HSBC Mutual Fund

India Union Budget FY2025

The Equity Markets Perspective

July 2024

Government identifies new thrust areas

Sticks to fiscal consolidation with FY25 fiscal deficit target of 4.9%

FY25 estimates similar to FY24-25 Interim Budget

Government has largely maintained estimates for tax revenues (11% YoY growth) and capital expenditure (15% YoY growth). Government has further reduced its FY25 fiscal deficit target by 20 bps, aided by the dividend received from RBI.

Special focus on employment and skilling

Budget estimates saw an increase in non-capex expenditure driven by new employment generation related payments, with additional incentives for manufacturing companies. This will aid in increased formalization of the labour force.

Building blocks for long-term focus areas

The budget provided a blueprint for key focus areas of the Government like nuclear energy, support for SMEs, land reforms (rural and urban), development of e-commerce and export hubs, 12 new industrial parks, etc.

Source: Indian Union Budget Document, HSBC Mutual Fund estimates, July 2024.

Government identifies new thrust areas

Sticks to fiscal consolidation with FY25 fiscal deficit target of 4.9%

Some benefits to drive consumption

Personal income tax has been tweaked to provide additional benefit to individuals under the new tax regime. The annual tax savings could be upto Rs 17,500. Tax deduction at source (TDS) has been rationalized an d reduced for many categories.

Capital gains tax hiked

Long term Capital Gains (LTCG) and Short-term Capital Gains (STCG) has been hiked on listed equity instruments from 10% to 12.5% and from 15% to 20% respectively. Indexation benefit for gold and immovable property has been removed, although LTCG on these instruments has been reduced from 20% to 12.5%. Also, holding period for Gold, unlisted bonds and debentures has been lowered to 24 months for classification of Long-term capital asset.

Raising STT to reduce retail F&O activity

Securities Transaction Tax (STT) was hiked to 0.1% on sale of options and 0.02% on sale of futures.

Source: Indian Union Budget Document, HSBC Mutual Fund estimates, July 2024.
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Key sectoral impact & assessment

Focus on capex has continued. Overall adjusted capital expenditure for FY25 has increased by 15% over FY24RE

Segments (INR Bn)	FY23	FY24RE	FY25BE	FY25BE vs FY24RE (%)
Atomic Energy	138	150	139	-8%
Defense	1,509	1,678	1,822	9%
Food and Public Distribution	20	2	0	-78%
Housing and Urban Development	269	265	286	8%
Petroleum and Natural Gas	-	0	11	-
Railways	1,593	2,400	2,520	5%
Road Transport and Highways	2,060	2,645	2,722	3%
Telecommunications	547	701	845	21%
Others	1,264	1,661	2,765	66%
Budgetary capital expenditure	7,400	9,502	11,111	17%
Capitalization of a PSU Telecom Company	264	648	829	
Adjusted budgetary capital expenditure	7,400	8,855	10,282	16%
IEBR	3,631	3,262	3,686	
FCI Adjustment	305	225	270	
Total CAPEX	10,726	11,892	13,698	15%

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Key sectoral impact & assessment

Positive for Industrial and Power companies

Sector	Measure	Likely impact
Infrastructure	Road capex for FY25BE is higher by 3% vs FY24RE	Neutral for Road construction companies
	Railway capex for FY25BE is higher by 5% vs FY24RE Physical targets for Rolling Stock have increased sharply vs FY24RE and FY25 interim budget. These include Wagons, Coaches and Electric Locomotives	Positive for the rail sector companies as well as on the equipment supply side
	Metro rail capex for FY25BE is higher by 8% vs FY24RE	Positive for companies involved in metro construction as well as on the equipment supply side
Defence	Defence capex for FY25BE is higher by 9% vs FY24RE	Positive for companies in Defence sector
Power	Increased allocation for Reform Linked Distribution Scheme to Rs. 126 bn in FY25BE vs Rs. 104 bn in FY24RE Solar rooftop scheme introduced for FY25 with allocation of Rs. 62.5 bn	Positive for companies in Power sector as well as on the equipment supply side

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Key sectoral impact & assessment

Negative for Real Estate, Exchanges; Positive for Consumption

Sector	Measure	Likely impact
Automobiles	Allocation under the FAME + PLI scheme increased to Rs. 72 bn from Rs. 53 bn in FY24	Positive for Electric vehicles
	Increased spending on infrastructure and rural development programs	Positive for commercial vehicles
Consumer	Reduction in tax under new income tax regime, focus on Employment generation	Positive for FMCG
	No change in duty on cigarettes	Positive for Cigarette companies
	Reduction in customs duty from 15% to 6% on Gold/Silver Bars	Positive for Jewellery companies
	Focus on promoting Tourism in many states	Positive for Hotel sector
Financials	Reintroduced the credit linked subsidy scheme (urban) with an allocation of 40 bn	Positive for affordable HFCs
	Lower customs duty on gold from 15% to 6% will lead to lower gold prices	Negative for gold financiers
	MSMEs in stress (i.e. special mention accounts) will be able to get support in the form of a credit guarantee. Details of this are yet to be announced	Positive for lenders especially public sector banks
	Increase in securities transaction tax (STT) on sale of an options in securities from 0.0625% to 0.1%. Also, increase in STT on sale of futures in securities from 0.0125% to 0.02%	Negative for NBFCs (Exchanges)
	Increase in long-term capital gain tax on financial assets from 10% to 12.5%. Also, increase in short-term capital gain tax on financial assets from 15% to 20%	Negative for NBFCs (Brokers and Exchanges)
Real Estate	Removal of indexation benefit on immovable property while reducing LTCG to 12.5% from 20% currently	Negative for Real Estate Sector
Oil & Gas	Capital support for OMCs reduced to Nil from Rs.150 bn & FY25 LPG subsidy kept unchanged at Rs. 119 bn	Negative for OMCs although on expected lines

Source: Indian Union Budget Document, HSBC Mutual Fund estimates, July 2024.

Conclusion: Building capabilities for a ‘Viksit Bharat’

Thrust on capex and manufacturing to continue

Capex focus reiterated	◆ Government capex is expected to act as a catalyst to spur private capex ◆ Infra spending to increase by 15% YoY. Increased assistance to States
Focus on energy and manufacturing	◆ New energy focus continues additional allocation to solar rooftop scheme ◆ Initiatives with private sector for Nuclear Energy ◆ Credit Guarantee Scheme for MSMEs in the Manufacturing Sector
Focus on employment and skilling	◆ Incentives given for formalizing of labour force, with additional incentives to manufacturing sector ◆ Government guaranteed loans for skilling programmes ◆ Internship scheme for 10mn students with Top 500 corporates with aid of CSR funds
Building the buffer for sustainable economic expansion	◆ Sticking to the fiscal consolidation roadmap with reduction in fiscal deficit is a positive for medium term inflation and interest rates
Portfolio Update	◆ Our portfolio stance remains broadly unchanged. We continue to be positive on the capex cycle with overweight position on domestic cyclical sectors

Source: Indian Union Budget Document, HSBC Mutual Fund estimates, July 2024.

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