Print This Pa

'Recommend investors to follow 6-month staggered approach towards equity market investments'

Devang Kakkad

The Interim Budget was overall a balanced and a positiveÂ one. Given the back drop of general elections, Budget does adopt a pro-people stance on the expected lines. Budget is particularly pro-farmer and pro-middle class. Interim Finance Minister attempted to cover all segments of society with announcements of schemes/tax sops for farmers, middle class and unorganised sector workers.

Farmers: Taking into consideration the farm distress, Budget announcement of direct income support of Rs 6,000/year for small and marginalised farmers with up to 2 hectares of farm land is positive. Budget also provides for interest subvention schemes for farmers for regular loan repayments. Budget announcements are expected to alleviate the distress and provide impetus to rural economy.

Middle class: Given the large and burgeoning middle class, Budget provides slew of tax sops: a) Full tax rebate for Individuals with net taxable income upto 5 Lakhs, b) Hike in standard deduction limit from Rs 40,000 to Rs 50,000 for salaried employees, c) For working professionals, the tax-free gratuity limit has been raised from Rs 10 lakh to Rs 20 lakh and d) Proposed hike in TDS threshold on interest earned on the deposits with banks and post office from Rs 10,000 to Rs 40,000. In case of senior citizens, the limit has been increased to Rs 50,000.

The proposed hike will cover interest earned on savings deposits, fixed deposits, as well as other deposit schemes in banks and post offices. All these measures will ensure increased savings and eventually increased spending.

Unorganised sector workers: Budget proposes social security coverage for workers in unorganised sector with launch of assured pension scheme of Rs 3,000/ month. This positive measure will benefit large number of unorganized workers and marginal wage earners in organized sector. Being contributory and on similar lines as National Pension Scheme, said scheme will encourage savings.

Macro-economic parameters: Government announced revised fiscal deficit of 3.4% for FYâ€™19 (against 3.3%) and 3.4% for FYâ€™20 against (3.1%) accounting for new schemes. Despite minor slippage, finance minister reiterated governmentâ€™s commitment to adhere to fiscal glide path of 3% by 2021. Government also intends to contain the current account deficit at 2.5%.

Budget implication for Investors: Budget announcements on whole provide major impetus for discretionary consumption for both rural and urban class. India being largely a consumption driven economy, this stimulus is positive and expected to further economic growth. There is no tax announcement which impact any of the asset classes or your investing decisions.

Equity markets overview: With Budget uncertainty behind us, upcoming general elections & global trade war will remain key events. We recommend investors to follow a 6-month staggered approach towards equity market investments.

Budget is sentimentally positive for consumption as a sector.

Fixed income overview: Owing to higher gross borrowing estimate by the government, 10-year G-sec yield increased from 7.28% to approx. 7.37% on February 1. Our preference is for low duration and ultra short-term bonds to minimize interest rate risk and volatility. Maintaining high credit quality portfolio in current environment is also important.

(The author isÂ Head Research at Equirus Wealth Management.)