

Economy

Public Finance

September 18, 2023

Dichotomy in corporate tax and profit growths

A large contraction in corporate tax growth in 1QFY24 against a healthy listed companies' profit growth, while not unique, is surprising. We attribute this dichotomy to (1) possible shift in tax payment's seasonality, and (2) possibility of lower profits in the much larger unlisted space. Past trends would suggest a reversal to a positive growth in corporate tax receipts for FY2024 from a relatively large contraction in 1QFY24 receipts. However, actual receipt is likely to be lower than budgeted target.

Distortion in seasonal trends of corporate tax receipt since Covid

Corporate tax, prior to Covid, had a distinct seasonality with a low proportion of tax collected in 1Q and picking up through the year. Post Covid, the proportion in 1Q has been relatively higher (possible frontloading) while proportion of taxes paid in 4Q had reduced (see Exhibit 1). 1QFY24 could be seeing a reversal to pre-Covid trend, which could imply a probable pickup in 2HFY24. We note that taxes paid by listed companies do not show much seasonal trend (see Exhibit 2).

Listed universe contributes around 35-40% to overall corporate tax receipt

The proportion of listed companies' taxes paid in the government's corporate tax receipt is quite low at 35-40%—the remaining attributable to unlisted companies (see Exhibit 3). There is some correlation (mostly directionally and not magnitude) between the government's corporate tax receipt growth and listed companies' growth in profit and tax paid; albeit with multiple instances of divergence in direction too (see Exhibits 4-5).

Refunds in line with last year, some positive signs emerging

Data on direct taxes' refunds are reported sporadically. Until September 16, around Rs1.2 tn of refunds (corporate and personal tax) have been issued—9% lower than the same period last year. Until July 9, refunds were around Rs0.42 tn—2.55% higher than the same period last year. Refunds may not be enough to explain the 10% contraction for 4MFY23 corporate tax receipt (unless refunds for only corporate taxes are disproportionately higher than last year). We note that refunds for corporate tax till September 16, 2023 is around Rs555 bn compared to Rs675 bn for the same period last year which could imply a growth rate of around 8% in 1HFY24 from the (-)10% growth rate in 4MFY24, ceteris paribus. Exhibit 6 outlines the trend in direct taxes' refunds over the past few years.

Likely positive corporate tax growth in FY2024; slippage from budget estimate

Over the past 10 years, actual corporate tax receipt has fallen short of budgeted targets in most years (see Exhibit 7). In instances when 1Q growth has been negative, full year receipts growth has been positive although the degree of contraction in 1Q was much lower than in 1QFY24 (see Exhibit 8). The likely scenario could be mid-single-digit corporate tax receipt growth in FY2024 while listed corporate profit growth could be much higher. For FY2024, we pencil in corporate tax receipt slippage against budget estimate. With a few more slippages on the receipts side and broadly unchanged expenditure, we maintain our GFD/GDP estimate at 6.1% against FY204BE at 5.9% (see Exhibit 9).

Summary of key macro metrics for India

	2022	2023	2024E	2025E
Real economy				
Real GDP growth (%)	9.1	7.2	6.2	6.3
Nominal GDP growth (%)	18.4	16.1	9.4	11.0
CPI Inflation (avg., %)	5.5	6.7	5.5	4.5
Public finance				
Center's GFD/GDP (%)	6.8	6.4	6.1	5.3
Monetary policy				
Repo Rate (% eop)	4.00	6.50	6.50	6.00
SDF Rate (% eop)	3.35	6.25	6.25	5.75
CRR (% eop)	4.0	4.5	4.5	4.0
External sector				
Current Account Balance (% of GDP)	(1.2)	(2.0)	(1.4)	(1.7)
Brent crude oil price (avg., USD/bbl)	80.0	95.4	85.0	90.0
INR/USD (avg.)	74.5	80.3	82.2	83.0

Source: CEIC, Bloomberg, RBI, Kotak Economics Research estimates

Quick Numbers

Corporate tax receipt growth at (-)10% in 4MFY24; listed companies profit growth at around 35%

Listed companies contribute 35-40% to total corporate tax collected; tax paid growth at around 30%

Around 12% of total corporate tax receipt is collected in 1Q pre-Covid; increased to around 18% post-Covid

Direct taxes refunds' growth for FYTD24 at (-)9% until September 16, 2023

We pencil in 7% growth in corporate tax for FY2024 against budgeted 12%; estimate GFD/GDP at 6.1%

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- Incipient signs of some fiscal stress
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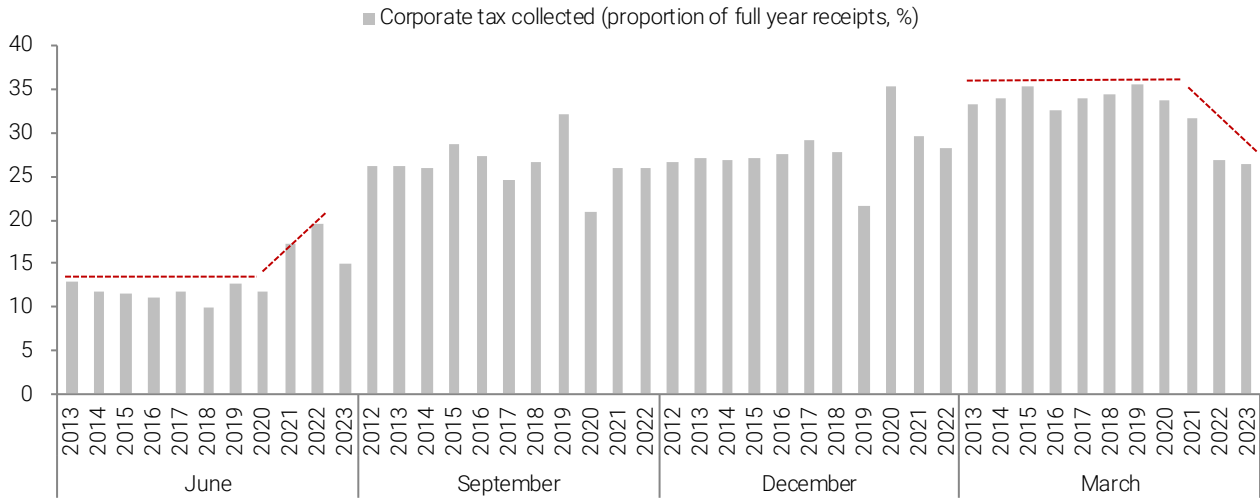
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Corporate tax receipts have been frontloaded post-Covid

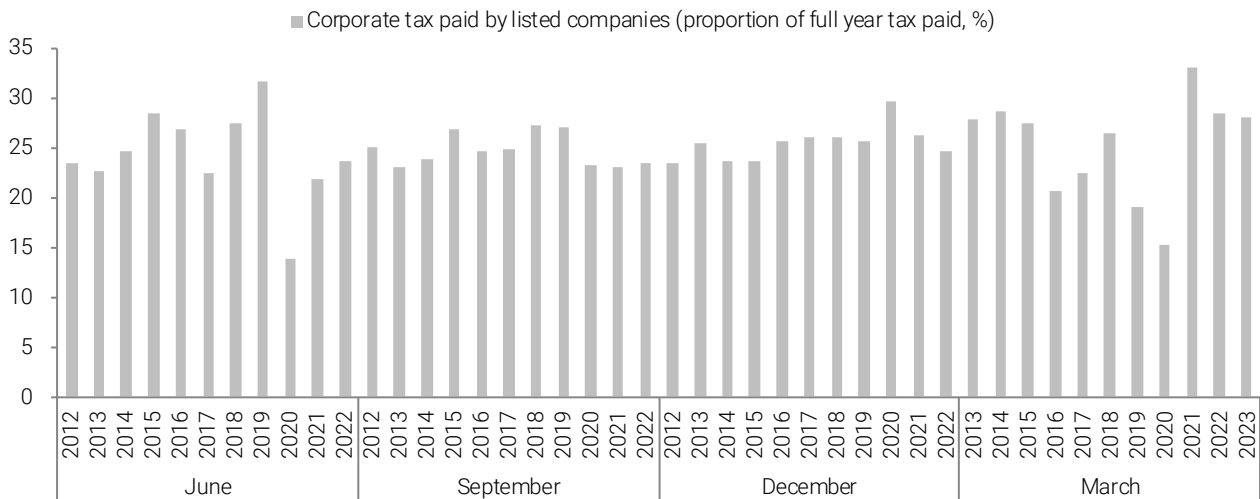
Exhibit 1: Tax collected quarterly as a proportion of the full year receipts (%)



Source: CEIC, Kotak Institutional Equities

Corporate tax paid by listed firms are well-spread across quarters

Exhibit 2: Tax paid quarterly by listed companies as proportion of full year tax paid (%)



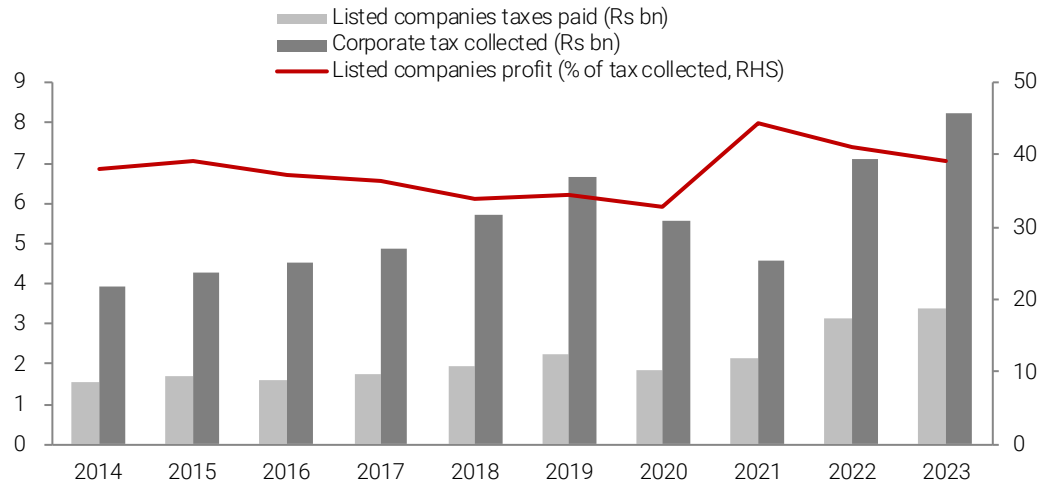
Notes:

(a) Data is based on aggregate of 4,500+ companies.

Source: CMIE, Kotak Institutional Equities

Corporate tax paid by listed companies are a small proportion in total corporate tax collections

Exhibit 3: Tax paid by companies and government collections (Rs bn, LHS) and share of tax paid by listed companies (% of total), March fiscal year-ends

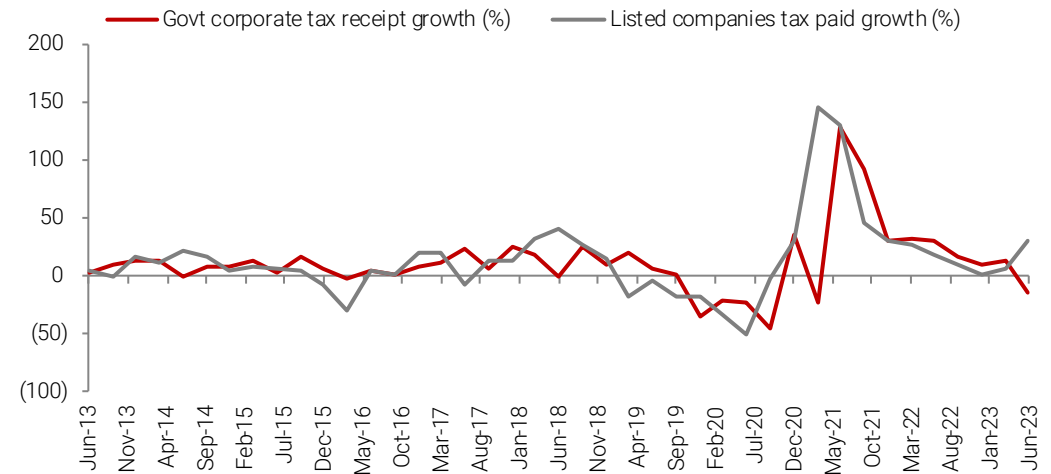


Notes:
 (a) Data is based on aggregate of 4,500+ companies.

Source: CMIE, CEIC, Kotak Institutional Equities

Directionally growth in tax paid and collected are broadly in sync with multiple instances of divergence

Exhibit 4: Growth in government's corporate tax receipt and listed companies' tax paid (%)

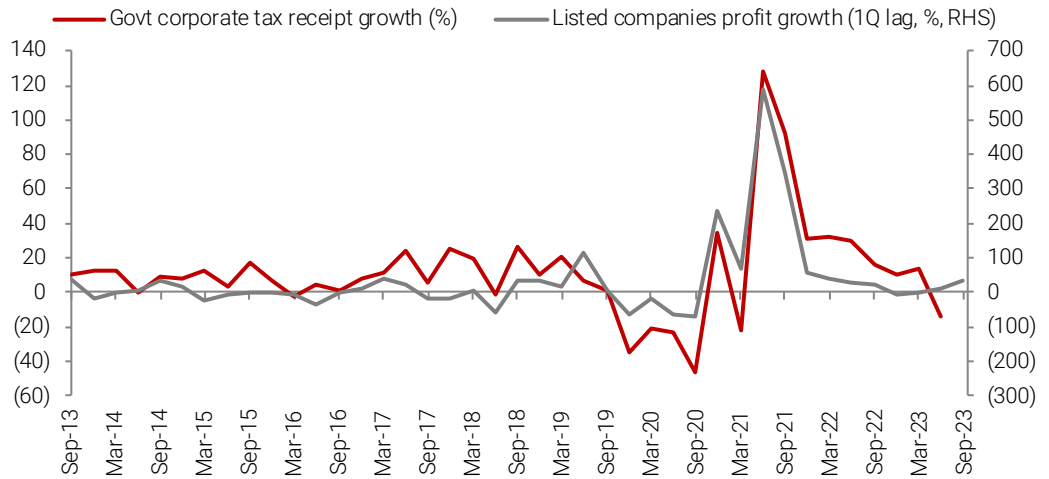


Notes:
 (a) Data is based on aggregate of 4,500+ companies.

Source: CMIE, CEIC, Kotak Institutional Equities

Wide variation in magnitude in corporate tax receipt growth and profit growth but directionally similar

Exhibit 5: Government's corporate tax receipt growth (% LHS) and listed companies' tax paid (1Q lag, %, RHS)

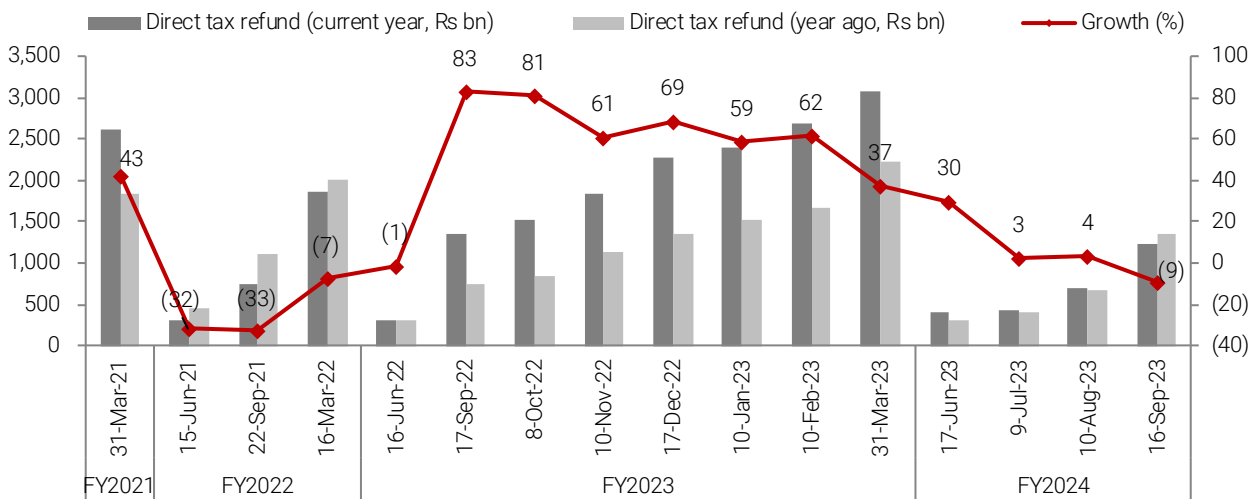


Notes:
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Source: CMIE, CEIC, Kotak Institutional Equities

Refunds are not a major factor in recent corporate tax growth weakness

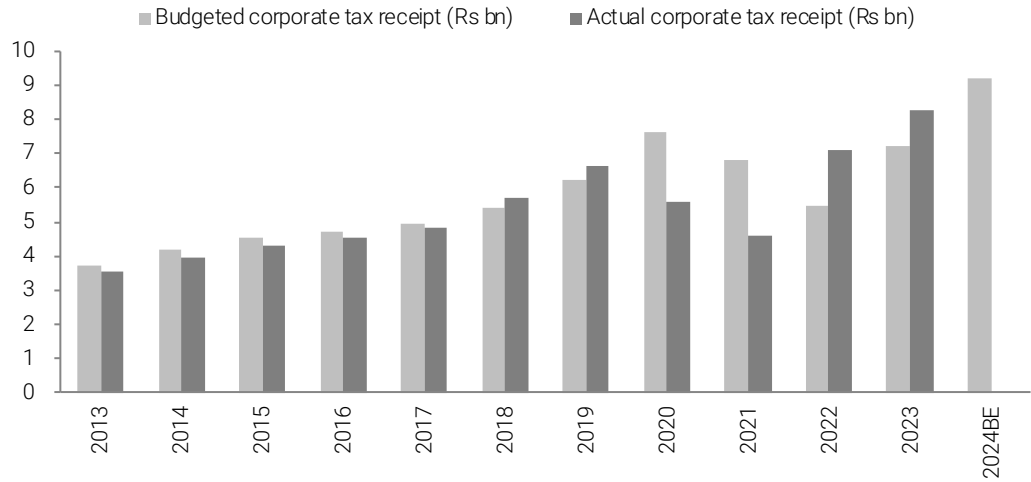
Exhibit 6: Trend in refunds (Rs bn, LHS) and growth in refunds (% RHS), March fiscal year-ends



Source: PIB, Kotak Institutional Equities

Corporate tax receipt has lagged budget targets for most years barring past few years

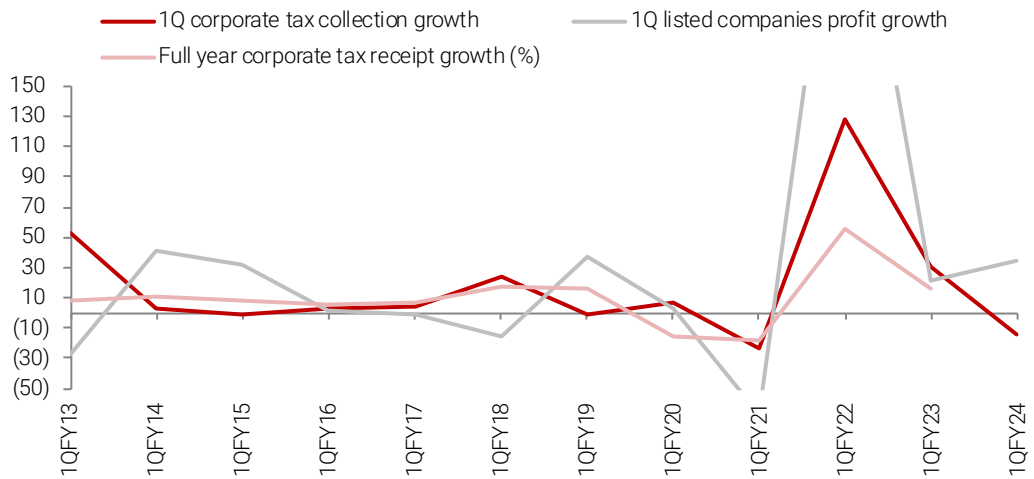
Exhibit 7: Budgeted versus actual corporate tax receipts, March fiscal year-ends (Rs bn)



Source: CEIC, Kotak Institutional Equities

Quantum of contraction in corporate tax receipt in 1QFY24 is a concern

Exhibit 8: First quarter growth in corporate tax receipt, listed companies profit, and full year corporate tax receipt, March fiscal year-ends (Rs bn)



Source: CEIC, Kotak Institutional Equities

We estimate FY2024 GFD/GDP at 6.1%; corporate tax receipt likely to see mid-single digit growth

Exhibit 9: Major central government budgetary items, March fiscal year-ends, 2019-24E (Rs bn)

	2019	2020	2021	2022	2023P	2024BE	2024E	2021/ 2020	2022/ 2021	2023P/ 2022	2024BE/ 2023P	2024E/ 2023P
Receipts												
1. Revenue receipts (2d + 3)	15,529	16,841	16,339	21,699	23,835	26,323	26,260	(3)	33	10	10	10
2. Gross tax revenues (a + b)	20,805	20,101	20,271	27,093	30,538	33,609	32,693	1	34	13	10	7
2.a. Direct taxes	11,431	10,554	9,523	14,158	16,718	18,317	17,761	(10)	49	18	10	6
2.a.1. Corporation tax	6,636	5,569	4,577	7,120	8,258	9,227	8,836	(18)	56	16	12	7
2.a.2. Income tax (incl. other taxes)	4,796	4,985	4,946	7,038	8,459	9,090	8,925	(1)	42	20	7	5
2.b. Indirect taxes	9,373	9,547	10,748	12,935	13,820	15,292	14,933	13	20	7	11	8
2.b.1. Goods and Services Tax	5,816	5,988	5,488	6,981	8,492	9,566	9,566	(8)	27	22	13	13
2.b.1.1. CGST	4,575	4,941	4,563	5,912	7,186	8,116	8,116	(8)	30	22	13	13
2.b.1.2. IGST	289	91	73	21	48	0	0					
2.b.1.3. Compensation cess	951	956	852	1,048	1,259	1,450	1,450	(11)	23	20	15	15
2.b.2. Customs duty	1,178	1,093	1,348	1,997	2,134	2,331	2,331	23	48	7	9	9
2.b.2.1. Basic duties	1,048	906	1,065	1,460	1,604	1,806	1,806	18	37	10	13	13
2.b.2.2. Others	130	187	282	537	530	525	525	51	90	(1)	(1)	(1)
2.b.3. Excise duty	2,310	2,406	3,897	3,946	3,190	3,390	3,031	62	1	(19)	6	(5)
2.b.4. Service tax	69	60	16	10	4	5	5	(73)	(37)	(57)	16	16
2.c Transfers to states, UTs, etc.	7,633	6,532	6,008	9,045	9,564	10,302	10,021	(8)	51	6	8	5
2.d Net tax revenues (2 - 2.c)	13,172	13,569	14,263	18,048	20,974	23,306	22,673	5	27	16	11	8
3. Non-tax revenues	2,357	3,272	2,076	3,651	2,862	3,017	3,587	(37)	76	(22)	5	25
3.a. RBI's transfer of surplus	680	1,476	600	991	303	303	874	(59)	65	(69)	0	188
3.b. Telecommunications	408	698	455	858	688	895	895	(35)	89	(20)	30	30
3.c. Others	1,269	1,097	1,021	1,802	1,870	1,819	1,819	(7)	76	4	(3)	(3)
4. Non-debt capital receipts (a + b)	1,128	686	576	394	722	840	630	(16)	(32)	83	16	(13)
4.a Recovery of loans	181	183	197	247	262	230	230	8	25	6	(12)	(12)
4.b Other receipts (disinvestments)	947	503	379	146	460	610	400	(25)	(61)	214	33	(13)
5. Total receipts (1 + 4)	16,657	17,527	16,915	22,093	24,557	27,163	26,890	(3)	31	11	11	10
Expenditure												
6. Revenue expenditure	20,074	23,506	30,835	32,009	34,525	35,021	35,098	31	4	8	1	2
6.a. Interest payments	5,826	6,121	6,799	8,055	9,284	10,800	10,800	11	18	15	16	16
6.b. Subsidies	1,968	2,283	7,077	4,461	5,310	3,747	3,824	210	(37)	19	(29)	(28)
6.b.1. Food	1,013	1,087	5,413	2,890	2,728	1,974	1,974	398	(47)	(6)	(28)	(28)
6.b.2. Fertilizer	706	811	1,279	1,538	2,513	1,751	1,751	58	20	63	(30)	(30)
6.b.3. Oil	248	385	385	34	68	23	100	(0)	(91)	99	(67)	46
6.c. Pay, allowances and pensions	4,957	5,366	6,711	5,899	6,808	6,894	6,894	25	(12)	15	1	1
6.c.1.a. Pay and allowances	3,291	3,526	4,626	3,910	4,360	4,550	4,550	31	(15)	12	4	4
6.c.1.b. Pensions	1,666	1,840	2,085	1,989	2,448	2,344	2,344	13	(5)	23	(4)	(4)
6.d. Agriculture and farmers' welfare	461	942	1,083	1,145	999	1,155	1,155	15	6	(13)	16	16
6.e. Education	781	873	840	803	972	1,129	1,129	(4)	(4)	21	16	16
6.f. Health and family welfare	506	607	740	787	703	809	809	22	6	(11)	15	15
6.g. Rural development	1,118	1,221	1,964	1,604	1,768	1,575	1,575	61	(18)	10	(11)	(11)
6.h. Others	4,457	6,092	5,622	9,255	8,682	8,913	8,913	(8)	65	(6)	3	3
7. Capital expenditure	3,077	3,357	4,263	5,929	7,363	10,010	10,010	27	39	24	36	36
7.a. Defence	998	1,160	1,399	1,448	1,509	1,714	1,714	21	3	4	14	14
7.b. Railways	528	678	1,093	1,173	1,593	2,400	2,400	61	7	36	51	51
7.c. Roads and highways	676	684	892	1,133	2,060	2,586	2,586	30	27	82	26	26
7.d. Housing and urban affairs	158	193	103	259	237	260	260	(47)	151	(9)	10	10
7.e. Others	717	642	776	1,916	1,965	3,050	3,050	21	147	3	55	55
8. Total expenditure (6 + 7)	23,151	26,863	35,098	37,938	41,888	45,031	45,108	31	8	10	8	8
Deficit												
Primary deficit (PD)	668	3,216	11,384	7,790	8,047	7,068	7,418	254	(32)	3	(12)	(8)
Revenue deficit (RD)	4,545	6,665	14,496	10,310	10,690	8,699	8,838	117	(29)	4	(19)	(17)
Gross fiscal deficit (GFD)	6,494	9,337	18,183	15,845	17,331	17,868	18,218	95	(13)	9	3	5
Gross market borrowing (dated securities)	5,715	7,041	12,601	9,684	14,085	15,430	15,430	79	(23)	45	10	10
Net market borrowing (dated securities)	4,233	4,681	10,329	7,041	10,957	11,809	11,809	121	(32)	56	8	8
Short-term borrowing (T-bills)	69	1,560	2,032	774	661	500	700					
Nominal GDP	188,997	201,036	198,299	234,710	272,407	301,751	297,975	(1.4)	18.4	16.1	10.8	9.4
PD/GDP (%)	0.4	1.6	5.7	3.3	3.0	2.3	2.5					
RD/GDP (%)	2.4	3.3	7.3	4.4	3.9	2.9	3.0					
GFD/GDP (%)	3.4	4.6	9.2	6.8	6.4	5.9	6.1					

Source: CEIC, Union Budget, Kotak Institutional Equities estimates

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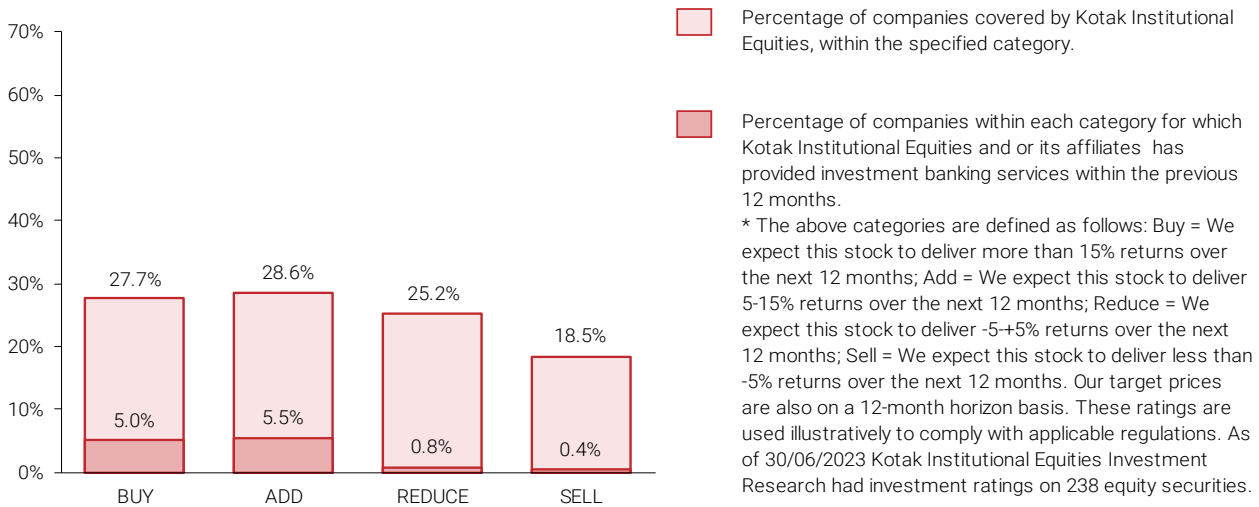
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