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Kotak backs lower personal I-T, not higher corp taxes

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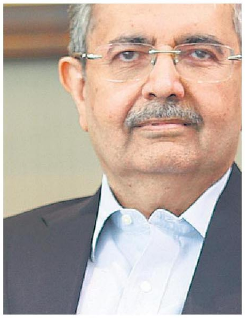
MUMBAI



Wrong signal in corp tax hike, says Uday Kotak SAMEER JOSHI/MINT

India should look to reduce income tax for individuals than raise it for companies to shrink the gap between the two, veteran banker Uday Kotak suggested.

Raising corporate income tax rate when the economy needs to revive animal spirits would send out a wrong signal, the Kotak Mahindra Bank founder said. Kotak, who stepped down as the bank's CEO last year, now helms his family office USK (Uday Suresh Kotak) Capital.

"My personal view is that the maximum marginal tax rate on income to individuals should be more like 33 or 35%, (down) from the current 39%. And if you recollect, it used to be 42%, which became 39%. Corporate tax rate is 25%. A fourth for corporates, a third marginal maximum for individuals in totality," Kotak said in an interview.

In 2019, the Centre cut income tax rates for companies. With consumption and growth cooling, there have been demands to reduce the tax burden on individuals too.

Kotak called for bringing more individuals within the zero-tax bracket, while expressing concerns that the government may instead look at narrowing the gap by raising corporate tax.

USK Capital invests in businesses with long-term potential, while Kotak himself mentors the next generation of business leaders.

Kotak believes that the country is in a good shape domestically, but said risks cannot be ruled out on the external front. He also cautioned about the inflated valuation in stock markets.

Read the full interview with Uday Kotak >P10

‘COMPETITIVENESS IS THE KEY TO OUR FUTURE’

Uday Kotak on protectionism, Donald Trump, private capex, Indian fintechs, scams and scandals

Gopika Gopakumar & Satish John
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SAMEER JOSHI/MINT

> We must become truly productive and efficient as players, and depending only on currency depreciation for growth is not sustainable.
>
> **UDAY KOTAK**
> FORMER MD, KOTAK MAHINDRA BANK

Most successful businessmen don’t retire. They continue to build and help other companies. But few reflect upon what it takes to build a great nation. Uday Kotak belongs to that minority.

Kotak, who is now 65, stepped down as the managing director of Kotak Mahindra Bank a year ago. In a career spanning nearly four decades, Kotak managed to build a financial conglomerate with total assets worth ₹6.2 trillion, spanning across banking, mutual funds, insurance, stock broking, car finance, investment banking, private equity (PE), and alternative assets.

Since retiring as a full-time banker, Kotak is now enjoying his new found freedom at the helm of his family office USK (Uday Suresh Kotak) Capital. Seated on the 10th floor at Godrej BKC, Mumbai, Kotak is busy managing his family money by investing in businesses with long-term potential and also mentoring the next generation of business leaders.

“I am not busy at all. I am quite relaxed,” he quips as he sits down for a 90-minute-long conversation with us, on a day which is otherwise packed with meetings.

While he avoids all questions on banking, since he is currently serving as the non-executive director on the bank’s board, Kotak is all eager to share his views on privatisation, getting animal spirits back into the economy, risk of over-regulation and Starlink’s entry into the Indian telecom sector.

In this exclusive interview with *Mint*, Kotak reveals his dream of seeing India as the second most powerful nation in the world during his lifetime.

You were one of those who could see the global financial crisis coming before it came. Do you have such apprehensions now?

No, I do not have major apprehensions at this stage, at least from a domestic point of view. I think India’s financial stability is positive. We have many parameters which are in good shape. If at all, my concern is more on the external account and more global. And inevitably, geopolitics is becoming an important part of that. As also the significant domination which the US is likely to have across the world as we go forward. Specifically, if you look at the global market cap, the US is two-thirds of the global market cap. And the predominance of the US dollar... it’s leading to most other currencies coming under pressure. So, while domestically, India is in a good shape, we have to be alert to external factors.

The budget is not even a month away. You’ve been talking about animal spirits and how to bring them back. Any thoughts on what could spark a boom?

My sense is that the private investment cycle has been slow. And while we maintain macroeconomic stability, bulk of the heavy lifting on the investment cycle has been done by the government and government entities. We have to introspect and ask what it takes for the private sector to put money to work. I mean, the Indian situation looks as good as it is from a macroeconomic point of view. What is it that private enterprises would like to see before putting money to work and taking the risks required as we go forward.

What do you think is holding the private sector back?

The first has to be capacity utilization. So, if capacity utilizations go up beyond a level, we will start seeing more entrepreneurs being ready to put in capital for creating new capacity. The second has to be consumption demand. We have seen some challenges on the consumption side, especially in recent times. And there could be a variety of reasons for that. There is a view that a stronger rupee, and low depreciation of the rupee, over the last 12 to 18 months on a relative basis compared to other countries, may have been one of the reasons for some slowdown in the growth momentum. If that is so, some depreciation of the rupee is helpful.

> Increasing tax rates for corporates at this stage would be a very wrong signal.

However, my view is that in the long term, a country does not win by only depreciating its currency. Its competitiveness has to come from its true strength. And true strength is something which I have said in my tweet at the end of the year—improvement of productivity like ROTI (return on time invested). So, we must become truly productive and efficient as players, and depending only on currency depreciation for growth is not sustainable.

You also spoke about eliminating the current account deficit. What do you think should be done?

We need to make sure that each sector has the ability to compete in the world. Global consumer brands are used by consumers beyond their countries of origin or people from that country in the rest of the world. I would love to see one or more of Indian consumer brands having such a global presence. I think there are many Indian companies which have the ability to become global consumer brands. Something like Titan in jewellery has an opportunity. There could be many other examples. There are Indian two-wheelers.

Do you think Indian fintechs can do it?

In the UPI space, they could. I think we have made a mark there. But so far, the use of UPI outside India is still limited. In fact, the question you’ve got to ask is the reverse. In India, 95% of the (UPI) volume is with global brands. Walmart and Google.

On the scams and scandals that occurred, such as IL&FS and DHFL, do you think the aftermath is still affecting the government and regulators, making them overly cautious and risk-averse?

I am a believer that a zero accident policy is a high risk to growth. And it’s across sectors. If you and I cross a road, we have a risk of an accident. Are we going to say we don’t cross a road? I’m not talking about any particular sector. And India is big enough to absorb some of these shocks. If you want to minimize accidents, the way to do it is to have good traffic lights, and have a good monitoring system. And most importantly, if an accident happens, the response time to correct is the key. We cannot have an accident linger for long.

You have also spoken earlier about increased investment in defence. Just last year, the head of an Indian EPC (engineering, procurement and construction) company was lamenting that he built a shipyard, but the orders are not coming. Your take?

One, India needs to beef up its defence. And needs to be much bolder in its spend. Because I genuinely believe long-term protection of a country is the safety of power. I am a big believer in that. The second is from a business point of view. The shipyard should be competitive enough to get orders outside India as well. So, if the shipyard was competitive, it could export. It brings me back to my earlier point. Competitiveness and not protectionism is the core to our future. Why can’t a shipyard be used by any other country in the world?

You made a lot of suggestions last year on tax. What kind of measures can simplify taxation?

First of all, on direct taxation, I compliment the government for the actions it took in July. They have increased long-term capital gains tax and simplified it. The rules have been made clear. Having said that, on the taxation of interest rates, including individual incomes, we should lower the layer and tax rates. My personal view is that the maximum marginal tax rate on income to individuals should be more like 33% or 35% from the current 39%. If you recollect, it used to be 42% which became 39%. Corporate tax rate is 25%. In totality, a fourth for corporates and a third marginal rate for individuals. It will be a good outcome as I see it. But the government will look at other ways of narrowing the gap by raising corporate tax. The threshold for zero taxation should be increased. We should read the big message from Donald Trump. He will really turbocharge the US economy and at a time when we want private investment to pick up. I would say that increasing tax rates for corporates at this stage would be a very wrong signal to bring animal spirits back.

Do you also see interest rate reduction sort of helping private capex?

As you have seen in the US, you have reduced the short-term interest rates but the long-term interest rates, in fact, have gone up. If you go back to August or September 2024, the long-term interest rates in the US were about 3.6% to 3.65%. It’s now nearly 4.6%. Even as short-term rates have gone down, long-term yields have gone up. So, when people take investment decisions, they look at the bond yields rather than the overnight yields. And, therefore, what we have to be careful about is that at a time when the US dollar is strengthening so much, and the US dollar 10-year bond is giving 4.6%, we cannot afford very low interest rates in India. Otherwise, you run the risk of more dollar flights out of India. I think India is very comfortable on its reserves. But if you look at the current foreign exchange reserves net of the forward positions of the sovereign, we are probably below $600 billion. Reserves are a very important signal to the world that we have the ability to be in a good place when a crisis happens.

On privatization, are you happy with the way it is? It doesn’t seem to be progressing...

Earlier privatizations were really disinvestments with the exception of Maruti Suzuki. And Maruti Suzuki is a great example of how the government of India handled disinvestment and made it a phenomenal success. Now, privatization is, in my mind, first a philosophy, which has to be deeply bought in by the social and political system of India. And in the history of privatization, the biggest success was Margaret Thatcher. And I happen to know the man who ran it for Margaret Thatcher. It was a gentleman called Jerry Grimstone. He and I co-chaired the Indo-UK financial partnership. And he was given complete freedom to go ahead and do whatever it takes to make privatization succeed and fully insulated from the political side. Privatization is very much linked to the socio-political reality of India.

Do you see a froth building up in the markets? What are you telling your investors?

I think we have to go back to the fundamentals on valuation. I do believe that small and mid-caps may have some froth. The large caps are still relatively better priced. But I would like to say that PE ratios need some moderation, and a lot of new money is coming in from areas and people who are first-time investors. Post covid, they have not seen a downturn.

We are seeing some consolidation in the cement industry. Do you see other industries also consolidating?

I think consolidation up to a point is needed. And there is a very famous ‘rule of three’ concept which has been around forever. What we have to be careful about is that the rule of three does not become the rule of 1.5. or two. There should genuinely be at least three serious competitors.

In the telecom sector, there are technology breakthroughs happening. How do you see it as an industrialist?

I think a lot depends on Trump and what he demands of Elon Musk. I am sure India will have its own counter point of view. In my view, India has the strength to take its own decision and not be muscled in.

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You had also once said we need to urgently focus on acquisition finance...

Most acquisitions in India are funded by offshore funding. It either comes through global banks, as you saw in the case of cement. Or it comes through AIFs (alternative investment funds). But it also reflects on our banks —why is it that our banks are not perceived to be strong enough to be able to do it? It’s a two way question.

What will it take for India to get to 9% annual growth, $30 trillion GDP by 2047?

We must create that ecosystem, where both mindset and capital should be available. The cross section of creativity with world class technology, and a global mindset for creating the brands, is what we need. And we are the fifth largest economy. In the next few years, we will be the third largest. Time has come for us now to shed the concept of a developing nation. And aspire fast to be considered as a developed nation.

What plans do you have for USK?

Currently, we are a small team and we are building it steadily. We are not in the business of trading day-to-day. We are looking at good businesses operationally where we can invest money. Not with a private equity mindset, but a long-term entrepreneurial and ownership mindset. We are looking at how we can be partners or significant owners of businesses, which have long term potential. It’s open ended and our capital is permanent capital. It doesn’t need to be repaid back to its investors at the end of five or seven years, as it happens with private equity.

You have many ideas; you have many suggestions. How are you putting this to use in terms of mentoring the next generation?

Lots of friends of mine send their kids to me and I love chatting with them. There is one thing I tell a lot of them. Some of those friends had businesses which they have sold. So, they are sitting on money. The worst thing you can do is say I am running a family office, but spending time primarily allocating money to mutual funds or some specific shares and trading. That’s not what creates value. Get into investing into operating businesses.

Do you have time to read books or watch movies? Any book that stayed with you in 2024?

That would be Ruchir Sharma’s book on capitalism. Ruchir is a good friend. He had come home and shared his thoughts with a few of us. I think we are at a stage where capitalism and socialism are at serious crossroads. And even within that, we are seeing different forms of the same.

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