakh crore in FY2019 BE.

The estimate for disinvestment proceeds has been kept unchanged at Rs. 0.8 lakh crore in the RE for FY2019, in line with the BE. The GoI has raised ~Rs. 0.4 crore through disinvestment so far in FY2019 (44.4% of FY2019 RE), as per data released by the Department of Investment and Public Asset Management (DIPAM). Despite the GoI's indication that the target for disinvestment proceeds will be met, there remains some uncertainty regarding the same.

Revenue expenditure has been revised downwards by Rs. 1,161.0 lakh crore in FY2019 RE compared to the budgeted level, led by lower compensation to telecom service providers, and transfer to states, which was partially offset by the allocation towards the newly launched income support scheme (refer Table 3). The RE for FY2019 indicate a growth of 13.9% in revenue expenditure relative to FY2018.

The allocation for food subsidy has been revised up to Rs.1.71 lakh crore in the RE for FY2019 from Rs. 1.69 lakh crore in FY2019 BE. Nearly 83.2% of the RE for FY2019 had already been released by November 2018. The allocation for fuel subsidy was kept at Rs. 0.2 lakh crore in FY2019 RE, similar to FY2019 BE. Nearly 93.2% of the RE for FY2019 has been released in April-November FY2019. Similarly, the allocation for fertiliser subsidy stood at Rs. 0.7 lakh crore in FY2019 RE, nearly in line with the same for FY2019 BE; 76.3% of this allocation had been released in the first eight months of this fiscal.

Encouragingly, the revenue deficit for FY2019 RE eased to Rs. 4.1 lakh crore from the budgeted level of Rs. 4.2 lakh crore, which has resulted in an improvement in the quality of the fiscal deficit.

Capital expenditure has been revised up by Rs. 0.2 lakh crore to Rs. 3.2 lakh crore in FY2019 RE, compared to the budgeted level, primarily led by enhanced allocation towards roads, as well as capital outlay towards the turnaround plan for Air India. The RE for FY2019 indicated a healthy 20.3% growth relative to FY2018.

Fiscal situation as per FY2020 BE: The following sections briefly discuss the revenue and expenditure trends forecast by the GoI in the Interim budget for FY2020.

Revenue receipts: The GoI's revenue receipts are estimated to rise by 14.3% in FY2020 BE compared to 20.5% in FY2019 RE, with a 14.9% growth in net-tax revenue and 11.2% growth in non-tax revenues.

The budget has forecast nominal GDP growth at 11.5% in FY2020, largely in line with our expectations.

The growth of gross tax revenues is projected to ease to 13.5% in FY2020 BE from 17.2% in FY2019 RE. ICRA estimates that the indirect tax collections would increase by 11.8% in FY2020 BE, somewhat lower than 12.1% rise in FY2019 RE. The excise duty collections in FY2020 BE are expected to remain nearly unchanged at Rs. 2.6 lakh crore. The CGST collections are budgeted to expand by 21.1% in FY2020 BE, which appears to be optimistic. Also, the GoI has budgeted Rs. 0.5 lakh crore as IGST collections in FY2020, same as in FY2019.

The pace of growth of the corporate tax collections is estimated to ease to 13.3% in FY2020 BE from 17.5% in FY2019 RE. In addition, the growth of personal income tax collections is estimated to slow to 17.2% in FY2020 BE from a healthy 22.8% in FY2019 RE. The increase in the standard deduction for salaried taxpayers to Rs. 50,000 from Rs. 40,000 per year is estimated to result in a revenue loss of ~Rs. 4,700 crore. In addition, individual tax payers having annual income of upto Rs. 5 lakhs would be getting full tax rebate, providing a benefit of Rs. 18,500 crore to middle class tax payers.

The BE for FY2020 has forecast an increase of 11.2% in non-tax revenues to Rs. 2.7 lakh crore from Rs. 2.5 lakh crore in FY2019 RE. Revenues from communication services are estimated to increase to Rs. 41,520 crore in FY2020 BE from Rs. 39,245 crore in FY2019 RE. While there has been no announcement so far of the spectrum auctions to be held in FY2020, the deferred payments related to earlier auctions and normal fees such as spectrum usage charges and licence fees, would accrue an estimated Rs. 38,000-40,000 crore in the coming fiscal, in ICRA's view.

The receipts from dividends and profits of PSEs are estimated to increase by 14.1% in FY2020 BE, primarily led by higher surplus transfer from the RBI and nationalised banks and financial institutions to Rs. 0.9 lakh crore in FY2020 BE from Rs. 0.7 lakh crore in FY2019 RE. Dividends and profits from other PSEs are estimated to rise by 17.8% to Rs. 0.5 lakh crore in FY2020 BE.

The BE for FY2020 for non-loan capital receipts at Rs. 1.0 lakh crore is 10.0% higher than the Rs. 0.9 lakh crore included in the RE for FY2019. The former includes Rs. 90,000.0 crore as receipts from disinvestment of the GoI's stake in the PSUs, which is equivalent to 0.4% of GDP. While the target for disinvestment and strategic divestment has been raised from Rs. 80,000.0 crore in FY2019 RE, it may pose a challenge to complete through the market route alone in an election year. The manner in which the disinvestment programme is executed remains to be seen and would depend on the market appetite as well as how swiftly the stake sale programme is started.

Table 3: Trends in Revenue and Capital Expenditure

Rs. Lakh Crore	FY2019 BE (1)	FY2019 RE (2)	FY2020 BE (3)	Variation in FY2018 (2)-(1)	Growth in FY2019 BE (3)/(2)
Revenue Expenditure	**21.4**	**21.4**	**24.5**	**0.0**	**14.4%**
Interest	5.8	5.9	6.7	0.1	13.2%
Subsidies	3.0	3.0	3.3	0.0	11.7%
Fertiliser	*0.7*	*0.7*	*0.7*	*0.0*	*7.0%*
Food	*1.7*	*1.7*	*1.8*	*0.0*	*7.5%*
Fuel	*0.2*	*0.2*	*0.4*	*0.0*	*50.9%*
Pensions	1.7	1.7	1.7	0.0	4.6%
Defence	3.0	3.1	3.2	0.0	5.2%
Income Support Scheme	0.0	0.2	0.8	0.2	275.0%
Grants for Capital Assets	2.0	2.0	2.0	0.0	0.2%
Balance	12.1	11.7	13.2	-0.4	12.6%
Capital Exp. Gross Loans & Adv.	**3.0**	**3.2**	**3.4**	**0.2**	**6.2%**
Defence	1.0	1.0	1.1	0.0	9.9%
Roads	0.6	0.7	0.7	0.1	5.0%
Balance	1.4	1.5	1.6	0.0	7.1%

Source: GoI Budget Documents; CGA; ICRA research

Revenue expenditure: Revenue expenditure is budgeted to increase by 14.4% in FY2020 BE to Rs. 24.5 lakh crore. The allocation for interest payments has been increased by 13.2% to Rs. 6.7 lakh crore in FY2020 BE from Rs. 5.9 lakh crore in FY2019 RE. The grants for creation of capital assets have been enhanced by a mild 0.2% in FY2020 BE to Rs. 2.0 lakh crore.

The allocation for major subsidies has been increased to Rs. 3.0 lakh crore in the BE for FY2020 from Rs. 2.7 lakh crore in the RE for FY2019, led by an increase in the food subsidy (to Rs. 1.8 lakh crore from Rs. 1.7 lakh crore) and petroleum subsidy (to Rs. 37,478 crore from Rs. 24,833 crore). The allocation for fertiliser subsidy has been increased to Rs. 74,986.0 crore in FY2020 BE from Rs. 70,075.0 crore in FY2019 RE.

Table 4: Fiscal Deficit Targets for GoI

	Performance/ Targets in Budget FY 2020	Performance/ Targets in Budget FY 2019	Targets set by FFC
FY2019	3.4%	3.3%	3.0%
FY2020	3.4%	3.1%	3.0%
FY2021	3.0%	3.0%	NA
FY2022	3.0%	NA	NA

Source: GoI; FFC Report; ICRA Research

Capital expenditure: Capital expenditure is budgeted to rise by 6.2% to Rs. 3.4 lakh crore in FY2020 BE. The budgetary outlays for capital spending for the Ministry of Railways has been augmented by 21.7% in FY2020 BE relative to FY2019 RE. Additionally, the Defence allocation has been increased by 10.0% to Rs. 1.0 lakh crore in the BE for FY2020 from Rs. 0.9 lakh crore in FY2019 RE.

The lower 6.2% growth of capital expenditure compared to the 14.4% rise in revenue expenditure in FY2020 BE relative to FY2019 RE, would result in a deterioration in the quality of spending.

Fiscal balances: The GoI has indicated a fiscal deficit of 3.4% of the GDP in the interim budget for FY2020 (refer Table 4), higher than the 3.1% target indicated in the MTFP statement published along with the FY2019 budget. As a percentage of GDP, the revenue deficit and fiscal deficit are budgeted to remain unchanged in FY2020 BE relative to FY2019 RE while the effective revenue deficit is expected to rise in the same period. At an absolute level, the revenue deficit, the effective revenue deficit and the fiscal deficit are estimated to widen in FY2020 BE compared to the RE for FY2019 (refer Table 5). Notably, the quality of the fiscal deficit is expected to deteriorate, with the share of the revenue deficit in the total fiscal deficit increasing to ~67% in FY2020 BE from ~65% in FY2019 RE.

The rolling targets, indicated by the GoI in the Union Budget for FY2020, aim to curtail the fiscal deficit to 3.0% of GDP in FY2021 and in FY2022. The Central government debt outstanding is projected to decline to 45.4% of GDP in FY2021 and further to 43.4% of GDP in FY2022, an improvement from 48.9% in FY2019 RE and 47.3% in FY2020 BE. The Government has targeted to reduce its total debt to 40% of GDP by FY2025.

Table 5: Fiscal Balances for the GoI

Rs. Lakh Crore	FY2019 BE	FY2019 RE	FY2020 BE	FY2021 Rolling Targets	FY2022 Rolling Targets
Revenue Deficit	4.2	4.1	4.7	-	-
Percentage of GDP	*2.2%*	*2.2%*	*2.2%*	*1.7%*	*1.5%*
Fiscal Deficit	6.2	6.3	7.0	-	-
Percentage of GDP	*3.3%*	*3.4%*	*3.4%*	*3.0%*	*3.0%*
Total Outstanding Liabilities as a Percentage of GDP#	48.8%	48.9%	47.3%	45.4%	43.4%

Source: GoI Budget Documents; CGA; ICRA research

Borrowings: The GoI has indicated gross borrowings of Rs. 7.1 lakh crore in FY2020 (refer Table 6), which is higher than the level in FY2019. The net long-term borrowings (net of redemptions) are estimated to rise to Rs. 4.7 lakh crore in FY2020 from the amount indicated for FY2019. However, this is higher than the market expectations.

In continuation with the strategy of easing the near-term redemption pressure pursued by the GoI in recent years, buyback and switching of shorter tenor securities with longer tenor securities have been proposed in the FY2020 Budget as well. The GoI has indicated that it would buy back securities amounting to Rs. 0.5 lakh crore in FY2020, compared to nil in FY2019. Additionally, securities worth Rs. 0.5 lakh crore are proposed to be switched in FY2020, which is higher than the amount of Rs. 0.3 lakh crore proposed to be completed in FY2019.

Table 6: GoI's Long-Term Market Borrowings (Rs. lakh crore)

	FY2019	FY2020
Gross Borrowing	5.7	7.1
Redemptions	1.5	2.4
Net Borrowing	4.2	4.7
Buyback	0.0	0.5
Net Borrowing Adjusted for Buyback	4.2	4.2

Source: RBI; ICRA research

ICRA Sectoral Analysis

AUTO: Auto Components

Proposals

- The Interim Budget has continued with the Central Government's focus on the rural economy, urban poor and infrastructure investments
- Outlay for rural infrastructure increased by Rs. 3,500 crore to Rs. 19,000 crore in support to PMGSY

Impact: Neutral

The Government's increased outlay for the rural and agrarian segment would lead to higher disposable income and demand for the automotive sector, especially two wheelers, PVs and tractors, which together account for 70% of domestic OE demand. Increased focus on road infrastructure will support demand for commercial vehicles and construction equipment. Consequently, component suppliers will also witness an increase in demand. Announcements made in the Interim Budget would be overall neutral for the sector in the absence of any direct incentive.

AUTO: Commercial Vehicles

Proposals

- Higher allocation towards infrastructure sector, especially roads
- Greater focus on strengthening rural economy through multi-faceted schemes

Impact: Positive

The commercial vehicle (CV) sector will continue to reap benefits from the Government's commitment towards increased allocation for the rural economy and infrastructure sector, especially for the development of roads and highways. These investments will not only support the sale of vehicles used for providing last-mile connectivity but will also be positive for tipper sales that constitute approximately 25-30% of M&HCV truck sales in India. So far in the current fiscal, tipper sales have registered healthy growth.

Although the Government did not announce any direct incentive programme (under the Faster Adoption and Manufacturing of Hybrid and Electric Vehicles (FAME) scheme) for the adoption of EVs in the public transport segment, the recent reduction in import duty levied on auto components used for EVs and commitment towards EVs will have a favourable impact, going forward.

AUTO: Passenger Vehicles

Proposals

- Government's commitment towards electric vehicles (EVs) is a positive; recent revision in import duty augurs well for domestic automobile industry
- For taxpayers with annual taxable income (net of deduction) under Rs. 5 lakh, a full rebate on income tax is proposed; standard deduction limit to be increased to Rs. 50,000 from Rs. 40,000

Impact: Neutral

The Government has increased the outlay for the rural sector with a special thrust on rural income. Improvement in road connectivity is a positive for the passenger vehicle industry, especially entry-level cars and the utility vehicle segment. Full tax rebate for taxpayers with annual taxable income under Rs. 5 lakh will support demand in the entry-level PV segment. Moreover, the abolition of income tax on notional rent on second homes is also a positive for the industry as it will leave more income in the hands of the customers.

The Government’s commitment towards EVs is a positive for the industry and the recent revision in import duty to support the local assembly of EVs augurs well for the industry. However, hybrid vehicles failed to find favour with the Finance Minister and will continue to be taxed at a higher rate. In the absence of any direct benefits such as scrappage schemes for older vehicles or greater direct incentives to promote the usage of EVs, the announcements made in the Interim Budget (FY2019-2020) would be Neutral for the sector.

AUTO: Tractors

Proposals

- Assured income support (up to Rs. 6,000/annum for each household) to marginal farmers with landholding less than 2 hectares
- Allocation under MNREGA increased to Rs. 60,000 crore with option to infuse additional funds; allocation of Rs. 9,524 crore to National Rural Livelihood Mission
- Interest subvention (2%) extended to farmers pursuing activities of animal husbandry and fisheries in loans availed through Kisan Credit Cards; additional subvention (3%) on timely repayment
- Interest subvention benefits for the entire duration of the rescheduled loan for farmers affected by natural calamities (and provided relief under the National Disaster Relief Fund); increase in allocation for Pradhan Mantri Fasal Bima Yojana by Rs. 1,000 crore
- Continued focus on rural infrastructure development; allocation of Rs. 9,516 crore for Pradhan Mantri Krishi Sinchayee Yojana, Rs. 19,000 crore for Pradhan Mantri Gram Sadak Yojana and Rs. 25,853 crore for Pradhan Mantri Awas Yojana

Impact: Positive

The Government's continued thrust on promoting rural development and farmers' welfare in the Interim Budget remains a positive for the farm sector. While an enhanced allocation towards various farmer welfare schemes (irrigation, crop insurance etc.) would help in reducing the exposure of the agricultural sector to the vagaries of monsoon over the medium term, the announcement of assured income support for small and marginal farmers is likely to aid in timely procurement of key crop inputs (seeds, fertilisers etc.). The supplementary income under the Pradhan Mantri Kisan Samman Nidhi scheme, on top of different farmer-friendly schemes implemented by various state governments, augurs well for the farm sector.

AUTO: Two-Wheelers

Proposals

- Agriculture and rural sectors continue to get higher budgetary allocation
  - Introduction of Pradhan Mantri Kisan Samman Nidhi (PM-KISAN) scheme that provides direct income support of up to Rs. 6,000/annum to marginal farmers with landholding less than 2 hectares
  - Allocation under MNREGA increased to Rs. 60,000 crore; allocation of Rs. 9,524 crore to National Rural Livelihood Mission
  - Interest subvention (2%) extended to farmers pursuing activities of animal husbandry and fisheries in loans availed through Kisan Credit Cards; additional subvention (3%) on timely repayment
  - Interest subvention benefits for the entire duration of the rescheduled loan for farmers affected by natural calamities; increase in allocation for Pradhan Mantri Fasal Bima Yojana by Rs. 1,000 crore
  - Continued focus on rural infrastructure development; allocation of Rs. 9,516 crore for Pradhan Mantri Krishi Sinchayee Yojana, Rs. 19,000 crore for Pradhan Mantri Gram Sadak Yojana and Rs. 25,853 crore to Pradhan Mantri Awas Yojana
  - Tax benefits for middle-income individuals

Impact: Positive

In line with the Government's mission of doubling farm income by 2022, the introduction of PM-KISAN scheme for direct income support to small and marginal farmers is a key positive as this brings income certainty, especially when the crop realisations remain subdued. This income support scheme coupled with initiatives towards higher allocation for crop insurance, rural infrastructure, MGNREGA, higher interest subventions besides various state-specific schemes announced in the recent past augur well for the farm sector. Moreover, tax exemption for small tax payers as well as increased standard deduction would result in higher disposable income and support demand for two wheelers.

BANKING AND FINANCE

Proposals

- Allocation for the Pradhan Mantri Awas Yojana (PMAY) at Rs. 25,853 crore for FY2020 vis-à-vis Rs. 26,405 crore for FY2019
- Individual taxpayers with taxable annual income up to Rs. 5 lakh will get full tax rebate. Further, standard deduction for salaried individuals is being raised to Rs. 50,000 from Rs. 40,000
- Benefits under Section 80-IBA of the Income-tax Act are being extended for one more year for affordable housing projects, i.e. for the housing projects approved till March 31, 2020
- The benefit of rollover of capital gains under Section 54 of the Income-tax Act will be increased from investment in one residential house to two residential houses for a taxpayer with capital gains of up to Rs. 2 crore. This benefit can be availed once in a lifetime
- Interest subvention extended to animal husbandry, fishery farmers, and GST-registered MSMEs for incremental loans up to Rs. 1 crore and for the entire tenure of farm loans rescheduled because of natural calamities
- Capital allocation of Rs. 1,500 crore for NABARD, Rs. 950 crore for EXIM Bank and equity support to IIFCL

Impact: Neutral

The Vote on Account has maintained its focus on the agenda for Housing for All by 2022. The allocation is marginally below that in the last fiscal. Nevertheless, the allocation remains sizeable, which is likely to support the growth momentum in the affordable housing sector. On the supply side, the extension of tax benefits for affordable housing projects is likely to ensure adequate developer interest in the segment. On the demand side, the disposable income of the low-to-middle-income segment borrowers is expected to improve through tax exemptions. This could have a positive impact on the housing finance companies (HFCs), specially those operating in the affordable housing segment where the median income level of borrowers is typically between Rs. 3 lakh and Rs. 6 lakh.

While the GoI has announced capital infusion in certain financial institutions, there has been no announcement in the Interim Budget for capital infusion in public sector banks (PSBs). This is a negative as the capital position of many PSBs is expected to remain weak for supporting credit growth. Various interest subventions, coupled with reduction in tax payment liability, are expected to be a positive for the disposable income of the borrowers. This is expected to support consumption growth that may increase credit demand and/or improve their debt-servicing ability.

CAPITAL GOODS

Proposals

- Allocation of Rs. 40.66 billion and Rs. 52.80 billion for Deendayal Upadhayaya Gram Jyoti Yojana (DUGJY) and Integrated Power Development Scheme (IPDS), respectively
- Allocation of Rs. 46.5 billion for renewable energy sector to promote wind and solar capacity addition as well as augmentation of green energy transmission infrastructure
- Continued thrust on achieving 100% rural electrification
- Increased capex by Railways, particularly for electrification and augmentation of line network

Impact: Positive

Higher budgetary allocation in schemes like DUGJY and IPDS, as well as allocation towards the renewable energy sector is a positive for EPC companies, as it would boost their order inflows. Further, the increased capex by Railways with its thrust to improve electrification is a positive for EPC companies as well as solar OEMs in domestic markets, given the stated preference by Government entities for meeting requirements from domestic players.

CEMENT

Proposals

- The budget announced setting up of Pradhan Mantri Kisaan Samaan Nidhi (PM-KISAN) for disbursement of money to farmers; under this programme, the vulnerable landholding farmer families, having cultivable land up to 2 hectares, will be provided direct income support at the rate of Rs. 6,000 per year; this will amount to Rs. 20,000 crore for FY2019 and Rs. 75,000 crore for FY2020
- The budget also provided significant impetus to real estate developers and homebuyers through increased tax exemptions and extension of the existing benefits
    - Income tax on notional rental income on a second self-occupied house will be done away with; in addition, the capital gains tax rollover benefit on sale of residential property will be extended to the purchase of a second house
- The budgetary allocation for the road sector (including Pradhan Mantri Gram Sadak Yojana; PMGSY) raised by Rs. 7,839 crore (8% compared with 15% increase in the previous year) to Rs. 101,581 crore from Rs. 93,742 crore in FY2019
- The budgetary allocation for the overall capital expenditure in the Railways increased to Rs. 1.59 lakh crore in FY2020 from Rs. 1.46 lakh crore in FY2019

Impact: Positive

The continued focus on the housing sector and rural economy in the Union Budget for 2019-20 is likely to have a positive impact on the cement industry. Housing accounts for 60-65% of the total cement demand in the country. Improved rural incomes are likely to boost rural demand, including demand for rural housing. This in turn will have a positive impact on cement demand as rural housing demand is a significant contributor to the overall cement demand mix. The steps taken in respect of homebuyers are expected to incentivise second home purchases, whether for self-occupation or investment purposes. In addition, the income tax rebate for income less than Rs. 5 lakh will improve the affordability for homebuyers in the lower and middle income groups. On the infrastructure side, the continued thrust on the road and railway sectors is likely to push cement demand.

FERTILISER

Proposals

- Structured income support for farmers through Pradhan Mantri Kisan Samman Nidhi Yojna (PMKSNY) positive for the fertiliser sector
- Upward revision to Rs. 749.9 billion (BE) in budgetary provision for subsidy in FY2019-20; subsidy provision unchanged at Rs. 700.8 billion (RE) in FY2018-19
    - Subsidy for urea 2019-20: Rs. 501.6 billion (BE) against Rs. 449.9 billion (RE) in FY2018-19
    - Subsidy for P&K fertiliser 2019-20: Rs. 248.3 billion (BE) against Rs. 250.9 billion (RE) in FY2018-19

Impact: Neutral

The upward revision in the budgetary provision for the fertiliser subsidy for FY2019-20 to Rs. 749.9 crore (BE) is positive for the fertiliser sector. The subsidy allocation for indigenous urea has been increased to Rs. 400 billion (BE) in FY2019-20 from Rs. 349.9 billion in FY2018-19(RE), which will be sufficient to meet the subsidy requirements for the production to be undertaken by plants being commissioned under the New Urea Investment Policy-2012 (NIP-2012) in the upcoming year. The subsidy allocation for imported urea has been kept unchanged, at Rs. 136.3 billion (BE) in FY2019-20 vis-à-vis Rs. 133.6 billion, which is expected to provide flexibility to the GoI in terms of subsidy allocation as urea imports are set to decline from FY2020 onwards. The subsidy allocation for the P&K fertiliser has been reduced to Rs. 238.3 billion (BE) in FY2019-20 from Rs. 250.9 billion (RE) in FY2018-19. The reduction in P&K subsidy comes as a surprise when the raw material prices particularly Phosphate (P), Potash (K) and Sulphur (S) have witnessed a steep increase. As a result, the retail price of P&K fertiliser increased by ~25-30% YoY in the current rabi season. The subsidy rates under the Nutrient-based subsidy (NBS) scheme are expected to be increased in FY2020. In such a scenario, the subsidy budget for P&K fertilisers may prove to be insufficient in the forthcoming year, negatively impacting the working capital cycle of the domestic P&K players. While the budgetary allocation for the fertiliser sector may have increased by ~Rs. 50 billion, the subsidy backlog is expected to remain significant, at around Rs. 300 billion, at the end of FY2018-19, which continues to impact the liquidity position of the fertiliser companies. The GoI's announcement of the structured income support for the small and marginal farmers under the Pradhan Mantri Kisan Samman Nidhi Yojna (PMKSNY) is expected to have a positive impact on the sector. Other farmer-focused initiatives such as doubling of interest subvention on farm loans, focus on irrigation and soil health cards are expected to have a positive impact on the fertiliser sector in the medium term.

FMCG

Proposals

- Direct income support of Rs. 6,000/annum to marginal farmers will support rural consumption
- For taxpayers with annual taxable income (net of deduction) under Rs. 5 lakh, full rebate on income tax proposed; standard deduction limit raised from Rs. 40,000 to Rs. 50,000
- Income tax exemption on notional rent on second self-occupied home will boost consumer sentiments and support consumption demand

Impact: Positive

Increased outlay for farm and rural sector will boost consumption demand, especially in the rural segment. Moreover, direct income support of Rs. 6,000 per year to marginal farmers augurs well for rural consumption demand. Tax sops for middle-class taxpayers with annual taxable income under Rs. 5 lakh and abolition of income tax on notional rent on second home will also boost consumer sentiments and consumption demand. Overall, the announcement made in the Budget will boost consumption demand and is positive for the FMCG industry.

GOLD JEWELLERY RETAIL

Proposals

- Full tax rebate for individuals with annual income up to Rs. 5 lakh
- Increase in standard deduction to Rs. 50,000 from Rs. 40,000

Impact: Neutral

Given that gold is one of the preferred savings vehicles, the announcement of full tax rebate for the middle-class segment and the increase in standard deduction limit is a positive for the gold jewellery retail industry. Demand for gold jewellery, which has been subdued in the current year due to higher gold prices, lesser number of auspicious days, floods in Kerala and tightened credit to the sector, is expected to recover in FY2020. ICRA expects gold jewellery demand to grow by 6-8% in FY2020 supported by demand recovery in both rural and urban segments with improvement in consumer sentiments, higher disposable income and better purchasing power. Formulation of a comprehensive gold policy, which was announced in the last Union Budget, is yet to be implemented.

INFRASTRUCTURE

Proposals

- Increase in capital outlay towards transportation infrastructure sector—roads and highways (excluding rural roads) increased to Rs. 1.47 lakh crore in 2019-20 budget estimates or BE (up by 12.6% over 2018-19 revised estimates or RE), railways to Rs. 1.59 lakh crore in 2019-20 BE (up by 14.3% over 2018-19 RE), and Metro Rail projects to Rs. 17,714 crore (up by 19.2% over 2018-19 RE)
- Budgetary support to the railways increased by 21.7% to Rs. 64,587 crore, while that for National Highways Authority of India (NHAI) marginally lower at Rs. 36,691 crore over 2018-19 RE. Consequently, NHAI's dependence on Internal and Extra Budgetary Resources (IEBR) increased by 21% to Rs. 75,000 crore
- Capital outlay towards key schemes of the infrastructure sector, such as the Pradhan Mantri Gram Sadak Yojana (PMGSY) increased by 22.6% to Rs. 19,000 crore, Pradhan Mantri Krishi Sinchai Yojana (PMKSY) up by 15.3% to Rs. 9,516 crore, AMRUT and Smart Cities Mission (Urban Rejuvenation) by 10.6% to Rs. 13,900 crore in comparison to 2018-19 RE
- Allocation to Pradhan Mantri Awas Yojana (PMAY) lower by 2% at Rs. 25,853 crore over last fiscal year
- Budgetary allocation towards National Investment and Infrastructure Fund (NIIF) remains modest at Rs. 1,000 crore

Impact: Marginally Positive

The capital outlay for roads, railways, and metro projects have been budgeted to increase by 12–19% in 2019-20 over the 2018-19 RE. The increased capital outlay is proposed to be supported by higher budgetary allocations in railways and metro projects, while it is to be primarily by way of NHAI's internal and extra-budgetary resources (IEBR, which is largely through debt raised by NHAI) for roads. This would make the funding availability dependent on NHAI's ability to increase IEBR significantly.

Capital outlay towards some key schemes of the infrastructure sector has also been projected to increase in 2019-20 BE. The capital outlay towards PMGSY is being increased by 22.6% to Rs. 19,000 crore, that of PMKSY by 15.3% to Rs. 9,516 crore, AMRUT and Smart Cities Mission (Urban Rejuvenation) by 10.6% to Rs. 13,900 crore in 2019-20 BE over 2018-19 RE.

On the other hand, budgetary allocation towards NIIF remains modest at Rs. 1,000 crore. NIIF, India's sovereign wealth fund, which was proposed to have a corpus of Rs. 40,000 crore in FY2015, has gradually started gaining traction. Given the huge capital requirement for the infrastructure sector, NIIF can play a vital role in augmenting available capital for the sector. A higher allocation would have provided more visibility to NIIF for investments in the country's infrastructure.

OIL AND GAS

Proposals

- Provision of fuel subsidy for sensitive petroleum products of ~Rs. 207 billion for 2018-19 (RE) and ~Rs. 336 billion for 2019-20 (BE)
- Allocation of about 20 million new LPG connections to poor (BPL) families in FY2020
- Change in bidding system from revenue sharing to exploration programme for Category II and III basins to be implemented
- Allocation of Rs. 15.5 billion as capital expenditure for Phulpur-Dhamra-Haldia Pipeline Project of GAIL
- Allocation of Rs. 16 billion for National Seismic Programme
- Allocation of Rs. 1.2 billion for strategic oil reserves projects

Impact: Negative

Petroleum subsidy RE of ~Rs. 207 billion (excluding new LPG connections) for FY2019 is lower than the expected burden of Rs. 379 billion in the current year. This will impact the oil marketing companies. The working capital debt of oil marketing companies will increase to meet the subsidy shortfall, leading to higher interest costs. In line with the backlog from FY2019, the petroleum subsidy allocation of Rs. 336 billion for FY2020 would fall short by Rs. 183-250 billion. As per ICRA estimates, the Government of India (GoI) subsidies are projected to be ~Rs. 345-415 billion (at the Indian basket crude oil price of USD 65-70/bbl and INR/USD of 72). The significant under-allocation for FY2020 may lead to moderately higher debt and interest levels for oil marketing companies (OMCs).

To meet the GoI’s target of LPG connections for poor (BPL) households at 8 crore (of which more than 6 crore have been achieved), allocation has been made of Rs. 27 billion for FY2020 against Rs. 32 billion for FY2019. The move would lead to an increase in LPG penetration, thereby boosting LPG sales volumes and marketing profits of OMCs. However, it may lead to a rise in LPG subsidies at the current or higher crude oil prices.

For the gas sector, an allocation of Rs. 15.5 billion for FY2020 (BE) along with Rs. 12 billion for FY2019 (RE) for GAIL’s Phulpur-Dhamra-Haldia Pipeline Project provides clarity on disbursement. The pipeline, which is being laid using a capital grant of ~Rs. 51.7 billion out of the total estimated capital outlay of Rs. 129.4 billion, is expected to connect the natural gas grid with the eastern part of the country, which could lead to the revival of three fertiliser units and city gas distribution (CGD) networks in many cities.

The budget allocates Rs. 16 billion for National Seismic Programme (NSP) for FY2020 against Rs. 13 billion for FY2019 (RE), which is to be spent for fresh appraisal in all sedimentary basins across India, especially where no/limited data is available and would aid exploration and production sector companies with improved data repository. Additionally, the bidding system will be changed from revenue sharing to exploration programme for Category II and III basins, which is expected to incentivise exploration and production of highly prospective basins. The allocation of Rs. 1.2 billion in FY2020 (against Rs. 7.8 billion in FY2019) for payment to Indian Strategic Petroleum Reserves Limited (ISPRL) is aimed to build crude oil reserves, which would support oil consumption by the country in case of emergency.

PHARMA

Proposals

- Improved healthcare and a functional and comprehensive wellness system for all by 2030
- Ramp up of the Ayushman Bharat programme, insuring 10 crore families and 50 crore beneficiaries with a cover of Rs. 5 lakh per family
- Rebate increased; income tax exemption for income up to Rs. 5 lakh

Impact: Marginally Positive

The pharmaceutical sector will benefit from the cascading effect of the scale up of schemes such as the Ayushman Bharat programme targeting health coverage of 50 crore citizens. The insurance scheme has benefitted 10 lakh people in the last one year and the coverage/beneficiaries are expected to scale up, going forward. This, along with plans of universal healthcare coverage by 2030, augurs well for the pharmaceutical sector in the long run. Higher disposable income owing to tax rebates will allow higher spending on pharmaceuticals in the near term.

PORTS

Proposals

- Budget allocation of Rs. 550.0 crore for the Sagarmala project (2018-19 RE- Rs. 381.1 crore). Around Rs. 200 crore additional funding to come from the Central Road and Infrastructure Fund (CRIF) (2018-19 RE- Rs. 125 crore funded from CRIF)
- Budget allocation of Rs. 214.2 crore for development of ports (2018-19 RE- Rs. 248.7 crore)
- Grants of Rs. 757 crore to the Inland Water Transport Authority of India (2018-19 RE- Rs. 891.1 crore)
- Plan to scale up efforts under the Sagarmala project and speed up the development of Inland Waterways

Impact: Neutral

The government reiterated its support to the Sagarmala plans to develop the ports and coastal areas of the country. Further, the announcement to speed up the development of other inland waterways (apart from National Waterway 1 which is already under development) is also a positive. However, the budget allocation to Sagarmala projects is lower than the cost of planned initiatives. The spending under Sagarmala in 2018-19 was low—64% of the Rs 600-crore budget allocation. The budget allocation for 2019-20 has been reduced to Rs 550 crore. Overall, the impact of the budget is neutral on the sector.

POWER: RENEWABLE ENERGY

Proposals

- Allocation of Rs. 40.66 billion and Rs. 52.80 billion for Deendayal Upadhayaya Gram Jyoti Yojana (DUGJY) and Integrated Power Development Scheme (IPDS), respectively
- Allocation of Rs. 46.5 billion for renewable energy sector to promote wind and solar capacity addition as well as augmentation of green energy transmission infrastructure
- Continued thrust on achieving 100% rural electrification

Impact: Positive

Higher budgetary allocation in FY2020 for schemes like DUGJY and IPDS is positive for distribution utilities as it would enable them to reduce distribution losses in their licence areas. The continued thrust towards ensuring electricity access to all rural households under Saubhagya scheme is likely to improve energy demand in the country, which is a positive for generating companies/ independent power producers (IPPs). The budgetary allocation towards renewable energy sector has remained similar in FY2020 and thus provides continued policy support towards meeting funding requirements for the renewable energy segment, including that for building a green energy transmission corridor.

REAL ESTATE

Proposals

- No tax levy on notional rental income on second self-occupied house
- Benefit of rollover of capital tax gains under section 54 of IT Act extended to investment in two residential properties, as against one earlier (for a taxpayer having capital gains up to Rs. 2.0 crore); can be exercised once in a lifetime
- Extension of 100% tax deduction under Sec 80IBA for one additional year, for all affordable housing projects approved till end of 2019-2020
- Tax free holding period for unsold inventory increased to two years from one year

Impact: Positive

The Union Budget 2019-20 provides significant impetus to real estate developers and home buyers through increased tax exemptions and extension of existing benefits. Second house purchases, in particular, have been incentivised through waiver of tax levy on the notional rental income for a second self-occupied house, as well as the extension of the capital gains tax rollover benefit to purchase two residential properties. In addition, the rebate on income tax for income less than Rs. 5.0 lakh will increase the disposable income for home buyers in the lower and middle-income groups, thereby improving home affordability. The Government also reiterated its intent to further rationalise GST rates on the purchase of residential homes by referring the decision to a group of ministers for recommendations. With these measures, residential housing demand from both home buyers and investors is expected to increase.

From the developers' perspective, supply focussed announcements, such as the extension of eligibility for 100% tax exemption on profits for affordable housing projects registered till March 2020, underpin the Government's focus on affordable housing. Waiver of tax on notional rental income on unsold inventory for two years from completion, as against the exemption of one year earlier, reduces inventory holding costs for developers.

Notably, however, the budgetary support for the Pradhan Mantri Awas Yojana (PMAY), the flagship scheme of the 'Housing for All by 2022' mission, has been reduced by 2% to Rs. 25,853 crore, as against the revised estimate of Rs. 26,405 crore for 2018-19. Given the ambitious targets of the scheme, the need to rely on external resources to meet these targets remains high.

SHIPPING AND SHIPBUILDING

Proposals

- Budget allocation of Rs. 1,902.5 crore for FY2019-2020 for the Ministry of Shipping against the revised estimate of Rs. 1,938.8 crore for FY2018-2019
    - Rs. 550.0 crore for projects under SagarMala (FY2018-2019 RE: Rs. 381.1 crore)
    - Rs. 214.3 crore for development of ports (FY2018-2019 RE: Rs. 284.7 crore)
    - Rs. 757.0 crore for grants to Inland Water Transport Authority of India (FY2018-2019 RE Rs. 891.1 crore)
    - Rs. 97.0 crore for assistance to shipbuilding, research and development (FY2018-2019 RE: Rs. 28.3 crore)

Impact: Neutral

The Government's focus on the inland waterways sector and the SagarMala project continues, which is a positive for the shipping sector, with the potential to boost coastal as well as inland shipping in the medium term. The budgetary allocation, however, remains low in comparison to the overall requirement for these projects. Although the allocation for assistance to shipbuilding, research and development has increased compared to the previous year, it remains at a moderate level. In the absence of any major specific announcement for the shipping and shipbuilding sector, the impact on this sector is expected to be Neutral.

STEEL AND IRON

Proposals

- Higher disposable income from increased tax exemption and the Pradhan Mantri Kisan Samman Nidhi scheme
- A 14% increase in capital outlay towards both railways and roads
- Incentives for both home buyers and real estate developers

Impact: Moderately Positive

Steel consumption in India is primarily driven by end-user industries, including construction, infrastructure, automobiles and capital goods. The increased tax exemption limit of up to Rs 5 lakh and income support in the form of Rs. 6000 per year to farmers possessing cultivable land of up to 2 hectares, are likely to benefit consumption-driven sectors like automobiles and consumer durables. This in turn is likely to lead to increased demand for alloy and flat steel products. A higher capital outlay towards railways and roads would, on the other hand, lead to an increased usage of long steel products. The various sops provided for the real estate sector, including the exemption on notional rental income on second self-occupied house, and the rollover of capital gain tax, extended to investment in a second residential house, as against one residential house earlier, are likely to increase long steel consumption.

TELECOM

Proposals

- Continued focus on creating robust digital infrastructure and expanding telecommunication connectivity across country with target of transforming one lakh villages into digital villages over next five years
- Envisaged national programme on 'Artificial Intelligence' (AI) to be catalysed by the establishment of a national centre on AI as a hub along with centres of excellence. A national AI portal will also be developed soon
- Budget estimate (BE) of non-tax revenues from communication services for FY2020 stands at Rs. 41,520 crore. For FY2019, revised estimate (RE) stands at Rs. 39,245 crore, which is 19% lower than the Rs. 48,661 crore BE

Impact: Neutral

The budget emphasised the importance of increasing mobile penetration and digitisation for benefitting the lives of citizens, be it through access of information, development of e-markets, direct benefit transfer, or digital delivery of services. The Government's continued focus on creating a robust digital infrastructure and increasing connectivity across the country, as well as its efforts at developing AI and other technologies would provide greater opportunities to telecom operators and drive higher data offtake. There would also be a need for increased optic fibre layout and strengthening of telecommunication infrastructure, which bodes well for equipment manufacturers and assemblers, as well as optic fiber cable manufacturers.

The RE of non-tax revenues from communication services for FY2019 stands at Rs. 39,245 crore, which is 19% lower than the BE of Rs. 48,661 crore, and closer to ICRA's earlier estimates. The reduction in RE is primarily on account of lower than projected revenues generated by the telecom sector, resulting in lower share to the Government. The BE for FY2020 stands at Rs. 41,520 crore, 6% higher than the RE for FY2019. This does not factor in any spectrum auctions in FY2020.

TEXTILE

Proposals

- About ~16% reduction in allocation, to Rs. 5,831 crore in FY2020 from Rs. 6,943 crore (revised estimate) in FY2019, for the textile sector
- Allocation towards past loss reimbursement for The Cotton Corporation of India, under the Price Support Scheme for cotton, more than doubled to Rs. 2,018 crore in FY2020 from Rs. 924 crore in FY2019
- More than 70% reduction in budgetary allocation, to Rs. 1,000 crore in FY2020 from Rs. 3,664 crore in FY2019, for the Remission of State Levies (ROSL) scheme
- Allocation for the Amended Textile Up-gradation Fund Scheme (TUFS) stands at Rs. 700 crore in FY2020, vis-a-vis Rs. 623 crore in FY2019

Impact: Marginally Negative

There has been a considerable reduction in budgetary allocation towards one of the flagship schemes of the sector, namely ATUFS, since last year. The scheme primarily aims at incentivising capital investments in the downstream segments of the textile sector. Though last year's Budget had provided for a higher amount, Rs. 2,300 crore, the actual spend is estimated to be considerably lower, at Rs. 623 crore, pointing towards the slow pace of incremental capital investments in the sector. In line with the last year, this year's Interim Budget also provides a lower amount (Rs. 700 crore) towards the scheme. Continued access to these incentives remains crucial for encouraging investments in India's downstream textile segments and, therefore, a lower budgetary allocation in the last two years is marginally negative.

Allocation towards another prominent scheme in the sector, the ROSL, which aims at incentivising apparel exporters, has also been reduced to Rs. 1,000 crore in this year's Interim Budget vis-a-vis Rs. 3,664 crore estimated for FY2019. With trends in apparel exports remaining unencouraging, continued access to these incentives remains crucial. Having said that, ICRA notes that the revised estimates in FY2019 show a higher spend of Rs. 3,664 crore vis-a-vis the initially budgeted amount of Rs. 2,164 crore for the year.

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