

BUDGET (Interim) 2024-25: Analysis and Insights

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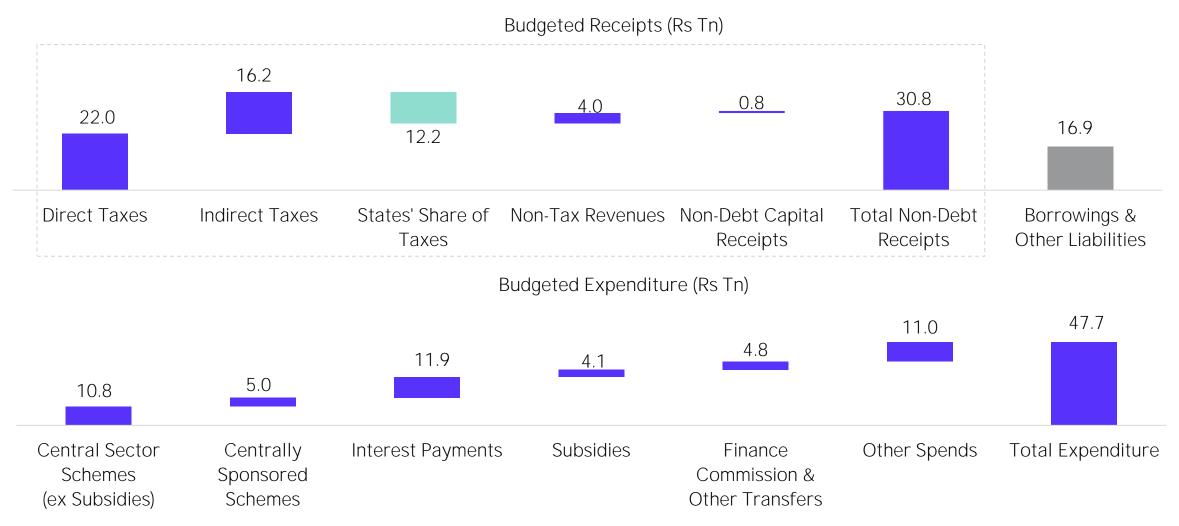


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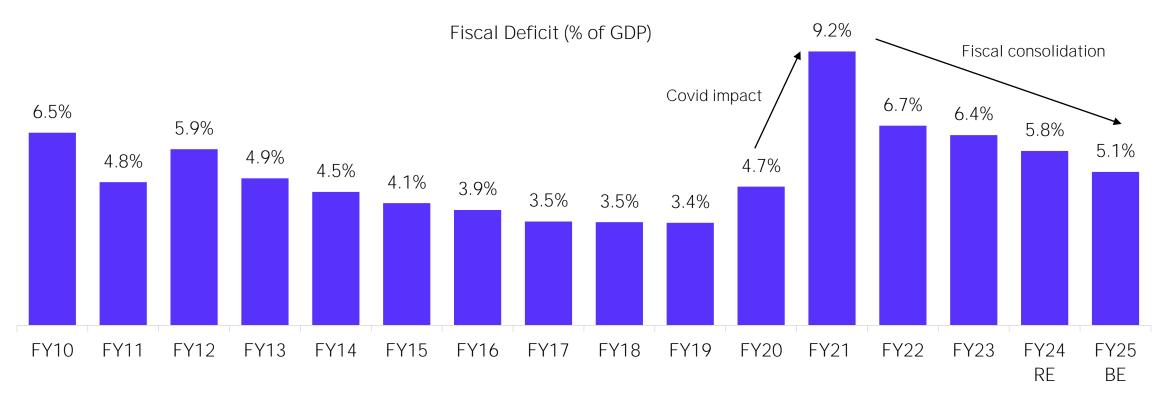
Chapter 1 Budget Highlights

FY25 Budget Snapshot





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

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

		Rs Tr	٦			% Yo	Y	
Major Heads	FY22	FY23	FY24	FY25	FY22	FY23	FY24	FY25
	А	А	RE	BE	А	А	RE	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

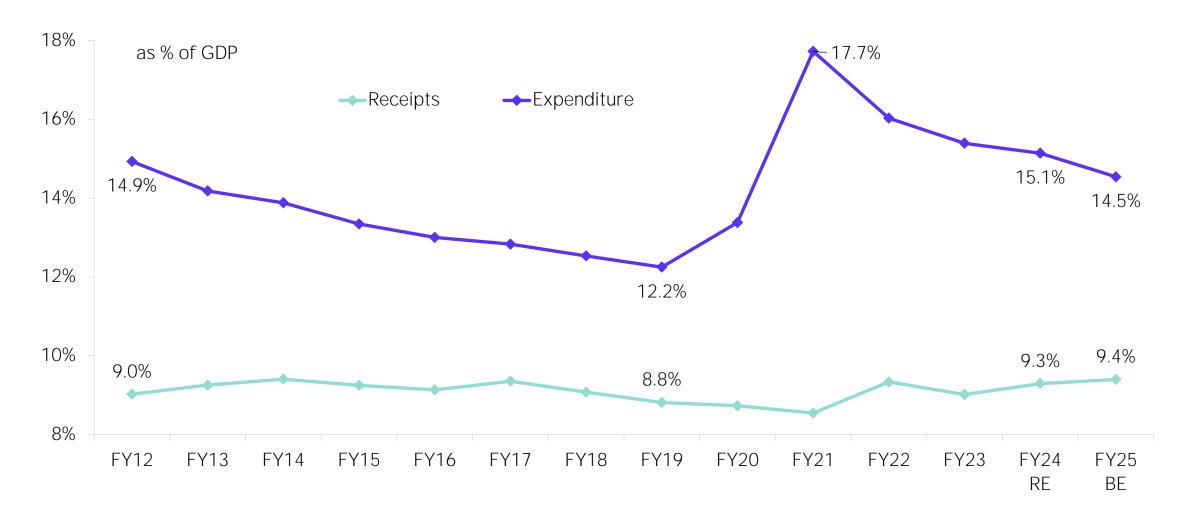
Source: Budget documents, CMIE, 360 ONE Asset Research

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

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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

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

	Rs Tn				% sh	are of tota	l financing	
Deficit Financing	FY22	FY23	FY24	FY25	FY22	FY23	FY24	FY25
	А	А	RE	BE	А	А	RE	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%

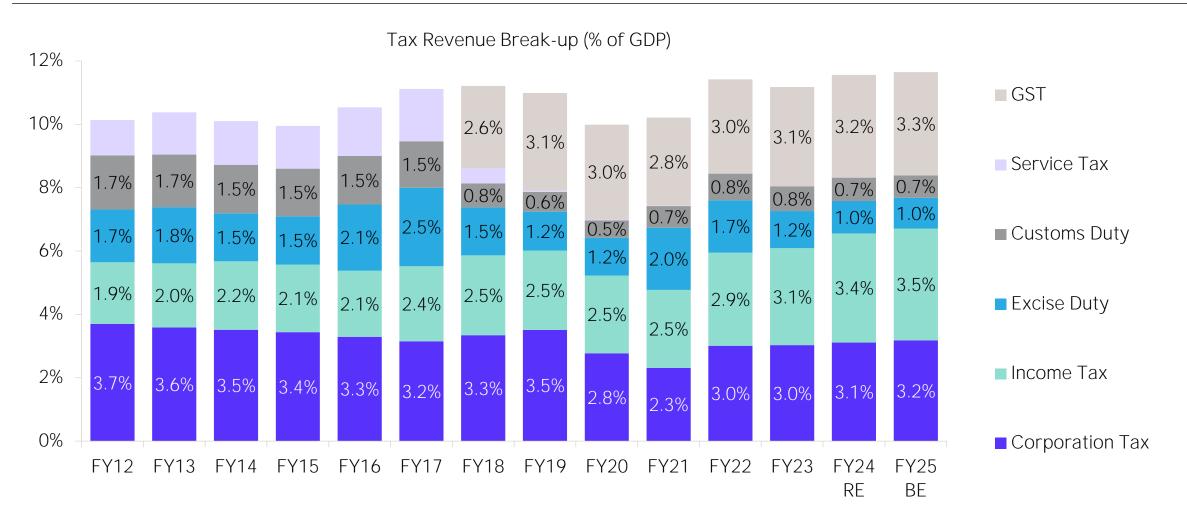
- Borrowings remain the primary source for plugging the gap between receipts and expenditures. Borrowings account for 73% of total deficit financing in FY25BE, higher than 68% in FY24RE
- Small Savings are another important source for deficit financing, accounting for 28% of total deficit financing

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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

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The budget assumes conservative growth in various tax heads



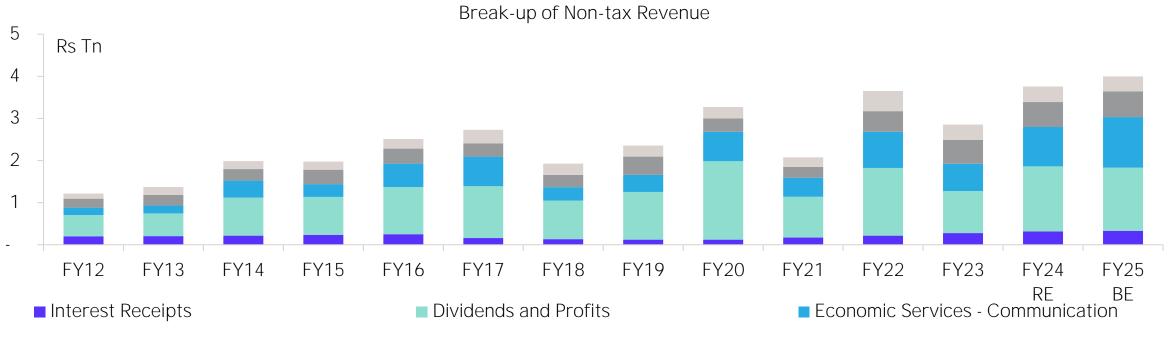
		Rs Tr	ו			% Yo	Y	
Tax Revenue Heads	FY22	FY23	FY24	FY25	FY22	FY23	FY24	FY25
	А	А	RE	BE	А	А	RE	BE
Gross Tax Revenue	27.1	30.5	34.4	38.3	33.7%	12.7%	12.5%	11.5%
Income	7.0	8.3	10.2	11.6	42.9%	19.7%	22.7%	13.1%
Corporation	7.1	8.3	9.2	10.4	55.6%	16.0%	11.7%	13.0%
Excise	3.9	3.2	3.0	3.2	0.3%	-18.4%	-4.8%	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



Other Economic Services

Fiscal, General, Social Services and Others

- 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

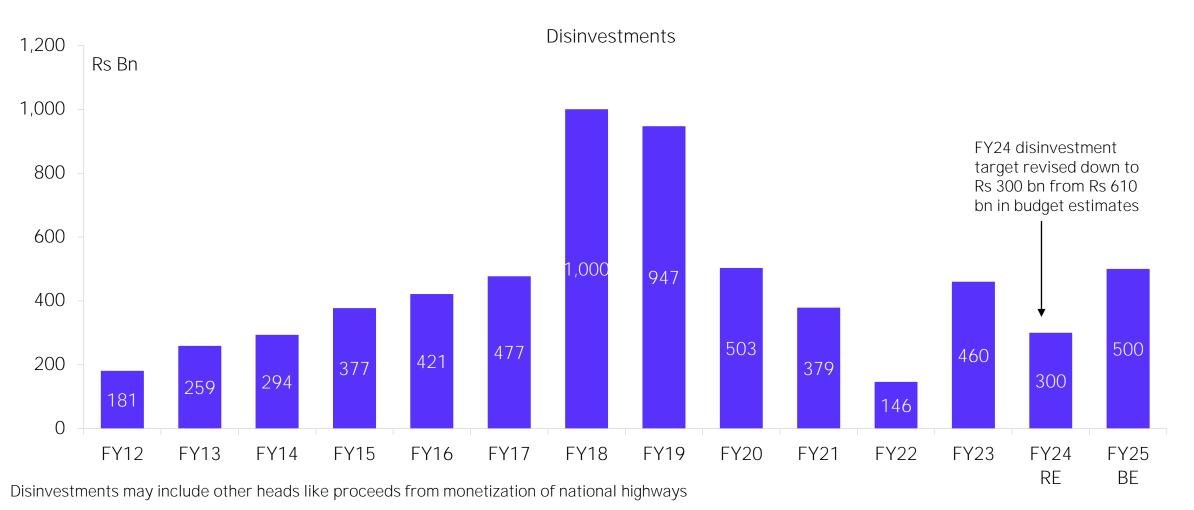
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Government revises down FY24 disinvestment target, FY25 target set at an achievable Rs 500 bn



Source: Budget documents, CMIE, 360 ONE Asset Research

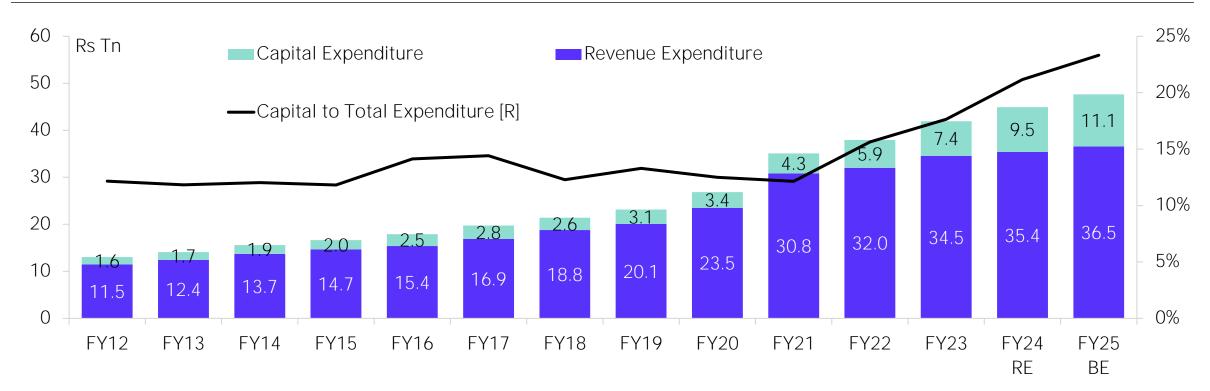
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Chapter 3 Expenditure Budget

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

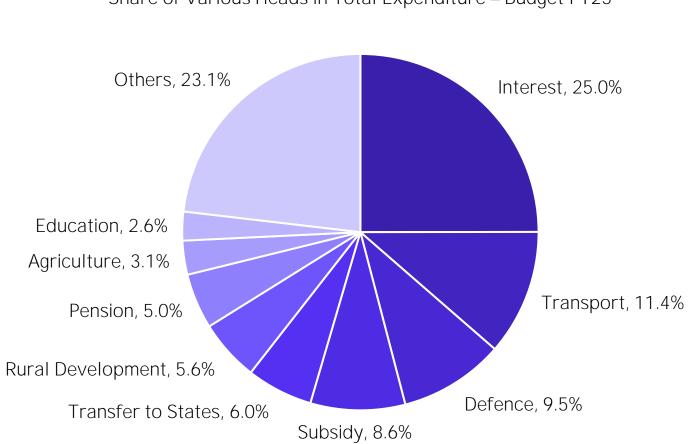


- Ratio of capital to total expenditure rises to 23% in FY25BE from 21% in FY24RE
- The government announces two new 50-year interest-free loans schemes Rs 1 th for research and innovation, and Rs 700 bh for milestone-linked reforms by the State Governments
- The scheme of 50-year interest-free loans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

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

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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

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The Government continues to bring down subsidy expenditure



	Rs Tn				% YoY			
Subsidies Expenditure	FY22	FY23	FY24	FY25	FY22	FY23	FY24	FY25
	А	А	RE	BE	А	А	RE	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

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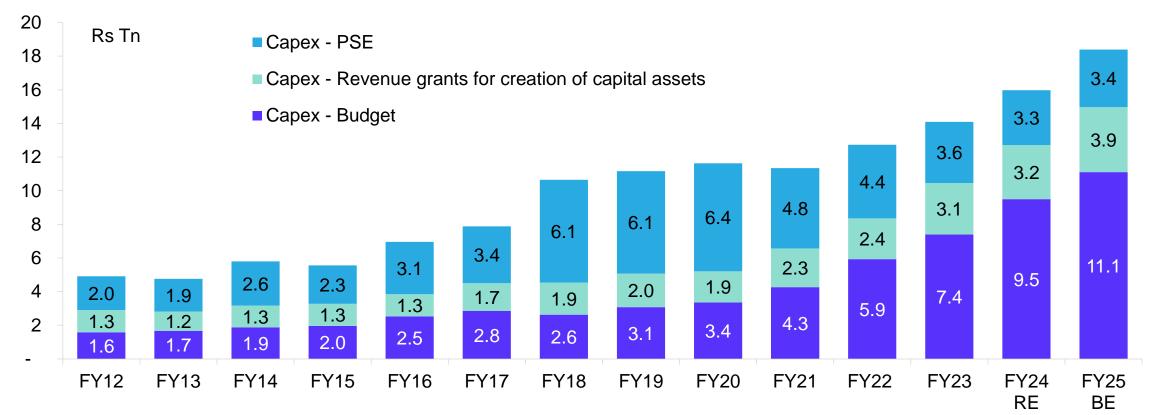
		Rs Tr	າ		% YoY			
Capital Expenditure Major Heads	FY22	FY23	FY24	FY25	FY22	FY23	FY24	FY25
	А	А	RE	BE	А	А	RE	BE
Capital Expenditure	5.9	7.4	9.5	11.1	39.1%	24.8%	28.4%	16.9%
o/w: Capital Outlay on Defence Services	1.4	1.4	1.6	1.7	2.7%	3.6%	10.0%	9.4%
Road Transport and Highways	1.1	2.1	2.6	2.7	27.0%	81.8%	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%
Telecommunications	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

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Chapter 4 Sectoral Impact & Outlook

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) 	 Affordable housing finance companies to be key beneficiaries of the same 	
 Rooftop solar Project 10 mn household will be enabled to obtain upto 300 units of free electricity per month 	 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 	Shows Government's focus on India's foray into semiconductor manufacturing. Multiple companies are in foray for this	
 Increased allocations towards PLI schemes for large scale electronics, white goods and IT hardware 	• EMS players across categories will benefit. Front-end AC brands will also benefit in their backward integration efforts	

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	This may not be required as OMC profitability is strong. No equity dilution concern	
• E-Bus Seva scheme allocated Rs13 bn; last year it was near zero.		
Green Hydrogen Mission allocated Rs 6 bn	Insignificant impact	

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 	 Negative given raw material inflation. However, govt. has been proactive in addressing gaps earlier 	
 non-urea fertilizer subsidy is down 25% Application of Nano DAP on various crops will be expanded in all agro-climatic zones 	 Higher crop yield, more environmentally friendly, ease of storage and transport and reduction in subsidy burden for the government 	

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 	Capex allocation is lower than expectation. Growth rate assumption for Railway companies need to be moderated	
 Defence – Defence capex was higher by 9% over FY24RE. Aircraft and Aeroengines saw 69% YoY growth 	 Budget allocation is given as per Defence Acquisition Council approvals 	

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

	Rs Tn					
Deficit Financing	FY22	FY23	FY24	FY25		
	А	А	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		

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