Budget Preview
2023-24

Capex to remain at the centre stage...

Budget Preview 2023-24: Capex to remain at centre stage…

Union Budget for FY23-24 is likely to bring back the focus on fiscal consolidation after being fiscally expansionary to support growth recovery post the Covid-19 induced pandemic. We expect fiscal deficit at 5.8% for FY24 from 6.4% as budgeted in FY23.

Overall focus will, however, continue on the growth agenda via higher capex allocation that will accelerate the investment cycle and employment.

The buoyancy in tax revenues is expected to normalise in FY24 and likely be a tad above GDP growth at 11.6%.

While growth in gross tax revenue is likely to moderate, the subsidy outlay is likely to also reduce significantly. Subsidy towards food, fertiliser and petroleum, which had increased substantially in last three years to come down sharply. For FY24, it is expected at 1.3% of GDP vs. 2.2% in FY23.

Key expectations from upcoming Budget:

GDP growth, tax collections to moderate but remain buoyant

- Nominal GDP to grow at around 11% in FY24 to cross ₹ 300 lakh crore
- The growth in gross tax revenue in FY24 is likely to moderate due to higher base and slowdown in global growth but will remain healthy at 11.4% of GDP
- The free food programme, which was launched in the middle of the pandemic and continued till Q3FY23 has been discontinued. Higher global prices, which led to higher fertiliser subsidy, has fallen by ~40% leading to similar 40% reduction in subsidy outlay. Total subsidy outlay on food, fertiliser and petroleum is likely to be ₹ 3.8 lakh crore vs. ₹ 6.1 lakh crore in FY23

Higher outlay on capex to continue

- The allocation to capex is expected to grow 18% YoY in FY24BE led by sectors like railways, roads, defence, housing, thereby exhibiting 23.5% CAGR in capex allocation over FY19-24E
- We expect the allocation in FY24E for capex to be pegged at ₹ 8.9 lakh crore. The allocation to capital expenditure will retain its priority at 2.9% of GDP

Focus on tax compliance, ease of doing business

- The Ease of Doing Business 2.0 initiative announced in Union Budget 2022-23 is likely to get a further boost in the Union Budget 2023-24 through measures like validation of PAN as the single business ID/Unique business identifier, digi-locker ecosystem development, further ease in GST compliance, further investment in logistics infrastructure and more work on One District One Product initiative

PLI, productive subsidy allocation to remain in focus

- Policy measures may be announced to promote Innovation in fertilisers (nano urea)
- PLI scheme to be extended to new sectors like leather, bicycle, toys, IT hardware to attract more investments

Focus on fiscal consolidation back post pandemic induced expansion

Fiscal deficit for FY23 to be contained at 6.4% vs. budgeted target of 6.9% as significantly higher growth in both direct and indirect taxes more than offset the additional expenditure worth ₹ 2.5 lakh crore towards food and fertiliser subsidy.

Reduction in fiscal deficit for FY24 to 5.8% vs. 6.4% is largely aided by normalising food and fertiliser subsidy.

Government's fiscal position (₹ lakh crore)

	FY20	FY21	FY22	FY23 BE	YoY (%)	FY23 IE	YoY (%)	FY24 IE	YoY (%)
Direct tax revenues	11.7	9.4	13.9	14.2	*2.5*	16.7	*20.7*	19.0	*13.5*
Indirect tax revenues	9.9	10.8	12.9	13.4	*3.5*	14.3	*10.3*	15.6	*9.3*
Gross Tax revenues	21.6	20.3	26.8	27.6	*3.0*	31.0	*15.7*	34.6	*11.6*
Net Tax revenues [A]	15.0	14.3	18.2	19.3	*6.3*	21.6	*18.9*	24.1	*11.4*
Non-tax revenues [B]	3.5	2.1	3.5	2.7	*-22.5*	2.2	*-36.5*	2.2	*0.0*
Disinvestmt & Others [C]	0.8	0.6	0.4	0.8	*97.2*	0.5	*22.6*	0.9	*91.3*
Total Revenue [A+B+C]	19	17	22	23	*3.4*	24	*10.2*	27	*12.0*
Capital Exp [D]	3.4	4.3	5.9	7.5	*26.6*	7.5	*26.6*	8.9	*18.6*
Revenu Exp [E]	23.6	30.8	32.0	31.9	*-0.2*	34.4	*7.6*	35.8	*4.0*
Total Expenditure [D+E]	27.0	35.1	37.9	39.4	*4.0*	41.9	*10.6*	44.7	*6.6*
Fiscal Deficit	-7.7	-18.2	-15.9	-16.6	*4.8*	-17.6	*11.1*	-17.5	*-0.8*
Nominal GDP (In Lakh)	204.4	197.5	236.6	258.0	*9.0*	273.0	*15.4*	303.0	*11.0*

Government's fiscal position (as percentage of GDP)

	FY20	FY21	FY22	FY23 BE	FY23 IE	FY24 IE
Direct tax revenues	5.7	4.8	5.9	5.5	6.1	6.3
Indirect tax revenues	4.9	5.5	5.5	5.5	5.2	5.1
Gross Tax revenues	10.6	10.3	11.3	**11.0**	**11.3**	11.4
Net Tax revenues [A]	7.4	7.2	7.7	7.6	7.5	8.0
Non-tax revenues [B]	1.7	1.1	1.5	1.4	1.0	0.7
Disinvestmt & Others [C]	0.4	0.3	0.2	0.4	0.3	0.3
Total Revenue [A+B+C]	9.4	8.6	9.3	**9.4**	**8.9**	9.0
Capital Exp [D]	1.6	2.2	2.5	2.6	2.9	2.9
Revenu Exp [E]	11.6	15.6	13.5	13.6	12.4	11.8
Total Expenditure [D+E]	13.2	17.8	16.0	**16.2**	**15.3**	14.8
Fiscal Deficit	**-3.8**	**-9.2**	**-6.7**	**-6.9**	**-6.4**	**-5.8**

Key points considered:

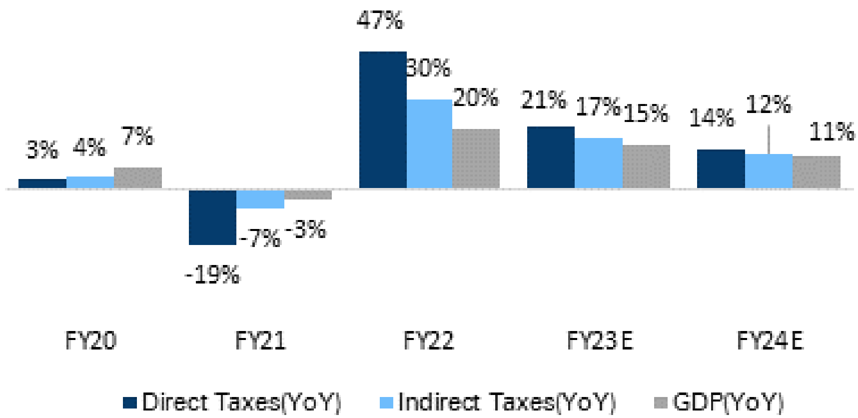
- Fiscal deficit for FY24 is likely to be lower at 5.8% due to continued buoyancy in tax revenue, reduction in subsidies and lower growth in other revenue expenditure
- In FY23, buoyancy in tax revenues has provided additional gross buffer of ₹ 2.5 lakh crore. However, this buoyancy is largely taken away by a sharp rise in food and fertiliser subsidy
- In FY24, significant savings in subsidies is likely at around ₹ 2.0-2.5 lakh crore with majority of it coming from food and fertiliser (around ₹ 1 lakh crore each). Fertiliser subsidy is likely to reduce from ₹ 2.5 lakh crore to ₹ 1.5 lakh crore and may get further reduced if measures on nano urea are announced
- Due to a sharp rise in government borrowing since FY21 (gross borrowing increased from ₹ 7.2 lakh crore in FY20 to ₹ 14.1 lakh crore in FY23 to ₹ 14.8 lakh crore in FY24E), interest outgo is likely to increase significantly in the last two years. Fiscal prudence, accordingly, gains importance in current environment

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

Growth in taxes to normalise; disinvestment to be higher

- FY23 and FY24 saw above trend growth in direct and indirect taxes. The same is likely to normalise, going forward, near GDP growth levels.

Direct and indirect taxes likely to grow around 12-14% in FY24

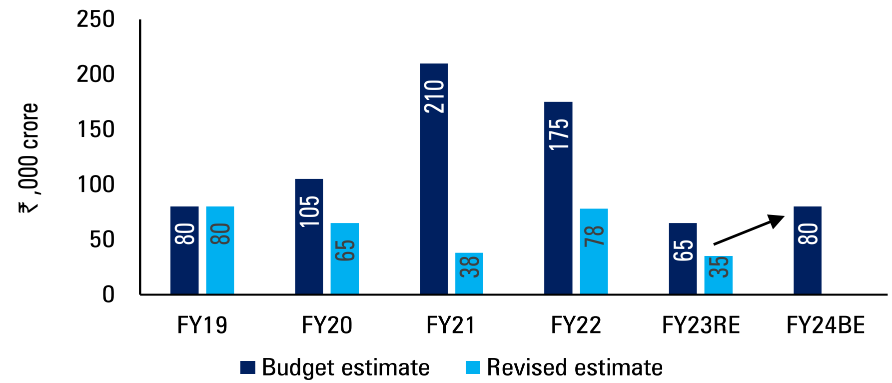


Outlay for major subsidies viz. food, fertiliser and petroleum likely to reduce significantly in FY24

	FY20	FY21	FY22	FY23IE	FY24IE
Fertiliser	81124	127922	154789	260000	150000
Food	108688	541330	306571	310000	220000
Petroleum	38529	38455	5753	40000	10000
Total	**228341**	**707707**	**467113**	**610000**	**380000**

- Budgeted disinvestment target for FY23 was at ₹ 65,000 crore; ~0.3% of nominal GDP
- Despite public listing of LIC, disinvestment proceeds for FY23 are expected to fall short of budget estimates at ₹ 35000 crore (₹ 31,106 crore achieved till December 2022)
- Total ₹ 31,106 crore received as proceeds thus far (major deals including stake sale in LIC - ₹ 20516 crore, ONGC - ₹ 3058 crore, Axis Bank - ₹ 3839 crore, IRCTC - ₹ 2723 crore)
- **Expect more realistic disinvestment target in FY24E with several deals nearing closure. We estimate disinvestment target at ₹ 80,000 crore for FY24E; ~0.3% of nominal GDP**

Disinvestment estimated at 0.3% of GDP for FY24



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

Capex: Key thrust, momentum in allocation to continue…

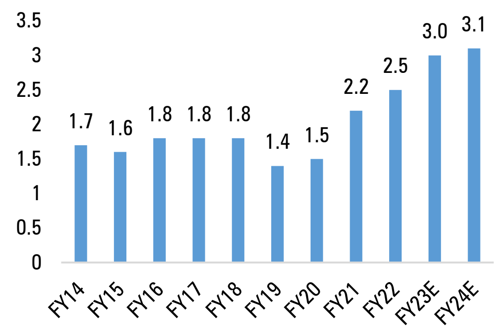
- For FY23E, we expect the government to achieve its target of ₹ 7.5 lakh crore with an upside risk of the same getting breached (additional capex sought in the first supplementary demand for grants is at ₹ 31100 crore)
- Expect Central Government allocation to capex to grow 18% YoY at ₹ 8.9 lakh crore in FY24BE led by sectors like railways, roads, defence, housing

Self reliance/Atmanirbhar theme will further grain ground as we expect the government to further raise allocation to the active PLI schemes and announce new sectors eligible for PLI. We believe, in order to lay a strong green energy foundation, the government will allocate higher incentives for Green Hydrogen PLI to accelerate the development of green energy hydrogen chain.

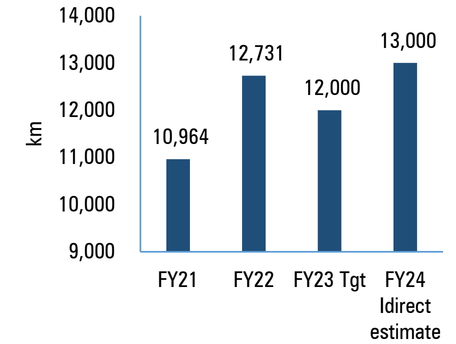
Strong Budgetary allocation to all major segments for capex (₹ crore)

	FY19	FY20RE	FY21RE	FY22RE	FY23BE	FY24E	CAGR
MoRTH	67646	72059	92053	121251	187744	210273	25.5%
Railway	52837	65837	108398	117100	137100	164520	25.5%
Defence	95231	110394	135510	138351	152370	182844	13.9%
Housing & Urban Affairs	15773	19197	10162	25957	27341	32809	15.8%
Other	72258	78908	91870	146597	245078	294094	32.4%
Total	**307714**	**348908**	**439085**	**550740**	**750246**	**885214**	**23.5%**

Capex as % of GDP

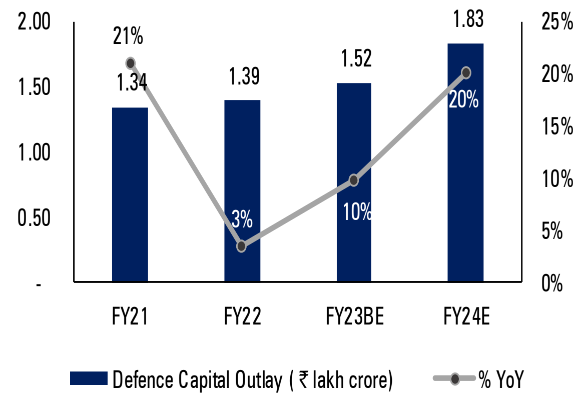


Morth Road Awarding



Key Thrust Areas in Railways

Key Areas	Remarks
New Lines + Doubling	These two areas have been the key focus areas for Railways (expected to get significant increase in allocation for FY24E again)
Electric Locomotives & Freight Wagons	Focus on 100% electrification, increasing railways freight share and rolling out 400 more Vande Bharat trains
Vande Bharat Trains/ Bullet Trains/RRTS	
Station Redevelopment/Amrit Bharat Scheme	Re-development of 1000 small stations have been proposed (120 stations within next 2-3 yrs). Moreover, plan to renovate 200 large stations is also underway
Track Renewals	
Signalling & Telecom	2,000 km of network will be brought under Kavach in FY24, the indigenous world-class technology for safety and capacity augmentation

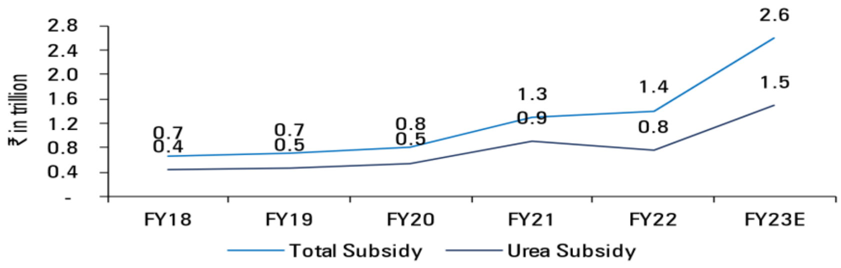


Source: Industry Sources, Budget documents *Note: RRTS denotes Regional Rapid Transit System*

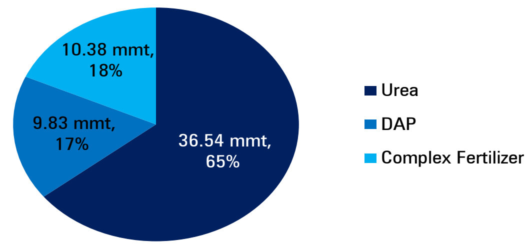
Fiscal prudence: Nano urea to be game changer in future?

- Subsidy outlay towards fertiliser in FY23 has already surpassed budgeted target owing to higher global prices
- For FY24, fertiliser subsidy burden is likely at ~₹ 1.5 lakh crore, driven by ~40% fall in global fertiliser prices
- Thrust on new innovation like nano urea has potential to substantially reduce subsidy burden

Urea based fertiliser generates maximum burden within fertiliser subsidy

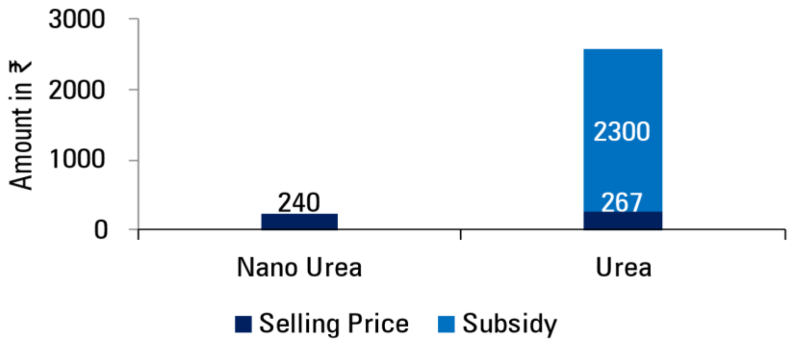


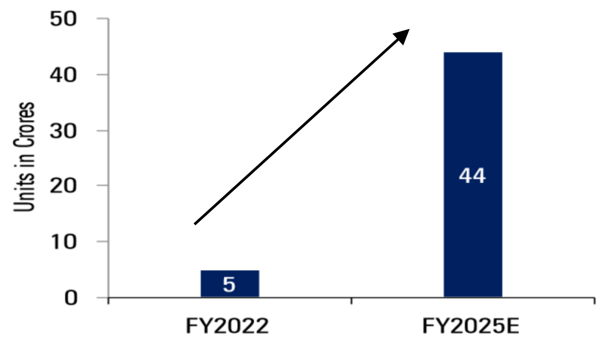
Higher subsidy as urea captures lion's share of fertiliser consumption



However, recent innovations such as nano urea are expected to counter burgeoning subsidy problem. One bottle of Nano Urea (550 ml) is equivalent in potency to one bag of urea (45 kg). However, its cost is 90% lower than conventional urea

Significant ramp up in nano urea production is expected to replace 50% of conventional urea in the coming years thereby slashing the subsidy burden by half. Furthermore, reducing imports will also lower foreign exchange losses, resulting in synergistic gains.



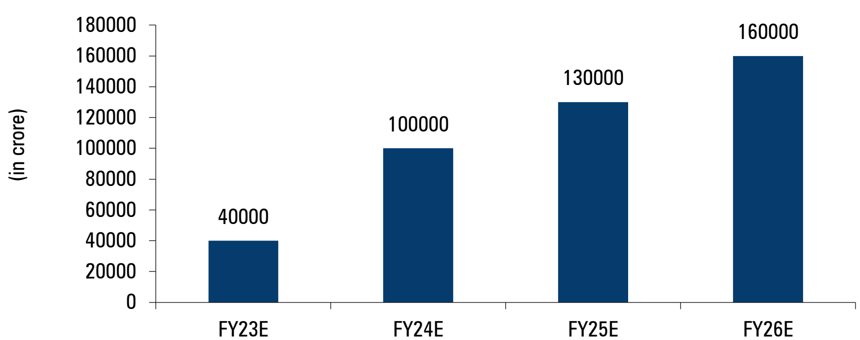


Focused PLI, FAME-II continuance – Need of hour!

PLI has proved to be effective, fiscally prudent capex stimulating measure

PLI incentive: ₹ 2.7 lakh crore

Leading to private capex of ₹ 4.3 lakh crore

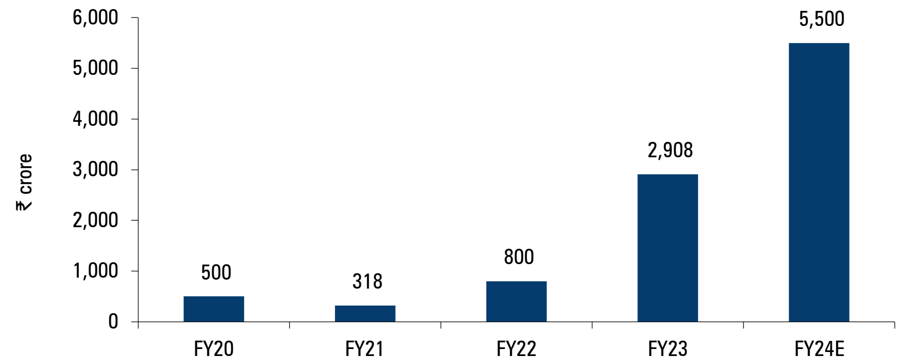


- **The PLI policy measure has been successful in stimulating private capex as it has a multiplier impact on direct capex**
- The private capex is likely to be ~₹ 4.3 lakh crore in FY23E-26E under PLI schemes. The PLI incentives by the government for corresponding capex is planned at ~ ₹ 2.8 lakh crore (including new schemes)
- **The government may extend PLI schemes to new sectors such as leather, bicycle, toys, etc**
- **In addition, the government may extend PLI benefit for IT hardware to increase the incentive from ₹ 7,325 crore to ₹ 20,000 crore to attract more investments**

FAME-II to expire in FY24E; expectations set for all-time high allocation

Faster adoption & manufacturing of Electric Vehicles (FAME-II) scheme is aimed at accelerating the EV penetration domestically with present scheme post extension valid till FY24E at a total outlay of ₹ 10,000 crore.

Budget Allocation towards FAME-II scheme



Till FY23, total amount allocated & spend under Fame-II cumulatively was at ~₹ 4,500 crore with total vehicles benefitting from it pegged at ~7.5 lakh units.

In FY23E, given the accelerated tendering in electric bus segment and pick-up in EV-2-Ws, we expect **allocation in this scheme for FY24E at ~₹ 5,500 crore.**

More importantly, we await the government's comment on continuance of FAME scheme beyond FY24E. Given the nascent stage of industry (penetration at just ~5%) we expect it to continue for a couple more years.

On the alternate energy front, given the promising prospects of **hydrogen powered vehicles** in CV space, we expect a policy rollout in this domain, which is on similar lines as FAME scheme

Source:: ICRA, Media Articles, ICICI Direct Research

Cooperative to lift agri exports, seed access & organic products

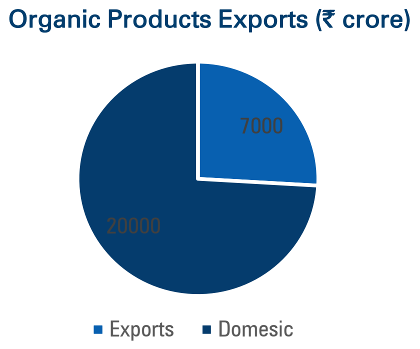
Union Government set up three cooperatives

- **National Export Cooperatives society** - To boost exports of marketable surplus farm products like dairy, sugar, spices, handicraft. The cooperative would leverage the expertise of AMUL, NAFED & others in processing & production of goods to international standard. It would also generate additional employment in the agri sector
- **National Cooperative seed society** - Will help farmers in production, purchase, branding, packaging and sale of quality seeds and also help in new research and development. Through this society, arrangements can also be made for the protection of indigenous natural seeds, which are getting extinct
- **National Society of Organic Products** - Will provide unlimited opportunities to Indian farmers to fulfil the growing demand for organic products in the world. It will not only help India gain better access to the global market but would also help farmers who produces pesticide free crops

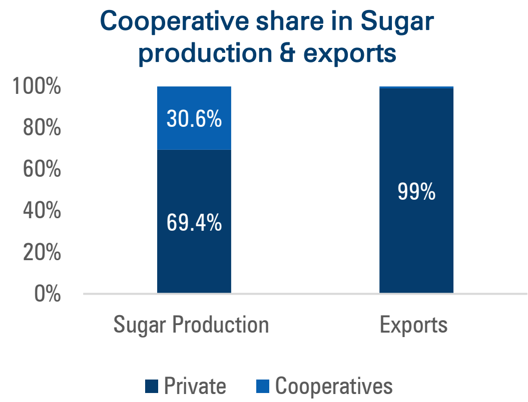
Turnover, exports of major cooperatives at national level

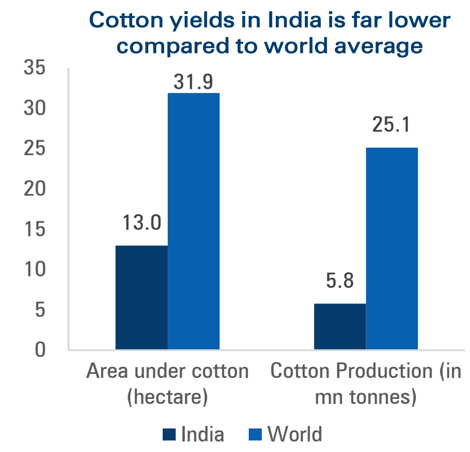
₹ crore	Turnover	Exports
AMUL (GCMMF)	46,481	1,530
NAFED	19,752	407
SPSK	403	120
SVSSK	501	43
KRIBHCO	13,194	28
IFFCO	40,172	11

Organic farmland is 1.6% of total farmland in the world. There are 34 lakh organic farmers in 190 countries with land coverage of 797 lakh hectare. India is the fourth largest organic farm land country with 27 lakh hectare of area. Organic farm market size is ₹ 27000 crore, which includes ₹ 7000 crore of exports. Australia has the largest land coverage of 357 lakh hectare under organic farm land.



The share of cooperatives in exports market is miniscule compared to private companies. With establishment of national level cooperatives for exports, the sector would be able to increase its share in export market. Establishment of cooperatives for seeds would help increase productivity of major crops in India.





Ease of doing business: Continued journey towards simplified structure, conducive business environment

Ease of doing business – A journey, not destination!

Ease of doing business is at core of policymaking with India improving its world bank's ranking in this domain from 142 rank in 2014 to 63 rank in 2019

Ease of Doing Business 2.0 as part of Union Budget 2022-23 was expected to further accelerate digitisation, standardisation of overlapping compliance & integration of central, state level systems through IT bridges.

With considerable efforts made in this space from time to time, we suggest following measures in upcoming Budget to further navigate this journey:

- **Validation of PAN as single business ID/unique business identifier,** which eases compliance burden while attaining approvals/licences
- **Digi-locker ecosystem,** which acts as repository of all official documents & licenses and is easily accessible to government and company
- **Further ease in GST compliance** including change in GST act adopting inputs of GST council for decriminalisation of offences under GST law
- Measures correcting **inverted duty** in applicable goods & services
- Further investment in **logistics infrastructure,** which lowers the logistics costs of businesses to under 10% of GDP vs. 13-14% currently
- Further work on **One District One Product initiative** to develop specialised export products from wide district base pan-India

Union Budget 2022-23 is likely to make the alternative simplified direct tax structure more attractive. Measures may be announced to disincentives old tax structure by either reducing deductions/exemption in old tax structure or by rationalising new tax slabs to make it more attractive.

Old Tax Regime

Complex with ~100 deductions available like Section 80C/HRA/ LTA/ NPS/Housing Loan Interest etc.)

New Tax Regime

Simple with no major deductions but tax liability lower by ₹ 78000 (for 30% tax bracket assesse)

Old tax regime still beneficial as in most cases total deduction (Section 80C/HRA/LTA/ NPS/Housing Loan Interest, etc) claimed by the taxpayer is more than ₹ 260000 (@30%, tax liability comes to ~₹ 78000)

The new tax regime needs to be made further attractive by making the tax liability lower by at least ₹ 120000 (breakeven amount of deductions of ₹ 4 lakh) from current ₹ 78000 (breakeven amount of deduction ₹ 2.6 lakh).

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

Sector specific measures…

Issue of composite insurance license (through which insurers can sell both life and non-life insurance products without separate license). This will enhance the scope by easy entry for more players in insurance market and improving overall efficiencies of the insurance industry. Post issue of composite license there will be change in solvency margin and capital requirement of insurers	Life Insurance	Positive	LIC of India, HDFC Life, SBI Life
The government is likely to announce concessional infrastructure to support Central Bank Digital Currency (CBDC). In addition, various incentives/cashback schemes, awareness campaigns for promotion of secure payment practices can be announced to promote acceptability of digital currency in India	Banks	Positive	State Bank of India, Bank of Baroda, HDFC Bank and Kotak Mahindra Bank
Removal of import duty of 11% on cotton and cotton waste import: Higher raw cotton prices have led to elevated cotton yarn prices negatively impacting the global competitiveness of Indian textile players across the textile value chain. Reduction and/or removal of import duty (currently 11%) would help textile companies to import cheaper cotton into the country and thereby aid in stabilising yarn prices	Textile	Positive	Vardhman Textiles, KPR Mills, Gokaldas Exports
Increased basic customs duty on import of man-made yarn from 5% to 10%: Increasing of customs duty on MMF Yarn would reduce imports of MMF based yarn and would be positive for Indian MMF yarn companies as they would be able to witness better utilisation of existing capacities	Textile	Positive	Filatex, Indo Rama Synthetics
Reduction in import duty of gold from current 15%: Gold prices are currently trading at an all-time high, which is significantly impacting demand. Cut in duties could provide a temporary breather to spiralling prices. Also, reduction in custom duties could curb higher gold smuggling (during 2022, illicit gold could rise 33% to 160 tonnes)	Retail	Positive	Titan Company, Kalyan Jewellers

Source: Budget Documents, ICICI Direct Research

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