

India Strategy

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Government's big fiscal push through tax cuts - should make India competitive

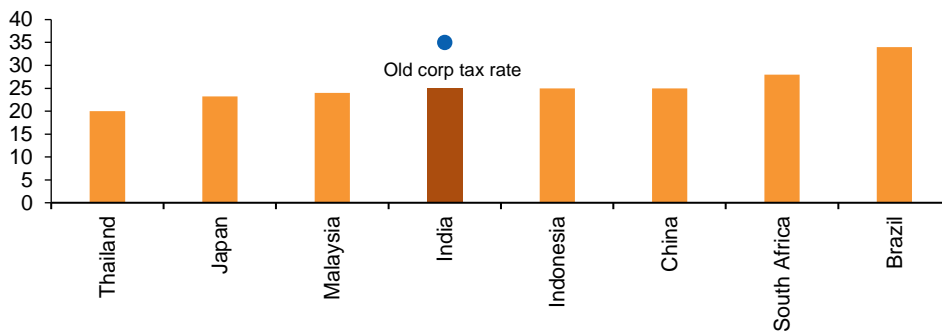
- In a surprise move, the Finance Minister announced a sharp cut in corporate tax rates in India from the regular rate of 30% (plus surcharges adding up to 35%) to 22% (plus surcharges adding up to 25.2%) for all domestic companies. In addition, for new manufacturing companies incorporating after October 01, 2019, there will be lower tax rate of 15% (17% with surcharge).
- Our first-cut analysis of the Nifty-50 stocks suggests about 20 Nifty stocks should see in excess of 10% earnings upsides due to this announcement, while the Nifty as a whole should see ~8% EPS benefit for FY21.
- The government has projected Rs1.45trn in revenue losses to come from this announcement (this is 19% of the budgeted corporate tax receipts of the government for FY20), leading to a 6% decline in corporate tax receipts yoy. Our analysis of BSE500 companies, whose tax contributions account for ~one third of all corporate tax receipts of the govt, should see a 12% drop in their tax bill on their FY19 numbers. Thus, the government math does not seem too off. This move along with excess transfers from the RBI might have an impact of 30-40bps on fiscal deficit. This gap of ~Rs0.9trn may need to be offset by either curbing expenditure, or disinvestments in excess of target of Rs1.05trn.
- The last time corporate tax rates were cut in India (FY11 budget) led to 22% corporate tax growth (surprise of 2% growth over budget expectations). However, that may not be an apt comparison as the economy was in an accelerating phase already (with FY10 exit nominal GDP growth of 25%+).
- Slashing the corporate taxes, although hits the fiscal deficit space, could attract FDI inflows (where the focus is shifting from China) and kick start the private investment cycle. This impact, unlike the cash dole outs, may not be very inflationary. This, along with accommodative monetary policy, can have a positive impact on growth. We will have detailed updates shortly.

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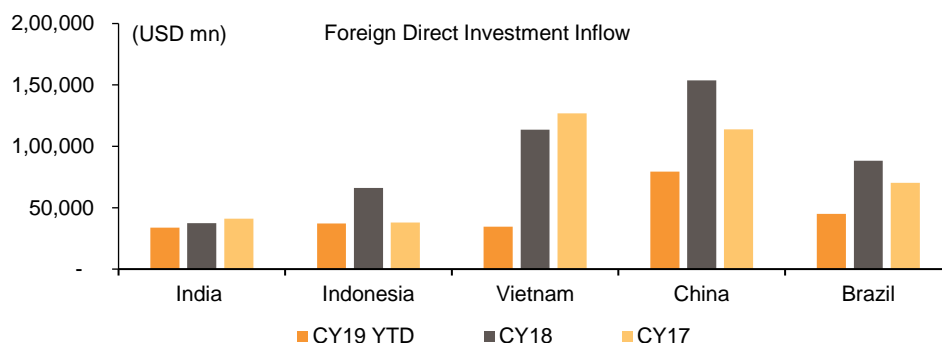
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Exhibit 1: Indian corporate tax rates now quite competitive vs. peer countries



Source: Deloitte, Emkay Research

Exhibit 2: FDI inflows to India could pick up



Source: Bloomberg, Emkay Research

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Ratings	Expected Return within the next 12-18 months.
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HOLD	Between -5% to 15%
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Completed Date: 20 Sep 2019 16:56:38 (SGT)

Dissemination Date: 20 Sep 2019 16:25:38 (SGT)

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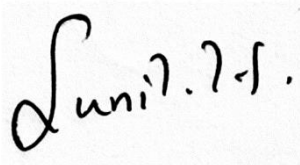
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