STOCKS & MARKETS

The stock market cheered the government's efforts to increase rural incomes and boost consumption demand, but investors are not convinced about how it would fund the measures given the recent softness in tax revenues

Aam Stimulus for D-Street

TEN ISSUES FACING THE ECONOMY

3/10

Bigger Retail & Corp Bond Market

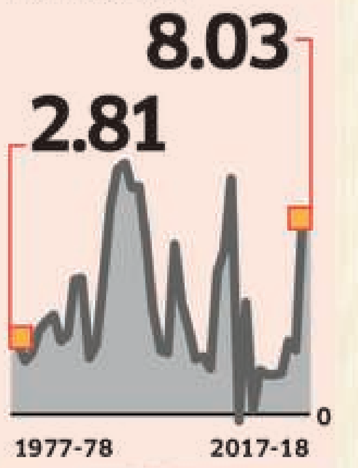
Steady rise in retail participation in equities

Number Of Demat Accounts (In Million)

FY14	21.8
FY15	23.3
FY16	25.4
FY17	27.9
FY18	31.9

FY18: A breakthrough year

Investment In Shares And Debentures As % Of Increase In Household Financial Assets



Mutual Funds: Big drivers

Share In Different Schemes (In %)

	Institutional	Individual
Debt oriented	54	46
Equity	13	87
Liquid/money market	87	13
ETFs/FoFs	93	7

Corporate bond market has made some strides

Corporate Bond Investments (₹ Lakh Crore)

FY13	12.9
FY14	14.7
FY15	17.5
FY16	20.2
FY17	24.1
FY18	27.4

Source: CRISIL

....and expected to double over next five years...

Expected Corporate Bonds Outstanding (In ₹Lakh Cr)

FY18	27.4
FY23	55-60

Market is still well below its potential

Corporate Bond Market As % Of GDP

India	16
Malaysia	46
South Korea	73
US	120

Source: CRISIL

Dependence on bank funds big hurdle

- Bulk of corporate borrowing is directly from banks
- Banks need to start lending via bonds
- The NPA problem is expected to encourage this shift
- Banks expected to start focusing on retail lending
- Minimum mandated investment in corporate bonds can help

IN FOCUS

Sanam Mirchandani & Saikat Das

The stock market gained after a wobbly start and bond yields spiked on Friday as investors weighed the impact of the fiscal stimulus proposed in the interim budget on the economy and interest rates. The Nifty came close to the 11,000-mark on Friday for the first time in four months on hopes the government's moves would boost rural economy but concerns in the bond market over the effect of the government's social schemes and income tax relief on fiscal deficit put a lid on the gains.

Stock indices ended up 0.6% after rising as much as 1.4% soon after the budget announcement mid-way through the session. The Nifty rose to a high of 10,983.45 in the session but pared gains to end at 10,893.65, to end up 62.70 points. The Sensex ended up 212.74 points at 36,469.43.

The yield on government's 10-year benchmark closed at 7.38% Friday versus 7.28% a day earlier, up 14 basis points from the day's low.

"The relief to the rural population and the middle class in the form of a stimulus is expected to drive low-ticket consumption. That has gone down well with the market, but there are slight worries about their impact on fiscal deficit," said Mahesh Patil co-CIO, Aditya Birla Sun Life Mutual Fund. "As long as the macroeconomic conditions are stable, such steps will not be taken negatively."

The government has set a fiscal deficit target of 3.4% for the financial year 2019-20, revising it from the budgeted fiscal deficit for FY19 of 3.3%.

The volatility gauge — India VIX — fell 9% to 15.5. Foreign portfolio investors bought ₹1,300 crore worth of shares, according to provisional data after pumping over ₹3,000 crore into Indian stocks on Thursday. Domestic institutional investors were net sellers of ₹5 crore worth of shares.

Majority of the top gainers on the Sensex were stocks that will benefit from the boost to consumption

The reaction to the interim budget proposals in the bond market was stronger as traders sold holdings fearing higher supply of papers due to additional market borrowings by the government to fund these schemes.

"Higher than expected gross borrowing marred market sentiment," said Naveen Singh, head of fixed income trading at ICICI Securities PD. "The government will also borrow more from the market in the current financial year to finance the fiscal deficit. Overall it adds to the higher supply sending yields higher."

Nomura expects the Reserve Bank of India to view the budget as inflationary and flags this as an upside risk to inflation.

"The expansionary fiscal impulse, at the margin, negates the need for the RBI to consider monetary easing at this stage," said Nomura's economists in a client note. The RBI's rate-setting meeting is scheduled for February 7.

Market participants said technical hurdles also led to the indices coming off highs. The market had gained nearly 2% in the previous session on the back of dovish commentary on rates by the US Federal Reserve.

Majority of the top gainers on the Sensex were stocks that will benefit from the boost to consumption, with Hero MotoCorp surging 7%.

"They have done a lot for the middle-income group and the farm sector, taking into consideration that election is two months away. These sops could boost consumption, which is 60% of the economy," said Vinit Sambre, head of equities at DSP Mutual Fund.

"The sentiment may continue to weigh on the market unless RBI delivers something unexpected in its bi-monthly monetary policy meeting," said Vijay Sharma, head of fixed-income at PNB Gilts.

KEY NUMBERS

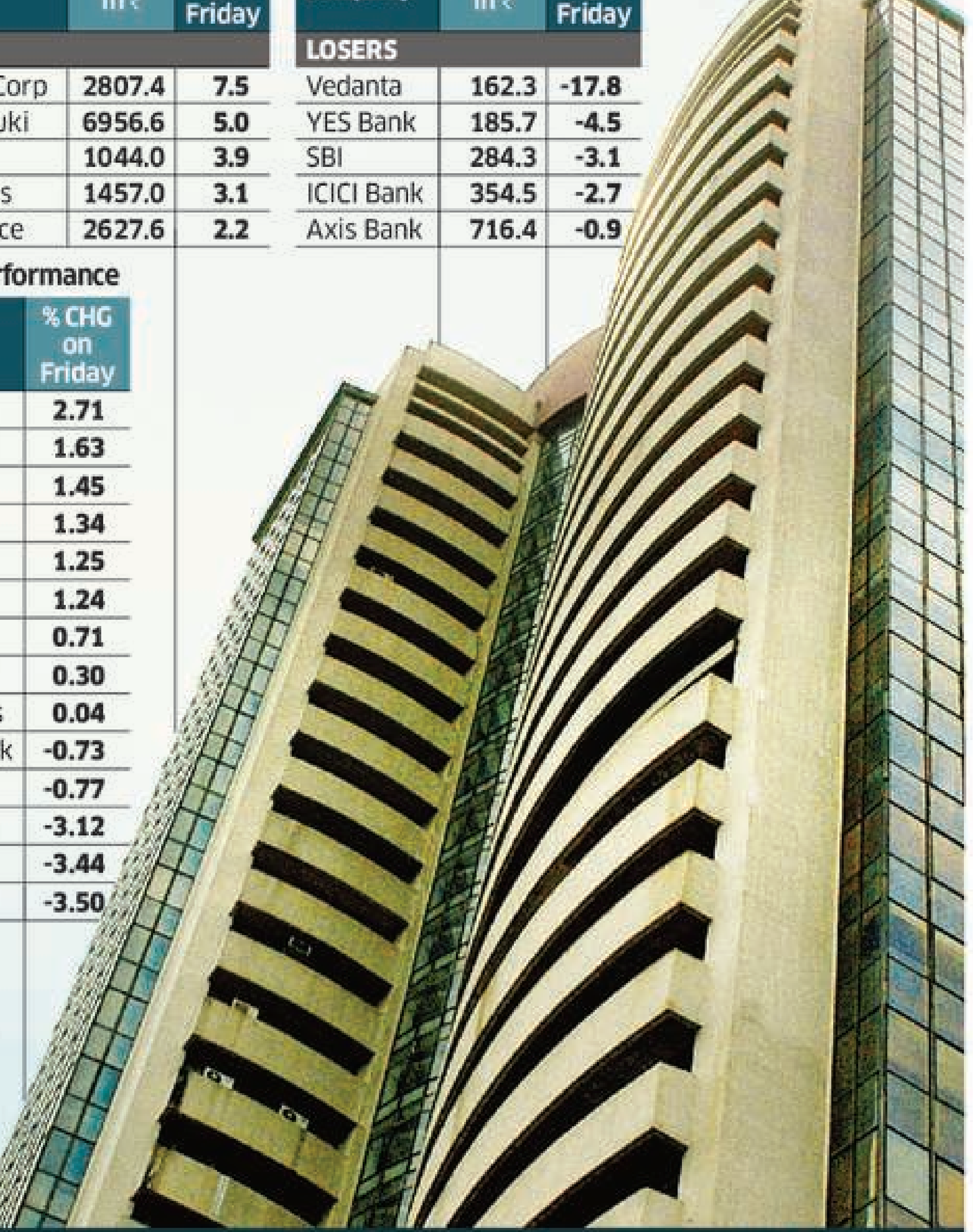
SENSEX: Gainers & Losers

Company	CMP In ₹	% CHG on Friday
GAINERS		
Hero MotoCorp	2807.4	7.5
Maruti Suzuki	6956.6	5.0
HCL Tech	1044.0	3.9
Asian Paints	1457.0	3.1
Bajaj Finance	2627.6	2.2

Company	CMP In ₹	% CHG on Friday
LOSERS		
Vedanta	162.3	-17.8
YES Bank	185.7	-4.5
SBI	284.3	-3.1
ICICI Bank	354.5	-2.7
Axis Bank	716.4	-0.9

Sectoral Performance

Nifty Indices	% CHG on Friday
Auto	2.71
Pharma	1.63
IT	1.45
FMCG	1.34
Realty	1.25
Energy	1.24
Infra	0.71
Services	0.30
Fin Services	0.04
Private Bank	-0.73
Bank	-0.77
PSU Bank	-3.12
Metal	-3.44
Media	-3.50



MOVERS & SHAKERS: July 10, 2014 to February 1, 2019

Best Sectoral Performance

ET Index	% Chg over Jul 10 '14
Chemicals	146.30
Retail	118.80
NBFC	89.18
Fertiliser	81.52
FMCG	79.30
Banks	78.94
Infotech	64.22
Oil & Gas	57.06
Auto-Ancillaries	48.90
Automobiles	25.86

Wealth Creators and Destroyers

Company	Change ₹ Cr
M-CAP GAINERS	
Reliance Industries	467,833
HDFC Bank	370,311
TCS	302,135
Hindustan Unilever	252,130
HDFC	176,854
M-CAP LOSERS	
ONGC	163,388
Coal India	95,851
Tata Motors	93,277
Sun Pharma	48,601
NMDC	38,640

Compiled by: ETIG Database

₹8.6 LAKH CRORE

spending on central sector schemes and projects, a significant increase planned in the election year

Budgeting Modi's Five Years

How economic indicators changed over this govt's first to sixth budget

BSE SENSEX

Collection of Stamp Duty on Stocks to be Centralised

TAX ARBITRAGE for brokerages from routing trades through states with lower stamp duties set to end

Pavan Burugula & Rajesh Mascarenhas

Mumbai: The government has simplified the stamp duty collection process for listed securities, making it centralised at a unified rate.

So, from the next financial year, stock exchanges will collect the stamp duty for trading stocks at a unified rate and deposit the proceeds with the central government, which in turn will divide it among the states.

At present, brokers collect stamp duty at rates fixed by the state where the trade takes place and deposit it with the local government.

"The budget has proposed that there will be a single collection centre for stamp duty with the introduction of a unified slab," said Satish Menon, executive director at Geojit Financial Services. "There are so many challenges currently in collecting and paying stamp duty as different stares have different regulations in regards to stamp duty."

For transactions that don't happen on the stock exchange platform, depositories have been asked to collect stamp duties. This provision will cover off-market transactions that are not captured by stock exchanges.

The move, proposed in the interim budget on Friday, will also end the tax advantage that brokerages and investors have been getting for routing their trade through some states with cheaper stamp duty.

Several brokerages have been choosing their place of incorporation in destinations like Daman and Goa where the stamp duty rate is lower. For instance, Maharashtra collects a stamp duty of 0.01% for delivery-based trades which is double as compared to Daman's 0.005% slab. Bringing in uniform rate will put an end to such practices.

While the government has not yet announced the stamp duty rate applicable, brokers are expecting Maharashtra stamp duty slabs to be used as the benchmark.

In such a scenario, investors from states such as Tamil Nadu and Rajasthan will see a fall in their stamp duty outgo, while investors from Haryana, Telangana, Uttar Pradesh, Odisha and Assam will end up paying higher stamp duties. The tax outgo will remain unchanged for states such as Gujarat, West Bengal and Kerala.

STOCK EXCHANGES TO COLLECT LEVY AT A UNIFIED BENCHMARK RATE AND DEPOSIT IT WITH THE CENTRAL GOVERNMENT

Experts said the move will also ease the compliance burden on brokerages. "The move will save brokers from a lot of procedural hassles as stock exchanges and depositories will be collecting the stamp duty and transferring it to central government just like the Securities Transaction Tax (STT)," said Shalibhadra Shah, chief financial officer at Motilal Oswal Financial Services.

Proposals Hurt No One, Please Everyone, and Yet are Pragmatic

RAAMDEO AGRAWAL
Cofounder,
Motilal Oswal Financial Services

At the outset, the budget is of course populist — nothing less could (and should) be expected in an election year. Going by Piyush Goyal's own numbers, 12 crore small-and-marginal farmers, 3 crore urban middle class, and 42 crore unorganised workers are direct beneficiaries of the budget. Considering their families, that's nearly the entire electorate!

And yet the budget is pragmatic.

First, the budget giveaways do not rock government finances. FY19 fiscal deficit at 3.4% is only fractionally higher than the budgeted 3.3%. The 3.4% figure has been maintained for FY20 as well.

Second, the budget hurts no one, and is positive for all the right constituencies — farmers, unorganised workers and the middle class — whose issues need to be addressed, election year or not.

Third, the budget has some far-reaching non-cash benefits for tax payers. Raising of TDS threshold on interest from ₹10,000 to ₹40,000 is a significant trouble-saver for small depositors. Going forward, Goyal talks of a path breaking, technology-intensive project to transform the income-tax department into a more assessee-friendly one, where all returns will be processed in 24 hours and refunds issued simultaneously.

Fourth, there's a stimulus package for the real estate sector. (Rollover of capital gains has been increased from investment in one residential house to two residential houses; tax benefits for affordable housing projects have been extended for one more year; exemption from tax on notional rent on unsold inventories has been extended from one year to two years after the project is completed.) These measures could help revive the real estate sector, which in turn could lead to derived demand for other sectors like cement and steel.

Finally, Goyal took the opportunity to effectively package the government's past achievements and also lay out a 10-dimensional, 10-year vision statement through 2030, almost taking for granted the present government's next two terms at least!

What does the budget mean for sectors and stock markets? Speaking of direct impact, the budget hands out cash benefits of about ₹1 lakh crore — ₹75,000 crore income-support for farmers (₹6,000 per annum for 12 crore farmers) and ₹23,000 crore tax saving for the middle class (standard deduction raised from ₹40,000 to ₹50,000, and zero tax for income up to ₹5 lakh).

This works out to about 0.5% of GDP, which is not too significant. Still, given the high propensity to consume, expect the entire amount to immediately come into the consumption market.

THREE TRIGGERS WILL DETERMINE THE COURSE OF MARKETS: NEXT WEEK'S MONETARY POLICY, EARNINGS GROWTH AND ELECTION EXPECTATIONS

The beneficiaries are the usual suspects — consumer staples and small-ticket durables, including two-wheelers on the margin. The real estate sector is another beneficiary, marginally.

The budget has an indirect impact, too. Fiscal deficit of 3.4% combined with low inflation (read high real interest rates) creates enough headroom for favourable monetary action by the Reserve Bank of India.

With this sentimentally positive budget out of the way, expect the markets to be led by the next three immediate triggers — next week's monetary policy, earnings growth, and the expectations of the outcome of the General Elections.

A Fine Balancing Act Between Fiscal Prudence & Development

S NAREN
Chief Investment Officer,
ICICI Prudential Mutual Fund

The interim budget 2019 is a pro-rural, housing and middle-class centric one. The fiscal outlays were increased to promote a slew of schemes related to agriculture, defence, electricity, animal husbandry, and more. Yet, the finance minister managed a fine balancing act between fiscal discipline and developmental needs of the economy.

On the fiscal front, the government has adhered to fiscal prudence. Fiscal deficit for FY19 (current financial year) at 3.4% of the GDP is a minor slippage of 10 bps over the budgeted estimates. The current account deficit for FY19 remains contained at 2.5%.

As for the socio-economic agenda, the budget focused majorly towards addressing the agrarian crisis in the country.

Among other things, the budget also announced several measures for middle-class taxpayers. The key highlight was the tax exemption of income up to ₹5 lakh per annum. This will boost the disposable income and purchasing power in the hands of a taxpayer, in turn increasing low-ticket consumption.

Another notable positive is the government's initiative to aid the sagging real estate sector. The budget has proposed to provide the benefit of rolling over capital gains for the investment made in two residential properties (earlier, the benefit was limited to one property). A notional rent earlier applicable to the second house has been waived off, considering the situational needs of citizens like migration for job opportunities or family reasons. Key tax breaks for construction of affordable homes and other incremental measures indicate that the government is looking at real estate as an essential driver to augment the economy.

In all, a series of impactful tax breaks for income taxpayers coupled with farmer benefits should be positive for consumption and auto. Further, infrastructure, banking and sectors deriving benefits from rural growth stand to benefit.

Equity markets could remain volatile and the upcoming general election (in April/May) remains the key trigger for the rest of the year. We believe it is conducive for investors to accumulate equities in a staggered manner through SIP/STP.

For lump sum investments, we recommend large-cap-oriented schemes and/or asset allocation through hybrid category like balanced advantage funds. As for themes, we are positive on special situations and those benefiting from volatility. Themes such as banking and infrastructure could also be explored in 2019, post the recent oil price correction.

As for debt, investors could look at dynamic duration schemes and low-duration funds, which tend to mitigate interest rate volatility (investing in instruments with maturities of one to three years) along with accrual schemes, which can capture the current elevated yields.

INTERIM BUDGET 2004-05

Jaswant Singh

Jaswant Singh made it very clear that he was seeking a vote-on-account for the first four months, but he did announce some new schemes as well as expansion of some existing ones: extension of BPL foodgrain supply to 2 crore families; AIIMS-like hospitals for 6 states and AIIMS-level upgrade for medical colleges in 6 states; and kisan credit cards for all eligible farmers by March 2004. Singh also launched a pilot of a farm income insurance scheme in 20 districts. Credit card limit extension for small industry was made operational before yearend. DA (up to 50%) was merged with basic pay. Measures were suggested for direct and indirect tax regime. He highlighted focus on five heads–jobs and poverty alleviation; next farm revolution; infrastructure; fiscal consolidation; and manufacturing.