श्री LAKSHMISHREE

Gateway to your Financial Goals

THE GREAT INDIAN BUDGET

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IT'S NEVER TOO EARLY OR LATE TO START INVESTING

From Managing Director's Desk To Readers

Covid, Inflation And Now Lay-Offs: Taxpayers Are Expecting FM To Ease Their Pain This Budget

India's tax policies have undergone significant changes in recent years. The government has been steadily increasing its focus on simplifying and modernizing the taxation system to improve compliance. However, there are some challenges, such as compliance issues and a complex tax structure, that can be difficult for businesses to navigate. In recent years, the Indian government has been working to improve the tax system and make it more efficient and transparent.

Budget 2023 Expectations

As the Indian government gears up to present the Union Budget for 2023, there is a multitude of expectations that taxpayers have from this year's budget. The top one being lower tax rates. Rightly so, as the last few years have been difficult for taxpayers considering inflation, lay-offs, COVID, and the added medical expenses.

Direct Tax

1. Tax Relief

The tax slabs have not changed since Budget 2017 except for the introduction of a new tax regime, which did not find favor as most of the deductions and exemptions were withdrawn. With the cost of living continuing to rise, many people are struggling to make ends meet, and a reduction in taxes or widening the tax base would be a welcome relief.

2. Tax-saving Deductions

Similarly, we recommend an increase in the 80C deduction limit. The limit has remained at Rs 1.5 lakhs since the 2014 Budget despite a 50% hike in the consumer inflation index. The government should also evaluate the option of enabling this benefit under the new regime. An uptick in tax savings will leave people with higher disposable income which will, in turn, fuel the economic growth of our country. Additionally, 80C encourages taxpayers to invest in long-term savings, such as National Pension System (NPS), Public Provident Fund (PPF), etc, which can provide long-term finance for infrastructure projects in the country.

They should also consider extending the benefits of affordable housing and electric vehicle purchases for two more years, as well as increasing the deduction threshold for these expenses. Additionally, the limits for health insurance premiums under Section 80D should be revisited, considering the exorbitant medical expenses an average Indian household incurs today.

3. Salaried-class taxpayers

Several companies have undergone downsizing operations which has affected many salaried-class taxpayers. In such unfortunate events, the current tax provisions provide limited tax-saving options for them, such as retrenchment compensation and voluntary retirement schemes. The maximum limit of these exemptions is restricted to Rs 5 lakhs, and to claim this exemption, the employer must meet certain requirements. If the employer's scheme does not meet these requirements, the employee is not eligible to claim the deduction. This budget must address the issue of lay-offs and ease the hardship of employees.

In addition, the government should consider increasing the standard deduction limit from Rs 50,000 to Rs 1,00,000 and extending this benefit under the new tax regime.

Indirect Tax

1. Automated data flow for easier GST compliance

The regulator has been utilizing data analytics to improve GST compliance for the past two years. Authorities are working towards ensuring data accuracy and streamlining of return filing process to reduce any scope for manipulation and fraud for improving revenue, rather than depending on GST rate rejig.

Many amendments to the law made in 2022 have signaled an automated filing flow of GSTR-1, GSTR-3B, and one-click filing of GSTR-9 in 2023. Further, there is a need to introduce system-computed refund sanctions and GST notices for real-time monitoring and compliance transparency. It started with the system-computed intimation for GSTR-1 vs GSTR-3B introduced towards the end of 2022.

2. e-Invoicing continues to be a game-changer for MSMEs

The extension of e-invoicing to more and more businesses will be a game changer for the Indian economy. It enables a much more transparent, faster, and smoother invoice financing as an attractive tool for working capital funding. Yet, any non-compliance on this front can cause delays in tax credit claims for buyers in an automated filing setup.

Technology is bringing drastic changes in the taxation landscape, and 2023 shall witness many more revolutionary changes. Overall, taxpayers are hoping for a budget that addresses their concerns and helps to boost the economy while also improving the quality of life for citizens.
Only time will tell if the Union Budget of 2023 will meet these expectations.

Salil Shah

Managing Director

Lakshmishree Investments & Securities Pvt. Ltd.

Look What Our Research Analyst Has To Say..

Nifty has formed 5 weeks inside bar on weekly chart and the current week has given a clear breakdown out of this coiling range. In the said breakdown the has also closed below previous quarter mid and just at 2 year vwap.

The initial targets on the breakdown are placed at 17000 and below 16700 will be the next level of support. Any rallies back to the range bottom of 17850 will be opportunities to open aggressive shorts.

Budget 2023 Expectation: Income tax exemption limit likely to be enhanced to Rs 5 lakh

The government is likely to enhance the income tax exemption limit to Rs 5 lakh from the existing Rs 2.5 lakh in the forthcoming budget for 2023-24, sources privy to developments said. The move, if it fructifies, may leave more disposable income in the hands of consumers.

It will also boost consumption, which may also lead to economic recovery, sources said. As of now, the maximum slab of income which is not chargeable to income tax is Rs 2.5 lakh. For persons in the age bracket of 60-80 years, the exemption limit is Rs 3 lakh and for senior citizens above 80, it is Rs 5 lakh.

The move would also promote investments, sources said further. Finance Minister Nirmala Sitharaman is expected to present the Union budget for 2023-24, on February 1, 2023.

Anshul Jain

Research Analyst

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Stocks To Watch

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1.Union Bank of India

Union Bank of India is one of the leading public-sector banks in the country. The Bank is a listed entity and the Government of India holds **83.49** % of the Bank's total share capital. The Bank, having its headquarters in Mumbai (India), was registered on November 11, 1919, as a limited company. Recently, Andhra Bank and Corporation Bank were amalgamated into Union Bank of India with effect from 01.04.2020. Today, it has a network of **8,700+** domestic branches, **11,000+** ATMs, **and 16,100+ BC Points** serving over 161 million customers with **76,600+** employees.

Market Data

Bloomberg	UNBK IN
Equity Shares (m)	6835
Market Cap.	Rs. 555.7 billion
52 Week Range H/L	96/ 34
1, 6, 12 Rel. Per (%)	-1/ 108/ 79
12M Avg Val	Rs 1014 million

Shareholding Pattern

	Dec-22	**Sep-22**	**Dec-21**
Promoter	83.5%	83.5%	83.5%
FIIs	1.6%	1.4%	1.2%
DIIs	8.4%	7.1%	7.0%
Public/Other	6.5%	8.0%	8.3%

Income Statement

Y/E March (Rs Bn)	FY 21	FY 22	FY 23E	FY 24E	FY 25E
Interest Income	687.7	679.4	822.4	969.0	1,070.6
Interest Expense	440.8	401.6	486.8	583.0	655.3
Net Interest Income	246.9	277.9	335.6	386.0	415.3
Growth (%)	115.9	12.5	20.8	15.0	7.6
Non–Interest Income	117.4	125.2	127.8	146.9	173.4
Total Income	364.3	403.1	463.4	532.9	588.7
Growth (%)	118.2	10.6	14.9	15.0	10.5
Operating Expenses	167.7	184.4	207.3	231.3	251.7
Pre Provision Profits	196.7	218.7	256.1	301.6	337.0
Growth (%)	114.2	11.2	17.1	17.8	11.7
Core PPP	156.1	185.7	235.9	276.0	303.8
Growth (%)	102.2	19.0	27.0	17.0	10.1
Provisions (exc. Tax)	172.7	132.9	137.5	147.9	142.2
PBT	24.0	85.8	118.5	153.7	194.7
Tax	-5.1	33.5	39.1	46.1	54.5
Tax Rate (%)	-21.1	39.0	33.0	30.0	28.0
PAT	29.1	52.3	79.4	107.6	140.2
Growth (%)	NM	80.0	51.8	35.4	30.4

Balance Sheet

Y/E March	FY 21	FY 22	FY 23E	FY 24E	FY 25E
Equity Share Capital	64.1	68.3	68.3	68.3	68.3
Reserves & Surplus	580.7	637.4	696.3	769.7	858.7
Net Worth	644.8	705.8	764.7	838.1	927.0
Deposits	9,238.1	10,323.9	11,149.8	12,209.1	13,491.0
Growth (%)	105.0	11.8	8.0	9.5	10.5
Of which CASA Deposits	3,355.9	3,771.9	4,092.0	4,480.7	5,032.2
Growth (%)	109.3	12.4	8.5	9.5	12.3
Borrowings	518.4	511.8	547.7	594.0	639.6
Other Liabilities & prov.	315.9	334.4	351.2	368.7	387.1
Total Liabilities	10,717.1	11,875.9	12,813.4	14,009.9	15,444.8
Current Assets	844.1	1,195.0	1,123.0	1,075.5	1,003.3
Investments	3,315.1	3,485.1	3,694.2	3,952.8	4,189.9
Growth (%)	117.5	5.1	6.0	7.0	6.0
Loans	5,909.8	6,610.0	7,813.1	8,828.8	9,976.5
Growth (%)	87.6	11.8	18.2	13.0	13.0
Fixed Assets	73.4	71.9	75.5	79.3	83.2
Other Assets	574.6	513.9	107.7	73.6	191.8
Total Assets	10,717.1	11,875.9	12,813.4	14,009.9	15,444.8

DuPoint Analysis

Y/E March (%)	FY 21	FY 22	FY 23E	FY 24E	FY 25E
Interest Income	6.57	6.01	6.66	7.22	7.27
Interest expense	4.21	3.55	3.94	4.35	4.45
Net Interest Income	2.36	2.46	2.72	2.88	2.82
Fee Income	0.73	0.82	0.87	0.90	0.95
Trading and others	0.39	0.29	0.16	0.19	0.23
Non-Interest Income	1.12	1.11	1.03	1.10	1.18
Total Income	3.48	3.57	3.75	3.97	4.00
Operating Expenses	1.60	1.63	1.68	1.72	1.71
Employees	0.89	0.90	0.91	0.94	0.93
Others	0.71	0.74	0.77	0.79	0.78
Operating Profits	1.88	1.94	2.07	2.25	2.29
Core Operating Profits	1.49	1.64	1.91	2.06	2.06
Provisions	1.65	1.18	1.11	1.10	0.97
NPA	1.33	1.03	1.05	1.05	0.92
Others	0.32	0.15	0.06	0.05	0.05
PBT	0.23	0.76	0.96	1.15	1.32
Tax	-0.05	0.30	0.32	0.34	0.37
RoA	0.28	0.46	0.64	0.80	0.95
Leverage (x)	18.3	18.0	18.0	17.8	17.6
RoE	5.1	8.3	11.6	14.3	16.8

Our Take...

UNBK reported 107% YoY growth in 3QFY23 PAT to INR22.4b (in line) driven by lower provisions which came in at INR30b (13% lower than MOSLe). Over 9MFY23, PAT grew 49% YoY to INR56.5b. NII rose 20% YoY to INR86.3b (in line) in 3QFY23, driven by a combination of healthy 4% QoQ loan growth and 6bp QoQ expansion in NIM to 3.21%. In 9MFY23, NII grew 17% YoY to INR245b. Other income jumped 30% YoY fueled by healthy recoveries from written off account, modest treasury income and 30% growth in fee income.

Operating expenses grew 15% YoY to INR52.8b as UNBK provided INR1.2b towards wage revision. The C/I ratio thus increased 120bp QoQ to 44.4% in 3QFY23. PPoP/Core PPoP rose 30%/36% YoY to INR66.2b/INR61.5b, respectively. During 9MFY23, PPoP increased 14% YoY to INR186b. Advances were up 4% QoQ (+23% YoY) to INR7.6t, propelled by healthy traction across the RAM segment, which grew 7% QoQ to ~55% of loans. Corporate loans were flat QoQ. Deposit grew 14% YoY (+2.1% QoQ) with CASA deposits rising 1% QoQ. CASA ratio moderated 33bp QoQ to 35.3%.

Fresh slippages moderated to INR25.7b (1.4% annualized), which coupled with healthy recoveries/upgrades resulted in an improvement in asset quality ratios. GNPA/NNPA ratio thus declined 52bp/50bp QoQ to 7.93%/2.14%, respectively, while PCR improved to 74.6%. The total SMA book (>INR50m) stood at 0.72% of loans v/s 0.57% in 2QFY23. The total restructured loans declined to 2.4% of loans.

While the bank is tracking well on its guidance for FY23, management has not changed its guidance due to the volatile external environment; UNBK maintains its prudence guidance. Management expects the margin to be around 3% range for FY23. The bank is targeting to reduce its credit cost to below 1.7%.

Outlook & Valuation

UNBK reported a healthy quarter with earnings growth driven by lower provisions and margin expansion. Fresh slippages moderated, which coupled with a low SMA book (0.72%) and controlled restructuring (2.4%) provide a better outlook on asset quality. Loan growth continued to remain healthy fueled by the RAM segment, which remains the focus area of the bank. We largely maintain our earnings assumptions and estimate an RoA/RoE of 1.0%/16.8%, respectively, by FY25.

Reiterate BUY with a TP of INR100 (premised on 0.9x Sep'24E ABV)

Can Fin Homes

Can Fin Homes Ltd. (CFHL) is a leading housing finance institution approved by the National Housing Bank (NHB), the apex housing authority in the country. The Company offers housing loans for individual homes and affordable housing along with composite and top-up loans. It also offers non-housing loans including mortgage loans, site loans, loans for commercial properties, personal loans, and education loans.
Can Fin Homes Ltd. has a pan India presence with 165 Branches 21 Affordable Housing Loan Centres and 14 Satellite Offices spread over 21 States and Union Territories. The Company is a key player in the Housing Finance Sector in India and one of the few institutions permitted by the Regulator NHB to accept Public Deposits.

Market Data

Bloomberg	CANF IN
Equity Shares (m)	133
Market Cap.	Rs. 69.3 billion
52 Week Range H/L	685/ 408
1, 6, 12 Rel. Per (%)	-3/ -9/ -17
12M Avg Val	Rs 609 million

Shareholding Pattern

	Dec-22	**Sep-22**	**Dec-21**
Promoter	30.0%	30.0%	30.0%
FIIs	10.0%	9.3%	0.0%
DIIs	23.5%	23.3%	22.4%
Public/Other	36.5%	37.4%	47.6%

Income Statement

Y/E March (Rs Mn)	FY 21	FY 22	FY 23E	FY 24E	FY 25E
Interest Income	20,064	19,697	27,306	33,687	39,202
Interest Expended	12,083	11,535	17,240	22,166	25,600
Net Interest Income	7,980	8162	10067	11,521	13,602
Change (%)	18.3	2.3	23.3	14.4	18.1
Other Income	121	188	210	241	276
Net Income	8,101	8,350	10,277	11,762	13,878
Change (%)	18.0	3.1	23.1	14.4	18.0
Operating Expenses	1,240	1,530	1,716	1,947	2,176
Operating Income	6,861	6,820	8,561	9,815	11,702
Change (%)	18.6	-0.6	25.5	14.6	19.2
Provisions / write offs	685	469	304	607	732
PBT	6,176	6,351	8,257	9,208	10,970
Tax	1,615	1,640	2,230	2,394	2,852
Tax Rate (%)	26.2	25.8	27.0	26.0	26.0
Reported PAT	4,561	4,711	6,028	6,814	8,118
Change (%)	21.3	3.3	28.0	13.0	19.1
Proposed Dividend (incl. tax)	266	399	399	399	466

Balance Sheet

Y/E March	FY 21	FY 22	FY 23E	FY 24E	FY 25E
Capital	266	266	266	266	266
Reserves & Surplus	25,832	30,400	36,028	42,442	50,094
Net Worth	26,098	30,666	36,295	42,079	50,361
Borrowings	1,92,929	2,46,477	2,93,110	3,35,716	3,80,377
Change (%)	2.9	27.8	18.9	14.5	13.3
Other Liabilities	1,710	2,300	2,761	3,313	3,975
Total Liabilities	2,20,737	2,79,443	3,32,165	3,81,738	4,34,713
Loans	2,18,915	2,63,781	3,12,818	3,62,937	4,15,713
Change (%)	6.7	20.5	18.6	16.0	14.5
Investments	496	11,260	12,949	14,891	17,125
Change (%)	104.1	2169.9	15.0	15.0	15.0
Net Fixed Assets	378	346	317	290	265
Other Assets	948	4,057	6,082	3,620	1,610
Total Assets	2,20,737	2,79,443	3,32,165	3,81,738	4,34,713

Our Take...

Can Fin Homes (CANF) report a decent quarter with 3QFY23 PAT growing 31% YoY to INR1.5b (in line). Despite NIM (calc.) compression of ~15bp QoQ, benign credit costs of 11bp (annualized) aided an in line performance.

Interestingly, despite the vacant position of MD/CEO, CANF managed to deliver stable YoY disbursements and loan growth of 20% YoY/4.5% QoQ, respectively.
We model an AUM/PAT CAGR of 16%/20% over FY22-25E for an RoA/RoE of 2.0/17%, respectively, in FY25. Valuations can get re-rated to 2.0x P/BV, if the new CEO gains the investor confidence that CANF can continue delivering the same strong loan growth and pristine asset quality as it has exhibited in the past. Disbursements were flat YoY and grew 9% QoQ to INR24.4b. 9MFY23 disbursements grew 15% YoY to INR64b.

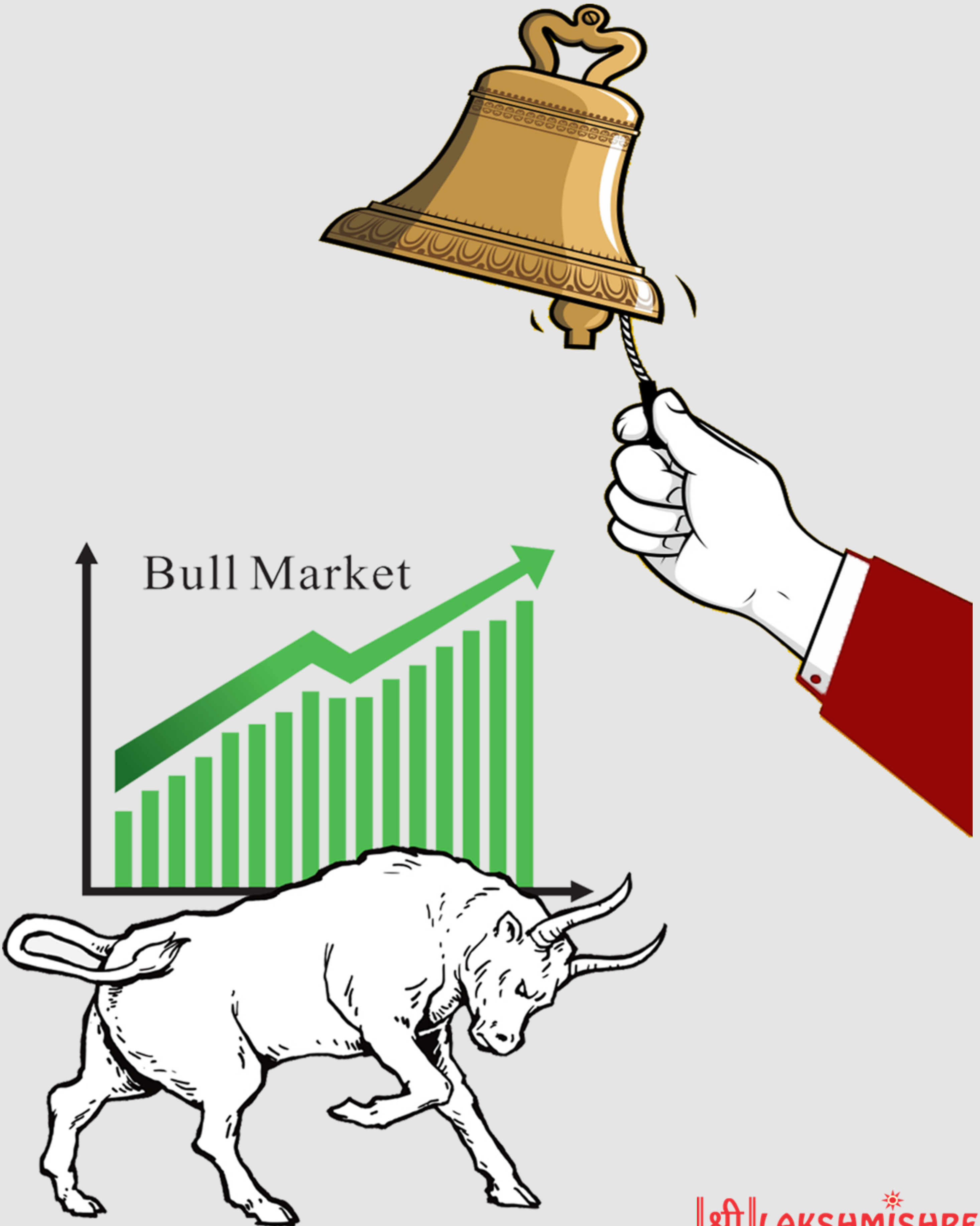
NIM has bottomed out and NIM/spreads should increase from hereon, given the expected re-pricing on the asset side. The full impact of the repricing is expected to reflect over the next nine months. The company has transitioned to Ind-AS and it is expected to increase the PCR on its standard as well as NPA loans under the ECL model. The company expects the disbursements to remain buoyant and guided for loan growth of 18-20%. It guided for NIM of 3.5% and spreads of 2.4% in FY24.

Outlook & Valuation

CoF (calc.) has increased ~140bp since Mar'22. While the cost of borrowings will depend on the trajectory of repo rates, we believe the company will be able to absorb rate hikes to offset any significant impact on margins. CANF has successfully demonstrated its ability to maintain its pristine asset quality over many years now and we expect credit costs to remain benign at ~20bp over FY24 and FY25. We estimate NII/PPOP/PAT CAGR of 19%/20%/20%, respectively, over FY22-25 and an RoA of 2% and RoE of 17.4% in FY25.

We reiterate our Buy rating with a TP of INR630 (premised on 1.8x Sep'24E BVPS)

This May Impact Your Investments!!



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Budget 2023: Textiles — Time for a few timely stitches

Revenue of the cotton yarn industry is likely to decline 9-11 percent this fiscal after recording a robust growth of over 60 percent last fiscal. This is because of a sharp moderation in demand, particularly exports, and a high-base effect. After taking a hit in fiscal 2021, the cotton yarn industry rebounded with demand last fiscal, particularly in exports, which rose 90-95 percent in value terms.

On the domestic front, while prices remained elevated for both cotton and cotton yarn, demand was supported by a sharp rise in volume growth after the pandemic-driven lockdowns ended.

Then came certain events towards the end of the last fiscal that brought the momentum to an abrupt halt. One, domestic cotton production for the cotton season 2022 came in lower than expected. This, coupled with a duty on cotton imports and hoarding of stocks by traders, pushed up prices to new highs. So much so, domestic prices even traded at a premium to international prices, peaking at Rs 280 per kg in May. The astronomical rise happened just as demand prospects were dimming abroad.

The US, which is the largest destination for apparel exporters across the globe, was facing inflationary challenges, while Europe was staring at an energy crisis following heightened geopolitical tensions. The consequent slowing of demand for apparel had ripple effects on spinners. The demand compression, in tandem with elevated raw material prices, hurt the spinning industry.

Textile associations resorted to production cuts by way of shorter working hours or a lesser number of working days. Consequently, exports contracted by almost half in April-November in value terms. In volume terms, the fall was even sharper at over 60 percent.

Cotton prices began easing in October on fresh supplies amid higher cotton production.

While the holiday season likely provided some traction in the western markets, it is unlikely to sustain and the pace of growth may not improve significantly.

To be sure, the combination of sequentially lower cotton prices and improved demand prospects around the festive season is likely to help the industry's performance in the second half of this fiscal, but we do not expect the improvement to fully offset the decline seen in the first half.

With demand headwinds continuing and cotton prices higher for the year as a whole, margins of spinners are projected to contract by 500-700 basis points this fiscal. Given the milieu, some relief measures from the government are warranted.

Some of the measures that will help the sector regain its footing are:

Removal of import duty on cotton:

The government announced an 11 percent duty on cotton imports from February 2, 2021, in a bid to ensure uninterrupted demand for domestic produce. However, the duty, supported by lower domestic cotton production and a sharp rebound in demand, has resulted in domestic prices rising more steeply than global prices, even marking a premium. However, after the recent slowdown in the global markets, export volumes have shrunk considerably, thereby lowering revenue growth and narrowing margin. Additionally, competing nations such as Bangladesh and Vietnam permit the import of fiber at zero duty, giving them a substantial advantage in raw material cost. In India, while the government exempted cotton from the 11 percent duty for six months up to October 2022, going forward, abolition of the import duty would enable the yarn industry to procure cotton at competitive rates and keep domestic prices in check.

Free trade agreements (FTAs) with key markets:

The Indian textile industry is export-oriented and labor-centric. The industry is also highly fragmented with small and medium enterprises accounting for more than three-fourths of overall textiles production. The readymade garments (RMG) industry faces stiff competition from Bangladesh, Pakistan, and Vietnam in global apparel exports. Owing to the lack of FTAs with major markets, Indian exporters pay higher import duties in the European Union and Canada, which are the markets for RMG. The higher cost of production, coupled with higher import duties has eroded India's share in the global RMG trade. To address this, the government has been in talks with some of the developed countries for FTAs. India received duty-free access to the Australian markets from December 2022. Expediting discussions and exploring FTAs with other countries will support textile exports.

Budget 2023: How To Improve Financial Inclusion And The Digital Ecosystem

This government has been cued into financial inclusion, digitalization and social welfare schemes from the very beginning of its term in office starting May 2014, with good results on the ground. Significant strides were made in improving access to banking as the Pradhan Mantri Jan-Dhan Yojna (PMJDY) accounts reached more than 400 million. This was complemented by the dramatic push in the adoption of retail digital payments, especially with the Unified Payments Interface (UPI) scaling record of over 74 billion transactions worth Rs 125.94 trillion in the calendar year 2022. The entire ecosystem has been transformed with the ongoing digitalization, and the year ahead will see more changes as the account aggregator framework of the Open Network for Digital Commerce (ONDC) and the Open Credit Enablement Network (OCEN) kick in and initiatives from the National Payments Corporation of India (NPCI) enable payments on feature phones and offline mode to overcome connectivity challenges.

In order to expand the usage of banking and financial services further, the government announced 75 digital banking units in the last Budget. The service was dedicated to the nation on October 16, 2022. While this initiative will be taken forward this year too, there is a lot more that we are looking towards.

Digital Payments

First, digital payments lay a strong foundation for financial inclusion but have a long way to go to achieve greater penetration among the masses, especially in rural India. But on the retail digital payments front, the issue of subsidy and charges which remains to be resolved may constrain universal access and adoption. On UPI specifically, while the Finance Ministry's stand has been that UPI is a public good and must be free, the incentive given by the government is limited to RuPay debit cards and low-value BHIM-UPI person-to-merchant transactions. Earlier in January, the government had doubled budgetary support for the incentive scheme to Rs 2,600 crore from the outlay provided in 2021-22.

Meanwhile, for card transactions, the Reserve Bank of India (RBI) is opposed to a zero/low merchant discount rate (MDR) as it adversely impacts the ecosystem. The payments industry has asked for Rs 8,000 crore for the year ahead to cover the investment costs for all digital payments infrastructure, which includes expenses on technological upgrades at the backend as well as outreach and onboarding small merchants, educating customers and implementing a robust grievance redressal system. In the interest of healthy sustainable and viable growth, the Ministry should institute a costing exercise to estimate and ensure adequate financial support and a mechanism of charges such that all players in the value chain are adequately compensated, either through the market mechanism or through reimbursement.

Empowering Women

Secondly, while much has been done for the empowerment of women through multiple schemes, one fact stands out in the recent **Global Findex Data** – the gender gap in ownership of accounts has been closed by India. We have a very high 12 percentage-point difference between women with inactive accounts (42 percent) and men (30 percent). Given the social contexts in which large swathes of India operate, the government has aimed at increasing the number of women business correspondents in villages under the National Rural Livelihoods Mission (NRLM) "One Gram Panchayat-One BC Sakhi" programme. This has already brought in good results, with more than a lakh women trained and certified as BC Sakhi, and about 88,000 operating in rural areas. The government gives a stipend for the first six months and extending this for the full first year will help support the new BC Sakhi till transactions stabilise towards a certain income.

Banking Correspondents

Thirdly, significant expenses on training a BC Sakhi by the NRLM are an indication of the level of investment required to set up BCs in rural areas. The issue of the viability of the BC network is another area that begs for resolution. Here, the government can encourage higher payouts in specific remote locations, where economic activity and population density do not make for a viable BC. Also, the government should nudge public sector banks (PSBs) towards sharing more products and services through the BC channel and monitor the activity at the BC level through a dashboard that can inform the Department of Financial Services (DFS) of the penetration and adoption of various financial services across the country. Such granular information is now key to ensuring that the financial inclusion programme is targeted effectively at specific locations and customer segments that still stay excluded.

Data Dissemination

Finally, the Budget should set a data dissemination policy such that financial inclusion metrics are tracked at a granular level by the Finance Ministry and district-level data are released in the public domain. Here gender-disaggregated data across all financial inclusion parameters will be key in filling the gaps in access and usage of financial services for women. With better quality information and metrics, the industry can serve specific geographies or customer segments, and the regulator and the government can target policies more effectively. Holding the G20 Presidency this year, the Budget would be a good time to make a statement that India is taking the lead in providing granular data towards financial inclusion and empowerment of women.

Budget 2023: India Needs To Look At Defence Spending In A New Way

Since India fought its last war at the heights of Kargil in 1999, the world and indeed the global order has changed considerably. India is now a member of the Quad, an implicit defence partner of the United States (US) in the Indo-Pacific, and a nation-state willing to project power across South-East Asia. The potential of an old-fashioned war on its western borders has declined. Its eastern borders continue to see a level of military and political coercion that's just below the level of war.

The elements of war, too, have changed considerably. It's no longer enough to fight land or sea wars with massive kinetic force, new domains and theatres including space and cyberspace have multiplied. The Russian invasion of Ukraine has proven that beyond the muscle of old-fashioned kinetics, the use of cyber and space technology in generating field intelligence and developing the surveillance and reconnaissance capabilities necessary to fight and ensure precision strikes holds a key to victory. Yet, good old-fashioned tanks, too, have their place.

India's future wars and its projection of power can no longer be limited merely to two fronts, designed to build capability along its eastern and western land borders. For instance, China, its eastern rival, can threaten Indian interests in a vast-ranging arena from the shores of the Indian Ocean in Djibouti, Somalia, to the East China Sea on the shores of Japan and South Korea—a threat that holds far-reaching economic consequences.

Within these and other fast-changing parameters comes the question of how India is managing its military budgets and building the technology it needs to fight now or in the future.

Beyond The Guns And Butter Debate

Within India, when it comes to budgetary allocations for defence it's always been a debate between guns and butter—the dynamics of allocations for defence vivis-a-vishose for social spending or subsidies and social largesse. The debate is well-founded. India does have large sections of poor and malnourished that need help through budgetary allocations. However, the size of its economy and the political dynamics of its geographical region now demand a relook into this debate. At one level, domestic politics and socio-economics will necessitate the need for adequate butter to oil and run its internal engines smoothly without unrest. But at another level, India will need its guns to ensure that its national economic interests are enmeshed in a web of comprehensive security.

The traditional debate has held that spending on defence could crowd out social spending—defence takes away from education, health, and infrastructure and fails to mobilize savings effectively. It's also been postulated that high levels of defence spending necessitate both higher taxation in the long run and potentially cause balance of payment issues.

But in India's economic context, as it stands today, these arguments though not without merit can be overcome. Revenue expenditure on defence may have adverse consequences, but capital spending on defence may well stimulate economic growth in both the sort-and-long run. The US economy, with its technological base, has often been driven, especially during the Cold War, by capital spending on R&D and manufacturing of defence-related products. The Internet itself is a consequence of a quest for an information technology-led defence tool, as are several generations of space and cyber weapons, indeed the underlying semiconductor and other manufacturing components. Much of these advancements and their outcomes drive manufacturing and most are led by the private sector.

China's considerable advances in military hardware and their underlying technologies may well have roots in some of the technological theft from the US it once indulged in, but its defence is now firmly based on a domestic manufacturing paradigm. The ability of its companies to absorb and develop state-of-the-art technology to drive towards, say fifth-generation aircraft, is as much a reflection of the underlying corporate structure dynamics as it is of the government's ability to incentivize the corporate sector to manufacture to national security goals.

The Multiplier Effect Of Manufacturing

India is at an ideal inflection point to disprove the argument that defence expenditure crowds out social spending. The multiplier effect of defence expenditure routed through focused private sector involvement in R&D and manufacturing would lead to a rise in the utilization of capital stock.

In turn, the profit motive would push investment upward and help generate direct and indirect employment and create a demand for higher goods and services across several other unrelated sectors—purchasing power that drives economic growth and lessens the need for higher social largesse. Economic security needs a defence environment that dissuades enemy aggression, direct or indirect. Power projection capabilities thereby ensure even the conditions necessary to generate the stability that foreign direct investment needs.

It needs a focused strategy, though. Defence spending then overcomes the problems associated with mere budgetary a locations and revenue expenditure. It delivers through incentivized manufacturing.

While the government has pushed for Aatmanirbharta in defence and announced various policies to incentivize local manufacturing, the inability to articulate the logic of a multiplier effect during the budget formulation process and the absence of an articulated and integrated strategy with defined potential profit motive outcomes to attract the private sector has been something of an impediment. The policies are not necessarily detailed during budget announcements, but the announcement event offers an unrivaled canvas to detail the underlying economic logic.

The Strategic Partnership policy for defence manufacturing has yet to see many takers. Progress has been slow. Last year's budgetary announcement of 68 percent capital procurement from domestic industry or the 25 percent allocated to the R&D budget still smacks of cautiousness drawn from the guns versus butter argument. What the government needs to do is drive investment in both direct and adjacent technologies necessary for defence through dedicated programs and policies that incentivize the private sector.

Employ A New Lens

Last year's 25 percent allocated through a budgetary revenue allocation process is inadequate to deliver its goals of building startups, driving innovation, pushing academia into defense-oriented research, promoting indigenous design, and developing major platforms and systems. It's not just about money. It's about policy. For instance, the PLI schemes in frontier technologies, like semiconductors, need to be specifically designed to compartmentalize standard semiconductor technologies and Defence needs with markets and profit incentives defined and articulated clearly.

Whether the technologies necessary for say military aircraft or precision strike capabilities, private sector incentivization through R&D support, not just through the capital for R&D but massive tax offsets and other incentives as necessary, will need to be put into place and this cannot be done through the budgetary process. India is exporting the BrahMOS missile. But its Tejas aircraft will have few takers since it does not compare quite as favorably as it should with some fourth-and-fifth generation aircraft available globally. It's not entirely HAL's fault but with the right incentives the private sector could take off from the platform that the government-owned manufacturer has provided.

Arguably, some might say, much of this is related to global geopolitical dynamics and the willingness of the West to part with key technology. Equally, it might be argued that manufacturing and, indeed advanced manufacturing, is a consequence of focused R&D spending, with profit motives defining the timeframes for product outcomes. The government has a big role to play in this process and it's time India discarded its old lenses and developed new ones to look at defence spending and capability building.

Budget 2023: Keep the focus on capital expenditure growth in 2023-24 too

As per NSO's advance estimates, nominal GDP growth for 2022-23 is estimated at 15.4 percent. OnCentreng trends indicate that this may have to be adjusted downwards to about 11.5 percent in 2023-24, a fall of nearly 4 percentage points. This fall is due to the current global economic slowdown which continues to adversely impact India's export growth, which is being transmitted to export-linked domestic sectors as well.

On the output side, in 2022-23, all sectors are estimated to have recovered from the COVID shock. However, the least recovery is shown by the trade, transport, storage et. al. sector which has grown by only 0.8 percent over its corresponding pre-COVID level in 2019-20. This contact-intensive sector constitutes a relatively large number of informal sectors. On the demand side, private final consumption expenditure (PFCE), which constitutes the largest share, has shown the least volatility in its growth over the years. Its growth in real terms is estimated at 7.7 percent in 2022-23, higher than the overall GDP growth of 7 percent. Thus, domestic consumption is expected to successfully pull overall growth up. Investment expenditure as measured by gross fixed capital formation (GFCF) is estimated to grow by 11.5 percent in 2022-23, contributing significantly to overall GDP growth.

The main factor responsible for pulling down growth was the negative contribution of net exports which is estimated to be as high as (-)2.8 percentage points in 2022-23. Current monthly trends indicate an accentuation of export contraction. Merchandise export growth showed a contraction of (-)9.9 percent in 3Q of 2022-23. This trend may continue through the early quarters of 2023-24 in line with the global economic slowdown. As such, real GDP growth in 2023-24 is likely to be lower than that in 2022-23, ranging between 6 to 6.5 percent.

The current inflation trends pertaining both to the CPI and WPI indicate a downward trajectory. CPI inflation has fallen from a peak of 7.4 percent in September 2022 to 5.7 percent in December 2022. WPI inflation has also eased consistently from its peak of 16.6 percent in May 2022 to 5 percent in December 2022. With these trends likely to continue, we expect that the implicit price deflator (IPD)-based inflation may also fall to nearly 5 percent in 2023-24 from an estimated 7.9 percent in 2022-23. Together, a real GDP growth of 6-6.5 percent in combination with an IPD-based inflation of 5 percent would imply nominal growth of close to 11.5 percent in 2023-24.

Fiscal performance and prospects

With nominal GDP growth expected to fall in 2023-24, tax revenue growth may also be lower. Taking a cue from CGA's data for the first eight months, we expect a growth of 15.5 percent in Centre's gross tax revenues (GTR) in 2022-23, implying a buoyancy of 1. Even if this buoyancy is maintained in 2023-24, growth in the central government's gross and net tax revenues would be only about 11.5 percent. Together with non-tax revenues and non-debt capital receipts, the Centre's non-debt resources are estimated at close to Rs 28.3 lakh crore in 2023-24, marginally higher than the corresponding level estimated in 2022-23 at Rs 25.4 lakh crore.

Signaling restoration of fiscal consolidation in the forthcoming budget would require a substantive reduction in the fiscal deficit to GDP ratio. Reducing this ratio by 0.7 percentage points from the budgeted level of 6.4 percent in 2022-23 which is likely to be met, the 2023-24 fiscal deficit to GDP ratio of the Centre may amount to 5.7 percent. Considering Centre's total resources which is the sum of non-debt resources and the fiscal deficit, we estimate the level of total expenditure to be Rs 45.7 lakh crore in 2023-24. This would imply that Centre's expenditure can increase only by 6-6.5 percent as compared to its 2022-23 level. Thus, for supporting growth, a careful calibration of the balance between revenue and capital expenditure growth will have to be undertaken.

Key priorities and challenges

Given the relatively lower revenue growth expected in 2023-24, it may be best to contain the growth of revenue expenditure and continue to emphasize capital expenditure growth as it is associated with higher multipliers. While constrained export growth will be a major challenge in 2023-24, domestic manufacturing needs to be encouraged by expanding the PLI list. Two favorable trends relate to the prospect of moderation of global crude prices accompanied by a fall in both CPI and WPI inflation rates. This may open up the possibility of reducing some of the relatively large petroleum price-linked subsidies.

While the Centre has already committed to an expanded free food grain scheme under PM-GKAY, some fertilizer and petroleum subsidies may be reduced. There may also be some scope for an increase in union excise duty revenue which is likely to contract in 2022-23. Infrastructure expansion should continue to be the main priority for government expenditure while continuing to encourage the Aatmanirbhar Bharat initiatives.

The Centre may need to signal its priority for employment creation. The sector that suffered the most during COVID was trade, hotels, transport, storage et. al. which is employment intensive. This sector would need to be supported through government programs that generate demand specific to these segments. It would also be worthwhile considering whether the rural employment guarantee scheme should be extended to urban areas as has been done by some state governments. Also, 2023-24 may not witness a further increase in the repo rate. In fact, in the latter part of the year, it may even be reduced. Eventually, private investment expenditure may start gathering an upward momentum, contributing positively to overall growth.

What Budget 2023 Can Do To Strengthen The Fintech Sector

Indian financial services, technology, and the fin-tech space have seen phenomenal growth, courtesy, and the implementation of favorable policies by regulators and the government in the past few years. Union Budget 2022 further supported the sector by proposing to establish a fintech hub at the Gujarat International Finance Tec-City (GIFT City), India's first International Financial Services Centre (IFSC). Budget 2023 is likely to usher in version-2.0 of Indian tech/ fintech, given it's now a mature and well-funded ecosystem, and counts financial institutions, technology behemoths, fintech unicorns/soonicorns, etc., among its crucial players.

The industry wishlist from Budget 2023 includes tax incentives, relaxation of rules on merchant discount rates, and regulatory clarity on permissible business models in the Web3 platform.

Tax incentives for companies supporting the digitization of financial services – This will push the Indian fintech revolution into Tier-3/4 cities on the back of rapid mobile penetration and the upcoming 5G rollout. In addition, mergers and acquisitions (M&A)-related tax relaxations can promote upstream funding and downstream acquisitions, leading to the consolidation of an extremely fragmented industry. Currently, it represents and functions through several sub-categories, such as e-commerce and service platforms, payments, digital lending, wallets, 'neo-banks', wealth and insure-tech, infrastructure providers, etc. A consolidation will facilitate global roll-outs by large Indian tech/fintech players.

Relaxed rules around Merchant Discount Rate (MDR) **–** MDR-related debate has affected the payments space, with fewer monetization opportunities. A differentiated approach to MDR, factoring in service offerings, quality etc., would be welcome for the payments-only players as well as the 25-plus Reserve Bank of India (RBI)- licensed payment aggregators notified so far. It will also provide commercial motivation to develop a private payments infrastructure in the country.

Digital/Challenger Banks – Such banks are popular in Europe, Singapore, and Hong Kong, and are gaining momentum in the US because it has taken the concept of customer ease and service qua banking to a new level. Maybe the time has come for India to consider having a 'digital-only' on-tap banking licensing option, with a differentiated approach to regulation and supervision, similar to what the RBI implemented through its Scale-Based NBFC Regulations. This may require changes to the extant bank ownership/shareholding norms, voting right limits, etc., under the Banking Regulation Act, 1949.

Recognizing the emerging Web3-based platforms and models – Such platforms are touted as the next frontier for the tech/fintech sector; recognizing them through tax benefits would eschew brain and capital drain is seen recently in the digital assets, non-fungible tokens, and **the Web3space**. Over the last few years, the digital assets space has seen a fair amount of industry and regulatory uncertainties. Recognition for the sector, which has several well-documented and productive use cases, albeit with guardrails for investors, and plugging potential systemic risks, be it tax, exchange control, or know your customer/anti-money laundering/combating of financing of terrorism, are beyond due-date now.

Regulatory clarity – Supervisory clarity and certainty of permissible business models in the Web3 platform, and fintech sector would be another key ask, as constant regulatory changes in the form of co-branding rules, digital lending guidelines, credit lines into wallets, tokenization, data sharing, and localization, IT Intermediary and new **draft Gaming Rules**, approach to NBFCs-Upper Layer, payment systems operators (PSOs), etc., have moved the 'goal-post', making long term business planning and modeling uncertain.

Clarity on the role/extent of law enforcers – Focus is needed in matters of law enforcement action and scrutiny of emerging technology, gaming and fintech players (especially in the digital assets), digital lending and payments space (including cross-border digital money flows) by the Financial Intelligence Unit, Enforcement Directorate, National Investigation Agency, Directorate General of GST Intelligence, State level account freezes, etc. Clarity on industry structures and business models, which are acceptable to the regulators, would de-clog management bandwidth and define the 'lines' that have often been blurred by law enforcement. Changes in RBI's recent Overseas Direct Investment Rules around overseas investing to mitigate round-tripping concerns, including via recognition of 'gift' structures, have been a positive move. Clarity qua private equity and funds 'sponsoring' mutual funds through a change in control deals is another key ask, and the recent SEBI paper in this regard is welcome.

Addressing data security concerns – With increasing concerns around data privacy and security in the tech and fintech sectors, various sectoral regulators have been issuing data rules. Tech/fintech business models are increasingly straddling multiple technology and financial services products and services, which often overlap with the remit of RBI, SEBI, IRDAI, PFRDA, MEITY, etc. There is a need to synchronize the legal framework for data privacy across various regulators and bring it in line with the proposed **Digital Personal Data Protection Bill, 2022**, to simplify the legal framework and aid in effective compliance, monitoring, and enforcement.

India currently has the third largest fintech market in the world, behind only China and the US. India's fintech sector has received more than $19 billion in investments in the last two years alone. This trend will continue to grow. Support from the Union Budget 2023 will not only help strengthen the digital finance and banking infrastructure but also provide a seamless linkage for Indian tech and fintech companies with their global counterparts.

Thank You

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