BOBCAPS
TRUST | INNOVATION | EXCELLENCE

FY24 BUDGET PREVIEW

20 January 2023

Trade-off between capex and consolidation

- **Fiscal normalisation post Covid expected to remain a core theme of the FY24 budget; fiscal glide path likely to be maintained**
- **Budget could stay geared towards improving living standards of the poor while continuing to build necessary infrastructure**
- **In line with past trends, we do not expect the budget to spark a significant move in the stock market**

Kumar Manish | Vinod Chari
Anupam Goswami
research@bobcaps.in

Trade-off between capex and consolidation: The government has reiterated its commitment to India's fiscal glide path which targets a 4.5% fiscal deficit by FY26. We thus expect a lower figure in the FY24 budget estimate (BE) vs. the 6.4% deficit in FY23BE. Additionally, for India to become a US$ 5tn+ economy from the current ~US$ 3tn, continued momentum in the investment cycle is vital. Therefore, we believe the capex support seen in the past two budgets will continue.

The FY23BE of Rs 7.5tn capex is likely to be met and should see a bump up of 10-15% to Rs 8.5tn-9tn in FY24BE, with outlays in the usual sectors of roads, highways, defence and railways. We believe the production-linked incentive (PLI) scheme could be extended to newer sectors, while affordable housing would also stay in focus.

Subsidy burden likely to lighten…: Given moderating commodity prices, we expect the subsidy burden to be lower than last year. Revenue growth in FY23 is likely to beat nominal GDP growth on greater tax compliance. Note, food subsidy in FY23BE was Rs 2.9tn, including Rs 1.5tn for free food. We expect the food subsidy as a percentage of GDP to be lower in the FY24 budget with no expansion in scope envisaged. Similarly, fertiliser subsidy which overshot FY23BE of Rs 1.1tn to more than Rs 2tn is expected to moderate. These savings offer leeway for higher capex as well as better rural outlay without unduly upsetting the fiscal math.

…while rural India gets a pre-election boost: Being the penultimate year before general elections, we expect measures to boost agriculture, rural infrastructure and rural income through transfer schemes such as MNREGA which can see higher allocation.

Ease of living another focus area: We believe the government's thrust on ease of living will continue. This will include investments to improve potable water supply, health infrastructure and urban transportation infrastructure.

Market factoring in a balanced budget: Market swings over the fortnight spanning the pre- and post-budget weeks haven't exceeded 3% in the past 11 years (barring 4). We believe the market is already factoring in a balance between a pro-capex and pro-welfare budget, though individual sectors may see higher swings.

Returns 1W pre- to 1W post-budget date

Budget date	Nifty50 returns (%)	S&P500 returns (%)
1-Feb-22	1.70	4.50
01-Feb-21	6.85	3.63
01-Feb-20	(0.17)	2.59
05-Jul-19	(2.38)	1.20
01-Feb-19	3.83	2.35
01-Feb-18	(5.87)	(6.02)
01-Feb-17	1.47	(0.16)
29-Feb-16	5.29	4.10
28-Feb-15	2.09	(0.41)
10-Jul-14	(1.64)	(0.42)
17-Feb-14	1.53	0.91
28-Feb-13	(0.54)	1.71
16-Mar-12	(2.45)	1.58
28-Feb-11	1.27	0.43

Source: Bloomberg, BOBCAPS Research

Fig 1 – FY24 Union Budget: Sector-wise expectations

Industry	Expectations
Auto	▪ Extension of FAME II (which expires on 31 Mar 2024) and expansion of its scope to light commercial vehicles, medium & heavy commercial vehicles, and tractors. Linking of new FAME II scheme to e-mobility conversion rather than being time-based ▪ Uniform 5% GST on spare parts for electric vehicles ▪ Capex subsidy of 50% for developing charging infrastructure across India ▪ Support for battery manufacturing in India and further reductions in import duties on raw materials ▪ Inclusion of electric vehicles in priority sector lending (PSL) to make them more affordable ▪ Inclusion of startups and micro, small & medium enterprises (MSME) in the PLI scheme drafted for promotion of electric mobility
Capital Goods	▪ Higher outlay of 10-15% with focus on infrastructure segments such as roads, railways, drinking water, sewerage, and urban and rural infrastructure under the National Infrastructure Pipeline (NIP) ▪ Allocation to the National Investment and Infrastructure Fund (NIIF) ▪ Inclusion of more sectors for incentives under the PLI scheme ▪ Announcements to push growth in renewable energy
Cement	▪ Higher allocation towards NIP to achieve the targeted investment of Rs 111tn ▪ Increase in capital expenditure by 15-20% from the Rs 7.5tn in FY23BE ▪ Target expenditure of above Rs 1tn on PMAY (Pradhan Mantri Awas Yojana) against allocation of Rs 480bn in FY23BE and Rs 473.9bn in FY22RE (revised estimates). Higher allocation expected to meet the targeted expenditure ▪ Increase in allocation towards PLI scheme ▪ Increase in capex towards achieving Bharatmala project target of 60,000km over FY20-FY24 ▪ Rationalisation of customs duty on fuel used as key inputs by the sector (pet coke and imported coal)
Consumer Durables	▪ Reduction in personal income tax ▪ Higher allocation to rural welfare (which can boost demand for entry-level products) ▪ Customs duty hikes on appliances (to aid local manufacturers) ▪ Sops to the real estate sector
Fertiliser	▪ Allowing fertiliser companies to procure liquefied natural gas (LNG) via the Indian Gas Exchange to mitigate the impact on urea subsidies
FMCG	▪ Higher allocation to MGNREGA and other schemes related to roads, water as well as housing ▪ Increase in the minimum support price (MSP) for crops
Healthcare	▪ Higher spending on public healthcare ▪ Higher allocation towards rural healthcare to increase affordability and accessibility of healthcare services ▪ Supportive policies, simplified regulations, and simple GST norms for the pharmaceutical industry ▪ Higher budget outlay and separate fund allocations for R&D, formulations, and active pharmaceutical ingredients (API) ▪ Incentives to encourage innovation and increase expenditure on R&D ▪ Additional allocation for relevant PLI schemes in order to reduce reliance on Chinese API/KSM (key starting materials) ▪ Tax incentives and incentives for the development of medications and therapies for rare diseases ▪ Continuation of export benefits beyond 30 Sep 2023 under the Remission of Duties or Taxes on Export Products Scheme (RoDTEP) to make Indian exporters competitive in the international market.
Infrastructure	▪ Stronger and broader policies for financing infrastructure projects ▪ Higher allocation towards rural-oriented infrastructure such as water supply, sanitation and solid waste management ▪ Sustained focus on tier-II areas with schemes such as Smart Cities

Industry	Expectations
Insurance	▪ Increase in the Rs 50,000 limit for tax deduction on payment of health insurance premium under 80D of the Income Tax Act ▪ Rationalisation of GST on insurance products ▪ Tax exemption on the maturity amount under unit linked insurance policies (ULIP), where annual premium is Rs 250,000 or more ▪ Introduction of a separate taxation section for term life insurance policies
Internet Software and Services	▪ Promotion of startups to facilitate drones as a delivery-based provider through Drone-as-a-Service (DrAAS) ▪ Extension of the incorporation date for startups eligible for 100% tax deduction on profits under Section 80-IAC
Metals & Mining	▪ Correction of the inverted structure in aluminium through a reduction in basic customs duty on calcined petroleum coke, caustic soda lye and green anode/pre-baked carbon anode from 7.5% to 2.5% and on raw petroleum coke from 10% to 2.5%, among others ▪ Increase in import duty on aluminium and aluminium products from 10% to 12.5% to curb dumping ▪ Increase in basic customs duty on import of primary zinc products from 5% to 7.5% ▪ Protection against dumping of steel due to non-tariff barriers being enacted by other regions ▪ Incentives to put up iron ore beneficiation plants to consume low-grade ore domestically
Oil & Gas	▪ Removal of windfall tax on domestic crude and exports of petrol, diesel and aviation turbine fuel ▪ Compensation for the freeze in petrol and diesel prices for the past eight months ▪ Roadmap for inclusion of petroleum products under goods & services tax (GST) regime ▪ Ceiling on administered price mechanism (APM) gas prices, implementing recommendations of the Parikh Committee ▪ Rationalisation of oil and gas taxation to encourage domestic exploration and production ▪ Restoration of customs duty exemption on items not feasibly available in the country but essential for oil & gas projects
Power	▪ Incentives for renewable energy to boost capacity addition ▪ Reforms in distribution and supply of power ▪ Inclusion of the power sector under section 35AD
Telecom	▪ Exemption of customs duty levied on telecom equipment to boost 5G rollout ▪ Standardisation of fiberisation applications and right-of-way charges across India to reduce average time for approval (currently implemented by 13 states) ▪ Reduction in universal service obligation fund (USOF) from the current level of 8% as nearly half of USOF funds remain unused
Wealth Management	▪ Rationalisation of capital gains tax

Source: BOBCAPS Research

NOT FOR DISTRIBUTION, DIRECTLY OR INDIRECTLY, IN OR INTO THE UNITED STATES OF AMERICA ("US") OR IN OR INTO ANY OTHER JURISDICTION IF SUCH AN ACTION IS PROHIBITED BY APPLICABLE LAW.

Disclaimer

Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Analyst certification

The research analyst(s) authoring this report hereby certifies that (1) all of the views expressed in this research report accurately reflect his/her personal views about the subject company or companies and its or their securities, and (2) no part of his/her compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of BOB Capital Markets Limited (BOBCAPS).

General disclaimers

BOBCAPS is engaged in the business of Stock Broking and Investment Banking. BOBCAPS is a member of the National Stock Exchange of India Limited and BSE Limited and is also a SEBI-registered Category I Merchant Banker. BOBCAPS is a wholly owned subsidiary of Bank of Baroda which has its various subsidiaries engaged in the businesses of stock broking, lending, asset management, life insurance, health insurance and wealth management, among others.

BOBCAPS's activities have neither been suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years. BOBCAPS has not been debarred from doing business by any stock exchange or SEBI or any other authority. No disciplinary action has been taken by any regulatory authority against BOBCAPS affecting its equity research analysis activities.

BOBCAPS has obtained registration as a Research Entity under SEBI (Research Analysts) Regulations, 2014, having registration No.: INH000000040 valid till 03 February 2025. BOBCAPS is also a SEBI-registered intermediary for the broking business having SEBI Single Registration Certificate No.: INZ000159332 dated 20 November 2017. BOBCAPS CIN Number: U65999MH1996GOI098009.

BOBCAPS prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, BOBCAPS prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction We are not soliciting any action based on this material. It is for the general information of BOBCAPS's clients. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. BOBCAPS research reports follow rules laid down by Securities and Exchange Board of India and individuals employed as research analysts are separate from other employees who are performing sales trading, dealing, corporate finance advisory or any other activity that may affect the independence of its research reports.

The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. BOBCAPS does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment in certain transactions — including those involving futures, options, and other derivatives as well as non-investment-grade securities — that give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavour to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so.

We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have "long" or "short" positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein and may from time to time add to or dispose of any such securities (or investment). We and our affiliates may assume an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis, and may also perform or seek to perform investment banking or advisory services for or relating to these companies and may also be represented in the supervisory board or any other committee of these companies.

For the purpose of calculating whether BOBCAPS and its affiliates hold, beneficially own, or control, including the right to vote for directors, one per cent or more of the equity shares of the subject company, the holdings of the issuer of the research report is also included.

BOBCAPS and its non-US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non-US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies, effectively assume currency risk. In addition, options involve risks and are not suitable for all investors. Please ensure that you have read and understood the Risk disclosure document before entering into any derivative transactions.

No part of this material may be (1) copied, photocopied, or duplicated in any form by any means or (2) redistributed without BOBCAPS's prior written consent.

Company-specific disclosures under SEBI (Research Analysts) Regulations, 2014

The research analyst(s) or his/her relatives do not have any material conflict of interest at the time of publication of this research report.

BOBCAPS or its research analyst(s) or his/her relatives do not have any financial interest in the subject company. BOBCAPS or its research analyst(s) or his/her relatives do not have actual/beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

The research analyst(s) has not received any compensation from the subject company or third party in the past 12 months in connection with research report/activities. Compensation of the research analyst(s) is not based on any specific merchant banking, investment banking or brokerage service transactions.

BOBCAPS or its research analyst(s) is not engaged in any market making activities for the subject company.

The research analyst(s) has not served as an officer, director or employee of the subject company.

BOBCAPS or its associates may have material conflict of interest at the time of publication of this research report.

BOBCAPS's associates may have financial interest in the subject company. BOBCAPS's associates may hold actual / beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS or its associates may have managed or co-managed a public offering of securities for the subject company or may have been mandated by the subject company for any other assignment in the past 12 months.

BOBCAPS may have received compensation from the subject company in the past 12 months. BOBCAPS may from time to time solicit or perform investment banking services for the subject company. BOBCAPS or its associates may have received compensation from the subject company in the past 12 months for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory services in a merger or specific transaction. BOBCAPS or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.

Other disclaimers

BOBCAPS and MAYBANK (as defined below) make no representation or warranty, express or implied, as to the accuracy or completeness of any information obtained from third parties and expressly disclaim the merchantability, suitability, quality and fitness of this report. The information in this report has not been independently verified, is provided on an "as is" basis, should not be relied on by you in connection with any contract or commitment, and should not be used as a substitute for enquiries, procedures and advice which ought to be undertaken by you. This report also does not constitute an offer or solicitation to buy or sell any securities referred to herein and you should not construe this report as investment advice. All opinions and estimates contained in this report constitute BOBCAPS's judgment as of the date of this report and are subject to change without notice, and there is no obligation on BOBCAPS or MAYBANK to update this report upon issuance. This report and the information contained herein may not be reproduced, redistributed, disseminated or copied by any means without the prior consent of BOBCAPS and MAYBANK.

To the full extent permitted by law neither BOBCAPS, MAYBANK nor any of their respective affiliates, nor any other person, accepts any liability howsoever arising, whether in contract, tort, negligence, strict liability or any other basis, including without limitation, direct or indirect, special, incidental, consequential or punitive damages arising from any use of this report or the information contained herein. By accepting this report, you agree and undertake to fully indemnify and hold harmless BOBCAPS and MAYBANK from and against claims, charges, actions, proceedings, losses, liabilities, damages, expenses and demands (collectively, the "Losses") which BOBCAPS and/or MAYBANK may incur or suffer in any jurisdiction including but not limited to those Losses incurred by BOBCAPS and/or MAYBANK as a result of any proceedings or actions brought against them by any regulators and/or authorities, and which in any case are directly or indirectly occasioned by or result from or are attributable to anything done or omitted in relation to or arising from or in connection with this report.

Distribution into the United Kingdom ("UK"):

This research report will only be distributed in the United Kingdom, in accordance with the applicable laws and regulations of the UK, by Maybank Securities (London) Ltd ("**MSL**") who is authorised and regulated by the Financial Conduct Authority ("FCA") in the United Kingdom (MSL and its affiliates are collectively referred to as **"MAYBANK**"). BOBCAPS is not authorized to directly distribute this research report in the UK.

This report has not been prepared by BOBCAPS in accordance with the UK's legal and regulatory requirements.

This research report is for distribution only to, and is solely directed at, selected persons on the basis that those persons: (a) are eligible counterparties and professional clients of MAYBANK as selected by MAYBANK solely at its discretion; (b) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended from time to time (the "Order"), or (c) fall within Article 49(2)(a) to (d) (high net worth companies, unincorporated associations, etc. as mentioned in the stated Article) of the Order; (all such persons together being referred to as "relevant persons").

This research report is directed only at relevant persons and must not be acted on or relied on by any persons who are not relevant persons. Any investment or investment activity to which this material relates is available only to relevant persons and will be engaged in only with relevant persons.

The relevant person as recipient of this research report is not permitted to reproduce, change, remove, pass on, distribute or disseminate the data or make it available to third parties without the written permission of BOBCAPS or MAYBANK. Any decision taken by the relevant person(s) pursuant to the research report shall be solely at their costs and consequences and BOBCAPS and MAYBANK shall not have any liability of whatsoever nature in this regard.

No distribution into the US:

This report will not be distributed in the US and no US person may rely on this communication.

Other jurisdictions:

This report has been prepared in accordance with SEBI (Research Analysts) Regulations and not in accordance with local regulatory requirements of any other jurisdiction. In any other jurisdictions, this report is only for distribution (subject to applicable legal or regulatory restrictions) to professional, institutional or sophisticated investors as defined in the laws and regulations of such jurisdictions by Maybank Securities Pte Ltd. (Singapore) and / or by any broker-dealer affiliate or such other affiliate as determined by Malayan Banking Berhad.

If the recipient of this report is not as specified above, then it should not act upon this report and return the same to the sender.

By accepting this report, you agree to be bound by the foregoing limitations.