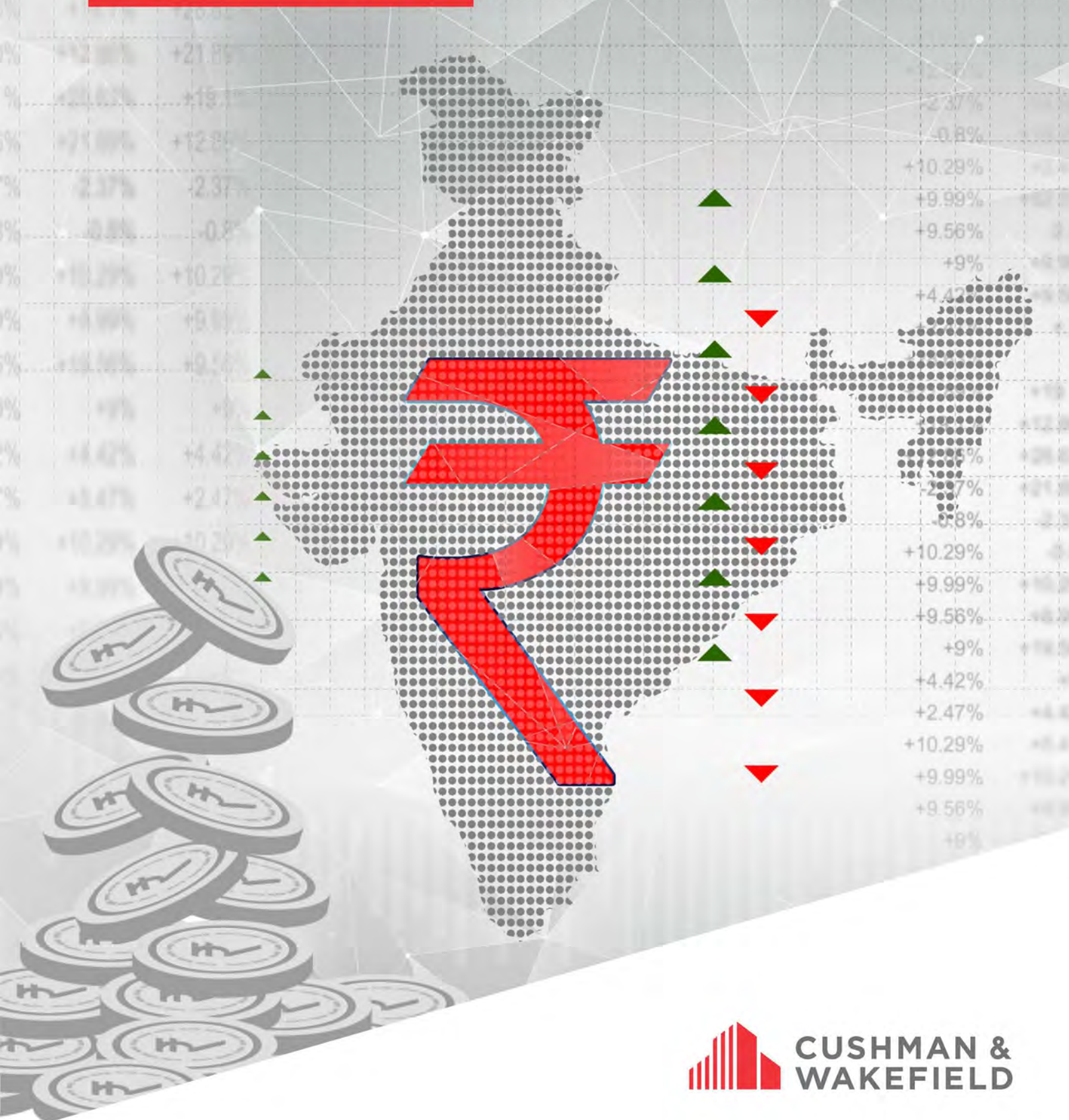


UNION BUDGET

2023 - 2024



CONTENTS

INTRODUCTION.....	3
URBAN DEVELOPMENT.....	4
SUSTAINABILITY.....	7
RESIDENTIAL SECTOR.....	10
LOGISTICS & INDUSTRIAL.....	12
(L&I) SEGMENT	
HOSPITALITY.....	16
HEALTHCARE.....	18
START-UPS.....	20
DATA CENTERS.....	23



UNION BUDGET

INTRODUCTION

The Union Budget 2023-24 was presented at a juncture where Indian economy was largely seen as a one that was decoupling from the world in terms of growth. The post-Covid recovery in India's consumption expenditure and the steep recovery across all sectors of real estate was noteworthy. We just witnessed in year 2022 record high office leasing volume of over 71 msf across top-8 cities of India, record low vacancies across Grade-A malls, ~53 msf of leasing activity in the logistics & industrial space, and highest ever residential unit launches. This had come despite lowering estimates of the world economic growth outlook for 2023. Therefore, it is apt to say that pandemic related woes are substantially overcome by the Indian real estate sector, and what would be key going forward is sustaining this bullish momentum.

Last year's budget had announced key measures that helped trigger growth or revival in several real estate asset classes, including hospitality, data centers, housing sector, etc. This time around, the recovery is in sight, although the industry's expectations were more circumventing around consolidation of those growth drivers. From a real estate point of view, therefore, the budget has been largely seen oscillating between the neutral to positive territory. Having said that, India's finance

minister may not have delivered on all real estate expectations exactly as expected, but the Union budget 2023-24 did announce a host of indirect measures that could very much help sustain the on-going growth momentum. There is healthy focus on creating capacities that would help enhance the start-up ecosystem, bridge skill gap in desired areas, unclutter the bottlenecks in existing physical infrastructure, and assume further growth of the digital ecosystem. The Budget has also focused on providing additional funding to MSMEs, that will facilitate manufacturing growth and job creation, and middle classes have a reason to cheer the higher tax rebate limit, which could help boost residential transactions going forward. From an external sovereign risk perspective, fiscal deficit of 5.9% targeted for FY2023-24 and a further lowering of target in coming years is helpful.



URBAN DEVELOPMENT

Key announcements made in Budget FY-23: a report card so far

Previous Budget Announcements	Status check so far
<ul style="list-style-type: none"> Will support states for urban capacity building. Implement measures like modernization of building bylaws, town planning schemes, and transit-oriented development. States can avail financial support from Centre for mass transit projects and AMRUT schemes. Govt to facilitate growth of tier 2 and 3 cities. Budget allocation of INR 76,549 crore for 2022-23 directed at Housing and Urban Affairs ministry. 	Govt launched a Special Assistance scheme to States for Capital Investment for 2022-23 and under this scheme, financial assistance of INR 1 lakh crore will be provided to State Governments in the form of 50-year interest free loan for capital investment projects. Under Part VI of this scheme INR 6000 Cr has been earmarked for Urban reforms related to building bylaws, town planning schemes, transit-oriented development, and transferable development rights. States will approach the MoHUA with their proposals and on receipt of recommendation from MoHUA funds will be approved. As of Nov 2022, no funds have been allocated for States under Part VI. Kerala has started its initiative to carry out urban reforms in order to be eligible for this scheme.
A high-level committee of urban planners, urban economists and institutions will be formed.	As of May 2023, urban affairs ministry has constituted a High-level committee on Urban Planning to recommend on planning reforms.
Up to five existing academic institutions will be designated as centres of excellence, and each will be provided with endowment funds of INR 250 crore.	Government has initiated the process to designate five 'Centres of Excellence' in urban design and planning. Submissions were invited with Oct 30 th , 2022, as the last date. Centres are yet to be shortlisted.
Unique Land Parcel Identification Number (ULPIN) for IT-based management of land records.	ULPIN was rolled out as of March 2021 in ten Indian states, and as of December 2022, ULPIN scheme has been extended to 24 States
Kisan drones to help in digitization of land records.	SVAMITVA (Survey of Villages and Mapping with Improved Technology in Village Areas) that was launched in April 2020, aims to cover 6.62 lakh villages over 5 years. As of December 2022, drone survey has been completed in ~2.0 lakh villages. Plan is to complete survey of remaining villages by 2025.

EXPECTATIONS IN UNION BUDGET 23-24

To improve urban development in tier 2 and 3 cities

- o *The Union budget 22-23 stated that when independent India turns 100, nearly half of its population will be living in urban areas, thereby making it imperative to not only nurture India's mega cities but also facilitate growth of tier-2 and tier-3 cities to meet the demand. Expectations from this budget was on improving the urban planning and infrastructure development across tier 2 and 3 cities along with tier 1 cities.*

Promoting of municipal bonds

- o According to a report released by World bank (Nov-22) titled, 'Financing India's Growing Cities', India will require an investment of \$840 billion over next 15 years into urban infrastructure. With municipal capacity building measures emphasised in the Finance Minister's Budget speech of last year, this Budget was widely expected to come up with a special package for promoting municipal bonds.

Infrastructure could sustain attracting huge fund allocation

- o Infrastructure likely to attract 25-30% rise in capital expenditure
- o With focus on multi-modal transportation, NHAI had requested a 25-30% increase in its capital expenditure budget to INR 1.6 lakh crore for FY23-24 to meet its ongoing infra projects such as PM Gati Shakti.
- o The budget could lay emphasis on electric mobility options - faster adoption and manufacturing of electric vehicles, battery manufacturing, deployment of charging infrastructure and increase in private participation for enhanced EV penetration.

Higher fund allocation for urban services

- o In FY23BE, the allocations to the urban services like sanitation and water supply has been low when compared to allocations towards urban housing and metro rail.
- o Schemes like the AMRUT 2.0 (launched in October 2021) and Swachh Bharat Mission 2.0 (launched in October 2022) have been introduced in recent times which would require higher budget consideration.

Budget allocations (in INR crore)	2020-21 Revised Estimate	2022-23 Budget Estimate	% Change
PMAY – Urban	27000	28000	4%
MRTS & Metro	23480	23875	2%
AMRUT	7300	7300	0%
Smart Cities	6600	6800	3%
Swachh Bharat Mission-Urban	2000	2300	15%

- o To support these schemes allocation from the central government for urban services is expected to increase by 10-15% in FY23-24 Budget over last year's allocation, as suggested by ICRA.

Reduction in REIT/InvITs holding time for long-term capital gains

- o Reducing the REIT and InvITs holding time for long-term capital gains from the current three years to one year. This will bring it on par with equity, where LTCG is applicable for a holding period of over 12 months only.
- o Interest income earned from investments in REITs and InvITs for FPIs (Foreign Portfolio Investment) to be taxed at erstwhile rate of 5%, as against the revised rate of 20% w.e.f. April-2021. Given the significance of FPI funding in REITs and INVITs, the concessional rate of 5% on interest is expected to be restored.
- o Capacity building of project execution and implementing agencies
- o Delays in land acquisitions and slow execution of works maybe considered as the main challenges causing extra budgetary resource requirements, cost overruns on urban projects and missions. This emphasises the need on capacity building, project execution and project implementing agencies.
- o The budget may also have schemes or policies that focus on skill development and vocational training to increase the availability of a skilled workforce.

Key takeaways from Budget-FY24 for the Urban Development -

1. *Cities will be incentivised to improve the credit worthiness to enable successful introduction of municipal bonds.*
2. *Urban Infrastructure Development Fund to be set up and managed by National Housing Bank. With an allocation of nearly INR 10,000 Cr per annum, this fund will be used to create urban infrastructure in Tier 2 and Tier 3 cities.*
3. *Support to state for capital investment in the form of 50-year interest free loan will continue for one more year with a significant enhanced outlay of INR 1.3 lakh Cr. This entire 50-year loan to the states should be spent on capital expenditure within 2023-24*
4. *Infrastructure Finance Secretariat will be assisting all the stakeholders to enhance private sector participation infrastructure building which will help in addressing challenges such as extra budgetary resource requirements, cost overruns on urban projects and missions.*
5. *In order to augment sanitation in urban areas, all cities and towns will be enabled for 100% mechanical de-sludging of septic tanks & sewers to transition from manhole to machine hole mode. Scientific management of dry and wet waste will also be the focus.*
6. *States will be encouraged to undertake urban planning reforms such as efficient use of land resources, adequate resources for urban infrastructure, transit-oriented development, enhanced availability and affordability of urban land and transform the cities into 'sustainable cities of tomorrow'*

C&W verdict

Positive



SUSTAINABILITY

Significance of Sustainability for Indian Real Estate

- o *India is the third largest CO2 emitter globally with a 7.3% share of global CO2 emissions as of 2021. As per the recent global Sustainable Development Report 2022, India was ranked 121 amongst 163 countries. The global SDG rank for India is consistently slipping down as it was ranked 117 in 2020 and 120 in 2021.*
- o *Buildings use 40% of the energy produced worldwide and produce 1/3 of the greenhouse gas emissions. Along with other businesses, the real estate sector's contribution to CO2 emissions is significantly high. About 22% of all emissions in India are attributable to the construction industry which makes it crucial for the Real Estate sector to adapt sustainable practices in order to reduce the footprint. To facilitate the reduction of carbon emission of the sector, the government had proposed solutions. Below mentioned are the proposals as well as their progress within the last year in India.*



Key announcements made in Budget FY-23: a report card so far

Previous Budget Announcements	Status check so far
Four pilot projects for coal gasification and conversion of coal into chemicals were proposed to be set-up to evolve the technical and financial viability.	<ul style="list-style-type: none"> Coal India Limited (CIL) signed MoUs with Bharat Heavy Electricals Limited (BHEL), Indian Oil Corporation Limited (IOCL) and GAIL (India). - Oct 2022 Projects are planned to be set up in West Bengal, Odisha, Chhattisgarh, Maharashtra and Tamil Nadu.
Sovereign Green Bonds were issued for the mobilization of resources for the green infrastructure. The proceeds will be deployed in public sector projects which help in reducing the carbon intensity of the economy.	<ul style="list-style-type: none"> Government of India announced the sale of Sovereign Green Bonds worth 8000 crore, through auction on 25th January. The auction fetched a better-than-expected results in raising funds for green projects.
A battery swapping policy was introduced and interoperability standards were suggested to be developed in light of the limited space in metropolitan areas for the installation of charging stations at scale. This would stimulate private industry to create cutting-edge and sustainable business models for "Battery or Energy as a Service." As a result, the EV ecosystem will operate more efficiently.	<ul style="list-style-type: none"> Draft Policy was prepared for EV Swapping as of April 2022. However, there was no execution or roadmap regarding the Special Mobility Zone.
To facilitate domestic manufacturing for the ambitious goal of 280 GW of installed solar capacity by 2030, an additional allocation of ₹ 19,500 crore for Production Linked Incentive for manufacture of high efficiency modules, with priority to fully integrated manufacturing units from polysilicon to solar PV modules, will be made.	<ul style="list-style-type: none"> Union cabinet approval received in Sept 2022 for the additional allocation.

Expectations from Union Budget 2023-24

- o While EV Special Mobility Zones were accorded as priority in previous budget, further details on the same is expected in Budget FY 24.
- o Tax Incentives for Green Buildings to building developers and owners to increase the adoption of sustainable building practices.
- o GST incentives on sustainable building construction materials.
- o New pilot project for clean energy related projects are expected in line with India's COP27 NDC targets announced in November 2022.

Key takeaways from Budget-FY24 for Sustainability -

- o Aligning to the NDC targets of India and the vision of "LiFE", or Lifestyle for Environment announced by the government, the Union Budget 2023-24 has allocated budget under one of its seven priorities of the budget.

Renewable Energy

- o *In accordance with the recent launch of National Green Hydrogen Mission, an allocation of INR19,700 crores was made to facilitate the transition of economy to a low carbon intensity, reduce fossil fuel dependency, and meet the target of an annual production of 5 MMT by 2030.*
- o *An allocation of INR 35,000 crores was made towards transition from non-renewable to renewable source.*
- o *Viability Gap Funding support will be provided to facilitate development of Battery Energy Storage System*
- o *An investment of INR 20,700 crore has been committed towards Inter-state transmission and grid integration of 13 GW renewable energy from Ladakh.*

Green Mobility

- o *Funds have been allocated for scrapping and replacing the old polluting vehicles of the Central and State Government.*

Green Credit Programme

- o *The Budget has introduced a 'Green Credit Programme' under the ambit of the Environment Protection Act in order to incentivize mobilisation of resources for sustainability initiatives.*

Sustainable Agriculture, Circular Economy and Green Cover Restoration

- o *Other announcements concerning sustainable agricultural practices under the scheme PM-PRANAM and circular economy under the scheme GOBARdhan were made to reduce the greenhouse gas emissions.*
- o *'Mangrove Initiative for Shoreline Habitats & Tangible Incomes', MISHTI, will be adopted for mangrove plantation along the coastline and on salt pan lands, wherever feasible, through convergence between MNREGA, CAMPA Fund and other sources.*

C&W verdict

Neutral



RESIDENTIAL SECTOR

Significance of housing sector for the Indian real estate:

Housing or residential sector is the biggest sector with its annual value creation accounting for over 80% of the overall value of Indian real estate. Besides, the sector is closest to policy makers owing to its direct influence on the financial stability / credibility of Indian consumers. Post-covid, the sector has witnessed a massive recovery as most fence-sitting buyers resorted to buying after reduction in stamp duty or circle rates were announced by several state governments. The last union budget was announced when inflation and interest rates were at low levels. However, high commodity prices over the last 10 months have resulted in cost-push inflation on house prices, thereby inflicting a double whammy on buyers for whom EMI burden has risen owing to higher interest rates. In the most recent years, data on residential unit launches across top-8 real estate markets reveal that developers have increased focus on the premium / high-end category launches, as opposed to affordable or mid-segment homes. The residential sector will be hoping for measures from the budget to help sustain the on-going broad-based recovery in demand.

Key announcements made in Budget FY-23: a report card so far

- o **Revising the affordable housing definition:** *Currently, the ministry defines affordable housing as units priced at INR 45 lakhs or below. In most major cities, this definition is redundant as the 45 lakhs price band hasn't been revised since last 8 years, whereas house prices and building construction costs have gone up significantly. Therefore, the industry is anticipating budget to revise the definition to INR 60-70 lakhs. This would enable more homebuyers to avail incentives offered for affordable housing, including 1% GST (w/o ITC).*
- o **Revision in Section 24 of Income Tax Act:** *Current IT deductions of INR 2.0 lakhs is offered to consumers against interest paid on home loan each year. This limit was last reviewed / revised in the year 2017, post which there are disproportionate changes in housing prices and EMIs. The expectation was to increase this limit to INR 5.0 lakhs.*
- o **Separate deduction limit for principal repayment under 80C:** *A separate deduction is sought for repayment of principal amount of home loan, which is currently clubbed under section 80C. At present, deduction for principal repayment of housing loan is capped at Rs. 1,50,000 and is bundled along with other tax saving instruments. Alternatively, the overall ceiling for deductions under 80C can be raised up to Rs. 5,00,000*
- o **Reduction of GST on Input Materials:** *Raw material costs have risen sharply over last two years, and it touched highest levels in 2022, largely culminating from supply chain constraints. The budget can take steps to reduce GST on key materials such as cement.*

Key takeaways from Budget-FY24 for the residential sector -

1. *In the budget for FY 23-24, there has been an increase of 66% in the allocations to PMAY Fund to INR 79,000 Cr which will help in further tackling the affordable housing situation.*
2. *Another announcement made under the budget of FY 23-24 was to cap deductions from capital gains on investment in residential house under sections 54 and 54F to INR 10 Cr.*

C&W verdict

Neutral



LOGISTICS & INDUSTRIAL

Significance of L&I for the Indian real estate:

This is one of the fastest emerging segments within the umbrella of commercial real estate sector. The industrial and logistics sector combined contributed to around 53 msf of leasing transactions in year 2022, and this excludes transactions that were captive (or sale) in nature. The segment is expected to benefit directly from major infrastructure augmentation efforts of the government as well as boost to manufacturing through Make-in-India or Production-Linked Incentive (PLI) scheme. Investors have been attracted by this segment, and in 2022 alone, USD 1.2 billion worth of private equity inflows were infused into the L&I segment, accounting for 23% share of the overall PE inflows into Indian real estate. The Indian L&I segment benefits immensely as global manufacturers mitigate their risks by adopting a China+1 hedging strategy to reduce their dependence on China for outsourcing manufacturing activities. India's policies are currently viewed favourably by global manufacturers, with a recent C&W report (Global Manufacturing Risk Index, 2022) putting India in the top quartile in terms of most attractive manufacturing destination globally. Despite all this, the segment faces several challenges as India's infrastructure bottlenecks inflict upon global manufacturers as well as logistics operators a higher cost of operation. The previous budget had announced measures to ease some of these challenges. Herewith, we look at how those announcements have benefited the sector, and whether Budget 2023-24 has met with all expectations that this industry had.



Key announcements made in Budget FY-23: a report card so far

Previous Budget Announcements	Status check so far
National highway network to be expanded by ~24,800 km in FY 2023	So far, about 17,555 km projects has been awarded under Bharatmala Pariyojana Phase I, as of Jan-2023.
Contract for 4 MMLPs (Multimodal Logistics Parks) to be awarded under PPP mode out of 35 that are to be developed under Ministry of Road Transport & Highways	Only one MMLP project signed with Reliance Industries in Chennai as of Nov 2022
Unified Logistics Interface Platform (ULIP) to be set up which can support efficient movement of goods through different modes, helping reduce logistics cost and time.	A beginning has been made with the launch of ULIP website as of Sept-2022, and it provides access to 13 prominent organisations (under NDA)
100 PM GatiShakti Cargo Terminals (GCT) for multimodal logistics facilities to be developed in next 3 years	22 GCTs have been commissioned and about 79 GCTs have received in-principle approvals as of Dec-2022
Existing SEZ Act will be replaced with a new legislation aimed at enhancing export competitiveness and reducing compliance burden for larger set of industries.	Draft of DESH bill was released as of June 2022, and it is currently under discussions for finalising.
In addition to INR 4,500 Cr allotted in 2020, INR 19,500 Cr additional budget allocation for PLI scheme to facilitate domestic manufacturing with priority to fully integrated manufacturing units from polysilicon to solar PV modules.	Cabinet approval was received in Sept-22 and Ministry of New and Renewable Energy (nodal agency for the programme) will be in-charge of this fund .
1 year extension of date of commencement to 31st March 2024 for newly incorporated manufacturing units that can avail a lower 15% concessional corporate tax rate.	Has received wide acceptance and industry experts have been suggesting an extension to this point in Budget FY 24

Expectations from Budget-FY24: for logistics/warehousing sector:

The National Logistics Policy (NLP), announced in September 2022, targets to create a robust and cost-effective logistics infrastructure thereby working toward to objective bringing down the logistics cost close to global average of 8% (of GDP) by 2030 (Currently the logistics cost is estimated to be around 14% of GDP cost in 2022). Under the umbrella of NLP, there are some key considerations from industry regarding warehousing/logistics sector which are:

- o Since almost 35%-40% of the cost of construction of a warehouse is attributed to steel, reduction in steel duty/price for industrial warehouse construction could be considered to help reduce rising CAPEX.
- o Government must further enable public-private partnerships in multi modal logistics park development under NLP policy and consider providing capital subsidies to attract grade A warehouse developments near Tier II cities.
- o Increased efforts in improving road transport infrastructure, which would help to ease existing warehouse hubs, reduce rental cost and unlock better value for land available for warehousing.
- o Subsidizing green warehousing by reducing import duties on solar panels that helps lower CAPEX investments.

- o *To make Unified Logistics Integrated Platform (ULIP) a success, it is critical that all logistics players adopt tech integration faster. The budget can consider incentivising CAPEX spends of logistics players on digital upgradation for tech-enabled warehouses.*
- o *Improve city wide EV charging infrastructure and subsidising OEM manufacturers over GST to help improve EV usage in last mile delivery. This will have direct impact on the carbon footprint of logistics sector.*

Expectations from Budget-FY24: for industrial sector:

Extension of 15% concessional tax rate- *Under the China+1 strategy, shifts in global manufacturing base to India has picked up considerably in recent years, also driven by a favourable PLI scheme and concessional tax rebates. Industrial experts are of the opinion that this concessional tax validity should be extended by another 3-4 years citing timeline required for companies to set up and initiate operations.*

The emerging EV Industry's requirements:

- a. *Reduction in import duties on parts used in lithium-ion batteries,*
- b. *Rationalization of GST rates applied on Lithium-ion batteries (currently at 18% and request is to bring it down to 5% GST, at par with tax rates applicable for EVs)*
- c. *Applicability of PLI schemes (currently only given to batteries) must be extended to rare-earth mineral extraction process.*
- d. *The Society of Manufacturers of Electric Vehicles (SMEV) has sought an extension of timeline for EV-subsidies under the FAME-II scheme (Currently, valid till March 2024). The industry has also sought inclusion of light to heavy commercial vehicles in it to promote electric mobility.*

Key takeaways from Budget-FY24 for the logistics & industrial sector -

1. *The concessional corporate tax rate of 15% was extended for another year and can be availed by new manufacturing set-ups commencing operations before March 2024.*
2. *One year (until March 2024) exemption is given on customs import duty on specified capital goods/machinery for manufacture of lithium-ion cell for use in battery of electrically operated vehicle (EVs) and certain imports from IT and Electronics sector.*
3. *Increased capital expenditure on infrastructure i.e., 2.4 Lakh Cr outlay for Railways, identified intervention in 100 critical transport infrastructure projects (INR 75,000 Cr Central Budget and 15,000 Cr private capital commitment) has been announced.*



C&W verdict

Neutral to Positive



HOSPITALITY

As per World Travel and Tourism Council (WTTC), contribution of travel & tourism to India's GDP was 6.8% in 2019 (US\$ 191.3 Billion), which fell to 4.7% in 2022 (US\$ 121.9 Billion) due to covid induced lockdowns and restrictions. Thereafter, it recovered marginally and rose to 5.8% in 2021 (US\$ 172.0 Billion). As of June 2022, WTTC forecast's the sector contribution to nation's economy would reach US\$ 215 Billion 2022 (1% above 2019 levels).

For the Union Budget 2023-24, the expectations are:

- o The Foreign Tourist arrival (FTA) has decelerated sharply from 27.4 Lakhs (as of 2020) to 15.3 Lakhs (as of 2021) which has caused in a dent in hospitality sector prospects.
- o Previous Budget of 2022-23 announced an Emergency Credit Line Guarantee Scheme (ECLGS) extended up to March 2023 and its guaranteed cover expanded by INR. 50,000 crores to a total cover of INR 5 lakh crore with the additional amount being embarked exclusively for the hospitality and related enterprises. The industry now expects to extend the duration till March 2025.
- o Section 72 (Income Tax Act)- In view of the monumental losses that occurred to the hospitality industry, it is requested that establishments will be allowed to carry forward losses of business for up to 12 years instead of presently allowed 8 financial years.

Key takeaways from Budget-FY24 for the Hospitality sector -

1. At least 50 tourist destinations will be selected through challenge mode to be developed as a whole package for domestic and international tourism. In addition to aspects such as physical connectivity, virtual connectivity, tourist guides, high standards for food vendors and tourists' security, all the relevant aspects would be made available on an App to enhance tourist experience. Every destination would be developed as a complete package. The focus of development of tourism would be on domestic as well as foreign tourists.



2. *To achieve the objectives of the 'Dekho Apna Desh' initiative, skilling and entrepreneurship development will be combined. Under the Vibrant Villages Programme, tourism infrastructure and amenities will be facilitated in border villages.*
3. *States will be encouraged to set up a Unity Mall in their state capital or most prominent tourism center or the financial capital for promotion and sale of products under ODOP (One district, One product) initiative, GI products (handloom products) and other handicraft products..*

C&W verdict

Neutral



HEALTHCARE

The Budget 2022-23 allocated INR 83,000 Cr to the Department of Health and Family Welfare, a marginal increase of 0.1% when compared to the revised estimates of INR 82,920 Cr in 2021-22.

In 2022-23, FM announced the launch of the 'National tele-mental health programme' including 23 tele-mental health centers of excellence with National Institute of Mental Health & Neurosciences (NIMHANS) being the nodal centre and IIT Bangalore (IITB) being the technical support is a first step for better access to mental health counselling.



For the Union Budget 2023-24, the expectations are:

1. *As of 2022, government spending on public health is around 2.2% of GDP, and the plan is to increase it to 2.5% by 2025. There is an urgent need to augment additional funding and devise national agenda around preventive health, and to introduce new and flagship schemes for optimum health outcomes.*
2. *As per IBEF Report (Nov'22), additional 1.54 million doctors and 2.4 million nurses will be required to meet the growing demand for healthcare. 58,000 job opportunities are expected to be generated in the healthcare sector by 2025. To meet the expected target, new medical colleges, and training centers to be established, especially in semi-urban and rural areas.*
3. *Rationalization of GST for Hospital Industry, the government could reduce GST for healthcare establishments from 12% to 5%.*
4. *Indian medical tourism market was valued at US\$ 2.89 billion in 2020 and is expected to reach US\$ 13.42 billion by 2026. The Foreign Tourist arrival (FTA) for medical purpose stood at 3.01 Lakhs in 2021, a drop from 6.9 Lakhs in 2019. To strengthen the FTA for this purpose, additional countries are expected to receive E-Visa approval. Currently 176 countries can arrive on E-Visa.*

Key takeaways from Budget-FY24 for the Healthcare sector -

1. *157 new nursing colleges will be established in colocation with the existing medical colleges.*
2. *A Mission to eliminate Sickle Cell Anaemia by 2047 will be launched. It will entail awareness creation, universal screening of 7 crore people in the age group of 0-40 years in affected tribal areas, and counselling through collaborative efforts of central ministries and state governments.*
3. *Dedicated multidisciplinary courses for medical devices will be supported in existing institutions to ensure availability of skilled manpower for futuristic medical technologies, high-end manufacturing, and research.*

C&W verdict

Neutral to Positive



START-UPS

India has become world's third largest start-up ecosystem over the last few years, with close to 89,600 start-ups been recognised by the Department for Promotion of Industry and Internal Trade (DPIIT). As of Nov-2022, these start-ups were responsible for creating direct employment for 8.6 lakh people, since the launch of the Start-up India initiative. An investment of ~USD 24 Bn was raised by Indian start-ups in year 2022 alone. Despite lower investments seen in 2021, year 2022 recorded second highest in the last 6 years. With creation of 67 unicorns during the last two years, there has been a significant rise in the quantum of space leased by unicorns in the Gross Leasing Volume in 2022. Start-ups are also keen on exploring prominent tier 2 cities. Therefore, from commercial real estate leasing demand perspective, growth of start-ups become an important driver.

Key announcements made in Budget FY-23: a report card so far

Previous Budget Announcements	Status check so far
Fund with blended capital to finance agriculture start-ups will be facilitated through NABARD	NABVENTURES to invest in agri startup and fund with blended capital raised under co-investment model. As of March 2022, NABVENTURES concluded fundraising process with a final corpus of around INR 616 crore. It also provides equity support to agri-food start-ups.
Start-ups will be encouraged to facilitate Drone Shakti for Drone-As-A-Service	As of Dec 2022, there are 200 drone start-ups in the country and this number is expected to increase and generate at least employment for 1 lakhs drone pilots by next year. Garuda's Drone Skilling & Training Conference to be conducted in 775 districts, and it hopes to reach 10 lakh youth and aims to train 1 lakh youth. Drone sector is expected to add \$3 billion to agriculture sector in 2023 and will benefit ~10 crore farmers.
Opening defence R&D for industry, start-ups and academia	Technology Development Fund (TDF) schemes provides funds to start-ups in the field of defence and aerospace, and till now INR 280Cr has been awarded to 64 projects. Innovations for Defence Excellence (iDEX) Prime was launched in April 2022 during DefConnect 2.0 to support projects, requiring support beyond INR 1.5 crore up to INR 10 crore to help ever-growing start-ups in the defence sector.
Measures to aid investment by Venture Capital and Private Equity Investment	Government has constituted an expert committee to suggest ways for scaling up of VC/PE investments. The panel will also recommend measures to further accelerate investments into start-ups and other sunrise sectors.
Extend period of incorporation of eligible start-ups for providing tax incentives	Period of incorporation extended till March 31, 2023 for tax exemption purpose

EXPECTATIONS IN UNION BUDGET 23-24

- **Period of incorporation to be extended beyond 1 April 2023 to avail tax exemption**
Eligible start-ups under Section 80IAC of IT Act can avail income tax exemption. In Budget FY22-23 the period of incorporation was extended by one year (till March 31, 2023). This period of incorporation is expected to be further extend beyond April 1 2023, so that this benefit is availed by new start-ups as well.
- **3-year tax holiday to be extended**
The current provision of tax exemption for start-ups to avail tax holiday for 3 consecutive financial years out of its first ten years since incorporation, is expected to be extended to a period of 5 years
- **Eligibility criteria of ESOP taxation reforms to be extended**
Employee stock ownership plan (ESOPs) are taxed at two stages. First, at the time of exercise of the ESOP. Second, at the time of selling the shares.

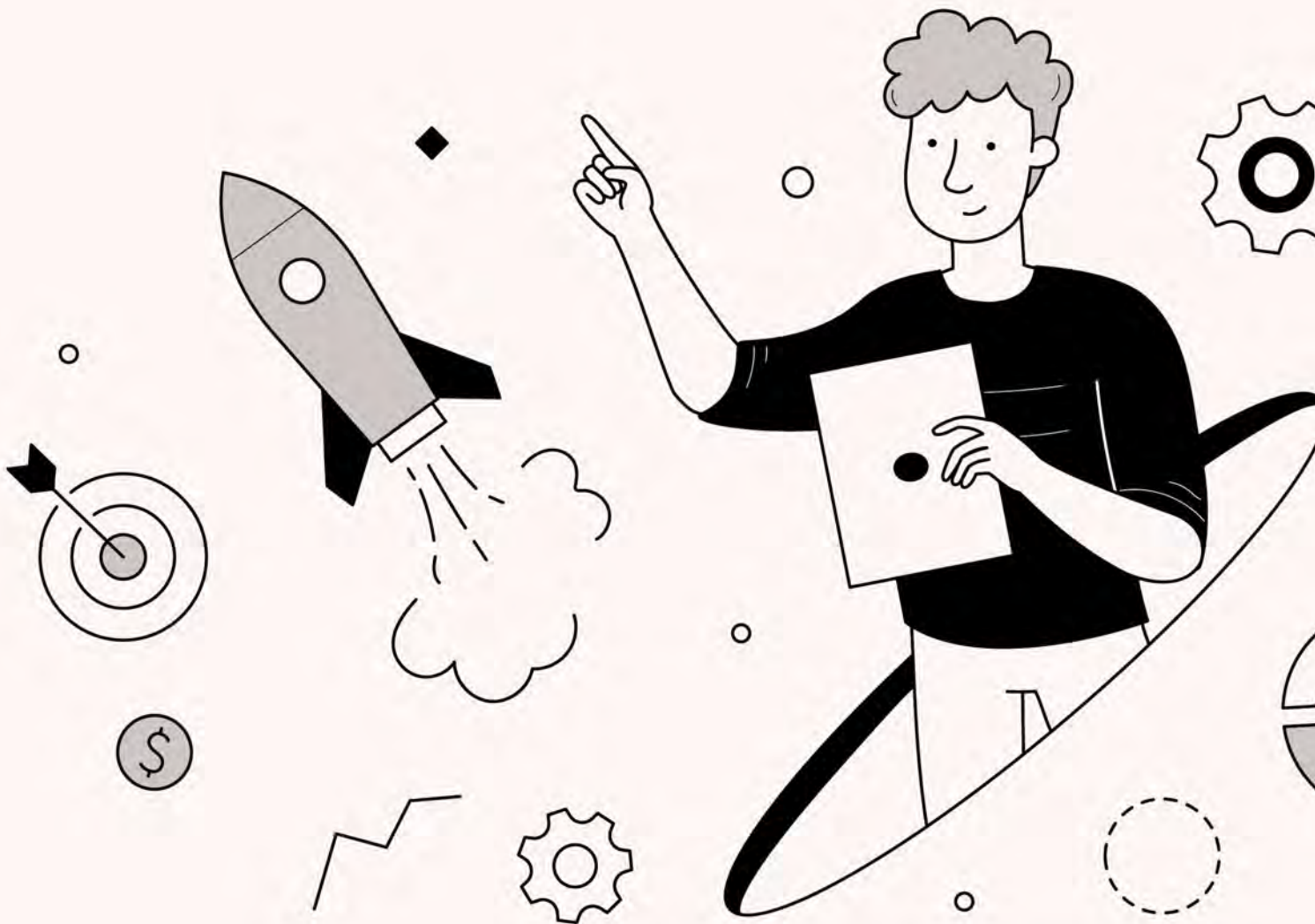
In Budget 2020, taxation on exercise of ESOP (first stage) was removed for IMB-certified start-ups. According to NASSCOM, less than 0.8% of start-ups (as of Dec 2022) have benefitted qualify as IMB certified start-ups. Hence, the eligibility criteria needs to be extended so that more start-ups will benefit. ESOPs are essential for attracting and incentivising start-up talent.
- **Increase the GST exemption slab for start-ups**
Currently, GST on start-ups applies to companies with an annual turnover of over INR. 40 lakhs, and over INR 20 lakhs in the North-Eastern states of Uttarakhand, Jammu & Kashmir and Himachal Pradesh. This annual turnover ceiling can increase upto INR 10 Cr.
- **Reduce the minimum alternate tax (MAT) from 15% to 9%**
Currently, MAT provisions have no threshold, and all companies are subject to the provisions of the tax. Therefore, start-ups are also liable to pay MAT, even if they claim exemption under section 80IAC of IT Act. This provision defeats the very purpose of providing tax incentives for start-ups under section 80IAC.

Key takeaways from Budget-FY24 for the Start up sector -

1. *As expected by the sector, the period of incorporation for income tax benefit has been extended for a year from 31.3.23 to 31.3.24. The carry forward of losses on change of shareholding of start-ups has been increased from seven years since incorporation to ten years.*
2. *Agriculture Accelerator fund will be set up to encourage agricultural startups.*
3. *Three Centres of Excellence for Artificial Intelligence will be set up in top educational institutions in order to support the vision of 'Make AI in India, Make AI work for India'. As per C&W Research, there is a demand and supply gap in India for AI skilled professionals and this announcement will give a major boost to the AI ecosystem.*
4. *5G services will be enabled in selected engineering institutions with the aim of encouraging innovations in smart classrooms, precision farming, intelligent transport systems, and health care applications. This will indirectly help to incubate ideas that will help the startup ecosystem.*

C&W verdict

Positive



DATA CENTERS

An emerging asset class within the real estate space:

Given the high rate of digital adoption seen across the globe, and the requirement to store data locally, there is a huge demand and need for data centers across the country. Several multinational data centers operators such as NTT, STT, CtrlS, etc. have made their presence in India and are on the lookout for space to expand their portfolio of data centers. The installed capacity in the country currently is around 990 MW (across top-7 cities), with an IT load of 656 MW. The installed capacity addition seen in 2022 was 220 MW, which was a significant 27% growth over 2021 capacity.

Several announcements made in the previous budget had positive influence on the DC market in India:

- o *Infrastructure status was granted to DCs in 2022, paving way for attractive terms of lending from banks and financial institutions at lower rates.*
- o *Roll-out of 5G network across multiple cities in 2022 gave boost to the sector on the demand front*
- o *Digital Ecosystem for Skilling and Livelihood – the DESH-Stack eportal*
- o *Financial support for digital payment ecosystem*
- o *Digital University will be established to provide access to students across the country*
- o *Online e-Bill System will be launched for use by all central ministries for their procurements*



Expectations from Budget-FY24: for data centers

- o **Data Center Investments:** *New tax breaks and subsidies in the Budget FY 2024 is expected to entice more businesses to make investments in data centres.*
- o **Upskilling:** *Government initiatives and investments towards digital skilling and talent development in education institutes and universities.*
- o *Skilled workforce is a challenge facing the DC industry. Owing to large investments made, the number of people required by this industry has increased as revealed by all industry participants.*

Key takeaways from Budget-FY24 for the data center industry -

1. *Although there were no major announcements regarding data centers but with 5G services rolling out in the country and continued investment in the digital infrastructure, the demand for data centers is set to boom in the coming years.*
2. *The announcement of National Data Governance policy in the budget for 2023-24 may increase the demand for professionally managed data storage services offered by multi-national data center operators.*
3. *Announcement for setting up of Digital Embassies for countries looking for digital continuity solutions - This is a positive for data centre industry, specifically for major cloud players, though this is likely to depend on countries with which India has agreements related to data storage and those which intend to store critical data in Indian territory. The data centres must adhere to the highest degree of data safety norms, technical infrastructure, and data backup systems.*

C&W verdict

Positive

