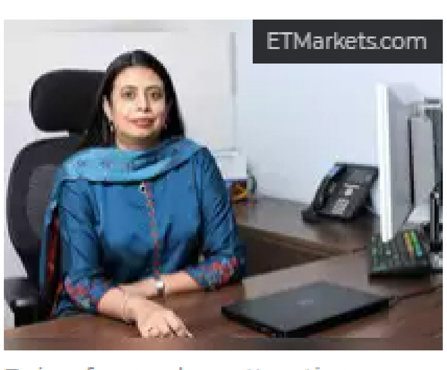
ETMarkets Smart Talk: We expect some rationalization in capital gains tax structure in Budget 2023: Reshma Banda

Synopsis
The Indian economy is relatively better placed than its peers and other advanced economies. In the near-term, returns would be moderate in India due to premium valuations both on a historical basis and also as compared to other emerging economies.



Being focused on attractive valuations and cash flows while investing in compelling business models has been an important learning over the last year, as we had stayed away from the new-age segment earlier.

*"We expect that there may be some announcements on rationalization/harmonization in the capital gains tax structure," says Reshma Banda, **Head-Equity & Executive VP, Bajaj Allianz Life Insurance.***

In an interview with ETMarkets, Banda who has over 20 years of investment management experience said: "We may continue to see a push towards CAPEX, rural India, Infrastructure, and some major project announcements from the government in Budget," Edited excerpts:

How do you sum up 2022 and how do you see markets in 2023?
In CY22, the Indian markets were among the most resilient in the globe with nifty index returns at 4.3% for the year.

Globally, the multi-decadal high inflation impacted economic growth across both developed and emerging economies.

Central banks responded to the elevated readings by multiple policy rate hikes in the year and aggressive monetary tightening that resulted in a reduction in liquidity and an increase in interest rates.

The Indian economy is relatively better placed than its peers and other advanced economies. In the near-term, returns would be moderate in India due to premium valuations both on a historical basis and also as compared to other emerging economies.

However, we remain optimistic on the fundamentals of the economy and the long-term India growth story and believe that equities would be the best asset class to benefit from this.

Do you think the sectors that worked well in 2022 will continue to perform in 2023 as well?
Some sectors like FMCG and BFSI have done well in 2022 and should continue their outperformance in 2023 as well.

Private banks are well placed and should benefit from a strong operating environment with improving margins, strong credit growth, and benign asset quality trends.

In the previous year, China was following a zero COVID policy with enforced lockdowns. A relaxation in this policy is being implemented this year and we are seeing the opening up of China.

With economic activity accelerating in China, we remain optimistic about the base metal sector which could benefit from a resurgence in demand.

Where do you see the rupee headed in the year 2023?
Last year the INR depreciated by 10.1% against the dollar. The DXY index gained by 8.2% and this can be attributed to the US Fed's aggressive monetary tightening. In 2022, the Fed took the lead and hiked policy rates aggressively by a cumulative amount of 425bps.

While other global central banks also increased rates, they lagged behind the Fed and hence we saw most global currencies weakening against the dollar. India too did not remain immune to this trend.

In the coming year, we expect exports from India to be weak considering the deceleration in the world economy. This would contribute towards a widening trade deficit and the BOP would remain under pressure.

However, we feel that the worst may be over for the INR and the scope of further INR depreciation will likely to be limited in the coming year.

Few headwinds which India has to battle in the first 6 months of 2023?
The external sector would be vulnerable to the slowing global growth rates and needs to be followed closely. Inflation levels both domestic and global are going to determine the pace of rate hikes in the coming months and the markets would keenly watch for the interest rate hikes to plateau or pivot.

Additionally, a recovery in rural India demand is going to be an important contributor to the growth in the coming year, with India being a domestic-focused economy.

What are your expectations from Budget 2023?
With market participants and some government officials indicating divergence in capital gain tax between different asset classes, we expect that there may be some announcements on rationalization/harmonization in the capital gains tax structure.

Given that India has managed the Covid pandemic crisis quite well (esp. from a macro perspective), and with better than budgeted tax collections and healthy tax buoyancy, the government should be comfortably able to meet the fiscal deficit target.

Also, with fiscal deficit earlier rising during the pandemic, the government may now go back to the pre-covid fiscal consolidation glide path.

Which sectors could remain in the spotlight in the Budget 2023 which is also the last Budget before India goes to poll in 2024?
Last year had seen a focus on infrastructure/government spending. Considering that this is the last budget before the general election in 2024, we may continue to see a push towards Capex, rural India, Infrastructure, and some major project announcements from the government.

Do you see interest rates peak out in 2023? If yes, what is the kind of impact we could see on currency and equity markets?
Globally as well as in India we have witnessed elevated inflation in CY22. However, in India inflation has been more manageable than the multi-decade high inflation seen in many developed economies. Therefore, central bank monetary policy tightening has been much more aggressive in developed economies compared to India.

Although most of the rate hikes in India are behind us now, there is still some way to go for developed economies like the US, Europe etc.

Equity Markets have moved up in the last year and are trading at premium valuations currently. Market returns in India over the past couple of years have come from strong corporate earnings growth and some PE expansion.

We believe that going forward in 2023, the potential of PE expansion in India is limited, and therefore returns will be more guided by corporate earnings growth.

What were your key learnings from 2022 which will come in handy in 2023 as well? In terms of primary markets – after what happened in 2022 with New Age companies do you think future listings will also see similar enthusiasm from the retail community?
There was too much excitement around new-age companies with the focus being on their long-term growth story. Most of the new age companies are listed at rich valuations which were a multiple of the sales of the entity.

Visibility of cash flows and profitability was limited in the near term and hence we have seen these stocks correcting to much more reasonable valuations.

Being focused on attractive valuations and cash flows while investing in compelling business models has been an important learning over the last year, as we had stayed away from the new-age segment earlier.

(Disclaimer: Recommendations, suggestions, views and opinions given by the experts are their own. These do not represent the views of Economic Times)