SPECIAL REPORT

Union Budget 2023

CANARA ROBECO Mutual Fund

Union Budget 2023- FM Speech

Presenting the Union Budget for FY2023-24, Finance Minister Nirmala Sitharaman Economic gave a blueprint to steer the economy over the ***AMRIT KAAL*** having agenda which focuses on three things – Opportunities for citizens, especially the youth, providing a strong impetus to growth and job creation and third is stabilising and making the macro economy strong.

Target for Amrit Kaal

Economic Empowerment for Women

PM VIshwakarma KAushal Samman **(**PM Vikas)

Tourism

Green Energy

7 priorities of this Budget- SAPTRISHI guiding through Amrit Kaal

- Inclusive development- Regional, economic, social, gender
- Reaching the Last Mile
- Infrastructure & Investment
- Unleashing the Potential
- Green Growth
- Youth Power
- Financial Sector

An Overview of Major Plans and Schemes Introduction

- **Atmanirbhar Clean Plant Programme:** To improve availability of disease-free quality planting material for high-value horticultural crops at an outlay of INR 2,200 Cr

- **Encouraging agritech start-ups:** An agriculture accelerator fund to encourage agritech start-ups by young entrepreneurs in rural areas. Fund will focus on bringing innovative solutions for challenges faced by farmers.

- Being the largest producer and second largest exporter of ***'Shree Anna'*** in the world, *India is at the forefront of popularizing **Millets** and to* make India a global hub for '*Shree Anna*', the Indian Institute of Millet Research, Hyderabad will be supported as the Centre of Excellence for sharing best practices, research and technologies at the international level.

- To realise the vision of ***'Sahakar Se Samriddhi', t***he government has also initiated computerisation for **63,000 primary agricultural credit societies** with an investment of INR 2,516 Cr.

- **Assistance for traditional artisans and craftspeople:** Package of assistance for traditional artisans and craftspeople has been conceptualized, will enable them to improve quality, scale and reach of their products, integrating with MSME value chain.

- A new sub-scheme of **PM Matsya Sampada Yojana** will be launched with targeted investment of INR 6,000 Cr to further enable activities of fishermen, fish vendors, and micro & small enterprises, improve value chain efficiencies, and expand the market.

- One hundred and fifty-seven new nursing colleges will be established in co-location with the existing 157 medical colleges established since 2014.

- In the next three years, centre will recruit 38,800 teachers and support staff for the 740 **Eklavya Model Residential Schools**, serving 3.5 lakh tribal students.

- To improve socio-economic conditions of the particularly vulnerable tribal groups (PVTGs), **Pradhan Mantri PVTG Development Mission** will be launched. This will saturate PVTG families and habitations with basic facilities such as safe housing, clean drinking water and sanitation, improved access to education, health and nutrition, road and telecom connectivity, and sustainable livelihood opportunities.

- **PM Awas Yojana:** Gramin + Urban allocation 66% up to INR 79,000 Cr

- **Ease of doing business:** 39000 compliances have been reduced and more than 3400 legal provisions decriminalised.

- **Centre of Excellence for AI**: 3 centres to be set up

- **Green Growth:** INR 35000 Cr for priority capital investment for net zero, 4000 MWh battery storage through viability gap funding

- **Tourism:** 50 destinations to be selected through challenge mode for tourism destination development

- **Infra:** Will take lead to ramp up investment for the third year in a row. Capital investment INR 10 tn to 3.3% of GDP. This will be almost three times the outlay in 2019-20. Effective capital expenditure including grants INR 13.7 tn, 4.5% which includes grants for capital asset creation. 50 airports, helipads to be revived for regional connectivity.

- **Railways:** A capital outlay of INR 2.40 lakh Cr has been provided for the Railways. This highest ever outlay is about 9 times the outlay made in 2013-14.

- **State government capex support:** 50 year interest free loan of INR 1.3 tn from INR 1 tn should be spent within FY24 and will be conditional on states increasing their actual expenses. Part allocated to scrapping vehicles, housing for police personnel, constructing unity malls, digital infra, and states share of capex on central scheme.

Budget Impact:

For Individuals:

- **Income Tax Rebate Limit to be raised to INR 7 Lakhs in the new tax regime from** INR **5 Lakhs** - Individuals earning up to INR 5 lakh are exempt from income tax under both the old and new tax regimes. In the new tax regime, the finance minister proposed raising the rebate limit to INR 7 lakhs. Thus, under the new tax regime, individuals earning up to INR 7 lakhs will not be required to pay any tax.

- **New Tax Slabs Introduced** - The Finance Minister Nirmala Sitharaman under the new personal income tax regime has announced Tax for income of INR 0-3 lakh is nil; income above INR 3 lakh and up to INR 6 lakh to be taxed at 5%; income of above INR 6 lakh and up to INR 9 lakh to be taxed at 10%; income above INR 9 lakh and up to INR 12 lakh to be taxed at 15%; income above INR 12 lakh and up to INR 15 lakh to be taxed at 20%; and income above INR 15 lakh to be taxed at Rs 30%.

- **Proposal for the salaried class and the pensioners** - In respect of the salaried class and the pensioners including family pensioners, the finance minister extended the benefit of standard deduction to the new tax regime. Each salaried person with an income of INR 15.5 lakh or more will thus stand to benefit by INR 52,500.

- **Reduction In highest surcharge rate from 37 per cent to 25 per cent in the new tax regime** - The fourth personal income tax announcement concerned the highest tax rate, which is 42.74 percent. This is one of the highest levels in the world. In the new tax regime, the finance minister proposed lowering the highest surcharge rate from 37% to 25%. As a result, the maximum tax rate would be reduced to 39%.

- **Leave Encashment** - The limit of INR 3 lakhs for tax exemption on leave encashment on retirement of non-government salaried employees was last fixed in the year 2002, when the highest basic pay in the government was INR 30,000 per month. In line with the increase in government salaries, the finance minister proposed to increase the limit to INR 25 lakhs.

For Non-Individuals:

- The finance minister announced that a credit guarantee scheme for hit micro, small and medium enterprises (MSMEs), a sector devastated in the pandemic, will get an infusion of INR 9,000 Cr.

- This is likely to enable collateral of INR 2 trillion loans to MSMEs. The credit scheme, which will take effect from April 1 this year, is expected to boost funds for MSMEs.

Our View on the Budget:

Amrit Kaal's first budget will lay a solid basis for a thriving India. This budget is intended to address the aspirations of all groups of society, including the poor, middle class, farmers, and entrepreneurs, among others. The budget maintains an emphasis on capital expenditure as the engine of development while simultaneously paying attention to fiscal reduction. By not altering the way capital gains taxes are structured, it provides stability for markets. Additionally, the budget has given people substantial direct tax advantages under the new tax regime, which will raise their disposable income and encourage spending. Furthermore, increased funding for credit guarantee schemes for MSMEs and a focus on digital architecture would bode well for availability and affordability of capital for small and medium-income borrowers to continue expanding their profession. Overall, the union budget presented was of a well-balanced nature determined towards growth via capex leading towards increased employment opportunities in a near to medium horizon while maintaining the level of fiscal deficits.

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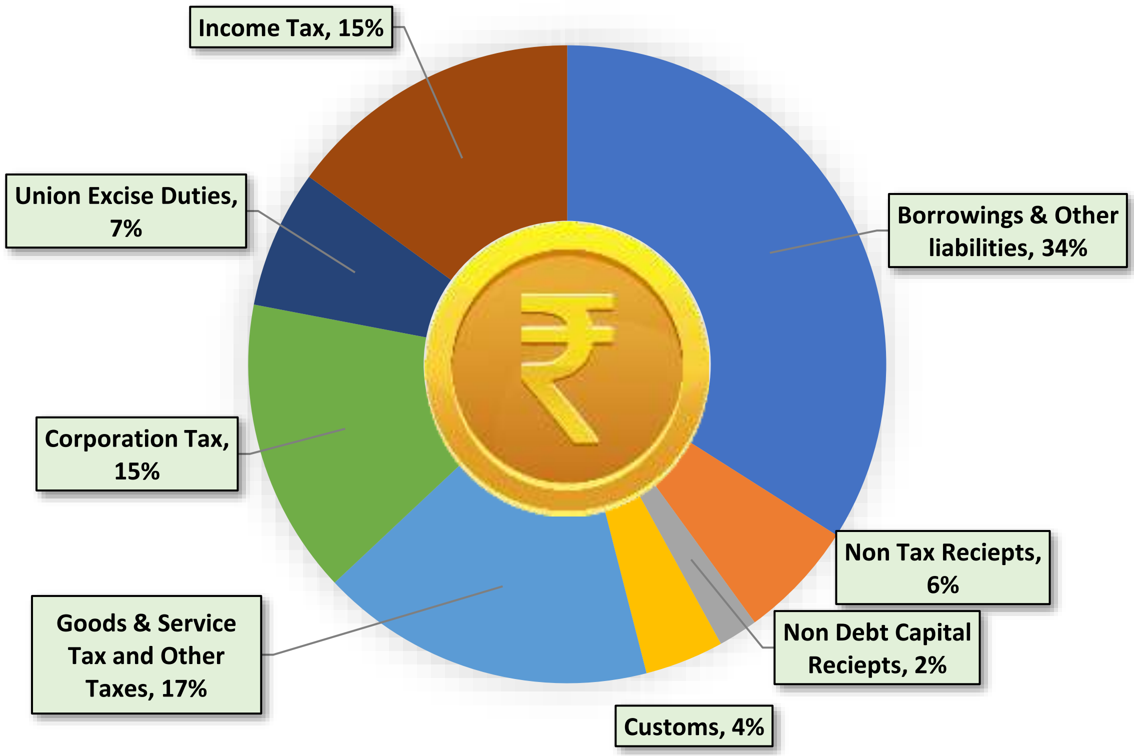
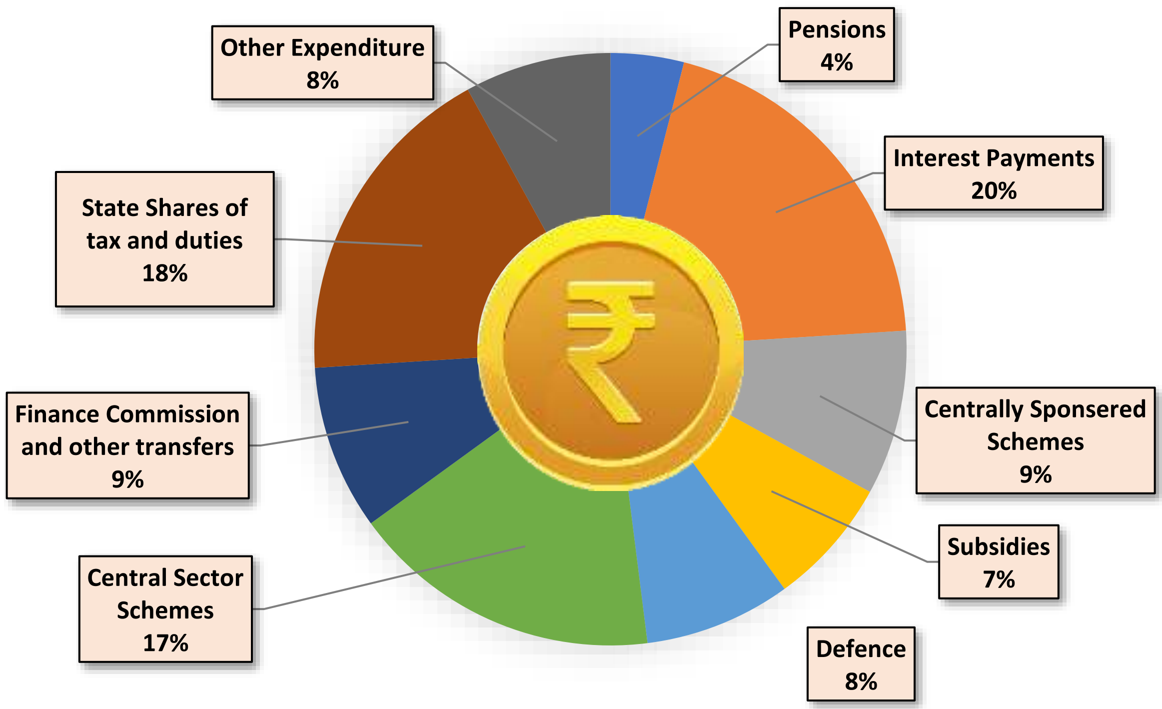
Budget Revenue and Expenditure Infographic:

Rupee Comes From



Rupee Goes To



Source: Union Budget 2023-24

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Equity Outlook

Pragmatic budget with focus on Growth and Macroeconomic Stability

Budget FY24 was a budget which managed to focus on productive growth on infrastructure, helped modestly the mass middle-class to save some on taxation and still managed the fiscal deficit projections at 5.9%. Best part is all of this was done without any unrealistic projections on revenue (tax and non-tax) side. Despite election related compulsions, the Government maintained fiscal deficit moderation path to 4.5% by FY26 – key parameter which will ensure macroeconomic stability when Debt to GDP is running higher that 80%. Gross and net borrowings are along or lower than market expectations.

The capex budget is expected to rise by a whopping 37% y-o-y to a record INR 10trn. Including the transfers to states for capex under centrally sponsored schemes, the rise is 30%, to a record INR 13.7 tn. And including PSE capex to this, the rise is 28%, to INR 18.6 tn. The core direct core capex has grown to INR 10 tn, from INR 7.5 tn. Within this the primary focus has been on Roads (at INR 2.7 tn, 25%YoY), Railways (INR 2.9tn,15%YoY) and Defense (INR 1.6 tn,7%YoY). Other key contributors to infra capex was PMAY at INR 0.8 tn and Jal Jeevan scheme at INR 0.7 tn. To help consumption boost budget proposed few proposals on personal income tax side, which will add INR 0.4trn to the savings pool of the middle class.

Budget has managed to create investment acceleration without damaging other expenditures. This was a modestly positive for equity markets. Consistent key positive for economy has been that Govt has been trying to focus on productive spending within constraints of resources over last 8 years.

From equities perspective it was a good budget. It has focus on both investments and consumption. It is modestly positive for Industrials, Banks and both FMCG and non-FMCG discretionary consumption. Equity market will move back to two key factors from tomorrow, the earnings (season) and cost of capital (interest rate outlook globally). We think that both these factors are neutral to negative for us from near term perspective and thus market will continue to consolidate till we get visibility on earnings upgrades or substantial decline in interest rates (Inflation globally/locally) to change multiples. India trades at premium to other Ems and thankfully that is correcting with the consolidation over last 1 year. Indian equity market trades at 19xFY24 earnings – with earnings CAGR of 13-14% over FY23-25E – in a fair valuation zone from near term perspective.

Having said this on near term earnings /market context, we believe that Indian economy is in a structural upcycle which will come to fore as global macroeconomic challenges recede over next few quarters. Our belief on domestic economic up-cycle stems from the fact that the enabling factor are in place viz. 1) Corporate and bank balance sheets are in best possible shape to drive capex and credit respectively, 2) Consumer spending remains resilient through cycle given our demographics, 3) Govt is focused on growth through direct investments in budget as well as through reforms like GST(increasing tax to GDP), lower corporate tax and ease of doing business (attracting private capex), PLIs(private capital through incentives for import substitution or export ecosystem creation) and 4) Accentuated benefits to India due to global supply chain re-alignments due to geopolitics. This makes us very constructive on India equities with 3-5 years view.

Budget is just an occasion to re-access Govts commitment to broader medium term economic goals and it has fully passed the test once again!!!

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Sector Impacts

Sector	Views
Communication Services	A. Budgeted receipt is higher than expectation at INR 90k Cr. The bridge for the same is not available.
Consumer Discretionary	A. Change in tax in the new regime could increase the discretionary income in hands of the consumer. Though the quantum of people under this scheme is questionable.
	B. PLI allocation for Automobiles and Components stands at INR 6 bn in FY24 vs INR 0.1 bn in FY23. Marginal Negative as the allocation amount seems lower than expectations.
Consumer Staples	A. NCCD tax of 16% levied on cigarettes leading to an increase of tax of ~3%. Slight increase in taxes will help tobacco companies take price increase leading to high single digit growth and higher margins.
	B. Rural thrust with higher budget allocation to MFI, agriculture credit (up 11%), PM Awas Yojana (up 66%), Free food schemes (INR 2 lakh Cr) shall help increase rural disposable income and aid in rural demand.
Energy	A. Budget puts thrust on Green Hydrogen Mission with an outlay of INR 19,700 Cr to facilitate transition of the economy to low carbon intensity and reduce dependence on fossil fuel. Target is to reach an annual production of 5 MMT by 2030.
	B. Budget has provided for INR 30,000 Cr as capital support to OMCs Vs. OMCs' expectation of INR 50,000 Cr as compensation for auto-fuel losses.
Financials	A. It is proposed that maturity proceeds of non-ULIP policies for annual premiums in excess of INR 0.5mn in aggregate across all new policies issued effective April 1, 2023 would be taxable. These measures will impact the sale of guaranteed return / non-par business where the entire industry has been witnessing strong growth.
	B. Multiple tax benefits are being provided for taxpayers adopting the new tax regime with an intent to push people to adopt new tax regime where the deduction of 80C will not be applicable. Insurance policy premiums qualify under 80C deductions and can be impacted though the proportion of people who are buying insurance for tax saving purpose is gradually reducing.
	C. Overall no major announcements for banking sector. As usual the target for Agri has been increased and there is focus on credit availability for MSME. The doubling of deposit limit for senior citizen is a positive step. Less tax attractiveness of non ULIP policies can also result in some shift towards deposits
Health Care	A. New program to promote innovative research in pharmaceuticals to be implemented. Centres of Excellence will be established. Expecting boost to pharma R&D in specific priority area.

	B. Large part of the healthcare budget increase of INR 6835 Cr is towards setting up new 22 AIIMS under PMSSY. Also, there is increase in budgetary allocation towards National Digital Health Mission (inter-operable digital health ecosystem)
Industrials	A. Budgeted Capex (INR 10 tn) growth of 37% YoY is the single biggest positive surprise from the budget. Overall centre capex for the year stands at INR 14.9 tn (+31% yoy) including Internal and extra budgetary resources, IEBR
	B. Budget has delivered largely on expected lines for key infra sectors like with allocations increasing for roads (+25%), railways (+15%) and water (+27%). Defence budget is up 8.4% and there is some disappointment there.
Materials	A. Promotion of 'Housing for all' is envisaged with increased allocation of INR 796 bn vs FY23BE of INR 480bn and FY23RE of INR 771bn. This will give further fillip to complete the PMAY targets till 2024 which bodes well for all building material companies.
	B. Cement: The government has already announced various measures like "National Infrastructure Pipeline", "PM Gatishakti", National Bank for Financing Infrastructure and Development (NaBFID). We believe that effective implementation of these infra projects and increased capital expenditure by central and state governments will result in better cement demand.
Real Estate	A. Capital gains on sale of residential property are now capped at INR 100 mn, if the price of the house is > INR 100 mn, the cost will be deemed to be INR 100 mn. This will be marginally negative for sale in high-end ultra-luxury properties and is applicable from 1st April 2024.
	B. If an assessee claims Interest on housing loan (U/S 24) and/or principal repayment (u/s 80C), then the same will not be allowed as part of cost of acquisition while claiming capital gains on sale of such asset. Negative for homebuyers. This is applicable from 1st April 2024
Utilities	A. Budget highlights the intentions of Govt being clearly focussed on Energy Transition. Viability Gap Funding for 4000MWh Battery energy storage projects. A detailed framework for Pumped Storage Projects will also be formulated.
	B. Budget provides INR 20,700 Cr for Green Energy Corridor; ISTS evacuation and grid integration of 13 GW renewable energy from Ladakh including central support of INR 8,300 Cr

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Union Budget Impact on the Debt Markets and Fixed Income Outlook:

- The budget was positive for bond markets as the gross borrowing numbers of INR 15.43 Lakh Cr was lesser than expectation of around INR 16 Lakh Cr.
- Net borrowing numbers were projected at INR 11.8 Lakh Cr (vs INR 11.08 Lakh Cr FY2023RE).
- Fiscal deficit for FY2023 was maintained @6.4% while FY 2024 was projected @5.9%, with the FM reiterating that government's intention to bring fiscal deficit to 4.5% by FY2026.
- However, a gross borrowing number of INR 15.43 Lakh Cr remains challenging especially with liquidity surplus dwindling.
- Further, corporate bonds as well SDL supply may continue to move higher, pressuring rates.
- The market will now await the outcome of Federal Open market committee (FOMC) today, and RBI monetary policy committee (MPC) scheduled for next week.
- While a fall in fiscal is positive for MPC committee members, a rate hike of 25bps and switch to a pause mode is expected.
- With this rate hike, the RBI MPC is further likely to switch stance to "neutral".
- With inflation still above RBI's medium-term target of 4%, there are no expectations of any easing in near term.
- Debt Market may remain range bound in short to medium term. In the short term, we expect 10Y yield to trade in the range of 7.10-7.30%.

Debt Market Action on the Budget Day:

- 10Y yields were volatile and traded in 7.28-7.40% range on the budget day.
- Initially, announcement of high capital expenditure of INR 10 Lakh Cr led to a sell off as markets feared higher borrowings to fund the same.
- However, as the fiscal deficit / borrowings numbers were announced, it became apparent that the fears were unfounded, and market recovered sharply.
- It continues to trade in positive territory.
- With policy scheduled for next week, markets would be going with positive sentiment, and in absence of any surprises form MPC, market yields may continue to soften.

Deficit Statistics

(In Rs Cr)	2021-2022	2022-2023	2022-2023	2023-2024
	Actuals	Budget Estimates	Revised Estimates	Budget Estimates
Fiscal Deficit	1,584,521	1,661,196	1,755,319	1,786,816
	(6.7)	(6.4)	(6.4)	(5.9)
Revenue Deficit	1,031,021	990,241	1,110,546	869,855
	(4.4)	(3.8)	(4.1)	(2.9)
Effective Revenue Deficit	788,375	672,598	784,958	499,867
	(3.3)	(2.6)	(2.9)	(1.7)
Primary Deficit	779,021	720,545	814,668	706,845
	(3.3)	(2.8)	(3.0)	(2.3)

Sources of Financial Fiscal Deficit

(In Rs Cr)	2021-2022	2022-2023	2022-2023	2023-2024
	Actuals	Budget Estimates	Revised Estimates	Budget Estimates
Debt Receipts (Net)	1,581,978	1,660,444	1,758,561	1,798,603
Market Borrowings	814,567	1,158,719	1,195,866	1,230,911
Securities Against Small Savings	551,269	425,449	438,919	471,317
State Provident Funds	10,317	20,000	20,000	20,000
Other Receipts (Internal Debts and Public Account)	169,677	37,025	79,902	54,258
External Debt	36,147	19,251	23,874	22,118
Drawdown of Cash Balance	2,543	752	-3,241	-11,787
Grand Total	1,584,519	1,661,196	1,755,319	1,786,816

Source: www.indiabudget.gov.in, Bloomberg.