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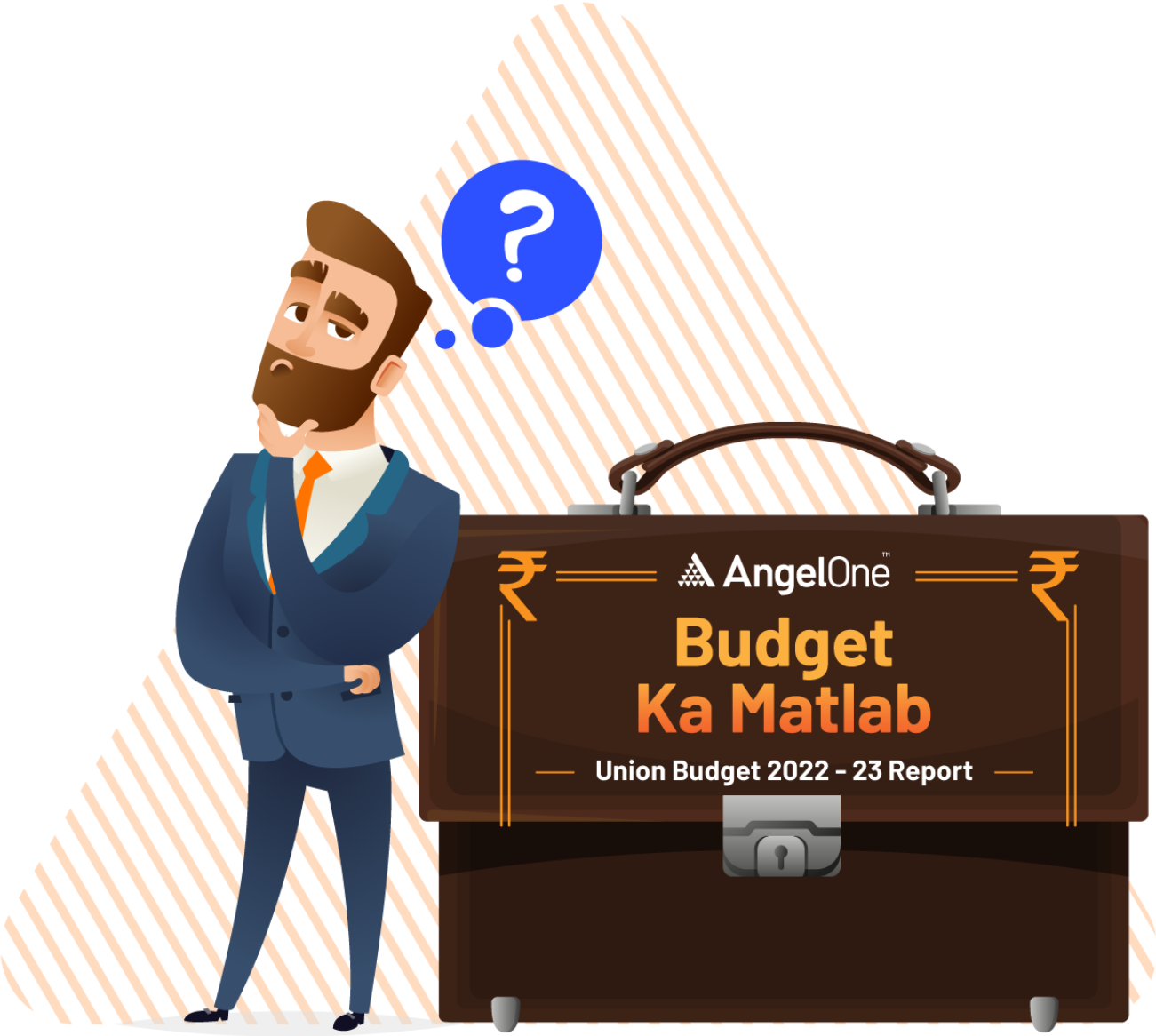

Sharp Increase in Capital expenditure delays fiscal consolidation

Fiscal deficit for FY2023 at 6.4%. Deficit for FY2022 revised to 6.9%.

The Government continued with their focus on increased spending especially on infrastructure and rural economy. While the Fiscal defect figure for FY2022 at 6.9% was largely in line with street estimates, budgeted deficit figure of 6.4% for FY2023 was 40-50bps ahead of street estimates. The increased deficit for FY023 was largely due to the Government's continued thrust on increased capital expenditure which should help growth in FY2023.

Slippage is largely on account of shortfall in disinvestment targets, higher subsidies & capex.

The Government expenditure for FY2022 was revised to ₹37.7 lakh Cr. from the budget estimate of ₹34.8 lakh Cr. on account of higher revenue and capital expenditure. Revenue expenditure for the year stood at ₹31.7 lakh Cr., higher than budget estimates of ₹29.3 lakh Cr. Higher than budgeted revenue expenditure was largely driven by higher subsidy burden at ₹4.9 lakh Cr as compared to budgeted estimates of ₹3.7 lakh Cr.

Despite a shortfall in disinvestment by ~₹1 lakh Cr. and higher than budgeted subsidy burden target for FY2022, fiscal deficit was contained at 6.9% due to buoyant net tax collections which registered a growth of 23.8% YoY to ₹17.65 lakh Cr.

Total expenditure for FY2023 is expected to grow at 4.6% YoY largely on account of increase in capital expenditure by 24.5% YoY to ₹7.5 lakh Cr. The increase in capital expenditure for FY2023 is on the back of a 41.4% YoY increase in FY2022. Increased allocation to capital expenditure coupled with lower tax growth will lead to higher-than-expected fiscal deficit for FY2023. Though the higher-than-expected fiscal deficit would be marginally negative for the bond markets we believe that it will be largely neutral for equities.

Key Highlights of the Budget

The Union Budget clearly has a focus towards increased capital spending ad is clearly beneficial for Infrastructure and allied sectors. Key measures announced by the Government are:

Significant increase in outlay on capital expenditure is positive for Infra and related sectors

- Sharp increase in capital expenditure by 24.5% YoY to ₹7.5 lakh Cr. in FY2023 on the back of 41.4% YoY growth in FY2022.
- The capital outlay for MoRTH has been increased by 54.8% vs. FY22 revised estimates and 73.5% vs. budgeted estimates to ₹1,87,744 crores.

Tax breaks for affordable housing extended till Mar'23

- Allocation of ₹48,000 crore for PM AVAS Yojna and extension of Sec 80IBA which provides tax holiday to affordable housing projects.
- Increase in import duties on electrical and electronic components like smart meters, PCB of smart meters, solar cells and solar modules is positive as it will boost local manufacturing.
- Reduction in import duties of key raw materials like Acetic acid and Methyl Alcohol is positive for domestic chemical companies.

Tax revenue assumptions for FY2023 appear realistic

Gross tax collections for FY2023 are expected to grow at 9.6% yoy against a growth of 24.1% in FY2022. Net tax collections growth is expected to be similar at 9.6% in FY2023 given that devolution to states are expected to at similar levels of FY2022 at 29.8%. Direct taxes are expected to grow by 13.6% yoy driven equally by personal income tax and corporate tax.

Indirect tax collections are expected to grow by 5.7% YoY which is in below the nominal GDP growth estimates of 11.1% YoY. GST collections are expected to grow by 15.6% yoy while customs duties are expected to grow by 12.7% YoY. Excise duties are expected to de-grow by 15.0% YoY due to cut in excise duties on petrol and diesel by the Government.

Tax revenue growth for FY2023 seems to be realistic given that except for excise duties all other tax components are expected to grow marginally ahead of nominal GDP growth. We also believe that there is a possibility of tax collections exceeding the Government estimates marginally given that nominal GDP growth can end up being higher than the 11.2% factored in by the Government because of higher inflation levels in the economy.

Government Disinvestment target for FY2023 is also realistic

Non-tax revenues are expected to de-grow by 14.1% YoY in FY2023 post growth of 51.1% YoY in FY2022. Dividend income from PSU's is expected to de-grow by 13% while dividend & profit receipts from RBI and PSU banks are expected to de-grow by 27% YoY. It seems like the Government is not expecting any large surplus transfer from the RBI in FY2023 which will lead to lower receipts from RBI and PSU banks.

Disinvestment targets for FY2023 has been pegged at ₹65,000 crore as compared to a revised target of ₹78,000 crore in FY2022. The disinvestment for FY2022 have been revised down significantly from the budget estimates of ₹1,75,000 crore as the Government has been significantly behind targets given the delay in LIC IPO and strategic stake sale in BPCL. However, the revised target indicates some proceeds from the LIC IPO in the current fiscal.

The disinvestment targets for FY2023 appear to be reasonable and should be easily achievable by the Government especially if they are successful in the strategic sale of PSUs like BEML, BPCL, CONCOR, IDBI Bank etc. in the next fiscal.

Key Fiscal Indicators (% of GDP)

	FY20A	FY21A	FY22BE	FY22RE	FY23BE
Gross Tax Revenue	9.9%	10.3%	9.9%	10.8%	10.7%
Devolution to States	3.2%	3.0%	3.0%	3.2%	3.2%
Net Tax to Centre	6.7%	7.2%	6.9%	7.6%	7.5%
Direct Taxes	5.2%	4.8%	5.0%	5.4%	5.5%
Indirect taxes	4.7%	5.5%	5.0%	5.5%	5.2%
Capital Receipt (ex-borrowing)	0.3%	0.3%	0.8%	0.4%	0.3%
Revenue Expenditure	11.6%	15.6%	13.1%	13.6%	12.4%
Subsidies	1.3%	2.1%	1.7%	1.4%	1.2%
Total Capital Expenditure	1.7%	2.2%	2.5%	2.6%	2.9%
Total Expenditure	13.2%	17.8%	15.6%	16.2%	15.3%
Revenue Deficit	3.3%	7.3%	5.1%	4.7%	3.8%
Fiscal Deficit	4.6%	9.2%	6.8%	6.9%	6.4%
Primary Deficit	1.6%	5.8%	3.1%	3.3%	2.8%

Source: Budget documents, Angel Research

Exhibit 2: Budget 2021-22 at a glance

Particular	Budget (₹ Cr)				YOY (%)	
	FY21A	FY22BE	FY22RE	FY23BE	FY22RE	FY23BE
(A) Revenue Receipts (1+2)	**1,633,918**	**1,788,424**	**2,078,936**	**2,204,422**	**27.2**	**6.0**
Gross Tax Revenue (a+b)	2,027,102	2,217,059	2,516,059	2,757,820	24.1	9.6
Devolution to States/Trf to NCCD	600,817	671,663	750,915	823,049	25.0	9.6
%	29.6%	30.3%	29.8%	29.8%		
1) Tax Revenue (Net to Centre)	**1,426,285**	**1,545,397**	**1,765,145**	**1,934,771**	**23.8**	**9.6**
a) Direct Taxes	**944,863**	**1,108,000**	**1,250,000**	**1,420,000**	**32.3**	**13.6**
Income Tax	487,144	561,000	615,000	700,000	**26.2**	13.8
Corporate Tax	457,719	547,000	635,000	720,000	38.7	13.4
b) Indirect taxes	**1,082,239**	**1,109,059**	**1,266,059**	**1,337,820**	**17.0**	**5.7**
Custom Duties	134,750	136,000	189,000	213,000	40.3	12.7
Excise Duties	391,749	335,000	394,000	335,000	**0.6**	-15.0
Service Tax	1,615	1,000	1,000	2,000	-38.1	100.0
GST	548,777	630,000	675,000	780,000	23.0	15.6
Others	5,348	7,059	7,059	7,820	32.0	10.8
2) Non-Tax Revenue	**207,632**	**243,028**	**313,791**	**269,651**	**51.1**	**-14.1**
(B) Capital Receipts (3+4+5)	**1,883,105**	**1,623,429**	**1,516,877**	**1,739,735**	**-19.4**	15.3
3) Recovery of Loans	19,729	13,000	21,975	14,291	11.4	-35.0
4) Disinvestment	37,897	175,000	78,000	65,000	105.8	-16.7
5) Borrowings and Other Liabilities	1,825,479	1,435,429	1,416,902	1,670,338	-22.4	17.9
Total Receipt (A+B)	**3,509,836**	**3,483,236**	**3,770,000**	**3,944,909**	**7.4**	**4.6**
(C)Revenue expenditure	3,083,519	2,929,000	3,167,288	3,194,663	2.7	0.9
6) Of which interest payments	679,869	809,701	813,791	940,651	19.7	15.6
(D) Capital expenditure	426,317	554,236	602,711	750,246	41.4	24.5
Total Expenditure (C+D)	**3,509,836**	**3,483,236**	**3,770,000**	**3,944,909**	**7.4**	**4.6**
(E) Fiscal Deficit (C+D-A-3-4)	**1,818,293**	**1,506,812**	**1,591,089**	**1,661,196**	**-12.5**	**4.4**
(F) Revenue Deficit (C-A)	**1,449,601**	**1,140,576**	**1,088,352**	**990,241**	**-24.9**	**-9.0**
(G) Primary Deficit (E -6)	**1,138,424**	**697,111**	**777,298**	**720,545**	**-31.7**	**-7.3**
GDP	**19,764,055**	**22,287,379**	**23,214,703**	**25,800,000**	**17.5**	**11.1**
Fiscal Deficit (% of GDP)	9.2%	6.8%	6.9%	6.4%		

Source: Company, Budget documents, Angel Research

Lower subsidy burden in FY023 will allow Government to invest in productive assets

After falling from 1.8% of GDP in FY2014 to 1.2% of GDP in FY2019 there was a sharp increase in subsidies to 3.8% of GDP in FY2021. Moreover subsidies at 2.1% of GDP for FY2022 were higher than budgeted estimates of 1.7%. This was largely on account of higher than budgeted spending on food & fertilizer subsidies. Food subsidies were higher due to extension of Pradhan Mantri Garib Kalyan Anna Yojna (PM-GKAY) to March 2022 while higher fertilizer prices led to increased fertilizer subsidies.

However food subsidies are expected to go down in FY2023 as the Government will not have to provide food grains under the PM-GKAY scheme. Moreover normalization of global supply chains should lead to a decline in fertilizer prices which should lead to lower outgo on fertilizer subsidies. Thus subsidies are expected to go down to 1.4% of GDP in FY2023 which is very close to levels of 1.3% in FY2020.

Exhibit 3: Subsidy

Subsidy Break-down (₹ Cr)	FY17A	FY18A	FY19A	FY20A	FY21A	FY22BE	FY22RE	FY23BE
Major Subsidies	**232,705**	**191,183**	**196,769**	**228,341**	**707,707**	**336,439**	**433,108**	**317,866**
Fertilizer Subsidy	70,000	66,441	70,605	81,124	127,922	79,530	140,122	105,222
yoy growth (%)	-3.4%	-5.1%	6.3%	14.9%	59.9%	-37.8%	9.5%	-24.9%
Food Subsidy	135,173	100,282	101,327	108,688	541,330	242,836	286,469	206,831
yoy growth (%)	1.0%	-25.8%	1.0%	7.3%	193.8%	-42.5%	-47.1%	-27.8%
Petroleum Subsidy	27,532	24,461	24,837	38,529	38,455	14,073	6,517	5,813
yoy growth (%)	-8.2%	-11.2%	1.5%	55.1%	2.6%	-64.0%	-83.1%	-10.8%
Interest Subsidy	18,865	22146.37	20,009	23,702	30,216	26,282	36,563	24,723
yoy growth (%)	4.0%	17.4%	-9.7%	18.5%	15.7%	-17.9%	21.0%	-32.4%
Other Subsidy	3,128	11,099	6,176	10,260	20,243	7,178	18,201	13,050
yoy growth (%)	46.4%	254.8%	-44.4%	66.1%	95.7%	-66.0%	-10.1%	-28.3%
Total Subsidy	**254,698**	**224,429**	**222,954**	**262,304**	**758,165**	**369,899**	**487,872**	**355,639**
yoy growth (%)	-1.2%	-11.9%	-0.7%	17.6%	124.2%	-43.0%	-35.7%	-27.1%
% to GDP	1.7%	1.3%	1.2%	1.3%	3.8%	1.7%	2.1%	1.4%

Source: Company, Budget documents, Angel Research

The decline in subsidy burden is desirable as it would allow the Government to focus on capital expenditure which has a higher multiplier effect. The decline in Subsidy burden in FY2023 will allow the Government to increase capital expenditure to 2.9% of GDP in FY2023 from 2.6% of GDP in FY2022 and should help stimulate growth.

Though the higher-than-expected fiscal deficit would be negative for the bond markets and is likely to push up bond yields from current levels of 6.85%. However, deficit spending on infrastructure by the government should help stimulate growth and will be marginally positive for equities. We believe that capital goods, infrastructure and cement sectors will be the key beneficiaries of the Government's focus on increased capital spending.

Sectoral Impact

Automobile

Positive

Announcement	Impact
■ Continued focus and higher allocation to infrastructure and road construction.	■ This will be positive for the CV industry. Ashok Leyland is among the key beneficiaries.
■ A battery swapping policy with inter-operability standards will be formulated to improve the EV ecosystem	■ This will further the EV adoption levels; positive for Tata Motors and auto ancillary players catering to EV OEMs.

Bank

Positive

Announcement	Impact
■ Allocation under PM Awas Yojana: ₹48,000 crore. allocated under PM Awas Yojana, wherein 8mn houses will be completed for eligible beneficiaries under the scheme (both urban and rural).	■ Positive for affordable HFCs.
■ Extension of ECLGS scheme: The ECLGS has been extended up to Mar'23, with guarantee cover expanded by ₹50,000 crore to ₹5 lakh Cr. The additional amount of ₹50,000 crore has been earmarked exclusively for hospitality and related enterprises.	■ The scheme continues to remain underutilized at less than Rs3tn sanctions thus far. Incremental lending mostly expected from PSBs, with little participation likely from private banks. No impact on stock price envisaged.
■ Revamping of CGTMSE scheme: The scheme will be revamped, facilitating additional credit of ₹2 lakh Cr. for MSEs.	■ Will aid asset quality of small business loans for PSBs. Private banks have not utilized the scheme in a big way since loans under the scheme are non-collateralized. No stock price impact expected.

Capital Goods

Positive

Announcement	Impact
■ Allocation (capital) to Ministry of Railways has increased by 17% (over FY22 RE) to ₹1,37,100 crores. While Defence capital outlay has been increased by 9.7% over FY22 revised estimates to ₹1,52,370cr. Additionally, 68% capital procurement budget will be earmarked for domestic industry.	■ Positive for companies like L&T as far as overall scheme of things. Defence spends as well as increase in indigenization to benefit companies like BEL, Bharat Forge, Data Patterns, MTAR, etc.
■ An additional allocation of ₹19,500 crore for PLI for manufacture of high efficiency PV modules, with priority to fully integrated manufacturing units.	■ Positive for companies that have full extent of integration like Reliance Industries (Reliance New Energy) and Jindal Poly (Jindal India Solar)
■ Custom duty increased on Smart Meters from 15% to 25%.	■ Positive for Indian Smart Meters manufacture companies like HPL Electric & Power.

Chemicals

Positive

Announcement	Impact
■ Custom duty reduced on acetic acid from 10% to 5%.	■ This will be positive for chemical manufacturing company like Jubilant Ingrevia.

Diamond, Gems & Jewellery

Positive

Announcement	Impact
■ Custom duty reduced on cut and polished diamonds and gemstones from 7.5% to 5%.	■ Positive for Indian Gems and Jewellery companies.

FMCG

Positive

Announcement	Impact
■ No increase in tax rate on cigarettes has surprised the market positively.	■ Positive for cigarette manufacturers like ITC, Godfrey Phillips etc.

Infra/Cement

Positive

Announcement	Impact
■ Overall Capital Expenditure has increased by 24.5% YoY on FY22 revised estimates to ₹7,50,246 crores for FY23. The revised estimates have been increased from ₹5,54,236 crores to ₹6,02,711 crores. ■ The capital outlay for MoRTH has been increased by 54.8% vs. FY22 revised estimates and 73.5% vs. budgeted estimates to ₹1,87,744 crores. ■ Allocation of ₹60,000 crore has been made with an aim to cover 3.8 crore households in 2022-23 under Har Ghar, Nal Se Jal. ■ ₹48,000 crore has been allocated for PM Awas Yojana. The revised estimate for FY22 has been increased from ₹27,500 crores to ₹47,390 crores.	■ Positive for the Infrastructure sector. Addition in infrastructure projects will lead to increase in order book for the companies. Cement sector would be key beneficiary. ■ Positive for road infrastructure development companies such as KNR Constructions, PNC Infratech, Ashoka Buildcon. ■ Positive for pipe manufacturing companies ■ Positive for all cement companies (UltraTech Cement, JK Cement, ACC, JK Lakshmi, etc).

Metal

Positive

Announcement	Impact
■ Anti- dumping and CVD on stainless steel and coated steel flat products, bars of alloy steel and high-speed steel are being revoked.	■ This is marginally negative for steel players. However overall budget was positive for the metal sector due higher infra spending.

Logistics

Positive

Announcement	Impact
■ 100 PM Gati Shakti Terminal to be set up in the next three years. ■ Four multimodal logistics parks are to be awarded through the PPP (Public-private partnership) model in FY2022-23	■ 100 new terminals will be a booster for the logistic sector in India. Additionally proving railway connectivity will give a big boost to new warehousing and logistics facilities across the country. Positive for Container corporation of India. ■ This will help in ramping up of transportation infrastructure in India and facilitate swifter moment of goods. ■ VRL logistics will be going to get the benefit of this measure as the company is the leading player in road logistics.

Real Estate

Positive

Announcement	Impact
■ PM Awas Yojana received an allocation of ₹48,000 crores. 80 lakhs new dwelling in rural, urban areas to be completed under PM Awas Yojana in FY2022-23	■ Real Estate developers will launch more projects in the near future under Affordable Housing. Positive for companies such as Brigade Enterprises and Sobha Ltd.

Top Picks

	Market Cap (₹ cr)	CMP (₹)	Sales (₹)		PAT (₹)		ROE (%)		P/E (x)	
			FY22E	FY23E	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Ashok Leyland	38,353	131	21,316	30,241	353	1,642	5	21	109	23
Kalpataru Power	5,991	402	8,304	9,064	508	666	12	13	12	9
JK Lakshmi Cem.	6,891	586	5,297	5,581	491	550	20	18	14	13
Sobha	8,235	868	2,706	3,598	201	575	21	61	41	14
Oberoi Realty	35,209	968	2,901	3,334	1,070	1,366	29	38	33	26

Source: Company, Angel Research (Note: Closing Price is of Feb 01, 2022)

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