July 23, 2024

INDIA STRATEGY

Union Budget 2024-25

Fiscal Prudence Dovetails Tax Reforms

Despite the setback for equity investors due to changes in capital gains tax, the Union Budget 2025 is balanced and consistent in policy, while also paving the way for ongoing reforms in the tax regime. Addressing concerns about populism, the fiscal deficit target of 4.9% underscores a strong commitment to fiscal responsibility. The government has introduced various schemes to support the poor, women, youth employment, and farmers, yet the overall budgeted expenditure, including subsidies, remains largely unchanged from the Interim Budget. However, the government is steadfast in its commitment to capital expenditure, maintaining it as a percentage of GDP. Meanwhile, receipts are driven by the windfall from RBI dividends. The rationalization of personal income tax slabs is a positive step to boost consumption. Clearly, the government's broader goal is to simplify and rationalize tax structures, with further reforms anticipated in future budgets.

- **No Meaningful Change in Budgeted Receipts and Expenditure:** The budgeted numbers for gross tax revenues and receipts have shown no significant variation from the Interim Budget. The budgeted number for gross tax revenues stands at ₹38.4 trillion, which is largely the same when compared with the Interim Budget number of ₹38.3 trillion. Similarly, the total expenditure at ₹48.2 trillion do not vary much from the Interim figure of ₹47.7 trillion.

- **RBI Dividends - The Major Variable:** Windfall RBI dividends have dramatically changed the fiscal equation. The substantial rise in net income enabled the RBI to declare a record dividend payout of ₹2.1 trillion to the government for FY24. This was double the government's budget estimate of ₹1 trillion and much larger than the ₹87,416-crore dividend payout in FY23. This massive dividend payout is expected to help the Centre achieve its fiscal deficit target of 4.9% of GDP for FY25. The dividend, paid in May 2024, is accounted for in FY25 by the government.

- India's Sovereign Yield Curve to Bull Steepen on Better Fiscal Math: On May 29, 2024, we wrote that yields on the short end of the curve will fall more than the long end in the months ahead, leading to a bull steepening of India's yield curve. India's macroeconomic health entails a bull steepening of the yield curve, wherein short-term yields will fall faster than long-term yields. This steepening is driven by expectations of steady economic growth, falling inflation, and improving fiscal deficit. Better budgetary health due to higher tax revenues and dividends is reflected in reduced government market borrowing needs. The fiscal roadmap with a 4.5% target for FY26 will not necessitate an immediate change in credit ratings. However, various rating agencies have stated that a budgetary shortfall below 4% will warrant an upgrade in ratings.

- **End to Tax Arbitrage between Dividend Distribution and Buyback of Shares:** This is deemed to be slightly negative for Investors and Promoters of Cash-rich enterprises.

- **Minimal Impact of Removal of Indexation Benefit on Real Estate:** The abolition of the indexation benefit will not significantly affect the overall real estate sector, as it coincides with a reduction in long-term capital gains tax from 20% to 12.5%. Old properties held before 2001 would continue to get indexation benefits. Moreover, substantial reduction in LTCG will dissuade black money deals in terms of under-reporting of Real Estate price.

- **Import Duty Cut on Gold to curb smuggling:** Reduction of 9% in import duty on Gold will help in curbing smuggling of the Bullion. This can bring a significant part of the gold imports back into the official channel. Meanwhile, we see the Government increasing GST rates on Gold to partially compensate for the loss to

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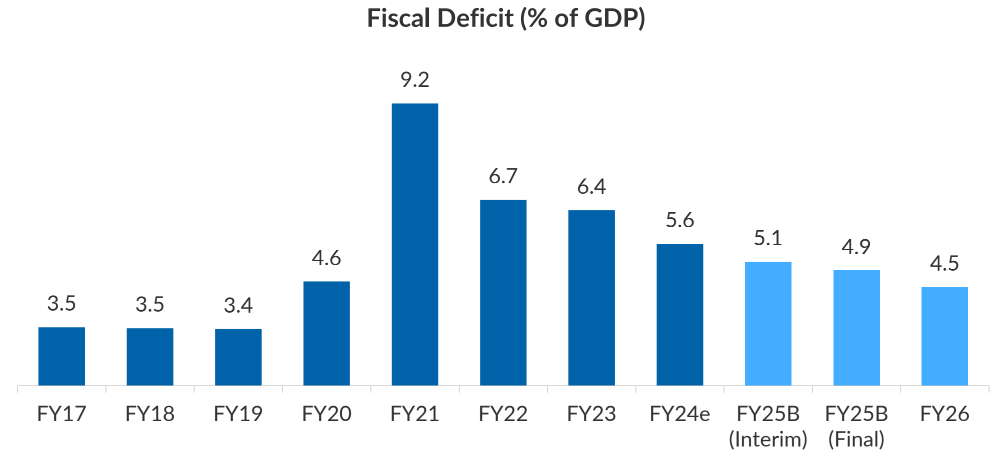
the exchequer in terms of cut in the import duty. Fall in Import Duty can also marginally mitigate the debt obligation of the Government, pertinent to Sovereign Gold Bonds.

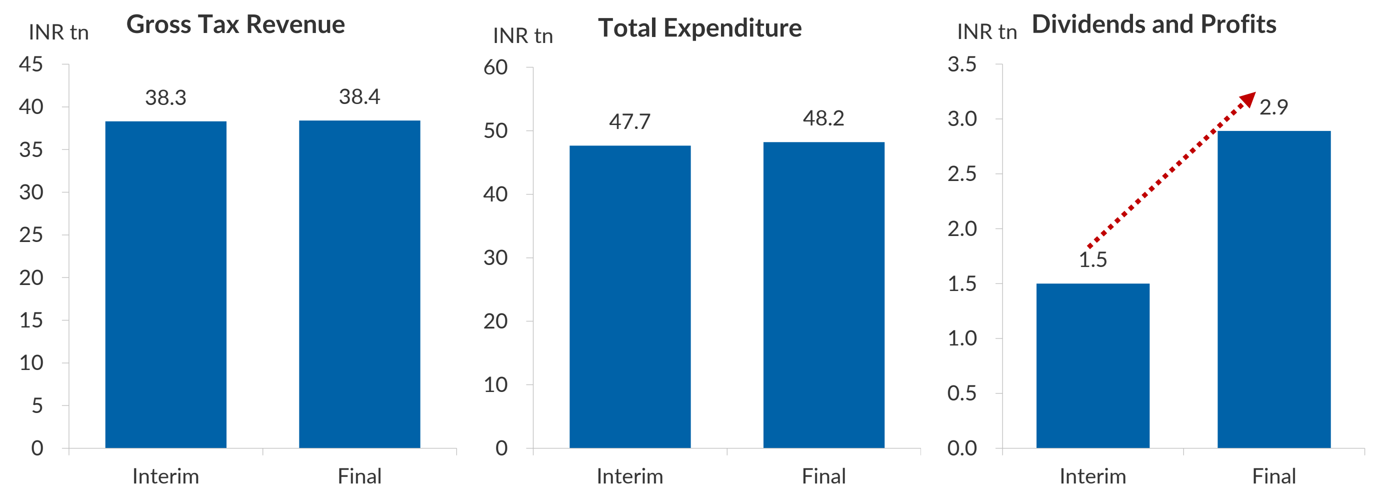
- **Rationalization and Simplification of Tax Regime to Continue:** The finance minister alluded to a comprehensive review of the Income Tax Act to simplify taxation and reduce disputes, as well as a customs duty rate structure overhaul to correct inverted duty structures. This indicates that reforms on the taxation front will be an ongoing process, with further measures to be taken in future budgets to rationalize and simplify the tax regime.

Exhibit 1: Modi Regime remains resolute on the Fiscal Roadmap



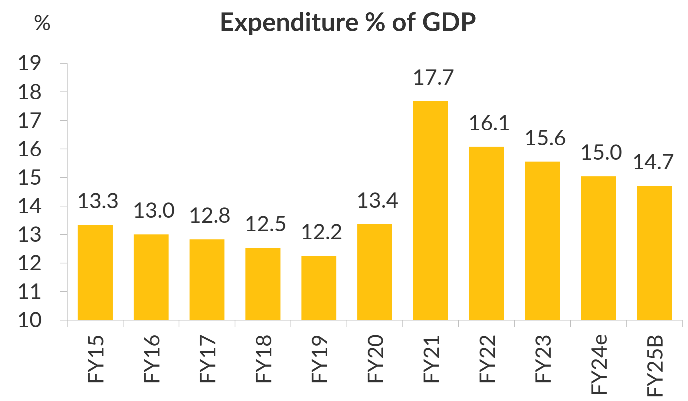
Source: Budget, YES Sec

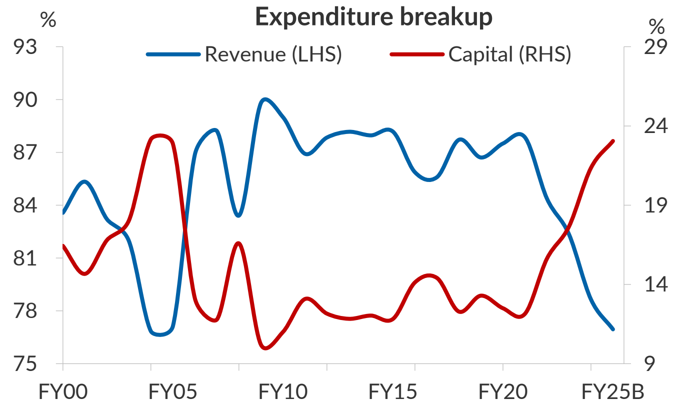
Exhibit 2: Barring the RBI Dividends, no major changes in the Final Budgeted Revenue and Expenditure when compared with the Interim Budget



Source: Budget, YES Sec

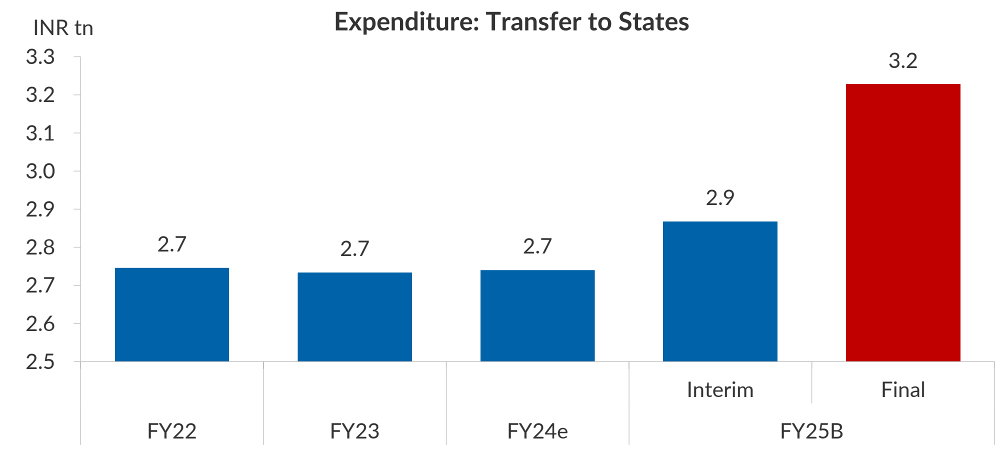
Exhibit 3: Emphasis is maintained on the Quality of Expenditure, Capex as a percentage of Budget is on rise…





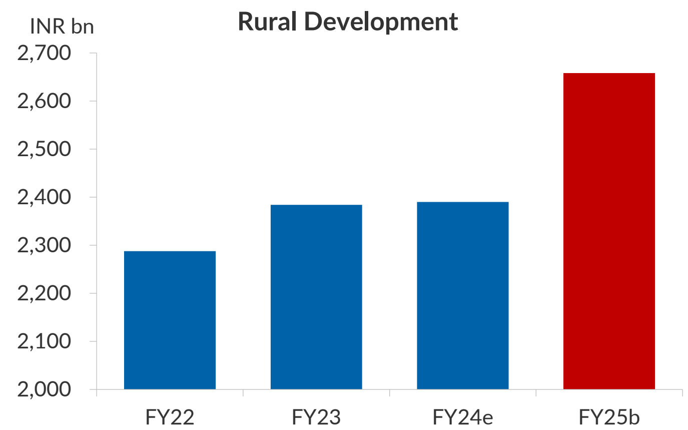
Source: Bloomberg, YES Sec

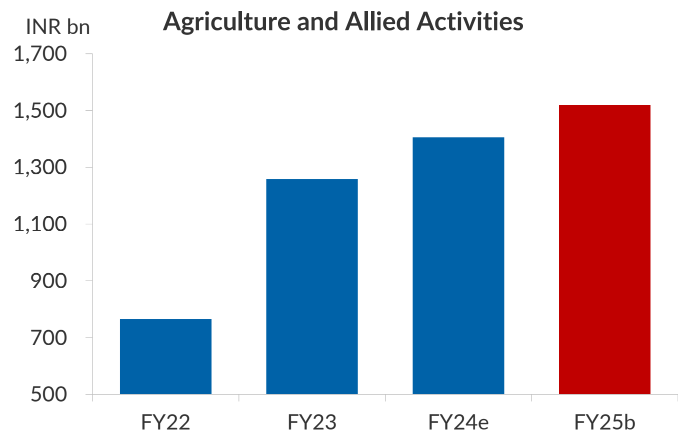
Exhibit 4: …significant rise in Transfers to States underlines emphasis on Capex with a higher multiplier effect



Source: Budget, YES Sec

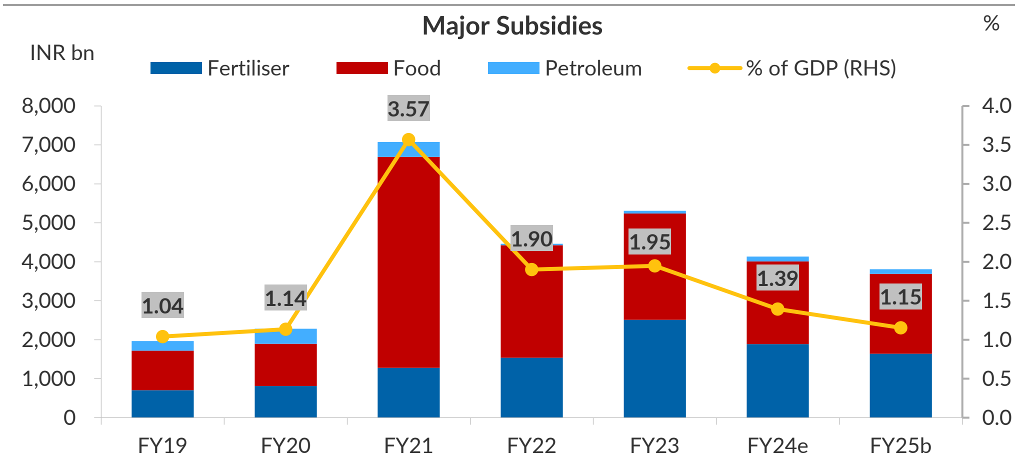
Exhibit 5: The Government sticks with selective allocation of resources towards rural economy





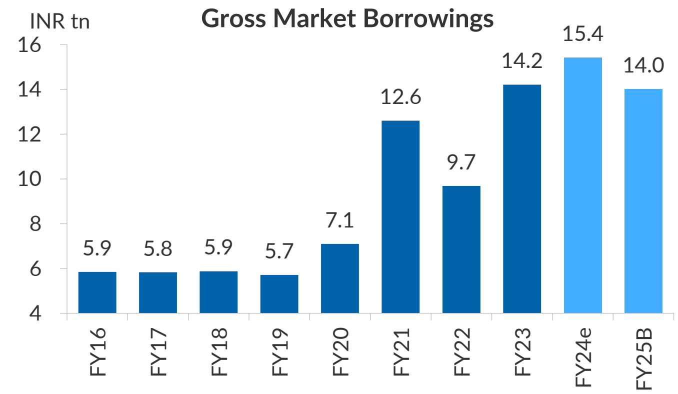
Source: Bloomberg, YES Sec

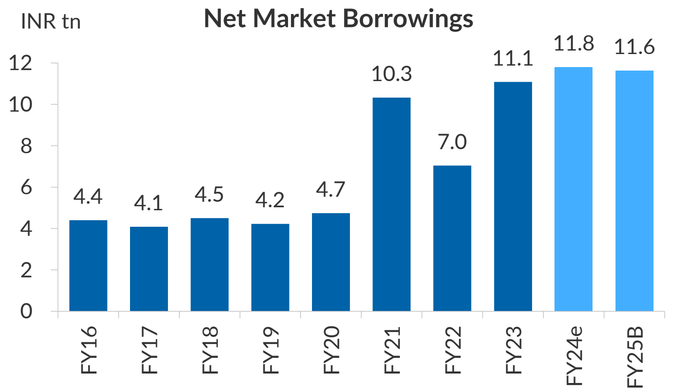
Exhibit 6: Lower spending on Subsidies determines the non-populist intent of the Government



Source: Budget, YES Sec

Exhibit 7: Lower Market Borrowings reflects improving fiscal health of the Government





Source: Bloomberg, YES Sec

Exhibit 8: Sectoral Impact

Announcement	Impact
Asset Management and Broking	
Simplification and rationalisation of capital gains - Short-term capital gains on certain financial assets will now attract a tax rate of 20%. Long-term capital gains on all financial and non-financial assets will attract a tax rate of 12.5%. The limit of exemption on certain financial assets has been raised to Rs 125,000. Only listed financial assets held for more than 1 year will classify as long-term whereas unlisted financial assets and all non-financial assets will have to be held for 2 years to be classified as long-term. Unlisted bonds, debentures, debt mutual funds and market-linked debentures, irrespective of holding period, will attract tax on capital gains at applicable rates.	Earlier, for unlisted financial assets like real estate, there was the option to get taxed at 10% without indexation benefit or get taxed at 20% with indexation benefit. Now, there is a single rate of 12.5% and without any indexation benefit (grandfathering is allowed for properties purchased till 2001). This means that, for real estate purchased long ago (back till 2002), likely at a fraction of current market value, the lack of indexation benefit would imply a significantly higher tax outgo compared with before if the proposals were to fructify. This reduces the relative attractiveness of real estate as an asset class compared with financial assets, all other things remaining constant. A similar conclusion could perhaps be drawn for physical gold and jewellery. Since physical assets, i.e. real estate and gold, compete with financial assets (mainly bank deposits) for household savings, it could be argued that this proposal is positive for bank deposits at the expense of physical assets. Secondly, the tax rate applicable on short-term capital gains on stocks and equity mutual funds rises from 15% to 20%. This step too makes the relative attractiveness of stocks and equity mutual funds decline when compared with bank deposits, all other things remaining the same. It can be argued that these steps, therefore, are positive for banks from an incremental deposit accretion perspective. Householding savings that will be incrementally created will tend to flow into bank deposits as opposed to real estate, gold, stocks and equity mutual funds, ceteris paribus. The impact, however, is not expected to be dramatic. Our top banking picks have been BOB, INBK, AXSB, FED, SBI and ICICI.
Increase in Securities Transactions Tax (STT) - It has been proposed to increase the STT on Futures and Options of Securities to 0.02% and 0.1%, respectively.	Earlier, the STT on Futures was 0.0125% and on Options was 0.0625%. Hence, the increase in STT disincentivizes equity trading, ceteris paribus, especially short-term trading in F&O. This is negative for stock broking firms, especially volume-led digital brokers such as Angel One. However, a lot of negatives have been priced in by Angel One already.
Taxation of buyback of shares - It has been proposed to tax the income on buyback of shares in the hands of the recipient.	Earlier, buybacks were being taxed at the hands of the distributing company at 20% plus surcharge and cess. Now, the taxation shifts from the company to the receiving individual shareholder and will be so at the applicable rate. This proposed change is akin to change made with regard to dividends some years ago. Again, this proposed stipulation makes the relative attractiveness of equities decline, ceteris paribus.
Automobile - Neutral to Positive	
Exemption in basic customs duty on critical mineral required to manufacture lithium battery from 2.5-7.5% to nil.	Positive as it will help accelerate local manufacturing of cells for which capex is already underway. Lithium and cobalt are the two main components for lithium-ion batteries.
Banking	
New MSME credit guarantee scheme - A new credit guarantee scheme will be introduced to facilitate loans to MSMEs to purchase machinery and equipment without collateral and third-party guarantee. A self-financing guarantee fund will provide to each applicant guarantee cover of upto Rs 1bn, while the loan amount may be larger. New MSME borrower assessment by PSU banks - PSU banks will build an in-house capability to assess MSMEs instead of relying on external assessment. They will take the lead in developing a new credit assessment model based on the digital footprint of MSMEs. This is expected to be an improvement over the traditional approach of relying only on asset and turnover criteria. This will also cover MSMEs without a formal account system.	The MSME sector has, over the long-term, remained an area where the government wishes credit to flow into and the proposed step will promote this further. As far as MSME lending is concerned, PSU banks are known to participate in it more wholeheartedly than large private sector banks and hence, the proposal can be regarded to be somewhat positive for PSU banks. Private sector banks that are known to keenly participate in MSME lending include City Union Bank and DCB Bank. We have turned positive on City Union Bank in Feb 2024 for the first time in 3 years.

Announcement	Impact
Credit support to MSME during periods of stress - MSMEs would continue to obtain credit if they turn SMA (special mention account / in default) for reasons beyond their control so that they do not slip into NPA category (staying in default for 90 days or more). This credit availability will be supported by a guarantee from a government promoted fund.	
Mudra limit enhanced - Mudra limit will be enhanced from Rs 1 mn to Rs 2mn for those borrowers who have availed and successfully repaid loans under the Tarun segment of the Mudra scheme.	
Reduction of turnover threshold for TReDS - The turnover threshold for mandatory onboarding on the TReDS platform is to be reduced from Rs 5bn to Rs 2.5bn.	
SIDBI branches in MSME clusters - SIDBI will open new branches in MSME clusters and reach all MSME clusters in 3 years and provide direct credit to MSMEs. This year, 24 new branches would be opened with service coverage reaching 168 out of 242 major clusters.	
Appropriate changes to the IBC and reforms and strengthening of NCLTs and appellate tribunals (NCLAT) will be initiated with the intention of speeding up insolvency resolution.	The government approach to the IBC / NCLT framework reminds us of the Japanese industrial philosophy of Kaizen, which implies continuous improvement. There have been several improvements in the IBC / NCLT process since inception and the government wishes to continue in the same vein. This is positive for PSU banks, which participate more keenly in the type of corporate lending that would potentially require the IBC to be invoked.
30mn additional houses under the Pradhan Mantri Awas Yojna across rural and urban areas have been announced. Specifically, for urban housing, the housing needs of 10mn urban poor and middle class families will be addressed with an investment of Rs 10 trn. This will include central assistance of Rs 2.2 trn over the next 5 years. A provision of interest subsidy to facilitate loans at affordable rates is also planned.	The target of 20mn rural houses and 10mn urban houses is not a new announcement. However, the monetary allocation for the same has been announced now. The PMAY remains a shot in the arm for banks with significant home loan franchises such as ICICI, SBI and FED.
Building materials	
Jal Jeevan Mission (JJM) / National Rural Drinking Water Mission- budgeted estimate for FY24 is Rs700Bn and Rs701.62Bn for FY25E	These initiatives are positive for Building material industry. GoIs thrust on water sanitation and irrigation will be positive for plastic pipe companies- Supreme, Astral, Finolex. Moreover, new houses under PMAY will be beneficial for CERA, KAJARIA, HINDWARE.
Irrigation and Flood Control- budgeted estimate for FY24 is Rs104.27Bn and Rs108.64Bn for FY25E	
3cr houses to be built under PMAY which will entail capital outlay of Rs221.03Bn in FY24 and Rs301.70Bn in FY25E	
PM Awas Yojana Urban 2.0, housing needs of 1 crore urban poor and middle-class families will be addressed with an investment of Rs10 lakh crore. This will include the central assistance of Rs2.2 lakh crore in the next 5 years.	
Govt will promote water supply, sewage treatment and solid waste management projects and services for 100 large cities through bankable projects. These projects will also envisage use of treated water for irrigation and filling up of tanks in nearby areas.	
Cement & Infra Sector	
Pradhan Mantri Awas Yojna (PMAY)-Urban capital allocation has increased by 36% tRs302bn. Fresh addition of 3 Cr number of houses under PMAY (Rural + Urban), Rs. 10 tn allocation for (~Rs. 2.2 tn of central assistance) PM Awas Yojana-Urban.	Positive for Cement Sector: Regional players (I.e., South & Eastern) would have major benefits, while larger players with strong market share in the regions will gain volumes. The upcoming developments in Bihar and Andhra Pradesh will boost cement demand. Also, various govt. push projects such as low-cost housing, railways, water, metro and NHAI & Road projects etc to drive volume in the country. Key Beneficiaries: UltraTech, ACC, Dalmia Bharat, Ramco Cement, Sagar Cement.
Swachh Bharat Mission (SBM) - Urban/ gramin capital allocation have increased by 96%/ 3% tRs50bn/ Rs72bn	
National River Conservation Plan -Other Basins capital allocation has increased by 37% tRs6bn.	
MetrProjects capital allocation have increased by 9% tRs214bn.	Positive for Infra Sector: Industry to witness strong order inflows

<table>
<tr><th>Announcement</th><th>Impact</th></tr>
<tr><td>Residential/ Non- Residential - Housing capital allocation has increased by 9%/4% tRs11bn/ Rs26bn.</td><td rowspan="6">on account of higher capital allocation for PMAY followed by Swachh Bharat Mission, Sagarmala, National Gange plans.
Key Beneficiaries: NCC / Ahluwalia Contract/ HG Infra</td></tr>
<tr><td>National Ganga Plan capital allocation have increased by 39% tRs33bn.</td></tr>
<tr><td>Sagarmala capital allocation have increased by 33% tRs7bn</td></tr>
<tr><td>Railway projects (incl. track, bridge, tunnel etc.) capital allocation have increased by 16% tRs298bn</td></tr>
<tr><td>NAHI & Road construction capital allocation have increased by 3% tRs2836bn</td></tr>
<tr><td>Focused states: Rs. 260 bn allocation for road projects in Bihar. Rs. 150 bn allocation for Andhra Pradesh Capital.</td></tr>
<tr><td colspan="2">Consumer Durables</td></tr>
<tr><td>PM Awas Yojana 2.0: Housing needs of 1 crore urban poor and middle class families will be addressed with investment of Rs10tn</td><td>Impact Positive - Givent the significant investments will be made to build houses for 1 crore poor urban and middle class families will result in demand for electrical as well as durables products
Key beneficiaries: Havells, Crompton greaves CE, Polycab India, Orient electric, Voltas, Blue star from the listed space</td></tr>
<tr><td>Reduction in BCD for Cellular mobile phone, Charger/Adapter and PCBA of cellular mobile phone from 20% to 15%.</td><td rowspan="6">Impact - Neutral
BCD of finished products like mobile phones and its accessories have been increased, while BCD for parts that have been used for manufacture for mobile phones have been reduced.</td></tr>
<tr><td>Reduction in BCD for specified parts use in manufacture of connectors from 5%/7.5% to NIL</td></tr>
<tr><td>Reduction in BCD forOxygen Free Copper for use in manufacture of Resistors from 5% to Nil</td></tr>
<tr><td>Reduction in BCD Specified die-cut parts for use in manufacture of cellular mobile phones to Nil</td></tr>
<tr><td>Reduction in BCD for Specified mechanics for use in manufacture of cellular mobile phones to Nil</td></tr>
<tr><td>Increase in BCD for Printed Circuit Board Assembly (PCBA) of specified telecom equipment from 10% to 15%</td></tr>
<tr><td colspan="2">FMCG - Positive</td></tr>
<tr><td>No change in duty on cigarettes</td><td>As always, no change in duty on cigarettes is taken as a positive for the cigarette manufacturers as the street was expecting some increase. Stable taxation environment should support cigarette volume growth atleast in the near-term. Positive for ITC.</td></tr>
<tr><td>No change in allocation from interim budget towards Mahatma Gandhi National Rural Employment Guarantee Program (MGNREGP; Core of the Core Schemes) and Pradhan Mantri Kisan Samman Nidhi (PM-Kisan)</td><td rowspan="6">All this measures will indirectly either lead to job creation or money in the hand of the consumers, which will eventually lead to higher consumption especially for low income groups. Positive for FMCG companies especially with higher rural exposure like Dabur and HUL.</td></tr>
<tr><td>Provision of Rs. 2.66 lakh crore for rural development, including rural infrastructure</td></tr>
<tr><td>Allocation towards 3crore additional houses under the PM Awas Yojana in rural and urban areas in the country</td></tr>
<tr><td>Provision of Rs1.52 lakh crore for agriculture and allied sector</td></tr>
<tr><td>Employment and skilling initiatives</td></tr>
<tr><td>Income tax benefit under new tax regime</td></tr>
<tr><td colspan="2">Life Insurance</td></tr>
<tr><td>Deduction of expenditure by employers towards NPS is proposed to be increased from 10% to 14% of employee’s salary. Similarly, deduction of this expenditure up to 14% of salary from the income of employees in the private sector and public sector, opting for the new tax regime is proposed to be provided.</td><td>General Insurance - This should be potentially beneficial for general insurance companies and, among our coverage universe, for ICICI Lombard.</td></tr>
</table>

Announcement	Impact
Metals & Mining – Neutral to Positive	
Focus on increasing availability of critical minerals' production and recycling in the country along with overseas acquisition	Positive for metals like Aluminum, Lithium, Cobalt and Copper. Recyclers like Gravita to benefit from the same. Miners like NMDC and Coal India who are focusing on critical mineral blocks will be in focus.
Removal on basic custom duties for Ferro nickel, chrome and scrap	To benefit stainless steel producers like - Jindal Stainless
No announcement on cheap Chinese imports	No near-term relief for the steel producers seen.
Removal on steel scrap custom duties	To encourage steel producers to set up more green steel capacities.
NTPC and BHEL to co-jointly set up a 800 MW thermal plant	Expect higher thermal coal demand. Coal India to benefit
Higher infrastructure development spends in the states of Bihar and Andhra Pradesh along with allocation towards housing development	To support steel demand in the country. Primary steel producers to benefit from the same.
Pharma & Healthcare - Neutral	
Allocation for Jan Aushadi Scheme hiked to Rs2.8bn from Rs1.1bn	Not much impact as Jan Aushadi stores cater to lower strata mostly and hike is too small to make a dent in branded pharma sales
Ayushman Bharat coverage outlay up 7% to Rs73bn	Not much benefit for listed hospitals even as it would expand insurance coverage/penetration
PLI incentive provisioned at Rs20bn vs actual Rs16.3bn in FY24	Higher incentive provision for expected increase in disbursal during FY25; Aurobindo Pharma is a noted but well known beneficiary
Custom duty on 3 cancer drugs cut to nil from 10% earlier	Astrazeneca would be a key beneficiary as it owns all 3 drugs and oncology is the largest therapy in overall sales
Custom duty cut on orthopaedic implants and parts used in Xray machines	Beneficial for diagnostic and hospitals though to a limited extent as input costs are anyways negligible
Real Estate	
Allocation towards the PM AWAS Yojana (PMAY) increased by 4.95% to Rs846.7bn (Interim budget Rs806.7bn). Under PMAY Urban 2.0, housing needs of 10mn urban poor and middle-class families will be addressed with an investment of ? 10 lakh crore. This will include the central assistance of ? 2.2 lakh crore in the next 5 years.	Sentimentally positive for RE but no direct benefit to the developers
Transit Oriented Development plans for 14 large cities with a population above 3mn will be formulated, along with an implementation and financing strategy.	New geographies will emerge as investment destination
Encourage states which continue to charge high stamp duty to moderate the rates for all, and also consider further lowering duties for properties purchased by women.	Sentimentally positive for RE but no direct benefit to the developers
Land records in urban areas will be digitized with GIS mapping. An IT based system for property record administration, updating, and tax administration will be established.	Transparency will increase and land title issues will reduce; poisitve for RE developers
NBFCs - Positive for HFCs and Negative for Gold Financiers	
Significant increase in allocation to PMAY Rural and PMAY Urban	Positive for Affordable HFCs like Aadhar, Aavas, Home First & Aptus
Reintroduction of CLSS for EWS/LIG and MIG borrowers with an outlay of Rs30bn and Rs10bn respectively	Positive for Affordable HFCs and to some extent for HFCs like Repco and Can Fin
States will be encouraged to moderate Stamp Duty on property	Positive for all HFCs
Flood control assistance for Bihar and Assam	Positive for MFIs
Development Packages for Bihar and Andhra Pradesh	Positive for MFIs and all other NBFCs
Reduction in Custom Duty for Gold from 15% to 6%	Negative for Muthoot and Manappuram

Announcement	Impact
A credit guarantee scheme will be introduced facilitating term loans to MSMEs without collateral or third-party guarantee	Positive for focussed MSME financiers
Significant increase in allocation to PMAY Rural and PMAY Urban	Positive for Affordable HFCs like Aadhar, Aavas, Home First & Aptus
Reintroduction of CLSS for EWS/LIG and MIG borrowers with an outlay of Rs30bn and Rs10bn respectively	Positive for Affordable HFCs and to some extent for HFCs like Repco and Can Fin
A credit guarantee scheme will be introduced facilitating term loans to MSMEs without collateral or third-party guarantee	Positive for focussed MSME financiers
Oil and Gas sector	
The LPG subsidy remains constant at INR 106bn, the same as the interim budget	The decision to maintain the LPG subsidy at Rs106bn, in line with the interim budget - sufficient coverage for Ujjwala customers through the DBT mechanism. However, the lack of subsidy for other consumers, despite an under-recovery of ~Rs135/cylinder, could result in a significant sector-wide under-recovery of ~Rs280-300bn for FY25. This could add burden onto the OMCs as they would have to bear these losses, until the government intervenes with additional subsidies later in the fiscal year
No relief in the excise duty of 14% on CNG sales	The decision of not reducing the 14% excise duty on CNG sales is a negative sentiment for City Gas Distribution (CGD) companies. These companies were anticipating a reduction in excise duty given the continuous de-allocation of APM gas. The maintained duty rate means CGDs will continue to face high operational costs, dampening their financial performance and slow their growth prospects

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Name of the Research Analyst : Hitesh Jain, Hemant Nahata, Keval Shah

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Analyst signature

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