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Budget Review 2023-24

Accelerating capex to retool economy

Accelerating capex to retool economy…

The Union Budget truly exemplifies the government theme of "India First, Citizen First". The inclusive development approach was clearly visible through leveraging the digital infra for multiple utilities, accelerating investment cycle via robust allocation, green growth, which will catalyse the multiplier effect on the economy. On the fiscal front, the glide path on reducing fiscal deficit has been complied with as fiscal deficit is likely to go down to 5.9% in FY24E vs. 6.4% in FY23. Medium term target of 4.5% fiscal deficit by FY26 is also on track. Most importantly, the Budget also provided some ease to middle-class tax payers under the new tax regime (likely to boost overall consumption) and no negative surprise on LTCG, which was indeed a welcome move.

Key highlights of Budget:

- On the **fiscal deficit front**, the glide path on reducing fiscal deficit has been emphasized with fiscal deficit likely to go down to 5.9% in FY24E vs. 6.4% in FY23. Medium term target of 4.5% fiscal deficit by FY26 is also on track. **Direct tax revenue growth** of 10.5% for FY24E is in tandem with the nominal GDP growth of 10.5%. GST revenue growth is pegged at 12%

- **Focus on capex remains priority:** Capex spending remains the key area of focus with government capex allocation growth at 33% YoY in FY24BE to ₹ 10 lakh crore led by sectors like railways, roads, defence, housing, water (Jal Jeevan) and metro projects. The capex to GDP is pegged at all-time high of 3.3%. The two sectors that stand out in terms of allocation are Railways (up 51%) and roads (up 25%). The Budget has also focused on accelerating the green energy spectrum in order to reduce the carbon footprint. The major announcements being Green Hydrogen and providing assistance of ₹ 8300 crore to the Ladakh Renewable project enabling investment of ₹ 20000 crore, which will have a multiplier effect across the capex value chain. Given 50% of the total allocated capex is earmarked for Railways and roads is a clear indication on structurally bringing down overall logistics costs in the economy, which are currently at 14% of GDP and increase competitiveness and scale of Indian exports

- **Reducing import dependence:** Reduction of customs duty on mobile components (such as camera lens and its parts) from 2.5% to nil and on open cell for TV from 5% to 2.5%. For the Gems & Jewellery sector, the Budget has also made provision of grants to encourage indigenous production of lab grown diamonds (LGD) seeds & machines and to reduce cost of production via abolishing of basic customs duty on imported seeds used for LGD

- **Disinvestment target** for FY23RE revised downward to ₹ 50,000 core vs. earlier budgeted target of ₹ 65000 crore. For FY24E it is pegged at ₹ 51,000 crore, which, we ,believe is a conservative estimate

Normalised expectations; fiscal prudence in focus

Fiscal deficit target for FY23RE and FY24BE has been pegged at 6.4% and 5.9%, respectively. The fiscal deficit and the borrowing estimate were largely in line. The continuation of fiscal glide path over the next two years is also positive.

Government's fiscal position (₹ Lakh crore)

	FY21	FY22	YoY (%)	FY23 RE	YoY (%)	FY24 BE	YoY (%)
Direct tax revenues	9.4	14.1	*49.0*	16.5	*74.6*	18.2	10.5
Indirect tax revenues	10.8	13.0	*20.2*	13.9	*28.7*	15.4	10.4
Gross Tax revenues	20.3	27.1	*33.7*	30.4	*50.1*	33.6	10.4
Net Tax revenues [A]	14.3	18.2	*27.7*	20.9	*46.3*	23.3	11.7
Non-tax revenues [B]	2.1	3.5	*67.6*	2.6	*26.1*	3.0	15.2
Disinvestmt & Others [C]	0.6	0.4	*-30.2*	0.8	*44.9*	0.8	0.6
Total Revenue [A+B+C]	17	22	*30.6*	24	*43.8*	27	12
Capital Exp [D]	4.3	5.9	*39.1*	7.3	*70.8*	10.0	37.4
Revenu Exp [E]	30.8	32.0	*3.8*	34.6	*12.2*	35.0	1.2
Total Expenditure [D+E]	35.1	37.9	*8.1*	41.9	*19.3*	45.0	7.5
Fiscal Deficit	**-18.2**	**-15.8**	***NA***	**-17.6**	***NA***	**-17.9**	**NA**
Nominal GDP (In Lakh)	197.5	236.6	*19.8*	273.1	*38.3*	301.8	10.5

Government's fiscal position (As % of GDP)

	FY21	FY22	FY23 RE	FY24 BE
Direct tax revenues	4.8	6.0	6.0	6.0
Indirect tax revenues	5.5	5.5	5.1	5.1
Gross Tax revenues	10.3	11.4	**11.1**	**11.1**
Net Tax revenues [A]	7.2	7.7	7.6	7.7
Non-tax revenues [B]	1.1	1.5	1.0	1.0
Disinvestmt & Others [C]	0.3	0.2	0.3	0.3
Total Revenue [A+B+C]	8.6	9.3	**8.9**	**9.0**
Capital Exp [D]	2.2	2.5	2.7	3.3
Revenu Exp [E]	15.6	13.5	12.7	11.6
Total Expenditure [D+E]	17.8	16.0	**15.3**	**14.9**
Fiscal Deficit	**-9.2**	**-6.7**	**-6.4**	**-5.9**

Source: Indiabudget.nic.in, ICICI Direct Research.

Key points considered:

- **Nominal GDP growth for FY24RE has been pegged at 10.5%, which is largely in line with consensus estimate**
- **Gross tax revenue growth is set at 10.4% for FY24E with expected direct tax revenue growth of 10.5%.** Within indirect taxes, GST revenues are likely to grow 12.0% while excise duty revenue is likely to grow at a lower rate of 5.9% mainly due reduced excise duty on petrol & diesel
- **Disinvestment target** for FY23RE revised downward to ₹ 50,000 core vs. earlier budgeted target of ₹ 65000 crore. For FY24E, it is pegged at ₹ 51,000 crore, which we believe is a conservative estimate
- **Higher allocation towards capital expenditure is the highlight of the Budget. Capital expenditure has been increased by 33% to ₹ 10 lakh crore. Accordingly, capex allocation has been increased from 2.7% of GDP in FY23 to 3.3% of GDP in FY24**

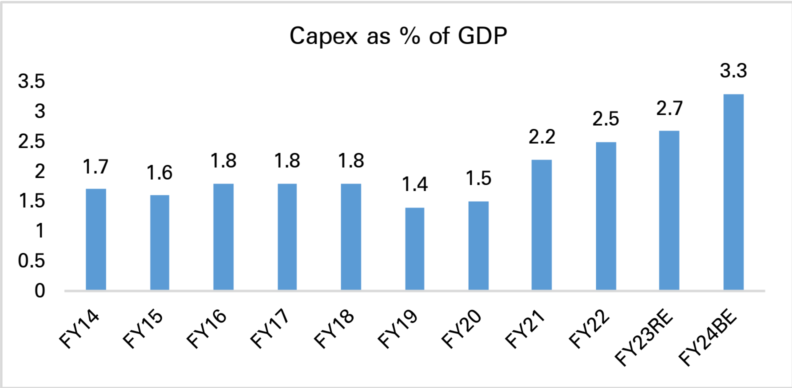
Capex: Government goes full throttle…

- Capex spending remains the key area of focus with government capex allocation growth at 33% YoY in FY24BE to ₹ 10 lakh crore led by sectors like railways, roads, defence, housing, water (Jal Jeevan) and metro projects. The capex to GDP is pegged at all-time high of 3.3%. The two sectors that stand out in terms of allocation is Railways (up 51%) and roads (up 25%)
- Given 50% of the total allocated capex is earmarked for Railways and Roads is clear indication for structurally brining down overall logistics costs in the economy which are currently at 14% of GDP and increase competiveness and scale of Indian exports
- In others category, segments like Housing (PM Awaas Yojana), Water (Jal Jeevan mission) has seen a growth in outlay to the tune of ~66% YoY, 17% YoY
- The allocation to defence capital outlay has moderated to 8.4% YoY growth. However, the focus on the defence segment is to indigenise the value chain of production thereby reducing import dependence (cushion CAD) while incubating home grown private companies, which itself can have a multiplier effect on the capex value chain

Strong Budgetary allocation to all major segments for capex (₹ crore)

Capital Expenditure Gross Budgetary Support (₹ Crore)	FY20	FY21	FY22RE	FY23RE	FY24BE	YoY Growth	CAGR
MoRTH	72059	92053	121251	206303	258601	25.4%	29.1%
Railway	65837	108398	117100	159100	240000	50.8%	29.5%
Defence	110394	135510	138351	150000	162600	8.4%	8.1%
Housing & Urban Affairs	19197	10162	25957	23680	25997	9.8%	6.3%
Other	78908	91870	146597	189190	313763	65.8%	31.8%
Total	348908	439085	550740	728273	1000961	37.4%	23.5%

Capex as % of GDP



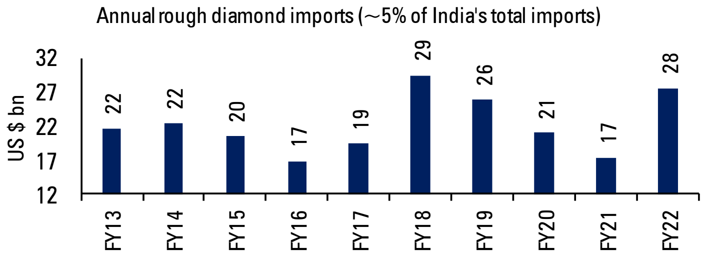
- The Budget has also focused on accelerating the green energy spectrum in order to reduce the carbon footprint. The major areas being Green Hydrogen and providing assistance of ₹ 8300 crore to the Ladakh Renewable project enabling investment of ₹ 20000 crore, which will have a multiplier effect across the capex value chain.

Measures to address rise in CAD/imports…

The Gems & Jewellery sector occupies an important position in the Indian economy. However, higher reliance on imports of gold and rough diamonds is one of the key contributors to rising CAD challenges **(~11% of total imports).** To address the same, the government announced two critical measures in the Union Budget 2023-24:

➢ **Promotion of lab grown diamonds ecosystem in India:**

- Provision of grants to encourage indigenous production of lab grown diamonds (LGD) seeds & machines and to reduce cost of production via abolishing of basic customs duty on imported seeds used for LGD
- LGD in India are gaining prominence owing to standardised characteristics and lower pricing (50-60% cheaper)
- Scaling up of LGD manufacturing ecosystem and gradual consumer acceptance to reduce dependence on imports of rough diamonds

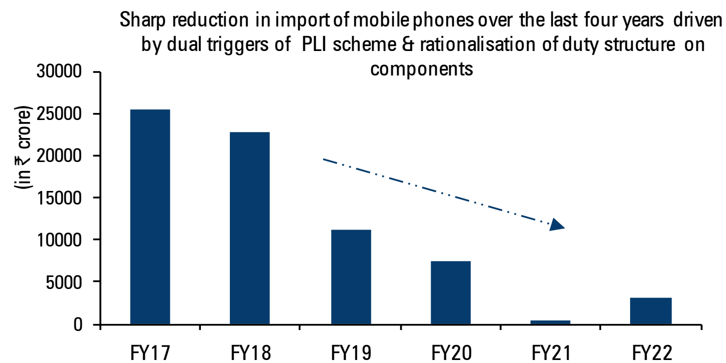


➢ **Incentivising gold monetisation scheme**

- Not treating conversion of gold into electronic gold receipt and vice versa as capital gain
- The measure aims to further improve gold monetisation scheme leading to enhanced availability and reducing gold imports (as per industry estimates, Indian families hold ~25000 tonnes of gold)

Electronic imports is the fourth largest component with ~10% contribution in overall imports. During current Union Budget 2023-24, the government has announced steps to further reduce dependency of mobile/TV imports and to enhance the value chain of component manufacturing in India:

➢ **Reduction of custom duty on mobile components (such as camera lens and its parts) from 2.5% to nil and on open cell for TV from 5% to 2.5%**



Thus, reduction in import duty of components is aimed at promoting **value added** manufacturing of finished products such as mobile phones and TV with further emphasis on increasing export in this domain.

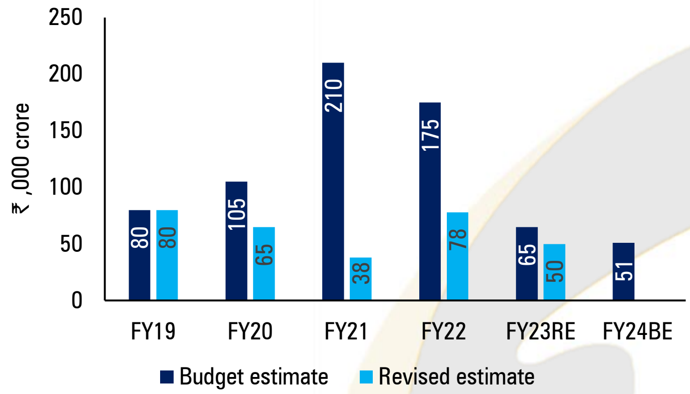
➢ **Key measures for auto sector:**

- Government has proposed exempting custom duty on plant & machinery imports needed for manufacturing Li-On cells for electric vehicle batteries. This is beneficial for companies executing capex in this field
- Government also proposed to increase custom duty on vehicles being imported as semi knocked down (SKD) & completely built unit (CKU) including EVs to promote premium vehicle manufacturing domestically
- Custom duty on bicycles is also proposed to be increased

Source: Budget documents, Ministry of Commerce, ICICI Direct Research

Other receipts: Conservative disinvestment target

Disinvestment target - a conservative estimate?



- FY24BE disinvestment target is pegged conservatively at ₹ 51,000 crore
- We note that FY23RE estimates at ₹ 50,000 crore (earlier estimate at ₹ 65,000 crore) has been softer than anticipated, possibly on account of muted capital markets sentiments
- Furthermore, large ticket disinvestment is nearing closure. Timelines on IDBI Bank and Concor need to be watched
- We believe that a few earlier announced disinvestment (IDBI Bank, RINL, Concor and large zinc manufacturer) would be completed in FY24E

- The revised estimates of receipts from Other Communications services is ₹ 68754 crore for FY23 (vs. budgeted estimates of ₹ 52806 crore). We highlight that, as per our understanding, the receipts included licence fees & spectrum usage charges. Instalments were from 5G spectrum allocation to private telcos and instalment for 4G spectrum allocation for BSNL
- The expectation for receipts from Other Communications services is ₹ 89469 crore for FY24E. We believe the same includes expectation of instalment for 5G spectrum for BSNL next year
- Dividend from public sector enterprise revised estimates has been higher at ₹ 43,000 crore in FY23 (FY23BE - ₹ 40,000 crore). For FY24BE, the estimate has remained constant at ₹ 43,000 crore
- Nationalised banks have declared dividends in FY23 (after a pause in previous fiscals), on the back of a recovery in performance. The same is likely to continue in FY24E
- Dividend/surplus from RBI, nationalised banks and financial institutions have been pegged lower at ₹ 40,953 crore vs. budgeted ₹ 73,948 crore, owing to lower dividend from RBI at ₹ 30307 crore

Source: Govt websites, media sources, DIPAM, ICICI Direct Research

Slabs rationalised in new income tax regime – Higher disposable income, auto sector, consumer durables space to benefit

- The Union Budget has allowed standard deduction of ₹ 50,000 under the new personal income tax regime
- Basic exemption limit has been raised to ₹ 3 lakh from ₹ 2.5 lakh earlier while slabs have been reduced from six to five with those earning up to ₹ 7 lakh annually exempted from income tax in the new tax regime
- Individual salaried tax payer to save ₹ 52500 at an income of ₹ 15.5 lakh

Tax savings in revised new income tax regime with new slabs is ₹ 52500 for income of ₹ 1550000

Tax liability in new regime till last year

Income	Tax Rate	Tax Amount
0.0-2.5 lakh	NIL	0
2.5 - 5.0 lakh	5%	12500
5.0 - 7.5 lakh	10%	25000
7.5 - 10.0 lakh	15%	37500
10.0 - 12.5 lakh	20%	50000
12.5 - 15.0 lakh	25%	62500
> 15.0 lakh	30%	15000
Tax		202500
Cess		8100
Total tax including cess		210600

Tax liability in new proposed regime

Income	Tax Rate	Tax Amount
0.0-3.0 lakh	NIL	0
3.0 - 6.0 lakh	5%	15000
6.0 - 9.0 lakh	10%	30000
9.0 - 12.0 lakh	15%	45000
12.0 - 15.0 lakh	20%	60000
> 15.0 lakh	30%	0
Tax		150000
Cess		6000
Total tax including cess		156000

Tax liability in old regime without benefits is ₹ 288600, higher by ₹ 132600 vs. latest new tax regime, without any benefits

Income	Tax Rate	Tax Amount
0.0-2.5 lakh	NIL	0
2.5 - 5.0 lakh	5%	12500
5.0 - 10.0 lakh	20%	100000
>10.0 lakh	30%	165000
Tax		277500
Education Cess		11100
Total tax including cess		288600

For 30% tax bracket assesses, if the total amount of deductions (Chapter VI-A + Housing Loan Interest+ HRA + LTA + Self NPS + Mediclaim + Standard Deduction) exceeds ₹ 442000 (its 30% is ₹ 132600), it is better to continue in the current tax regime

Key beneficiaries of rationalisation of tax slabs in new tax regime–

Automobile Sector: Rationalisation of personal income tax slabs with higher disposable is positive for the passenger vehicle industry as well as premium 2-W space. Consequently, PV and premium 2-W space is seen growing in healthy double digits with key beneficiaries being Maruti, Tata Motors and Eicher Motors. Also, positive in the Budget was the capex push with robust allocation at ₹ 10 lakh crore, which will further aid cyclical upswing in commercial vehicle space.

Consumer durables space: The change in personal income tax slabs coupled with higher rebates under the new tax regime is likely to increase the consumers' discretionary spend towards home appliances. We believe Havells and Bajaj Electricals are the major companies will likely benefit as demand for both small as well as large home appliances would increase on account of higher disposable income.

Source: Budget documents, ICICI Direct Research

Key sectors/ stocks to be in focus

Measures for FY23-24E	Sectors to be Impacted	Impact	Key stocks
Agriculture credit has increased by ~11% YoY ₹ 20 lakh crore. This is likely to boost agriculture demand and further requirement for agriculture credit.	Banks	Positive for PSU banks as it will boost agriculture demand and further requirement for agriculture credit	SBI, Bank of Baroda, Indian Bank
Revamped credit guarantee scheme for MSMEs with effect from April 1, 2023 with infusion of ₹ 9000 crore into the corpus. This will enable additional collateral free credit guarantee of ₹ 2 lakh crore	Banks	This is likely to aid MSME's growth and, thus, demand for credit from banks	Kotak Mahindra Bank, Axis Bank, IndusInd Bank
Capital investment outlay increased by 33% YoY to ₹ 10 lakh crore	Steel/Cement	As steel and cement are core sectors, reiterating the focus on infrastructure development would aid in increasing domestic demand	Tata Steel, JSW Steel, SAIL, UltraTech, ACC, Ambuja, Shree Cement
Government capex in road segment for FY24E is pegged ~25% higher at ₹ 2.6 lakh crore. Furthermore, segments like Housing (PM Awaas Yojana), Water (Jal Jeevan mission) has seen a growth in outlay to the tune of ~66% YoY, 17% YoY	Capital Goods/Infra	Positive for EPC players engaged in said segments as ordering activity will witness a boost	L&T, KNR Construction, Thermax, PNC Infra, NCC, PSP Projects
Capital investment outlay increased 33% YoY to ₹ 10 lakh crore and focus on Green Energy based focus (Green hydrogen/approval high value renewable projects)	Capital Goods	Massive increase in allocation towards capex will increase order inflows across sectors such as power T&D, water, railways, road. On a broad basis, companies in the EPC and products segments are expected to benefit	L&T, Siemens, KEC, SKF India, Techno electric, Action Construction
Within capex segments, railways has garnered lion's share at ₹ 2.4 lakh crore. Within railways, segments such as laying new line (allocation increased by 29% YoY), rolling stock (148% YoY), railway electrification projects have seen robust allocation	Capital Goods	The increased allocation in the sub segment of railways will augur well for railway EPC companies, wagon manufacturers, bearing companies, etc	L&T, Siemens, KEC, SKF India, Timken India
Strong focus on Green Capex to augment the value of Green Hydrogen coupled with incremental addition of renewable capacity. The Budget also announced investment support of ₹ 8300 crore to the Ladakh Renewable project (total value pegged at ₹ 20600 crore)	Capital Goods	The PLI of ₹ 20000 crore announced before Budget and investments to be made in renewable capacity for viability of green hydrogen ecosystem will involve strong capex in the manufacturing of electrolysers and putting up new generation and transmission infra for renewable power	L&T, Siemens, KEC, Thermax, Anup Engineering

Source: Budget Documents, ICICI Direct Research

Insurance premium growth to take knock/no substantial impact on tobacco manufacturers

Non-linked individual premium highest for HDFC Life

Life Insurance Premium	Mar-21	Mar-22	9MFY23
Total industry premium (₹ crore)	278278	314263	269191
Individual non-linked premium (₹ crore)	91704	95137	73220
Share in total industry premium	33%	30%	27%
HDFC Life			
Share of non-linked premium in overall premium	73%	67%	80%
SBI Life			
Share of non-linked premium in overall premium	28%	27%	34%
BALIC			
Share of non-linked premium in overall premium	60%	61%	67%

- The government has lifted tax exemption on life insurance policies issued with aggregate premium over ₹ 5 lakh in a year (other than Ulips) with effect from April 1, 2023. *(refer exhibit below)*
- Insurance companies with higher share of non linked premium to be impacted most **(as per management commentary HDFC Life to have impact of ~10-12% on topline and ~5% on bottomline)**

Amount in ₹	**Case1**	**Case2**
Life Insurance policy 1- Term	80,000	80,000
Life Insurance policy 2- Endowment	2,50,000	4,50,000
Life Insurance policy 3- ULIP	2,00,000	2,00,000
Total	5,30,000	7,30,000
Amount ex ULIP to be considered	**3,30,000**	**5,30,000**
Case 1 will not be exempted, Case 2 proceeds will be taxable		

Small implication of tax hike on cigarettes…

	From (₹ per 1000 sticks)	To From (₹ per 1000 sticks)	% change
Less than 65 mm cigarettes	440	510	16%
65 mm to 70 mm	440	510	16%
70 mm to 75 mm	545	630	16%
Above75 mm	735	850	16%

- Net tax on cigarette would increase by ₹ 0.07 per stick to ₹ 0.12 per stick, which would require 1-2% price hike for cigarette in different categories. The tax hike is not very high and would be easily passed on through a small increase in prices
- We believe ITC is witnessing strong volume growth in ₹ 10 and above price point cigarette category. It may not tinker with ₹ 10 price point brands. It would rather take a price hike in other categories

Source: IRDA, Company documents, Budget documents

Other key highlights

- Expenditure for fertiliser subsidy for FY24 is estimated at ₹ 1.75 lakh crore of which urea subsidy is ₹ 1.31 lakh crore and NBS is ₹ 44000 crore
- Basic customs duty is reduced on acid grade fluorspar from 5% to 2.5%. Could be beneficial for fluorochemical players like SRF and Navin Fluorine
- The government has increased allocation to FAME-II scheme for FY24E at ₹ 5,172 crore, up 78% YoY. This is largely on expected lines and is positive for domestic EV space with key beneficiaries being Tata Motors in the OEM space and Gabriel India, Motherson Sumi Wiring India in the ancillary domain
- **Logistics**: Steps such as infrastructure development (₹ 10 lakh crore) and ₹ 75000 crore for developing 100 critical last mile infrastructure, is positive for port operators and also positive for multi-modal logistics players such as TCI and Mahindra Logistics
- **Oil & Gas**: Priority investments of ₹ 35000 crore for the oil & gas sector (₹ 5000 crore for payment to SPR facility and ₹ 30000 crore to OMCs) would help spur further investments into the Green Hydrogen segment and achieve 5 MMT Hydrogen production by 2030. Beneficiaries include IOCL, HPCL and BPCL
- Rationalisation of custom duty on import of components for mobile and parts of open cells of TV panels is likely to provide thrust to domestic electronic manufacturers such as Dixon Technologies and Amber Enterprises
- The government increased its allocation for Jal Jeevan Mission by 16.7% YoY to ₹ 70,000 crore, which is positive for companies like Supreme Industries and Astral as increased thrust on the mission would drive the demand for PVC pipes
- The government will focus on enhancing cotton crop productivity by adopting cluster based approach with public private partnership model and enhanced use of advance technologies. Positive for cotton textile players
- Government has announced 100 labs for developing applications for 5G services to be set up. This will drive enterprise use case and is positive for telcos
- The tourism sector has received a healthy boost in the Budget with "Dekho Apna Desh" getting a well deserved spotlight. Under this, 50 tourist destinations will be selected on a mission mode to be developed as a whole package for domestic and international tourism
- Income from market linked debentures (MLDs) is proposed to be taxed as short-term capital gains at the applicable rates with effect from April 1, 2023. The effective tax rate will inch up, which will be marginally negative for capital market players

Source: Budget Documents, ICICI Direct Research

Annexure: Three month return post Budget in NDA regime…

Indian Equities : 3 Month Performance Post Budget since 2014

3 Month Performance	Total	Positive	Strike Rate	Average Gains	Max	Min
Bse FMCG	9	7	78%	5	14	-7
Bse Healthcare	9	7	78%	5	25	-3
BSE Finance	7	5	71%	3	16	-17
Bse ConsDura	9	6	67%	3	23	-20
Bse IT	9	6	67%	1	14	-20
Bse SmallCap	9	5	56%	2	20	-30
Bse Technology	9	5	56%	1	13	-18
BSE CPSE	8	4	50%	-1	16	-25
Bse Oil/Gas	9	4	44%	0	13	-20
Bse Power	9	4	44%	1	24	-25
Bse Sensex	9	4	44%	0	16	-23
Bse Banks	9	4	44%	-1	27	-35
Bse Midcap	9	4	44%	1	19	-26
BSE Industrial	7	3	43%	1	27	-36
BSE Utility	7	3	43%	0	24	-34
Bse Capital Goods	9	3	33%	-2	29	-36
Bse Metal	9	3	33%	1	62	-35
Bse PSU	9	3	33%	-4	18	-30
Bse Realty	9	3	33%	-3	40	-44
Bse Auto	9	3	33%	-1	22	-30

Pankaj Pandey | Head – Research | pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No 7, MIDC
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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