FY25 INTERIM BUDGET REVIEW

01 February 2024

Boosting growth without breaching deficit targets

- **Budget pegs fiscal deficit at 5.8% for FY24 (vs. 5.9% BE) while setting a target of 5.1% for FY25; retains 4.5% guidance for FY26**
- **Capex at 3.4% of GDP in FY25 is broadly in line with FY24 levels, indicating government's comfort with pace of private capex**
- **FY25 defence outlay is largely flat YoY; focus on rail and electric transportation ecosystem continues**

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Tight leash on deficit: The interim budget proposes a prudent 5.1% fiscal deficit target for FY25 and reiterates a target of 4.5% for FY26. The revised estimate (RE) for the FY24 fiscal deficit is now at 5.8% against the budgeted estimate (BE) of 5.9%, well below the FY23 figure of 6.4%. The food, fertiliser and petroleum subsidy bill for FY25, however, is budgeted at Rs 3.8tn, 8% below FY24RE.

Thrust on green infrastructure: The focus on green infrastructure continues with expansion of capacity along certain rail traffic routes involving large manufacturing set-ups, ports and high-density traffic. We note a sustained thrust on the electrification of mass transportation. Green initiatives received a further boost with the announcement of viability gap funding for offshore wind projects. The budget also proposes to catalyse rooftop solar installation for 10mn households.

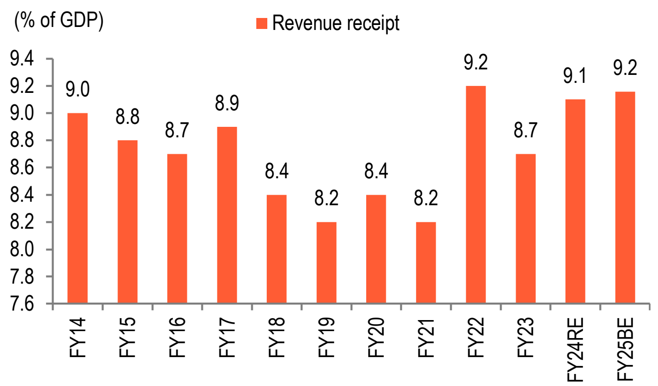
Capex outlay in line with FY24: The government has indicated a capex outlay of Rs 11.11tn for FY25, which translates to 3.4% of GDP (see Fig 4 for capex trends over the last 10 years). The current allocation suggests the government is now more comfortable with the pace of private capex.

No material change in taxes: The budget did not propose any material change in the level of direct or indirect taxes despite the proximity to national elections. This, in our view, indicates that the government is now largely comfortable with taxation levels.

Focus on housing to continue: Pradhan Mantri Awas Yojana (Gramin) is close to achieving its target of constructing 30mn houses and an additional 20mn homes are being targeted over the next five years. Budget announcements include a scheme to help the middle class to buy/build their own houses.

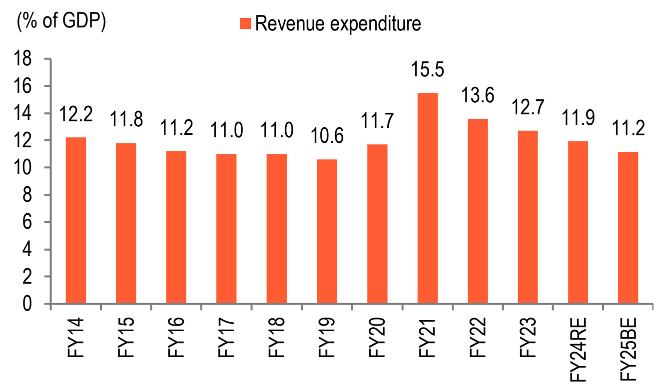
Sector and stock impact: The budget proposals, in our view, are an exercise in continuity, with no material incremental impact on stock markets. A lower deficit would result in moderation of the borrowing programme, with gross borrowing for FY25 planned at Rs 14.13tn against Rs 15.43tn in FY24BE, which in turn should lead to softer yields.

Fig 1 – Revenue receipt as a % of GDP



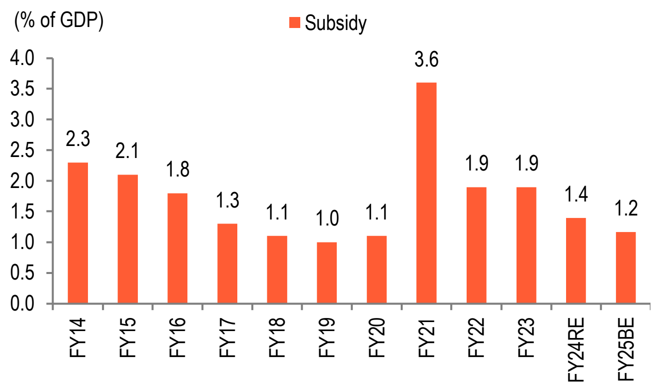
Source: India Budget documents, BOBCAPS Research

Fig 2 – Revenue expenditure as a % of GDP



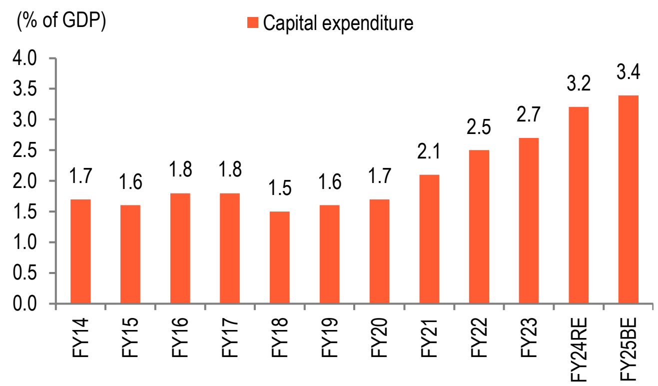
Source: India Budget documents, BOBCAPS Research

Fig 3 – Subsidy as a % of GDP



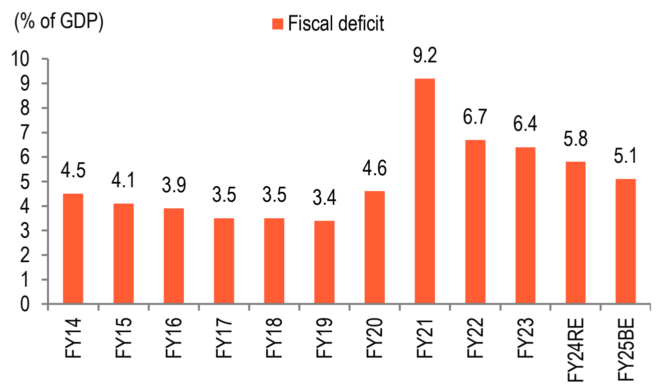
Source: India Budget documents, BOBCAPS Research

Fig 4 – Capex as a % of GDP



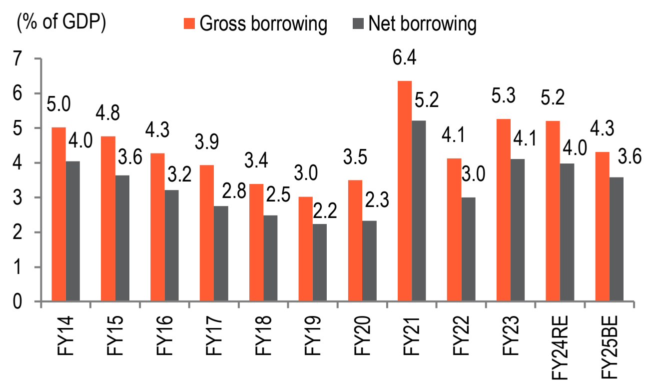
Source: India Budget documents, BOBCAPS Research

Fig 5 – Fiscal deficit as a % of GDP



Source: India Budget documents, BOBCAPS Research

Fig 6 – Borrowings as a % of GDP



Source: India Budget documents, BOBCAPS Research

Salient announcements & implications

Fig 7 – FY25 Union Budget: Sector-wise implications

Sector	Budget announcement	Implications for the Sector
Auto	▪ Continued focus on charging infrastructure for electric vehicles (EV), including using rooftop solar	▪ Positive for two- and four-wheeler EV automakers, viz. TVSL, BJAUT, HMCL and MSIL
	▪ Enhancement of public transport system through the addition of buses and through indirect measures of higher provisioning for State Transport Companies	▪ Increased bus requirements will boost demand for AL and TTMT
Banking	▪ Plan for lower borrowings compared to previous year ▪ Increase in capital expenditure by 11.1% YoY ▪ Lower fiscal deficit target of 5.1% vs. 5.8% in FY24	▪ Lower government borrowings could lead to a softer interest rate regime, aiding treasury gains for banks, fuelling demand for retail loans, and boosting sentiment for capex. However, if assets were to be repriced faster than deposits, banks' margins may moderate
Building Materials	▪ Plans to build 20mn houses under PMAY (Rural) over the next five years	▪ Positive for the building materials sector over the medium term
	▪ Housing scheme for middle class to be launched to help them buy or build their own houses	▪ Positive for the sector over the medium term
	▪ No major increase in budgeted spend on major rural and urban programmes for FY25 (Jal Jeevan Mission: flat; PMAY: +1.4%; Metros: +9.4%)	▪ Neutral to negative for the sector in FY25
Capital Goods	▪ Capex target for FY25 set at Rs 11.1tn, an increase of 11.1%, amounting to 3.4% of GDP	▪ Positive for the infrastructure and capital goods sectors and for stocks such as LT and KECI
	▪ 40,000 rail bogies to be converted to Vande Bharat standards	▪ Positive for railway wagon companies
	▪ More metro trains and Namo Bharat trains to be expanded to more cities	▪ Positive for the sector and companies such as ABB, SIEM and KECI
	▪ Capital outlay for defence services increased from Rs 1.6tn to Rs 1.7tn	▪ Positive for players such as BEL, HAL and BDL
Cement	▪ Three major economic railway corridor programmes to be implemented under PM Gati Shakti, including energy, mineral and cement corridors	▪ Rail corridors will improve cement logistics efficiency and reduce costs, proving beneficial for players with a higher rail mix in logistics, such as regional manufacturers JKCE, JKLC and TRCL
	▪ Higher allocation to the rural segment under Gram Sadak Yojana and Pradhan Mantri Awas Yojna – Gramin (PMAY – Rural). Extension of PMAY	▪ More housing construction will drive structural improvement in demand for the cement sector
	▪ Allocation to solar power segment nearly doubled from Rs 47bn to Rs 85bn	▪ Investment in solar energy will provide further impetus to the cement sector's focus on green energy and will benefit all companies focusing on developing solar energy sources
Consumer Durables	▪ Outlay for MNREGA scheme increased from Rs 600bn to Rs 860bn	▪ Positive for consumer durables players like HAVL, CROMPTON and ORIENTEL
	▪ PLI scheme for White Goods (ACs and LED Lights increased from Rs 650mn to Rs 3bn	▪ Positive for players like VOLT, BLSTR and AMBER
	▪ Modified Programme for Development of Semiconductor and Display Manufacturing Ecosystem increased from Rs 30bn to Rs 69bn	▪ Positive for EMS players such as DIXON, AMBER and SYRMA

Sector	Budget announcement	Implications for the Sector
FMCG	▪ Allocation of Rs 1.77tn (Rs 1.57tn last year) to Ministry of Rural Development and Rs 1.27tn (Rs 1.25tn last year) to Ministry of Agriculture and Farmers Welfare ▪ Housing scheme for middle class to be launched to help them buy or build their own houses; also, 20mn more houses to be constructed under PMAY (Rural) ▪ New sub-scheme to be launched under Pradhan Mantri Matsya Sampada Yojana (PMMSY) with a targeted investment of Rs 60bn to set up five integrated aqua parks, enhance aquaculture productivity to 5tonnes/hectare, double exports to Rs 1tn, and generate 5.5mn employment opportunities ▪ Crop insurance to be provided to 40mn farmers, integration of 1,361 *mandis* with Rs 3tn of cumulative trading volumes, and provision of direct financial assistance to farmers	▪ Increased allocation towards rural development and agriculture will lend impetus to farm income and savings ▪ Steps taken to improve the health of farmers and middle class will, in turn, result in improvement of demand at the bottom of the pyramid
Healthcare	▪ Overall health expenditure to remain flat (+1.4%) at Rs 902bn ▪ Ayushman Bharat-PMJAY budget allocation increased 4% from Rs 72bn to Rs 75bn ▪ Healthcare cover under Ayushman Bharat scheme to be extended to all Asha (accredited social health activist), Angawadi workers and helpers ▪ Budgetary allocation for PLI scheme for pharma sector increased by ~80% to Rs 21bn from Rs 12bn ▪ Government to encourage cervical cancer vaccination for girls (9-14 years) ▪ U-WIN portal for immunisation efforts of Mission Indradhanush to be rolled out ▪ Saksham Anganwadi and Poshan 2.0 to be expedited for improved nutrition delivery, early childhood care and development	▪ Neutral for the pharma sector and healthcare stocks
Insurance	▪ No change in income tax slabs under the new tax regime	▪ Neutral for the insurance sector
	▪ Healthcare cover under Ayushman Bharat scheme to be extended to all Asha workers, Anganwadi workers and helpers	▪ Positive for the insurance industry as it benefits indirectly from increased awareness, standardisation of healthcare provider practices, standard medical protocols, IT platform for standard codified data, paperless transactions and electronic health records, and fraud control
Metals & Mining	▪ Infrastructure spend – (a) Increase in capex target by 11% in FY25; (b) Extension of PMAY to 20mn houses over the next five years, and new housing scheme for the middle class; (c) Extension of Jal Jeevan Mission	▪ Positive for demand creation in steel sector as ~60% of steel consumption is linked to housing and infrastructure
	▪ Railway – Three major rail corridors underway, continuation of metro spend, conversion of 40,000 railway bogies to Vande Bharat standards	▪ Investment in rail corridors positive for specialised rail manufacturers (JSP and SAIL), while conversion of bogies to the Vande Bharat standard positive for aluminium and stainless steel demand creation
	▪ Coal gasification and liquefaction support for 100mt of capacity by 2030	▪ Positive for players working on usage of stranded and low calorific coal

Sector	Budget announcement	Implications for the Sector
NBFC	▪ PMAY outlay increased from Rs 796bn to Rs 807bn; government announced that it is close to achieving its target of constructing 30mn houses, with an additional 20mn targeted for the next five years	▪ Positive for low-cost/affordable housing financiers
	▪ Solar power (grid) outlay increased from Rs 50bn to Rs 85bn	▪ Government's focus on renewables will immensely benefit power financiers who are now focused on renewable power financing
Oil & Gas	▪ Oil marketing companies (OMC) – Shift of capital grant for OMCs to FY25 and halving of allocation to Rs 150bn from Rs 300bn	▪ Indication that rights issue planned for OMCs is not likely in FY24. Reduced allocation could also be positive if it is aligned with OMCs' need for capital support and could mean lower dilution of earnings
	▪ City gas distribution (CGD) – Mandatory blending of CBG (compressed biogas) in CNG (compressed natural gas) and PNG (piped natural gas)	▪ Support to the CBG ecosystem could help the CGD sector lower gas purchase cost to some extent
	▪ Electric vehicles (EV) – (a) Strengthening of the ecosystem for manufacturing and charging, (b) promoting greater adoption of e-buses for public transport through payment security mechanism, (c) reduction of support under FAME scheme to Rs 27bn in FY25 from Rs 48bn in FY24	▪ Support to e-buses could mean lower growth of CNG buses; however, support to only e-buses and lower allocation to the FAME policy could mean that CNG may not face immediate competition in other vehicle segments such as cars, and CNG demand will continue to grow till the EV ecosystem matures
	▪ Renewables – Roof top solarisation targeting 10mn households	▪ Demand creation measure could support solar manufacturers, including RIL
Power	▪ Viability gap funding (VGF) to harness offshore wind energy potential for initial capacity of 1GW ▪ Coal gasification and liquefaction support for 100mt of capacity by 2030	▪ Positive for the renewable energy sector
	▪ Grid solar power outlay increased from Rs 50bn to Rs 85bn ▪ Outlay for National Green Hydrogen Mission doubled from Rs 3bn to Rs 6bn	▪ Increase in solar and hydrogen outlay positive for players like NTPC
	▪ Reform Linked Distribution Scheme outlay increased from Rs 104bn to Rs 145bn	▪ Positive for the entire power sector as distribution reforms improve

Source: Budget documents, BOBCAPS Research

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