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GoI's fiscal deficit restricted to 59% of FY2022 RE in first 10 months; modest upside to gross tax revenues may prevent overshooting of fiscal deficit

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Exhibit: Revenue Deficit and Fiscal Deficit (Rs. Trillion)

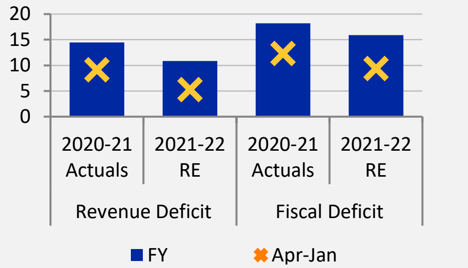
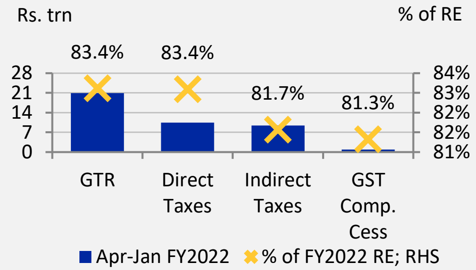


Exhibit: Gross Tax Revenue as % RE



Source: CGA; Union Budget; ICRA Research

With a robust 48% YoY growth in revenue receipts, measured 10% rise in revenue expenditure and 22% expansion in capital expenditure, the Government of India (GoI) recorded a fiscal deficit of Rs. 9.4 trillion (59% of FY2022 Revised Estimates; RE) in April-January or 10M FY2022. Encouragingly, gross tax revenues in 10M FY2022 reached a considerable 83.4% of the revised target for FY2022, led by direct taxes (+83.4%), as well as CGST (+84.2%) and customs duty (+80.7%) collections. Unless any substantial refunds are forthcoming, we project the actual direct tax collections in FY2022 to exceed the RE level by Rs. 500-700 billion, largely driven by corporation tax. Overall, ICRA expects a modest upside of Rs. 500-900 billion to the GoI's gross tax revenues in FY2022 compared to the RE of Rs. 25.2 trillion. While the revised target for revenue expenditure for FY2022 is likely to be achieved, capex may end up undershooting the RE level by Rs. 400-600 billion. These factors will help to absorb any shortfall in disinvestment receipts, in the event that the inflows from the Initial Public Offering (IPO) of Life Insurance Corporation (LIC) do not materialise within this fiscal.

- **GoI's fiscal deficit restricted to 59% of the FY2022 RE in Apr-Jan FY2022**: With a robust 48% YoY growth in revenue receipts, measured 10% rise in revenue expenditure and 22% expansion in capital expenditure, the GoI recorded a fiscal deficit of Rs. 9.4 trillion (~59% of FY2022 RE) in April-January or 10M FY2022, appreciably lower than the Rs. 12.3 trillion (~68% of FY2021 Actuals) in 10M FY2021.

- **Direct tax, CGST and customs duty collections contributed to healthy gross tax revenues in 10M FY2022:** The GoI's gross tax revenues surged by 38.5% YoY to Rs. 21.0 trillion during 10M FY2022, and accounted for a considerable 83.4% of the FY2022 RE. This was chiefly driven by direct tax collections (+56.1% YoY; 83.4% of the FY2022 RE), followed by indirect taxes (+23.8%; 81.7% of the FY2022 RE). We expect the direct taxes in FY2022 to exceed the RE by Rs. 500-700 billion, largely driven by corporation tax.

- **Total expenditure rose by 11.6% YoY in 10M FY2022; capex in FY2022 may undershoot the RE:** Compared to the 7.4% growth forecast included in FY2022 RE, the GoI's total expenditure grew by a higher ~11.6% YoY to Rs. 28.1 trillion during 10M FY2022 (~75% of the RE for FY2022). Given the headroom available in Feb-March 2022 to meet the RE levels and the trend for 10M FY2022, it seems that the FY2022 target for revex is likely to be achieved, whereas capex may end up undershooting the RE by Rs. 400-600 billion.

- **Undershooting of capex target and modest upside in gross tax revenues over RE to offset potential missing of disinvestment target:** ICRA expects a modest upside of Rs. 500-900 billion to the GoI's gross tax revenues in FY2022 compared to the RE of Rs. 25.2 trillion. This along with the likely undershooting of capex target will absorb any shortfall in disinvestment inflows over FY2022 RE and prevent the fiscal deficit of the GoI from exceeding the revised target of Rs. 15.9 trillion.

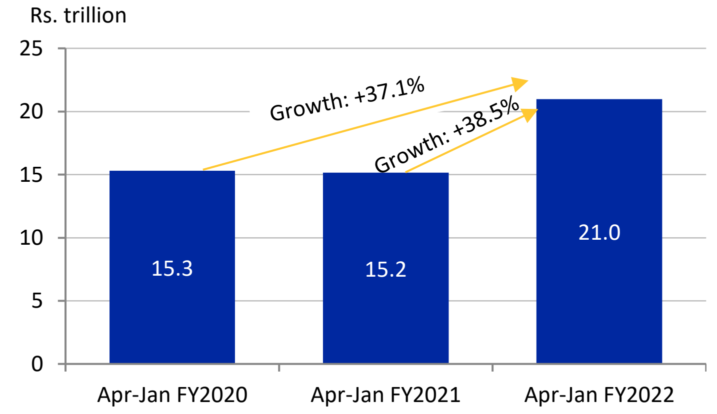
- **Yields set to resume uptrend in FY2023:** Indian G-sec yields will take a cue from whether any unexpected dated borrowing is announced in March 2022, and where crude oil prices settle amid the ongoing geo-political tensions. We expect the 10-year G-sec yield to cross 7.0% when the GoI's FY2023 borrowing programme commences in April 2022.

REVENUE RECEIPTS GREW BY A ROBUST ~48% YOY IN 10M FY2022

The GoI's revenue receipts expanded by 47.9% YoY to Rs. 18.4 trillion in April-January FY2022 or 10M FY2022 from Rs. 12.4 trillion in 10M FY2021

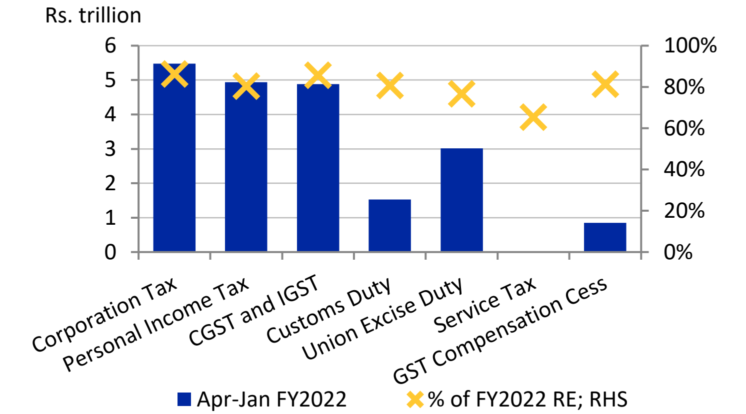
Provisional data released by the CGA indicates that the GoI's revenue receipts expanded by 47.9% YoY to Rs. 18.4 trillion in April-January FY2022 or 10M FY2022 from Rs. 12.4 trillion in 10M FY2021. Notwithstanding the subdued base of 10M FY2021 (-0.6%), the collections are a robust 47.1% higher than 10M FY2020, predominantly led by net tax revenues (+55%). Moreover, a considerable 88.5% of the FY2022 RE for revenue receipts had been achieved in 10M FY2022 (as against 76.1% of FY2021 Actuals in 10M FY2021), reflecting the trend for net tax revenues (Rs. 15.4 trillion in 10M FY2022; 87.7% of FY2022 RE) and non-tax revenues (Rs. 2.9 trillion; 92.9% of FY2022 RE).

EXHIBIT 1: GoI's Gross Tax Revenues in Apr-Jan of FY2020, FY2021 and FY2022



***Source**: CGA, Ministry of Finance, GoI; ICRA Research*

EXHIBIT 2: Collections of Major Direct and Indirect Taxes in Apr-Jan FY2022 and % of FY2022 RE raised up to Apr-Jan FY2022



***Source**: CGA, Ministry of Finance, GoI; ICRA Research*

Gross Tax Revenues stood at Rs. 21.0 trillion in 10M FY2022 and reached 83.4% of the FY2022 RE; Modest upside of Rs. 500-900 Billion over FY2022 RE appears likely, largely driven by direct taxes

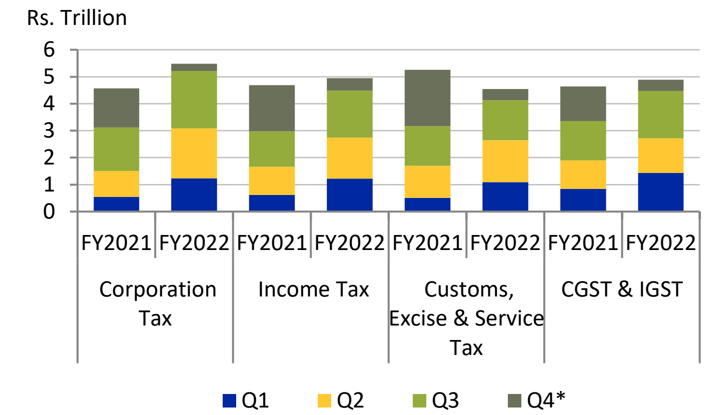
The GoI's gross tax revenues surged by 38.5% YoY to Rs. 21.0 trillion during 10M FY2022, and accounted for a considerable 83.4% of the FY2022 RE

The GoI's gross tax revenues surged by 38.5% YoY to Rs. 21.0 trillion during 10M FY2022 (refer Exhibit 1 and 2) from Rs. 15.2 trillion in 10M FY2021, and accounted for 83.4% of the FY2022 RE. This was driven by direct tax collections (+56.1% YoY; 83.4% of the FY2022 RE), followed by indirect taxes (+23.8%; 81.7% of the FY2022 RE). Moreover, gross tax revenues in 10M FY2022 were 37.1% higher than 10M FY2020 (Rs. 15.3 trillion; refer Exhibit 4). In Jan 2022, the gross tax revenues recorded a YoY decline for the first time in FY2022, by a modest 4.4%, attributable to the settlement of IGST with the states, dip in gold imports and cut in excise duty on fuels, despite the laudable growth in direct taxes.

Central tax devolution would need to be adjusted upwards by Rs. 0.2-0.4 trillion.

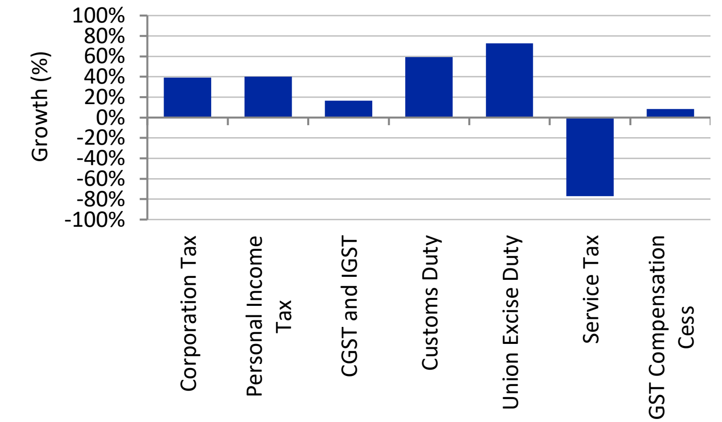
The amount of taxes devolved to the states in 10M FY2022 rose by 33.4% to Rs. 5.5 trillion, relative to 10M FY2021 (Rs. 4.1 trillion). As a result, the net tax revenues (net of devolution to States) rose by a higher 40.4% to Rs. 15.5 trillion in 10M FY2022 from Rs. 11.0 trillion in 10M FY2021. In Feb-Mar FY2022, central tax devolution is projected to inch up to Rs. 2.0 trillion from Rs. 1.9 trillion in Feb-Mar FY2021, to meet the FY2022 RE of Rs. 7.4 trillion. **Based on our estimate of the higher than estimated gross tax revenues, central tax devolution would need to be adjusted upwards by ~Rs. 0.2-0.4 trillion. This may end up being adjusted in FY2023 instead of being released in FY2022, which would accordingly affect the extent to which net tax revenues overshoot the FY2022 RE.**

EXHIBIT 3: Trends in Quarterly Tax Collections (Net of Refunds, Gross of States)



Data for Q4 FY2022 available till Jan 2022 only; **Source: CGA, Ministry of Finance, GoI; ICRA Research*

EXHIBIT 4: Growth in Direct and Indirect Taxes in Apr-Jan FY2022 over Apr-Jan FY2020



***Source**: CGA, Ministry of Finance, GoI; ICRA Research*

Direct tax collections expanded by 56.1% YoY to Rs. 10.4 trillion in 10M FY2022, led by corporate tax collections

Unless some refunds are forthcoming, we expect the actual direct tax inflows in FY2022 to exceed the RE by Rs. 0.5-0.7 trillion.

Direct taxes: Direct tax collections recorded a YoY expansion of 56.1% in 10M FY2022 to Rs. 10.4 trillion from Rs. 9.4 trillion in 10M FY2021 (-10.5%), led by corporate tax collections, which surged to Rs. 5.5 trillion (+63.8%) from Rs. 3.3 trillion (-14.9%), respectively, as large corporates reported higher profits, benefiting from a combination of rising market share of formal players, price hikes and deleveraging their balance sheets. In addition, income tax collections increased to Rs. 4.9 trillion in 10M FY2022 (+48.3%) from Rs. 3.3 trillion in 10M FY2021 (-5.5%). Moreover, direct taxes exceeded the 10M FY2020 level by a healthy ~40%, reflecting the trend for income tax (+40.2%) and corporate tax collections (+39.3%; refer Exhibit 4). While corporate tax collections during 10M FY2022 account for a sizeable ~86.3% of the FY2022 RE, income tax collections stood at a somewhat lower ~80.4% of the revised target.

Based on the FY2022 RE and the CGA data available up to 10M FY2022, direct tax collections for Feb-Mar 2022 are implicitly projected to trail the level in Feb-Mar 2021 by 25.0% YoY, led by corporation tax (-29.2%). While the base of Q4 FY2021 was boosted by inflows related to Vivad se Vishwas, the implicit assumptions for direct tax collections for Q4 FY2022 appear conservative in spite of the third wave, given the robust collections in January 2022 (YoY growth: +28.3%). Even if the collections in Feb-Mar 2022 are at par with year-ago inflows, direct tax revenues in FY2022 could easily overshoot the RE level by Rs. 500 billion. Unless some refunds are forthcoming, we expect the actual direct tax inflows in FY2022 to exceed the RE by Rs. 500-700 billion.

EXHIBIT 5: Trends in Tax Revenue Receipts in FY2021 Actuals, FY2022 RE and 10M FY2022

	FY2021 Actuals	FY2022 RE		Apr-Jan FY2022		
	Rs. billion	Rs. Billion	Growth~	Rs. billion	Rs. Billion	YoY Growth
Gross Tax Revenues^	**20,271.0**	**25,160.6**	**24.1%**	**20,981.8**	**83.4%**	**38.5%**
Direct Taxes	**9,448.6**	**12,500.0**	**32.3%**	**10,419.8**	**83.4%**	**56.1%**
Corporation Tax	*4,577.2*	*6,350.0*	*38.7%*	*5,477.3*	*86.3%*	*63.8%*
Income Tax	*4,871.4*	*6,150.0*	*26.2%*	*4,942.5*	*80.4%*	*48.3%*
Indirect Taxes	**9,944.6**	**11,573.3**	**16.4%**	**9,458.0**	**81.7%**	**23.8%**
Central GST (CGST)	*4,563.3*	*5,700.0*	*24.9%*	*4,797.3*	*84.2%*	*44.1%*
Union Territory GST (UTGST)	*27.6*	*33.3*	*20.4%*	*22.0*	*66.2%*	*30.5%*
IGST	*72.5*	*0.0*	*-100.0%*	*88.7*	*---*	*-83.9%*
Customs Duty	*1,347.5*	*1,890.0*	*40.3%*	*1,526.0*	*80.7%*	*56.5%*
Excise Duty	*3,917.5*	*3,940.0*	*0.6%*	*3,017.5*	*76.6%*	*9.5%*
Service Tax	*16.2*	*10.0*	*-38.1%*	*6.5*	*65.3%*	*-49.2%*
GST Compensation Cess	851.9	1,050.0	23.3%	853.9	81.3%	26.7%

^Net of Refunds, Gross of States' share in Central Taxes; ~Relative to FY2021 Actuals; #As compared to the corresponding period of FY2021 Actuals; ***Source****: GoI Budget Documents; CGA, Ministry of Finance, GoI; ICRA Research*

Gross tax revenues of the GoI could be up to Rs. 500-900 billion higher than the FY2022 RE of Rs. 25.2 trillion

Indirect taxes: During 10M FY2022, indirect taxes recorded a YoY growth of 23.8% to Rs. 9.5 trillion in 10M FY2022 and accounted for ~82% of the revised target for FY2022 (refer Exhibit 5). This was led by customs duty collections (+56.5% YoY; 80.7% of the FY2022 RE; owing to the pent-up demand for gold imports upto 9M FY2022 followed by a dip in Jan 2022), as well as CGST (+44.1%; 84.2% of FY2022 RE; amid widening of economic recovery along with activities to curb tax evasion) and union excise duties (+9.5%; 76.6% of FY2022 RE; improvement in mobility despite a partial rollback of cesses on fuels in Nov 2021) in 10M FY2022. Moreover, there was a sharp 36.3% growth in the indirect tax collections in 10M FY2022, relative to the pre-Covid or 10M FY2020 level.

Based on the FY2022 RE and collections upto 10M FY2022, indirect taxes in Feb-Mar 2022 are implicitly projected to trail the year-ago level by 8.3%, led by union excise duty (-20.7%), customs duty (-2.3%) and CGST collections (-26.9%). Actual excise duty and customs duty collections in FY2022 are unlikely to exceed the respective RE levels, partly owing to the impact of relief provided on fuels and edible oils, respectively. Additionally, the waning of the pent-up demand for gold given the recent surge in prices may reduce the associated customs duty collections, after a dip in Jan 2022 attributed to the third wave.

However, CGST collections are expected to witness a modest YoY increase in Feb-Mar 2022. The GST e-way bill generation declined by a mild 3.9% MoM in Jan 2022, despite the onset of third wave and restrictions. Moreover, the daily generation of e-way bills rose to 2.38 million during Feb 1-20, 2022, surpassing the record high of 2.37 million seen in Oct 2021, indicating that the economic activity is set to stage a quick rebound after the rapid abatement of third wave, which is likely to boost the GST collections in March 2022. Overall, we expect a mild upside in the Centre's GST collections of Rs. 0.2 trillion relative to the FY2022 RE.

As per CGA data, the GST compensation cess collections stood at Rs. 853.9 trillion in 10M FY2022 (81.3% of the RE of Rs. 1.1 trillion). This implies cess inflows of Rs. 0.20 trillion in Feb-Mar FY2022, 10.3% higher than Rs. 0.18 trillion collected in Feb-Mar 2021.

Overall, the gross tax revenues of the GoI could be up to Rs. 500-900 billion higher than the FY2022 RE of Rs. 25.2 trillion.

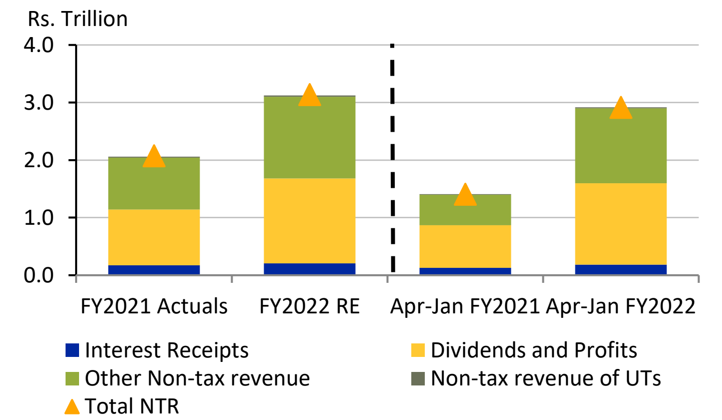
If the proceeds from the LIC IPO don't materialise in March 2022, we expect the disinvestment proceeds to be limited to under Rs. 0.35 trillion in FY2022, less than half of the RE level.

NON-TAX REVENUES WERE HEALTHY IN 10M FY2022, EQUIVALENT TO ~93% OF REVISED TARGET, WHILE DISINVESTMENT PROCEEDS WERE SUBDUED AT RS. 0.1 TRILLION

Non-tax revenues stood at Rs. 2.9 trillion (refer Exhibit 6) and accounted for 92.9% of the RE for FY2022. This entails a decline in non-tax revenues to Rs. 0.2 trillion in Feb-Mar 2022 from Rs. 0.7 trillion in Feb-Mar 2021, suggesting a mild upside relative to the FY2022 RE given the recent dividend payouts of some PSUs to the GoI.

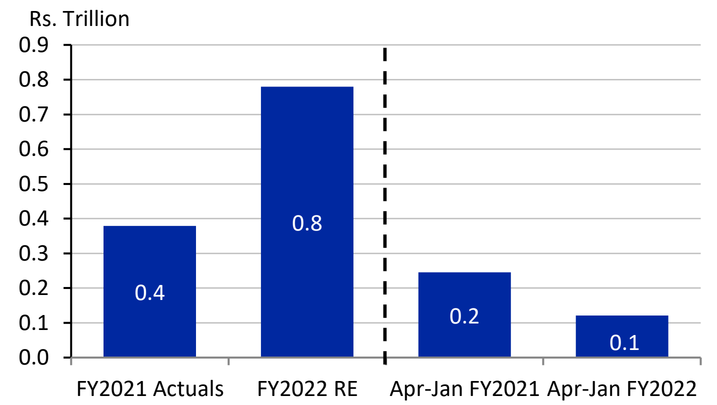
As per the CGA data, which is available upto 10M FY2022, disinvestment proceeds aggregated to a subdued Rs. 120.7 billion (refer Exhibit 7). However, according to the data provided by the DIPAM, Ministry of Finance, GoI, the total receipts from disinvestment stood at a slightly higher Rs. 124.2 billion (15.9% of the FY2022 RE of Rs. 0.78 trillion), as on February 28, 2022. This includes inflows from 100% strategic disinvestment of Air India (Rs. 27.0 billion), sales of the GoI's stake through Offer for Sale (OFS) route in entities such as SUUTI's stake in Axis Bank (Rs. 39.9 billion), National Mineral Development Corporation (Rs. 36.5 billion), Housing and Urban Development Corporation (Rs. 7.2 billion) and Hindustan Computers Limited (Rs. 7.4 billion), as well as sale of shares through stock exchange by the Indian Petrochemicals Corporation Limited (now RIL; Rs. 2.2 billion).

EXHIBIT 6: Trends in Non-tax revenue and its constituents



***Source**: CGA, Ministry of Finance, GoI; ICRA Research*

EXHIBIT 7: Trends in Disinvestment receipts



***Source**: Ministry of Finance, GoI; ICRA Research*

Moreover, the GoI has accepted the bid to divest 93.71% of its equity stake in Neelachal Ispat Nigam Limited at end-Jan 2022 for Rs. 120 billion. Besides, the Life Insurance Corporation (LIC) has filed its DRHP with the SEBI on Feb 13, 2022, and as per this, the GoI is planning to sell 5% stake in the IPO entirely through the OFS route. **If the proceeds from the LIC IPO don't materialise in March 2022, we expect the disinvestment proceeds to be limited to under Rs. 0.35 trillion in FY2022, less than half of the RE level.**

TOTAL SPENDING ROSE BY 11.6% YOY IN 10M FY2022; CAPEX IN FY2022 MAY UNDERSHOOT THE REVISED TARGET

The GoI's total expenditure grew by 11.6% YoY to Rs. 28.1 trillion during 10M FY2022

Compared to the 7.4% growth forecast included in FY2022 RE (relative to FY2021), the GoI's total expenditure grew by a higher ~11.6% YoY to Rs. 28.1 trillion during 10M FY2022 and accounted for ~75% of the RE for FY2022 (~72% of FY2021 actuals in 10M FY2021), led by revenue expenditure (YoY growth of 9.9% in 10M FY2022 vs. the growth target of +2.7%). While the capital expenditure expanded by 22% YoY in 10M FY2022, this was much lower than the 41.4% YoY expansion included in FY2022 RE.

The pace of YoY growth in total spending rose from 9.9% in H1 FY2022 to 11.8% in Q3 FY2022 and further to 21.6% in Jan 2022, following the relaxion of cash management restrictions on ministries/departments in Sep 2021 and Nov 2021. This was led by the trend in the YoY growth in the revenue expenditure, which rose from 6.3% in H1 FY2022 to 11.4% in Q3 FY2022 and 29.5% in Jan 2022. However, the capital expenditure recorded a YoY growth of 38.3% in H1 FY2022 (-11.6% in H1 FY2021), which moderated to 13.4% in Q3 FY2022 (+110.5% in Q3 FY2021), before slipping to a contraction of 5.8% in Jan 2022 (+335.1% in Jan 2021 on a very high base).

The YoY growth of ~10% in revex during 10M FY2022 was driven by interest payments (+18.3%) as well as outgo towards major subsidies (+29.7%), while there was a mild rise in non-interest non-subsidy revex (+3.1%). The considerable ~30% YoY growth in the total outgo for major subsidies to Rs. 3.3 trillion in 10M FY2022 (~75.7% of FY2022 RE) from Rs. 2.5 trillion in 10M FY2021 (35.7% of FY2021 Actuals) was primarily led by food (+67.4%) and fertiliser (+18.9%), even as fuel subsidy (-95.1%) recorded a steep YoY decline. The subsidy outgo for the Department of Food and Public Distribution, Department of Fertilisers, and Ministry of Petroleum and Natural Gas stood at Rs. 2,098.7 billion, Rs. 1,164.2 billion, and Rs. 14.1 billion, respectively, in 10M FY2022, equivalent to 73.3%, 83.1%, and 21.6% of the respective FY2022 BE.

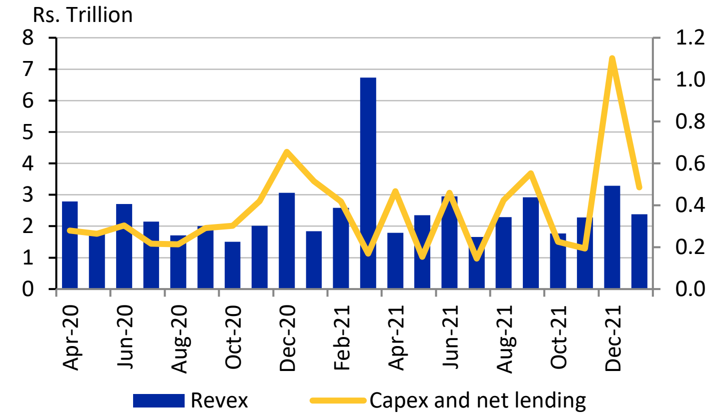
The headroom left in Feb-Mar 2022 to meet the FY2022 RE is Rs. 8.0 trillion, ~14% lower than the year-ago level

The headroom left within the FY2022 RE for revenue spending (Rs. 31.7 trillion) aggregates to Rs. 8.0 trillion for February-March 2022. While substantial, this is much lower than the Rs. 9.3 trillion recorded in the last two months of FY2021. In our assessment, the FY2022 RE for revenue spending is likely to be achieved, with a back-ended release of funds towards items included in the second supplementary demand for grants.

A sizeable Rs. 1.6 trillion is left to be spent in Feb-March 2022 to reach FY2022 RE for capex, which appears challenging given the recent monthly trends

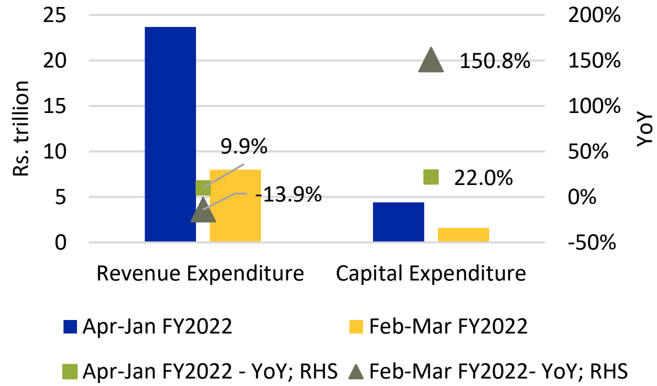
We expect the GoI's capex in FY2022 to undershoot the revised target of Rs. 6.0 trillion, by ~Rs. 400- 600 billion

EXHIBIT 8: Monthly Revenue Expenditure and Capital Expenditure and Net Lending (Rs. trillion)



***Source**: CGA, Ministry of Finance, GoI; ICRA Research*

EXHIBIT 9: Actual Revex and Capex in Apr-Jan FY2022 and headroom available in Feb-Mar FY2022; Rs trillion and YoY



YoY growth in Feb-Mar FY2022 needed to meet the FY2022 RE; **Source: CGA, Ministry of Finance, GoI; ICRA Research*

The GoI's capital expenditure stood at Rs. 4.4 trillion in 10M FY2022, 22.0% higher than the year ago level (73.3% of FY2022 RE; refer Exhibit 9). Capex contracted by ~41% YoY in Oct-Nov 2021, amid the interruptions related to the festive season and excess rainfall in Southern India in Nov 2021. Subsequently, it recorded a steep 74% expansion in Dec 2021, boosted by the equity infusion into Air India of Rs. 620.6 billion. In Jan 2022, it recorded a mild de-growth of 5.8%, to Rs. 0.5 trillion (refer Exhibit 8).

The capital expenditure incurred by the MoRTH expanded by ~28% to ~Rs. 1.0 trillion in 10M FY2022 (80% of FY2022 RE) from Rs. 0.8 billion in 10M FY2021, and that of Ministry of Railways more-than- doubled to Rs. 0.87 trillion (75% of FY2022 RE) from Rs. 0.39 billion, respectively. In contrast, capex on Defence services eased by 3% to Rs. 0.92 trillion in 10M FY2022 (67% of FY2022 RE) from Rs. 0.95 trillion in 10M FY2021.

A sizeable Rs. 1.6 trillion is left to be spent in Feb-March 2022 to reach FY2022 RE for capex, indicating a YoY expansion of 150.8% (refer Exhibit 9), which appears unlikely despite the relaxations announced regarding capital-related spending for the Ministries/Departments for Q4 FY2022. In our view, the GoI's capex in FY2022 is likely to undershoot the revised target of Rs. 6.0 trillion, by ~Rs. 400- 600 billion.

FISCAL DEFICIT REACHED ~59% OF FY2022 RE IN 10 MONTHS; MODEST UPSIDE IN NET TAX REVENUES AND UNDERSHOOTING OF CAPEX TARGET MAY OFFSET ANY POTENTIAL SHORTFALL IN DISINVESTMENT PROCEEDS

The GoI's fiscal deficit compressed to Rs. 9.4 trillion (59% of RE) in 10M FY2022 from Rs. 12.3 trillion (68% of actuals) in 10M FY2021

ICRA expects an upside of Rs. 500-900 trillion to the GoI's gross tax revenues in FY2022, compared to the RE level, and undershooting of capex by Rs. 400-600 trillion, which may absorb any potential shortfall in disinvestment receipts

EXHIBIT 10: Fiscal trends in FY2021 Actuals and Apr-Jan FY2022

	FY2021 Actuals	FY2022 RE		Apr-Jan FY2022		
	Rs. billion	Rs. Billion	Growth~	Rs. Billion	% of RE	Growth#
Revenue Receipts	16,339.2	20,789.4	27.2%	18,389.2	88.5%	47.9%
Tax Revenues$	14,262.9	17,651.5	23.8%	15,474.4	87.7%	40.4%
Non-Tax Revenues	2,076.3	3,137.9	51.1%	2,914.9	92.9%	106.6%
Revenue Expenditure	30,835.2	31,672.9	2.7%	23,677.0	74.8%	9.9%
Revenue Balance	**-14,496.0**	**-10,883.5**		**-5,287.8**	**48.6%**	
Capital Receipts	379.0	780.0	105.8%	120.7	15.5%	-50.8%
Capital Expenditure, Net Lending	4,065.9	5,807.4	42.8%	4,211.6	72.5%	21.6%
Fiscal Balance	**-18,182.9**	**-15,910.9**		**-9,378.7**	**58.9%**	

$ Net of Refunds, Net of States' share in Central Taxes; ~ Relative to FY2021 Actuals; #As compared to the corresponding period of FY2021 Actuals; ***Source****: GoI Budget Documents; CGA, Ministry of Finance, GoI; CEIC; ICRA Research*

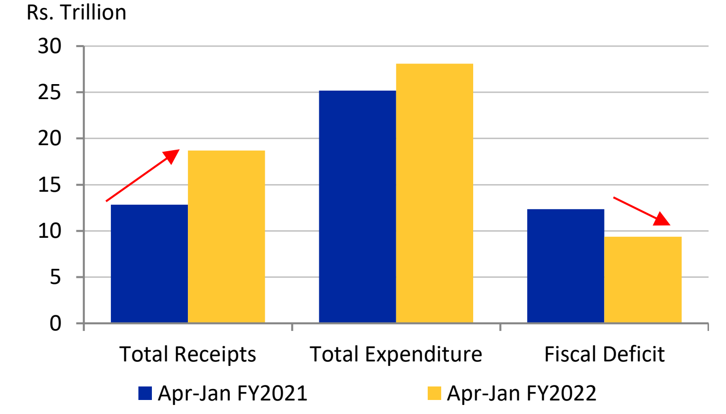
The revenue deficit compressed to Rs. 5.3 trillion in 10M FY2022 (refer Exhibit 10) from Rs. 9.1 trillion in 10M FY2021 (7.5 trillion in 10M FY2020), owing to a considerable ~48% rise in revenue receipts in conjunction with a measured 10% growth in revex. With a 22% expansion in capex and 51% contraction in disinvestment receipts, the GoI's fiscal deficit declined by 24% to Rs. 9.4 trillion in 9M FY2022 from Rs. 12.3 trillion in 10M FY2021 (Rs. 9.9 trillion in 10M FY2020). Consequently, the GoI's revenue and fiscal deficits stood at 48.6% and 58.9% of the RE for FY2022, respectively, in 10M FY2022, appreciably lower than 62.9% and 67.9% of FY2021 Actuals, respectively, in 10M FY2021 (refer Exhibit 11 and 12).

ICRA expects a modest upside of Rs. 500-900 billion to the GoI's gross tax revenues in FY2022 compared to the RE of Rs. 25.2 trillion and an undershooting of capex by Rs. 400-600 billion, which will help to absorb any shortfall in disinvestment receipts, in the event that the inflows from the LIC IPO do not materialise within this fiscal.

Recent trend in Indian 10-year G-sec yield: After having peaked at 6.87% on Feb 4, 2022 after the presentation of the Union Budget for FY2023, the Indian 10-year G-sec (06.54 GS 2032) yields had cooled off to pre-budget levels and stood at 6.66% on Feb 18, 2022. Subsequently, the retention of the weekly G-sec auction held on Feb 25, 2022, after two cancellations, caused yields to rise, magnified by the impact of higher crude oil prices.

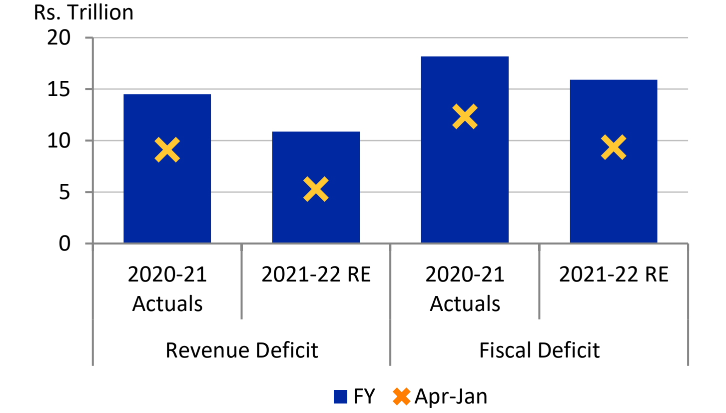
ICRA expects the 10-year G-sec yield to cross 7% when the FY2023 borrowing programme commences in April 2022

EXHIBIT 11: Trends in Revenues and Expenditure of the GoI



***Source**: CGA, Ministry of Finance, GoI; ICRA Research*

EXHIBIT 12: Revenue and Fiscal Deficits



***Source**: CGA, Ministry of Finance, GoI; ICRA Research*

Thereafter, the rapid escalation of geopolitical tensions between Russia and Ukraine pushed the international crude oil price of Indian basket above $100/barrel on Feb 24, 2022, which caused the benchmark G-sec yields to rise to 6.75% on Feb 28, 2022.

In our view, G-sec yields will take a cue from whether any unexpected dated borrowing is announced in March 2022, and where crude oil prices settle amid the ongoing geo-political tensions. We expect the 10-year G-sec yield to cross 7% when the FY2023 borrowing programme commences in April 2022.

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