

BUDGET 2025

The Shift from Infrastructure to Consumption

02nd Feb, 2025



EXECUTIVE SUMMARY

MARKET REACTION

The Union Budget 2025 drew a neutral response from Indian equity markets, with major indices holding steady. The story beneath the surface is more nuanced – consumption sectors surged on anticipated household spending increases from income tax reforms, while defence and energy sectors saw slight pullbacks as government capital expenditure showed signs of moderation.

KEY BUDGET HIGHLIGHTS

- 1 Impact on Government Revenue:**
The reduction in income tax slabs signals a strong push toward consumption-led growth, though it will impact government revenue in the short term.
- 2 Expenditure moderation:**
The government's capital spending growth has slowed compared to last year, which may limit growth opportunities for PSUs, energy, and defence sectors.
- 3 Fiscal deficit tightens:**
The fiscal deficit target tightens to 4.4% from 4.8%, with debt instruments as the primary funding source. This measured approach supports our positive outlook on debt markets.

YOUR PORTFOLIO: STRATEGIC IMPLICATIONS

- Equity:**
The broader market shows resilience, but sector rotation favors consumption-driven stocks. We're closely monitoring your Dezerv portfolio and will adjust positions if required once tax reform details emerge.
- Debt:**
Our positive stance remains unchanged. The controlled fiscal deficit means limited government securities supply, supporting attractive yields in debt markets.
- New Cash:**
We recommend deploying 40% of fresh capital immediately, followed by 7.5% bi-weekly investments over four months. This strategy may be refined once tax reform details are announced next week.

KEY EVENTS TO MONITOR

- 1 Rate cuts:** The MPC meeting scheduled for February 5-7, 2025, could signal the beginning of rate cuts.
- 2 Income Tax Bill:** Next week's Income Tax Bill might reshape capital gains and NRI taxation frameworks.

Until these uncertainties are resolved, our view remains unchanged. We will **update and take active portfolio** actions as soon as clarity emerges.

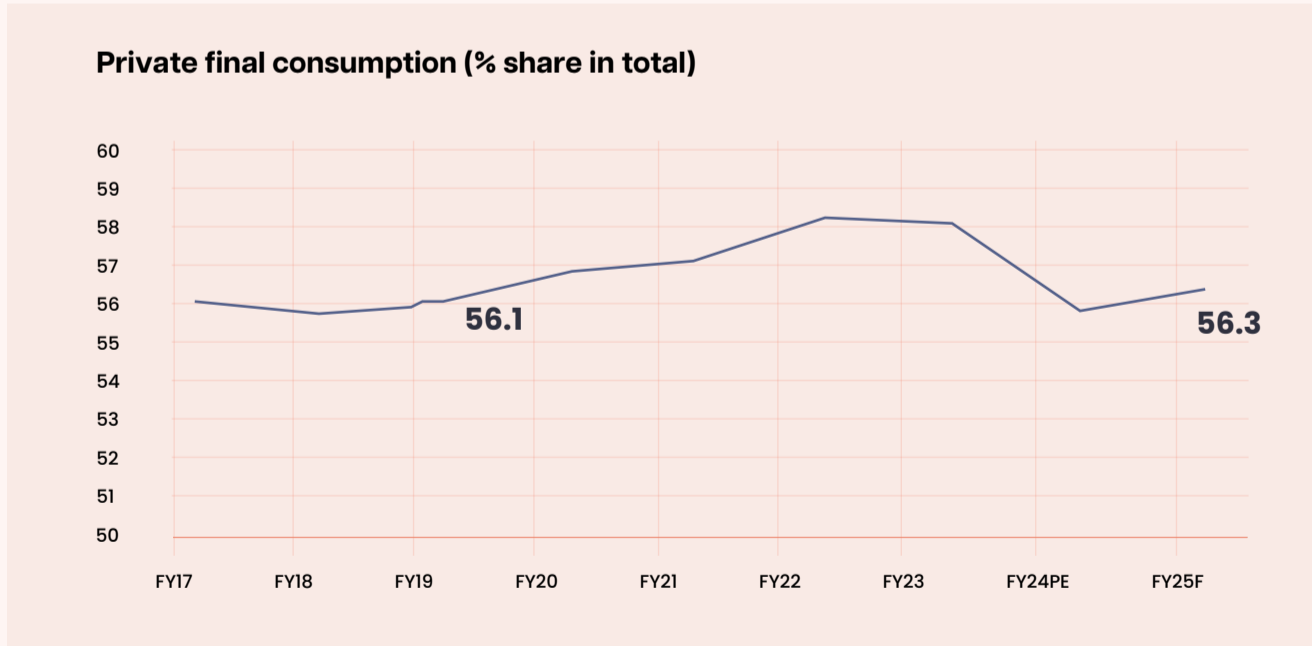
SECTION 1

IMPACT OF THE UNION BUDGET 2025 –
WHAT HAPPENED?

Top 3 Losers	
Nifty India Defence	▼ -3.07%
Nifty PSE	▼ -3.06%
Nifty CPSE	▼ -2.81%
Top 3 Gainers	
Nifty India Consumption	▲ 3.14%
Nifty Non-cyclical Consumer	▲ 3.18%
Nifty Realty	▲ 3.38%
Broader Market	
Nifty 500	0%

The Union Budget 2025 drew a measured, neutral response from Indian equity markets, suggesting investors found few surprises to react to. This muted reaction shows up in the movement of key indices - the NIFTY 50 as well as NIFTY 500 remained largely he same. The story beneath the surface is more nuanced – consumption sectors (Consumer durables, Tourism, New Age Consumption etc.) surged on anticipated household spending increases from income tax reforms, while defence and energy sectors saw slight pullbacks as government capital expenditure showed signs of moderation.

CONSUMER REVIVAL: GOVERNMENT'S STRATEGIC TAX MOVE



Private consumption in India has been showing concerning signs. As a share of total consumption, it declined from its peak of 58% in FY22-23 to 56.3% in FY25. This persistent downward trend in household spending - which makes up nearly two-thirds of India's consumption - explains the government's aggressive focus on tax reforms in Budget 2025.

By reducing income tax burdens, the government is making a direct attempt to put more money in people's pockets, betting that this will translate into increased spending and economic growth.

SECTION 2

UNDERSTANDING THE UNION BUDGET

KEY THINGS IN A BUDGET WHICH IMPACTS ECONOMY

Union budget is a government’s financial plan which has key three components, these components matter most & dictate country’s economic growth:

- 1 **Income (Revenue):** Mainly comes from taxes paid by people and businesses
- 2 **Spending (Expenditure):** Goes toward development, welfare, defense, and other national needs
- 3 **Fiscal Deficit:** When government spending exceeds government income.
(Expenditure - Revenue) × 100/GDP
- 4 **Government fills this gap by borrowing money through:**
 - Public bonds
 - Bank loans
 - International organizations
 - Selling stakes in government companies (disinvestment)

THE KEY TRADE-OFF

Option 1: Spend more to boost growth

- Higher infrastructure and development spending
- But leads to more borrowing

Option 2: Control spending to manage deficit

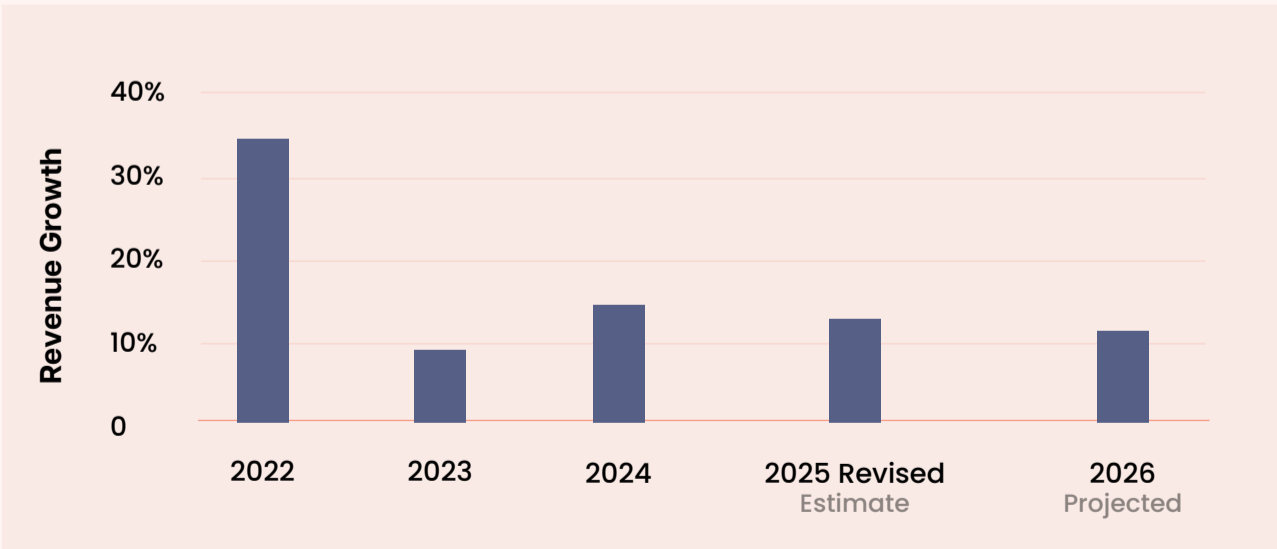
- Keeps borrowing in check
- But might slow down growth

This balancing act shapes everything from market interest rates to sector performance, ultimately affecting your investment returns.

SECTION 3

KEY CHANGES FROM THE BUDGET THAT WILL IMPACT YOUR PORTFOLIO

INCOME TAX RELIEF: A DOUBLE-EDGED SWORD

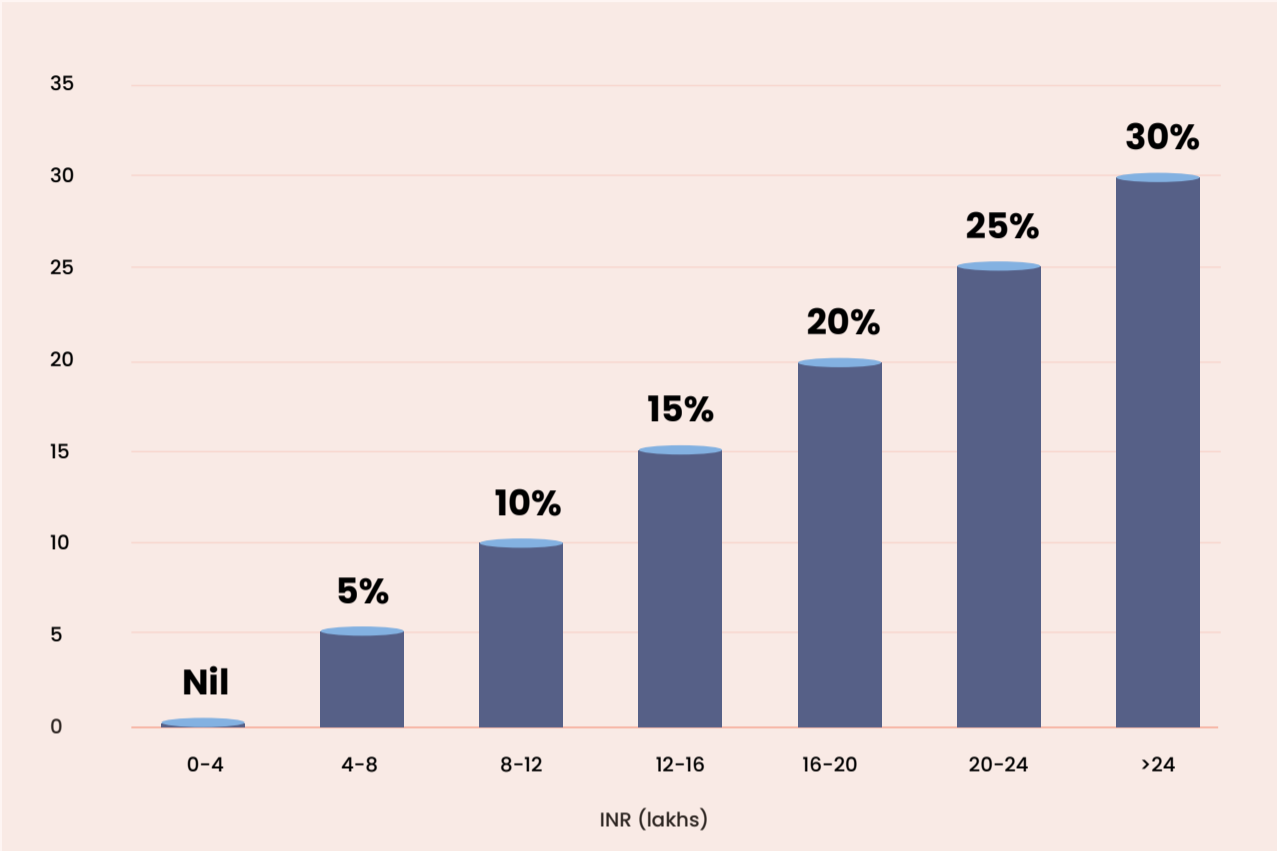


The government is making a significant trade-off by offering income tax relief. While this puts more money in your pocket, it impacts government finances meaningfully. Here's what's happening:

- Government revenue growth is expected to slow to 10.8% in 2025, down from the previously projected 14.7%

- The income tax reforms will cost the government approximately INR 1 lakh crore, about 3% of its total revenue
- This follows a clear downward trend in revenue growth - from a peak of 32% in 2022 to projected 10.8% in 2025

Personal Income Tax: Your New Tax Structure

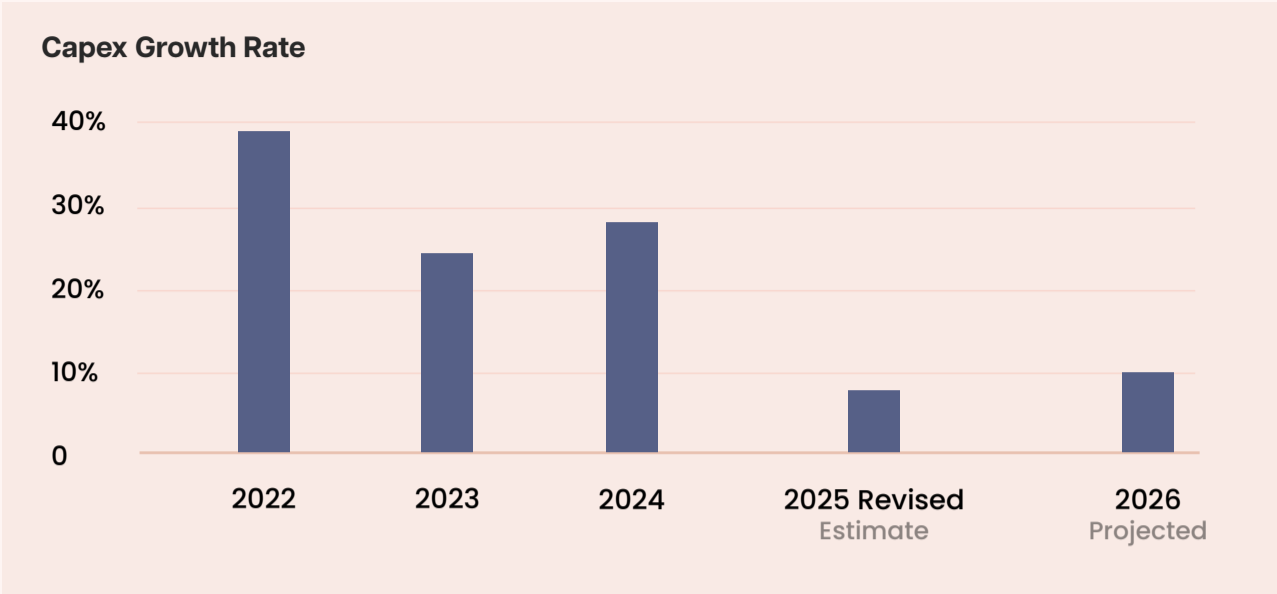


Below is a representation of how you can benefit from the new tax slabs.

(All values in INR)

Income	Tax on slabs and rates		Benefit of	Rebate benefit	Total benefit	Tax after rebate benefit
	Present	Proposed				
			Rate/ slab	Full upto 12 lakhs		
8 Lakhs	30,000	20,000	10,000	20,000	30,000	0
9 Lakhs	40,000	30,000	10,000	30,000	40,000	0
10 Lakhs	50,000	40,000	10,000	40,000	50,000	0
11 Lakhs	65,000	50,000	15,000	50,000	65,000	0
12 Lakhs	80,000	60,000	20,000	60,000	80,000	0
16 Lakhs	1,70,000	1,20,000	50,000	0	50,000	1,20,000
20 Lakhs	2,90,000	2,00,000	90,000	0	90,000	2,00,000
24 Lakhs	4,10,000	3,00,000	1,10,000	0	1,10,000	3,00,000
50 Lakhs	11,90,000	10,80,000	1,10,000	0	1,10,000	10,80,000

A RESULTANT SLOWDOWN IN CAPITAL EXPENDITURE



The Budget reveals a decisive change in the government's approach to driving economic growth. The numbers tell a clear story:

FY26 Budget Allocation

- **Total expenditure:** ₹50.6 trillion
- **Capital expenditure:** ₹11.2 trillion (infrastructure and long-term assets)
- **Revenue expenditure:** ₹39.4 trillion (day-to-day spending)

Key Trends

- **Capex growth drops dramatically:** 39% (2022) ---> 7% (2025) 10% (2026)
- **Capex share of budget falls:** 26% (FY22) ---> 17% (FY25) ---> 10% (FY26)
- **Revenue spending plateaus:** 6.2% (FY25) ---> 6.7% (FY26)

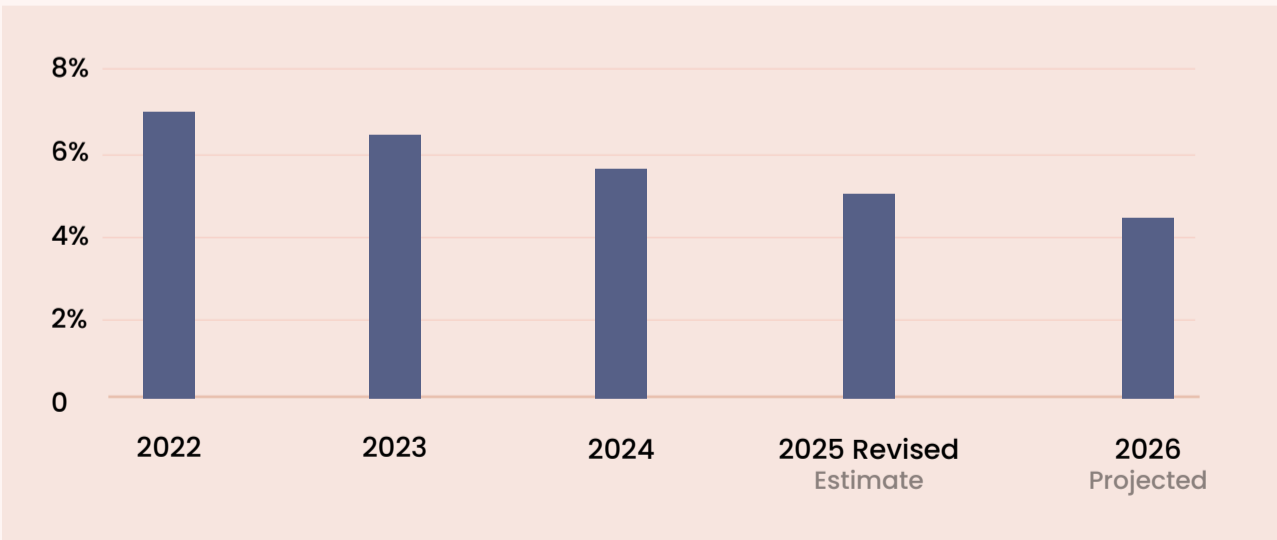
What This Means for Your Portfolio

The government is shifting from being India's primary growth driver to enabling private sector-led growth. This impacts investments in two ways:

- **Caution needed:** Companies dependent on government spending (PSUs, infrastructure)
- **Opportunity areas:** Businesses that benefit from increased consumer spending

This marks a clear pivot from government-led to consumption-driven growth in India's economic strategy.

FISCAL DEFICIT: A CONTROLLED REDUCTION



The government is showing remarkable fiscal discipline in Budget 2025, managing a delicate balance between tax relief and deficit control.

The Numbers

- Fiscal deficit target shrinks to 4.4% from 4.8%
- Projected deficit amount: ₹11.54 trillion (down from ₹11.75 trillion)
- Shows a steady decline from 6.7% in 2022 to 4.4% in 2025

What Makes This Interesting

Despite offering tax relief and moderating capital expenditure, the government has managed to reduce its deficit. This is significant because:

- Lower deficit means the government needs to borrow less
- Reduced borrowing keeps interest rates stable
- Less government debt in the market supports bond yields

Impact on Your Investments

This controlled reduction in fiscal deficit supports a positive outlook for debt investments. With the government borrowing less:

- Debt markets face less pressure from government securities
- Private sector has better access to funding
- Interest rates are likely to remain stable

This fiscal discipline, combined with tax reforms, shows the government's commitment to both growth and stability.

SECTION 3

OTHER HIGHLIGHTS FROM THE BUDGET

While these reforms may not have an immediate large-scale impact, they play a vital role in easing compliance, promoting investments, and supporting key sectors.

FOR INDIVIDUALS:

1 TDS/TCS simplification

- **Senior citizens:** Tax deduction limit doubled from ₹50,000 to ₹1 lakh.
- **Rental income:** TDS threshold increased from ₹2.4 lakh to ₹6 lakh annually.
- **Non-Residents:** No TCS on foreign remittances under RBI's Liberalized Remittance Scheme up to ₹10 lakh (earlier ₹7 lakh).

2 Easing compliance:

- **Self-occupied properties:** Exemption allowed for two properties (earlier limited to 1).
- **Updated Tax Returns:** The filing window has been extended from 2 to 4 years, offering more flexibility.

SECTOR-SPECIFIC REFORMS:

- 1 **100% FDI in insurance:** Allowed for companies meeting specific conditions, attracting more foreign investment.
- 2 **MSME focus:** Simplified processes and improved credit access to boost ease of doing business.
- 3 **Indirect Tax changes:** Exemptions for LED/LCD TV open cells, textile looms, and lithium-ion battery components for mobiles and EVs.
- 4 **Start-up support:** An additional ₹10,000 crores allocated to the government's start-up fund.

These reforms aim to reduce compliance burdens, encourage investments, and support business growth across sectors.

ASSET CLASS OUTLOOK & RECOMMENDATIONS:

EQUITY

As policies tilt toward boosting consumer spending and growth sectors, we anticipate a market leadership change from value to growth stocks. While consumption-focused sectors stand to benefit from increased disposable income through tax cuts, we advise patience. Waiting for complete details of the tax reforms will enable better-informed investment decisions.

FIXED INCOME

The fixed income outlook presents a clear opportunity. With fiscal deficit under control at 4.4%, government borrowing remains disciplined, supporting stability in bond yields. Your existing fixed income investments face no immediate impact. However, with potential rate cuts on the horizon, now presents an ideal window to secure high-interest assets. This strategy could help protect your fixed income portfolio against future yield declines.

OUR RECOMMENDATIONS: CLEAR ACTIONS FOR YOUR PORTFOLIO

- 1

For Current Equity Investments

Stay invested in Dezerv's Equity Revival Strategy, which already has a strategic tilt toward consumption stocks. The Budget reinforces our conviction that consumer spending will drive the next phase of growth. While the tax changes were unexpected, they strengthen our existing position.
- 2

For Fixed Income Holdings

Your current fixed income portfolio needs no adjustments. The controlled fiscal deficit supports stable yields, maintaining the value of your existing investments.
- 3

For Fresh Investments

The market correction appears to be in its later stages - we've completed 125 days of what historically has been a 200-day cycle. However, prudence suggests waiting for two key events:

 - The upcoming MPC meeting
 - The detailed income tax bill

Until then, we recommend a measured approach to deploying fresh capital:

- Invest 40% of available funds immediately in equities
- Follow with 7.5% fortnightly investments over four months

This disciplined strategy balances opportunity with caution, ensuring systematic market entry while key policy details unfold.

These recommendations reflect both the Budget's growth-oriented stance and current market dynamics. We stand ready to adjust our strategy as policy details emerge.

Disclaimer

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