Union Budget 2025-26

"Balancing consumption push with fiscal prudence"

Varun Lohchab, Head – Research
varun.lohchab@hdfcsec.com

Amit Kumar, CFA
amit.kumar1@hdfcsec.com

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Balancing consumption push with fiscal prudence

- The FY26 Union budget unequivocally reflected its focus on uplifting struggling consumption in the country with favourable income tax slabs, TDS & TCS limit changes, increased planned expenditure on rural development and agriculture. These are expected to increase disposable income of the middle class and fuel consumption. Further, ongoing capex strategy of centre remains steady with 10.1% growth in FY26BE vis-à-vis FY25RE, in line with nominal GDP growth.
- Incentivising MSME by improving access to credit and reclassification of turnover limits will boost growth and help generate employment. Also, healthcare for gig workers and support to sectors such as tourism, toys and footwear will generate employment. This in turn will also help boost consumption cycle.
- Witnessing domestic consumption reeling under inflationary pressure, union budget has offered favourable income tax slabs for all brackets which will boost disposable income of consumers. The ceiling of income tax exemption has been increased from INR 7 lakhs to INR 12 lakhs. This would reduce tax burden on consumers with a peak benefit of INR 1.1 lakh per annum for an individual earning INR 24 lakhs per annum. This policy will mean a revenue loss of INR 1 trn to the government.
- On key expenditures front, budget has outlined rise in allocations towards rural development (~40% growth in FY26BE as against FY25Re) and agriculture (+21% growth in the same period). These are expected to support consumption too.
- The capex budget is estimated to grow by 10.1% to INR 11.2 trn in FY26BE as against INR 10.2trn achieved in FY25RE (~92% of FY25BE). With IEBR, Capex is estimated to grow to INR 13.7trn in FY26BE (+8.5% as against FY25RE). While overall capex budget is estimated to grow steadily, it tracked below market expectations and focus within sectors have changed significantly.
- Allocations towards roads and railways have taken a back seat with flattish growth but capex for HUDCO (~48%) and urban development i.e. metros (~35%) are estimated to show rapid growth in FY26BE as against FY25RE. PMAY (Urban & rural together ~60%), PMGSY i.e. rural roads (~38%), power (~20%) and defence (~13%) are other capex growth contributors. Loans to states for capex grew by 20% in FY26BE to INR 1.5 trn vis-à-vis FY25RE.
- Subsidies towards fertiliser, food and petroleum are projected to stay flat at INR 3834 bn in FY26BE as against FY25RE. Food subsidy budget will rise by INR 60bn to INR 2034 bn in FY26BE coupled with lower allocations towards fertiliser and petroleum.
- The downward revision of the fiscal deficit for FY25RE at 4.8% from 4.9% projected FY25BE was a positive surprise. The savings emanated from subdued effective capital expenditure at INR 13.2 trn in FY25RE (-12.2% vis-à-vis FY25BE). Revenue receipts (tax & non tax) as well as revenue expenditure were broadly in line with estimates. Continuing with demonstrated fiscal prudence so far, government has estimated fiscal deficit for FY26BE at 4.4% of GDP, which is 10 bps lower than target of 4.5% set in earlier budgets.
- The fiscal deficit estimate for FY26BE rests on key assumptions: (i) realistic nominal GDP growth of 10.1% in FY26BE (9.7% in FY25RE); (ii)11% YoY higher net tax revenue receipt to Center, ahead of nominal GDP growth, led by ~12.7%, 3.1% and 10.9% YoY growth in direct tax, customs & excise and GST respectively; and (iv) RBI and PSU dividend of INR 3.25 trn,. Further, Gross tax to GDP is projected to rise to 12.0% in FY26BE from 11.9% in FY25RE (Direct tax growing by 20 bps to 7.1%, indirect tax flat).

RE.: Revised estimates; BE: Budget estimates

Balancing consumption push with fiscal prudence

- In our view, net tax revenue to Center has downside risk as capital gains in FY26BE are expected to be muted due to subdued markets. Further individual income tax collections growth target of 14.4% would be a steep ask given approx. INR 1 trn of revenue forgone, due to tax slab changes. RBI dividend of INR 2.6 trn is an optimistic estimate, as well. Apart from that, we believe corporate income tax and GST collection estimates are realistic. Nominal GDP growth of 10.1% in FY26BE on a base of 9.7% in FY25 is realistic too as lower inflation and rising consumption would help. So, fiscal deficit targets are expected to be met broadly.
- For financing this fiscal deficit, gross market borrowing is projected to increase to INR 14.8trn in FY26BE vis-à-vis INR 14.0trn in FY25RE. Further, net borrowing is expected to decline marginally to INR 11.54 trn and reliance on small savings securities is on a reducing trend. We believe lower fiscal deficit of FY25RE and further lower estimates for FY26BE (by 40 bps) will help 10-year bond yield to move lower in the medium term.
- **Key policy announcements:**
  - **Changes in tax slabs (new tax regime):** Tax exemption limit increased from INR 7 lakhs to INR 12 lakhs. Further, slab changed to 5% tax slab for INR 4-8 lakhs, 10% for INR 8-12 lakhs, 15% for INR 12-16 lakhs, 20% for INR 16-20 lakhs, 25% for INR 20-24 lakhs, 30% above INR 24 lakhs annual income. Peak potential of saving tax of INR 110,000 p.a for INR 24 lakhs annual income.
  - **Lifesaving medicines:** 36 lifesaving medicines in exempted list, 6 medicines in 5% duty list
  - **Focus on development in Bihar:** Makhana board to be set up , greenfield airports to be built, support for western Koshi Canal projects and expansion of capacity in IITs in Bihar
  - **Online platform workers**: Registration on e-shram portal and healthcare under PM Jan Arogya Yojna
  - **Insurance :** FDI limit raised from 74% to 100%.
  - **Udaan Scheme**: Regional connectivity to 120 new destinations and carry 4 crore passengers in the next 10 years.
  - **Footwear & leather sector:** Focus product scheme , which will facilitate employment for 22 lakh persons and boost exports
  - **Jal Jeevan Mission:** to achieve 100% coverage, the mission is extended till 2028 with an enhanced outlay
- Union Budget FY26 reflects the government's undeterred focus on uplifting economy. Current budget marks an opportune shift in strategy wherein pain of the struggling consumption sector has been given due attention while not losing focus from the capex theme which has long term positive implications. Further, it is commendable that fiscal deficit has been on a steady downtrend.
- Overall, in our view, the government has delivered a balanced budget with prudent fiscal deficit estimations. Increase in tax compliance due to favourable tax norms could come as a positive surprise.
- **Sector impact:** Positive for consumer discretionary and staples, Automobiles, Real estate, Agriculture.

Receipt Budget Reclassified

Growth in tax collections buoyant and creating fiscal room for expenditure

Particulars (Rs Bn)	FY24A	*YoY Change*	FY25RE	*YoY Change2*	FY26BE
Income Tax - Corp	9,111	*7.6%*	9,800	*10.4%*	10,820
Income Tax - Individual	10,452	*20.3%*	12,570	*14.4%*	14,380
Total Income Tax	**19,562**	***14.4%***	**22,370**	***12.7%***	**25,200**
Customs	2,331	*0.8%*	2,350	*2.1%*	2,400
Excise + Service Tax, etc.	3,097	*0.1%*	3,101	*3.9%*	3,221
GST	9,572	*10.9%*	10,619	*10.9%*	11,780
Taxes on UT	92	*2.3%*	95	*7.2%*	101
Total Indirect Tax	**15,093**	***7.1%***	**16,165**	***8.3%***	**17,502**
Total Tax Collected	**34,655**	***11.2%***	**38,535**	***10.8%***	**42,702**
Less: States' share, etc.	11,383	*13.9%*	12,965	*10.5%*	14,328
Net Tax Revenues	**23,273**	***9.9%***	**25,570**	***11.0%***	**28,374**
Interest, dividend, grants	2,102	*54.4%*	3,245	*15.2%*	3,739
Others	1,916	*7.8%*	2,065	*1.3%*	2,091
Non Tax Revenues	**4,018**	***32.2%***	**5,310**	***9.8%***	**5,830**
REVENUE RECEIPTS	**27,290**	***13.2%***	**30,880**	***10.8%***	**34,204**
Debt Receipts (Net)	16,538	*-8.2%*	15,176	*3.2%*	15,665
Non-debt receipts	598	*-1.3%*	590	*28.8%*	760
CAPITAL RECEIPTS	**17,136**	***-8.0%***	**15,766**	***4.2%***	**16,425**
Draw down of cash	**8**	***6442.9%***	**520**	***-95.2%***	**25**
TOTAL RECEIPTS	**44,434**	***6.1%***	**47,165**	***7.4%***	**50,653**

Expenditure Budget Reclassified

Rural development and agriculture take front stage; transport growth muted and telecom declines

Particulars (Rs Bn)	FY24A	YoY Change	FY25RE	YoY Change2	FY26BE
EXPENDITURE HEAD					
Interest	10,639	7.0%	11,379	12.2%	12,763
Transport	5,268	2.8%	5,414	1.3%	5,486
Defence	4,447	2.7%	4,567	7.7%	4,917
Rural Development	2,412	-20.9%	1,907	39.9%	2,668
Pension	2,383	15.4%	2,751	0.6%	2,766
Tax Administration	1,913	8.7%	2,080	-10.3%	1,866
Agriculture & allied/PM-KISAN	1,460	-3.5%	1,409	21.7%	1,714
Home affairs	1,969	11.9%	2,204	5.8%	2,332
Education	1,234	-7.5%	1,141	12.8%	1,287
IT & Telecom	823	43.3%	1,179	-19.1%	953
Health	816	7.9%	880	11.7%	983
Finance	234	171.4%	635	-0.9%	629
Urban Development	686	-7.1%	637	52.0%	968
Energy	524	21.0%	634	28.0%	812
Social Welfare	421	10.5%	465	29.2%	601
External affairs	289	-12.6%	253	-18.8%	205
Others	4,795	20.9%	5,797	1.2%	5,868
SUBSIDIES	**4,123**	-7.0%	**3,834**	0.0%	**3,834**
Fertilizer	1,883	-9.0%	1,713	-2.0%	1,679
Food	2,118	-6.8%	1,974	3.0%	2,034
Petroleum	122	20.1%	147	-17.7%	121
TOTAL	**44,434**	**6.1%**	**47,165**	**7.4%**	**50,653**

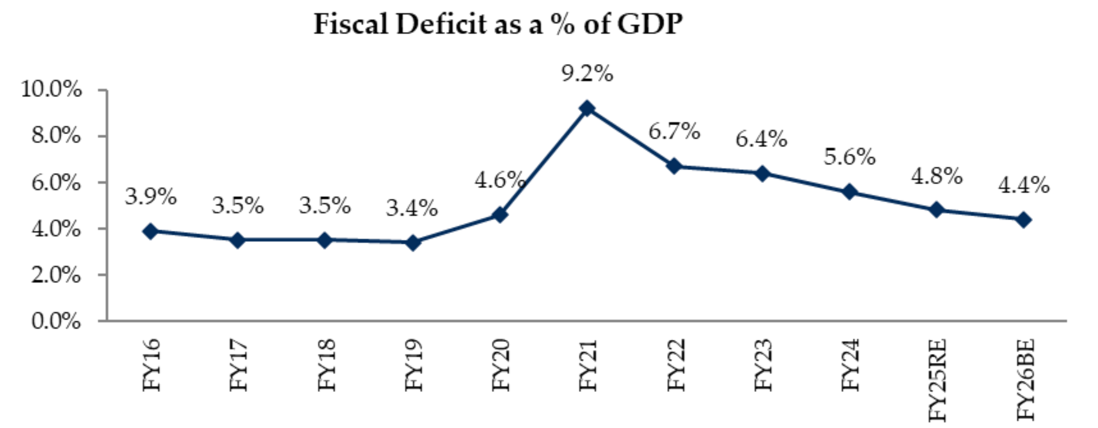
Scheme Outlay

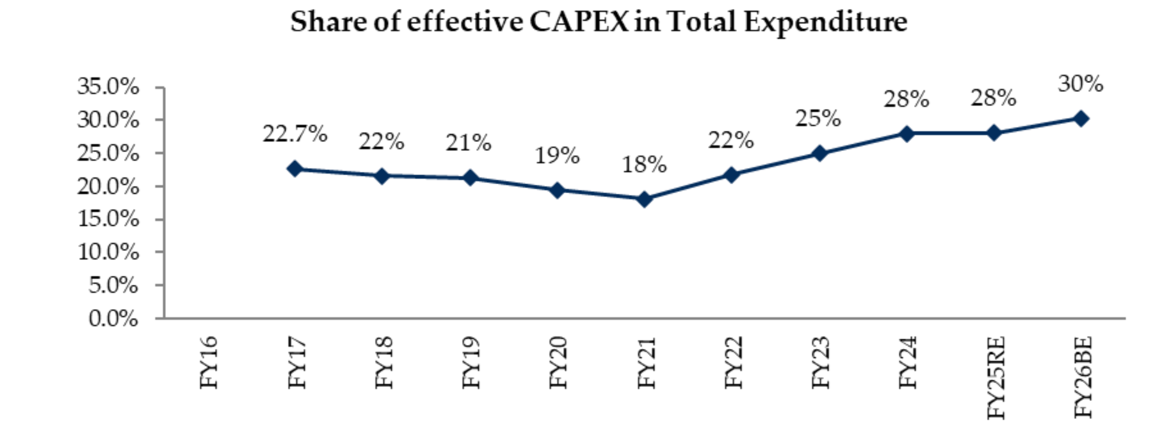
PMGKAY , NHAI and railways growth muted but PMAY ,Jaljeevan and metro projects grow strongly

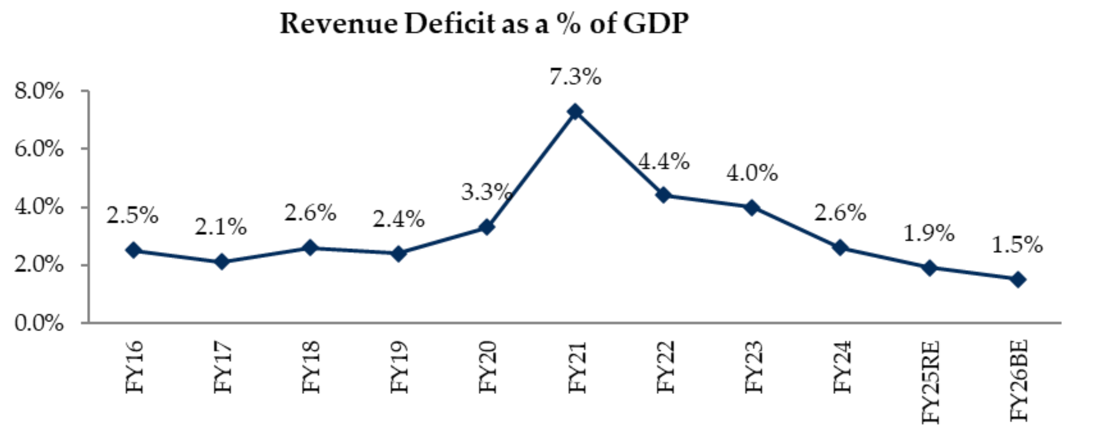
Particulars (Rs Bn)	FY24A	*YoY Change*	FY25RE	*YoY Change2*	FY26BE
Pradhan Mantri Garib Kalyan Anna Yojana (PMGKAY)	2,123	*-7%*	1,970	3%	2,030
National Highways Authority of India	1,674	*1%*	1,694	1%	1,703
Urea and Nutrient based subsidy	1,883	*-9%*	1,713	-2%	1,679
Railways	2102	*1%*	2,128	0%	2,136
Road Works(MoRTH)+Road safety works	1,148	*3%*	1,181	4%	1,233
Mahatma Gandhi National Rural Employment Guarantee Program	892	*-4%*	860	0%	860
Pradhan Mantri Awas Yojna (PMAY)	435	*10%*	476	64%	781
Jal Jeevan Mission (JJM)	700	*-68%*	227	195%	670
Pradhan Mantri Kisan Samman Nidhi (PM-Kisan)	614	*3%*	635	0%	635
Health related policies	437	*12%*	489	11%	543
Metro projects	195	*27%*	247	27%	312
Pradhan Mantri Gram Sadak Yojna	154	*-6%*	145	31%	190
Production linked incentives (PLI)(Pharma, Electronics, Food, Auto,Textiles)	65	*39%*	90	84%	166
Swachh Bharat Mission	89	*5%*	94	30%	122
Pradhan Mantri Krishi Sinchai Yojna	77	*10%*	84	28%	108
AMRUT and Smart Cities Mission	136	*-41%*	80	25%	100
Solar Power (Grid)	50	*-74%*	13	15%	15
Faster Adoption and Manufacturing of Electric Vehicle (FAME)	39	*-48%*	21	NA	-
Augmentation of telecom infrastructure	20	*585%*	137	107%	284

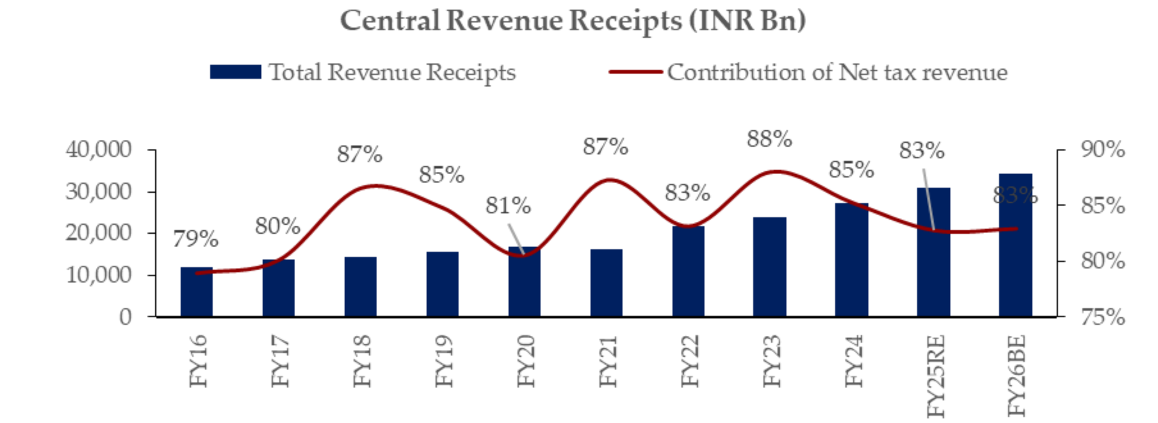
Focus charts

The fiscal deficit on a moderating path; capex allocation grows ahead steadily



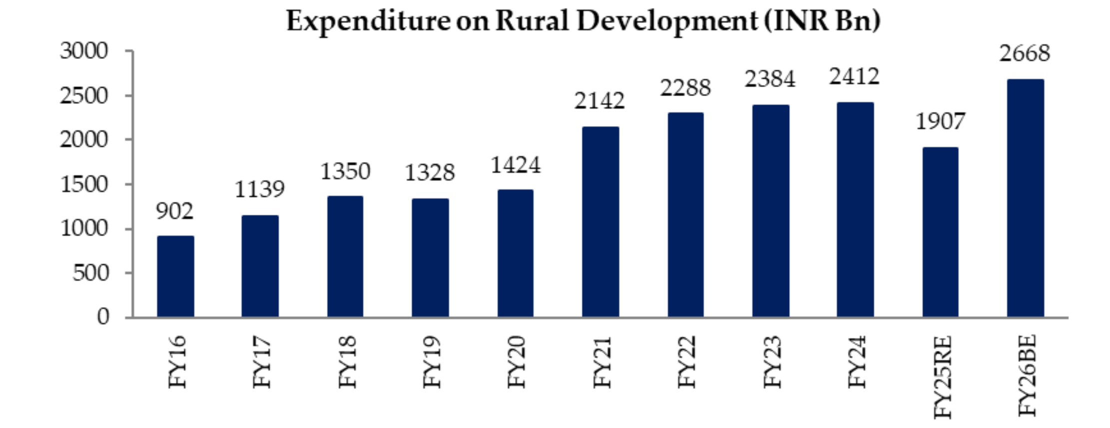


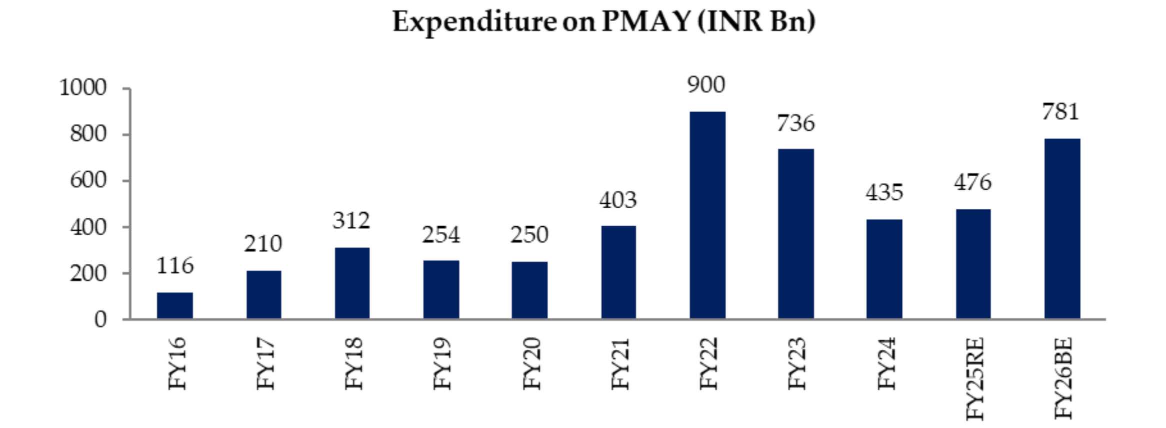


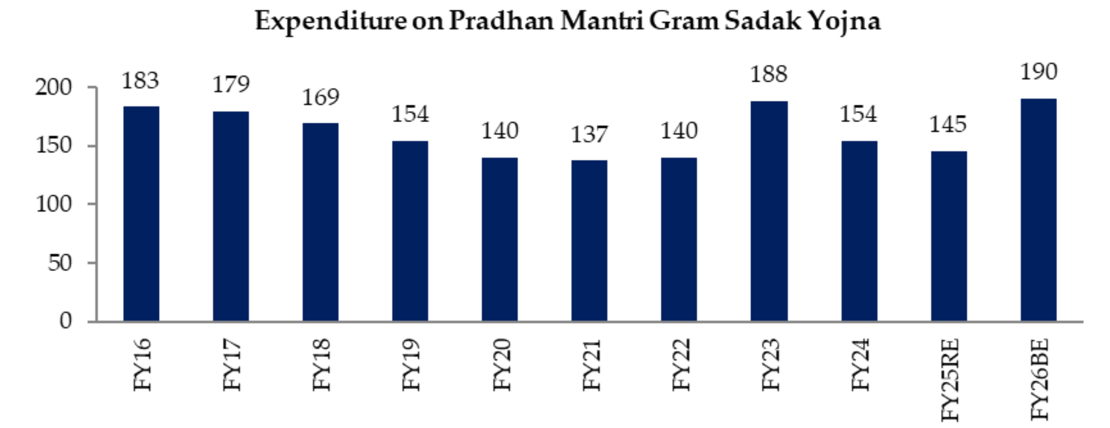


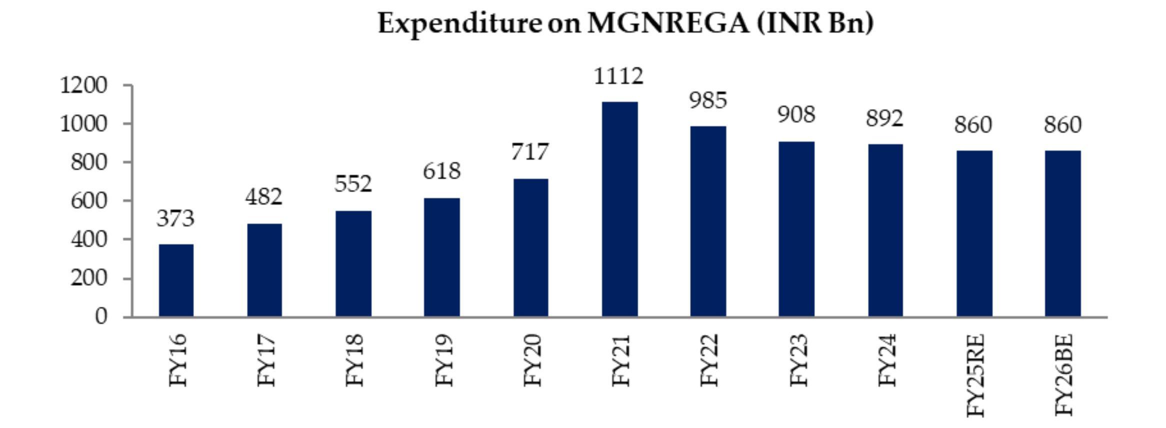
Focus charts

Rural development, PMAY and rural roads see strong allocations; MGNREGA subdued









(Values are in Rs Bn)

Contributing analysts

INDUSTRY	ANALYST	EMAIL ID	PHONE NO.
Head - Research (Consumer, Strategy)	Varun Lohchab	varun.lohchab@hdfcsec.com	+91-22-6171-7334
Strategy, Hotels	Amit Kumar,CFA	amit.kumar1@hdfcsec.com	+91-22-6171-7354
AMCs, Brokerages, Insurance	Krishnan ASV Shobhit Sharma	venkata.krishnan@hdfcsec.com shobhit.sharma@hdfcsec.com	+91-22-6171-7314 +91-22-6171-7341
Autos	Hitesh Thakurani Maitreyee Vaishampayan	hitesh.Thakurani@hdfcsec.com maitreyee.vaishampayan@hdfcsec.com	+91-22-6171-7350 +91-22-6171-7308
Banks, NBFCs	Krishnan ASV Deepak Shinde Akshay Badlani Keshav Maheshwari	venkata.krishnan@hdfcsec.com deepak.shinde@hdfcsec.com akshay.badlani@hdfcsec.com keshav.maheshwari@hdfcsec.com	+91-22-6171-7314 +91-22-6171-7323 +91-22-6171-7325 +91-22-6171-7325
Cement & Building Materials	Rajesh Ravi Keshav Lahoti Riddhi Shah	rajesh.ravi@hdfcsec.com keshav.lahoti@hdfcsec.com riddhi.shah@hdfcsec.com	+91-22-6171-7352 +91-22-6171-7353 +91-22-6171-7359
Construction & Infrastructure, Capital Goods, Real Estate	Parikshit Kandpal, CFA Jay Shah Aditya Sahu	parikshit.kandpal@hdfcsec.com jay.shah1@hdfcsec.com aditya.sahu@hdfcsec.com	+91-22-6171-7317 +91-22-6171-7358 +91-22-6171-7338
Consumer	Vishal Gutka Anuj D	vishal.gutka@hdfcsec.com anuj.d@hdfcsec.com	+91-22-6171-7324 +91-22-6171-7357
IT Services & Exchanges	Amit Chandra Vinesh Vala Dhananjay Jain	amit.chandra@hdfcsec.com vinesh.vala@hdfcsec.com dhananjay.jain@hdfcsec.com	+91-22-6171-7332 +91-22-6171-7328 +91-22-6171-7339
Oil & Gas, Chemicals	Harshad Katkar Nilesh Ghuge Dhawal Doshi Prasad Vadnere	harshad.katkar@hdfcsec.com nilesh.ghuge@hdfcsec.com dhawal.doshi@hdfcsec.com prasad.Vadnere@hdfcsec.com	+91-22-6171-7319 +91-22-6171-7342 +91-22-6171-7338 +91-22-6171-7330
Retail & Fashion, Paints	Jay Gandhi Vedant Mulik	jay.gandhi@hdfcsec.com vedant.mulik@hdfcsec.com	+91-22-6171-7320 +91-22-6171-7348
Pharma	Mehul Sheth Divyaxa Agnihotri	mehul.sheth@hdfcsec.com divyaxa.agnihotri@hdfcsec.com	+91-22-6171-7349 +91-22-6171-7362

Automobiles and Ancillaries

Budget Highlights	Impact	Recommendations
▪ Income tax slab changes and no income tax payable upto normal income of Rs 12lakhs (other than capital gains income)	▪ Change in income tax slabs with focus on middle class will increase disposable income, providing a much-needed boost to consumption, especially for the entry-level vehicles. This will also partially help address the affordability gap that has remained enhanced due to much higher vehicle cost inflation as against wage/salary inflation.	▪ Positive for companies selling entry-level cars and two wheelers, like Maruti Suzuki and Hero MotoCorp.
▪ PM Dhan-Dhaanya Krishi Yojana to cover 100 districts with low productivity, National Mission for Edible oilseed to achieve atmanirbharta in edible oils, Rural Prosperity and Resilience, and Modified Interest Subvention Scheme.	▪ Will help address under-employment in agriculture, and also help increase income of the farmers.	▪ Positive for companies selling entry-level cars, two wheelers and tractors, like Maruti Suzuki, Hero MotoCorp, and Mahindra & Mahindra.
▪ BCD being reduced for motorcycles in CBU form, from 50% to 40% for engine capacity < 1,600cc and from 50% to 30% for engine capacity more than or equal to 1,600cc.	▪ Could ease some tariffs related tensions between US and India, wherein president Donald Trump has voiced his opinion of tariffs for the Harley Davidson motorcycles being too high. This could now lower the threat of US retaliating with tariffs on the Indian auto sector.	• There is not much exports of higher cc bikes from India to US. Though it could lower the probability of tariffs on other auto and ancillary players that are exporting to the US, and hence positive for them.
▪ Seeks to add capital goods to the already existing list of capital goods exempted from BCD for manufacture of lithium-ion battery of electrically operated vehicles. Additionally, BCD is being reduced from 5% to Nil on Lithium-Ion Battery waste and scrap.	▪ Will help reduce the cost of manufacturing of EV batteries domestically, as most of the equipment is being imported currently. The duty exemption on critical minerals to manufacture EV batteries will further help lower the cost as well as improve the availability of the raw materials.	▪ Positive for those who are in the process of setting up or expanding EV battery manufacturing.

Automobiles and Ancillaries

Budget Highlights	Impact	Recommendations
▪ The budgeted capex stands at Rs 11.21 tn, which is 10% above FY25 revised estimate but just 1% above the FY25 budgeted estimate.	▪ Though the capex growth may seem lower compared to the FY25 budgeted estimate, it is still substantial.	▪ Expectation of better execution of the budgeted capex augurs well for companies driven by higher infrastructure and construction activities, like Ashok Leyland.
▪ Allocation to PLI for Automobile and Auto components stands at Rs 28.2bn, which is below the FY25BE of Rs 35bn though above the FY25RE of Rs 3.5bn.	▪ This indicates slower progress of the PLI scheme, thus also indicating challenges of certain companies to keep up with the PLI milestones.	

BFSI | Leveraged Financials

Budget highlights	Impact	Recommendations
▪ Capex outlay (including IEBR) increased from INR12.6trn (FY25 RE) to INR13.7trn (FY26 BE) (+8.5% YoY). Over 50% of the capex mix is directed towards three sectors: Defence (16%), Roads (25%), and Railways (24%)	▪ This has a multiplier effect for lending institutions, especially corporate-facing institutions financing large projects as well as suppliers; awaiting an inflexion point for private sector capex	▪ Positive growth catalyst for corporate-facing lenders such as SBIN, ICICIBC, and other PSU banks
▪ **PMAY-G**: Provision for FY26BE increased marginally to INR548bn vs. INR 545 bn for FY25BE (FY25RE: INR324bn)	▪ While expenditure in FY25RE is lower, sharp increase in provision for FY26BE is positive for lenders in affordable housing space in rural segment (individuals)	▪ Positive for affordable-focused HFCs in rural segment such as APTUS etc.
▪ **PMAY-U:** Provision for FY26BE increased to INR 35bn for Interest subsidy scheme (EWS, LIG and MIG) segments vs. INR 15bn for FY25RE	▪ This scheme would improve the viability for purchasing a new home for EWS, LIG and MIG segments, through the credit linked subsidy	▪ Positive for affordable-focused HFCs such as AAVAS, HOMEFIRST, CANF
▪ **SWAMIH Fund II** with a corpus of INR 150bn to provide blended finance facility for stressed projects (100K units) with contribution from government, Banks and private investors	▪ This will provide last mile funding to developers in resolution of stranded projects	▪ Positive for HFCs with high corporate NPAs such as PNBHOUSNG, LICHF, PIRAMAL etc.

BFSI | Leveraged Financials

Budget highlights	Impact	Recommendations
▪ **MSMEs:** Investment and turnover limits for qualifying as MSMEs enhanced by 2.5x and 2x respectively	▪ Increasing gambit of entities qualifying as MSMEs, leading to high number of entities getting benefits of MSME schemes	▪ Beneficial for large and mid-size MSME lenders such as KVB, CUBK and DCBB
▪ Credit guarantee scheme cover for MSEs enhanced from INR 50 mn to INR 100 mn and cover for term loans up to INR 200mn for well-run exporter MSMEs	▪ Will enhance lending to MSMEs by Banks and NBFCs owing to lower counterparty risk and higher guarantee	▪ Growth catalyst for large and mid-sized MSME lenders
▪ Enhanced KCC loan limit under modified interest subvention scheme from INR 300K to INR 500K	▪ Might lead to marginal uptick in KCC loans; marginally negative for PSBs and private banks due to higher stress in the KCC portfolio	▪ Negative for Banks such as SBIN and ICICIBC
▪ Customised credit cards with a limit of up to INR 500K for micro enterprises registered on Udyam portal (1mn cards to be issued in 1st year)	▪ Access to working capital credit for micro enterprises; will provide growth opportunity for credit card issuers	▪ Positive for credit card issuers such as SBICARD, ICICIBC and PSBs; although asset quality could be a challenge
▪ PM SVANidhi scheme revamped with enhanced loans from banks and UPI linked credit cards with INR 30K limit	▪ Greater access to credit (including unsecured) for large informal segment; growth opportunity for credit card issuers and lenders	▪ Positive for growth for credit card issuers, particularly PSBs, although asset quality could be a challenge

BFSI I Non-Leveraged Financials

Budget highlights	Impact	Recommendations
▪ FDI limit in insurance sector increased from 74% to 100%	▪ Unlikely to have any material impact, as despite the current limit of 74%, very few foreign players have invested in India due to regulatory uncertainty	▪ Limited impact on sector, we recommend SBILIFE, ICICIGI and STARHEAL as our top picks
▪ Clarified on taxation of redemption proceeds of high ticket ULIP's (annual premium > INR 250K)	▪ Clarified to be taxed as a capital asset; hence would attract capital gains tax, resulting in lower taxability vs. income tax slab rate; investments in ULIP continue to remain attractive vs. mutual funds	▪ Positive for listed life insurers such as SBILIFE, IPRU
▪ Rationalisation of personal income tax rates under new tax regime with benefits of INR 30K – INR 110K to taxpayers	▪ Increase in disposable income of taxpayers, which is likely to increase flows into mutual funds and insurance policies	▪ Positive for insurance companies such as SBI Life, ICICIGI and STARHEAL and AMCs such as NAM India and ABSLAMC

Cement and Building Materials

Budget Highlights	Impact	Recommendations
▪ As per FY25RE, Ministry of Road Transport and Highways (MORTH) expenditure on road projects grew 3% YoY to INR 2725bn. For FY26BE, this amount is kept flattish at INR 2722bn.	▪ While allocation has been higher, there is no growth both in FY25 and FY26E. Higher allocation towards highways boost cement and building materials demand both directly and indirectly.	▪ Neutral
▪ Fund allocation under PMAY (Urban) has declined for 2nd consecutive year. It fell 23% YoY in FY24RE and has further contracted sharply by 38% in FY25FRE to INR 137bn. For FY26BE, Government is expecting 45% rebound in Capex to INR 198bn. However, this would still be lower compared to earlier years. ▪ Expenditure under PMAY (Rural) also failed to pick up as per Government's earlier guidance and rose a modest 1% YoY to INR 324bn in FY25FRE. However, outlay for FY26BE is pegged 69% higher YoY to INR 548bn (13% higher compared to FY23RE peak).	▪ Lower spends in FY24/25 has already slowed cement /building materials demand during H2FY24 and 9MFY25. Increased allocation (still below earlier highs) should boost demand in coming years.	▪ Negative
▪ Total fund allocation for Pradhan Mantri Gram Sadak Yojana (PMGSY) also suffered in FY25FRE, as it fell 3% YoY to INR 145bn (after a 21% YoY decline in FY24RE). The outlay for FY26BE has further pegged 31% higher YoY to INR 190bn (back to FY23RE high).	▪ Lower allocations in the past has impacted demand. Expected revival in allocations should boost consumption.	▪ Neutral
▪ The allocations under Jal Shakti has been cut sharply (-68% YoY) in FY25FRE to INR 225bn allocation (4-year low). The outflow for FY26BE is estimated to revive to INR 668bn (+2x jump YoY). Also, the mission is extended in FY28 with enhanced total allocation.	▪ Poor allocations in FY25 has impacted sales for metals and plastic pipes. However, demand should look up on estimated revival of expenditures under the programme.	▪ Neutral

Chemicals

Budget Highlights	Impact	Recommendations
▪ Exemption of custom duty on 35 capital goods for use in the manufacture of lithium-ion battery of EV. ▪ Exemption of custom duty from 5% to Nil from waste and scrap of Lithium-Ion Battery	▪ Localisation of supply chain in EV manufacturing	▪ Positive growth catalyst for the battery Electrolyte, Additive and allied material manufacturing companies like Neogen Chemicals, Ami organics, Aether Industries

Consumer Durables & EMS

Budget Highlights	Impact	Recommendations
▪ Major changes in personal income tax slabs will reduce tax outgo upto INR 110K under new tax regime	▪ Positive for various consumer durable sub-segments like AC, refrigerator, washing machine etc	▪ Positive for all consumer durables companies.
▪ Fund allocation under PMAY (Urban) has declined for 2nd consecutive year. It fell 23% YoY in FY24RE and has further contracted sharply by 38% in FY25FRE to INR 137bn. For FY26BE, Government is expecting 45% rebound in Capex to INR 198bn. However, this would still be lower compared to earlier years. ▪ Expenditure under PMAY (Rural) also failed to pick up as per Government's earlier guidance and rose a modest 1% YoY to INR 324bn in FY25FRE. However, outlay for FY26BE is pegged 69% higher YoY to INR 548bn (13% higher compared to FY23RE peak).	▪ Lower spends in FY24/25 has already slowed cement /building materials demand during H2FY24 and 9MFY25. Increased allocation (still below earlier highs) should boost demand in coming years.	▪ Negative

FMCG | Alco Bev | QSR

Budget Highlights	Impact	Recommendations
▪ Allocation to Rural Development sustained same levels as mentioned in June'24 (increased c268Bn (11% YoY))	▪ Trickle-down effect on rural income levels, resulting in higher disposable income.	▪ Positive for consumer staple having high rural salience;
▪ New tax regime reforms: Zero tax for person earning income upto Rs 1.2 mn from earlier Rs 0.7 mn; tax savings of Rs 70,000- 1,10,000 for person earning income Rs 1.2 -2.4 mn	▪ Increase in disposable income; resulting in higher household expenditure.	▪ Positive for all the consumer companies ; however low-ticket discretionary segments (such as Alco bev and QSR) to be major beneficiaries

Industrials

Budget Highlights	Impact	Recommendations
▪ For FY26, the total capital and development expenditure (including IEBR) of Railways has been pegged at INR 2.65trn for FY26BE no change vs. FY25FBE/RE)	▪ The major allocation has been earmarked for Rolling stocks, New lines, Doubling and Track renewals and Electrification; totaling INR 1.4tn aiding order pipeline	▪ Positive for Hitachi Energy, KEC, L&T, Siemens, RVNL, RITES, KPIL IRCON, BEML, Titagarh, Texmaco, other EPC companies etc.
▪ Defence allocation at INR 1.92trn is increase of 12.8% for FY26BE vs. INR 1.7trn during FY25FRE (-6.5% change vs. FY25IBE)	▪ Order pipeline will be aided as major allocation has been in Navy fleets, Aircrafts and Aeroengines and other equipments	▪ Positive for LT, BDL, BEL, HAL, Mazagon Dock, Garden Reach, Cochin Shipyard, etc.
▪ Minerals such as colbalt powder and waste, lithium-ion battery scrap, lead, zinc and 12 other critical minerals fully exempt from customs duties	▪ This will be helpful to the processing and refining of such minerals and help to secure their availability at lower cost	▪ Positive for Battery storage, Hitachi, LT
▪ Total expenditure provisions, net-off recoveries for Ministry of New and Renewable Energy at INR 354.7bn vs. INR 317.08.1bn an increase of 11.9% (FY25FRE , +3.2% Increase)	▪ This will aid in capacity addition	▪ Positive for companies like Hitachi Energy, KEC , L&T, Siemens, KPIL etc.

Industrials

Budget Highlights	Impact	Recommendations
The capital allocation (including IEBR) to Ministry of Road Transport and Highways stood at INR 2.72trn, no change from FY25FRE. Of this, allocation to NHAI (direct equity support) is at INR 1.7trn	IEBR's contribution is NIL. Looks like the focus remains on no further increase in NHAI's debt. Muted growth implies a higher share of PPP in ordering in the near future.	Positive for most Infra companies
Asset Monetization Plan of INR 10trn until 2030, to plough back into the economy for Infrastructure Capex	Increase in Private sector participation, more tenders for Infrastructure developers	Positive for InVITs. IRB Infra, Indigrid, PG InVIT etc
Allocation to Pradhan Mantri Gram Sadak Yojana stood at INR 190bn FY26BE vs. INR 145bn FY25FRE (31% increase)	Help build qualification and competition	Lower allocation, muted for smaller infra players
Total outlay by Ministry of Power at INR 864.9bn vs. INR 718.4bn an increase of 20.4% from FY25FRE (+5.9%, FY25FBE)	Whilst the investment in public sector enterprises is through IEBR only, this will enable companies to increase their generation capacities	Positive for companies in T&D space (LT, KPIL and KEC International)
Allocation to Ministry of Jal Shakti increased to INR 667.3bn FY26FBE from INR 225.5bn FY25FRE, +196.7% increase (-67.8%, FY25FBE)	Will aid order pipeline	Positive for LT, NCC, PNC, KPIL, etc.

Industrials

Budget Highlights	Impact	Recommendations
▪ Special Assistance as Loan to States for Capital Expenditure stood unchanged at INR 1.5trn for FY26BE vs FY25FRE & FY25FBE. These fifty-year interest free loans are over and above the normal borrowings allowed to the states. It has been decided to continue these loans for one more year.	▪ Positive as it will help increase investments in infrastructure and incentivize states for complementary policy actions. It will help them streamline capex and payments to contractors	▪ Positive for companies
▪ Further, To the list of exempted capital goods, proposed to add 35 additional capital goods for EV battery manufacturing, and 28 additional capital goods for mobile phone battery manufacturing. Tax on Solar Cells reduced from 25% to 20% & modules from 40% to 20%.	▪ Positive for RE project developers, battery storage and EV companies	▪ Positive for companies
▪ Development of 100GW Nuclear by 2047 and focus on research of Small Modular Reactors (SMR) with an outlay of INR200bn.	▪ Positive for Nuclear power developers, EPC and OEMs.	▪ L&T, Govt PSU's etc
▪ Capex in the budget is increased to INR 11.2trn, vs. FY25IBE of INR 10.2 trn. This outlay is 3.1% of GDP. Including the Grants-in-Aid to states, Capex of the centre is INR 15.5trn (4.3% of GDP)	▪ Will continue to aid ordering	▪ Positive for companies

IT, Staffing and Internet

Budget Highlights	Impact	Recommendations
▪ A national framework will be set up to promote Global Capability Centres (GCC) in emerging tier 2 cities.	▪ IT service providers will have access to niche skillsets like AI, ML, cybersecurity, and cloud computing, which will help in expanding in tier 2-3 cities.	▪ Marginal positive for TCS, Infosys, Wipro and HCL Tech and IT staffing companies like Quess and Teamlease.
▪ Government announced setting up a Centre of Excellence in Artificial Intelligence with a total outlay of INR 5bn.	▪ This will support the development of high skilled AI talent for the industry.	▪ Marginal positive for Indian IT services.
▪ Custom duty exemption on additional 35 capital goods for EV battery manufacturing.	▪ This will boost domestic manufacturing of lithium-ion battery for electric vehicles.	▪ Marginal positive for KPIT and Tata Elxsi.
▪ Tax benefits under section 80CCD of the Income-tax Act, 1961, for NPS contribution, now apply to contribution made in NPS Vatsalya accounts also.	▪ This initiative will increase NPS account penetration.	▪ Positive for Protean E-Gov as they have ~99% market share in NPS.
▪ National Centres of Excellence for skilling will be established, along with expanded rural skilling programs, to boost the skilled workforce.	▪ This initiative will expand India's skilled labor pool, benefiting staffing companies' talent placement. Existing employee learning platforms will complement this growth.	▪ Positive for staffing players like Quess and Teamlease.
▪ Government will roll out revamped Central KYC registry in 2025.	▪ Protean secured this contract of INR 1,610 mn in Dec'24.	▪ Positive for Protean E-Gov.

Oil and Gas

Budget Highlights	Impact	Recommendations
▪ FY26BE total subsidy provision is INR 106bn for LPG compared to FY25RE total LPG subsidy of INR 132bn. LPG DBT provision is INR 15bn compared to FY25RE LPG DBT provision of INR 5bn.	▪ Considering the current under-recovery on LPG, we believe that the subsidy provision is inadequate.	▪ Negative for Oil Marketing Companies.

Pharmaceuticals and Healthcare

Budget Highlights	Impact	Recommendations
▪ Budget allocation on Healthcare expenditure – allocation for Department of Health and Family Welfare increased by ~11% to INR 896 bn.	▪ Healthcare spending increasing will be positive for the sector. Although allocation for Ayushman Bharat scheme was muted at INR 94 bn (+24%). ▪ Medical Tourism and Heal in India: It will be promoted in partnership with the private sector along with capacity building and easier visa norms. ▪ Day Care Cancer Centres: Government will facilitate setting up of Day Car Cancer Centres in all district hospitals in the next 3 years. 200 Centres will be established in 2025-26.	▪ No major direct beneficiaries. ▪ Medical tourism and Heal In India initiative will be positive for select hospital chains like Apollo Hospital, Max Healthcare, Fortis Healthcare, and Medanta with higher share of international patient mix. ▪ Day care center could pose risk for the hospital chains like HCG having day care clinic business.
▪ Budget allocation for Department of Pharmaceuticals increased by 56% to INR 53 bn.	▪ Increase is largely attributed for Production Linked Incentive schemes for which allocation increased to INR 24 bn (+14% YoY) for producing API & intermediaries. ▪ Allocation for Development of Pharma industry increased by 350% to INR 16 bn. Largely towards Bulk drug parks. ▪ Allocation for Jan Aushadhi increased by 43% YoY to ~INR 3.5 bn. ▪ PLI allocation for Medical device manufacturing increased by 28% YoY to ~INR 1.1 bn.	▪ Positive for Aurobindo, Dr Reddy's, Zydus, Cipla, Sun Pharma for PLI scheme. ▪ Scale-up in Jan Aushadhi could pose price risk for leading companies. ▪ Positive for medical device manufacturer like Polu Medicare.
▪ Exemption of custom duty on 36 critical drugs to Nil from 10% earlier and added 6 lifesaving medicines to the list attracting concessional customs duty of 5%.	▪ To provide relief for cancer, rare diseases and other severe chronic diseases.	▪ Most of the listed drugs are manufactured by MNC Innovators. ▪ Mild positive for Indian companies like Dr Reddy's, Lupin, and Zydus.

Real Estate

Budget Highlights	Impact	Recommendations
Total allocation under PMAY urban and rural at INR 746bn vs. INR 460bn (FY25RE).	Increased supply of affordable housing units and freeing up of encroached land for development	Positive for developers and lenders in affordable segments like Godrej Properties, Ashiana Housing, SBI, HDFC, etc. Freeing up urban slums would aid the creation of affordable housing stock
Individual having TWO self occupied property were earlier exempt from deemed rent under certain conditions. Now the annual value of the property shall be taken as NIL for any reason/conditions	This will help the property owner to cut bureaucratic red tape and not to pay deemed rental if property is not let out or not self occupied for any reason	Neutral
Basic personal income exemption limit now increased to INR 12L vs 7L earlier	This will enhance the individual's surplus/disposable income and will eventually boost consumption spending	Positive for Phoenix, as consumption spending shall improve, Mahindra Life spaces, Godrej properties with affordable housing portfolio
The government will establish an Urban Challenge fund of INR 1trn to implement proposals for cities as growth hubs, the creative redevelopment of cities and for water and sanitation purposes. The Fund will finance up to 25% of the cost of bankable project, with the stipulation that at least 50% of the cost is funded through bonds, bank loans and PPPs.	This will fuel the ongoing momentum in rebuilding urban infrastructure and drive greater demand for real estate in the urban and semi-urban areas	Positive for larger developers like DLF, Prestige, Oberoi etc
INR 15,000 crore 'SWAMIH Fund-2' for completing 1 lakh units in stalled housing projects. This follows the success of the initial SWAMIH Fund, which completed 50,000 units and aims to complete an additional 40,000 by 2025	A move to revive stalled housing projects, ensuring timely completion and restoring homebuyer confidence. The continued emphasis on affordable and mid-income housing.	Positive for stressed developers
ITC on GST for construction spends to be reversed for developers claiming ITC earlier due to change in definition to "Plant and Machinery" vs Plant or Machinery earlier	No PnL and Cash flows impact for listed RE companies as they didn't take the ITC	Neutral for developers

Retail and Consumer discretionary

Budget Highlights	Impact	Recommendations
▪ Substantial relief under new tax regime: No tax on income upto INR 12 lakh Tax benefit of INR 50-110k on income of INR 12-24 lakh	▪ Rise in disposable income will lead to increased spending on discretionary items ▪ Possible inflation and increased savings could moderate the impact	▪ Positive in general; but companies selling low ticket discretionary items likely to benefit the most. Advantage Dmart, V-Mart, Trent, Vishal Mega Mart, etc.
▪ BCD + SWS was 35 + 3.5 vs BCD + AIDC of 20 + 18.5. No impact on effective rate on footwear imports.	▪ No impact	▪ No impact
▪ Focus product scheme for footwear & leather sectors to be launched	▪ New scheme to support: Design & component manufacturing Machinery for production of leather and non-leather footwear. ▪ Expected Outcome: Creation of 22 lakh jobs Revenue generation of 4 lakh crore Exports to exceed 1.1 lakh crore	▪ Potentially positive for footwear companies.

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HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066

Compliance Officer: Murli V Karkera Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

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HDFC securities
Institutional Equities
Unit No. 1602, 16th Floor, Tower A, Peninsula Business Park,
Senapati Bapat Marg, Lower Parel, Mumbai - 400 013
Board: +91-22-6171-7330 www.hdfcsec.com