Kyon ki bhaiya, sabse bada rupaiya.

Quick Take on Finance Minister, N. Sitharaman's post budget reforms

Recognizing the negative implications that the Union Budget 2019-20 proposals were having on the economy, the Finance Minister N. Sitharaman announced a slew of corrective measures. These measures were well received by the market and will have a significant positive impact on the meltdown that we had witnessed.

We review the major decisions and the likely impact on the various sectors of the economy.

Auto industry to get a big boost

- The decision to provide 15% additional depreciation to vehicles purchased before FY20 is expected to impact the near-term demand positively and help clear inventory. It will also help stem job losses that the industry was fearing would accelerate.

Further the decision to defer increase in the registration charges to June FY21 would also mean that the issue of affordability, which was a concern, has been temporarily alleviated to spur demand

- The implications of all these actions would not only be positive for the auto OEM manufactures but translate across the entire value change, namely the auto ancillaries.

- Government, which is a significant purchaser of automobiles, has reversed its decision to put on hold any new purchases. With government departments resuming purchases, slackness in the near-term demand would be addressed twice as fast.

Recognizing that EV rollout is a formidable challenge and the country is ill prepared for it at present the FM has gone soft on the compulsory termination of ICE vehicles. In order to maintain a clean mobility mandate rather than an EV-focus, government has proposed adoption of green fuels

All the above measures are not only expected to revive near term demand but improve revenue visibility over the long term and address the disruption from the EV ecosystem. This should lead to a significant re-rating of the OEM manufactures.

We believe that the growth demand would be positive for PVs, 2W&3W and CVs in that order. The auto ancillaries, which have been largely beaten down and are available at extreme stress valuations due to earlier EV disruption, are expected to experience a sharp rebound and outperform Auto OEMs given the extreme stress valuations of these stocks. Further auto ancillaries are primarily mid cap and small cap stocks and buying in these is also expected to spill over to other mid cap and small stocks. In the medium term we expect mid cap and the small cap stocks to rally sharply and outperform the Nifty stocks.

Recommend a strong BUY on the auto stocks Hero Honda, TVS Motors, Bajaj Auto, Tata Motors. We also recommend an Accumulate on Maruti, Atul Auto and Ashok Leyland.

Among Auto ancillaries our top pick is Varroc Engineering, Subros, Wabco India and Endurance Technologies, etc

Revival in the fortunes of auto ancillaries is likely to spur a rally in midcap and small cap stocks.
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STOCK POINTER

Withdrawal of enhanced surcharge on FPIs to arrest rampant selling & significantly improve overall sentiment.

During the budget, the surcharge on FPIs was increased from 15% to 25% for those with taxable income of INR 2-5 Crore, and to 37% for those earning more than INR 5 crores. This increased the effective tax rate for these two income groups to 39.0% and 42.7% respectively. With earlier slabs restored the FPIs that were alienated and in a "quit India" mode would heave a sigh of relief that their prayers have been addressed. This is expected to see a return of FPI investment and restore the confidence of the international community which had started shunning the India markets.

Booster dose for the Financial markets and significant reforms to the taxation laws to revive animal spirits

- Capital infusion of Rs.70,000 crore into PSU banks (as recapitalization) to spur lending and liquidity.
- Repo rate and external benchmark-linked loan products to lower rates for the masses and lower EMI for housing, vehicle and other retail loans.
- Additional liquidity support of Rs.20,000 crore to housing finance companies by the National Housing Bank (NHB) to aid HFCs.
- Partial credit scheme for purchase of pooled assets of NBFCs up to Rs.1.0 lakh crore to be monitored by banks. Prepayment notices issued to NBFCs will also be monitored by banks.
- NBFCs will be permitted to use the Aadhaar authenticated bank KYC. This will reduce the TAT of loan disbursement process.
- Changes to be made in PMLA (Prevention of Money Laundering Act) rules and Aadhaar regulations to ease the lending process.

Startups can breathe easier

- Angel tax provisions to be withdrawn for startups and their investors. FM announced that the section 56(2)(viib) of the income tax act will not be applicable to a start-up registered with DPIIT (Dept for Promotion of Industry and Internal Trade)
- A dedicated cell of CBDT (Central Board of Direct Taxation) will be set up for addressing the problems of startups.

Life just got easier for corporates

1. Violations of CSR norms under the Companies Law will be treated only as a civil liability and not as a criminal offence. The corporate affairs ministry will review the sections under the Companies Act.
2. From October 1, all notices, summons, and orders of the Income Tax dept will be issued through a centralized computer system and will also have a computer-generated unique DIN (Document Identification Number). This will give impetus to faceless scrutiny.
3. All pending GST refunds of MSMEs will be paid within 30 days. In addition, all future GST refunds of MSMEs will be paid within 60 days from the date of application.

Infrastructure to be given a significant push

Proposal to establish an organization to monitor credit for infrastructure and housing projects to enhance fund flows. Government is targeting execution of infrastructure projects worth of Rs.100 Lac Cr in the next 5 years.

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