Budget 2023-24: Key takeaways

❖A fine balancing among fiscal consolidation, increasing attractiveness of new personal income tax & higher capex.

❖Growth focus -1) high capital expenditure (capex)& 2) targeted increase in allocations to affordable housing, rural employment, rural roads &drinking water.

❖Govt. has (1) prioritized fiscal consolidation & (2) focused on capex to achieve higher medium-term GDP growth.

❖Targeted central GFD/GDP at 5.9% in FY24BE (6.4% in FY23RE), to reach the targeted 4.5% by FY26E.

❖FY24BE gross tax revenues growth at 10.4%; total receipts growth budgeted at 11.7%

❖Capital expenditure increase budgeted at 37%; revenue expenditure growth budgeted at 1.2%.

❖Budget has targeted tax revenues growth of 10% (10% for both direct and indirect taxes).

❖It has pegged divestment target at Rs61000 cr.

❖Rejigged tax structures for personal income taxes and made them increasingly attractive versus the old regime.

❖Gross dated securities borrowing pegged at Rs15.4 lakh cr in FY24BE against Rs14.2 lakh cr in FY23E

❖Rationalized high subsidies on food and fertilizer and the elevated rural spending seen during the pandemic.

❖Gross borrowing has been maintained at a comfortable level, which should keep interest rates in check.

Budget: Revenue Side

❖The government has estimates 12% growth in receipts in FY24BE over FY23RE.

❖Net tax revenues (post-devolution to states) have been pegged at Rs23.3 tn (growth of 12%).

❖Direct tax revenues growth at 10.5% (10.5% for corporate tax &10.4% for income tax) seem achievable &in line with the government's estimate of nominal GDP growth of 10.5%.

❖Indirect taxes show a similar growth of 10.4% over FY23RE led by 1) decent GST growth (12%), 2) customs duty growth (11%) and 3) modest excise duty revenues growth (6%).

❖The government has budgeted divestment revenues of Rs610 bn in FY24BE against Rs600 bn in FY23RE.

Budget: Expenditure Side

❖The government has budgeted a 7.5% increase in expenditure while ensuring its thrust on capital expenditure (budgeted growth of 37% in FY24BE to Rs10 tn).

❖The government has budgeted 1.2% growth in revenue expenditure.

❖There is focus rationalizing elevated subsidies as it has reduced food subsidy (Rs2 tn in FY24BE against Rs2.9 tn in FY23RE).

❖The government has targeted expenditure in key rural-focused schemes with focus continues to remain on drinking water, employment support, housing and rural roads.

Budget: Deficit

❖Government has projected central government fiscal deficit of 5.9% as a proportion of GDP in FY24BE, lower than 6.4% in FY23RE.

❖The government has assumed a nominal GDP growth of 10.5% for FY24, which is realistic, in our view.

❖The government expects to finance FY24BE fiscal deficit of Rs17.9 tn through (1) market borrowings including T-bills (69%), (2) National Small Savings Fund (26%) & (3) a mix of cash balances, external assistance, state provident funds (5%).

Focus on capital expenditure

❖The government has maintained its focus on capital expenditure with a budgeted growth of 37% in FY24BE to Rs10 tn (23% growth in FY23RE to Rs7.3 tn).

❖Bulk of the increase continues to be from (1) defense (growth of 8.5%), (2) railways (51%) and (3) roads and highways (25%).

❖On-budget capital expenditure growth is much lower at 27% after adjusting for capex loans to states and capital infusion in OMCs and BSNL.

❖Government has targeted Rs1.3 tn capex loans to states (Vs Rs760 bn in FY23RE).

❖Total public sector (central government and central PSUs only) capex including IEBR (internal and external budgetary resources) is projected to grow 32% in FY24BE.

❖The planned outlay by public sector enterprises has increased by 22% yoy.

Major social welfare schemes

❖GoI has rationalized expenditure across schemes, resulting in 16% decline for core rural schemes vs. 2023RE.

❖Adjusted for decline in food subsidies, decline in key rural sector schemes is 6%.

❖Government focus continues to remain on drinking water, employment support, housing & rural roads.

Direct Tax

❖Direct tax revenues growth at 10.5% (10.5% for corporate tax and 10.4% for income tax) seem achievable.

❖In line with government's estimate of nominal GDP growth of 10.5% (we estimate nominal GDP growth at 9.5%).

❖The government has kept tax rates unchanged for corporate income taxes.

❖The government has rejigged the alternate tax structure for individuals so as to make it more attractive compared to the original tax structure (with exemptions).

❖The government has made the new tax regime as the default regime, while allowing tax-payers the choice between the two.

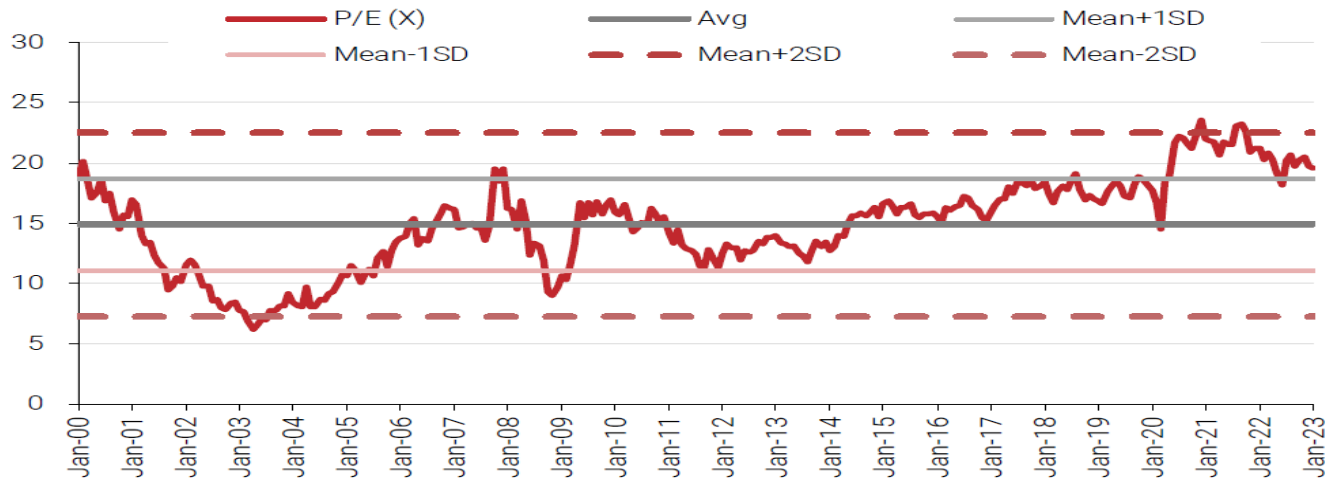
Equities: Valuation

❖We find the current fundamentals of India a mixed bag.

❖We expect net profits of the Nifty-50 Index to grow 10.7% in FY23E ,16.1% in FY24Eand 15.2% in FY25E.

❖We expect Nifty-50 Index EPS of Rs.812, Rs.940 and Rs. 1,090 for FY23E, FY24E and FY25E respectively.

Nifty-50 Index P/E, P/B, EV/EBITDA and earnings yields



Equities: Valuation and Outlook

❖Valuations are quite rich for the stocks.

❖FII flows turned negative in last 2 months, but domestic flows strong.

❖Domestic flows is one of the major drivers of Indian equities and valuations of Indian equities could remain on the higher side.

❖US 10-year bond yield has again moved to around 3.5%.

❖The government emphasized inclusive growth, infrastructure creation, policy stability and transparency in its FY24 union budget proposals.

❖After a few weeks the budget would be less relevant and focus will again shift to global factors, macroeconomics, earnings (Q3 and Q4) and valuations.

Industrial & Infrastructure

❖Announced Rs 207 bn renewable energy power evacuation project with 40 funding support from central government.
✓Potentially be a large order win for Siemens India in FY 24

❖Increased allocation for AMRUT scheme.
✓Positive for KEC, KPTL, L&T.

❖Decreased allocation for Smart Cities Mission.
✓Negative for players such as KEC, L&T.

❖Enhanced outlay for railways.
✓Positive for players like BHEL, KEC, KPTL, Siemens.

❖Enhanced outlay for NHAI with no dependence on market borrowings or on cess funds.
✓Positive for spending in such context, IRB and GR Infra appears to be a beneficiary.

❖Monetization target of Rs 100 bn for NHAI
✓Quantum set is half of FY 23 BE levels and equal to FY 23 RE levels will play only a modest role in easing burden.

❖Rs 207 bn to be invested towards construction of interstate transmission system for evacuation and grid integration of 13 GW renewable energy from Ladakh
✓Positive for Siemens, energy requirements from renewable energy will get boost.

❖Rs 100 bn for constructing 500 new plants under the GOBARDHAN scheme.

❖5 CBG mandate will be introduced for all organizations marketing natural bio gas.

- ❖Fiscal support for collection of bio mass and distribution of biomanure

- ❖Excise duty exempted on GST paid CBG used for blending in compressed natural gas

  - ✓ Will encourage investment in CBG and significantly improve India's energy mix Positive for Thermax.

Banking and Financial Services

- ❖ The income from market linked debentures is proposed to be taxed as short-term capital gains at the applicable rates.
  - ✓ Marginally negative for 360 One due to higher replacement cost of existing MLDs. Revenue exposure is likely to be insignificant.

- ❖ Deduction from capital gains on investment in residential house to be capped at Rs100 mn .
  - ✓ Positive impact on demand for financial assets by HNIs. Positive for wealth managers like 360 One.

- ❖ Removal of exemption on income from high ticket traditional insurance policies (premium over Rs0.5 mn).
  - ✓ Negative for entire private sector; will lead to downgrade in APE forecasts. VNB margin will likely compress in select cases as traditional policies typically have higher margins than ULIPs.

- ❖ Revamp of the credit guarantee scheme for MSMEs w.e.f . April 1, 2023 through infusion of Rs90 bn in the corpus to enable additional collateral free guaranteed credit of ~Rs2 tn with 1% reduction in cost of credit
  - ✓ Beneficial for eligible MSMEs and marginally supportive for MSME credit (Rs460 bn and Rs 550 bn credit guarantee extended in FY23 and FY22 respectively.

- ❖ Permitting acquisition financing by IFSC Banking Units of foreign banks.
  - ✓ Need more clarity regarding scope of this measure, but seems of little relevance for PSU or private banks.

- ❖ Fiscal support for digital public infrastructure (especially digital payments) to continue in FY2024.
  - ✓ Budgeted expenditure for digital payments promotion of Rs15 bn for FY24 is lower than FY2023RE of Rs21.4 bn , but higher than FY2023BE of Rs2 bn. This ensures continuation of support for the payment ecosystem in the absence of MDR on UPI and Rupay debit cards.

WE BELIEVE INFRA, CEMENT, CONSUMPTION AND BANKING-FINANCE WILL DO WELL IN FUTURE.