Press Release

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2 in 3 cos may shift to new corporate tax regime immediately

Half of those shifting may use tax savings for ongoing capex or to strengthen balance sheet

CRISIL believes that reduction in corporate tax rate announced by the government spawns optimism with a tinge of cautiousness among companies. Optimism as most companies will benefit and intend to retain the savings to reduce funding constraints and strengthen balance sheets to be ready for fresh capex once demand revives. And cautiousness as the savings alone may not lead to immediate pick-up in fresh capex given the weak demand environment.

These finding are based on responses received in a survey of 850 large (by Revenue) CRISIL rated companies. It encompasses both listed and unlisted companies spread across all sectors and is therefore a close representative of corporate India.

As per the changes to the Income Tax Act, 1961, announced, domestic companies have the option to pay corporate tax at a reduced effective rate of 25.17%. This is conditional upon them relinquishing other exemptions such as a set-off of Minimum Alternate Tax credits, and incentives under special economic and tax-free zones. And once exercised, the option is irreversible.

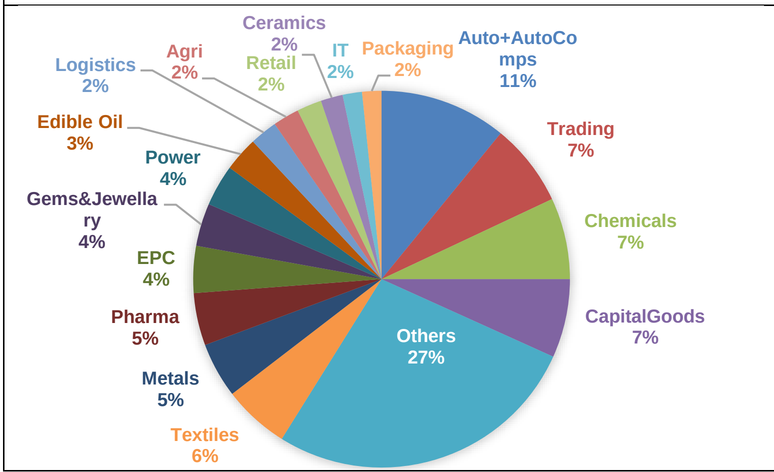
A third of the companies surveyed – from capex-heavy sectors such as power, and oil & gas – have expressed a desire to continue with the current tax regime. However, a majority of them from sectors such as auto, chemicals, textiles, gems & jewellery, and retail are likely to shift immediately.

Says Subodh Rai, Senior Director and Head, Analytics, CRISIL Ratings, "Companies shifting to the new regime are likely to see close to 700 bps of tax savings. While this may not kickstart the much-delayed private investments cycle, it could help ease funding constraints of companies to some extent. About half of the companies surveyed said they will use the savings for ongoing capex, reduce debt or retain cash, which would strengthen balance sheets and prime them for fresh capex once demand improves."

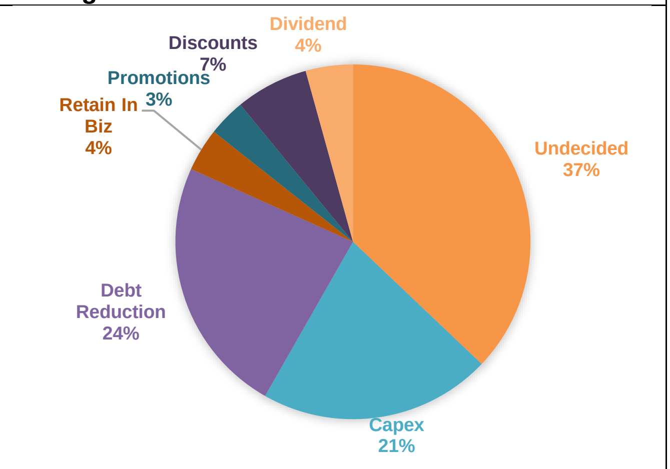
Around 37% of the companies surveyed are yet to decide on utilisation of tax savings though option to increase dividends found least preference. And just 10% said they will pass on the benefit through higher discounts and sales promotion – indicating the tax cut alone may not seed demand growth.

Overall, the tax cut provides much-needed impetus to companies to press the capex button once demand stages a comeback. India Inc's credit outlook remains contingent upon this pick-up in demand.

Sector-wise spread of CRISIL-rated large cos surveyed



Results of CRISIL survey on utilisation of tax savings



For further information contact:

Media relations	Analytical contacts	Customer service helpdesk
Saman Khan Media Relations **CRISIL Limited** D: +91 22 3342 3895 M: +91 95 940 60612 B: +91 22 3342 3000 saman.khan@crisil.com **Naireen Ahmed** Media Relations **CRISIL Limited** D: +91 22 3342 1818 M: +91 90 040 84769 B: +91 22 3342 3000 naireen.ahmed@crisil.com	**Subodh Rai** Senior Director - CRISIL Ratings **CRISIL Limited** B: +91 124 672 2000 subodh.rai@crisil.com **Manish Gupta** Senior Director - CRISIL Ratings **CRISIL Limited** B: +91 124 672 2000 manish.gupta@crisil.com	Timings: 10.00 am to 7.00 pm Toll free Number:1800 267 1301 For a copy of Rationales / Rating Reports: CRISILratingdesk@crisil.com For Analytical queries: ratingsinvestordesk@crisil.com

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