EXECUTIVE SUMMARY OF BUDGET

Now coming to this year's final Budget presented by Mrs. Nirmala Sitharaman – the first lady Finance Minister of India presented her budget not technically right but intentionally directional. The entire focus of budget is pro-Growth mainly on Infrastructure, Rural /Agricultural Development, Resource Mobilization and Protecting Make in India from Cheap Imports. We like that direction (like interim budget), it remains skewed towards rural economy and middle class so at to crease disposable income in the hands of consumers quickly (read before election)to increase consumption .

Our Preferred picks basis Budget –both sector & stock (keeping next 5 years in mind) :

1. Consumerism – ITC, Voltas
2. Infrastructure - L&T and PSP projects
3. Financials/Banks –Bajaj Finance ,HDFC bank, PNB Housing finance

HIGHLIGHTS OF BUDGET 2019

- Direct tax revenue increased to 11.37 lakh crores
- Corporate Tax- Tax Rate of 25% on Companies with turnover of upto Rs. 400 crores. This will cover 99.3 companies.
- GST rate reduced on electric vehicle from 12% to 5%.
- Tax deduction on loan taken for purchase of electric vehicle: Additional Income tax deduction of Rs. 1.5 lakh of interest on loan taken for purchase of electric vehicle.
- Start up's would not be require Scrutiny by IT Department.
- Additional deduction of Rs. 1.5 lakh for interest on loans borrowed for housing
- STT change in case of Options
- Interchangeability of PAN and Aadhaar for Income Tax Returns.
- Faceless E-assessment for Tax Scrutiny
- TDS of 2% on cash withdrawal exceeding Rs. 1 cr. from a Bank account per year.
- No charges for customer on Digital modes of payment.
- Propose to enhance surcharge on taxable income of Rs. 2 to 5 cr(Big negative).
- Automated GST refund system to be initiated
- Custom duty raised on Auto Parts and CCTV's
- 5% Custom duty increased on imported books
- Increase of custom duty on Gild
- Decrease of excise duty on petrol

Economy :

- Targets to become a $3 trillion economy in FY20, $5 trillion in a few years (will be discussed later)
- Proposes changes for existing kick-start domestic and foreign investment
- Setting up enhanced disinvestment target of Rs 1,05,000 crore in FY20 as against Rs 90,000 crore set in the Interim Budget

Labour reforms

- Government to streamline multiple labour laws into a set of four labour codes
- To focus on training new age skills like AI, robotics, 3D printing (very late)

Investment Boosting Declaration

- To liberalise FDI in aviation, media, animation and insurance intermediaries
- To implement enabling measures to boost International Financial Service Centres (IFSCs)
- To set up a Credit Guarantee Enhancement Corporation
- To initiate steps for electronic fund raising programme for listing of social enterprises, voluntary organisations
- Considering whether govt holding can go below 51 percent in certain CPSEs on case-to-case basis
- To hike statutory limits for foreign investments in some companies
- Expert committee to be set up to make recommendations on infrastructure finance
- With a view of incentivising investment in GIFT City, govt proposes several tax benefits

Others :

- **Tourism -** To build 17 iconic sites to encourage arrival of tourists in India
- **Aadhaar** cards to be issued to NRIs with Indian passports after arrival in India without waiting for 180 days
- **Retail -** Local sourcing norms to be eased for single-brand retail FDI
- **Insurance -** to reduce net owned fund requirements to Rs 1,000 crore for onshoring of international insurance companies

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.

Some MAJOR highlights:

AGRICULTURE AND RURAL ECONOMY: Focus on generating higher income for farmers and employment on farms. (Please read interim budget as well)

- Govt to invest widely in agriculture infrastructure
- Support private entrepreneurship in value addition in agriculture
- Proposes Pradhan Mantri Matsya Sampada Yojana to address critical infrastructure gap in fisheries sector

INFRASTRUCTURE:

- To carry out comprehensive restructuring of National Highway programme
- Cargo volume on Ganges to increase four times over the next four years
- In second phase of Bharat Mala project, states will be helped to develop roadways

- 1,25,000 km of roads will be upgraded under Pradhan Gram Sadak Yojana under Phase III at estimated cost of Rs 80,250 crore

Aviation

- Time right for India to enter into aircraft financing and leasing
- Will create congenial atmosphere for development of MRO services
- To harness India's space ability commercially, New Space India (NSIL) has been incorporated to tap the benefits of ISRO
- Will re-initiate privatisation of Air India

Power

- Package for power sector tariff and structural reforms to be unveiled soon

RAILWAYS:

- Railways to be encouraged to invest more in suburban rail network via special purpose vehicles (SPVs) and enhance metro rail network through public-private partnerships
- Railway station modernisation programme will be launched this year

EDUCATION:

- Will bring in new education policy to propose changes in school, higher education
- Propose to set up a national research foundation to fund, coordinate and to promote research in the country
- Proposes Study in India programme to attract foreign students
- National Sports Education Board to be set up under Khelo India scheme
- Allocate Rs 400 crore for world-class higher education institutions in FY20

Real estate

- RBI to get regulation authority of housing finance sector
- Will finalise a model tenancy law and circulate to states; and propose steps for rental housing
- Proposes setting up 1.95 crore houses under Pradhan Mantari Awas Yojna (Rural)
- Offers additional tax deduction of Rs 1.50 lakh on interest paid on home loans taken up to March 2020

Small Businesses/MSMEs

- To extend pension benefit to three crore retail traders with an annual turnover less than Rs 1.5 crore under Pradhan Mantri Karam Yogi Man Dan Scheme
- Centre will create a payment platform for MSMEs for payment of bills
- 100 new clusters will be set up in 2019-20 to enable 50,000 artisans to come into the economic value chain

- To launch mission to integrate traditional artisans and creative persons with global market; to obtain GI/patents for them
- Will set up 10,000 new farmer producer organisations
- To start television programme exclusively for startups
- Proposes to expand self-help groups to all districts; one woman in every SHG to get a loan up to Rs 1 lakh under Mudra Yojana
- Startups who provide details in returns will have no scrutiny in respect of valuation of share premium
- Period of exemption from capital gains from sale of startups extended
- Startups will not be required to justify fair market value of shares issued to investors in Category II Alternative Investment Funds

Banks

- State-run banks to get Rs 70,000 crore capital to boost credit (WOW factor)
- To bring out a remedy against cash being deposited without knowledge of bank account holders

NBFCs

- Fundamentally sound NBFCs to keep getting funding from banks and mutual funds
- To allow FIIs and FPIs investment in debt securities issued by NBFCs
- Requirement of Debenture Reservation Reserve to be done away with for NBFCs
- One-time six-month partial credit guarantee to be given to PSU banks for purchase of high-rated pooled assets of financially sound NBFCs amounting to Rs 1 lakh crore in FY20

Market Reforms:

- SEBI to evaluate hiking minimum public shareholding to 25 percent from 35 percent (Not a WOW for sure)
- Government will work with exchanges to allow AA bonds to be used as collateral
- Proposes rationalising and streamlining of KYC (know your customer) norms for Foreign Portfolio Investors (FPIs) to make it investor-friendly
- NRI portfolio route to be merged with FPI for seamless investment in stock markets(WOW factor)
- Credit Guarantee Enhancement Corporation will be set up in 2019-20, action plan to deepen markets for long-term bonds with specific focus on infra sector
- Will take up measures to make RBI and SEBI depositories inter-operable
- To allow FPIs/NRIs to subscribe to listed debt papers of REITs and InvITs
- To bring ETFs in line with equity-linked savings schemes of mutual funds to encourage retail investors

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

Executive Director of DIGITIAN Investment Inc.

The view expressed here is his first take on the Indian Budget 2018 presented by Hon. Finance Minister of India on July 5, 2018 in the Indian Parliament.

He may be reached at debashishn@mydigitian.com

DIGITIAN VIEW from Chairman

Across the world economic growth is shrinking especially in the emerging markets. With USA and China locked in the continuing trade dispute, and even after rationalizing the imbalances they have between them, China's growth is going to be taking a back seat. This would open space in other emerging Asian countries and Latin America. India and Brazil will be beneficiaries if they can gear up properly. Given USA's robust economic conditions and next year's USA election the economy will remain strong with new highs every couple of months. This would always impact emerging economies like India given strong dollar. So this budget is in an environment when global head wind is strong.

As far as Indian Capital Market is concerned it performed exceedingly well post-election (as expected) after the thumping majority win by incumbent prime minister Narendra Modi. I would argue, the final budget of 2019 kept the Indian Growth story in a fundamentally strong path. It is budget for masses addressing almost 90% of the Population of India – looking for the well being of the mass. As a result the balance 10% reacted (read capital markets) and Sensex dropped by 1%. However, we expect the market to bounce back to create new peak.

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

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

DIGITIAN Moment :

<u>Focus on Banking/NBFCs/HFCs :</u> If India has to grow like China or close to it then it has to have strong Financial Institutions. One of the reasons for decelerating growth is non-functioning Banking sector especially poor performance of India's life line Public sector banks. By infusing INR 700 billion as capital, the government is creating the right base.

With Insolvency Act started working since Default cases solved to the tune of INR 4000 billion, this is the right time to recapitalize the bank.

Further, with series of policy actions for NBFCs and HFCs, Government tried to address the long-term fund availability issues, which would reduce the market panic and support the significantly growing market of these sectors especially affordable housing.

Focus on Agriculture, Small & Medium Businesses - India lives in its villages and has a huge dependence on small & medium businesses (China's growth is mainly attributable to SME/MSMEs). The Government has attached significant importance to these mass employment generation segments like they have done in their previous budgets. It looked populistic, but given the pace of implementation of Jan Dhan Yojna, Direct Bank Transfer, Ayushman Bharat, it seems directional and with a possibility of creating huge multiplier effect in the economy in 1-2 years' time.

Increasing Customs duty on large number of Goods : This is one of the main reasons for market fall since this is viewed as conservationist and backward looking. However, given the focus on "Make in India", the Government has to reduce imports of processed goods and to protect the various sector from anti- dumping from China and similar countries, the best way is to increase the Customs duty strategically. This will create more industry, employment and growth.

Source of Money for social & economic development:

Main requirement for the success of this kind of a policy is to develop the sources of Government fund. In this regard, First, there is a plan for Divestment of public companies and create a corpus of INR 1440 billion in 2019-2020.

Secondly, the Direct Tax has grown 78% in the last 5 years. With the new higher tax rate on high income bracket (INR 2 crore to 5 crore : 3% increase and INR 5 crore above 7 % increase. The effective tax at the highest bracket (INR 5 crore and above) will be 41.7. Further increase in Indirect taxes would do the rest.

Third, plan to cut Fiscal deficit by 1 percentage point to 3.3%. Not much but still focus remains on fiscal streamlining.

We believe in brief the following Table summarizes the effect of the budget:

Favourable Sectors	Affected Sectors
Infrastructure -- Aviation -- Power -- Water HFCs, NBFCs & PSU Banks Affordable Homes Insurance Retail Cigerette (relatively lower tax)	Gems and Jewellers Oil retailers Fertiliser & Agriculture Auto LUXURY PRODUCTS

I would end with a note on optimism, as Mrs Finance Minister began her maiden budget speech that India will reach USD 3 Trillion by 2020 and 5 trillion in a few years(without mentioning any year), this is much more realistic than the claim in the interim budget of USD 10 trillion. In the next 5-6 years time India could be a USD 5 trillion economy if it grows @7-8% as projected by world bank, it will be faster if India can stabilize its currency a bit.

Obviously if this happened by 2026, the most major impact will be on Capital Markets which will be touching almost 70000 (BSE 30) if not more.

PLEASE READ OUR INTERIM BUDGET 2019 ANALYSIS http://www.mydigitian.com/wp-content/uploads/2019/02/Indian_Budget_2019.pdf

Saugata Bandyopadhyay is the Chairman of DIGITIAN Group

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He may be reached at saugatab@mydigitian.com

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