

Union Budget 2023-2024

Capex burst, no rural thrust, tax loopholes bust, in fiscal conservatism we trust

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Highlights of Budget FY24: 1) Capex budget raised 22%-29% depending on whether one-offs are considered; aggregate revex up only 1% (up by 3%, adjusted for higher fertilizer subsidy in Fy23). 2) Significant emphasis on Railways capex (50% YoY) and Road Transports (25%). 3) Defence capex increased by only 8%. 4) Affordable housing increased by only 3%. 5) Large (and valid) reductions in Food subsidy (will impact rural) and Fertilizer subsidy – this alone would be almost 0.4% reduction in fiscal deficit. 6) Rural schemes aggregate cut by 13%, including MNREGA estimate reduction (but FY22 MNREGA actual was well over budget). 7) Several tax loopholes plugged — double deduction of interest on home borrowings, income of capital repayment by REITS (still unclear), capital gains above Rs10cr if reinvested in a property, income from Life Insurance schemes having premiums of more than Rs5lakhs p.a. etc., are no longer exempt from taxation. 8) Reduction in personal income tax benefiting lower-income segments. 9) Reasonable revenue growth, incl. impact of fuel excise duty cuts. 10) Plausible estimate of disinvestment receipts of FY24, though FY23 could slip. 11) Continuing fiscal consolidation, with FY24 at 5.9% and FY23 maintained at 6.4%, and only 4% increase in market borrowings at Rs12.3trn making for benign interest rate conditions. BUY Private Banks, Industrials, Domestic Cyclical & Insurance (stocks overreacted) on the basis of this budget.

Positively influenced sectors: 1) Infra, Capital Goods & Cement – capex thrust with increased allocation towards Roads and Railways. 2) Chemicals – reduction in customs duty on select chemicals and emphasis on battery energy storage systems. 3) Auto – replacement of old govt vehicles, customs duty exemption on import of machinery for mfg. of EV batteries and increase in FAME budget. 4) Power - with thrust on green energy (storage systems, inter-state transmission project) and incentives linked to AT&C loss reduction.

Negatively impacted sectors: 1) OMCs - No provision of subsidy / grant to OMCs specified towards the losses incurred while selling auto fuels. 2) Real Estate – multiple tax loopholes plugged as explained above. 3) Life Insurance - For non-ULIP policies with aggregate premiums of over 500k per annum, redemption proceeds to become taxable at the marginal tax rate (though we think markets have overreacted on Insurance stocks).

- For the new tax regime only, rebate limit has been increased from Rs5 lakhs to Rs7 lakhs. Rebate limit for old tax regime continues to remain Rs5 lakhs.
- For the new tax regime, the revised tax slabs are: up to Rs3 lakh: NIL; Rs3 lakh- Rs6 lakh: 5%; Rs6 lakh-Rs9 lakh: 10%; Rs9 lakh-Rs12 lakh: 15%; Rs12 lakh-Rs15 lakh: 20%; Over Rs15 lakh: 30%.
- Benefit of standard deduction from salaries, earlier available only under old tax regime, has also been extended to the new tax regime.
- The highest surcharge rate for a person with income above Rs5cr, has been reduced from 37% to 25% in the new tax regime only. This would result in reduction of maximum tax rate to 39% from 42.7%.
- Tax-exemption limit on leave encashment, on retirement of non-government salaried employees has been increased to Rs25 lakhs from Rs3 lakhs earlier.
- Extension of the period of tax benefits to funds relocating to IFSC, GIFT City till 31.03.2025.
- Capital gains exemption on sale of residential property (section 54)/other long-term capital asset (section 54F) is now capped at Rs100mn.
- Any profit made on market-linked debentures shall be treated as short-term capital gains, irrespective of the holding period.
- Income from insurance policies (other than ULIP for which, provisions already exists) having premium or aggregate of premium above Rs5 lakhs in a year, to be taxed under the head "income from other sources". Income is proposed to be exempt, if received on the death of the insured person.
- Exemption from TDS on payment of interest on listed debentures to a resident, has been removed.
- Distribution in the form of repayment of capital by REIT/InvIT is now taxed.
- Basic customs duty on gold cut from 12.5% to 10.0%. Agri-infra development cess increased from 2.5% to 5.0%.

Government finances – Summary

(Rsbn)					YoY (%)	
	FY21	FY22	FY23 (RE)	FY24 (BE)	FY23	FY24
RECEIPTS						
Revenue Receipts	16,339	21,699	23,484	26,323	8.2	12.1
Tax Receipts	14,263	18,048	20,867	23,306	15.6	11.7
Non-Tax revenue	2,076	3,651	2,618	3,017	(28.3)	15.2
Capital receipts	576	394	835	840	112.1	0.6
Total Receipts	16,915	22,093	24,319	27,163	10.1	11.7
EXPENDITURE						
Revenue Expenditure	30,835	32,009	34,590	35,021	8.1	1.2
Capital Expenditure	4,263	5,929	7,283	10,010	22.8	37.4
Total Expenditure	35,098	37,938	41,872	45,031	10.4	7.5
Revenue Deficit	14,496	10,310	11,105	8,699	7.7	(21.7)
Fiscal Deficit	18,183	15,845	17,553	17,868	10.8	1.8
<i>Rev. deficit (% of GDP)</i>	<i>7.3</i>	<i>4.4</i>	<i>4.1</i>	<i>2.9</i>	<i>-29 bps</i>	<i>-118 bps</i>
<i>Fiscal deficit (% of GDP)</i>	<i>9.2</i>	<i>6.7</i>	<i>6.4</i>	<i>5.9</i>	<i>-27 bps</i>	<i>-51 bps</i>

Source: Government Budget Documents, IIFL Research

Gross tax revenues broadly in line with FY24 GDP growth, at 10.5%. Growth assumed reasonable with expected real growth at 6% & avg. inflation at 4.5-5%

Divestment pipeline is healthy, with ongoing discussions on stake sale in Hindustan Zinc, IDBI, Shipping Corp, Concor, BEML, Pawan Hans, etc. However, achieving Rs600bn target in FY23 seems difficult as only Rs311bn of this have been achieved yet.

FY23 revenue expenditure had high subsidy expenditure on food and fertiliser, due to high prices; reduced in FY24. Adj. govt capex (after adjusting for PSE resources and one-offs) also shows an acceleration – 25% YoY vs 13%.

Consolidation in fiscal deficit, as expected. Government reiterated its plan to achieve fiscal deficit of 4.5% of GDP by FY26.

Fiscal consolidation in line – reasonable growth assumptions, capex boost continues

Reasonable revenue assumptions

(Rsbn)					YoY (%)	
	FY21	FY22	FY23 (RE)	FY24 (BE)	FY23	FY24
Tax Revenue						
Gross Tax Revenue	20,271	27,093	30,431	33,609	12.3	10.4
---Corporation Tax	4,577	7,120	8,350	9,227	17.3	10.5
---Income Tax	4,871	6,962	8,150	9,006	17.1	10.5
---Customs Duties	1,348	1,197	2,100	2,331	75.4	11.0
---Excise Duties	3,917	3,946	3,200	3,390	(18.9)	5.9
---Service Tax	16	10	10	5	(1.2)	(50.0)
---Goods and Services Tax	5,488	6,981	8,540	9,566	22.3	12.0
Direct Tax	9,502	14,958	16,581	18,317	10.8	10.5
Indirect Tax	10,769	12,135	13,850	15,292	14.1	10.4
<i>less devolution to states & NCCD transfer</i>	<i>5,950</i>	<i>8,984</i>	<i>9,484</i>	<i>10,214</i>	<i>5.6</i>	<i>7.7</i>
Net Tax revenue	14,263	18,048	20,867	23,306	15.6	11.7
Non-tax Revenue	2,076	3,651	2,618	3,017	(28.3)	15.2
Total Revenue	16,339	21,699	23,484	26,323	8.2	12.1
Non Debt Capital Receipts	576	394	835	840	112.1	0.6
---Disinvestment	379	146	600	610	309.9	1.7
Total Receipts	16,915	22,093	24,319	27,163	10.1	11.7
<i>Gross tax recpts (% of GDP)</i>	<i>10.2</i>	<i>11.4</i>	<i>11.1</i>	<i>11.1</i>	<i>(30.5)</i>	<i>(0.6)</i>
<i>Non-tax rev. (% of GDP)</i>	<i>1.0</i>	<i>1.5</i>	<i>1.0</i>	<i>1.0</i>	<i>(58.4)</i>	<i>4.1</i>

Source: Government Budget Documents, IIFL Research

Growth for Direct Taxes exactly in line with nominal GDP growth assumption.

Growth in Excise assumed lower at 6% - indicating no further Excise cuts/ hikes budgeted.

Slightly higher growth in GST also seems to be reasonable, considering the buoyancy we have seen.

Growth in non-tax revenue budgeted at 15%YoY – flat growth in interest receipts, dividend at 8% YoY, while Others seen growing at 22% mainly driven by Telecom receipts.

FY24 divestment receipts are budgeted same as FY23RE at Rs600bn.

Divestment pipeline is healthy with ongoing discussions on stake sale in Hindustan Zinc, IDBI, Shipping Corp, Concor, BEML, Pawan Hans, etc. However, achieving Rs600bn target in FY23 seems difficult, as only Rs311bn of this have been achieved yet (YTD Dec'22).

Growth assumptions in line with GDP estimates; strong disinvestment pipeline

Capex growth momentum to continue in FY24

(Rsbn)					YoY (%)	
	FY21	FY22	FY23 (RE)	FY24 (BE)	FY23	FY24
Non-Development Expenditure						
Interest	6,799	8,055	9,407	10,800	17	15
Defence	3,401	3,665	4,095	4,327	12	6
Subsidies	7,582	5,039	5,621	4,031	12	(28)
Pensions	2,085	1,989	2,448	2,344	23	(4)
Police	868	983	1,105	1,151	12	4
Development expenditure						
Agriculture and Rural	3,487	3,721	3,796	3,824	2	1
Transport	2,168	3,322	3,905	5,170	18	32
Education	842	804	999	1,129	24	13
Health	800	841	774	890	(8)	15
Urban Development	467	1,068	745	764	(30)	3
Total expenditure	35,098	37,938	41,872	45,031	10	8
Revenue expenditure	30,835	32,009	34,590	35,021	8	1
Capital expenditure	4,263	5,929	7,283	10,010	23	37
<i>Total expenditure (% GDP)</i>	<i>17.7</i>	<i>16.0</i>	<i>15.3</i>	<i>14.9</i>	<i>-70 bps</i>	<i>-41 bps</i>
<i>Rev. expenditure (% of GDP)</i>	<i>15.6</i>	<i>13.5</i>	<i>12.7</i>	<i>11.6</i>	<i>-86 bps</i>	<i>-106 bps</i>
<i>Capital expenditure (% of GDP)</i>	<i>2.2</i>	<i>2.5</i>	<i>2.7</i>	<i>3.3</i>	<i>16 bps</i>	<i>65 bps</i>

Source: Government Budget Documents, IIFL Research

Interest expense is expected to grow faster than GDP, considering higher market borrowing and rising rates.

Reduction in subsidy bill, as certain non-recurring expenditures on food and fertiliser have been normalised in FY24.

Flat growth in Agri & Rural with allocation down in MGNREGA (from Rs900bn to Rs600bn), increase possible based on demand.

Solid growth in Transport driven by Roads & Railways (mainly capex). Education & Health also see decent growth in allocation.

Revenue expenditure almost flat due to reduction in subsidy bills – adj. for higher fertilizer subsidy in FY23, the growth would have been 3% YoY.

Govt capex shows a healthy rise of ~37% YoY. However, adjusted for one-offs like support for Air India, BSNL, there is acceleration of 25% YoY vs 10% last year.

Reduction in subsidy bill, flat growth in Agri & Rural, solid growth in Transport (Roads, Railways)

Significant capex acceleration, on like-to-like basis



Item (Rs Crores)	Label	FY21A	FY22A	YoY	FY23BE	YoY	FY23RE	FY24BE	YoY
Headline CG Capex	A	426,317	592,874	39.1%	750,246	26.5%	728,274	1,000,961	37.4%
Effective CG Capex (incl. grants)	B	657,182	835,520	27.1%	1,067,889	27.8%	1,053,862	1,370,949	30.1%
One-offs (Air India, BSNL)	C		51,971		44,720		34,110	52,937	
Adjusted effective Capex	D= B-C	657,182	783,549	19.2%	1,023,169	30.6%	1,019,752	1,318,012	29.2%
PSE Resources	E	645,488	502,488	-22.2%	469,452	-6.6%	401,101	487,845	21.6%
Adjusted Capex	F=D+E	1,302,670	1,286,037	-1.3%	1,492,621	16.1%	1,420,853	1,805,857	27.1%
Assistance to States for Capex	G	11,830	15,000		100,000		76,000	130,000	
Adjusted Capex (excl. ass. to states)	F-G	1,290,840	1,271,037	-1.5%	1,392,621	9.6%	1,344,853	1,675,857	24.6%

Source: Government Budget Documents, IIFL Research

Capex growth (adjusted for PSE resources and one-offs) also shows acceleration in line with headline numbers

Reduction in Subsidies

(Rsbn)					YoY (%)	
	FY21	FY22	FY23 (RE)	FY24 (BE)	FY23	FY24
Subsidies	7,582	5,039	5,621	4,031	12	(28)
----Food	5,413	2,890	2,872	1,974	(1)	(31)
----Fertiliser	1,279	1,538	2,252	1,751	46	(22)
----Petroleum	385	34	92	23	168	(75)
----Interest	302	413	375	276	(9)	(27)
----Others	202	165	30	8	(82)	(73)
<i>Total Subsidies (% GDP)</i>	<i>3.8</i>	<i>2.1</i>	<i>2.1</i>	<i>1.3</i>	<i>-7 bps</i>	<i>-72 bps</i>
<i>Food (% GDP)</i>	<i>2.7</i>	<i>1.2</i>	<i>1.1</i>	<i>0.7</i>	<i>-17 bps</i>	<i>-40 bps</i>
<i>Fertiliser (% GDP)</i>	<i>0.6</i>	<i>0.6</i>	<i>0.8</i>	<i>0.6</i>	<i>18 bps</i>	<i>-24 bps</i>
<i>Petroleum (% GDP)</i>	<i>0.2</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>2 bps</i>	<i>-3 bps</i>
<i>Interest (% GDP)</i>	<i>0.2</i>	<i>0.2</i>	<i>0.1</i>	<i>0.1</i>	<i>-4 bps</i>	<i>-5 bps</i>

Source: Government Budget Documents, IIFL Research

Pursuant to disruptions caused to food and fertiliser prices due to Russia-Ukraine conflict, govt had to provide additional allocation over FY23 budgeted numbers.

With easing of pressures and cooling down of prices, govt has lowered allocations to these. We also see reduction in other smaller subsidy items.

Non-recurring items of FY23 mainly in food and fertiliser, leading to subsidy bill reduction

Sources of financing fiscal deficit

(Rsbn)	FY21	FY22	FY23 (RE)	FY24 (BE)
1. Debt Receipts (Net)	18,255	15,820	17,586	17,986
Market Borrowings (G-Sec + T-bills)	12,397	8,146	11,959	12,309
Securities against Small Savings	4,837	5,513	4,389	4,713
State Provident Funds	185	103	200	200
Other Receipts (Internal Debts and Public Accounts)	133	1,697	799	543
External Debt	702	361	239	221
2. Draw Down of Cash Balance	(72)	25	(32)	(118)
Total (1+2)	18,183	15,845	17,553	17,868

Source: Government Budget Documents, IIFL Research

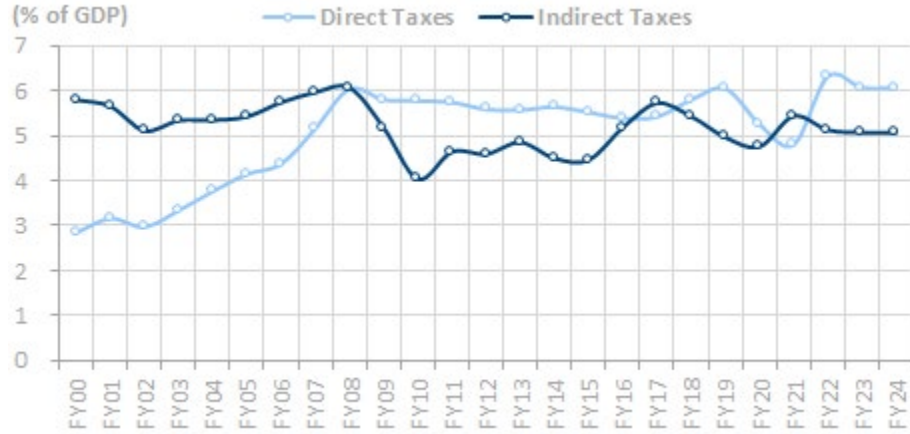
No meaningful rise in market borrowings means long-term rates to stay stable at current levels. However, with 10-12% rise in debt, coupled with rate hike seen last year has, led to increase in interest expense by 15% YoY. With fiscal consolidation path back to below 4.5% of GDP by FY26 and expected nominal growth of 10-12% going forward, our CG debt/GDP should come down from current levels of 57%.

Market borrowings broadly in line; long term rates to stay stable

Long-term trends – Revenues

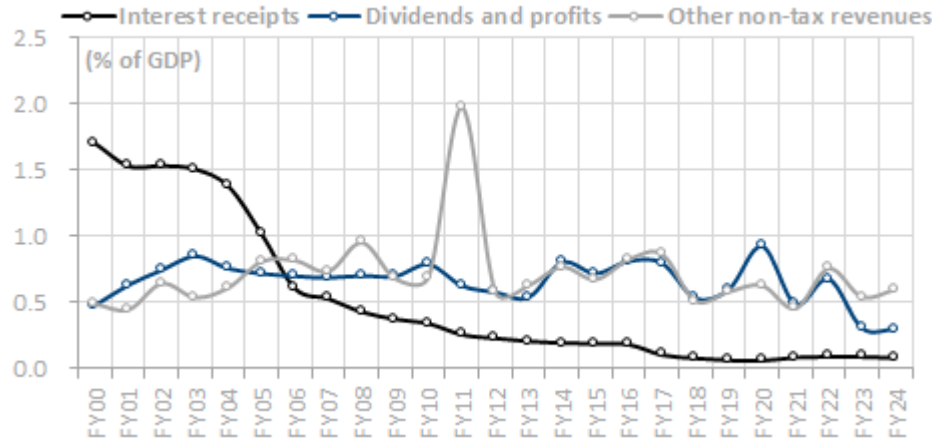


Tax growth in line with GDP estimates



Source: Government Budget Documents, IIFL Research

Non-tax revenue, relative to GDP, is expected to broadly remain stable in FY24



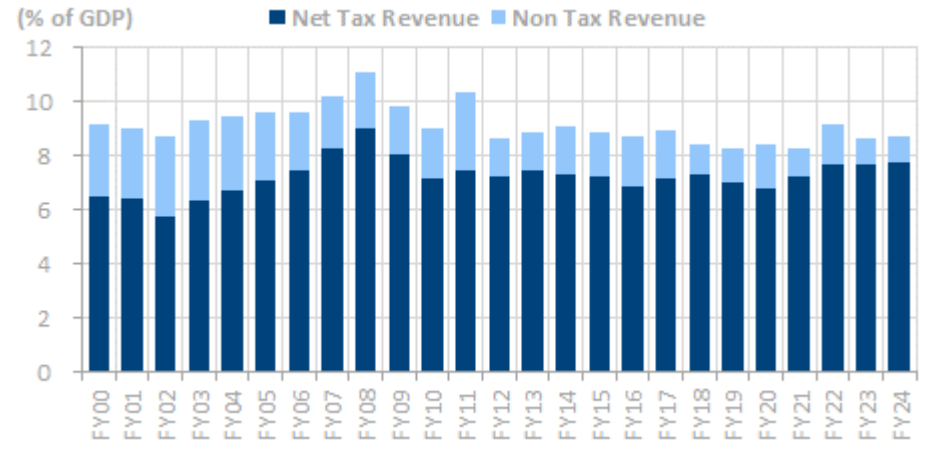
Source: Government Budget Documents, IIFL Research

Income Tax buoyancy broadly stable



Source: Government Budget Documents, IIFL Research

Total revenue — relative to GDP — expected to remain stable at 9% in FY24

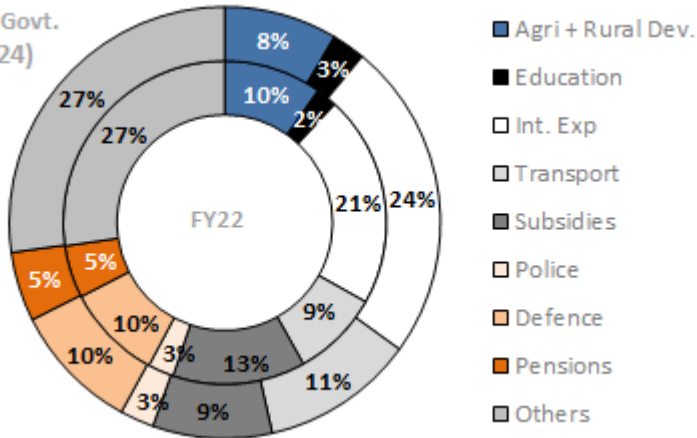


Source: Government Budget Documents, IIFL Research

Long-term trends – Expenditure

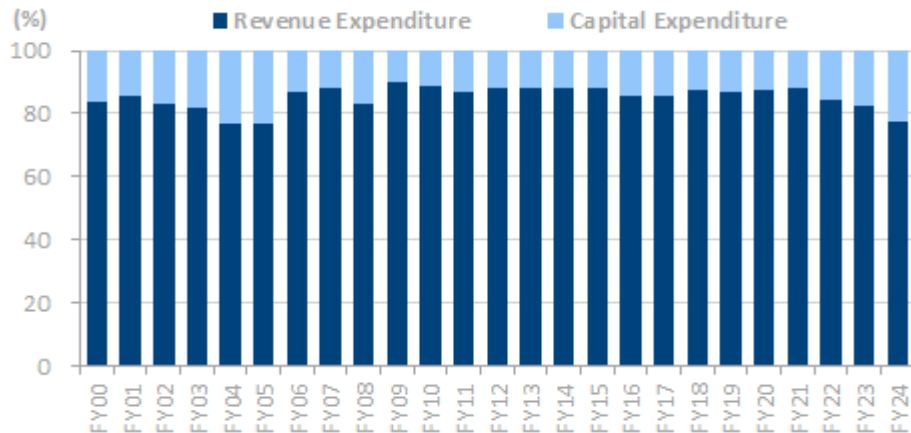
Interest, Subsidies and Defence make up ~43% of expenditure

Share in Central Govt. Expenditure (FY24)



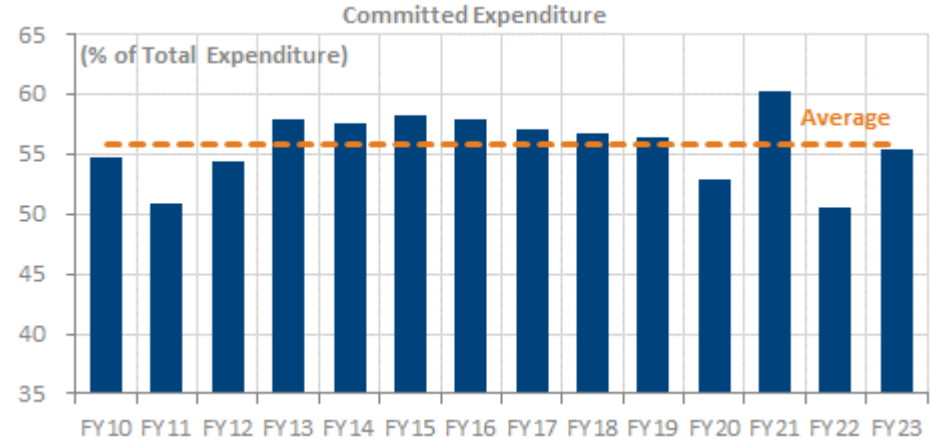
Source: Government Budget Documents, IIFL Research.

Share of capex in total expenditure has been on a rise, in the last few years



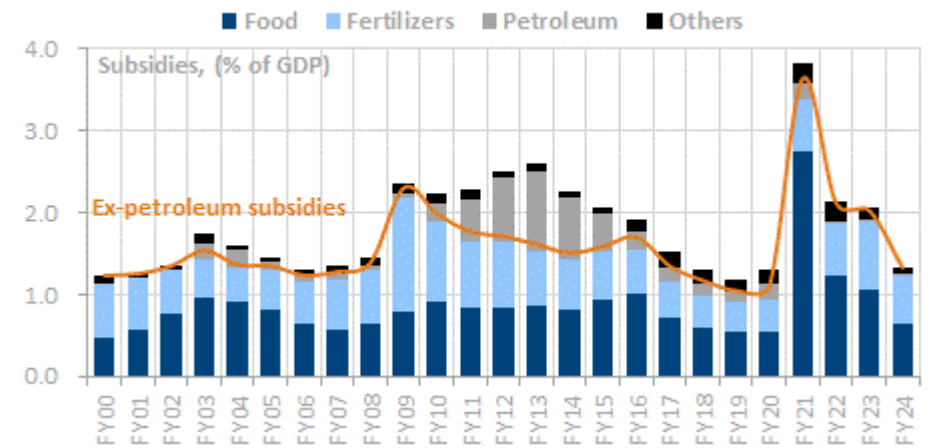
Source: Government Budget Documents, IIFL Research

More than half the expenditure is unavoidable



Source: Govt. Budget Documents, IIFL Research; **Note:** Committed expenditure includes salaries of CG employees (incl. Defence), pension, interest and subsidies

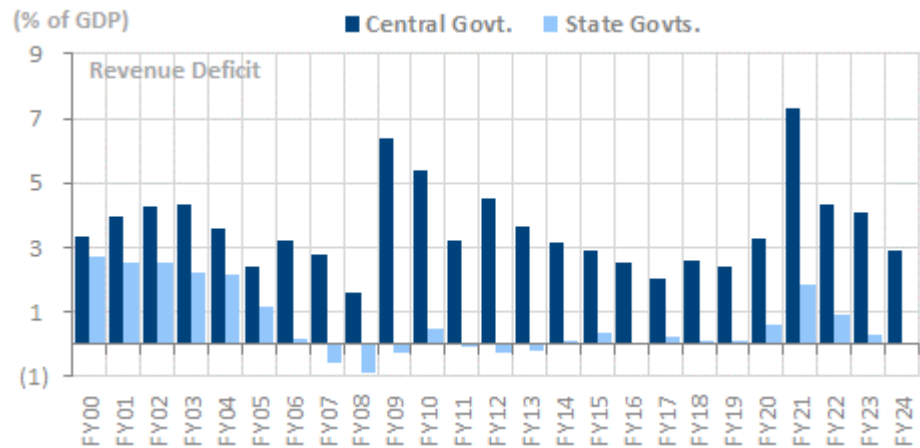
Subsidies see a sharp drop in FY24



Source: Government Budget Documents, IIFL Research

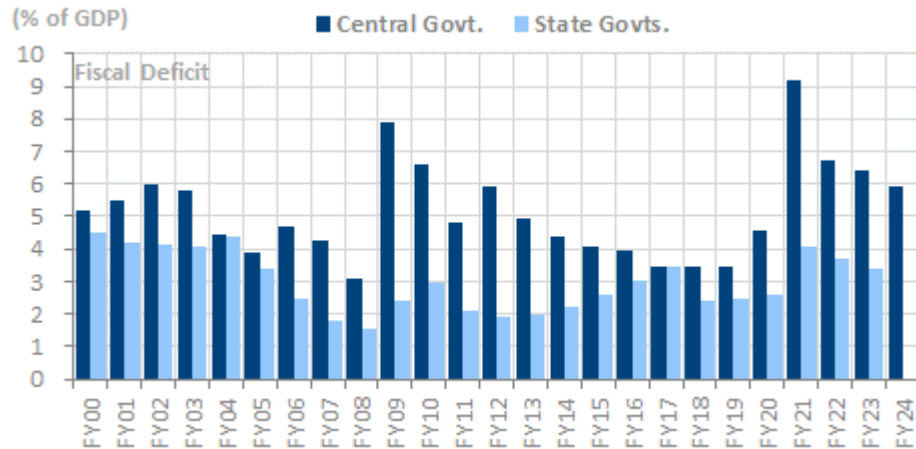
Long-term trends – Deficits

Revenue deficit is expected to fall sharply to 2.9% in FY24



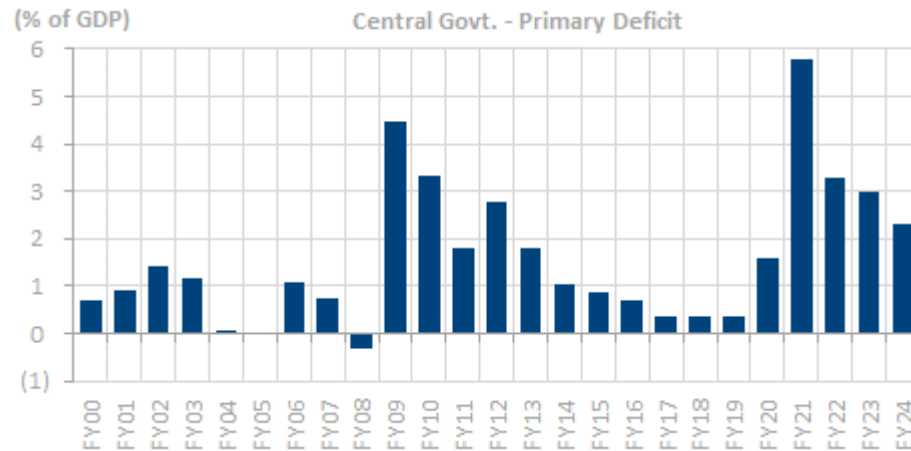
Source: Government Budget Documents, RBI, IIFL Research

Fiscal deficit expected at 5.9% in FY24; on track to achieve govt's fiscal consolidation target of 4.5% by FY26



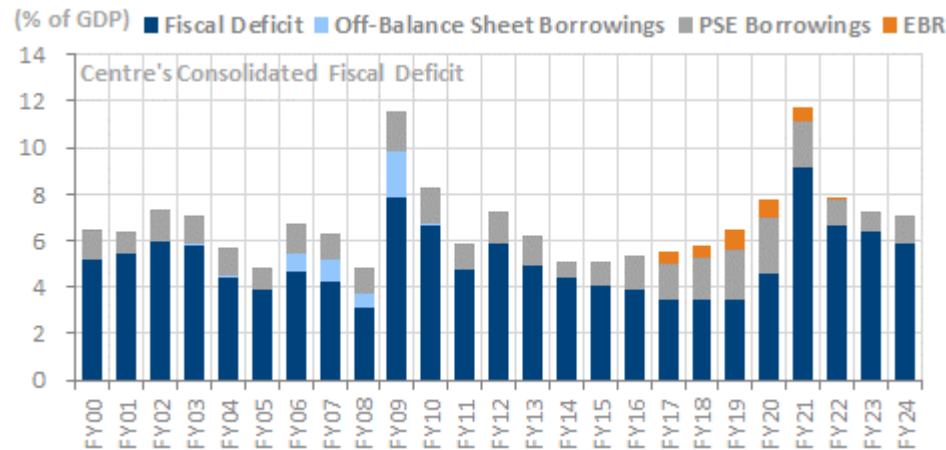
Source: Government Budget Documents, IIFL Research

Primary deficit is expected to drop to around 2.3% of GDP



Source: Government Budget Documents, IIFL Research

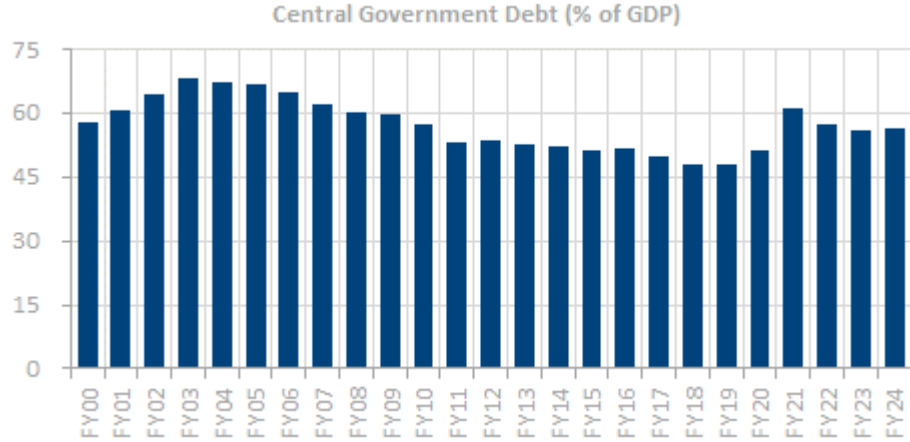
Off-balance sheet funding relative to overall deficit, is now quite low



Source: Government Budget Documents, IIFL Research; Note: EBR include Extra-budgetary resources and fiscal support extended through loans from NSSF

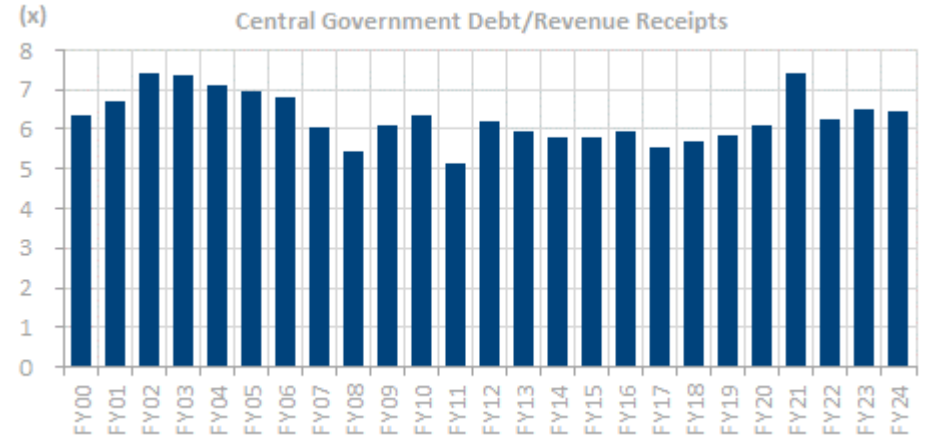
Long-term trends – Debt

Central government debt is expected to remain constant, at around 56% of GDP in FY24



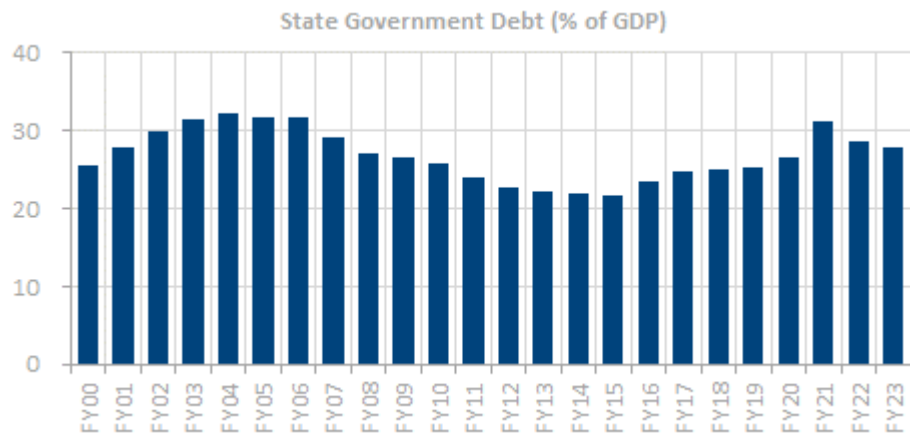
Source: Government Budget Documents, IIFL Research

Central government debt is approx. 6.5x its annual revenue



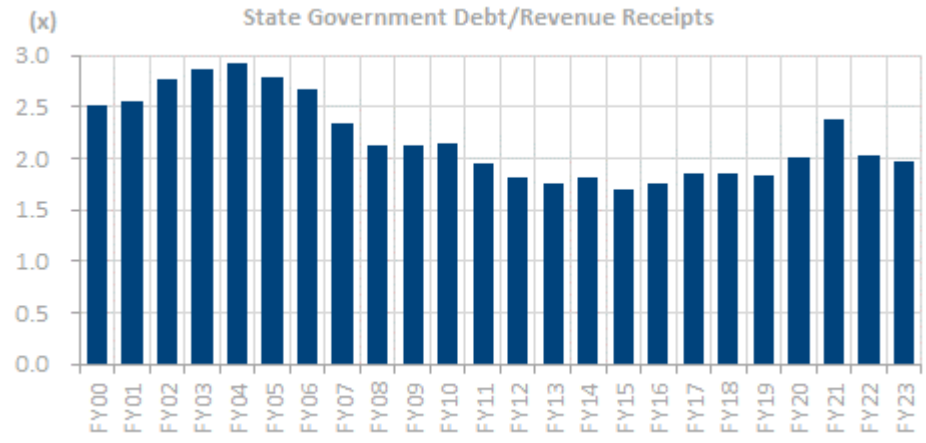
Source: Government Budget Documents, IIFL Research

State government debt is expected to remain near 30% of GDP



Source: CEIC, RBI, IIFL Research

State government debt is only 2.0x its annual revenue



Source: CEIC, RBI, IIFL Research

Sector	Impact	Key measures	Stocks affected	
			Positively	Negatively
Agriculture	Neutral	<ul style="list-style-type: none"> Fertiliser allocation for NBS (relevant for Coromandel International and other complex players) is down 38% from revised estimates to Rs 440bn, while for Urea (relevant for Chambal and other urea players) is down 14.9% from revised estimates to Rs1.3trn. Although the cut in allocation looks steep (much steeper for NBS) and would be taken negatively for complex players, government has been supportive of the Fertiliser industry and has been revising allocation throughout the year in the past. Hence, we do not take this negatively for the sector. Lower allocation is also on the back of expected benefits from the cooling-off of key inputs viz. ammonia, phosphoric acid and fertiliser prices like urea. For Agriculture sector overall, there are no significant positives from the Budget. Expenditure on Agriculture & Allied Activities has gone down from ~Rs4.7trn (RE) to ~Rs3.5trn (BE 23/24), largely driven by a ~Rs900bn decrease in budget for food subsidy and a ~Rs270bn decrease to non-urea subsidy. The FM stated intention of setting up an “agriculture accelerator fund” to encourage start-up by entrepreneurs. The fund will aim to bring innovative and affordable solutions for farmers. The Agriculture credit target has been increased to ~Rs20trn with focus on animal husbandry, dairy and fisheries. The FM also highlighted plans to launch PM PRANAM to incentivise states and union territories, for promoting alternative fertilisers and balanced use of chemical fertilisers. Basic Customer Duty on import of shrimp, feed raw materials such as fish meal, krill meal; and mineral and vitamin premixes have been reduced from 15% to 5%. BCD on fish lipid oil and algal prime, has been reduced from 30% to 15%. However, benefits are not significant, as most of the players source their requirement locally. 	Positive for Godrej Agrovet (Animal Feed business), Avanti Feed and Waterbase.	Coromandel, GSFC , Paradeep Phosphate. Although the cut in NPK subsidy could be viewed as a negative, fall in input costs is likely to provide support to margins. Also, government has been supportive to Fertiliser industry’s needs.

Sector	Impact	Key measures	Stocks affected	
			Positively	Negatively
Auto	Slight positive	<ul style="list-style-type: none"> ● Scrappage of old govt vehicles and ambulances, and replacement with new ones positive for PV industry. ● Customs duty exemption on import of capital goods and machinery required for manufacture of lithium-ion cells (EV batteries). ● FAME budget increased from Rs29bn in FY23 to Rs52bn in FY24. <ul style="list-style-type: none"> - To support 4,090 buses, 15,000 cars, 100,000 3Ws, 320,000 2Ws in FY24. - While the increase in FAME allocation is positive, number of vehicles targeted to be supported (especially PV, 2W) is very small in the context of industry size. <ul style="list-style-type: none"> - Budget includes allocation for setting up charging stations. ● Slight increase in duty on import of vehicles (CBU up from 60% to 70%; SKD up from 30% to 35%). 	Passenger cars Battery-makers EV-makers	

Sector	Impact	Key measures	Stocks affected	
			Positively	Negatively
Banks & NBFCs	Positive	<ul style="list-style-type: none"> • Outlay for capital expenditure has been increased by 33% YoY to Rs10.0trn in 2023-2024. • In FY24BE – government has maintained allocation to Pradhan Mantri Awas Yojana (PMAY) at Rs796bn – up 3% vs FY23RE (and 66% vs FY23BE). • Revamped MSME Credit Guarantee Scheme will take effect from Apr 01, 2023, through infusion of Rs90bn in the corpus. This will enable additional collateral-free credit of Rs2trn, and cost of credit would be reduced by ~1%. • The Agriculture credit target will be raised to Rs20trn, with focus on animal husbandry, dairy and fisheries. Agriculture credit stood at ~Rs16trn, as of Nov-2022. 	All lenders Affordable HFCs. All lenders, esp. those with higher MSME exposure. All lenders.	

Sector	Impact	Key measures	Stocks affected	
			Positively	Negatively
Capital Goods	Positive	<ul style="list-style-type: none"> ● FY24 (BE) capital outlay is budgeted to grow 36% YoY, at Rs9.4trn vs FY23 (RE) outlay of Rs6.9trn (1% lower than BE), adjusted for non-capex items in Civil, Telecom & O&G. ● Increase in capex is primarily driven by Railways (+51% YoY), Road (+25% YoY), Telecom (66% YoY), Transfer to states (+61%) for multi-modal & Gati Shakti projects, OMCs (energy transition). ● FY23 RE for Defence capex is 2% lower than BE at Rs1.50trn and FY24BE is pegged to grow 8% YoY to Rs1.63trn. No details on domestic Defence procurement is available, which should grow in high-double digits. We do not see material impact from this on BHE IN, as FY23ii revenues will be ~20% YoY and FY24ii is also pegged at 15% YoY. ● Cumulative allocation under various ministries for the PLI scheme is pegged 58% higher at Rs81bn for FY24 (BE) vs Rs51bn expected in FY23 (RE). FY23 RE is scaled down by 50% . While Pharma PLI has seen 28% YoY drop, mobile phones is increased by 81%. ● Scheme-wise, Road has highest thrust (pre-elections) after 2-3 years of under-investments, while rural drinking water, Swachh Bharat, Metro, urban infra continue to see sustained focus and thrust. ● Railway capex in FY23 RE (incl. EBR) is 29% higher YoY, at Rs2.45trn (unchanged vs BE). Within this, capex for core segments at Rs1.64trn is 22% higher vs BE, and is +30% YoY. However, 7% decline is proposed in these core areas for FY24 BE, at Rs1.53trn. Investments, in various JVs/ PPP/funded-projects for HSR, RRTS & Metro projects slipped by 41% in FY23 RE vs BE to Rs437bn (+21% YoY) and is pegged to grow 18% YoY to Rs514bn in FY24. ● Rs350bn earmarked for energy transition to H2 for FY24 (through Oil PSUs). VGF for battery storage solutions (4000 MWh). 	LT, KEC Intl ABB, SIEM, Hitachi Energy Cummins, MTAR BHE, Data Patterns Polycab	

Sector	Impact	Key measures	Stocks affected	
			Positively	Negatively
Cement	Positive	<p>The effective capital expenditure has been increased by 30% YoY vs FY23RE and +28% YoY vs FY23BE to Rs1.37trn in FY24BE; highlighting government's intent to maintain emphasis on Infrastructure spending (3yr Cagr is 28%), especially in a pre-election year. This augurs well for Cement demand growth in FY24 and improves visibility on our expected FY24ii industry volume growth of 9-10% YoY. Key increase is seen in the Road and Metro segments; while allocation to Housing is largely maintained.</p> <ul style="list-style-type: none"> ● Road capex up 25% YoY: Targeted capex of Ministry of Road Transport and Highways (MoRTH) is up 25% YoY vs FY23RE and up 38% YoY vs FY23BE to Rs2.59trn. Higher allocation implies government's focus to expedite road construction activities. ● Allocation to PMAY maintained: Housing is a key segment for the Cement industry, as it accounts for 60-65% of total consumption. In FY24BE – government has maintained allocation to Pradhan Mantri Awas Yojana (PMAY) at Rs796bn – up 3% vs FY23RE (and 66% vs FY23BE). Within PMAY, allocation to the Rural segment has expanded by 13% YoY to Rs545bn, while that to Urban schemes is reduced by 13% YoY to Rs251bn. ● Metro capex see 25% YoY increase: Total allocation to Metros and NCR-TC is up 25% YoY to Rs195bn vs FY23RE. We note that the allocation is flat when compared to last year's budgeted numbers, implying that execution delays in the current year is expected to be competed in FY24. ● Lower allocation to MNREGA can be offset by other rural schemes: Total allocation under MNREGA is reduced by 33% YoY vs FY23RE and 18% YoY vs FY23BE to Rs600bn. However, for FY23, allocation to this scheme in RE is up 23%, implying that expenditure can be higher than budgeted. Also, some of the other rural schemes have seen higher allocations, such as National Rural Drinking Mission (+27% YoY), which should partially offset any negative impact of lower allocation to MNREGA. As such, Cement companies are confident of rural demand, given the expected good winter crop this year coupled with high crop prices. 	All Companies (our preferred pick in the sector : Ultratech Cement, JK Cement, Dalmia Bharat and JK Lakshmi).	

Sector	Impact	Key measures	Stocks affected	
			Positively	Negatively
Chemicals	Positive	<ul style="list-style-type: none"> Emphasis on battery energy storage systems with a capacity of 4,000 MWH will be supported with viability gap funding. Also, BCD exemption have been extended on imports of silica inputs by two years, and that on lithium-ion cells, EVA sheet/solar-tempered glass used in solar cells or modules have been extended by one year. Focus on battery energy storage systems, Lithium-ion and solar cells is positive for the chemical companies that have an exposure to supply chain of these segments. Companies such as Gujarat Fluorochemicals, Neogen Chemical Industries and Tatva Chintan Pharma have plans to foray into products/chemicals used across battery value-chain. Basic Customer Duty (BCD) on import of denatured ethyl alcohol used for industrial chemicals has been reduced from 5% to NIL. Positive for Laxmi Organics and Jubilant Ingrevia. BCD on acid grade fluorspar (more than 97% calcium fluoride) has been reduced from 5% to 2.5%. The benefit arising from reduction in BCD is less than 1% of FY23E Ebitda for companies like SRF, Navin Fluorine and Gujarat Fluorochem. BCD on import of Crude glycerin used in manufacture of Epichlorohydrin (ECH) has been reduced from 5% to 2.5. This is positive for Meghmani Finechem and DCM Shriram (capacity coming up soon). BCD on import of styrene and vinyl chloride monomer (VCM) has been raised from 2% to 2.5%. This is marginally negative for Styrenix Performance Materials, Bhansali Engineering Polymers, Supreme Petrochem and Chemplast Sanmar. For Gujarat Fluorochemicals, the benefits from BCD on fluorspar are likely to get negated by increase in BCD on VCM. 	Gujarat Fluorochem, SRF, Neogen Chemical, Tatva Chintan, Navin Fluorine, Anupam Rasayan, Laxmi Organics and Jubilant Ingrevia	Styrenix Performance Materials, Bhansali Engineering Polymers, Supreme Petrochem and Chemplast Sanmar

Sector	Impact	Key measures	Stocks affected	
			Positively	Negatively
Infrastruc- ture	Positive	<ul style="list-style-type: none"> Allocation for highway development across NHAI and MoRTH stands at Rs2.58tn - up 37% vs FY23BE and 25% vs FY23RE. Within this, allocation to NHAI is up 14% (over FY23RE) to Rs1.62tn and allocation to other road works is up 49% (over FY23 RE) to Rs963bn. Allocation to Railway capex is up 50% over FY23 RE to Rs2.4tn. Key segments within Railways include New Lines (Rs315bn), Doubling (Rs307bn), Rolling Stock (Rs376bn), and Track renewals (Rs173bn). Housing remains in focus under PMAY with allocation at Rs790bn (up 55% vs FY22BE and 3% vs FY22RE). Support to state governments with extension of 50yr interest-free loan scheme by one year. This is for Infra capex in FY24 for sectors such Urban Planning and Reforms, Housing for Police Personnel, Construction of Malls and Other Infrastructure. 	PNC Infra, Ashoka Buildcon, KNR Construction, GR Infra, HG Infra, Capacite Infra, Ahluwalia Projects, PSP Projects, Power Mech Projects	
Infra InvITs	Not clear yet	<ul style="list-style-type: none"> The budget had made capital reduction taxable in hands of unit holders. But, it is not clear yet whether this is applicable only on amount greater than the original capital, or on the entire amount (which will be a negative). This can impact monetisation of assets through InvIT route, if the entire capital reduction is taxed for unit holders. 	IRB InvIT, IndiGrid InvIT, GR Infra	

Sector	Impact	Key measures	Stocks affected	
			Positively	Negatively
Life Insurance	<p>Negative</p> <p>Mildly negative</p>	<ul style="list-style-type: none"> ● For non-ULIP policies with aggregate premiums of above 500k p.a., redemption proceeds will become taxable at the marginal tax rate: Negative for Life Insurance companies with higher share of high-ticket non-ULIP business. The taxation is applicable on an aggregate premium basis for an individual and for the incremental amount exceeding 500k only. With this, both traditional and ULIP savings products are now taxable, if the annual aggregate premiums exceed Rs500k/250k respectively. However, we believe the impact from this change could have an impact of up to 10% on the overall APE/VNB of the companies, with varying degrees, depending on the share of business coming from the high-ticket non-ULIP segment. SBI Life is best positioned and the least impacted, in our view. ● Increased tax benefits provided for the new tax regime for personal income tax rates, which proposes lower tax rates in lieu of most of the deductions and exemptions available currently, including under section 80C related to investments in certain product classes such as insurance, ELSS, PF, PPF etc. The new tax regime is optional, but if adopted by majority of tax payers, may result in lower inflows for insurance savings products too under 80C. We believe that despite the additional tax benefits under the new regime, it still remains less attractive vs the old regime. Hence, it could be only marginally negative for Life Insurance companies. However, where insurance premiums are lower than 500k/250k for non-linked/linked products, it still remains tax free at the time of withdrawal/maturity compared to other investment classes such as equity, debt, real estate or commodities. 		SBI Life ICICI Pru Life HDFC Life Bajaj Allianz Life

Sector	Impact	Key measures	Stocks affected	
			Positively	Negatively
Oil & Gas	MIXED	<ul style="list-style-type: none"> • POSITIVE: Capital assistance of Rs300bn provided for the OMCs to take up energy transition projects; fund will most likely be utilised for funding RE, green H2 projects and will incentivise the companies to undertake / plan capex. • NEUTRAL: 61% cut in total budgeted LPG subsidy to Rs22.57bn in FY24; this is a key negative, as international LPG prices have increased by almost 22% in past two months. The budget seems to assume massive correction in commodity prices; however, as seen in FY23 in case actual need > budget, Government may offer one-time grant to OMCs. • NEGATIVE: No provision of subsidy / grant to OMCs is specified towards the losses incurred, while selling auto fuels. We estimate the OMCs collectively to incur loss of approx. Rs1trn in FY23 while selling auto fuels. While part of such loss is offset by supernormal GRMs, in 1H collectively OMCs have reported losses of Rs212bn (standalone), for which they would need financial assistance. The budget speech / provisions remain silent, and to that extent, it remains an overhang on the stocks. 	BPCL,IOCL, HPCL BPCL,IOCL, HPCL	BPCL,IOCL, HPCL

Sector	Impact	Key measures	Stocks affected	
			Positively	Negatively
Power	Positive	<ul style="list-style-type: none"> Battery energy storage systems with a capacity of 4,000mwh will be supported by the government via viability gap funding, which will attract investment towards such projects. Inter-state transmission system for evacuation and grid integration of 13 GW Renewable Energy from Ladakh will be constructed with an investment of Rs207bn, of which, support from the Centre would be of Rs83bn. Reforms Linked Distribution Scheme (RLDS) allocation for SEBs hiked 107% to Rs118bn; this however linked to achievement of targets such as AT&C loss reduction etc. Budgetary allocation to SECI (Rs20.5bn) and Rs357.7bn towards IREDA; will go a long way in promoting the RE projects. 	POWERGRID, NTPC and other companies taking upon H2 projects	
	Neutral	<ul style="list-style-type: none"> Outlay of Rs197bn under green hydrogen mission towards transition of the economy to low carbon intensity and lower dependence on fossil fuel imports. Government has set an annual production target is set to 5 MMT by 2030. This was announced earlier and reiterated in the budget. Government stated that it is formulating a policy to support pump storage projects (PSP's). Green credit programme will be notified by the government under the Environment (Protection) Act. 		
	Negative	<ul style="list-style-type: none"> Distribution in the form of repayment of capital is now taxed for REITs and INVITs. REITs/INVITs usually distributes its income in the form of interest, dividend and repayment of capital. Now, only divided remains exempt. 		POWERGRID

Sector	Impact	Key measures	Stocks affected	
			Positively	Negatively
Real Estate	Negative	<ul style="list-style-type: none"> Taxing REIT distribution (Negative): Distribution in the form of repayment of capital is also now taxed. REIT usually distributes its income in the form of Interest, dividend and repayment of capital. Now, only dividend remains exempt. Embassy REIT and BIRET have 45-50% of their distribution as repayment of capital. This is applicable from 1st April 2024. However, we await further clarity on this. 	N.A	Embassy REIT, Brookfield REIT
		<ul style="list-style-type: none"> Capping Capital Gains on Residential Sale (Negative): Capital gains exemption on sale of residential property/other long-term capital asset is now capped at Rs100mn. The act says this is to restrict the huge deductions claimed by high net worth individuals who are buying expensive residential houses. This is applicable from 1st April 2024. 	N.A	Marginally negative for DLF, OBER
		<ul style="list-style-type: none"> Restriction on double deduction on housing loan interest (Negative): If an assessee claims Interest on housing loan (u/s 24 and in some cases Chapter VI-A), 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. 	N.A	N.A
		<ul style="list-style-type: none"> PMAY allocation stable (Neutral): PMAY allocation has been kept stable YoY from Rs770bn (revised estimates) for FY23 to Rs790bn for FY24 (a modest increase). Also, this is largely for affordable housing (under Rs4.5mn ticket size) where listed developers don't have a meaningful presence. 	N.A	N.A

Sector	Impact	Key measures	Stocks affected	
			Positively	Negatively
Telecom	Neutral	<ul style="list-style-type: none"> • FY23 Telecom receipt has been revised upward from Rs528bn to Rs688bn. FY24 budgeted Telecom receipt has been set quite high, at Rs895bn. • Based on telcos' rev. share payments to the government and instalments on past auctions, a realistic estimate of Telecom receipt for both the years comes to Rs410bn. This approximately implies a gap of Rs278bn/Rs485bn in FY23/24. • On the other hand, we also note that capital expenditure of DoT has sharply gone up to Rs542bn/Rs617bn in FY23/24 from the FY18-22 average run-rate of Rs~50bn. • Our industry interactions suggest that BSNL-relief package related items (some of which are non-cash transactions such as conversion of dues into equity, allotment of 4G spectrum against equity infusion, etc.) are showing up both on the capital expenditure side and receipt side of the budget. • If there is a fresh spectrum auction in FY24 and Bharti acquires 10MHz of 700MHz for Rs400bn, the government would realise ~Rs40bn upfront receipt assuming similar payment terms as 2022 auction. 	None	None
Rating Agencies	Positive	<ul style="list-style-type: none"> • 33% increase in capital investment outlay, with a focus on Railway and Roads, augurs well for capex cycle recovery. The resolve to keep fiscal deficit in check may also translate into a benign interest rate environment and support bond issuances. • This will benefit credit rating agencies to varying degrees. CARE, ICRA and CRISIL have varying levels of exposure to India at 88%, 59% and 25% respectively. 	CARE, ICRA, CRISIL	

Thank you



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