DIGITIAN View

Indian Budget 2020

As we always maintained, that "Indian budget day" have been losing its significance for capital markets but still it is attached quite an importance by many investors. This is more or less a political representation. Since Indian Finance Minister deliberated on 1st February 2020, we have taken time to see the short term and medium term e impact of Budget on the overall economy, as well.

EXECUTIVE SUMMARY OF BUDGET

This is the second Budget since winning the election with majority, the Government has focused on the tree roots than the tree tops. We shall not go into details but would sum up the most critical takeaways of the budget which we liked and some direction is noticed:

1. One of the main focus is on **'Ease of doing Business'** – and government continued to focus on simplification and digitization of the Government processes. (GST through SMS and refund automated, E-appeal for tax, removal of Dividend Distribution tax for companies etc)
2. **Infrastructure :** Significant Budget Allocation, National Gas Grid, Eco Corridor, coastal roads and transport infrastructure, 100 new Airports by 2025, Port corporatization,150passenger train (PPP) , Jal Jeevan Mission, 112 Aspirational

Districts identified for the first time to develop after Smart Cities;

3. **Tourism Industry -** Establishment of Indian Institute of Heritage and conservation, 5 archaeological sites to be developed as iconic sites, Museum upgradation and new Museum on Numismatics and Trade, Tribal Culture and Maritime; Tourist trains linking tourists destination, increase in Swacha Bharat Budget, significant tourism Promotion Budget for "Incredible India";

4. **Education Sector** – The focus maintained since 2018 on the Education and skill development – Allowing more FDI/ECB, more allocation for vocational training and skill development, **"Study In India"** to be promoted in Africa and Asia through online ind-SAT exam, about 150 higher educational institutions will start apprenticeship embedded courses. Internship opportunities to fresh engineers by urban local bodies. Special bridge courses to improve skill sets of those seeking employment abroad.

5. **DIGITAL Economy :** This is a **big step in right direction** and surely long term - Knowledge Translation Clusters for emerging technology sectors, Scaling up of Technology Clusters harboring test beds and small scale manufacturing facilities, National Mission on Quantum Technologies and applications with an outlay of USD 110 million.

6. **Rural Development**

   The Budget has a fifth highest allocation for rural development and combined with health and welfare it will be having greater impact. PM Gram Sadak JYojana, 112 Aspirational Districts are all part of this. Anganwadi workers equipped with smart phones; 20000+ empaneled, hospitals under PM Jan Arogya Yojana. Viability gap funding for creation of hospitals on PPP mode, Jan Aashaadha Kendra Scheme to all districts by 2024

7. **Agriculture - Highest Allocation after Defence with 16 point Programme**
   - **Focus on Irrigation under PM KUSUM** by making available solar pumps and grid connected pumps to 3.5 million customers
   - **Focus on Agriculture Marketing Backbone** which is critical for achieving higher price realization for farmers and eliminating wastages
     - Viability gap funding for creation of efficient warehouses on PPP mode,
     - SHG's Village storage scheme,
     - Kisan Rail" and "Krishi Udaan" for a seamless national cold supply chain for perishables,
     - Integration of e-NWR with e-NAM

- Special focus on Fish Production, More coverage area on aqua culture Fishery extension through Sagar Mitra’s and fish FPOs – mainly to raise Fish exports to USD 150 billion by 2024-25

8. **MSME :** The focus on MSME and startups is another new focus area for creation of income opportunity among youth. Extending Invoice financing by NBFC, A scheme to introduce subordinate debt for entrepreneurs, Restructuring of Debt of USD 8000 per borrower continued, Scheme anchored by EXIM Bank and SIDBI to handhold MSMEs in exports markets especially Pharmaceuticals and Auto components(USd 1.5 billion)

9. **Power Sector –** with focus on Renewable power to address global warming as well as cheaper power sources for rural India and Industry, Focus on Solar power, Gas Grid, Conventional meters to be replaced by prepaid Smart meters,15% special tax rate for new power projects;

10. **Financial Sectors:**

    Public sector banks will be privatized for further capital infusion if required post infusion of USD 50 billion dollar in 2019

    - Deposit Insurance raised to Rs 5 lacs (5 times) which will boost deposit mobilization
    - Eligibility limit for NBFCs for debt recovery under SARFAESI Act proposed to be reduced to Asset size of USd 15 million or loan size of USD 75000**.** This will help NBFCs to offload their assets and generate liquidity.
    - Specified categories off government securities would be opened for non-resident investors
    - FPI Limit for corporate bonds to be increased to 15 per cent.
    - New debt ETF proposed mainly for government securities.
    - Bullion exchange in Gift City
    - Special Tax Incentives for Bonds issued by Domestic Companies (including Municipal Bonds

11. Industries

- **Hardware :** Scheme to encourage manufacturing of mobile phones, electronic equipment and semi conductor.
- **Textiles: National Technical Textiles Mission for a period of 4 years.**
- NIRVIK Scheme for higher export credit disbursement launched.
- Setting up off an Investment Clearance Cell to provide end to end facilitation.

12. Real Estates

One time restructuring Scheme of USD 7.5 billion for completing semifinished Real Estate projects; Affordable Housing additional deduction extended, tax holiday for Affordable housing project extended, Real Estate Transaction duty exemption widened

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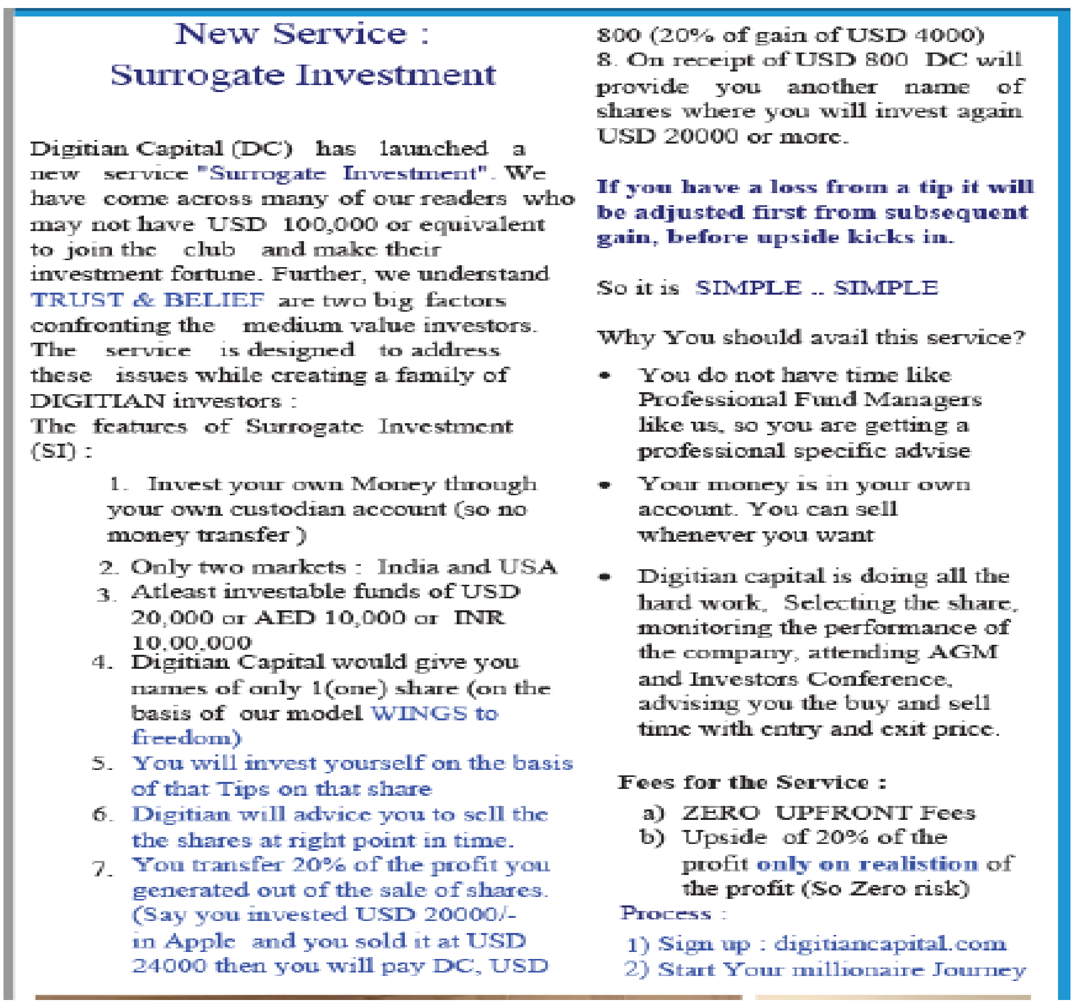

DIGITIAN VIEW from Saugata Bandyopadhyay

The emerging market is slowing down for the last two years so is the effect on India which most of the bulls in India would not try to believe. Even with USA /China Trade war, lot of expectation was on Industries moving into India which did not happen as Vietnam, Thailand and Mexico benefitted more. For the last decade the most important Indian Industry contributors in terms of export are Software, Pharmaceuticals and textiles. But these are challenged by issues of quality and innovations which bound India in a Medium Value curve. India has multiple challenges ahead in terms of growing demand for food, shelter, water and employment and also suffering from significant policy issues, political disturbances, resulting into lost man-days. After 10 years of growth since 2010/11, Indian Financial Systems has accumulated huge non-performing loans which requires at least 2 -3 years to normalize. Further in the new age digital economy India was lagging in terms of 5G revolution, electric vehicles, biotechnology, nano technology, AI & IOT. Every country should work as per their comparative advantages, India’s comparative advantage is in her Human assets, culture and heritage, vast coastlines and a doorway for many landlocked countries.

Given the substantial requirement of capital to achieve a long term transition India also has a daunting task to attract foreign Direct Investment. It will require couple of years to set the trend for a new Modern Digital India. DIGITIAN is happy to note that Indian Budget 2020/21 is at least tried to address some of these issues. There may be contradictory signals and some wrong mis steps along with political sideshows but the intent is clear and follow up of the 2019/20 budget is showing a direction.

Before we move to the good part, let us highlight the crucial problem the Government is facing from internal unrest like J&K, Maoists and North East, crucial funding is locked in unproductive cause :

45% of the Budget spending is for Defense and Security of the country. Like Current account deficit this should also be a target for reduction year after year if India wants to become a middle income country.

DIGITIAN Moment :

Ease of doing Business and Ease of Leaving - India's ranking improved from 142 to 80 (2018) to 68(2019) - focus remained and many things has been implemented since 2018 **so** a long way to go but moving in the right direction. Now improving from here require difficult changes and lot of challenges given the partisan political conditions and too many diversions on the basis of political ambition;

Augmentation of Capital : The government has taken various mode for the same – Reliance on PPP mode in public infrastructure, Hospitals, Education, Divestments Plans, Attracting Sovereign Foreign Funds through attractive incentive, Giving One time settlement scheme for Direct Taxes;

Focus on Sectors with Comparative Advantage -
Government focused on Service Sectors more like Tourism, Hospitals and Educations utilizing soft power of India. These are great direct and indirect employment generators and also easy route of foreign exchange generation. This will also create the required social wellness backbone.

Even when giving sops to Industry: focus is on Pharmaceuticals, Auto components, textiles while protecting Footwear, Furnitures and small hardware. Government already given huge tax sops to industry most of the companies are recording substantial tax gains;

Focus on Digital Technology and Hardware:

This was one of the complaint areas of ours. India was very late in this segment. For the first time some meaningful number is mentioned on Quantum technology, specially focus on Mobile hardware and semiconductor are great strategy for attracting foreign capital;

Creating Income generation at the Grass root and Increasing consumption Market

India leaves in the rural areas and if the budget does not address the grass roots the cost will be much more. Focus on Agriculture (especially so much on warehousing and transportation will unlock huge value), Fisheries given huge coastal and inland waterways will create income, plus the focus on MSMEs will help creating the required income generation at rural India.

Financial Sector :

Banking
The government has already taken care of public sector banks balance sheet issue by merging and infusing capital and this cannot continue indefinitely, therefore the decision to access capital markets is the best.

The problems faced by NBFCs regarding liquidity and growing NPL has also been tackled in the budget.

Housing

Any economy is known by its housing start. Onetime restructuring scheme would create a good spinoff effect. Affordable housing fiscal incentives continued which appears to be gaining grounds. Housing is linked to many core industries of the economy cement, iron and steel, MSMEs, power, water, furniture, paints etc

Further Government needs both foreign capital and foreign debt, hence the bond sectors have been opened up, Dividend Distribution Tax abolished.

Lastly, The budget is quite wide and lot of things are spanning several years. **Most important part is execution**, We see only one issue - the implementation requires significant amount of funding. Most of the success will depend on two schemes: **Disinvestment target of USD 30 billion** (given last year's target achievement of 65%) – is tall but possible with LIC, IDBI, Air India, Concor, BPCL, and SCI. The Other scheme is **One-time settlement of Direct Tax Dispute** under appeal **USD 6 billion.**

However, DIGITIAN is happy to note that Government maintained its focus for the last 3 years even if 60-70% of this plan is achieved a current account deficit is maintained below 4% and inflation below 5%, the money spent in Infrastructure, Agriculture would certainly create a multiplier effect. **We remain positive on Indian economy.**

Saugata Bandyopadhyay is the Managing Director of DIGITIAN Investment Inc

He may be reached at saugatab@mydigitian.com

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