2025

Commentary on Indian Budget

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India Budget 2025

We have been reaping benefits through our Investment in Indian Market. In the last 6 years our investment return is 464%. It is imperative that all successful investment decision needs close assessment of the economic environment and future growth avenues to shape the Investment Landscape. For Indian Market, one of the best tools is to analyze the Economic Review followed by Budget Speech every year. This is not in any way a political commentary rather should be read as an investment note. We are bullish on the Indian Market for long term, but we need to understand how the economy is handling the challenges it is faced with. Since we are long term investor one budget may not reflect the true possibility, but it certainly shows the course of future.

This is the first Full Year Budget of third BJP led Government so expectation was that the Government may come out with some major reform announcements. As the Economic Survey 2024-25 came out pre-budget, it was clear that series of red signals are on.

- **GDP** is estimated to grow in 2024-24 @ 6.4% *(instead of 7% as projected at the start of the year).* It is projected that GDP growth will be between 6.3% to 6.8%, unless the Government could bring back the momentum : slowing growth issue
- **Inflation** is estimated to be 5.4% in FY24-25 from the high of 7.5% in 2022-23. It is projected to be 4.8% in FY 25-26 - persistent food inflation is evident.
- **Unemployment is estimated to be 8% in Dec 2024 (CMIE**) (PY it was 7.2%) high unemployment remains an issue for the higher growth rate;
- **Foreign Direct Investments(FDIs)** the first half of FY 2024-25 witnessed a FDI flow of $ 42.1 billion witnessing a growth of 26.1% however still it is only 0.8% of the GDP (dropped from 2.5% of the GDP at its highest). Further **Foreign Portfolio Investment** (FPI) remained volatile but **at least net positive**. The main concerns are repatriation and disinvestment - **drying up of FDI and consequently domestic private capital due to low pace of deregulation;**
- **Export** grew **@ 6%** while IT service export is almost 70% of service export -could face demand disruption due to AI growth in USA. Further, in the Top 10 Export Items, USA is the number one country in six of items- this is open to further export tariff by US new administration which would dampen export and foreign reserve further;
- **Social Sector Spending** grew to INR 25Trillion (CAGR 15% from 2020-25) - almost 14% of the GDP. It may **grow further** given the political compulsion.
- **Fiscal Deficit i**s expected to be 4.8% in Fy24-25 and is planned to reduce further to 4.4% in Fy 25-26. However, this is a challenging balance and should not be focused much at the cost of growth.

Further, the following negative signals are observed b y investment community in the economy since July 2024:

- **Dropdown in the Corporate Sector Revenue and profit** quarter on quarter to a single digit growth – shows a slowdown in **consumer demand** (B2B and B2C) may ultimately push the economy to recession, if not fiscally addressed properly;
- Since June 2024, Micro Finance Institutions **across the board** registered **High growth in NPA** and drop in collection efficiency; this shows that financial hardship peaked in the smaller cities, semi-rural towns and rural Village

- Since Quarter ending September 2024, the jump in NPAs **in Banking and Financial Institutions** shows that financial distress is increasing in the large cities and in urban towns as well, although still not at an alarming rate.

In view of the above pressing issues, Finance Minister did not go for a reformist budget rather kept a check on capex proposals/vision projects declaration. Instead focused on a **CONSUMER FOCUSSED stimulus package** to address the immediate issues. This is a good realty check and a welcome change for investors like us.

Further in the last 10 years the Government has also did substantial capital spending on Infrastructure and other big ticket projects, which are either completed or in the near completion stage, so normal budget allocation will be sufficient for this year.

The **stimulus** (***only 0.3% of GDP***) is in the form of a reduction in Tax Incidence in the hands of Individuals by reducing tax payment liability in the coming income year 2025-26. This is done by **tweaking the tax slabs and tax rate from 5% to 30%.** However, the maximum tax rate of 30% remained but is only applicable on a higher taxable Income **INR 2.4 Million (**earlier INR 1.5 Million) **and above** while up to **INR 0.4 Million (**earlier INR 0.3 Million) taxable Income attracts zero tax rate. In effect, Individuals with Taxable Income ***INR 1.2 Million*** (i.e. INR 0.1 million per month) which is considered a middle Income group salary for Indian economy) **shall not pay any Tax via the rebate under section 87A up to INR 60,000.**

*On the other, any person having a taxable income of **INR 2.4 Million or above** will also simply save tax of **INR 110,000** (without rebate). Thus, Individual gets a tax relief of INR 10,000 to INR 110,000 while Government planned to give up US $ 11.5 billion of its fiscal revenue – **that is a big stimulus**.*

First, this benefit is not available to the economy immediately - since salaried class pay tax through monthly TDS and self-employed person pay through quarterly Advance tax -mostly in December/March.

Second, in the low taxable income bracket most of this amount will go to pay their personal debt so not for productive purpose. In the Top Bracket mostly it will just be in their bank account or partly in Investments which would create Banking assets with some multiplier effect.

Thirdly, those persons having taxable Income of **INR 2.4 Million to INR 20 Million**(or more) per annum do not deserve a relief of INR 110,000 on their tax. To counter this, Cess @4% and Surcharge @ 15% are levied on highest taxable income bracket of **INR 2.4 Million and above.**

- In addition, **TDS on rental** is applicable only on **INR 600,000 and above** implied that a rental of INR 50,000 per month (in Indian context this covers most of the residential rental market) will not attract tax from now. This is proactive measure and certainly will go towards consumption demand for the landlords' community.
- Further, **senior citizens are** not required to pay **10% TDS on Interest up to INR 100,000**. It implies a Deposit of up to INR 1.4 Million (say interest 7% p.a.);

Thus, after a long time something fruitful happened to Middle Class People. Hopefully, with a lag effect, it will also serve as a stimulus for Consumer Staple, Consumer Durable, Automobile, Banks and Finance, Insurance Companies, Pharmaceuticals, textiles, Entertainment, Leather goods etc

This was the most important requirement in order to keep the private capital induced in the economy, growing forex reserve for stability and reducing volatility in Indian Rupee, and also bringing advanced technology in the country through foreign company Participation

1. The much-awaited increase in the foreign direct investment (FDI) limit for the Indian insurance sector from **74% to 100%.**

   In this regard Government already listed LIfe Insurance Corporation of India (4th largest in the world) 2 years back and created a value of US $ 70 billion. Hopefully, FDIs in form of merger and acquisition is going to be observed in Insurance Sector;

2. **Regulatory Reforms: (**as required for boosting foreign investor confidence)

This is certainly not adequate, very vague and will not inspire any confidence in Investors.

- **Jan Vishwas Bill 2.0** to decriminalize over 100 legal provisions, furthering ease of doing business.
- **Investment friendliness index of state**s to foster competitive cooperative federalism.
- **New income tax bill 2025: The** bill is designed to be clear and concise, reducing the length of the existing law by nearly half.

- **Financial Stability and Development Council (FSDC)** to evaluate financial regulations and enhance responsiveness.
- **High-level committee for regulatory reforms** will review non-financial sector regulations, licenses, and compliance measures.

AGRICULTURE : (estimated around 10% of the population is engaged in Agriculture and the budget allocation is **2.9%)**

- 100 districts to be added under **'Prime Minister Dhan-Dhaanya Krishi Yojana'**,
- **"Mission for Aatmanirbharta in Pulses**" will focus on self-sufficiency in Tur, Urad, and Masoor. (over 6 years)
- **'Rural Prosperity and Resilience**' program, for rural women and small-scale farmers.
- The loan limit **for Kisan Credit Cards** has been increased to INR 500,000
- **Modified Interest Subvention Scheme (MISS)** has been **increased from Rs 3 lakh to Rs 5 lakh** and **3% extra interest** subvention for **timely payment**
- **Mission for Cotton Productivity: Rs 500 crore for FY 2025-26 (**over 5 years**)** linked to **Textiles Industry**
- **Urea plant in** Assam with annual capacity of 1.27 million tonnes will be set up **–** good for reducing agriculture input cos and availability **in** North Eastern India
- **The Pradhan Mantri Matsya Sampada Yojana (PMMSY)** received a substantial budgetary increase of 64 percent for 2025-26 **which would help the entire coastal region**

This will surely create further demand in the rural sector coupled with Rural Development Expenditure of INR 2.66 Trillion (Previous FY INR 1.90 Trillion) for covering 65% of the Indian Population in Rural areas.

MSMEs : *(contribute nearly 45 percent to India s exports, hence MSME needs to be the point of focus. The Budget announced the following:*

- A **new credit guarantee scheme** for 500,000 first-time entrepreneurs from SCc/STs, and women for term loans of up to INR 20 million over next 5 years.
- **National Manufacturing Mission** will integrate small, medium, and large industries into the global value chain for making India a global hub for toy manufacturing
- **INR 100 billion Fund of Funds** for Startups, supporting Deep Tech, AI & Health-tech innovations.
- **Credit guarantee for startups** increased from INR 100 million to INR 200 million supporting 27 focus sectors

This will create consumption demand plus also add to the GDP and reduce Import requirement.

EDUCATION : *(Budget allocation 2.7% of GDP still falls short of Asean minimum benchmark of 4% - obviously the efforts are in the right direction but more needs to be done in secondary education regarding dropout rate and course modernization as well as Research & Development capability)*

- Establishment of 50,000 **Atal Tinkering Labs** in government schools.
- **Broadband connectivity** for all government secondary schools and primary health centers in rural areas under the BharatNet project.
- **Five National Centers of Excellence** for Skilling youth with global expertise
- for manufacturing and technology sectors.
- Allocation of INR 5 billion for **Centre of Excellence in Artificial Intelligence in Education and in Healthcare**
- (*Moved very late for AI when USA and China are already implemented their product and started more than 5 years ago*)
- **Medical Education Seats** (current 0.11 Million seats) : 10,000 more seats
- Expansion of **23 IITs infrastructure and adding 5 more IITs** and 500 seats
- INR 200 billion allocated to **private sector-driven R&D** initiatives

Education related Industries will get a boost as well as hardware demand and Medical devices and instrumentation demand will go up.

INFRASTRUCTURE (*still substantial funds will be spent - related industries –* ***Cement, Steel, Project Companies, Iron Ore Mining Companies*** *will be benefited)*

- INR 1.5 trillion **interest-free loans to states** for capital expenditure.
- The **second Asset Monetisation Plan** (2025-30) aims to reinvest INR 10 trillion into new projects.
- Urban Challenge Fund of INR 1 trillion for **urban redevelopment and water sanitation projects.**
- **Jal Jeevan Mission** extended to 2028 for 100% tap water coverage (Pipe industries, Infra developers will be benefitted)
- **National Geo-spatial Mission** to support urban planning. (After ethanol blending, Railway avaach system, companies involved in Geospatial Mappping will be benefited)
- **Maritime Development Fund with INR 250 billion corpus will be set up** **(** this may fulfill the goals set in the last two budgets for maritime development along the long shoreline of India - lot of coastal town and villages will be benefited along with fish processing and export Industry**);**
- **Ship Building Industries :** A 10-year exemption for goods used in shipbuilding and shipbreaking; (various Shipyards and related companies will be benefitted)

ENERGY: *(AI and EV Economy require a lot of energy, it is good to look for alternate energy resource)*

Nuclear Energy Mission - 5 Nuclear Reactors will be built by 2033. For this the Government will use the PPP route. (*At least a welcome start after It was initiated by Manmohan Singh almost 14 years back*)

HEALTH: *(Total Budget Allocation 1.9% while the target is 2.5% as per National Health Policy)*

- **Nutrition support f**or 200 million Children which may reduce malnutrition
- **200 Day Care Cancer Center**s in Government Hospitals by 2025-26
- A structured initiative to provide **Gig workers** with identity cards, **healthcare coverage** under PM Jan Arogya Yojana, and their registration on **the e-Shram portal**.

TOURISM: (*consists of 5% of GDP including indirect contribution of 2.4%. This can generate substantial employment throughout the country plus helps cottage Industries, forex reserve and also boost hospitality industry)*

- **Top 50 Tourists destinations** in India will be developed in partnership with States
- States will be provided with **performance linked incentive** for destinations management including **tourist amenities**, **cleanliness**, and **marketing** efforts.
- Focus on **Religious Tourisms** (sites linked to life of Budha) and **Medical Tourisms** (**Heal in India**) with special e-visa facilities
- **MUDRA** loans for homestays
- **Modified UDAAN scheme:** this will link **120 destinations** by Air flights (connectivity is essential for travel)

We think it is the most important area for growth since Tourism is only **1.8% of the GDP** and **India ranks 14th** In the Global Tourism chart. India has much greater potential, which needs to be harnessed properly. It boosts hotel Industry, Aviation, Real Estates, MSMEs etc, and it can make use of the developed infrastructure as well.

CUSTOMS DUTY REVISION THAT WILL BENEFIT VARIOUS INDUSTRIES :

Customs Duty Exemption will Boost the Following Industries
Life Savings Drugs: 36 LSDs' import are made **free**
Electric Lithium Batteries : 35 capital goods for Lithium-ion Battery production now made **free,** this will boost **Electric Vehicle/charging station/Energy sector**
Critical Minerals exempted : 15 critical minerals used as raw materials for various Industries. Last year 25 Critical Minerals were exempted. This will make **Make in India** product more competitive;
Mobile Smaprtphones : 28 capital good for Smartphones to be exempted**.** This will help grow the **Indain Smartphone manufacturing at low cost**
Ship Building and breaking Industry: raw materials, components, consumables, and parts are exempted fo**r next 10 years - this will boost Ship Buidling**
Seafood Industry : BCD on frozen fish paste reduced from 30% to 5% and **and fish hydrolysate (us**ed in fish and shrimp feeds) **cut from 15% to 5%**
Telecom Equipement :BCD on c**arrier-grade Ethernet switches** has been reduced from 20 % to 10 % will boost **Telecom,** and even **Data Centers** etc)
Leather Industry : 20% Export Duty on **Crust Leather exempted** and I**mport Duty on Blue leather** exempted to boost domestic processing
Textile Industry : to modernise and make Textile Industry competive **Two shuttle-less looms** added to fully exempted Machinery List
Handicrafts Small Industry : 9 additiona**l Handicraft Items** for **free Inputs** and **export period** is increased to 15 months

Customs Duty make following Good costlier in Domestic Markets

Knitted Fabric will become costlier especially **technical textiles, including agro-textiles, medical textiles, and geo-textiles** (due to increasse in Duty to 20%

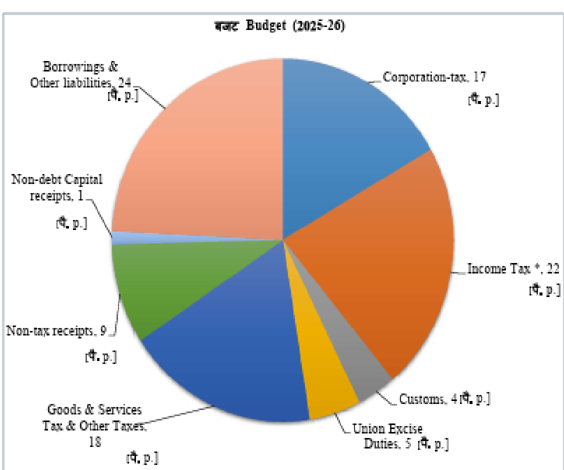
Flat panel TV : Duty on Interactive Flat Panel Displays increased from **10% to 20%,** but also will provide **Domestic player to compete**

Plastic Products : BCD on certain **non-biodegradable plastics**, specifically **PVC flex films**, increased to **25%** from 10% to restrict import;

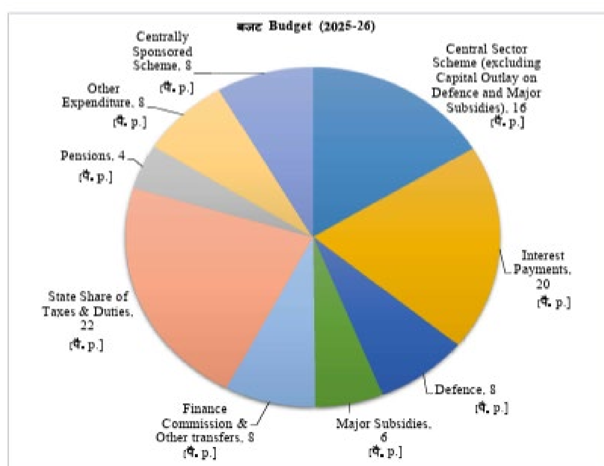
In conclusion, I must acknowledge the effort of Government, to understand the criticality of the budget and focused on Job creation through various sectors, stimulus for Consumption Growth, and remarkable continuity to solve the competitive Issues facing many of the export industry and also domestic capability building Industries; Hopefully it will help increase the GDP growth in 2025-26 to 6.8%. The maintenance of the critical spending numbers for the projects mentioned in the earlier Budgets would surely keep the momentum going. (Refer to the Table Below**)**

Important Items INR Trillion	2024-25	2025-26	Growth %
Revenue Expenditure	**36.98**	**39.44**	**6.7%**
% of GDP	*11.4%*	*11.05%*	
Capital Expenditure	**10.19**	**11.21**	**10.1%**
% of GDP	*3.14%*	*3.14%*	
Total Subsidies	**4.28**	**4.26**	-0.4%
% of GDP	*1.32%*	*1.19%*	
Total Debt (as a % of GDP)	***57%***	***56%***	**8.2%**
Interest Servicing	**11.38**	**12.76**	**12.2%**
% of GDP	*3.51%*	*3.58%*	
Exports of Goods & Services	**69.66**	**75.23**	**8.0%**
% of GDP	*21%*	*21%*	
Import of Goods & Services	**78.15**	**85.18**	**9.0%**
% of GDP	*24.1%*	*23.9%*	

Rupee Comes from :



Rupee Goes to :



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