

Tamohara Investment Managers - Monthly Newsletter

March 2015

As an investment team we believe in the influence of long term structural changes which can have a profound impact over a period of time and change the course of action for Individuals, Corporates and Societies. In this Newsletter, we have attempted to list down some structural changes witnessed by India in last few months which make us confident that the next few years would unleash tremendous opportunities for entrepreneurship and wealth creation

An Emerging Indian Society: Young, Confident and Decisive

Social media is transformational in many aspects but its power to change the way we Communicate, Network and Convey our thoughts has unleashed a revolution in the entire world. India, with its young population has been not been left untouched. We witnessed a silent revolution driven by impact of social media which in turn will have a deep impact in the way our country is governed for next many years to come.

One of the biggest change in world's largest democracy is the emerging significance of the Power of Vote. Indian citizens understood the authority of electorate and **"TO VOTE" became the new trend and Inked Finger became a new status symbol**. As the revolution unfolded we saw voting percentages soar in election after election, The Power of democracy finally lead to a clearly decisive mandate for growth and prosperity.

Another extraordinary event unfolded in last in last couple of years was **the Rise of a Common Man to become the Chief Minister of a state** in the shortest possible time, ever seen in the history of Indian politics. **A change which was By the People, Of the People and For the People**.

We have never witnessed changes of this magnitude in the Indian political system and this clearly reflects the appetite to bring change for growth and prosperity.

Policy Environment - Good Governance, Transparency and Growth

Last week the new government announced its first full-fledged Budget and we believe that it delivered on the strategic policy direction moving towards Transparency and Good Governance to achieve long term growth targets. We believe that the government is focussed towards building strong foundation to deliver sustainable growth over a longer period of time.

We do like the **overall policy direction** and goal setting done by the government since they came into power and we think steps like replacing Planning Commission with **National Institution of Transforming India (NITI)** promoting cooperative federalism with states, **Digital India** movement to leverage on technology to connect government with the citizens, **Swachh Bharat Abhiyan, Jan Dhan Yojana** which has already delivered **125mn bank accounts**, Complete **deregulation of Diesel** Prices, and **Make in India campaign** to increase manufacturing in India and improve **Ease of doing business** are all steps in right direction. We think the **biggest game changer could be Direct Benefit Transfer (DBT)** of subsidies which is already under successful implementation with **LPG subsidy for 100mn citizens being transferred** directly in their bank accounts. We agree with the economic survey that a large part of subsidy is still being utilised by the affluent and efficient subsidy management can go a long way in structurally improving the finances of the government. The efforts focus towards Infrastructure and Investment revival is being initiated with increase in **FDI in Defence, Construction, Railways, Proposed Land Ordinance Bill and Successful Auction of Coal Mines**. The Railway ministry is also aiming to improve efficiencies, upgrade infrastructure, increase capacity utilisations and focus on customer satisfaction.

Budget 2015- A Step Forward

Budget 2015 was a step further in the same direction and had a lot of ideas which if implemented well could have a long term positive impact on Indian Economy. **We highlight few strategic ideas from the budget which we believe will be catalyst for future growth**

- **A Clear roadmap to implement GST** from 1 April 2016 – This could be a big game changer for the Indian economy
- **Focus towards Ease of Doing business and promote entrepreneurship**
 - o Quick resolution of commercial disputes- To set up separate commercial division within court
 - o Proposal to introduce **Public Contracts (Resolution of Disputes) Bill**- Step to make Government Accountable
 - o Comprehensive **Bankruptcy Code** of global standards
 - o Proposed Draft legislation to address the issue of multiple permissions before setting up a business
- **Improved tax compliance and curbing Black Money in the system**
 - o New Provision in Law to deal with Black Money stashed abroad
 - o Benami Transactions (Prohibition) Amendment Bill – A Step towards unlocking domestic black money
 - o **Prohibition of acceptance or payment Rs 20,000 or more in cash** for Purchase of immovable property and mandatory quoting of PAN for purchase or sale exceeding Rs1 lac – To curb black money transactions in Real estate
 - o **Removal of Wealth tax** – simplification and tax collection efficiency
 - o Roadmap **for simplification of corporate taxes over next 4 years** – Reduce tax rate to 25% and rationalise exemptions to reduce disputes
- **Rebuilding Confidence of Global Investors**
 - o **Deferment of GAAR by 2 years** to resolve contentious issues and to clarify that it will apply prospectively
 - o Rationalisation of MAT provision for FII investment
 - o Tax pass through and foreign investments for AIF's, REITS
 - o Modification of Permanent Establishment Norms
 - o Removal of distinction between FDI and FPI- composite cap
- **Revival of investment cycle and ease of financing**
 - o **PPP to be revitalised** with more onus on Government
 - o Push for plug and play infrastructure projects – announced 5 UMPP
 - o **Setting up of Public Debt Management Agency to develop Bond Market** in India and bring India's external and domestic debt under one roof
- Merger of FMC with SEBI to promote a robust commodities market
- Gold Monetisation and Sovereign Gold Bond
- **Autonomous Bank Board Bureau**- To improve the governance of public sector bank, a step towards establishing holding and investment company for banks

As we move ahead, we do understand that successful execution of the ideas and strategies will determine success, however we believe that tailwinds due to fall in global commodity prices, benign inflation and falling interest rates, coupled with clear policy direction and a strong government, will act as catalysts in India's growth for many years to come

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