1 February 2025

Union Budget 2025-26

Focus shifts from capex to consumption and savings

Targets a fiscal deficit of 4.4% of GDP in FY26

The new government after the 2024 general elections presented its first full Union Budget on 1st 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.

Comparison of FY25RE vs. FY25BE

Total receipts have been revised down by INR0.6t and total expenditure has been cut by INR1.04t, leading to a reduction in the fiscal deficit by INR0.44t. Accordingly, the Government of India (GoI) has lowered its fiscal deficit target to 4.8% of GDP in FY25RE, from the budget estimate (BE) 4.98% of GDP.

Within receipts, corporate income taxes, union excise duties, non-tax revenue receipts and non-debt capital receipts have been revised down, while personal income taxes are revised higher. Further, while gross taxes are revised up by INR130b, higher devolution to states (by INR400b) has reduced net tax receipts of the central government. Total receipts are expected to grow 12.8% YoY in FY25RE.

Within spending, revenue spending has been kept largely unchanged, so almost the entire reduction in expenditure is led by a cut in capital spending, which is lowered to INR10.2t from INR 11.1t. Total spending is expected to grow 6.1%, with revenue spending growth of 5.8% and capital spending growth of 7.3%. Within capex, roads and railways are kept unchanged, while defense capex is reduced by INR125b, the equity infusion into BSNL is cut by INR100b, and capex under New Scheme is lowered to INR91b from INR626b budgeted earlier.

Total liabilities of the GoI are likely to ease to 57.1% of GDP in FY25RE from 58.3% of GDP in FY24.

Key highlights from FY26BE fiscal math

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%.

For the first time in many years, the Center's receipt forecasts look aggressive. There are two reasons: 1) with higher tax rebates, budgeted growth of 14.4% YoY in personal income taxes looks optimistic, and 2) a growth of 12.3% in dividends may be a challenge even if the RBI transfers dividends worth INR2t. Overall, we believe there could be a shortfall of INR600-800b in total receipts.

At the same time, the GoI has budgeted 6.7% YoY growth in revenue spending and 10.1% growth in capital spending. Total spending is budgeted to fall to 14.2% of GDP next year vs. 14.6% in FY25RE and 15% in FY24. If, however, there is a shortfall

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in total receipts, there could be a corresponding fall in total expenditure (with lower capex) next year, as the deficit target could be sacrosanct.

IEBR capex expected to grow 12.9% YoY in FY26BE

Notably, as highlighted in our recent **report**, a large portion of the GoI's higher capex is re-allocated from the internal and extra-budgetary resources (IEBR) of central public sector enterprises (CPSEs). After declining at an average of 10% between FY21 and FY23, IEBR capex grew 2.9% YoY in FY24, and is expected to grow 4.4%/12.9% YoY in FY25RE/FY26BE. If so, the combined capex of the Center (excluding loans & advances and equity infusion into BSNL) and CPSEs (excluding FCI) is budgeted to grow 13.4% YoY in FY26, following 4.7% growth in FY25RE. It also implies that the combined capex is budgeted at 3.7% of GDP in FY26BE, slightly better than 3.6% of GDP in FY25RE and lower than 3.8% of GDP in FY24.

Conclusion: Consumption/savings take center stage at the cost of fiscal spending

Overall, there were two big changes in the Union Budget 2025-26. For the first time in almost a decade, the GoI focused more on consumption and savings, rather than capex. We need to keep a keen eye on whether this change is a one-off or if it suggests a change in the paradigm. Secondly, after many years, the receipt projections look aggressive.

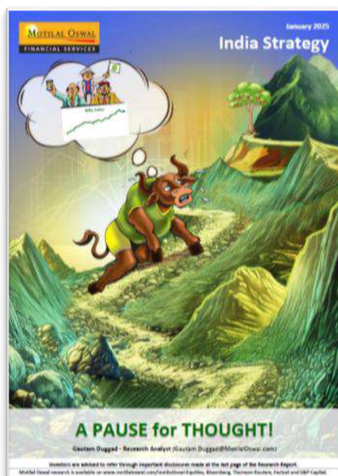
Although there has been a large downward revision in the Center's capex in FY25, the adverse economic impact will be limited because a majority of the revision is due to lower spending under the 'New Scheme', which was never defined. This year also, the GoI has allocated INR417b for 'New Schemes' under the Department of Economic Affairs.

The GoI has also announced a shift to target the debt-to-GDP ratio from next year, rather than the fiscal deficit. Assuming 10.5% growth over the next five years (FY27-FY31), the fiscal deficit will have to consolidate by 0.2ppp of GDP every year to achieve a debt-to-GDP ratio of 49.7%. It means that if nominal GDP growth is weaker, more consolidation will be required to meet debt targets.

Market strategy

- The Finance Minister (FM), Nirmala Sitharaman, tabled the first full-year budget of the new term of the Narendra Modi-led NDA government in an economic backdrop fraught with consumption weakness and soft sentiments. Heeding economic conditions, the FM has pivoted her fiscal stance more towards stimulating consumption against the long-standing disproportionate focus on capex. Relief to the middle class is aimed for through lower personal taxes even as the central government's capital outlay is budgeted to grow 6% YoY – the lowest in the past six years.
- While a capex orientation is a good long-term approach, we appreciate that the FM has demonstrated flexibility and pragmatism to adjust the stance tactically in favor of lifting the sagging consumption sentiment without resorting to populism.
- The standout measure was the increase in personal income tax slabs and higher rebates, with the minimum taxable slab effectively moving up from INR0.7m to INR1.2m – helping the middle class to save as high as ~INR0.1m p.a. in income tax. This will imply ~INR1t worth of revenue foregone for the exchequer and should add to household disposable incomes and drive consumption (across discretionary and staples, mass, and premium) while accreting to the household savings pool in some cases. FMCG, Staples, Retail, Consumer Discretionary, entry-level cars, and two-wheelers are the key beneficiaries of this move, while capital market plays can be a second-order beneficiary.
- Within Central capital outlays, road and railways capex is expected to be flat YoY, while defense capex is budgeted to grow 13% YoY. Some smaller niches within capex are projected to witness stronger growth; for example, allocation to Bharatnet is anticipated to surge 239% YoY to INR220b, solar energy investments are likely to rise 61% YoY to INR242b, and Metro project allocation is expected to increase 27% YoY to INR312b.
- Despite the economic compulsions, the FM has stood on the path of rectitude as the fiscal deficit for FY26 is pegged at 4.4% - 10bp lower than the requirement of a glide path. This should benefit the bond market, strengthen India's case with sovereign rating agencies, and open up room for monetary accommodation, allowing RBI to embark on a rate cut trajectory from Feb'25. Our economist expects a 25bp cut – following up on its recent INR1.5t liquidity injection through various measures.
- A heartening feature of the budget has been the continued discipline on subsidies, with FM keeping subsidies flat at INR4.2t for the third year running – dipping to 8% of total expenditure in FY26E from 14% in FY23.
- Outside fiscal measures, the FM demonstrated governance intent on the ease of doing business across multiple dimensions, placing greater trust in self-regulation/self-assessment, promising to lighten provisions of income tax, and reducing compliance burden across various laws.
- We expect the market to digest the Union Budget announcements and shift its focus back to earnings and the forthcoming RBI policy. The ongoing 3QFY25 earnings season has been broadly in line with our estimates. There has been a moderation to our earnings growth expectations, and we now expect the Nifty PAT to grow ~5%/ 16% for FY25/FY26 and MOFSL PAT to rise ~3%/18% for FY25/FY26.

Refer to our Dec'24 Quarter Preview



- We continue to prefer largecaps over midcaps and smallcaps in the current environment, with Nifty trading at 19.9x (~3% below its LPA) on a one-year forward basis, while Nifty Midcap is at ~30x (49% premium to the Nifty) and Nifty Smallcap is trading at ~22x (9% premium to the Nifty).
- We are OW on Consumption , IT, BFSI, Industrials, Healthcare & Real Estate while we are UW on Oil & Gas, Cement, Automobiles, and Metals **in our model portfolio**.
- **MOFSL Top Ideas: Largecaps** – Trent, HUL, Titan Company, M&M, Maruti, ICICI Bank, SBI, HCL Tech, Bharti Airtel, L&T, Sun Pharma, and Dixon Tech.
- **Midcaps and Smallcaps** – Indian Hotels, Page, Cummins India, BSE, Godrej Properties, Coforge, Metro Brands, IPCA Labs, Angel One, Vinati Organics, and JSW Infrastructure.

Focus on fiscal consolidation and consumption

Fiscal deficit targeted at 4.4% of GDP in FY26BE

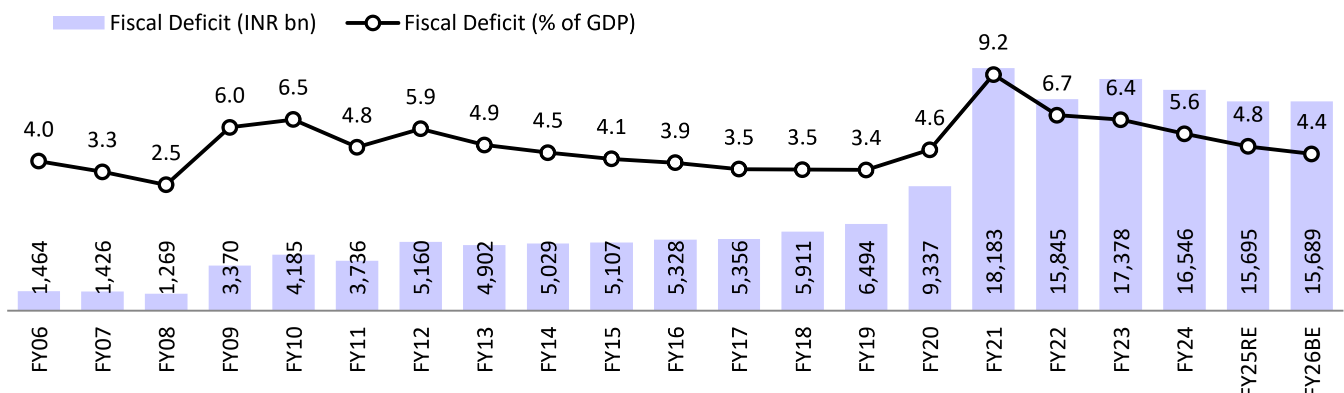
India's Finance Minister Nirmala Sitharaman presented her eighth consecutive budget in the parliament on 1st Feb'25, providing significant tax relief to the middle class. For the first time in many years, the budget shifted its focus from investment-led growth to consumption/savings-driven growth.

However, the focus on fiscal consolidation remained intact, with the FY26 fiscal deficit target pegged at 4.4% of GDP, lower than the glide path target of 4.5%, which is positive for debt sustainability. The Finance Minister announced that, from FY27 onward, the central government would keep its fiscal deficit in each year (from FY27 to FY31) such that the Central Government debt is on a declining path to attain a debt-to-GDP ratio in the 49-51% range by FY31.

While the government reduced its total receipt estimates to INR31.5t in FY25RE from INR32.1t in FY25BE (reduction of INR602b), the expenditure target was reduced to INR47.2t in FY25RE from INR48.2t in FY25BE (reduction of INR1040b). After making these changes, the fiscal deficit stands at INR15.7t in FY25RE from INR16.1t in FY25BE (reduction of INR438b). Consequently, the fiscal deficit is expected to come down to 4.8% of GDP in FY25RE from 4.9% of GDP in FY25BE, despite lower nominal GDP growth of 9.7% YoY in FY25 vs. earlier expected 10.5% YoY in FY25BE.

For FY26, the GoI expects total receipts to rise 11.1% YoY to INR35.0t in FY26BE (vs. our forecast of 8.9% and 12.8% YoY growth in FY25RE). Further, total expenditure is budgeted to grow at a three-year high pace of 7.4% YoY to INR50.7t (vs. our assumption of 6.7% and 6.1% YoY growth in FY25RE). Consequently, in contrast to the market expectations and our forecast of 4.5% of GDP, the GoI has budgeted a fiscal deficit of 4.4% of GDP for FY26, implying a consolidation of 40bp next year (refer to Exhibit 1).

Exhibit 1: Trends in fiscal deficit over the past two decades; fiscal deficit expected to decline to 4.4% of GDP in FY26BE



Source: Government, MOFSL

The GoI has budgeted gross market borrowings (GMBs) at INR14.8t in FY26BE, compared to INR14.0t in FY25RE (higher by INR800b, 5.8% YoY growth) and INR15.4t in FY24. At the same time, net market borrowings (NMBs) have been pegged slightly higher at INR11.8t in FY26BE from INR11.6t in FY25RE. Notably, borrowings through NSSF were pegged at INR4.5t in FY26BE (higher by INR395b vs. FY25RE). It means that around 22% of the fiscal deficit in FY26BE is planned to be financed through small savings vs. 26% in FY25RE *(Exhibits 2 and 3)*.

Exhibit 2: NMBs pegged at INR11.5t in FY26 vs. INR11.6t in FY25RE

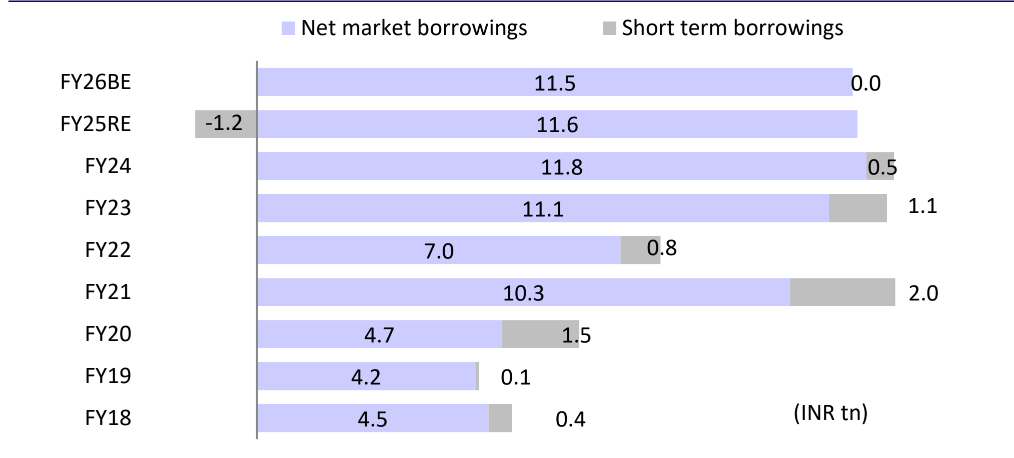
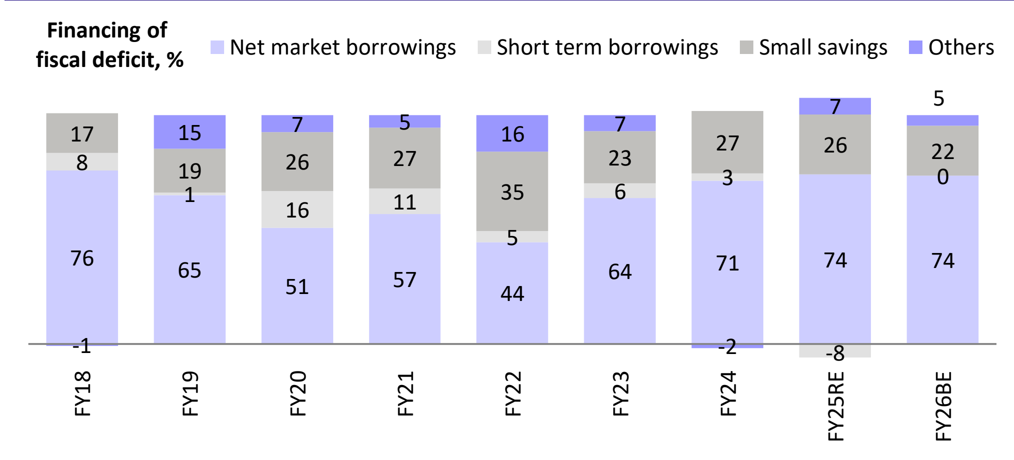


Exhibit 3: Around 22% of the fiscal deficit is expected to be financed by small savings (%)



Source: Government, MOFSL

Exhibit 4: Union Budget 2025-26 in numbers

	FY24	FY25RE			FY26BE		
	INR t	INR t	% YoY	% of GDP	INR t	% YoY*	% of GDP
Total receipts	27.9	31.5	**12.8**	**9.7**	35.0	**11.1**	**9.8**
Revenue receipts	27.3	30.9	**13.2**	**9.5**	34.2	**10.8**	**9.6**
Gross taxes	34.7	38.5	**11.2**	**11.9**	42.7	**10.8**	**12.0**
Net taxes	23.3	25.6	**9.9**	**7.9**	28.4	**11.0**	**7.9**
Direct taxes	19.6	22.4	**14.4**	**6.9**	25.2	**12.7**	**7.1**
Corporation taxes	9.1	9.8	**7.6**	**3.0**	10.8	**10.4**	**3.0**
Income taxes	10.4	12.6	**20.3**	**3.9**	14.4	**14.4**	**4.0**
Indirect taxes	15.1	16.2	**7.1**	**5.0**	17.5	**8.3**	**4.9**
Customs	2.3	2.4	**0.8**	**0.7**	2.4	**2.1**	**0.7**
Excise duties	3.1	3.1	**-0.1**	**0.9**	3.2	**3.9**	**0.9**
Goods & services tax (GST)	9.6	10.6	**10.9**	**3.3**	11.8	**10.9**	**3.3**
Devolution to States	11.4	13.0	**13.9**	**4.0**	14.3	**10.5**	**4.0**
Non-tax revenue	4.0	5.3	**32.2**	**1.6**	5.8	**9.8**	**1.6**
Non-debt capital receipts	0.6	0.6	**-1.3**	**0.2**	0.8	**28.8**	**0.2**
Divestment	0.3	0.5	**66.7**	**0.2**			
Total expenditure	44.4	47.2	**6.1**	**14.6**	50.7	**7.4**	**14.2**
Core spending	29.4	31.5	**7.0**	**9.7**	33.6	**6.7**	**9.4**
Revenue expenditure	34.9	37.0	**5.8**	**11.4**	39.4	**6.7**	**11.0**
Interest payments	10.6	11.4	**7.0**	**3.5**	12.8	**12.2**	**3.6**
Defense	4.3	4.3	**-1.6**	**1.3**	4.3	**-0.4**	**1.2**
Subsidies	2.9	3.0	**2.3**	**0.9**	3.1	**4.9**	**0.9**
Pensions	2.4	2.8	**15.4**	**0.8**	2.8	**0.6**	**0.8**
Grants to states/UTs	6.2	6.2	**0.0**	**1.9**	7.4	**20.6**	**2.1**
Non-defense pay/allowances	4.4	4.8	**8.4**	**1.5**	5.0	**5.1**	**1.4**
Other	2.4	2.8	**15.2**	**0.8**	1.9	**-31.1**	**0.5**
Capital expenditure	9.5	10.2	**7.3**	**3.1**	11.2	**10.1**	**3.1**
Fiscal deficit	**16.5**	**15.7**		**4.8**	**15.7**		**4.4**
Revenue deficit	**7.7**	**6.1**		**1.9**	**5.2**		**1.5**
Capital deficit	**8.9**	**9.6**		**3.0**	**10.5**		**2.9**
Primary deficit	**5.9**	**4.3**		**1.3**	**2.9**		**0.8**
Nominal GDP	**295.4**	**324.1**	**9.7**		**357.0**	**10.1**	

*Over FY25REs Source: Union Budget documents, MOFSL

Total receipts budgeted to grow 11.1% in FY26, lowest in 3 years

The GoI has reduced its FY25RE total receipts to INR31.5t from INR32.1t budgeted (reduction of INR602b), owing to a reduction of INR265b/INR190b/INR147b in net tax receipts/non-debt capital receipts/non-tax receipts. While gross taxes are revised up by INR130b to INR38.5t in FY25RE from INR38.4t in FY25BE, higher devolution to states (by INR400b) has reduced net tax receipts of the central government to INR25.6t in FY25RE from INR25.8t in FY25BE (reduction of INR265b). Non-tax revenue receipts have been revised lower to INR5.3t in FY25RE from INR5.5t in FY25BE.

The higher revision in gross tax collections in FY25 is mainly due to INR700b higher collections of personal income taxes (INR12.6t in FY25RE vs. INR 11.9t in FY25BE), which was partly balanced by a lower revision of INR400b in corporate tax collections (INR 9.8t in FY25RE vs. INR10.2t in FY25BE) and reduction of INR167b in indirect tax collections (led by INR140b lower excise duty collections).

The GoI has budgeted 10.8% growth in gross taxes for FY26BE (vs. 11.2% in FY25RE, lowest in four years), with total receipts growing by 11.1% (vs. 12.8% in FY25RE, lowest in three years) *(Exhibit 5)*. Within total receipts, net tax receipts are budgeted to grow by 11% YoY in FY26BE (9.9% in FY25RE, highest in three years), and non-tax receipts are budgeted to grow by 9.8% (vs. 32.2% in FY25RE, lowest in three years). Within gross tax receipts, corporate tax receipts are budgeted to grow by 10.4% in FY26 and personal income tax collections are budgeted to grow by 14.4%.
Non-tax receipts are likely to account for 16.7% of total receipts in FY26BE (slightly lower than 16.9% in FY25RE), while net tax receipts are likely to account for ~81% of total receipts in FY26BE, similar to FY25RE. *(Exhibit 6)*

Exhibit 5: Receipts expected to grow 11.1% in FY26BE, the lowest in three years…

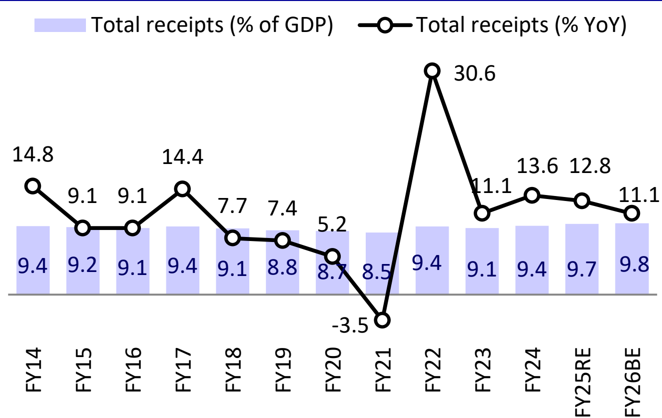
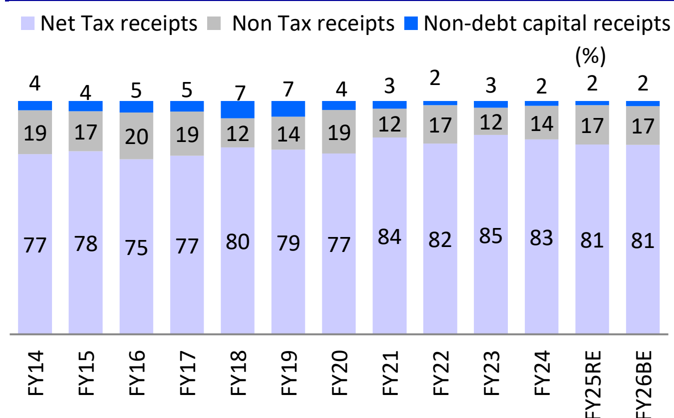


Exhibit 6: …and non-tax receipts to account for 17% of receipts



Source: Union Budget documents, MOFSL

As a percentage of GDP, non-tax revenue has stood at 1.6% in FY26BE, similar to FY25RE *(Exhibit 7).* Within non-tax receipts, the share of dividends and profits has been budgeted to increase to 56% in FY26BE (the highest in six years) from 54.5% in FY25RE. *(Exhibit 8)*

Exhibit 7: Non-tax receipts stood at 1.6% of GDP in FY26BE, similar to FY25RE

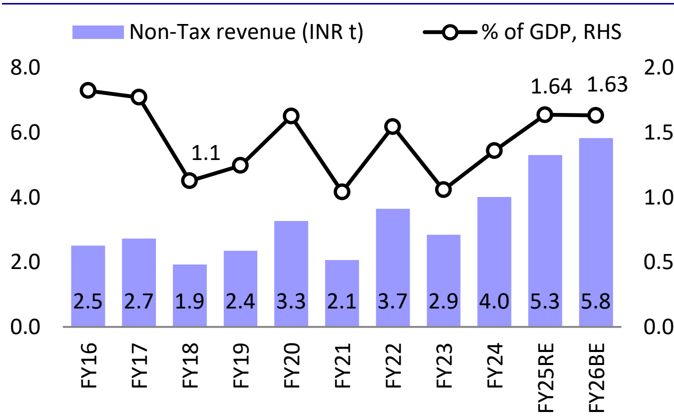
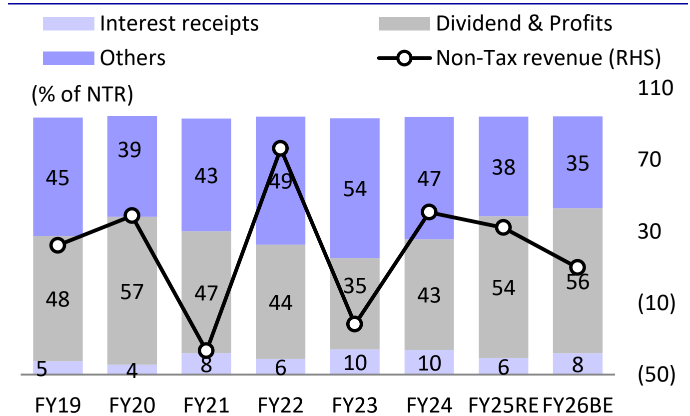


Exhibit 8: …and dividends to account for 56% of non-tax receipts



Source: Union Budget documents, MOFSL

The GoI has budgeted a lower tax buoyancy of 1.1x in FY26 (Exhibit 7) due to a relatively higher nominal growth expectation of 10.1% in FY26 and a slightly lower gross tax revenue growth of 10.8%.

Tax buoyancy budgeted at 1.1x in FY26BE

The GoI has budgeted a tax buoyancy of 1.1x in FY26, similar to FY25RE but lower than 1.4x in FY24 *(Exhibit 9)*, due to a relatively higher nominal growth expectation of 10.1% in FY26 (9.7% in FY25RE) and slightly lower gross tax revenue growth of 10.8% (11.2% in FY25RE). Non-debt capital receipts are budgeted to increase to INR760b in FY26BE vs. INR590b in FY25RE (29% YoY) (*Exhibit 10).*

Exhibit 9: Gross tax buoyancy expected at 1.1x in FY26BE

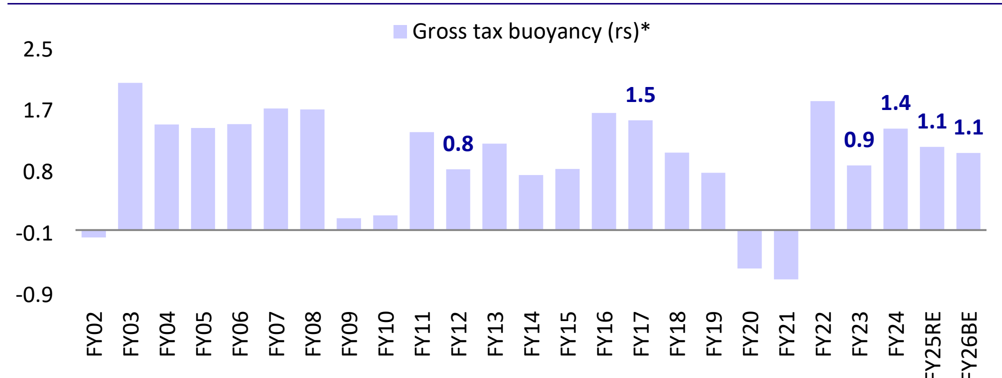
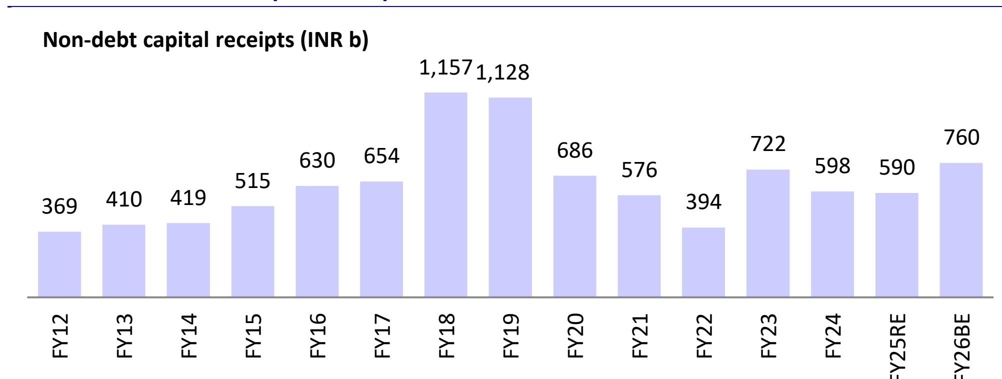


Exhibit 10: Non-debt capital receipts increased to INR760b in FY26BE



Source: Union Budget documents, MOFSL

Total spending budgeted to grow 7.4% YoY in FY26BE

Total GoI spending budgeted to grow at the highest rate in three years in FY26

The GoI's total spending is budgeted at INR50.7t in FY26BE vs. INR47.2t in FY25RE (revised lower by INR1040b in FY25RE, entirely led by lower capital spending), implying 7.4% growth in FY26 (highest in three years) *(Exhibit 11)*. Excluding interest payments and subsidies, the GoI's primary spending is budgeted to grow only by 6.7% YoY in FY26BE, which is the lowest in 13 years (vs. 7.0% growth in FY25RE). However, as a percent of GDP, total spending is budgeted to drop to 14.2% of GDP in FY26 from 14.6% of GDP in FY25RE. *(Exhibit 12)*

Exhibit 11: Total spending growth budgeted to increase 7.4% in FY26BE followed by 6.1% YoY in FY25RE

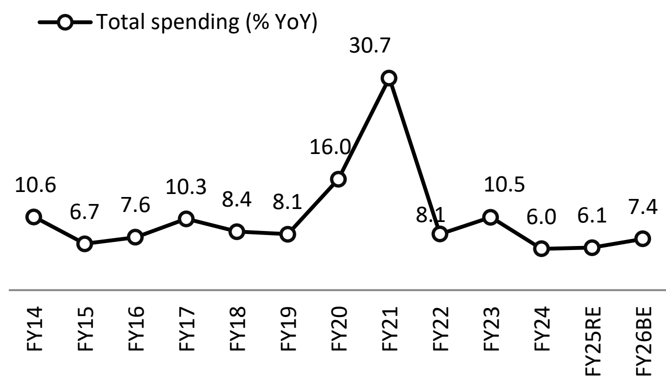
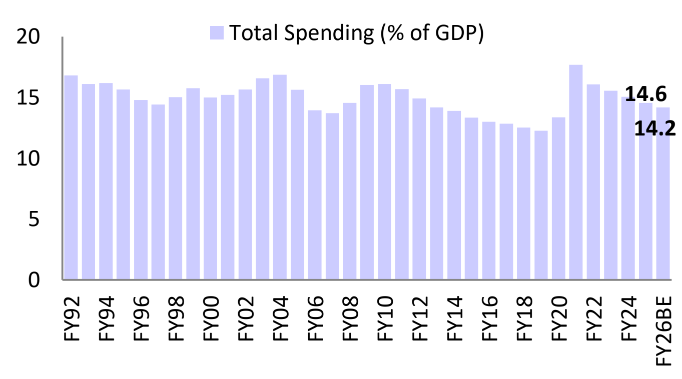


Exhibit 12: Total spending budgeted to decelerate to 14.2% of GDP in FY26BE, lowest in six years



Source: Government, MOFSL

Within total spending, revenue spending is budgeted to grow at a three-year high of 6.7% in FY26 vs. 5.8% growth in FY25RE (INR39.4t in FY26BE vs. INR37.0t in FY25RE). Excluding interest payments and subsidies, revenue expenditure is budgeted to grow 6.5% YoY in FY26BE, marking the slowest growth in three years.

Capital spending is budgeted to grow 10.1% YoY in FY26BE vs. 7.3% growth in FY25RE (following an average of 30% YoY during FY21-FY24), which is entirely supported by a downward revision in FY25RE. Capital spending for FY25RE was revised lower to INR10.2t vs. a budgeted number of INR11.1t (reduction of INR927b). Within capex, roads and railways are kept unchanged, while defense capex is reduced by INR125b, the equity infusion into BSNL is reduced by INR100b, and capex under New Scheme is reduced to INR91b from INR 626b budgeted earlier. The share of capital spending is budgeted to rise to 22.1% of total spending in FY26 vs. 21.6% in FY25RE *(Exhibits 13, 14)*.

Exhibit 13: Capital spending (as a % of total spending) is budgeted to rise to 22.1% in FY26BE…

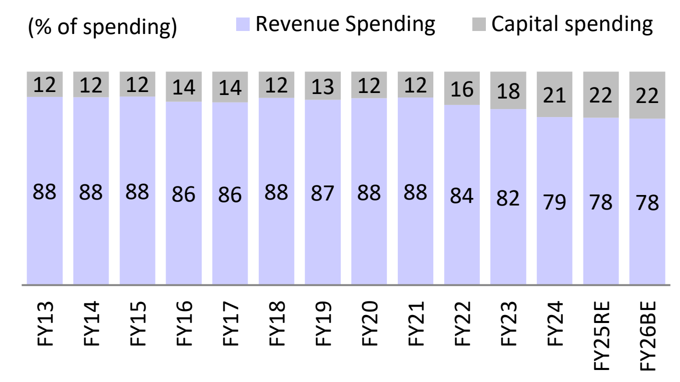
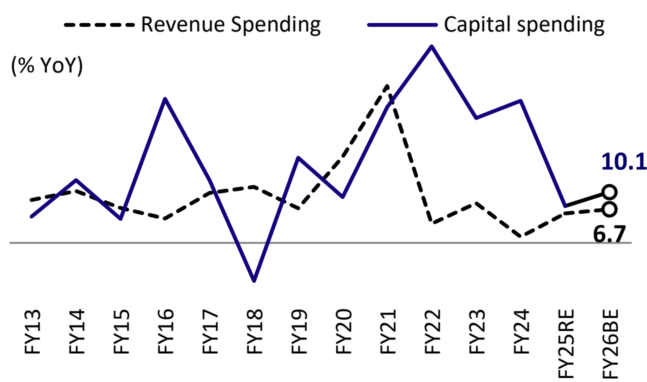


Exhibit 14: Capex is expected to grow 10.1% YoY in FY26BE vs. 7.3% in FY25RE



Source: Union Budget documents, MOFSL

Center's capex budgeted to grow 5.6% YoY in FY26BE, lowest in five years

The GoI has budgeted total capital spending of INR11.2t in FY26 vs. INR10.2t in FY25RE. This implies 10.1% YoY growth in FY26BE, following an average growth of 30% during FY21-FY24. However, excluding loans and advances (INR2.3t), the GoI's capex is budgeted at INR9.0t in FY26 vs. INR8.5t in FY25RE (a growth of 5.6% in FY25RE vs. an average of 28.4% in the last 4 years).

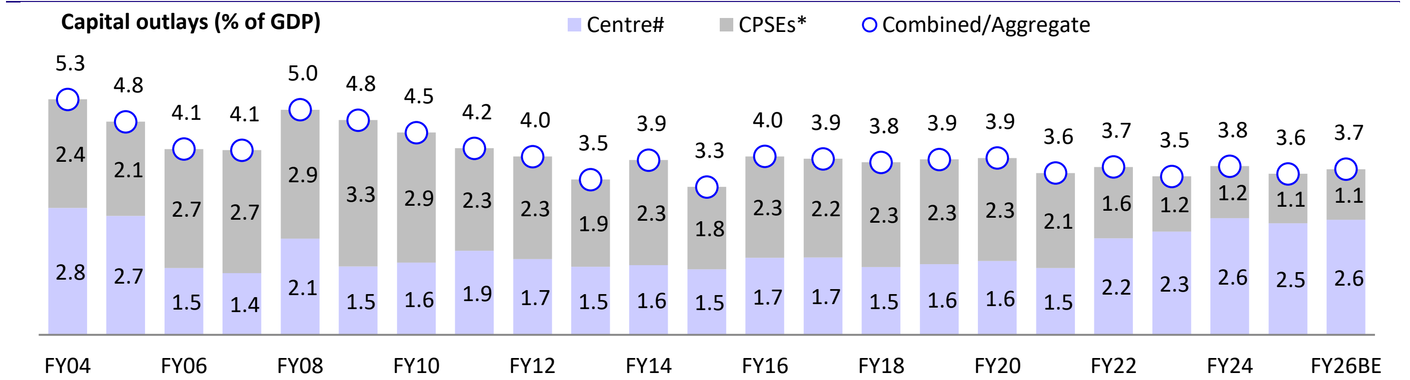
Combined capex to grow 13.4% YoY

The total government capex is budgeted at 3.7% of GDP in FY26, slightly higher than 3.6% in FY25RE

Notably, as highlighted in our recent report, a large portion of the GoI's higher capex is re-allocated from IEBR of CPSEs. After declining at an average of 10% between FY21 and FY23, IEBR capex grew 2.9% YoY in FY24 and is expected to grow 4.4%/12.9% YoY in FY25RE/FY26BE.

Therefore, the combined capex of the Center (excluding loans & advances and equity infusion to BSNL) and CPSEs (excluding FCI) is budgeted to grow 13.4% YoY in FY26, following 4.7% growth in FY25RE. It also implies that the combined capex is budgeted at 3.7% of GDP in FY26BE, slightly better than 3.6% of GDP in FY25RE and lower than 3.8% of GDP in FY24 *(Exhibit 15)*.

Exhibit 15: Combined capex stood at 3.7% of GDP in FY26BE, slightly higher than 3.6% in FY25RE



Excluding loans and advances and BSNL capital infusion

*Excluding Department of food & public distribution

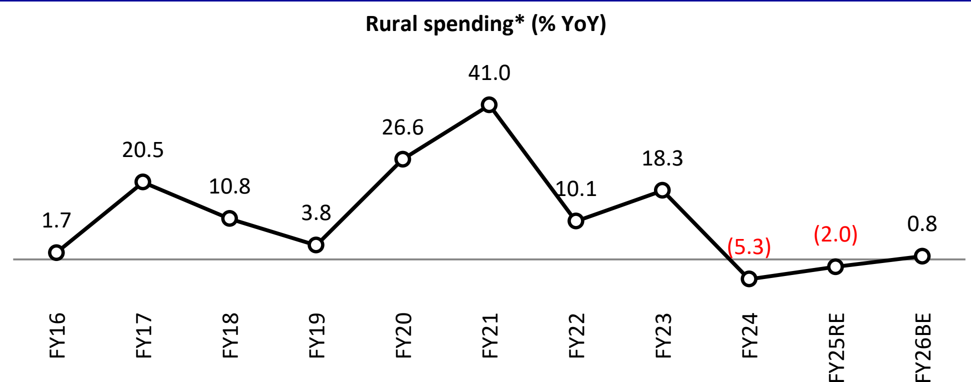
Source: Union Budget documents, MOFSL

Rural spending budgeted to grow 0.8% in FY26BE

Rural spending grew 0.8% in FY26BE after declining for two consecutive years

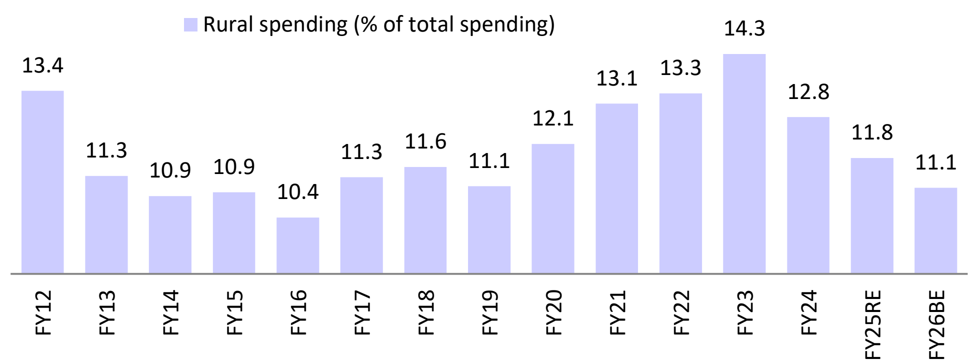
Rural spending is budgeted to increase slightly to INR5.6t in FY26BE vs. INR5.55t in FY25RE, implying a growth of 0.8% YoY, following a contraction of 2.0% in FY25RE and 5.3% in FY24. However, the share of rural spending in the GoI's total spending came down to a seven-year low of 11.1% in FY26 vs. 11.8% in FY25RE *(Exhibits 16 and 17)*.

Exhibit 16: Rural spending grew 0.8% in FY26BE



*Ministry of rural development, Panchayati Raj, Fertilizer and Agriculture

Exhibit 17: Share of rural spending in total spending at a 7-year low in FY26BE



Source: Union Budget documents, MOFSL

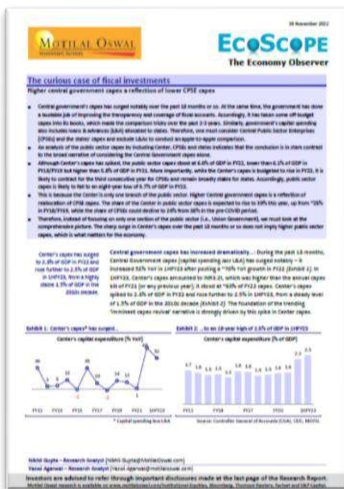
Focus shifts from capex to consumption/savings

FY26 fiscal deficit budgeted at 4.4% of GDP, focus on fiscal consolidation remains intact

The new government presented its first Union Budget on 1st Feb'25. 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 a receipt growth of 11.1% (with nominal GDP growth of 10.1%) and spending growth of 7.4%.

For the first time in many years, center's receipts forecasts look aggressive. There are two reasons: 1) with higher tax rebates, budgeted growth of 14.4% YoY in personal income taxes looks optimistic, and 2) a growth of 12.3% in dividends may be a challenge even if the RBI transfers dividends worth INR 2t. Overall, we believe there could be a shortfall of INR 600-800b in total receipts.

At the same time, the GoI has budgeted a growth of 6.7% YoY in revenue spending and 10.1% growth in capital spending. Total spending is budgeted to fall to 14.2% of GDP next year vs 14.6% in FY25RE and 15% in FY24. If, however, there is a shortfall in total receipts, there could be a corresponding fall in total expenditure (with lower capex) next year, as deficit target could be sacrosanct.


Motilal Oswal

EcoScope

The Economy Observer

The curious case of fiscal investments

Notably, as highlighted in our recent report, a large portion of the GoI's higher capex is re-allocated from the internal and extra-budgetary resources (IEBR) of central public sector enterprises (CPSEs). After declining at an average of 10% between FY21 and FY23, IEBR capex grew 2.9% YoY in FY24, and is expected to grow 4.4%/12.9% YoY in FY25RE/FY26BE. If so, the combined capex of the center (excluding loans & advances and equity infusion to BSNL) and CPSEs (excluding FCI) is budgeted to grow 13.4% YoY in FY26, following a growth of 4.7% in FY25RE. It also implies that the combined capex is budgeted at 3.7% of GDP in FY26BE, slightly better than 3.6% of GDP in FY25RE and lower than 3.8% of GDP in FY24.

Overall, there were two big changes in the Union Budget 2025-26. For the first time in almost a decade, the GoI focused more on consumption and savings, rather than capex. We need to keep a keen eye on whether this change is a one-off or if it suggests a change in the paradigm. Secondly, after many years, the receipt projections look aggressive.

Although there has been a large downward revision in center's capex in FY25, the adverse economic impact will be limited because a majority of the revision is due to lower spending under the 'new scheme', which was never defined. This year also, the GoI has allocated INR 417b on 'new schemes' under the Department of Economic Affairs.

The GoI has also announced to shift to target debt-to-GDP ratio from the next year, rather than fiscal deficit target. Assuming a growth of 10.5% over the next five years (FY27-FY31), fiscal deficit will have to consolidate by 0.2ppp of GDP every year to reach debt-to-GDP ratio of 49.7%. It means that if nominal GDP growth is weaker, more consolidation will be required to meet debt targets.

AGRI Budget Impact: Positive Sector Stance: Positive

The Union Budget 2025-26 prioritizes the welfare of farmers and agricultural growth. Key announcements influencing the agriculture sector and farmers include:

Area	Key proposal	Impact
Fertilizer subsidy for FY26 marginally declined to INR1,679b *(vs. FY25 Budget allocation)*	❖ The total budget allocation for fertilizer subsidy marginally declined to INR1,679b (Urea subsidy flat at INR1,189b, while complex fertilizer subsidy declined to INR490b, i.e., 2% vs. FY25 RE). The current prices of key raw materials, Amonia/Phosphoric Acid, have increased by 14%/9% vs. the last nine-month average, while Potassium prices fell 1%. Any further increase in the raw material prices can result in an additional subsidy announcement by the government.	**Neutral**
Enhancing agricultural productivity	❖ The government will launch the **Prime Minister Dhan-Dhaanya Krishi Yojana** with states to boost agricultural activity in 100 low-productivity districts. It aims to enhance productivity, promote crop diversification, improve irrigation, expand post-harvest storage, and increase credit access, benefiting 170 million farmers.	**Positive**
Phosphoric Acid	❖ Tariffs for Phosphoric acid have been reduced to 7.5% from 20% earlier. Positive for complex fertilizer companies	**Positive**
Cotton productivity	❖ This five-year mission will enhance cotton farming productivity, sustainability, and extra-long staple varieties using advanced science and technology. It aims to boost farmer incomes and ensure a steady supply of quality cotton to revitalize India's textile sector.	**Positive**
Urea plant in Assam	❖ Reopening three dormant urea plants in the eastern region and establishing a new plant in Namrup, Assam, with a capacity of 12.7 lakh metric tons annually. The government aiming for self-sufficiency in urea consumption.	**Positive**
Enhanced credit through KCC	❖ The **Kisan Credit Card (KCC)** scheme will support 77 million farmers, fishermen, and dairy farmers with short-term loans. The loan limit under the **Modified Interest Subvention Scheme** will increase from INR300k to INR500k for KCC loans.	**Positive**
National Mission on high-yielding seeds	❖ The Mission will enhance research, develop resilient seeds, and commercialize 100+ new varieties	**Positive**

Outlook and recommendations

For the agriculture sector, the Budget prioritizes: 1) enhancing agricultural productivity through targeted schemes like the Dhan-Dhaanya Krishi Yojana and National Mission on high-yielding seeds; 2) supporting farmer income through credit support, price assurance, and infrastructure development; 3) boosting agricultural research and innovation with a focus on climate-resilient and high-yielding crops; and 4) strengthening rural economies through employment and entrepreneurship programs targeting farmers and rural youth. The government's strategy continues to emphasize long-term sustainability, productivity enhancement, and farmer prosperity, benefiting agrochemical, fertilizer, and agri-tech industries.

AUTOS

Budget Impact: Positive **Sector Stance: Neutral**

In the Union Budget 2025-26, the key positive announcement for the auto sector was the reduction in income tax for the salaried class, which is expected to help increase disposable income in the hands of consumers.

At a glance

Area	Key proposals	Impact
Nil tax for income up to INR1.27m	❖ The tax-free income limit is extended to INR1.27m. Based on this, individuals earning up to INR2.4m will receive a tax benefit of up to INR0.11m, which is sizeable.	**Positive for 2Ws and PVs**
Shift in focus from capex to consumption	❖ The govt has lowered its capex growth target for FY25. For FY26E, the roads and railways allocation for capital spending is flat, while for defense, it is up 13%.	**Negative for CVs**
Exemption of customs duty on components used in EVs	❖ The addition of 35 capital goods/machinery used in the manufacturing of lithium-ion batteries for EVs. This will boost localization and reduce dependence on China.	**Positive for EV transition**

Outlook and recommendations

The Budget brings some positive measures for the auto sector, particularly with the extension of the nil tax slab for income of up to INR1.27m. Needless to say, this will increase the disposable income in the hands of the consumer and help drive discretionary consumption. Given that this is a much-needed booster provided to the middle class, we expect this to help drive demand, especially for the entry segment in both 2Ws and cars, which have been seeing significant demand weakness over the last several years. In this context, Maruti Suzuki (MSIL) and Hero MotoCorp (HMCL) are likely to emerge as the key beneficiaries of a revival in entry-level demand in their respective segments.

Given that the government's focus seems to have shifted from "capex" to "consumption", this is likely to be an incremental negative factor for the CV sector. We were expecting the government to continue to push capex, and hence, there was an expectation that CV demand would revive, especially after a weak FY25. However, CV demand may take longer to revive. In this context, it is negative for CV-focused OEMs like Ashok Leyland.

Moreover, in order to promote localization of EVs in India and to reduce our dependence on China, the government has added 35 additional capital goods to the list of exempted goods that are required for lithium-ion battery manufacturing for EVs. MSIL and MM are our top picks among auto OEMs. Among auto ancillaries, our top picks are MOTHERSO, ENDU and HAPPYFORG.

AVIATION Budget Impact: Positive Sector Stance: Positive

In the Union Budget 2025-26, the government has launched a modified UDAN scheme to enhance regional connectivity in India. It has also announced support for greenfield airport projects in Bihar. The key announcements influencing the aviation sector are:

At a glance

Area	Key proposal	Impact
Regional Connectivity Scheme (RCS- UDAN)	❖ Requisite Infrastructure to be upgraded/revived by AAI and states based on the proposals awarded under the Scheme, with 13 new RCS airports and 100 new RCS routes. ❖ RCS air connectivity by connecting airports/heliports /water aerodromes through routes, with the operationalization of 12 new airports. ❖ Connectivity in the Northeastern Region under RCS, with four new RCS airports and 20 new RCS routes. ❖ The target is to carry incremental 40m passengers in the next 10 years through the implementation of this scheme.	**Positive**
Airport infrastructure	❖ Greenfield airports will be facilitated in Bihar to meet the future needs of the state. These will be in addition to the expansion of the capacity of Patna airport and a brownfield airport at Bihta. **(Positive)**	**Positive**
Promotion of MRO	❖ The time limit for the re-import of goods for repairs under warranty after export has been extended from three to five years. ❖ Further, the time period for the export of goods of foreign-origin ships and aircraft imported for repairs has been extended from six months to one year.	**Positive**

Outlook and recommendation

We are optimistic about the domestic aviation sector, with demand consistently exceeding pre-Covid levels. INDIGO is expanding its international presence through strategic partnerships and loyalty programs, aiming to capture a larger share of growth in the global market.

CAPITAL GOODS Budget Impact: Neutral Sector Stance: Positive

In the Union Budget 2025-26, the government has maintained its total capex outlay at INR11.2t, largely the same as in FY25BE. However, FY25 capex has been revised downward to INR10.2t. The allocation under key heads such as Railways (INR2.5t) and Roads (INR2.7t) remained flat vs. the revised estimate for FY25, while the capital allocation for Defense saw a notable hike of 13% to INR1.8t. Key announcements included asset monetization over 2025-30 to raise funds worth INR10t, continuation of interest-free loans to the states for capital investments, incentives towards shipbuilding, nuclear energy and power sector reforms.

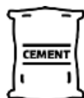
At a glance

Area	Key proposal	Impact
Capital allocation	❖ The capital allocation was flat at INR11.2t for FY26 vs. INR11.1t in FY25BE. FY25 estimates were revised downward to INR10.2t.	**Neutral**
State - interest free loans	❖ Continuation of the 50-year interest-free loans for capex to state governments worth INR1.5t.	**Neutral**
Allocation for Defense	❖ The capital outlay for Defense is hiked to INR1.8t for FY26 vs. INR1.6t in FY25RE.	**Positive**
Allocation for Railways	❖ The railway capital allocation is maintained at INR2.52t for FY26, flat vs. FY25RE. However, physical targets have been hiked for coaches (9,423) and wagons (38,000). Metro projects too have seen a higher allocation of INR312b for FY26 vs. INR247b in FY25RE.	**Neutral**
Allocation for Roads	❖ Capital allocation for roads and bridges is maintained at INR2.7t for FY26, flat vs. FY25RE allocation.	**Neutral**
Emphasis on nuclear energy	❖ Development of ~100GW of nuclear energy capacity by 2047. A dedicated fund worth INR200b (Nuclear Energy Mission) for R&D on small modular reactors (SMRs). At least five indigenously developed SMRs will be operationalized by 2033.	**Positive**
Promotion of shipbuilding	❖ Shipbuilding clusters will be facilitated to increase the range, categories and capacities of ships. Shipbuilding Financial Assistance Policy will be revamped to address cost disadvantages.	**Positive**
Power sector reforms	❖ Incentives for electricity distribution reforms and augmentation of intra-state transmission capacity.	**Positive**
Asset monetization	❖ Asset Monetization Plan 2025-30 launched to plow back capital of INR10t in new projects.	**Positive**
Jal Jeevan Mission	❖ Spending on Jal Jeevan Mission was limited in FY25 and this has seen a higher allocation of INR670b for FY26.	**Positive**

Outlook and recommendations

In the Union Budget 2025-26, government capex has seen a 10% YoY growth in allocation. This has moderated meaningfully as compared to the past 3-4 years. Lower-than-expected growth in central government capex can pose a risk to our order inflow assumptions for our coverage universe. While favorable conditions exist in the form of deleveraged balance sheets both on the corporate and banking sides, PLI schemes, tax incentives, etc., private capex has yet to see a broad-based revival. The Defense capital outlay, however, has seen healthy growth, underscoring the government’s emphasis on indigenization. We thus would now have a selective stance on the sector.

Our **top picks** in the sector are LT, ABB, and Bharat Electronics.



CEMENT Budget Impact: Neutral Sector Stance: Positive

The Union Budget 2025-26 did not include any direct announcements for the cement sector. However, the government's increased allocation to housing schemes and overall capex is expected to indirectly benefit cement demand. Further, the provision of interest-free loans of INR1.5t for 50 years to states for capital expenditure and incentives will provide indirect benefits to cement manufacturers.

At a glance

Area	Key proposal	Impact
Allocation for housing schemes	❖ Allocation for housing schemes (PMAY Urban and Rural) stood at INR750b, up ~58% vs. 2024-25R	Positive
Allocation for rail/ road projects	❖ Allocation for rail projects at INR2.5t and road projects at INR2.7t remains flat (each) vs. 2024-25R.	Neutral

Outlook and recommendations

Cement: The industry witnessed subdued demand growth in 9MFY25 due to weak government spending. However, demand started to improve from Dec'24 across all sectors, including individual housing, infrastructure development, and real estate. We expect cement demand to rebound in 1HCY25, led by the start of the peak construction period, a demand recovery in rural markets, increase in government spending, and sustained real estate demand. We estimate a demand CAGR of ~7-8% over FY25-27. UTCEM is our top large-cap pick, while JKCE is our top mid-cap pick.

CHEMICALS | Budget Impact: Positive | Sector Stance: Neutral

In the Union Budget 2025-26, the government has facilitated domestic companies by reducing tariffs on key chemicals. This budget also awarded some indirect benefits to battery chemical players as the government tries to further EV battery manufacturing in India. The key announcements influencing the chemicals sector are:

At a glance

Area	Key proposal	Impact
Changes in customs duties	❖ Other compounds containing a pyrimidine ring (whether or not hydrogenated) or piperazine ring from 10% to 7.5% ❖ Synthetic flavouring essences and mixtures of odoriferous substances of a kind used in food or drink industries from 100% to 20% ❖ Sorbitol from 30% to 20% ❖ Phosphoric Acid from 20% to 7.5% ❖ Prepared Binders, chemical products and preparations of chemical or allied industries from 17.5% to 7.5% ❖ Laboratory chemicals other than those attracting 10% BCD on specified end use from 150% to 70%	**Positive**
Benefit to battery chemical players	❖ Fully exempted cobalt powder and waste, the scrap of lithium-ion battery, Lead, Zinc and 12 more critical minerals from BCD ❖ Added 35 additional capital goods for EV battery manufacturing to the BCD exemption list ❖ Manufacturing mission to support Clean Tech manufacturing. This is aimed at improving domestic value addition and build the ecosystem for EV batteries, electrolyzer, etc.	**Positive**

Outlook and recommendation

The reduction in customs duty will decrease input costs, deepen value addition, promote export competitiveness, correct the inverted duty structure, and boost domestic manufacturing. Battery chemical players could be indirect beneficiaries of the impetus provided to EV battery manufacturing. However, the anticipated PLI scheme for the chemical sector was not announced in the budget, which is a negative.

CONSUMER

Budget Impact: Positive **Sector Stance: Positive**

The Union Budget 2025-26 has clearly shown the government's focus on driving consumption. The direct tax cuts (no tax up to INR1.2m income) will boost savings for the middle to lower middle class. The volume trajectory can see some revival, particularly for the necessary products. Besides, unchanged taxes on cigarettes and customs duty on gold and silver provide stability for the respective sectors/companies.

At a glance

Area	Key proposal	Impact
No tax hike for cigarettes	❖ The government has kept taxes on cigarettes unchanged. It is positive for ITC; its cigarette volumes will continue to grow at a healthy pace.	Positive
Revision in tax slabs and raising the 'Nil rate' slab	❖ Under the new tax regime, the government has revised the tax slabs and raised the 'Nil tax' slab up to INR1.2m income. It will result in savings of INR80,000 per tax payer with income of up to INR1.2m. The government has forgone INR1,000b direct tax through this revision in the tax slabs.	Positive
Maintain customs duty on gold/silver	❖ The government had reduced customs duty on gold and silver imports from 15% to 6% in the Jul'24 Budget, which boosted jewelry demand. Maintaining this rate in this Budget gives more stability for jewelry consumption.	Positive

Outlook

The recent revision in tax slabs, including raising the 'Nil tax' slabs, is expected to bolster disposable income, thereby aiding consumption recovery. Staple companies have seen significant growth deceleration during FY23-25 vs. FY19-23/FY13-23. Urban consumption has already been seeing pressure. Tax savings can provide an essential boost to the recovery. Accordingly, staple companies are the clear winner, particularly when such savings can be used for more essential products. Other consumer verticals like QSR/innerwear/ liquor are also expected to see an uptick in demand.

There was also relief for cigarette companies as there was no change in the tax rate. Cigarette volume recovery has been healthy, and stable taxes should further help to sustain volume growth for ITC. Furthermore, the unchanged customs duty on gold and silver imports is favorable for jewelry companies. This stability is likely to expedite the formalization of the sector and strengthen the demand trends.

CONSUMER DURABLES Budget Impact: Positive Sector Stance: Positive

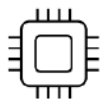
The Budget has proposed power sector reforms, which could boost demand for cables and wires, including specialized cables and fiber optic cables, in the domestic market. Further, it has proposed income tax relief (tax exemption for income up to INR1.2m), which is expected to increase disposable income and potentially boost demand for consumer durable products.

At a glance

Area	Key proposal	Impact
Cables and wires	❖ Power sector reforms with an increase in intra-state transmission capacity by states ❖ Nuclear Energy mission with a target of 100GW by 2047 and an allocation of INR200b for the development of small modular reactors ❖ Expansion of broadband connectivity in government schools and health centers under BharatNet projects.	Positive
Durables including appliances	❖ Income tax relief (tax exemption for income up to INR1.2b)	Positive

Outlook and recommendations

Consumer Durables: Cables continue to deliver robust growth, driven by strong demand in domestic markets and a pick-up in international demand. However, wire demand slowed down in 3QFY25 due to a drop in copper prices and destocking by dealers. Channel inventory for wires has returned to normal, and considering the commodity price trend, distributors have started to stock up on products. Demand for small appliances, lighting, refrigerators, and washing machines was subdued due to slowing consumption across various sales channels, including general trade, modern retail, and e-commerce. However, demand for cooling products (mainly RACs) is rising in anticipation of a strong summer season. POLYCAB and VOLT are our preferred picks in this space.



EMS | Budget Impact: Positive | Sector Stance: Positive

The Union Budget 2025-26 reflects the government's continued focus on boosting the electronics manufacturing services (EMS) sector, aligning with its goal of making India a global hub for electronics production. Key budget announcements influencing the EMS sector are:

Area	Key proposal	Impact
Presumptive taxation for non-residents	❖ Introduction of a presumptive taxation regime under Section 44BBD for non-residents providing services/technology to EMS firms, with an effective tax rate of less than 10% on gross receipts.	Positive
Production-linked incentive (PLI) scheme	❖ Enhanced allocation of INR28b (from FY24-25 revised INR57.8b to INR90b in FY25-26 budgeted) under the PLI scheme to support domestic electronics manufacturing.	Positive
Support for integration with global supply chains	❖ The Centre will provide support for creating and increasing domestic manufacturing capacity for the integration of the Indian economy with global supply chains to capitalize on Industry 4.0 opportunities.	Positive
Inputs and parts for LED/LCD TV panel manufacturing	❖ The reduction in BCD from 2.5% to Nil on inputs and parts of open cells for LED/LCD TV panels is expected to lower manufacturing costs for the Indian EMS sector, encouraging greater production of TV panels domestically while enhancing cost competitiveness for EMS companies.	Positive
Interactive flat panel displays (completely built units - CBU)	❖ The 10% to 20% increase in BCD on CBUs of interactive flat panel displays is likely to raise import costs for the Indian EMS sector, encouraging domestic production.	Positive

Outlook and recommendations

The Union Budget 2025-26 presents a positive outlook for the Indian EMS sector, with key measures aimed at boosting domestic manufacturing and competitiveness. The introduction of a favorable presumptive taxation regime for non-residents, an increased allocation under the PLI scheme, the push for Industry 4.0 integration, and the reduction in BCD on components like LED/LCD TV panels will lower production costs, promoting cost-efficient manufacturing. These steps position India as a growing hub for electronics production, offering significant growth opportunities. EMS companies will leverage these initiatives by expanding domestic production, particularly in areas like LED/LCD TV panels, and invest in Industry 4.0 technologies to stay competitive.

FINANCIALS Budget Impact: Neutral Sector Stance: Positive

The Union Budget 2025-26 announcements were overall neutral for the BFSI sector. The key government recommendations were included: 1) the enhancement of the credit guarantee scheme for MSMEs and startups; 2) KCC credit limit has been increased from IN0.3m to INR0.5m; 3) customized credit card with INR0.5m limit for microenterprises under the Udyam portal; 4) development of Grameen Credit Score framework catering to the needs of micro enterprises registered under the Udyam portal; 5) the allocation of PMAY CLSS has been reduced in EWS/LIG from ~INR30b to INR25b, while it remains unchanged in CLSS-MIG at INR10b; 6) increase in FDI limit to 100% from 74%; 7) clarity on taxation on gains from the sale of ULIP.

At a glance

Area	Key proposals	Impact
Credit guarantee schemes for MSMEs and startups	❖ Enhancement of credit guarantee cover: 1) For MSMEs, INR50m to INR100m, leading to addition credit of INR1.5t in the next five years. 2) For Startup, from INR100m to INR200m; the guarantee fee moderated to 1% for loans in 27 focus sectors; 3) For well-run exporter MSMEs, term loans up to INR200m.	Positive
Kisan Credit Cards	❖ Limit enhancement for Kisan Credit Cards from INR0.3m to INR0.5m. This is expected to improve penetration as well as spends for KCC.	Positive
Credit cards	❖ The govt will introduce customized credit cards with the INR0.5m limit for microenterprises registered under the Udyam portal. In the first year, 0.1m such cards will be issued. That said, the scale for the said proposal remains small.	Neutral
Grameen credit score	❖ Public sector banks will develop a 'Grameen Credit Score' framework to serve the needs of SHG members and people in rural areas. This measure will serve the purpose of financial inclusivity as well as penetration of MFI in rural areas.	Positive
PMAY CLSS	❖ The allocation for the CLSS under the PMAY2.0 has been adjusted. The allocation for the economically weaker section (EWS) and lower-income group (LIG) categories has been reduced from ~INR30b to ~INR25b. Meanwhile, the allocation for the middle-income group (MIG) remains unchanged at INR10b. Hence, the total allocation under PMAY CLSS has been reduced to ~INR35b from ~INR40b last year.	Only Sentimentally Negative
Power financing	❖ To incentivize electricity distributions reforms and augment intra-state transmission capacity by states. This will improve financial health and capacity of electricity companies. Additional borrowing of 0.5% of GSDP will be allowed to states, contingent on these reforms.	Positive
Increase in FDI Limit from 74% to 100%	❖ This will boost the flows and increase penetration in the insurance industry. New insurance companies could set up shops, but it will take some time.	Positive
Clarity on taxation in ULIP	❖ This clears the ambiguity of taxation on ULIPs – whether to be charged as capital gains or income from other sources. Clarity will only help sales of ULIPs.	Positive

Revision in TDS rates - Positive

	Present TDS Threshold	Proposed TDS Threshold	With effect from
194K - Income in respect of units of a mutual fund or specified company or undertaking	5,000	10,000	01-04-2025
Section 194H - Payment of commission or brokerage	15,000	20,000	01-04-2025

Outlook and recommendation

NBFCs: The reduced allocation for the PMAY CLSS scheme could be negative for housing finance companies in the affordable segment. In our view, this is a neutral event given that the government, in the past, has been flexible in exceeding the budgetary allowance if there is enough demand under the scheme. The enhancement of the MSME credit guarantee is expected to generate an additional credit of INR1.5t over the next five years, serving as a positive catalyst for companies involved in MSME financing. Meanwhile, the government's incentives for electricity distribution reforms are aimed at strengthening the financial health and operational capacity of power companies. Our top picks in the sector are Shriram Finance, PNB Housing, and PFC/REC.

METALS — Budget Impact: Neutral — Sector Stance: Positive

There was no significant budget proposal for the metals sector. Capex for FY26BE is pegged at INR11.2t, compared to INR10.2t in FY25RE. The government introduced certain measures, such as custom duty reduction/removal on scrap, to enhance supply and meet the improving demand from the manufacturing sector.

At a glance

Area	Key proposals	Impact
Capex	❖ Overall Infrastructure capex increased from INR10.2t to INR11.2t in FY26	**Neutral**
Customs Duties (Critical Minerals)	❖ Waste/scrap of lithium, copper, and cobalt are fully exempt from customs duties	**Neutral**

Outlook and recommendations

- The infrastructure sector accounts for ~60% of the total domestic steel demand, with construction at ~20% and automobiles at ~8%. Domestic steel demand remains muted, driven by factors such as the general election, slow-rate capex, and higher imports. With muted capex in FY26, demand is likely to improve only gradually.
- JSW Steel and Coal India are **our top picks**.

OIL AND GAS

Budget Impact: Negative **Sector Stance: Positive**

Contrary to media reports, no capital support has been provided to Oil Marketing Companies (OMCs) in the Union Budget 2025-26. Further, no reduction in CNG excise duty was provided in the current Budget.

At a glance

Area	Key proposals	Impact
Capital support	❖ No capital support has been provided to OMCs against LPG under-recovery.	Negative
Capital support	❖ The government did not announce any payment to Indian Strategic Petroleum Reserve Limited (ISPRL) for crude oil reserves. However, an expenditure of ~INR56b has been budgeted for FY26.	Positive
Revenue support	❖ LPG subsidy for LPG Connection to Poor Households has been reduced by INR36b, to INR91b for FY26.	Negative

Outlook and recommendation

While the absence of capital outlay support for OMCs is sentimentally negative, we do not expect a severe negative stock price reaction, as:

- OMCs have continued to maintain robust marketing margins of INR5-9/lit, even with Brent crude at USD77/bbl.
- OMC balance sheets are in a much-improved situation, with ND/E improving to 1.0-1.5x by FY26E.
- For controlled products like LPG, the Oil and Gas Ministry, on behalf of OMCs, can continue to request the Finance Ministry for support.
- **We have a buy rating on both HPCL and IOCL.**

REAL ESTATE Budget Impact: Neutral Sector Stance: Positive

In the Union Budget 2025-26, the government is encouraging the existing homeowners to purchase a second house by proposing zero tax on a second self-occupied house. Other key budget announcements influencing the real estate sector are:

At a glance

Area	Key proposal	Impact
SWAMIH Fund 2	❖ SWAMIH Fund 2 (Special Window for Affordable and Mid-Income Housing) will be established as a blended finance facility with the contribution from the government, banks and private investors. This INR150b fund is aimed at an expeditious completion of another 100k housing units.	Positive
Tax rebate on 2nd self-occupied property	❖ Previously, taxpayers were only allowed to claim the annual value of one self-occupied property as zero, while any additional properties were taxed based on deemed rental income. The Budget 2025-26 proposal allows taxpayers to claim the annual value of two self-occupied properties as zero. This amendment provides significant tax relief, reduces compliance burdens, and encourages homeownership without having to pay income tax on notional rental values of self-occupied homes.	Positive

Outlook and recommendations

In the Budget, there was no direct announcement for the sector, but a key proposal allows the existing homeowners to claim two houses as self-occupied instead of one earlier, and they will not be required to pay the tax on the two self-occupied properties. This announcement is expected to boost demand for the second home/holiday home. Additionally, the government focuses on providing relief to homebuyers by establishing SWAMIH Fund 2, which will help to complete 100k homes in stalled projects.

TELECOM | Budget Impact: Positive | Sector Stance: Positive

Telecom receipts down ~33% in FY26RE

At a glance

Area	Key proposals	Impact
Telecom Receipts	❖ Telecom receipts are down 33% from INR1.2t in FY25 to INR820b in FY26. Further, there will be a capital infusion of INR338b into BSNL in FY26BE (vs. INR720b in FY25RE).	Positive
Bharatnet Project	❖ BharatNet allocation was increased sharply from INR65b to INR220b as the government plans to provide Broadband connectivity to all the government secondary and primary health centers in rural areas.	Positive

Outlook and recommendations

- **Implication of lower telecom receipts**: Given that the current moratorium on spectrum and AGR dues ends in Oct'25, we estimate telcos' total regulatory payouts (incl. annual LF/SUC payments, deferred spectrum and AGR payments) to rise from ~INR652b to ~INR861b. However, we note the capital infusion into BSNL is usually a double entry, which gets captured as both telecom receipts and expenses for the Ministry of Communications. Adjusting for the capital infusion into BSNL, the telecom receipts are likely budgeted at ~INR490b, which would imply a potential moratorium extension or waiver on AGR dues in FY26. A moratorium/waiver on spectrum/AGR dues would be positive for **Vodafone Idea > Indus Tower > Bharti Airtel.**
- **Implication of higher BharatNet allocation:** An increased budgetary allocation for BharatNet could be positive for companies such as **Tejas Networks**.

UTILITIES Budget Impact: Positive Sector Stance: Positive

Budget 2025-26 continues to emphasize clean energy transition

The Union Budget 2025-26 has carried forward the government's vision to encourage clean technology manufacturing, reform and invest in electricity transmission and distribution, and make further progress toward developing nuclear energy infrastructure. The government allocation of INR860b for public sector power enterprises was up 21% from INR710b in FY25RE. The bulk of the rise in capex, though, has already been known and guided by the companies in their earnings calls.

Capex under the Reform-Linked Distribution Scheme is set to increase to INR160b in FY26BE from INR127b in FY25RE, aimed at strengthening the financial and operational performance of power distribution companies.

Additionally, investment in solar energy is projected to jump 61% to INR242b in FY26BE from INR150b in FY25RE, reflecting a strong commitment to expanding renewable energy capacity. The Budget also tweaked the duty on modules and cells from 40% to 20% and 25% to 20%, respectively. While utility-scale projects are unlikely to be impacted by these duty tweaks (due to the compulsion to buy domestic modules and cells), C&I projects should see capex/MW decline.

The central government also announced a firm plan to set up five small nuclear reactors by 2033, which is positive for NTPC and Tata Power.

Area	Key proposals	Impact
National Manufacturing Mission	❖ The mission will provide support for clean technology manufacturing, focusing on improving domestic value addition and ecosystem development. ❖ Key areas of focus include solar PV cells, EV batteries, motors and controllers, electrolysers, wind turbines, very high voltage transmission equipment, and grid-scale batteries.	Positive
Power Sector Reforms	❖ Electricity distribution reforms will be incentivized to enhance financial health and operational capacity of electricity companies. ❖ States will be encouraged to augment their intrastate transmission capacity to improve grid reliability and an additional borrowing allowance of 0.5% of GSDP will be granted to states contingent upon the implementation of these reforms.	Positive
Nuclear Energy Mission	❖ A target of 100 GW of nuclear energy capacity by 2047 is set as part of energy transition efforts. ❖ Amendments to the Atomic Energy Act and the Civil Liability for Nuclear Damage Act will be considered to facilitate private sector participation. ❖ A dedicated Nuclear Energy Mission will be launched with an R&D outlay of INR 200b for the development of small modular reactors (SMRs). ❖ At least 5 indigenously developed SMRs will be operationalized by 2033.	Positive
Investment in Public Enterprises of the Power Sector	❖ Capital expenditure (capex) in public sector power enterprises is set to increase by 21% to INR 860b in FY26BE (from INR 710b in FY25RE). Some of them being: ➢ PGCIL: INR 250b (+25% YoY) ➢ SJVN: INR 120b (+71% YoY) ➢ NTPC: INR 260b (+15% YoY)	Positive
Customs duty rate changes	❖ Duty on solar cells decreased from 25% (+2.5 SWS) to 20% (+7.5 AIDC). ❖ Duty on Solar Module and other semiconductor devices and photovoltaic cells from 40% (+4 SWS) to 20% (+20 AIDC). ❖ Duty changes are positive for RE generation companies in our coverage	Positive

Outlook and recommendation

The power sector remains a key focus area among the six priority domains identified by the government for transformative reforms. Over the next five years, these reforms will strengthen the sector's growth potential, enhance global competitiveness, and drive sustainability and efficiency in India's energy landscape.

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