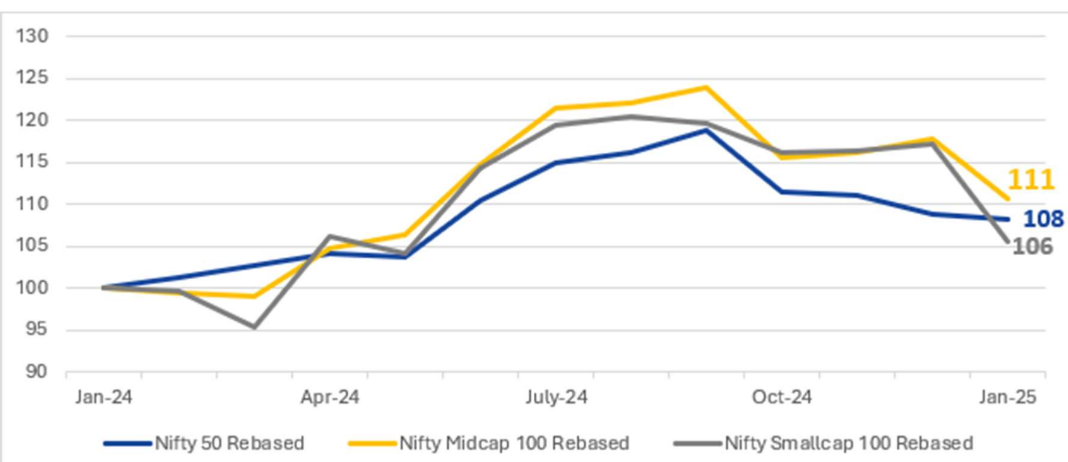
Overview:

For the month ended January 2025, the Nifty 50 index outperformed both mid-caps and smallcaps. The Nifty Midcap 100 index was down 6.10%, while the Nifty Smallcap 100 index declined 9.90%. Within sectors, media, realty, pharma, bank, metal, financial services underperformed the Nifty 50 whereas auto and consumer goods outperformed.

Sr. No.	Index Name	Jan-25
		M-o-M Change
1	NIFTY 50	-0.58%
2	NIFTY Midcap 100	-6.10%
3	NIFTY Smallcap 100	-9.90%
4	NIFTY Auto	0.15%
5	NIFTY Bank	-2.50%
6	NIFTY Financial Services	-1.24%
7	NIFTY FMCG	-0.19%
8	NIFTY IT	-1.56%
9	NIFTY Media	-13.07%
10	NIFTY Metal	-2.89%
11	NIFTY Pharma	-8.43%
12	NIFTY Private Bank	-1.59%
13	NIFTY PSU Bank	-3.42%
14	NIFTY Realty	-12.45%
15	NIFTY Consumer Durables	-10.08%
16	NIFTY Oil & Gas	-1.45%
17	NIFTY Healthcare Index	-7.78%

Source: National Stock Exchange of India

Fig: Performance of midcaps and smallcaps vs. largecaps over the last 12 months



Foreign funds (FIIs/FPIs) were net sellers in January 2025 at USD9.04bn and domestic institutions were net buyers at ~USD10.18bn. This is the second highest foreign fund selling after October 2024.

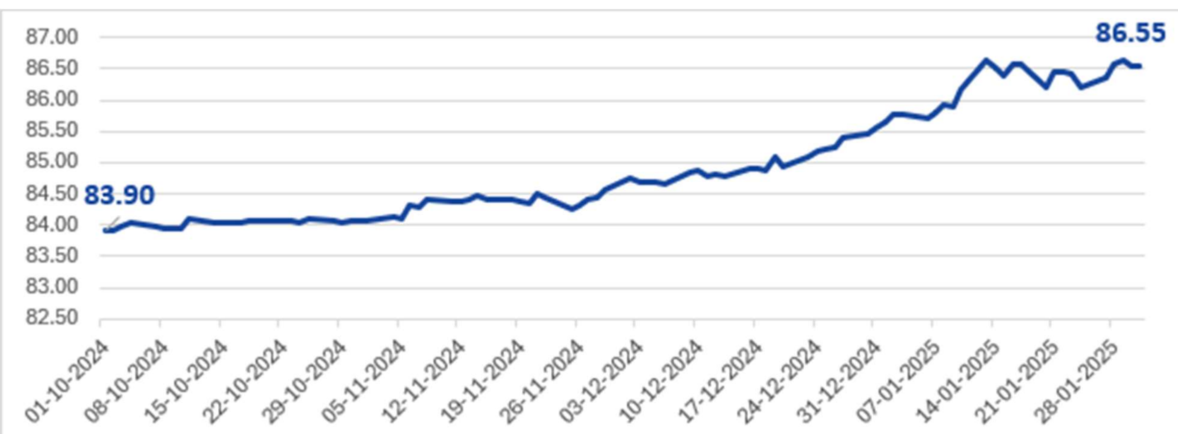
Fig: Foreign funds (FIIs/FPIs) investments for last 4 months

Month	Net Invt USD Bn
Oct-24	-11.20
Nov-24	-2.56
Dec-24	1.83
Jan-25	-9.04
Total	-20.97

Source: NSDL

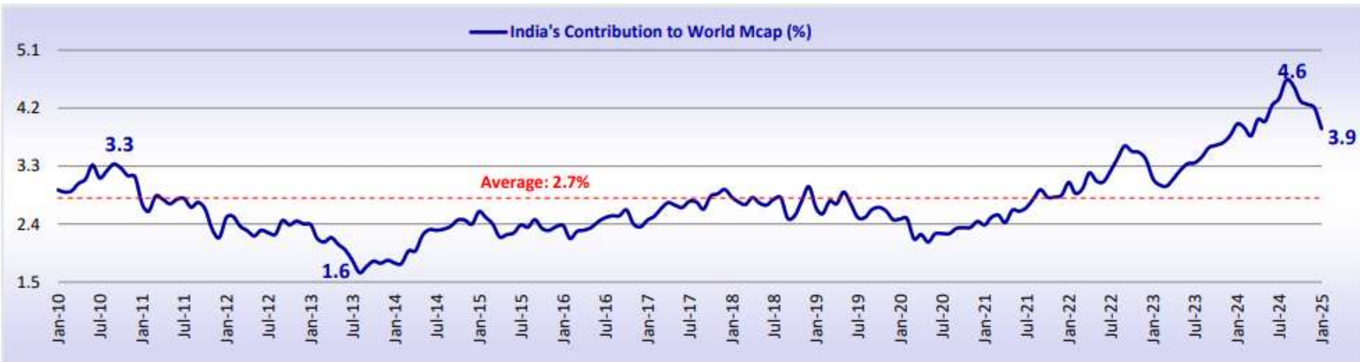
Indian equity markets have faced heightened volatility in recent months due to multiple factors, including sustained selling by foreign institutional investors (FIIs/FPIs), tight domestic liquidity, and weak global market sentiment. In the past four months alone, FIIs/FPIs have been net sellers of USD21bn - one of the most intense phases of selling in India's capital market history. Moreover, there has been 3.14% depreciation in the Indian rupee over the same period. As a result, India's share of global market capitalization has declined to 3.9%, marking a 10-month low, though it remains above the long-term historical average of 2.7%.

Fig: Dollar strengthening has led to INR depreciation



Source: Investing.com

Fig: India's share of global market cap dips to 3.9% to a 10-month low

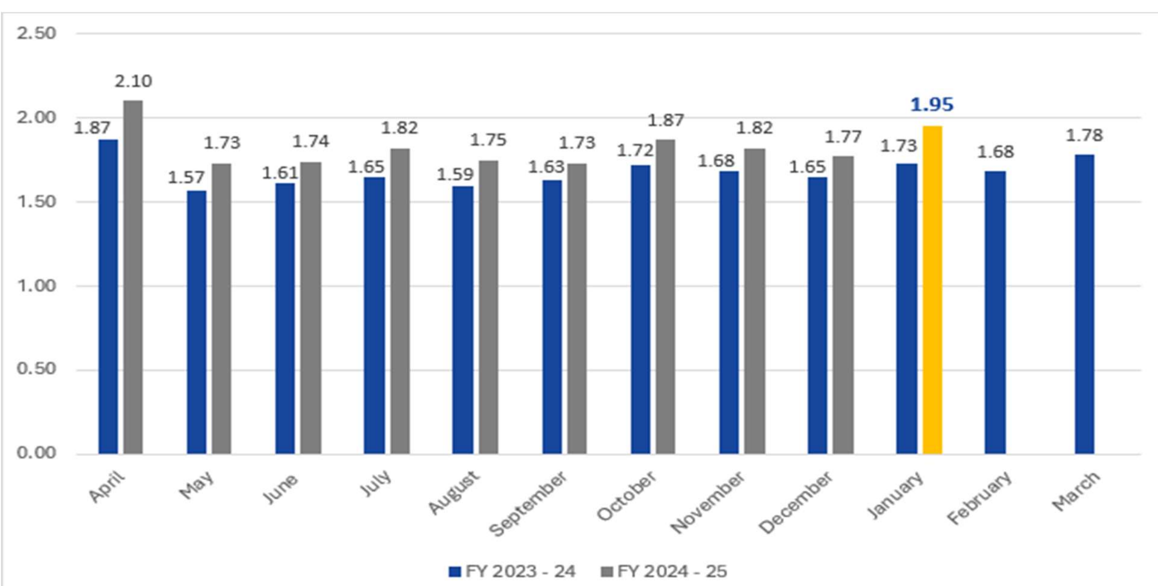


Source: Motilal Oswal

Since the pandemic, retail investor participation in India's capital markets has surged, driven by both direct equity and mutual fund investments. The number of demat accounts grew by 33% Y-o-Y, reaching 185mn as of December 2024. Simultaneously, the total unique investors in mutual funds nearly doubled from 29mn in FY21 to 56mn by December 2024. This strong retail influx has fueled mutual fund assets under management (AUM), which expanded by 25.3% YoY to INR66.9trillion. A significant driver of this growth has been the record adoption of Systematic Investment Plans (SIPs), with over 100mn active accounts contributing to steady inflows.

On the macroeconomic front, Good and Services Tax (GST) revenue for January 2025 were INR1.95 trillion, up 12% YoY.

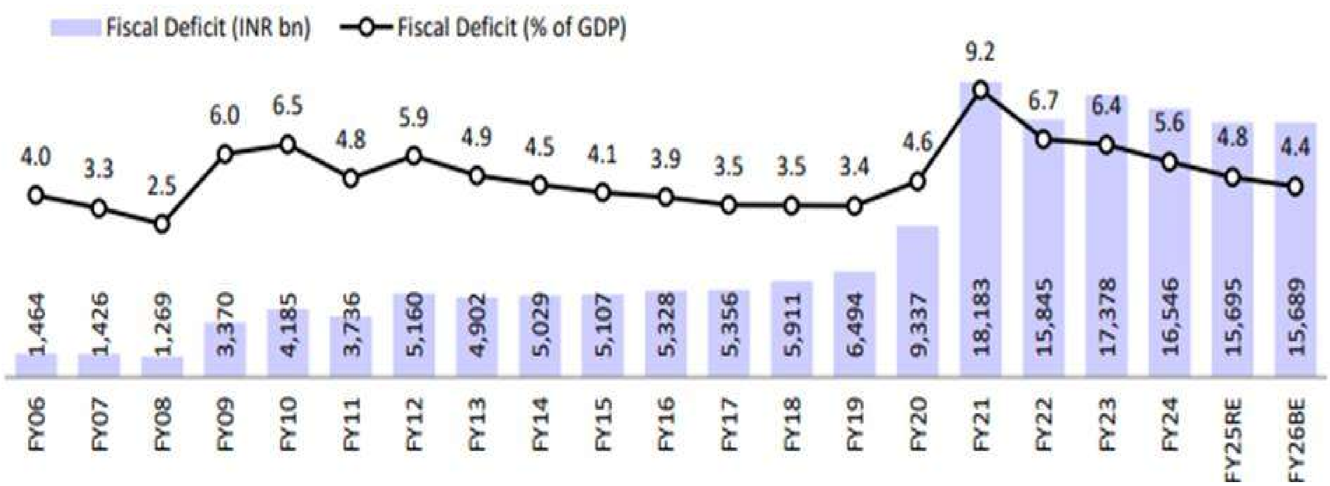
Fig: GST Collections trend (in INR trillion)



Source: Government of India, EquiPoise Capital research

The new government after the 2024 general elections presented its first full Union Budget on 1 st Feb'25. The anticipation was high for some consumption-boosting initiatives, tax cuts for the middle-income class, and continued focus on the capex, with some relaxed fiscal deficit targets. The Budget, for the first time in many years, chose to stimulate consumption and savings instead of focusing on capex. It, however, stayed focused on the fiscal deficit consolidation. The GoI has budgeted a fiscal deficit of 4.4% of GDP for next year, better than the broad expectation of 4.5%. This is budgeted with receipt growth of 11.1% (with nominal GDP growth of 10.1%) and spending growth of 7.4%. Overall a balanced budget which aims to create room for private sector to get into the capex mode through support from consumption and conditions (lower fiscal deficit) aimed at likely lower policy rates going forward.

Fig: Trends in fiscal deficit over the past two decades; fiscal deficit expected to decline to 4.4% of GDP in FY26BE



Source: Budget documents

<u>Our view:</u>

The Union Budget 2025-2026 presents a comprehensive strategy aimed at fiscal consolidation, structural reforms, and inclusive growth. The government's commitment to reducing the fiscal deficit to 4.4% of GDP in FY26, down from the revised estimate of 4.8% in FY25, signals a return to fiscal prudence. This is coupled with a 10% increase in capital expenditure, reaching INR11.21 lakh crore (INR11.21trillion), demonstrating a focus on long-term growth drivers.

Fig: Fiscal Deficit at 4.4%, GST Collection up 11% and Capex growth at 10%

	FY24 (A)	FY25 (BE)	FY25 (RE)	FY26 (BE)	FY26 - BE vs RE
Capex (Rs. Trn)	9.5	11.1	10.2	11.2	10%
Fiscal deficit (% of GDP)	5.60%	4.90%	4.80%	4.40%	
Fertilizer subsidy (Rs. Bn)	1,883	1,640	1,713	1,679	-2%
Income tax collection (Rs. Bn)	10,447	11,870	12,570	14,380	14%
Disinvestment Target (Rs. Bn)	331	500	330	470	42%
Healthcare expenditure (Rs bn)	815.94	892.87	880.32	983.11	12%
Net borrowings (Rs. Bn)	11,778	11,632	10,745	11,538	7%
Gross borrowings (Rs. Bn)	15,403	14,010	12,240	14,820	21%
GDP growth (Nominal) (%)	8.80%	11.40%	10.70%	9.00%	
GST collection (Rs. Bn)	9,572	10,619	10,619	11,780	11%
Defence Expenditure (Rs. Bn)	4,447	4,548	4,567	4,917	8%

Source: Budget Document. Budget estimates.

A significant highlight is the substantial overhaul of the personal income tax regime: The introduction of a new tax regime with nil tax up to INR12.00 lakh (INR1.2mn) income and a maximum rate of 30% above INR24lakh (INR2.4mn) aims to boost disposable income and stimulate consumption. The revised tax slabs, ranging from 0% to 30%, coupled with a standard deduction of INR75,000, are projected to benefit a very large segment of taxpayers. The extension of the updated return filing window to 48 months offers greater flexibility to taxpayers. Changes to TDS and TCS thresholds, along with the ability to claim the annual value of two self-occupied properties as zero, further simplify the tax landscape.

Fig: Revised rates under the new regime

New Income bracket	New Rates	Old Income bracket	Old Rates
Rs 0-4 Lakh	0%	Rs 0-3 Lakh	0%
Rs 4-8 Lakh	5%	Rs 3-7 Lakh	5%
Rs 8-12 Lakh	10%	Rs 7-10 Lakh	10%
Rs 12-16 Lakh	15%	Rs 10-12 Lakh	15%
Rs 16-20 Lakh	20%	Rs 12-15 Lakh	20%
Rs 20-24 Lakh	25%	Above Rs 15 Lakh	30%
Above Rs 24 Lakh	30%	-	-

Source: Budget Document. Budget estimates.

The budget reinforces the Government's commitment to infrastructure development with a 10% increase in capital expenditure and INR1.5lakh crore (INR1.5tr) in interest-free loans to states. The emphasis on a three-year pipeline of PPP projects suggests a strategic approach to infrastructure financing. The agriculture sector receives considerable attention with the PM Dhan Dhanya Krishi Yojana, a rural prosperity program, and a six-year plan for pulses self-reliance. The increase in the Kisan Credit Card limit to INR5 lakh aims to support farmers' access to credit.

In other key areas, the budget allocates increased funds to healthcare and defence, with a focus on establishing day-care cancer centers and enhancing military capabilities. The manufacturing sector is targeted through a national manufacturing mission, custom duty reductions, and continued support for the Production Linked Incentive scheme. The FDI limit in the insurance sector has been raised to 100%, signaling a move towards liberalization. Initiatives to revamp the UDAN scheme, develop tourist destinations, and support startups demonstrate a focus on boosting specific sectors.

The budget also outlines various reforms across sectors like power, urban development, mining, and finance. These reforms aim to improve ease of doing business, enhance regulatory frameworks, and attract investments. The emphasis on skill development, education, and digital connectivity underscores the government's focus on human capital development.

From a fiscal perspective, the budget projects gross market borrowings of INR14.8 lakh crore (INR14.8tr) for FY2026. The government's focus on rationalizing the tariff structure, removing multiple tariff rates, and streamlining cess and surcharge levies aims to simplify the indirect tax system.

Sector Specific Analysis:

Agriculture The budget introduces several initiatives aimed at boosting agricultural productivity and rural prosperity. The Prime Minister Dhan-Dhaanya Krishi Yojana will target 100 districts with low productivity, improving irrigation, post-harvest storage, and credit availability for 1.7 crore (17mn) farmers. A six-year mission on self-sufficiency in pulses will focus on climate-resilient seeds, higher protein content, and enhanced procurement by central agencies. Additionally, a National Mission on High-Yielding Seeds will promote research into pest-resistant and climate-resilient varieties. The government has also increased the loan limit under the Kisan Credit Card (KCC) from INR3lakh (INR300,000) to INR5 lakh (INR0.5mn), which could strain asset quality for banks, particularly public sector banks (PSBs). In the cotton sector, a five-year mission aims to improve productivity and promote extra-long staple cotton.

MSMEs MSMEs (Micro, Small and Medium Enterprises), which contribute 36% to manufacturing and 45% to exports, received significant support through enhanced credit and funding schemes. The investment and turnover limits for MSME classification will be raised by 2.5x and 2x, respectively. The credit guarantee cover for micro and small enterprises will double to INR10 crore (INR100mn), while startups will see an increase from INR10 crore to INR20 crore. Exporter MSMEs will benefit from term loans up to INR20 crore. Additionally, 10 lakh micro-enterprises will receive customized credit cards with an INR5lakh (INR0.5mn) limit. A INR1trillion National Manufacturing Mission will support clean-tech industries and further the 'Make in India' initiative.

Investment in Infrastructure and Human Capital The budget emphasizes investments in education, healthcare, and digital infrastructure. Broadband connectivity will be extended to all government secondary schools, while IIT capacity expansion continues, with a focus on five new IITs established post-2014. Medical education sees a 130% rise in seats over the past decade, with an additional 75,000 seats planned in the next five years. Healthcare initiatives include 200 day-care cancer centers in district hospitals. Social security coverage for 10mn gig workers will be expanded through registration on the e-Shram portal. The government has maintained the INR1.5 trillion interest-free loan scheme for states, with INR0.9 trillion already utilized in FY25.

Power Sector The power sector receives a boost through intra-state transmission capacity augmentation, with additional borrowing of 0.5% of GSDP allowed for states based on performance metrics. The government targets 100 GW of nuclear energy capacity by 2047 under the Nuclear Energy Mission for 'Viksit Bharat'.

Leather and Footwear A dedicated scheme for the leather and footwear sector is expected to generate 22 lakh jobs, attract INR4 trillion in investment, and drive exports worth INR1.1 trillion.

Tourism The government plans to develop the top 50 tourism sites, offering performance-based incentives. Bihar, particularly Bodh Gaya, will receive focused attention, aligning with broader tourism expansion initiatives.

Insurance and Financial Sector Reforms The budget proposes increasing the FDI limit in insurance from 74% to 100%, with the requirement that all premiums be invested domestically. While MNC partners have been offloading stakes, this move may not necessarily increase competition. Other financial sector reforms include the establishment of a Partial Credit Enhancement Facility for corporate bonds, a revamped Central KYC registry, and the introduction of an Investment Friendliness Index for states. A High-Level Committee will oversee regulatory reforms, and the fiscal deficit for FY25 is estimated at 4.8% of GDP.

Exports and Trade Facilitation An Export Promotion Mission will streamline access to export credit and cross-border factoring support, benefiting MSMEs. The BharatTradeNet digital infrastructure will facilitate international trade, while upgraded air cargo warehousing facilities will enhance export logistics. A National Framework for Global Capability Centers (GCC) will support states in attracting foreign investment and outsourcing businesses.

Tax Reforms Tax measures include the removal of seven tariff rates for industrial goods, the expansion of duty exemptions for 36 life-saving drugs, and an increase in tax deduction limits for senior citizens. Additionally, the compliance period for small charitable trusts will be extended from 5 to 10 years. The government will also allow taxpayers to claim the annual value of two self-occupied properties without additional conditions. The deadline for filing updated tax returns will be extended from two to four years, while TDS/TCS requirements will be rationalized for ease of compliance.

Overall, the budget attempts to balance fiscal prudence with consumption, savings and growth-oriented measures. The significant tax reforms, coupled with increased capital expenditure and targeted support for key sectors, are designed to stimulate economic activity. The focus on agriculture, MSMEs, and infrastructure development reflects the government's priorities. However, the success of these measures will depend on effective implementation and execution. The budget's ambitious vision of "Viksit Bharat" hinges on achieving these objectives and ensuring that the benefits of growth are shared inclusively across the economy.

Our portfolio reflects our conviction in our bottom-up approach and on exports and domestic sectors viz textiles, pharma, infrastructure, telecom, manufacturing, engineering, construction, and capital goods. We maintain underweight on technology services, metals, energy, and real estate.

We maintain that India's long term growth story is intact, corrections present an opportunity for long term investors.

Ashish A. Wakankar
Founder and Chief Investment Officer
EquiPoise Capital Management Private Limited

February 05, 2025.

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