



# Infomerics Valuation And Rating Pvt. Ltd.

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CREDIT RATING AGENCY

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## UNION BUDGET 2024-25: A QUICK LOOK

24 July 2024

This Budget marked the first budget of Prime Minister Narendra Modi's third term. This Budget was Mrs. Nirmala Sitharaman's seventh consecutive Budget as Finance Minister, surpassing the record set by former Prime Minister Morarji Desai, who presented five annual budgets and one interim budget. Former Prime Ministers Manmohan Singh and Pranab Mukherjee each presented five consecutive budgets.

This Budget has been formulated against the backdrop of an uncertain global economy characterized by Russia-Ukraine War, Israel-Hamas War, elevated asset prices, political uncertainties, shipping disruptions and the lagged effect of cumulative tightening of the central banks. These and other forces and factors have led to the "poly-crisis" battering countries around the world.

While the US would outperform Europe, China's growth momentum could peter out in the second half of 2024. UK's recessionary concerns stem from shrinkage of UK's GDP by 0.1 per cent in Q3 of 2023. India has, however, emerged as a bright spot with 7 per cent GDP growth and 4 per cent inflation.



The central theme of Viksit Bharat by 2047 is founded on the development mantra of sabka saath, sabka vikas, sabka vishwas and the trinity of demography, democracy and diversity.

## Key Measures and their Macroeconomic Implications

India has been the fastest-growing major economy for the third successive year. Despite global headwinds, including geo-political realignment, India's economy continues its strong and resilient march of about 7%. India, which is already the fifth-largest economy globally with a GDP of \$ 3.8 trillion, could become the third-largest economy with a GDP of \$5 trillion in the next three years and \$7 trillion by 2030 with capital expenditure driving economic growth and structural transformation. Of late, high capital expenditure has fostered investment-led growth in the absence of a broad-based resurgence in private investment.

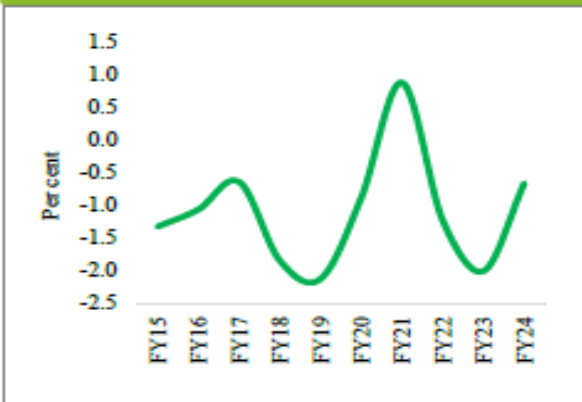
A renewed capex cycle, a well-capitalised banking system, robust credit growth, an upturn in the housing sector, rising domestic consumption, robust investment, growing services exports and “*digitalization-driven productivity gains*” are force multipliers. India would consolidate its global heft by important transformative drivers both on the demand and the supply sides.

Against this global and domestic canvas, the higher outlay for infrastructure e.g., roads, highways, bridges, railways, ports, etc. this year marked a rise of 11 per cent from last year, but is below the nearly three-fold trend-line annual increases India has been seeing since 2019. The renewed thrust on capex with its significant multiplier macro-economic effects augurs well for the Indian economy and infra sectors.

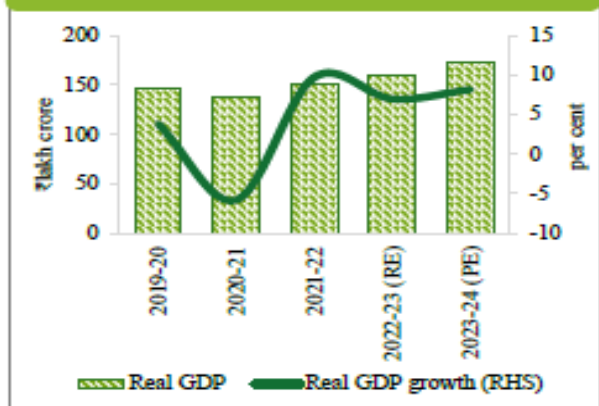
Another positive aspect of the Budget is the concerted attempt to foster innovation across the development spectrum. The New Innovation Fund includes 50-year interest-free loan, long-term financing or refinancing with long tenures with low or nil interest rates to encourage the private sector to scale up research and innovations “*significantly in sunrise domains*”.

# Robust Economic Foundations

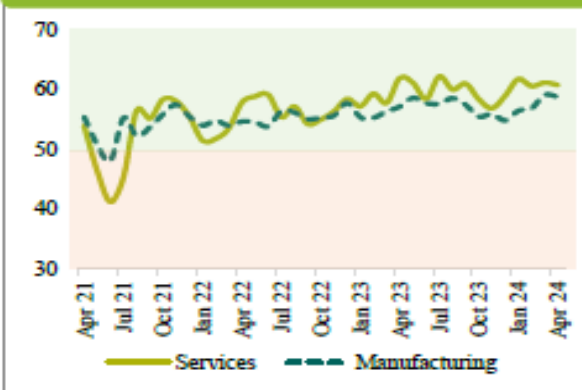
Improvement in Current Account Deficit



India grew at 8.2 per cent in FY 2024



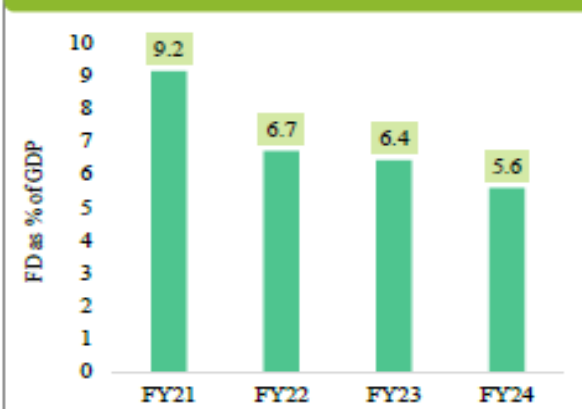
Expansionary PMI Index



Decline in Gross NPAs of SCBs



Decreasing Fiscal Deficit as % of GDP



Taming Inflation



With an accent on employment, skilling, MSMEs, and the middle class, this budget has the following 9 priorities: productivity and resilience in agriculture; employment & skilling; inclusive human resource development and social justice; manufacturing & services; urban development; energy security; infrastructure; innovation, research & development and next generation reforms.

In a welcome move, the FM announced that the fiscal deficit is estimated at 4.9 per cent of GDP in FY 25 and the fiscal deficit will drop further to 4.5 per cent by FY 26.

## **Mudra Loans**

This scheme, started in 2015, aims to provide guarantee-free funds to small businessmen and street vendors to expand their business. Under the Pradhan Mantri Mudra Loan Yojana, loans can be taken through any bank, microfinance company or NBFC. Any Indian who is doing business or wants to start his own business can take a Mudra loan. Under Pradhan Mantri Mudra Yojana, loan is given in three categories. The first category is Shishu loan. In this, a guarantee free loan of Rs 50,000 is available. In the Kishore category, loan is given from Rs 50,000 to Rs 5 lakh. In the Tarun category, the government gives loan from Rs 5 lakh to Rs 10 lakh. Now this limit has been increased to 20 lakhs. That is, in the Tarun category, loan from Rs 5 lakh to Rs 20 lakh will be available. The doubling of the upper limit of Mudra loans to Rs. 20 lakh would promote entrepreneurship in India.

In another welcome move, SIDBI will open new branches to expand its reach to serve all major MSME clusters within three years and provide direct credit to them. With a continued emphasis on expanding the space economy by five times in the next 10 years, a venture capital fund of Rs. 1,000 crore will be set up.

In terms of an import duty cut on gold, silver and platinum. The total duty has been revised down to 6 per cent from the earlier 15 per cent effective July 24. This would boost retail demand and help curtail smuggling in the world's second-biggest bullion consumer.

## **Productivity and Resilience in Agriculture**

The Budget includes several new benefits for the agricultural sector, including an update on the PM Kisan Credit Card Scheme. The Kisan Credit Card Scheme, which offers low-interest loans to farmers, will see an expansion. The FM announced that Jan Samarth-based Kisan Credit Cards will be issued in five states. This scheme helps farmers meet their financial needs with loans up to Rs. 3 lakh at an interest rate of just 4 per cent. This is significantly lower than the rates charged by money lenders.

Farmers using this card benefit from lower interest rates and easy access to loans. The Kisan Credit Card also provides coverage of up to Rs. 50,000 in case of death or permanent disability and up to Rs. 25,000 for other risks. Eligible farmers receive a savings account, smart card, and debit card. The credit is valid for 3 years, and loans can be repaid after harvesting the crop.



## Employment and Skilling

The FM has provided an impetus to Employment & Skilling. A new Employment Linked Scheme under the PM package would support new employees through direct benefit transfer across three sub-schemes. Eligibility for these benefits will be based on enrollment in the Employees' Provident Fund Organization (EPFO).

### **Scheme-1: For First-Time Employment**

Employees in the organized sector who are registered with the EPFO will receive one month's salary. This will be a total of Rs 15,000, distributed in three installments through direct benefit transfer (DBT). The salary limit for eligibility is up to Rs. 1 lakh, and this scheme is expected to benefit 2.10 lakh youth.

### **Scheme-2: Employment Generation in the Manufacturing Sector**

To boost employment in the manufacturing sector, incentives will be provided to both employers and employees. Under this scheme, the government will reimburse employers Rs. 3,000 per month for their EPFO contributions for the next two years. This scheme will benefit 30 lakh youth and help generate additional employment opportunities, ultimately benefiting 50 lakh people.

### **Additional Support to Employers**

Under another scheme, the government will pay the employer's EPFO contribution of up to Rs 3,000 per month for two years for every additional employee hired. This initiative aims to further encourage employment growth.

### **Internship Opportunities for 1 Crore Youth**

The government will also provide internship opportunities for 1 crore youth in the top 500 companies. Interns will receive an allowance of Rs 5,000 per month, plus an additional allowance of Rs 6,000. Companies will also be required to spend on skill development under their Corporate Social Responsibility (CSR) obligations.

Participation of women in the workforce will be facilitated through setting up of working women hostels in collaboration with industry, and establishing creches. In addition, the partnership will seek to organize women-specific skilling programmes, and promotion of market access for women SHG enterprises.

#### Skilling programme

In collaboration with state governments and Industry, 20 lakh youth will be skilled over a 5-year period. 1,000 Industrial Training Institutes will be upgraded in hub and

spoke arrangements with outcome orientation. Course content and design will be aligned to the skill needs of industry, and new courses will be introduced for emerging needs.

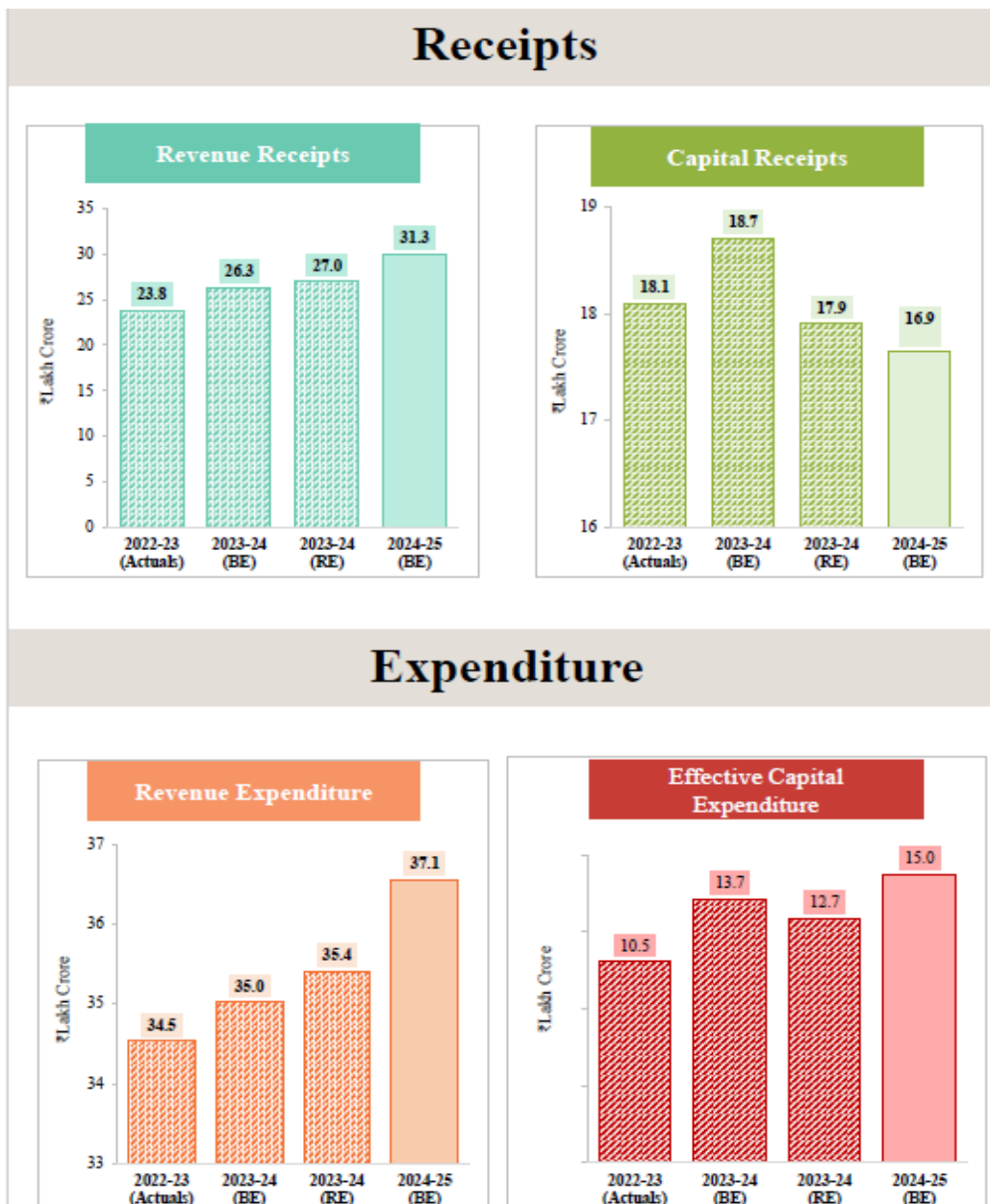
### Skilling Loans

The Model Skill Loan Scheme will be revised to facilitate loans up to Rs. 7.5 lakh with a guarantee from a government promoted Fund. This measure is expected to help 25,000 students every year.

## Receipts and Expenditure

For the year 2024-25, the total receipts other than borrowings and the total expenditure are estimated at Rs. 32.07 lakh crore and Rs. 48.21 lakh crore respectively. The net tax receipts are estimated at Rs. 25.83 lakh crore.

The fiscal deficit is estimated at 4.9 per cent of GDP.



## Simplification of Taxation of Capital Gains

- For classifying assets into long-term and short-term, there will only be two holding periods: 12 months and 24 months. The 36-month holding period has been removed.
- The holding period for all listed securities is 12 months. All listed securities with a holding period exceeding 12 months are considered Long-Term. The holding period for all other assets is 24 months.
- Unlisted bonds and debentures are brought in line with the taxation on debt mutual funds and market-linked debentures. They will attract tax on capital gains at applicable slab rates. (i.e., they will be treated as short-term irrespective of the period of holding.)
- The taxation of Short-Term Capital Gain for listed equity shares, a unit of an equity-oriented fund, and a unit of a business trust has been increased to 20 per cent from 15 per cent. Other financial and non-financial assets which are held for short term shall continue to attract the tax at slab rates.
- For the benefit of the lower and middle-income classes, the limit on the exemption of Long-Term Capital Gains on the transfer of equity shares or equity-oriented units or units of Business Trust has increased from Rs.1 Lakh to Rs.1.25 lakh per year. However, the rate at which it is taxed has increased from 10 per cent to 12.5 per cent.
- The exemption limit to Rs. 1.25 lakhs has been increased for the whole of the year, whereas the tax rate changed on 23rd July 2024.
- The tax on long-term capital gains on other financial and non-financial assets is reduced from 20 per cent to 12.5 per cent. While on the other hand, the indexation benefit that previously was available on sale of long-term assets, has now been done away with. So, any sale of long term asset made from 23rd July, 2024, will attract tax rate of 12.5 per cent only without indexation benefit.
- However, it is to be noted that the provision regarding availing the benefit of FMV of asset as on 01.04.2001 as cost while selling the asset, is still available even after the recent changes.

### Priority 1: Agriculture

- The government has made a provision of Rs.1.52 lakh crore for agriculture and allied sectors.
- The government will release 109 new high-yielding and climate-resilient varieties of 32 field and horticulture crops for cultivation by farmers.

- One crore farmers across the country will be initiated into natural farming in the next two years, which will be supported by certification and branding. For this purpose, the government will establish 10,000 need-based bio-input resource centres.
- The government will promote Farmer-Producer Organisations, startups and cooperatives for vegetable supply chains, including storage, collection and marketing.
- A strategy is being developed to achieve 'Atmanirbharta' for oil seeds such as groundnut, mustard, soybean, sesame, and sunflower.
- The government will facilitate the implementation of the Digital Public Infrastructure (DPI) in agriculture in partnership with the states to cover farmers and their lands in 3 years. The details of 6 crore farmers and their lands will be recorded in the farmer and land registries. The Jan Samarth-based Kisan Credit Cards will be issued and enabled in 5 states.
- Financial support will be provided to set up a network of Nucleus Breeding Centres for Shrimp Broodstocks.

## **Priority 2: Employment and Education**

- The government will implement 3 new schemes for 'Employment Linked Incentive' based on EPFO enrolment:
- Scheme A: First Timers - This scheme will provide a direct benefit transfer of one month's salary in 3 instalments of up to Rs.15,000 to first-time employees in the formal sector registered in the EPFO.
- Scheme B: Job Creation in Manufacturing - An incentive will be provided at a specified scale directly to the employee and the employer based on their EPFO contribution in the first 4 years of employment.
- Scheme C: Support to Employers - The government will reimburse employers up to Rs.3,000 per month for 2 years based on their EPFO contribution for each additional employee. All additional employment within a salary of Rs.1 lakh per month is included.
- A new centrally sponsored scheme for skilling will be introduced in collaboration with the Industry and state governments. Under this scheme, 20 lakh youth will be skilled over a 5-year period, and 1,000 Industrial Training Institutes (ITI) will be upgraded in hub-and-spoke arrangements with outcome orientation.
- The Model Skill Loan Scheme will be revised to facilitate loans up to Rs.7.5 lakh for students with a guarantee from a government-promoted Fund.
- The government has announced financial support for loans up to Rs.10 lakh for higher education of students in domestic institutions. E-vouchers will be given directly to 1 lakh students every year for an annual interest subvention of 3per cent of the loan amount.



### **Priority 3: Inclusive Human Resource Development and Social Justice**

- The government has provided Rs.2.66 lakh crore for rural development and rural infrastructure.
- The government will formulate a plan, Purvodaya, for the all-round development of the eastern region of India, covering Jharkhand, Bihar, Odisha, West Bengal, and Andhra Pradesh.
- The government will support the development of the industrial node at Gaya, i.e. Amritsar Kolkata Industrial Corridor. This corridor will catalyse the industrial development of the eastern region.
- The government will also support the development of road connectivity projects, i.e. Patna-Purnea Expressway, Buxar-Bhagalpur Expressway, Bodhgaya, Rajgir, Vaishali and Darbhanga spurs, and additional 2-lane bridge over river Ganga at Buxar at a total cost of Rs.26,000 crore.
- The government will take up power projects, including setting up of a new 2400 MW power plant at Pirpainti at a cost of Rs.21,400 crore.
- The government is committed to fulfilling the Andhra Pradesh Reorganization Act and will facilitate special financial support through multilateral development agencies. The government will arrange Rs.15,000 crore in the current financial year, with additional amounts in future years.
- The government will provide finance for the early completion of the Polavaram Irrigation Project. It will also provide funds for essential infrastructure such as power, water, roads and railways in the Kopporthy node on the Vishakhapatnam-Chennai Industrial Corridor and the Orvakal node on the Hyderabad-Bengaluru Industrial Corridor.
- The government has announced three crore additional houses under the PM Awas Yojana in rural and urban areas.
- The government has allocated more than Rs.3 lakh crore to promote women-led development and benefit women and girls.
- The government will launch a new scheme, Pradhan Mantri Janjatiya Unnat Gram Abhiyan, to improve the socio-economic condition of tribal communities. It will cover 63,000 villages, benefitting 5 crore tribal people.
- To expand banking services, more than 100 branches of India Post Payment Bank will be set up in the North East region.

### **Priority 4: Manufacturing and Services**

#### **Promotion of MSMEs**

- The government will introduce a credit guarantee scheme to facilitate term loans to MSMEs to purchase machinery and equipment without collateral or third-party guarantee. It will be a separately constituted self-financing guarantee fund that will provide a guarantee cover up to Rs.100 crore for each applicant.

- Public sector banks will build an in-house capability to assess MSMEs for credit instead of relying on external assessment. They will also develop or get a new credit assessment model based on the scoring of digital footprints of MSMEs in the economy.
- The government announced a new mechanism to facilitate the continuation of bank credit to MSMEs during their stress period.
- The limit of the Mudra loans is enhanced to Rs.20 lakh from the current Rs.10 lakh under the 'Tarun' category for those entrepreneurs who have successfully repaid previous loans under the same category.
- The turnover threshold of buyers for mandatory onboarding on the TReDS platform is reduced from Rs.500 crore to Rs.250 crore.
- SIDBI will open new branches to expand its reach to serve major MSME clusters and provide direct credit to them within 3 years.
- Financial support will be provided to set up 50 multi-product food irradiation units in the MSME sector. The government will facilitate the setting up 100 food quality and safety testing labs with NABL accreditation.
- E-Commerce Export Hubs will be set up in public-private-partnership (PPP) mode to enable MSMEs and traditional artisans to sell their products in international markets.

### **Promotion of Manufacturing and Services**

- The government will launch a comprehensive scheme to provide internship opportunities to 1 crore youth in 5 years in the top 500 companies. An internship allowance of Rs.5,000 per month and a one-time assistance of Rs.6,000 will be provided.
- The government will facilitate the development of investment-ready “plug and play” industrial parks with the states and private sector.
- The government will sanction 12 industrial parks under the National Industrial Corridor Development Programme.
- The government will set up a Critical Mineral Mission to recycle critical minerals, promote domestic production, and overseas acquisition of critical mineral assets.
- The government will launch the first tranche auction of offshore blocks for mining, building on the exploration already carried out.
- An Integrated Technology Platform will be set up to improve the outcomes under the Insolvency and Bankruptcy Code (IBC).
- The Centre for Processing Accelerated Corporate Exit (C-PACE) services will be extended for the voluntary closure of LLPs.
- Additional National Company Law Tribunals to speed up insolvency resolution. Out of these, some Tribunals will be notified to decide cases exclusively under the Companies Act.

- Additional Debt Recovery Tribunals will be established to speed up the recovery process.

### **Priority 5: Urban Development**

- The government will formulate a Transit Oriented Development plan for 14 large cities with a population of above 30 lakh.
- Under the PM Awas Yojana Urban 2.0, the housing needs of 1 crore urban middle-class and poor families will be addressed with an investment of Rs.10 lakh crore. This will include the central assistance of Rs.2.2 lakh crore in the next 5 years.
- State Governments and Multilateral Development Banks will promote sewage treatment, water supply and solid waste management projects and services for 100 large cities through bankable projects.
- The government will launch a scheme to support the development of 100 weekly 'haats' or street food hubs in select cities over the next five years.
- The government will encourage states to moderate stamp duty rate which charge high stamp duty for all, and consider further lowering duties for properties purchased by women.

### **Priority 6: Energy Security**

- PM Surya Ghar Muft Bijli Yojana has been launched to achieve 300 units of free electricity per month for 1 crore households through rooftop solarisation.
- A policy for promoting pumped storage projects will be introduced for electricity storage and facilitate smooth integration of the growing share of renewable energy.
- The government will partner with the private sector to set up Bharat Small Reactors, research and development of Bharat Small Modular Reactor, and research and development of newer technologies for nuclear energy.
- A joint venture between NTPC and BHEL will establish a full-scale 800 MW commercial plant using the Advanced Ultra Super Critical (AUSC) technology.
- The government will facilitate an investment-grade energy audit of traditional micro and small industries in 60 clusters, provide financial support to shift them to cleaner forms of energy and implement energy efficiency measures.

### **Priority 7: Infrastructure**

- The government has provided Rs.11,11,111 crore for capital expenditure.
- The government has provided Rs.1.5 lakh crore for long-term interest-free loans to support the states in their resource allocation.
- Phase IV of the Pradhan Mantri Gram Sadak Yojana (PMGSY) will be launched to provide all-weather connectivity to 25,000 rural habitations.

- The government will provide financial support through the Accelerated Irrigation Benefit Programme and other sources for projects with an estimated cost of Rs.11,500 crore, such as the Kosi-Mechi intra-state link and 20 other ongoing and new schemes, including river pollution abatement, barrages and irrigation projects.
- The government will undertake the comprehensive development of the Vishnupad Temple Corridor and Mahabodhi Temple Corridor in Rajgir, Nalanda, and Odisha.

### **Priority 8: Innovation, Research and Development**

- The government will set up a mechanism for boosting private sector-driven research and innovation at commercial scale with a finance pool of Rs.1 lakh crore.
- The government will operationalise the Anusandhan National Research Fund for basic research and prototype development.
- A venture capital fund of Rs.1,000 crore will be set up to expand the space economy by five times in the next 10 years.

### **Priority 9: Next Generation Reforms**

- The government will work with the states to initiate land-related reforms, rural land-related actions, and urban land-related actions.
- There will be a comprehensive integration of e-shram portal with other portals to facilitate such a one-stop solution to provide a wide array of services to labour.
- Shram Suvidha and Samadhan portals will be revamped to enhance trade and industry ease of compliance.
- The government will develop a taxonomy for climate finance to enhance the availability of capital for climate adaptation and mitigation.
- The rules and regulations for Foreign Direct Investment and Overseas Investments will be simplified to nudge prioritisation, facilitate foreign direct investments, and promote opportunities for using Indian Rupee as a currency for overseas investments.
- The government will start NPS Vatsalya, a plan for the contribution by parents and guardians for minors.
- The government is working on Jan Vishwas Bill 2.0 to enhance 'Ease of Doing Business'.

## Concluding Observations

This budget, which is focused on centre-state policy coordination, income tax slabs, robust capital expenditure, and better macroeconomic stability, is well-conceived. This budget would thus pave the way for consolidation of India's position in the comity of nations.

There are elements of both change and continuity in the FM's seventh consecutive budget. But this budget also marks the first budget of Modi 3.0. The FM has done well in adroitly balancing the requirements of various sectors and the macro-economy and has taken the right call in advancing the pursuit of Viksit Bharat in an effective manner. As the PM Modi stated that it is an "important budget for Amrit Kaal," which will set the direction for the next five years and serve as a strong foundation for the vision of a 'Viksit Bharat'.