India Budget FY 2023 - 2024

A budget committed to push growth while focusing on fiscal consolidation

February 2023

HSBC Mutual Fund

Fiscal target to be maintained in FY2023

Higher Tax collections to offset increased subsidy bill

- **Buoyant Tax collections aiding increased revenue**
    - Growth for the current year expected to be at 7%
    - Total Receipts (net of borrowing) for FY2023 RE stood at INR 24.3 trn, versus BE of INR 22.8 trn
    - Higher tax collections helped in off-setting increased subsidy and other expenditures

- **Subsidies majorly accounting for rise in expenditure**
    - Total expenditure increased to INR 41.9 trn in FY2023 versus a budget estimate of INR 39.4 trn
    - Subsidy expenditure overshot the Budget estimate by almost INR 2 trn
    - Capital expenditure for FY2023 RE stood at INR 7.3 trn, slightly lower than BE of INR 7.5 trn

- **Government sticks to Fiscal Deficit target**
    - Government to maintain a Fiscal Deficit mandate of 6.4% for FY2023
    - Net market borrowings through G-Sec and T-Bill increased from BE of INR 11.59 trn to INR 11.96 trn
    - Shortfall for this year expected to be borrowed through T-Bills

Government has balanced the need for fiscal consolidation while continuing to fuel growth

Source: Indian Union Budget Document, Bloomberg, February 2023

Increased focus on Capital Expenditure

Capex to remain key driver

- **Total expenditure to increase to INR 45 trn in FY2024 against a FY2023 RE of INR 41.9 trn**
  - Capital expenditure to account for major of the increase in Total Expenditure
  - Revenue expenditure to remain broadly in line with the FY2023 RE

- **Capex Outlay significantly increased for FY2024**
  - Capital expenditure of INR 10 trn (3.3% of GDP) announced for FY2024 (37% y-o-y increase), higher than market expectations
  - Interest free loans to States for Capex to continue, to be spent in FY2024
  - Railways and Roads key beneficiaries of the increase in Capex spend
  - However, actual spend could be lower than BE; as was witnessed this year

- **Subsidy expenditures projected to decline**
  - Fertilizer subsidy expected to fall to INR 1.75 trn in FY2024 (vs INR 2.25 trn in FY2023 RE)
  - Food subsidy also expected to fall to INR 1.97 trn in FY2024 (vs INR 2.87 trn in FY2023 BE)

Source: Indian Union Budget Document, Bloomberg, February 2023

Fiscal roadmap to continue

Government to balance growth with fiscal consolidation

- **Revenue numbers seem reasonable**
  - Nominal GDP expected to grow at 10.5%
  - Total Receipts (net of borrowing) at INR 27.2 trn (against a FY2023 RE of INR 24.3 trn)
  - Net Tax Receipts to increase from INR 20.9 trn in FY2023 RE to INR 23.3 trn in FY2024
  - Revenue from Divestments estimated at INR 510 bn, RBI and PSU Dividends budgeted at INR 480 bn

- **Expenditure driven through Capex**
  - Revenue to Capital expenditure fallen further
  - Subsidy expenditure lower than last year actuals

- **Borrowings**
  - Gross market borrowing at INR 15.4 trn, Net market borrowing at INR 12.3 trn
  - Net Borrowing through Dated securities at INR 11.8 trn, lower than market expectations
  - Borrowing through Small Savings at INR 4.7 trn, higher than market expectations

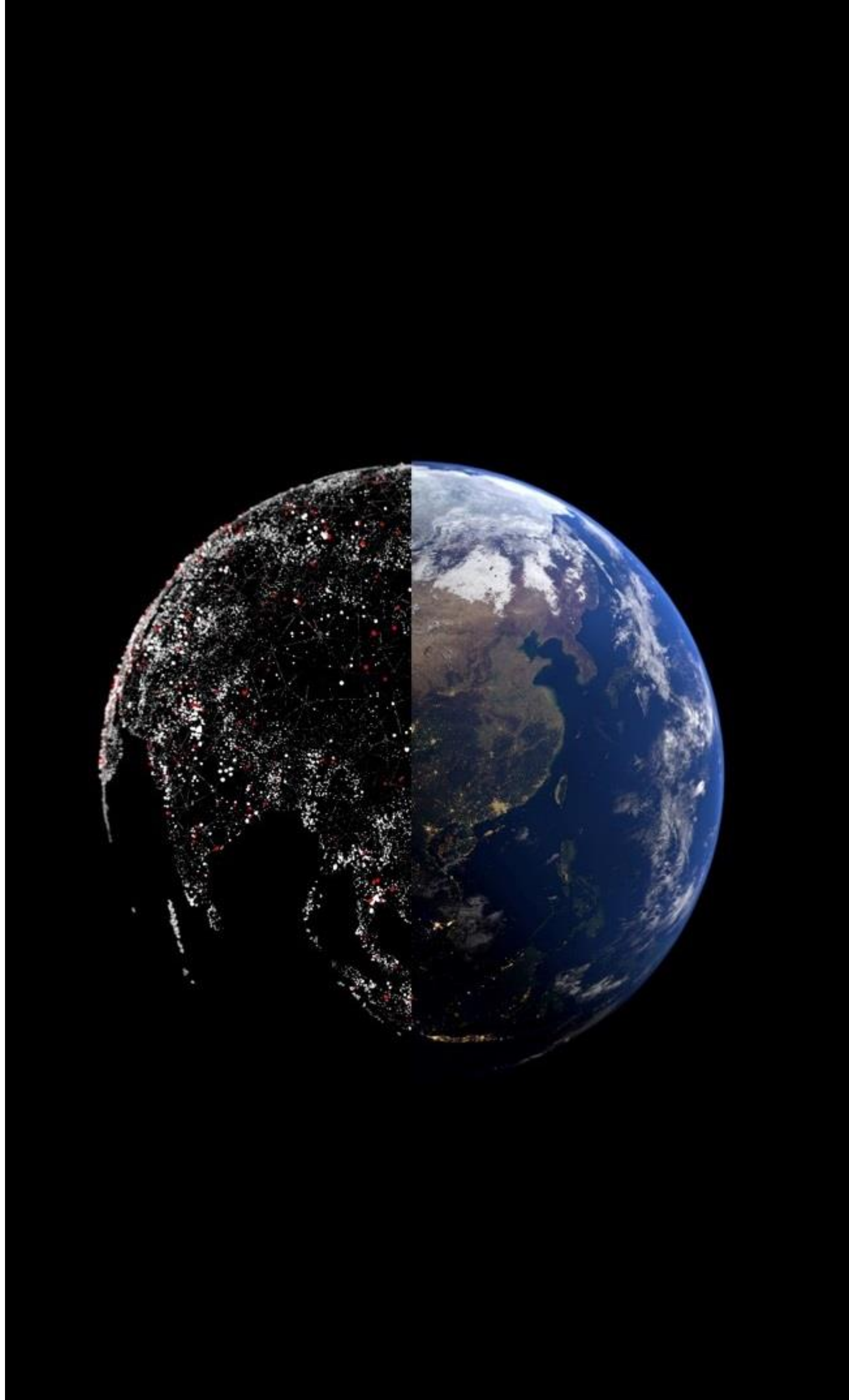
- **Fiscal Deficit in line with market expectations**
  - FY2024 Fiscal Deficit estimated at 5.9% (vs 6.4% in FY2023)
  - Government reiterated resolve to reach a Fiscal Deficit target of 4.5% by FY2026
  - States have been allowed to run a Fiscal Deficit of 3.5%, which includes 0.5% strictly based on power sector reforms

Any shortfall in Revenue could be met by curtailing spending

Source: Indian Union Budget Document, Bloomberg, February 2023

India Union Budget FY2023-24

The Equity Markets Perspective



HSBC Mutual Fund

Clear focus on infrastructure and manufacturing development

Sticking to consolidation roadmap with reduction in fiscal deficit by 50 bps to 5.9% in FY24

- **Focus on productive spends**: This year's budget is a continuation of the structural path of productive asset creation envisaged in the previous budget. The adjusted capex spend is expected to grow at 22% in FY24 over FY23 RE, which was only a growth of 22% (YoY) over FY21.
- **Realistic and low on populism**: Revenue growth estimates inline with expected nominal GDP growth of 10.5% looks realistic. Government has resisted the urge of turning populist ahead of the 2024 National Elections. However, revenue expenditure growth of only 1% (YoY) due to reduction in subsidies may be hard to stick to.
- **Emphasis on manufacturing and clean energy**: Government has allocated Rs 350 bn to support clean energy and battery initiatives inline with its long term Net Zero objective. Focus remains on localization of advanced manufacturing and newer areas through Production Linked Incentive (PLI) schemes for various sectors.
- **Leveraging existing schemes**: There increased allocation to already well executed schemes which could further bolster the action plan (PM Awas Yojana, Jal Shakti scheme etc.) while subsidy program allocations have been cut as the economy has now fully recovered from the pandemic.
- **Limited change in tax rates**: Government is looking to move, more people to the more simplified 'New tax regime' and has tried to increased its relative attractiveness with some reduction in tax outgo. It has also removed tax exempt status for certain large premium insurance schemes.
- **Misses**: No measures taken to get India included in global bond markets indices. No boost to housing sector with increased tax deduction to offset higher interest rates.

Source: Indian Union Budget Document, Bloomberg, February 2023.

Key sectoral impact & assessment

Focus on capex has continued. Overall adjusted capital expenditure for FY24 has increased by 21% over FY23RE

Segments (INR Bn)	FY22	FY23RE	FY24BE	FY24BE vs FY23RE (%)
Atomic Energy	153	131	160	22%
Defence	1,448	1,580	1,714	8%
Food and Public Distribution	12	26	20	-23%
Housing and Urban Development	259	237	260	10%
Petroleum and Natural Gas	3	-	355	
Railways	1,173	1,591	2,400	51%
Road Transport and Highways	1,133	2,063	2,586	25%
Telecommunications	33	372	617	66%
Others	1,714	1,282	1,898	48%
Budgetary Capital Expenditure	5,929	7,283	10,010	37%
Capitalization of BSNL	—	(333)	(529)	
Capital grant to OMCs	—	—	(300)	
Adjusted Budgetary Capital xpenditure	5,929	6,950	9,180	32%
IEBR	4,376	4,011	4,877	
FCI Adjustment	(609)	(550)	(1,450)	
Total Adj. CAPEX	9,696	10,411	12,608	21%

Source: Indian Union Budget Document, February 2023.
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Key sectoral impact & assessment

Positive for Industrial, Cement and Construction companies

Sector	Infrastructure	Defence	Power
Measure	• Road capex for FY24BE is higher by 25% vs FY23RE[1] • Railway capex for FY24BE is higher by 15% vs FY23RE[2] • Metro rail capex for FY24BE is higher by 14% vs FY23RE. This comes after a fall in FY23RE vs FY22A[3] • Establishing a network of electric charging stations in all cities, highways, capitals etc.[4] • 100 critical transport infrastructure projects worth Rs. 750 bn identified[5]	• Defence capex for FY24BE is higher by 8% vs FY23RE. In addition to the overall growth in capex, government focus is on increasing domestic procurement and hence overall opportunity for Indian companies will see good increase[6]	• Focus on becoming Net zero by 2070 and capital investment of Rs. 350 bn envisaged. Battery storage systems of 4000 MWH will be supported with viability gap funding[7] • Inter-state Transmission system for power evacuation of 13 GW renewable energy from Ladakh for an investment of Rs. 207 bn[8]
Likely impact	1. Positive for Road Construction and Cement companies 2. Positive for the Rail sector companies 3. Positive for Metro Construction, Equipment Suppliers and Cement companies 4. Positive for Equipment Manufacturing and Station Operators 5. Positive for companies involved in Logistics and Construction space as well as the Equipment supply	6. Positive for companies in Defence sector	7. Positive for Solar Power and other Renewable Energy value chain companies 8. Positive for companies in Power transmission as well as on the Equipment supply side

Source: Indian Union Budget Document, February 2023.

Key sectoral impact & assessment

Negative for Insurance and OMCs, positive for the rest

Sector	Automobiles	Consumer	Financials	Insurance	Oil & Gas
Measure	• Subsidy allocation under the FAME scheme to Rs. 52 bn from Rs. 29 bn in FY23[1] • Increased spending on infrastructure and rural development programs[2]	• Reduction in tax under new income tax regime, Higher infrastructure spending, rural development programs[3] • Increase in NCCD by 16% on cigarettes is marginal[4] • Reduction in BCD* on lens of camera module for mobile phone from 2.5% to Nil and parts for manufacture of open cells of TV panels from 5% to 2.5%[5]	• Allocation for Pradhan Mantri Awas Yojaana (PMAY) increased by 65% to Rs. 790 bn[6] • Credit guarantee scheme with a corpus of Rs. 90 bn that will enable additional collateral-free guaranteed credit of Rs. 2,000 bn to the MSE sector[7]	• Tax Income from New Life Insurance policies (Ex-ULIPs) where aggregate premium paid is above Rs. 5 lacs in a year[8] • With more focus on shifting towards new tax regime, Life Insurance products will become less attractive as an investment vehicle [8]	• Capital grant of Rs. 300 bn for Oil Marketing companies (OMCs) in FY23[9] • Excise duty estimates at Rs. 3.39 tn vs. FY23 RE of Rs. 3.2 tn on petroleum fuels[10]
Likely impact	1. Positive for Electric Vehicles 2, Positive for Commercial Vehicles	3. Positive for FMCG 4. Positive for Cigarette Companies 5. Marginally positive for Contract Manufacturers	6. Positive for Banks, NBFCs and Building Materials 7. Positive for Banks and NBFCs	8. Negative for Life Insurance Sector	9. Marginally positive for OMCs 10. Negative for OMCs as duties on petrol/diesel will not reduce

Source: Indian Union Budget Document, February 2023. *BCD: Basic Custom Duty

Conclusion: A budget committed to raising the long term growth

Leveraging revenue buoyancy for asset creation to bring in long term sustainable gains

Capex focus reiterated	• Government capex is expected to act as a catalyst to spur private capex • The focus remains on productive spends to bring in the multiplier effect (positive impact on wages and livelihood), which is a structural positive for the economy
Building the buffer for sustainable economic expansion	• Sticking to the fiscal consolidation roadmap with reduction in fiscal deficit is a positive for medium term inflation and interest rates
Focus on new energy and manufacturing	• Execution intent shown on Energy transition and Clean Energy • Increase in allocation spend for Production linked Incentive (PLI) scheme in various sectors
Portfolio Update:	• Our portfolio stance remains broadly unchanged. We continue to be positive on the themes of domestic cyclical recovery like banks and industrials • Strong focus on domestic manufacturing and Infrastructure from this year's budget is a positive outcome

Source: Indian Union Budget Document, Bloomberg, February 2023.
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