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Budget Analysis

February 2022

Budget: Key takeaways

- Fiscal deficit pegged at 6.9% of FY22E GDP & 6.4% of FY23E GDP. This is well above average GFD/GDP of 3.8% in FY15-20.
- Overall market borrowing is forecasted to go to Rs. 14.95 tn in FY23BE, much higher than Rs.10.47 tn in FY22RE. Net market borrowings is estimated at Rs.11.19 tn in FY23BE Vs Rs.77.58 tn in FY22RE.
- Divestment target in FY23BE is Rs.650 bn; FY22RE divestment target lowered to Rs.780 bn.
- The government has budgeted a 24% increase in capital expenditure to Rs7.5 tn for FY23 with 33% yoy growth in the key sectors of housing, railways and roads.
- There was no change in tax structure for individuals and corporates
- Emergency Credit Line Guarantee Scheme (ECLGS) extended till March 2023. Guarantee cover for ECLGS will be expanded by Rs 500 bn to a total of Rs 5 tn.
- Government has allocated Rs85 bn for PLI scheme in FY23BE.
- Government allocation to social welfare schemes for FY23BE is 13% lower than FY22RE.
- 5G spectrum auctions to be held in CY22 and rollout of 5G mobile services within FY23 by private telecom providers.

Budget: Key takeaways

- The government has pegged non-tax revenues at Rs2.7 tn for FY23BE (lower by Rs440 bn versus Rs3.1 tn for FY22RE).
- The budget has targeted 10% growth in tax revenues (14% for direct taxes & 6% for indirect taxes).

Central Government Finance (Rs bn)

Receipts	FY21	FY22RE	FY23BE
Revenue receipts	16,339	20,789	22,044
Gross tax revenues	20,271	25,161	27,578
Direct taxes	9,523	12,571	14,278
Indirect taxes	10,748	12,590	13,300
Net tax revenues	14,263	17,651	19,348
Non-tax revenues	2,076	3,138	2,697
Non-debt capital receipts	576	1,000	793
Total receipts	16,915	21,789	22,837
Expenditure			
Revenue expenditure	30,835	31,673	31,947
Capital expenditure	4,263	6,027	7,502
Total expenditure	35,098	37,700	39,449
Gross fiscal deficit (GFD)	18,183	15,911	16,612
Gross borrowings (dated securities)	12,601	10,465	14,950
GFD/GDP (%)	9.2	6.9	6.4

Source: Ministry of Finance, Kotak Institutional Equities estimates

Budget: Revenue side

- As per the revised estimates in FY22, total Revenues is said to rise 29%. This is on account on higher collections across all parameters. This is on account of a sharp rebound in the economy.
- In FY23RE, the revenues are estimated to grow 5%.
- The GDP is expected to grow 17.2% in FY22RE and 11.1% in FY23RE.

Particulars (Rs bn)	2019	2020	2021	2022 RE	2023 RE	2021/2020	2022RE/2021	2023RE/2022RE
							(%)	
Total Receipts	**16,657**	**17,527**	**16,915**	**21,789**	**22,837**	**-3**	**29**	**5**
Revenue Receipts	**15,529**	**16,841**	**16,339**	**20,789**	**22,044**	**-3**	**27**	**6**
Of which Direct Taxes	11,431	10,554	9,523	12,571	14,278	-10	32	14
Of which Corporation Tax	6,636	5,569	4,577	6,350	7,200	-18	39	13
Of which Income Tax	4,730	4,927	4,871	6,150	7,000	-1	26	14
Of which Indirect taxes	9,373	9,547	10,748	12,590	13,300	13	17	6
Of which GST	5,816	5,988	5,488	6,750	7,800	-8	23	16
Of which Custome Duty	1,178	1,093	1,348	1,890	2,130	23	40	13
Tax Revenue (Net to Centre)	**13,172**	**13,569**	**14,263**	**17,651**	**19,348**	**5**	**24**	**10**
Non- Tax Revenue	2,357	3,272	2,076	3,138	2,697	-37	51	-14
Non-debt Capital Receipts	1,128	686	576	1,000	793	-16	73	-21

Source: Ministry of Finance, Kotak Institutional Equities estimates

Budget: Expenditure side

- Total expenditure is now expected to increase by 7%% in FY22RE. This is on account of reduced subsidies. Subsidy is likely to fall 39% in FY22RE and 27% in FY23RE.
- This is on account of withdrawal of food subsidy under PMGKAY which was implemented in April 2020 with a specific purpose to provide free food to all.
- Similarly in FY23, expenditure is expected to rise 5%.

Particulars (Rs bn)	2019	2020	2021	2022 RE	2023 RE	2021/2020	2022RE/2021	2023RE/2022RE
							(%)	
Total Expenditure	23,151	26,863	35,098	37,700	39,449	31	7	5
On Revenue Account	20,074	23,506	30,835	31,673	31,947	31	3	1
Of which, Interest Payment	5,826	6,121	6,799	8,138	9,407	11	20	16
Of which, Subsidies	1,968	2,283	7,077	4,331	3,179	210	-39	-27
Food Subsidies	1,013	1,087	5,413	2,865	2,068	398	-47	-28
Fertilisers Subsidies	706	811	1,279	1,401	1,052	58	10	-25
Petroleum Subsidies	248	385	385	65	58	0	-83	-11
Other Subsidies	1	0	0	0	1	-246	81	37
On Capital Account	3,077	3,357	4,263	6,027	7,502	27	41	24

Source: Ministry of Finance, Kotak Institutional Equities estimates

Budget: Deficit

- Fiscal Deficit is expected to fall to 6.4% in FY23BE afrom 6.9% in FY22RE.
- The government is expected to raise Rs 11,186 bn. in FY23BE – growing 11.1% after raising Rs 7,758 bn in FY22RE.
- In FY22RE, GDP is estimated to grow 17.2% in FY22E.

Particulars (Rs bn)	2019	2020	2021	2022 RE	2023 RE	2021/2020	2022RE/2021	2023RE/2022RE
							(%)	
Primary deficit (PD)	668	3,216	11,384	7,773	7,205	254	-32	-7
Revenue deficit (RD)	4,545	6,665	14,496	10,884	9,902	117	-25	-9
Gross fiscal deficit (GFD)	6,494	9,337	18,183	15,911	16,612	95	-12	4
Gross borrowings (dated securities)	5,715	7,041	12,601	10,465	14,950	79	-17	43
Net market borrowing	4,233	4,681	10,329	7,758	11,186	121	-25	44
Net market borrowing (adjusted for buyback)	4,233	4,681	10,365	7,758	11,186	121	-25	
Short-term borrowing (T-bills)	69	1,560	2,032	1,000	500			
Nominal GDP at market prices	1,88,997	2,00,749	1,98,009	2,32,147	2,58,000	-1.4	17.2	11.1
PD/GDP (%)	0.4	1.6	5.7	3.3	2.8			
RD/GDP (%)	2.4	3.3	7.3	4.7	3.8			
GFD/GDP (%)	3.4	4.7	9.2	6.9	6.4			

Source: Ministry of Finance, Kotak Institutional Equities estimates

Focus on capital expenditure-led growth

- 24% increase in capital expenditure to Rs7.5 tn for FY23 with 33% yoy growth in the key sectors of housing, railways and roads.
- Budgetary capital expenditure growth for FY23BE at 15% yoy adjusted for one-off items.
- Rs7.5 tn includes Rs1 tn of support to states and Rs447 bn of capital support to BSNL.
- Capital expenditure of states is typically larger than capital expenditure of the central government.
- It remains to be seen if states increase their capital expenditure by the allocated amount.

Particulars (Rs bn)	2020	2021	2022RE	2023BE
Budgetary capital expenditure	**3,357**	**4,263**	**6,027**	**7,502**
Capitalization of BSNL				447
Equity infusion in AIAHL (Air India)			621	
Loan to states for capex		118	150	1,000
Adjusted budgetary capital expenditure	**3,357**	**4,145**	**5,257**	**6,055**
Growth yoy (%)		23	27	15

Source: Union budget documents, Kotak Institutional Equities

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Focus on capital expenditure-led growth (cont..)

- Total public sector (central government and central PSUs only) capital expenditure including IEBR (internal and external budgetary sources) is projected to grow 10% in FY23BE (over FY22RE)
- No meaningful increase in central government outlay over FY21-23BE

	2022RE				2023BE			
	Revenue	Capital	IEBR	Bonds	Revenue	Capital	IEBR	Bonds
Atomic Energy	81	146	97	64	84	143	118	77
Defense	3,571	1,458	—	—	3,647	1,604	—	—
Food and Public Distribution	2,994	26	892	80	2,139	20	877	80
Housing and Urban Development	479	260	122	75	492	273	179	90
Petroleum and Natural Gas	84	4	1,035	118	83	6	1,114	146
Power	142	11	490	134	161	0	515	147
Railways	30	1,171	977	—	33	1,371	1,085	—
Road Transport and Highways	99	1,213	650	250	114	1,877	—	—
Telecommunications	301	55	—	—	304	542	—	—
Others	23,892	1,685	761	77	24,889	1,666	807	108
All ministries	31,673	6,027	5,025	797	31,947	7,502	4,695	647

Source: Union budget documents, Kotak Institutional Equities, Note: Figures in Rs bn

Supply-side reforms to drive long-term growth trajectory

- **The government continued its focus on supply-side reforms in the FY2023 union budget through**
  - ✓ incentivizing localization,
  - ✓ supporting infrastructure creation for new industries and
  - ✓ monetizing government assets.

Incentives for domestic manufacturing through PLI schemes

Sectors	Sub-Sectors	Financial Outlay (Rs bn)
Automobile and automobile components	Clean energy vehicles, clean energy related components, advanced auto components	259
Advance chemistry cell (ACC) battery	ACC battery	181
Electronic/technology products	Semiconductor fab, Display fab, Laptop/ notebooks, Servers, IoT Devices, Specified computer hardware	50
Food processing	Ready to Eat / Ready to Cook (RTE/ RTC), Marine products, Fruits & Vegetables, Honey, Desi Ghee, Mozzarella Cheese, Organic eggs and poultry meat	109
Pharmaceutical drugs	Category1: Biopharmaceuticals, Complex generic drugs, Patented drugs or drugs nearing patent expiry, Cell based or gene therapy products, Orphan drugs, Special empty capsules, Complex excipients Category 2: APIs/KSMS/DIs Category 3: Repurposed drugs, Auto-immune drugs, Anti-cancer drugs, Anti-diabetic drugs, Anti-infective drugs, Cardiovascular drugs, Psychotropic drugs and Anti-Retroviral drugs, In-vitro diagnostic devices (IVDs), Phytopharmaceuticals, Other drugs not manufactured in India, Other drugs as approved	150
Semi-conductor	Semiconductors and display manufacturing ecosystem including electronic components, sub-assemblies, and finished goods	760
Solar PV	Solar PV	240
Steel products	Coated steel, High strength steel, Steel rail, Alloy steel bars & rods	63
Telecom and networking products	Core transmission equipment, 4G/5G next generation radio access network and wireless equipment, Access & Customer Premises Equipment (CPE), Internet of Things (IoT) access devices and other wireless equipment, Enterprise equipment: switches, routers	122
Textiles	Man-made fibers, Technical textiles	107
White goods	Air-conditioners, LED	62
Umbrella PLI scheme		**2104**
Medical devices		34
Mobile phones/electronic components		410
Pharmaceuticals (KSMs/DIs/APIs)		69
Total PLI Schemes		**2617**

Source: PIB, Kotak Institutional Equities

Major social welfare schemes

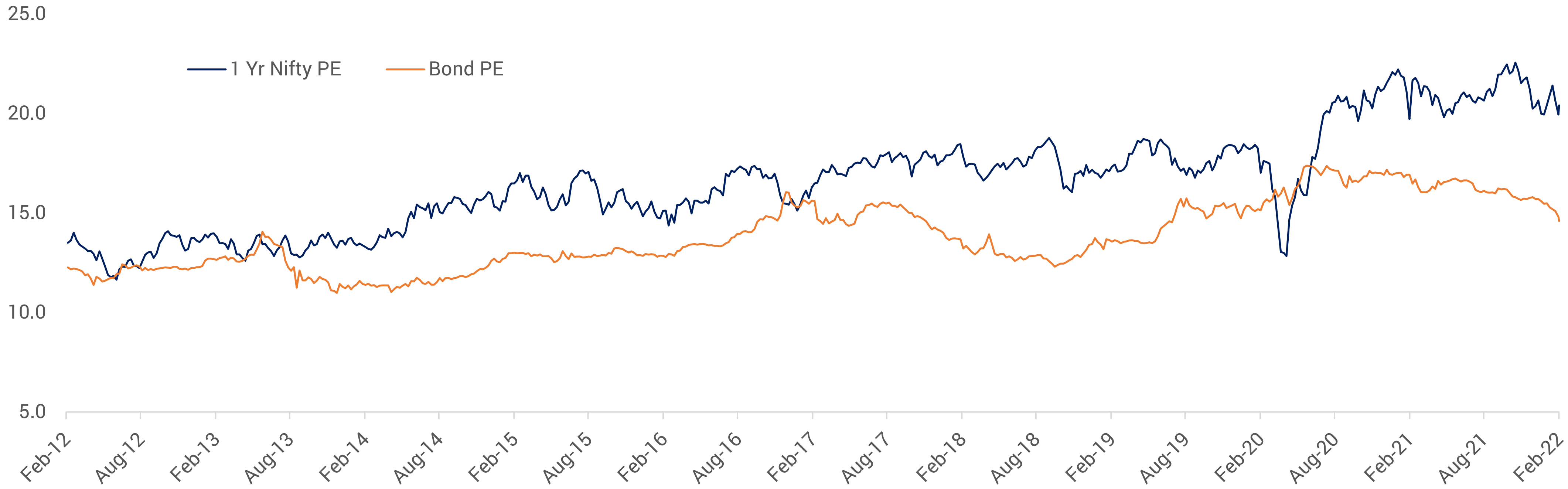
- Government allocation to social welfare schemes for FY23BE is 13% lower than FY22RE
- Food subsidy will decline 28% in FY23BE (vs FY22BE) as PMGKAY is withdrawn.
- Food subsidy figures for FY23BE and FY22RE are significantly higher versus previous years as the government has now included procurement of various food items and resultant subsidy directly in the budget.

	2018	2019	2020	2021	2022RE	2023BE	2023BE/ 2022RE (%)
Food subsidy to FCI under National Food Security Act.	1,020	701	750	4,628	2,109	1,459	(31)
Mahatma Gandhi National Rural Employment Guarantee Program (NREGS)	550	618	717	1,112	980	730	(26)
Income support scheme for farmers (PM-KISAN)		200	487	610	675	680	1
Food subsidy for decentralized procurement of food grains under NFSA	380	310	335	783	753	606	(20)
National Rural Drinking Water Mission	71	55	100	110	450	600	33
Pradhan Mantri Awas Yojana (PMAY)	290	254	250	403	474	480	1
Interest subsidy for short term credit to farmers/Modified interest subvention scheme	148	115	162	178	181	195	7
Pradhan Mantri Gram Sadak Yojana (PMGSY)	169	154	140	137	140	190	36
Crop insurance scheme	107	119	126	142	160	155	(3)
Pradhan Mantri Krishi Sinchai Yojana (PMKSY)	74	81	82	79	127	130	2
Rashtriya Swasthya Bima Yojana			33	27	75	79	5
DBT-LPG			296	237	34	40	18
Market intervention scheme and price support scheme	10	14	20	14	36	15	(58)
Green revolution/ Rashtriya Krishi Vikas Yojana	112	118	99	97	89	104	17
Total	2,929	2,740	3,598	8,555	6,283	5,462	(13)
Total (ex-food subsidy)	1,910	2,039	2,848	3,927	4,174	4,003	(4)

Source: Union budget documents, Kotak Institutional Equities; Note: Figures in Rs bn

Bond markets to be under pressure

- We expect 10-year G-Sec yield at 6.75-7.5% through FY2023. We note that 10-year G-Sec yields have increased almost 110 bps from pandemic-era lows.
- The government's large fiscal deficit and its continued heavy reliance on the bond market to finance its borrowings will create upward pressure on bond yield.
- We expect the bond markets to be under pressure given heavy supply and policy tightening amid adverse global financial conditions and elevated crude oil prices.



Source: Bloomberg

Sector – Budget Highlights & Impact

Automobile and Auto Ancillary

- **Focus on EV infrastructure and battery swapping - increased focus on expanding EV infrastructure, private sector to be encouraged to improve efficiency of EV ecosystem, battery swapping policy will be brought out.**
  - ✓ Await more details on the policy framework to achieve the government's objectives
- **Push for cleantech and EVs in public transport space**
  - ✓ To provide an impetus towards electrification
  - ✓ Ashok Leyland, Tata Motors and VECV can be beneficiaries depending on order wins.
- **Opening defense R&D for private players**
  - ✓ Move will open up a new growth segment for auto OEMs.
  - ✓ However, defense is small portion of auto OEM revenues currently.
- **Import duty cut on rhodium to 2.5% from 12.5%**
  - ✓ ~5-10 bps positive impact on margins of automotive OEMs (if benefit is passed to OEM's)

Banks/Diversified Financials/Insurance

- **Recapitalization amount reduced to Rs 150 bn. in FY2022RE from Rs 200 bn. in FY2022BE. No allocation in FY2023BE.**
  - ✓ Do not see major impact due to improving profitability and declining NPLs of PSU banks.
- **Provision of Rs 5 bn. for FY2023BE for Credit Guarantee Scheme for microfinance institutions.**
  - ✓ Positive for MFIs who have used the scheme to protect credit losses on the loan book.
- **ECLGS scheme: Allocation increased to Rs 150 bn. in FY2023BE (from Rs100 bn in FY2022). Available guarantee cover increased by Rs 500 bn to Rs 5 tn.**
  - ✓ Positive for MSME loans, especially units focused on the hospitality sector.
- **Higher borrowing program.**
  - ✓ We expect interest rates to rise on the back of a higher borrowing program. Banks will see lower treasury gains/MTM loss on treasury book. Incremental cost of funding for NBFCs will go up.
- **Central government to work with financial sector regulators to improve access to capital and reduce cost of intermediation for affordable housing.**
  - ✓ This will promote affordable housing projects and augur well for affordable housing finance lenders.
- **Negligible allocation for credit-linked subsidy scheme (CLSS) in FY2023BE.**
  - ✓ CLSS budget is revised to Rs 120 bn. for FY2022RE from Rs 10 bn. in FY2022BE.

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Construction Materials

- **Higher capital outlay on various social schemes such as PMAY and PMGSY (FY23BE: +9% versus FY22RE and +24% versus FY21).**
  - ✓ To support cement demand recovery in FY2023.
- **Enhanced outlay for MoRTH (FY2023BE: +3% versus FY22RE and +21% versus FY21).**
  - ✓ To sustain strong demand from the roads segment in FY23
- **Enhanced outlay for metro rail projects (FY23BE: +5% versus FY22RE and +129% versus FY21).**
  - ✓ To sustain strong demand from the roads segment in FY23

Fertilizers, Agriculture and Specialty Chemicals

- **Government reduced fertilizer subsidy for FY23RE to Rs1.05 tn versus Rs1.4 tn in FY22RE**
  - ✓ We expect an upward revision to fertilizer subsidies in case prices were to stay high. Lower subsidies can impact the usage of fertilizers such as urea, di-ammonium phosphate and potash if prices were to stay high.

- **Duties on certain feedstock chemicals have been reduced such as methanol (2.5% from 5% earlier) and acetic acid (5% from 7.5% earlier).**
  - ✓ This would benefit downstream players of acetic acid with biggest beneficiaries being Laxmi Organics, Jubilant Ingrevia, Rossari Biotech.
  - ✓ Negative for methanol manufacturers such as GSFC and Deepak Fertilizers.

- **Rs195 bn allocated for PLI to boost solar module manufacturing.**
  - ✓ This would give boost to GFL's PVDF, which finds application in solar modules.

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FMCG

- **Status quo on tobacco (cigarette) taxation**
  - ✓ Status quo on taxation augurs well for ITC
- **Allocation to MGNREGA reduced to Rs 73000 cr in FY23BE from Rs 98000 cr in FY22RE**
  - ✓ The government can potentially revise budget upwards in case of a weak rural economy
- **Withdrawal of concessional tax rate of 15% on dividend income received by an Indian company from a foreign income.**
  - ✓ Dividend tax on income received from overseas subsidiaries/associates will increase for companies such as Dabur, Marico, Pidilite, Tata Consumer Products etc.

Internet Software & Services

- Startups will be promoted to facilitate 'Drone Shakti' through various applications and for Drone-As-A-Service (DrAAS).
- Implications: Delivery-based providers and clients to benefit over the longer term.
- Section 80-IAC provides for 100% deduction of profits by a startup for three consecutive years out of 10 years subject to certain conditions. The eligible date for incorporation of such startups has been extended to March 31, 2023 from March 31, 2022 earlier.
- Implications: Tax incentive is positive for startups in the internet sector.

Industrial & Infrastructure

- **Formulation of PM Gati Shakti Master Plan for expressways**.
  - ✓ Significant positive for road players in terms of clarity on project size, award and completion timelines.
- **Enhanced outlay for NHAI with no dependence on market borrowings.**
  - ✓ Significant positive for road players in terms of clarity on project size, award and completion timelines.
- **Monetization target of Rs200 bn for NHAI.**
  - ✓ Monetization of national highways will ease burden on NHAI's books and improve awarding.
- **Enhanced allocation for Jal Jeevan Mission.**
  - ✓ To improve project awarding from Jal Jeevan Mission, to benefit L&T.
- **Increased allocation for AMRUT and smart cities.**
  - ✓ Positive for KEC, KPTL, L&T.
- **Implementation of river-linking projects.**
  - ✓ Expect these projects to take time to reach awarding stage.

Industrial & Infrastructure(cont)

- **Opening up of defense R&D for industry, startup, academia.**
  - ✓ We expect this to increase indigenization in the sector and open up opportunities for MSMEs.
- **Infrastructure status to data center and energy storage system.**
  - ✓ Will reduce the financing cost, can increase investments in data centers, ABB, Siemens, Cummins have an active presence.
- **Exemption on basic customs duty in select capital goods imports and project imports taken out.**
  - ✓ Positive for manufacturers of power T&D equipment such as ABB Power Products, CG Power and Siemens.
- **Share of domestic awarding in arms spending increased to 68% for FY2023BE from 55% in FY2022RE.**
  - ✓ Positive for Bharat Electronics for FY23.
- **Provision made of settling dues for central government procurement projects to the extent of 75% within 10 days of the bill being raised.**
  - ✓ Positive for EPC players including L&T as it will bring down working capital.

- **Permanent Removal of CVD of 18.95% on stainless steel (SS), which was imposed in 2017 for a period of 5 years.**
  - ✓ The CVD on SS imports was temporarily removed last year and has been permanently revoked now. Given the surge in SS prices, we see limited impact of the removal of CVD in the medium term. In the long term, the removal of CVD would impact small SS producers whose products compete directly with imports and have limited impact on large SS producers such as JSL

- **Exemption of duty on import of iron and steel scrap, including stainless steel scrap has been extended until March 2023.**
  - ✓ The exemption of duty is extended by a year. This will reduce scrap cost for steel producers. The reduction will help secondary steel producers, which have a higher mix of scrap in raw materials. SS producers such as JSL will continue to benefit from lower scrap cost.

- **Anti-dumping duty (ADD) has been permanently revoked on (1) bars and rods of alloy steel, (2) high speed steel of non-cobalt grade and (3) flat-rolled products of steel (Al or Zinc coated)**
  - ✓ Removal of ADD removes the floor prices for these products. However, current prices are much higher than ADD levels and removal should not impact market prices. Also, the market size for these products is small and not significant for integrated steel producers.

Real Estate

- **Central government will work with state governments for reduction of time required for all land and construction-related approvals for promoting affordable housing. Government will work with financial sector regulators to expand access to capital.**
  - ✓ Reduction in time for construction and land purchase and expedited clearances. Continues to focus on affordable housing projects under PM Awas Yojna, little participation from listed real estate players in the same.
- **States will be encouraged to adopt Unique Land Parcel Identification Number to facilitate IT-based management of records. Linkage with National Generic Document Registration System (NGDRS) with the 'One-Nation One-Registration Software' will be promoted.**
  - ✓ Improved land records will help expedite new project acquisition, and in general reduce the cost of litigation.
- **Street expectation of extending tax benefits for affordable housing to FY2023 and broadening the definition of affordable housing not having been met.**
  - ✓ No impact on earnings and valuations that Listed real estate developers that operate out of key metro cities.

Telecommunication Services

- **5G spectrum auctions to be held in CY22 and rollout of 5G mobile services within FY23 by private telecom providers.**
  - ✓ Pricing of spectrum will be a key factor for the success of the auction; private telcos have indicated their unwillingness to participate if the government does not suitably price available spectrum.
- **Receipts from communication services for FY23BE pegged at Rs528 bn; FY22RE pegged at Rs720 bn.**
  - ✓ There will be no collection pertaining to AGR and deferred spectrum liabilities in FY23 given the moratorium on payment of the same. Collections on LF + SUC are likely to amount to Rs310 bn, with the balance amount likely to include some upfront payment pertaining to spectrum auctions.
- **Contracts for laying optical fiber in all villages, including remote areas, will be awarded under the Bharatnet project through PPP in FY23 and completion is expected by FY25.**
  - ✓ Setting up of fiber across all villages will provide significant impetus to digital adoption across the country in the medium term.

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Transportation

- **Setting up of multimodal logistics park through PPP.**
  - ✓ We expect this to open up the sector for increased private.

- **Reduction in customs duty for import of ATF to 5% from 10% coupled with waiving off of exemptions.**
  - ✓ There is no impact as earlier exemptions resulted in the net customs duty of 5%.

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Rating Scale (Private Client Group)

RATING SCALE

Definitions of ratings

BUY	–	We expect the stock to deliver more than 15% returns over the next 12 months
ADD	–	We expect the stock to deliver 5% - 15% returns over the next 12 months
REDUCE	–	We expect the stock to deliver -5% - +5% returns over the next 12 months
SELL	–	We expect the stock to deliver < -5% returns over the next 12 months
NR	–	**Not Rated.** Kotak Securities is not assigning any rating or price target to the stock. The report has been prepared for information purposes only.
SUBSCRIBE	–	We advise investor to subscribe to the IPO.
RS	–	**Rating Suspended.** Kotak Securities has suspended the investment rating and price target for this stock, either because there is not a sufficient fundamental basis for determining, or there are legal, regulatory or policy constraints around publishing, an investment rating or target. The previous investment rating and price target, if any, are no longer in effect for this stock and should not be relied upon.
NA	–	**Not Available or Not Applicable.** The information is not available for display or is not applicable
NM	–	**Not Meaningful.** The information is not meaningful and is therefore excluded.
NOTE	–	Our target prices are with a 12-month perspective. Returns stated in the rating scale are our internal benchmark.

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