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India Budget

FY 2022-23

India Budget – Balancing Growth with Fiscal Prudence

The Union Budget for FY 2022 – 23 was presented against a backdrop of an Indian economy that is recovering from the challenges posed by the pandemic and a rising inflationary environment globally as well as in India. The Government has carried out a fine balancing act in its Budget laying emphasis on growth and focusing on fiscal prudence over populism. As per the Economic Survey for FY 2021-22, India's GDP growth is expected to be ~9.2% in FY21-22 and ~8.0 – 8.5%% in FY22-23, making India amongst the fastest growing economies in the world.

Some of the key priorities outlined in this Budget are as follows –

- **Consolidation with a Capex Push**

  The budget is based on credible revenue projections with a continued path towards fiscal consolidation. The FY23 fiscal deficit is targeted at 6.4% of GDP as against 6.9% in FY22 and 9.5% in FY21. Tax revenues are budgeted to grow ~10% YoY, which is only expected given the moderation in nominal GDP growth and fuel tax cuts. That said, there is potential for an upward surprise in FY23 tax collections as FY22 projections seem very conservative. At the same time, FY23 disinvestment target of INR650bn too looks reasonable.

  In a scenario where, private capex and services growth have been subdued, it was necessary for the Government to increase capital spending and spur economic growth. The ~35% increase in capital spending by the central government to INR 7.5tn (2.9% of the GDP) in FY23 with a focus on roads, railways, airports, ports, mass transport, waterways, and logistics infrastructure, aims to do just that. The increased capital expenditure will have a multiplier effect on the economy, create more jobs and "crowd in" private sector investments.

- **Predictable and Stable Tax Regime**

  On the tax front, the Finance Minister has continued with the underlying theme of providing a stable and predictable tax regime, promoting voluntary compliance, and reducing litigation. The extension of time limits for newly set-up manufacturing companies and start-ups to be eligible for a concessional tax regime are big positives, as these sectors have become crucial contributors to India's growth story.

  The Economic Survey had highlighted the importance of start-ups for the Indian economy. There are 61,400 government recognised startups in India of which at least 14,000 were added in the 2021-22 fiscal. Some 0.65 mn direct jobs and 3.4 mn indirect jobs have been created by such companies between 2011-2021 as per a recent study conducted by Nasscom. The number of Indian Unicorns, almost doubled with 42 new ones joining the coveted club in the year, taking the total count to 83.

- **Support for Micro, Small and Medium Enterprises (MSMEs)**

  The MSME sector has been one of the most impacted during the pandemic. It is also a major employment generator providing jobs to over 110 mn Indians in 2021. To further supporting the MSME sector and reduce stress on this segment, the Government has extended the credit guarantee scheme to March 2023 and has also widened its scope by providing an additional INR 500 bn with the inclusion of hospitality and related sectors, that have been severely impacted by the pandemic.

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- **Promoting a Green Economy**
  The budget has unveiled Sovereign Green Bonds, which will majorly go towards installing 500GW of non-fossil fuel power by 2030. The Production Linked Incentives Scheme for high-efficiency solar cell manufacturing seeks to bolster India's domestic solar cell industry. Also, the use of India's extensive coal reserves in a green manner through coal gasification and coal to chemical plants - both find a mention in the 2022 Union Budget. In the EV space, there was one big direct announcement in the form of a new battery swapping policy that will encourage new private players to enter the space and help in expansion of EV charging infrastructure.

Outlook for the Economy and Our strategies

We believe that India's strong economic growth is expected to continue in the next fiscal as predicted by the Economic Survey. This would be driven by a robust pace of vaccinations and increased capital spending. India has administered over 1.65bn vaccine doses so far with over 90% of the eligible population receiving at least one dose and over 70% of the eligible population receiving both the doses. While India's economic growth in the previous decade was largely consumption led, we believe that the next decade would be more about capital expenditure. This government's thrust on capital spending for economic revival has been clearly spelt out in this year's budget. The residential real estate market is now showing signs of a sustained recovery aided by decadal low mortgage rates and high affordability. Buoyant residential sales in the past two quarters that have exceeded the pre-pandemic 2019 numbers, is a testimony to the improved sentiment. We believe that this housing revival has the potential to add over 1% to India's GDP growth. We expect corporate capex to follow suit over the next 4 – 6 quarters as capacity utilisation of India's manufacturing sector improves.

We also believe that the budget would have a positive impact on our private debt and real asset investment strategies.

- Our performing credit strategy provides bespoke solutions to operating and holding companies for growth. The expected capex by the private sector led by economic growth and tax incentives offered for setting up new manufacturing facilities is expected to lead to more companies seeking such funding over the medium term. With banks shifting their focus away from wholesale lending, mid-market companies are currently under-served as far as credit requirements are concerned. This has led to higher opportunities for providing structured credit to mid-sized operating companies. Regulatory changes have made structured credit through open ended mutual funds an unviable proposition in India. The larger companies / groups were being primarily catered to by mutual funds as far as structured credit is concerned. These companies or groups are moving towards alternative funds for financing.

- Residential real estate is expected to get a boost through the governments focus on sectors and areas that can generate new jobs. We expect to see increasing demand for completed projects or projects with visibility of completion. Providing completion finance to projects where the product has been tested in the micro-market or where construction is 40 – 50% complete can deliver superior risk adjusted returns. Providing construction funding to projects with established mid-market players is also an attractive opportunity in this space.

- In our special situations strategy, where our focus is on asset heavy industries, most of our large investments will end FY 2022 with their best performance in the last 3 financial years given the improvement in demand witnessed in FY22. We expect the trend to continue during this fiscal. The government continues to be committed towards the Insolvency and Bankruptcy Code more effective and has announced that it will bring about "necessary amendments" in the code to enhance corporate resolution and facilitate cross-border insolvency process.

  The banking sector NPAs are expected to be at ~9% of advances in 2022. The deal pipeline for this strategy continues to remain strong as both banks and NBFCs look to offload NPAs from their balance sheets. We have successfully closed a few structures in 2021 with NBFCs where the super-senior tranche has been invested by the fund and continue to evaluate such deals. There is continuing demand for primary financing from corporates for a one-time settlement with its lenders before the company is taken to IBC. We also believe that buyout of mid-sized stressed companies can be an opportunity for making over-sized returns in this strategy.

- The budget announcement of an increased capital spending by the government is a continuation of the government’s priorities over the past few years. The government had announced the ambitious ~$1.5tn National Infrastructure Pipeline in FY20 for development of infrastructure. The growing need of private developers to monetise their assets and the $80bn National Monetisation Pipeline should result in strong deal flow in this strategy. Apart from this, the announcement by the government to award an infrastructure status to data centres is expected to help developers to access finance and push investments in this space. This can open up opportunities for investment in this space.

All in all, we believe that this is a growth oriented and a pro development budget which should provide a boost to the Indian economy and help to attract long-term global capital.

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