DIGITIAN View

Indian Budget 2018

Over time “Indian budget day” have become extremely important for many investors. I personally think we give undue importance to Budget. If you are a long term investor then focus on specific stocks with strong underlying business which have very strong “right to win” in their respective business, so that they can compound profit at 25/26% p.a. for decades. These companies irrespective whether it’s bad budget or not can overcome the negatives because of pricing power , efficiency or both . I like the magical number of 26% p.a. as it compounds your money 10x, 100x & 1000x in 10 years, 20 years & 30 years respectively. Imagine you are 40 years old and in a position to buy a flat at 50 lacs – should you buy the flat & block your money or buy & give it on rent @ 2.5-3% p.a. yield. I would say don’t do any of these, just choose few companies and invest in them so as to compound @ 26% p.a for next 3 decades . Your 50 lacs becomes 500 cr! **Yes, it is 500 cr and there is no typing error!** Either do it yourself or rely on professionals like us.

Now coming to this year’s Budget –directionally it was skewed towards rural economy and women –both are extremely needed at this juncture of our economy .There was no unnecessary subsidy which is a great positive . There was an introduction of long term capital gain which logically is required for long term but felt it could have been avoided given not much would come in from this introduction(9000 Cr) –the sentiment damper in short term is more than the gain . I have added a FAQ on capital gain as the treatment specially for this year is little complicated .

<u>Disclaimer : The view is of Individual on the basis of Budget speech and the initial readings of the Budget speech. This requires further reading and reference to main budget proposal with all fine prints and details. This is also not to motivate any individuals or organisation to take any investment decision on the basis of this documents nor a view against political parties of India or Government of India. Every reader should take his/her own decision before acting.</u>

<u>Some MAJOR highlights:</u>

AGRICULTURE AND RURAL ECONOMY: Focus on generating higher income for farmers and employment on farms.

- **The Minimum Support Price (MSP) has been set at 1.5 times the production cost for Kharif crops.**
- The government will provide a free gas connection to women. Ujjawala Yojana target has been extended to 80 million women living below the poverty line. It was earlier set at 50 million.
- The government proposed to raise institutional credit for agriculture to Rs 11 Lakh Crore (USD 172 billion) for the financial year 2018-19.

- **Insurance cover of Rs 5 lakh per family per year for 100 million poor families- is the world's largest government-funded social safety net program**.

- Rs 16,000 cr to be spent on providing electricity connection to 40 poor households. 1 cr houses to be built under Pradhan Mantri Awas Yojana in rural areas.

- Mudra loans especially to women (almost 76%) will be extended further for additional Rs 3 lacs crore (USD 47 billion)

INFRASTRUCTURE: A total of Rs 50 lakh crore (USD 780 billion) is needed to create world-class infrastructure in India.

- The government has selected 99 cities with outlay of Rs 2.09 lakh crore (USD 33 billion) under Smart City programme.

RAILWAYS: All railways stations with more than 25,000 footfall will have escalators, Wi-Fi and CCTVs progressively.

- Redevelopment of 600 major railway stations will be taken up.

- Rs 17,000 crore is being set aside for Bengaluru Metro. Rs 11,000 crore allocated for Mumbai locals.

Air Travel Infrastructure :

- 124 Airports with 56 Regional Airport with underserved connection will be upgraded
- 900 aeroplanes ordered by various domestic Indian Airways
- Price will be affordable for common people

EDUCATION: Integrated programs for teachers. The government plans to move from Blackboard to digital board.

- 18 new Schools of Planning and Architecture will be set up in the IITs and NITs.
- By 2022, every block with more than 50 per cent ST population will have an Eklavya Model Residential School.
- For Education, the government will launch 'Revitalising Infrastructure and Systems' by 2022.
- Integrated B-Ed programme for teachers.
- 24 new govt medical colleges and hospitals will be set up by upgrading existing district hospitals.

- Rs 1 lakh crore to be invested for the next 4 years to boost Research and Development in Education sector.

INCOME TAX: No changes in personal Income Tax slabs.

- Relief for salaried taxpayers. Standard Deduction of Rs 40000 under transport, medical reimbursement.
- The government proposes 100 per cent tax rebate for farmer producer companies having a turnover of Rs 100 crore.
- The government proposes to extend 25 per cent corporate tax rate to companies with revenue up to Rs 250 crore While maintaining the 30% rate for all companies with Turnover of RS 250 crore
- Exemption of interest income on bank deposits raised to Rs 50,000 for senior citizens.

DEFENCE: Niti Aayog will establish programme to develop artificial intelligence. Cryptocurrency will not be considered as legal tender.

The government proposes to develop two defence industrial production corridors in India to promote domestic production in both public and private sectors.

Other Notable Big Tickets:

- The government proposes to increase the target of providing free LPG connections to 8 crore to poor women.

- Proposal to construct 2 crore more toilets under Swachh Bharat Mission.
- 2 crore more toilets is the target in the next two years.
- Rs 14.34 lakh crore rupees allocated for rural infrastructure.
- Loans to women self-help groups will be increased to 75,000 crore by March 19, 2019.
- The Jan Dhan Yojana to be extended to all 60 crore bank accounts.
- Rs 56,000 crore allocated for SC welfare programmes; Rs 39,000 crore for STs.
- 5 lakh Wi-Fi spots to be created in rural areas.
- Imported Mobile phones will get costlier as the custom duty on the mobile phones have been increased to 20 per cent from 15 per cent. Same effect on Imported & shoes and perfumes
- Custom duty on television sets has also been increased to 20 per cent.
- 10 prominent tourist sites will be developed into iconic ones to boost tourism.
- Fiscal deficit for 2017-18 raised to 3.5 pc of GDP as against 3.2 pc previously estimated; for FY 19 deficit pegged at 3.3 pc as against 3 pc targeted previously.

DIGITIAN Debashish Neogi is the Managing Director & CEO of DIGITIAN Capital

The view expressed here is his first take on the Indian Budget 2018 presented by Hon. Finance Minister of India on February 1, 2018 in the Indian Parliament.

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INTERVIEW with **Debashish Neogi**

Q&A on Long Term Capital Gains Tax

DC : What is the budget proposal on LTCG for equities?

Debashish– So far, any LT Capital gains made on equities on Exchanges was exempt. The Govt has now proposed an 10% LTCG tax on gains made above Rs 1 Lakh

DC When is the tax payable?

Debashish **–** Since it is a Direct Tax proposal it will normally be applicable for the Assessment Year FY19-20 (Financial Year FY18-19). In other words, the LT Capital gains, of over Rs 1 Lakh, made for the year FY18-19 will be liable to tax at 10%.

DC. Does it mean that there is no LTCG for Assessment Year FY18-19 (Financial Year FY17-18)?

Debashish – One needs to understand the exact proposal in fine print. However, it appears that any LTCG will not be applicable for FY18-19 on plain read. This question frankly needs greater degree of expert study.

DC : What is the relevance of the cut-off date of 31st Jan 2018?

Debashish – The FM has proposed grandfathering of LT Capital gains upto 31st Jan 2018. Any incremental LT Capital gains after that will be counted as LT Capital gains for the new tax.

DC : What happens to my tax liability if I sell stocks starting today held for more than a year?

Debashish – As for LT Capital gains made in Financial Year 17-18 (i.e sale upto 31st Mar 2018), it appears there is no tax. However, any sale made after 1st April 2018 will be liable to the new LTCG tax. One needs to segregate this LT capital gain into two parts

a) Part one – is LT Capital gains made upto 31st Jan 2018. This will be highest price of the stock on 31st Jan 2018 minus the cost of acquiring stock;

b) Part two – is LT Capital gains made after 31st Jan 2018. This will be sale price minus highest price of the stock on 31st Jan 2018.

While Part one will be exempt. It is the Part two that will be assessed as LT Capital gains (it can also be a Capital loss) for Tax. Tax on this will be computed at the rate of 10% (+ cess of 3%) only if exceeds Rs 1 Lakh

DC : What should be the strategy now on equity investments?

Debashish – Any equity investor wishing to reduce the LT Capital gains tax liability can sell stocks starting today till 31st March 2018 and incur zero tax provided the holding period is more than a year. However, one can continue to buy equity shares without any hesitation. Any future sales after 31st March 2018 has to be judiciously chosen to minimize the tax liability. Assuming equity investments yield a return of 15% every year, an investment of Rs6.66L each year will rise to Rs7.66L in a year and gains booked thereof will be tax free. Even if the gains exceed 15% to say 25%, the LT gains Tax will be Rs6,667/- only

DIGITIAN
The Digitial Generation

DIGITIAN VIEW from Chairman

We believe that the new world order will require focus on the DIGITAL sphere and the growth of the holistic development is the essential prerequisite for a Modern Digital India. DIGITIAN is happy to note that Indian Budget 2018 is at least tried to address some of these issues.

As far as Capital Markets is concerned it performed exceedingly well since May 2014(Sensex was around 24000) and today it is around 36000 (January 2018). However the question was its sustainability, whether Indian Growth story will continue in a fundamentally strong path. The 2018 Budget in that sense may consider a popular budget. But if the plans and direction in the Budget gets implemented, then the growth story of India remain intact and Finance Minister Quoted from Swami Vivekananda Speech ‘it is the time for India’.

For us at DIGITIAN it implies a strong market to Invest in selective areas of futuristic Industry

Debashish has already captured the main points noted - Rural Development, Infrastructure, Agriculture etc. I would only highlights our Strategic assessment on few of the big ticket issues

DIGITIAN Moment :

<u>Social Safety Net :</u> If implemented it will be the biggest ever free medical insurance programme covering 500 million people (larger than that of USA medicare/ Medicaid)

This will have huge spillover effect in the service industry - Insurance, Medical delivery, Medical education and training, digital delivery, virtual consultation, Pharmaceuticals and various linked Industries. Generate Cash surplus and

Ease of doing Business and Ease of Leaving - e assessment, Automatic Dispute Resolution, digital subsidy intervention through Adhaar in gas connection, social security, focus on rural and infrastructure. However, a long way to go in this direction.

In Agriculture, MSP to all Khariff crops will be a huge game changer for increasing attractiveness of farming to farmer. Digital could play a big role in cutting intermediaries and stabilizing market prices while making it available to Farmers

Capital Market & Fixed Income

- **Rejuventing Bond Market** by allowing Investment by Banks, Insurance and Pension Funds in single A rated Bonds. This would improve the Debt Market
- **Special Focus on Venture Capital Fund and Angel Investors** with friendly regulatory framework - in order to mobilise the funds for **START UP India**
- **Special Regulation for Alternate Investment Fund - this is a very close subject of DIGITIAN as there are 17 million NRIs who are bringing in USD 69 billion approx..**
- **Offshore Financial Service center - New regulation and focus could also create a robust financial hub in India.**

Financial Sector

Banking

This is the heart of any economy and one of the problem areas of Indian economy. Every 5-7 Years there are accumulations of Non- Performing Loans. The banks are saddled with high NPL, with Ind AS 9 requires huge amount of risk Capital for enabling the banks to lend again to the economy.

The Government decision to recapitalize the banks by infusing Rs 80000 crore (USD 12 billion) will create a multiplier effect.

Housing

Affordable housing is the key mantra for making roof available to common Indians – and to meet the ever increasing gaps of hundred of millions in rural as well urban areas. We welcome Affordable Housing Fund

We also applaud a great move of delinking **National Housing Bank from Reserve Bank of India to Government. This will make them more effective and autonomous.**

So we predict boost for housing finance companies and real estate companies and related industries like cement, steel etc will get boost.

Linking Tourism Focus to various Infrastructure projects and campaign like Swatch Bharat with a redevelopment 10 iconic tourist cities would bring foreign tourist flow and foreign currency income as well create a large number of employment and MSME business.

Lastly, I would like to comment on the Government decision to ban Crypto currency in India. In this manner, India has joined the long list of 15 countries to ban crypto currency which had a great run in 2017 with crypto currency exchanges in USA and Japan. However, last word is not cast yet, G20 will discuss the regulatory environment around crypto currency in March 2018.

However, DIGITIAN is happy to note that Government will extensively use Block chain Technology for Digitization project under e governance.

Saugata Bandyopadhyay is the Chairman of DIGITIAN Group

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