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HDFC SKY

Post Budget Impact Analysis

1st February 2024

- The FY25 interim Budget has come out a little better than expected even though the heightened expectations on many changes/giveaways have rightfully not been met now. Absence of populism in the Budget is another welcome feature.

- The prudent resolve to continue the fiscal consolidation path will be appreciated by global and local investors. Better-than-street expectations of fiscal deficit for FY24 and FY25 (5.8% and 5.1% of GDP respectively) and the consequent lower borrowings target in FY25 (Rs.14.1 lakh cr vs Rs.15.4 lakh cr in FY24) has enthused the bond markets (10 year Gsec yield down 8 bps) and led to rise in stock prices of PSU Banks who have the maximum exposure to Govt Bonds. Lower borrowings due to the deficit compression could reduce borrowing costs for the private sector and help investment recovery.

- FY24RE fiscal deficit will come in at 5.8% vs 5.9% in FY24BE. This has been made possible despite the lower nominal GDP growth (8.9% vs 10.5% in FY24BE) and due to healthy collections in direct taxes and GST and higher than expected RBI dividends. This has offset the lower divestment income and lower customs and excise duty collections and higher spends on MNREGA, food and fertiliser subsidy. The buoyancy in tax revenues was particularly encouraging with the tax to GDP ratio coming in at 11.6% compared to 11.1% assumed in the FY24 budget.

- Capex spend allocation has risen 11.1% in FY25 over the FY24BE and 16.9% over FY24RE. However, the budgeted increase in capital expenditure of about Rs 1.6 lakh crore in 2024-25 is lower than the actual increase of Rs 2.4 lakh crores this year over 2022-23. Major scheme outlays show higher growth in allocations for social welfare schemes including education and health.

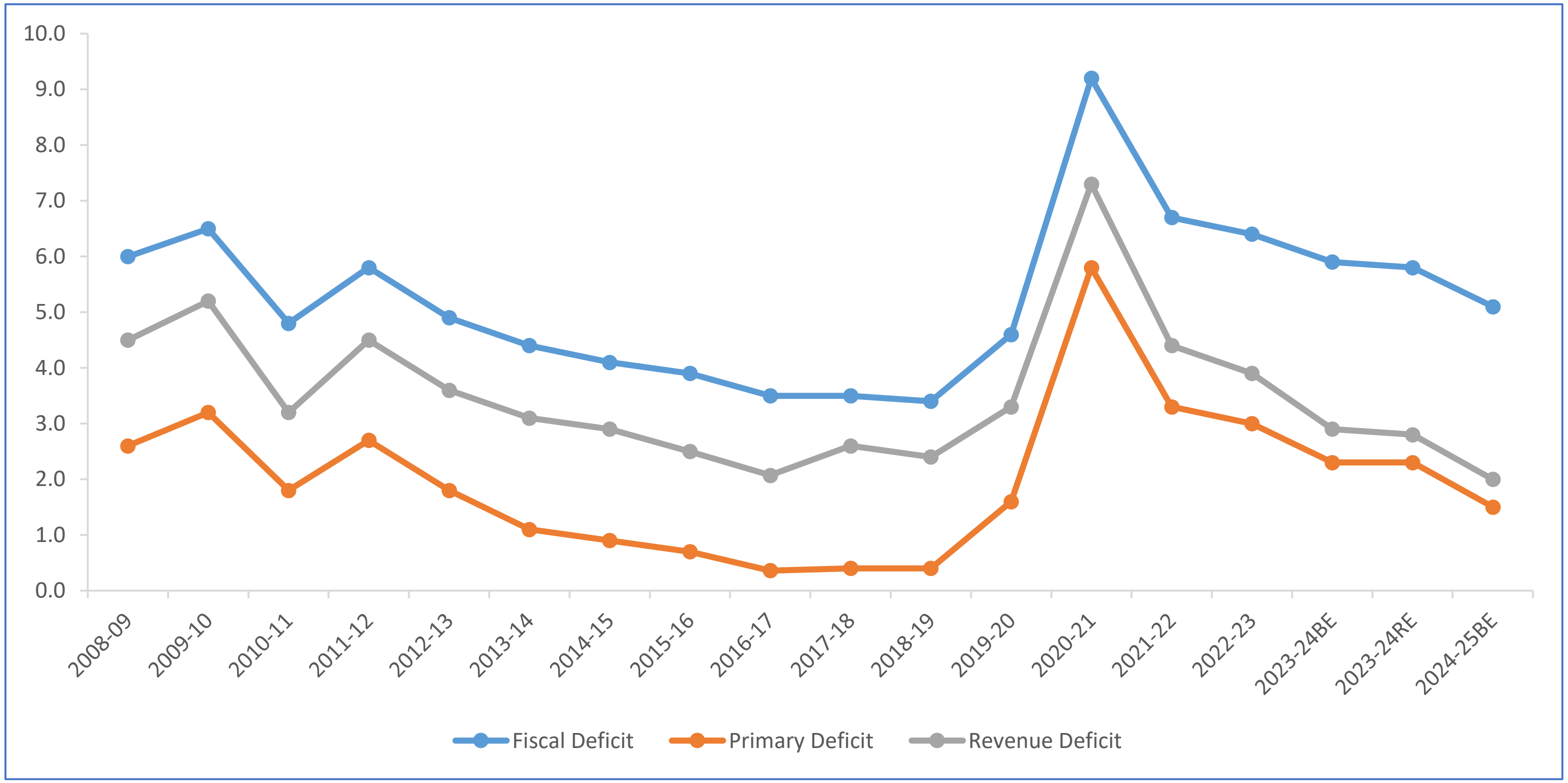
- Sectorally, financials (including PSU Banks) could perform well in the near term. Apart from this, companies exposed to rural and affordable housing can also do well over the medium term. Dairy and fishery companies may receive a fillip after some time.

- Disinvestments and asset monetization remain a problem area, yielding Rs 20,000 crores less than budgeted in FY24. The target for FY25 is set at Rs.50,000 crore.

- All in all, we think the impact of the interim Budget for the next few days on equity markets will be neutral to mildly positive and other emerging triggers (including the balance Q3 results) will drive its trajectory later. Larger move in the markets may have to wait till the full-fledged Budget due in June/July.

- We expect the 10 year yield to move below 7% over the coming months supported by expectations of a rate cut by the RBI, lower US bond yields, stabilising inflation prints, and debt flows on account of the inclusion in the JP Morgan bond index.

Deficit as a % of GDP over years



Post Budget Impact Analysis 2024-25

	FY23	FY24	FY24	FY25	% change		
	Actual	Budget Estimates	Revised Estimates	Budget Estimates	FY23RE vs FY22	FY23RE vs FY23BE	FY24BE vs FY23RE
1. Revenue Receipts	2,383,206.0	2,632,281.0	2,699,713.0	3,001,275.0	13.3	2.6	11.2
2. Tax Revenue (Net to Centre)	2,097,786.0	2,330,631.0	2,323,918.0	2,601,574.0	10.8	-0.3	11.9
3. Non Tax Revenue	285,421.0	301,650.0	375,795.0	399,701.0	31.7	24.6	6.4
4. Capital Receipts	1,809,951.0	1,870,816.0	1,790,773.0	1,764,494.0	-1.1	-4.3	-1.5
5. Recovery of Loans	26,161.0	23,000.0	26,000.0	29,000.0	-0.6	13.0	11.5
6. Other Receipts	46,035.0	61,000.0	30,000.0	50,000.0	-34.8	-50.8	66.7
7. Borrowings and Other Liabilities	1,737,755.0	1,786,816.0	1,734,773.0	1,685,494.0	-0.2	-2.9	-2.8
8. Total Receipts (1+4)	4,193,157.0	4,503,097.0	4,490,486.0	4,765,768.0	7.1	-0.3	6.1
9. Total Expenditure (10+13)	4,193,157.0	4,503,097.0	4,490,486.0	4,765,768.0	7.1	-0.3	6.1
10. On Revenue Account of which	3,453,132.0	3,502,136.0	3,540,239.0	3,654,657.0	2.5	1.1	3.2
11. Interest Payments	928,517.0	1,079,971.0	1,055,427.0	1,190,440.0	13.7	-2.3	12.8
12. Grants in Aid for creation of capital assets	306,264.0	369,988.0	321,190.0	385,582.0	4.9	-13.2	20.0
13. On Capital Account	740,025.0	1,000,961.0	950,246.0	1,111,111.0	28.4	-5.1	16.9
14. Revenue Deficit (10-1)	1,069,926.0	869,855.0	840,527.0	653,383.0	-21.4	-3.4	-22.3
	3.9	2.9	2.8	2.0			
15. Effective Revenue Deficit (14-12)	763,662.0	499,867.0	519,337.0	267,801.0	-32.0	3.9	-48.4
	2.8	1.7	1.8	0.8			
16. Fiscal Deficit [9-(1+5+6)]	1,737,755.0	1,786,816.0	1,734,773.0	1,685,494.0	-0.2	-2.9	-2.8
	6.4	5.9	5.8	5.1			
17.Primary Deficit (16-11)	809,238.0	706,845.0	679,346.0	495,054.0	-16.1	-3.9	-27.1
	3	2.3	2.3	1.5			

The following table analyses the sectoral impact of the Budget announcements and impact on stocks:

Sector	Announcement	Impact on Sector/Company
Auto	Capital expenditure outlay increased by 11.1% to Rs 11.1 lakh crore.	Would provide a boost to CV and construction equipment manufacturers.
	Expand and strengthen the e-vehicle ecosystem by supporting manufacturing and charging infrastructure.	Positive for companies setting up charging stations and manufacturing charging products.
	Greater adoption of e-buses for public transport networks will be encouraged through payment security mechanism.	Would benefit e-bus manufacturers like Ashok Leyland, Tata Motors.
Agriculture	After the successful adoption of Nano Urea, application of Nano DAP on various crops will be expanded in all agro-climatic zones.	Positive for the Agriculture sector and fertilser companies.
	Fertiliser subsidy revised lower from Rs 1.89 lakh crore in FY24RE to Rs 1.64 lakh crore for FY25E. (Urea Subsidy from Rs 1.28 lakh crore in FY24RE to Rs 1.19 lakh crore and Nutrient based down from Rs 60,000 crore FY24RE to Rs 45,000 crore).	Negative for fertilizer companies.
BFSI	Government increased the capital expenditure target for FY25E by 11.11% to Rs. 11.1 lakh crores. This is equivalent to 3.4% of the GDP.	The target capex announced by the Government is below the street's expectations, it is still a positive for banks as it will drive credit growth in the banking system.
	The Centre will borrow Rs 14.13 lakh crore from the markets for FY25E to finance its fiscal deficit.	As the borrowing target is lower than the street's expectations of Rs.15.2 lakh cr, yields on government securities have begun to fall and in turn could lead to MTM gains for the banks. This could boost non-interest income of banks. However, in the long run, this could negatively impact Net Interest Margins (NIM) of banks.
	The government set an FY25E divestment target at Rs 50,000 crore vs. Rs 30,000 crore for FY24RE.	Budget allocation for divestment is higher than revised estimates for FY24; we expect this to have a positive impact on PSU Banks (incl IDBI bank), that could be divested over FY25.
	Government has decided to launch a housing scheme for Middle Class to buy/build their own houses.	This is positive for housing finance companies specifically focussed on affordable housing.
Cement	Significant 11.1% increase in capital expenditure to Rs 11.11 lakh crore – 3.4 % of the GDP.	Positive for the Cement Industry, which is going on an aggressive capacity expansion spree to cater to infra capex and real estate demand.

	Under PM Awas Yojana (Grameen), Government has announced to build 2 crore new houses (built ~3 crore houses so far) in the next five years. Government has allocated Rs 80,671 crore for FY25E against the Rs 54,103 crore for FY24RE. Government announced to launch a scheme for deserving sections of the middle class, living in rented houses or slums, or chawls and unauthorized colonies, to buy or build their own houses. This is likely to free encroachment areas like slums for easier redevelopment.	These schemes will lead to increase in construction activities and will be positive for Cement Industry.
	Government announced three new economic corridor under the PM Gati Shakti Yojana for Cement, Minerals and energy.	This will improve the logistics efficiencies for the companies working in this sector and will reduce transportation cost for Cement industry.
	Metro Project allocation for FY25E for transit oriented development in urban areas- increased to Rs 21,336 crore against the budget estimate of Rs 19,518 crore for FY24.	This may give a boost to housing demand in cities and is positive for Cement industry.
Consumer Durables	The government decided to launch housing scheme for Middle Class to buy/built their own houses. The budget has increased allocation to PM Awas Yojana from Rs 79,590 crore for FY24RE to Rs 80,671 crore for FY25E.	Increased focus on building houses for everyone to benefit associated sectors like wires and cables and consumer durables.
Defence	The government has maintained the capital outlay on defence at Rs 4.54 lakh crore for FY25 from last year's allocation of Rs 4.55 lakh crore, out of which Rs 1.72-lakh crore has been set aside for capital expenditure.	Rs 1.72-lakh crore has been set aside for capital expenditure, which includes purchasing new weapons, aircraft, warships and other military hardware (vs revised estimate of Rs 1.62 crore in FY24). The total outlay on defence is less than street expectations and can temporarily impact stock prices of defence focused companies like BEL, BDL, Mazagon Dock, GRSE etc.
	A corpus of Rs 1 lakh crore with 50-year interest-free loan, long-term financing or refinancing with low or nil interest rates to encourage private sectors to scale up research and innovation.	There could be impetus for deep-tech start-up working in the defence sector.

FMCG	**Dairy** - The budget aims to formulate a comprehensive program for supporting dairy farmers. The government has already undertaken efforts to reduce foot and mouth disease in order to improve productivity of milch animals.	Government's efforts to support dairy farmers and improve productivity could result in reduced milk procurement prices and improved supply chain - a positive for dairy companies.
	Fisheries – The government announced setting up a separate Department for Fisheries along with 5 integrated aquaparks, to assist fishermen. To enhance aquaculture productivity from existing 3 to 5 tons per hectare and double exports to Rs 1 lakh crore, Govt is stepping up Pradhan Mantri Matsya Sampada Yojana (PMMSY).	Government's focus on development of fisheries, especially exports to benefit aquaculture companies.
	Allocation for rural spend has not been increased on an overall basis.	As rural incomes may not rise majorly, demand for consumer staples and durables may take time to revive.
Hospitality, Aviation & Tourism	In continuation of the budget's focus of tourism, states will be encouraged to undertake development of iconic tourist centres to attract business and promote opportunities for local entrepreneurship.	Development of tourist centres and indirect means of government promotion through improved connectivity, setting up of new airports, improved sanitation etc to aid Hotel occupancies.
	TCS on overseas tours and remittances by authorized dealers reduced to 5% from 20% (if amount is less than Rs. 7 lakhs).	Positive for tour operators involved in outbound tours.
	Projects for port connectivity, tourism infrastructure, and amenities will be taken up in islands, including Lakshadweep.	Improving port connectivity in India with special focus on connecting islands like Lakshwadeep to improve cargo traffic across ports and increase indigenous tourism. Positive for ports and hospitality companies involved in these activities.
IT	Computerisation program with an investment of Rs 726 crore for FY25E vs. Rs 690 crore in FY24RE and Cyber Security Projects with an investment of Rs 759 crore for FY25E vs. Rs 400 crore for FY24RE.	The government initiative for computerisation and setting up of Digi Locker and National Digital Library, is positive for the IT companies, engaged in development of IT infrastructure and providing security software products, like TCS, Infosys, Wipro, HCL Tech, etc.
	Government's emphasis on easier tax compliance, and faster resolution of litigation to reduce compliance burden.	Positive for IT companies giving services to Govt revenue departments like TCS and Infosys.
Infrastructure & Railway	The capex outlay for FY25E has been increased by 11.1% to Rs 11.11 lakh crore which is 3.4 percent of the GDP.	The capital outlay is positive for the industry and it could boost the construction and engineering activities. It is positive for companies

	Government is planning to convert 40,000 normal rail bogies to Vande Bharat standard to enhance the safety, convenience, and comfort of passengers, allocated an outlay for carriages and wagons – Rs 23,435 crore. Key rail infrastructure projects including Metro Rail and Namo Bharat will be expanded to more cities.	like- L&T Ltd., IRB Infra Ltd., Dilip Buildcon, Ashoka Buildcon, J Kumar Infra., NCC Ltd. Development of rail infrastructure and conversion of rail bogies to Vande Bharat is positive for companies focused on rail infra and wagons.
	Under PM Gati Shakti, the government announced 3 new railway corridors - the Port connectivity corridor, the energy, mineral, and cement corridor, and the High traffic density corridor.	The decongestion of the high-traffic corridors will enhance the operations of passenger trains, resulting in safety and higher travel speed for passengers. These three economic corridor programs will accelerate the GDP growth and reduce logistic costs. It is positive for Rail Vikas, IRFC, RITES and other companies in this space.
Metals	Significant 11.1% increase in capital expenditure to Rs 11.11 lakh crore – 3.4 % of the GDP.	Positive for the Steel industry. The infrastructure and construction segments account for 60% of domestic steel consumption and the government's capex push will result in a significant demand growth for the Industry.
	Finance Minister announced three new economic corridor under the PM Gati Shakti Yojana for Cement, Minerals and energy.	This will improve the logistics efficiencies for the companies working in this sector and will reduce transportation cost for Metal industry.
Oil & Gas	Government has budgeted fuel subsidies at Rs 11,925 crore for FY25E, a fall of 2.6% from the revised estimate for FY24.	Due to high crude oil prices, oil marketing companies could continue to suffer under recoveries.
	Government plans to set up coal gasification and liquefaction capacity of 100 million tons by 2030.	Coal gasification companies like Coal India Ltd., Gail India Ltd., ONGC could benefit.
	Government's push for mandatory blending of compressed biogas in compressed natural gas for transport and piped natural gas for domestic uses.	CGD companies could benefit when compressed biogas becomes more widely available.
	Government is planning to allocate Rs 9,094 crore for FY25E for LPG connection to poor households.	This move could increase the demand of LPG, it is positive for topline of OMCs like BPCL, IOCL and HPCL.

Pharma & Healthcare	Government plans to set up more medical colleges by utilizing the existing hospital infrastructure under various departments. A committee for this purpose will be set-up to examine the issues and make relevant recommendations. Government will encourage vaccination for girls in age group of 9 to 14 years for prevention of cervical cancer. Healthcare cover under Ayushman Bharat scheme will be extended to all ASHA workers, Anganwadi Workers and Helpers. Allocation for: • Healthcare budget increased from Rs 79,200 crore in FY24 RE to Rs 90,200 crore for FY25E. • Pradhan Mantri Ayushman Bharat from Rs 2100 crore in FY24 RE to Rs 4100 crore for FY25E • Livestock Health and Disease control from Rs 1500 crore in FY24 RE to Rs 2465 crore for FY25E • PLI scheme (Pharma) from Rs 1700 crore in FY24 RE to Rs 2143 crore for FY25E • National AIDS and STD Control Program from Rs 2421 crore in FY24RE to Rs 3049 crore for FY25E	It could be positive for large pharma companies who are investing for the future and for healthcare companies like Narayana Health, Aster DM, HCG, KIMS etc.
Power & Renewables	Under roof-top Solarisation, 1 crore households are likely to obtain up to 300 units of free electricity every month. Allocated an outlay for Solar Power (Grid) of Rs 10,000 crore for FY25E.	Savings up to Rs 15,000-18,000 annually for households from free solar electricity could adversely impact power distribution companies (including state discoms). This is beneficial for companies engaged in the business of manufacture/EPC of solar roof-top panels.
	Government is looking to achieve 'net zero' by 2070 and provided gap funding for harnessing offshore wind energy potential for the initial capacity of one giga-watt. They allocated Rs 930 crore for FY25E for Wind Power (grid).	Expected to support offshore wind generation; it is positive for companies engaged in renewable power.
Real Estate and Building material	Under PM Awas Yojana (Grameen), the government announced to build 2 crore new houses (build the ~3 crore houses so far) in the next five years. Government has	Capital outlay for housing could increase the construction activities and is positive for building material companies.

	allocated Rs 80,671 crore for FY25E against the Rs 54,103 crore for FY24 RE. Government announced to launch a scheme for deserving sections of the middle class, living in rented houses or slums, or chawls and unauthorized colonies, to buy or build their own houses. This is likely to free encroachment areas like slums for easier redevelopment.	Real estate companies engaged in rural/affordable housing can benefit.
	Allocated Rs 70,163 crore for Jal Jeevan Mission Scheme to provide tap water connection in rural households as compared to Rs 70,000 revised estimates in FY24.	This will create a stable demand for pipes and fittings. Positive for companies like Astral, Supreme, Prince, JTL Inds.
	Allocation under AMRUT and Smart Cities Mission for urban development saw sizeable fall by 35% against FY24BE to Rs 10,400 crore for FY25E.	Lower allocation than previous year will negatively affect the demand of building materials to some extent.
	Budget estimate for FY25E is Rs 11,391 crore for PM Krishi Sichai Yojana (KSY) vs. Rs 8,781 crore for FY24RE.	Budget allocation for PM KSY is up 30% from the revised estimates for FY24 will positively impact the demand of agri pipes. Positive for companies like Astral, Supreme Industries, Prince Pipes.
	Metro Project allocation for FY25E for transit oriented development in urban areas- increased to Rs 21,336 crore against the budget estimate of Rs 19,518 crore for FY24.	This may give a boost to housing demand in cities and is positive for real estate industry.
Skill Development	The Skill India Mission has trained 1.4 crore youth, upskilled and reskilled 54 lakh youth, and established 3000 new ITIs.	This could benefit industries that employ people who receive such training/education and create income/demand for consumption goods.
Telecom	Government has allocated Rs. 4,492 cr for Signalling and Telecom for FY25E, vs. a revised outlay of Rs 3,581 crore in FY24.	Positive for telecom and optic fibre companies like Bharti Airtel, Reliance Inds etc.
	Government is looking to earn Rs 1.20 lakh crore from communication services in FY25E through license fees and spectrum charge vs Rs.0.94 lakh cr in FY24RE.	Communication services include licence fees from telecom operators and receipts for spectrum usage charges. Higher receipt expectation could be a strain on telecom companies.

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