



Budget – What we like and don't like

Our base view has always been that the budget has only a marginal impact on stock markets as the process has got more transparent and the tax regime more stable. While we are pleasantly surprised with the budget, we see no change in our view of single digit returns for the markets this year (see our report – <https://www.valentisadvisors.com/insights/outlook-2023-jan-2023/>). With valuations still not cheap, the Fed and the US recession will be the focus for this year.

1. **No change in equity capital gains - stability in tax rates a positive:** The biggest relief for equity markets was that the FM did not tinker with the capital gains regime for listed equities. There were no new taxes except for small amendments to taxation for some financial instruments aimed at eliminating arbitrage which we explain in the report.
2. **Strong capex thrust (though lower than headline numbers) to drive growth in GDP and earnings:** The Government capex expenditure is forecast to grow 37% compared to last year's revised budget estimates. However, 2 caveats here – (a) including IEBR (Internal and Extra Budgetary Resources) growth in capex is slightly less at 24% (though still very strong) (b) more important is whether they actually spend the budget amount. Based on the revised numbers for FY23, the actual growth in capex is likely to be only 8% vs the budget estimate of 16%.
3. **Avoided populism – subsidy provisions reduced:** We were very pleased that the Government has avoided any populism in the budget (their last one before the elections). The subsidy is forecast to reduce to 1.2% of GDP in FY24 vs 1.9% in FY23.
4. **Quality of spending improvement:** Over the years the Government has been able to improve the quality of spending and this thrust continues in this budget also. Capital expenditure as a % of total expenditure in FY24 is forecast at 22% vs 17% in revised estimates for FY23 and 13% 5 years ago.
5. **Fiscal numbers look credible – fiscal deficit glide path continues:** In spite of the elections next year, the Finance Minister continued with the fiscal reduction glide path aiming for a FD of 5.9% of GDP for FY24 vs the FD of 6.4% of GDP in FY23. Moreover, the Finance Minister has assumed a tax revenue growth of 10.4% which looks reasonable given the nominal GDP growth assumption of 10.5%. We expect a slightly lower nominal GDP growth but overall are comfortable with the revenue assumptions since tax buoyancy could be higher than 1x.
6. **Can funding from small savings be a negative?** The budget deficit assumes funding partly through small savings of Rs 4.7 trillion. While this level of small savings was seen in the Covid period, there is a small possibility that actual fall short given the higher interest rate on bank deposits. This may mean higher than anticipated borrowings or reduction in the Government capex expenditure. While last year the assumption from small savings schemes was Rs 4.4 trillion, upto December we have only seen Rs 1.7 trillion being raised (though last quarter should be seasonally better).



Budget: Key points

Reforms in banking and Finance:

- a) **Insurance:** The budget has proposed limiting income tax exemption from proceeds of Life Insurance policies with 'aggregate' value in excess of Rs 5 lakhs—this is not applicable on exemptions provided upon death of insured. These regulations are a negative as they will impact future sales of insurance (savings products).
- b) **Agriculture credit:** The target for agriculture sector has been raised from Rs 18 trn in FY22 to Rs 20 trn in FY23 (growth of 11% yoy)—positive from agri credit growth standpoint.
- c) **Market Linked Debentures:** Market Linked Debentures (MLDs)—interest now to be taxed as short term capital gains (earlier taxed as LTCG)—negative for issuers of market linked debentures.
- d) **Senior Citizens Deposit** cap has been doubled from Rs 15 lakhs to Rs 30 lakhs—while positive at the margin, in the absence of any credible data on senior citizens deposits in overall deposits, difficult to ascertain the impact, especially a tough environment for deposits mobilization.

Other key takeaways from the budget

- a) **REITs / InvITs:** Change in taxation for repayment of debt. Earlier only interest and dividends were taxed but now even this component in distribution is taxable for e.g.: some REITs/InvITs (especially real estate REITs) pay a meaningful income as repayment of principal—this will be negative at the margin for REITs.
- b) **Moving to new tax regime** – may hurt marginal flows in insurance, ELSS schemes: The FM has made the new tax regime more attractive with no tax upto Rs 7 lakhs. She announced that this would be the default tax regime. As investors move to the new tax regime, investments under Sec 80 may see a dip.
- c) **Benefit for the rich in income tax:** The highest surcharge rate has been reduced from 37% to 25% resulting in reduction of maximum tax rate to 39% from the current 42.74%.
- d) **... but will lose on housing capital gains:** While earlier capital gains on a sale of house was exempt if the same was invested into another house, this has now been capped at Rs 10 crores. Thus profit on sale of houses beyond this would attract capital gains. This would be slightly negative for investors in luxury housing.
- e) **... and TDS on international investing:** Investments abroad through LRS (Liberalised Remittance), the TDS is now increased to 20% (earlier TDS was only 5%, that too for investment above 7 lakhs. A 20% TDS would impact international investing.

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Table 1: Budget at a Glance (Rs Cr)

Particulars	2021-22	2022-23	2022-23	2023-24	BEFY23	REFY23	BE24 vs
	Actuals	Budget Estimates	Revised Estimates	Budget Estimates	vs Actuals	vs Actuals	RE23
1. Revenue Receipts	2,169,905	2,204,422	2,348,413	2,632,281	1.6%	8.2%	12.1%
2. Tax Revenue (Net to Centre)*	1,804,793	1,934,771	2,086,662	2,330,631	7.2%	15.6%	11.7%
3. Non Tax Revenue	365,112	269,651	261,751	301,650	-26.1%	-28.3%	15.2%
4. Capital Receipts	1,623,896	1,740,487	1,838,819	1,870,816	7.2%	13.2%	1.7%
5. Recovery of Loans	24,737	14,291	23,500	23,000	-42.2%	-5.0%	-2.1%
6. Other Receipts	14,638	65,000	60,000	61,000	344.0%	309.9%	1.7%
7. Borrowings and Other Liabilities #	1,584,521	1,661,196	1,755,319	1,786,816	4.8%	10.8%	1.8%
8. Total Receipts (1+4)	3,793,801	3,944,909	4,187,232	4,503,097	4.0%	10.4%	7.5%
9. Total Expenditure (10+13)	3,793,801	3,944,909	4,187,232	4,503,097	4.0%	10.4%	7.5%
10. On Revenue Account of which	3,200,926	3,194,663	3,458,959	3,502,136	-0.2%	8.1%	1.2%
11. Interest Payments	805,499	940,651	940,651	1,079,971	16.8%	16.8%	14.8%
12. Grants in Aid for creation of capital assets	242,646	317,643	325,588	369,988	30.9%	34.2%	13.6%
13. On Capital Account	592,874	750,246	728,274	1,000,961	26.5%	22.8%	37.4%
14. Effective Capital Expenditure (12+13)	835,520	1,067,889	1,053,862	1,370,949	27.8%	26.1%	30.1%
15. Revenue Deficit (10-1)	1,031,021	990,241	1,110,546	869,855	-4.0%	7.7%	-21.7%
	-4.4	-3.8	-4.1	-2.9			
16. Effective Revenue Deficit (15-12)	788,375	672,598	784,958	499,867	-14.7%	-0.4%	-36.3%
	-3.3	-2.6	-2.9	-1.7			
17. Fiscal Deficit [9-(1+5+6)]	1,584,521	1,661,196	1,755,319	1,786,816	4.8%	10.8%	1.8%
	-6.7	-6.4	-6.4	-5.9			
18. Primary Deficit (17-11)	779,022	720,545	814,668	706,845	-7.5%	4.6%	-13.2%
	-3.3	-2.8	-3.0	-2.3			

*Includes drawdown of cash Balance

*RE 2022-23 is reduced by Rs.32,607 crore on account of net amount payable by Centre for prior years. Growth in BE 2023- 24 over RE 2022-23 is 10% excluding prior year adjustments.

Notes –

(i) Nominal GDP for BE 2023-2024 has been projected at Rs.3,01,75,065 crore assuming 10.5 % growth over the estimated Nominal GDP of Rs.2,73,07,751 crore as per the First Advance Estimates of FY 2022-23.



Table 2: Receipts (Rs Cr)

Particulars	2021-22	2022-23	2022-23	2023-24	BEFY23	REFY23	BE24 vs
	Actuals	Budget Estimates	Revised Estimates	Budget Estimates	vs Actuals	vs Actuals	RE23
REVENUE RECEIPTS							
1. Tax Revenue							
Gross Tax Revenue	2,709,315	2,757,820	3,043,067	3,360,858	1.8%	12.3%	10.4%
a. Corporation Tax	712,037	720,000	835,000	922,675	1.1%	17.3%	10.5%
b. Taxes on Income	696,243	700,000	815,000	900,575	0.5%	17.1%	10.5%
c. Wealth Tax	13	-	-	-			
d. Customs	199,728	213,000	210,000	233,100	6.6%	5.1%	11.0%
e. Union Excise Duties	394,644	335,000	320,000	339,000	-15.1%	-18.9%	5.9%
f. Service Tax	1,012	2,000	1,000	500	97.6%	-1.2%	-50.0%
g. GST	698,114	780,000	854,000	956,600	11.7%	22.3%	12.0%
-CGST	591,226	660,000	724,000	811,600	11.6%	22.5%	12.1%
-IGST	2,119	-	-	-			
-GST Compensation Cess	104,769	120,000	130,000	145,000	14.5%	24.1%	11.5%
h. Taxes of Union Territories	7,524	7,820	8,067	8,408	3.9%	7.2%	4.2%
Less - NCCD transferred to the NCCF / NDRF	6,130	6,400	8,000	8,780	4.4%	30.5%	9.7%
Less - State's share	898,392	816,649	915,798	1,021,448	-9.1%	1.9%	11.5%
Less- States' Share Adjustment for prior years			32,607				
1a Centre's Net Tax Revenue	1,804,794	1,934,771	2,086,662	2,330,631	7.2%	15.6%	11.7%
2. Non-Tax Revenue	365,112	269,651	261,751	301,650	-26.1%	-28.3%	15.2%
Interest receipts	21,874	18,000	24,640	24,820	-17.7%	12.6%	0.7%
Dividends and Profits	160,647	113,948	83,953	91,000	-29.1%	-47.7%	8.4%
External Grants	1,306	620	2,580	2,135	-52.5%	97.5%	-17.2%
Other Non Tax Revenue	179,540	134,276	148,342	181,382	-25.2%	-17.4%	22.3%
Receipts of Union Territories	1,745	2,807	2,236	2,313	60.9%	28.1%	3.4%
Total- Revenue Receipts (1a + 2)	2,169,905	2,204,422	2,348,413	2,632,281	1.6%	8.2%	12.1%
3. CAPITAL RECEIPTS							
A. Non-debt Receipts	39,375	79,291	83,500	84,000	101.4%	112.1%	0.6%
(i) Recoveries of loans and advances@	24,737	14,291	23,500	23,000	-42.2%	-5.0%	-2.1%
(ii) Other Receipts	14,638	65,000	60,000	61,000	344.0%	309.9%	1.7%
B. Debt Receipts*	1,581,978	1,660,444	1,758,560	1,798,604	5.0%	11.2%	2.3%
Total Capital Receipts (A+B)	1,621,353	1,739,735	1,842,061	1,882,603	7.3%	13.6%	2.2%
4. Draw-Down of Cash Balance	2,543	752	-3,241	-11,787	-70.4%	-227.4%	263.7%
Total Receipts (1a+2+3)	3,791,258	3,944,157	4,190,474	4,514,884	4.0%	10.5%	7.7%

@ Excludes recoveries of short term loans and advances

* The receipts are net of payment.



Table 3: Deficit Statistics (Rs Cr)

Particulars	2021-22	2022-23	2022-23	2023-24
	Actuals	Budget Estimates	Revised Estimates	Budget Estimates
1. Fiscal Deficit	1,584,521	1,661,196	1,755,319	1,786,816
	-6.7	-6.4	-6.4	-5.9
2. Revenue Deficit	1,031,021	990,241	1,110,546	869,855
	-4.4	-3.8	-4.1	-2.9
3. Effective Revenue Deficit	788,375	672,598	784,958	499,867
	-3.3	-2.6	-2.9	-1.7
4. Primary Deficit	779,021	720,545	814,668	706,845
	-3.3	-2.8	-3.0	-2.3

Notes –

Figures in parenthesis are as a percentage of GDP.

Table 4: Sources of Financing Fiscal Deficit (Rs Cr)

Particulars	2021-22	2022-23	2022-23	2023-24
	Actuals	Budget Estimates	Revised Estimates	Budget Estimates
1. Debt Receipts (Net)	1,581,978	1,660,444	1,758,561	1,798,603
2. Market Borrowings (G-Sec + Tbills)	814,567	1,158,719	1,195,866	1,230,911
3. Securities Against Small Savings	551,269	425,449	438,919	471,317
4. State Provident Funds	10,317	20,000	20,000	20,000
5. Other Receipts (Internal Debt & Public Account)	169,677	37,025	79,902	54,258
6. External Debt	36,147	19,251	23,874	22,118
7. Draw Down of Cash Balance	2,543	752	-3,241	-11,787
Grand Total	1,584,519	1,661,196	1,755,319	1,786,816

Chart 1: Capital Expenditure as % of total expenditure

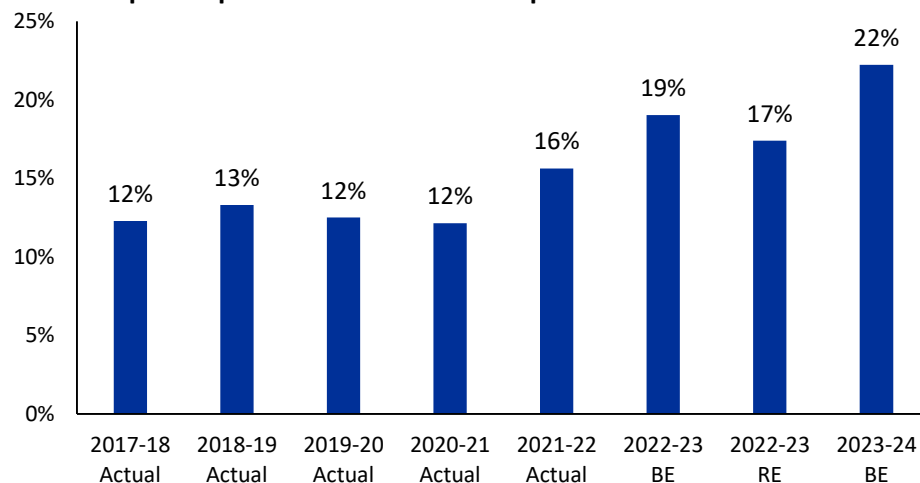




Table 5: Subsidy (Rs. Cr.)

Particulars	2021-22	2022-23	2023-24	REFY23	BE24 vs
	Actuals	Revised Estimates	Budget Estimates	vs Actuals	RE23
Subsidy	446,200	521,600	374,700	17%	-28%
Fertiliser	153,800	225,200	175,100	46%	-22%
Food	289,000	287,200	197,400	-1%	-31%
Petroleum	3400	9200	2300	171%	-75%

Table 6: Centre Capex (Rs Cr.)

Particulars	FY22A	FY23RE	FY24BE	% YoY FY23	% YoY FY24
As reported numbers					
Govt. capex	592,900	728,300	1,000,100	23%	37%
PSU capex	502,500	401,100	487,700	-20%	22%
Total capex	1,095,400	1,129,400	1,487,800	3%	32%
Less: Air India, FCI, etc.	131,200	88,300	197,900		
Total Adjusted capex	964,200	1,041,100	1,289,900	8%	24%

Ministry-wise capex trends (govt + PSE)	FY22A	FY23RE	FY24BE	% YoY FY23	% YoY FY24
Roads	178,500	206,300	258,600	16%	25%
Railways	190,700	255,000	292,800	34%	15%
Defence	148,100	163,300	162,600	10%	0%
Housing & Urban	35900	46800	43000	30%	-8%
Transfer to states	22500	85400	137,400	280%	61%
Petroleum	107,000	83800	141,900	-22%	69%
Others	281,600	200,500	253,700	-29%	27%
Total capex	964,200	1,041,100	1,289,900	8%	24%



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