Strategy

Union Budget

July 24, 2024

FY2025 union budget: Prudent and balanced

The FY2025 union budget delivered a prudent balance between capital expenditure, fiscal prudence and welfarism. The government continued with its focus on spending in core infrastructure areas, while expenditure on certain social welfare schemes was under control. The budget did minor tinkering on tax rates for individuals, while capital gains taxes were rationalized across asset classes.

Central GFD/GDP of 4.9% highlights sharper focus on consolidation

The government projected central GFD/GDP at 4.9%, in FY2025BE (Rs16.1 tn), compared to 5.1% in the interim budget, as it maintained its focus on improving the quality of the fiscal. We find the fiscal deficit targets realistic, driven by (1) 13% increase in direct taxes (12% increase in corporate tax and 14% increase in personal taxes), (2) 8% increase in indirect taxes and (3) upward revision of non-tax revenues (due to incremental Rs1.3 tn transfer of surplus by RBI). The government made minor changes to personal tax rates, while capital gains tax rates were partly rationalized across asset classes.

Expenditure under control as fiscal prudence remains the priority

The bulk of the increase in spending has been allocated to revenue expenditure (6% increase versus 5% in the interim budget) driven by targeted increase in (1) transfer to states, (2) job creation, (3) rural housing and (4) price stabilization. The government maintained its focus on capital expenditure, with a budgeted growth of 17% in FY2025BE to Rs11.1 tn (same as in interim budget). Key spends pertain to (1) roads and highways (Rs2.7 tn, same as interim budget), (2) railways (Rs2.5 tn, same as interim budget) and (3) loans for capex to states (Rs1.7 tn compared to Rs1.5 tn in interim budget).

Interest rates to continue their soft bias

We expect bond yields to remain soft in FY2025 led by (1) moderating domestic and global inflation and (2) favorable demand-supply dynamics for domestic SLR securities, led by firm FPI debt flows and long-end institutional demand. A dovish global monetary policy cycle and moderating domestic inflation (toward the 4% mark) will provide the RBI with the scope to embark on a shallow rate cut cycle. We expect the 10-year benchmark yield to be in the range of 6.70-7.1% in FY2025E.

Key sector highlights: Taxation impacts multiple sectors

The government's sector-specific proposals largely pertain to (1) supporting rural and urban housing, (2) buybacks being taxed as dividends, (3) changes in capital gains taxation across multiple asset classes, (4) custom duty changes for multiples sectors, (5) higher outlay for clean energy, etc. At the same time, moderation in capex outlay is visible across the defense, fertilizers, railways, roads and urban infrastructure sectors.

Key estimates summary

	2024	2025E	2026E
Nifty estimates			
Earnings growth (%)	20.0	8.3	14.9
Nifty EPS (Rs)	990	1,080	1,243
Nifty P/E (X)	24.7	22.7	19.7
Macro data			
Real GDP (%)	8.2	6.9	6.5
Avg CPI inflation (%)	5.4	4.5	4.2

Source: Company data, Kotak Institutional Equities estimates

Quick Numbers

Central FY2025 GFD/GDP target of 4.9%

13% increase in direct taxes and 8% increase in indirect taxes

Capital expenditure budget at Rs11.1 tn

Full sector coverage on KINSITE

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FY2025 UNION BUDGET: MAINTAINING THE BALANCE

The FY2025 union budget balanced well the priorities of (1) elevated capital expenditure, (2) employment generation, (3) agriculture and rural development and (4) fiscal consolidation. Key financial highlights of the budget are (1) 16% growth in receipts and 7% growth in expenditure, leading to a fiscal deficit of Rs16.1 tn, (2) Rs5.5 tn of non-tax revenues, (3) Rs500 bn of divestment-related revenues and (4) revenue expenditure growth of 6% and capital expenditure growth of 17%. The growth rates are on the base of FY2024RE. The FY2025BE GFD/GDP is pegged at 4.9%, marginally lower than the interim budget estimate of 5.1%.

Some consolidation, some capex, some welfarism

We discuss the key highlights of the FY2025 union budget below, implications for the economy, interest rates environment, and our understanding of the government's economic and social priorities in an 'election-year' budget.

- **Central FY2025 GFD/GDP target lowered to 4.9%.** The government projected central government fiscal deficit of 4.9%, as a proportion of GDP, in FY2025BE (Rs16.1 tn), compared to 5.1% in the interim budget. Exhibit 1 summarizes the key revenue, expenditure and market borrowing items. The government has assumed a nominal GDP growth of 10.5% for FY2025, which is realistic, in our view.

Government budgets FY2025 GFD/GDP at 4.9%

Exhibit 1: Major central government budgetary items, March fiscal year-ends, 2019-25E (Rs bn)

	2019	2020	2021	2022	2023	2024RE	2024P	2025BE	Change (%) 2023/ 2022	2024RE/ 2023	2025BE/ 2024RE	2025BE/ 2024P
Receipts												
1. Revenue receipts (2d + 3)	**15,529**	**16,841**	**16,339**	**21,699**	**23,832**	**26,997**	**27,284**	**31,292**	**10**	**13**	**16**	**15**
2. Gross tax revenues (a + b)	**20,805**	**20,101**	**20,271**	**27,093**	**30,542**	**34,372**	**34,648**	**38,402**	**13**	**13**	**12**	**11**
2.a. Direct taxes	11,431	10,554	9,523	14,158	16,723	19,578	19,689	22,214	18	17	13	13
2.a.1. Corporation tax	6,636	5,569	4,577	7,120	8,258	9,227	9,111	10,200	16	12	11	12
2.a.2. Income tax (incl. other taxes)	4,796	4,985	4,946	7,038	8,464	10,352	10,579	12,014	20	22	16	14
2.b. Indirect taxes	9,373	9,547	10,748	12,935	13,819	14,794	14,959	16,187	7	7	9	8
2.b.1. Goods and Services Tax	5,816	5,988	5,488	6,981	8,491	9,566	9,570	10,619	22	13	11	11
2.b.1.1. CGST	4,575	4,941	4,563	5,912	7,185	8,116	8,206	9,109	22	13	12	11
2.b.1.2. IGST	289	91	73	21	47	–	(50)	–	124			
2.b.1.3. Compensation cess	951	956	852	1,048	1,259	1,450	1,414	1,510	20	15	4	7
2.b.2. Customs duty	1,178	1,093	1,348	1,997	2,134	2,187	2,331	2,377	7	2	9	2
2.b.2.1. Basic duties	1,048	906	1,065	1,460	1,676	1,670	1,779	1,869	15	(0)	12	5
2.b.2.2. Others	130	187	282	537	457	517	551	508	(15)	13	(2)	(8)
2.b.3. Excise duty	2,310	2,406	3,897	3,946	3,190	3,036	3,053	3,190	(19)	(5)	5	4
2.b.4. Service tax	69	60	16	10	4	5	4	1	(57)	16	(80)	(76)
2.c Transfers to states, UTs, etc.	7,633	6,532	6,008	9,045	9,564	11,133	11,383	12,567	6	16	13	10
2.d Net tax revenues (2 - 2.c)	**13,172**	**13,569**	**14,263**	**18,048**	**20,978**	**23,239**	**23,265**	**25,835**	**16**	**11**	**11**	**11**
3. Non-tax revenues	**2,357**	**3,272**	**2,076**	**3,651**	**2,854**	**3,758**	**4,019**	**5,457**	**(22)**	**32**	**45**	**36**
3.a. RBI's transfer of surplus	680	1,476	600	991	303	874	874	2,104	(69)	188	141	141
3.b. Telecommunications	408	698	455	858	648	935	935	1,203	(24)	44	29	29
3.c. Others	1,269	1,097	1,021	1,802	1,903	1,949	2,209	2,150	6	2	10	(3)
4. Non-debt capital receipts (a + b)	**1,128**	**686**	**576**	**394**	**722**	**560**	**605**	**780**	**83**	**(22)**	**39**	**29**
4.a Recovery of loans	181	183	197	247	262	260	273	280	6	(1)	8	2
4.b Other receipts (incl. disinvestments)	**947**	**503**	**379**	**146**	**460**	**300**	**331**	**500**	**214**	**(35)**	**67**	**51**
5. Total receipts (1 + 4)	**16,657**	**17,527**	**16,915**	**22,093**	**24,554**	**27,557**	**27,889**	**32,072**	**11**	**12**	**16**	**15**
Expenditure												
6. Revenue expenditure	**20,074**	**23,506**	**30,835**	**32,009**	**34,531**	**35,402**	**34,940**	**37,094**	**8**	**3**	**5**	**6**
6.a. Interest payments	5,826	6,121	6,799	8,055	9,285	10,554	10,639	11,629	15	14	10	9
6.b. Subsidies	1,968	2,283	7,077	4,461	5,310	4,135	4,135	3,812	19	(22)	(8)	(8)
6.b.1. Food	1,013	1,087	5,413	2,890	2,728	2,123	2,118	2,053	(6)	(22)	(3)	(3)
6.b.2. Fertilizer	706	811	1,279	1,538	2,513	1,889	1,895	1,640	63	(25)	(13)	(13)
6.b.3. Oil	248	385	385	34	68	122	122	119	99	80	(3)	(3)
6.c. Pay, allowances and pensions	4,957	5,366	6,711	5,899	6,564	6,876	6,876	7,171	11	5	4	4
6.c.1.a. Pay and allowances	3,291	3,526	4,626	3,910	4,148	4,495	4,495	4,738	6	8	5	5
6.c.1.b. Pensions	1,666	1,840	2,085	1,989	2,416	2,380	2,380	2,433	21	(1)	2	2
6.d. Agriculture and farmers' welfare	461	942	1,083	1,145	999	1,167	1,083	1,224	(13)	17	5	13
6.e. Education	781	873	840	803	972	1,297	1,234	1,206	21	33	(7)	(2)
6.f. Health and family welfare	506	607	740	787	703	749	783	840	(11)	7	12	7
6.g. Rural development	1,118	1,221	1,964	1,604	1,768	1,711	1,619	1,776	10	(3)	4	10
6.h. Others	4,457	6,092	5,622	9,255	8,931	8,914	8,572	9,436	(3)	(0)	6	10
7. Capital expenditure	**3,077**	**3,357**	**4,263**	**5,929**	**7,400**	**9,502**	**9,485**	**11,111**	**25**	**28**	**17**	**17**
7. a. Defence	998	1,160	1,399	1,448	1,509	1,678	1,646	1,822	4	11	9	11
7. b. Railways	528	678	1,093	1,173	1,593	2,400	2,426	2,520	36	51	5	4
7. c. Roads and highways	676	684	892	1,133	2,060	2,645	2,639	2,722	82	28	3	3
7. d. Loans for capex to states	–	–	118	142	812	1,056	1,129	1,500	472	30	42	33
7. e. Housing and urban affairs	158	193	103	259	269	265	264	285	4	(1)	7	8
7. f. Others	717	642	657	1,774	1,158	1,459	1,381	2,261	(35)	26	55	64
8. Total expenditure (6 + 7)	**23,151**	**26,863**	**35,098**	**37,938**	**41,932**	**44,905**	**44,425**	**48,205**	**11**	**7**	**7**	**9**
Deficit												
Primary deficit (PD)	668	3,216	11,384	7,790	8,092	6,793	5,898	4,504	4	(16)	(34)	(24)
Revenue deficit (RD)	4,545	6,665	14,496	10,310	10,699	8,405	7,656	5,802	4	(21)	(31)	(24)
Gross fiscal deficit (GFD)	**6,494**	**9,337**	**18,183**	**15,845**	**17,378**	**17,348**	**16,537**	**16,133**	**10**	**(0)**	**(7)**	**(2)**
Gross market borrowing (dated securities)	5,715	7,041	12,601	9,684	14,210	15,430	15,430	14,010	47	9	(9)	(9)
Net market borrowing (dated securities)	4,233	4,681	10,329	7,041	11,083	11,805	12,193	11,632	57	7	(1)	(5)
Short-term borrowing (T-bills/WMA)	69	1,560	2,032	774	1,148	13	(4)	(500)				
Nominal GDP	**188,997**	**201,036**	**198,541**	**235,974**	**269,496**	**295,357**	**295,357**	**326,369**	**14.2**	**9.6**	**10.5**	**10.5**
PD/GDP (%)	**0.4**	**1.6**	**5.7**	**3.3**	**3.0**	**2.3**	**2.0**	**1.4**				
RD/GDP (%)	**2.4**	**3.3**	**7.3**	**4.4**	**4.0**	**2.8**	**2.6**	**1.8**				
GFD/GDP (%)	**3.4**	**4.6**	**9.2**	**6.7**	**6.4**	**5.9**	**5.6**	**4.9**				

Source: Ministry of Finance, Kotak Institutional Equities estimates

- **Realistic targets for tax revenues.** In our view, direct tax revenue growth at 13% (11% for corporate tax and 16% for income tax) seems achievable, while nominal GDP growth is estimated at 10.5%. Indirect taxes show a growth of 11% over FY2024RE, with (1) decent CGST growth (11%), (2) customs duty growth (9%) and (3) excise duty revenue growth of 5%. Compared to FY2024 provisional estimates, tax revenues would be pegged at growth of 11% with corporate tax growth at 12%, income tax growth at 14% and indirect tax growth at 11% (2% for customs duty, 4% for excise revenues). Net tax revenues (post-devolution to states) have been pegged at Rs25.8 tn (growth of 11% over FY2024RE and 11% over FY2024P).

- **Modest changes in income tax and capital gains tax rates.** The government reduced the tax incidence for low-income slabs by (1) increasing the upper threshold of income for the lower slabs and (2) leaving the tax rates unchanged for various slabs under the new taxation regime (without exemption). Exhibit 2 gives details of the new income tax structure and compares that with the tax structure under the old (with exemption) and new (without exemptions) regimes for FY2024 and FY2025.

Changes in the new tax regime by reducing the slab rates, surcharge and increasing basic exemption limit

Exhibit 2: Income tax rates for individuals

	Tax structure (with exemption)-old regime	Tax structure(without exemption)-new regime	
	FY2024/FY2025	FY2024	FY2025
Individual tax rates	Up to Rs250,000 - Nil	Up to Rs300,000 - Nil	Up to Rs300,000 - Nil
	Above Rs250,000 - Rs500,000 - 5%	Above Rs300,000 - Rs600,000 - 5%	Above Rs300,000 - Rs700,000 - 5%
	Above Rs500,000 - Rs1,000,000 - 20%	Above Rs600,000 - Rs900,000 - 10%	Above Rs700,000 - Rs1,000,000 - 10%
	Above Rs1,000,000 - 30%	Above Rs900,000 - Rs1,200,000 - 15%	Above Rs1,000,000 - Rs1,200,000 - 15%
		Above Rs1,200,000 - Rs1,500,000 - 20%	Above Rs1,200,000 - Rs1,500,000 - 20%
		Above Rs1,500,000 - 30%	Above Rs1,500,000 - 30%
Senior citizen (60 years)	Exemption limit - Rs300,000	Exemption limit - Rs300,000	Exemption limit - Rs300,000
Very senior citizen (80 years+)	Exemption limit - Rs500,000	Exemption limit - Rs500,000	Exemption limit - Rs500,000
Surcharge	10% on income between Rs5 mn and Rs10 mn	10% on income between Rs5 mn and Rs10 mn	10% on income between Rs5 mn and Rs10 mn
	15% on income between Rs10 mn and Rs20 mn	15% on income between Rs10 mn and Rs20 mn	15% on income between Rs10 mn and Rs20 mn
	25% on income between Rs20 mn and Rs50 mn	25% on income above Rs20 mn	25% on income above Rs20 mn
	37% on income above Rs50 mn		
Cess	4% (health and education cess)	4% (health and education cess)	4% (health and education cess)

Notes:
(a) Standard deduction has been increased to Rs75,000 from Rs50,000.

Source: Ministry of Finance, Kotak Institutional Equities

The government also changed the capital gains structure across asset classes through a combination of holding period, rates and structure. In our view, it may have signaled its intention to (1) further rationalize the capital gains structure across asset classes and (2) have a common taxation regime across asset classes over a period of time. It has increased capital gains tax on equities, reduced capital gains tax on bonds and debentures and removed the benefits of indexation for real estate. Exhibit 3 gives details of the capital gains regime for various asset classes and compares the same with the earlier regime. We find that the new capital gains tax structure for real estate favors investors, who have generated high IRRs, while investors with poor IRRs would be worse off in the new regime (see Exhibit 4).

Increase in short-term and long-term capital gain tax rates

Exhibit 3: Capital gain tax for various asset classes in India (%)

	Old			New		
	Holding period	Tax rates (%)		Holding period	Tax rates (%)	
Asset	(months)	Short-term	Long-term	(months)	Short-term	Long-term
Listed equity shares/preference shares	12	15	10	12	20	12.5
Unlisted equity shares/preference shares	24	Marginal	10	24	Marginal	12.5
Listed bonds/debentures	12	Marginal	20	12	Marginal	12.5
Unlisted bonds/debentures	36	Marginal	Marginal	24	Marginal	Marginal
Units of equity-oriented mutual funds	12	15	10	12	20	12.5
Units of debt-oriented mutual funds	36	Marginal	Marginal	24	Marginal	Marginal
Immovable property	36	Marginal	20	24	Marginal	12.5
Gold	36	Marginal	20	24	Marginal	12.5
Bank deposit	NA	Marginal	Marginal	NA	Marginal	Marginal

Notes:
(a) The new rates are applicable from July 23, 2024.
(b) Old regime had indexation benefits for certain asset classes.

Source: Ministry of Finance, Kotak Institutional Equities

Investors with high IRRs will be better off in the new tax regime

Exhibit 4: Comparison of old and new regime with regards to capital gain tax on real estate, July 2024

Financial Year	Cost Inflation Index (CII)	CII increase (% yoy)	Property price (Rs)	Annual appreciation rate (%)	Tax under old regime when sold in the respective year (Rs)	Tax under new regime when sold in the respective year (Rs)	Incremental tax under new regime (Rs)
2001-02 (Base year)	100		100				
2002-03	105	5.0%	109	9.47			
2003-04	109	3.8%	120	9.47	2.2	2.5	0.3
2004-05	113	3.7%	131	9.47	3.6	3.9	0.3
2005-06	117	3.5%	144	9.47	5.3	5.5	0.1
2006-07	122	4.3%	157	9.47	7.0	7.2	0.1
2007-08	129	5.7%	172	9.47	8.6	9.0	0.4
2008-09	137	6.2%	188	9.47	10.3	11.0	0.8
2009-10	148	8.0%	206	9.47	11.6	13.3	1.6
2010-11	167	12.8%	226	9.47	11.8	15.7	4.0
2011-12	184	10.2%	247	9.47	12.6	18.4	5.8
2012-13	200	8.7%	271	9.47	14.1	21.3	7.2
2013-14	220	10.0%	296	9.47	15.2	24.5	9.3
2014-15	240	9.1%	324	9.47	16.8	28.0	11.2
2015-16	254	5.8%	355	9.47	20.2	31.9	11.7
2016-17	264	3.9%	389	9.47	24.9	36.1	11.2
2017-18	272	3.0%	425	9.47	30.7	40.7	10.0
2018-19	280	2.9%	466	9.47	37.1	45.7	8.6
2019-20	289	3.2%	510	9.47	44.1	51.2	7.1
2020-21	301	4.2%	558	9.47	51.4	57.2	5.9
2021-22	317	5.3%	611	9.47	58.8	63.9	5.1
2022-23	331	4.4%	669	9.47	67.5	71.1	3.6
2023-24	348	5.1%	732	9.47	76.8	79.0	2.2
2024-25	363	4.3%	801	9.47	87.7	87.7	0.0

Source: Ministry of Finance, Kotak Institutional Equities

The government also increased the securities transaction tax (STT) on F&O (see Exhibit 5 for details). This may be part of a broader government program to reduce the participation of retail investors in the F&O market, in particular in options trading. The market regulator (SEBI) had constituted a working committee, which has already given its recommendations to SEBI.

The government hiked STT rates on F&O segment

Exhibit 5: Rates of securities transaction tax levied on the value of transactions

Transaction	Old rates	New rates	Payable by
Sale of an option in securities	0.0625	0.1000	Seller
Sale of an option in securities where option is exercised	0.1250	0.1250	Purchaser
Sale of a future in securities	0.0125	0.0200	Seller
Delivery trades in equity shares on purchase and sale transactions	0.1000	0.1000	Purchaser/seller

Notes:
(a) The new rates are applicable from October 1, 2024.

Source: Ministry of Finance, Kotak Institutional Equities

The government has also modified the treatment of buybacks and has proposed that the sum paid by a domestic company for purchase of its own shares shall be treated as dividend in the hands of shareholders, who received payment from such buy-back of shares and shall be charged to income-tax at applicable rates. The government has also allowed the capital loss, arising from such transactions, to be adjusted versus capital gains.

- **Non-tax revenues revised up; divestment target remains unchanged.** The government increased non-tax revenues to Rs5.5 tn for FY2025BE accounting for Rs2.1 tn of dividends transferred by the RBI in May (higher than Rs800-900 bn budgeted in the interim budget). This includes (1) Rs2.3 tn from dividends and profits (Rs2.1 tn from RBI, PSU banks and FIs) and (2) Rs1.2 tn from the telecom sector for license fee/spectrum usage charges. The government kept the divestment target unchanged at Rs500 bn.

- **Expenditure increase skewed toward welfare expenditure.** The government has budgeted a 7% increase in expenditure (6% in the interim budget), while ensuring that the focus remains on capital expenditure (+17% growth) despite increasing revenue expenditure by Rs1.7 tn.

  - **Focus on job creation.** The government has budgeted Rs100 bn in incentives for FY2025BE toward job creation and skilling, by subsidizing employers who generate fresh jobs. The total amount of incentives is Rs2 tn over a five-year period. Under the scheme, first-time employees will receive one month's wage upon entering the workforce in all formal sectors and a direct benefit transfer (DBT) of one month's salary, up to Rs15,000, will be provided in three instalments. This scheme will benefit 21 mn workers, as per the government’s estimate. Furthermore, for employment in manufacturing sectors, the government will reimburse employers up to Rs 3,000 per month for two years toward EPFO contributions for each additional employee. This scheme is expected to create additional employment of 5 mn people.

  - **No increase in capex for core sectors.** The government maintained its focus on capital expenditure, with a budgeted growth of 17% in FY2025BE to Rs11.1 tn (same as in interim budget). The government left the allocations for various sectors unchanged with (1) roads and highways at Rs2.7 tn, (2) railways at Rs2.5 tn and (3) loans for capex to states at Rs1.5 tn. Bulk of the increase in capex over FY2024RE is due to (1) recapitalization of BSNL (Rs830 bn), (2) research and innovation allocation (Rs600 bn) and (3) other smaller items including police, atomic energy, etc.

    Total public sector (central government and central PSUs only) capital expenditure, including internal and external budgetary resources (IEBR), is projected to grow 16% in FY2025BE (over FY2024RE; see Exhibit 6). The planned outlay by public sector enterprises has increased 9% yoy (see Exhibit 7).

Decent increase in central government outlay over FY2024-25BE

Exhibit 6: Revenue and capital expenditure through budget and IEBR (internal and extra budgetary resources), March fiscal year-ends, 2024-25BE (Rs bn)

	2024RE					2025BE					Capex growth
	Revenue	Capital	IEBR	Bonds	Total capex	Revenue	Capital	IEBR	Bonds	Total capex	yoy (%)
Atomic Energy	118	150	92	59	242	111	139	108	75	246	2
Defense	4,561	1,678	—	—	1,678	4,397	1,822	—	—	1,822	9
Economic Affairs	127	56	—	—	56	95	741	—	—	741	1,229
Electronics and Information Technology	140	4	—	—	4	214	6	—	—	6	42
Food and Public Distribution	2,217	2	230	—	232	2,130	0	276	—	277	19
Housing and Urban Development	427	265	168	50	433	539	286	425	100	711	64
New and Renewable Energy	78	0	214	64	214	128	0	307	123	307	44
Petroleum and Natural Gas	147	0	1,123	72	1,123	148	11	1,185	103	1,196	7
Power	175	1	591	152	592	194	11	667	178	678	14
Railways	33	2,400	200	—	2,600	34	2,520	130	—	2,650	2
Road Transport and Highways	118	2,645	—	—	2,645	58	2,722	—	—	2,722	3
Telecommunications	283	701	153	67	854	274	845	96	80	941	10
Others	26,978	1,600	492	17	2,091	28,772	2,008	492	17	2,500	20
All ministries	**35,402**	**9,502**	**3,262**	**482**	**12,764**	**37,094**	**11,111**	**3,686**	**677**	**14,797**	**16**

Notes:
(a) Bonds imply bonds and debentures issued as part of the IEBR.
(b) Data for IEBR are based on revised estimates for each year.

Source: Union budget documents, Kotak Institutional Equities

IEBR is the major funding source for capex of various ministries

Exhibit 7: Total plan outlay by major public enterprises, March fiscal year-ends, 2018-25BE (Rs bn)

	2018	2019	2020	2021	2022	2023	2024RE	2025BE	2025BE/ 2024RE (%)	% share
Department of Atomic Energy	**85**	**120**	**101**	**93**	**180**	**168**	**177**	**196**	**10**	**2**
Nuclear Power Corp. of India (NPCIL)	79	118	98	92	172	165	173	182	5	2
Ministry of Chemicals & Fertilizers	**8**	**7**	**15**	**4**	**5**	**9**	**14**	**17**	**22**	**—**
National Fertilizers Ltd	2	2	9	3	3	4	5	7	32	—
Rashtriya Chemicals and Fertilizers Ltd	5	4	5	2	2	4	5	5	(1)	—
Ministry of Civil Aviation	**89**	**89**			**—**	**44**	**34**	**34**	**1**	**0**
Airport Authority of India	25	46			—	44	34	34	1	—
Ministry of Coal	**159**	**157**	**149**	**175**	**197**	**234**	**210**	**195**	**(7)**	**2**
Coal India Ltd	93	73	63	133	154	186	165	155	(6)	2
Neyveli Lignite Corp. Ltd	51	72	65	29	25	33	29	24	(16)	—
Singareni Collieries Co. Ltd	15	12	21	13	17	15	17	16	(3)	—
Min. of Heavy Industries & Public Enterprises	**3**	**4**	**6**	**3**	**4**	**4**	**3**	**3**	**(2)**	**—**
Bharat Heavy Electricals Ltd	3	3	3	2	2	3	2	2	2	—
Min. of Housing & Urban Affairs	**327**	**478**	**566**	**190**	**290**	**400**	**398**	**674**	**69**	**7**
Housing and Urban Development Corp.	168	315	219	92	84	153	154	422	175	5
Bangalore Metro Rail Corp.										
Chennai Metro Rail Project										
Delhi Metro Rail Corp. (DMRC)	157	156	195	94	203	198	206	212	3	2
Kochi Metro										
Jaipur Metro										
National Capital Region Transport Corporation		1			43	46	35	35	—	—
Ministry of Mines	**17**	**48**	**14**	**14**	**19**	**22**	**22**	**24**	**9**	**—**
National Aluminium Company Ltd	11	41	9	10	15	18	18	20	11	—
Ministry of Petroleum & Natural Gas	**1,320**	**1,003**	**1,072**	**1,119**	**1,073**	**1,193**	**1,127**	**1,194**	**6**	**13**
Ministry of Shipping	**44**	**42**	**29**	**27**	**32**	**41**	**54**	**62**	**15**	**1**
Ministry of Steel	**89**	**86**	**81**	**73**	**101**	**105**	**104**	**103**	**(0)**	**1**
Ministry of Communications & IT	**122**	**89**	**78**	**87**	**73**	**420**	**801**	**928**	**16**	**10**
Bharat Sanchar Nigam Ltd	51	42	29	31	23	266	653	834	28	9
Ministry of Power	**599**	**746**	**632**	**473**	**481**	**574**	**591**	**673**	**14**	**7**
Ministry of Road Transport & Highways	**744**	**970**	**1,067**	**1,111**	**1,222**	**1,417**	**1,674**	**1,685**	**1**	**18**
National Highway Authority of India (NHAI)	744	970	1,067	1,111	1,222	1,417	1,674	1,685	1	18
Ministry of Railways	**1,020**	**1,334**	**1,480**	**2,346**	**1,907**	**2,040**	**2,600**	**2,650**	**2**	**29**
Indian Railways	1,020	1,334	1,480	2,346	1,907	1,353	2,102	2,222	6	24
Other ministries	**3,293**	**3,166**	**3,228**	**1,118**	**1,265**	**623**	**595**	**698**	**17**	**8**
Grand total	**7,920**	**8,338**	**8,517**	**6,832**	**6,848**	**7,292**	**8,405**	**9,137**	**9**	**100**
IEBR	**6,107**	**6,080**	**6,415**	**4,776**	**4,376**	**3,631**	**3,262**	**3,686**	**13**	

Source: Union budget documents, Kotak Institutional Equities

- **Modest increase in revenue expenditure.** The government has budgeted 5% growth (over FY2024RE) in revenue expenditure to Rs37.1 tn (6% growth over FY2024P). Most ministries (including agriculture and rural development) witnessed stable allocation versus the interim budget. Key ministries, which have seen decent increase in revenue expenditure versus the interim budget, are (1) consumer affairs (incremental Rs100 bn for price stabilization fund), (2) labour and employment (Rs100 bn for new employment generation schemes) and (3) transfer to states.

- **Targeted expenditure in key rural-focused schemes.** Exhibit 8 gives details for expenditure under the major social welfare schemes for FY2025BE and the past few years. Compared to the interim budget, the government has kept allocation in most schemes broadly unchanged.

Allocation in rural welfare schemes targeted toward rural housing, rural roads and irrigation

Exhibit 8: Major social welfare schemes in the interim budget, March fiscal year-ends, 2019-25BE (Rs bn) (sorted on descending order of FY2025BE)

	2019	2020	2021	2022	2023	2024RE	2025BE	2025BE/ 2024RE (%)
Food subsidy	1,011	1,085	5,411	2,887	2,728	2,123	2,053	(3)
Mahatma Gandhi National Rural Employment Guarantee Program (NREGS)	618	730	1,112	985	908	860	860	—
National Rural Drinking Water Mission	55	100	110	631	547	700	702	—
Income support scheme for farmers (PM-KISAN)	200	487	610	668	583	600	600	—
Pradhan Mantri Awas Yojana (PMAY) (Rural)	254	250	403	900	450	320	545	70
Interest subsidy for short term credit to farmers/Modified interest subvention scheme	115	162	178	215	180	185	226	22
Saksham Anganwadi and POSHAN 2.0				184	199	215	212	(2)
Pradhan Mantri Gram Sadak Yojana (PMGSY)	154	140	137	140	188	170	190	12
National Rural Livelihood Mission	63	98	100	102	115	141	150	6
Crop insurance scheme	119	126	142	135	103	150	146	(3)
Pradhan Mantri Krishi Sinchai Yojana (PMKSY)	81	82	79	113	56	70	93	33
Green revolution/ Rashtriya Krishi Vikas Yojana	118	99	97	67	52	62	76	23
Swachh Bharat Mission (Gramin)	129	82	49	31	49	70	72	3
Pradhan Mantri Swasthya Suraksha Yojana	22	33	27	93	75	19	22	16
DBT-LPG		296	237	2	2	15	15	3
Total	**2,940**	**3,770**	**8,691**	**7,153**	**6,235**	**5,700**	**5,961**	**5**
Total (ex-food subsidy)	**1,929**	**2,685**	**3,280**	**4,266**	**3,507**	**3,577**	**3,909**	**9**

Notes:
(a) Food subsidy and PMAY also cover urban poor households.
(b) Modified interest subvention scheme (MISS) for farmers has been introduced in lieu of interest subsidy scheme to farmers.
(c) Green revolution has been subsumed under Rashtriya Krishi Vikas Yojana.

Source: Union budget documents, Kotak Institutional Equities

- **Borrowings remain broadly unchanged.** The government kept the dated securities borrowings broadly unchanged at Rs14 tn from the interim budget. This is supported by Rs1.2 tn of repayments from the GST Compensation Fund. The government expects to finance FY2025BE fiscal deficit of Rs16.1 tn through (1) market borrowings including T-bills, (2) National Small Savings Fund and (3) a mix of cash balances, external assistance and state provident funds (see Exhibit 9). We see space for further reduction in borrowings in 2HFY25 if the government was to decide to reduce the average cash balances it holds with the RBI, assuming deficit funding from other sources remains unchanged.

Deficit financing heavily skewed toward market borrowings and NSSF

Exhibit 9: Financing of central government's fiscal deficit, March fiscal year-ends, 2017-25BE (Rs bn)

	2017	2018	2019	2020	2021	2022	2023	2024RE	2025BE
Government securities	4,093	4,518	4,233	4,681	10,329	7,041	11,083	12,193	11,752
Small savings	674	1,026	1,250	2,400	4,837	5,513	3,959	4,638	4,662
T-bills	55	449	69	1,560	2,032	774	1,148	(4)	500
Cash balance	(89)	41	(13)	50	(72)	25	(16)	(1,797)	35
State PF	177	158	161	116	185	103	51	51	52
External financing	180	79	55	87	702	361	371	551	160
Others	265	(361)	740	443	169	2,027	783	904	(306)
Gross fiscal deficit (GFD)	**5,356**	**5,911**	**6,494**	**9,337**	**18,183**	**15,845**	**17,378**	**16,537**	**16,855**

Source: Ministry of Finance, Kotak Institutional Equities

Interest rates: Softening bias continues

The global monetary policy cycle has started to turn with ECB starting off with its first rate cut in June 2024. The Fed has remained on a pause with the dot plot indicating one rate cut in CY2024 against three earlier. However, the June CPI inflation print with a mom decline indicates that the last mile disinflation could be imminent. The Fed will also likely start with its rate cut cycle from September; the market has high confidence in the three rate cuts of 25 bps each by the Fed in September, November and December (see Exhibit 10).

Market expects the US Fed to cut interest rates by 75 bps in 2HCY24

Exhibit 10: Implied probabilities of upper end of Fed funds rate, July 2024 (%)

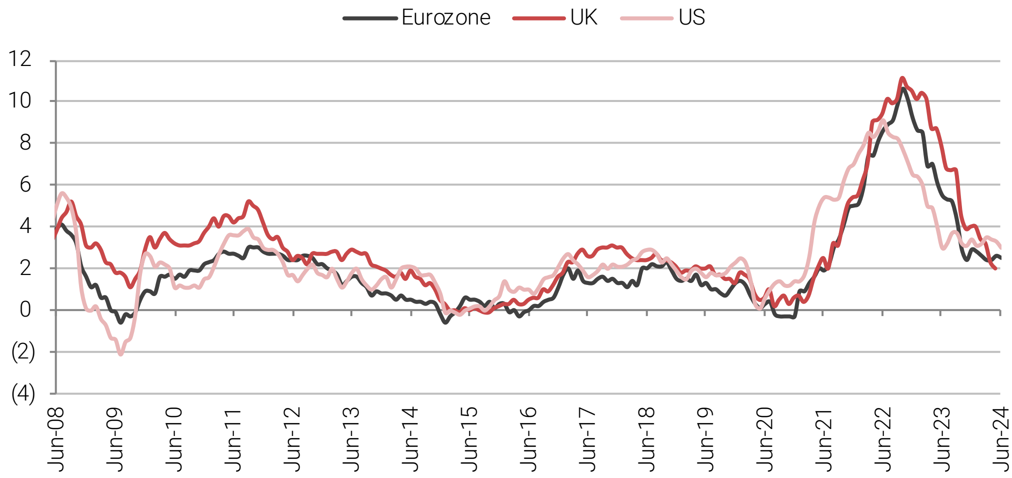
FOMC meeting dates	Federal funds rate (%)							
	3.75	4.00	4.25	4.50	4.75	5.00	5.25	5.50
31-Jul-24							2.6	97.4
18-Sep-24						2.4	91.7	5.8
7-Nov-24					1.3	50.2	45.8	2.7
18-Dec-24				1.2	45.1	46.2	7.2	0.3
29-Jan-25			0.8	32.3	45.9	18.6	2.3	
19-Mar-25		0.6	25.1	42.8	24.8	6.0	0.6	
30-Apr-25	0.3	14.1	34.8	32.9	14.5	3.0	0.3	
18-Jun-25	9.4	27.8	33.6	20.7	6.9	1.2		
30-Jul-25	17.3	30.3	28.1	14.8	4.5	0.7		

Source: CME, Kotak Institutional Equities

India's inflation trajectory has seen some upside in June due to a transient spike in vegetable prices though it will likely revert and center around the 4.5% mark. With global monetary policy cycle becoming dovish and domestic inflation moving toward the 4% mark (see Exhibits 11-12), the RBI will have scope to start off on a shallow rate cut cycle.

DMs have seen sharp decline in inflation in recent months

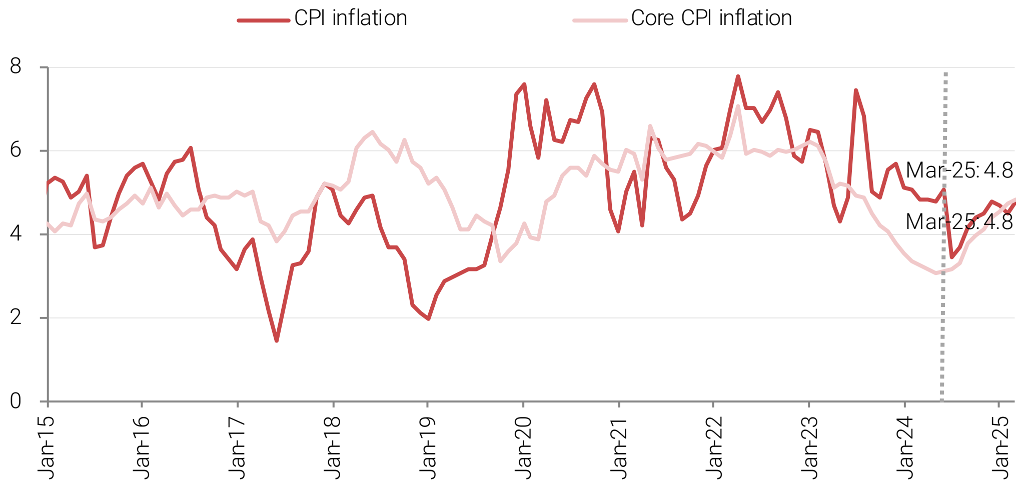
Exhibit 11: CPI inflation in major DMs, calendar year-ends, 2008-24 (%)



Source: Bloomberg, Kotak Institutional Equities

Domestic inflation has been weak in recent months

Exhibit 12: Headline and core CPI inflation (%)



Source: CEIC, Kotak Institutional Equities estimates

In the July RBI bulletin, the RBI has pegged natural interest rate at 1.4-1.9% in 4QFY24. If we assume that this rate was to remain unchanged over the next few quarters, rate cut cycle can be to the extent of 50-100 bps only, even with a sustainable 4% inflation. This is in line with our long-held call of 50 bps of rate cut in FY2025 (December 2024 and February 2025) and another 25-50 bps in FY2026. However, rate cuts in FY2026 will largely depend on inflation dropping to 4% on a sustained basis versus staying around 4.5% in 2HFY25.

For the rest of FY2025, the bond market should remain buoyant on the back of (1) global monetary policy cycle moving decisively toward rate cuts, (2) bond index inclusion-led inflows, (3) RBI rate cut cycle and (4) minimal pressure from the government's borrowing calendar. The demand-supply dynamics of domestic SLR securities will remain favorable (see Exhibit 13). We expect the 10-year benchmark yield to be in the range of 6.7-7.1% in rest of FY2025.

Favorable demand supply balance of G-Sec in FY2025

Exhibit 13: Demand and supply of SLR securities, March fiscal year-ends, 2020-25E (Rs bn)

	2020	2021	2022	2023	2024	2025E
Gross Gsec supply	7,041	13,701	11,274	14,210	15,430	14,130
Gross SDL supply	6,084	7,988	7,016	7,594	10,071	10,391
Net Supply of SLR securities	**11,169**	**19,363**	**13,785**	**17,157**	**19,177**	**17,101**
Net dated securities borrowing by center	4,740	11,431	8,631	11,083	12,193	11,632
Net market borrowings (adj. for GST comp. cess.)	—	—	—	—	11,412	10,396
- Borrowing for fiscal deficit	4,740	10,331	7,041	11,083	12,193	11,632
- Special window for states	—	1,100	1,590	—	—	—
Net T-bill borrowing by center	1,555	1,414	229	886	483	(500)
Net market borrowing by states	4,875	6,518	4,925	5,188	7,282	7,205
Demand of SLR securities (excl. RBI)	**10,396**	**16,475**	**11,960**	**17,575**	**19,710**	**18,614**
Banks	5,006	5,291	3,801	7,021	8,779	6,500
Insurance	2,977	4,403	3,471	3,679	4,475	4,651
PFs	877	1,639	1,079	1,953	2,462	2,708
FPIs	(324)	(155)	(55)	(22)	1,236	1,660
Others	1,860	5,297	3,662	4,944	2,757	3,094
- Pension funds				1,334	1,369	1,505
- Others (MFs, PDs, corporates, etc.)	1,860	7,117	4,269	3,948	2,189	1,589
Excess supply (+)/demand (-)	**773**	**2,889**	**1,825**	**(418)**	**(533)**	**(1,513)**
Net OMOs purchase (+)/sale (-)	773	2,889	1,825	(418)	(533)	
Net excess supply (+)/demand (-)	**0**	**0**	**0**	**0**	**0**	**(1,513)**

Source: Union budget documents, Kotak Institutional Equities estimates

2

FY2025 UNION BUDGET: SECTORAL IMPLICATIONS

The government's sector-specific proposals largely pertain to (1) supporting rural and urban housing, (2) buybacks being taxed as dividends, (3) changes in capital gain taxation across multiple asset classes, (4) custom duty changes for multiples sectors, (5) higher outlay for clean energy, etc. At the same time, moderation in capex outlay is visible across the defense, fertilizers, railways, roads and urban infrastructure sectors.

Sectoral implications

Exhibit 14: Budget impact on sectors at a glance

Sector	Net impact	Proposals	Implications
Automobiles & Components			
	↔	Faster adoption and manufacturing of (hybrid and) electric vehicle in India - (FAME - India) incentive stood unchanged at Rs26.7 bn in FY2025BE when compared to interim budget.	Awaiting the modalities of FAME III scheme.
	↔	The budget outlay for production-linked incentive (PLI) scheme for automobiles and auto components to enhance manufacturing capabilities for advanced automotive products in India has remained unchanged at Rs35 bn in FY2025BE compared to interim budget.	There is no incremental benefit; however, it is positive for adoption of electric vehicles as the companies are incentivized to invest on new technologies, which could possibly lead to higher launches at better price.
	↔	The budget outlay for production-linked incentive (PLI) scheme for national program on advanced chemistry cell (ACC) battery storage for fostering competitive ACC battery set-up in the country has been pegged at Rs2.5 bn in FY2025BE with no change compared to interim budget.	While there is no incremental benefit, overall the move will aid in improving the adoption of electric vehicles by reducing the battery cost of the vehicles.
	↔	Capital expenditure outlay has been pegged at Rs11.1 tn, which is 3.4% of the GDP, which is unchanged when compared to interim budget.	The increase in capital expenditure on a yoy basis is likely to support the growth of CV segment demand.
	↑	Government revised income tax slabs and increased standard deduction limit to Rs75k from Rs50k for personal income in new tax regime resulting in lower income tax payouts.	The changes can possibly lead to maximum tax savings of Rs17.5k compared to previous new tax regime, which can aid in improvement in demand for entry-level vehicles.
	↑	Government has reduced the basic customs duty (BCD) and agriculture infrastructure development cess (AIDC) on precious metal imports such as platinum, palladium.	Precious metal content in ICE vehicles vary from 1-2% across the 2W, PV, CV and tractor segments and the reduction in BCD, AIDC will result in cost benefits for OEMs.
Banks/Diversified Financials/Insurance			
	↓	Import duty on gold decreased to 6% from 15% earlier.	Lower duties will lower INR gold price leading to lower loan growth and reduce margin of safety (LTV) on existing loans. As such, this change is negative for gold loan NBFCs.
	↑	Rs40 bn allocated for credit-linked subsidy scheme under PMAY-U up from Rs0 in FY2024 (Rs108 bn in FY2023).	Allocation is lower than expectations but can be revised upward later. Affordable housing focused HFCs with higher share of urban salaried borrowers are likely to benefit.
	↔	Qualifier attached on expenses that are admissible for calculation of tax for life insurers.	This effectively omits overriding commissions paid by life insurers from allowable expenses. IRDA removed commission caps in FY2023 and issue is less relevant now.
	↔	Changed the definition of 'special mutual fund' under section 50AA to include funds, which hold more than 65% of AUM in debt and money market instruments.	Category of funds that invest <35% in equities such as gold ETFs, silver ETFs, select FoFs will see LTCG reduce to 12.5% (if held for >2 years) from marginal tax rate.
	↓	Increase in STCG and LTCG on equity and equity-oriented mutual funds.	Higher tax burden on investors.
	↓	Realignment of LTCG across asset classes.	Debt mutual funds are taxed at marginal tax rate compared to 12.5% for other assets, making the product unattractive.
	↓	Increase in STT on sale of an option to 0.1% (from 0.0625%) of the option premium, and on sale of a futures to 0.02% (from 0.0125%) of the price.	Higher taxes will increase cost of trading and could impact volumes.
Building Products			
	↑	GoI has announced 30 mn additional houses under PMAY (urban and rural).	An increase in target for number of homes under PMAY in addition to higher allocation to both PMAY (U) and PMAY (G) bodes well for the building products demand.
	↑	PMAY (U) FY2025 budget raised to Rs302 bn (from Rs262 bn in FY2025 interim budget and Rs221 bn in FY2024RE), while PMAY (R) FY2025 budget raised to Rs545 bn (from Rs320 bn in FY2024RE, though unchanged versus FY2025 interim budget).	
	↑	Under PMAY 2.0, housing needs of ~10 mn urban poor and middle class families will be addressed with an investment of Rs10 tn (including Rs2.2 tn central assistance in next five years) along with a provision of interest subsidy to facilitate loans at affordable rates.	
Commercial Services			
	↑	One-month wage to new entrants in all formal sectors in three instalments up to Rs15,000.	Teamlease to partly benefit from clients, which hire freshers.
	↑	Linked to first-time employees. Incentive to both employee & employer for EPFO contributions in the specified scales for the first four years.	
	↑	Government will reimburse EPFO contributions of employers up to Rs3,000 per month for two years for all new hires.	
	↔	1,000 Industrial Training Institutes will be upgraded in hub and spoke arrangements with outcome orientation.	Teamlease to partly benefit with its NEEM program.
Construction Materials			
	↑	Provision of Rs150 bn for Andhra Pradesh.	Positive for cement producers such as KCP, Sagar Cement, NCL Industries, Ramco, Deccan, Dalmia.
	↑	Governmental support of Rs260 bn for road connectivity projects in Bihar.	Positive for cement producers such as Shree, Nuvoco, Dalmia.
	↑	Capital outlay on housing schemes such as PMAY (Urban+Rural) at Rs847 bn in FY2025BE (56% higher versus FY2024RE and 15% higher versus FY2023).	Higher relative increase in PMAY-G over PMAY-U signals the intent to support the rural economy. Capital outlay in these schemes should support cement demand in FY2025.
Consumer Durables & Apparel			
	↑	Under PMAY 2.0, housing needs of ~10 mn urban poor and middle class families will be addressed with an investment of Rs10 tn (including Rs2.2 tn central assistance in next five years) along with a provision of interest subsidy to facilitate loans at affordable rates. PMAY (U) FY2025 budget raised to Rs302 bn (from Rs262 bn in FY2025 interim budget and Rs221 bn in FY2024RE).	Positive for manufacturers of wires and electrical appliances
	↓	No major change in capex for key ministries such as railways, roads and defense	Negative for cables and wires manufacturers, as there was some expectation of upward revision from interim budget numbers.

Source: Union budget documents, Kotak Institutional Equities estimates

Exhibit 14 (contd): Budget impact on sectors at a glance

Sector	Net impact	Proposals	Implications
Consumer Staples/Retailing			
	↑	Reduction in custom duty on gold and silver, from 15% to 6%.	(1) Reduction in gold price by ~9% is likely to help revive demand, (2) competitive pressure would ease as unorganized / smaller players who were sitting on inventory gains would be significantly impacted by this inventory loss, (3) organized players such as Tanishq would be impacted by one-time inventory loss on gold metal loan but easing competitive pressure would help.
	↑	Measures to facilitate employment, skilling, and other opportunities for 41 mn youth over a 5-year period, with a central outlay of Rs2 tn. Provision of Rs1.48 tn for FY2025E for education, employment and skilling.	Positive for consumption sentiment and FMCG companies.
	↑	Pradhan Mantri Janjatiya Unnat Gram Abhiyan launched to improve the socio-economic condition of tribal communities. This scheme will cover 63K villages and will benefit 50 mn tribal people.	Key beneficiaries would be rural-dependent FMCG players such as Dabur, Colgate, Jyothy Labs and HUL.
	↑	Increased standard deduction by 50% to Rs75K and tweaked tax slabs under the new tax regime slightly, benefitting the salaried class.	Positive for consumption sentiment and FMCG companies.
Electric Utilities			
	↑	Renewable Energy–total allocation under MNRE increased to Rs188 bn (in comparison to Rs76 bn revised estimate in FY2024). Includes increased focus on solar energy–allocation of Rs100 bn (in comparison to Rs48 bn revised estimate in FY2024), and additional allocation of Rs62.5 bn for rooftop solar.	Higher allocation for renewable energy, with increased focus on solar generation and rooftop solar; limited allocation for wind energy.
	↑	Slightly higher focus on nuclear energy, including setting up Bharat Small Reactors, R&D of Bharat Small Modular Reactor, and R&D of newer technologies for nuclear energy. Allocation of Rs22 bn for nuclear power projects (in comparison to Rs17.9 bn revised estimate in FY2024).	Better focus would lead to nuclear capacity addition; India added new nuclear energy capacity (1.4 GW) in FY2024 after seven years, taking the installed nuclear capacity to 8.2 GW.
	↑	NTPC and BHEL to set up a JV for an 800 MW Advanced Ultra Super Critical thermal plant (estimated cost of ~Rs9 bn); government to provide support for the same.	More efficient and less polluting thermal plant, although the size (800 MW) is small in comparison to overall incremental power demand for the country. Tenure for construction in this case would be key for setting up more such plants (5-7 years for regular coal plants).
	↑	Policy for promoting pumped storage projects to be put in place for smooth integration of renewable energy.	Initial steps to set up energy storage, although the commercialization of such pumped storage projects could take long time. Little immediate impact.
Electronic Manufacturing Services			
	↓	Decline in basic custom duty to 15% from 20% for mobile chargers, Printed Circuit Board Assembly (PCBA) of cellular mobile phone and cellular mobile phone.	Slight negative for the likes of Dixon, which assemble PCBA and mobiles.
	↑	Increase in basic custom duty to 15% from 10% for PCBA for specified telecom equipment.	Potential positive for Dixon/Syrma, which make PCBAs for telecom equipment for likes of Airtel and Jio.
	↔	Outlay towards mobile PLI & IT PLI remains unchanged at Rs62 bn when compared with the interim budget.	In line with increased production expected in FY2025 for mobiles and start of production for IT hardware products in FY2025.
	↔	Outlay of Rs42 bn toward OSAT under Semiconductor PLI (unchanged when compared with interim budget).	Expected to be given to likes of Kaynes and Micron as they ramp up the capex spend on the OSAT plant.
Fertilizers & Agricultural Chemicals			
	↔	Fertilizer subsidy maintained at Rs1.64 tn for FY2025BE, unchanged from the interim budget.	Neutral for fertilizer industry.
	↑	Reduction of BCD on shrimp and fish feed to 5% as well as inputs used in their manufacture; also, reduction in duty on import of brood stock for shrimp.	Positive for aqua feed companies such as Godrej Agrovet, as farmer demand will increase and input costs will come down. India is not a major importer of finished feed.
	↑	The government has alluded to several measures to boost "productivity and resilience in agriculture," such as "transforming agricultural research, release of new varieties" of seeds, etc., but these seem to be rather long-term initiatives for the most part. However, the shrimp industry receives some benefits, and the Digital Public Infrastructure (DPI) initiative to land records could have interesting implications.	Positive for shrimp industry such as Avanti Feeds and Godrej Agrovet.
Hotels & Restaurants			
	↑	Promotion of tourism through development of new road corridors, and setting up of tourist centers (Orissa, Nalanda, Rajgir, etc.)	Promotion of tourism as a key focus for development augurs well for the hospitality sector including companies such as Lemon Tree and Indian Hotels.
	↑	Increased allocation for the AMRUT scheme.	Positive for players such as Ashoka Buildcon, KEC, KPTL and L&T to benefit, as they already have presence in these areas.
	↑	Sharp uptick in spending for PGCIL (IEBR) after a flat FY2024.	Positive for players such as KEC, KPTL and L&T to benefit, as they already have presence in these areas.
	↓	Meaningful decrease in allocation for Smart Cities Mission.	Negative for players such as KEC and L&T to benefit, as they already have presence in these areas.
	↓	Flat yoy spending (including IEBR) for the Metro and MRTS Projects.	Negative for KEC and Dilip Buildcon.
	↓	Flat outlay for NHAI (unchanged as compared to interim budget).	Indicates no extra support by the government to drive road capex, which has seen muted ordering in FY2024. Negative for the likes of GR Infra.
	↑	A roadmap for moving the 'hard to abate' industries from 'energy efficiency' targets to 'emission targets' to be formulated. Appropriate regulations for transition of these industries from the current 'Perform, Achieve and Trade' mode to 'Indian Carbon Market' mode to be put in place.	Positive for Thermax and Praj Industries.
	↑	Nuclear energy is expected to form a very significant part of the energy mix of Viksit Bharat. Government will partner with private firms for setting up Bharat Small Reactors, conduct research and development on Bharat Small Modular Reactors, and explore newer technologies for nuclear energy. Decline in customs duty on minerals such as lithium, copper and cobalt, which are critical for nuclear energy, renewable and other sectors, to give a fillip to the energy transition.	Positive for equipment and EPC companies such as BHEL, L&T, HCC.
	↑	Energy transition pathway to support pump storage projects in providing round-the-clock energy. Plus government support for ultra super critical thermal power project.	Positive for BHEL.
	↔	9% increase in defense capital outlay with Aircraft procurement (Rs403 bn), Naval fleet (Rs238 bn) and other equipment accounting for 74% of spend. Defense capex spend is unchanged as compared to interim budget.	Naval fleet procurement capex down 2% yoy which is slight negative for likes of Cochin Shipyard. Majority of increased capex spend is toward aircraft equipment.
Internet Software & Services			
	↔	TDS rate on e-commerce operators is proposed to be reduced from 1% to 0.1%. Moreover, credit of TCS is proposed to be given in the TDS to be deducted on salary.	Sellers on e-commerce portals to benefit with easing working capital requirements.
	↑	Withdrawal of 2% equalization levy on consideration received or receivable for e-commerce supply or services, on or after August 1, 2024.	Positive for foreign digital companies such as Amazon, Flipkart.
IT Services			
	↔	Buyback of equity shares to be taxed in the hands of shareholders instead of company proposing buyback. The entire proceeds received from tendering shares in buyback will be taxed in the hands of recipients of money as dividend at the applicable tax rate. Cost of acquisition of shares will be treated as capital loss and offset against future capital gains. The budget proposal makes buyback of equity shares unattractive.	Large IT companies return 70-100% of FCF to shareholders through a combination of dividend and share buyback. TCS and WPRO use mix of buyback and dividends. Among these, WPRO has the highest dependence on buyback as part of its capital return policy. Companies will exclusively use dividends for return of capital in future.

Source: Union budget documents, Kotak Institutional Equities estimates

Exhibit 14 (contd): Budget impact on sectors at a glance

Sector	Net impact	Proposals	Implications
Metals & Mining			
	↑	Removal of Basic Customs Duty (BCD) on ferro nickel from 2.5% earlier.	Marginally positive for stainless steel producers such as Jindal Stainless, who can diversify nickel sourcing from non-FTA nations.
	↑	BCD has been reduced to Nil on copper ore/concentrate from 5% earlier.	Positive for Hindalco since its imports concentrate for its copper refinery.
	↓	Custom duty (including cess) on silver reduced to 6% from 15%.	Hindustan Zinc (HZ), which sells all its silver in domestic markets, will be impacted due to ~8% lower domestic silver prices. Estimated EBITDA impact to be ~Rs5 bn (~2% of HZ EBITDA FY2026E).
Oil, Gas & Consumable Fuels			
	↔	Capital support to oil marketing companies removed.	FY2024 budget had provided for Rs300 bn for capital support to OMCs for green energy, net zero and energy security. This support was cut to Rs150 bn in FY2025 interim budget and has now been removed completely. In our view, with improved financial situation of OMCs, and record profitability during FY2024, there is no need for any capital support, as such. Removal of capital support should not be seen as negative for OMCs, in our view.
	↓	LPG subsidy estimates unchanged from interim budget.	LPG subsidy unchanged at Rs15 bn. Based on BPCL's 1Q disclosure, OMC's 1Q under-recoveries were nearly Rs100 bn. With LPG prices likely stronger in 2H, under-recoveries will likely rise if LPG prices are not increased. We note that for LPG losses, OMCs were not compensated in FY2021 and FY2022. One-time grant was given only in FY2023 when they were in distress. Unlikely OMCs will be fully compensated for LPG losses this year, but government can come with similar one-time grant if OMCs' fiscal position becomes weaker.
	↓	No cut in excise duty on CNG.	There was an expectation of cut in excise duty on CNG to improve competitiveness versus petrol/diesel. However, there has been no cut in excise duty and could be seen as negative for CGDs (IGL/MGL).
Pharmaceuticals			
	↓	Any expenses incurred due to settlement of proceedings initiated in relation to a contravention under any law for the time being in force, would not be eligible for tax deduction.	Minor negative for pharma companies as settlement expenses will not be tax deductible.
	↑	Three cancer drugs, namely, Trastuzumab Deruxtecan, Osimertinib and Durvalumab would be fully exempt from custom duties (10% earlier).	Minor positive for select MNC pharma companies such as Astrazeneca.
	↑	Full basic custom duty exemption on polythene and steel alloys used for manufacturing implants and artificial body parts.	Minor positive for hospitals.
	↑	Basic custom duty reduced to 5/7.5% in FY2025/26 (15% earlier) for X-ray tubes and flat panel detectors, used in the manufacturing of X-ray machines.	Minor positive for Blue Jet, as well as other radiology-focused diagnostic companies.
Real Estate			
	↔	Rationalization of long-term capital gains tax on real estate: Indexation benefit removed; tax rate reduced to 12.5% from 20% with immediate effect (grandfathering for properties held before 2001).	End-users: Limited impact on buyers who purchase homes for personal consumption; Investors: Worse off under the new regime in case of lower underlying price appreciation (<10% on average), and shorter holding period, and vice versa.
	↑	Government will encourage states to lower the stamp duty, while also considering lower duties for women buyers.	Lowering of stamp duties would reduce the overall acquisition cost in high stamp duty states. Could benefit buyers in cities such as Gurgaon, Chennai, Mumbai and Kolkata.
	↑	Rs10 tn allocation for urban housing (including Central Government assistance of Rs2.2 tn over the next 5 years).	This would further government's housing for all initiative.
	↔	Income from letting out of a house shall be charged under the head 'income from house property' only, and not 'profits and gains of business or profession' .	A tighter scrutiny to improve the tax collection under the former category, as opposed to the lower tax rate latter category.
Specialty Chemicals			
	↑	Increase in BCD on ammonium nitrate from 7.5% to 10%.	Positive for Deepak Fertilisers.
	↔	Steep increase in BCD on laboratory chemicals from 10% to 150%.	Positive for lab chemical manufacturers in India, but these are mostly unlisted companies. On the other hand, the move could lead to an increase in input costs for CDMO companies.
Telecommunication Services			
	↔	Receipts from communication services for FY2025BE pegged at Rs1.2 tn (same as interim budget) but higher than FY2024RE at Rs935 bn (and Rs648 bn in FY2023).	Sharp yoy increase in telecom receipt is puzzling and looks difficult to achieve, in our view. FY2024 was boosted by spectrum allocation to BSNL (dual impact of higher receipts and higher outgo) and if the target is to be met in FY2025, it would be largely on account of support to BSNL. The total annual receipts from the recent spectrum auction would be low at ~Rs11 bn. Overall collections on deferred spectrum would decline on likely lower prepayments (~Rs80 bn in FY2025 versus ~Rs164 bn yoy) and there would only be a marginal offset from higher license fee collections from recent tariff hikes.
	↓	Budgetary support to BSNL at Rs829 bn in FY2025BE (same as interim budget but higher versus Rs647 bn in FY2024RE).	A higher budgetary support to revive BSNL could led to higher competitive intensity in the sector, especially at the lower end. Further, any potential revival of BSNL as the third viable telco, could potentially be negative for Vodafone Idea.
Transportation			
	↑	Funds to be provided for essential infrastructure such as water, power, railways and roads in Kopparthy node on the Vishakhapatnam-Chennai Industrial Corridor.	Positive for Adani Ports' assets in Gangavaram and Chennai/Ennore ports.
	↑	Extends the period for exporting goods imported for repairs from six months to one year. Additionally, the time-limit for re-importing goods for repairs under warranty is increased from three years to five years, to benefit domestic aviation and ship MRO.	Positive for GMR Airports.

Source: Union budget documents, Kotak Institutional Equities estimates

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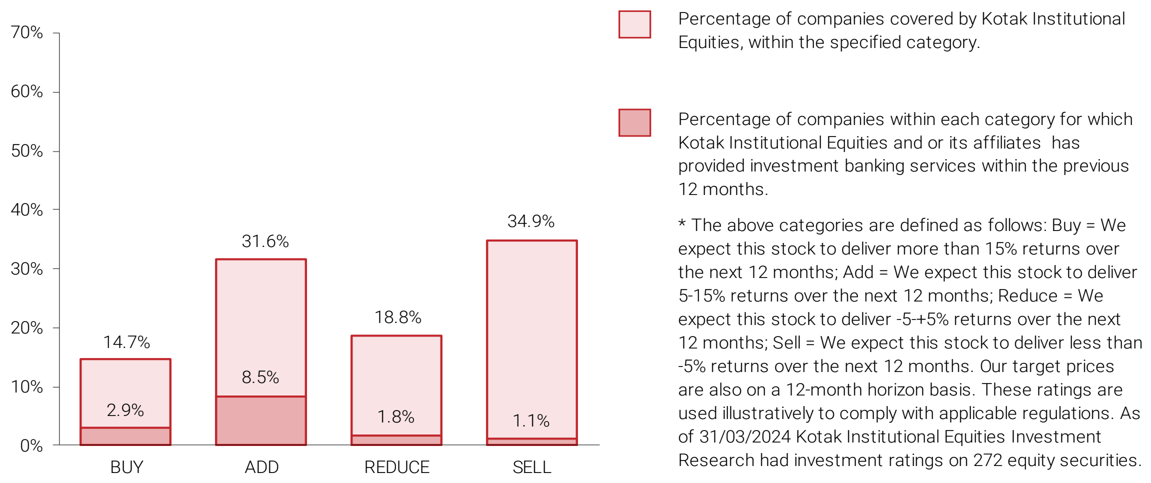

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Source: Kotak Institutional Equities

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