FY23 BUDGET REVIEW

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Focus on investment

- **India's FY23 budget continues a series of themes from previous budgets, including elevated capex outlay and easing of regulations**
- **Crypto assets now brought under the tax net; scope of implementation will likely be clearer once a consultation paper is published**
- **Budget proposals are positive for infrastructure, capital goods and consumption sectors**

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Realistic assumptions: The government presented the FY23 Union Budget on 1 Feb 2022. The budget pegs the FY23 fiscal deficit at 6.4%, which is largely in line with market expectations. Long-running themes of ease of living and ease of doing business remain in focus. Growth in India's FY23 gross tax receipts is pegged at a modest 9.6% over FY22 revised estimates. This is easily achievable given the 8-8.5% GDP growth assumption as per the Economic Survey. Notably, there was no increase in income tax rates. The FM later clarified that the government did not want to effect any increase in personal tax during the pandemic.

Elevated capital outlay: The government has also continued with elevated capital expenditure, allotting Rs 7.5tn for FY23 (a 36% increase YoY), which along with grants-in-aid for the creation of capital assets is tantamount to Rs 10.7tn.

Support for MSMEs extended: The Emergency Credit Line Guarantee Scheme (ECLGS) has helped both MSMEs and banks tide over potential stress in MSME sectors. This scheme has now been extended to Mar'23 and additional outlay has been earmarked for the hospitality sector, which continues to be affected by Covid-19.

Crypto brought under tax net: The FM has clarified that a digital item can be termed as currency only if it has been issued by the central bank. We believe all other crypto assets will likely be termed virtual digital assets. All transactions in virtual digital assets will attract 1% TDS while any income from their transfer will be taxed at a flat 30% rate. However, full clarity on the types of assets that will be taxed will only emerge once the relevant consultation paper is issued by the government. This apart, RBI will issue a blockchain-based digital currency during FY23.

Sector view: Higher outlay on infrastructure along with the construction target of 8mn affordable houses in FY23 will likely mean increased demand for building materials, including cement and steel. Robust allocation on MSP (minimum support price) will support rural consumption. We also believe higher outlay will bolster the capital goods and construction sectors. Easing of SEZ regulations can catalyse private capex.

Salient announcements & implications

Fig 1 – FY23 Union Budget: Sector-wise implications

Sector	Budget announcement	Implications for the Sector
Renewables	▪ Solar Module PLI scheme – Additional allocation of Rs 195bn for manufacturing of high-efficiency modules with priority to fully integrated manufacturing units ▪ Customs duty increase on solar cells to 25% (from 20%) and on solar modules to 40% (from 20%) to give a push to domestic manufacturing, announced in last budget, will apply from FY23 ▪ Energy storage to be given infrastructure status ▪ Battery swapping policy for developing EV eco system	▪ PLI proposal on solar panel manufacturing, increase in customs duty on solar cells and solar modules, and infrastructure status for energy storage are positive for companies investing in solar manufacturing
Capital Goods, Construction	▪ Increased capital expenditure allocation ▪ Gradual phase-out of concessional duty rates on capital goods and project imports, with application of a moderate 7.5% tariff ▪ Increased procurement from local industries in defense capital budget	▪ Positive for the capital goods sector, particularly for companies manufacturing domestically
IT	▪ Replacement of SEZ Act with new legislation	▪ Most Indian IT companies have their Indian delivery centres located at SEZs; hence, easing of regulations will be positive while any adverse change in the tax structure will be negative
Cement, Building Material	▪ PMAY allocation for affordable housing at Rs 480bn in FY23 (in line with the Rs 474bn in FY22 RE and higher than the Rs 275bn in FY22 BE) ▪ National Highways Authority of India – Allocation increased to Rs 651bn in FY22 RE and Rs 1,340bn in FY23 from Rs 574bn in FY22 BE ▪ Pradhan Mantri Gram Sadak Yojana – Allocation increased to Rs 190bn in FY23 from Rs 150bn in FY22 BE and Rs 140bn in FY22 RE ▪ Urban Development & Urban Planning Support to State: (a) Megacities and hinterland areas to become centres for growth; (b) Tier 2 & 3 cities to be focus for growth; (c) Modernisation of building byelaws, Town Planning Schemes (TPS), and Transit Oriented Development (TOD) ▪ Har Ghar, Nal Se Jal – Allocation of Rs 600bn with an aim to cover 38mn households in 2022-23	▪ Positive for demand growth in the cement and building material sectors given higher allocation to PMAY and National Highways
Metals and Mining	▪ Infrastructure development announcements include 25,000km of highways with capex of Rs 200bn in FY23, 400 new-generation Vande Bharat trains over the next 3 years, and 100 new cargo terminals over the next 3 years • PMAY allocation for affordable housing • Jal Jeevan Mission • Metro projects allocation • PM Gati Shakti Master Plan to be developed ▪ Steel sector – Extension of duty exemption on scrap for FY23, removal of CVD on stainless steel and coated steel products, removal of ADD on straight length bars and rods of alloy-steel, high-speed steel of non-cobalt grade and flat rolled steel products, plated or coated with alloy of aluminum and zinc ▪ Project imports of new coal projects and iron ore projects registered after 30 Sep 2022 will attract 7.5% BCD	▪ Overall positive – Infrastructure push to improve demand environment for Metals and Mining sectors in medium term ▪ Permanent revoking of ADD on coated steel products has no immediate implication as it was not functional under the current price environment ▪ Permanent revoking of CVD on certain hot rolled and cold rolled stainless steel products was also implemented earlier and this budget only makes the same measure permanent – hence, no incremental implications

Sector	Budget announcement	Implications for the Sector
Telecom	▪ 5G rollout – Spectrum auction in CY22 for commencing rollout in FY23 ▪ Data centres given infrastructure status ▪ Scheme for design-led manufacturing to build a strong 5G ecosystem as part of PLI scheme ▪ Optical fibre network to be expanded to connect villages and remote areas, with contracts awarded under BharatNet via the PPP model in FY23; expected completion in CY25	▪ 5G rollout timeline positive for data usage and ARPU growth in medium term. However, it will call for higher capex in near term for spectrum allocation
Chemicals	▪ Jal Jeevan Mission ▪ Reduction in customs duty on certain critical chemicals like methanol to 2.5% (from 5%) and acetic acid to 5% (from 7.5%) ▪ Gradual phase-out of exemption/concessional rates on certain chemicals for which domestic capacity exists	▪ Demand push particularly for PVC pipe sector from higher allocation to Jal Jeevan Mission ▪ Reduction in customs duty on methanol and acetic acid to benefit downstream chemicals such as MTBE, chloromethanes and metal acetates
Coal	▪ 4 pilot projects for coal gasification and conversion of coal into chemicals to evolve technical and financial flexibility	▪ Pilot projects useful to assess alternative use of coal at a time when focus is shifting away from coal use in the power sector
Oil and Gas	▪ Levy of additional differential excise duty of Rs 2/ltr from 1 Oct 2022 to encourage blending of fuel ▪ For direct benefit transfer on LPG, allocation lowered to Rs 34bn in FY22 RE and Rs 40bn in FY23 from Rs 125bn in FY22 BE ▪ For LPG connection to poor households, allocation of Rs 16.2bn in FY22 RE and Rs 8bn in FY23 ▪ Indraprastha Gas Grid for developing gas pipeline infrastructure in the Northeast – allocation increased to Rs 8.5bn in FY22 RE and Rs 18bn in FY23 from Rs 5bn in FY22 BE ▪ Reduction in customs duty to 2.5% (from 5%) on heavy feedstock for petroleum refining – particularly fuel oil, straight run fuel oil, low sulphur vax residue, vacuum residue – slurry, and vacuum gas oil ▪ Project imports of new gas projects registered after 30 Sep 2022 will attract 7.5% BCD	▪ Neutral impact with no major changes proposed
Education	▪ World-class foreign universities and institutions will be allowed in the GIFT City to offer courses in Financial Management, FinTech, Science, Technology, Engineering and Mathematics free from domestic regulations, except those by IFSCA, to facilitate availability of high-end human resources for financial services and technology ▪ 'One class–one TV channel' programme of PM eVIDYA will be expanded from 12 to 200 TV channels. This will enable all states to provide supplementary education in regional languages for classes 1-12	▪ Positive for rural households with inadequate coverage of online classes

Source: Budget documents, BOBCAPS Research

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