

# Dalal Street, March 7-20, 2016

Cover Story

Decoding Budget

“ See the markets going up six months from now as the budget did not dampen the spirit ”



He was the most controversial director of the continent's most prestigious business school. He was the man who had taken head-on two heavyweight HRD ministers but he never lost the battle. **Former Director of IIMA, Member of Committee on Pricing and Taxation of Petroleum Products** and now **Director General of International Management Institute, Dr Bakul Dholakia** explains union budget in the simplest manner while interacting with **Poonam Singh**. Excerpts:

**The union budget looks more farmers' friendly than it being industry-friendly. What's your take?**

The reason is, we are in this year which is the third consecutive year when particularly last two years the monsoon have not been good and there has been lot of stress on farm sector, everybody talks about slowdown and not utilising capacity and banks having stressed loans and all that. Now who is bothered about the fact that the farm sector is stressed, that the farmers are stressed and therefore there can be financial problem for the farmers. All this is because of inadequate monsoon and our inability to create capability for farming in conditions when the weather and monsoon does not become good, fortunately for us monsoon does not been a disaster, I mean, it has not been 25% shortfall and so on but 12 to 13% shortfall in rain for two consecutive years has created major problem of capacity utilisation in Indian agriculture. Now that is a reason why that is leading to farmers' suicide and lot of depression in farm sector. Now somebody has to adapt, independently of the budget. Prime Minister talked about launching second green revolution in Indian agriculture, now whatever has been done is in the contrast of creating enabling conditions to implement another Green Revolution. You need to first create a platform, so everything that has been done is from that particular angle. The FM has spread this out very clearly

that there are lot of many problems that economy is waiting and I have very limited fiscal space to I have to prior that. As a priority they have said that the farm sector and the social sector and infrastructure are the three priorities. That means taking care of farmers, taking care of the poor and economically vulnerable and taking care of infrastructure. Means with infrastructure focus in rural areas. So these are the priorities. If explicit statement has been made by both the PM and FM, Prime Minister much before the Budget & Finance Minister in the Budget itself that are temporarily focusing on these sectors as for as 2016-17 concern, so it's not a matter of surprise. Like an earlier budget it doesn't mean nothing was there for agriculture but much focus was on non-agricultural sector. Now in this budget there is a greater focus on rural sector and social infrastructure but FM and any government has a right to decide what the priorities are.

**FM talked about infusing 25000 crore funds for the health of ailing PSU banks. Do you think this much of amount is enough?**

No, I don't think so but the question is not the adequacy of amount you said. If you read carefully between the lines of budget and subsequently after the budget what Jayant Sinha said, in terms of approach, I think it is

absolutely clear that currently there are 27 public sector banks and over the next five years we do not see a scenario there would be 27, which means why these board has been created, bank board which is headed by Vinod Rai. Now one of the things for that is consolidation and restructuring of Indian banks. Now all the banks are not equally stressed. There are banks which have very decent profit, their profits have fallen but they are making good profits and there are other banks where NPAs have been so large that their profits have been converted into losses. Now no country in the earth would have 27 banks in public sector where government itself is the owner. So this budget has signalled consolidation, mergers and restructuring of public sector banks. This is absolutely clearly mentioned in budget speech and probably it might have been missed. Therefore when a healthy bank takes over a weak bank, some amount of stressed assets absorption happens because of the consolidation of balance sheets. So ₹25000 crore is the provision made this year, now if suppose, the 4th quarter results turn out to be worse then what is expected and if consolidation and restructuring does not progress at the right pace, then the same para says, if required we will put more money and will found more resource for that. The healthy banks can raise resources from the market also. The government doesn't have to

provide and the mergers and consolidation can bring it synergy. So therefore, this is to be viewed as one step in the process of cleaning of the Indian public sector banking space.

**Also how much important you think the Bankruptcy Bill will be once it's passed? Also can you tell our readers about the role of newly created Bank Board headed by Vinod Rai?**

Bankruptcy Bill will be a historic event indeed. It will transform Indian banking sectors as well as Indian industrial sector. Because our problem is we have opened up the entry by delicensing, deregulation and everything but we have not provided for a policy for corporate closure and smooth exit, everywhere in the advanced countries the markets are efficient because while there is free entry there is free exit. Enterprises close down in the western countries every day. There are failed adventures we just shut down but all that is facilitated because there are clearly laid down policies for corporate closure and proper bankruptcy bill and now if that happens when the stressed assets have to be revalued and absorbed in the system. This is what happens all the time, now the Bankruptcy Bill without a proper Bank Board will be difficult to enforce in the Indian public sector banking space for the single reason that there can be allegations that default was willful like it has been happened in Mallya's case and there can be allegations for corruption for Board and stock management of banks that you preted away the resources now that is the reason why you require effective banking systems and Vinod Rai has a reputation for highest level of being a person with integrity.

**The FM stressed on funds allocation for skill development. India still lags when it comes to skill development activities. You have headed premier B-schools like IIMA and Adani Institute of Infrastructure Management previously. What else should be done by the government towards skilling?**

Lets put it his way, when you talk about skill development then that has to be a priority area something which has to be recognized. You can't over-stress this point. Now the issue is everybody in this country cannot become

Master's degree holder, everybody does not need to be a PhD because the labour force and the man power requirement is at different levels from unskilled to semiskilled to skilled and within skills there are lot of gradations. So there are whole hierarchies and structure of manpower that we require. Now the problem is that even in our education system, there are lot of people who drop out at the 10th board level, 12th board level, there are college dropouts. All of them are young, all of them have energies, capabilities but those capabilities are not properly channelised. Now why there is rush for certain selection procedure because outside that you not get decent income earning opportunity. Now the vocational education and skilled development is only answer of these questions. Training potential and capacity of skill development and vocational education in India is so large that it can be almost 4-5 times of the capacity of a university. I mean that is the kind of level, scale that is required but the problem is you need to first identify what are the skills that you want to develop, create the manpower that has been there with all to give the training. Same problem in terms of faculty, higher education system faces and then same problem the vocational education and skill missions are also going to face where is the manpower to do this. For this we have to design a strategy that builds volumes and ensure the efficiency of skill, training methods in partnership of the industries which are very very important. Therefore, the practitioners can be wonderful trainers as far as such skill development efforts are concerned. What has been done in the budget is simply like taking initial steps.

**How do you see the Indian stock markets to react on post-budget era?**

I think the Indian stock markets right now are quiet confused. There is no clarity about what and stock market always reacts to the short term aspects. Let's understand, 80% of the volumes in the stock markets are not based on cash, those are like in futures, not usual deliveries of stocks. Now when you impose the transaction tax on the futures has been increased three times. It was 0.017 which has been made into 0.05, that means almost three times. Now the margins there are small and the tax becomes an important element of the margin. So the trading

volumes will get affected by this and once the trading volume gets affected, the market gets negative sentiments. Secondly, markets are driven by large institutional investors, large domestic funds and large retail investors, HNIs. Now when you say that you will put an additional 10% tax on dividends above ₹10 lakhs, it is also something which is going to dampen the spirit but what we must understand is that the positive hour are the long term capital gains that one-year limit has been retained which means that whatever profits you have made holding the investments for one year, is completely tax-free. There is nothing which has been done to that. You must also understand that the increase in service tax has been postponed to the time when GST comes in. So GST when it happens, service tax rate will definitely become 16 to 17%, there is no doubt about that. So therefore the industrial sector is going to suffer less in terms of additional taxation. Now corporate tax rate-everybody was expecting that across the board there would be 1% deduction. That has not happened. So some of the things that the market was expecting have not happened. That is the reason why the sentiment is negative. But I personally believe that the negative sentiment is as much the impact of global factor as it is of the domestic factor. Last few sessions the global markets are falling and see, global markets are not influenced by the Indian markets. Therefore, there is an impact of the global markets as well on the Indian stock markets. Secondly, the markets have not understood fully the actions that have been taken for the banking sector. Therefore, the turnaround of the banks will now happen sooner than expected, the situation for these banks before the budget and now, is completely different. So, if you take a three to four months' prospective of the markets, then the markets will be driven more by the results and the global scenario. But, if you look at the long term picture of the markets, scenario beyond six months, there is nothing in this budget that may depress the sentiment of the stock markets in India. In my view, six months or more, down the line, the markets will actually have an uptrend rather than a downtrend because of this particular step. There is nothing so overwhelmingly negative in the budget that can depress the sentiments of the markets.