CareEdge RATINGS

# ANALYSIS OF INTERIM BUDGET

## 2024-25

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# Budget of Fiscal Prudence

Navigating the intricate journey of presenting an interim budget in the lead-up to general elections presents a formidable challenge. The incumbent government, under the astute stewardship of Honourable Finance Minister Nirmala Sitharaman, has adeptly managed to navigate this challenge. Striving to steer clear of overly populist measures that could jeopardize fiscal prudence, the administration has also remained attuned to the citizenry's needs and ambitions. This has resulted in a delicate balancing act, culminating in a budget that stands as a testament to stability, growth, and the government's unwavering dedication to inclusive development.

In a strategic move to convey a strong message of fiscal stability and predictability, the government has wisely decided to maintain the existing rates for direct and indirect taxes, including export duties. This decision is pivotal in ensuring that the economy continues on its trajectory of recovery and growth, thereby providing a sense of security and continuity for businesses and individuals alike.

The government has taken a bold step by elevating the capital expenditure for FY25 by 11% to ₹11.1 lakh crore, a significant increase from the ₹10 lakh crore earmarked in the previous budget. This move unequivocally underscores the government's resolve to fortify infrastructure development as a cornerstone for sustainable economic growth. This critical investment is set to catalyse growth across a plethora of sectors, ranging from construction to technology, thereby not only generating a multitude of employment opportunities but also invigorating economic activity nationwide.

By judiciously adjusting the fiscal deficit to 5.1% of GDP for FY25, the Finance Minister has reaffirmed the government's commitment to prudent fiscal management. This is crucial not only for maintaining investor confidence but also for ensuring the long-term economic stability and health of the nation. Additionally, the launch of initiatives aimed at assisting the middle class in homeownership and the expansion of healthcare coverage via the Ayushman Bharat scheme for ASHA and Anganwadi workers marks a significant enhancement of the social safety net. These measures address some of the most pressing welfare concerns, reflecting the government's sensitivity to the needs of its citizens.

Emphasizing the government's focus on women's economic empowerment, the ambitious goal to increase the number of 'Lakpati Didis' is noteworthy. This initiative is not just about financial inclusion; it represents a broader recognition of the potential of women entrepreneurs as catalysts for economic transformation. Substantial investments in infrastructure development reflect a visionary and strategic approach. This approach is aimed at leveraging assets to fund future growth initiatives, thereby enhancing India's global connectivity and competitiveness without compromising fiscal health.

The substantial allocations for supporting research and innovation in the private sector represent a forward-thinking investment in India's future. These initiatives, coupled with efforts to achieve self-reliance in oilseeds and providing support for dairy farmers, reflect a comprehensive approach to agricultural and rural development. This ensures sustainability and resilience in these crucial sectors. Furthermore, the plans to encourage states to develop and globally market iconic tourist centres are a testament to the untapped potential of India's rich cultural heritage. This strategy not only promises to boost tourism but also preserves and promotes India's diverse cultural fabric.

As we look to the future, the 2024 Interim Budget lays a solid foundation for optimism and reflects a confident and fiscally prudent government. It is a budget that skillfully balances fiscal responsibility with the imperative for growth. It aims to empower the vulnerable while fostering innovation, and it underscores a steadfast commitment to inclusive development.

**Mehul Pandya,**
MD & CEO, CareEdge

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# Budget Overview

# Budget in a Nutshell

- Focus on fiscal consolidation with target to reduce fiscal deficit below 4.5% by FY26.
- Fiscal deficit for FY25 budgeted at 5.1% of GDP, much lower than market expectations. Fiscal deficit to GDP for FY24 estimated at 5.8%, lower than the budgeted figure of 5.9%.
- Nominal GDP growth for FY25 projected at 10.5%, as against 8.9% estimated (first advance estimate) for FY24.
- Capital expenditure outlay for FY25 budgeted to increase by 16.9% to Rs 11.11 trillion. This accounts for 3.4% of the GDP.
- FY25 gross market borrowing budgeted at Rs 14.13 trillion, ~8% lower than FY24 revised estimate.
- FY25 net market borrowing budgeted at Rs 11.75 trillion, ~0.4% below FY24 revised estimate.
- The 50-year interest-free loan scheme to states for capex to continue with an outlay of Rs 1.3 trillion for FY25.
- Tax rates for direct taxes and indirect taxes including import duties left unchanged.
- Extension of certain tax benefits to start-ups, investments made by sovereign wealth or pension funds, and tax exemption on certain income of some IFSC units to continue for another year till 31 March 2025.

# Key Focus Areas

## Infrastructure Development and Investment

- Implementation of 3 major economic railway corridor programmes identified under PM Gati Shakti.
- Conversion of 40,000 normal rail bogies to the Vande Bharat standards.
- Acceleration of urban transformation via expansion of Metro Rail and NaMo Bharat.
- Setting up of more medical colleges by utilising the existing hospital infrastructure.
- Negotiations of bilateral investment treaties to encourage sustained foreign investment.

## Technology and Innovation

- Establishment of a corpus of Rs 1 trillion with 50-year interest free loan to encourage research by private sector in sunrise domains.
- Launch of a scheme to strengthen deep-tech technologies for defence purposes.

## Green Energy and Sustainable Development

- Provision of viability gap funding to harness offshore wind energy potential for initial capacity of 1 giga-watt.
- Coal gasification and liquefaction capacity of 100 metric tonne to be set up by 2030.
- Phased mandatory blending of compressed biogas in compressed natural gas and piped natural gas.
- Financial assistance for procurement of biomass aggregation machinery.
- Rooftop solarisation to enable 1 crore households to obtain up to 300 units of free electricity per month.
- Strengthening e-vehicle ecosystem including greater adoption of e-buses for public transport networks.

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# Key Focus Areas

## Agriculture, Food Processing and Fishing

- Promotion of private and public investment in post-harvest activities including modern storage and processing.
- Application of Nano-DAP to be expanded in all agro-climatic zones.
- Formulation of Atmanirbhar Oilseeds Abhiyaan strategy.
- Formulation of a comprehensive programme to support dairy farmers and to control foot and mouth disease among milch-animals.
- Implementation of Pradhan Mantri Matsya Sampada Yojana to be stepped up to enhance aquaculture productivity. Five integrated aquaparks to be setup.

## Inclusive Development

- Additional 2 crore houses targeted for next 5 years under Pradhan Mantri Awas Yojana (Grameen). Housing for Middle Class scheme to be launched.
- Development of iconic tourist centres to promote opportunities for local entrepreneurship.
- Extension of health cover under Ayushman Bharat scheme to all ASHA, Anganwadi workers.
- Rolling out of U-WIN platform for managing immunisation and intensify efforts of Mission Indradhanush.
- Encourage vaccination for girls in age group of 9-14 years for prevention of cervical cancer.
- Formation of a high-powered committee to address challenges arising from fast population growth and demographic changes.

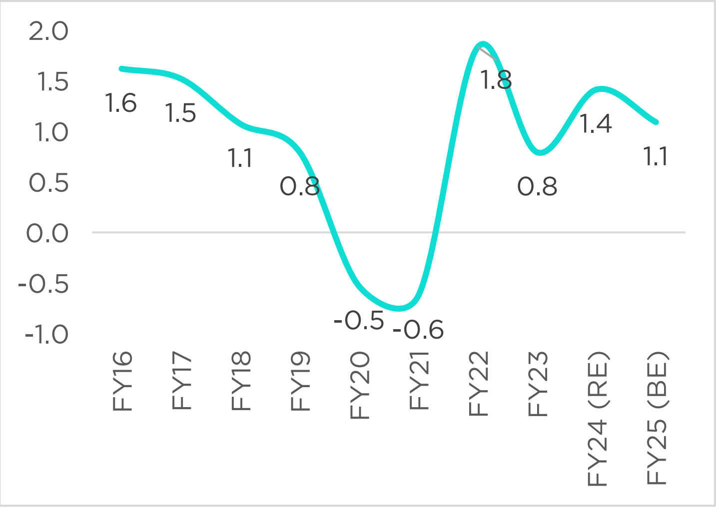
# Fiscal Math

# Tax Revenue Expectations Appear Credible

| | FY25 (BE) | FY24 (RE) | FY25 (BE) |
|---|---|---|---|
| | Rs Billion | Y-o-Y % | |
| **Gross Tax Revenue** | **38308** | **12.5%** | **11.5%** |
| Corporate Tax | 10428 | 11.7% | 13.0% |
| Income Tax | 11560 | 22.7% | 13.1% |
| Goods & Service Tax | 10677 | 12.7% | 11.6% |
| Customs | 2313 | 2.5% | 5.8% |
| Union Excise Duty | 3188 | -4.8% | 5.0% |

Source: Union Budget Documents, CareEdge

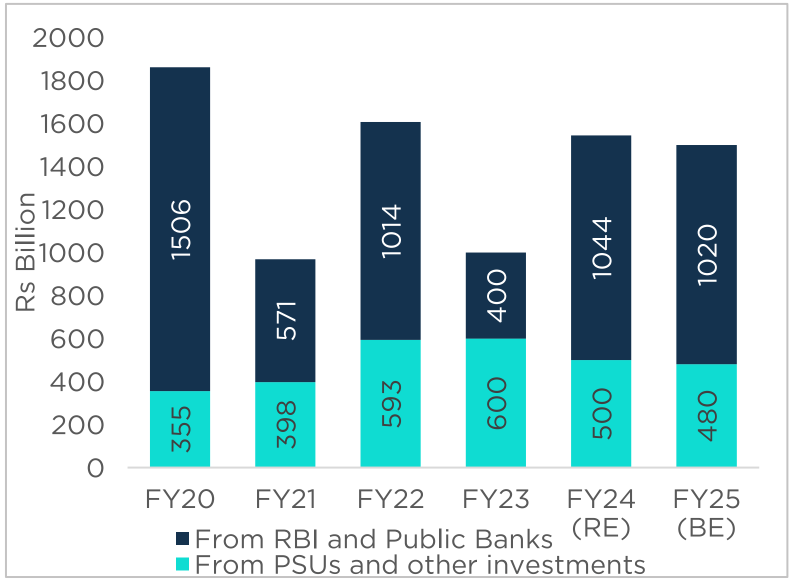
FY25 Tax Buoyancy at 1.1



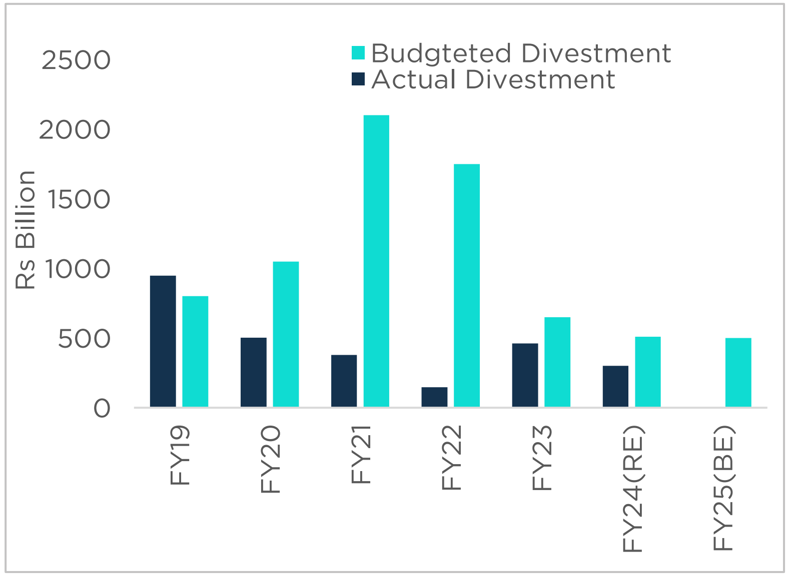

- The growth in gross tax revenue is budgeted to moderate to 11.5% in FY25 from 12.5% in FY24 RE.
- While corporate tax growth is budgeted to rise to 13% in FY25, income tax is budgeted to moderate from 22.7% in FY24 to 13% in FY25.
- Customs collection remains weak amid amid slowing global trade.
- Tax buoyancy is budgeted to moderate to 1.1 from 1.4 in FY24. However, rising formalization, better compliance, improving growth outlook to drive tax collections in FY25 keeping buoyancy above 1.
- No changes relating to taxation as tax rates for direct taxes and indirect taxes including import duties were retained.

## Non-Tax Revenues to Remain Robust

### Dividends and Profits




### Divestment pegged at Rs 500 billion in FY25

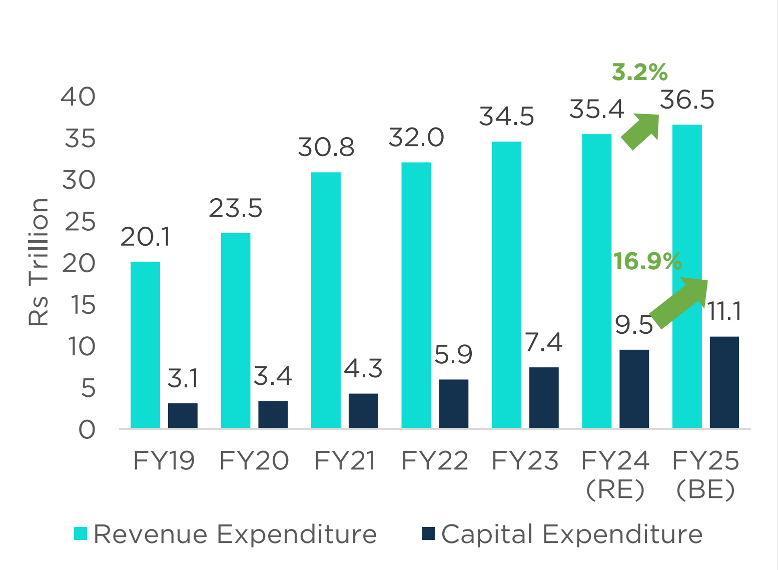



Source: Union Budget Documents, CareEdge

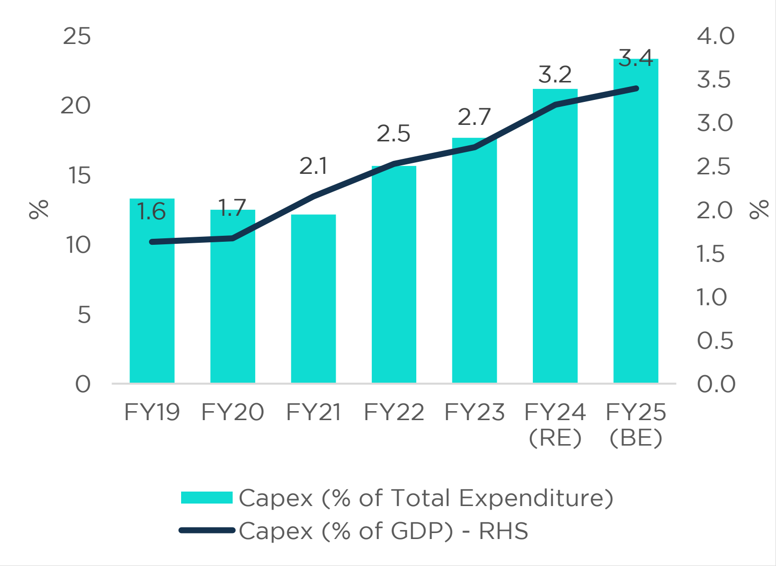
- The budgeted value of non-tax revenues in FY25 is marginally lower than FY24 which is already at a high level.
- The Centre expects to receive Rs 1.02 trillion as dividend from the RBI and PSBs in FY25, 2.3% lower than FY24 RE.
- The Centre has maintained divestment target at Rs 500 billion for FY25 in line with budgeted estimate last year. At Rs 300 billion, the estimate for FY24 seems a bit ambitious. Over the past few years, the track record for divestment has been poor.

# Capex Stays in Spotlight

### Centre's Expenditure Profile




### Capex (% of GDP) Budgeted to Rise Further in FY25

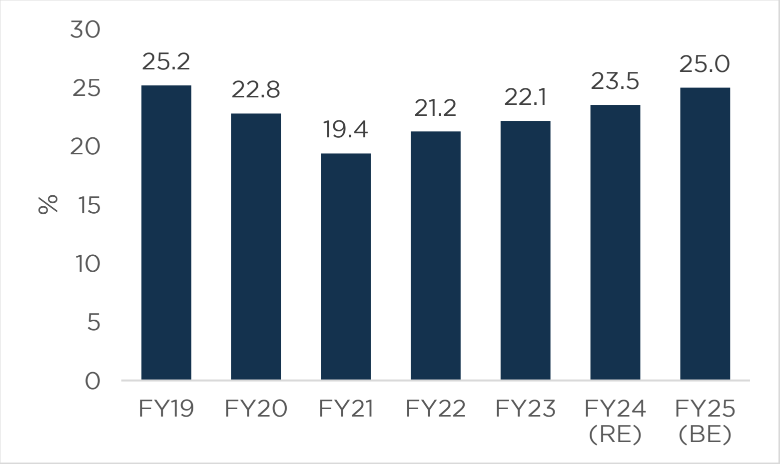



Source: Union Budget Documents, CareEdge

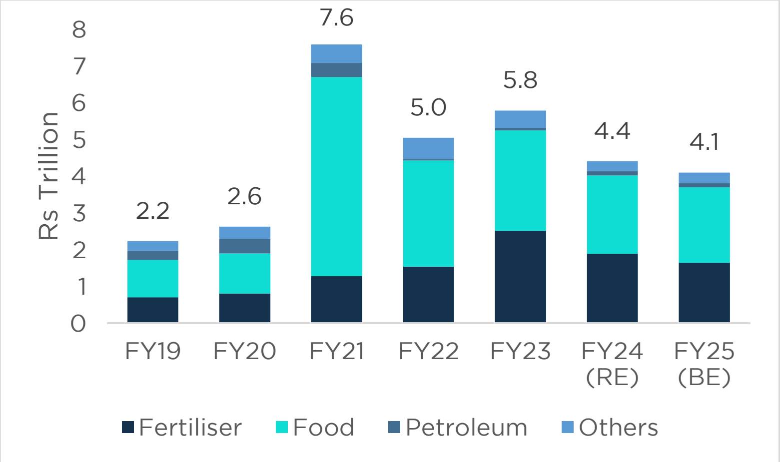
- Centre's capex in FY24 is estimated to be lower at Rs 9.5 trillion Vs the budgeted amount of Rs 10 trillion
- FY25 budgeted growth in revenue expenditure is modest at 3.2%; Capex growth remains healthy at 16.9%.
- Share of capex in total expenditure is budgeted to rise to 23.3% in FY25 compared to 13.3% in FY19, reflective of improving quality of expenditure.
- Infrastructure sectors (roads & railways) continue to be at the forefront on Centre's capex drive with a combined share of more than 45% in total capex.

# Interest Costs Elevated; Subsidy Burden to Moderate

### Interest (% Total Expenditure) Budgeted at a 6-Yr High in FY25




### Subsidy Burden to Moderate




Source: Union Budget Documents, CareEdge

- Interest payments are budgeted to increase by 12.8% to Rs 11.9 trillion in FY25.
- This takes the interest burden to 25% of total expenditure in FY25, the highest level in the last six years.
- Subsidy allocation is budgeted to be lower by 7% in FY25 aided by moderation in fertilizer subsidy.
- Outlay towards subsidy is budgeted to moderate to 1.3% of GDP in FY25 returning close to the pre-pandemic levels.
- Outlay towards major subsidies i.e. Food and Fertilizer (~90% share) to decline by 3.3% and 13.2%,respectively in FY25.

# Infrastructure Steers Capex Growth

**Ministry-wise Top Areas of Capex**

| | Rs Trillion | | | | Y-o-Y % | |
|---|---|---|---|---|---|---|
| | FY22 | FY23 | FY24 (RE) | FY25 (BE) | FY24 (RE) | FY25 (BE) |
| Ministry of Road Transport and Highways | 1.1 | 2.1 | 2.6 | 2.7 | 28.4 | 2.9 |
| Ministry of Railways | 1.2 | 1.6 | 2.4 | 2.5 | 50.7 | 5.0 |
| Ministry of Defence | 1.4 | 1.5 | 1.7 | 1.8 | 11.2 | 8.6 |
| Ministry of Communications | 0.0 | 0.6 | 0.7 | 0.9 | 27.5 | 19.6 |
| Ministry of Housing and Urban Affairs | 0.3 | 0.3 | 0.3 | 0.3 | -1.3 | 7.9 |
| **Total Capital Expenditure** | **5.9** | **7.4** | **9.5** | **11.1** | **28.4** | **16.9** |

Source: Union Budget Documents, CareEdge

- Roads and Railways (combined share of over 45%) continues to drive the overall capex growth.
- Capex towards roads and railways is budgeted to rise by a modest 2.9% and 5%, respectively in FY25 following strong growth in the previous fiscal.

# Outlay on Major Schemes

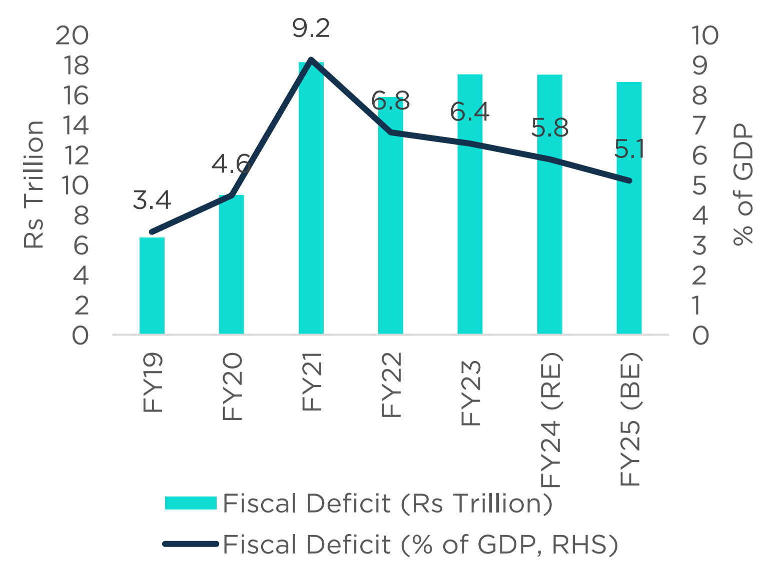
| | Rs Billion | | | Y-o-Y % |
|---|---|---|---|---|
| | FY23 | FY24 (RE) | FY25 (BE) | FY25 (BE) |
| Pradhan Mantri Garib Kalyan Anna Yojana (PMGKAY) | ... | ... | 2,052.5 | ... |
| Mahatma Gandhi National Rural Employment Guarantee Program | 908.1 | 860.0 | 860.0 | 0.0 |
| Pradhan Mantri Awas Yojna (PMAY) | 736.2 | 541.0 | 806.7 | 49.1 |
| Jal Jeevan Mission (JJM)/National Rural Drinking Water Mission | 547.0 | 700.0 | 701.6 | 0.2 |
| Pradhan Mantri Kisan Samman Nidhi (PM-Kisan) | 582.5 | 600.0 | 600.0 | 0.0 |
| National Health Mission | 338.0 | 338.9 | 381.8 | 12.7 |

Source: Union Budget Documents, CareEdge

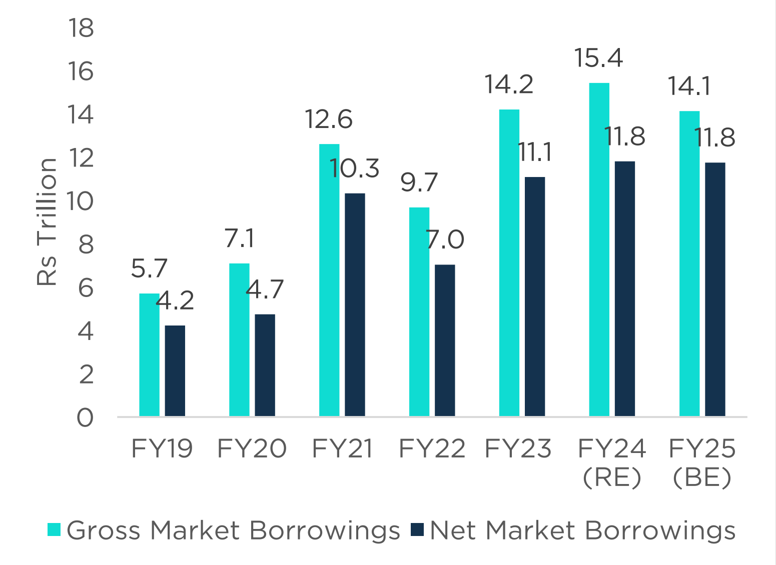
- Expenditure towards Pradhan Mantri Awas Yojna is budgeted to see a notable increase by 49% in FY25 following a contraction in the previous fiscal.
- Outlay towards National Health Mission is budgeted to rise by 12.7% in FY25 after remaining largely unchanged in the last two fiscals.

# On the Path to Fiscal Consolidation

### Centre Aims for 5.1% Fiscal Deficit in FY25




### Lower Gross Borrowings in FY25




Source: Union Budget Documents, CareEdge

- FY25 fiscal deficit target at Rs 16.9 trillion, 3% lower than FY24 and equivalent to 5.1% of GDP.
- Centre targets fiscal deficit below 4.5% by FY26.
- Gross market borrowings budgeted at Rs 14.1 trillion for FY25, lower ~8% YoY .
- Net market borrowings budgeted at ~Rs 11.8 trillion, ~0.4% below FY24 estimate.
- Lower gross borrowings to ease government and private sector borrowing costs.
- Small savings schemes inflows expected at ~Rs 4.7 trillion, covering ~28% of fiscal deficit, up from 19% in FY19.

# Sectoral Announcements and Analysis

# Corporate sector

| Proposal | Impact |
|---|---|
| **Agri** | |
| • After the successful adoption of Nano Urea, application of Nano DAP on various crops will be expanded in all agro-climatic zones. | • After urea, DAP is the second largest consumed fertilizer whereby migration to Nano DAP would result in significant saving in transportation and handling cost with ease in its usage leading to lower subsidy burden on Govt. finances. |
| **Cement & Capital goods** | |
| • Capital expenditure outlay increased by 11.1% to Rs 11.11 lakh crore which is 3.4% of GDP.<br>• Implementation of 3 major railway corridor programmes under PM Gati Shakti, expansion of existing airports and promotion of urban infrastructure via. Metro rail<br>• Pradhan Mantri Awas Yojana (Grameen) - additional 2 crore targeted for the next 5 years and Housing for Middle Class | • The focus on infrastructure has accelerated with increased outlays in Railways, promise for more airports to accommodate the growth appetite of airlines, metros, dedicated commodity corridors for cement, freight, sea port as well as continued focus on housing shall further boost demand for cement and capital goods |
| **Real Estate** | |
| • Increase in budget outlay towards 'Pradhan Mantri Awas Yojana' from Rs.79,590 crore in FY24 to Rs. 80,671 crore for FY25 with a focus on PMAY-Grameen.<br>• Housing scheme for Middle Class to be launched | • Continued emphasis on 'Housing for All' and infrastructure spend is poised to drive the housing demand particularly in Tier 3 and smaller cities/rural areas.<br>• Housing focus to augur well for allied sectors. |

# Corporate sector

**Proposal** | **Impact**

## Electric Vehicles (EVs)

**Proposal**

- Strengthening of EV ecosystem through support of manufacturing and charging infrastructure.
- Adoption of EV buses to be encouraged via payment security mechanism
- Corpus of Rs. 1 lakh crore for funding private sector R&D and innovation in sunrise sectors

**Impact**

- Overall EV sales to go up
- Given the long-term nature of lease contracts between the OEMs and State Transport Undertakings (STU) and the dire financial situation of STUs, GoI's support for payment security mechanism will encourage faster deployment of electric buses.
- Could potentially benefit companies in the EV space encouraging higher spending on R&D and innovation.

## Hospitality & Tourism

**Proposal**

- States will be encouraged to undertake development of iconic tourist centres
- Long-term interest free loans to be provided to States to encourage development
- Projects for port connectivity, tourism infrastructure, and amenities will be taken up

**Impact**

- All the measures are likely to promote the number of domestic as well as foreign tourists. This will not only help domestic tourism but also create demand for the hospitality sector.
- Focus on increased regional connectivity and airports will also promote tourism throughout the country and demand boost for the hospitality sector thereby supporting occupancy and ARRs.

# Energy: Sustainability focussed

**Continued push for renewable energy, CBG and feed-stock logistics**

The interim budget channelises on the following initiatives to secure the energy requirement of a fast-growing economy:-

- Rooftop solarization of one crore households.
- Offer Viability Gap Funding for offshore wind energy potential of 1 GW.
- Setting coal gasification and liquefaction capacity of 100 MT by 2030.
- Phased mandatory blending of compressed biogas (CBG) in compressed natural gas (CNG) and piped natural gas (PNG).
- Financial assistance for procurement of biomass aggregation machinery.
- Emphasis on energy corridor as one of the three railway corridor programmes under the PM Gati Shakti Scheme.

**Impact analysis**

India has considerable potential in these energy sources. It can increase its self-reliance through gradual reduction in import, while providing saving and employment to the ecosystem on a sustainable basis. Currently, the demand and supply of these energy resources have teething bottlenecks. The interim budget aims to kick off the growth trajectory through investments. Impetus on rooftop solar and offshore wind indicates Government's intent to drive capacity installations in previously underpenetrated sub segments of renewable energy.

# Transportation Infrastructure – Focus on Logistical Efficiency

**Modest 4% rise in capex outlay for roads and railways; while emphasis on PM Gati Shakti to reduce logistic costs and improve operational efficiency continues**

Overall, 11% y-o-y capex growth in the infrastructure spending with the following key announcements for the transportation sector-

- Budget allocation for Roads & Railways at Rs.5.33 lakh crore – flat growth of ~4%.
- Identification of 3 Economic Railway Corridors for (i) Energy, Mineral and Cement (ii)Port connectivity and (iii) High traffic density.
- Phased conversion of 40,000 rail bogies to Vande Bharat standards.
- Continued expansion and development of airports and metros.

**Impact analysis**

Thrust on Infrastructure capex continues with a capital outlay at 3.4% of GDP and a sustained focus on infrastructure creation. The Interim budget has spelt out a modest 3% y-o-y growth for the road segment which is expected to normalise the order book of road EPC companies for the coming fiscal.

The budget announcements re-emphasize promoting first-mile and last-mile connectivity to complement the Dedicated Freight Corridor and spur the development of multi modal logistics park. This corroborates PM Gati Shakti's plan to reduce logistics costs and thereby promote indigenous production. A key step in the direction of lowering logistics costs to 8% of GDP by 2030.

The impetus to enhance regional air connectivity and uplift the railway infrastructure continues.

**Contact:** Corporate Communications
corp.comm@careedge.in

**Analytics Team:** Rajashree Murkute, Ranjan Sharma

**Economics Team:** Rajani Sinha, Sarbartho Mukherjee, Akanksha Bhende, Shambhavi Priya, Mihika Sharma, Prapti Mohanty, Khushi Jindal

**Media Relations:** Mradul Mishra
mradul.mishra@careedge.in
+91 – 22 – 6754 3596

CARE Ratings Limited
Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022 I Phone: +91-22-6754 3456 I CIN: L67190MH1993PLC071691

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