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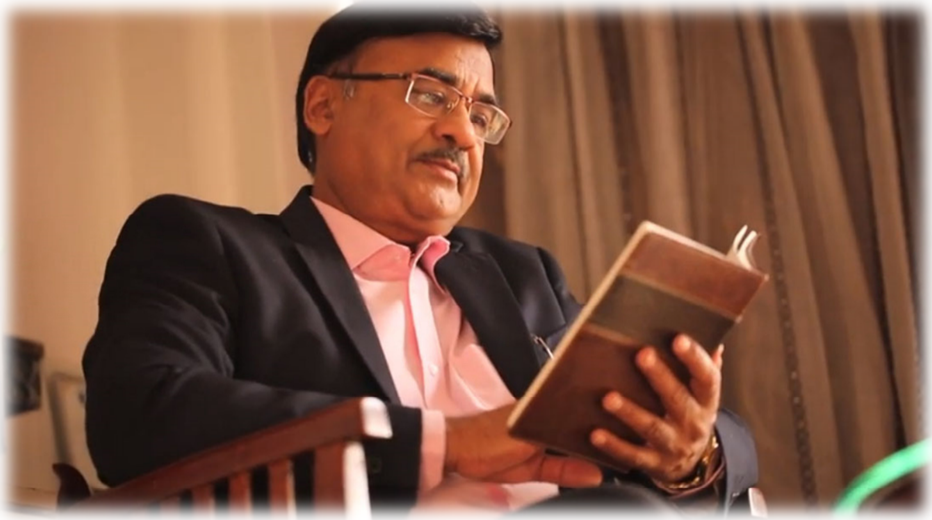

**Dr. Ashok Ajmera (FCA), CMD & CEO**

Dr. Ashok Ajmera's column as on July 06, 2019

**Investors disappointed with certain provisions of Union Budget 2019-20; domestic bourses end in red..**

On Friday, domestic bourses plunged on Friday as Union Budget for 2019-20 failed to cheers investors with certain provisions. Even though the markets opened higher with the benchmark S&P BSE Sensex zooming past the 40,000 mark to hit 40,032, the index fell over 500 points from the highs. The main reason for the fall can be attributed to the key development in Union Budget 2019 -20, wherein the finance minister has asked SEBI to consider to reduce maximum promoter shareholding from current level of 75% to 65%. Meaning thereby, minimum public shareholding for listed companies has to be increased from current level of 25% to 35%.

The S&P BSE Sensex closed 395 points, or 0.99 per cent, lower at 39,513 levels with the YES Bank, NTPC and Mahindra & Mahindra being the top laggards. The broader Nifty50 index tanked 136 points, or 1.14 levels, to end at 11,811 levels.

In the broader market, S&P BSE Mid-Cap ended 208 points, or 1.39 per cent, lower at 14,726 levels while the S&P BSE Small-Cap dipped 195 points, or 1.36 levels, to settle at 14,142 levels.

Sectorally, all the indices ended in the red except Nifty PSU bank and Nifty Bank index that gained after the finance minister announced that the government will pump in Rs. 70,000 crore into public sector banks (PSBs) to strengthen them and enhance their lending capacity.

Metals, realty and auto counters were the biggest losers after the Budget proposed import duty hike for auto-parts, metals and other equipment used for manufacturing capital goods. Each index slipped over 3 per cent. PSU Bank index closed 0.18 per cent higher after gaining nearly 4 per cent intra-day on government's proposal to recapitalize banks.

**Key highlights of Union Budget 2019-20**

**Vision for 2024 –** The Government's Vision is to become US$5 trillion economy driven by 'virtuous cycle' of investment with focus on infrastructure development, digital economy, MSMEs.

**Much needed recapitalization for banks:** Public Sector Banks (PSBs) proposed to be further provided Rs. 70,000 crore capital to improve advances growth. Reforms will also be undertaken to strengthen governance.

**Push for infrastructure development:** The Finance Minister has laid focus on infrastructure covering the entire gamut of roads, railways, inland waterways, housing, one power grid, gas grids and regional airports. According to the Budget proposals, the Union government will carry out a comprehensive restructuring of the national highways programme to ensure that the national highway grid of desirable length and capacity is created using a financeable model.

Bharatmala phase 2 to be launched. State road networks will be developed. The Finance Minister has talked about measures for boosting infrastructure financing. Credit Guarantee Enhancement Corporation to be set up in 2019-20.

**Relief for NBFCs:** Government will provide one time six months' partial credit guarantee to Public Sector Banks for first loss of up to 10 per cent for purchase of high-rated pooled assets of financially sound NBFCs, amounting to a total of Rupees 1-lakh crore, or Rs 1 trillion, during the current financial year. The Regulatory control of RBI over NBFCs to be strengthened.

**RBI to regulate HFCs:** Regulations of Housing Finance Companies (HFCs) will move from NHB to RBI. We believe this will augur well as RBI has good track record of regulating Banks and NBFCs with better resources and framework.

**FDI in key sectors:** 100% FDI to be permitted for Insurance intermediaries. The Government will examine suggestions of further opening up of FDI in aviation, media (animation, AVGC) and insurance sectors in consultation with all stakeholders. Local sourcing norms will be eased for FDI in Single Brand Retail sector.

**Suggested SEBI to mull over increase in public shareholding:** The Finance minister has asked SEBI to consider reducing maximum promoter shareholding from current level of 75% to 65%. Meaning thereby, minimum public shareholding for listed companies has to be increased from current level of 25% to 35% pushing stocks worth about Rs. 4 lakh crores in the markets.

**Strategic divestment of PSUs:** The Finance Minister also said that the government would continue with the strategic disinvestment of select Central Public Sector Enterprises (CPSEs). The strategic disinvestment of Air India would also be re-initiated. The FY20 divestment target has been hiked to Rs. 1,05,000 crore from Rs. 90,000 crore

**Lower corporate tax benefit:** Threshold for applicability of lower corporate tax rate of 25% increased from Rs. 250 crore to Rs. 400 crore.

**Faceless assessment:** A scheme of faceless electronic assessment involving no human interface to be launched this year.

**Enhancing ease of tax payers:** Aadhaar and PAN to be made interchangeable

**Taxing the superrich:** Effective tax rate for individuals having taxable income above Rs. 2 crore has been increased. The Finance Minister has proposed to increase the surcharge to 3 percent on individuals of having a taxable income from Rs. 2- 5 crores and surcharge of 7 percent for taxable income of Rs. 5-7 crores.

**Further simplification of GST Processes:** Taxpayers having annual turnover of less than Rs. 5 crore can now file quarterly returns. Fully automated GST refund module shall be implemented. An electronic invoice system is proposed that will eventually eliminate the need for a separate e-way bill

**Ajcon's view**

According to us it's one more opportunity lost by the Government to boost the economy. We are not clear as the US$ 5 trillion economy target by 2025 will be met. Instead of being a business and industry friendly, the budget has focused more on rural population schemes where also the execution remains to be seen.

At Ajcon, we believe, the need of the hour is to boost consumption in the economy, ease liquidity in the system, fasten implementation of policy measures and create an environment to boost employment in the economy and make India vibrant to attract FDI in economy. However, on a long term basis, Indian equity markets are in a structural bull run as the benefits of implementation of GST, Insolvency and Bankruptcy code, digitization and a stable government coming back to power would augur well for the economy in the long run. At present, we believe that most of the largecaps have rallied significantly. We believe there is huge value unlocking possible in beaten down quality midcaps and smallcaps. In addition, we believe investors should look at building long term portfolio in companies which have weathered the storm in different market cycles and delivered decent financial performance. The strategy at present should be invest in phased manner only in companies which have a robust business model, strong earnings and cashflow visibility, low debt, no pledge of promoter holdings and backed by quality management especially on the corporate governance front.

**Dr. Ashok Ajmera, FCA**

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