India Strategy

FY26 Union Budget – Reinforces the pivot to consumption

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The FY26 Union Budget tax cut raises net incomes by 2-7% for India's upper middle-class. It reinforces our thesis of a consumption recovery in 2HCY25, and we see the market pivoting to consumption from industrials and manufacturing. Consumer Discretionary is our favored route to play the theme; staples and financials also benefit, but both sectors suffer from a fundamental growth-valuations disconnect. We adjust our model portfolio to add weights in Consumer Discretionary and Financials, funded by a cut in Energy. *Read this note (link) from our Chief Economist Madhavi Arora for a detailed macro impact*.

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Consumption stimulus

The government proposes a cut in income tax incidence on incomes below Rs2.5mn which raises effective incomes by 2-7%, assessing the total stimulus at Rs1trn (0.3% of GDP). This by itself may not be enough to reverse the consumption slowdown but there are other positives in play too. Jobs are turning around, and we expect retail loan growth to bounce back in FY26, especially in the unsecured segment. Other benefits of the tax cut are that the cut, to a small extent, helps the overall credit environment: retail deposits, credit capacity, and asset quality. A key risk is the optimistic buoyancy in the implied 15% YoY (BE) growth in personal income taxes.

Fiscal consolidation = Capex slowdown

The government stayed on the path of fiscal consolidation with a BE of 4.4% of GDP. This has come partly at the cost of capex, with growth slowing to 10% YoY (BE/RE) for FY26 vs 31% CAGR during FY21-24. We expect capex/GDP for the economy to peak at current levels as neither, the state governments nor corporates, are likely to pick up the slack from the Central Government. It is not all doom and gloom though: a steady 10-12% multi-year growth still gives a base level of impetus to the overall economy. Power and Real Estate are the bright spots in the capex story. The upside to the story is the Rs10trn, 5-year asset monetization plan – that could unlock large resources for another capex surge. The plan for FY26 is however subdued at Rs400bn, so this is a more of a long-term play.

Market view

The budget does not change our overall view of the market. We stick with our Dec-25 Nifty target of 25,000, based on a conservative 21.1x trailing P/E. We retain our tilt toward consumption and add to our overweight on Consumer Discretionary (CD), which is our preferred route to play the theme. Incremental growth is sharpest for these sectors and valuations are still reasonable. The other beneficiaries are Staples and Financials, but both sectors suffer from a valuation-growth mismatch, and any rally should be short-lived. We trim Energy to fund the shift to CD in our model portfolio. Stock changes are: Add Maruti, Paytm; remove ONGC; and trim BPCL. Our top picks for 2025 are: Largecaps – Lupin, Zomato, and Tata Motors; Midcaps – IndusInd Bank, Escorts, and One97 Communication; Smallcaps – StoveKraft, Metropolis Healthcare, and Quess Corp.

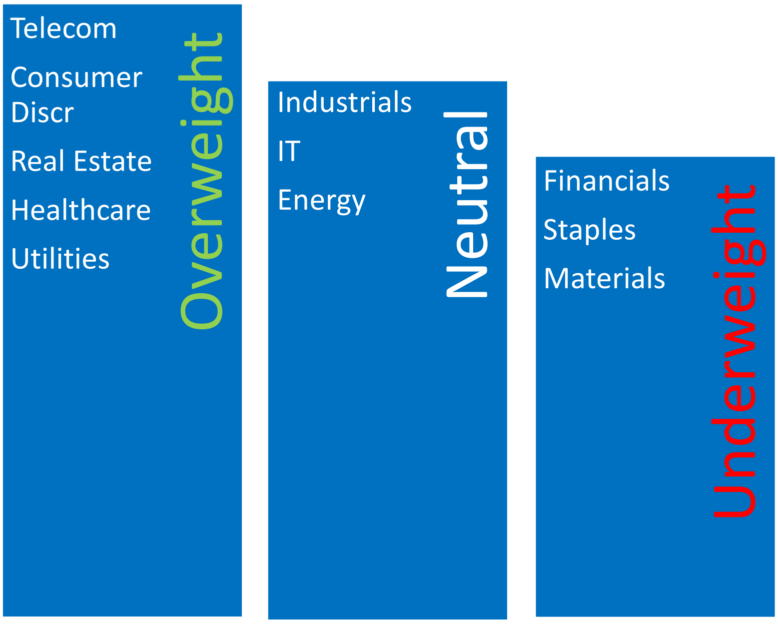
Trump tariff impact

The US imposed tariffs on Canada, Mexico, and China over the weekend. Implications for India: i) A relative benefit to Indian exports to the US, but that should be negated by China's reaction (likely price cuts). ii) Another round of DXY appreciation, which would hurt equities and the currency (making the Feb-25 rate-cut that much more difficult). We note that the tariff action was far more benign than originally threatened. Further downside risk would come from any direct action on India, but that is not our base case. Exhibit 5 showcases Indian companies' facilities in Mexico for assessing the impact of tariff imposed.

Model portfolio changes

- We see Consumer Discretionary as the best way to play the consumption theme. The sector is going through a cyclical downturn, so a recovery will benefit companies disproportionately. Valuations are more moderate (PER of 23x on FY26) than for Staples, especially when adjusted for growth. We add Maruti to the model portfolio to reflect this view and increase the weight to 21% (10% OW vs BSE-200).
- Despite the obvious near-term positives, we retain UW on staples. i) The delta in growth from a cyclical upturn is more subdued for this sector. ii) Valuations are still more expensive (P/E of 32.4x on FY26). iii) The sector's growth-struggles, in our opinion, reflect more than just weakness in the underlying market.
- We add Paytm as a proxy consumption play, which pushes up our headline financials weightage to 23% (7% UW vs BSE200). We are still cautious on lending financials, even though the next quarter looks rosy for the sector. The tax cuts, combined with some kind of monetary easing, could spur a short-term rally, which we would use to lighten positions.
- We downgrade energy to Neutral. We see no potential triggers in the short term, with a weak cycle and no significant earnings bump. Valuations (P/B) are not rock-bottom either. The longer-term thesis for OMCs benefiting from lower oil prices is valid, but we would wait for either an earnings bounce or historically-low valuations to take an OW position.

Exhibit 1: Overall Sector Positioning



Source: Bloomberg, Emkay Research

Exhibit 2: Key changes in the Model portfolio

Stocks Added	Increased Weightage	Stocks Trimmed	Stocks Removed
Maruti Suzuki	One97 Communications	BPCL	ONGC
	Reliance		

Source: Company, Bloomberg, Emkay Research

Exhibit 3: Emkay Model Portfolio

Stock	Weight in EMP	Reco	TP (Rs)	Price (Rs)	M Cap (Rs bn)	EPS growth (% YoY)			ROE (%)			P/E (x)		
						FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E
Bharti Airtel	6%	ADD	1,325	1,623	9,714	38.0	68.4	57.8	10.8	15.8	20.5	77.9	46.2	29.3
Tata Motors	4%	BUY	950	707	2,960	4,313.4	(30.8)	18.6	49.8	22.7	21.9	8.4	12.1	10.2
Maruti Suzuki India	3%	ADD	12,800	12,917	4,061	55.9	4.3	11.5	18.1	15.5	15.7	31.1	29.8	26.7
TVS Motor	4%	BUY	2,800	2,555	1,214	40.0	23.0	36.5	30.2	29.7	32.5	58.3	47.4	34.7
Zomato	6%	BUY	310	236	2,281	N/A	25.4	(18.9)	1.8	2.1	1.7	614.8	490.3	604.8
Page Industries	4%	REDUCE	41,650	46,573	519	(0.4)	18.4	20.8	38.4	44.8	52.4	91.3	77.1	63.8
Dabur India	3%	ADD	550	539	955	9.8	(3.3)	9.5	20.0	17.8	18.1	50.6	52.4	47.8
Godrej Consumer Products	2%	REDUCE	1,100	1,192	1,219	9.7	2.3	19.5	14.5	15.3	17.8	63.6	62.2	52.1
BPCL	2%	BUY	375	256	1,109	N/A	(46.3)	(0.0)	47.4	13.3	17.0	3.9	7.3	7.3
Reliance Industries	6%	BUY	1,570	1,265	17,114	3.8	(48.0)	17.1	9.2	8.8	9.5	12.3	23.6	20.2
Larsen & Toubro	10%	BUY	4,550	3,448	4,741	21.1	12.4	29.0	14.8	15.9	18.1	36.6	32.5	25.2
Shriram Finance	6%	ADD	700	532	1,000	19.9	15.8	25.5	15.9	15.8	17.5	13.9	12.0	9.6
IndusInd Bank	6%	BUY	1,400	1,009	786	20.2	(28.4)	30.0	15.3	9.8	11.6	8.8	12.2	9.4
ICICI Bank	5%	BUY	1,450	1,256	8,865	27.5	13.2	9.5	18.9	18.1	17.0	21.5	19.0	17.4
One 97 Communications	6%	BUY	1,050	743	474	N/A	N/A	N/A	N/A	N/A	2.0	N/A	N/A	171.5
Infosys	5%	BUY	2,150	1,851	7,687	8.8	0.0	12.7	31.9	28.4	29.3	29.3	29.3	26.0
TCS	7%	ADD	4,500	4,073	14,737	10.2	6.8	9.4	49.6	52.0	53.6	32.1	30.1	27.5
National Aluminium Co	2%	BUY	275	198	363	5.8	147.4	(11.9)	11.9	25.6	19.3	22.2	9.0	10.2
UltraTech Cement	3%	BUY	12,800	11,259	3,251	39.8	10.8	30.9	12.3	12.1	13.9	45.9	41.4	31.6
Lupin	5%	BUY	2,800	2,056	938	344.3	64.3	38.7	14.3	20.2	23.5	49.0	29.8	21.5
Sun Pharma	5%	BUY	2,400	1,742	4,180	16.5	17.3	14.8	16.8	17.4	17.7	41.5	35.4	30.8
Wtd average	**100.00%**					**6.0**	**21.6**	**13.0**	**19.9**	**18.9**	**20.5**	**68.6**	**56.8**	**68.8**

Source: Company, Bloomberg, Emkay Research

Exhibit 4: Top Picks – Key Valuation Metrics

Stock	Reco	Market Cap	Price (Rs)	Target Price (Rs)	Upside	EPS growth (% YoY)			ROE (%)			PER / PBV (x)		
						FY24	FY25	FY26	FY24	FY25	FY26	FY24	FY25	FY26
Escorts	BUY	38,600	3,450	4,000	16%	81.2	7.9	13.6	12.1	11.7	11.9	35.7	33.1	29.1
TVS Motor	BUY	1,21,390	2,555	2,800	10%	40.0	23.0	36.5	30.2	29.7	32.5	58.3	47.4	34.7
StoveKraft	BUY	2,846	861	1,350	57%	(4.7)	34.3	36.6	8.1	10.0	12.5	83.4	62.1	45.5
IndusInd Bank	BUY	78,637	1,009	1,400	39%	20.2	(28.4)	30.0	15.3	9.8	11.6	1.4	1.3	1.1
One97 Communications	BUY	47,375	743	1,050	41%	N/A	N/A	N/A	N/A	N/A	2.0	2.6	2.1	1.9
Metropolis Healthcare	BUY	9,075	1,770	2,400	36%	(11.0)	32.1	28.0	12.3	14.6	16.6	70.9	53.7	42.0
Zomato	BUY	2,28,057	236	310	31%	(136.1)	25.4	(18.9)	1.8	2.1	1.7	614.8	490.3	604.8
Lupin	BUY	93,813	2,056	2,800	36%	344.3	64.3	38.7	14.3	20.2	23.5	49.0	29.8	21.5
Quess Corp	BUY	9,144	615	800	30%	20.9	38.1	29.3	11.4	13.8	16.8	33.8	24.5	18.9

Source: Company, Bloomberg, Emkay Research

Exhibit 5: Impact of Tariff imposed by the US on Mexico impact on Indian companies (Emkay coverage)

Company	Analyst	Sector	Mexico Exposure (USD mn)	Share in Total revenue	Comments
Hindalco	Amit Lahoti	Metals & Mining	560.0	2%	Hindalco's (Novelis) Mexico exposure remains limited
JK Tyre	Chirag Jain	Auto and Auto Ancillaries	279.7	16%	JK Tornel is set up in Mexico – almost 16% of consolidated revenue of JK Tyre
Suprajit	Chirag Jain	Auto and Auto Ancillaries	15.6	4%	Mix of US and Mexico revenue, Mexico revenue is ~4% of the consolidated revenue
SAMIL	Chirag Jain	Auto and Auto Ancillaries	557.9	4%	4% of FY25E consolidated revenue

Source:Company, Bloomberg, Emkay Research

Key impact areas from the Budget

Impact on the consumption cycle

- The lifting of the zero-tax floor to Rs1.28mn takes ~64.9mn individuals of the tax bracket (86% of total filers). The net impact to take-home at 2-7% and the net stimulus of 0.3% of GDP may not sound impressive, but the granular impact of the tax cut is significant. Also, savings rates at these income levels tend to be low, so even a small lift in disposable income can have a significant impact, both – financially and on sentiment.
- The change is applicable only for those filers using the new tax regime, under which all deductions for long-term investments have been disallowed. This will render the old tax regime redundant, in our view. In FY25, 73% of users had already opted for the new regime – this number should reach ~100% by FY26, in our view.
- We see the impact at three levels:
  - **Multiplier through leverage**. Higher disposable incomes imply greater creditworthiness, and lenders will be able to raise credit limits for many of these beneficiaries. This will act as a multiplier for their consumption patterns.
  - **Consumption propensity**. The feel-good factor created by the tax cut will spur consumption propensity. This is driven not only by current income but also by future expectations, and a sudden windfall gain adds to that optimism.
  - **Higher savings rates**. There should be some benefit to the overall savings rates. Not all beneficiaries will spend the windfall saving and lever it up – there would be some benefit to overall flows into household savings. Lower income groups (the bigger beneficiaries) save less, but the net impact may not be significant; however, there should be an incremental positive.
- This stimulus is too small by itself, to turn consumption around. We see this as an additive factor. Two bigger tailwinds to enable a recovery:
  - We see jobs turning around. The Naukri Jobspeak Index is already showing signs of a recovery in the white-collar jobs space, and the commentary from IT companies is turning increasingly constructive.
  - We expect a recovery in consumer lending in FY26, led by a lighter touch from the RBI, a peaking of unsecured NPLs, and an improvement in system liquidity.

Disinvestment and asset monetization

- The Finance Minister announced a Rs10trn plan for asset monetization over five years. This is likely to be back-ended as the budget for FY26 is relatively unambitious at Rs400bn (clubbed with privatization – 0.11% of GDP), so there is no immediate play.
- The longer-term potential of this plan is significant. An annual jump of Rs 2trn is, notionally, a 17.9% increment on FY26 BE for Central Government capex, and could see another step-change.
- The key is execution, in two stages. At the first stage, the assets must be identified and isolated from their 'mother-ships', so that outside investors can own them without encumbrances. The second stage would be price discovery – that has been a challenge as sellers (government and quasi-government agencies) have struggled to freeze an acceptable fair value.
- This has a secondary positive for financial markets. These potential InvITs (or their equivalents) could emerge as an intermediate asset class between low-risk fixed income (bank deposits and AAA bonds) and equities. There is significant white space there.

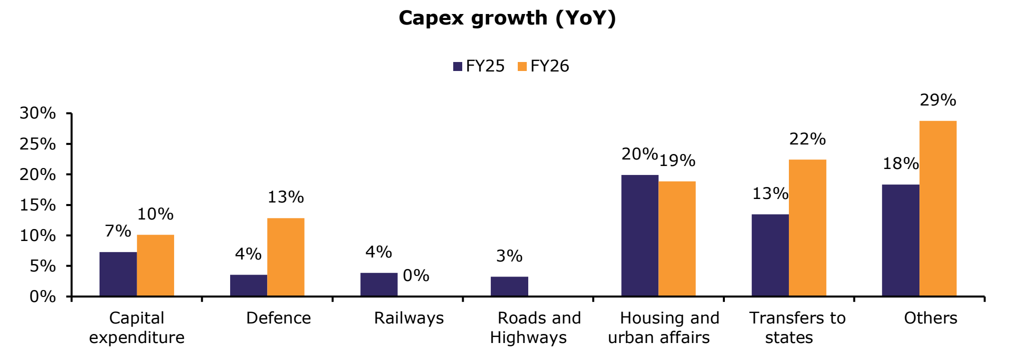
Fiscal deficit and financial stability

- The consumption stimulus did not come at the cost of fiscal consolidation. The BE for FY26 is 4.4%, lower than the earlier plan of 4.5%. The optimistic tax buoyancy assumptions do present a downside risk, but we believe that there is enough leeway for absorbing any disappointment.

- There are multiple levers to mitigate any miss on this account. The disinvestment number is moderate, and we believe that the government should now accelerate this process, given that valuations are now not a challenge.
- Financial stability is an imperative for protecting against any downside for equity markets. India's resilience against the global turmoil is heavily contingent on keeping its own house in order – the twin deficits and twin balance sheets. We believe that the continued fiscal consolidation (and a future roadmap for debt/GDP) is a big positive.
- The heavy lifting for a countercyclical policy needs to be done by monetary policy. We expect a three-pronged approach:
  - Restrictions on bank and NBFC lending should start being relaxed. The hypergrowth in unsecured lending has tempered, the NPL surge is near its peak (ex-microfinance), and digital lenders are showing better discipline.
  - The RBI's injection of liquidity on 30-Jan-2025 marks a turn in the Regulator's approach. We expect it to take more action for addressing the liquidity shortage (which could become worse), and there are enough tools in the kitty to address this.
  - We are penciling in a small rate-cut in Feb-2026. A DXY surge could put the RBI on the backfoot, but even if it needs to be postponed, we see it materializing by Apr-2025. From a stimulus perspective, the rate cut is the least important – liquidity and lending norms, by themselves, would be substantial enough.

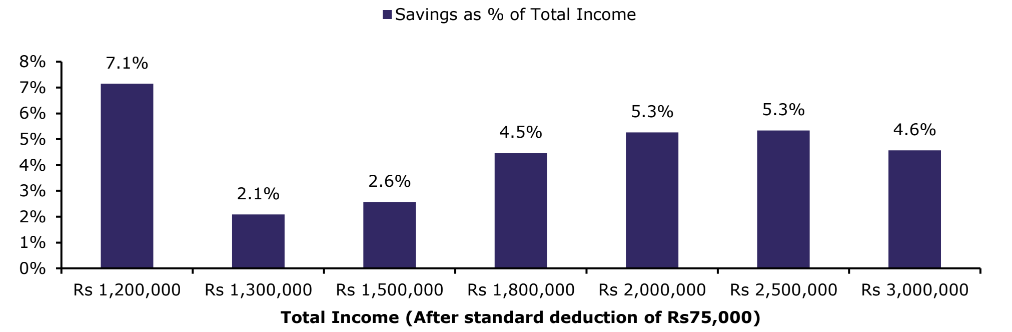
Story in Charts

Exhibit 6: Modest capex growth expected in FY26



Source: CGA, Emkay Research

Exhibit 7: Proposed tax regime to raise effective incomes by 2-7%



Source: CGA, Ministry of Finance, Emkay Research

Exhibit 8: Change in tax slabs and rates to aid tax payers in shifting to the new (proposed) tax regime

New (existing) Tax Regime			Proposed Tax Regime	
Slab	**Tax Rates**		**Slab**	**Tax Rates**
Up to 300,000	0%		Up to 400,000	0%
300,000-700,000	5%		400,000-800,000	5%
700,000-1,000,000	10%	**vs**	800,000-1,200,000	10%
1,000,000-1,200,000	15%		1,200,000-1,600,000	15%
1,200,000-1,500,000	20%		1,600,000-2,000,000	20%
more than 1,500,000	30%		2,000,000-2,400,000	25%
			More than 2,400,000	30%

Source: Ministry of Finance, Emkay Research

Sectoral and Stock implications of the Budget

Consumer Discretionary

Policy measure

Reduction of tax burden to increase disposable incomes

Impact: Indirect benefit and a much-needed boost to disposable incomes

Severity: High (benefits middle-class consumers)

Stocks affected: Positive – GOCOLORS, SAPPHIRE, WESTLIFE, JUBI, METROBR, AVL

Jewelry - Retail

Policy measure

No change in customs duty on Gold imports

Impact: Negates rumors around a potential duty increase, which could have impacted demand

Severity: Medium

Stocks affected: Positive – SENCO, TITAN

Oil & Gas

Policy measure

No one-time LPG under-recovery-based subsidy announced in the Budget. This is contrary to expectations, given MOPNG's and OMCs' recent commentaries to investors.

DBTL (BPL)/PMUY subsidy stable at Rs15/91bn for FY26BE, and vs Rs5/127bn for FY25RE. PMUY allocation for FY25 was Rs91bn earlier, and has now been revised upward to Rs127bn.

Impact: LPG subsidy may still come separately, as last time it was based on the Cabinet decision, but is negative for OMCs in the near term, given oil and LPG price volatility.

Severity: Medium

Stocks affected: Negative – HPCL, IOCL, BPCL

Policy measure

Government plans setting up a urea plant in Namrup, Assam, with capacity of 1.27mmtpa (similar to the HURL sick plant revivals).

Impact: Based on our rough-cut calculation, this could generate gas demand of 2-2.5mmscmd. Given proximity (30km) to Oil India's fields, this could support gas offtake for OIL (current gas production is 8.5-9mmscmd). Smaller players like HOEC (Not Rated) can also benefit.

Severity: Medium

Stocks affected: Positive – OINL

Policy measure

Allocation of Rs56bn toward payment to Indian Strategic Petroleum Reserve (ISPRL) for crude oil reserve in FY26BE, for filling of underground rock caverns of 5.33mmt at Vizag, Mangalore and Padur.

Impact: This should support replenishment of strategic petroleum reserves of India.

Severity: Low

Stocks affected: NA

New Energy

Policy measure

National Manufacturing Mission to provide policy support to states and ministries for solar PV cell, battery, electrolyzer, wind turbines production, etc.

Impact: This should support manufacturing of these products within India.

Severity: Low

Stocks affected: Positive – RIL

Policy measure

BCD on solar module/cells lowered, from 40%/25% to 20% each, wef 1-May-2025.

Impact: This can affect giga-factories and manufacturers, but ALMM should still protect new projects. Existing under-development RE genco projects should benefit.

Severity: Low

Stocks affected: Positive – Adani Green; Negative – RIL

Policy measure

In order to support energy transition, development of a >100GW of nuclear energy capacity by 2047 in partnership with the private sector, with amendments expected in the Atomic Energy Act and the Civil Liability for Nuclear Damage Act. Government plans setting up a Nuclear Energy Mission for R&D of Small Modular Reactors (SMRs) with an outlay of Rs200bn, with at least 5 indigenously-developed SMRs to be operationalized by 2033.

Impact: Development of nuclear power capacity in India.

Severity: Low

Stocks affected: NA

Aviation

Policy measure

Government plans launching the modified UDAN Scheme to connect 120 new destinations and 40mn passengers in the next 10 years, besides lending support to helipads and small airports in the hilly, aspirational, and NE region. Greenfield airports to be facilitated in Bihar, besides expansion of Patna airport capacity and the brownfield airport at Bihta. Push to tourism-led employment growth by developing top-50 tourist destination sites in partnership with states. This includes skill development in hospitality, MUDRA loans for homestays, improving and easing connectivity, providing PLI to states, and streamlining e-visa facilities, besides advocating religious and medical tourism.

Impact: These measures are expected to support development of new routes in India and thereby increase overall domestic air passenger traffic. The thrust on tourism for various purposes is also likely to support growth of the aviation sector in India.

Severity: Low-to-Medium

Stocks affected: Positive – Indigo

Autos

Policy measure

Tax relief for the middle class and salaried individuals

Impact: Measure would help partially address the affordability gap, particularly for potential customers in the entry/economy segment of 2Ws and PVs

Severity: Medium

Stocks affected: Positive – 2Ws (HMCL, TVSL, BJAUT); PVs (MSIL)

Policy measure

Government capex outlay for next year in key areas like Roads is unchanged vs this year's revised estimates

Impact: *Prima facie* neutral/positive for CVs; however, execution/actual disbursement holds the key.

Severity: Low

Stocks affected: Neutral/Positive – AL, TTMT

Policy measure

Increase in allocation of funds for EV incentives (combined allocation under the PM E-Drive Scheme and the E-Bus Sewa at Rs45.1bn in FY26E vs Rs39.4bn in our FY25 revised estimates, including FAME Scheme)

Impact: Shows continued focus on encouraging E-mobility; positive for the overall EV space

Severity: Medium

Stocks affected: Positive – E-2Ws (TVSL, BJAUT, Ola-Not Rated); E-buses (AL, TTMT, Olectra Greentech-Not Rated, JBM Auto-Not Rated)

Policy measure

Exemption of basic customs duty on waste and scrap of lithium ion battery; also, relief on capital goods imports for manufacturing lithium ion batteries

Impact: Government continues to encourage domestic manufacturing in sunshine sectors like EVs and lithium batteries

Severity: Medium

Stocks Affected: Positive – Amara Raja (Not Rated), Exide (Not Rated)

Consumer Durables/EMS

Policy measure

Reduction in import duty on inputs for IT and Electronics items, including PCBA parts, camera modules (for mobiles), open cells (for TV panels), etc

Impact: Lowers cost of production for EMS companies

Severity: Medium

Stocks Affected: Positive – Dixon

Policy measure

Increase in customs duty on interactive flat panel displays

Impact: Discourages imports of flat panel displays and incentivizes local players

Severity: Medium

Stocks Affected: Positive – Dixon

Policy measure

Outlay for the Large Scale Electronics Manufacturing PLI Scheme (including mobiles) in FY26E at Rs88.9bn vs our Rs57.5bn revised estimate for FY25

Impact: Demonstrates continued support for domestic electronics manufacturing

Severity: High

Stocks Affected: Positive – Dixon

Real Estate

Policy measure

Presently, tax payers can claim the annual value of self-occupied properties as nil only on the fulfilment of certain conditions. Considering the difficulties faced by taxpayers, it is proposed to allow the benefit of two such self-occupied properties without any condition

Impact: Neutral from the perspective of any incremental benefit

Severity: Low

Stocks affected: Neutral – PURVA (sector tailwinds and company-specific performance to benefit)

Building Materials (Tiles, Sanitaryware, Plywood)

Policy measure

Under the existing SWAMIH Fund, more than 40,000 stalled units would be completed in 2025. Further, SWAMIH Fund-2 will be launched with a corpus of Rs150bn and will entail completion of 100,000 units

Impact: Positive for Building Material companies that find application in the last stage of the construction cycle. These mainly include ceramic tiles, sanitaryware, and plywood

Severity: Medium

Stocks affected: Positive – KJC, CPBI, GREENP

Building Materials (Pipes)

Policy measure

The total outlay toward the Jal Jeevan Mission (JJM) as per FY25RE is just Rs230bn, which is sharply lower than the higher range of Rs550-700bn seen earlier (Rs702bn for FY25BE). However, beyond FY25, the budgeted outlay for FY26BE is Rs670bn, which will be closer to the higher range seen earlier. Also, the JJM Scheme has been extended till 2028.

Impact: The sharp cut in FY25RE outlay is consistent with the recent commentary from some PVC pipe companies which reflects the spend toward the infra segment being miniscule in the last 6-9 months (impact of the elections). Hence, it would be negative for companies in the near term, but from a medium-term perspective, increase in outlay as well as extension of the JJM Scheme would be positive for pipe manufacturing companies catering to this segment.

Severity: Medium

Banking

On an overall basis, we believe that the budget should be largely neutral for the banking/fintech sector, with no meaningful increase in direct spending or infra boost and, thus, lend support to credit growth, while higher government borrowings will lead to slightly elevated G-Sec yields and could hurt treasury gains for PSBs. That said, focus on consumption is positive from the long-term positive for bank credit. However, we believe that a direct co-relation between tax savings and deposit build-up is difficult to establish and is anyway unlikely to help in the near term. Key budget announcements and our response:

Policy measure

Enhanced credit limit under the modified interest subvention scheme through KCC, from Rs0.3mn to Rs0.5mn

Impact: Positive from the PSL perspective for PVBs, but these loans are typically prone to higher NPAs

Severity: Low – expected to impact only ~17mn farmers across India

Stocks affected: HDFCB, Axis

Policy measure

i) Enhancement of the credit guarantee cover for MSMEs to Rs100mn from Rs50mn, for startups to Rs200mn from Rs100mn, and for well-run exporter MSMEs, term loans up to Rs200mn.

ii) Customized credit cards for micro enterprises with a limit of Rs0.5mn

Impact: Higher CGTSME cover should be credit- and recovery-positive for SFBs

Severity: Moderate

Stocks affected: Positive – Ujjivan, AU SFB, Equitas and Bandhan

Policy measure

PM SVANidhi scheme – UPI linked RuPay credit cards with Rs30k limit to street vendors

Impact: Positive for credit card companies/distributors

Severity: Low

Stocks affected: Positive for PSBs, SBI Cards being key issuers, and Paytm being the distributor of RuPay Cards

Policy measure

FDI limit in the insurance sector raised to 100% from 74%, provided that the entire premium is invested in India

Impact: This should be positive for insurance companies/holdcos looking to sell their stake to foreign players, eg recently, Kotak sold 70% stake in its general insurance business to Zurich and can now further offload stake, if it wishes to

Severity: Low

Stocks affected: Positive – Kotak, Federal

Policy measure

Incentive scheme for promotion of RuPay Debit cards and low-value BHIM-UPI transactions (P2M) has been increased to Rs20bn (vs earlier Rs14.4bn) for FY25, but has been budgeted substantially lower at ~Rs4.4bn for FY26

Impact: This shall lead to higher UPI incentives in FY25 than initially planned, but should lower in FY26 for Paytechs. This could have been done primarily in the wake of the rising usage of the RuPay Credit Card and UPI on cards/PPI which attracts higher MDR; thus the government could look to gradually cut the incentive. For Paytm, UPI on Card contributes 1% of GMV and is expected to grow gradually.

Severity: Low – UPI incentive was only 3-4% of Paytm's total revenue in FY24/FY25E

Stocks affected: Immediately sentimentally negative for Paytm

Insurance

Policy measure

FDI Limits increased to 100%

Impact: The FDI limit increase would be marginally positive for the sector. It paves the way for the Hinduja Family to acquire the Reliance General and Life Insurance business. Kotak Bank can sell ~30% stake in Kotak General. This move may allow some foreign large insurers to enter India with 100% ownership via the greenfield or brownfield routes. Nothing changes materially for listed names. One can also argue that this might allow Fairfax and Bupa to up its stake in Go Digit and Niva Bupa. One may also consider some foreign Health Insurers looking at Star.

Severity: Neutral

Policy measure

Nudge toward the New Taxation Scheme

Impact: The government has, over the past few years, nudged toward the New Taxation Regime wherein Deductions under Sec 80C are not available. We see a marginal impact on listed life insurance companies, given the focus on the New Taxation Regime, as we believe this has already been in the base and Life Insurance remains the 6-7th priority in terms of investment for the 1,50,000 limit. Hence, we see limited impact from the nudge toward the New Tax Regime. A general estimate that ~6-7% of premium-/APE- dependence is on Sec80C, however, dependence of VNB is even lower and was anyway widely expected. The Sec80D impact should not be too high for Health (even if technically, a large part of health premium is benefited by Sec80D.

Severity: Marginally Negative

Policy measure

ULIPs to be taxed as Capital Gains

Impact: Certain ULIP policies were taxed at Marginal Tax rates which will now be taxed as capital gains. This would be a neutral to positive for the sector.

Severity: Neutral to Positive

Stocks affected: LIC, SBILIFE, HDFCLIFE,MAX Life, IPRU

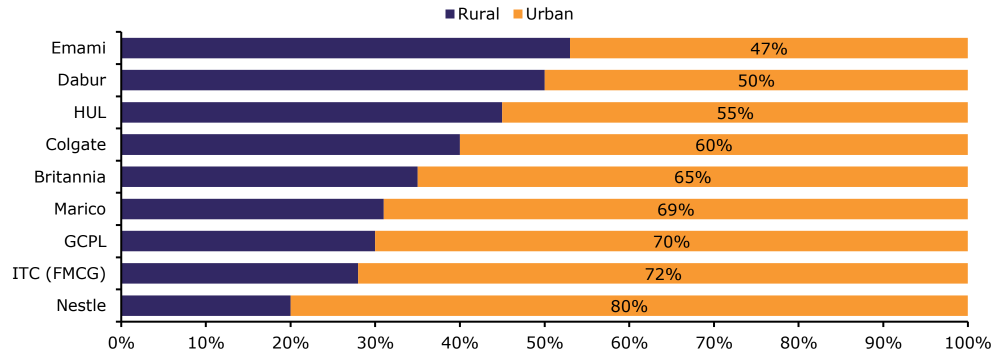
FMCG

Income tax slab change and rebate up to Rs1.2mn (under the new tax regime), positive for consumption

Impact: Urban growth has been in the slow lane for the last couple of quarters. We see announcements of tax slab revision and rebates (up to Rs1.2mn income) under the new tax regime to help boost consumption. Savings per taxpayer are likely to be Rs2,500-9,150 per month. Given the quantum benefit, we may see surge in big ticket purchases. We see part benefit for grocery categories. Such savings will most likely help arrest key concerns of category down-trading, and help absorb price hikes needed in categories, amid inflationary stress. FMCG companies will need to strategize for demand, which may have bearing on near term margin (given the need for A&P spends).

Stocks affected: All FMCG names

Exhibit 9: Share of revenue for the rural and urban market across coverage companies



Source: Company, Emkay Research

Unchanged excise for tobacco products; positive for ITC

Impact: Steady taxation is positive for overall cigarette consumption, which is seeing 3-4% annual volume growth. This will also help arrest illegal industry volume growth. Amid inflationary leaf tobacco, we see ITC margins to be stressed in the near term. Had our expectation of a mid-single-digit taxation materialized, the company would have retained volume and eased margin pressure with price hikes. ITC has historically effected price hikes only with tax changes.

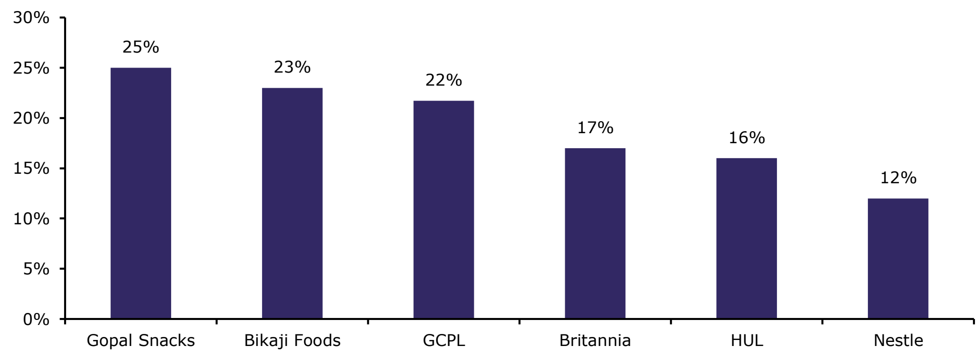
Stocks affected: ITC

Steady import duty for edible oil; ask for price hikes

Impact: Steady edible oil import duty rates imply need for price hike by FMCG companies. Along with companies, we too were hopeful of a duty rate revision amid the sharp surge in the base commodity. Now with unchanged taxation, we see the need for price hikes to nullify the impact. In our coverage, savory snacks players have 1/4th dependence on imported palm oil, 1/5th for Godrej Consumer, and 10-15% for Nestlé, Britannia, and HUL.

Stocks affected: All food companies, HUL, and GCPL

Exhibit 10: Share of palm oil in the raw material basket for select FMCG companies



Source: Company, Emkay Research

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