

India Strategy

Are States over-optimistic about the Property market?

In this note, we assess States' expectations from property market revenues, i.e. Stamps and Registration fees. While the share of these proceeds fluctuates around 4-6% of total revenue receipts, States have budgeted an 11% YoY growth in FY18 (yielding a share of 4.5%) vs 0.3% in FY17RE. This growth is driven by Maharashtra, UP, Tamil Nadu and Karnataka, which comprise of 45% of aggregate receipts under the head. Post the slowdown in the property market after demonetisation, the realization of these revenues is crucial for the overall balance in gross fiscal deficit. Although the realizations rate for FY15 and FY16 has been around 91%, the note ban in Q3 FY17 resulted in fall of the accomplishment rate to 86% in FY17RE. We estimate that a shortfall in property taxes in FY18; under different scenarios varying on the % of revenues realized, could raise the aggregate GFD by 3-16bps, resulting in stamps & registration fee growth to slow down to -17% to 6%YoY in FY18. Going forward, we watch out for the progress of government initiatives to revive affordable housing through tax exemption and interest subsidies, to aid revival of real estate demand.

- Revenue from property market is a crucial source of revenue:** Of the total revenue receipts (TRR), Stamps and Registration fees form 4.5% of TRR (10% in State's Own tax revenue) in FY18BE. This share however has been fluctuating in the range of 4.1-6.2% as shown in Exhibit 2. A closer glance at the same reveals that the share of stamps over the years closely aligns with variations in annual growth (correlation of 41%). Out of the 17 states analysed, we find that 4 states, namely Maharashtra, UP, Tamil Nadu and Karnataka comprise of 45-57% of aggregate stamps revenues (Refer to Exhibit 4). While Maharashtra continues to lead, its share in total has fallen from 25% in FY14 to 21% in FY18BE. UP, on the other hand has witnessed rising share (from 13% in FY14 to 17% in FY18BE).
- Budgeted growth and realization of revenues:** Overall states have budgeted a growth 11%YoY in FY18BE vs 0.3%YoY in FY17RE. State-wise variation reveal that Jharkhand (29%YoY) and UP (25%YoY) have budgeted the highest growth in FY18 (Refer to Exhibit 5). Most states have budgeted double-digit growth for the same. To assess whether such assumptions will materialize, we look at actual revenue realization as % of their corresponding year's budget estimates. We find that while revenue realization rates for FY15 and FY16 stood at 91%, it fell to 86% in FY17RE (Exhibit 6). Odisha and Maharashtra have the best consistent accomplishment rates (Exhibit 7, 8 and 9). Poor success rates for states like UP and Tamil Nadu (that comprise 1/4th of total stamps revenues) for three consecutive years is a cause of worry as this may distort overall revenue balance.
- Will the projected Stamp revenues realize in FY18?** Post the demonetisation slowdown in the property market, over optimistic assumptions for revenue from Stamps and Registration could distort state finances. In an attempt to quantify this misbalance, we consider five scenarios, differing on the % of budgeted stamps & registration revenues to be realized in FY18: a) Case 1: 75%, b) Case 2: 80%, c) Case 3: 85%, d) Case 4: 90% and e) Case 5: 95% (Refer to Exhibit 10). We find that shortfall from the budgeted numbers under these cases could raise the GFD by 3-16 bps. Consequently, Stamps and registration fees growth could fall to -17% to 6%YoY. This could result in the slowing revenue receipts growth by 0.3-1.3ppts. Going forward, we believe that the initiatives by the Govt. in the form of a) GST exemption from affordable housing projects services, b) tax exemption for developers planning affordable housing and c) interest subsidy under Pradhan Mantri Awas Yojana which would reduce EMIs by 5-10%; could help the property market to revive & hence help in realizations of the projected stamps & registration revenues.

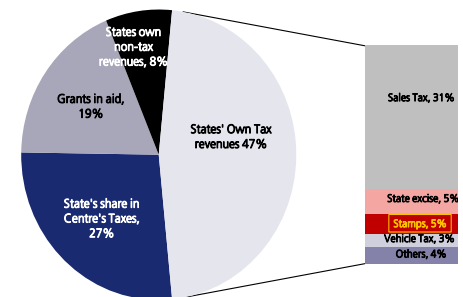
Suhas Harinarayanan
suhas.hari@jmfml.com
Tel: (+91 22) 66303037

Arshad Perwez
arshadperwez@jmfml.com
Tel: (+91 22) 66303080

Vaikam Kumar S
vaikam.kumar@jmfml.com
Tel: (+91 22) 66303018

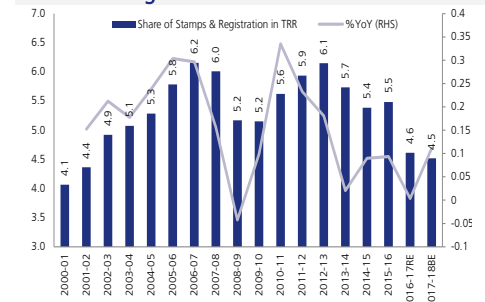
Aishwarya Pratik Sonker
aishwarya.sonker@jmfml.com
Tel: (+91 22) 66303351

Exhibit A. Stamps & Registration fees forms 4.5% of TRR in FY18BE



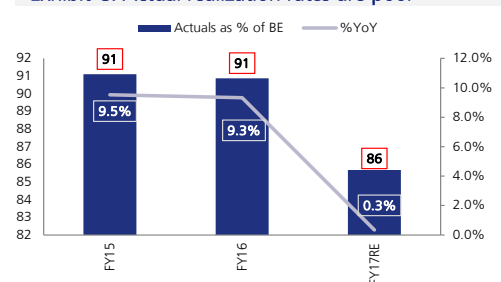
Source: State Budgets, JM Financial; * For 17 states

Exhibit B. Share of Stamps in TRR fluctuates closely with the YoY growth



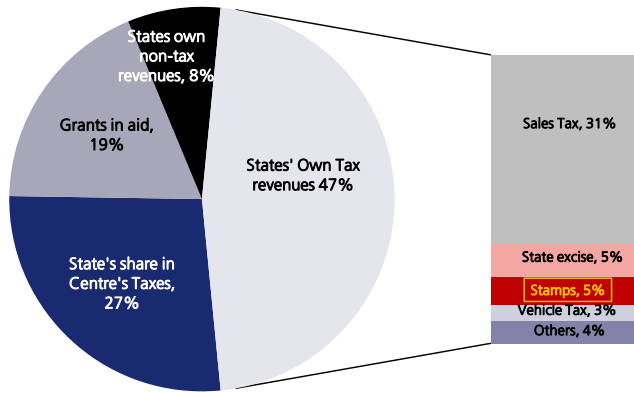
Source: State Budgets, JM Financial; * From FY16 onwards, data for 17 states only

Exhibit C. Actual realization rates are poor



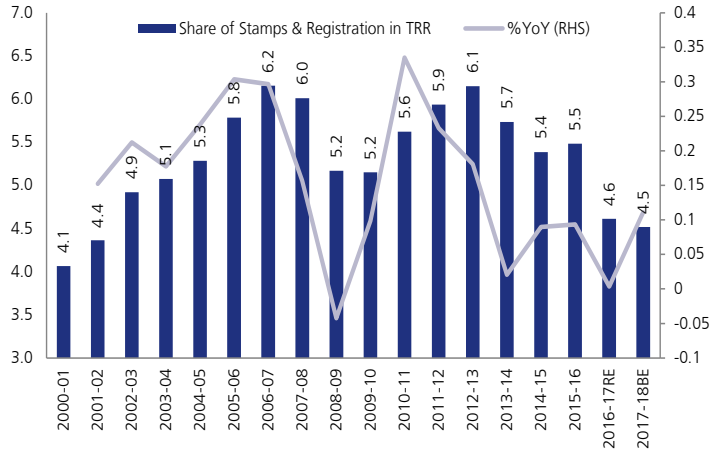
Source: State Budgets, JM Financial; for 17 states

Exhibit 1. Stamps & Registration duties hold c.5% share in Total revenue receipts for an aggregate of 17 states in FY18BE



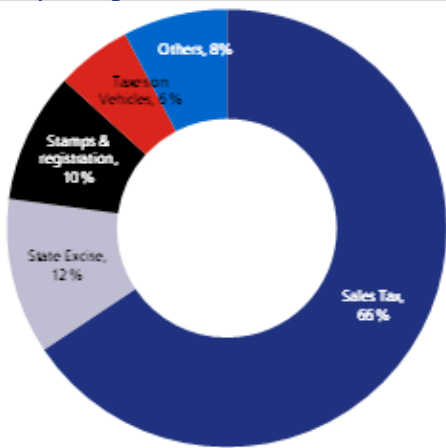
Source: State Budgets 2017-18, JM Financial

Exhibit 2. Share of stamps in TRR has fluctuated over the years, (ranging from 4.1-6.2%), crucially depending on the YoY growth



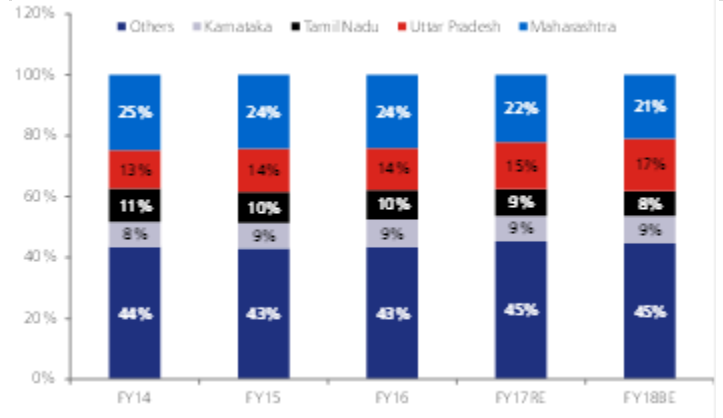
Source: CMIE, State Budgets 2017-18, JM Financial; * Data from FY16 is only for 17 states

Exhibit 3. Stamps & registration fee forms 10% of SOTR for FY18BE



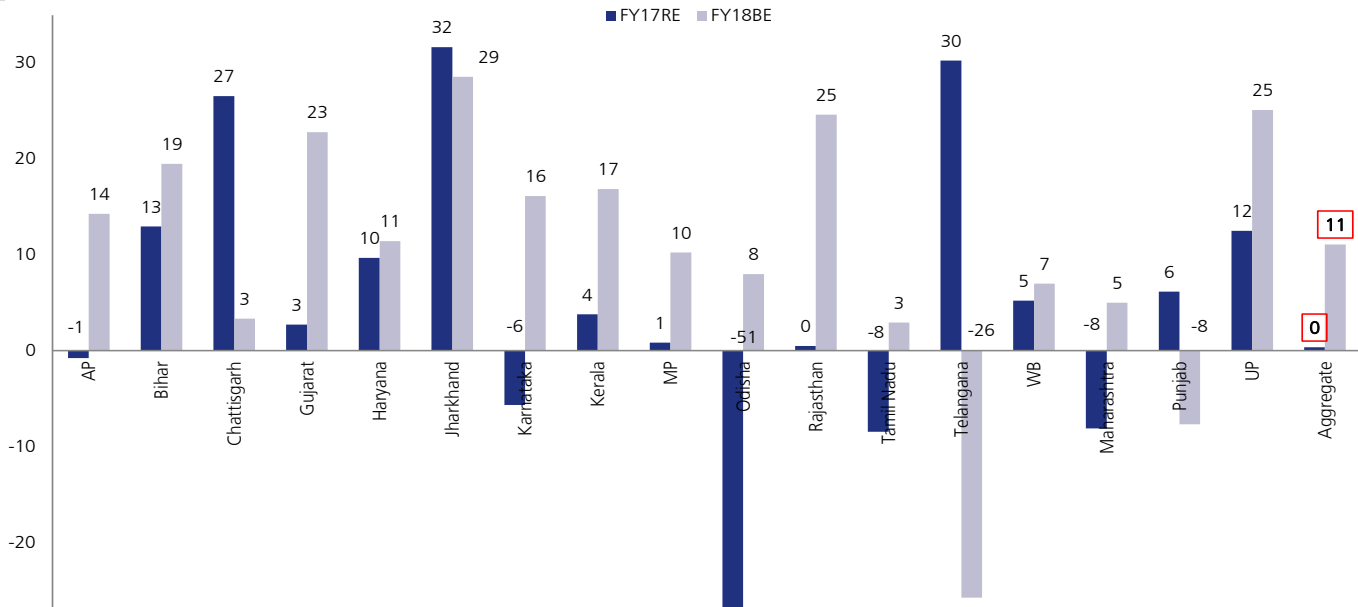
Source: State Budgets 2017-18, JM Financial

Exhibit 4. Four states, UP, Maha, TN & Karnataka contribute 55% aggregate of Stamps & registration duties from 17 states



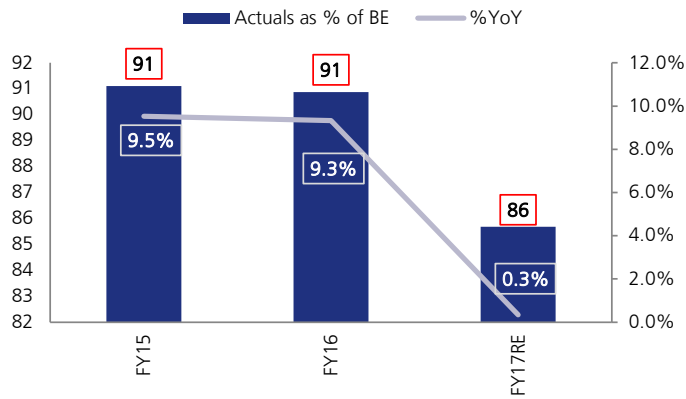
Source: RBI, State Budgets 2017-18, JM Financial; * Data from FY16 is only for 17 states

Exhibit 5. Budgeted growth in Stamps & Registration Fee



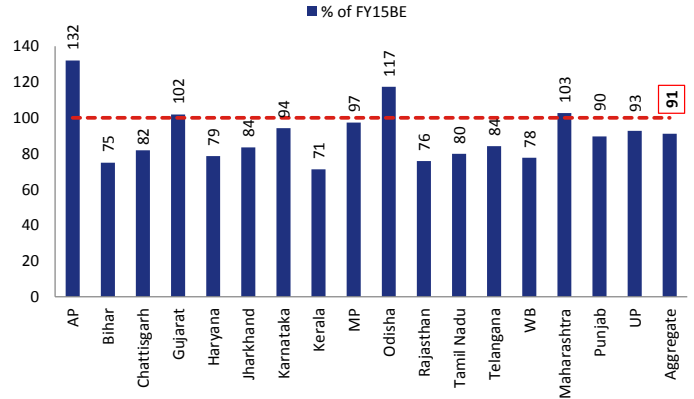
Source: State Budgets 2017-18, JM Financial

Exhibit 6. Poorer the realisation, the slower the YoY growth



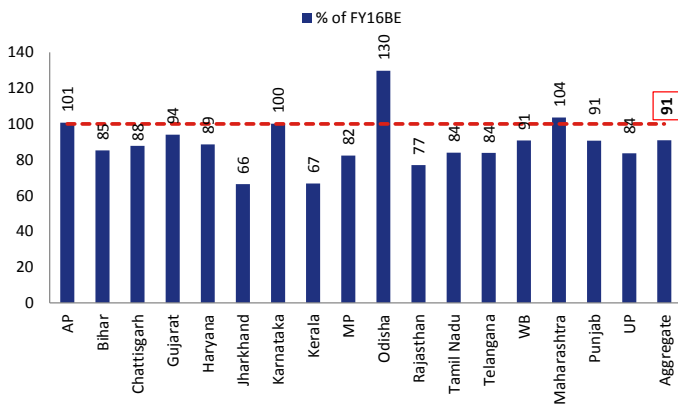
Source: State Budgets 2017-18, JM Financial; * Data only for 17 states

Exhibit 7. FY15 realisation rates for Stamps & Registration revenue



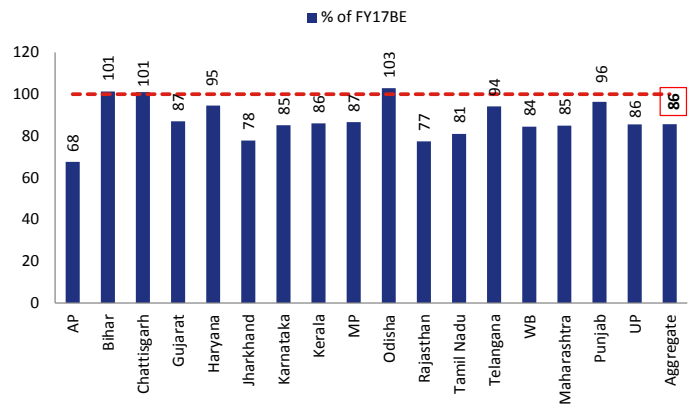
Source: State Budgets 2017-18, JM Financial; Data only for 17 states

Exhibit 8. FY16 realisation rates for Stamps & Registration revenue



Source: State Budgets 2017-18, JM Financial; Data only for 17 states

Exhibit 9. FY17RE as % of FY17BE: Stamps & Registration revenue



Source: State Budgets 2017-18, JM Financial; Data only for 17 states

Exhibit 10. A miss on revenues from Stamps could increase aggregate GFD by 3-16bps

	Budgeted	Case 1: 75%	Case 2: 80%	Case 3: 85%	Case 4: 90%	Case 5: 95%
Stamps & Registration Fees (INR bn)	1,007	755	806	856	907	956.8
Implied shortfall in revenues (INR bn)		252	201	151	101	50
Implied additional GFD as % of GSDP		0.16%	0.13%	0.10%	0.06%	0.03%
Implied slowdown in Stamps & Registration fees (%YoY)	11%	(17%)	(11%)	(6%)	(0%)	6%
Implied slowdown in revenue receipts (%YoY)	13.4%	12.2%	12.4%	12.7%	12.9%	13.2%

Source: State Budgets 2017-18, JM Financial

APPENDIX I

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SEBI Registration Nos.: BSE - INZ010012532, NSE - INZ230012536 and MSEI - INZ260012539, Research Analyst – INH000000610

Registered Office: 7th Floor, Energy, Appasaheb Marathe Marg, Prabhadevi, Mumbai 400 025, India.

Board: +9122 6630 3030 | Fax: +91 22 6630 3488 | Email: jmfinancial.research@jmfl.com | www.jmfl.com

Compliance Officer: Mr. Sunny Shah | Tel: +91 22 6630 3383 | Email: sunny.shah@jmfl.com

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