EXPECTATIONS

UNION BUDGET 2022-23

GoI likely to target FY2023 fiscal deficit at Rs. 15.2 trillion, similar to FY2022 BE

Table Of Contents

HIGHLIGHTS

Click to Provide Feedback

Exhibit: ICRA's projection for Fiscal Deficit (% of GDP) in FY2022-23

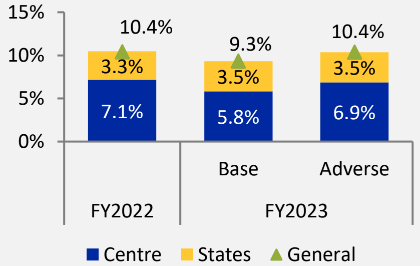
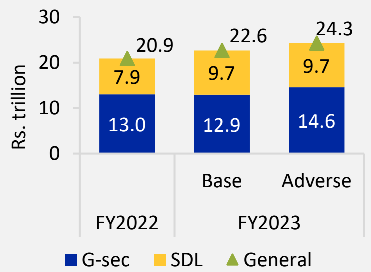


Exhibit: ICRA's projection for Gross Market Borrowings in FY2022-23



Based on our nominal GDP growth forecasts for FY2022-23; Source: ICRA Research

In the base case for FY2023, ICRA foresees the Government of India's (GoI's) fiscal deficit at Rs. 15.2 trillion or 5.8% of GDP. The planned ceasing of GST compensation could cause the state governments' fiscal deficit to rise to the cap of 3.5% of GSDP set by the Fifteenth Finance Commission. Accordingly, the General Government deficit would print at ~9.3% of GDP in FY2023, entailing gross market borrowings of Rs. 22.6 trillion.

- ICRA expects the Government of India's (GoI's) gross tax receipts to surpass the budgeted amount by a healthy Rs. 2.5 trillion in FY2022. However, the net tax revenue gains to the GoI would be nullified by the expected large miss on receipts from disinvestment and back-ended spending. Consequently, ICRA expects the GoI's fiscal deficit to print at Rs. 16.6 trillion (or 7.1% of GDP) in FY2022, exceeding the budgeted amount of Rs. 15.1 trillion (or 6.8% of GDP). We project the aggregate fiscal deficit of all state governments at ~3.3% of GDP in FY2022, indicating a General Government fiscal deficit of 10.4% of GDP.
- The Union Budget for FY2023 will face some constraints owing to an expected slowdown in indirect taxes growth following the excise duty relief provided recently and the moderation in nominal GDP growth to ~12.5% from ~17.5% expected in FY2022. Besides, uncertainty arising from new mutations and fresh waves of Covid-19, may necessitate additional spending by the way of extension of free foodgrains scheme for a period of six months and higher spending on the MGNREGA. Given this backdrop, the GoI's ability to cement higher growth in direct taxes and garner disinvestment receipts would play a critical role in determining the extent of the fiscal consolidation that is feasible in FY2023.
- Given the uncertain environment, ICRA highlights two scenarios for the fisc – a base case (impact of current Covid wave limited to Q4 FY2022 and no fresh Covid wave in FY2023) and an adverse case (moderate Covid wave in FY2023). In the base case, the GoI's fiscal deficit is pegged at ~Rs. 15.2 trillion or 5.8% of GDP. In the adverse case, ICRA projects the fiscal deficit at a higher Rs. 17.9 trillion (or 6.9% of GDP), driven by the two major outlays (as highlighted above) intended to bolster confidence amongst households, amidst lower indirect taxes and compressed disinvestment flows.
- We believe that the Union Budget FY2023 should ring-fence the funds that can realistically be absorbed for capital expenditure and infrastructure spending, to help fuel the investment cycle, create employment opportunities and improve domestic demand, while rationalising Centrally-sponsored schemes and Central sector schemes to further improve the quality/efficiency of expenditure.
- We expect net G-sec issuance to be placed at ~Rs. 9.1 trillion and ~10.7 trillion in the base and adverse cases, respectively. Assuming that 80% of the states' estimated fiscal deficit of Rs. 9.1 trillion is funded by SDL, suggests a net issuance of Rs. 7.3 trillion. This entails total centre + state dated market borrowings for FY2023 in a range of ~Rs. 16.4 trillion (base case) to Rs. 18.0 trillion (adverse case). Adding the redemption of G-sec and SDL indicates substantial gross borrowings in the range of ~Rs. 22.6 trillion to Rs. 24.3 trillion in FY2023. This is likely to exert upward pressure on yields, exacerbating the impact of the expected hike in the repo rate of 50 bps in the coming fiscal.

FISCAL PERFORMANCE OF GOVERNMENT OF INDIA

The GoI had forecast its fiscal deficit at Rs. 15.1 trillion in its BE for FY2022 (refer Exhibit 1), a decline from the provisional (Prov.) figure of Rs. 18.5 trillion for FY2021. During April-November FY2022, the GoI's fiscal deficit compressed by 35.4% to Rs. 6.9 trillion (refer Exhibit 2) from Rs. 10.8 trillion in April-November FY2021, with incremental revenues sharply outpacing expenditure. Although the fiscal deficit up to November 2021 stood at only 46.1% of the BE for the full year, the fading hopes of the disinvestment target being met, portend a deficit of Rs. 16.5-17.0 trillion in FY2022, wider than the budgeted target, and only somewhat lower than the FY2021 prov. of Rs. 18.5 trillion.

Revenue and Capital Receipts: On a subdued base, the GoI's revenue receipts expanded by 67.2% on a YoY basis to Rs. 13.6 trillion in April-November FY2022 from Rs. 8.1 trillion in April-November FY2021. A robust 76.0% of the FY2022 BE had been achieved in April-November FY2022 (against 49.8% of FY2021 Prov. in April-November FY2021), reflecting the trend for net tax revenues (Rs. 11.4 trillion in April-November FY2022; 73.5% of FY2022 BE) as well as non-tax revenues (Rs. 2.2 trillion; 91.8% of FY2022 BE).

Net of refunds (gross of devolution to states), the GoI's tax revenues expanded by 50.3% on a YoY basis to Rs. 15.4 trillion in April-November FY2022 from Rs. 10.3 trillion in April-November FY2021 (refer Exhibit 3). Moreover, the gross tax revenue in April-November FY2022 was an impressive 31.3% higher than April-November FY2020 (Rs. 13.8 trillion). The healthy trend in the GoI's tax collections has been led by the robust direct tax collections (formalisation of economy), as well as CGST (widening economic recovery) and union excise duties (high cesses on fuel). Notably, the net tax revenues (net of devolution to States) increased by a steeper 64.9% to Rs. 11.4 trillion in April-November FY2022 from Rs. 6.9 trillion in April-November FY2021, following the relatively lower 20.4% YoY growth in taxes devolved to the states in the first eight months of this fiscal.

On a YoY basis, the growth in the GoI's gross tax revenues eased significantly from 97.1% in Q1 FY2022 to 44.5% in Q2 FY2022 and further to 17.4% in October-November FY2022, reflecting the normalisation of the base (refer Exhibit 6). This trend was broad-based across

Exhibit 1: Fiscal Balances for GoI for FY2021 RE, FY2021 Prov. and FY2022 BE

	FY2021 RE		FY2021 Prov.		FY2022 BE	
	Rs. trillion	% GDP	Rs. trillion	% GDP	Rs. trillion	% GDP
Revenue Receipts	15.6	7.9%	16.3	8.3%	17.9	8.0%
Tax Revenues$	13.4	6.8%	14.2	7.2%	15.5	6.9%
Revenue Expend.	30.1	15.2%	30.9	15.6%	29.3	13.1%
Revenue Balance	**-14.6**	**7.4%**	**-14.5**	**7.4%**	**-11.4**	**5.1%**
Capital Receipts^	0.5	0.2%	0.6	0.3%	1.9	0.8%
Capital Exp., Net Lending	4.2	2.2%	4.1	2.1%	5.4	2.4%
Fiscal Balance	**-18.5**	**9.4%**	**-18.2**	**9.2%**	**-15.1**	**6.8%**

GDP estimates for FY2022 as per GoI Budget 2021-22
^Miscellaneous Capital Receipts
$ Net of Refunds, Net of States' share in Central Taxes
Source: GoI Budget Documents; Controller General of Accounts (CGA); NSO; ICRA Research

Exhibit 2: GoI's Fiscal Balances in April–November in FY2021 and FY2022

	April-November FY2021		April–November FY2022		
	Rs. trillion	% of Prov.	Rs. Trillion	% of BE	Growth
Revenue Receipts	8.1	49.8%	13.6	76.0%	67.2%
Tax Revenues$	6.9	48.3%	11.4	73.5%	64.9%
Non-Tax Revenues	1.2	59.7%	2.2	91.8%	79.5%
Revenue Expenditure	16.7	54.0%	18.0	61.5%	8.2%
Revenue Balance	**-8.5**	**58.6%**	**-4.4**	38.8%	
Miscellaneous Capital Receipts	0.1	16.3%	0.1	5.4%	51.5%
Capital Exp., Net Lending	2.3	56.6%	2.6	48.5%	14.4%
Fiscal Balance	**-10.8**	**59.0%**	**-6.9**	46.1%	

$ Net of Refunds, Net of States' share in Central Taxes
Source: GoI Budget Documents; CGA; Ministry of Finance, GoI; ICRA Research

the major sources of direct and indirect taxes. An exception was CGST+IGST, which displayed a step-up in growth to 25.9% in Q3 FY2022 from 20.4% in Q2 FY2022.

Reflecting the subdued base and the broader trend of formalisation of the economy, direct tax collections recorded a considerable YoY expansion of 66.3% to Rs. 7.0 trillion in April-November FY2022 from 4.2 trillion in April-November FY2021 (-24.4%), led by corporate tax (+90.4% in April-November FY2022), followed by income tax (+47.2%). Moreover, direct taxes exceeded the April-November FY2020 level of Rs. 5.6 trillion by 25.7%, reflecting a higher growth in income tax (+29.2%) relative to corporate tax collections (+22.5%; refer Exhibit 4). Additionally, corporate tax and income tax collections during April-November FY2022 stood at 64.6% and 61.7%, respectively, of the FY2022 BE (refer Exhibit 3).

Fresh restrictions being introduced by several states to curb the spread of Covid-19 may temporarily interrupt the economic recovery and moderate the growth of tax collections in December-March FY2022 relative to the trend seen up to November 2021. We project flattish personal income tax collections in the last four months of this fiscal, given the high base of March 2021, related to the taxes received under the Vivad se Vishwas scheme. However, we expect corporate tax collections to grow by 5-10% on a YoY basis in the remainder of this fiscal, benefitting from the continued formalisation of the economy amidst the uncertainty engendered by Omicron. Accordingly, we expect corporation tax and personal income tax collections to exceed the FY2022 BE by ~17% and ~3%, respectively, aggregating to ~Rs. 1.08 trillion led by corporation tax.

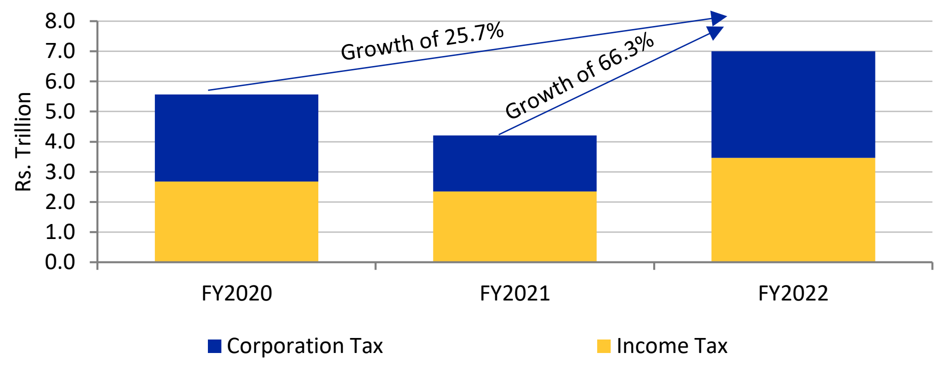
Indirect taxes (customs duty, excise duty, service tax, Central GST or CGST, Integrated GST or IGST and Union Territory Goods and Services Tax or UTGST) expanded by 39.3% to Rs. 7.6 trillion in April-November FY2022 (75.2% of the FY2022 BE) from Rs. 5.4 trillion in April-November FY2021 (-0.5%; 54.7% of FY2021 Prov.). This was led by a YoY doubling of customs duty collections (+99.5%; -17.0% in April-Nov FY2021), followed by a relatively moderate growth in CGST (+48.4%; -25.3%) and union excise duties (+23.2%; +47.7%) in April-November FY2022. Compared to April-November FY2020, indirect taxes rose by 38.6% in April-November FY2022, reflecting the trend for union excise (+82.0%), customs duty (+65.6%) and CGST (+10.8%) collections (refer Exhibit 5).

Exhibit 3: Tax Collections (Net of Refunds, Gross of States' share in Central Taxes)

	FY2022 BE		April–November FY2022		
	Rs. trillion	Growth#	Rs. trillion	% of BE	Growth
Gross Tax Revenues^	**22.2**	**9.5%**	**15.4**	**69.5%**	**50.3%**
Direct Taxes	**11.1**	**19.6%**	**7.0**	**63.1%**	**66.3%**
Corporation Tax	5.5	19.6%	3.5	64.6%	90.4%
Income Tax	5.6	19.6%	3.5	61.7%	47.2%
Indirect Taxes	**10.1**	**1.3%**	**7.6**	**75.2%**	**39.3%**
CGST	5.3	16.1%	3.6	68.6%	48.4%
UT- GST	0.03	37.4%	0.02	45.6%	24.3%
IGST	--	--	0.2	--	-38.0%
Customs Duty	1.4	0.9%	1.3	92.5%	99.5%
Union Excise Duty	3.4	-14.0%	2.4	72.2%	23.2%
Service Tax	0.01	-38.1%	0.01	50.2%	-52.6%
GST Compensation cess	1.0	17.4%	0.7	66.8%	31.4%

*#As compared to FY2021 Prov. ^Net of Refunds, Gross of States' share in Central Taxes; **Source**: GoI Budget Documents; CGA, Ministry of Finance, GoI; ICRA Research*

Exhibit 4: Trends in Direct Taxes in April-November FY2020, FY2021 and FY2022



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

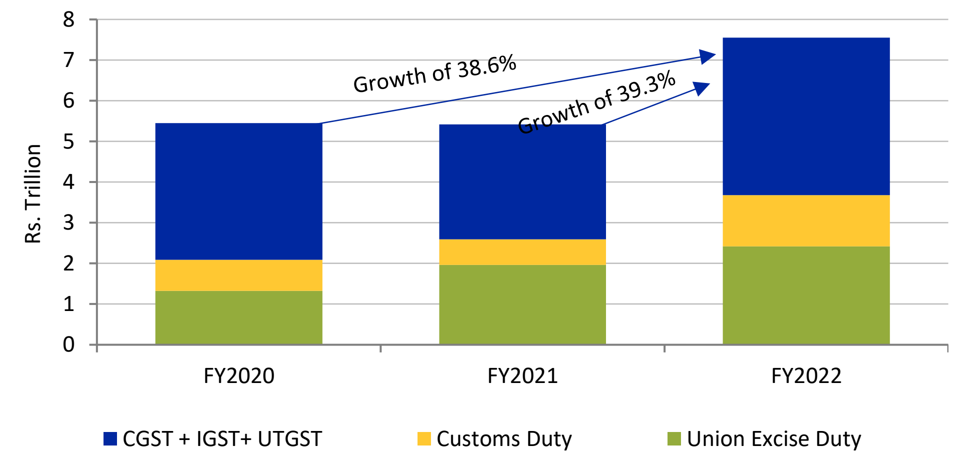
The combined CGST and IGST collections expanded by 37.4% to Rs. 3.9 trillion in April-November FY2022 (72.8% of the FY2022 BE) from Rs. 2.8 trillion in April-November FY2021 (60.6% of FY2021 Prov.; -16.0%). For December 2021, the Ministry of Finance indicated vide a press release that the aggregate GST collection stood at Rs. 1.29 trillion, registering a YoY growth of ~13%, which can be attributed both to anti-evasion activities as well as the sharp growth in revenue from imports. **We project the CGST collections to grow by a modest 2-3% in the last four months of FY2022, on an enhanced base that included the ad hoc settlement of IGST in Feb 2021. Overall, we project CGST collections at ~Rs. 5.8 trillion in FY2022, exceeding the BE by ~Rs. 500 billion or 9.4%.**

GST compensation cess inflows aggregated to Rs. 667.9 billion in April-November FY2022, 66.8% of the FY2022 BE (Rs. 508.3 billion in April-November FY2021; 59.7% of FY2021 Prov.). Healthy buying ahead of the festive season appears to have sharply pushed up the GST compensation cess collections to an all-time high Rs. 94.4 billion in November 2021. **Although the supply-side challenges related to semiconductor availability and concerns related to the impact of Omicron on consumption could constrain the performance of GST compensation cess, we do not expect the FY2022 BE of Rs. 1.0 trillion to be missed.**

Moreover, excise duty expanded by a healthy 23.2% to Rs. 2.4 trillion in April-November FY2022 (72.2% of FY2022 BE) from Rs. 2.0 trillion in April-November FY2021 (50.4% of FY2021 Prov.), largely reflecting rising mobility. Additionally, customs duty inflows nearly doubled to Rs. 1.3 trillion in April-November FY2022 (92.5% of FY2022 BE) from Rs. 0.6 trillion in April-November FY2021 (46.8% of FY2021 Prov.). The GoI has estimated the relief related to the excise duty cut on fuels as well as customs duty on edible oils at Rs. 800 billion. However, gold imports have continued to surge in the recent months, which may push up customs duty. **While we expect excise duty and customs duty to trail the year-ago levels in the last four months of this fiscal, we project them to exceed the FY2022 BE by Rs. 350 billion (or ~10%) and Rs. 300 billion (or ~22%), respectively.**

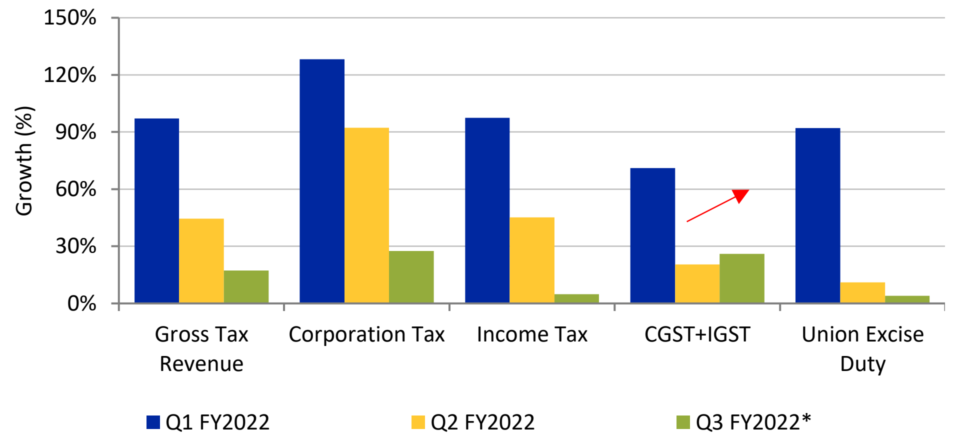
Taking into account the revenue foregone from the excise and customs duty relief, as well as the anticipated moderation in economic activity and tax growth in Q4 FY2022 related to the rise in Covid-19 cases, we expect the GoI's gross tax revenues to exceed the FY2022 BE by Rs. 2.5 trillion (refer Exhibit 7).

Exhibit 5: Trends in Indirect Taxes in April-November FY2020, FY2021 and FY2022



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

Exhibit 6: Trends in Tax Revenues in Q1 FY2022, Q2 FY2022 and Q3 FY2022*



**Data for Q3 FY2022 available for Oct-Nov 2021 only; Source: GoI Budget Documents; CGA, Ministry of Finance, GoI; ICRA Research*

This is chiefly on account of the Corporation Tax (~Rs. 0.9 trillion over the FY2022 BE), followed by CGST (Rs. 0.5 trillion), excise duty (Rs. 350 billion), customs duty (Rs. 300 billion) and personal income tax (~Rs 0.2 trillion). Accordingly, we expect the GoI's net tax revenues and the Central tax devolution to the states to exceed the GoI's FY2022 BE by a substantial ~Rs. 1.8 trillion and ~Rs. 750 billion, respectively (refer Exhibit 8).

The GoI's non-tax revenues expanded by 79.5% on a low base (-46.6% in April-November FY2021) to Rs. 2.2 trillion in April-November FY2022 from Rs. 1.2 trillion in April-November FY2021. Moreover, the inflows during April-November FY2022 were equivalent to a robust 91.8% of the FY2022 BE, against 59.7% of FY2021 Prov. in April-November FY2021. Within non-tax revenues, dividends and profits rose to ~Rs. 1.3 trillion in April-November FY2022 from Rs. 0.7 trillion in April-November FY2021, and exceeded the FY2022 BE of Rs. 1.0 trillion by 23.5%. This was chiefly on account of a higher-than-budgeted surplus transferred by the RBI for FY2022 at ~Rs. 1.0 trillion (BE: Rs. 0.54 trillion). Moreover, interest receipts of the GoI increased by 45.9% to Rs. 139.6 billion in April-November FY2022 from Rs. 95.7 billion in April-November FY2021 (refer Exhibit 9) and surpassed the FY2022 BE by 20.9%.

In Aug 2021, the GoI had unveiled the National Monetisation Pipeline of Central ministries and public-sector entities, with aggregate potential of ~Rs. 6 trillion through core assets of the central government, over a four-year period, from FY2022 to FY2025. For FY2022, ~15% of assets with indicative value or Rs. 0.88 trillion were envisaged to be rolled out through PPPs and InvITs among others. **The monetisation value estimated by the GoI is only an indicative amount; the actual realisation in each year will be guided by the timing of transaction, investor's interest, feasibility studies at the stage of transaction, economic scenario, etc. We expect subdued inflows to accrue in FY2022 from this scheme.**

While the moratorium on dues would impact the non-tax receipts of the government from telecom sector (from Other Communication Services), two telcos have pre-paid their dues towards earlier spectrum auctions totalling to Rs. 263 billion thereby making up for the loss to the government for the current fiscal. In FY2022, the telecom sector is expected to contribute around Rs. 540 billion to GoI's non-tax receipts, in line with the BE for the fiscal.

Adding the higher-than-budgeted surplus transfer by the RBI to the anticipated extra net tax revenues, we expect the GoI's revenue receipts (net of devolution to states) to exceed

Exhibit 7: Gross Tax Revenues in FY2021 Prov., FY2022 BE, and ICRA's FY2022 Proj.

Rs. Trillion	FY2021 Prov. (A)	FY2022 BE (B)	FY2022 ICRA Est. (C)	Excess over BE (C-B)	Growth (C/A)
Gross tax revenues	**20.2**	**22.2**	**24.7**	**2.5**	**21.8%**
Direct taxes	**9.3**	**11.1**	**12.2**	**1.1**	**31.3%**
Corporation tax	4.6	5.5	6.4	0.9	40.0%
Income tax	4.7	5.6	5.8	0.2	22.8%
Indirect taxes	**10.1**	**10.1**	**11.5**	**1.4**	**13.4%**
CGST + IGST	4.6	5.3	5.8	0.5	25.1%
Customs Duty	1.3	1.4	1.7	0.3	23.2%
Union Excise Duty	3.9	3.4	3.7	0.4	-5.0%
Other Taxes*	0.2	0.04	0.3	0.3	36.9%
Compensation cess for GST	**0.9**	**1.0**	**1.0**	**0.0**	**17.4%**

**Includes Securities Transaction Tax, Fringe Benefit Tax, Wealth Tax, etc.; Source: GoI Budget Documents; CGA; ICRA Research*

Exhibit 8: Gross and Net Tax Revenues of the GoI and Central Tax Devolution in FY2021 Prov., FY2022 BE, and ICRA's FY2022 Proj

Rs. Trillion	FY2021 Prov. (A)	FY2022 BE (B)	FY2022 ICRA Est. (C)	Excess over BE (C-B)	Growth (C/A)
Gross tax revenues	20.2	22.2	24.7	2.5	21.8%
Central tax devolution	5.9	6.7	7.4	0.75	27.9%
Net tax revenues	14.2	15.5	17.2	1.79	21.1%

Source: GoI Budget Documents; CGA; ICRA Research

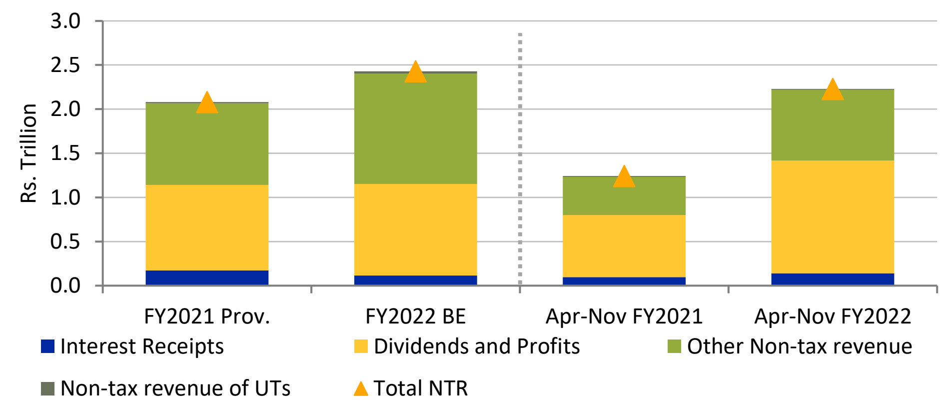
the FY2022 BE by a considerable Rs. 2.3 trillion.

The GoI had set a significant target of Rs. 1.75 trillion for disinvestment proceeds in its FY2022 BE, against which the inflows were negligible in April-November FY2022 at Rs. 93.3 billion, as per the CGA data, on account of sale of the GoI's equity holdings. According to the data provided by the Department of Investment and Public Asset Management, Ministry of Finance, GoI, the total receipts from disinvestment stood at a similar Rs. 93.3 billion as on January 11, 2022. This includes sales of the GoI's stake through OFS route in entities such as SUUTI's stake in Axis Bank (Rs. 39.9 billion), the National Mineral Development Corporation (Rs. 36.5 billion), the Housing and Urban Development Corporation (Rs. 7.2 billion) and HCL (Rs. 7.4 billion), as well as sale of shares through stock exchange by Indian Petrochemicals Corporation Limited (now Reliance Industries Limited; Rs. 2.2 billion). Moreover, the transaction related to the disinvestment of Air India, amounting to Rs. 180 billion, has been successfully concluded in December 2021, but the Government is yet to completely hand over the airline, as per news reports. **It appears unlikely that the proceeds of the BPCL disinvestment and LIC IPO will be realised in the current fiscal. We now expect the disinvestment proceeds to be limited under Rs. 0.35 trillion in FY2022.**

Revenue and Capital Expenditure: The GoI's total expenditure rose by 8.8% on a YoY basis in April-November FY2022 (59.6% of FY2022 BE). However, there has been a lot of volatility in the spending growth in the various quarters of FY2022 (refer Exhibit 10). The GoI's total spending growth rose from a marginal 0.7% in Q1 FY2022 to a high 21.2% in Q2 FY2022, before moderating to 5.1% in October-November FY2022. While revenue expenditure did expand by 15.0% in October-November FY2022, this was largely offset by the sharp contraction of 41.2% in capital spending.

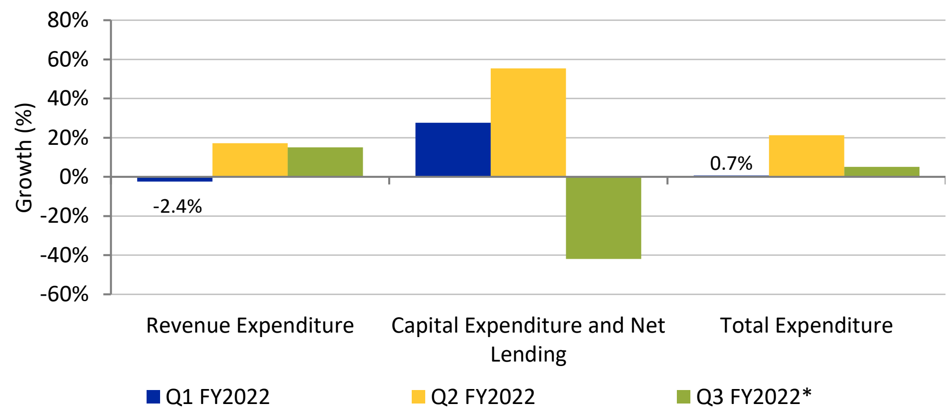
On December 3, 2021, the GoI had released its Second Supplementary Demand for Grants for FY2022, entailing a considerable net cash outgo of Rs. 3.0 trillion. Around three-quarters of this was dominated by four big-ticket items, namely fertiliser subsidies (Rs. 0.6 trillion), pending export promotion incentives (Rs. 0.5 trillion), expenditure towards food storage and warehousing (Rs. 0.5 trillion), and equity infusion into Air India Assets Holding Limited (AIAHL; Rs. 0.6 trillion). **With 60% of the full year expenditure target already completed by end-November 2021, a portion of the substantial net cash outgo in the Second**

Exhibit 9: Break-up of Total Non-Tax Revenues of the GoI in FY2021 Prov., FY2022 BE, Apr-Nov FY2021 and Apr-Nov FY2022



Source: GoI Budget Documents; CGA; ICRA Research

Exhibit 10: Trends in Revenue Expenditure, Capital Expenditure and Net Lending, and Total Expenditure in Q1 FY2022, Q2 FY2022 and Q3 FY2022*



**Data for Q3 FY2022 available for Oct-Nov 2021 only; Source: GoI Budget Documents; CGA; ICRA Research*

Supplementary Demand for Grants will likely be absorbed through savings in other demands.

In aggregate, the GoI's revenue expenditure rose by 8.2% (-5.1% in FY2022 BE, relative to FY2021 Prov.) to Rs. 18.0 trillion in April-November FY2022 from Rs. 16.7 trillion in April-November FY2021. The outgo towards interest payments and major subsidies expanded by 20.1% and 14.1%, respectively, in April-November FY2022, to Rs. 4.6 trillion and Rs. 2.3 trillion, respectively, while the balance revenue expenditure rose by a modest 2.8% to Rs. 11.1 trillion (refer Exhibit 11). **The additional outlay of Rs. 531 billion for the pending export promotion incentives announced by the GoI under the Second Supplementary Demand for Grants, will push up the non-interest non-subsidy revex in the remainder of this fiscal.**

The food subsidy outgo expanded by 41.2% to Rs. 1.6 trillion in April-November FY2022 from Rs. 1.2 trillion in April-November FY2021. Moreover, the food subsidy outgo during this period was equivalent to 49.3% of the FY2022 BE of Rs. 3.3 trillion (this includes the headroom of Rs. 0.9 trillion that was intended for the servicing of the FCI's loans, that ended up being prepaid in FY2021). **With the extension of the distribution of free foodgrains under the Pradhan Mantri Garib Kalyan Anna Yojana (PMGKAY) until March 2022, the aggregate cost of this scheme for FY2022 is estimated at Rs. 1.47 trillion. Out of this, the outgo of Rs. 0.9 trillion has already been absorbed by the cushion created in this year's budget, on account of the prepayment of FCI's loans in FY2021. This would mean that the additional outlay towards the food subsidy would only be Rs. 0.6 trillion. Therefore, we expect the total food subsidy outgo at Rs. 3.9 trillion in FY2022. This is similar to recent clarification by the GoI that the total cost of food subsidy in FY2022 is likely to be somewhat lower than ~Rs. 4 trillion (exceeding the FY2022 BE by ~Rs. 0.6 trillion), given the subsidy burden for the procurement and distribution of food grains under the National Food Security Act (NFSA; Rs. 2.25 trillion) and a total outlay of Rs. 1.47 trillion under the PMGKAY. This suggests that a significant Rs. 2.3 trillion of funds will be released in the last four months of this fiscal, pushing up spending in this period.**

In April-November FY2022, the fertilizer subsidy outgo declined by a mild 1.0% to Rs. 0.65 trillion (81.8% of FY2022 BE of Rs. 0.8 trillion) from Rs. 0.66 trillion in April-November FY2021

Exhibit 11: Trends in Interest Payments, Subsidies, and Balance Revenue Expenditure

	April-November FY2021		April– November FY2022		
	Rs. billion	% of Prov.	Rs. billion	% of BE	Growth
Interest payments	3,834.3	56.2%	4,603.2	56.9%	20.1%
Aggregate Subsidy	2,021.2	29.3%	2,306.1	68.5%	14.1%
-Food	1,162.6	22.1%	1,642.0	49.3%	41.2%
-Fertilizer	657.3	51.4%	650.7	81.8%	-1.0%
-Fuel	201.3	55.6%	13.4	9.5%	-93.3%
Balance Revex*	10,796.6	63.0%	11,100.5	62.3%	2.8%

**Total revex minus interest payments and aggregate subsidy outgo; Source: GoI Budget Documents; CGA; ICRA Research*

Exhibit 12: ICRA's estimates for the GoI's Total Expenditure in FY2022

Expenditure Items	FY2022 BE	Apr-Nov FY2022	ICRA's FY2022 Estimates	Headroom for Dec-Mar FY2022 needed to meet our exp.	
(Rs. Trillion)		**(A)**	**(B)**	**(B-A)**	**YoY Growth**
Total Expenditure	34.8	20.7	37.2	16.5	2.7%

Source: GoI Budget Documents; CGA; ICRA Research

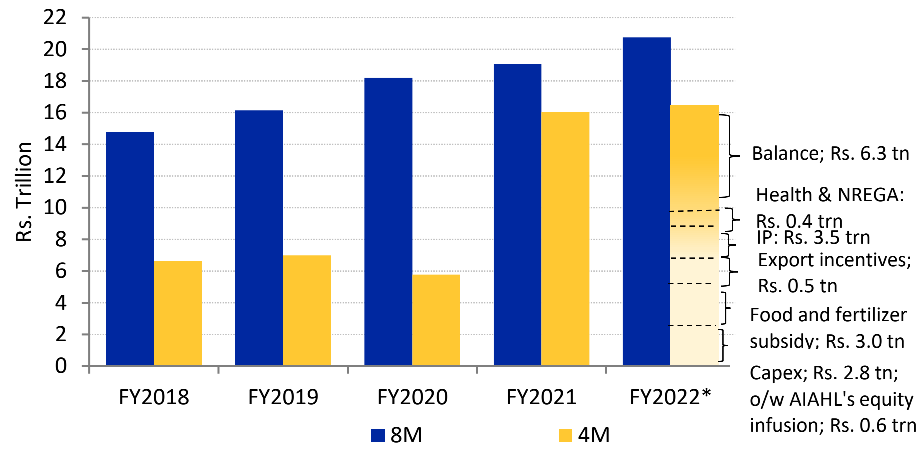
(51.4% of FY2021 Prov.). In May 2021, the GoI had increased the budgetary allocation towards the fertiliser subsidy for the kharif season by Rs. 147.8 billion, in light of the steep rise in international prices of phosphatic fertilisers, which were expected to moderate by the end of H1 FY2022. With continued rise in international prices, the GoI provided an additional subsidy on key phosphatic fertilisers for the rabi season in October 2021 (Rs. 0.6 trillion). **ICRA projects the fertilizer subsidy outgo for FY2022 at Rs. 1.41 trillion, with nearly half of the amount yet to be released in Dec-March FY2022. In aggregate, we expect ~Rs. 3.0 trillion to be released for food and fertiliser subsidies in this four-month period.**

The fuel subsidy outgo compressed by a sharp 93.3% to a muted Rs. 13.4 billion (9.5% of FY2022 BE) in April-November FY2022 from Rs. 201.3 billion in April-November FY2021. In FY2022 BE, the GoI had not included subsidies under PDS kerosene. While there is nil cash subsidy under DBTL to consumers on Domestic LPG since May 2020 for some markets like Delhi, for consumers in far-flung and remote areas, the GoI continues to provide some subsidy. **According to ICRA, the fuel subsidy (only DBTL and under recoveries) is unlikely to exceed Rs. 10 billion in FY2022, assuming average Indian basket of crude oil at $75/bbl and INR/USD rate of 75. This, in conjunction with the significant 93% de-growth in the first eight months of the fiscal indicates that the fuel subsidy requirement would trail the budgeted amount (Rs. 140.7 billion) by ~Rs. 117 billion in FY2022.**

In aggregate, the revenue expenditure is likely to be pushed up by the additional food (Rs. 0.6 trillion) as well as fertilizer subsidy outgo (Rs. 0.6 trillion), along with the additional outlay for the pending export promotion incentives (Rs. 0.5 trillion). However, this would be marginally offset by the lower-than-budgeted fuel subsidy outgo (~Rs. 23 billion in FY2022). Overall, ICRA expects the revenue expenditure to exceed the FY2022 BE of Rs. 29.3 trillion, by ~Rs. 2.4 trillion, mildly lower than the revex component of the two supplementary demands of Rs. 2.5 trillion.

The capital expenditure and net lending rose by 14.4% to Rs. 2.6 trillion in April-November FY2022 from Rs. 2.3 trillion in April-November FY2021. After the high growth of 55.3% in Q2 FY2022, capex and net lending contracted in the subsequent two months (October 2021: -25.2% and November 2021: -53.9%), which may partly be attributed to interruptions related

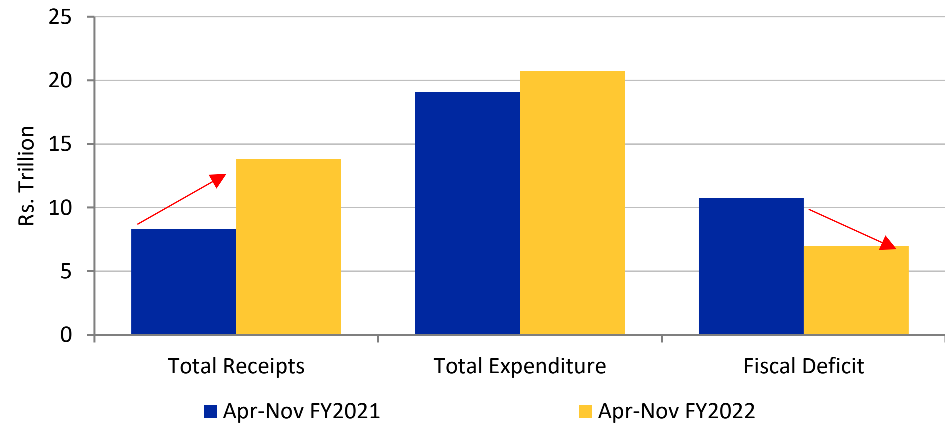
Exhibit 13: Trends in Total Expenditure in Apr-Nov and Dec-March since FY2018



**4M FY2022 refers to ICRA's projections; IP: Interest payments*

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

Exhibit 14: Trends in GoI's Receipts, Expenditures and Fiscal Deficit (Rs. trillion)



Source: CGA; ICRA Research

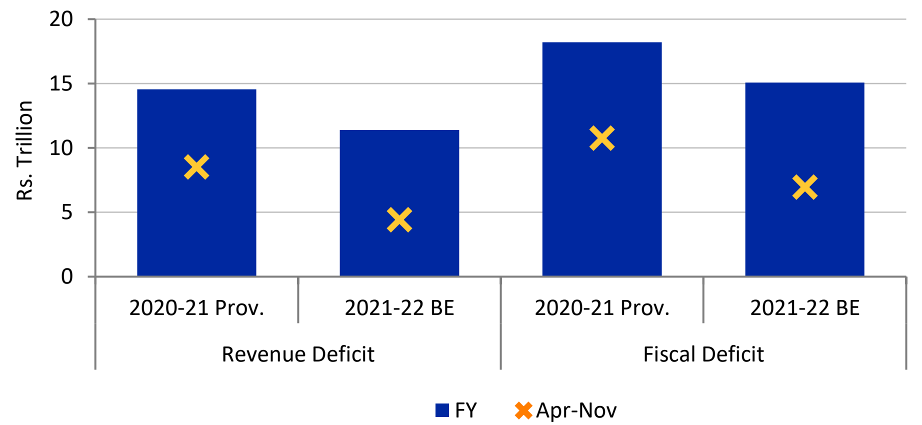
to the festive season. **Boosted by the outgo towards equity infusion into AIAHL, ICRA anticipates capital spending to be in line with the FY2022 BE (Rs. 5.4 trillion).**

Overall, we expect the GoI's total expenditure to rise by 6-7% on a YoY basis to ~Rs. 37.2 trillion in FY2022 (refer Exhibit 12), exceeding the FY2022 BE of Rs. 34.8 trillion. This entails a back-ended spending of Rs. 16.5 trillion in December-March FY2022 (refer Exhibit 12; ~3% higher than the year-ago level), boosted by the release of the balance fertiliser and food subsidy, export promotion incentives, equity infusion into AIAHL etc.

Fiscal Balances: The GoI's fiscal deficit compressed to just under Rs. 7.0 trillion in April-November FY2022 (46.2% of FY2022 BE) from Rs. 10.8 trillion in April-November FY2021 (59.0% of FY2021 Prov.; refer Exhibits 14 and 15). While we expect the revenue receipts to exceed the FY2022 BE (by Rs. 2.0 trillion), this is likely to be offset by the higher-than-budgeted revenue expenditure (by Rs. 2.2 trillion) as well as the shortfall in disinvestment inflows (by Rs. 1.4 trillion) in FY2022.

With a palpable buoyancy in tax collections, we expect the GoI's gross tax receipts to overshoot the budgeted amount by a healthy Rs. 2.5 trillion in FY2022. However, the net tax revenue gains to the GoI would be nullified by the expected large miss on receipts from disinvestment and back-ended spending, especially on those items that were included in the Second Supplementary Demand for Grants, such as food and fertiliser subsidies, export incentives/remissions under various export promotion schemes (such as MEIS and RoSCTL), equity infusion into Air India Assets Holding Limited, etc. Consequently, we expect the GoI's fiscal deficit to print at Rs. 16.6 trillion in FY2022 (7.1% of our nominal GDP exp. of Rs. 232 trillion), exceeding the budgeted amount of Rs. 15.1 trillion.

Exhibit 15: Revenue and Fiscal Deficits in FY2021 and FY2022 (Rs. trillion)



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

Key expectations for FY2023: ICRA expects the YoY expansion in GDP at 9.0% each in FY2022 and FY2023, in real terms (refer Exhibit 17); with a modest downside risk for FY2022 amid the Omicron spread. However, the expansion in FY2023 is expected to be more meaningful and tangible than the base effect-led rise in FY2022. *In this note, we are using our projections for nominal GDP of Rs. 232.0 trillion for FY2022 (YoY growth: +17.5% vs. +14.4% that was assumed in the FY2022 Budget) and Rs. 261.0 trillion for FY2023 (+12.5%).* Note that the NSO has pegged the expansion in real and nominal GDP for FY2022 in the First Advance Estimates at 9.2% and 17.6%, respectively, similar to our projections.

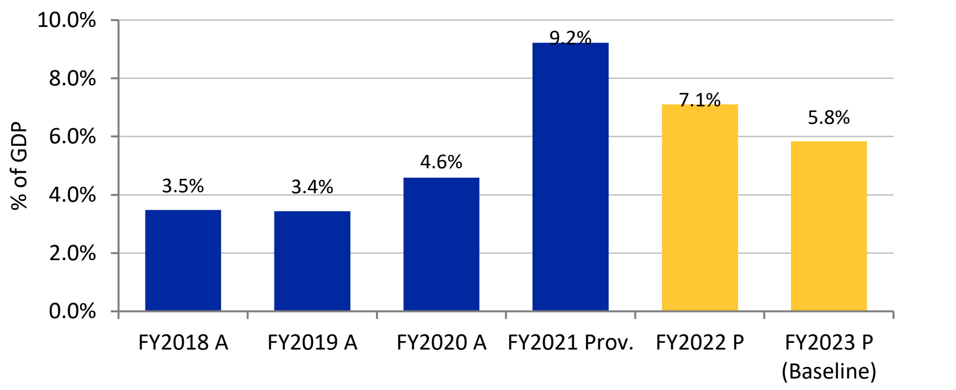
ICRA foresees the FY2023 Union Budget to focus on maximising growth-supportive expenditure, including a pickup in capex and infrastructure spending and adequate allocations for the PLI schemes. We anticipate a step-up in the allocations for health infrastructure and healthcare spending, a slight increase in the outlay for vaccinations, amidst a rationalisation of CSS schemes to ensure continued fiscal consolidation.

We have formulated two scenarios for the GoI's fiscal metrics in FY2023. One is the Base-case scenario, which assumes the impact of the Omicron variant to be largely limited to Q4 FY2022 (better preparedness) and no major wave of Covid-19 emerging in FY2023, while the Adverse scenario pencils in the likely impact on revenues and expenditure if a severe infection wave emerges in the coming fiscal. This will help in estimating to what extent the GoI's fiscal deficit and borrowings could rise in FY2023, if another wave surfaces next year.

Base-case scenario for revenues: In terms of tax policy, we do not anticipate any major changes in direct taxes, in pursuit of a stable and predictable tax regime. However, we foresee a continued move to correct inverted duty structures given the GoI's recent efforts to support locally manufacturing goods, while at the same time focusing on reducing evasion as well as the compliance burden on businesses and individual taxpayers.

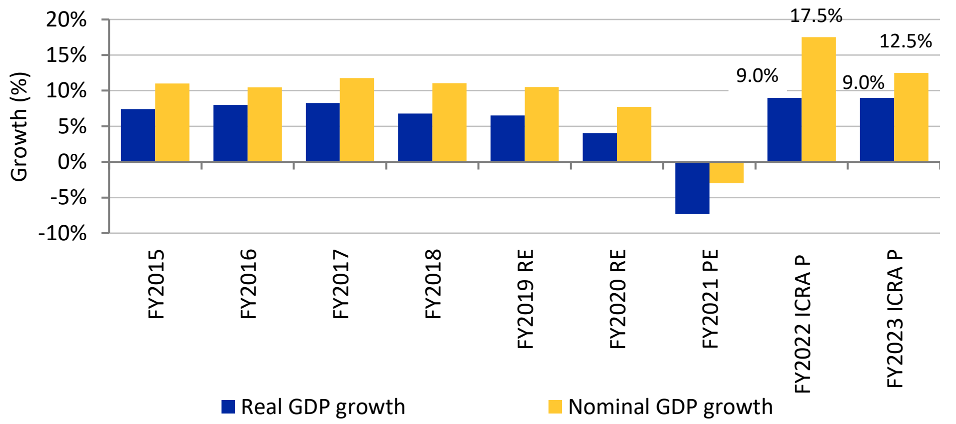
We estimate the GoI's gross tax revenues in FY2023 at ~Rs. 27 trillion, a YoY expansion of 9.3% relative to our projected level for FY2022. The estimated growth in gross tax revenues for FY2023 is similar to our real GDP growth forecast of 9.0% for that fiscal. The direct tax collections are expected to grow at a healthier 14% in FY2023, exceeding our estimate of the nominal GDP growth, with the formal part of the economy expected to continue to thrive even if there is another wave of Covid-19.

Exhibit 16: GoI's Fiscal Deficit (as % of Nominal GDP) and ICRA's Projections for FY2022 and FY2023



A: Actuals; Prov.: Provisional Estimate, P: Projected; ***Source:*** *Union Budget, CGA, ICRA Research*

Exhibit 17: Growth of Real and Nominal GDP (at constant 2011-12 prices) and ICRA's Projections for FY2022 and FY2023 (Baseline estimates)



P: Projected; RE: Revised Estimates; PE: Provisional Estimates; Source: NSO; CEIC; ICRA Research

However, on the indirect tax side, the continuing impact of the recent duty relief is likely to restrict the growth in collections in FY2023. Despite the expectation of improving mobility, we expect the union excise duty collections to undergo a YoY contraction of ~12.5% in FY2023, following the recent cut in cesses on auto fuels by the GoI. We have projected a muted growth of 2% for customs duty collections in FY2023 in the baseline scenario.

The purchases of automobiles, which are currently constrained by the unavailability of models, are likely to improve in FY2023, especially under the PV segment, as the supply side disruptions related to semiconductor starts to ease meaningfully in the later part of the next fiscal. This is likely to support the GST revenues, including the collections from cess levied on such items. While the original five-year period of extension of GST compensation to the states is set to end in June 2022[1], cesses will continue to be levied for repayment of loan taken to compensate States during FY2021 and FY2022. ICRA projects the YoY expansion in the GST revenues (including compensation cess) at 14-15% for FY2023. Overall, the GoI's indirect taxes (including GST compensation cess) are likely to rise by a modest 4.7% in FY2023 (refer Exhibit 18 and 19).

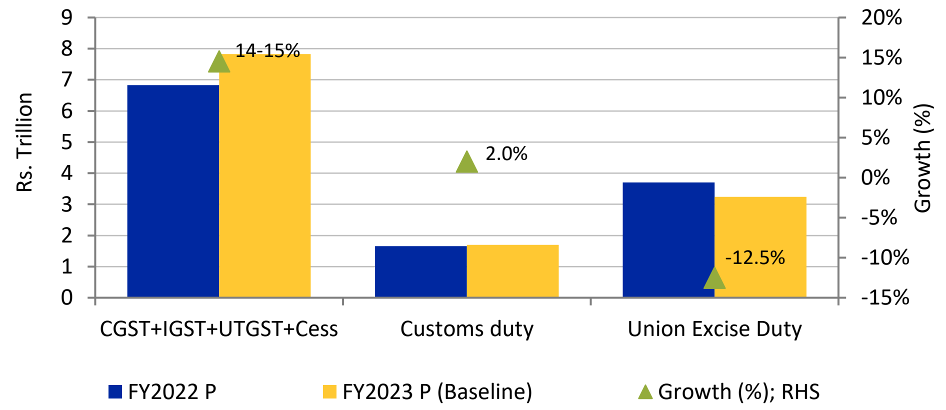
The 15th FC recommended the share of states in the shareable Central taxes (or central tax devolution) at 41% for its award period of FY2022 to FY2026. However, the effective rate of devolution relative to the gross tax revenues of the GoI tends to be closer to 30-32%, as cesses are not included in the shareable pool. **ICRA estimates the tax devolution to the states at Rs. 8.6 trillion in FY2023 (refer Exhibit 20). This entails a growth of 16.4%, which is higher than the 9.3% growth forecast for gross tax revenues, as the component of cesses on fuels that are expected to contract in FY2023, are not shared with the states. Accordingly, we project the GoI's net tax revenues at Rs. 18.3 trillion in our base case for FY2023, a YoY expansion of 6.2%**.

Exhibit 18: ICRA's Projections for Gross Tax Revenues in FY2022 and FY2023

Rs. Trillion	FY2022 ICRA Est.	FY2023 ICRA baseline Est.	Growth (%)
Gross tax revenues	**24.7**	**27.0**	**9.3%**
Direct taxes	12.2	13.9	14.0%
Indirect taxes (including GSTCC)	12.5	13.1	4.7%

Source: GoI Budget Documents; CGA; ICRA Research

Exhibit 19: Trends in indirect taxes as per ICRA's projections for FY2022 and FY2023



P: Projected; Source: Union Budget; CGA; ICRA Research

1 According to the GST (Compensation to States) Act, 2017, GST compensation will be paid for five years from the date GST came into effect i.e. till June 2022. All amounts payable to the States as compensation are released bi-monthly, provisionally, from the GST compensation fund against figures given by the Central accounting authorities. The Centre intends to be committed to releasing full GST Compensation to the States/UTs as per law for the transition period by extending the levy of compensation cess beyond 5 years to meet the GST revenue shortfall as well as servicing the loan borrowed through a special window scheme. Subsequent to deliberations in the 43rd GST Council meeting, the Centre has borrowed Rs.1.59 trillion from the market through a special window in the current fiscal and passed it to the States/ UTs as a back-to-back loan to help States meet the resource gap due to short-release of compensation on account of inadequate balance in the fund, as was done last year (Rs. 1.1 trn).

Following the shift in the accounting period of the RBI to align with that of the GoI, a higher-than-expected surplus transfer was released by the RBI in FY2022. The cost of reverse repo operations would have risen in the current year relative to FY2021, with higher cut-offs and a larger amount under reverse repo rates to absorb excess liquidity, even as accumulation of forex reserves would increase the interest income of the Central Bank. Therefore, it is unlikely that a similar large dividend/surplus from the RBI will be budgeted for FY2023, even though dividends from public sector, nationalised banks, etc. may be healthy. We expect the FY2023 BE to assume an amount of Rs. 0.9-1.1 trillion from this source.

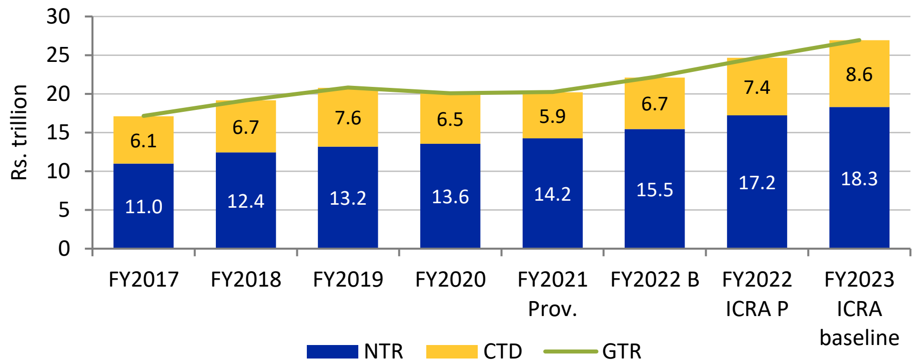
ICRA estimates the receipts from the telecom sector (Other Communication Services) to be around Rs. 300 billion for FY2023, the lowest in the last few years, following the impact of relief measures announced by the GoI, including a four-year moratorium on dues.

The National Monetisation Pipeline, announced in Aug 2021, has envisaged an indicative value of Rs. 1.6 trillion or ~27% of the aggregate potential of assets to be rolled out in FY2023 (refer Exhibit 21), through direct contractual (such as PPP) and capital market (InvITs) instruments among others[2]. The pipeline covers sectors such as roads, airports, railways, gas and product pipeline, power generation and transmission, mining, telecom, stadium, hospitality, etc. We anticipate the other non-tax revenue portion of the GoI to improve in FY2023, benefitting from this scheme. We expect the FY2023 BE to assume an amount of Rs. 0.5-1.0 trillion from this source.

Taking all of these factors into consideration, we anticipate the non-tax revenues of the GoI to be pegged at Rs. 2.7-3.2 trillion in FY2023, as compared to the level of Rs. 2.9 trillion expected for FY2022 (refer Exhibit 22). **Overall, ICRA estimates the GoI's revenue receipts to grow by ~4-7% to Rs. 21.0-21.5 trillion in FY2023 from Rs. 20.2 trillion in FY2022.**

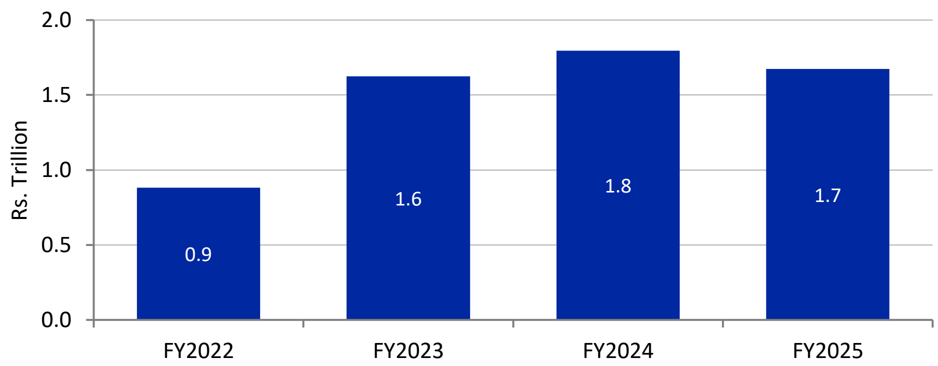
As far as miscellaneous capital receipts are concerned, there is a reasonable likelihood that the process of the IPO for LIC will get completed in the next fiscal year. **We expect the GoI to peg the receipts from this head at Rs. 1.75 trillion in FY2023 BE, in line with FY2022 BE.**

Exhibit 20: Central tax devolution, Centre's Gross and Net tax revenues since FY2017 (Rs trillion)



Source: Finance Commission of India, GoI; ICRA Research

Exhibit 21: Indicative Value of NMP for FY2022-25 provided by GoI



Source: Ministry of Finance, GoI; ICRA Research

[2] In Aug 2021, the GoI unveiled the National Monetisation Pipeline of central ministries and public-sector entities, with aggregate potential of ~Rs. 6 trillion through core assets of the central government, over a four-year period, from FY2022 to FY2025.

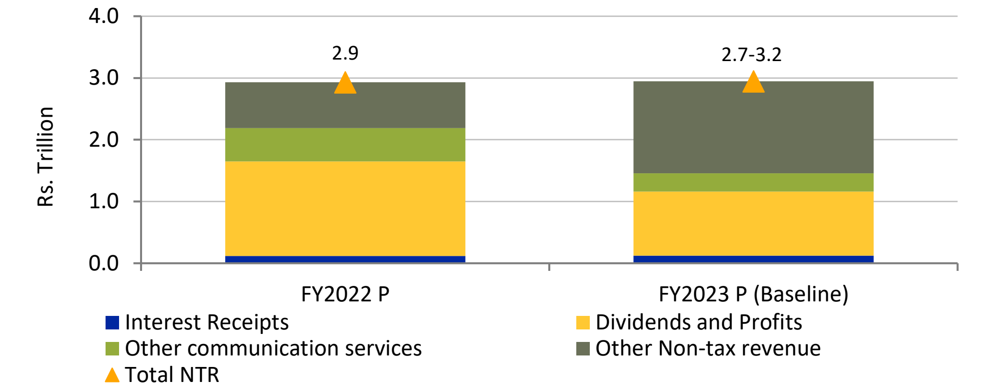
Base case scenario for expenditure: Private consumption as well as fixed investments had trailed their pre-pandemic levels in H1 FY2022, and the need to durably revive demand is likely to be a key priority for the upcoming Budget. In ICRA's view, the Union Budget FY2023 should ring-fence the funds that can realistically be absorbed for capital expenditure and infrastructure spending, to help fuel the investment cycle, create employment opportunities and improve domestic demand. In the base case, we expect the GoI to allocate funds for MGNREGA and food subsidy assuming no future wave of Covid-19, since the option to allocate higher funds if required through a supplementary remains available.

Apart from core infrastructure sectors such as roads, highways and railways, logistics can be a key focus area to ease transportation costs and reduce the elevated logistics across the country. In this regard, the Government has reportedly proposed a new warehousing policy in Dec 2021 that will set the roadmap for development of exclusive warehousing zones in public-private partnership mode. This policy will be formulated by the NHAI to draw down associated costs, and strategically integrate highway projects and other connectivity initiatives such as inland waterways and railways in tandem with the freight distribution ecosystem. Hence, we may see some additional allocation towards MoRTH as well as the Ministry of Railways in the FY2023 Budget, whereas any large/meaningful increase in the capital outlay for Defence Services is unlikely, in our view. In addition, the Government may consider providing a push to affordable and rental housing in the upcoming budget.

With improved profitability and asset quality, the regulatory and growth capital requirements for public banks are negligible and the GoI is unlikely to budget capital allocation for FY2023. The allocation of the budgeted capital for FY2022 remains to be seen as most banks do not require capital after they successfully rolled over their Additional Tier I (AT-I) bonds in Q3 FY2022.

We estimate the GoI to target a capital expenditure of Rs. 6.0 trillion in FY2023, a YoY growth of ~8% over the expected level for FY2022 (which is in line with the BE of Rs. 5.5 trillion; refer Exhibit 23 and 25). However, excluding the amount of equity infusion into AIAHL, the pace of growth is higher at 22% for FY2023.

Exhibit 22: ICRA's Proj. for FY2022 and FY2023 for non-tax revenues, its components



P: Projected; Source: Union Budget; GoI; CEIC; ICRA Research

Exhibit 23: ICRA's Projections for Key Fiscal Metrics for FY2022 and FY2023

Rs. Trillion	ICRA's FY2022 Projections (A)	ICRA's FY2023 Projections* (B)	Growth (B/A)
Net Tax Revenues	17.2	18.3	6.2%
Non-tax Revenues	2.9	2.7-3.2	-7% to 10%
Revenue Expenditure	31.7	32.2	1.8%
Revenue Balance	**-11.5**	**-11.0**	
Disinvestment Proceeds	0.4	1.8	400%
Capital Expenditure and Net Lending	5.4	6.0	10.9%
Fiscal Balance	**-16.6**	**-15.2**	

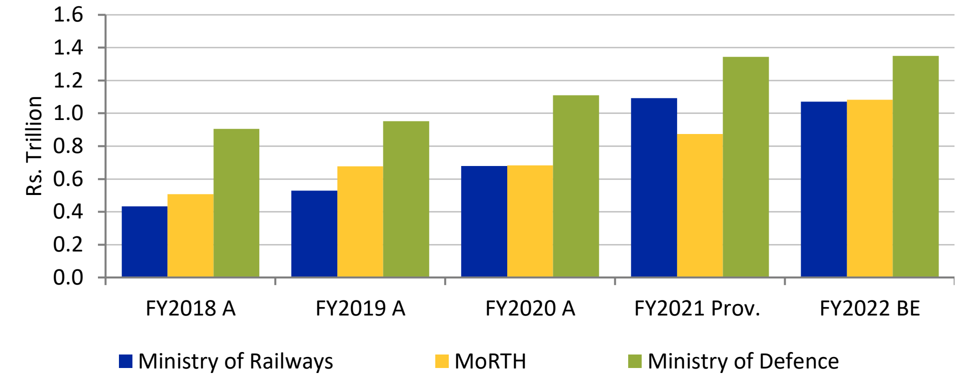
**Baseline projections for FY2023; Source: GoI Budget Documents; CGA; Ministry of Finance, GoI; ICRA Research*

The continued shift towards prioritising capital expenditure by the GoI suggests that Centrally Sponsored Schemes and Central Sector Schemes are likely to be rationalised to further improve the quality/efficiency of expenditure. While the latter is fully funded by the Union government, the former set of schemes such as MGNREGA, PMGSY, etc. involve funding by both the Centre and the States. The budgetary expenditure under the Central sector schemes in FY2022 BE had entailed a contraction of 17% relative to the FY2021 RE, whereas the allocation towards Centrally sponsored schemes was only lower by a mild 1.7%.

In terms of revenue expenditure, ICRA expects the outlay for major subsidies (food, fertiliser and fuel) to see a moderation in FY2023, relative to FY2022. We foresee the outlay for food subsidy at Rs. 2.5 trillion for FY2023, in our Base scenario, covering the normal requirement under the National Food Security Act (NFSA). This entails a sharp contraction in YoY terms, given the likely high base (~Rs. 3.9 trillion) after considering the additional cash outgo of Rs. 1.47 trillion for extension of free foodgrains under the PMGKAY (Phase IV-V) for FY2022 over the BE. For fertilizers, ICRA anticipates a subsidy requirement of Rs. 1.3-1.4 trillion for FY2023 (similar to ICRA's FY2022 est. of Rs. 1.41 trillion), driven by elevated international prices, although some moderation from current levels is expected in H2 FY2023. It remains a possibility that the GoI may not allocate the full amount of the expected subsidy requirement at the outset in the budget for FY2023, and calibrate the subsidy during the year, like what has been done in FY2022. However, the subsidy requirement for fuel is estimated to remain subdued at Rs. 0.2 billion for FY2023, taking into account some allocation for under-recoveries and a continued provisioning for domestic LPG deliveries in far flung areas, and natural gas subsidy for North-Eastern states. **The combined outlay towards major subsidies is estimated at Rs. 4.0-4.1 trillion in FY2023, a YoY moderation of 24% relative to FY2022 (ICRA est: 5.4 trillion).**

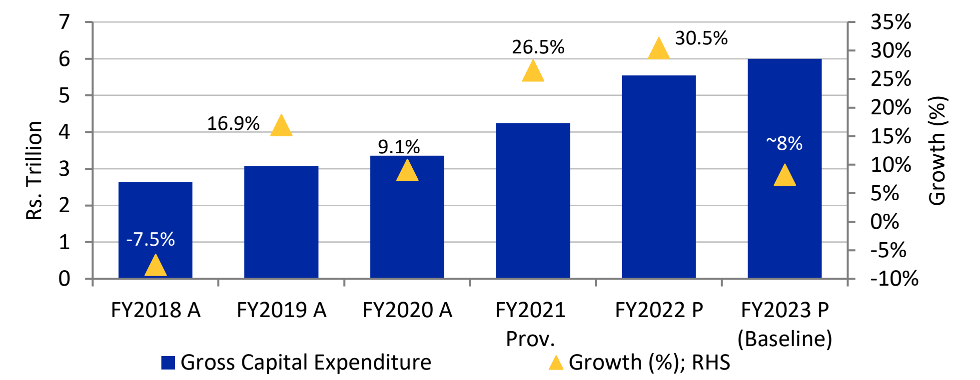
The outlay for Salaries and Pensions (pay, allowances, and pensions for Defence and non-Defence personnel) is projected at Rs. 6.3 trillion in FY2023, a YoY growth of 7% relative to the Rs. 5.9 trillion being expected for FY2022 (FY2022 BE of Rs. 5.8 trillion). In July 2021 and Oct 2021, the Centre hiked the DA/DR for government employees and pensioners by a total 14 percentage points to 31% of base pay/pension for Jul-Mar FY2022; this follows from the additional instalments that were frozen by the Centre in FY2021 due to the Covid-19 pandemic.

Exhibit 24: Trends in GoI's capital expenditure towards major sectors



A: Actuals; Prov.: Provisional: BE: Budget Estimates Source: GoI Budget Documents; CGA; Ministry of Finance, GoI; ICRA Research

Exhibit 25: Trends in GoI's Gross Capital Expenditure and ICRA's Proj. for FY2022 and FY2023



A: Actuals; Prov.: Provisional; P: Projected

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

Moreover, ICRA estimates the requirement for the outlay to be made under MGNREGA at Rs. 750 billion for FY2023 (refer Exhibit 26), in our Base scenario that 60 million of households will be provided employment, in case no severe wave of Covid-19 emerges in the coming fiscal. Timely outflows under this scheme would bolster confidence and consumption demand in the rural areas.

Considering a YoY growth of 12% in interest payments (over FY2022 BE), the total budgetary outlay for major subsidies, interest payments, MGNREGA, salaries and pensions is estimated at Rs. 20.1 trillion in FY2023, similar to the FY2022 estimate of Rs. 20.3 trillion.

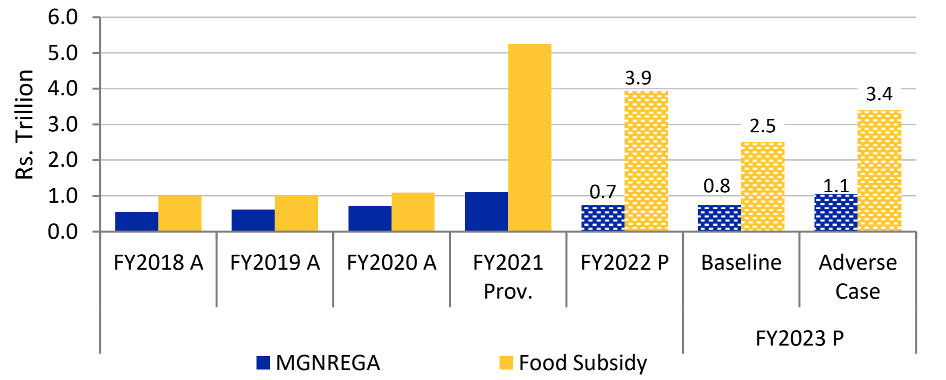
The following section talk about the possible allocations which can be made for FY2023 under the balance portion of the revenue expenditure of the GoI:

The Government is likely to make a budgetary allocation in FY2023 for the vaccine rollout to the younger part of the population as well as for the booster shots. At present, vaccination for children between the ages of 15 to 18 has begun from January 3, 2022. Moreover, healthcare and frontline workers, along with adults above 60 years of age with co-morbidities, will be provided with a booster dose from January 10, 2022. There is a high possibility that booster shots will eventually get extended to all adults, for which an additional allocation can be made in the FY2023 Budget. The booster doses would enhance confidence of the economic agents, although the efficacy of all the existing vaccines that are available in India, against the Omicron variant, remains uncertain. **We estimate an outlay of Rs. 400 billion to be made under this head for FY2023.**

The budgetary outlay for the health sector or Ministry of Health and Family Welfare for FY2022 was pegged at Rs. 712.7 billion, and around 63% had been spent during the first eight months (refer to Exhibit 27; in line with 64% of spending during 8M FY2021 relative to FY2021 Prov.). Apart from vaccine rollout expenditure, we believe there is a need to enhance health infrastructure spending in FY2023, to combat any potential health crisis in the future, and improve the confidence of economic agents.

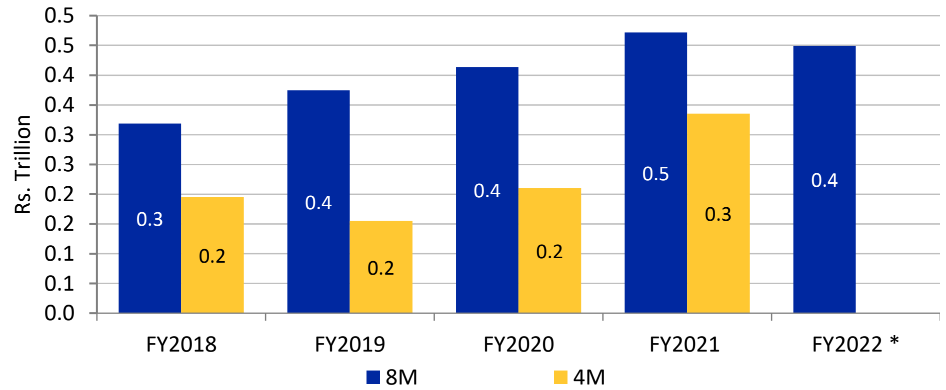
To enhance India's manufacturing capabilities and exports, an outlay of Rs. 1.97 trillion was announced in the Union Budget 2021-22 for PLI schemes for 13 key sectors of manufacturing starting from FY2022. While three sectors were announced initially in March 2020, namely,

Exhibit 26: Budgetary allocation towards MGNREGA and food subsidy and ICRA's Projections for FY2022 and FY2023



A: Actuals; Prov.: Provisional Estimates; P: Projected; Source: GoI Budget Documents; CGA; Ministry of Finance, GoI; ICRA Research

Exhibit 27: GoI's expenditure towards Ministry of Health and Family Welfare in April-November and December-March since FY2018



**Data for FY2022 available till November 2021 only; Source: Union Budget; CGA; ICRA Research*

Mobile Manufacturing and Specified Electronic Components, Critical KSI/Drug Intermediaries and Active Pharmaceutical Ingredients, and Manufacturing of Medical Devices, ten other sectors were added in Nov 2020, which are Automobiles and Auto Components, Pharmaceuticals Drugs, Specialty Steel, Telecom and Networking Products, Electronic Products, White Goods (ACs and LEDs), Food Products, Textile Products, High efficiency solar PV modules, and Advanced Chemistry Cell Battery. Recently, the scheme has been further extended to other sectors as well, including development of Semiconductors, and Drones and Drone Components. Since the PLI schemes for different sectors would be operational for a period of five years, depending upon the defined base year, we expect some budgetary allocations to be made in FY2023.

As far as balance portion of revex is concerned, we anticipate that the GoI will continue with its efforts to pare unnecessary expenditure and improve efficiency. For instance, the YoY expansion in balance revex had moderated sharply from 34% in FY2020 to 18% in FY2021 Prov. and further a modest 6% increase was indicated in FY2022 BE (over FY2021 Prov. or RE). **Given the need to make additional allocations for vaccine outlay, other healthcare spending, PLI schemes, etc. which are beneficial to support the economy, while restricting unnecessary spending by Ministries/departments, we have assumed a similar 6% growth in balance revex for FY2023 to Rs. 12.1 trillion (refer Exhibit 28)**, relative to expected level for FY2022 (Rs. 11.4 trillion; similar to its BE of Rs. 11.3 trillion).

Overall, our Base scenario pencils in a mild 2% rise in the aggregate revenue expenditure to Rs. 32.2 trillion for FY2023, relative to the expected level for FY2022 (refer Exhibit 29). With an 8% growth in gross capex, the GoI's total expenditure is projected at Rs. 38.2 trillion in FY2023 (3% higher than our FY2022 est. of Rs. 37.2 trillion).

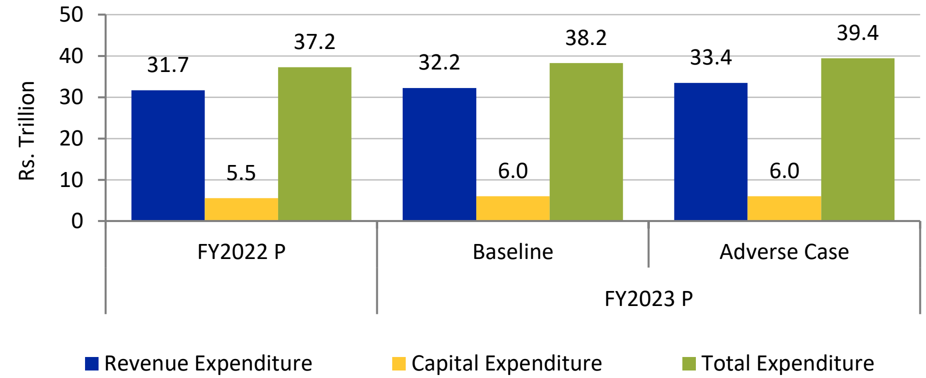
Base case scenario for fiscal deficit: Based on our assumptions for revenues and expenditure, in case no severe wave emerges, the revenue deficit is expected to ease somewhat to Rs. 11.0 trillion (4.2% of our estimate of GDP) for FY2023, from the Rs. 11.5 trillion (5.0% of GDP) being forecast for FY2022. This is largely driven by continued growth in direct taxes, as the economic recovery strengthens and becomes broad-based as well as durable. Accordingly, the fiscal deficit in FY2023 could be budgeted at Rs. 15.2 trillion (5.8% of GDP), similar to the Rs. 15.1 trillion in the FY2022 BE, and appreciably lower than the likely

Exhibit 28: ICRA's expectations for Interest Payments, Subsidies, and Balance Revenue Expenditure in FY2022 and FY2023

Rs. Trillion	FY2022 P	FY2023 P (Baseline Proj.)	Growth (%)
Revex	**31.7**	**32.2**	**2%**
Interest payments	8.1	9.1	12.0%
Aggregate Subsidy	5.4	4.1	-24.5%
-Food	3.9	2.5	-36.4%
-Fertilizer	1.41	1.35	-4.3%
-Fuel	0.02	0.2	754.1%
MGNREGA	1.0	0.8	-21.1%
Salary and pension	5.9	6.3	7.0%
Balance Revex*	**11.4**	**12.1**	**6.0%**

**Total revex minus interest payments, aggregate subsidy outgo, MGNREGA and salary and pension;*
P: Projected; Source: GoI Budget Documents; CGA; Ministry of Finance, GoI; ICRA Research

Exhibit 29: ICRA's Proj. for GoI's revenue expenditure, gross capital expenditure and total expenditure for FY2022 and FY2023



P: Projected; Source: Budget Documents of state governments; CGA; ICRA Research

Rs. 16.6 trillion (7.1% of GDP) projected for FY2022 (refer Exhibit 30 and 31).

Adverse scenario for revenues, expenditures and fiscal deficit: Our early analysis suggests that the impact of an Omicron wave may be limited to Q4 FY2022 in terms of the duration of the surge in fresh cases, as well as the economic impact given the better preparedness of governments, the health care system and households. Nevertheless, our adverse-case scenario includes any other potential surge in Covid-19 cases that can emerge in the months of FY2023, with new variants of concern continuing to be discovered around the world that may necessitate re-imposition of strict restrictions in India.

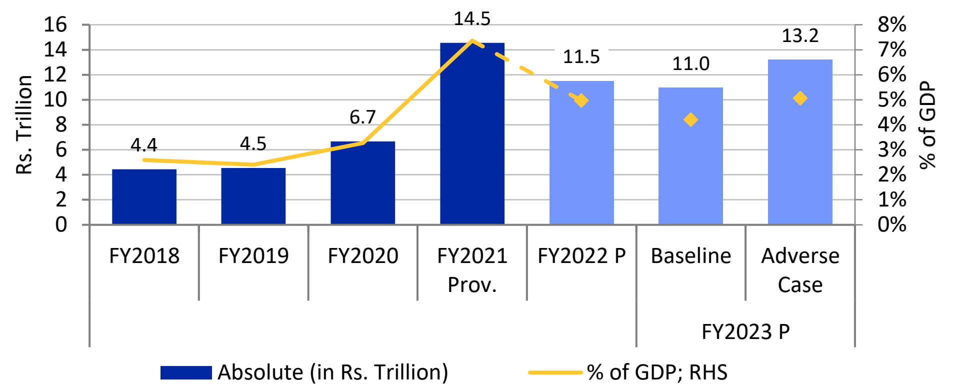
While there is considerable uncertainty regarding what the future holds, the following discussion takes into account our assessment on the GoI's revenues and expenditure if another wave emerges, which can undergo a revision depending upon the evolving dynamics related to the Covid-19 pandemic and the potential risks of new variants.

We are tentatively projecting the impact of any potential wave that may occur in FY2023, on the net revenue receipts of the GoI at Rs. 1.0 trillion (refer Exhibit 32). Besides, we assume that with the process of the LIC IPO at an advanced stage, it should be completed within FY2023, reducing the downside to disinvestment from a subsequent wave to ~Rs. 0.5 trillion.

On the expenditure front, we are factoring in an additional allocation of Rs. 900 billion for the extension of free foodgrains (for a period of six months) under the PMGKAY to support the vulnerable sections of the society, enhancing the food subsidy outgo to Rs. 3.4 trillion from the baseline estimate of Rs. 2.5 trillion. Additionally, an extra outlay of Rs. 300 billion over our base amount of Rs. 750 billion is likely to be required for MGNREGA if the demand for work under this scheme rises in the event of another wave in FY2023. Both of these would bolster confidence amongst households in the event of a subsequent wave of Covid.

Overall, we estimate the GoI's revenue expenditure in the adverse-case scenario at Rs. 33.4 trillion for FY2023, higher than our base case assumption by Rs. 1.2 trillion, reflecting the enhanced outgo towards MGNREGA and free foodgrains extension under the PMKGKAY for six months. Keeping the capital expenditure for adverse case in line with the baseline scenario of Rs. 6.0 trillion, total expenditure is projected at Rs. 39.4 trillion, which is 6% higher than the level expected in FY2022.

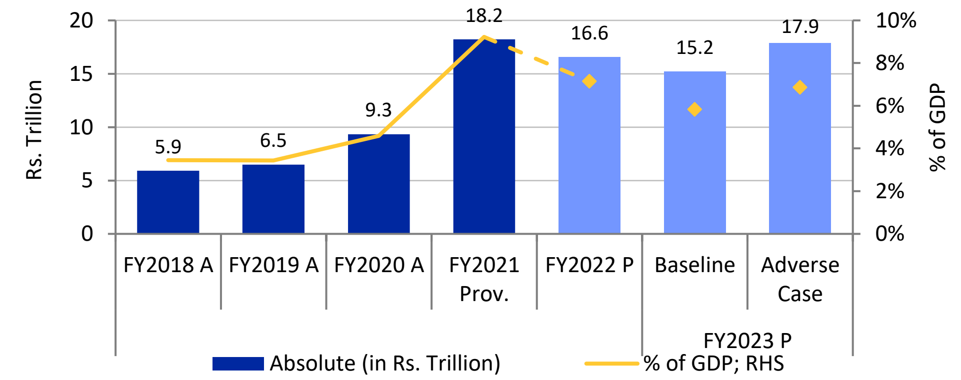
Exhibit 30: GoI's Revenue Deficit (Absolute and % of GDP) and ICRA's projections for FY2022 and FY2023



Actuals till FY2020; Prov.: Provisional Estimate; BE: Budget Estimate; P: Projected;

Source: Union Budgets; CGA; ICRA Research

Exhibit 31: GoI's Fiscal Deficit (Absolute and % of GDP) and ICRA's projections for FY2022 and FY2023



Actuals till FY2020; Prov.: Provisional Estimate; BE: Budget Estimate; P: Projected;

Source: Union Budgets; CGA; ICRA Research

In the adverse case, ICRA projects the revenue deficit and the fiscal deficit at a higher Rs. 13.2 trillion (5.1% of GDP) and Rs. 17.9 trillion (6.9% of GDP), respectively, compared to our baseline estimates of Rs. 11.0 trillion (4.2% of GDP) and Rs. 15.2 trillion (5.8% of GDP), respectively. This is on account of two major outlays intended to bolster confidence amongst households, amidst lower indirect taxes and compressed disinvestment flows.

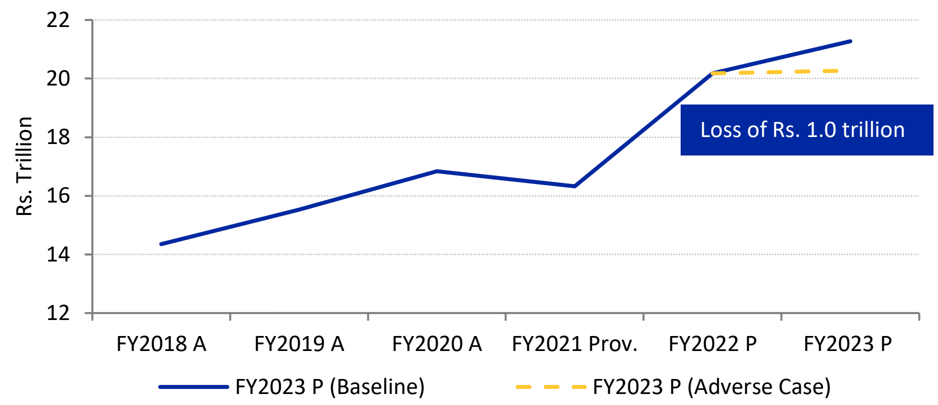
General Government Fiscal Deficit and Market Borrowings: Unlike in FY2021, the budgeted gross market borrowings for the GoI of Rs. 12.1 trillion in FY2022 (net Rs. 9.4 trillion) have absorbed the back-to-back GST compensation loan of Rs. 1.59 trillion provided to the states. Given our baseline expectation that the inflows from the LIC IPO are unlikely to be realised in FY2022, the fiscal deficit is set to exceed the budgeted level by ~Rs. 1.5 trillion, as outlined in the earlier sections.

A portion of this could be absorbed through higher-than-budgeted small savings. The provisional data released by the CGA indicates that the combined inflows into savings deposits and certificates and Public Provident Fund had risen by 14.7% to Rs. 1.7 trillion in Apr-Nov FY2022 (51.2% of FY2022 BE) from Rs. 1.5 trillion in Apr-Nov FY2021 (51.1% of FY2021 BE). The GoI has kept interest rates on small savings schemes unchanged for Q4 FY2022, in line with the levels prevailing in Q1-Q3 FY2022. **We expect continued inflow of funds into small saving schemes in the remainder months of FY2022, with the advantage of higher spreads over Banks' deposit rates. In our view, borrowings from the NSSF could end up being higher than the budgeted amount of Rs. 3.9 trillion in FY2022 by a modest Rs. 0.3-0.5 trillion.**

Nevertheless, the GoI's gross market borrowings may need to be revised upwards to finance the higher-than-budgeted fiscal deficit. We have assumed an additional Rs. 0.96 trillion will be raised through four auctions of Rs. 240 billion each in March 2022, resulting in the aggregate gross borrowings by the GoI at Rs. 13.1 trillion for FY2022 (net Rs. 10.4 trillion).

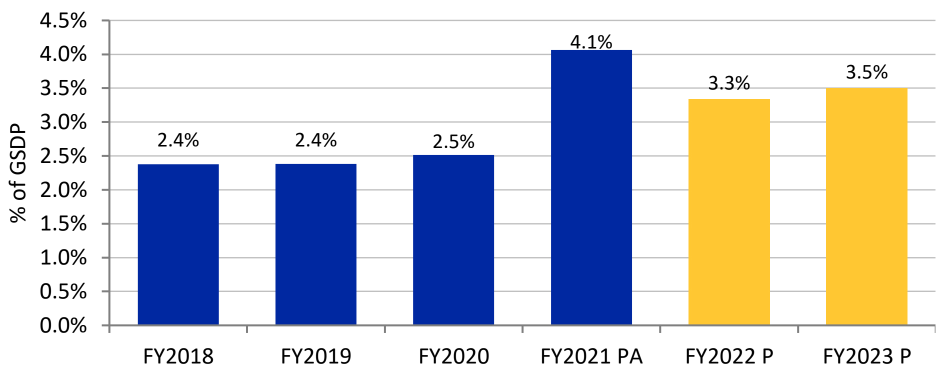
If the gross state development loans (SDLs) raised in Q4 FY2022 are in line with the Rs. 3.2 trillion included in the Q4 FY2022 auction calendar (adjusting for the actual issuance on January 4, 2021), the gross SDL issuance in FY2022 would contract by a mild 1.1% to Rs. 7.9 trillion (Rs. 8.0 trillion in FY2021). Adjusting for the expected redemptions of Rs. 2.1 trillion

Exhibit 32: Potential loss in Revenue Receipts in FY2023



A; Actuals; Prov.: Provisional Estimate; P: Projected; ***Source:*** *Union Budgets; CGA; ICRA Research*

Exhibit 33: Gross Fiscal Deficit (as a percentage of Nominal GSDP) for all State Governments and Union Territories



**FY2022 P based on sample of 27 state governments, excluding Goa; PA: Provisional Accounts; P: Projected*
Source: Budget Documents of state governments; CAG; ICRA Research

in the current fiscal, the net SDL issuance is projected at Rs. 5.8 trillion in FY2022 (-10.9% relative Rs. 6.5 trillion in FY2021).

Accordingly, ICRA projects general (Centre and states) gross market borrowing in FY2022 at Rs. 20.9 trillion. With total redemptions of Rs. 4.7 trillion in G-secs and SDLs, we estimate net market borrowing of the general government at Rs. 16.2 trillion.

With our baseline fiscal deficit forecast for the GoI of Rs. 15.2 trillion for FY2023, we expect net G-sec issuance to be placed at Rs. 9.1 trillion. While ICRA believes that the continued formalisation of the economy would protect the downside in direct taxes, curtailed consumption could dampen indirect taxes. In the adverse scenario, we foresee a potential net loss of revenue receipts of Rs. 1.0 trillion, along with a shortfall of Rs. 0.5 trillion in the disinvestment receipts, along with higher expenditure towards extension of free foodgrains under the PMGKAY for a period of six months and MGNREGA. In this scenario, the GoI's net market borrowings are placed at a higher Rs. 10.7 trillion.

For FY2023, the Fifteenth Finance Commission (15th FC) had recommended a normal borrowing limit of 3.5% of the GSDP for the state governments, which has been accepted by the GoI (refer Exhibit 33). **ICRA expects that the planned ceasing of GST compensation could cause the state governments' fiscal deficit to rise to the cap of 3.5% of GSDP set by the 15th FC. However, the General Government deficit would still compress to 9.3% of GDP in FY2023 (in the base case) from ~10.4% of GDP expected in the current year**.

Based on our GDP estimates, the states' fiscal deficit is roughly projected to rise to Rs. 9.1 trillion in FY2023. Assuming that 80% of the states' estimated fiscal deficit of Rs. 9.1 trillion is funded by SDLs, suggests a net issuance of Rs. 7.3 trillion (refer Exhibit 34). This entails general dated market borrowings for FY2023 in a range of ~Rs. 16.4 trillion (base case) to Rs. 18.0 trillion (adverse case), as compared to the projected Rs. 16.2 trillion for FY2022.

Adding the redemption of G-sec and SDL indicates substantial gross borrowings in the range of ~Rs. 22.6 trillion to Rs. 24.3 trillion in FY2023, up from an estimated from Rs. 20.9 trillion in FY2022. This is likely to exert upward pressure on yields, exacerbating the impact of the expected hike in the repo rate of 50 bps in the coming fiscal.

Exhibit 34: ICRA's projection for GoI's (base and adverse case) and states' fiscal deficit, gross and net market borrowings in FY2022-23

Rs. Trillion	ICRA's FY2022 Projections	ICRA's FY2023 Projections	
Scenario		**BASE**	**ADVERSE**
		Centre	
Net Revenue Receipts	20.2	21.3	20.3
Revenue Expenditure	31.7	32.2	33.4
Of which PMGKAY	1.5	0.0	0.9
Of which MGNREGA	~1.0	0.75	1.05
Revenue Deficit	**11.5**	**11.0**	**13.2**
Disinvestment proceeds	0.35	1.75	1.25
Capital expenditure, net lending	5.4	6.0	6.0
Fiscal deficit	**16.6**	**15.2**	**17.9**
Net market borrowing	**10.4**	9.1	10.7
Redemptions*	2.6	3.8	3.8
Gross market borrowing	13.0	12.9	14.6
		States	
Fiscal deficit	**7.7**	**9.1**	
Net SDL issuances	**5.8**	**7.3**	
Redemptions	2.1	2.4	
Gross issuances	7.9	9.7	
		General (Centre + States)	
Net Market Borrowing	**16.2**	**16.4**	**18.0**
Redemptions	4.7	6.2	6.2
Gross Market Borrowing	20.9	22.6	24.3

**As on Jan 10, 2022; Source: ICRA Research*

PRE-BUDGET Expectations







AUTOMOTIVE

- Continued focus on improving agri cash flows through rural infrastructure development and greater allocation for income support schemes
- Effort towards boosting technology adoption and local manufacturing to achieve 'Make-in-India' goals
- Thrust on sustainable technologies and green vehicle adoption, possibly through tax deduction/ rationalisation
- Expect incremental SOPs and tax rebates for MSME sector—same would support employment generation
- Any boost to consumer disposable income through relief on personal income tax would be welcome

ICRA expects the Government to focus on consumption revival through employment generation, investment in infrastructure development and rural economy in the upcoming Budget.

The domestic automotive industry was expected to post a recovery in FY2022 after witnessing two challenging years in FY2020 and FY2021 on account of the domestic industry slowdown and pandemic-induced challenges, respectively. The sudden and severe onset of the second wave of the pandemic in Q1 FY2022 derailed the demand recovery momentum, which had started gaining steam from H2 FY2021. Even as demand across certain segments recovered well, following the dip in infection rate, the industry prospects were impacted by other factors, such as consistent increase in cost of ownership as well as supply shortage owing to the semiconductor chips issue. These multiple headwinds significantly impacted the prospects of the industry, evidenced by decadal low levels of sales in the festive season of FY2022.

Rural demand was impacted during the second wave and despite agri cash flows remaining relatively healthy, the festive offtake was subdued. The untimely and excessive rainfall since September 2021 led to flooding in many regions and delayed kharif harvest/ rabi sowing. Consequently, rural demand sentiments have moderated over the past few months. The Government may make some announcements to support the rural community, especially amid increasing infections and consequent fears of higher medical expenses associated with the same.

Despite the ongoing volatilities, OEMs will continue to invest in new product development, with significant investments towards new technologies, such as electric vehicles (EVs). Significant financial incentives are being offered under the Centre's FAME-II scheme and EV policies of select state; further announcements to promote local manufacturing, in relation to production linked incentives (PLI), can be expected.

AVIATION

- Continued focus on improving regional connectivity through regional connectivity scheme (RCS) or *Ude Desh ka Aam Nagrik* (UDAN) initiative
- Possible reduction in taxes on aviation turbine fuel (ATF)
- Continued thrust on airport infrastructure creation and development
- Continued push for reforms in Maintenance Repair Overhaul (MRO) domain and building requisite infrastructure for aircraft leasing business domestically

The Indian aviation industry expects financial aid and reduction in levies and taxes in the immediate near term to revitalise operations and boost passenger traffic, which include lowering taxes on ATF and reducing airport charges, parking and landing along with navigation charges among others.

The Union Budget 2022 is expected to reiterate focus on improving regional connectivity through RCS or UDAN. The Budget is also likely to focus on setting up new airports and expanding the existing airport capacities at some key airports to help address the current airport infrastructure constraints faced by the airlines and to improve connectivity with the underserved/unserved airports to boost tourism. The Government is also expected to undertake other measures to boost tourism like developing more iconic tourist destinations and expanding the e-visa/visa on arrival scheme to additional countries.

In line with the Government's increasing thrust on Atmanirbhar or Make in India initiative, the Budget could focus on incentivising the maintenance repair overhaul (MRO) sector through greater push towards MRO activities in the country and push for building requisite infrastructure for promoting aircraft leasing companies/business domestically.

BANKING AND FINANCE

- Capital infusion for public sector banks (PSBs) in FY2023 unlikely, after Rs. 3.36-trillion infusion over last six years
- Expect more clarity on impending privatisation of IDBI Bank and two PSBs, which the Government of India (GoI) had indicated could happen in FY2022
- Operationalisation and scaling up of National Asset Reconstruction Company Limited (NARCL) and National Bank for Financing Infrastructure and Development (NABFID)
- Liquidity/funding schemes for non-banking financial companies (NBFCs) with guidance on medium-term framework for sustained funding availability for the sector
- Extension/continuation of Housing for All Scheme

With a capital infusion of Rs. 3.36 trillion during the last six years from the GoI, public banks have significantly cleaned up their balance sheets with their net non-performing advances (NPAs) reducing to 2.8% as on September 30, 2021 from the peak of 8.0% as on March 31, 2018. With high provisions on legacy stressed assets, the earnings outlook for public banks also seems healthy as we expect most public banks to incrementally remain profitable and generate growth capital requirements internally. Moreover, recoveries from legacy NPAs as NARCL becomes operational could aid the bottom lines of the banks in the coming years.

Public banks were also able to roll over their additional tier I bonds that were due for a call option in FY2022, reflecting strong investor appetite for their issuances. Hence, this bodes well for their future issuances. With cleaner balance sheets and an improved earnings outlook, banks can also raise capital from market sources as they have done in recent years. Accordingly, for the first time in over a decade, we do not expect any capital to be budgeted by the GoI for public banks despite the enhanced regulatory capital requirements.

Considering the sizeable nature of the NBFC sector, which accounts for 25% of the credit exposure in the country, and its systemically critical position, the Budget can re-examine a permanent NBFC refinance window from the Reserve Bank of India (RBI) or the designation/creation of an institution as a backstop for NBFCs. We expect the Budget to continue with some of the liquidity and guarantee schemes to ensure near-term funding availability for NBFCs (non-infra) and to provide guidance on the medium-term support framework for the sector, which could boost investor confidence and would be key for a sustainable revival.

With the focus on infrastructure spending expected to continue, the demand for infra-focussed NBFCs is expected to increase, though most of this demand is expected to be met by public sector undertakings (PSUs). The establishment of institutions, which can extend long-term funding to infra-NBFCs as well as banks for infrastructure development, would ensure adequate sectoral liquidity. Benefits and additional incentives for micro, small & medium enterprises (MSMEs) and tax breaks to homebuyers and builders in the housing sector, especially affordable housing, would also augur well for the sector, which is expected to face asset quality headwinds.

CEMENT

- Budget allocation towards rural development and agriculture sector expected to remain healthy
- To increase pace of infrastructure investment as envisaged under the National Infrastructure Pipeline (NIP), budgetary allocation towards various infrastructure sectors, including key implementing agencies like the NHAI, needs to be increased
- Enhanced budgetary allocations for housing schemes such as *Pradhan Mantri Awas Yojana* (PMAY)
- Expansion of income tax benefits for housing loans can improve affordability

Housing—rural, affordable and urban—accounts for 65-70% of the total cement demand in the country. The continued focus of the government on agriculture and rural development is expected to boost rural demand, including demand for rural housing, which is a significant contributor (around 30%) to the overall cement demand mix. Residential real estate demand has shown resilience, particularly among mid to high income segments, despite the disruption caused by Covid-19, on the back of an all-time-low rate of interest on home loans, pent-up demand, incentives from certain state governments and a hybrid working model. Increase in the deduction benefit available on interest and principal payments on housing loans availed by buyers can support this recovery trend. Enhanced tax concessions on income from renting out housing properties and removing taxation on notional rental income can further boost demand for new properties.

Schemes such as PMAY have played a pivotal role in improving home ownership; and continued focus on budgetary and extra budgetary allocations to such schemes can improve the access to housing for low to mid income consumer segments. The pending expenditure on PMAY is over Rs. 1 lakh crore, while the allocation was Rs. 48,000 crore in FY2022 (budget estimate) and Rs. 41,000 crore in FY2021 (revised estimate). The same needs to be ramped up in the forthcoming budget to meet the target of 50 million dwelling units under PMAY.

The Government is expected to continue taking steps towards achieving a Rs. 111-trillion infrastructure investment as per the NIP, while providing more clarity on the current status of the NIP and its capex phasing over the next few years. To meet the NIP funding, gross budgetary support towards the infrastructure sector is expected to be increased by 15-20% with focus on roads, railways and urban infrastructure. The expected, continued Government focus on infrastructure spend is a positive factor for the cement sector.

CHEMICALS

- Rationalisation of duty structure for raw materials, intermediates and finished products for chemical sector to boost domestic production as part of Atmanirbhar Bharat initiative
- Announcement of production-linked incentive (PLI) scheme for specific chemical sectors
- Additional incentives for infrastructure development through PCPIR (Petroleum, Chemicals and Petrochemicals Investment Region) and SEZs

ICRA notes that the chemical sector is a critical manufacturing sector with high potential for increased domestic production as well as exports and meet the Government's Atmanirbhar Bharat policy. This will be supported by expected growth in domestic demand as well as supply chain diversification by global players under China+1.

There have been several favourable Government measures in recent years, including the rationalisation of duty structures under FTAs and trade protection measures in the form of anti-dumping duties etc, to leverage the opportunities in the sector. However, additional measures in the form of further duty rationalisation of raw material/intermediates and finished products and support for feedstock capacity additions in the form of incentives like PLI or other incentives/subsidies for infrastructure development may be needed.

Further, specific schemes/budgetary support for MSME players in the chemical sector may also help such companies scale up their operations and move up the value chain.

FERTILISER

- Enhanced support for agri-economy to improve the farmers' earnings
- Budgetary allocation to meet the estimated fertiliser subsidy outgo of Rs. 1,300-1,400 billion for FY2023 amid elevated international prices
- Clarity on the roadmap for improving domestic production of phosphatic fertilisers through policy changes
- Rationalisation of import duty on phosphoric acid, ammonia and natural gas to improve competitiveness of the domestic fertiliser industry

ICRA expects the GoI to focus on improving the farmers' earnings through enhanced support for the agricultural economy. This will benefit the entire ecosystem of agri-inputs, i.e., seeds, fertilisers, crop protection chemicals and tractors, etc.

The subsidy requirement for the fertiliser sector has sharply increased in FY2022 following elevated prices of key inputs and finished fertilisers in the international markets. ICRA expects the revised budgetary allocation of ~Rs. 1,410 billion for FY2022 to remain sufficient for meeting the subsidy outgo for the current fiscal. For FY2023, ICRA estimates the subsidy requirement to range within Rs. 1,300-1,400 billion, driven by firm international prices, despite some likely moderation from the current levels in H2 FY2023. The GoI may not allocate the full amount of the expected subsidy at the outset in the budget for FY2023 and may calibrate the subsidy budget throughout the year, as seen in FY2022, depending on the evolving requirement. However, outright allocation in the budget will be a comforting factor for the industry.

In FY2022, fertiliser availability, particularly the phosphatic variants, witnessed significant headwinds due to unavailability in the global markets as well as elevated international prices. The GoI has been deliberating on steps to improve domestic production of phosphatic fertilisers. ICRA expects the GoI to outline steps to increase domestic production through incremental investments in this particular segment. Some of these steps may include rationalisation of import duty on phosphoric acid, ammonia and imported natural gas to improve the competitiveness of the domestic fertiliser players. ICRA also expects GoI to develop a roadmap to increase the balanced use of fertilisers in the country and reduce dependence on particular fertilisers.

HEALTHCARE

- Increased budgetary allocation towards the healthcare sector remains crucial, with medical bills constituting one of the highest out-of-pocket-expenditures during the pandemic
- Allocation towards setting up additional infrastructure to tackle Covid-19, with incremental grants towards booster shots and children's vaccination in addition to the Rs. 35,000 crore already earmarked in the last fiscal
- Incentives to improve medical infrastructure in tier-2 as well as tier-3 cities and train medical personnel to make healthcare more accessible

At ~Rs. 74,602 crore, the budgetary allocation for healthcare in FY2022 dropped by 9.8%, if compared to the Revised Estimates for FY2021. The funds earmaked for healthcare, as a percentage of GDP and beds per 10,000 population, continues to be lower for India against most developing nations. Given the ongoing pandemic, ICRA expects a sizeable increase in grants to the sector in the forthcoming budget. Higher allocation is also necessitated to enable the Government achieve its target spend of 2.5% of GDP on healthcare by 2025, from the current sub 1.5% levels.

With resurgence in Omicron cases, ICRA expects partial cost towards children's vaccination and booster shots for the adult population to be a part of the upcoming budgetary allotment towards the sector.

To boost investments in the sector, tax incentives for private sector investments in modernising medical facilities and developing greenfield hospitals will be a welcome step. Further, considering the low doctors to people and nurses to people ratio (aggregate density of health workers is 23 per 10,000 population, which is significantly lower than that recommended by WHO), increased allocation towards training medical personnel, in addition to improving infrastructure in tier-2 and tier-3 cities, would be a favourable move.

INFRASTRUCTURE

- Increase in budgetary allocation towards various infrastructure sectors, including key implementing agencies like the NHAI, is expected to encourage investments under the National Infrastructure Pipeline (NIP)
- Measures to improve availability of long-term funds to the infrastructure sector and capital allocation towards the newly set-up DFI – National Bank for Financing Infrastructure and Development (NaBFID) and the National Investment and Infrastructure Fund (NIIF) – are likely to play an important role
- Steps to attract private sector investments including speedier resolution of claims/disputes etc, need to be considered to improve private sector sentiments, which is expected to play a crucial role in the NIP
- Select infrastructure companies/finance companies can be allowed to raise long-term funds in the form of Infrastructure Bonds / Tax-free Bonds

The infrastructure sector expects the Government to continue taking steps towards achieving a Rs. 111-trillion infrastructure investment as per the NIP, provide more clarity on the current status of the NIP, its financing avenues, and its capex phasing over the next few years. To meet the NIP funding, Gross Budgetary Support towards the infrastructure sector is expected to be increased by 15-20% with focus on roads, railways and urban infrastructure segments. Dedicated allocations for specified large infrastructure projects, such as high-speed rail (including bullet trains), Bharat Mala, Sagar Mala, Smart Cities, inland waterways development, etc, can help to expedite these projects. Further, the budgetary allocation towards NHAI is likely to be increased to Rs. 65,000-70,000 crore in FY2023 (from Rs. 57,350 crore in FY2022 BE), keeping in view the increased capital outlay on National Highway development.

The infrastructure sector is also looking at steps to improve long-term funding availability for the sector. To bridge the funding gap, a higher allocation towards the newly set-up DFI – NaBFID (which is expected to start lending to infrastructure project in FY2023) and the NIIF, along with initiatives towards strengthening the corporate bond market are anticipated. Permitting some reputed public-sector enterprises to raise long-term funds by way of Infrastructure Bonds or Tax-free Bonds, may also support funding availability for the infrastructure sector. To revive private sector interest in taking up new projects, measures towards further improvement in the regulatory environment, including the resolution of stuck claims, are expected.

OIL & GAS

- Provision of a floor for domestic gas prices governed by the modified Rangarajan formula
- Rationalisation of cess, which currently stands at an ad-valorem rate of 20%
- Exemption of royalty, cost petroleum and profit petroleum from GST levy
- Exemption of exploration and development activities from GST levy
- Crude oil, natural gas and petroleum products to be brought under GST
- Reduction in custom duty on imported LNG to encourage consumption in various sectors, especially in view of the GoI's efforts to increase natural gas consumption in total energy mix

Domestic gas prices, as governed by the modified Rangarajan formula, have remained below the cost of production for many years and stood at $2.90/mmbtu in H2 FY2022. At such low prices, gas production remains a loss-making proposition from even favourable geologies. Accordingly, the upstream industry has been demanding a provision of a floor for gas prices. Additionally, crude oil prices have increased to the levels of ~$79/bbl in early-January 2021, from $14-15/bbl in April 2020. At higher crude oil prices, the ad-valorem cess of 20% limits the realisations and cash accruals of upstream companies compared to the earlier fixed cess per MT. As a result, the upstream industry has been demanding a reduction in cess on crude oil production to improve earnings in a high crude oil price regime. Further, the levy of National Calamity and Contingent Duty (NCCD) of Rs. 50/MT on import of crude oil, introduced in 2003 for one year, has remained in force since then. Additionally, the upstream industry has been demanding exemption of exploration and development activities from the levy of GST. Also, the industry wants removal of GST from cost petroleum, profit petroleum and royalty. The industry has also been demanding that the GoI should clarify the eligibility to avail a tax holiday under Section 80-IB of the Act and enumerate the definition of 'mineral oil' to include natural gas retrospectively.

Further, the industry has been demanding that crude oil, natural gas and petroleum products be brought under the GST to enable free flow of credit and avoid stranded taxes. To promote the use of natural gas as fuel, Liquified Natural Gas (LNG) imports should be exempt from customs duty as crude attracts nil duty while LNG attracts 2.5% duty.

PHARMACEUTICALS

- Promoting local manufacturing of APIs to reduce dependence on China
- Reducing GST rates for life saving and essential medicines
- Encouraging investment in R&D through higher fiscal and non-fiscal incentives

More than 65% of the Active Pharmaceutical Ingredient (API)/ Key Starting Material (KSM) required by pharma companies are imported from China. Recent events, such as the Covid-19 pandemic leading to supply chain disruptions coupled with geo-political issues, have brought into focus the risk of such high import dependence. Last year, the GoI had announced a production-linked incentive (PLI) scheme of Rs. 150 billion for API manufacturers, covering around 53 APIs, which are critical in terms of import dependence on China. Similar incentives for other import dependent APIs will boost local manufacturing and reduce dependence on import.

Medicines are taxed under four categories—nl, 5%, 12% and 18%. Certain life-saving medicines are taxed at a nil rate, while the rest are taxed at 5.0%. Most medicines fall under the 12.0% GST slab. Last year, the GoI had reducted the GST rate on various Covid-19 treatment medicines and also brought down the GST rate for certain cancer treatment medicines and exempted certain other life-saving medicines. Similar incremental changes will increase affordability and higher consumption of such drugs leading to higher demand.

Being research-intensive, the pharma sector incurs significant amount on R&D. Providing fiscal (higher tax deductions) and non-fiscal incentives for R&D expenses will support higher investments in developing new drugs. Investments in novel and specialty drugs are subject to higher risk of failure leading to risk averseness. Higher tax incentives for R&D spends will incentivise Indian players to spend more, thereby providing impetus to newer research initiatives.

PORTS, SHIPPING AND SHIPBUILDING

- Budgetary allocations for projects under Sagarmala, inland waterways and coastal shipping
- Support to shipbuilding sector through additional subsidies for modernisation

There has been a traction in policy initiatives for the port sector in the current fiscal with the operationalisation of the Indian Major Ports Act 2021 and notification of market-based tariffs under the Act, notification of the revised Model Concession Agreement for PPP projects and passage of the Inland Vessel Act 2021 in both houses of Parliament. While these measures are favourable for the sector and will aid in attracting private sector investments, increased budgetary support from the Government for flagship projects such as Sagarmala, inland waterways etc. will provide a boost to the execution pace and investments.

In the past few years, the allocation to Sagarmala and the inland waterway projects in terms of budgetary support has remained low (about Rs 500-600 crore) compared to the cost of planned initiatives under these schemes, indicating a high reliance on private sector participation. In this context, even if the Government continues with its past policy and does not introduce higher budgetary allocation to these plans, some incentives or other measures to boost private investor interest that facilitate more active participation could be expected.

Further, any budgetary support for the modernisation of shipyards (public as well as private) or other incentives which will help in meeting the Government objective of greater indigenisation of naval contracts will boost manufacturing under the Make in India programme.

POWER & RENEWABLES

- Augmenting long-term financing avenues to achieve the renewable capacity targets
- Promoting investments in the energy storage segments
- Augmenting funding outlay for the PLI scheme for manufacturing high-efficiency solar modules
- Improving the financial viability of the distribution segment including the implementation of delicensing in the electricity distribution segment

The renewable energy segment remains the key focus area for the Government in the power sector, amid the Prime Minister's announcement to increase the non-fossil-fuel-based capacity to 500 GW by 2030 from 150 GW currently and meeting 50% of the energy requirement from renewable sources by 2030. This requires an annual capacity addition of 42 GW over the next eight years, necessitating multi-billion dollar investments during this period. Therefore, the availability of adequate long-term financing avenues at competitive rates remains important for achieving these targets. Further, incentives and policy measures are required to promote investments in the energy storage segment considering the increasing share of renewables in the electricity generation mix and the need for adequate balancing sources. This apart, policy measures are required to revive the stranded gas-based projects, which would enable availability of balancing power sources. Also, ICRA expects the funding outlay for the production-linked incentive (PLI) scheme for solar module manufacturing to be increased, given the strong interest from the prospective players under the tender issued by IREDA. This would augment the domestic module manufacturing capabilities.

The weak financial profile of state-owned distribution utilities (discoms) continues to remain a major area of concern for the power sector. Achieving a turnaround in the distribution segment remains a key factor to achieve the renewable capacity targets announced by the Government. This would require focus on improvement of operational efficiency and allowing timely pass through of cost variations via tariffs to the consumers. ICRA expects the Budget to focus on accelerating the implementation of reforms in the distribution segment including the proposed delicensing initiative. Further, the budgetary allocation is expected to be increased towards strengthening the distribution infrastructure under the "reforms-based and results-linked" scheme announced in the last Budget. Also, ICRA expects the budgetary allocation to be increased for strengthening the transmission infrastructure (both at intra-state and inter-state level), towards evacuating power from the regions having high renewable power generation potential.

REAL ESTATE

- Expansion of income tax benefits for housing loans can improve affordability
- Enhanced budgetary allocations for housing schemes such as *Pradhan Mantri Awas Yojana* (PMAY)
- Augment credit availability for stuck projects, such as that done through the SWAMIH fund
- Thrust on unlocking land bank with PSUs and Government agencies

Residential real estate demand has shown resilience, particularly in the mid-to-high-income segments, despite the disruption caused by Covid-19 pandemic, on the back of all-time low rate of interest on home loans, pent-up demand, incentives by certain state Governments and hybrid working model. Increase in the deduction benefit available on interest and principal payments on housing loans availed by buyers can support this recovery trend. Enhanced tax concessions on income from renting of housing properties and removing taxation on notional rental income can further boost demand for new properties. Schemes such as PMAY have played a pivotal role in improving home ownership. Continued focus on budgetary and extra budgetary allotment to such schemes can improve access to housing in the low-to-mid-income segments of the population. The pending expenditure on PMAY is over Rs. 1 lakh crore, while the allocation was Rs. 48,000 crore in FY2022 (budget estimate) and Rs. 41,000 crore in FY2021 (revised estimate). The same needs to be ramped up in the forthcoming budget to meet the target of 50 million dwelling units under PMAY.

On the supply side, the small-to-medium-sized players faced challenges in terms of reduced cash flows and credit availability owing to the Covid-19 pandemic. Efficient models for targeted credit availability to highly impacted projects can be considered to tackle potential issues such as stalled projects. The SWAMIH fund, announced in November 2019, had a target to raise Rs. 25,000 crore, out of which it raised Rs. 10,000 crore from the Government and the remaining from large institutional investors, including LIC, HDFC and SBI. Further augmentation of the budgetary allocation for the SWAMIH fund will support completion of the large stalled real estate projects in the country.

Notwithstanding the various industry-specific amendments to the insolvency resolution laws, the implementation of the bankruptcy process for real estate companies remains challenging. Steps towards streamlining the insolvency process to achieve faster adoption and implementation of resolution plans will be beneficial to both lenders and homebuyers in such stuck projects.

On the commercial real estate segment, incremental measures taken over the past years resulted in successful track record of REIT issuances. Further initiatives towards improving the ease of access to debt capital and enhance retail participation can channel more investments into this segment.

ROADS

- The National Infrastructure Pipeline (NIP) involves an outlay of around Rs. 20.3 lakh crore in the road sector over FY2020-FY2025. Given the shortfall in allocations in the last three years under NIP, the investments need to be stepped up to meet the huge funding requirements.
- ICRA expects the capital outlay for the sector to be increased by 25%-30%, supported by an increase in the budgetary allocation to the sector, from Rs.1.33 lakh crore in BEFY2022.

The ambitious National Infrastructure Pipeline (NIP) involves an outlay of around Rs. 20.3 lakh crore in the road sector over FY2020-FY2025. However, in the past, the budgetary allocations have not kept pace with these plans. Consequently, the sector's dependence on debt funding remained elevated. The total debt for the NHAI has increased by more than three times to Rs. 3.38 lakh crore as on March 31, 2021 from Rs. 75,385 crore as on March 31, 2017. The borrowings are expected to surpass Rs. 4.5 lakh crore by FY2024 to fund the *Bharatmala Pariyoj*ana programme (subset of NIP). Although there has been some progress on the toll-operate-transfer (TOT) awards and other fund-raising initiatives (e.g. NHAI INVIT and securitisation of toll receipts), a significant step-up is required given the sizeable funding requirements of the ambitious programme.

Given the Government's thrust on infrastructure spending to revive the economy, the FY2023 budgetary outlay remains crucial to complete the Government's ambitious Bharatmala and allied programmes in a timely manner. As a result, the capital outlay is expected increase by 25%-30%, supported by an increase in the budgetary allocation to the sector to make up for the shortfall in the last three years and the slow progress on asset monetisation. Investors also expect a funding roadmap for the ambitious NIP and asset monetisation pipeline for NMP.

Much of the infrastructure financing in the country is currently supported by the banking sector. The availability of long-term infrastructure financing continues to remain a challenge, given the twin problems faced by commercial banks: (a) asset-liability mismatch and (b) high share of stressed assets. Although a new DFI was announced in last year's budget, it is yet to become operational fully. Further, the new DFI is expected to meet only 2-3% of overall NIP funding requirement. At the same time, there is a need to shift operational road assets towards capital markets by promoting investments in A category rated bonds. There is a need to deepen the bond markets for the infrastructure sector.

STEEL

- Higher budgetary allocation for infrastructure and transportation projects
- Measures to improve domestic availability of scrap, e.g. further incentivising vehicle scrappage and providing capital subsidy on infrastructure created for scrap segregation or scrap recycling
- Incentivise cleaner methods of steelmaking like electric arc furnace (EAF), Corex, Finex or hydrogen-based iron-making plants by providing capital subsidies for upcoming capacities or concessional electricity tariffs for steelmaking through the EAF route to make them competitive against blast furnace operators

The global steel industry witnessed an unexpected V-shaped recovery since the third quarter of CY2020 as a combination of concerted fiscal and monetary policy actions by governments and central banks across the globe injected record liquidity into the global economy to stimulate growth. While China led the first leg of the recovery in global steel markets in CY2020 and the early part of CY2021, going forward, the sustenance of the upcycle in the second leg would hinge on the healthy demand momentum outside China.

In India, domestic steel demand in H2 FY2021 rose a healthy 16.6% year-on-year (YoY). However, in the current fiscal, the demand recovery, post the monsoon, has been slower than expected, contracting by 5.7% YoY in October-November of FY2022 over the same period last fiscal. This suggests that demand from the infrastructure and construction sectors, which account for around 60% of the domestic steel demand, have slowed down in recent months. Therefore, a higher budgetary allocation in the steel-intensive infrastructure and transportation projects could provide a fillip to domestic steelmakers.

On the raw material side, the country's scrap supply chain, which feeds mills producing steel through the electrical route, remains fragmented and unorganised, leading to high import dependence. Though the Government has recently notified the Vehicle Scrappage Policy 2021, there is a demand from industry players to further increase the incentives for scrapping old vehicles so that domestic supplies improve meaningfully. Additionally, the infrastructure for scrap segregation and recycling is inadequate at present, which makes the case for targeted capital subsidy to incentivise the private sector for investing in this segment.

India has announced its target to be carbon-neutral by 2070, which would need carbon-intensive sectors like steel to invest in cleaner methods of steelmaking like electric arc furnace (EAF), Corex, Finex or hydrogen-based iron-making plants. India's National Steel Policy of 2017 projects 60-65% of the country's steelmaking capacity in FY2031 to be from the cost-efficient blast furnace route, which unfortunately has a large carbon footprint. However, given the country's carbon neutrality targets, fiscal incentives in cleaner steelmaking technologies could help the steel industry reduce its carbon footprint.

TELECOM

- Steps to boost infrastructure in rural and remote areas and stimulus for broadband penetration
- Emphasis on domestic production of telecom equipment
- Focus on improving infrastructure by addressing right of way issues

The Indian telecom industry has faced turbulent times, given its elevated debt levels amid low tariffs and the need for consistent capex. This was exacerbated by the verdict on adjusted gross revenue (AGR), which added to the payment liabilities of the telcos. In order to bail the sector out of the stress, the government in September 2021, offered a package for the industry which included a series of reliefs and reforms, including a four-year moratorium on government-deferred dues.

While the government had addressed a majority of the high-impact issues and has also indicated another round of reforms to be announced, the industry seeks a reduction in the levies (mainly licence fee and spectrum usage charges) to ease the financial burden on the sector.

The fiscal incentive schemes to drive domestic innovation and indigenous manufacturing as well as promoting the development of the ecosystem around new technologies like artificial intelligence, machine learning, etc, should be looked at. The production-linked incentive (PLI) scheme to boost the domestic manufacturing of telecom gear is also likely to receive more attention to attract investments.

Further, steps to boost infrastructure in rural and remote areas should remain in focus, with stimulus for increasing broadband penetration. Also, clear guidelines for right of way related issues to expand infrastructure is also a crucial aspect that the government will have to look into, given the advent of 5G.

TEXTILES

- Adequate provisioning for schemes such as the Production Linked Incentive (PLI) Scheme and PM Mega Integrated Textile Region and Apparel (PM-MITRA) Scheme
- Adequate provisions for export incentive schemes
- Extension of Amended Technology Upgradation Fund Scheme (ATUFS)/announcement of new scheme to incentivise capital investments in downstream segments and captive renewable power capacities

India is currently on the cusp of a potential growth cycle in the global textile market. Besides the US-China trade war issues, the China Plus One sourcing policy being endorsed by several large consuming regions across the globe, to reduce risk in events like the Covid-19 pandemic, and increasing concerns on the use of Xinjiang cotton are fuelling this opportunity. As China is currently the leader in the global textile market and is likely to shed some share in the near to medium term, India remains one of the potential beneficiaries of this shift. Nevertheless, challenges remain intense in the form of competition from other low-cost/more efficient peer nations, the evolving free trade agreement landscape with some peers already enjoying duty-free access to some of the major markets, as well as domestic issues such as infrastructure bottlenecks.

ICRA expects the Government to maintain its focus on incentivising investments across the textile value chain, to achieve its aspirational target of a 3x growth in India's textile exports to USD 100 billion in five years. Greater emphasis is likely on the man-made fibre (MMF) value chain, apparel and technical textile segments, which offer immense growth opportunities in the global trade, and where India has been lagging so far. In line with its thrust on Make in India for the world, the Government has adopted several policy initiatives including the announcement of the PLI scheme, extension of the Rebate of State and Central Taxes and Levies (RoSCTL) Scheme for apparel and made-ups for three years, announcement of the Remission of Duties and Taxes on Exported Products (RoDTEP) rates for the other textile segments and notification of seven textile parks under the PM-MITRA Scheme, during the past one year. While the policy initiatives are all steps in the right direction, effective implementation remains crucial, for which adequate provisioning in the Budget is necessary.

Further, with the implementation period of the ATUFS getting over in March 2022, the extension of the same or the announcement of a new scheme, particularly for the downstream segments and/or for captive renewable power capacities, could encourage investments and enable the companies to reduce their carbon footprint while being more cost-efficient.

Click to Provide Feedback

ICRA
A MOODY'S INVESTORS
SERVICE COMPANY

ABOUT ICRA

ICRA Limited (formerly Investment Information and Credit Rating Agency of India Limited) was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange.

Alliance with Moody's Investors Service

The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder. The participation of Moody's is supported by a Technical Services Agreement, which entails Moody's providing certain high-value technical services to ICRA. Specifically, the agreement is aimed at benefiting ICRA's in-house research capabilities, and providing it with access to Moody's global research base. The agreement also envisages Moody's conducting regular training and business seminars for ICRA analysts on various subjects to help them better understand and manage concepts and issues relating to the development of the capital markets in India. Besides this formal training programme, the agreement provides for Moody's advising ICRA on Rating-products strategy, and the Ratings business in general.

The ICRA Factor

Our services are designed to

- Provide information and guidance to institutional and individual investors/creditors;
- Enhance the ability of borrowers/issuers to access the money market and the capital market for tapping a larger volume of resources from a wider range of the investing public;
- Assist the regulators in promoting transparency in the financial markets;
- Provide intermediaries with a tool to improve efficiency in the funds raising process.

ICRA

Business Contacts

Mr. L. Shivakumar
E-mail: shivakumar@icraindia.com
+91 22 6114 3406 / +91 98210 86490

Mr. Jayanta Chatterjee
E-mail: Jayantac@icraindia.com
Tel: +91 80 4332 6401/ +91 98450 22459

Media and Public Relations

Ms. Naznin Prodhani
E-mail: Communications@icraindia.com
Tel: +91 124 4545 860

Registered Office

B-710, Statesman House 148,
Barakhamba Road
New Delhi-110001
Tel: +91 11 23357940-45

Corporate Office

Building No. 8, 2nd Floor,
Tower A, DLF Cyber City, Phase II,
Gurgaon - 122 002
Tel: +91-124-4545300

Ahmedabad

1809-1811, Shapath V,
Opp: Karnavati Club,
S.G.Highway, Ahmedabad - 380015
Tel: +91 79 4027 1500/501

Bengaluru 1

'The Millenia', Tower B Unit No. 1004,
10th Floor, 1 & 2 Murphy Road,
Bengaluru - 560 008
Tel: +91 80 4332 6400

Bengaluru 2

2nd Floor, Vayudooth Chamber
15-16, Trinity Circle, M.G. Road,
Bengaluru - 560 001
Tel: +91 80 4922 5500

Chennai

5th Floor, Karumuttu Centre
634, Anna Salai, Nandanam
Chennai - 600 035
Tel: +91 44 4596 4300

Hyderabad 1

4th Floor, 'Shoban'
6-3-927/A&B. Somajiguda
Raj Bhavan Road,
Hyderabad - 500 082
Tel: +91 40 4067 6500

Hyderabad 2

No. 7-1-58, 301, 3rd Floor, 'Concourse',
Above SBI-HPS Branch, Ameerpet,
Hyderabad - 500 016
Tel: +91 40 4920 0200

Kolkata

A-10 & 11, 3rd Floor,
FMC Fortuna 234/3A,
A.J.C. Bose Road,
Kolkata -700 020
Tel: +91 33 7150 1100/01

Mumbai

3rd Floor, Electric Mansion
Appasaheb Marathe Marg,
Prabhadevi,
Mumbai - 400 025
Tel: +91 22 6169 3300

Pune

5A, 5th Floor, Symphony, S. No. 210
CTS 3202 Range Hills Road,
Shivajinagar, Pune - 411 020
Tel: +91 20 2556 1194

Email: Info@icraindia.com
Helpdesk: 9354738909
Website: www.icra.in/ www.Icraresearch.in

© Copyright, 2022 ICRA Limited. All Rights Reserved. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable. Although reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies, while publishing or otherwise disseminating other reports may have presented data, analyses and/or opinions that may be inconsistent with the data, analyses and/or opinions presented in this publication. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.