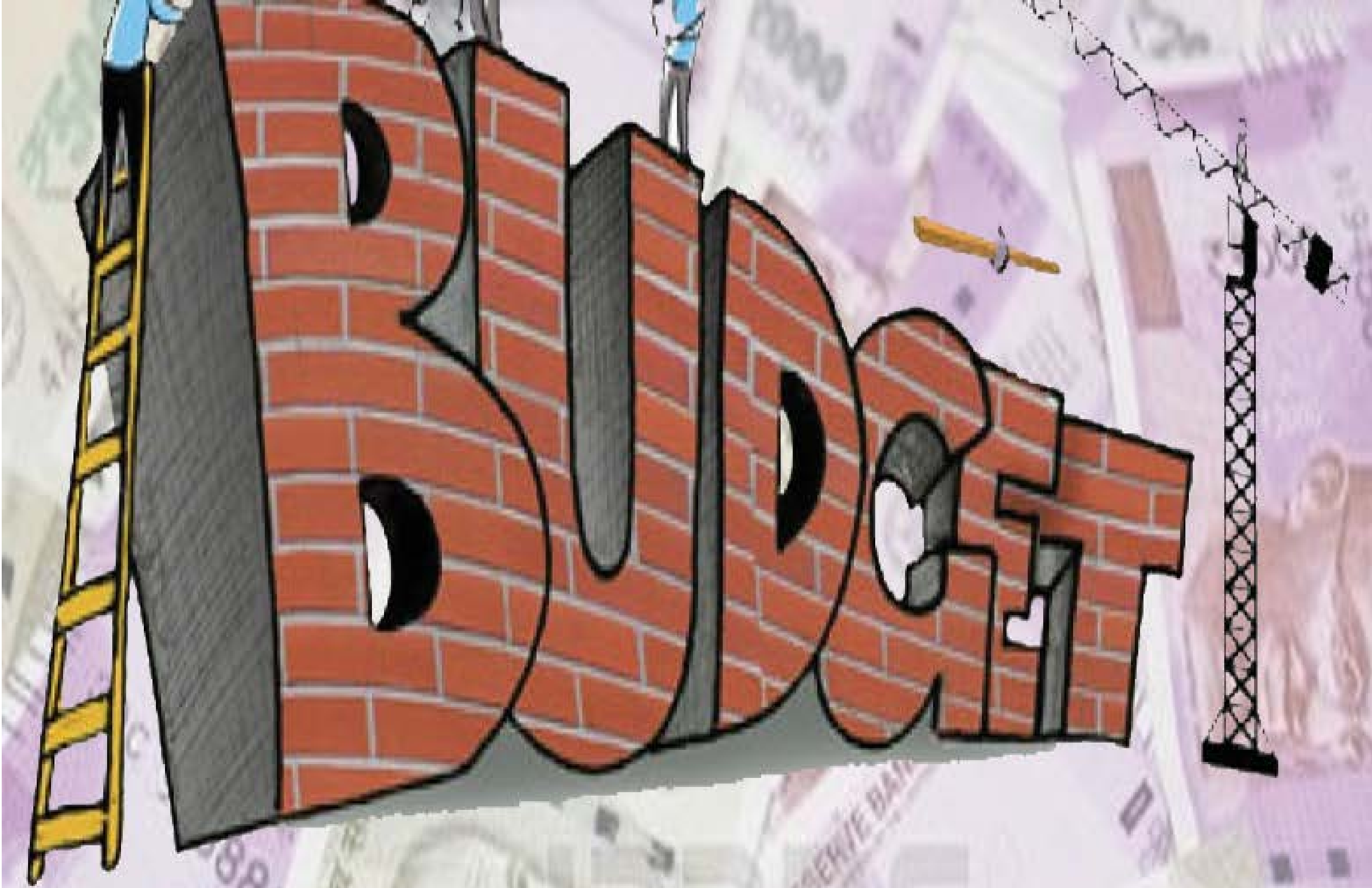


samvad

Igniting Thoughts of Tomorrow

Februray 2017

Featured article
Can Implementation of UBI (Universal Basic Income) Help Curb Poverty?

WeChat
Mr. Karan S. Pore
Manager-Group Treasury

India Infoline Finance Ltd.

S.P MANDALI'S weschool Welingkar Education

ABOUT US

OUR VISION

"To nurture thought leaders and practitioners through inventive education"

CORE VALUES

Breakthrough Thinking and Breakthrough Execution

Result Oriented, Process Driven Work Ethic

We Link and Care

Passion

"*The illiterate of this century will not be those who cannot read and write, but those who cannot learn, unlearn, and relearn.*" - Alvin Toffler

At WeSchool, we are deeply inspired by these words of this great American writer and futurist. Undoubtedly, being convinced of the need for a radical change in management education, we decided to tread the path that leads to corporate revolution.

Emerging unarticulated needs and realities need a new approach both in terms of thought as well as action. Cross disciplinary learning, discovering, scrutinizing, prototyping, learning to create and destroy-the mind's eye needs to be nurtured and differently so.

We school has chosen the 'design thinking' approach towards management education. All our efforts and manifestations as a result stem from the integration of design thinking into management education. We dream to create an environment conducive to experiential learning.

MESSAGE FROM THE DIRECTOR

Dear Readers,

Prof. Dr. Uday Salunkhe
Group Director

It gives me great pride to introduce SAMVAD's edition every month. Our SAMVAD team's efforts seem to be paying off and our readers seem to be hooked onto our magazine. At WeSchool we try to acquire as much knowledge as we can and we try and share it with everyone.

As we begin a new journey with 2017, I sincerely hope that SAMVAD will reach new heights with the unmatched enthusiasm and talent of the entire team.

Here at WeSchool, we believe in the concept of AAA: Acquire Apply and Assimilate. The knowledge that you have acquired over the last couple of months will be applied somewhere down the line. When you carry out a process repeatedly it becomes ingrained in you and eventually tends to come out effortlessly. This is when you have really assimilated all the knowledge that you have gathered.

At WeSchool, we aspire to be the best and to be unique, and we expect nothing but the extraordinary from all those who join our college. From the point of view of our magazine, we look forward to having more readers and having more contributions from our new readers.

SAMVAD is a platform to share and acquire knowledge and develop ourselves into integrative managers. It is our earnest desire to disseminate our knowledge and experience with not only WeSchool students, but also the society at large.

Wishing everyone a very happy and prosperous new year.

Prof. Dr. Uday Salunkhe,
Group Director

FROM THE EDITOR'S DESK

Dear Readers,

Welcome to the February Issue of SAMVAD for the year 2017!

SAMVAD is a platform for "***Inspiring Futuristic Ideas***" and we constantly strive to provide articles that are thought provoking and that add value to your management education.

With courses pertaining to all spheres of management at WeSchool, we too aspire to represent every industry by bringing you different themes every month. We have an audacious goal of becoming the most coveted business magazine for B-school students across the country. To help this dream become a reality we invite articles from all spheres of management giving a holistic view and bridge the gap between industry veterans and students through our WeChat section.

The response to SAMVAD has been overwhelming and the support and appreciation that we have received has truly encouraged and motivated us to work towards bringing out a better magazine every month. We bring to you the February Issue of SAMVAD which revolves around the theme of "Budget".

We hope you read, share and grow with us!

Hope you have a great time reading SAMVAD!

Best Wishes,

Team SAMVAD.

"The difficulty lies not so much in developing new ideas as in escaping old ones."

John Maynard Keynes.

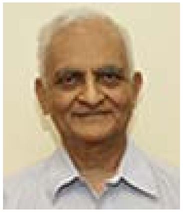
ACKNOWLEDGEMENT

Team SAMVAD would like to extend their heartfelt thanks to certain key members of the WeSchool family for their special efforts towards the making of this magazine.

We deeply appreciate the constant motivation & encouragement that our beloved **Group Director Prof. Dr. Uday Salunkhe** has always extended. His focus on the core values of Passion, We Link & Care, Result Oriented Process Driven Work Ethic and Breakthrough Thinking has formed the foundation of all the activities that we undertake as students of this esteemed institute.

We deeply appreciate the help and support given to us by;

Prof. Deepa Dixit
Associate Dean-Global Alliance
Head - Marketing Communication



Prof. V.V. Raghavan
Associate Dean- Operations

Prof. Jyoti Kulkarni
Associate Professor- Marketing

Prof. Anjali Joshi
Associate Professor- HR

Prof. Indu Mehta
Assistant Professor- Marketing

Prof. Vandana Sohoni
Associate Professor- Finance

Ms. Yashodhara Katkar
General Manager – Liaison

Ms. Shilpa Kadam
Assistant Manager
Business Development

Prof. Rutu Gujarathi
Senior Manager- Alumni Relations

Prof. Jalpa Thakker
Assistant Professor
We are indebted to her for her help and guidance in making SAMVAD a success.

Thank You

CONTENTS

WECHAT

MR. KARAN PORE

MANAGER- GROUP TREASURY, INDIA INFOLINE FINANCE LTD

Please tell us about your journey of becoming Group Treasury Manager at IIFL.

I was the Placement Secretary (MMS 2011-13) and lead coordinator for the Capital Markets batch, the long hours spent on campus and the experiences that came out of participation in variety of activities, have held me in good stead. It is only once you step into the corporate world, do you realize the value of your learning's from campus life. I was lucky to have done winter internships with Reliance Capital Ltd as well as Birla Sunlife AMC, apart from my summer internship with Citibank NA,

I was recruited as a Management Trainee by India Infoline Finance Ltd (IIFL) via campus recruitments and have come to realize that joining a company as a Management Trainee is often the most beneficial way to get a 360 degree understanding of the Business. During my time here, I have been through Business, Corporate Strategy as well as Treasury Verticals and this exposure has been invaluable in my growth as a professional, purely because of the holistic exposure to every department.

My Stints with the Business Teams helped me understand the Business at the grass root levels. I was posted in our retail branches to get a pulse on the market and even worked with the teams for roll out of various products including our Public issue of NCD. When in the corporate strategy team I worked with the CFO and was involved in variety of projects in the Chairman/M.D's office.

Today, as part of the group Treasury Team, I work extensively in the Money Market segment. I must admit that my journey thus far, has been extremely rewarding.

1.

2. How credible is the cut in the budgeted fiscal deficit at 3.2% for 2017-18 as compared to 3.9% in 2016?

The FM's target of keeping the Fiscal Deficit at about 3.2% has been lauded by the street. The hope being, that a low fiscal deficit will keep the yields low and the borrowing rates in check which should set the stage for increased consumption across sectors. However, there are certain questions that need to be asked, the first being the low fiscal deficit will depend in part, on the Govt meeting the lofty target of Rs 72,000 cr from disinvestment proceeds (previous 6 year average stands at Rs 40,000 cr). Also, expenditure slippages, for instance MNREGA attracting a higher cost due to higher unemployment in a shrinking informal sector, may upset the Govt's calculations. While the Govt's aims of keeping the fiscal deficit at 3.2% have been appreciated, it remains to be seen how these expectations will finally be met by the end of the year

The budget lacks the roadmap to resolve the banking sector asset quality and capital woes. What do you have to say about that?

Usually, the most direct way to help banks is to flush them with capital. However, as per Budget 2017, the Govt has decided to infuse Rs 10,000 cr. as compared to Rs 25,000 cr of infusion in the previous years (Indra Dhanush Yojana). However, the Govt has taken to indirect measures to help banks improve their profitability. The push for infrastructure development by committing about Rs 3.96 trillion, along with housing projects being given infra structure status, will help credit off take. The Govt has also proposed to increase the allowable provision for Non-Performing assets from 7.5% to 8.5% helping banks reduce their tax liability and improving their bottom lines. Further, the lower net borrowing by the govt in the current year i.e. Rs 3.48 trillion as compared to the Rs 4.25 trillion in the last year will prove beneficial to banks. Lower Net borrowing=>lesser pressure on the liquidity from govt borrowing=>higher chances of Rate Softening=>improved Chances of Credit Growth for Banks.

Another positive step for the banks in terms of addressing the NPA's, is the government's decision to allowing Asset Reconstruction companies (ARCs) to list the security receipts they issue against the bad loans, on the exchanges. This move will improve the capital flows into the ARC industry and help deal with Bank NPAs.

The government, in my opinion, has placed its hopes on the consumption story to help revive the economy and has taken steps to encourage the same.

How would the budgeted fiscal deficit of 3.2% affect the equity and debt market?

As discussed earlier, a lower fiscal deficit along with lower net borrowing by the govt, will result in lesser pressure on the liquidity, leading to higher chances of softening of rates and higher the chances of a Recovery cycle. Once the consumption story picks up across the various sectors, it will have a domino effect that will be reflected positively at the bourses as well.

What changes would the Rajiv Gandhi Equity Savings Scheme (RGESS) bring about to the mutual fund market?

RGESS was introduced around 2012. The scheme was introduced keeping in mind the first-time investors, who would otherwise invest in FD's/Gold etc. According to reports, since the last five years, there have been about 50,000 to 60,000 Demat accounts under the scheme, about 50% of which lie dormant. The total value of initial investments has been around Rs 150 crs in the past 5 years, which is a fraction of the AUM's of the leading fund houses. One of the primary reasons for the scheme not taking of as expected were the operational hazards faced by First time investors. Also, for instance, it was a hassle for Fund houses to correctly identify these first time investors. Schemes such as ELSS have always been prevalent and have far greater popularity. Also, RGESS provided a tax benefit of max of up to Rs 25,000 as opposed to ELSS schemes which provide for tax deduction up to Rs 1, 50,000 under section 80 cc. In my opinion, the government's proposal to withdraw the tax benefit given to first time investors under the RGESS will have, at best, a minimal impact on the mutual fund industry.

What do you think about the divestment of IRCTC, IRCON and IRFC?

The government's ambitious target of disinvestments of up to Rs 72,500 crores will rely heavily on the possible listing of IRCTC, IRCON and IRFC in FY17-18. Listing of these companies will also improve their accountabilities. IRCTC can prove to be a major market mover; such has been its popularity with customers. The move to list these entities will be welcomed with open arms by the bourses.

Lastly, what advice would you like to give to our students wanting to pursue a career in capital markets?

I think it is important to have an open mind. Do use the two years of your time wisely. Under Dr Salunkhe's leadership and guidance, the institute has always been known to offer multiple avenues for one to tap his or her potential. We should consider ourselves lucky to be a part of an institute that offers students a lot of opportunities to test the waters with the various competitions, internships, exchange programmes, to name a few. I would strongly advise you to engage in these, to find your calling. Also, it is important to have mentors. I consider myself extremely fortunate, for the guidance I received from Kanu Doshi sir and Mankekar sir. The hard work put in, whilst on campus, will definitely help you, not just in getting a placement of your choice, but also to perform to the best of your abilities, in the corporate world.

--------------------o--------------------

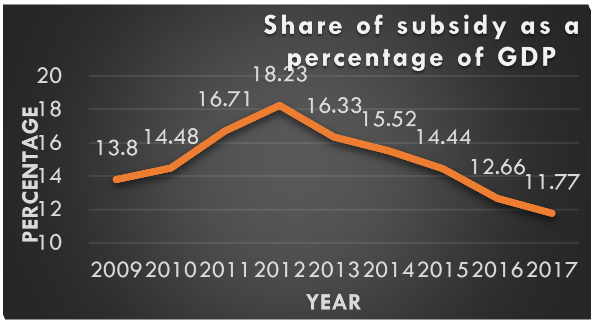
OPERATIONS

ANALYSIS OF BUDGET 2017

Kratika Singh, MBA (2016-18), SIBM, Pune

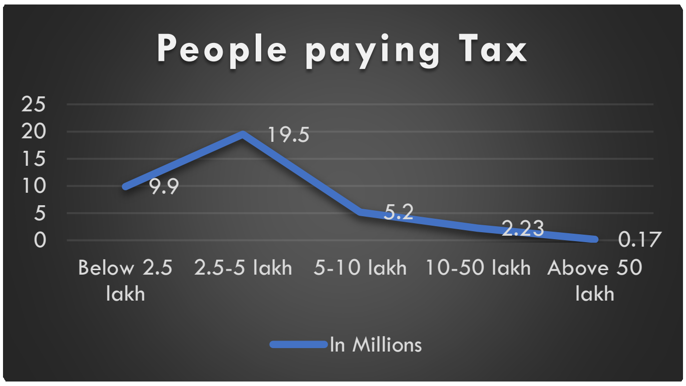
The penultimate budget presented by the Finance Minister Arun Jaitley on February 1 was the budget in times of uncertainty. At the local front, demonetization had taken its toll on GDP leaving the estimates for the next fiscal year on shaky grounds while globally Brexit and the seemingly determination of US Presidency on fulfilling their election vows have further exacerbated the uncertainty.

The budget was a "strong" one in terms of reforms and fiscal numbers while soft in attempting to reduce the woes of the people hit by demonetization. One of the commendable task was reducing the fiscal deficit to 3.2% of the GDP even after the implementation of Seventh Pay Commission and OROP. Further the revenue deficit for FY18 had been pegged at 1.9% of GDP which shows the determination of the government to implement the FRBM Act. Along with that the share of subsidy in total expenditure reduced which meant that more expenditure would be done for capital account assets. Ever since the government came to power, they have tried to reduce the skyrocketing subsidies of the previous regime. The following graph illustrates that-



[Source: Indiabudget.nic.in]

Giving big pushes to rural growth and making India a cusp of digital revolution were the main focus areas of the budget. The relief for the individuals was lowering of tax rate from existing 10% to 5% for income falling in the range of 2.5 lakh to 5 lakh. However, against much anticipation no relief was provided to higher income brackets. This results in an approximate revenue forgone of 18000 Cr which is proposed to be compensated by levying surcharge up to 15% to individuals earning above 50 lakhs per annum. Consequently, the gap of the tax rates between the two lowest brackets is 15% which is much higher thereby discouraging the workforce to move to a higher income bracket. The following graph shows the number of people paying taxes against their income.



[Source: Budget Speech,2017]

India is already a tax non-compliant society as shown above with 7 in 100 voters paying tax and since they are the main revenue for the government providing big reliefs was not possible.

One thing on which the maximum stress was laid was digitalization. After the severe cash crunch faced by the people owing to demonetization, digital transactions soared, the government wanted to inculcate a habit of adopting digital means even when the cash is replenished. For this purpose, they introduce cash back and referral scheme in BHIM (Bharat Interface for Money) to enhance its popularity. The budget also proposed to double the number of POS terminals by September and wave off the service charges in railway booking. This push is much needed because India was one of the most cash intensive economy with cash to GDP ratio as 12%. This leads to the annual expenditure of 21000 Cr by the Reserve bank and the commercial banks for currency related operations.

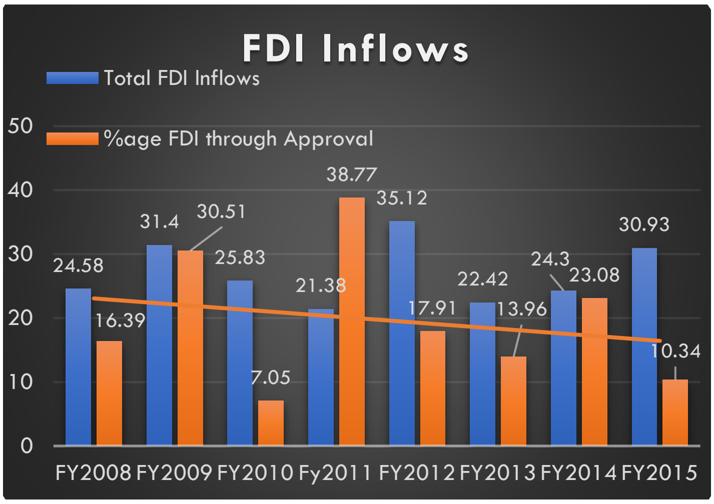
Operating Expenses	Rs(in Crore)
New Currency	2872
Currency Chest	2400
ATM	10500
Interest(Chest)	1600
Interest(Branch)	493
Interest(ATM)	660
Cards	521
Total	21046

[Source: The Cost of cash In India by The Institute for Business in the Global Context]

Digitalization would not only help in reducing these expenditures but also in making India more tax compliant by keeping a track of the transactions and making sure that the people do not sieve out of the tax net.

The budget saw cheers from the corporate fraternity on two counts. Firstly, the government proposed to reduce the corporate income tax from existing 30% to 25% for all the companies with turnover under 50 Cr. The effective tax rate for a company in India stands at a whopping 34.6% against the global average of 18% and this much needed reduction was in the light of the promise made in Budget 2015 to make Indian tax rates and laws compliant with the global ones. This move would cover 96% of the Indian industries and help them in making more competitive. Secondly, much against the expectation, a common tax rate for all the good (except the luxuries and additives) and services was not implemented. It was guesstimated that the uniform tax rate of about 18% on all the goods and services would levied to pave the way for GST which is likely to be rolled out in the latter half of the year. This rate was higher than the existing tax rate.

The budget has also proposed to reduce red tapism by scrapping the FIPB (Foreign Investment Promotion Board) which decides the FDI through the approval route. The following graph shows the total FDI inflows against the inflows approved by the government.



[Source: dipp.nic.in]

If we consider the trend line, it was found that the FDI inflows through the approved route as a percentage of total inflows were constantly declining barring a few years. This proposal

would help to reverse the trend and help in improving the ease of doing business. Also it is this FDI that comprises of the investments done in crucial sectors such as power and infrastructure. It would help the government in minimizing the capital outflows in light of the latest interest rate hike by the Fed and the likely reduction in corporate Income Tax by the US government.

Considering a flip side, the government highly ambitious initiative "Make in India" launched in September, 2014 by the Prime Minister himself as well as "Start-up India" could not find any significant mention in the budget. Since taking power in 2014, the government has heavily publicized India as the next manufacturing hub as well as promoting a spirit of entrepreneurship among the people. Their absence could either be considered as the change in the priorities of the government because establishing a manufacturing facility is a time taking process and elections are due in two year time or the satisfaction in the government at their current level of progress. As per the Finance Ministry, in two year time, over 250 investment proposals have been received worth approximately Rs 1,26,000 Cr under the Make In India which is pretty decent.

To conclude, it was fairly balanced budget where the fiscal numbers are kept under check, tax breaks both for individual and firm are provided and an overall positive sentiment is created by reducing the red tapism. However, no mention of Make In India or no tax breaks for higher income brackets reduces the overall appeal of the budget.

<u>References:</u>

indiabudget.nic.in/survey.asp

indiabudget.nic.in/ub2017-18/bh/bh1.pdf

http://www.moneycontrol.com/news/real-estate/budget-2017-provisions-for-redevelopment-projects-to-bring-relief-to-home-owners_8554241.html

http://www.financialexpress.com/budget/assessing-budget-2017-narendra-modi-govt-has-vision-political-space-to-act-on-economic-front/565883/

http://www.financialexpress.com/budget/union-budget-2017-provides-certainty-to-taxpayers-and-tax-authorities/563006/

http://economictimes.indiatimes.com/news/economy/policy/view-new-budget-must-address-indias-reputation-problem/articleshow/56865007.cms

http://www.livemint.com/Opinion/7TG8figzeEZ1cHxDbci97N/Budget-2017-A-minimalist-approach-for-an-evolving-India.html

https://www.thequint.com/business/2017/02/24/union-budget-economy-policy-and-politics-the-outlook-for-india-in-2017-arun-jaitley

----------------------o----------------------

FINANCE

CAN IMPLEMENTATION OF UBI (UNIVERSAL BASIC INCOME) HELP CURB POVERTY?

Ankit Bhatt, PGDM-IB (2016-18), SIMSR, Mumbai

Can implementation of UBI (Universal Basic Income) help curb poverty?

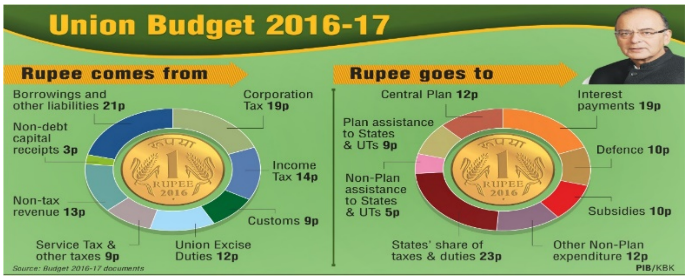
"Social Security" – a word habitually reoriented to fathom the country-in-focus implementing it, US reshapes the word as a federal insurance scheme whereas UK fashions it as a means of providing monetary assistance to needy, each of these meanings has associated legalities as well as a unique history attached to it. 2017 stood testimony to US President-Elect Donald.J.Trump signing an executive order to dismantle Affordable Care Act (ACA) or "Obamacare" one of the most memorable & out-going President Barack.H.Obama's signature legislation achievement, hours after assuming office [1].

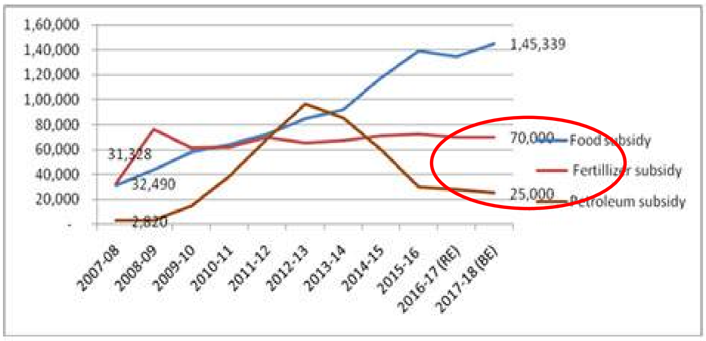
13595 km east, from world's oldest democracy to world's largest democracy - India, wherein various stake holders, still embroiled in a hunt for undertones and overtones for recently conducted landmark "Demonetisation" Drive as a part of "Clean India" movement, tabulated a case for Universal Basic Income on the footnotes of Economic Survey 2016-17. Defining the spirit of the case as "A conversation with & within the Mahatma". The survey states that "Mahatma" positioned as an astute and a prime political observer, who stated too would have had anxieties about UBI as being just another affixed Government programme, but on basis of equipoise of national interest, he might have favoured UBI-Implementation.

Every promulgated charter from government is governed by its dictum & its spirit, prior perusal of its edict or dicta going through GOI's (Government of India) elucidation on Below Poverty Line principle, conceived way back in 1978 in terms of income/food requirements, penned down by the planning commission every year adjusting inflation. The critics have commented that this income is bare minimum to support the food requirements & does not include other basic necessities like health, education etc. Hence also referred to as "starvation lines". The below table ascribes to the hapless way poverty line trends are calculated for the year in Rs. Per Month Per head for an individual for the set calorific intake cost of grains for normative standard [2].

Year	*India Rural – Calorie Value: 2400*	*India Urban – Calorie Value: 2100*
	(Rs Per Month Per Head) – Cost of Grain 650g	(Rs Per Month Per Head) – Cost of Grain 650g
1978	61.80	71.30
2000–01	328	454
2005–06	368	558

Post-acquainting about India's BPL principles looking into its earning/spending receipts[3]:-

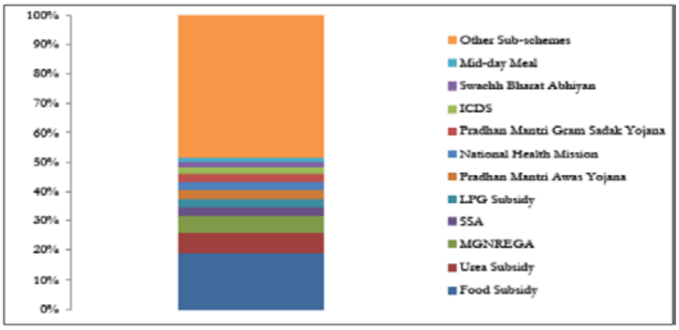




In Rs crore; RE: revised estimates; BE: budget estimates; Actual figures for all years unless otherwise stated

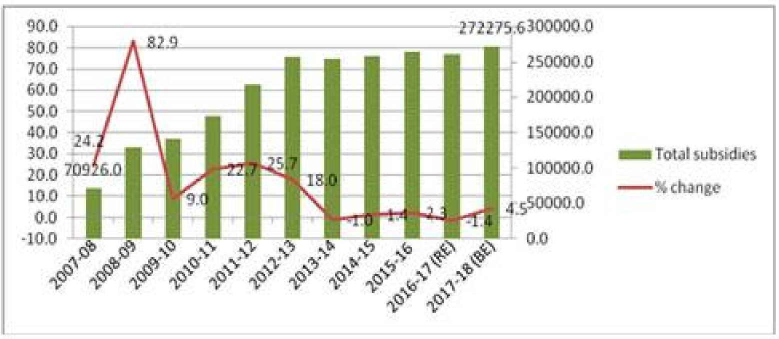
Above picture clearly states on **every rupee earnt by GOI, "Subsidies" expenditure of 10 paise is done** (a sovereign parliamentary grant aided to ease the burden of prices of goods generally borne by the common man). Delving deeper into the problem of subsidies in India below picture states the breakup of major subsidy overheads as allocated towards GDP[4].

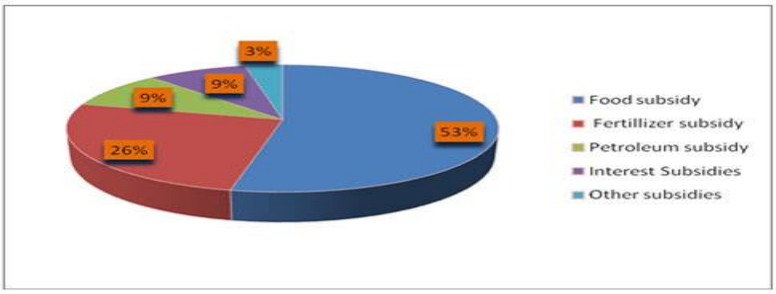
Figure 1. Centrally Sponsored and Central Sector Sub-schemes by Budget Allocation, 5.2% of GDP (2016-17)



Source: **Budget 2016-17**

Now looking at subsidy burden trend across years [5]:-



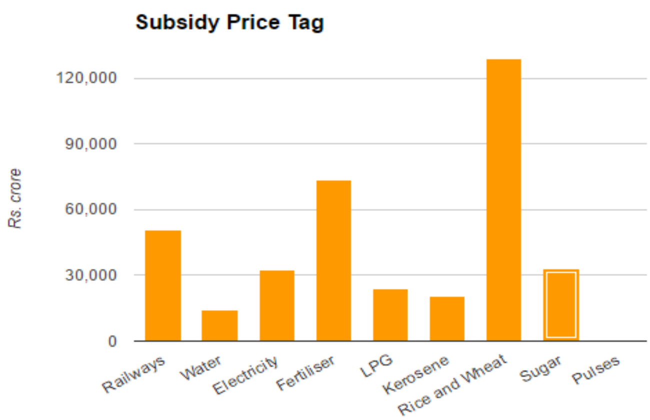


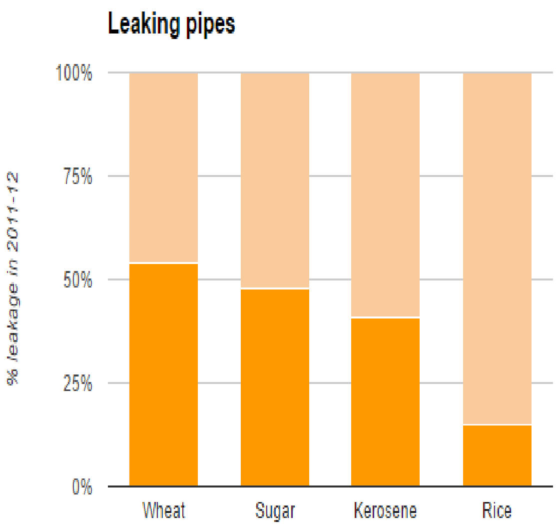
Subsidies as a % of total subsidises

Some observational conclusions from above graphs: -

- Food, fertiliser and petroleum subsidies are the **3 major subsidies** constituting currently **88.3 %** of the total budgeted estimates (BE) for 2017/18.
- The share of food subsidy as a % of total subsidises has been **constantly rising over the past 5 years**, with an exception in previous year when the revised estimates (RE) of food subsidy as a % of the total inched down compared to 2015/16.
- An **increase** in **food subsidy** escalated the **overall subsidy burden** for 2017/18. The food subsidy bill increased around 8 %. The budgeted estimates for fertiliser subsidy remained unchanged, petroleum subsidy declined for the 5th consecutive year.

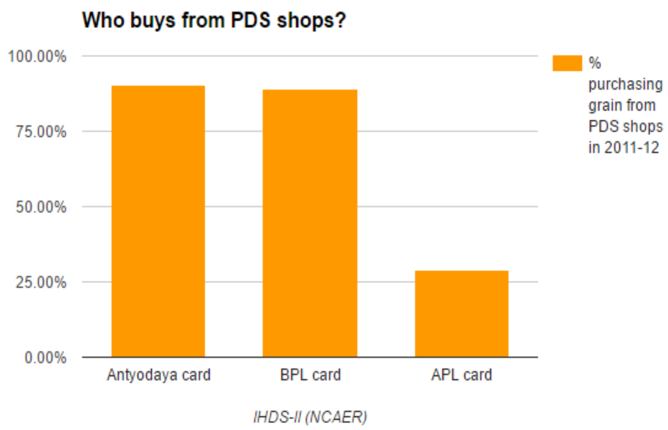
Looking at fiscal leakages scenario in India: -





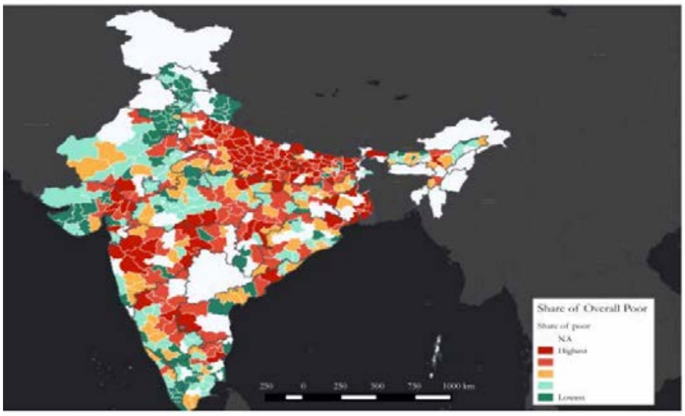
Interpretations from above graphs: -

- Wheat & Rice clearly accounts for a **third** of India's total subsidy bill.
- Public Distribution System (PDS)-delivered grains and staples reaching above **75%** of **cardholders**.
- Over **40 %** of subsidised **kerosene** & **sugar never reached** the consumer in 2011-12.



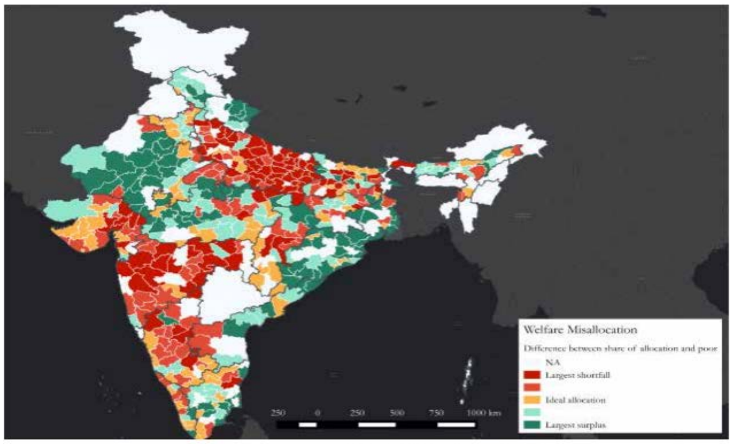
All the above clearly state that Subsidy Implementation Challenges faced by India. Taking references from UBI dictum itself, these implementation challenges are clearly reflective on the below map's Map 2a. Shows share of Poor in India & 2b shows misallocation spread [4]:-

Figure 2a. Share of Poor across districts



Source: NSS 2011-12, *Survey* Calculations

Figure 2b. Misallocation - Shortfall in Allocation to Poor



Source: Programme administrative data and NSS 2011-12, *Survey* Calculations

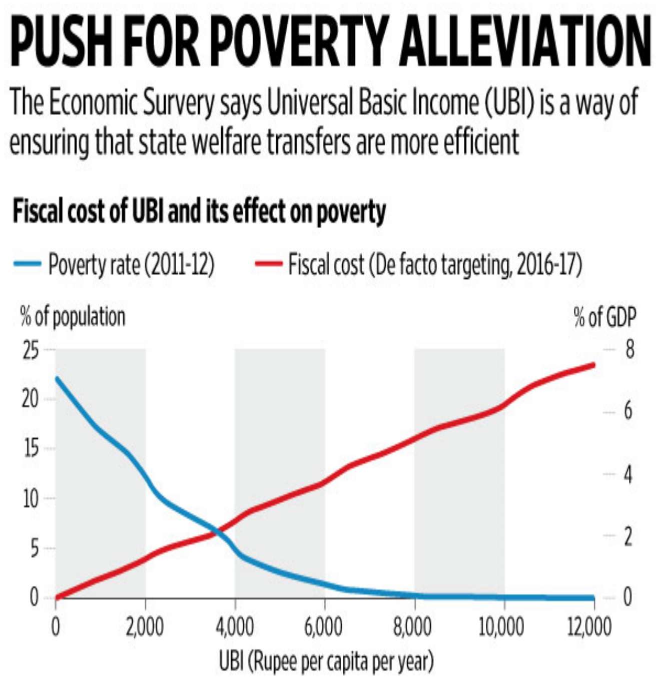
The UBI dicta then proceeds to establish the Pro & Cons: -

Pros: -	Cons:-
• Poverty & Vulnerability reduction in one go.	• Conspicuous spending on wasteful goods
• Choice imparted to people to use it as their needs rather tedious subsidy overheads.	• Moral hazard (reduction in labour supply) as minimum guaranteed income might make people lazy

• **Better targeting of poor, as individuals are targeted**	• Gender disparity induced by cash by deciding male members of family controlling the spending of UBI cash
• **Insurance against shocks due to readily available income liquidity**	• Implementation as its heavily dependent on JAM(Jan Dhan, Aadhar & Mobile) for its penetration also putting too much stress on banking system
• **Improvement in financial inclusion as it would facilitate usage of banking accounts leading to higher banking corresponding profits as well as due to liquidity availability it will lead to credit access to low income strata**	• Fiscal cost given political economy of exit, making it difficult to wind up in case of failures.

• **Psychological Benefits as guaranteed income will lead to reduced pressure for toiling for basic living.**	• Political economy of universality – ideas for self-exclusion wherein opposition may arise from transfer to rich individual
• **Administrative Efficiency as its single and unidirectional targeted low income strata will save administration burden of state**	• Exposure to market risks (cash vs. food) as cash unlike food is always subject to market fluctuations.

The below figure represents the total fiscal cost & its consecutive effect on poverty [6].



Fiscal cost of existing central govt progammes (2015-16)

Implicit middle class 'subsidies'	(% of GDP)
LPG	0.21
Railways-1 (only AC)	0.01
Railways-2 (sleeper class)	0.07
Aviation turbine fuel	0.01
Fertilizer (urea)	0.04
Personal income-tax exemptions	0.44
Interest subvention scheme for farmers	0.1
Mudra (interest subsidy)	0.11
Gold	0.08
Total	0.05

Existing social sector programmes/schemes 2014-15	(% of GDP)
Total subsidy	2.07
• Fertilizer	0.57
• Petroleum	0.48
• Food	0.94
Schemes (central sector and centrally sponsored)	3.7
• Top 10 schemes	1.38
Education	0.49
Medical, public health, sanitation	0.1
Family welfare	0.13
Grants to state and Union territories	0.62
Pensions	0.75
Police	0.38
Defence	1.10
Interest payments	3.22

Source: Economic Survey 2017

Thus, clearly formulating that it fears public perception of UBI as “one more” add-on scheme by government, the potentials offered by UBI are still on hold looking into the effectiveness of JAM, so the crude question of will UBI alleviate poverty is still stuck as a question of implementation.

<u>References:</u>

1. https://www.theguardian.com/us-news/2017/feb/06/obamacare-repeal-trump-timeline-healthcare-republicans
2. https://en.wikipedia.org/wiki/Below_Poverty_Line_(India)#Income_based_poverty_line_in_India
3. http://pibphoto.nic.in/documents/graphic/gbig296.JPG
4. http://indiabudget.nic.in/es2016-17/echap09.pdf
5. http://www.businesstoday.in/union-budget-2017-18/decoding-the-budget/budget-2017-subsidies-rise-by-5-per-cent/story/245647.html
6. http://www.livemint.com/Politics/r34CLteMaTci5DvSnPMaOO/UBI-ideal-to-tackle-poverty-Economic-Survey-2017.html

----------------------------o------------------------------

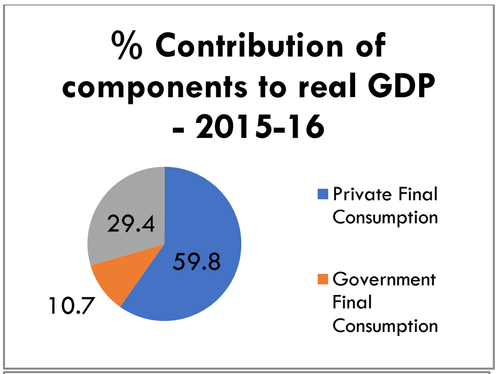
MARKETING

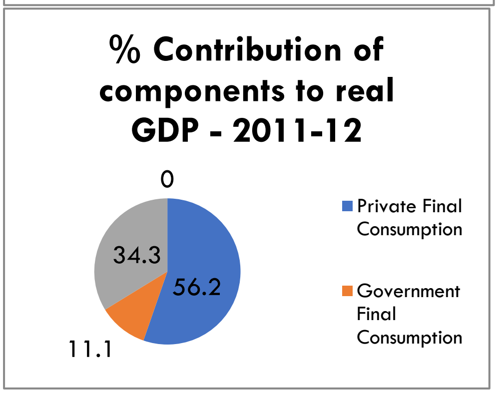
THE IMPACT OF THE BUDGET ON CONSUMPTION IN INDIA

Shashank Sharma and Aditya Khanna, PGPM (2016-18), IIM, Ahmedabad.

India is a consumption-driven economy – just about 60%[1] of our GDP is constituted of private consumption. Large NPAs within the system, risk averseness among private corporations & banks and a small corporate debt market have led to the stagnation of private consumption. This lack of capital formation has generally been compensated for by Public investment (which grew 21% yoy in 2015-16 while private investments fell by 1.4%[2]; **see pie charts**). Further, net exports have generally been negative. All of this means that the growth or lack of growth that India sees in its oft-cited GDP numbers is in essence a reflection of the private consumption levels.

Proportion of components in GDP





Source: Central Statistics Office; Note: If addition of components is greater than hundred percent, it means "Net exports and others" was cumulatively negative.

The Demonetization Effect

From the 7.6% GDP growth rate that was achieved in 2015-16 through some smart calculation changes (factor cost to market price, base year revised to 2011-12), it was estimated to reduce in magnitude from all quarters (0.5 percentage points fall by CSO, 1% by HSBC; 6% growth in second half of fiscal predicted by IMF[3]). This implied that consumption had fallen, and it needed solid revival. A FICCI report[4] showed substantial negative effects on automobile and related industries, FMCG companies, agricultural products, and construction industry.

Flowchart – The Macroeconomic Effects of Demonetization

A fall in consumption directly means a fall in income, and that too disproportionately that of those people who would become immediately unemployed or would be unable to sell their produce due to the consumption contraction.

Budget 2017-18

The budget had a few major steps with immediate and direct consequences for consumption increase and some minor steps which will have a more long-term and indirect effect on consumption.

Major Steps

Agriculture and Rural focus: Rural growth fell to less than 5% from over 10% in 2014-15[5], majorly owing to bad monsoons. This year, there was an increase of 24% in total investment in rural and related industries[6].

Agriculture credit target was increased to Rs. 10 Lakh crore to promote efficient and ample production. Further, there was a 60-day interest waiver (announced on 31st December, 2016). Both of these moves are likely to boost relatively cheap credit to the agricultural sector, which has been traditionally been reeling under credit crunch. At a time when the number of farm workers is decreasing[7], this also means an accelerated increase in credit available per farmer.

Further, crop insurance scheme will have multiple long-term repercussions: First, many farmers with small fields who shy away from high-risk-high-yield crops due to their economic conditions will be able to take greater risks with their crop type and their crop cycles. Second, if their crop fails, they will have funds to maintain a minimum consumption level.

All of the above steps, coupled with a good monsoon, will lead to an increase in agricultural income. The workers allied to farming will also get more employment. Eventually, a sector which employs over 48% of Indian workers[8] will have greater income. **This will boost rural demand for farming equipment, tractors, scooters, and other FMCGs.**

There is also a trickle-down effect of a healthy agricultural market: lower inflation in edibles directly affects the consumption capacity of the lower-middle class people of the country in real terms.

Benefits to Small Businesses and SMEs: At 96%, SMEs form a large proportion of Indian companies[9]. The government announced that income tax for companies having annual turnover less than Rs. 50 crore will pay a tax of 25% rather than 30%. This will directly affect over 6.5 lakh companies[10].

An event like demonetization hurts the smaller companies a lot more than the bigger ones. This is because of their greater depths in pocket, better distribution network (averaging out losses in a low-buy area and a high-buy area) and better ability to compete on prices. This had meant that SMEs were relatively more crippled in terms of their supply-ability for this reason. The tax reduction in this context improves their supply-ability levels to sustain product presence in the market.

As per CSO data (for 2012-13), SMEs provide 37.54% of Indian GDP and employment to over 80 crore people[11], whose incomes are likely to rise. This shall also serve to expand the number of people working in the formal economy, because there is lesser tax burden.

Income Tax Reduction for Those under the Tax Bracket of 50 L; More Tax for the Ultra-Rich: For individuals with income ranging from 2.5 to 5 lakh rupees, the rate of taxation was reduced to 5% from the erstwhile 10%. On the other hand, a surcharge of 10% and 15% will be levied on those with an income ranging from 50L to 1 crore and over 1 crore respectively. This shall ensure the balancing of the loss and gain through the tax cut. There is a direct effect of this on every person earning less than Rs. 50 L of up to Rs. 12,500. This is a big boost to consumption: while only 1.72 lakh people officially earn over 50L rupees in the country, those falling into the 2.5L to 5L bracket are about 85 lakh[12]. **A back of the envelope calculation shows that the total addition to consumption will be to the tune of Rs. 85 billion. The industries affected by these will be FMCGs, cosmetics, small consumer durables. Some companies which might benefit are HUL, Reckitt Benckiser, Bajaj (scooters), tractor brands (Mahindra prominent) etc.**

Housing Sector Expansion: Affordable housing has been given the status of infrastructure, in line with the vision to provide housing for all by 2022. This will lead to easier and cheaper credit along with simpler clearance processes. In addition to this, National Housing Bank will refinance housing loans worth 20K crore rupees in this fiscal.

This will boost the demand for the construction sector (L&T, GMR, Hindustan Construction etc.) and allied industries such as paint (Asian paints etc.), construction material (Kajaria, Havellsetc), Cement (Ultra tech, ACC etc.). As another trickle-down effect, construction workers (10.6% of India's total workforce, according to a CII study) will get jobs and they will in turn generate more consumption.

Secondary Factors boosting consumption

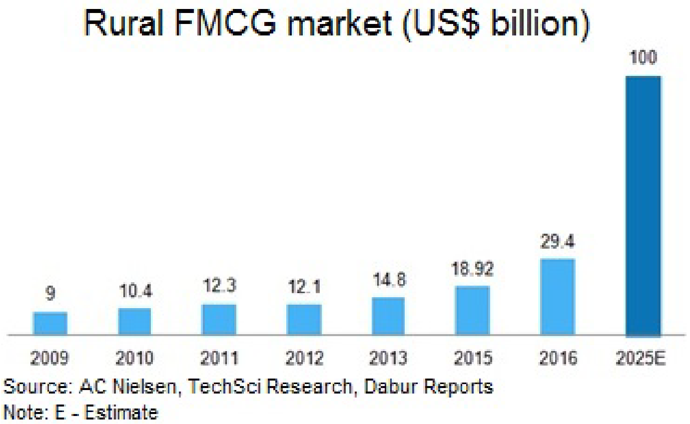
Infrastructure development: Allocation of 2.4L crore to transportation development (railways, roads, airports) shall aid urbanization. Further, the proliferation of high-speed broadband (optical fibres to 150,000 gram panchayats) will revolutionize consumption through e-commerce in large parts of the country (long run). A higher allocation to the Rural Electrification Programme will provide a major impetus to the consumption of Aluminium (electrification constitutes over 40% of primary aluminium consumption[13]).

Focus on Education and Rural Entrepreneurship: Innovation funds for secondary education, SANKALP, Skill India mission, Pradhan Mantri Kaushal Yojana (increased funding to all totalling 22 billion rupees), and Pradhaan Mantri Mudra Yojana (lending target doubled from 1.22 L crores) are all aimed at the short and long-run employability and self-sustainability of India's population.

Implications for Marketing

While this budget was more or less subdued in terms of high profile announcements, it has shifted the focus on steady growth in consumption, especially in the rural sector, complimented by low inflation. The **four major steps increasing consumption**: agricultural credit and insurance, reduction in tax rate for low-income bracket, tax reduction for SMEs and boost to housing sector are likely to create demand for major sectors such as **FMCG** (rural income, tax reduction, SMEs boost, construction trickle down), **Auto** (scooters and farm equipment through agro focus; other vehicles through tax reduction) and **Construction & Real Estate** (housing boost). This will provide a much-needed revival, especially to the ailing rural economy post demonetization.

Source: "**What will Budget 2017's impact be for consumer companies?** ", Live Mint, Feb 02 2017 (No. 14 in references list)



Source: Indian Rural Market, IBEF Report, December, 2016

Recent months have seen a clear decline in consumption, but with greater allocation of funds to the rural and poor of the country, coupled with greater transparency in governmental functioning, there is greater hope for more and more of those funds trickling down to the bottom of the pyramid. For the middle class, too, the budget was friendly on the pocket. It is, however, to be seen what effect moves such as GST have on the economy. Prima facie, the focus seems to be on making the necessities more easily available, with the balance being provided by luxury and sin goods.

An AC Nielsen Survey predicts that the rural and semi-urban FMCG markets will be worth over **$ 100 bn by 2025**. Further, big brands such as Dabur and HUL generate over 40% of their revenues from rural markets currently. The number is about 30-35% for other FMCG giants. Further, with greater income levels for people in rural areas through development of the manufacturing sector, modernizing of agriculture and increased skilling, rural markets will be the place to be for many Indian firms. **These facts point towards a clear and unparalleled marketing focus on rural markets in the coming years.**

According to the budget, the marketing sector has to indulge in a lot of **rural and semi-urban marketing targeted towards the emerging income groups**. Some of it might be a form of selling to the bottom of the pyramid, but it will be different in that it will be to consumers who have substantial ability to pay competitive earning margins for companies. Further, going forward, the focus on skill development, provision of ample digital infrastructure and a vibrant urban as well as rural economy will lead to **higher marketing needs for digital products and services.** And a lot of the above marketing needs are not in the colloquial sense of the word – companies will need to assess the needs of the people, develop products that appeal to them, price them correctly and make them available and then amply visible. There has never been such a big opportunity for consumption and prosperity in India, and there never will be again. This budget has provided some support for sure, but it is in the hands of corporate India – and marketers – to make the most of it.

References:

1: State of the Economy: An Overview, Economic Survey 2015-16

2: http://www.firstpost.com/business/public-investments-at-two-decade-high-in-fy16-rises-21-pvt-sector-contracts-1-4-2909262.html

3: http://www.livemint.com/Politics/oyNX9r9ea9h6UF1HPMsvjK/Demonetisation-to-pull-down-India-GDP-growth-rate-to-6-IMF.html

4: Union Budget Analysis 2017-18, FICCI

5: http://timesofindia.indiatimes.com/business/india-business/Indian-rural-economy-to-remain-subdued-in-2015-16-Moodys/articleshow/47876189.cms

6: http://www.financialexpress.com/economy/union-budget-2017-rs-187223-crore-boost-for-rural-agriculture-sectors-says-arun-jaitley/532332/

7: State of the Economy: An Overview, Economic Survey 2015-16

8: Make in India and the Potential for Job Creation: A report by CII, 2015

9:http://economictimes.indiatimes.com/articleshow/56917397.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst

10:http://economictimes.indiatimes.com/articleshow/56917397.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst

11: http://smestreet.in/msmes-contribute-for-more-than-37-of-gdp-and-employment-for-805-lakh-indians/

12: https://www.google.co.in/amp/indianexpress.com/article/business/economy/24-lakh-people-have-income-above-rs-10-lakh-but-25-lakh-cars-bought-per-year-since-2011-4447144/lite/

13: http://www.alcircle.com/interviews/detail/16486/infrastructure-electrification-and-downstream-applications-to-boost-the-aluminium-market-in-india

14: http://www.livemint.com/Money/ve941skPrsATReVsHXglRN/What-will-Budget-2017s-impact-be-for-consumers.html

Note: All details about budget provisions have been taken from http://indiabudget.nic.in/ub2017-18/bh/bh1.pdf

-----------------------o--------------------

HUMAN RESOURCES

THE UNINION BUDGET AND IT'S CONNECTION TO THE HUMAN RESOURCES

Stuti Shrivastava, PGDM (2016-18), WIMDR(WeSchool), Mumbai

Finance minister Arun Jaitley presented the much anticipated Union Budget this February. With so many major changes like demonetization happening in the country, the budget is formulated to gear up the economy once again and give a boost to various initiatives ; majority of which aim at reducing the digital divide, generating more employment, eliminating poverty and scaling up the lifestyle of a common bread and butter winning Indian man. With such bold and strong-headed campaigns taking shape in the country, one begins to wonder as to how will they be executed when it comes to making changes for the country but also taking a population of 1.2 million people with you.

Implementation of such campaigns requires a lot of employment generation which would help in executing all those services that the central government has promised to deliver. That's when the role of ever young , ever dynamic and potential-rich human resources comes into picture.

Major highlights for HR-

- The **Skill India Initiative-**
  Allocating INR 4000 crores to the Skill India Initiative, introduced in July, 2015 which is aimed to train over 400 million people in various skills by 2022 for self and the country's development; was a clear focus on job creation and creating a specialized skill force to work with in the country. On the skill agenda, setting up a National Testing Agency as an autonomous and self-sustained premier testing body to conduct all entrance exams for higher education will ensure a standardized skill mapping across various sectors. This would help more people to participate in being a part of the higher education.

- **Respecting the honest tax payers-**
  All the people who have an annual income of five lakh per annum will either be paying zero tax or around 50% of their existing amount that they pay. This would give the lower income category more disposable income. Since 70% of our population has income below 5 lakhs per annum, the honest taxpayers will have significant gain. Once there is enough income generation, this would ,in turn, help in boosting the service industry in the country which people will begin availing. It has so many indirect perks namely more employment generation, creation of customer specific workforce and more employee benefits for working more and in an efficient manner.

- The **National Pension Scheme-**
  Employees investing in the National Pension System (NPS) through their company will now be allowed to withdraw up to 25% of their contribution without having to pay tax. By including this withdrawal flexibility exempt from tax , the government is trying to bring closer NPS to the EPF. Since NPS is a voluntary scheme, introducing features such as this will make it more attractive to the employees and induce them to enrol for the scheme.

Every coin has two sides..

There are some things that did not meet expectations.

The Information Technology sector did not get the budget allocation that they might have expected. With the Trump regime forming in the US and the changes proposed in the H1B visa, more funds should be generated for this sector. This would help more HUMAN TALENT POOL in the country to work in our own country and not be a victim of brain drain. Thus, so many capable minds would work for the development of this country and not be an employee of the outsider.

- **Corporate tax-**
  The corporate tax rate has been cut from 30% to 25% i.e., for small companies but not for the large ones. A big part of the demand for a tax rate cut was to try and level the playing field for Indian and Asian companies to increase competitiveness and it's the big companies that compete externally. The lack of a rate cut for the larger companies will also mean that they will have less leeway for spends on employee related programmes.

Thus, with the advent of Goods and Services tax and changes like demonetization happening at a rapid rate, we have a long way to go when it comes to the development of the nation as a whole.

References:

- www.forbesindia.com
- economictimes.indiatimes.com

----------------------o----------------------

GENERAL MANAGEMENT

FUTURE GROWTH OF FINTECH IN INDIA

Aditi Goyal and Ajith Reddy Konda, MBA (2016-18), NMIMS, Mumbai

Over the last few years, the way payment is done in India is similar to way it occurs in global markets with a small time lag. India now represents one of the largest market opportunities for payments. With a population of over 125crs being pushed to go digital, India is poised to make the most of digital developments transforming the payments space.

Regulatory Changes Enabling Digital Transactions:

There are a lot of regulatory changes that needs to take place before payments businesses start flourishing in India like:

1. ***No Requirement of KYC for Small Transactions***: As per current RBI guidelines, customers are not required to undergo a KYC process for transactions up to INR 10,000 per month on prepaid instruments. This guideline makes it easy for customers to just download the wallet of choice and use for the transaction.

2. ***Mobile Wallets No Two-Factor Authentication (2FA)***: The RBI currently mandates the inclusion of a two-factor authentication (2FA) for transactions made with Indian debit or credit cards, irrespective of transaction value. This requirement though is necessary for security it is cumbersome due to significant failed and dropped transactions. But, a mobile wallet requires a customer to undergo the 2FA process only while loading funds from other bank instruments. Additionally, such wallets have limits on the value of transactions and hence reduce exposure to frauds.

3. ***Aadhar Is Simpler***: The usage of Aadhar as a national identity instrument has made the KYC process extremely easy. By linking a customer's mobile number electronically to his/ her Aadhar account, the process is now simpler and hassle free. The Jan Dhan Initiative has seen over 270 million accounts being opened. This has brought millions under financial inclusion and has made biometric authentication a reality.

4. ***Unified Payments Interface (UPI):*** The Unified Payments Interface launched by National Payment Corporation is a system that powers multiple bank accounts, several banking services features like merchant payments and fund transfer in a single mobile application. Thus it is an integrated system. The benefit that it will provide users the flexibility to access bank accounts through any PSP connected to the UPI set-up. Moreover, customers will be able to choose a virtual address in any format (mobile number, AadharID, email ids etc.). **Bhim** (Bharat Interface for Money) app is launched by Prime Minister Narendra Modi to facilitate e-payments directly through banks and drive towards cashless transactions.

5. ***Bharat Bill Payment System (BBPS)***: Owned and operated by NPCI, BBPS is envisioned as an 'Integrated Bill Payment System' that is accessible, interoperable, cost effective and allowing multiple payment modes. Bill payments form a major component of retail payment transactions. Cheque and cash payments continue to be predominant; particularly at the billers' own collection points

Encouraging trends in Digital Transactions:

India truly seems to be going digital and this is validated by the exponential growth of its digital marketplace. In the year 2015-16, around 747 million transactions occurred through mWallet and prepaid cards combined, whereas only 390 million transactions happened through mobile banking. The majority of transactions through mWallet are smaller with an average ticket size of INR 620, while mobile banking transactions are on an average INR 10,400 per transaction. mWallet is largely preferred for micro transactions while high value transactions take place through mobile banking.

Supported by a favourable regulatory environment and growing younger population of India digital payment in India can flourish.

Effects of demonetization on Cashless Economy:

In the wake of demonetization, RBI has started publishing daily data on select payment systems with a lag of one/two day(s). Over past two months, while the volume of electronic transactions has gone up substantially, the total value of these transactions has not increased significantly.

Value of total transactions using various digital Channels

INR bn	RTGS	NEFT	CTS	IMPS	NACH	POS	PPIs	Mobile Banking	Total (does not include mobile banking)
Jul-16	96,017	8,145	5,717	251	634	270	12	810	111,045
Aug-16	98,592	8,764	5,925	269	682	277	12	1,039	114,520
Jun-16	106,102	8,815	5,735	237	557	254	12	673	121,712
Sep-16	110,564	9,880	5,737	289	590	251	12	1,043	127,324
Oct-16	97,554	9,505	5,974	344	768	319	13	1,135	114,477
Nov-16	78,479	8,808	5,419	325	607	352	13	1,245	94,003
Dec-16	71,326	9,569	5,998	400	568	442	20	1,245	88,322

Source: RBI, CEIC

Number of total transactions using various digital channels (mn)

INR bn	RTGS	NEFT	CTS	IMPS	NACH	POS	PPIs	Mobile Banking	Total (does not include mobile banking)
Jul-16	8.8	118.9	78.6	29.7	166.5	131.3	35.8	63.2	569.2
Aug-16	8.3	113.5	79.2	32.2	189.6	140.4	36.2	67.5	599.0
Jun-16	8.6	118.6	81.6	33.9	153.3	143.2	44.8	71.8	583.5
Sep-16	8.5	120.1	78.9	35.9	157.3	132.0	45.1	72.6	577.6
Oct-16	9.0	133.2	82.0	42.1	169.4	148.9	59.0	78.1	643.3
Nov-16	7.9	123.0	87.1	36.2	152.5	205.5	59.0	72.3	670.9
Dec-16	7.7	147.3	116.7	49.7	183.3	255.2	82.6	66.7	842.2

Source: RBI, CEIC

Usage of Debit/Credit Cards Increases Significantly:

The total value of transactions at POS has increased sharply over past two months. Total transaction value at POS increased from INR333b in October-16 to INR352b in November and further to INR442b in December. It implies that the value of transactions at POS increased 47% YoY (6% MoM) in November-16 and 87% YoY (25% MoM) in December-16, as against 41% YoY (27% MoM) in October-16.

	Total txns amount (bn)	Yoy (RHS)	Avg ticket size (value/txn)
Apr-16	244	25%	1880
May-16	262	27%	1770
Jun-16	254	27%	1939
Jul-16	270	25%	1925
Aug-16	277	25%	1935
Sep-16	262	29%	1897
Oct-16	333	41%	2140
Nov-16	352	47%	1714
Dec-16	442	87%	1731

Source: RBI, CEIC

PPI Has Also Picked Up In December:

Demonetization, however, seems to have helped increase the usage of PPIs. Although the amount per transaction has not changed significantly, the total amount of transactions in December-16 stood at almost INR20b, as against INR13b in October-16.

While the usage of various digital channels has increased over past three months, aggregate data on retail electronic transactions do not show any sudden surge in digital transactions. With the currency in circulation falling from INR18t to almost INR9t, higher growth in electronic transactions confirms a considerable dent in consumer demand over past two months.

Impact of Budget 2017:

The government in budget 2017 focused on pushing digital transactions post demonetization. Investment in building a strong broadband digital infrastructure will set to improve coverage and quality of service in India. This is going to be critical in the expansion of the digital economy, especially for financial transactions, education and government welfare schemes. Allocation under the Bharat Net program has been budgeted at Rs 100 billion, which marks a near-two-thirds increase over the previous year. This will boost digital transactions in the near future.

Conclusion:

The government will have to create conditions which must not necessarily create cash shortages and must push cashless transactions to a threshold level after which the network effect will take over. India may not become a cashless economy in the foreseeable future, but it needs to reduce its high dependence on cash to bring in much needed efficiency and transparency in the system.

References:

http://www.livemint.com/Opinion/XGbavEnoeP7dZITeh21MRM/Making-India-a-cashless-economy.html

http://www.livemint.com/Opinion/XGbavEnoeP7dZITeh21MRM/Making-India-a-cashless-economy.html

http://www.thehindu.com/news/national/Cashless-economy-is-a-boon-says-Nobel-laureateMuhammad-Yunus/article16994985.ece

http://www.financialexpress.com/economy/narendra-modis-dream-of-cashless-economy-comes-alive-at-sabarimala-sales-revenue-via-e-payments-rises-to-15/499600/

------------------------o-------------------------

CALL FOR ARTICLES

We invite articles for the May 2017 Issue of SAMVAD.
The Theme for the next month: May 2017 - "**Food Tourism**"
The articles can be from Finance, Marketing, Human Resources, Operations or General Management domains.
You may also refer to sub-themes on Dare 2 Compete.

Submission Guidelines:

- Word limit: 1000 words or a maximum of 4 pages with relevant images.
- Cover page should include your name, institute name, course details & contact no.
- The references for the images used in the article should be mentioned clearly and explicitly below the images.
- Send in your article in .doc or .docx format, Font size: 12, Font: Constantia, Line spacing: 1.05' to **samvad.we@gmail.com. Deadline for submission of articles: 25th May, 2017**
- Please name your file as: <Your Name>_<title>_<section name e.g. Marketing/Finance>
- Subject line: <Your Name>_<Course>_<Year>_<Institute Name>
- Ensure that there is no plagiarism and all references are clearly mentioned.
- Clearly provide source credit for any images used in the article.
- Like our Facebook page: Samvad.WeSchool.Student.Magazine.
- Follow us on issuu.com: http://issuu.com/samvad

TEAM SAMVAD


TEAM SAMVAD
Mansoor Vohra
Co-Editor
Hinal Rathod
Editor
Aditya Rajpal
Head-PR
Shristi Tyagi
PR
Prateek
Head- WeChat
Piyush Joshi
PR
Shikha Sharma
WeChat
Shrutika Kharat
Marketing
Krutika Choudhari
Head-Administration
Mugave Babarao
General Management
Stuti Shrivastav
Human Resource
Apoorva Chintis
Operations
Anjali Agrawal
Head-Cover Design
Jaikishan Kankani
Finance
Animesh Agrawal
Cover Design
Aishwarya Jangle
Cover Design
Shruti Parchand
Cover Design

PREVIOUS SAMVAD ISSUES

Jan-16	Family Managed Business	https://issuu.com/samvad/docs/samvadjan1
Feb-16	International Relations	https://issuu.com/samvad/docs/feb_samvad
Mar-16	Budget 2016	https://issuu.com/samvadwelingkar/docs/march2016_budget
Apr-16	Services and Consultancy	https://issuu.com/samvadwelingkar/docs/april2016_consultancy
May-16	Governance and Business	https://issuu.com/samvadwelingkar/docs/may2016_b_g
Jun-16	Information Technology	https://issuu.com/samvadwelingkar/docs/june2016_it
Jul-16	Brexit and GST	https://issuu.com/samvadwelingkar/docs/july2016_gst
Aug-16	Banking	https://issuu.com/samvadwelingkar/docs/aug2016_banking
Sep-16	Agribusiness	https://issuu.com/samvad/docs/samvad_september_2016
Oct-16	Manufacturing and Make in India	https://issuu.com/samvad/docs/samvad_october_2016
Nov-16	Telecom Sector	https://issuu.com/samvad/docs/58_november_2016_telecommunication
Dec-16	Demonetisation	https://issuu.com/samvad/docs/samvad_december_2016
Jan-17	Digital Disruption	https://issuu.com/samvad/docs/january_2017_digital_disruption

There is not a thing as the wrong place, or the wrong time. We are where we are at the only time we have. Perhaps it's where we're meant to be.

SHASHI THAROOR

Image source: http://ww.itimes.com/album/nature-5792760fa322a