MAGADH CAPITAL

# Budget FY2024: Don’t Fix it If It Ain’t Broke

The FY204 budget presented by India’s finance minister can be termed as simple and good. It was not boring (as we had hoped for) but the surprise was more on on benign factors.

**The structural positives –**

- Fiscal deficit reined-in – to 5.9% (vs 6.4% in revised estimates FY2023RE).This was not quite a surprise but still reassuring to see the disciplined approach. Hopefully a stricter fiscal consolidation can be expected next year as economy stabilizes further and as global macroeconomic risks abate.
- Capital expenditure enhanced by a staggering 33% to Rs 10,00,961 cr - Proportion of effective capital expenditure has risen to 22.2% of government’s total expenditure from 17.4% in FY2023RE. Revenue expendirure is slated to grow by a puny 1.3% encouragingly. The government here has tried to double down on a strategy that has paid healthy dividends so far. Government capex has been a key reason for India being the growth outlier amongst the major economies in recent times. Accordingly it is a smart approach to keep up the momentum till private capex revival commences. Notably about half of capital expenditure is aimed at transportation – i.e rail, road, ports, and airports. More than 5 lakh cr on these heads will also entail long term mutlipler effect with the upgrade of mobiity infrastructure. The government’s growth focus couldn’t have been clearer.
- Subsidies, esp the inefficiently targeted ones(including PM Kisan and Mgnrega) scaled down – by 26% to Rs 4,35,740 cr. As % of total expenditure subsidies are budgeted to decline to 10% in FY2024 vs 15% in FY2023RE. This move away from populism should be music to ears for investors and economists.

**The positive surprise –**

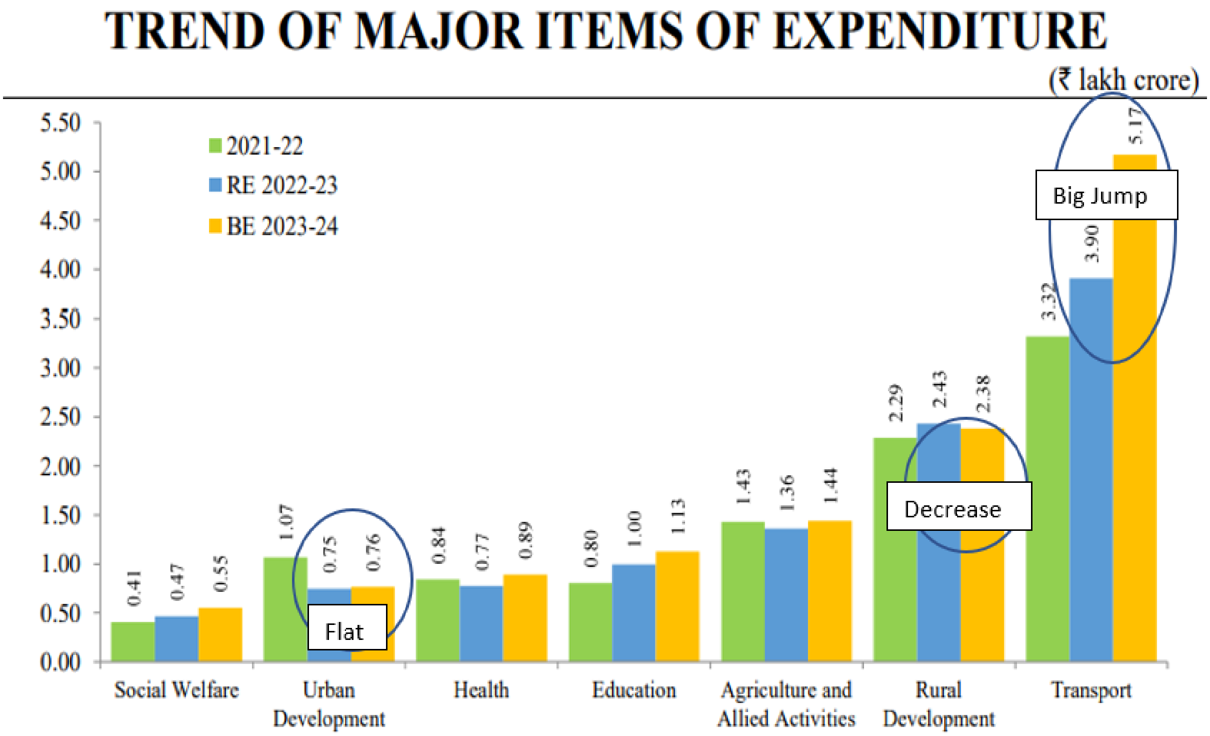
- Some relief to tax payers in the lowest and the highest tax brackets- The latter was unexpected to the extent that it was not being even talked about in the days leading up to the budget. The government will forego about Rs 35,000 cr (about 5% of personal income tax receipts) on these measures. This can provide some thrust to consumption especially in urban areas. This is a welcome move to lure people towards a simper direct tax regime.

**The areas where improvement is required – later, if not now –**

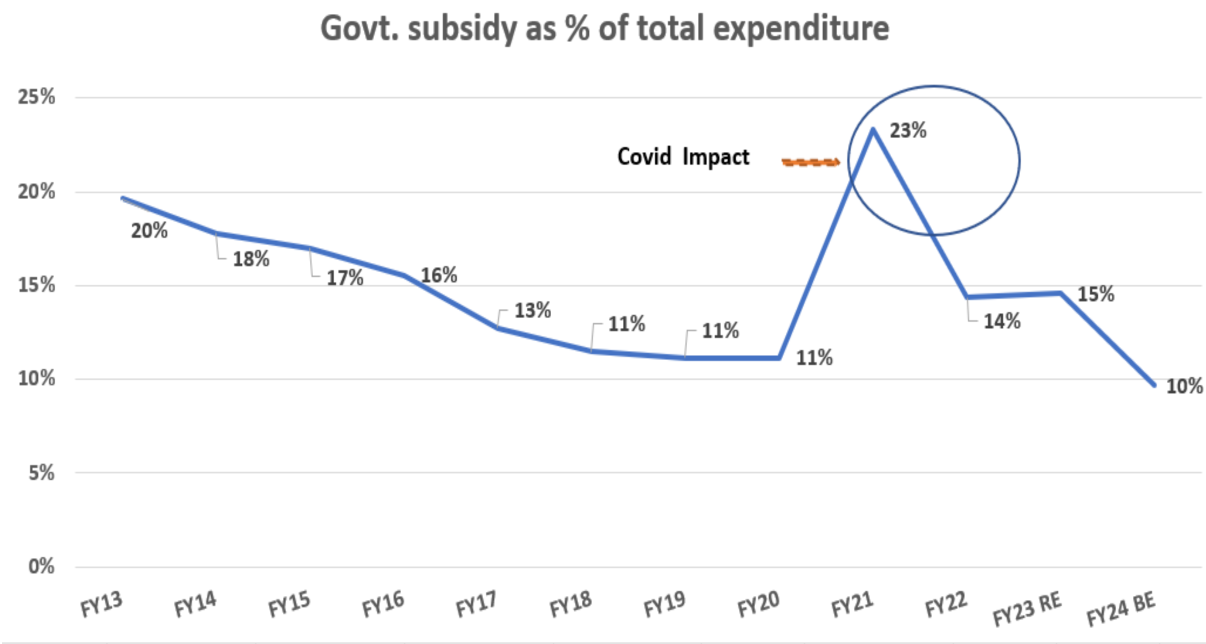
- Investment on health and education have gone up at a modest rate – largely in line with nominal GDP growth. For human capital improvement India needs a one time upward correction on these two heads.
- Total outlay on defence has grown by an even weaker 1.5% to Rs 593,538 cr. Defence capital expenditure allocation too is up by a slender 8.4% to Rs 162,600 cr. This should have been higher even if by trimming capex on roads and rails. In any case, defence capex if deployed thoughtfully can have higher multipier effect than that of roads and rails. Given the critically widening shortage of capital equipment and platforms for Indian Airforce and Indian Navy it seems the government is banking more on diplomacy to avoid even low level conficts at the borders.

**The Credibility Enhancers–**

- Tax receipts have been assumed to go up at the pace of nominal GDP. As a % of GDP direct tax as well as indirect tax have been budgeted similar to FY2023RE at 6% and 5.1%.
- Nominal GDP growth rate has been taken as 10.5% which is fairly realistic.



TREND OF MAJOR ITEMS OF EXPENDITURE
(₹ lakh crore)
2021-22
RE 2022-23
BE 2023-24
5.50
5.00
4.50
4.00
3.50
3.00
2.50
2.00
1.50
1.00
0.50
0.00
0.41
0.47
0.55
1.07
0.75
0.76
Flat
0.84
0.77
0.89
0.80
1.00
1.13
1.43
1.36
1.44
2.29
2.43
2.38
Decrease
3.32
3.90
5.17
Big Jump
Social Welfare
Urban Development
Health
Education
Agriculture and Allied Activities
Rural Development
Transport

Govt. subsidy as % of total expenditure
25%
20%
15%
10%
5%
0%
Covid Impact
20%
18%
17%
16%
13%
11%
11%
11%
23%
14%
15%
10%
FY13
FY14
FY15
FY16
FY17
FY18
FY19
FY20
FY21
FY22
FY23 RE
FY24 BE

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| Investment Approaches | Future Stars (Mid cap and Small Cap)<br>Value For Growth (Multi Cap) |
| Investment Approach Launch | August 2021 |
| Minimum Investment | Rs. 50,00,000/- |

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