ICRA ANALYSIS ON

UNION BUDGET

2022-23

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MESSAGE FROM CEO

RAMNATH KRISHNAN

(MD & Group CEO)

"The Union Budget FY2023 contained several confidence-boosting measures in the form of a substantial increase in capital spending, outlays for several PLI schemes and the vision for infrastructure augmentation for the next 25 years. The higher outlays came at the cost of a rise in the fiscal deficit in absolute terms, even as the deficit is set to decline modestly to 6.4% of GDP in FY2023 from 6.9% of GDP in FY2022."

AGILE THRUST TO CAPITAL FORMATION

The Government followed up on its Agile approach on encouraging more investments, laid down in the economic survey. The announcement of a higher-than-expected capex outlay at Rs. 7.5 trillion (+24.5% relative to FY2022 RE) for FY2023 is a major step in that direction. The Government intends to channelise this capex into four priorities - PM Gatishakti, inclusive development, productivity enhancement/climate actions and financing of investments. With an eye on job creation, the bulk of the Rs 7.5 trn outlay would be dedicated to PM Gatishakti projects that would be driven by investments in core economic sectoral engines - roads, railways, airports, ports, mass transport, waterways and logistics. The Government also reiterated its commitment to COP26 goals, following up with various announcements such as enhancement of PLI allocation for solar module manufacturing, incentives across EV ecosystem, introduction of green bonds, etc. Overall, Budget FY2023 seems to have clearly prioritised a more structural impetus to economic growth, while marginally compromising on fiscal consolidation.

Infrastructure investments prioritised: The Union Budget FY2023 has prioritised capital formation, driven by five overarching themes (1) 25% increase in capital outlay, (2) improving PPP structures (3) urban rejuvenation capacity building (4) reform in public procurement & timely payments and (5) support to states for public works & power sector reforms. At the same time, the fiscal consolidation attempted is modest, and the large borrowing figure has clearly unnerved the bond market. With an eye on job creation, the Government has focused on the Gatishakti projects that would be driven by investments in core economic sectoral engines - roads, railways, airports, ports, mass transport, waterways and logistics. Some of the fresh ideas announced included 400 new Vande Bharat Trains, ropeways (60 km), river-linking & irrigation (five projects to start with), Special North East Development Fund, battery swapping & interoperability, Surety Bonds, stubble for power and Green Bonds. A strong pipeline of projects was announced, such as 25,000 km of national highways, 100 cargo terminals for multimodal logistics, 2000 km route km of railways, etc. Moreover, the financial assistance to states towards capex (Rs.1 trn) will support order activity from the state governments. Overall, the thrust on infrastructure appears positive for construction, cement, steel and housing finance sectors.

More impetus on green initiatives: The Budget speech reiterated the Government's commitment to COP26 goals, reinforcing the emergence of a new investment theme that could create an additional pool of multi- sectoral investment potential (green investments) with potential for additional job creation (green jobs). The Government announced various initiatives such as a) sovereign green bonds for funding public sector green projects, b) pilot projects on coal gasification, c) Rs195 bn additional allocation for PLI scheme for manufacturing of solar modules, d) Battery-swapping policy for EV charging stations and overall thrust on EV ecosystem in urban areas. This is in line with our expectations, as highlighted in ICRA's recent report.

Inclusive development initiatives extended: To support the MSMEs, the Government extended the ECLGS scheme till Mar'23, as India recovers from the third wave of Covid pandemic, although its impact seems mild at present. This would primarily support the ailing hospitality sector, that has particularly been battered over the last two years. For the farm sector, Rs. 2.37 trillion was allotted towards procurement of wheat and paddy under MSP. This is favourable for rural cash flows and in turn, the farming equipment sector. Additionally, the Government continued its impetus on housing and urban planning with allocations for the PM Awaas Yojana (Rs. 480 billion for 8 million houses), tap water access for additional 380 million households (Rs. 600 bn) and more impetus on urban planning initiatives. In a big impetus to investments in start-ups, LTCG across all asset classes has been bought at par with listed equities (@15%). The Government also raised the local procurement to 68% (from 58% YoY) for all Defence procurement in the Budget for FY2023.

Higher capital spending, modest fiscal consolidation: Overall, the Union Budget FY2023 has clearly prioritised a more structural impetus to economic growth, while attempting a modest fiscal consolidation. The fiscal deficit is set to widen to Rs. 16.6 trillion in the FY2023 budget estimates (BE) from Rs. 15.9 trillion in the revised estimates (RE) for FY2022. As a percentage of GDP, the fiscal consolidation being targeted is a modest 0.5%, to 6.4% of GDP from 6.9% of GDP. The Budget has forecast a modest 6.0% growth in revenue receipts, weighed down by a contraction in non-tax revenues. It has projected a moderate tax revenue growth of 9.6%, which appears realistic, given an impending contraction in excise flows. The disinvestment flows have been budgeted to decline to Rs. 0.65 trillion in FY2023 and appear achievable. With a higher-than-anticipated fiscal deficit and the conspicuous absence of an update on measures to facilitate the awaited bond index inclusion, the 10-year G-sec yield surged. With 50 bps of repo rate hikes expected in June-August 2022, the 10-year yield is likely to harden further to 7.0% within the next few months, which will set the stage for an upward shift in the entire yield curve. Given the challenge posed by rising interest rates, an early kick-off of Central and state government capex is essential to cement India's growth recovery in FY2023.

ASSESSMENT OF GOVT OF INDIA'S FISCAL SITUATION

FISCAL ASSESSMENT: HIGHLIGHTS

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Fiscal deficit pegged at 6.9% of GDP and 6.4% of GDP, respectively, in the FY2022 RE and FY2023 BE

The GoI's revenue receipts estimated to rise by a modest 6.0% in FY2023 BE, with a 9.6% growth in net tax revenues, amidst the sharp 14.1% contraction in non-tax revenue

Capital expenditure budgeted to rise by a considerable 24.5%, benefitting from special assistance to states

Higher-than-expected market borrowings to push 10-year G-sec yield to 7.0% in coming quarter

- The fiscal deficit in the Government of India's (GoI's) Revised Estimates (RE) for FY2022 is mildly wider at Rs 15.9 trillion (6.9% of GDP), relative to the budgeted target of Rs 15.1 trillion (6.8% of GDP). Nevertheless, the deficit is lower than our expectation of 7.1% of GDP, primarily led by disinvestment and corporation taxes.
- The widening of the fiscal deficit in FY2022 RE relative to the budgeted level by Rs. 0.8 trillion, is largely on account of higher-than-budgeted revenue expenditure (by Rs. 2.4 trillion) and capital expenditure (by Rs. 0.5 trillion), along with a shortfall in disinvestment inflows (by Rs. 0.97 trillion) in FY2022 RE. This was partially offset by higher-than-budgeted revenue receipts (by Rs. 2.9 trillion).
- The Budget Estimates (BE) for FY2023 have pegged the fiscal deficit to rise to Rs. 16.6 trillion from Rs. 15.9 trillion in the RE for FY2022. However, as a percentage of GDP, the fiscal deficit is estimated to narrow to 6.4% in the BE for FY2023 from 6.9% in the RE for FY2022. This exceeds our projection of a fiscal deficit of 5.8% of GDP in FY2023, on account of higher-than-expected allocation for capital expenditure, and lower disinvestment receipts.
- Following the 27.2% expansion in FY2022 RE, the GoI's revenue receipts are estimated to rise by a modest 6.0% in FY2023 BE, with a 9.6% growth in net tax revenues, amidst the sharp 14.1% contraction in non-tax revenues.
- A disinvestment target of Rs. 0.65 trillion has been announced for FY2023. While the public issue of the Life Insurance Corporation (LIC) is expected shortly, the downward revision in the disinvestment target for FY2022 suggests that the LIC inflows may have been assumed to be split between FY2022 and FY2023.
- With a tepid 0.9% rise in revenue expenditure and a healthy 24.5% expansion in capital expenditure, the BE for FY2023 has indicated a 4.6% rise in the total spending to Rs. 39.4 trillion from the FY2022 RE of Rs. 37.7 trillion.
- Gross capital expenditure is budgeted to rise to Rs. 7.5 trillion in FY2023 BE from Rs. 6.0 trillion in FY2022 RE (+41.4% relative to FY2021), led by a surge in allocation to the roads sector and a special assistance of Rs. 1.0 trillion to the state governments. While the higher allocation is enthusing, it must be interpreted with caution given that (1) the increase in allocation to roads is largely offset by the decline in the fund raising by the NHAI and (2) the assistance to state governments shifts the execution risks from the Centre to the states.
- The higher-than-anticipated fiscal deficit and gross borrowing, along with no update on measures to facilitate the awaited bond index inclusion, pushed up the 10-year G-sec yield past 6.88% intraday, wiping out the benign impact of the switch/conversion announced on the previous day. With the impending repo rate hikes of 50 bps in H1 FY2023, we expect the 10-year yield to rise to 7.0% within the next quarter, which will set the stage for an upward shift in the entire yield curve.

Assessment Of The Government Of India's Fiscal Situation

In its BE for FY2022, released in February 2021, the GoI had pegged its fiscal deficit at Rs. 15.1 trillion (6.8% of GDP) based on the assumption that the nominal GDP for FY2022 would be Rs. 222.9 trillion. The RE for FY2022 have indicated that the GoI's fiscal deficit would exceed the BE by Rs. 0.8 trillion, while the nominal GDP for FY2022 has been revised up to Rs. 232.1 trillion (refer Exhibits 1 and 2). As a result, the fiscal deficit has widened mildly to 6.9% of GDP in the RE for FY2022, relative to the budgeted target of 6.8% of GDP. Nevertheless, it is lower than our expectation of 7.1%, partly on account of disinvestment as well as corporation tax.

The BE for FY2023 have pegged the fiscal deficit in absolute terms, to rise to Rs. 16.6 trillion from Rs. 15.9 trillion in the RE for FY2022. However, as a percentage of GDP, the fiscal deficit is estimated to narrow to 6.4% in the BE for FY2023 (with the Union Budget assuming a nominal GDP of Rs. 258.0 trillion for FY2023), from 6.9% of GDP in the RE for FY2022. This considerably exceeds our projection of a fiscal deficit of 5.8% of GDP in FY2023, on account of higher-than-expected allocation for capital expenditure. Interestingly, the GoI has reiterated the glide path for the correction in the fiscal deficit, with a target of sub-4.5% of GDP by FY2026; the planned fiscal consolidation is quite modest compared to what we had expected.

Fiscal situation as per FY2022 RE: On a YoY basis, the GoI expects its fiscal deficit to compress to Rs. 15.9 trillion in FY2022 RE, from Rs. 18.2 trillion in FY2021 actuals. This is led by the 27.2% increase it has estimated for its revenue receipts, to Rs. 20.8 trillion in FY2022 RE from Rs. 16.3 trillion in FY2021 actuals. Non-tax revenues are expected to expand by 51.1% to Rs. 3.1 trillion in FY2022 RE from Rs. 2.1 trillion in FY2021 actuals. Moreover, net tax revenues have been projected to increase by 23.8% to Rs. 17.7 trillion in FY2022 RE from Rs. 14.3 trillion in FY2021 actuals. In addition, non-debt capital receipts are forecast to surge by 73.5% to Rs. 1.0 trillion in FY2022 RE from Rs. 0.6 trillion in FY2021 actuals, led by a doubling of disinvestment proceeds (to Rs. 0.78 trillion in FY2022 RE from Rs. 0.4 trillion in FY2021 actuals).

Exhibit 1: Fiscal Deficit as a Percentage of GDP in FY2022 BE and FY2022 RE

	FY2022 BE	FY2022 RE
Fiscal Deficit	15.1	15.9
GDP	222.9	232.1
FD/GDP	6.8%	6.9%

***Source**: GoI Budget Documents; Controller General of Accounts (CGA); Ministry of Finance, GoI; ICRA Research*

Exhibit 2: GoI's Fiscal Balances in FY2021 actual, FY2022 BE, FY2022 RE and FY2023 BE

Rs. Trillion	FY2021 Actual	FY2022 BE (1)	FY2022 RE (2)	FY2023 BE (3)	Variation (2)-(1)	Growth (3)/(2)
Revenue Receipts	16.3	17.9	20.8	22.0	2.9	6.0%
Tax Revenues$	14.3	15.5	17.7	19.3	2.2	9.6%
Non-Tax Revenues	2.1	2.4	3.1	2.7	0.7	-14.1%
Revenue Expend.	30.8	29.3	31.7	31.9	2.4	0.9%
Revenue Balance	**-14.5**	**-11.4**	**-10.9**	**-9.9**	**0.5**	**-9.0%**
% of GDP	**-7.3%**	**-5.1%**	**-4.7%**	**-3.8%**		
Capital Receipts (Non-Debt) ^	0.6	1.9	1.0	0.8	-0.9	-20.7%
Gross Capital Expenditure	4.3	5.5	6.0	7.5	0.5	24.5%
Fiscal Balance	**-18.2**	**-15.1**	**-15.9**	**-16.6**	**-0.8**	**4.4%**
% of GDP	**-9.2%**	**-6.8%**	**-6.9%**	**-6.4%**		
GDP	**198.0**	**222.9**	**232.1**	**258.0**	**9.3**	**11.1%**

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

On the expenditure side, the revenue expenditure is projected to increase by a mild 2.7% to Rs. 31.7 trillion in FY2022 RE from Rs. 30.8 trillion in FY2021 actuals. Moreover, gross capital expenditure is estimated to increase by a healthy 41.4% to Rs. 6.0 trillion in FY2022 RE from Rs. 4.3 trillion in FY2021 actuals.

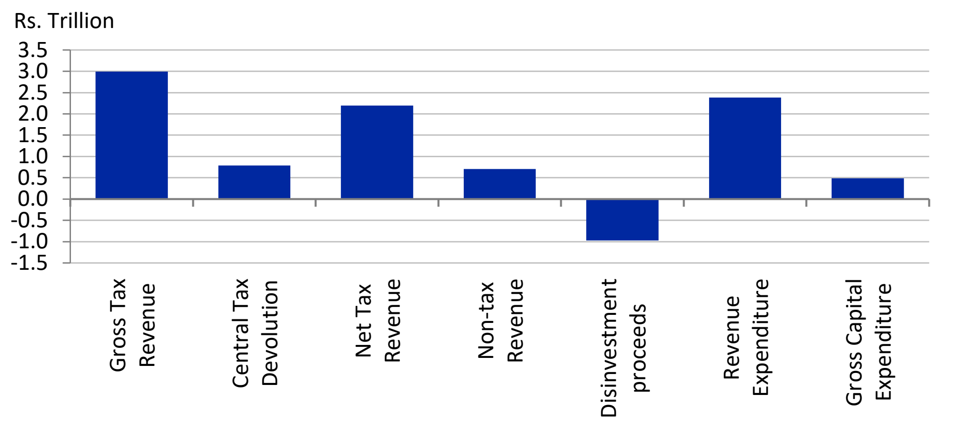
The widening of the fiscal deficit in FY2022 RE relative to the budgeted level by Rs. 0.8 trillion, is expected to be largely on account of higher-than-budgeted revenue expenditure (by Rs. 2.4 trillion; in line with our expectations; refer Exhibit 3) and capital expenditure (by Rs. 0.5 trillion; higher than expected), along with a shortfall in disinvestment inflows (by Rs. 0.97 trillion; lower than expected) in FY2022 RE. This was partially offset by higher-than-budgeted revenue receipts (by Rs. 2.9 trillion; also higher than what we expected).

The gross tax revenues of the GoI have been revised upwards by Rs. 3.0 trillion in the RE for FY2022 relative to the BE for the year (Rs. 22.2 trillion), driven by both indirect taxes (by Rs. 1.5 trillion; to Rs. 11.6 trillion from Rs. 10.1 trillion), and direct taxes (by Rs. 1.4 trillion; to Rs. 12.5 trillion from Rs. 11.1 trillion; refer Exhibits 4 and 5).

The upward revision in direct taxes in FY2022 RE (Rs. 12.5 trillion) relative to FY2022 BE (Rs. 11.1 trillion), is on account of an increase in the estimated corporate tax collections (by Rs. 0.9 trillion; to Rs. 6.4 trillion in FY2022 RE from Rs. 5.5 trillion in FY2022 BE), as well as income tax receipts (by Rs. 0.5 trillion; to Rs. 6.2 trillion from Rs. 5.6 trillion). Provisional data released by the Controller General of Accounts (CGA) indicated that the direct tax inflows recorded a YoY growth of 58.7% to Rs. 9.7 trillion in 9M FY2022 and accounted for 77.5% of the RE for FY2022. **Based on the FY2022 RE, direct tax collections for Q4 FY2022 have been projected by the GoI to trail the Q4 FY2021 level by 15.8% YoY, led by corporation tax (-21.0%). This is contrary to our expectations of 5-10% growth in corporation taxes in Q4 FY2022.**

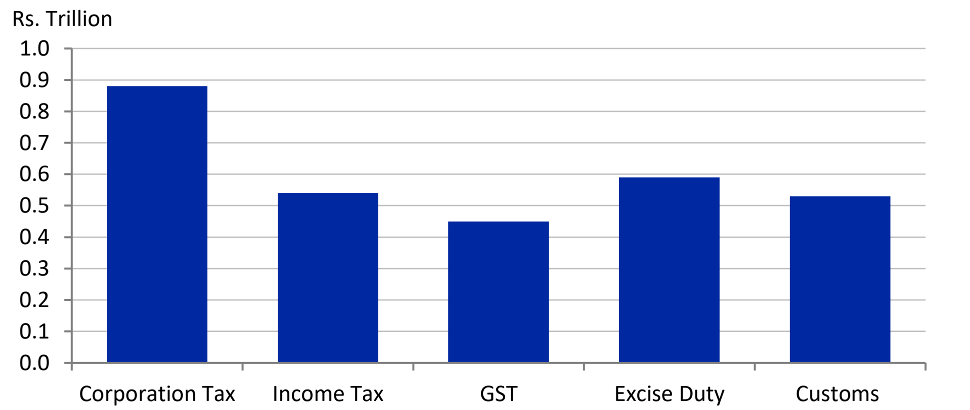
The FY2022 RE for indirect taxes has been revised upwards (to Rs. 11.6 trillion) relative to FY2022 BE (Rs. 10.1 trillion) on account of an increase in the estimated union excise duty (by Rs. 0.6 trillion; to Rs. 3.9 trillion from Rs. 3.4 trillion), followed by customs duty (by Rs. 0.5 trillion; to Rs. 1.9 trillion from Rs. 1.4 trillion) and CGST collections (by Rs. 0.4 trillion; to Rs. 5.7 trillion from Rs. 5.3 trillion). During 9M FY2022, indirect taxes recorded a YoY growth of 31.7% to Rs. 8.6 trillion in 9M FY2022 and accounted for 74.1% of the RE for FY2022.

Exhibit 3: Variation in FY2022 RE, Relative to FY2022 BE in Key Fiscal Metrics



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

Exhibit 4: Variation in FY2022 RE, Relative to FY2022 BE in Major Tax Revenues



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

Based on the FY2022 RE, indirect taxes in Q4 FY2022 have been projected by the GoI to trail the Q4 FY2021 level by 13.8% YoY (refer Exhibit 7), led by Union excise duty (-21.6%), customs duty (-13.1%) and CGST collections (-4.9%). While we are expecting excise duty and customs duty to fall short of the year-ago levels in Q4 FY2022, CGST collections are expected to witness a modest increase. Overall, the gross tax revenues of the GoI could be up to Rs. 0.3-0.5 trillion higher than the FY2022 RE.

The collections of the GST compensation cess have been placed at Rs. 1.1 trillion in FY2022 RE, slightly higher than the BE of Rs. 1.0 trillion. As per CGA data, the GST compensation cess collections stood at Rs. 0.8 trillion in 9M FY2022. **This implies that the GoI has pegged the GST compensation cess at Rs. 0.3 trillion in Q4 FY2022, in line with the level in Q4 FY2021.**

The Central tax devolution to the states has undergone an upward revision in the RE for FY2022 to Rs. 7.4 trillion from the Rs. 6.7 trillion included in FY2022 BE, on account of upward revision in the GoI's tax forecast for FY2022, as well as prior period adjustments. This entails a 25.2% expansion relative to the Rs. 5.9 trillion that had been transferred in FY2021. During 9M FY2022, the CTD to the states expanded by 21.2% to Rs. 4.5 trillion (60.8% of FY2022 RE) from Rs. 3.7 trillion in 9M FY2021 (62.7% of FY2021 Actuals). Accordingly, the balance central taxes to be devolved in Q4 FY2022 would rise to Rs. 2.9 trillion from Rs. 2.2 trillion in Q4 FY2021. After the adjustments to tax devolution, the net tax revenues of the GoI have been revised upwards by Rs. 2.2 trillion in FY2022 RE, relative to the BE for the year.

Moreover, non-tax revenues have been revised upwards by Rs. 0.7 trillion, to Rs. 3.1 trillion in FY2022 RE from Rs. 2.4 trillion in FY2022 BE, reflecting higher inflows from dividends and profits, other communication services, and interest receipts. The upward revision in dividends and profits in FY2022 RE is led by the higher-than-budgeted surplus transferred by the RBI for FY2022 at ~Rs. 1.0 trillion (BE: Rs. 0.54 trillion). Non-tax revenues stood at Rs. 2.6 trillion in 9M FY2022, as per the CGA data (82.7% of FY2022 RE; refer Exhibit 6). **This implies that the GoI has projected non-tax revenues to decline to Rs. 0.5 trillion in Q4 FY2022 relative to Rs. 0.8 trillion in Q4 FY2021, in line with our expectations.**

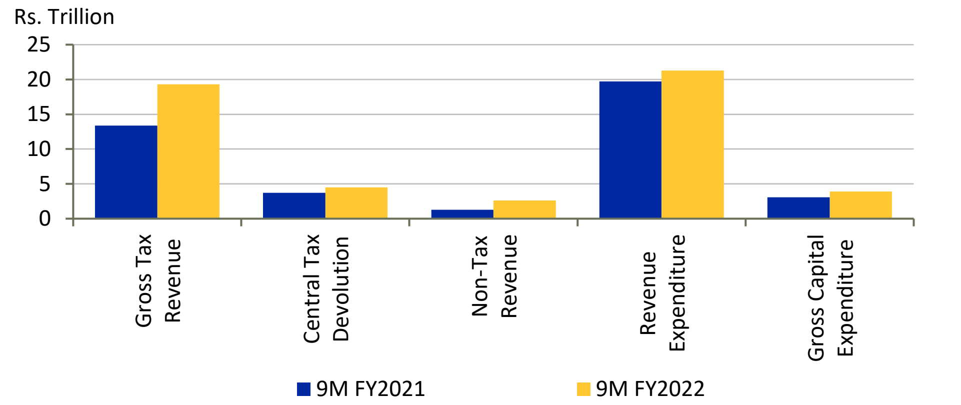
While the moratorium on dues would impact the non-tax receipts of the government from telecom sector (from Other Communication Services), two telcos have pre-paid their dues towards earlier spectrum auctions totalling to Rs. 263 billion thereby making up for the loss

Exhibit 5: Trends in Tax Revenue Receipts in FY2021 Actual, FY2022 BE, FY2022 RE and FY2023 BE

Rs. Trillion	FY2021 Actual	FY2022 BE (1)	FY2022 RE (2)	FY2023 BE (3)	Variation (2) - (1)	Growth (3)/(2)
Gross Tax Revenues	**20.3**	**22.2**	**25.2**	**27.6**	**3.0**	**9.6%**
Corporation Tax	4.6	5.5	6.4	7.2	0.9	13.4%
Income Tax	4.9	5.6	6.2	7.0	0.5	13.8%
Customs Duty	1.3	1.4	1.9	2.1	0.5	12.7%
Union Excise Duty	3.9	3.4	3.9	3.4	0.6	-15.0%
GST	5.5	6.3	6.8	7.8	0.5	15.6%
- CGST	*4.6*	*5.3*	*5.7*	*6.6*	*0.4*	*15.8%*
- IGST	*0.1*	*0.0*	*0.0*	*0.0*	*0.0*	--
GST Compensation Cess	0.9	1.0	1.1	1.2	0.1	14.3%
Other taxes^	0.1	0.1	0.1	0.1	0.0	10.8%

^Includes Other Taxes and Duties on Commodities and Services, Taxes of UTs; ***Source****: GoI Budget Documents; CGA, Ministry of Finance, GoI; ICRA Research*

Exhibit 6: GoI's Fiscal Balances in 9M FY2021 and 9M FY2022



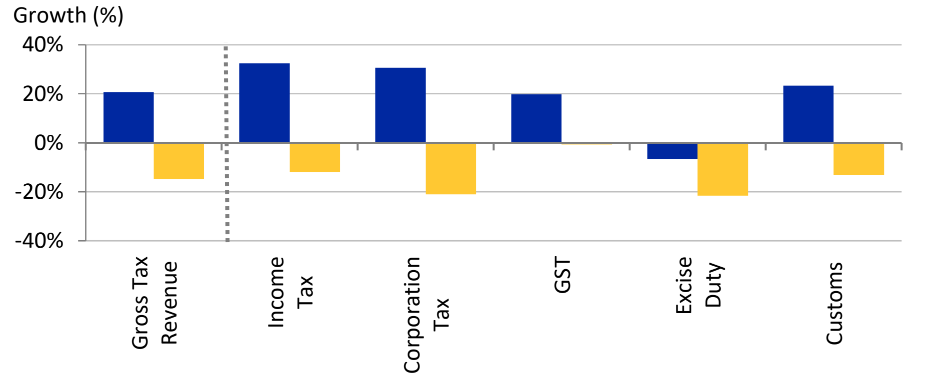
Source*: GoI Budget Documents; CGA; Ministry of Finance, GoI; ICRA Research* to the Government for the current fiscal. In line with this, the estimated receipts from Other Communication Services have been mildly revised upwards to Rs. 0.7 trillion in FY2022 RE from Rs. 0.5 trillion in FY2022 BE.

The estimate for disinvestment proceeds has been reduced to Rs. 0.78 trillion in the RE for FY2022 from Rs. 1.75 trillion in FY2022 BE. 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 Rs. 120.3 billion (15.4% of FY2022 RE), as on January 31, 2022, on account of sale of the GoI's equity holdings (including Air India). **The GoI seems to have factored in a part of the proceeds from the LIC IPO in the remaining part of the fiscal. If the same doesn't materialise, we expect the disinvestment proceeds to be limited under Rs. 0.35 trillion in FY2022, less than half of the RE level.**

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. a portion of which will likely be absorbed through savings in other demands. 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). Subsequently, revenue expenditure has been revised upwards by Rs. 2.4 trillion to Rs. 31.7 trillion in FY2022 RE from the budgeted level of Rs. 29.3 trillion. This was primarily led by an increase in the allocations for fertiliser subsidy (by Rs. 0.6 trillion) and food subsidy (by Rs. 0.4 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 (by Rs. 75.6 billion).

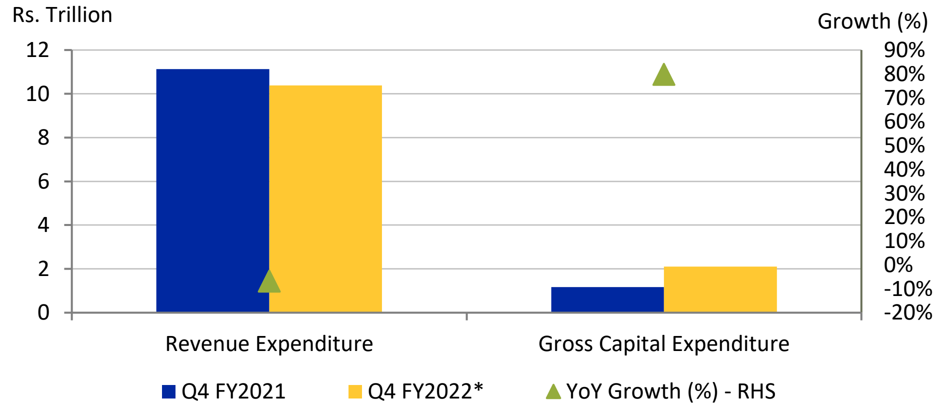
The allocation for fertilizer subsidy has been raised to Rs 1.4 trillion in FY2022 RE from Rs. 0.8 trillion in FY2022 BE. In May 2021, the GoI had increased the budgetary allocation towards the fertiliser subsidy by Rs. 147.8 billion, considering the steep rise in international prices of phosphatic fertilisers, 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).

Exhibit 7: GoI's Gross Tax Revenues in Q3 FY2022 and Implicit Trend for Q4 FY2022*



Implicit trend for Q4 FY2022 is based on FY2022 RE; **Source: GoI Budget Documents; CGA; Ministry of Finance, GoI; ICRA Research*

Exhibit 8: Headroom Available in Q4 FY2022 for Revenue Expenditure and Capital Expenditure, Gross Lending



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

Data released by the CGA indicates that the amount of fertiliser subsidy released during 9M FY2022 stood at Rs. 0.8 trillion (60.1% of FY2022 RE), which means a substantial amount is back-ended to Q4 FY2022. **Based on the FY2022 RE, the GoI has implicitly projected the fertilizer subsidy to increase by a mild 2.7% in Q4 FY2022, which seems realistic.**

Similarly, the allocation for food subsidy has been revised upwards to Rs. 2.9 trillion in FY2022 RE from Rs. 2.4 trillion in FY2022 BE (refer Exhibit 9). **However, this is lower than our expectations, 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 Pradhan Mantri Garib Kalyan Anna Yojana (PMGKAY) until March 2022**. The GoI had released Rs. 1.9 trillion toward food subsidy in 9M FY2022 (64.8% of FY2022 RE). **While we had expected large spending on this account in Q4 FY2022, the GoI has projected a substantial 75.8% contraction in to Rs. 1.0 trillion in the quarter from Rs. 4.2 trillion in Q4 FY2021, which is surprising. It is possible that a part of the expected allocation has been included under a different head.**

The allocation for fuel subsidy has been more than halved to Rs. 65.2 billion in FY2022 RE from the BE of Rs. 140.7 billion. Data released by the CGA indicates that the amount of fuel subsidy released during 9M FY2022 stood at Rs. 13.7 billion (21.1% of FY2022 RE). The GoI had not included subsidies under PDS kerosene in the FY2022 BE. While there is nil cash subsidy under DBTL to consumers on Domestic LPG since May 2020 for some markets like Delhi, the GoI continues to provide some subsidy for consumers in remote areas.

The revenue expenditure during 9M FY2022 stood at Rs. 21.3 trillion (67.2% of FY2022 RE). **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. Nevertheless, to meet the FY2022 RE of Rs. 31.7 trillion (refer Exhibit 8), the GoI's revenue expenditure in Q4 FY2022 will mildly trail the Q4 FY2021 level by 6.7%.**

Overall, the revenue deficit is expected to narrow to Rs. 10.9 trillion in FY2022 RE from the budgeted level of Rs. 11.4 trillion, on account of sharper uptick in revenue receipts vis-à-vis revenue expenditure.

Capital expenditure has been revised upwards by Rs. 0.5 trillion to Rs. 6.0 trillion in FY2022 RE, from the budgeted level of Rs. 5.5 trillion, led by enhanced allocation towards equity infusion in Air India. Data released by the CGA indicated that the GoI's capital expenditure stood at Rs. 3.9 trillion in 9M FY2022, 26.8% higher than year ago levels (~65% of FY2022 RE; refer Exhibit 10). **This implies that capital expenditure would need to increase by a substantial 79.9% in Q4 FY2022, on a YoY basis, to meet the RE for FY2022.** Overall, the RE for FY2022 indicated a considerable 41.4% growth in capital expenditure relative to FY2021.

A substantial upward revision in capital expenditure is expected to lead to an improvement in the quality of the fiscal deficit in FY2022 RE, compared to FY2022 BE.

Exhibit 9: Trends in Subsidies in FY2022 BE, FY2022 RE and 9M FY2022

Rs. Trillion	FY2022 BE	FY2022 RE (1)	9M FY2022 (2)	% of FY2022 RE (2)/(1)
Subsidies	**3.4**	**4.3**	**2.7**	**62.7%**
Fertiliser	0.8	1.4	0.8	60.1%
Food	2.4	2.9	1.9	64.8%
Fuel	0.1	0.1	0.0	21.1%

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

Exhibit 10: Trends in Gross Capital Expenditure in FY2022 BE, FY2022 RE and 9M FY2022

Rs. Trillion	FY2022 BE	FY2022 RE (1)	9M FY2022 (2)	% of FY2022 RE (2)/(1)
Gross Capital Expenditure	**5.5**	**6.0**	**3.9**	**65.0%**
- Capital Outlay on Defence Services	1.4	1.4	0.9	62.4%
- Railways	1.1	1.2	0.9	71.5%
- Roads	1.1	1.2	0.8	68.7%
Balance	2.0	2.3	1.4	61.1%

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

Fiscal situation as per FY2023 BE: The Union Budget 2022-23 focused on providing an impetus to growth, with an enthusing increase in the allocation for capital expenditure, while undertaking a modest fiscal consolidation of 0.5% of GDP in FY2023 BE, relative to FY2022 RE. It also emphasized on process reforms, rationalising and simplifying the inverted duty structure in order to support locally manufactured goods and introduced a tax on income from virtual digital asset transfers.

The following sections briefly discuss the revenue and expenditure trends forecast by the GoI in the budget for FY2023.

Revenue receipts: Following the 27.2% expansion in FY2022 RE, the GoI's revenue receipts are estimated to rise by a modest 6.0% in FY2023 BE, with a 9.6% growth in net tax revenues, amidst a sharp 14.1% contraction in non-tax revenues. **The budgeted tax revenue growth of 9.6% appears broadly realistic, given an impending contraction in excise flows, although there may be an upside in CGST collections. At the same time, we expect higher inflation to drive a nominal GDP growth of 13.5-14%, exceeding the budgeted 11.1%.**

The growth in the GoI's gross tax revenues is projected at a moderate 9.6% in FY2023 BE (+24.1% in FY2022 RE; refer Exhibit 11), with a higher expansion forecast for direct tax collections (+13.6%) relative to the indirect tax revenues (+4.9%), which is along the expected lines. **With a sharper growth in nominal GDP (+11.1%) compared to gross tax revenues (+9.6%) envisaged for FY2023 BE, tax buoyancy of the GoI is projected to decline to 0.9 in FY2023 BE, relative to the healthy 1.4 in FY2022 RE, led by indirect tax revenues.**

As the formal part of the economy is expected to continue to thrive, direct tax collections are budgeted grow at a healthier 13.6% in FY2023 BE (+32.3% in FY2022 RE; refer Exhibit 12), largely in line with our expectations (+14%). Following the robust 38.7% expansion in FY2022 RE, corporate tax collections are forecast to increase by 13.4% to Rs. 7.2 trillion in FY2023 BE from Rs. 6.4 trillion in FY2022 RE. The personal income tax collections are also estimated to increase by a similar 13.8% in FY2023 BE (+26.2% in FY2022 RE), with collections expected to rise to Rs. 7.0 trillion in FY2023 BE from Rs. 6.2 trillion in FY2022 RE. While there is no announcement on revision in tax rate slabs, in line with our expectation of pursuing a stable

Exhibit 11: Growth and Variation in Major Components of GTR in FY2023 BE

Rs. Trillion	FY2022 RE (1)	FY2023 BE (2)	Variation (2) – (1)	Growth (2)/(1)
Gross tax revenues	**25.2**	**27.6**	**2.4**	**9.6%**
Direct Taxes	12.5	14.2	1.7	13.6%
Indirect Taxes	11.6	12.2	0.6	4.9%
GST Compensation Cess	1.1	1.2	0.2	14.3%

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

Exhibit 12: Growth and Variation in Components of Direct and Indirect Taxes in FY2023 BE

Rs. Trillion	FY2022 RE (1)	FY2023 BE (2)	Variation (2) – (1)	Growth (2)/(1)
Direct Taxes	**12.5**	**14.2**	**1.7**	**13.6%**
Corporation Tax	6.4	7.2	0.9	13.4%
Income Tax	6.2	7.0	0.9	13.8%
Indirect Taxes	**11.6**	**12.2**	**0.6**	**4.9%**
Customs Duty	1.9	2.1	0.2	12.7%
Excise Duty	3.9	3.4	-0.6	-15.0%
Service Tax	0.01	0.02	0.01	100.0%
CGST	5.7	6.6	0.9	15.8%
IGST	0.0	0.0	0.0	---
UT-GST	0.03	0.04	0.0	11.4%

Source: *GoI Budget Documents; CGA; Ministry of Finance, GoI; ICRA Research* and predictable tax regime, the GoI has introduced a 30% tax on income arising from the virtual digital transfer of assets. Moreover, it has proposed a TDS of 1% on payment made in relation to the transfer of such assets above a monetary threshold, and a proposal for levying tax on gift of virtual digital assets at the recipient's end. These measures are likely to supplement revenues and help achieve the FY2023 target.

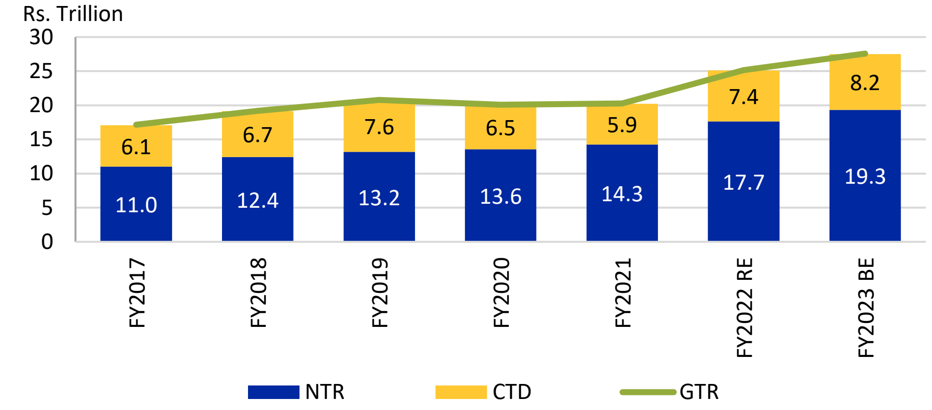
Similar to our expectation, the growth of indirect tax collections is budgeted to ease to 4.9% in FY2023 BE from 16.2% in FY2022 RE, driven by the considerable decline of 15.0% in excise duty collections following the duty relief provided by the Centre on motor spirit and high-speed diesel in November 2021. In contrast, GST collections are projected to grow by a healthy 15.6% in FY2023 BE supported by economic recovery and tax evasion activities, while customs duty revenues are budgeted to expand by 12.7% in FY2023 BE.

The CGST collections are budgeted to expand by 15.8% to Rs. 6.6 trillion in FY2023 BE (Rs. 5.7 trillion in FY2022 RE), in light of the broadening of economic recovery. While the original five-year period of extension of GST compensation to the states is set to end in June 2022, cesses will continue to be levied for repayment of loan taken to compensate state governments during FY2021 and FY2022. Consequently, the GoI has budgeted Rs. 1.2 trillion as GST compensation in FY2023 BE, slightly exceeding our forecast of Rs. 1.1 billion.

The growth in custom duty receipts is projected at a higher-than-expected 12.7% in FY2023 BE (+40.3% in FY2022 RE), with collections budgeted to increase to Rs. 2.1 trillion from Rs. 1.9 trillion in FY2022 RE. The FY2023 budget entailed a continuing rationalisation of several customs exemptions and tariff simplification to enhance domestic capacity creation and ease raw material costs for locally manufactured goods, thereby aligning with the GoI's objective of Atmanirbhar Bharat.

There is a reduction in the duty on goods under sectors such as electronics (parts of transformer of mobile phone chargers, camera lens, etc.), gems and jewellery (cut and polished diamonds and gemstone to 5%), chemicals (methanol, acetic acid, etc.) and shrimp aquaculture. In contrast, the budget has proposed to phase out concessional rates in capital goods (for sectors like power, fertilizer, textiles, leather, footwear, etc.) and project imports (in areas like coal mining projects, power, railway and metro projects) gradually and apply a moderate tariff of 7.5%, which is conducive to the growth of domestic manufacturing.

Exhibit 13: Central Tax Devolution, Centre's Gross and Net Tax Revenues Since FY2017 (Rs trillion)



Source: *Finance Commission of India, GoI; ICRA Research*NTR: net tax revenues*

Exhibit 14: Trends in Non-Tax Revenue in FY2022 BE, FY2022 RE and FY2023 BE

Rs. Trillion	FY2022 BE (1)	FY2022 RE (2)	FY2023 BE (3)	Growth (3)/(2)
Non-Tax Revenue (A)	**2.4**	**3.1**	**2.7**	**-14.1%**
- Interest Receipts (B)	0.1	0.2	0.2	-13.9%
- Dividends and Profits (C)	1.0	1.5	1.1	-22.7%
- Other Communication Services* (D)	0.5	0.7	0.5	-26.6%
Balance (E=A-B-C-D)	0.7	0.7	0.8	15.4%

It is one of the major component of non-tax revenues from economic services;* ***Source:* *GoI Budget Documents; Ministry of Finance, GoI; ICRA Research*

After a tepid 0.6% rise included in FY2022 RE (Rs. 3.9 trillion), excise duty collections are forecast to contract by a significant 15.0% to Rs. 3.4 trillion in FY2023 BE, following the reduction in excise duty relief provided by the Centre on motor spirit and high-speed diesel oil in November 2021, even as the differential excise duty on unblended fuel has been budgeted to increase by Rs. 2/litre with effect from October 1, 2022.

Tax devolution to the states has been budgeted to expand by 9.6% to Rs. 8.2 trillion in FY2023 BE (Rs. 7.4 trillion in FY2022 RE), in line with the growth pegged for the GoI's gross tax revenues. This entails a positive impact on the shareable pool[1] engendered by the budgeted decline in cess collections from fuel, which are not shareable with States, amidst a higher base related to prior period adjustments in FY2022 RE. Accordingly, the GoI's net tax revenues is projected to display a similar growth 9.6% to Rs. 19.3 trillion in FY2023 BE, relative to the Rs. 17.7 trillion included in FY2022 RE (refer Exhibit 13).

In contrast with tax revenues, the BE for FY2023 for non-tax revenues has indicated a contraction of 14.1% to Rs. 2.7 trillion from Rs. 3.1 trillion in FY2022 RE (refer Exhibit 14), driven by a moderation in revenues from dividends and profits (-22.7%), interest receipts (-13.9%) and Other Communication Services (-26.6%). The receipts from dividends and profits are estimated to fall to Rs. 1.1 trillion in FY2023 BE from Rs. 1.5 trillion in FY2022 RE (refer Exhibit 15), primarily led by lower dividends/surplus from the RBI and nationalised banks and financial institutions (to Rs. 0.7 trillion from Rs. 1.0 trillion, respectively). The moderation in the RBI's surplus transfer budgeted for FY2023 can be attributed to the anticipated rise in the cost of reverse repo operations in FY2022, 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 support its interest income. In addition, dividends from PSUs are estimated to ease mildly to Rs. 0.40 trillion from Rs. 0.46 trillion, respectively.

Moreover, revenue from Other Communication Services is projected to dip to Rs. 0.53 trillion in FY2023 BE (ICRA est: Rs. 0.3 trillion) from Rs. 0.72 trillion in FY2022 RE, following the impact of relief measures announced by the GoI, including a four-year moratorium on dues.

Exhibit 15: Trends in Dividends and Profits in FY2022 BE, FY2022 RE and FY2023 BE

Rs. Trillion	FY2022 BE (1)	FY2022 RE (2)	FY2023 BE (3)	Growth (3)/(2)
Dividends from Public Sector Enterprises	0.5	0.5	0.4	-13.0%
Dividend/Surplus of Reserve Bank of India	0.5	1.0	0.7	-27.0%
Total	**1.0**	**1.5**	**1.1**	**-22.7%**

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

Exhibit 16: Trends in Revenue Expenditure in FY2022 BE, FY2022 RE and FY2023 BE

Expenditure Items	FY2022 BE	FY2022 RE	FY2023 BE	Variation in FY2022	Growth in FY2023 BE
Rs. Trillion	**(1)**	**(2)**	**(3)**	**(2) – (1)**	**(3)/(2)**
Revenue Expend.	**29.3**	**31.7**	**31.9**	2.4	**0.9%**
Interest	8.1	8.1	9.4	0.0	15.6%
Subsidies	3.4	4.3	3.2	1.0	-26.6%
Fertilizer	*0.8*	*1.4*	*1.1*	0.6	*-24.9%*
Food	*2.4*	*2.9*	*2.1*	0.4	*-27.8%*
Fuel	*0.1*	*0.1*	*0.1*	-0.1	*-10.8%*
Salary and pension	5.8	7.1	7.7	1.3	8.8%
Income Support Scheme	0.7	0.7	0.7	0.0	0.7%
MGNREGP	0.7	1.0	0.7	0.3	-25.5%
National Health Mission	0.4	0.3	0.4	0.0	8.2%
National Education Mission	0.3	0.3	0.4	0.0	28.4%
Support for COVID-19 Vaccination (Transfers to states)	0.4	0.4	0.1	0.0	-87.2%
Jal Jeevan Mission	0.5	0.5	0.6	-0.1	33.3%
PMAY	0.3	0.5	0.5	0.2	1.3%
Finance Commission Grants	2.2	2.1	1.9	-0.1	-9.0%
PLI	0.0	0.0	0.1	0.0	4193.7%
Balance	6.6	6.4	6.3	-0.5	2.2%

Source*: GoI Budget Documents; CGA; ICRA Research*

1 *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.*

The balance portion of non-tax revenues is estimated to rise by 15.4% to Rs. 0.8 trillion in FY2023 BE from Rs. 0.7 trillion in FY2022 RE. In Aug 2021, the GoI had unveiled the National Monetisation Pipeline (NMP) 2 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 FY2022-25. However, the GoI has not budgeted for receipts from the NMP in the 2023 budget.

The non-debt capital receipts (other receipts and recovery of loans) are forecast to moderate to Rs. 0.8 trillion in FY2023 BE from Rs. 1.0 trillion in FY2022 RE. This comprises Rs. 0.65 trillion as receipts from disinvestment in FY2023 BE, lower than the Rs. 0.78 trillion included in FY2022 RE. **While the public issue of the Life Insurance Corporation (LIC) is expected shortly, the downward revision in the disinvestment target for FY2022 suggests that the LIC inflows may have been assumed to split between FY2022 and FY2023.**

Total expenditure: With a tepid 0.9% rise in revenue expenditure and a healthy 24.5% expansion in capital expenditure, the BE for FY2023 has indicated a 4.6% rise in the total spending to Rs. 39.4 trillion from the RE of Rs. 37.7 trillion for FY2022. The FY2023 Budget has adopted the PM GatiShakti framework to provide thrust to economic recovery, driven by seven sectors such as Roads, Railways, Airports, Ports, Mass Transport, Waterways, and Logistics Infrastructure. The projects pertaining to these seven sectors under the National Infrastructure Pipeline (NIP)3 will be aligned with PM GatiShakti National Master Plan (NMP). In addition, a sizeable amount has been allocated for capital expenditure in FY2023 BE to fuel the investment cycle. The following section discuss the key announcements in detail:

Revenue expenditure: Revenue expenditure is budgeted to rise mildly to Rs. 31.9 trillion in FY2023 BE from Rs. 31.7 trillion in FY2022 RE (refer Exhibit 16).

Exhibit 17: Trends in Capital Expenditure in FY2022 RE and FY2023 BE

Expenditure Items	FY2022 BE	FY2022 RE	FY2023 BE	Variation in FY2022	Growth in FY2023 BE
Rs. Trillion	**(1)**	**(2)**	**(3)**	**(2) – (1)**	**(3)/(2)**
Capital Expend. Gross Loans & Adv.	**5.5**	**6.0**	**7.5**	**0.5**	**24.5%**
Defence	1.4	1.4	1.5	0.0	9.7%
Roads	1.1	1.2	1.9	0.1	54.8%
Railways	1.1	1.2	1.4	0.1	17.1%
Capital infusion into NIIF Infrastructure Debt Financing Platform	0.01	0.01	0.01	0.00	0.0%
Special Assistance as Loan to States for Capital Expenditure	0.1	0.2	1.0	0.1	566.7%
Support to Public Sector Undertakings	0.2	0.0	0.4	-0.2	56050.0%
Balance	1.7	2.1	1.3	0.4	-39.3%

***Source**: GoI Budget Documents; CGA; ICRA Research*

2. *The NMP had envisaged an indicative value of Rs. 1.6 trillion or ~27% of the aggregate potential of assets to be rolled out in FY2023, through direct contractual (such as PPP) and capital market (InvITs) instruments among others. The pipeline covers sectors such as roads, airports, railways, gas and product pipeline, power generation and transmission, mining, telecom, stadium, hospitality, etc.*

3 *To accelerate infrastructure spending and provide thrust to economic growth, the National Infrastructure Pipeline (NIP) of projects3 worth Rs. 111.3 trillion was announced in 2019 for FY2020-25. Out of the Rs. 111.3 trillion of capex in infrastructure by the Centre, States and Private sector, ~15% or Rs. 16.5 trillion has been indicated for FY2023, as per the NIP report, across sectors such as energy (28.4%), roads (15.3%), railways (16.6%), urban infrastructure (14.3%), etc. The share of Centre, States and private sector in the NIP stands at 39%, 40% and 21%, respectively.*

The allocation for interest payments has been increased by a considerable 15.6% to Rs. 9.4 trillion in FY2023 BE from Rs. 8.1 trillion in FY2022 RE. Moreover, the allocation for salaries and pensions (pay, allowances, and pensions for Defence and non-Defence personnel) has been estimated at Rs. 7.7 trillion in the BE for FY2023, a modest 8.8% higher the Rs. 7.1 trillion in FY2022 RE.

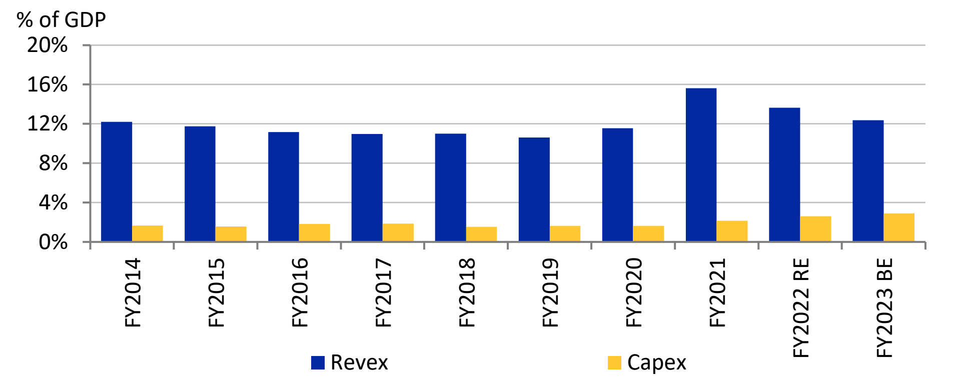
In view of enhancing India's manufacturing capabilities and exports, the GoI had introduced the Production Linked Incentive (PLI) scheme[4] in March 2020. Compared to just Rs. 2.0 billion in FY2022 RE, it has allocated Rs. 85.0 billion of outlay under this flagship scheme in FY2023 BE, led by sectors/items such as Large-Scale Electronics Manufacturing, pharmaceutical drugs, Active Pharmaceuticals Ingredients, KSMs, and Food Products.

The allocation towards Jal Jeevan Mission has been increased to Rs. 0.6 trillion in the BE for FY2023 from Rs. 0.45 trillion in FY2022 RE, whereas that for Income Support Scheme and Pradhan Mantri Awas Yojana (PMAY) has been kept steady at Rs. 0.7 trillion and Rs. 0.5 trillion, respectively, in line with FY2022 RE. Moreover, the outlay for National Education Mission and National Health Mission has been enhanced to ~Rs. 0.4 trillion each in FY2023 BE from ~Rs. 0.3 trillion each in FY2022 RE. Additionally, the allocation for Guarantee Emergency Credit Line (GECL) facility to eligible MSME borrowers has been increased to Rs. 0.15 trillion in FY2023 BE from Rs. 0.10 trillion in FY2022 RE.

In contrast, the combined allocation for major subsidies (food, fuel and fertilizer) has been reduced by a sharp 26.6% to Rs. 3.2 trillion in the BE for FY2023 from the high Rs. 4.3 trillion in the FY2022 RE, largely led by food and fertilisers.

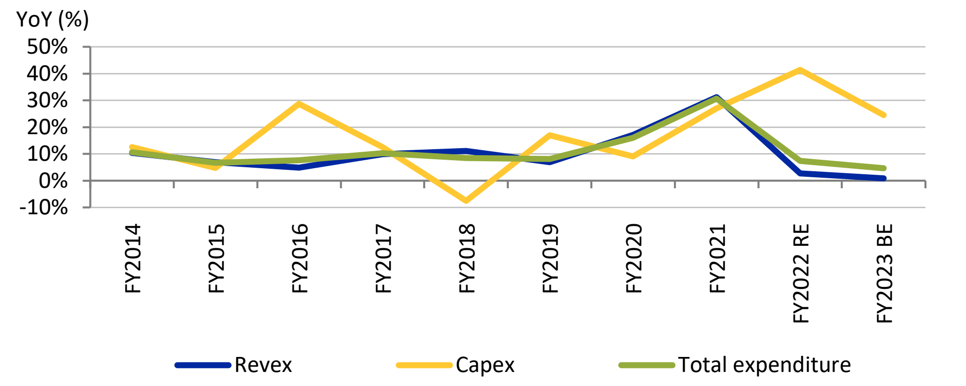
Within major subsidies, the allocation for food subsidy is estimated to moderate to Rs. 2.1 trillion in the BE for FY2023 (-27.8%) from Rs. 2.9 trillion in FY2022 RE. This is lower than our expected range of Rs. 2.5-3.4 trillion for FY2023 (with a base case outlay of Rs. 2.5 trillion for normal NFSA requirements and an additional Rs. 900 billion if foodgrains provisioning under the PMGKAY is extended for six months in case of another Covid wave).

Exhibit 18: Revenue Expenditure and Capital Expenditure as % of GDP



Actuals till FY2021; RE: Revised Estimates; BE: Budget Estimates; ***Source:*** *GoI Budget Documents; CGA; Ministry of Finance, GoI; ICRA Research*

Exhibit 19: YoY Trends in Revenue Expenditure, Capital Expenditure and Total Expenditure



Actuals till FY2021; RE: Revised Estimates; BE: Budget Estimates; ***Source:*** *GoI Budget Documents; CGA; Ministry of Finance, GoI; ICRA Research*

4 The GoI had announced an outlay of Rs. 1.97 trillion in March 2020 for PLI schemes across 14 key sectors starting from FY2022, to create national manufacturing champions and generate employment opportunities. In addition to the three sectors announced earlier in March 2020, GoI had further introduced the 10 new sectors in November 2020 and recently added one more sector in September 2021.

The moderation in the fertiliser subsidy allocation to Rs. 1.1 trillion in the FY2023 BE from Rs. 1.4 trillion in FY2022 RE has been driven by both nutrient-based subsidy (to Rs. 0.6 trillion from Rs. 0.8 trillion) and urea (to Rs. 0.4 trillion from Rs. 0.6 trillion). **ICRA anticipates a higher subsidy requirement of Rs. 1.3-1.4 trillion for FY2023, driven by elevated international prices, although some moderation from current levels is expected in H2 FY2023. It remains a possibility that the GoI may calibrate the subsidy requirement during the year, as the option for supplementary demand for grants in the interim is available.**

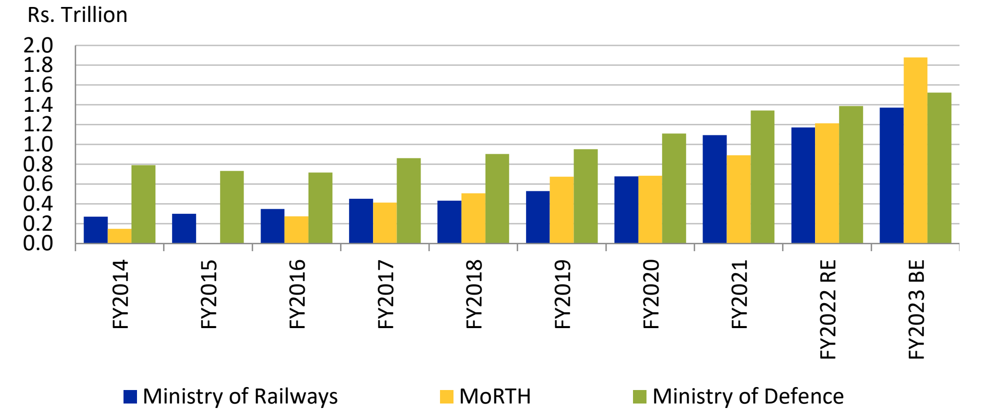
Additionally, there is a slight reduction in the allocation for fuel subsidy to Rs. 0.06 trillion from Rs. 0.07 trillion in FY2022 RE. **ICRA estimates requirement for gross under recoveries at under Rs. 0.1 trillion in FY2023 BE.**

The allocation for MGNREGP has been reduced to Rs. 0.7 trillion in FY2023 BE from Rs. 1.0 trillion in FY2022 RE. **This seems appropriate and is in line with our expectations. However, we believe that in the event of a fresh Covid wave in FY2023, the GoI will likely require additional spending on this front to support the sentiment of migrants and labourers.**

In FY2023 BE, the health expenditure has been placed at Rs 0.87 trillion, largely unchanged from the Rs. 0.86 trillion included in FY2022 RE. The GoI has made an allocation of Rs. 0.05 trillion in FY2023 BE (vs. Rs. 0.39 trillion in FY2022 RE) for Covid-19 vaccination (as a transfer to states). **This is lower than our forecast of Rs. 400 billion for FY2023, to facilitate vaccines to the younger part of the population as well as for the booster shots.**

Capital expenditure: Gross capital expenditure is budgeted to rise by a considerable 24.5% to Rs. 7.5 trillion in FY2023 BE from Rs. 6.0 trillion in FY2022 RE (+41.4% relative to FY2021). **This translates to 2.9% of GDP in FY2023 BE, higher than 2.6% of GDP in FY2022 RE and 2.2% of GDP in FY2021 (Actuals), which is enthusing as it can trigger a durable economic growth momentum, with the potential to augment job creation, prop up domestic consumption, and hasten capacity expansion by the private sector**. Including Grants-in-Aid for creation of capital assets, the expansion in effective capital expenditure for FY2023 BE, relative to FY2022 RE is placed at a higher 27.1%.

Exhibit 20: Trends in GoI's Capital Expenditure Towards Major Sectors



Actuals till FY2021; RE: Revised Estimates; BE: Budget Estimates; ***Source:*** *GoI Budget Documents; CGA; Ministry of Finance, GoI; ICRA Research*

Exhibit 21: Fiscal Deficit Targets for the GoI in FY2022 RE and FY2023 BE

	Performance/Targets in Budget FY2023	Performance/Targets in Budget FY2022	Indicative Deficit Path for GoI set by the 15th FC
FY2021		9.5%	7.4%
FY2022	6.9%	6.8%	6.0%
FY2023	6.4%	NA	5.5%
FY2024	NA	NA	5.0%
FY2025	NA	NA	4.5%
FY2026	NA	NA	4.0%

Source: GoI; 15th FC Report; ICRA Research

The budgetary allocation for capital spending for the Ministry of Road Transport and Highways has been raised by ~55% to Rs. 1.9 trillion in FY2023 BE from Rs.1.2 trillion in FY2022 RE. While this is encouraging, it must be interpreted with caution as the increase in allocation to the sector is largely offset by a decline projected in the fund raising by the National Highways Authority of India (NHAI). Moreover, the budgetary outlays for capital spending for the Ministry of Railways have been augmented by 17.1%, to Rs. 1.4 trillion in FY2023 BE relative to Rs. 1.2 trillion in FY2022 RE, followed by the modest 9.7% rise in the capex for the Ministry of Defence (to Rs. 1.5 trillion in FY2023 BE from Rs. 1.4 trillion; refer Exhibit 20).

The allocation for providing loan to States for capital expenditure has been increased multi-fold to Rs. 1.0 trillion in FY2023 BE from Rs. 0.15 trillion in FY2022 RE. **Interest-free loans to the states will help them prioritise capex even as they traverse the challenges posed by end of GST compensation. However, this would also imply that the execution risks shift from the Centre to the states.**

The GoI has budgeted nil amount for recapitalization of Public Sector Banks in FY2023 BE (Rs. 0.15 trillion in FY2022 RE), which is in line with our anticipation, owing to an improvement in profitability and asset quality.

The support to Public Sector Undertaking under the capex head has been pegged at Rs. 0.4 trillion in FY2023 BE compared to nil in FY2022 RE.

Notably, the 24.5% growth in capital expenditure and the tepid 0.9% rise in revenue expenditure in FY2023 BE, would result in improvement in the quality of spending in FY2023. The share of capital expenditure in total spending is pegged at 19.0% in FY2023 BE, compared to 16.0% in FY2022 RE and 12.1% in FY2021 (Actuals). **Overall, while the GoI's concerted push on capex is laudable, it needs to be complimented with rapid execution of infra projects to boost domestic demand and employment opportunities and fuel the economic recovery.**

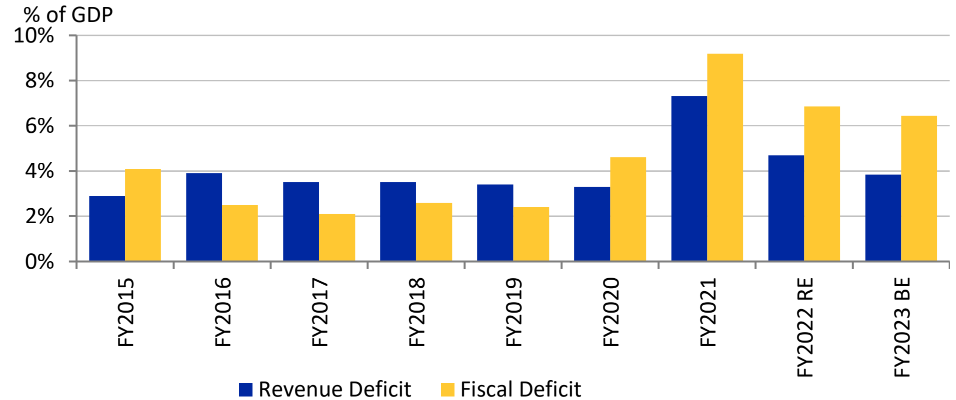
Fiscal balances: With a modest 6.0% growth in revenue receipts and Rs. 0.65 trillion disinvestment target, tepid 0.9% rise in revenue expenditure and robust 24.5% expansion in capital spending, the GoI has budgeted for a widening in its absolute fiscal deficit to Rs. 16.6 trillion in FY2023 BE from Rs. 15.9 trillion in FY2022 RE. Within the fiscal constraints, the GoI chose to undertake a modest fiscal consolidation of 0.5% of GDP, albeit to a higher than

Exhibit 22: Fiscal Balances for the GoI in FY2022 BE, FY2022 RE and FY2023 BE

Rs. Lakh Crore	FY2022 BE	FY2022 RE	FY2023 BE
Revenue Deficit	**11.4**	**10.9**	**9.9**
Percentage of GDP	*5.1%*	*4.7%*	*3.8%*
Fiscal Deficit	**15.1**	**15.9**	**16.6**
Percentage of GDP	*6.8%*	*6.9%*	*6.4%*

Source: *GoI Budget Documents; CGA; ICRA Research*

Exhibit 23: GoI's Revenue and Fiscal Deficit (as % of GDP)



Source: *Union Budget; ICRA Research* expected 6.4% of GDP in FY2023, while allocating a considerable Rs. 7.5 trillion for growth-supportive capex. Moreover, the fiscal deficit is estimated to narrow to 6.4% of GDP in the BE for FY2023 from 6.9% of GDP in FY2022 RE (refer Exhibit 22), mainly led by higher tax revenues, even as capital expenditure is expected to rise sharply.

Additionally, the revenue deficit is budgeted to ease to 3.8% of GDP in FY2023 BE from 4.7% of GDP in FY2022 RE.

While the FY2023 budget math seems credible on account of the assumptions of moderate tax growth and realistic disinvestment targets, there are some upside risks to the revenue and fiscal deficit projections if another wave of Covid-19 happens in the interim. The latter may necessitate additional spending requirements by the GoI with regard to the extension of free foodgrains under the PMGKAY and higher spending on MGNREGA.

At an absolute level, the revenue deficit and the effective revenue deficit are estimated to narrow in FY2023 BE compared to the RE for FY2022, whereas the fiscal deficit is budgeted to increase, with a considerable rise in capital expenditure and a modest fall in miscellaneous capital receipts. Nevertheless, the quality of the fiscal deficit is expected to improve, with the share of the revenue deficit in the total fiscal deficit moderating sharply to 59.6% in FY2023 BE from 68.4% in FY2022 RE (79.7% in FY2021).

The Central government debt outstanding is estimated to inch up to 60.2% of GDP in FY2023 BE from 59.9% of GDP, as per the MTFP statement of FY2023 Budget, owing to the considerable rise of ~43% in the gross borrowings through dated securities in FY2023 BE, relative to FY2022 RE.

Borrowings: The GoI's gross market borrowing programme for FY2022 has been indicated at Rs. 10.5 trillion (excluding the back-to-back GST compensation loans given to states), in line with the budgeted amount for that fiscal. Subsequently, it has pegged its gross market borrowings to increase by a substantial 42.9% to a higher-than-expected Rs. 15.0 trillion in FY2023 BE (refer Exhibit 24). Adjusting for redemptions of Rs. 3.8 trillion, the GoI's net market borrowing is estimated at Rs. 11.2 trillion in FY2023 BE (refer Exhibit 25), 44.2% higher than the Rs. 7.8 trillion net market borrowing in FY2022 RE.

Exhibit 24: GoI's Long-Term Market Borrowings

Amount in lakh crore	FY2022 RE	FY2023 BE	Growth (%)
Gross Market Borrowing	10.5	15.0	42.9%
Redemptions	2.7	3.8	39.0%
Net Market Borrowings	7.8	11.2	44.2%
Buyback	0.0	0.0	--
Net Market Borrowings Adjusted for Buyback	**7.8**	**11.2**	**44.2%**

**Adjusting of switch of G-sec of Rs. 0.63 trillion on January 31, 2022, the redemptions and gross borrowing would be Rs. 3.1 trillion and Rs. 14.3 trillion, respectively*
***Source**: GoI Budget Documents; ICRA research*

However, adjusting for the switch/conversion of the G-secs of Rs. 0.63 trillion, which was undertaken by the RBI on January 31, 2022, the gross borrowing for FY2022 would be a lower Rs. 14.3 trillion. Nevertheless, the gross and net market borrowings are higher than our and market expectations.

The GoI has budgeted to raise net Treasury-Bills of Rs. 0.5 trillion in FY2023, lower than Rs. 1.0 trillion in FY2022 RE. It has indicated that it would borrow a net amount of Rs. 4.3 trillion from the savings deposits and certificates in FY2023 BE, lower than the substantial Rs. 5.9 trillion in FY2022 RE. Additionally, Rs. 0.2 trillion from the State Provident Funds is budgeted for funding its fiscal deficit in FY2023, similar to the amount in FY2022 RE.

Off-budget debt:

Bank recapitalisation bonds: During FY2018-FY2021, the PSBs had subscribed to the special securities/recapitalization bonds of a sizeable Rs. 2.8 trillion issued by the GoI. The proceeds of these recap bonds were invested by the GoI as equity capital in the PSBs during the same period. As the recap bonds are serviced by the GoI, it increases the revenue expenditure and the deficit levels of the GoI to that extent. In contrast, if the equity capital was infused by the GoI without issuing the recap bonds, it would have led to a much sharper increase in its expenditure in that fiscal year.

However, in the Union Budget for FY2023, the GoI has provisioned nil as infusion of equity capital into the PSBs, compared to Rs. 0.15 trillion in FY2022 RE.

Fully-serviced bonds (FSBs): Since FY2017, the GoI has been according approval to certain Ministries for raising Extra Budgetary Resources (EBR) for meeting the expenditure towards various schemes designed by the GoI for such Ministries.

The EBR has been raised by issuance of bonds by various public sector enterprises (PSEs) and/or special purpose vehicles on behalf of such Ministries. Since the GoI makes a budgetary allocation for the servicing of these bonds, they are referred to as the GoI's FSBs. However, in the Union Budget for FY2023, the GoI has included nil issuance of the FSBs, compared to Rs. 0.01 trillion from FY2022 RE.

Exhibit 25: GoI's Market Borrowing and Other Sources of Funding the Fiscal Deficit

Amount in Rs. Trillion	FY2022 RE	FY2023 BE
(A) Borrowings	8.8	11.6
Dated Net Market Borrowings (i)	7.8	11.2
Treasury-Bills (ii)	1.0	0.5
Net Switching of Securities (iii)	-	-
Net Buyback (iv)	-	-
Net Post Office Life Insurance Fund (v)	0.0	-0.1
(B) Net Securities against Small Savings	5.9	4.3
(C) Net State Provident Funds	0.2	0.2
(D) Other Receipts	-0.9	0.4
(E) Net External Debt	0.2	0.2
(F) Net drawdown of Cash Balances	1.7	0.0
Sources of Funding the Fiscal Deficit (sum of A to F)	15.9	16.6

Source: *GoI Budget Documents; ICRA research*

Loan to FCI from NSSF: In recent years, the GoI has been financing a portion of the food subsidy requirement as well as the debt servicing of loans from the NSSF. However, in FY2023 BE, the GoI has allocated nil amount of loan to the FCI from the NSSF for funding the food subsidy for that year, same as in FY2022 RE.

UNION BUDGET – SECTOR IMPACT

Sector	Impact	Sector	Impact
AGRICULTURE	↔	HOTELS	↔
AUTOMOTIVE	↔	INFRASTRUCTURE	↑
AVIATION	↔	INSURANCE	↔
BANKS, AND NON-BANK FINANCE COMPANIES	↑	OIL & GAS	↔
CAPITAL GOODS	↑	PORTS, INLAND WATERWAYS AND SHIPBUILDING	↔
CEMENT	↑	POWER	↑
CHEMICALS	↔	REAL ESTATE	↔
ELECTRIC VEHICLES	↑	ROADS & HIGHWAYS	↔
FERTILISER	↔	STEEL	↑
HEALTHCARE	↔	TELECOM	↔

↑ **Positive** ↔ **Neutral** ↓ **Negative**

AGRICULTURE

PROPOSALS	VIEW
Enhanced outlay towards procurement under the minimum support price (MSP) structure (estimated outlay of Rs. 2.37 trillion towards procurement of wheat and paddy in 2021-22)	The GoI is committed to the MSP regime and assures procurement support for farmers at remunerative price
Allocation of Rs. 15 billion towards dedicated fund for market intervention and price support scheme	The GoI aims to assure crop realisations to farmers and reduce volatility in the farm incomes
Allocation of Rs. 195 billion for Modified Interest Subvention Scheme for short-term crop loans to farmers	Scheme will support the interest subvention on farm credit
Allocation of Rs. 129.5 billion to Pradhan Mantri Krishi Sinchai Yojna, Rs. 190 billion for Pradhan Mantri Gram Sadak Yojana and Rs. 480.0 billion to Pradhan Mantri Awas Yojana	Focus on developing rural infrastructure related to irrigation, housing, roads to improve market accessibility and reduce dependence on monsoon

AUTOMOTIVE

PROPOSALS	VIEW
Rs. 2,370 billion earmarked for MSP, Ken Betwa link project of Rs. 446 billion, NABARD to facilitate fund to finance start-ups for agriculture & rural enterprise etc	The GoI's focus on farmer welfare and strengthening rural economy continues; proposed measures will improve liquidity in the hands of farmers and boost sentiments for two-wheelers (2Ws), tractors and entry-segment passenger vehicles (PVs)
Rs. 200 billion investment outlay for road infrastructure projects	Will have spillover impact on demand across segments, especially in the medium and heavy commercial vehicle (M/HCV) segment
Several schemes for MSME segment – extension of ECLGS benefits by one year, roll out of RAMP programme with Rs. 60 billion allocation, proposed revamp of CGTMSE scheme etc.	Aimed to support MSME liquidity and generate employment; could support demand for 2Ws and entry-level PVs
EV and clean-tech focused initiatives - infrastructure development and credit flow (classification of energy storage systems under harmonised infrastructure list), formulation of new interoperability standards and battery swapping policy, creation of special mobility zones with zero-fossil fuel policy, EVs in public transport etc	All the measures and schemes proposed are aimed at increasing the adoption of EVs; mandating EV usage in public transport would benefit e-bus and eCV manufacturers and their suppliers

AVIATION

PROPOSALS	VIEW
PM Gati Shakti Masterplan encompassing roads, railways, airports, ports, mass transport, waterways, and logistics infrastructure for multi-modal connectivity to facilitate faster movement of people and goods	As airports are integral parts of the PM-Gatishakti scheme, which is expected to further integrate all modes of transport, the aviation sector would get a fare share of the outlay /investment under this umbrella scheme
E-passports to be rolled out in 2022-23	Roll-out of E-passport in 2022-23 will enhance travel convenience for passengers, which in turn will boost international travel
Customs duty on airline turbine fuel (ATF) reduced to 5% from 10% with effect from February 2, 2022	Customs duty reduction on ATF is unlikely to have a material impact on the domestic aviation sector as most of the carriers buy ATF from domestic refiners rather than importing ATF directly because of issues related to storage, working capital blockage etc
Exemption of customs duty on aviation gasoline (AVGAS) conforming to standard IS 1604	AVGAS is used to power small piston-engine airplanes, and is usually consumed by flying clubs, flight training jets, and private small aircrafts. Hence, exemption of customs duty on AVGAS is expected to provide relief only to a limited set of passengers

BANKS, AND NON-BANK FINANCE COMPANIES

PROPOSALS	VIEW
Extension of Emergency Credit Line Guarantee Scheme (ECLGS) till March 2023 with augmented allocation of Rs. 500 billion specifically for hospitality and allied sectors	Relief for the sector, which was impacted most by the pandemic and remains vulnerable to any new surge in infections
Revamping of Credit Guarantee Trust for Micro and Small Enterprises (CGTMSE) scheme	Revamping of CGTMSE scheme expected to facilitate additional credit of Rs. 2 trillion to the micro, small & medium enterprises (MSME) sector
Allocation of Rs. 480 billion under Pradhan Mantri Awas Yojana (PMAY)	Augurs well for lenders from a demand perspective and would help them scale up exposure towards this segment
Issue of sovereign green bonds for funding green infrastructure projects and promotion of thematic funds for encouraging important sunrise sectors	GoI's proposals to use innovative financing instruments such as blended finance, sovereign green bonds, etc, are expected to broaden the overall credit ecosystem
Amendments to Insolvency and Bankruptcy Code (IBC) to facilitate cross-border resolution of assets	Likely to aid resolution and recoveries for banks; many stressed asset resolutions have failed due to complex corporate structures and overseas assets
Reduction in recapitalisation for public sector banks (PSBs) for FY2022 to Rs. 150 billion from Rs. 200 billion; no recapitalisation of PSBs budgeted for FY2023	Neutral impact as credit profile and capitalisation profile of most banks comfortable

CAPITAL GOODS

PROPOSALS	VIEW
Significant ramp up in capital expenditure by Government of India across infrastructure sectors with outlay increased by 25% to Rs. 7.50 trillion for FY2023	Ramp up in capex budgeted by the Government of India for FY2023 across various infrastructure segments is a positive for capital goods players
Increase in allocation by Rs. 195 billion for PLI scheme for integrated solar module manufacturing	Increase in PLI allocation by Rs. 195 billion will support incremental investments to augment integrated module manufacturing capacity by about 40 GW
Allocation of Rs. 111.46 billion for Reform Linked Distribution Scheme and strengthening of power systems	Allocation to reforms-based, result-oriented scheme for discoms, continued thrust on RE capacity addition, and Green Energy Corridor remain positives for OEMs
Allocation of Rs. 64.31 billion for renewable energy (RE) sector to promote wind and solar capacity (including KUSUM scheme) as well as Green Energy Corridor	Further, higher allocation to transportation (road and railways) would support building the order pipeline for capital goods players
Capex outlay for railway infrastructure increased by 28% to Rs. 1.37 trillion in FY2023	Increase in capital procurement budget of defence forces earmarked for domestic industry is positive for domestic capital goods players
Proposal to meet 68% of the capital procurement needs of the Defence sector from domestic players in FY2023	Imposition of tariff on capital goods and project imports will promote domestic manufacturing of engineering products
Proposal to phase out concessional rates and impose tariff of 7.5% on capital goods and project imports to promote domestic manufacturing	While all these measures are positive for capital goods players, the timely implementation of the policy measures and investment schemes remains important

CEMENT

PROPOSALS

- Continued focus on agriculture sector and rural development, as reflected in an increase in budgetary allocation by 2% to Rs. 2.7 trillion in FY2023 (budgeted estimates; BE) compared to FY2022 (BE)
- Target construction of 80 lakh houses under Pradhan Mantri Awas Yojana (PMAY), both rural and urban, supported by budgetary allocation of Rs. 480 billion in FY2023 (BE), similar to FY2022 (RE)
- Significant increase of 25% in capital expenditure to Rs. 7.5 trillion in FY2023 (BE) over FY2022 (BE) and by 24% over FY2022 (RE). Special assistance as loans to states for capex increased to Rs. 1 trillion in FY2023 (BE) from Rs. 150 billion in FY2022 (RE)
- Capex for Railways budgeted to increase by 14% to Rs. 2.5 trillion and roads and highways by 5% to Rs. 2.1 trillion in FY2023 (BE) over FY2022 (BE), while that for metro and Mass Rapid Transport System (MRTS) projects remained stagnant at Rs. 0.2 trillion

VIEW

GoI's focus on agri-economy and rural development is expected to support income for farm households and thereby support demand for rural housing, which is a significant contributor (of around 30%) to overall cement demand

PMAY improved access to housing in the low to mid-income segment of the population and continued focus on PMAY allocation is likely to support cement demand

Infrastructure sector accounts for 20-25% of total cement demand; continued focus of the Government on infrastructure spend is expected to bolster cement demand

CHEMICALS

PROPOSALS	VIEW
Duty reduction on key feedstocks like acetic acid and methanol	Should be favourable for entities dependent on imported feedstock such as manufacturers of formaldehyde like Hindustan Organic and Chemical Limited and Atul limited and purified terephthalic acid (PTA) manufacturers like Materials Chemicals and Performance Intermediaries Private Limited (MCPI), Reliance Industries Limited, Indian Oil Corporation Limited etc.. However, for domestic manufacturers of acetic acid and methanol like Assam Petrochemicals, GNFC, GSFC, this will be unfavourable
Exemptions are proposed to be gradually phased out and a graded duty structure is likely to be followed	Should benefit the chemicals for which duty structure is rationalized and exemptions under FTAs are removed and will support increase in intermediate product manufacturing in India. This will also reduce import dependence on feedstock for specialty chemical sector.
Increase in duty on Sodium Cyanide	Should be favourable for domestic manufacturers like Gujarat Alkalis and Chemicals Limited. Further, this can also support further domestic capacity addition
Extension of incentive for newly incorporated manufacturing entities under concessional tax regime	The date for commencement of production has been extended by one year to avail the concessional tax rate of 15% for newly incorporated domestic manufacturing companies. Should be favourable for entities setting up capacities, but have witnessed delays in execution. Can also lead to additional capacity addition

ELECTRIC VEHICLES

PROPOSALS	VIEW
Battery swapping policy will be brought out and inter-operability standards will be formulated	Lack of adequate charging infrastructure and range anxiety is a key deterrent for EV penetration. Battery swapping is likely to gain acceptability in commercial applications like e2W and e3W and will help faster penetration in these segments, if implemented effectively. Further, this move will help battery manufacturers to reduce cost through economies of scale.
Initiatives proposed for EV penetration in public transport and creation of special mobility zones for EVs	Has been implemented in other regions like East Asia and Europe to promote EVs. Will aid in increased EV adoption in addition to allocations under FAME II scheme.
Energy storage systems to be included in harmonised list of infrastructure	Will facilitate easier credit availability and cheaper financing for EV segment.
Reduction in customs duty for nickel ore and concentrates from 5% to nil, ferro nickel from 15% to 2.5%, nickel oxide and hydroxide from 10% to nil	Nickel Manganese Cobalt is a key chemistry used in lithium-ion batteries, which are used in EVs. Nickel alloys are primarily imported and reduction in customs duty will aid indigenous EV battery manufacturers in reducing production costs.
Reduction in customs duty for parts of electric motors or generators from 10% to 7.5%	Motors and controllers are critical EV components, and have moderate levels of localisation currently. Reduction in customs duty will help reduce the cost of EVs.

FERTILISER

PROPOSALS	VIEW
Approval for additional subsidy for FY2021-22 of Rs. 605.6 billion	Credit profile of the sector to remain stable given the sharp increase in subsidy requirement during the year
Subsidy allocation for FY2022-23: Rs. 1052.1 billion	Subsidy allocation remains lower than the estimated requirement of Rs. 1,300-1,400 billion; however, ICRA expects the GoI to make additional allocations if needed as the year progresses as witnessed during the last two fiscals
Subsidy on urea for 2022-23: Rs. 632.1 billion (BE) against Rs. 759.0 billion 2021-22 (RE)	Urea subsidy allocation reduced for imported urea as nearly 3.8 MMT of additional production is likely to come online in FY2022-23; indigenous urea subsidy allocation marginally lower
Subsidy on de-controlled fertilisers for 2022-23: Rs. 420 billion (BE) against allocation for 2021-22 at Rs. 641.9 billion (RE)	Subsidy allocation reduced for P&K fertilisers with view of expected moderation in international prices; currently expected to remain inadequate to meet full year expected requirement

HEALTHCARE

PROPOSALS	VIEW
Budgetary allocation towards healthcare increased by 16.1% to ~Rs. 866 billion for 2022-23 (budgeted estimates; BE) from ~Rs. 746 billion for 2021-22 (BE)	As healthcare expenditure was very high during the second wave of the Covid-19 pandemic and assuming that there are no severe waves in FY2023, the increased allocation compared to the FY2022 BE is a welcome move
Rollout of open platform for National Digital Health Ecosystem consisting of digital registries of health providers and health facilities	Expected to pave the way for digitising data on healthcare service providers and improve access to health facilities
Launch of National Tele Mental Health programme with network of 23 tele-mental health centres of excellence	Progressive step towards improving access to quality mental healthcare services as the pandemic has brought mental healthcare issues to the forefront
Flattish allocation towards National Health Mission (NHM) – ~Rs. 378 billion	While Revised Estimates show a decline from 2020-21 actual spend for NHM, presumably due to pandemic-induced disruptions, continued large allocation reflects focus on achieving universal access to affordable and quality healthcare services
Multi-fold increase in allocation towards Pradhan Mantri Ayushman Bharat Health Infrastructure Mission	Increase in allocation to Rs. 41.77 billion from Rs. 5.85 billion reflects Government's focus towards improving health coverage
Reduction in customs duty on some medical equipment and consumables	Expected to result in reduced prices for imported equipment/consumables such as orthopaedic crutches, surgical sutures, defibrillators, catheters, etc.

HOTELS

PROPOSALS

- Proposal to extend Emergency Credit Line Guarantee Scheme (ECLGS) till March 2023 and enhance guarantee cover by Rs. 50,000 crore to total cover of Rs. 5 lakh crore, with the additional amount being earmarked exclusively for hospitality and related enterprises

VIEW

Hospitality remains one of the worst-hit sectors from the Covid-19 pandemic. The industry has been affected by the pandemic-related lockdowns/restrictions on mobility imposed by various states and increased wariness to travel due to fear of infection. The industry has been a key beneficiary of the Reserve Bank of India's (RBI) moratorium and the ECLGS provided as a part of the pandemic relief since March 2020. This move will enhance the immediate-term liquidity for the industry

INFRASTRUCTURE

PROPOSALS	VIEW
Significant increase (+25% YoY) in capital expenditure to Rs. 7.5 trillion in FY2023. Capital outlay for Railways increased by ~14% to Rs. 2.45 trillion. Budgetary support towards National Highways Authority of India (NHAI) has increased sharply by 106% to Rs 1.34 trillion	GoI's plan to push capex, of which a major portion is towards infrastructure, augurs well for the sector. Roads and Railways continue to get the dominant share of the allocation. Support to NHAI has been doubled, which will reduce its dependence on debt
Special assistance as 50-year interest-free loans to states for capex increased to Rs. 1 trillion (from Rs. 150 billion)	Support to states for capex will help state governments increase the pace of capex and is a significant positive for infrastructure sectors like roads, irrigation, and water supply
Budgetary allocation for National Investment and Infrastructure Fund (NIIF) at Rs. 50 billion	This will enable NIIF to invest in infrastructure assets and help the sector attract foreign capital
Proposal to allow surety bonds as a substitute for bank guarantees in Government procurement	This will reduce the margin money/collateral requirement and help improve liquidity and reduce indirect costs for contractors
Provision for release of 75% of running bills mandatorily within 10 days	This will improve the cash conversion cycle of contractors and support their credit profiles

INSURANCE

PROPOSALS

- No recapitalisation of public sector general insurance companies

VIEW

A credit negative, given the stretched solvency position of some of the public sector insurance entities

OIL & GAS

PROPOSALS	VIEW
Provision of fuel subsidy for sensitive petroleum products stands at ~Rs. 40 billion for FY2023 (BE) (only DBTL on LPG sales)	The subsidy allocation may be inadequate if international prices of crude oil continue to rise and there is resistance from consumers to further price hikes
Additional excise duty of Rs. 2/litre on unblended fuel with effect from October 1, 2022	Additional excise duty on unblended fuel would accelerate consumption of blended fuel
Customs duty on heavy feed stocks for petroleum refining has been reduced	Reduction in customs duty on heavy feed stocks would promote efficient use of alternative hydrocarbon streams for refinery optimisation
Allocation of Rs. 8 billion for LPG connection to poor households	Continued emphasis on free LPG connections under the "Ujjwala Yojana" will be a positive for the PSU OMCs as the same will lead to faster growth in LPG sales. However, it may also lead to a rise in LPG subsidies at higher crude oil prices.
Allocation of ~Rs. 18 billion as capital expenditure for Indradhanush Gas Grid pipeline project	Adequate subsidy for the Indradhanush Gas Grid pipeline project will improve viability of the project
Allocation of Rs. 8.1 billion for strategic oil reserve projects	Allocation of Rs. 8.1 billion for Indian Strategic Petroleum Reserves Limited would provide comfort for oil consumption by the country in case of any emergency

PORTS, INLAND WATERWAYS AND SHIPBUILDING

PROPOSALS	VIEW
Allocation of Rs. 4.1 billion for Sagarmala Project (PY Rs. 3.9 billion)	Due to modest size of budgetary allocation, the impact on sector is expected to be neutral
Allocation of Rs. 1.1 billion for shipbuilding, research and development (PY Rs. 1.0 billion)	Due to modest size of budgetary allocation, the impact on sector is expected to be neutral
Allocation of Rs. 5.4 billion capital grant for Inland Water Transport Authority of India (PY Rs. 4.8 billion)	Around 12.5% increase in capital grant for IWAI is positive for the inland waterways infrastructure creation.

ICRA

POWER

PROPOSALS

- Sovereign green bonds to be issued for public sector projects to reduce carbon footprint
- Increase in allocation for PLI schemes by Rs. 195 billion for integrated solar module manufacturing
- Extension of timeline for concession tax regime of 15% for new manufacturing companies to March 31, 2024 from March 31, 2023
- Provision of 0.5% in fiscal deficit for states linked to power sector reforms
- Energy **s**torage **s**ystems including grid-scale battery systems will be given infrastructure status to facilitate credit availability
- 5-7% co-firing of biomass pellets in coal fired thermal plants to reduce carbon emission intensity
- Focus on clean technology in public transportation and promotion of energy efficiency measures in commercial buildings through the ESCO model

VIEW

- Sovereign green bonds for public sector projects are a positive for CPSUs, which will enable them to competitively meet their funding requirements in RE cost
- Increase in PLI allocation by Rs. 195 billion will support incremental investments to augment integrated module manufacturing capacity by about 40 GW
- Extension of timeline for commencing production to avail the concession tax regime of 15.0% is a positive for new power generation units
- Infrastructure status to energy storage systems will facilitate availability of credit, given the need for storage capacity to enable efficient integration of RE generation.
- Provision of an additional leeway of 0.5% in fiscal deficit for states tied to power sector reforms are likely to support the cause of distribution segment reforms and lead to an improvement in the financial position of state-owned distribution utilities
- Finally, the Government's increased capital expenditure allocation is likely to boost energy demand growth, which ICRA estimates at about 6.0-6.5% for FY2023
- Policy focus remains on renewable energy (RE) in line with the objective to reduce carbon footprint of the economy

REAL ESTATE

PROPOSALS	VIEW
▪ 80 lakh houses to be completed in FY2023 under Pradhan Mantri Awas Yojana (PMAY) with allocation of Rs. 48,000 crore	The allocation is largely same as the revised estimate for FY2022, but higher than the Budget estimate of Rs. 28,000 crore for FY2022. There was no increase in the income tax deduction on housing loans, nor extensions in some of the concessions announced in the earlier Budgets, which could have provided a significant boost to the industry
▪ Contracts for implementation of Multimodal Logistics Parks at four locations through PPP mode will be awarded in FY2023	ICRA expects the industrial real estate segment to get boost through various measures for logistics and manufacturing entities, including but not limited to Multimodal Logistics Park, Production Linked (PLI) scheme, and extension of tax benefit for new manufacturing entities
▪ Unique land parcel identification and digitisation of land records to provide uniform land registration process across the country	One-nation-one-registration is a structural reform for the real estate sector in the country and will facilitate land transactions and sale deed registration from anywhere in the country
▪ The Special Economic Zones Act will be replaced with a new legislation that will enable the states to become partners in Development of Enterprise and Service Hubs	The proposed overhaul of SEZ legislation may have a significant bearing on the commercial real estate sector

ROADS & HIGHWAYS

PROPOSALS	VIEW
The gross budgetary support for the Ministry of Road Transport & Highways increased by 73% to Rs. 1.87 trillion in BEFY2023 from Rs. 1.08 trillion in BEFY2022 and is 55% higher than REFY2022 of Rs. 1.21 trillion. Also, additional Rs. 200 billion is proposed to be raised through NHAI's SPV/asset monetisation.	Asset monetisation target of Rs. 200 billion in FY2023 can be comfortably met given the strong appetite for road assets witnessed in FY2022.
However, including the IEBR (market borrowings) and asset monetisation proceeds for the NHAI, the total allocation for the road sector increased marginally by 4.8% to Rs. 2.08 trillion in BEFY2023 as against Rs. 1.98 trillion in BEFY2022	The Government relaxed the fiscal deficit targets to meet the huge funding requirements for productive asset creation, failing which both the Bharatmala and the NIP could have been jeopardised.
PM Gatishakti Master Plan for Expressways will be formulated in 2022-23 to facilitate faster movement of people and goods. The National Highways network will be expanded by 25,000 km in 2022-23.	Given the rising debt levels at the NHAI, the GoI decided to fund the capital outlay for the national highway projects largely through budgetary support in FY2023.
Allocations to the Pradhan Mantri Gram Sadak Yojana (PMGSY) increased to Rs. 190 billion in BEFY2023 from Rs. 150 billion in BEFY2022 and Rs. 140 billion in REFY2022	Increase in allocations to the PMGSY will support the order book addition of small and mid-sized construction contractors
Payment of 75% of running bills mandatorily within 10 days	Provision on payment of 75% of running bills mandatorily within 10 days will improve the working capital cycle of contractors

STEEL

PROPOSALS	VIEW
Capital outlay for infrastructure projects raised by 25%; capex budget for the Indian Railways increased by 14.3%; allocation to Metro and MRTS projects increased by 15.5%; capital outlay for road projects by NHAI and Ministry of Roads increased by 8.4%	Investments centered around the Gatishakti Master Plan in core sectors like Railways, Roadways, Multimodal Logistics Parks, and Energy have the potential for spurring steel demand
Allocation towards Pradhan Mantri Awas Yojana scheme increased by 74.5%	Increased spending in affordable housing a positive for long steel players
Allocation towards Jal Jeevan Mission scheme increased by 20.0%	Continued thrust on increasing drinking water connectivity a positive for pipe manufacturers
Extension of waiver of customs duty on ferrous scrap in FY2023	This announcement is expected to extend the duty relief to secondary steel players, and is consistent with the intent to reduce carbon footprint in steelmaking
Withdrawal of Anti-dumping and Countervailing Duties (ADD/ CVD) protection on straight length bars and rod of alloy steel, high speed steel of non-cobalt grade, flat rolled products of steel (Al or zinc coated), hot rolled and cold rolled stainless steel flat products	Waiver of duty protection on certain steel products remain the only notable negative announcement. This would exert pressure on domestic prices in case of a steep correction in international prices of these products

TELECOM

PROPOSALS	VIEW
5G spectrum auctions proposed in 2022 with rollout by private telcos starting 2023	Technology upgrade to 5G will act as the next growth driver for the industry and the earlier announced relief package by the GoI provided some headroom for the industry to take up 5G-related capex
Focus on increasing penetration of broadband services in rural and remote areas by allocation of 5% annual collections under USOF	Proliferation of broadband and communication services to under-penetrated markets augurs well for the GoI's Digital India programme
Increasing fibre penetration under Bharanet project	Bharatnet project under the PPP model is likely to increase fibre penetration and increase the use of e-services in rural and remote areas
Data centres given infrastructure status to facilitate credit availability	Infrastructure status for data centres, which are likely to be a healthy growing segment, will facilitate credit availability and capacity creation and increase the use of localised data centre services
Focus on increasing digital penetration	Fully aligned with the GoI's focus of creating a robust digital infrastructure, including e-learning, digital health, digital services to farmers, etc.
The BE for non-tax receipts from telecom sector stands at Rs. 528 billion and is likely to include upfront payment from the proposed 5G spectrum auctions	As part of the relief package, the GoI offered a moratorium on deferred spectrum and AGR payments and thus it is likely that the BE for FY2023 at Rs. 528.1 billion assumes some inflow of upfront payment towards the proposed 5G spectrum auctions
The revised estimate of non-tax revenues from communication services for FY2022 stood at Rs. 719.6 billion, higher than the budget estimate of Rs. 539.9 billion	The revised estimate (RE) of non-tax revenues from communication services for FY2022 stood higher at Rs. 719.6 billion mainly because the telcos prepaid some of their deferred liabilities in the previous auctions

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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.

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