BOMBAY CHAMBER
Leadership in Business

BOMBAY CHAMBER OF COMMERCE AND INDUSTRY

POST–BUDGET MEMORANDUM 2019-20
on
Banking, Finance & Economic Affairs

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<tr><td>1.</td><td><u>Banking & Finance</u>

<u>(NBFC)</u>

10% first loss guarantee for 6 months to PSU Banks for pools of assets of strong NBFCs.</td><td><u>Rationale:</u>

➢ The consolidated balance sheet size of the NBFCs (including HFCs) is around Rs37trn. This step could have been aimed at providing a sentiment booster for the investors – such as mutual funds – and prevent any fire sale of good assets to meet redemption pressures of mutual funds. However, this is unlikely to solve problems for the financially unsound NBFCs that are in crucial need for liquidity.

➢ Under the current scenario, it is likely that banks are likely to buy only retail pools and not wholesale pools as 10% loss provision might be low for wholesale pools. Thus the stress with wholesale assets such as for under-construction property loans could continue.

Recommendation:

➢ The government should clarify if the guarantee will be valid for 6 months – in which case it might not mean anything significant as most of the retail pools are long dated. Or is it that 6 months is the timeframe through which this window will remain open? In that case, if the need arises, the timelines can be extended.

➢ All NBFCs, even those not registered as NBFCs- Factors should be allowed to directly participate on the TReDS platform.</td></tr>
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Sr.	Subject	Comments / Recommendations
2.	**Banking & Finance** **(Sovereign Bond Markets)** To tap the global markets with USD denominated bonds.	**Rationale:** ➢ India's decision to tap the global market is a mark of great confidence in its external finances, with current account gap being at around 2.0-2.2% of GDP and with flows remaining strong. However, the timing might not be the most suitable even as the external debt to GDP ratio of the country is around 5% only. The reservations for this scheme could be as follows: ➢ The purpose of the government by trying to tap the global markets is possibly to release some supply pressure from the domestic markets. This might not turn out to be a reality as the sovereign issuance could cannibalize the FPI debt flows. We think this could be the case as the foreign exchange risk of investing by the FPIs is borne by the FPIs themselves while in a USD issuance; the exchange rate risk would be borne by the government. Given the above, pricing of the issue would be crucial. The government will have to leave the inflows unhedged or else would not be able to benefit from the lower cost. This leaves the government with the risk of higher repayments, given that one would expect the INR to depreciate over the maturity period of the loan – likely to be around 10-years. ➢ Experience indicates that countries, who have tapped this source of funds, generally face higher volatility of their domestic currency. Particularly now, even as India's domestic fundamentals may be in order, risks from the global financial markets are large and risk-off tendencies in global markets could lead to large outflows from EMs. **Recommendation:** ➢ While the government can attempt this route, care should be taken not too rely too significantly on this route even as the first few issuances are expected to be successful.

3.	**Capital Markets (non-promoter shareholders)**	**Rationale:** ➢ Promoters have invested substantial capital by buying shares of non-promoter shareholders to increase their stake up to 75%, once the govt. policy of allowing maximum promoter holding of 75% was declared. **Recommendation:** ➢ Companies which have increased their holding via purchase of non-promoter shares should be excluded from the requirement to reduce promoter holding to 65%. The reduction to 65% may be restricted to companies where promoter holding since listing has been above or equal to 75%.
4.	**Infrastructure** **(Power)**	**Rationale** ➢ While, incentives have been announced to EV buyers, Government could have considered expenditure layout for EV charging infrastructure in the same way as developing roads and bridges. The convenience of EV infrastructure will increase EV owners (private and commercial) for buying EV vehicles. Government spending on EV infrastructure will also avoid the uncertainty of utilization of infrastructure capex. ➢ Since the development of renewable is being given push, the development of peak power by way of encouraging technologies and infrastructure. This could mean some more push to poundage hydros, pump storage units, gas procurement consolidation, etc. The research in new technologies like batteries which will support growth of renewable needs incentivizing. **Recommendation:** ➢ Like EV charging, roof top solar needs incentivizing possibly in form of GST, duties, income tax, on the full value chain. Roof top solar can pave the way for batteries to come in early as batteries for

		larger solar farms may take time. This could also help EV charging supply infrastructure cost. ➢ It could be a good idea to focus on creating level playing field on supply side and leaving it to market play and concentrate on incentivizing smart Discoms and smart cities to reduce power losses. The focus also is also needed to address the subsidy required for low end consumers by way of direct subsidy by government rather than cross subsidy which is not allowing level playing field to be created. ➢ Certainly, lot has happened by way of rural electrification, renewable growth , to solve complicated issues need collaborated approach between States, Centre, all power utilities / entities and OEMs. The GDP growth is almost linked to growth of power by healthy 0.8/0.9 factor and hence power industry growth is another way of looking at GDP growth. ➢
5.	**Miscellaneous** **(Retirement Benefits)**	**Rationale:** ➢ While the taxation on super rich could be debated, one thing which has been completely missed is anyone superannuating will get accumulated benefits in one year putting him in super discharge that year although he/she may not belong to that and hence will get penalized for his earnings which are needed to support him/she when there are no sources of income. **Recommendation:** ➢ Retirement benefits could have been left out of higher taxation.

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<u>(The creation of ESG, environment social and governance)</u></td><td><u>Rationale:</u>

➢ In light of the significant threat of climate change and governance issues that are being seen in the country and the need for corporate sector especially small and mid-cap companies to materially increase their focus on being environmentally and governance conscious we suggest that the government support the creation of ESG (environment social and governance) assessment organizations created expressly for the purpose of rating companies on their ESG similar to rating agencies which do credit rating. The ratings provided by the organization will be published on the website of the company. The top thousand companies of the country should be required to do this.
➢ This will enable investors any fund set up explicitly for the purpose of investing behind companies with ESG ratings, could be subject to a tax break on the long-term capital gains to the extent of 20% of the tax payable for the first three years.

<u>Recommendation:</u>

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<u>(Domestic Savings Rate)</u></td><td><u>Rationale:</u>

➢ However, financing fiscal deficit from abroad can be a Double-edged sword especially for countries running twin deficits. This seems to be a big tactical bet on tapping cheap Foreign Capital for funding India growth story.
➢ GDP growth is crucially dependent on investment, which in the Indian case has been buttressed by domestic savings. Bulk of domestic savings is household savings.</td></tr>
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		➢ At a time when domestic savings rate is declining one would have expected some positive steps for bolstering household financial savings. Budget followed by subsequent policy measures should have considered this. **Recommendation:** ➢ So far bank deposits are concerned in order to accelerate the much needed growth; the usual income tax on it can be removed.