BUDGET, ECONOMY AND MARKETS

February 2025

SBI FUNDS MANAGEMENT LIMITED

UNION BUDGET 2025-26

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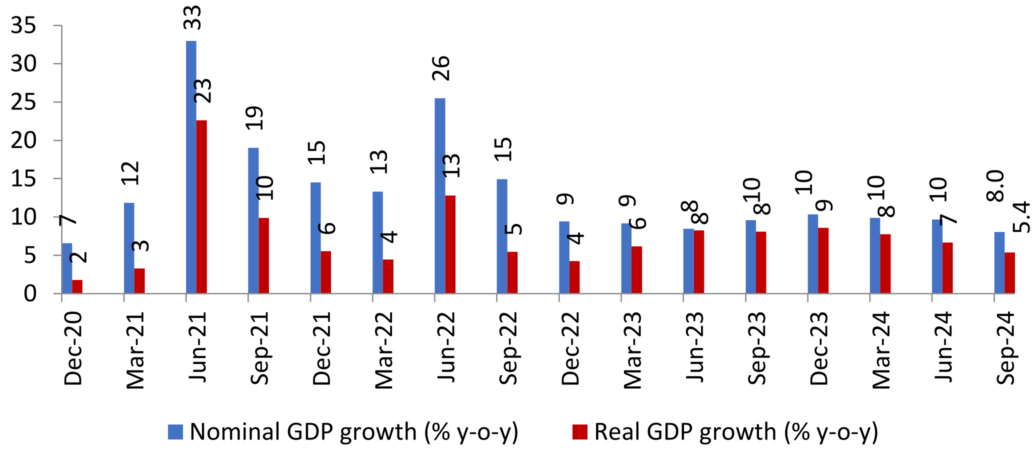
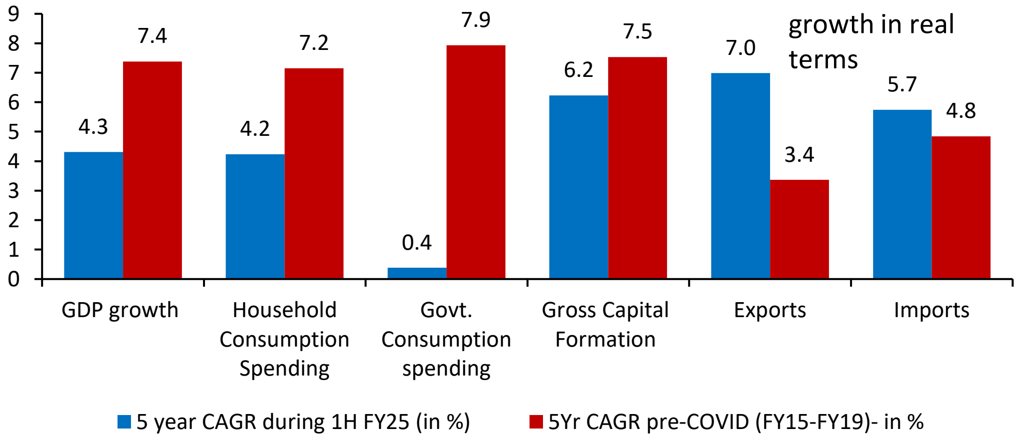
Backdrop ahead of 2025 Union Budget

Growth needs policy support



Household spending is the weakest link in overall growth



But for the income tax collection, weak growth has dented the tax buoyancy for all other tax items

Cumulative Apr -Dec 2024	% y-o-y	Required growth as per FY25 Final Budget and FY24 Actuals
Net Tax Revenue	6.5	11.0
Gross Tax Revenue	10.8	10.8
Income Tax	22.2	13.1
Corporate Tax	2.7	13.0
Custom	7.6	5.8
Excise duties	-1.4	5.0
GST	10.1	11.6
Total Direct Tax	12.2	13.1
Total Indirect Tax	7.4	9.4

- Addressing a cyclical slowdown early on should be the top priority in this year's budget.
- Over the past two years, monetary policy has focused primarily on inflation control and macro-prudential measures, while fiscal goals were hinged at consolidation and tax buoyancy. Growth has taken a backseat.
- Growth needs policy support.
- Additionally, 1H FY25 highlights that private sector is not fully ready to take growth baton and the moderation in growth negatively impacts fiscal dynamics through reduced tax revenues.
- Consumption, in particular, has emerged as the most vulnerable area, which requires immediate attention.

Source: Election Commission, RBI, indiabudget.gov.in, SBIFM Research

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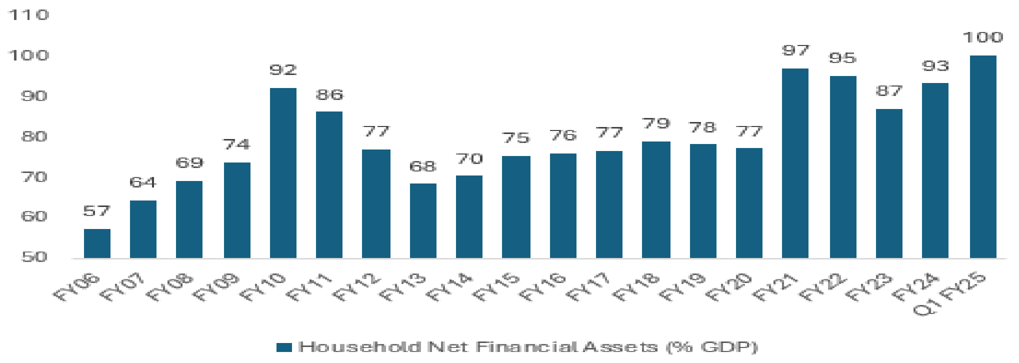
India's middle class need better disposable income

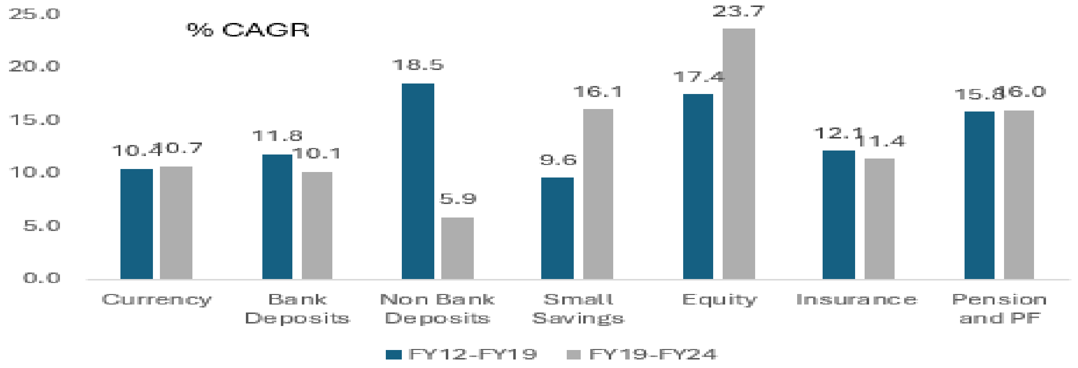
Plethora of government schemes for low-income households

Name of Scheme	No. of Beneficiaries (in mn)
Pradhan Mantri Garib Kalyan Anna Yojana (PMGKAY)	750
Mahatma Gandhi National Rural Employment Guarantee Programme	90
Jal Jeevan Mission (JJM) / National Rural Drinking Water Mission	121
Pradhan Mantri Kisan Samman Nidhi	115
Awas Yojana	32
Samagra Shiksha Abhyan	156
Saksham Anganwadi and POSHAN 2.0	99
Deendayal Antyodaya Yojana-National Rural Livelihood Mission Ajeevika	102
Pradhan Mantri Poshan Shakti Nirman (PM POSHAN)	118
Ujjwala Scheme	90
Ayushman Bharat - Pradhan Mantri Jan Arogya Yojana (PMJAY)	6.9
PM Surya Ghar Muft Bijli Yojana	10

Upper income supported via wealth effect



Equity market gains post COVID has led the net financial assets in India to run at all time high



- Low-income sentiments are improving owing to combined effect of a) stabilizing price pressures b) modest positive rub off from welfare schemes c) some positive flow of income owing to pick-up in construction and infrastructure activities.
- Affluent class has gained from the wealth effect from equity market gains.
- The middle-income class (forms ~1/3rd of total Indian households) is most affected.

Source: Media resources, government websites, SBIFM Research

Key takeaways

- Gross Fiscal Deficit target at 4.4% of GDP in FY26, from 4.8% in FY25. The fiscal deficit for the states is expected to remain around 2.9-3.0% in both FY25 and FY26. When adjusting for the capex loan from the Centre to the states (approximately 0.4% of GDP), India's overall government deficit is expected to decrease from 7.3-7.4% in FY25 to 7% by FY26.
- Income tax buoyancy helped offset other areas of revenue shortfall in FY25. FY25 Capex estimates revised downward by Rs. 900 billion.
- But for an optimism in income tax projections, FY26 fiscal arithmetic looks largely credible and achievable.
- The government expects dividend receipts to rise to Rs. 3.3 trillion in FY26, up from Rs. 2.9 trillion in FY25, suggesting an expectation of over Rs. 2 trillion in realized profits from the RBI.
- As tax buoyancy peaks, government pares down its expenditure growth to achieve fiscal consolidation, skew towards capex remains. The Centre's expenditure is expected to moderate to 14.2% of GDP in FY26, compared to an anticipated 14.6% in FY25.
- Capex through budgetary resources is budgeted to grow by 10%, an improvement over the revised 7% growth forecast for FY25 (3.1% of GDP), while revenue expenditure is projected to rise by 6.7% in FY25 (compared to a revised estimate of 5.8% year-on-year).
- At 11% of GDP, the Centre’s revenue expenditure is among the lowest since the 1990s (excluding FY17-19).
- Within the infrastructure space, urban development sees greater focus. In the rural area, housing and tap water are the key spend areas.
- The highlight of the budget was an attempt to boost consumption by reducing the tax incidence on middle class. Tax revisions are expected to result in an aggregate tax saving of Rs. 1.1 trillion (0.3% of GDP) with most of the benefits accruing to households with income ranging from Rs. 10-50 lakhs creating a positive impetus for discretionary consumption demand.
- Future roadmap lays debt consolidation to 50+/- 1% of GDP by FY31 vs. 57% in FY25. We estimate this target can be achieved with either 10.5% nominal growth and 4% centre’s deficit or 11% nominal growth and no further fiscal consolidation in coming years.
- Gross G-sec supply marginally higher than expectation. but RBI’s OMO will provide a support. The focus from the debt market perspective would be more on potential RBI actions going forward.

Source: indiabudget.gov.in, SBIFM Research

Budget in numbers: Fiscal consolidation continues; sharp reduction in revenue deficit

	Rs. billion				% growth				% GDP			
	FY24	FY25BE	FY25RE	FY26BE	FY24	FY25BE	FY25RE	FY26BE	FY24	FY25BE	FY25RE	FY26BE
1. Total Non Debt Receipts (A+B+C)	27,888	32,072	31,470	34,964	13.6	16.4	12.8	11.1	9.4	9.8	9.7	9.8
A. Net tax revenue	23,273	25,835	25,570	28,374	10.9	11.2	9.9	11.0	7.9	7.9	7.9	7.9
Gross tax revenue	34,655	38,402	38,535	42,702	13.5	11.7	11.2	10.8	11.7	11.7	11.9	12.0
Direct tax (Income + Corporate Tax)	19,558	22,070	22,370	25,200	17.9	13.5	14.4	12.7	6.6	6.7	6.9	7.1
Corporate tax	9,111	10,200	9,800	10,820	10.3	10.5	7.6	10.4	3.1	3.1	3.0	3.0
Income tax	10,447	11,870	12,570	14,380	25.4	16.1	20.3	14.4	3.5	3.6	3.9	4.0
Indirect Tax (Customs+Excise+ GST+Other)	14,961	16,186	16,023	17,351	8.3	9.4	7.1	8.3	5.1	4.9	4.9	4.9
Custom duties	2,331	2,377	2,350	2,400	9.3	8.7	0.8	2.1	0.8	0.7	0.7	0.7
Excise Duties	3,054	3,190	3,050	3,170	-4.3	5.1	-0.1	3.9	1.0	1.0	0.9	0.9
GST	9,572	10,619	10,619	11,780	12.7	11.0	10.9	10.9	3.2	3.2	3.3	3.3
B. Non-tax Revenue	4,018	5,457	5,310	5,830	40.8	45.2	32.2	9.8	1.4	1.7	1.6	1.6
of which dividend/profit transfer from RBI and other FIs, PSUs	1,709	2,891	2,893	3,250	71.0	87.3	69.3	12.3	0.6	0.9	0.9	0.9
of which receipts from Economic services	1,517	1,821	1,741	1,588	25.1	19.2	14.7	-8.8	0.5	0.6	0.5	0.4
C. Non Debt Capital Receipts	598	780	590	760	-17.2	39.3	-1.3	28.8	0.2	0.2	0.2	0.2
of which Disinvestment	331	500	330	470	-28.1	66.7	-0.4	42.4	0.1	0.2	0.1	0.1
2. Total Expenditure (A+B)	44,434	48,205	47,165	50,653	6.0	7.3	6.1	7.4	15.0	14.7	14.6	14.2
A. Revenue Expenditure	34,943	37,094	36,981	39,443	1.2	4.8	5.8	6.7	11.8	11.3	11.4	11.0
B. Capital Expenditure	9,492	11,111	10,184	11,211	28.3	16.9	7.3	10.1	3.2	3.4	3.1	3.1
Fiscal Deficit	16,546	16,133	15,695	15,689								
Nominal GDP	2,95,357	3,27,846	3,24,114	3,56,979	9.6	10.5	9.7	10.1				
Fiscal Deficit (as % of GDP)	5.6	4.9	4.8	4.4								
Revenue deficit (as % of GDP)	2.6	1.8	1.9	1.5								

Source: indiabudget.gov.in, SBIFM Research

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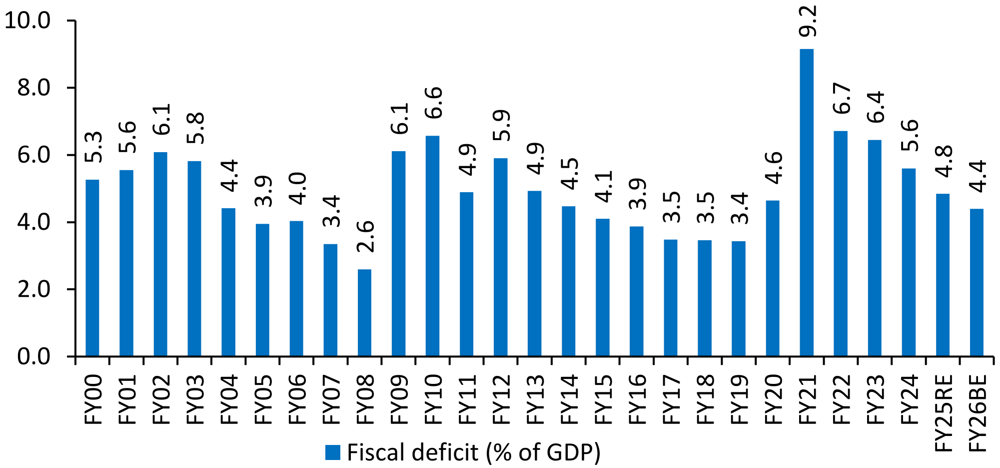
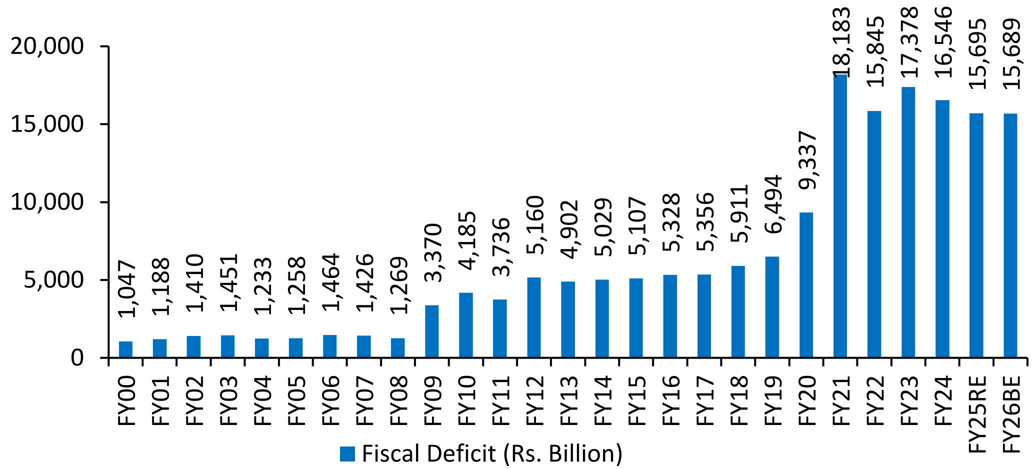
2025-26 final Union budget sees a quick pace of fiscal consolidation

FY26 fiscal deficit budgeted to consolidate to 4.4% vs. 4.8% as per FY25 RE



FY26 absolute fiscal deficit remains flat compared to FY25 RE

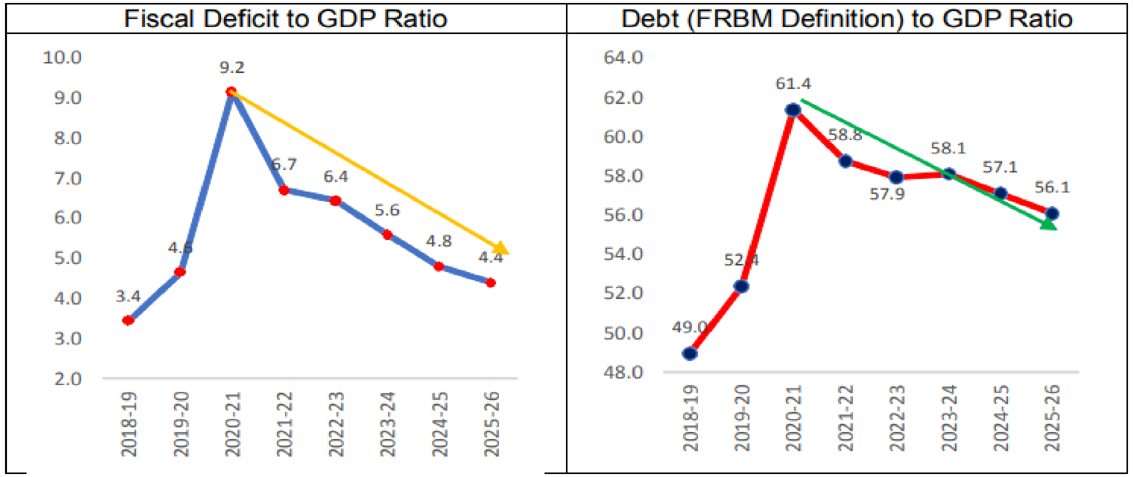


- Central government FY25 revised estimate for fiscal deficit was lower at 4.8% of GDP (vs. 4.9% BE)
- FY25 revised fiscal space was lower by Rs.0.4 trillion compared the budgeted target.
- Fiscal deficit is budgeted to consolidate by 40bps to 4.4% in FY26 (vs. 80bps consolidation in FY25).
- In absolute terms, FY26 fiscal deficit will remain flat.

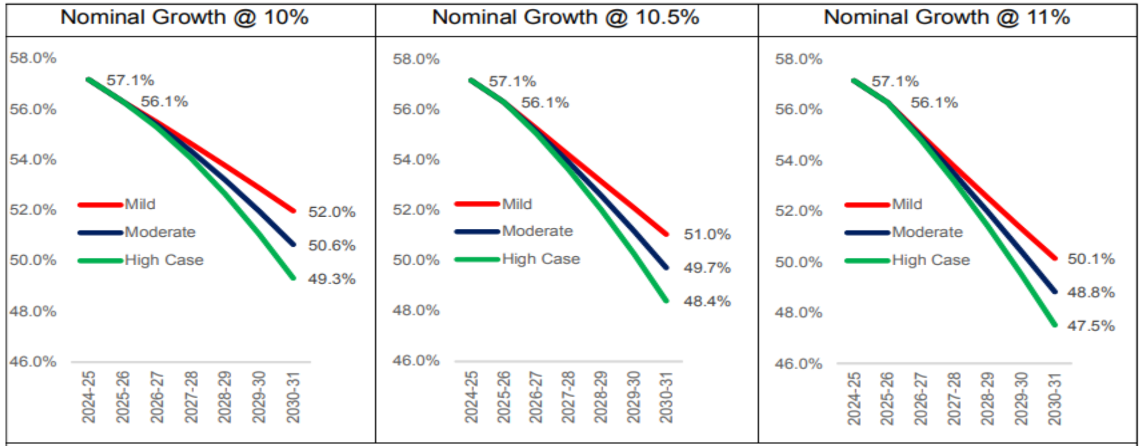
Source: indiabudget.gov.in, SBIFM Research

Government targets a Central govt debt reduction to 50% by FY31

Debt to GDP to be prioritised as the fiscal anchor by the government



Case scenarios laid out by the government

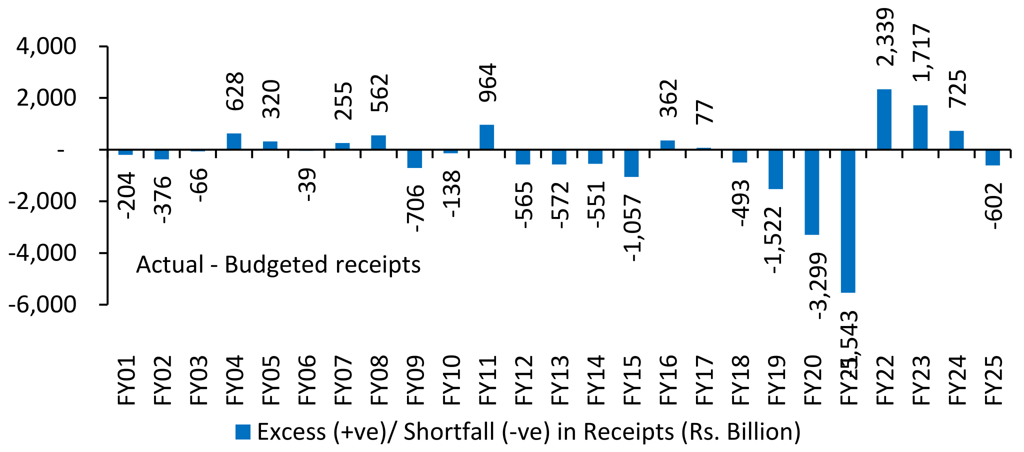


Note: Mild/Moderate/High case refer to degrees of fiscal consolidaton.

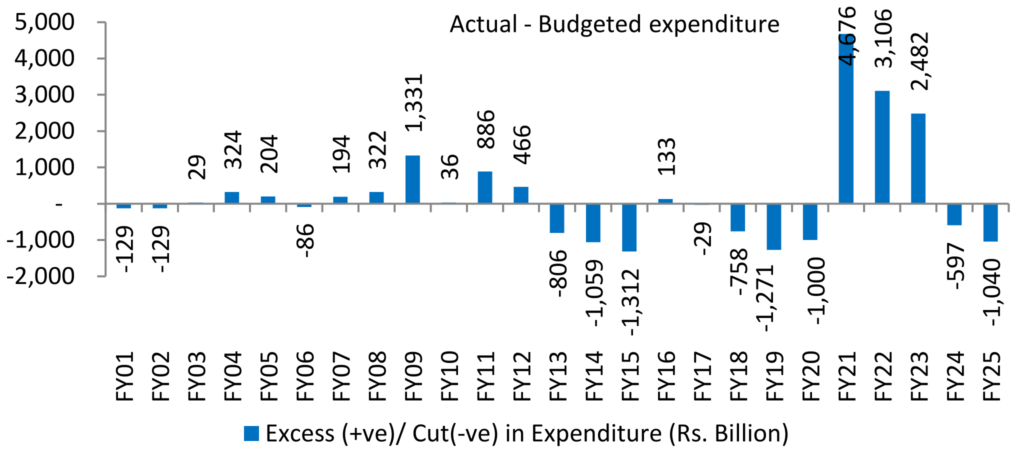
- In its FRBM document, the government has laid out that it will prioritize debt to GDP ratio as the fiscal anchor which is in line with the global thinking.
- Further, it has also laid out the desire to attain the debt to GDP level of about 50+1% by 31st March 2031.
- The graphs on the left depict the various case scenario laid out by the government. We work backward and estimate that if we assume Nominal growth at 10.5% until FY31 and fiscal deficit to consolidate to 4.0% next year and stay put thereafter, government's debt could reduce to 50-51% by FY31.
- Hence, government future debt reduction goals can be met with 4% fiscal deficit between FY27-FY31 and 10.5% nominal growth.
- 4% Centre's deficit alongside an assumption of 3% for state is in line with the desired levels laid out for S&P for rating upgrade.
- However, if India is able to clock nominal growth at 11%, India can attain its debt reduction without any further consolidation in deficit (i.e. deficit being stuck to 4.4%).

FY25 receipts and expenditure undershot budgeted targets

Government undershot budgeted revenue target by Rs. 0.6 trillion in FY25 (based on revised estimates)



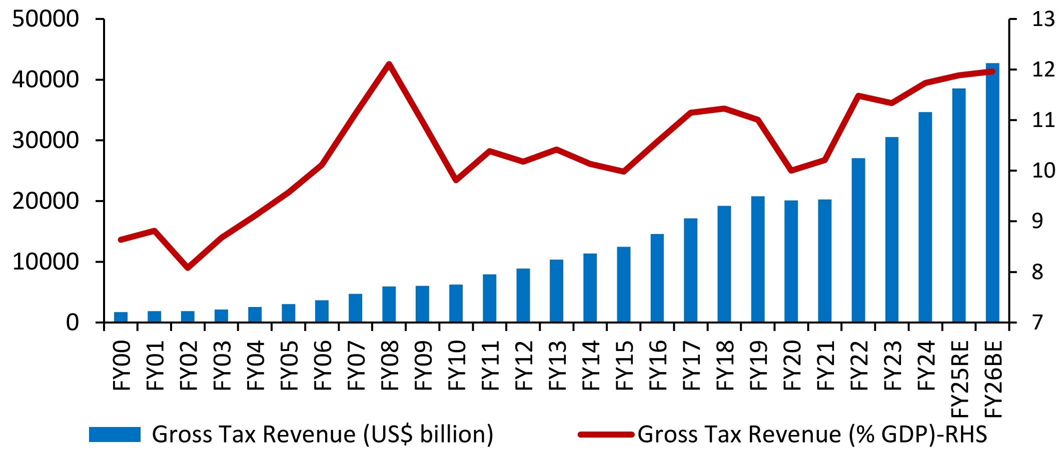
Government undertook lower-than-budgeted expenditure in FY25 by INR 1tn



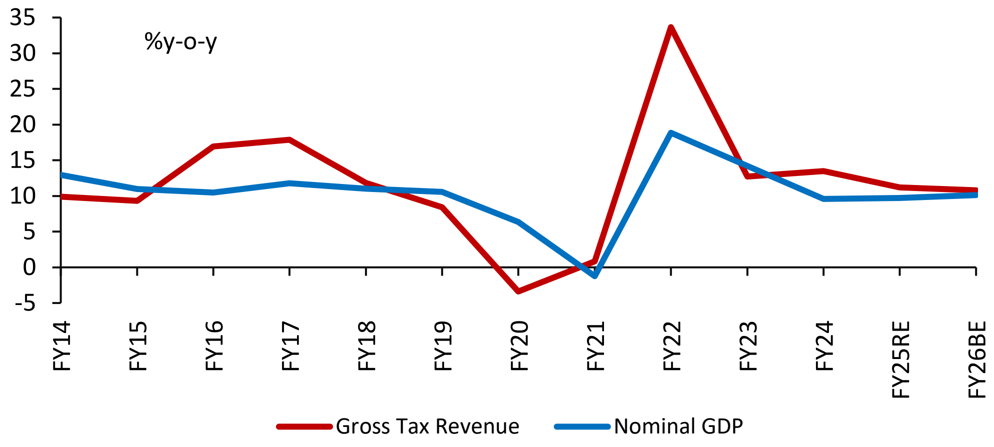
- In FY25, Centre government expenditure undershot by Rs. 1 trillion mainly due to undershoot in capex target by ~INR0.9 trillion.
- Revised estimates of total expenditure for FY25 at Rs. 47.2 trillion, is lower than the budgeted estimate of Rs. 48.2tn.
- Revised estimate of capital expenditure for FY25 is Rs.10.2tn, lower than budgeted amount of 11.1tn. Revenue expenditure was broadly in line with budgeted target.
- Overall revised receipts fall short of the budgeted plans by Rs. 600 billion, largely due to a shortfall in disinvestment targets (Rs. 330 billion vs. the budget estimate of Rs. 500 billion) and higher tax devolution to states (up by Rs. 400 billion). However, the shortfall in corporate tax and other indirect taxes is more than offset by strong income tax collections.

FY26 Fiscal arithmetic looks credible

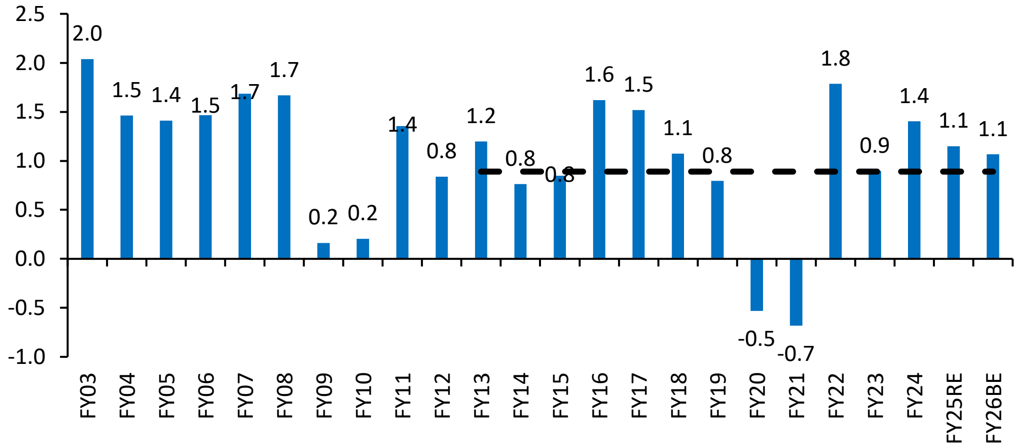
FY26 gross tax revenues budgeted to increase by Rs. 4tn at 12% of GDP



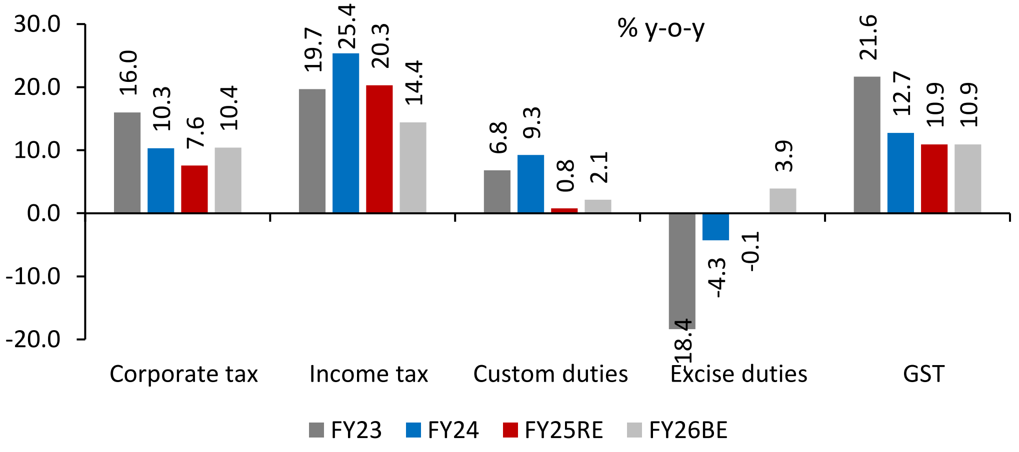
FY25 Nominal GDP (10%) assumption looks reasonable; tax buoyancy has also been kept at reasonable levels



FY26 tax buoyancy is expected at 1.1 (marginally higher than last 10yr average)

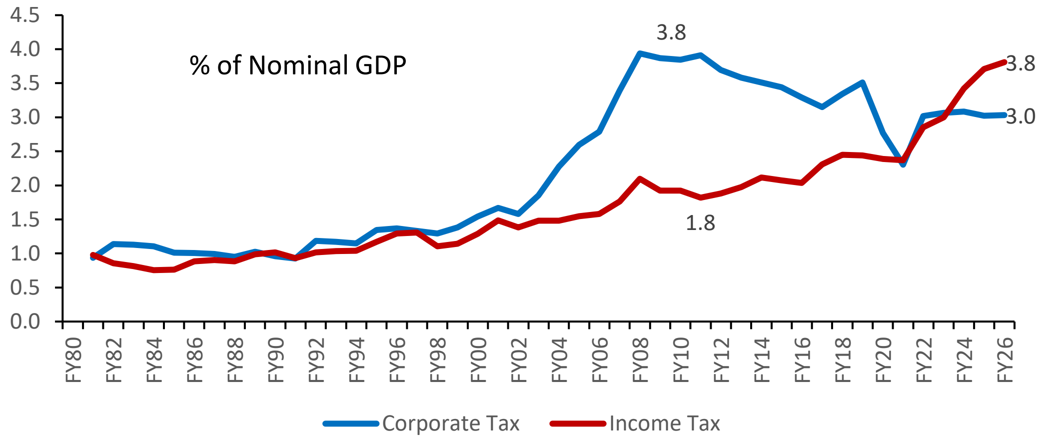


Budget expects healthy collection for direct taxes and GST while customs and excise could be muted in FY26 too



Income tax collection surpasses the corporate tax collection meaningfully

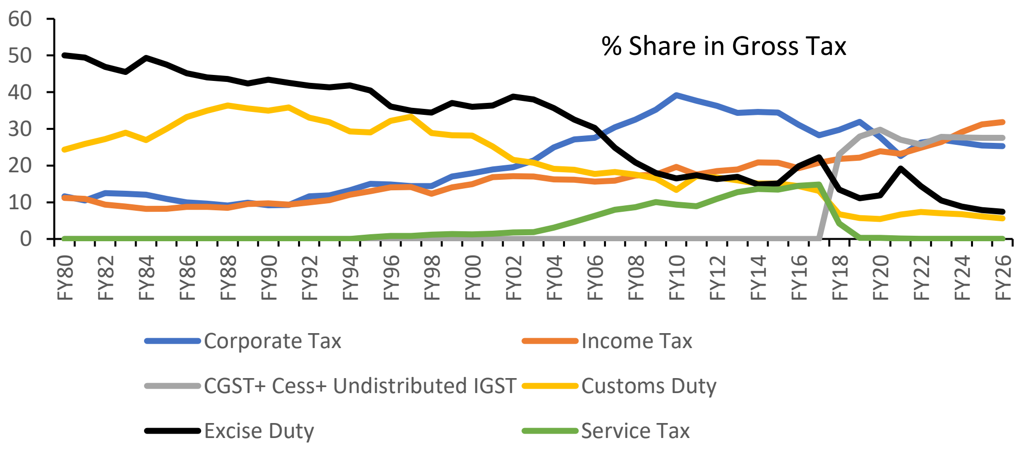
Income tax (As a % of GDP) has crossed corporate tax



In many other countries, income tax forms the lion's share of overall tax revenue

OECD Average Taxes	% of GDP
Total Tax Revenue	**34.2%**
Personal Income Tax (incl capital gains)	8.3%
Corporate Tax	3.3%
Social Security Contribution Tax	9.0%
Payroll Taxes	0.5%
Taxes on property	1.9%
Taxes on Goods & Services	10.7%
Other Taxes	0.5%

Income tax accounts for 32% of Centre's tax



Anatomy of taxes in India

% GDP	FY18	FY20	FY25
State + Centre Combined Tax (1+4)	**17.4**	**16.1**	**19.0**
Tax break-up from the source of collection			
1. Centre's Gross Tax	11.2	10.0	11.8
2. Centre's Net Tax	7.3	6.7	8.0
3. State's share in Central Taxes	3.9	3.2	3.8
4. State's Own Tax Revenue	6.2	6.1	7.1
Tax break-up from the final user base			
2. Centre's net tax	7.3	6.7	8.0
5. States' tax (3+4)	10.2	9.3	11.0
Break-up of tax into direct and indirect			
Direct Tax	5.8	5.2	6.8
Indirect Tax	11.6	10.9	12.1

Source: Budget documents, OECD, NB:OECD includes 38 countries, Data as on end CY21

Revision under Income Tax Slabs proposed in Union budget 2025

Existing Tax Structure under New Income Tax regime		
Salary Range	**Income Tax rate**	**Comment**
<Rs0.3mn	Nil	Income up to Rs0.7mn get a rebate of Rs25,000 making the effective tax 0
Rs0.3mn-Rs0.6mn	5% above Rs0.3mn	
Rs0.6mn-Rs0.9mn	Rs15,000 + 10% above Rs0.6mn	
Rs0.9mn-Rs1.2mn	Rs45,000 + 15% above Rs0.9mn	
Rs1.2mn-Rs1.5mn	Rs90,000 + 20% above Rs1.2mn	
>Rs1.5mn	Rs0.15mn + 30% above Rs1.5mn	

Tax structure proposed under New Income Tax regime in 2025 Union budget		
Salary Range	**Income Tax rate**	**Comment**
<Rs0.4mn	Nil	Tax rebate in such a way that Income up to 12 lakh pays no taxes
Rs0.4mn-Rs0.8mn	5% above Rs0.4mn	
Rs0.8mn-Rs1.2mn	Rs20,000 + 10% above Rs0.8mn	
Rs1.2mn-Rs1.6mn	Rs60,000 + 15% above Rs1.2mn	
Rs1.6mn-Rs2.0mn	Rs1,20,000 + 20% above Rs1.6mn	
Rs.2.0mn- Rs. 2.4mn	Rs2,00,000 + 25% above Rs2.0mn	
>Rs2.4mn	Rs3,00,000 + 30% above Rs2.4mn	

Savings under new income tax slabs proposed in the union budget

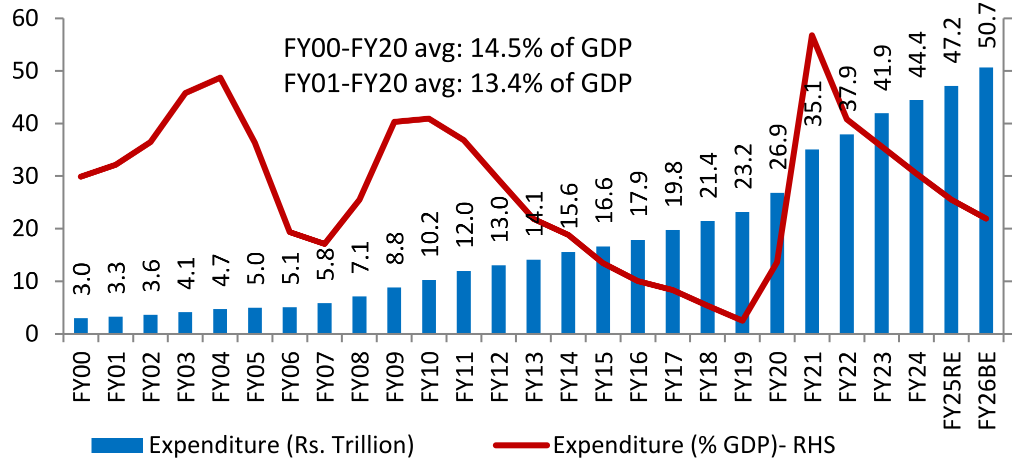
Income	Tax on Slabs and rates		Benefit of	Rebate benefit	Total Benefit	Tax after rebate Benefit
	Present	Proposed	Rate /Slab	Full upto Rs 12 lacs		
8 lac	30,000	20,000	10,000	20,000	30,000	0
9 lac	40,000	30,000	10,000	30,000	40,000	0
10 lac	50,000	40,000	10,000	40,000	50,000	0
11 lac	65,000	50,000	15,000	50,000	65,000	0
12 lac	80,000	60,000	20,000	60,000	80,000	0
16 lac	1,70,000	1,20,000	50,000	0	50,000	1,20,000
20 lac	2,90,000	2,00,000	90,000	0	90,000	2,00,000
24 lac	4,10,000	3,00,000	1,10,000	0	1,10,000	3,00,000
50 lac	11,90,000	10,80,000	1,10,000	0	1,10,000	10,80,000

- The highlight of the budget was an attempt to boost consumption by reducing the tax incidence on middle class.
- Income tax structure has been revised in such a way that income below Rs. 12 lakh per annum will be taxed at nil (vs. Rs. 7 lakh previously). The tax structures has also been revised in a way that individuals with income above Rs 12 lakhs see a lower annual tax incidence ranging from an annual savings of Rs. 80000-Rs.1.1 lakh per person. This is expected to result in an aggregate tax saving of Rs. 1.1 trillion (0.3% of GDP) with most of the benefits accruing to households with income ranging from Rs. 10-50 lakhs creating a positive impetus for discretionary consumption demand.

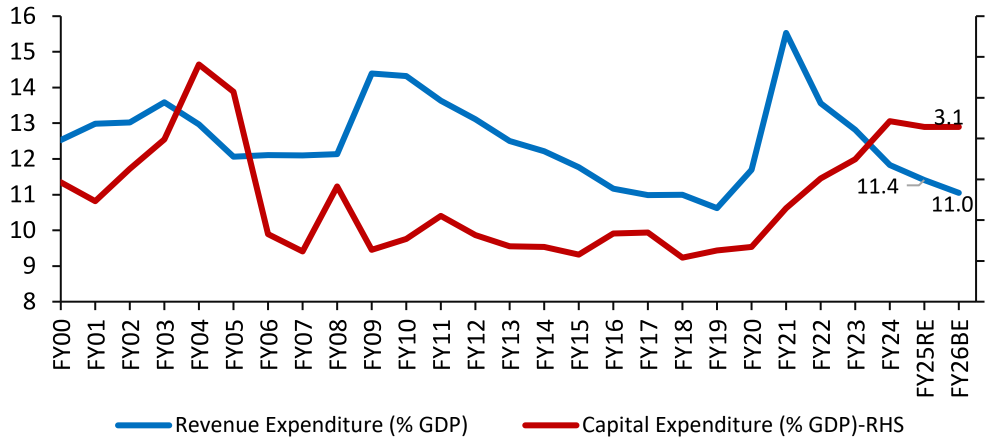
Source: Income tax department, https://www.hindustantimes.com/india-news/income-tax-impact-on-companies-on-union-budge-how-much-will-you-save-under-new-income-tax-slabs-proposed-in-budget-2025-101738393860024.html, SBIFM Research

FY26 Revenue expenditure budgeted to grow by INR 2.5tn vs. FY25 RE; still low

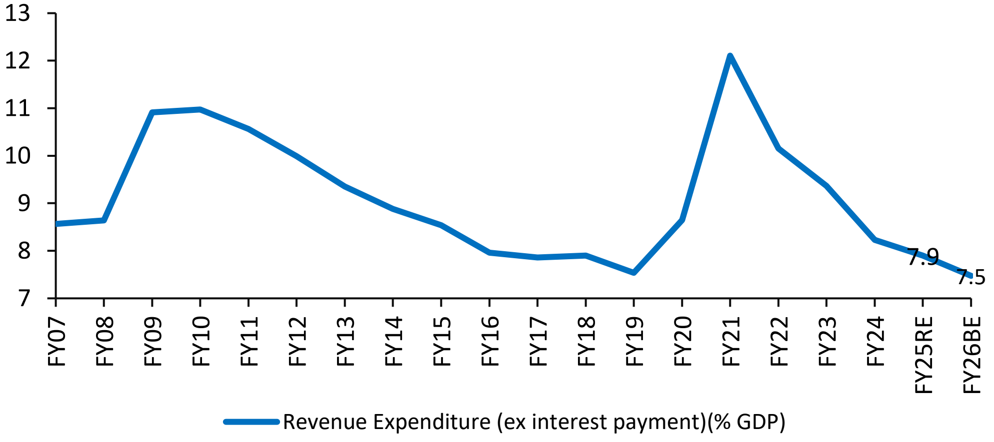
FY26 expenditure target moderates to 14.2% of GDP vs. 14.6% in FY25 RE



FY26 capex remain flat at 3.1% of GDP; revex moderates (11% of GDP in FY26 BE vs. 11.4% in FY25 RE)



Revenue expenditure (ex interest payment) moderates to 7.5% of GDP in FY26

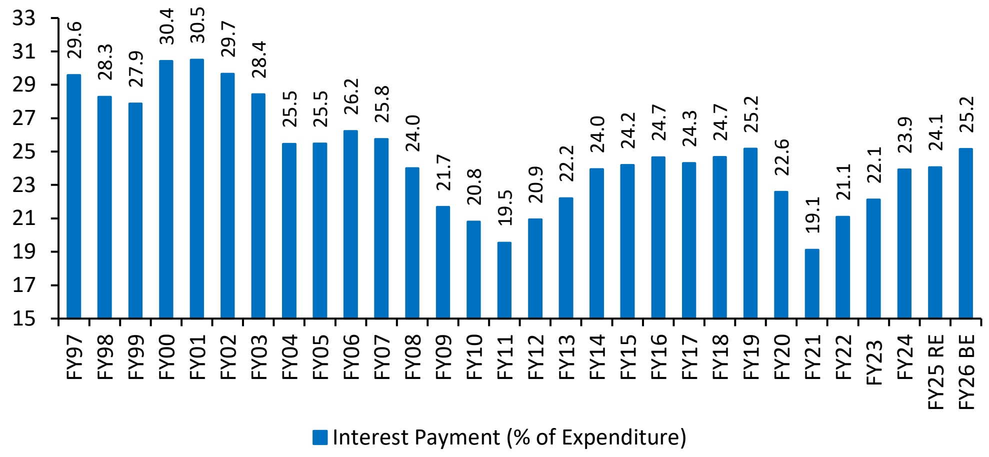


- Central government total expenditure is budgeted to grow at 7.4% vs. a likely 6.1% in FY25. Hence Centre's spending would be much lower than nominal growth in the economy.
- Adjusting the interest outgo, fiscal impulse reduces further.

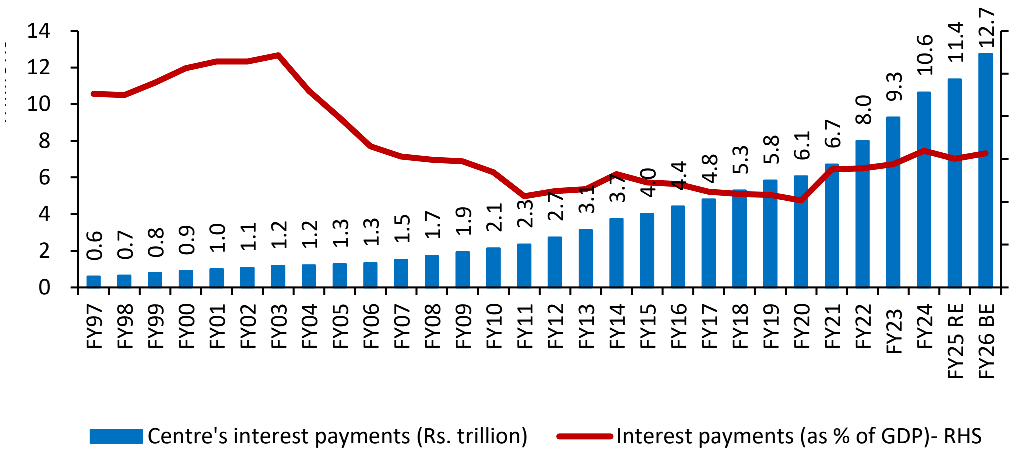
Source: indiabudget.gov.in, SBIFM Research

Interest expenses continue to rise; Subsidies outgo estimates stay flat

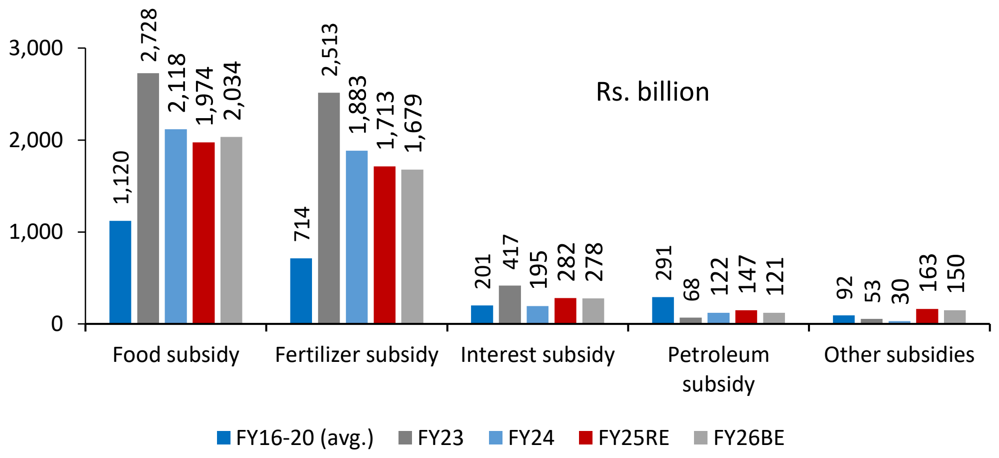
Share of interest outgo has risen materially in FY26 as government absorbs oil and fertilizer bonds in government account



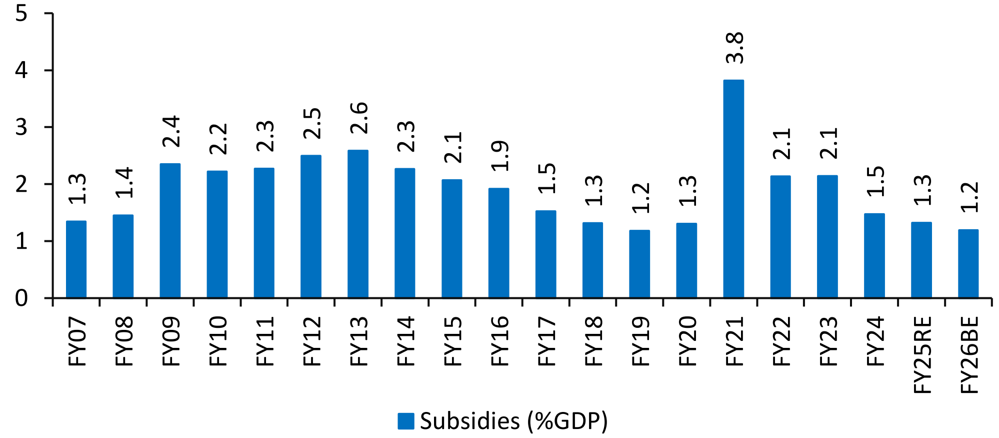
Interest payments have risen 2.1x from Rs. 6.1 trillion in FY20 to Rs. 12.7 trillion as per FY26 BE



Subsidy bill to remain flat in FY26 for key components



Subsidies (as a % of GDP) expected to moderate marginally in FY26



Source: indiabudget.gov.in, SBIFM Research

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Revex (ex of interest payment) and capex rise by ~INR 1tn each in FY26 BE vs FY25 RE

Capex allocation to various ministries/department via budgetary resources

Capex by Key Ministries/ Dept (Rs. Bn)	FY25 BE	FY26 BE	FY26 BE- FY25 BE
Total Capex	10,184	11,211	1,027
Defence	1,705	1,924	219
State Capex loan	1,394	1,706	312
Road	2,725	2,722	-2
Railways	2,520	2,520	-
Telecom (equity infusion)	750	518	-232
Housing and Urban affairs	317	376	60
New Schemes under DEA	127	466	339
Petroleum & Natural Gas	3	66	63
Others	644	912	269

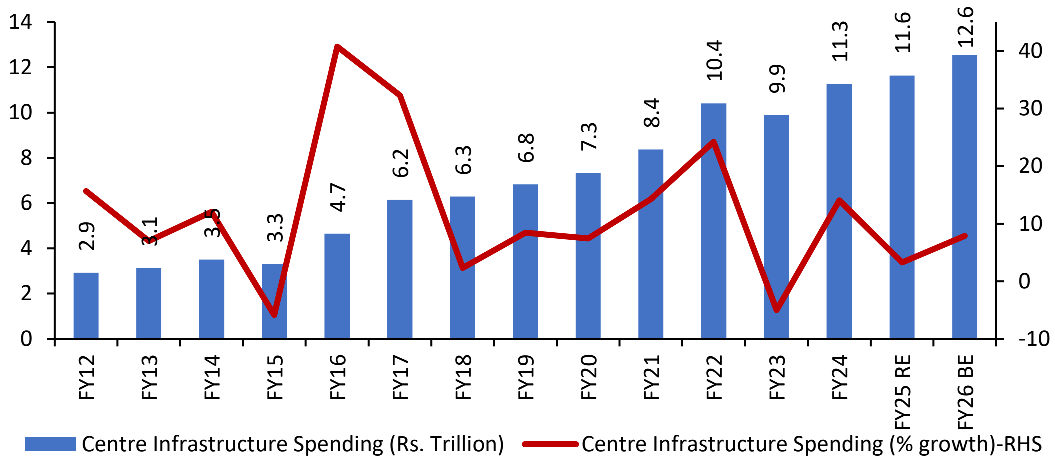
Revenue expenditure is rising due to higher interest payments mainly

Revex by Key Ministries/ Dept (Rs. Bn)	FY25 BE	FY26 BE	FY26 BE- FY25 BE
Total Revex	37,094	39,443	2,349
Agri Dept	1,324	1,377	53
Fertilizer Subsidy	1,641	1,565	-77
Food Subsidy	2,130	2,114	-16
Defence Revex	31	32	1
Interest payments	11,629	12,763	1,134
Transfers to state and UT governments	1,604	1,574	-29
Pensions	792	902	109
Police	1,299	1,438	139
Rural Devt	1,802	1,904	102
Department of Consumer Affairs	102	43	-60
Ministry of labour and employment	225	326	101
Others	14,514	15,405	891

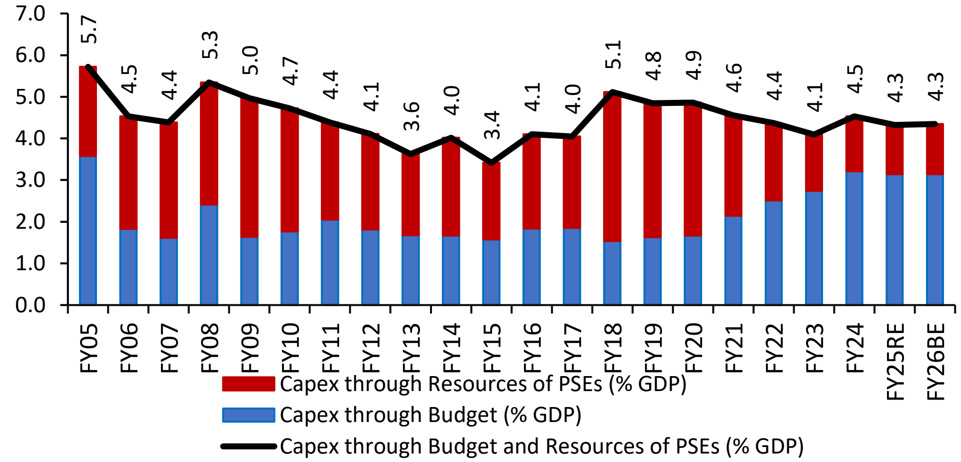
Source: indiabudget.gov.in, CMIE Economic Outlook, SBIFM Research

Modest growth in FY26 infrastructure spend for second year in succession

Infra spending grew by 3% y-o-y in FY25RE and expected to grow by 8% in FY26BE



Capex spend via budget has increased but reduced through sources of PSEs compared to FY24



Most key infrastructure sectors see single digit growth in capex spend. Housing and defense sees better allocation

Rs. Billion	FY24	FY25RE	FY26BE
Power	546	718	865
Renewable Energy	378	317	355
Atomic Energy	247	251	251
Petroleum and Natural Gas	1,369	1,292	1,390
Roads	2,793	2,870	2,912
Railways	2,621	2,650	2,650
Airports	54	40	43
Ports	53	99	89
Metro	195	247	312
Urban Rejuvination Mission	56	60	100
Housing	435	461	746
Food Processing	7	6	9
Water and sanitation	871	920	909
Defence	1,646	1,705	1,924
Centre Infrastructure Spending	11,271	11,636	12,554
%y-o-y	14	3	8
Rural Oriented Infra	1,205	1,315	1,572
Urban Development Spending	513	524	694
Energy related Infra	2,540	2,578	2,860
Transport Infra	2,923	3,036	3,094
Budgetary Support for Infra Spend	8,595	8,943	9,643
EBR for Infra Spend	2,676	2,693	2,911

Source: indiabudget.gov.in, SBIFM Research; NB: Extra budgetary resources

Centre increases budgetary allocation under PLI scheme

Allocation for PLI in FY26 budget increased for Large scale electronics and IT, semiconductors, Pharmaceutical drugs, food processing, textiles and auto

#	Budgetary Allocation (Rs. Billion) for Each Scheme	Total outlay planned	FY23	FY24	FY25 RE	FY26 BE
1	PLI for Large Scale Electronics and IT Hardware	460	16.5	42.8	57.8	90.0
2	Critical Key Starting materials/Drug Intermediaries & Active Pharmaceutical	69	0.1	11.7	0.2	0.4
3	Pharmaceutical drugs	150	6.6	15.5	20.5	23.0
4	Manufacturing of Medical Devices	34	0.1	0.4	0.8	1.0
5	White Goods	62	0.04	0.74	2.14	4.45
6	Food Processing	108	4.9	5.9	7.0	12.0
7	Telecom	122	0.4	0.9		19.7
8	High Efficiency Solar PV Modules	240	-	-		
9	Advanced Chemistry Cell Battery	181	0.02	0.1	0.2	1.6
10	Automobiles and auto components	259	0.1	0.0	3.5	28.2
11	Textile Products : MMF segment and Technical Textiles	107	0.1	0.0	0.5	11.5
12	Specialty Steel	63	-	0.02	0.6	3.1
13	Semiconductor	760	0.1	6.8	38.2	70.0
	Total	**2,616**	**28.9**	**85.0**	**131.2**	**264.8**

Source: indiabudget.gov.in, economic survey, SBIFM Research

Rural schemes: Housing and Jal Jeevan mission are the focus

Budgetary allocation for rural schemes including food subsidies sees an improvement (higher by 11% y-o-y vs. FY25RE)

Schemes (Rs. Billion)	FY24	FY25 BE	FY25RE	FY26BE
Urea subsidy	1,231	1190	1,190	1,189
Mahatma Gandhi National Rural Employment Guarantee Program	892	860	860	860
Jal Jeevan Mission (JJM)/National Rural Drinking Water Mission	700	702	227	670
Pradhan Mantri Kisan Samman Nidhi (PM-Kisan)	614	600	635	635
Pradhan Mantri Awas Yojna (PMAY) - Rural	218	545	324	548
Nutrient based subsidy	652	450	523	490
Samagra Shiksha	328	375	370	413
Modified Interest Subvention Scheme (MISS)	143	226	226	226
Saksham Anganwadi and POSHAN 2.0 (Umbrella ICDS - Anganwadi Services, Poshan Abhiyan, Scheme for Adolescent Girls)	218	212	201	220
PM Surya Ghar Muft Bijli Yojana	-	63	111	200
Pradhan Mantri Awas Yojna (PMAY) - Urban	217	301	137	198
Deendayal Upadhyaya Gram Jyoti Yojna	139	150	150	190
Pradhan Mantri Gram Sadak Yojna	154	190	145	190
Others	927	1,687	1,080	970
Total major Schemes	**6,432**	**7,550**	**6,179**	**6,998**
YoY (%)		**17.4**	**-3.9**	**13.3**
Total Schemes+ Food Subsidy	**8,551**	**9,603**	**8,153**	**9,032**
YoY (%)		**12.3**	**-4.6**	**10.8**

- Expenditure on key rural schemes is budgeted to increase by 13% y-o-y to ~Rs. 9 trillion compared to FY25 RE (higher than ~Rs. 8-8.5 trillion each in FY25/24).
- However, compared to FY25BE, the budgeted spend in FY26 is nearly flat.
- With exceptions of rural housing (FY26 budgeted spend at Rs. 548 billion vs. downwardly revised Rs. 324 billion in FY25),and Rural drinking water mission (FY26 budgeted spend at Rs. 670 billion vs. downwardly revised Rs. 227 billion in FY25), allocation for most of the key rural schemes is largely flat in FY25.
- Subsidy outgo is broadly flat at INR 4.3tn in FY26 BE, which, in the end, would be contingent on evolution of commodity prices through the year.
- Even as the budgetary spend is contained, the infrastructure boost has a trickle-down effect on employment generation in rural India.
- We expect rural spending to show modest improvement in coming quarters.

Source: indiabudget.gov.in, SBIFM Research

Net supply of dated securities rises in FY26

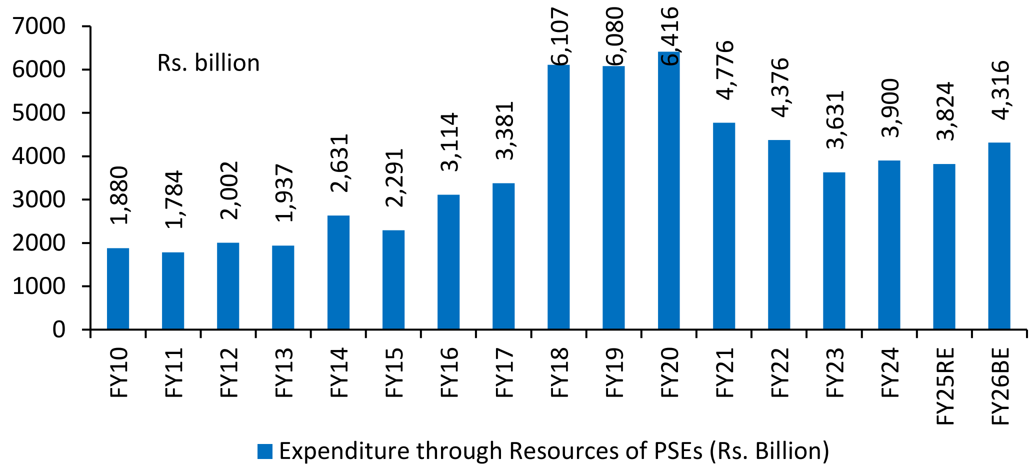
	Rs. billion				% growth				% share in financing fiscal deficit			
	FY24	FY25BE	FY25RE	FY26BE	FY24	FY25BE	FY25RE	FY26BE	FY24	FY25BE	FY25RE	FY26BE
FINANCING OF FISCAL DEFICIT	16,546	16,133	15,695	15,689	-4.9	-7.0	-5.1	0.0	100	100	100	100
Net market borrowings (dated securities, net of buybacks)	11,778	11,632	10,745	11,538	6.3	-1.5	-8.8	7.4	71	72	68	74
Gross market borrowings	15,430	14,010	14,007	14,820	8.6	-9.2	-9.2	5.8	93	87	89	94
Less Repayment of domestic mkt borrowings	3,625	2,378	2,378	3,282	15.9	-34.4	-34.4	38.0	22	15	15	21
Less Net Buybacks	-	-	882	-					-	-	6	-
Short-term borrowings	532	-500	-1,200	-	-52.5		-325.5	-100.0	3	-3	-8	-
Securities Against Small Savings	4,514	4,201	4,119	3,434	14.0	-10.9	-8.8	-16.6	27	26	26	22
Receipts from state provident fund	51	50	50	50	-0.6	-3.8	-1.2	0.0	0	0	0	0
Net external assistance	551	160	320	235	48.5	-35.8	-42.0	-26.6	3	1	2	1
Other capital receipts (internal Debts and Public Account)	-887	-813	260	407	-206.3	-203.8	-129.4	56.5	-5	-5	2	3
Drawdown on cash balances	8	1,404	1,401	25					0	9	9	0

- In FY26, market borrowing and NSSF budgeted to fund the entire fiscal deficit.
- Government cash balance to expected to be drawn down completely to a nil balance by end FY25.
- NSSF collection is expected to moderate further in FY26 over a relatively stronger collection in FY24 (FY24 saw a significant scale up to investible limits in multiple NSSF schemes).

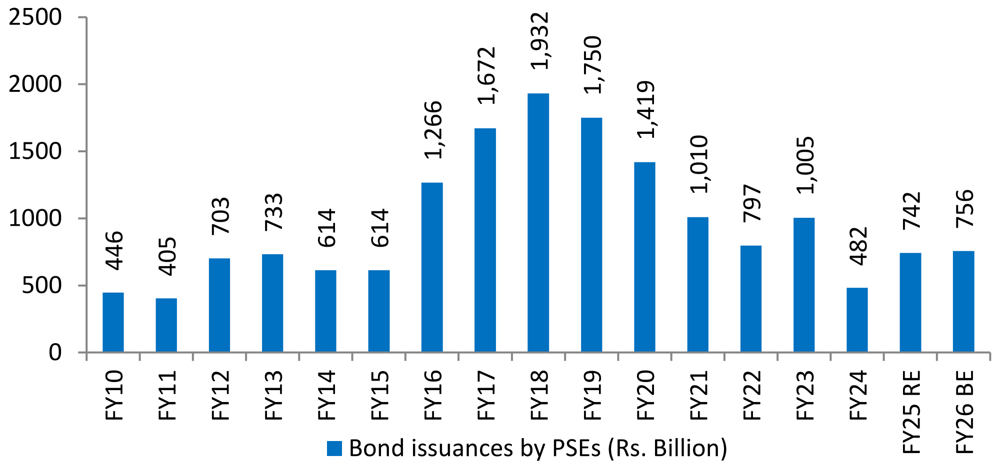
Source: indiabudget.gov.in, SBIFM Research

Modest increase in off budget borrowings

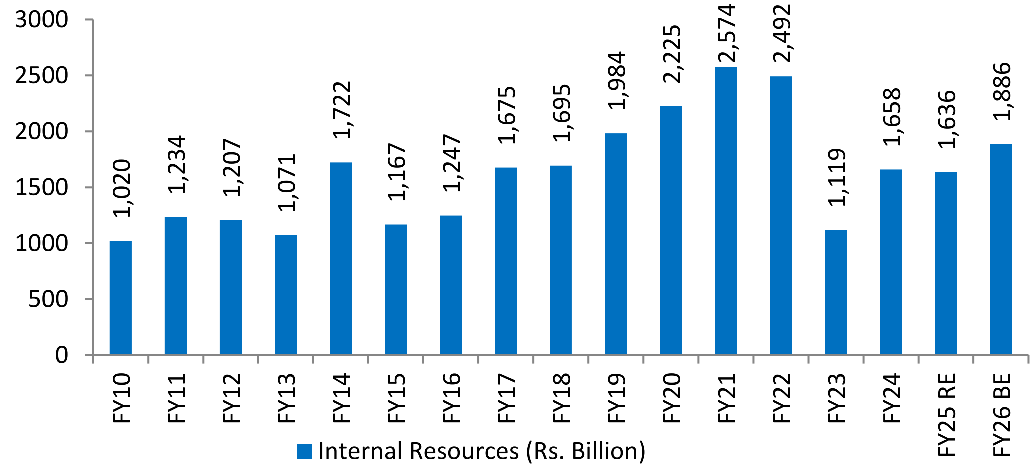
Expenditure through resources of Public sector Enterprise (PSEs) increase slightly in FY26



Bond issuances by PSEs rises in FY26 at the margin



PSEs to tap internal resources to incur expenditure in FY26



- Expenditure through external budgetary resources of PSEs increases to Rs. 4.3 trillion in FY26.
- Bond issuances by PSE rises to Rs. 756 billion in FY26 (compared to Rs. 742 billion in FY25).
- PSEs internal resources increased to Rs. 1.9 trillion in FY26 after moderate levels in FY23.
- PSEs to tap internal resources to meet expenditure requirements in FY26.

Source: indiabudget.gov.in, SBIFM Research

Bonds Issued under Extra Budgetary Resources higher than budgeted figures in FY25

Total IEBR (internal resources+ bonds+ ECB+ others) -Rs. billion				
Ministries	**PSUs**	**FY25 BE**	**FY25 RE**	**FY26 BE**
Ministry of Housing and Urban Affairs	Housing and Urban Development Corporation	422	417	618
Ministry of New and Renewable Energy	Indian Renewable Energy Development Agency	301	311	350
Ministry of Petroleum and Natural gas	Oil and Natural Gas Corporation Limited	308	347	349
Ministry of Petroleum and Natural gas	Indian Oil Corporation Limited	274	318	321
Department of Food and Public Distribution	Food Corporation of India	270	250	280
Ministry of Power	National Thermal Power Corporation Limited	227	227	260
Ministry of Power	Power Grid Corporation of India Limited	123	200	250
Ministry of Coal	Coal India Limited	155	155	160
Ministry of Petroleum and Natural Gas	Bharat Petroleum Corporation Limited	110	110	150
Atomic Energy	Nuclear Power Corporation of India	106	124	129
Ministry of Atomic Energy	Nuclear Power Corporation of India	106	124	129
Ministry of Power	Satluj Jal Vidyut Nigam Limited	120	70	120
Ministry of Petroleum and Natural gas	Hindustan Petroleum Corporation Limited	108	108	100
Ministry of Railways	Public Private Partnership and Others	88	100	100
Total of top ministries		**2,716**	**2,863**	**3,317**
Other PSEs		970	962	999
Grand total		**3,686**	**3,824**	**4,316**

Bonds Issued under Extra Budgetary Resources -Rs. billion				
Ministries	**PSUs**	**FY25 BE**	**FY25 RE**	**FY26 BE**
Ministry of Housing and Urban Affairs	Housing and Urban Development Corporation	100	100	150
Ministry of Power	Power Grid Corporation of India Limited	89	120	148
Ministry of New and Renewable Energy	Indian Renewable Energy Development Agency	123	130	105
Atomic Energy	Nuclear Power Corporation of India	75	88	99
Ministry of Power	National Thermal Power Corporation Limited	56	52	79
Ministry of Petroleum and Natural Gas	Indian Oil Corporation Limited	64	141	76
Ministry of Coal	NLC India Limited	17	35	36
Ministry of Petroleum and Natural Gas	Hindustan Petroleum Corporation Limited	30	30	20
Ministry of Power	Tehri Hydro Development Corporation Limited	20	19	10
Total of top bonds issued		**574**	**715**	**723**
Other PSEs		102	27	33
Grand total		**677**	**742**	**756**

Source: indiabudget.gov.in, SBIFM Research

Sector related budget announcements

Sector	Budget announcement	Implication
Agro Chem & Fertilizers	Fertilizer subsidy has been largely kept flat for FY26. We note that budgeted fertilizer subsidy is just a starting point for the sector and any steep increase or decrease in key raw material prices usually leads to govt adjusting the rates through the years.	Neutral for the sector
	Decrease in custom duty on imported phosphoric acid from 20% to 7.5%. Positive for both phosphatic fertilizer making companies as most of them import a large part of of their requirement of phosphoric acid currently.	Positive for phosphatic fertilizer making companies
	Increased spending and outlay for installations of solar pumps under the PM KUSUM scheme. Against an allocated amount to be spent in FY25 budget of Rs1996cr, govt actually spent Rs2525cr in FY25 and has allocated Rs2600cr for FY26.	Higher allocated spending targets imply strong continued push by government to promote PM KUSUM scheme. Positive for companies operating under this scheme
Airlines	No major change	NA
Auto & Ancillaries	Cut in income tax slabs	Positive for 2W industry - for most players. Also positiver for sub-10 lakh car segment
	Custom duty cut for imported vehicles: - Duty cut from 125% to 70% for PVs costing US$ >40K - Duty cut 50%/25%/15% to 40%/20%/10% for motorcycles of various categories	Marginal negative for some OEMs
	Support for EV : 1) cut in duties for battery materials by 2.5% to 5% ; 2) Establishing a national manufacturing mission to improve domestic value addition ; 3) PM eDrive : allocation of INR40bn i FY26 vs. INR39bn for FY25; 4) PLI for Auto / Auto components Rs 2800cr (vs Rs 3500 for FY25) ; 5) ACC PLI - Rs 1600 cr (vs Rs 2000cr for FY25)	Marginal positive for Ancillaries due to manufacturing mission FY26 PLI allocation is neutral as it pertains to products manufactured in FY25 - and largely covers most products which have qualified for PLI
	Weaker than expected allocation for NHAI (up 1% YoY) and Infrastructure spending (up ~10% YoY) as a whole	Negative for CV sector
Cement	No major change	NA
Chemicals	No major change	NA
Construction	Central Govt capex growth is underwhelming on an already lower expectations	
	Expenditure growth weak across sectors with only Defense seeing an increase in allocation. Budget tilt clearly towards consumption	Of the various sectors, Roads expenditure & awards were expected to shift towards BOT and HAM with more private sector participation. Railway & other sector capex growth also weak with Govt clearly passing the burden to the private sector for incremental capital investment
Consumer	Reduction in personal income tax through changes in tax slabs to boost consumption	Positive for staples and mass discretionary names
	No change in taxes on cigarettes	Largely neutral for cigarette companies
Consumer Durables	Reduction in personal income tax through changes in tax slabs to boost consumption	Positive for all consumer durable companies

Source: indiabudget.gov.in, SBIFM Research

Sector related budget announcements

Sector	Budget announcement	Implication
Financials	Allocation under PMAY G and PMAY U largely maintained even while utilization has been low so far.	No material change. Continue to extend benefit for affordable housing in both urban and rural.
	Guarantee Emergency Credit Line for SMEs in overdue. Allocation maintained at FY25 BE levels, utilization low so far.	No material change. Continue to provide guarantee support for SMEs.
	Low personal taxes	Positive for credit quality and consumer
	Kisan Credit Card - limit enhanced from 3lac to 5 lac for interest subsidy.	Negative for PSU banks as government will push to extend more credit.
Healthcare	To support the increasing healthcare services it has also planned to add ~75,000 medical seats within the next 5 years.	To benefit Hospital sector
	36 life saving drugs and medicines fully exempt from basic customs duty, drugs mainly for cancer, rare diseases and other severe chronic diseases. 6 lifesaving drugs will attract basic customs duty of 5%	Not much benefit to the listed space.
	Ayushman Bharat budget up sharply to Rs 94bn for FY26 from Rs 73bn in FY25 (revised estimates for FY25: Rs 76bn). Also, Jan Aushadhi budget raised to Rs 3.54bn from Rs 2.84bn	This is possibly on account of expanding coverage of senior citizens
Industrials	Total Capital expenditure at Rs 112 trn (+10% YoY on FY25RE), but is broadly flattish as compared with FY25BE. Roads capex outlay of Rs 2.72 tn for FY26BE, flat YoY on FY25RE. Rail capex target for FY26BE was Rs 2.65 tn, flat YoY. No slippage in FY25RE vs. FY25BE.	Sentimentally negative for Capital Goods companies
	Capital outlay on defence at Rs 1.8 tn for FY26BE, +12.9% YoY on FY25RE of Rs 1.59 tn (+3.4% YoY, slippage of 7.3% against FY25BE).	Negative for Defence players as the rate of growth is now much slower than past 5 years
	Reduction in customs duty for flat panel display for mobile phones (from 20% to 10%), and components for manufacturing open cell for TVs to 5% from 10%/15%	Positive for Electronic Manufacturers as it would incentivise backward integration from plain vanilla assembly for mobile phones and TVs currently
IT	Centre of Excellence in AI for Education	No major benefit
	National Framework for GCC	Immediate impact or benefit is not significant
Logistics	No major change	NA
Media	Increase in nil tax slab to Rs12 lacs, vs Rs7 lacs earlier. Positive for urban consumption as purchasing power increases for the lower and middle urban middle class.	Positive for media and out of home entertainment consumption including multiplexes
Metals	No major change	

Source: indiabudget.gov.in, SBIFM Research

SBI FUNDS MANAGEMENT LIMITED

Sector related budget announcements

Sector	Budget announcement	Implication
Oil & Gas	No provision for LPG subsidy	Negative for Oil marketing companies
	No excise duty cut ON CNG as expected	Negative for CNG heavy city gas distribution companies
Power	Incentivize electricity distribution reforms and augmentation of intra-state transmission capacity by states Nuclear Energy Mission for Viksit Bharat: Development of 100 GW by 2047. PM Surya Ghar Muft Bijli Yojana budgeted expenditure up 60% YoY vs. FY25 RE	Postitive for solar as solar rooftop allocation continues to increase. Long term benefits are for development of nuclear power and lower distribution losses by undertaking reforms
Retail	Increase in nil tax slab to Rs12 lacs, vs Rs7 lacs earlier. Positive for urban consumption as purchasing power increases for the lower and middle urban middle class.	Positive for urban consumption as purchasing power increases for the lower and middle end of urban middle class.
Telecom	Debt waiver not announced	Sentimental negative. However, Govt can announce a waiver whenever it wants.
	Capital infusion of 35000 crores planned in BSNL	Its not clear how much of this amount will be paid back by BSNL as spectrum charge. In FY24 and FY23, BSNL's spectrum acquistion was worth 10,300 crs and 20000 crs.
Textiles	Increase in custom duty on knitted fabric from 20%/10% earlier to 20% or Rs115/kg, whichever is higher.	This is positive for domestic knitted fabric makers who will see more demand from end users as imports become expensive. It will be negative for fabric users which imports a large part of its fabric requirement. However, the extent of impact will be to the extent of relevance of knitted fabric in their business mix.
Decarbonisation	Nuclear Energy: Nuclear Energy Mission for Viksit Bharat aims to achieve the development of at least 100 gigawatts of nuclear energy by 2047, crucial for energy transition with active participation by Pvt sector; launch of a Nuclear Energy Mission for the research and development of Small Modular Reactors (SMRs) with an outlay of INR 20,000 crore, at least five indigenously developed SMRs to be operational by 2033.	Will benefit the companies who are part of the NPCIL approved list,
	Lithium Ion Batteries: 35 additional capital goods added to exempted list for EV battery manufacturing and 28 additional capital goods for mobile phone battery manufacturing; Full exemption of Basic Customs Duty (BCD) on cobalt powder and lithium-ion battery waste, scrap, and 12 other critical minerals.	Will boost the domestic manufacture of lithium-ion batteries both for mobile phones and for electric vehicles.
Insurance	100% FDI in insurance.	Don't expect a material change in competitive intensity. Foreign insurers have preferred to partner with local players.

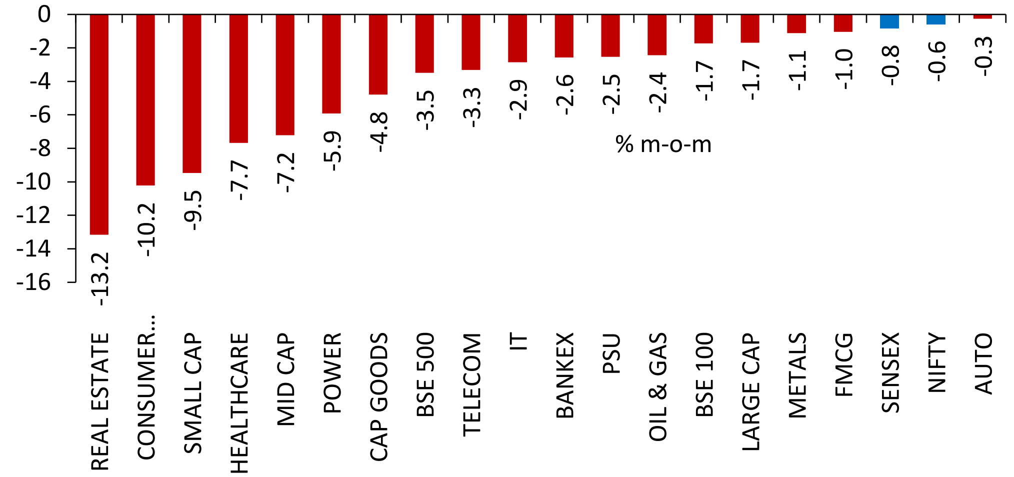
Source: indiabudget.gov.in, SBIFM Research

EQUITY MARKET

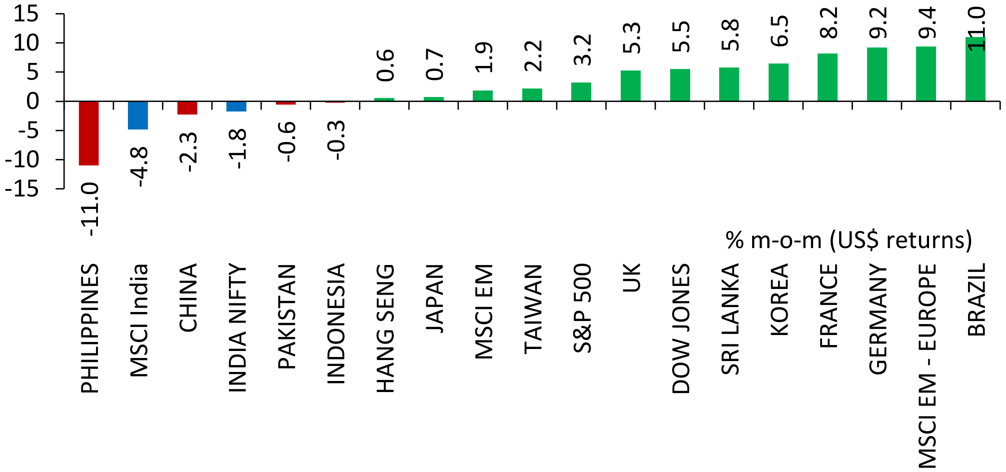
SBI FUNDS MANAGEMENT LIMITED

Global and Indian equity market snapshot: January 2025

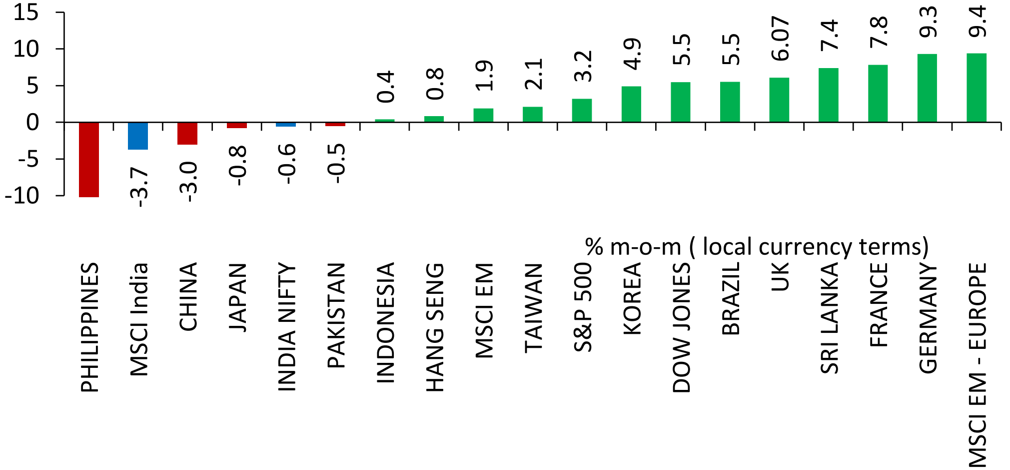
Performance in January 2025 (local currency returns)



Performance in January 2025 (US$ returns)



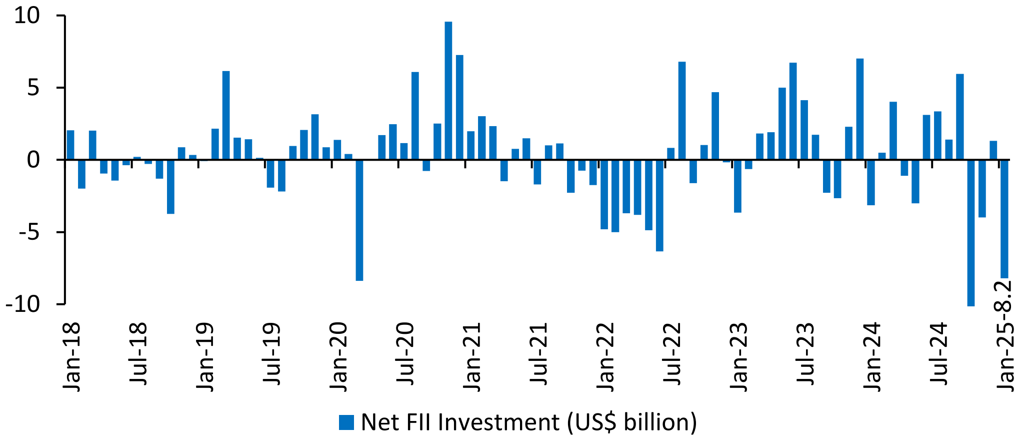
Indian equity market performance in January 2025 (local currency returns)



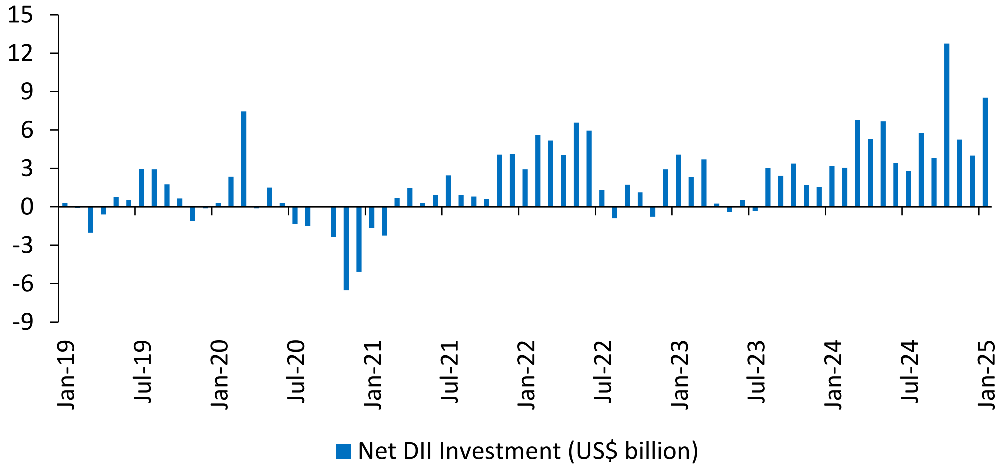
- **MSCI India underperforms MSCI EM m-o-m in January 2025**.
- Nifty and Sensex were broadly flat, but all sectors were in red led by real estate, consumer durables and healthcare.
- Small cap (-10% m-o-m), mid cap(-7%) and large cap(-2%), all delivered negative returns m-o-m in January 2025.

Liquidity: Sharp selling by FIIs in January

FIIs sold ~USD 8billion in Jan’25 in equity segment vs. net purchase of USD 1billion in Dec’24



DIIs are net buyers (purchase of USD 8.5billion in Jan’25 vs. USD 4 billion in Dec’24)

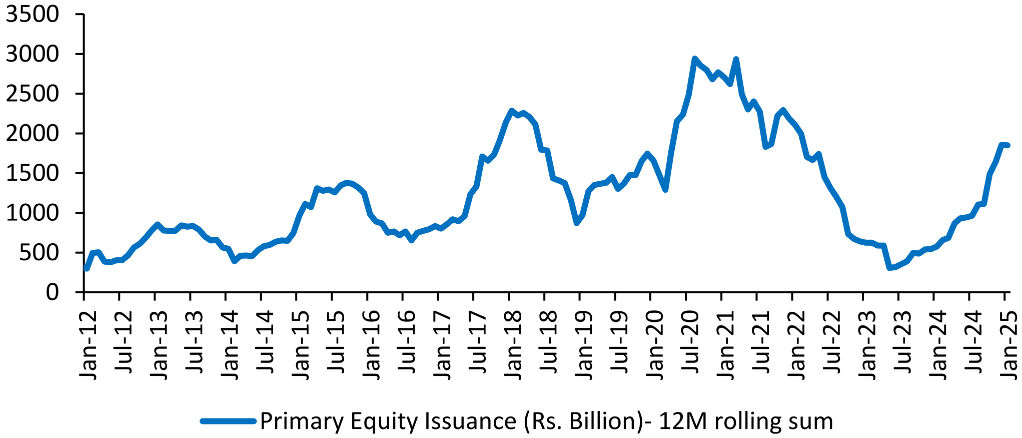


Retail flows into Equity (both Cash and Derivates) surge; Category wise net inflows into Indian equities:

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
In Rs cr													
FIIs	1,28,361	1,13,136	97,069	17,946	20,493	49,234	-34,252	1,01,111	1,70,260	24,004	-1,21,439	1,71,107	427
DIIs	-55,800	-73,052	-28,557	67,587	35,363	90,738	1,09,662	42,257	-35,663	94,846	2,75,726	1,81,482	5,27,438
Individuals#	-24,900	-22,000	-30,100	-8,243	-26,382	-37,988	-8,523	-25,280	52,897	1,42,755	88,376	5,243	1,65,810
In US$bn													
FIIs	24.4	20.1	16.1	3.2	3.2	7.5	-4.6	14.4	23	3.8	-16.5	20.7	0.1
DIIs	-10.6	-12.8	-4.8	10.4	5.2	14	16	6	-4.8	12.6	35.7	22	63.0
Individuals#	-4.7	-3.8	-4.9	-1.3	-3.9	-5.8	-1.4	-3.6	7.1	19.3	11.7	0.6	19.8

Data pertaining to individuals include net flows on the NSE in the secondary market only. Individuals include individual /proprietorship firms, HUF and NRI.

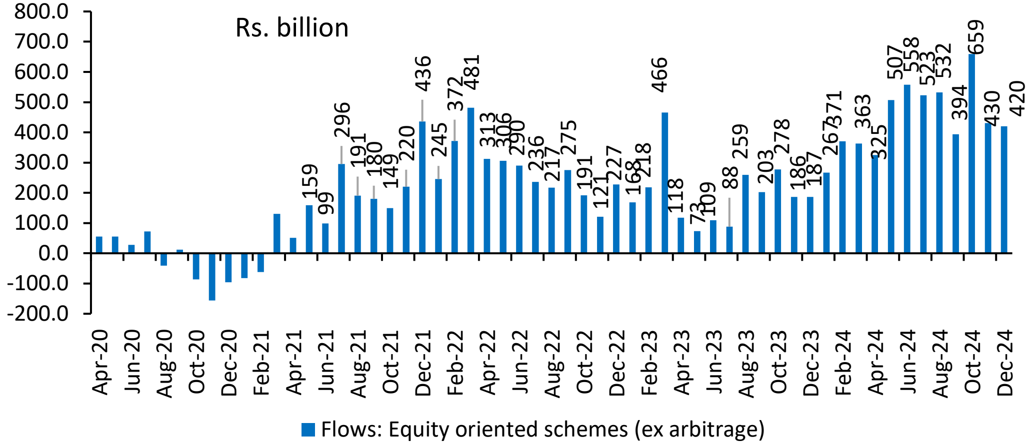
Primary market supply trending up from last year lows



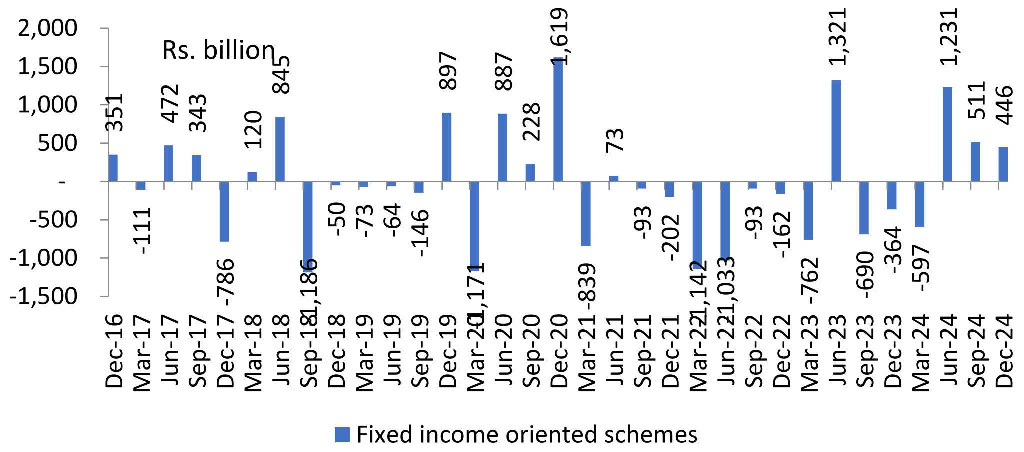
Source: NSE, Bloomberg, SBIFM Research;

MF flows: Improvement in SIP equity inflows; Debt inflow moderates this quarter

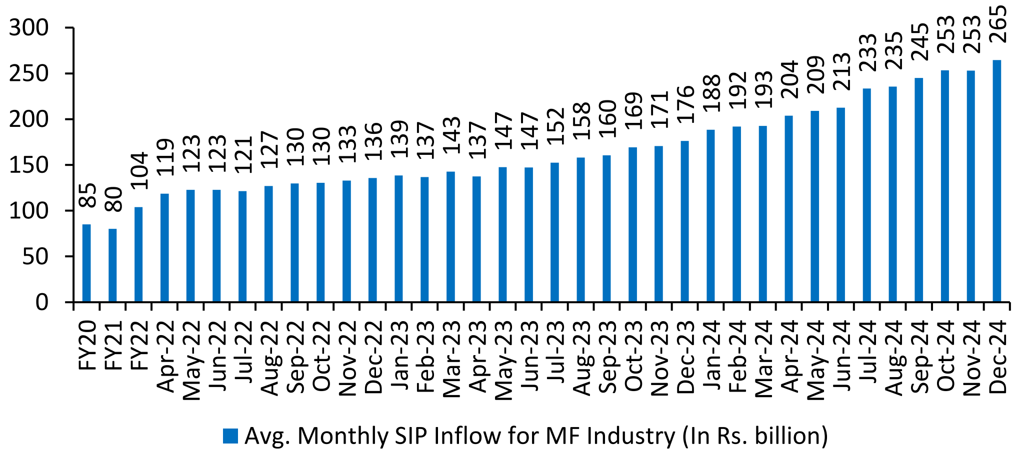
Equity inflows moderated slightly in December 2024 compared to a month ago



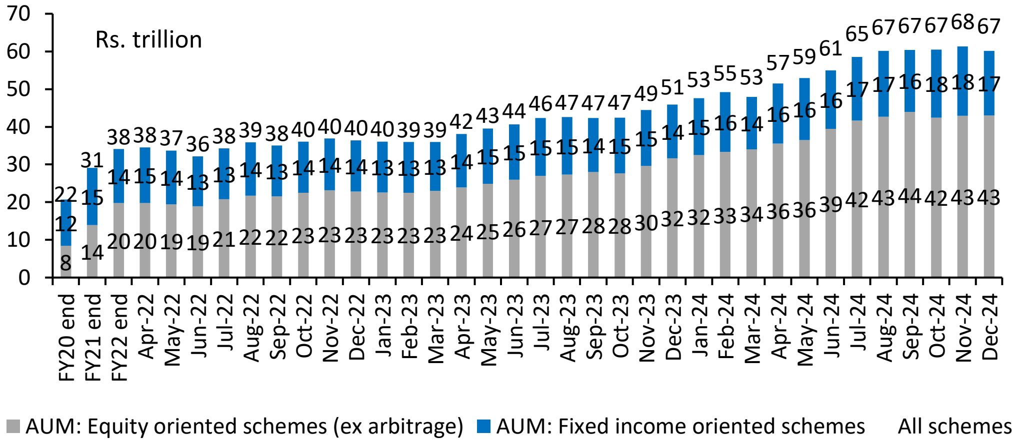
Debt inflow of INR 0.5tn in Q3 FY25; (lower than inflow of 1.2tn in Q1 FY25)



Monthly SIP inflow increases m-o-m in December



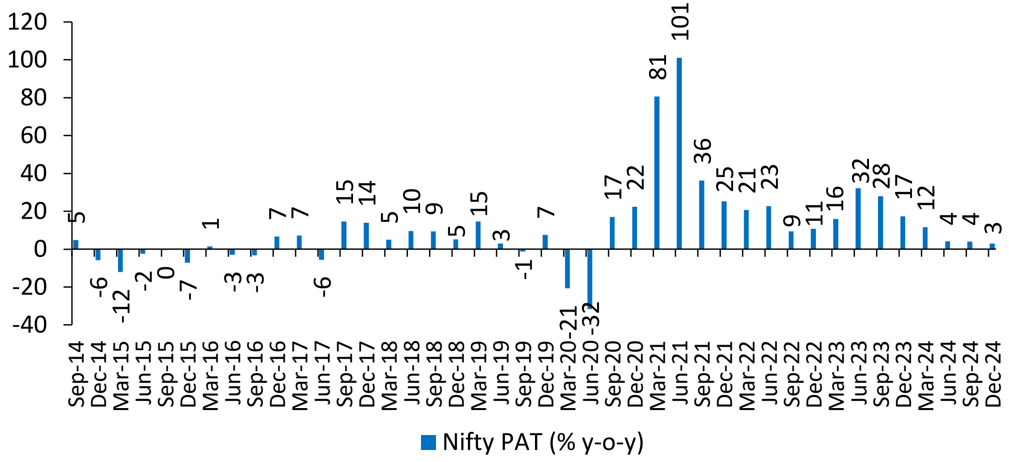
Equity AUM is flat while debt AUM moderates at the margin m-o-m



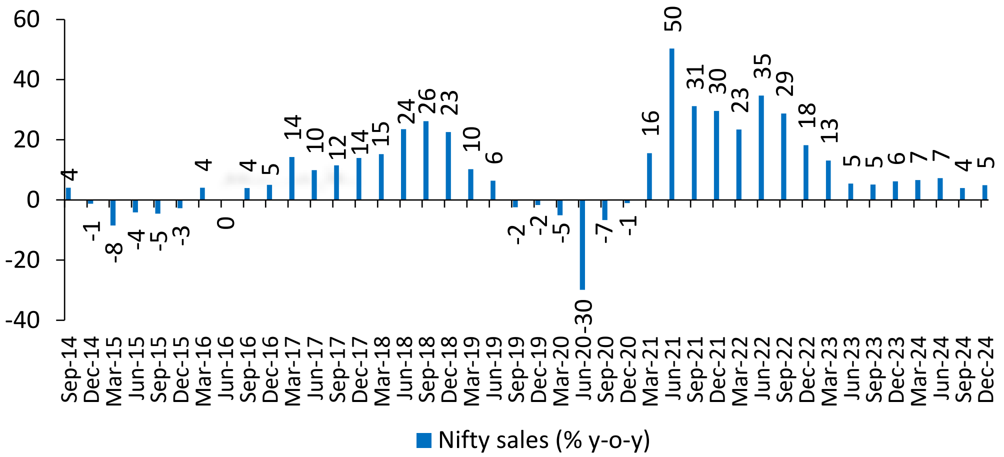
Source: CMIE Economic Outlook, Association of Mutual Funds of India(AMFI), SBIFM Research

Q3 FY25 interim earnings: Weak PAT growth; Topline has been weak for 6 consecutive quarters

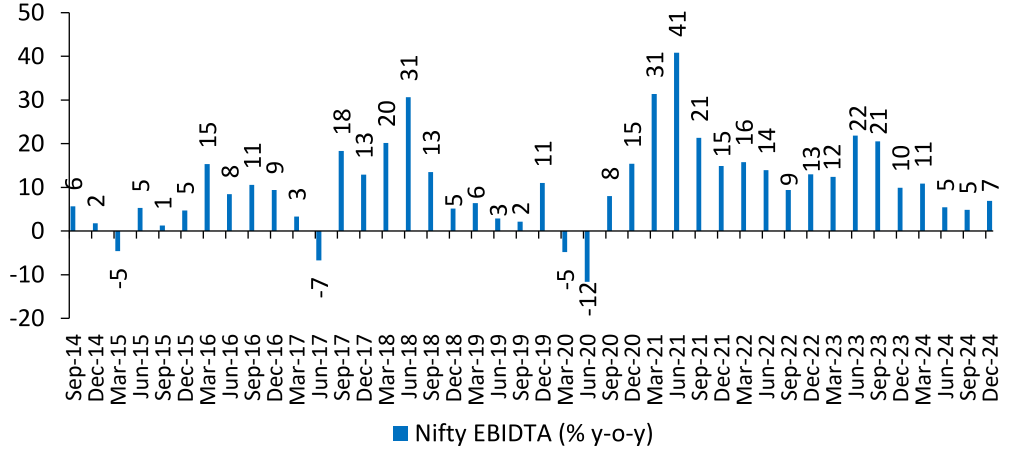
PAT growth moderates on account of high base effect in metals and oil & gas



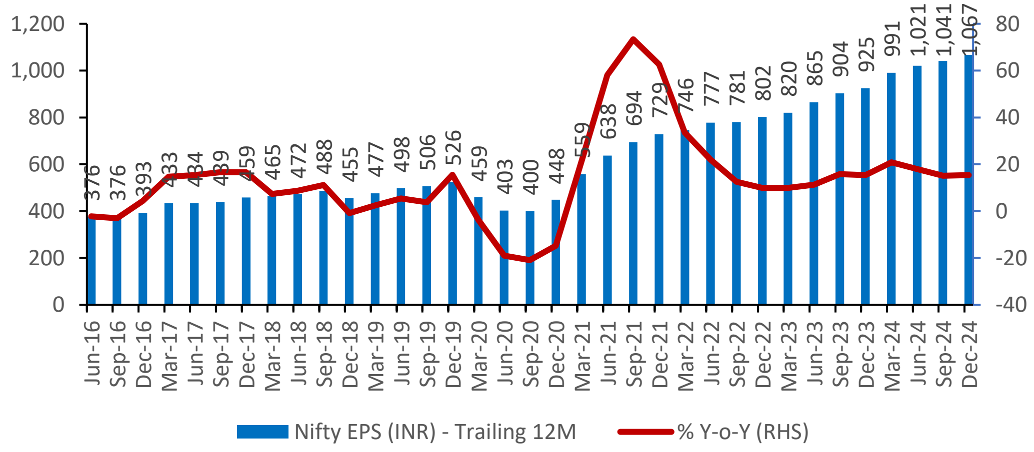
Q3 FY25 NIFTY sales growth in line with expectations



EBITDA growth also in line with expectations



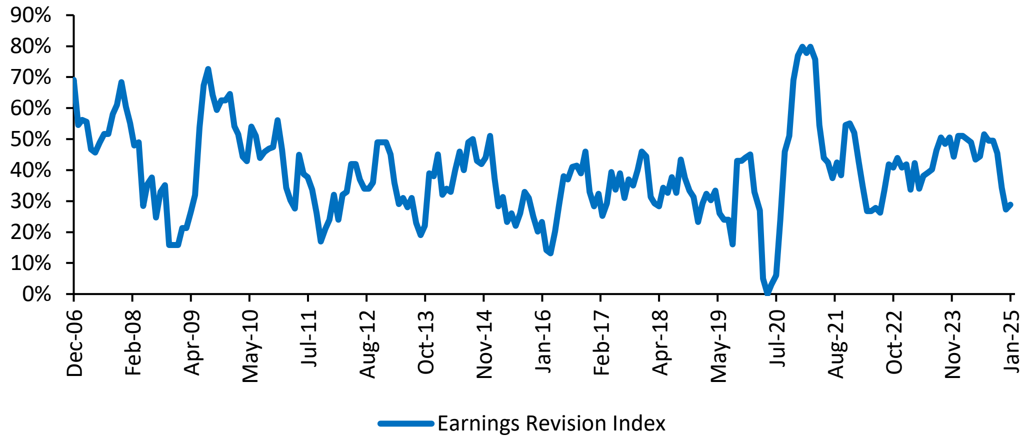
EPS growth moderates; 12m rolling EPS grows 15% but Q2 FY25 EPS growth moderates to 9% (vs. 13% in Q1 FY25)



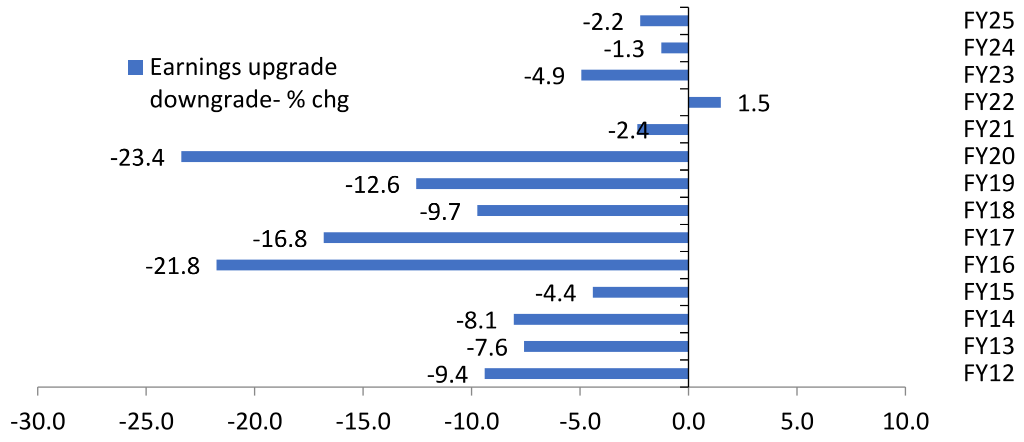
Source: MOSL, SBIFM Research; NB**: Results released for 32 NIFTY companies for December 2024 quarter, historical data is for all the NIFTY 50 companies**, EPS growth is adjusted for Axis bank losses for FY23

Earnings upward revisions remains low in January

Earnings Upgrades to downgrades ratio falls further in November



In FY25 (till January), EPS projection saw a downgrade

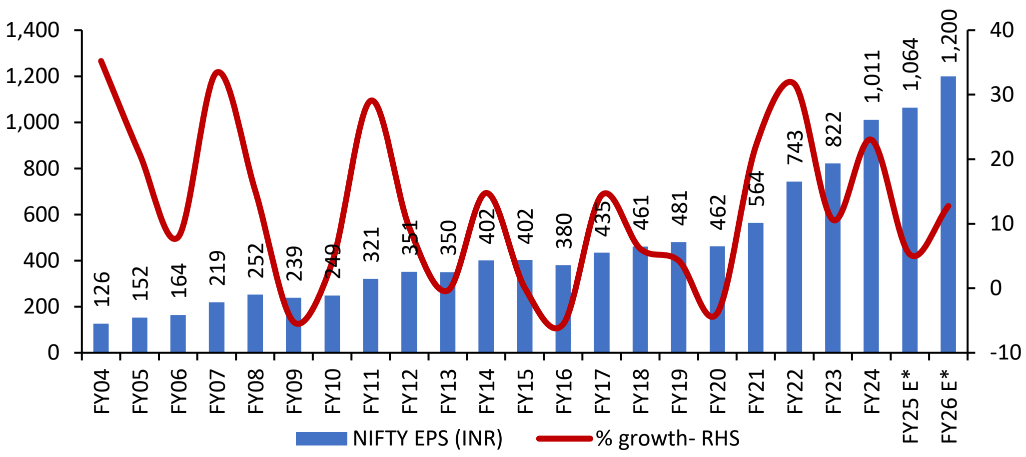


- Earnings revisions for FY25 have fallen with Materials, Consumer Discretionary, Energy, Consumer Staples, IT & Utilities seeing downward revisions. Healthcare continues to get upward revisions.
- Consensus expects 10.9% EPS growth CAGR for the Nifty over FY24-FY27.

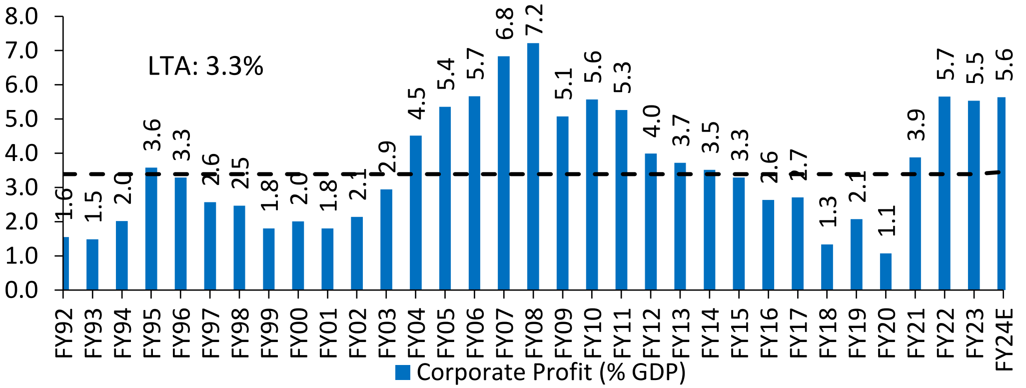
Source: Bloomberg, FactSet, SBIFM Research; NB: *data for communication services can't be calculated due to negative number in the base year, Earnings Revision Index: There has been a revision in methodology of calculating Earnings' Revision Index. Earlier,12 month forward estimate number of all BSE 100 constituents as of the current month-end &3 months back were taken. Now, new version considers FY23 consensus EPS for the current date and weighted format for history(1 month, 2 month & 3 months back with 1 month having the highest weight).

Domestic support to earnings as the outlook for global cyclicals weakens

Earnings expected to recover in FY26



Earnings have recovered from ultra-lows of FY17-FY20



FY92-FY22 data is based on a sample of ~30,000 listed unlisted companies in CMIE (includes both financial and non financial companies)

Sectoral breakup of NIFTY earnings outlook

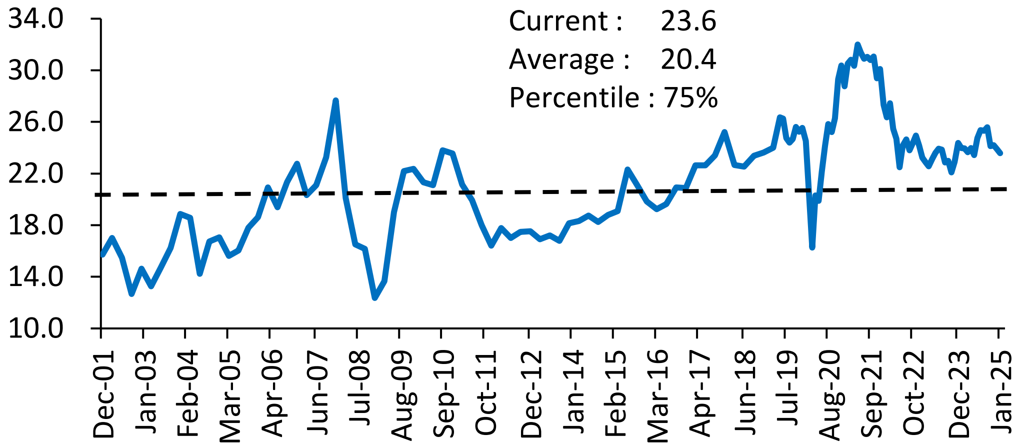
	No. of Cos.	EPS Change FY20-21	FY21-22	FY22-23	FY23-24	FY24-25	FY25-26	FY26-27	FY24-27 (CAGR)
Nifty		20.0%	35.7%	5.9%	29.5%	4.6%	14.6%	13.8%	10.9%
Materials	6	55.2%	222.9%	-54.7%	-13.8%	16.8%	51.6%	18.6%	28.0%
Industrials	4	22.9%	-30.1%	-0.9%	-0.9%	37.3%	22.1%	15.9%	24.8%
Utilities	2	18.0%	-9.7%	6.0%	-28.7%	17.7%	9.4%	6.3%	11.0%
Financials	11	13.8%	27.3%	23.1%	53.0%	5.6%	10.7%	15.1%	10.4%
Energy	4	56.9%	11.4%	8.1%	33.6%	6.3%	14.0%	10.1%	10.1%
Health Care	4	5.9%	51.7%	23.6%	2.5%	14.6%	10.1%	4.5%	9.7%
Consumer Discretionary	8	20.7%	-33.4%	186.5%	58.8%	-2.3%	16.1%	13.8%	8.9%
Consumer Staples	5	-5.0%	-3.9%	5.6%	32.6%	2.6%	11.5%	11.1%	8.3%
Information Technology	5	9.6%	37.1%	13.3%	13.5%	-9.6%	12.3%	11.9%	4.3%
Communication Services	1		NA*		-6.1%	55.4%	42.1%	33.2%	43.3%

- Consensus expects 10.9% EPS growth CAGR for the Nifty over FY24-FY27.
- We are constrictive on medium-term earnings trajectory deriving comfort from our growth expectation for India and return of pricing power for many sectors.

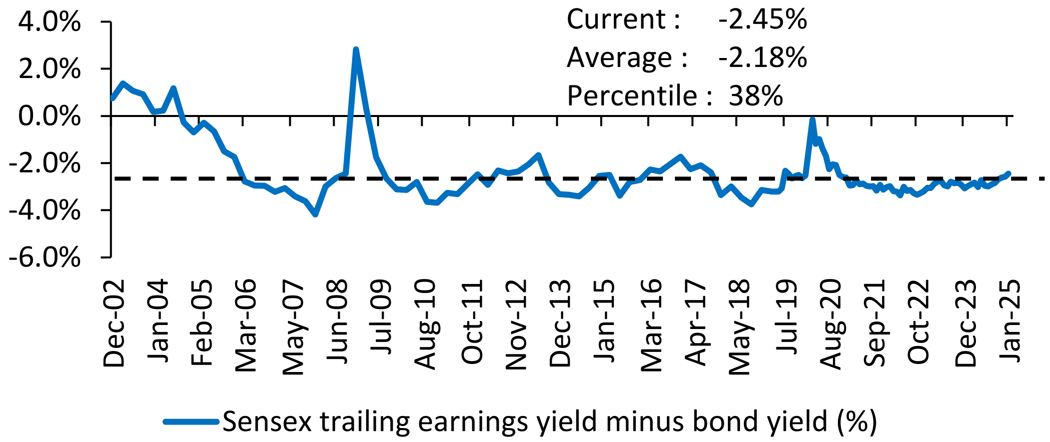
Source: CMIE Economic Outlook, Bloomberg, SBIFM Research; *FY25 and FY26 earnings estimates are SBIMF,** EPS change is unadjusted to externalities, : ***data for communication services can't be calculated due to negative number in the base year, Earnings Revision Index: There has been a revision in methodology of calculating Earnings' Revision Index. Earlier,12 month forward estimate number of all BSE 100 constituents as of the current month-end &3 months back were taken. Now, new version considers FY23 consensus EPS for the current date and weighted format for history(1 month, 2 month & 3 months back with 1 month having the highest weight).

Equity valuations remain expensive but has corrected from the peak

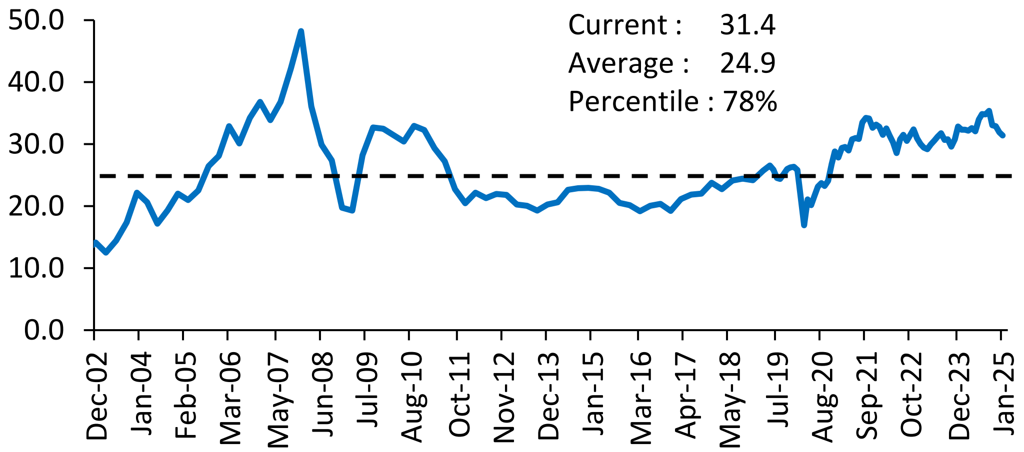
Sensex trailing PE ratio stood at 23.6 in Jan'25 vs. 23.9 in Dec'24



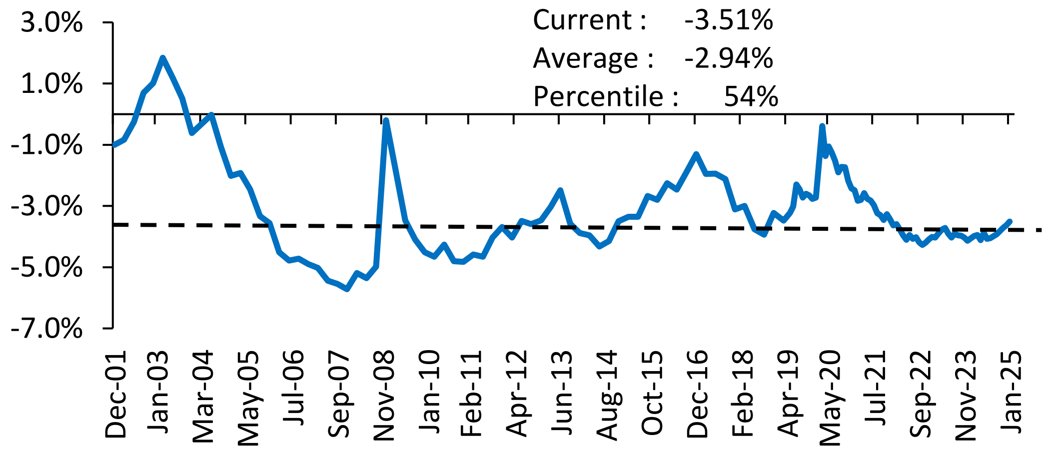
Earnings yield to bond yield spread has corrected



Shiller PE ratio stood at 31.4 in Jan'25 vs. 31.9 in Dec'24



Shiller earnings yield to bond yield spread moderately expensive



Source: Bloomberg, SBIMF Research

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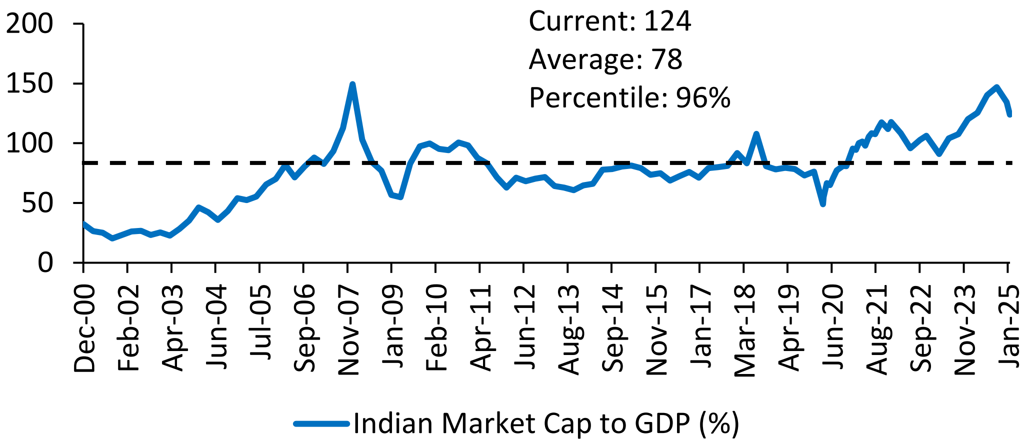
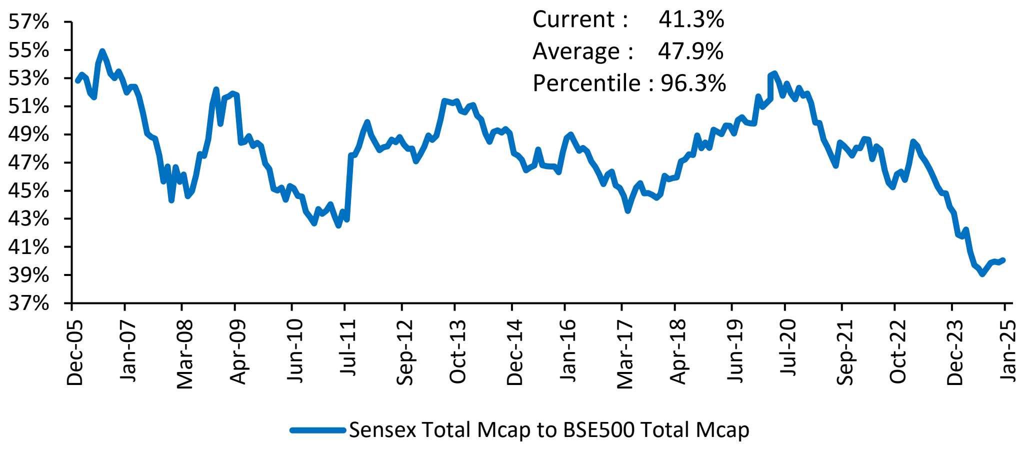
Polarization remains low though marginal change towards large caps

Market capitalization/GDP expensive vs. history at 96th percentile reading



Mid caps and small caps: Market polarization slowly moving towards large caps



- Market polarization has marginally changed towards large caps but remains low with broader markets outperforming the frontline large cap indexes.
- The ratio is now back to historical lows, suggesting the risk-reward is more towards large caps now.

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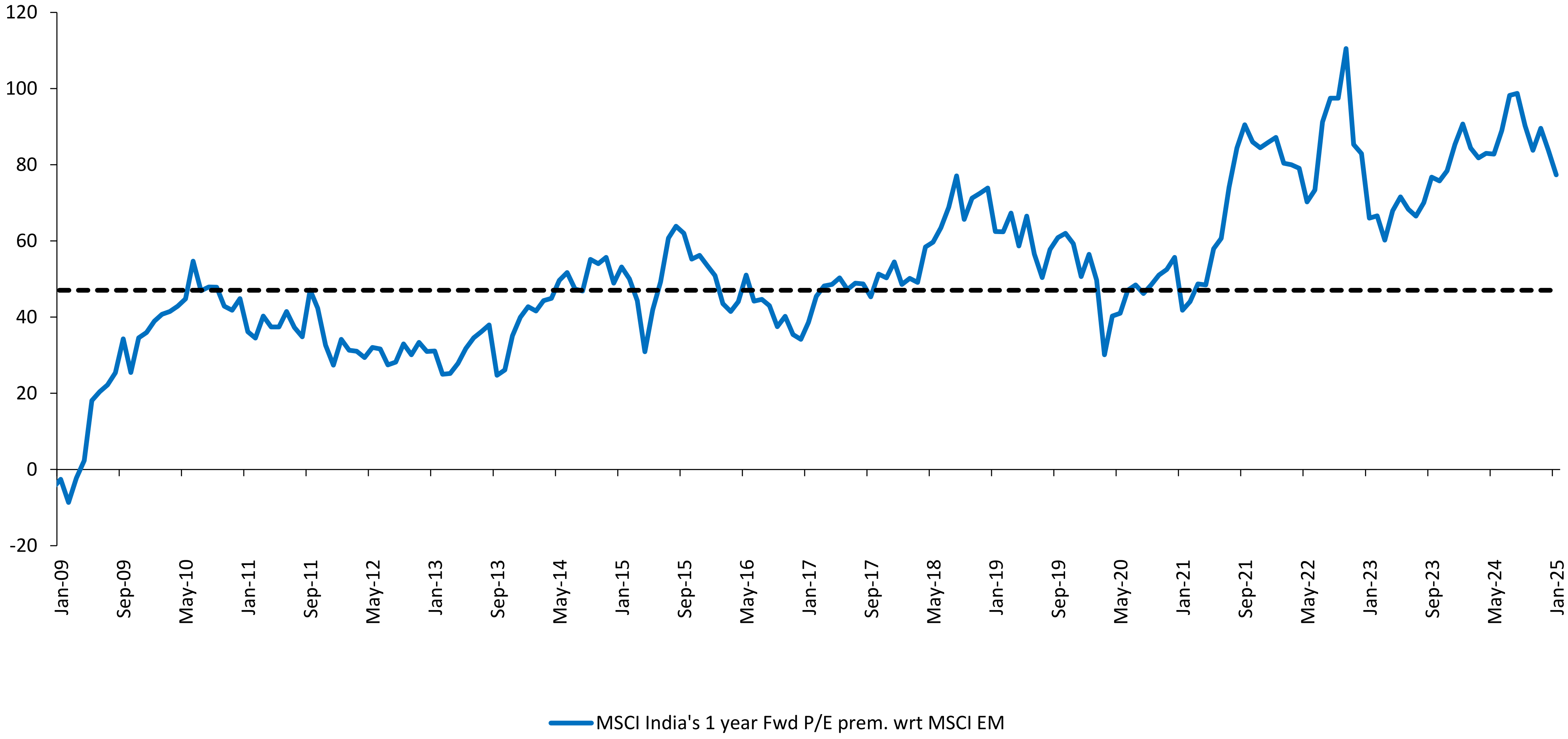
MSCI India’s valuation premium relative to EM moderates in last three months; but still expensive

India’s P/E premium to world has moderated from its peak in Oct’22; global multiples remain vulnerable to higher rates, weaker growth and potentially rising Equity risk premium



Source: Bloomberg, SBIFM Research

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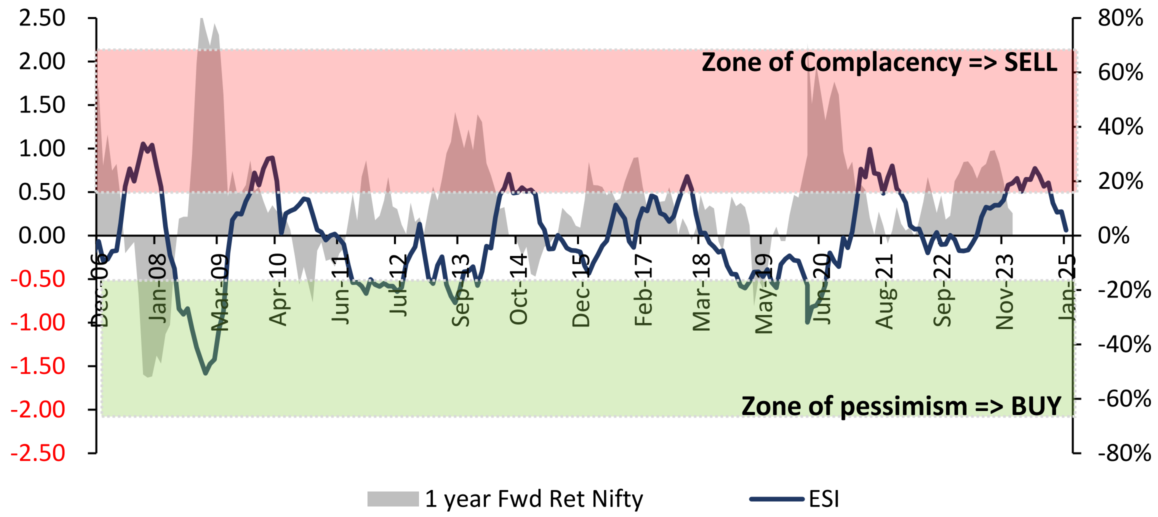
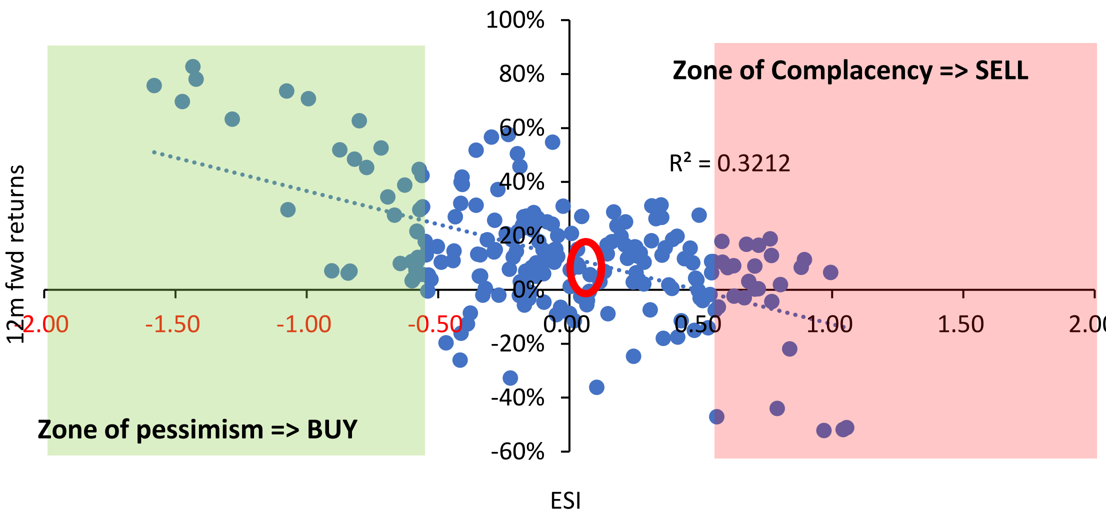
Equity market sentiment falls to near zero

Equity sentiment falls to near zero



Equity sentiment index falls



- **The sentiment measure works as a contrarian indicator. Market euphoria has corrected significantly making us turn neutral on equity outlook vs. a bearish outlook previously.**

Source: Bloomberg, FactSet, SBIMF Research; ESI = Equity sentiment Index

Equity Outlook: We change our outlook to neutral from an underweight stance in 2024

- Indian equity market delivered negative returns in January. NIFTY and SENSEX decreased by ~1% each m-o-m in January. All sectors were in the red m-o-m with Real estate (-13% m-o-m), consumer durables (-10%) and Healthcare (-8%) showing the strongest fall on a m-o-m basis.
- FII's pulling out of India is impacting large cap in the same breadth even as the valuation arguments are relatively in the favour of large cap over mid and small cap. There has been some moderation in mid cap valuations over the large cap, but its still elevated.
- FIIs were net sellers in Jan'25 (sold a net of ~USD 8 billion in Jan'25 in equity segment vs. a purchase of USD 1 billion in Dec'24). DIIs remain net purchasers.
- Recent release of economic survey has pegged FY25 economic growth at 6.5% and FY26 growth at 6.3-6.8% implying no material improvement in India's growth. This puts FY26 15% EPS estimate at a downside risk even as we stay positive on India's medium-term earnings trajectory.
- Broader market valuations stay significantly more elevated versus large cap indices, as measured through BSE500 market cap relative to Sensex market cap. We therefore expect the current consolidation to continue entering CY2025.
- Equity sentiment acts as a contrarian indicator. Market euphoria has corrected significantly making us turn neutral on equity outlook vs. a bearish outlook previously.
- From a longer-term standpoint, however, the Indian equity story continues to be underpinned by earnings upcycle, short term slowdown notwithstanding. India's corporate profits as a proportion of GDP have reverted higher over the past four years. A healthy corporate and banks balance sheet should be tailwinds to continue supporting a constructive earnings growth outlook over the mid-long term.
- The current turbulence, however, should bring the focus back on fundamentals. We remain of the view that increasingly the market will become more discerning and move back towards companies which have strong business models, long-term earnings growth visibility and sustainable cashflows.
- 2025 could be a year of significant deviation from the trend as markets become very selective amidst narrowing market breadth, as against the undiscriminating and broad-based up move of the past few years.

Source: Bloomberg, SBIFM Research

FIXED INCOME MARKET

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Global Bond Market Snapshot: Bond yield depicts volatility

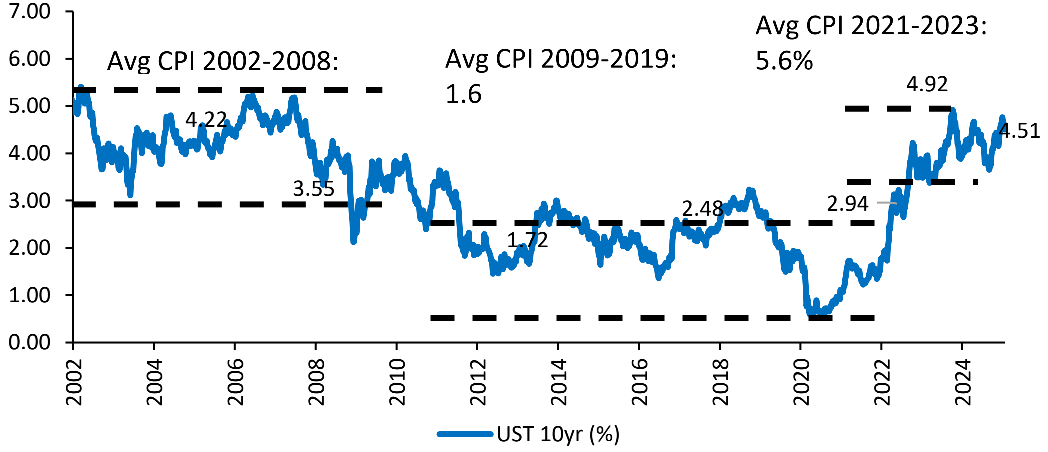
US bond have been highly volatile in January. 10-year UST rose to 4.7% mid-Jan but moderated through the month end to 4.53%. Bond yield rose in other developed markets while Emerging market bond yields rallied in January

10 Year Gsec Yield (% mth end)	2023 end	Oct-24	Nov-24	2024 end	Jan-25	m-o-m change (in bps)
Developed market						
US	3.88	4.28	4.17	4.57	4.53	-4
Germany	2.02	2.39	2.09	2.37	2.48	11
Italy	3.70	3.65	3.28	3.52	3.57	4
Japan	0.61	0.95	1.05	1.10	1.25	14
Spain	2.99	3.10	2.79	3.06	3.08	2
Switzerland	0.70	0.41	0.25	0.33	0.42	10
UK	3.54	4.45	4.24	4.57	4.56	-1
Emerging Market						
Brazil	10.37	12.79	13.41	15.16	14.99	-17
China	2.56	2.15	2.03	1.68	1.63	-5
India	7.17	6.85	6.74	6.76	6.70	-6
Indonesia	6.45	6.77	6.85	6.97	6.97	0
South Korea	3.18	3.10	2.76	2.87	2.86	-1
Malaysia	3.73	3.93	3.81	3.81	3.81	0
Thailand	2.68	2.41	2.29	2.25	2.29	4
Turkey	25.06	30.50	29.22	29.04	26.89	-215
Mexico	8.95	10.11	10.06	10.44	10.00	-44
Poland	5.20	5.96	5.53	5.89	5.86	-4
Colombia	9.96	10.93	10.88	11.86	11.37	-49
Hungary	5.86	6.89	6.34	6.55	6.61	6

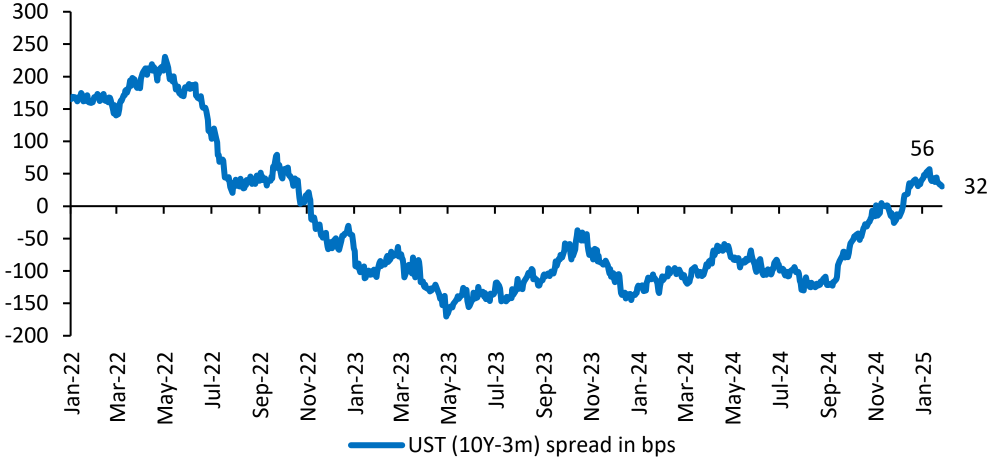
Source: Bloomberg, SBIFM Research

US treasury yield and DXY exhibit volatility

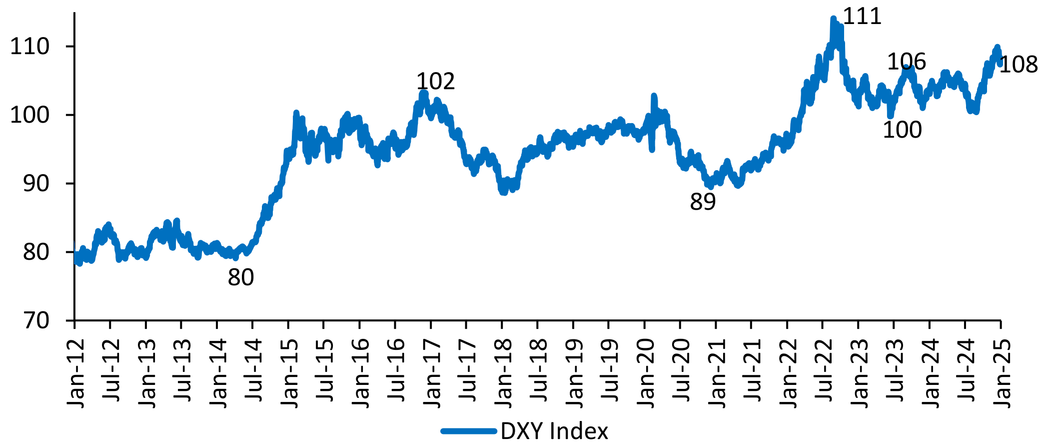
US 10yr treasury yield moderated in the second half of January 2025



US yield curve has steepened



DXY has stabilised in this range

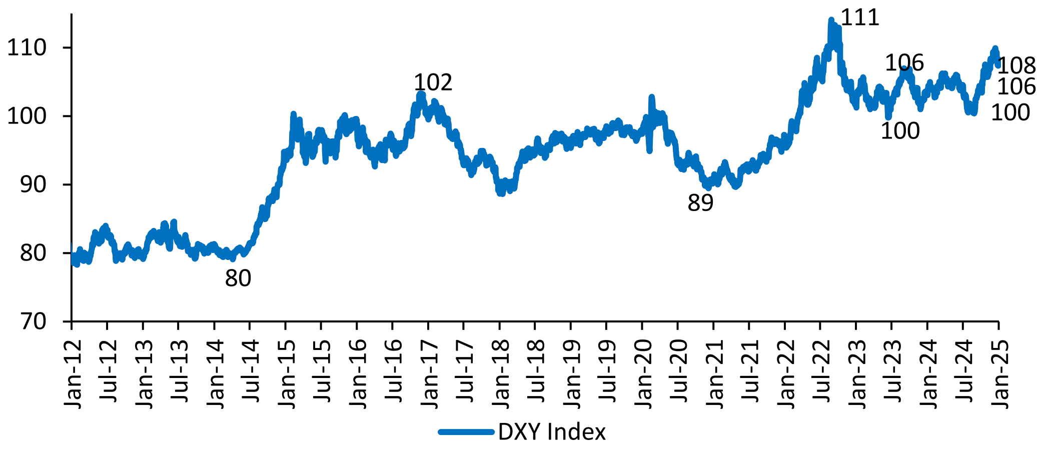


- Market is trying to assess Trump's policies regarding whether it stokes inflation or not.
- This continues to lend volatility to UST and DXY.
- Fed remained status quo on rates in its latest policy.

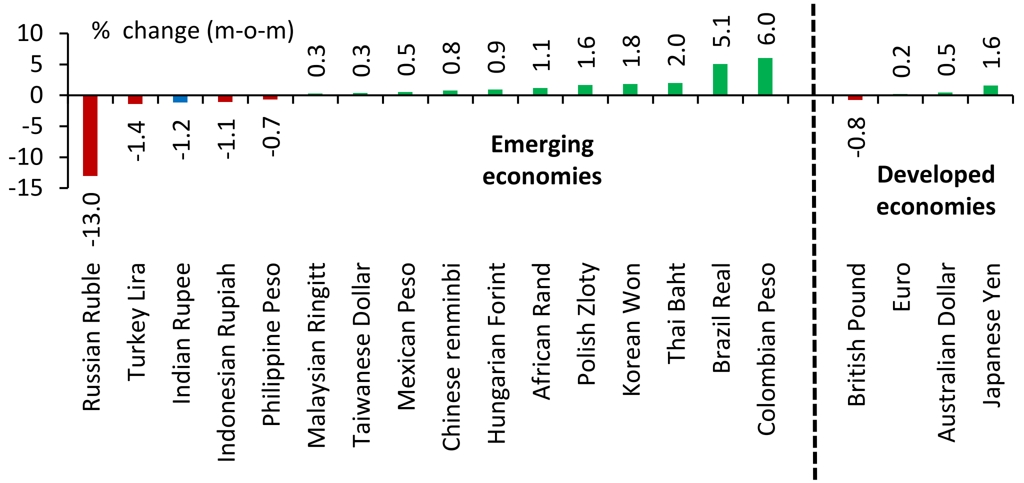
Source: Bloomberg, SBIFM Research

Strengthening of dollar index drives depreciation across key market currencies

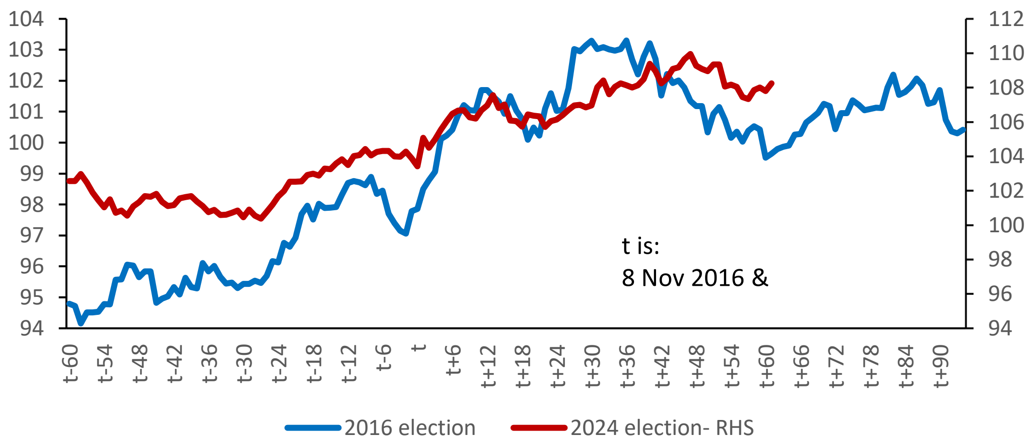
Dollar continues to show strength



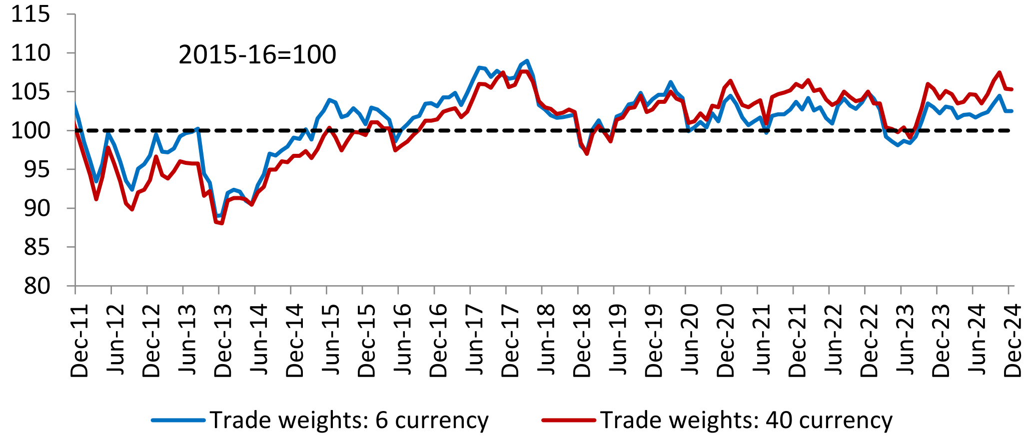
Movement in Key currencies m-o-m: Rupee has depreciated by 1.2% in January



Dollar, so far, rhyming the moves of 2016



INR is overvalued



Source: Bloomberg, SBIFM Research

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India Rates Snapshot: Indian yields rallied in January aided by RBI's liquidity support actions

Yields rally in January 2025

	2023 end	Nov-24	2024 end	Jan-25	m-o-m (in bps)
Repo rate	6.50	6.50	6.50	6.50	0
1 Yr T-Bill	7.13	6.65	6.69	6.63	-5
3 year GSec	7.07	6.63	6.73	6.64	-9
5 year GSec	7.09	6.69	6.72	6.62	-10
10 year GSec	7.18	6.78	6.79	6.70	-9
3 Yr Corp Bond*	7.78	7.48	7.58	7.52	-6
5 Yr Corp Bond*	7.79	7.37	7.46	7.34	-12
10 Yr Corp Bond*	7.76	7.28	7.24	7.17	-7
1 Yr IRS	6.64	6.41	6.51	6.34	-17
5 Yr IRS	6.19	6.05	6.20	6.09	-12
Overnight MIBOR Rate	6.90	6.76	7.15	6.65	-50
10 year SDL	7.65	7.15	7.15	7.11	-4
INR/USD	83.21	84.49	85.61	86.62	-1.2^
Crude oil Indian Basket**	77.43	73.03	73.34	80.24	9.4^

- Bond yields moderate over the month across all tenors January 2025.
- Rupee depreciated by ~1.2% to INR 86.6/$ in Jan'25 (vs. 85.6 a month ago).
- Oil prices increased by ~9% in Jan'25 vs. Dec'24, now at ~US$80/bbl level.

Source: Bloomberg, PPAC, RBI, CEIC, SBIFM Research; NB: *Corporate bond rate is for AAA rated bonds, **Crude oil price is average $/barrel for the month end , remaining data are % month end, ^INR and Oil price changes are % change, + denotes appreciation in rupee, -ve denotes depreciation

Indian G-sec yields rally in January; Indian bonds have largely been in green in since 2024

G-Sec yields decreased m-o-m in January 2025

Yield (%)	3 Month	6 month	1 Year	2 Year	3 Year	4 Year	5 Year	6 Year	7 Year	8 Year	9 Year	10 Year	30 Year
31-Dec-23	7.00	7.08	7.09	7.00	7.04	7.09	7.09	7.14	7.14	7.21	7.17	7.18	7.41
31-Jan-24	7.02	7.18	7.15	7.00	7.03	7.04	7.04	7.11	7.11	7.17	7.14	7.14	7.27
29-Feb-24	6.86	7.14	7.11	7.00	7.03	7.07	7.07	7.08	7.08	7.11	7.10	7.08	7.16
31-Mar-24	6.90	7.04	6.99	7.08	7.02	7.05	7.05	7.07	7.07	7.07	7.11	7.06	7.13
30-Apr-24	6.98	7.01	7.06	7.08	7.13	7.19	7.19	7.21	7.21	7.21	7.21	7.15	7.29
31-May-24	6.89	7.00	7.02	7.02	7.03	7.05	7.05	7.06	7.06	7.07	7.07	6.98	7.13
30-Jun-24	6.79	6.89	6.93	6.98	6.96	7.01	7.01	7.05	7.02	7.07	7.04	7.01	7.05
31-Jul-24	6.65	6.77	6.79	6.86	6.82	6.84	6.84	6.90	6.90	6.95	6.92	6.93	7.06
31-Aug-24	6.66	6.71	6.72	6.75	6.75	6.79	6.79	6.83	6.83	6.88	6.85	6.86	7.00
30-Sep-24	6.40	6.48	6.55	6.65	6.66	6.67	6.67	6.69	6.69	6.73	6.70	6.75	6.89
31-Oct-24	6.51	6.56	6.54	6.61	6.71	6.77	6.75	6.81	6.78	6.83	6.82	6.85	6.98
30-Nov-24	6.47	6.65	6.60	6.69	6.67	6.69	6.68	6.74	6.74	6.79	6.84	6.78	7.01
31-Dec-24	6.54	6.68	6.68	6.58	6.72	6.72	6.72	6.77	6.76	6.82	6.82	6.79	7.01
31-Jan-25	6.55	6.61	6.60	6.62	6.64	6.62	6.62	6.70	6.68	6.74	6.72	6.70	7.02

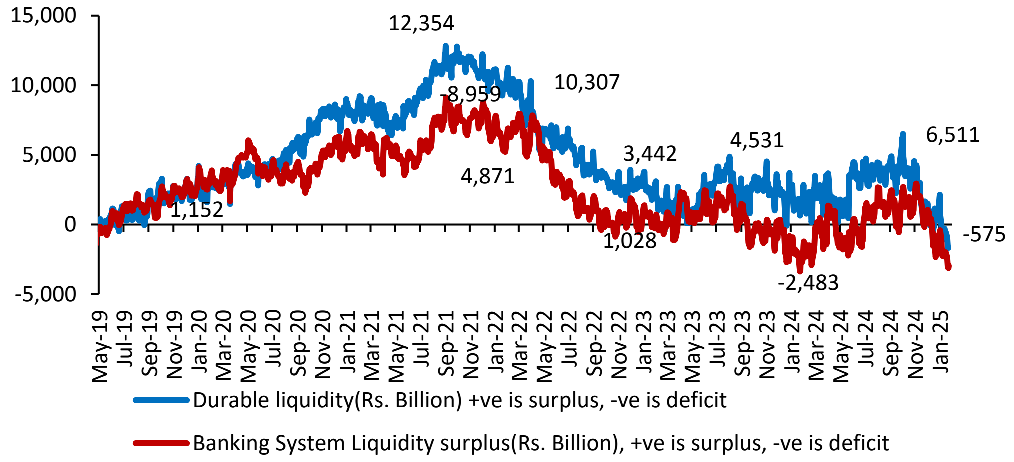
m-o-m change (in bps)	3 Month	6 month	1 Year	2 Year	3 Year	4 Year	5 Year	6 Year	7 Year	8 Year	9 Year	10 Year	30 Year
31-Dec-23	3	-5	-4	-22	-21	-18	-17	-16	-16	-13	-16	-11	-10
31-Jan-24	2	10	6	0	-1	-5	-5	-3	-3	-3	-3	-3	-14
29-Feb-24	-16	-4	-4	0	0	3	3	-3	-3	-7	-4	-7	-11
31-Mar-24	4	-10	-12	8	0	-1	-1	-1	-1	-4	1	-2	-3
30-Apr-24	8	-3	7	0	11	14	14	15	15	14	10	9	17
31-May-24	-9	-1	-4	-6	-10	-15	-15	-16	-16	-15	-14	-17	-16
30-Jun-24	-10	-11	-9	-4	-7	-4	-4	-1	-4	0	-3	3	-8
31-Jul-24	-14	-12	-14	-12	-13	-16	-17	-15	-12	-12	-12	-8	1
31-Aug-24	1	-6	-7	-11	-7	-6	-5	-7	-7	-6	-7	-6	-6
30-Sep-24	-26	-23	-17	-11	-10	-11	-12	-14	-14	-15	-14	-11	-11
31-Oct-24	11	8	-1	-4	5	10	8	12	9	10	12	10	9
30-Nov-24	-4	9	6	8	-4	-8	-7	-7	-4	-5	1	-7	3
31-Dec-24	7	3	8	-11	4	3	4	3	2	3	-2	1	0
31-Jan-25	1	-7	-8	4	-8	-10	-9	-7	-9	-8	-10	-9	1

Liquidity conditions in deficit; RBI announces measures to inject liquidity in the system

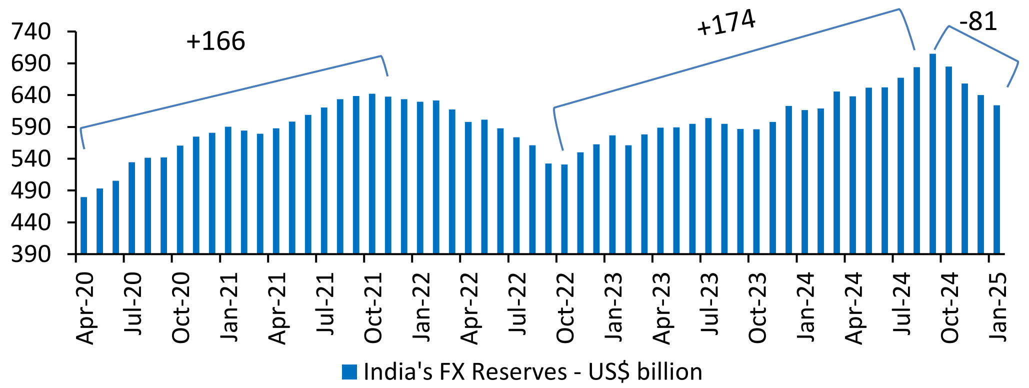
RBI takes various measures to inject ~INR 3tn liquidity since December 2024

- 50bps CRR cut in December policy- injected INR 1.2tn
- Conducts Rs. 260 billion of OMO purchase during 15th -24th Jan 2025 in the secondary market
- Announces another Rs. 600 bn of OMO purchase calendar during Jan –Feb 2025
- 56 days VRR – injected INR 500bn
- US$ Buy/sell swap for 6 months- US$5bn to be conducted on 31st Jan 2025

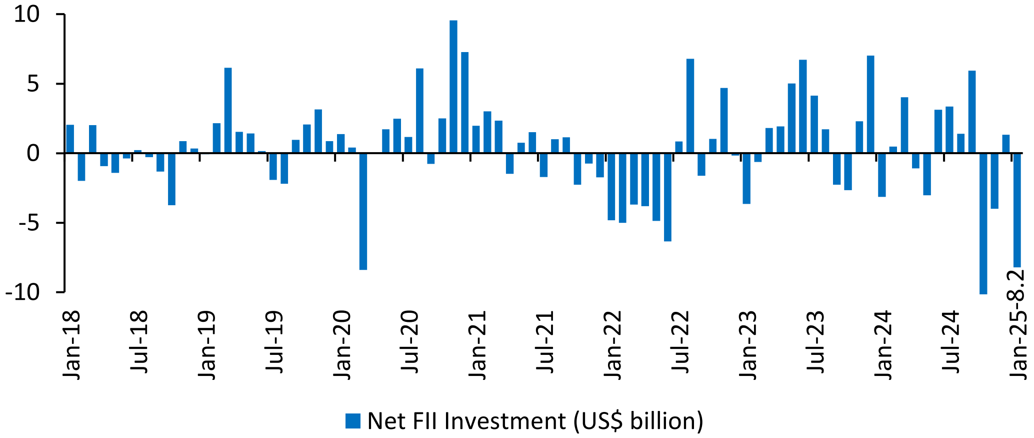
For now, banking system liquidity is still in a sharp deficit of Rs. 2-3 trillion



Liquidity drain on account of FX outflow and currency leakage; India's FX reserved drops by US$ 81 billion since Sep'24



FII selling continues in January



Source: RBI, CEIC, SBIFM Research; NB: Banking system liquidity data as on 24th Jan'25 and durable liquidity data as on 17th Jan'25

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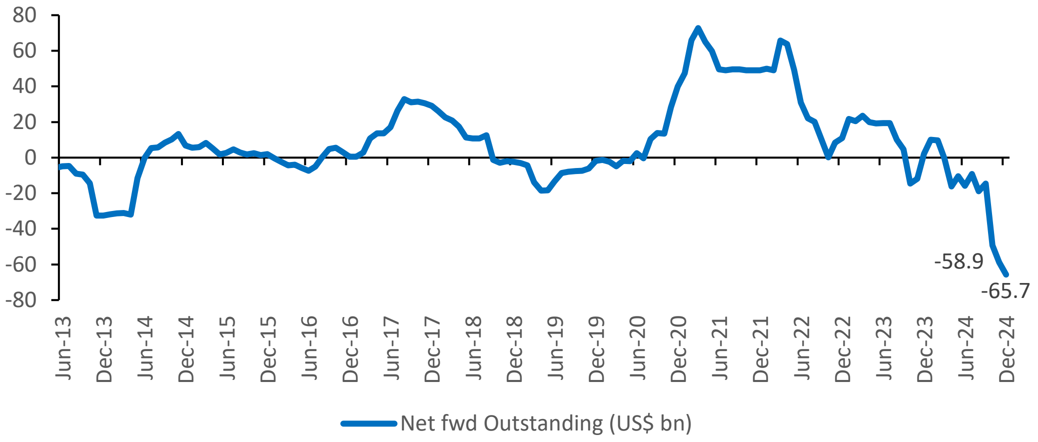
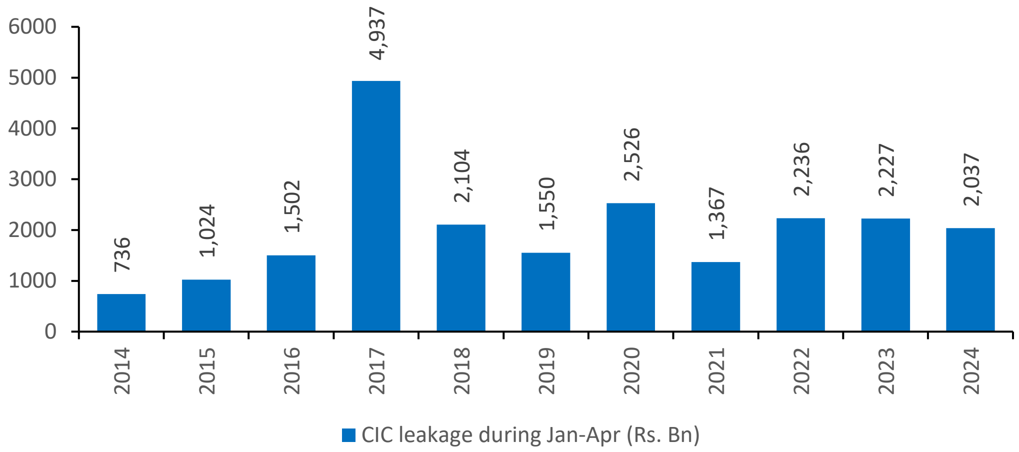
Liquidity could stay in deficit in Q4 FY25 despite RBI's measures

RBI's net forward outstanding book has risen to a sell of US$66 as on December; puts pressure on currency



CIC leakage from Jan-April is close to INR2tn

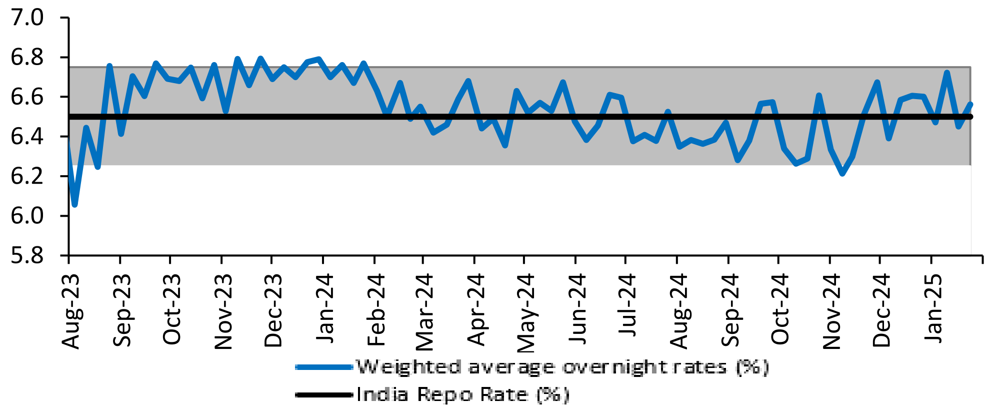


- Deterioration in India's FDI position and future dollar liabilities in RBI's book keeps us cautious on Rupee. Rupee could continue to depreciate further unless global outlook (Dollar outlook) changes materially.
- RBI will have to do more to address the liquidity concerns.

Source: RBI, SBIFM Research

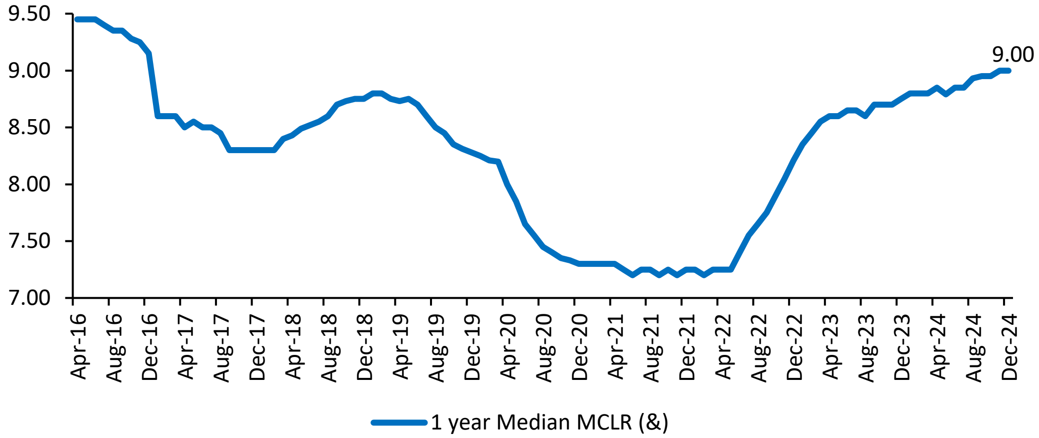
Liquidity challenges keep cost of borrowing for banks elevated in the system

Multiple liquidity measures taken by RBI keep overnight rates anchored around repo..

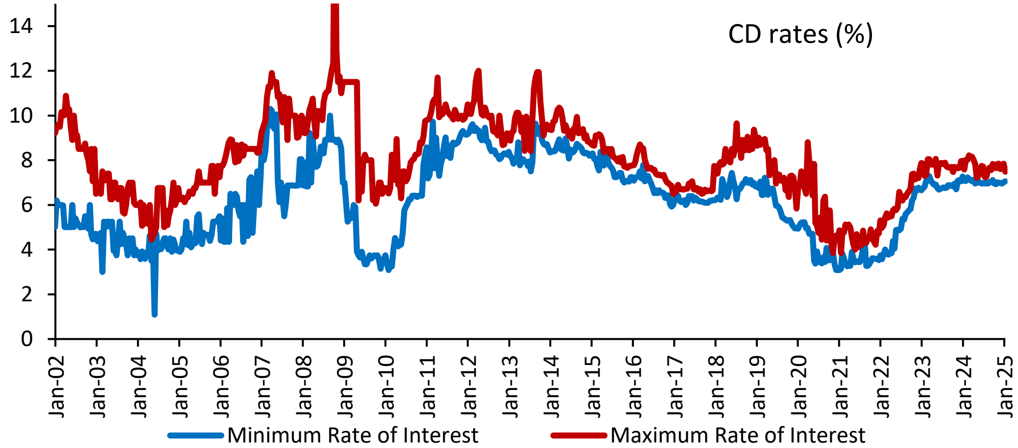


Note: The shaded area represents the policy corrridor- where upper end represents MSF and lower end represent reverse repo rate followed by SDF

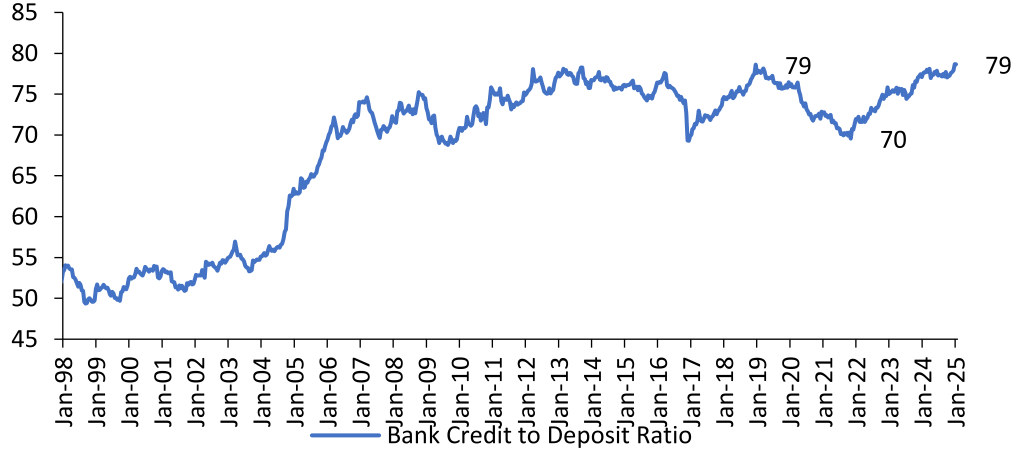
..Yet, cost of borrowing for bank continues to be elevated; MCLR rates move upwards



Certificate of deposit (CD) rates range from ~7-8% since 2023



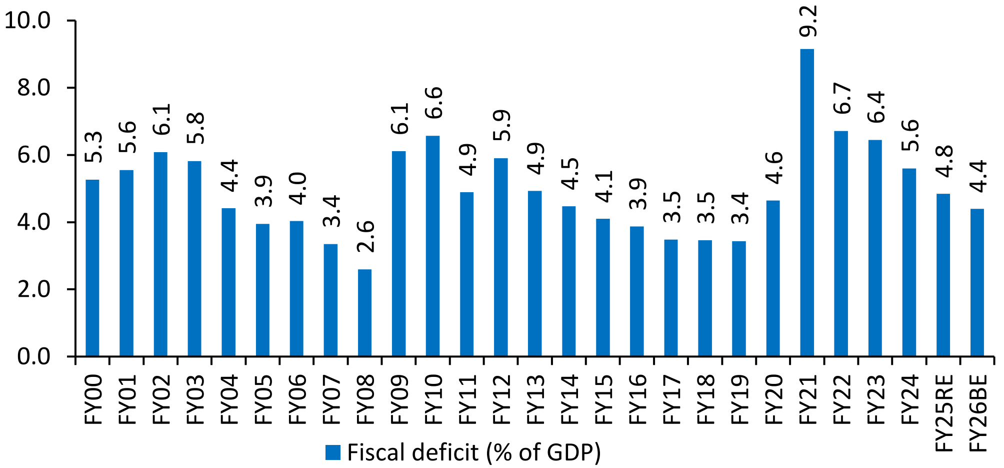
Struggle for deposits remains; Credit-deposit ratio at its highest level



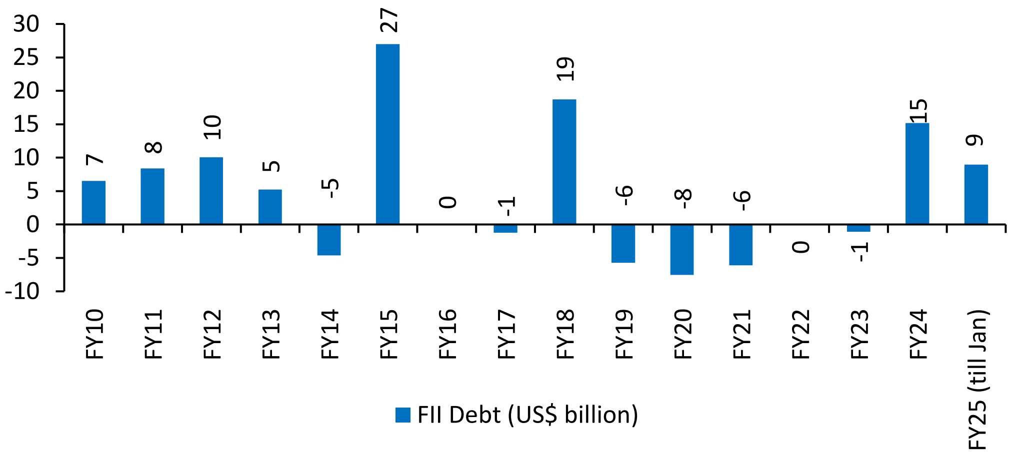
Source: Bloomberg, RBI, CEIC, SBIFM Research

Favorable demand- supply for long term Indian government bonds in 2025

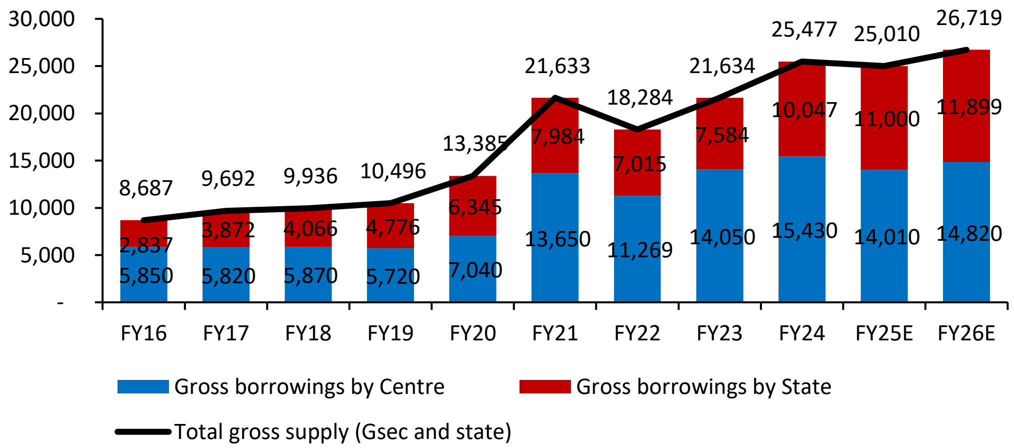
Central government advocates a faster consolidation in its deficit



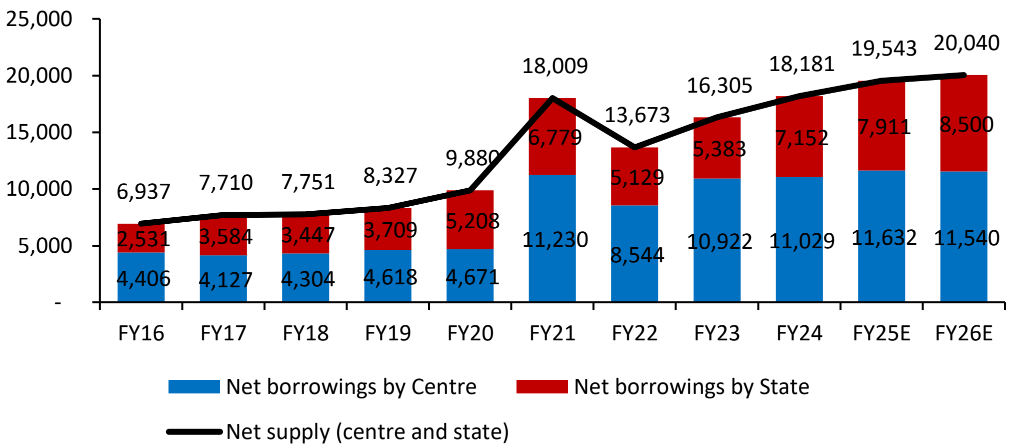
FIIs return to Indian debt after 5 years



Gross supply of government bond rises in FY26



Net supply broadly flat at an expected ~INR 20tn in FY26



Source: Bloomberg, SBIMF Research

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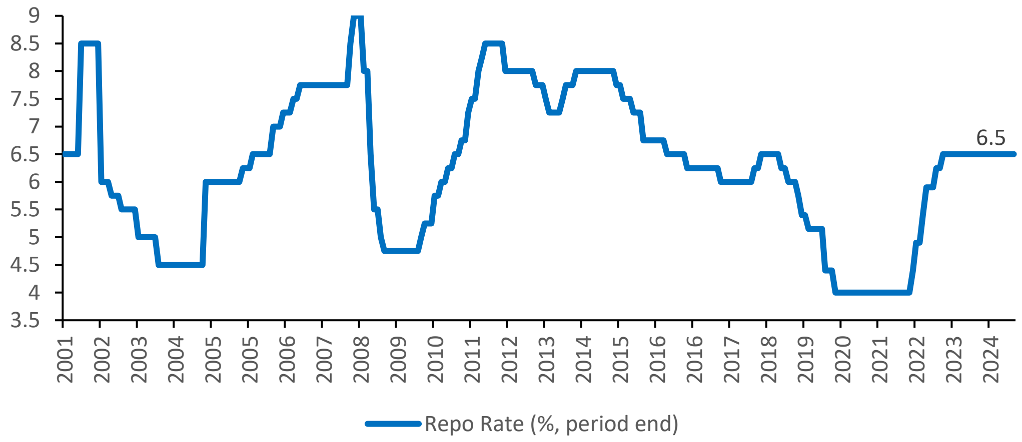
RBI retained stance at ‘neutral’ position’ in December policy; policy rate unchanged

Repo rate unchanged since April 2023 policy at 6.50%

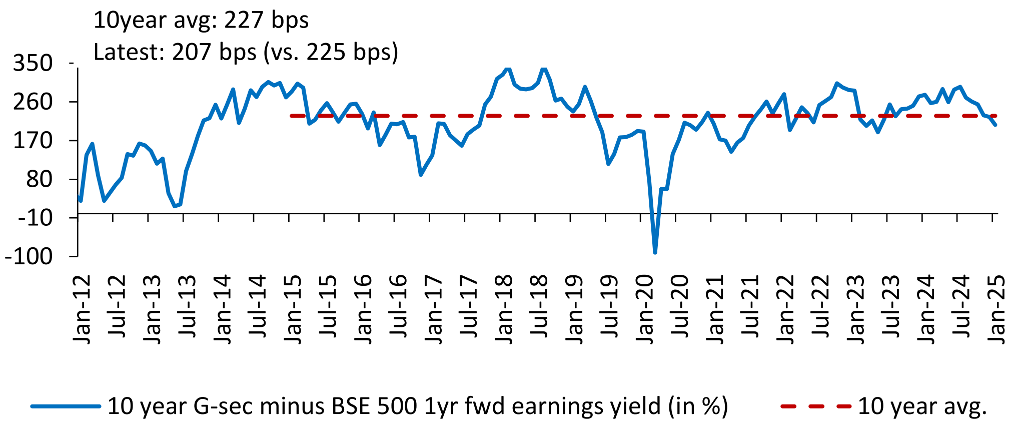


- RBI maintained status quo on rates in its December policy (Repo rate: 6.50%, SDF rate: 6.25% and MSF rate: 6.75%) with a majority of 4:2. The stance was retained at neutral. There was unanimous support for retaining stance.
- An interesting point is that two out of the three external members voted for a 25bps reduction in the repo rate, despite the November CPI print being close to 6%. This raises the question: does this signal that growth concerns are becoming more prominent among policymakers?
- On a separate note, the RBI decided to cut the Cash Reserve Ratio (CRR) by 50bps, bringing it back to pre-COVID levels of 4%. The CRR cut should help infuse around INR 1.2 trillion of liquidity.
- This move was well-timed, as banks were struggling to build a sufficient liability base to meet the growing demand for credit while also fulfilling regulatory requirements for the Statutory Liquidity Ratio (SLR) and Liquidity Coverage Ratio (LCR).
- Additionally, recent dollar capital outflows led the RBI to sell foreign exchange reserves, causing a simultaneous contraction in rupee liquidity.
- Growth expectations for FY25 were revised down to 6.6% y-o-y from the previous 7.2%, while CPI projections was raised to 4.8% from 4.5%. Inflation is now expected to average 5.7% in Q3 and 4.5% in Q4 FY25, up from the previous projections of 4.8% and 4.2%, respectively.
- Continued fiscal consolidation creates space for swifter actions by the monetary policy either in the form of liquidity support or via rate actions.

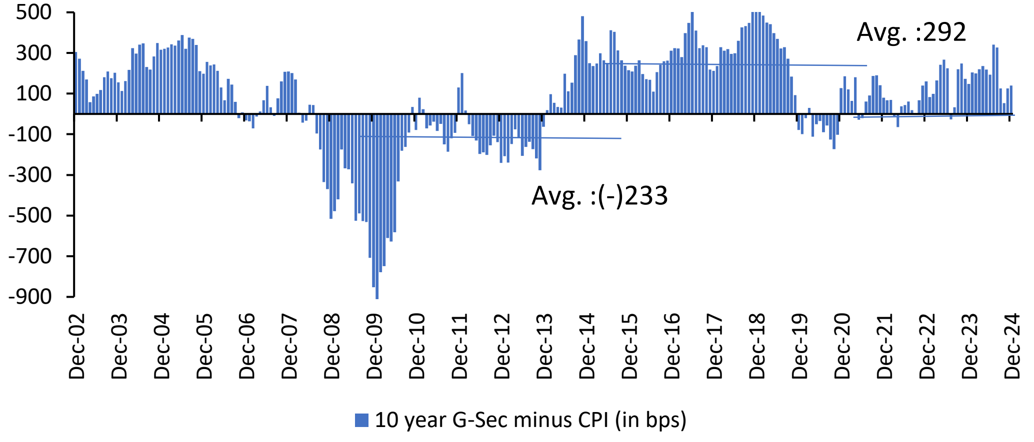
Source: Bloomberg, SBIFM Research

Indian G-sec valuations neutral to marginally attractive

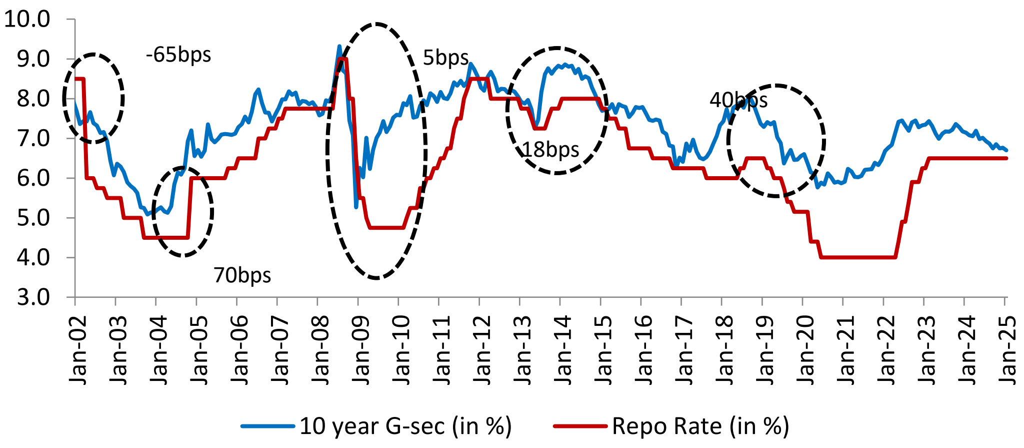
G-sec spread vs. equity is attractive



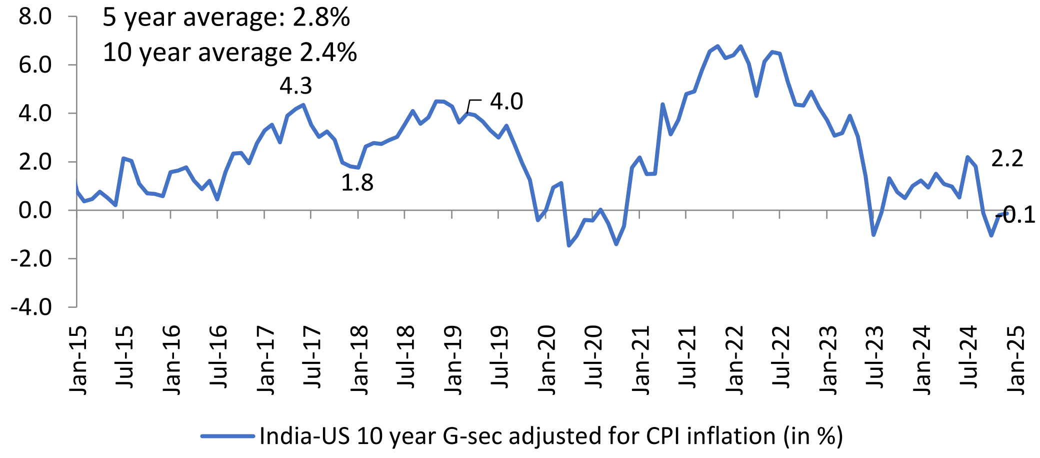
Real rate turns positive



While near-term outlook stays of an unchanged Repo rate, G-sec spread can compress when there is a greater clarity on rate cuts

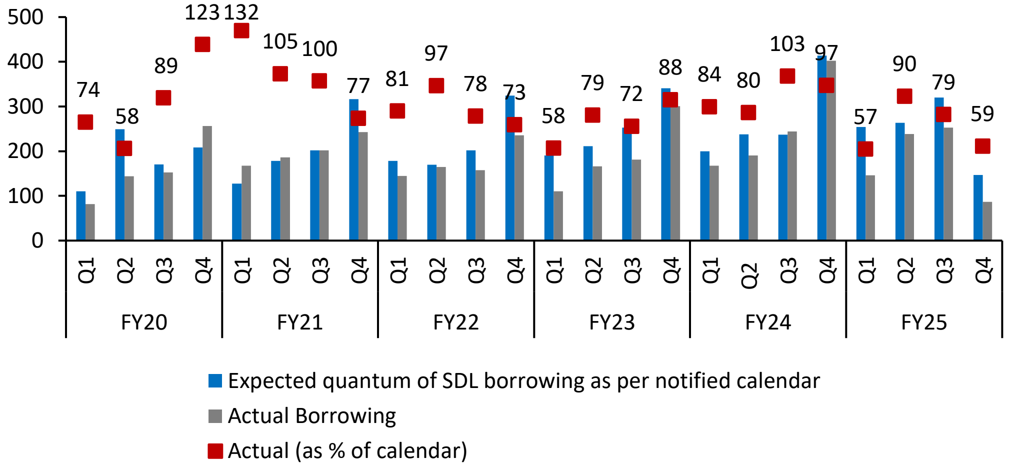


India-US Real interest rate spread at -0.1%pt – lower than its 5yr and 10yr average

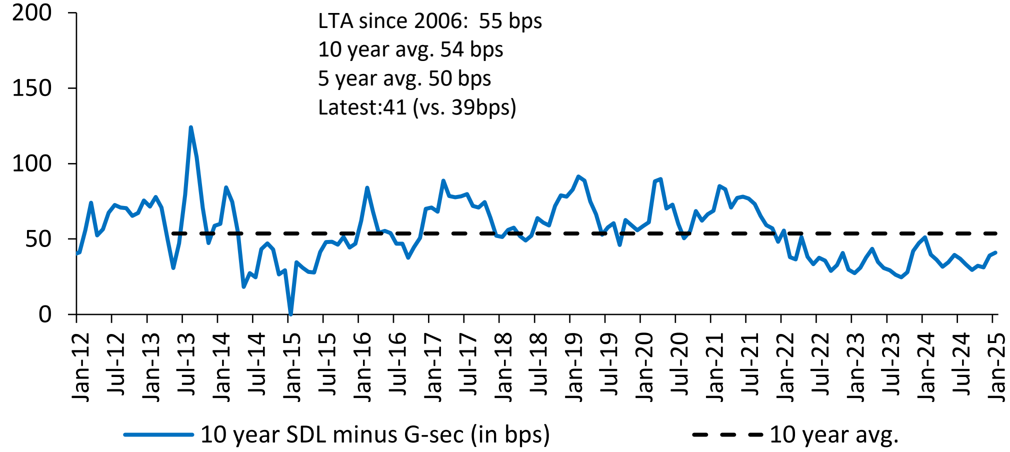


SDL issuances at 74% of their indicated calendar amount FYTD

SDL issuances at 59% of their indicated calendar amount in January 2025; likely to pick-up in February and March



SDL spreads widens m-o-m in January



Source: RBI, Bloomberg, CEIC, CAG, SBIFM Research; NB: Q4 data for SDL issuances as of January end

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FIIs stay as a marginal buyer of Indian bonds

India witnessed Debt inflows in December and January

EM FII Debt inflow US$ million	2023	2024	Nov-24	Dec-24	Jan-25
China	24,760	56,344	92,288	56,344	30,216
South Korea	60,647	43,139	2,763	1,955	897
South Africa	(17,598)	(6,307)	(517)	737	437
India	8,445	16,832	(114)	1,578	178
Ukraine	(387)	(548)	(1)	(49)	2
Indonesia	5,142	3,300	(805)	412	(22)
Thailand	319	(1,092)	(854)	356	(358)
Mexico	5,019	2,090	(497)	3,441	(1,184)
Poland	9,093	24,275	2,274	-	-
Czech Republic	(1,535)	5,153	-	-	-
Philippines	3,073	4,169	224	-	-
Bulgaria	1,940	2,521	(150)	-	-
Malaysia	3,767	275	(318)	(429)	-
Russia	-	-	-	-	-
Brazil	(9,996)	(16,082)	(3,560)	(54)	-

FII flows in EM bonds are muted despite healthy inflation adjusted returns

Real rates	10 Year Gsec Yield (% mth end, Dec'24)	CPI Inflation Dec'24	Real Rate (%, 10 year G-Sec Yield minus CPI)	12M FX forward premium (in %) - Dec 2024	10 year G-sec yield adjusted for 12m fwd premium (in %)- Dec 2024
Brazil	13.4	4.8	8.6	6.7	8.5
South Africa	10.2	3.0	7.2	7.6	2.7
Mexico	10.1	4.2	5.8	10.0	0.5
Colombia	10.9	5.2	5.7	9.2	2.6
Indonesia	6.9	1.6	5.3	6.6	0.4
Phillippines	6.8	2.9	3.9	5.6	1.2
Malaysia	3.8	1.7	2.1	2.9	0.9
China	2.0	0.1	1.9	2.2	-0.5
Hungary	6.3	4.6	1.7	6.1	0.5
India	6.7	5.2	1.5	2.6	4.2
Thailand	2.3	1.2	1.1	2.6	-0.4
South Korea	2.8	1.9	0.9	2.4	0.5
Poland	5.5	4.7	0.8	5.8	0.1
Taiwan	0.5	2.1	-1.6	1.2	-0.7
Turkey	29.2	44.4	-15.2	41.9	-12.8

Data sorted by real yield

Source: CEIC, Bloomberg, RBI, SBIFM Research; NB: '-' implies data not available for the respective country

Debt Outlook: Near-term fundamentals dictate favorable outlook

- Leading into the Budget, the key expectations from the Fixed income perspective were for continuation of the fiscal consolidation path. At the same time expectations on the gross borrowing numbers were anchored around Rs 14.0 trillion with some aggressive estimates being even lower. This was contingent on assumptions of RBI doing switches with the GoI with respect to its maturing Government securities in the coming year. Seen from this angle , the eventual outcome today can be seen as underwhelming from a market positioning perspective.

- While the government has targeted the FY26 FD estimate at 4.4% in line with the anticipated range, with net borrowings stable at Rs 11.53 Trillion, the gross numbers have been budgeted higher at Rs 14.82 trillion. A higher gross borrowing number may be seen marginally negative vis a vis expectation. However, the demand- supply balance remains favourable on a broader level. This will also be bolstered by the requirement for the RBI to conduct OMO purchases in the near term given the pressures on core liquidity. The focus from the market perspective would be more on potential RBI actions going forward. While the possibility of repo rate reduction would be debated, the sequencing of the same would be subjective, with any rate actions likely to remain ineffective if liquidity conditions remain tight and persistent pressures on the currency continues.

Source: Bloomberg, SBIFM Research

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Asset Management Company: SBI Funds Management Limited (A joint venture with SBI and AMUNDI). Trustee Company: SBI Mutual Fund **Trustee Company** Private Limited.

Contact Details

SBI Funds Management Limited

(A joint venture between SBI and AMUNDI)

Corporate Office:
9th Floor, Crescenzo,
C-38 & 39, G Block,
Bandra Kurla Complex,
Bandra (East), Mumbai - 400 051
Tel: +91 22 6179 3000
Fax: +91 22 6742 5687/88/89/90/91
Website: www.sbimf.com

Call: 1800 425 5425

SMS: "SBIMF" to 7065611100

Email: customer.delight@sbimf.com

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