EXPECTATIONS

UNION BUDGET 2023-24

ICRA

#BudgetwithICRA

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Highlights - I

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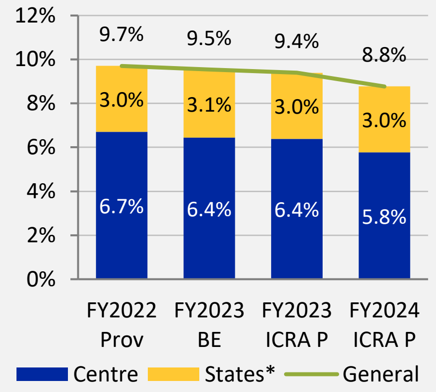
EXHIBIT: Fiscal deficit (% of GDP)



*BE: Budget estimate; P: Projected; *including 27 states, except Goa; Source: Budget documents; CGA; ICRA Research*

In the backdrop of a global growth slowdown and geopolitical uncertainty, the FY2024 Union Budget needs to balance supporting growth in economic activity and fiscal consolidation. ICRA foresees the Government of India's (GoI's) fiscal deficit at 5.8% of GDP in the FY2024 budget, lower than 6.4% of GDP expected in FY2023. The Budget math and the extent of the fiscal consolidation would depend on factors such as the market-driven level of fertiliser subsidy, savings from discontinuation of the erstwhile Pradhan Mantri Garib Kalyan Ann Yojana (PMGKAY)* and the level of budgeted capex as well as disinvestment receipts. Moreover, the upcoming Budget should provide a clear fiscal glide path for the medium term to underscore the GoI's commitment to reduce its fiscal deficit over the next 2-3 years.

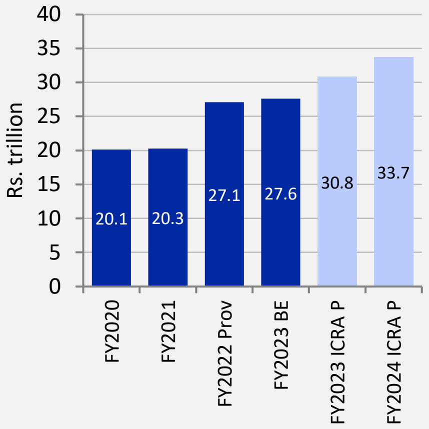
ICRA's expectations for FY2023:

- **ICRA foresees a considerable upside of Rs. 2.1 trillion to the GoI's net tax revenues in FY2023, largely on account of direct tax collections and GST inflows, amid lower Union excise revenues owing to the duty cuts on petrol and diesel.** On the expenditure side, we estimate the total spending in the current fiscal to exceed the Budget Estimate (BE) by Rs. 2.3 trillion, lower than the net cash outgo announced in the first supplementary demand for grants (Rs. 3.3 trillion), after taking into account our expectations of expenditure savings by ministries/departments.
- **We foresee the fiscal deficit of the GoI to exceed the BE by Rs. 0.8 trillion. However, as a proportion of GDP, the fiscal deficit in FY2023 is unlikely to exceed the FY2023 BE of 6.4%, on a higher nominal GDP (Rs. 273.1 trillion as per the NSO's First Advance Estimates) vis-à-vis the budgeted figure (Rs. 258 trillion).** This, along with rise in interest rates for small savings schemes, suggests a muted likelihood for the need for upward revision in the GoI's planned market borrowings in the remaining part of FY2023.

*A new integrated food security scheme has been implemented from Jan 2023 onwards, also coined as PMGKAY

Highlights - II

EXHIBIT: GoI's gross tax revenues



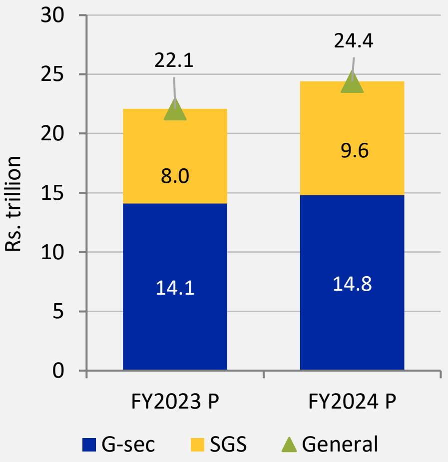
Source: Budget documents; CGA; ICRA Research

ICRA's expectations for FY2024:

- **In the backdrop of a global growth slowdown and geopolitical uncertainty, the FY2024 Union Budget needs to balance growth supportiveness and fiscal consolidation.** We expect a further boost in capital expenditure in the FY2024 Budget and continued support towards the rural economy. In addition, the announcement of a big-bang feel-good social sector scheme could be funded by the cushion provided by lower expenditure on subsidies.
- **We estimate the GoI's gross tax revenues (GTR) at ~Rs. 34 trillion in FY2024, a YoY expansion of 9.4% (over projected level for FY2023), with growth in direct taxes likely to outpace that in indirect taxes.** The latter is expected to be constrained by customs duty collections and reversion of excise duty on auto fuels to pre-Covid levels. The estimated growth in GTR is similar to our nominal GDP growth forecast of 10% for FY2024, implying a tax buoyancy of ~1.0, in line with the decadal average seen during FY2010-19.
- **We project the GoI to target a double-digit growth in capex of ~Rs. 8.5-9.0 trillion in FY2024, as against Rs. 7.5 trillion expected in FY2023 (in line with BE).** In contrast, revex is likely to rise by a relatively muted 2.8%, aided by a lower outgo on account of food and fertiliser subsidy, with the former being supported by expected savings on account of implementation of new integrated food security scheme, coined as PMGKAY, which had earlier provided free foodgrains over and above the National Food Security Act (NFSA) mandate. Thus, growth in total expenditure may remain modest at ~4.7-5.9% in FY2024, although the quality of spending would improve, with a rise in the share of capex in the GoI's total expenditure (to ~19.5-20.4% in FY2024 from ~18% as per ICRA's FY2023 est.).
- **Given the GoI's efforts to remain on the fiscal glide path, we anticipate that a moderate fiscal correction would be attempted in the FY2024 BE,** depending on factors such as the market-driven level of fertiliser subsidy, savings from discontinuation of the free foodgrains scheme and the level of budgeted capex as well as disinvestment receipts.

Highlights - III

EXHIBIT: ICRA's projection for gross market borrowings in FY2023-24



BE: Budget estimate; P: Projected; Source: Budget documents; CGA; ICRA Research

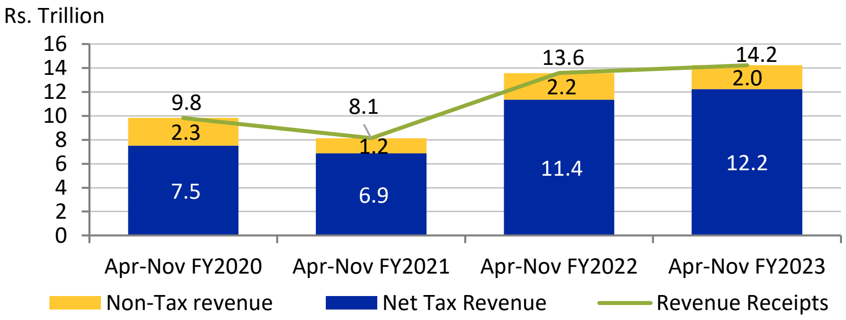
We anticipate the fiscal deficit in FY2024 to be budgeted at Rs. 17.3 trillion (5.8% of GDP; based on a nominal GDP of Rs. 300.4 trillion), marginally lower than the Rs. 17.5 trillion projected for FY2023 (6.4% of GDP, based on NSO's first advance estimate for GDP).

- **For FY2024, the 15th FC had recommended a normal borrowing limit of 3.0% of the Gross State Domestic Product (GSDP) for the state governments.** Given this and our expectations of the GoI's fiscal deficit, the General Government (Centre and States) deficit is projected at 8.8% of GDP in FY2024, the lowest since FY2020 (6.8% of GDP).
- **Net General Government dated market borrowings for FY2024 are pegged to rise to Rs 17.2 trillion from the projected Rs. 16.5 trillion for FY2023.** With larger redemption of G-sec and SGS, the gross borrowings are estimated to increase to ~Rs. 24.4 trillion in FY2024 from the projected Rs. 22.1 trillion in FY2023. This is likely to push up yields, even as we foresee a lower quantum of repo rate hikes in CY2023 (0-25 bps), compared to the 225 bps that had happened during May-Dec 2022.

FISCAL PERFORMANCE OF GOVERNMENT OF INDIA IN FY2023

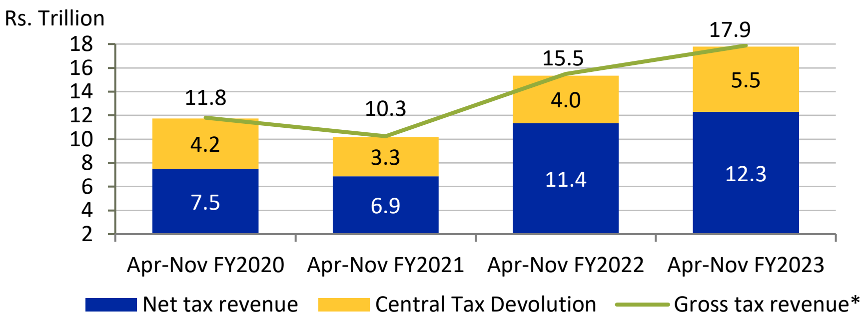
GoI's revenue receipts rose by 4.7% during 8M FY2023, despite contraction in non-tax revenues; growth in net tax revenues lagged gross tax revenues

EXHIBIT: GoI's revenue receipts, net tax revenues and non-tax revenues



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

EXHIBIT: GoI's net tax revenues, central tax devolution and gross tax revenues



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

- The GoI's revenue receipts expanded by 4.7% on a YoY basis to Rs. 14.2 trillion in Apr-Nov FY2023 (64.6% of FY2023 BE) from Rs. 13.6 trillion in Apr-Nov FY2022 (62.7% of FY2022 Prov.). While net tax revenues recorded a healthy YoY growth of 7.9% (to Rs. 12.2 trillion in Apr-Nov FY2023 from Rs. 11.4 trillion in Apr-Nov FY2022), this was mildly offset by the contraction in non-tax revenues (-11.1%; to Rs. 2.0 trillion from Rs. 2.2 trillion).
- Net of refunds (gross of devolution to states), the GoI's tax revenues expanded by 15.5% on a YoY basis to Rs. 17.8 trillion in Apr-Nov FY2023 (64.6% of FY2023 BE) from Rs. 15.4 trillion in Apr-Nov FY2022 (56.9% of FY2022 Prov.).
- The divergence in growth rates between gross and net tax revenues during Apr-Nov FY2023 reflects the relatively higher YoY expansion of 36.8% in the taxes devolved to states during this period. This was led by the double instalment transferred during Aug 2022 and Nov 2022 amounting to Rs. 1.2 trillion each. Overall, the central tax devolution (CTD) to states rose to Rs. 5.5 trillion during the first eight months of FY2023 from Rs. 4.0 trillion in the corresponding period of FY2022.

Direct tax collections rose by ~24% during Apr-Nov FY2023; expected to exceed FY2023 BE by Rs. 2.2 trillion, implying a growth of 18.4% over the FY2022 Prov

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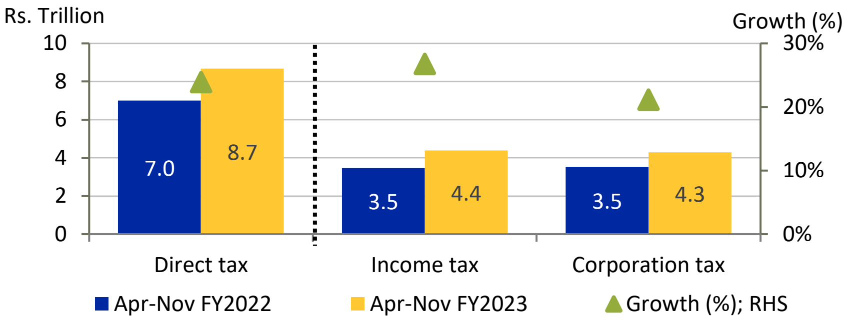
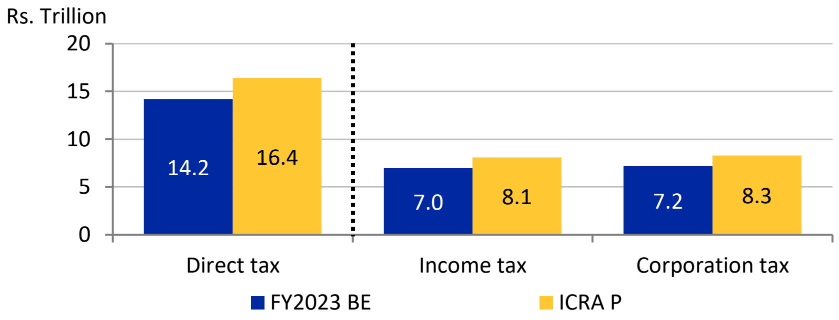
EXHIBIT: Trends in direct taxes in Apr-Nov FY2022-23



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

EXHIBIT: Trends in direct taxes in FY2023 BE vs. ICRA's projections for FY2023



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

- The 15.5% YoY expansion in gross tax revenues during Apr-Nov FY2023 was led by the healthy uptick in direct taxes (YoY: +23.9%; 61.0% of FY2023 BE), followed by a relatively low growth in indirect taxes (+7.2%; 66.8% of FY2023 BE).
- Direct taxes rose to Rs. 8.7 trillion in Apr-Nov FY2023 from Rs. 7.0 trillion in Apr-Nov FY2022, led by income tax (YoY: +26.7%; 62.7% of FY2023 BE) as well as corporation tax (YoY +21.1%; 59.5% of FY2023 BE), benefitting from the continued formalisation of the economy. Further, as per the press release dated Jan 11, 2023, the GoI has collected direct taxes (net of refunds) of Rs. 12.3 trillion in FY2023 so far (till Jan 10, 2023), indicating a healthy YoY growth of 19.6% (FY2023 BE: +2.5%), driven by both personal income (YoY: +21.0%, including securities transaction tax) and corporation tax (+18.3%).
- **We expect corporate and income tax collections to grow by ~12-14% YoY during Dec-Mar FY2023, well below the growth seen during Apr-Nov FY2023, on account of the base effect. Accordingly, direct taxes in FY2023 are expected to exceed the BE of Rs. 14.2 trillion by a considerable Rs. 2.2 trillion, split equally between corporation tax and income tax. This would imply a growth of 18.4% over the FY2022 prov. against the 2.5% growth embedded in the BE.**

CGST collections likely to exceed FY2023 BE by ~Rs. 1.3-1.4 trillion

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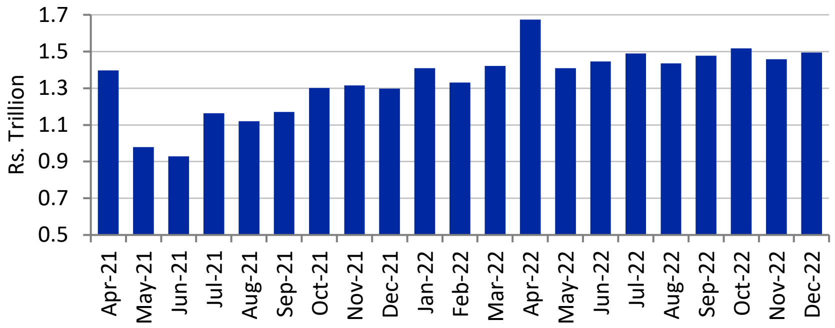
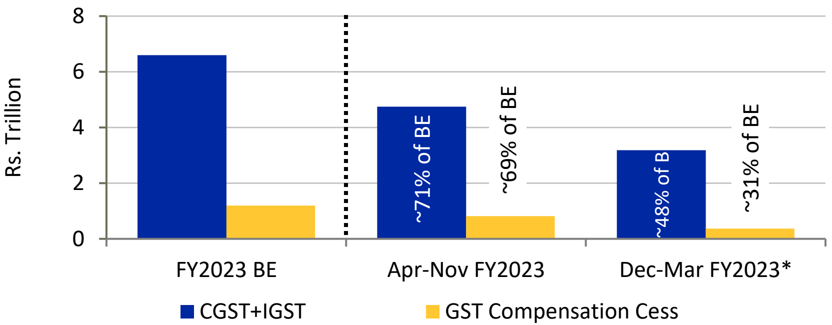
EXHIBIT: Monthly GST collections



Source: Ministry of Finance, GoI; ICRA Research

EXHIBIT: Trends in CGST + IGST and GST compensation cess

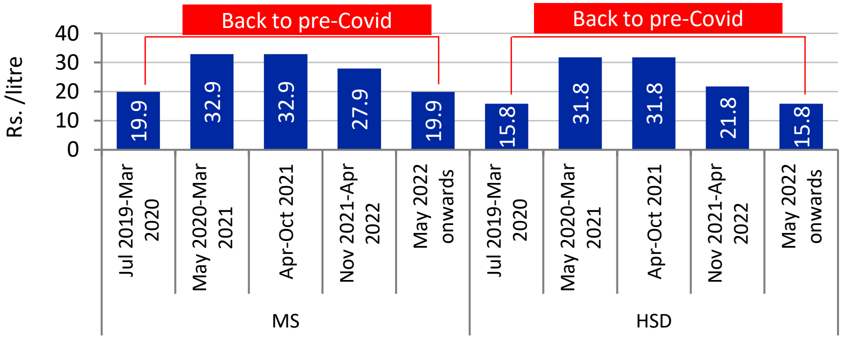


**Based on ICRA's projections; Source: CGA, Ministry of Finance, GoI; ICRA Research*

- 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 7.2% to Rs. 8.1 trillion in Apr-Nov FY2023 (66.8% of the FY2023 BE) from Rs. 7.6 trillion in Apr-Nov FY2022 (63.6% of FY2022 Prov.).
- This was largely driven by a healthy growth in GST collections; the combined CGST and IGST collections expanded by 23.0% to Rs. 4.7 trillion during Apr-Nov FY2023 (72.0% of the FY2023 BE) from Rs. 3.9 trillion in Apr-Nov FY2022 (65.0% of FY2022 Prov.).
- For December 2022, the Ministry of Finance indicated vide a press release that the aggregate GST collections rose by 15.2% YoY to Rs. 1.5 trillion, benefitting from healthy generation of e-way bills, continued anti-evasion activities and growth in revenue from imports (+8%). **We foresee an upside of ~Rs. 1.3-1.4 trillion relative to the FY2023 BE for CGST collections.**
- Additionally, GST compensation cess inflows aggregated to Rs. 825.0 billion in Apr-Nov FY2023, 68.7% of the FY2023 BE (Rs. 667.9 billion in Apr-Nov FY2022; 63.9% of FY2022 Prov.). We do not expect the FY2023 BE of Rs. 1.2 trillion for the GST compensation cess to be missed.

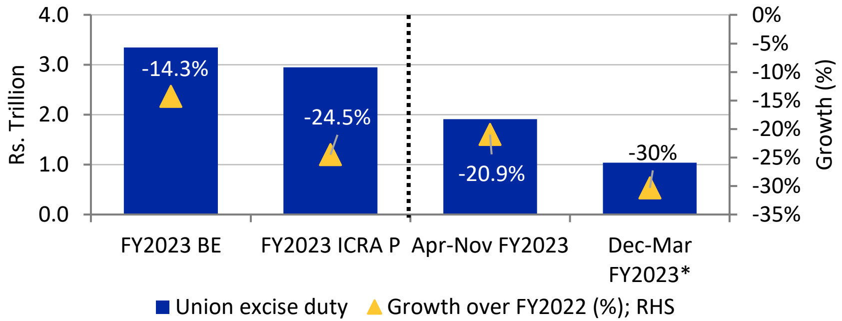
Excise duty collections contracted 21% YoY in Apr-Nov FY2023 on account of duty cuts on petrol, diesel; expected to trail FY2023 BE by Rs. 0.3-0.5 trillion

EXHIBIT: Centre's excise duty rates on unbranded motor spirit (MS) and high-speed diesel (HSD)



Excise duty mix consists of four types: Basic Excise Duty, Special Additional Excise Duty, Agri Infrastructure and Development Cess; and Road and Infrastructure Cess; Source: CBIC; ICRA Research

EXHIBIT: Trends in customs duty collections

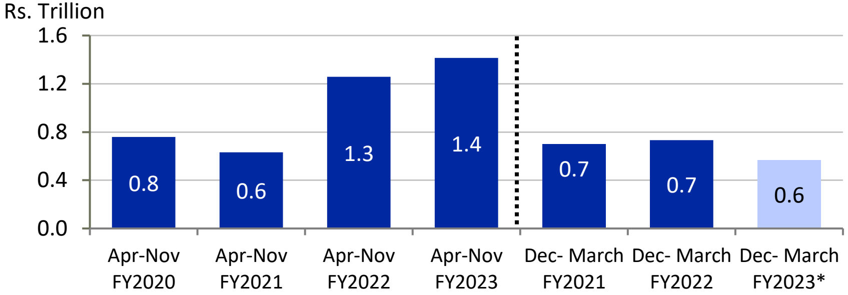


*P: Projected; *Based on ICRA's projections; Data labels represent growth over corresponding period of FY2022; Source: CGA, Ministry of Finance, GoI; ICRA Research*

- The GoI's excise duty collections contracted sharply by 20.9% YoY to Rs. 1.9 trillion in Apr-Nov FY2023 (57.1% of FY2022 BE) from Rs. 2.4 trillion in Apr-Nov FY2022 (61.9% of FY2022 Prov.), reflecting the impact of the reduction in excise duties on petrol and diesel in May 2022, reverting to the levels of the pre-Covid period (July 2019-March 2020).
- The Centre is expected to bear a revenue loss of Rs. 860 billion from the aforesaid duty cut in FY2023, which will be partially offset by revenues from the imposition of the windfall tax on domestic crude oil production and special additional excise duty (SAED) on exports of MS, HSD and ATF w.e.f. July 2022. **Considering these developments, we expect the Union excise collections to fall short of the FY2023 BE by Rs. 0.3-0.5 trillion, entailing a YoY decline of ~30% in Dec-Mar FY2023.**

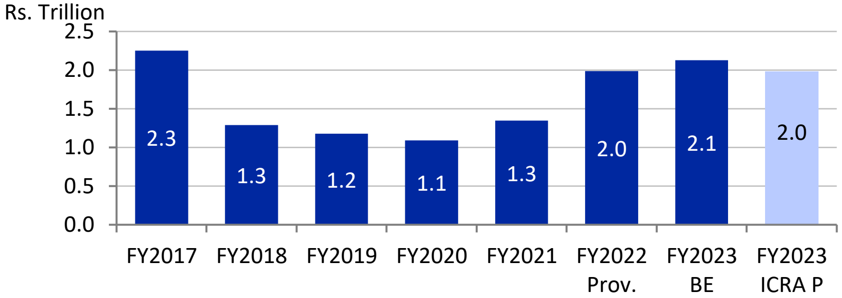
In contrast, customs duty collections rose in Apr-Nov FY2023, with surge in collections in recent months

EXHIBIT: Apr-Nov trends in customs duty collections



**Based on ICRA's projections; Source: CGA, Ministry of Finance, GoI; ICRA Research*

EXHIBIT: Annual Trends in customs duty collections

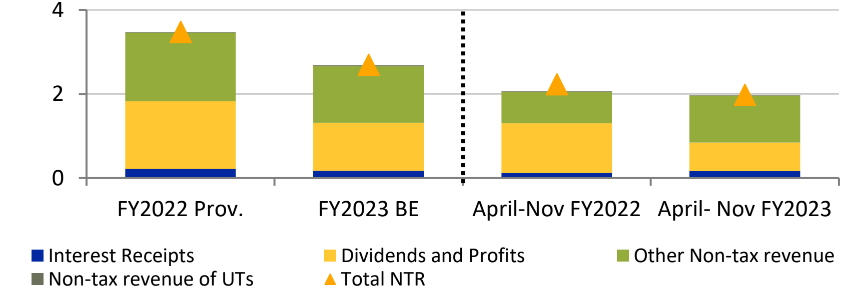


**Actuals for FY2017-21; RE: Revised Estimates; BE: Budget Estimates; P: Projected; Source: CGA, Ministry of Finance, GoI; ICRA Research*

- The GoI's customs duty collections rose by a healthy 12.4% to Rs. 1.4 trillion in Apr-Nov FY2023 (66.4% of FY2023 BE) from Rs. 1.3 trillion in Apr-Nov FY2022 (63.2% of FY2022 Prov.), with a YoY surge in collections during Sep-Nov 2022 (+53.5%) more-than-offsetting the decline seen during Apr-Aug 2022 (-14.3%).
- The GoI announced certain relaxations on duties/cesses on pulses, edible oils and other items, which are likely to have some bearing on revenues. While the relaxations on basic customs duty on some varieties of edible oils have been extended till March 2023, the agriculture infrastructure and development cess (AIDC) and social welfare surcharge (SWS) on these items continue to be in place.
- Gold imports declined by 18.1% YoY during Apr-Nov 2022, which may have dampened customs duty collections to some extent. Nevertheless, the healthy demand seen during the festive and marriage seasons despite a hike in basic customs duty on gold in July 2022 seems to have supported revenues in recent months on a YoY basis.
- **Assuming that the collections dip to Rs. 0.6 trillion in Dec-Mar FY2023 from Rs. 0.7 trillion in the year-ago period, we estimate customs duty collections at Rs. 2.0 trillion in FY2023, lower than the BE by a modest Rs. 0.1-0.2 trillion.**

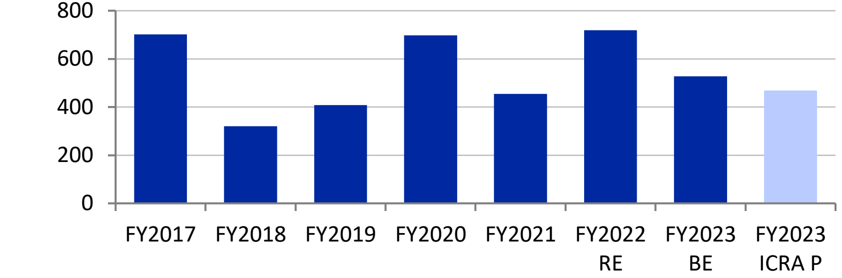
Non-tax revenues likely to undershoot FY2023 BE, largely owing to lower-than-budgeted surplus transfer by RBI

EXHIBIT: Trends in non-tax revenues and its constituents



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

EXHIBIT: Annual trends in receipts for other communication services

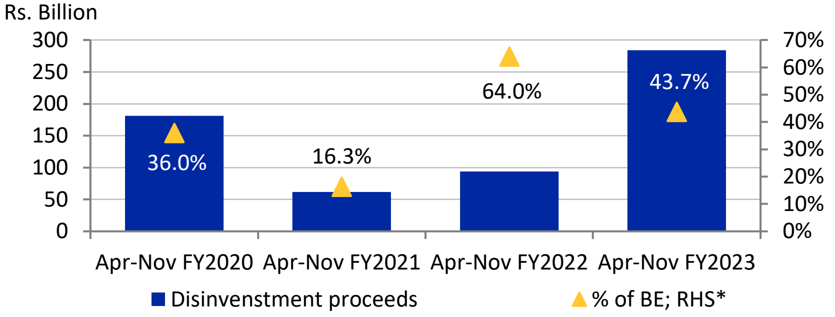


Note: FY2017-21 are actual figures; P: Projected; RE: Revised Estimates; BE: Budget Estimates; Source: Budget document, GOI; ICRA Research

- The GoI's non-tax revenues contracted by 11.1% to Rs. 2.0 trillion in Apr-Nov FY2023 (73.5% of FY2023 BE) from Rs. 2.2 trillion in Apr-Nov FY2022 (64.1% of FY2022 Prov.), driven by the decline in the RBI's surplus transfer in FY2023 (Rs. 0.3 trillion vs. Rs. 0.7 trillion in FY2023 BE). Consequently, dividends and profits contracted by 42.1% to Rs. 0.7 trillion in Apr-Nov FY2023 (59.9% of FY2023 BE) from Rs. 1.2 trillion in Apr-Nov FY2022 (73.3% of FY2022 Prov.).
- **Non-tax revenues are likely to undershoot the BE for FY2023 by ~Rs. 0.5 trillion, amid the lower-than-budgeted surplus transfer by the RBI. Moreover, losses reported by OMCs and the windfall tax imposed on crude oil production are likely to dampen their dividend payouts in FY2023.**
- **The GoI had budgeted receipts from telecom (other communication services) of ~Rs. 528 billion in FY2023, ~27% lower than that indicated in FY2022 RE.** In terms of individual components, licence fee and spectrum usage charges form a regular feature every year, which have been on an increasing trend over the last few years. With a moratorium on payment of deferred liabilities, the auction payments have been low. **For FY2023, we estimate such receipts to peg at ~Rs. 468 billion, including spectrum collections and other statutory collections, lower than the BE of ~Rs. 528 billion.**

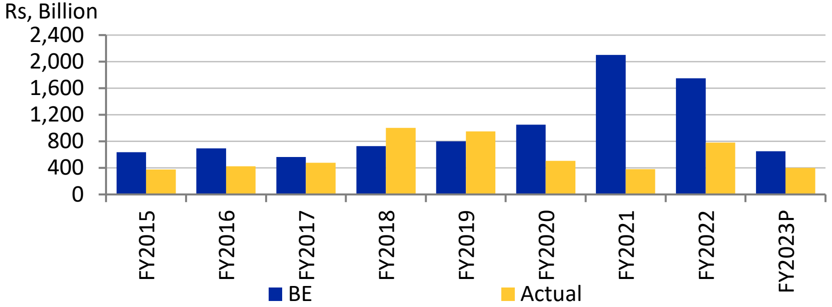
Disinvestment proceeds during Apr-Nov FY2023 were boosted by LIC stake sale; expected to undershoot FY2023 BE by ~Rs. 250 billion

EXHIBIT: Trends in disinvestment proceeds during Apr-Nov FY2020-23



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

EXHIBIT: Trends in disinvestment proceeds



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

- As per the CGA data, disinvestment inflows stood at ~43.7% of the BE, or Rs. 284.3 billion, during Apr-Nov FY2023 (Rs. 93.6 billion in Apr-Nov FY2022).
- According to the data provided by the Department of Investment and Public Asset Management (DIPAM), Ministry of Finance, GoI, the total receipts from disinvestment stood at Rs. 311.1 billion as on Jan 9, 2023. This includes sales of the GoI's stake in LIC (3.5% stake for Rs. 205.2 billion; IPO), ONGC (1.5% stake for Rs. 30.6 billion, including employee OFS), PPL (19.55% stake for Rs. 4.7 billion), and IRCTC (Rs. 27.2 billion) through the OFS route, and buyback of shares in GAIL (Rs. 4.97 billion). Additionally, the GoI received Rs. 38.4 billion by selling 1.5% stake in Axis Bank, which it held through SUUTI.
- Currently, EoIs have been closed for the Shipping Corporation of India Ltd., BEML Ltd., Pawan Hans Ltd., HLL Lifecare and Projects and Development India Ltd. Besides, the process of selling the GoI's 29.5% stake (worth Rs 360 billion at current market prices) in Hindustan Zinc is underway, in which some of the stake is planned to be sold in FY2023 and the rest in FY2024. In Oct 2022, the GoI had also invited bids for selling 60% stake in IDBI Bank (including 30% stake owned by the LIC), while the EoIs for ConCor, IMPCL, and Rashtriya Ispat Nigam Ltd. are in the pipeline - these transactions are likely to get completed in FY2024. **On balance, we anticipate that disinvestment receipts in FY2023 are likely to trail the BE of Rs. 650 billion by ~Rs. 250 billion.**

Revenue receipts to exceed the FY2023 BE by ~Rs. 1.7 trillion, led by overshoot in net tax revenues

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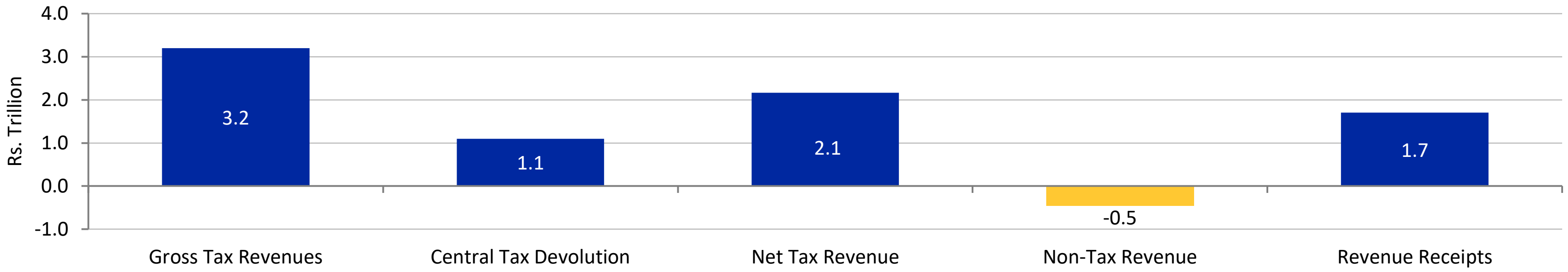
EXHIBIT: Expected upside/downside relative to FY2023 BE for key revenue aggregates

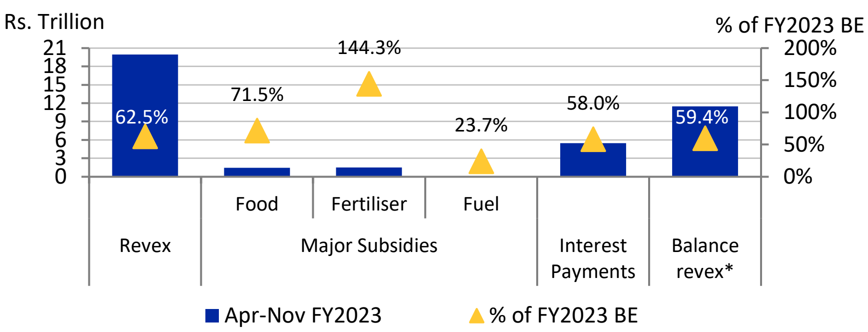


Source: CGA; ICRA Research

- We expect the GoI's gross tax revenues to exceed the FY2023 BE by a sharp ~Rs. 3.2 trillion, largely on account of direct taxes and CGST inflows. The implied YoY growth required in December-March FY2023 to meet our full year estimate is ~11%.
- Based on our projection for the gross tax revenue, tax devolution will need to be as high as Rs. 9.3 trillion in FY2023, overshooting the BE (Rs. 8.2 trillion) by ~Rs. 1.1 trillion, leaving Rs. 3.8 trillion to be transferred in Dec-March FY2023 (as per our estimates). While this is substantial, it is nearly Rs. 1.0 trillion lower than the transfer in the corresponding period of last year, offering a cushion in the remainder of this year.
- After making the CTD adjustment, the GoI's net tax revenues are expected to exceed the FY2023 BE by ~Rs. 2.1 trillion. Additionally, non-tax revenues are projected to undershoot the budgeted target for FY2023 by ~Rs. 0.5 trillion, mainly on account of the lower-than-budgeted surplus transfer by the RBI.
- **Revenue receipts are projected to exceed the FY2023 BE by ~Rs. 1.7 trillion, implying a growth of 9.5% over the FY2022 prov. (+1.7% in the BE)**.

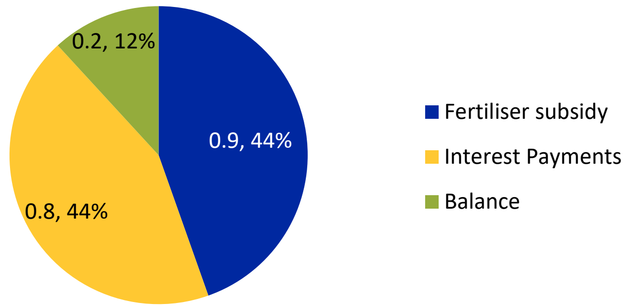
Revenue expenditure up by ~11% YoY during Apr-Nov FY2023, mainly driven by subsidies

EXHIBIT: Centre's revenue expenditure during Apr-Nov FY2023



excluding subsidy and interest payment outgo; Source: CGA, GoI; ICRA Research

EXHIBIT: Incremental revenue expenditure during Apr-Nov FY2023 compared to Apr-Nov FY2022 (Rs. trillion, share in revex)



Source: CGA, GoI; ICRA Research

- The GoI's revenue expenditure grew by 10.8% YoY to Rs. 20.0 trillion (62.5% of FY2023 BE) in Apr-Nov FY2023 from Rs. 18.0 trillion in Apr-Nov FY2022 (56.3% of FY2022 Prov.), led by a rise in the total outgo for major subsidies (+30.6%) and interest payments (+18.4%).
- The YoY rise in total outgo for major subsidies to Rs. 3.0 trillion in Apr-Nov FY2023 (94.7% of FY2023 BE) from Rs. 2.3 trillion in Apr-Nov FY2022 (51.7% of FY2022 Prov.), was primarily led by the ~133% YoY expansion in fertiliser subsidy, owing to the surge in input costs and supply disruptions. In contrast, the subsidy outgo towards fuel (+2.8%) recorded a muted growth, while that for food (-10.0%) declined YoY in Apr-Nov FY2023, with the latter partly reflecting the lower wheat procurement bill.
- Additionally, interest payments rose by 18.4% to Rs. 5.5 trillion in Apr-Nov FY2023 (58.0% of FY2023 BE) from Rs. 4.6 trillion in Apr-Nov FY2022 (57.2% of FY2022 Prov.).
- The balance revenue expenditure (excluding interest payments and subsidies) stood at Rs. 11.5 trillion during the first eight months of FY2023, mildly higher than Rs. 11.1 trillion during the corresponding period of FY2022.

GoI has pegged total net cash outgo under the First Supplementary Demand for Grants for FY2023 at Rs. 3.3 trillion, led by subsidies

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EXHIBIT: Major heads account for ~80% of the net cash outgo of Rs 3.3 trillion announced in the 1st Supplementary Demand for Grants for FY2023

Fertiliser subsidy: Rs. 861.7 billion			
Food subsidy: Rs. 803.5 billion		Fuel subsidy: Rs. 294.4 billion	
MNREGS: Rs. 287.7 billion	NEGF: Rs. 164.0 billion	MoRTH: Rs. 149.8 billion	GST Compensation Fund: Rs. 99.5 billion

MNREGS: Mahatma Gandhi National Rural Employment Guarantee Scheme; NEGF: National Employment Guarantee Fund; MoRTH: Ministry of Road, Transport and Highways; Source: DEA; ICRA Research

When Grants, authorised by the Parliament, fall short of the required expenditure, an estimate is presented before the Parliament for Supplementary or Additional Grants.

The total net cash outgo under the 1st Supplementary Demand for Grants (SDG) for FY2023 has been pegged at Rs. 3.3 trillion, largely dominated by subsidies towards food (PMGKAY extension till Dec 2022), fertilisers (P&K and urea) and fuel (grant-in-aid to OMCs for LPG operations, etc.), funds towards MNREGS, GST compensation fund, as well as capital outlay for Indian Railways for commercial lines.

Additionally, the capital expenditure has been augmented by ~Rs. 310.5 billion (Indian Railways and MoRTH), which should help to ensure that the capex target in the FY2023 BE is achieved.

Revenue expenditure overshoot in FY2023 over BE is likely to be on account of subsidies

ICRA

Food Subsidy

- While the extension of the provision of free foodgrains under the erstwhile PMGKAY* for nine months till Dec 2022 will cost Rs. 1.3 trillion to the GoI, a part of this is likely to be offset by the savings from the lower wheat procurement bill in the RMS FY2023.
- **Overall, we expect the food subsidy to exceed the FY2023 BE of Rs. 2.1 trillion by Rs. 1.0 trillion.**

Fertiliser Subsidy

- With the revision in NBS rates, the total subsidy allocation for P&K fertilisers (kharif + rabi) for FY2023 now stands at Rs. 1.12 trillion, against the BE of Rs. 420 billion.
- The elevated pooled gas prices have led to a rise in the subsidy requirement for the urea segment. ICRA expects this to be around ~Rs. 1.4 trillion (BE: Rs. 0.63 trillion).
- **For the entire fertiliser sector (NBS + urea-based), ICRA expects the subsidy bill for FY2023 at ~Rs. 2.5 trillion, sharply higher than the BE of Rs. 1.05 trillion.**

Fuel Subsidy

- After announcing a subsidy of Rs. 200/14.2 kg LPG cylinder up to 12 cylinders under the Pradhan Mantri Ujjwala Yojana in May 2022, with an outgo of Rs. 61 billion, the Centre provided a one-time grant of Rs. 220 billion to PSU OMCs in Oct 2022 for covering their under-recoveries on the sales of domestic LPG during the June 2020-June 2022 period.
- **While the DBTL subsidy and under-recoveries are likely to be minimal in FY2023, the announcements related to LPG are likely to push up the fuel subsidy outgo by ~Rs. 300 billion in FY2023.**

Revenue Expenditure

- **Overall, the major subsidies are expected to overshoot the FY2023 BE by ~Rs. 2.8 trillion.**
- **While this is expected to push up revenue expenditure, a part of this would be offset on account of savings on other heads of spending.**

**A [new integrated food security scheme](#) has been implemented from Jan 2023 onwards, this is also coined as PMGKAY; Source: ICRA Research*

Expenditure savings of GoI estimated to have exceeded Rs. 1.0 trillion/annum since FY2018

EXHIBIT: Budgeted Total Expenditure and Net Cash Outgo announced under Supplementary Demand for Grants (Rs. trillion)

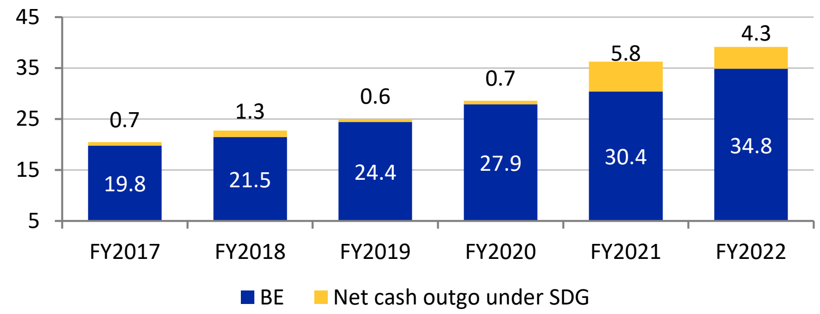


EXHIBIT: Total Planned (BE+ NSDG) vs. Actual expenditure (Rs. trillion)

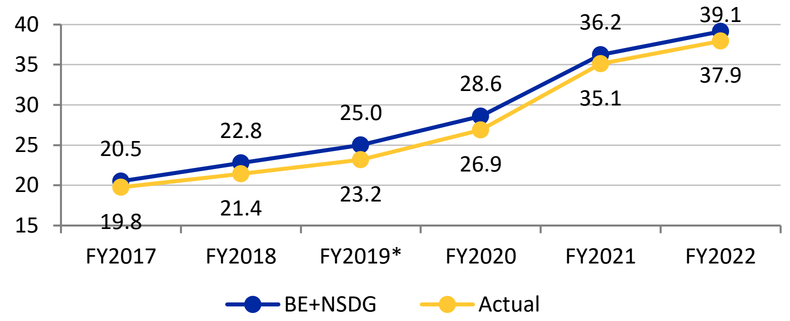
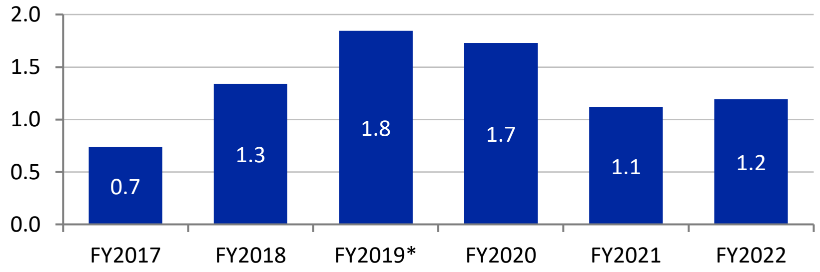


EXHIBIT: Estimated Expenditure Savings (BE + NSDG – Actual; Rs. trillion)



The GoI is estimated to have generated savings of Rs. 1.3 trillion on an average during FY2017-22 as per ICRA's estimates~

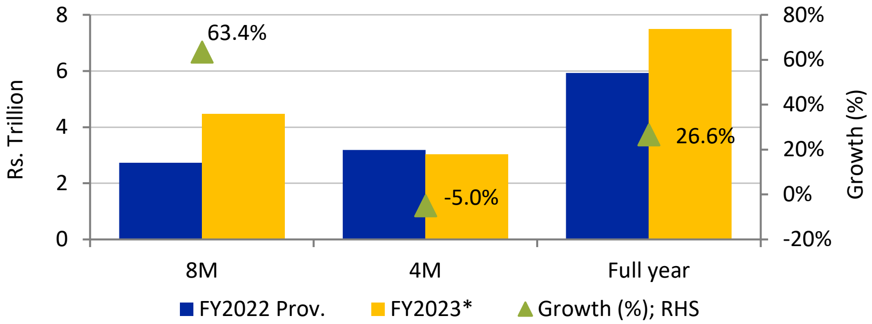
After the onset of Covid-19, the net cash outgo under SDG has risen owing to unforeseen requirements related to subsidies, etc. The outgo has been matched by some savings through cash management guidelines imposed by the Ministry of Finance from time to time.

The savings had risen to Rs. 1.6 trillion on an average during FY2018-20 from Rs. 0.7 trillion in FY2017, before moderating to Rs. 1.1-1.2 trillion in the subsequent two years i.e. FY2021-22

*BE: Budget estimates; NSGD: Net cash outgo under Supplementary demand for grants; ~Aggregate expenditure savings of the GoI are computed by adding net cash outgo under the SDG to the budgeted total expenditure and subtracting actual spending incurred in each fiscal; Provisional estimates for FY2022 released by the CGA data have been used since the actual data is not yet available; *Second batch of SDG for FY2019 is not available in the public domain and hence savings might be modestly lower than Rs. 1.8 trillion; Source: Union Budget; ICRA Research*

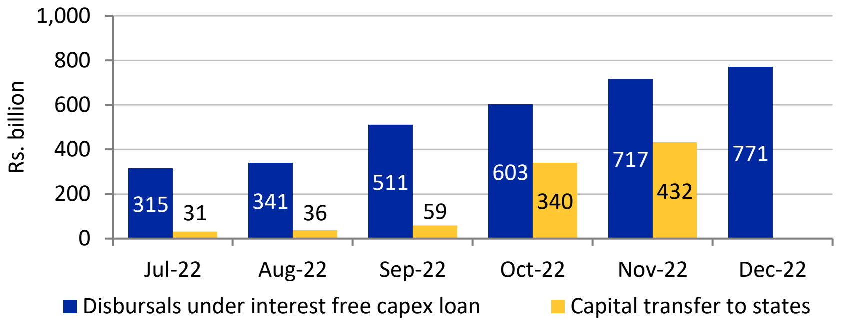
Capital expenditure unlikely to trail FY2023 BE; however, progress on disbursal under interest-free capex loan to states remains crucial

EXHIBIT: Trends in Centre's capital expenditure



4M FY2023 is based on ICRA's proj.; Source: CGA, GoI; ICRA Research

EXHIBIT: Disbursals under interest free capex loan and capital transfers to states by the Centre

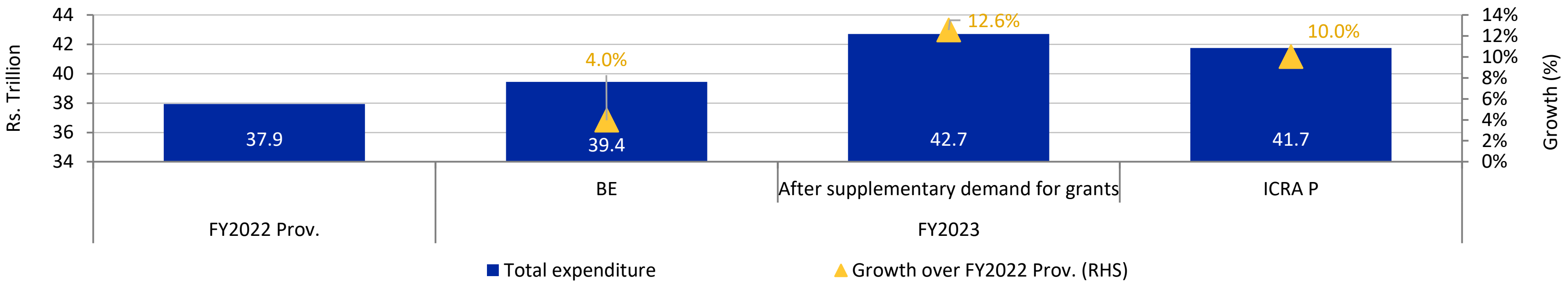


**Data on interest free capex loan for Apr-June 2022 is not available; Source: DOE, Finance Ministry, GoI; ICRA Research*

- In Apr-Nov FY2023, the GoI's capex rose by a sharp 63.4% to Rs. 4.5 trillion (59.6% of FY2023 BE) from Rs. 2.7 trillion in Apr-Nov FY2022 (46.2% of FY2022 Prov.). While the YoY growth remained high, capital spending has averaged around Rs. 558.9 billion/month, ~11% lower than the required monthly average of Rs. 625 billion to meet the budgeted target of Rs. 7.5 trillion.
- Out of the Rs. 1.0 trillion budgeted under the "special assistance to states for capital investment" for FY2023, ~77% or Rs. 771.1 billion has been sanctioned by the Centre to states till Dec 2022. Notably, the total capital transfer to states reported a welcome rise to Rs. 432.2 billion by end-Nov 2022 (FY2023 BE: Rs. 1.1 trillion), implying that Rs. 686.8 billion would need to be spent on this account during Dec-Mar FY2023 to meet the BE.
- **An average monthly capex of ~Rs. 757.8 billion is required during Dec-Mar FY2023 to meet the FY2023 BE, much higher than that seen during Apr-Nov FY2023. However, this is ~5% lower than the average monthly capex incurred during Dec-Mar FY2022, suggesting a low likelihood that the budgeted target will be missed unless the states' offtake of the interest-free capex loan scheme trails the FY2023 BE by a significant amount.**

Upside to total expenditure in FY2023 over BE estimated at ~Rs. 2.3 trillion, with expenditure savings offsetting part of net cash outgo under 1st SDG

EXHIBIT: Trends in GoI's Total expenditure

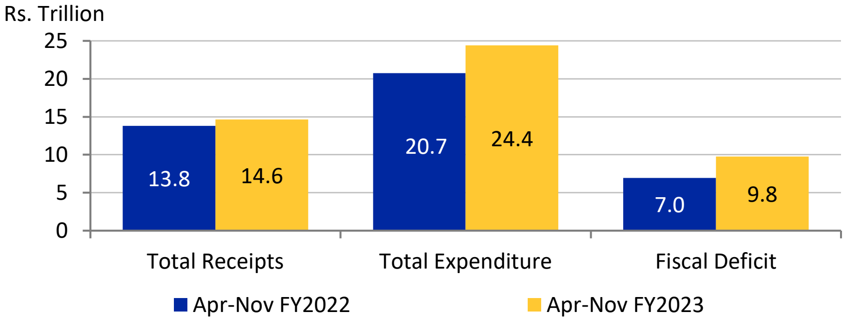


Source: CGA; DEA; Budget documents, GoI; ICRA Research

- The total expenditure was budgeted at Rs. 39.4 trillion in FY2023 BE, a modest 4.0% higher than the Rs. 37.9 trillion in FY2022 Prov. Out of the budgeted amount for FY2023, ~62% has been achieved in Apr-Nov FY2023 (Rs. 24.4 trillion; Rs. 20.7 trillion in Apr-Nov FY2022).
- The net cash outgo under the First Supplementary Demand for Grants stood at Rs. 3.3 trillion in FY2023. This would mean that the total expenditure has been revised upwards to Rs. 42.7 trillion in the ongoing fiscal, reflecting a growth of 12.6% over the FY2022 Prov. levels, largely on account of higher revenue expenditure.
- As mentioned earlier, the GoI is estimated to have saved ~Rs. 1.3 trillion on an average since FY2018, from heads such as Centrally Sponsored Schemes and/or Central Sector Schemes. Such savings would limit the extent of overshooting in the total expenditure over the FY2023 BE, despite the supplementary demand for grants.
- **Assuming savings of Rs. 1.0 trillion, we estimate the total expenditure in FY2023 to overshoot the budgeted amount by ~Rs. 2.3 trillion. To reach our estimated level for FY2023, expenditure needs to grow by a mild 0.7% YoY in Dec-Mar FY2023.**

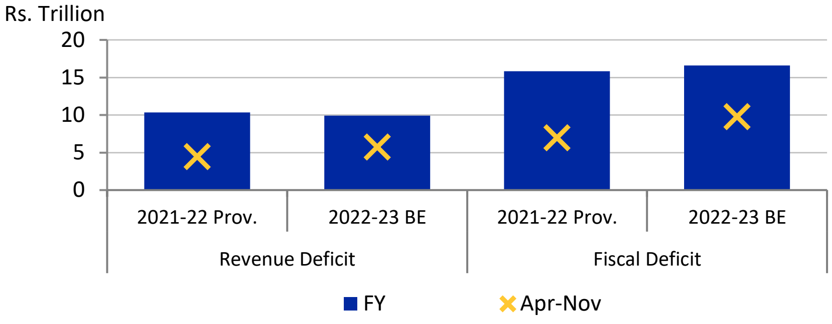
Fiscal deficit to overshoot FY2023 BE by ~Rs. 0.8 trillion, but to remain in line with target of 6.4% of GDP

EXHIBIT: Trends in Revenues and Expenditure of the GoI



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

EXHIBIT: Revenue and Fiscal Deficits



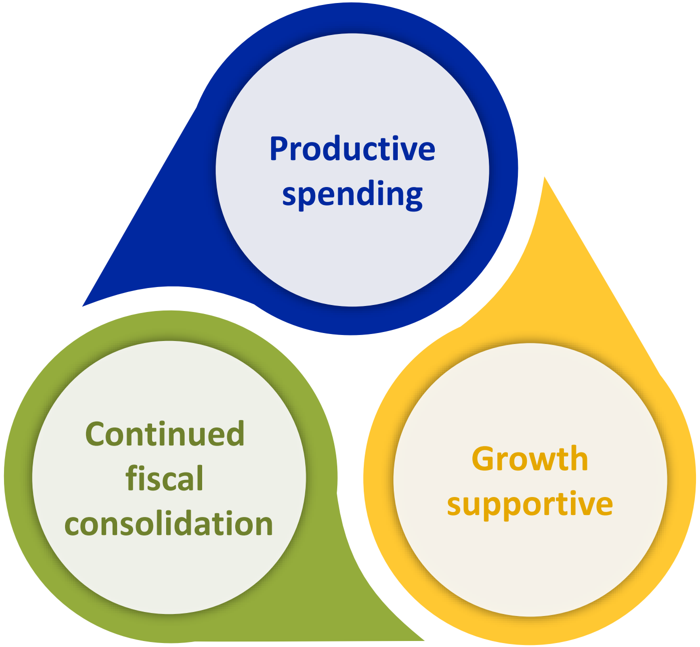
Source: CGA, Ministry of Finance, GoI; ICRA Research

- With a lower rise in revenue receipts (+4.7%) compared to the revenue expenditure (+10.8%), the revenue deficit rose to Rs. 5.7 trillion in Apr-Nov FY2023 from Rs. 4.4 trillion in Apr-Nov FY2022. Moreover, the YoY expansion of ~63.4% in capital spending widened the GoI's fiscal deficit to Rs. 9.8 trillion in Apr-Nov FY2023 from Rs. 7.0 trillion in Apr-Nov FY2022.
- The GoI's revenue and fiscal deficits stood at 57.8% and 58.9% of the BE for FY2023, respectively, in Apr-Nov FY2023, higher than the prints of 42.9% and 43.8% of FY2022 Prov., respectively, in Apr-Nov FY2022.
- **While spending would exceed the budgeted level, driven by major subsidies, with excise revenues being dampened by the cess reduction on petrol and diesel in May 2022, we estimate the extent of overshoot in the fiscal deficit at a mild ~Rs. 0.8 trillion for FY2023. This is due to the considerable upside seen in non-excise tax revenues as well as expected savings under other expenditure heads. However, as a proportion of GDP, the fiscal deficit in FY2023 is unlikely to exceed the FY2023 BE of 6.4%, on a higher nominal GDP (Rs. 273.1 trillion as per the NSO's First Advance Estimates) vis-à-vis the budgeted figure (Rs. 258 trillion).**

KEY BUDGET EXPECTATIONS FOR FY2024

Amidst global slowdown concerns, FY2024 Union Budget needs to balance supporting growth in economic activity and fiscal consolidation

FY2024 Union Budget Expectations



Source: ICRA Research

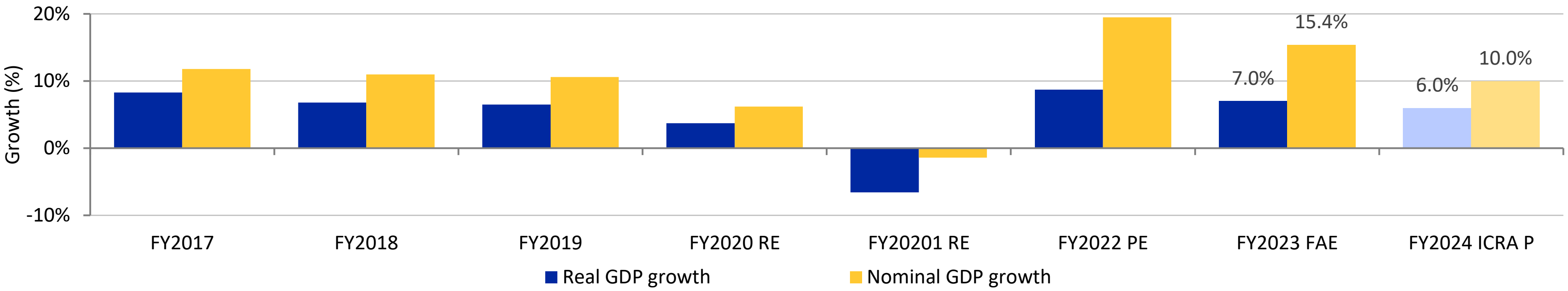
In the backdrop of a global growth slowdown and geopolitical uncertainty, ICRA foresees the FY2024 Union Budget to support domestic economic growth, with a continued impetus towards infrastructure and capacity development

We expect a further boost in growth-supportive capital expenditure in the FY2024 Budget and continued support towards the rural economy; the announcement of a big-bang feel-good social sector scheme could be funded by the cushion provided by lower subsidies

The Union Budget for FY2024 is likely to entail a further modest fiscal consolidation, however, providing a clear fiscal glide path for the medium term holds key to ensure GoI's commitment in sticking to the fiscal consolidation roadmap to achieve its deficit targets

ICRA pegs real and nominal GDP growth for FY2024 at 6.0% and 10.0%, respectively

EXHIBIT: Growth of Real and Nominal GDP (at constant 2011-12 prices) and ICRA's Projections for FY2023 and FY2024



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

- ICRA projects the GDP growth to moderate to ~6% in FY2024 on a normalised base, with the services sector likely to continue to drive domestic growth amidst a bleak outlook for external demand.
- Similarly, in nominal terms, the YoY expansion in GDP is expected to moderate to ~10% in FY2024, on the back of a likely softening in inflation and the consequent impact on the deflator.
- For budgetary analysis, we have used the NSO's First Advance Estimates (FAE) of nominal GDP of Rs. 273.1 trillion for FY2023 and our projection of Rs. 300.4 trillion (+10.0%) for FY2024.

Gross tax revenues likely to grow by ~9.4% in FY2024; tax buoyancy expected to remain supportive, in line with average historical levels

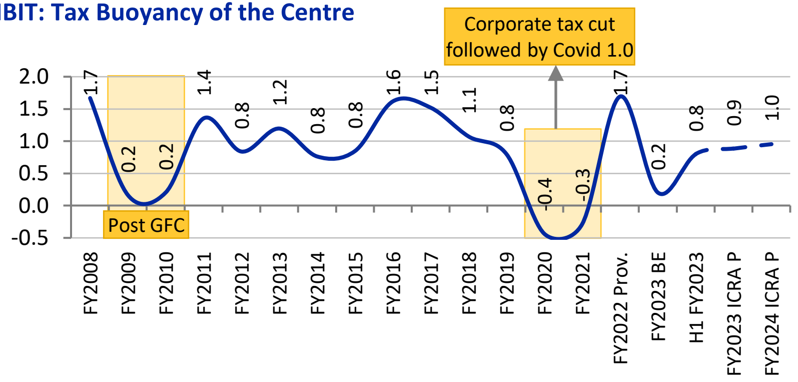
ICRA

EXHIBIT: ICRA's Projections for Gross Tax Revenues in FY2023 and FY2024

Rs. Trillion	FY2022 Prov.	FY2023 BE	FY2023 ICRA P	FY2024 ICRA P	Growth (%)
Gross tax revenues	**27.1**	**27.6**	**30.8**	**33.7**	**9.4%**
Direct taxes	13.9	14.2	16.4	18.2	11.0%
Indirect taxes (including GSTCC)	12.9	13.3	14.1	15.2	8.1%

Prov: Provisional; P: Projected; Source: GoI Budget Documents; CGA; ICRA Research

EXHIBIT: Tax Buoyancy of the Centre



Tax buoyancy is a proportion of % change in Gross tax revenues and % change in Nominal GDP growth; Source: Union Budget; CGA; NSO; ICRA Research

- After peaking at 1.7 in FY2022 on a low base amidst the emergence of a K-shaped recovery after the onset of Covid and the resultant boost in direct taxes, the tax buoyancy is expected to moderate to ~0.9 in FY2023, with a sharper dip in the growth of gross tax revenues (dampened by the cut in excise duties on fuels) relative to the nominal GDP growth. Nevertheless, it is expected to exceed the 0.2 budgeted for the fiscal (over the FY2022 Prov.), based on the encouraging trends of tax revenues seen until H1 FY2023 (0.8), which are much higher than the conservatively estimated growth targets.
- In terms of tax policy, we do not anticipate any major changes in tax rates in FY2024 BE, in pursuit of a stable and predictable tax regime. We estimate the GoI's gross tax revenues (GTR) in FY2024 at ~Rs. 34 trillion, a YoY expansion of 9.4% relative to our projected level for FY2023.
- The estimated growth in GTR for FY2024 is similar to our nominal GDP growth forecast of 10% for that fiscal, implying a tax buoyancy of ~1.0, in line with the decadal average seen during FY2010-2019. However, the growth in direct taxes is likely to outpace that in indirect taxes in FY2024, similar to the trend expected in FY2023.

Growth in direct taxes may continue to outpace that in indirect taxes in FY2024

Direct tax

Direct tax revenues are projected to grow by a relatively healthier 11.0% in FY2024, compared to the expected ~8% growth in indirect taxes, with the latter likely to be dragged down by lower customs duty collections. However, growth in direct taxes is likely to moderate from the ~18% expected for FY2023, owing to the base effect.

GST

The GST collections are expected to be a key driver of the growth in indirect taxes in FY2024, with a projected expansion of 12.0% in GST inflows (including compensation cess). This is attributable to anticipation of a healthy momentum of services consumption and overall activity, as well as continuation of anti-tax evasion activities. This will be a sharp moderation from ~30% expected growth for FY2023, with some softening of commodity inflation, and a high base.

Union excise duty

Union excise collections are expected to grow by a modest 5% in FY2024, with the Central excise duties on petrol and diesel being reduced to pre-Covid levels in May 2022, even as there may be some improvement in mobility and consumption.

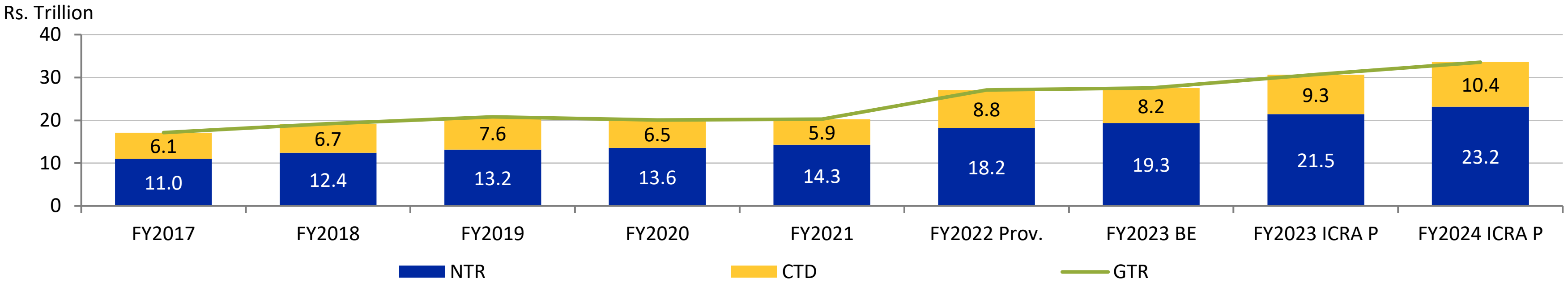
Customs duty

There are expectations of a hike in custom duties on items such as high-end electronic goods, plastic goods, jewellery, etc. to curtail imports and/or encourage locally produced goods. However, we anticipate a conservative target for customs duty collections in FY2024 (-5%) with projections of a slowdown in the growth of trade volumes, especially exports amid recessionary concerns in advanced economies and softer commodity prices.

CTD to state governments likely to be pegged at Rs. 10.4 trillion for FY2024; net tax revenues of GoI to grow by a shallow 8.0%

ICRA

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

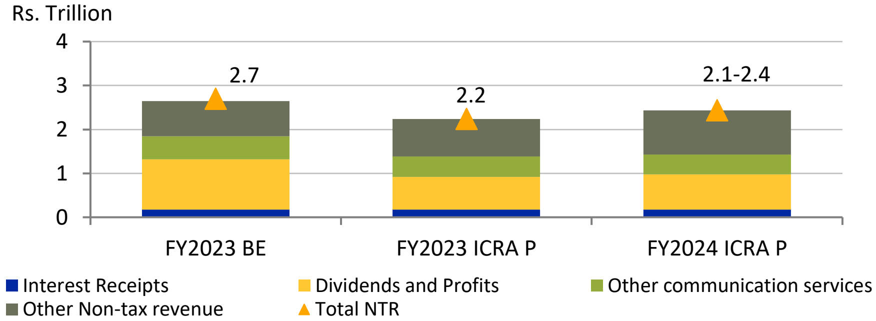


Actuals for 2017-21; P: Projected; BE: Budget Estimates; Prov: Provisional; Source: Finance Commission of India, GoI; ICRA Research

- The 15th Finance Commission had recommended the share of states in the shareable Central taxes (or central tax devolution; CTD) at 41% for its award period of FY2022 to FY2026. However, the effective rate of devolution relative to the gross tax revenues of the GoI tends to be closer to 30-33%, as cess is not included in the shareable pool.
- Given our estimates for gross tax revenues for FY2023 and the effective rate of devolution, ICRA estimates the tax devolution to the states at Rs. 10.4 trillion in FY2024. This entails a growth of 12.7%, which is higher than the 9.4% growth forecast for gross tax revenues, as the component of cess on fuels, that is expected to be largely flattish in FY2024, is not shared with the states.
- After the CTD adjustment, we project the GoI's net tax revenues at Rs. 23.2 trillion for FY2024, a YoY expansion of 8.0%.

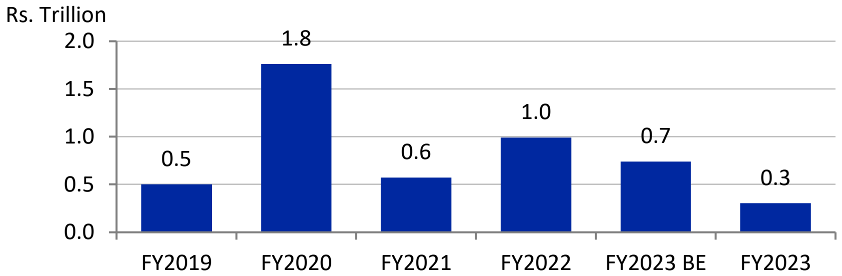
Non-tax revenues may be placed at Rs. 2.1-2.4 trillion for FY2024

EXHIBIT: Non-tax revenues and its components



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

EXHIBIT: Surplus transfer from RBI to the GoI

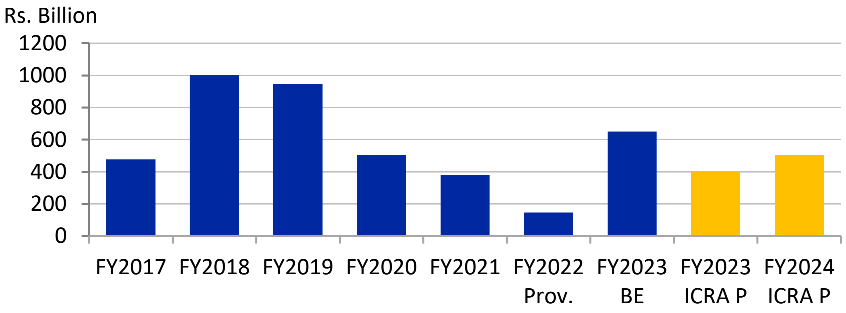


BE: Budget Estimates; Source: RBI Annual Reports; ICRA Research

- The interest on holding of rupee securities by the RBI is likely to have risen owing to higher holdings in FY2023 so far, relative to FY2022. The net interest outgo under LAF/MSF operations is likely to have narrowed, with a significant fall in the liquidity surplus in FY2023 vis-vis FY2022. However, risk provisions (under the Contingency Fund) owing to investment revaluation account for foreign and rupee securities, as well as currency and gold revaluation account may be allocated in FY2023, similar to what was done in FY2022, to provide a buffer against exchange rate/gold price fluctuations. Overall, we estimate the aggregate dividend/surplus from RBI, PSUs, nationalised banks, etc. at Rs. 0.5-0.8 trillion, trailing the levels for FY2023 BE (Rs. 1.1 trillion) and FY2022 Prov. (Rs. 1.6 trillion).
- Moreover, ICRA estimates the receipts from the telecom sector (Other Communication Services) at ~Rs. 450 billion in FY2024, in line with the FY2023 estimates.
- Taking all of these factors into consideration, we anticipate the non-tax revenues of the GoI to be pegged at Rs. 2.1-2.4 trillion in FY2024, compared to the Rs. 2.2 trillion expected for FY2023. Overall, revenue receipts of the GoI are projected at ~Rs. 25-26 trillion for FY2024, 7-8% higher than our estimate for FY2023.

Disinvestment target could be set at Rs. 0.5 trillion for FY2024; actual receipts contingent on realisation of big-ticket deals

EXHIBIT: Trends in disinvestment proceeds



Actuals for 2017-21; BE: Budget Estimates; P: Projected; Prov.: Provisional; Source: CGA, Ministry of Finance, GoI; ICRA Research

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

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

As on Jan 3, 2022; IMPCL: Indian Medicines Pharmaceutical Corporation Limited; *AIESL:* Air india engineering services ltd; *AIASL:* AI Airport Services Limited; *AAAL:* American Association for Applied Linguistics, *FSNL:*Ferro Scrap Nigam Limited; *NMDC:* National Mineral Development Corporation; *PDIL:*Projects and Development India Ltd.; *Source: DIPAM; ICRA Research*

- There are some major privatisation bids, whose expressions of interest (EoIs) are in the pipeline or currently available, such as the IDBI Bank stake sale and divestment in Container Corporation of India (ConCor) and Shipping Corporation. While the GoI expects most of the stake sales to conclude in FY2024, the completion of the process and the actual realisation of the deals remain contingent on the evolving market scenario, and other factors. A moderate budgetary target of miscellaneous non-debt capital receipts for FY2024 of Rs. 0.5 trillion may be considered realistic by the market.
- Overall, the combined revenue receipts and disinvestment receipts of the GoI are expected to grow ~8-9% in FY2024 to Rs. 25.5-26.5 trillion, from the expected level for FY2023, while expanding ~12-15% over the conservatively estimated FY2023 BE (Rs. 22.7 trillion).

Newly introduced integrated food subsidy scheme expected to generate savings on account of lower food subsidy bill

The GoI had announced in a press release dated Dec 23, 2022, the discontinuation of the erstwhile PMGKAY from Jan 2023 onwards. In addition, it introduced a new integrated scheme (also termed as PMGKAY), which would provide free foodgrains to the NFSA beneficiaries (813.5 million) for one year, at a cost of ~Rs. 2.0 trillion.

Foodgrains (5 kg foodgrains per person to PHH* beneficiaries and 35 kg per household to AAY* beneficiaries) would now be provided for free under the NFSA Act , as against at the earlier subsidised rates (Rs. 3/2/1 per kg for rice, wheat and coarse cereals), for one year from Jan 1, 2023.

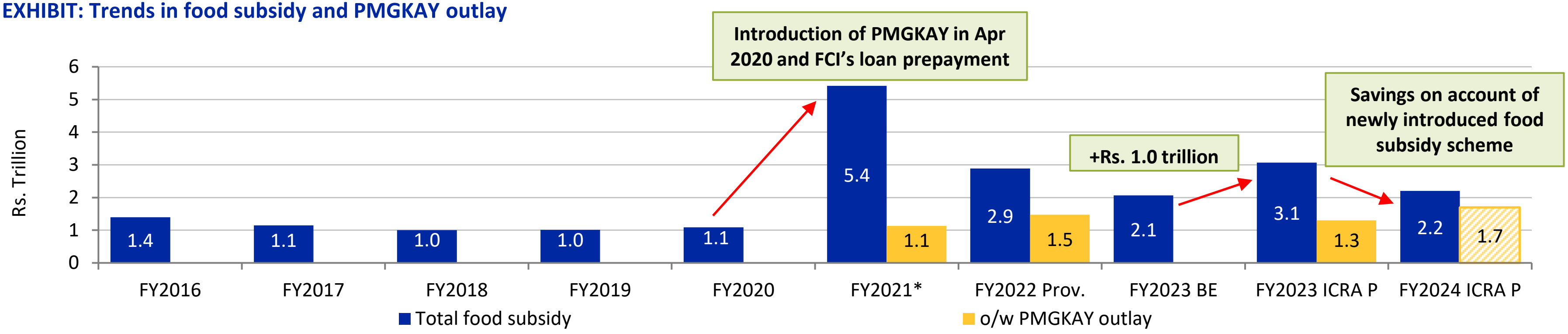
For every three-month extension of the erstwhile PMGKAY, the GoI had spent an additional Rs. 400-440 billion, implying a cost of ~Rs. 1.7 trillion if this had continued through FY2024. The newly launched integrated food subsidy scheme may garner sizable savings for the GoI, reducing its fiscal burden in FY2024, relative to FY2023.

We estimate the GoI's food subsidy bill to be pegged at ~Rs. 2.2 trillion in FY2024, reflecting the amount needed to provide free foodgrains to the NFSA beneficiaries.

***AAY:** Antodaya Ann Yojna; PHH: Primary Household; *Source: ICRA Research*

Wheat procurement costs to offset part of savings on account of newly introduced food subsidy scheme

EXHIBIT: Trends in food subsidy and PMGKAY outlay



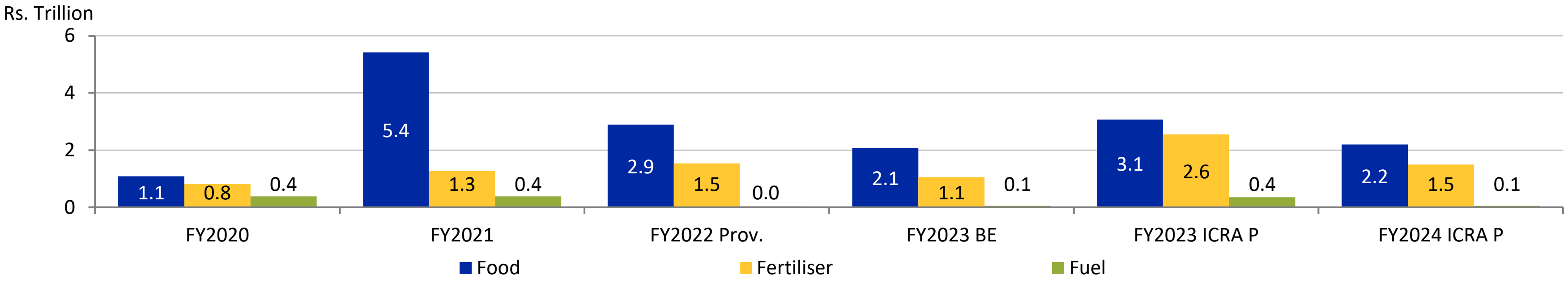
**This is for erstwhile scheme that prevailed during pandemic years; Actuals for FY2016-21; Prov.: Provisionals; BE: Budget Estimates; P: Projected; Source: Budget Documents, GoI; ICRA Research*

- During FY2016-FY2020, the food subsidy allocation had been pegged at ~Rs. 1 trillion each year. This roughly reflects the amount that was needed to provide foodgrains to the beneficiaries of the NFSA at subsidised rates of Rs. 3/2/1 per kg for rice, wheat and coarse cereals.
- The subsidy allocation had spiked to Rs. 5.4 trillion in FY2021 with the prepayment of FCI's loan from the NSSF as well as the introduction of the erstwhile PMGKAY scheme (with a total cost of ~Rs. 1.1 trillion in FY2021; to provide an additional 5 kg of free foodgrains/person/month to the NFSA beneficiaries). Thereafter, in FY2022, the food subsidy stood at Rs. 2.9 trillion, inclusive of Rs. 1.5 trillion for the free foodgrains scheme, which was extended till March 2022.
- Subsequently, the erstwhile PMGKAY scheme was extended during Apr-Dec 2022, with a total cost of Rs. 1.3 trillion in FY2023. However, a part of this is likely to be absorbed by savings on account of a lower wheat procurement bill in RMS FY2023. As a result, we expect the food subsidy outlay to exceed the BE by a lower ~Rs. 1.0 trillion in FY2023. **While the discontinuation of erstwhile PMGKAY would generate savings of Rs. 1.7 trillion in FY2024, as highlighted earlier, the Centre's food subsidy bill may not decline by an equivalent amount, as savings from lower wheat procurement bill may not happen in FY2024, as is the case in the current fiscal. Consequently, we estimate the food subsidy at ~Rs. 2.2 trillion in FY2024, ~Rs. 0.9 trillion lower than that expected for FY2023.**

Outlay towards major subsidies to moderate sharply in FY24 BE, relative to FY23

ICRA

EXHIBIT: Annual trends in major subsidies and ICRA's projections for FY2023 and FY2024



Actuals for FY2020-21; Prov: Provisional; BE: Budget Estimates; P: Projected; Source: CGA, Ministry of Finance, GoI; ICRA Research

- In terms of revenue expenditure, ICRA expects the outlay for major subsidies (food, fertiliser and fuel) to moderate in FY2024, relative to FY2023.
- In addition to the lower food subsidy requirement, the subsidy allocation for fertilisers is likely to moderate sharply to ~Rs. 1.5 trillion in FY2024 from ~Rs. 2.5 trillion expected in FY2023, primarily on account of a correction in global commodity prices. It remains a possibility that the GoI may not allocate the full amount of the expected subsidy requirement at the outset in the BE for FY2024, and calibrate the subsidy during the year, as seen in the previous fiscals.
- Moreover, the subsidy requirement for fuel is estimated to remain subdued at Rs. 50 billion for FY2024, taking into account some allocation for under-recoveries as well as continuation of the Ujjwala scheme.
- **The combined outlay towards major subsidies is estimated at ~Rs. 3.8 trillion in FY2024, a YoY moderation of ~37% relative to FY2023 (ICRA est: ~Rs. 6.0 trillion), while exceeding the amount announced in the FY2023 budget (Rs. 3.2 trillion).**

GoI's revenue expenditure projected at Rs. 35.2 trillion in FY2024 BE; ~3% higher than ICRA's estimates for FY2023

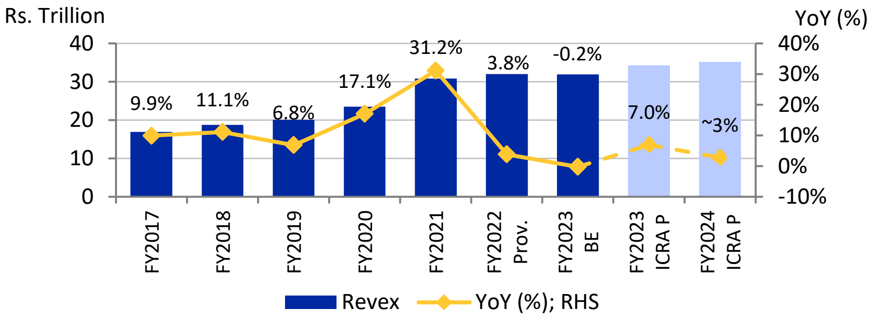
ICRA

EXHIBIT: ICRA's expectations for Interest Payments, Subsidies, and Balance Revenue Expenditure in FY2023 and FY2024

Rs. Trillion	FY2023 P	FY2024 P	Growth (%)
Revex	**34.2**	**35.2**	**2.8%**
Interest payments	**9.4**	**10.8**	**15.0%**
Aggregate Subsidy	**6.0**	**3.8**	**-37.3%**
-Food	*3.1*	*2.2*	*-28.3%*
-Fertiliser	*2.5*	*1.5*	*-41.2%*
-Fuel	*0.4*	*0.1*	*-86%*
MGNREGA	**0.89**	**0.75**	**-16.1%**
Balance Revex*	**18.0**	**19.9**	**10.7%**

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

EXHIBIT: Annual trends in revenue expenditure



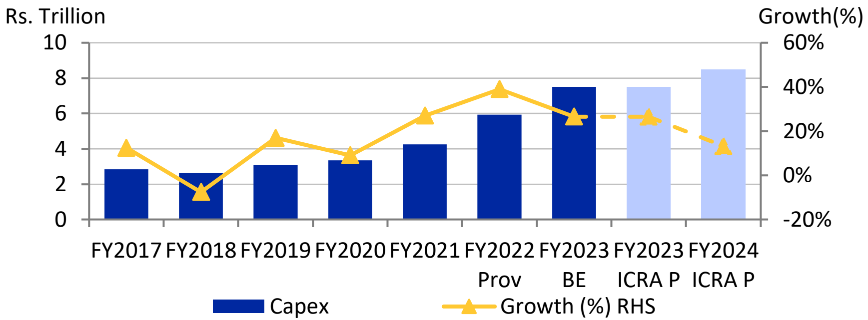
Actuals for FY2017-21; Prov: Provisional; BE: Budget Estimates; P: Projected; Source: CGA, Ministry of Finance, GoI; ICRA Research

- ICRA estimates the requirement for the outlay to be made under MGNREGA at Rs. 750 billion for FY2024, slightly higher than the allocation made in FY2023 BE (Rs. 730 billion).
- We project the interest payments to rise by ~15% YoY over FY2023 BE to Rs. 10.8 trillion in FY2024 from Rs. 9.4 trillion in FY2023. **However, the share of interest payments in total expenditure will remain elevated at ~24-25% in FY2024 (+23.8% in FY2023 BE), owing to the sizeable increase in the GoI's debt outstanding in the post-Covid period, underscoring the need to limit borrowings, going ahead.**
- As far as the balance portion of the revex is concerned, we expect the GoI to continue with its efforts to pare unnecessary expenditure and improve efficiency. **Overall, we project a ~3% rise in the aggregate revenue expenditure to ~Rs. 35.2 trillion for FY2024 from ~Rs. 34.2 trillion expected in FY2023.**

Capex likely to rise to ~Rs. 8.5-9.0 trillion in FY2024 BE; quality of spending to improve with rising share of capex in total expenditure

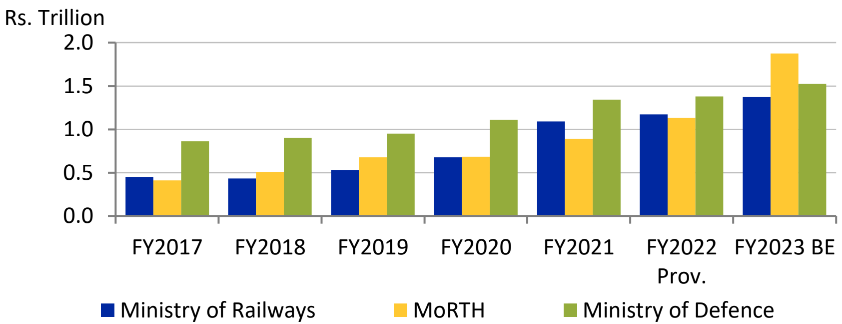
ICRA

EXHIBIT: Trends in GoI's Gross Capital Expenditure



Actuals for FY2017-21; Prov: Provisional; BE: Budget Estimates; P: Projected; Source: GoI Budget Documents; CGA; Ministry of Finance, GoI; ICRA Research

EXHIBIT: Trends in GoI's capital expenditure towards major sectors

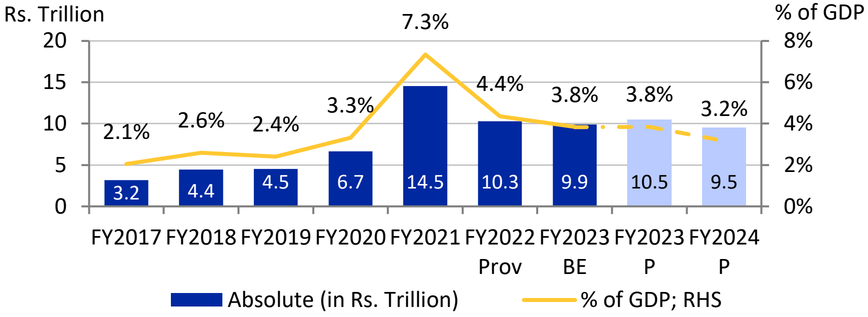


Actuals for 2017-21; Prov: Provisional; BE: Budget Estimates; Source: GoI Budget Documents; CGA; Ministry of Finance, GoI; ICRA Research

- With the GoI's continuous thrust towards capital formation, we expect the FY2024 budget to focus on providing enhanced allocation towards capital-intensive sectors such as roads, highways, railways, etc. In addition, the GoI may continue to provide a push to affordable and rental housing, while also expanding the Production-Linked Investment (PLI) scheme to support the domestic manufacturing sector as well as generate employment.
- Additionally, we anticipate that the interest free capex loan to states (Rs. 1.0 trillion in FY2023 BE) would continue in FY2024. Moreover, with improved profitability and asset quality, the capital requirements for public banks are negligible and the GoI is unlikely to budget capital allocation for FY2024.
- **We project the GoI to target a capital expenditure of ~Rs. 8.5-9.0 trillion in FY2024 (partly depending on the amount allocated for fertiliser subsidies), relative to the Rs. 7.5 trillion expected in FY2023 (in line with BE). Consequently, we estimate the total expenditure to rise to ~Rs. 43.7-44.2 trillion in FY2024 from the ~Rs. 41.7 trillion expected in FY2023. Notably, the quality of spending is expected to improve further in FY2024, with a rise in the share of capex in the GoI's total expenditure (to ~19.5-20.4% in FY2024 from ~18% as per ICRA's FY2023 est.).**

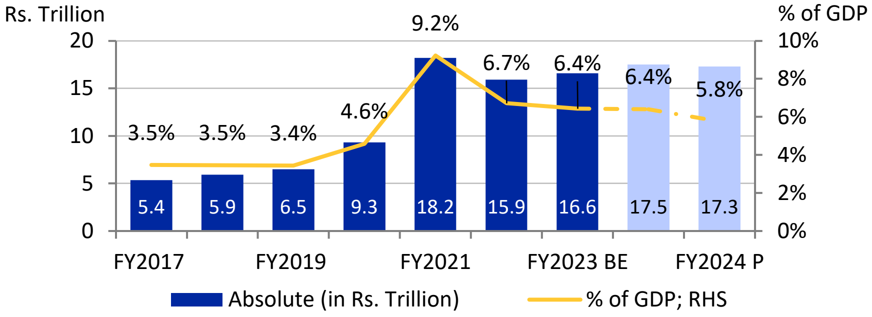
ICRA expects the GoI to continue along the fiscal glide path in FY2024, with fiscal deficit projected at 5.8% of GDP

EXHIBIT: GoI's Revenue Deficit (Absolute and % of GDP) and ICRA's projections for FY2023-24



Actuals for FY2017-21; Prov: Provisional; BE: Budget Estimates; P: Projected; Source: GoI Budget Documents; CGA; Ministry of Finance, GoI; ICRA Research

EXHIBIT: GoI's Fiscal Deficit (Absolute and % of GDP) and ICRA's projections for FY2023-24



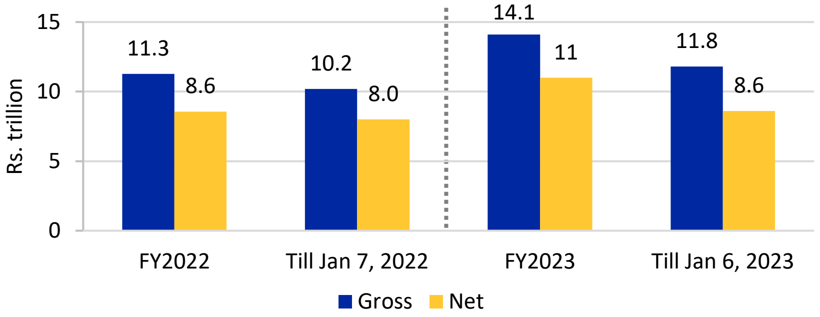
Actuals for FY2017-21; Prov: Provisional; BE: Budget Estimates; P: Projected; Source: GoI Budget Documents; CGA; Ministry of Finance, GoI; ICRA Research

- Based on our assumptions for revenues and expenditure, the revenue deficit is expected to ease to Rs. 9.5 trillion (3.2% of our GDP estimate) in FY2024 from the Rs. 10.5 trillion (3.8% of GDP) projected for FY2023. This is largely driven by continued growth in direct taxes, as the economic recovery strengthens and becomes broad-based and durable, as well as expectations of savings in the subsidy outgo.
- Given the GoI's efforts to remain on the fiscal glide path, we anticipate that a moderate fiscal correction would be attempted in the FY2024 BE, with a likely fiscal deficit print below the 6.0% mark, depending on factors such as the market-driven level of fertiliser subsidy, savings from discontinuation of the erstwhile PMGKAY scheme and the level of budgeted capex as well as disinvestment receipts. **We anticipate the fiscal deficit in FY2024 to be budgeted at Rs. 17.3 trillion (5.8% of GDP; based on a nominal GDP assumption of Rs. 300.4 trillion), marginally lower than the Rs. 17.5 trillion projected for FY2023 (6.4% of GDP; based on NSO's assumption of nominal GDP in FY2023). The quality of the fiscal deficit is expected to improve in FY2024 vis-à-vis FY2023, following the relatively faster growth foreseen in the GoI's capex.**

EXPECTATIONS ON MARKET BORROWINGS FOR FY2023-24

Muted likelihood of an upward revision in GoI market issuances for FY2023

EXHIBIT: Centre's Market Borrowings



Source: RBI; ICRA Research

EXHIBIT: Interest rates on various Small Savings Schemes

	Q3 FY2023	Q4 FY2023	Change (bps)
Savings Deposit	4.0%	4.0%	0
1 year Time Deposit	5.5%	6.6%	110
2 year Time Deposit	5.7%	6.8%	110
3 year Time Deposit	5.8%	6.9%	110
5 year Time Deposit	6.7%	7.0%	30
5 year Recurring Deposit	5.8%	5.8%	0
5 year Senior Citizens Saving Scheme	7.6%	8.0%	40
5 year Monthly Income Scheme	6.7%	7.1%	40
5 year National Savings Certificate	6.8%	7.0%	20
Public Provident Fund	7.1%	7.1%	0
Kisan Vikas Patra	7.0%	7.2%	20
Sukanya Samriddhi Account Scheme	7.6%	7.6%	0

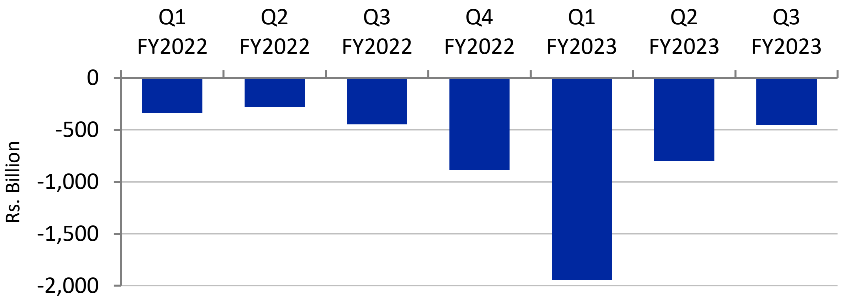
Source: DEA; ICRA Research

- Compared to the planned market issuances of Rs. 14.1 trillion for FY2023, ~84% or Rs. 11.8 trillion have been raised up to Jan 6, 2023, 16% higher than the Rs. 10.2 trillion recorded in the corresponding period of FY2022 (90% of actual amount borrowed in FY2022).
- As outlined in the earlier sections, we expect the fiscal deficit to exceed the FY2023 BE by Rs. 0.8 trillion. The net amount of borrowings under NSSF to finance a part of the fiscal deficit was budgeted to moderate sharply to Rs. 4.3 trillion in FY2023 BE from Rs. 5.5 trillion in FY2022 Prov. During Apr-Nov FY2023, the deposits under savings deposits and certificates and PPFs have eased by 9% to Rs. 1.6 trillion (56% of FY23 BE), from the Rs. 1.7 trillion accumulated in Apr-Nov FY2022 (52% of Prov.).
- After the modest hikes undertaken in Q3 FY2023, the interest rates under various small saving schemes have been raised for Q4 FY2023 in the range of 20-110 bps, indicating that inflows under such schemes may rise in the ongoing quarter, which may provide a cushion to absorb a part of the higher-than-budgeted fiscal deficit. Considering these factors, there is a muted likelihood for the need of an upward revision in the market borrowings for FY2023.

Magnitude of release of Central transfers, capex loan, actual capex spending to impact whether SGS issuance in Q4 FY2023 trails the indicated Rs. 3.4 trillion

ICRA

EXHIBIT: Deviation between actual and indicated and actual SGS issuance



Source: RBI; ICRA Research

EXHIBIT: Net and gross State G-sec issuance estimate in FY2023

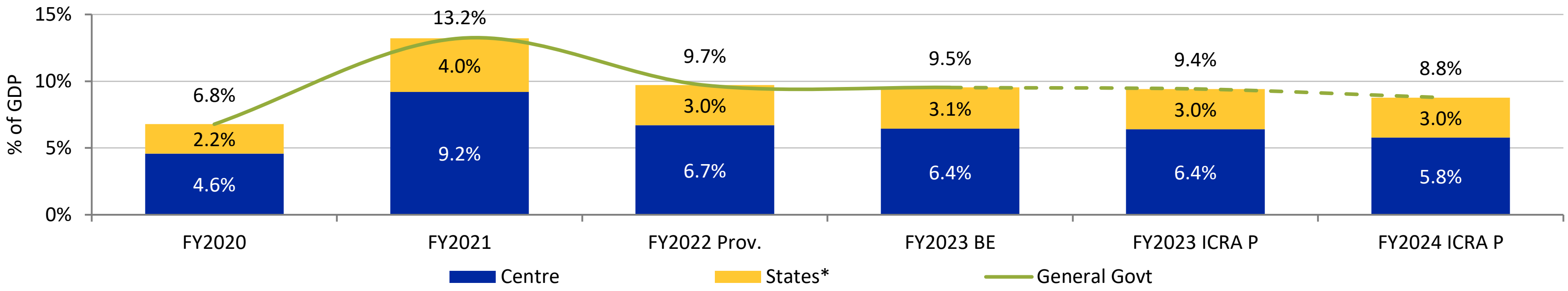
Amount in Rs. Trillion	FY2022	9M FY2023	FY2023 ICRA P		
			Scenario I	Scenario II	Scenario III
Net Borrowing	4.9	3.0	5.6	5.1	4.2
Redemption	2.1	1.5	2.4	2.4	2.4
Gross Borrowing	7.0	4.6	8.0	7.5	6.6

Scenario I- Based on the indicative calendar for Q4 FY2023, FY2023 gross borrowing is pegged at Rs. 8.0 trillion; Scenario II- If the states have not factored in the release of balance GST compensation in Q4 FY2023, it would reduce the indicated gross issuance by a total of Rs. 496 billion, including CTD shortfall of Rs. 313. billion; Scenario III- If the states had assumed that the total tax devolution in FY2023 will be in line with the budgeted level, which is Rs. 1.2 trillion lower than our proj. and not factored in the release of balance GST compensation.; Source: RBI; ICRA Research

- The RBI pegged the gross issuance of state government securities (SGS) at the highest-ever indicated amount of Rs. 3.4 trillion for Q4 FY2023, ~45% larger than the Rs. 2.4 trillion raised in Q4 FY2022. {Refer to ICRA's publication on SGS issuance, published in Jan 2023}.
- Interestingly, the actual borrowings through SGS during 9M FY2023 was lower than the indicated amount by 30% at Rs. 4.6 trillion, following the release of larger instalments of tax devolution and a portion of the pending GST compensation in certain months, and the changes related to the finalisation of the net borrowing ceiling (NBC) of the state governments for FY2023 by the GoI earlier in the fiscal.
- We expect the magnitude of release of Central transfers and interest-free capex loan, as well as the actual capex spending to impact whether SGS issuance in Q4 FY2023 trails the indicated amount. We estimate the gross SGS issuance in Q4 FY2023 and FY2023 as a whole in a range of Rs. 2.1-3.4 trillion and Rs. 6.6-8.0 trillion, respectively.
- **Accordingly, ICRA projects general (Centre and states) gross market borrowing in FY2023 at Rs. 20.7-22.1 trillion. With total redemptions of Rs. 5.5 trillion in G-secs and SGSs, we estimate net market borrowing of the general Government at Rs. 15.1-16.5 trillion for FY2023.**

General Government fiscal deficit projected at a four-year low of 8.8% of GDP in FY2024, albeit remaining above pre-Covid levels

EXHIBIT: Fiscal deficit of Centre, States and General govt (Centre+ States)



**Including 27 states except Goa; Actuals available for FY2020-21; BE: budget estimate; P: Projected; Source: Union Budget; CGA; CAG; State budget docs; RBI; ICRA Research*

- We expect the GoI's fiscal deficit to be pegged at 5.8% of GDP in FY2024, narrower than the level expected for FY2023 (6.4% of GDP).
- For FY2024, the 15th FC had recommended a normal borrowing limit of 3.0% of the GSDP for the state governments. Given this and our expectations of the GoI's fiscal deficit, the general government deficit is likely to compress to 8.8% of GDP in FY2024 from 9.4% of GDP expected in FY2023, the lowest since FY2020 (6.8% of GDP).
- The upcoming FY2024 budget should provide a clear fiscal glide path for the medium term to underscore the GoI's commitment to reducing its fiscal deficit over the next 2-3 years.

General Government dated net market issuances likely to rise by further ~4% to Rs. 17.2 trillion in FY2024

ICRA

EXHIBIT: Centre's market borrowings, SGSs, and General Govt market borrowings

Rs. Trillion		FY2022	
	G-secs	SGSs	General Govt
Gross	11.3	7.0	18.3
Redemptions	2.6	2.1	4.7
Net	8.6	4.9	13.6
FY2023 ICRA P			
	G-secs	SGSs*	General Govt
Gross	14.1	8.0	22.1
Redemptions	3.1	2.4	5.5
Net	10.9	5.6	16.5
FY2024 ICRA P			
	G-secs	SGSs	General Govt
Gross	14.8	9.6	24.4
Redemptions	4.4	2.9	7.3
Net	10.4	6.8	17.2

**As per Scenario I; SGS: State Government Securities; P: Projected; Source: RBI; ICRA Research*

Centre

- With the GoI's fiscal deficit estimated at Rs. 17.3 trillion for FY2024, we expect net G-sec issuance to be placed at Rs. 10.4 trillion (60% of fiscal deficit, similar to the average of 58% during FY2020-23), 4.8% lower than the Rs. 10.9 trillion estimated for FY2023. After adding redemptions of Rs. 4.4 trillion (Rs. 3.1 trillion in FY2023), gross market issuances of the Centre are pegged to rise by a modest 5.5% to Rs. 14.8 trillion in FY2024.

States

- Based on our GSDP estimates, the states' fiscal deficit is projected at Rs. 9.0 trillion in FY2024. Assuming that 75% of this is funded by SGS, implies a net issuance of Rs. 6.8 trillion, entailing a growth of ~21% over the upper limit of the expected range for FY2023. Notably, the size of the allocation of the capex-loan scheme in FY2024 BE would influence the states' market borrowing requirements for that fiscal.

General Government

- Accordingly, net general dated market borrowings for FY2024 are pegged to rise to Rs 17.2 trillion from the projected Rs. 16.5 trillion for FY2023. With larger redemption of G-sec and SGS, gross borrowings are estimated to increase to ~Rs. 24.4 trillion in FY2024 from the projected Rs. 22.1 trillion in FY2023. This is likely to push up yields, even as we foresee a lower quantum of repo rate hikes in the CY2023 (0-25 bps), compared to the 225 bps that had happened during May-Dec 2022.

ANNEXURE - I

EXHIBIT: Centre's Gross Tax Revenues in FY2022 Prov., FY2023 BE, and ICRA's projections for FY2023 and FY2024

Rs. Trillion	FY2022 Prov.	FY2023 BE	FY2023 ICRA Est. (A)	FY2024 ICRA Est. (B)	Growth (B)/(A)
Gross tax revenues~	**27.1**	**27.6**	**30.8**	**33.7**	**9.4%**
Direct taxes	**13.6**	**14.2**	**16.4**	**18.2**	**11.0%**
Corporation tax	7.1	7.2	8.3		
Income tax	6.7	7.0	8.1		
Indirect taxes	**11.9**	**12.1**	**12.9**	**13.9**	**7.7%**
CGST + IGST	5.9	6.6	7.9	8.9	12.0%
Customs Duty	2.0	2.1	2.0	1.9	-5.0%
Union Excise Duty	3.9	3.4	3.0	3.1	5.0%
Other Taxes*	0.3	0.04	0.3	0.3	-14.1%
Compensation cess for GST	**1.0**	**1.2**	**1.2**	**1.3**	**12.0%**

**Includes Security Transaction Tax, Other taxes of Union Territories; Fringe Benefit Tax, Wealth Tax, etc.; ~Net of Refunds, Gross of States' share in Central Taxes*
Source: GoI Budget Documents; CGA; ICRA Research

ANNEXURE - II

ICRA

EXHIBIT: ICRA's projection for GoI's fiscal deficit, gross and net market borrowings in FY2022-24

Rs. Trillion	FY2022 Prov.	FY2023 BE	FY2023 ICRA Est. (A)	FY2024 ICRA Est. (B)	Growth (B)/(A)
Net Revenue Receipts	**21.7**	**22.0**	**23.8**	**25.7**	**8.4%**
Revenue Expenditure	**32.0**	**31.9**	**34.2**	**35.2**	**2.8%**
of which food subsidy	2.9	2.1	3.1	2.2	-28.3%
of which MGNREGA	1.1	0.7	0.9	0.8	-16.1%
Revenue Balance	**-10.3**	**-9.9**	**-10.5**	**-9.5**	
Disinvestment proceeds	0.1	0.7	0.4	0.5	25.0%
Capital expenditure, net lending	5.7	7.4	7.4	8.3	12.8%
Fiscal Balance	**-15.9**	**-16.6**	**-17.5**	**-17.3**	
Gross market borrowing	11.3	15.0	14.1	14.8	5.5%
Redemptions	2.6	3.8	3.1	4.4	41.5%
Net market borrowing	8.6	11.2	10.9	10.4	-4.8%

Source: ICRA Research

PRE-BUDGET EXPECTATIONS

Automotive

- Continued focus on supporting agri cash flows through rural infrastructure development and improved allocation for farmer welfare schemes
- Announcements to further aid sustainable technologies and green vehicle adoption, possibly through tax deduction/rationalisation
- Efforts towards improving technology adoption and local manufacturing capability development to help achieve Make in India goals
- Incremental SOPs and tax rebates for MSME sector, with a view to boost employment generation

ICRA expects the Government to continue with its thrust on green mobility, infrastructure projects and job creation in the upcoming Budget, which would consequently support the automotive sector. The domestic automotive industry has seen a healthy revival in the current fiscal, aided by a recovery in economic activities and increased mobility. The demand sentiments for majority of the automotive segments viz. passenger vehicles, commercial vehicles and tractors, have remained healthy, aiding in improved offtake for the industry participants. However, the two-wheeler industry continues to struggle as the industry volumes are still below the pre-Covid peak levels, even as improved offtake in the recent festive and marriage season has provided optimism.

ICRA expects Union Budget 2023-24 to include adequate budgetary outlays towards rural employment under MGNREGA, rural infrastructure development, enhancement of irrigation facilities as well as increase in targets for agricultural credit. The focus will be on making consumers feel better, and measures to help rural communities are expected to be at the heart of its policies.

Amid the ongoing electrification transition, the OEMs are expected to incur significant investments to develop ground-up electric vehicle platforms and enhance manufacturing capacities. In the last few years, the Government has come out with a number of schemes, such as FAME II and production-linked incentive schemes, to boost the local manufacturing ecosystem. The Government is likely to make more announcements in this area, such as better financing terms for electric vehicles, as it continues to work toward its Make in India goals.

Aviation

- Continued focus on improving regional connectivity through regional connectivity scheme (RCS) or Ude Desh ka Aam Nagrik (UDAN) initiative
- Possible rationalisation in duties 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 in domestic market

The Indian aviation industry expects financial aid and reduction in levies and taxes in the immediate near term to revitalise operations and improve its financial health, which include rationalisation of duties on ATF and reducing airport charges, parking and landing along with navigation charges among others. The sector will also expect extension of the ECLGS scheme or similar credit schemes to support the sector in terms of liquidity support given the adverse impact of the high ATF prices and depreciation of the INR against the USD.

The Union Budget 2023 is expected to re-focus on improving regional connectivity through RCS or UDAN initiative. The Budget is also likely to focus on setting up new airports and expanding the 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 expected to undertake further 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 MRO sector through greater push towards MRO activities in the country and push for building requisite infrastructure for promoting aircraft leasing companies/business in domestic markets.

Banking & Finance - I

- No capital requirement envisaged for public sector banks in FY2024
- Targeted incentives for the housing sector such as higher deduction for housing loan given the rise in interest rates as well as property prices
- Increase deductions under long-term saving instruments like National Pension scheme (NPS)/80C/tax saving bonds/infra bonds to promote long-term savings and raise resources for funding of infrastructure sector and also bring more clarity on role of The National Bank for Financing Infrastructure and Development (NABFID)

With capital and solvency position of the public sector banks being the best in the last eight years and is expected to improve further, ICRA does not envisage any budgetary allocation for recapitalising public sector banks. Further, with profitability of the banks expected to remain strong, the incremental capital generation should be sufficient to take care of growth requirements. With housing for all continuing to be a focus area, targeted incentive schemes such as higher deduction for housing loans could help in boosting the demand as the affordability has got somewhat impacted by rising interest rates and increase in property prices.

Infrastructure finance will continue to be a thrust area for the Government and thus demand for credit from infrastructure-focused NBFCs is expected to remain high. A large part of this demand is expected to be met through the GoI-owned NBFCs including public sector banks. Thus, a greater clarity about the role of some of the existing GoI-owned NBFCs (including NABFID) would help in this regard. Also, to raise the resources for infrastructure financing at competitive costs, an increase in deductions allowed under Income Tax for long-term saving instruments like NPS/80C/tax saving bonds/infrastructure bonds etc. could be considered. This will also help promote long-term savings and raise resources for funding the infrastructure sector. Similar concessions could also be considered for promotion of debt funds, which have mandate to invest in debt instruments issued by ESG compliant companies.

Banking & Finance - II

- Promote debt funds (by extending tax concessions), which have a mandate to invest in ESG compliant instruments to facilitate competitive funding for ESG compliant companies
- Clarity on divestments/privatisation of Government-owned financial sector entities
- Allocation for recapitalisation of general insurance companies
- Incentivise digital payments to support deposit growth of the banking system

The GoI had infused fresh equity capital of Rs. 50 billion in March 2022 in PSU general insurance companies to augment the solvency profile. However, some entities continue to remain weak and would need further Government support in the form of fresh capital infusion. Lastly, ICRA has seen traction in previous budgetary announcement for privatising IDBI Bank. However, similar announcements for divestment/privatisation of other GoI-owned financial sector entities were also made in the past. An update with some roadmap can bring clarity to all the stakeholders associated with these financial institutions.

Cement - I

- Budget allocations towards rural development and agriculture sector are expected to remain healthy
- To increase the pace of infrastructure investment, as envisaged under the National Infrastructure Pipeline (NIP), budgetary allocation towards various infrastructure sectors are likely to remain in focus

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. The pent-up demand of the last two years and the strong need to own residential properties, particularly, in the wake of the pandemic were among the major demand drivers behind the strong revival in the real estate sector. Moreover, the sales momentum has remained intact despite higher interest rates on home loans. Increase in the deduction benefit available on interest and principal payments on housing loans availed by buyers can support the strong growth cycle. Enhanced tax concessions on income from renting of housing properties and removal of 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 allocation 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 1.0 trillion, while the allocation was Rs. 480 billion in FY2023 (budget estimate) and Rs 473.9 billion in FY2022 (revised estimate). The allocation needs to be ramped up in the forthcoming Budget up to Rs 760 billion in order to meet the target of 50 million dwelling units under PMAY.

Cement - II

- Enhanced budgetary allocations for housing schemes such as Pradhan Mantri Awas Yojana
- Expansion of income tax benefits for housing loans can improve affordability

The Government is expected to continue taking steps towards achieving a Rs. 111-trillion infrastructure investment as per the NIP and provide a roadmap for its capex phasing over the next few years. The capital expenditure is expected to be increased by 15-20% from the Rs. 7.5 trillion in FY2023 BE, with focus on roads, railways and urban infrastructure segments. Asset monetisation was identified as one of the three pillars for enhanced and sustainable infrastructure financing in the country. The Government has targeted to raise Rs. 6 trillion of funds by FY2025 from leasing out public assets in sectors such as roads, airports, railways, mining, telecom, and housing, which could be used for funding investments under NIP. The expected continued focus of the Government on infrastructure spend is a positive for the cement sector.

Chemicals

- Rationalisation of duty structure for raw materials, intermediates and finished products for the chemical sector to boost domestic production
- Announcement of the PLI scheme for specific chemical sectors

ICRA notes that the chemical sector is a critical manufacturing sector with high potential for increased domestic production as well as exports and meets the Government's Atmanirbhar Bharat policy. Further, global factors, like the China+1 strategy and European energy crisis, will also support export growth in the sector, apart from expected domestic demand growth.

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

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 farmers' income
- Budgetary allocation to meet the estimated fertiliser subsidy outgo of around Rs. 2,000 billion for FY2024 amid elevated international input prices
- Rationalisation of import duty on phosphoric acid, ammonia and natural gas to improve competitiveness of the domestic fertiliser industry
- Roadmap to increase the balanced use of fertilisers in the country as well as focus on the increased use of nano fertilisers

The FY2024 Budget is expected to have a continued focus on the farm sector, including focus on initiatives to improve crop realisations and non-farm income. With agriculture remaining the focus, the agri-input sector i.e. agrochemicals, fertilisers etc. are expected to benefit.

The subsidy requirements witnessed a sharp increase in FY2023, driven by elevated prices of international raw materials and finished fertilisers amid high gas prices. ICRA expects the fertiliser subsidy allocation for FY2024 to remain elevated - upwards of Rs. 2.0 trillion - assuming some moderation in feedstock prices and savings through procurement of a part of the gas from the domestic spot market. The GoI may not allocate the full amount of the expected subsidy at the outset in the Budget for FY2024 and may calibrate the allocation during the course of the year, as in the past, depending on the evolving subsidy requirements.

This current fiscal witnessed a lot of turbulence in terms of geo-political issues, gas availability and erratic flow of subsidy. Lowering the import duties on raw materials like phosphoric acid and ammonia to improve the competitiveness of domestic phosphatic fertiliser manufacturers has been a long-pending industry demand along with the reduction of import duty on LNG for the urea industry, as the consumption of the latter is on a steady rise.

ICRA also expects the GoI to develop a roadmap to increase the balanced use of fertilisers in the country and reduce dependence on particular fertilisers. The Budget is also expected to focus on the increased use of the more environmental-friendly nano fertilisers, which will help in savings in the subsidy budget.

Healthcare & Pharmaceuticals

- Higher allocation towards improving public health infrastructure to achieve Government's target spend of 2.5% of GDP on healthcare by 2025
- Incentives to promote private sector investments (both greenfield and brownfield expansions) to improve the penetration of healthcare
- Increased allocation towards training medical personnel
- Encouraging investment in R&D for pharmaceutical industry through higher fiscal and non-fiscal incentives

At ~Rs. 866.1 billion, the budgetary allocation for the healthcare sector in FY2023 translated into a YoY increase of 0.8%, compared to the revised estimates of ~Rs. 859.2 billion for FY2022. The outlay for vaccinations was reduced to Rs. 50 billion in FY2023 against Rs. 390 billion, as per the revised estimates for FY2022. The allocation to healthcare as a percentage of GDP continues to be lower for India against most developing nations. Higher allocation is also necessitated to enable the Government to achieve its target spend of 2.5% of GDP on healthcare by CY2025 compared to the sub 1.5% currently.

Incentives to promote private sector investments (both greenfield and brownfield expansions) to improve the penetration of healthcare facilities in both urban and rural areas will be a welcome step. Further, given the low doctors to people and nurses to people ratio and the increasing opportunities available to people outside India in the medical field, increased allocation towards training medical personnel is also a key requirement.

Being research-intensive, the pharma sector incurs significant spend 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.

Hospitality

- Infrastructure status for smaller hotel projects
- Single-window clearance for hotel projects
- Reduction in GST rates can make room rates competitive compared to other overseas destinations. This could help the industry capitalise on international demand over the medium term
- Indirect measures such as spend on infrastructure, connectivity improvement, sanitation and safety, and measures to boost consumption/spending could have a positive impact on hotel demand

At present, hotel projects of over Rs. 2.0 billion get infrastructure status. However, smaller hotel projects do not enjoy the benefits. Hotels have high capital intensity and relatively high fixed costs. An infrastructure status will give hotels the benefits of lower taxation and electricity rates and simplified approval process for projects, apart from a favourable repayment structure.

Given the number of approvals required for new hotels, a single-window clearance for hotel projects will improve the operational ease and reduce the delays in the commencement of new hotels. Incentives for new entrants to the hotel industry could promote entrepreneurial ventures.

The Budget could have announcements to boost consumption/spending. There could be significant spend on sanitation and safety as well in the upcoming Budget. The hotel sector will remain an indirect beneficiary of these announcements. Given that road travel has witnessed a sharp increase in the last one year, infrastructure and connectivity improvement measures will impact hotel demand positively.

From an international traveller's perspective, reduction in GST rates can make the room rates competitive compared to other overseas destinations. While recovery in foreign tourist arrivals is still some time away, this could help the industry capitalise on international demand, going forward.

Infrastructure

- Increase in capital outlay by 15-20% with focus on key infrastructure sectors like roads, railways, drinking water, sewerage, urban and rural infra, to meet the 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 – NaBFID - and the National Investment and Infrastructure Fund (NIIF) are likely to play an important role
- Incentivising long-term debt raising through infrastructure bonds/tax-free bonds can also be looked at to shore up debt capital available for the sector
- Measures to attract private sector investments

The infrastructure sector expects the Government to continue taking steps towards achieving the Gati Shakti and NIP targets. The capital expenditure is expected to be increased by 15-20% from Rs. 7.5 trillion in FY2023 BE. Major focus is expected to be on key infrastructure segments like roads, railways and urban infrastructure. Dedicated allocations for specified large infrastructure projects announced such as High-Speed Rail, Jal Jeevan Mission, Bharat Mala, Sagar Mala, Smart Cities, Inland Waterways development can help expedite these programmes.

The infrastructure sector also expects measures to improve long-term funding availability for the sector. For this, ramp-up in lending/investment by the newly set up DFI – NaBFID - and the NIIF and incremental allocations towards these will be important. Incentivising debt raising by select infra PSUs similar to infrastructure bonds/tax-free bonds may also support funding availability for the sector. Measures to revive private sector interest in taking up new projects, including faster resolution of disputes, are also expected.

Oil & Gas

- Adequate budgetary provision to compensate for losses incurred on the sale of auto fuels and LPG
- Discontinuation of special additional excise duty (SAED)
- Crude oil, natural gas and petroleum products to be brought under GST
- Reduction in custom duty on imported LNG to promote natural gas use
- Reduction of GST rates on regasification of LNG, from current 18% levels

During FY2023, oil marketing companies (OMCs) incurred huge losses on the sale of auto fuels and LPG owing to elevated crude oil prices. While in October 2022, the Government of India (GoI) approved a one-time grant of Rs 220 billion to PSU OMCs for losses incurred on the sale of LPG, the grant only partially compensates for the losses incurred. Accordingly, the industry's expectation is for an adequate budgetary provision to compensate for the losses incurred on the sale of auto fuels and LPG. Additionally, given the high price of LPG cylinders, the GoI is expected to continue providing subsidies for the beneficiaries of the Ujjwala scheme.

The Government had imposed special additional excise duty (SAED) on crude oil and certain refinery products w.e.f. July 1, 2022. Although, it has revised SAED multiple times, these taxes have pared the profitability of upstream companies and refiners. With the softening of crude prices and reduction in GRMs, the industry has been demanding that SAED be discontinued.

Natural gas, crude oil and other petroleum products (MS, HSD and ATF) are currently outside the GST purview. These products are subject to excise duty levied by the Central Government and VAT levied by the state governments. There has been a long-standing demand from the industry to include these products under the GST regime to enable free flow of input tax credits (ITC) and avoid stranded taxes. Also, liquified natural gas (LNG) imports attract customs duty of 2.5%. Exempting LNG imports from customs duty like crude, which attracts nil duty, would promote the use of natural gas as a fuel. The GST on regasification of LNG remains high at 18%, thereby increasing the landed cost. Accordingly, there is a request from the industry to the Government to reduce the GST rates, given the high prevailing price of LNG.

Power & Renewables

- Measures to support the growth of renewable energy (RE), including strengthening the transmission infrastructure
- Measures to promote investments in energy storage – battery storage and pumped hydro projects
- Measures to improve operating efficiencies and financial viability of the distribution segment
- The PLI scheme to incentivise the manufacturing of grid scale battery storage and manufacturing electrolysers to produce green hydrogen

With the growing share of renewables in the energy generation mix, energy storage system or ESS (either battery or pumped hydro) holds critical importance for ensuring grid stability. In this context, policy measures like PLI scheme to incentivise the manufacturing of grid scale battery storage facilities are expected. Similarly, incentives may be required to promote investments in and improve the cost competitiveness of pumped hydro projects. This apart, a PLI scheme is expected to incentivise the manufacturing of electrolysers for producing green hydrogen, given the policy push on the same.

Strong tariff competitiveness and policy thrust remain the key drivers for capacity addition in RE, as is evident from the strong project pipeline of over 50 GW, which comprises projects awarded through both Central nodal and state agencies. Achieving the renewable purchase obligation (RPO) target of 43% by FY2030 would require adequate grid infrastructure along with storage capabilities to manage the intermittency associated with wind and solar power. As a result, supportive policy measures in the Budget are expected to ensure long-tenure financing avenues for RE as well as grid strengthening transmission (inter-state and intra-state) projects.

The weak financial profile of state-owned discoms continues to be of concern for the power sector, given the limited improvement in the operating and financial performance of these utilities. Hence, higher budgetary allocation to strengthen the distribution infrastructure is expected, which will enable the discoms to improve their operational efficiencies. Nonetheless, proactive focus and timely implementation of various capex measures by the discoms themselves is also required to minimise the AT&C loss levels.

Real Estate - I

ICRA

- Expansion of income tax benefits for housing loans can improve affordability
- Budgetary allocation for Pradhan Mantri Awas Yojana (PMAY) can be enhanced to Rs. Rs 760 billion in BE 2023-24 from Rs. 480 billion under BE 2022-23 to achieve the target of constructing 50 million dwelling units

The growth in residential real estate sales has been healthy at 49%,in the top-seven cities* in H1 FY2023, driven by improving affordability, competitive interest rates on home loans and robust end-user demand on the back of continuing aspirations for owning/upgrading homes. Increasing the income tax benefit on the interest paid on the housing loans to Rs. 0.4 million from Rs. 0.2 million can support the growth of the sector and have spillover benefits for other sectors. Additionally, raising the deduction limit under Section 80C could provide higher income tax benefit on the principal payment on the home loans. Further, enhanced tax concessions on income from renting housing properties and removing taxation on notional rental income on the second house (completed, non-self-occupied) can 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 allocation to such schemes can improve the access to housing in the low- to mid-income segments of the population. The pending expenditure in PMAY is over Rs 1.0 trillion, while the allocation was Rs. 480 billion in FY2023 (budget estimate) and the same needs to be ramped up to Rs. 760 billion in the forthcoming Budget in order to meet the target of 50 million dwelling units under PMAY. There are 4.6 lakh stuck residential units in the country. To address the challenge of large stuck units, the SWAMIH fund was announced in November 2019 with a target to raise Rs. 250 billion out of which it raised Rs. 100 billion from the Government and the remaining from large institutional investors, including LIC, HDFC and SBI. An additional Rs. 520 billion is needed to support the completion of the stuck units.

Real Estate - II

- The corpus of the SWAMIH fund can be raised to Rs. ~770 billion from Rs. 250 billion to enable the completion of 0.46 million stuck units, though no incremental allocation was done in the last Budget

The Government and the PSUs continue to hold significant, well-located and non-core land bank. While steps have been taken to monetise this in the past, additional thrust is needed to expedite the process of divestment/monetisation of the surplus land bank to improve the availability of land for real estate development. In the commercial real estate segment, incremental steps taken over the past years have resulted in a successful track record of REIT issuances. Further, steps taken to improve the ease of access to debt capital (from long-term investors - insurance and pension funds) and enhance retail participation can channel more investments into this segment.

** Top seven cities: Mumbai Metropolitan Region (MMR), National Capital Region (NCR), Bengaluru, Hyderabad, Pune, Kolkata, Chennai*

Roads

- ICRA expects capital outlay for the sector to increase by more than 10-15% to Rs. 2.06-2.16 trillion from Rs. 1.88 trillion in BE FY2023 while continuing with nil borrowings for the NHAI
- In line with last year's Budget, given the important role played by NaBFID and NIIF to provide long-term funds to the infrastructure sector, ICRA expects the capital allocations to these DFIs to continue at last year's levels

FY2024 is a crucial year given the Government's plans to complete the ambitious Bharatmala and allied programmes before the next elections and its continued focus on infrastructure spending to revive the economy. As a result, the capital outlay is expected to increase by 10-15%, supported by increased budgetary allocation to the sector while continuing with nil borrowings for the NHAI. The total outlay is expected to increase to more than Rs. 2.06 trillion to make up for the shortfall in private investments and slow progress in asset monetisation.

Much of the infrastructure financing in the country is currently supported by the banking sector. The availability of long-term infrastructure financing continues to be a challenge, given the twin problems faced by commercial banks of (a) asset-liability mismatch and (b) relatively high share of stressed assets. The new DFI announced in the FY2022 Budget began operations recently, but it is yet to play a meaningful role towards NIP investments. In line with last year's Budget, given the important role played by NaBFID and NIIF to provide long-term funds to the infrastructure sector, ICRA expects the capital allocations to these DFIs to continue at last year's levels. Further, these DFIs are expected to meet only 2-3% of the overall NIP funding requirement.

The Budget is expected to provide the much-needed boost to deepen the bond markets for the infrastructure sector by providing incentives like lowering the rating requirement threshold for insurance companies or pension funds.

Ports, Shipping and Shipbuilding

- Budgetary allocation for Maritime Development Fund to support the port and maritime sector
- Extension of subsidy for movement of goods through inland waterways in the North-East region
- Support/incentives for shipping sector to increase the share of Indian flagged vessels in global trade
- Support to shipbuilding sector through additional subsidies for modernisation of shipyards

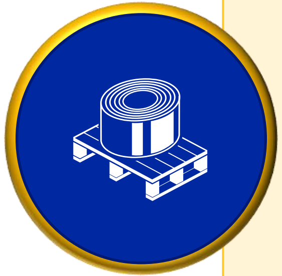
There are aggressive capacity expansion/infrastructure development plans for the Indian maritime sector, envisaged under the Sagarmala programme and Maritime Vision 2030 (MIV 2030). While the projects are expected to be funded via the PPP route, any increase in budgetary support for the projects will be a positive.

MIV 2030 also proposes to develop a Maritime Development Fund (MDF) to support the port and maritime sector, with an estimated capital of Rs. 250 billion (Rs. 25 billion support from the GoI over seven years), which will raise long-term funds in the domestic and international markets and lend it to the maritime sector at competitive rates. The setting up of MDF and budgetary allocation for the proposed fund will support the domestic maritime sector.

Further, any budgetary support/incentives for segments like inland waterways, shipping and shipbuilding to increase the share of Indian flagged vessels in global trade and support the modernisation of the domestic shipbuilding sector will also be favourable for the sector.

Steel

- Maintaining momentum in the Government’s capex drive to stimulate domestic steel demand
- Announcing measures to improve domestic coal availability/ higher rake allocations to the steel sector for mitigating the impact of rising costs
- Announcing policies that incentivise usage of steel produced in domestic market, given the looming threat of cheaper imports
- Increasing budgetary allocation towards the PLI scheme for the steel sector



The Government’s policy on capex is a key driver of steel demand from the infrastructure vertical. In the last three years, the Government’s capex has been surging at a compounded annual growth rate (CAGR) of over 30%. In FY2024, maintaining the momentum in the Government’s capex drive will be a key factor, which can partly insulate the domestic steel industry from the full effect of the ongoing global growth slowdown.

Coal is a key cost driver for the steel industry, and the sector has been facing rake and coal shortage for more than a year. Consequently, domestic steel players became increasingly reliant on costlier imported coal, which has hit their profit margins. Therefore, decisions to raise coal allocation to the steel sector and increase rake availability would help improve the industry’s cost competitiveness.

On the trade front, given the expected weakness in steel demand in other key markets, global steel trade flows can be redirected in greater volumes to growing markets like India, keeping imports at an elevated level in FY2024. Consequently, any policy announcement that incentivises use of domestically-produced steel would boost domestic steelmakers.

In the PLI scheme on special steel, the Government has approved 67 applications from 30 companies, having an investment commitment of Rs. 425 billion. While the scheme had a budgetary outlay of only Rs. 63.2 billion, given the encouraging response, a higher budgetary allocation for incentivising investments in the steel sector would also augur well for the industry.

Telecom

- Rationalisation of levies to ease the financial burden on the sector
- 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 in the past. In September 2021, the Government offered a relief package to bail the sector out of the stress. While the Government has addressed several high impact issues and has also indicated another round of reforms to be announced, the industry seeks a reduction in the levies to ease the financial burden on the sector.

Fiscal incentives for driving domestic innovation and indigenous manufacturing and promoting the development of an ecosystem around new technologies like artificial intelligence, machine learning, etc, should be looked at. A strong ecosystem of 5G equipment as part of the PLI scheme, in addition to increasing fibre penetration through the BharatNet project, bodes well for the 5G rollout.

Further, steps to boost infrastructure in the rural and remote areas is likely to remain in focus, with stimulus for increasing broadband penetration. Moreover, a clearer roadmap for satellite communications is crucial. Also, the Government needs to look into clear guidelines for right-of-way related issues to expand the infrastructure, given the advent of 5G. An efficient use of funds in the Universal Service Obligation Fund (USOF) and PPP model in the BharatNet project is likely to improve broadband connectivity across the country.

The budget estimate (BE) of non-tax revenues from communication services for FY2023 was Rs. 528 billion, while ICRA expects Government collections to be lower than this at around Rs. 450-500 billion. Further, going forward, ICRA expects non-tax receipts from the communications sector to be in a similar range in FY2024 as well.

Textiles

- Continuing provisioning and payouts from schemes such as the PLI scheme and the PM Mega Integrated Textile Region and Apparel (PM-MITRA) scheme. Expectation of a revised PLI II scheme involving lower capital outlay
- Adequate provisions for export incentive schemes
- Extension of Amended Technology Upgradation Fund Scheme (ATUFS); announcement of a new scheme to incentivise capital investments in downstream segments and captive renewable power capacities

The Indian textile industry had witnessed a roller-coaster year, with a huge demand upswing in FY2022 to a sharp increase in raw material prices (cotton) in H1 FY2023. The slowdown in developed economies has cast a shadow on the textile export market. Green shoots of recovery can be seen in the recent trade agreements signed/initiated. The FTA with Australia should open a lucrative export market for garments, and the proposed trade agreement with the UK should level the playing field with another large textile exporting neighbour. The China+1 sourcing policy being endorsed by several large consuming regions across the globe to reduce the risk of events such as the pandemic, and increasing concerns on the use of Xinjiang cotton, are fuelling this opportunity. China leads the global textile market at present and is likely to shed some share in the near to medium term, making India one of the potential beneficiaries of this shift.

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 MMF value chain, apparels and technical textile segments, which offer immense growth opportunities in global trade, and where India has been lagging so far. In line with the thrust on Make in India, the Government has taken several policy initiatives, such as flagging off the PLI scheme, extension of the Rebate of State and Central Taxes and Levies (RoSCTL) scheme for apparels and made-ups for three years, announcement of the Remission of Duties and Taxes on Exported Products (RoDTEP) rates for other textile segments and notification of seven textiles parks under the PM-MITRA scheme. While the policy initiatives are all steps in the right direction, effective implementation remains crucial, for which adequate provisioning in the Budget is necessary.

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