CareEdge
RATINGS

CareEdge Analysis of

UNION BUDGET

2024 - 25

Budget 2024: A blueprint for fiscal consolidation and economic growth

Mehul Pandya,
Managing Director & Group CEO,
CareEdge

In its third straight term, the PM Modi's government has clear objectives: a roadmap for fiscal consolidation and a framework for medium-term economic interventions, focusing on employment, skilling, MSMEs, and the middle class. The Honorable Finance Minister Nirmala Sitharaman presented her seventh consecutive budget, marking the first Budget by the BJP-led NDA government since its re-election in June.

Commitment to fiscal consolidation
The budget's most commendable achievement is its firm commitment to fiscal consolidation. The Finance Minister has set the fiscal deficit target for 2024-25 at 4.9 percent of GDP, moving closer to the goal of 4.5 percent for the following fiscal year. This focus on fiscal discipline is crucial for maintaining long-term economic stability and investor confidence.

Balancing fiscal consolidation with the need to increase expenditures is another critical aspect of the budget. Over the past three years, increased fiscal space from buoyant tax revenues has allowed for higher allocations to various spending programs. This budget continues that trend, using additional resources for both fiscal consolidation and increased spending.

Addressing inequality through tax reforms
The budget also addresses the global concern of increasing inequality by adjusting direct taxes, particularly on capital gains. Worldwide discussions have highlighted the need for higher taxes on the wealthy to address inequality. The budget addresses this by raising taxes on both short-term and long-term capital gains while providing some relief to retail investors through an increased exemption limit of Rs 1.25 lakh. This initiative, along with an enhanced securities transaction tax on futures and options transactions, aims to temper the fervour in the capital markets. By curbing perceived exuberance, these measures are expected to bring more stability to the markets in the medium term. The changes in capital gains taxation arguably reflect a nuanced approach to balancing revenue generation with market stability and equity.

Emphasis on agriculture and infrastructure

The budget places a strong emphasis on agriculture, recognizing its pivotal role in driving economic growth and development. Provisions for releasing climate-resilient crop varieties and establishing bio-research centres highlight the government's commitment to long-term sustainability in agriculture. These initiatives are crucial for enhancing productivity and resilience in the agricultural sector, ensuring food security, and promoting sustainable farming practices.

In infrastructure, the budget directs most of the increased expenditure towards asset creation, such as housing and roads. By continuing its focus on capital expenditure, the budget aims to stimulate economic growth, create jobs, and build a solid foundation for future development.

Job creation in focus

The budget introduces three new employment-linked incentive schemes as part of the Prime Minister's package, aligning with enrolment in the Employee Provident Fund Organisation and focusing on first-time employees. Additionally, students who have not yet benefited from any government schemes will receive support loans of up to ₹10 lakh for education in domestic institutions, with e-vouchers for interest subvention provided to 1 lakh students each year.

Special focus on regions and sectors

Several schemes for Bihar, under the "Purvodaya" plan, aim at all-round development, including expressways, power projects, new airports, medical colleges, and sports infrastructure. Similarly, Andhra Pradesh will receive support for industrial development and basic infrastructure enhancements under the AP Reorganisation Act.

Budget for women

Promoting women-led development, the budget allocates over ₹3 lakh crore for schemes benefiting women and girls, reflecting a strong commitment to gender inclusivity.

MSMEs budget

The budget places special attention on MSMEs and labor-intensive manufacturing, introducing a new assessment model for MSME credit by public sector banks based on digital footprints rather than only on assets and turnover criteria. The credit guarantee scheme envisaging pooling of credit risks of MSMEs is a welcome step.

Personal income tax revisions

The Finance Minister revised the tax slabs under the new regime, allowing salaried employees to save up to ₹17,500 in income taxes. The slabs have been expanded, providing relief while maintaining the existing rate of taxation.

In conclusion, the first budget of the NDA government's third term strikes a balance between fiscal consolidation and necessary expenditures. The commitment to reducing the fiscal deficit and managing debt levels is commendable and essential for long-term economic health. At the same time, the focus on agriculture, infrastructure, and tax reforms addresses key challenges facing the economy and lays the groundwork for sustainable growth.

Mehul Pandya,
Managing Director & Group CEO, CareEdge

Index

CareEdge RATINGS

CareEdge
RATINGS

Budget Overview

Key Focus Areas

The budget outlines sustained efforts focused on the following 9 priorities:

1. Productivity and resilience in Agriculture
2. Employment & Skilling
3. Inclusive Human Resource Development and Social Justice
4. Manufacturing & Services
5. Urban Development
6. Energy Security
7. Infrastructure
8. Innovation, Research & Development
9. Next Generation Reforms

Highlights

Boosting Employment via ‘Employment Linked Incentive’

Scheme A: First Timers

- Direct Benefit Transfer of one-month salary for first-time employees, as registered in the EPFO, up to Rs 15,000 with an eligibility limit of salary of Rs 1 lakh a month. Total outlay of Rs 23,000 crores provided

Scheme B: Job creation in manufacturing

- Employers with a 3-year track record of EPFO contribution must hire at least 50 employees or 25% of previous years’ workforce (all new to the workforce), whichever is lower, to avail of the incentive which will be partly shared with the employee over the period of 4 years
- Total outlay of Rs 52,000 crores provided

Scheme C: Support to employers

- Reimbursement to employers of Rs 3000 per month for 2 years towards EPFO contribution for each additional employee within a salary of Rs 1 lakh per month
- Reimbursements to be provided to the employer every quarter if job creation exceeds 1,000 jobs
- Total outlay of Rs 32,000 crores provided

Highlights

Skill enhancement

- Model Skill Loan Scheme will be revised to facilitate loans up to Rs 7.5 lakh with a guarantee from a government-promoted fund
- Financial support for loans will be provided up to Rs 10 lakh for higher education in domestic institutions
- Following 2 schemes have been launched:

Skilling Programme and Upgradation of Industrial Training Institutes

- ➢ 1000 Industrial Training Institutes (it is) to be upgraded in hub and spoke arrangements in 5 years
- ➢ Total outlay of Rs 60,000 crore with Rs 30,000 crore from central government, Rs 20,000 crore from State governments and Rs 10,000 crore from industry including the CSR funding

Internship in Top Companies

- ➢ 12 months of Prime Minister's Internship to be provided in top companies with a monthly allowance of Rs 5,000, for youth aged between 21 and 24
- ➢ Companies are required to cover the training costs and 10% of the internship expenses using their CSR funds
- ➢ Budgeted outlay of Rs 63,000 crores for 5 years

Agriculture and Allied sectors

- Provision of Rs 1.52 lakh crore for agriculture and allied sector
- Establishment of 10,000 need-based bio-input resource centres
- Release of new 109 high-yielding and climate-resilient varieties of 32 field and horticulture crops
- The issuance of Jan Samarth-based Kisan Credit Cards will be enabled in 5 states

Highlights

MSMEs

- Credit guarantee scheme facilitating term loans to MSMEs for the purchase of machinery and equipment without collateral or third-party guarantee.
- Self-financing guarantee fund will be constituted to provide guarantee cover up to Rs 100 crore to each applicant
- PSBs to assess MSMEs for credit by in-house methodology, instead of relying on external assessment
- MSMEs under Special Mention Account (SMA) to be provided credit through a guarantee by the government-promoted fund
- The limit of the 'Tarun' category of Mudra loan is increased from Rs 10 lakhs to Rs 20 lakhs for the entrepreneurs who have repaid their loan
- The onboarding Turnover floor for TReDS platform revised downward to Rs 250 crore from Rs 500 crore

Infrastructure and Housing

- Strong capex support over the next 5 years with current year provision for Rs 11.11 lakh crore (around 3.4% of GDP). Provision of Rs 1.5 lakh crore for long-term interest free loans to support the states in their resource allocation for infrastructure needs
- Phase IV of PM Gram Sadak Yojana (PMGSY) to be launched to provide all-weather connectivity to 25,000 rural habitations
- 3 crore additional houses under the PM Awas Yojana in rural and urban areas. Rental Housing for Industrial workers to be facilitated in PPP mode. The housing needs of 1 crore urban poor and middle-class families will be addressed with an investment of Rs 10 lakh crore

Highlights

Taxes on Income

- Under the new tax regime, 2 tax slabs have been revised. Income range of Rs 6 to 7 lakhs will now be taxed at 5% in place of the earlier 10% and Income Range of Rs 9 lakhs to 10 lakhs will now be taxed at 10% in place of the earlier 15%
- Under the new tax regime, the Standard deduction for salaried employees is to be increased from Rs 50,000 to Rs 75,000. Deduction on family pension for pensioners to be enhanced from Rs 15,000 to Rs 25,000
- Reduction in the rate of income-tax chargeable on income of foreign company from 40% to 35%
- Deduction of expenditure by employers towards NPS is proposed to be increased from 10% to 14% of the employee's salary

Taxes on Assets

- Short-term gains on certain financial assets to attract a tax rate of 20%, while all other financial assets and all non-financial assets are to be taxed at an applicable tax rate
- Long-term gains on all financial and non-financial assets to attract a tax rate of 12.5%. The limit of exemption of capital gains on certain financial assets is increased to Rs 1.25 lakh per year
- Listed financial assets held for more than a year will be classified as long-term. While unlisted financial assets and non-financial assets held for more than 2 years from the date of purchase are to be classified as long-term. However, Unlisted bonds and debentures, debt mutual funds and market-linked debentures, irrespective of the holding period, will attract tax on capital gains at applicable rates
- Indexation benefit removed for calculation of any long-term capital gains for property
- Increase the rates of Securities transaction tax (STT) on the sale of an option in securities to 0.1% of the option premium, and on the sale of a futures in securities to 0.02%
- Abolition of Angel tax for all classes of investors

Highlights

State-specific allocations

- Financial support for projects with an estimated cost of Rs 11,500 crore such as the Kosi-Mechi intra-state link in Bihar
- Provision of Rs 26,000 crore to support road connectivity projects in Bihar
- Power plant projects in Bihar, including setting up of a new 2400 MW power plant, to be taken up for Rs 21,400 crore
- Rs 15,000 crore to be arranged for Andhra Pradesh via multilateral agencies
- Assistance to Assam, Himachal Pradesh, Uttarakhand and Sikkim for disaster management and related projects

Tourism

- Vishnupad and Mahabodhi Temples in Bihar will be developed into world-class pilgrim and tourist destinations, inspired by the Kashi Vishwanath Temple Corridor
- A comprehensive development initiative for Rajgir, a significant religious site for Hindus, Buddhists, and Jains, will be undertaken, and support will be provided to develop Nalanda as a tourist centre while reviving Nalanda University
- Odisha's tourism, focusing on its natural and cultural attractions, will be enhanced with government assistance

Highlights

Major Custom Duties Revisions

- Reduction on duties on mobile phone, mobile PCBA and chargers to 15%
- Fully exempt critical minerals like lithium, copper, cobalt and rare earth elements from basic customs duty.
- Reduction of basic customs duty on broodstock, polychaete worms, shrimp and fish feed to 5 per cent
- Custom duties on Gold and Silver to be reduced to 6% and on platinum to 6.4%
- Increase in duties from 10 to 15% on PCBA of specific telecom equipment

Next Gen Reforms

- Policy document on appropriate energy transition pathways to be formulated by the Government
- Under PM Surya Ghar Muft Bijli Yojana, 1 crore households to obtain free electricity up to 300 units every month.
- Land records in urban areas will be digitized with GIS mapping. Establishment of land registry.
- Simplification of FDI rules and regulations and also to promote use of the Rupee as a currency for overseas investments
- NPS-Vatsalya account to be opened for minors, for contribution by their parents till attaining the age of maturity

CareEdge RATINGS

Fiscal
Math

Fiscal Snapshot

	FY24 (PA)	FY25 (BE)	FY24 (PA)	FY25 (BE)
	Rs Trillion		Y-o-Y %	
Net Tax Revenue	23.3	25.8	10.9	11.0
Non-Tax Revenue	4.0	5.5	40.8	35.8
Non-Debt Capital Receipts	0.6	0.8	-16.3	29.0
Total Receipts (Non-Debt)	**27.9**	**32.1**	**13.6**	**15.0**
Revenue Expenditure	34.9	37.1	1.2	6.2
Capital Expenditure	9.5	11.1	28.2	17.1
Total Expenditure	**44.4**	**48.2**	**5.9**	**8.5**
Nominal GDP	295.4	326.4	9.6	10.5
	Rs Trillion		% GDP	
Fiscal Deficit	**16.5**	**16.1**	**5.6**	**4.9**

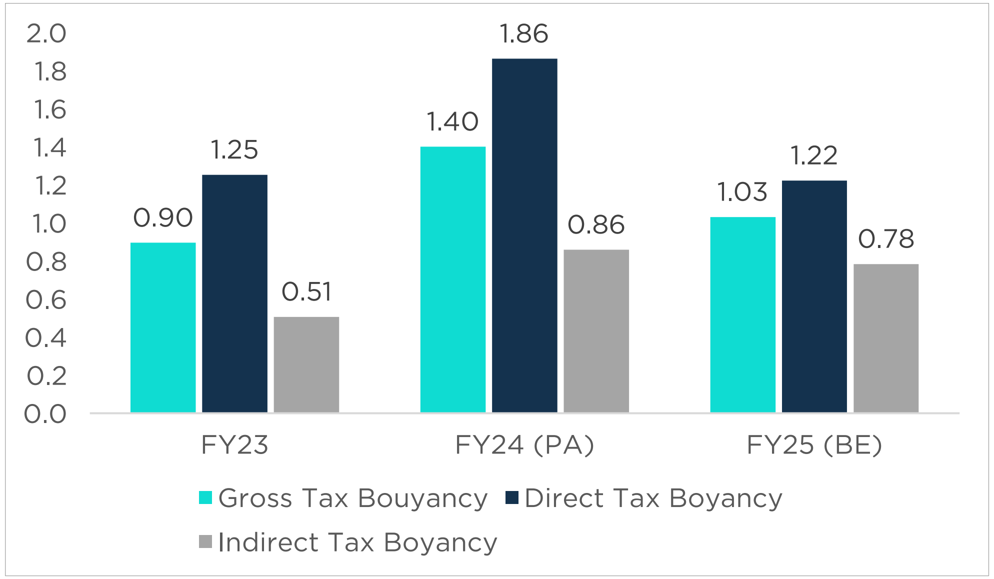
Source: Union Budget Documents, CareEdge. PA: Provisional Actual BE: Budget Estimate

Tax Revenue

	FY24 (PA)	FY25 (BE)	FY24 (PA)	FY25 (BE)
	Rs Billion		Y-o-Y %	
Gross Tax Revenue	**34648**	**38402**	**13.4%**	**10.8%**
Direct Tax	**19558**	**22070**	**17.9%**	**12.8%**
Corporate Tax	9111	10200	10.3%	12.0%
Income Tax	10447	11870	25.4%	13.6%
Indirect Tax	**14954**	**16186**	**8.2%**	**8.2%**
Goods & Services Tax	9570	10619	12.7%	11.0%
Customs	2331	2377	9.2%	2.0%
Excise Duty	3053	3190	-4.3%	4.5%

Source: Union Budget, CareEdge; PA: Provisional Actual BE: Budget Estimate

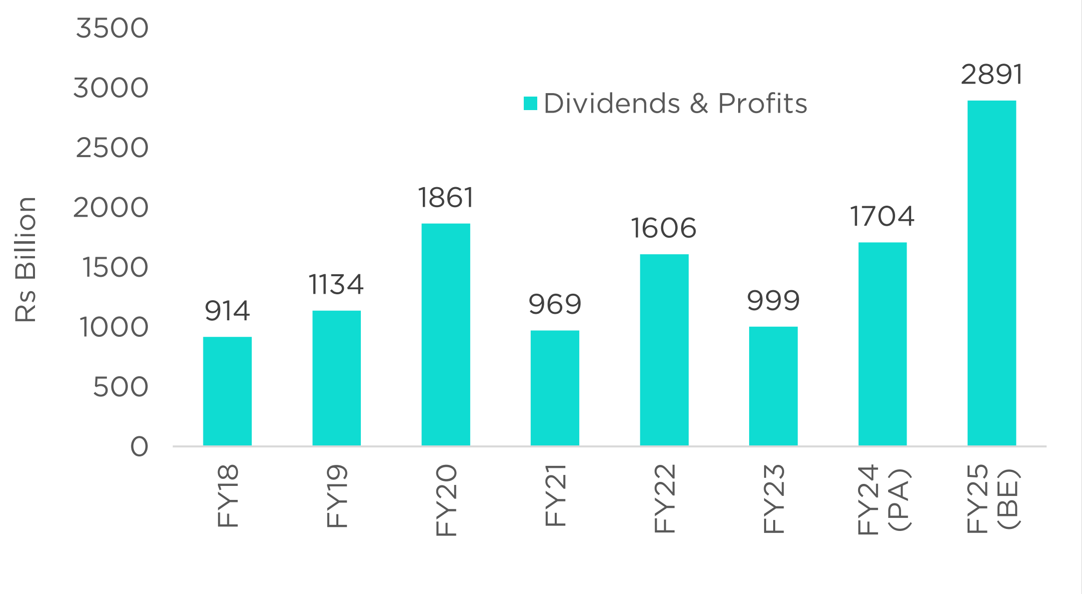
Tax Buoyancy at 1.03 with Direct Outpacing Indirect



- The growth in gross tax revenue is budgeted to moderate to 10.8% in FY25 from 13.4% in FY24
- Direct taxes are budgeted to grow by 12.8% in FY25, outpacing indirect taxes
- Customs collection is budgeted to moderate due to weak global trade and reduction in customs duty for some products
- Tax buoyancy is budgeted to moderate to 1.03 in FY25. Weak custom and excise duty collections are weighing on revenue growth

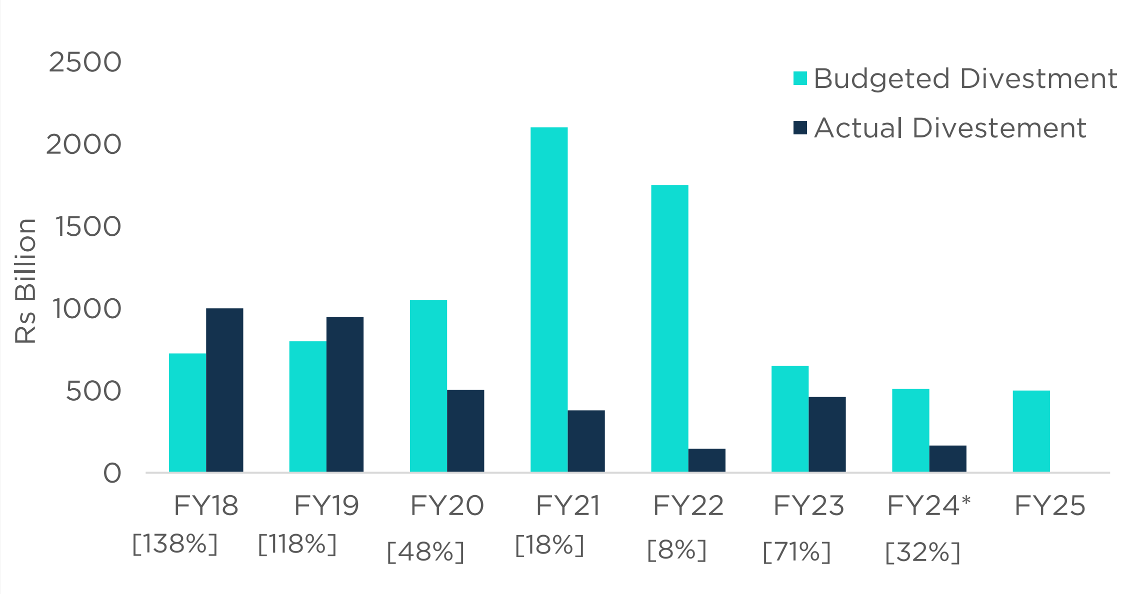
Non-Tax Revenue

Record RBI Dividend Supports Non-Tax Revenue



Source: Union Budget, CareEdge. PA: Provisional Actual BE: Budget Estimate

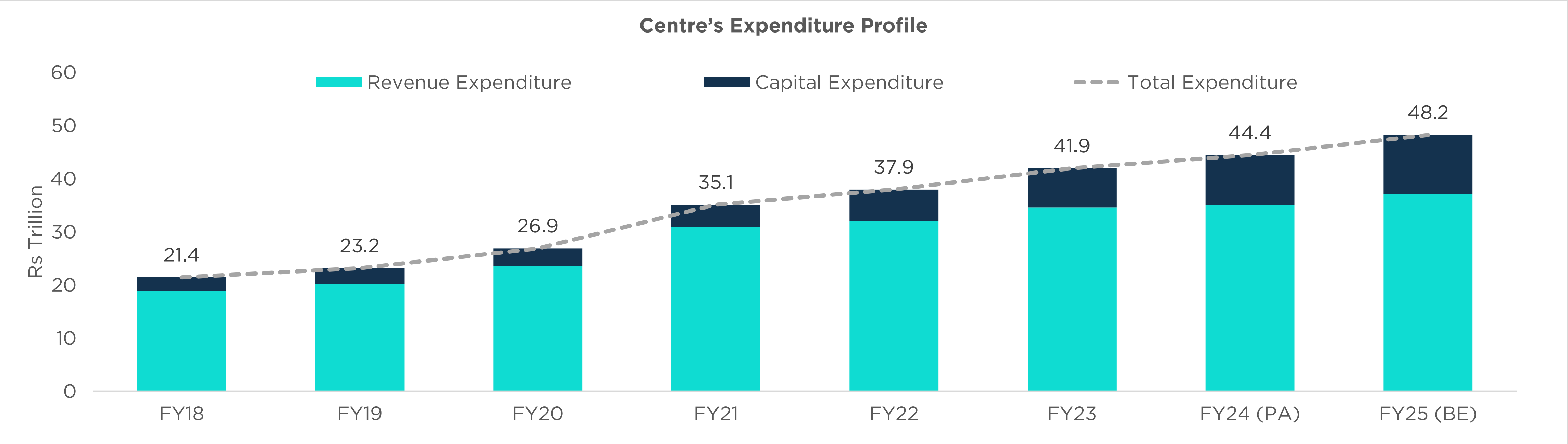
Divestment Target Retained



Source: Union Budget, CareEdge, * 2024 actual numbers are derived from DIPAM's data on divestment. FY25 budgeted value shows misc. capital receipts which includes divestment. Figures in bracket show actual divestment (% of budgeted divestment).

- RBI's record dividend transfer worth Rs 2.1 trillion to support non-tax revenue of the government
- Budget expects dividends from PSUs and CPSEs at Rs 563 billion, 17% higher than the interim budget estimate
- Miscellaneous capital receipts (including divestment) budgeted at Rs 500 billion

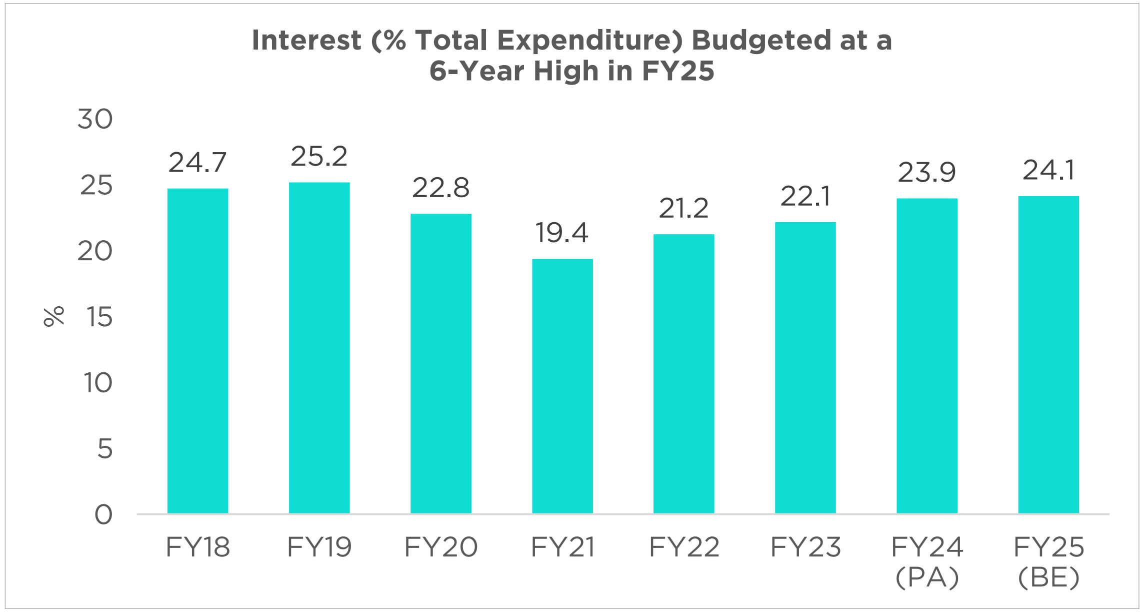
FY25 Capex Target Unchanged; Revenue Expenditure Raised

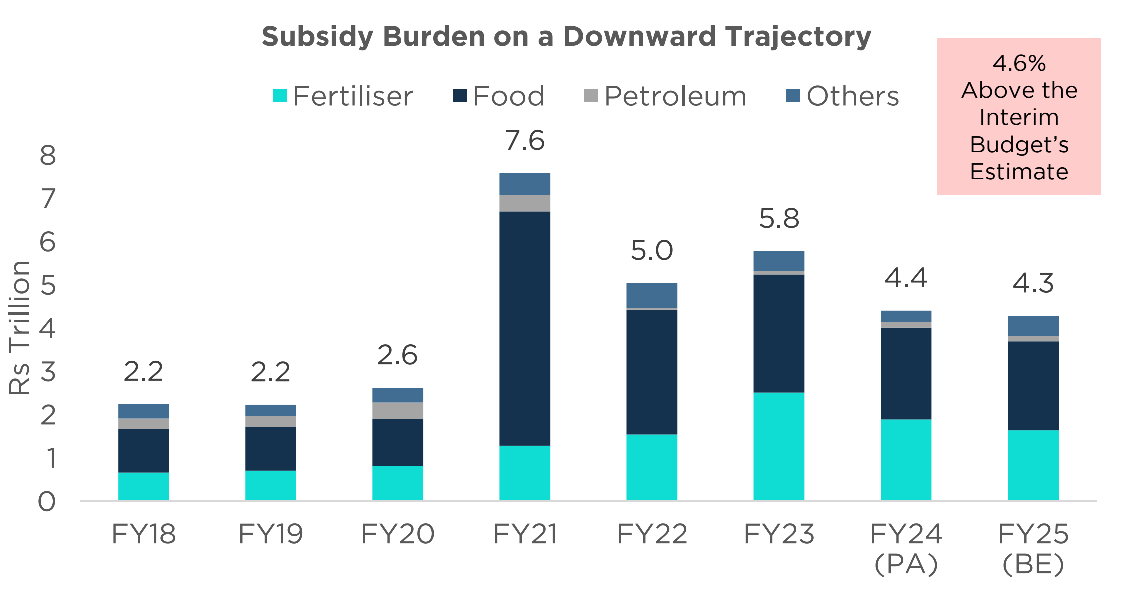


Source: Union Budget Documents, CareEdge; Note: (PA): Provisional/Actuals; (BE): Budget Estimates

- Overall budget size is estimated to increase by 8.5% (y-o-y) to Rs 48.2 trillion in FY25
- As expected, the government has raised its revenue expenditure target while retaining its capex target close to the interim budget's estimate
- Revenue expenditure is seen at Rs 37 trillion in FY25; higher by 6.2% on a y-o-y basis
- Quality of government expenditure has improved progressively with the share of capital expenditure in total rising to 23% in FY25 from 21.4% in FY24 and 12% in FY18

Interest Costs Elevated; Subsidy Burden Moderates





Source: Union Budget Documents, CareEdge; Note: (PA): Provisional/Actuals; (BE): Budget Estimates

- Interest payments are budgeted to increase by 9.3% (y-o-y) taking the interest burden to 24% of the total expenditure
- Subsidy spending is budgeted to be 2.7% lower compared to FY24 (4.6% higher compared to the interim budget's estimate)
- Among the major subsidies, allocation towards food and fertilizer subsidies (with ~86% share) is budgeted to be lower by 3% and 13%, respectively on a y-o-y basis
- Overall, while the interest burden remains elevated at 3.6% of GDP in FY25 (Vs 3.1% in FY19) the subsidy burden has returned close to the pre-pandemic levels at 1.3% of GDP

Outlay Towards Major Schemes

Major Welfare Schemes (Rs Billion)	FY24 (RE)	FY25 (BE)	FY25 Y-o-Y %
Pradhan Mantri Garib Kalyan Anna Yojana (PMGKAY)	2,123	2,053	-3.3
Mahatma Gandhi National Rural Employment Guarantee Programe	860	860	0.0
Jal Jeevan Mission (JJM) / National Rural Drinking Water Mission	700	702	0.2
Pradhan Mantri Kisan Samman Nidhi (PM-Kisan)	600	600	0.0
Pradhan Mantri Awas Yojna (PMAY)- Rural	320	545	70.3
Samagra Shiksha	330	375	13.6
Pradhan Mantri Awas Yojna (PMAY)-Urban	221	302	36.5

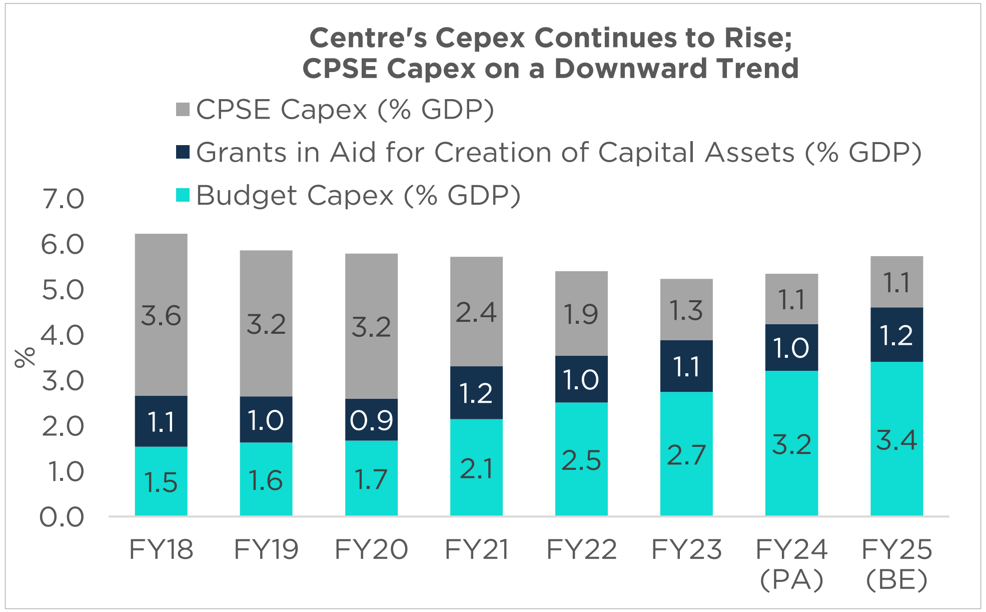
Source: Union Budget Documents, CareEdge; Note: (RE): Revised Estimate; (BE): Budget Estimates

- Outlay towards Pradhan Mantri Garib Kalyan Anna Yojana and MGNREGA remained elevated at Rs 2,053 billion and Rs 860 billion, respectively in FY25
- Outlay towards PM Awas Yojana for the urban and rural segments is budgeted to be higher by 36.5% and 70.3% (y-o-y), respectively in FY25

Centre Remains at the Forefront of Capex

	FY24 (PA)	FY25 (BE)	FY24 (PA)	FY25 (BE)
	Rs Trillion		Y-o-Y %	
Budget Capital Expenditure	9.5	11.1	28.2	17.1
Grants in aid for creation of capital assets	3.0	3.9	-0.8	28.6
Effective Capital Expenditure	12.5	15.0	19.7	19.9
Resources of Public Enterprises (CPSE Capex)	3.3	3.7	-10.2	13.1
Total Capex (Effective + CPSE Capex)	15.8	18.7	12.0	18.5

Source: Union Budget Documents, CareEdge; Note: (PA): Provisional/Actuals; (BE): Budget Estimates



- Capex target was retained at Rs 11.1 trillion in FY25, 17% higher compared to FY24
- Grants in aid for creation of capital assets is budgeted to increase by 28.6% (y-o-y) taking the growth in government's effective capex to 19.9% (y-o-y)
- Capex by CPSEs is budgeted to increase by 13.1% (y-o-y) reversing the contractionary trend seen in the last four fiscal years
- CPSE capex has been steered by petroleum and natural gas, power, and renewable energy
- Overall, the total capex (factoring the effective & CPSE capex) is budgeted at Rs 18.7 trillion in FY25 recording a 18.5% (y-o-y) growth

Capex for Roads & Railways Remains the Top Priority

	FY24 (PA)	FY25 (BE)	FY25 (BE)
	Rs Billion		Y-o-Y %
Ministry of Road Transport and Highways	2,645	2,722	2.9
Ministry of Railways	2,400	2,520	5.0
Ministry of Defence	1,678	1,822	8.6
Ministry of Communications	717	857	19.6
Ministry of Housing and Urban Affairs	265	286	7.9
Total Capital Expenditure	**9,485**	**11,111**	**17.1**

Source: Union Budget Documents, CareEdge; Note: (PA): Provisional/Actuals; (BE): Budget Estimates

- Government's capex drive continued to be steered by infrastructure sectors i.e. Roads & Railways with a combined share of 47%
- Capital outlay towards roads and railways in FY25 is budgeted to increase by 2.9% and 5% (y-o-y), respectively
- Another major component which is defence is budgeted to see a 8.6% higher capital outlay compared to FY24

Higher PLI Allocation

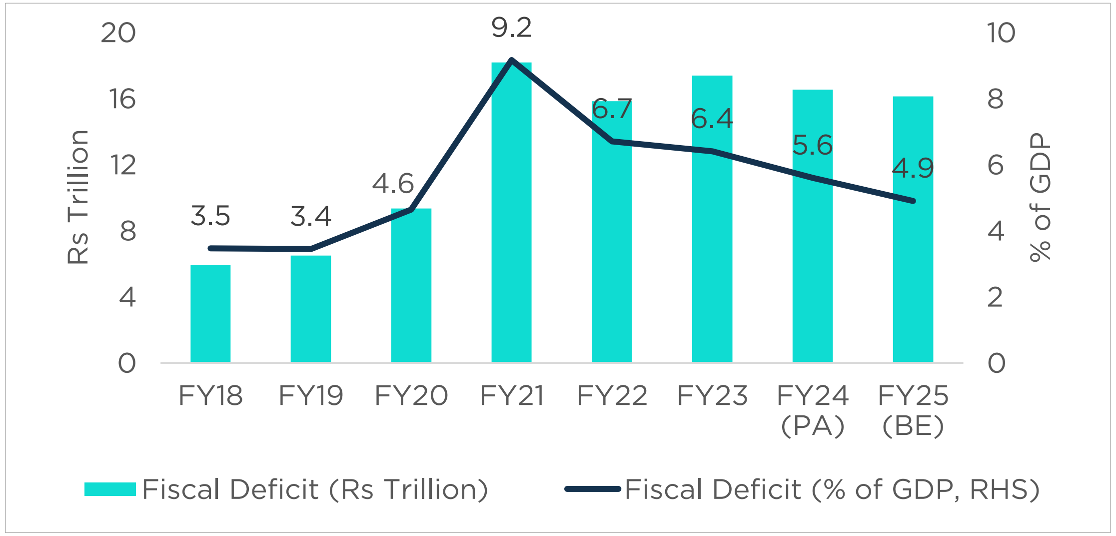
Production Linked Incentive (PLI) Scheme Budget Allocation (Rs Million)				
Ministry/Department	**Scheme**	**FY23**	**FY24 (RE)**	**FY25 (BE)**
MEITy	PLI for Large Scale Electronics and IT Hardware and other PLI Scheme	16550	45599	62000
Ministry of Heavy Industries	PLI Scheme for Automobiles and Auto Components	57	4838	35000
Department of Pharmaceuticals	PLI Schemes for Pharma	14250	16963	21430
Ministry of Food Processing Industries	PLI Scheme for Food Processing Industry	4898	11500	14440
DPIIT	PLI for White Goods (ACs and LED Lights)	35	650	2980
Ministry of Heavy Industries	PLI Scheme for National Programme on Advanced Chemistry Cell (ACC) Battery Storage	17	120	2500
Ministry of Steel	PLI Scheme for Specialty Steel in India	-	24	2458
Ministry of Civil Aviation	PLI Scheme for Drone and Drone Component	300	330	570
Ministry of Textiles	PLI Scheme for Textiles	71	50	450
DPIIT	PLI Scheme for Toys	-	-	0.1
DPIIT	PLI Scheme for Footwear and Leather Sector	-	-	0.1
Department of Telecommunications	PLI Scheme to Promote Telecom and Networking Products Manufacturing in India	392	-	-
Total		**36570**	**80073**	**141829**

Source: Union Budget, CareEdge. Note: MEITy: Ministry of Electronics and Information Technology; DPIIT: Department for Promotion of Industry and Internal Trade

- Overall PLI allocation in the budget has significantly increased by 77% YoY in FY25
- Electronics and IT, Automobiles and Auto components and Pharma has dominated the allocation under the PLI Scheme in the budget
- Allocation for PLI Scheme for Textiles has increased by 9x compared to interim budget to Rs 450 million

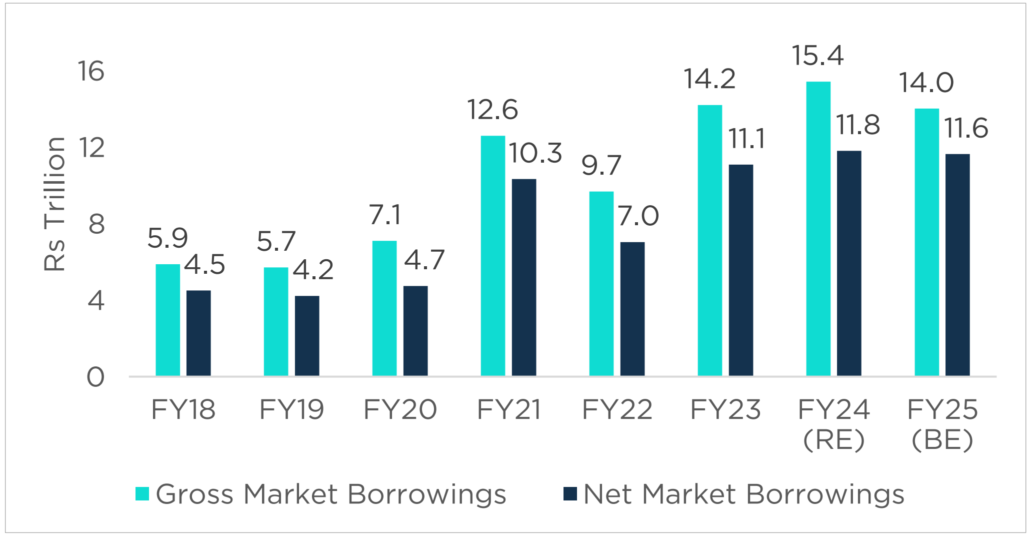
On the Path to Fiscal Consolidation

Centre Aims for Fiscal Deficit of 4.9% of GDP



Source: Union Budget, CareEdge. PA: Provisional Actual, BE: Budget Estimate

Lower Gross Borrowings in FY25



Source: Union Budget, CareEdge. RE: Revised Estimate, , BE: Budget Estimate

- FY25 fiscal deficit budgeted at 4.9% of GDP, lower than interim budget (5.1%) and FY24 (5.6%). Govt aims for deficit below 4.5% in FY26
- Gross market borrowings budgeted at Rs 14.0 trillion for FY25, 9% lower than FY24 (also 1% lower than interim budget)
- Net market borrowings budgeted at Rs 11.6 trillion, 1% lower than FY24 (also 1% lower than interim budget)
- Reliance on small savings schemes to fund deficit reduced to Rs 4.2 trillion in FY25 from Rs 4.5 trillion in FY24
- Higher drawdown on cash balance budgeted at Rs 1.4 trillion in FY25 compared to Rs 36 billion in the interim budget

CareEdge RATINGS

Sectoral Announcements and Analysis

Budget Focused on Boosting Rural Demand

Proposal	Impact

Auto and Auto Components

Proposal

- Capital expenditure outlay of Rs.11.11 lakh crore
- Continuation of long-term interest-free loans to state governments this year with increased outlay of Rs.1.5 trillion
- Support for development of road connectivity projects at a total cost of Rs.26,000 crore
- Fully exemption from customs duties on 25 critical minerals including lithium, copper and cobalt. Proposed PLI outlay of Rs 3500 cr, PM e-bus Sewa scheme of Rs 1300 crore and FAME of Rs 2671 crore
- Focus on job creation and skills along with efforts to increase women workforce participation and Budget Outlay of Rs 1.52 lakh for Agri & Allied Sectors
- Credit Guarantee Scheme for MSME

Impact

- Strategic allocation of Capital expenditure, continuation of long-term interest free loans to state governments with enhanced outlay and support for development of road connectivity projects is anticipated to drive infrastructure development in the country, thereby supporting the demand for CVs.
- Likely to boost lithium-ion battery manufacturing in India and lower manufacturing costs of batteries leading to lower Electric Vehicle prices. Further, PLI will enhance growth for the industry while schemes for EVs will drive faster adoption.
- It will enhance disposable income and stimulate demand in both urban and rural regions driving demand for two-wheelers and tractors (rural).
- It will encourage domestic production and the auto ancillary industry.

Continued Infra Focus a Positive for Demand of Capital Goods

Proposal | **Impact**

Capital Goods

Proposal

- Capital investment outlay at Rs.11.11 lakh crore representing 3.4% of GDP.
- Proposed outlay of Rs.10 lakh crore towards PM Awaas Yojana Urban Housing 2.0.
- Long-term interest-free loans to State Government towards capital expenditure continued in 2024-25 for an amount of Rs 1.5 lakh crore.

Impact

- Increased allocation for capital outlay and planned capital expenditure on logistics and transport infrastructure, housing, urban development etc., to boost demand for capital equipment and construction machinery.

Cement

Proposal

- Capital expenditure outlay increased by 11.1% to Rs 11.11 lakh crore which is 3.4% of GDP in the final budget.
- Allocation of ₹26,000 crore for highway development in Bihar, including the construction of a two-lane bridge over the Ganga and the development of highways like the Patna-Purnea Expressway and Buxar-Bhagalpur Expressway
- 3 crore additional houses in rural and urban areas under Pradhan Mantri Awas Yojana in the country have been announced, central assistance of Rs 2.2 lakh crore for urban housing over the next five years. She also proposed an interest subsidy scheme to facilitate loans at affordable rates for urban housing works

Impact

- 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, and sea port as well as continued focus on housing for all shall further boost demand for cement.

Financial Services

Proposal

Banking and NBFCs

- Prepare a **financial sector vision and strategy document** and prepare the sector in terms of size, capacity and skills for the next 5 years
- **Schemes for MSMEs focused on easy access to credit**
  - **Credit Guarantee Scheme for MSMEs in Manufacturing** to facilitate term loans for acquiring machinery & equipment without collateral or third-party guarantee via a separate self-financing guarantee fund which will provide guarantee cover up to Rs 100 crore.
  - **New assessment model for MSME credit in PSBs**
  - **Credit Support to Stressed i.e. SMA tagged MSMEs** through a guarantee from a government promoted fund
  - **Mudra Loans enhanced to Rs 20 lakh** from the current Rs 10 lakh
  - **Enhanced scope for mandatory onboarding in TReDS** by reducing the turnover threshold of buyers from Rs 500 crore to Rs 250 crore

Impact

- This is in line with the government's vision of Viksit Bharat 2047
- Availability of account aggregator data has enabled financiers to lend proactively to MSMEs. Banks account for a significant share of MSME lending. Bank credit to Industrial MSMEs has grown by over 13% CAGR in the last two years. Additionally, there has been a significant improvement in overall delinquencies from over 12% in FY17 to 2.3% in Q2FY24. MSMEs have an estimated credit gap of approximately Rs 28 lakh crore.
- Additionally enabling public sector banks to create in-house, technology-driven underwriting skills utilizing MSMEs' digital footprint and bring them into the formal credit system is a positive step.
- Further the Mudra loan hike also seems to be in line with the inflation movement over the past decade when the limits were initially established

Financial Services

Proposal	Impact
Banking and NBFCs	
• **SIDBI to open branches across all major MSME clusters** within 3 years for direct credit	• Hence the introduction of such schemes would enable MSMEs to access funds for capital expenditure at competitive rates and reduce working capital requirements.
• **Housing** • Under the PM Awas Yojana Urban 2.0, the housing needs of 1 crore families will be addressed with an investment of Rs 10 lakh crore including central assistance of Rs 2.2 lakh crore over the next 5 years. Interest subsidy to facilitate loans at affordable rates is also envisaged	• Affordable Housing continues to be one of the focus areas in the budgetary announcements • Interest subsidy to enable the fulfilment of the demand for loans for affordable housing
• Create policies for rental housing markets	• Streamline residential renting market and create opportunities to establish residential complexes and ensure smooth renting.
• **Education Loans** • Model Skill Loan Scheme to facilitate loans up to Rs 7.5 lakh with a guarantee from a government-promoted Fund which would help 25,000 students annually. • Financial support for loans up to Rs 10 lakh for higher education in domestic institutions via interest subvention of 3% of the loan amount to 1 lakh students annually	• Education loan rates for these loan amounts could become more competitive. Likely to benefit entities which offer loans to students studying in domestic institutions. Meanwhile, banking NPAs in education loans have reduced to 3.6% as of FY24, they are amongst the highest in the personal loans segment. Need to monitor the performance of such loans

CareEdge RATINGS

Financial Services

Proposal | **Impact**

Insurance

- **Digital Public Infrastructure for Agriculture** via digital crop survey for Kharif in 400 districts and details of 6 crore farmers and their lands entered into the farmer and land registries
  - Impact: Could help drive crop insurance penetration as clear land details would help assessment
- **GST relief on co-insurance premiums**: Under the CGST Act, the activity of apportionment of co-insurance premiums to co-insurers and to reinsurers for ceding/re-insurance commission will, subject to certain conditions, be treated neither as a supply of goods nor as a supply of services
  - Impact: Would result in increased ease of doing business for insurance sector
- **Rationalisation of TDS rates:** Reduce TDS rates from 5% to 2% for Payment of insurance commission (in case of a person other than a company), Payment in respect of life insurance policy
- **Inadmissibility of non-business expenditure by life insurance companies:** Any expenditure which is not admissible under the provisions of section 37 in computing the profits and gains of a business shall be included in the profits and gains of the life insurance business.
  - Impact: This would significantly reduce ongoing litigation and compliance burdens

Financial Services

Proposal	Impact
Others	
• **Insolvency and Bankruptcy Code** • Set up an Integrated Technology Platform • Centre for Processing Accelerated Corporate Exit (C-PACE) extended to Voluntary closure of LLPs • Strengthen and establish additional NCLT / DRT Tribunals	• The thrust on making operations smoother at the foundational level to improve the insolvency process and create capacity which could result in faster resolutions and/ or higher recoveries.
• **Develop a taxonomy for climate finance** to enhance the availability of capital for climate adaptation and mitigation	• This would enable the development of climate financing for green transition
• **Start NPS-Vatsalya,** a plan for contributions by parents and guardians for minors	• This would improve social security benefits and create a pool of long-term finance available for development
• **Increase the amount of deduction** allowed to an employer in respect of his contribution to a pension scheme referred to in section 80CCD, from 10% to 14% of the salary of the employee.	

Healthcare and Pharma

Proposal

- The budget allocation has largely remained at a similar level of Rs. 90,958.63 crore for the Ministry of Health and Family Welfare (as against Rs. 89,155 crore as per BE 2023-24), however concerning revised BE for 2023-24 the same has increased to about 12.70% from Rs. 80,517.62 crore.
- Significant increase in allocation by 23% to Rs. 28,783 crore towards the Flexible Pool for RCH, National Health Programme and National Urban Health Mission.
- Exception of 3 cancer medicines from customs duty.
- Increase in budget allocation towards the Department of Pharmaceuticals to Rs. 4,089.95 crore in 20224-25 compared to Rs. 3,160.06 crore (RE for 2023-24 of Rs. 2,697.95 crore).
- Significant increase in budget allocation towards the PLI scheme to Rs. 2,143 crore from Rs.1,200 crore under the Department of Pharmaceuticals.

Impact

- Increased allocation focusing on the PLI scheme for bulk drugs is anticipated to reduce import dependence.
- The enhanced budget allocation towards the Flexible Pool is expected to decrease infant mortality rates and reduce communicable diseases.
- The reduction of customs duty on cancer drugs is expected to provide relief to cancer patients and improve access to critical medications.

Enhanced Focus on Energy Security

Proposal | **Impact**

Power (non-Renewable)

Proposal

- Setting up of 2,400 MW power plant at Pirpainti, Bihar at a cost of Rs. 21,400 crore
- Private public partnership in nuclear space for (1) setting up Bharat Small Reactors (2) research & development of Bharat Small Modular Reactor and (3) research & development of newer technologies for nuclear energy
- Formation of NTPC-BHEL JV to set up 800 MW ultra super critical thermal plant using AUSC technology along with fiscal support from the government.

Impact

- Increased energy availability in Eastern India which is expected to witness high economic activity.
- Streamlined design would mitigate land acquisition challenges thus preventing cost and time overruns seen in conventional reactors.
- Additionally, greater indigenization would decrease reliance on foreign technology while promoting clean and reliable nuclear power generation at competitive tariff.
- Increased plant efficiency leading to lower carbon footprint. Apart from lower variable costs, viability gap support from GoI will also make the overall tariff competitive and meet the growing energy requirements.

CareEdge RATINGS

Self-Dependency in Sustainable Energy

Proposal

Impact

Renewable Power

Proposal

- Inclusion of PM Surya Ghar Muft Bijli Yojana, with a capital allocation of Rs 6,250 crore for FY25. The government aims to cover 1 crore households by FY27 under this scheme.
- Government to introduce a policy on pumped storage projects for smooth integration of variable RE into the grid.
- Exemption on specified capital goods and critical minerals used in the renewable energy value chain along with withdrawal of custom duty exemption on solar glass

Impact

- Central capex subsidy of Rs 30,000-78,000 is provisioned for capacities ranging from 1-3 KW, which is likely to result in free electricity for end users, up to 300 units per month
- Dedicated policy on pump storage to provide impetus to energy storage, and address the intermittency issue with variable renewable energy thereby aiding in our long-term goal of transitioning to a carbon-neutral economy
- The government reemphasizes its intent to make India "Aatmanirbhar". The duty removal on specified capital goods and key components is likely to improve the cost competitiveness of domestic players and promote indigenous manufacturing.
- Duty exemption on lithium to promote battery energy storage ecosystem.

Affordable Housing Focus Persists

Proposal

Impact

Real Estate

Proposal

- Announcement of Rs.10 lakh crore under PM Awas Yojana 2.0, for Urban Housing, aims to fulfill one crore housing needs with a provision of interest subsidy to facilitate loans at affordable rates. Further, two crore houses under Rural Housing have been reiterated.
- Initiative of the Central government to moderate stamp duty in the states with high stamp duty and a further reduction in duties for properties purchased by women.
- Removal of indexation benefits and rationalising long-term capital gain tax (LTCG) to 12.5% and tenure to two years, for financial and non-financial assets.
- Digitization of land records.

Impact

- The significant budgetary allocation towards Pradhan Mantri Awaas Yojana (PMAY - urban and rural) is anticipated to augment the Government's affordable housing initiative.
- Any potential reduction in stamp duty will improve affordability and boost the housing demand.
- The removal of indexation could escalate LTCG tax liability. However, this impact is somewhat offset by a reduction in rate from 20% to 12.5%. This change has the potential to influence second-home buying decisions.
- An increase in standard deduction and positive revisions in the tax slabs under the new tax regime could potentially increase the disposable income in the hands of lower to mid-income groups which is likely to push the sales in the affordable residential market.
- Digitization of land records is expected to improve transparency in the sector.

Sugar and Allied Sector – No Sweetener

The Union Budget 2024-25 does not specifically focus on sugar and allied industries, nevertheless, sugar and ethanol are expected to benefit with the major focus of govt on promoting and developing of natural farming practices, more climate-resilient crop varieties and digital infrastructure for information sharing.

Proposal	Impact
• In the Union Budget 2024-25, the government allocated Rs 1.52 lakh crores for agriculture and allied sectors in FY25 • Govt. aims to promote sustainable agricultural practices, reduce dependency on fertilizers and pesticides and enhance soil health and biodiversity while reducing cultivation costs. Approximately 10 million farmers will be introduced to natural farming practices. • Promoting digital public infrastructure in partnership with state governments to provide access to vital information, such as weather forecasts, crop advisory services, and market prices. • The issuance of Jan Samarth-based Kisan Credit Cards will also be enabled in five states.	• Although the allocation is for the entire agriculture sector, the beneficiary would also include sugarcane farmers. And ethanol producers from proposals related to agriculture, transformation in agricultural practices leading to increased productivity is likely to have a favourable impact on the sugar industry, which faces challenges of weather conditions forecasting, sugarcane yield and low recovery rates.

Tourism & Hospitality

Proposal	Impact
• Simpler tax regime for foreign cruise companies for operating domestic cruise vessels in India. • Special focus on promoting spiritual and religious tourism across India. This includes the development of significant temples and pilgrimage sites to attract more visitors. • Enhancement of beach destinations to provide a better experience for domestic and international tourists. • Special Focus on Bihar and Odisha Tourism • Commitment towards making India a Global Tourist Destination through targeted investments and strategic initiatives like the construction of the Vishnupath corridor in Gaya and Mahabodhi corridor in Bodhgaya, preservation of hot springs in Rajgir and enhancement of infrastructure around Nalanda.	• The focus on demand creation in the tourism and hospitality sector continues. By focusing on the development of iconic spiritual and cultural sites, alongside the promotion of natural and scenic beauty, the government aims to attract both domestic and international tourists. Further, Projects for port connectivity, tourism infrastructure, and amenities will also be taken up. All these measures are likely to promote domestic as well as foreign tourists in India. This will not only help the tourism sector but also create demand for the hospitality sector. Focus on increased regional connectivity and ports will also promote tourism throughout the country and demand a boost for the hospitality sector thereby supporting occupancy and ARRs.

Transportation Infrastructure – Urban and Regional Growth Gains Momentum

Proposal	Impact
Transportation Infrastructure	
• Infrastructure capex of 11.1 lakh crore (11% y-o-y growth) in line with allocations as per Interim budget • Budget allocation for roads and railways at Rs.5.33 lakh crore ~ flat growth of ~4%. • Infrastructure focus through the plan "Purvodaya" with funding arrangements via multilateral development agencies in addition to budgetary support	• Spending on road infrastructure at a modest 3% growth to normalise the order book of road EPC companies. However, new project announcements under "Purvodaya" and Industrial parks support order book growth and promote Public Private Partnership.
Logistics and warehousing	
• Setting up industrial parks under Public Private Partnership (PPP) mode and National Industrial Corridor Development Programme • Setting up of e-commerce hubs across the country under a seamless regulatory and logistics framework.	• Promoting first-mile last mile connectivity, improving the cost-effectiveness of locally manufactured goods, augmenting the logistics efficiency and driving warehousing growth

CareEdge RATINGS

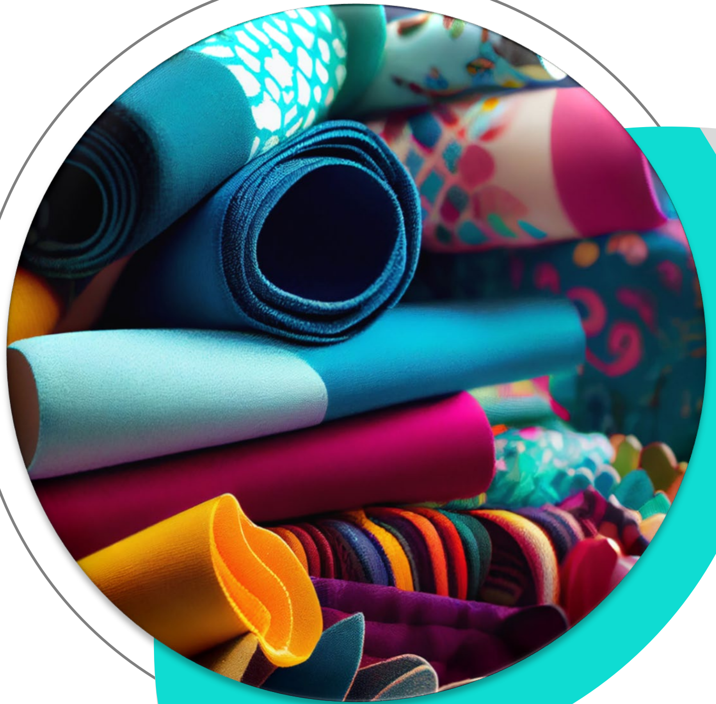
Transportation Infrastructure – Urban and Regional Growth Gains Momentum

Proposal	Impact
Digital and urban infrastructure	
• Development of Digital Public Infrastructure (DPI) Applications • Digitisation of urban land records via GIS mapping	• Development of DPI and emphasis on the Digital India Mission augurs well for the growth of data center infrastructure • Likely to improve the revenue profile of Urban Local Bodies (ULB) with improvement in property tax coverage by including previously unassessed properties within the jurisdiction of ULB
Shipping and aviation	
• Incentives to boost domestic aviation and shipping Maintenance Repairs Overhaul (MRO) industry. • Ownership, leasing and flagging reforms. • Simplification of tax regime for foreign shipping companies operating cruise terminal.	• Likely to augment revenue growth for shipyards and aviation MRO services. • Development of the Indian shipping industry in line with the Government's Maritime Amritkal Vision 2047. • Facilitating the development of the Indian cruise industry which presently represents only 1% of the overall global cruise industry.

CareEdge RATINGS

Textile

Proposal	Impact
• The government allocated Rs.4,417 crore towards the textile ministry for 2024-25 as compared to Rs.4,389 crore for 2023-24 (revised budget estimates for 2023-24 is Rs.3,443 crore). • Significant increase in allocation to PLI scheme for textile to Rs.45 crore in 2024-25 compared to Rs.5 crore in 2023-2024. • Increase in the allocation towards the PM Mitra scheme to Rs.300 crore for 2024-25 from Rs.200 crore in the budget estimate for 2023-24 (revised budget estimates for 2023-24 is Rs.52.30 crore). • Schemes for Employment Linked Incentives. • Reduction in custom duty of methylene-bis (i.e., MDI) from 7.5% to 5% • Reduction in the custom duty of wet white, crust and finished leather from 10% to Nil, the custom duty of real down filling material from duck or goose reduced from 30% to 10% and proposed nil custom duty on certain additional accessories and embellishments used in the production of goods intended for exports.	• Continued similar allocation with a focus on the PLI scheme shall facilitate investment in the sector. • Reduction in custom duties for select items shall lead to reduced cost of production and incentives and promote exports of textile and leather garments and footwear • The Employment linked Incentive scheme is likely to benefit labour-intensive textile industry. • The increased allocation towards the PM Mitra park will lead to investments in large-scale capacities, resulting in economies of scale and enhanced export competitiveness.



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

Analytics Team: Sachin Gupta, Rajashree Murkute, Ranjan Sharma, Sabyasachi Majumdar, Divyesh Shah, Ravleen Sethi, Jatin Arya, Krunal Modi, Puja Jalan, Saurabh Bhalerao, Arti Roy, D Naveen Kumar, Richa Jain

Economics Team: Rajani Sinha, Sarbartho Mukherjee, Anurag Chandra, Akanksha Bhende, Shobana Krishnan Mihika Sharma, 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
Phone: +91-22-6754 3456 I CIN: L67190MH1993PLC071691

About:

CareEdge is a knowledge-based analytical group offering services in Credit Ratings, Analytics, Consulting and Sustainability. Established in 1993, the parent company CARE Ratings Ltd (CareEdge Ratings) is India's second-largest rating agency, with a credible track record of rating companies across diverse sectors and holding leadership positions in high-growth sectors such as BFSI and Infra. The wholly-owned subsidiaries of CareEdge Ratings are (I) CARE Analytics & Advisory Private Ltd previously known as CARE Risk Solutions Pvt Ltd, (II) CARE ESG Ratings Ltd, previously known as CARE Advisory Research and Training Ltd and (III) CareEdge Global IFSC Ltd. CareEdge Ratings' other international subsidiary entities include CARE Ratings (Africa) Private Ltd in Mauritius, CARE Ratings South Africa (Pty) Ltd, and CARE Ratings Nepal Ltd.