Market Intelligence
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Unleashing capex, leashing fisc

Union Budget 2023-24

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Contents

Budget 2023-24: Leaning more on capex, while tightening the fiscal belt 4

Budgeting for a post-pandemic economy 4

How macroeconomic developments will shape fiscal consolidation 4

Budget scores big on capex-thrust to support growth 5

Why was fiscal consolidation critical in a period of growth slowdown? 10

Fiscal arithmetic based on realistic targets on most counts 12

Financing next year's fiscal deficit 14

Redemption pressure persists 14

What is the expected impact on yields? 15

Capital markets: Inclusion and access 18

Sectoral impact 21

Agri and allied sectors 21

Consumption and automobiles 24

Commodities 26

Digital 27

Real estate 28

Infrastructure 29

Oil and gas 31

Power and renewable energy 32

MSME 36

BFSI 37

Change in duties across key commodities 39

Budget 2023-24: Leaning more on capex, while tightening the fiscal belt

Budgeting for a post-pandemic economy

The government continued its march towards fiscal consolidation, comforted by a broad-based recovery in the Indian economy until now. It set a target of reducing fiscal deficit to 5.9% of the gross domestic product (GDP) in fiscal 2024, from 6.4% (revised estimate or RE) this fiscal. It also reiterated its commitment to bring the fiscal deficit below 4.5% of GDP by fiscal 2026.

Though the current fiscal has witnessed a broad-based recovery and resilient domestic demand so far, headwinds from slowing global growth and tighter financial conditions threaten to hurt the country's economic prospects in fiscal 2024.

In this milieu, the budget has tried to strike some balance between fiscal consolidation and growth, by continuing its focus on capital expenditure and creating fiscal space for that by cutting revenue expenditure. In addition, it has eased the tax burden on the middle-income segment to improve consumer confidence and promote a more inclusive recovery.

How macroeconomic developments will shape fiscal consolidation

- ***Slowing growth to impact revenue collections:*** We expect India's real GDP growth to taper to 6.0% in fiscal 2024 from 7.0% this fiscal. Slower global growth will hit India's exports, while tight financial conditions in the country could weaken domestic demand, cumulatively leading to lower revenue growth compared with this fiscal.
- ***Moderating inflation a mixed blessing for the budget***: We expect inflation based on Consumer Price Index (CPI) to moderate to 5% in fiscal 2024 from 6.8% this fiscal. Inflation based on Wholesale Price Index (WPI) is expected to drop at a faster pace to ~3%, due to a strong base effect and a decline in global commodity prices, thereby reducing government subsidies on food and fertilisers relative to fiscal 2023.
- However, lower inflation, coupled with slower real GDP growth, implies slower nominal GDP growth. The government has estimated nominal GDP growth of 10.5% in fiscal 2024, compared with 15.4%[1] in fiscal 2023. This will reduce tax collection momentum. A sharp drop in WPI inflation in particular hits Goods and Services Tax (GST) collections, which are closely linked to wholesale prices.
- ***Tight financial conditions to weigh on borrowing costs***: Yields on government securities could face pressure from elevated interest rates globally and tighter domestic financial conditions. The US policy rate is expected to cross 5% by June 2023 and remain at a decadal high through the year. This could maintain pressure on short-term capital flows to Indian debt markets.

[1] First advance estimate by National Statistics Office

- **Risks that could disturb fiscal math**
  - *Geopolitical developments*: The Russia-Ukraine war is not over yet. Any escalation in tensions and a resultant rise in commodity prices could force the government to ease the impact on consumers via subsidies as seen in fiscal 2023. We saw how the Centre's fertiliser subsidy bill doubled as a result of a sharp rise in international prices.
  - *Extreme weather events*: The risk of monsoon falling below normal levels (after four consecutive years of normal seasons) remains a wildcard and could hit agriculture production and impact food prices. This could push the food-subsidy bill yet again. In fiscal 2023, the food-subsidy bill was revised up 38%, compared with the budget estimates, due to the extension of free-food scheme.

Our outlook for fiscal 2024

Macro parameter	FY23	FY24	Rationale for outlook
Real GDP growth (y-o-y %)	7.0^	6.0	Slowing global growth will weaken India's exports in fiscal 2024. Domestic demand could also come under pressure, as the Reserve Bank of India's (RBI) rate hikes are transmitted to consumers
CPI inflation (y-o-y %)	6.8	5.0	Lower commodity prices, base effect, and cooling domestic demand will help moderate inflation
Repo rate (fiscal-end, %)	6.5	5.5	The RBI is expected to make a final rate hike of this cycle in February 2023 and cut rates towards the end of next fiscal as inflation climbs down
10-year G-sec yield (fiscal-end, %)	7.5	7.0	A moderate increase in gross market borrowing is budgeted for fiscal 2024. This, coupled with lower inflation and the RBI's rate cuts, will help moderate yields in fiscal 2024
Current account balance (% of GDP)	3.2	2.4	Lower crude oil prices and cooling domestic demand will moderate the trade deficit
Exchange rate (fiscal-end, Rs/$)	79.5	80.5	While a lower current-account deficit (CAD) will support the rupee, challenging external financing conditions will continue to exert pressure next fiscal

^NSO's first advance estimate

Source: CRISIL

Budget scores big on capex-thrust to support growth

Budget 2023 paves the way for yet another year, when the government is using the infrastructure capex tool to support the economy. But this time, the push is larger. The aim is to lift a post-pandemic domestic economy out of the woods and simultaneously crowd in private sector capex.

That said, the government has largely stuck to its medium-term path of lifting the productive capacity of the economy through higher infrastructure spend, rather than directly boost consumption in a broad-based manner in a pre-election year.

Despite a slowing economy and, hence, slower growth in tax collections, in conjunction with the need to trim the fiscal deficit, capex has received its due.

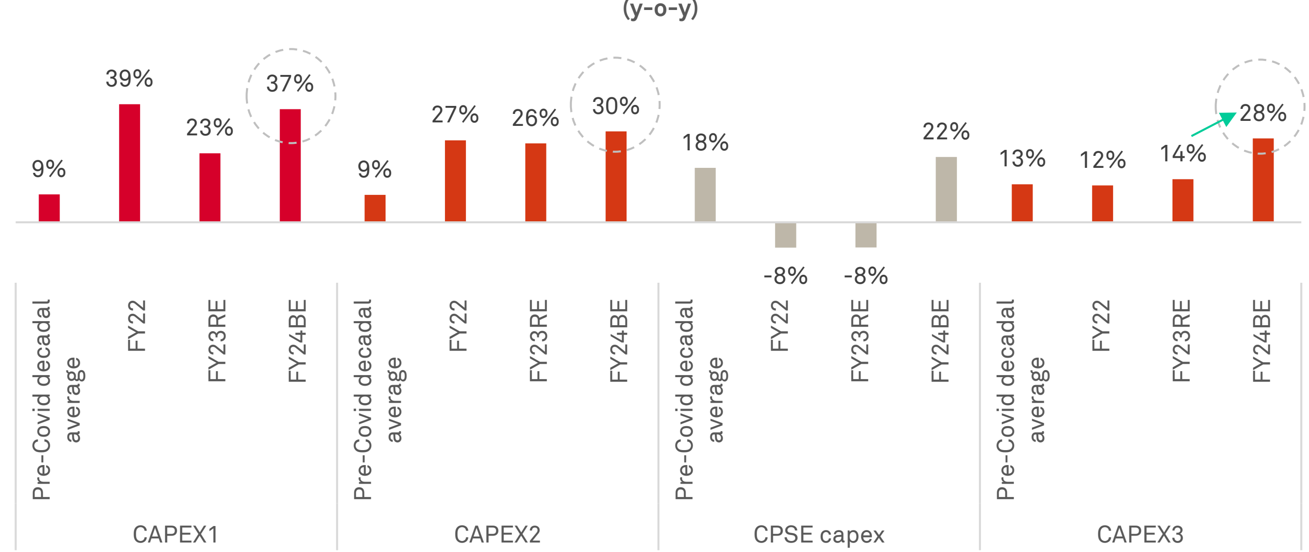
Total Central government capex growth is seen doubling to ~28% from 14% this fiscal. This includes capex from the budget and capex incurred by Central public sector enterprises (CPSEs). While the role of CPSEs in capex has been waning since fiscal 2019, fiscal 2024 sees a mild rise in CPSE capex.

We bifurcate the 28% growth in government capex support as per the three heads below: CAPEX1, CAPEX2, and CAPEX3.

- CAPEX1 refers to the central government's capex funded through the budget. While this is what is usually quoted in the budget, it is a relatively narrow measure of the Centre's capex. This measure sees a budgetary growth of ~37% on-year, compared with ~23% in fiscal 2023
- CAPEX2 — also called effective capex in the budget document — is computed by adding revenue grants extended from the budget for capital creation to CAPEX1. It shows the **Central government capex impact on the budget** and, hence, the fiscal deficit. This measure is budgeted to increase of ~30% next fiscal, compared with ~26% this fiscal
- Finally, CAPEX3 is derived by adding the CPSE capex to CAPEX2. It is the most comprehensive of the three measures and gives the **Central government's capex impact on the economy**. Growth in this measure is budgeted to double to ~28% next fiscal from ~14% this fiscal

No matter how we look at it, there is a 28-30% growth in capex for the next fiscal

(y-o-y)

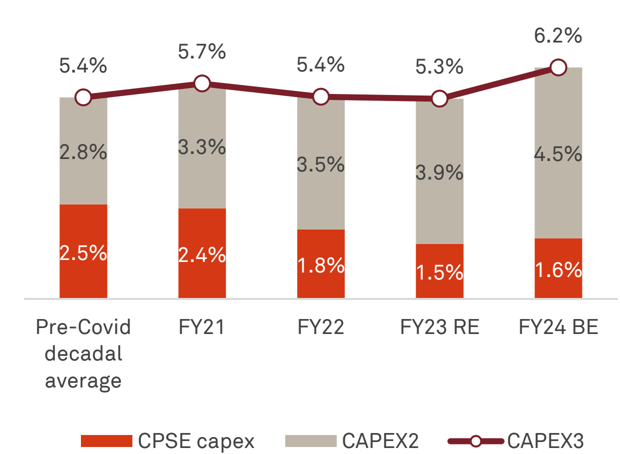


Source: Budget documents, CEIC, CRISIL

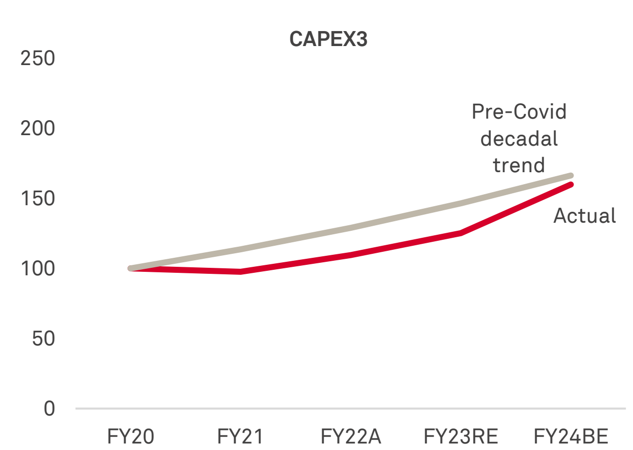
With this, total Central government capex (CAPEX3) rises to 6.2% of GDP in fiscal 2024 from 5.4% on average during the pre-Covid decade. Total budgetary capex (CAPEX2) stands at 4.5%, compared with 3.9% of GDP.

CPSE capex role diminishing, but provides some support next fiscal

Trend in capex to GDP (%)



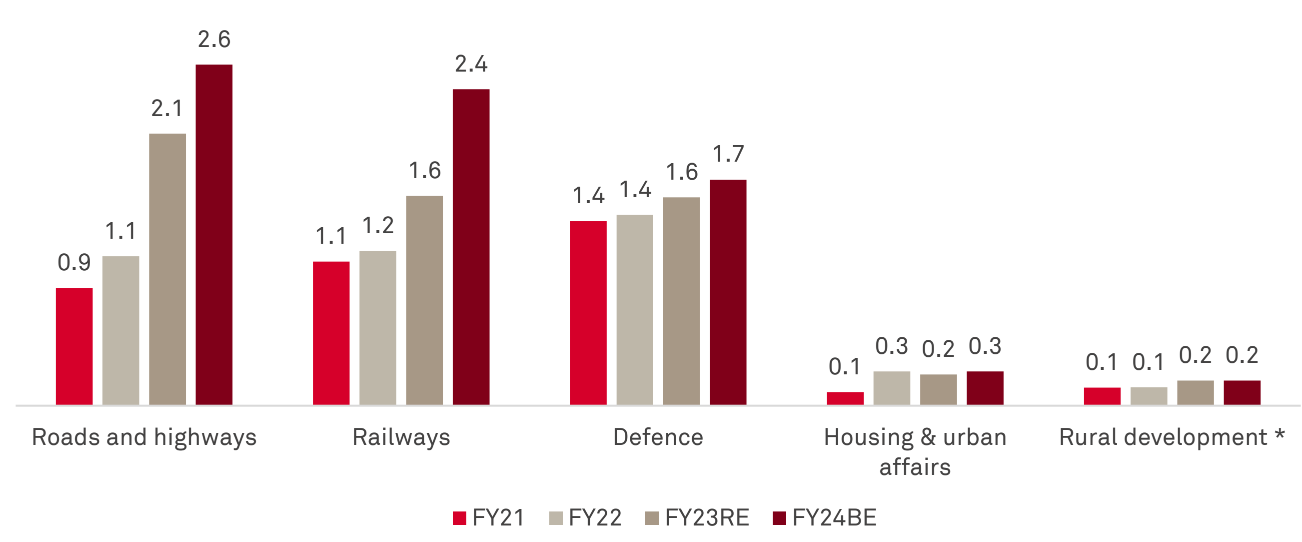
Total central government capex (CAPEX3) catching up to pre-Covid decadal trend



Source: Budget documents, CEIC, CRISIL

A comparison of the pre-Covid decadal trend versus actual for the Centre's capex measures suggests that the additional push to budgetary and CPSE capex in fiscal 2024 has allowed total capex (CAPEX3) to somewhat catch up with the pre-Covid decadal trend. Total Central government capex (CAPEX3) is now just 4% below this trend level, which is encouraging.

Where are the funds directed?



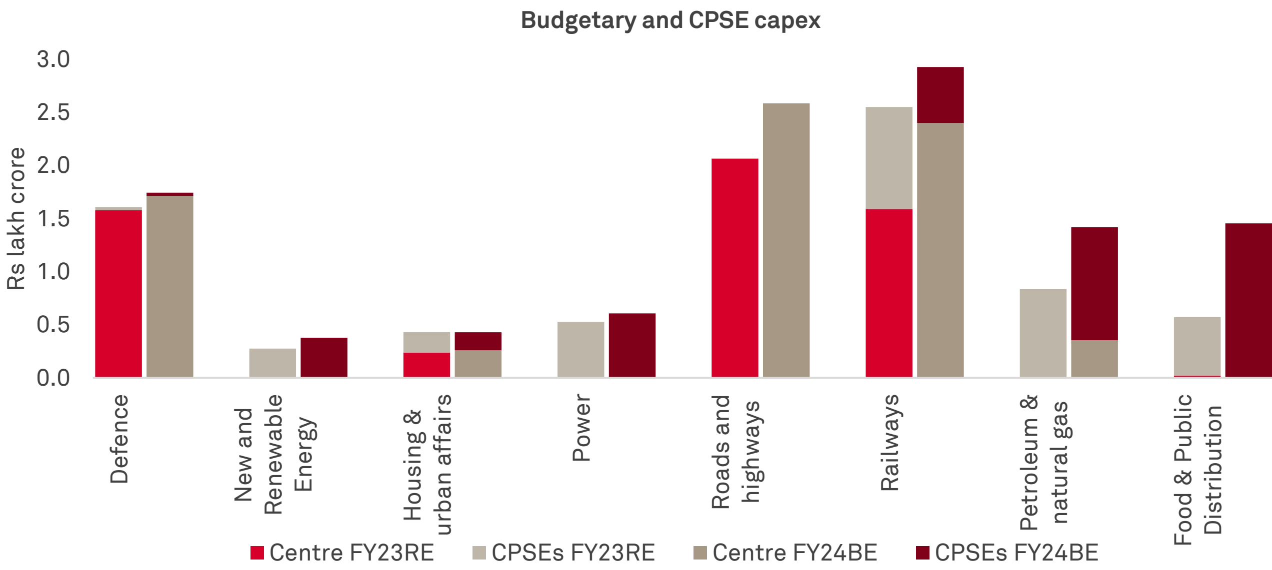
Note: *Rural Development includes capex of Department of Rural Development and expenditure under PMGSY

Source: Budget documents, CEIC, CRISIL

As seen in previous years, the highest budgetary allocation under capex is directed towards major infrastructure-related sectors such as roads (Rs 2.6 lakh crore, 25.4% growth over fiscal 2023RE) and railways (Rs 2.4 lakh crore, growing 50.8%). Petroleum and natural gas see a massive jump in capex allocation; however, the quantum in absolute terms is low compared with the above (Rs 0.4 lakh crore). The Ministry of

New and Renewable Energy actually sees a cut in budgetary capex (by 15.2%), which is to some extent, compensated by an increase in CPSE capex in that sector (see below). Similarly, CPSE capex is seen rising in power, petroleum and natural gas, as well as food and public distribution.

CPSE capex rises under ministries for energy and food and public distribution



Source: Budget documents, CEIC, CRISIL

In pursuit of capex, is there a compromise on rural-support schemes?

Though revenue spending has been controlled, lower allocation to Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) and smaller allocation to other employment-generating schemes, is a step towards further normalising excess spending during the pandemic.

- Though MGNREGA allocation is reduced to Rs 60,000 crore for fiscal 2024, compared with Rs 89,400 crore in fiscal 2023, it should not be alarming. MGNREGA is a social safety-net scheme and is driven by demand. So, periods of rural stress or shocks result in higher-than-budgeted spending under this scheme. Even for fiscal 2023, the budgeted MGNREGA allocation was Rs 73,000 crore
- Similarly, although PM Awas Yojana (for housing) sees only a 3.2% increase in allocation for fiscal 2024, revised estimate has seen over a 60.7% increase in fiscal 2023
- Finally, though there is no change in the PM Gram Sadak Yojana (PMGSY) allocation (at Rs 19,000 crore for the second consecutive year), there is no reduction in this expenditure either

How tax benefits for the middle class could help improve demand in select segments

The budget increased the exemption limit for availing full tax relief from Rs 5 lakh to Rs 7 lakh of income under the new regime, and reduced the tax rates for middle-income slabs. The tax relief for the middle-income segment of taxpayers can mildly cushion the impact of external slowdown by improving domestic demand and consumer confidence. Even as overall demand has crossed the pre-pandemic level, demand

from lower-income segments has lagged richer counterparts. The easing tax burden on laggard income segments can thus help make demand recovery more broad-based.

Why a support middle income segment was needed

1. Overall household consumption weakest, to recover post the pandemic

While household (private) consumption has moved above the pre-pandemic level of fiscal 2020, the extent of rise has been the weakest among demand-side components of GDP. According to the National Statistical Office's first advance GDP estimates for fiscal 2023, private consumption this year is expected to be 9.2% above the fiscal 2020 level, compared with 9.6% for government consumption expenditure, 15.7% for fixed investment, 26.9% for exports, and 41.2% for imports.

2. The need to correct K-shaped recovery

Even as consumption growth gained momentum in fiscal 2023, the K-shaped nature of recovery persisted to some extent. High-frequency indicators show spending on lower-ticket items recovering at a lesser pace till date. Within automobiles, two-wheeler sales stood 0.5% below pre-pandemic level in December 2022 (compared with December 2020), while four-wheeler sales were 7.2% above that level. From the production side, Index of Industrial Production (IIP) growth for consumer non-durables was weakest among major manufacturing categories for most of this fiscal, barring its recent bump during the festive season in November.

3. Lower income brackets were hit more by inflation

The sharp rise in consumer price inflation in the current fiscal year was driven by food and fuel – the essentials, which occupy a larger share in basket of lower income segments. Consequently, the effective inflation for the poor was more than the rich this fiscal. In the table below, we have calculated effective inflation faced by the poor (bottom 20% of income segment), middle class and upper income class, based on the share of food, fuel and core inflation in their respective consumption baskets[2]. It shows that inflation for the poor has been higher than richer counterparts since the pandemic.

High inflation, driven mostly by essential items, seems to have curtailed the scope for discretionary spending among lower income segments.

Year	Overall	CPI inflation post Covid-19 pandemic					
		Rural			Urban		
		Bottom 20%	Middle 60%	Upper 20%	Bottom 20%	Middle 60%	Upper 20%
FY23YTD	6.8	7.2	7.1	6.9	7.1	6.8	6.5
FY22	5.5	5.4	5.4	5.6	5.8	5.6	5.6
FY21	6.2	5.9	6.0	5.9	7.0	6.8	6.4

Note: FY23YTD refers to average inflation between April-December 2022

Source: National Sample Survey Organisation, National Statistics Office, CEIC, CRISIL

[2] For details on shares of each income class, refer to CRISIL Quickonomics: *Same inflation, different burdens by income* (October 2021)

Why was fiscal consolidation critical in a period of growth slowdown?

Fiscal consolidation was necessary, as higher deficits in the pandemic years led to increased outstanding debt and, consequently, a **higher interest burden on expenditure.** For instance, the share of interest payments as a % of revenue expenditure has increased ~31% in fiscal 2024BE from the pre-pandemic level of 27% in fiscal 2020.

Less favourable debt dynamics in the coming fiscal vis-à-vis the past two years highlight the importance of maintaining fiscal prudence in the face of rising risks to growth *(see section on debt servicing)*. Hence, expenditure needed to be curtailed to lower the deficit.

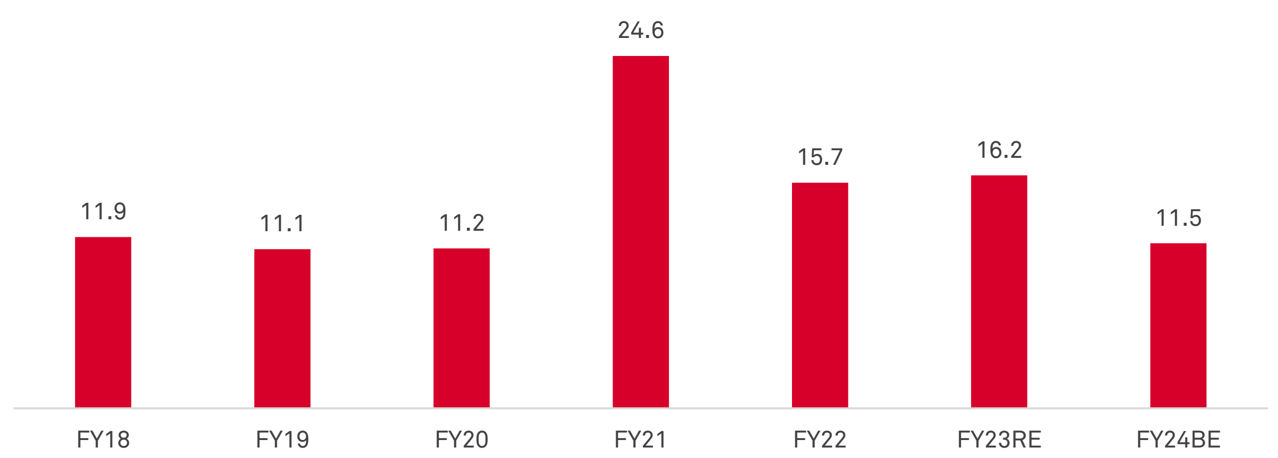
The budget, therefore, sustains the gradual process of fiscal consolidation, as even three years into the pandemic, newer challenges imply the imperative to support the economy. The primary task before the budget was to stay on the glide path to achieve fiscal deficit below 4.5% of GDP by fiscal 2026, as committed by the authorities earlier.

How does the government plan to bring down the fiscal deficit?

The budget's lower estimate for fiscal deficit at 5.9% of GDP next fiscal (from 6.4% in the current fiscal) hinges on expectations of normalisation of spending (primarily food and fertiliser subsidies) incurred during the pandemic, and due to the geopolitical conflict, supported by slightly higher tax receipts.

- **Moderate growth budgeted for receipts**: the budget factors in only concomitant growth in gross tax receipts (10.4%) in fiscal 2024, in the backdrop of the expected economic slowdown. However, as a % of GDP, slight support comes from higher net tax receipts in reduction of deficit
- **Normalising of bloated revenue spends with easing subsidy burden:** Reduction in revenue expenditure as a percentage of GDP is leading to a reduction of fiscal deficit next year. In absolute terms, revenue expenditure is expected to grow a marginal 1.2% in over fiscal 2023RE. The sharp reduction in food and fertiliser subsidies is expected to lead to significant savings for the government
- **Target to reduce the subsidy bill by 28.3% on-year, as pandemic and war-related shocks subside:** The Centre targets to reduce the subsidy bill to Rs 4.03 lakh crore in fiscal 2024 from Rs 5.6 lakh crore in fiscal 2023. The two largest subsidies – food and fertiliser – are expected to decline 31.3% and 22.3% on-year, respectively, with the government banking on softer international prices of these commodities next year and a moderating inflation burden

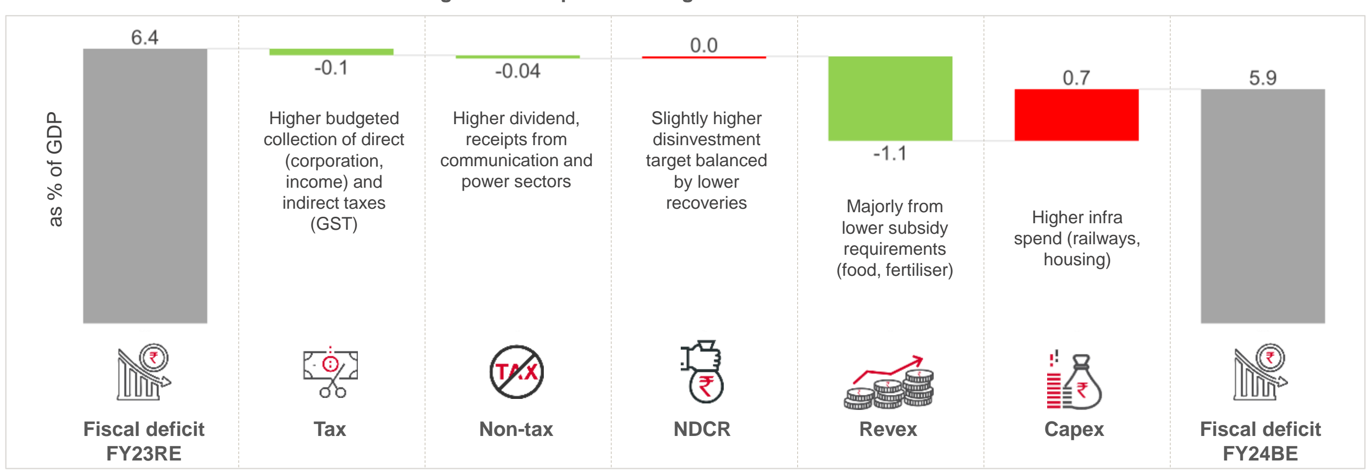
Subsidy bill falls to pre-pandemic rates



Source: Union budget documents, CRISIL

Thus, while higher capex poses a challenge, a lower fiscal deficit target next year is supported by steep reduction in revenue expenditure (particularly, subsidies).

Lower budgeted revenue expenditure (as a % of GDP) largely contributes to bringing down fiscal deficit



Contributes to reduction in fiscal deficit   Contributes to increase in fiscal deficit

Notes: 1) NDCR= non-debt capital receipts; 2) revex = revenue expenditure; 3) capex= capital expenditure

Source: Budget documents, CRISIL

A path for medium-term fiscal consolidation, though, is, yet again, not clearly laid out in the budget. The FRBM statement maintains that given continued global uncertainty, no medium-term projections for debt-deficit could be given. Instead, it reiterates the earlier commitment of the FM to bring down fiscal deficit to below 4.5% of GDP by fiscal 2026.

Fiscal arithmetic based on realistic targets on most counts

Both growth and revenue assumptions are largely realistic: The government's fiscal math assumes nominal GDP growth of 10.5% on-year next fiscal, much lower than 15.4% and 19.5% achieved in fiscals 2023 and 2022, respectively. This is a realistic assumption and broadly in sync with CRISIL's projection. Nominal growth is set to be lower as both real GDP growth and GDP deflator are expected to slow down in fiscal 2024.

How fiscal 2024 targets compare with the past

	Average FY16-FY20	FY21	FY22	FY23RE	FY24BE
Fiscal deficit (% of GDP)	3.8	9.2	6.7	6.4	5.9
Nominal GDP growth (y-o-y %)	10.0	-1.4	19.5	15.4	10.5
Revenue growth* (y-o-y %)	10.2	-4.7	35.8	8.8	10.6
Expenditure growth (y-o-y %)	10.1	30.7	8.1	10.4	7.5

* Sum of net tax revenues, non-tax revenues and non-debt capital receipts

Source: Budget documents, CEIC, CRISIL

Tax assumptions doable

- Gross tax revenue is budgeted to grow 10.4% next fiscal, down from a revised estimate of 12.3% growth in the current fiscal, and is premised on slowdown in both corporate and income tax growth. The assumption seems fair given the expected slowdown in nominal GDP growth. The budgeted target growth rate is comparable to the pre-pandemic five-year average *(see table below)*
- On the indirect tax front, GST revenue growth is budgeted to slow to 12% in fiscal 2024, from 22.3% achieved this fiscal. This appears a reasonable assumption as GST collections could face some headwinds with a sharp slowdown in WPI inflation
- Overall, the budget assumes the gross tax buoyancy for fiscal 2024 at 1.0, slightly up from 0.8 achieved as per fiscal 2023RE. This improvement is premised on increase in customs and excise tax buoyancies. This appears a bit optimistic. For instance, in the likely scenario of slowdown in imports, achieving greater customs tax buoyancy could prove to be challenging
- On the whole, with slower economic growth, continued focus on improving compliance would be essential to achieve the desired overall tax buoyancy

Composition of tax revenue by key sources

		Growth (y-o-y %)					Tax buoyancy				
		Average FY16-FY20	FY21	FY22	FY23RE	FY24BE	Average FY16-FY20	FY21	FY22	FY23RE	FY24BE
Total	Gross tax revenue	10.3	0.8	33.7	12.3	10.4	0.9	-0.6	1.7	0.8	1.0
Direct tax	Corporate	6.1	-17.8	55.6	17.3	10.5	0.3	13.0	2.8	1.1	1.0
	Income	13.4	-1.1	42.9	17.1	10.5	1.3	0.8	2.2	1.1	1.0
Indirect tax	GST	17.2*	-8.3	27.2	22.3	12.0	1.7*	6.1	1.4	1.5	1.1
	Excise	9.1	62.8	0.7	-18.9	5.9	0.9	-46.0	0.0	-1.2	0.6
	Customs	-7.9	23.3	48.2	5.1	11.0	-0.8	-17.1	2.5	0.3	1.0

* Average of FY19 and FY20; tax buoyancy numbers for FY24 are based on the government's nominal GDP growth assumption of 10.5%

Source: Budget documents, CRISIL

Non-tax revenue targets a tad optimistic

- Dividends and profits are budgeted to rise to Rs 0.91 lakh crore next fiscal from Rs 0.84 lakh crore RE in fiscal 2023. To be sure, revenue under this head was budgeted at Rs 1.14 lakh crore for fiscal 2023. So, next year achieving a higher target could continue to prove challenging. For instance, margins of state-owned banks could face headwinds next fiscal with rising deposit rates
- The target of spectrum revenue for next fiscal at Rs 0.89 lakh crore (compared with Rs 0.68 lakh crore as per RE of this fiscal), too, appears optimistic

Disinvestment target remains stable

While the disinvestment target of Rs 0.51 lakh crore for next fiscal is comparable with Rs 0.50 lakh crore as per RE of this fiscal, it needs to be monitored closely as the government has consistently fallen short of the target. To be sure, the government has only garnered disinvestment receipts of Rs 0.31 lakh crore so far this fiscal compared with the target of Rs 0.65 lakh crore for the full fiscal. Hence, with just two months left, achieving the RE of this fiscal itself remains a monitorable.

Successful expenditure switching key to achieving targets

Since the receipts (tax, non-tax revenues and non-debt capital) as a share in GDP next fiscal are expected to remain stable, reduction of the fiscal deficit is premised on expenditure cuts. Total expenditure is budgeted at 14.9% of GDP, compared with 15.3% this fiscal. With the government having increased the capital expenditure, lower expenditure entails a reduction in revenue expenditure. Effective capex (i.e., capital expenditure + grants in aid for creation of capital assets) for fiscal 2024 is budgeted at 4.5% of GDP – up from 3.9% this fiscal. At the same time, effective revenue expenditure (total revenue expenditure - grants in aid for creation of capital assets) is budgeted to reduce to 10.4% of GDP from 11.5% this fiscal.

This will largely hinge on lower commodity and crude prices, which are critical for reducing the subsidy bill. Any surprises on the global commodity price front could, therefore, disturb the overall fiscal math.

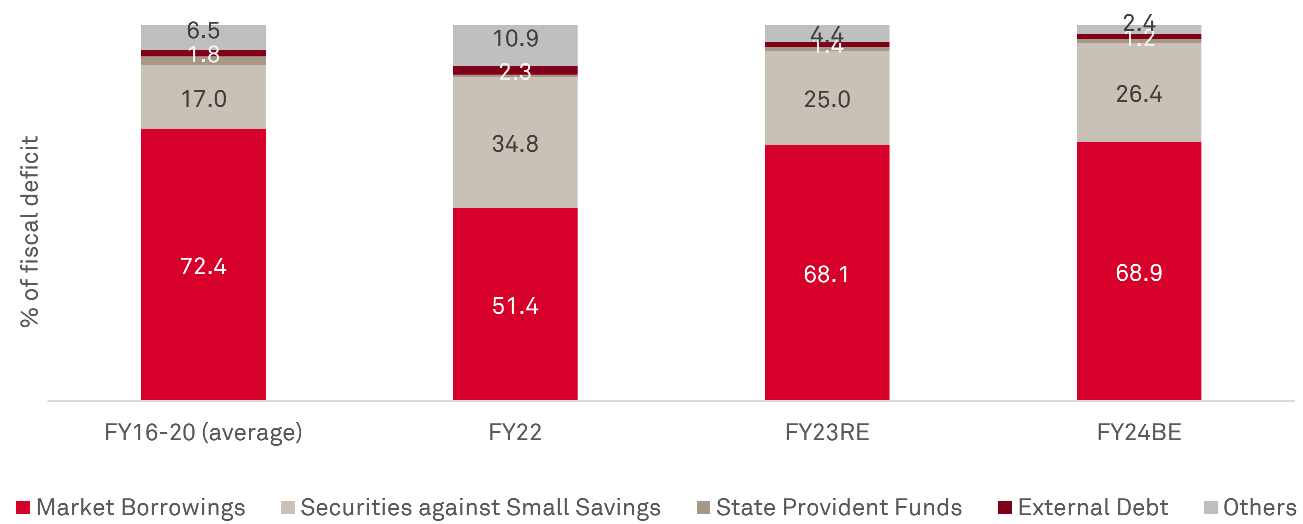
Financing next year's fiscal deficit

Even though fiscal deficit as a % of GDP is budgeted lower next fiscal, in absolute amounts, it is slightly higher by 1.8% (from Rs 17.55 lakh crore in fiscal 2023RE, to Rs 17.9 lakh crore).

The composition for financing the fiscal deficit largely remains similar to that seen in fiscal 2023RE, with a slight increase in reliance on small securities savings:

- **Market borrowings:** A majority 68.9% of fiscal 2024 deficit is expected to be financed through this route. Net market borrowing is budgeted to increase mildly to Rs 12.3 lakh crore (from ~Rs 12 lakh crore in fiscal 2023RE), as the fiscal deficit is also budgeted to grow moderately (in absolute values). The moderate increase in budgeted net and gross borrowings (see the section on *What is the expected impact on yields?*) provides support to easing of government securities (G-sec) yields next fiscal
- **Borrowing from NSSF:** The share of small savings securities in total fiscal deficit is expected to go up slightly to 26.4% (from current fiscal's 25% share)
- Share of **external debt** in financing the fiscal deficit is expected to come down a notch, to 1.2% from 1.4%

Sources of deficit financing for fiscal 2024 remain broadly similar, barring slight increase in share of small savings securities



Note: 'Others' includes draw down of cash balance and other receipts

Source: Budget documents, CRISIL

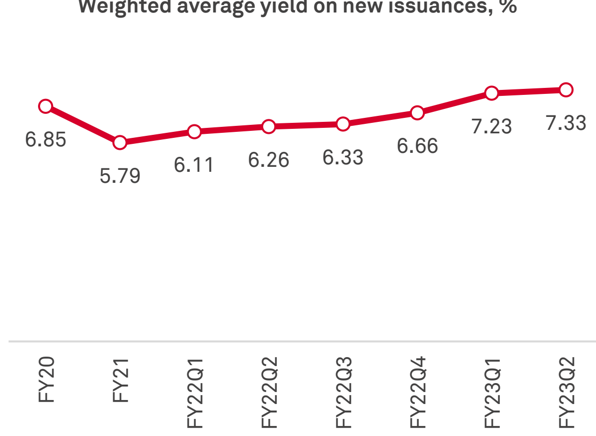
Redemption pressure persists

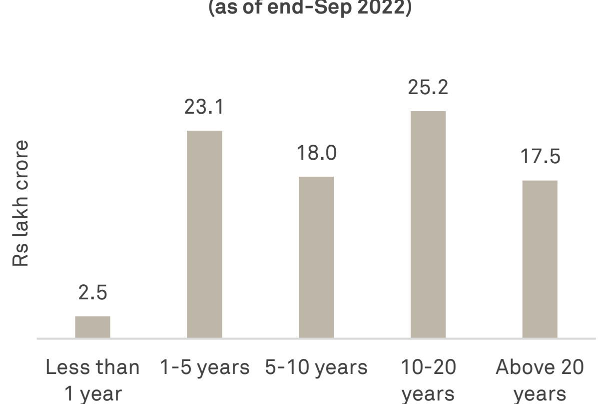
The central government's debt-GDP ratio rose due to the pandemic: from 52.2% of GDP as of fiscal 2020 to 57% as per fiscal 2023RE. This is expected to rise marginally to 57.2% in fiscal 2024BE.

Debt levels remain sustainable this fiscal as the interest rate-growth rate differential (i-g) remains favourable (due to higher nominal growth compared with the nominal interest rate), but the differential will be less favourable next year, with rise in 'i' and slowing 'g':

- **Interest cost is rising as yields have gone up** owing to a combination of policy rate hikes and volatile crude oil prices. The weighted average yield on new issuances hardened to 7.33% in the second quarter of fiscal 2023 from the pre-pandemic level of 6.84% in fiscal 2020 *(see graph below)*
- **Pressure on debt servicing continues** as outstanding debt of around Rs 4.5 lakh crore (as of the second quarter of fiscal 2023) is set to mature in fiscal 2024. This is 5% of total debt. Further, almost 30% of total debt outstanding will mature within the next 5 years
  - That said, the central government has elongated the maturity profile of debt in fiscal 2023 (the highest issuances are for longer-tenure 10-year and 14-year benchmarks), with the average maturity of outstanding debt at 11.96 years as of the second quarter of fiscal 2023, compared with 10.72 years in fiscal 2020

Interest cost has risen for the central government (left) even as redemption pressure for next 5 years persists (right)





Source: Ministry of Finance, CRISIL

What is the expected impact on yields?

The budget accounts for an increase in *gross* borrowing to Rs 15.4 lakh crore, from Rs 14.2 lakh crore this fiscal (RE). This rise of 8.4% on-year — slower than the nominal GDP growth —is, in fact, lower than what was priced in by markets (around Rs 16 lakh crore). Hence, if the government sticks to this borrowing programme, supply pressures in the G-sec market may not rise significantly, providing some support to easing of yields.

Apart from this, other macroeconomic factors, too, are expected to overall ease yields by the end of next fiscal:

1. **Inflation expected to come down to** 5% in fiscal 2024 from 6.8% in fiscal 2023. A combination of base effect from the previous year, the impact of monetary tightening by the RBI on second-round effects and inflation expectations, easing international commodity prices, and assumption of a normal monsoon next year are expected to bring inflation within the RBI's 4-6% target range
2. **The central bank is expected to cut policy rates towards the end of next fiscal:** We expect the February 2023 rate hike to be the terminal hike of this cycle (with the peak rate at 6.5%), and the RBI's Monetary Policy Committee (MPC) to begin cutting rates towards the end of fiscal 2024 (as inflation comes down)

3. **Climbdown in crude oil prices:** This fiscal, apart from inflation and monetary policy tightening, elevated international crude oil prices (especially post the Russia-Ukraine war) were the key factors for rise in yields. Next fiscal, we expect crude oil prices to come down on average (owing to lower demand amid a global slowdown), which is expected to ease yields. That said, there remains an upside risk to oil prices from the rebound in China's economy

We, thus, forecast yield on the benchmark 10-year G-sec to ease to 7% by March 2024, compared with an expected yield of 7.5% in March 2023.

Budgeting for green transition

Climate change has now become an important part of policy agenda, with more concrete measures taken in this budget. Budget allocation for climate-related measures increased to ~Rs 88,198 crore[3] for fiscal 2024 from Rs 37,461 crore in fiscal 2023.

Focus areas of this year's budget

1. ***Promoting renewable energy investments***: Capital allocation for the Ministry of New and Renewable Energy has increased to Rs 47,591 crore in fiscal 2024 from Rs 34,490 crore this fiscal. Solar grid projects have received the largest allocation, followed by PM KUSUM[4], and wind energy.
2. ***Building a green hydrogen ecosystem:*** The finance minister reiterated an outlay of Rs 19,700 crore towards Green Hydrogen Mission.
3. ***Facilitating energy transition***: The budget has allocated Rs 35,000 crore for the Ministry of Petroleum and Natural Gas for capital investment towards energy transition, Net Zero objectives, along with energy security.
4. ***Promoting electric vehicles (EVs)*****:** The government increased budget allocation for FAME[5] — its flagship scheme for promoting EVs — to Rs 5,172 crore from Rs 2,898 crore.
5. ***Tax incentives:*** To support manufacturing of batteries used in EVs, customs duty exemption was provided on import of machinery required for manufacturing lithium-ion cells.

Climate-related measures gradually increase their share in government spends

- The allocation of Rs 88,198 crore for climate-related measures accounts for 2.0% of total expenditure in fiscal 2024, compared with 0.9% in fiscal 2023
- More than two-thirds of climate expenditure this fiscal is capex, which is primarily going for investment towards energy transition under the Ministry of Petroleum and Natural Gas. Expenditure on other initiatives is primarily revenue spending in nature as they are primarily in the form of subsidies for promoting green adoption by the private sector

[3] Based on budgetary allocations to the Ministry of Environment, Forests and Climate Change, Ministry of New and Renewable Energy, the FAME scheme of the Ministry of Heavy Industry, and capital investment for energy transition under the Ministry of Petroleum and Natural Gas
[4] Programme for promoting solar energy usage in agriculture
[5] Scheme for Faster Adoption and Manufacturing of (Hybrid and) Electric Vehicles in India

India faces an uphill task in meeting its international commitments

Among India's international commitments on green transition, there are some challenging targets to be achieved by 2030: (1) having 50% of power capacity from non-fossil sources, (2) reducing emission intensity of GDP by 45% by 2030 from 2005 level; and (3) creating a carbon sink of 2.5-3.0 billion tonne by 2030 through enhanced forest cover.

This will not be possible without private sector participation. The government will need to actively track the progress of green transition and the associated infrastructure development, and include for policies in its upcoming budgets accordingly.

Capital markets: Inclusion and access

Positive

Key budget announcements

Personal income tax

- The government modified the tax exemptions and rebates available under the new tax regime while leaving the old regime untouched. The new regime now has five slabs, instead of six.
- The other changes in the new regime include:
  - Increasing the basic income tax slab to Rs 3.0 lakh from Rs 2.5 lakh
  - Setting the tax regime for the five slabs at 5% tax on income of Rs 3-6 lakh; 10% tax on income of Rs 6-9 lakh, 15% tax for Rs 9-12 lakh, 20% tax for Rs 12-15 lakh, and 30% on income above Rs 15 lakh
  - Salaried individuals with income of Rs 15.5 lakh or more per annum will also get Rs 52,500 rebate, previously only available in the old tax regime
  - Lowering the surcharge rate for individuals in the highest tax bracket from 37% to 25% in the new tax regime, reducing the maximum tax rate to 39% from 42.74%, respectively
  - Making the new regime the default option; however, individuals will have the option to choose the previous regime

Fiscal deficit and market borrowing

- The fiscal deficit is estimated at 5.9% for fiscal 2024, against 6.4% for fiscal 2023. It is expected to decline to 4.5% by fiscal 2026
- The government's gross market borrowing is estimated at Rs 15.4 lakh crore in fiscal 2024 versus the revised estimate of Rs 14.2 lakh crore in fiscal 2023; the balance financing is expected to be filled up from small savings and other sources
- To shore up the flow from savings, the government:
  - Enhanced the maximum deposit limit for the post office monthly income scheme to Rs 9 lakh from the present Rs 4.5 lakh for single account holders and Rs 15 lakh from Rs 9 lakh for joint account holders
  - Launched a new two-year savings scheme, Mahila Samman Savings Patra, where investments up to Rs 2 lakh for a girl child or woman would generate a fixed interest rate of 7.5%
- The government will encourage cities to float municipal bonds to bridge their funding gap. The cities will be incentivised to improve their creditworthiness to raise money through this avenue

Financial market measures

- To promote the growth of Gujarat International Finance Tec-City (GIFT City), the government plans to do away with dual regulation, set up a single-window IT system for registration and approval from regulators, permit acquisition financing by IFSC banking units of foreign banks, establish a subsidiary of EXIM Bank for trade re-financing, and recognise offshore derivative instruments as valid contracts

- Gains from investment in market-linked debentures will be taxed as per short-term capital gains tax, compared with long term capital gains of 10% without indexation previously
- Tax deducted at source (TDS) exemption from interest payments by listed debentures have been withdrawn
- Proceeds from insurance policies (except unit-linked ones) having premium or aggregate above Rs 5 lakh will be taxed under income from other sources, except if received on the death of the insured person.
- Proceeds sent to real estate investment trust / infrastructure investment trust (REIT / InvIT) investors under the head of repayment of debt will also be taxable for the investors, similar to other heads of interest, dividend and rental income; previously these were not taxable for both the REIT / InviT and the investor
- Conversion of physical gold to electronic gold receipt and vice versa to not attract any capital gains
- Foreign investments through the liberalised remittance scheme to be levied tax collected at source at 20% versus 5% previously, except for transfers made for education or medical treatment

Digitalisation, KYC and investor literacy

- PAN number to be made common identifier for all digital system at government agencies to simplify the know your customer (KYC) process
- Government to bring a National Data Governance Policy to simplify the KYC process while anonymising individual data
- The Securities and Exchange Board of India (SEBI) to be empowered to develop, regulate, maintain and enforce norms and standards for education in the National Institute of Securities Markets and to recognise award of degrees, diplomas and certificates

Other measures

- To promote the start-up culture, the government has extended the period of incorporation by one year to April 1, 2024 to be eligible for tax benefits outlined to them
- Start-ups can also carry forward losses on change of shareholding from seven years to ten years of incorporation
- TDS with respect to income from mutual fund units of a non-resident Indian to be 20% or the rate as per tax rate, whichever is lower, provided the tax residence certificate has been provided

Impact

The move to make PAN the common identifier for all digital systems at government agencies and the National Data Governance Policy are expected to improve the KYC process. Greater transparency will boost the financialisation of investments on the back of India’s growing fintech ecosystem.

Meanwhile, transitioning from investor awareness to education through financial market regulators is an important step in empowering investors to understand the capital market and make informed decisions.

This dovetails with the push towards the new tax regime since the hike in income-tax slabs is expected to incentivise individuals away from the old tax scheme. It also provides a higher investible surplus, especially at higher income slabs, helping investments.

The new tax regime provides a level-playing field among the investible instruments instead of investing for tax-saving purposes. The reduction of surcharge at the highest tax bracket and its impact on the reduced incidence of taxation for individuals in the bracket is expected to improve their appetite for investing in alternative investment funds (AIFs), portfolio management services, and other alternate investment products.

Meanwhile, AIFs and family offices are expected to benefit from measures taken to extend the period of incorporation and carry forward losses, thus enabling the entire ecosystem of start-ups and the investor community. Home-grown and global AIFs with domicile in GIFT City are also expected to benefit from the tax incentives given in the budget.

In the debt market, the reduction of fiscal deficit and the market borrowing was in line with market expectations; thus, it is expected to have a limited impact on government yields.

The move to promote monthly savings through government small-savings schemes is expected to shore up household savings and continue the trend of financialisation of savings. On the flipside, the attractiveness of the monthly savings schemes could wean away higher savings from capital market instruments such as mutual funds and other managed investment products.

Meanwhile, the government’s push to grow the municipal bond market is expected to help develop and deepen the bond market. Further, financial market measures carried out by the government for market-linked debentures and listed debentures will plug tax loopholes; their product design would be instrumental in attracting investor flows in the future.

Among other developments, the changes in the Liberalised Remittance Scheme will likely reduce outflow into global markets, with investors using the mutual fund route to invest globally subject to the SEBI-prescribed limits. Investments in large-ticket endowment policies are also expected to be impacted negatively with the incidence of taxation.

Further, REITs/InvITs, which have emerged as an attractive tool for investment, may see some short-term volatility but are expected to remain an efficient option for investors looking to park funds in India’s promising real estate and infrastructure markets. The removal of capital gains on conversion of physical gold to EGR and vice versa is expected to promote investments in the electronic equivalent of gold.

Lastly, the move to provide clarity on lower tax incidence for non-resident Indians from countries with which India has beneficial tax treaties is a positive move. It can improve flows into the domestic mutual fund industry from the large Indian diaspora.

Sectoral impact

Agri and allied sectors

Positive

Key budget announcements

- Cumulative budget allocation under the Ministry of Agriculture & Farmers' Welfare (MoA&FW), Department of Fertilisers (DoF) and Ministry of Rural Development (MoRD) has reduced 13% on-year to Rs 4.6 lakh crore in fiscal 2024BE from Rs 5.27 lakh crore in fiscal 2023RE
  - While allocation under MoA&FW has improved moderately by ~5%, that under MoRD and DoF has declined 12% and 22% on-year (over fiscal 2023RE), respectively, mainly led by a 33% decline under MGNREGA and a 22% reduction in fertiliser subsidy
- Allocation for food subsidy has been slashed 31% over fiscal 2023RE, bringing it to Rs 1.97 lakh crore in fiscal 2024BE
- The agriculture accelerator fund and digital public infrastructure for agriculture have been announced with a focus on affordable, innovative farming solutions
- Allocation under allied agricultural activities such as animal husbandry and fishery has been increased 39% and 38%, respectively. A sub-scheme has been announced under the Pradhan Mantri Matsya Sampada Yojana (PMMSY) with a targeted investment of Rs 6,000 crore
- A special incentive has been announced to enhance the productivity of extra-long staple cotton by adopting a cluster-based and value chain approach through PPP
- Special focus has been laid on planting material for high-value horticultural crops with an outlay of Rs 2,200 crore, to boost availability of quality and disease-free planting material under the Atmanirbhar Horticulture Clean Plant Programme
- The PM Programme for Restoration, Awareness, Nourishment and Amelioration of Mother Earth (PM PRANAM) has been introduced to promote the balanced use of fetilisers and reduce the use of chemical fertilisers
- The National Mission on Natural Farming has been introduced with an allocation of Rs 459 crore
- Under the Bhartiya Prakritik Kheti Bio-Input Resource Centres project, the government aims to facilitate 1 crore farmers to adopt natural farming over the next three years and has announced setting up of 10,000 bio-input resource centres
- The Indian Institute of Millets Research, Hyderabad, will be supported as a centre of excellence for millets
- Total allocation under the Ministry of Food Processing Industries has been increased to Rs 3,285 crore in fiscal 2024BE from Rs 1,900 crore in fiscal 2023RE, notably owing to an increase in allocations under the Production Linked Incentive (PLI) scheme for food processing industries
- Agri-credit target for fiscal 2024 has been increased by 8% to Rs 20 lakh crore, with a special focus on animal husbandry, dairy and fishery

- Allocation under the Department of Agricultural Research and Education (DARE) has been increased 10% to Rs 9,504 crore over fiscal 2023RE
- In the drought-prone central region of Karnataka, central assistance of Rs 5,300 crore will be given to the Upper Bhadra Project to provide sustainable micro-irrigation and fill up surface tanks for drinking water

Allocations under various government schemes

Sr no	Parameter	FY23BE (Rs crore)	FY23RE (Rs crore)	FY24BE (Rs crore)	Growth over FY23RE (%)	5-year CAGR (FY19-24BE)
1	Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA)	73,000	89,400	60,000	-33%	-1%
2	Pradhan Mantri Gram Sadak Yojana (PMGSY)	19,000	19,000	19,000	0%	4%
3	Pradhan Mantri Awas Yojana (Rural)	20,000	48,422	54,487	13%	23%
4	Pradhan Mantri Fasal Bima Yojana (PMFBY)	15,500	12,376	13,625	10%	3%
5	Pradhan Mantri Kisan Samman Nidhi (PM-Kisan)	68,000	60,000	60,000	0%	117%
6	Food subsidy	2,06,831	2,87,194	1,97,350	-31%	14%
7	Agriculture Infrastructure Fund	500	150	500	233%	NA
8	Formation and promotion of 10,000 farmer producer organisations (FPOs)	500	955	955	0%	NA
9	National Mission on Natural Farming	NA	NA	459	NA	NA
	Total (MoA&FW, MoFAH&D, MoRD, DoF and DoF&PD)	7,05,596	8,27,536	6,72,239	-19%	14%

Note: MoA&FW – Ministry of Agriculture & Farmers' Welfare; MoFAH&D – Ministry of Fisheries, Animal Husbandry and Dairying; MoRD – Ministry of Rural Development; DoF – Department of Fertilisers; DoF&PD – Department of Food and Public Distribution

Source: Budget documents

Impact

- The agriculture and rural development budget this year veers towards structural changes and reduces focus on short-term measures
  - MGNREGA witnessed a 33% cut in allocation, bringing down its share in the department's budget to 38% from 49% in the previous fiscal. Normalisation of the rural economy led by moderately strong agricultural growth and a swift recovery from the pandemic-induced slowdown, culminating in better employment opportunities, have driven this decrease. On the other hand, the share of other schemes such as Pradhan Mantri Awas Yojana (PMAY), has increased to 35% from 27%, with an allocation of Rs 0.54 lakh crore in fiscal 2024BE (13% on-year growth)
  - The 22% decline in fertiliser susbsidy allocation is in line with the decline in prices of key inputs such as spot liquefied natural gas (LNG) and contracted LNG, which are expected to decline 17-20% and 7-12%, respectively, in fiscal 2024

- A 10% increase in allocations under DARE will help develop newer technologies and educate farmers on better farming practices. This is critical given that farmer awareness is one of the critical challenges for the agriculture sector when it comes to adoption of newer technologies and techniques of farming

- The budget has laid special emphasis on modernisation of agriculture through the introduction of the agriculture accelerator fund and digital public infrastructure for agriculture
  - The agriculture accelerator fund, which emphasises providing support to agri start-ups by rural youth, will help in strengthening rural enterprenurship and bringing innovative and affordable solutions for the challenges faced by farmers
  - Digital public infrastructure for agriculture will enable improved information availability for all stakeholders in the agriculture value chain, thereby aiding access to credit and allowing better planning for farmers as well as processors
- Animal husbandry and fisheries provide higher remuneration to farmers than crop cultivation. Higher allocation for the Department of Animal Husbandry and Dairying and Department of Fisheries will support income for farmers. The allied agri sector contributed 30.1% to agricultural GDP in fiscal 2021. Allocation of Rs 6,000 crore under the sub-scheme of PMMSY will support fishermen, fish vendors, and micro and small enterprises, and improve value-chain efficiencies
- Incentives and schemes introduced for long-staple cotton will help enhance adoption of modern agricultural practices and boost productivity of Indian cotton
- The Atmanirbhar Clean Plant Programme to improve the availability of disease-free quality planting material for high-value horticultural crops could help bring in more farmers under horticulture, since poor-quality material, especially in fruit crops, has been a major deterrent. Currently, only around 15% of area is under horticultural crops in India
- While the focus on millets through the establishment of a centre of excellence can be considered a step in the right direction, their inclusion in public distribution system (PDS) would have yielded a significant impact by propping up their procurement and thereby prices. This would help farmer diversify towards millets in upcoming seasons
- Lower allocation under the food subsidy bill and withdrawal of additional 5 kg food grain dibursement are expected to have a positive impact on prices of rice and wheat in the open market, by preventing market disortion
- Increased allocation for the PLI scheme in the food processing sector is expected to boost export of value-added products, thereby fetching higher realisations for food processors
- Increased allocation under DARE will help focus on research for climate-smart and innovative agri inputs such as climate-resilient seeds
- Allocation of Rs 5,300 crore under the Upper Bhadra Project will help in cultivation of crops such as cotton, maize, red gram and ragi

While the budget has announced various new schemes to strengthen the agriculture sector, many of them are at a nascent stage and their implementation remains monitorable.

Consumption and automobiles

Positive

Key budget announcements

Consumption

- Increase in rebate from Rs 5 lakh to Rs 7 lakh under the new income tax regime
- Tax slab reduced from six to five, and tax exemption limit increased to Rs 3 lakh#
- Salaried person with an income of Rs 15.5 lakh or more will get standard deduction benefit of Rs 50,000
- The highest surcharge rate reduced from 37% to 25%

Automobiles

- Nine lakh old vehicles owned by the central and state governments to be scrapped and replaced
- Customs duty exemption extended to import of capital goods and machinery required for manufacturing lithium-ion cells for batteries used in electric vehicles (EVs)

Impact

Consumption

- Private consumption as a share of nominal GDP reduced from 61% in the pre-pandemic fiscal 2020 to 59.6% in fiscal 2022, pointing towards a slowdown in household spending. Increase in disposable income of this section of tax payers under the new regime will boost consumption. It is also a big relief for sectors such as FMCG, consumer durables and two-wheelers, which are already battling high inflation. Increase in National Calamity Contingent Duty (NCCD) on cigarettes will raise prices, impacting demand

Automobiles

- Medium and heavy commercial vehicle (CV) sales are expected to rise 35-37% on-year this fiscal, on a low base, supported by a healthy 14% rise in capital outlay. Next fiscal, with capital outlay rising 28%, multi-axle vehicles, tractor trailers and tipper trucks will benefit
- According to a notification by the road transport and highway ministry, 9 lakh government vehicles, which would account for ~6% of CV and passenger vehicle (PV) consolidated sales considering a 3-year sales spread, comprising PVs that are older than 15 years, will be scrapped from April 1, 2023. This will lead to incremental demand for cars during the envisaged policy period, and is likely to drive up EV adoption
- Customs duty exemption on import of machinery for manufacturing of lithium-ion cells and an extension of subsidies on EV batteries for one more year will boost domestic manufacturing. At present, the entire requirement is met through imports. Local manufacturing of cells will ease prices of vehicles, facilitating EV adoption
- Though hydrogen has high scope in decarbonisation of the auto industry, particularly in CVs, impact of the National Green Hydrogen Mission is expected to be visible in the automobile industry only after 2030, due to lack of infrastructure and model availability. Most of the hydrogen produced is expected to replace grey

hydrogen in refining and fertiliser manufacturing. Our estimates suggest only 1.0-1.5 MT of green hydrogen will be domestically consumed, and the remaining will be exported

- Rejigging of personal tax rates will lead to increased disposable income in the hands of consumers, which should increase the sales of two-wheelers and entry-level cars

Income tax slabs – old and new

Tax brackets (Rs)	Old version of new tax regime
0-250,000	0%
250,001-500,000	5%
500,001-750,000	10%
750,001-1,000,000	15%
1,000,001-1,250,000	20%
1,250,001-1,500,000	25%
Above 15,00,000	30%

Tax brackets (Rs)	New version of new tax regime
0-300,000	0%
300,001-600,000	5%
600,001-900,000	10%
900,001-1,200,000	15%
1,200,001-1,500,000	20%
Above 15,00,000	30%

The new tax regime will be the default one, though tax payers can opt for the old regime. An analysis of an individual earning Rs 15.5 lakh under the old and new regimes indicates that taxable income will be lowest under the old tax regime (considering the individual avails all deduction benefits).

Tax implications under old regime vs. new

Particulars	Old tax regime (Rs)	Old version of new tax regime (Rs)	New version of new tax regime (Rs)
Gross income	**15,50,000**	**15,50,000**	**15,50,000**
Less: standard deduction under Section 16	50,000		50,000
Total income	15,00,000	15,50,000	15,00,000
Less: deduction under Section 80C	1,50,000		
Less: NPS under Section 80CCD(1B)	50,000		
Less: medical insurance policies under Section 80D	25,000		
Less: interest on housing loan under Section 24b	2,00,000		
Taxable income	**10,75,000**	**15,50,000**	**15,00,000**
Income tax	1,35,000	2,02,500	1,50,000
Add education cess	5,400	8,100	6,000
Tax payout	**1,40,400**	**2,10,600**	**1,56,000**

Note: We have not factored in deductions for house rent and leave travel allowance in this analysis.

As per market estimates, less than one-fifth of tax payers are under the new tax regime. The new version of the new tax regime will result in 26% reduction in tax payout compared with the old version (assuming Rs 15.5 lakh annual income).

Commodities

Positive

Key budget announcements

Budgeted capital expenditure set to rise 24% to Rs 18.6 lakh crore against fiscal 2023RE

Impact

Overall capital outlay has increased 24% in fiscal 2022BE compared with fiscal 2023RE.

There is a sharp rise in the cement-heavy roads and affordable housing (Pradhan Mantri Awaas Yojana Grameen or PMAY-G) sectors, for which budgeted outlay increased 25% and 12.5% against fiscal 2023RE, to Rs 2.6 lakh crore and Rs 0.54 lakh crore, respectively. Allocation under the PMAY-G scheme had already surged last fiscal, with the total expenditure rising to 0.48 lakh crore after an initial allocation of only 0.2 lakh crore in the 2022-23 budget. The government approved an additional Rs 0.18 lakh crore in November 2022, which will also aid demand growth in the first half of the fiscal.

On the other hand, allocation to the PMAY-Urban scheme is set to decline this year as it draws to a close with over 1.08 crore units either completed or nearing completion, out of the sanctioned 1.23 crore units.

Further, the fiscal deficit cap for states has been fixed at 3.5% of the gross state domestic product (GSDP) against 3.4% budgeted by states in fiscal 2023BE. This will lead to continued impetus from states as well.

The allocation of tax-free loan from the Centre to states is also set to increase 30% to 1.3 lakh crore, providing a further boost to the infrastructure sector.

Thus, demand from the infrastructure and affordable housing (~40% of cement and ~35% of steel demand) sectors is set to see robust 10-12% growth in the upcoming fiscal.

Similarly, budgeted outlay towards rolling stock under railways is set to rise over 150% in fiscal 2024BE to Rs 37,581 crore, lifting flat steel demand, which accounts for 46% of overall steel demand.

While there was no relief in terms of duty changes, the surge in capital outlay will bode well for both steel and cement demand. Firm domestic demand will aid domestic producers, especially in the metals space, given that prices are set to moderate in fiscal 2024 amid softening global trends.

Digital

Positive

Key budget announcements

- Digital public infrastructure for agriculture
- A unified Skill India digital Platform and Pradhan Mantri Kaushal Vikas Yojana 4.0 to enable demand-based formal skilling
- Setting up of three centres of excellence for realising the vision of 'Make AI in India and Make AI work for India'
- Setting up of data embassies in Gujarat International Finance Tec-City International Financial Services Centre
- A national data governance policy to unleash innovation and research by start-ups and academia
- 'Entity DigiLocker' to be set up for the use by micro, medium and small enterprises (MSMEs) and large businesses for storing and sharing documents online with various authorities, regulators, banks, etc.
- One hundred labs to be set up to develop applications for 5G services
- Central data processing centre for faster turnaround of filed documents through centralised handling
- Promotion of digital payment platforms and adoption of a risk-based know-your-customer (KYC) process

Impact

- Information availability is the key to development of any sector as it helps improve flow of credit, and enhances efficiencies through research and data analysis. Currently, formal data availability is lowest in the agriculture sector, as income- or tax-related documents are not available. The public registry could bridge this gap and improve flow of credit to the sector
- With over 50 lakh people joining the workforce annually, and many information technology (IT) engineering graduates not being equipped to use the latest technologies in various industries, the government's focus on skill development is timely. The unified Skill India Digital Platform will make Indian talent more employable and ease the talent crunch in the technology industry over the long term, as youth get trained in special skill sets such as cloud, AI, and ML through PM Kaushal Vikas Yojana
- The improvement in digital infrastructure will lead to a significant rise in the creation and consumption of digital data, and the demand for data storage and processing capabilities. This, coupled with the government's initiative of data embassies, is expected to attract private investments in the data centre ecosystem. For fiscal 2024, data centre investments are estimated to be $4.8-5.0 billion
- A national data governance policy would provide access to anonymised data, which will be crucial to develop customised products through data analytics for different target segments across industries
- Efficiency of operations is likely to receive a fillip through Entity DigiLocker as there would be a significant reduction in the turnaround time for companies, especially MSMEs and trusts. DigiLocker documents are treated equivalent to the originals, are easier to store than physical documents, and can be retrieved

anytime anywhere. However, the agencies providing these documents must also be digitised, for the documents to reflect in the DigiLocker

- Setting up of 100 research and development labs for developing products based on 5G technology would improve user applications for business-to-business as well as retail customers. This intervention is rightly timed, given the recent 5G spectrum sale, and telecom companies commercially launching 5G services. Globally, the revenue share of 5G for telecom players is in single digits due to limited use cases. Sectors such as education, farming, transport, and healthcare are large enough to spur growth in India; however, the development of the overall ecosystem is critical for harnessing the complete potential of use cases
- A unified filing process will mean the same information need not be submitted separately to government agencies. For example, some small MSMEs have registered their companies, but do not have UDYAM certificates. These can be enabled automatically through the unified filing process
- The fiscal 2024 budget estimate of capital outlay on digitisation initiatives from various ministries is ~Rs 5,971 crore (4% of domestic revenue of the IT services industry). This opens up tremendous market opportunities for small domestic mid-tier players that compete at ticket sizes between Rs 20-50 lakh

Real estate

Neutral

Key budget announcements

- Outlay for Pradhan Mantri Awas Yojana (PMAY), both urban and rural, to rise a modest 3% to Rs 0.79 lakh crore against fiscal 2023RE
- Deduction from capital gains on investment in residential property under Sections 54 and 54F to be capped at Rs 10 crore for better targeting of tax concessions and exemptions
- Income distributed through redemption of units by business trusts such as REITs and InvITs to be taxed in the hands of unit holders

Impact

- PMAY was introduced in 2015 with the aim to provide affordable housing to all by the end of 2022. The timeline, however, was recently revised to fiscals 2024 and 2025 for PMAY Rural and Urban, respectively, due to delay in completion
- Including support provided in this budget, 80% of the total funding requirement of Rs 2.02 lakh crore for PMAY-Urban has been fulfilled. The remaining 20%, equivalent to Rs 0.41 lakh crore, will have to be allocated in the next budget
- The rural scheme will be completed with the budgeted outlay of Rs 0.5 lakh crore in fiscal 2024. Of Rs 2.39 lakh crore sanctioned for the scheme, Rs 2.03 lakh crore was already spent as of January 2023
- Continued emphasis on housing and increase in income tax threshold of individuals will provide impetus to the low-ticket-size housing segment. Affordable housing segment, with ticket size less than Rs 45 lakh, accounts for 40-45% of upcoming supplies in top 10 cities. In addition, prices of cement and long steel are expected to remain range bound next year, which will augur well for the sector. However, 20-30%

deterioration in affordability due to higher home loan rates and increased capital values in developer sales because of improving demand-supply dynamics in key cities, partly negate these benefits

- While primary real estate sales (million square feet) in top 10 cities are likely to grow ~5% on-year in fiscal 2024, completions are likely to fall on a high base
- Margins of key listed developers are likely to remain range-bound as increase in commodity prices, such as of steel and cement, is majorly being passed on to consumers in the form of rise in capital values
- The proposal to introduce cap on capital gains at Rs 10 crore is likely to dampen investor demand from high net-worth individuals in ultra-luxury housing projects. However, at an aggregate industry level, share of such transactions will be very low and will largely be concentrated in cities such as Mumbai Metropolitan Region (MMR), National Capital Region (NCR) and Bengaluru
- The move to tax distributions made by business trusts such as REITs and InvITs through redemption of units, is aimed at widening the tax base. Other income distributions such as rental, dividend and interest are already taxed in the hands of unit holders

Sr no	Parameters	FY22 (Rs crore)	FY23BE (Rs crore)	FY23RE (Rs crore)	FY24BE (Rs crore)	Growth in FY24BE over FY23RE (%)
1	Pradhan Mantri Awas Yojana (Urban)	59,963	28,000	28,708	25,103	-13
2	Pradhan Mantri Awas Yojana (Rural)	26,242	16,000	44,422	50,487	14

Note: Pradhan Mantri Awas Yojana (Rural) figures include programme component only

Note: Top 10 cities are MMR, Pune, Hyderabad, Chennai, Bengaluru, NCR, Ahmedabad, Kochi, Chandigarh and Kolkata

Source: Union Budget 2023-24

Infrastructure

Positive

Key budget announcements

- Aggregate budgetary support for capital expenditure (capex) next fiscal has been increased 28% over fiscal 2023RE to Rs 18.6 lakh crore. For infrastructure sectors*, it has been increased 17% to Rs 12.5 lakh crore
- Railways capex has been budgeted at Rs 2.9 lakh crore, which is ~15% higher than fiscal 2023RE driven by gross budgetary support of Rs 2.4 lakh crore
- The central government has extended the 50-year interest-free loan to states, with an outlay of Rs 1.3 lakh crore, to boost infrastructure
- Focus on urban infrastructure is imperative for the formation of Urban Infrastructure Development Fund (UIDF), which will aid urban infrastructure in Tier 2 and 3 cities
- 100 critical transport infrastructure projects for last-mile and first-mile connectivity for ports, coal, steel, fertiliser and food grains have been identified. Investment of Rs 75,000 crore has been allocated for these projects, out of which Rs 15,000 crore will come from the private sector. This would improve last-mile and first-mile connectivity. Coupled with Gati Shakti and National Logistics Policy, this initiative can provide a fillip to the Indian logistics sector and lower logistics cost.

Figures in Rs Crore	FY22				FY23BE				FY23RE				FY24BE				Growth in outlay	
	GBS	IEBR	GIA	Total	GBS	IEBR	GIA	Total	GBS	IEBR	GIA	Total	GBS	IEBR	GIA	Total	vs FY23RE	vs FY23BE
Ministry of Railways	117271	73388		190659	137100	108500	-	245600	159100	95943	-	255043	240000	52783	-	292783	**15%**	**19%**
Ministry of Road Transport and Highways	113312	65150	6947	178462	187744	-	8335	187744	206303	798	7725	207101	258606	-	8753	258606	**25%**	**38%**
National Highways Authority of India	57055	65150		122205	134015	-		134015	141605	798		142403	162207	-		162207	**14%**	**21%**
Ministry of Defence	144786	2857		147643	160420	2838		163258	157979	2840		160819	171375	3100		174475	**8%**	**7%**
Ministry of Petroleum and Natural Gas	347	106686	1815	108848	600	111354	464	111954	40	83766	1982	83806	35509	106401	2195	141910	**69%**	**27%**
Ministry of Rural Development	-	-	138075	138075	-	-	107022	107022	-	-	152514	152514	4	-	130524	130528	**-14%**	**22%**
Ministry of Housing and Urban Affairs	25946	9972	24768	60686	27341	17873	37413	82627	23681	19432	31057	74170	25997	16963	41830	84790	**14%**	**3%**
Ministry of Power	2827	48135	18168	69130	13	51470	16259	67742	23	52878	12054	64955	17	60805	19472	80294	**24%**	**19%**
Ministry of New and Renewable Energy	2576	15881	4093	22550	12	28571	6708	35291	14	27547	6929	34490	12	37828	9752	47591	**38%**	**35%**
Pradhan Mantri Gram Sadak Yojana	13992			13992	19000	-		19000	19000			19000	19000			19000	**0%**	**0%**
Ministry of Water Resources	184	-	11056	11240	420	18	10666	11104	295	2	6909	7206	360	2	12083	12446	**73%**	**12%**
Ministry of Shipping	614	3165	342	4121	574	4460	412	5446	673	3114	416	4203	1068	3633	381	5082	**21%**	**-7%**
Ministry of Civil Aviation	4562	-	1230	5792	76	4574	671	5321	86	4192	1359	5637	87	3448	1046	4580	**-19%**	**-14%**
Total GBS - infra	426417				533300				567194				752034					
Total IEBR - infra		325234				329658				290512				284963				
Total Outlay - infra			206494	958144			187950	1050908			220944	1078650			226037	1263033	**17%**	**20%**

Impact

- Aggregate capex — including capital outlay, grants for capital creation, and internal and extra budgetary resources (IEBR) — of Rs 18.6 lakh crore next fiscal is up 28% over fiscal 2023RE. The share of gross budgetary support and grants allocated for capital creation has been increased to 74% from 69% of overall capital outlay — this indicates the government's reliance on direct budgetary support, thereby improving fiscal transparency
- The 11 core infra ministries account for ~65% of overall capex. In the infrastructure basket, railways (25% growth), water (73%), renewables (38%), and petroleum and natural gas (69%) have received a stronger impetus. Roads and railways account for ~44% of the overall infra capex

Note: *The 11 core infra ministries are Road Transport and Highways, Housing and Urban Affairs, Civil Aviation, Power, Railways, Shipping, Rural Development, Water Resources, New and Renewable Energy, Defence, and Petroleum and Natural Gas

Railways

- Railways capex for next fiscal has been increased 15% over fiscal 2023RE. The share of gross budgetary support in railways capex has been increased from 62% to 82%, while that of IEBR has been reduced to 18% from 38% — this implies a shift in the government's reliance towards gross budgetary support, thereby reducing its reliance on external budgetary sources

- The rise in allocation to railways will drive completion of dedicated freight corridors and national high-speed corridors, as well as infrastructure modernisation. Allocation of ~Rs 0.37 lakh crore, up nearly 2.5 times over fiscal 2023RE, in rolling stock accounts for ~13% of overall budgetary expenditure for railways

Roads

- Capex for roads and highways next fiscal has been increased a sharp 25% over fiscal 2023RE. Similar to the previous fiscal, the entire Rs 2.59 lakh crore is via gross budgetary support as the IEBR limit has been completely eliminated in order to reduce dependence on the National Highways Authority of India's (NHAI's) borrowings. On the other hand, the asset monetisation target has been slashed by half to Rs 10,000 crore (RE) from Rs 20,000 crore (BE), in line with the limited success in awarding toll-operate-transfer (TOT) bundles. This assumes greater significance because roads account for close to 30% of the National Monetisation Pipeline (NMP) targets, and the slower-than-expected progress of monetisation in the sector indicates a delay in achievement of NMP targets and continued dependency on budgetary support for the sector
- Budgetary allocation of Rs 1.62 lakh crore to the NHAI next fiscal is up 15% over fiscal 2023RE. However, the contribution of cess towards NHAI funding for fiscal 2024BE is around 1% of fiscal 2023RE as the reduction in value-added tax (VAT) on crude oil and diesel adversely impacted receipts in the Central Road and Infrastructure Fund (CRIF). Fiscal 2024BE CRIF receipts are as much as 31% lower than fiscal 2023RE. Coupled with the elimination of IEBR, this implies that a significantly large portion of NHAI funding would be met through gross budgetary support. Nonetheless, the sources of NHAI funding remain a key monitorable
- The budget introduced provisions for making unit redemption of infrastructure investment trusts (InvITs) taxable at the hands of the unitholders — it was non-taxable earlier. The move is aimed at widening the tax base. While this would increase the tax outgo for investors, attractive risk-reward dynamics are expected to keep investor interest buoyant in InvITs in the roads sector

Oil and gas

Positive

Key budget announcements

- The Ministry of Petroleum and Natural Gas has been allocated Rs 1.41 lakh crore for fiscal 2024BE, an increase of 66% over fiscal 2023RE
  - Rs 30,000 crore allocated for oil marketing companies (OMCs) to support capital investment and Rs 5,000 crore towards setting up of strategic petroleum reserves (SPRs)
  - Denatured ethyl alcohol exempt from basic customs duty, of 5%
  - Rs 10,000 crore allotted under the GOBARdhan scheme for development of 200 biogas plants, including 75 plants in urban areas, and 300 community or cluster-based plants
  - Excise duty exemption for the Goods Services Tax (GST)-paid component of compressed biogas (CBG) blended compressed natural gas (CNG), with a target of achieving 5% mandatory blending by OMCs and city gas distribution players

Impact

- Total capital outlay for the refining and marketing segment has seen a noticeable increase of 59% for fiscal 2024BE over fiscal 2023RE to Rs 53,000 crore. This is expected to significantly increase the total debt of OMCs, which had Rs 1.78 lakh crore total debt outstanding at the end of fiscal 2022
- Capital outlay of Rs 5,508 crore for development of SPRs is expected to cushion the Indian economy from volatility in prices and thus support energy security in the long term. While OMCs maintain around 65 days of crude oil inventory, current SPR capacity of 5.3 million metric tonne (MMT) provides buffer for another 9.5 days – taking the total crude oil reserve to around 74 days. Current capital outlay is expected to expedite the setting up of another 6.5 MMT of strategic reserves (under Phase II of the SPR programme), which will increase total crude oil reserves (in SPR) to around 21 days. Despite the increase in reserve capabilities, India would still lag other developing economies, with China's current strategic reserves at 40-42 days
- Demand for petrol is expected to grow to 38-39 million tonne per annum (MTPA) in fiscal 2026 from 34-35 MTPA in fiscal 2023, at 4-6% CAGR. With the government target of achieving 20% ethanol blending in petrol, ethanol demand is expected to grow to 6.0-6.5 MTPA; sugar-based ethanol is likely to meet 3.0-3.5 MTPA demand and grain-based ethanol to meet the remaining. Reduction in basic customs duty on denatured ethyl alcohol to nil from 5% will provide an alternative to ethanol produced from domestic food grains and support in achieving the blending target without compromising food security
- Rs 10,000 crore capital outlay for setting up of biogas plants will support achievement of the mandatory 5% CBG blending target. Exemption of excise duty to the tune of GST payment on the blended component, will help avoid cascading of taxes. This is expected to reduce the retail price of CNG by 4-6% basis current prevalent prices (in New Delhi) and improve competitiveness of bio-CNG vis-à-vis alternate fuels for end users. This also presents an opportunity for gas marketing companies to expand their margins by reducing pass-through of this cost reduction to end users

Power and renewable energy

Positive

Key budget announcements

Allocation to the Ministry of New and Renewable Energy (MNRE) increased ~38% in fiscal 2024 over fiscal 2023RE where the revised estimates were ~98% of the budgeted amount for fiscal 2023 at Rs 47,580 crore.

- The government announced viability gap funding (VGF) for 4 GWh (1 GW assuming 4 hours of storage) of battery storage projects. The all India policy on pumped storage is in the works
- The total outlay planned for Indian Renewable Energy Development Agency Limited (IREDA), including internal and extra-budgetary resources (IEBR) increased ~40% over fiscal 2023RE to over Rs 35,000 crore in fiscal 2024. Similarly, Solar Energy Corporation of India (SECI) allocation has grown ~5% on a high base to a little over Rs 2,000 crore
- Allocation to key non-fossil fuels of solar and biomass power increased ~44% and ~3x, respectively, over fiscal23RE totaling Rs 5,700 crore

- Allocation to the Pradhan Mantri Kisan Urja Suraksha evam Utthaan Mahabhiyan (PM-KUSUM) scheme increased ~51% over fiscal 2023RE to close to Rs 2,000 crore
- The government will provide Rs 8,000 crore support for a Rs 20,700 crore transmission scheme for evacuation of 13 GW from the Ladakh region and Rs 500 crore support for evacuation of renewable energy under the Green Energy Corridor
- Green hydrogen production target has been set at 5 MT by 2030 under the National Green Hydrogen Mission. The allocation for fiscal 2024 is Rs 300 crore, out of the total Rs 19,500 crore assigned to the scheme

The total budget of the Ministry of Power (MoP) has increased ~24% for fiscal 2024 over fiscal 2023RE with the revised estimates at ~96% of the budgeted amount for fiscal 2023. Out of the overall spend, IEBR funds raised by central public sector enterprises linked to the ministry accounted for ~76%.

- Allocation to the Revamped Distribution Sector Scheme (RDSS) doubled to Rs 12,000 crore, though revised estimates for fiscal 2023 were ~21% lower than the budgeted Rs 7,566 crore. Further, a leeway of 0.5% of the fiscal deficit of GSDP will be tied to power sector reforms, as an extension from last year
- Allocation of Rs 100 crore for manufacturing zones related to power equipment under the Atamanirbhar Bharat package.

Summary of capital outlay for MNRE and MoP

Parameter (Rs crore)	FY22				FY23BE				FY23RE					FY24BE					
	GBS	GIA	IEBR	Total	GBS	GIA	IEBR	Total	GBS	GIA	IEBR	Total	FY23 RE vs BE	GBS	GIA	IEBR	Total	vs FY23 RE	vs FY23 BE
MNRE	0	4,093	15,881	19,973	0	6,708	28,571	35,279	0	6,929	27,547	34,476	-2%	0	9,752	37,828	47,580	38%	35%
IREDA	0	0	15,145	15,145	0	0	27,572	27,572	0	0	25,604	25,604	-7%	0	0	35,777	35,777	40%	30%
Solar (Grid)	0	2,042	0	2,042	0	3,304	0	3,304	0	3,650	0	3,650	10%	0	4,970	0	4,970	36%	50%
Solar (Off Grid)	0	160	0	160	0	62	0	62	0	62	0	62	0%	0	362	0	362	488%	488%
SECI	0	0	735	735	0	0	999	999	0	0	1,944	1,944	95%	0	0	2,051	2,051	5%	105%
KUSUM	0	406	0	406	0	1,716	0	1,716	0	1,325	0	1,325	-23%	0	1,996	0	1,996	51%	16%
Green energy corridor	0	135	0	135	0	300	0	300	0	250	0	250	-17%	0	500	0	500	100%	67%
Green hydrogen	0	0	0	-	0	0	0	0	0	0	0	0	0%	0	297	0	297	NM	NM
Bio Power (Grid)	0	53	0	53	0	50	0	50	0	52	0	52	5%	0	159	0	159	203%	218%
Bio Power (Off Grid)	0	36	0	36	0	20	0	20	0	12	0	12	-40%	0	128	0	128	965%	539%
Hydro (Grid)	0	28	0	28	0	50	0	50	0	20	0	20	-60%	0	30	0	30	50%	-40%
Hydro (Off Grid)	0	0	0	0	0	2	0	2	0	1	0	1	-50%	0	1	0	1	0%	-50%
Share of above schemes as % of MNRE budget	0%	70%	100%	94%	0%	82%	100%	97%	0%	78%	100%	95%	-1%	0%	87%	100%	97%		
MoP	2,827	18,168	48,135	69,130	13	16,259	51,470	67,743	23	12,054	52,878	64,955	-4%	17	19,472	60,805	80,294	24%	19%
Investment in public enterprises	0	0	48,135	48,135	0	0	51,470	51,470	0	0	52,878	52,878	3%	0	0	60,805	60,805	15%	18%
RDSS	2,798	11,139	0	13,938	0	7,566	0	7,566	0	6,000	0	6,000	-21%	0	12,072	0	12,072	101%	60%

Parameter (Rs crore)	FY22				FY23BE				FY23RE					FY24BE					
	GBS	GIA	IEBR	Total	GBS	GIA	IEBR	Total	GBS	GIA	IEBR	Total	FY23 RE vs BE	GBS	GIA	IEBR	Total	vs FY23 RE	vs FY23 BE
Manufacturing zones	0	0	0	0	0	100	0	100	0	10	0	10	-90%	0	100	0	100	900%	0%
Share of above schemes as % of MoP budget	99%	61%	100%	90%	0%	47%	100%	87%	0%	50%	100%	91%	0%	0%	63%	100%	91%		

BE: Budget estimates; RE: revised estimates; NM: Not meaningful

Notes:

1) Gross budgetary support for both ministries minimal as maximum allocation in revenue expenditure mode via subsidies, allocation mainly contributes to office infrastructure.

2) GIA component refers to schemes which are classified under revenue expenditure due to the nature of the subsidies; however, they are expected to result in capital asset creation. The classification of schemes under GIA is as per CRISIL estimates.

3) GIA - Grant in aid, GBS - Gross budgetary support, IEBR - Internal and External Budgetary Resources

Source: Budget documents, CRISIL MI&A Research

Impact

- The combined ministerial allocation to MNRE and MoP is Rs 1.27 lakh crore for fiscal 2024BE, with a split of 37:63, respectively. Overall, while the government showcases intent for emerging areas such as green hydrogen, energy storage and renewable energy grid integration, the actual spend remains limited, with 90% of the budget still lying under business-as-usual line items. Benefits of the outlay will have a positive impact on transmission players, while public limited companies such as NTPC, NHPC will need additional borrowing as they account for nearly 50% of the total Rs 60,000-crore IEBR requirement. Total outstanding debt of these two entities was at Rs 2.08 lakh crore, thus resulting in an ~14% increase due to budgetary needs.

- Battery projects of 4 GWh to get government support through VGF. As per CRISIL estimates, these projects will form 2.7% of overall battery storage demand of 150 Gwh (37.5 GW) and 1.7% of total storage demand of 220 Gwh (55 GW) till fiscal 2031. The policy on pumped storage will provide a fillip to projects of 22 GW estimated to come up till fiscal 2031, out of which nearly 7 GW of infrastructure will be set up by private players. Overall, this is a small step in the right direction for India's clean energy transition in power

- IREDA primarily lends to renewable energy generation and component manufacturing projects. In fiscal 2022, it financed 3.2 GW and 5.2 GW of generation and manufacturing capacity, respectively. The agency outlay has been pegged at Rs 35,777 crore in fiscal 2024BE as against Rs 15,145 crore in fiscal 2022 (including IEBR). SECI's outlay remained stable at close to Rs 2,000 crore compared with fiscal 2023RE. The revised spend for SECI grew ~95% over the budgeted number for the same fiscal, indicating high activity for the agency in renewable energy schemes linked to it

- The government reiterated its focus on solar power with allocation of Rs 5,331 crore. The share of allocation to solar power out of all renewable fuels is 77% in fiscal 2024BE. This allocation is linked to central financial assistance towards multiple schemes run by the ministry such as solar rooftop subsidy, development of solar parks, VGF for CPSU schemes, etc

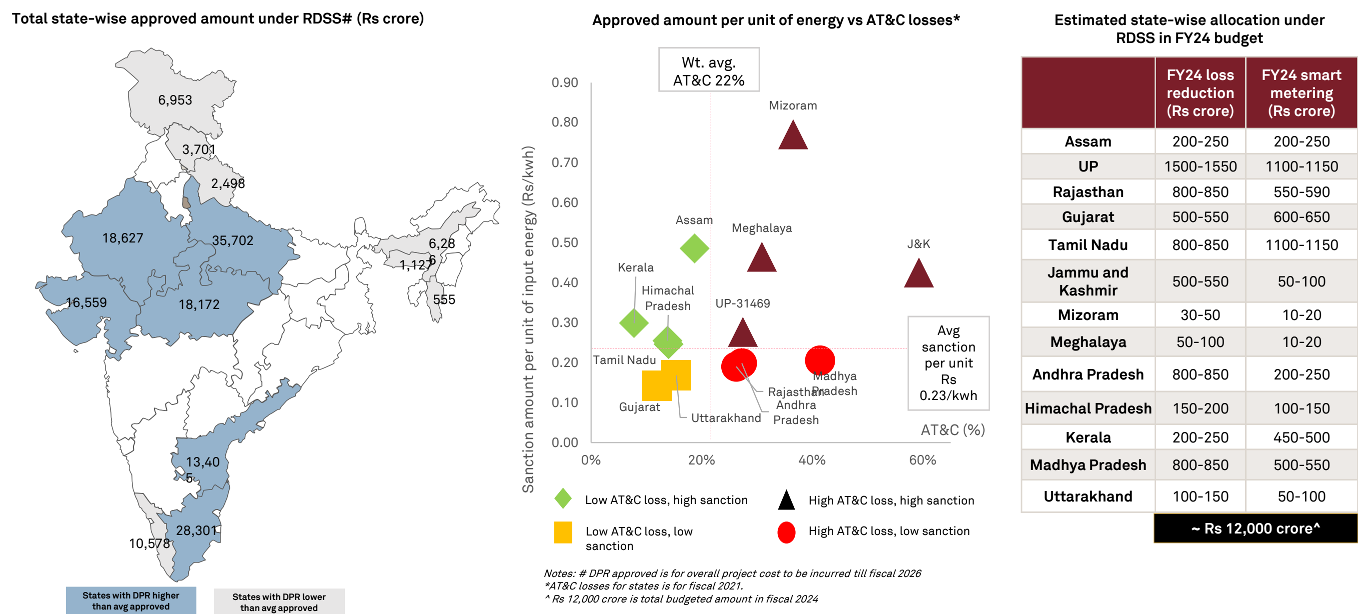
- KUSUM allocation of Rs 1,996 crore in fiscal 2024BE would provide further impetus to purchase subsidised solar pumps and installation of solar plants. The scheme has 3 key subcomponents. As of December 2022, the scheme has seen 23% progress in component B which is related to installation of solar agriculture pumps whereas progress on remaining components of A & C related to solar plant installations and

solarisation of existing agricultural pumps remains under 1% as of December 2022. Implementation of the scheme will continue to be a monitorable as it heavily relies on states for actual spends and has seen patchy progress in the past

- Government focus on power evacuation through the green energy corridor continued to receive support, with the allocation doubling to ~Rs 500 crore and the Rs 20,700 crore scheme announced for evacuation of renewable energy from underpenetrated locations of Ladakh. This offers a start to utilising combined solar and wind potential of over 111 GW and over 100 GW (120m hub height), respectively, from J&K and Ladakh regions of which the latter would account for a significant portion due to good irradiation and windy valley terrains. This will take overall transmission linked capex to Rs 2.4 lakh crore until 2030
- CRISIL estimates the production target of 5 MT of green hydrogen by 2030 will lead to an associated capacity addition in renewable energy of 110-130 GW. The investment in the green hydrogen ecosystem is projected to be around Rs 8 lakh crore. The government allocation is low at Rs 300 crore under the National Green Hydrogen Mission against a total commitment of Rs 19,700 crore. However, energy transition funding of Rs 30,000 crore to oil marketing companies will aid capital spends. (*Refer to the oil and natural gas section.*)
- The allocation of Rs 287 crore in fiscal 2024BE to bio-power can enable around 50 MW of capacity at an estimated capex Rs 6 crore per MW
- The Revamped Distribution Sector Scheme (RDSS) with a central allocation of Rs 12,000 crore in fiscal 2024BE, will see 13 key states[6] that enrolled in the scheme contribute around Rs 34,500 crore. With higher borrowing allowed, around 3 out of 13 states will comfortably be able to fund their capex requirements, with another 4 able to cover more than 90% of their respective requirements. However, an additional funding arrangement of Rs 2,700 crore will be needed for the remaining 6 states where borrowing flexibility will enable them to meet 80-85% of their total requirement
- Budgetary allocation of Rs 100 crore for manufacturing zones of power equipment similar to fiscal 2023BE where actual spend was only 10%. The outlay will support the domestic photovoltaic industry with the government focusing on localisation

[6] Under the scheme 13 states of Assam, Uttar Pradesh, Rajasthan, Gujarat, Tamil Nadu, Jammu and Kashmir, Mizoram, Meghalaya, Andhra Pradesh, Himachal Pradesh, Kerala, Madhya Pradesh, Uttarakhand have enrolled as per public domain disclosures. Above analysis pertains to these states.

Key trends emerging under the RDSS scheme



	FY24 loss reduction (Rs crore)	FY24 smart metering (Rs crore)
Assam	200-250	200-250
UP	1500-1550	1100-1150
Rajasthan	800-850	550-590
Gujarat	500-550	600-650
Tamil Nadu	800-850	1100-1150
Jammu and Kashmir	500-550	50-100
Mizoram	30-50	10-20
Meghalaya	50-100	10-20
Andhra Pradesh	800-850	200-250
Himachal Pradesh	150-200	100-150
Kerala	200-250	450-500
Madhya Pradesh	800-850	500-550
Uttarakhand	100-150	50-100
	~ Rs 12,000 crore^	

Source: Budget documents, CRISIL MI&A Research

MSME

Positive

Key budget announcements

- Turnover limit under presumptive taxation for micro entities raised to Rs 3 crore where cash receipts are not more than 5%
- Expenditure deduction only when payments are made to MSMEs
- Incorporation date for income tax benefit for startups extended to March 31, 2024 from March 31, 2023. Also, provision for carrying forward of losses on change of shareholding of startups extended to 10 years from date of incorporation from seven years previously
- DigiLocker for MSMEs, PAN to be a common identifier
- Infusion of Rs 9,000 crore towards Credit Guarantee Scheme
- Refund of 95% of forfeited amount relating to bid or performance security in case of default by an MSME during duration of Covid-19 pandemic

Impact

- Presumptive taxation benefit limit on revenue of micro entities has been hiked to Rs 3 crore from Rs 2 crore. This is likely to reduce the taxable income by 20%, assuming Rs 3 crore turnover, 7.5% Ebitda margin, and digital transactions (6% presumptive rate). While all entities under this revenue celling are likely to benefit, those with higher Ebitda margin, such as those in the service sector, namely information

technology, healthcare, and education, would see more meaningful benefit as compared with manufacturing companies

- Delayed payments are a critical issue, as reflected on MSME Samadhaan, which shows total pending amount is Rs 18,216 crore as on February 1, 2023. To ensure timely payments, the government is allowing expense deduction only when payments are made to MSMEs
- Extension of tax holiday by one year to fiscal 2024, and change in carry forward losses on shareholding to 10 years from seven years are expected to benefit startups
- DigiLocker for MSMEs and PAN as a common identifier will enable ease of doing business, facilitate quicker credit turnaround time, and enhance their prospects for securing lending from financiers
- No announcement was made for extension of ECLGS beyond March 2023
- Refund of 95% of forfeited bid/ performance security amount is a welcome move. This will provide relief to MSMEs, especially in construction-linked sectors such as EPC, roads and irrigation

BFSI

Neutral

Key budget announcements

- Aggregate capex — including capital outlay, grants for capital creation, and internal and external budgetary resources of Rs 18.6 lakh crore for the next fiscal — are up 28% over fiscal 2023RE
- The net new market borrowing from dated securities to finance the fiscal deficit in fiscal 2024 is estimated at Rs 11.8 lakh crore; the balance deficit funding will be met through small savings and other sources
- In line with the announcement made in the previous budget, the current budget has proposed to infuse Rs 9,000 crore to revamp the Credit Guarantee Scheme
- Digital public infrastructure for agriculture is to be set up as an open source, open standard and inter-operable public good
- Simplification of the know-your-customer process through an expanded DigiLocker service and National Financial Information Registry
- The budget proposes to tax the proceeds from life insurances policies issued on or after April 1, 2023 whose premium exceeds Rs 5 lakh
- Amendments to the Banking Regulation Act, the Banking Companies Act and the Reserve Bank of India Act
- The Securities and Exchange Board of India (SEBI) proposes to enforce norms and standards for degrees, diplomas and certificates from the National Institute of Securities Markets
- Increase in agriculture credit target to Rs 20 lakh crore, with focus on animal husbandry, dairy and fisheries, over the previous fiscal's actual credit to agriculture aggregating Rs 18.6 lakh crore

Impact

- Rs 18.6 lakh crore increase in capital expenditure will support credit growth in the wholesale segment even as increase in disposal income on account of income-tax relief will fuel retail credit growth. Further, in case of agriculture credit, the growth target is set at 8% based on last year's budget target of Rs 18.6 lakh crore. These factors will help banking credit grow an estimated 13-15% during fiscal 2024
- At Rs 11.8 lakh crore, increase in the government's net market borrowing is likely to be marginal. This is unlikely to crowd out private credit
- The infusion of the Rs 9,000 crore corpus will enable additional collateral-free guaranteed credit of Rs 2 lakh crore and aid in faster growth of micro, small and medium enterprise (MSME) credit, which has increased at 15% compound annual growth rate over the previous two fiscals
- The advancement in the digital ecosystem via various initiatives will help in multiple areas such as promoting financial inclusion, better availability of customer data, faster and secure sharing of documents with financial institution, and making informed credit decisions. The aforesaid will lead to improving efficiency in terms of operating and credit cost for financial institutions. Fiscal support for digital payments infrastructure would mean increased penetration in rural areas. However, this could also be an indication that merchant discount rate on UPI payments will remain zero in the near term
- Removal of exemption for policies where premium paid per annum exceeds Rs 5 lakh is primarily to discourage income-tax exemption to very high value insurance policies
- The changes in financial regulations are expected to improve governance and enhance investor protection
- Empowerment of SEBI to develop and regulate standards for education will help build capacity for functionaries and professionals
- The focus on digitalisation programmes of various ministries will help increase demand and make available anonymised data to startups through the National Data Governance Policy, which will help in new product development in the industry

The Emergency Credit Line Guarantee Scheme (ECLGS) allocation made under the previous budget was increased to Rs 5 lakh crore, with extension of timeline for sanction of loans valid up till March 31, 2023. The sanctioned amount under the ECLGS scheme aggregated Rs 3.58 lakh crore as of November 30, 2022. The budget, though, provides no visibility on extending the ECLGS.

Change in duties across key commodities

Sector	Commodity	Rate of customs duty		Rate of excise duty		Impact	Remarks
		From	To	From	To		
Agricultural products	Pecan nuts	100%	30%				Customs duty reduction will encourage exporting countries to enter India and cater to the increasing buying power of the middle class. High customs duty in the past had translated into limited imports.
	Fish meal for manufacturing aquatic feed	15%	5%				Customs duty cut on shrimp feed will promote imports, and lower the production cost for farmers, which will boost growth and help the fisheries sector achieve the export target of Rs 1 lakh crore by 2025.
	Krill meal for manufacturing aquatic feed	15%	5%				
	Fish lipid oil for manufacturing aquatic feed	30%	15%				
	Algal flour for manufacturing aquatic feed	30%	15%				
	Mineral and vitamin premixes for manufacturing aquatic feed	15%	5%				
Minerals	Crude glycerin for manufacturing epichlorohydrin	8%	3%				India is a net importer of glycerin, which is used in the construction and automotive sectors. Reduction in customs duty will lower input cost for these sectors.
	Denatured ethyl alcohol for manufacturing industrial chemicals	5%	Nil				With more denatured ethanol expected to be imported by the chemical industry, we expect 2.5-3.0 MT more ethanol to be available to OMCs for ethanol blending. This will likely lead to achievement of 20% of the ethanol blending target by 2026.
	Acid grade fluorspar (containing more than 97% of calcium fluoride by weight)	5%	2.50%				India has limited reserves of fluorspar and relies on imports for meeting domestic demand. Thus, reduction in customs duty on fluorspar is expected to reduce the landed price and support key end-use industries such as chemical and steel.

Sector	Commodity	Rate of customs duty		Rate of excise duty		Impact	Remarks
		From	To	From	To		
Gems and jewellery	Seeds for manufacturing rough lab grown diamonds	5%	Nil				Reduction in import duty on seeds used in manufacturing of rough lab grown diamonds is a positive, given steep growth of 54% y-o-y in polished lab diamond exports (~5% of total gems and jewellery exports for YTD FY23 – April to December).
	Articles of precious metals such as gold, silver, and platinum	20%	25%				Currently, silver and gold jewellery are less than 2% of overall gems and jewellery imports. Thus, increase in import duty will not significantly impact demand.
	Imitation jewellery	20% or 400/kg., whichever is higher	25% or 600/kg, whichever is higher				Rise in import duty on imitation jewellery will raise product prices, impacting demand.
Capital goods	Specified capital goods/machinery for manufacturing lithium-ion cell for use in battery of electric vehicles (EVs)	As applicable	Nil (up to 31.03.2024)				Customs duty exemption on machinery/capital goods required to manufacture lithium-ion cells will boost the domestic manufacturing of battery cells. Investments worth Rs 27,500 lakh crore are announced for battery manufacturing under the PLI scheme. India, from importing its full battery requirement, is set to source 60% of its need domestically. Reduction in import duty will save Rs 1,100 crore of the total capex of Rs 27,500 crore.
IT and electronics	Specified chemicals/items for manufacturing pre-calcined ferrite powder	7.50%	Nil (up to March 31, 2024)				Ferrite powder is used to manufacture magnets for various applications. To encourage domestic production and incentivise manufacturers under 'Make in India', customs duty is exempted till March 2024.
	Palladium tetraamine sulphate for manufacturing parts of connectors	7.50%	Nil (up to March 31, 2024)				Exemption in customs duty of palladium tetraamine sulphate will boost its imports and enhance domestic availability to manufacture connectors used in industries such as oil & gas, defence & aerospace, manufacturing, automotive, and IT & telecommunications.

Sector	Commodity	Rate of customs duty		Rate of excise duty		Impact	Remarks
		From	To	From	To		
	Camera lens and inputs/parts for manufacturing camera module of cellular mobile phone	2.50%	Nil				Camera lens account for a small % of the input bill for mobile phones. This will lead to a negligible reduction in the selling price of phones.
	Specified parts for manufacturing open cell of TV panels	5%	2.50%				Open cell panels account for 65-70% of the cost of manufacturing LCDs; most of it is imported. Reduction in customs duty will be a positive for the industry as it will lower product prices and boost demand.
Electronic appliances	Heat coil for manufacturing electric kitchen chimneys	20%	15%				Customs duty on fully assembled kitchen chimneys increased, while that on the heat coil to manufacture these in the domestic market decreased, making locally manufactured kitchen chimneys cost-competitive.
	Electric kitchen chimney	7.50%	15%				
Chemicals	Styrene	2%	2.50%				With limited domestic production, India relies on imports to meet styrene demand. Increase in total customs duty (including surcharge), from 2.2% to 2.75%, is expected to increase the landed cost by only 0.6% and thus have minimal impact on end-users – automotive and packaging sectors. However, in the long term, it is expected to spur investments in increasing domestic styrene manufacturing capacity.
	Vinyl chloride monomer	2%	2.50%				Domestic capacity meets ~50% of the total PVC demand, although entire production is through the EDC method. With lack of domestic capacity based on VCM method, the increase in import duty is expected to have minimum impact.
Petrochemical	Naphtha	1%	2.50%				India is a net exporter of naphtha. Thus, the current increase of basic customs duties from 1.0% to 2.5% is expected to have a minimal impact on domestic naphtha prices.

Sector	Commodity	Rate of customs duty		Rate of excise duty		Impact	Remarks
		From	To	From	To		
Precious metals	Silver (including silver-plated with gold or platinum), unwrought or in semi-manufactured forms, or as powder	7.50%	10%				Increase in import duty will raise prices of silver and silver jewellery, which will impact demand and will also be detrimental to refineries.
	Silver dore	6.10%	10%				
Automobiles	Vehicle (including EVs) in semi-knocked down (SKD) form	30%	35%				SKDs and CBUs with CIF more than $40,000 or with engine capacity over 3000 cc for petrol-run vehicles and more than 2500 cc for diesel-run vehicles, along with EVs, have seen effective increase in customs duty ranging 2-4%. However, this will have a minimal impact as CBU imports are concentrated in the luxury segment, which accounts for less than 1% of overall sales volume.
	Vehicle in completely built unit (CBU) form, other than with CIF more than $40,000 or with engine capacity more than 3000 cc for petrol-run vehicles and more than 2500 cc for diesel-run vehicles, or with both	60%	70%				
	CBU EVs, other than with CIF value more than $40,000	60%	70%				
	Vehicles, specified automobile parts/components, sub-systems and tyres when imported by notified testing agencies, for the purpose of testing and/or certification, subject to conditions	As applicable	Nil				No impact on the industry, as components and vehicles are not imported for commercial purposes.
Others	Bicycles	30%	35%				Imported bicycles account for 4-5% of domestic production; hence, increasing customs duty on bicycles will lend marginal support to domestic manufacturers.
	Toys and parts (other than parts of electronic toys)	60%	70%				Imports form 60-70% of India's toy consumption, while the rest is manufactured domestically. Rise in customs duty will increase the prices of imported products, which, in turn, will make locally manufactured products cost-competitive. It will also help the industry explore global markets and enhance exports.
	Compounded rubber	10%	25% or 30/kg, whichever is higher				Imported compounded rubber constitutes less than 5% by weight in total production of tyres. Increase in duty will have minimal impact on overall

Sector	Commodity	Rate of customs duty		Rate of excise duty		Impact	Remarks
		From	To	From	To		
							value, but will have a positive impact on natural rubber, as players might switch to natural rubber and produce compounded rubber domestically.
	Warmblood horses imported by sportspersons of outstanding eminence for training	30%	Nil				Only sportspersons are given exemptions for importing horses specifically for the purpose of training. The impact is expected to be limited as no horses were imported in fiscal 2022, while only 40 were imported for sports in fiscal 2021.
National Calamity Contingent Duty (NCCD) rate on cigarettes (per 1,000 sticks)	Other than filter cigarettes, of length not exceeding 65 mm			200	230		The NCCD on specified cigarettes has been revised upwards by 16%. This will lead to a rise in product prices, thus impacting demand.
	Other than filter cigarettes, of length exceeding 65 mm, but less than 70 mm			250	290		
	Filter cigarettes of length not exceeding 65 mm			440	510		
	Filter cigarettes of length exceeding 65 mm, but not more than 70 mm			440	510		
	Filter cigarettes of length exceeding 70 mm, but not more than 75 mm			545	630		
	Other cigarettes			735	850		
	Cigarettes of tobacco substitutes			600	690		
Central excise duty changes	In order to promote green fuel, excise duty exemption provided to blended compressed natural gas (CNG) to the tune of GST payment on biogas/compressed biogas contained in blended CNG						The exemption of excise duty to the tune of GST payment on the blended component will help avoid cascading of taxes. This is expected to reduce the retail price of CNG by 4-6% based on current prevalent prices (in New Delhi) and improve competitiveness of bio-CNG vis-à-vis alternative fuels.

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