



Budget – Earnings vs Valuation, Central Banks tug-of-war to continue

Our view on the market for 2022 is reinforced by the budget. We believe it is a year of consolidation and (see our report –<https://www.valentisadvisors.com/insights/outlook-2022-jan-2022/>) will be driven by 3 major themes:

1. Valuations are rich but strong earnings growth will help stock market returns.
2. Central banks and rising inflation and interest rates will be the focus for markets. We think the market over next few weeks will continue to focus on the likely Fed rate hikes
3. There will be a sectoral shift from high quality but expensive consumer stocks to more value cyclical stocks.

What we like and don't like in the budget:

1. **Strong capex thrust to drive growth in GDP and earnings:** The Finance Minister has gone for a massive growth stimulus with a thrust on infrastructure. The Government capex expenditure is forecast to grow 35.3% compared to last year budget (24.5% compared to the revised budget estimate adjusted for Air India). This could help in reviving the capex cycle and provide the base for a stronger and more balanced GDP growth and reinforces our view of a doubling of earnings over next 4-5 years. However, including IEBR (Internal and Extra Budgetary Resources) growth in capex is a more tepid 16%.
2. **But growth will also risk inflation...:** Higher growth always risks higher inflation and we believe the Finance Minister was right to take a gamble on growth. One help on the inflation front could be if supply chains normalize after the Covid bottlenecks.
3. **... and rising interest rates:** Interest rates will be under pressure both due to the Fed tightening and rising rates in the USA as well as the high fiscal deficit in India. We are looking at a combined fiscal deficit of around 10.5% of GDP (6.4% at the Centre and 4% at the State level) and the gross borrowing of around Rs 14.95 lakh crores. Equity valuations will have to contend with higher interest rates and may see some de-rating.
4. **Stability in tax rates a positive:** The Finance Minister had promised stable tax rates and has stuck to that promise by not hiking rates, especially capital gains, as feared by some in the market. They have also announced some measures to further reduce tax disputes.
5. **Fiscal numbers look credible:** The Finance Minister has assumed a tax revenue growth of 9.6% which looks conservative on the face of it. Part of the reason is the drop in excise duty due to lowering of the excise duty on petrol and diesel. Revenues are budgeted to grow at 15.1% ex-excise which may not be so conservative but probably realistic. However, upward surprise could come from the disinvestment target for FY22 which has been scaled down to Rs 78,000 crores (vs budgeted of Rs 175,000 crores) and even for next year is a conservative Rs 65,000 crores. A LIC IPO could lead to an upward surprise.



Budget: Key points

1. **Significant pro-growth – capex target up 35% yoy:** The Finance Minister has provided a strong pro-growth thrust to the budget by allocating a much higher capex spend (up from 5.5 trn in FY22 to Rs 7.5 trn in FY23).
 - a. For FY23, it has forecast a 35% growth in capex over the higher spend of FY22.
 - b. Housing projects have been allocated Rs 480 bn under the Pradhan Mantri Housing scheme.
 - c. However, the overall capex outlay including IEBR stands tepid at 16%. Eg Road sector capex through IEBR has been pegged at NIL in FY23 from Rs.65000 cr in FY22RE.
 - d. A low divestment target (Rs 65000 crore) is lower than expected, to an extent exerting pressure on bond yields.
2. **Reforms in banking and Finance:** No significant announcements as such:
 - a. ECLGS scheme has been extended until March 31, 2023 with an enhanced number of Rs 5 trn (as against 4.5 trn earlier).
 - b. LIC IPO likely in near future.
 - c. In a bid to encourage digital banking, government proposes setting up 75 digital centers in 75 districts.
 - d. Tax on digital assets at a rate of 30% has been introduced in the budget.
3. **Privatization vs disinvestment:** Disinvestment target for the year has been tepid at Rs 65000 crore. Assuming that LIC IPO was to happen in FY23, the overall divestment target seems to be low.
4. **Simplification of tax laws:** The Government is carrying forward the process of a stable tax regime by not changing taxes this year.
 - a. A new provision to allow taxpayers to file an updated return to correct errors in calculating taxable income within 2 years of the relevant assessment year.
 - b. If a question of law in case of an assessee is identical to the one pending in High Court/Supreme Court, the filing of further appeal by department is deferred until the verdict from the respective court—this will help reduce repeated litigation between taxpayers and the department.

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Table 1: Budget at a Glance (Rs Cr)

Particulars	2020-21	2021-22	2021-22	2022-23	BEFY22	REFY22	BE23 vs RE22
	Actuals	Budget Estimates	Revised Estimates	Budget Estimates	vs Actuals	vs Actuals	
1. Revenue Receipts	16,33,920	17,88,424	20,78,936	22,04,422	9.5%	27.2%	6.0%
2. Tax Revenue (Net to Centre)	14,26,287	15,45,396	17,65,145	19,34,771	8.4%	23.8%	9.6%
3. Non Tax Revenue	2,07,633	2,43,028	3,13,791	2,69,651	17.0%	51.1%	-14.1%
4. Capital Receipts	18,75,916	16,94,812	16,91,064	17,40,487	-9.7%	-9.9%	2.9%
5. Recovery of Loans	19,729	13,000	21,975	14,291	-34.1%	11.4%	-35.0%
6. Other Receipts	37,897	1,75,000	78,000	65,000	361.8%	105.8%	-16.7%
7. Borrowings and Other Liabilities*	18,18,291	15,06,812	15,91,089	16,61,196	-17.1%	-12.5%	4.4%
8. Total Receipts (1+4)	35,09,836	34,83,236	37,70,000	39,44,909	-0.8%	7.4%	4.6%
9. Total Expenditure (10+13)	35,09,836	34,83,236	37,70,000	39,44,909	-0.8%	7.4%	4.6%
10. On Revenue Account	30,83,519	29,29,000	31,67,289	31,94,663	-5.0%	2.7%	0.9%
of which							
11. Interest Payments	6,79,869	8,09,701	8,13,791	9,40,651	19.1%	19.7%	15.6%
12. Grants in Aid for creation of capital assets	2,30,865	2,19,112	2,37,685	3,17,643	-5.1%	3.0%	33.6%
13. On Capital Account*	4,26,317	5,54,236	6,02,711	7,50,246	30.0%	41.4%	24.5%
14. Effective Capital Expenditure (12+13)*	6,57,182	7,73,348	8,40,396	10,67,889	17.7%	27.9%	27.1%
15. Revenue Deficit (10-1)	14,49,599	11,40,576	10,88,352	9,90,241	-21.3%	-24.9%	-9.0%
	-7.3	-5.1	-4.7	-3.8			
16. Effective Revenue Deficit (15-12)	12,18,734	9,21,464	8,50,667	6,72,598	-24.4%	-30.2%	-20.9%
	-6.2	-4.1	-3.7	-2.6			
17. Fiscal Deficit [9-(1+5+6)]	18,18,291	15,06,812	15,91,089	16,61,196	-17.1%	-12.5%	4.4%
	-9.2	-6.8	-6.9	-6.4			
18. Primary Deficit (17-11)	11,38,422	6,97,111	7,77,298	7,20,545	-38.8%	-31.7%	-7.3%
	-5.8	-3.1	-3.3	-2.8			

*Includes drawdown of cash Balance

*RE 2021-22 for Capital Expenditure includes capital infusion/loans to AIAHL/AI for settlement of past guaranteed and sundry liabilities, not backed by assets amounting to Rs.51971 crore. Excluding this, capital expenditure in RE is estimated Rs.550740 crore.

* Grants for creations of capital assets also include allocations under Demand driven/entitlement based scheme MGNREGS, which would vary based on demand.

Notes –

(i) GDP for BE 2022-2023 has been projected at Rs.25800000 crore assuming 11.1% growth over the estimated GDP of rs.23214703 crore for 2021-2022 (RE).



Table 2: Receipts (Rs Cr)

Particulars	2020-21	2021-22	2021-22	2022-23	BEFY22	REFY22	BE23 vs RE22
	Actuals	Budget Estimates	Revised Estimates	Budget Estimates	vs Actuals	vs Actuals	
REVENUE RECEIPTS							
1. Tax Revenue							
Gross Tax Revenue	20,27,104	22,17,059	25,16,059	27,57,820	9.4%	24.1%	9.6%
a. Corporation Tax	4,57,719	5,47,000	6,35,000	7,20,000	19.5%	38.7%	13.4%
b. Taxes on Income	4,87,144	5,61,000	6,15,000	7,00,000	15.2%	26.2%	13.8%
c. Wealth Tax	12	-	-	-			
d. Customs	1,34,750	1,36,000	1,89,000	2,13,000	0.9%	40.3%	12.7%
e. Union Excise Duties	3,91,749	3,35,000	3,94,000	3,35,000	-14.5%	0.6%	-15.0%
f. Service Tax	1,615	1,000	1,000	2,000		-38.1%	100.0%
g. GST	5,48,778	6,30,000	6,75,000	7,80,000	14.8%	23.0%	15.6%
-CGST	4,56,334	5,30,000	5,70,000	6,60,000	16.1%	24.9%	15.8%
-IGST	7,251	-	-	-			
-GST Compensation Cess	85,192	1,00,000	1,05,000	1,20,000	17.4%	23.3%	14.3%
h. Taxes of Union Territories	5,336	7,059	7,059	7,820	32.3%	32.3%	10.8%
Less - NCCD transferred to the NCCF / NDRF	5,820	6,100	6,130	6,400	4.8%	5.3%	4.4%
Less - State's share	5,94,997	6,65,563	7,44,785	8,16,649	11.9%	25.2%	9.6%
1a Centre's Net Tax Revenue	14,26,287	15,45,397	17,65,145	19,34,771	8.4%	23.8%	9.6%
2. Non-Tax Revenue	2,07,633	2,43,028	3,13,791	2,69,651	17.0%	51.1%	-14.1%
Interest receipts	17,113	11,541	20,894	18,000	-32.6%	22.1%	-13.9%
Dividends and Profits	96,877	1,03,538	1,47,353	1,13,948	6.9%	52.1%	-22.7%
External Grants	1,752	747	1,345	620	-57.4%	-23.2%	-53.9%
Other Non Tax Revenue	90,292	1,24,671	1,41,668	1,34,276	38.1%	56.9%	-5.2%
Receipts of Union Territories	1,598	2,531	2,531	2,807	58.4%	58.4%	10.9%
Total- Revenue Receipts (1a + 2)	16,33,920	17,88,424	20,78,936	22,04,422	9.5%	27.2%	6.0%
3. CAPITAL RECEIPTS							
A. Non-debt Receipts	57,626	1,88,000	99,975	79,291	226.2%	73.5%	-20.7%
(i) Recoveries of loans and advances*	19,729	13,000	21,975	14,291	-34.1%	11.4%	-35.0%
(ii) Divestment Receipts	37,897	1,75,000	78,000	65,000	361.8%	105.8%	-16.7%
B. Debt Receipts*	18,25,479	14,35,428	14,16,902	16,60,444	-21.4%	-22.4%	17.2%
Total Capital Receipts (A+B)	18,83,105	16,23,428	15,16,877	17,39,735	-13.8%	-19.4%	14.7%
4. Draw-Down of Cash Balance	-7,188	71,383	1,74,187	752	-1093.1%	-2523.3%	-99.6%
Total Receipts (1a+2+3)	35,17,025	34,11,853	35,95,813	39,44,157	-3.0%	2.2%	9.7%

*Excludes recoveries of short term loans and advances.



Table 3: Deficit Statistics (Rs Cr)

Particulars	2020-21	2021-22	2021-22	2022-23
	Actuals	Budget Estimates	Revised Estimates	Budget Estimates
1. Fiscal Deficit	18,18,291	15,06,812	15,91,089	16,61,196
	-9.2	-6.8	-6.9	-6.4
2. Revenue Deficit	14,49,599	11,40,576	10,88,352	9,90,241
	-7.3	-5.1	-4.7	-3.8
3. Effective Revenue Deficit	12,18,734	9,21,464	8,50,667	6,72,598
	-6.2	-4.1	-3.7	-2.6
4. Primary Deficit	11,38,422	6,97,111	7,77,298	7,20,545
	-5.8	-3.1	-3.3	-2.8

Notes –

Figures in parenthesis are as a percentage of GDP.

Table 4: Sources of Financing Fiscal Deficit (Rs Cr)

Particulars	2020-21	2021-22	2021-22	2022-23
	Actuals	Budget Estimates	Revised Estimates	Budget Estimates
1. Debt Receipts (Net)	18,25,479	14,35,428	14,16,902	16,60,444
2. Market Borrowings (G-Sec + Tbills)	12,39,737	9,67,708	8,75,771	11,58,719
3. Securities Against Small Savings	4,83,733	3,91,927	5,91,524	4,25,449
4. State Provident Funds	18,514	20,000	20,000	20,000
5. Other Receipts (Internal Debt & Public Account	13,315	54,280	-90140*	37,025
6. External Debt	70,181	1,514	19,746	19,251
7. Draw Down of Cash Balance	-7,188	71,383	1,74,187	752
8. Grand Total	18,18,291	15,06,812	15,91,089	16,61,194

*Negative receipts is due to higher investment than collection under NSSF, on account of surplus cash available for investment in the beginning of the year.



Table 5: Centre Capex (Rs bn)

Particulars	FY19	FY20	FY21	FY22RE	FY23BE
Centre CapEx	3,077	3,357	4,263	6,027	7,502
YoY Growth	16.9%	9.1%	27.0%	41.4%	24.5%
- of which					
Roads	676	684	892	1,213	1,877
YoY Growth	33.3%	1.2%	30.4%	36.0%	54.7%
Railways	528	678	1,093	1,171	1,371
YoY Growth	21.7%	28.4%	61.2%	7.1%	17.1%
Defence	952	1,111	1,343	1,389	1,524
YoY Growth	5.3%	16.7%	20.9%	3.4%	9.7%
Others	920	884	935	2,255	2,730
YoY Growth	17.1%	-3.9%	5.8%	141.2%	21.1%

Capital Outlay (incl IEBR)	FY19	FY20	FY21	FY22RE	FY23BE
Roads	1,289	1,434	1,542	1,863	1,877
YoY Growth	27.2%	11.2%	7.5%	20.8%	0.8%
Railways	1,334	1,480	2,346	2,148	2,456
YoY Growth	30.8%	10.9%	58.5%	-8.4%	14.3%
Defence	952	1,111	1,343	1,389	1,524
YoY Growth	5.3%	16.7%	20.9%	3.4%	9.7%



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