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2017 India Budget
"Judicious and Far Sighted; two steps in the right direction"

The budget distances itself from history by resisting populist measures, in tandem with a noticeable shift in attitude towards foreign investors; new policies introduced have longer term purpose. It offers more than just "a steady as she goes" approach, being prudent, nuanced and progressive. The intention is to stick to the task in hand (particularly on the "black money" crackdown), whilst acknowledging that India remains hostage to an ambiguous global outlook. Expectations were low, and local investors had sold the market in anticipation of changes to CGT that didn't materialise, hence a short squeeze followed. We do not expect any material short term impact on corporate earnings. Although not explicitly stated, India's Budget implies current Government thinking as follows;

1. Ongoing fiscal prudence builds credibility and in part, shields India from rising global risks;
   a. Commitment to reduce fiscal deficit from 3.5% to 3.2%, despite lower GDP growth forecasts and modest growth in tax revenues
   b. Non-inflationary spending with further emphasis on capital expenditure over revenue expenditure. 10% year-on-year increase in "capex" looks modest, but the high base (due to material one-offs in 2016) distorts the real commitment;
      i. 21% increase in Roads and Railways, where productive benefits are significant
      ii. Ongoing roll-out of the Direct Benefit Transfer (DBT) system for subsidy payments
      iii. Ambitious disinvestment target with revised, innovative approach promised.
   c. A marked resistance in the temptation to roll out Universal Basic Income Scheme or other such "populist" measures

2. Ensures that "rural India" participates in the economic benefits of the reform agenda;
   a. Emphasis is directed towards existing schemes;
      i. Increased allocation to National Rural Employment Guarantee Scheme
      ii. Increase in crop insurance subsidies and introduction of contract farming
      iii. Increased allocation to irrigation down to micro level
      iv. Increased allocation to low cost housing and education
      v. 100% villages electrified by May 2018
   b. A pledge to lift a further 10m households out of poverty
   c. Innovative measures to introduce greater transparency to political party funding

3. Recognising the role foreign investment must play if India is to exploit its opportunity;
   a. Clarification of outstanding FII concerns over taxation on indirect transfer of Indian assets held offshore
   b. Dissolution of FIPB (Foreign Investment Promotion Board) to be replaced by an online approval process. A key step in "ease of doing business" programme
   c. Further commitment to liberalisation of Foreign Direct Investment limits, another key step in the "ease of doing business" programme
   d. Improved process to fast track Foreign Portfolio Investment (FPI) process

4. Further development on tax reform / "black" money;
   a. Conservative estimate for growth in tax revenues (in light of GST), builds credibility
   b. Corporate tax rates lowered for SMEs / low income earners, will broaden the tax net
   c. Imposition of a INR300k limit (c.US$4,500) on cash transactions will force digital transfers
   d. Further heavy penalties introduced for tax avoidance
   e. Further incentives to encourage digital transactions ahead of GST implementation
   f. Long term capital gains tax (>1 year) unchanged, positive for equity ownership

Source: Ocean Dial Asset Management; IIFL Institutional Equities; Anand Rathi Institutional Research

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