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2025 UNION BUDGET ANALYSIS

RATING: POSITIVE

Fundamental Research

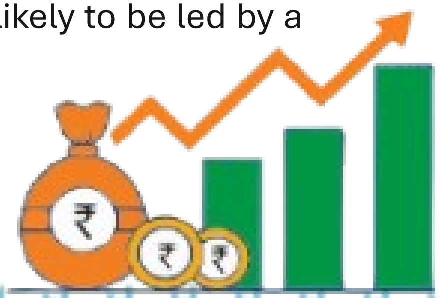
Agenda is to Raise the Disposable Income

The precursor expectations on the 2025 budget were muted. It was stemmed from the fact of moderation in government spending in 2024, a rise in geopolitical risk with high volatility in INR, the need to attain a prudent fiscal policy, and a slowing global economy. The domestic and international economy & financial environment demanded a balanced budget.

The budget has successfully delivered a well-balanced approach, combining growth with fiscal prudence. It exceeds expectations by offering substantial direct and indirect tax benefits to the middle class and the manufacturing sector, aiming to boost disposable income and drive consumption. A taxpayer with an annual income of ₹12 lakh is expected to benefit by ₹83,200 per year, supporting increased consumer spending.

The budget also drives growth across key sectors, boosting the rural economy through increased government spending and expanded Kisan Credit for agriculture. Additionally, it strengthens MSMEs - the economy’s second growth engine - by doubling loan guarantees and streamlining business operations. The overarching theme is to promote domestic manufacturing by reducing basic customs duties on inputs and advancing deregulation.

The market has taken the government drive with a mixed view because of a modest capex of 10% YoY in FY26, much below the 17% forecast for FY25. The expenditure plan for key areas like railway, defence, and infrastructure is muted to manage the reduction in total income led by direct and indirect tax benefits offered. However, the overall benefit to the economy and corporates is likely to be led by a rise in economic growth. India's nominal GDP is projected to grow by 10% in FY26.



Key Focus Areas

1. Multiply Disposable Income to Boost Consumption
2. Engine 1 – Agriculture: Improve Rural Economy
3. Engine 2 – MSME: To Enhance India's Manufacturing Back-End
4. Engine 3 – Investment: To Develop a Skilled Economy (Education, Healthcare, AI)
5. Engine 4 – Exports : Cut Custom Duty to Prosper Manufacturing in India
6. De-Regulation: Tax Reforms & Ease of Business
7. Fiscal Prudence and Moderation in Public Borrowings

Good Act of Balancing

FY26 fiscal management is stable despite a more than average cut in tax revenue, managed by a moderate increase in capex and a more than average cut in non-capex expenditure. The low growth in total income did not affect fiscal discipline, as deficit was reduced to more than expected at 4.4% for FY26, down from 4.8% in FY25RE.

Budget Plan (Rs. Bn)	FY24A	FY25(RE)	FY26(BE)
Revenue Receipts	27,290	30,880	34,204
Change(%)	*14.5*	*13.2*	*10.8*
Capital Receipts	17,144	16,285	16,449
Change(%)	*-5.3*	*-5.0*	*1.0*
Total Receipts	44,434	47,165	50,653
Change(%)	*6.0*	*6.1*	*7.4*
Revenue Expenditure	34,943	36,981	39,443
Change(%)	*1.2*	*5.8*	*6.7*
Capital Expenditure	9,492	10,184	11,211
Change(%)	*28.3*	*7.3*	*10.1*
Total Expenditure	44,434	47,165	50,653
Change(%)	*6.0*	*6.1*	*7.4*

Source: India Union Budget Document

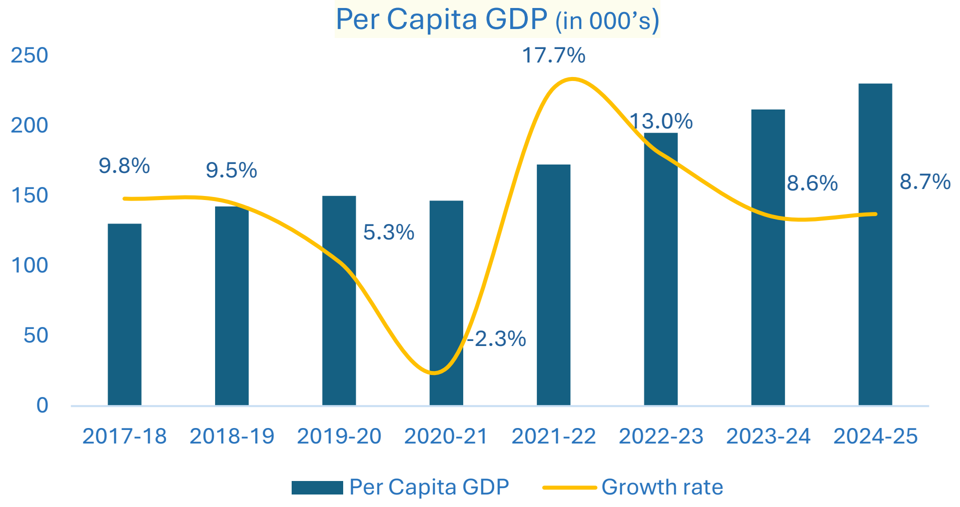
Budget Plan (Rs. Bn)	FY24A	FY25(RE)	FY26(BE)
Nominal GDP	2,92,640	3,24,114	3,56,979
Growth(%)	*8.6*	*10.8*	*10.1*
Tax Buoyancy	1.57	1.04	1.07
Change(bps)	*67.2*	*-52.7*	*2.6*
Fiscal Deficit	16,546	15,695	15,689
% of GDP	*5.7*	*4.8*	*4.4*
Borrowings	16,546	15,695	15,689
% of GDP	*5.7*	*4.8*	*4.4*
Capex	9,492	10,184	11,211
% of GDP	*3.2*	*3.1*	*3.1*

Calculations:

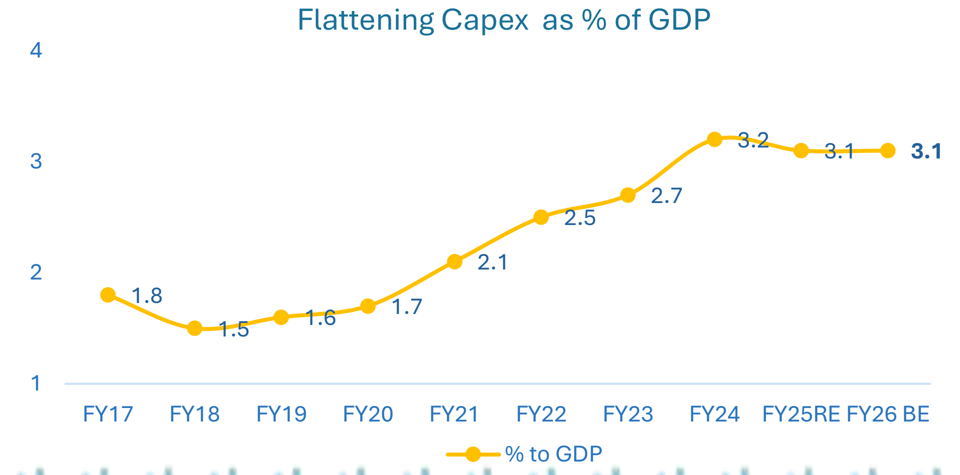
- *We have considered Nominal GDP and Gross Tax Revenue(GTR)*
- *Tax Buoyancy=% change in GTR / % change in Nominal GDP*

Maker of Consumption and Breaker of Capex & Job Creation

- Tax gains are expected to drive consumption by providing Rs.1 lakh cr of tax breaks to the consumers.
- The reduction in total income and need to curb fiscal expenditure has flattened capex as a percentage of GDP to 3.1%.
- This is likely to affect the growth of sectors like Infrastructure, Railways and Defence, along with allied players, in the short-term, dampening sentiments.
- A setback is that the GoI has not introduced new schemes or expanded existing ones to generate jobs in the economy. Unemployment has increased in the last 1-2 years. However, the government has addressed the area by investing in building a skilled Bharat on education, healthcare and AI.
- The focus is to develop India as a manufacturing hub by cutting BCD and boosting MSMEs. Further, de-regulation is expected to generate jobs in the long-term.
- The immediate beneficiaries in FY26 are sectors like FMCG, Retail, Consumer Goods, Consumer Discretionary, Agriculture and Fertilizers.



Source: Mospi



Source: India Union Budget 2025

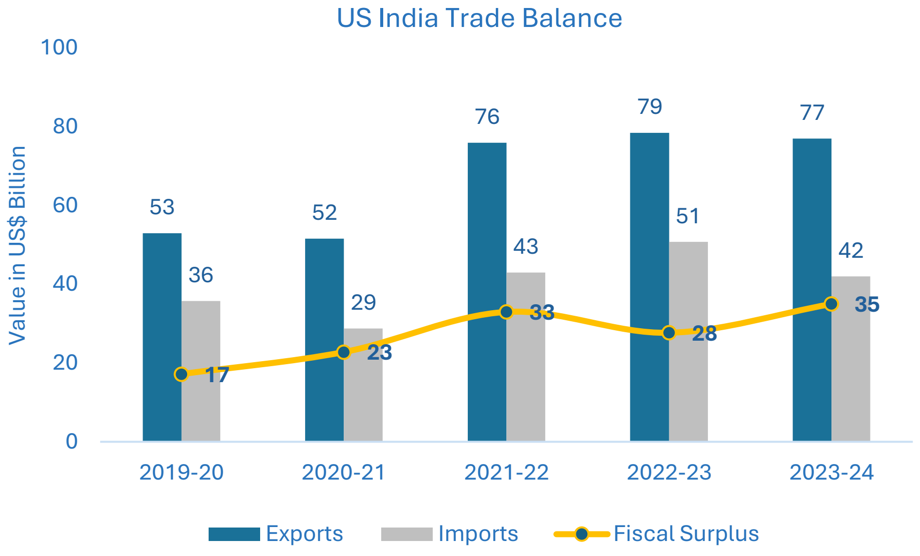
Trump - Trade Rework

Tariff Restructure

- Reduction in custom duty to 70% from the applicable 100-125% in high end cycles, motorcycles, used motor cars and automotive parts.
- Full exemption on advance energy storage solutions, precious metals, critical components and recycling of EV batteries.
- 10 years BCD exemption on the manufacturing of ships and shipbreaking.
- Procuring more aircrafts & parts from US.
- Tax certainty for electronic manufacturing and solar modules to 20% from 40%.
- Reducing the custom duty on frozen Fish Paste from 30% to 5%.

India's Future Trade Upwork

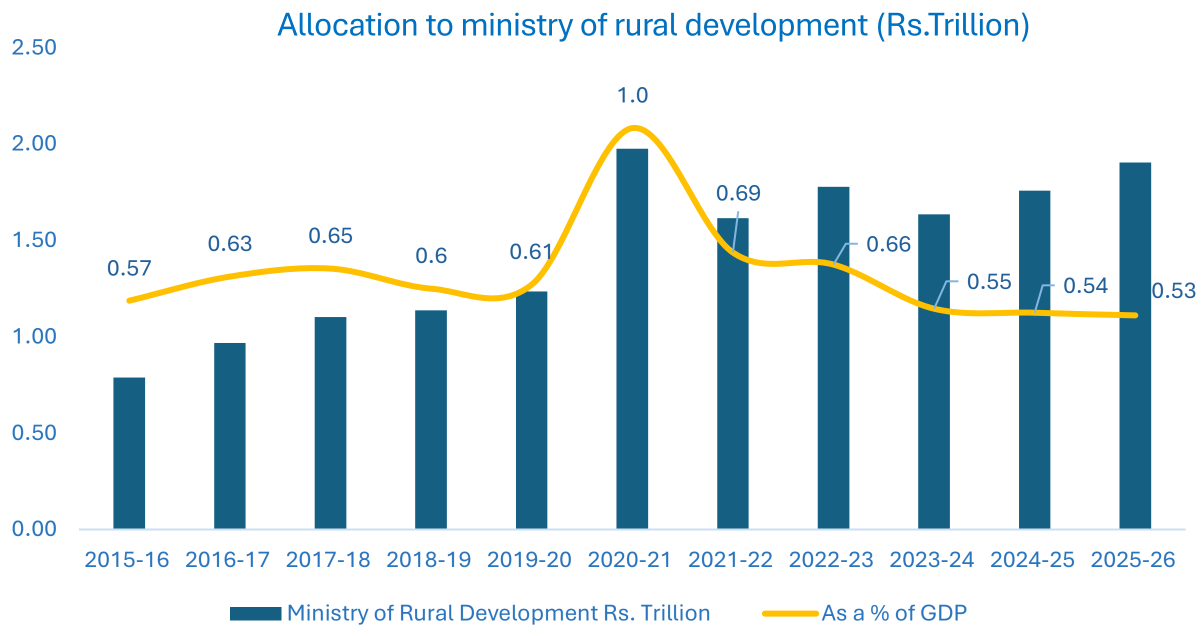
- Setting up BharatTradeNet, a digital infrastructure to provide a one-stop solution for all documentation, trade transparency and financing.
- Boosting domestic industries and deepening the global supply chain by setting up a National Manufacturing Mission for clean tech manufacturing.
- PM Gati Shakti to modernize air cargo and warehousing facilities to support exports, for toys, leather and perishable goods.
- To promote domestic production of technical textiles, exempted from customs duty.
- Setting up a national framework for GCC.



Source: Ministry of Commerce and Industries

Rural Market Measures

- The launch of PM Dhan-Dhaanya Krishi Yojana will improve productivity in 100 districts with improved practices, benefiting 1.7 crore farmers.
- Introducing a 6-year mission for ‘Aatmanirbharta’ in pulses, focusing on Tur, Urad, and Masoor, with support for procurement, climate-resilient seeds, and enhanced productivity.
- Kisan Credit Cards (KCC) loan limit will be enhanced from ₹3 lakh to ₹5 lakh to facilitate short-term loans for farmers.
- To augment urea supply, a plant with an annual capacity of 12.7 lakh metric tons will be set up in Namrup, Assam.
- Jal Jeevan Mission, extended to 2028, aims to cover 100% of rural households with potable water.
- Public sector banks will develop a ‘Grameen Credit Score’ framework to serve the credit needs of SHG members and people in rural areas.



Source: CMIE

Sector Analysis

Sector Outcomes

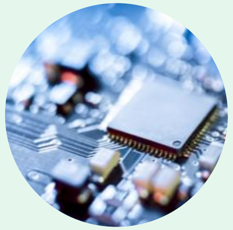
POSITIVE

Power

Stocks: NTPC, NTPC Green, Tata Power, Torrent Power, JSW Energy, L&T, MTAR Technologies, Power Mech Projects, BHEL

Rationale

- Additional incentives contingent on implementing distribution reforms and improving intra-state transmission capacity.
- 100GW nuclear energy by 2047 with private partnership. Rs.20,000cr. outlay for small modular reactors.
- Reduction in tariff rate of solar modules to 20% (+20% AIDC).



POSITIVE

EMS

Stocks: Dixon, Kaynes, Syrma, PG Electroplast, Amber

Rationale

- Ministry of Electronics and Information Technology (MeitY) allocation surged to Rs.26,026cr.(48% YoY), for Semiconductor Mission 2.0 and PLI schemes.
- Exempting duties on select PCBA sub-components to reduce manufacturing costs for mobile phones, cameras and other electronic gadgets.
- Doubling of Basic Customs Duty (BCD) to 20% on fully built Interactive Flat Panel Displays to incentivize domestic manufacturing and import substitution.

POSITIVE

Water & Sanitation

Stocks: VA Tech Wabag, Thermax, Prince Pipes, WPIL, Finolex Industries

Rationale

- Extension of Jal Jeevan mission until 2028 with revenue expenditure of Rs.67,000cr in FY26.
- Total Rs.411cr. capex (176% growth) in ground water management and regulation.
- Decrease in tariff rate for tubes or pipe fittings of stainless steel from 25% to 15%.

Sector Outcomes

POSITIVE

Fertilizers

Stocks: Coromandel International, Deepak Fertilizers

Rationale

- The enhancement of limits under Kisan credit card, will enhance credit access of farmers, enabling an increase in fertilisers demand.
- The allocation to the sector has decreased 5% YoY, due to lower allocation to subsidy schemes.

POSITIVE

FMCG & Retail

Stocks: HUL, Dabur, Nestle, Britannia, Godrej Consumer, Jyothy Labs, DMart

Rationale

- Increase in disposable income due to a cut in personal income tax.
- Initiatives like "PM Dhan-Dhaanya Krishi Yojana", along with enhanced credit through Kisan Credit Cards aim to boost agricultural productivity and income.
- Investments in rural infrastructure and job creation are expected to stimulate economic activity and consumption in rural areas.

POSITIVE

Aquaculture

Stocks: Avanti Feeds, Apex Frozen Foods

Rationale

- Higher allocation for 'Pradhan Mantri Matsya Sampada Yojana' of Rs. 2,465cr from Rs. 1,500cr (FY25RE).
- Basic customs duty on frozen fish paste reduced from 30% to 5%, and on fish hydrolysate for manufacture of fish and shrimp feeds from 15% to 5%.
- Loan limit under the Kisan Credit Cards (KCC) scheme increased from Rs.3 lakh to Rs.5 lakh for farmers and fisherfolk.

Sector Outcomes

POSITIVE

FMEG

Stocks: Havells, Voltas, Symphony, V-Guard, Blue star.

Rationale

- A major change in income tax slab rates is anticipated to boost discretionary spending.

POSITIVE

Aviation

Stocks: InterGlobe Aviation

Rationale

- Extension of UDAAN scheme to enhance regional connectivity to 120 new destinations and carry 4 crore passengers in next 10 years.

POSITIVE

Textiles & Leather

Stocks:
Textile: Arvind, Kaveri Seeds, KPR Mill
Leather: Bata India, Relaxo Footwear, Metro Brands, Campus Activewear

Rationale

- Scheme to improve cotton farming and promote Extra-Long Staple (ELS) cotton varieties.
- Revision in Basic Customs Duty (BCD) structure for knitted fabrics and exemption for shuttle-less looms.
- Scheme for boosting footwear & leather sectors.
- Exempted BCD on wet blue leather.

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Sector Outcomes

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NEUTRAL

Insurance

Rationale

- FDI cap increased from 74% to 100%.
- Tax exemptions on gains from the redemption of ULIPs with annual premiums exceeding Rs. 2.5 lakhs will be withdrawn, and these gains will now be taxed as capital gains.

NEUTRAL

Pharmaceuticals

Rationale

- Govt. has reduced the custom duties on essential drugs which will be beneficial for patients but will have limited impact on the prospects of pharma companies.
- The allocation to the sector has increased 29% YoY, due to higher allocation towards PLI schemes.

NEUTRAL

IT

Rationale

- A new AI Centre of excellence for education will be set up with a budget allocation of Rs.500cr.
- Allocated Rs.20,000cr. for the private sector-driven research, development and innovation initiatives.

Sector Outcomes

NEUTRAL

Defense

Rationale

- Total allocation (revenue & capex) increased by 6.3% from FY25RE. The capital allocation increased by ~13.0%, which is modest on a YoY basis.

NEUTRAL

Cement

Rationale

- Low growth in capital outlay at Rs. 11.2 lakh cr. (Rs. 10.2 lakh cr. FY25RE).
- 40,000 more housing units in 2025 under SWAMIH. Finance facility allocation of Rs. 15,000 cr. under SWAMIH fund 2 for expeditious completion of 1 lakh more units.
- An urban challenge fund of Rs 1 lakh cr. is to be set up for the redevelopment of cities, including sanitation (Rs.10,000cr. for FY26).
- UDAAN Scheme and Greenfield airports.
- Outlay of Rs. 1.5 lakh cr. for interest-free loans to support states for infrastructure.

NEUTRAL

Solar Cells and Modules

Rationale

- Increased competitiveness for domestic solar module manufacturers due to reduction in customs duty .
- Rs.600cr.(100% over Revised estimates) push for National Green Hydrogen mission.
- Rs.8,900cr. additional subsidies for PM Surya Ghar Muft Bijli Yojana.

Sector Outcomes

NEUTRAL

Automobile

Rationale

- A stronger rural economy and higher disposable income should boost demand for entry-level 2W and cars.
- Broader custom duty exemption on entire EV ecosystem and support for local production to enhance competitiveness and affordability.

NEUTRAL

Travel & Tourism

Rationale

- Streamline visa processes and waivers for specific tourist groups.
- Development of 50 key tourist destinations with state partnerships and integrated hotel infrastructure.
- Performance-based incentives for states to enhance tourism.
- Medical Tourism: Boosting private sector partnerships and easing visa norms to enhance access for global patients.
- Supporting Homestays through MUDRA loans may impact hotel industry.

Sector outcome

NEUTRAL

Infrastructure & Capital Goods

Rationale

- CAPEX spend increased from Rs10.2 lakh cr. (FY25RE) to Rs 11.2 lakh cr, a growth of 10% YoY, below estimation.
- Total spend on MoRTH & NHAI was flat at Rs.2.3lakhs cr. and Rs 1.7 lakh cr on a YoY basis.

NEUTRAL

Railway

Rationale

- Capital allocation for railway was flat at Rs.2.52 lakh cr.
- Spend on doubling the railway line and new lines increased by 3.1% & 2.5%, respectively.
- Allocation for rolling stock and track renewals was increased by ~13% YoY & 29% YoY, short in expectation, compared to FY25RE.

Direct Tax- Brighter Future

Income Tax slab	Old rates (%)	New rates (%)
Up to Rs.3 Lakhs	0	
Rs.3 Lakhs to Rs.7 Lakhs	5	
Rs.7 Lakhs to Rs.10 Lakhs	10	
Rs.10 Lakhs to Rs.12 Lakhs	15	
Rs.12 Lakhs to Rs.15 Lakhs	20	
Above 15,00,000	30	
Upto Rs.4 Lakhs		0
Rs.4 Lakhs to Rs.8 Lakhs		5
Rs.8 Lakhs to Rs.12 Lakhs		10
Rs.12 Lakhs to Rs.16 Lakhs		15
Rs.16 Lakhs to Rs.20 Lakhs		20
Rs.20 Lakhs to Rs.24 Lakhs		25
Above 24,00,000		30

Empowering the middle class through tax reforms

- The minimum taxable income has been raised to Rs. 4 lakh, while the highest tax slab start from Rs.24 lakh.
- Changes in the tax slab and rates will increase disposable income by Rs. 83,200 for a taxable income of Rs.12 lakh p.a.
- TDS limit on senior citizens' deposit interest raised from Rs.50,000 to Rs.1 lakh.
- TDS threshold on rent increased to Rs. 6 lakh from Rs. 2.4 lakh.
- TCS threshold on remittance under RBI's Liberalized Remittance Scheme increased from Rs. 7 lakh to Rs. 10 lakh.
- TCS on remittance for education is withdrawn if loan taken from specified financial institutions.

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Tax Savings at a Glance…

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OLD TAX RATES (₹)				
Taxable Income	**7,50,000**	**12,00,000**	**18,00,000**	**25,00,000**
SLAB RATE				
Upto Rs.3Lakhs	-	-	-	-
Rs.3Lakhs to Rs.7Lakhs	20,000	20,000	20,000	20,000
Rs.7Lakhs to Rs.10Lakhs	5,000	30,000	30,000	30,000
Rs.10Lakhs to Rs.12Lakhs		30,000	30,000	30,000
Rs.12Lakhs to Rs.15Lakhs		-	60,000	60,000
Above 15,00,000		-	90,000	3,00,000
INCOME TAX COMPUTED	**25,000**	**80,000**	**2,30,000**	**4,40,000**
Rebate (87A)	25,000	-	-	-
NET TAX COMPUTED	**-**	**80,000**	**2,30,000**	**4,40,000**
HEC @ 4%	-	3,200	9,200	17,600
TOTAL TAX PAYABLE	**-**	**83,200**	**2,39,200**	**4,57,600**
EFFECTIVE TAX RATE	**0%**	**7%**	**13%**	**18%**

NEW TAX RATES (₹)				
Taxable Income	**7,50,000**	**12,00,000**	**18,00,000**	**25,00,000**
SLAB RATE				
Upto Rs.4Lakhs	-	-	-	-
Rs.4Lakhs to Rs.8Lakhs	17,500	20,000	20,000	20,000
Rs.8Lakhs to Rs.12Lakhs	-	40,000	40,000	40,000
Rs.12Lakhs to Rs.16Lakhs	-	-	60,000	60,000
Rs.16Lakhs to Rs.20Lakhs	-	-	40,000	80,000
Rs.20Lakhs to Rs.24Lakhs	-	-	-	1,00,000
Above 24,00,000				30,000
INCOME TAX COMPUTED	**17,500**	**60,000**	**1,60,000**	**3,30,000**
Rebate (87A)	17,500	60,000	-	-
NET TAX COMPUTED	**-**	**-**	**1,60,000**	**3,30,000**
HEC @ 4%	-	-	6,400	13,200
TOTAL TAX PAYABLE	**-**	**-**	**1,66,400**	**3,43,200**
EFFECTIVE TAX RATE	**0%**	**0%**	**9%**	**14%**
GAIN	**-**	**83,200.00**	**72,800.00**	**114,400.00**

Indirect Tax Reforms to Boost Manufacturing & Exports

Manufacturing and Exports:

- Exemption granted for open cells used in LED/LCD TVs, textile looms, and capital goods for lithium-ion batteries used in mobile phones and EVs.
- Duty-free inputs provided for handicraft and leather sectors to promote exports.
- Exemption extended to 36 life-saving drugs, 37 essential medicines, and 13 new patient assistance programs. Additionally, 6 medicines have been moved to the 5% duty list.

Others :

- **Increase in customs duty:**
  - Knitted fabrics rate increased from 20%/10% to 20% or Rs. 115/kg, whichever is higher.
  - Interactive flat panel displays rate increased from 10% to 20%.

- **Decrease in customs duty:**
  - Frozen fish paste for manufacture of surimi analogue products for export reduced from 30% to 5%.
  - Synthetic flavoring essence and mixture of odoriferous substances used in food and drink industries reduced from 100% to 20%.
  - Motor cars and other motor vehicles principally designed for passenger transport.
  - Laboratory chemicals.

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