DEMONETISATION

Manohar Chowdhry & Associates
CHARTERED ACCOUNTANTS

FOREWORD

On the 8th of November, 2016 when the sun had descended below the horizon and the light of day had completely faded, when people were returning back home from a long day at work, a misty light of a new economy was brewing over the country. All ₹500 and ₹1000 banknotes of the Mahatma Gandhi Series ceased to be legal tender in India from 9 November 2016.

The government claimed that the demonetisation was an effort to stop counterfeiting of the current banknotes allegedly used for funding terrorism, as well as a crack down on black money in the country. The move was described as an effort to reduce corruption, the use of drugs, and smuggling.

However, in the days following the demonetisation, banks and ATMs across the country faced severe cash shortages. Also, following Modi's announcement, the BSE SENSEX and NIFTY 50 stock indices crashed for the next two days.

The term demonetisation has become much more than a household name since the old Rs 500 and Rs 1,000 notes were pulled out of circulation. While as per dictionary demonetisation means "ending something (e.g. gold or silver) that is no longer the legal tender of a country", one needs to understand that there is much more than the literal meaning to the word.

One need to understand that 80% of India's labour force is employed in the informal sector, which comprise of 45% of the GDP of our country. Over 60% of population of India lives in below the international poverty threshold line of 1.9$ per day. Since our economy is an under banked economy, present demonetisation move, would no doubt cause a severe social experiment, across the segment of our population. At the first place, and on a short term basis this move would benefit the Government, which shall effectively deploy its resources to percolate the impact to the poor and needy of our country.

This study report analyse various aspects of the demonetisation and the way forward.

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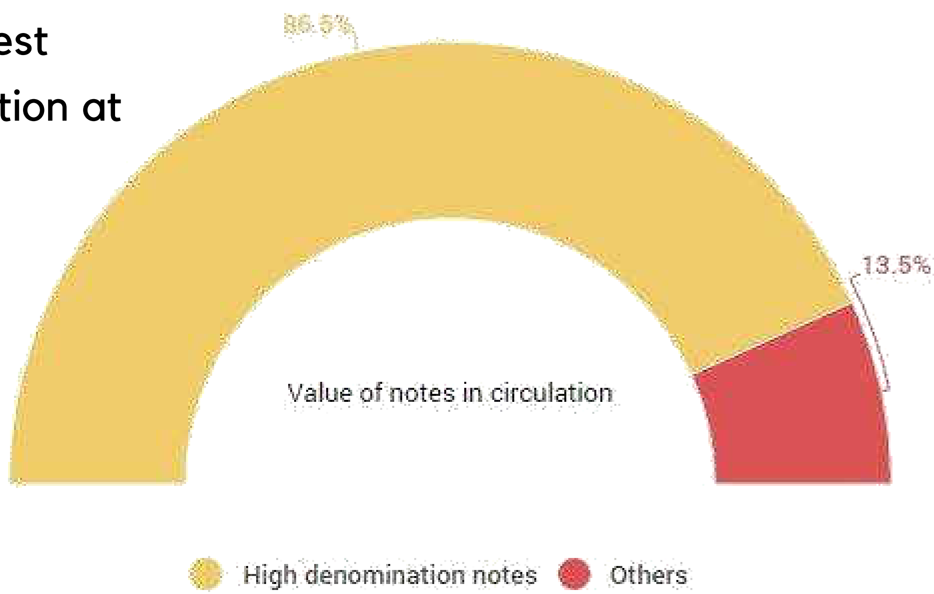
PM SEEKS PUBLIC OPINION ON MOVE

The government on 8th November announced that INR 500 and INR 1000 notes will cease to be legal tender effective immediately.
The move is aimed at controlling black money, fake currency circulation and terror financing
India has amongst the highest levels of currency in circulation at 13% of GDP
(vs. EM average of 4%)

Some key metrics:
Notes in circulation as of Nov 4, 2016: Rs. 17,742 bn (13% of GDP)
Value of Rs.500/Rs.1000 notes in circulation (86.5% of notes in circulation): Rs. 15,347 bn (11% of GDP)



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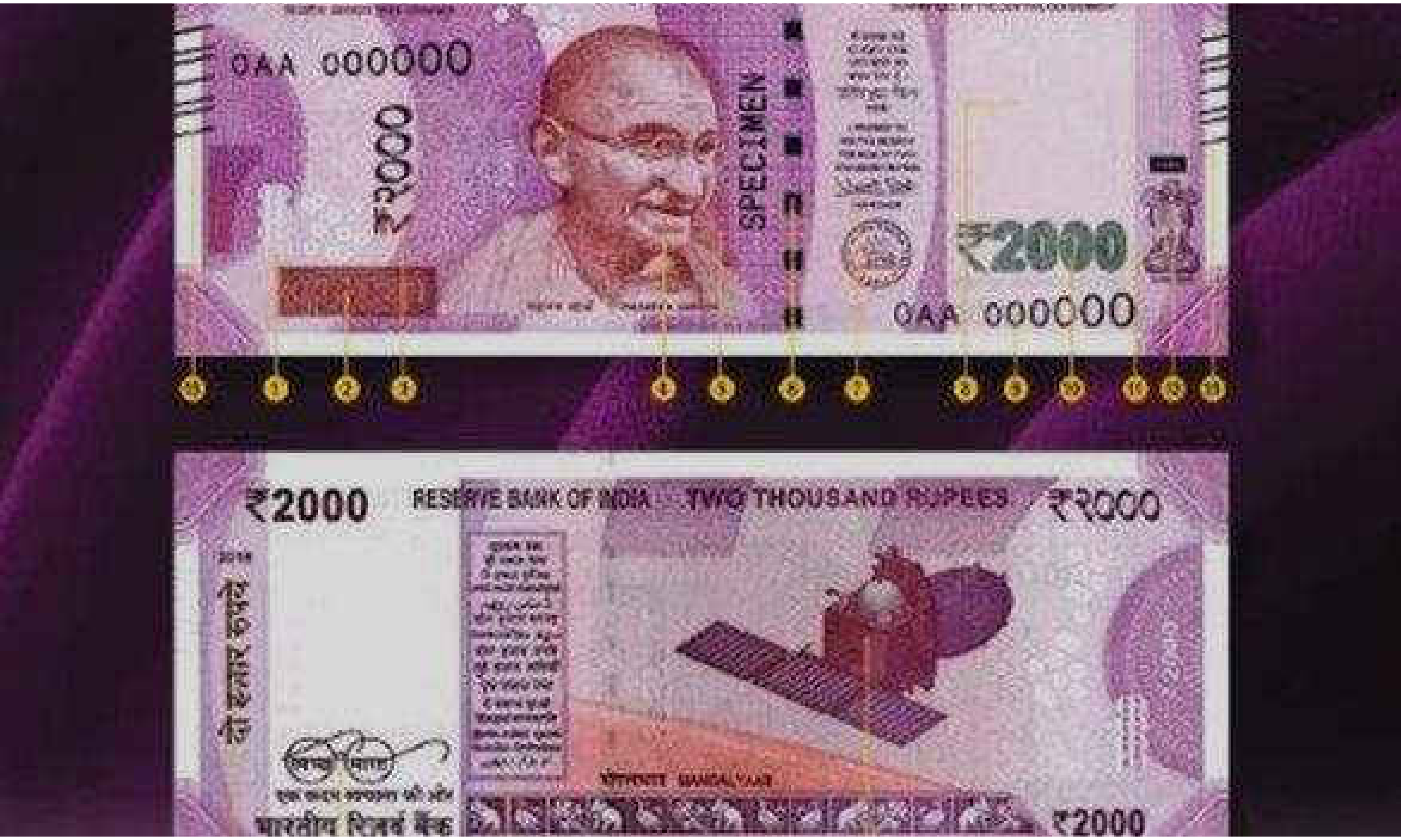


INDIA'S PAST EXPERIENCE WITH DEMONETIZATION

India has carried out demonetization exercises twice before, in 1946 and 1978.

In Jan 1978 episode, currency worth INR 1.46 bn (1.7% of total notes in circulation was demonetized. Of this INR 1.0 bn (or 68%) was tendered back.

In 1978 the value of demonetisation was very small (only 0.1% of GDP). However, the 2016 demonetisation efforts covers 86% of the total currency in circulation (11% of GDP).

THE IMPACT OF THE PAST DEMONETIZATION EXERCISE WAS AS FOLLOWS:

Deposit Growth	Rose sharply
Currency in circulation	Moderately sharply
SLR Security	Sharp increase in investment in government securities by banks
Credit Growth	Initially subdued but started picking up after 4 months (by May 1978)
GDP Growth	No major impact as high denomination notes which were cancelled only accounted for 0.1% of GDP.

01

GDP

In the near-term, this move will hurt economic activity across sectors with pronounced slowdown across sectors irrespective of the extent of usage of cash. Risk aversion is likely to inch up manifold. Over the next 6 months, most sectors (except I T & Pharma) will face growth challenges, and in particular hurt discretionary spends, gold and real estate purchases.

02

INFLATION

Downward pressure on prices due to lower demand, especially in rural areas where share of cash transaction is high

03

LIQUIDITY AND RATES

Improved liquidity in the banking system will be positive for lending rate cuts. The possibility of 50 bps of rate cut by the RBI has also opened up if demand slowdown become severe. This should further support decline in G-sec yields (10 year G-sec yield has already declined 30 bps)

04

CURRENT ACCOUNT DEFICIT

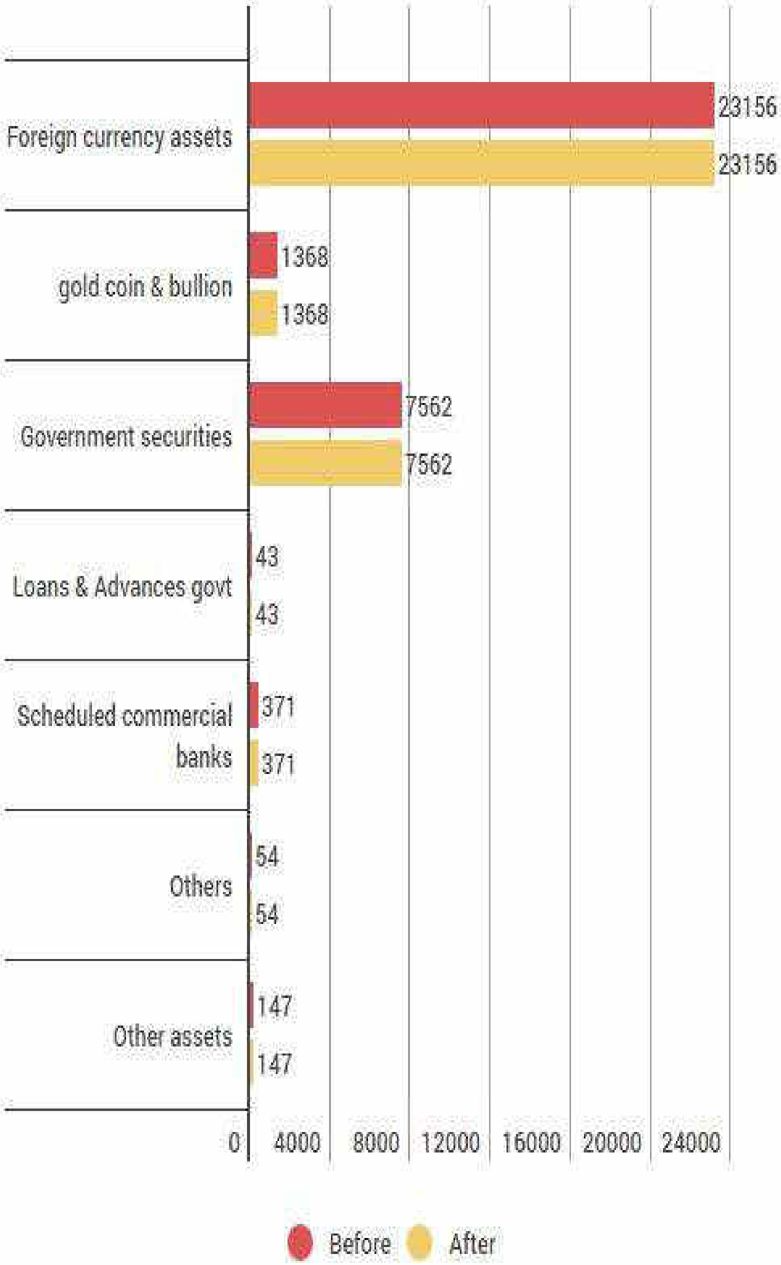
Discretionary consumption slowdown is likely to impact non-oil non-gold imports. After the initial surge in gold demand (as cash is converted to gold), gold imports should also start to slow. Thus, the decline in imports should be positive for CAD

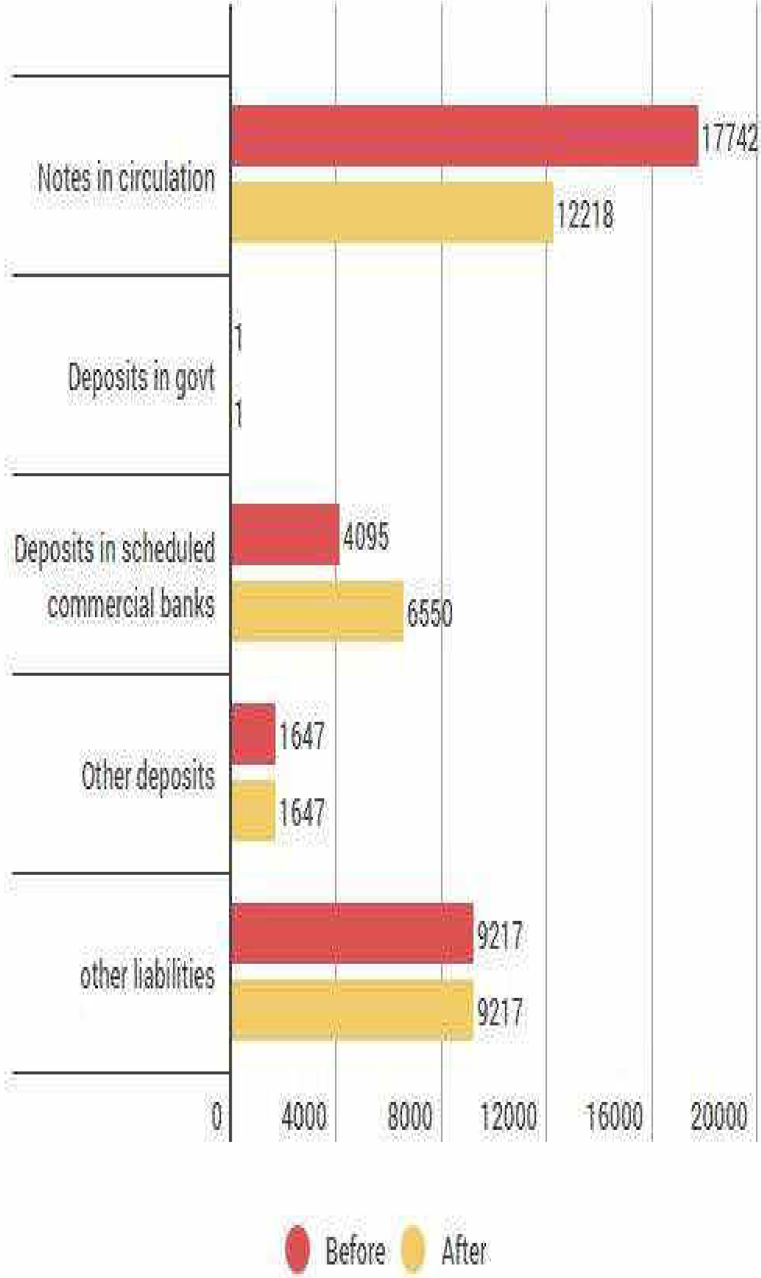
05

FISCAL DEFICIT

Most of the gains (higher direct tax collections and RBI surplus if any) will accrue in FY 18. On the other hand, indirect tax collections is likely to be impacted in the near-term due to demand slowdown. Thus, there is going to be near-term pressure on government finances.

Impact on RBI balance sheet*





ASSETS **LIABILITIES**

*READ: IMPLICATION OF DEMONETISATION ON RBI BALANCE SHEET

ASSUMPTIONS

80%

AMOUNT RETURNED TO BANK

20%

NOTES NOT TENDERED BACK

=> **OVERVIEW**

ASSUMED 20% OF AMOUNT DEPOSITED I.E. RS 2.4 TN IS DURABLE DEPOSITS. HENCE NET DECLINE IN LIABILITIES = RS 3 TN

01 CURRENCY IN CIRCULATION REDUCES BY RS 3 TN

02 12 TRILLION DEPOSITED AND 80% WITHDRAWN

03 REDUCTION IN CIRCULATION BY RS 2.4 TN

04 TOTAL DECLINE RS 5.4 TN

implication
of impact on RBI balance sheet

option 1

RBI gives Rs. 3 trillion to the Govt. as “special dividend”. Govt. deposits with the RBI increases by that amount

option 2

RBI cancels old debt of government on its balance- assets decline by Rs.3 trillion (or) creates a contingency reserve -its liabilities increase by Rs.3 trillion

option 1

The drag on growth likely to be short-lived Sharp rebound in economic activity in FY 18 likely due to significant fiscal stimulus to be undertaken by govt

option 2

The drag on growth could extend beyond two quarters

GROWTH SUBDUED BUT DOMESTIC LIQUIDITY BAZOOKA TO BANKS…

- **Indian bond market rallied sharply (30 bps decline in 10 -year G-sec so far**

- **Money market rates (3 M and 12 M CP rates) declined by 80-90 bps**

- **Banks cut MCLR rate by 20 bps**

- **RBI looking increasingly likely to cut policy rate, lending rates should come down further**

- **Next couple of months , good time for corporates to raise money**

"SPECIAL DIVIDEND" TO GOVERNMENT

Will the government get windfall gains to undertake fiscal stimulus?

As per Ex-Governor Rangarajan, the profits made by the RBI essentially out of current transactions

There is "no capital gain or capital loss" as far as the RBI is concerned.

No scope for any extra dividend

Amendments to RBI act required to make it possible

Past demonetization episodes-Reduction in the asset side of B/S of central banks globally .
Thus, there is little precedence of windfall gains accruing to the Government

Sectoral Impact
TOP EIGHT SECTORS
AUTO & AUTO ANCILLARY
CONSUMPTION
BANKING
NBFC & FINANCE
HOSPITALITY & TOURISM
INFRASTRUCTURE
OIL & GAS
REAL ESTATE
OTHERS
TOP STORY: OVERVIEW
SUMMARY OF THE SECTOR WISE IMPACT OF DEMONETIZATION
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01
AUTO & AUTO ANCILLARY
Negative

02
CONSUMPTION
Neutral

03
BANKING
Marginally Positive

04
NBFC & FINANCE
Mixed - Divergent across Segments

05
HOSPITALITY
Negative

06
INFRASTRUCTURE
Negative

07
OIL & GAS
Neutral

08
REAL ESTATE
Negative

AUTO & AUTO ANCILLARY

OVERVIEW

THE AUTOMOTIVE INDUSTRY IN INDIA IS ONE OF THE LARGEST IN THE WORLD WITH AN ANNUAL PRODUCTION OF 23.37 MILLION VEHICLES IN FY 2014-15, FOLLOWING A GROWTH OF 8.68 PER CENT OVER THE LAST YEAR. THE AUTOMOBILE INDUSTRY ACCOUNTS FOR 7.1 PER CENT OF THE COUNTRY'S GROSS DOMESTIC PRODUCT (GDP).

AUTOMOBILES

MARKET SIZE

Sales of passenger vehicles increased by 16.7 per cent to 258,000 units in August 2016 driven by better-than-expected monsoon and strong buying sentiment*. Sales of commercial vehicles grew by 1.53 per cent to 52,996 units.

The two-wheeler industry also performed well. Motorcycle sales grew 22 per cent to 1 million units, while overall two-wheeler sales grew 26.3 per cent to 1.64 million units.

Automobile exports grew at a CAGR of 14.65 per cent during 2010-15. Passenger Vehicles, Commercial Vehicles, Three Wheelers and Two Wheelers grew by 6.89 per cent, 13.77 per cent, 18.69 per cent and 16.60 per cent CAGR during 2010-15. Two wheelers accounted for the largest share of exports at 69.4 per cent in FY15. Passenger vehicles comprised a sizeable 16.7 per cent of overall exports. Exports of three wheeler vehicles registered around 11.1 per cent share in exports in FY15.

Alternative fuel has the potential to provide for the country's energy demand in the auto sector as the CNG distribution network in India is expected to rise to 250 cities in 2018 from 125 cities in 2014. Also, the luxury car market could register high growth and is expected to reach 150,000 units by 2020.

Pros

Passenger Vehicles: Short term impact due to purchase deferment; demand will revive in medium term.

Tractors: Demand to be materially impacted; plus questionable trade practices like over-invoicing to moderate

Due to decrease in bank lending rates, the sales might be boosted as the Bike and Car EMIs become much more affordable.

Two Wheelers: High impact on 2 wheeler sales as large % of rural 2W transactions are in cash, % transactions backed by loans is lower

Luxury cars & SUV: Sales will see significant impact due to wealth deterioration and decline in rural transactions (cash based)

Commercial Vehicles: Negatively impacted. 2nd hand truck sales, which had higher % of cash transactions, will decline sharply (both number of transactions and pricing)

Cons

CONSUMPTION

overview

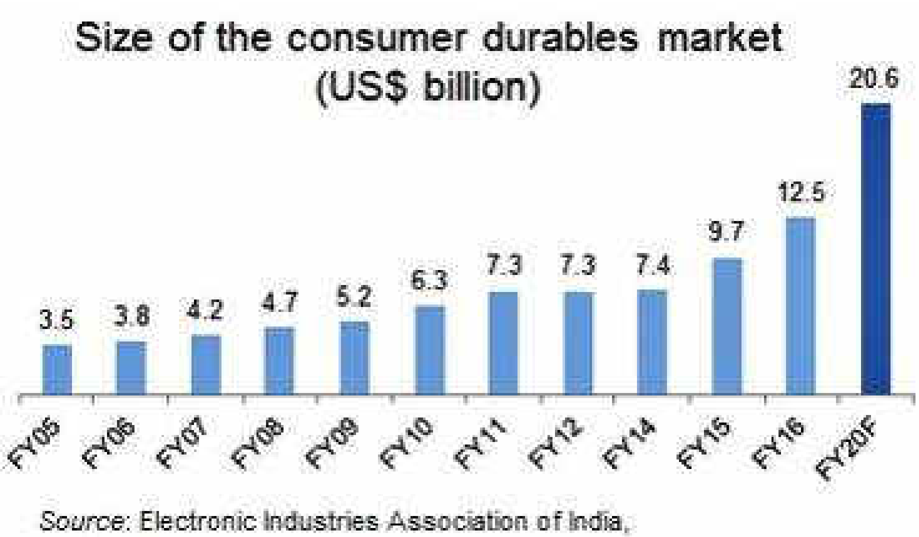
Indian consumer segment is broadly segregated into urban and rural markets, and is attracting marketers from across the world. The sector comprises of a huge middle class, relatively large affluent class and a small economically disadvantaged class, with spending anticipated to more than double by 2025. India stood second among all nations in the global consumer confidence index with a score of 128 points for the quarter ending June 2016, after Philippines (132).

MARKET SIZE

The Indian consumer sector has grown at an annual rate of 5.7 per cent between FY 2005 to FY 2015. Annual growth in the Indian consumption market is estimated to be 6.7 per cent during FY 2015-20 and 7.1 per cent during FY 2021-25.

The FMCG sector has grown at an annual average of about 11 per cent over the last decade. The overall FMCG market is expected to increase at (CAGR) of 14.7 per cent to touch US$ 110.4 billion during 2012-2020, with the rural FMCG market anticipated to increase at a CAGR of 17.7 per cent to reach US$ 100 billion during 2012-2025.Food products is the leading segment, accounting for 43 per cent of the overall market. Personal care (22 per cent) and fabric care (12 per cent) come next in terms of market share.

KEY INITIATIVES BY THE GOVERNMENT



The Government of India has allowed 100 per cent Foreign Direct Investment (FDI) in online retail of goods and services through the automatic route.

With the growth in demand for skilled labor, the government plans to train 500 million people by 2022.

In the Union Budget 2016, the government removed duties on items such as components for microwaves, LCD fabrication units, charger, battery, wired speaker, headsets, broadband modems, set-top boxes and CCTV camera. Depending on the product category, various duties such as special additional duty, countervailing duty and basic customs duty have been reduced in the range of four to 12.5 per cent.

Union Cabinet reforms like implementation of the Goods and Services Tax (GST) and Seventh Pay Commission are expected to give a boost to consumer durable sector in India during 2016.

Pros

Consumer staples: the move should benefit organized retail and hamper the market for local counterfeit goods.

Consumer durables: sales through online retail should pick up relatively

Consumer discretionary: time lower rates should provide a buffer in the medium term

Cons

Consumer staples: Given the need based demand and small purchase tickets, the impact on demand would be muted

Consumer durables: Sales likely to be hampered over short-term, especially sales through unorganized channels as cash purchases (~70-75% of the overall sales) take a hit

Consumer discretionary: The adverse wealth effect will likely hurt higher end discretionary demand.

Liquor: Most of the purchases by retailers are through cash which may bring down volume in the near term.

BANKING

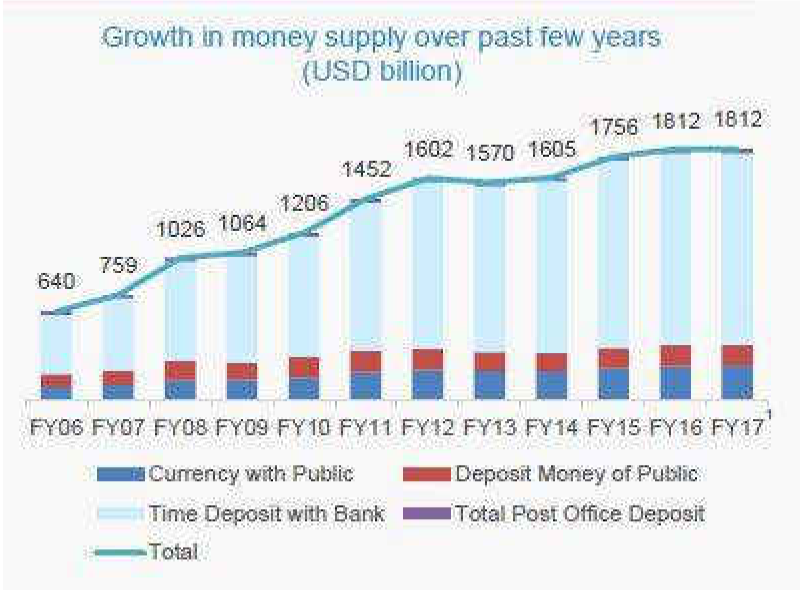
OVERVIEW

The Indian banking system consists of 26 public sector banks, 25 private sector banks, 43 foreign banks, 56 regional rural banks, 1,589 urban cooperative banks and 93,550 rural cooperative banks, in addition to cooperative credit institutions. Indian banking industry has recently witnessed the roll out of innovative banking models like payments and small finance banks. The central bank granted in-principle approval to 11 payments banks and 10 small finance banks in FY 2015-16.

Total money supply increased at a CAGR of 11.14 per cent during FY 06 –16.

Between FY06–16, narrow money supply (M1) rose at a CAGR of 7.69 per cent to US$ 392.8 billion, broad money supply (M2) increased at a CAGR of 6.49 per cent to US$ 395.3 billion and money supply (M3) grew at a CAGR of 11.14 per cent to US$ 1.8 trillion by the end of October'15.

Time deposits with banks have shown highest average growth of 12.9 per cent during FY06–16*, and stood at US$ 1.44 trillion.



MARKET SIZE

KEY INITIATIVES BY THE GOVERNMENT

In July 2016, the government allocated Rs 22,915 crore (US$ 3.41 billion) as capital infusion in 13 public sector banks.

To reduce the burden of loan repayment on farmers, a provision of Rs 15,000 crore (US$ 2.2 billion) has been made in the Union Budget 2016-17 towards interest subvention.

Under Pradhan Mantri Jan Dhan Yojna (PMJDY), 250.5 million accounts! have been opened and 192.2 million RuPay debit cards have been issued as of October 12, 2016. These new accounts have mustered deposits worth almost Rs 44,480 crore (US$ 6.67 billion).

In September 2015, RBI approved 10 applicants to set up small finance banks , this approval will be valid for 18 months to comply with the guidelines and conditions stipulated by RBI. After fulfillment of requirements, RBI would grant banking license to the selected applicants

Pros

Increased share of savings moving to banks; high CASA ratio (lower cost of funds)

Lower bond yields resulting in high treasury gains (particularly PSU banks)

Government’s move to remove higher-value banknotes from circulation would lead to a surge in deposits, allowing lenders to eventually lower lending rates and lower costs to service the sector’s debt.

Paradigm shift towards cashless economy

Cons

With any sharp infusion of deposits and relatively limited avenues to lend, the credit deposit ratio for banks would become unfavorable, and thus impact margins.

Negative from credit growth perspective and asset quality challenges (banks with high SME exposure)

Reduction in deposit interest rate due to high liquidity

Popular NBFC in India

NBFC & FINANCE

OVERVIEW

There are 11,842 Non-Banking Financial Companies (NBFCs) registered with the Reserve Bank of India out of which a lion's share of 98% are non-deposit accepting with the balance 2% being deposit accepting NBFCs. Since November 2014, 200 non-deposit accepting NBFCs having asset size of Rs 5 bn and above have been classified as systemically important. The major NBFCs in India have their relative specializations, for e.g. HDFC (mortgage loans), Mahindra Finance (agri loans), Power Finance Corporation (power financer) & Shriram Transport Finance (auto loans)

MARKET SIZE

Retail credit of non-banking finance companies (NBFCs) stood at Rs. 5.2 trillion as on June 30, 2016 registering a y-o-y growth of about 21.5% in Q1 FY 2017 (19.9% in FY 2016) as compared with 14.8% in FY 2015.

Micro finance and mortgage/SME segments continued to register robust growth, while a steady revival in the commercial vehicle credit, especially new CVs, gold loans and passenger vehicle segments supported overall growth.

The banking system continues to remain the primary source of funding for retail-focussed NBFCs, accounting for close to 41% of the total borrowings as on June 30, 2016. The share of funding from long term debentures accounted for 34% of NBFC borrowings against 33% in March 2015, while the share of CP borrowings was 12% against 10% in March 2015.

Return on average assets (excluding one-time gains and captive financiers) for retail NBFCs improved to 1.8% (based on trailing 4 quarters ended June 2016) from about 1.7% in March 2016 as the interest spreads widened with declining funding costs.

KEY INITIATIVES BY THE GOVERNMENT

100 per cent foreign direct investment (FDI) allowed in 'other financial services' carried out by NBFCs under government approval route.

Trusts of ARC and securitisation trusts to be tax transparent and abolishment the dividend distribution tax (DDT) on distribution by trusts of ARC and securitisation trusts, thus embracing global best practices

Pros

Gold Finance: Positive in medium term – Near term disbursements to get hit as high cash dealing; However, ~75% of gold lending is from unorganized segment which will gradually shift to organized players

Micro finance: Positive in medium term – ~70% transactions done in cash; Near term disbursements/collections to get hit; However, positive in medium to long term as borrowers shift to bank accounts.

Housing Finance: Negative: LAP/developer loans may see increased delinquencies ; underlying demand slowdown to affect credit growth

Auto Finance: Negative: ~60-70% transactions are done in cash; resale values likely to come down for vehicles; Asset quality issues to worsen

Asset Finance: Negative: As large chunk of cash based business of asset financing suffers a setback.

Cons

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HOSPITALITY AND TOURISM

THE INDIAN TOURISM AND HOSPITALITY INDUSTRY HAS EMERGED AS ONE OF THE KEY DRIVERS OF GROWTH AMONG THE SERVICES SECTOR IN INDIA. THE INDUSTRY IS EXPECTED TO GENERATE 13.45 MILLION JOBS! ACROSS SUB-SEGMENTS SUCH AS RESTAURANTS, HOTELS AND TRAVEL AGENTS/ TOUR OPERATORS.

INDIA HAS MOVED UP 13 POSITIONS TO 52ND RANK FROM 65TH IN TOURISM & TRAVEL COMPETITIVE INDEX.

MARKET SIZE

Increase in domestic disposable incomes has continued to support the growth of domestic and outbound tourism. Total outbound trips increased by 8.7 per cent to 19.9 million in 2015. Inbound tourist volume grew at a Compound Annual Growth Rate (CAGR) of 6.8 per cent during 2010-15.

Foreign Tourist Arrivals (FTAs) in India increased 11.8 per cent year-on-year to 670,000 tourists in August 2016, while Foreign Exchange Earnings (FEEs) from tourism increased 13.1 per cent year-on-year to Rs 12,903 crore (US$ 1.92 billion).

Tourist arrivals in India on e-Tourist Visa (e-TV) grew by 196.6 per cent year-on-year to 66,097 tourists in August 2016, attributable to the introduction of e-TV for 150 countries as against the earlier coverage of 113 countries.

Online hotel bookings in India are expected to double by 2016 due to the increasing penetration of the internet and smart phones.

Total contribution by travel and tourism sector to India's GDP is expected to increase from US$ 136.3 billion in 2015 to US$ 275.2 billion in 2025. Travel and tourism is the third largest foreign exchange earner for India. In 2014, the country managed foreign exchange earnings of USD 19.7 billion from tourism.

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Pros

Major gain for online forex marketplace companies like BookMyForex that have introduced online forex and have been promoting plastic money (forex travel cards) against online or electronic payments.

Cons

Hotels: Demand to be impacted due to slowdown in Domestic Travel. Near Term Impact on Corporate Travel whereas Inbound demand to remain unaffected

Tour operators:
Domestic Leisure Travel: Severely impacted as majority of spending is in cash.
Corporate Travel: There maybe temporary slowdown in corporate travel due to cash crunch
Inbound: Inbound travel to remain unaffected
Outbound: Outbound travel through unorganized players impacted as foreign exchange usage abroad is mostly in cash

OVERVIEW

INFRASTRUCTURE

Infrastructure sector is a key driver for the Indian economy. Mr Nitin Gadkari, Minister of Road Transport and Highways, and Shipping, has announced the government's target of Rs 25 trillion (US$ 376.53 billion) investment in infrastructure over a period of three years, which will include Rs 8 trillion (US$ 120.49 billion) for developing 27 industrial clusters and an additional Rs 5 trillion (US$ 75.30 billion) for road, railway and port connectivity projects.

Infrastructure sector includes power, bridges, dams, roads and urban infrastructure development. In August 2016, India jumped 19 places in World Bank's Logistics Performance Index (LPI) 2016, to rank 35th amongst 160 countries.

MARKET SIZE

FOREIGN DIRECT INVESTMENT (FDI) RECEIVED IN CONSTRUCTION DEVELOPMENT SECTOR FROM APRIL 2000 TO MARCH 2016 STOOD AT US$ 24.19 BILLION, ACCORDING TO THE DEPARTMENT OF INDUSTRIAL POLICY AND PROMOTION (DIPP).

The Government of India is planning to boost regional connectivity by setting up 50 new airports over the next three years. It has rolled out stuck projects worth Rs 4 lakh crore (US$ 58.69 billion) in the past six months.

The government plans to invest over Rs 7,000 crore (US$ 1.04 billion) in FY 2016-17 to develop its network in the north-eastern region for better connectivity.

KEY INITIATIVES
BY THE GOVERNMENT

In the Budget 2015-16, the capital outlays for roads, and railways have been increased by Rs 140.3 billion (US$ 2.05 billion) and Rs 100.5 billion (US$ 1.47 billion) respectively.

Government of India plans to launch the National Infrastructure Investment Fund (NIFF) with an initial corpus of at least Rs 40,000 crore (US$ 5.87 billion).

The NITI Aayog has instructed central public sector units to release 75 per cent of the amount due to construction contractors and concessionaires of government projects, which is expected to release over Rs 40,000 crore (US$ 6.02 billion) for projects that are under dispute.

The Ministry of Urban Development has approved an investment of Rs 19,170 crore (US$ 2.81 billion) for improving basic urban infrastructure in 474 cities in 18 states and Union Territories (UTs) under Atal Mission for Urban Rejuvenation and Transformation (AMRUT).

Pros

EPC/Construction: Most of these projects have big ticket sizes and revenue is from larger corporate houses and government authorities, which do bank transaction. Therefore, due to reduction in unorganized sector in the market, their revenues are likely to increase.

Cons

EPC/ Construction: For small contractors, due to cash crunch there will be some disruption in medium term.

Toll collection, which are mainly done in cash, may see some hiccups in short term.

Building material: Likely to be negatively impacted as the underlying real estate demand (~60-65% of consumption) will be severely impacted due to curtailment of black money. Large part of transactions done in cash in segments like paints, hence likely to be negatively impacted.

OIL AND GAS

OVERVIEW

The oil and gas sector is among the six core industries in India and plays a major role in influencing decision making for all the other important sections of the economy. Domestic refiners' import of crude oil increased 9.1 per cent year-on-year to around 18.81 million metric tons during August 2016.

IN THE SPOTLIGHT

MARKET SIZE

Total fuel consumption is expected to grow around 5-6 per cent in FY 2016-17 and thereafter, while consumption of gasoline is expected to grow around 9-10 per cent over the medium term, supported by robust passenger vehicle sales amid low crude oil prices.

India is the fourth-largest Liquefied Natural Gas (LNG) importer and accounts for 5.8 per cent of the total global trade.

The country's gas production is expected to touch 90 Billion Cubic Metres (BCM) in 2040 from 35 BCM in 2013. Gas pipeline infrastructure in the country stood at 15,808 km in December 2015.

According to data released by the Department of Industrial Policy and Promotion (DIPP), the petroleum and natural gas sector attracted FDI worth US$ 6.67 billion between April 2000 and March 2016.

Pros

Temporary pick up in demand due to significant pre-buying of auto fuels

Refiners are to benefit from robust refining margins, capacity expansions and higher fuel marketing margin.

Over medium term, demand, especially for personal transportation could be somewhat negatively impacted due to high proportion of cash transactions

Citi Gas: Largely unimpacted, the demand for CNG might get slightly hurt where cash transactions are high

Cons

REAL ESTATE

OVERVIEW

The real estate sector is one of the most globally recognised sectors. In India, real estate is the second largest employer after agriculture and is slated to grow at 30 per cent over the next decade. The real estate sector comprises four sub sectors - housing, retail, hospitality, and commercial. The growth of this sector is well complemented by the growth of the corporate environment and the demand for office space as well as urban and semi-urban accommodations.

The construction industry ranks third among the 14 major sectors in terms of direct, indirect and induced effects in all sectors of the economy.

MARKET SIZE

The Indian real estate market is expected to touch US$ 180 billion by 2020. The housing sector alone contributes 5-6 per cent to the country's Gross Domestic Product (GDP).

In the period FY 2008-2020, the market size of this sector is expected to increase at a Compound Annual Growth Rate (CAGR) of 11.2 per cent. Retail, hospitality and commercial real estate are also growing significantly, providing the much-needed infrastructure for India's growing needs.

Private Equity (PE) investments by domestic and international investors in the Indian realty market declined 30 per cent year-on-year to US$ 2.5 billion across 48 deals during Jan - Sep 2016.

The construction development sector in India has received Foreign Direct Investment (FDI) equity inflows to the tune of US$ 24.19 billion in the period Apr 2000 - Mar 2016.

KEY INITIATIVES BY THE GOVERNMENT

India's Prime Minister Mr Narendra Modi approved the launch of Housing for All by 2022.

Under the Sardar Patel Urban Housing Mission, 30 million houses will be built in India by 2022, mostly for the economically weaker sections and low-income groups, through public-private-partnership (PPP) and interest subsidy.

In August 2015, the Union Cabinet approved 100 Smart City Projects in India.

The Government has also raised FDI limits for townships and settlements development projects to 100 per cent.

Real estate projects within the Special Economic Zone (SEZ) are also permitted 100 per cent FDI.

In Union Budget 2015-16, the government allocated US$ 3.72 billion for housing and urban development.

Pros

Overall decrease in inflation due to low living cost.

Positive in long term: demonetization coupled with Real Estate Regulation Act, Benami Act and GST, will transform RE sector in longer term. Key positives expected - increased transparency, improved investor confidence, better access to funding, higher FDI likely.

Higher revenue for government in terms of higher registration cost.

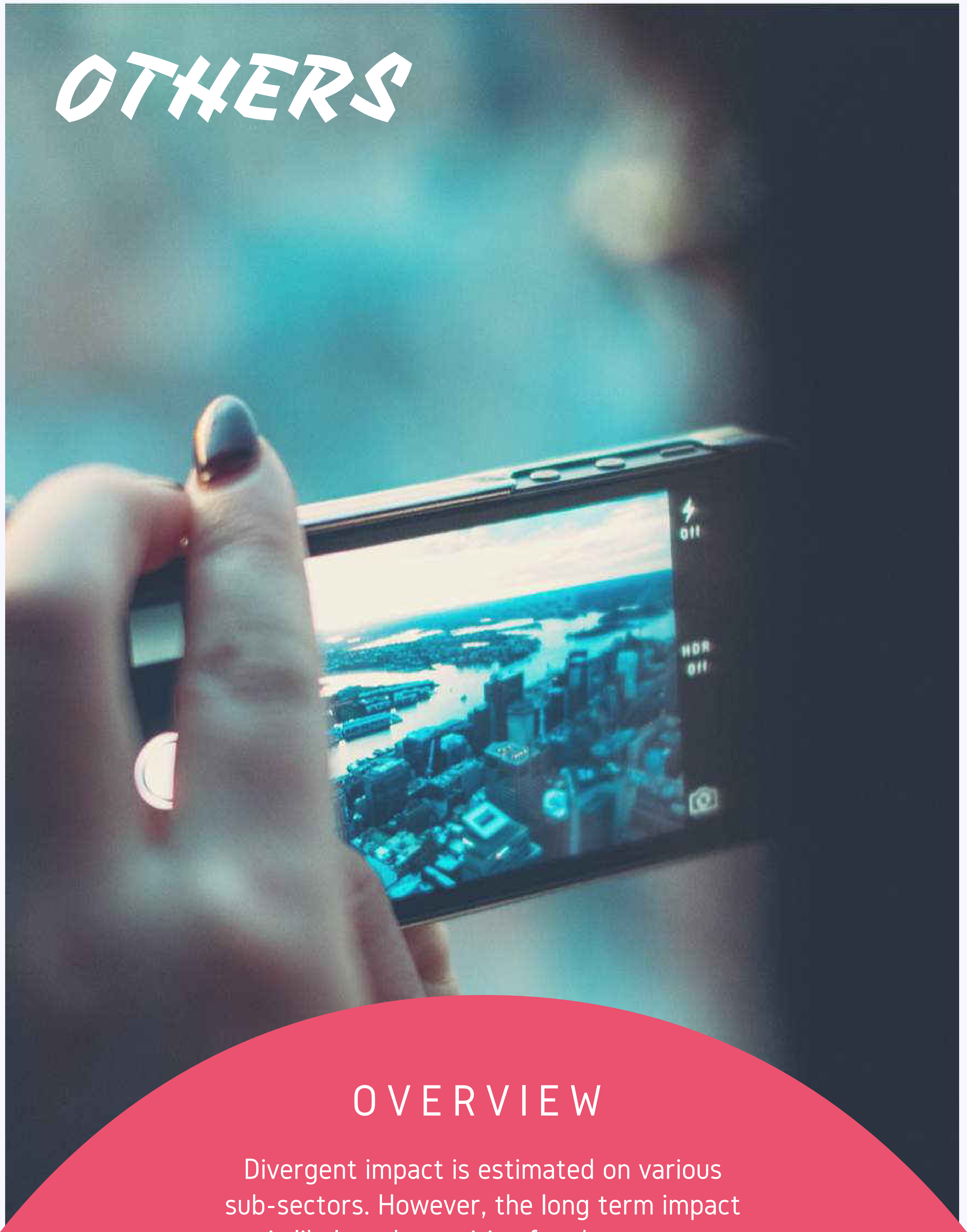
Greater impact on small builders, and in specific cities / (Tier 2/3 cities, NCR etc.) / micro markets where cash dealing was more prevalent. Resale properties impacted more than primary sales.

Organized builders may also face demand slowdown in near term. Another view is, if supply of resale properties declines due to price crash, it may favourably impact primary sales.

Registered prices in residential may go up to adjust for cash component Execution of ongoing projects will be affected, and some developers may face serious fund crunch

Cons

OTHERS



OVERVIEW

Divergent impact is estimated on various sub-sectors. However, the long term impact is likely to be positive for the sector.

Pros

With cash transactions facing a reduction, alternative forms of payment will see a surge in demand. Digital transaction systems, E wallets and apps, online transactions using E banking, usage of Plastic money (Debit and Credit Cards), etc. will definitely see substantial increases in demand. This should eventually lead to strengthening of such systems and the infrastructures required.

Donations in cash taken by education institutions (around 40-50%) and medical colleges (usually greater than 100% of fees) is likely to come down.

Media: Cable TV: Elongated working capital cycles for Multi System Operators (MSOs) due to cash dealings of Local cable operators (LCOs). ARPU growth may be delayed and Bad debts may increase due to payment delays by LCOs.

Print Media: Slowdown in real estate (major advertiser in regional print) will impact ad revenue growth for Print media

Metals: Demand slowdown from end consumers such as auto, white goods and construction(residential) is likely to result in lower domestic volumes. Pressure on debt servicing for leverage metal companies due to drop in volumes.

Cons

THE WAITING GAME

OVERVIEW OF AMENDMENTS PROPOSED

Provisions for taxation & penalty of unexplained credit, investment, cash and other assets

TAX (Section 115BBE)

Flat rate of tax @60% + surcharge @25% of tax (i.e. 15% of such income). So total incidence of tax is 75% approx.
(No expense, deductions, set-off is allowed)

PENALTY (Section 271AAC)

If Assessing Officer determines income referred to in section 115BBE, penalty @10% of tax payable in addition to tax (including surcharge) of 75%.

Penalty for search seizure cases

PENALTY (271AAB)

(i) 30% of income, if admitted, returned and taxes are paid
(ii) 60% of income in any other case

THE WAITING GAME

OVERVIEW OF AMENDMENTS PROPOSED

Taxation and Investment Regime for Pradhan Mantri Garib Kalyan Yojana, 2016' (PMGKY)

Undisclosed income in the form of cash & bank deposit can be declared:

(A) Tax, Surcharge, Penalty payable

Tax at 30% of income declared
Surcharge at 33% of tax
Penalty at 10% of income declared
Total - 50% of income (approx.)

&

(B) Deposit

25% of declared income to be deposited in interest free Deposit Scheme for four years.

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