श्री LAKSHMISHREE

Gateway to your Financial Goals

BUDGET 2022

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Invest Today,

For

Better Tomorrow !!

Look What Our Research Analyst Has To Say...

Faith is the bird that feels the light and sings when the dawn is still dark." Finance Minister Nirmala Sitharaman quoted these words of Shree Rabindranath Tagore in her last budget speech. The quote was relevant at a time when COVID-19 pushed economic growth into the dark. However, after a very successful vaccination program, and with life almost returning to normalcy, economic activity in the country has been picking up.

GDP is expected to grow at historic high rates for the next two or more years, healing some of the scarring the pandemic left behind. Before Budget 2021, the FM said she would deliver a "budget like never before."

According to experts, it was a trendsetter budget in a way. It had many plans and schemes on which the growth of this decade would be based. Also, multiple schemes have been announced in the last two years.

For Budget 2022, broadly, on one hand, there are expectations the government would focus on implementing the policies announced in the last two years. On the other hand, five states, including UP, has elections scheduled for February-March. So, we might expect a populist budget. A multitude of perks might be handed to the rural economy. As always, the FM would not have an easy task. To maintain the growth momentum, continued fiscal support is a crucial requisite. At the same time, the FM might also consider a brief fiscal consolidation to be able to bring down the center's fiscal deficit target to 4.5% of GDP by FY26, as per the proposed glide path.

Nifty is in midst of a Turmoil of Global Correction and has formed a lower high on the daily charts. The lower high coupled with global events and major domestic event of Budget will put in additional pressure on the domestic front. Oil looks topped out and now is expected to head lower which will be a relief for the government along with 3 months of stable GST Collection above 1.3 Lakhs Crore. Technically speaking the falling channel high connecting highs of NOV 2021 and JAN 2022 is at 18200 and any and every rally into the upper end of the channel will be an opportunity to exit longs and add fresh shorts. The lower end of channel is placed around 16600-16400 which is also our expected target zone.

Anshul Jain - Research Analyst

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Stocks To Watch

1. Antony Waste Handling Cell Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Waste Management	Rs. 332	Buy between Rs.330-336 & add more on dips of Rs.294	Rs. 378	Rs. 406	2 Quarters

Shree Varahi Scrip Code	AWHCL
BSE Code	543254
NSE Code	AWHCL
Bloomberg	AWHCL IN
CMP Jan 18, 2022	332
Equity Capital (cr)	14.1
Face Value (Rs)	5
Eq. Share O/S (cr)	2.8
Market Cap (Rs cr)	912
Book Value (Rs)	123
Avg.52 Wk Volume	350124
52 Week High (Rs)	455.2
52 Week Low (Rs)	241.0

Share Holding Pattern % (Dec, 2021)	
Promoters	46.2
Institutions	19.1
Non Institutions	34.7
Total	100.0

Our Take...

Antony Waste Handling Cell limited (AWHCL), with presence of over two decades, has become a comprehensive service provider in Municipal Solid Waste (MSW) market. It provides full spectrum of MSW services which includes solid waste collection, transportation, processing and disposal services across India, majorly catering to municipalities. The company is also among the key players in landfill construction and management sector with in-house expertise for construction and management of landfills in a scientific manner. At Kanjurmarg, Mumbai the company has the largest single location waste processing plant in Asia. It is also present in the emerging waste management areas in India such as MSW based Waste to Energy (WTE) and bio-mining. As of Q2FY22, the company has 19 ongoing and revenue generating projects and multiple years project nature provides long term revenue visibility. Recently, it has won order from NDMC with approximate project revenue of Rs.1,000 Cr in next ten years. The company has adopted latest technologies and innovations for the various facets of the operations. Vehicle ownership provides a competitive advantage and helps the company meet the service level commitments in a cost-effective manner.

Indian MSW industry is at nascent stage and provides huge long term opportunities (only 30-35% of waste gets scientifically processed; remaining is disposed in open dumps); AWHCL being one of the largest players with established track record in the industry remains in a sweet spot. MSW waste generation in India is expected to grow at 8.9% CAGR over FY20-25E, while MSWM market is expected to double in size from ~Rs.50 bn in FY20 to ~Rs.98bn in FY25E. The company has 65% volume share in processing segment of total MSW in Mumbai.

Higher customer & geographical concentration are the key concerns for the company. Any adverse finding by the IT department from the recent search could impact the business and stock price over short term.

Valuations...

We are enthused about the potential of the MSW segment and AWHCL being one of the prime players here could be a beneficiary of this. The company has reported a strong advance Q3FY22 business update, where operating revenue has improved by 22% YoY driven by improvement in tonnage handled and processed by the company. Compost sales have also been improving. The multiple years order nature of the business provides long term revenue visibility for the company. The WTE plant will start generating revenue from FY24E, which will improve the processing revenue. We have envisaged 17% CAGR for revenue over FY21-24E, where in 64% is expected to be contributed by C&T MSW, 26% would come from MSW Processing and remaining from other businesses. We expect the company to deliver EBITDA/PAT CAGR of 16%/23% over FY21-24E. AWHCL has been seeing gradual reduction in debt despite capex needs. We have estimated debt to equity ratio at 0.25x for FY24E from 0.43x in FY21. Operating efficiencies and prudent capital management techniques have helped the company in maintaining the return ratios at around 15% in the past two years and we feel that AWHCL could maintain this trajectory for the next 2-3 years also. Management has guided that they expected the company to grow by 20-25% CAGR over next 2- 3 years and there could be a strong growth in the order wins during the same time. The company is trading at a decent valuation of 14x / 11.3x FY23E /FY24E adjusted earnings.

We feel investors can buy AWHCL between Rs.330-336 (11.9x Dec-23E EPS) & add more on dips of Rs.294 (10.5x Dec-23E EPS) for the base case fair value of Rs.378 (13.5x Dec-23E EPS) and for the bull case fair value of Rs.406 (14.5x Dec-23E EPS) over the next two quarters.

Financial Summary…

Particulars (RsCr)	Q2FY22	Q2FY21	YoY (%)	Q1FY22	QoQ-%	FY20	FY21	FY22E	FY23E	FY24E
Total Income	158.4	119.6	32.4	149.7	5.8	464.6	480.8	561.2	635.1	770.3
EBITDA	42.4	32.7	29.7	41.7	1.7	139.7	130.3	147.2	169.0	205.8
RPAT	23.6	17.8	32.6	22.3	5.8	65.4	64.1	69.5	78.5	94.7
APAT						28.6	45.0	52.1	67.2	83.4
EPS						17.8	17.1	18.4	23.7	29.5
RoE						15.3	15.8	13.6	14.8	15.6
RoCE						22.9	16.5	16.1	16.3	17.3
P/E						18.7	19.4	18.1	14.0	11.3
P/BV						3.8	2.7	2.3	1.9	1.6

Income Statement…

(Rs Cr)	FY20	FY21	FY22E	FY23E	FY24E
Total Income	**464.6**	**480.8**	**561.2**	**635.1**	**770.3**
Growth (%)	55.6	3.5	16.7	13.2	21.3
Operating Expenses	325	350.5	414	466.1	564.4
EBITDA	**139.7**	**130.3**	**147.2**	**169**	**205.8**
Growth (%)	**53.5**	**-6.7**	**13**	**14.8**	**21.8**
EBITDA Margin (%)	**31**	**28**	**27.2**	**27.5**	**27.5**
Depreciation	24.3	31.2	38.5	47.4	61.6
EBIT	**115.4**	**99.1**	**108.7**	**121.6**	**144.2**
Interest	30.3	28.5	21.7	21.5	21.8
PBT	**85.2**	**70.6**	**87**	**100.1**	**122.4**
Tax	19.8	6.5	17.5	21.7	27.7
RPAT	**65.4**	**64.1**	**69.5**	**78.5**	**94.7**
APAT	**28.6**	**45**	**52.1**	**67.2**	**83.4**
EPS	17.8	17.1	18.4	23.7	29.5

Balance Sheet…

(Rs Cr)	FY20	FY21	FY22E	FY23E	FY24E
SOURCES OF FUNDS					
Share Capital	12.8	14.1	14.1	14.1	14.1
Reserves	211.3	333.7	403.8	477.2	562.8
Shareholders' Funds	224.1	347.8	417.9	491.4	576.9
Minority Interest	75.8	94.8	110.0	115.0	118.0
Long-Term Borrowings	145.1	84.5	79.5	77.1	78.6
Other non-Current Liab & Provisions	58.0	71.6	67.6	62.6	58.1
Total Source of Funds	503.0	598.7	675.0	746.1	831.6
APPLICATION OF FUNDS					
Net Block	258.9	253.3	254.8	332.4	460.8
Capital Work-in-Progress	0.6	0.9	0.9	1.0	1.1
Intangible assets under development	13.9	5.1	5.5	6.0	6.5
Deferred Tax Assets (net)	8.6	17.8	17.8	17.8	17.8
Long Term Loans & Advances	193.9	204.2	215.7	227.5	239.8
Total Non-Current Assets	475.9	481.2	494.7	584.7	726.0
Short-Term Loans and Advances	9.5	14.3	15.7	18.1	20.8
Trade Receivables	85.8	89.5	103.8	121.1	149.9
Cash & Equivalents	35.5	128.3	174.1	129.0	33.6
Other Current Assets	78.8	79.5	87.4	100.5	115.6
Total Current Assets	209.6	311.5	381.0	368.7	319.8
Short-Term Borrowings	64.3	64.8	65.5	66.1	66.8
Trade Payables	54.3	60.9	67.0	75.0	84.8
Other Current Liab & Provisions	64.0	68.3	68.2	66.1	62.5
Total Current Liabilities	182.5	194.1	200.7	207.3	214.1
Net Current Assets	27.1	117.5	180.3	161.5	105.7
Total Application of Funds	503.0	598.6	675.0	746.1	831.7

2. Hindustan Oil Exploration Co. Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Base Case Fair Value	Time Horizon
Exploration & Production	Rs. 210	Buy in the Rs. 208-212 band & add more on dips to Rs. 174-178 band	Rs. 238	Rs. 274	2 Quarters

Shree Varahi Scrip Code	HINDOILEXP
BSE Code	500186
NSE Code	HINDOILEXP
Bloomberg	HOE IN
CMP Jan 27, 2022	210
Equity Capital (Rs cr)	132.2
Face Value (Rs)	10.0
Equity Share O/S (cr)	13.2
Market Cap (Rs cr)	2781.7
Book Value (Rs)	58.1
Avg. 52 Wk Volumes	1158485
52 Week High	245.7
52 Week Low	78.3

Share Holding Pattern % (Dec, 2021)	
Promoters	0.0
Institutions	5.1
Non Institutions	94.9
Total	100.0

Our Take...

Hindustan Oil Exploration Company Ltd. (HOEC) is one of the first midsized private companies in India in oil and gas exploration space. It is engaged in exploration, development, production of crude oil and natural gas in India. HOEC assets are geographically spread across Tamil Nadu, Maharashtra, Gujarat, Assam, and Arunachal Pradesh with a balanced portfolio of development and production assets, both in onshore and offshore. The company assets portfolio consists of 10 oil & gas blocks of discovered resources and 1 exploratory block. HOEC reduces the risk involved in extracting oil and gas by focusing on discovered oil and gas resources. This enables HOEC to fast track its projects, ensure certainty and monetize resources at a much faster pace.

Transformation of B-80 block in Mumbai basin is on final stage and operational activities could commence soon. B-80 is an offshore discovered field and HOEC is engaged in development of this site and the field is jointly owned by operator HOEC 50% and Adbhoot Estates AEPL, 50%. We expect, first oil sale revenue could start from Jan/Feb 2022. Apart from this, the company is hoping to increase its production potential from 2000 boepd to 8000 boepd going forward and if this is realised, HOEC could see huge potential to generate incremental revenue going forward.

Dirok gas field is located in Assam-Arakan Basin and the block is currently being operated by Hindustan Oil Exploration Company (HOEC), along with JV partners Oil India Ltd (OIL) and Indian Oil Corporation Ltd (IOCL) under a Production Sharing Contract and producing 35 mmscfd of Gas. After completion of Phase II, the management expects to increase its production to 55 mmscfd in FY23 from 35 mmscfd. Post that, the drilling of 3 wells the company is targeting 75 mmscfd thereafter. Public hearing has already been conducted successfully for phase-II execution. The company is laying of 35km pipeline to connect directly to Duliajan hub. Environmental clearance for the same has been obtained.

The Kharsang oil field is located in the state of Arunachal Pradesh and 60 kms away from Dirok. Kharsang has current production capacity of 600 boepd. HOEC is drilling 18 new wells at Kharsang, Arunachal Pradesh. Post drilling the production capacity will be increased to 1800 boepd.

HOEC plans to carry out drilling program at its two onshore Cambay blocks in Gujarat for a proposed project cost of Rs 345 crore. HOEC shares the blocks with Gujarat State Petroleum Corp (GSPC). HOEC plans to drill four infill wells and six development wells at Asjol and proposes drilling of 16 development wells in the North Balol block. The initial oil estimate in the Asjol oil field is about 10.7 mn barrels.

The company plans to take advantage of existing infrastructure while growing its operations organically or inorganically, and strives to add attractive assets with synergies to its current asset portfolio. With its portfolio of gas resources both in North East and in Southern Regions, HOEC is well positioned to leverage the opportunities presented by this transition to a gas based economy.

Oil prices have climbed on expectation of demand recovery, as vaccination roll-outs is picking up. Crude Oil (WTI) climbed sharply by 64.2% YoY to US$ 868/bbl. Higher crude oil prices lead to higher realization for HOEC and help shore up its profitability. Apart from this, Natural gas has rallied sharply in the last few months and momentum could be continue in the near to medium term. Natural Gas price is at US$ 4.3 /mbtu, which is up by 55.1% YoY. The annual demand is expected to hit pre-pandemic levels in 2022, according to the International Energy Agency (IEA). This is spurred by the return of vehicular traffic in most of the major countries in the world as well as the improving overall economic outlook.

Valuations…

HOEC portfolio comprises 10 Oil & Gas blocks of Discovered Resources and 1 exploratory block, all of which have resources with some upside potential. The company has sufficient capital to implement its business plans and to continue the development of the Dirok field in Assam, revisiting the development of PY-1 field, B-80, Kherem and other fields. B-80 and Dirok is the main producing assets for the company. Expansion program in B-80 is likely to be done after the first oil from B-80 & full commercialization of added exploration from this site is likely to be operational in FY23E. Over the next two years, the company expects significant ramp up in volumes which would ensure growth visibility going ahead on account of rising production in B-80.

Taking the advantage of favorable government policy, E&P operators can participate in e-bidding and has right to set own price above Govt. notified price. Currently (from Oct 01, 2021) prevailing APM Gas price is USD 2.90 per mmbtu. Given strong management, a robust balance sheet and stellar growth expected over the next two-three years.

We believe the base case fair value of the stock is Rs 238 (6.75x FY24E EV/EBITDA) and the bull case fair value of the stock is Rs 274 (7.75x FY24E EV/EBITDA) over the next two quarters. Investors can buy in the Rs. 208-212 band and add further on dips in the Rs 174-178 band (5x FY24E EV/EBITDA). At the LTP of Rs 210, the stock is trading at 6x FY24E EV/EBITDA.

Financial Summary...

Particulars (Rs Cr)	Q2FY22	Q2FY21	YoY-%	Q1FY22	QoQ-%	FY20	FY21	FY22E	FY23E	FY24E
Total Operating Income	39	33	17.8	30	28.3	202	114	259	722	975
EBITDA	19	17	16.8	16	20.9	125	54	121	346	474
Depreciation	6	6	-11.7	5	16.2	29	23	37	39	45
Other Income	6	3	98.4	2	246.6	22	11	9	14	19
Interest Cost	2	1	7.1	2	-0.1	6	6	13	16	13
Tax	-1	0	-900.0	0	-407.7	0	-2	12	46	66
RPAT	19	12	62.4	11	71.3	111	38	68	260	370
APAT	17	12	40.5	12	47.2	138	53	71	265	376
Diluted EPS (Rs)	1.3	0.9	40.5	0.9	47.2	10.4	4.0	5.4	20.0	28.4
RoE-%						22.6	7.6	9.3	28.3	29.9
P/E (x)						20.2	52.0	38.9	10.5	7.4
EV/EBITDA						21.1	52.1	24.7	8.7	6.0

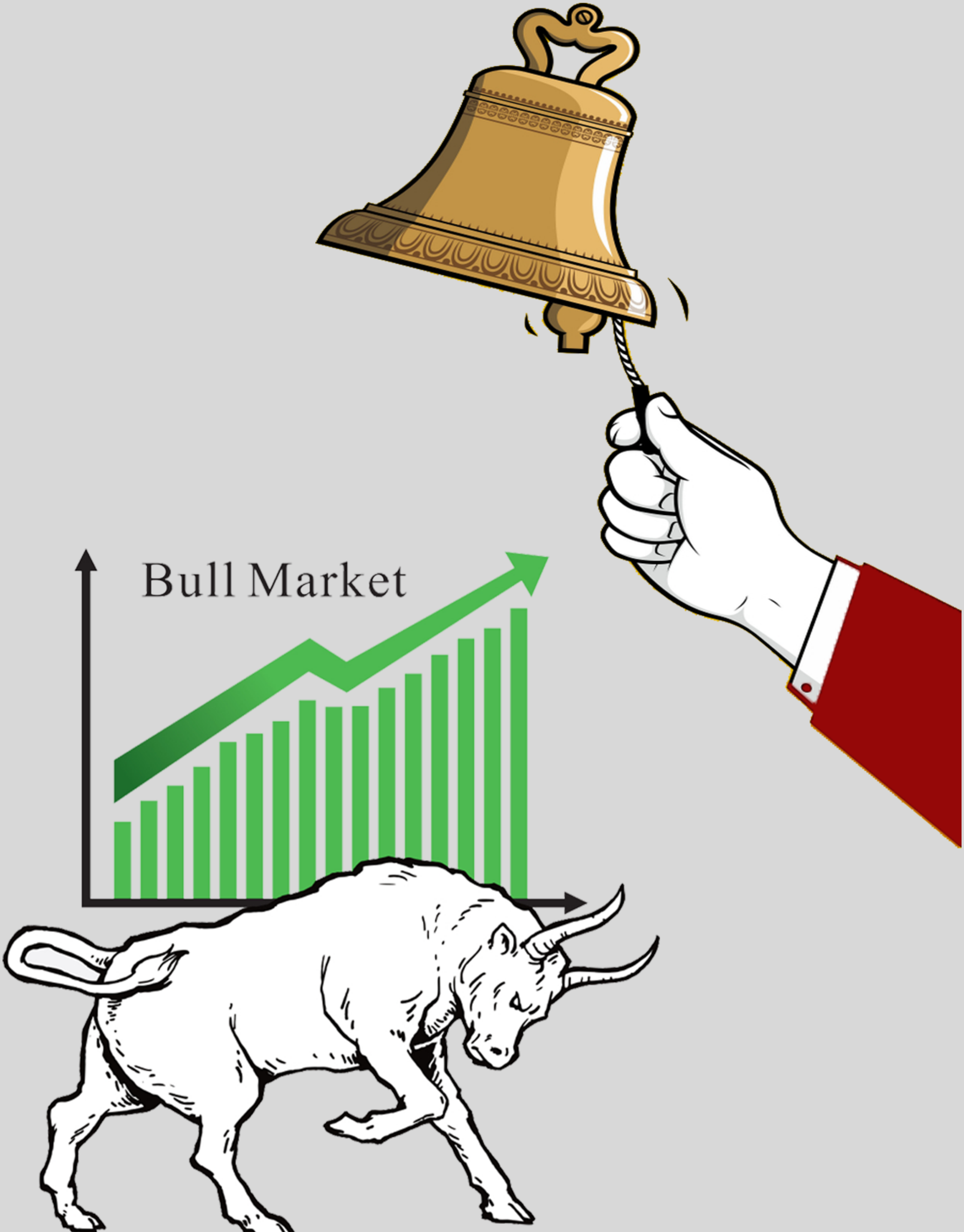
Income Statement...

(Rs Cr)	FY19	FY20	FY21	FY22E	FY23E
Net Revenues	**202**	**114**	**259**	**722**	**975**
Growth (%)	-23.8	-43.6	127.4	178.9	35.0
Operating Expenses	77	60	138	376	501
EBITDA	**125**	**54**	**121**	**346**	**474**
Growth (%)	**-33.4**	**-56.6**	**122.9**	**187.0**	**36.8**
EBITDA Margin (%)	**61.7**	**47.5**	**46.6**	**48.0**	**48.6**
Depreciation	29	23	37	39	45
EBIT	**95**	**31**	**84**	**307**	**429**
Other Income	22	11	9	14	19
Interest expenses	6	6	13	16	13
PBT	**111**	**36**	**81**	**306**	**435**
Tax	0	-2	12	46	66
RPAT	**111**	**38**	**68**	**260**	**370**
APAT	**137.6**	**53.4**	**71.4**	**264.9**	**376.2**
Growth (%)	-12.2	-61.2	33.7	270.9	42.0
EPS	10.4	4.0	5.4	20.0	28.4

Balance Sheet…

As at March (Rs Cr)	FY20	FY21	FY22E	FY23E	FY24E
SOURCE OF FUNDS					
Share Capital	132	132	132	132	132
Reserves	547	601	672	937	1313
Shareholders' Funds	**680**	**733**	**805**	**1070**	**1446**
Long Term Debt	32	159	279	329	269
Net Deferred Taxes	3	1	1	2	2
Long Term Provisions & Others	107	113	118	124	131
Minority Interest	**0**	**0**	**0**	**0**	**0**
Total Source of Funds	**822**	**1006**	**1204**	**1525**	**1847**
APPLICATION OF FUNDS					
Net Block & Goodwill	357	335	747	1006	1102
CWIP	327	535	374	281	295
Other Non-Current Assets	84	88	77	73	71
Total Non Current Assets	**769**	**958**	**1198**	**1360**	**1468**
Current Investments					
Inventories	27	36	78	218	294
Trade Receivables	36	31	67	188	254
Cash & Equivalents	186	117	75	91	224
Other Current Assets	17	43	45	47	49
Total Current Assets	**267**	**227**	**265**	**544**	**820**
Short-Term Borrowings	0	0	0	1.5	1
Trade Payables	66	36	74	208	280
Other Current Liab & Provisions	148	143	184	170	159
Total Current Liabilities	**214**	**179**	**258**	**380**	**441**
Net Current Assets	53	48	6	165	380
Total Application of Funds	**822**	**1006**	**1204**	**1525**	**1847**

This Might Impact Your Investments !!



View: This Budget is the inflection point

This is neither the first nor is it the last in the continuing series of budget proposals from the government. Can this budget be marked for being the inflection point when the gigantic wheel of India starts to turn and propel the Indian economy? Quite likely. Each of the preceding eight budgets revolved around a big idea - infrastructure, digital, entrepreneurship, tax reforms, national health, and welfare, each being a much-needed sinew to strengthen the economy. In 2022, these seemingly disparate concepts merged into one cohesive narrative, a Manthan for Amrit Kaal.

Creating inclusive and balanced growth for society requires an optimal blend of defined elements such as food security, quality of living, health, education, infrastructure, and livelihood support. Over time, the government has worked consistently towards augmenting these six elements with timely allocations of funds and programmes.

While the fine print is being analysed, inclusive development has been called out separately and the outlay on flagship schemes like PM-Kisan, MNREGS etc. is likely to see a reasonable increase. The ₹111 lakh crore National Infrastructure Pipeline supported by PLI to Make in India is ambitious in outlay, supplementing the need for job creation across manufacturing and construction sectors. Startups, industrial parks, Atal Innovation Program among others complete the ecosystem.

This year's Budget went a step ahead and doubled down on capital expenditure which sharply increased by 35.4% - a significant commitment to growth. This included an increase of ₹60,000 crore of Har Ghar, Nal Se Jal and ₹48,000 crore under PM Awas Yojana.

When the FM closed her Budget 2022 speech at 12.30, corporate India was relieved. This was the first Budget in years with minimal tax changes. While creating a framework for an inclusive society, India is gradually reforming its business tax system. From GST for a single market, to lowering its corporate tax rates, to significant steps towards tax transparency, India has been building towards its vision to establish a trustworthy tax regime.

Measures to reform telecom, the endurance to privatise Air India and confidence to embark on the largest IPO with LIC of India illustrate India's willingness to transform. The evident intent to encourage a low-carbon economy, will unlock the potential to create a sustainable circular economy.

The power of the 130 crore Indians gives the necessary thrust for the all-powerful flywheel effect. Budget 2022 seeks to harness this power with skills programs and employment creation. As Jim Collins wrote: "In building a great company or social sector enterprise, there is no single defining action, no grand programme, no one killer innovation, no solitary lucky break, no miracle moment. Rather, the process resembles relentlessly pushing a giant, heavy flywheel, turn upon turn, building momentum until a point of breakthrough, and beyond. The "Chakra", shaped by reforms and investments of collective initiatives, has now increased momentum to create the right breakthrough moment in history. The budget proposals of 2022 provide a timely release of kinetic energy to power the nation.

View: Budget FY23 to change scale of India's economy

As factories inch back towards full capacity, cars zoom past on city roads, and footfalls return to malls and haats, there is a distinctive air of optimism and self-confidence in India's economic air.

Reviving the economy was not as simple as first switching off and then switching on an electric bulb. The climb-back needed to be well-timed, planned and every component of the economy calibrated. It was similar to starting a complex engineering apparatus.

India, under Prime Minister Narendra Modi, chose a carefully crafted and calibrated approach. In May 2020, during the peak of the pandemic's first wave, the Prime Minister delineated India's recovery path with a visionary #Atmanirbhar Bharat plan. It was a carefully crafted plan, not overwhelmed by myopic short-termism, but focused on making the pillars of the turnaround stronger.

Union Budget FY23 embodies this vision. From an official digital currency to higher government capital expenditure and higher outlays on infrastructure to lowering taxes for cooperatives and support for small enterprises, the budget has some striking elements that will change the scale of the Indian economy.

One of the most outstanding features of the Budget is the government's emphasis on capital expenditure. The finance minister has penciled in a 35.4% hike in the central government's capital expenditure plan to ₹7.5 lakh crore in FY23.

Additionally, the Budget has announced measures to catalyse similar capital expenditure by states. States will now be able to draw up to ₹1 lakh crore in FY23 from the Scheme for Financial Assistance to States for Capital Investment, a nearly sevenfold jump over the current year's ₹15,000 crore. These interest-free loans are of a 50-year tenure, and are over and above the normal borrowings allowed to the states.

As the finance minister has said, higher capital spending by central and state governments will "crowd-in" private investment. This will trigger fresh investment by companies to add capacities as higher government spending will set off a virtuous cycle of investment, demand and spending.

This demonstrates the Modi government's determined resolve to do the heavy lifting on investment to usher in sustained growth.

The other big priority area is reducing imports and promoting Atmanirbharta in the defence sector. The capital procurement budget earmarked for domestic industry has been raised to 68% in FY23, up from 58% in FY22. Defence R&D will be opened up for industry, startups and academia. This will encourage private industry to take up design and development of military platforms and equipment in collaboration with DRDO and other organisations through the SPV model.

Ease of doing business has been a continued focus area of this government, in line with the prime minister's avowed principle of 'minimum government and maximum governance'. Over the last few years, the government reduced more than 25,000 compliance requirements and repealed 1,486 laws.

The Budget has also proposed to reduce the alternate minimum tax (AMT) for cooperative societies from the current 18.5% to 15%, levelling out the field with private companies. The surcharge on cooperative societies has also been reduced from the present 12% to 7% for those having incomes between ₹1 crore and ₹10 crore. This will benefit millions of members of cooperative societies from rural and farming communities.

Infrastructure has been another priority area for this government. Road and other infrastructure projects can spur economic activity, boost construction and create jobs. The Budget has rightly given adequate stress on this through measures such as PM Gati Shakti National Master Plan, 'One Station, One Product', Parvatmala, PM Gati Shakti Cargo Terminals and Vande Bharat trains.

The role of small businesses in India's economy can never be ignored. For small businesses, as for other sectors, the pandemic acted as a catalyst for modernisation, resulting in accelerated business transition, and spurring businesses to look at any means necessary to adapt and innovate to grow.

The government's primacy on MSMEs continues, and the Budget has extended the Emergency Credit Line Guarantee Scheme (ECLGS) guarantee cover to March 2023, expanding it by ₹50,000 crore to total cover of ₹5 lakh crore, with the additional amount being earmarked exclusively for the hospitality and related enterprises.

I congratulate finance minister Nirmala Sitharaman for presenting a bigger ₹39.45 lakh crore budget without tinkering with tax slabs and tax rates but maintaining fiscal prudence.

In 2020, most people were discussing slides and recessions in alphabet shapes. In 2022, in the year when the country is celebrating Azadi Ka Amrit Mahotsav, India stands out as a textbook example of a V-shaped recovery, with the country rocketing back as the world's fastest-growing major economy. Income and output are rising, greater demand is showing up in higher household spending that has triggered investment and capacity addition. All this has been possible because in the last seven years Prime Minister Modi has focused on financial discipline, scale and speed of economy, infrastructure development, manufacturing push with the vision of Aatmanirbhar Bharat. The prime minister's model of economic development has a distinct element of Indian-ness focused on exploiting our country's inner strength. The economic management has been transparent and disciplined, which is reflected by the fact that the number of people filing income tax returns has increased from 33.1 million in 2014 to 64.8 million in 2022. It's also notable that the government mopped up ₹1.4 lakh crore GST in January 2022, the highest ever.

Driven by the PM's vision, Budget 2022-23 is guided by four pillars: PM Gati Shakti; inclusive development; productivity enhancement and investment in green energy; and investment financing. They have the potential to change the scale of the Indian economy, placing it next to any developed nation. The Atmanirbhar Bharat growth model is now a template for the world to emulate.

View: Welcome to Modi's state capitalism 2.0

In a statement that would please many of her contemporaries at her alma mater, Jawaharlal Nehru University, Nirmala Sitharaman told Parliament that her budgetary strategy was based on the premise that 'public investment would crowd-in private investment' and that '[p]ublic investment must continue to take the lead and pump-prime private investment and demand in 2022-23.'

In saying this Sitharaman rejected a key idea of what economists call the 'Washington Consensus' in economics -that public investment crowds out private investment. With governments around the world returning to the pre-neo-liberal era of governmental activism in the economy, even the International Monetary Fund (IMF) has been advocating the virtues of public investment.

A steep 35.4% hike in GoI's budgetary outlay for capital expenditure taken together with a substantial increase in grants-in-aid to state governments for creation of capital assets would collectively make the 'effective capital spending' of the Union government 4.1% of GDP. This is the cornerstone of Sitharaman's growth strategy for 2022-23.

Faced with a medium-term economic slowdown, both due to a decline in demand and private investment, which has been made worse by the Covid pandemic, the Narendra Modi government has been forced to turn to public investment and spending as the only means to step up growth.

Having abandoned Five-Year Plans after shutting down the Planning Commission, Modi has recently unveiled a 25-year plan leading up to India's centenary year of 2047. As a consequence, 60 minutes of the finance minister's 90-minute budget speech was devoted to long-term programmes and plans. The government will have to first deliver on its growth promise over the next two years for it to be able to walk the policy talk into the more distant future.

Increased public spending, both through capital and revenue budgets, has been made possible partly by continuing to pursue a liberal fiscal strategy, with the fiscal deficit to GDP ratio estimated to be 6.9% in 2021-22 and budgeted to be 6.4% in 2022-23. It has also been facilitated by improved overall tax compliance, with a significant increase in indirect tax collection through the goods and services tax. It is another matter that the higher increase in revenues through GST and customs duties compared to direct taxes shows continued decline in the progressivity of Indian taxation.

Interestingly, apart from a 30% tax on income from transfer of virtual digital assets, there is no other major direct tax proposal of any serious consequence. Rather, there is a slew of sector-specific customs duties that recalls to mind the pre-liberalisation budgets of the 1970s and 1980s that the Modi government has opted for in the name of Aatmanirbharta, which is essentially State Capitalism 2.0.

The government's public spending-led growth strategy is not a new idea, though for most millennials this would be a novelty. Half a century ago, it used to be called 'state capitalism' by the Left and 'mixed economy' by the Nehruvians. Apart from public investment crowding-in private investment, this strategy also implies increased protection to domestic industry from global competition. The increase in customs duties across a range of industries is part of the deal.

What distinguishes State Capitalism 2.0 from its original variant is that in the Nehruvian version the focus was mainly on manufacturing, while in the Modi version the focus has been on infrastructure, logistics and the digital economy. Where Sitharaman's budgetary strategy, with its emphasis on capital expenditure and 'Make in India', may make a difference would be if it helps step up manufacturing sector growth. The recent spurt in exports and the anticipated step up in construction activity could help energise the manufacturing sector.

Creating jobs in manufacturing, both large-scale and medium and small enterprise sectors, remains a priority for India at the present stage of development. All the fancy talk of startups and new economy mean little for a developing country economy saddled with millions of low-skilled and unskilled labour seeking employment.

If the fiscal strategy of the budget succeeds in translating public spending into demand for both blue and white collar labour that would, in turn, set in motion a virtuous cycle of what Sitharaman calls 'pump-primed' growth. It is the standard multiplier at work.

For public investment to stimulate private investment and spending, both firms and households must take the baton from the state and run with it. This requires restoring both consumer and investor confidence in the growth process. Both have remained subdued despite all the hype about a V-shaped post-pandemic economic recovery.

Budget 2022: It's sensible, sober, & doesn't over-promise

Despite Covid, GoI has performed remarkably well in collecting revenues for 2021-22 (revised estimate). Gross tax revenue for 2021-22 (RE) is up by 13%, driven by corporation tax, income taxes, customs and GST. This has given the FM to budget for another 9.6% growth for the coming year, 2022-23 (budget estimate). Equally, we have been falling seriously short of what ought to be a sensible, steady-state tax-to-GDP target. For 2021-22 (RE), despite a smart increase in collections, our tax-to-GDP ratio was 10.8%, estimated to drop to 10.7% in 2022-23 (BE). For creating a fiscally viable nation, this should have been at 15-16%. So, while the FM deserves kudos on the tax front, she should be aware we are way behind where we ought to be for long-term fiscal stability.

How have we succeeded in getting the fiscal deficit for 2021-22 (RE) to 6.9% of GDP — admittedly a bit higher than the BE of 6.8% but creditable nevertheless? It has been by maintaining a tight lid on many items of revenue expenditure. These could have gone through the roof on account of Covid. But thanks to the old stratagem of the expenditure secretary not having ink in his pen in the second half of the financial year, total expenditure of GoI for 2021-22 (RE) is only 8.2% higher than the corresponding BE.

This control will continue throughout the next year with total expenditure slated to rise by 4.6% in 2022-23 (BE) versus a significantly higher increase in gross tax revenue. Hence, a lower projected fiscal deficit for 2022-23 (BE) of 6.4% of GDP.

But the focus now is on future income- and employment-generating capex. Net of capital infusions and loans for settlement of Air India's guaranteed and sundry liabilities that were carried out in 2021-22, capex is targeted to increase by a huge 36% to Rs 750,246 crore in 2022-23 (BE). Another Rs 317,643 crore will be pumped in as grants-in-aid for creating capital assets, including through MNREGA. We haven't seen such capex ever before.

Much of this is to build infrastructure such as roads, national highways, metro rail and the like. Allocation for the National Highways Authority of India (NHAI) in 2022-23 (BE), for instance, is Rs 134,015 crore, which is 105% more than what it will have received in 2021-22 (RE). Such infra projects could provide a large number of jobs to poorer sections. However, we spectacularly fail on disinvestment. For 2021-22, the BE on disinvestment was a colossal Rs 175,000 crore. The RE on it is Rs 78,000 crore which, though 55% less than estimated, may not be even achieved. Small wonder that BE on disinvestment for 2022-23 has been pegged more modestly at Rs 65,000 crore. GoI must completely revamp its Department of Investment and Public Asset Management (DIPAM), and have it led by a dynamic investment manager and privatisation expert who will take this up as a challenge, rather than a civil servant with one eye to retirement and the other to potential interventions by the CBI, CVC or ED.

Kudos to the FM on this budget. It is sensible, doesn't over-promise and, in all likelihood, will meet the fiscal deficit numbers for 2022-23. I would keep a close watch on the tax revenue targets because much will depend on how these pan out. And given where we are right now, I am a firm believer in fixing the broken supply side, especially through a slew of infra projects. These generate jobs that are better than distributing food hampers.

We don't – and never did – have delivery mechanisms to adequately fix the demand side. Only jobs can raise the sustainable income level of the bottom 40%. Jean Baptiste Say wasn't a fool when he posited that supply creates its own demand.

View: A template for every Budget

At the start of her fourth Budget speech, Nirmala Sitharaman said that she would be laying out a blueprint for the next 25 years. Interestingly, over the next 90 minutes, she also laid out a blueprint for an ideal budget. At its core, the annual budgetary exercise is a statement/instrument of the GoI's fiscal policy, made up of its expenditure and revenue plans. Fiscal policy is important to meet different objectives, primarily growth and redistribution, but also inflation and current account deficit (CAD). In the current economic climate, the primary challenge is sustaining growth even while uncertainty on the future course of the pandemic prevails.

In such a scenario, the revival of consumption and investment, the two main drivers of growth in the economy, may take a while longer. Hence, fiscal expansion/government spending must occupy the driving seat.

GoI had a choice between boosting either its revenue expenditure (say, by announcing income transfers) or its capital expenditure (by building more infrastructure). It chose the latter. There is good reason for that choice. The secondary, looming challenge in the macroeconomy is inflation. For now, the cause is external on account of spiking commodity prices, including oil. A big consumption stimulus in a supply-constrained economy could add to inflationary pressures. So, the GoI has chosen the the right path to stimulate growth.

It has also done the right thing by not applying a fiscal squeeze, allowing this year's fiscal deficit to touch 6.9% and projecting next year's deficit to be 6.4%. The path to fiscal consolidation will be gradual and is entirely appropriate following the pandemic-induced shock.

From a political point of view, the GoI could have been tempted to inject the budget with a dose of populism. After all, five assembly elections are around the corner. There were two obvious choices; either to announce a new scheme or seriously enhance an existing one, or to cut direct tax burden for individuals. The former, which would have involved a new income transfer scheme or increasing NREGA spending, would have targeted rural voters and lower income groups. The latter would have enabled an outreach to urban middle classes.

Given the macroeconomic situation with growth uncertain and looming inflation, neither would have been prudent. Of course, they might have brought short-term gain. So, all credit to GoI for resisting 'electoral compulsions'.

Each year, stakeholders look forward to direct and indirect tax proposals for 'relief'. This year, there were some import duty changes, but direct taxes were mostly untouched (except for cooperatives). Hopefully, GoI will stop tinkering with import duties as well and remove all surcharges and cesses soon, rendering this part of the budget uninteresting but making the tax system an enabler of impressive economic performance.

The way GoI views the future trajectory and shape of the economy is interesting. Given the momentous changes likely to take place across the globe - energy transition, technological shifts and altered geo-economics post-Covid - this is important. Narendra Modi has always been a forward-looking politician. His commitments on climate change at COP 26 were path-breaking from an emerging economy.

From now on, every budget should contain a section on climate change and energy transition like this one, which spoke of battery-swapping, charging stations and additional production-linked incentive (PLI) for solar equipment. The green economy will create new opportunities for employment and a chance for India to become a leader in a sunrise sector.

Digitisation is the other trend for the future. And it was good to see GoI's focus on this space, including the creation of a digital university. The FM also showed that GoI was keenly looking at other emerging technologies like drones that can be deployed for many activities, including farming.

In the last 18 months, this government has also laid to rest the notion that the budget is the only platform for major economic policy announcements. Indeed, structural reforms must happen continuously. That is a sign of a mature economy.

View: Budget's war plan against inflation is heroic on economic as well as political fronts

Budget 2022 has been presented in extraordinary times. Equally extraordinary are the politics and economics of the numbers projected in it. According to the latest advance estimates put out by the National Statistics Office (NSO), the economy has just come out of the woods, having dealt with a crushing second wave of Covid while still braving the third wave.

The private final consumption expenditure (PFCE) - a measure of household spending and consumption that accounts for nearly 55% of GDP - remains low. The NSO's advance estimates for FY2022 put PFCE at ₹80.8 lakh crore, about 3% below ₹83.2 lakh crore in pre-pandemic FY2020. The low demand is a challenge for future economic growth and job creation. Moreover, the economy is faced with prospects of high inflation that can force RBI to adopt contractionary monetary policy, dampening the nascent recovery in private demand.

No politician would want prices to go up at a time when five states are going to the poll. In such a scenario, the budget is nothing less than heroic on the economic as well as the political front.

When demand is low and inflation is high, it is politically expedient to indulge in handouts and keep the fiscal deficit low. GoI has done just the opposite. No new transfer schemes have been announced. If anything, the subsidy burden is expected to come down by 26.5% in FY2023. Yet, the fiscal deficit has been pegged high at 6.4% of GDP. By taking a long-term view of the economy, GoI has chosen to use the high deficit to pump-prime the economy by investing in capital-intensive infrastructure sector to ease up the supply-side constraints.

Roof on Top
Nirmala Sitharaman has delivered beyond what was expected. The budgetary allocation for infrastructure investment has been raised by an impressive 35.4% to ₹7.5 lakh crore. Overall, GoI's capital expenditure is estimated at ₹10.68 lakh crore in FY2023, amounting to about 4.1% of GDP. Incentives have been offered to the states for investing in job-creating infrastructure. This is a big boost for the infrastructure and construction sectors that employ a large number of people and have a high multiplier effect on growth and employment in other sectors.

There is a generous increase in allocations for schemes targeted at the poor and rural areas. GoI will spend ₹48,000 crore under the PM Awas Yojana to build 80 lakh houses for identified beneficiaries. ₹60,000 crore have been allocated for the Nal se Jal scheme to give access to tap water to 3.8 crore households, mostly in rural and semi-urban areas. In addition, 80 lakh households will be helped under the affordable housing scheme. If implemented within the time frame, these schemes will also help generate employment.

Discipline is All
On account of these all-time high public investments in hard and digital infrastructure, the path to fiscal discipline has been elongated. The deficit is sought to be brought down to 4.5% by FY2026.

For the next financial year, the fiscal deficit has been pegged at 6.4% of GDP, with total government expenditure for FY2023 estimated at ₹39.45 lakh crore. The overall budgetary estimates seem to be rather conservative. In absolute terms, nominal GDP is projected to grow at 11.1% in FY2023 and touch ₹258 lakh crore, while the real GDP growth is projected to be in the range of 8-8.5%.

As inflation is expected to be upward of 4%, the nominal GDP growth is expected to be higher than the budgetary figures. Unless the real sector takes an unexpected hit or the execution of publicly funded schemes is slow, the nominal GDP should grow at least at 12%. By implication, tax revenue growth rate should be higher than the projected 9.6%, and the total collection higher than the estimated ₹19.35 lakh crore. Maybe GoI has played it safe fearing that the disinvestment receipts for next year may be even lower than the budgeted ₹65,000 crore.

View: The FM has grabbed fiscal space to nurture a recovery, but what about the strategy?

The economist's tack in assessing a budget usually involves two things. One, to identify a macroeconomic strategy that undergirds the flurry of diverse policy announcements. Two, to gauge the credibility of the budget numbers, particularly those that involve getting the finances to fund planned expenditures.

Despite the bewildering minutiae of proposals spanning diverse sectors, it's not difficult to identify a central macroeconomic theme in the 2022-23 budget. It seems somewhat old-fashionedly Keynesian in its reliance on public investments to 'pump prime' the economy, hoping that economic buoyancy will 'crowd in' private sector capex. If this does set off a virtuous cycle of rising employment and incomes, it would then take care of the two major problems that have tainted economic recovery so far - lagging consumption and uneven recovery.

So, instead of redistributive direct fiscal support, investment-led growth remains its economic management mantra. This is reflected in a 35% increase in capex outlay and a large increase in financial support to states for investment plans in the coming fiscal. To be fair, there are some direct measures to bring succour to the worst affected. The extension of the Emergency Credit Line Guarantee Scheme (ECLGS) by a year, and an increase in the guarantee amount earmarked for the hospitality sector are welcome.

The budget tilts further in the direction of self-reliance, offering tariff protection to capital goods that feed a range of sectors from coal mining to power to footwear, textiles and food processing. This is accompanied by commitments of higher government procurement from local producers in areas like defence. This could raise the hackles of many who champion the virtues of free trade.

But inter-regional trade has been shrinking (with the exception of trade with China) since the Great Financial Crisis. Differences in the incidence of Covid and containment strategies have further exposed the fragility of globalised supply chains. Increased localisation may just emerge as a new paradigm for production. In this scenario, the case of unharnessed free trade and its presumed benefits may need re-examination. Atmanirbharta may just be what the doctor ordered.

The introduction of a Central Bank Digital Currency (CBDC), an electronic fiat currency was widely anticipated. It could have a significant impact on banks - on their deposit base, for instance - and needs careful attention both from bankers and policymakers.

Turning to the second gauge of the credibility of the funding numbers, a good starting point might be the GDP growth assumption since taxes and other revenues feed off GDP. The budget is surprisingly conservative on this, factoring in 11.1% nominal (at current market prices) growth for 2022-2023 compared to 17.2% in 2021-22. The disinvestment target, too, is subdued at ₹65,000 and, hence, more credible that previous budgets that saw large shortfalls.

The big punt is on increasing tax buoyancy with the tax-to-GDP ratio estimated at 10.7% instead of 9.6% previously. This increase is primarily due to an assumed increase in GST collections that is projected to yield ₹130,000 crore a month, compared to an average of ₹113,000 assumed for the current year. This may well be achieved.

The budget deserves a somewhat favourable verdict in that it has a gameplan premised on credible numbers. The fiscal deficit target of 6.4%, prima facie suggests that that the FM has grabbed some much-needed fiscal space to nurture the nascent recovery. However, there can be some legitimate questions about the strategy.

For one, absorption of funds allocated to projects has been a long-standing problem in India. So, does GoI have enough shovel-ready projects to absorb the allocated funds to make a difference in the near term? Besides, instead of putting all eggs in the capex basket, could the funds have been better distributed between some direct fiscal support and investment plans? Why has the allocation to MNREGA been reduced by a good ₹25,000 crore when demand for these jobs still exceeds supply and there were suggestions of an urban employment guarantee? In short, could more have been done to iron out the unevenness of the recovery instead of relying on the investment-growth-employment trinity?

There is another problem. To fund the fiscal gap, the FM will have to turn to the bond market to borrow ₹15 lakh crore in 2022-2023. This is significantly higher than what the bond markets had predicted and has pushed bond yields up. This could continue when global inflation and interest rates are sharply on the rise. The risk is that rising interest rates could put the brakes on growth.

Budget 2022: Speedy execution is the need of the hour

After twenty-four months of dealing with the clear and present danger, this moment was an opportunity to cement the building blocks to create a better future. And that's what this Budget did.

The finance minister has crafted a budget that touches all aspects of our aspiration for the future, the elements that can build the $5 trillion economy.

The Budget takes a long-term vision by laying down a blueprint not just for the next year or decade but for the next 25 years, which is indeed a commendable step. All key pillars were represented - infrastructure, logistics, agriculture, water, urban spaces, manufacturing to services, skilling, education as well as sunrise sectors for the future. Clean energy and climate action were centre stage while job creation was also addressed through the extensive outlays for Gati Shakti and PLI.

What stood out was the thread of digital enablement running through the Budget speech. The nod to digital currency on blockchain, the clarity on crypto, the extension of incorporation dates for startups, e-passports, e-vidhya for school children, and the announcement regarding 5G auctions, are all steps paving the way for a vibrant future.

Healthcare is an important pillar of a vibrant economy, and the budget signalled the government's vision for healthcare, by referring to the backbone being built for the National Digital Health Mission, with the underlying objective of universal access for all. This statement of intent is welcome, and we hope that through ongoing deep engagement with the central and state governments, we can achieve progress in all aspects of health over the next decade.

In essence, health is very multi-dimensional and complex - it works at the intersection of many varied facets - infrastructure, skill, education, capital formation, disease patterns, outcomes, socio-economic indicators and job creation. The fact that the government has committed to universal access to all is a decisive step and gives us the confidence that the necessary public outlay on health will soon cross the stated goal of 2.5% of GDP. The private sector is committed to working together with all stakeholders, state and central Governments, to build a healthy and happy future for India. It is fitting that the dominant theme for the budget was Gati Shakti. If we have to achieve the expansive nature of the government's vision, we need speed of execution. That is the need of the hour.

View: Economics has become too important for the citizens of India to be left to economists alone

Based on a survey of members of the American Economic Association over four decades, the December 2021 study 'Consensus Among Economists 2020: A Sharpening of the Picture' (bit.ly/3rcSJAN) by Doris Geide-Stevenson and Alvaro La Parra-Perez of Weber State University, US, investigates 'an increased consensus on many economic propositions, specifically the appropriate role of fiscal policy in macroeconomics and issues surrounding income distribution'. What economists are agreeing about, at last, is that there should be more equality. Also, that anti-trust should be more rigorously enforced.

Till recently, many said the problem of inequality was being exaggerated by the likes of Oxfam and Thomas Piketty, adding that inequality is a stimulus for growth to spur those left behind to catch up. Many economists continue to say government regulation of business is an interference with business competition and innovation. Sharp differences about regulation of the technology industry highlight their contradictions.

Again, till recently, the consensus of mainstream economists was that governments should leave economics to the market. Now, disagreements about levels of inflation and government fiscal activism have increased a lot, the study reveals.

A matter economists remain split on is the question of increasing income and wealth taxes. Here, the divisions are becoming sharper. Some are beginning to defect from the side of neo-capitalists to socialists, admitting that higher taxes will not only reduce wealth inequality, but they are also necessary to provide governments with resources for public provisions of health and education to level the playing field, and to enable those left behind to catch up.

The Price of the Pudding

One wonders what a similar survey of Indian economists will reveal. India has become one of the most unequal countries in the world. The latest ICE 360° household survey conducted by the People Research on India's Consumer Economy (PRICE) released last week reveals that the income of the poorest fifth has plunged 53% in five years, while the income of the richest fifth increased 39%. Moreover, hardships have increased for a majority of Indians. Incomes of the lower 60% of the economic pyramid have declined, while the wealth of billionaires has multiplied. GoI's celebration of the emergence of unicorns, rather than the rise of more enterprises that provide employment and incomes for more people, in this context, is rather lopsided.

India's economic problems can no longer be papered over by simply increasing the size of the economy, and higher GDP. The problem lies in the shape of the economy, and the distribution of opportunities within it. India's working-age population has increased from 96 crore to 108 crore in the last five years. Young people who have been getting educated in larger numbers than ever before - even those learning vocational skills - cannot find jobs. People are dropping out of the employment market seeing no hope in it.

The Centre for Monitoring Indian Economy (CMIE) estimates that in Uttar Pradesh, the number of persons of working age who have a job has decreased in the last five years from 43% to 33%. In Uttarakhand, another relatively poor state, the decline is from 40% to 30%. Even skilled workers and educated youth are unable to get stable jobs with social security and decent incomes. The problem is not confined to only poor states. In Goa, one of India's richest states, numbers have declined from 49% to 32%, and in Punjab from 42% to 37%. The problem is nationwide.

Nirmala Sitharaman will be announcing the national budget tomorrow. One wonders who are the economists whose opinions GoI relies on and their economic ideology. 'Official' economists are spread around the finance ministry, which now has a new chief economic adviser in V Anantha Nageswaran, the NITI (National Institution for Transforming India) Aayog, the Economic Advisory Council to the Prime Minister (EAC-PM), and the Reserve Bank of India (RBI).

Other economists with strong views about India's economic policies speak loudly in public fora. Perhaps the government listens to them, too. Several of them living abroad have advised GoI earlier and can credibly claim knowledge of Indian economic and political realities. Others, whose views the media provide space for, are advisers to large international financial firms or large Indian business houses.

A Democratic Economy

How will the circle of increasing inequality and under-funded public services be squared? What are the real views now of economists who advise private sector firms, especially on matters of taxation and the balance of government budgets? Publicly, they support their employers' interests and are generally hawkish about lower wealth and income taxes and low government deficits.

Economics has become too important for the citizens of India to be left to economists alone. It is time for wider deliberations about India's development trajectory. 'Non-economists' - according to economists - must be listened to. Economic policies focused on only increasing the topline of GDP are not the solution. Policies must also focus on the bottomline - on increasing incomes at the bottom faster for all. Politics is not just about Hindu vs Hindutva, etc. It is about people left economically behind and coming together to provide economic justice for all.

View: Agriculture sector can get a booster shot if policy decisions address some current challenges

The build-up for the Union budget is taking place under mixed signals. There is optimism that growth is picking up and the worst is behind us. Yet, the shadow of Covid is looming large. Budgets are a balancing act and this one is no exception, except with more variables to grapple with. Some of these include building up of inflationary pressures, high global crude oil prices and financing of universal vaccination. The last few years has shown the resilience of the farm sector, despite challenges on account of increasing costs and demand disruptions. In fact, it provided the silver lining during Covid with sustained GDP increase, as well as providing a cushion to absorb large number of displaced urban labour.

Some challenges faced by agriculture that can be addressed on February 1 include imbalance in fertiliser usage, lack of incentives for private sector research and development (R&D), a distorted subsidy regime on agri-inputs, cultivation of water-intensive crops affecting groundwater levels, limited precision farming and farm mechanisation, and inadequate public-private participation in extension initiatives. The following policy decisions could address these challenges.

Water-soluble fertilisers prices have gone up by more than 50%. This has created a big hindrance for farmers, even though it delivers soil nutrition most efficiently. GoI should provide sea freight subsidy to importers for partly covering the costs. There should also be uniform GST rates for all major, minor, micro and combination soil nutrients. This will help in achieving balanced nutrition.

Development of climate-resilient and nutrient-rich crop varieties, development of new and safer pesticides, low-cost mechanisation, etc, are areas that need R&D effort. This entails both high costs and high risks. GoI must partner with the private sector and provide financial support so that such efforts can be taken up. 200% weighted deduction of expenses on R&D should also be restored.

Increasing cost of cultivation should be addressed by reduction in cost of agrochemicals for farmers. A lower GST rate should be fixed for the domestic market (12% or 5%) in line with seeds (0%) and fertilisers (5%).

Planter's Punch

GoI should enhance irrigation coverage in various states by implementing projects that have been in the pipeline for a long time. Adequate funds should be allotted and an audit system to further enhance micro (drip and sprinkler) irrigation should be introduced. Limits on micro irrigation subsidy schemes should be removed.

Cooperative hiring of farm mechanisation equipment through accelerated depreciation and no services tax, etc, should be promoted. Import duties should be reduced on farm implements not currently being made in India.

The sugar industry merits a special mention. GoI has taken big proactive measures that have benefited across the value chain. Farmers are getting a remunerative price, and sugar mills are being supported by minimum selling price (MSP) of sugar. Also, encouraging the use of ethanol and crushed cane as fuel for renewable energy (RE) has resulted in export incentives, green technology and saving in foreign exchange. These steps have contributed substantially to the growth and prosperity of rural India.

Today, agriculture generates 3,000 MW of RE and produces 2.4 billion litres of ethanol, a green fuel, transitioning the sector to a major bioenergy contributor. Three additional steps will bring in long-term stability.

Bioenergy hubs: Just like the ethanol initiative, BioCNG, or compressed biogas, can be a game-changer. Oil marketing companies are promoting BioCNG consumption and encouraging entrepreneurs. However, transporting BioCNG from rural to urban consumption locations requires additional costs, impacting returns adversely. GoI could enable 100% offtake of production by actual reimbursement of freight on BioCNG to consuming stations. In due course, as consumption picks up in smaller towns, this will not be necessary.

Food-processing hubs: The sugar industry can play a pivotal role in providing impetus to the food-processing sector. Over the years, sugar mills have established their agri-value chain and there is round-the-year engagement with the farming community. They also have the basic infrastructure readily available for food processing - land, manpower, machinery and production capabilities. The industry produces its own green power, which would be vital for the operation of cold chain infrastructure, besides usage in processing.

Cane and Able
GoI should consider extending Pradhan Mantri Kisan SAMPADA (Scheme for Agro-Marine Processing and Development of Agro-Processing Clusters) Yojana (PMKSY) to sugar mills for setting up mega food parks, cold chains and infrastructure for agro-processing clusters.

Currently, sugar and ethanol are controlled by the food ministry, while sugarcane is monitored by the agriculture ministry. Sugarcane research is being handled by multiple central agencies, while cane development activities are being monitored by state departments. Smooth and effective coordination between various central government ministries, state governments, research organisations, industry associations and sugar mills is required. Therefore, a nodal agency like a National Sugarcane Development Board should be constituted. It will have the mandate for sustainable sugarcane development and bring all stakeholders under one umbrella.

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