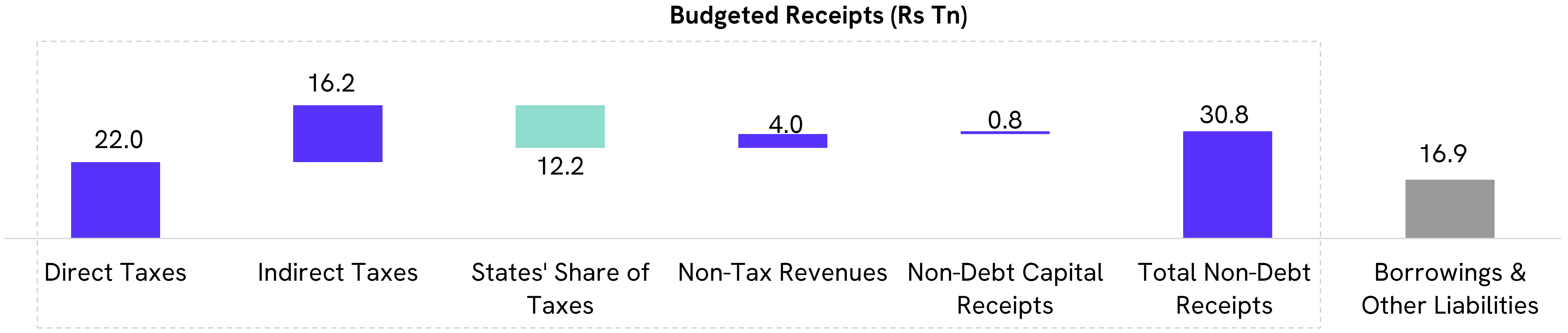
asset 360 ONE

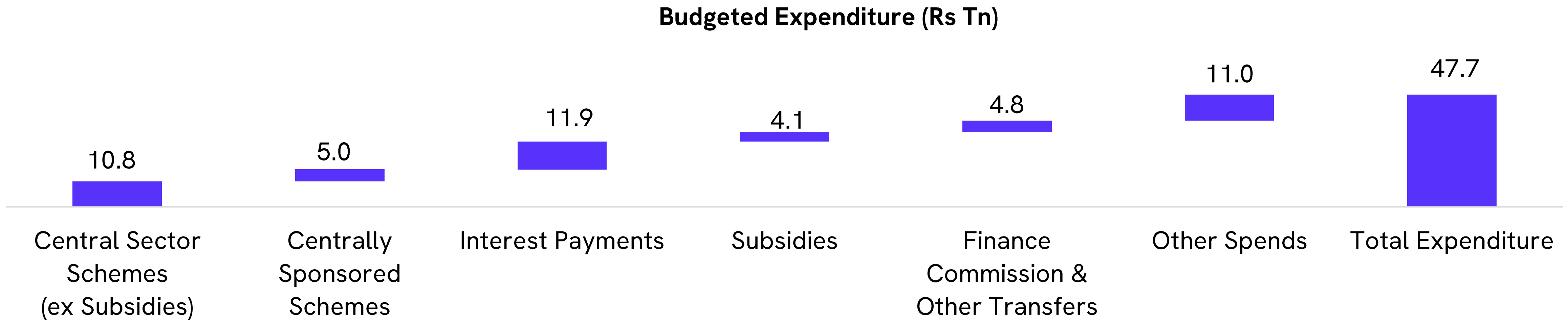
UNION BUDGET (Interim) 2024-25: Analysis and Insights

Contents

Chapter 1
Budget Highlights

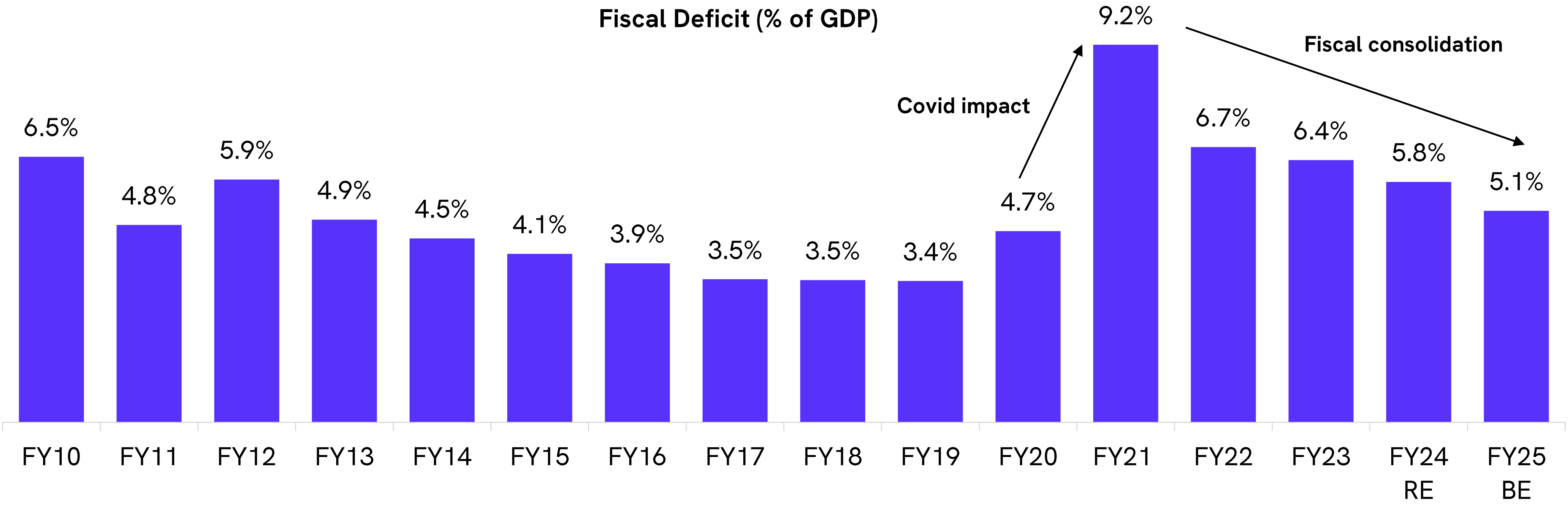
FY25 Budget Snapshot





Source: Budget documents, CMIE, 360 ONE Asset Research

Interim Budget FY25 sticks to the fiscal consolidation path



- The Central Government presents an interim budget before the general election. The full budget will be presented after the elections
- Budget assumes nominal GDP growth of 10.5% YoY in FY25
- The Central Government aims to reduce the fiscal deficit to 5.1% of GDP in FY25BE from 5.8% in FY24RE
- The Government remains committed to lowering the fiscal deficit (% of GDP) below 4.5% by FY26

Source: Budget documents, CMIE, 360 ONE Asset Research

Note – A: Actual, RE: Revised Estimates, BE: Budget Estimates

Healthy growth in receipts and controlled expenditure growth bring down the fiscal deficit by 70 bps in FY25BE

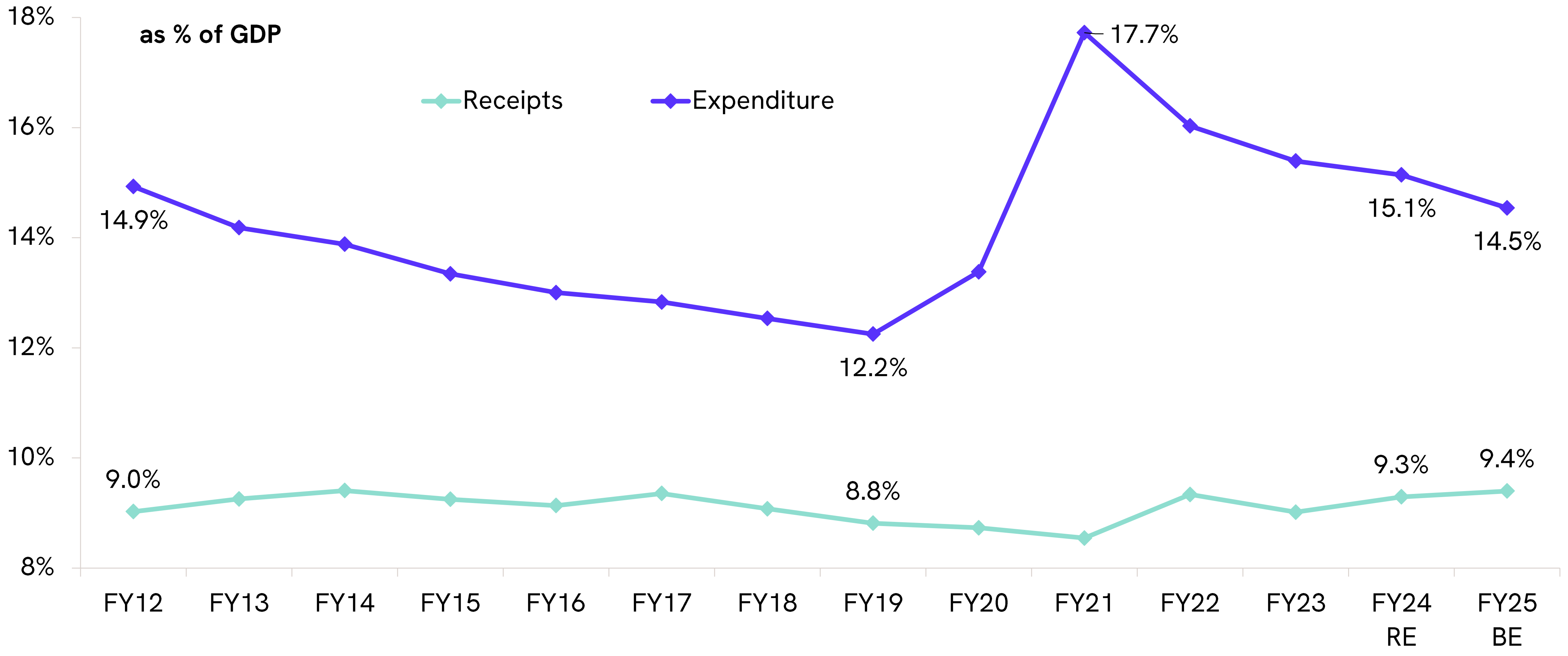
Major Heads	Rs Tn				% YoY			
	FY22 A	FY23 A	FY24 RE	FY25 BE	FY22 A	FY23 A	FY24 RE	FY25 BE
GDP (Nominal)	236.6	272.4	296.6	327.7	19.5%	15.1%	8.9%	10.5%
Tax Revenue (Net to Centre)	18.0	21.0	23.2	26.0	26.5%	16.2%	10.8%	11.9%
Non-Tax Revenue	3.7	2.9	3.8	4.0	75.8%	-21.8%	31.7%	6.4%
Disinvestments & Others	0.4	0.7	0.6	0.8	-31.7%	83.4%	-22.4%	41.1%
Total Receipts	**22.1**	**24.6**	**27.6**	**30.8**	**30.6%**	**11.1%**	**12.2%**	**11.8%**
Revenue Expenditure	32.0	34.5	35.4	36.5	3.8%	7.9%	2.5%	3.2%
Capital Expenditure	5.9	7.4	9.5	11.1	39.1%	24.8%	28.4%	16.9%
Total Expenditure	**37.9**	**41.9**	**44.9**	**47.7**	**8.1%**	**10.5%**	**7.1%**	**6.1%**
Fiscal Deficit	**15.8**	**17.4**	**17.3**	**16.9**	**-12.9%**	**9.7%**	**-0.2%**	**-2.8%**

- Tax revenue (net to the Centre) is budgeted to grow by a conservative 11.9% YoY in FY25BE, up from 10.8% YoY in FY24RE. Actual FY24 tax collections could be higher than the revised estimates
- Non-tax revenue is expected to rise by 6.4% YoY in FY25BE, following a phenomenal growth of 31.7% YoY expected in FY24RE. The non-tax revenues are driven by strong dividends from the RBI and nationalized banks

Source: Budget documents, CMIE, 360 ONE Asset Research

Note – A: Actual, RE: Revised Estimates, BE: Budget Estimates

Fall in expenditure (as % of GDP), coupled with improvements in receipts, has led to a gradual reduction in the fiscal deficit since FY21



Source: Budget documents, CMIE, 360 ONE Asset Research

Note – A: Actual, RE: Revised Estimates, BE: Budget Estimates

Borrowings account for 73% of deficit financing, followed by a 28% share of Small Savings

Deficit Financing	Rs Tn				% share of total financing			
	FY22 A	FY23 A	FY24 RE	FY25 BE	FY22 A	FY23 A	FY24 RE	FY25 BE
Fiscal Deficit	**15.8**	**17.4**	**17.3**	**16.9**				
Financing of Deficit								
Net Borrowings (incl. Short term)	8.1	12.2	11.8	12.3	51%	70%	68%	73%
Small Savings	5.5	4.0	4.7	4.7	35%	23%	27%	28%
State PF's	0.1	0.1	0.1	0.1	1%	0%	0%	0%
Others	1.7	0.8	0.8	-0.3	11%	5%	5%	-2%
External Assistance	0.4	0.4	0.2	0.2	2%	2%	1%	1%
Cash Drawdown	0.0	0.0	-0.3	0.0	0%	0%	-2%	0%

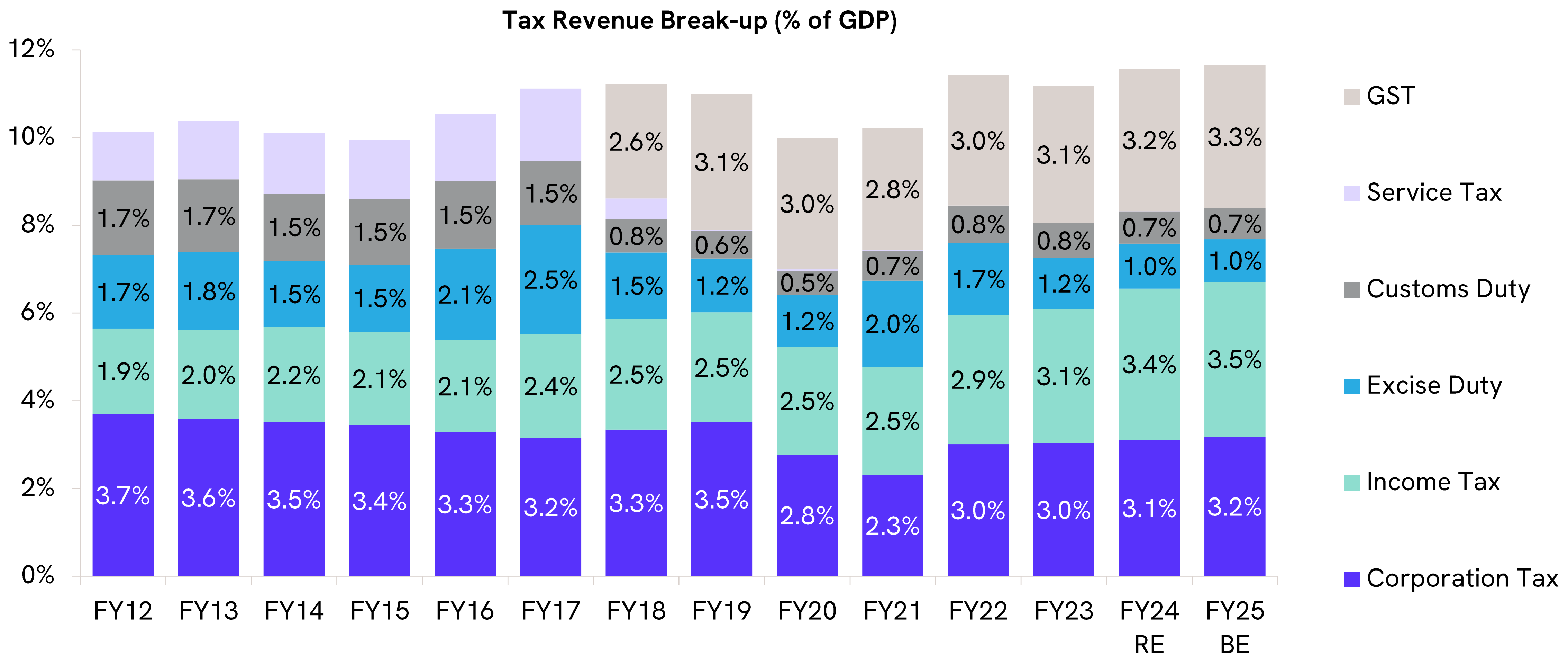
- Borrowings remain the primary source for plugging the gap between receipts and expenditures. Borrowings account for 73% of total deficit financing in FY25BE, higher than 68% in FY24RE
- Small Savings are another important source for deficit financing, accounting for 28% of total deficit financing

Source: Budget documents, CMIE, 360 ONE Asset Research

Note – A: Actual, RE: Revised Estimates, BE: Budget Estimates

Chapter 2
Receipt Budget

Tax revenue (% of GDP) is expected to pick up to 11.7% in FY25 from a low of 10% in FY20



Source: Budget documents, CMIE, 360 ONE Asset Research

Note – A: Actual, RE: Revised Estimates, BE: Budget Estimates

The budget assumes conservative growth in various tax heads

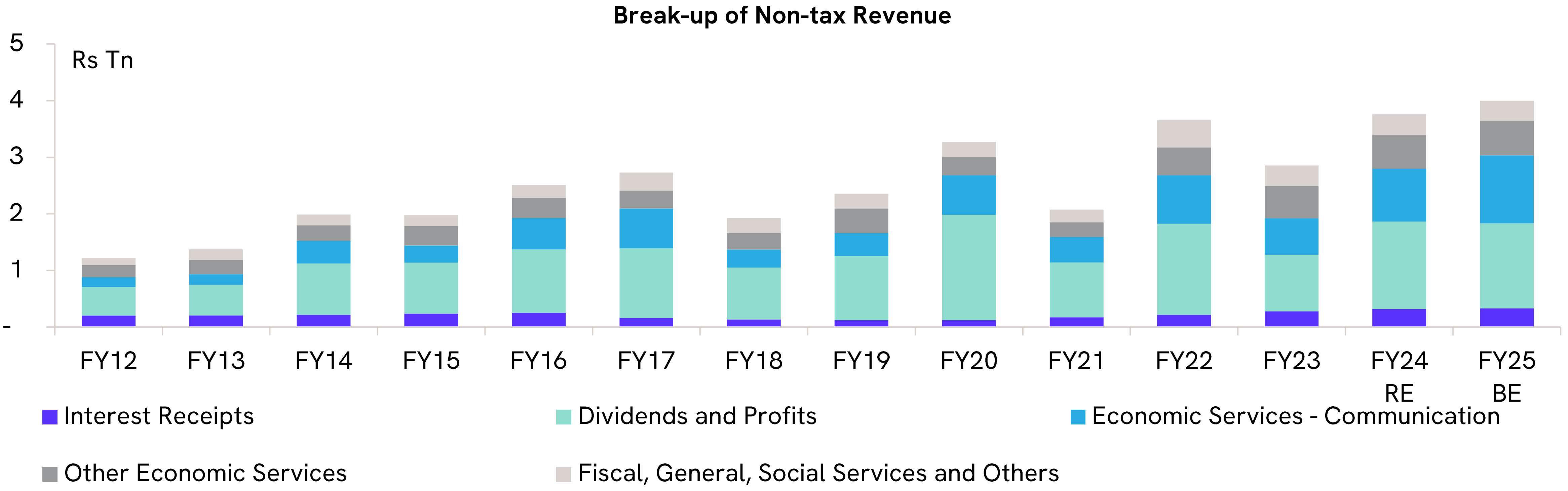
Tax Revenue Heads	Rs Tn				% YoY			
	FY22	FY23	FY24	FY25	FY22	FY23	FY24	FY25
	A	A	RE	BE	A	A	RE	BE
Gross Tax Revenue	**27.1**	**30.5**	**34.4**	**38.3**	**33.7%**	**12.7%**	**12.5%**	**11.5%**
Income	7.0	8.3	10.2	11.6	42.9%	19.7%	22.7%	13.1%
Corporation	7.1	8.3	9.2	10.4	55.6%	16.0%	11.7%	13.0%
Excise	3.9	3.2	3.0	3.2	0.3%	-18.4%	-4.8%	5.0%
Customs	2.0	2.1	2.2	2.3	48.2%	6.8%	2.5%	5.8%
Central GST	5.9	7.2	8.1	9.2	29.6%	21.5%	13.0%	13.1%
Compensation Cess	1.0	1.3	1.5	1.5	23.0%	20.1%	15.2%	3.4%
Total GST	**7.0**	**8.5**	**9.6**	**10.7**	**27.4%**	**21.6%**	**12.5%**	**11.6%**
Direct Tax	**14.1**	**16.6**	**19.5**	**22.0**	**49.0%**	**17.8%**	**17.2%**	**13.1%**
Indirect Tax	**13.0**	**13.9**	**14.9**	**16.3**	**19.9%**	**7.2%**	**7.0%**	**9.4%**
Tax Revenue (Net to Centre)	**18.0**	**21.0**	**23.2**	**26.0**	**26.5%**	**16.2%**	**10.8%**	**11.9%**

- As per the accepted recommendations of the Fifteenth Finance Commission, the states' share has been fixed at 41% of the net proceeds of shareable central taxes. Tax revenue (net to centre) is calculated post-devolution of states' share of taxes
- Income and corporation taxes are expected to grow at a marginally better rate than the assumed nominal GDP growth of 10.5% in FY25BE. GST collections are also expected to post a healthy growth of 11.6% YoY
- There is a potential upside to both FY24 and FY25 direct tax collections

Source: Budget documents, CMIE, 360 ONE Asset Research

Note – A: Actual, RE: Revised Estimates, BE: Budget Estimates

Non-tax revenues are expected to remain robust on account of dividends from RBI and public sector banks

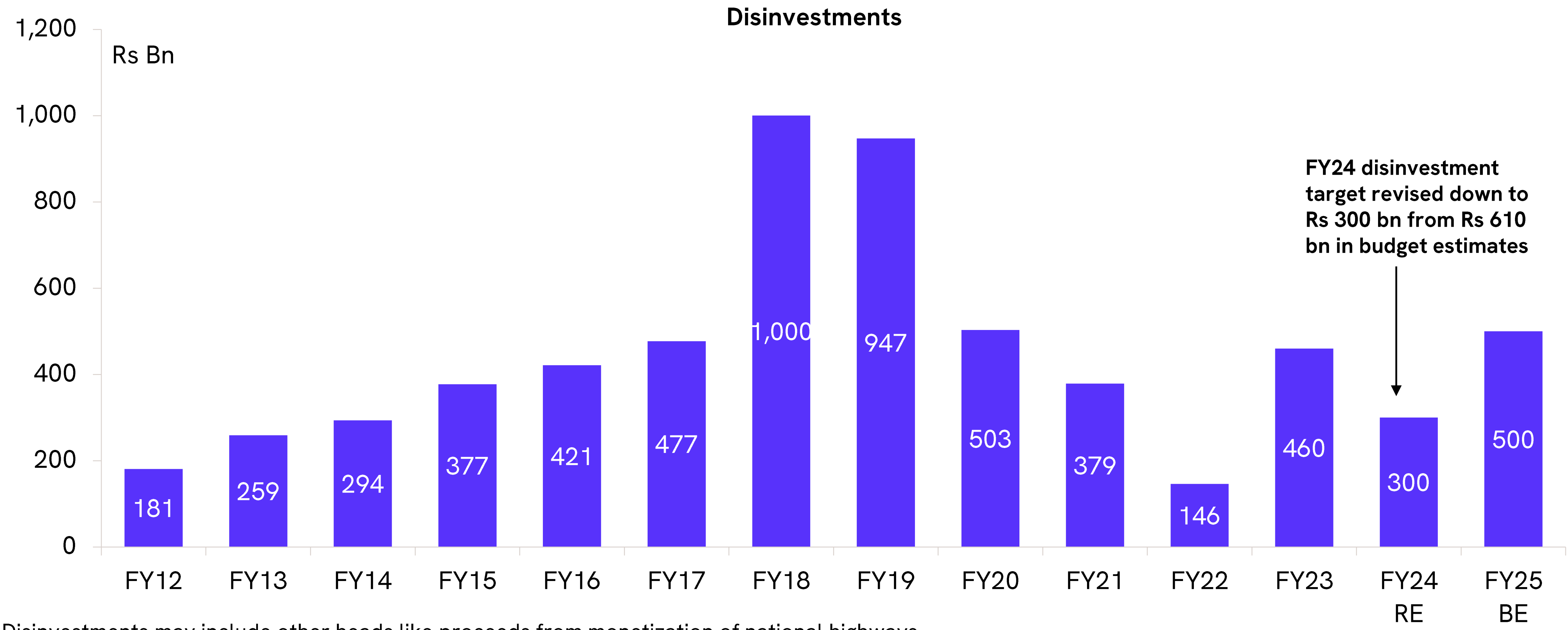


- The Government estimates marginally lower 'dividends and profits' collections from the RBI and PSUs in FY25BE
- Dividends from RBI and other financial institutions are expected to be marginally lower at Rs 1.02 tn in FY25BE from Rs 1.04 tn in FY24RE
- Economic services – communication includes spectrum usage charges, telecommunication licence fees and Universal Access Levy (UAL)

Source: Budget documents, CMIE, 360 ONE Asset Research

Note – A: Actual, RE: Revised Estimates, BE: Budget Estimates

Government revises down FY24 disinvestment target, FY25 target set at an achievable Rs 500 bn



Disinvestments may include other heads like proceeds from monetization of national highways

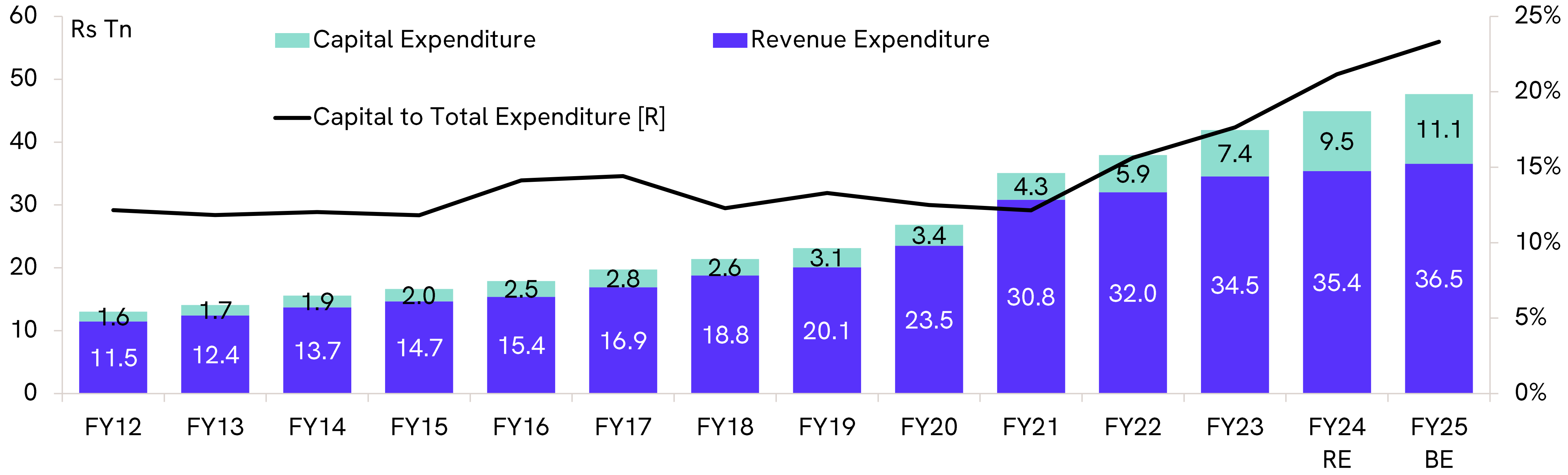
Source: Budget documents, CMIE, 360 ONE Asset Research

Note – A: Actual, RE: Revised Estimates, BE: Budget Estimates

Chapter 3
Expenditure Budget

The government continues to focus on infrastructure, as indicated by the rise in the share of capital expenditure in total expenditure

asset 360 ONE



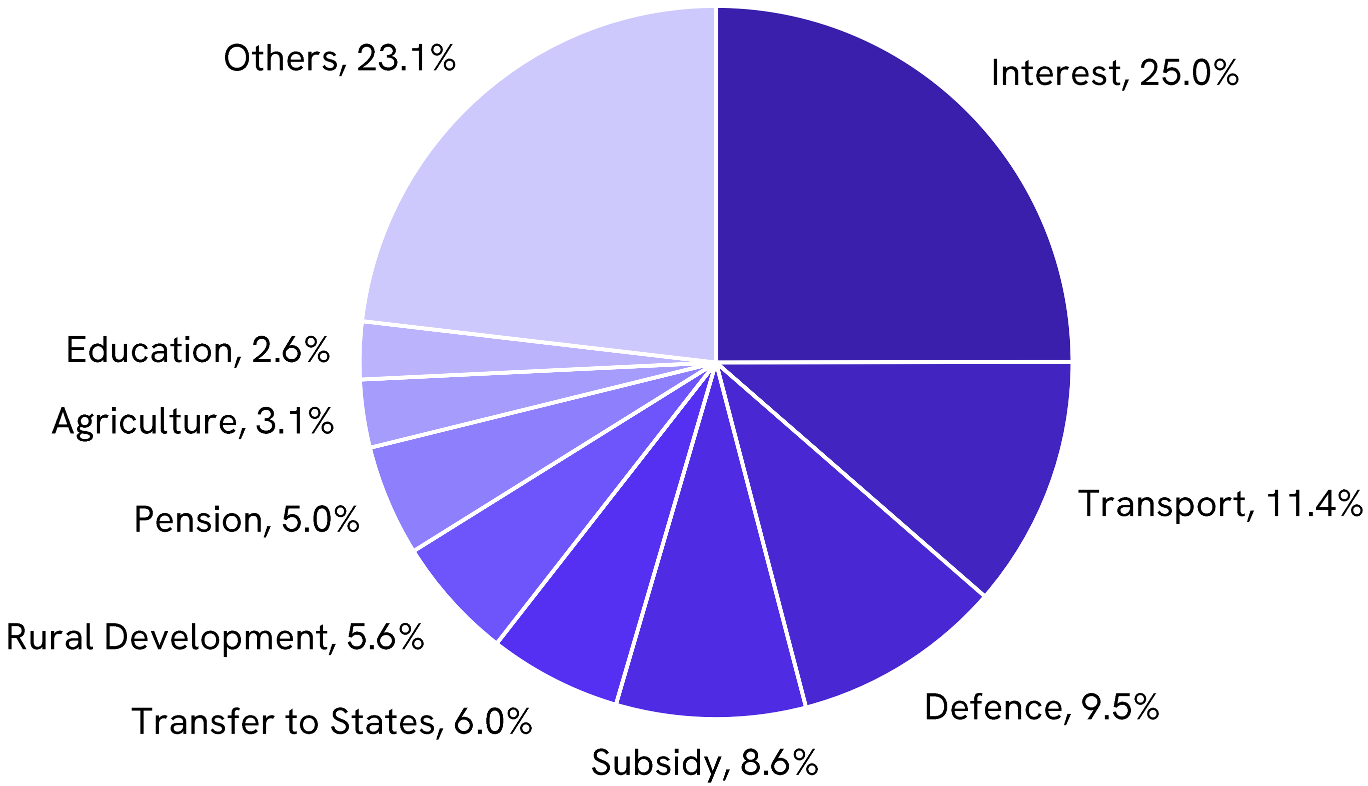
- Ratio of capital to total expenditure rises to 23% in FY25BE from 21% in FY24RE
- The government announces two new 50-year interest-free loans schemes – Rs 1 tn for research and innovation, and Rs 700 bn for milestone-linked reforms by the State Governments
- The scheme of 50-year interest-free loans for capital expenditure to states will be continued with a total outlay of Rs 1.3 tn

Source: Budget documents, CMIE, 360 ONE Asset Research

Note – A: Actual, RE: Revised Estimates, BE: Budget Estimates

Interest, subsidies, and pensions together account for nearly 39% of the total expenditure

Share of Various Heads in Total Expenditure – Budget FY25



Source: Budget documents, 360 ONE Asset Research

The Government continues to bring down subsidy expenditure

Subsidies Expenditure	Rs Tn				% YoY			
	FY22 A	FY23 A	FY24 RE	FY25 BE	FY22 A	FY23 A	FY24 RE	FY25 BE
Subsidies	**5.0**	**5.8**	**4.4**	**4.1**	**-33.5%**	**14.7%**	**-23.8%**	**-7.0%**
o/w Food	2.9	2.7	2.1	2.1	-46.6%	-5.6%	-22.2%	-3.3%
Fertilizer	1.5	2.5	1.9	1.6	20.2%	63.5%	-24.8%	-13.2%
Petroleum	0.0	0.1	0.1	0.1	-91.1%	99.2%	79.5%	-2.6%

- Food subsidy is expected to be lower by 3.3% YoY in FY25BE, despite the extension of the *Pradhan Mantri Garib Kalyan Anna Yojana* (PMGKAY) - free ration scheme - for another five years
- The PMGKAY was introduced during the COVID-19 pandemic to provide free food grains to priority households, in addition to the subsidized food grains provided under the National Food Security Act (NFSA). The scheme was later merged with NFSA, and the entitlements under NFSA were made free
- Fertilizer and petroleum subsidy is also expected to be lower by 13.2% YoY and 2.6% YoY, respectively in FY25BE

Source: Budget documents, CMIE, 360 ONE Asset Research

Note – A: Actual, RE: Revised Estimates, BE: Budget Estimates

Defence, Roads and Railways are major capital expenditure heads

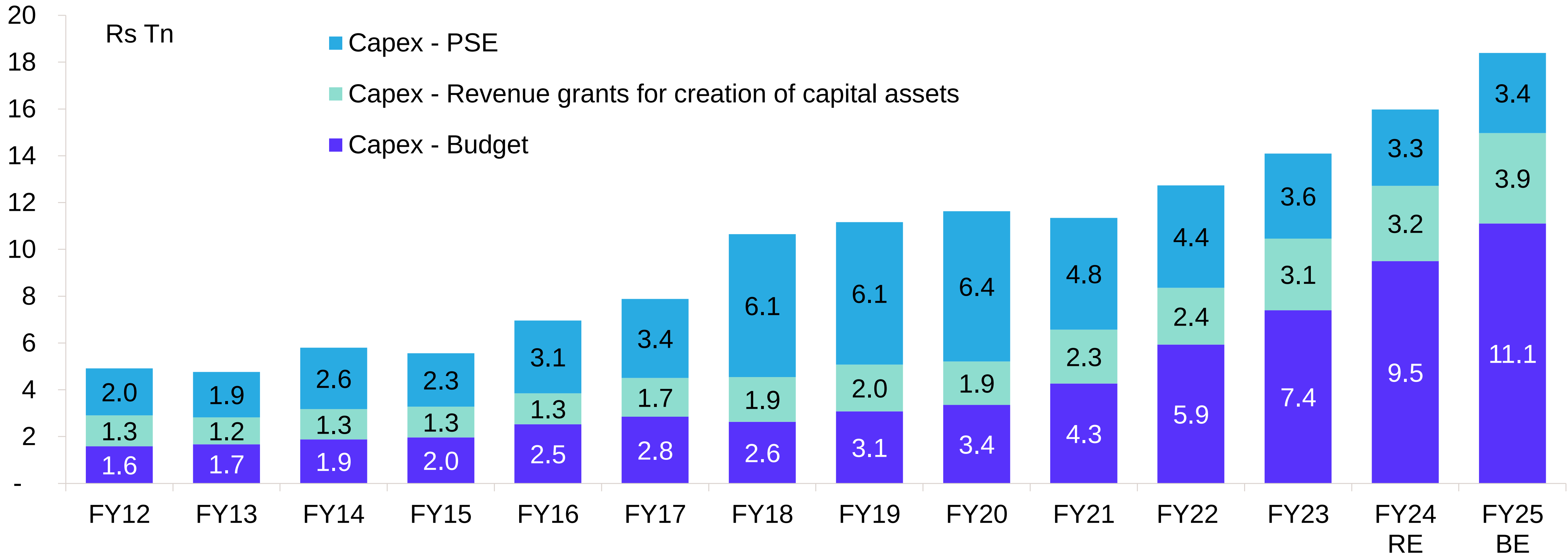
Capital Expenditure Major Heads	Rs Tn				% YoY			
	FY22 A	FY23 A	FY24 RE	FY25 BE	FY22 A	FY23 A	FY24 RE	FY25 BE
Capital Expenditure	**5.9**	**7.4**	**9.5**	**11.1**	**39.1%**	**24.8%**	**28.4%**	**16.9%**
o/w: Capital Outlay on Defence Services	1.4	1.4	1.6	1.7	2.7%	3.6%	10.0%	9.4%
Road Transport and Highways	1.1	2.1	2.6	2.7	27.0%	81.8%	28.4%	2.9%
Railways	1.2	1.6	2.4	2.5	7.3%	35.8%	50.7%	5.0%
Transfers to States	0.2	0.9	1.2	1.4	15.2%	311.4%	24.6%	23.2%
Urban Development	0.3	0.3	0.3	0.3	151.8%	3.6%	-1.3%	7.9%
Police	0.1	0.1	0.1	0.1	46.1%	13.8%	22.4%	17.0%
Telecommmunications	0.0	0.5	0.7	0.8	-23.6%	1544.6%	28.1%	20.5%
Economic Affairs	0.1	0.0	0.1	0.7	-1.4%	-79.7%	255.7%	1229.2%

- Growth in budgeted capital expenditure (capex) for roads and railways moderates in FY25BE. The defense sector continues to witness healthy growth in capex
- ‘Transfer to States’ driven by the ‘Special Assistance to States for Capital Investment’ scheme. Under the scheme, special assistance is being provided to the State Governments in the form of a 50-year interest-free loan up to an overall sum of Rs. 1.3 tn

Source: Budget documents, 360 ONE Asset Research

Note – A: Actual, RE: Revised Estimates, BE: Budget Estimates

Total capital expenditure from budgetary and non-budgetary resources (public sector enterprises) pegged at Rs 18.4 tn in FY25



- Revenue grants for the creation of capital assets encompass allocations under the National Rural Employment Guarantee Act, among other provisions
- Capex by Public Sector Enterprises (PSEs) is met through internal and extra-budgetary resources

Source: Budget documents, 360 ONE Asset Research

Note – A: Actual, RE: Revised Estimates, BE: Budget Estimates

Chapter 4
Sectoral Impact & Outlook

Impact on sectors

Budget Proposals	Implications	Net impact
BFSI		
• Target proposal PMAY-G Yojana has been extended from 30 mn units to 50 mn now (additional to be built over next 5 years). Allocation to PMAY increased to Rs 807 bn for FY25 from Rs 541 bn in FY24 (RE) • Rooftop solar Project 10 mn household will be enabled to obtain upto 300 units of free electricity per month	• Affordable housing finance companies to be key beneficiaries of the same • Companies engaged in Power financing to be key beneficiaries	
Consumer Durables and EMS		
• Higher allocations towards Programme for Development of Semiconductors and Display Manufacturing Ecosystem in India - FY25 BE of Rs 69 bn vs FY24 BE / RE of 30 / 15 bn • Increased allocations towards PLI schemes for large scale electronics, white goods and IT hardware	• Shows Government's focus on India's foray into semiconductor manufacturing. Multiple companies are in foray for this • EMS players across categories will benefit. Front-end AC brands will also benefit in their backward integration efforts	

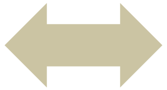
Source: Budget documents, 360 ONE Asset Research

Impact on sectors

Budget Proposals	Implications	Net impact
Building Materials		
• Government to launch new scheme of housing for middle class to enable them to buy and build their own houses for those living on rent, chawls, unauthorized houses	• All building material segments like tiles, pipes, wood panel would tend to benefit meaningfully	↑
Cement		
• PMAY (Grameen) – close to achieving target of 30 mn houses. 20 mn more houses to be taken up in next 5 years	• Help sustain the contribution to the cement demand for next 5 years	↑
Energy		
• Capital support to OMCs cut by half to Rs 150 bn and pushed to FY25 • E-Bus Seva scheme allocated Rs13 bn; last year it was near zero. • Green Hydrogen Mission allocated Rs 6 bn	• This may not be required as OMC profitability is strong. No equity dilution concern • Insignificant impact	↔

Source: Budget documents, 360 ONE Asset Research

Impact on sectors

Budget Proposals	Implications	Net impact
Power		
• Rooftop solarization of 10 mn households will be enabled to obtain up to 300 units free electricity every month • Viability gap funding will be provided for harnessing offshore wind energy potential for initial capacity of one giga-watt	• Savings of up to fifteen to eighteen thousand rupees annually for households from free solar electricity and selling the surplus to the distribution companies. Positive for rooftop solar EPC companies and financiers • Will encourage investment into wind projects, which will bode well for growth in the sector	
Fertilizer and Agrochemical		
• Aggregate Fertilizer subsidy expected to decline 13% to Rs 1.64 tn in FY25 vs. revised FY24E at Rs 1.9 tn. Within fertilizers, urea fertilizer is down 7%, while non-urea fertilizer subsidy is down 25% • Application of Nano DAP on various crops will be expanded in all agro-climatic zones	• Negative given raw material inflation. However, govt. has been proactive in addressing gaps earlier • Higher crop yield, more environmentally friendly, ease of storage and transport and reduction in subsidy burden for the government	

Source: Budget documents, 360 ONE Asset Research

Impact on sectors

Budget Proposals	Implications	Net impact
Infra and Industrials		
• Budgeted capex is 17% higher vs FY24RE. Roads and Railway capex is higher only by 3%/ 2% respectively • Defence – Defence capex was higher by 9% over FY24RE. Aircraft and Aeroengines saw 69% YoY growth	• Capex allocation is lower than expectation. Growth rate assumption for Railway companies need to be moderated • Budget allocation is given as per Defence Acquisition Council approvals	⬆

Source: Budget documents, 360 ONE Asset Research

Outlook: Emphasis on fiscal discipline and capital expenditure to support long-term economic growth

- **Realistic and credible estimates –** The government presents conservative estimates for direct tax collections. There is potential for corporate tax collections to be higher in FY24 and FY25. Estimates for other heads are realistic and achievable
- **Thrust on capital expenditure is a long-term positive** – The growth of budgeted capital expenditure in FY25 has slowed, but it still outpaces revenue expenditure growth. This ensures a steady improvement in the quality of budget spending. Roads and Railways continue to account for a bulk of capex as the government remains focused on reducing the cost of logistics in India and boosting domestic tourism
- **Government refrains from announcing welfare schemes** – As expected, the government refrained from announcing any major welfare schemes before the general elections. However, there is scope for expenditure on welfare schemes to increase in the full budget post-election
- **Focus on inclusive and sustainable development** – The budget emphasises rural and middle-class housing, along with focus on rooftop solar, green hydrogen, E-Bus, etc.
- **Budget sticks to the fiscal consolidation path** – Fiscal deficit targets are lower than the market expectations. The FM also reiterates commitment to bring the fiscal deficit down to 4.5% of GDP by FY26. Consolidation ensures macro stability
- **Borrowings are in line with the market expectations** – Borrowings for FY25 are budgeted to be lower than FY24 RE, which bodes well for the debt market. We do not expect the deficit or borrowing numbers to change significantly when the full budget is presented

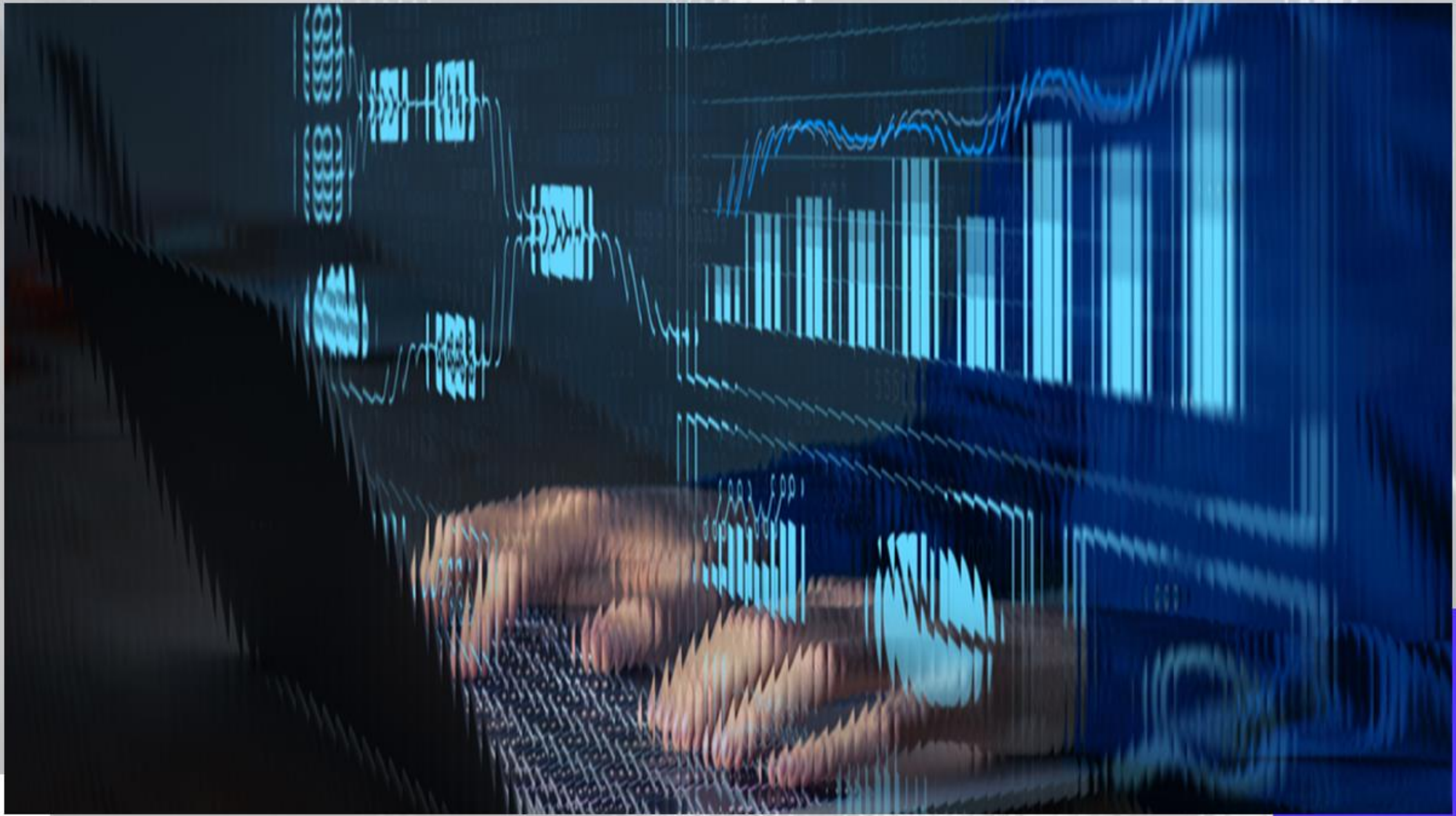
Deficit Financing	Rs Tn			
	FY22	FY23	FY24	FY25
	A	A	RE	BE
Gross G.Sec. Supply	**9.68**	**14.21**	**15.43**	**14.13**
Redemptions (-)	2.64	3.13	3.63	2.38
Net G.Sec. Supply	**7.04**	**11.08**	**11.80**	**11.75**
Buybacks (Net) (-)	-	-	-	-
Switch (Net)	0.28	(0.02)	-	-
Net Market Borrowings	**7.33**	**11.06**	**11.80**	**11.75**

Source: Budget documents, 360 ONE Asset Research

Note – A: Actual, RE: Revised Estimates, BE: Budget Estimates

Disclaimer

This document constitutes confidential and proprietary material and may not be reproduced or further distributed in part or full to any other person without the written permission of 360 ONE AMC. This document is the property of 360 ONE AMC and must be returned to 360 ONE AMC or its affiliates upon request. This document is provided for assistance only and is not intended to be used for taking investment decisions or otherwise. This document is not investment, legal, tax, or accounting advice. The recipients should also inform themselves, and should take appropriate advice, on the legal requirements and shall not rely on this document for any subscription, purchase, holding, exchange, redemption or disposal of any investments. The opinions expressed herein are the personal opinions of the author. Past Performance is not an indicator/guarantee of future returns. Investment in securities are subject to market risk. Whilst every care has been taken in preparing this document, 360 ONE AMC and its affiliates and agents to the fullest extent permitted by applicable law disclaim any liability or responsibility for any error or omission or inaccuracy or mistake of any nature or any consequences of the use of the material/ information displayed on this document. Notwithstanding the aforesaid, nothing set out above shall exclude liability for any undertaking, representation, warranty or other assurance made fraudulently. The information given in this document is not exhaustive and is subject to change without notice.



asset

360 ONE