

What Shall We Pay Attention to in the Budget

As India awaits the first budget of the new government, markets shall look for cues for government's stance and plans on growth, poverty alleviation, progress to prosperity, ease of doing business, ease of living etc. Even though we do not see any need for changes to our portfolio in anticipation of (or even post) the budget, in this letter we list down some announcement/data, that we shall keenly watch when the budget is presented on 23rd July.

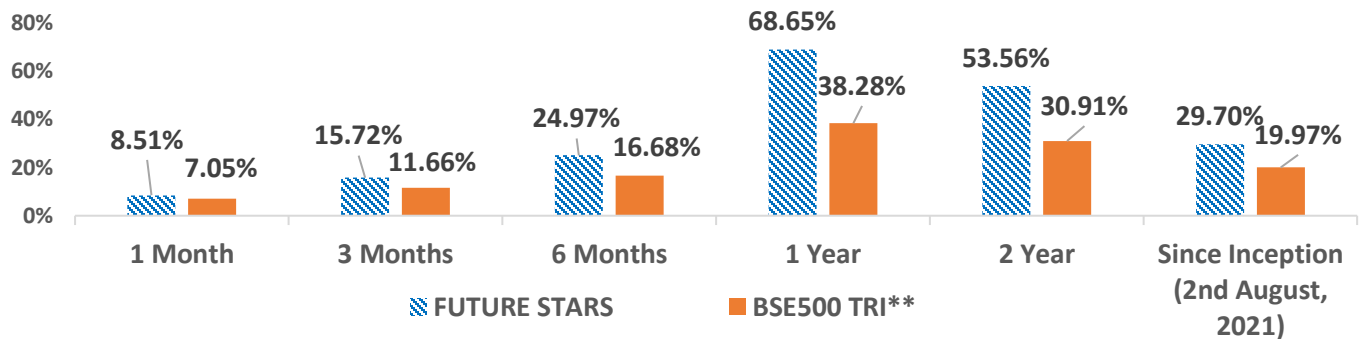
How are the markets placed ?

The market with its sustained run up is looking stretched to many. Nifty 50 index has been on a tear of late delivering CAGR (compound annual growth rate) returns of 24.87%, 15.59% and 16.09% in last 1 year, 3 years and 5 years. The CAGR for last 10 years and 20 years are 12.42% and 14.79%. However if we consider trailing twelve months P/E multiple of Nifty 50 index, we note that the narrow Indian market has not reached excessive levels. Nifty 50's P/E is 23.4x implying a marginal premium of 8% over last 20 year average and a discount of 6% over last ten year average. These do not indicate reckless valuations to us. On the whole, we do not assign a high probability to a collapse (of say, 20-25%) in Nifty 50. At the same time, in mid cap and small cap indices the valuations have moved up into unsustainable territories even though in the broader market too there are pockets where money can be made. We are fully invested.

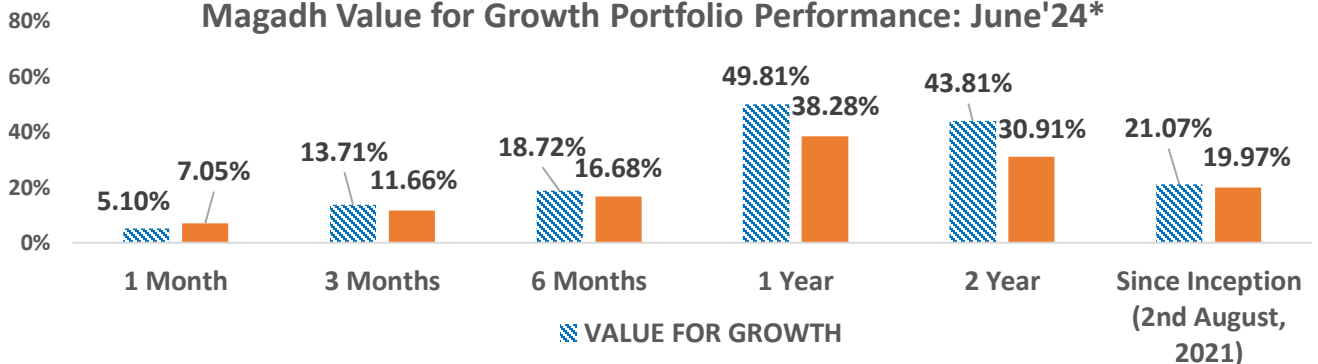
Our portfolio performance, in June 2024, remained impressive

Our portfolio delivered healthy performance again, in June 2024. Our Future Stars portfolio has delivered returns of 68.65%, 53.56% CAGR, and 29.7% CAGR over 1 year, 2 years, and since inception – substantially ahead of the benchmark. Similarly, our Value of Growth portfolio too performed impressively with returns of 48.81%, 43.81% CAGR, and 21.07% CAGR over 1 year, 2 years, and since inception – again, beating the benchmark handsomely.

Magadh Future Stars Portfolio Performance: June'24*



Magadh Value for Growth Portfolio Performance: June'24*



*Date is for the period Aug 02, 2021 till June 30, 2024. Performance is as TWRR - Time Weighted Rate of Return. Data for more than one year has been annualized. Past performance is no guarantee of future returns. Performance data provided herein is not verified by SEBI. **TRI - Total Return Index.

The finance minister is set to present the new government's first budget on 23rd July. In last 5-7 years the government has been trying to bring a sense of continuity, and to reduce knee jerk changes in the budget exercise. However in light of the recently held general elections, many are expecting at least some tweaks to government's economic pathway to development. In any case this budget assumes particular significance since it is the first budget of the government post the recent mandate and hence may reveal the government's philosophy and plans for the rest of its tenure.

Below are the announcements that we shall look to analyze post the budget presentation -

1. **Fiscal deficit** – In FY24 revised estimate (FY24RE) fiscal deficit stood at Rs 17,34,773 crore implying 5.8% of GDP while the interim budget estimate for FY25 (interim FY25BE) had pegged the figure at Rs 16,85,464 crore implying 5.1% of GDP.

	Fiscal Deficit		
	FY24 RE	FY25 BE (Interim)	FY25 BE (Final)
Amount (in Cr)	17,34,773	16,85,464	?
% Change		-2.8%	
% of GDP	5.8%	5.1%	

Since taking oath this government has tried to display a business as usual approach so far. We will not be surprised if the budget continues to prioritize fiscal prudence and maintain its fiscal deficit target (as %of GDP, if not in absolute terms).

Given the buoyancy witnessed in the economy since the interim budget presentation (in February 2024) there is a possibility that the nominal GDP growth estimate for FY25 may get nudged up a bit. Thus with likely a bigger denominator there is a decent head room for the government here.

The government's hands on this front have been strengthened further with the excess (over interim budget estimate) dividend payment of about Rs 1.25 lakh crore by RBI.

2. **Direct Tax** – In FY24 revised estimate (FY24RE) direct taxes stood at Rs 19,45,000 crore implying 6.6% of GDP while FY25 interim budget estimate (interim FY25BE) had pegged the figure at Rs 21,98,830 crore implying 6.7% of GDP. Given the tax buoyance so far during the year there is a possibility that the finance minister may push up the estimate for direct tax collection, both in absolute terms in Rs crore as well as in % of GDP.

	Gross Direct tax		
	FY24 RE	FY25 BE (Interim)	FY25 BE (Final)
Amount (in Cr)	19,45,000	21,98,830	?
% Change		13.1%	
% of GDP	6.6%	6.7%	

While many economists and socio-political commentators are expecting (or hoping) for some relief for the middle class here we are not sure if the government will be fine to forego much on this source of revenue.

Similarly, many on the Street are concerned that capital gains tax may be tinkered to the disadvantage of investors'/traders'. To us status quo would make more sense for the government but if indeed there is a hike the market may not be able to digest it well.

- Capital expenditure** - In FY24 revised estimate (FY24RE) capital expenditure stood at Rs 9,50,246 crore (2.9% of GDP) while the interim budget had pegged the figure at Rs 11,11,111 crore implying 3.7% of GDP.

	Capital Expenditure		
	FY24 RE	FY25 BE (Interim)	FY25 BE (Final)
Amount (in Cr)	9,50,246	11,11,111	?
% Change		16.9%	
% of GDP	2.9%	3.7%	

Owing to the general elections, project award and progress have been slower than earlier envisaged. Hence if in the final budget, absolute capex estimates are maintained at interim budget levels that it self will require some heavy lifting during the rest of the year. At the same time it should not come as a surprise if as a signal of intent the government may raise this figure by a nominal amount.

- Subsidies** –This head will pose a serious dilemma for the government. Due to the worse than expected performance in the elections there may be some urge to loosen the purse strings on this head. On the other hand the government has been purposefully shrinking this pool to make welfare spending more focused and direct. Shall be interesting to see.

	Expenditure on Subsidies (in Rs Cr unless otherwise mentioned)		
	FY24 RE	FY25 BE (Interim)	FY25 BE (Final)
Fertilizer	1,88,894	1,64,000	?
Food	2,12,332	2,05,250	?
Petroleum	12,240	11,925	?
Total Subsidies	4,13,466	3,81,175	?
% Change		-7.8%	
% of GDP	1.4%	1.2%	

- Other welfare schemes** – PM Kisan (Pradhan Mantri Kisan Samman Nidhi), MGNREGA (Mahatma Gandhi National Rural Employment Guarantee Act), PMAY (Pradhan Mantri Awaas Yojana)

There is a sizeable possibility that the government may become more generous on these heads. These consist of direct payment (so there are minimal leakages) and hence are not bad from economics perspective. With perceptible visibility they serve populist purpose too.

	Various Schemes of Government						Total	
	PM KISAN		MGNREGA		PMAY (Awaas)		FY24 RE	FY25 BE
	FY24 RE	FY25 BE	FY24 RE	FY25 BE	FY24 RE	FY25 BE		
Amount (in Cr)	60,000	60,000	86,000	86,000	54,103	80,671	2,00,103	2,26,671
% Change		0%		0%		49%		13%
% of GDP	0.2%	0.2%	0.3%	0.3%	0.2%	0.2%	0.7%	0.7%

FY25 BE is Interim Budget estimate which was presented on Feb 2024

6. Expenditure on defence, education , and healthcare

These heads are not getting the focus they deserve in the country. Unfortunately this is not one of those years when one can expect a one time base change for these long term drivers for a country's development.

	Expenditure on defence		
	FY24 RE	FY25 BE (Interim)	FY25 BE (Final)
Amount (in Cr)	4,55,897	4,54,773	?
% Change		-0.2%	
% of GDP	1.5%	1.4%	

	Expenditure on Education		
	FY24 RE	FY25 BE (Interim)	FY25 BE (Final)
Amount (in Cr)	1,08,878	1,24,638	?
% Change		14.5%	
% of GDP	0.4%	0.4%	

	Expenditure on health		
	FY24 RE	FY25 BE (Interim)	FY25 BE (Final)
Amount (in Cr)	79,221	90,171	?
% Change		13.8%	
% of GDP	0.3%	0.3%	

- Support to allies** in the government by offering at least some additional budget to the states of Bihar and Andhra Pradesh. This may be taken as a sort of insurance premium for stability of the central government.

Date: 17-07-2024