

2022: Budget Preview

17 January, 2022

Fiscal consolidation to be gradual; capex push likely to stay

We expect Budget 2022 to retain the thrust on capex-related spending to support growth. Apart from on-budget spending on capex where we factor in a growth of ~20% YoY, we expect significant focus on the national monetisation pipeline besides incentives to states to prioritise capex. We do not anticipate any changes in tax rates, but we expect to see some incentives to support domestic personal consumption such as higher standard deduction and Leave Travel Concession cash vouchers for central government employees to support domestic travel. Urban infrastructure and housing will receive due thrust to support urban job creation. We believe that incentives for affordable housing may be enhanced. We expect spending on rural schemes to remain largely unchanged from Budget 2021, although actual spending in FY22 will be higher than budgeted. Taking into account lingering stress from the pandemic on the contact intensive sectors such as Tourism and Hospitality, and the Micro, Small and Medium Enterprises (MSME) sector, we expect measures to boost credit flow to these sectors and to address stress. The Hotel sector could potentially be given infrastructure status, which has been a long-standing demand from the industry. Overall tax revenue growth is expected to be marginally higher than nominal GDP growth at ~15% YoY. We are penciling in gradual fiscal consolidation with a fiscal deficit of 5.6-6% of GDP in FY23 (base case 5.8% of GDP) from an estimated 6.8-7% of GDP (base case 6.9%) in FY22. We are penciling in gross borrowing of Rs12.5-13tn (base case Rs12.9tn) and net borrowing of Rs9.2-9.5tn (base case Rs9.2tn) in FY23, broadly similar to FY22. Elevated maturities in FY23 of ~Rs3.8tn is adding to higher gross borrowing, although some of it may be reduced through switch operations. With pick-up in credit growth (our estimate is ~13% in FY23), banks' investment in G-Sec and state development loans is likely to slow, which combined with RBI's pullback on easy liquidity and global monetary policy normalisation is likely to exert upward pressure on yields. We expect yields to move to the 6.75-7% trading range in FY23. However, we believe RBI's focus on growth and the need to ensure orderly completion of government's borrowing program will provide a backstop for yields.

Tax structure may not see change, support for personal consumption likely: We do not expect any changes in the personal or corporate tax structure. However, with recovery in private consumption still lagging pre-pandemic levels, we expect some support at the margin for private consumption. Incentives to support domestic personal consumption may include higher standard deduction and Leave Travel Concession cash vouchers for central government employees to support domestic travel.

Rural allocation may be flat from FY22BE: We do not expect any significant increase in rural allocation in the FY23 budget compared to budget FY22. However, owing to the pandemic, schemes such as the Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS), fertiliser subsidies etc. saw an increase in allocation during the course of the year. Hence, rural spending may actually moderate from FY22 levels.

MSMEs and contact intensive sectors likely to find support: Taking into account lingering stress from the pandemic on the contact intensive sectors such as Tourism and Hospitality, and the MSME sector, we expect measures to boost credit flow to these sectors and to address stress. The Hotel sector could potentially be given infrastructure status, which has been a long-standing demand from the industry.

Real estate sector may receive a boost: Urban infrastructure and housing will receive due thrust to support urban job creation. We believe that incentives for affordable housing may be enhanced and extended to support recovery in the real estate sector. Other incentives to support the real estate sector may include higher tax exemptions on interest and principal payments on housing loans.

Govt focus on capex here to stay; manufacturing to remain in focus: We expect Budget 2022 to retain the thrust on capex-related spending to support growth. Apart from on-budget spending on capex where we factor in a growth of ~20% YoY, we expect significant focus on the national monetisation pipeline and also incentives to states to prioritise capex. The government will also be focused on increasing the share of the manufacturing sector in GDP; and the production-linked incentive (PLI) scheme and other schemes that promote 'Make in India' will receive due attention.

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Research Team

Exhibit 1: Fiscal deficit of 6.9% of GDP likely in FY22 and 5.8% in FY23

	Item (Rs.bn)	FY19	FY20	FY21BE	FY21RE	FY21A	FY22BE	FY22E	FY23F
1	Revenue Receipts (2+3)	15,631.7	17,014.0	20,209.3	15,551.5	16,320.9	17,884.2	20,068.8	22,648.8
	% YoY	8.9	8.8	9.2	(8.6)	(4.1)	15.0	23.0	12.9
2	<i>Tax Revenue (net to centre)</i>	13,169.5	13,558.9	16,359.1	13,455.0	14,240.4	15,454.0	17,188.5	19,768.6
	% YoY	6.0	3.0	8.7	(0.8)	5.0	14.9	20.7	15.0
3	<i>Non-Tax Revenue including spectrum sale</i>	2,462.2	3,455.1	3,850.2	2,106.5	2,080.6	2,430.3	2,880.3	2,880.3
	% YoY	27.9	40.3	11.4	(39.0)	(39.8)	15.4	38.4	-
4	Non-debt capital receipts (5+6)	1,028.9	666.1	2,249.7	465.0	576.3	1,880.0	1,200.0	1,950.0
	% YoY	(11.2)	(35.3)	175.7	(30.2)	(13.5)	304.3	108.2	62.5
5	<i>Recoveries of Loans</i>	178.4	166.1	149.7	145.0	197.3	130.0	200	200
	% YoY	14.2	(6.9)	(9.9)	(12.7)	18.8	(10.3)	1.4	-
6	<i>Other Receipts includes disinvestment</i>	850.5	500.0	2,100.0	320.0	379.0	1,750.0	1000	1750
	% YoY	(15.1)	(41.2)	223.1	(36.0)	(24.2)	446.9	163.9	75.0
7	Total Receipts (1+4)	16,660.6	17,680.1	22,458.9	16,016.5	16,897.2	19,764.2	21,268.8	24,598.8
	% YoY	7.4	6.1	16.3	(9.4)	(4.4)	23.4	25.9	15.7
8	Total Expenditure (9+10)	23,114.2	26,985.5	30,422.3	34,503.4	35,111.8	34,832.4	37,266.0	39,924.3
	% YoY	7.9	16.7	12.7	27.9	30.1	1.0	6.1	7.1
9	<i>Revenue Expenditure</i>	20,084.6	23,496.5	26,301.5	30,111.2	30,863.6	29,290.0	31,966.0	33,564.3
	% YoY	6.9	17.0	11.9	28.2	31.4	(2.7)	3.6	5.0
10	<i>Capital Expenditure</i>	3,029.6	3,489.1	4,120.9	4,391.6	4,248.2	5,542.4	5,300.0	6,360.0
	% YoY	14.9	15.2	18.1	25.9	21.8	26.2	24.8	20.0
11	Fiscal Deficit {7-8}	(6,453.7)	(9,305.4)	(7,963.4)	(18,486.9)	(18,214.6)	(15,068.1)	(15,997.2)	(15,325.5)
	% of GDP	(3.4)	(4.6)	(3.5)	(9.5)	(9.3)	(6.8)	(6.9)	(5.8)
12	Net borrowings including buyback	4,227.40	4,739.7	4,808.7	10,527.8	11,431.2	9,247.1	9,247.1	9,195.3
	% of GDP	2.2	2.3	2.1	5.4	5.8	4.1	4.0	3.5

Source: Government of India, Nirmal Bang Institutional Equities Research

Fiscal consolidation to be gradual, fiscal deficit seen at 5.8% of GDP in FY23: We expect fiscal consolidation to be gradual. We are factoring in a fiscal deficit of ~5.8% of GDP in FY23 in our base case, down from an estimated 6.9% of GDP in FY22. Government spending on infrastructure, particularly transport infrastructure, is likely to remain in focus while rural spending may remain unchanged from FY22BE.

Exhibit 2: Govt spending on infrastructure to remain in focus, rural allocation may be flat

Major Expenditure Heads (Rs.bn)	FY19A	FY20A	FY21BE	FY21RE	FY22BE	FY22E	FY23F
Pension	1602.1	1839.6	2106.8	2043.9	1893.3	1893.3	1987.9
% YoY	9.9	14.8	14.5	11.1	-7.4	-7.4	5.0
Interest	5826.5	6120.7	7082.0	6929.0	8097.0	8097.0	9311.6
% YoY	10.2	13.4	7.2	4.9	16.9	16.9	15.0
Defence	2908.0	3186.7	3230.5	3438.2	3470.7	3470.7	3644.2
% YoY	5.1	5.0	5.8	12.6	0.9	0.9	5.0
Total Subsidies	1967.7	2283.4	2277.9	5953.6	3353.6	4707.7	3423.7
% YoY	2.9	16.0	-0.2	160.7	-43.7	-20.9	-27.3
Fertiliser	706.1	811.2	713.1	1339.5	795.3	1379.3	795.3
% YoY	6.2	14.9	-12.1	65.1	-40.6	3.0	-42.3
Food	1013.3	1086.9	1155.7	4226.2	2428.4	3128.4	2428.4
% YoY	1.0	7.3	6.3	288.8	-42.5	-26.0	-22.4
Petroleum	248.4	385.3	409.2	387.9	130.0	200.0	200.0
% YoY	1.5	55.1	6.2	0.7	-66.5	-48.4	0.0
Rural development	1328.0	1423.8	1448.2	2163.4	1946.3	2166.3	1946.3
% YoY	-1.6	7.2	1.7	51.9	-10.0	0.1	-10.2
Agriculture and Allied Activities	632.6	1124.6	1547.8	1453.6	1483.0	1558.0	1500.0
% YoY	20.4	77.8	37.6	29.3	2.0	7.2	-3.7
Transport	1436.3	1534.4	1696.4	2186.2	2330.8	2330.8	2750.4
% YoY	30.1	6.8	10.6	42.5	6.6	6.6	18.0
Education	803.5	894.4	993.1	850.9	932.2	932.2	1072.6
% YoY	0.2	11.3	11.0	-4.9	9.6	9.6	15.1
Healthcare	544.8	634.3	674.8	824.5	746.0	946.0	900.0
% YoY	2.8	16.4	6.4	30.0	-9.5	14.7	-4.9

Source: Government of India, Nirmal Bang Institutional Equities Research

Tax revenue to increase by ~15% YoY: We are factoring in total tax revenue growth of ~15% YoY, slightly higher than our nominal GDP growth estimate of 13.5%. We are factoring in growth in direct taxes at 19% YoY while growth in indirect taxes is expected to be lower on potential cut in excise duties going forward as other taxes pick up. GST growth is pegged at 18% YoY.

Exhibit 3: Tax revenue expected to grow by 15% YoY

	FY19A	FY20A	FY21(YTD)	FY22 (YTD)	FY21A	FY22BE	FY22E	FY23F
Corporation Tax	6635.7	5568.8	1857.0	3535.8	4571.8	5470.0	6250.7	7500.8
% YoY	16.2	(16.1)	-	90.4	(17.9)	22.6	40.1	20.0
Income Tax	4730.0	4803.4	2350.4	3460.9	4692.3	5610	5802.7	6847.2
% YoY	15.9	1.6	-	47.2	(2.3)	22.2	26.4	18.0
Direct taxes	11365.8	10372.2	4207.4	6996.7	9264.1	11080.0	12053.4	14348.0
% YoY	15.8	(8.7)	-	66.3	(10.7)	22.4	33.2	19.0
Customs	1178.1	1091.7	630.5	1257.8	1347.6	1360.0	1974.9	2330.4
% YoY	(14.0)	(7.3)	-	99.5	23.4	21.4	76.3	18.0
Excise duties	2319.8	2396.0	1963.4	2419.3	3896.6	3350.0	3500.00	3325.00
% YoY	(10.3)	3.3	-	23.2	62.6	(7.2)	(3.0)	(5.0)
Service tax	69.0	60.4	10.6	5.0	16.2	10.0	10.6	10.6
% YoY	(91.5)	(12.5)	-	(52.6)	(73.3)	(28.6)	(24.4)	0.0
Other taxes	56.3	162.9	118.8	197.4	211.9	0	290.5	290.5
% YoY	(78.9)	189.1	-	66.1	30.1	-	-	0.0
GST	5815.6	5968.5	3329.9	4543.4	5512.2	6300.0	6725.8	7936.4
% YoY	56.3	2.6	-	36.4	(7.6)	22.3	30.6	18.0
Indirect taxes	9438.9	9679.5	6053.2	8428.5	10984.5	11020.0	12501.7	13892.8
% YoY	7.8	2.5	-	39.2	13.5	11.4	26.3	11.1
Gross Tax revenue	20804.7	20051.7	10260.6	15425.2	20248.5	22100.0	24555.1	28240.8
% YoY	12.0	(3.6)	-	50.3	1.0	16.7	29.6	15.0
Net tax revenue	13172.1	13558.9	6884.3	11352.6	14240.35	15,454	17,189	19,769
% YoY	6.0	2.9	-	64.9	5.0	14.9	27.8	15.0

Source: Government of India, Nirmal Bang Institutional Equities Research

Disinvestment revenue maybe Rs1.75tn in FY23 despite shortfall in FY22: We are factoring in divestment revenue of ~Rs1.75tn in FY23, although we anticipate slippage in the divestment target for FY22. We are factoring in divestment of ~Rs1tn in FY22, assuming the LIC divestment goes through.

Small savings will remain a buffer: RBI dividend in FY22 at Rs991.2bn was substantially higher than the budgeted Rs535bn. RBI dividend in FY23 may remain robust. With the small savings rate remaining attractive relative to bank fixed deposit rates, we expect small savings to remain an important source of funding for the fiscal deficit.

Exhibit 4: Small savings interest rates remain attractive compared to fixed deposit rates

Scheme / Interest rate (%)	1QFY 20	2QFY 20	3QFY 20	4QFY 20	1QFY 21	2QFY 21	3QFY 21	4QFY 21	1QFY 22	2QFY 22	3QFY 22	4QFY 22	Current Compara ble Bank deposit rates (SBI retail)	Current Compara ble Bank deposit rates (HDFC retail)
1 Year time deposit	7	6.9	6.9	6.9	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.1	4.9
2 Year time deposit	7	6.9	6.9	6.9	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.1	4.9
3 Year time deposit	7	6.9	6.9	6.9	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.3	5.15
5 Year time deposit	7.8	7.7	7.7	7.7	6.7	6.7	6.7	6.7	6.7	6.7	6.7	6.7	5.4	5.3
5 Year recurring deposit	7.3	7.2	7.2	7.2	5.8	5.8	5.8	5.8	5.8	5.8	5.8	5.8	5.4	5.50]
5 Year Senior Citizens	8.7	8.6	8.6	8.6	7.4	7.4	7.4	7.4	7.4	7.4	7.4	7.4	6.2	6.25
5 Year Monthly Income Account Scheme	7.7	7.6	7.6	7.6	6.6	6.6	6.6	6.6	6.6	6.6	6.6	6.6	5.4	5.5
5 Year National Savings Certificate	8	7.9	7.9	7.9	6.8	6.8	6.8	6.8	6.8	6.8	6.8	6.8	5.4	5.5
PPF	8	7.9	7.9	7.9	7.1	7.1	7.1	7.1	7.1	7.1	7.1	7.1	-	-
Kisan Vikas Patra	7.7	7.6	7.6	7.6	6.9	6.9	6.9	6.9	6.9	6.9	6.9	6.9	-	-
Sukanya Samriddhi Account Scheme	8.5	8.4	8.4	8.4	7.6	7.6	7.6	7.6	7.6	7.6	7.6	7.6	-	-
Average 10 yr G-sec yields in the past quarter	7.3	7.1	6.5	6.5	6.4	5.9	6.0	5.9	6.1	6.0	6.2	6.4	-	-

Source: Government of India, SBI, HDFC, Nirmal Bang Institutional Equities Research

Net market borrowing may be marginally lower than FY22 at best: We are penciling in gross borrowing of Rs12.5-13tn (base case Rs12.9tn) and net borrowing of Rs9.2-9.5tn (base case Rs9.2tn) in FY23, broadly similar to FY22. Elevated maturities in FY23 of ~Rs3.8tn is adding to higher gross borrowing, although some of it may be reduced through switch operations.

Bank demand for G-Secs to slow on credit recovery: With pick-up in credit growth (our estimate is ~13% in FY23), banks' investment in G-Sec and state development loans is likely to slow in FY23.

Exhibit 5: Bank purchases of G-Secs/SDLs to slow as credit growth picks up

Banks Source of funds flow (Rs.bn)	FY22	FY23
Deposits	18,465.29	18,957.70
Borrowings	0	500
ODTL	0	0
Total	18,465.29	19,457.70
Uses of funds (Rs. Bn)		
Credit demand	10000	15524
SLR requirement	0	0
CRR requirement	0.00	0.00
Net foreign assets	150	150
Total	10,150.00	15,674.00
Remaining available for investment in G- sec /SDL	8,315.29	3,783.70

Source: RBI, Nirmal Bang Institutional Equities Research

Yields to rise to 6.75%-7%; but RBI to provide a backstop: With slowing bank demand for bonds, the G-Secs/SDLs market is expected to face excess supply. The excess supply is usually balanced through RBI's open market operations. But, in an environment of liquidity tightening, RBI is unlikely to intervene in a significant manner. RBI's pull-back on easy liquidity and global monetary policy normalisation is likely to exert upward pressure on yields. We expect yields to move to the 6.75-7% trading range in FY23. However, we believe RBI's focus on growth and the need to ensure orderly completion of government's borrowing program will provide a backstop for yields.

Exhibit 6: Excess supply to push up yields as RBI support wanes on liquidity normalization

Central Government (Rs.bn)	FY22	FY23
Net market borrowing (Supply of G-Secs)	9,243.00	9,195.00
<i>Sources of demand</i>		
Banks	4,989.18	2,837.78
Insurance	2,218.32	2,206.80
Provident Fund	369.72	367.80
FPIs	0.00	919.5
Others	924.30	919.50
Total Demand	8,501.52	7,251.38
Excess supply of G-sec	741.48	1,943.62
State governments (Rs.bn)		
Net Supply of SDL	5812	5500
Banks	1,663.06	945.93
Insurance	1627.36	1540
Provident Fund	1046.16	990
Others	581.2	605
Total Demand	4,917.78	4,080.93
Excess supply of SDL	894.22	1,419.07
Total excess supply	1,635.71	3,362.70

Source: RBI, Nirmal Bang Institutional Equities Research

SECTOR-WISE EXPECTATIONS

Automobile sector

Budget expectations for the auto industry:

- Reduction in GST rates to make costs more competitive amid sharp rise in vehicle prices over the last 2 years
- Reduced and uniform GST rates on auto components to make manufacturers more competitive in exports markets
- Reconsideration and upward revision of RoDTEP rates to enhance competitiveness of Indian players
- Benefits to further accelerate adoption of EVs in India

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Banking and Financials sector

Banks & NBFCs

- We expect measures to support credit flow to the MSME sector in order to revive overall growth
- We expect an announcement on setting up of a formal body to oversee the operations of fintech players
- For formalisation of credit to marginal borrowers, we could expect an announcement making it mandatory to share credit data of small borrowers to a rating agency
- Expect announcement on setting up of Central Bank Digital Currency
- Government may consider some credit-support measures for businesses and sectors (Transport, Hospitality, etc) that have found it difficult to recover from the adverse impact of covid-19
- We expect further measures around operations of NARCL and NABFID (especially in light of continued focus on infra development)
- We expect the budget to continue with some of the liquidity schemes announced earlier to support and ensure funding availability to NBFCs

Insurance sector

- We expect announcements to support higher insurance penetration, especially in the protection and retirement space. This may include personal tax benefits as well as reduction in GST rates to make insurance products more affordable

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Capital Goods & Consumer Electricals Sector

- **PLI scheme to make India a manufacturing hub:** To stimulate industrial capex in India, incentivise local manufacturing as well as to reduce import dependence, the government has already announced PLI schemes for ~14 sectors. Domestic and international investments are coming into sectors covered by the PLI schemes. Possibility of adding more sectors under PLI schemes may be considered in the budget.
- **Allocation of capital expenditure to increase:** There can be a hike in budgetary allocation for capital expenditure. We may see increased push towards green energy/clean energy in the budget. Government is expected to continue support for the investment cycle in the budget.
- **Levy of customs duty on components of Consumer Durables industry:** We expect customs duty on electronic components to rise in order to facilitate component manufacturing in India. In the last budget, basic custom duty on specified parts of mobiles like PCBA, camera modules, chargers and connectors was increased from nil to 2.5%. On compressors of refrigerators/ACs, custom duty was increased from 12.5% to 15%. We may see more items included in the list of import ban.
- **Measures to revive spending on urban infrastructure and housing construction activities:** To provide a fillip to housing construction activities as well as urban infrastructure projects, we expect the government to announce various measures as well as budgetary support.
- **Relief in personal income tax:** In order to boost consumption and support higher disposable income in the hands of individuals, we expect proposals for reducing personal tax outgo. This can aid demand for Consumer Durables and Electrical Products.

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Cement & Infrastructure

Cement

Cement sector is an indirect beneficiary of higher government spending and any measures in the budget to improve spending augurs well for the sector. Despite elevated fiscal deficit, we expect higher spending to spur economic growth. Overall, we expect following measures from this year's budget:

- Housing is one of the key pillars of cement demand in India, which has shown signs of revival in recent months as interest rates declined and RERA ensured timely completion of projects. The sector still needs a policy boost to flourish and since the sector has high employment generation potential and positive multiplier effect on economic growth, we expect various incentives to be announced for the sector in this budget. Some of the measures which can boost housing demand include: (1) continuation of interest subsidies for affordable housing (2) tax incentives for second home purchases (3) housing loans up to 90% of cost (4) higher quantum of deduction of interest costs (5) increase in maximum value of homes in metros and non-metros to be eligible for interest subsidies and (6) reduction in GST for house purchases.
- For infrastructure, the government's capital expenditure programme is expected to grow above 20% yet again this year. Capital expenditure for FY21 was Rs4.39 lakh crore and 26% increase was announced in last years' budget. For FY23, another 20-25% increase in capital expenditure is expected, which will significantly increase cement consumption. Faster implementation of the National Infrastructure Pipeline (NIP) and greater co-ordination within various central and state government ministries under Gathshakti plan will be sought.
- A boost to rural or farm income is also expected as a popular measure from the government in this year's budget. This will likely be positive for rural demand, which has shown some signs of weakness in the recent past.
- Recently, The South India Cement Manufacturers' Association (SICMA) has urged the Centre to facilitate movement of cement from excess region of South India to other deficit regions of the country by providing telescopic railway freight services and to reduce cement imports from nearby regions.

Infrastructure

- A roadmap for infrastructure development in the country has already been introduced and documented under the NIP, which was announced by the government a couple of years back with more than Rs125tn investment over the next five years. 40% of budget sanctioned for NIP was to be realised in the first two years and hence the government's focus will be to improve execution and avoid delays. NIP targets have not been met in the first two years largely due to the pandemic related disturbances, but we expect pick-up in the same in the near term.
- With regards to NHAI funding, expectation is that allocation for the authority will not be increased and there is a likelihood that NHAI's borrowing limits will be capped and it will be urged to meet its requirements through fund raising by way of TOT, InVIT etc. However, in order to improve investments in key infrastructure segments like roads, the center will facilitate any capital shortfall for the authority.

Here are a few other expectations for the sector from this year's budget:

- Additional outlay for NHAI to help achieve Bharatmala programme targets. Push for InVIT like structure for NHAI to raise capital for reinvestment and incentivize foreign investment in the infrastructure sector through tax sops.
- Higher outlays for various schemes like Atal Mission for Rejuvenation and Urban Transformation, Pradhan Mantri Awas Yojna, Gram Sadak Yojna, Jal Jeevan Mission etc
- Higher investments in ports, airports and power sector etc
- Update on the National Monetisation Pipeline, which has not moved much since its announcement last year

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FMCG Sector

We expect Union Budget this year to be Neutral for the sector.

Expectations:

- In the current scenario, where the FMCG companies are looking at dual impact of subdued demand and inflation, investments in development, skill upgrading, digital augmentation, job creation and MSME development could help indirectly reignite consumption in the economy and thus benefit consumer facing companies in a gradual manner.
- Our economist Ms. Teresa John does not expect any change in spends towards rural schemes from last year's budget estimates.
- While in its pre-budget memorandum, the PHD Chamber of Commerce & Industry (PHDCCI) has asked for a reduction in tax on cigarettes, which would help the legal industry to recoup volume from the illicit trade and provide higher revenue to the Government, with public health group saying otherwise and the government recently setting up an expert group (led by a senior official in the health ministry) to prepare a comprehensive tax policy proposal covering all tobacco products from a public health perspective and with a larger plan to have a road map for reducing tobacco demand as per World Health Organisation's (WHO's) recommendations, we do not expect any positives for the organised cigarette industry in this budget. We expect a marginal hike in excise duty on tobacco.

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Hotel sector

- Include hotels and tourism related sectors in the NIP. This will allow the Hospitality sector to obtain funds with extended repayment periods at a low rate of interest.
- Extend the timeline for export obligation under the EPCG scheme and grant export status to the industry; offer special emphasis for promoting meetings and conferences in hotels; grant infrastructure status to the Hospitality industry and provision of special tax incentives for domestic travel
- Incentives should be offered to corporates for meetings and conferences conducted domestically. Further, meetings and conferences, which are conducted abroad, should not be considered as business expenditure. This will discourage MICE events abroad and help in conserving foreign exchange while boosting sales of domestic hospitality businesses
- Allow corporate bookings and MICE to come under IGST. This will help companies to avail GST input credit, which will encourage them to spend their annual budgets in India rather than opting for South East Asian destinations.
- Incentivise domestic travel through tax cuts or by way of tax deductions for a minimum 2-3 years. This will boost domestic travel until foreign travel resumes.
- LTC cash voucher in lieu of LTC fare shall be given to central government employees to support domestic demand.
- Extension of timeline from current 8 years to 12 years for setting off past business losses amid covid led disruption
- Increasing SEIS entitlements from current 3% to 10% of the net foreign exchange earnings for the next 3-5 years will help to mitigate the losses incurred during the pandemic. In addition, to accelerate and incentivise all-round development of tourism infrastructure catering to foreign tourists, we expect fiscal incentives in the form of SEIS certificates and import against EPCG to continue in the near future.
- The GST structure maybe kept uniform for hospitality and food industries. Also, alcohol may be brought under GST; currently it is under excise. The above measures will reduce complexity, enabling MSMEs to focus on core area of operations.

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Oil, Gas and Chemicals

Oil & Gas

- Bringing natural gas under GST (can be outside the budget too)
- GST on re-gasification of LNG and gas transportation may be reviewed
- Concessions to encourage domestic manufacturing of equipment for City Gas Distribution (CGD)
- Gas pricing reforms to encourage domestic gas production from existing and new gas reserves
- Concessions for alternative fuels like:
 - Bio-CNG, biodiesel, ethanol blended petrol
 - EV charging infrastructure
- Policy support to revive idle gas-based power plants
- Excise duty reforms on MS & HSD – thoughts on bringing petroleum products like MS & HSD under GST, along with natural gas
- Overall policy thrust to encourage green fuels
- Fiscal sops for green hydrogen, electrolyzers, carbon capture use and storage, fuel cells based on green hydrogen, green ammonia, etc

Chemicals

Crop Protection:

- Cut in GST on pesticides currently at 18% to 5% - this is proposal by the industry. However, GST decisions are taken by the GST Council and not necessarily announced in the budget
- Industry body Crop Care Federation of India (CCFI) has called for an increase in import duties to protect and support domestic industry:
 - on imported technicals (AIs) from 10% to 20%
 - on imported ready-made formulations from 10% to 30%
- Incentives to encourage domestic capacity for Intermediates and Active Ingredients and support exports of the same and formulations – like PLI for Intermediates and Active Ingredients used in crop protection chemicals.

Fertilizer:

- Discuss approach for/introduce NBS for urea to encourage farmers to reduce excessive use of nitrogen and improve the soil nutrient ratio of N, P and K

Commodity and Petrochemicals:

- Initiate policy to create dedicated modern global scale chemical zones under the PPP model as in China to enhance Indian capacity and competitiveness in basic feedstock for downstream chemicals, dyes, pharma, crop protection chemicals, textile auxiliaries, etc. – introduce investment incentives, tax exemption/and or PLI scheme for global scale projects
- Incentives for recycling of pet bottles and plastics

Specialty chemicals:

- Inclusion of chemicals in the PLI scheme or providing incentives for capacity addition of key building blocks in order to reduce import dependency
- Additional export incentives under RoDTEP
- Bigger push for infrastructure and housing sectors would benefit chemical companies catering to paints & coatings, construction sector etc
- Measures to curb import of refrigerant gases

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Pharmaceutical sector

Union Budgets are more or less neutral for the sector and focus will be on fund allocation towards disease eradication programs and potentially strengthening atmanirbhar program through PLI scheme. We expect following measures in this budget:

- Government may look to offset the loss that pharma companies face on account roll-back of export incentives under the MEIS scheme by enhancing tax incentives of R&D.
- With covid bringing out importance of self-reliance and innovation in the pharma sector, Government will look to enhance its PLI scheme and would also try to chart incentives for novel drug R&D.

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Real Estate & Ceramics sectors

- Increase in the limit of home loan interest for tax rebate from the current Rs2 lakhs to Rs5 lakhs. Further, expect reduction in the tax rate on capital gains in the upcoming budget
- Higher allocation towards infrastructure and housing development by introducing various amendments such as increase in the tax deductible limit for repayment of housing loan principal, relaxation & extensions of tax concessions to the households, which will be useful for realizing the Prime Minister's dream of housing for all.

Others:

- Tax exemption on investments in real estate investment trusts (REITs) with a starting investment of Rs50,000.
- Tax neutral consolidation of business through mergers for stalled projects
- GST waiver for under-construction properties and incentives for private investment in the housing sector
- Expand the definition of affordable housing in non-metro and metro cities. Government should look at increasing the limit on the value of the house to Rs75 lakhs in non-metro cities from Rs45 lakh currently. In metro cities, the same limit should be increased to Rs1.5 crores. The size of apartments under affordable housing should be increased to 90sqm in metros from the current 60sqm; and to 120sqm in non-metros from 90sqm.

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BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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