

# Wild swings of Budgets are coming to an end

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India's budget, once known for triggering wild gyrations in the nation's benchmark indexes, is increasingly losing its sway.

Greater market maturity has meant less volatility on budget day, with investors more focused on drilling down into individual sectors to pick winners and losers. Analysts expect the trend to continue when Prime Minister Narendra Modi's government presents his budget on February 29.

The budget speech is one thing, but implementation matters and how the earnings are impacted," said Sampath Reddy, chief investment officer at Bajaj Allianz Life Insurance Co, which has \$6.5 billion in assets. "That will have a bigger impact."

Some things to watch out for on Budget Day:

## Tax changes

Speculation is growing that Modi may look to tackle the difference between capital-gains tax treatment of unlisted investments and the more favorable regime for listed securities. Specifically, investors are spooked by media reports including from The Economic Times that the government will tax gains on a listed stock if it's sold within three years of purchase, instead of the one year applicable now. Reddy called it "the biggest worry from the market point of view."

Modi has also pledged tax breaks for start ups, and reports speculate he may tweak the service tax rate to be more in line with proposals for a goods-and-services tax, which is still languishing in parliament. Investors also seek clarity on the government's plan to lower the corporate tax rate and phase out tax exemptions.

Stocks to watch include: Everything across the board.

## Rural relief

Back-to-back years of poor rainfall have eroded incomes in small Indian towns and villages, home to about 70 per cent of the population. To alleviate this stress, the government is looking to divert savings from lower oil prices to boost rural demand with roads and irrigation, finance minister Arun Jaitley said on Sunday.

The thrust on infrastructure also fits within Modi's longer term goal to upgrade the nation's creaky roads and railways and provide electricity for all by 2022. A focus on food security stands to boost companies involved in logistics.

Stocks to watch include: Jain Irrigation Systems, Kalindee Rail Nirman Engineers, Titagarh Wagons.

## Infrastructure

Modi's first-full year budget focused on spending more on infrastructure and smart cities, and finance ministry officials say trend will continue. Morgan Stanley expects Jaitley to exempt infrastructure projects from the minimum alternate tax and the government could offer more tax breaks on housing.

"The government should boost the investment cycle by higher spending on infrastructure," Pankaj Murarka, head of equities at Axis Asset Management Co that has \$5 billion in assets, said by phone on Monday. The 19 per cent fall in the S&P BSE Sensex index over the past three months has made equities cheap, he said.

Stocks to watch include: Gruh Finance Ltd, Asian Paints Ltd, Sterlite Technologies Ltd.

## Budget discipline

With Modi looking to continually narrow the budget deficit, another way to identify priority areas would be to analyze which ministries have been able to implement existing allocations.

Urban poverty and skill development could see budgets cut for the year through March 2017 as they barely spent a third of allotted funds in April-December. Drinking water and sanitation and women and child development have exceeded Modi's estimates, indicating where resources may be diverted.

Stocks to watch include: Cera Sanitaryware Ltd, HSIL Ltd.

## Pay Increase

A final decision on whether to implement a proposed \$15 billion salary increase for government employees would affect a range of consumer goods companies. Modi may also exempt from tax final withdrawals from the National Pension System as he looks to boost retirement savings.

Stocks to watch include: Hindustan Unilever Ltd., Dabur Ltd., Whirlpool of India Ltd., Zee Entertainment Enterprises Ltd., PVR Ltd., Maruti Suzuki India Ltd., Tata Motors Ltd.

## Stake Sales

Jaitley has said he intends to lower the government's stake in state-run banks to around 51 percent and consider "strategic disinvestment." To achieve this, some public companies may be asked to buy back shares, while the government could also consider unloading stakes in private companies.

Jaitley will probably announce a 550 billion rupee (\$8 billion) divestment target for the year starting April 1, with at least half coming from loss-making companies, the Business Standard reported without saying where it got the information. That would be about 20 percent smaller than the goal for the current year.