AVENTUS
PARTNERS

# BUSINESS, FINANCIAL AND HUMAN CAPITAL

## OUTLOOK FOR 2012

# THE ECONOMY OVERVIEW

We are happy to see the back of an year that almost brought Europe and the rest of the world down to its knees. The Greek economic crisis, and Spain, Ireland, Italy and Portugal economies pulled back from the brink this year and we may have deferred the problem in true European fashion, but the bad news still hangs over our heads like a toxic cloud

In India, most of the last year was spent by the Government and the RBI alternately looking at one another trying to bring inflation in control and by October, the throttling rate of interest rates was beginning to show on the inflation. It has been on a steady downward spiral, but the underlying financial problems that caused it in the first place need to be corrected comprehensively before we come to a situation wherein we can say we have a complete control on inflation. The Government did not meet its tax collection targets which fell short of the revised targets by Rs. 50,000 crores, but we managed to scrape through on the original budget targets on tax collection

***We at Aventus Partners believe that the government will follow a wait and watch policy before loosening the purse strings again for borrowing to pick up momentum***

Though inflation has come under control in the recent months, we at Aventus Partners believe that the government will follow a wait and watch policy before loosening the purse strings again for borrowing to pick up momentum. Though the Government's Economic Survey predicts next year's GDP growth rate at 7.6% +/- 0.25%, in truth, the Government will have to settle for a number closer to 6.8 to 7% in the next year as well

With the USA heading into an Election year, we can expect policy paralysis in the global markets, while people watch with bated breath the outcome of the US elections and this will have an economic overhang globally. Added to this the government's profligate expenditure policies, based more on dole than actual development, we believe that we are in for another slow year ahead

This year saw crisis in the Airlines sector in India, the automobile sector chugged to a slow standstill, and the real estate sector is paralysed practically. We expected policy decisions in these areas, more towards the formation of some long term strategic initiatives to create a level playing field; instead we have seen some paltry handouts to keep the industry quiet. Added to the fact that this was the last big opportunity to do something worthwhile before India went into an election budget the next year, we were disappointed to see no movement on the Direct Taxes code (DTC), Unified Goods and Services (GS) Tax regime and no clarification on oil subsidies

While the budget may have overlooked these components and the DTC will take at least another year to come into play and the Unified GS may yet be introduced this year, the oil and fertilizer subsidy cannot be delayed any longer. The off balance sheet items will be need to be addressed very soon before they create major imbalances in the economy

The budget proposes to tax angel investments received by start ups/entrepreneurs, by treating the premium received over and above the face value of the shares as other income for the purpose of computing tax. Venture Capital funding however has been exempted

This is likely to have both a short and long term adverse impact on entrepreneurial activity in the country, as entrepreneurs are already short of funds at the start up stage, and will be further constrained for finances to commercialize their ideas

Long term capacity building through up gradation of knowledge and skills has received some impetus through an increase of 18% in budget allocation for education (up from Rs. 52060 to Rs. 61047 crores). However, the primary issues of the drop in quality of education and skills as reflected through various studies might continue to hurt the economy and the country on account of the refusal of the government to treat the sector as "Not for Profit", thereby impacting long term competitiveness

The increase of service tax from 10 to 12% will also directly impact the competitiveness of private service providers like training academies, learning centres, etc.

***We believe that FDI in retail, pension reforms, insurance sector overhauls, all have to be carried out and will be accomplished independent of the budgetary process***

Over the years, most of the budget related announcements have been delayed, postponed or announced independent of the budgetary process because of the government's lack of initiative and success in building consensus among the constituents of the coalition. We believe that FDI in retail, pension reforms, insurance sector overhauls, all have to be carried out and will be accomplished independent of the budgetary process. The government has introduced GAAR this year, which we believe is a good and comprehensive measure to prevent aggressive tax avoidance. However, the changes suggested in the Finance Bill to the retrospective taxation of transactions where the bulk of assets are located in Inida.is a retrograde step. The government will be tempted to open a lot of transactions that would have been within the law at the time, but the worry is that coupled with the GAAR, may lead to harassment of the companies

While a lot of schemes have been announced, the HR fraternity was closely watching the progress of the PF department's notices to companies on the issue of PF deductions on the basis of basic pay and not consolidated CTC. This issue has not been addressed by the Finance Minister in any form in the budget and consequently the case is up to the Supreme Court to adjudicate on

On the DTC front, while the FM was confident of launching the DTC from this year initially, it has been postponed by another year, due to lack of consensus building, but there has been one development wherein the slab structures for IT for individuals has been aligned to the DTC. Also another provision that has been in existence for some time now, is the exemption of the investments in NPS, companies may want to seek professional advice on how to go about providing relief to the employees and also regaining their compensation structure to provide this facility to mid career employees

***The income tax exemption limit has been raised to from Rs. 1.8 lacs to Rs. 2 lacs***

**The proposed tax slabs are as follows**

| | |
|---|---|
| 0-2 lacs | 0% |
| 2-5 lacs | 10% |
| 5-10 lacs | 20% |
| Above 10 lacs | 30% |

The limit of the peak rate has been increased from Rs. 8 lacs to Rs. 10 lacs

A 20% reduction in Securities Transaction Tax is proposed. Just prior to the budget the PF Department had announced that the rate of interest payable on provident fund accounts for the year would be 8.25%.

The bigger impact on the individual tax payer's pocket would be the increase in service tax across the board from 10 to 12 percent. Clearly, the direction of the GST initiative will be key, in terms understanding where the peak rates for services will be arrived at closer to the date of the GST rollouts

***The sectors who will find a bit of relief are textiles, infrastructure and agriculture.***

The sectors who will find a bit of relief are textiles, infrastructure and agriculture. Clearly the emphasis has shifted back to getting onto a more aggressive taxation philosophy because the Government believes that the worst is behind us. But without the acceleration in the reforms process, and the spectre of inflation not yet fully under control, it will remains to be seen if the optimism of the government converts to success on the ground in terms of getting back on the growth trajectory

The automobile sector has been struggling under high interest rate regime, the same for interest rate sensitive sectors like consumer durables and real estate. Our belief is that the government's view of the restoration of growth in capital creation would lead to demand generation based on trickledown economics is short-sighted. Government spending needs to be brought under control, and there seems to be no sign currently of going back to the FRBM in terms of a return to austerity. Also the speed of meaningless legislation of schemes that are difficult to monitor and will lead to a growth in bureaucracy at the Central and State levels

In the absence of an economic recovery, the banking sector will be increasingly burdened with NPAs; this trend is bound to increase with the process of economic recovery stalling. If that comes to a halt because of a cascading Euro problem which is still not completely gone, we are going to have a significant reduction in tax collections for the year ahead

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The revised targets for 2011-2012 were not met, the original numbers were. There was an apparent shortfall of Rs. 50,000 crores, was this actually a shortfall, or did the government manage to meet the original BE

The Finance Minister has been candid that this has been a services sector driven economic recovery. What should also be kept in mind that the investment cycle for capital investments in the services sector is very short, so if there are any adverse sentiments, the services sector can stop investments rapidly and the lag will not be noticed for a significant period of time before the collection targets for the half year and full year are in. Therefore the mechanism to monitor the growth of the services sector was something we expected to see, by were disappointed to see that it was not touched upon

Gold prices are have gone up, thanks largely to an increase in the customs duty. With precious metals, the government should refrain from making policy announcements in advance to prevent hoarding, which we believe has already started in anticipation of the increase in rates

## Human Capital Outlook, 2012-13

We expect that the changes in the tax provisions will have a positive influence on the employees at entry levels in organizations. The decision to re-jig the tax slabs, leaves some money in the hands of the individual which is a good factor in the short to medium term. Sector wise the outlook continues to be subdued for Real Estate, Consumer Durables and Automobiles and the Banking Sector. Telecom Sector will see growth in the handsets business, however, the growth in services business will not be as robust as in the previous years. We believe that there will be a pick up in the infrastructure sector, with a lot of governmental pressure will come into play to complete pending infrastructure projects on account of the election year ahead. Textiles should see robust growth, also on account of the cotton demand growing worldwide

***We foresee a drop in the global demand for manmade fibre, over the next 1 year's time. Mining and resources will continue to command a premium and people in this sector will see robust opportunity growth in the next 1 year***

We foresee a drop in the global demand for manmade fibre, over the next 1 year's time. Mining and resources will continue to command a premium and people in this sector will see robust opportunity growth in the next 1 year. IT and ITES may have a slightly subdued year on account of the ongoing economic turmoil, growth opportunity for professionals will continue to be present in this market

The private equity sector will have to hold on for a long haul, the lack of primary demand and the muted stock market will play the role of softeners in this business for the year ahead. We believe that the market activity will pick up briefly by October, but will drop by February, 2013

## Human Capital Outlook, 2012-13

AVENTUS PARTNERS

## Aventus Partners is an HR solutions firm that enables clients Acquire, Develop and Manage talent.


## REACH US @

**sriram@aventus.in**
**+919895345133**

**tania.gooptu@aventus.in**
**+919810215872**

**venkat.iyer@aventus.in**
**+919810608607**

### New Delhi office

**Aventus Human Capital LLP**
40/48, Ground Floor, Pocket 40
EPDP Road, CR Park, New Delhi-110019
Phone +91 11 40561242-45
Fax +91 11 40561241

### Bangalore office

**Aventus Human Capital LLP**
919, 2nd Stage,
Varthur Main Road, Tubrahalli,
Bangalore- 560 066
Phone +91 80 3253 7215,
+91 80 2854 3089

### Cochin office

**Aventus Human Capital LLP**
Personal Chamber, Natham's House,
Chittoor Road, Cochin- 682035
Phone: +91 484 3248780