ACE LANSDOWNE
INDIA

"Budget FY24 – Hitting Bouncer for a Six !"

Vikram Kotak
Co-Founder & Managing Partner
Ace Lansdowne

Dear Investors,

At the outset, highlighting the resilience shown by India amidst multiple headwinds emanating from fast changing geo-political situations, the finance minister while presenting the Union Budget 2023-2024 attributed this to country's focus on sound policies and inclusive reforms.

Before the budget announcement, markets were quite anxious expecting lot of negative surprises across areas like capital gains tax, possibility of a higher borrowing program by the government, global uncertainty and pressure of being a populist budget knowing it's a pre-election year. However, to everyone's surprise, the government not only doused all such fears but continued its path to reign in the fiscal discipline, simplifying taxes & plugging loopholes and an exemplary push for infrastructure / CAPEX spend. Thus keeping both, the bond as well as equity markets happy.

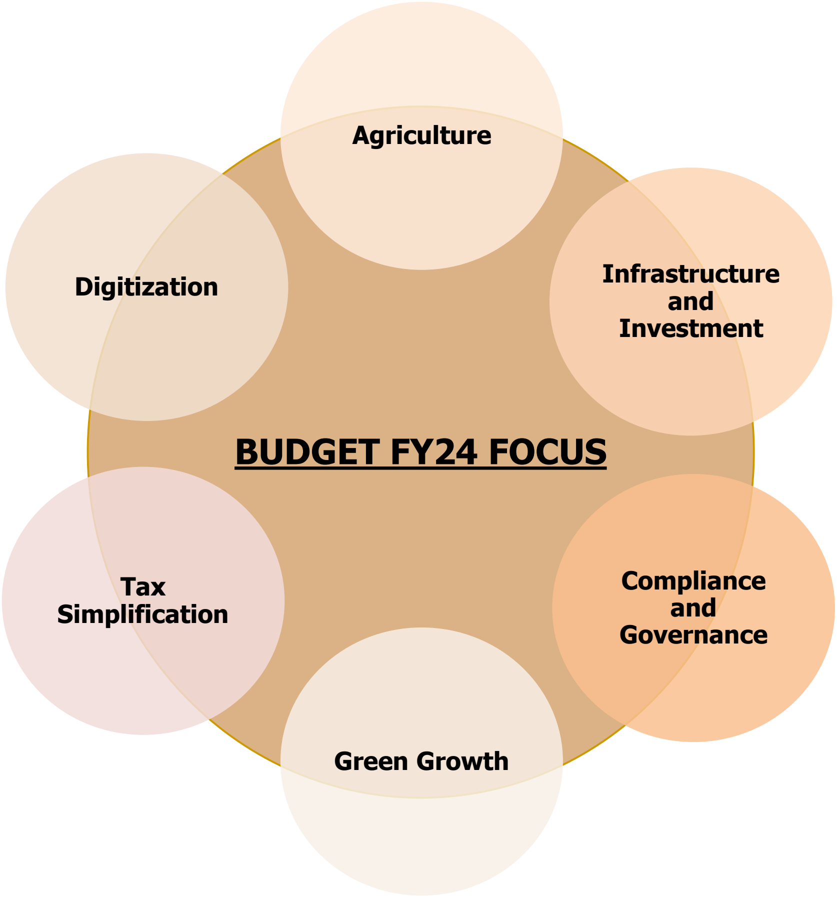
Hence, the title "Hitting bouncer for Six!" won't be an exaggeration as one could not have expected a more wholesome budget than the one presented by the Finance Minister for FY24. This was one of the finest budget of recent times considering the tough and uncertain environment around the globe.

Though there were many themes of the budget that are complementing each other and aimed at inclusive development but according to us the highlights are:

1. **Continued focus on capex led growth** – capex stands at 3.3% of GDP double than pre-covid level keeping fiscal deficit in check;

2. **Tax simplification and rationalization** – plugging tax loopholes and giving back to all section of taxpayers is a perfect recipe by leaving more disposable income to spur consumption and economic growth;

3. **Compliance & Governance** – continued focus on implementing key policy reforms, well complemented by the governance, is one of the key highlights of the government's initiative demonstrating consistency in policy making.



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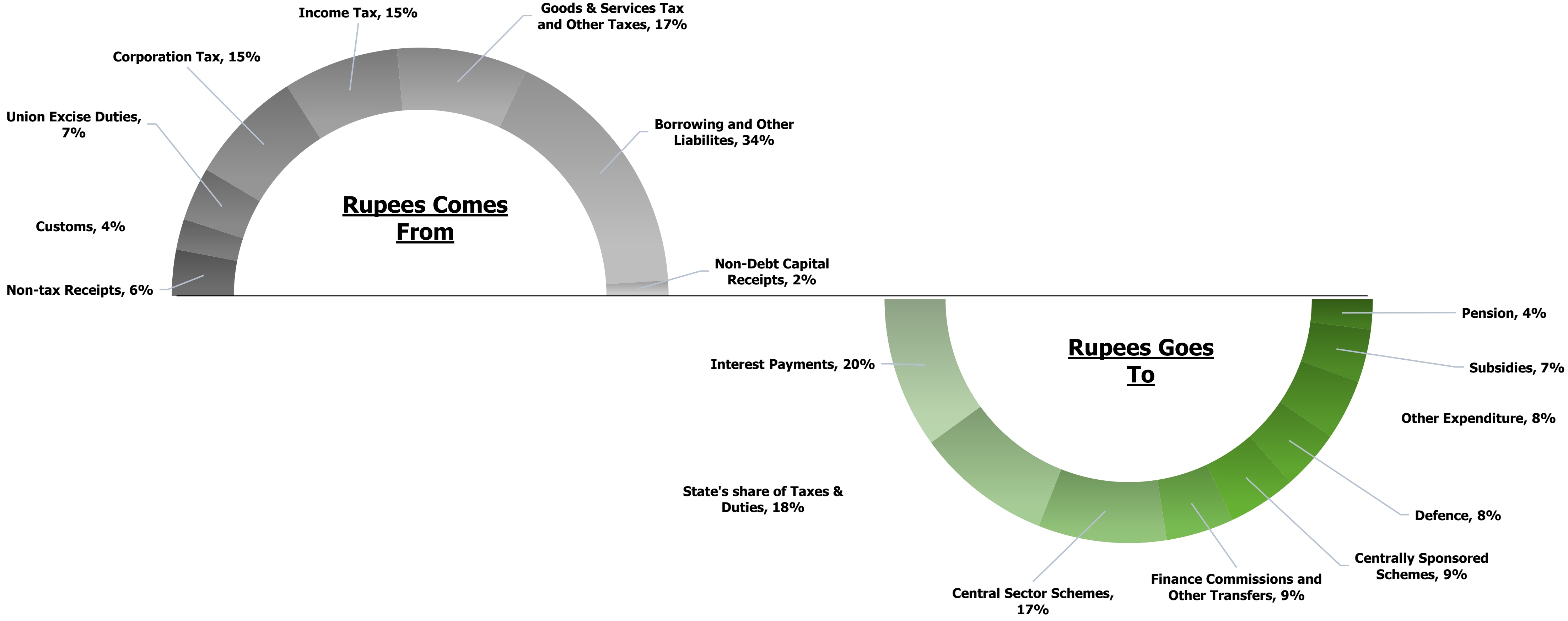
Budget FY24 – Receipts & Expenditures



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Budget FY24 – Tax Simplification

Direct Tax

	Pervious Income Slabs	New Income Slabs
30 per cent	Above 15 lakhs	Above 15 lakhs
25 per cent	12.5 to 15 lakhs	NA
20 per cent	10 to 12.5 lakhs	12 to 15 lakhs
15 per cent	7.5 to 10 lakhs	9 to 12 lakhs
10 per cent	5 to 7.5 lakhs	6 to 9 lakhs
5 per cent	2.5 to 5 lakhs	3 to 6 lakhs
NIL	0 to 2.5 lakhs	0 to 3 lakhs

- Highest surcharge rate on income above Rs5 cr to be reduced from 37% to 25% under new regime
- Extending benefits of new tax regime for salaried class, pensioners and HNIs by giving more income in hands of people
- Salaried middle-class individual will be able to save from Rs 15,000 to Rs 52,500 in tax, depending on the individual tax bracket

Indirect Tax

- On the indirect tax front, the budget has made changes to custom duties on various products leading to higher exports, domestic manufacturing and more value addition to economy

Industry

MSME

- Deduction on payments made to MSMEs to be allowed only when payment is actually made, which will ensure timely payment to MSMEs

Cooperatives

- The government has extended benefit of 15% corporate tax to cooperatives (from the current rate of up to 30%+surcharge) which commence manufacturing activities till March 2024. This is expected to encourage manufacturing activity for the cooperative sector

Start-Ups

- To ease norms for startups, the benefit of carrying forward losses to 10 years has been extended
- Also, the date of incorporation limit has been extended for income tax benefits to start-ups from Mar 2023 to Mar 2024

Overall Budget focuses on increasing compliances by simplifying tax structure, widening taxpayer base & reducing tax rates

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Budget FY24 – Sectoral Impact (*)

Sector	Impact	Announcement	Impact on Sector
Infra/Cap Goods	**Positive**	Capital expenditure has been increased by 33% to Rs10tn, ~3.3% of GDP. (3x of 2019-20) A capital outlay of Rs2.4 tn provided for the Railways. 9x the outlay made in 2013-14 NHAI budget is up 14.5% (overall highways is up 25%), Railways is up 15% and JJM (water) is up 27%. Defence is up 8.4% 100 critical transport infrastructure projects, for last and first mile connectivity for ports, coal, steel, fertilizer, and food grains sectors with investment of Rs750bn, including Rs150bn from private sources.	Continued thrust for capex is very positive for overall sector
Banks & NBFCs	**Positive**	Outlay for Pradhan Mantri Awas Yojana increased to INR 790bn	Positive for affordable housing finance companies & bank.
		Overall fiscal control and in line gross borrowings	This creates a positive macro backdrop for the BFSI segment as it would keep rates in check
		Higher Capex	Credit cycle mimics capex cycle so it can give further boost to credit growth
		Infused Rs 90bn for Revamped Credit guarantee scheme to boost MSMEs enabling additional collateral-free guaranteed credit of Rs 2trn. Further, the cost of the credit will be reduced by about 1 per cent.	This will further boost the MSME credit growth. Good for Banks & NBFCs
Metals	**Positive**	Overall Capex	Infra capex of Rs 10 lac Crs & capex and Rs 2.4 lac Cr on railways which is a big positive for steel companies. Very positive for steel pipe industry with capex in segments like water and oil & gas pipeline

(*) With reference to any particular sector, Ace Lansdowne Investments Services LLP does not provide any promise or assurance of favourable view for a particular industry or sector or business group in any manner. The investor is requested to take into consideration all the risk factors including their financial condition, suitability to risk return profile and take professional advice before investing. Such representations are not indicative of future results.

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Budget FY24 – Sectoral Impact [contd.] (*)

Sector	Impact	Announcement	Impact on Sector
Consumer	**Positive**	Increase in personal tax slab and reduction in surcharge NCCD increased on cigarettes by 16%	Higher disposable income resulting from multiplier effect of higher infra capex and tax savings from new tax regime <2% effective tax hike on cigarette is a key positive for tobacco sector
Real Estate	**Neutral**	Government schemes PMAY (Pradhan Mantri Awas Yojana) for Rural and Urban have increased to Rs790bn, which is 65% higher than the Rs275bn budget allocation in FY2021-22 Proposal to make the sum received in form of "Repayment of debt/Return of Capital" by unit holder to be taxable at applicable slab tax rate Capping on deduction of capital gains on investment in residential property at Rs.10 cr	Increase in PMAY budget is expected to boost affordable housing Repayment of debt - typically accounts for 40-50% of REIT distribution, so taxing them will be negative for REITs Negative for real estate companies dealing in ultra-luxury segments
Auto	**Neutral**	The government plans to allocate funds to replace old government vehicles Customs duty for import of semi-knocked down (SKD) vehicles and completely built units (CBUs) have been increased from ~33% to 35% and from ~66% to 70%, respectively	Scrapping policy can be marginally positive for passenger vehicle OEMs Customs duty changes have limited impact on listed companies as imports is a very small portion of PVs
Life Insurance	**Negative**	Tax on income from maturity of non-ULIP policies purchased after 31st Marc'23 if the aggregate value of premium paid in a year for such policies exceeds INR 500K (except death benefits)	It will impact the APE & VNB in short term

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I would like to thank my colleagues from the research team, Nimit, Pankaj and Swadha, for assisting me in preparing this note.

We believe that this budget has something for almost everyone. Tax saving from young/middle class to retiring/HNIs, boost for capex as well as consumption, benefiting common man to large corporates through multiplier effect of capex, good for equity (by not tinkering capital gain tax) as well as debt market (through financial prudence).

This is the perfect time to spur capex across infrastructure and railways sector, which will have higher multiplier effect to the economy. Currently, Indian economy is in sweet spot specially when the world is surrounded by concerns towards growth, inflation, and balance sheet. This budget ensures that India is well placed to capitalize on this opportunity.

To sum it up, the budget strikes a perfect balance between sustainable inclusive growth and fiscal prudence. We firmly believe there are opportunities to make healthy returns in mid and small cap segment over next 18-24 months.

Best wishes,

Vikram Kotak