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UNION BUDGET REPORT

2024-25

Impact Analysis

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PREFACE

Union Budget of July 2024 is not merely a statement of accounts and measures for the current fiscal but is a roadmap for the economic and fiscal policies to be pursued over the next five years. The commitment to fiscal consolidation is visible as also the intent to simplify and rationalize the existing taxation structure. Priority has been given to longer term objectives of building a robust manufacturing sector and generating employment, supported by skilling initiatives. The budget arithmetic is fairly credible with realistic growth assumptions on tax revenues and the achievement of a 4.9% fiscal deficit target is not likely to be a struggle. Overall, we consider this budget to be an important and consistent step towards the goal of Vikshit Bharat.

We have reconstituted the nine priorities in the budget speech into six key themes: (i) reaffirm the government's commitment to fiscal consolidation (ii) strengthen domestic demand through employment generation policies (iii) expedite the development of a robust Indian manufacturing ecosystem including MSMEs that will contribute significantly to employment generation (iv) accelerate the current pace of infrastructure development in the country with specific focus on states that currently lag behind (v) transform Indian agriculture through policy measures that will facilitate crop diversity, mitigate climate risks and moderate high food inflation and (vi) expedite progress towards achievement of SDGs set for the year 2030.

From a low of 3.4% in FY19, the central fiscal deficit had seen a sharp spurt to 9.2% in FY21 (Covid) followed by a steady drop thereafter to 5.6% in FY24. Importantly, the Government bettered the deficit target by 30 bps in the last fiscal and also revised the current year target by 20 bps over that in interim budget. Two statements in the budget speech have reiterate the intent on fiscal consolidation and are significantly positive from the perspective of bond markets and global rating agencies – (i) the target for FY26 is likely to be set below 4.5% (ii) from FY27, the metric for fiscal consolidation will be Central Government debt as a proportion of GDP.

Employment generation is not only an important agenda from the perspective of social stability but also to strengthen and broaden the base of consumption in the country. Three separate schemes have been announced wherein incentives will be provided to both new employees and their employers for new jobs. This is expected to facilitate the creation of 2 Cr. new jobs which will be positive for private consumption over the medium term. Having said that, the implementation of such schemes and the response of the private sector needs to be closely watched.

The tweaks in the tax slabs under the new tax regime along with the moderate increase in the standard deduction amount, will reduce the tax payouts for mid-income salaried employees. The aggregate tax savings can give a mild push to consumption apart from persuading tax payers to make a transition to the simpler new tax regime. However, the new tax rules are not so positive for those who have a sizeable income from equity markets as the tax payout on both short and long term capital gains is set to be higher.

The government has continued to take measures to improve the access to funds for MSMEs. The govt plans to constitute a separate guarantee fund which will provide guarantee upto Rs 100 Cr on loans to MSME manufacturers. Further, MSMEs in stress (SMA) will be eligible for additional loans to continue business operations through guarantee from a govt fund. TReDS platform will be expanded to include more buyers with turnover more than Rs 250 Cr, supporting better working capital funding for MSMEs. The budget also announced policies for the development of new industrial parks, rental housing for industrial workers in PPP mode, ship leasing industry and availability of critical minerals like Lithium required in new age manufacturing. These are longer term measures that can support the infrastructure needs for the domestic manufacturing sector and make them competitive. Large outlays have been earmarked for skilling programmes that will address the manpower shortages.

While the allocation for capital expenditure has remained unchanged (vs interim budget) at Rs 11.1 tn, the same will be a 16% growth over the actual expenditure incurred in the previous year. Understandably, Government capex spending has been muted in the first quarter due to the general elections and a sharp acceleration in spending will be necessary in the remaining period of the fiscal, leading to a sharp pickup in the order book of construction companies which had seen a temporary slowdown.

One key element in the budget has been the higher allocation for infrastructural development in Bihar and AP. Bihar has particularly lagged behind in infrastructure development; AP will receive funding support for the development of its capital at Amravati which had been deferred by the previous State Government. Additionally, the government has given priority to tourism infrastructure in several states which will give a boost to the hospitality sector.

The policy focus in the agricultural sector has been on crop productivity and diversification which is necessary to ensure food security and moderate food inflation in the face of increasing climate risks. The thrust on self-reliance in pulses and oilseeds as well as development of vegetable production clusters near urban centres are meaningful steps given their contribution to higher food inflation in the last five years. While no major reforms have been announced in agriculture, the establishment of a digital backbone with land registry will be an important reform, if implemented successfully.

We expected more from the budget on the sustainability front particularly on the EV front. To support indigenous manufacture of batteries and solar cells, the Government however, has slashed or waived the customs duty on components and minerals required in these industries. New policies have been mooted to diversify the sources of alternative energies such as pumped hydro projects that can enable higher mix of renewable energy in the grid and small modular nuclear reactors. Given the rapidly approaching SDG milestone of 2030, all such policy formulation for energy transition need to be expedited.

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Fiscal Arithmetic

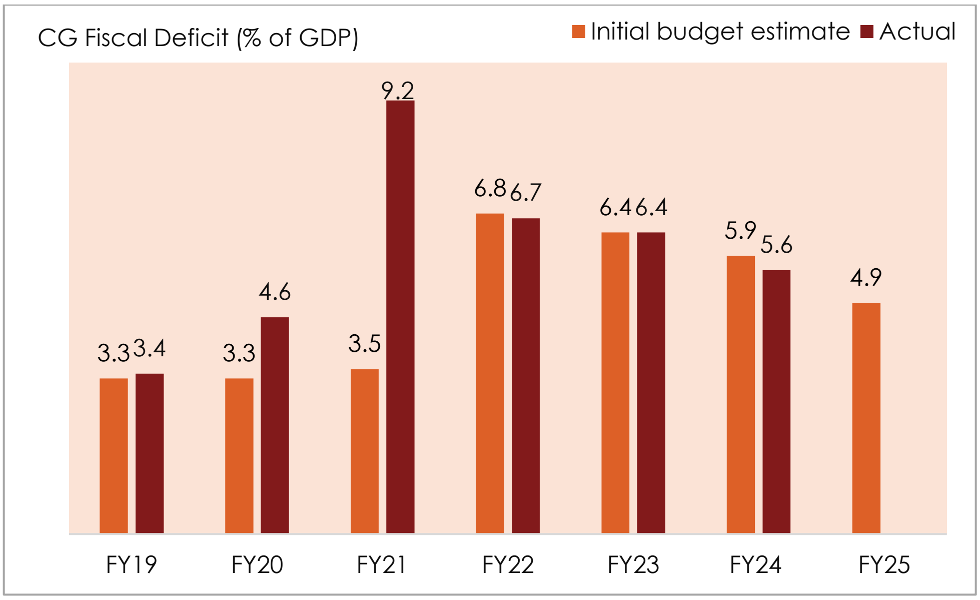
Consolidation the driving theme

KEY TAKEAWAYS

- Government displayed its strong intent to balance fiscal prudence with economic growth in FY25. The impetus on sustaining growth momentum via government's focus on capex remained in place.
- Continuing on the path of fiscal consolidation, the revised budget for FY25 announced a further 20-bps reduction in fiscal deficit to 4.9% of GDP as against the 5.1% target set in the interim budget. This is in the backdrop of a reduction of the actual deficit to 5.6% from 5.9% (BE) in FY24.
- The budget arithmetic is fairly credible with realistic growth assumptions on tax revenues and the achievement of a 4.9% fiscal deficit target is not likely to be a struggle.
- Two statements in the budget speech reiterate the intent on fiscal consolidation and are significantly positive from the perspective of bond markets and global rating agencies – (i) the deficit target for FY26 likely to be set below 4.5% (ii) from FY27, the metric for fiscal consolidation will be Central Government debt as a proportion of GDP.
- The budget stayed away from any new populist measures involving cash handouts and displayed a solid intent to strengthen the economy through policies for employment generation, wider infrastructure development, tax rationalization, MSMEs and agriculture.
- On Capital Expenditure, government has budgeted for a milder growth of 16.9% in FY25, compared to an average growth of 31.9% over the last 4 years. Nevertheless, the capex thrust of the Government remains intact, with Capex/GDP ratio budgeted to increase to 3.4% in FY25 - a near two decades high vs. 3.2% in FY24.
- While the 10 yr G-sec yields have not responded appreciably to the fiscal signals, we expect it to drop gradually below 6.7% over the next two quarters supported by the FPI flows on the back of index inclusion provided there are no surprises on the inflation front.

After peaking at 9.2% of GDP in FY21, the central government's fiscal deficit has been on a path of correction. The FY25 Union Budget has set a relatively aggressive fiscal deficit target of 4.9% of GDP. This would amount to fiscal consolidation of 1.5% of GDP over a two-year horizon, the largest countercyclical consolidation (barring the COVID disruption in FY21 and FY22) in last 18-years.

Chart 1: Fiscal Consolidation Trajectory



Fiscal arithmetic: Credible and Conservative

The fiscal arithmetic presented in the FY25 Union Budget appears credible and somewhat conservative and we do not see any risk of slippage in the headline deficit numbers. In fact, we believe there could be a small chance of an outperformance on the likelihood of a somewhat higher tax revenue collection.

The FY25 Union Budget has assumed a Nominal GDP growth rate of 10.5%. With WPI inflation accelerating at a fast clip, there could be a likelihood of Nominal GDP printing closer to 11.0% levels in FY25 (assuming Real GDP of 7.0%, at the upper end of Economic Survey's expectation, but lower than RBI's estimate of 7.2%). If the tax buoyancy remains unchanged, this could potentially result in Rs 200 bn upside to tax revenue collection.

At a granular level, growth in direct tax collection is budgeted to moderate to 12.8% in FY25 from 17.9% in FY24 (actual), while growth in indirect taxes is expected to remain steady at 8.2%. Moderation in direct tax growth is on account of income tax collection, which is seen to be impacted by a high statistical base and minor proposed deductions in the current budget (under the new tax regime, standard deduction to salaried individuals and pensioners has been increased from Rs 50,000 to Rs 75,000, while deduction from family pension of Rs 15,000 has been increased to Rs 25,000).

Non-tax revenues are anticipated to increase to 1.7% of GDP, the highest since FY18, while marking a 30 bps jump vis-à-vis FY24. This is along expected lines as it captures the impact of the record high dividend from the RBI (earlier in May-24, the central bank transferred Rs 2109 bn as surplus to the government, up sharply from Rs 874 bn in May-23). In fact, the buffer generated by the non-tax revenue has been instrumental in pruning the headline fiscal deficit ratio compared to the interim budget estimate of 5.1% provided earlier in Feb-24.

Surprisingly, the government has retained its budgeted assumption for telecom spectrum auction collection of Rs 1203 bn in the FY25 Union Budget (the same as in interim budget) despite a disappointing outcome of the recently concluded auctions (out of notified sale of spectrum worth Rs 963 bn, the government was able to garner just Rs 113 bn - the third lowest since competitive bidding began in 2010). Since spectrum revenue is paid by telecom companies in a phased manner, it is possible that past arrears could be providing some buffer.

The target for disinvestment in line with the interim budget estimate of Rs 500 bn. Since the electoral cycle and the government formation thereof prevented any meaningful disinvestment activity in the first 4-months of the financial year, this needs to be critically watched for implementation risks considering limited time for execution.

On the expenditure side, we note a minor increase in total expenditure by 20 bps to 14.8% of GDP compared to interim budget estimates. This increase is on account of higher allocation for revenue spending, which is broadly in line with market speculation (fueled after the ruling party garnered lower than expected seats in the general election). Having said, it is noteworthy that on annualized basis, the revex continues to correct (vis-à-vis FY24 actuals, Revex/GDP ratio is down by 40 bps) and its budgeted level of 11.4% of GDP in FY25 would be the lowest in the post pandemic phase.

- Growth in Interest payment is expected to moderate to 9.3% in FY25 from 14.6% in FY24 (actuals). This reflects the impact of ongoing fiscal consolidation and expectation of a lower yield curve in FY25 over FY24.
- The subsidy bill is expected to contract modestly by 2.8% in FY25 post a contraction of 23.8% in FY24. We believe there could be a likely minor upside to subsidies considering the pre-election extension of fuel price subsidy on LPG cylinders.

As provided in the interim budget, the capex target of Rs 11.1 trillion (3.4% of GDP) has been retained in the FY25 Union budget. This is commendable as the electoral cycle and the government formation thereof is believed to have weighed upon capex disbursals in the first 4-months of FY25. The capex spend actually needs to get accelerated in the remaining months of FY25 to achieve the full year target.

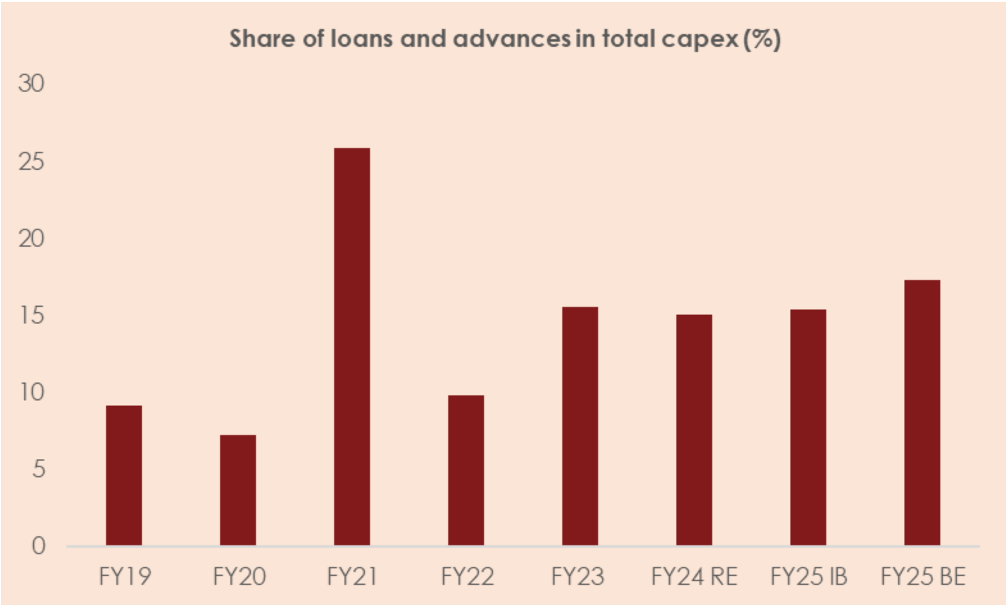
Within capex, defense and transportation sector (roads and railways) would see a combined share of 62% in overall disbursals

Key underlying features of FY25 Budget

- Employment generation has received significant attention with FY25 Union Budget carving out an outlay of Rs 2 trillion via incentives, internships, and upgradation of skill centers in collaboration with the private sector. If executed well, this could be a game changer for the policymakers from the perspective of harnessing India's demographic dividend.

- Labour intensive sectors like MSMEs, Housing, and Gems & Jewellery are likely to benefit from introduction of various measures, scaling up of budgetary allocation, and cut in custom duties, respectively.
- Share of loans (predominantly to states) in total capex is slated to increase to 17.3% in FY25, the highest in last four years. This reflects a gradually higher reliance on incentivization of state governments for targeted capex and overall fiscal discipline.

Chart 2: Share of state loans for capex is on a rising trend



Financing of the fiscal deficit

The Budget pegs FY25 gross and net market borrowings at Rs 14.0 trillion and Rs 11.6 trillion respectively. Compared to FY24, gross and net borrowing is down by 9.2% and 1.5% respectively. Notably, the gross borrowing has been contained on account of utilization of Rs 1236 bn from GST compensation fund towards redemption payments.

- There won't be any funding from T-Bills this year, with net bills budgeted for a reduction by Rs 500 bn (the government had reduced the T-Bill borrowing in Q1 FY25)
- Reliance on small savings and state provident funds is expected to see a mild moderation
- Drawdown of Rs 1.4 trillion worth surplus cash balances from the government's account will be utilized towards funding the fiscal deficit

Table 1: Funding of fiscal deficit

Key Sources of Financing Fiscal Deficit (Rs bn)				
	FY23	**FY24**	**FY25 IB**	**FY25 BE**
External Debt	371	551	160	160
Net Market Borrowing	12,203	12,341	12,305	11,132
G-Sec	11,083	11,809	11,805	11,632
T-Bill	1,120	532	500	-500
Securities against Small Savings	3,959	4,514	4,662	4,201
State Provident Funds	509	51	52	50
Others	352	802	-359	-813
Draw Down of Cash Balance	-16	-1,722	35	1,404
Total	**17,378**	**16,537**	**16,855**	**16,133**

Conclusion

The FY25 Union Budget rests on the following broad strategies:

- Preservation of continuity in fiscal consolidation
- Conservatism while avoiding a splurge in non-productive expenditure
- Maintaining a countercyclical policy at a time when growth has displayed resilience, thereby making the soft fiscal deficit target of 4.5% by FY26 appear well within reach
- Keeping the capex thrust to growth intact, while deterring 'crowding-out' of resources for the private sector, at a time when recovery in private sector capex looks imminent.

Market implications

The FY25 Union Budget offers relief to the bond market on the following fronts:

- There is a minor decline in net g-sec borrowing by Rs 173 bn
- Lack of T-bill borrowing will support the lower end of the yield curve while preserving cash in FY26
- Somewhat aggressive fiscal consolidation (as per market consensus, fiscal deficit was expected at 5.0% of GDP) augurs well for achieving the FY26 deficit target of 4.5%, which would enthuse FPI investors as well as rating agencies
- The fiscal adjustment would be viewed favorably by the RBI. If food price inflation shows signs of reversal in the near-term, then this could open the door for the first rate cut in the third quarter of the fiscal year.

The 10Y g-sec yield closed the day almost steady at 6.97% amidst lack of any volatility. We continue to expect 10Y g-sec yield to drift lower towards 6.75% by Mar-25.

Table 2: Budget at a glance

	In Rs bn			As % of GDP		
	FY23	FY24 RE	FY25 BE	FY23	FY24 RE	FY25 BE
Revenue Receipts	**23832**	**26997**	**31292**	**8.8**	**9.1**	**9.6**
Gross Tax Revenue	30542	34372	38402	11.3	11.6	11.8
Net Tax Revenue	20978	23239	25835	7.8	7.9	7.9
Non-Tax Revenue	2854	3758	5457	1.1	1.3	1.7
Dividends & Profits	999	1544	2891	0.4	0.5	0.9
Non-Debt Capital Receipts	722	560	780	0.3	0.2	0.2
Disinvestments	460	300	500	0.2	0.1	0.1
Total Expenditure	**41932**	**44905**	**48205**	**15.6**	**15.2**	**14.8**
Revenue Expenditure	34531	35402	37094	12.8	12	11.4
Interest Payment	9285	10554	11629	3.4	3.6	3.6
Subsidy	5779	4405	4284	2.1	1.5	1.3
Capital Expenditure	7400	9502	11111	2.7	3.2	3.4
Revenue Deficit	10699	8405	5802	4.0	2.8	1.8
Fiscal Deficit	**17378**	**17348**	**16133**	**6.4**	**5.8**	**4.9**
Primary Deficit	8092	6793	4504	3.0	2.3	1.4

Sectoral Impact

Agriculture

Our Opinion: Moderately Positive

Key Budgetary Announcements

- ↑ New 109 high-yielding, climate-resilient varieties will be released to farmers.
- ↑ Over the next 2 years, 10 million farmers will be introduced to natural farming practices.
- ↑ Mission for pulses and oilseeds to achieve self-reliance in these crops and enhance food security
- ↑ Recognizing the potential of aquaculture, the budget provides financial support for setting up a network of nucleus breeding centres for shrimp broodstocks.
- ↑ Financing for shrimp farming, processing, and export will be facilitated through the National Bank for Agriculture and Rural Development [NABARD]
- Government has reduced the basic customs duty on shrimp to 5%.
- ↑ Digital crop survey for Kharif crops will be conducted in 400 districts this year, integrating the details of six Cr. farmers and their lands into farmer and land registries. Further, Kisan credit cards will be provided in five states.
- ↑ Plan to promote large-scale vegetable production clusters. These clusters will be strategically established near the major urban consumption centres to ensure a steady vegetable supply across the country.
- ↑ Promotion of FPOs, cooperatives & start-ups for vegetable supply chains for collection, storage, and marketing.
- ↑ Government would promote digital public infrastructure in partnership with state governments.
- ↑ Additionally, 10,000 need-based bio-input centres will be established to strengthen the production, storage, and marketing of oilseeds.
- ↑ Price stabilization fund of Rs 10,000 Cr proposed under Ministry of Consumer Affairs to reduce volatility in retail food prices
- ↓ Lower allocation for fertilizer subsidy to the extent of Rs 250 Bn (-13%) as compared to FY24 (RE), which may lead to lower fertilizer availability for farmers
- ↔ The allocation for Pradhan Mantri Fasal Bima Yojana has been marginally reduced
- ↔ Food subsidy (allocation to Food and Public Distribution Department) brought down to Rs 2.13 tn in FY25 (BE) from Rs 2.22 tn in FY24 (RE), a moderate decline

↑ Positive ↔ Neutral ↓ Negative

Impact Analysis

- The budget for agriculture and allied areas in the current year has its focus on productivity, resilience and sustainability of the sector.
- The release of high yield and climate resilient varieties of seeds for a wide range of traditional and horticultural crops will help to improve productivity
- The thrust on increasing the acreage on pulses and oilseeds on a sustainable basis is a step in the right direction given the dependence on imports particularly in edible oil and the continuing vulnerability to higher food inflation.
- The shift towards natural farming aims to promote sustainable agricultural practices and reduce dependency on chemical fertilizers and pesticides. Natural farming can enhance soil health and biodiversity while reducing cultivation costs for farmers, thereby increasing their profitability.
- The digital public infrastructure plan is an important step towards further agricultural reforms. Reliable data on the farmer community, their land holdings, cropping patterns etc will help the government to target and deliver benefits more effectively. The digital framework will also provide farmers with access to vital information, such as weather forecasts, crop advisory services, and market prices.
- Given India's large coastline, fisheries remain an important source of livelihoods for a large number of people. India's seafood exports in the last financial year touched an all-time high of more than Rs 600 bn. To enhance export growth and competitiveness, the Government has proposed to bring down the import duty on shrimp cultivation inputs to 5% along with arranging a line of finance from NABARD.

Automobile

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Our Opinion: Neutral

Key Budgetary Announcements:

- ↑ Significant increase in allocation for automobiles and auto components to Rs 35 bn from Rs 6 bn in FY24 (BE) under PLI (Production Linked Scheme)
- ↓ Significant reduction in allocation under the FAME(Faster Adoption and Manufacturing) Scheme for electric vehicle (EV) to Rs 26.7 bn in FY25 (RE) from the Rs 48.0 bn in FY24 (RE)
- ↑ Removal of the BCD (Basic Custom Duty) on ferro nickel used in manufacture of stainless steel and other special steels required in auto component manufacture
- ↑ Concessional BCD of 2.5% on cropper scarp, and continuation of exemption on BCD for ferrous scrap and nickel cathode.
- ↑ Benefit to the EV and the battery manufacturers with the abolition of custom duty on the lithium mineral and also
- ↑ Extension of concessional customs duty on Li-Ion cells till March 2026, removal of 2% e-transaction levy.

↑ Positive ⟷ Neutral ↓ Negative

Impact Analysis

- There has been no announcement in the budget on FAME III subsidy for the EV industry although it was an expectation from the industry. Nevertheless, the Government has made an allocation under FAME albeit at around 50% of the budgetary allocation in the previous fiscal.
- The penetration of EVs in India is constrained due to the lack of charging infrastructure. There are no specific measures or statements on this matter which needs the coordination between auto OEMs and power distribution companies (mostly state owned)
- Manufacturers of the lithium–ion battery used in EVs will gain as the government has exempted the custom duty on the minerals i.e. lithium and cobalt. This will boost the indigenous production of lithium batteries, thereby supporting the localization and reducing the sharp dependencies on imports from nations like China.
- The government has introduced various employment policies and skill development programmes, that promises to generate employment for over 20 mn youth in the coming five years. This should support a rise in disposable incomes and purchasing power among the younger population and spur demand for vehicles particularly two wheelers.
- Union Budget has allocated Rs 2.5 bn under advanced chemistry cell (ACC) but no specific provisions or measures were announced for the promotion of sustainable mobility.

Banking & Financial Services

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Our Opinion: Moderately Positive

Key Budgetary Announcements:

- ↑ More than 100 branches of India Post Payment Bank will be setup in the North East region where the banking penetration is low
- ↑ Credit Support to MSMEs during stress period through guaranteed loan support
- ↑ New Credit Guarantee scheme for MSMEs in the manufacturing sector
- ↑ Push for expanding the TReDS platform by inclusion of corporate buyers with lower turnover
- ↑ Abolition of the Angel Tax for all classes of investors
- ↑ Reduction in Corporate tax rate for foreign companies including branches of foreign banks
- ↑ Lower taxes on individual incomes which can lead to either higher savings or higher consumption through loans
- ↑ National Pension Scheme (NPS) contribution exemption increased from 10% to 14%

↑ Positive ⟷ Neutral ↓ Negative

Impact Analysis

- The proposal to have more than 100 branches of India Post Payments Bank (under the Postal Department, Government of India) in the north-eastern parts of the country would promote further financial inclusion and accessibility of banking facilities to the unbanked population in the remote parts of India.
- The new Credit Guarantee scheme for MSMEs in the manufacturing sector is meant to assist MSMEs avail term loans in the manufacturing sector without any collateral from smaller business owners and entrepreneurs. The guarantee scheme will function through a pool system managing the credit risks of participating MSMEs. A separate, self-financed guarantee fund will be established to provide each applicant with a guarantee cover up to Rs 1.0 bn while the actual loan amount could be higher. The borrowers will need to pay an upfront guarantee fee and an annual guarantee fee based on the reducing loan balance. By reducing barriers to acquiring loans for machinery and equipment, this scheme intends to empower MSMEs to invest in modern technologies and upgrade their infrastructure, making them more competitive globally. This help the financial sector - banks and NBFCs) to grow their MSME portfolio in a healthy manner.

- Recognizing the financial vulnerability of MSMEs during economic downturns, the budget has proposed measures to support their credit needs. One initiative involves providing loans to MSMEs classified under Special Mention Accounts (SMA) which will be guaranteed by a Government promoted fund, enabling them to continue their operations while also preventing them from slipping into Non-Performing Asset (NPA) in the financial system. Additionally, the government has lowered the mandatory turnover threshold for participation on the Trade Receivables Discounting System (TReDS) platform from Rs 5 bn to Rs 2.5 bn. TReDS facilitates invoice discounting, allowing MSMEs to receive early payments from banks against their invoices to buyers. This broader participation on TReDS translates to faster invoice settlements for MSMEs, ultimately improving their cash flow. This is also likely to expand the digital market for invoice financing in India.
- Moreover, the budget has abolished the angel tax across all investor categories, with an aim to strengthen the Indian start-up ecosystem. The angel tax was levied on start-ups if the value of investment received was higher than the fair market value, with the differential being taxed at a rate of 30.9%. This removal of angel tax would encourage investors and VCs in the financial sector (including funds set up by banks and financial institutions) to invest more in start-ups without any tax implication for the latter. This move further emphasises that the government is supportive of entrepreneurship and constantly planning to reduce the challenges faced by the Indian start-ups.
- The corporate tax on the foreign companies has reduced from 40 % to 35%. This effectively lowers the highest tax rate for foreign companies from around 43.7% to 38%. This would potentially attract foreign investments in the country including those in the financial sector. This is seen as a positive step to attract more foreign investment into India, including from foreign banks.
- Long term household savings are not only critical for social security but also for channelizing domestic savings into long term productive assets. Such savings have been given a boost through the higher NPS contribution exemption which implies that individuals contributing to the NPS can claim a higher portion of their income as exempt from tax. This will incentivize savings for retirement through the NPS pension funds.
- The increase in the standard deduction limit along with the changes in the new tax regime provides for moderately better disposable income and savings particularly in the lower income brackets. This can help banks to some extent in mobilising higher deposits in the context of the slowdown in deposit growth and a pickup in credit growth.

Capital Markets

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Our Opinion: Neutral

Key Budgetary Announcements:

↔ Short term capital gains tax increased to 20% from 15% on certain financial assets which will discourage short term trading in securities

↓ Long term capital gains tax for all financial and non-financial assets has been increased from 10.0% to 12.5% with removal of all indexation benefits

↑ All financial assets held for more than a one year period will now be categorized as a long term asset

↑ The limit of exemption of long term capital gains increased from Rs 100,000 to Rs 125,000

↑ Further, the security transaction tax in futures and options of securities increased to 0.02% and 0.10% respectively

↑ Positive ↔ Neutral ↓ Negative

Impact Analysis

- In our opinion, the increase in the capital gains taxes has several objectives (i) higher revenue mobilization given the buoyancy in the equity markets (ii) discourage excessive diversion of household savings to the capital markets which has higher inherent risks (iii) bring down the share of short term trades in the markets (iv) discourage retail investors to reduce their exposure to F&O trades which are largely speculative in nature.
- The increase in the capital gains taxes has been however, offset by higher exemption limit on LTCG of Rs 1,25,000 which will help the smaller retail investors to reduce their tax burden.
- The realignment of the capital gains taxes is also meant to simplify the tax structure and minimize the differential in the treatment and tax rates across different asset classes – financial or non-financial.
- Debt mutual funds, market linked debentures, unlisted debt securities irrespective of their holding period, will continue to attract tax at the marginal income tax rate in line with the treatment on bank fixed deposits.
- The increase in the security transaction tax on F&O products is consistent with the opinion of the Government (as expressed in Economic Survey) and SEBI that retail investors should avoid high exposure to high risk derivative products. While the hike in STT is modest, it may persuade investors to exercise caution in the F&O segment and may also be followed up with additional measures from the market regulator.

Education & Skilling

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Our Opinion: Strongly Positive

Key Budgetary Announcements:

↑ The Union Budget for 2024-25 proposes to allocate Rs 1.48 tn for education, employment, and skilling in the country.

↑ The government will provide financial support for loans up to Rs 10 lakhs for higher education in domestic institutions.

↑ The government will upgrade 1,000 Industrial Training Institutes (ITIs) using a hub-and-spoke model aligning course content with industry skill needs and revising the model skill loan scheme.

↑ An internship scheme will be launched to provide opportunities for 1 Cr youth in the top 500 companies of India; further, 20 lakh youth will be skilled over the next five years.

↑ Develop DPI (digital public infrastructure) applications for education sector

↑ Positive ⟷ Neutral ↓ Negative

Impact Analysis

- By introducing financial support for loans up to ₹10 lakh for higher education in domestic institutions, the budget aims to make higher education more accessible to a larger segment of the population. This initiative can potentially increase enrolment rates in universities and colleges, particularly among economically disadvantaged students who previously faced financial barriers.
- Upgrading 1,000 Industrial Training Institutes (ITIs) using a hub-and-spoke model and aligning course content with industry needs will enhance the quality of vocational education. This modernization is crucial for equipping students with skills that are directly relevant to job market demands, thereby improving their employability upon graduation.
- The launch of an internship scheme offering opportunities to 1 Cr. youths across 500 firms will provide practical exposure and industry experience. Internships are instrumental in bridging the gap between theoretical learning and practical application, preparing students with real-world skills and enhancing their readiness for employment.
- Skilling 20 lakh youths over the next five years through targeted programs will address the skill gap prevalent in various sectors. By focusing on industry-relevant skills, the budget aims to create a pool of skilled workforce capable of meeting the evolving needs of the economy, thus contributing to economic growth and competitiveness.

- The development of DPI applications in education will streamline operations, enhance educational delivery, and improve administrative efficiency. It will also foster innovation, creating new opportunities for online learning and student management systems, thereby advancing the quality and accessibility of education.
- By investing in education and skill development, the budget lays the groundwork for sustainable economic growth and human capital development in India.

Employment

Acuité Opinion: Moderately Positive

Key Budgetary Announcements:

↑ Scheme A: First Timers will provide one-month wage to all persons newly entering the workforce in all formal sectors. The direct benefit transfer of one-month salary in 3 instalments to first-time employees, as registered in the EPFO, will be up to15,000. The eligibility limit will be a salary of 1 lakh per month. The scheme is expected to benefit 210 lakh youth.

↑ Scheme B: Job Creation in manufacturing will incentivize additional employment in the manufacturing sector, linked to the employment of first-time employees. An incentive will be provided at specified scale directly both to the employee and the employer with respect to their EPFO contribution in the first 4 years of employment. The scheme is expected to benefit 30 lakh youth entering employment, and their employers.

↑ Scheme C: Support to employers is an employer-focused scheme which will cover additional employment in all sectors. All additional employment within a salary of Rs 1 lakh per month will be counted. The government will reimburse to employers up to Rs 3,000 per month for 2 years towards their EPFO contribution for each additional employee. The scheme is expected to incentivize additional employment of 50 lakh persons.

↑ Government will be facilitating higher participation of women in the workforce through setting up of working women hostels in collaboration with industry and establishing creches.

↑ A new skilling scheme will train 20 lakh youth in collaboration with state governments and industry over 5 years. It includes upgrading 1,000 ITIs with industry-aligned courses and introducing new programs for emerging skills.

↑ Purvodaya aims to develop Bihar, Jharkhand, West Bengal, Odisha, and Andhra Pradesh through human resource development, infrastructure enhancement, and economic opportunities, envisioning the region as a catalyst for India's holistic development.

↑ New airports, medical colleges, and sports infrastructure will be built in Bihar, while over 100 branches of India Post Payment Bank will expand banking services in the Northeast, fostering employment opportunities in both regions.

↑ The government is planning to offer Internship opportunities to 1 Cr. Youth for a duration of 12 months in top 500 companies and monthly allowance of Rs 5000- and one-time assistance of Rs 6000.

↑ The government plans to establish 100 weekly street food hubs annually over five years, Additionally, efforts to promote India as a global tourist destination aim to generate employment, attract investments, and stimulate economic growth across various sectors.

↑ Positive ⟷ Neutral ↓ Negative

Impact Analysis

- The government is focusing on encouraging more and more employment in formal sector which will ensure that workers will gain stability, legal protections, and access to benefits like health insurance. It boosts economic growth through increased productivity and tax contributions, ultimately improving overall living standards and social security coverage.
- Scheme A encourage Youth to participate more in formal sector. Scheme B: Job Creation in manufacturing ensures employment incentive scheme to stimulate job creation in one of India's key sectors, thereby fostering industrial growth and enhancing employment opportunities. The Scheme C promotes job growth and supports businesses in expanding their workforce.
- The Skill Development programme aims to benefit 20 lakh students by improving skill training infrastructure and curriculum. This initiative enhances the employability of youth by equipping them with industry-relevant skills, addressing skill gaps, and supporting job placement in various sectors.
- The Internship Programme will help to get real world experience and skill development to unemployed youth, this will provide employability by providing hands-on training aligned with industry requirements. This initiative prepares youth for future employment opportunities and reduces youth unemployment.
- Schemes like Skilling programme and educational loans will further motivate youth for higher education and skill development which further enhances employability.
- Plans like Purvodaya and development along the Amritsar-Kolkata Industrial Corridor aim to spur economic growth and infrastructure development in eastern regions, potentially creating new employment opportunities in these areas.
- The initiative to build 1 Cr. houses and develop urban infrastructure is expected to generate significant employment in construction and related sectors. Support for street food hubs and tourism development initiatives could create jobs in the informal sector and boost employment in tourism-related industries.
- A new Economic Policy Framework aims to guide economic development and reforms, potentially creating an enabling environment for job creation across various sectors. Integration of e-shram portal and databases to connect jobseekers with employers and skill providers could improve labor market efficiency and facilitate employment matching.

Healthcare & Pharma

Our Opinion: Neutral

Key Budgetary Announcements:

- ↑ The Health Ministry has been allocated Rs 910 bn in the Union Budget 2024-25 which is a hike of 12.9% over Rs 805 bn in FY24.
- ↑ Special grade stainless steel, Titanium alloys, Cobalt-chrome alloys and all types of polyethylene for use in manufacture of artificial parts of the body, exempt from Customs duty.
- ↑ Changes in Basic Customs Duty (BCD) on X-ray tubes and flat panel detectors used in medical diagnostic equipment
- ↑ Customs duties exempted on three cancer medications

↑ Positive ⟷ Neutral ↓ Negative

Impact Analysis

- The increase in the allocation in the health ministry is a positive move albeit such an expenditure on healthcare is still low as a percentage of GDP.
- The reduction in the BCD for medical equipment components from 15% to 5% will help to reduce the capital cost of such equipment and facilitate more affordable healthcare
- Government has also exempted the custom duty for three vital cancer drugs, providing relief to the cancer patients burdened with high treatment costs. These exemptions of custom duties will lower their import cost and will increase the affordability of these drugs.
- Such measures align with broader health equity goals by ensuring that vulnerable patient populations can access necessary treatments without financial burdens, thereby improving health outcomes and quality of life.
- These adjustments will enhance domestic production capacity, underscoring the government's dedication to bolstering local manufacturing and fostering innovation within the medical sector.
- There were no specific measures, for the healthcare sector under tax slabs, or any allotment under R&D, the sector stands to be Neutral.

Infrastructure

Acuité Opinion: Strongly Positive

Key Budgetary Announcements:

- ↑ Central Government has made significant investments over the last few years in building and improving infrastructure which has a strong multiplier effect on the economy. This year as well, it has provided 11.1 tn for capital expenditure which would be 3.4% of India GDP.
- ↑ Government has encouraged states to provide support of similar scale for infrastructure, subject to their development priorities where a provision of Rs 1.5 tn for long-term interest free loans has been made this year to support the states in their resource allocation.
- ↑ Buoyed by the success of the pilot project, Indian government, in partnership with the states, will facilitate the implementation of the Digital Public Infrastructure (DPI) in agriculture for coverage of farmers and their lands in 3 years. During this year, digital crop survey for Kharif using the DPI will be taken up in 400 districts. The details of 60 mn farmers and their lands will be brought into the farmer and land registries. Further, the issuance of Jan Samarth based Kisan Credit Cards will be enabled in 5 states.
- ↑ The states in the Eastern part of the country are rich in endowments and have strong cultural traditions. We will formulate a plan, Purvodaya, for the all-round development of the eastern region of the country covering Bihar, Jharkhand, West Bengal, Odisha and Andhra Pradesh. This will cover human resource development, infrastructure, and generation of economic opportunities to make the region an engine to attain Viksit Bharat.
- ↑ FM announced that government will support development of road connectivity projects, namely (1) Patna-Purnea Expressway, (2) Buxar-Bhagalpur Expressway, (3) Bodhgaya, Rajgir, Vaishali and Darbhanga spurs, and (4) additional 2-lane bridge over river Ganga at Buxar at a total cost of 260 bn. Power projects, including setting up of a new 2400 MW power plant at Pirpainti, will be taken up at a cost of 214 bn. New airports, medical colleges and sports infrastructure in Bihar will be constructed.
- ↑ Rs 2.66 tn for rural development including rural infrastructure and roads (PMGSY)
- ↑ Government will facilitate development of investment-ready "plug and play" industrial parks with complete infrastructure in or near 100 cities, in partnership with the states and private sector, by better using town planning schemes. Twelve industrial parks under the National Industrial Corridor Development Programme also will be sanctioned.
- ↑ Vishnupad Temple at Gaya and Mahabodhi Temple at Bodh Gaya in Bihar are of immense spiritual significance. Comprehensive development of Vishnupad Temple Corridor and Mahabodhi Temple Corridor will be supported, modelled on the successful Kashi Vishwanath Temple Corridor, to transform them into world class pilgrim and tourist destinations.

↑ Investment in infrastructure by private sector will be promoted through viability gap funding and enabling policies and regulations. A market-based financing framework will be brought out.

↑ Positive ⟷ Neutral ↓ Negative

Impact Analysis

- It was not a surprise that the government has persisted with its initiatives on the infrastructure front. While the allocation for capital expenditure set out in the interim budget has remained unchanged at Rs 11.1 tn, the same will be a significant growth of 16% over the actual expenditure incurred in the previous year.
- It is to be noted that Government spending has been muted in the first quarter due to the general elections and a sharp acceleration in spending will be necessary in the remaining period of the fiscal. This will lead to a sharp pickup in the order book of construction companies which had seen a temporary slowdown.
- One key element in the budget has been the higher allocation for infrastructural development in Bihar and Andhra Pradesh. Bihar has particularly lacked behind in infrastructure development and an aggregate amount of Rs 589 bn has been sanctioned for various projects in the state. Andhra Pradesh will receive funding support of Rs 150 bn for the development of its capital at Amravati which had been deferred by the previous State Government. Additionally, the government has given priority to development of tourism infrastructure in several states which will give a boost to the hospitality sector.
- While the budget has not highlighted any additional measures for railways, it has allocated a healthy capital budget of Rs 2.52 tn as compared to Rs 2.4 tn in FY24 (RE) and Rs. 1.6 tn in FY23.
- To lower the burden of infrastructure development for the Government, the budget also talks about the revival of the PPP model in some sectors and the support through viability gap funding.

MSME Sector

Our Opinion: Highly Positive

Key Budgetary Announcements:

↑ Credit guarantee scheme for MSMEs in manufacturing sector.

↑ New mechanism to facilitate bank credit to MSMEs while being in SMA stage.

↑ Limit of MUDRA loans enhanced to Rs 20 lakh Cr. from Rs 10 lakh Cr.

↑ Enhanced scope for mandatory onboarding in TReDS

↔ A new credit assessment model will be formulated by state-owned banks to assess MSMEs instead of relying on external assessment.

↑ Positive ↔ Neutral ↓ Negative

Impact Analysis

- The Government plans to introduce a credit guarantee scheme specifically for MSMEs in the manufacturing sector, which will enable them to access term loans for the purchase of machinery and equipment without the need for collateral or a third-party guarantee.
- Credit is necessary for MSMEs to maintain their operations and prevent the NPA stage. A guarantee from a fund supported by the government will underpin credit availability.
- The budget has lowered the turnover threshold of buyers for onboarding on the TReDS platform from Rs 2.5 bn to Rs 5.0 bn. This step will bring 22 more CPSEs and 7,000 more companies onto the platform and medium enterprises will also be included in the scope of the suppliers. This will expand the TReDS platform and assist MSMEs in becoming cash-positive and releasing working capital
- A new credit assessment model based on the digital footprints of MSMEs in the economy will be developed. Not only will it cover MSMEs without a formal accounting system, but it is anticipated to be a major improvement over the conventional evaluation of credit eligibility based solely on asset or turnover criteria. The efficacy of such a model nevertheless, in predicting MSME defaults remains to be seen.

Sustainability

Acuité Opinion: Moderately Positive

Key Budgetary Announcements:

- ↑ Promote Water Supply and Sanitation Projects, sewage treatment, and solid waste management in 100 large cities to be in partnership for Urban Water Projects.
- ↑ Energy Transition Initiative Develop pathways for sustainable economic growth with energy security to ensures accessible and affordable energy while reducing environmental footprint
- ↑ PM Surya Ghar Muft Bijli Yojana for Installation of rooftop solar plants to provide free electricity to 10 mn households which promotes renewable energy adoption, reduces electricity costs for households.
- ↑ Nuclear power allocation increased from Rs 4.4 bn to Rs 22.3 bn and Solar power grid from Rs 49.7 bn to Rs 100.0 bn.
- ↑ Exemption of BCD tax in capital goods for use in the manufacture of solar cells and panels
- ↑ Ultra Mega Power Project of 2400 MW in Bihar will be taken up at a cost of 21,400 Cr which will be highly energy efficient even while operating on fossil fuel
- ↑ Pumped Storage Policy to promote pumped storage projects for electricity storage and renewable energy integration which enhances grid stability and renewable energy reliability.
- ↑ Small and Modular Nuclear Reactor for R&D to develop and to expand nuclear energy capacity in Public-private partnerships for research and deployment.
- ↑ Advanced Ultra Super Critical Thermal Power Plants will be used to develop indigenous technology for high-efficiency thermal power plants for Collaboration between NTPC and BHEL for an 800 MW Advanced ultra- supercritical (AUSC) plant.
- ↑ Roadmap for 'Hard to Abate' Industries Transition energy-intensive industries to emission-based targets Shift from 'Perform, Achieve and Trade' to 'Indian Carbon Market' mode.
- ↑ Support for Micro and Small Industries to Conduct energy audits and implement cleaner energy solutions in 60 clusters and financial support for energy efficiency measures in next phase expands to 100 clusters
- ↑ Develop a climate finance taxonomy to enhance capital availability for climate projects and boost investment in sustainable development projects.

- ↑ Custom duty exempted on 25 critical minerals like lithium, copper, cobalt, and rare earth elements and reduce BCD on two on them. These are vital for nuclear energy, renewable energy, space, defence, telecommunications, and high-tech electronics sectors.
- ↓ No measures or new policies around electric mobility and its penetration
- ↑ As a CSR Initiative, the PM's Internship offers a twelve-month opportunity with a monthly allowance of Rs 5,000. The government provides Rs 54,000 monthly (plus Rs 6,000 for incidentals), while companies contribute Rs 6,000 from CSR funds for the allowance and cover training expenses from CSR funds.
- ↑ Aim to initiate 10 mn farmers across the country into natural farming in next 2 years. 10,000 bio-input resource centres will be established. This is a huge step towards reducing chemical usage in farming.

↑ Positive ⟷ Neutral ↓ Negative

Impact Analysis

- One of the India's newly introduced Pumped Storage Policy strategically implements projects to enhance renewable energy integration, stabilize the grid, ensure energy security, spur economic growth, innovate in energy storage, and reduce greenhouse gas emissions. These steps are crucial in aligning with climate goals, aiming for 50% of total generation capacity from non-fossil sources by 2030.
- Advanced Ultra Super Critical (AUSC) thermal power plants in the budget advance India's thermal power generation with high efficiency.
- The collaboration between the Indian government and the private sector to develop Bharat Small Reactors (BSRs), Small Modular Reactors (SMRs), and advanced nuclear technologies aims to enhance energy security by diversifying away from fossil fuels, drive innovation in reactor design and safety, create jobs, attract investments, and support India's climate goals through reduced emissions. This effort positions India as a leader in global nuclear energy, bolstering international cooperation and advancing sustainable development under the Viksit Bharat initiative.
- Transitioning 'hard to abate' industries from 'Perform, Achieve and Trade' (PAT) to the 'Indian Carbon Market' will drive stringent emission reduction goals. This shift incentivizes cleaner technologies, spurs innovation, and boosts India's global competitiveness while attracting sustainable investments, reinforcing environmental sustainability efforts.
- CSR initiative not only supports skill development among youth but also fosters corporate social responsibility, contributing positively to both individual career growth and societal development.

- 25 Minerals which got exempted from basic custom duty (BCD), this initiative lowers import costs, fostering domestic manufacturing, innovation, and technological self-reliance. It also aligns with sustainability goals by promoting minerals essential for clean energy technologies, advancing India's environmental stewardship and energy security objectives.
- India's budget initiatives prioritize sustainable development across key sectors. Efforts in urban water projects, renewable energy transition, and solar power expansion aim to enhance environmental stewardship and energy security.

Textiles

Acuité Opinion: Positive

Key Budgetary Announcements:

- ↑ The budget allocation for the textiles sector has been increased to Rs 44.2 bn in the Union Budget 2024-25.
- ↑ Reduction of custom duty on spandex yarn from 7.5% to 5%.
- ↑ Custom duty cut from 10% to NIL for the input materials such as Wet white, Crust and finished leather for manufacture of textile or leather garments, leather /synthetic footwear or other leather products.
- ↑ Removal of the Custom Duty for certain additional accessories and embellishments for manufacture of textile or leather garments, leather/synthetic footwear or other leather products.
- ↑ Custom duty cut for the - Real Down Filling material from duck or goose for use in manufacture of textile or leather garments.
- ↑ Establishment of exports hub under the Public Private Model.
- ↑ Credit Guarantee Scheme for MSMEs upto a guarantee amount of Rs 1 bn
- ↑ Credit Support for stressed MSMEs through guarantee from a Government fund to avoid getting into the NPA stage which will benefit many textile players

↑ Positive ⟷ Neutral ↓ Negative

Impact Analysis:

- The reduction of the custom duty in the textile industry will encourage imports of several inputs and auger well for the textile manufacturers. Lowering of import duties will not only encourage the exports of finished products but will also support the operating margins of the manufacturers.
- The establishment of the e-commerce export hubs under the public private model will facilitate trade and export related services under one roof along with the seamless regulations and logistics framework, particularly supporting the textile players.
- Credit Guarantee Scheme will support the small to midsized textile players to access funds for expanding their capacities and diversifying into new products without any collateral and third-party guarantee.
- Many small to midsized textile companies had witnessed stress on account of a slowdown in the export markets which limits their access to funds and impacts business operations. The new scheme for accessing guaranteed loans will help to revive operations and prevent employment losses in the sector.

Tourism

Our Opinion: Positive

Key Budgetary Announcements:

Tourism has always been a part of civilization and its efforts in positioning India as a global tourist destination will also create jobs, stimulate investments and unlock economic opportunities for other sectors. In addition to the measures outlined in the interim budget, FM proposed the following measures-

- ↑ Government will support the development of Nalanda as a tourist centre besides reviving Nalanda University to its glorious stature.
- ↑ Odisha's scenic beauty, temples, monuments, craftsmanship, wildlife sanctuaries, natural landscapes and pristine beaches make it an ultimate tourism destination. Indian government to provide assistance for their development.
- ↑ Rajgir holds immense religious significance for Hindus, Buddhists and Jains. The 20th Tirthankara Munisuvrata temple in the Jain Temple complex is ancient. The Saptharishi or the 7 hot springs form a warm water Brahmakund that is sacred. A comprehensive development initiative for Rajgir will be undertaken.
- ↑ Vishnupad Temple at Gaya and Mahabodhi Temple at Bodh Gaya in Bihar are of immense spiritual significance. Comprehensive development of Vishnupad Temple Corridor and Mahabodhi Temple Corridor will be supported, modelled on the successful Kashi Vishwanath Temple Corridor, to transform them into world class pilgrim and tourist destinations.

↑ Positive ⟷ Neutral ↓ Negative

Impact Analysis:

- Government will support the development of Nalanda as a tourist center and reviving Nalanda University aims to attract domestic and international tourists interested in exploring India's rich cultural heritage and ancient educational institutions. This initiative is expected to boost local economies through increased tourism activities, create employment opportunities, and preserve historical sites for future generations.
- The assistance provided for the development of Odisha's scenic beauty, temples, monuments, and natural landscapes underscores the government's commitment to promoting tourism as a key driver of economic growth.
- By enhancing tourist infrastructure and promoting Odisha's diverse attractions, including wildlife sanctuaries and pristine beaches, the budget aims to position the state as a premier tourism destination. This strategic investment is likely to attract more tourists, stimulate hospitality and related industries, and contribute to regional development while preserving and showcasing India's rich cultural and natural heritage.

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