

Maintaining the Fiscal Continuum

Union Budget FY25 Update



The Hon'ble Finance Minister Smt. Nirmala Sitharaman presented the Union Budget for FY2024-25 today with an ambitious path for fiscal consolidation. The fiscal deficit target was lowered below the FY25 (interim) estimate of 5.1% to 4.9% (FY25 BE) with the FM stating the Government's intention to reduce it further below 4.5% in FY26.

There were some apprehensions before the Budget today as a section of market participants were anticipating robust welfare spending to offset the higher-than-expected dividend by the RBI. However, the Budget maintained its path of fiscal consolidation and maintained the Government's policy emphasis on supply-side reforms. The additional RBI dividend was used to reduce the fiscal deficit by ₹721 billion and the balance was utilised to increase revenue spending.

The Finance Minister outlined 9 priorities for 'Viksit Bharat' (Developed India):

- 1) Productivity and resilience in agriculture
- 2) Employment and skilling
- 3) Social justice
- 4) Manufacturing and services
- 5) Urban development
- 6) Energy security
- 7) Infrastructure
- 8) Innovation
- 9) Next generation reforms

THE SALIENT HIGHLIGHTS OF THE FY25 UNION BUDGET ARE PRESENTED BELOW:

Receipts and its Major Components

in ₹ Cr	FY23 A	FY24 PA	FY25 I	FY25 BE	FY24 PA/ FY23 A	FY25 BE/ FY24 PA
Gross Tax Revenue	30,54,192	34,64,792	38,30,796	38,40,170	13.4%	10.8%
Corporation Tax	8,25,834	9,11,055	10,42,830	10,20,000	10.3%	12.0%
Income Tax	8,33,260	10,44,726	11,56,000	11,87,000	25.4%	13.6%
Customs	2,13,372	2,33,067	2,31,310	2,37,745	9.2%	2.0%
Excise	3,19,000	3,05,330	3,18,780	3,19,000	-4.3%	4.5%
GST	8,49,133	9,57,032	10,67,650	10,61,899	12.7%	11.0%
Less: States Share	9,48,407	11,29,494	12,19,783	12,47,211		
Net Tax Revenue	20,97,786	23,26,524	26,01,574	25,83,499	10.9%	11.0%
Non-Tax Revenue						
Interest receipts	27,852	38,297	33,107	38,224	37.5%	-0.2%
Dividends and Profits	99,913	1,70,444	1,50,000	2,89,134	70.6%	69.6%
Other Non-Tax Revenues	1,57,655	1,92,134	2,16,594	2,14,389	21.9%	11.6%
Total Revenue Receipts	23,83,206	27,28,412	30,01,275	31,29,200	14.5%	14.7%
Disinvestment Receipts	46,035	33,122	50,000	50,000	-28.1%	51.0%
Debt Receipts	17,39,377	18,25,842	16,81,944	14,72,915	5.0%	-19.3%
Total Capital Receipts	18,11,573	18,86,303	17,60,944	15,50,915	4.1%	-17.8%
Total Receipts	41,94,780	46,14,714	47,62,219	46,80,115	10.0%	1.4%
Direct Tax as % of GDP	6.2%	6.5%	6.7%	6.8%		
Indirect Tax as % of GDP	5.2%	5.1%	5.0%	5.0%		

Source: Budget Documents

Expenditure & its Major Components

in ₹ Cr	FY23 A	FY24 PA	FY25 I	FY25 BE	FY24 PA/ FY23 A	FY25 BE/ FY24 PA
Total Expenditure	41,93,157	44,42,542	47,65,768	48,20,512	5.9%	8.5%
out of which						
Subsidy	5,30,958	4,13,542	3,81,175	3,81,175	-22.1%	-7.8%
Budgeted Capex	7,40,025	9,48,506	11,11,111	11,11,111	28.2%	17.1%
Effective Capex	11,03,145	12,74,699	14,79,743	14,79,743	15.6%	16.1%
Interest	9,28,517	10,63,871	11,90,440	11,62,940	14.6%	9.3%
Budgeted Capex as % of GDP	2.7%	3.2%	3.4%	3.4%		
Effective Capex as % of GDP	4.0%	4.3%	4.4%	4.5%		
Subsidy as % of Expenditure	12.7%	9.3%	8.0%	7.9%		

Source: Budget Documents

Financing of the Fiscal Deficit

in ₹ Cr	FY23 A	FY24 PA	FY25 I	FY25 BE
Fiscal Deficit	17,37,756	16,53,670	16,85,494	16,13,312
As % of GDP	6.4%	5.6%	5.1%	4.9%
Gross Dated Borrowing	14,21,000	15,43,000*	14,13,000	14,01,000
Net Dated Borrowing	11,05,836	11,77,754	11,75,182	11,63,182
Short Term Borrowing	1,12,009	53,205	50,000	(50,000)
Total Market Borrowing	12,17,845	12,30,959	12,25,182	11,13,182
State Provident Fund	5,089	5,070	5,200	5,000
External Finance	37,124	55,121	15,952	15,952
Securities Against Small Savings	3,95,860	4,51,399	4,66,201	4,20,063

Source: Budget Documents

* Gross borrowing as per the interim budget FY25

1. Revenue Estimates

a. Tax revenue: The Budget has assumed a nominal GDP growth of 10.5% for FY25 BE, which seems realistic given the economic survey's real GDP estimate of 6.5%-7%.

The tax collection growth is assumed conservatively lower at 10.8% compared to 13.4% for FY24 PA despite a higher nominal GDP growth base. Income tax collection is mainly expected to witness incrementally slower growth at 13.6% compared to 25.4% for FY24 PA.

For GST, the Government has budgeted ₹10.6 trillion (FY24 PA: ₹9.6 trillion), implying growth largely in line with nominal GDP and a monthly run rate of ₹1.8 trillion, approximately.

b. Non-Tax revenue: Receipts from dividends and profits have been assumed at ₹2.9 trillion compared to ₹1.7 trillion for FY24 PA. As the RBI has already paid a dividend of ₹2.1 trillion, the balance is attainable through dividends from other public sector undertakings.

Disinvestment has been kept unchanged compared to the FY25 interim estimate at ₹500 billion. This is in line with policymakers' commentary that they will be largely looking at modest disinvestment targets.

2. Expenditure Estimates

Total expenditure growth is budgeted at 8.5% y-o-y in FY25 compared to 5.9% for FY24 RE. Revenue expenditure is increasing by approximately ₹548 billion compared to FY25 (I) estimates.

Several schemes were outlined for jobs and skills, including:

- First-time formal workers receiving a cash transfer of one month's salary (of up to ₹15,000 in three tranches).
- Incentives on EPFO contribution to employees (in terms of reimbursement of up to ₹3,000 per month for two years).
- Upgrading skilling programmes and support for internships were also announced.

Total capex (including PSU capex) at 4.5% of GDP is in line with the last five-year average of 4.6%. The capex assumptions look more realistic and should not witness material downward revision. Interest-free bonds to states for capex were maintained at ₹1.5 trillion in FY25 BE.

3. Financing the Fiscal Deficit

The gross market borrowing for FY25 has been reduced by ₹120 billion at ₹14.01 trillion. Amongst other notable changes, small savings were cut to ₹4.2 trillion from ₹4.66 trillion, while T-bill borrowing was net reduced by ₹1 trillion to ₹ (-) 500 billion from + 500 billion (for the year). The Government has decided to utilise its high cash balance by ₹1.4 trillion compared to a cash investment of ₹3.5 billion in FY25 (I). This is meaningfully constructive for liquidity and the shorter end of the yield curve.

Outlook: Continuity in fiscal consolidation is favorable for fixed income

From the bond market perspective, the Budget has been constructive with its strong commitment to fiscal consolidation and pragmatic usage of RBI dividend to spend on supply-side reforms. The revenue as well as small saving estimates are on the conservative side and may even see an upside surprise.

With the Budget behind us, the next event to look forward to will be the RBI Policy on August 8, 2024. While market participants are not expecting any rate action or change in stance, they might be closely looking at the tone of RBI and further elaboration on the real rate framework, which RBI had pegged at 1.4%-1.9% to take further cues (Source: RBI monthly bulletin). A fiscally prudent budget as well as a favourable trajectory of Monsoon should give comfort to RBI on future inflation expectations.

Given the fall in global inflationary pressures and slowing growth momentum in advanced economies in FY25, we believe in the action of easing matters more than the timing. We feel investors should be looking at strategies that are largely “data independent” and respectful of the macro backdrop.

With the modest reduction in dated borrowing and expectations of comfortable liquidity, current valuations in the moderate duration (one-to-four year) are more compelling for patient investors to experience high accrual and the possibility of participating in capital gains as the rate cycle turns. Investors with more than 12 months investment horizon can consider allocation towards moderate duration (one-to-four year) categories. Those with less than 12 months investment horizon can consider low duration and money market, given the meaningful gap between overnight and money market yields.

Equity Perspective on Key Sectors



Infrastructure: Neutral

The thrust on infrastructure development continued with the Union Budget outlay on capex increasing by 16.9% from FY24 RE to ₹11.11 trillion (up 11% from FY24 BE) i.e. 3.4% of GDP. Allocations to railway, road and defence grew in single digits over FY24 RE.

- **Railways capex** for FY25 BE at ₹2.65 trillion is up by 1.9% from FY24 RE
- **Road capex** for FY25 BE at ₹2.72 trillion is higher by 2.9% from FY24 RE
- **Defence capex** for FY25 BE at ₹1.57 trillion is increased by 9.4% from FY24 RE



Energy/ Clean Energy: Positive

- 2.4 GW thermal power plant announcement in Bihar for ₹214 billion. Development of Advanced Ultra Super Critical Thermal Plant was announced in the Budget.
- Basic Customs Duty (BCD) was introduced at 10% on the solar glass and tinned copper inter connect to make solar modules.



Automobiles: Neutral

- Basic customs duty on critical minerals (such as lithium, copper, cobalt and rare earth elements duty), graphite and platinum/palladium has been cut to zero. This is marginally positive for both automobile OEMs and lithium cell manufacturing businesses.
- FAME scheme allocation remains at ₹27 billion for FY25 vs ₹48 billion in FY24.
- Various PLI schemes with respect to Auto and Auto components were continued with improved incremental allocations as compared to FY24.
- PM eBus Sewa scheme allocation for FY25 is at ₹13 billion as against ₹200 million for FY24 RE.



Pharma: Positive

- Basic customs duty exempted for three cancer-related medicines.
- Basic customs duty lowered for medical equipment like X-ray tubes, special grade stainless steel, Titanium alloys, Cobalt-chrome alloys, and all types of polyethylene used for manufacturing of prosthetics.



Cement: Positive

- ₹260 billion earmarked for the development of highways in Bihar along with setting up of new airports, medical colleges and sports infrastructure.
- To facilitate ₹150 billion from multi-lateral agencies for the development of Andhra Pradesh.
- Three crore more houses planned under PMAY (Urban + Rural). Further, the housing needs of urban poor and middle-class families are to be addressed with an investment outlay of ₹10 trillion; ~₹2.2 trillion to be facilitated by the Central Government over the next five years.



Building Materials: Neutral to positive

- Jal Jeevan Mission/ National Rural Drinking Water Mission budgeted at ₹702 billion for FY25 BE.
- Irrigation and Flood Control budgeted at ₹109 billion for FY25 BE.
- The Government will promote water supply, sewage treatment and solid waste management projects and services for 100 large cities.
- Under the PM Awas Yojana Urban 2.0, measures are positive for building materials categories like plumbing pipes, tiles, sanitaryware, plywood, etc.



Banking and NBFC: Neutral

- **Urban Housing:** Under the PM Awas Yojana Urban 2.0, there is a provision for an interest subsidy to facilitate loans at affordable rates.
- **Increase in Securities Transaction Tax (STT):** The STT on futures has been increased from 0.0125% to 0.02%, and the STT on options has been raised from 0.0625% to 0.1%. This development may potentially impact the overall volume of derivative transactions.
- **Changes in Capital Gains Tax Rates:** The increase in tax rates for capital gains (short and long-term) may affect overall market volumes.
- **Credit Guarantee Scheme for MSMEs in the Manufacturing Sector:** To facilitate the provision of term loans without the need for collateral or third-party guarantees, a new credit guarantee scheme will be introduced.



Chemicals: Neutral

Customs duty hiked on Ammonium Nitrate from 7.5% to 10%.



Consumer Sector: Positive

- **Jewellery:** Customs duty has been cut from 15% to 6%, which is likely to enhance the shift from unorganised to organised sector. Expected gold price correction should also help in the improvement of volume growth for jewellery companies.
- **Cut in personal income tax to aid consumption:** Estimated savings of ₹17,500 in personal income tax led by an increase in the standard deduction and changes in tax slabs under new tax regime are expected to improve demand for small-ticket consumption.
- **No change in tobacco taxation:** Positive for companies in the cigarette industry.



Ferrous Metals: Positive; Non-Ferrous Metals: Negative

- Higher allocation to PM Awas Yojana (PMAY) from ₹541 billion FY24 RE to ₹846 billion FY25 BE. This will be beneficial for steel as well as Electric Resistance Welded (ERW) construction pipe players.
- BCD reduction on copper concentrate, blister copper and silver bars may impact negatively on copper miners as well as silver refiners. BCD reduction on Ferro Nickel may benefit stainless steel players.



Oil & Gas: Neutral

- Excise estimate on auto-fuel for FY25 kept largely unchanged at ₹3,190 billion. This implies that the Government has not budgeted any excise duty increase on diesel/ petrol in FY25.
- Liquid Petroleum Gas (LPG) subsidy for FY25 has also been kept unchanged at ₹119 billion. This is slightly negative for Oil Marketing Companies (OMCs) as their LPG net under-recovery has jumped to ₹80-100 billion in Q1 FY25.



Real Estate: Marginally Negative

- Indexation benefit while computing LTCG is removed, resulting in higher tax liability. The impact will be partly offset by the LTCG tax rate reduction from 20% to 12.5%.
- This could affect demand from investors as they may tend to look for other investment avenues.



Information Technology: Neutral to Positive

- Announcements such as digitisation of land records, abolishment of angel taxes and new employment-linked incentives are likely to drive growth in some of the IT businesses.

GDP – Gross Domestic Product; RE – Revised Estimates; BE – Budgeted Estimate; FX – Foreign Exchange; A – Actual; I – Interim; PA – Provisional Actual; PM – Prime Minister; FM – Finance Minister; LTCG – Long Term Capital Gains; PLI – Production Linked Incentive; OEM – Original Equipment Manufacturer; NBFC – Non-Banking Financial Company; GST – Goods & Services Tax; EPFO – Employees’ Provident Fund Organisation; PSU – Public Sector Undertaking; MSME – Micro, Small & Medium Enterprises

Source: Budget documents, UTI MF Research

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