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Expectations from the UNION BUDGET 2023-24

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As the nation prepares for the current NDA government's final full budget before the general elections in 2024, CareEdge Ratings conducted a survey comprising 364 respondents from key industries during 5-12 January to gauge their expectations. Here are the findings:

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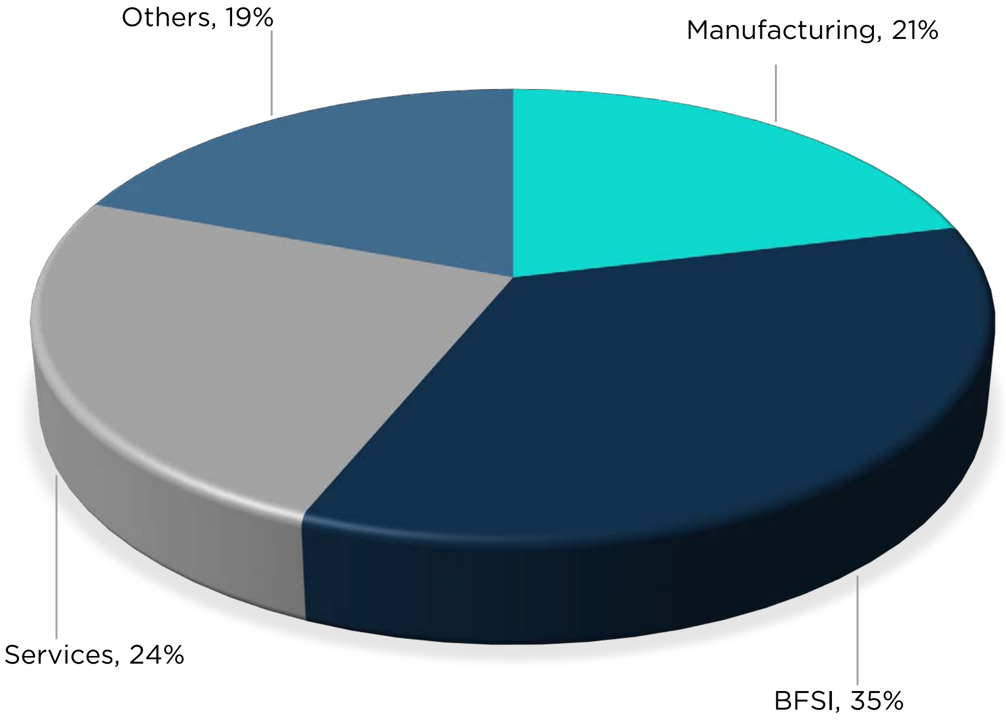
Profile of Respondents



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Profile of Respondents

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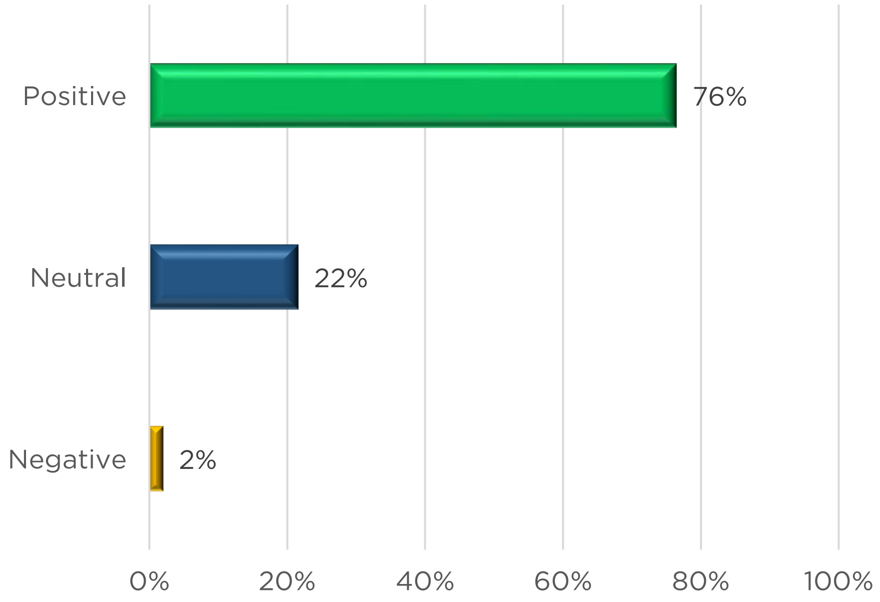
Outlook for India's Economic Growth



- Most of the respondents (76%) are positive on India's economic growth outlook.
- Indian economy is estimated to grow by 7% in FY23 (as per advance estimate), despite global headwinds.

India's Growth Outlook Positive

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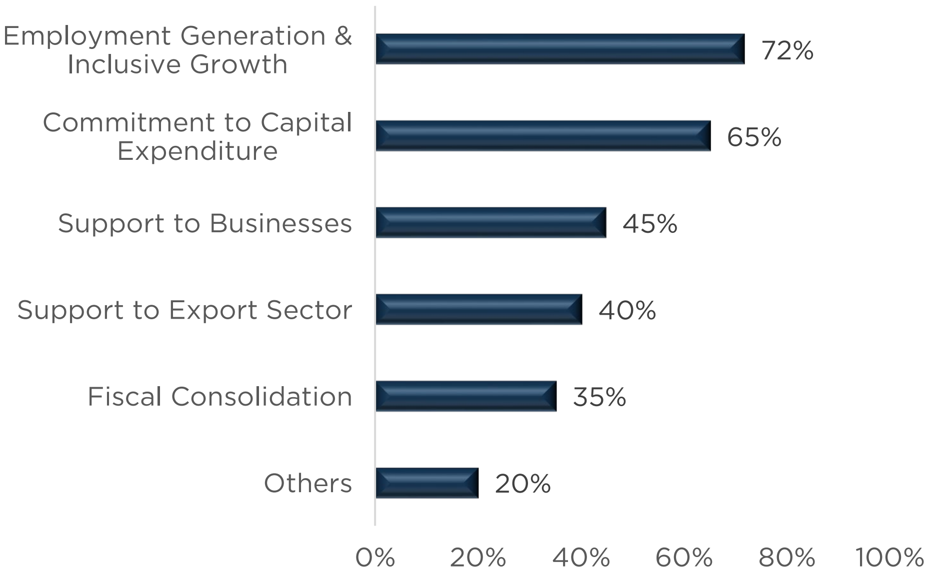
Focus Areas of Budget FY24



Note: Respondents could select more than one option, hence total does not add up to 100%

- 72% of the respondents felt that Employment generation and inclusive growth would be the focus area of this budget.
- Commitment to capex also emerged as a critical area.

Inclusive Growth to be the Focus of Budget FY24

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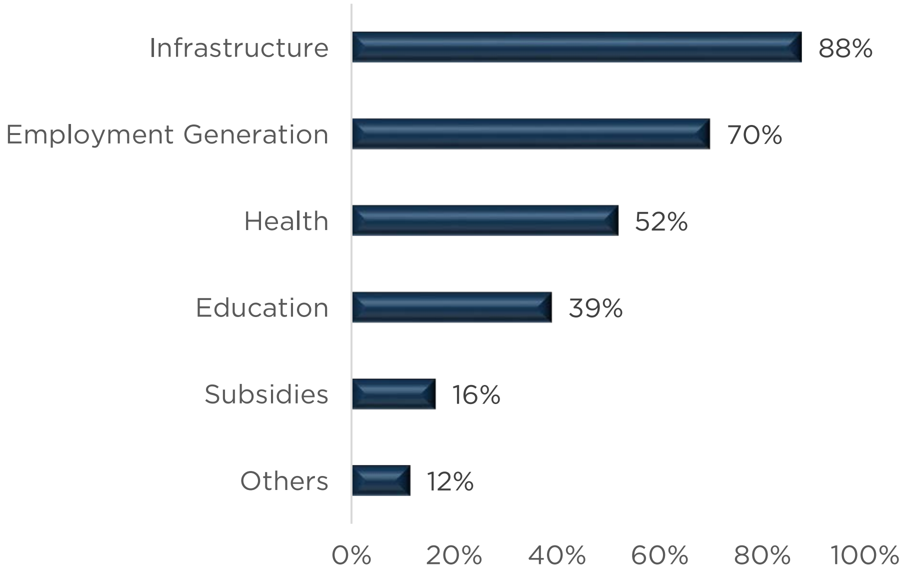
Focus Areas of Spending in Budget FY24



Note: Respondents could select more than one option, hence total does not add up to 100%

- A large 88% of the respondents felt that the Government's focus on infrastructure spending will continue in FY24
- Employment generation emerged as the other critical area of Government spending.
- While a smaller number of respondents highlighted subsidies as focus area of spending, 53% of the respondents felt that subsidy burden will increase in FY24

Infrastructure Spending to Receive a Boost

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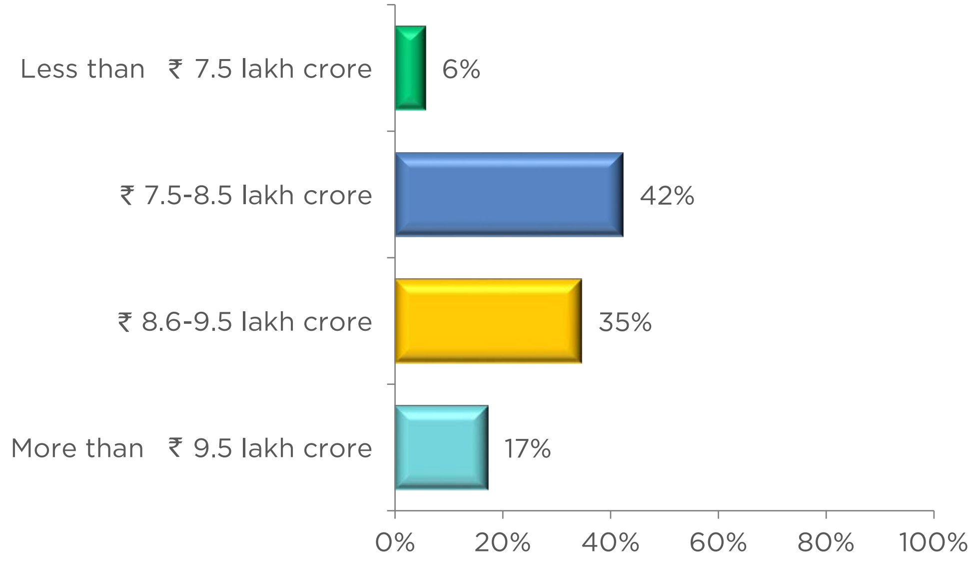
Capex Expectation for FY24



- The government had budgeted a high capex of ₹7.5 lakh crore in FY23.
- 42% respondents expect the capex target to rise by upto 13% (range of ₹7.5-8.5 lakh crore) in FY24 compared to FY23 target, while more than 50% of the respondents expect the growth in capex to be even higher..

Capex to Record Healthy Growth

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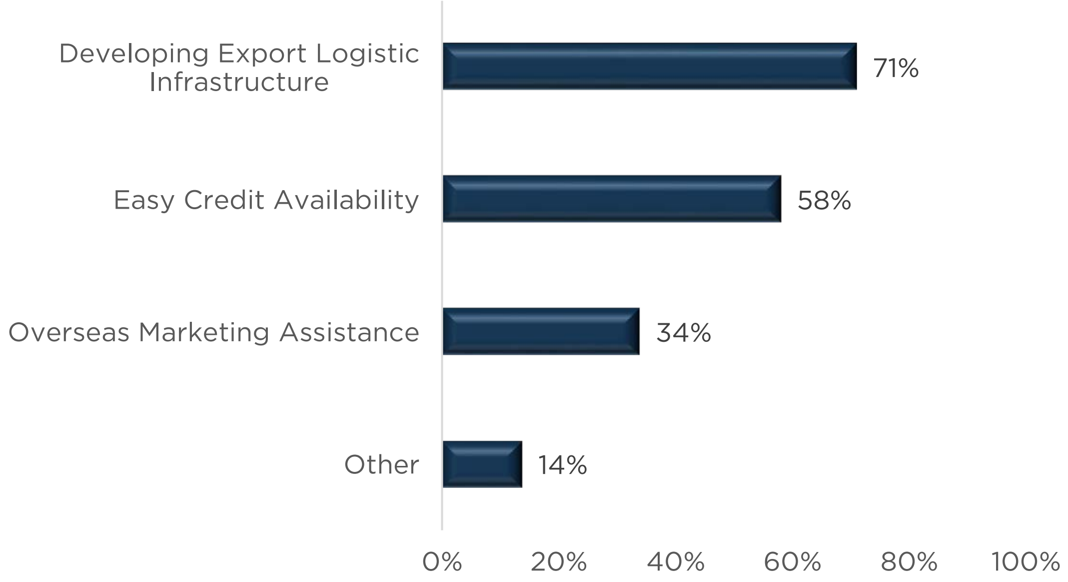
Measures to Support Merchandise Exporters



Note: Respondents could select more than one option, hence total does not add up to 100%

- Developing logistic infrastructure is expected to be the key support area by most respondents followed by easy credit availability.
- Other measures included credit subsidy for MSMEs, tax reliefs, expansion of Production Linked Incentive scheme etc.

Support Measures for Export Sector Anticipated

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FY24 Budget Focus

1. Support to economic growth & fiscal consolidation to be the twin focus areas.
2. Continued focus on physical infrastructure to steer economic growth.
3. Increased spending on health, education and skilling for social infrastructure development.
4. Focus on development of agriculture and rural economy.
5. Measures to support the export sector.

Fiscal Arithmetic

Fiscal deficit could marginally breach the target for FY23

- Gross tax revenue likely to exceed the budgeted target by ₹3.5 lakh crore, while non-tax revenue could witness a shortfall owing to lower dividend transfers from the RBI.
- With higher subsidies announced, expenditure likely to exceed by ₹3.3 lakh crore.
- Centre's fiscal deficit could exceed the budget target by ₹0.8-1 lakh crore in FY23.
- However, higher than budgeted growth in nominal GDP will keep the fiscal deficit to GDP ratio under check in FY23.

Move towards fiscal consolidation in FY24

- We expect, the government to move towards fiscal consolidation, budgeting a lower fiscal deficit to GDP ratio of around 5.8% for FY24.
- With nominal GDP growth estimated to moderate to around 10%, we project gross tax collections to grow by 10% in FY24
- We could expect an improvement in non-tax revenue in FY24, on the back of estimated lower receipts in the current fiscal.
- We have factored in a modest rise of 5% in revenue expenditure in FY24, with lower subsidy burden.
- We expect capex to rise by around 10% over the budgeted ₹7.5 lakh crore for the current fiscal.

*Growth Projections for FY24 based on our estimate for FY23

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Sector Specific Expectations

Agri and Allied - Fertilizers

The FY23 Budget had initially provided for a total subsidy of ₹1,05,000 crore, which was subsequently enhanced by another ₹1,10,000 crore after looking at the elevated level of raw material and gas prices. This took the total subsidy budget for FY23 to an all-time high of ~₹2,15,000 crore. The prices of fertilisers have more than doubled in the last two years requiring a higher subsidy budget.

Expectations:

- Higher allocation of subsidies towards urea as well as non-urea fertilisers at a level of more than ₹2,00,000 crore.
- Special incentives to set up fertiliser plants in India to cut dependence on imports.
- Reduction in duty on imports of ammonia and phosphoric acid to improve the competitiveness of domestic fertiliser manufacturers.
- Incentives for the promotion of organic fertilisers.

Agri and Allied - Sugar

In FY22, the government took several favourable policy measures for the sugar segment. This involved the advancement of the ethanol blending target of 20% to 2025 from 2030 and a roadmap for the rollout of E20. The reduction of the GST rate on ethanol meant blending under the Ethanol Blended Petrol (EBP) programme to 5% from 18% and a further hike in ethanol prices. Under the EBP programme, the government achieved the intermediate target of 10% average blending in June 2022 ahead of the target date of November 2022.

Expectations:

- 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 to continue.
- 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.
- Revision in MSP of Sugar is imperative as the cane prices in the past few years have been increasing.
- Better tax incentives for ensuring ease of doing business which will also act as a driving force to move towards E20 and beyond.

Auto and Auto Components

Post-pandemic, the automobile industry picked up a good pace driven by the growing demand and supported by various incentives like Production Linked Incentives (PLI), FAME II and EV-specific state policies. Constructive steps will be needed to further boost EV/Hybrid traction.

Expectations:

- Validity of FAME II to be extended beyond March 2024 to capitalise on the growing demand.
- FAME II should also be revised to include commercial vehicles
- Rationalised GST across auto and auto components with a balanced structure that aligns taxation rates with emission norms for vehicles rather than basing it on the type of powertrain. The taxation rates should be the lowest for EVs.
- Revision in PLI to include small/medium-size/start-up players contributing to the EV ecosystem.
- Subsidised financing rates on loans availed by manufacturers of pure EVs for setting up manufacturing facilities and for auto loans availed by buyers – whether by CV fleet owners or buyers of individual cars or 2Ws.
- Increase in the all-industry rate of duty drawback and rate of Remission of Duties and Taxes on exported products to enhance the exports.

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Banking and Financial Services

The FY23 budget focused on aggregate credit flow, Central Bank Digital Currency (CBDC), LIC divestment, digital banking push, and amendments to strengthen the Insolvency & Bankruptcy Code for the BFSI sector. This year, the focus will likely be on accelerating growth post-Covid and further strengthening the insolvency code to reduce timelines.

Expectations:

Banking

- Clarity on regulations around CBDC post initial pilot projects.
- Nudge PSBs towards market borrowings for funding the credit push given the divergence between deposit growth and credit growth rates.
- Provide additional incentives for long-term funds raised by banks from depositors or the capital markets.
- Support lending to weaker sections/micro businesses with credit support, interventions, etc.

NBFCs

- NBFC is to be brought at par with banks, small finance banks and housing finance companies in terms of SARFAESI regulations, wherein they are also allowed to apply for loans above ₹1 lakh as against the cut-off of ₹20 lakhs as of now.
- Support lending to weaker sections/micro businesses with credit support, interventions, etc.

Insurance

- Streamline GST input credit norms on expenses.

Capital Goods

The continued focus of the government on infrastructure development and substantial increase in the capital expenditure budget in the recent past has supported the growth in the capital goods sector after the pandemic. The attention to the revival of the capex cycle including higher private sector participation is a positive for the industry.

Expectations:

- Increase in overall capital expenditure budget and higher allocation towards improving logistics infrastructure, defence, renewable energy, urban development, etc.
- Incentives for renewable energy equipment manufacturing.
- Schemes to promote the indigenization of capital goods and increase exports.

Cement

With the government's focus on infrastructure and housing for all, the cement sector is set to benefit further. In the FY23 Budget, the government allocated ₹7.35 lakh crore to key infra sectors as compared to ₹5.54 lakh crore in FY22.

Expectations:

- To increase the pace of infrastructure investments as envisaged under the National Infrastructure Pipeline.
- Specific measures for attracting private investment in the infrastructure sector that would help achieve the goals as per the National Infrastructure Pipeline by 2025.
- Increased allocation towards rural development in the pre-Election period to achieve inclusive growth.
- Reduction in GST applicable on cement that is currently 28%.

Gas

The government continues to put emphasis on the natural gas sector. With an aim to transform India into a gas-based economy, the government has committed to achieving a 15% share of natural gas in the primary energy mix by 2030, up from the present level of around 6.3%.

Expectations:

- Natural gas explorers are under pressure as domestic gas prices are lower compared with LNG prices. A move towards simplification of the tax structure, and exemption of E&P activities from GST to promote investments in exploration and production activities would be critical and thus expected.
- Reduction of GST on regasification of LNG and natural gas transmission from the existing rate of 18% and 12%, respectively, so as to reduce the overall landed cost of natural gas, thereby making it more competitive against alternative fuels.
- Lowering the excise duty rate on CNG, thus reducing the burden of high natural gas costs on the consumers.
- 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.

Pharma & Healthcare

The Indian pharmaceutical industry has reported healthy growth largely in terms of volume during the last two decades. Placed thirteenth globally in terms of value, the present market size of the industry stands at around USD 47-49 billion in FY22, which grew at around 5-7% over FY21. The growth of the industry during FY22 was largely driven by higher domestic consumption while export sales remained stable.

Expectations:

- Increase in government healthcare expenditure as a percentage of GDP.
- Incentives such as deductions in income tax to increase investment in research and development.
- Increase in basic customs duty on import of medical devices to boost domestic production under 'Make in India'.
- A higher limit of deduction on health insurance premiums under section 80D of the Income Tax Act.

Hospitality & Tourism

The hospitality sector has been through a bumpy ride in the last couple of years. It was the biggest victim of the pandemic but post that, the sector had a steady recovery and has seen a reversal in its fortunes as well.

Expectations:

- Higher rate of depreciation and allowing business losses to carry forward for 12 years from the current 8 years.
- Tax holiday for a minimum of two years as the sector majorly suffered losses and distress due to Covid
- Infrastructure status for hotels.
- Single window clearance for hotel licenses.
- Subsidised power tariffs for hotels as available to manufacturing industries including hotel costs in the expenses in addition to travel expenses under the LTA scheme.
- Sustainable schemes to promote tourism in the upcoming Budget.

Power

The power sector has two focus areas –

a) Improvement in the operational efficiency of the power distribution companies (discoms).

b) Augmentation of power transmission infrastructure.

Discoms form an important part of the power value chain as a source of cash flow origination. Transmission grid stability is essential amidst increasing variable renewable energy generation and bilateral power trading. In the FY23 Budget, the state governments were allowed a fiscal deficit of 4.0% of gross state domestic product (GSDP), while 0.5% was to be allocated for power reforms. The Budget also stipulated co-firing of 5-7% biomass pellets for thermal power plants.

Expectations:

- Higher budgetary allocation under the Revamped Distribution Sector Scheme to increase the operational efficiency of the discoms.
- Strengthening the initiatives towards privatisation of weaker discoms.
- Resolution of stressed thermal assets given the revival in power demand.

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Power (Renewables)

At the COP27 summit held in Egypt, India reinforced its earlier commitments made at the COP26 summit in Glasgow. India has shown its intention of committing to meet 50% of its power needs from renewable sources by 2030 and transitioning into a carbon-neutral economy 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, green hydrogen and pumped hydro to enable scaling up of RE capacity. While solar is expected to remain the mainstay in achieving the target of having 500 GW of non-fossil fuel power, sops such as concessional duties on the import of solar modules till the time sufficient domestic module manufacturing capacity are available could be introduced
- To promote domestic manufacturing of batteries, electrolysers etc., PLI or some other incentive schemes.
- To revive the domestic wind sector, there could be a re-introduction of schemes like generation-based incentives.
- Incentives and tax breaks to support scaling up of EV charging infrastructure.

Real Estate

The real estate sector reported a strong recovery post-pandemic and has been posting stable performance despite higher interest rates. The industry is now pinning hopes on critical aspects like an increase in tax exemptions, higher incentivisation of affordable housing, and relaxation on timelines for long-term capital gains apart from recurring demand of single window clearance and industry status.

Expectations:

- An increase in tax exemption on home loan interest – a raise in deduction limit from ₹2 lakh to ₹5 lakh under section 24 and focused tax deduction on principal repayment of housing loans under section 80C of the income tax act. Additionally, the industry is seeking relaxation on tax exemption on investments in real estate through Real Estate Investment Trusts.
- The affordable housing projects, which were approved by March 31, 2022, had eligibility for a 100% tax holiday subject to several qualification criteria under section 80IBA. The developers are seeking the reintroduction of the section registration timeline given registration deadline has lapsed.
- Relaxation on the timeline of a claim under section 54 of the Income Tax Act from three years to five years is expected to benefit the home buyers in setting off capital gains against under-construction properties.
- Relaxation on rules for operating on special economic zone properties so that the occupiers of the property have ease in business and in turn boost commercial leasing transactions.

Roads & Highways

With the government's focus on infrastructure likely to continue, the roads and highways sector is set to benefit further. From FY18 to FY23, the allocations for the sector have risen three times and this has subsequently led to a steady increase in the pace of award and execution for the National Highways Authority of India through the National Infrastructure Pipeline.

Expectations:

- Increased budgetary allocation of 12-15% towards roads and highways.
- Increased budgetary allocation of 30% to railways for additional capacity creation and modernisation.
- Exemption or reduction on capital gain tax or interest income of InvIT.
- Higher monetisation goals through the toll, operate and transfer model.

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Steel

The first half of FY23 has seen the global steel industry facing significant headwinds. For the commodities market, primarily steel, the strong momentum was abruptly disrupted by the global supply chain issues, along with an uncertain economic outlook. The situation led to a sharp decline in realisations of finished steel products as against higher and volatile raw material prices resulting in a sharp contraction in profitability for steelmakers.

On the domestic front, while the demand momentum remains favourable, domestic steelmakers also faced significant pressure on profitability during the first half of FY23 owing to declining realizations and higher raw material prices.

Expectations:

- Reduction in basic customs duty on raw materials like coking coal, ferronickel, iron, and stainless-steel scrap from the current levels to nil.
- Waiver of coal cess (currently ₹400 per tonne) or refund to input tax credit on GST compensation for coal consumed for domestic steel sales.

Telecom

Riding high on the implementation of 5G services, India expects exponential growth in digital penetration. This will play a crucial role in the overall development of the nation and the successful implementation of key government schemes. To deliver the promise of Digital India, the government's focus to support the telecom industry is expected to continue.

Expectations:

- Duty exemptions on key telecom equipment for 5G rollout.
- Reduction in license fees from 3% to 1%.
- Refund of an input tax credit against GST paid on telecom towers.
- Incentive schemes to push Make in India drive for domestic manufacturing.
- Promotion of private/captive 5G network to boost digital penetration in the enterprise segment, while protecting the interest of existing telecom service providers (TSP).
- Abolishment of levying 5% of license fee towards universal service obligation fund for TSPs.
- Removal of GST on the license fee, spectrum usage charges and payment of spectrum acquired through an auction. Alternatively, payment of Reverse Charge Mechanism on Government Services from the input tax credit.
- An incentive to satellite companies by way of reduction in GST and allowing deduction of license fee and spectrum usage charges in the computation of income tax for promoting growth in satellite broadband services.

Textile

The textile industry witnessed strong headwinds amid the growing global recessionary trend and the inflationary raw material price trend. While exports were impacted by a slowdown in demand for apparel and home textile, the domestic market witnessed a recovery in demand driven by the festive season and weddings. The industry is also witnessing a gradual shift towards man-made fibre (MMF)-based products, given the high cotton prices.

Expectations:

- Changes in the textile duty structure to avoid inverted duty structure. Reduction/removal of import duty on cotton, which was imposed by the government in February 2021.
- Revision in PLI to increase the scope of product coverage under the PLI scheme. Furthermore, a revision in the PLI threshold and an extension of the scheme to cover additional applications from the industry is expected.
- Effective implementation of various inventive schemes announced by the government until now.
- Incentives for purchasing indigenous machinery for supporting the Make-in-India mission.
- More foreign trade agreements and reduction in tariffs for encouraging export penetration globally.

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About:

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