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Budget Review 2024-25

Enduring Growth with fiscal prudence...

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The Union Budget has maintained the capex led template to deliver socio-economic growth, while maintaining the fiscal prudence. Leveraging on the direct benefit transfer, multiple social benefit schemes focussing on GYAM (Gareeb, Yuva, Annadata and Mahila) continues to be successfully delivered. Capex spending, on the other hand, remains one of the focus with government capex allocation growth of 11.2% YoY in FY25BE to ₹ 11.1 lakh crores. The capex to GDP is pegged at all-time high of 3.4% in FY25BE vs. 3.2% in FY24RE. On the fiscal front, the glide path on reducing fiscal deficit has been complied with fiscal deficit likely to go down to 5.1% in FY25E vs. 5.8% in FY24RE. Medium term target of 4.5% fiscal deficit by FY26 also remains on track.

Key highlights of Budget:

- On the **fiscal deficit front**, the continuation of fiscal glide path over the next two years is structurally positive. Fiscal deficit target has been revised downwards for both FY24RE and FY25BE at 5.8% and 5.1% respectively. The fiscal deficit and the borrowing estimate were lower than market expectation at ₹ 14.1 lakh crore vs. market expectation of around ₹ 15 lakh crore. Medium term target of 4.5% fiscal deficit by FY26 is also on track.
- **Gross tax revenue growth** is set at 11.5% for FY25 with expected direct tax revenue growth of 13.0%. Within indirect taxes, GST revenues are likely to grow at 11.6% in FY25 as compared to growth of 12.7% in FY24. Excise duty revenue is likely to grow at a lower rate of 5.0%.
- **Capex intensity has been maintained** despite capex spending growing at a CAGR of 20% over FY21-FY25BE. The Government has budgeted growth at 11% YoY in FY25BE to ₹ 11.1 lakh crore. The capex to GDP is pegged at all-time high of 3.4% in FY25BE vs. 3.2% in FY24RE. Key segments like Roads, railways, defence segments have seen allocation rising between 3-9% given FY22-FY24 have witnesses strong double digit growth thereby creating a high base. In others category, segments like Housing (PM Awaas Yojana) has seen a growth in outlay to the tune of ~8% YoY
- **Disinvestment target** for FY24RE revised downward to ₹ 30,000 core vs. earlier budgeted target of ₹ 51000 crore. For FY25E, it is pegged at ₹ 50,000 crore
- **Lower Borrowing:** The fiscal prudence path adopted by the Government along with impending Global bond index inclusion places the Indian debt market in a sweet spot from demand-supply dynamics. Thus, the **union budget has further boosted the outlook** for Indian debt market.

Lower fiscal deficit : Key positive surprise

Fiscal deficit target has been revised downwards for both FY24RE and FY25BE at 5.8% and 5.1% respectively. The fiscal deficit and the borrowing estimate were largely lower than market expectation. The continuation of fiscal glide path over the next two years is a structural positive.

Government's fiscal position (₹ Lakh crore)

	FY22	FY23	YoY (%)	FY24 RE	YoY (%)	FY25 BE	YoY (%)
Direct tax revenues	14.1	16.6	*17.8*	19.5	*38.1*	22.0	13.1
Indirect tax revenues	13.0	13.9	*6.9*	14.9	*14.3*	16.3	9.4
Gross Tax revenues	27.1	30.5	*12.6*	34.3	*26.7*	38.3	11.5
Net Tax revenues [A]	18.2	21.0	*15.2*	23.2	*27.6*	26.0	11.9
Non-tax revenues [B]	3.5	2.9	*-18.0*	3.8	*8.0*	4.0	6.4
Disinvestmt & Others [C]	0.4	0.7	*79.6*	0.6	*39.3*	0.8	41.1
Total Revenue [A+B+C]	22	25	*11.1*	28	*24.7*	31	12
Capital Exp [D]	5.9	7.4	*24.8*	9.5	*60.3*	11.1	16.9
Revenu Exp [E]	32.0	34.5	*7.9*	35.4	*10.6*	36.5	3.2
Total Expenditure [D+E]	37.9	41.9	*10.5*	44.9	*18.4*	47.7	6.1
Fiscal Deficit	**-15.8**	**-17.4**	**NA**	**-17.3**	**NA**	**-16.9**	**NA**
Nominal GDP	236.6	272.4	*15.1*	296.6	*25.3*	327.7	10.5
Fiscal deficit as (%) of GDI	**6.7**	**6.4**		**5.8**		**5.1**	

Source: Indiabudget.nic.in, ICICI Direct Research.

Government's fiscal position (As % of GDP)

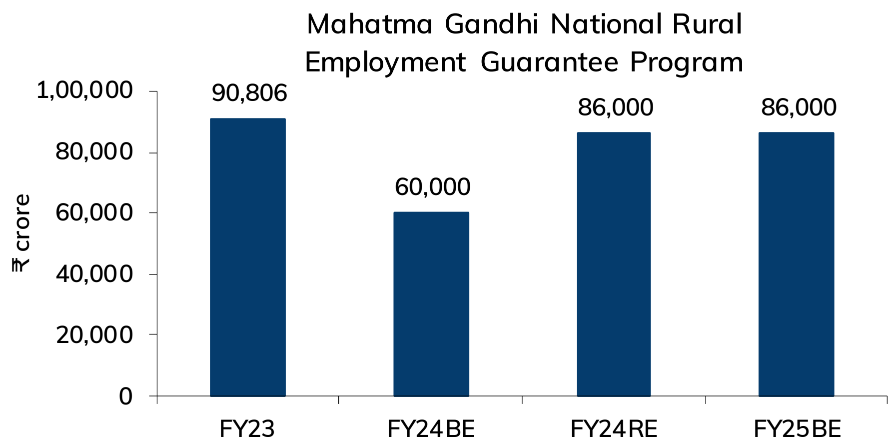
	FY22	FY22	FY24 RE	FY25 BE
Direct tax revenues	6.0	6.1	6.6	6.7
Indirect tax revenues	5.5	5.1	5.0	5.0
Gross Tax revenues	**11.4**	**11.2**	**11.6**	**11.7**
Net Tax revenues [A]	7.7	7.7	7.8	7.9
Non-tax revenues [B]	1.5	1.0	1.3	1.2
Disinvestmt & Others [C]	0.2	0.3	0.2	0.2
Total Revenue [A+B+C]	**9.3**	**9.0**	**9.3**	**9.4**
Capital Exp [D]	2.5	2.7	3.2	3.4
Revenu Exp [E]	13.5	12.7	11.9	11.2
Total Expenditure [D+E]	**16.0**	**15.4**	**15.1**	**14.5**
Fiscal Deficit	**-6.7**	**-6.4**	**-5.8**	**-5.1**

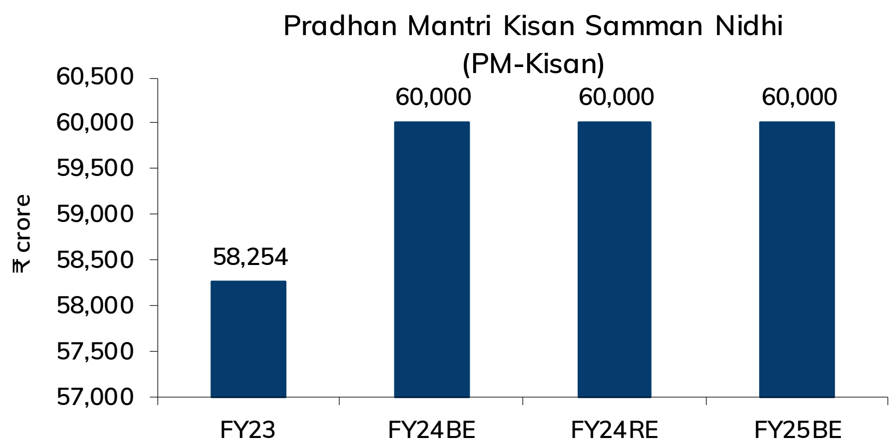
Key takeaways:

- **Nominal GDP growth for FY25 has been pegged at 10.5%, which looks conservative with RBI's Real GDP and Inflation forecast pegged at 7% and 4.5%**
- **Gross tax revenue growth is set at 11.5% for FY25 with expected direct tax revenue growth of 13.0%.** Within indirect taxes, GST revenues are likely to grow at 11.6% in FY25 as compared to growth of 12.7% in FY24. Excise duty revenue is likely to grow at a lower rate of 5.0%.
- **Disinvestment target** for FY24RE revised downward to ₹ 30,000 core vs. earlier budgeted target of ₹ 51000 crore. For FY25E, it is pegged at ₹ 50,000 crore.
- **Continued higher allocation towards capital expenditure is the highlight of the Budget. Capital expenditure has been further increased by 11% on a elevated base to ₹ 11.1 lakh crore. Capex allocation has increased from 3.2% of GDP in FY24RE to 3.4% of GDP in FY25BE.**

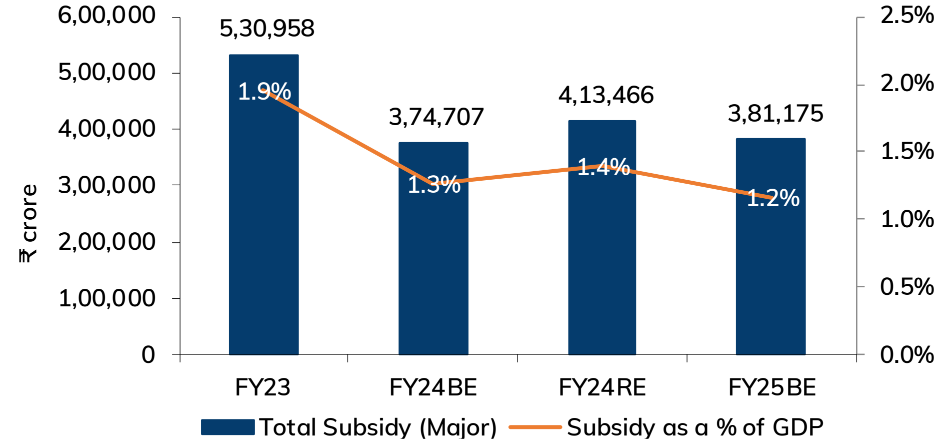
No Populism in an election year…

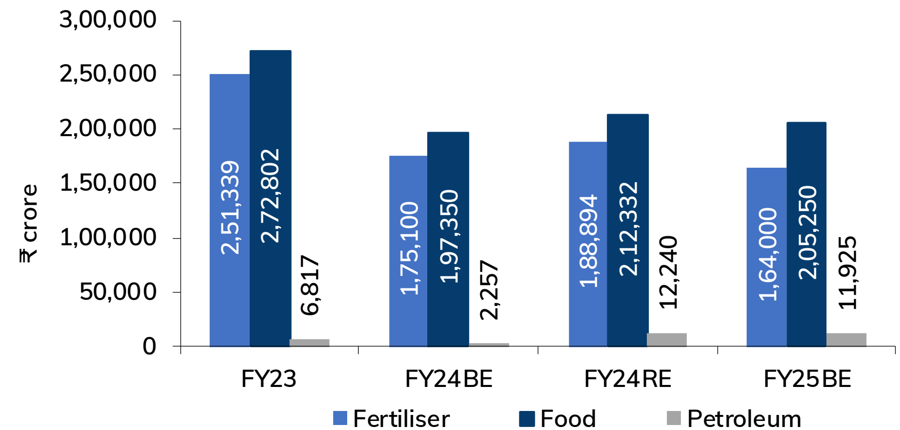
As part of fiscal prudence, government has kept allocation for its key rural DBT schemes i.e. MGNREGA and PM Kisan scheme flat on YoY basis for FY25E at ₹86,000 crore and ₹60,000 crore respectively.





Continuing on this path even the major subsidy allocation is on a decline from 1.9% of GDP in FY23 to 1.4% in FY24 & further to 1.2% of GDP in FY25. Absolute subsidy allocation is down 7.8% YoY to ₹ 3.8 lakh crore in FY25E

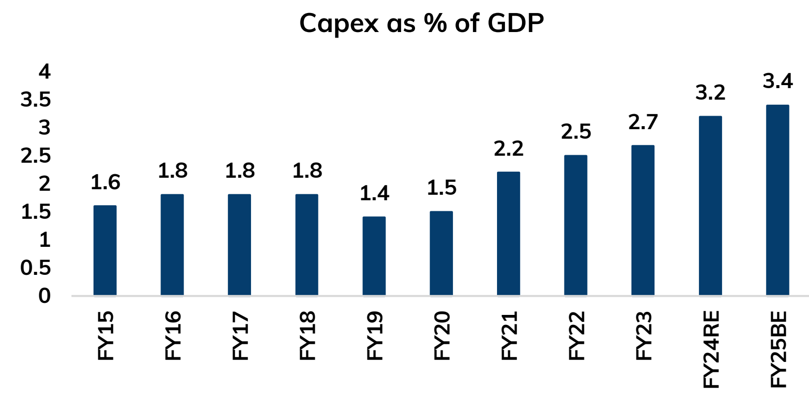




Capex Intensity maintained at 3.4% Of GDP amid high base

- Capex intensity has been maintained despite capex spending growing at a CAGR of 20% over FY21-FY25BE. The Government has budgeted growth at 11% YoY in FY25BE to ₹ 11.1 lakh crore. The capex to GDP is pegged at all-time high of 3.4% in FY25BE vs. 3.2% in FY24RE. The intensity has been maintained on high base coupled getting fiscal deficit at 5.1%.
- Key segments like Roads, railways, defence segments have seen allocation rising between 3-9% given FY22-FY24 have witnesses strong double digit growth thereby creating a high base..
- In others category, segments like Housing (PM Awaas Yojana) has seen a growth in outlay to the tune of ~8% YoY.
- The budget has also focused on accelerating the green energy spectrum in order to reduce the carbon footprint. The major areas being a) Viability gap funding will be provided for harnessing offshore wind energy potential for initial capacity of 1 GW, b) Coal gasification and liquefaction capacity of 100 MT will be set up by 2030. This will also help in reducing imports of natural gas, methanol, and ammonia and c) Phased mandatory blending of compressed biogas (CBG) in compressed natural gas (CNG) for transport and piped natural gas (PNG) for domestic purposes will be mandated

Capex as % of GDP



Strong Budgetary allocation to all major segments for capex (₹ crore)

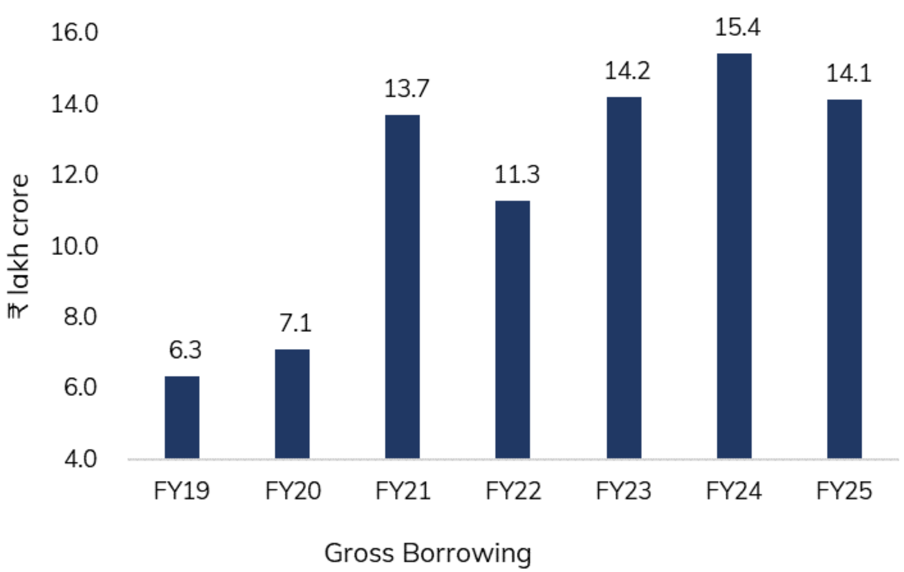
Capital Expenditure Gross Budgetary Support (₹ Crore)	FY21	FY22	FY23RE	FY24BE	F24RE	FY25BE	YoY Growth	CAGR
MoRTH	92053	121251	206303	258601	264525	272000	2.8%	24.2%
Railway	108398	117100	159100	240000	240000	252000	5.0%	18.4%
Defence	135510	138351	150000	162600	157228	172000	9.4%	4.9%
Housing & Urban Affairs	10162	25957	23680	25997	26533	28626	7.9%	23.0%
Other	91870	146597	189190	313763	261960	386485	47.5%	33.3%
Total	**439085**	**550740**	**728273**	**1000961**	**950246**	**1111111**	**16.9%**	**20.4%**

Lower gross borrowing to cheer bond market

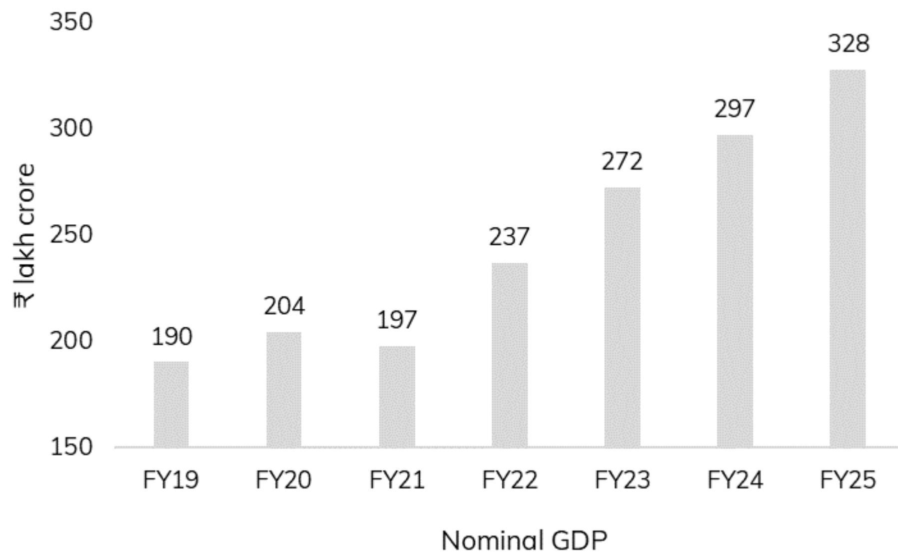
The government has pegged gross borrowing at ₹ 14.1 lakh crore in FY25BE as compared to ₹ 15.4 lakh crore in FY24RE and as against market expectation of around at ₹ 15.2 lakh crore.

The gross borrowing is largely at similar levels of around at ₹ 14.0 lakh crore since FY21 while GDP has grown from ₹ 200 lakh crore to ₹ 328 lakh crore during the same period

Gross borrowing projected lower at ₹ 14.1 lakh crore



GDP likely to have grown from ₹ 200 lakh crore in FY21 to ₹ 328 lakh crore in FY25



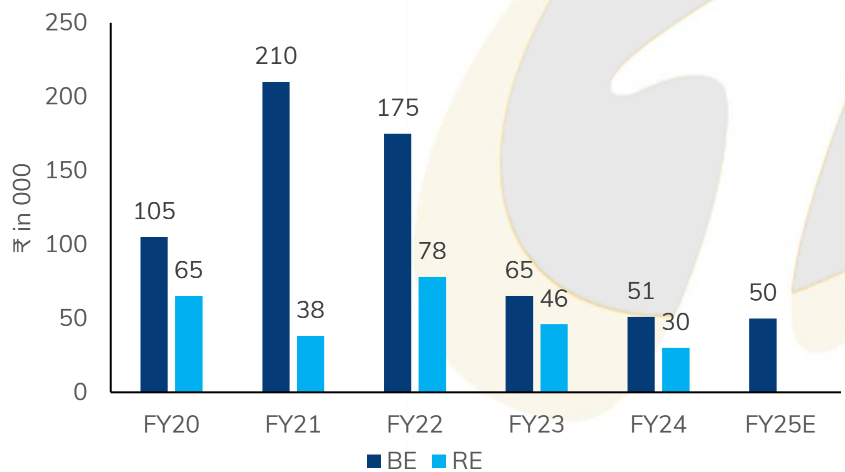
Source: Indiabudget.nic.in, ICICI Direct Research.

Divestment & Dividend receipts steady YoY

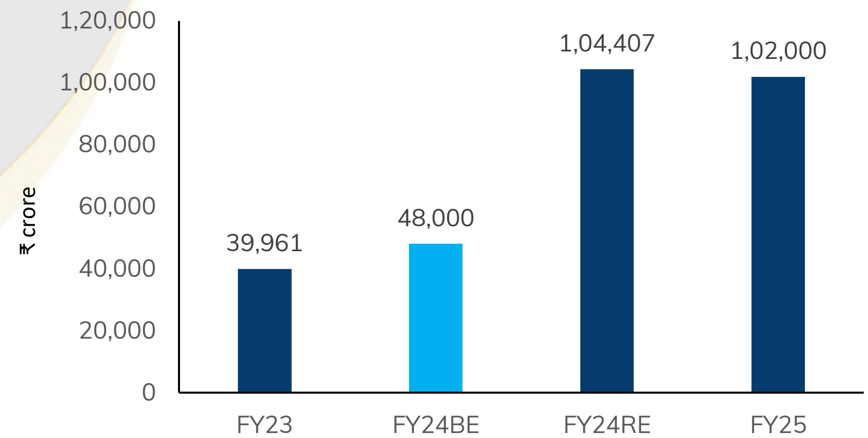
- FY25BE disinvestment target is pegged at ₹ 50,000 crore. FY24RE is revised down from earlier ₹ 51,000 crore to ₹30,000 crore. As of Jan 2024, government has raised ₹12504 crore from disinvestments.

- Government has budgeted dividends to the tune of ₹1.02 lakh crore from RBI & PSBs in FY25E. Given large dividend from RBI (₹ 87416 crore) the receipts from dividends have been significantly revised upwards from ₹ 48000 crore in FY24BE to ₹ 1.04 lakh crore in FY24RE.

Disinvestment Target steady



Dividend from RBI & Fis maintained at ₹ 1 lakh crore



Source: Govt websites, media sources, DIPAM, ICICI Direct Research

Other key highlights

- Government has allocated a healthy sum of ₹ 3,500 crore as incentives under the PLI scheme for the automobiles and auto components sector for FY25E. This is against a meagre allocation of ~₹ 500 crore for FY24RE. It's a big positive for players executing capex in the new energy space like Electric Vehicles, Hydrogen Powered Vehicles among others.
- In the budget speech Finance minister also reiterated its commitment to expand and strengthen the Electric Vehicle ecosystem by supporting manufacturing and charging infrastructure. In addition to it government will also provide payment security mechanism to further augment penetration of electric buses in public transport networks
- Government has allocated ₹ 84458 crore in FY25BE (vs. ₹ 70099 crore in FY24RE) towards Ministry of Communication, of which ₹ 82916 crore is towards capital infusion in BSNL. The receipt side of other communications services also shows FY25BE of ₹ 1,20267 crore vs. FY24RE of ₹ 93541 crore, a decent portion of the increased in our view could also be owing to likely allocation of spectrum to BSNL.
- Defence capital outlay for FY25E is budgeted at ₹ 1.72 lakh crore (+9.4% YoY), in-line with 9.1% CAGR over the last 5 years (FY20-24BE)
- Aircraft & aero-engines segment has witnessed substantial increase in outlay at a growth of 69.1% YoY for FY25E at ₹ 40778 crore
- Capital outlay for Space sector has also seen considerable growth at 25.5% YoY for FY25E at ₹ 5567 crore
- Interim budget proposes the allocation for Ministry of Health to ₹ 87657 crore, an increase of ~13% over FY24RE.
- Allocation for Ayushman Bharat is proposed to be increased by ~10% to ₹ 7500 crore in FY25BE.
- Interim Budget has lowered the allocation for fertilizer subsidy by ~13% to ₹ 164102 crore for FY25BE as compared to FY24RE.

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