

# Union Budget 2024-25



## Government remains focused on long-term macro stability

### Committed to achieving a fiscal deficit of 4.5% of GDP by FY26E

The new government presented its first Union Budget on 23<sup>rd</sup> Jul'24. Anticipation was high for some consumption-boosting initiatives, as the Government of India (GoI) received additional resources from the Reserve Bank of India (RBI). Nevertheless, akin to the Interim Budget of 1<sup>st</sup> Feb'24, and the Budget of 2023, the GoI refrained from introducing any major schemes to stimulate consumption and instead focused on fiscal deficit consolidation.

### How does FY25BE compare with the estimates presented in the Interim Budget?

Broadly speaking, there were six key differences: 1) as expected, the GoI increased its dividend income from the financial institutions (including the RBI) by INR1.3t in FY25. With broadly unchanged gross taxes and non-debt capital receipts, the GoI's total receipts have been revised up by INR1.3t, 2) about 57% of these additional resources have been used to reduce fiscal deficit (by INR722b), while the remaining 43% (INR547b) have been used to increase total spending, 3) within total spending, capital spending has been kept unchanged at INR11.11t, implying that revenue spending has been raised by INR547b, 4) subsidies and grants to states/UTs have seen an increase of INR187b and INR473b, respectively, while interest expenditure has been revised down by INR275b, 5) within capital spending, while loans & advances to states have been increased by INR209b, the Center's capital outlays have been reduced by the same amount, and 6) lastly, with a lower deficit, the GoI has revised down its net market borrowings (including treasury bills) by INR1.1t and NSSF financing by INR460b, a part of which has been funded by the drawdown of its cash balances.

### Fiscal deficit is budgeted at 4.9% of GDP in FY25BE, down from 5.6% of GDP in FY24P

With higher receipts and a slower increase in spending, GoI's fiscal deficit is budgeted at INR16.1t (or 4.9% of GDP) for FY25BE, implying a consolidation of 70bp from 5.6% in FY24P. As mentioned above, the fiscal deficit was budgeted at INR16.9t (or 5.1% of GDP) during the Interim Budget in Feb'24. The nominal GDP growth is kept unchanged at 10.5% YoY in FY24 (same as in Feb'24). The total liabilities of the GoI are likely to ease to 55.7% of GDP in FY25BE from 57.1% of GDP in FY24RE, owing to lower national small saving funds (NSSF). The GoI has budgeted gross market borrowings (GMBs) at INR14.0t in FY25BE vs. INR15.4t in FY24RE. The net market borrowings (NMBs) and NSSF are reduced to INR11.6t and INR4.2t, respectively.

### Total receipts are budgeted to grow 15% YoY in FY25BE, with 10.8% YoY growth budgeted in gross taxes

As expected, the GoI has revised its receipt estimates for FY25BE by INR1.3t entirely because of the RBI dividends, implying that the non-tax revenue receipts are budgeted to grow 36% YoY. At the same time, gross taxes are budgeted to grow 10.8% in FY25BE, following 13.4% growth in FY24P. Within gross taxes, direct taxes

are budgeted to grow 12.8% (primarily led by 13.6% YoY growth in personal income taxes) and indirect taxes are budgeted to increase 8.2% (with 11% growth in goods & services taxes). It means that gross taxes are budgeted to rise to a 17-year high of 11.8% of GDP in FY25BE and only a tad lower than the all-time peak of 11.9% of GDP in FY08. However, despite only a small rise in the tax-to-GDP ratio, higher non-tax receipts push total receipts to 9.8% of GDP in FY25BE, vs. 9.4% of GDP in FY24P.

**The GoI continues to focus on better spending quality**

At a time when there were high expectations to announce measures to support the rural sector, to provide tax relief to low-income earners, and to boost consumption in general, the GoI resisted all such demands once again. The GoI’s revenue expenditure is budgeted to grow 6.2% YoY and propelled capital expenditure (capex) at a higher pace this year. Excluding interest payments and subsidies, revenue expenditure is budgeted to grow 6.5% YoY in FY25BE, slightly better than 2.2% in FY24P. The GoI’s capital spending, however, is budgeted to grow 17.1% YoY in FY25BE, following an average of 30% YoY during FY21-FY24P. It implies that total spending is budgeted to decline to 14.8% of GDP in FY25BE from 15.0% in FY24P, and the share of capital spending is budgeted to rise to 23% of total spending, marking the highest share in the past three decades.

**IEBR capex is finally expected to grow 12.5% YoY in FY25BE, after four years of consecutive declines**

Notably, as highlighted in our recent [report](#), a large portion of the GoI’s higher capex is re-allocated from the internal and extra-budgetary resources (IEBR) of central public sector enterprises (CPSEs). After declining at an average of 10% during the last four years, IEBR capex is expected to grow 12.5% YoY in FY25BE. If so, the combined capex of the center (excluding loans & advances and equity infusion to BSNL) and CPSEs is budgeted to grow 11.7% YoY this year, lower than 13.2% in FY24P. It also implies that the combined capex is budgeted at 3.6% of GDP in FY25BE, the same as in FY24P.

**Overall, despite having additional resources, the GoI’s ability to resist any major boost to consumption is highly commendable. Nearly 60% of the additional resources (mainly from RBI dividends) are allocated to reducing the fiscal deficit, while the rest is utilized to enhance spending (mainly through transfers to states). Further, considering that the GoI has budgeted a fiscal deficit of 4.9% of GDP for FY25 (after surpassing its target in FY24), achieving the target of 4.5% of GDP in FY26 appears feasible. This clearly demonstrates the GoI’s strong commitment to long-term macroeconomic stability, even if it means sacrificing short-term growth.**



### Market strategy

- The Finance Minister presented her first budget after the Modi-led NDA Govt. took charge for an unprecedented third term. Given the nature of the 2024 mandate and an additional bounty of ~INR1.5t from the RBI dividend, there was a widespread anticipation of the government providing some freebies or relief measures for the rural economy to boost consumption demand ahead of the key state elections in Oct-Nov'24. However, the govt. eschewed populism, once again and instead continued on the path of fiscal consolidation and capex push. There were several key and welcome announcements pertaining to incentives for employment generation and skilling of youth, the benefits of which will be accrued in the years to come, in our view.
- In an unexpected move, the government: 1) increased the long-term and short-term capital gains taxes for equities from 10% and 15% to 12.5% and 20%, respectively, 2) raised the STT for the F&O segment, and 3) also made significant changes in the taxation for other asset classes. Equity markets, after an initial knee-jerk reaction to the proposed increase in capital gains taxes, made a sharp recovery and closed flattish.
- The nominal GDP is likely to grow at 10.5% in FY25. The government continued to focus on fiscal consolidation and utilized the extra bounty from the RBI dividend to reduce the fiscal deficit from 5.1% of GDP in the Interim Budget to 4.9% of GDP in FY25BE and reiterated its commitment to achieve the 4.5% fiscal deficit target by FY26. This augurs well for India's already healthy macro backdrop and should help keep the 10-year yields under check. Additionally, it can kickstart the influx of capital and accelerate private capital investment. Meanwhile, the budget maintained its emphasis on capex, with a 17% higher allocation of INR11.11t in FY25BE, up from INR9.5t in FY24.
- While the absence of the much-expected direct boost to consumption was a disappointment, increased focus on employment generation through skill development and marginally higher income in the hands of salaried class via adjustments in tax slabs in the new tax regime and higher limits for standard deduction may indirectly benefit consumption demand marginally, in our view.
- With markets at a new high, the budget further bolsters India's strong macro-micro positioning amid a fragile world economy. The combination of ~7% GDP growth and ~15% Nifty earnings CAGR in FY24-26, stable currency, moderating inflation, and buoyant retail participation may keep sentiments strong. However, valuations appear fair for Nifty-50 and expensive for mid/small caps. The Midcap index is now trading at a P/E of 33x, at a 60% premium to the Nifty.
- We anticipate the market to quickly discount the budget and shift its focus to the trajectory of corporate earnings growth, which has remained marginally below our expectations so far in 1QFY25. We continue to expect 15%+ earnings growth for Nifty over FY24-26. Valuations for Nifty remain in line with its LPA at 20.4x one-year forward earnings. Industrials and Capex, Consumer Discretionary, Real Estate, and PSU Banks are our key preferred investment themes. We remain OW on PSU Banks, Consumption, Industrials, and Real Estate. We recently raised IT to marginal OW from UW and cut Auto from OW to UW. We also turned OW on Healthcare from Neutral, while maintaining UW on Private Banks and Energy [in our model portfolio](#).
- **MOFSL Top Ideas:** **Largecaps:** ICICI Bank, SBI, L&T, M&M, HCL Tech, Coal India, Titan, Mankind Pharma, Hindustan Unilever and Hindalco; **Midcaps and Smallcaps:** Indian Hotels, Ashok Leyland, Godrej Prop., KEI Inds., PNB Housing, Cello World, Kalyan Jewelers, Persistent Syst., Angel One, and Metro Brands.



## Focus on fiscal consolidation and youth employment

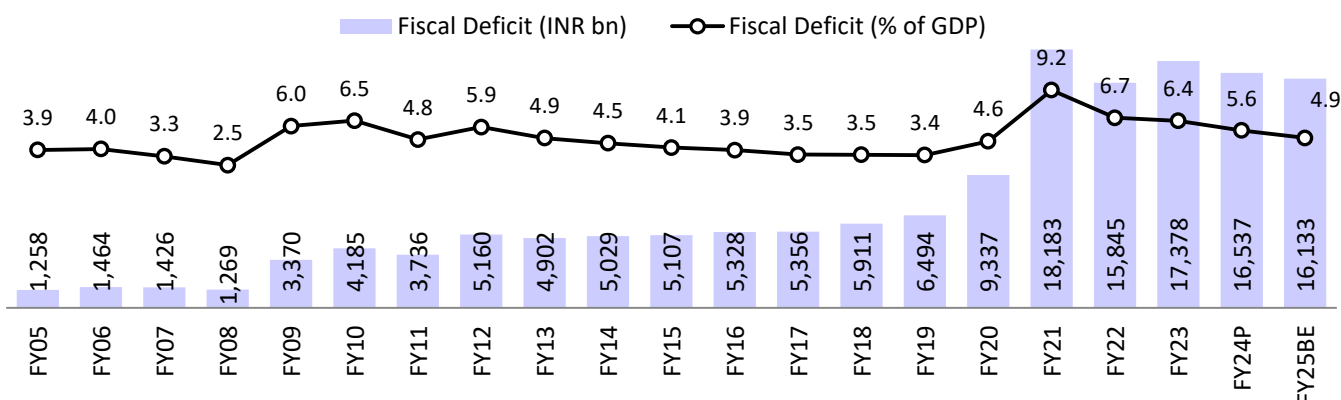
### Fiscal deficit targeted at 4.9% of GDP in FY25BE

India's Finance Minister Nirmala Sitharaman on 23<sup>rd</sup> Jul'24 presented the Union Budget 2024-25. This was the first budget of Prime Minister Narendra Modi's third term in the government. Overall, the broad themes from the Interim Budget remained unchanged. The Union budget 2024-25 focused on infrastructure, fiscal consolidation, job creation, MSMEs, women, and agricultural support.

On the macro front, the government remained focused on infrastructure development and fiscal consolidation, with FY25 fiscal deficit target pegged at 4.9% of GDP vs. 5.1% given in the Interim Budget and 5.6% in FY24P. The government's commitment to achieve a fiscal deficit below 4.5% of GDP by FY26 is positive for debt sustainability. However, the increase in capital gains tax and securities transaction tax is a dampener for capital markets.

Total spending growth of the GoI was accelerated to 8.5% YoY in FY25BE vs. a growth of 5.9% YoY in FY24P. Total spending was pegged at INR48.2t in FY25BE (14.8% of GDP), higher than INR47.7t in FY25BE(I) and INR44.4t in FY24P (15.0% of GDP). At the same time, the total receipts estimate was raised sharply to INR32.1t in FY25BE from INR27.9t in FY24P. Consequently, the fiscal deficit in FY25BE is lower by INR722b when compared to the Interim Budget target. Fiscal deficit is budgeted at INR16.1t (4.9% of GDP) in FY25BE vs. INR16.8t (5.1% of GDP) in FY25BE(I) and INR16.5t (5.6% of GDP) in FY24P, implying a consolidation of 70bp (refer to *Exhibit 1*).

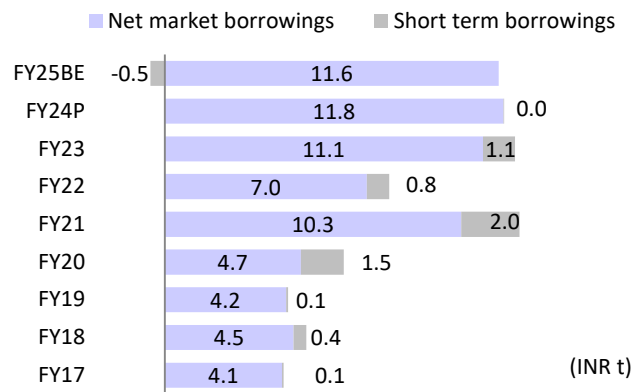
**Exhibit 1: Trends in fiscal deficit over the past two decades; fiscal deficit expected to decline to 4.9% of GDP in FY25BE**



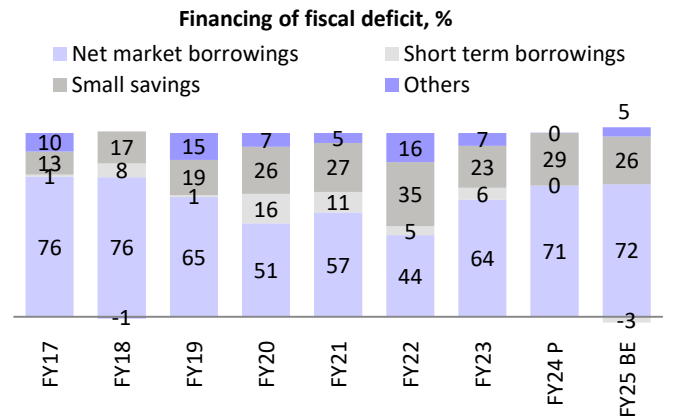
Source: Government, MOFSL

The GoI has budgeted gross market borrowings (GMBs) at INR14t in FY25BE, compared to INR15.4t in FY24P. At the same time, net market borrowings (NMBs) have been pegged slightly lower at INR11.6t in FY25BE, broadly unchanged from INR 11.8t in FY24P. Notably, borrowings through NSSF were pegged at INR4.2t in FY25BE (lower by INR460b vis-à-vis FY25BE(I)), lower than INR4.7t in FY24P. It means that around 26% of the fiscal deficit in FY25BE is planned to be financed through small savings vs. 28.5% in FY24P (*Exhibits 2 and 3*).

**Exhibit 2: NMBs pegged at INR11.6t in FY25 vs. INR11.8t in FY24P**



**Exhibit 3: Over one-fourth of the fiscal deficit is expected to be financed by small savings**



Source: Government, MOFSL

**Exhibit 4: Union Budget 2024-25 in numbers**

	FY23	FY24P		FY25BE			FY25BE (I)			
	INR t	INR t	% YoY	% of GDP	INR t	% YoY	% of GDP	INR t	% YoY*	% of GDP
<b>Total receipts</b>	24.6	27.9	13.6	9.4	32.1	15.0	9.8	30.8	11.8	9.4
Revenue receipts	23.8	27.3	14.5	9.2	31.3	14.7	9.5	30.0	11.2	9.2
Gross taxes	30.5	34.6	13.4	11.7	38.4	10.8	11.7	38.3	11.5	11.7
Net taxes	21.0	23.3	10.9	7.9	25.8	11.0	7.9	26.0	11.9	7.9
Direct taxes	16.6	19.6	17.9	6.6	22.1	12.8	6.7	22.0	13.1	6.7
Corporation taxes	8.3	9.1	10.3	3.1	10.2	12.0	3.1	10.4	13.0	3.2
Income taxes	8.3	10.5	25.4	3.5	11.9	13.6	3.6	11.6	13.1	3.5
Indirect taxes	14.0	15.1	8.2	5.1	16.3	8.2	5.0	16.3	9.4	5.0
Customs	2.1	2.3	9.2	0.8	2.4	2.0	0.7	2.3	5.8	0.7
Excise duties	3.2	3.1	-4.3	1.0	3.2	4.5	1.0	3.2	5.0	1.0
Goods & services tax (GST)	8.5	9.6	12.7	3.2	10.6	11.0	3.2	10.7	11.6	3.3
Devolution to States	9.5	11.3	18.1	3.8	12.4	10.4	3.8	12.3	10.4	3.8
Non-tax revenue	2.9	4.0	40.8	1.4	5.5	35.8	1.7	4.0	6.4	1.2
Non-debt capital receipts	0.7	0.6	-16.3	0.2	0.8	29.0	0.2	0.8	41.1	0.2
Divestment	0.5	0.3	-28.0	0.1	0.5	51.0	0.2	0.5	66.7	0.2
<b>Total expenditure</b>	41.9	44.4	5.9	15.0	48.2	8.5	14.7	47.7	6.1	14.5
Core spending	26.9	29.7	10.4	10.0	32.3	8.9	9.9	31.7	4.8	9.7
Revenue expenditure	34.5	34.9	1.2	11.8	37.1	6.2	11.3	36.5	3.2	11.2
Interest payments	9.3	10.6	14.6	3.6	11.6	9.3	3.5	11.9	12.8	3.6
Defense	5.8	4.1	-28.4	1.4	4.3	3.6	1.3	4.1	-0.9	1.3
Subsidies	2.6	2.9	13.4	1.0	2.8	-2.6	0.9	2.8	-5.3	0.9
Pensions	2.4	2.4	-1.5	0.8	2.4	2.2	0.7	2.4	0.7	0.7
Grants to states/UTs	6.7	6.1	-8.5	2.1	6.7	8.6	2.0	6.2	-6.1	1.9
Non-defense pay/allowances	2.7	2.9	7.6	1.0	3.2	9.3	1.0	3.1	7.1	1.0
Other	2.3	2.5	7.3	0.8	2.7	9.3	0.8	2.6	-1.0	0.8
Capital expenditure	7.4	9.5	28.2	3.2	11.1	17.1	3.4	11.1	16.9	3.4
<b>Fiscal deficit</b>	17.4	16.5			16.1			16.9		
<b>Revenue deficit</b>	10.7	7.7			5.8			6.5		
<b>Capital deficit</b>	6.7	8.9			10.3			10.3		
<b>Primary deficit</b>	8.1	5.9			4.5			5.0		
<b>Nominal GDP</b>	269.5	295.4	9.6		326.4	10.5		327.7	10.5	

\*Over FY24REs Source: Union Budget documents, MOFSL

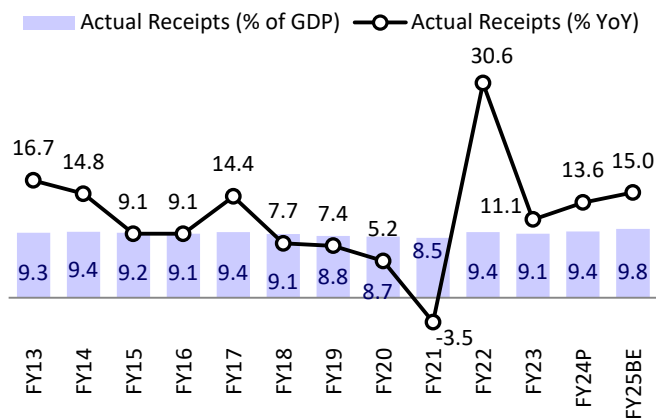
### Higher non-tax revenue boosts total receipts growth in FY25

The Gol has budgeted FY25 total receipts to INR32.1t from INR30.8t pegged in the Interim Budget (an increase of INR1.3t), entirely led by higher dividends. This implies a growth of 15% YoY in FY25BE (highest in 3 years if achieved) vs. a growth of 13.6% in FY24P.

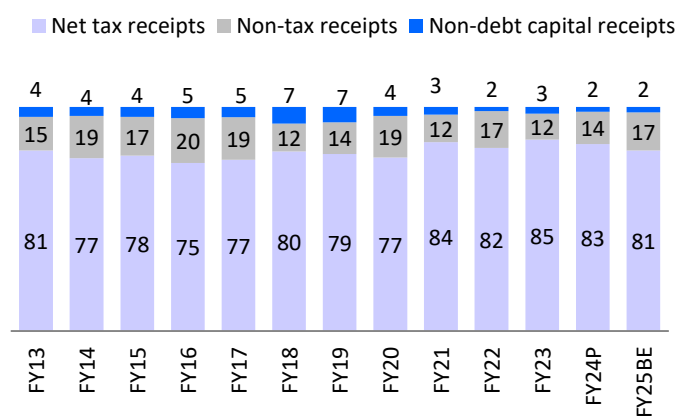
While gross tax revenues in FY25BE have remained broadly unchanged (at INR38.4t) vs. the Interim Budget estimates (INR38.3t), net tax revenues have been reduced slightly by ~INR180b due to higher assignment to states. Direct and indirect tax collections and their sub-components have also remained broadly unchanged. On the other hand, non-tax receipts have been revised higher to INR5.5t in FY25BE from INR4t each in FY25BE (I) and FY24P, entirely led by higher dividends received – INR2.9t in FY24BE vs. INR1.5t in FY25BE (I) and INR1.7t in FY24P.

The Gol has budgeted 10.8% growth in gross taxes for FY25BE (vs. 13.4% in FY24P), with total receipts growing by 15% (vs. 13.6% in FY24P). (Exhibit 5). Within total receipts, net tax receipts are budgeted to grow by 11% YoY in FY25BE (10.9% in FY24P), and non-tax receipts are budgeted to grow by 35.8% (vs. 40.8% in FY24P). Therefore, non-tax receipts are likely to account for ~17% of total receipts in FY25 (highest in five years), while net tax receipts are likely to account for ~81% of total receipts in FY25, lower than 83.4% in FY24P and lowest in five years (Exhibit 6).

**Exhibit 5: Receipts expected to grow 15% in FY25BE, the highest in three years...**



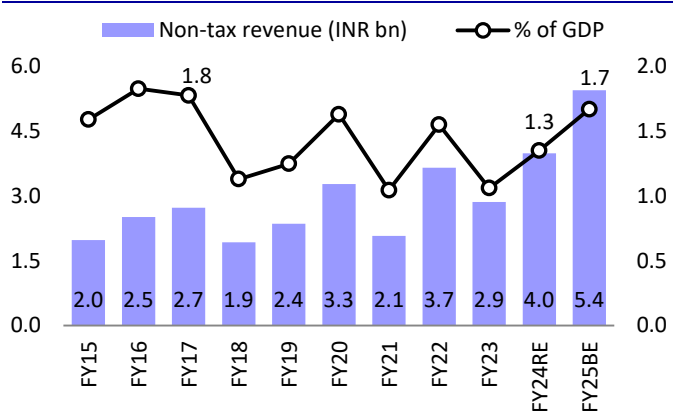
**Exhibit 6: ...and non-tax receipts to account for 17% of receipts, the highest in five years (%)**



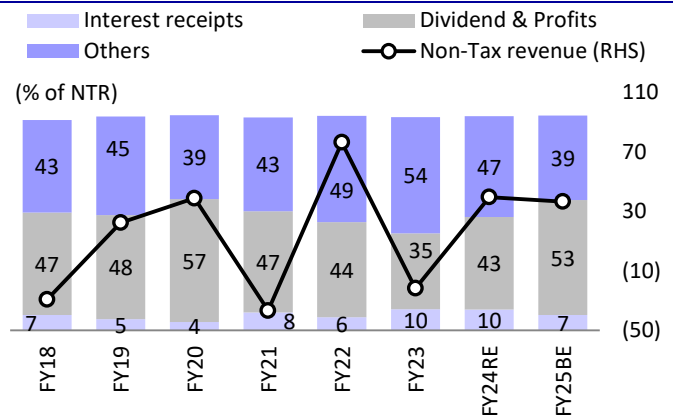
Source: Union Budget documents, MOFSL

As % of GDP, non-tax revenue has stood at 1.7% in FY25BE, higher than 1.4% in FY24P and the highest in eight years (Exhibit 7). Within non-tax receipts, the share of dividends and profits has been budgeted to jump sharply to 53% in FY25BE (the highest in five years) from 43% in FY24P (Exhibit 8).

**Exhibit 7: Non-tax receipts stood at 1.7% of GDP in FY25BE, the highest in eight years...**



**Exhibit 8: ...and dividends to account for 53% of non-tax receipts**



Source: Union Budget documents, MOFSL

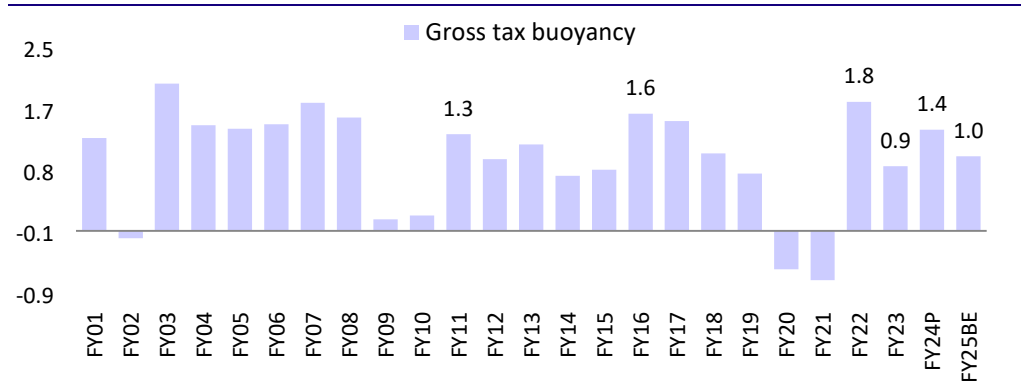
The Gol has budgeted a lower tax buoyancy of 1x in FY25 (Exhibit 7) due to a relatively lower nominal growth expectation of 10.5% in FY25 and a slightly higher gross tax revenue growth of 10.8%.

**Tax buoyancy is budgeted to moderate in FY25BE**

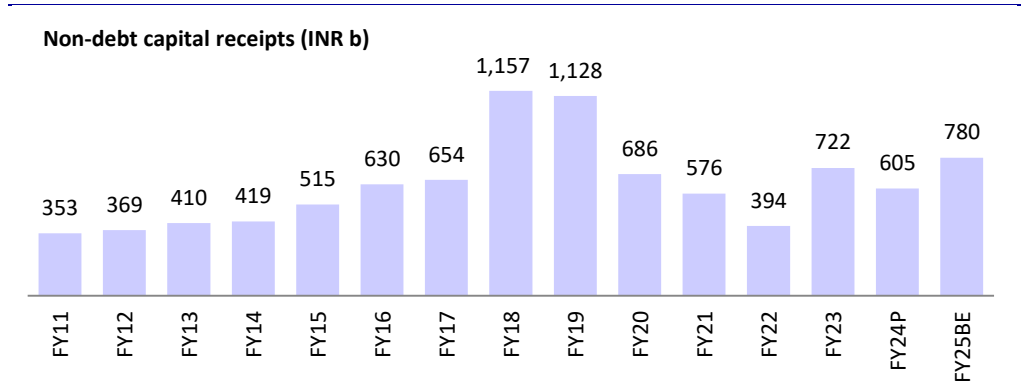
The Gol has budgeted a lower tax buoyancy of 1.0x in FY25 (vs. 1.4x in FY24P) (Exhibit 7) due to a relatively lower nominal growth expectation of 10.5% in FY25 and a slightly higher gross tax revenue growth of 10.8%.

Non-debt capital receipts are budgeted to increase to INR780b in FY25BE vs. INR605b in FY24P (29% YoY) (Exhibit 8).

**Exhibit 9: Gross tax buoyancy expected at 1.0x in FY25BE**



**Exhibit 10: Non-debt capital receipts increased to INR780b in FY25BE**



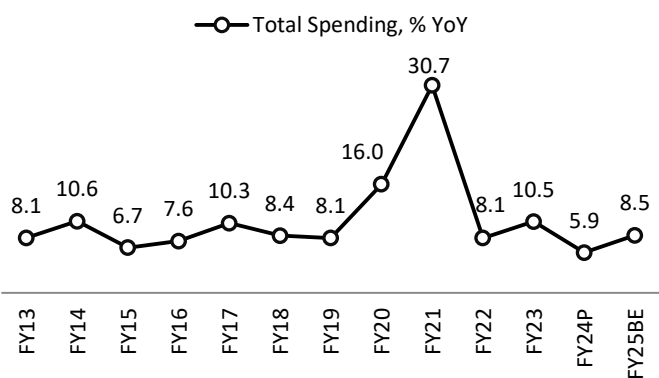
Source: Union Budget documents, MOFSL

**Total spending budgeted to grow 8.5% YoY in FY25BE**

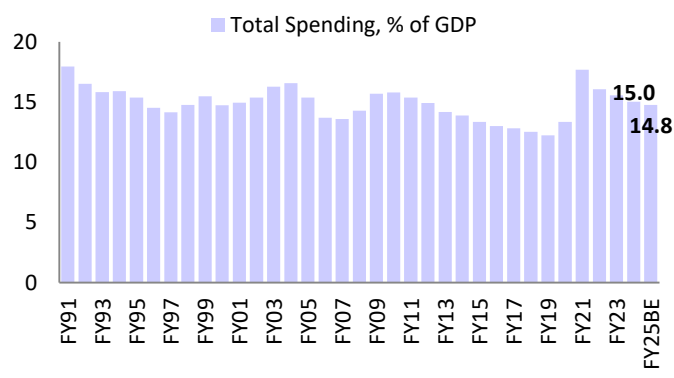
Total GoI spending budgeted to grow at the lowest rate in 19 years in FY25

The GoI’s total spending is budgeted at INR48.2t in FY25BE vs. INR44.4t in FY24P. Thus, total spending in FY25BE is INR547b higher than the Interim Budget estimates, consequently implying a growth of 8.5% YoY vs. 5.9% in FY24P (*Exhibit 9*). Excluding interest payments and subsidies, the primary spending of the GoI is budgeted to grow 9.9% YoY in FY25BE vs. 9.4% growth in FY24P. As a percent of GDP, it is budgeted to drop to 14.8% of GDP in FY25 from 15.0% of GDP in FY24P (*Exhibit 10*).

**Exhibit 11: Total spending growth budgeted to increase 8.5% in FY25BE followed by 5.9% YoY in FY24P**



**Exhibit 12: Total spending budgeted to decelerate to 14.8% of GDP in FY25BE**



Source: Government, MOFSL

Total spending growth of 8.5% YoY in FY25 is largely aided by 17.1% YoY growth in capital spending of the GoI.

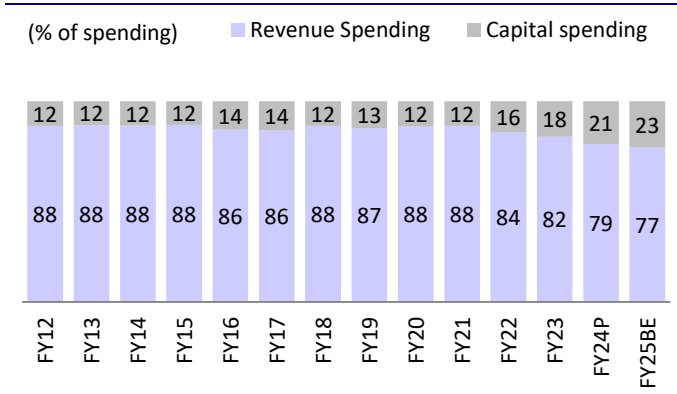
The increase in FY25 total spending estimates is entirely led by higher revenue spending (INR37.1t in FY25BE vs. INR36.5t/34.9t in FY25BE(I)/FY24P) as capital spending has been budgeted at INR11.1t, similar to what it was in FY25 Interim Budget estimates. Within revenue spending, most of the increase is due to an uptick in grants to states and union territories. Subsidies and grants to states/UTs have seen an increase of INR187b and INR473b, respectively, while interest expenditure has been revised down by INR275b.

Capital spending has been budgeted at INR11.1t, similar to what it was in FY25 Interim Budget estimates. Within capital spending, while loans & advances to states have been increased by INR209b, the Center’s capital outlays have been reduced by the same amount.

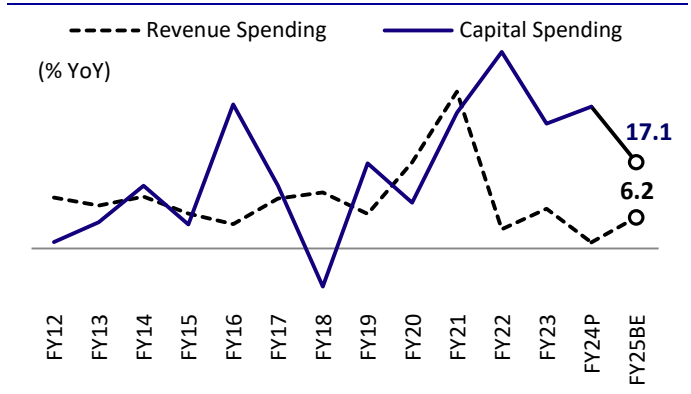
Capital spending is budgeted to grow 17.1% YoY in FY25BE (partly supported by a downward revision in FY24P), following an average of 30% YoY during FY21-FY24P. The GoI’s capital spending has surged by more than 3x in the past five years to INR11.1t in FY25BE, from INR3.4t in FY20. Revenue spending, conversely, is expected to grow by 6.2% YoY in FY25BE vs. 1.2% in FY24P. Excluding interest payments and subsidies, revenue expenditure is budgeted to grow 6.5% YoY in FY25. Thus, the share of capital spending is budgeted to rise to 23% of total spending, marking the highest share in the past three decades (*Exhibits 11, 12*).



**Exhibit 13: Capital spending (as a % of total spending) is budgeted to rise to a 30-year high in FY25BE...**



**Exhibit 14: ...as capex is expected to grow 17.1% YoY during the year**



Source: Union Budget documents, MOFSL

**Center’s capex budgeted to grow 11.4% YoY in FY25BE**

The Gol has budgeted a total capital spending of INR11.1t in FY25 vs. INR9.5t in FY24P. This implies a growth of 17.1% YoY in FY25BE, following an average growth of 30% during FY21-FY24P. However, excluding loans and advances (INR1.9t) and equity infusion into BSNL (INR831b), the Gol’s actual capex is budgeted at INR8.4t in FY25 vs. INR7.5t/INR8.6t in FY24P/FY25BE(I) (a growth of 11.4% in FY25BE vs. an average of 25.8% in the last 4 years).

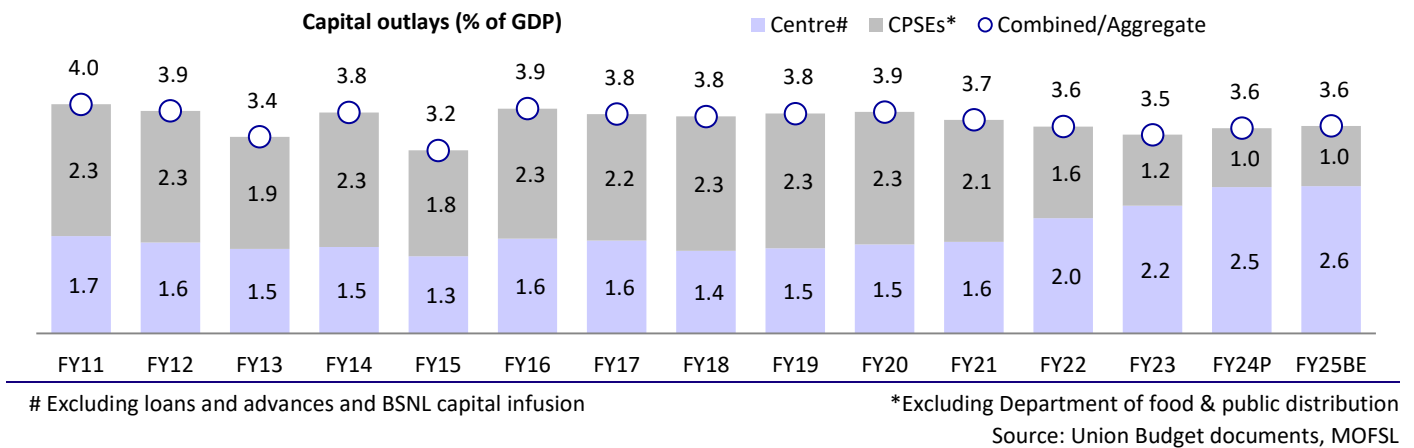
**Combined capex to grow 11.7% YoY**

Notably, IEBR capex is budgeted higher at INR3.4t in FY25BE vs. INR3.1t/INR3t in FY25BE(I)/FY24P (higher by INR306b as compared to Interim Budget estimates). Consequently, IEBR capex is expected to grow 12.5% YoY in FY25BE after declining at an average of 10% during the last four years. As a percentage of GDP, CPSEs’ capex is likely to fall to 0.9% in FY25 (1.0% of GDP in FY24P), and that of the government (excluding loans & advances and equity infusion to BSNL) is expected to increase to 2.6% of GDP from 2.5% in FY24P.

The total government capex is budgeted at 3.6% of GDP in FY25, same as in FY24P

**Therefore, the combined capex is projected to increase only by 11.7% YoY in FY25BE vs. an average growth of 11.5% in the last two years and 13.2% in FY24P. As % of GDP, combined capex is estimated at 3.6% of GDP (lower than pre-Covid levels of 3.9% of GDP) in FY25 but similar to FY24P and slightly higher than FY23 (Exhibit 13).**

**Exhibit 15: While the Center’s capex as a % of GDP is expected to rise, that of CPSEs is expected to reduce further in FY25BE**

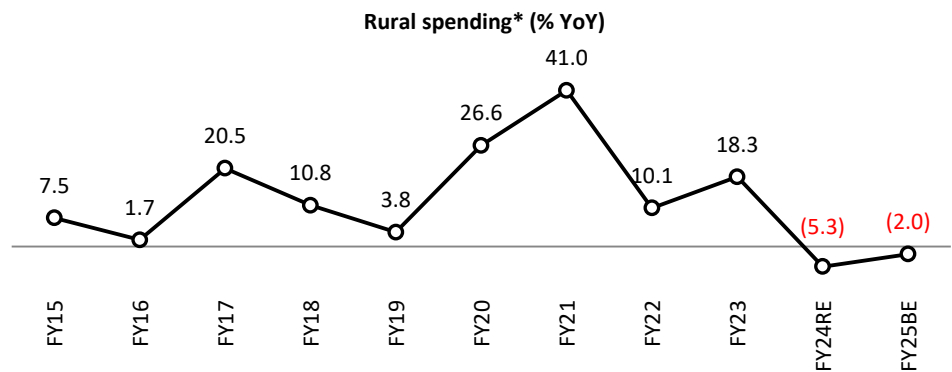


**Rural spending budgeted to contract 2% in FY25BE**

Rural spending to contract for the second consecutive year in FY25BE

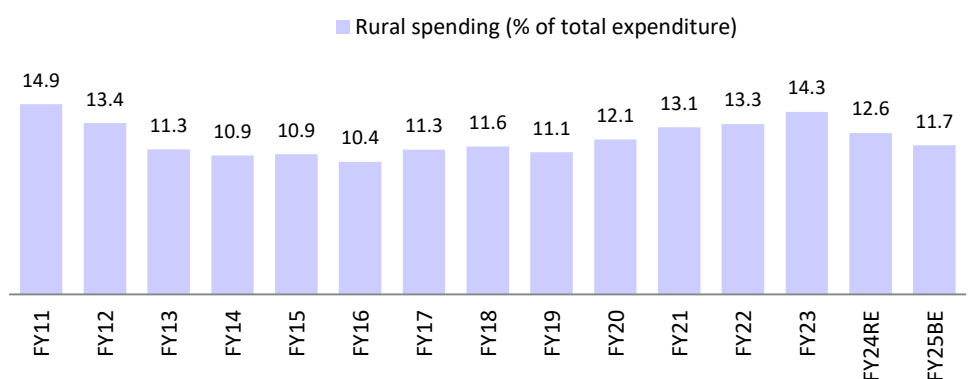
Contrary to market expectations, there are no major changes in rural spending allocation for FY25BE vis-à-vis Interim Budget estimates. Rural spending is budgeted at INR5.6t in FY25BE vs. INR5.5t in the Interim Budget estimates. Following 18.3% YoY growth in FY23, rural spending was estimated at INR5.7t in FY24RE, a decline of 5.3% YoY during the year. It is budgeted at INR5.6t in FY25BE, implying the second consecutive fall of 2% YoY. Consequently, the share of rural spending in the Gol’s total spending has come down to a six-year low of 11.7% in FY25 (Exhibits 14 and 15).

**Exhibit 16: Rural spending is budgeted to contract for the second successive year...**



\*Ministry of rural development, Panchayati Raj, Fertilizer and Agriculture

**Exhibit 17: ...leading to the six-year lowest share in total spending in FY25BE**



Source: Union Budget documents, MOFSL

## Government focuses on long-term macro stability, even if it comes at the short-term cost

With a 5.1% budgeted deficit in FY25, the task of bringing it down to 4.5% of GDP becomes achievable

The new government presented its first Union Budget on 23<sup>rd</sup> Jul'24. Anticipation was high for some consumption-boosting initiatives, as the Government of India (GoI) received additional resources from the Reserve Bank of India (RBI). Nevertheless, akin to the Interim Budget of 1<sup>st</sup> Feb'24, and the Budget of 2023, the GoI refrained from introducing any major schemes to stimulate consumption and instead focused on fiscal deficit consolidation.

The GoI's revenue expenditure is budgeted to grow 6.2% YoY and propelled capital expenditure (capex) at a higher pace this year. Excluding interest payments and subsidies, revenue expenditure is budgeted to grow 6.5% YoY in FY25BE, slightly better than 2.2% in FY24P. The GoI's capital spending, however, is budgeted to grow 17.1% YoY in FY25BE, following an average of 30% YoY during FY21-FY24P. It implies that total spending is budgeted to decline to 14.8% of GDP in FY25BE from 15.0% in FY24P, and the share of capital spending is budgeted to rise to 23% of total spending, marking the highest share in the past three decades.



Notably, as highlighted in our recent [report](#), a large portion of the GoI's higher capex is re-allocated from the internal and extra-budgetary resources (IEBR) of central public sector enterprises (CPSEs). After declining at an average of 10% during the last four years, IEBR capex is expected to grow 12.5% YoY in FY25BE. If so, the combined capex of the center (excluding loans & advances and equity infusion to BSNL) and CPSEs is budgeted to grow 11.7% YoY this year, lower than 13.2% in FY24P. It also implies that the combined capex is budgeted at 3.6% of GDP in FY25BE, the same as in FY24P.

With higher receipts and a slower increase in spending, GoI's fiscal deficit is budgeted at INR16.1t (or 4.9% of GDP) for FY25BE, implying a consolidation of 70 basis points (bp) from 5.6% in FY24P. As mentioned above, the fiscal deficit was budgeted at INR16.9t (or 5.1% of GDP) during the Interim Budget in Feb'24. Nominal GDP growth is kept unchanged at 10.5% YoY in FY24 (same as in Feb'24).

The GoI is totally committed to long-term macro-economic stability, even if it comes at the expense of short term growth

Overall, notwithstanding the general elections, the GoI's ability to resist any populist schemes or incentives is extremely commendable. Moreover, given the fact that it has budgeted a fiscal deficit of 5.1% of GDP for FY25 (and lower than budgeted in FY24RE), the GoI is extremely serious about its (tall) task of achieving 4.5% of GDP by FY26. This clearly demonstrates the GoI's strong commitment to long-term macroeconomic stability, even if it means sacrificing short-term growth.

**AGRI****Budget Impact: Positive****Sector Stance: Positive**

The Union Budget 2024 has reflected the government's focus on the welfare of the farmer community, coupled with faster growth in the sector. The key announcements influencing the Agri sector and farmers are:

**At a glance**

Area	Key proposal	Impact
Fertilizer subsidy remained unchanged at INR1,640b (vs. the Interim FY25 Budget allocation)	❖ Overall budget allocation for fertilizer subsidies remained unchanged at INR1,640b (Urea subsidy at INR1,190b and Complex Fertilizer subsidy at INR450b).	<b>Neutral</b>
Encouraging natural farming	❖ Ten million farmers nationwide would be introduced to natural farming over the course of the next two years, with the help of branding and certification. Further, 10k bio-input resource centers will be set up depending on need.	<b>Positive</b>
Facilitating Digital Public Infrastructure (DPI) for Agriculture	❖ The government will work with states to adopt DPI in agriculture within three years. A digital crop survey for Kharif will be conducted in 400 districts this year, where 60m farmers' information will be added to registers, and five states will issue Kisan Credit Cards based on Jan Samarth.	<b>Positive</b>
Transforming agriculture research	❖ To emphasize increasing production and developing climate-resistant varieties, the government will thoroughly assess the agricultural research system. Challenge mode funding will be provided, including to the private sector, with oversight by experts from both the government and private sectors.	<b>Positive</b>

**Outlook and recommendations**

For the agriculture sector, the Union Budget focused on: i) encouraging natural farming to improve farm quality and farmer profitability in the long term, ii) digitizing the agricultural industry, and iii) emphasizing and supporting agricultural research for better-yielding and climate-resistant farm products. The strategy of the government, with its long-term objective of increasing farmers' income, is to benefit the agrochemical and fertilizer companies.



## AUTOS

**Budget Impact: Neutral**

**Sector Stance: Positive**

The govt., in the Union Budget 2024, has provided an extension of the exemption of Basic Customs Duty on a few auto components commonly used in electric vehicles (EVs). Below are some of the announcements related to the exemption.

### At a glance

Area	Key proposals	Impact
BCD exemption until 31 <sup>st</sup> Mar'26 for EV-related parts	<ul style="list-style-type: none"> <li>❖ Specified goods for the manufacture of Brushless Direct Current (BLDC) motors</li> <li>❖ All parts for use in the manufacture of LED lights</li> <li>❖ Specified parts and the components for use in manufacturing Lithium-ion battery and battery pack</li> <li>❖ Parts, sub-parts, inputs/raw materials for use in manufacturing Lithium-ion cells</li> <li>❖ Lithium-ion cell's use in manufacturing battery or battery pack</li> </ul>	<b>Positive</b>
BCD exemption until Sep'24 for 2W/3W EV batteries	<ul style="list-style-type: none"> <li>❖ BCD exemptions on batteries for 2W and 3W EVs will lapse with effect from 30<sup>th</sup> Sep'24</li> </ul>	<b>Neutral to Positive</b>
No change in budgeted allocation to the FAME scheme	<ul style="list-style-type: none"> <li>❖ The allocation to the FAME scheme for FY24-25 has been kept unchanged from that at the Interim Budget, at INR26.7b</li> </ul>	<b>Neutral</b>

### Outlook and recommendations

The Union Budget 2024 did not include any direct demand-driving measures for the auto sector. However, govt.'s emphasis on infrastructure development and agriculture is expected to support sector demand. The extension of Basic Customs Duty (BCD) exemptions on various EV parts bodes well for the growth of an EV supply chain in India. Although we are aware that the FAME III subsidy proposal is in its final stages, the specifics have not been disclosed in this budget and are anticipated to be announced in the upcoming months. MSIL and MM are our top picks in Auto OEMs. Among Auto Ancillaries, our top picks are CRAFTSMA, MOTHERSO and HAPPYFORG.



## AVIATION

**Budget Impact: Neutral**

**Sector Stance: Positive**

Through the Union Budget 2024, the government has facilitated a better trade period and a couple of duty reliefs, including extending the exemption on ATF for Indian airlines. The key announcements influencing the Aviation sector are:

### At a glance

Area	Key proposal	Impact
Trade facilitation	❖ Extended the period for export of goods imported for repairs from six months to one year.	<b>Neutral</b>
	❖ Extended the time limit for re-import of goods for repairs under warranty from three to five years	
Changes in import duty	❖ Levied import duty on Blended Aviation Fuel to the extent of 5%	<b>Neutral</b>
	❖ Continuation of exemption of BCD on ATF in the tanks of the aircraft of an Indian airline or of the Indian Air Force until FY29	

### Outlook and recommendation

We are optimistic about the domestic aviation sector, with demand consistently exceeding pre-Covid levels. INDIGO is expanding its international presence through strategic partnerships and loyalty programs, aiming to capture a larger share of growth in the global market.



## CEMENT

**Budget Impact: Neutral**

**Sector Stance: Positive**

In the Union Budget 2024, the government proposed: 1) financial support of INR150b to Andhra Pradesh; 2) completion of the Polavaram irrigation project; 3) allocation of INR260b to support road projects in Bihar; 4) setting up new airports, medical facilities, and sports infrastructure in Bihar; and 5) reducing stamp duties for properties purchased by women. Further, it announced: a) investments of INR10t with the central government assistance of INR2.2t in the next five years under PMAY Urban 2.0 to support the housing needs of 10m urban poor and middle-class families; and 2) 30m additional houses to be brought under the PMAY in rural and urban areas.

### At a glance

Area	Key proposal	Impact
Allocation for housing schemes	❖ Allocation for housing schemes (PMAY) stood at INR847b, up ~28% YoY vs. 2023-24A (up 5% vs. as announced in the Interim Budget 2024).	Positive

### Outlook and recommendations

**Cement:** We remain positive on the sector given the accelerated consolidation within the industry and the likely increase in capacity utilization following the recovery in cement demand post-monsoon. We believe that strong demand growth will be fueled by the government's emphasis on affordable housing, infrastructure development (expansion of road networks, rail & metro connectivity, and construction of new airports), and a probable uptick in industrial/private capex. We estimate a cement demand CAGR of ~7-8% in the long run. UTCEM and ACEM are our top picks in the large-cap space. Among mid-cap stocks, we prefer ACC and JKCE.

**CHEMICALS - SPECIALTY****Budget Impact: Positive****Sector Stance: Neutral**

Through the Union Budget 2024, the government has facilitated domestic companies by imposing customs duties on key chemicals. The key announcements influencing the chemicals sector are:

**At a glance**

Area	Key proposal	Impact
<b>Changes in customs duties</b>	❖ Increase the BCD on Ammonium Nitrate from 7.5% to 10.0%	<b>Positive</b>
	❖ Raise the BCD on PVC flex films/ flex banners from 10% to 25%	
	❖ Increase the BCD on Laboratory Chemicals under heading 9802 from 10% to 150%	
	❖ Exemption of custom duty on Lithium oxide & Hydroxide and Lithium Carbonates from 7.5% earlier to NIL	
	❖ Reduce the BCD on MDI for use in the manufacture of Spandex Yarn from 7.5% to 5% (subject to IGCR conditions)	

**Outlook and recommendation**

The changes in customs duties will benefit companies such as Neogen, Gujarat Fluorochemicals, Himadri, Deepak Fertilizers, and GNFC but will negatively impact BASF India. These changes will discourage imports, enabling domestic companies to capitalize on the opportunity. However, the anticipated PLI scheme for the chemical sector was not announced in the budget, which is a negative.





## CONSUMER

**Budget Impact: Positive**

**Sector Stance: Positive**

The Union Budget 2024 has reflected the government's plan to support the rural economy with an increase in fund allocation for rural development, which will drive volume recovery for the industry players. Besides, the govt. has also maintained taxes on cigarettes and reduced customs duty on imports of gold and silver.

### At a glance

Area	Key proposal	Impact
Increase in rural development expenditure	❖ The overall budget allocation for rural development has been increased by 11% YoY to INR2,658b for FY25 from INR2,390b in FY24RE.	<b>Positive</b>
Increase in agriculture and allied activities expenditure	❖ The budget allocation for agriculture and allied activities has been increased by 8% YoY to INR1,519b in FY25 from INR1,405b in FY24RE.	<b>Neutral</b>
No tax hike for cigarettes	❖ The government has maintained taxes on cigarettes. It is positive for ITC; its cigarette volumes will continue to grow.	<b>Positive</b>
Expansion in tax slab and increase in standard deduction under new tax scheme	❖ Under the new tax regime, the government has expanded the tax slabs and increased the standard deduction to INR75,000 from 50,000. It will result in savings of up to INR17,500 per tax payer.	<b>Neutral</b>
Customs duty cut on gold/silver to 6% from 15% earlier	<ul style="list-style-type: none"> <li>❖ Customs duty for gold and silver has been reduced to 6% from 15%.</li> <li>❖ It is a big positive for the jewelry industry, as it will expedite the formalization trend. Customers will also get relief on gold prices, and it will also drive demand recovery in the near term.</li> <li>❖ However, in the near term, it will also lead to inventory loss impact, particularly on gold on lease. The impact could be visible over the next two quarters.</li> </ul>	<b>Positive</b>

### Outlook

The government's increased budget allocation for rural development indirectly helps FMCG companies increase their sales volumes. We were already anticipating a volume recovery in rural areas in FY25. There was also relief for cigarette companies as there was no change in the tax rate. Cigarette volume recovery has been healthy, and stable taxes should further help to sustain volume growth for ITC. The reduction in customs duty on gold and silver imports will benefit jewelry companies, like Titan, Kalyan, and Senco Gold, expediting the formalization trend and improving demand trends.



## CAPITAL GOODS

**Budget Impact: Neutral**

**Sector Stance: Positive**

In the Union Budget 2024, the government maintained the overall capex outlay at INR11.1t, at the same level as the Interim Budget while the same for 2023 was INR10t. The allocation under key heads such as Defense (INR1.7t), Railways (INR2.5t), and Roads (INR2.6t) remains unchanged from the Interim Budget. Notable announcements revolve around the twin objectives of energy security and energy transition across both nuclear and thermal power, continuation of interest-free loans to the states for capital investments, and VGF measures to promote private capex.

### At a glance

Area	Key proposal	Impact
Capital allocation	❖ The capital allocation was flat at INR11.1t for FY25E vs. the interim budget.	<b>Neutral</b>
State - interest free loans	❖ Continuation of the 50-year interest-free loans for capex to state governments worth INR1.5t.	<b>Neutral</b>
Allocation for Defense	❖ The defense capital outlay is maintained at INR1.7t for FY25E vs. INR1.57t (FY24RE)	<b>Neutral</b>
Allocation for Railways	❖ The railway capital allocation is maintained at INR2.55t for FY25E vs. INR2.4t for FY24RE. However, physical targets have been hiked for electric locomotives (1,600), coaches (8,405), and wagons (38,000).	<b>Positive</b>
Allocation for Roads	❖ Capital allocation for roads and bridges is maintained at INR2.6t for FY25E vs. INR2.4t for FY24RE	<b>Neutral</b>
Emphasis on nuclear energy	❖ Development of small and modular reactors and newer technologies to increase the share of nuclear energy in the energy mix	<b>Positive</b>
Development of Advanced Ultra Super Critical Thermal Power Plants	❖ The JV of NTPC and BHEL to set up 800 MW with financial support from the government. Added benefit is the indigenous development of high-grade steel and other advanced metallurgy materials	<b>Positive</b>
Emission reduction	❖ Regulations to curb emissions from 'hard-to-abate' sectors	<b>Neutral</b>
Irrigation and flood mitigation	❖ Financial support worth INR115b to interlink Kosi-Mechi rivers in Bihar	<b>Positive</b>
Mobile phone and parts	❖ Reduction of BCD on mobile phones, PCBA, and charger to 15%	<b>Negative</b>
Electronics	❖ Removal of BCD on oxygen-free copper for manufacturing resistors, coupled with exemption on certain parts for manufacturing connectors	<b>Positive</b>
Space economy	❖ INR10b venture fund to be set up to expand the space economy	<b>Neutral</b>

### Outlook and recommendations

In the Union Budget 2024, the govt. maintained its capex allocation for the capital goods sector as outlined in the Interim Budget earlier. The government had already front-loaded the capex in the last three years, and hence, an upward revision was not anticipated from these levels. Companies, by and large, have factored in the policy roadmap, and private capex must now start contributing meaningfully. The green shoots of this are already visible in select segments.

Our **top picks** in the sector are L&T, ABB, and Bharat Electronics.



## FINANCIALS

**Budget Impact: Neutral**

**Sector Stance: Positive**

The Union Budget 2024 announcements were overall neutral for the BFSI sector. The key government recommendations were as follows: 1) the limit of Mudra loans has been doubled to INR2m; 2) the government announced enhanced credit support to MSMEs, including those in the SMA category; 3) LTCG and STCG tax rates have both been increased; 4) the STT rate on derivative contracts is set to increase, 5) introduced measures to prevent the misuse of deductions of expenses claimed by life insurance business and a reduction in TDS rate, 6) Central assistance of ~INR2.2t over the next five years under PMAY Urban 2.0 and a provision of interest subsidy to facilitate home loans at affordable rates, 7) re-introduction of the credit-linked subsidy scheme (CLSS) under PMAY (U) with an allocation of ~INR30b towards CLSS-EWS/LIG and ~INR10b towards CLSS-MIG, and 8) a reduction in customs duty on gold to 6%, which will result in a decline in gold prices.

### At a glance

Area	Key proposals	Impact
Mudra loans	❖ Limit of Mudra loans will be enhanced to INR2m from the current INR1m for entrepreneurs who have availed and successfully repaid previous loans under the 'Tarun' category.	Positive
Credit support to MSMEs during stress	❖ Recognizing the importance of MSMEs, government proposed to ensure credit availability to MSMEs that are in the SMA category for reasons beyond their control via a guarantee from a government-promoted fund.	Positive
New assessment model for MSME credit	❖ PSBs to build in-house capability to assess MSMEs for credit instead of relying on external assessment. This will also include MSMEs without a formal accounting system.	Positive
Credit Guarantee Scheme for MSMEs in the manufacturing sector	❖ For facilitating term loans to MSMEs without a collateral, a credit guarantee scheme will be introduced. The credit guarantee fund will provide a cover of up to INR1b.	Positive
Central assistance of ~INR2.2t over the next five years under PMAY Urban 2.0	❖ Thirty million additional houses will be under PMAY in rural and urban areas. Re-introduction of Credit-linked subsidy scheme (CLSS) under PMAY (U) with an allocation of ~INR30b towards CLSS-EWS/LIG and ~INR10b towards CLSS-MIG. This will incentivize the demand for housing and mortgages.	Positive
Reduction in customs duty on gold to 6%	❖ This will result in a decline in gold prices and might hurt the gold loan growth of gold financing companies.	Negative
LTCG and STCG	❖ With effect from 23 <sup>rd</sup> Jul'24, the LTCG tax will increase from 10% to 12.5%, while the STCG tax on certain assets would increase from 15% to 20%. Govt. proposed to raise the exemption limit to INR0.125m per year on long-term equity gains (earlier limit was INR 0.1m).	Negative
Change in holding period	❖ Listed financial assets held for more than a year and unlisted financial and non-financial assets held for two years are classified as long-term. Unlisted bonds, debentures, debt mutual funds, and market-linked debentures would all be taxed based on tax slabs.	Neutral
Revised STT rates	❖ Govt. proposed to increase the rates of STT on sale of an option in securities from 0.0625% to 0.1% of the option premium, and on sale of a futures in securities from 0.0125% to 0.02%. This will be made effective from 1st Oct'24.	Negative
Amendment in the definition of "Specified Mutual Fund"	❖ It is proposed to amend the definition of "Specified Mutual Fund" - a Mutual Fund by whatever name called, which invests more than sixty five per cent of its total proceeds in debt and money market instruments; or a fund which invests sixty five per cent or more of its total proceeds in units of a fund referred above. ETF, Gold ETF and FoFs will now attract tax based on holding period vs slab rates earlier.	Positive
Preventing misuse of deductions of expenses claimed by life insurance business	❖ It has been noticed that there have been instances where non-business expenses have been claimed by life insurance companies and there is no provision to add back these to the income of such companies. The prevention will be done to ensure that provisions are not misused to claim deduction for expenses, which are otherwise not admissible. It is thus proposed to provide any expenditure that is not admissible (u/sec 37 of the Act) in computing the profits and gains of a business shall be included to (i.e. added back to) the profits and gains of the life insurance business. This will be made applicable from 1 <sup>st</sup> Apr'25.	Neutral

**Revision in TDS rates - Positive**

	<b>Present TDS Rate</b>	<b>Proposed TDS Rate</b>	<b>With effect from</b>
Section 194D - Payment of insurance commission (in case of person other than company)	5%	2%	01-04-2025
Section 194DA - Payment in respect of life insurance policy	5%	2%	01-10-2024
Section 194H - Payment of commission or brokerage	5%	2%	01-10-2024

**Outlook and recommendation**

**Banks:** The Union Budget-2024 was broadly neutral for the banking sector, with the government clearly emphasizing on ensuring credit availability to MSMEs. The government has further proposed to ensure credit availability to MSMEs in the SMA category due to reasons beyond their control, while also suggesting PSBs build in-house capability to assess MSMEs for credit instead of relying on external assessment. We maintain our positive stance on the sector led by strong balance sheet and healthy profitability. **Our top ideas:** ICICIBC, SBIN, and FB.

**NBFCs:** The re-introduction of the CLSS scheme will incentivize demand for the purchase of affordable homes, potentially boosting the demand for affordable home loans. A decline in gold prices could potentially hurt gold loan growth in the near-term but is neutral from a medium-term perspective. The cost of borrowings remains elevated for NBFCs/HFCs, leading to ongoing NIM compression. Expectations for a rate cut have now been postponed to the end of this calendar year. Our top picks in the sector are Shriram Finance, PNB Housing, and Cholamandalam Finance.

**Non-lending Financials:** We remain optimistic about the capital market and insurance sector due to the stark under-penetration in these areas. We anticipate that the rise in LTCG/STCG tax rates and the increase in STT on F&O transactions will minimally affect cash equity and F&O trading volumes. The financialization and digitization of savings will continue to drive growth in these sectors. Nevertheless, unfavorable regulatory measures could hinder growth, and we are closely monitoring this in the short term. Our top picks in the space are SBI Life, Star Health, and Angel One.



## INFRASTRUCTURE

**Budget Impact: Neutral**

**Sector Stance: Positive**

### Moderate capex outlay across key sectors

#### At a glance

Area	Key proposals	Impact
Roads	❖ Total outlay is pegged at INR2.7t in FY25BE and the funding via IEBR is pegged at zero. There has been no change vs. the Interim Budget.	<b>Neutral</b>
Railways	❖ The overall capex outlay is higher by 2%. The budget-linked allocation is up 5% YoY, while IEBR is pegged lower by 35%. There has been no change vs. the Interim Budget.	<b>Neutral</b>
Defense	❖ Defense capex increased 9% YoY to INR1.72t.	<b>Neutral</b>
Others	❖ Government to provide INR1.5t worth of interest-free loans on a long-term basis.	<b>Positive</b>

#### Outlook and recommendations

- **Infrastructure:** Overall capex growth has been moderate and below our and Street expectations, especially in the Roads and Railways segments. There has been no major change compared to the Interim Budget
- **Our top pick:** In the Roads segment, we continue to prefer KNR Constructions.



## LOGISTICS

**Budget Impact: Neutral**

**Sector Stance: Positive**

### At a glance

Area	Key proposals	Impact
Logistics	<ul style="list-style-type: none"> <li>❖ To enable MSMEs to sell their products in international markets. The e-commerce export hubs will be set up in the PPP mode. These hubs will streamline trade- and export-related services under one roof.</li> <li>❖ The govt. plans to develop 12 new industrial parks under the National Industrial Corridor Development Programme.</li> </ul>	<b>Positive</b>

### Outlook and recommendations

- **Logistics:** The development of Industrial parks will enhance turnaround time, boost trade, improve operational efficiency, and reduce logistics costs at the industry level.
- **Our top picks:** Transport Corporation is our preferred play in the Logistics sector.



## METALS

**Budget Impact: Neutral**

**Sector Stance: Positive**

There was no significant budget proposal for the metals sector that would influence the stock prices. However, the stable capex announcement of INR11.1t should continue to fuel demand in the Metals sector. The government expressed its focus on critical mineral policies for domestic production. Further, the government took certain measures, such as custom duty reduction/removal, to enhance supply to meet the improving demand from the manufacturing sector.

### At a glance

Area	Key proposals	Impact
Capex	❖ Infrastructure capex remains the same as the Interim Budget, at INR11.1t	Positive
Urban Housing	❖ Central assistance of INR2.2t in the next five years	Positive
Thermal Coal	❖ Development of indigenous technology for Advanced Ultra Super Critical (AUSC) thermal power plants of 800MW for commercial use	Positive
Thermal Coal	❖ Power projects – 2,400MW thermal power plant at Pirpainti	Positive
Customs Duties (Ferrous Scrap)	❖ Removal of BCD on Ferro-nickel, Ferro-chrome, blister copper, ferrous scrap, and nickel cathode.	Positive
Customs Duties (Critical Minerals)	❖ Minerals such as lithium, copper, cobalt, and rare earth are fully exempt from customs duties	Neutral
Customs Duties (Precious metals)	❖ Customs duty reduction for gold and silver to 6% each, and 6.4% for platinum.	Positive

### Outlook and recommendations

- **Steel:** The infrastructure sector accounts for ~60% of the total domestic steel demand, with construction at ~20% and automobiles at ~8%. The domestic steel demand has rebounded strongly in FY24. Despite challenging global markets, most industry players have indicated a robust demand environment in the domestic market, which should bolster volumes.
- **Mining (Ferrous/Coal):** Owing to the robust steel demand and rising steel capacity in India, there is an increasing demand for iron ore. Similarly, due to robust industrial and commercial activities, India's power requirement continues to rise. Thermal power plants fulfill ~80-90% of the total power capacity to meet the overall demand.
- We maintain our positive view on Metals, with JSW, Coal India, and NMDC being **our top picks within the sector.**



## OIL AND GAS

**Budget Impact: Neutral**

**Sector Stance: Positive**

The budgeted capital support of INR300b for oil marketing companies (OMCs) in FY24, which was reduced to INR150b in the Interim Budget, has now been reduced to zero. Contrary to recent [media reports](#), no reduction of CNG excise duty was provided in the current budget.

### At a glance

Area	Key proposals	Impact
Capital support	<ul style="list-style-type: none"> <li>❖ The government had announced a capital support of INR300b to OMCs in FY24E. In the Interim Budget 2024-25, the quantum of support was halved to INR150b. Now, in the Union Budget 2024-25, the entire quantum of support has been withdrawn.</li> <li>❖ The government had announced a capital support of INR50b to Indian Strategic Petroleum Reserve Limited for crude oil reserve in FY24. Now, in the Union Budget 2024-25, the entire quantum of support has been withdrawn.</li> </ul>	<b>Negative</b>
Revenue support	<ul style="list-style-type: none"> <li>❖ The government had not announced any capital support for LPG Connection to Poor Households in FY24. However, expenditure of ~INR91b has been budgeted for FY25.</li> </ul>	<b>Positive</b>

### Outlook and recommendation

While the removal of capital outlay support to OMCs is sentimentally negative, we do not expect a severe negative stock price reaction as:

- OMCs have continued to maintain robust marketing margins of INR2-4/lit even with Brent crude at USD85/bbl,
- OMC balance sheets are in a much-improved situation with ND/E improving to 1.0-1.5x by FY26E,
- For controlled products, such as LPG, the Oil and Gas Ministry, on behalf of OMCs, can continue to request the Finance Ministry for support.
- **We have a buy rating on both HPCL and IOCL.**





## REAL ESTATE

**Budget Impact: Neutral**

**Sector Stance: Positive**

The Union Budget 2024 has highlighted the government's focus on urban development. The government has announced measures to rationalize/simplify key aspects like capital gain tax and stamp duty. Below is the summary of initiatives that will influence the real estate sector.

### At a glance

Area	Key proposal	Impact
Capital gains	❖ The government has removed the indexation benefit and reduced the tax rate to 12.5% from the current rate of 20% with indexation.	Neutral
Urban development	❖ Transit-oriented development (TOD) plans for 14 large cities with a population above 30 lakhs; this would mean more FSI availability	Positive
Industrial Parks	❖ The government will also facilitate the development of investment-ready industrial parks with complete infrastructure in or near 100 cities. Additionally, industrial parks under the National Industrial Corridor Development Programme also will be sanctioned. The move will benefit companies, like Macrotech and Sobha, which own large land banks near metro cities.	Positive
Stamp Duty	❖ States will be encouraged to rationalize stamp duty. An additional reduction in duties for properties purchased by women will also be considered. Cities such as Hyderabad, Chennai and Gurugram have relatively higher stamp duty and hence any reduction will be positive for companies exposed to these markets.	Positive
REITs	❖ For REITs, the holding period for ST capital gain tax is reduced from 36 months to 12 months.	Positive

### Outlook and recommendations

On the face of it, the removal of indexation benefits for capital gains looks negative; however, we believe the change will not affect primary housing demand. Firstly, more than half of real estate demand is driven by upgradation, wherein people sell their existing homes to purchase a new one. And ~20-30% demand is driven by first-time home buyers. In both of these cases, the capital gain taxes do not come into picture. The balance 20% buyers are largely investors, who would be exposed to the new norms. The table below indicates that the new norm will not have much impact on the tax liability as the overall price growth has been much higher than the index, which is up just 3.6x in 25 years. It should be noted that higher the price appreciation, lower the impact of new norms, and in some cases, it is even beneficial for home owners. On the other hand, initiatives related to urban development, industrial parks and stamp duty will benefit the sector in the long run.

### Summary of impact (if any) of new capital gains norms:

Year of property purchase	Cost of Property	Current Value	Capital gain adj. for indexation	Capital gain	Tax with indexation	Tax w/o indexation	Impact (%)
FY01	100	1000	637	900	127	113	-12%
FY10	100	400	155	300	31	38	21%
FY16	100	200	57	100	11	13	9%
FY20	100	170	44	70	9	9	-1%



## UTILITIES

Budget Impact: Positive

Sector Stance: Positive

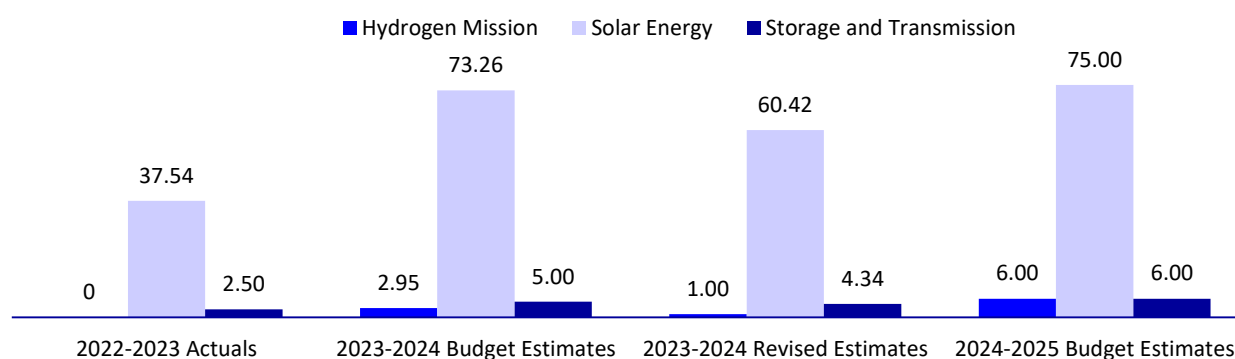
### Budget 2024-25 sets the stage for a significant transformation in India's energy landscape

The finance minister has outlined a strategic framework for promoting renewable energy, advancing nuclear technology, and encouraging traditional industries to adopt cleaner energy solutions. Overall, the focus of the Budget was on 1) encouraging domestic manufacturing in the renewables sector, and 2) bringing in policy clarity on emerging segments such as nuclear and pumped storage.

The government has allocated INR100b for solar power (grid) in the country (up 110% from INR47.6b in FY24). It has allocated INR6b (vs. INR4.3b in FY24) for the National Green Hydrogen Fund, with the goal of meeting India's commitment for 'net zero' by 2070.

Area	Key proposals	Impact
Nuclear energy	<ul style="list-style-type: none"> <li>The govt. will partner with the private sector for:               <ul style="list-style-type: none"> <li>- Setting up Bharat Small Reactors.</li> <li>- R&amp;D of Bharat Small Modular Reactors and new technologies for nuclear energy</li> </ul> </li> </ul>	Positive
Pumped storage policy	<ul style="list-style-type: none"> <li>For electricity storage and facilitation of smooth integration of the growing share of renewable energy</li> </ul>	Positive
AUSC thermal power plants	<ul style="list-style-type: none"> <li>Joint venture formed by NTPC and BHEL to build 800 MW commercial plant using AUSC technology</li> <li>Govt. to provide necessary fiscal support for the project</li> </ul>	Positive
PM Surya Ghar Muft Bijli Yojana	<ul style="list-style-type: none"> <li>The government has allocated INR62.5b for this scheme to install rooftop solar plants for 10m households, offering up to 300 units of free electricity monthly.</li> </ul>	Positive
Customs duty rate changes	<ul style="list-style-type: none"> <li>Zero customs duty on minerals such as lithium, copper and cobalt, which are critical for nuclear energy, renewable and other sectors.</li> <li>Specified capital goods used for manufacturing solar cells and modules in India are now exempt.</li> <li>Duty on solar glass for manufacture of solar cells/modules increased from 0% to 10%.</li> <li>Duty on tinned copper interconnect for manufacture of solar cells/ modules increased from 0% to 10%.</li> </ul>	Positive

### Grants for creation of capital assets (INR b)



### Outlook and recommendation

Overall energy security remains one of the top nine priorities of the government and the government remains committed to providing fiscal and policy support to encourage energy transition and boost renewable-related manufacturing.

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Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
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UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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