FY2023-24 Union Budget : Impact Analysis

February 01, 2023

The Union budget for FY24 tabled in the Parliament today managed to strike a good balance between fiscal priorities, capital expenditure push (up 33% y-o-y) and resisted from any big populist measures. We believe this year's budget is inclusive and growth oriented, that provided tax benefits to the middle class and several incentives to spur domestic manufacturing and infrastructure development. All of these will help India remain among the fastest growing major economies globally.

Key highlights:

1. **Government Finances:**

- Fiscal deficit target for FY23 retained at 6.4% of GDP, with FY24 deficit projected at 5.9% and 4.5% of GDP by FY26
- FY24 gross market borrowing pegged at INR 15.43tn against INR 14.21tn in FY23
- The financing of Government borrowing in FY24 is to be met by net market borrowing (pegged at INR 11.8tn in FY24 as compared to INR 11.1tn in FY23) and small savings scheme (INR 4.7tn in FY24 vs. INR 4.4tn in FY23)

2. **Growth assumptions:**

- Government expects nominal GDP growth of 10.5% y-o-y in FY24
- Expects gross tax revenues to rise by 10.4% implying an assumed tax buoyancy of 1.0

3. **Divestment/Dividends Target:**

- Disinvestment target of INR 510bn in FY24, up from INR 500bn in FY23
- Expects INR 480bn as dividends from RBI and state banks in FY24, up from INR 410bn in FY23

4. **Capital Expenditure:**

- Increased significantly by 33% - from INR 7.5tn in FY23 to INR 10tn in FY24
- 'Effective Capital Expenditure' of the Government is estimated at INR 13.7tn in FY23 (4.5% of GDP), factoring in Grants-in-Aid to States for creating capital assets
- Effective capex has more than doubled in last three years

5. **Infrastructure:**

- Highest ever railways capital outlay at INR 2.4tn

- Allocation to 'National Highways Authority of India' has been increase to INR 1.6tn (up 15% from last year)
- 66% increase in outlay for 'Housing for all' scheme to INR 790bn in FY24 from INR 275bn in FY22
- Established the 'Urban Infrastructure Development Fund' with per year outlay of INR100bn to create public infrastructure in Tier 2 and Tier 3 cities
- 100 transport infrastructure projects identified for end-to-end connectivity ports, coal, steel and fertilizer sectors with total investment of INR 750bn
- 50 additional airports, helipods, water aero drones, advanced landing grounds will be revived to improve regional air connectivity

6. Inclusive Development:

- Building a Digital Public Infrastructure – an accessible and informative information solution for farmers
- 157 new nursing colleges in co-location with the existing 157 medical colleges established since 2014 to address shortage in nursing attrition
- Mission to eliminate sickle cell anaemia by 2047
- Joint public and private medical research to be encouraged at select ICMR labs
- National Digital library will be set up for children and adolescents
- Agricultural credit target to be increased to INR 20tn for animal husbandry, fisheries and dairy sectors
- Free food grain to priority households for the next one year under via an outlay of INR2tn
- 'PM PVTG (Particularly Vulnerable Tribal Groups) Development Mission' launched for development of scheduled tribes with outlay of INR 150bn to be implemented in 3 years

7. Ease of doing business:

- More than 39,000 compliances have been reduced and over 3,400 legal provisions decriminalised to enhancing ease of doing business
- Revamped credit guarantee for MSMEs to take effect from 1st April 2023 with infusion of INR 90bn in corpus
- Govt to bring another dispute resolution scheme Vivad Se Vishwas-2 to settle commercial disputes
- Set up Central Processing Centre for faster response to companies filing forms under Companies Act
- For business establishments required to have Permanent Account Number (PAN), PAN will be used as a common identifier for all digital systems of specified government agencies

8. Digital Push:

- 3 centres of excellence for Artificial Intelligence will be set-up in top educational institutions
- One stop solution for updating identity of individuals maintained by various government agencies and regulators will be established using 'DigiLocker' service and Aadhaar as foundational identity
- INR 70bn allocated for third phase of E-courts
- 100 labs to be established in coming years for 5G applications
- To enable innovative Fintech services, the scope of documents in DigiLocker will be expanded for sharing documents online for both individuals and MSMEs

9. **Green Growth:**

- INR 350bn towards priority capital investments towards energy transition and achievements of India's net-zero objectives by 2070
- Outlay of INR 197bn to facilitate transition to low carbon intensity fuels and reduce dependence on fossil fuel imports
- Viability gap funding for 'Battery Energy Storage Systems' with capacity of 4,000 MWH
- Inter-state transmission system for evacuation and grid integration of 13 GW of renewable energy from Ladakh to be constructed with an outlay of INR 207bn
- 500 new 'waste to wealth' plants will be established with a total investment of INR 100bn to convert solid farm waste into compost, biogas and bio-CNG
- Allocated adequate funds to scrap old vehicles of the Central Government. States will also be supported in replacing old vehicles and ambulances

10. **Automobiles:**

- Focused on electric vehicles, with total outlay under the 'FAME 2' (Faster Adoption and Manufacturing of EV) allocation of INR 51.72bn vs INR 29.08bn last year
- Allocation for Production Linked Incentive (PLI) Scheme for Automobiles and Auto Components has been increased from INR 0.11bn to INR 6.04bn
- Increase in capital expenditure outlay to help increase commercial vehicle demand (especially M&HCV)

11. **Taxation**

- Income limit for rebate of personal income tax increased from INR 5,00,000 to INR 7,00,000 under the new tax regime
- Extended benefits of standard deduction under new tax regime for salaried class and pensioners
- Highest surcharge on income above INR 50mn to be reduced from 37% to 25% in the new tax regime
- Exemption on leave encashment on retirement of non-Government salaried employees limit increased to INR 2.5mn
- Next-generation Common IT Return Form to be rolled out for tax payer convenience
- Enhanced limits for micro enterprises and professionals to avail benefits of presumptive taxation; 95% of the receipts to be non-cash
- New co-operatives that commence manufacturing till 31 March 2024 can avail lower tax rate of 15%

12. **Tourism:**

- 50 tourist destinations will be selected through challenge mode to be developed as a whole package for domestic and international tourism
- States will be encouraged to set a 'Unity Mall' in state capital or the most popular tourist destination in the state for the promotion and sale of regional handicrafts under 'One District, One product' program

13. **Other key announcements:**

- 30 ‘Skill India’ International Centres will be set up for the youth across different States
- Defence budget increased by 13% to INR 5.94tn (USD 72bn) from last year's INR 5.25tn (USD 63bn).
- Central Government to continue 50-year interest-free loan to State Governments for one more year
- Extension of period of tax benefits to funds relocating to IFSC, Gift City till 31 March 2025
- Income from life insurance policies except for the Unit Linked Insurance plan where the premium is over INR 5,00,000 per annum will no longer be exempt from tax

Our Comment:

The Budget was an extension of the previous two budgets which were presented post the pandemic. While previous budgets also had a strong focus on capex, we note the 33% increase in allocation to Central Government capex is the highest in recent history and augurs well for infrastructure related sectors.The budget did not announce big populist measures and there was no tinkering with capital gains tax which is a positive. The Government focused on improving ease of doing business by decriminalizing several legal provisions and also made efforts to improve compliance. While doing all this, it has managed to keep the fiscal deficit under control and commited to the fiscal glide path. We believe that a lot of sectors, especially which are closely linked to economy, would benefit from the budget including housing, infrastructure, hotels, automobiles etc. We remain positive on manufacturing, healthcare, financial services and infrastructure as a theme. Both infrastructure and manufacturing are segments which have the potential to create a ripple effect among various other sectors.

Equity markets were volatile today with sharp correction after the budget, much of it led by correction in Adani group companies. Insurance stocks were also impacted due to the changes in the taxation of non-ULIP’s products.

Over the last month, in USD terms, MSCI India (-3%) has underperformed the MSCI EM index (+7.9%), thereby narrowing the valuation gap with EM index. While markets are still not cheap, we believe this correction should be used as an opportunity to accumulate equities in a staggered manner for long term portfolio returns. In terms of market capitalization, on a valuation basis, large caps are better placed than mid cap and midcaps are better placed than small-caps.

India 10 year bond yield rallied by 8bps today due to lower than expected gross borrowing number and Government’s commitment to fiscal consolidation path. While growth has normalized, we believe the pace of fiscal consolidation remains slow. Strong tax buoyancy due to higher nominal growth (inflation included) made this year’s fiscal deficit target comfortable. However, next year’s conditions due to higher inflation base may make the fiscal deficit target difficult to achieve. We expect economic growth to remain robust as the quality of spending remains good in the budget. So effectively, challenging fiscal deficit math and strong growth may result in RBI hiking rates by 25bps in the next policy followed by a period of elongated pause. Changes in tax structure in select insurance products would be a dampener for the demand of long-dated bonds. The yield curve is flat, making the term-premium unattractive. Hence, we continue with our stance of remaining cautious on the longer-end of the yield curve. We prefer to be invested on the shorter end of the curve and continue with our recommendation that accrual strategy will be the key driver of returns for fixed income investors going forward.

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