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Union Budget FY25-26 Analysis

February 2025

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Budget: Key takeaways

- FY26 Union Budget: Good for the bond market and consumption.
- Focus on gradual consolidation and providing a boost to consumption.
- Govt. budgeted GFD/GDP at 4.4%, led by a 10.8% increase in gross tax revenues, a 6.7% increase in revenue expenditure & 10% increase in capex.
- Govt. left corporate tax rates unchanged but raised the exemption & upper limit of various tax slabs for individual income tax.
- Nominal GDP growth is estimated at 10.1%.

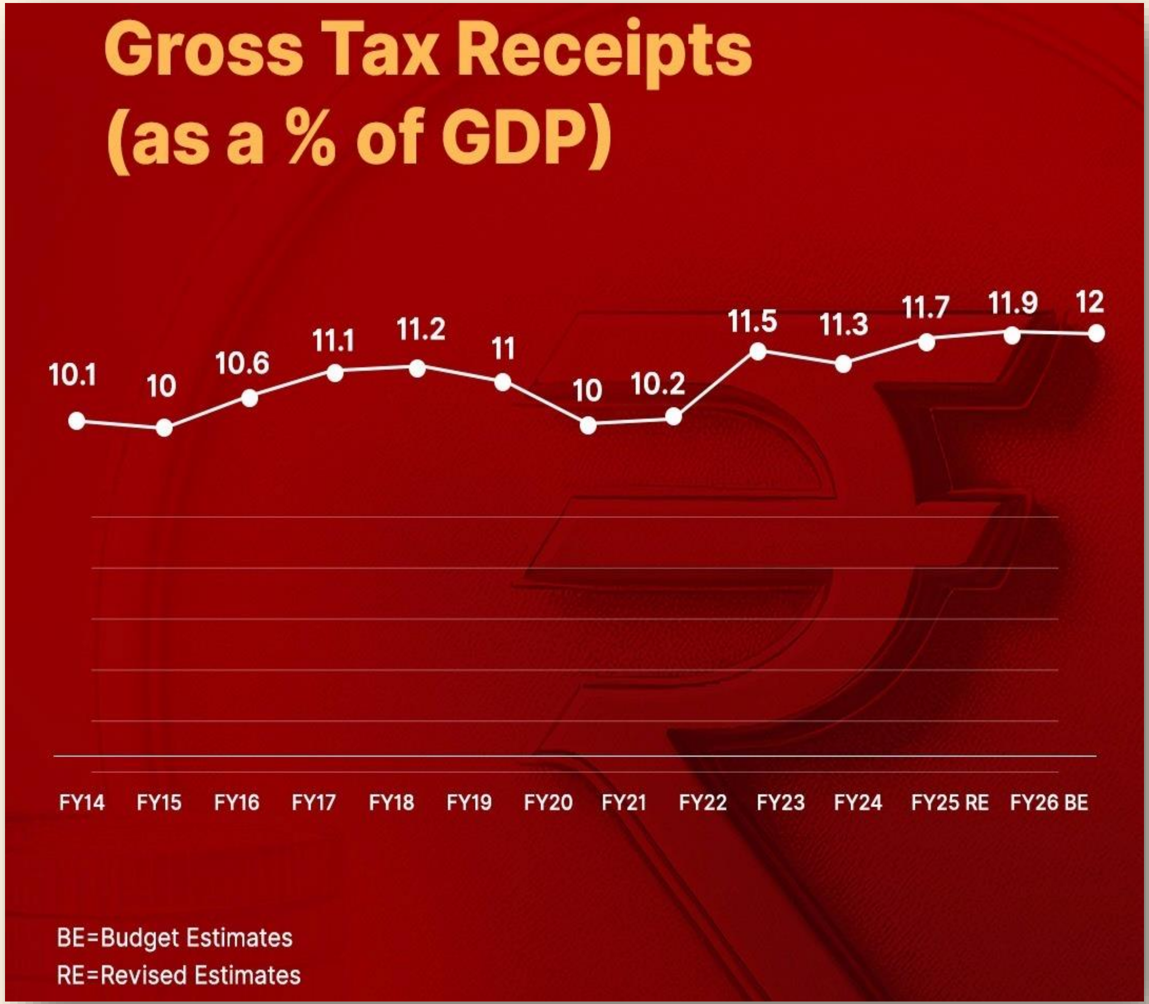
Source: Ministry of Finance, KIE report dated 1st Feb 2025

Budget: Revenue Side

- **Total** revenue receipts to grow 11.1% yoy.
- **Direct tax** revenue growth at 12.6% (10.4% for corp tax & 14.3% for income tax) seems achievable.
- **Indirect tax** growth of 8.3% over FY25RE: CGST/ Custom/ Excise duty growth of 11.3%/2.1%/3.9%.
- **Net tax rev.** pegged at Rs28.4 lakh cr (+11%).
- STT at Rs78k cr for FY26 depends on market conditions.

Source: Ministry of Finance, KIE report dated 1st Feb 2025. https://www.indiabudget.gov.in

Gross Tax Receipts to GDP (%)

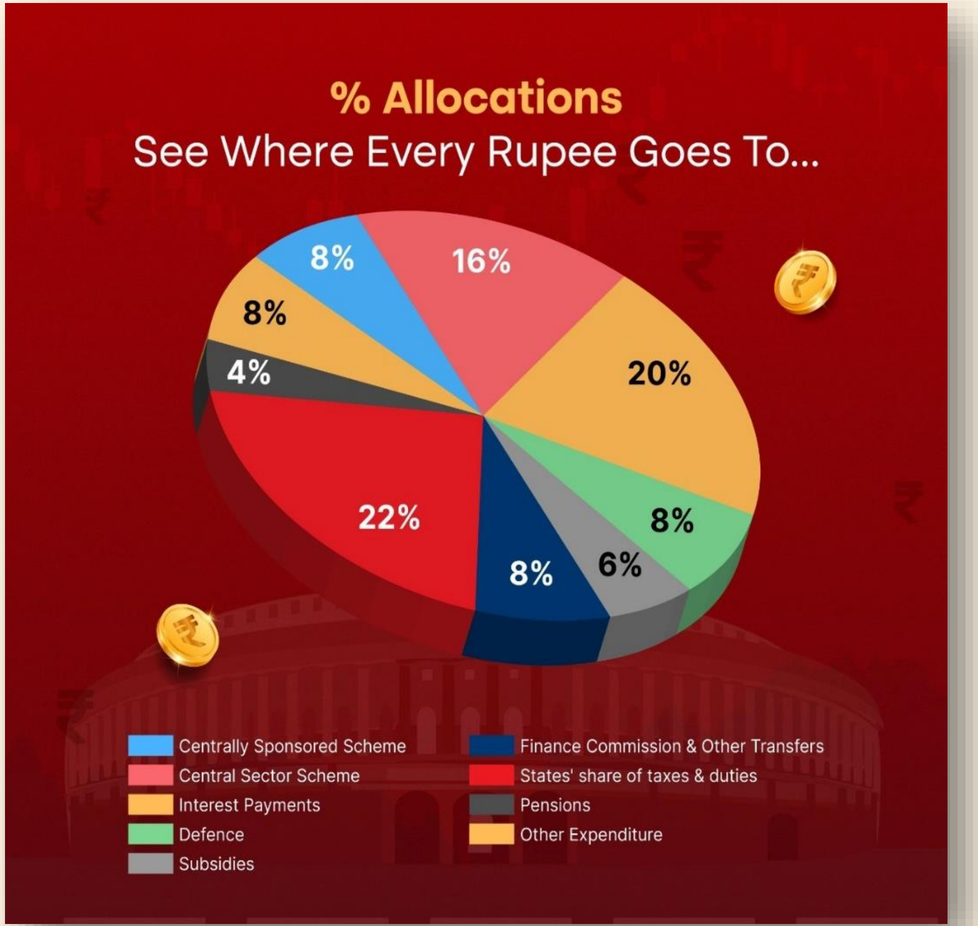


- ❑ The Gross tax receipts (as a % of GDP increased from 11.3% in FY23 to 11.7% in FY24.
- ❑ This is expected to increase further to 11.9% in FY25BE and to 12% in FY26RE.

Source: indiabudget.gov.in

Budget: Expenditure Side

- Tight leash on capex & revenue exp, govt.
- Total Exp. to grow 7.4% yoy for FY26BE
- Revenue exp. to grow muted 6.7% yoy to Rs39.4 lakh cr, only few welfare schemes witnessing a decent rise in allocation.
- Changes to personal income tax rates/slab: Govt. foregone Rs1 lakh cr of tax revenues.
- Nuanced impact on consumption; market reaction



Source: Ministry of Finance, KIE report dated 1st Feb 2025. https://www.indiabudget.gov.in

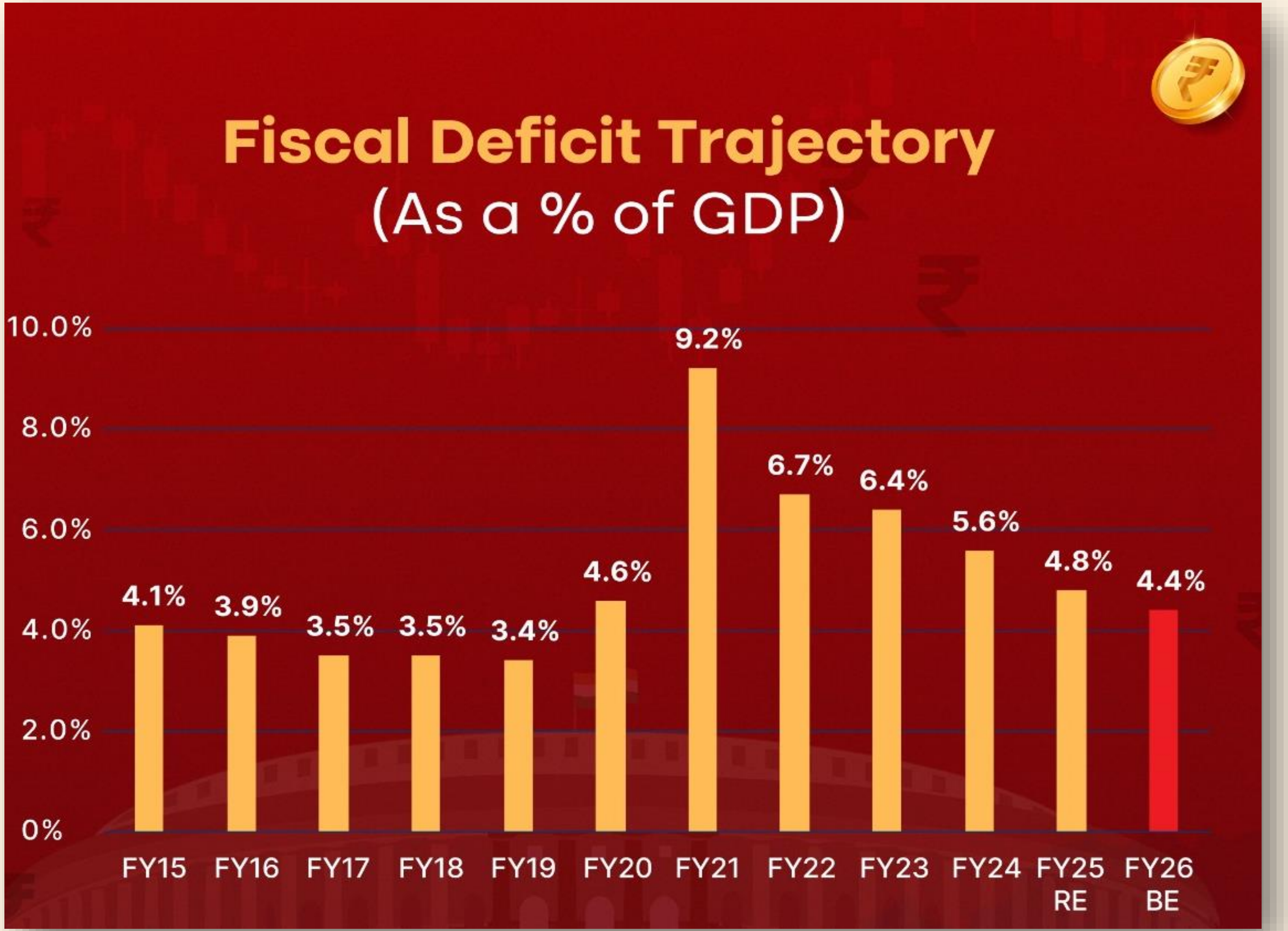
Budget: Deficit

- FY26BE central deficit at 4.4% v/s 4.8% in FY25RE & 5.6% in FY24.
- 11.1% receipt & 7.4% exp. growth, leading to fiscal deficit of Rs15.7 lakh cr.
- We find fiscal deficit target realistic with moderate 10.1% nominal GDP growth.

						Change (%)			
	2023	2024	2025BE	2025RE	2026BE	2023/ 2022	2024/ 2023	2025RE/ 2024	2026BE/ 2025RE
Deficit									
Primary deficit (PD)	8,092	5,908	4,504	4,316	2,926	4	(27)	(27)	(32)
Revenue deficit (RD)	10,699	7,652	5,802	6,101	5,238	4	(28)	(20)	(14)
Gross fiscal deficit (GFD)	**17,378**	**16,546**	**16,133**	**15,695**	**15,689**	**10**	**(5)**	**(5)**	**(0)**
Gross market borrowing (dated securities)	14,210	15,014	14,010	14,005	14,820	47	6	(7)	6
Net market borrowing (dated securities)	11,083	11,778	11,632	11,627	11,538	57	6	(1)	(1)
Short-term borrowing (T-bills/WMA)	1,148	532	(500)	(1,200)	0				
Nominal GDP	**269,496**	**295,357**	**326,369**	**324,114**	**356,979**	**14.2**	**9.6**	**9.7**	**10.1**
PD/GDP (%)	**3.0**	**2.0**	**1.4**	**1.3**	**0.8**				
RD/GDP (%)	**4.0**	**2.6**	**1.8**	**1.9**	**1.5**				
GFD/GDP (%)	**6.4**	**5.6**	**4.9**	**4.8**	**4.4**				

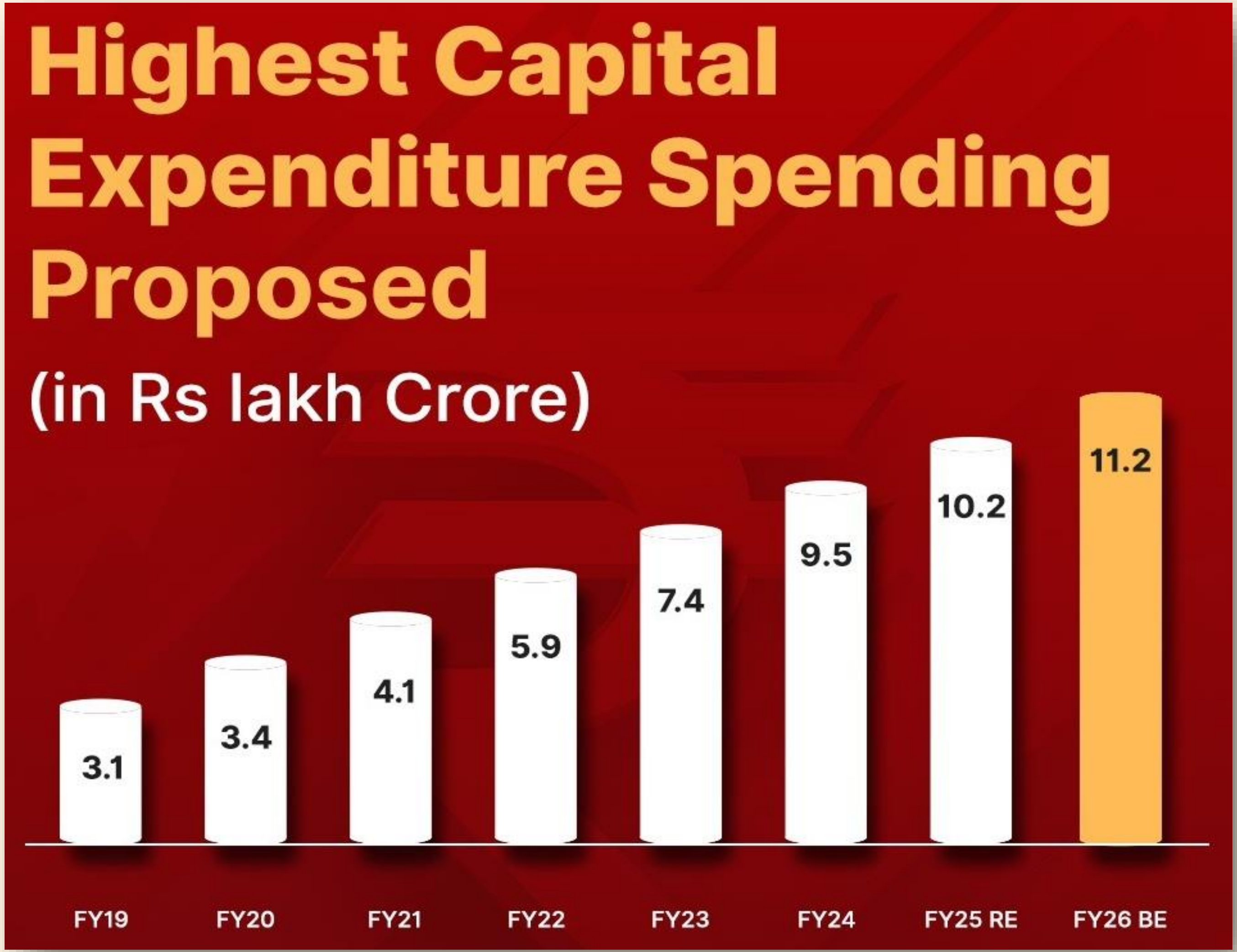
Source: Ministry of Finance, KIE report dated 1st Feb 2025

Fiscal Deficit



Source: indiabudget.gov.in

Capex over the years



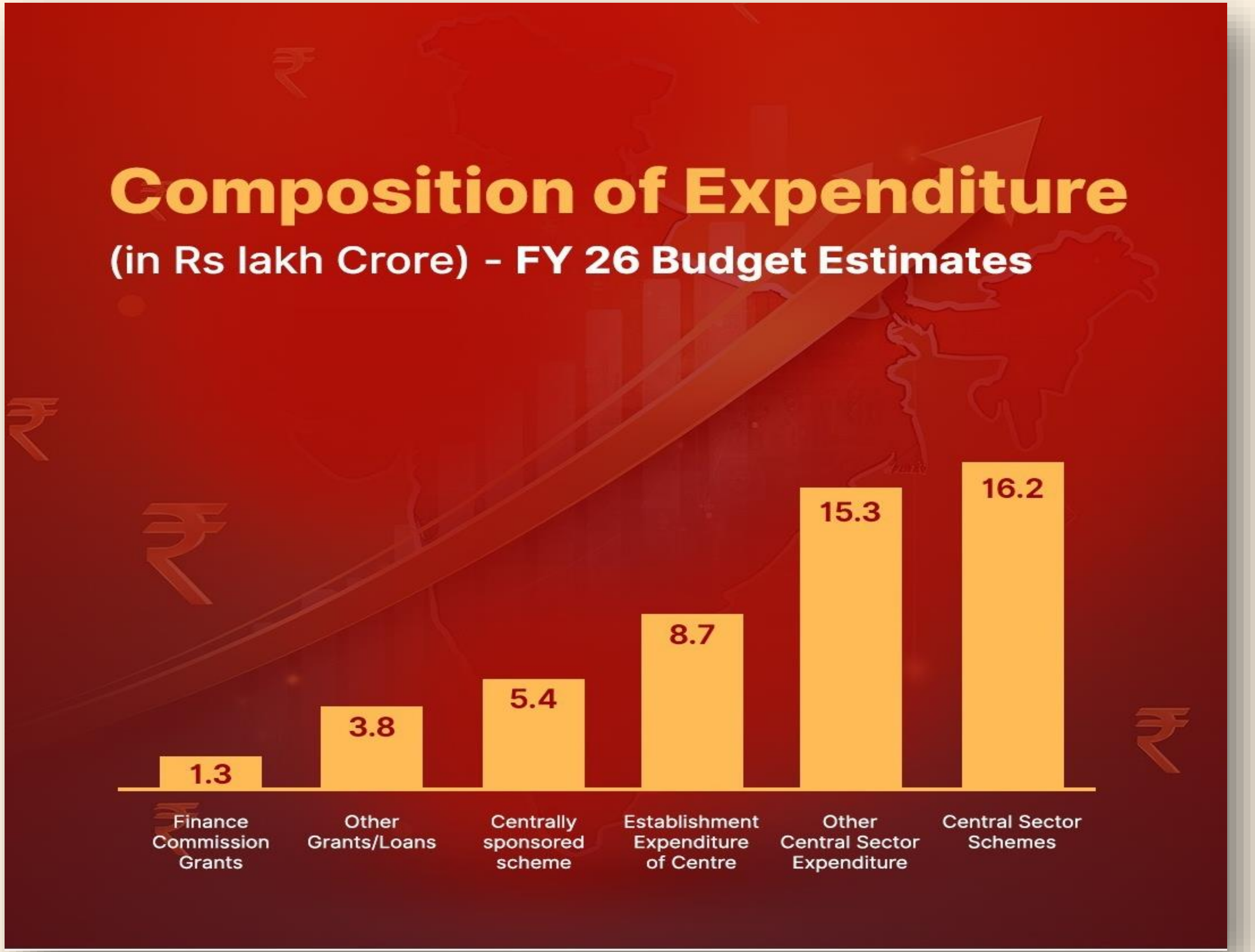
Source: indiabudget.gov.in

Modest growth in capex

- Budgeted 10% growth in capital expenditure for FY26BE to Rs11.2 lakh cr.
- Total PSU capex including IBER at Rs15.5 lakh cr to grow at 10.8% in FY26BE.
- No major increase in capex for major sectors.
- Road Railways flattish; 13%/19% yoy increase for Defence/Housing.
- Bulk of increase is for innovation schemes & allocation to loans for capex to states.
- Government may miss its capex targets again in FY26.
- May struggle to spend in new schemes for Science & technology & Economic affairs.

Source: Ministry of Finance, KIE report dated 1st Feb 2025

Cheese allocation?



Source: Ministry of Finance, KIE report dated 1st Feb 2025. https://www.indiabudget.gov.in

Direct Taxation

- ❑ Introduction of simplified new Income Tax bill next week was by FM.
- ❑ Increased the upper limit for various tax slabs for personal income tax.
- ❑ Made several procedural changes to further simplify filing and improve compliance.
- ❑ Income from ULIPs with annual premiums exceeding ₹2.5 lakh will be taxed as capital gains or income from other sources.
- ❑ Rationalization of Tax Deduction at Source (TDS) by reducing the number of rates and thresholds above which TDS is deducted.

Source: Ministry of Finance, KIE report dated 1st Feb 2025

Change in New Tax Regime

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	Tax structure (with exemption)-old regime	Tax structure(without exemption)-new regime		
	FY2024/FY2025/FY2206	FY2024	FY2025	FY2026
Individual tax rates	Up to Rs250,000 - Nil	Up to Rs300,000 - Nil	Up to Rs300,000 - Nil	Up to Rs400,000 - Nil
	Above Rs250,000 - Rs500,000 - 5%	Above Rs300,000 - Rs600,000 - 5%	Above Rs300,000 - Rs700,000 - 5%	Above Rs400,000 - Rs800,000 - 5%
	Above Rs500,000 - Rs1,000,000 - 20%	Above Rs600,000 - Rs900,000 - 10%	Above Rs700,000 - Rs1,000,000 - 10%	Above Rs800,000 - Rs1,200,000 - 10%
	Above Rs1,000,000 - 30%	Above Rs900,000 - Rs1,200,000 - 15%	Above Rs1,000,000 - Rs1,200,000 - 15%	Above Rs1,200,000 - Rs1,600,000 - 15%
		Above Rs1,200,000 - Rs1,500,000 - 20%	Above Rs1,200,000 - Rs1,500,000 - 20%	Above Rs1,600,000 - Rs2,000,000 - 20%
		Above Rs1,500,000 - 30%	Above Rs1,500,000 - 30%	Above Rs2,000,000 - Rs2,400,000 - 25%
				Above Rs2,400,000 - 30%
Senior citizen (60 years)	Exemption limit - Rs300,000	Exemption limit - Rs300,000	Exemption limit - Rs300,000	Exemption limit - Rs300,000
Very senior citizen (80 years+)	Exemption limit - Rs500,000	Exemption limit - Rs500,000	Exemption limit - Rs500,000	Exemption limit - Rs500,000
Surcharge	10% on income between Rs5 mn and Rs10 mn	10% on income between Rs5 mn and Rs10 mn	10% on income between Rs5 mn and Rs10 mn	10% on income between Rs5 mn and Rs10 mn
	15% on income between Rs10 mn and Rs20 mn	15% on income between Rs10 mn and Rs20 mn	15% on income between Rs10 mn and Rs20 mn	15% on income between Rs10 mn and Rs20 mn
	25% on income between Rs20 mn and Rs50 mn	25% on income above Rs20 mn	25% on income above Rs20 mn	25% on income above Rs20 mn
	37% on income above Rs50 mn			
Cess	4% (health and education cess)	4% (health and education cess)	4% (health and education cess)	4% (health and education cess)

Source: Ministry of Finance, KIE report dated 1st Feb 2025

Indirect Taxation

- 36 new life-saving drugs have been added to the list of medicines exempted from basic customs duty (BCD).
- The duty on cobalt powder, lithium-ion battery waste, lead, zinc, and 12 other critical minerals from 5% to Nil.
- Customs duty on solar modules has been reduced from 40% to 20%, making solar installations more affordable, while on Solar cells has been reduced from 25% to 20% to encourage domestic solar manufacturing.
- Goods used in building launch vehicles and satellite launching facilities are now fully duty-exempt.

Source: Ministry of Finance, KIE report dated 1st Feb 2025

Equities: Outlook & Valuation

- FPIs have sold US$30 bn in secondary market since October 2024.
- "America First" policies of the new US administration creating more uncertainty.
- Risk Reward quiet poor despite recent correction.
- Valuations are high across the board except for financials.
- Large-cap. stocks may hold up better in the next few months.
- FPIs are unlikely to look at India favorably in a hurry.
- Overall, we expect Nifty EPS of 1184 in FY26E and Rs 1355 in FY27E.

Source: KIE report dated 1st Feb 2025

Top Picks

Sector	Stock	Sector	Stock
Auto	M&M	**FMCG**	Pidilite, Dabur, Tata Cons, Sapphire
BFSI	HDFC Bank, Bajaj Fin, Home First	**Capital Goods**	Kalpataru Projects
Tourism	IHCL, Indigo	**IT**	Infosys, Coforge
Healthcare	Apollo Hospitals	**Metals**	Gravita India
Oil & Gas	RIL & ONGC	**Cons Durables**	Eureka Forbes
Real Estate	DLF, Lodha	**Power**	Acme Solar

Source: KIE & Kotak PCG Research

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Sector-wise

Budget Highlights and Impact

Automobiles & Components

- ❑ Reduction in custom duty to 0% from 2.5-10.0% for 25 critical minerals; Reduction in duty of precious metals.
  - Will bring down cost of EV, positive for EV adoption.
- ❑ Revised income tax slabs/increased tax exemption limit in new tax regime.
  - Positive for 2Ws and entry-level passenger vehicles.

Source: KIE report dated 1st Feb 2025

Banking & Financial Services

- ❑ Increase in FDI limit for the insurance sector to 100% from 74%.
  - Neutral for Insurance Industry.
- ❑ Rs3500 cr allocated for the interest subsidy scheme under PMAY-U, up from Rs1500 cr in FY24.
  - Positive for affordable housing finance companies.
- ❑ Rationalization of taxation on ULIPs.
  - Limited impact for life insurance players; positive, at a margin, for policyholders.

Source: KIE report dated 1st Feb 2025

Consumer Staples

- Significant reduction in personal income tax.
  - Higher disposable income will benefit consumer staples and discretionary categories.
- A focus product scheme to enhance productivity, quality and competitiveness of India's footwear and leather sectors.
  - The scheme could benefit Indian footwear players

Source: KIE report dated 1st Feb 2025

Construction Material

- ❑ FY26BE capex outlay for PMAY-G similar to FY25BE (FY25RE came in significantly lower on delayed budget spends).
  - Negative for cement companies; rural housing accounts for around 35% of total cement demand.
- ❑ FY26BE capex outlay for PMAY-U increased by modest 7.4% over FY24.
  - Negative for cement companies; urban housing account for 30% of total cement demand.

Source: KIE report dated 1st Feb 2025

Electronic Manufacturing Services

- Pick-up in discretionary spend for consumer electronics and durables due to lower personal income tax.
  - Positive for B2C EMS players (Dixon, Amber, PG Electroplast, EPACK Durables).
- Reduction in custom duty for open cell from 15%/10% to 5% and increase in custom duty on flat panel imports to 20% from 10%.
  - Should aid flat panel display assembly revenues of players such as Dixon.
- Included 28 additional capital goods for mobile phone battery manufacturing to exempted list.
  - Positive for Dixon Technologies.

Source: KIE report dated 1st Feb 2025

Fertilizers & Agri Chemicals

- Fertilizer subsidy cut marginally to Rs1.68 lakh cr from Rs1.71 lakh cr for FY25RE.
  - Neutral, as any future subsidy requirements are met outside the budget.
- Tariff rate on phosphoric acid reduced to 7.5% from 20.0%.
  - Positive for fertilizer companies.
- New missions created to promote pulses, vegetables, fruits, cotton cultivation.
  - Positive for agri-inputs industry.
- National Mission on Hybrid Seeds created with a small outlay of Rs100 cr.
  - Positive for seed companies such as Kaveri, Rallis and Bayer.
- Several agrochemical active ingredients now explicitly added to the import tariffs list.
  - Neutral-to-negative for agrochemical industry.

Source: KIE report dated 1st Feb 2025

Industrials/infrastructure

- Development of more than 100 GW of nuclear energy by 2047.
  - L&T, BHEL and HCC.
- Rs20,000 cr outlay on indigenous development of Small Modular Reactors.
  - Positive for L&T.
- Jal Jeevan Mission extended until 2028; 100% coverage of potable water.
  - Positive for VA Tech Wabag, L&T, KEC and KPTL.
- Budgeted spending by Railways broadly flat yoy at Rs2.6 lakh cr.
  - Negative for L&T, KEC and KPTL.

Source: KIE report dated 1st Feb 2025

Industrials/infrastructure cont..

- Capital outlay on Reform Linked Distribution Scheme increased.
  - Positive for T&D players such as CG, Siemens, KEC and KPTL.
- Capex outlay on road sector is unchanged at Rs2.72 lakh cr.
  - Negative for GR Infra, Neutral for IRB (BOT & TOT player).
- Shipbuilding Financial Assistance Policy will be revamped.
  - Potential for Cochin Shipyard, Garden Reach & Mazagon Dock.
- Railways signaling spending increased to Rs6800cr.
  - Moderately positive for CG Power, Siemens, KEC and Kaynes.

Source: KIE report dated 1st Feb 2025

Internet Software & Services

- Significant reduction in personal income tax.
    - Reduction in tax rates will increase disposable income in the hands of consumers and boost consumption. Beneficiaries include Zomato, Swiggy, Nykaa, FirstCry.
- Government to set up new fund of funds for startups, with contribution of Rs10000 cr from the government.
    - Positive for early stage start-ups.
- Government to arrange for ID cards and registration on e-Shram portal for gig workers. They will also be provided healthcare under PM Jan Arogya Yojana.
    - Provisions do not include implications for companies who employ gig workers.

Source: KIE report dated 1st Feb 2025

Metals & Mining

- Mining sector reforms, including those for minor minerals, will be encouraged through sharing of best practices and institution of a State Mining Index.
  - Positive commentary for overall sector, though we await tangible progress.
- Policy for recovery of critical minerals from tailings will be brought out.
  - Final policy framework to determine effectiveness.
- Fully exempt waste and scrap of lead/zinc/li-ion battery scrap, cobalt powder and 12 more critical minerals.
  - Positive for recyclers such as Gravita looking to import li-ion scrap for their near-term plans to expand into EV battery recycling.

Source: KIE report dated 1st Feb 2025

Oil, Gas & Consumable Fuels

- LPG subsidy and compensation.
  - Negative. OMCs under-recoveries likely to be ~Rs40,000 cr for FY25.
  - In our view, OMCs will be compensated for LPG only in distress such as in FY23. OMCs making high margins on automobile fuels & fiscal position much stronger.
- No cut in excise duty on CNG.
  - No cut in excise duty on CNG versus expectations of a cut will be a negative for CGDs (IGL & MGL) & overall gas consumption (GAIL & PLNG).

Source: Ministry of Finance, KIE report dated 1st Feb 2025

Pharma & Healthcare

- Full exemption of customs duty for 36 life-saving drugs (including APIs) and reduction of BCD to 5% for six life-saving drugs (including APIs), for diseases such as cancer, rare diseases and severe chronic diseases.
  - Limited impact for pharma as this benefit is to get passed to patients.
- Govt to add ~75k UG & PG seats across medical colleges in next 5 yrs.
  - Better sourcing of qualified medical talent for hospitals.
- Promotion of 'Heal-in-India' campaign and medical tourism partnership, with private sector along with capacity building and easier visa norms.
  - This could aid an impetus to international medical footfalls.

Source: KIE report dated 1st Feb 2025

Pharma & Healthcare cont..

- ❑ Govt to set up 200 oncology day care centers across district hospitals in FY26E.
  - This could help in early diagnosis; not a significant impact on private hospitals.
- ❑ Budget estimate for Ayushman Bharat—PMJAY increased by 24% for FY26E.
  - In line with estimates, given inclusion of coverage for senior citizens under PMJAY.
- ❑ BCD for laboratory chemicals reduced from 150% earlier to 70% now.
  - Marginally lower cost of sourcing for diagnostics companies and CRDMOs. These are a very small part of COGS though.

Source: KIE report dated 1st Feb 2025

Power & Renewables

- Additional borrowing of 0.5% of GSDP will be allowed to states, contingent on sector reforms.
  - Positive: Additional funds could help improve distribution infrastructure.
- Development of at least 100 GW of nuclear energy by 2047.
  - Positive: Enable participation of companies such as NTPC
- Allocation to PM Surya Ghar Muft Bijli Yojana increased to Rs20,000cr in FY26BE from Rs6300cr.
  - Positive for Premier Energies.

Source: KIE report dated 1st Feb 2025

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Real Estate

- ❑ SWAMIH Fund 2 will be established as a blended finance facility.
  - Positive: To address liquidity constraints of the marginal developer.
- ❑ National Fund to guide states for promoting GCC in emerging tier-2 cities.
  - Positive for commercial real estate.
- ❑ Allowance of second-self-occupied property without conditions for computing income from house property.
  - Positive: May encourage demand for housing properties.

Source: KIE report dated 1st Feb 2025

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ADD	–	We expect the stock to deliver 5% - 15% returns over the next 12 months
REDUCE	–	We expect the stock to deliver -5% - +5% returns over the next 12 months
SELL	–	We expect the stock to deliver < -5% returns over the next 12 months
NR	–	**Not Rated.** Kotak Securities is not assigning any rating or price target to the stock. The report has been prepared for information purposes only.
SUBSCRIBE	–	We advise investor to subscribe to the IPO.
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NM	–	**Not Meaningful.** The information is not meaningful and is therefore excluded.
NOTE	–	Our target prices are with a 12-month perspective. Returns stated in the rating scale are our internal benchmark.

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