AXIS BANK

INTERIM UNION BUDGET 2024 - 2025

INDEX

KEY HIGHLIGHTS

The honorable finance minister presented the Interim Union Budget 2024-25 before the 2024 general elections. The central government has strived for consistent economic growth despite geopolitical uncertainties, with ongoing initiatives designed to support various segments of the society. The budget continued to build on the foundation laid for *'Amrit Kaal'* by adopting economic policies that foster and sustain growth. The government is working with a vision of comprehensive development for all and make India a *'Viksit Bharat'* by 2047. The budget continued to underline the focus on long term impetus to growth. While being a balanced budget, it has emphasized on capital expenditure while contributing positively to the quality of fiscal policy.

With this background, we present the key highlights of the Interim Union Budget 2024-25

ECONOMY

- Total expenditure is pegged at Rs.47.66 lakh crore, up by 5.83% for FY25BE, whereas capital expenditure is pegged at Rs.11.11 lakh crore for FY25BE, a rise of 16.93% from FY24RE or 11.0% from FY24BE.
- Gross tax revenues are expected to grow by 11.5% in FY25BE at Rs.38.31 lakh crore over FY24RE, estimated to be at 11.7% of GDP for FY25BE.
- Effective Capital Expenditure of the Central Government is estimated at Rs.14.97 lakh crore in FY25BE, a growth of 17.7% to FY24RE and will be about 4.6% of GDP.
- Nominal GDP growth for FY25BE is pegged at Rs.327.72 lakh crore, 10.5% growth over FY24 advance estimates of Rs.296.58 lakh crore.
- Direct taxes for FY25BE are projected to grow at 13.1% over FY24RE, at Rs.21.99 lakh crore; Indirect taxes are pegged at Rs.16.32 lakh crore, an increase of 9.4%.
- Fiscal deficit is projected at 5.1% of GDP for FY25BE as against the deficit of 5.8% for FY24RE, with an intent to reach a fiscal deficit level below 4.5% of GDP by 2025-26.
- Disinvestment target for FY25BE of Rs.0.50 lakh crore up from Rs.0.30 lakh crore for FY24RE.
- Gross market borrowings for FY25BE are slated at Rs.14.13 lakh crore, and net market borrowings at Rs.11.75 lakh crore, which is 8.4% and 0.5% lower than gross borrowings of Rs.15.43 lakh crore and net borrowing of Rs.11.81 lakh crore respectively, for FY24RE.

BE=Budget Estimates, RE=Revised Estimates; GDP=Gross Domestic Product
Source: Interim Union Budget 2024-25, Axis Bank Investment Research

1. SUSTAINABLE DEVELOPMENT:

- **Commitment for 'NET ZERO' by 2070:**
  1. Viability gap funding for harnessing offshore wind energy.
  2. Setting up of coal gasification and liquefaction capacity by 2030.
  3. Phased mandatory blending of CNG, PNG and compressed biogas for domestic purposes.
  4. Financial assistance for procurement of biomass aggregation machinery.

- **Rooftop solarization:** 1 crore households will be enabled to obtain up to 300 units free electricity every month.

- Adoption of e-buses for public transport network.
- Strengthening e-vehicle ecosystem by supporting manufacturing and charging.
- New scheme of biomanufacturing and bio-foundry to be launched to support environment friendly alternatives.
- Aspirational District Programme to assist States in faster development, including employment generation.

2. INCLUSIVE DEVELOPMENT:

Agriculture & Fisheries:

- Outlay of Rs.1.27 lakh crore for Ministry of Agriculture & Farmer's Welfare.
- Outlay of Rs.1.77 lakh crore for Ministry of Rural Development.
- Government will promote private and public investment in post-harvest activities.
- Application of Nano-DAP to be expanded in all agro-climatic zones.
- Atmanirbhar Oilseeds Abhiyaan-Strategy to be formulated to achieve atmanirbharta for oilseeds.
- Comprehensive programme for dairy development to be formulated.
- Implementation of Pradhan Mantri Matsaya Sampada Yojana to be stepped up to enhance aquaculture productivity, double exports and generate more employment opportunities.
- 5 Integrated Aquaparks to be set up.

Housing:

- Pradhan Mantri Awas Yojana (Grameen) close to achieving target of 3 crore houses, additional 2 crore targeted for next 5 years.
- Housing for Middle Class scheme to be launched to promote middle class to buy/build their own houses.

Source: Interim Union Budget 2024-25, Axis Bank Investment Research

2. INCLUSIVE DEVELOPMENT:

Healthcare

- Encourage Cervical Cancer Vaccination for girls (9-14 years).
- Saksham Anganwadi and Poshan 2.0 to be expedited for improved nutrition delivery, early childhood care and development.
- U-WIN platform for immunisation efforts of Mission Indradhanush to be rolled out.
- Health cover under Ayushman Bharat scheme to be extended to all ASHA, Anganwadi workers and helpers.
- Plans to set up more medical colleges by utilizing the existing hospital infrastructure.

Infrastructure & Investment:

- Capital investment outlay of Rs.11.11 lakh crore (3.4% of GDP in FY25BE), raised by 11.1% aimed at revitalizing the country's infrastructure, generating employment, and propelling growth.
    - Of which, Rs.2.78 lakh crore for Ministry of Road Transport and Highways and Rs.2.55 lakh crore for Ministry of Railways.
    - Outlay of Rs.6.2 lakh crore for Ministry of Defence.
- Implementation of 3 major railway corridor programmes under PM Gati Shakti-to improve logistics efficiency and reduce cost.
- Promotion of foreign investment via bilateral investment treaties to be negotiated.
- Projects for port connectivity, tourism infrastructure, and amenities will be taken up in
- islands, including Lakshadweep.
- Expansion of existing airports and comprehensive development of new airports under UDAN scheme.
- Promotion of urban transformation via Metro rail and NaMo Bharat.

Education:

- 1.4 crore youth, upskilled and reskilled 54 lakh youth.
- PM Mudra Yojana has sanctioned 43 crore loans aggregating to Rs.22.5 lakh crore for entrepreneurial aspirations of our youth.

Tourism:

- States will be encouraged to undertake development of iconic tourist centres to attract business and promote opportunities for local entrepreneurship.
- Long-term interest free loans to be provided to States to encourage development.

Source: Interim Union Budget 2024-25, Axis Bank Investment Research

INCOME TAX PROPOSALS

- No changes in tax rates for direct and indirect taxes, including import duties.
- Outstanding direct tax demands up to ₹25,000 for the period until FY 2009-10 and up to ₹10,000 for financial years 2010-11 to 2014-15 are withdrawn.
- Tax benefits for start-ups, investments by sovereign wealth or pension funds, and certain IFSC units to be extended till 31.03.2025.

Source: Interim Union Budget 2024-25, Axis Bank Investment Research

MARKET MOVEMENT

EQUITY MARKET

- The interim budget has opted to maintain status quo. This Budget shall empower the 4 pillars of developed India — the youth, the poor, women, and farmers. It carries the guarantee of strengthening the foundations of Viksit Bharat by 2047. The budget emphasized the visible impact of comprehensive development across all sectors, pointing to macroeconomic stability, including in the external sector, robust investments, and the overall positive performance of the economy.
- The broader equity market indices ended marginally down on Budget day. The S&P BSE Sensex closed at 71,645, down by 0.15% while the Nifty 50 Index was down by 0.13% at 21,697.
- Among the Nifty sectors, PSU Bank (+3.1%), Auto (+0.5%) and Energy (+0.4%) were the gainers, while Media (-1.1%), Metal (-1.0%) and Realty (-0.9%) were among the laggards.
- Among Nifty 50 companies, Maruti Suzuki (+4.1%), Power Grid (+2.7%) and Cipla (+2.4%) were the top gainers, while Grasim (-2.6%), Larsen & Tourbo (-2.4%) and Ultratech (-2.3%) were among the major losers.

DEBT MARKET

- The budget took the opportunity to consolidate India's macroeconomic fundamentals. It gave a boost to growth while keeping fiscal prudence in check.
- The Centre remains committed to the glide path for reducing fiscal deficit to 4.5% in FY26; it is budgeted at 5.1% of GDP for FY25BE, while FY24RE is budgeted at 5.8% as against 5.9% in FY24BE. Gross market borrowing of Rs.14.13 lakh crore (lower than consensus estimates) will ease pressure on the sovereign yield curve, helping sustain credit demand.
- The 10-year benchmark yields softened by 6 bps to 7.08% from 7.15% level on the budget day. We expect the yields to be rangebound in the near term and oscillate between 7.10% - 7.30%. Further drop in yields are expected from the flows by FIIs due to expected inclusion in Bloomberg global bond index and the upcoming data prints on inflation.

Source: Interim Union Budget 2024-25, NSE, BSE, CCIL, Axis Bank Investment Research

ECONOMIC UPDATE

FISCAL CONSOLIDATION BETTER THAN EXPECTED

- **Reduced fiscal deficit target indicates continued focus on macro-economic stability**
  - Central fiscal deficit as % of GDP was reduced by 10bps in FY24RE despite lower nominal GDP growth, and was set at 5.1% for FY25BE.
  - Primary deficit in FY25 already budgeted to be below that seen in FY20; if fiscal target met in FY26, would be close to pre-Covid levels.
  - In terms of absolute numbers, fiscal deficit has been unchanged for the last 4 years.

- **Tax projections appear conservative for FY24RE but reasonable for FY25BE**
  - Centre's nominal GDP projection of 10.5% and associated tax growth also appears reasonable.
  - For FY24RE, assumed growth for direct tax in 4Q is just 3%, which appears conservative.
  - Non-tax receipts are less meaningful now, dividends and spectrum revenues dominate.

- **Quality of expenditure is better than pre-pandemic years; limited levers available for further consolidation**
  - All of the increase in expenditure from FY23 to FY24 and FY25 to FY26 is funded by taxes.
  - Government has limited levers to cut spend, increase in interest, subsidies spend vs FY19 not controllable.
  - Increase in capex spend as % of GDP due to consolidation of EBR and improvement in quality of spending.
  - In FY25, budgeted numbers for capex growth is 11%.

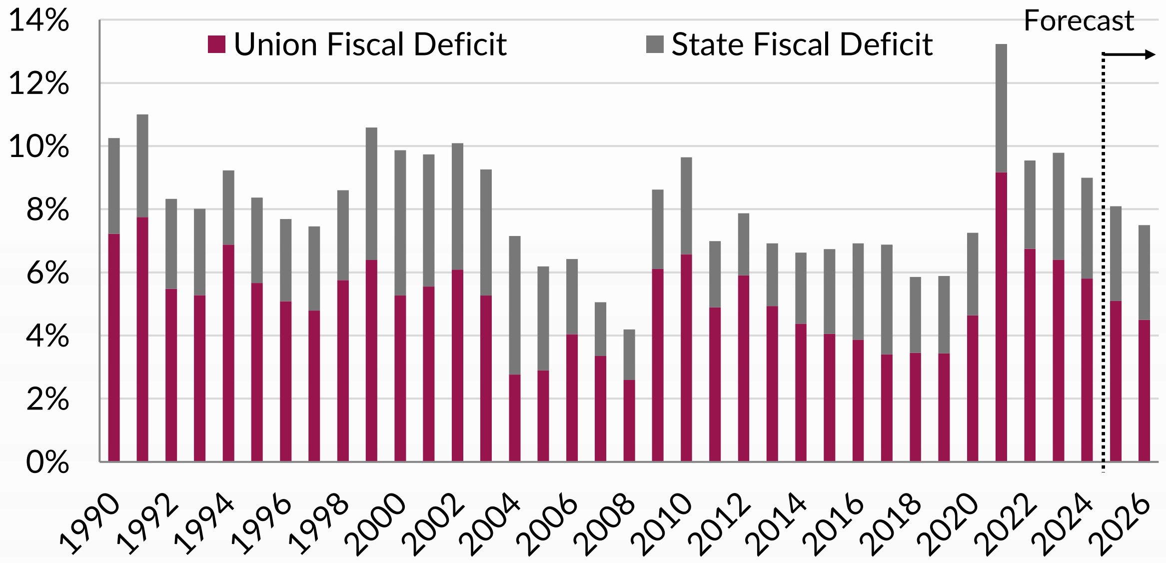
- **With unchanged absolute deficit + higher inflows from small-savings schemes, financing of deficit should be easier**
  - Gross and net market borrowings have been unchanged in absolute terms for FY25, despite higher receipts from small savings.
  - While banks are the major buyers, RBI has been net selling in FY24 to maintain tight liquidity.
  - Government cash balances are high, and it is possible that market borrowings may be lower than indicated.

Source: Interim Union Budget 2024-25, Axis Bank Business & Economic Research, Axis Capital

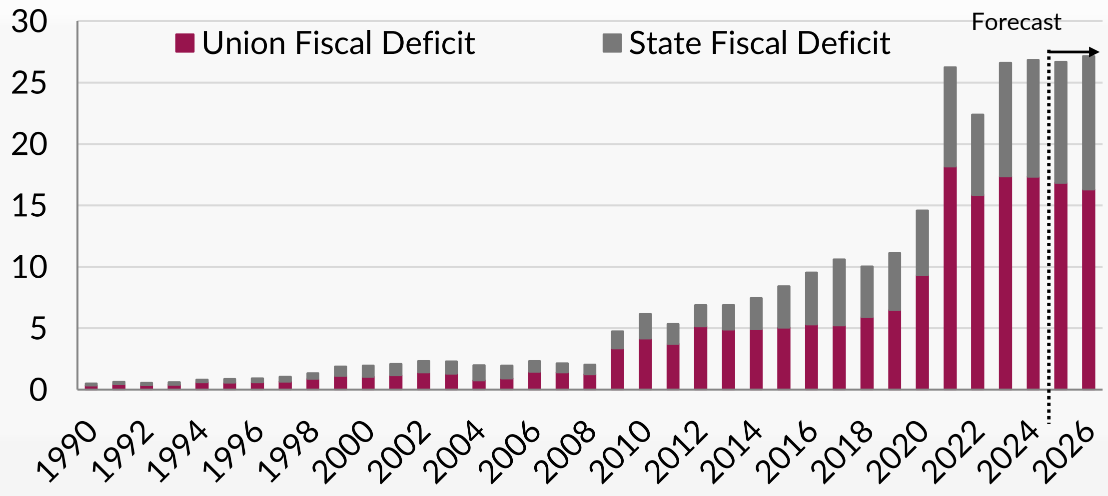
ECONOMIC UPDATE

FISCAL CONSOLIDATION CONTINUES, IN-LINE WITH POST-COVID TARGET

Fiscal consolidation continues, FY24RE/FY25BE at 5.1%/5.8%



Deficit unchanged in absolute terms for 4 years



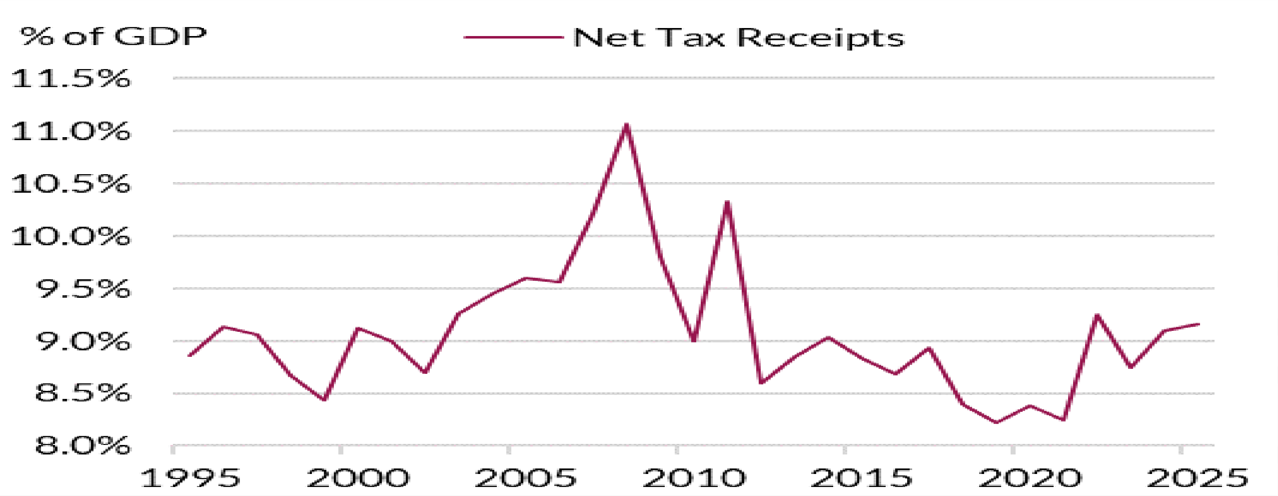
- 5.8% FY24RE union fiscal deficit ratio is 10bps below 5.9% BE, but absolute deficit Rs0.5tn lower, as nominal GDP growth was lower too.
- FY25 budgeted deficit is 5.1%, below the low end of the 5.2-5.5% consensus range, and on the path to FRBM target of below-4.5% in FY26.
- Assuming states' deficit remain unchanged, FY25 fiscal deficit in absolute numbers is largely unchanged over last few years.

Source: Interim Union Budget 2024-25, Axis Bank Business & Economic Research, Axis Capital

ECONOMIC UPDATE

NET RECEIPTS AS % OF GDP ~100BPS ABOVE PRE-COVID LEVELS

Net receipts as % of GDP 100bps above 2011-19 level



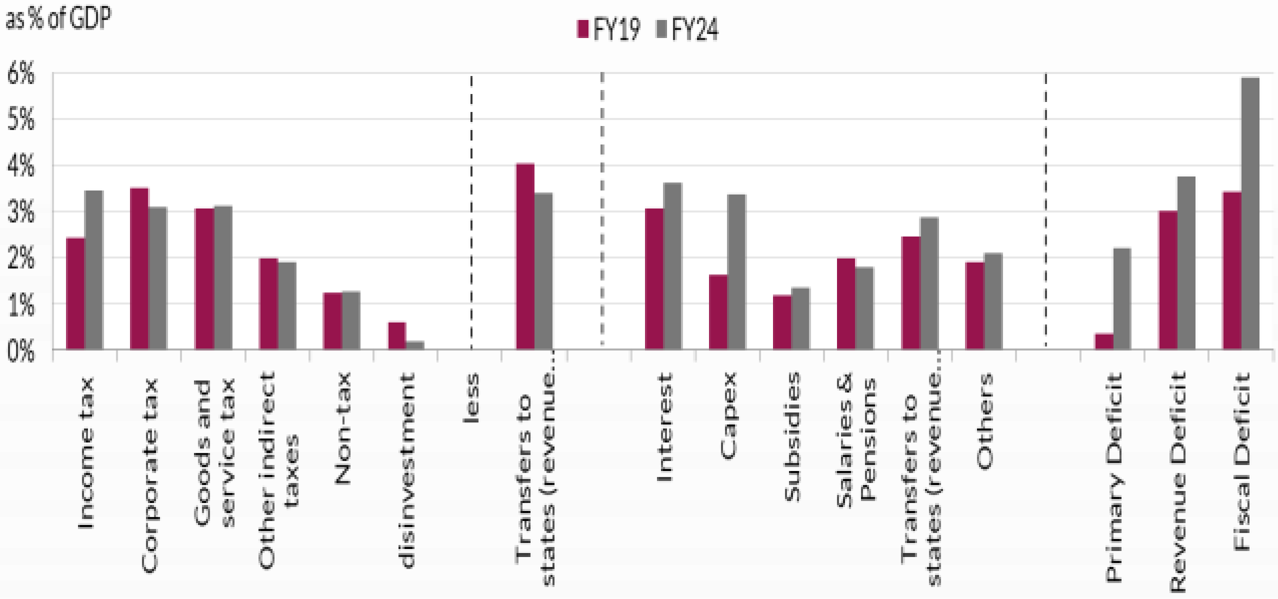
Tax devolution to states as % of GDP has been rising

- With improvement in gross tax collection, net tax receipts as % of GDP have also moved higher than 2011-19 levels.
- The budgeted number for FY25 is 10bps higher than FY24, in-line with improvement in tax buoyancy.
- Tax devolution to states has also been strong in recent years, supporting state receipts.
- Tax devolution as % of gross tax revenue has fallen slightly, as incremental growth in receipts come from surcharge which is not shared.

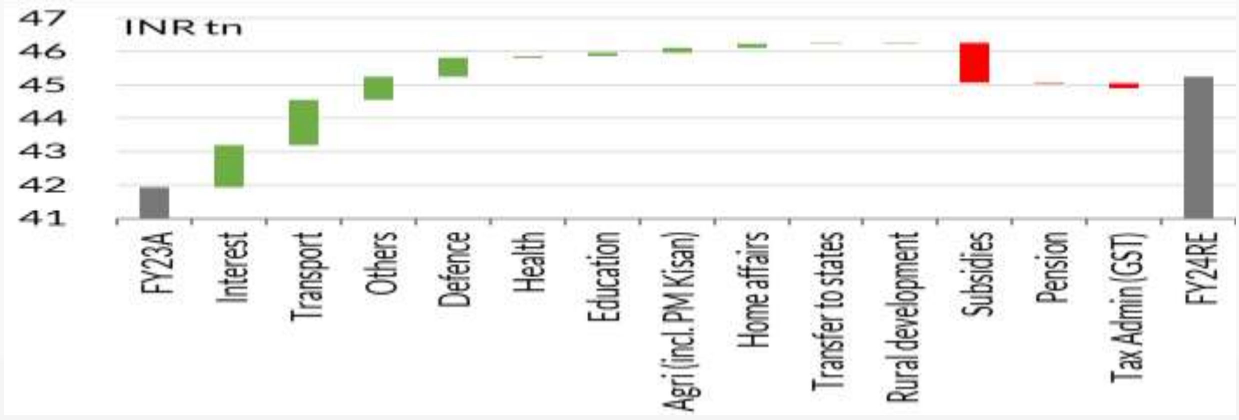
Source: Interim Union Budget 2024-25, Axis Bank Business & Economic Research, Axis Capital

ECONOMIC UPDATE

BENCHMARKING THE CHANGES TO FISCAL STRUCTURE VS. THE LAST PRE-COVID YEAR



Increase in FY23 to FY24RE



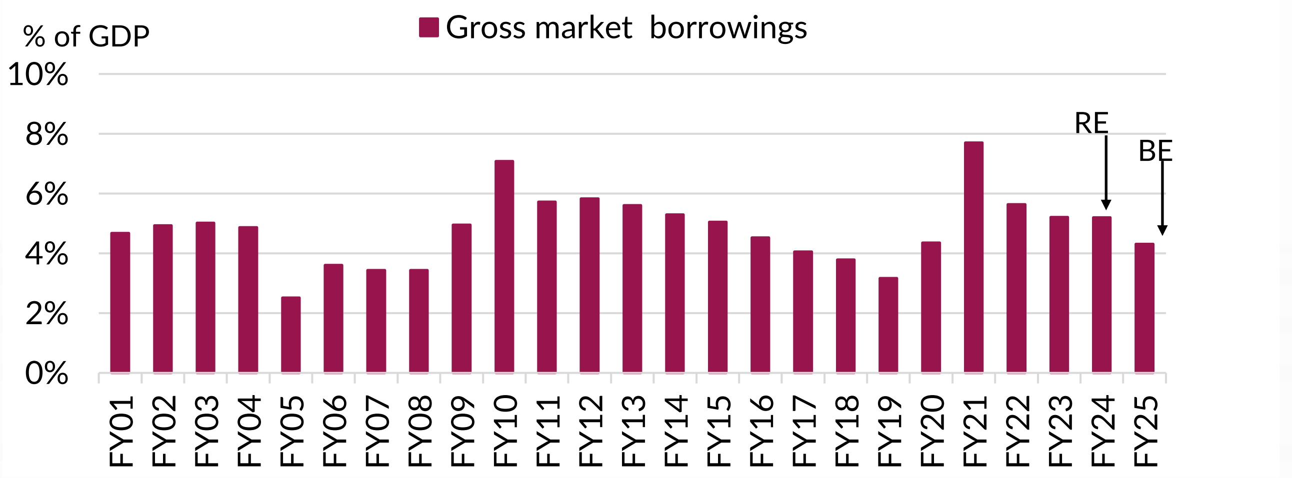
- While taxes as % of GDP have risen from FY19 levels, expenditure has grown faster, leading to significant increase in primary deficit.
- Some spends like interest are not controllable, subsidies less controllable: increase in capex shows better quality of spend.
- Improving tax to GDP, and control on steady-state spends like salaries and pensions are important for continued consolidation.

Source: Interim Union Budget 2024-25, Axis Bank Business & Economic Research, Axis Capital

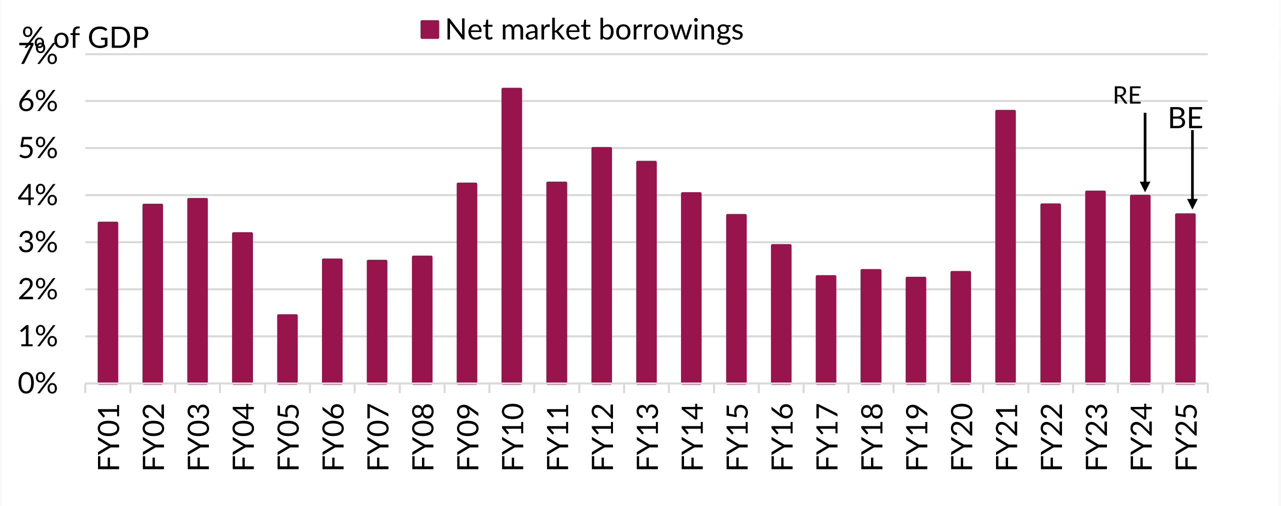
ECONOMIC UPDATE

MARKET BORROWING NO LONGER A SHOCK TO THE SYSTEM

Gross market borrowings falling as % of GDP



Net borrowing also falling, even in absolute numbers

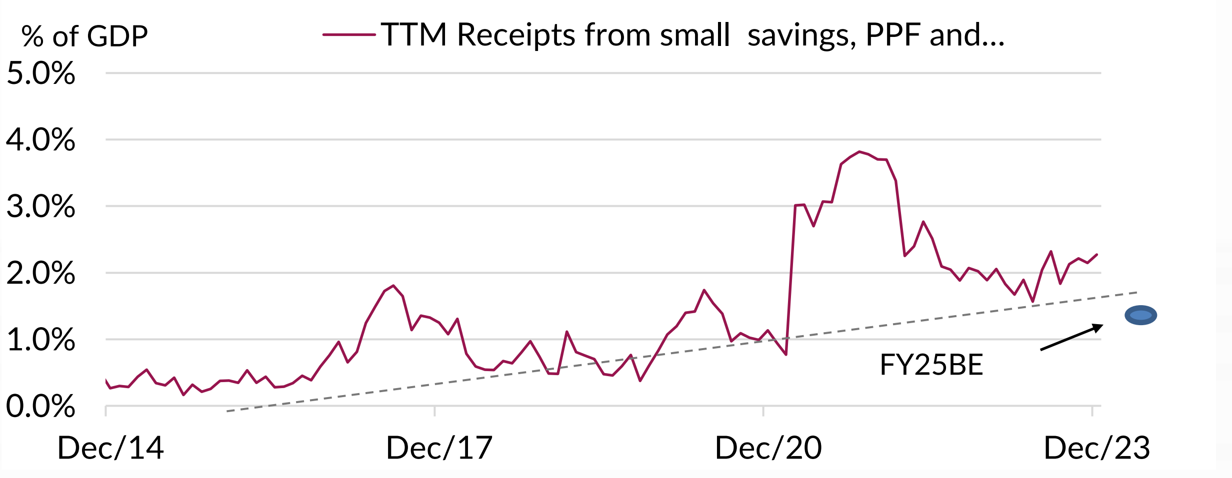


- Relatively unchanged (likely lower) absolute deficit should be easier to finance.
- RBI likely to do OMO sales to offset liquidity injection due to debt FII inflows (JPM bond index inclusion related flows).
- Both gross market and net market borrowings are falling in absolute terms as well.

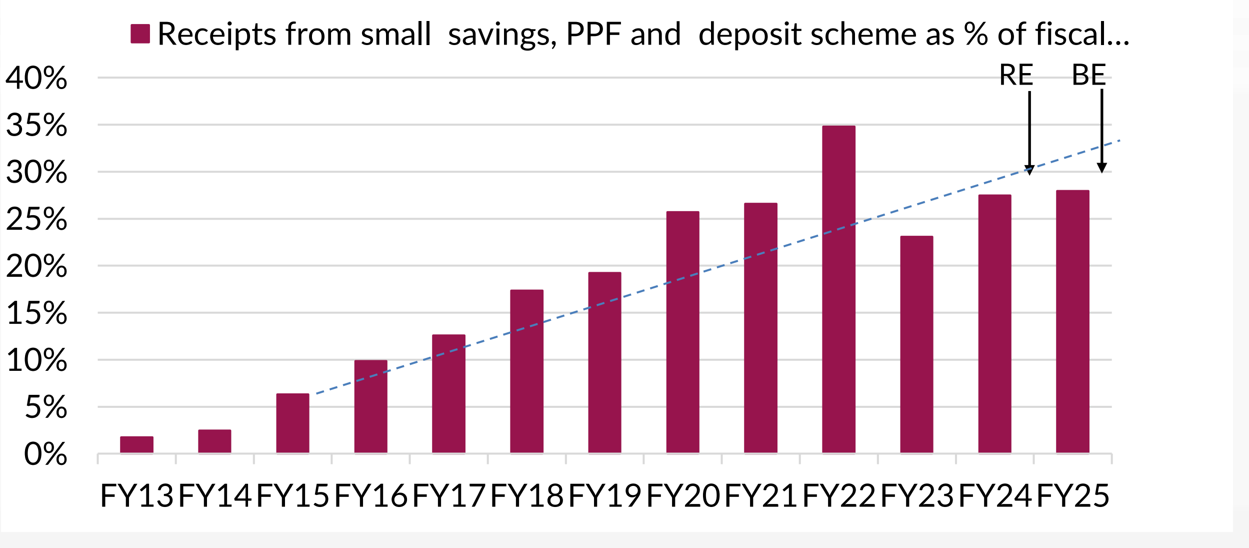
Source: Interim Union Budget 2024-25, Axis Bank Business & Economic Research, Axis Capital

INFLOWS TO SMALL SAVINGS HAVE BEEN SURPRISING ON THE UPSIDE

Small savings schemes have grown as % of GDP



Non-market sources of funding budgeted to slow, but may not



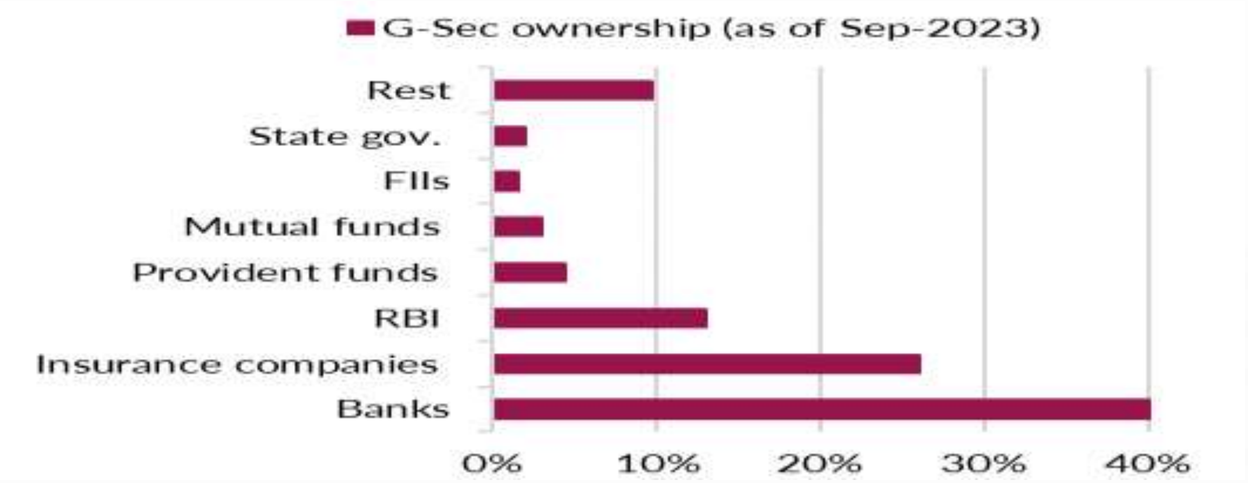
- Small savings deposits for government have surged sharply this year but was kept unchanged in FY24RE vs BE.
- Small savings (non-market borrowings) can be a large component of overall deficit financing.
- However, for FY25BE, funding from small savings is budgeted to fall; the market borrowing assumptions may have to be cut.

Source: Interim Union Budget 2024-25, Axis Bank Business & Economic Research, Axis Capital

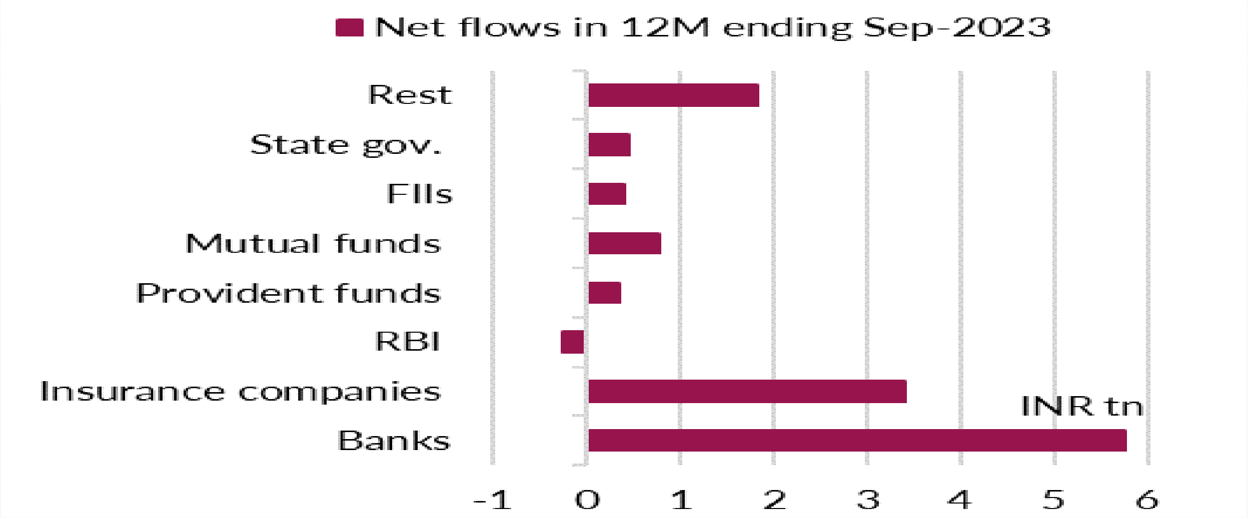
ECONOMIC UPDATE

APPETITE FOR GOVERNMENT BONDS RISES STEADILY

Banks, insurance and RBI hold ~79% of G-Sec outstanding



Over last 12 months their share of purchases was 75%



- Banks hold 40% of outstanding G-Sec bonds and are the major source of absorption.
- RBI holds 13% of bonds but have been net sellers in the last 12M, as they have kept liquidity tight in the system.
- In FY25, FII share can increase helped by inclusion of Indian bonds in JPM Bond Index.

Source: Interim Union Budget 2024-25, Axis Bank Business & Economic Research, Axis Capital

SECTOR UPDATES

Agriculture: Positive

Key Budget Measures	Impact and Beneficiaries
• Nano DAP: After the successful adoption of Nano Urea, application of Nano DAP on various crops will be expanded in all agro-climatic zones.	Beneficiary for companies involved in phosphatic fertilizers in the domestic market.
• Comprehensive programme for supporting dairy farmers.	**Positive** for Dairy Sector
• Separate Department for Fisheries to boost aquaculture production further: The implementation of the Pradhan Mantri Matsya Sampada Yojana (PMMSY) will be stepped up to enhance aquaculture productivity from the existing 3 to 5 tons per hectare, double exports to Rs 1 lakh cr, and generate 55 lakh employment opportunities in the near future. Five integrated aquaparks will be set up.	**Positive** for aquaculture sector

Auto: Neutral

Key Budget Measures	Impact and Beneficiaries
• The budget's thrust on infrastructure development with a total Capex outlay of Rs.11.11 lakh cr bodes well for the auto sector. The budget's logistics focus on connectivity for ports, coal, steel, and minerals is positive for the auto sector. • E-Vehicle Ecosystem and Public Transport: With a continued focus on the green economy, the government will expand and strengthen the e-vehicle ecosystem by supporting manufacturing and charging infrastructure. • Push for EV Self-Reliance: The Central Government Scheme for Faster Adoption and Manufacturing of (Hybrid and) Electric Vehicle in India - (FAME - India) has been reduced from ~Rs 5,172 Cr (as per Budget 2023-24) to ~Rs 2,671 Cr in Budget 2024-25. • PLI Scheme Swells to Rs 3,500 Cr: The budgeted figure for Production Linked Incentive (PLI) Scheme for Automobiles and Auto Components has increased to ~Rs 3,500 Cr from ~Rs 604 Cr previously.	**Positive** for for CV Auto OEMs **Positive** for the PV and 2W sector

Source: Interim Union Budget 2024-25, Axis Securities, Axis Bank Investment Research

SECTOR UPDATES

BFSI: Neutral

Key Budget Measures	Impact and Beneficiaries
• Massive tripling of the capital expenditure outlay: Building on the massive tripling of the capital expenditure outlay in the past 4 years, there has been a significant multiplier impact on economic growth and employment creation. The Capex target for FY25 has been set at Rs 11.1 lakh cr, up ~11%. FY25 Capex Outlay is ~3.4% of GDP.	An increase in capital outlay should support credit growth in the Banking sector. This should be **positive** for the entire Banking sector.
• PM Awas Yojana (Grameen), the government is close to achieving target of 3 cr homes. The government plans to provide 2 cr more houses over the next 5 years to meet the housing demand arising from the increase in the number of families.	**Positive** for Affordable Housing Financiers focused in rural markets and SFBs expanding their portfolio in the Affordable Housing Segment.

Capital Goods and Wires & Cables: Positive

Key Budget Measures	Impact and Beneficiaries
• Aims to Construct 20 mn Houses in Next Five Years: Allocation under the PM Awas Yojana will focus on building 20 Mn houses in the next five years, up 50% vs. the revised 2023-2024 budget. • Gatishakti Boost: Converting existing 40,000 bogies to Vande Bharat standards under Pradhan Mantri Gatishakti scheme. • Rooftop solarization: Rooftop solarization to benefit 1 cr households; 300 units of free electricity per month.	**Positive** for Wires & Cables and Building Material companies (being ancillary to the housing development). **Positive** for railway ancillaries. **Positive** for in-rooftop solarization.

Source: Interim Union Budget 2024-25, Axis Securities, Axis Bank Investment Research

SECTOR UPDATES

Cement: Positive

Key Budget Measures	Impact and Beneficiaries
• Increased investment in infrastructure is expected to drive cement demand, as higher capital allocation will lead to the building of more roads, airports, and highways. • Construction of 2 cr rural houses in the next 5 years is expected to positively impact cement demand. Additionally, a new housing scheme for the middle class is set to be announced, supporting higher cement consumption. • Gati Shakti Plan Monitoring Crucial for Cementing Efficient Infrastructure Growth.	**Positive** for all cement companies

FMCG: Positive

Key Budget Measures	Impact and Beneficiaries
• Infrastructure boost – The increase in infrastructure development capital expenditure by 11.1% to Rs 11.11 lakh cr, is 3.4% of GDP. This will lead to massive employment opportunities in rural areas. • Skill Development – Under RSETI, each district of the country will provide training to rural youth from poor households to set up micro-enterprises. • Food subsidy (free food grains) to underprivileged: Under Pradhan Matri Garib Kalyan Anna Yojana (PMGKAY), food subsidy (free food grains) will be provided to underprivileged. For this, the government has allocated Rs 2 lakh cr. • Tourism – The government has increased its focus on spiritual tourism by encouraging states to develop tourism centers .This is expected to provide additional employment opportunities in states.	This budget will have an indirect benefit to the rural sector. **Positive** for major FMCG companies. **Positive** for Consumer Discretionary companies. **Neutral** for Cigarette manufacturing companies.

Source: Interim Union Budget 2024-25, Axis Securities, Axis Bank Investment Research

SECTOR UPDATES

Information Technology: Positive

Key Budget Measures	Impact and Beneficiaries
• Fueling Innovation: A corpus of Rs 1 lakh cr will be established with a 50-year interest-free loan. The corpus will provide long-term financing or refinancing at low or nil interest rates and with long tenors. This will encourage the private sector to scale up research and innovation significantly in sunrise domains. The government will encourage programs that combine the powers of our youth and technology. • New Scheme Unveiled to Strengthen Deep-Tech Technologies:’.	**Positive** for all IT companies.

Infrastructure: Positive

Key Budget Measures	Impact and Beneficiaries
• Increase in capital expenditure by 11% to Rs 11.1 lakh cr to boost overall infrastructure. Higher allocation of funds to MoRTH from Rs 2.70 lakh cr to 2.78 lakh cr to boost road infrastructure. • Higher capital outlay of 2.55 lakh cr for Railways to boost railway infrastructure. • Promotion of urban transformation via Metro rail and NaMo Bharat. • Expansion of existing airports and comprehensive development of new airports under UDAN scheme. • Implementation of 3 major railway corridor programmes under PM Gati Shakti to improve logistics efficiency and reduce cost. • Opening of more medical college positive for the EPC companies.	**Positive** for Infrastructure, EPC and Railway companies.

Source: Interim Union Budget 2024-25, Axis Securities, Axis Bank Investment Research

SECTOR UPDATES

Metals & Mining: Positive

Key Budget Measures	Impact and Beneficiaries
• Capex outlay: Capex outlay for FY25 is increased by 11.1% YoY to Rs 11.11 lakh cr, which forms ~3.4% of GDP. • The government announces conversion of 40,000 normal rail bogies to the Vande Bharat standards • Implementation of PM Awas Yojana (Grameen) – In addition to the target of constructing 3 cr houses, an additional 2 cr houses will be initiated over the next five years to accommodate the growing demand due to an increase in the number of families. The increased allocation for PMAY stands at Rs 80,671 cr. • Coal gasification and liquefaction capacity of up to 100 metric tonnes will be established by 2030. Coal India will spearhead the establishment of the coal gasification facility, as previously announced. • Boost for Specialty Steel as PLI Expenditure Hits Rs 270 cr.	Capex outlay for FY25 is supportive of metal demands in general. **Positive** for Steel and Aluminium companies as domestic demand will continue in line with the higher infrastructure and housing capex.

Pharma: Neutral

Key Budget Measures	Impact and Beneficiaries
• Ayushman Bharat - Pradhan Mantri Jan Arogya Yojana (PMJAY): The government has increased the allocation under this scheme to Rs 7,500 Cr, an increase of 9% YoY. • Production Linked Incentive (PLI) Scheme for Pharmaceuticals: The outlay under this scheme stands at Rs 2,143 Cr , up 26.4% YoY.	An increase in the insurance base could benefit the hospital players. The proportion of revenue in Hospitals' revenue mix is increasing. API manufacturers could benefit from the PLI Scheme.

Source: Interim Union Budget 2024-25, Axis Securities, Axis Bank Investment Research

SECTOR UPDATES

Real Estate: Positive

Key Budget Measures	Impact and Beneficiaries
• Affordable Housing Scheme for Middle-Income Households for those living in rented house, slums, chawls, and unauthorized colonies to buy/build their own homes. • Implementation of PM Awaas Yojna Gramin continues and is close to achieving the target of 3 Cr houses. 2 Cr more houses will be taken up for the next 5 years to meet the requirements arising from the increase in the number of families. • Increased Unit Assistance Empowering Rural Housing: Unit assistance (per-household) provided by the scheme is enhanced to Rs 2 lakh in plain areas (from Rs1.2 lakh in the previous year) and up to Rs 2.2 lakh in IAP, Hilly, North Eastern, and difficult regions (from 1.3 lakh in the previous year).	Mid-segment housing and Tier-3 housing to witness higher demand moving forward. Neutral for large players due to upcoming mid-segment and affordable projects. Positive for redevelopment projects due to the increase in housing demands resulting from the growing number of families.

Utilities & Power Ancillaries: Positive

Key Budget Measures	Impact and Beneficiaries
• Rooftop solarization (Suryodaya Yojna): 1 Cr households will be enabled to obtain up to 300 units of free electricity every month. Net Zero emissions by 2070. • Reform Linked Distribution Scheme: Budgeted expenditure for the Reform Linked Distribution Scheme in FY25 has increased to Rs 14,500 Cr from Rs 12,071 Cr in FY24. • Budgeted expenditure for Solar Power (Grid) in FY25 has increased to Rs 8,500 Cr from Rs 4,970 Cr in FY24. • National Green Hydrogen Mission budgeted expenditure for FY25 has increased to Rs 600 Cr from Rs 297 Cr in FY24. • Viability Gap Funding for the development of Battery Energy Storage Systems has been budgeted at Rs 96 Cr for FY25, compared to Nil in FY24.	The Suryodaya Yojna is positive for entire rooftop solar value chain which includes: Solar Cells, Solar Glass, Solar Modules, Solar Panels, Solar Batteries, Solar EPC, Solar Power Storage, Transformers, Power Cables, Chemicals and Power financers.

Source: Interim Union Budget 2024-25, Axis Securities, Axis Bank Investment Research

EQUITY MARKET OUTLOOK AND STRATEGY

- The budget has been crafted in the backdrop of global uncertainties and expectation of slowing growth rates. Even as developed economies are likely to slow down, India is likely to remain a bright spot, with moderate inflation and robust growth.
- Sustained growth will be facilitated by rising capital spend outlays, which will include transfers and incentives to states' investment projects, given the larger multipliers versus revenue expenditure. This will help to drive GDP, create employment and boost consumption.
- The market will continue to focus on near term earnings. We believe that the Indian economy is structurally well positioned given the country's positive macro-backdrop which will come to the fore as global macroeconomic challenges recede over the next few quarters. Our belief on domestic economic up-cycle stems from the fact that the enabling factors are in place viz. 1) Strong corporate and bank balance sheets which will help drive capex and credit respectively, 2) Consumer spending remains resilient given our demographics, 3) Govt is focused on growth through capex spending as well as through multiple reforms like GST, lower corporate tax and ease of doing business, and PLIs.
- Multiple events are lined up in 2024 and the market will continue to closely monitor the developments around them. The key events are 1) General Election 2024; 2) Expectation of the FED rate cut around May-Jun'24; 3) Full-year budget around Jul'24; 4) Expectations of interest rates cut by the RBI (in sync with global rate cuts), and 5) US Election in Nov'24. The above-mentioned events are expected to keep the Indian equity market volatile, and it could respond in either direction based on the developments. In any case, we continue to believe in the long-term growth story of the Indian equity markets. With increasing Capex enabling banks to improve credit growth, we believe it is well-supported by the favourable emerging structure. With current valuations offering a limited scope for further expansion, an increase in corporate earnings will be the primary driver of the market returns going forward. Moreover, the margin of safety at current levels in certain pockets has reduced as compared to Large Caps. Keeping this in view, the broader market may see some time correction in the near term and flows will likely shift to Large Caps.
- **Investors can consider accumulating equities with a 3 to 5 years investment horizon; having said that, volatility is expected to remain in the near term. Any interim volatility / correction caused by extraneous events should be treated as an opportunity to accumulate equity in a staggered manner over the next 3 to 6 months (via STP or SIP route). Investors can also consider hybrid asset allocation funds as such funds allow them the freedom from market timing as well as asset allocation calls.**

Source: Interim Union Budget 2024-25, Axis Bank Investment Research

DEBT MARKET OUTLOOK AND STRATEGY

- The government is on track to achieve its fiscal deficit target for FY24 in spite of global challenges. The fiscal performance was aided by a robust economic activity and buoyancy in tax revenues. The government continued to march towards fiscal consolidation, comforted by a broad based recovery of the Indian economy. Furthermore, it has pegged the fiscal deficit target at 5.1% for FY25BE, with a commitment to bring the fiscal deficit below 4.5% of GDP in FY26.
- The budget was positive for bond markets as the gross borrowing number of Rs.14.13 lakh crore was lesser than expectation of around Rs.15.2-15.6 lakh crore. Net borrowings are pegged at Rs.11.75 lakh crore for FY25BE against Rs.11.80 lakh crore for FY24BE.
- Indian bond yields could see a push-and-pull effect during CY2024 that could lead to an increase in market volatility in the short term. In the medium term, India's growth and stability, falling inflation and inclusion in key global bond indices could lead to a change in stance to neutral by the RBI which will eventually lead to gradual rate cuts over FY25. Liquidity conditions are expected to remain tight, likely keeping interest rates at the shorter end high, while the longer end may be anchored.
- **We remain constructive on the short to medium end of the yield curve. Short Duration funds, Banking & PSU Debt funds, Corporate Bond funds, Debt Index funds (Target Maturities), Medium Duration funds, Floating Rate funds, Money Market funds, Low Duration funds and Ultra Short Duration funds** can be considered by investors with an investment horizon commensurate with the maturity profile of the schemes. Investors can consider investing in **Medium/Long Duration** funds as per their risk appetite with an investment horizon of at least 2-3 years to avoid any intermittent volatility. One should also consider aspects such as exit load, capital gains tax and asset allocation amongst others while evaluating their investment options.

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