

## No meaningful rise in Centre's capex spends yet

1 January 2025

**Key takeaway:** The Centre's fiscal deficit widened to INR 8.5tn in April-November FY25 versus INR 9.06tn in April-November FY24, equivalent to 52.5% of BE during April-November FY25 versus 50.7% of BE during April-November FY24. Overall receipts were 59.1% of FY25BE at INR 18.9tn versus 64.3% of FY24BE at INR 17.4tn in the past year. Total expenditure grew by 3.35% YoY in April-November FY25, a slowdown versus 8.57% YoY growth in the same period last year. While capital spending saw a pick-up in November, it remained lower by 12.3% YoY till November 2024. While we anticipate an uptick for last four months, is likely to fall short of the annual target, by ~INR 750bn. In line with this, we project a fiscal deficit of 4.8% vs 4.9% budgeted driven by healthy revenue collections amidst constrained capital spending even as nominal GDP growth is expected to be lower than 10.5% projected in the budget. Amid moderating growth and expectation of first rate cut in Feb 2025, we expect a softening of the 10-year yield in the coming months.

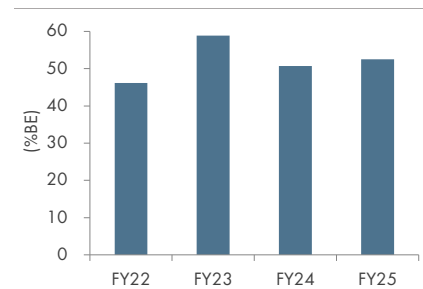
**Revenue receipts Growth steady:** During April-November FY25, revenue receipts grew albeit at slower pace by 8.7% YoY versus 20.9% last year, marking the slowest pace of expansion for the second month since Aug-23. The moderation was primarily led by muted growth in net tax revenues, up mere by 0.5% YoY. Gross tax revenues continue to moderate for the fifth consecutive month by 10.7% YoY in April-November FY25, albeit slower than the 14.7% growth recorded in the same period of FY24. The slower growth in gross tax collections was due to a slight drop in corporate tax collections by 0.5% YoY amid refunds and a decline in union excise duties by 0.6% YoY. In contrast, income tax collections remained a strong contributor and grew 23.5% YoY versus an impressive growth of 29.4%YoY during the same period last year.

**Revenue expenditure growth healthy after general elections:** The Centre's revenue expenditure grew by 7.8% YoY in April-November FY25 (3.6% in April-November FY24) and accounted for 60.1% of FY25BE versus 59.0% of FY24BE. The government's revenue spending picked pace post general elections and showed healthy progress. In the first eight months of the fiscal, the Centre spent INR 2.7tn on overall subsidy, which is up by 15% YoY and touched 73% of FY25BE versus 65% of FY24BE.

The Central government has recently presented the first batch of supplementary grants. The net cash outgo for FY24 is pegged at INR 441.42bn in FY25. Among the allocations, the Agriculture & Farmers Welfare Ministry accounts for the largest share, with an additional INR 77bn. This includes ~INR 31bn earmarked for the PM Kisan Samman Nidhi scheme. Also, a major portion of ~INR 65.9bn is allocated to fertilizer subsidy. With this additional expenditure, the Agriculture & Farmers Welfare Ministry for this year is now pegged at INR 1.30tn and fertilizer subsidy at ~INR 1.70tn.

**Capex – Modest rebound in November yet falling short in FY25:** Overall Capital expenditure has remained subdued, with recovery seeming unlikely in the current fiscal year. In November alone, capital expenditure rose 21.3% YoY, marking the third-highest growth this fiscal year, but the overall performance through April-November decelerated 12.3% YoY. Despite the uptick in November, the progress toward achieving the capex target remains insufficient. While recent policy adjustments – removal of the cap on capex spending – may boost spending momentum, overall capital expenditure is still expected to fall short of the target by INR 750bn. Among key ministries, the Ministry of Road Transport & Highways and the Ministry of Railways spent 54% and 67% of their annual capex allocation in April-November FY25. Capital outlay by the Defence Ministry was at 41% of FY25BE versus 53% of FY25BE during the same period last year.

Fiscal deficit at 52.5% of FY25BE



Note: April-Nov of each fiscal year, Source: CMIE, Elara Securities Research

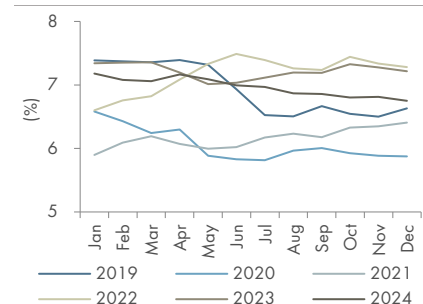
Revenue spending momentum holds up

Year (YoY %)	Total expenditure	Revenue expenditure	Capital expenditure
FY23	17.7	10.8	63.4
FY24	8.6	3.6	31.0
FY25	3.3	7.8	(12.3)

Note: \* April-Nov of each FY

Source: CMIE, Elara Securities Research

India's current 10-year yield at 6.75%



Source: CMIE, Elara Securities Research

Global Markets Research

**Garima Kapoor**

Economist  
+91 22 6164 8527  
garima.kapoor@elaracapital.com

Associates  
Subhankar Sanyal  
Shweta Roy



### State capex continues to disappoint, shortfall likely

Overall capex data for 19 states through April-November FY25 (released till date) indicates a decline of ~6% YoY in the period to INR 3.4tn versus the same period last financial year, amounting to 42.2% of BE (19 states combined), lower than 47.3% seen in the same period last financial year. In November 2024, capex picked up to INR 3.2tn versus an average of INR 2.2tn in the past three months, indicating that the states are looking to shake off election-related inactivity. Among the states (ex-Assam, Uttarakhand, and Himachal Pradesh), 30% have spent >= 50% of their budgeted capex for FY25, led by Telangana, Bihar, and Haryana even as Andhra Pradesh, Chhattisgarh, and Maharashtra lag.

### GST collection at INR 1.77tn moderates to 7.3% YoY in December

GST collections at INR 1.77tn moderated to 7.3% YoY in December and sequentially from INR 1.82tn in November. In FY25 (April-December), the average GST amounted to INR 1.81tn versus INR 1.66tn in the same period in FY24. Internal data suggests that domestic GST collection is 8.4% higher than the revenues from these sources during the same month last year. In December, as per percentage YoY change among major states, Haryana, Punjab and Jharkhand were the top three states with growth of 28%, 22% and 13%, respectively, compared with the same period in FY24. GST collection for Andhra Pradesh in the month of December declined by 6%YoY while for Uttar Pradesh and Madhya Pradesh lagged with a rise of just 1% each.

### We continue to hold our call for 10-year yield at 6.7% by March 2025E

We maintain our outlook for India's 10-year bond yields at 6.7% by the end of March 2025E, driven by domestic economic developments. **We expect the MPC to cut policy repo rate by 25bps in Feb 2025E and expect a total of 75bps rate cut this easing cycle.** Such a policy move could ease pressure on bond yields amid weak growth domestic momentum, paving the way for a gradual softening in the months ahead.

### Exhibit 1: India – Fiscal summary through April-November each fiscal year

(INR tn)	FY21	FY22	FY23	FY24	FY25
<b>Total receipts</b>	<b>8.3</b>	<b>13.8</b>	<b>14.6</b>	<b>17.5</b>	<b>18.9</b>
<b>% BE</b>	<b>37.0</b>	<b>69.8</b>	<b>64.1</b>	<b>64.3</b>	<b>59.1</b>
Revenue receipts	8.1	13.6	14.2	17.2	18.7
% BE	40.2	76.0	64.6	65.4	59.8
Net tax revenue	6.9	11.4	12.2	14.4	14.4
% BE	42.1	73.5	63.3	61.6	55.9
Non tax revenue	1.2	2.2	2.0	2.8	4.3
% BE	32.3	91.8	73.6	94.3	78.3
Non-debt capital receipts	0.2	0.2	0.4	0.3	0.2
% BE	8.1	11.0	52.3	30.3	30.7
<b>Total expenditure</b>	<b>19.1</b>	<b>20.7</b>	<b>24.4</b>	<b>26.5</b>	<b>27.4</b>
<b>% BE</b>	<b>62.7</b>	<b>59.6</b>	<b>61.9</b>	<b>58.9</b>	<b>56.9</b>
Revenue expenditure	16.7	18.0	20.0	20.7	22.3
% BE	63.3	61.5	62.5	59.0	60.1
Capital expenditure	2.4	2.7	4.5	5.9	5.1
% BE	58.5	49.4	59.6	58.5	46.2
<b>Fiscal deficit</b>	<b>10.8</b>	<b>7.0</b>	<b>9.8</b>	<b>9.1</b>	<b>8.5</b>
<b>% BE</b>	<b>135.1</b>	<b>46.2</b>	<b>58.9</b>	<b>50.7</b>	<b>52.5</b>

Note: April-November of each fiscal year; Source: CMIE, Elara Securities Research

**Exhibit 2: Gross tax revenue each fiscal year**

(INR tn)	FY24	FY25	YoY (%)
Gross tax revenue	20.4	22.6	10.7
Income tax	5.7	7.0	23.5
Corporate tax	5.1	5.1	(0.5)
Customs duty	1.4	1.5	8.7
Excise duty	1.8	1.8	(0.6)
Service tax	0.0	0.0	(75.7)
CGST	5.3	6.0	12.9
UT GST	0.0	0.0	(20.2)
IGST	(0.1)	(0.3)	117.7
GST Cess	0.9	1.0	7.3
<b>Other taxes and duties</b>	<b>0.2</b>	<b>0.4</b>	<b>70.4</b>

Note: April-Nov of each fiscal year; Source: CMIE, Elara Securities Research

**Exhibit 3: Total expenditure by central government – Cumulative percentage share of BE in Apr-Nov**

Ministry	FY24	FY25
<b>% share in BE</b>		
Ministry of Agriculture	54.6	61.5
Ministry of Chemicals and Fertilisers	71.6	71.8
Ministry of Coal	171.9	282.7
Ministry of Defence	67.6	64.1
Ministry of New and Renewable Energy	39.1	56.7
Ministry of Heavy Industries	29.6	19.8
Ministry of Jal Shakti	51.6	31.2
Ministry of Micro, Small and Medium Enterprises	17.9	19.9
Ministry of Petroleum and Natural Gas	5.1	21.3
Ministry of Power	44.9	68.9
Ministry of Road Transport and Highways	67.9	54.0
Ministry of Rural Development	54.8	57.5
Ministry of Housing and Urban Poverty Alleviation	47.48	35.74
Ministry of Railways	82.3	76.7

Source: CMIE, Elara Securities Research

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## India

**Elara Securities (India) Private Limited**  
One International Center, Tower 3,  
21st Floor, Senapati Bapat Marg,  
Elphinstone Road (West)  
Mumbai – 400 013, India  
Tel : +91 22 6164 8500

## Europe

**Elara Capital Plc.**  
6th Floor, The Grove,  
248A Marylebone Road,  
London, NW1 6JZ,  
United Kingdom  
Tel : +44 20 7486 9733

## USA

**Elara Securities Inc.**  
230 Park Avenue, Suite 2415,  
New York, NY 10169, USA  
Tel: +1 212 430 5870  
Fax: +1 212 208 2501

## Asia / Pacific

**Elara Capital (Asia) Pte.Ltd.**  
One Marina Boulevard,  
Level 20,  
Singapore 018989  
Tel : +65 6978 4047



### Managing Director

**Harendra Kumar** | harendra.kumar@elaracapital.com | +91 22 6164 8571



### Head of Research

**Dr Bino Pathiparampil** | bino.pathiparampil@elaracapital.com | +91 22 6164 8572

## Sales Team



### India

**Hitesh Danak** - hitesh.danak@elaracapital.com - +91 22 6164 8543  
**Ashok Agarwal** - ashok.agarwal@elaracapital.com - +91 22 6164 8558



### India, APAC & Australia

**Sudhanshu Rajpal** - sudhanshu.rajpal@elaracapital.com - +91 22 6164 8508  
**Joshua Saldanha** - joshua.saldanha@elaracapital.com - +91 22 6164 8541  
**Shraddha Shrikhande** - shraddha.shrikhande@elaracapital.com - +91 22 6164 8567



### India & UK

**Prashin Lalvani** - prashin.lalvani@elaracapital.com - +91 22 6164 8544



### India & US

**Karan Rathod** - karan.rathod@elaracapital.com - +91 22 6164 8570



### Corporate Access, Conference & Events

**Anita Nazareth** - anita.nazareth@elaracapital.com - +91 22 6164 8520  
**Tina D'souza** - tina.dsouza@elaracapital.com - +91 22 6164 8595

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#### Elara Securities (India) Private Limited

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