

2024

Commentary on Indian Final Budget



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24/7/2024

Indian Final Budget(Post election) 2024

We have been reaping benefits through our Investment in Indian Market. In the last 5 years our investment return is 387%. It is more of a professional urge to follow closely each major events to assess how economic future is shaping up and what will be the Investment Landscape. This is not in any way a political commentary rather it is an understanding of the economic reality of BHARAT. This should be read as an investment note. We are bullish on the Indian Market for long term but we need to understand how the economy is handling the challenges it is faced with. Since we are long term investor one budget may not reflect the true possibility but it certainly shows the course of future.

Please read with : Indian Interim Budget(Pre election) 2024 Feb 2024 publication ([click here](#))

This is the first Full Budget of third BJP Government so expectation was that the Government would come out with some major reform announcements at least in the first year. More so since all the Ministers retained their Position in the new Government as well. However, given the fractured election mandate to BJP (losing their majority status), coalition politics are in play. *In that respect it is a normal budget and disappointing one in its future appeal.*

Worrying Trend in Economic data

Official Unemployment data by CMIE (June 2024) : 9.2%

Inflation Data June 2024 : WPI @ 3.4% CPI @ 5.1% and Food inflation 9.4% (Target 4%)

Fiscal Deficit : 5.6% (New Target 4.9%)

Primary and Higher Education Spend only 2.5% (BJP Target 6%)

In contrast Total Defence Spending is 12.9% and

Interest payment and Debt Servicing is 24.1% showing growing Debt Burden;

Instead of addressing long term economic strategy to alleviate the issues at hand Government tried to focus on popular short term measures lacking economic edge :

a) Wooing the Voters back for the upcoming state elections :

i) Budget targeted the Focus under 4 Pillars - **Garib(poor), Mahila (Women), Yuva(Youth) and Annadata(Farmers)** like the pre election budget

For Yuva: Higher Education subvention(3% p.a), Employment option and higher funding of Rs 7.5 lacs on Skilling;

Budget fixes target of 41 million youth employment and 50 million short Term (1 year) Internship opportunities with top 500 Corporates over the next 5 years;

Budget introduced **Employment Linked Incentives for Employer (ELI)** in addition to ongoing Production linked Incentive (PLI) in First 4 years of employment for employer and employee; Special Schemes of Rs 3000 billion for **women led Development projects**;

Direct cash incentive to New Employees on Joining - *This is beyond logic* - giving employment and also joining bonus. (1 month salary in 3 monthly installments on joining)

For farmers, Strengthening Research on High yielding Varieties (launch target 109 types) 10000 Bio input centers, Achieving self sufficiency in **Oil Seeds Production**, Promoting **Natural Farming** to cover 10 million Farmers (Nothing new on MSPs etc); Building **vegetable Supply chain** infrastructure, **Digital Public Infrastructure** for Farmers.

Like the Past ten Budgets Government focused on creating very good Catch Phrases and new Yoyanas and providing BHAG Targets. There should be more evaluation of old schemes on the completion status. Thus authenticity of these schemes may gradually affect confidence of private and international investors.

ii) Secondly **Budget focused 9 Top priority Areas for the next 5 years: Agriculture, Employment, Inclusive Development, Manufacturing & Services, Urban Development, Energy, Infra, Innovation with R&D, NexGen Reforms** - *thus the focus becomes generalized*.

Under Innovation, Venture capital fund of Rs 100 million to be set up to encourage **space technology development** --- minuscule allotment for such a project. Nothing specific on AI or machine learning, blockchain and green technology.

However, I am slightly hopeful on **NextGen Reforms**, although still it is a fifty thousand feet view but good enough for long term investors. These are briefly :

- **Establishing Economic Policy Framework and Key Reforms** on all factors of production, including land, labour, capital, and entrepreneurship with technology playing a critical role.
- **Land-Related Reforms in both rural and urban areas** (3 years time frame)
Rural Reforms: Introduction of the Bhu-Aadhaar, digitization of **cadastral maps**, survey of map sub-divisions, establishment of a **land registry**, and linking to the **farmers' registry**.
Urban Reforms: Digitization of urban land records with **GIS mapping**, system for property record administration, (*Most Important long pending reform*)
- **Labour-Related Reforms** : Integration of the **e-Shram** and revamping of the **Shram Suvidha** and Samadhan portals to ease compliance for industries. (*More reforms required*)
- **Financial Sector Vision and Strategy** : **Taxonomy for Climate Finance**, Legislative approval for **Variable Capital Company structure** for leasing aircraft and ships and private equity funds. **Simplification of rules** and regulations for **Foreign Direct Investment** and promote the **use of the Indian Rupee for overseas investments**. (*More reforms required*)

- **Jan Vishwas Bill 2.0** for Ease of Doing Business
- **Sectoral Databases** for database administration and management (*hinting at BIG Data*)
- **New Pension Scheme (NPS)** to evolve a solution with fiscal prudence to protect the citizens.

iii) **MSMEs** -The other avenue for generation of self employment. Budget focused on

- **Credit guarantee scheme** for MSMEs in manufacturing to be introduced,
- **Mudra loans limit** to be enhanced to Rs 2 million from Rs 1 million,
- Government to develop **100 street food hubs** in select cities over five years; (*New*)

iv) **Other New initiatives which deserve mention**

- Transit oriented development programmes for 14 large cities with population above 30 lakh
- **PM Surya Ghar Muft Bijli** launched to install roof-top solar for 1 crore households,
- **Phase IV of PMGSY** for all weather road connectivity in 25000 rural habitations
- **12 Industrial Parks** covering 100 cities in collaboration with state Govt and privates

b) **Coalition Compulsion** : Budget provided a full scale special Packages to Bihar Rs 59000 plus cr and mini Package (Rs 150 billion) to Andhra Pradesh the two main parties in NDA

Strong Government is required for major Reforms and growth. This time BJP does not have majority on their own and the same is reflected in their First Budget. However, BJP is always strong at ground level delivery so hopefully real GDP will grow @ 7-8% which is still good.

- **Bihar package** includes Four expressways and bridge projects, for tourism - development of Vishnupad Temple Corridor and Mahabodhi Temple Corridor, Gaya Industrial Node; Establishing new airports, medical colleges, Development of Rajgir and Nalanda University; Accelerated irrigation program; 2400 MW power projects in Bhagalpur;

Bihar is the most backward state of the country, if the money is spent judiciously with low corruption it will have positive effect on Bihar economy and its people and also in GDP of India;

- **Andhra Pradesh** :Providing Support for multi-lateral funding to in FY25 for development of its capital city as planned under Andhra Pradesh Reorganisation Act - ***this is also normal and should not have been highlighted as such.***

TAXATION AND ITS EFFECTS ON INVESTMENTS :

1. Customs duty Cut or raise has a direct impact on Industry and its stock price

BCD Exemption Extended Till:		
March 31, 2026	March 31, 2029	
Lactose used for manufacturing homeopathic medicines	Medicines /drugs/vaccines supplied free by Unicef, Red Cross etc	Life-saving medical equipment for personal use
Gold ores , concentrates		
Goods to manufacture specified orthopedic implants		Archaeological artefacts for exhibiting in a museum
Pile fabrics for manufacturing toys		Specified raw material for sports goods
Simply sawn diamonds		Capital goods , raw materials, spares for repair of ocean-going vessels
Ferrous scrap		
Goods for manufacturing microphones		

- **Medical devices, solar energy, marine products, chemicals, petrochemicals and telecom equipment** are sectors where basic customs duties have been tweaked to incentivise local manufacturing - so all these industry will be benefitted
- the budget cut custom duty on **gold and silver** to 6% and **platinum** to 6.4% from 15% (*Gold loan companies- Muthoot and Manappuram Finance- stock fell by 5 % approx.*)
- **Fully exempting customs duties on 25 critical minerals**, such as lithium copper, cobalt and rare earth elements are critical for sectors like nuclear energy, renewable energy, space defence, telecommunications and high-tech electronics (**Very good step**)
- **For Shrimp Export** success : BCD on certain broodstock, follicle, worms, shrimp and fish feed cut to **5 per cent**; Further, customs duty exempted on various inputs for the manufacture of **shrimp and fish feed**. (*Avanti Feeds stock price rose by 14.5% in a day*)
- Similarly list of exempted goods include for the manufacture of **leather and textile garments, footwear and other leather articles for export** (**positive for textile/apparels**)

Further a review of BCDs will be carried out over 6 months - so 2025 Budget will be crucial

DIRECT TAXATION :

This budget has provided tax savings to **Lower Income Group and Middle Income Group**

- **Standard Deduction** increased from Rs 75000 from Rs50000 (lowered tax)
- Tweaking **Tax rate in the Personal Income Tax slabs** from Rs 600k to 1 million 5% will provide some savings. As per my calculation, The people with taxable Income of Rs 1 million is paying effective tax of **5.0% (PY 6%)** while People with TI of Rs 1.5 million is paying **9.33% (PY10%)** - *Thus it is the best tax rate possible*
- *As per the recent Tax estimate of GOI Total Number of Tax payers in India 74 million of them 65% files zero tax liability (i.e less than Rs 300k income) that implies 25.9 million people (1.83% of total population) is paying all the taxes*
- **Second Important data : under the BJP Government share of Corporate Tax in total Tax collection has fallen to 26% from 35% while share of Personal Income Tax increased to 28% from 21%.** This shows the power of development on Middle income and High Income Group expansion. This tax base may double in the next 5 years
- As per GOI data Household Consumption Expenditure Survey, **50% of the Household (Hh) say around 800 million population (getting free ration)- they share 3% of National Wealth and 13% of National Income.** Their monthly consumption expenditure for Rural Hh : Rs 3094 pm and Urban Hh : Rs 4960 pm - *these people are paying GST@ 18%*

CAPITAL GAIN

For last 2 Budgets this is the focus area for tax. Major change in these budget on capital gain

Short Term capital Gain : Rate increased to **20% from 15%** while where STT is not paid will be taxed at the **highest tax slab** - (*Compare with USA - taxed as per Tax slab from 10%-37%*)

Long Term Capital Gain : All assets - Rate increased to **12.5% from 10%** while **Non-financial Assets (say property/car) will lose the benefit of indexation** so there will be slightly higher tax burden when you sell the property (*Compare with USA - taxed at 0%,15% and 20%*)

Indian stock market is on a Bull Run for the last 5 Years and the Budget took advantage of this run.

To Boost the start up funding, Budget **removed tax on Angel Investors Income.**

In conclusion, after several decades India has a Government which will oversee a period of 15 years, which will provide India a period of development for continuity and sustainability. Thus, we believe that current momentum will be continued for sure albeit at a slower pace



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Recommendation by	Name of the Company	Date of Purchase	Entry Price	Actual Gain Published in March 2022	Actual Gain Published in June 2023	Actual Gain Published in Dec 2023
 Debashish	NGL Fine Chem	13-Mar-20	302	729%	572%	631%
	Tata Elxsi	27-Apr-20	790	646%	883%	1024%
	RACL Geartech	4-Aug-20	65	897%	2085%	1817%
	Arman Financial	8-Feb-17	243	327%	826%	952%
 Saugata	Shivalik Bimetal	5-Feb-21	69	697%	933%	770%
	Newgen Software	7-Apr-20	116	477%	610%	1279%
	Trident	1-Oct-20	6.55	740%	419%	648%
	Indian Bank	11-Jan-21	87	94%	287%	422%

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