Union Budget 2023-2024.

A bundle of expectations!

Union Budget Expectation 2023-24

Tuesday
31st January, 2022

As we write, the performance of Indian stock markets is pathetic as the street is seen ramping up bearish bets on fears that ‘recession is on the horizon’.

Strictly speaking, Nifty’s start has been shaky for 2023 – and you can blame it to full economic uncertainty, geopolitical chaos, elevated inflation and a hawkish Federal Reserve backdrop. Another reason for decline in stocks are the high valuations of Indian stocks and muted corporate Q3 Earnings.

Haunting Nifty bulls are FIIs relentless selling. Foreign institutional investors this January have already sold to the tune of Rs. 23,255 crores. Please note, in CY 2022, FIIs had sold to the tune of Rs. 1,43,000 crores.

Interestingly, Nifty has underperformed Wall Street indices miserably as the Dow & Nasdaq so far in 2023 are up 1% and 7% respectively while Nifty is down 1.68%.

Well, if you are an investor at Dalal Street - you would want the ongoing exhaustion, anxiety and great sadness to quickly shift to joy, rediscovery and optimism.

Amid this backdrop, the Finance Minister has the singular responsibility of proving to the big investors across globe that the Prime Minister Narendra Modi's magic is still on.

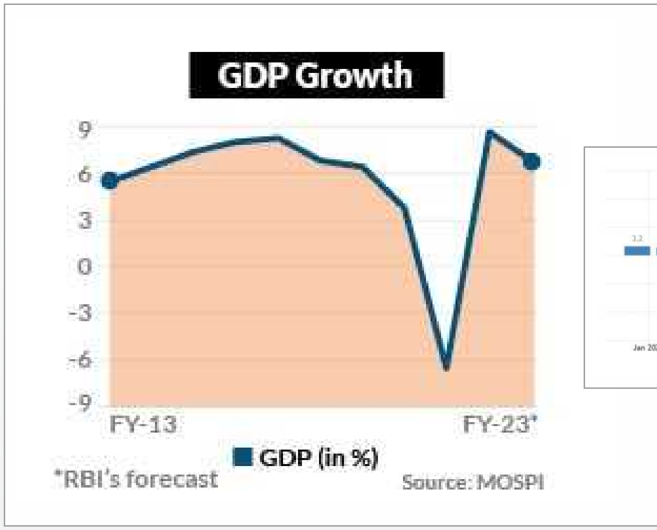
We suspect, expectations of benefits being doled out in the Union Budget are very high, way higher than those in previous budget. Hence, the Union Budget has to be a game changer and should definitely represent the reforms that the BJP government had promised to make. Please note, this is the last full Budget of the Modi government before the 2024 general elections.

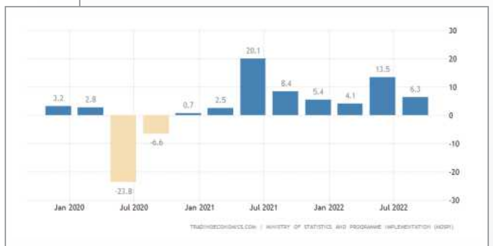
So from here on, all anxious eyes will be on the most powerful and the most important minister in Narendra Modi’s cabinet — Finance Minister Nirmala Sitharaman — known for her behind-the-scenes influence over the economic affairs in the country.

Hopefully, FM Sitharaman comes out with flying colors with a balanced budget with a focus on job creation, a focus on capex, manufacturing, infrastructure, rural economy, and controlling the deficit and bringing the economy back on track and meets the expectations of the country in this Union Budget 2023-2024 to be presented in the Parliament on Wednesday, February 1st, 2023 at 11am.

Long story short: The street will spy with one big eye if the FM can support economic growth while controlling deficits. This decade belongs to India. So, let's usher in a taxpayer friendly tax regime, which sets the tone for a $5tillion economy and even beyond.

Union Budget Expectation 2023-24



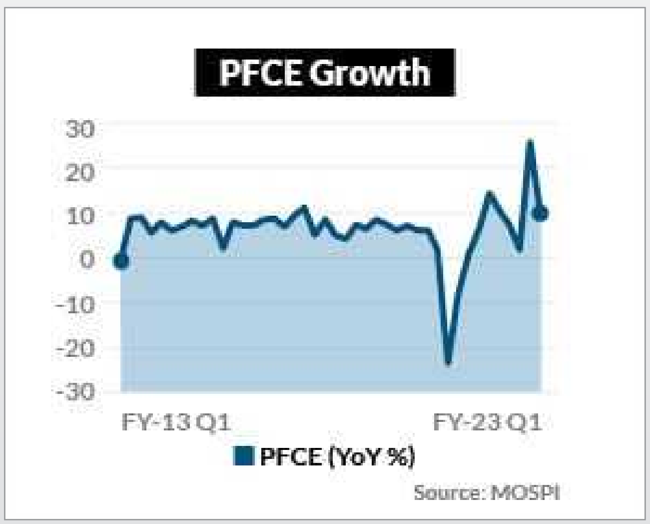


Before we start, first things first. The state of Indian economy....

India's gross domestic product (GDP) growth is projected to slip to 7% in the current fiscal ending March 2023 and to around 8% in 2023/24.

GDP is expected to grow at historic high rates for the next two or more years.

The biggest risk to these estimates is the interest rate hike by the US Federal Reserve which can bring down the economy into recession.

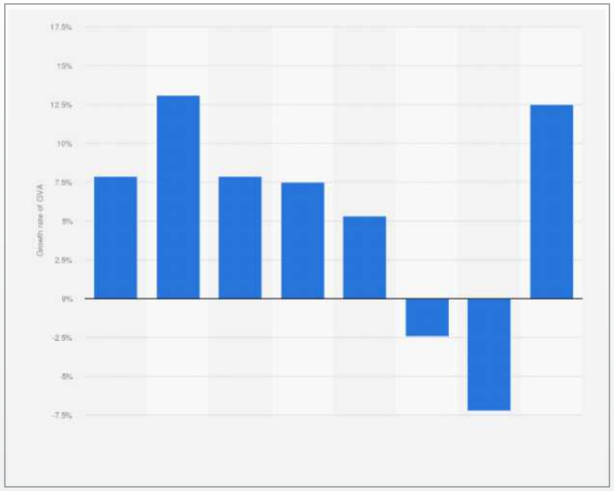


Private Consumption

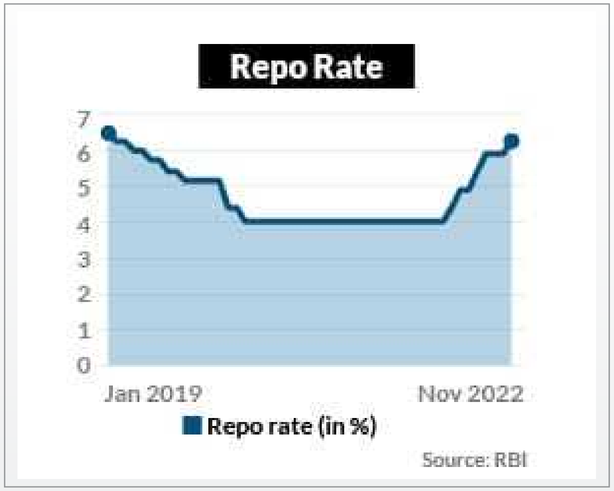
Strong domestic consumption demand has cushioned India's economic growth from global sluggishness. Going forward, the street expects the consumption demand to lead the economy on its growth path.

Private final consumption expenditure (PFCE) grew year-on-year by 9.7%.

Manufacturing GVA (YoY %)

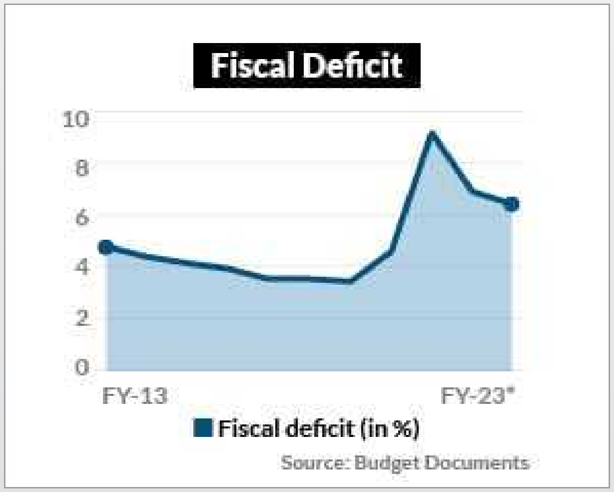


Manufacturing accounted for about 14.5 percent of the country's GVA in fiscal year 2021



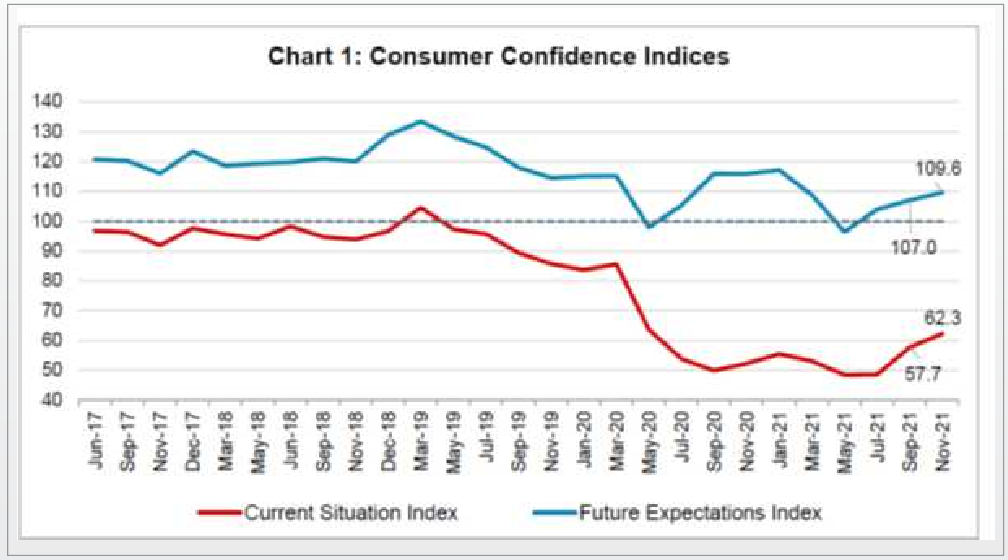
The current repo rate in 2023 stands at 6.25% as per the recent update on 7th December 2022, when the Reserve Bank of India (RBI) raised the repo rate by 35 basis points.

Annual consumer price inflation in India unexpectedly eased to 5.72% in December of 2022 from 5.88% in November, beating market forecasts of 5.9%.



FM Sitharaman has rapidly brought down the deficit to 6.9 percent in 2021-22 – 10 basis points more than the target. She also said the Centre would bring it down below 4.5 percent by 2025-26, with states expected to reach a fiscal deficit of 3 percent by 2023-24.

India's gross direct tax collections have grown by about 26 per cent to over Rs 13.63 lakh crore in the current fiscal so far.



The RBI's Consumer Confidence Survey shows that consumer sentiment, which had collapsed May 2019 onwards, have not yet recovered to pre-COVID levels. The consumer confidence index stood at 83.5 in November 2022.

Healthy/Robust Tax Collection in FY22

Particulars	FY20	FY21	FY22 (BE)	FY22 (estimate)	FY 23 (estimate)
Total Revenue (1+2-3)	**17.6**	**17**	**19.8**	**21.5**	**24.9**
Gross Tax Collection (1)	**20.1**	**20.3**	**22.2**	**26**	**28.5**
Direct Tax	10.5	9.3	11.1	13.2	14.5
Indirect Tax (a+b)	9.6	11	11.1	12.8	14
GST (a)	6	5.5	6.3	7.2	8.3
Other (b)	3.6	5.5	4.8	5.6	5.6
Non Tax Revenue (2)	**4**	**2.7**	**4.3**	**3.3**	**4.8**
Transfer to State (3)	**6.5**	**6**	**6.7**	**7.8**	**8.4**
Total Expenditure (x+y)	**26.9**	**35.1**	**34.8**	**37.2**	**41.6**
Revenue expenditure (x)	23.5	30.9	29.3	31.7	34.7
Capital expenditure (y)	3.4	4.2	5.5	5.5	6.9
Fiscal Deficit	9.3	18.1	15.1	15.7	16.7
Nominal GDP	204	197	223	236	270
Fiscal Deficit as % of GDP	**4.6%**	**9.2%**	**6.8%**	**6.7%**	**6.2%**

Source: Budget documents, consensus estimate, MSI

Inflation rate of 4–5% desirable.

RBI is likely to desist from raising the policy rate in the near future.

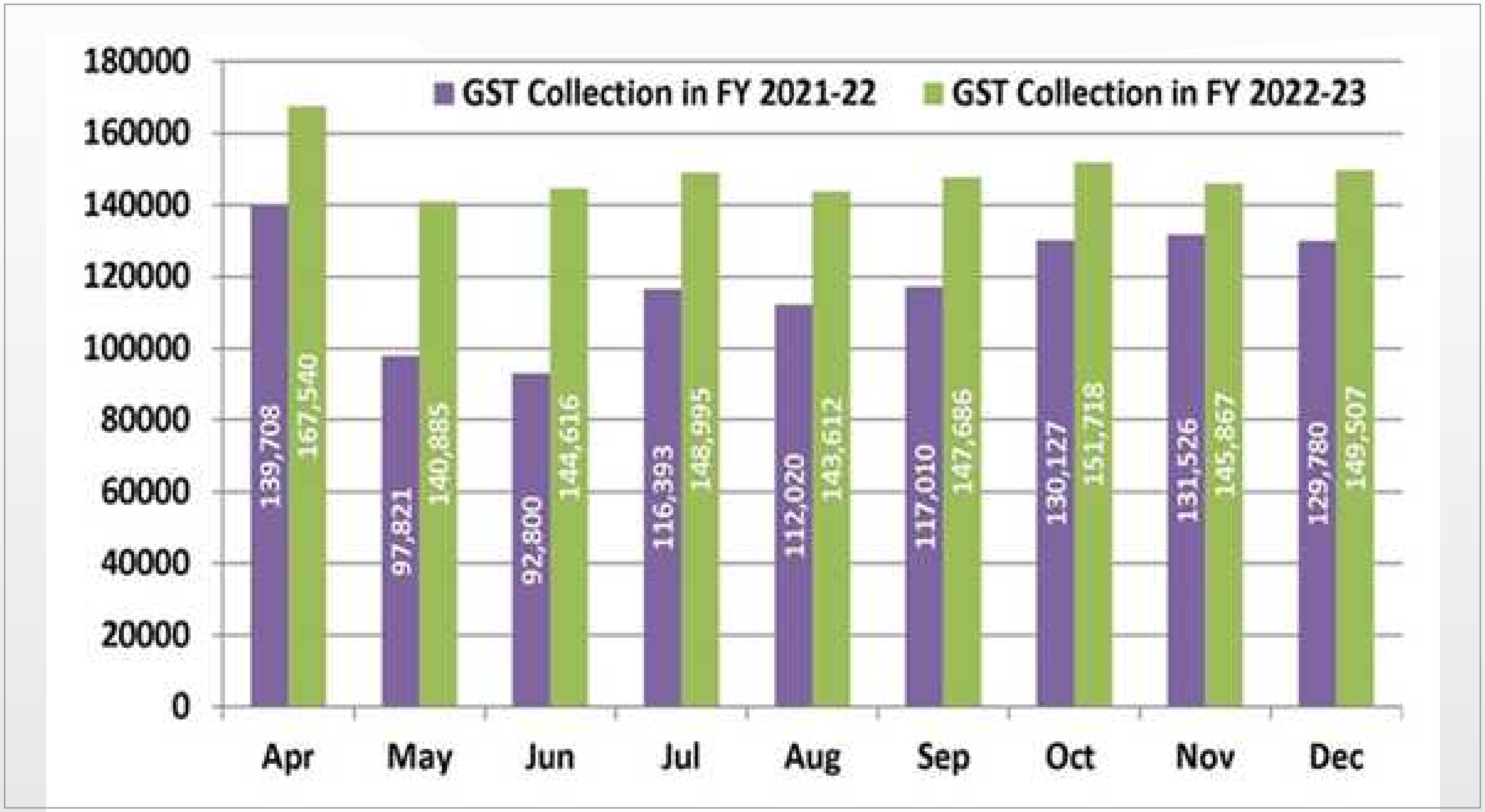
For FY24, gross tax collection is estimated to grow 9-10%.

Expenditure set to increase around 12%

The Centre will be able to achieve its fiscal deficit target of 6.4 per cent of gross domestic product (GDP) for 2022-23

The fiscal deficit target for FY24 could be 5.9%.

Trends in GST Collection (Rs. In Crore)



The gross Goods and Services Tax, GST revenue collected in December, 2022 is Rs. 1,49,507 crore. The GST revenues is 15 percent higher than the GST revenues in the same month last year.

The other key Union Budget Expectations 2023-2024:

The good news is that the pandemic risks in India is largely capped and most importantly, India has experienced a faster-than-expected pace of economic normalization.

Here are the pre-budget expectations from Finance Minister Nirmala Sitharaman budget 2023 speech:

1) The government will also look to come out with aggressive policies to emerge as a viable option for foreign firms exiting China. To bolster the theme, the Indian government will look to building and strengthening India's supply chain capacity, and most importantly, simplify legislations supported by liberal tax compliance regime. Production linked incentive (PLI) scheme details including investment and production thresholds for the extended sectors are awaited. The PLI scheme is currently extended to several sectors including auto components, telecom and networking products, advanced chemistry cell batteries, textile, food products, solar modules, white goods, and speciality steel.

2) The theme of the budget could be higher in defence segment as well given the importance of shoring up the country's defence forces which are lagging on quite a few weapons systems for several years and the imminent threats in the neighbourhood. The defence sector seems to be in limelight because of the government's Make in India push for defence products given the importance and the need for protection. Defence focused companies would be benefitting from this allocation which could increase their order book on the back proposed initiative taken by government.

3) Ease of doing business is the need of the hour to lure big foreign firm's eager to locate in India. The Government should consider curtailing the scope of transactions covered under TDS compliances, relaxations to non-resident taxpayers in return filing compliances where taxes have been appropriately withheld and provide clarifications on certain vexed issues particularly on the new charge of Equalisation levy and TDS/TCS provisions on e-commerce and also abolish applicability of Income Computation and Disclosure Standards. The industry needs efficient and sustained incentive policies to create a viable investment environment. The government should expedite and bring more clarity on PLI, PMP and FTP in the Union Budget.

4) Market is also expecting certain changes in Section 80C deductions in Budget that can benefit the income tax assessee. A hike in the 80C deductions limit will provide savings opportunities to the public at large. It is expected that limit would be enhanced from Rs 1.5 lakh to Rs 2.5 lakh considering the increase in cost of living in the last few years. An increase in the Section 80C deduction limit in Budget 2023 would mean the first in nine years. This attempt could further promote increase in inflow towards investments & savings habits on individual basis.

5) The budget should go a long way in doubling farmers' income by addressing incentives for the fertilizers, more thrust on irrigation, food processing, logistics, and most importantly on the research & development. The key expectations of farmers are export curbs such as the imposition of minimum export price, a quantitative limit on shipment, export duty, and an outright ban tend to negatively impact farmers' incomes. The street will also spy with one big eye on the ongoing farmer protests against the introduced new farm laws. Commanding attention would be the government's commitment towards minimum support prices.

6) The new normal these days are 'Work-from-home'. The budget should introduce standard deduction for additional expenditure incurred by salaried class to meet communication and infrastructure requirements. Also, the Government should consider increasing the limit of interest deduction paid on home loan as the pandemic has accelerated demand for bigger new homes to accommodate working space. So, incentives to support the real estate sector may include higher tax exemptions on interest and principal payments on housing loans. This will help the real estate sector immensely.

7) **Government may cut FY24 divestment target after struggling this year.**

   Disinvestment Target likely to be slashed for FY24 amidst rising uncertainty in a tense global environment and also unfavourable market conditions.

   Please note, divestments in FY23 stood at Rs 35,000 crore, which is just over half the target of Rs 65,000 crore. For FY24, we suspect the government will settle for a lower divestment target of Rs 50,000 crore.

8) **Investors and Traders seek removal of STT and LTCG…**

Honestly speaking, transaction cost in India is too high and LTCG and STT are seen as a sentiment dampener for the market.

Way back in 2004, security transaction tax (STT) replaced the long-term capital gains (LTCG) tax. Budget 2018 brought back LTCG, levied again at a rate of 10% on annual gains of over Rs 1 lakh but STT was not removed.

The biggest positive trigger for Dalal Street in the upcoming Union Budget 2022 could be abolition of Securities Transaction Tax (STT). Investors will also want LTCG to be removed. This should give boost to the new investors who have started their investment journey in last 12–24 months.

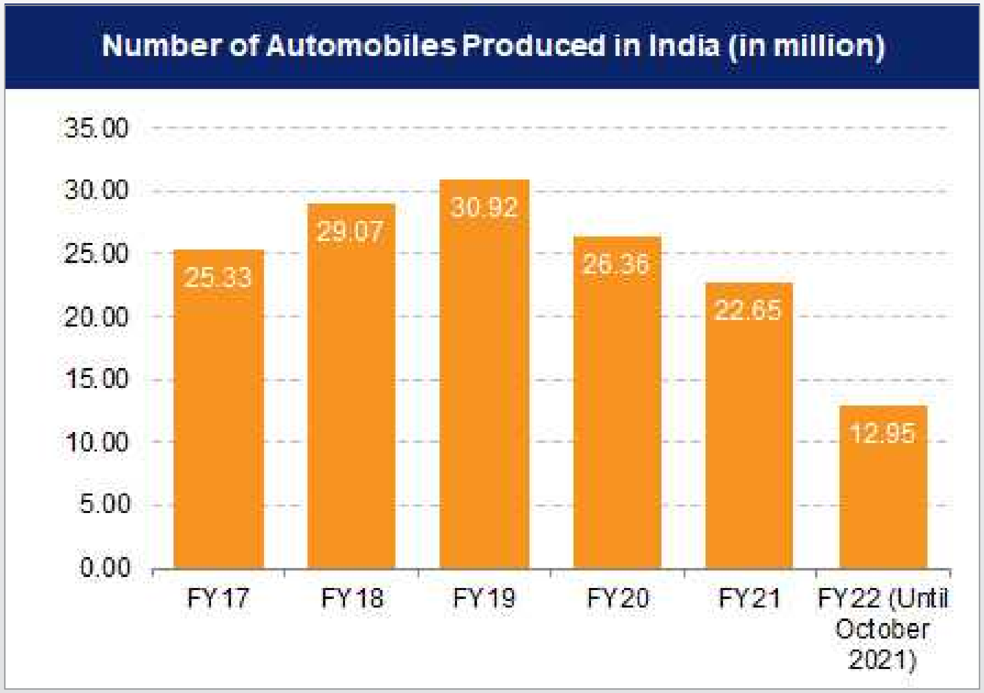
As requested also by ANMI, the government should provide tax exemptions of up to ₹1 lakh in STCG. At present, STCG on equity shares (listed), which have suffered STT, are taxed at 15 percent plus surcharge, without any tax exemptions like in the case of long-term capital gains (LTCG).

Short-term capital gains from equities are taxed at 15% while long-term capital gains over Rs 1 lakh are taxed at 10%. The government levies a 0.1% STT on each equity sale or purchase transactions on exchanges. Short-term capital gains on all other assets are taxed as per an individual's income tax slab, while long-term capital gains are taxed at 20% with indexation benefit.

Automobile Sector:

The Indian automobile industry has historically been a good indicator of how well the economy is doing as it contributes almost 6.4% of India's GDP and 35% of manufacturing GDP and is a leading employment provider.

Digging deeper, after a robust performance in FY19, the automobile sector in India is going through one of its roughest phases and under tremendous pressure due to the pandemic coupled with the rise in commodity prices, increased input, shipping, and logistics costs for automobile producers. Meanwhile, the global semiconductor shortage forced companies to reduce their production, despite strong demand.



Budget Expectations:

The Automotive Component Manufacturers Association (ACMA) is seeking relaxations, including a uniform GST of 18% on all auto parts, from the central government in the upcoming Union Budget as this help remove an inverted duty structure that restricts working capital.

The industry expectation is that the Government of India (GOI) introduces more multiple initiatives like performance-linked incentive (PLI) scheme for electric vehicles (EVs) and advanced technology components, expanding the Faster Adoption and Manufacturing of (Hybrid &) Electric Vehicles in India (FAME) II and PLI schemes and increasing the scope for start-ups and MSME, the vehicle scrappage policy, and more on the recent announcement of the PLI scheme for semiconductors which are likely to be a big step in the right direction.

Benefit to: Maruti, M&M, BALKRISHNA INDUSTRIES, HeroMotors.

Infrastructure Sector:

Infrastructure sector is and will continue to be a key driver for the Indian economy as we aim of reaching a US$ 5 trillion economy by 2025, infrastructure development is the need of the hour. The government has launched the National Infrastructure Pipeline (NIP) combined with other initiatives such as 'Make in India' and the production-linked incentives (PLI) scheme to augment the growth of infrastructure sector.

In FY21, infrastructure activities accounted for 13% share of the total FDI inflows of US$ 81.72 billion. FDI inflows into the infrastructure sector stood at approximately $7.9B due to government schemes such as the National Infrastructure Pipeline (NIP).

Indian logistics market is estimated to touch US$ 320 billion by 2025. The overall infrastructure capex is estimated to grow at a CAGR of 11.4% over FY21-26. Investment in infrastructure contributed around 5% of the GDP in the 10th five year plan. Further, US$ 1 trillion investment in infrastructure was proposed by the India's planning commission during the 12th five year plan, with 40% of the funds coming from the private sector.

According to the mentioned World Bank report, India will require to invest $840 billion over the next 15 years into urban infrastructure to effectively meet the needs of its urban population.

With almost all central banks are tightening the monetary policy to combat the inflation – the chorus of recession is growing louder and louder with many of the large economies expected to get into recession.

Budget Expectations:

1) Public investments and enhanced infrastructure investment need to be stepped up as the burden for economic growth in FY24 would fall again on the government. The street is expecting the government to announce a capital expenditure plan of Rs 10 lakh crore as against Rs 7.5 lakh crores in Budget 2022. Along with fund allocations, the government should also ensure sustained monitoring.
2) There is an urgent need to improve technology and digital adoption in construction industry. Dependence on unskilled labour is one of the vulnerabilities of the infrastructure sector. The sector needs to invest in skilling, modern machinery, automation and digitization. Please note, in the developed markets and most importantly, in China the large infrastructure projects rely more on technology and automation and less on manual labour.
3) The introduction of schemes like the Atal Mission for Rejuvenation and Urban Transformation (AMRUT) 2.0 and Swachh Bharat Mission (SBM) 2.0 in recent years, higher allocations for these sub-sectors are expected this time.
4) Removing obstacles and speeding up process for land acquisition for infrastructure projects

Benefit to: LARSEN & TOUBRO

Financial Sector

IIndia hosts a vast network of banks and non-banking financial companies (NBFC). The sector plays a big role in facilitating credit, infrastructure, and investment in the country. There are around 100,000 scheduled banks in India as of 2021 and these include about 98,000 comparatively small rural and urban cooperative banks. Twenty-two private sector banks had assets valued over $800 billion, while 12 public sector banks (PSBs) had assets worth over $1.5 trillion. This makes the banking and finance sector a vital part of the Indian economy.

The banking industry is a vital part of the Indian economy and is considered the backbone of any economy. It has faced a lot of heat due to the pandemic and now seen rebounding. Bank credit is seen growing 15 per cent per annum in fiscals 2023 and 2024, riding on broad-based economic recovery and stronger, cleaner balance sheets that allow lenders to expand credit.

Budget Expectations:

1) The sector should remain strong for sustainable economic growth.

2) For Banks, focus would be on PSU Bank Privatization and Digitalization Perks.

3) Per Union Budget 2023, there is no major expectation of a higher recapitalization amount for PSU Banks as they could rely on market borrowings. But market participants would look for a roadmap to reduce the government's stake in public-sector banks. The Budget should include fast-tracking the public sector bank (PSB) privatisation programme. This would help improve the efficiency of small and medium PSU Banks

4) The street expects that the Small Industries Development Bank of India Bank of India (SIDBI) or NABARD (National Bank for Agriculture and Rural Development) should be made as the agency for offering active liquidity support to the NBFCs.

Benefit to: SBI, HDFC BANK, CANARA BANK, PNB, BANK OF BARODA, UNION BANK OF INDIA, ICICI BANK.

Real Estate and Housing Finance Companies

In India, the real estate sector is the second largest employment generator after the agriculture sector.

The Indian real estate sector is expected to reach $1T by 2030 and contribute 13% of the country's GDP by 2025.

In FY22, the top seven listed real estate companies sold residential space of 3.65 lakh units as against 236500 units in 2021. The last peak was seen in 2014 when 3.43 lakh units were sold across the top 7 cities.

Office demand too seen revival. Investments into the commercial office sector saw a revival during January-September 2022, jumping 53% from the same period last year.

Budget Expectations:

1) The government could provide a further boost to the affordable housing segment by increasing the tax exemption limit for home loans.

2) Growth momentum needs to be maintained in the face of difficult macroeconomic conditions marked by high inflation and rising interest rates. At the moment, many a global investors are on a wait-and-watch mode as recessionary pressures persist.

Benefit to: OBEROI REALITY, GODREJ PROPERTIES.

Nifty's daily chart

Nifty	CMP 17649	Technically speaking, a massive breakout seen on the long term charts. The recent sequence of higher high/low is intact on all-time frames. If Nifty moves above its all-time-high at 18888, then there is a bright possibility that the benchmark could reach the magnificent levels of 20,000 by next Union Budget. Please note, on the downside good support exists only at 16750-16900 zone and then strong support seen at psychological 15,000 mark. **Buying aggressively on any sharp declines should be the preferred strategy.**

Bank Nifty daily chart

BANK Nifty	**CMP 40387**	We suspect, Bank Nifty is likely to be a big outperformer. Technically speaking, a massive breakout seen on the long term charts. The recent sequence of higher high/low is intact on all-time frames. If Bank Nifty moves above its all-time-high at 44151, then there is a bright possibility that the benchmark could reach the magnificent levels of 50,000 by next Union Budget. Please note, on the downside good support exists only at 39500-40000 zone and then strong support seen at psychological 33,000 mark. **Buying aggressively on any sharp declines should be the preferred strategy.**

Long story short: There is a bright chance that FM Sitharaman's Union Budget 2023 can be one in a century budget which takes Nifty to new heights.

Fingers crossed!!

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