

Budget Preview 2022-23E



We see the FY23E Union Budget being “fiscally prudent” as well as “growth supportive”. We expect the government to continue its growth agenda via higher capex allocation, which will accelerate the investment cycle and employment. We also expect fiscal conservatism approach to be back gradually keeping in mind the likely inclusion of India in the global bond indices. With buoyancy in tax revenues, relatively contained spending and higher nominal GDP growth, we expect fiscal deficit to be contained at 6.3% vs. BE of 6.8% of GDP for FY22E. With a goal to reach a \$5-trillion economy by FY25E, we expect capital expenditure allocation to continue to remain higher for FY23E as well while healthy tax revenues and mega disinvestment pipeline may help contain fiscal deficit to ~5.0%.

Key expectations from upcoming Budget:

- **GDP growth, tax collections to remain buoyant; higher disinvestment to provide further fillip:** Nominal GDP is expected to grow at historic high rates of ~17.6% in FY22IE to reach \$3 trillion. We expect growth to continue to remain stronger in FY23E as well with likely nominal GDP growth of 14.5%. Pent-up demand, fully opening up of economy and acceleration in the private as well as public capex will be key triggers. Given this, we expect FY23E tax revenue growth to remain healthy at 14.1%. Further, raising capital via higher disinvestments and bringing forward the process of monetisation pipeline will remain a key focus area for FY23E
- **Higher outlay on capex to continue** - We expect capital expenditure outlay to increase 26.8% to ₹ 7.0 lakh crore for FY23E. This along with other financial funding options could increase the government's financing capability to support NIP. Key areas of allocation would be road, defence, railways, water, urban infrastructure, etc. **Within infrastructure segment**, we expect higher allocation towards **roads** (29% YoY to ₹ 1.4 lakh crore), **railways** (22% YoY to ₹ 1.3 lakh crore), **water segment** (Jal Jeevan mission 20% YoY with river interlinking segment also getting a spending boost)
- **Focus on tax compliance & ease of doing business** - Union Budget may announce steps to reduce tax litigation, boost compliance by greater oversight of transactions and work towards the goal of bringing more firms into the fold of the formal sector. We also expect measures like single window electronic clearance system for MSMEs & Exim trade transaction, modernisation & automation of Indian ports under Ease of doing business to further improve the business environment
- **Support for MSME/rural economy to be back in focus** – We expect the government to extend ECLGS and other loan guarantee schemes for micro, small and medium enterprises (MSMEs), hospitality and tourism sector, and the health infrastructure beyond March 31. Also, measures like hike in MSP, agro marketing support, boost to rural infra and aid through cheaper funding can help in reviving rural economy. **Boost to manufacturing** - Higher allocation for PLI, rolling it out to support more sectors and rationalising of inverted import duty structure can provide more impetus to manufacturing
- **Fiscal prudence to act as trigger for global bond inflows** - With FY23E likely to mark a reversal of the interest rate cycle globally, fiscal prudence gains higher importance. Also, to prevent bond yields moving higher, policy measures to ensure inclusion of India's sovereign bonds in global bond indices is a key expectation from the Budget. It may bring US\$20-40 billion per year and provide the much needed demand support for G-Secs

Levers in place to contain fiscal deficit within target for FY22IE; Expect consolidation to begin from FY23IE...

We expect fiscal deficit for FY22IE to be contained at 6.3% vs. budgeted target of 6.8% despite shortfall in disinvestments and grant of additional expenditure worth ₹ 3.23 lakh crore. Key levers include healthy tax collections, relatively contained spend from other ministries and upward revision in the GDP estimate. On an absolute basis, FY22E fiscal deficit is likely to be ~₹ 14.6 lakh crore vs. Budget estimate of ₹ 15.1 lakh crore. For FY23E, there is enough headroom for fiscal deficit to come down to ~5.0%. In our view that will be aided by mega disinvestments including asset sale under national monetisation pipeline.

Government's fiscal position (₹ lakh crore)

	FY19	FY20	FY21 RE	FY22 BE	YoY (%)	FY22 IE	YoY (%)	FY23 IE	YoY (%)
Direct tax revenues	11.4	11.7	9.1	11.1	22.4	12.6	39.3	14.4	14.5
Indirect tax revenues	9.4	9.9	10.0	11.1	11.4	12.7	28.0	14.5	13.8
Gross Tax revenues	20.8	21.6	19.0	22.2	16.7	25.3	33.4	28.9	14.1
Net Tax revenues [A]	13.2	15.0	13.4	15.5	14.9	18.0	34.1	20.2	11.9
Non-tax revenues [B]	2.4	3.5	2.1	2.4	15.4	2.9	36.7	2.9	0.2
Disinvestmt & Others [C]	1.1	0.8	0.5	1.9	304.3	0.9	89.3	1.9	115.9
Total Revenue [A+B+C]	17	19	16	20	23.4	22	36.1	25	14.6
Capital Exp [D]	3.1	3.4	4.4	5.5	26.2	5.5	25.9	7.0	26.8
Revenue Exp [E]	20.1	23.6	30.1	29.3	-2.7	30.8	2.4	31.2	1.1
Total Expenditure [D+E]	23.2	27.0	34.5	34.8	1.0	36.4	5.4	38.2	5.0
Fiscal Deficit	-6.5	-7.7	-18.5	-15.1	NA	-14.6	NA	-13.2	NA
Nominal GDP (In Lakh)	190.1	204.4	197.5	222.9	12.9	232.2	17.6	265.8	14.5

Source: Indiabudget.nic.in, ICICI Direct Research.

Government's fiscal position (as percentage of GDP)

	FY19	FY20	FY21 RE	FY22 BE	FY22 IE	FY23 IE
Direct tax revenues	6.0	5.7	4.6	5.0	5.4	5.4
Indirect tax revenues	5.0	4.9	5.0	5.0	5.5	5.5
Gross Tax revenues	10.9	10.6	9.6	9.9	10.9	10.9
Net Tax revenues [A]	6.9	7.4	6.8	6.9	7.8	7.6
Non-tax revenues [B]	1.2	1.7	1.1	1.1	1.2	1.1
Disinvestmt & Others [C]	0.6	0.4	0.2	0.8	0.4	0.7
Total Revenue [A+B+C]	8.8	9.4	8.1	8.9	9.4	9.4
Capital Exp [D]	1.6	1.6	2.2	2.5	2.4	2.6
Revenue Exp [E]	10.6	11.6	15.2	13.1	13.3	11.7
Total Expenditure [D+E]	12.2	13.2	17.5	15.6	15.7	14.4
Fiscal Deficit	-3.4	-3.8	-9.4	-6.8	-6.3	-5.0

Key points considered:

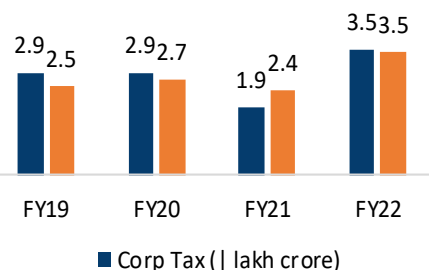
- **Buoyancy in tax revenues** to provide additional gross buffer of ₹ 3.1 lakh crore. Expect gross tax to GDP ratio to improve to 11% in FY23E vs. FY22BE of 10%
- Many of the large ticket stake sale would likely be rolled over. Thus, FY23E disinvestment target is seen higher at ~₹ 1.9 lakh crore. Assuming LIC IPO in FY22, total inflow for FY22E is seen at ~₹ 75,000 crore
- With **healthy traction in dividend receipts**, we expect non-tax revenue of ₹ 3.0 lakh crore for FY23E
- Barring **two supplementary demands for grants worth ₹ 3.23 lakh crore** towards one time expenditure like food & fertiliser subsidy, export incentives, Air India, MGNREGA, etc, the expenditure of other departments has remained contained. This would lead to net addition of only ~₹ 1.5 lakh crore in the total expenditure for FY22IE. For FY23IE, we expect total expenditure growth of 5% to ₹ 38.2 lakh crore
- **Allocation towards capital expenditure to continue to remain higher by 26.8% to ₹ 7 lakh crore (or 2.7% of GDP) vs. ₹ 5.5 lakh crore for FY22BE while allocation to revenue expenditure to increase marginally by 1.1%** due to removal of extra expenditures like additional food subsidy & social security expenses post pandemic, allocation of funds for Air India, etc

Tax collection remains healthy; expenditure under control so far...

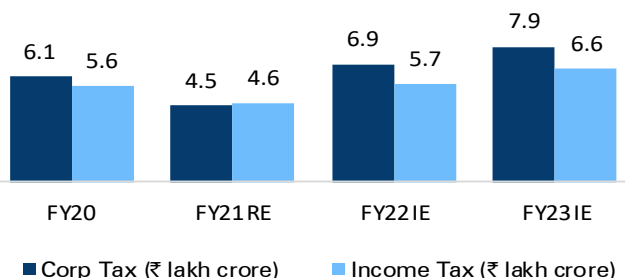
Direct taxes (corporate & Individual) as well as GST collections have shown a remarkable improvement during FY22 so far. Greater formalisation of the economy coupled with anti-evasion measures to stem GST leakages, enforcing strong compliance and various economic reforms such as Atmanirbhar Bharat, production linked incentives (PLI) schemes announced by the government have led to such growth.

Healthy tax collections both direct, indirect reflect sharp recovery in economy post Covid wave

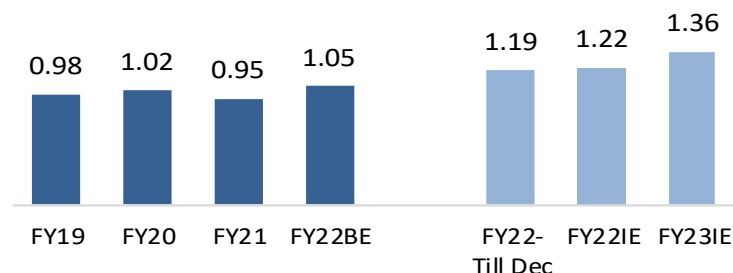
April-Nov direct tax receipts are up 63% YoY (₹ lakh crore)



Expect direct tax revenue growth of over 39% (vs BE of 22% for FY22E) and 14.5% for FY23E



Monthly GST collection growth to remain robust @ 29% for FY22E (₹ lakh crore)

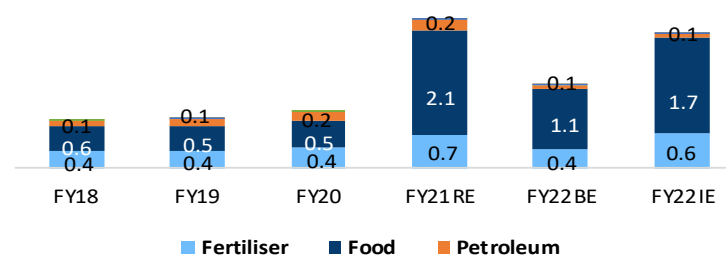


Additional demand of grants worth ₹ 3.23 lakh crore mainly relating to food & fertiliser to keep subsidy bill higher at 2.4% of GDP for FY22 vs. 1.5% budgeted earlier. However, we expect net addition of only ₹ 1.6 lakh crore in total expenditure for FY22E from budgeted target, given relatively contained spend from other departments as total expenditure for April-November 2021 reflect some moderation with actual spend of 59.6% of BE vs. last four year's average of 65.8% of BE. This should help contain total expenditure.

Additional demand of grants towards subsidies, social expenses to increase subsidy burden to ₹ 5.43 lakh crore, i.e. @ 2.4% of GDP vs. 1.5% BE for FY22E

Extra Expenditure	₹ crore
Air India	62057
Food Subsidy	49805
Fertiliser subsidy	58430
Export Incentives	53123
Rural development	22039
Others	77221
Total	322675

Total subsidy bill to remain higher at 2.4% of GDP vs BE of 1.5% for FY22BE



Disinvestment, asset monetisation to accelerate in FY23E...

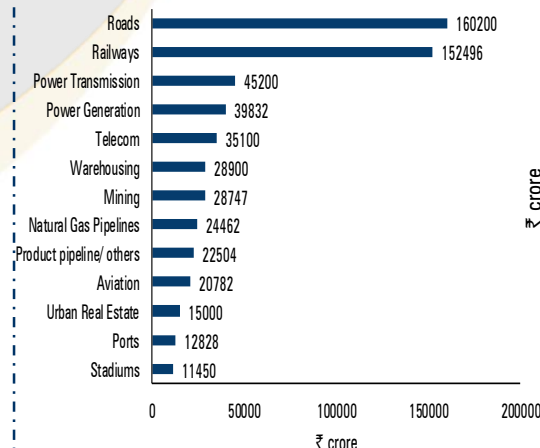
- Disinvestment proceeds for FY22 are expected to fall short of budget estimates. Assuming public listing of LIC in FY22, we expect total inflow at ~ ₹ 75,000–80,000 crore vs. BE of ₹ 1.75 lakh crore
- With disinvestment of ₹ 12,030 crore done so far including Air India, we believe many of the large ticket stake sale would be rolled over to FY23E. Assuming further LIC OFS of ~5% in FY23E, disinvestment target to remain higher at ~₹ 1.9-2 lakh crore, including some big ticket sale.
- Key rollovers in disinvestment - Stake sale in BPCL (~₹ 50,000 crore), IDBI Bank (~₹ 25,000 crore) and other entities like Shipping Corp, Pawan Hans, BEML (~₹ 30,000 crore). Privatisation of two PSU banks (~₹ 55,000 crore) and LIC OFS (₹ 65,000 crore) are seen becoming part of FY23E disinvestment agenda
- Public listing of LIC in FY22 (we assume ~₹ 65,000 crore of inflow at ~5% stake sale) remains a key risk. Any delay in IPO of the largest life insurer could lead to a rollover, thus raising the disinvestment target for FY23E

Details of disinvestment plan in FY23E

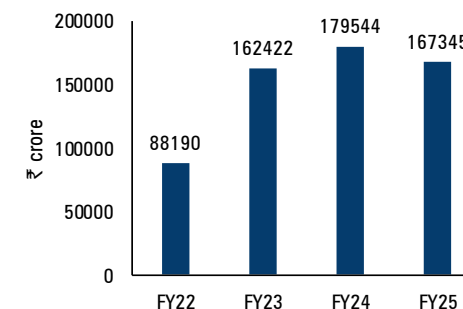
Disinvestment details	₹ crore
(A) FY22 Target	1,75,000
(B) Achieved till now	12,030
(C.) OFS via LIC IPO	65,000
(D) Balance rollover = A - B - C	97,970
(E.) Stake sale in 2 PSBs	30,000
(F) LIC OFS of 5%	65,000
(G) FY23E Target	1,92,970

- In Union Budget 2021-22, the government had laid emphasis on asset monetisation to raise innovative and alternative financing for infrastructure.
- Accordingly, Gol launched a 4 year road map for a ₹6.0 lakh crore asset monetisation plan, encashing several operational assets such as NHAI toll roads, power transmission projects, oil & gas pipelines, airports, warehousing assets & sports stadia, etc. With assets and choice of instruments being identified under NMP, we expect substantial throughput in FY23E
- Plan to set up National Land Monetisation Corporation (NLMC) to fast track monetisation of land and non-core asset of central public enterprise. Identified 2,000 acres of non-core land parcels expected to garner ~₹ 50,000 crore

Sector-wise monetisation pipeline in FY22-25E



Year-wise monetisation pipeline

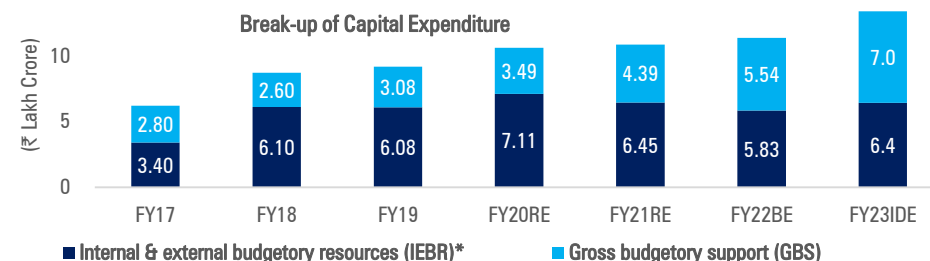


Source: Govt websites, media sources, DIPAM, ICICI Direct Research

Onus on “capex momentum” to be key Budget highlight...

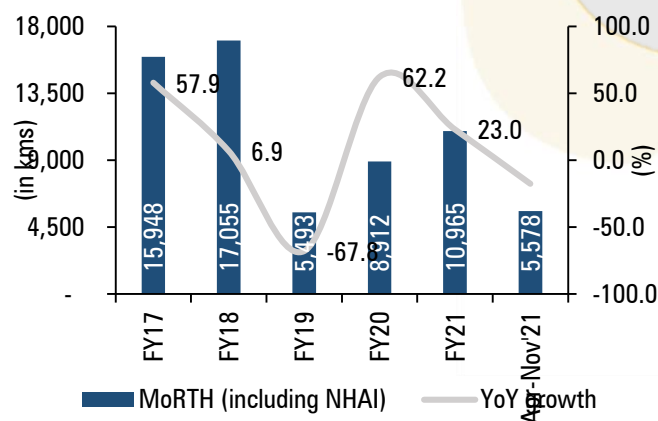
- We believe the allocation to capex spend to remain buoyant and the same would increase by a hefty 26% YoY to ~ ₹ 7 lakh crore
- The allocation to capex via IEBR (internal & external budgetary resources i.e. capex dome by central PSU) would also grow 10% YoY, albeit on a low base of Covid year. All put together, total capex spend should see a strong 18% YoY allocation in the upcoming budget. Hence, aggregate allocation towards capital expenditure is expected to be pegged at ₹ 13.4 lakh crore
- The key sectors, which would witness heightened allocation towards capex spend will be roads, defence, water (Jal Jeevan Scheme and River interlining programme), Housing and railways. New segments such as station redevelopment may also see some allocation in this Budget

Capital Expenditure Gross Budgetary Support (₹ Crore)	FY18	FY19	FY20RE	FY21RE	FY22BE	FY23IDE
MoRTH	50752	67646	72059	92053	108230	140000
Railway	43418	52837	65837	108398	107100	130662
Defence	95431	95231	110394	135510	135061	156671
Housing & Urban Affairs	15346	15773	19197	10162	25759	33487
Power, Renewable Energy, Coal	1942	2061	1893	319	1565	2000
Petroleum & Natural Gas	1131	1908	619	773	427	555
Other	55120	72258	78908	91870	176094	234205
Total	263140	307714	348908	439085	554236	697580



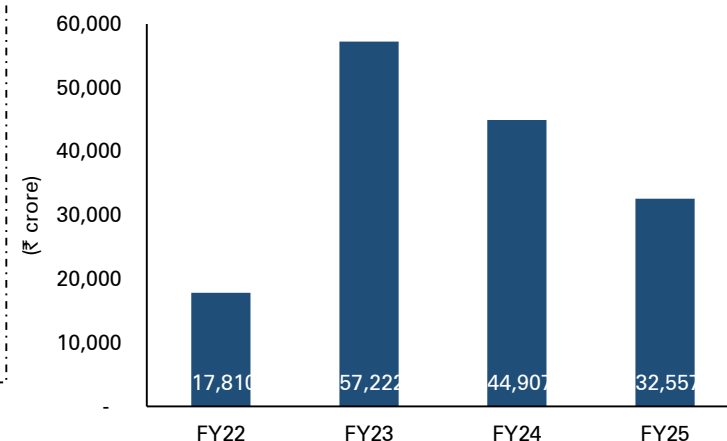
*IEBR: Implies capex done by PSU companies

Roads & Highways



- We expect enhanced outlay of ₹ 1.4 lakh crore during FY23 (up ~19% from budgeted capex of ₹ 1.18 lakh crore during FY22) for roads
- Under Railway Station Redevelopment Programme, aim is to redevelop 400 railway station across India at ~₹ 1 lakh crore through PPP mode
- The Budget is likely to significantly increase the fund allocation towards station redevelopment with 120 stations targeted to come under renovation

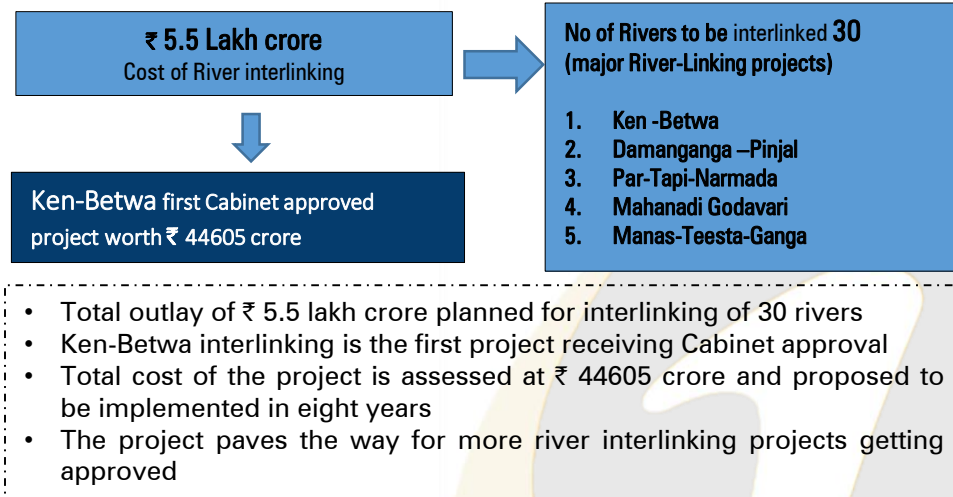
Station Redevelopment Programme (Railways)



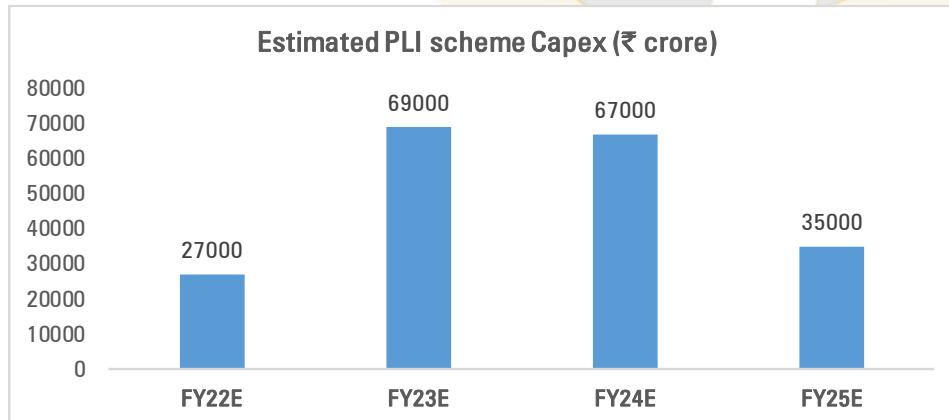
Source:: Ministry of Finance, ICICI Direct Research; *BE- Budget Estimates, RE-Revised Estimates

Key infra segments (railways, roads, defence, water, renewables) likely to see higher capex allocation...

River interlinking project to be kicked off

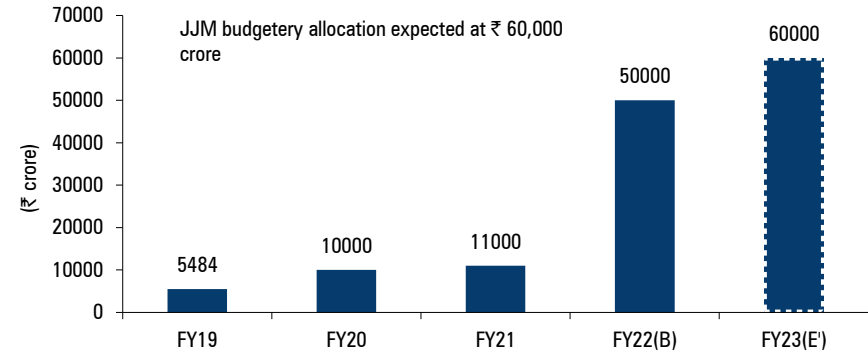


PLI scheme driven capex by private players over next five years



Source:: NHAI, MoRTH, Media Articles, ICICI Direct Research

Jal Jeevan Mission

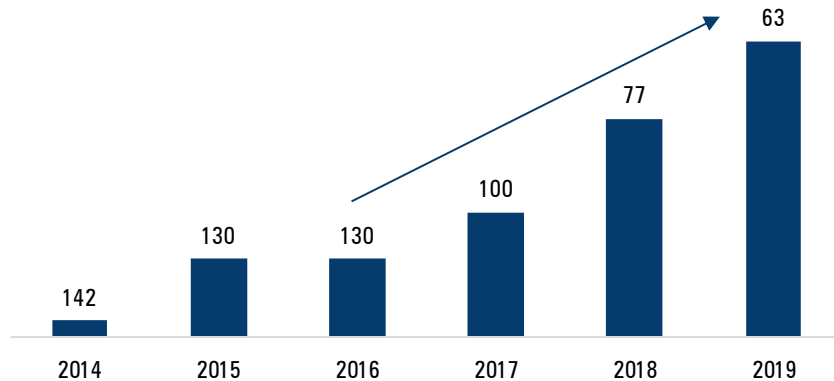


- Under the JJM scheme, target is ~19.3 crore households to have potable water connection by FY24. Despite Covid led disruptions government ~8.7 crore rural household (i.e. 45% of target) were tapped till December 2021. For FY23, the government is further expected to increase budgetary allocation to ₹ 60,000 crore (vs. ₹ 50,000 crore in FY22) despite lower spends in 9MFY22

- The government has already announced PLI schemes for 13 key sectors along with incentives worth ₹ 1.97 lakh crore
- We expect the government to announce new Production-Linked Incentive (PLI) Schemes for wearable/hearable devices, leather & laminates in the upcoming Budget
- The government may also review existing PLI of IT hardware to increase the incentive from ₹ 7,325 crore to ₹ 20,000 crore to attract more investments

Ease of doing business: Significant ground gained; India aspires to create simplified, conducive business environment...

India's Ease of doing business rankings trend



Ease of doing business has been at the cornerstone of all government policies.

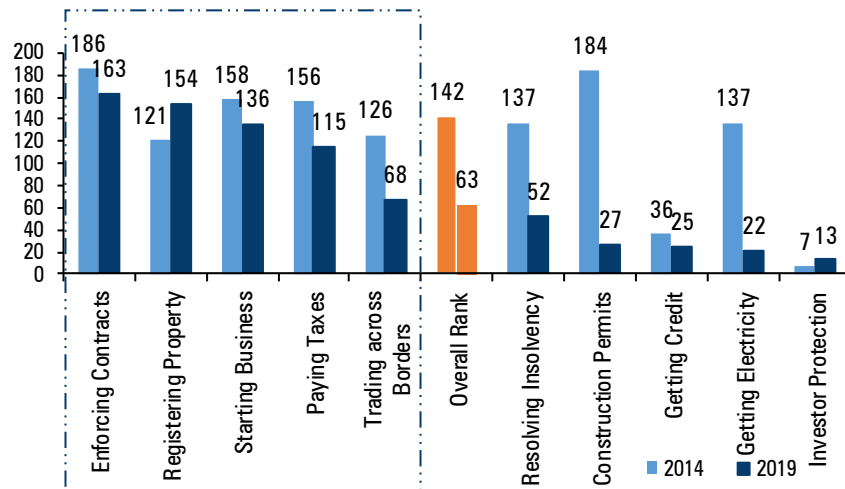
- Reduction in **corporate tax rate**, abolition of **dividend distribution tax**, simplified alternate **personal tax regime**, NPA resolution through **Insolvency & Bankruptcy Code (IBC)** framework were the affirmative steps in this direction in the past

Consequently, India has made significant improvement in the World Bank's Ease of Doing business rankings from 142 levels attained in 2014 to 63 rank clocked in 2019.

Key Expectations from Union Budget 2022-23

- Single window electronic clearance system for MSMEs & Exim trade transaction
- Modernisation & automation of Indian ports to lower logistics costs
- Further increase the exemption limit of tax audit for businesses adopting digital modes of payment (with turnover up to ₹ 50 crore from ₹ 10 crore limit earlier)
- Accelerated depreciation & other monetary incentives for research conducted in advance fields of alternate energy, electric vehicles, artificial intelligence, etc
- Fixed timeline for concluding free trade agreements as well as increase in Export incentives under RoDTEP scheme to promote bilateral trade (exports)
- Reduction in personal tax rates in tandem with the reduced corporate tax rate
- Conducive taxation policy to attract foreign capital for large infrastructure projects
- Extension of PLI scheme for export intensive sectors such as leather & laminates
- Increase in eligible wage limit for new employee deduction under section 80JJAA from existing ₹ 25,000 per month to ₹ 35,000 per month; promoting job creation

Leads and laggards in India's ease of doing business



Source: Economic Survey, World Bank, Union budget, ICICI Direct Research

New alternative simplified direct tax structure to be made more attractive...

Union Budget 2022-23 is likely to make the alternative simplified direct tax structure more attractive. Measures may be announced to disincentivise old tax structure by either reducing deductions/exemption in old tax structure or by rationalising new tax slabs to make it more attractive.

Key expectations from Budget:

In personal income tax, total deductions claimed under various provisions may be restricted to less than ₹ 3 lakh, which may incentivise a shift to the new regime. Similarly, a roadmap may announced for phasing out various exemptions/deductions currently available under the old corporate tax regime.

Additionally: Tax exemption may be provided for dividend income to the extent of ₹ 10000 (similar to saving bank interest) as a relief to small investors. Since dividend was made taxable in the hands of the investor instead of DDT, which was taxed @15% (plus surcharge) some exemption will provide the much needed relief. Exemption from long term equity capital gain tax may be increased from current ₹ 1 lakh to ₹ 1.5 lakh to benefit retail investors. Parity in capital gain tax across asset classes and tenure cut-off for short term/long term may be considered. Currently, holding period for long term is one year for equity related products while it is three years for most debt products.

Personal Income Tax Structure: Old regime still attractive if total deductions claimed exceeds ₹ 2,60,000. Measures may announced to restrict total deduction to similar amount.

Old tax structure	
Income	Tax Rate
0.0-2.5 lakh	NIL
2.5 - 5.0 lakh	5%
5.0 - 10.0 lakh	20%
> 10.0 lakh	30%



100-odd deductions like Sec 80C/HRA/LTA/Housing Loan Interest etc.

Simplified alternative tax structure	
Income	Tax Rate
0.0-2.5 lakh	NIL
2.5 - 5.0 lakh	5%
5.0 - 7.5 lakh	10%
7.5 - 10.0 lakh	15%
10.0 - 12.5 lakh	20%
12.5 - 15.0 lakh	25%
> 15.0 lakh	30%



Only 30-odd deductions

For 30% tax bracket assesses, if the total amount of deductions (Chapter VI-A + Housing Loan Interest+ HRA + LTA + Self NPS + Medici claim + standard deduction) exceeds ₹ 260000 (its 30% is ₹ 78000), it is better to continue in the current tax regime

Companies claiming deduction or utilising bought forward losses, MAT credit, etc, may continue to opt for old structure unless made less attractive

Corporate Tax Structure	
Old Regime	New Regime
30% plus surcharge	22% plus surcharge

Deductions available under old regime but not allowed new regime:

Sec 10AA (special economic zones), Sec 32/32AD(new plant and machinery), section 80IA/80IAB/80IAC/80IB, set-off of any loss carried forward or depreciation from earlier, MAT credit, etc.

Source: Budget documents, ICICI Direct Research

Government borrowing: Fiscal prudence to gain importance in year of rate reversal cycle...

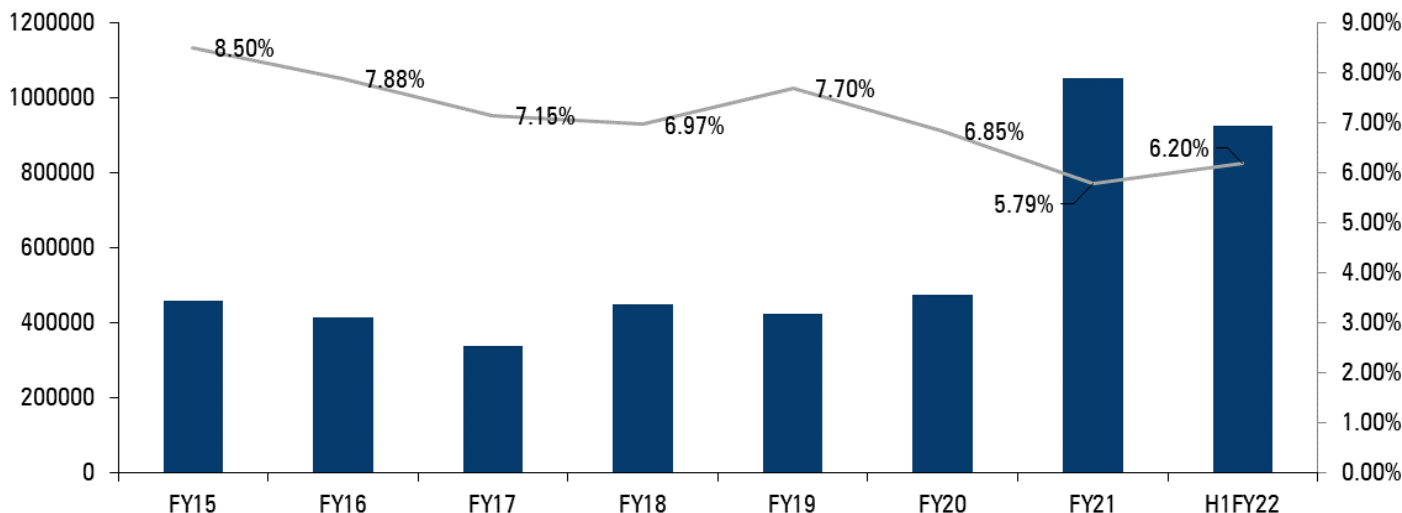
The market borrowing by the Government of India has increased substantially in last two years. Central government borrowing has more than doubled from ₹ 4.7 lakh crore in FY20 to ₹ 10.5 lakh crore in FY21 with budget at ₹ 9.2 lakh crore in FY22.

In the last few years, the cost of borrowing for the Government of India has seen a secular decline in the last few years with weighted average yield of market borrowing decline from 8.5% in FY15 to 5.8% in FY21. This cost of borrowing was supported by a decline in global bond yields and active buying by the Reserve Bank of India through OMOs and G-SAP programme.

With FY23 likely to mark the reversal of interest rate cycle globally and H1FY22 borrowing cost already at 6.2% vs. 5.8% in FY21, fiscal prudence assumes higher importance.

Policy measures to ensure inclusion of India's sovereign bonds in global bond indices is a key expectation from the Budget. It may bring US\$20-40 billion per year and may provide the much needed demand support G-Secs.

Government's borrowing cost declined from 8.5% in FY15 to 5.8% in FY21. While borrowing cost will still be benign, it will move higher in FY23



Source:: RBI, ICICI Direct Research

Potential Measures for FY22-23E	Sectors to be Impacted	Impact	Key stocks
The Cellular Operators Association of India (COAI) has urged the government to bring down licence fees from 3% to 1% and reduce SUC rate by 3% on spectrum acquired in past auctions. Furthermore, they have sought to refund unutilised input tax credit ₹ 35,000 crore of the industry, which cannot be utilised in the near future. Also, they want the government to suspend universal service obligation fund (USOF) as existing USO Fund corpus of ₹ 59,000 crore is sufficient to meet USO objectives for the next few years. We expect some measures on USOF given the headroom	Telecom	Positive	Bharti Airtel, Vodafone Idea, Reliance Jio
Robust allocation towards Fame-II scheme (at ₹ 2,000 crore) which offers demand incentives and shall further push electrification domestically. Accelerated depreciation benefits for firms doing Research & Development work in the entire supply chain of EVs	Automobile/Consumer Electronics	Positive	Tata Motors, M&M, Minda Corporation, Gabriel India, Dixon Technologies
According Infrastructure status to most laggard sector like hotels would enable companies to avail benefits of lower taxation, utility tariffs and simplified approval process for project and also help attract further investments. Also, allowing one-year moratorium extension for loans availed under the Emergency Credit Line Guarantee Scheme (ECLGS) would ease current liquidity issues	Hotels	Positive	Elh, TajGVK, Lemon Tree Hotels
Inclusion of natural gas under GST ambit to benefit entire gas value chain including gas producing companies. City gas distribution companies will be key beneficiaries as they will be able to avail input tax credit and any reduction in prices will lead to higher sales volume	Gas	Positive	Gujarat Gas, Indraprastha Gas, Mahanagar Gas, Adani Total Gas, Gail, Petronet LNG
In the backdrop of continuing pandemic shocks and its implications, we expect the government to place significant trust on the healthcare infrastructure. Last year's Budget had made a passing reference to a new centrally sponsored scheme, PM Atmanirbhar Swasth Bharat Yojana (PMASBY), to be launched at an outlay of about ₹64,180 crore over six years. Any further announcements, especially with reference to PMASBY or towards PPP involvement could be beneficial for pan-India hospital chains	Healthcare	Positive	Apollo Hospitals, Narayana Healthcare, Shalby Ltd
Higher raw cotton prices have led to cotton yarn prices nearly doubling over the last one year resulting in increase of consumer prices of apparel. Reduction and/or removal of import duty (currently 10%) would help the textile companies to import cheaper cotton into the country and thereby aid in stabilising yarn	Textiles	Positive	KPR Mills, Gokaldas Exports
Faster and easier clearances as well as reduction in number of licences to open a retail store would enable businesses to expand their brick and mortar retail store network at a faster pace enabling growth of the Indian retail sector	Retail	Positive	ABFRL, Trent, Titan, Vmart

Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com



ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No 7, MIDC
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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