ECONOMY

GOLD ₹38,390 | RUPEE ₹70.94 | OIL $63.67 | SILVER ₹47,580

*Indian basket as on September 18, 2019

SENSEX: 38,014.62 ▲ 1921.15 **NIFTY:** 11,274.20 ▲ 1569.40 **NIKKEI:** 22,079.09 ▲ 34.64 **HANG SENG:** 26,435.67 ▼ 33.28 **FTSE:** 7,368.48 ▲ 12.06 **DAX:** 12,466.38 ▲ 8.68

*Till 12:30 AM IST

REDUCTION IN CORPORATE TAX & OTHER MEASURES

Many big firms, IT companies may not benefit much from corporate tax cut

SANDEEP SINGH & GEORGE MATHEW
NEW DELHI/MUMBAI, SEPTEMBER 20

WHILE COMPANIES in the banking and financial sector, along with others that claim little or no exemption, are set to witness significant gains on account of reduction in the corporate tax rate from around 35 per cent now (including surcharge and cess) to 25.17 per cent, for a large number of companies including Reliance Industries, TCS, Infosys, Wipro, HCL Technologies and Mahindra & Mahindra among others it may only turn out to be an academic exercise as they either paid less than 25.17 per cent tax in FY19 or marginally higher tax than that.

Finance Minister Nirmala Sitharaman Friday announced a new corporate tax rate of 22 per cent without exemptions and said the effective tax rate including surcharge and cess would now stand at 25.17 per cent.

As per Kotak Securities data, while the tax paid by Bajaj Finance for the year ended March 2019 stood at 35.7 per cent of the profit before tax, that for HDFC Bank and Kotak Mahindra Bank stood at 34.5 per cent and 34.1 per cent. Tax rate for IndusInd Bank and Axis Bank stood at 33.7 per cent and 32.9 per cent respectively.

On the other hand, Reliance Industries and TCS, the two largest entities in India by profitability and market capitalisation, paid 25.76 per cent and 26.13 per cent, respectively, as taxes on their PBT for FY19. While Infosys paid 26.22 per cent as tax, Wipro and HCL Technologies paid around 23 per cent and 17.6 per cent, respectively, as tax for FY19.

Many automobile firms like Eicher Motors, Bajaj Auto, Hero MotoCorp that pay taxes between 32 and 34 per cent will benefit from the move as it will leave more money at their disposal. Maruti Suzuki, which paid 28.33 per cent as taxes in FY19, will also benefit from the move as the net tax payout will now stand at 25.17 per cent for FY20.

Assuming all 487 firms in the NSE 500 list move over to the new effective tax rate, it will have a 7 per cent positive impact of their annual standalone EPS (earning per share). "Assuming these tax benefits come into play for the full year ended March 2020, the earnings growth estimate for the Nifty 50 universe would be 12 per cent year-on-year as against earlier expectation of around 5 per cent," said Amar Ambani, senior president, Yes Securities.

For the financial sector, it is tantamount to a large recapitalisation, strengthening growth capacity and loss-absorbing buffer, bankers said.

For most banks and non-NBFCs, the direct benefit of the massive tax cut would be 15 per cent on earnings, 2.5-5 per cent on book value and 30-80 basis points on capital position.

"Since it's a big step towards rekindling the corporate capex cycle and revitalising sagging consumption, it would also be credit positive for banks and NBFCs; undermining prospects of a deep and elongated NPA cycle. In general, risk aversion in the economy could reduce as the multiplier and sentimental impact of the corporate tax cuts play out," said Rajiv Mehta, lead analyst-institutional Equities, Yes Securities.

In its note, Kotak Securities said that while effective tax rate of Nifty companies on an aggregate basis was 26 per cent and will now come down to 25.17 per cent, there are only 20 Nifty companies which paid more than 30 per cent effective tax rate and accounted for 43 per cent of overall net profit in FY19. "Any company paying 33 per cent tax rate will see its earning go up by 12 per cent. Overall, we can see Nifty earnings going up by 5-6 per cent in FY20 as the effective tax rate was already lower at 26 per cent, Add the sentiment booster angle and the way this will be taken positively by FIIs and local investors, we can expect the Nifty to rally by 9-10 per cent from today's low of 10,700," said the Kotak Report.

While foreign portfolio investors (FPIs) have pulled out Rs 34,800 crore from Indian equities since July, experts say that with earnings set to rise for companies, FPIs may make a comeback.

Finance Minister Nirmala Sitharaman at a press conference ahead of the 37th GST Council meeting, with MoS Finance Anurag Thakur and Revenue Secretary Ajay Bhushan Pandey, in Panaji on Friday. *PTI*

EXPLAINED

Corporate bottomline may rise, but impact could vary

THE BIG reduction in corporate taxes across the spectrum for all companies is perhaps the boldest reform in the last 28 years. This is expected to boost corporate bottomline, facilitate a reduction in product prices and push up demand in the economy. However, the benefits of the Centre's decision are not uniform across the corporate sector as firms pay taxes based on various parameters.

Overall, with new effective rate of 25.17 per cent corporate tax, firms could save as much as Rs 40,000-50,000 crore, which is a substantial boon for the corporates waiting for business revival in a stressed environment.

Lower taxes likely to revive investment, but govt may find managing fiscal deficit tougher

SUNNY VERMA & AANCHAL MAGAZINE
NEW DELHI, SEPTEMBER 20

THE RS 1.45 lakh crore worth of yearly stimulus in the form of tax cuts could make the government's task of managing fiscal deficit reduction target more challenging. While the Centre is hoping that the investment and economic revival resulting from competitive tax rates could yield higher revenues in the medium term, the government will face fiscal pressures in the near term despite a record dividend transfer from the Reserve Bank of India (RBI), analysts said.

When asked about the impact of the measures on the fiscal deficit, Finance Minister Nirmala Sitharaman said the government is conscious of the impact and expects the economic buoyancy resulting from these changes to generate significant resources

"The idea is economic buoyancy will itself generate enough (resources) for better income/revenue generation. The moment tax rates are brought down, you are also expected to widen the basket. That is another reason why we will definitely be having a positive impact on revenue collections ... The new tax rates are going to draw new investments and make companies, who want to expand existing businesses, invest more," she told reporters in Goa on Friday.

One way the government could manage to keep fiscal deficit at target level of 3.3 per cent of GDP by March 2020 is through aggressive asset sales. The government is already planning to sell stakes in some companies to below 51 per cent. Sale of significant stake in companies in energy sector such as BPCL, ONGC, Coal India could generate resources enough to cover this year's shortfall in tax revenues, a senior official.

Finance Minister said the Centre and expects economic buoyancy resulting from the tax cuts to generate significant resources

"We are conscious of the impact of the tax rate cuts on the fiscal deficit. We are quite seized of all these details. We will be taking all of that on board to reconcile as to how the situation is now and how we want to take it forward. We are not oblivious of these developments," the FM said.

Bond markets reflected concerns that lower tax collections could push the deficit higher, forcing the Centre to borrow from the markets. Yield on the benchmark 10-year government bond ended higher by as much as 15 basis points to 6.79 per cent on Friday.

The fact that this will put a strain on the fiscal deficit will not be taken kindly by foreign portfolio investors (FPI), said the head of a financial services firm. Friday's investment data shows that while domestic institutional investors pumped in net of over Rs 3,000 crore in securities, FPIs' net buying was only Rs 35 crore.

HDFC Bank chief economist Abheek Barua said the tax cut could attract greater foreign investments, revive capex cycle and boost GDP growth by about 20-50 basis points. However, in the absence of any significant expenditure cuts, the fiscal deficit is estimated to rise to 4.1 per cent of GDP in 2019-20, he added.

Lower corporate tax collections, revenue shortfall on account of lower GST collections and additional outlay for recent measures announced for the real estate and export sectors could also put pressure on fiscal deficit.

"There is a possibility that with higher disinvestments, revenue expenditure roll-overs and some expenditure cuts the government could buy some fiscal space. For instance, the government has on average rolled over 30 per cent of its food subsidy bill to FCI over the last three fiscals. A similar roll-over this year could add close to 0.3 per cent of GDP in fiscal space. So, in the event of an expenditure compression or higher disinvestment proceeds, the fiscal deficit could come in between 3.7 per cent-3.9 per cent of GDP for 2019-20," Barua said.

Another cushion for the Centre is the additional Rs 58,000 crore it has received as compared to Rs 90,000 crore accounted for as surplus transfer from the RBI in the Budget 2019-20, for spending in the current fiscal. Since the RBI had already paid Rs 28,000 crore as interim dividend to the government last year, the Centre is left with Rs 1.48 lakh crore out of Rs 1.76 lakh crore for FY20.

Exemptions cost govt over ₹1 L cr revenue in FY19

NOTWITHSTANDING THE move to reduce corporate tax rate, majority of companies have seen effective tax incidence below the prescribed rate due to the several deductions and incentives

THE GOVERNMENT'S revenue forgone on account of incentives and tax exemptions to corporates grew to Rs 1,08,785 crore during 2018-19, 16 per cent higher than a year ago

THERE ARE 28 heads under which various corporates can claim tax deductions — the highest deduction being claimed under Section 32 of the Income Tax Act, or accelerated depreciation

IN FISCAL 2018-19, Rs 67,758.18 crore of revenue impact was projected on account of deductions under this head

DUE TO various deductions, in financial year 2017-18, the effective tax rates were lower than the standard 30 per cent and according to data put out by the government in the Union Budget for 2019-20, almost 80 per cent of companies in India saw effective tax incidence of 30 per cent and below

PROFILE OF COMPANIES ACROSS RANGE OF EFFECTIVE TAX RATES 2017-18

Effective Tax Rate (%)	Number of Companies	Share in total profits (%)	Share in total Income (%)	Share in total tax liability (%)
Less than zero & zero	380,006	3.18	1.57	1.43
0-20	86,936	14.41	6.5	7.77
20-25	41,118	27.16	16.84	21.76
25-30	158,190	16.26	18.49	16.38
30-33	52,822	33.39	44.62	41.75
>33	34,401	5.61	11.98	10.91
Indeterminate	88,214	0	0	0
Total	841,687	100	100	100

Source: Ministry of Finance, Note: Effective tax rate inclusive of surcharge and education cess

"Cut in corporate tax from 30 per cent to 22 per cent without exemptions has been a long standing demand of industry and is an unprecedented and bold move by the government"
VIKRAM KIRLOSKAR
CII PRESIDENT

"The slew of measures announced ... have come as a much needed gust of fresh air to resurrect and pump prime the economy"
SUNIL BHARTI MITTAL
CHAIRMAN, BHARTI ENTERPRISES

"Lowering of income tax on corporates is a long-standing FICCI request ... will give boost to the animal spirits"
SANDIP SOMANY
FICCI PRESIDENT

"The reduction of corporate tax to 15 per cent for new companies making fresh investments from October 1, 2019 will support investment and also FDI in the auto sector"
RAJAN WADHERA
PRESIDENT, SIAM

"Such a rate cut will boost corporate bottomline, facilitate a reduction in product prices"
RAJNISH KUMAR
CHAIRMAN, STATE BANK OF INDIA

"Heartiest congratulations to @narendramodi & @nsitharaman for the bold measures announced"
RAJIV KUMAR
VICE-CHAIRMAN, NITI AAYOG

Sensex posts biggest single day jump in over a decade with 1,921-point surge

ENS ECONOMIC BUREAU
MUMBAI, SEPTEMBER 20

STOCK MARKET bulls on Friday roared back into action with the Sensex posting its biggest single-day jump in over 10 years at 1,921 points, after the government announced a surprise cut in corporate tax rates to revive the sagging economy.

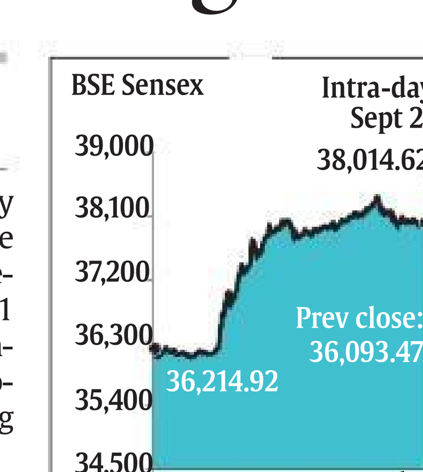
Soon after Finance Minister Nirmala Sitharaman slashed the base corporate tax for existing companies to 22 per cent from 30 per cent and for new manufacturing firms — incorporated after October 1, 2019 — to 15 per cent from 25 per cent, investors, who were increasingly getting worried over the slowdown in the economy, cheered the announcements and came back with a bang with big purchase orders and covered their short positions. The 30-share BSE Sensex soared 2,284.55 points to a peak of 38,378.02 intra-day, before closing 1,921.15 points, or 5.32 per cent, higher at 38,014.62. Similarly, the broader NSE Nifty Index vaulted 569.40 points or 5.32 per cent to end at 11,274.20.

Friday's big rally in the Sensex came after the index lost around 3,800 points from 39,908 after the presentation of the Union Budget on July 5, amid worries over the deepening slowdown in the economy. With Friday's gain, the Sensex has regained half of the losses suffered after the Budget. The Sensex had fallen around 1,300 points this week alone till Thursday, with the drone attacks on Saudi Arabian oil installations pulling down Sensex by over 900 points on Monday and Tuesday.

Hero MotoCorp, Maruti, IndusInd Bank, Bajaj Finance, SBI, M&M, HDFC Bank, HUL and L&T rose up to 12.52 per cent. However, PowerGrid, Infosys, TCS, NTPC and Tech Mahindra lost up to 2.39 per cent.

Investor wealth zoomed by a whopping Rs 6.82 lakh crore in a single day to Rs 1.45 lakh crore, even as sectoral indices like auto, bankex, capital goods, consumer durables, finance, energy, oil and gas, metal and telecom indices rallied by up to 9.85 per cent. Only IT and teck closed in the red, losing up to 1.09 per cent.

The broader BSE midcap and smallcap indices followed the benchmarks, rising up to 6.28 per cent. With investors rushing back to cover short positions and making fresh purchases, cash market equity turnover nearly tripled to nearly Rs 90,000 crore, while derivatives turnover also rose to about Rs 2.4 lakh crore.



Dhiraj Relli, MD-CEO, HDFC Securities, said, "The stock markets registered the highest one-day gain in a decade. The government has chosen to give reliefs via corporate taxes. For listed corporates, the reliefs will mean 10 per cent increase in EPS for most high tax paying corporates leading to similar rise in indices."

He added, "The shortfall in tax revenues will take time to be offset by the higher tax revenues gained on higher consumption/investment by capex. In the meantime, the fiscal situation could see some stress which the credit rating agencies may monitor closely.

This could have an impact on interest rates unless the compensating liquidity from FPIs and FDI is large enough. Withdrawing tax on buyback of shares by companies announced before July 5, 2019 restores confidence in fair dealing by the government. Exempting enhanced surcharge on capital gains derived from transactions subject to STT will also be welcomed by the domestic and foreign investors."

According to Vinod Nair, head of research, Geojit Financial Services, the new corporate tax reforms by the Centre is music to investors' ears and will help to revive economic outlook in the coming quarters.

"FPIs now have a good reason to come back to India and this progressive step will stimulate consumption and ignite capex cycle. Additionally, companies will get more elbow room to pass on benefits to customers, which in turn will improve earnings visibility," he added.

Will augur extremely well for economy: Das on corporate tax cut

ENS ECONOMIC BUREAU
MUMBAI, SEPTEMBER 20

RESERVE BANK Governor Shaktikanta Das Friday said the reduction in corporate tax is a bold measure, which will be highly positive for the economy. "These are definitely bold and welcome measures. It will augur extremely well and will be highly positive for our economy," Das said at an event organised by *India Today*.

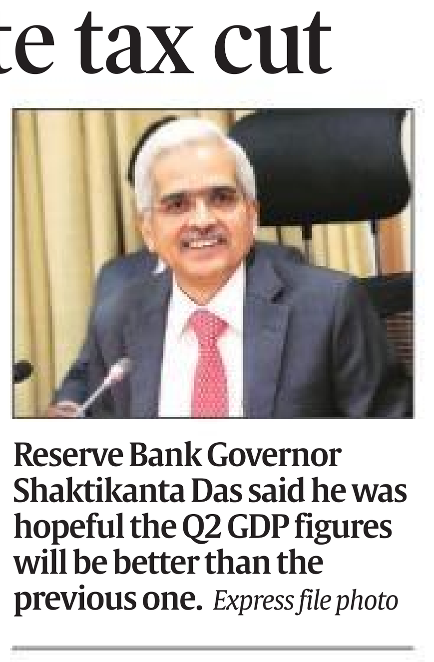
He said one of the major drawbacks that "we had was high corporate tax rates and today's drastic cut in the same will take the country closer to rates that prevail in emerging economies such as Thailand, and the Philippines".

Das was hopeful that the second-quarter GDP numbers will be better than the previous one, as the government has started spending again. Attributing the 5 per cent GDP growth in Q1 to very low government spending, he said with the Centre opening its coffers again, growth should pick up going forward. He said future rate cuts will depend on the incoming data, but warned that India cannot have lower interest rates like in advanced economies.

"How much more we can 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," Das added.

He said that most advanced economies are having near zero inflation and therefore their rates are also low. "But our inflation target is 4 per cent, and therefore, that should be the guiding force."

Das said as the full-service central bank, the RBI doesn't have a specific view on what should be the real interest rates. The governor also said RBI started noticing signs of slowdown in the economy from February and blamed the lowest growth rate in six years in the June quarter at 5 per cent to the lower government spending.



Reserve Bank Governor Shaktikanta Das said he was hopeful the Q2 GDP figures will be better than the previous one. *Express file photo*

Bond market frets amid concerns over higher borrowing, yields soar

GEORGE MATHEW
MUMBAI, SEPTEMBER 20

AFTER THE government announced a surprise cut in corporate tax rates to revive the sagging economy, the bond market on Friday went into a tizzy with the prices falling and yields rising sharply, amid concerns over the possibility of higher borrowings and the government's ability to balance its books and meet fiscal targets.

The yield on benchmark 10-year bond rose by 15 basis points (bps) to 6.79 per cent. Corporate bonds across the curve saw similar moves, with analysts now expecting only a smaller rate cut by the Reserve Bank in the October policy.

With the debt market expecting higher borrowing by the government this fiscal, the 10-year bond yield rose by 20 bps intra-day.

"We expect the 10-year yield to trade in the range of 6.7-6.9 per cent in the near term. Higher borrowing pressures and risks related to a spike in oil prices are likely to somewhat offset the impact of a rate cut by the RBI in October. Moreover, 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. We expect a 15-25 bps cut by the RBI in October," said Abheek Barua, chief economist, HDFC Bank.

On Thursday, RBI Governor Shaktikanta Das hinted that there could be more reduction in the policy rate in the near future, in the wake of lower inflation and the deepening slowdown in the economy.

"There's a room for more rate cuts especially when growth has slowed down," he had said. However, there could be some support for yields as well. Given the increase in expected borrowings, the likelihood of a sovereign bond issuance has increased. An announcement on this front, could somewhat temper the pressure on yields, Barua said.

Analysts said policy action from the government and the RBI up until now has been in response to weak economic factors both on the global and domestic sides as well as weak consumer sentiment.

"The liquidity squeeze further exasperated this situation. Today's announcement by the government is clearly countercyclical in nature and we believe this is a long term positive for the Indian economy," said R Sivakumar, head of fixed income, Axis Mutual Fund.

He said the bond market selloff today is a knee-jerk reaction to the implications of revenue loss arising out of tax reductions. Market participants will now look to the upcoming monetary policy on how the government and the RBI manage the national balance-sheet.

"On the rates front, the jump in yields on the benchmark 10-year bond to an intra-day high of 6.876 is still materially lower than the 8 per cent levels we saw in September 2018. Actively managed short-term AAA strategies currently offer attractive investment opportunities as spreads continue to remain elevated. One-to-three year corporate bonds continue to trade at 200 plus basis points above operative rates," Sivakumar said.

Meanwhile, the rupee gained by 40 paise to close at 70.94 against the dollar, following the rally in equity markets. Traders expect a rise in capital outflows and a pick-up in investments and growth in the economy to strengthen the currency.

While higher equity and foreign direct investment (FDI) flows driven by Friday's announcement are likely to be positive for the rupee, concerns over the fiscal situation and risks related to oil could put a floor to the USD/rupee pair, said an analyst.

YIELD ON BENCHMARK 10-YR BOND AT 6.79%

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- Meanwhile, the rupee gained by 40 paise to close at 70.94 against the dollar, following the rally in equity markets. Traders expect a pick-up in investments and growth in the economy to strengthen the currency