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Expectation from the UNION BUDGET 2022-23

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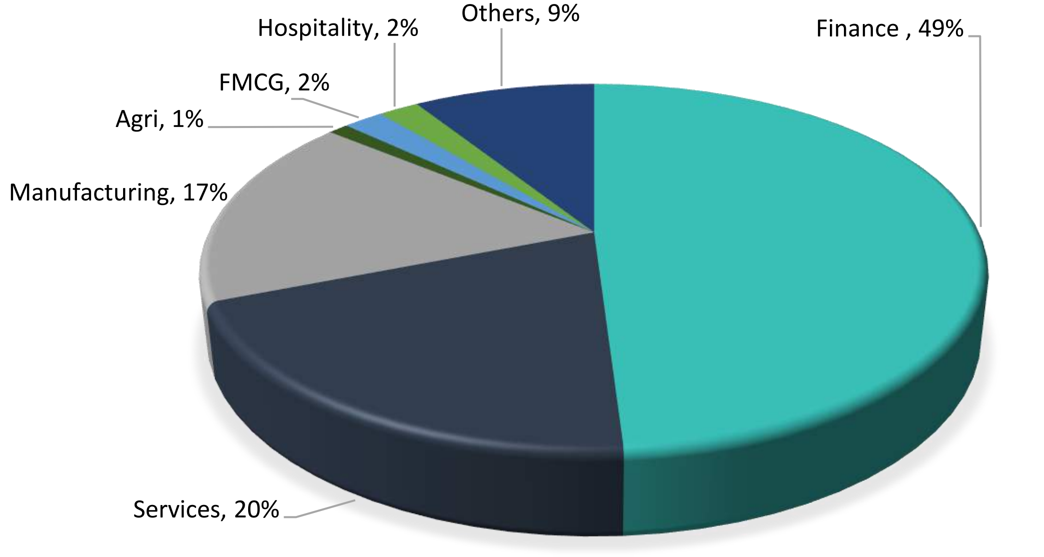
CareEdge Budget Expectation Survey

After a year of the raging waves of the pandemic, India awaits another Union Budget to understand how our economy will shape up in the upcoming fiscal.

CareEdge conducted a survey during the period of January 12-17 with 330 industry experts and analysts to forecast what all our Finance Minister Smt. Nirmala Sitharaman could have in store for the country.

Respondents



Key Findings

- Infrastructure and employment likely to be the main focus areas
- Higher spending expected on healthcare, agriculture, logistics infrastructure, and education
- New welfare programmes anticipated, with spending on existing ones to be increased marginally
- Measures to boost employment could be announced
- Moves towards fiscal consolidation and reducing the fiscal deficit expected
- Disinvestment target to be raised in FY23
- Relief measures/ concessions expected for agriculture, MSME, housing, and healthcare
- Income-tax relief unlikely

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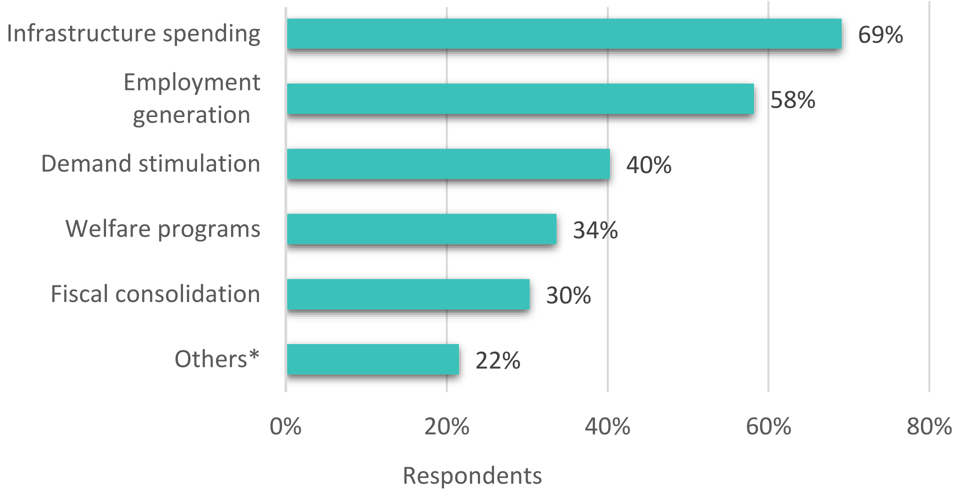
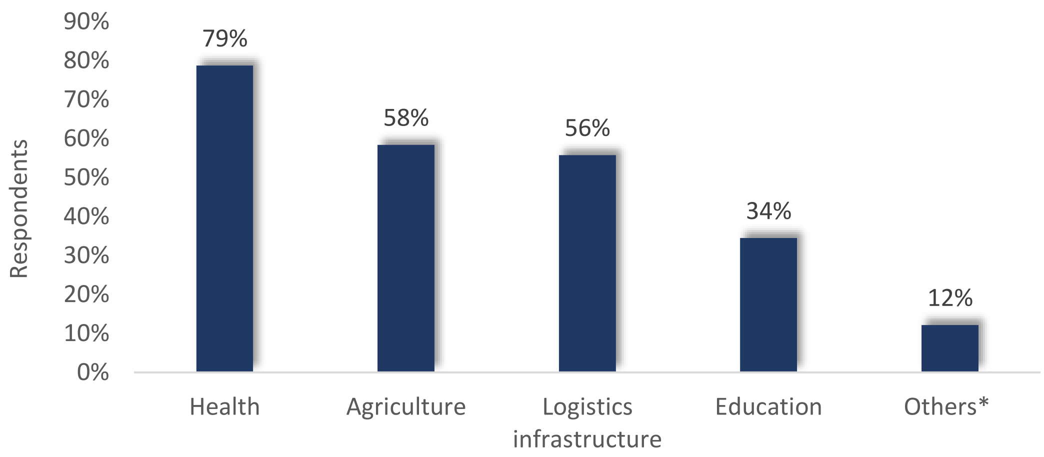
Areas of Focus and Spending

Likely Focus Areas of the Budget



*Others – Disinvestment, Healthcare, Rural and MSME Support

Areas to See Higher Government Spending



*Others - Defense, Housing, MSME Support and Rural Spending

- More than half the respondents expect infrastructure and employment to be the main focus areas, followed by demand stimulation and welfare programmes
  - Move towards fiscal consolidation is also likely, alongside an emphasis on disinvestment, healthcare, and support for MSME and rural segments
- Higher government spending in FY23 (over FY22) is foreseen in healthcare by nearly 80% of respondents
  - Around 60% of respondents anticipate higher allocations to agriculture and logistics infrastructure
  - Spending on education, defense, housing, MSME, and rural support also set to see an increase

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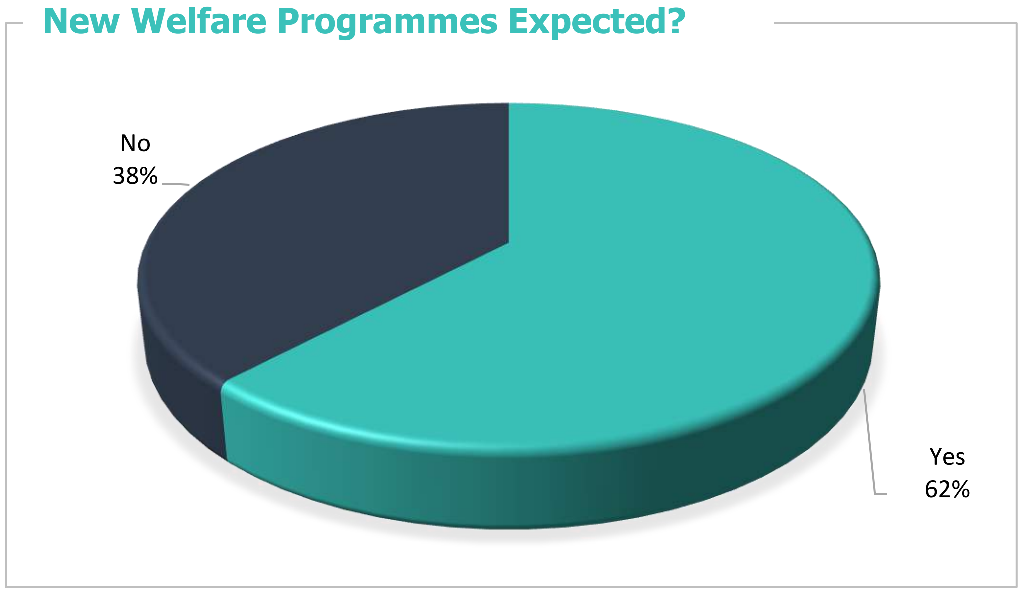
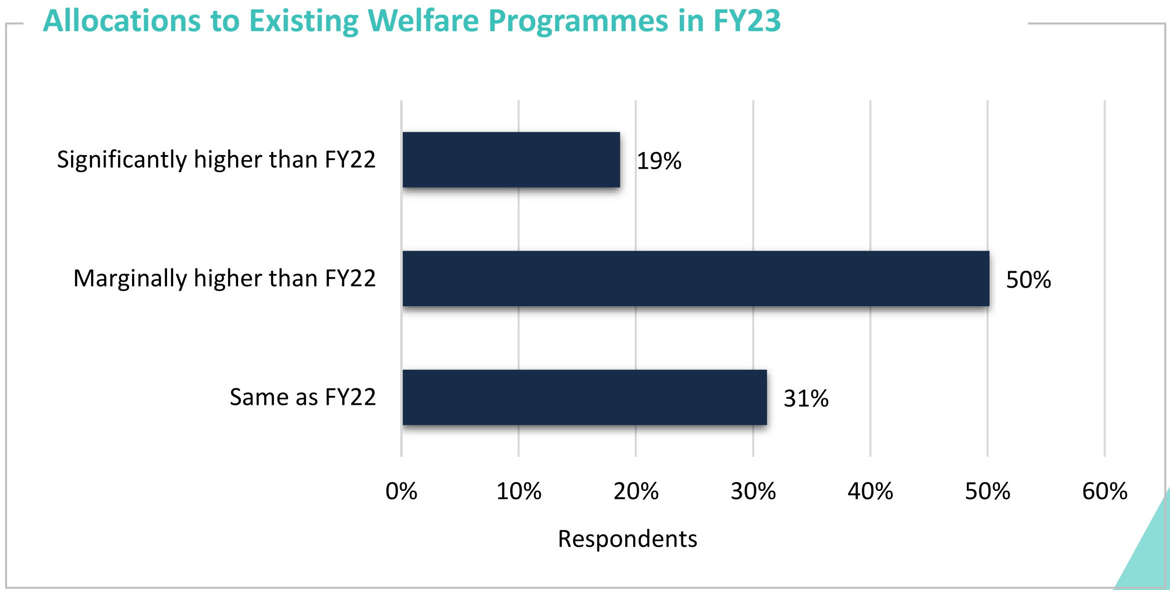
Welfare Programmes





- Over 60% of the respondents expect new welfare programmes in the FY23 Union Budget
  - These are likely to be centered around farmer welfare, education, healthcare, housing, and employment generation. New measures targeted towards MSME’s are also likely
- Half the respondents foresee only a marginal increase in allocations for the existing welfare programmes

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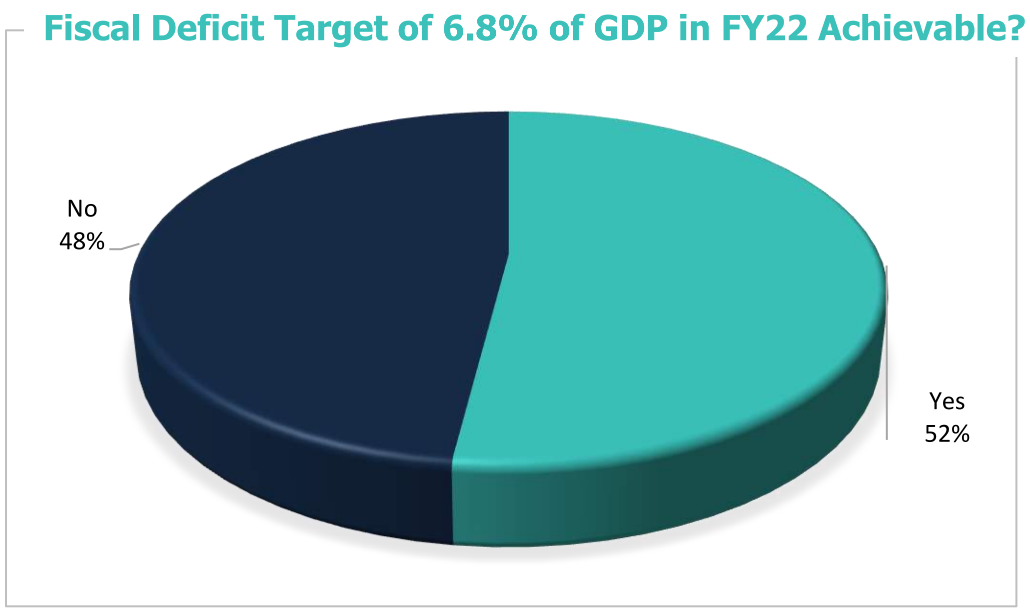
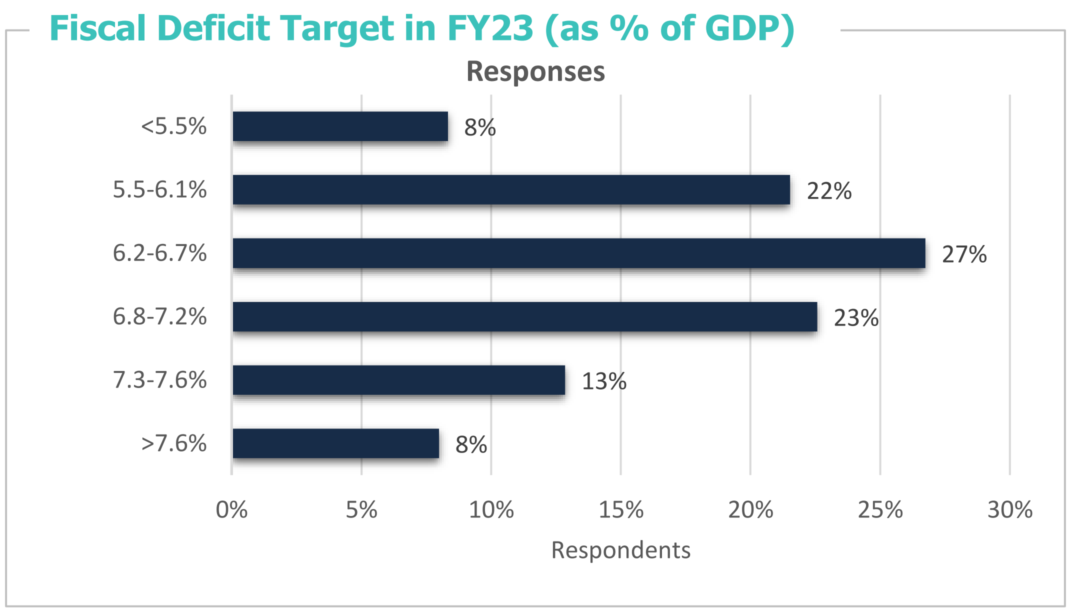
Fiscal Deficit





- Over half the respondents expect the fiscal deficit target of 6.8% in FY22 to be attained
  - 70 % the balance feel that if breached, the fiscal deficit could be in the range of 7-7.6% of GDP
  - Just under 7% believe the fiscal deficit can go above 8% of GDP
- 43% of the respondents expect an expansionary fiscal policy with the fiscal deficit in FY23 being higher than the FY22 target (6.8%)
  - More than half the respondents think the FY23 deficit will be lower than the FY22 target

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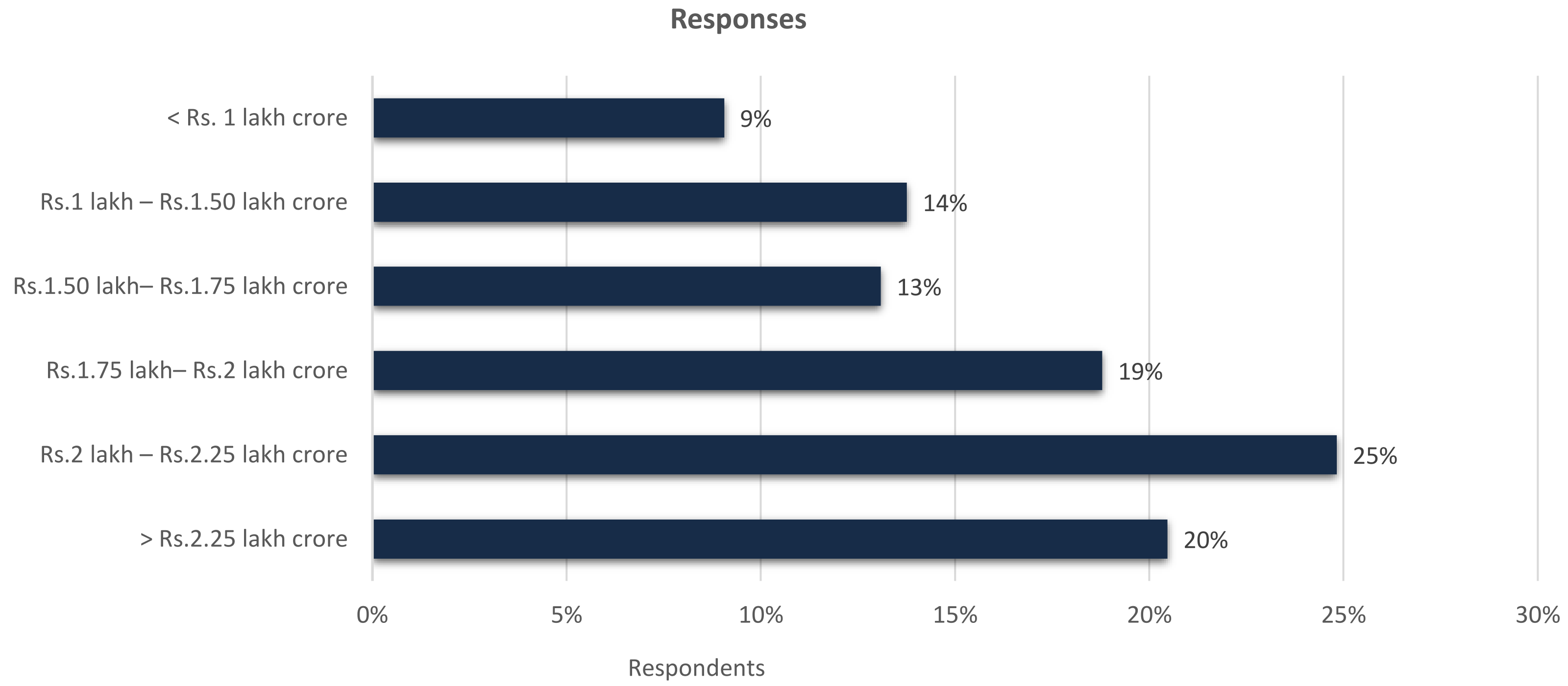
Welfare Programmes

Disinvestment Target for FY23



45% of the respondents expect the disinvestment target to be over Rs 2 lakh crore in FY23. In FY22, the target was set at Rs 1.75 lakh crore

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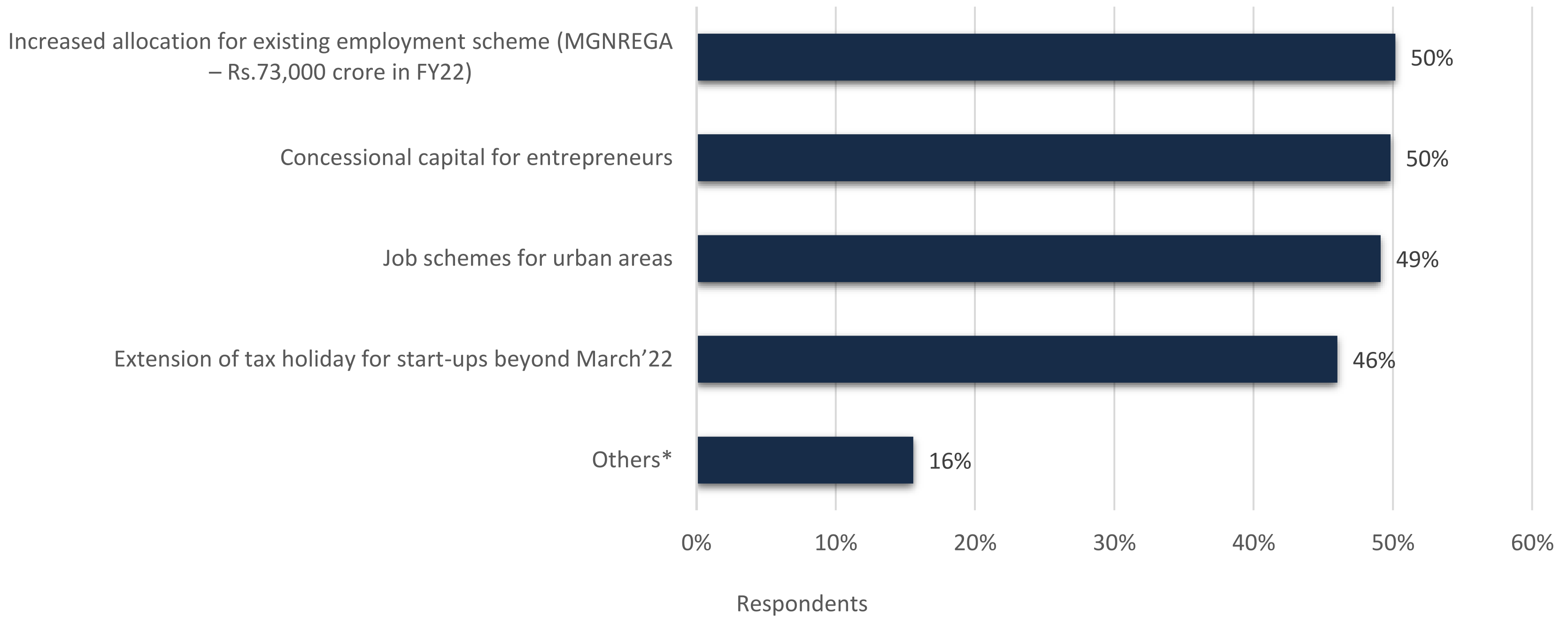
Welfare Programmes

Measures to Boost Employment



- Half the respondents expect higher allocation towards existing employment schemes such as MGNREGA as well as concessional capital for entrepreneurs
- 46% feel there could be an extension of the tax holiday for startups beyond March 2022
- Focus on infra creation and increase in PLI schemes are other themes finding resonance with the respondents

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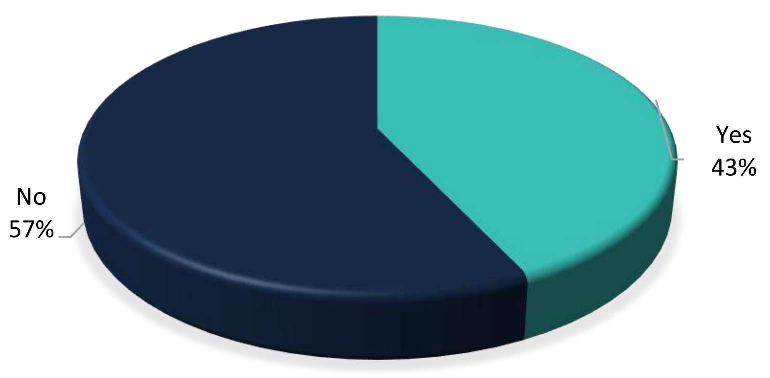
Welfare Programmes

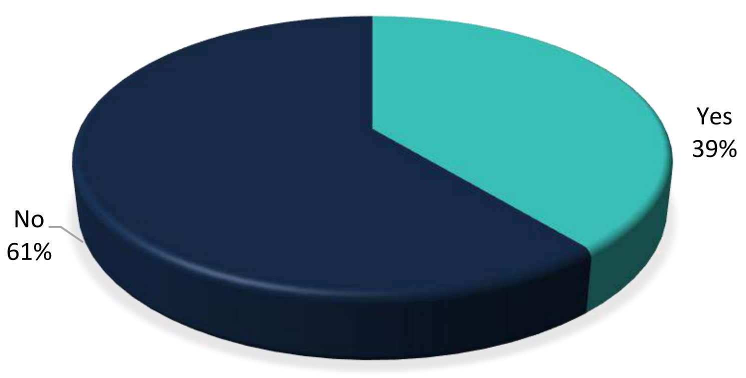
- Many respondents feel the agricultural sector could benefit from a specific relief
- Concessions likely towards healthcare
- Under severe stress, the hospitality industry requires support
- Housing/real estate could be given tax concessions
- MSME and manufacturing segments expect a boost

Tax Measures

Changes Expected in Income Tax Rates/Slab



Relief in Long-term Capital Gains



- 53% of the respondents do not foresee any changes in income tax
- Just under 40% feel there could be relief in long-term capital gains

CareEdge's FY23 Budget Expectations

1. Geared towards rebuilding the economy and facilitating equitable recovery
2. Infrastructure will continue to be the focus area, with emphasis on logistics and health infrastructure
3. Employment generation measures to feature prominently
4. New welfare schemes (largely aimed at boosting rural incomes) are expected, along with an increase in allocation and likely extension for existing welfare schemes (employment support, affordable housing)
5. Formalisation (digitisation) of the economy to be accelerated
6. Increased attention to ease of doing business
7. Measures to promote exports are anticipated
8. Policies for deepening of financial markets viz. bond markets likely to feature

CareEdge's FY23 Budget Expectations

- Total expenditure likely to be in the range of Rs 35-36 lakh crore, 0.5% to 3% increase over the Budget estimates (BE) of FY22
    - Revenue expenditure that accounts for about 83% of the total expenditure is likely to be around Rs 29.9 lakh crore (2% higher than FY22 BE)
        - Allocation for vaccination and booster shots expected
    - Capital Expenditure could be raised to around Rs 6 lakh crore (8% increase over FY22 BE)
        - Increase in outlays towards logistics infrastructure (roads, ports, railways) and healthcare infrastructure
- Receipts could be supported by the sustained strength in tax collection. Total receipts in FY23 could be budgeted in the range of Rs 21-22 lakh crore (Rs.19.7 lakh crore in FY22 BE)
    - To bring in additional receipts
        - Inclusion of Indian sovereign bond in Global Bond Indices could be facilitated
        - Scope of asset monetisation to be enhanced
        - Disinvestment target is likely to be raised to Rs 2 to 2.25 lakh crore for FY23 (Rs 1.75 lakh crore in FY22 BE)
- Some amount of fiscal consolidation likely - fiscal deficit for FY23 to be in the range of 6.2 – 6.5% of GDP
    - Gross market borrowings could be Rs 11.75 – 11.85 lakh crore in FY23 (Rs 12.05 lakh crore in FY22 BE)

For specific heads of expenditure

- Fertiliser subsidy to be increased – could be around Rs 1.4 lakh crore (Rs 0.8 lakh crore in FY22 BE)
- Allocations under the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) to be raised to Rs 1 lakh crore in FY23 (Rs 0.73 lakh crore in FY22 BE)
- PM-Kisan Samman Nidhi (income support to farmers) could be raised Rs 75,000 crore (Rs 65,000 crore in FY22 BE)

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Sector-specific Expectations

Agri and Allied

Fertilisers

In November 2020, India's Finance Minister Nirmala Sitharaman announced an additional provision of Rs 65,000 crore to be disbursed as the fertiliser subsidy as part of the stimulus package (Atmanirbhar Scheme) to boost the economy. This helped the fertilisers industry in lowering the subsidy receivables and leverage levels to a large extent. However, what followed was a massive spurt in prices input commodities. Phosphoric acid and ammonia saw a strong uptick in rates even as natural gas prices for fertiliser companies rose the most.

Expectations:

- The industry expects a higher allocation of subsidies towards urea as well as non-urea fertilisers in the upcoming Budget FY23
- India is the largest importer of phosphoric acid and urea and has a large share in the trade of rock phosphate, ammonia, potash, and diammonium phosphate. In recent times, these commodities have seen a very unusual rise in prices in the international markets. Developments in exporting countries and logistic issues also affected their availability
- Above the budgeted expenditure for the industry in FY22, the government announced a subsidy of around Rs 15,000 crore in May 2021 and a further Rs 6,500 crore in October 2021 to keep fertilisers affordable for farmers

Agri and Allied

Sugar

In FY21, the government took several favourable policy measures for the sugar sector such as the advancement of ethanol blending target of 20% to 2025 from 2030, a clear roadmap involving various stakeholders for the rollout of E20, and further hike in ethanol prices.

Expectations:

- No major announcements are expected other than the fact that the government may continue to make allocations towards schemes for the development of the industry as the problem of sugarcane arrears remains
- With the government aiming to increase the diversion of sugarcane towards ethanol and fix ethanol supply targets, policy measures and incentives to promote biofuel and flex-fuel vehicles that aim to support ethanol blending are likely

Automobile & Auto Components

Hit hard by the pandemic, the automotive industry continues to face various challenges including supply disruptions, new technologies, and regulations. Hence, the Production-linked Incentive schemes (PLI) and vehicle scrappage policy have come as a sigh of relief. Extension of PLI schemes for electric vehicles (EV) and FAME-2 are also positive steps and have the potential to rejuvenate demand and resolve supply chain disruptions. The timely and fair implantation of these can help the Indian auto sector become an integral part of the global automotive value chains. Government’s continued expenditure and stable tax policies can also pave the way for revival and growth after the devastating pandemic.

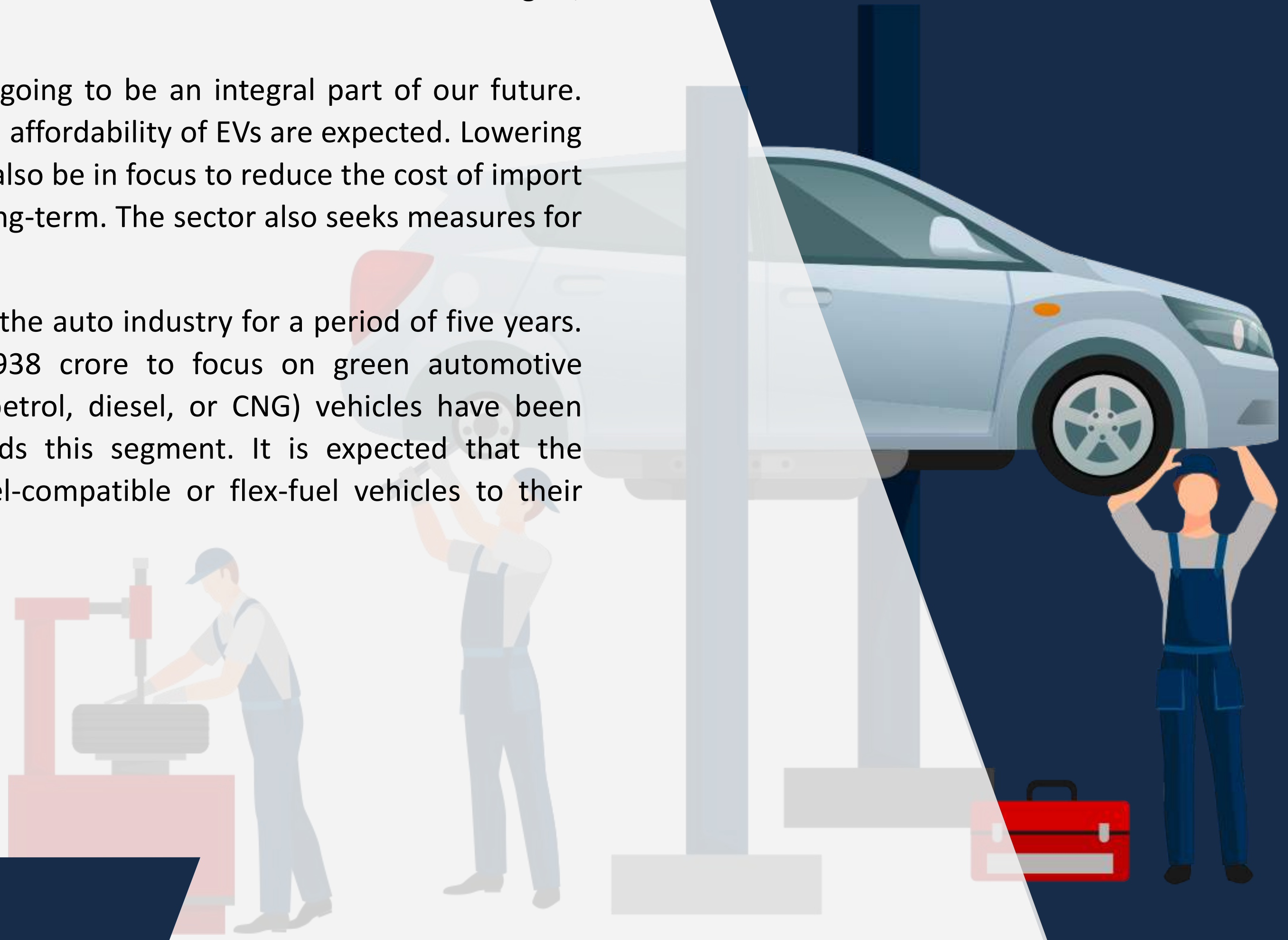
Expectations:

- The industry seeks a uniform Goods and Services Tax (GST) of 18%, down from 28% on all auto parts, to curb the impact of counterfeits in the aftermarket operations. Allowing the availability of the input tax credit of GST paid on automobiles for businesses will increase vehicle sales to corporates. A moderate rate of 18% will not only address this challenge but will also enhance the tax base through better compliance
- Automotive Component Manufacturers Association seeks an upward vision of Remission of Duties and Taxes on Export Products to enhance investments, as the rate notified for the sector at 1% or lower, is inadequate to cover the incidence of un-refunded taxes and duties borne on export products. Moreover, a reduction in excise duty on fuel would reduce the running cost of vehicles and aid demand

Automobile & Auto Components

Expectations:

- Eyeing higher capacity and new product development, as many as 115 companies have applied for the Rs 25,938 crore PLI scheme for the sector. Reintroduction of investment allowance at 15% for manufacturing companies that put more than Rs 25 crore in plant and machinery will motivate manufacturers to invest in new technologies, especially e-mobility and its components/ ancillaries
- The significance of clean energy is growing by the hour and EVs are going to be an integral part of our future. Hence, financing options and lower GST on raw materials to ensure the affordability of EVs are expected. Lowering or abolishing the 5% customs duty on lithium ion-cell batteries should also be in focus to reduce the cost of import in the short-term while promoting battery production in India in the long-term. The sector also seeks measures for faster disbursal of incentives, which would boost the sales of EVs
- Last year, the government planned to allocate over Rs 57,042 crore to the auto industry for a period of five years. However, the Cabinet slashed that by more than 50% to Rs 25,938 crore to focus on green automotive manufacturing. Considering the conventional combustion engine (petrol, diesel, or CNG) vehicles have been mostly left out, the industry would expect some allocation towards this segment. It is expected that the government would make it mandatory for the OEMs to add biofuel-compatible or flex-fuel vehicles to their portfolios in the next six months



Banking and Financial Services

The Covid-19 pandemic has changed the landscape for industries across the board and BFSI is right in the middle of it. Divestment of stake in two public sector banks and operationalisation of the Development Financial Institutions likely to be in focus in the upcoming Union Budget.

Expectations:

Banking

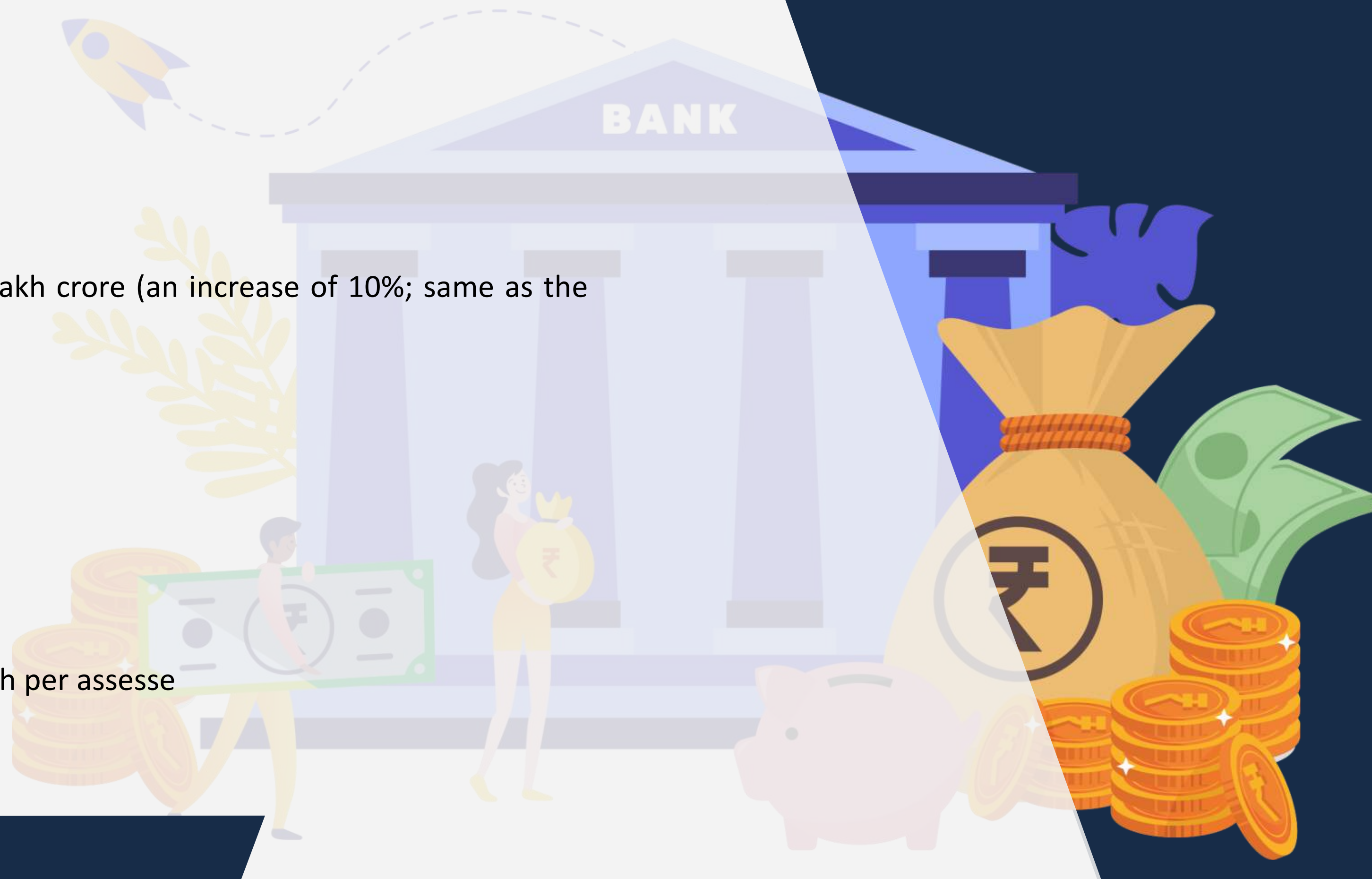
- Operationalise the NARCL
- Disinvest government stake in two public sector banks
- Agriculture credit availability target could be increased to Rs 18 lakh crore (an increase of 10%; same as the previous year)
- Extension of the ECLGS scheme

Financial Services

- Operationalisation of the Development Financial Institutions (DFI)
- Creation of an NBFC lending facility like NHB’s refinance for HFCs

Insurance

- Definite timelines to the listing of LIC
- Increase in Section 80C allowance from Rs 1.50 lakh to Rs. 2.50 lakh per assesse
- Reduction of GST rate for insurance



Capital Goods

After hitting a pandemic-sized roadblock, the industry seeks a revival of capex cycle through a substantial increase in allocation for capital expenditure towards infrastructure development.

Expectations:

- Increase in allocation towards railways, renewable energy, roads, ports, urban development, defense etc
- Order book of capital goods sector to get a boost from the increased capital spending
- Expansion in PLI schemes to promote domestic production of capital goods and increase exports
- Incentives to increase research & development spending in the sector

Cement

Likely increase in allocation towards capital expenditure keeping in line with the government's continued focus on infrastructure building, housing, and rural development is a positive for the cement industry. In Union Budget 2021-22, the government had allocated Rs 5.54 lakh crore as compared with Rs 4.39 lakh crore for a revised estimate (RE) 2020-21.

Expectations:

- Incentivise and boost affordable housing through increased funding via schemes such as MGNREGA that could support in augmenting rural income and in-turn aid in the creation of demand for cement
- These measures would indirectly boost demand for the commodity
- The industry expects a reduction in GST slab from the current 28% on cement, thereby reducing the final price to the end consumer
- Subsidised freight rates for the transportation of waste materials or alternate fuels would help the industry to reduce freight expenses to some extent

Gas

With an aim to transform India into a gas-based economy, the government has committed to achieving 15% share of natural gas in the primary energy mix by 2030, up from the present level of around 6%. At the United Nations, Climate Change Conference (COP26) held recently in Glasgow, India set ambitious targets to reduce carbon emissions from its energy sector which include achieving carbon intensity reduction to less than 45% by 2030 and achieving net-zero emissions by 2070.

Expectations:

- Natural gas explorers are under pressure as domestic gas prices are lower compared with LNG prices. This, coupled with a complex tax structure, which includes payment of royalty, cess, and profit petroleum (applicable only to private players) to the government, is dissuading exploration & production (E&P) players in taking-up exploration activities. A move towards simplification of the tax structure, exemption of E&P activities from GST in order to promote investments in the E&P activities would be critical

- Inclusion of natural gas under the purview of GST

- Around 50% of natural gas consumption is met through LNG imports. A reduction in the customs duty on LNG from the present level of 2.50% is expected to boost consumption and augur well for the sector

Hospitality & Tourism

Covid-19 and its variants have kept this sector on tenterhooks. With new curbs coming in every now and then, the industry has had a tough time ensuring profits for business owners and even job security for employees. The industry continues to seek approval to its long-standing demand of granting infrastructure status so as to enable it to avail of lower taxation, utility tariffs, and a simplified approval process.

Expectations:

- Extension of loan moratorium with lower interest rates and rationalisation of taxes
- Service Export From India Scheme:
- To revise losses carried from existing 8 years to 12 years
- To increase the rate from 3% to 10% of net foreign exchange earnings for next 3 to 5 years
- Extension of timeline for meeting export obligation by at least 4 years for all Export Promotion Capital Goods Scheme
- Allowing land as capital expenditure investment and record 125% of all investments as a capital write back in hotel books
- To allow hotels to bill IGST for MICE business; it expects the government to enable meetings and conferences at hotels
- Fast track execution on UDAAN Scheme

Healthcare & Pharma

The second wave of Covid-19 exposed the dire need of building robust healthcare infrastructure in India. The industry is likely to be one of the focus points in the upcoming Budget. The government in the recent past has adequately demonstrated the kind of importance that the healthcare and pharmaceutical industry deserves. Understanding the acute need to reduce the dependency of import of raw material, the government has introduced policies such as PLI scheme for APIs / KSMs and medical devices and promotion of bulk drug parks, which is in line with Atmanirbhar Bharat. However, during the current environment, the probable major point of the agenda would be on achieving affordable healthcare for the entire populace, especially Tier I and Tier-II cities.

Expectations:

- To meet the objective of accessibility and affordability of healthcare to all. The government is likely to concentrate on the development of infrastructure mostly through public-private partnerships. The Budget may see some favourable changes in taxes for the manufacturing of medical equipment to encourage domestic production
- Introduction of tax holidays for the hospitals that are set up in rural areas at least for the initial years
- Attracting the healthcare space with the inflow of investments by providing the viability gap funding. This would likely facilitate the government in achieving the goal recommended by WHO for doctor-patient ratio of 1:1000 by 2024
- Currently, healthcare services are free from GST except for a few elements of the services, which sometimes account for a substantial portion of the operational costs. Thus, any announcement to bring more life-saving drugs in the nil GST category will enable the provision of more affordable healthcare services to a large populace
- Promotion of innovation and research through introduction of tax incentives for investment in setting up of R&D based activities
- Favourable changes in taxes for manufacturing of medical equipment to encourage domestic production

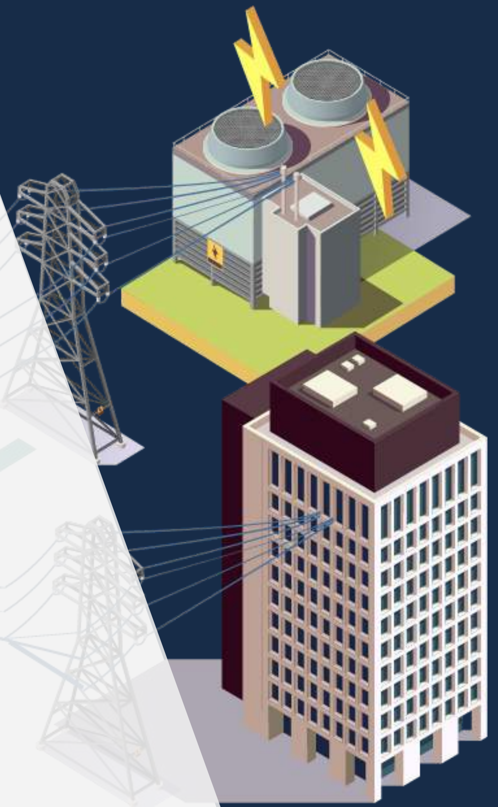
Power

Renewables

At the COP26 summit, India announced its target to meet 50% of its energy needs from renewable sources by 2030 and become net zero by 2070. The policies and budgetary push in the power sector are likely to focus on strengthening the institutions, frameworks, and financial incentives on meeting these overall targets.

Expectations:

- A push towards investments in storage technology and pumped hydro to enable the scaling up of renewable energy. Utility-scale solar will be central in reaching the goal of 500 GW of non-fossil power by 2030. In addition, alternate green technologies such as floating solar, rooftop solar, off-shore wind technologies may also be in focus
- Financial assistance and reforms are expected on domestic manufacturing apart from the expansion of the PLI scheme. The government has recently been focusing on domestic solar manufacturing with the approved list of manufacturers, the upcoming introduction of basic customs duty to 40% from April 2022 and PLIs
- Incentives and tax breaks to support scaling up of EV charging infrastructure are expected



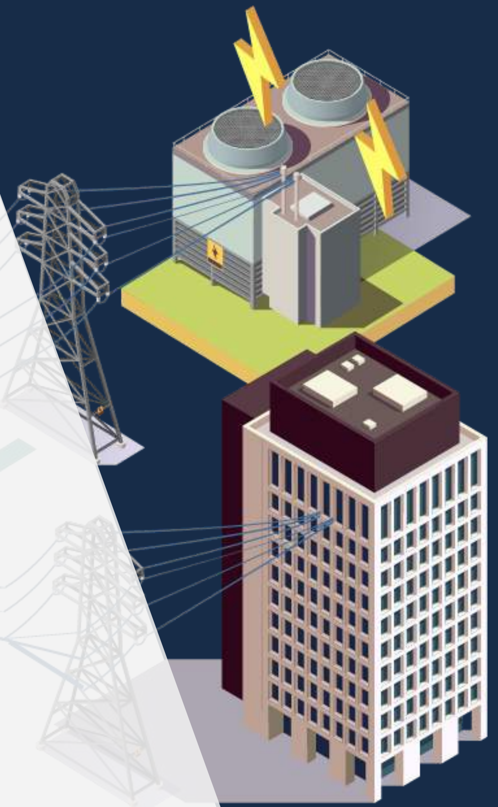
Power

(Excluding Renewables)

In the last Union Budget, a revamped reforms-based result-linked scheme of Rs 305,984 crore for five years was launched to develop infrastructure of power distribution companies for pre-paid smart metering, feeder segregation and network up-gradation.

Expectations:

- The industry expects further budgetary allocation towards strengthening and up-gradation of distribution infrastructure for improvement in AT&C losses
- The Cabinet recently cleared a proposal under the National Green Energy Corridor. Investments towards strengthening of transmission infrastructure are desired to push scale integration of renewable energy



Real Estate

Activities in the sector fell to an all-time low in the decade after Covid surfaced. But with gradual unlocking of cities, improved customer sentiment, developers pushing sale schemes, the sector has witnessed decent recovery. The government, too, introduced various liquidity schemes to make home-buying more lucrative.

Expectations:

- Hike in Rs 2 lakh rebate u/s 24 of IT Act towards interest on home loans could infuse robust demand for housing, especially in the mid-segment categories. A separate tax deduction under section 80C could be offered for housing loan principal repayment

- Ever since its implementation in 2017, the CLSS scheme has benefitted over 3.3 lakh families and the extension will further aid many more families to avail themselves housing under this scheme

- Industry status to the sector so that cheaper credit facilities can be availed of from financial institutions

- Tax neutral business consolidation through merger or amalgamation to push rescue of stalled housing projects

Roads

Government initiatives under Atmanirbhar Bharat scheme and National Infrastructure Investment Pipeline led to a steady increase in the pace of award and execution for the National Highways Authority of India (NHAI, rated CARE AAA; Stable) during FY20 and FY21 amidst the pandemic. However, given the shortfall in the last three years in the allocation of funds under the ambitious plan of NIP, budgetary allocation for FY23 is extremely crucial to bolstering roads development. Fundraising through asset monetization under National Monetisation Policy and floating of InvIT by NHAI are key positives.

Expectations:

- Increase in budgetary allocation by 30% to fund higher capital outlay in the roads sector
- Incentivising the listed InvIT through more tax benefits over unlisted InvIT
- Exemption or reduction on capital gain tax or interest income of InvIT

Steel

The global steel industry has demonstrated strong momentum in 2021, continuing a very strong upcycle as reflected by the recovery in consumption and a sharp uptick in prices. In recent months, though, there has been some moderation in prices, largely attributable to a slowdown in Chinese steel production and resultantly sharp correction in global iron ore prices. However, volatile iron ore and coking coal prices have ensured a gradual decline in global steel prices, keeping the prices elevated for a longer gestation period.

On the domestic front, it is imperative that the demand-supply situation will remain favorable, which coupled with higher raw material prices and low exportable surplus from China will keep the steel prices at elevated levels, thereby impacting the end-users of the industry. The government is likely to adopt a balanced approach in taming steel prices with a slew of measures.

Expectations:

- Government may further cut import duties on certain steel products, which are detrimental to providing some respite to the Infrastructure and the MSME sectors.
- Reduction in basic customs duty on raw materials like coking coal, ferronickel, iron, and stainless-steel scrap from the current 1% to nil
- Waiver of coal cess (currently Rs 400 per tonne) or refund to input tax credit on GST compensation for coal consumed for domestic steel sales
- Speedy implementation of PLI scheme of Rs 6,233 crore for specialty steel to help reduce imports

Telecom

Caught on the heels with rising payment obligations to the Government of India (GoI) and the low average revenue per user (ARPU) amidst intense competition, the Union Cabinet in September 2021 approved the much-awaited reforms for the telecom sector and announced the revival package. Through these reforms, including a moratorium in annual payments of adjusted gross revenues (AGR) and spectrum dues, GoI has addressed the liquidity woes of the telecom sector to a large extent.

Prior to reforms, the capex spending of the company was restricted to the extent of sustaining the current business model. The sector now needs an aggressive capex strategy for 4G network expansion, 5G rollouts, and significant growth of passive infrastructure, for which it expects a booster dose in this phase of growth.

Expectations:

- Reduction in license fees
- Duty exemptions on key telecom equipment
- Input tax credit against GST paid on telecom towers
- Reduction in GST rates to reduce the financial burden on TSPs/ passive infrastructure provider
- Incentive schemes to push Make in India drive for domestic manufacturing
- Stimulus package for penetration and proliferation of rural areas to achieve the dream of Digital India
- Smooth and lucrative reforms for 5G rollouts
- Incentives for promoting new technologies to increase efficiency for the sector

Textile

The textile industry witnessed recovery after the adverse impact of the pandemic supported by strong export demand due to diversification of sourcing by global players as part of their China+1 strategy, pent-up domestic demand aided by the festive and wedding season, and favourable progress on the vaccination front. The government has already announced various incentives/schemes such as RoDTEP, Rebate of State and Central Taxes and Levies, PLI, and PM Mega Integrated Textile Region and Apparel (PM MITRA) towards increasing global competitiveness of the Indian textile industry.

Expectations:

- Adequate budget allocation for effective implementation of various incentive schemes announced by the government until now
- Interest equalisation/ subvention scheme for exports that can facilitate growing export demand.
- Extension of Amended Technology Upgradation Fund Scheme that is ending in March 2022 with an increase in Budget allocation
- Removal of import duty and imposition of an export duty to control rising cotton prices

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