Analysis of Union Budget 2025-26

Feb 2025

Public

Quick Takeaways: Union Budget

- A Budget focused on 3Cs: Consumption, Consolidation and Capex
- This has been a **consumption bazooka**. Focused meaningfully on reviving consumption. No income tax payable on income up to ₹12 Lakh. This is a big change and a very forward looking one. This **should help accelerate formalisation** as well. Revenue expenditure is projected to grow at 7% in FY26 vs 6% in FY25 and 1% in FY24.
- The Gross Fiscal Deficit (GFD) for **FY26 is targeted at 4.4% of GDP** against 4.8% of GDP in FY25.
- **The capex is expected to grow at 10%** to ₹11.2 trillion in FY26, an acceleration from the current low of 7% growth in FY25
- Gross borrowings and net borrowings for FY26 at ₹14.8 trillion and ₹11.5 trillion respectively. The **net borrowing is lower on a YoY basis**. This can have implication on 10-year g-sec yield.
- Beyond the fiscal math, the deregulation/**ease of doing businesses** has been the key theme of the Budget. The Budget has emphasized that there is a need to ease permissions, documentation, certifications and licenses specifically for MSMEs, which would work to increase employment as well.
- Overall, the budget's macro narrative is one of a **measured optimism**. It seeks to drive sustainable growth through a balanced mix of fiscal prudence, consumption, tax simplification while simultaneously investing in the critical areas of infrastructure, human capital, and digital transformation.

Source: Budget Documents, ASK IM Research;
RE: Revised Estimates, BE: Budget Estimates

Union Budget at a Glance

Rs trillion Particulars	Actual FY24A	Revised FY25P	Budget FY26B	% YoY	Remarks
Gross Tax Revenues	**34.7**	**38.5**	**42.7**	**10.8%**	
Corporation Tax	9.1	9.8	10.8	10.4%	
Income Tax	10.5	12.6	14.4	14.4%	Direct tax growth is assumed higher than GDP growth, despite increase in tax exemption limit
GST	9.6	10.6	11.8	10.9%	Slightly above NGDP growth of 10.1% YoY
GST, Custom, Excise, Service Tax	15.0	16.1	17.4	8.3%	
Net Tax Revenue (Centre)	23.3	25.6	28.4	11.0%	
Non-Tax Revenue	4.0	5.3	5.8	9.8%	
Dividends & Profits	1.7	2.9	3.3	12.3%	
Revenue Receipts	**27.3**	**30.9**	**34.2**	**10.8%**	
Capital Receipts	**17.1**	**14.9**	**16.4**	**10.3%**	
Net Borrowings	11.8	10.7	11.5	7.4%	
Small Savings	4.5	4.1	3.4	-16.6%	
Cash drawdown	0.0	1.4	0.0		
TOTAL RECEIPTS	**44.4**	**47.2**	**50.7**	**7.4%**	
Major Expenditure Lines					
Interest Payments	10.6	11.4	12.8	12.2%	
Defence Expenditure	4.4	4.6	4.9	7.7%	Within this, capital expenditure is expected to increase 13% YoY.
Subsidies (Food+Fuel+Fertilizer)	4.1	3.8	3.8	0.0%	
Pensions	2.4	2.8	2.8	0.6%	
Rural Development	2.4	1.9	2.7	39.9%	The growth is largely attributable to Jal Jeevan Mission
Transport	5.3	5.4	5.5	1.3%	
Others	15.2	17.3	18.2	5.2%	
TOTAL EXPENDITURE	**44.4**	**47.2**	**50.7**	**7.4%**	
Revenue Account	34.9	37.0	39.4	6.7%	
Capital Account	9.5	10.2	11.2	10.1%	Including IEBR, the increase will be 11% YoY
Fiscal Deficit	**16.5**	**15.7**	**15.7**	**0%**	
as % of Nominal GDP	*5.6%*	*4.8%*	*4.4%*		In line with expectations
Revenue Deficit	**7.7**	**6.1**	**5.2**	**-14%**	
as % of Nominal GDP	*2.6%*	*1.9%*	*1.5%*		

Source: Budget Documents, ASK IM Research;
A: Actuals, P: Projected, B: Budgeted

Giving a boost to consumption

- Overall cut in Income-Tax rates is a huge positive for boosting the overall consumption.
- Increase in the tax-free income slab is expected to boost disposable income for the middle class, aiding urban FMCG demand recovery amid the slowdown. This could also **fuel continued premiumisation in FMCG and alcoholic beverages**, as consumers gravitate towards higher-end branded offerings. **Discretionary FMCG categories, like personal care and packaged foods, stand to gain the most.**
- Farm & welfare push to **spur the rural FMCG growth**: Steady MNREGA allocation (₹86,000 crore), an increase in agricultural spending and higher farm credit limits are set to uplift rural incomes, supporting a continued gradual recovery in rural FMCG consumption growth.

Government has not changed any taxes on tobacco products

- Status quo on tobacco taxation is positive for cigarette companies as they can now focus on driving volumes.
- Last tobacco tax hike was implemented in Feb 2023.

Footwear

- The government will implement specific policy and facilitation measures to boost the productivity, quality, and competitiveness of India's footwear and leather sector. All the **footwear players should benefit** from this, especially the manufacturers

Source: Budget Documents, ASK IM Research

Auto and Auto Ancillary: In the fast lane

- The government's focus on boosting consumption – complete tax exemption up to ₹12 lakh income under the new tax regime, is expected to boost entry level automotive demand (2Ws and PVs).

- The Budget introduced custom duty exemption on 35 additional capital goods for EV battery manufacturing which will boost domestic manufacture of lithium-ion battery for electric vehicle.

- The production linked incentive (PLI) scheme for Automobile and Auto components revised incentive of ₹347 crore (FY25RE) is likely to be ₹2,819 crore for FY26BE.

Source: Budget Documents, ASK IM Research;
RE: Revised Estimates, BE: Budget Estimates

Unwavering focus on capital expenditure

- **Capital expenditure:** Capital expenditure target for FY26 is at ₹11.2 trillion, an 10% increase over FY25RE (₹10.18 trillion).
- **Support to state governments:** 50-year interest free loan to state governments for infra investments; ₹1.5 trillion to be spent on projects. Each ministry will come with three years of infrastructure pipeline for public-private partnership (PPP) projects

Key areas of focus are:

- **Solar Power (Grid):** Increase in allocation from ₹49.7 billion to ₹100 billion. Capital goods used for manufacturing of solar cells and panels are exempted from Custom duty. Eco system to be built for Solar cells, EV battery, wind turbines, motors and controllers, electrolysers & HVDC equipment, under national manufacturing mission.
- **Semi conductor & display manufacturing:** The allocation hiked to ₹69 billion from ₹30 billion.
- **Consumer Durables & Electronic Manufacturing Services:**
    - Strong focus on Make in India initiative as Interactive Flat Panel Displays (Completely Built Units) duty increased from 10% to 20%. Companies will focus on manufacturing completely built units in India versus imports.
    - Strong focus to grow India's manufacturing ecosystem and making India competitively globally as open cell for Interactive Flat Panel Display Module with or without touch, Touch Glass Sheet and Touch Sensor PCB for the manufacture of the Interactive Flat Panel Display Module reduced from 2% to 0%. Strong impetus on making Indian companies competitive with reducing input costs.

Source: Budget Documents, ASK IM Research

The Power push

- **Pumped storage policy:** A policy for promoting pumped storage projects will be brought out for electricity storage and facilitating smooth integration of the growing share of renewable energy with its variable & intermittent nature in the overall energy mix.
- **Nuclear Power:** The government will partner with the private sector for (1) setting up Bharat Small Reactors, (2) research & development of Bharat Small Modular Reactor, and (3) R&D of newer technologies for nuclear energy.
- **Advanced ultra super critical thermal power plants:** The development of indigenous technology for Advanced Ultra Super Critical (AUSC) thermal power plants with much higher efficiency has been completed. A joint venture between NTPC and BHEL will set up a full scale 800 MW commercial plant using AUSC technology. The government will provide the required fiscal support.
- Strong focus on growing the power sector capacity growth as there is a target to develop 100 GW of nuclear energy by 2047, positioning nuclear as a key pillar in India’s energy transition.
- The government has announced incentives for power distribution reforms, allowing states an additional borrowing of 0.5% of GSDP, contingent on implementing reforms in electricity distribution and intra-state transmission. Additional borrowing limits incentivize states to improve financial health, infrastructure, and operational efficiency of power distribution companies.

Source: Budget Documents, ASK IM Research

Defence drive

- **Space Economy: The** government's emphasis is on expanding the space economy by 5 times in the next 10 years. A venture capital fund of ₹1,000 crore will be set up.
- **Ship & aviation MRO:** To promote domestic aviation and boat & ship MRO (maintenance, repair and operations), the government proposes to extend the period for export of goods imported for repairs from six months to one year. The govt also propose to extend the time-limit for re-import of goods for repairs under warranty from three to five years.
- **Shipbuilding & Ports:** To setup maritime development fund with corpus of ₹250 billion. The government to contribute 49%, rest to be received from ports. Shipbuilding financial assistance policy will be revamped.

Defence Capital expenditure increase of 13% (FY26BE over FY25RE) is overall +ve for Defence focused companies

							Change (%)			
	2022	2023	2024	2025BE	2025RE	2026BE	2023/ 2022	2024/ 2023	2025RE/ 2024	2026BE/ 2025RE
Defence	1,448	1,509	1,646	1,822	1,705	1,924	4	9	4	13

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Source: Budget Documents, ASK IM Research;
RE: Revised Estimates, BE: Budget Estimates

Housing remains an area of focus

(Rs crs) Scheme	2023-24 Actual	2024-25 BE	2024-25 RE	2025-26 BE	y/y (%)
Pradhan mantri awas yojana (PMAY) - urban	21,684	30,171	15,170	23,294	54
Pradhan mantri awas yojana (PMAY) - rural	21,770	54,500	32,426	54,832	69

- The PMAY (urban + rural) has been raised by 64% YoY (vs revised esimate) which will be a key positive for cement sector (as housing sector accounts for 60% of India's cement demand).
- Earlier tax-payers were allowed to claim the annual value of self-occupied properties as nil only on the fulfilment of certain conditions but in this budget, the government has proposed to allow the benefit of two such self-occupied properties without any condition.
- Under the Special Window for Affordable and Mid-Income Housing (SWAMIH), another forty thousand units (in stressed housing projects) will be completed in 2025.
- 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 and will aim for expeditious completion of another 100,000 units (in stressed housing projects).

Source: Budget Documents, ASK IM Research;
RE: Revised Estimates, BE: Budget Estimates

Telecom: Pushing for growth

Telecom receipts & BSNL

- Telecom receipts is projected to reduce from ₹1,20,000 crore in FY25 to about Rs 82,000 Cr in FY26.
- In addition to this, the government has announced capital infusion in BSNL of about ₹33,800 crore in FY26 as compared to ₹72,000 crore in FY25.
- The decrease in receipt can be positive for all the major telecom service provider as it indicates that the government is planning to grant them certain waiver or deferment in adjusted gross revenue (AGR), License and Spectrum payments.

Bharat-Net Allocation

- Bharat net allocation has increased sharply from ₹6,500 crore to about ₹22,000 crore.
- The increase in Bharat-Net allocation is beneficial to the domestic telecom equipment manufacturing along with Wire and Cable companies. Similarly, the government continuing to invest in BSNL is positive for domestic equipment manufacturing companies.

Source: Budget Documents, ASK IM Research

Oil & Gas: Key highlights

(Rs crore)	2023-24	2024-25	2024-25	2025-26	
Scheme	Actual	BE	RE	BE	y/y (%)
Direct Benefit Transfer - LPG	1,460	1,500	500	1,500	200
LPG Subsidy	12,240	11,925	14,700	12,100	-18

- The LPG subsidy for FY25 was revised to ₹14,700 crore, which is lower than the ask of ₹40,000 cr. (by oil marketing companies). This is a negative for oil marketing companies.
- Setting up of 1.27 million tonnes urea plant at Namrup will be a positive for oil and gas producers as well as for gas pipeline operators.
- The reduction in customs duty on liquified propane from 15% to 2.5% (for industrial usage) and on LPG from 15% to 5% (for industrial usage) can potentially boost consumption of Propane/ LPG in the Morbi's industrial cluster and in other industries.

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Source: Budget Documents, ASK IM Research;
RE: Revised Estimates, BE: Budget Estimates

Critical minerals and recycling: Key highlights

- **Critical Mineral Mission:** To set up Critical Mineral Mission for domestic production, recycling of critical minerals, and overseas acquisition of critical mineral assets. Its mandate will include technology development, skilled workforce, extended producer responsibility framework, and a suitable financing mechanism

- **Promoting recycling and increasing viability of critical minerals:** Basic custom duty reduced for the following minerals and waste imports

  - 5% to Nil: Tin waste, Tungsten waste, Molybdenum waste, Cobalt waste, Bismuth & bismuth alloys, Zirconium waste, Antimony waste, Beryllium waste, Cadmium waste, Lead waste & scrap, Zinc waste & scrap, Cobalt powders, Waste & Scrap of Lithium-Ion Battery
  - Rhenium waste 10% to Nil

Source: Budget Documents, ASK IM Research;
RE: Revised Estimates, BE: Budget Estimates

Financial Sector: Encouraging credit growth

- Kisan Credit Cards (KCC) facilitating short term loans to farmers, the loan limit under the Modified Interest Subvention Scheme will be enhanced from ₹3 lakh to ₹5 lakh for loans taken through the KCC.

- Enhancement of credit availability with guaranteed cover: To improve access to credit, the credit guarantee cover will be enhanced: - 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; - For Startups, from ₹10 crore to ₹20 crore, with the guarantee fee being moderated to 1 per cent for loans in 27 focus sectors; and - For well-run exporter MSMEs, for term loans up to ₹20 crore.

- Credit card for Micro-enterprise: Customized Credit Cards with ₹5 lakh limit for micro enterprises registered on Udyam portal, in the first year, 10 lakh such cards will be issued.

- A new scheme will be launched for 5 lakh women, Scheduled Castes and Scheduled Tribes *first-time entrepreneurs* providing term loans up to ₹2 crore during the next five years.

- National Bank for Financing Infrastructure and Development (NaBFID) to set up a *Partial Credit Enhancement Facility* for corporate bonds for infrastructure.

Source: Budget Documents, ASK IM Research

Financial Sector: Reducing tax burden

- The revised tax slabs essentially imply no income tax burden for income levels up to Rs 12.75 lakh. This makes the old tax regime less attractive for vast majority of tax filers thus disincentivising investments under 80C. While this is negative for life insurance companies, more income in hands of households can have positive impact on repayment capabilities.

- Unit Linked Insurance Plan (ULIP) policies with ticket size >₹2.5 lakh, maturity proceeds were taxed as "income from other sources". The same will now be considered as capital gains and hence the tax rate on maturity proceeds is lower than earlier.

- Foreign Direct Investment (FDI) in insurance hiked from 74% to 100% though premium collected has to be invested in India. MNC joint venture partners in insurance entities have been selling stake and hence FDI rush in unlikely

Source: Budget Documents, ASK IM Research

Healthcare: Key takeaways

- 36 lifesaving drugs and medicines fully exempt from basic customs duty, drugs mainly for cancer, rare diseases and other severe chronic diseases
- 6 lifesaving drugs will attract basic customs duty of 5%
- Full exemption and concessional customs duty will be applicable on the bulk drugs for the above-mentioned products
- Specified drugs and medicines under Patient Assistance Programmes run by pharmaceutical companies are fully exempt from Basic customs duty, provided the medicines are supplied free of cost to patients. Further 37 more medicines along with 13 new patient assistance programmes have been added to it.
- Day care cancer centers to be setup in all district hospitals in next 3 years, 200 centers to be established in FY26

Source: Budget Documents, ASK IM Research;
RE: Revised Estimates, BE: Budget Estimates

Agriculture & Fertilizers: Key highlights

- Fertilizer subsidy for FY26 has been marginally reduced by₹ 2% to ₹1,67,900 crore from FY25 RE of ₹1,71,311 crore. Urea subsidy stands flat v/s FY25 RE at ₹1,19,000 crore.
- Phosphatic and Potassic (P&K) subsidy is down 6% v/s FY25 RE to ₹49,000 crore. Within P&K, indigenous P&K subsidy is down 11% to ₹30,000 crore from ₹33,810 crore. Imported P&K subsidy has been raised 3% v/s FY25 RE to ₹19,000 crore.
- Import duty on Phosphoric Acid reduced from 20% to 7.5%
- Reduction in BCD for Aquaculture inputs (1) Fish Hydrolysate from 15% to 5% (2) Frozen Fish Paste from 30% to 5% Kisan Credit Card – facilitates short term loan for 77mn farmers. Loan limit enhanced from ₹3 lakh to ₹5 lakh.
- Scheme in partnership with states to enhance agriculture productivity – focus on 100 districts with low productivity, to help 17mn farmers.
- Pulses & Seeds – 6-year mission on self-reliance in pulses. Will procure pulses from farmers from these agencies. Focus on high yielding and abiotic stress resistant seeds variety.
- Cotton – 5-year mission to improve cotton productivity and promote extra-long staple cotton variety

Source: Budget Documents, ASK IM Research;
RE: Revised Estimates, BE: Budget Estimates

Risk Factors and Disclaimer

Risk arising from the investment objective, investment approach and asset allocation:
Equities as an asset class carry a higher risk in comparison to debt. While risk cannot be totally eliminated, it can be mitigated through a well-designed Investment Approach. ASK Investment Managers Portfolios seek to mitigate risk and deliver superior returns through research-based investing. However, this objective may not be fully achieved due to various reasons such as unfavorable market movements, misjudgment by portfolio manager, adverse political or economic developments etc. The PMS is run with an objective to achieve reasonable returns consistently. Given this background the investor investing in the PMS faces the following risks

(i) Political, economic and / or related risks

The Asset Value of the portfolio and the liquidity of the shares may be affected by changes in government policy, taxation, interest rates, social and religious instability and political, economic or other developments in or affecting India.

(ii) Industry risk

The value of shares of companies in a particular industry may be affected due to factors affecting the industry like changes in government policy on duties, FDI or a foreign country, which is a big market for the industry, may impose restrictions on import etc.

(iii) The Indian Securities Market

The Indian stock markets in the past experienced substantial price volatility and no assurance can be given that such volatility will not occur in future. Actual market trend may be in variance with anticipated trends hence, the decisions of the Portfolio Manager may not be always profitable.

(iv) Liquidity Risk

Some stocks that the investor might be invested in might not be highly liquid. Though it will be the PMS service providers endeavour to restrict investments in less liquid stocks to a lower limit, there is an exposure of liquidity risk to the investor.

Source: Budget documents, ASK IM Research, Bloomberg

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Thank You