Acuité
RATINGS & RESEARCH

Union Budget
FY24

Impact Analysis

February 2023

Contents

PREFACE

It is with pleasure that we share our analysis on the Union Budget for FY24. Beyond a comprehensive analysis of the fiscal print and its likely impact on the economy undertaken by our economic research team, our ratings team has also gone through the budgetary print to identify the impact, if any on the key sectors which play a significant role in shaping the country's growth trajectory. I am sure you have access to other reports on the budget but you may still want to go through it in case you seek the bigger picture both from a macroeconomic and sectoral perspective.

Acuité Ratings & Research is already acknowledged as one of the respected rating agencies in India despite being smaller in size. While we have cumulatively rated over 9,500 companies and a larger chunk of that over the last five years, we remain focussed on ensuring the integrity of our processes and the quality of our ratings. As a group, we have maintained a strong presence in the SME ratings space through our subsidiary (SMERA). We have also continued to make substantial progress in the ESG Ratings space with our subsidiary, ESG Risk Assessments & Insights Ltd (ESGRisk.ai) has the highest domestic ESG assessment coverage with reports on over 1,000 companies.

We will describe this budget as work in progress on various medium and long term goals articulated by the current government over the last almost one decade. What has received a thumbs up from all stakeholders is the consistent push for public capital expenditure in the background of pandemic stress and the need to revive the structural growth trajectory. The elevation of capex to 3.3% of GDP should drive growth and employment if implementation of projects happens in a timely manner. The railway sector in particular, has received significant attention given its role in long distance and urban connectivity apart from freight and logistics where higher efficiencies can improve India's export competitiveness significantly. While the government did step up on social expenditure in a big way through the Covid pandemic through higher food and fertiliser subsidies, fiscal consolidation demands a rationalization of such expenses and the government has made an honest effort towards that objective despite populist pressures emerging from the impending state and the central elections. While the government has provided some additional relief for MSMEs, it is largely indirect like providing capital to the credit guarantee providers.

There are three other important goals that the government has continued to pursue through this budget. One, gradual steps towards agricultural reforms to enhance farm output, productivity and farmers' incomes. Second, adoption of digital technology across all possible economic areas to drive efficiency gains. This should drive the ease of doing business in the years to come. Third, making progress on the sustainable development goals through energy transition and power storage (battery) projects, encouraging hydrogen as a green fuel and also facilitating indigenous manufacture of EV batteries. While the possibility of a moderate reduction of personal taxes through the new regime has enthused the market, the key takeaway there is the gradual but assured transition to a simpler, exemption free transparent tax structure going forward.

Overall, the fiscal arithmetic is credible for FY24 in the backdrop of a resilient domestic economy though the government can't afford to be complacent, given the heightened macro uncertainties. Hope you enjoy reading our report.

Sankar Chakraborti
Group CEO, Acuité Ratings & Research

Union Budget 2023-24

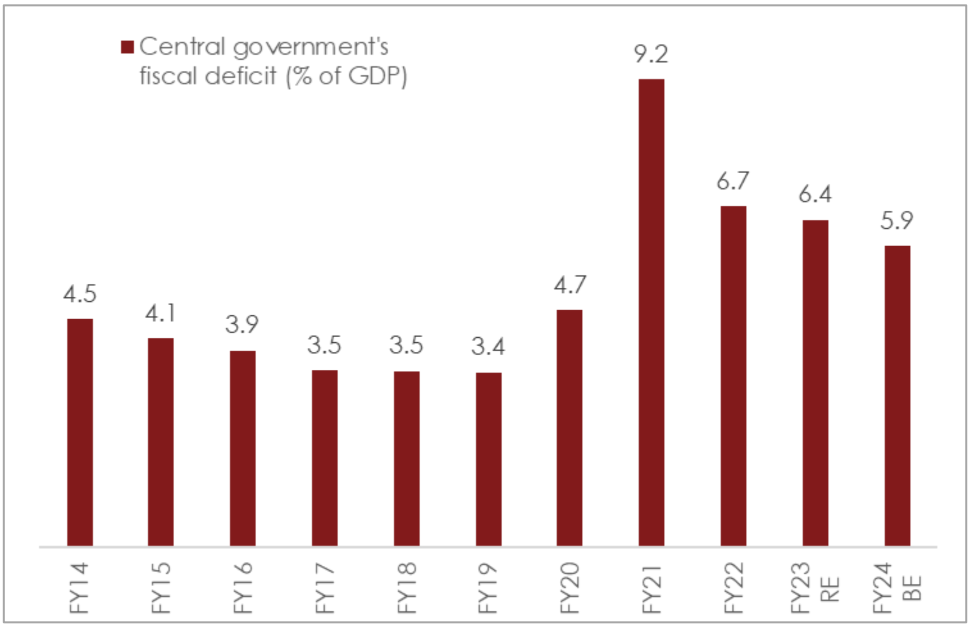
Striking a fine balance!

KEY TAKEAWAYS

- Reverting to the fiscal consolidate mode post pandemic, the fiscal deficit target for FY24 is pegged at 5.9% of GDP, 50 bps down from 6.4% in FY23.
- Capital expenditure, green energy, agriculture, and adoption of digital technology emerge as focus areas. Improvement in the quality of expenditure and fiscal transparency also remain on radar, besides credible arithmetic.
- Central government's capital spending is expected to rise to a two decade high of 3.3% of GDP in FY24, providing a strong impetus to growth and job creation. With revenue expenditure set to grow marginally by 1.2% in FY24 amidst savings on food and fertilizer subsidies, the quality of spending is expected to improve further.
- In line with expectations, the government offered rationalization of tax slabs under the new tax regime along with the increase in income rebate from Rs 5 lakh to Rs 7 lakh, which is set to provide a boost to private consumption, aid tax compliance and increase savings.
- Gross and net market borrowing for FY24 is pegged at Rs 15.4 trillion and Rs 11.0 trillion respectively, slightly lower than the market forecasts.

The FY24 Union Budget displayed a fine balance between fiscal consolidation and the need to preserve growth impulses. Continuing its path of fiscal consolidation for the third consecutive year, the Budget announced a 50 bps reduction in fiscal deficit to GDP ratio from 6.4% in FY23 to 5.9% in FY24. The impetus on capex since FY21 has been sustained along with a fresh digital push and thrust on the green economy with a vision to drive productivity and efficiency gains over the medium term. In addition, the recalibration in personal income tax slabs and raising of income tax rebate threshold to Rs 7 lakh under the new tax regime will not only be a relief for the salaried class and pensioners but also serve as a consumption support. Overall, it appears to be a budget for everyone - intending to push the domestic growth levers of the economy, viz. consumption and investment.

<u>Chart1: Central government remains committed towards gradual fiscal consolidation</u>



Fiscal arithmetic: Realistic

At an aggregate level, the fiscal arithmetic appears realistic and may be slightly conservative. Gross tax revenues are budgeted to increase by 10.4% in FY24 compared to 12.3% in FY23 RE (revised estimates). The overall tax buoyancy is estimated at 0.99, implying a stable Gross Tax/GDP ratio of 11.1%. At a granular level, tax growth is expected to be led by GST amidst ongoing formalization efforts and improvement in compliance. On a comforting note, the 18.9% contraction in excise collection in FY23 is expected to be partially reversed with a moderate 5.9% increase in budgeted excise collections in FY24. After adjusting for tax devolution to states, net tax revenues are projected to expand by 11.7% in FY24, lower than the 15.6% growth as per FY23 RE.

Non-tax revenues have been retained at 1.0% of GDP for FY24 with marginal increase in dividend income (from PSEs along with the RBI) from Rs 84,000 Cr in FY23 to Rs 91,000 Cr in FY24. Support from telecom revenue is budgeted to increase strongly by 30%, from Rs 68,800 Cr in FY23 to Rs 89,500 Cr in FY24 on further sale or receipt of instalments from telecom spectrum auction.

The target for disinvestment is broadly flat at Rs 51,000 bn (vs. Rs 500 bn in FY23) with no attempt to project any significant disinvestment success. Moderate size of budgeted disinvestment target (0.2% of GDP) can be rationalized amidst an uncertain equity market backdrop and election heavy season in the next one year.

On the expenditure side, growth in total expenditure is budgeted to moderate to 7.5% in FY24 from 10.4% in FY23. This is expected to be led by revenue expenditure, which is likely to see a subdued growth of 1.2% in FY24 vis-à-vis 8.1% in FY23. The decline in international fertilizer and food prices, and discontinuation of PMGKAY (free foodgrain distribution scheme started as a post pandemic relief exercise) will enable the government to prune its subsidy bill to 1.3% of GDP in FY24 from 2.1% in FY23.

In contrast, the Government has budgeted for capex to grow by 37.4% in FY24, with Capex/GDP ratio budgeted to jump 60 bps to a two decade high of 3.3%. As such, the quality of expenditure (i.e., capex/revex ratio) is expected to improve towards 0.29, the best in last 19-years.

Budget calculations are premised on a Nominal GDP growth of 10.5% in FY24, roughly in line with the economic survey.

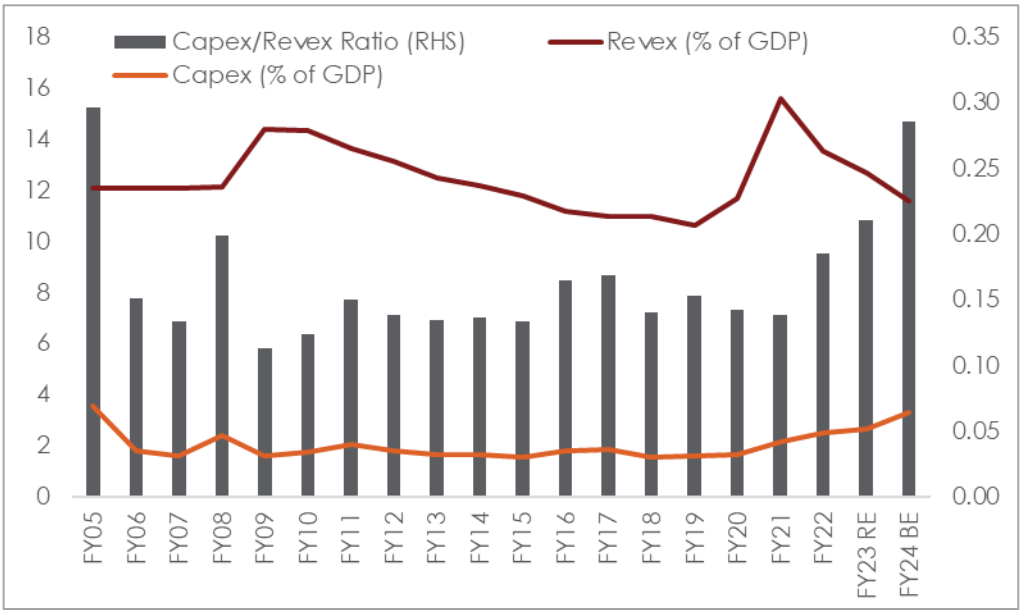
Infrastructure: Driving growth

With private sector investments remaining subdued and global economic uncertainty persisting, the government has chosen to amplify its capex thrust via record high allocation of Rs 10 Lakh Cr in FY24. As much as 90% of direct central government capex expenditure is budgeted to be driven by the ministries of roads, railways, defence, telecom, and petroleum. In addition:

- Transfer to states under capital outlay is set to increase strongly by 60.8% to a record high level of Rs 1.40 trillion.
- Capex by public sector enterprises is set to increase by 21.6% to Rs 4.88 trillion in FY24 after seeing three consecutive years of contraction.

At an aggregate level, total capex (central government expenditure + capital outlay state transfers + PSE capex) is expected to increase to 4.9% of GDP in FY24 from 4.1% in FY23. At a time when private capex recovery remains incipient, a government driven capex thrust augurs well for its high multiplicative impact on national income.

Chart2: Quality of spending budgeted to see a sharp improvement



Education & Healthcare: Bridging the gaps

With the pandemic regressing education and health outcomes by two successive years, FY24 Budget accorded a higher priority to the social sector. While MNREGS is set to see rationalization in FY24, social sectors like education, health, drinking water and irrigation are budgeted for a sharp increase in outlay.

MSMEs: Ease of doing business

Budget offered support to MSMEs via a proposed revamp in the credit guarantee scheme, which entailed an infusion of Rs 9,000 Cr to facilitate additional guarantee based lending. In addition, universalization of PAN usage for digital systems of specified government agencies and proposal for creation of Entity Digilocker for MSMEs would aid ease of operations.

Green growth: One of the key Saptarishis

The finance minister said that "green growth" for India would become one of the seven major drivers (Saptarishi) in line with the long-term climate goals for 2070. The recently launched National Green Hydrogen Mission with an outlay of Rs 19,700 Cr will kickstart the transition of the economy to low carbon intensity and reduce dependence on fossil fuel imports. Notably:

- The Budget has earmarked Rs 35,000 Cr for priority capital investments towards energy transition and net zero objectives, and energy security by the Ministry of Petroleum & Natural Gas.
- To steer the economy on the sustainable development path, Battery Energy Storage Systems with capacity of 4,000 MWH will be supported with Viability Gap Funding.
- For encouraging behavioral change, a Green Credit Program will be notified under the Environment (Protection) Act for incentivizing environmentally

sustainable and responsive actions by companies, individuals and local bodies, and help mobilize additional resources for such activities.

Borrowings: Financing of the fiscal deficit

The Budget pegs FY24 gross and net market borrowings at Rs 15.4 trillion and Rs 11.0 trillion respectively. While the net borrowing appears flat vis-à-vis FY23, gross borrowing shows a 8.6% growth on account of elevated repayments, and thereby stands at a record high in value terms (although the normalized ratio is estimated to show a mild moderation to 5.1% of GDP from 5.2% in FY23).

- Funding via T-Bills is budgeted for a moderation to Rs 50,000 Cr in FY24 from Rs 1,00,000 Cr in FY23.
- Reliance on small savings is expected to increase marginally from Rs 4.39 Lakh Cr in FY23 to Rs 4.71 Lakh Cr in FY24.

For FY24, the budget has announced small new saving schemes and enhanced limits of certain current schemes to attract flows into small savings. However, given the increase in bank deposit rates (and room for some further upside), the upside on small savings could be limited.

Table 1: Funding of fiscal deficit

	In Rs bn#			As % of Fiscal Deficit		
	FY22	FY23 RE	FY24 BE	FY22	FY23 RE	FY24 BE
Fiscal Deficit	**15845**	**17553**	**17868**	**-**	**-**	**-**
External Financing	361	239	221	2.3	1.4	1.2
Domestic Financing	15484	17314	17647	97.7	98.6	98.8
Dated Securities	8915	11058	11028	56.3	63.0	61.7
T-Bills	662	1000	500	4.2	5.7	2.8
Small Savings	5513	4389	4713	34.8	25.0	26.4
Cash Drawdown	25	-32	-118	0.2	-0.2	-0.7
Others*	368	900	1524	2.3	5.1	8.5

*Includes items from State Provident Funds, Internal Debts and Public Account # 1 bn=100 Cr

Conclusion

The FY24 Union Budget rests on the following four broad strategies:

- Substantial thrust on public capex for crowding in private investment, boost job creation, and enhance supply side economic potential
- Nudging digitalization of the economy through policy incentives to boost productivity and efficiency gains
- Rationalization of tax slabs under the new tax regime along with the increase in income rebate from Rs 5 lakh to Rs 7 lakh, which is set to provide a boost to consumption, aid tax compliance and increase savings
- Finally, move forward on the path of gradual fiscal consolidation by lowering the fiscal deficit ratio sequentially. The ministry remain committed to the goal of a deficit print below 4.5% by 2025-26.

Overall, a sense of policy continuity has prevailed which has worked well in restoring economic disruptions on account of shocks from the pandemic and the geopolitical crisis. Absence of any outright populist measure (ahead of the election season) is a relief and highlights policy maturity amidst prioritization of macroeconomic stability.

Market implications

The FY24 Union Budget offers relief to the bond market as the announced gross borrowing target of Rs 15.4 trillion is lower than the consensus estimate of close to Rs 16 trillion. Since the headline fiscal arithmetic appears credible, there is no prima facie reason to expect the need for additional borrowing at this stage.

The 10Y g-sec yields continue to remain soft and the budget has given a rationale for that softness. This is in line with our view of bond yields remaining range bound (7.10-7.50% on the 10Y) until Mar-23. However, with global monetary tightening almost running its course (while the US Fed is expected to pause in Mar-23, we anticipate the RBI to deliver its final rate hike of 25 bps in Feb-23 and opt for a pause thereafter), bond yields could drift lower in FY24.

Having said so, the moderation is unlikely to be swift as (i) overall supply pressure on account of gross borrowing remains elevated, and (ii) ballooning interest burden (at 3.6% of GDP in FY24) on account of mounting debt levels would make achieving fiscal deficit target of "under 4.5% of GDP by FY26" a challenging task. This would require doubling down of policy effort to shed fiscal flab, aggressive implementation of monetization strategy, and enhancing tax coverage and compliance.

Table 2: Budget at a glance (1 bn = Rs 100 Cr)

	In Rs bn			As % of GDP		
	FY22	FY23 RE	FY24 BE	FY22	FY23 RE	FY24 BE
Revenue Receipts	21699	23484	26323	9.2	8.6	8.7
Gross Tax Revenue	27093	30431	33609	11.4	11.1	11.1
Net Tax Revenue	18048	20867	23306	7.6	7.7	7.7
Non-Tax Revenue	3651	2618	3017	1.5	1.0	1.0
Dividends & Profits	1606	840	910	0.7	0.3	0.3
Non-Debt Capital Receipts	394	835	840	0.2	0.3	0.3
Disinvestments	146	500	510	0.1	0.2	0.2
Total Expenditure	**37938**	**41872**	**45031**	**16.0**	**15.3**	**14.9**
Revenue Expenditure	32009	34590	35021	13.5	12.7	11.6
Interest Payment	8055	9407	10800	3.4	3.4	3.6
Subsidy	5039	5621	4031	2.1	2.1	1.3
Capital Expenditure	5929	7283	10010	2.5	2.7	3.3
Revenue Deficit	10310	11105	8699	4.4	4.1	2.9
Fiscal Deficit	**15845**	**17553**	**17868**	**6.7**	**6.4**	**5.9**
Primary Deficit	7790	8147	7068	3.3	3	2.3

Sectoral Impact

Financial Sector

Acuité Opinion

Overall – Moderately Positive

Key Budgetary Announcements

- ↑ Revamp of the Credit Guarantee scheme for MSMEs with the infusion of Rs 9,000 Cr in the corpus which will facilitate additional credit of Rs. 2 Lakh Cr for MSMEs
- ↑ Emergency Credit Line Guarantee Scheme (ECLGS) has been extended up to March 2023 and the sovereign guarantee cover expanded to touch an aggregate coverage of Rs.5 lakh Cr, with additional amount exclusively earmarked for hospitality and related enterprises.
- ↑ Enhanced allocation of Rs. 48,000 Cr towards housing projects under "Housing for All" in FY23
- ↔ Set up a National financial information registry which will serve as the central repository of financial and ancillary information and enable an efficient flow of credit. A new legislative framework will govern this credit public infrastructure and it will be framed in consultation with RBI
- ↓ An amendment in the Finance Bill is proposed to tax Market Linked Debentures as short-term capital gains; a new section 50AA proposed in IT Act
- ↓ It is proposed to tax income from insurance policies (other than ULIP for which provisions already exists) having premium or aggregate of premium above INR 5 Lakhs in a year.
- ↑ Gains from trading in digital assets like cryptocurrencies and other related assets like non-fungible tokens (NFTs) will be taxed at a flat 30% and 1% of tax will be deducted at source (TDS).
- ↑ To facilitate digital innovation & financial inclusion,1.5 lakh post offices will be covered under the core banking system and Scheduled Commercial Banks to set up 75 Digital Banking Units in 75 districts.

↑ Positive ↔ Neutral ↓ Negative

Impact Analysis

- The tenure extension and enhanced limits under ECLGS & CGTMSE schemes is a positive for MSME lenders including banks since the measures will not only encourage credit growth but also safeguard the balance sheets from any asset quality stress. As per RBI's Financial Stability Report, loans amounting to Rs.2.82 Lakh Cr were sanctioned under the ECLGS till November 12, 2021, of which Rs.2.28 Lakh Cr was disbursed thereby forming 20.6 per cent of the incremental credit during the period. These schemes have been instrumental in facilitation of credit flow to MSME sector thereby addressing credit and liquidity issues faced by MSMEs during Covid-19 led disruptions.
- Housing for All scheme have enabled in creating adequate supply to cater to affordable housing demand in the country. The continued government focus on affordable housing is a positive for mortgage lenders and banks.
- The recent government focus along with RBI measures to accelerate the pace of digital payment ecosystem and host of recent recommendations of working group on digital lending have been steps in the right direction. Though currently small, digital innovation and fintech adoption has been growing by leaps and bounds. This will enable efficient and cheaper currency management system.
- Bank credit rose encouragingly by 9.2 per cent on YoY basis as on December 31, 2021. This is a significant improvement from the 3.2% growth in the comparable period of FY21 and the negative growth in the first six months of FY22. Though there has been an improvement in credit demand in Q3FY22 associated with the higher levels of economic activity, this has been limited to a few sectors only and yet to be broad based. The higher capital expenditure programme can further add to the growth momentum due to its multiplier effect on overall economy thereby spurring need for incremental lending.

Agriculture

Acuité Opinion

Overall – Positive

Key Budgetary Announcements

- ↑ An Agriculture Accelerator Fund will be set-up to encourage agri-startups in rural areas to provide innovative and affordable solutions for challenges faced by farmers through modern technologies and transform agricultural practices, increase productivity and income levels.
- ↑ The agriculture credit target will be increased to Rs. 20 lakh Cr with focus on animal husbandry, dairy and fisheries.
- ↑ Digital public infrastructure for agriculture will be built as an open source, open standard and inter operable public good. This will enable inclusive, farmer-centric solutions through relevant information services for crop planning and health, improved access to farm inputs, credit, and insurance, crop estimation, market intelligence, and support for growth of agri-tech industry and start-ups.
- ↑ Creation of massive, decentralised storage capacity to help farmers store their produce and realize remunerative prices.
- Atmanirbhar Clean Plant Program will be launched to boost availability of disease-free, quality planting material for high value horticultural crops at an outlay of Rs. 2,200 Cr.
- ↑ A new sub-scheme of PM Matsya Sampada Yojana has been launched with target investment of Rs. 6,000 Cr to further support fishermen and fish vendors improve value chain efficiencies and expand the market.
- ↑ Computerisation of 63,000 Primary Agricultural Credit Societies (PACS) with an investment of Rs. 2,516 Cr. to prepare a national cooperative database for country-wide mapping of cooperative societies; Setting up of a large number of multipurpose cooperative societies, primary fishery societies and dairy cooperatives in uncovered panchayats and villages in next 5 years.
- ↑ To make India a global hub for 'Shree Anna', the Indian Institute of Millet Research, Hyderabad will be supported as the Centre of Excellence for sharing best practices, research and technologies at the international level.
- ↑ To enhance the productivity of extra-long staple cotton, a cluster-based and value chain approach through Public Private Partnerships (PPP) will be adopted through collaboration between farmers, state and industry for input supplies, extension services, and market linkage.

↑ Positive ↔ Neutral ↓ Negative

Impact Analysis

- Acuité believes that the higher budgetary allocation to the agricultural sector, while somewhat expected, is important to augment farmers' income over the medium term by providing much-needed access to finance, market connectivity and hi-tech services. The overall allocation for the agricultural sector stands at INR 1.25 Lakh Cr in FY24 BE. The hike in agriculture credit target by 11% to Rs.20 Lakh Cr for FY24 will also support that objective.
- Increased focus on superior quality crops would enhance the income of the farmers along with maintenance of maximum residue limit standards through clean plant programme; target of making India the global hub for millets through increased focus on driving millet cultivation, consumption and exports.
- The technological enhancements via PPP mode will streamline agriculture value chains and improve farm productivity. In addition, measures announced for access to digital public infrastructure for agriculture will further aid farmers to take informed decisions related to crop planning with the support of market intelligence and new-age technology.
- Additionally, to provide relief to the severely impacted sea food industry amidst the doldrums of Russia Ukraine War, the budget has proposed reduction of duties on major inputs for shrimp feed which will lower the input cost along with targeted investment of Rs. 6,000 Cr to promote productivity and export.
- The budget has laid a roadmap with increased focus on the balanced use of fertilizers in the country and promote alternative fertilizers through increasing use of more environmentally friendly fertilizers.

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Auto and Auto Ancillaries

Acuité Opinion

Overall – Moderately Positive

Key Budgetary Announcements:

↑ ▪ Exemption of customs duty towards import of capital goods and machinery required for manufacture of lithium-ion cells for batteries used in Electric Vehicles (EVs)

↑ ▪ Proposal to extend the rebate on individual income from Rs.5 lakh to Rs.7 lakh in the new income tax regime and reducing the number of slabs to five

↑ ▪ Allocation of adequate funds to scrap old vehicles of central government along with support to provide to the states in replacement of old vehicles and ambulances furtherance to the vehicle scrappage policy mentioned in the previous budget

↔ ▪ Reduction of basic customs duty rates on a wide range of goods from 21 percent to 13 percent which includes automobiles, resulting in minor changes in the basic custom duties, cesses and surcharges in this category

↑ Positive ↔ Neutral ↓ Negative

Impact Analysis

- One of the major announcements in the budget has been lower personal income taxes for mid-income consumers under the new tax regime; individuals with income up to Rs 7 lakhs need not pay any income tax. With the increased transition to the new regime and the rise in disposable incomes among the younger population, the demand for four and two wheelers is likely to get a boost over the near to medium term.
- Exemption of custom duty on goods and machinery towards manufacture of lithium-ion batteries will encourage the domestic production of such batteries. This will reduce the costs of domestically manufactured EVs in the longer term, develop indigenous capabilities in batteries and eventually drive the demand of EVs. However, there
- Allocation of additional funds towards the scrappage of old central government and state government vehicles is expected to increase the demand for passenger and commercial vehicles (including buses) to a moderate extent and will lead to some progress in the implementation of the already announced vehicle scrappage policy.
- There may be some reduction in the cost of imported high end vehicles due to the custom duty rationalization but its impact is limited on the overall auto market.

Cement

Acuité Opinion

Overall – Positive

Key Budgetary Announcements:

- ↑ Record allocation of Rs 10 Lakh Cr as capital expenditure for FY-24 i.e. 33% higher than budget estimate of FY2022-23. This outlay will be 3.3 per cent of GDP for the next fiscal, the highest in the last two decades.
- The allocation of Prime Minister Awas Yojana (PMAY) has been increased by 66 per cent to Rs 79,000 Cr in FY24 .
- ↑ 100 transport infrastructure projects identified for end-to-end connectivity with respect to ports, coal, steel, fertilizer sectors. These will be prioritized with an investment of Rs 75,000 Cr, including Rs 15,000 crore from private sources.
- ↑ For the Urban Infrastructure Development Fund, the government will allocate Rs 10,000 Cr annually. The fund will be established through priority sector lending shortfall, to be managed by National Housing Bank, and will be used by public agencies to create urban infrastructure in tier-2 and tier-3 cities.
- ↑ With a significantly increased outlay of Rs 1.3 Lakh Cr, the government will extend the 50-year interest-free loan to state governments for one more year to encourage them to take complementary policy actions and support infrastructure investment.

↑ Positive ↔ Neutral ↓ Negative

Impact Analysis

- Schemes like Pradhan Mantri Awas Yojana (PMAY) have been crucial in expanding penetration of affordable housing, increase access to housing for those in the low- to middle-income brackets of society and also augurs well for cement demand. Housing, which accounts for 65% of overall demand is the primary driver of cement demand in India and 29% is accounted for by includes rural housing.
- The significant increase in outlay for public infrastructure projects will also boost the scale of civic construction and the general demand for cement.

Gems & Jewellery

Acuité Opinion

Overall – Neutral

Key Budgetary Announcements:

- Basic customs duty on seeds used to manufacture lab grown diamonds is reduced to zero from 5%
- Provision of grants to one of the IITs for five years for research and development in the segment of lab grown diamonds
- Customs duty on silver (including silver plated with gold or platinum), unwrought or in semi-manufactured forms, or in powder form increased to 10 percent from 7.5 percent and on silver dore increased to 10 percent from 6.1 percent
- Customs duty on articles made from gold, silver and platinum increased to 25 percent from 20 percent
- Customs duty on imitation jewellery increased to 25 percent or 600/kg from 20 percent or 400/kg
- Conversion of physical gold into digital gold will not attract capital gains tax

Positive Neutral Negative

Impact Analysis

- One of the major announcements for the gems and jewellery industry is the reduction of duty on raw materials (seeds) used to produce lab grown diamonds. This is likely to reduce import costs for lab diamond manufacturers leading to improved global competitiveness.
- India is a global leader in cutting and polishing of natural diamonds, contributing about three-fourths of the global turnover by value. The provision of grants for the research and development will ensure leadership of India globally in the segment of lab grown diamonds as well.
- Increase in the customs duty for silver and articles made out of silver, gold and platinum has been a subsequent action after the increase in duties on bars of gold and platinum, which was done earlier in this fiscal year. Acuite believes that this is likely to increase the prices of the silver, gold and platinum articles in the domestic market.
- Exemption from capital gains may incentivize digital gold conversion.

Infrastructure

Acuité Opinion

Overall – Highly Positive

Key Budgetary Announcements:

- **Roads**
  The Budget outlay for Ministry of Road Transport and Highways increased by 36% at Rs 2.7 Lakh Cr for FY24(BE) (FY23 (RE): Rs. 1.99 Lakh Cr). Further, NHAI's budgetary outlay in the coming fiscal has risen to Rs. 1.6 Lakh Cr for FY24 (BE) (FY23 (RE): Rs.1.4 Lakh Cr) an increase of 14.9%. The total outlay for Pradhan Mantri Gram Sadak Yojna at Rs 19,000 Cr remains at same levels in FY24 (BE).
- **Railways**
  The Ministry of Railways' budget allocation for FY24 is set to spurt by around 9 times to Rs. 2.40 Lakh Cr from the budget allocation of FY14; budget allocation for FY23 was Rs.1.37 Lakh Cr. Around Rs. 2 Lakh Cr is proposed towards Indian Railways and Rs. 32,000 Cr for development of new railway lines. An allocation of Rs. 19,000 Cr is towards National High Speed Rail Corporation Limited, set up to manage the bullet train project between Mumbai-Ahmedabad.
- **Freight, logistics and regional connectivity**
  Proposal towards one hundred critical transport infrastructure projects, for last and first mile connectivity for ports, coal, steel, fertilizer, and food grains sectors have been identified to be taken up on priority with investment of Rs.75,000 Cr, including Rs.15,000 Cr from private sources. Revival of fifty airports, heliports, water aerodromes and advance landing grounds to improve regional air connectivity.
- **Urban Infrastructure and Financing**
  Urban Infrastructure Development Fund – Establishment of Urban Infrastructure Development Fund (UIDF) through use of priority sector lending shortfall which would be managed by the National Housing Bank and would be used by public agencies to create urban infrastructure in Tier 2 and Tier 3 cities.

  Urban Sanitation – Enhanced focus to be provided for scientific management of dry waste and wet waste.

  Municipal Bonds - Cities to be incentivized to improve their credit worthiness for Municipal bonds through property tax governance reforms and ring-fencing of user charges on urban infrastructure.
- Infrastructure Finance Secretariat established to assist stakeholders for increasing private investment in infrastructure, including railways, roads, urban infrastructure, and power, which are predominantly dependent on public resources.

↑ Positive ↔ Neutral ↓ Negative

Impact Analysis

- Acuité believes that the increase in budgetary allocation to Roads and Highways from the infrastructure perspective will help key create healthy order book for private players in the segment. Furthermore, the increased allocation for revival of airports to improve regional connectivity will aid the economic development specifically in the Northeastern Region.
- Pradhan Mantri Gram Sadak Yojna has been instrumental in developing the road infrastructure in the rural areas across the country. It has a positive impact on rural employment and supports an increase in non-farm incomes.
- Substantially higher budgetary allocation towards Railways is likely to strengthen the railway infrastructure in the country and is expected to create new opportunities for the railway contractors by boosting their order book positions. An increase in the number of trains particularly under Vande Bharat Scheme will support the indigenous manufacture of both locomotives and coaches.
- The augmentation of freight and logistics infrastructure will not only make local manufacturing competitive but also facilitate higher merchandise exports.
- The establishment of UIDF is expected to improve urban infrastructure development in the Tier 2 and Tier 3 cities. Also, the plan to enhance the credit worthiness of large civic bodies would ensure better access towards funds through municipal bonds and help them to fund large scale sustainability based projects.
- One disappointment, however, in the infrastructure sphere was the absence of any update on NMP, the National Monetization Pipeline, which was announced in the earlier budget and was to offer fully completed and operational infrastructure assets on a PPP basis.

Power

Acuité Opinion

Overall - Positive

Key Budgetary Announcements:

- ↑ An allocation of Rs. 19,700 Cr towards recently launched National Hydrogen Mission to facilitate transition of the economy to low carbon intensity, reduce dependency on fossil fuel imports and help India assume technology and market leadership in this sunrise sector; target an annual production of green hydrogen of 5 MMT by 2030
- ↑ Priority capital investment of Rs.35,000 Cr towards energy transition and achieving net zero carbon emission
- ↑ Battery energy storage systems with capacity of 4000 MWH will be supported with viability gap funding
- ↑ 500 new biomass (gas) plants under GOBARDHAN (Galvanizing Organic Bio-Agro Resources Dhan) scheme proposed for promoting circular economy at total investment of Rs 10,000 Cr
- ↑ Large investment in inter-state transmission system for evacuation and grid integration of 13 GW renewable energy from Ladakh to be constructed with investment of Rs 20,700 Cr including government grant of Rs 8,300 Cr
- ↑ States will be allowed a fiscal deficit of 3.5 per cent of GSDP of which 0.5 per cent will be tied to power sector reforms.

↑ Positive ↔ Neutral ↓ Negative

Impact Analysis

- Large scale investment in renewable energy (solar or hydel) generation and transmission in Ladakh will not only facilitate the ongoing transition to a higher renewable power mix but also expand the national power grid further.
- The target of annual production of 5 MMT of green hydrogen by 2030 will further facilitate the transition of economy to a low carbon intensity and reduce dependence of fossil fuel; however, the progress on these projects needs to be seen in the near to medium term given the technological complexities.
- Large scale fund allocation for energy transition will support the ambitious NDC target of 500 GW of non-fossil energy capacity by 2030.
- The investment in battery storage systems is timely as India steps up on higher generation of renewable energy generation.
- It is important to implement an appropriate incentive structure for power sector reforms at the state level, a task which has proved to be difficult in the past due to political sensitivities.

Real Estate

Acuité Opinion

Overall – Neutral

Key Budgetary Announcements:

- ↑ Budgetary outlay for Pradhan Mantri Awas Yojana (PMAY) enhanced by 66 percent to Rs. 79,000 Cr from Rs.48,000 Cr in the last fiscal
- ↓ The tax on capital gains is exempt in cases where the proceeds of such gains are invested in residential property; this is proposed to be capped at Rs 10 Cr
- ↓ Interest paid on borrowed capital for acquiring or improving a property which has been claimed as deduction from income can't be included in the cost of acquisition or improvement for computation of capital gains
- ↑ States and cities will be encouraged to undertake urban planning reforms and actions to transform cities into 'Sustainable Cities of Tomorrow'. Cities will also be encouraged to raise municipal bonds
- ↑ An Urban Development Infrastructure Fund (UIDF) is proposed on the lines of RIDF from use of priority sector lending shortfall of banks, managed by NHB and to be used to fund infrastructure in Tier II/III cities. The funds available every year is estimated to Be Rs 10,000 Cr per annum

↑ Positive ↔ Neutral ↓ Negative

Impact Analysis

- The significant increase in allocation for PMAY would sustain the Credit Linked Subsidy Scheme (CLSS) for affordable housing and give a further impetus to it.
- Government's focus on urban planning particularly in Tier II and Tier III cities would be highly beneficial with the rise in population and also reduce population concentration in congested Tie-I cities. Urban reforms would also encourage efficient use of land resources, transit-oriented development and enhanced availability and affordability of land. These positives are positive for a healthy development of the real estate sector, though in the longer run.
- Government has taken measures to tighten the capital gains tax computation for larger value real estate transactions; this may impact large ticket property deals to some extent.

Steel

Acuité Opinion

Overall – Mildly Positive

Key Budgetary Announcements:

- Exemption from Basic Customs Duty on raw materials for manufacture of CRGO Steel, ferrous scrap and nickel cathode is being continued
- Capital expenditure further enhanced by 33 percent to Rs.10 lakh Cr with continued focus on infrastructural development
- Specific capital outlay of Rs. 2.40 lakh Cr has been provided for the Railways
- Large investment of Rs.75,000 Cr proposed for one hundred critical transport infrastructure projects, primarily for ports, coal, steel, fertilizer and food grains sectors.
- Additional funds allocated for scrapping old Government vehicles both at the Central and the State level.

↑ Positive ↔ Neutral ↓ Negative

Impact Analysis

- Acuité believes that the demand for steel is scheduled to increase on account of Government's push towards the infrastructure sector envisaged through consistent increase in capital expenditure budget.
- Exemption from Basic Customs Duty on raw materials for manufacture of CRGO Steel, ferrous scrap and nickel cathode is being continued, thereby keeping a check on the raw material costs.
- Significant expansion in railway network and trains will translate into higher usage of steel and aid in higher domestic crude and finished steel production.
- The vehicle scrappage policy in the budget is expected to provide impetus to the auto sector and therefore, demand for flat products.

About Acuité Ratings & Research Limited:

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 9,500 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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