

Equity Strategy - India

Budget 2024 First Snap: Continued focus on fiscal prudence & Capex

Equity Strategy

Breaking News

- Balanced budget with fiscal prudence (FY25BE FD at 5.1% of GDP, with continued capex focus (+11% YoY)
- Budgeted tax revenue growth at 11.9% conservative in our view; see scope for upside
- Gains for Industrials//Metals/Cement on capex push; positive for rate sensitive - Banks/NBFCs on MTM gains/lower yields

Focus on fiscal prudence; capex push continues

The announced budget has strong focus on fiscal consolidation with FY24RE at 5.8% (vs 5.9% BE) and FY25BE target at 5.1% vs 5.3% for BofAe. As expected, capex push continued though growth moderated (11.1% YoY vs 33% in FY24). Fiscal support to states for capex at Rs1.3tn (flat YoY) also continues. Budgeted tax revenue growth seems conservative at 11.9% and actual revenues likely to be higher which could help navigate any exigencies. See continued efforts to reduce subsidies: revenue expenditure as % of GDP continues to decline (FY25BE at 10.4% vs FY24BE at 10.7%) & push for nano-fertilizers – expanding to DAP now vs only Urea earlier to reduce fertilizer subsidies. We see no pressure for populism despite elections. Expect gains for Industrials, Metals & Cement on capex push; Banks/NBFCs to see MTM gains/lower yields due to sharp FD cut; Tourism & Hotels industry from focus on tourism. A brief snapshot below.

Fiscal Deficit: for FY24 was revised down by 10bp to 5.8% vs 5.9% earlier on higher than anticipated revenue receipts. The government has continued its commitment to fiscal consolidation with a lower than anticipated FY25BE fiscal deficit of 5.1% of GDP (vs BofAe of 5.3%). This augurs well for rate sensitive sectors (Banks/NBFCs) on benefit from MTM gains/lower yields

Revenue growth: Net-tax growth of 11.9% for FY25 is slightly higher than the 10.5% nominal GDP growth assumption (in-line with BofAe). The tax growth estimate looks conservative (vs BofAe at 14% YoY) and has scope for upsides in our view given strong tax buoyancy. The actual revenue receipts are likely to be higher lending support to navigate any potential exigencies or potentially step up capex further through the year

Capex allocation: Rs11.11tn for FY25BE, up 11.11% YoY on expected lines (Rs11.5tn BofAe) with strong but moderate growth vs last year. Railways/Roads (Rs2.52/Rs2.72tn allocation) and housing (Rs0.8tn) appear to be key focus areas. Besides, policies to boost state govt. capex with Rs1.3tn of support continued in FY25 as well (extension of 50yr interest free loans to be spent only for FY25 capex) is a positive

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Abbreviations:

FD: Fiscal Deficit

MTM: Mark to Market

BE: Budgeted Estimates

RE: Revised Estimates

DAP: Diammonium Phosphate

FAME: Faster Adoption and
Manufacturing of Electric Vehicles

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Exhibit 1: Budget 2023: brief snapshot of key items

11% growth in tax collections leading to reduction in FD to 5.1%. Capital expenditure continuing its strong trajectory; growing at 11% in FY25BE

Particulars	FY24BE	FY24RE	FY25BE	FY24BE vs FY24 RE	FY25 BofAe	FY25BE vs FY25 BofAe
A. Total Rev Receipts	26,323	26,997	30,013	11%	30,397	-1%
Tax Revenue	23306.31	23,239	26,016	12%	26,400	-1%
B. Total Govt Expenditure	45,031	44,905	47,658	6%	47,660	0%
On Capital Account	10,010	9,502	11,111	17%	11,500	-3%
C. FD as % of GDP	5.90%	5.80%	5.10%			

Source: BofA Global Research, India Budget documents

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Exhibit 2: Sectoral implications

Positive implications for capex plays like Industrials, Metals & Cement. See impact on Banks/NBFCs through lower yields on sharp fiscal consolidation

S.No.	Sector	Description	Impact
1	Infrastructure & Industrials	<ul style="list-style-type: none"> • Higher allocation: Rs11.11tn for FY25BE, up11.1% YoY • Sectoral implications: Railways/Roads (Rs2.52/2.72tn allocation) and housing (Rs0.8tn) appear to be key focus areas • State capex support: Policies to boost state govt. capex continued with extension of 50yr interest free loans at Rs1.3tn to be spent only for FY25 capex 	Positive
2	Cement	• PMAY: Continued allocation towards the national housing scheme (PMAY) at Rs800bn could augur well for the cement sector	Positive
4	NBFCs/Banks	• Sharp cut for FD target: Augurs well for rate sensitive sectors (Banks/NBFCs) on benefit from MTM gains/lower yields	Positive
3	Autos	• Electric Vehicle push remains: Focus on electric vehicles and charging infrastructure continues with push on public transport. Fame subsidies are not extended & slight cut in the budgeted estimates for FAME subsidies marginally negative for 2W	Neutral

Source: BofA Global Research, India Budget documents

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