Popular budget amidst attempt to fuel growth and infrastructure

Mumbai, 01 February 2018: Contrary to the expected populist budget, this year budget provides impetus to growth and is a good balancing act of driving growth agenda and keeping some popular measures for the masses. A strong emphasis has been given for uplift of Rural Sector, Healthcare, Education & Infrastructure to accelerate economic growth. The budget is credit positive for business environment especially for the MSME sector, one of the largest job generators in the country.

Infrastructure development has been one of the focus areas and towards this direction the following were announced:

1. A capital expenditure allocation of Rs 1.48 lakh crore for the Railways with the focus on modernisation and these include redevelopment of 600 major railway stations, Railways Stations with more than 25,000 footfalls would have escalators, CCTVs, Wi-Fi facilities, etc. The policy also includes doubling 18,000 km of railway-lines and 5000 kms gauge conversion to eliminate capacity constraints.

2. The capacity of all 124 airports that function under the Airports Authority of India will be expanded and the regional air connectivity scheme shall be expanded to connect 56 unserved airports and 31 unserved helipads.

3. The proposed investment of Rs. 5.35 Lakh crores in Bharat Mala project, monetising road assets through toll operate transfer (TOT) and INVITS will provide a much-required boost to the connectivity in the country.

4. The government will also create infrastructure for seaplanes to boost connectivity.

The world's largest government's funded healthcare program - National Healthcare Protection Scheme (NHPS) announced by the Finance Minister, with approximately 500 million beneficiaries, an insurance scheme of up to Rs 5 lakh per family per year for secondary and tertiary care hospitalization is a welcome move not just to maintain a healthy India but this would also create several lakhs of new jobs in the country as new healthcare facilities will come up in smaller districts and villages.

The companies with a turnover upto Rs.250 crores would enjoy the concessional rate of income tax at 25%. This move will benefit 99% of the MSMEs that file tax returns and the surplus could help them to use it for creating more jobs. In addition, allocation was made for credit support to MSMEs. The government will also announce measures to address the issues of non-performing assets (NPAs) and stressed accounts of MSMEs.

The decision to levy Long Term Capital Gain Tax (LTCG) on equity at the rate of 10% is an expected move by the Finance Ministry to bridge the fiscal deficit. The fact that gains made up to 31st January 2018 will be grandfathered has come as a great relief. However, the gap between LTCG (10%) & STCG (15%) is narrowed and hence the incentive to hold for the long-term is removed and as a result, one could expect more volatility in the market place.

The slippage in the fiscal deficit target for FY18 to 3.5 per cent from 3.2 per cent is nominal considering various reforms that were introduced by the government. For FY19, the fiscal deficit target of 3.3% again should not be seen as a significant deviation from the previous stated fiscal objectives. However, there could be risk arising from either higher-than-expected spending or lower-than-expected revenues.

The initiative to mandate SEBI to direct large corporates to use bond markets to finance one-fourth of their funding requirements is aimed at deepening the bond market and it would reduce the systemic risk of these corporates excessively depending on bank loans. The present threshold limit of AA rating category for investment by institutional investors has been relaxed to A rating category and this should help to wider participation from Insurance companies, Mutual Funds, Provident Funds & Pension Funds.