See no Big Bang moves in Budget; bullish on market: Damani

In an interview to moneycontrol.com, Ramesh S Damani, BSE broker says that key things the market will be eyeing are tax changes, progress of UID, fiscal consolidation and NREGA spending.

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Ramesh Damani
Member
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The Budget is unlikely to make any path breaking policy changes, feels Ramesh S Damani, BSE broker. In an interview to *moneycontrol.com*, he says that key things the market will be eyeing are tax changes, progress of UID, fiscal consolidation and NREGA spending. On the issue of a possible tax on the wealthy, Damani says that most people will not be averse to paying their fair share of taxes. On the broader market, Damani says the direction is northward than southward.

Edited excerpts of the interview:

Q: We have seen a string of disappointing economic data in the last couple of weeks. Do you think the Budget will be able to address any of that?

A: The data is kind of improving. Inflation came down, lot of policy actions have improved in the market. Market had a good rally in the last quarter, from September to December. It has been a disappointing January, its been a bit perplexing, a bit disappointing. Typically we have a pre-Budget run up which seems to be absent this time.

I don't see any major changes taking place in the Budget. What the market will be keen on is the tax policy that Chidambaram might come out with. Other than that a lot of the incremental changes have already been announced by the government over the last three months.

Q: What is your expectation? What do you think the finance minister will be able to do from a capital market perspective?

A: There are number of things, there are number of balls that he is juggling. The most important one that the market will focus on is whether he increases tax rates? Worldwide as you know there has been a trend to increase tax rates for the rich, whether it is in UK, whether it in France or whether it is in USA. The finance minister has also hinted that it is time for the rich to pay their fair share of "taxes".

There is a feeling that rates would go up. If corporate rates go up that would be perhaps disappointing for the fast moving consumer goods (FMCG) companies because they are generally at the highest tax paying brackets in India. The other thing that the market would keenly watch is whether we have a commodity tax introduced or reduction in securities transaction tax (STT). If the STT is reduced market will react very positively, if commodity tax is increased perversely it is good for the equity markets because money is flowing out of equity into commodities because it is not currently taxed.

The third thing which is a major ball which the finance minister has hinted at not sure whether it will come this year or next year, is the reintroduction estate duty. Estate duty would cover a huge swathe of people with high wealth. It had been there in India many years back. It had since been abolished but it is making its presence felt again in western countries.

So, there is a tendency that if you are above a certain wealth they will reintroduce that. Some of these measures the market would not look favourably upon. Some are just needed for fiscal deficit controls.

Q: What are your personal thoughts as far as tax on the super rich is concerned?

A: We need an equitable system in India. Nobody believes that you shouldn't pay your fair taxes and if you are rich you should definitely pay your fair taxes. What the finance minister should do which is of course very easier said than done is, ensure a fairer tax regime.

We want transparency in our audit, we want clear policy, not ambiguity, you don't go change the tax rules as you did in Vodafone after the fact. We are looking for those. I don't think anyone opposes paying their fair share of taxes, what opposes is the maladministration that sometimes goes on in tax collections.

Q: Lot of key announcements have come outside the Budget; that said, is the Budget slowly losing its relevance from a capital markets perspective?

A: It has. If you go back to the 90s, I remember all those old Budgets, that day was Christmas, Diwali rolled into one and Dalal Street was hugely volatile, huge run ups, very exciting, the entire nation was riveted on the Budget which is of course a India phenomenon. Nobody else pays much attention to the Budget anywhere in the world except in India.

Over time various Prime Ministers and various finance ministers have reduced the importance of Budget by announcing policy measures before the Budget. Here you have deregulated retail, diesel, you have opened foreign direct investment (FDI), you have done so many things that were normally done in the Budget, before the Budget. In that exercise the most important thing the market would look for and particularly foreign investors, is the fiscal deficit under control? He has promised to bring it at 5.3 percent, is he bringing it under control? What is the roadmap here and is it credible? What is the public sector undertakings (PSU) disinvestment? I don't think we are going to look for major intellectual architectural change.

The other point that people will look at very aggressively is - is this tax-and-spend Budget because this is going to be an election year. Are we going to see a very large amount of populist measures come in? Food Security Bill, increase in National Rural Employment Guarantee Act (NREGA) spend, how is the UID going to be implemented? Those are some of the issues. While it has become less important it is still an extremely important financial date in Indian calendar history.

Q: The market appear to be stalling after having a good run in November and December. What is your take on where the market is headed in the near term?

A: Suddenly it doesn’t sound so hot to say it anymore, but I used to believe sometime last year that a new bull market started in India. We never really know that until a lot of time has elapsed and this is a good example - the way the market has fallen. We are living in two different worlds. If you look at the index there has been minimal damage.

The index is within striking distance of its current highs and within kissing distance of its lifetime highs. It is just that the breadth of the market has deteriorated very sharply. The so called "B" group stocks, the cash stocks have behaved very poorly in the market, not reflecting the buoyancy in the index. Which is the cause for worry, because there is an absence of retail investors in the Indian market place; there is an absence of domestic money coming in because the domestic money is selling whereas the foreigners are buying.

While the market presents on an index level a fairly subdued view, the internals of the market are bad. Having said that this is just another tough phase of the market that we go through, the direction is northward rather than southward.

Q: Retail apathy has continued for quite some time now. What do you think could change it?

A: The trouble with Indian psyche is that lust for gold and real estate. We don’t want to look at equities, which makes no sense to me. As a country we are deeply under owning equity. In the course of this bull market this under ownership will correct and when the pendulum swings we will go from under ownership to over ownership.

What is going to propel the change? I think returns. Ultimately if the market delivers superior returns on a consistent basis people will come back to the market as they always have done.

By investing in gold and real estate right now you are perhaps investing at the top of a cycle at least in some of these asset classes. It is disappointing given the fact that capital gains are tax free, dividends are tax free in India that more people are not investing in equity. I think for whatever its worth that they are being short sighted.

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