| Publication: The Economic Times | |
|---|---|
| Page no: 10 | Date: July 18, 2014 |



# Policy Clarity may Pump up Equity Play

Guest Column

**Ajay Srinivasan**
*Chief Executive*
*Fin Services, Aditya Birla Group*

The Budget for FY15 was presented against the backdrop of slow growth, stubborn inflation and concern over fiscal deficit. Hopes from the new government were high. There were expectations from different quarters for big-bang reforms, kickstarting the investment cycle, improving the ease of doing business and simply putting the country back on a path of faster, more sustainable and more inclusive growth. Bond markets moved 5-10bps before the Budget while stock markets ran up all the way to over 25,000 levels, up 1,250 points, since election results.

As the dust settles and we realise that the Budget is a statement of the government's finances, we find that in essence the government has forecast raising about ₹32,000 crore more revenues versus the Vote-on-Account presented on February 17, 2014. A bulk of this increase in revenues comes from the non-tax component. On the expenditure side, the Budget actually forecasts ₹32,000 crore of additional spend than the Vote-on-Account. Net, the fiscal deficit is roughly similar to the number in the Vote-on-Account.

What this indicates is that the government is using the augmented non-tax revenue to spend more on areas like infrastructure, agri research, tourism, urbanisation etc. Clearly, there is a focus on infrastructure and some steps to try and fund this, whether it's through the change in CRR/SLR requirements on infra-focussed borrowing or through the change in investment allowance or other measures. There is neither a big change in sources of revenue nor addressing the issue of subsidies.

From a debt market perspective, the number that was being followed was the government borrowing number and the fiscal deficit. Since this was maintained at earlier levels and there are some questions on the doability, by and large there was relief. There was no provision for tax-free bonds either, which had distorted the yields a bit in FY14. However, the change in taxation for non-equity mutual funds came as a bit of a surprise.

The mutual fund industry has spent time increasing awareness of debt funds and channelising retail savings into debt capital markets. There is a large base of retail investors with money invested in debt mutual funds. Debt mutual funds manage an aggregate of more than ₹7.5 lakh crore of assets and form the core of the mutual fund industry.

The industry has become a source of funding for various sectors of the economy like NBFCs, housing finance companies and the like. We have been looking to develop the corporate bond market in India for some time and mutual funds have been the most active in this area, accounting for almost 35-40% of trading volumes. The move in the Budget, therefore, could not only have an impact on existing investors whose FMPs might mature shortly, but will impact distributors who are recovering from the ban on entry loads and the introduction of the direct plan and finally and could impact the fledgling corporate bond market. Hopefully, this proposed change in tax will be reviewed.

The equity market was looking for confirmatory signals of growth, having already run up prior to the Budget. While the Budget might not have done anything specific to enhance this view, it did not do much to detract either. The Budget does provide a fairly clear view on the government's priorities and where one could see further focus, given more time and economic elbowroom.

As such, the equity market focus will once again be on return to the fundamentals, viz earnings growth prospects and the global environment, given the quantum of FII flows we receive. India is on a structural recovery path and with added impetus from the government policy, we should continue to see good prospects for equities.

*Views of the author are person-*