A real game changer. Measures will boost investment by corporates. Would look forward to seeing similar measures on personal taxation

VENU SRINIVASAN Chairman, TVS Motor

The large reduction in corporate taxes across the spectrum of all companies is perhaps the boldest reform in the last 28 years! The move to incentivise setting up new manufacturing units could also lead to India integrating with the global supply chain

RAJNISH KUMAR Chairman, SBI

The reduction in corporate tax rates makes Indian industry more competitive globally. These measures only reaffirm the government's willingness to move beyond incrementalism

KUMAR MANGALAM BIRLA Chairman, Aditya Birla Group

The bold and positive move to rationalise the corporate tax structure will help kick-start the next big economic upcycle

SUNIL BHARTI MITTAL Founder and Chairman, Bharti Enterprises

The lower tax for new manufacturing firms will give a boost to the manufacture of domestic consumables and devices in the healthcare sector

PRATHAP C. REDDY Chairman, Apollo Hospitals

'Surcharge relief may improve sentiment, boost earnings'

Government waives the levy for all categories of investors; surcharge not applicable on FPIs on sale of securities in the derivatives segment

SPECIAL CORRESPONDENT
MUMBAI

Almost a month after announcing the first set of incentives for foreign portfolio investors (FPIs) by waiving the surcharge introduced in the Union Budget – but which failed to stem the outflows in any manner - the government has announced fresh incentives while also extending the benefit to all categories of investors.

On Friday, Finance Minister Nirmala Sitharaman said that the tax surcharge would be waived for all categories of investors, including individuals and those operating under structures like Hindu Undivided Family (HUF), Association of Persons (AOP), Body of Individuals (BOI) and Artificial Juridical Person (AJP).

A statement from the government clarified that the surcharge would not be applicable on the "capital gains arising on sale of equity shares in a company or a unit of an equity-oriented fund or a unit of a business trust liable for securities transaction tax."

Further, the government has also clarified that the surcharge would not be applicable on FPIs on sale of securities in the derivatives segment as well.

Simply put, any gains arising from the sale of securities in the cash or derivatives segment or units of equity mutual funds on which securities transaction tax (STT) has been levied will not be subjected to the surcharge, that had further fuelled the flight of foreign money from the Indian capital markets.

Interestingly, after the government announced the initial rollback of the surcharge on August 23, FPIs have till date sold shares worth almost ₹6,300 crore.

Market participants, however, are optimistic that the latest set of measures would have a longer term impact on the markets in terms of a positive impact on earnings and fund flows.

"This will help improve the sentiments and have a positive impact on earnings thereby leading to an overall re-rating of the markets," according to Mihir Kothari, head, institutional sales, Motilal Oswal Financial Services.

Booster dose

With Friday's development, India's corporate tax rate becomes comparable to nations that typically attract investments

Country	Corporate tax rate
U.S.	25.89%
U.K.	19%
Germany	29.89%
France	32.02%
China	25%
Vietnam	20%
Philippines	30%
Malaysia	24%
Singapore	17%
South Korea	27.50%
India	25.17%

SOURCE: KPMG, OECD

No buy-back tax

Meanwhile, after announcing a buy-back tax in the Union Budget, the government has now decided to exempt firms that announced a buy-back before the proposal was announced on July 5.

"In order to provide relief to listed companies which have already made a public announcement of buy-back before July 5, 2019, it is provided that tax on buy back of shares in case of such companies shall not be charged," stated the government in the release.

The exemption would benefit companies like Sasken Technologies, Greaves Cotton, Welspun Corp, Indowind Energy, Star Cement and Eris Lifesciences among others, as per data from Prime Database, which pegs the cumulative size of buy-back offers that would benefit from Friday's relief at approximately ₹1,100 crore.

Indices post biggest one-day gain in decade

Sensex zooms 5.3%, banks lead charge

SPECIAL CORRESPONDENT
MUMBAI

On Friday, equity benchmark indices posted their biggest single-day gain in over a decade after the government announced a slew of measures, including slashing corporate tax rates and providing fresh incentives for capital market investors.

Even as the global markets remained largely flat, the benchmark Sensex gained a whopping 2,284 points during intra day trades, before closing at 38,014.62, up 1,921.15 points or 5.32% – the second-highest single-day gain ever after May 18, 2009, when it rose 2,110.79 points.

The broader Nifty also registered its second-highest gain while closing at 11,274.20, up 569.40 points or 5.32%. The Nifty Bank index gained a massive 2,224 points while those representing fast moving consumer goods and private banks also gained over 1,000 points each.

Earlier in the day, Finance Minister Nirmala Sitharaman slashed corporate tax rates, while providing incentives to new domestic manufacturing companies. She also announced that the tax surcharge announced in the Budget would be waived off for all categories of investors and also the buy back tax would not be applicable on firms that announced their buy back prior to July 5.

Vijay Chandok, MD & CEO, ICICI Securities, likened the tax cuts to those announced by the U.S. President Donald Trump in 2017, which gave a fillip to the U.S. economy.

Interestingly, provisional numbers showed that foreign portfolio investors (FPIs) were net buyers at only ₹36 crore on Friday. Though a paltry number, it would come as relief to market players who have been witnessing selling by FPIs almost on a daily basis. Domestic institutional investors, who have been acting as a strong counterforce to the selling by FPIs, were net buyers at over ₹3,000 crore.

Party time

Domestic institutional investors, who have been acting as a strong counterforce to the selling by FPIs, were net buyers at over ₹3,000 crore on Friday

SENSEX

Date	Close (points)	Gain (points)
May 18, 2009	14,284.21	2,110.79
September 20, 2019	38,014.62	1,921.15
May 20, 2019	39,352.67	1,421.90
January 25, 2008	18,361.66	1,139.92
March 25, 2008	16,217.49	928.09

SOURCE: BSE, NSE

Bond yields jump 15 bps

Fiscal slippage worries drive up yields

SPECIAL CORRESPONDENT
MUMBAI

Bond yields hardened on Friday as concerns of fiscal slippage loomed after the Centre announced a sharp reduction in corporate tax rate that would hit the exchequer by ₹1.45 lakh crore.

The yield on the 10-year benchmark government bonds hardened 15 basis points (bps) to close the day at 6.79%. The tax cuts could pose a challenge in meeting the fiscal deficit target of 3.3% in the current fiscal.

"It is going to put pressure on the sources of funding for the government, as reflected in the sharp surge in G-sec yields," said Madhavi Arora, economist, Fx & Rates, Edelweiss Securities. She added that markets would now closely watch the borrowing calendar in the coming week to gauge the borrowing impact.

But the fiscal booster could take some pressure off the RBI, which had reduced rates by 110 bps between February and August.

"We now expect a smaller cut by the central bank, given that a fiscal stimulus is likely to take some pressure off the RBI to support growth," said Abheek Barua, chief economist, HDFC Bank, who expects a 15-25 bps rate cut in the upcoming monetary policy review in October.

The currency market, however, cheered the corporate tax rate cut with the rupee strengthening by 40 paise. The currency gained 0.56% gain to close the day at ₹70.94 against the dollar.

'Tax cuts may not boost investment'

Fiscal deficit to climb, steps useful only if demand actually surges, say economists

TCA SHARAD RAGHAVAN
NEW DELHI

While corporate India is cheering the cut in tax rates, announced by the government, economists are saying mere reduction in levies will not result in increased private sector investments and the move will definitely result in fiscal deficit slippage.

The overall view is that since the corporate tax cuts do not address the subdued demand conditions in the economy, private sector firms will wait for demand to revive before they start investing.

"Companies will still wait for demand to pick up," said Madan Sabnavis, chief economist, Care Ratings. "The cuts have to encourage manufacturing companies, that have not been investing, to start investing.Only if demand actually increases, will the tax cut help in bringing about higher investment, not otherwise."

"At the end of the day, if you don't have the assurance that your output is going to be bought, then you are not going to make profit," Pronab Sen, former Chief Statistician of India, added.

"A tax on profit kicks in only if you are making profit. It has already given a huge boost to so-called investor sentiment, but these are all secondary market reactions."

However, there is also the view that corporate tax rate cuts will make Indian companies more competitive globally, and will encourage foreign companies to invest in India, which could boost private sector investments.

Corporate savings to rise

"It will increase corporate savings and therefore, also on a way to make Indian firms more competitive," said D.K. Srivastava, chief policy advisor, EY India.

"They will also encourage investment from abroad into Indian companies because we will be on par with comparable economies with regard to tax incidence.

The impact on the fiscal deficit, however, is under debate.

The combination of the ₹1.45 lakh crore revenue forgone due to the cuts announced on Friday, the fiscal impact of the various export and housing incentives announced recently and lower-than-budgeted GST revenue is expected to total anywhere between 0.5-1% of GDP.

"In the Budget as presented, they had taken account of ₹90,000 crore from the RBI," Dr. Sen explained. "What they got was ₹1.76 lakh crore. So, the net gain was only ₹86,000 crore. The net loss here [due to the corporate tax rate cut] is ₹1.45 lakh crore, so there is still a ₹59,000 crore hole because the impact of these cuts was not budgeted."

"Let's assume GST collections come in according to plan," Mr. Sabnavis said. "This corporate rate cut plus the incentives for exports and housing they announced will together come to 0.5% of GDP. The fiscal deficit will definitely go from 3.3% to 3.7-3.8%. That is the range we are looking at."

MARKET WATCH

	20-09-2019	% CHANGE
Sensex	38,015	5.32
US Dollar	70.94	0.56
Gold	38,390	-0.44
Brent oil	64.97	0.72

NIFTY 50

	PRICE	CHANGE
Adani Ports	380.70	18.80
Asian Paints	1671.00	117.10
Axis Bank	680.35	42.15
Bajaj Auto	2929.25	190.40
Bajaj Finserv	7693.65	505.00
Bajaj Finance	3702.20	340.15
Bharti Airtel	356.40	18.80
BPCL	403.85	24.00
Britannia Ind	2867.00	245.20
Cipla	463.30	11.25
Coal India	200.05	6.60
Dr Reddys Lab	2837.80	105.25
Eicher Motors	17860.20	2107.70
GAIL (India)	134.70	1.65
Grasim Ind	750.95	51.05
HCL Tech	1049.10	-0.45
HDFC	2049.30	74.70
HDFC Bank	1199.60	98.55
Hero MotoCorp	2862.90	330.65
Hindalco	202.15	6.20
Hind Unilever	1969.75	157.00
Indiabulls HFL	428.40	33.65
ICICI Bank	417.50	30.90
IndusInd Bank	1419.60	137.35
Bharti Infratel	259.15	9.75
Infosys	805.00	-15.70
Indian OilCorp	132.55	6.35
ITC	238.05	1.35
JSW Steel	238.10	18.55
Kotak Bank	1538.85	86.25
L&T	1411.50	110.80
M&M	568.90	49.60
Maruti Suzuki	6591.95	620.20
NTPC	119.85	-1.85
ONGC	133.60	9.30
PowerGrid Corp	196.20	-4.95
Reliance Ind	1254.35	75.30
State Bank	301.70	27.65
Sun Pharma	413.70	2.55
Tata Motors	133.25	9.05
Tata Steel	368.55	23.90
TCS	2065.45	-36.50
Tech Mahindra	700.85	-2.50
Titan	1263.55	110.35
UltraTech Cement	4269.65	403.35
UPL	562.10	0.05
Vedanta	158.95	12.80
Wipro	245.95	4.45
YES Bank	55.50	1.40
Zee Entertainment	301.40	-7.45

EXCHANGE RATES

Indicative direct rates in rupees a unit except yen at 4 p.m. on September 20

CURRENCY	TT BUY	TT SELL
US Dollar	70.74	71.06
Euro	78.03	78.38
British Pound	88.35	88.76
Japanese Yen (100)	65.52	65.82
Chinese Yuan	9.98	10.02
Swiss Franc	71.33	71.66
Singapore Dollar	51.40	51.65
Canadian Dollar	53.30	53.56
Malaysian Ringitt	16.97	17.05

Source:Indian Bank

Move positive for economy, says Das

Interest rate cut will depend on incoming data, says RBI Governor

SPECIAL CORRESPONDENT
MUMBAI

The reduction in corporate tax rate announced by Finance Minister Nirmala Sitharaman was a bold move and augurs well for the economy, Reserve Bank of India Governor Shaktikanta Das said.

"These are definitely bold and welcome measures. It will augur extremely well and will be highly positive for the economy," Mr. Das said at an event organised by the India Today group.

One of the major drawbacks that the country had was high corporate tax rates and Friday's cut would take the country closer to the rates prevailing in emerging economies such as Thailand, and the Philippines, he said.

Shaktikanta Das

Exchequer hit

The revenue foregone on reduction in corporate tax and other relief measures will be ₹1.45 lakh crore annually.

On Thursday, the RBI Governor had said there was little scope for fiscal expansion.

'Not comparable'

On Friday, Mr. Das said that future rate cuts would depend on the incoming data but cautioned that India could not afford to have lower interest rates as in advanced economies.

"How much more can we go down (with the rate cuts)? We cannot go down to the levels of advanced economies. But how much we can go down will depend on the incoming data and other developments," the RBI Governor said.

He said most of the advanced economies were having near-zero inflation and therefore, their rates were also so low.

"But our inflation target is 4%, and therefore, that should be the guiding force."

On Thursday, he, however had said, the central bank had room for rate cuts as inflation was projected to be less than 4% over the next 12 months.

The Reserve Bank has reduced the interest rate, the repo rate, by 110 bps during February and August to boost economic growth. The GDP growth for the first quarter of the current financial year dropped to a 25-quarter low of 5%.

(With inputs from PTI)

Firms can use CSR funds for R&D

Announcement will help meet monetary needs of research

SPECIAL CORRESPONDENT
GOA

The government has decided to allow corporate India to use their mandatory corporate social responsibility (CSR) spending for investments in publicly-funded incubators and contribute to research efforts in science, technology, medicine and engineering at major institutions and bodies.

Finance Minister Nirmala Sitharaman said that the rules governing CSR spending norms have been amended to pave way for greater investment into research – a parameter the country fares poorly on a global basis.

India's spending on research and development (R&D) activities has been far less than 1% of GDP for years, with the private sector chipping in less than half of investments. The Companies Act requires firms with a net worth of ₹500 crore, turnover of ₹1,000 crore or net profit of ₹5 crore or more to set aside 2% of their average net profit over the last three years towards 'approved' CSR activities.

Funding incubators

"Now this 2% can be spent on incubators funded by Central or State government or any agency of a Central or State public sector undertaking," Ms. Sitharaman said. "They can also make contributions to publicly- funded universities, IITs, national laboratories and autonomous bodies (established under the auspices of ICAR, ICMR, CSIR, DAE, DRDO, DST and Ministry of Electronics and Information Technology)," she added.

"The government can fund research and is doing so, and will also increasingly do more.

"But today, there is a need for large investments and large pools of capital to be given to R&D. We are opening up the CSR window also," she said.

When asked if the government was drawing on CSR funds, the Minister said that was not the case.

Banking on NBFCs for loan melas

Lenders to tap network for last mile borrower connectivity

SPECIAL CORRESPONDENT
MUMBAI

Commercial banks will use the network of non-banking financial companies (NBFCs) to reach the last mile in extending loans through loan melas, as announced by Finance Minister Nirmala Sitharaman on Thursday.

The Ministry on Thursday had asked the public-sector banks to hold public meetings with the borrowers for extending loans in 400 districts of the country to boost demand ahead of the festive season. Commercial banks will take help from the NBFCs who have reach in the hinterland.

Bankers said, by collaborating with the NBFCs, loan growth would increase.

"In many cases, the NBFCs are working as the last-mile credit providers. We have to come together on a platform and provide comfort to the general public that we are still available. Now, there is an active collaboration between NBFCs and banks to provide credit to the consumer," said Mrutyunjay Mahapatra, MD & CEO, Syndicate Bank.

Co-originating loans

Banks have already entered into 14 tie-ups with NBFCs for co-originating loans, with another 36 such tie-ups in the pipeline.

But past experience suggests such steps led to indiscriminate lending, which inevitably result in higher non-performing assets and banks eventually write-off such bad debt. "That is the risk that bankers have to live with," Mr. Mahapatra said. "That risk should be mitigated. Loans extended have to be within the bank's framework. Banks will have to be cautious, there is no doubt about it."

Such public gatherings to extend loans will take place in two phases, one between September 24-29 in 200 districts of the country and the next, between October 10-15 in another 200 districts.

India Inc. hails corporate tax reduction

Move may spur economy; auto sector buying sentiment likely to improve

SPECIAL CORRESPONDENT
MUMBAI / NEW DELHI / CHENNAI

India Inc. welcomed the Centre's decision to reduce the corporate tax rate and the Minimum Alternate Tax

N. Chandrasekaran, chairman, Tata Sons, said, "The reduction of MAT will enable companies optimise their cash flows leading to increased investments."

Sajjan Jindal, chairman, JSW Group, said, "The massive amount of savings in corporate tax, aggregating to ₹1.45 lakh crore, is a timely stimulus for the revival of our economy." Pawan Goenka, MD of M&M tweeted, "Looks like Diwali has come early." Gautam Adani, chairman, Adani Group, also tweeted, saying, "Amid challenging times, the reduction in corporate tax and MAT addresses the core challenge of liquidity reinstating India as an attractive investment destination." Ashish Chauhan, MD and CEO, BSE said Indian corporate tax rates are now among the lowest in the world, especially for the new manufacturing companies.

Sajjan Jindal

According to Mercedes-Benz India MD and CEO Martin Schwenk, lower tax will promote investment, help improve buying sentiment, and spur the auto sector in the long term.

Gopichand P. Hinduja, co-chairman, Hinduja Group, said Friday's move was needed for economic revival and for the manufacturing sector. Boman Irani, CMD, Rustamjee Group, said, "I would request the Finance Minister to provide the same type of benefits to the housing and real estate sector," he said.

However, Gopal Srinivasan, founder-CMD, TVS Capital Funds, felt the Centre had ignored providers of risk capital. Profits of venture capital and private equity funds are taxed at full surcharge. "Today, the tax difference between long-term capital gains on listed markets and private markets are as high as 18 percentage (absolute) points," he said.

T.T. Srinivasaraghavan, MD, Sundram Finance. said the Centre had taken a 'real bold' step.