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UNION BUDGET 2023-24

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MESSAGE FROM CEO

RAMNATH KRISHNAN

(MD & Group CEO)

"The Union Budget has provided a much larger-than-expected boost to growth - inducing capital spending, while at the same time managing a fair degree of fiscal consolidation. The Budget proposals are likely to enhance business, rural and tax-payer sentiment and consolidate India's growth prospects amidst a gloomy global setting. With the Government's borrowings similar to the market expectations, the bond yields are likely to stabilise, which would also support the private sector capex plans."

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ASSESSMENT OF GOVT OF INDIA'S FISCAL SITUATION

Highlights - I

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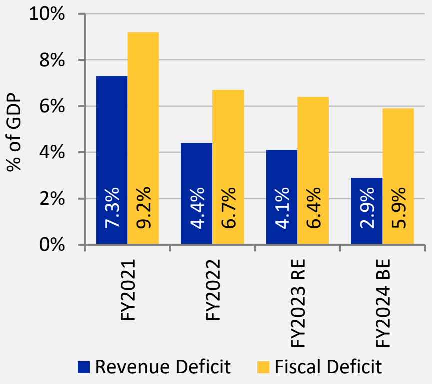
EXHIBIT: GoI's Revenue and Fiscal Deficit (as % of GDP)



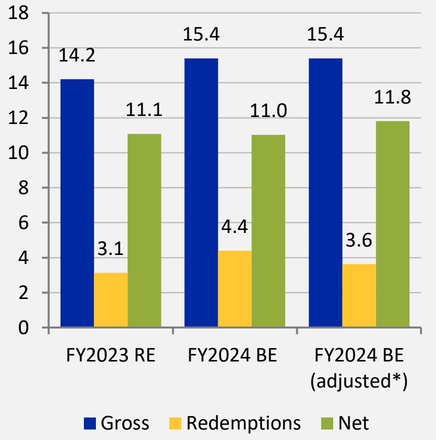
Source: Budget Documents, ICRA Research

Amidst the global growth slowdown and an uneven domestic recovery, the Union Budget for FY2024 has prudently raised the high-multiplier capital spending to a massive Rs. 10.0 trillion, while simultaneously pursuing fiscal consolidation, aided by the cushion provided by a sharp decline in the subsidy burden. Moreover, it focused on increasing the outlay on Green Growth policies, while providing tax benefits to economic agents including citizens, MSMEs and cooperatives. The estimates for revenue receipts appear mildly optimistic. Overall, the Government has estimated an appreciable narrowing in its fiscal deficit to 5.9% of GDP in FY2024 from 6.4% of GDP in FY2023, while reiterating its commitment to reaching sub-4.5% levels of GDP by FY2026.

- **FY2023 fiscal deficit target retained at budgeted 6.4% of GDP in RE:** The Government of India (GoI) has indicated a higher revenue deficit of Rs. 11.1 trillion or 4.1% of GDP in the Revised Estimates (RE) for FY2023, relative to the Budget Estimate (BE) of Rs. 9.9 trillion or 3.8% of GDP, with overshooting in revenue spending (Rs. 2.6 trillion) expected to exceed the upside in revenue receipts (Rs. 1.4 trillion). With a mild reduction in capex amidst an unchanged target for non-debt capital receipts, the fiscal deficit is anticipated to overshoot the BE by Rs. 0.9 trillion, similar to ICRA's expectations (Rs. 0.8 trillion). However, as a proportion of GDP, the deficit in FY2023 RE is in line with the budgeted target of 6.4%, on the back of higher nominal GDP growth (Rs. 273.1 trillion) vis-à-vis what was indicated in FY2023 BE (Rs. 258.0 trillion).
- **FY2024 fiscal deficit pegged at 5.9% of GDP amidst surge in capex:** With growth in revenue receipts (+12.1%) estimated to outpace that in revenue expenditure (+1.2%, amidst lower subsidy outlay), the revenue deficit is budgeted to narrow to Rs. 8.7 trillion in FY2024 BE from Rs. 11.1 trillion in FY2023 RE. However, the fiscal deficit is budgeted to rise to Rs. 17.9 trillion in FY2024 BE from Rs. 17.6 trillion in FY2023 RE, on account of a higher-than-expected expansion of 37.4% indicated in capital expenditure to Rs. 10.0 trillion (ICRA exp: Rs. 8.5-9.0 trillion).

Highlights - II

EXHIBIT: GoI's Gross and Net Market Borrowings (Rs. trillion)



** Redemptions for FY2024 adjusted for recovery of Rs. 0.78 trillion from GST compensation fund, accordingly net market issuances are pegged at higher Rs. 11.8 trillion for FY2024 BE; Source: Budget documents; CGA; ICRA Research*

- **Gross tax revenues budgeted to grow by 10.4% in FY2024 BE:** With a similar growth forecast in direct (+10.5%) and indirect (+10.3%) taxes, gross tax revenues of the GoI are budgeted to rise to Rs. 33.6 trillion in FY2024 BE, entailing the tax buoyancy of 1.0 with nominal GDP estimated to expand by 10.5%.
- **Growth in revex curtailed to 1.2% in FY2024 BE, with sizeable increase in allocation towards capex**: The GoI has indicated a muted rise of 1.2% in its revenue expenditure to Rs. 35.0 trillion in FY2024 BE, benefitting from a 28.2% moderation in the total allocation towards major subsidies in FY2024 BE led by food and fertiliser subsidies. Simultaneously, the GoI has increased the allocation for capital expenditure by Rs. 2.7 trillion to Rs. 10.0 trillion in FY2024 BE, led by railways, roads and the 50-year interest-free loans to states for capital investment.
- **FY2024 GoI's gross market borrowings pegged at Rs. 15.4 trillion:** The GoI's gross market borrowings have been pegged at Rs. 15.4 trillion in FY2024. After netting off the recovery of Rs. 0.78 trillion from the GST Compensation Fund, the redemptions for FY2024 BE stand at Rs. 3.6 trillion, higher than the Rs. 3.1 trillion in FY2023 RE. Accordingly, the GoI's net market borrowing is estimated to rise to Rs. 11.8 trillion in FY2024 BE from Rs. 11.1 trillion in FY2023 RE.
- **GoI to continue along fiscal glide path to achieve fiscal deficit lower than 4.5% of GDP by FY2026**: The GoI did not provide medium-term fiscal projections In its Medium-Term Fiscal Policy cum Fiscal Policy Strategy Statement (MTFP), on account of global uncertainties. However, it has reiterated that the Government would pursue a broad path of fiscal consolidation to attain a level of fiscal deficit lower than 4.5% of GDP by FY2026.

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FISCAL ANALYSIS AS PER FY2023 RE

GoI's FY2023 fiscal deficit maintained at 6.4% of GDP with an overshoot in absolute terms being absorbed by the higher nominal GDP

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- The RE for FY2023 indicates that the GoI's fiscal deficit would exceed the BE by Rs. 0.9 trillion. Notably, the nominal GDP for FY2023 has been revised up to Rs. 273.1 trillion in the RE from Rs. 258.0 trillion in BE. As a result, the fiscal deficit remains at 6.4% of GDP in FY2023 RE, in line with the budgeted target.
- The widening of the fiscal deficit in FY2023 RE relative to the BE by Rs. 0.9 trillion, was largely led by higher-than-budgeted revenue expenditure (+Rs. 2.6 trillion) in the FY2023 RE, partially offset by an upside in revenue receipts (+Rs. 1.4 trillion) and a small reduction in capital spending (-Rs. 0.2 trillion).
- On a YoY basis, the GoI expects its fiscal deficit to rise to Rs. 17.6 trillion in FY2023 RE (Rs. 16.6 trillion in FY2023 BE), from Rs. 15.8 trillion in the FY2022 actuals. This is led by the 10.4% increase in its total expenditure in FY2023 RE relative to FY2022 actuals, amidst a sharp contraction in non-tax revenues (-28.3%).
- Moreover, net tax revenues have been projected to rise by 15.6% to Rs. 20.9 trillion in FY2023 RE from Rs. 18.0 trillion in FY2022 actuals. In addition, non-debt capital receipts are estimated to double to Rs. 0.8 trillion in FY2023 RE from Rs. 0.4 trillion in FY2022 actuals.
- On the expenditure side, the revenue expenditure is projected to rise by 8.1% to Rs. 34.6 trillion in FY2023 RE from Rs. 32.0 trillion in FY2022 actuals. Moreover, gross capital expenditure is estimated to expand by a healthy 22.8% to Rs. 7.3 trillion in FY2023 RE from Rs. 5.9 trillion in FY2022 actuals.

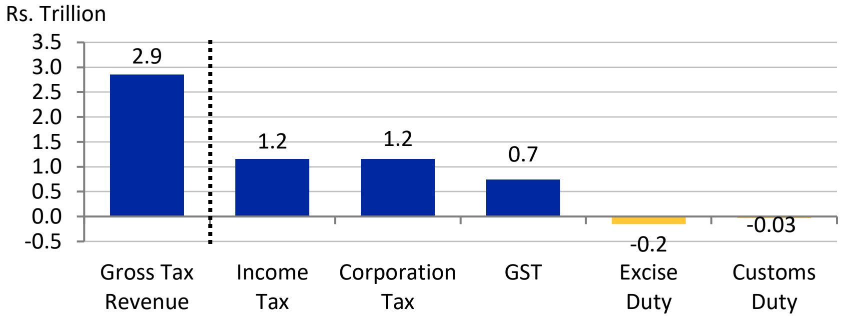
EXHIBIT: Trends in GoI's key Fiscal Balances

Rs. Trillion	FY2022 Actual (1)	FY2023 BE (2)	FY2023 RE (3)	Variation (3)-(2)	Growth (3)/(1)
Revenue Receipts	21.7	22.0	23.5	1.4	8.2%
Tax Revenues$	18.0	19.3	20.9	1.5	15.6%
Non-Tax Revenues	3.7	*2.7*	2.6	-0.1	-28.3%
Revenue Expenditure	32.0	31.9	34.6	2.6	8.1%
Revenue Balance	**-10.3**	**-9.9**	**-11.1**		
% of GDP	**-4.4%**	**-3.8%**	**-4.1%**		
Capital Receipts (Non-Debt)^	0.4	0.8	0.8	0.0	112.1%
Gross Capital Expenditure	5.9	7.5	7.3	-0.2	22.8%
Fiscal Balance	**-15.8**	**-16.6**	**-17.6**		
% of GDP	**-6.7%**	**-6.4%**	**-6.4%**		
Nominal GDP	**236.6**	**258.0**	**273.1**	**15.1**	**15.4%**

$ Net of Refunds, Net of States' share in Central Taxes; ^Recovery of loans and other receipts; Source: GoI Budget Documents; CGA; ICRA Research

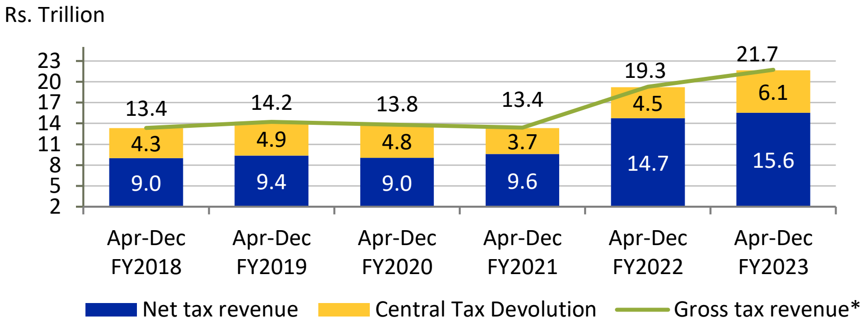
Gross tax revenues pegged at Rs. 30.4 trillion in FY2023 RE, Rs. 2.9 trillion higher than the BE

EXHIBIT: Variation in Gross Tax Revenues and its constituents in FY2023 RE over BE



Source: GoI Budget Documents; CGA; Ministry of Finance, GoI; ICRA Research

EXHIBIT: Apr-Dec trends in Gross tax revenues, Central tax devolution and Net tax revenues

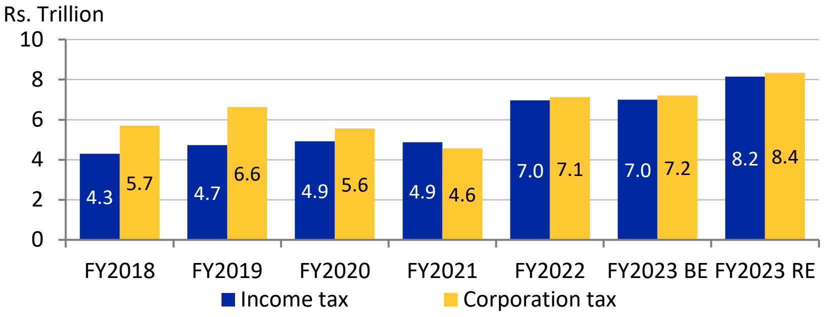


**inclusive of transfers to NCCF/NDRF; Source: GoI Budget Documents; CGA; Ministry of Finance, GoI; ICRA Research*

- The GoI's gross tax revenues have been revised upwards by Rs. 2.9 trillion in FY2023 RE relative to the BE (Rs. 27.6 trillion), driven by both direct taxes (by Rs. 2.3 trillion) and indirect taxes (by Rs. 0.5 trillion), similar to ICRA's expectations. Separately, provisional data released by the CGA indicated that gross tax revenues rose by 12.5% YoY to Rs. 21.7 trillion in 9M FY2023 (71.3% of FY2023 RE) from Rs. 19.3 trillion in FY2022 (71.2% of FY2022 actuals). **Based on these trends, gross tax revenues have been projected by the GoI to record a YoY growth of 11.8% in Q4 FY2023.**
- In line with ICRA's forecast, the Central tax devolution to the states has been revised upwards to Rs. 9.2 trillion in FY2023 RE from Rs. 8.2 trillion in FY2023 BE. In addition, Rs. 334 billion is being provided as an adjustment for prior years. During 9M FY2023, the CTD to the states expanded by 35.3% to Rs. 6.1 trillion (66.5% of FY2023 RE) from Rs. 4.5 trillion in 9M FY2022 (50.1% of FY2022 Actuals). **Accordingly, nearly Rs. 3.4 trillion remains to be disbursed in Q4 FY2023. While this is substantial, it remains 24.4% lower than the amount of Rs. 4.5 trillion in Q4 FY2022, offering a cushion in the remainder of FY2023.**
- After adjustments of tax devolution, the net tax revenues of the GoI have been revised upwards by Rs. 1.5 trillion in FY2023 RE, relative to the BE for the year.

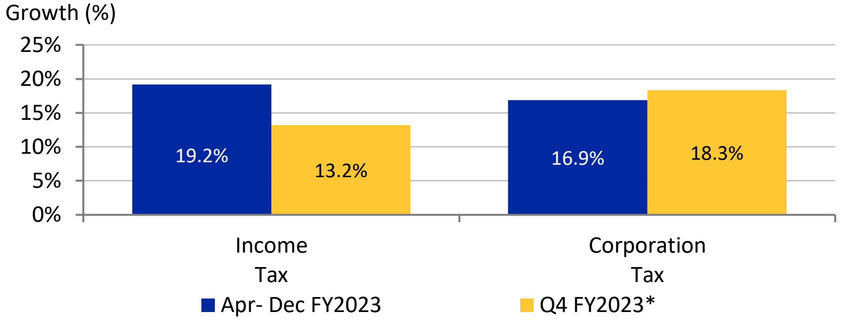
Direct tax collections revised upwards by Rs. 2.3 trillion in FY2023 RE; implicitly projected to rise by ~15% in Q4 FY2023

EXHIBIT: Trends in GoI's Direct Taxes



Actuals for FY2018-22; BE: Budget Estimates; RE: Revised Estimates; Source: GoI Budget Documents; CGA; Ministry of Finance, GoI; ICRA Research

EXHIBIT: GoI's Direct Taxes in 9M FY2023 and Implicit Trend for Q4 FY2023*



**Q4 FY2023 is based on FY2023 RE; Source: GoI Budget Documents; CGA; Ministry of Finance, GoI; ICRA Research*

- As per the FY2023 RE, direct taxes have been revised upwards by Rs. 2.3 trillion from Rs. 14.2 trillion indicated in FY2023 BE, in line with ICRA's expectations, entailing an expansion of 17.2% over the FY2022 actuals (Rs. 14.1 trillion).
- This was led by a sharp upward revision in both corporate tax collections (to Rs. 8.4 trillion in FY2023 RE from Rs. 7.2 trillion in FY2023 BE) as well as income tax receipts (to Rs. 8.2 trillion from Rs. 7.0 trillion) in FY2023 RE, relative to the budgeted target.
- As per the provisional data provided by CGA, direct tax collections expanded by 18.0% to Rs. 11.4 trillion in 9M FY2023 (69.2% of FY2023 RE) from Rs. 9.7 trillion in 9M FY2022 (68.8% of FY2022 actuals), led by the rise in income tax receipts (YoY: +19.2%; 65.5% of FY2023 RE) and corporate tax collections (+16.9%; 72.8% of FY2023 RE). **Based on the FY2023 RE and 9M FY2023 trends, direct tax collections have been projected by the GoI to record a YoY growth of 15.4% in Q4 FY2023 (+31.5% in Q4 FY2022), led by corporation tax (+18.3%) and income tax (+13.2%). However, this entails a step up from the growth seen in Q3 FY2023 (+10.0% and +9.0%, respectively).**

Indirect taxes revised upwards by a relatively lower Rs. 0.5 trillion in FY2023 RE, amid a downward revision in excise and customs duty collections

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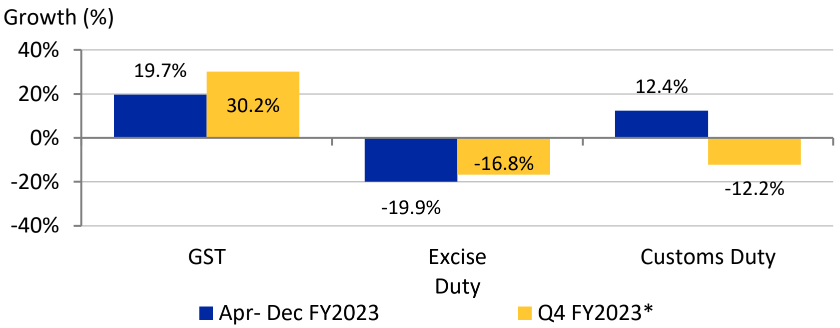
EXHIBIT: Trends in GoI's Indirect Taxes

Rs. Trillion	9M FY2023	FY2023 BE (1)	FY2023 RE (2)	Variation (2) - (1)	Growth (2)/(1)
Customs Duty	1.6	2.13	2.10	-0.03	-1.4%
Union Excise Duty	2.2	3.4	3.2	-0.2	-4.5%
CGST + IGST	5.3	6.6	7.2	0.6	9.7%

BE: Budget Estimates; RE: Revised Estimates; Source: GoI Budget Documents; CGA; Ministry of Finance, GoI; ICRA Research

EXHIBIT: GoI's Indirect Taxes in 9M FY2023 and Implicit Trend for Q4 FY2023*

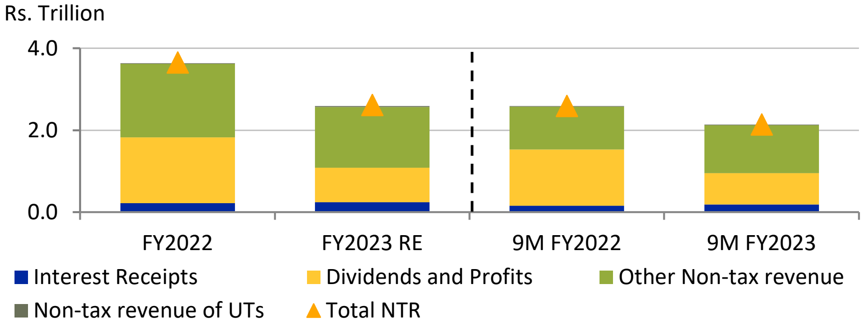


**Q4 FY2023 is based on FY2023 RE; Source: GoI Budget Documents; CGA; Ministry of Finance, GoI; ICRA Research*

- The FY2023 RE for indirect taxes has been revised upwards by Rs. 0.5 trillion, entailing a modest expansion of 5.5% over the FY2022 actuals. Benefitting from the healthy generation of e-way bills and continued anti-evasion activities, the combined CGST and IGST collections have been estimated at Rs. 7.2 trillion in FY2023 RE (Rs. 6.6 trillion in the BE). In contrast, Union excise duty collections have been revised downwards to Rs. 3.2 trillion in FY2023 RE from Rs. 3.4 trillion in the BE, reflecting the impact of the reduction in excise duties on petrol and diesel in May 2022. Additionally, customs duty collections have been pared marginally to Rs. 2.10 trillion from Rs. 2.13 trillion, respectively, driven by relaxations in custom duties on certain items.
- During 9M FY2023, indirect taxes rose by 5.7% to Rs. 9.1 trillion (72.4% of FY2023 RE), from Rs. 8.6 trillion in 9M FY2022 (72.3% of FY2022 actuals). Higher inflows from CGST (YoY: +29.8%; 73.5% of FY2023 RE) and customs duty (+12.4%; 75.5% of FY2023 RE) in 9M FY2023 were partly offset by the YoY decline in union excise duty collections (-19.9%; 68.1% of FY2023 RE). **Based on these trends, indirect taxes are estimated to rise by ~5.0% YoY in Q4 FY2023, led by GST collections (+30.2% including compensation cess), partly offset by a contraction in customs duty (-12.2%) and union excise duty (-16.8%).**

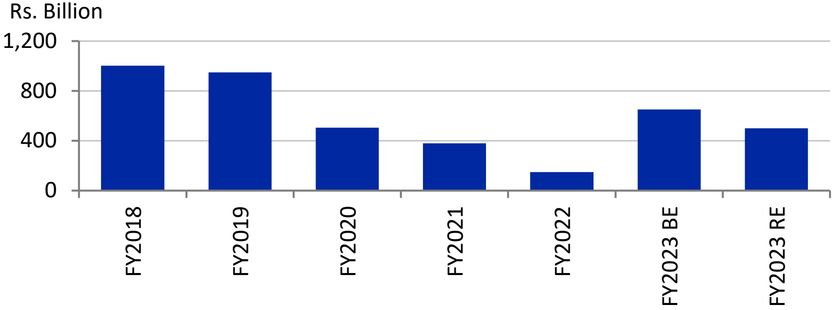
Non-tax revenues pared by a mild ~Rs. 0.1 trillion in FY2023 RE; target for disinvestment proceeds appears slightly optimistic

EXHIBIT: Trends in Non-tax revenues and its Constituents



RE: Revised Estimates; Source: GoI Budget Documents; CGA; Ministry of Finance, GoI; ICRA Research

EXHIBIT: Annual trends in Disinvestment Proceeds



BE: Budget Estimates; RE: Revised Estimates; Actuals for FY2018-22; Source: GoI Budget Documents; CGA; Ministry of Finance, GoI; ICRA Research

- The GoI has tempered its estimate for non-tax revenues to Rs. 2.6 trillion in FY2023 RE from Rs. 2.7 trillion in FY2023 BE, reflecting lower inflows from dividends and profits (-Rs. 300 billion), partly offset by higher receipts towards other communication services (+Rs. 160 billion) and interest receipts (+Rs. 66 billion). The downward revision in the former is led by the lower-than-budgeted surplus transferred by the RBI in FY2023 (Rs. 0.3 trillion vs. Rs. 0.7 trillion in FY2023 BE).
- As per the CGA data, non-tax revenues stood at Rs. 2.1 trillion in 9M FY2023, (YoY: -17.4%; 81.9% of FY2023 RE). **This implies that the GoI has projected non-tax revenues to decline to Rs. 0.5 trillion in Q4 FY2023 from Rs. 1.1 trillion in Q4 FY2022.**
- Disinvestment proceeds are projected at Rs. 500 billion in FY2023 RE (Rs. 650 billion in the BE), mildly higher than ICRA's estimate of Rs. 400 billion. According to the data provided by the Department of Investment and Public Asset Management (DIPAM), Ministry of Finance, GoI, the total receipts from disinvestment stood at Rs. 311.1 billion (51.8% of FY2023 RE), as on January 31, 2023. **Given these trends, the GoI projects to realise disinvestment proceeds of ~Rs. 190 billion in Feb-Mar FY2023.**

Driven by major subsidies, revenue expenditure has been revised upwards by Rs. 2.6 trillion in FY2023 RE

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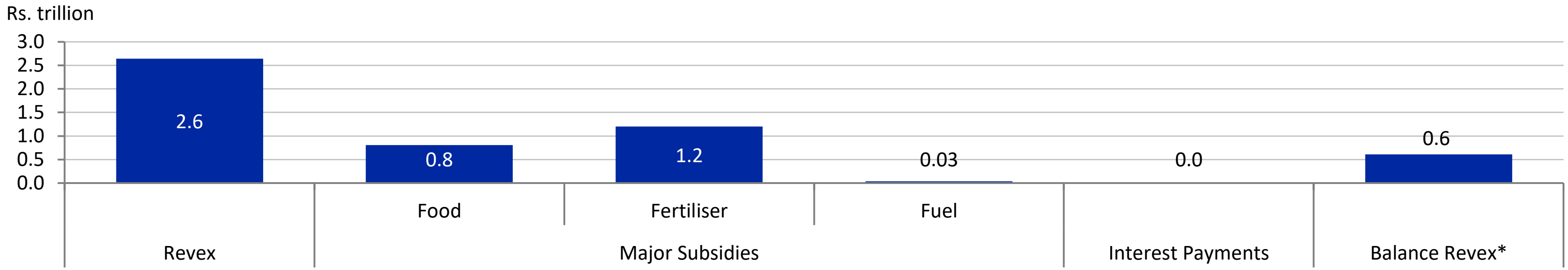
EXHIBIT: Variation in Revenue Expenditure in FY2023 RE over BE



**excluding subsidy and interest payment outgo; Source: GoI Budget Documents; CGA; Ministry of Finance, GoI; ICRA Research*

- The GoI had pegged the net cash outgo in its First Supplementary Demand for Grants (1st SDG) for FY2023 at a considerable Rs. 3.3 trillion, largely dominated by major subsidies and funds towards the Mahatma Gandhi National Rural Employment Guarantee Scheme (MNREGS) and the GST compensation. Subsequently, revenue expenditure has been revised upwards by Rs. 2.6 trillion to Rs. 34.6 trillion in FY2023 RE from the BE of Rs. 31.9 trillion, driven by an upward revision in all major subsidies in FY2023 RE, relative to the budgeted level.
- The extension of the free foodgrains scheme under the erstwhile PMGKAY for nine months till December 2022 is estimated to have entailed an additional cost of Rs. 1.3 trillion to the GoI, although a part of this is likely to have been offset by savings from the lower wheat procurement bill in RMS FY2023. Consequently, the GoI has revised the allocation for food subsidy upwards by Rs. 0.8 trillion to Rs. 2.9 trillion in FY2023 RE, relative to the BE (Rs. 2.1 trillion).
- Moreover, subsidy allocations for fertilisers (+Rs. 1.2 trillion; additional allocation of Rs. 0.9 trillion in 1st SDG, amidst elevated gas prices) and fuel (+Rs. 0.03 trillion; led by announcements related to LPG subsidy; Rs. 0.3 trillion in 1st SDG) have been increased in the FY2023 RE, relative to the BE.
- Interest payments have been kept unchanged at the budgeted level of Rs. 9.4 trillion in FY2023 RE.

Revex needs to expand by 5.5% YoY in Q4 FY2023 to meet FY2023 revised target

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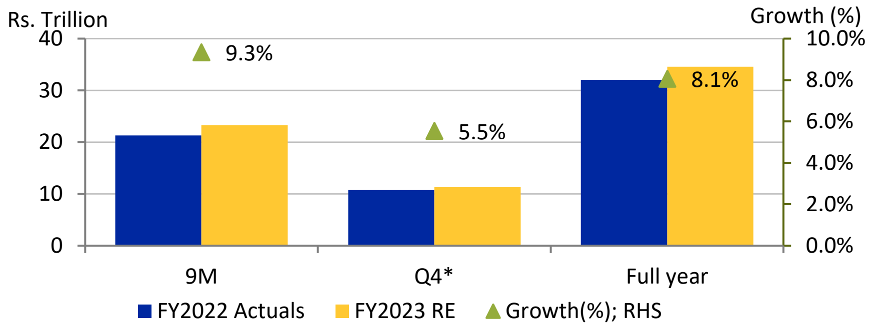
EXHIBIT: Trends in Revenue Expenditure in 9M FY2023 and headroom available for Q4 FY2023*



**Headroom available in Q4 FY2022 and Q4 FY2023 is based on FY2022 actuals and FY2023 RE, resp.; Source: GoI Budget Documents; CGA; Ministry of Finance, GoI; ICRA Research*

EXHIBIT: Trends in Major Subsidies

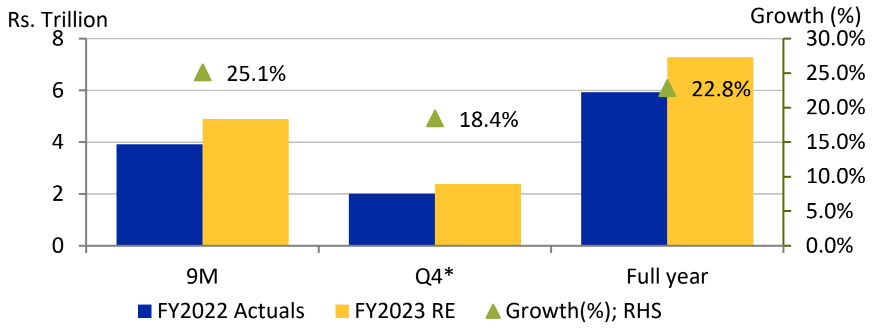
Rs. Trillion	9M FY2022	9M FY2023	Q4 FY2022* (1)	Q4 FY2023* (2)	Growth (2)/(1)
Major Subsidies	**2.7**	**3.5**	**1.7**	**1.7**	**-2.1%**
Fertiliser	0.8	1.8	0.7	0.4	-36.2%
Food	1.9	1.7	1.0	1.2	15.4%
Fuel	0.013	0.015	0.02	0.1	271.4%

**Q4 FY2022 and Q4 FY2023 is based on FY2022 actuals and FY2023 RE, resp.; Source: GoI Budget Documents; CGA; Ministry of Finance, GoI; ICRA Research*

- As per the provisional data released by the CGA, the outgo for major subsidies rose by 29.2% YoY to Rs. 3.5 trillion in 9M FY2023 (67.2% of FY2023 RE) from Rs. 2.7 trillion in 9M FY2022 (60.8% of FY2022 actuals). This was led by the ~115% YoY expansion in fertiliser subsidy (80.3% of FY2023 RE), owing to the surge in input costs and supply disruptions. The subsidy outgo towards fuel (+13.7%; 17.0% of FY2023 RE) recorded a lower growth, while that for food (-9.5%; 58.5% of FY2023 RE) declined YoY in 9M FY2023, with the latter partly reflecting the lower wheat procurement bill.
- Given these trends, the GoI has implicitly estimated the allocation for major subsidies to contract by 2.1% YoY to Rs. 1.71 in Q4 FY2023 from Rs. 1.75 trillion in Q4 FY2022, led by fertilisers (-36.2%), partly offsetting the growth in food (+15.4%) and fuel (+271.4%) subsidies.
- Overall, revenue expenditure stood at Rs. 23.3 trillion (67.3% of FY2023 RE) during 9M FY2023, exceeding the year-ago level of Rs. 21.3 trillion in 9M FY2022 (66.5% of FY2022 actuals). **To meet the FY2023 RE of Rs. 34.6 trillion, the GoI's revenue expenditure will need to be Rs. 11.3 trillion in Q4 FY2023 (Rs. 10.7 trillion in Q4 FY2022), entailing a YoY growth of 5.5%.**

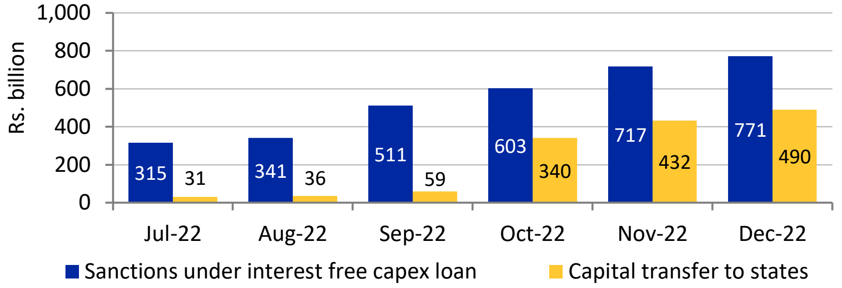
Average monthly capex of ~Rs. 794 billion required in Q4 FY2023 to meet FY2023 RE of Rs. 7.3 trillion; offtake under capex loan scheme for states remains key

EXHIBIT: Trends in Centre's Capital Expenditure in 9M FY2023 and headroom available for Q4 FY2023*



**Headroom available in Q4 FY2022 and Q4 FY2023 is based on FY2022 actuals and FY2023 RE, resp.; Source: GoI Budget Documents; CGA; Ministry of Finance, GoI; ICRA Research*

EXHIBIT: Sanctions under Interest Free Capex Loan and Capital Transfers to states by the Centre



**Data on interest free capex loan for Apr-June 2022 is not available; Source: DOE, Finance Ministry, GoI; ICRA Research*

- Capital expenditure has been revised marginally downwards to Rs. 7.3 trillion in FY2023 RE from Rs. 7.5 trillion in the BE. Moreover, data released by the CGA indicated that the GoI's capital expenditure rose by a sharp 25.1% to Rs. 4.9 trillion in 9M FY2023 (67.3% of FY2023 RE) from Rs. 3.9 trillion in 9M FY2022 (66.1% of FY2022 actuals).
- **This implies that capital expenditure would need to rise by 18.4% YoY in Q4 FY2023 to meet the RE for FY2023. Moreover, an average monthly capex of ~Rs. 794.4 billion is required during Q4 FY2023 to meet the revised target, which is significantly higher than the Rs. 544.4 billion/month incurred during Apr-Dec 2022.**
- Under the "special assistance to states for capital investment", ~77% or Rs. 771 billion has been sanctioned by the Centre to states till December 2022. **The total capital transfer to states stood at Rs. 490.4 billion by end-December 2022 (FY2023 RE: Rs. 0.9 trillion), implying that a considerable Rs. 378.7 billion would need to be incurred on this account during Q4 FY2023 to meet the RE.**

Total spending increased by Rs. 2.4 trillion in FY2023 RE relative to the BE, with expenditure savings partly offsetting the net cash outgo under 1st SDG

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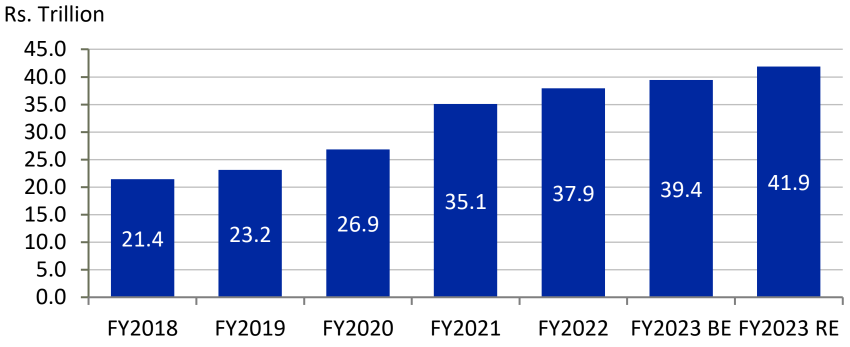
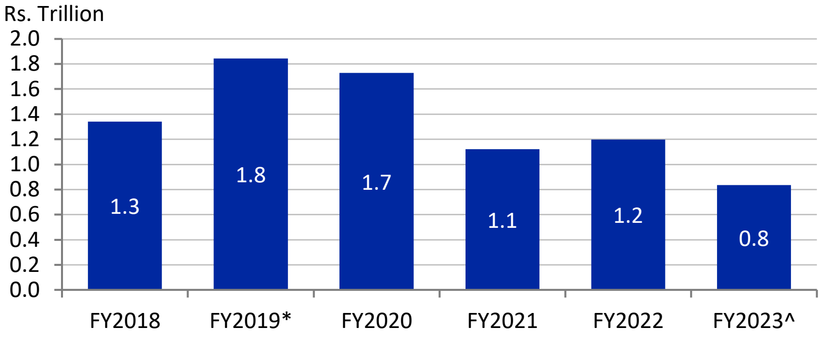
EXHIBIT: Trends in Total Expenditure



Actuals for FY2018-22; BE: Budget Estimates; RE: Revised Estimates; Source: Union Budget; CGA; Ministry of Finance, GoI; ICRA Research

EXHIBIT: Estimated Expenditure Savings (BE + NSDG – Actual)

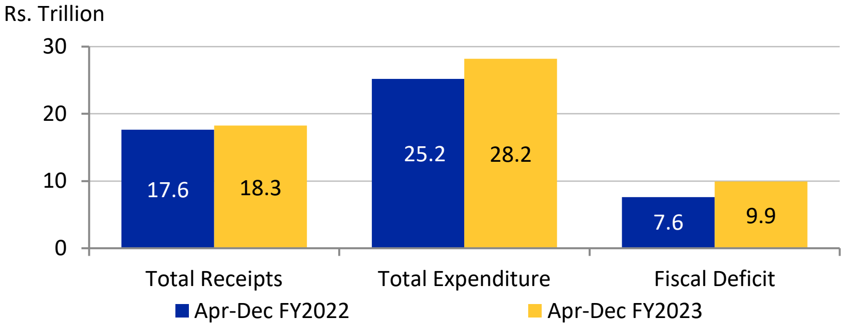


*Actuals for FY2018-22; Aggregate expenditure savings of the GoI are computed by adding net cash outgo under the SDG to the budgeted total expenditure and subtracting actual spending incurred in each fiscal; *Second batch of SDG for FY2019 is not available in the public domain and hence savings might be modestly lower than Rs. 1.8 trillion; ^Based on Revised Estimate since FY2023 actuals data not available; Source: Union Budget; ICRA Research*

- While the net cash outgo under the 1st SDG was pegged at Rs. 3.3 trillion in FY2023, the GoI’s total expenditure has been revised upwards by a lower Rs. 2.4 trillion to Rs. 41.9 trillion in FY2023 RE relative to the BE of Rs. 39.4 trillion. This implies that the GoI is expecting expenditure savings from other heads (such as in Centrally-sponsored Schemes and/or Central sector Schemes) to the extent of Rs. 0.8 trillion in FY2023, lower than the yearly average seen since FY2018 (Rs. 1.3 trillion/year).
- As per the provisional data released by the CGA, total expenditure stood at Rs. 28.2 trillion in 9M FY2023 (67.3% of FY2023 RE), up by 11.8% from Rs. 25.2 trillion in 9M FY2022 (66.5% of FY2022 actuals). **This implies a spending headroom of Rs. 13.7 trillion is available for Q4 FY2023 (YoY: +7.6%), in order to meet the revised target for FY2023.**

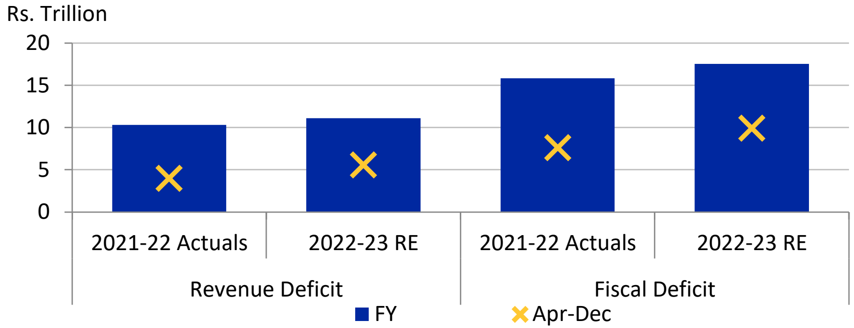
Fiscal deficit widened to Rs. 9.9 trillion in 9M FY2023; ~57% of FY2023 RE

EXHIBIT: Trends in Revenues and Expenditure of the GoI



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

EXHIBIT: Revenue and Fiscal deficits



RE: Revised Estimates; Source: CGA, Union Budget, Ministry of Finance, GoI; ICRA Research

- As per the provisional data released by the CGA, the revenue deficit rose to Rs. 5.6 trillion in 9M FY2023 from Rs. 4.0 trillion in 9M FY2022, led by a lower rise in revenue receipts (+2.1%) compared to the revenue expenditure (+9.3%). Moreover, the YoY expansion of 25.1% in capital spending widened the GoI's fiscal deficit to Rs. 9.9 trillion in 9M FY2023 from Rs. 7.6 trillion in 9M FY2022.
- The GoI's revenue and fiscal deficits stood at 50.3% and 56.6% of the FY2023 RE, respectively, in 9M FY2023, higher than the prints of 38.4% and 47.9% of the FY2022 actuals, respectively, in 9M FY2022.
- Moreover, the GoI estimates the revenue deficit to rise to Rs. 11.1 trillion in FY2023 RE from the BE of Rs. 9.9 trillion. Additionally, the GoI expects its fiscal deficit to widen to Rs. 17.6 trillion in FY2023 RE as against Rs. 16.6 trillion in the BE, in line with ICRA's estimate (Rs. 17.5 trillion, 6.4% of GDP). However, as a proportion of nominal GDP, the fiscal deficit is expected to remain stable at 6.4%, similar to the budgeted target. **While there may be some downsides to the direct tax and capex targets, ICRA does not expect the GoI's fiscal deficit to exceed the revised target for FY2023.**

FISCAL ANALYSIS
AS PER FY2024 BE

Fiscal deficit budgeted to rise in absolute terms in FY2024 BE relative to FY2023 RE, with reduction in revenue deficit offset by healthy expansion in capex

ICRA

- The GoI's revenue receipts are estimated to grow by a slightly higher-than-expected 12.1% in FY2024 BE (+8.2% in FY2023 RE), with a 15.2% expansion in non-tax revenues and an 11.7% increase in net tax revenues.
- On the expenditure side, revenue spending is estimated to show a mild growth of 1.2% in FY2024, slightly lower than ICRA's forecasts (2-3%). With this, the revenue deficit is projected to moderate appreciably to Rs. 8.7 trillion in FY2024 BE from Rs. 11.1 trillion in FY2023 RE. As a proportion of GDP, the deficit is estimated to narrow quite sharply to 2.9% from 4.1%, respectively.
- Contrary to ICRA's expectations, the fiscal deficit is budgeted to increase to Rs. 17.9 trillion in FY2024 BE from Rs. 17.6 trillion in FY2023 RE, on account of a higher-than-expected expansion of 37.4% in capital expenditure to Rs. 10.0 trillion (ICRA exp: Rs. 8.5-9.0 trillion) amidst a disinvestment target of Rs. 0.5 trillion. As a proportion of GDP, the fiscal deficit is indicated to narrow to 5.9% in FY2024 BE from 6.4% in FY2023 RE, on the back of 10.5% expansion in nominal GDP to Rs. 301.8 trillion in FY2024, which is somewhat higher than ICRA's projection of ~10.0% for the fiscal.
- The moderation in nominal GDP growth in FY2024 is expected to be driven by a likely softening in inflation relative to FY2023 and the consequent impact on the GDP deflator. This, in turn, would influence the growth in tax collections and buoyancy levels in FY2024, which is discussed in the subsequent section.

EXHIBIT: Trends in Key Fiscal Metrices

Rs. Trillion	FY2023 RE (1)	FY2024 BE (2)	Variation (2)-(1)	Growth (2)/(1)
Revenue Receipts	23.5	26.3	2.8	12.1%
Tax Revenues$	20.9	23.3	2.4	11.7%
Non-Tax Revenues	2.6	3.0	0.4	15.2%
Revenue Expend.	34.6	35.0	0.4	1.2%
Revenue Balance	**-11.1**	**-8.7**		
% of GDP	**-4.1%**	**-2.9%**		
Capital Receipts (Non-Debt) ^	0.8	0.8	0.0	0.6%
Gross Capital Expenditure	7.3	10.0	2.7	37.4%
Fiscal Balance	**-17.6**	**-17.9**		
% of GDP	**-6.4%**	**-5.9%**		
GDP	**273.1**	**301.8**	28.7	**10.5%**

$ Net of Refunds, Net of States' share in Central Taxes; ^Recovery of loans and other receipts; RE: Revised Estimates; BE: Budget Estimates; Source: GoI Budget Documents; CGA; Ministry of Finance, GoI; ICRA Research

Growth in gross tax revenues pegged at 10.4% in FY2024 BE, in line with nominal GDP expansion

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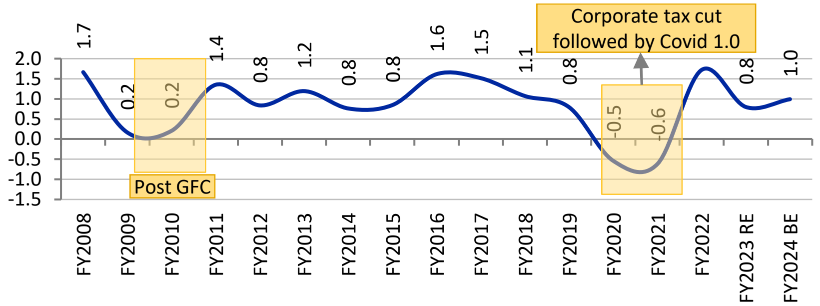
EXHIBIT: Gross Tax Revenues in FY2023 RE and FY2024 BE

Rs. Trillion	FY2022 Actuals	FY2023 RE-1	FY2024 BE- 2	Variation (2-1)	Growth (%)
Gross tax revenues	**27.1**	**30.4**	**33.6**	**3.2**	**10.4%**
Direct taxes	14.1	16.5	18.2	1.7	10.5%
Indirect taxes (including GSTCC)	13.0	13.9	15.4	1.4	10.4%

RE: Revised Estimates; BE: Budget Estimates; Source: GoI Budget Documents; CGA; ICRA Research

EXHIBIT: Tax Buoyancy of the Centre



Actuals for FY2008- 2022; Tax buoyancy is a proportion of % change in Gross tax revenues and % change in Nominal GDP growth; RE: Revised Estimates; BE: Budget Estimates; Source: Union Budget; CGA; NSO; ICRA Research

- The GoI has projected the growth in its gross tax revenues at 10.4% in FY2024 BE (+12.3% in FY2023 RE), with a similar rise in direct and indirect tax revenues.
- With the growth in gross tax revenues (+10.4%) budgeted to trend similar to that in nominal GDP (+10.5%) for FY2024 BE, the GoI has assumed a tax buoyancy of ~1.0 in FY2024 BE, mildly higher than the 0.8 in FY2023 RE, wherein growth in nominal GDP (+15.4%) is estimated to outpace that in GTR (+12.3%) over the FY2022 actuals. Based on a nominal GDP growth projection of 10% for FY2024, ICRA had pencilled in a slightly lower rise in gross tax revenues, partly on account of the overhang of the excise duty cuts effected in May 2022 and the slowdown in global trade.
- Several announcements have been made pertaining to direct and indirect taxes, which entail a modest total revenue foregone of Rs. 350 billion/annum (total loss of Rs. 380 billion - Rs. 370 billion in direct tax and Rs. 10 billion in indirect tax, and revenue mobilisation of Rs. 30 billion). The details of such proposals are discussed subsequently.

Direct taxes are budgeted to increase by 10.5% in FY2024, with proposals announced for co-operatives, MSMEs, start-ups

ICRA

Direct tax

After a healthy expansion of 17.2% expected in FY2023 RE, direct tax revenues are budgeted to grow by a relatively lower 10.5% in FY2024. The Budget unveiled a slew of proposals pertaining to direct taxes to further simplify and rationalise provisions to reduce the compliance burden, promote entrepreneurship and provide tax relief to citizens.

Corporation tax

Following the robust growth seen in FY2023 RE (+17.3%), corporate tax collections are forecast to increase by 10.5% to Rs. 9.2 trillion in FY2024 BE from Rs. 8.4 trillion in FY2023 RE. As a proportion of GDP, such collections are budgeted at 3.1% for FY2024, in line with FY2023 RE, while standing mildly higher than the 3.0% of GDP in FY2022 Actuals.

Cooperatives

The GoI has decided to impose a lower tax rate of 15.0% on new co-operatives that commence manufacturing activities before March 31, 2024, while giving sugar co-operatives a benefit of Rs. 100 billion in claiming payments made to sugarcane farmers for the period prior to AY2016-17 as expenditure. Similarly, it has raised the TDS limit on cash withdrawal for cooperative societies to Rs. 30.0 million and enhanced the cash deposits and loans in cash made by Primary Cooperative Agri societies and Rural development banks to Rs. 0.2 million/member.

Startups and MSMEs

The GoI has extended the incorporation date for income-tax benefits to start-ups by one year to March 31, 2024.

Further, it has raised tax benefit limits to Rs. 30 million and Rs. 0.75 million, respectively, for micro enterprises and certain professionals with turnover of up to Rs. 20 million and Rs. 0.5 million, respectively, whose cash receipts are less than 5%.

Tax concessions and Rationalisation

The GoI decided to cap deduction from capital gains on investment in residential houses under Sec 54 and 54F to Rs. 0.10 billion. Further, it removed minimum threshold for TDS on online gaming, and reduced TDS rate of EPF withdrawal in non-PAN cases to 20% from 30%, etc.

Several announcements made to incentivise shift to new Income-Tax regime

Personal income tax

In line with growth pegged for corporation tax, the personal income tax collections are estimated to increase by 10.5% in FY2024 BE (+17.1% in FY2023 RE), with collections expected to rise to Rs. 9.0 trillion in FY2024 BE from Rs. 8.2 trillion in FY2023 RE. The Government has announced several proposals to provide tax relief under the New Personal Tax Regime, which now has been made as the default tax regime (taxpayers can still opt for old regime if they wish to); the announcements are as follows:

The highest surcharge for individuals, HUF, AOP, BOI and AJP will be reduced to 25% from 37% (for income above Rs. 50 million) for those with total income of more than Rs. 20 million under the new tax regime. Effectively, maximum rate is now reduced to ~39% from 42.74%. No proposal has been made for change in surcharge under the old tax regime.

Similar to benefits in old tax regime, standard deduction of Rs. 50,000 to salaried individual, and deduction from family pension up to Rs. 15,000 has now been allowed under the new tax regime as well.

Increased the income-tax rebate limit for resident individual to Rs. 0.7 million from Rs. 0.5 million under the new tax regime. The rebate limit for taxpayers who opted for old tax regime shall stand unchanged at Rs. 0.5 million.

Enhanced the limit for tax exemption on leave encashment on retirement of non-Government salaried employees to Rs. 2.5 million from Rs. 0.3 million.

Relief under New Tax Regime with new slabs and tax rates as under:

Total Income (Rs.)	%
Up to Rs. 3,00,000	Nil
From 3,00,001 to 6,00,000	5
From 6,00,001 to 9,00,000	10
From 9,00,001 to 12,00,000	15
From 12,00,001 to 15,00,000	20
Above 15,00,000	30

Contrary to ICRA’s expectations, growth in indirect taxes budgeted to double to 10.3% in FY2024 BE from 5.2% in FY2023 RE

Indirect tax

Contrary to ICRA’s expectations, the growth of indirect tax collections is budgeted to improve to 10.3% in FY2024 BE from 5.2% in FY2023 RE, on account of a healthy increase forecasted in custom duty collections (+11.0%), even as the growth included in GST (+12.0%) and Union excise duty (+5.9%) collections is along the expected lines.

GST

The GST collections (including compensation cess) are anticipated to rise by 12.0% to Rs. 9.6 trillion in the BE from Rs. 8.5 trillion in FY2023 RE. This will be a sharp moderation from 22.3% expansion estimated in FY2023 RE, with some softening of commodity inflation, and a high base. Nevertheless, it is expected to remain one of the key drivers in indirect tax collections in FY2024 BE, based on the anticipation of a healthy momentum of services consumption, overall activity, and continuation of anti-tax evasion activities.

Customs duty

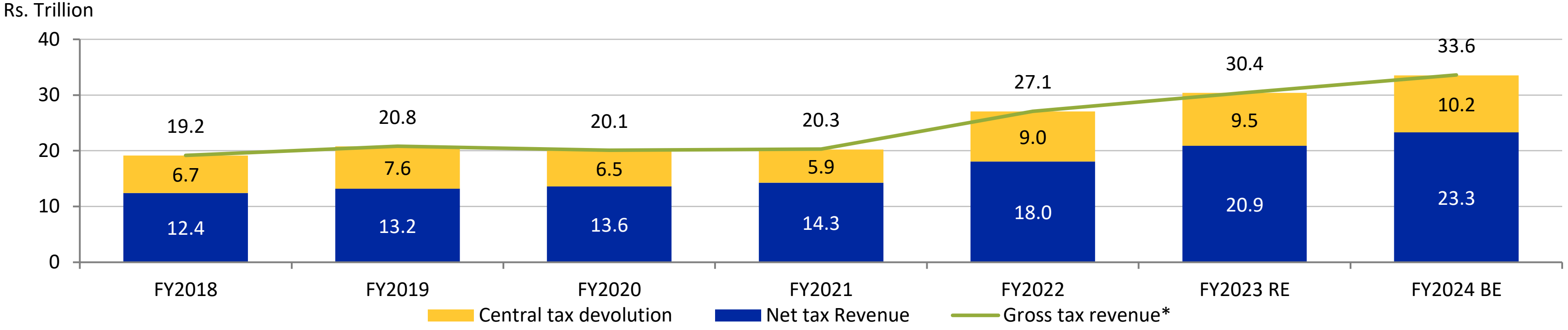
The GoI has raised customs duties on chemicals, naphtha, silver and silver dore, bicycles, toys, compounded rubber and some electric auto vehicles, which would supplement revenues. In contrast, it has reduced duties on agricultural products, minerals, capital goods, gem and jewellery, IT and electronics, etc. to reduce input costs and correct the inverted duty structure to promote locally manufactured goods. Overall, customs duty collections are estimated to rise by 11.0% to Rs. 2.3 trillion in FY2024 BE from Rs. 2.1 trillion in FY2023 RE, which seems optimistic in ICRA’s view amid expectations of a global slowdown in trade volumes.

Union excise duty

Union excise collections are budgeted to grow by a modest 5.9% to Rs. 3.4 trillion in FY2024 BE from Rs. 3.2 trillion in FY2023 RE. While the Government has raised the NCCD duty rates on cigarettes to the tune of Rs. 30-115/1000 sticks depending upon the length, it exempted the Central excise duty on blended compressed natural gas to promote green fuel.

GoI's net tax revenues budgeted to expand by 11.7% in FY2024 BE amid 7.7% growth in Central tax devolution to states

EXHIBIT: Trends in Central tax devolution, Centre's Gross and Net tax revenues



*Actuals for FY2018-22; RE: Revised Estimates; BE: Budget Estimates; *inclusive of transfers to NCCF/NDRF; Source: Finance Commission of India, GoI; ICRA Research*

- Tax devolution to the states has been budgeted to expand by 11.5% to Rs. 10.2 trillion in FY2024 BE (Rs. 9.2 trillion in FY2023 RE, excluding the amount paid for prior period adjustments), mildly higher than the growth pegged for the GoI's gross tax revenues (+10.4%). Including prior period adjustments of Rs. 326.1 billion made in FY2023 RE, the growth in tax devolution is budgeted at a lower 7.7% in FY2024 BE.
- Accordingly, the GoI's net tax revenue is projected to display a higher growth of 11.7% to Rs. 23.3 trillion in FY2024 BE from the Rs. 20.9 trillion included in FY2023 RE.

{Note that the 15th Finance Commission had recommended the share of states in the shareable Central taxes (or central tax devolution; CTD) at 41% for its award period of FY2022 to FY2026. However, the effective rate of devolution relative to the gross tax revenues of the GoI tends to be closer to 30-33%, as cesses and surcharges are not included in the shareable/divisible pool.}

Growth forecast of 15% for non-tax revenues in FY2024 BE optimistic

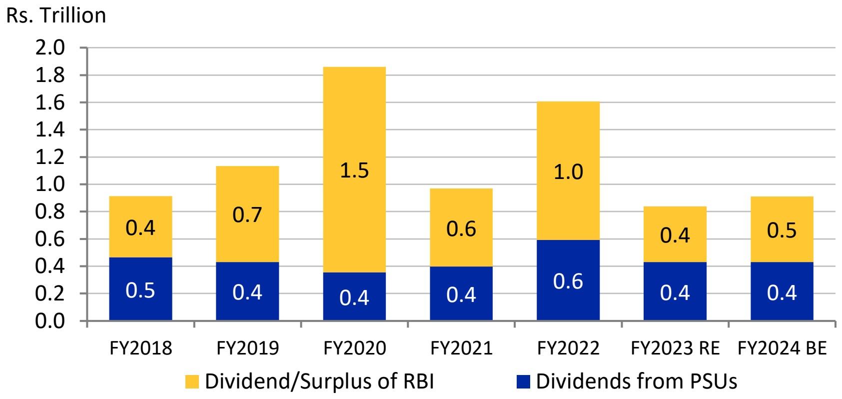
ICRA

EXHIBIT: Non-tax Revenues and its components

Rs. Trillion	FY2023 RE (1)	FY2024 BE (2)	Growth (2)/(1)
Non-Tax Revenue (A)	**2.6**	**3.0**	**15.2%**
- Interest Receipts (B)	0.2	0.2	0.7%
- Dividends and Profits (C)	0.8	0.9	8.4%
- Other Communication Services (D)	0.7	0.9	30.1%
Balance (E=A-B-C-D)	0.8	1.0	14.2%

RE: Revised Estimates; BE: Budget Estimates; Source: Union Budget; GoI; CEIC; ICRA Research

EXHIBIT: Dividends from PSUs and RBI



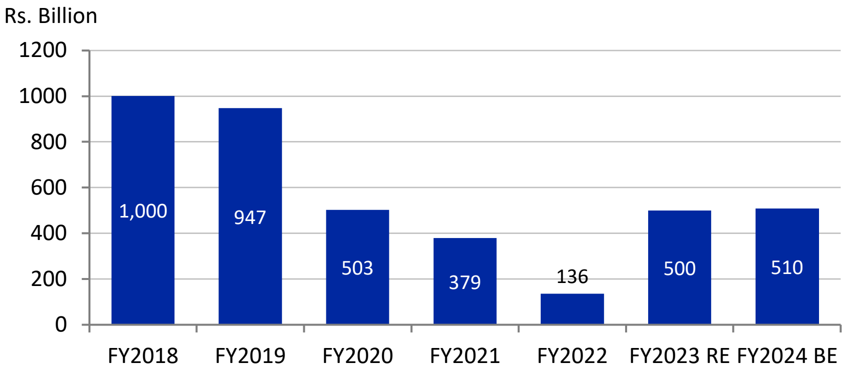
BE: Budget Estimates; RE: Revised Estimates; Actuals for FY2018-22; Source: RBI Annual Reports; ICRA Research

- The non-tax revenues of the GoI are estimated to grow by higher-than-expected 15.2% to Rs. 3.0 trillion in FY2024 BE from Rs. 2.6 trillion in FY2023 RE. This is on account of a projected expansion of 30.1% included in inflows from “Other Communication services” (to Rs. 0.89 trillion from Rs. 0.69 trillion), followed by an 8.4% growth envisaged in dividends and profits, even as interest receipts are budgeted to rise by a marginal 0.7%. The budgeted figures for the receipts from the telecom sector (Other Communication Services) for FY2023 RE and FY2024 BE are much higher than ICRA’s estimates of Rs. 450 billion each for these fiscals.
- The growth in dividend and profits stems from an expansion of 17.2% forecast for dividends from the RBI (to Rs. 0.5 trillion from Rs. 0.4 trillion), even as dividends from PSEs are budgeted at Rs. 0.4 trillion, in line with the level included in FY2023 RE.
- The balance portion of non-tax revenues is estimated to rise by 14.2% to Rs. 1.0 trillion in FY2024 BE from Rs. 0.8 trillion in FY2023 RE.

Disinvestment target placed at an expected Rs. 510 billion for FY2024; actual receipts to be contingent on market scenario, global environment

ICRA

EXHIBIT: Trends in Disinvestment proceeds



Actuals for FY2018-22; BE: Budget Estimates; RE: Revised Estimates; Source: CGA, Ministry of Finance, GoI; ICRA Research

EXHIBIT: Strategic disinvestments- EOIs in Pipeline, available and closed

EOIs- in Pipeline	▪ Rashtriya Ispat Nigam Ltd., ConCor, IMPCL, AIESL, AIASL, AAAL
EOIs – Currently Available	▪ IDBI Bank, FSNL, NMDC
EOIs –Closed (Stage 2 transaction)	▪ Pawan Hans Ltd., Units of SAIL (Salem) and VISP (Bhadravati), Shipping Corp of India, BEML Ltd., PDIL, HLL Lifecare

As on Feb 1, 2023; IMPCL: Indian Medicines Pharmaceutical Corporation Limited; AIESL: Air india engineering services ltd; AIASL: AI Airport Services Limited; AAAL: American Association for Applied Linguistics, FSNL:Ferro Scrap Nigam Limited; NMDC: National Mineral Development Corporation; PDIL:Projects and Development India Ltd.; Source: DIPAM; ICRA Research

- There are some major privatisation bids, whose expressions of interest (EoIs) are in the pipeline or are currently available, such as the IDBI Bank stake sale and divestment in the Container Corporation of India (ConCor) and National Mineral Development Corporation (NMDC).
- In line with ICRA's expectations, the GoI has placed the disinvestment target of Rs. 510 billion in FY2024 BE (excluding proceeds budgeted from asset monetisation). Including receipts from road monetisation, it has pegged aggregate miscellaneous capital receipts at Rs. 610 billion for the fiscal (Rs. 600 billion in FY2023 RE). While the GoI expects most of the stake sales to conclude in FY2024, the completion of the process and the actual realisation of the deals remain contingent on the evolving market scenario, global environment and other factors.

Revenue expenditure expected to rise by a muted 1.2% in FY2024 BE over FY2023 RE

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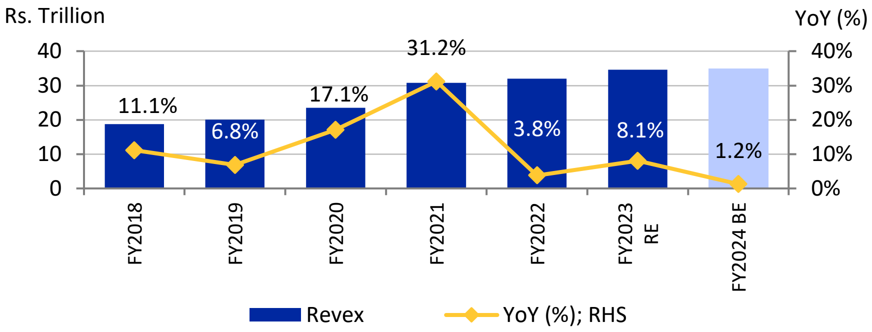
EXHIBIT: Trends in Interest Payments, Subsidies, and Balance Revenue Expenditure

Rs. Trillion	FY2023 RE	FY2024 BE	Growth (%)
Revex	**34.6**	**35.0**	**1.2%**
Interest payments	**9.4**	**10.8**	**14.8%**
Major Subsidies	**5.2**	**3.7**	**-28.2%**
-Food	*2.9*	*2.0*	*-31.3%*
-Fertiliser	*2.3*	*1.8*	*-22.3%*
-Fuel	*0.1*	*0.02*	*-75.4%*
Salaries and pensions	***6.8***	***6.9***	***1.3%***
Balance Revex*	**13.2**	**13.6**	**3.2%**

**Total revex minus interest payments, aggregate subsidy outgo, and salaries and pension; RE: Revised Estimates; BE: Budget Estimates; Source: GoI Budget Documents; CGA; Ministry of Finance, GoI; ICRA Research*

EXHIBIT: Annual trends in Revenue Expenditure

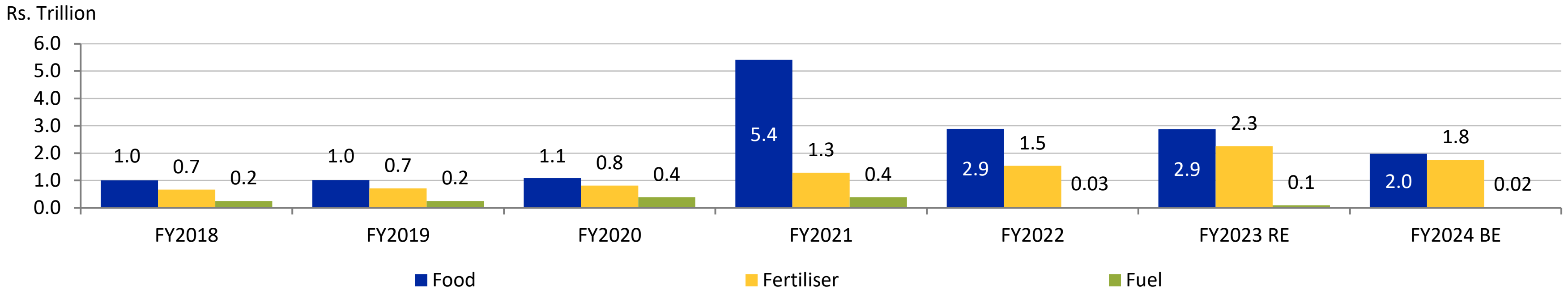


Actuals for FY2018-22; RE: Revised Estimates; BE: Budget Estimates; Source: CGA, Ministry of Finance, GoI; ICRA Research

- The GoI has indicated a muted YoY rise of 1.2% in its revenue expenditure to Rs. 35.0 trillion in FY2024 BE from Rs. 34.6 trillion included in FY2023 RE. This follows from the 28.2% decline in the total allocation towards major subsidies in FY2024 BE, led by food and fertiliser subsidies, with the former stemming from the discontinuation of the provision of free foodgrains over and above the subsidised amount provided under the NFSA, which in turn has been made free for the ongoing calendar year.
- However, the interest payments are budgeted to rise by 14.8% to Rs. 10.8 trillion in FY2024 BE, accounting for 24.0% of total expenditure indicated for the fiscal, given the sizeable increase in the GoI's debt outstanding since the onset of Covid-19 pandemic, underscoring the need to limit borrowings.
- The salaries and pensions (including Defence) have been budgeted to grow by a marginal 1.3% in FY2024 BE, relative to FY2023 RE, whereas the balance part of revex has been budgeted to rise by a mild 3.2%.

Increase largely stems from lower outlay towards major subsidies

EXHIBIT: Annual Trends in Major Subsidies



Actuals for FY2018-22; RE: Revised Estimates; BE: Budget Estimates; Source: CGA, Ministry of Finance, GoI; ICRA Research

- Within major subsidies, the allocation for food subsidy has been reduced by 31.3% to Rs. 2.0 trillion in the FY2024 BE from Rs. 2.9 trillion in FY2023 RE, following the discontinuation of the erstwhile PMGKAY scheme that had provided free foodgrains over and above the NFSA mandate during the Covid period FY2021-23 (until Dec 2022). This is slightly lower than ICRA's estimate of Rs. 2.2 trillion for the outlay for food subsidies for FY2024.
- In addition, the subsidy allocation for fertilisers has been budgeted to decline to ~Rs. 1.8 trillion in FY2024 from ~Rs. 2.3 trillion in FY2023 RE, amidst softening global commodity prices. While ICRA expects the subsidy requirement at a higher Rs. 2.0 trillion for FY2024, the GoI may recalibrate the subsidy requirement during the year and announce additional spending on this account in the supplementary demand for grants as and when required, as was typically seen in the previous fiscals.
- Moreover, the subsidy allocation for fuel has been pared to Rs. 23.0 billion in FY2024 BE from the FY2023 RE of Rs. 92.0 billion, in line with ICRA's anticipation.

Mild 3.2% rise in the allocation for balance revex in FY2024 BE, despite new scheme announcements

ICRA

- The allocation for balance revex (revex less of interest payments, major subsidies, and salaries and pensions) is a modest 3.2% higher at Rs. 13.6 trillion in FY2024 BE from Rs. 13.2 trillion in FY2023 RE.
- The allocation for MGNREGS has been reduced to Rs. 0.6 trillion in FY2024 BE, relative to Rs. 0.9 trillion in FY2023 RE, which is slightly lower than ICRA's expectations.
- The allocation towards the Jal Jeevan Mission has been increased to Rs. 0.7 trillion in the BE for FY2024 from Rs. 0.6 trillion in FY2023 RE, while that for Income Support Scheme and Pradhan Mantri Awas Yojana (PMAY) has been kept steady at Rs. 0.6 trillion and Rs. 0.8 trillion, respectively, in line with the FY2023 RE.
- Moreover, a new sub-scheme has been launched under the PM-Matsya Sampada Yojana with an outlay of Rs. 60 billion in FY2024 BE, for boosting value chain efficiencies of the fisheries segment.
- The Budget also stressed on Green Growth with an allocation of Rs. 350 billion for priority capital investments towards energy transition and net zero objectives, and energy security.
- Additionally, the GoI has increased the allocation for PLI schemes to Rs. 80.8 billion in FY2024 BE from Rs. 48.2 billion in FY2023 RE, with continued allocation for pharma, largescale electronics manufacturing, food products, auto and auto components and drones and drone components segments.

EXHIBIT: Trends in Balance Revenue Expenditure - Schemes Showing Major Outlay

Expenditure Items (Rs. trillion)	FY2023 RE (1)	FY2024 BE (2)	Variation (2-1)	Growth (2/1)
Balance Revex*	13.18	13.60	0.42	3.20%
Income Support Scheme	0.60	0.60	0.0	0.0%
MGNREGS	0.89	0.60	-0.29	-32.89%
National Health Mission	0.34	0.37	0.03	9.13%
National Education Mission	0.33	0.39	0.06	19.44%
Jal Jeevan Mission	0.55	0.70	0.15	27.27%
PMAY	0.77	0.80	0.02	3.19%
PM-Matsya Sampada Yojana	NA	0.06		
Energy transition (green growth)	NA	0.35		
GECL	0.10	0.14	0.04	40.00%
PLI	0.05	0.08	0.03	67.63%

*RE: Revised Estimates; BE: Budget Estimates; *Excluding interest payments, major subsidies, salaries and pensions; Source: GoI Budget Documents; CGA; ICRA Research*

GoI's capex budgeted to rise steeply by ~37% in FY2024 BE; quality of spending to improve with rising share of capex in total expenditure

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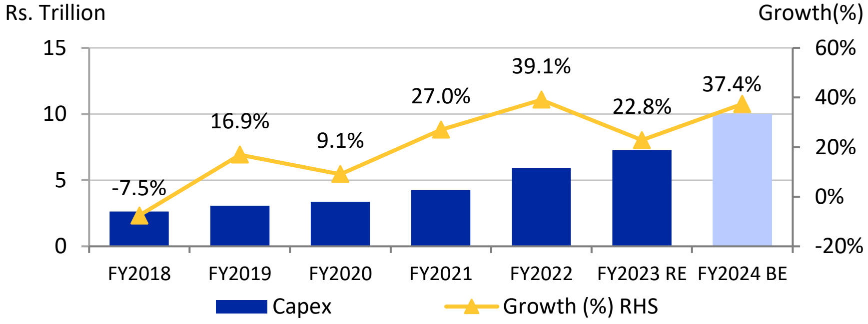
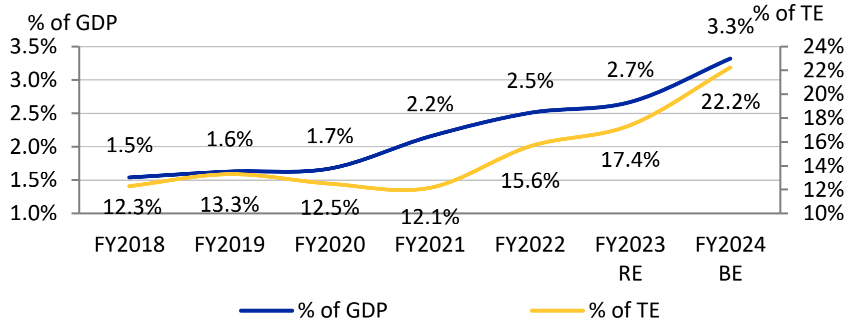
EXHIBIT: Trends in GoI's Gross Capital Expenditure



Actuals for FY2018-22; BE: Budget Estimates; RE: Revised Estimates; Source: GoI Budget Documents; CGA; Ministry of Finance, GoI; ICRA Research

EXHIBIT: Capital Expenditure as % of GDP and % Total expenditure



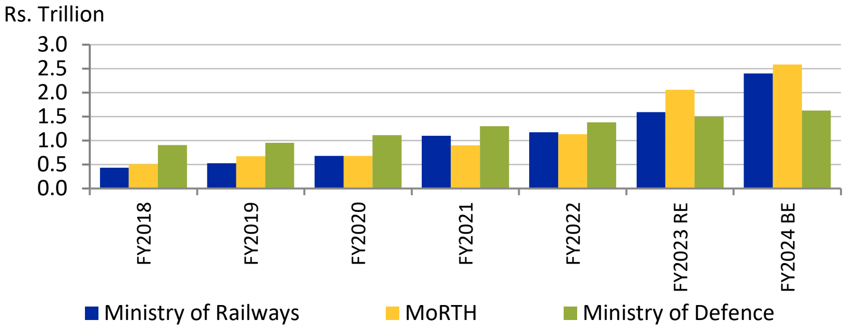
Actuals for FY2018-22;RE: Revised Estimates; BE: Budget Estimates; Source: GoI Budget Documents; CGA; Ministry of Finance, GoI; ICRA Research

- There has been a sharp 37.4% step-up in the gross capital expenditure to Rs. 10.0 trillion in FY2024 BE from Rs. 7.3 trillion in FY2023 RE, which is well above ICRA's expectations. ICRA believes that if the budgeted level of capex materialises in FY2024, it will have a multiplier effect in supporting the pace of GDP growth amidst growing fears of a global slowdown.
- Notably, this translates to 3.3% of GDP in FY2024 BE, up from 2.7% of GDP in FY2023 RE and nearly twice the level recorded in FY2020 (1.7% of GDP).
- Moreover, the quality of spending is budgeted to improve further, with a rise in the share of capital expenditure in total expenditure to 22.2% in FY2024 BE from 17.4% in the FY2023 RE.
- Including grants-in-aid for creation of capital assets, the expansion in effective capital expenditure is estimated to rise by 30.1% to Rs. 13.7 trillion in FY2024 BE (4.5% of GDP) from Rs. 10.5 trillion FY2023 RE (3.9% of GDP).

Sharp increase in allocation for roads and railways as well as interest-free capex loan to states

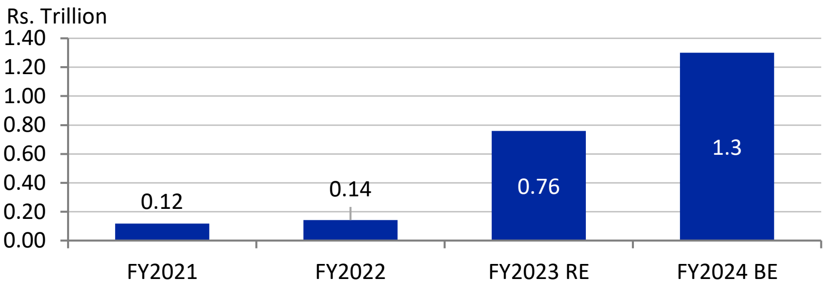
ICRA

EXHIBIT: Trends in GoI's Capital Expenditure Towards Major Sectors



Actuals for FY2018-22; RE: Revised Estimates; BE: Budget Estimates; Source: GoI Budget Documents; CGA; Ministry of Finance, GoI; ICRA Research

EXHIBIT: Trends in Interest Free Capex Loan to State Governments



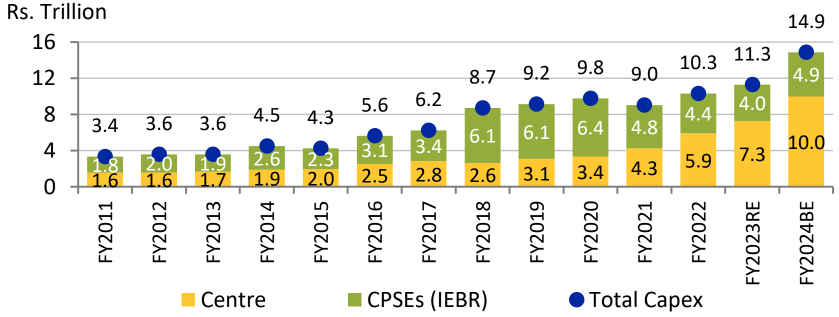
RE: Revised Estimates; BE: Budget Estimates; Source: GoI Budget Documents, ICRA Research

- The increase of Rs. 2.7 trillion in the capex amount in FY2024 BE, relative to FY2023 RE, largely stems from a sharp rise in capex on railways (+Rs. 0.8 trillion), roads (+Rs. 0.5 trillion) and the 50-year interest free loans to state governments for capital expenditure (+Rs. 0.5 trillion).
- Based on the available anticipated commissioning dates for the outstanding Central sector infrastructure projects as per the data released by MOSPI, the pipeline of infrastructure projects that is scheduled to be completed in FY2024 is massive - at ~Rs. 7.4 trillion, with the road transport and highway and railways accounting for nearly 40% of this amount*. The sharp increase in allocation for these segments is expected to enable the GoI to push project completions in these segments, thereby supporting India's GDP growth amidst global headwinds.
- The allocation for "special assistance to states for capital investment" has been enhanced to Rs. 1.3 trillion in FY2024 BE from Rs. 0.8 trillion in FY2023 RE. The offtake of the scheme was tepid in H1 FY2023. If the states incorporate the enhanced amount into their respective FY2024 budgets, it may enable them to frontload their capex in FY2024, which should help to enhance GDP growth over the next few quarters.

**Refer ICRA's publication, "Investment activity buoyant in Q3 FY2023; central sector infra project completions set to surge in FY2024", published in Jan 2023.*

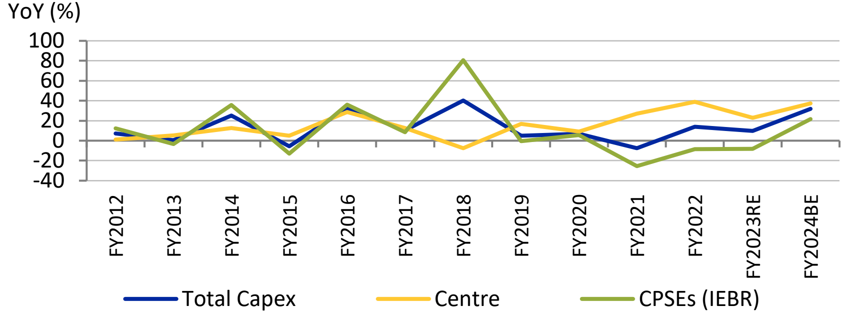
Combined capex by Centre and CPSEs projected to rise by ~32% in FY2024 BE, accounting for ~5% of GDP

EXHIBIT: Capex by Centre and CPSEs (IEBR)



RE: Revised Estimates; BE: Budget Estimates; Source: Budget Documents, GoI; Ministry of Finance; ICRA Research

EXHIBIT: YoY (%) trends in Capex by Centre and CPSEs (IEBR)

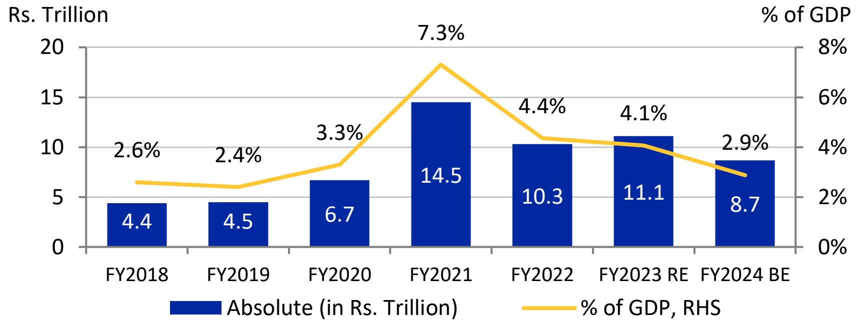


RE: Revised Estimates; BE: Budget Estimates; Source: Budget Documents, GoI; Ministry of Finance; ICRA Research

- In addition to the sharp increase in the budgeted capex (+37.4% in FY2024 BE), the Internal and Extra Budgetary Resources (IEBRs) portion of the capital outlay by CPSEs has been indicated to record a healthy growth of 21.6% to Rs. 4.9 trillion in FY2024 BE, relative to Rs. 4.0 trillion in FY2023 RE.
- Consequently, the combined capital expenditure is estimated to grow by a robust 31.8% in FY2024 BE. This amounts to 4.9% of GDP against 4.1% in FY2023 RE and would play an important role in supporting investment demand and 'crowding in' the private capex.
- The increase in IEBR in FY2024 BE relative to FY2023 RE is effectively driven by the Food Corporation of India (to Rs. 1.5 trillion from Rs. 0.6 trillion). Even after excluding this, the expansion in combined capex (Centre + IEBR) remains robust at ~25%.
- Interestingly, the IEBR for the Ministry of Railways has nearly halved to Rs. 0.5 trillion in FY2024 BE from Rs. 1.0 trillion in FY2023 RE, partly offsetting the sharp increase in the budgeted allocation to Rs. 2.4 trillion from Rs. 1.6 trillion. Additionally, with the spending by the National Highway Authority of India (NHAI) being subsumed within the GoI's own budget, nil allocation has been made under the IEBR component for the Ministry of Road Transport and Highways (MoRTH), similar to that seen in FY2023.

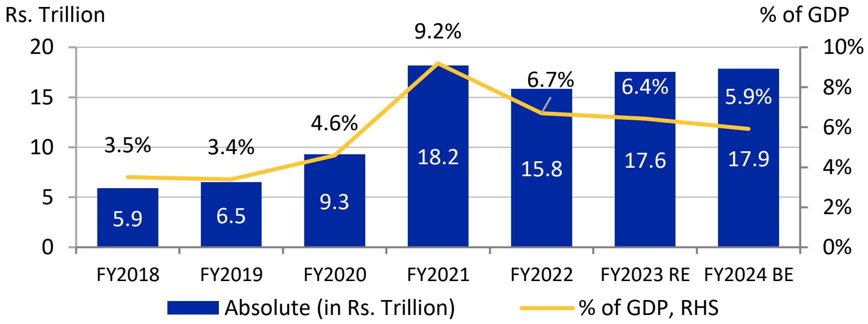
Fiscal deficit pegged at 5.9% of GDP in FY2024 BE, with improvement in the quality of deficit

EXHIBIT: GoI's Revenue Deficit (Absolute and % of GDP)



Actuals for FY2018-22; RE: Revised Estimates; BE: Budget Estimates; Source: GoI Budget Documents; CGA; Ministry of Finance, GoI; ICRA Research

EXHIBIT: GoI's Fiscal Deficit (Absolute and % of GDP)



Actuals for FY2018-22; RE: Revised Estimates; BE: Budget Estimates; Source: GoI Budget Documents; CGA; Ministry of Finance, GoI; ICRA Research

- With the growth in revenue receipts budgeted to outpace that in revenue spending, the GoI has estimated a sharp decline in its revenue deficit to Rs. 8.7 trillion (2.9% of GDP) in FY2024 BE from Rs. 11.1 trillion (4.1% of GDP) in FY2023 RE.
- In contrast, the fiscal deficit is estimated to rise slightly to Rs. 17.9 trillion in FY2024 BE from Rs. 17.6 trillion in FY2023 RE in absolute terms, on account of a sharper growth in capital expenditure. Nevertheless, as a percentage of GDP, the fiscal deficit is estimated to ease to 5.9% from 6.4%, respectively, on the back of the nominal GDP growth of 10.5%.
- In addition to the fiscal consolidation, the quality of the fiscal deficit is budgeted to improve, with the share of the revenue deficit in the total fiscal deficit moderating sharply to 48.7% in FY2024 BE from 63.3% in FY2023 RE (65.1% in FY2022 actuals).

GoI to continue along fiscal glide path to achieve fiscal deficit lower than 4.5% of GDP by FY2026

ICRA

EXHIBIT: Fiscal Deficit Targets for the GoI in FY2023 RE and FY2024 BE

	Performance/Targets in Budget FY2023	Performance/Targets in Budget FY2024	Targets set by FFC
FY2023	6.4%	6.4%	5.5%
FY2024	NA	5.9%	5.0%
FY2025	NA	NA	4.5%
FY2026	NA	NA	4.0%

Source: GoI Budget Documents; 15th FC Report; ICRA Research

- In its MTFP report, the GoI stated that medium term fiscal projections may not be reliable amidst unprecedented global turbulence and headwinds. Hence, fiscal projections for the year FY2025 and FY2026 have not been provided in this statement.
- However, it has highlighted that it would pursue a broad path of fiscal consolidation to attain a level of fiscal deficit lower than 4.5% of GDP by FY2026, thereby continuing with its efforts to “attain sustained, broad-based economic growth, and take such measures as may be necessary to protect the lives/livelihoods of the people, while adhering to the path of fiscal rectitude”.
- The Central Government debt outstanding is estimated to inch up marginally to 57.2% of GDP in FY2024 BE from 57.0% of GDP, owing to the considerable rise of 8.6% in the gross borrowings through dated securities in FY2024 BE, relative to FY2023 RE.

GoI's gross market borrowings pegged at Rs. 15.4 trillion in FY2024 BE

EXHIBIT: GoI's Long-Term Market Borrowings

Rs. Trillion	FY2023 RE	FY2024 BE	Growth (%)
Gross Market Borrowing	14.21	15.43	8.6%
Redemptions (adjusted for recovery of Rs. 0.78 trillion from GST compensation fund in FY2024)	3.13	3.62	
Net Market Borrowings Adjusted for recovery of GST loan	**11.08**	**11.81**	**6.6%**

RE: Revised Estimates; BE: Budget Estimates; Source: Budget Documents, Ministry of Finance, GoI; ICRA Research

- Notwithstanding the rise of Rs. 0.94 trillion in the fiscal deficit included in FY2023 RE, the net and gross market borrowings of the GoI have been revised down mildly to Rs. 11.08 trillion and Rs. 14.21 trillion, respectively, from the planned Rs. 11.19 trillion and Rs. 14.31 trillion, respectively, for the fiscal. The increase in deficit in FY2023 RE relative to the budgeted levels is estimated to be funded by higher collections announced under the NSSF (Rs. 4.39 trillion vs. Rs. 4.25 trillion), and other receipts including public account excluding state provident fund (Rs. 0.80 trillion vs. 0.37 trillion).
- Subsequently, the GoI has estimated its gross market borrowings to increase by 8.6% to Rs. 15.43 trillion in FY2024. The redemptions for FY2024 are budgeted to increase sharply to Rs. 4.40 trillion in FY2024 from Rs. 3.13 trillion in FY2023 RE. However, after netting for the recovery of Rs. 0.78 trillion from the GST Compensation Fund, the redemptions for FY2024 BE are projected at Rs. 3.62 trillion. Accordingly, the GoI's net market borrowing is estimated at Rs. 11.81 trillion in FY2024 BE (6.6% higher on a YoY basis). The gross and net market borrowings are higher than ICRA's expectations.

Net market borrowings and NSSF account for major share in sources of financing fiscal deficit

ICRA

EXHIBIT: Sources for Financing the Fiscal Deficit

Rs. Trillion	FY2023 RE	FY2024 BE
(A) Borrowings	11.96	12.31
Dated Net Market Borrowings (i)	11.08	11.81
Treasury-Bills (ii)	1.0	0.50
Net Switching of Securities (iii)	-0.02	0.0
Net Buyback (iv)	0.0	0.0
Net Post Office Life Insurance Fund (v)	-0.10	0.0
(B) Net Securities against Small Savings	4.39	4.71
(C) Net State Provident Funds	0.20	0.20
(D) Other Receipts	0.80	0.54
(E) Net External Debt	0.24	0.22
(F) Net drawdown of Cash Balances	-0.03	-0.12
Sources of Funding the Fiscal Deficit (sum of A to F)	17.55	17.87

Source: GoI Budget Documents; 15th FC Report; ICRA Research

- The GoI has budgeted to raise net Treasury Bills of Rs. 0.50 trillion in FY2024, lower than Rs. 1.0 trillion in FY2023 RE.
- In contrast, it has indicated that it would borrow a net amount of Rs. 4.71 trillion from the savings deposits and certificates in FY2024 BE, higher than Rs. 4.39 trillion in FY2023 RE. Additionally, Rs. 0.20 trillion is budgeted from the State Provident Funds for funding its fiscal deficit in FY2024, similar to the amount in FY2023 RE.
- The share of net market borrowings and NSSF in financing the fiscal deficit is at 66.1% and 26.4%, respectively, in FY2024 BE (63.1% and 25.0%, respectively, in FY2023 RE).
- Other receipts, which include public account excluding state provident fund receipts, are budgeted at Rs. 0.54 trillion in FY2024, sharply lower than Rs. 0.80 trillion in FY2023 RE.

Dashboard

Sector	Impact	Sector	Impact
AGRICULTURE	↑	HOSPITALITY AND TOURISM	↑
AUTOMOTIVE – COMMERCIAL VEHICLES	↔	INFRASTRUCTURE	↑
AUTOMOTIVE – PV/2W/TRACTOR	↔	OIL & GAS	↑
AVIATION	↑	PHARMA & HEALTHCARE	↔
BFSI	↔	PORTS, SHIPPING AND SHIPBUILDING	↔
CAPITAL GOODS	↑	POWER & RENEWABLES	↑
CEMENT	↑	REAL ESTATE	↔
CHEMICALS & PETROCHEMICALS	↑	ROADS & HIGHWAYS	↑
CUT AND POLISHED DIAMONDS (LAB-GROWN)	↑	STEEL	↑
FERTILISER	↔	TELECOM	↑
		TEXTILES	↔

↑	Positive	↔	Neutral	↓	Negative

ICRA

UNION BUDGET – SECTOR IMPACT

PROPOSALS

- Budgetary allocation towards farm credit increased to Rs. 20 trillion from Rs. 18.0 trillion for FY2022-23
- Budgetary allocation for Crop Insurance Scheme increased to Rs. 136 billion for FY2023-24 BE from Rs. 124 billion for FY2022-23 RE
- Allocation towards modified interest subvention scheme increased to Rs. 230 billion for FY2023-24 BE from Rs. 220 billion for FY2022-23 RE
- Allocation for Pradhan Mantri Krishi Vikas Yojna increased to Rs. 71 billion for FY2023-24 BE from Rs. 70 billion for FY2022-23 RE
- Allocation of Rs. 600 billion for FY2023-24 BE towards the Pradhan Mantri Kissan Samman Nidhi Yojna (PM-Kisan), at similar levels as FY2022-23 RE
- Creation of digital public infrastructure for agriculture and focus on introduction of technology and artificial intelligence in agriculture

VIEW

- Focus on agri economy continues in the Union Budget for FY2023-24 with the GoI's proposal to increase the allocation for agri-credit to Rs. 20 trillion
- In keeping with its commitment to improve agricultural infrastructure, the GoI has envisaged creation of digital public infrastructure for agriculture to enable farmer-centric solutions to improve crop health and planning and improved access to farm inputs
- Initiatives to improve productivity of crops by use of technology and to inculcate the use of artificial intelligence in agriculture to improve farm output
- Continued allocation towards PM-Kisan Samman Nidhi Yojna, would result in adequate disbursement and support farmers' income. Moreover, the allocation towards interest subvention scheme continues to remain high

AUTOMOTIVE – COMMERCIAL VEHICLES

ICRA

PROPOSALS

- Capital investment outlay for 2023-24 BE increased by 33% to Rs. 10 trillion, equivalent to 3.3% of GDP; effective capital expenditure budgeted at Rs. 13.7 trillion or 4.5% of GDP
- Budgetary allocation for Pradhan Mantri Awas Yojana (PMAY) enhanced by 66% to more than Rs. 790 billion
- Outlay of Rs. 750 billion towards 100 critical transport infrastructure projects, for first and last-mile connectivity for port, coal, steel, fertiliser and food grains sectors
- Funds allocated towards scrappage of old Central Government vehicles, with support to be extended to states for the same
- Continuation of interest-free 50-year loan to state governments for one more year, with enhanced outlay of Rs. 1.3 trillion; parts of the outlay allocated for scrapping of old Government vehicles
- Green Growth, including Green Mobility, identified as a priority area; customs duty exemption extended to import of capital goods and machinery for manufacturing lithium-ion batteries for electric vehicles (EVs)

VIEW

- The GoI's continued focus on capital investments would drive investments in infrastructure development, which augurs well for commercial vehicle demand, especially multi-axle vehicles and tippers.
- The GoI's continued focus on replacing old polluting vehicles, as reflected in the fund allocation towards scrapping old Central Government vehicles and extending interest-free loans to state governments for the same, is expected to spur replacement demand, especially for buses.
- The GoI has also proposed some initiatives to spur Green Growth, including Green mobility. Notably, the custom duty exemption on import of capital goods and machinery for the manufacturing of lithium-ion batteries for EVs is expected to accelerate the transition toward them.

AUTOMOTIVE – PV/2W/TRACTOR

ICRA

PROPOSALS

- Outlay towards Agriculture and Allied Activities enhanced to Rs. 1.44 trillion for 2023-24 BE from Rs. 1.36 trillion for 2022-23 RE
- Allocation towards farm credit increased by ~20% to Rs. 20 trillion for 2023-24 (BE) from Rs. 16.5 trillion for 2022-23 RE
- Plan to set up massive decentralised storage capacity for agri produce
- Fund allocation towards scrappage of Government vehicles
- Revisions in personal income-tax slabs
- Exemption from customs duty on machinery required for setting up lithium-ion cell manufacturing capabilities
- Green credit programme to be notified under Environment Protection Act, 1986
- To prevent cascading of taxes on blended compressed natural gas (CNG), excise duty exempted on GST-paid compressed biogas contained in it
- Viability-gap funding to be made available for battery storage facilities

VIEW

- The GoI's focus on supporting agri cash flows through rural infrastructure development and improved allocation for farmer welfare schemes continued in the Union Budget for FY2023-24 as well. The enhanced outlay for Agriculture and Allied Activities as well as farm credit targets are likely to boost rural demand for the automotive sector
- The revision in personal income-tax slabs is likely to boost disposable incomes and support automotive demand. An increase in customs duty on imported vehicles is likely to boost local manufacturing ecosystem
- The Government's thrust on green energy continued with specific budgetary allocations made for old vehicle scrappage, energy transition, and viability gap funding for battery storage solutions. The exemption of customs duty on import of capital assets for manufacturing lithium-ion cells for batteries shall facilitate EV ecosystem development and help accelerate transition

PROPOSALS

- To add 50 airports, water aerodromes and revive advance landing gears for improving regional air connectivity
- To develop 50 tourist destinations with focus on physical and virtual connectivity, tourist guides, high standards for food streets and tourists' security
- Sector-specific skilling and entrepreneurship development to be facilitated for promoting objectives of the Dekho Apna Desh initiative, which focuses on pushing the middle class to opt for domestic tourism over international tourism.
- To promote integrated development of theme-based tourist circuits under the Swadesh Darshan Scheme
- To facilitate tourism near border villages
- Under the Vibrant Villages Programme, tourism infrastructure and amenities will also be facilitated

VIEW

- The Union Budget for FY2023-24 has reiterated its focus on improving regional air connectivity through setting up of 50 additional airports, heliports, water aerodromes and revival of advance landing grounds, which will boost domestic air travel.
- The Budget also provides a lot of thrust on promotion of tourism through development of tourist destinations covering various aspects, and further through development of theme-based local tourist spots All the relevant aspects would be made available on an app to enhance tourist experience. This will not only promote domestic tourism but also international tourism and, hence, international air travel.
- Thrust on promoting domestic tourism under the Dekho Apna Desh initiative and Swadesh Darshan Scheme, will in turn push higher regional travel, which will be further complemented by the focus on better regional connectivity. All these initiatives are expected to boost air travel – both domestic and international

ICRA

PROPOSALS

- Outlay for Pradhan Mantri Awas Yojana (PMAY) budgeted at Rs. 790 billion
- Risk-based know your customer (KYC) process, creation of Entity DigiLockers, expansion in the scope of DigiLockers for individuals and continued fiscal support for digital payments
- Revamped Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) Scheme for micro, small and medium enterprises (MSMEs)
- Increase in deposit limit for Senior Citizen Savings Scheme and Monthly Income Account Scheme
- Incentivisation for shifting to new tax regime; cap deduction/ exemptions from capital gains or proceeds from high-value residential houses and insurance policies

VIEW

- PMAY outlay marginally higher compared to 2022-23 RE of ~Rs. 770 billion, indicating continued focus on housing infrastructure
- Customised KYC requirements, based on assessed risk and digitalisation of documents for individuals and businesses, would facilitate credit access. Further, continued fiscal support for digital payments (~Rs. 15 billion for 2023-24) would aid financial inclusion and augment digitalisation of finance
- CGTMSE scheme expected to lower cost by 1% for MSMEs and facilitate additional credit of Rs. 2 trillion to the sector
- Improve savings propensity, but would pose challenges for bank deposit growth, which currently lags credit growth
- Negative impact on various tax saving and investment schemes, including insurance business

ICRA

PROPOSALS

- Changes in tax laws applicable for market linked debentures (MLDs) and listed debentures
- Amendments to Banking Regulation Act, Banking Companies Act and Reserve Bank of India Act are proposed
- Establishing a subsidiary of EXIM Bank for trade refinance

VIEW

- Effective tax rate for MLDs could increase; attractiveness of MLDs and listed debentures, especially for retail investors, could be affected; structured debt accounted for less than 15% of the total corporate bond market (December 2022)
- Changes in banking regulations could be a step towards driving privatisation and implementing new accounting standards
- Improved access to export financing at competitive rates

CAPITAL GOODS

PROPOSALS

- Capital investment outlay of Rs. 10.0 trillion for 2023-24; capital outlay of Rs. 2.4 trillion for Railways
- Allocation of Rs. 350 billion towards energy transition
- Battery storage energy systems (BESS) with capacity of 4,000 MWh proposed to be set up with viability gap funding (VGF); customs duty exemption for capital goods for lithium ion battery manufacturing till March 2024
- Inter-state transmission system to evacuate 13-GW renewable energy from Ladakh
- Allocation towards Reforms-linked Distribution Scheme, allocation under Pradhan Mantri Kisan Urja Suraksha evam Utthaan Mahabhiyan (KUSUM) for promotion of solar and wind capacity and measures to boost usage of biogas and biomass-based energy
- Government plans to come out with framework for pumped storage projects

VIEW

- Increased capital outlay by Central Government (including Railways) would boost demand for various engineering equipment and create a multiplier effect, bolstering order books of companies
- VGF support for BESS and customs duty exemption (till March 31, 2024) recognises the need for creating domestic infrastructure and providing a complimentary production-linked incentive (PLI) scheme for advanced chemistry cell (ACC) batteries; this would improve cost competitiveness
- Allocation towards reforms-based, result-oriented schemes for distribution companies (discoms), investments in transmission network creation as well as focus on green energy augur well for capital goods players
- While all measures remain positive for the industry, timely implementation remains key

CEMENT

PROPOSALS

- Continued focus on agriculture sector and rural development as reflected in the budgetary allocation of Rs. 3.2 trillion in FY2024 BE, an increase of 1% and 11% over FY2023 RE and FY2023 BE, respectively
- Budgetary allocation under PMAY at Rs. 796 billion in FY2024 BE, an increase of 3% and 66% over FY2023 RE and FY2023 BE, respectively
- Significant increase in capital expenditure to Rs. 10 trillion in FY2024 BE, an increase of 37% and 33% over FY2023 RE and FY2023 BE, respectively
- Special assistance as loans to states for capex increased to Rs. 1.3 trillion in FY2024 BE, an increase 71% and 30% over FY2023 RE and FY2023 BE, respectively

VIEW

- The GoI's focus on agri-economy and rural development is expected to support income for farm households and thereby support demand for rural housing, which is a significant contributor (of around 30%) to the overall cement demand
- Improved access to housing in low to mid-income segments under PMAY and the continued focus on PMAY allocation a positive for the cement sector
- The infrastructure sector accounts for 20-25% of the total cement demand. The increase in budgetary allocation underscores the focus of the Government on the infrastructure sector

CHEMICALS & PETROCHEMICALS

PROPOSALS

- Increase in customs duty on naphtha
- Increase in customs duty for styrene and vinyl chloride monomer
- The reduction in customs duty on acid-grade fluorspar to 2.5% from 5% per cent to 2.5% and on crude glycerin to 2.5% from 7.5% to 2.5%

VIEW

- Increase in customs duty on naphtha can result in some increase in feedstock prices for petrochemicals with adverse impact on margins
- Rationalisation of duties on styrene and vinyl chloride monomer will support reduced dependence on imported feedstock and encourage domestic producers
- Reduction in customs duty on fluorspar will be positive for fluorochemical segment.
- Reduction in customs duty on crude glycerine will be favourable for epichlorohydrin manufacturers

CUT AND POLISHED DIAMONDS (LAB-GROWN)

PROPOSALS

- Basic customs duty on seeds used in manufacturing of lab-grown diamonds (LGD) has been removed, from an earlier level of 5%
- Provision of a research and development grant to one of the Indian Institutes of Technology for five years to promote indigenous production of seeds and machines

VIEW

- The move to scrap the customs duty on seeds will incentivise domestic production of LGDs, which are a greener and more cost-effective alternative to natural diamonds. The exports of LGDs have increased rapidly over the last three years and accounted for 7.5% of total polished diamond exports in 9M FY2023
- The cost of seeds contributes around 40% to the overall production cost of an LGD manufacturer, followed by the power costs. Removal of custom duty will facilitate improvement in gross margins for these players, which are largely importing seeds from China at present
- Greater focus on promoting indigenous production of seeds and machines is a step towards reducing import dependance and would benefit LGD manufacturers in the long term

FERTILISER

PROPOSALS

- Promoting use of alternative fertilisers and balanced use of fertilisers under PM PRANAM scheme
- Focus on adoption of natural farming and setting up of Bio-Input Resource Centres
- Budgetary allocation of Rs. 1.75 trillion towards fertiliser subsidy, including Rs. 1.31 trillion for urea and Rs. 440 billion in the form of nutrient-based subsidy
- Launched National Green Hydrogen Mission with an outlay of Rs. 197 billion to reach an annual production target of 5 MMTPA by 2030

VIEW

- PM PRANAM scheme to incentivise promotion of alternative fertilisers and balanced use of chemical fertilisers to achieve an optimal balance of (nitrogen, phosphorous and potassium (NPK) in the soil. Excessive use of urea (rich in N ingredient) has distorted the balance of NPK in soil in favour of N as reflected by NPK use ratio of 7.7:3.1:1 in 2021-22 as against the desirable ratio of 4:2:1
- This budgetary allocation is lower than the last fiscal's revised estimates of Rs. 2.25 trillion as well as ICRA's estimates of around Rs. 2.0 trillion for FY2024 at the current prices. Urea subsidy is likely to be sufficient while the nutrient-based subsidy is expected to remain inadequate at the current prices, although ICRA believes that there will be a calibrated subsidy allocation by GoI, depending on the evolving subsidy requirements during the course of the coming financial year
- Use of Green Hydrogen in fertilisers will facilitate shift in the usage from natural gas, which will help in reduced dependence on fossil fuels over the longer term

HOSPITALITY AND TOURISM

PROPOSALS

- Infrastructure improvement across the country, including last mile and rural/border areas
- Set-up of 50 new airports, heliports, water aerodromes and advance landing grounds
- Promotion of theme-based tourist circuits under Swadesh Darshan Scheme
- Proposals for enhancing tourist security, creation of a holistic tourism app, etc
- Enhancing ease of doing business
- Sector-specific skill and entrepreneurship development to be facilitated for promoting objectives of 'Dekho Apna Desh' initiative
- Skill development through Pradhan Mantri Kaushal Vikas Yojana 4.0
- Revamping of credit guarantee for micro, small and medium enterprises (MSMEs)

VIEW

- Budgets during the pandemic focused more on temporary liquidity measures such as Emergency Credit Line Guarantee Scheme (ECLGS), etc. However, current Budget focuses more on structural measures for hotels
- Measures announced in the Budget likely to boost demand over the medium term, with access to tier-II and tier-III towns. With road travel increasing sharply in the last one year, infrastructure and connectivity improvement measures will have a positive impact on hotel demand
- Enhancement of tourist security and availability of adequate information would improve tourist experience and facilitate demand growth as well
- Enhancing ease of doing business will also be beneficial for the industry, considering the pick-up in new supply announcements in the last few months; with the travel and tourism industry comprising several MSME players and vendors, proposals towards skill development and revamping of credit guarantee for MSMEs are key positives for the sector over the medium term

INFRASTRUCTURE

ICRA

PROPOSALS

- Significant increase by 37% in capital expenditure to Rs. 10 trillion in FY2024 BE from Rs. 7.3 trillion in FY2023 RE
- Modest increase of ~6% in the capital outlay for Railways to Rs. 2.6 trillion despite sharp rise in budgetary support for capex to Rs. 2.4 trillion in FY2024 BE from Rs. 1.6 trillion in FY2023 RE
- Budgetary support towards NHAI has increased by 15% to Rs. 1.6 trillion in FY2024 BE over FY2023 RE. Total capital outlay in Roads and Highways has been increased by 25% over FY2023 RE
- Budgetary allocation for FY2024 towards Jal Jeevan Mission increased to Rs. 700 billion (Rs. 550 billion in FY2023 RE), Swachh Bharat Mission (urban and rural) to Rs. 122 billion (Rs. 70 billion in FY2023 RE), AMRUT and Smart Cities Mission at Rs. 160 billion in FY2024 BE against Rs. 153 billion in FY2023 RE. Further, an Urban Infrastructure Development Fund (UIDF) is proposed to support urban infra development in Tier-2/Tier-3 cities
- Proposal to have voluntary settlement scheme with standard terms for contractual disputes with Government undertakings

VIEW

- Increase in capex augurs well for the infrastructure and construction sectors. Roads and Railways will continue to get the dominant share, while allocation has also been increased for urban infra and water supply segments. Support to NHAI has been kept higher, while continuing with nil incremental borrowing in FY2024
- Increase in capex support to Rs. 1.3 trillion to states in the form of interest-free loan remains a positive for state-funded infrastructure projects like roads, irrigation, water supply projects. However, only 76% of the FY2023 BE has been retained as per FY2023 RE. Further, inclusion of other purposes like scrappage of old vehicles, urban local bodies reforms, etc, could dilute the capex deployment to an extent
- The voluntary settlement scheme can help expedite release of arbitration awards and support liquidity position of construction/infra entities, wherein arbitration awards were in their favour but are being contested in courts and sizeable money is stuck in disputes

OIL AND GAS

PROPOSALS

- Allocation of Rs. 300 billion towards capital support to oil marketing companies (OMCs)
- Allocation of Rs. 1.8 billion towards direct benefit transfer (DBT) on liquid petroleum gas (LPG) (domestic) sales
- Allocation of Rs. 50 billion to Indian Strategic Petroleum Reserves Limited (ISPRL)
- Increase in basic customs duty on naphtha to 2.5% from 1%
- 5% compressed biogas (CBG) mandate to be introduced for organisations marketing natural and biogas
- Exemption of excise duty on blended compressed natural gas (CNG) equal to GST paid

VIEW

- Allocation towards capital support to OMCs is Rs. 300 billion against the industry's ask of Rs. 500 billion to compensate for losses incurred on the sale of auto fuels and LPG. In October 2022, GoI approved a one-time grant of Rs. 220 billion to PSU OMCs for losses incurred on sale of auto fuels and LPG, which only partially compensates losses
- The budgetary allocation for DBT is low at Rs. 1.80 billion and would be a risk for PSU OMCs in case international crude oil or LPG prices rise
- Allocation of Rs. 50 billion to ISPRL for build-up of crude oil reserves
- The increase in basic customs duty on naphtha would be beneficial for refiners as it would increase their sales realisations
- Mandate for introducing 5% CBG would promote its use. Exemption of excise duty on blended CNG equal to the GST paid on biogas component would promote increased usage of the latter
- National Green Hydrogen Mission envisages shift to Green hydrogen from natural gas by refineries and CGD companies which will reduce the dependence on the latter over a longer term

ICRA

PROPOSALS

- Budgetary allocation towards healthcare increased by 12.6% to ~Rs. 892 billion for FY2023-24 BE from ~Rs. 791 billion for FY2022-23 RE
- New programmes to promote research and development (R&D) in pharmaceuticals will be taken up; industry encouraged to invest in R&D in specific priority areas
- Facilities in select Indian Council For Medical Research (ICMR) labs will be made available for research by public and private medical college faculty and private sector R&D teams
- 157 new nursing colleges to be established in co-location with the existing 157 medical colleges established since 2014
- Dedicated multi-disciplinary courses for medical devices and technology will be introduced in existing colleges
- Multi-fold increase in allocation towards Pradhan Mantri Ayushman Bharat Health Infrastructure Mission (PMABHIM) compared to FY2022-23 RE

VIEW

- Given the backdrop of the Covid-19 pandemic and under-penetrated healthcare infrastructure in the country, increased allocation towards the healthcare sector is a welcome move
- Roll-out of new programmes to promote R&D in pharmaceuticals is a progressive step towards improving public-private partnerships and overall thrust on R&D
- Setting up of new nursing colleges and introduction of courses for medical devices are expected to increase availability of skilled manpower in the healthcare and medical devices sectors, a positive given the severe shortage of skilled manpower in India compared to the global average and other developing nations
- Increase in allocation towards PMABHIM reflects intent of the Government to increase health coverage in the country, however, as the actual expenditure on PMABHIM in FY2023 was far lower than the budgetary allocation, the spends in FY2024 vis-à-vis the budgetary allocation will remain a monitorable

PORTS, SHIPPING AND SHIPBUILDING

ICRA

PROPOSALS

- Allocation of Rs. 4.5 billion for Sagarmala Project (revenue grant of Rs. 3.2 billion) over Rs. 5.2 billion in previous fiscal (Rs. 3.9-billion revenue grant and Rs. 1.2-billion capital grant as per revised estimates)
- Allocation of Rs. 1.2 billion for shipbuilding, research and development (R&D) (PY: Rs. 1.0 billion)
- Allocation of Rs. 9.2 billion capital grant for Inland Water Transport Authority of India (IWAI) (PY: Rs. 5.3 billion)
- Promotion of coastal shipping for both passenger and freight segments through PPP mode with viability gap funding
- Identification of 100 critical transport infrastructure projects for last and first-mile connectivity for the port, coal, steel, fertiliser and foodgrains sectors to be taken up on priority with an investment of ~Rs. 750 billion, including Rs. 150 billion from private sources

VIEW

- Budgetary allocation for Sagarmala, shipbuilding and R&D is similar to last year's levels. As these are mainly revenue grants, impact on the port sector is expected to be neutral
- Healthy increase in capital grant for IWAI is positive for inland waterways infrastructure creation
- Focus on coastal shipping is positive for the sector as it will boost its share in multi-modal mix and aid in better capacity utilisation of port assets
- Any support for first and last-mile connectivity at ports is favourable as it will aid in efficiency improvement

POWER & RENEWABLES

PROPOSALS

- 'Green Growth' approach with focus to reduce carbon intensity of the economy and move towards Net Zero by 2070
- Viability gap funding (VGF) support to develop Battery Energy Storage Systems (BESS) of 4,000 MWh
- Detailed framework to be formulated for development of pumped hydro storage projects
- Inter-state transmission system to be constructed to evacuate 13 GW renewable energy (RE) from Ladakh with investments of Rs. 207 billion, including Central support of Rs. 83 billion
- Allocation of Rs. 160 billion for Reform-Linked Distribution Scheme and strengthening of power systems, higher by 67% over FY2023 RE
- Allocation of Rs. 82 billion to promote solar and wind capacity including KUSUM scheme, higher by 32% over FY2023 RE
- Reiteration of National Green Hydrogen Mission with 5 MMT target by 2030 to facilitate transition to low carbon intensity economy

VIEW

- Policy focus remains on RE sector, in line with the objective to reduce carbon footprint of the economy and achieve sustainable development
- VGF for BESS is a positive step for RE sector as it would improve its competitiveness and enable its adoption by distribution companies
- Framework for pumped hydro projects is a positive step to improve grid stability amid rising share of RE. Timely implementation is key
- Transmission infrastructure to evacuate RE power from Ladakh to boost capacity implementation in RE sector
- Increased allocation to distribution sector to aid the discoms in augmenting their infrastructure and improving operating efficiencies
- Improvement in cost competitiveness of green hydrogen remains a key monitorable to meet the production targets
- Finally, the Government's increased capital expenditure allocation is likely to support electricity demand growth, which ICRA estimates at about 5.5% for FY2024

PROPOSALS

- Allocation under PMAY increased by 3.2% to Rs. 796 billion for FY2023-24 (BE) compared to Rs. 771 billion for FY2022-23 RE. The allocation in FY2023-24 BE is higher by 66% compared to Rs. 480 billion for FY2022-23 BE.
- Deduction from capital gains on investment in residential house under Section 54 and Section 54F capped at Rs. 100 million

VIEW

- The Union Budget for FY2024 underscores the Government's focus on the affordable housing segment through increased allocation to the flagship PMAY programme. This will aid construction activity in the affordable housing segment. However, the income tax deduction on housing loans was not expanded, which would have had a positive impact on the residential real estate sector.
- There will be minimal impact of the cap on deductions from capital gains as it limited to very big-ticket transactions.

ROADS & HIGHWAYS

ICRA

PROPOSALS

- Gross budgetary support for the Ministry of Road Transport & Highways increased by 25% to Rs. 2.59 trillion in FY2024 BE from Rs. 2.06 trillion in FY2023 RE, which is 37% higher than Rs. 1.87 trillion in FY2023 BE
- Allocation to the National Highways Authority of India (NHAI) increased by 15% to Rs. 1.62 trillion in FY2024 BE from Rs. 1.42 trillion in FY2023 RE [21% higher than Rs. 1.34 trillion in FY2023 BE], while continuing with the nil borrowing programme for NHAI
- Monetisation proceeds from roads expected to increase significantly to Rs. 350 billion from Rs. 100 billion in FY2023 RE. The target was revised downwards from Rs. 200 billion in FY2023 BE
- Target for NH execution increased to 14,500 km in FY2024 from 12,000 km in FY2023
- Allocations worth Rs. 190 billion in FY2024 BE towards the Pradhan Mantri Gram Sadak Yojana (PMGSY) in line with that of FY2023 RE

VIEW

- Increased allocation towards the road sector to meet the completion targets for the Bharatmala Pariyojana and the National Infrastructure Pipeline (NIP)
- In line with the last year's budget, the Government continued with the nil borrowing programme for NHAI to address the elevated debt levels while increasing the allocation by 15% to support the higher NH execution target. However, the Budget remained silent on the awarding target for FY2024 considering the slow pace of awarding expected for Q4 FY2024 with general elections in May 2024
- NHAI realizsed Rs. 100 billion from asset monetisation in FY2023 RE. Given the steep target of Rs. 350 billion, the monetisation target appears ambitious despite strong investor appetite for operational road assets
- Continued high allocations towards PMGSY to support the order book addition of small and mid-sized construction contractors

PROPOSALS

- 33% higher capital outlay for infrastructure projects and significantly higher allocation of interest-free loans to states for capex
- Increase in allocation to flagship schemes like the PMAY and the Jal Jeevan Mission by 65.8% and 16.7% year-on-year, respectively
- Spending by the Ministry of Road Transport and Highways and the Ministry of Railways targeted to increase by 37.7% and 19.2% year-on-year respectively
- Extension of waiver of customs duty on ferrous scrap, raw materials used in the manufacturing of Cold Rolled Grain Oriented (CRGO), and nickel cathode
- Thrust on vehicle scrappage policy

VIEW

- The Union Budget's strong push for infrastructure-led growth in the country, with increased capital outlay for infrastructure projects and interest-free capex loans to states remains a positive for steel demand
- Healthy increase in allocation to flagship schemes like the PMAY and the Jal Jeevan Mission is a positive for long steel and pipe manufacturers
- The extension of waiver of customs duty on ferrous scrap, raw materials used in the manufacturing of CRGO, and nickel cathode in FY2024 is a welcome development for steel producers
- Increased allocation of funds for promoting scrapping of old Government vehicles to improve domestic scrap availability

TELECOM

ICRA

PROPOSALS

- Focus on increasing digital penetration
- Improving connectivity in particularly vulnerable tribal groups
- Creation of centers of excellence for Artificial Intelligence
- Setting up of labs for developing 5G-based applications

VIEW

- The Budget emphasises on the importance of creating a robust digital infrastructure, including e-learning, digital health, digital services to farmers, etc. Proliferation of these services to under-penetrated markets augurs well for the Digital India programme and are likely to result in increased usage of telecom services and revenue generation for telcos
- The Budget envisages setting up of 100 labs for indigenous development of 5G-based applications around smart classrooms, precision farming, healthcare, etc, which opens up a range of opportunities and business models
- The non-tax revenues from communication services for FY2023 RE stood at around Rs. 687 billion, while the FY2024 BE stands at Rs. 895 billion, which is higher than ICRA's estimates, and likely assumes another spectrum auction in the next fiscal

PROPOSALS

- There has been a sharp revision in budgetary allocation of the Ministry of Textiles, from Rs. 120 billion in 2022-23 to Rs. 36 billion in2023-24. However, compared to Revised Estimate (RE) of Rs. 31 billion for 2022-23, there is an actual increase. The sharp reduction, in RE for 2022-23, was due to lower procurement of cotton by Cotton Corporation of India (CCI) under the price support scheme (as the cotton fiber prices remained high in 2022-23). The procurement of cotton under the price support scheme now has a lower budget allocation in 2023-24(Rs. 0.1 million vs. Rs. 92 billion in 2022-23)
- Increase in budget allocation for National Technical Textiles Mission to Rs. 4.50 billion for FY2023-24 (Rs. 0.37 billion in FY2022-23 RE)
- PM MITRA scheme Budget outlay has also been increased to Rs. 2 billion (Rs. 0.035 billion for FY2022-23 RE)
- Customs duties exemption for certain goods and machinery used in the textiles industry has been discontinued from April 2023

VIEW

- The ministry possibly expects cotton prices to remain higher than historical rates and hence lower procurement has been proposed under the price support scheme, however, ICRA notes that in case of a sharp fall in cotton prices, the Government may revise the estimates for FY2023-24 to procure under the price support scheme
- The increase in budget allocation for National Technical Textiles Mission would help companies that are looking to manufacture man-made fibres using newer processes or technology
- Increase in budget allocation for the PM MITRA scheme is in line with the objective of opening seven apparel and textiles parks (between FY2022 and FY2028). The total budgetary outlay is Rs. 44 billion (over the six-year period)
- Removal of custom duties exemption would result in higher expenses for entities looking for a capacity expansion

OTHER SECTOR ANNOUNCEMENTS

ICRA

CONSUMER DURABLES

- Exemption of import duty on camera lens and its inputs/parts for use in manufacture of camera module of cellular mobile phone to incentivise domestic value addition in mobile phones manufacturing
- Reduction in basic customs duty on parts of open cells of TV panels to 2.5% from 5% to promote value addition in manufacturing of televisions.
- To rectify inversion of duty structure and encourage manufacturing of electric kitchen chimneys, the basic customs duty on electric kitchen chimney is being increased from 7.5% to 15% and that on heat coils for these is proposed to be reduced from 20% to 15%

JEWELLERY

- There has been an increase in the duty of articles made from gold bars.
- This will enhance the duty differential on gold bars - for which the duties were increased earlier this fiscal

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THANK YOU!