

## Corporate India Tax Bonanza – A dream come True, Igniting the dreams of many!

In a surprise move, the Finance Minister announced corporate tax rate cuts, more than what was projected by her predecessor in July 2014, the NDA's first Budget. It is one of the biggest reforms that India has seen after liberalization of Indian Economy and it is likely to fuel the economic growth and meet the target set by the Government for a \$5trillion and \$10 trillion economy by 2025 and 2030.

Nifty and Sensex gained 5.32% on Friday, September the 20<sup>th</sup>, 2019, closing at 38014.62 and 11274.20, highest gains in almost a decade. Despite the baby steps of modifications and changes over the past 3 weeks, the somber to bearish mood prevailed in the market after the presentation of Union Budget on July 5<sup>th</sup>, failed to die. Added to the woes were domestic slowdown across sectors, global slowdown news flows, trade war between US-China, and of late spike in crude oil prices.

Think of it - Nifty and Sensex is higher just by around 6% from its recent lows, which reflected all negative political and economic sentiments, earnings downgrades, global negative sentiments, recent spike in oil prices and risk aversion by FIIs and many more. The tax move itself has led to revision of earnings upgrades, hence we believe that Nifty, Sensex is set for a higher trajectory and a continued rally upto 12500 and 42000 respectively is likely in the next 3-6 months.

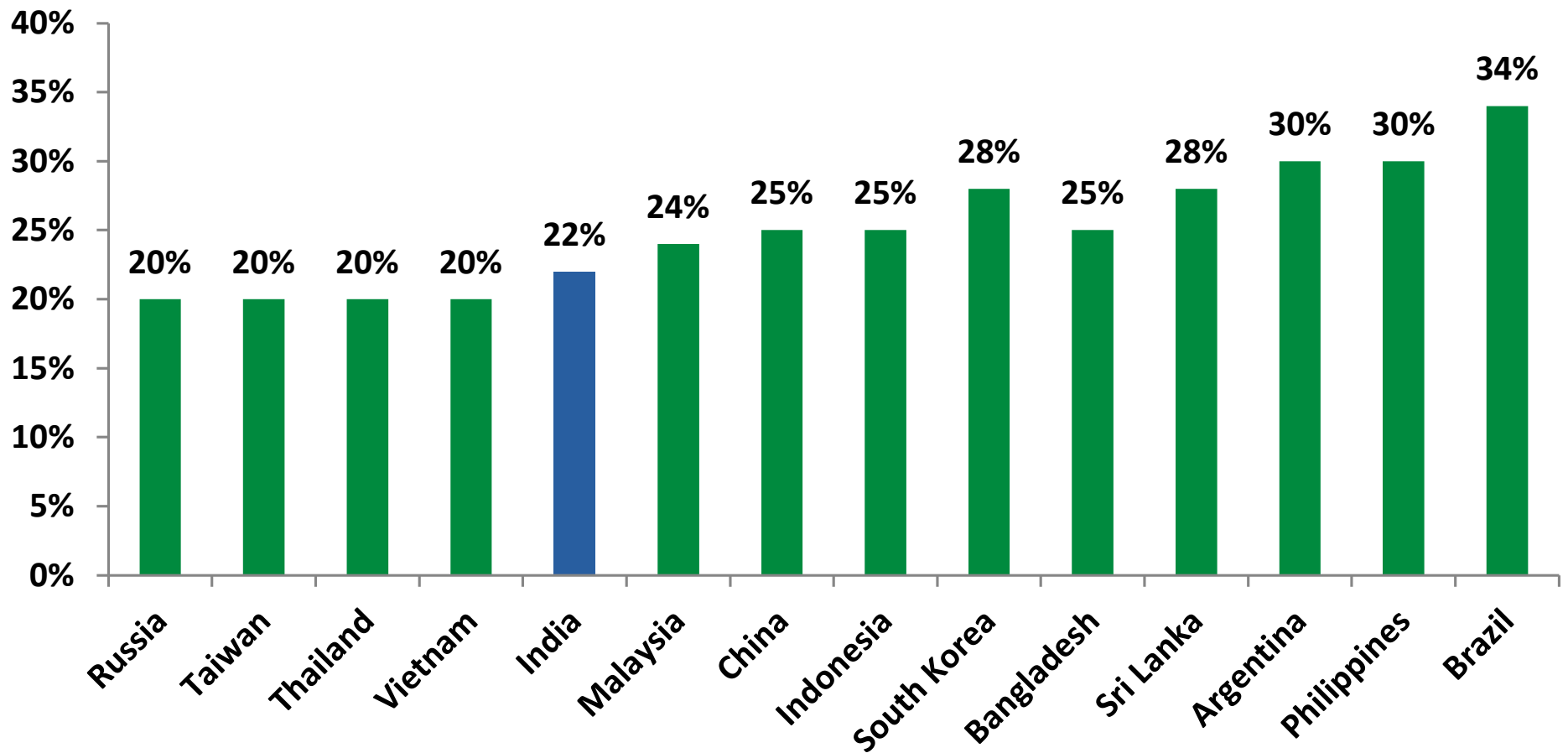
### **Key outcome of the measures announced by the Finance Minister:**

- ⇒ Upgrade of Nifty and Sensex EPS growth for FY20 to 22-25% against current estimates of 8-11%, thereby re-rating Nifty and Sensex higher
- ⇒ Reduction in corporate tax rates is likely to set the virtuous cycle of surplus with companies for investment, higher disbursement, job and demand creation and consumption
- ⇒ The FII investors are likely to change their stance on the Indian market and flows likely to increase going forward
- ⇒ Though the fiscal measure is likely to call for concern by rating agencies as India's Fiscal deficit is likely to increase by 40-50bps, factoring in excess payout from RBI, the Government is likely to take an aggressive stance on privatization of some of the PSU's. We believe BPCL's privatization may be around the corner along with some other PSU's
- ⇒ FDI investments in India is set to increase as India becomes a competitive destination for manufacturers among some Asian Peers
- ⇒ Death knell for parallel economy likely as corporate tax rates of as low as around 17% would make little sense to build illegal tax haven structures, broadening the formal economy
- ⇒ While the INR1.45 lac crores loss to Government coffers is a simple arithmetic loss which can be made good by measures of divestment through privatisation and others, the INR1.45 lac crores that remains with corporates will have a trigonometric multiplier impact on the economy

**We expect Nifty and Sensex to take support around 11200 and 37700 and to trend higher in the coming days. We believe Nifty is likely to see a conservative level of 12500 and Sensex 42000 by March 2020. Detailed sector and stock impact mentioned below.**

**Top Picks – Titan, Bata, Siemens, L&T, HDFC Bank, ICICI Banks, Engineers India, Indian Hotels, Thermax, Colgate,**

## Tax Rate in major Emerging Economies



## Highlights

**Thrust to 'Make-in-India' initiative:** In order to provide huge boost 'Make-in-India' initiative of the Government, domestic firms incorporated on or after October 1, 2019 that wants to make fresh investment in manufacturing will have an option to pay income tax at 15%. This benefit is available to companies which do not avail any incentive and commences their production on or before 31st March, 2023. The effective tax rate for these companies shall be 17.01% inclusive of surcharge & cess. Also, such companies shall not be required to pay Minimum Alternate Tax (MAT).

**Tax SOPs for domestic companies:** Existing domestic companies will have an option to pay income tax at the rate of 22% subject to condition that they will not avail any exemption/incentive. The effective tax rate for these companies shall be 25.17% inclusive of surcharge & cess. Also, such companies shall not be required to pay MAT.

**Downward revision of MAT Rate:** A company which does not opt for the concessional tax regime and avails the tax exemption/incentive shall continue to pay tax at the pre-amended rate. However, these companies can opt for the concessional tax regime after expiry of their tax holiday/exemption period. After the exercise of the option Co. will be liable to pay tax at the rate of 22% and option once exercised cannot be subsequently withdrawn. Further, in order to provide relief to companies which continue to avail exemptions/incentives, the rate of MAT has been reduced from existing 18.5% to 15%.

**Removal of Surcharge on Capital gains:** Enhanced Surcharge on Capital Gains which was introduced in the last Budget has been revoked & shall not be applicable on the hands of the individuals, HUF, AOP, BOI and AJP at the time of selling Equity shares or Equity oriented funds and the enhanced surcharge shall also not apply to capital gains arising on sale of any security including derivatives, in the hands of Foreign Portfolio Investors (FPIs).

**Conditional abrogation of Tax on Share Buyback:** Listed companies that have announced buyback before July 5, 2019, tax on buyback of shares will not be charged.

**Loss to the Exchequer:** The total revenue foregone for the reduction in corporate tax rate and other relief estimated at INR145,000 crores.

**Expansion in the scope of CSR spending:** The Government has also decided to expand the scope of CSR 2% spending. Now CSR 2% fund can be spent on incubators funded by Central or State Government or any agency or Public Sector Undertaking of Central or State Government, and making contributions to public funded Universities.

## Impact

**Agricultural sector:** Government's decision to bring down corporate tax for existing companies to 25.2% is expected to augur well for leading fertilizer companies such as Chambal Fertilizer (30.95%) & Coromandel International (35.48%) as they are currently operating at full tax rate. Lower tax expense will lead to the improvement in earnings and lower working capital requirement.

**Banking:** Reduction in corporate tax rate and tax benefit provided for fresh investment in manufacturing expected to be beneficial for Banks. It is synonymous to a sizeable recapitalization of the financial system, strengthening growth capacity and loss absorbing buffer.

Banks in the higher tax bracket, such as HDFC Bank (37.77%), SBI (33.43%), Kotak Mahindra Bank (32.78%), DCB Bank (37.85%), Federal Bank (34.57%), and RBL Bank (38.83%), will gain due to the move. Most of the NBFCs and HFCs fall into higher tax bracket and would gain.

**Auto:** Currently most of the auto OEMs are paying more than 30% tax and would highly benefit from the reduced overall corporate tax rate. Reduced tax benefits for R&D in the recent past also led to increase in effective tax rates for most companies in the sector. Hence it is highly likely that Co.'s will opt for the reduced corporate tax regime and forgo tax incentive.

With lower tax expense auto OEMs will be able to offer additional discounts which is likely to drive volumes in the ensuing festive season. Considering the lower tax rate of 15% for new manufacturing units this sector may experience higher FDI inflow.

**Information Technology:** No impact as most companies currently pay tax in the range of 24-26%. Moving to the new tax regime, or continuing to avail their current SEZ benefits, will not be materially different.

## Tax rate(%) as on FY2019

Company Name	Tax Rate
BASF India Ltd.	15.70
Coromandel International Ltd.	35.48
Rallis India Ltd.	31.22
Tata Chemicals Ltd.	23.36
UPL Ltd.	26.47

Company Name	Tax Rate
HDFC Bank Ltd.	37.77
Kotak Mahindra Bank Ltd.	32.78
ICICI Bank Ltd.	64.90
State Bank Of India	33.43
Axis Bank Ltd.	43.09

Company Name	Tax Rate
Maruti Suzuki India Ltd.	28.03
Bajaj Auto Ltd.	27.53
Mahindra & Mahindra Ltd.	36.52
Hero MotoCorp Ltd.	31.90
Eicher Motors Ltd.	31.00

Company Name	Tax Rate
Tata Consultancy Services Ltd.	24.12
Infosys Ltd.	27.22
Wipro Ltd.	20.48
Tech Mahindra Ltd.	24.58
Larsen & Toubro Infotech Ltd.	24.06

**Capital Goods:** Corporate tax rate cut is designed to give thrust to the 'Make-In-India' initiative and to provide impetus to the private sector CapEx. Primarily, this move should make India-based MNCs more competitive for exports.

This is a long-term measure that would make it more attractive for existing and new businesses to invest and increase production, which, in turn, will boost demand for capital goods companies., while companies dependent on government capex could be adversely affected, as tax cuts would lead to higher shortfall in government revenues. Increased CFs in the hands of the companies will definitely ease working capital requirements.

**Cement:** Lowering of tax rate will have a meaningful impact on the cement companies who are operating at a higher tax rate like ACC, Ambuja and Heidelberg Cement and benefits likely to flow through EV due to relatively higher free CF. However, it is unlikely to start CapEx cycle as the sector is currently extremely cautious regarding capacity additions owing to demand constraints.

Due to conditional abrogation of tax on buyback, Star Cement would benefit a lot on their INR102 crore buyback. Further, STAR is enjoying tax exemption currently and will benefit out of MAT reduction from 18% to 15%.

**Consumer:** Consumer companies with the highest marginal tax rate like Nestle, Colgate, HUL, Asian Paints, Jubilant Foodworks, and Titan will benefit the most due to the reduction in corporate tax rate. While consumer companies like Bajaj Corp, Dabur, Emami with an effective tax rate of less than the proposed lower tax rate are unlikely to opt for revised income tax rate.

Reduction in tax rate would give companies space to cut prices to boost demand and apart from that companies may also opt for higher advertising expense to rev up volume growth during the upcoming festive season.

Company Name	Tax Rate
Siemens Ltd.	37.75
ABB India Ltd.	17.58
BHEL	35.32
Thermax Ltd.	47.15
Engineers India	34.62

Company Name	Tax Rate
Ultratech Cement Ltd.	20.79
Shree Cement Ltd.	19.25
Ambuja Cements Ltd.	32.23
ACC Ltd.	30.51
The Ramco Cements Ltd.	26.49

Company Name	Tax Rate
Honeywell	35.21
Voltas Ltd.	30.65
Whirlpool Of India Ltd.	35.63
Crompton Greaves Consumer	30.57
Symphony Ltd.	31.02

Company Name	Tax Rate
HUL	30.33
ITC	33.04
Dabur	23.61
Britannia	33.91
Godrej Consumer	20.05

**Metals:** Lowered corporate tax rate will be EPS accretive for most of the metal companies who are currently operating at a higher tax rate than the proposed 25% rate.

This move will be beneficial for most of the metal companies in the current situation of high leverage and increasing working capital. On the other hand, allowing new companies to pay low tax rate of 17% is likely to bring in fresh capex in the manufacturing sector, boosting metal demand.

Company Name	Tax Rate
JSW Steel Ltd.	22.08
Tata Steel Ltd.	43.25
APL Apollo Tubes Ltd.	28.56
Maharashtra Seamless Ltd.	56.01
Jindal Saw Ltd.	26.28

### Higher risk of fiscal slippage & impact on the bond market:

The above measures will lead to a Tax revenue loss of INR1.45 trillion which will put pressure to the fiscal deficit to the extent of around 40-50 bps resulting in deficit of around 3.7% since transfer of RBI excess reserves is a bit of relief on fiscal front to an extent. The above measures would also result in higher thrust to divestment and privatization.

As far as Bond market is concerned 10 year yields are expected to rise further which made an intraday high of 6.876 on Sept. 20th 2019. Hefty fiscal stimulus from the government will dissuade RBI from aggressively trimming the interest rates further after a cumulative rate cut of 110bps during this calendar year.

## GST Council Meeting Highlights:

- A uniform GST rate of 12% will be levied on woven/non-woven polyethylene bags
- GST Council cuts tax rates on job work in diamond industry to 1.5% from 5%
- In a major boost to gems and jewellery sector, the Council recommended to reduce GST on cut and polished semi-precious items to 0.25 per cent from 3 per cent now
- GST Council cuts tax on hotel room tariffs of INR1,000 to INR7,500/night to 12%; those above INR7,500 to 18%. There will be no GST on room tariffs of below INR1,000/night. This measure will increase occupancy rate resulting in higher revenue per available room (RevPAR)
- The GST on caffeinated beverages has been hiked to 28% plus an additional cess of 12% as against the current rate of 18 per cent.
- GST Council cuts tax rates for outdoor catering to 5% from 18%
- GST Council recommends lower 12% cess on 1,500 cc diesel, 1,200 cc petrol vehicles with the capacity to carry up to 13 people
- A uniform GST rate of 12% will be levied on woven/non-woven polyethylene bags
- Uniform GST rate of 12% to be levied on polypropylene bags and sacks used for packing of goods
- The Council has reduced rates for cups and plates made from leaves and hides to nil.
- The tax on almond milk has been set at 18%
- GST rate hiked on railway wagon, coaches from 5% to 12%
- Exemption from GST/IGST is being given on import of specified defence goods not being manufactured indigenously, it's being extended only up to 2024
- Supply of goods & services to FIFA & other specified persons also exempted for U17 Women's World Cup in India
- GST rate on slide fasteners has been reduced from 18% to 12%,
- Marine fuel from 18% to 5%
- 12% to 5% on wet grinders consisting of stone as a grinder,
- 5% to nil on dried tamarind.

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For queries related to compliance of the report, please contact: -

**Sudipto Datta, Compliance Officer**

**Stewart & Mackertich Wealth Management Ltd.**

Vaibhav, 4 Lee Road, Kolkata 700020, West Bengal, India.

Contact No.: +91 33 4011 5414 /91 33 6634 5414

Email Id.: [compliance@smifs.com](mailto:compliance@smifs.com) / [sudipta@smifs.com](mailto:sudipta@smifs.com)

Website: [www.smifs.com](http://www.smifs.com)