ICICI Direct Research

# Budget Review 2025-26


"Sangam" of Consumption, Fiscal Prudence & Capex

# “Sangam” of Consumption, Fiscal Prudence & Capex

**The Government in Budget 2025-26 has tried to balance the three cornerstones of the economy in their order of preference: a) Income Tax relief to the public at large in order to address the consumption moderation, b) Maintain Fisc discipline thereby containing macro variables and c) Allocation to capex, albeit some moderation. We believe revving up consumption in the near term would provide additional triggers for both central and private capex to revive in the medium to long term.**

## Key highlights of Budget:

- On the **fiscal deficit front**, Government exhibited disciplined path with deficit target revised down for FY25RE at 4.8% versus earlier estimate of 4.9% and to 4.4% for FY26BE, as against market expectation of ~4.5%. While the fiscal deficit in absolute terms in FY26BE remain at similar level of FY25RE at ₹15.7 lakh crore, gross market borrowing has been increased to ₹14.8 lakh crore versus ₹14.0 lakh crore in FY25RE.

- The subsidy allocation has remained unchanged for broader heads. Government has kept a strict vigil on its subsidy allocation which for FY26E is estimates at ₹ 3.8 lakh crore, flat on YoY basis, however down as a % of GDP basis to 1.1% of GDP in FY26E vs. 1.2% in FY25E.Government has also broadly maintained allocation towards it flagship DBT schemes namely Mahatma Gandhi National Rural Employment Guarantee Program (MGNREGA) and Pradhan Mantri Kisan Samman Nidhi (PM-Kisan)

- **The major focus of the budget has been to revv up consumption via income tax reliefs:** Exemption on personal income tax upto Rs 12,00,000 and addition of new tax slab will lead to higher income in the hands of middle-income group. Further the government has increase allocations under various scheme to improve rural economy. This will boost consumer sentiments in the urban and rural demand in India, which lead to uptick in the consumer demand going ahead (likely from Q1FY26).

- **Capex intensity has been maintained** despite capex spending growing at a CAGR of 20% over FY22-FY26BE. The Government has budgeted growth at 10.1% YoY in FY26BE to ₹ 11.21 lakh crore. The capex to GDP is pegged flat at 3.1% in FY26BE vs. 3.1% in FY25RE. Allocation in key segments like Roads and Railways has been flat over FY25-26 whereas, Defence and Housing (PM Awaas Yojna) has seen allocation rising double digit ~13% and ~19% respectively thereby creating a high base. **Implicitly in our view the runrate of monthly capex spent will average at ₹ 97000 crore from Q4FY25-FY26E vs. ₹ 76000 crore spent in 9MFY25.**

# Fiscal deficit roadmap surprises positively !!!

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Government continued on its fiscal glide path with fiscal deficit target revised down for FY25RE at 4.8% versus earlier estimate of 4.9% and to 4.4% for FY26, as against market expectation of ~4.5%. While the fiscal deficit in absolute terms in FY26 remain at similar level of FY25 at ₹15.7 lakh crore, gross market borrowing has been increased to ₹14.8 lakh crore versus ₹14.0 lakh crore in FY25.

### Government's fiscal position ( ₹ Lakh crore)

| | FY23 | FY24 | YoY (%) | FY25RE | YoY (%) | FY26 BE | YoY (%) |
|---|---|---|---|---|---|---|---|
| Direct tax revenues | 16.6 | 19.6 | 17.9 | 22.4 | 14.4 | 25.2 | 12.7 |
| Indirect tax revenues | 13.9 | 15.1 | 8.5 | 16.2 | 7.1 | 17.5 | 8.3 |
| **Gross Tax revenues** | 30.5 | 34.7 | 13.6 | 38.5 | 11.2 | 42.7 | 10.8 |
| Net Tax revenues [A] | 21.0 | 23.3 | 10.9 | 25.6 | 9.9 | 28.4 | 11.0 |
| **Non-tax revenues [B]** | 2.9 | 4.0 | 40.8 | 5.3 | 32.2 | 5.8 | 9.8 |
| Disinvestmt & Others [C] | 0.7 | 0.6 | -17.2 | 0.6 | -1.3 | 0.8 | 28.8 |
| **Total Revenue [A+B+C]** | 25 | 28 | 13.6 | 31 | 12.8 | 35 | 11 |
| Capital Exp [D] | 7.4 | 9.5 | 28.2 | 10.2 | 7.4 | 11.2 | 10.1 |
| Revenu Exp [E] | 34.5 | 34.9 | 1.2 | 37.0 | 5.8 | 39.4 | 6.7 |
| **Total Expenditure [D+E]** | 41.9 | 44.4 | 6.0 | 47.2 | 6.1 | 50.7 | 7.4 |
| **Fiscal Deficit** | **-17.4** | **-16.5** | **NA** | **-15.7** | **NA** | **-15.7** | **NA** |
| Nominal GDP | 272.4 | 295.4 | 8.4 | 324.1 | 9.7 | 357.0 | 10.1 |
| **Fiscal deficit as (%) of GDI** | **6.4** | **5.6** | | **4.8** | | **4.4** | |

Source: *Indiabudget.nic.in, ICICI Direct Research.*

### Government's fiscal position (As % of GDP)

| | FY23 | FY24 | FY25RE | FY26 BE |
|---|---|---|---|---|
| Direct tax revenues | 6.1 | 6.6 | 6.9 | 7.1 |
| Indirect tax revenues | 5.1 | 5.1 | 5.0 | 4.9 |
| **Gross Tax revenues** | **11.2** | **11.7** | **11.9** | **12.0** |
| Net Tax revenues [A] | 7.7 | 7.9 | 7.9 | 7.9 |
| **Non-tax revenues [B]** | 1.0 | 1.4 | 1.6 | 1.6 |
| Disinvestmt & Others [C] | 0.3 | 0.2 | 0.2 | 0.2 |
| **Total Revenue [A+B+C]** | **9.0** | **9.4** | **9.7** | **9.8** |
| Capital Exp [D] | 2.7 | 3.2 | 3.1 | 3.1 |
| Revenu Exp [E] | 12.7 | 11.8 | 11.4 | 11.0 |
| **Total Expenditure [D+E]** | **15.4** | **15.0** | **14.6** | **14.2** |
| **Fiscal Deficit** | **6.4** | **5.6** | **4.8** | **4.4** |

### Key takeaways:

- Growth in capex has been resumed to a normalized level of 10.1% in FY26 as compared to 7.4% in FY25.
- **Nominal GDP growth for FY26 has been marginally increased to 10.1% as compared to 9.7% in FY25.**
- Gross tax revenue growth forecast is lowered for FY26 at 10.8% as against 11.2% in FY25 with expectation of some improvement in corporate tax collection while similar growth of 10.9% is assumed for GST.

# Internals improving as % age of GDP

| | FY21 | FY22 | FY23 | FY24 | FY25RE | FY26BE |
|---|---|---|---|---|---|---|
| GDP | 1,97,46,000 | 2,36,64,637 | 2,72,40,712 | 2,95,35,667 | 32400627 | 35964696 |
| **Gross Tax Revenue** | **10.3%** | **11.4%** | **11.2%** | **11.7%** | **11.9%** | **12.0%** |
| Corporate Tax | 2.3% | 3.0% | 3.0% | 3.1% | 3.0% | 3.0% |
| Income Tax | 2.5% | 2.9% | 3.1% | 3.5% | 3.9% | 4.0% |
| GST | 2.8% | 3.0% | 3.1% | 3.2% | 3.3% | 3.3% |
| Others (Excise+Customs) | 2.7% | 2.5% | 2.0% | 1.9% | 1.7% | 1.6% |
| | | | | | | |
| **Total Exp** | 17.8% | 16.0% | 15.4% | 15.0% | 14.6% | 14.2% |
| *Capital* | 2.2% | 2.5% | 2.7% | 3.2% | 3.1% | 3.1% |
| *Revenue* | 15.6% | 13.5% | 12.7% | 11.8% | 11.4% | 11.0% |
| *Growth in Capex* | | *39.1%* | *24.8%* | *28.2%* | *7.4%* | *10.1%* |
| *Growth in RevEx* | | *3.8%* | *7.9%* | *1.2%* | *5.8%* | *6.7%* |
| | | | | | | |
| **Fiscal deficit(%)** | **9.2%** | **6.7%** | **6.4%** | **5.6%** | **4.8%** | **4.4%** |
| | | | | | | |
| **Subsidies** | | | | | | |
| *Fertiliser* | 0.65% | 0.65% | 0.83% | 0.59% | 0.53% | 0.47% |
| *Food* | 2.74% | 1.22% | 1.05% | 0.67% | 0.61% | 0.57% |
| Petroleum | 0.19% | 0.01% | 0.03% | 0.04% | 0.05% | 0.03% |
| | | | | | | |
| **Interest** | **3.4%** | **3.4%** | **3.5%** | **3.7%** | **3.5%** | **3.9%** |
| | | | | | | |
| **Gross Borrowing** | **6.9%** | **4.8%** | **5.2%** | **5.2%** | **4.3%** | **4.2%** |

Income tax growth risen from 2.5% of GDP in FY21 to 4.0% in FY26E.

Capex growth likely to moderate to 10.1% in FY26BE on high base of average 30% from FY22 to FY24 but will recover from an election hit year low growth of 7.4%

*Source: Indiabudget.nic.in, ICICI Direct Research.*

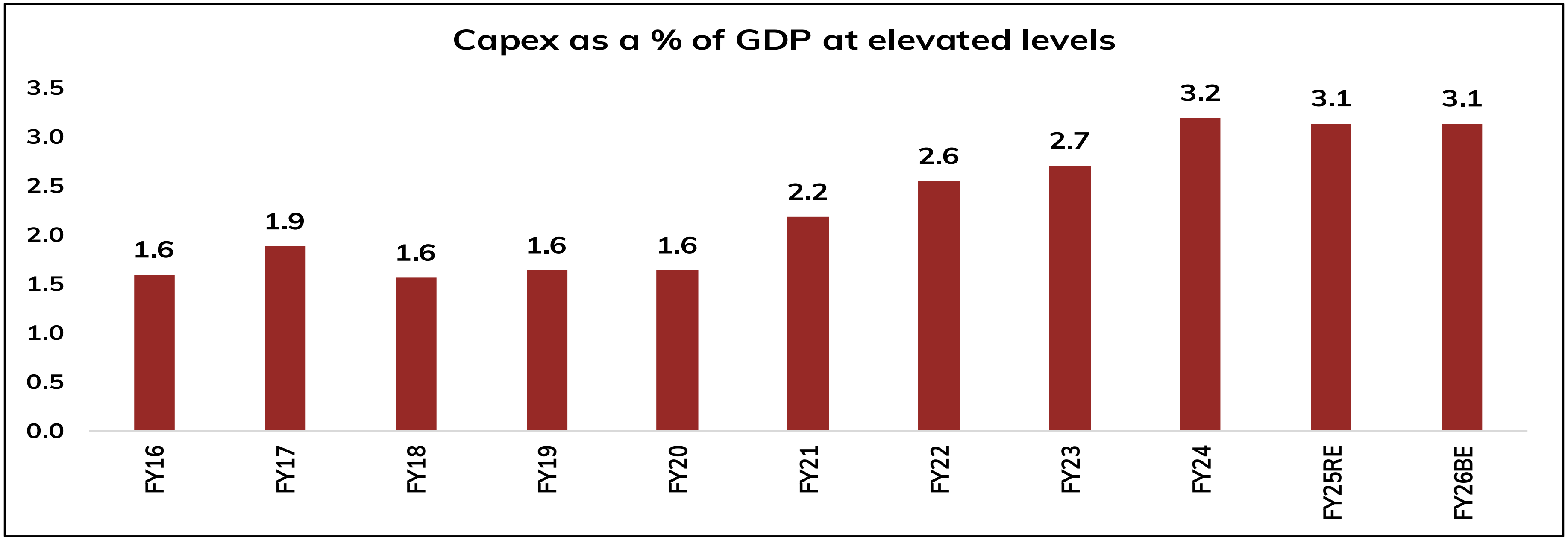
# Capex: Status quo maintained at ₹ 11.2 lakh crore

**Strong Budgetary allocation to all major segments for capex (₹ crore)**

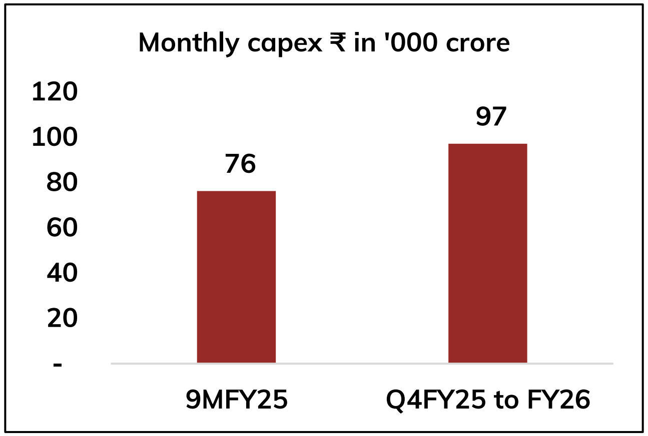
| Capital Expenditure (₹ Crore) | FY22 | FY23 | FY24 | FY25BE | FY25RE | FY26BE | YoY | 4-year CAGR (FY22-FY26E) |
|---|---|---|---|---|---|---|---|---|
| MoRTH | 121251 | 206303 | 263912 | 272241 | 272481 | 272241 | -0.1% | 24.2% |
| Railway | 117100 | 159100 | 242579 | 252000 | 252000 | 252000 | 0.0% | 18.4% |
| Defence | 138351 | 150000 | 154256 | 172000 | 159500 | 180000 | 12.9% | 5.8% |
| Housing & Urban Affairs | 25957 | 23680 | 26444 | 28626 | 31662 | 37623 | 18.8% | 29.9% |
| Other | 146597 | 189190 | 262004 | 386244 | 302786 | 379226 | 25.2% | 32.8% |
| **Total** | **550740** | **728273** | **949195** | **1111111** | **1018429** | **1121090** | **10.1%** | **20.6%** |

- **Capex intensity has been maintained despite capex spending growing at a CAGR of 20% over FY22-FY26BE. The Government has budgeted growth at 10.1% YoY in FY26BE to ₹ 11.21 lakh crore. The capex to GDP is pegged flat at 3.1% in FY26BE which is same as FY25RE.**
- **Allocation in key segments like Roads and Railways has been flat over FY25-26 whereas, Defence and Housing (PM Awaas Yojna) has seen allocation rising double digit ~13% and ~19% respectively thereby creating a high base.**

# Capex: Status quo maintained at 3.1% Of GDP

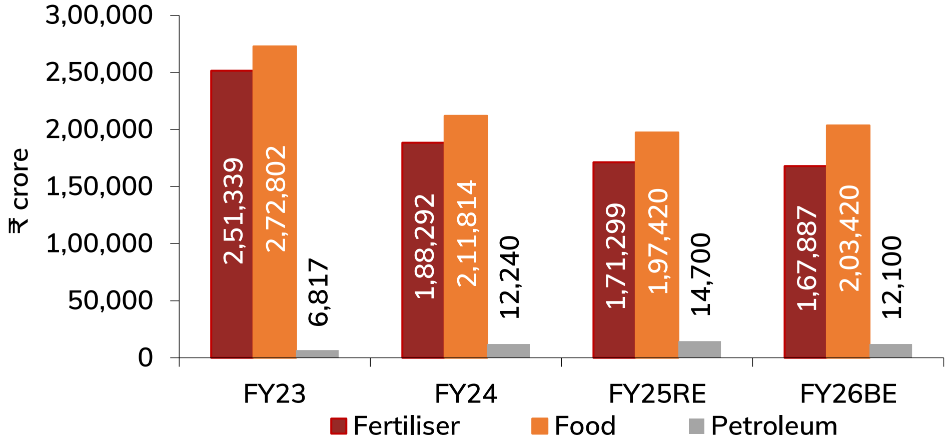


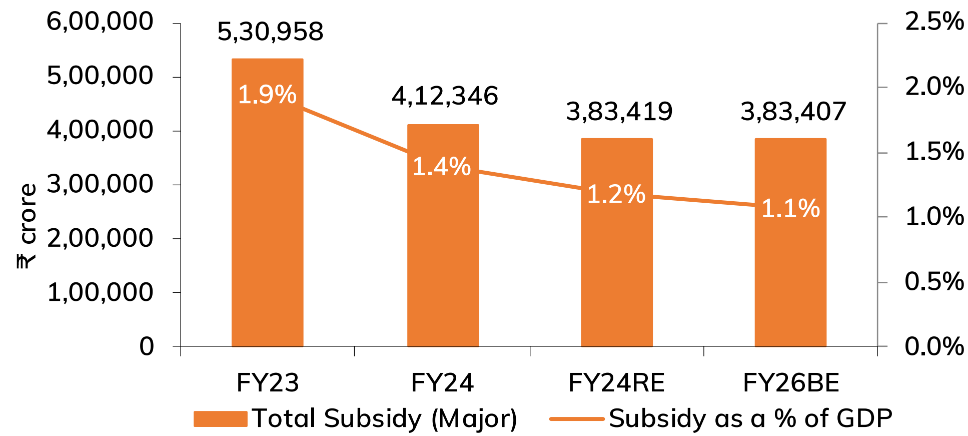

The tendering & ordering activity in Q1FY25 was muted on account of elections/code of conduct. The same picked up pace in Q2 & Q3 of FY25, however there still remains ₹3 trillion to be spent. The same implies that the remaining 2 months of FY25E will witness hectic activity in terms of new tenders and ordering activity.



# Populism under check: Allocation for major Subsidies and DBT schemes broadly maintained, declining as a % of GDP

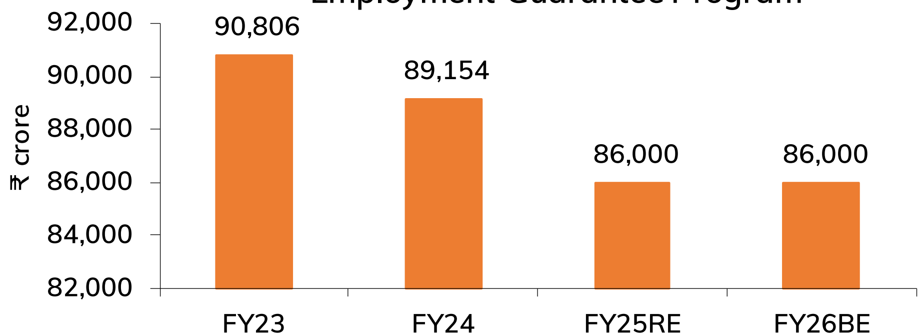
Government has kept a strict vigil on its subsidy allocation which for FY26E is estimates at ₹ 3.8 lakh crore, flat on YoY basis, however down as a % of GDP basis to 1.1% of GDP in FY26E vs. 1.2% in FY25E



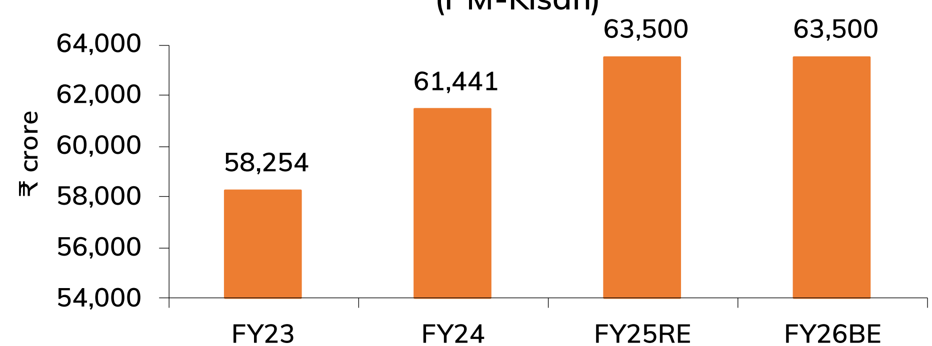




Government has also broadly maintained allocation towards it flagship DBT schemes namely Mahatma Gandhi National Rural Employment Guarantee Program (MGNREGA) and Pradhan Mantri Kisan Samman Nidhi (PM-Kisan)

Mahatma Gandhi National Rural Employment Guarantee Program



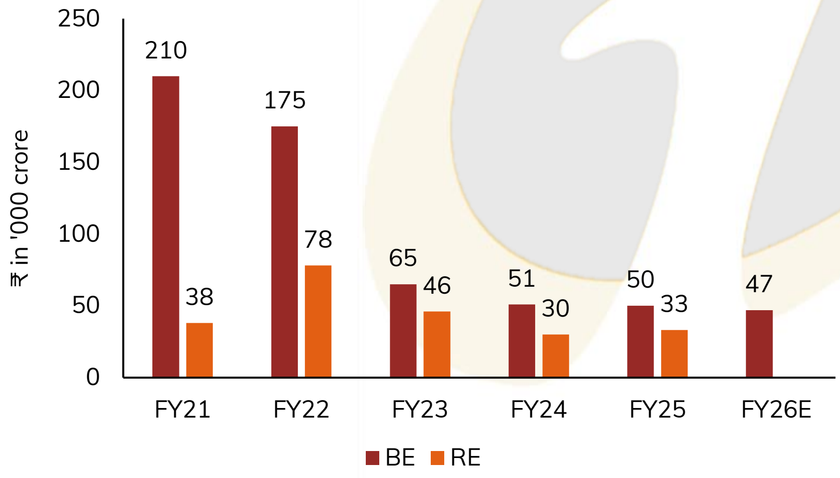

Pradhan Mantri Kisan Samman Nidhi (PM-Kisan)



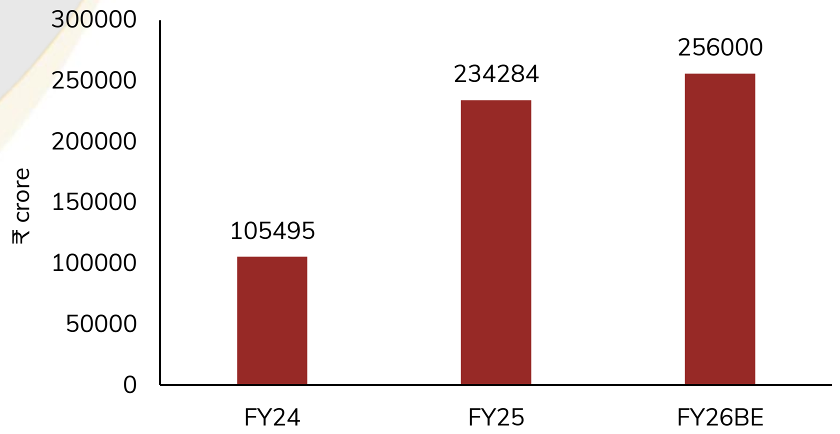
# Dividend contribution from RBI to remain buoyant

- FY26BE disinvestment target continue to remain in-line with budget at ₹ 47,000 crore.
- Dividend from RBI & financial institutions for FY25 at ₹2,34,284 crore, aiding non-tax revenues. Earmarked contribution of ₹2,56,000 crore, attributable to anticipation of continued higher payout from RBI, amid aggressive intervention in currency markets.

**Disinvestment target aligns with historical trend**




**Continued higher payout expected from RBI**




Source: Govt websites, media sources, DIPAM, ICICI Direct Research

# Personal income tax: High incentive to shift to new regime

New Tax regime has been further incentivised by increasing the tax slabs and rebate for resident individuals so that no income tax shall be payable on income up to ₹12 lakh while the standard deduction benefit remains at ₹75,000. There is no change in old tax regime.

## Assuming gross salary income of ₹30 Lakh we have provided below an income tax comparison under the Old regime* vs New regime (erstwhile) vs New regime (proposed)

| Old Regime | | |
|---|---|---|
| Income | Tax Rate | Tax Amount |
| 0.0-2.5 lakh | NIL | 0 |
| 2.5 - 5.0 lakh | 5% | 12,500 |
| 5.0 - 10.0 lakh | 20% | 1,00,000 |
| >10.0 lakh | 30% | 5,85,000 |
| | Tax | 6,97,500 |
| | Education Cess | 27,900 |
| | Total tax including cess | **7,25,400** |

| New regime (Erstwhile) | | |
|---|---|---|
| Income | Tax Rate | Tax Amount |
| 0.0-3.0 lakh | NIL | 0 |
| 3.0 - 7.0 lakh | 5% | 20,000 |
| 7.0 - 10.0 lakh | 10% | 30,000 |
| 10.0 - 12.0 lakh | 15% | 30,000 |
| 12.0 - 15.0 lakh | 20% | 60,000 |
| > 15.0 lakh | 30% | 4,27,500 |
| | Tax | 5,67,500 |
| | Education Cess | 22,700 |
| | Total tax including cess | **5,90,200** |

| New Regime (Proposed) | | |
|---|---|---|
| Income | Tax Rate | Tax Amount |
| 0.0-4.0 lakh | NIL | 0 |
| 4.0 - 8.0 lakh | 5% | 20,000 |
| 8.0 - 12.0 lakh | 10% | 40,000 |
| 12.0 - 16.0 lakh | 15% | 60,000 |
| 16.0 - 20.0 lakh | 20% | 80,000 |
| 20.0 - 24.0 lakh | 25% | 1,00,000 |
| > 24.0 lakh | 30% | 1,57,500 |
| | Tax | 4,57,500 |
| | Education Cess | 18,300 |
| | Total tax including cess | **4,75,800** |

**Old regime tax has been calculated after taking into account ₹50,000 standard deduction but without considering other deduction benefits under the Income Tax Act, 1961*

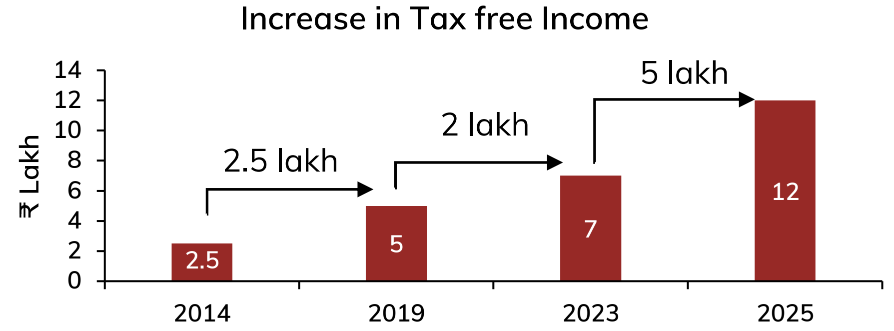
**Tax benefit of New regime (proposed) over Old regime (without any deduction) = ₹2,49,600**
**Tax benefit of New regime (proposed) over New regime (erstwhile) = ₹1,14,400.**

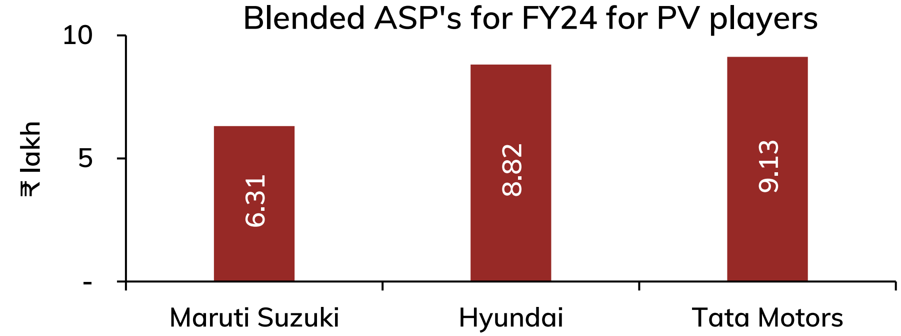
**Thus, for 30% tax bracket assesses, if the total amount of deductions (Chapter VI-A + Housing Loan Interest + LTA + HRA+ Self NPS + Mediclaim + Standard Deduction) exceeds ₹ 8,50,000 (its 30% is ₹ 2,55,000), it is better to continue in the old tax regime.**

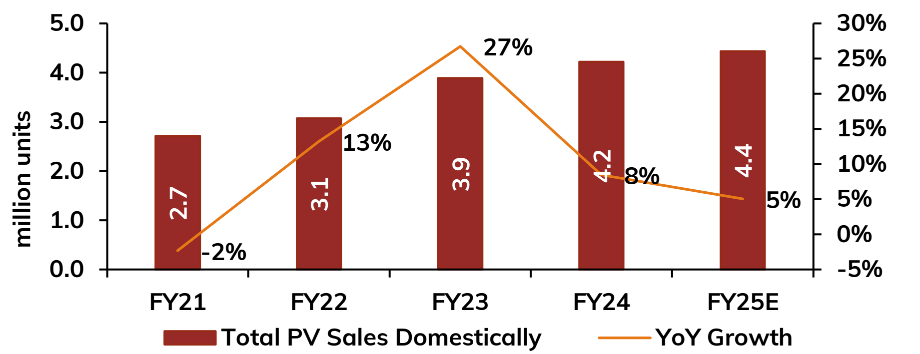
*Source: Budget documents, ICICI Direct Research*

# Biggest Ever Personal Tax Savings: booster for Auto space

- Government has announced biggest ever overhaul in personal income tax structure thereby increasing the tax exempt income from ₹ 7 lakh to ₹ 12 lakh in Union Budget 2025-26
- This tax relief, is expected to increase disposable income in the range of ₹ 30,000 –1,10,000 in the hands of tax payer, thereby providing a big booster for the auto space given people will upgrade their standard of living by potentially buying new vehicle which can either be a 2-W or PV
- We expect it to be directed more towards 4-W/PV space given low car penetration in India at ~30 cars per 1000 people
- The timing of this relief cannot be more appropriate given the growth was tapering for the domestic automotive space.
- Given the recurring nature of this tax relief, this potentially raises the purchasing power of a consumer by ₹ 1.2 -4.3 lakh by way of easy affordability of incremental EMI to the tune of ₹ 2,500-9,200 per month (annual outgo at ₹ 30,000-1,10,000)
- This can benefit in two ways; (i) rise in sales volume of entry level Cars – More first time buyers can now afford small cars, (ii) Premiumization Trend – Existing buyers may stretch their budgets, upgrading from hatchbacks to compact SUVs
- Key beneficiaries of this move in our universe will be Maruti Suzuki, M&M, Tata Motors, Bajaj Auto and Eicher Motors.



# Other key highlights

**Auto Sector**

- Finance minister proposes to exempt import duty on Capital Equipment's used for manufacturing Lithium-Ion Batteries used in Electric Vehicles. This will promote manufacturing Li-On batteries in India and is positive for players setting up such plants in India. This is particularly positive for Exide Industries and Amara Raja Energy and Mobility which are executing sizeable capex in this field.

- The government has increased the allocation for the Production-Linked Incentive (PLI) scheme for the automobile sector to ₹2,818 crore for FY26E, up from ₹ 347 crore for FY25RE. This is beneficial for companies investing in capital expenditures in the new energy sector, including Electric and Hydrogen-Powered Vehicles. This is positive for all domestic OEM's.

- The government has raised the allocation for the PM E-DRIVE scheme to ₹4,000 crore in FY26E, up from ₹1,871 crore. This increase is beneficial for domestic two-wheeler and three-wheeler original equipment manufacturers (OEMs). Positive for Bajaj Auto among others.

# Other key highlights

**Banking & MSME's**

- Kisan Credit Cards (KCC) facilitate short term loans for ~7.7 crore farmers, fishermen, and dairy farmers. Increase in loan limit under Modified Interest Subvention Scheme from ₹3 lakh to ₹5 lakh for loans taken through the KCC.
- Customised credit Cards with a ₹ 5 lakh limit for micro enterprises registered on Udyam portal. In the first year, 10 lakh such cards targeted to be issued.
- Public Sector Banks will develop 'Grameen Credit Score' framework to serve credit needs of SHG members and people in rural areas.
- Proposed to increase FDI limit for insurance sector from 74% to 100%. This enhanced limit will be available for companies which invest entire premium in India.
- Increase in investment and turnover limits for classification of all MSMEs by 2.5 and 2 times respectively to include more number of small businesses.
- Enhancement in credit guarantee cover for MSME to improve access to credit:

  a) For Micro and Small Enterprises, from ₹5 crore to ₹10 crore, leading to additional credit of ₹1.5 lakh crore in the next 5 years;

  b) For Startups, from ₹10 crore to ₹20 crore, with the guarantee fee being moderated to 1 per cent for loans in 27 focus sectors important for Atmanirbhar Bharat

  c) For well-run exporter MSMEs, for term loans up to ₹20 crore

# Other key highlights

## Capital Goods / Power

- Nuclear power projects, with aspirations of 100GW of nuclear power projects by FY47 from 8.2 GW in FY25. The government proposes to bring in private participation in the nuclear power projects. NTPC, L&T, BHEL will be key beneficiaries. Additionally, the government has provided for an outlay of ₹20000 crore for Small Modular Reactors (SMR). At least 5 indigenously developed SMRs will be operationalized by 2033.

- Reforms in the power distribution, inter state transmission capacity augmentation will bring in reduction in transmission and distribution losses, attract private participation in the power distribution space thus improve the entire power generation, transmission and distribution ecosystem. This will also enable increase in smart meter adoption thus smart meter manufacturing companies like HPL electric will benefit.

- The urban challenge fund of ₹1 trillion will be set up for Cities as growth hubs creative redevelopment of cities, water and sanitation along with increase in overall outlay for Jal Jeevan Mission. This is expected to bring in EPC opportunities for players like L&T, VA Tech Wabag, KEC International and Kalpataru Projects International, EMS Ltd.

- Under make in India mission the government aims to improve domestic value addition and build ecosystem for solar PV cells, EV batteries, wind turbines, very high voltage transmission equipment and grid scale batteries. Custom duties have also been reduced on solar cells. The development of local supply chain will create opportunities across industrial players like Reliance, Tata group, Adani group, L&T, Jindal group, among others.

### Consumer staples

- Exemption on personal income tax upto ₹12,00,000 and addition of new tax slab will lead to higher income in the hands of middle-income group. Further the government has increase allocations under various scheme to improve rural economy. This will boost consumer sentiments in the urban and rural demand in India, which lead to uptick in the consumer demand going ahead (likely from Q1FY26).

- Uptick in consumer demand will result in the urban FMCG volume growth to gradually recover which touched the low of 2% in Q3FY25. Rural FMCG volume growth stood ahead of urban volume growth at mid-single digit. With good support in the budget, we expect rural volume growth to further improve in the quarters ahead. This Positive for all the consumer staple companies, which might see good recovery in the volume growth in FY26.

- Demand for premium consumer goods will go up in FY2026 and hence it will be positive for companies such as HUL, Marico, Nestle India and Tata Consumer Products who are riding on premiumisation strategy. Also demand for premium and luxury liquor will increase which will benefit companies such as Allied Blenders & Distillers and Radico Khaitan.

- There was no increase on cess or tax rate on cigarettes in the union budget. No increase in tax rate cigarette will help legal/branded cigarette companies to increase it market share in the near term. We expect ITC cigarette sales volume to continue to grow at 3-5%.

- Basic custom duty on synthetic flavouring essences and mixtures of odoriferous substances used in food and drinks industries reduced from 100% to 20%. This will be positive for food and beverages companies such as Varun Beverages, Dabur India, Nestle India and Tata Consumer Products.

- Basic custom duty on Sorbitol reduced from 30% to 20% in the Union Budget. Sorbitol is one of the key inputs in the manufacturing of toothpaste. Reduction in the custom duty on Sorbitol is positive for toothpaste manufacturing companies such as Colgate Palmolive India, Dabur India and HUL.

# Other key highlights

## Consumer discretionary

### a) Tourism & Hospitality

- Tax exemption on the personal income tax will maintain the momentum in the domestic tourism and will help room demand to remain high in the near term.
- Integrated development of tourist circuits around specific theme (Swadesh Darshan) has been increased by 5x to ₹1900crore compared to last year.
- Modified Udaan scheme will be launched to enhance regional connectivity to 120 new destinations and carry 4 crore passengers in the next 10 years.
- Top 50 tourist destination sites in the country will be developed in partnership with states. Hotels in those destinations will be included in the infrastructure HML.
- Medical Tourism and Heal in India will be promoted in partnership with the private sector along with capacity building and easier visa norms.
- A special focus on destinations related to the life and times of Lord Buddha.
- Overall, we believe hotel sector will continue to benefit from sustained momentum in the domestic tourism and government focus on improving infrastructure and development of tourist places to drive tourism in India. It will positive for hotel companies such as Indian Hotels Company, Lemon Tree Hotels, Chalet Hotels and Samhi Hotels etc.

# Other key highlights

**b) Lifestyle fashion, footwear and QSR**

- Increase in consumers wallet would lead to recovery in the consumption of branded apparel and footwear space in FY26. This will help same-store-sales growth of branded apparels and retail companies to recover from lows in the quarters ahead.

- Fast fashion demand will remain high in the tier 2 and tier 3 town and will benefit the fast fashion companies such as Trent, V2 Retail and Vishal Megamart who are expanding footprints in the tier 2 and tier 3 towns.

- QSR sector was reeling under the pressure of food inflation resulting in lower consumption. Increase wallet will lead to higher spends on food consumption in restaurant and food courts, which will help average daily sales to gradually pick up. This will be positive for QSR companies such as Jubilant Foodworks, Devyani International and Restaurant Brand Asia.

- Government plans new policy for leather and non-leather footwear sector with focus on increasing the domestic production of non-leather footwear along with providing required support to leather footwear segment largely to drive export sales. Positive for footwear companies such as Bata India, Campus and Relaxo Footwear.

**c) Jewellery and luxury watches**

- Jewellery industry will benefit from no increase in custom duty on gold and silver in the budget. Further exemption on the personal tax will help the ticket size of jewellery segment to increase in the upcoming wedding and festive season. This will be positive for Titan.

- Demand for luxury watches will remain strong helping watch makers to clock in better volumes. It is Positive for the company like Titan and Ethos.

# Other key highlights

**Consumer Durables**

- The rationalisation in personal income tax slabs shall leave more money in the hands of middle-class consumers which shall aid discretionary spending and thus consumer durable companies. Discretionary home appliances companies (Room air-conditioners, lighting & fixtures, fans, refrigerators, washing machines) which are urban centric could find growth impetus in the recent sluggish scenario. Companies like Havells, Crompton, Bluestar, Voltas and Whirlpool to be key beneficiaries.

**Electronic manufacturing services (EMS)**

- To address inverted duty structure, BCD on interactive flat panel displays to be increased from 10% to 20%. This is in line with government's Make in India initiative and shall support import substitution. Besides, custom duty on open cells for LCD and LED television has been reduced to 5% and Inputs/parts of open cells used for manufacturing television is exempted from current 2.5% making the manufacturing of TV more affordable. Dixon is a major player in this segment and shall benefit from the same.

- The government has fully exempted customs duty on 28 capital goods for use in the manufacture of lithium-ion battery production of mobile phones. Additionally, the BCD on key components used to manufacture PCBA, camera modules, connectors, USB cables, and fingerprint sensors has also been reduced from 2.5% to zero. Dixon tends to be key beneficiary.

**Infrastructure**

- In the Union Budget 2025, the extension of the Jal Jeevan Mission (JJM) until 2028 was announced with an enhanced total outlay, aiming to achieve 100% coverage of potable tap water connections across rural households. JJM has been allocated ₹ 67,000 crore, marking a significant increase from the revised estimates of ₹ 22,694 crore in 2024-25. This will be beneficial for players such as NCC, PNC Infra and KNR who have a presence in the water segment

- The ministry of road transport and highways (MoRTH) saw its allocations of ₹ 2.72 lakh crore for 2025-26, which is largely unchanged from the previous year. The flattish allocation is largely due to likely to focus of government on BOT methods, as well as focussing on other sources including asset monetisation.

## Defence, Space & Ship-building

| Rs Crore | FY24 | FY25RE | FY26BE | YoY (%) |
|---|---|---|---|---|
| Aircrafts & Aero-Engines | 40,278 | 46,592 | 48,614 | 4.3% |
| Naval Fleet | 23,800 | 25,605 | 24,391 | -4.7% |
| Heavy & medium vehicles | 4,638 | 4,093 | 3,651 | -10.8% |
| Naval Dockyards | 6,830 | 5,418 | 4,500 | -16.9% |
| Other Equipments | 62,198 | 46,589 | 63,099 | 35.4% |
| Others | 19,484 | 31,203 | 35,745 | 14.6% |
| **Total Capital Outlay** | **1,57,228** | **1,59,500** | **1,80,000** | **12.9%** |

- The total capital expenditure for defense in FY26E is set at ₹1.8 lakh crore, reflecting an approximate 13% YoY increase compared to FY25RE
- For R&D (Research & Development) in defence sector, capital outlay allocated is at ₹14924 crore for FY26E, ~9% YoY increase over FY25RE
- Capital outlay for space sector is at ₹6104 crore (29% increase over FY25RE). This aligns with the goal of expanding the space economy by fivefold over the next decade
- A credit note scheme for ship recycling has been introduced in Indian shipyards to reduce costs and promote domestic manufacturing. Shipbuilding clusters will also be established, focusing on improved infrastructure, skill development, and advanced technology.
- A ₹25,000 crore Maritime Development Fund will be established for long-term financing and increased competition, with the government contributing up to 49% and the rest sourced from ports and private sector participants.
- A ten-year exemption from basic customs duty has been introduced for materials used in shipbuilding and ship-breaking to promote MRO activities. Additionally, the export timeframe for imported railway goods for repair has been extended.
- These announcements support the government's goal to boost India's share in the global shipbuilding market, where it currently holds less than 1%.

**Metals and Mining**

- The Union Budget has proposed a full exemption of basic custom duties (BCD) on cobalt powder and waste, the scrap of lithium-ion battery, lead, zinc and 12 other critical minerals. This will reduce the procurement cost, which will benefits metal recycling companies.

- With the goal of providing 100% coverage of potable tap water to rural India, the government has extended the Jal Jeevan Mission until 2028. It has increased allocation from ~₹22,505 crores in Revised Budget 2024-25 to ~₹66,770 crores for 2025-26. This will benefits pipe manufacturers.

- Government has also raised the budget allocation for Specialty steel under the Production Linked Incentive scheme to ~₹305 crores, up from ~₹55 crores in revised budget 2024-25. This scheme aims to boost the production of specialty steel grades and is positive for players such as Vardhman Speciality Steel. This is favorable for JSW Steel and SAIL, which is venturing into the manufacturing of cold rolled grained oriented steel, a high value steel essential for production power transformers.

- For the National Critical Mineral Mission, the government has allocated ~₹410 crores in the Budget 2025-26. This focuses on enhancing domestic production, recycling of critical minerals, and overseas acquisition of critical mineral assets. This will beneficial for mining companies such as Coal India, NMDC etc. which are currently expanding in this space.

- Government has also allocated ~₹300 crores for Coal/Lignite gasification scheme in the Budget 2025-26. Coal India is a key beneficiary given this scheme aims to achieve ~100 MT of coal gasification target by 2030.

# Other key highlights

**Logistics**

- India Post to be transformed into large public logistics organization. India Post, with its 1.5 lakh rural post offices, supported by the India Post Payments Bank and a network of 2.4 lakh daak sevaks, will be repositioned to drive the rural economy forward. The transformation will see India Post evolve into a major public logistics entity, addressing the growing needs of Vishwakarmas, emerging entrepreneurs, women, self-help groups, MSMEs, and larger businesses.

**Oil and Gas**

- OMCs may continue to struggle FY26 as the 2025-2025 budget does not provide the anticipated stimulus. For FY25, the government has revised the LPG loss subsidy upward to ₹14700 crores as compared to the ₹11925 crores announced in the previous budget. However, inspite of the upward revision, OMCs are likely to take a hit in profitability as under recovery stood in excess of ₹30000 crores for 9MFY25. To add to the pain, the FY26 budget has allocated ₹12100 crores for LPG subsidiary, far lower than the anticipated value. This shall have a significant negative impact on the profitability of OMCs.
- GAIL, Petronet LNG and end users likely to benefit from reduced custom duty on LPG. The Custom Duty on Liquified Petroleum Gas (LPG), Liquified Propane and Liquified Butane has been revised downwards from the existing 15% to 5%, applicable from 1st May, 2025. This move is set to benefit GAIL and Petronet LNG, thereby lowering the net cost of consumption for the end users.

# Other key highlights

## Pharma & chemicals

### a) Agro-chem

- PM Dhan-Dhaanya Krishi Yojana, covering 100 districts with low productivity, to enhance productivity and crop diversity among others benefitting 1.7 crore farmers is likely to benefit domestic agrochem players.

### b) BCD exemption on import Lifesaving cancer drug/API

- Proposal to fully exempt Basic Custom Duty on 36 life saving drugs for cancer and rare diseases and concessional customs duty of 5% on 6 lifesaving medicines is expected to benefit pharma players importing and distributing these drugs.

- Full exemption and concessional duty on the bulk drugs(API's) for manufacture of 36 lifesaving drugs for cancer and rare diseases is likely to benefit domestic formulation manufactures of these drugs.

### c) Focus on Healthcare

- Medical tourism and Heal in India to be aided by capacity building with the private partners and easing visa norm to benefit private hospitals.

- Increase in allocation for Aayushman Bharat(PMJAY) from ₹7,605 crore to ₹9,406 crore implying ~24% growth is expected to be beneficial for hospitals.

# Other key highlights

## Real Estate

- Tax relief on the annual value of self-occupied properties claimed as nil increased to two properties from one.
- Annual limit for TDS on rent increased to ₹ 6 lakh from ₹ 2.4 lakh.
- Special Window for Affordable and Mid-Income Housing (SWAMIH) Fund 2 will be established as a blended finance facility with contribution from the Government, banks and private investors. This fund of ₹ 15,000 crore will aim for expeditious completion of another 1 lakh units.

## Textiles

- Government has proposed 5-year mission which will facilitate significant improvements in productivity and sustainability of cotton farming, and promote extra-long staple cotton varieties. This will result in consistent supply of quality cotton to the domestic textile players. Positive for textile companies such as KPR Mills, Arvind, Welspun India and Gokaldas Exports etc.
- Government has increased the allocation of production linked incentives (PLI) scheme for textile to ₹1148crore from ₹45crore in the earlier years. Positive for textile companies.

**Pankaj Pandey** **Head – Research** **pankaj.pandey@icicisecurities.com**

**ICICI Direct Research Desk,**
**ICICI Securities Limited,**
3rd Floor, Brillanto House,
Road No 13, MIDC
Andheri (East)
Mumbai – 400 093
**research@icicidirect.com**

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Name of the Compliance officer (Research Analyst): Mr. Atul Agrawal

Contact number: 022-40701000 E-mail Address: complianceofficer@icicisecurities.com

For any queries or grievances: Mr. Bhavesh Soni Email address: headservicequality@icicidirect.com Contact Number: 18601231122

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