Consumer

A needed booster for consumption revival

The Union Budget 2025-26 was primarily focused on reviving consumption by providing tax relief to address stress on the middle-income class. The income tax exemption limit has been raised from INR0.7m to INR1.2m (under the new regime). This is expected to reduce the tax burden on consumers, offering benefits ranging from INR0.08m-INR0.1m per annum. It will result in INR1t savings for taxpayers, providing a much-needed booster to drive consumption, which has been under pressure. Rural consumption has already started seeing a revival over the past six months. However, urban consumption has been moderating, leading to an overall decline in consumption for both essentials and non-essentials. Some quick measures were expected in the budget, and this tax-saving booster appears to be the perfect remedy for revival. The tax savings of INR1t are significant, considering that the GOI's total budget on rural spending is INR5.6t for FY26BE (Exhibit 4).

Unlike temporary freebies/welfare schemes, tax savings offer: 1) immediate relief; 2) no fund leakages and cost of operations; 3) encouragement for taxpayers; 4) long-term savings assurance that fosters sustained consumption sentiments; and 5) support for the middle-income group. Although tax savings can be used for various means, given that consumption weakness persists even for essentials (more visible in urban areas), the first priority can be for essential products. FMCG fits perfectly which not only can see first consumption priority, but their growth trajectory has also experienced significant growth arrest between FY23-25E. Some companies have seen a 200-400bp deceleration in growth vs. their own trajectory during 2013-2023. Both growth assumptions and valuations have undergone corrections, which are likely to see improvements following the booster. Besides, the QSR sector, which has faced significant pressure on earnings over the last two years, is expected to experience some relief. While we previously held a cautious view on QSR, we have now changed our view to positive. Our outlook on jewelry and innerwear remains positive. Paints, we maintained our neutral view considering the slow industry growth and rising competition. We will continue to evaluate this as the year progresses. The budgetary benefits will not see an immediate growth recovery, we expect a sequential improvement in the coming quarters. Our top picks are HUL, GCPL, Dabur, PAGE, Titan, and PN Gadgil.

Why this could be a significant boost for consumption

Essential products have experienced a deceleration in growth over the last two-three years, primarily impacted by the bottom of the pyramid consumption. FMCG companies have struggled over the last two to three years (FY23-FY25), with their growth rate slowing by 200-400bp vs the period from FY13 to FY23. Non-essentials (QSR, innerwear, paints, etc) have also seen a moderation in growth, though we expect revival in these categories too. We believe that the tax savings will provide middle-class households with increased disposable income. According to ITR filing data for AY23-24 (Exhibit 3), 85% of the tax payers earn up to INR1.2m, with ~30% set to directly benefit from the increased tax exemption limit, particularly the salaried professionals and small business owners in urban and semi-urban areas.

New Tax regime (Present rates)

Annual Income	Tax rates (%)
INR0-3 lakh	Nil
INR3-7 lakh	5%
INR7-10 lakh	10%
INR10-12 lakh	15%
INR12-15 lakh	20%
> INR15 lakh	30%

*Standard deduction - INR75K

New Tax regime (Proposed rates in Union budget 2025)

Annual Income	Tax rates (%)
INR0-4 lakh	Nil
INR4-8 lakh	5
INR8-12 lakh	10
INR12-16 lakh	15
INR16-20 lakh	20
INR20-24 lakh	25
> INR24 lakh	30

*Standard deduction - INR75K

Old Tax regime (No change)

Annual Income	Tax rates (%)
INR0-2.5 lakh	Nil
INR2.5-5 lakh	5
INR5-10 lakh	20
> INR10 lakh	30

*Standard deduction - INR 50K
*Exemption like HRA, LTA and others Deduction like 80C, 80D and others available

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Tax cuts vs. freebies: Why tax relief is better for consumption growth

The government often provides financial relief through tax exemptions or welfare schemes (freebies), but their impact on consumers differs. Tax exemptions or cuts have a positive effect on the economy: 1) they put more money in people's hands, naturally leading to increased spending, especially on branded and discretionary goods; 2) No additional government spending required, making it a sustainable policy, and 3) Encourages economic growth, as consumers have more flexibility in how they use their income. On the other hand, freebies (Subsidies, cash transfers, free goods) are primarily allocated to essential needs like food, electricity, and fuel, resulting in a limited impact on incremental spending on consumption. Furthermore, these measures do not drive premiumization, as consumers tend to focus on affordability over upgrading their purchases. Tax exemptions are generally more effective in driving demand since they encourage broader consumer spending, rather than just subsidizing necessities.

Listed consumer universe revenue vs. INR1t tax saving: The revenue tax savings of ~INR1,000b will boost disposable incomes, driving higher spending across the essentials (FMCG, groceries, personal care) and discretionary (QSR, jewelry, fashion, premium products) categories. With the listed consumer universe (ex-apparel, consumer durable) generating revenue of INR4,400b in FY24, even a partial redirection of these savings can accelerate growth. Compared to rural welfare-driven consumption, tax savings for the middle class are expected to have a greater impact on the listed consumer universe (more preference of branded products). Middle-class consumers are the target users for these companies in the mid-mass segment.

Income tax filing user profile: ~85% of taxpayers fall in the average income range of INR1.2m or below: Based on the income tax filing data for AY23-24, ~85% of taxpayers fall within the average income range of INR1.2m or below. Of this, ~30% earn between INR0.7-1.2m and are actively paying taxes. With the proposed tax slab revision, these individuals will directly benefit and could drive higher consumption (mass to mid-premium segment), contributing to economic growth.
Additionally, the remaining 15% of taxpayers earning above INR1.2m will also benefit from tax revisions, with savings of up to INR0.1m. This could lead to increased spending on premium products and services.

Fast-changing HH income group: India's fast-changing income group is expected to be a mega consumption theme over the next five years. The high- and upper-mid-income groups are likely to contribute 50% by 2030 vs. ~25% now. Reduced tax burdens for middle- and high-income groups will enhance purchasing power, driving discretionary spending across categories such as premium FMCG, QSR, and jewelry. This structural uplift in income levels, combined with urbanization and lifestyle upgrades, is likely to accelerate premiumization trends and drive long-term consumption growth in India.

Exhibit 1: Fast-changing HH income group

Income in (USD)	Income in (INR m)	Population mix (%)			HHs (m)			Population (m)		
		2005	2018	2030	2005	2018	2030	2005	2018	2030
>40,000	>INR 3.4	1%	3%	7%	2	9	27	12	41	106
8500-40000	INR0.7-3.4	7%	21%	44%	15	62	170	81	287	667
4000-8500	INR0.35-0.7	23%	33%	34%	50	97	131	266	452	515
<4000	<INR0.35	69%	43%	15%	151	126	58	797	589	227
Total		**100%**	**100%**	**100%**	**219**	**293**	**386**	**1,155**	**1,369**	**1,515**

Source: HUL PPT, MOFSL

Listed consumer universe revenue vs. INR1t tax saving: Revenue tax savings of ~INR 1,000b will boost disposable incomes, driving higher spending across essential (FMCG, groceries, personal care) and discretionary (QSR, jewelry, fashion, premium products) categories. With the listed consumer universe (ex-apparel and consumer durable) generating revenue of INR4,400b in FY24, even a partial redirection of these savings could accelerate growth. Unlike rural welfare-driven consumption, tax savings for the middle class will have a greater impact on the listed consumer universe. Middle-class consumers are the key targets for these companies in the value/mass segments. Rising incomes will fuel premiumization in FMCG, beauty, and apparel while urban consumers lean toward lifestyle upgrades, and rural demand is expected to revive. This structural income boost will drive long-term volume growth and premiumization, strengthening demand across the consumer sector.

Exhibit 2: Consumer spending – listed consumer universe revenue vs. INR1,000b tax saving

Categories (INR b)	FY24
Oral Care	78
Hair Care	85
Personal Care	287
Home Care	284
Food	886
Beverages	298
Cigarette	399
Dairy	149
OTC FMCG	35
Paints	558
QSR	161
Liquor	347
Jewelry	731
Footwear	100
Aggregates	**4,400**

Source - MOFSL

Income tax filling user profile: ~85% of taxpayers fall within the average income range of INR1.2m or below

- Based on the income tax filing data for AY23-24, ~85% of taxpayers fall within the average income range of INR1.2m or below. Of this, ~30% earn between INR0.7-1.2m and are actively paying taxes. With the proposed tax slab revision, these individuals will directly benefit, potentially driving higher consumption (mass to mid-premium segment) and economic growth.
- The remaining 15% of taxpayers earning above INR1.2m will also benefit from tax revisions, with savings of up to INR0.1m. This could lead to increased spending on premium products and services.

Exhibit 3: Income tax return filing

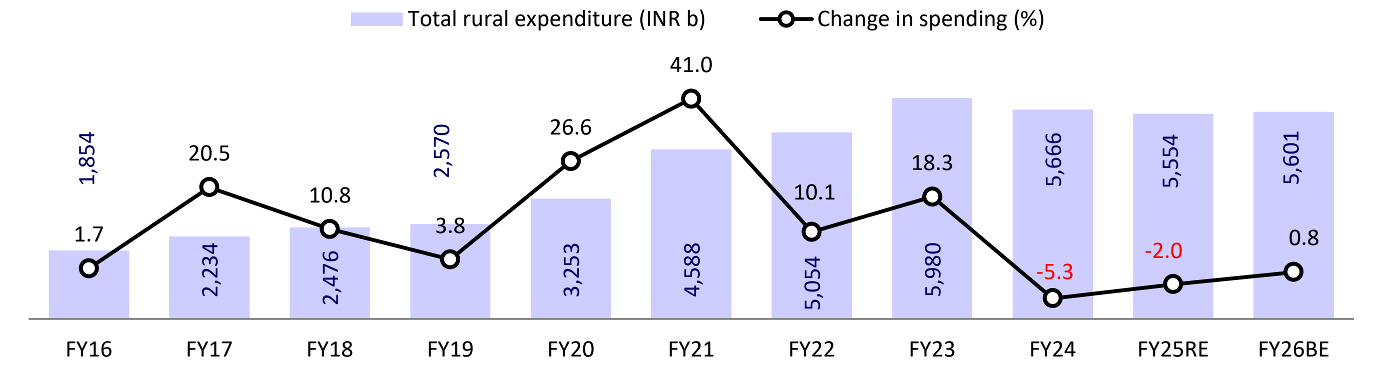
Gross total income range	ITR filed (AY 23-24)	Gross total Income (INR b)	Average Gross Total Income (INR lakh)
Nil return	14,41,175	-	
<= INR5 lakh	3,73,17,370	13,192	3.5
INR5-5.5 lakh	61,54,414	3,211	5.2
INR5.5-9.5 lakh	2,06,97,590	14,466	7.0
INR9.5-10 lakh	10,84,818	1,057	9.7
INR10-15 lakh	63,79,208	7,691	12.1
INR15-20 lakh	25,03,932	4,298	17.2
INR20-25 lakh	12,40,128	2,759	22.2
INR25-50 lakh	19,53,619	6,633	34.0
INR50 lakh - 1 Cr	5,89,762	4,014	68.1
INR1- 5 Cr	2,91,929	5,533	189.5
INR5- 10 Cr	26,379	1,832	694.5
INR10-25 Cr	17,041	2,635	1,546.0
INR25-50 Cr	6,529	2,282	3,495.8
INR50-100 Cr	3,730	2,601	6,973.9
INR100- 500 Cr	3,555	7,317	20,581.7
>INR500 Cr	966	23,009	2,38,185.1
Total	**7,97,12,145**	**1,02,531**	**12.9**

Source – Income Tax India

Rural spending budgeted

Rural spending is budgeted to increase slightly to INR5.6t in FY26BE vs. INR5.55t in FY25RE, implying a 0.8% YoY growth, following a contraction of 2.0% in FY25RE and 5.3% in FY24.

Exhibit 4: Rural spending grew 0.8% in FY26BE



Source: Union Budget document *Ministry of Rural Development, Panchayati Raj, Fertilizer and Agriculture

Exhibit 5: Segment-wise view

Sector	Our View	Previous View	Comments
Staples	Positive	Positive	❖ The tax change will boost disposable income for middle-class households, driving higher spending on essentials and discretionary categories. Urban weakness in essential reflects higher stress at middle-lower middle-class stress in the urban market. Tax savings could drive larger pack consumption, product upgrades, and a revival in personal care categories. Volume growth for staple companies could recover from low single digits to mid-to-high single digits in FY26.
QSR	Positive	Cautious	❖ We had a cautious stance on QSR companies due to demand challenges, weak unit economics, and intensified market competition. However, the segment has started showing signs of marginal improvement in 3Q, aided by a favorable base effect. Dine-in footfalls and order volumes are gradually recovering, while delivery channels continue to perform well. Mid-income households, which form a significant customer base for QSR chains, are expected to increase their frequency of dine-out, supporting same-store sales growth and overall industry expansion. Given these trends, we shift our outlook from cautious to positive on the segment.
Paints	Neutral	Neutral	❖ The paint sector has faced pressure over the last 12 months, with the industry remaining flattish in the past 6 months. Some demand foregone in FY25 could be pent-up in FY26, but we are still unsure if tax savings can translate into higher spending on paints in FY26. While the pressure from price cuts is behind, meaningful volume growth in the paint sector will be required in FY26. We had neutral stance for paint sector due to volume growth pressure and margin contraction. We still maintain our neutral stance as growth/margin can be at risk due to intensifying competition.
Liquor	Positive	Positive	❖ With increased affordability, consumers may trade up to premium brands, benefiting companies with strong premiumization strategies.
Innerwear	Positive	Positive	❖ With more money in hand, consumers may trade up from unbranded or value-tier innerwear to branded and premium options, benefiting organized players. The rising focus on lifestyle and comfort, coupled with increasing disposable income, is expected to drive higher demand, particularly in urban and semi-urban markets. We remain positive on the innerwear segment, with Page as our top pick for CY25. Page holds a dominant position in the mid-premium innerwear segment.
Jewelry	Positive	Positive	❖ The stability in gold custom duties provides greater price stability for jewelry companies. While custom duty reduction has impacted companies in terms of inventory losses, it has also led to a positive surge in demand. Although a tax reduction could offer partial benefits for new demand, the sector is already benefiting from significant formalization and store expansion. This stability is expected to expedite the formalization of the sector and strengthen demand trends.

Exhibit 6: Valuation metrics of coverage universe

Company	CMP (INR)	Target Price (INR)	Reco	EPS (INR)			P/E (x)			EV/EBITDA (x)			EV/Sales (x)		
				FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Staples															
Britannia Inds.	4,959	5,200	Neutral	91.3	105.0	118.3	54	47	42	37	33	29	6.5	5.9	5.3
Colgate-Palm.	2,667	2,850	Neutral	53.1	58.4	63.6	50	46	42	36	33	30	11.8	10.8	10.0
Dabur India	526	650	Buy	10.5	11.9	13.5	50	44	39	36	32	28	6.8	6.2	5.6
Emami	576	750	Buy	20.2	22.0	23.9	29	26	24	25	22	20	6.7	6.1	5.6
Godrej Consumer	1,119	1,400	Buy	19.3	23.9	27.8	58	47	40	38	33	30	7.9	7.0	6.3
Hind. Unilever	2,374	2,850	Buy	44.1	49.3	54.1	54	48	44	37	33	31	8.7	8.0	7.4
ITC	441	550	Buy	16.1	17.4	18.7	28	26	24	18	17	15	5.8	5.4	5.0
Jyothy Labs	400	450	Neutral	10.4	11.7	13.0	39	34	31	29	26	23	5.2	4.6	4.1
L T Foods	401	460	Buy	17.5	23.8	28.5	23	17	14	14	11	9	1.6	1.3	1.1
Marico	661	775	Buy	12.6	14.1	15.5	52	47	43	39	35	31	8.0	7.2	6.5
Nestle India	2,244	2,400	Neutral	32.7	36.7	41.1	69	61	55	45	40	36	10.6	9.7	8.8
P & G Hygiene	14,414	15,500	Neutral	251.7	281.5	317.2	57	51	45	42	38	33	10.3	9.5	8.6
Tata Consumer	1,022	1,130	Buy	14.5	17.7	20.1	70	58	51	39	36	32	5.5	5.0	4.6
Varun beverages	568	750	Buy	7.7	10.4	12.5	73	55	45	41	36	30	9.8	8.1	6.9
Paints															
Asian Paints	2,263	2,550	Neutral	44.6	50.3	57.4	51	45	39	35	31	27	6.2	5.8	5.2
Indigo Paints	1,274	1,650	Buy	29.8	35.4	41.6	43	36	31	25	20	17	4.2	3.6	3.1
Pidilite Inds.	2,900	3,200	Neutral	42.1	48.9	55.7	69	59	52	47	41	36	10.9	9.6	8.3
Liquor															
United Breweries	2,074	2,200	Neutral	21.5	31.4	38.9	97	66	53	58	43	35	5.9	5.3	4.7
United Spirits	1,415	1,650	Neutral	19.2	21.6	24.1	74	65	59	51	45	41	8.8	7.9	7.1
Innerwear															
Page Industries	43,987	57,500	Buy	613.6	709.4	841.0	72	62	52	50	44	37	10.3	9.1	7.9
QSR															
Barbeque Nation	308	350	Neutral	-2.1	0.0	1.4	NM	NM	219	5	4	3	0.9	0.7	0.6
Devyani intl.	181	215	Buy	0.4	1.7	2.2	403	109	83	29	25	21	5.1	4.6	4.0
Jubilant Food.	694	800	Neutral	5.5	8.1	10.4	127	86	67	32	27	23	6.5	5.6	4.9
Sapphire Foods	318	415	Buy	1.4	3.5	5.1	220	92	62	20	16	13	3.4	2.9	2.5
Westlife Foodworld	869	800	Neutral	0.7	5.3	9.2	1,216	164	95	44	34	27	5.8	5.1	4.4
Jewelry															
Kalyan Jewellers	542	625	Buy	8.0	10.4	12.9	68	52	42	37	30	26	2.5	1.9	1.6
P N Gadgil Jewellers	564	950	Buy	17.1	23.2	29.4	33	24	19	21	16	13	NM	0.8	0.7
Senco Gold	502	725	Buy	16.2	19.6	22.7	31	26	22	19	16	14	1.5	1.3	1.1
Titan Company	3,411	4,000	Buy	42.8	53.4	63.8	80	64	53	52	43	36	5.2	4.5	3.8

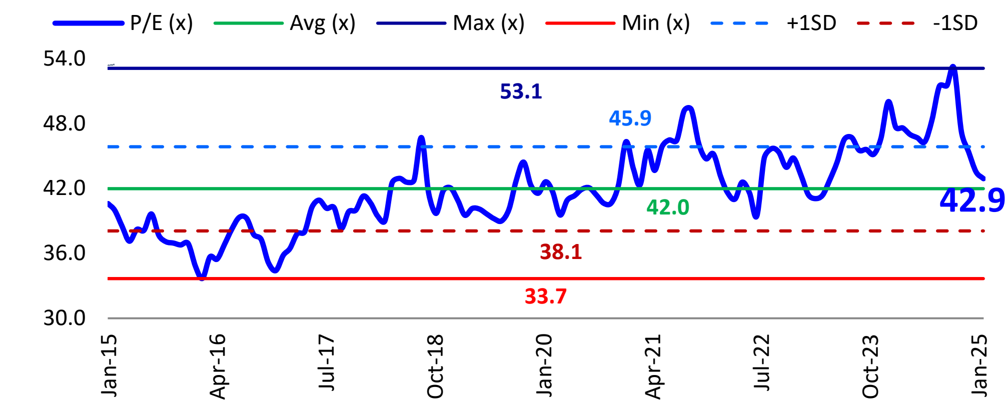
Source: MOFSL

Exhibit 7: Valuation changes vs. historical averages

Companies	Current P/E (x)	Average P/E (x)			Prem / Disc P/E (x) vs.		
		15 YR	10 YR	5 YR	15 YR	10 YR	5 YR
Consumer	**42.9**	**37.8**	**42.0**	**44.6**	**13.5**	**2.2**	**-3.9**
Consumer Ex ITC	**50.5**	**37.8**	**52.3**	**57.3**	**33.5**	**-3.4**	**-12.0**
Asian Paints	44.7	47.8	56.1	63.5	-6.5	-20.3	-29.6
Britannia Inds.	49.9	39.4	47.7	50.5	26.8	4.7	-1.2
Colgate-Palm.	49.0	33.5	41.1	41.3	46.2	19.3	18.8
Dabur India	45.5	40.2	46.6	52.8	13.2	-2.3	-13.9
Emami	27.1	22.8	28.4	26.9	18.5	-4.8	0.5
Godrej Consumer	48.4	40.6	46.3	49.9	19.3	4.5	-3.1
Hind. Unilever	51.0	45.7	53.2	58.0	11.6	-4.1	-12.0
Indigo Paints	36.8	66.3	66.3	66.3	-44.6	-44.6	-44.6
ITC	24.9	23.2	22.6	19.9	7.5	10.2	25.0
Jyothy Lab.	34.6	34.9	34.1	30.4	-0.8	1.5	14.0
L T Foods	17.1	7.9	9.4	8.6	116.6	81.4	98.3
Marico	48.4	34.4	43.2	45.6	40.7	11.9	6.1
Nestle India	64.1	51.0	60.0	68.3	25.8	6.9	-6.1
P & G Hygiene	52.4	55.0	65.3	67.4	-4.7	-19.7	-22.3
Page Industries	63.7	53.9	66.7	69.6	18.1	-4.6	-8.4
Pidilite Inds.	60.1	48.1	59.7	74.8	24.8	0.7	-19.7
Tata Consumer	59.6	43.0	48.5	60.6	38.6	22.9	-1.6
United Breweries	72.2	86.8	93.3	107.5	-16.7	-22.6	-32.8
United Spirits	67.0	7865.3	63.9	61.9	-99.1	4.8	8.3
Varun Beverages	54.0	47.1	47.1	49.1	14.8	14.8	10.1

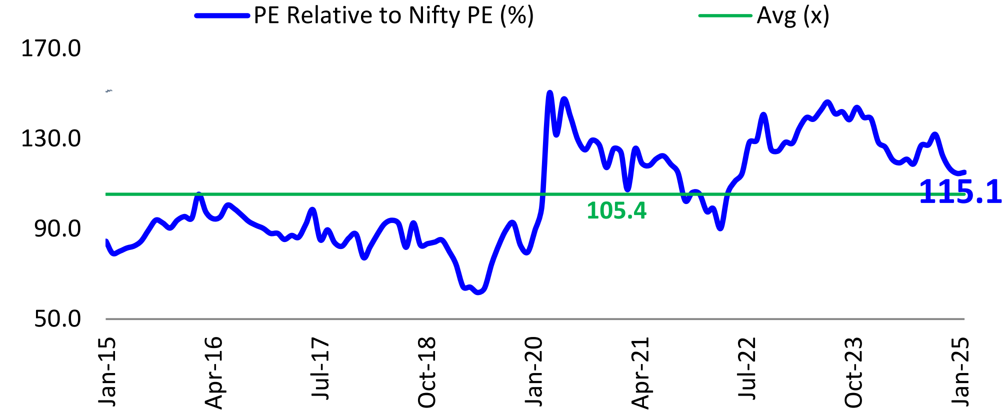
Source – Bloomberg, MOFSL

Exhibit 8: Consumer sector's P/E band (x)



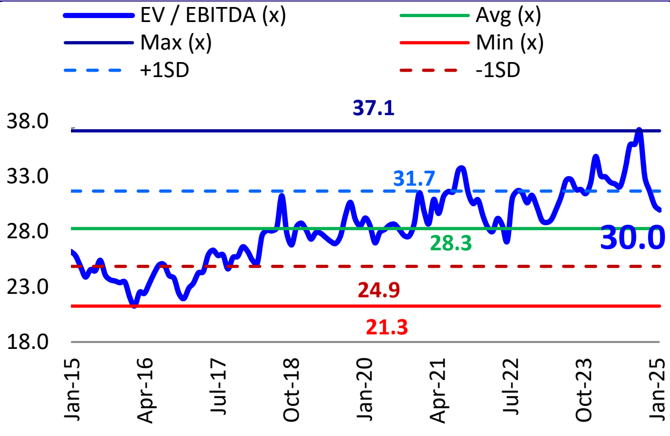
Source: Bloomberg, MOFSL

Exhibit 9: Consumer sector's P/E relative to the Nifty P/E (%)



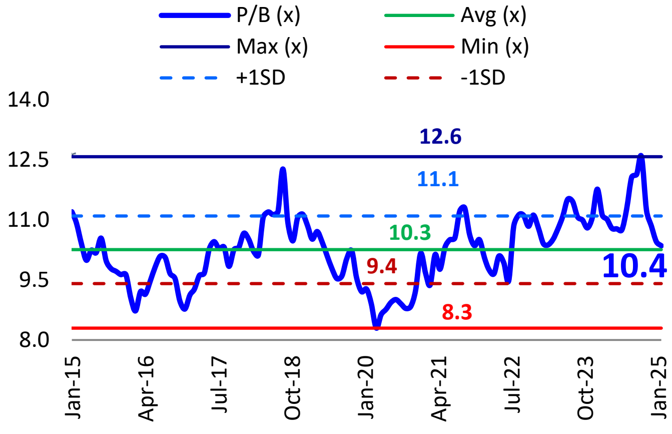
Source: Bloomberg, MOFSL

Exhibit 10: Consumer sector – EV/EBITDA (x)



Source: Bloomberg, MOFSL

Exhibit 11: Consumer sector – P/B (x)



Source: Bloomberg, MOFSL

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