The Interim 2019 Union Budget delivered by Union Finance Minister Piyush Goyal aims to provide stimulus to the slowing economy by providing a consumption boost while maintaining fiscal consolidation (despite political compulsions). Fresh from losses in 3 states within the Indian heartland, the BJP-led Government has presented a balanced Budget with a focus on the middle class and marginal farmers (less than 2 hectares of land holding).

**Key highlights**

**Consumption:**
- Higher disposable income from tax sops for the middle class should propel consumption in the months to come (effectively Rs. 950 bn of spending power in the hands of the Indian consumer).
- The Pradhan Mantri Kisan Samman Nidhi Package will provide small, marginal farmers (less than 2 hectares of land holding) Rs. 6,000 p.a. (divided in 3 installments) as direct transfers to their bank account. This scheme will be effective from December 01, 2018. The first installment will be paid out soon. Accordingly, the Government has provided Rs. 20,000 cr and Rs. 75,000 cr for FY19 & FY20 in the Budget. We think this measure does not address the issue with landless labourers (unlike the Odisha State government scheme).

**Infrastructure:**
This Budget did not focus on infrastructure. However, we expect the July 2019 Budget to have a greater importance on this sector.

**Defense:**
Rs. 3 trillion was allocated to Defense and the Government is prepared to increase defense expenditure, if required.

**Taxes:**
In 3 years' time, the Government aims to go “electronic” with regards to income taxes and remove personnel interaction while filing, processing and scrutinizing returns. This is a great step to remove corruption.

**Fiscal Deficit:**
The Government has broadly managed fiscal discipline, where the headline fiscal deficit target has gone up by only 10 bps in FY19 to 3.4% (revised estimate) and is expected to stay in this region in FY20.

Below are our sector views including possible impacts from this 2019 Interim Union Budget:

<table>
<thead>
<tr>
<th>Sector</th>
<th>Actual announcement in the Budget</th>
<th>Implication for the sector</th>
<th>Our view on the sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Autos</td>
<td>• Pro-consumption measures announced in the budget including tax sops for salaried individuals and support packages for farmers</td>
<td>• Marginal increase in cash flows in the hands of individuals could help demand for low ticket consumer discretionary spends like (entry level) two-wheelers</td>
<td>• These measures though marginally positive are unlikely to offset the impact of vehicle cost increases from regulatory norms on safety and emissions</td>
</tr>
<tr>
<td>Retail</td>
<td>• Pro-consumption measures announced in the budget including tax sops for salaried class and support packages for farmers</td>
<td>• Consumer discretionary spend on apparel and grocery is likely to see an uptick driven by higher disposable income.</td>
<td>• We are positive on consumer discretionary sector in apparel and jewelry given the switch from unorganized to organized retailers. • Valuations have re-rated and competitive intensity may slow growth trends.</td>
</tr>
<tr>
<td>Telecom</td>
<td>• Non-tax receipts from other communication services - Budget FY19 Rs. 48,661 cr - Revised Budget FY19 Rs. 39,245 cr - Actual FY18 Rs. 32,065 cr - Budget FY20 Rs. 41,519 cr</td>
<td>• No major spectrum auction is budgeted</td>
<td>• This is not a major lead indicator, more an outcome of the health of the sector • Our view is that telecom sector revenues are nearing bottom, and should start recovering in the next few quarters. • Looking to increase our exposure.</td>
</tr>
<tr>
<td>Sector</td>
<td>Actual announcement in the Budget</td>
<td>Implication for the sector</td>
<td>Our view on the sector</td>
</tr>
<tr>
<td>----------</td>
<td>------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
<td>-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
<td>--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
</tbody>
</table>
| **Infra / Industrials** | • Railways: Total outlay in FY20 to grow by 14% YoY (from FY19)  
• NHAI: Total outlay in FY20 to grow by 10% YoY (from FY19, including Internal and Extra Budgetary Sources)  
• Metro: Total support for metro rail space in FY20 will be Rs. 185 bn against Rs. 156 bn in FY19  
• Defense: Total budget in FY20 to grow by 7% YoY (from FY19) with capital budget estimated to grow at a faster pace of 10%  
• Exemption for people having income up to Rs. 5 lakh | Sub-sectors that could see some impact:  
• Railways/ Metro Rail: EPC contractors, Rolling stock, Signalling and Electrification  
• Roads: Road contractors  
• Defence: Defence equipment, system integrators  
• Equipment suppliers: Engines, construction equipment, industrial products  
• Personal Consumption: Air Conditioners | • Current order books and sustained infra spending would drive future earnings growth.  
• As capacity utilizations pickup in the key sectors of steel and cement it would lead to pickup in the private sector capex in the medium term.  
• Companies catering to roads, railways, metro rail and defence sector will benefit from rise in spending.  
• With higher disposable income in the hands of consumers we expect pickup in demand for consumer durables such as air conditioners. |
| **Cement** | • Measures taken to boost affordable housing and demand for second homes | Incremental positives: Will help continue affordable housing related demand and somewhat aid the weak demand from urban housing | • Announcements are only incremental positives and not really a game changer for cement demand. |
| **Oil & Gas** | • Subsidy provision for LPG and SKO (Superior Kerosene Oil) increased by 62% FY20E | • Primarily allows roll over of excess subsidy of FY19 to FY20E.  
• Budget estimated similar amount of LPG&SKO subsidy for FY19&FY20E of Rs. 208 bn. Excess under recovery of FY19 will be rolled over and paid in FY20E.  
• Our calculations suggest that FY19 under recovery could be be close to Rs. 380 bn. | • Positive for Oil & Gas PSU |
| **Banking** | • Rise in Fiscal Deficit for FY19 and no change in FY20  
• Budget for PMAY scheme is largely unchanged  
• Increase in standard deduction amount and exemption limit of personal income tax  
• Income support for small and marginal farmers | Market rates are likely to remain elevated which could limit transmission if there is rate cut from MPC  
• Additional income for farmers and savings for tax payers should help consumption demand which could support growth for retail financiers | • Financials driven by improving corporate asset quality trends, steady retail credit growth and market share shift from PSU to Private lenders |
| **Insurance** | • Budget for crop insurance scheme has broadly remained unchanged | Growth in crop insurance business could slowdown | • We remain positive on the life and general insurance sector on back of strong growth opportunity, improving underwriting trends and favorable regulatory environment. |
Based on the budget announcements and our view of the key themes for this year (click here: **Reflections & Resolutions**), we feel DSP Equity Fund, DSP Top 100 Equity Fund and DSP Small Cap Fund may benefit.

**Sector** | **Actual announcement in the Budget** | **Implication for the sector** | **Our view on the sector**
--- | --- | --- | ---
**FMCG** | • Pro-consumption measures announced in the budget including tax sops for salaried class and support packages for farmers | • Consumer sentiment is likely to get a boost from these measures. Though staple goods growth is less sensitive to income effects, companies can benefit from increasing “premiumisation” trends. | • We are positive on consumer staples sector given the return of pricing growth and improving volume growth trends. • However, we are cognizant of the peak valuations of companies in the sector. |
**Realty** | • Deadline for developers registering projects under affordable housing and availing 80IB tax benefit extended by 1 year. • Notional rent from unsold houses to commence post 2 yrs v/s the current 1yr • Rollover of capital gains u/s54 increased to two houses instead of one • No tax on notional rent on second self-occupied house | • Positive for developers focused on affordable housing • Relief for developers carrying high unsold inventory • Boost demand for second homes • Boost demand for second homes | • Expect near term funding pressure to continue which may impact pricing in the sector. • Expect the organized larger developers to emerge stronger, benefitting from consolidation and market share gains |
**Mid / Small Caps** | • For Rural India Rs. 6,000/yr will be transferred to small farmer bank accounts. Total allocation Rs. 750 bn/yr and Rs. 200bn for FY19. • Tax proposals – upto 0.5 mn – full tax exemption; Rs. 185 bn benefit for 30 mn taxpayers | Sub-sectors that could see some impact: • Agri inputs: Seeds, pesticides • Building Material: Tiles, Sanitary ware, Pipes, Ply • Consumer Durables: Air coolers, cook tops, home appliances • Personal Consumption: Apparels, footwear, innerwear | • We are positive on consumption especially at the lower end of the spectrum. • We expect good demand for products that are required for maintaining basic lifestyles. • With higher disposable income in the hands of farmers we also expect agri related consumption to improve |

**Source:** Data points sourced from Union Budget documents, Elara Research as of 1st Feb 2019.

---

**DSP Small Cap Fund** (Small Cap Fund- An open ended equity scheme predominantly investing in small cap stocks)

This Open Ended Scheme is suitable for investors who are seeking*
- Long-term capital growth
- Investment in equity and equity-related securities predominantly of small cap companies (beyond top 250 companies by market capitalization)

**DSP Equity Fund** (Multi Cap Fund- An open ended equity scheme investing across large cap, mid cap, small cap stocks)

This Open Ended Scheme is suitable for investors who are seeking*
- Long-term capital growth
- Investment in equity and equity-related securities to form a diversified portfolio

**DSP Top 100 Equity Fund** (Large Cap Fund- An open ended equity scheme predominantly investing in large cap stocks)

This Open Ended Scheme is suitable for investors who are seeking*
- Long-term capital growth
- Investment in equity and equity-related securities predominantly of large cap companies

*Investors should consult their financial advisor if in doubt about whether the scheme is suitable for them.

**DISCLAIMER:** In this material DSP Investment Managers Pvt. Ltd. (the AMC) has used information that is publicly available, including information developed in-house. Information gathered and used in this material is believed to be from reliable sources. The AMC however does not warrant the accuracy, reasonableness and / or completeness of any information. We have included statements / opinions / recommendations in this document, which contain words, or phrases such as “will,” “expect,” “should,” “believe” and similar expressions or variations of such expressions that are “forward looking statements.” Actual results may differ materially from those suggested by the forward looking statements due to risk or uncertainties associated with our expectations with respect to, but not limited to, exposure to market risks, general economic and political conditions in India and other countries globally, which have an impact on our services and / or investments, the monetary and interest policies of India, inflation, deflation, unanticipated turbulence in interest rates, foreign exchange rates, equity prices or other prices or prices etc.

All figures and other data given in this document are dated and the same may or may not be relevant in future and the same should not be considered as solicitation/ recommendation/guarantee of future investments by DSP Investment Managers Pvt. Ltd. or its affiliates. Past performance may or may not be sustained in the future. There is no assurance of any capital protection/capital guarantee to the investors in the Scheme. The investors (Keep a note of the sector(s)/stock(s)/issuer(s) mentioned in this document do not constitute any recommendation of the same and the Scheme may or may not have any future position in the sector(s)/stock(s)/issuer(s). Investors are advised to consult their own legal, tax and financial advisors to determine possible tax, legal and other financial implication or consequence of subscribing to the units of the Fund.

The portfolio of the Schemes is subject to changes within the provisions of the Scheme Information Document (SID) of the schemes. For scheme specific risk factors, asset allocation and more details, please read the SID, Statement of Additional Information and Key Information Memorandum of the schemes available on IISc of AMC and also available on www.dspim.com.

Mutual Fund investments are subject to market risks, read all scheme related documents carefully.