

# India Economy

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## RBI transfers to make budget figures realistic

- RBI announced a total transfer of Rs1.48tn to the government for FY20. This represents Rs420-580bn in excess dividends, compared with the budgeted figure by the government for FY20. Even after this transfer, the RBI remains one of the healthier central banks in the world with a total capitalization of 23% of the balance sheet and the Contingency Risk Buffer at the lower end of 5.5% from 6.8% (6.5-5.5% range is the prescribed level).
- The excess dividends of Rs420-580bn translates to 22-31bps of GDP, which can be used to bridge the possibility of a shortfall in tax revenues growth. The decline in tax revenues growth can be to the extent of 17% from a budgeted 20% yoy (tax buoyancy would still be more than 1). Thus, the fiscal math looks a lot more achievable following this transfer.
- Our base case is that the government remains disciplined on fiscal targets with this more credible math, we should see a further rally in Gsec yields (10-year yields at ~6.5%). Even after these transfers, the fiscal deficit (including off-balance sheet) should be at 5.4%, similar to FY19. Bond proxies (such as NTPC) and PSU banks on treasury (SBI) could benefit from this.
- If the government chooses to convert the transferred sum into a higher spending, we believe it would tilt more in favor of infrastructure spending rather than consumption. Overall, this event should support markets in the short term due to additional support from the RBI to the government.

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### RBI transfers record-level dividends to government

The RBI transfers, Rs1.48tn= Rs1.23tn as dividends+ Rs526.4bn excess risk provision-Rs280bn as interim dividend (paid in FY19). About Rs1.06tn was budgeted as dividends from the RBI, PSBs and financial institutions for FY20, according to S.C. Garg Rs900bn was from the RBI alone. This marks off as highest ever transfer as compared to Rs 500bn in Jun'18 and Rs 659 in FY15-16 respectively. RBI's dividends as % of total revenue receipts is 4.9% which is tad lower than FY19 level of 5.0%, however considering the excess transfer this figure jumps to 7.5%.

### Excess dividends of Rs420-580bn to make budget targets realistic

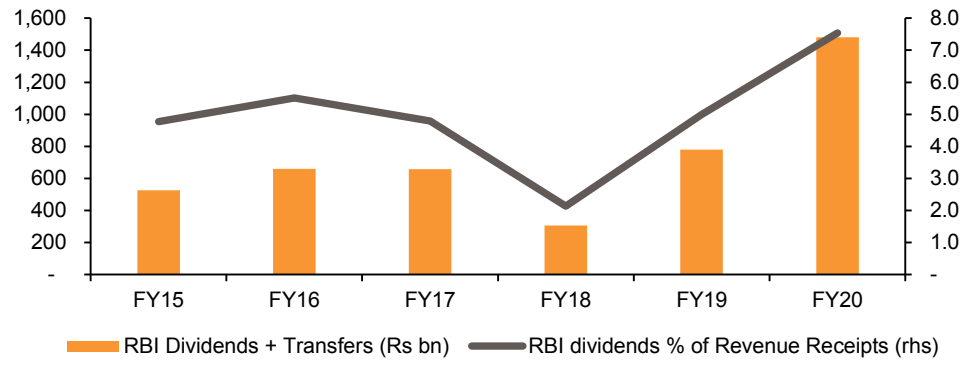
Gross tax collection is budgeted to grow at 20%, which is fairly high given the context of slower growth in FY20. These excess funds can be used to cover up the shortfall in tax collections and bring down growth to ~17%, which still translates to tax buoyancy greater than 1. These funds can also be used to increase the public investment drive which most of the MPC members discussed in the RBI's last policy meet.

### Higher dependency on off-budget financing

The government has been dependent on higher spending from off-budget financing - funds from the National Social Security Fund (NSSF) for food subsidy, the NHA1 etc; government PSUs to raise funds for infrastructure projects; bonds for PSB recapitalization etc. This is over 200bps in excess of FY19 fiscal deficit figure of 3.3%. According to FY20 budget, off-balance sheet items are ~120bps in excess of deficit target of 3.3% of GDP. Based on the trend seen in the last couple of years, we believe this would be eventually increase as the application for NSSF funds is understated. We believe that measures announced in Stimulus 1.0 had less implications on the fiscal figures and measures likely to follow suit are also set to have less impact on market borrowing. We continue to maintain our stance that the central government will stick to the fiscal deficit figure of 3.3%. The pressure on market borrowing is likely to ease off, which is expected to see the near-term rally in 10-year Gsec yields from the current level of 6.4-6.5%

Please see our India EAP (Page 3): [Emkay Alpha Portfolio – Nifty](#)

**Exhibit 1: Record high level of dividend transfer**



Source: RBI, India Budget, Emkay Research

## Emkay Alpha Portfolio – Nifty



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#### Analyst bio

Sunil Tirumalai comes with 13 years of sell-side equity research experience, having been a top-ranked analyst across multiple sectors. At Emkay, Sunil heads the research team and also drives equity strategy. He holds an MBA (PGDM) from IIM Ahmedabad, and a BTech from NIT Trichy.

### EAP-Nifty (34 stocks)

Company Name	Nifty Weight	Nifty EAP Weight	OW/UW (%)	OW/UW (bps)
<b>Auto &amp; Auto Ancillaries</b>	<b>5.17</b>	<b>1.88</b>	<b>-64%</b>	<b>-329</b>
Exide Industries	0.00	0.50	NA	50
Mahindra & Mahindra	1.13	1.38	22%	25
<b>BFSI-Banks</b>	<b>29.16</b>	<b>30.77</b>	<b>6%</b>	<b>161</b>
Axis Bank	3.04	3.04	0%	0
HDFC Bank	10.73	10.00	-7%	-73
ICICI Bank	6.04	8.80	46%	276
Indusind Bank	1.68	0.75	-55%	-93
Kotak Mahindra Bank	4.48	4.48	0%	0
State Bank of India	2.81	3.70	32%	89
<b>BFSI-NBFCs</b>	<b>11.10</b>	<b>9.76</b>	<b>-12%</b>	<b>-134</b>
Bajaj Finance	1.71	1.71	0%	0
HDFC	8.05	8.05	0%	0
<b>BFSI-Insurance</b>	<b>0.00</b>	<b>0.50</b>	<b>NA</b>	<b>50</b>
ICICI Pru Life	0.00	0.50	NA	50
<b>Cement</b>	<b>1.69</b>	<b>1.69</b>	<b>0%</b>	<b>0</b>
Ultratech Cement	1.00	1.69	69%	69
<b>Consumer Goods &amp; Retail</b>	<b>11.00</b>	<b>9.22</b>	<b>-16%</b>	<b>-178</b>
Berger Paints	0.00	0.75	NA	75
Hindustan Unilever	2.72	2.00	-27%	-72
ITC	5.12	3.50	-32%	-162
Marico	0.00	1.00	NA	100
Titan Company	0.97	0.97	0%	0
United Breweries	0.00	1.00	NA	100
<b>Engineering &amp; Capital Goods</b>	<b>3.78</b>	<b>5.00</b>	<b>32%</b>	<b>122</b>
Larsen & Toubro	3.78	5.00	32%	122
<b>Information Technology</b>	<b>14.80</b>	<b>17.70</b>	<b>20%</b>	<b>290</b>
HCL Tech	1.24	2.80	126%	156
Infosys	6.65	8.20	23%	155
TCS	5.11	6.70	31%	159
<b>Metals &amp; Mining</b>	<b>3.29</b>	<b>2.00</b>	<b>-39%</b>	<b>-129</b>
Coal India	0.81	1.00	24%	19
Tata Steel	0.72	1.00	39%	28
<b>Oil &amp; Gas</b>	<b>11.66</b>	<b>11.80</b>	<b>1%</b>	<b>14</b>
GAIL	0.53	0.53	0%	0
HPCL	0.00	1.50	NA	150
ONGC	0.96	0.96	0%	0
Reliance Industries	8.81	8.81	0%	0
<b>Pharmaceuticals</b>	<b>2.31</b>	<b>2.50</b>	<b>8%</b>	<b>19</b>
Cipla	0.58	1.25	114%	67
Divi's Lab	0.00	0.75	NA	75
Ipca Lab	0.00	0.50	NA	50
<b>Ports</b>	<b>0.66</b>	<b>0.66</b>	<b>0%</b>	<b>0</b>
Adani Ports	0.66	0.66	0%	0
<b>Power</b>	<b>2.31</b>	<b>2.00</b>	<b>-13%</b>	<b>-31</b>
NTPC	1.22	2.00	65%	78
<b>Telecommunications</b>	<b>1.88</b>	<b>0.50</b>	<b>-73%</b>	<b>-138</b>
Bharti Airtel	1.41	0.50	-65%	-91
<b>Agri Input &amp; Chemicals</b>	<b>0.72</b>	<b>0.00</b>	<b>-100%</b>	<b>-72</b>
<b>Media &amp; Entertainment</b>	<b>0.48</b>	<b>0.00</b>	<b>-100%</b>	<b>-48</b>
<b>Cash</b>		<b>4.0</b>		
<b>EAP-Nifty</b>	<b>100.0</b>	<b>100.0</b>		

**EAP-Nifty portfolio NAV**

	Base			Latest
	1-Apr-19	23-May-19	23-Jul-19	23-Aug-19
EAP - Nifty	100.0	102.1	98.4	92.6
Nifty50	100.0	99.9	97.1	92.6

\*Performance measurement base date 1<sup>st</sup> April 2019

Source: Emkay Research

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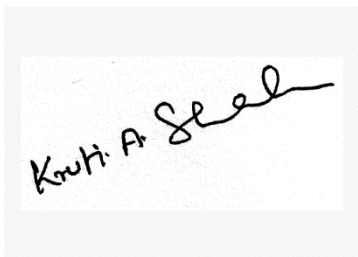
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