AXIS BANK

UNION BUDGET
2022 - 2023

INDEX

KEY HIGHLIGHTS

Though the Union Budget is essentially a statement of account of public finances, it has historically become a significant opportunity to indicate the direction and the pace of India's economic policy. The 2022-23 Union Budget was presented in the midst of a Covid-19 wave, Omicron. The budget focused on building a governance and policy strategy for the next 25 year 'Amrit Kaal' period, while also seeking to continue measures undertaken over the last two years to support the economy affected by COVID-19. Key strategy areas are around a microeconomic welfare outlook to complement the macroeconomic growth outlook and promoting digitalisation and technology to recreate a virtuous capex cycle. It is a balanced budget that emphasises on capital expenditure while contributing positively to the quality of fiscal policy.

With this background, we present the key highlights of the Union Budget 2022-23.

ECONOMY

- Total expenditure is pegged at Rs.39.45 lakh crore, up by 4.6% for FY23BE, whereas capital expenditure is pegged at Rs.7.5 lakh crore for FY23BE, a rise of 24.4% from FY22RE or 35.4% from FY22BE.
- Gross tax revenues are expected to grow by 9.6% in FY23BE, estimated to be at 10.7% of GDP for FY23BE and 11.9% of GDP for FY22RE. Indirect tax revenues are expected to rise by 5.7% for FY22RE.
- Effective Capital Expenditure of the Central Government is estimated at Rs.10.68 lakh crore in FY23BE, which will be about 4.1% of GDP.
- Nominal GDP growth for FY23 is pegged at Rs.258 lakh crore, 11.1% growth over FY22RE of Rs.232 lakh crore.
- Direct taxes for FY23BE are projected at 13.6% higher over FY22RE, at Rs.14.2 lakh crore; Indirect taxes are pegged at Rs.13.27 lakh crore, an increase of 5.7%
- Fiscal deficit projected at 6.4% of GDP for FY23BE as against the deficit of 6.9% for FY22RE, with an intent to reach a fiscal deficit level below 4.5% of GDP by 2025-26, with a fairly steady decline over the period.
- Disinvestment target for FY22RE lowered to Rs 0.78 lakh crore from Rs 1.75 lakh crore of FY22BE. FY23 disinvestment budgeted at Rs.0.65 lakh crore.
- Gross market borrowings are slated at Rs.14.95 lakh crore, while net market borrowings are slated at Rs 11.09 lakh crore.

BE=Budget Estimates, RE=Revised Estimates; GDP=Gross Domestic Product

Goals of
AMRIT KAAL

PM GATISHAKTI

- PM Gati Shakti National Plan will encompass the seven engines for economic transformation, seamless multimodal connectivity and logistics efficiency.
- The seven engines are roads, railways, airports, ports, mass transport, waterways and logistics.

INCLUSIVE DEVELOPMENT

- This category broadly covers Agriculture, Food Processing, MSME, Skill Development, Quality education, Digital University, National Tele Mental health programme, HarGhar Nal se Jal and Housing for all.

PRODUCTIVITY ENHANCEMENT

- This category will cover Ease of doing business 2.0 and ease of living, e-Passport, Telecom sector, Atma Nirbharta in Defence and Solar Power

FINANCING OF INVESTMENTS

- This will include public capital investment, Green Bonds, VC and PE investments, Digital Rupee

1. INFRASTRUCTURE

- Outlay of Rs.1.99 lakh crore for Ministry of Road Transport and Highways.
- Outlay of Rs.1.4 lakh crore for Ministry of Railways in FY23.
- 80 lakh houses will be completed for the identified eligible beneficiaries of PM Awaas Yojana and Rs 48,000 crore is allocated for this purpose in FY23.
- Proposal of battery swapping policy for encouraging private sector.
- Spectrum auctions will be conducted in 2022 to facilitate rollout of 5G mobile services within 2022-23 by private telecom providers.
- 68% of the capital procurement budget in defence will be earmarked for domestic industry in 2022-23.
- Allocation of additional Rs 195 billion for production-linked incentives towards solar equipment manufacturing
- Defence R&D will be opened up for industry, startups and academia with 25% of defence R&D budget earmarked.
- HarGhar Nal Se Jal has been allocated Rs 60,000 crore with an aim to cover 3.8 crore households in 2022-23.
- Green Bonds will be issued for mobilizing resources for green infrastructure.
- Develop new products and efficient logistics services for small farmers and SMEs.
- ‘One Station-One Product’ concept will be popularized to help local businesses & supply chains.
- 2,000 km of network will be brought under Kavach in 2022-23.
- Development of 400, new generation, Vande Bharat Trains during next 3 years.

- **PMGatiShakti**
  - The approach is driven by seven engines, namely, Roads, Railways, Airports, Ports, Mass Transport, Waterways, and Logistics Infrastructure.
  - It will also include the infrastructure developed by the state governments as per the GatiShakti Master Plan
  - PM GatiShakti Master Plan will be formulated for Expressways in 2022-23.
  - The National Highways network will be expanded by 25,000 km in 2022-23.
  - Exchange of data among all mode operators will be brought on Unified Logistics Interface Platform (ULIP).
  - Multimodal Logistics Parks at four locations through PPP mode will be awarded in 2022-23
  - 100 Cargo Terminals for multimodal logistics facilities will be developed during the next 3 years.

2. FINANCIAL SECTOR

- 100% of the 1.5 lakh post offices will come on the core banking system enabling financial inclusion and access to accounts through digital banking.
- Government is committed to bolstering the hands of the states in enhancing their capital investment towards creating productive assets and generating remunerative employment.
- Introduction of Central Bank Digital Currency (CBDC) using blockchain and other technologies, which will be issued by the Reserve Bank of India starting 2022-23.
- Allocation of Rs.1 lakh crore to assist the states in catalyzing overall investments in the economy for 2022-23.
- Udyam, e-Shram, NCS and ASEEM portals will be interlinked
- Emergency Credit Line Guarantee Scheme (ECLGS) has provided much-needed additional credit to more than 130 lakh MSMEs.
- ECLGS will be extended up to March 2023 and its guarantee cover will be expanded by 50,000 crore to total cover of 5 lakh crore.
- Credit Guarantee Trust for Micro and Small Enterprises (CGTMSE) will facilitate additional credit of Rs.2 lakh crore.

3. DIGITAL OUTLAY

- Digital Ecosystem for Skilling and Livelihood – the DESH-Stack e-portal will be launched.
- ‘One class-one TV channel’ programme of PM eVIDYA will be expanded from 12 to 200 TV channels.
- Establishment of Digital University.
- Issuance of e-Passports using embedded chip and futuristic technology will be rolled out in 2022-23.

4. RURAL ECONOMY

- Outlay of Rs.1.38 lakh crore for Ministry of Rural Development.
- Promoting Chemical Free natural farming.
- ‘Kisan Drones’ will be promoted for crop assessment, digitization of land records, spraying of insecticides, and nutrients.
- A scheme under PPP mode will be launched for delivery of digital and hi tech services to farmers.
- Government to pay Rs.2.37 lakh crore towards procurement of wheat and paddy under MSP operations.
- 2023 has been announced as the International Year of Millets.
- Implementation of Ken Betwa Link Project benefitting 9.1 lakh hectare farm land, providing drinking water to 62 lakh people and generating 130MW power.
- 5 more such projects under process of implementation.
- For 2022-23 States will be allowed a fiscal deficit of 4% of GSDP of which 0.5% will be tied to power sector reforms.

5. HEALTHCARE

- Launched AtmaNirbhar Swasth Bharat Yojana with an outlay of about Rs 10,000 crore for FY22-23.
- Outlay of Saksham Anganwadi & Poshan 2.0 with Rs 20,263 crore.
- Outlay for PM Poshan for Rs 10,234 crore
- National Digital Health Ecosystem will be rolled out.
- National Tele Mental Health Programme will be launched for quality counseling.
- Two lakh Anganwadis to be upgraded to Saksham Anganwadis.
- Integrated architecture: Mission Shakti, Mission Vatsalya, Saksham Anganwadi, and Poshan 2.0 to be launched.

DIRECT TAX PROPOSALS

Tax Proposals for individual

- No change in tax slab rates, standard deduction and deduction for interest on housing loans.
- 15% cap on surcharge on long term capital gains applicable to all asset classes.

Introduction of Updated return of income

- Tax payer allowed to file updated return of income within 24 months from end of the relevant assessment year on payment of additional tax.
- If updated return filed within 12 months - additional tax payable at the rate of 25% of aggregate of tax and interest payable.
- If updated return filed in the subsequent 12 months - additional tax at the rate of 50% of aggregate of tax and interest payable.

Reduction in Alternate minimum tax rates and Surcharges for Co-operative Societies

- Alternate Minimum Tax to be reduced to 15% (from 18.5% currently) to ensure parity with the rate paid by companies.
- Surcharge has been reduced to 7% (from 12% presently) for those having total income of between Rs 1 crore and Rs 10 crore.

Extension of the last date for commencement of manufacturing or production

- Concessional tax rate of 15% for domestic manufacturing companies commencing manufacturing or production by 31 March 2023 extended to 31 March 2024.
- Profit-linked tax exemption for eligible start ups extended by another year – start ups incorporated upto 31 March 2023 will now be eligible.

Virtual Digital Asset taxation

- Income from virtual digital assets taxable at 30%
- Cost of acquisition allowed as a deduction, however, no other deduction allowed.
- Loss on transfer of virtual digital asset is not allowed for set off or carry forward purposes.
- Gifts of virtual digital assets will be a benefit taxable in the hands of the recipient.
- TDS at 1% introduced for virtual digital assets transactions.

DIRECT TAX PROPOSALS

Withdrawal of concessional rate of taxation on dividend income received from specified foreign company

- Dividend received by an Indian company from specified foreign company is taxable at concessional tax rate of 15%. This tax rate now stands withdrawn.

Stripping of Bonus and dividend to be made applicable to securities and units

- Provisions of bonus stripping now also applicable to units of InvITs/ REITs/ AIFs and securities.
- Provisions of dividend stripping now also applicable to units of InvITs/ REITs/ AIFs.

Reduction in multiplicity of appeals before the High Court and Tribunal

- Revenue authorities can now defer filing an appeal before the High Court and Tribunal if an identical question of law is pending before the jurisdictional High Court or the Supreme Court including in case of another taxpayer.
- Application for deferral to be filed only on receipt of acceptance from the taxpayer.

Rationalisation of TDS/ TCS provisions on payments to non-filers of income tax returns

- Finance Act 2021 introduced higher rates of TDS/ TCS for payments to persons who have not filed tax returns for last 2 years. However, the 2 year requirement has now been reduced to 1 year, i.e. higher TDS/ TCS rates shall apply only in case of persons who have not filed tax return in the immediately preceding year.

Other Tax Proposals:

- Tax relief to person with disability.
- Tax deduction increased to 14% on employer's contribution to the NPS account of State Government employees.
- Income of a non-resident from offshore derivative instruments, or OTC derivatives issued by an offshore banking unit, income from royalty and interest on account of lease of ship and income received from portfolio management services in IFSC shall be exempt from tax, subject to specified conditions.
- Health and education cess not allowable as business expenditure.
- Any surcharge or cess on income and profits is not allowed as business expenditure.
- No set-off of any loss shall be allowed against undisclosed income detected during search and survey operations.
- The government has restored TDS applicable on commission income of insurance agents to TDS of 5% instead of 3.75%.

INDIRECT TAX PROPOSALS

Custom/Excise Duty Proposals:

- Custom administration to be fully IT driven in SEZs.
- Customs duty exemption given to steel scrap last year is being extended for another year to provide relief to MSME secondary steel producers.
- To encourage the efforts for blending of fuel, unblended fuel shall attract an additional differential excise duty of ₹2/litre from October 01, 2022

Items where duty has reduced:

- Custom duty on cut and polished diamonds and gemstones being reduced to 5% from 7.5%
- Reduction in duty of fuel oil, straight run fuel oil, low sulphur wax residue and vacuum gas oil to 2.5% from 5%
- Nil rate on Iron and steel scrap including stainless steel scrap exemption available till 31.3.2022 is being extended by one year.
- Custom duty on S. G. Ingot Castings , Ball Screw & Linear Motion Guide used in manufacturing of Plastic Processing Machinery, reduced from 10% to 7.5% and 7.5% to 5% respectively.
- Health cess on Surgical needles imported for manufacturing of Surgical sutures reduced to nil rate from 5%
- Custom duty on cashew nut in shell, pepper, long and cloves has been drastically reduced.

Items where duty has increased

- Custom duty on Single or multiple loudspeaker, headphones and earphones increased from 15% to 20%.
- Smart meters and printed circuit board assembly of smart meters increased to 25% & 20% respectively.
- Umbrellas customs duty increased from 10% to 20%.
- Custom duty on Microbial fats and oils and their fractions duty to 100% from 30%.
- Custom duty on Solar cells duty increased to 25% from 20% and solar molecules increased to 40% from 20%
- Custom duty on recovered (waste and scrap) paper or paperboard used in manufacturing of paper, paperboard or newsprint to now have 2.5% custom duty.
- Custom duty on Sodium cyanide increased to 10% from 7%

MARKET MOVEMENT

EQUITY MARKET

- The expectations from the Budget were reasonably high as the Union Budget 2021-22 had focused on reviving economic growth and not just managing fiscal deficit. The FY23 Union Budget indeed lived up to the expectations of a growth-focused budget that rightly emphasized the quality of expenditure while aiming to achieve robust economic growth. While the budget continued to address the supply-side constraints, the focus on demand-side challenges was lower than expected. Nonetheless, it is important to note that the budget expenditure is on elevated levels vis-à-vis government spending in FY21 and FY22, which should help in delivering broad-based growth moving forward.
- Equity markets ended in green on the Budget day. The S&P BSE Sensex closed at 58,863, an uptick of 1.4% while the Nifty 50 Index was up by 1.3% at 17,576.

- Among the Nifty sector indices, Metal (+4.5%), Pharma (+2.3%) and FMCG (+2.0%) were the top 3 sectors, while Auto (-0.8%), PSU (-0.6%) and Energy (-0.4%) were among the major losers.
- Among Nifty 50 stocks, Tata Steel (+7.5%), Sun Pharma (+6.9%) and Indusind Bank (+5.8%) were the top gainers while BPCL (-4.6%), IOCL (-2.8%) and Tata Motors (-2.6%) were among the major losers.

DEBT MARKET

- The budget has given precedence to growth over fiscal consolidation.
- For FY22, a growth of 9.2% has been projected, the highest for any large economy. However, the projected deficit for FY22 at 6.9% of GDP is also higher than the earlier estimates. For FY23, the budget deficit has been projected at 6.4% of GDP, with a tilt towards expansionary spending. Market borrowing is budgeted higher at Rs.14.95 tn.
- The higher projected borrowing has pushed yields higher on fixed income papers. Post the budget announcements, G-Sec yields moved up by about 14 to 45 bps for 2 to 10 year paper.
- The budget was a sentimental let-down for the debt markets. The significantly higher borrowing target along with the global inclusion dampener will see rates moving higher incrementally. We expect the RBI to adjust monetary policy to factor the pro-growth budget and turn hawkish to counter the effects of anticipated inflation and the higher borrowing.
- Bond yields are likely to see increased volatility and hence investors should remain vigilant in their allocations.

ECONOMIC UPDATE

Budget projects FY23 fiscal deficit at 6.4% of GDP, fiscal consolidation of 0.5% over RE FY22; FY22 deficit revised slightly higher to 6.9% (BE: 6.8%) on welfare related expenditure

Overall budget calculations look conservative. Nominal GDP growth assumed at 11.1% YoY for FY23 could have been higher

- **FY23 Nominal growth assumed of 11.1% YoY in the budget looks very conservative, given Economic Survey forecasts of Real GDP growth at 8.0-8.5%,** and high inflation due to supply side disruptions and higher global commodity prices – both food and non food, with risk of pass-through of higher input costs to output prices as demand revives.
- Gross Tax Revenue budgeted to rise by 9.6% YoY in FY23, with 13-14% growth assumed in direct tax collections. Indirect tax revenues are expected to rise by 5.7% YoY over RE (revised estimates) FY22 –**15% YoY contraction assumed in excise on account of reduction in excise duty on petroleum products in Nov'21.**
- Central GST collections expected to be higher by 16% YoY in FY23, with continued focus on easing compliance burden and plugging tax evasion. Custom duty expected to rise 13% YoY in FY23 with comprehensive review of customs rate and tariff structure – removal of exemption on goods that can be manufactured in India and providing concessional duties on inputs to boost manufacturing in India
- FY23 Non tax revenues are budgeted at Rs 2.7 tn, lower than Rs 3.14 tn in RE FY22 – on account of higher dividend transfer by RBI in FY22. **Dividend transfer from RBI and other financial institutions budgeted at Rs 0.74 tn. in comparison to Rs 1 tn in FY21. Lower dividends assumed from PSUs as well.**
- **Disinvestment target for FY22 revised lower to Rs 0.78 tn from Rs 1.75 assumed in previous budget. FY23** disinvestment budgeted at Rs 0.65 bn. BPCL disinvestment pushed to next year. Lack of clarity on LIC IPO this fiscal - as per FM's speech, public issue of LIC expected shortly.
- Total receipts of the centre budgeted at Rs 22.84 tn, up 4.8% YoY from FY22 revised estimates.
- Overall, Government has set achievable targets for receipts in both FY22 and FY23 – with possibility of GDP growth turning out to be stronger than assumed. Failure to meet the disinvestment target and further cut in excise duty on petroleum products if global crude oil prices continue to rise are potential risks to budget math.

ECONOMIC UPDATE

FY22 capital expenditure boosted by Rs 0.52 tn payment of Air India dues, FY23 boosted by increased financial assistance of Rs 1 tn. to states

Focus on quality of expenditure with ratio of capex to fiscal deficit improving to 45% from 38% in FY21 and 23% in FY20

- Total budgeted expenditure in FY23 at Rs 39.45 tn, up 4.6% YoY – largely driven by pick up in capital expenditure
- Revenue expenditure budgeted at Rs 31.95 tn in FY23, up just 1% YoY. RE FY22 Revenue expenditure higher by Rs 2.38 tn than BE FY22 on account **of higher expenditure on subsidies – extension of free food grain scheme under PMGKP and additional outgo on fertilizer subsidy on account of price rise in fertilizer sector**. Both food and fertilizer subsidy budgeted to fall in FY23.
- Interest payments for FY23 at Rs 9.41 tn – 29.4% of the Revenue expenditure and 42.7% of revenue receipts of centre
  - Steep increase in capital expenditure in FY23 to Rs 7.5 tn from Rs 6.03 tn in FY22. In addition to this, grants in aid for creation of capital assets (GiA-Capex, classified as revenue expenditure) expected to be higher at Rs 3.17 tn in FY23 in comparison to Rs 2.37 tn in FY22.
  - The capital expenditure for FY22 includes Rs 0.52 tn. provided as equity infusion to AIAHL for payment of past government guaranteed loans of Air India.
- **Effective Capital Expenditure – capex (excluding Rs 0.52 tn for Air India) and GiA-Capex – estimated at Rs 7.89 tn in FY22. FY23 budgeted capital expenditure + GiA-Capex at Rs 10.7 tn**
- Note that FY23 BE capex also includes special financial assistance of Rs 1 tn to states for capital expenditure
- **In addition, CPSEs are expected to fund capital expenditure of Rs. 5.02 tn. in FY22 and Rs. 4.69 tn. through internal and extra budgetary resources**
- **Fiscal Deficit in FY23 expected at Rs 16.6 tn (6.4% of GDP) from Rs 15.91 tn. (6.9% of GDP) in FY22.**

ECONOMIC UPDATE

Government announces a significantly large gross borrowing program of Rs 14.95 tn in FY23; Heavy reliance on small savings continues

Net market loans (incl. short term borrowings) at Rs 11.59 tn for FY23, making up 70% of the fiscal deficit

- Gross market borrowing in FY22 lower by Rs 1.59 tn, on accommodation of back-to-back loans to states for GST cess compensation shortfall in the announced borrowing program
- **FY23 Gross borrowing pegged at Rs 14.95 tn, significantly higher than market expectation.**
  - Increase in gross borrowing on account of high loan repayment in FY23 and fiscal deficit being higher in nominal terms
  - Note that repayment in BE FY23 at Rs 3.76 tn likely to be lower on recent switch of securities maturing in FY23.
- **Reliance on financing through small savings fund sharply higher at Rs 5.92 tn in FY22 and Rs 4.25 tn in FY23**, as repayment by FCI to NSSF in FY21 channeled to financing the deficit in FY22.
- Cash draw down of Rs 1.74 tn also budgeted for FY22.
- Borrowings from external sources and State Provident Funds estimated at Rs 0.19 tn. and Rs 0.20 tn., respectively, for FY23
- **The Central Government debt including liabilities on account of extra budgetary resources estimated to fall to 59.9% of GDP in RE FY22 from 61.8% of GDP in FY21. However, debt is estimated to be higher based on BE FY23 at 60.2% of GDP.**
- Note that Government has not proposed amendment to FRBM and has not placed fiscal projections of FY24 and FY25 in the budget to retain the fiscal flexibility on account of pandemic induced uncertainties. However, Government remains committed to pursue a broad path of fiscal consolidation to attain fiscal deficit lower than 4.5% of GDP by FY26

AXIS BANK

ECONOMIC UPDATE

Increased capital spends keep absolute deficit high despite controlled revenue expenditure in FY23; Receipts lower as excise collections impacted by tax cut

Rs. Tn	FY20 (A)	FY21 (A)	FY22 (RE)	FY23 (BE)		FY20 (A)	FY21 (RE)	FY22 (RE)	FY22 (BE)
GDP	203.5	198.0	232.1	258.0		7.3%	-2.7%	17.2%	11.1%
Tax Receipts (Net)	13.57	14.26	17.65	19.35		3.0%	5.1%	23.8%	9.6%
Non Tax Revenue	3.27	2.08	3.14	2.70		38.8%	-36.5%	51.1%	-14.1%
Divestments & Others	0.69	0.58	1.00	0.79		-39.2%	-16.0%	73.5%	-20.7%
Total Receipts	**17.53**	**16.92**	**21.79**	**22.84**		**5.2%**	**-3.5%**	**28.8%**	**4.8%**
Revenue Expenditure	23.51	30.84	31.67	31.95		17.1%	31.2%	2.7%	0.9%
Capital Expenditure	3.36	4.26	6.03	7.50		9.1%	27.0%	41.4%	24.5%
Total Expenditure	**26.86**	**35.10**	**37.70**	**39.45**		**16.0%**	**30.7%**	**7.4%**	**4.6%**
Fiscal Deficit	**9.9%**	**10.2%**	**10.8%**	**10.7%**					

Source: Budget Document (Various Years), CGA, MOSPI, Axis Bank Economic Research , Axis Bank Investment Research

ECONOMIC UPDATE

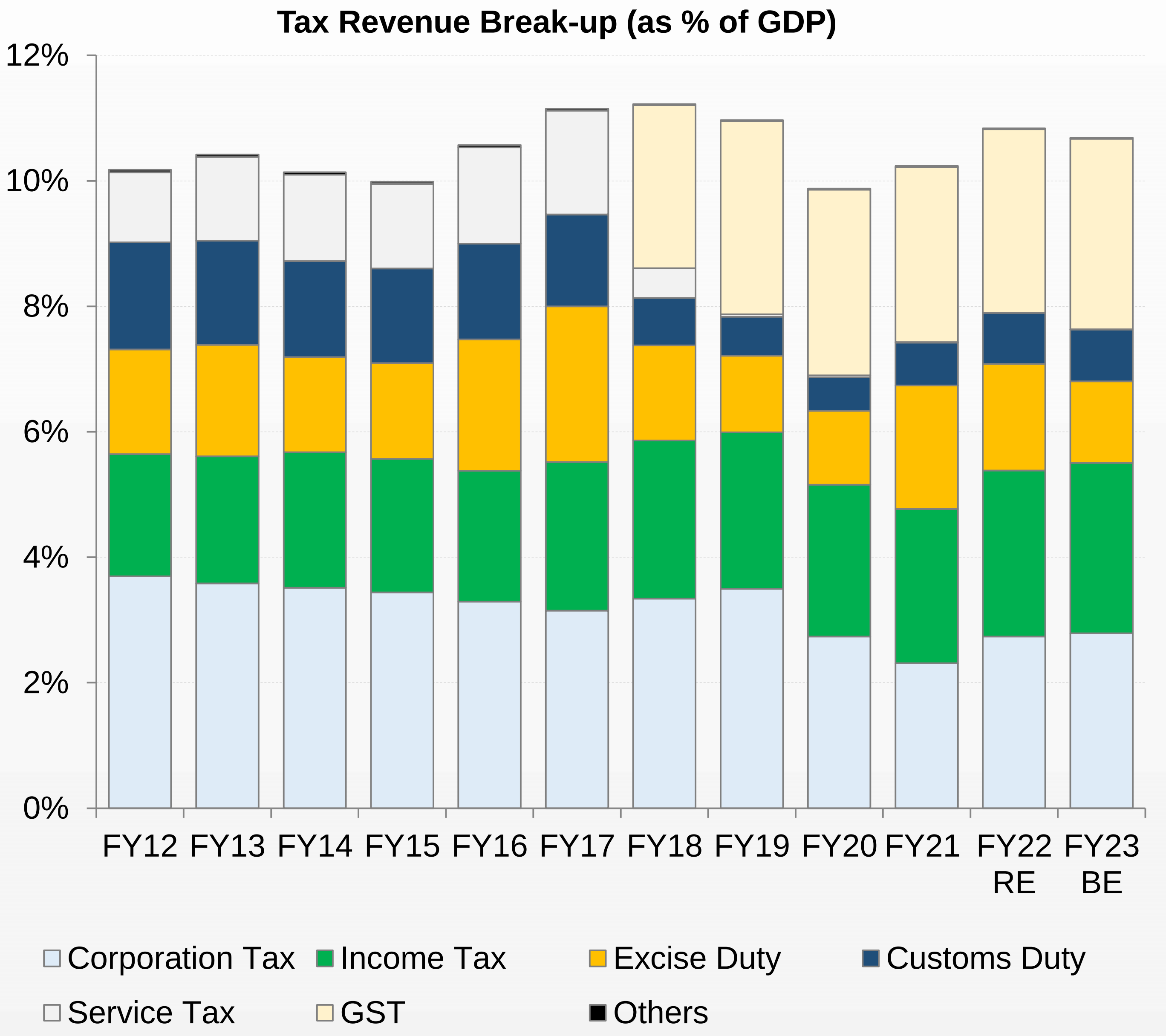
Tax collections in FY22 seem to be conservative, however, budget estimates assume decent growth in FY23 when compared with GDP growth

Rs. Tn	FY20 (A)	FY21 (A)	FY22 (RE)	FY23 (BE)		FY20 (A)	FY21 (RE)	FY22 (RE)	FY22 (BE)
Gross Tax Revenue	**20.10**	**20.27**	**25.16**	**27.58**		**-3.4%**	**0.8%**	**24.1%**	**9.6%**
Income	4.93	4.87	6.15	7.00		4.2%	-1.1%	26.2%	13.8%
Corporation	5.57	4.58	6.35	7.20		-16.1%	-17.8%	38.7%	13.4%
Excise	2.39	3.90	3.94	3.35		3.2%	62.7%	1.1%	-15.0%
Customs	1.09	1.35	1.89	2.13		-7.2%	23.3%	40.3%	12.7%
Service	0.06	0.02	0.01	0.02		-12.7%	-73.2%	-38.1%	100.0 %
Central GST	4.94	4.56	5.70	6.60		8.0%	-7.6%	24.9%	15.8%
UT GST	0.03	0.03	0.03	0.04		9.2%	-8.9%	20.4%	11.4%
Integrated GST	0.09	0.07	0.00	0.00		-68.5%			
Compensation Cess	0.96	0.85	1.05	1.20		0.5%	-10.8%	23.3%	14.3%
Total GST	**6.02**	**5.52**	**6.78**	**7.84**		**3.0%**	**-8.3%**	**23.0%**	**15.5%**
Direct Tax	**10.50**	**9.45**	**12.50**	**14.20**		-7.7%	-10.0%	32.3%	13.6%
Indirect Tax	**9.57**	**10.82**	**12.66**	**13.38**		1.6%	13.1%	17.0%	5.7%
Tax Revenues (Net to Centre)	**13.57**	**14.26**	**17.65**	**19.35**		**3.0%**	**5.1%**	**23.8%**	**9.6%**

Source: Budget Documents, Axis Bank Economic Research , Axis Bank Investment Research

ECONOMIC UPDATE

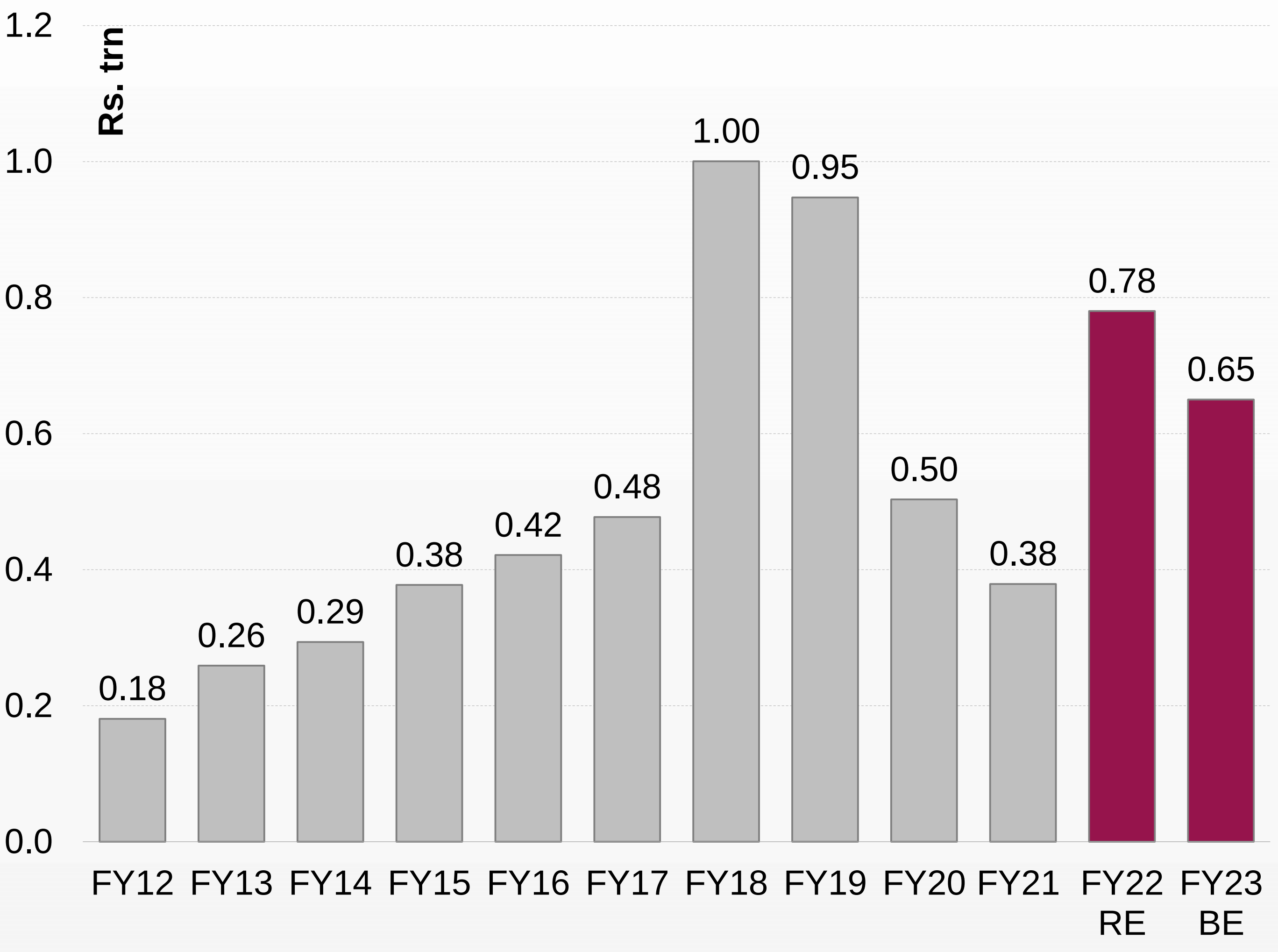
Improvement in tax revenues in FY22 RE conservative strong collections seen up to Dec'21; FY23 collections are projected to be weaker on lower excise collections



Source: Budget Document (Various Years), MOSPI, Axis Bank Economic Research

ECONOMIC UPDATE

Disinvestment target revised significantly lower – achievement contingent on LIC IPO; BPCL likely to go through next year



Source: Budget Document (Various Years), CGA, Axis Bank Economic Research

ECONOMIC UPDATE

Deficit Financing: Small Savings (SS) and drawing down in cash balance finance 48% of deficit in FY22; Reliance on Small Savings remains high even in FY23 at 26% and rest largely by market borrowing (70%)

Financing of Debt (Rs. Tn.)	FY20 (A)	FY21 (A)	FY22 (RE)	FY23 (BE)
Fiscal Deficit % GDP	**4.6%**	**9.2%**	**6.9%**	**6.4%**
Fiscal Deficit	**9.34**	**18.18**	**15.91**	**16.61**
Financing of Deficit				
Market Borrowings (Net)	**6.24**	**12.40**	**8.76**	**11.59**
Small Savings	2.40	4.84	5.92	4.25
State PFs	0.12	0.19	0.20	0.20
Others	0.44	0.13	-0.90	0.37
External Assistance	0.09	0.70	0.20	0.19
Cash Surplus	0.05	-0.07	1.74	0.01
Mkt borrowings / fiscal deficit	67%	68%	55%	70%
Net G-Sec. / fiscal deficit	51%	57%	49%	67%
Borrowing for GST Comp.	0	1.10	1.59	0
G-Sec (Net) incl. GST Comp.	4.74	11.47	9.35	11.09

Market Loans (Rs. Tn.)	FY20 (A)	FY21 (A)	FY22 (RE)	FY23 (BE)
Central Govt.				
Gross G.Sec. Supply	7.10	13.70	12.06	14.95
Redemption (incl. bb | sw)	2.36	2.24	2.71	3.76
Net	4.74	11.47	9.35	11.19
State Govts.				
Gross	6.35	7.99	8.24	9.42
Redemptions	1.47	1.47	1.72	2.16
Net	4.87	6.52	6.53	7.25
Centre + States				
Gross	13.45	21.69	20.30	24.37
Net	9.61	17.99	15.88	18.44

Source: Budget Document, Axis Bank Economic Research, Axis Bank Investment Research

SECTOR UPDATES

Auto:

Key Budget Measures	Impact and Beneficiaries
• The government will step up initiatives to boost EV infrastructure and EV ecosystem to achieve its broader de-carbonisation goals. It intends to increase its focus on expanding EV infrastructure across the country, by establishing more EV charging stations to influence vehicle owners to shift to electric cars by alleviating their concerns over connectivity. This could also drive movement to the electrification, especially of CV fleets for last-mile connectivity for both people and goods.	Positive for 4W auto OEMs focused on PV and CV Electric Vehicles.
• In light of space constraints in urban areas for setting up charging stations at scale, a battery swapping policy will be brought out and inter-operability standards will be formulated. The private sector will be encouraged to develop sustainable and innovative business models for 'Battery or Energy as a Service'. This will improve the efficiency of the EV ecosystem.	**Positive** for battery companies.
• The government intends to promote higher public transport in urban areas. This will be complemented by clean tech and governance solutions, special mobility zones with zero fossil-fuel policy, and EV vehicles. • Emphasis on Highway Development: In an effort to boost the logistical capacity of India's road networks under the PM Gati Shakti initiative, the Indian government has stated that the National Highway network will be expanded by 25,000 Km within 2022-2023.	Positive for the CV industry
• The government has prioritized a blending of fuel and to encourage higher blending, it shall levy an additional differential excise duty of Rs 2/litre on unblended fuel from 1st Oct'22 onwards.	Negative for 2W OEMs

Agriculture:

Key Budget Measures	Impact and Beneficiaries
• Use of Kisan Drones for crop assessments, land records, spraying of insecticides • Fertilizer Subsidy cut for FY 2023	**Neutral**

Source: Axis Securities

SECTOR UPDATES

Banking & Financial Services:

Key Budget Measures	Impact and Beneficiaries
MSME a) ECLGS will be extended up to Mar'23 and its guarantee cover will be expanded by Rs 50,000 crore to a total cover of Rs 5 Lakh crore, with the additional amount being earmarked exclusively for the hospitality and related enterprises. b) Credit Guarantee Trust for Micro and Small Enterprises (CGTMSE) scheme will be revamped with required funds infusion. This will facilitate additional credit of Rs 2 Lakh crore for the MSME sector and will expand employment opportunities as well. c) Raising and Accelerating MSME Performance (RAMP) program, with an outlay of Rs 6,000 crore over the next 5 years, will be rolled out. This will help the MSME sector become more resilient, competitive, and efficient moving forward.	Extension of the ECLGS scheme and other measures for the MSME segment is **positive** for the overall banking sector, especially for mid-sized MSME lenders
• Amendments to the IBC Code: Necessary amendments in the IBC Code will be carried out to enhance the efficacy of the resolution process and facilitate cross border insolvency resolution	Amendments in the IBC process will speed up NPA resolutions. Hence **positive** for all banks, especially for the PSU banks.
• Capital outlay increase: Capex outlay to increase by ~35%	An increase in capital outlay should boost credit growth in the Banking sector. **Positive** for the entire Banking sector.
• No further announcement on privatization of Public sector Banks	Marginally negative for PSU Banks, especially the lower tier
Housing Finance • In 2022-23, 80 Lc houses (both rural and urban) will be completed for the identified eligible beneficiaries of PM Awas Yojana. Rs 48,000 crore is allocated for this purpose. • Allocation of Rs 60,000 crore to cover 3.8 Cr households for tap water • To push urban development in Tier 2 and 3 cities	**Positive** for HFCs catering to the affordable housing space

Source: Axis Securities

SECTOR UPDATES

Consumer Durables:

Key Budget Measures	Impact and Beneficiaries
• Allocation for Rs 48,000 crore under PM Awas Yojana, both rural and urban; 80 Lc houses will be completed for the identified eligible beneficiaries in 2022-23 under the scheme	Positive for Wires & Cables Companies (being ancillary to the housing development)
Customs Duty changes: • Calibration of customs duty rates and duty concessions for promoting domestic manufacturing of wearable and hearable devices as well as specific mobile phone components.	Neutral for contract manufacturers

Cement:

Key Budget Measures	Impact and Beneficiaries
• Major investment in roads and highways to spur demand for cement will benefit all cement companies as the government plans to expand highways construction by 25,000 Km in FY23. • Increased fund allocation under PM Awas Yojna to give a substantial boost to the cement demand. The allocation has been raised from Rs 40,000 crore to Rs 48,000 crore. In 2022-23, 80 Lc houses for identified beneficiaries under PM Awas Yojna will be completed. • Increased allocation of funds under PM Gram Sadak Yojna to boost cement demand further. Allocation to this segment has been raised from Rs 13,688 crore to Rs 19,000 crore. • Proper monitoring of the Gati Shakti Plan will enable efficient implementation of the overall infrastructure development program, facilitate long-term growth, and thereby increase cement demand.	Positive for all cement companies

Source: Axis Securities

SECTOR UPDATES

Infrastructure:

Key Budget Measures	Impact and Beneficiaries
• Increase in Capital expenditure by 35% to Rs 7.5 lakh crore to boost overall infrastructure. • Formulation of master plan for expressways. National highways to be expanded by 25000 kms in FY23 to positively impact all road construction companies. • Jal-Jivan mission allocated Rs 60000 crore to benefit infra companies. Increased allocation under AMRUT and Smart Cities Mission to positively impact infra companies. • A boost for Railways under the Gati Shakti plan; 400 new-generation Vande Bharat trains will be developed and manufactured in the next 3 years.; One station, one product' concept will be popularized to help local businesses.; India plans 100 cargo terminals in 3 years. 2000 km of railway network to be brought under mission KAVACH. • PM Gati Shakti to get major boost and national master plan aimed at creating world class modern infrastructure and logistic. Scope of PM Gati Shakti to include infrastructure development by state Governments.	Positive for road construction companies and companies

FMCG & Retail:

Key Budget Measures	Impact and Beneficiaries
• Rs 2 Tn outlay for MSMEs	Positive from employment generation and the ensuing multiplier effect
• Rs 2.37 Lc crore worth of MSP direct payments to wheat and paddy farmers	Positive for major FMCG companies with more growth driven from rural regions
• MGNREGA allocation at Rs 73,000 crore for FY23BE as against Rs.98,000 crore for FY22RE	Negative for FMCG companies across the board

Source: Axis Securities

SECTOR UPDATES

FMCG & Retail:

Key Budget Measures	Impact and Beneficiaries
• Rs 48,000 crore for Housing Projects across Urban and Rural areas covering 80 Lc Houses to be covered by FY23	Positive for Consumer discretionary companies
• No hike on Sin Goods or NCCD or other Cess	Positive for Cigarette manufacturing companies
• Reduced custom duty on Cotton (not carded or combed) from 25% to 5%	Positive for Garments
• Reduced customs duty on cut and polished diamonds to 5%	Positive for imitation jewellery (export)

Metals

Key Budget Measures	Impact and Beneficiaries
• Customs duty exemption given to steel scrap last year is being extended for another year to provide relief to MSME secondary steel producers. Last year, the customs duty on Iron and Steel melting scrap, including stainless steel scrap was reduced from 2.5% to Nil. • Considering prevailing high prices of metals, certain Anti-dumping and CVD on stainless steel and coated steel flat products, bars of alloy steel, and high-speed steel are being revoked in the larger public interest.	Higher budgetary allocation towards construction and infrastructure (60% of steel demand) is positive for metal companies. An increase in capital expenditure by 35% YoY to 7.5 Lc crore and specifically housing for all (PMA) Capex of Rs 48,000 crore and National Rural Drinking Water Mission Capex of Rs 60,000 crore for FY23 will be positive for metals demand.
• The government has reduced customs duty in steel imports to 7.5% last year but mentioned no further changes in the current budget. Hence, no impact on large-cap steel producers is expected. However, the announcements of higher Capex will drive both the long and flat steel demand in FY23	Positive for Steel and Aluminium companies as domestic demand will continue in line with the higher infrastructure and housing Capex.

Source: Axis Securities

SECTOR UPDATES

IT:

Key Budget Measures	Impact and Beneficiaries
• 1.5 Lc Indian post offices to be connected through Core Banking. This will aid in the services for IT services. The government plans to bring Post Office Accounts under Digital Network. • Proposed to set up 75 digital banking units in 75 different districts by scheduled commercial banks. • The government to introduce digital rupee using blockchain and other technology to be issued by the RBI starting FY22-23. TDS will be charged at 1% on the transfer of any virtual digital asset. Transfer of any virtual digital asset will be taxed at 30%. Recipient to be taxed in case of gift of a virtual digital asset. • We believe digitization initiatives will help IT services companies to get multi-year implementations contracts.	Positive for all IT services companies

Telecom:

Key Budget Measures	Impact and Beneficiaries
• 5G to enable growth: Required spectrum auctions will be conducted in 2022 • The central government is likely to infuse Rs 44,720 Cr as a capital infusion in BSNL. • We are neutral on the Telecom sector.	Neutral on all Telecom services providers.

Source: Axis Securities

EQUITY MARKET OUTLOOK AND STRATEGY

- The Finance Minister is gunning for growth in FY23 budget at the cost of higher market interest rates and greater scrutiny on macro-stability going forward.
- Accelerated spending in roads, railways, water and defense is expected to crowd-in private investment and improve efficiency of logistics in the country. However, this spending push has come on the back of delayed fiscal consolidation due to higher than expected fiscal deficits.
- A slightly higher interest rate structure was probably desired by policy makersto provide savers with real returns. The benchmark risk free rate curve is likely to shift upwards with 10Y rising to 7.5% by year end, but for the rise to be orderly we need to see continued support from RBI and FIIs.
- We premised on increased investment activity and strong growth in exports of manufactured goods and the budget is supportive of these themes with focus on supply side activity – higher infrastructure spend, incentives for manufacturing with particular attention to import substitution and incentives for clean energy transition.
- We expect the banking sector's credit growth to continue to accelerate as investment activity picks up. On the other hand, we see continued challenge to consumption growth, especially low end consumption.
- Overall, higher interest rates are not a risk for economic growth at this stage. The budget math itself is quite conservative and realistic.

- We are constructive on Indian equity markets with a long term investment horizon.
- The Equity markets see the budget favourably primarily on 2 fronts – Higher capex spending by the government & status quo on direct taxes and no incremental taxes on capital gains. The booster shot by way of capex and a strong market signal to promote growth through structural reforms are key positives for domestic and foreign investors alike.
- Volatility is expected to remain in the near term, as the economy is in a transition phase due to pandemic. Any sharp correction caused by any extraneous events should be treated as an opportunity to accumulate quality stocks and MFs.
- Overall the budget proposals are well balanced and targeted to kick-start the 'Amrit Kaal' (long term growth) for the economy while keeping in mind fiscal boundaries, and a thrust to revive growth.
- **Investors can consider accumulating equities with a 3 to 5 years investment horizon. They can also consider hybrid asset allocation funds as such funds allow investors to free themselves from market timing as well as asset allocation calls.**

DEBT MARKET OUTLOOK AND STRATEGY

- The budget was a sentimental let-down for the debt markets. The significantly higher borrowing target along with the global inclusion dampener will see rates moving higher incrementally. We expect the RBI to adjust monetary policy to factor the pro-growth budget and turn hawkish to counter the effects of anticipated inflation and the higher borrowing.
- A combination of increase in the government bond borrowings and lack of support from the RBI in the form of OMO purchases /GSAP programme can result in the demand-supply dynamics turning unfavorable for the bond markets, and it will test the RBI's objective of orderly evolution / absorption of the government bond supply.
- The government's decision to include, for the first time, green bonds as part of the overall market borrowing also left market participants with more questions than answers about the overall supply of bonds set to hit the market.
- RBIs support for next year's borrowing programme will be a constraint as RBI is trying to drain out excess liquidity.
- Overall, Government has set achievable targets for receipts in both FY22 and FY23 with possibility of GDP growth turning out to be stronger than assumed. Failure to meet the disinvestment target and further cut in excise duty on petroleum products if global crude oil prices continue to rise are potential risks to the budget math.
- However for now, and all other things remaining the same, this may provide a greater incentive to RBI to persist with policy normalization. This is significantly underway with the variable rate reverse repo (VRRR) program and may get followed up, maybe as soon as the February policy, with an explicit narrowing of the corridor.

- **We remain constructive on the short to medium end of the yield curve. Medium Duration funds, Short Duration funds, Corporate Bond funds, Banking & PSU Debt funds, Floating Rate funds, Low Duration funds, Money Market funds and Ultra Short Duration funds can be considered by investors with an investment horizon commensurate with the maturity and duration of the schemes. Having said that, one should consider aspects such as exit load, capital gains tax and asset allocation amongst others while evaluating their investment options.**

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