Budget Highlights 2025-26

ANITHA

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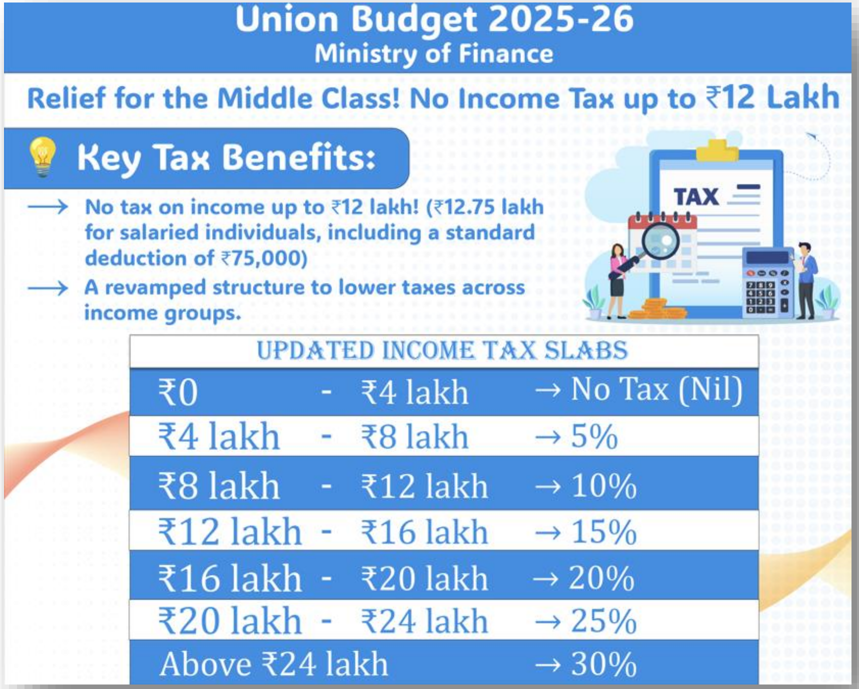
AMFI Registered Mutual Fund Distributor

Direct Tax Proposal

- **Key Feature of This Year's Budget:** The Government has decided to provide significant relief to income tax payers. As per the new tax regime, no income tax is payable on income up to INR 12 lakh. For salaried taxpayers, the limit is increased to INR 12.75 lakh, thanks to a standard deduction of INR 75,000.

- **Revised Tax Slabs under the New Tax Regime:**
  - **Up to INR 12 lakh:** No income tax payable
  - **INR 12 lakh - INR 12.75 lakh (salaried taxpayers):** No income tax payable (due to standard deduction of INR 75,000)



Direct Tax Proposal

- The Government estimates that for tax payers up to INR 12 lakh of normal income (other than special income such as capital gains) tax rebate is being provided in addition to the benefit due to slab rate reduction in such a manner that there is no tax payable by them.

- For example, a tax payer in the new regime with an income of INR 12 lakh will get a benefit of INR 80,000 in tax (which is 100% of tax payable as per existing rates). Similarly, a person having income of INR 18 lakh will get a benefit of INR 70,000 in tax (30% of tax payable as per existing rates) and a person with an income of INR 25 lakh gets a benefit of INR 1,10,000 (25% of his tax payable as per existing rates).

Direct Tax Proposal

- **TDS/TCS Streamlining:** The Government is making strides in simplifying Tax Deduction at Source (TDS) by trimming the number of rates and thresholds for deductions. The interest deduction limit for senior citizens is set to double, increasing from INR 50,000 to INR 1 lakh. Likewise, the annual TDS limit on rent will rise from INR 2.40 lakh to INR 6 lakh. The threshold for collecting Tax at Source (TCS) on remittances under the RBI's Liberalized Remittance Scheme (LRS) will be raised from INR 7 lakh to INR 10 lakh. Furthermore, TCS on remittances for education purposes is proposed to be eliminated.

Indirect Tax Proposal

- **Rationalization of custom tariff structure for industrial goods:** The Government has proposed to remove seven tariff rates. This is over and above the seven tariff rates removed in FY24 budget.

- **Relief on import of drugs/medicines:** To provide relief to patients, particularly those suffering from cancer, rare diseases and other severe chronic diseases, the Government has proposed to add 36 lifesaving drugs and medicines to the list of medicines fully exempted from Basic Customs Duty (BCD).

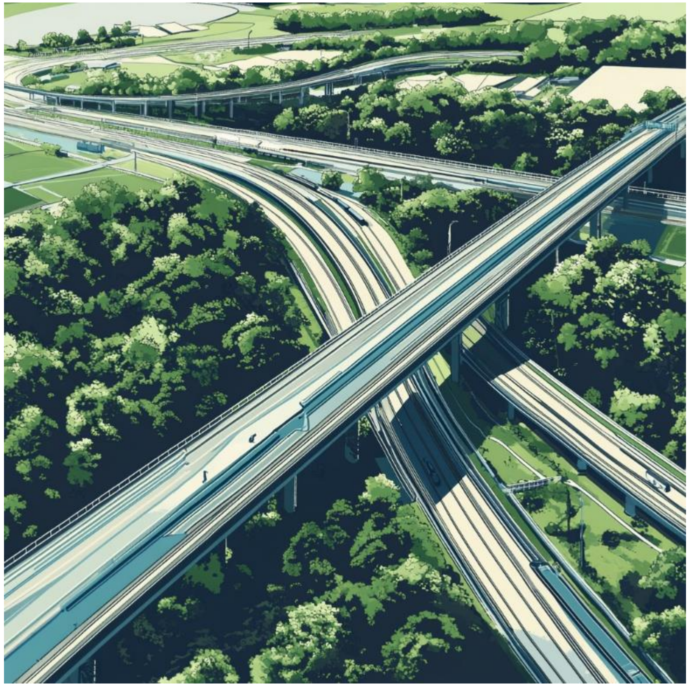
- **Promoting domestic industry:** The Government has proposed to fully exempt customs duty on cobalt powder and waste, the scrap of lithium-ion battery, Lead, Zinc and 12 more critical minerals. This will help secure their availability for manufacturing in India.

Agriculture

The Prime Minister Dhan-Dhanya Krishi Yojana is a 'Developing Agri Districts' initiative inspired by the aspirational districts program. This program aims to develop 100 districts characterized by low productivity, moderate crop intensity, and below-average credit parameters.

Infrastructure

- **Capital Investment Boost:** The budget for capital investment has been increased by 10%, reaching INR 11.2 lakh crore, which is 3.1% of GDP.
- **Railways:** A capital outlay of INR 2.52 lakh crore has been budgeted for the railways, similar to the FY25 Revised Estimates (RE).
- **Roads:** A capital outlay of INR 2.7 lakh crore has been allocated for roads, aligning with the FY25 RE.



Infrastructure

- **Public-Private Partnership (PPP) in Infrastructure:** Each infrastructure-related ministry will develop a 3-year pipeline of projects that can be executed in PPP mode. States are encouraged to follow suit and can seek support from the India Infrastructure Project Development Fund (IIPDF) scheme to prepare PPP proposals.
- **Interest-Free Loans to States:** The amount of 50-year interest-free loans to state governments for capital expenditure has been raised to INR 1.5 lakh crore, up from INR 1.25 lakh crore in the FY25RE, to incentivize infrastructure investment.
- **Asset Monetization Plan 2025-30:** Building on the success of the first Asset Monetization Plan announced in 2021, the second plan for 2025-30 will be launched, aiming to reinvest INR 10 lakh crore in new projects.
- **Modified UDAN Scheme:** A revised UDAN scheme will be launched to enhance regional connectivity, targeting 120 new destinations and aiming to carry 4 crore passengers over the next 10 years.

Financial Sector

- **Insurance Sector FDI:** The Government will raise the FDI limit for the insurance sector from 74% to 100%, applicable to companies that invest the entire premium within India.
- **Credit Guarantee for MSMEs:** The credit guarantee cover for MSMEs is set to increase. For Micro and Small Enterprises, it will rise from INR 5 crore to 10 crore, facilitating additional credit of INR 1.5 lakh crore over the next 5 years. For Startups, the cover will increase from INR 10 crore to 20 crore, with the guarantee fee reduced to 1% for loans in 27 key sectors crucial for Atmanirbhar Bharat, and for well-run exporter MSMEs, for term loans up to INR 20 crore.
- **Enhanced Credit via Kisan Credit Card (KCC):** The KCC will support short-term loans for 7.7 crore farmers, fishermen, and dairy farmers. The loan limit under the Modified Interest Subvention Scheme will be increased from INR 3 lakh to 5 lakh for loans obtained through the KCC.

Financial Sector

Welcome move: Simplification of Know Your Customer (KYC) process to implement the earlier announcement on simplifying the KYC process, the revamped Central KYC Registry will be rolled out in 2025

Growth Assumption

- Nominal GDP: 10.1%, Corporation Tax: 10.4%, Personal Taxes: 14.3%, Excise: 3.9%, GST: 10.9%, Non-tax revenue: 9.8%, Disinvestments: 42.4%
- Remarks:
  - The government has projected higher buoyancy (1.4X) in personal income taxes despite the revenue losses from income tax relief, which we find to be an optimistic assumption.
  - On the other hand, the growth in GST collections aligns with nominal GDP growth and seems achievable.
  - The assumptions for non-tax revenue growth also appear realistic. However, the disinvestment target is once again set high, similar to previous years.
  - We believe there is a possibility that the Government may miss this target again.

Growth Assumption

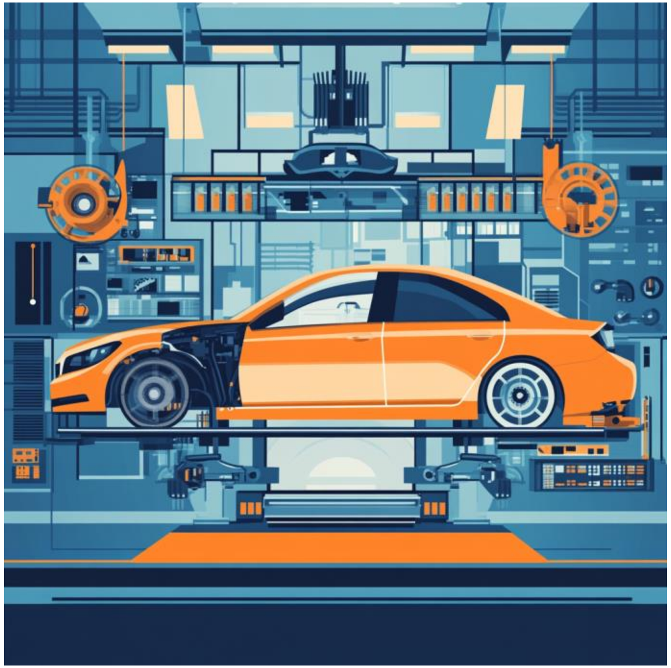
- **Revenue Expenditure: 6.7%**
- The government has projected a higher buoyancy rate of 1.4X for personal income taxes, despite the revenue losses from income tax relief, which we find to be an optimistic assumption.
- Conversely, the growth in GST collections aligns with nominal GDP growth and appears achievable.
- The assumptions for non-tax revenue growth are deemed realistic.
- However, the disinvestment target is set high once again, similar to previous years. We believe that the Government may fall short of this target once more.

Growth Assumption

- **Capex: 10.1%**
- The budget plans a 10.1% year-over-year increase in capital expenditure, following a 7% increase in the FY25 Revised Estimates. This growth appears reasonable in light of the Government's commitment to fiscal consolidation.

Sector Implications - Auto

- Higher disposable income is expected to boost demand for 2-wheelers (2W) and 4-wheelers (4W). This is favorable for 2W and 4W OEMs.
- Benefits Auto OEMs and ancillary companies involved with EV batteries, motors, and controllers.
- Impacts 2W OEMs slightly negatively.
- Adversely affects Commercial Vehicle (CV) OEMs, as the budget outlay did not meet expectations.



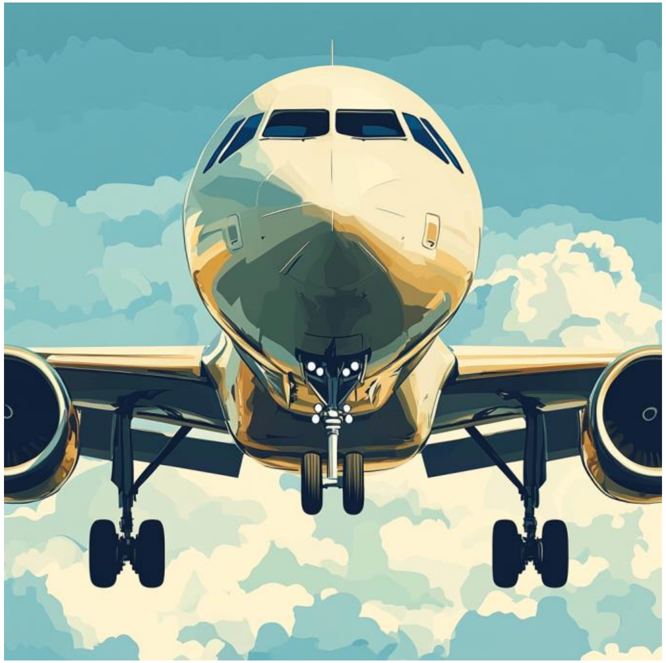
Sector Implications - Oil & gas

- It suggests no support for the accumulated LPG under-recoveries of OMCs in FY25.

- Additionally, the budgetary provision for FY26 might be insufficient if oil prices remain high and retail prices do not rise accordingly.

Sector Implications - Aviation

- The addition of new destinations is expected to significantly enhance network connectivity, leading to a substantial boost in passenger growth. This expansion will not only improve accessibility for travelers but also stimulate economic activities in previously underserved regions. By opening up more routes, the initiative aims to facilitate smoother travel experiences, attract more passengers, and ultimately contribute to the overall growth of the transportation sector.



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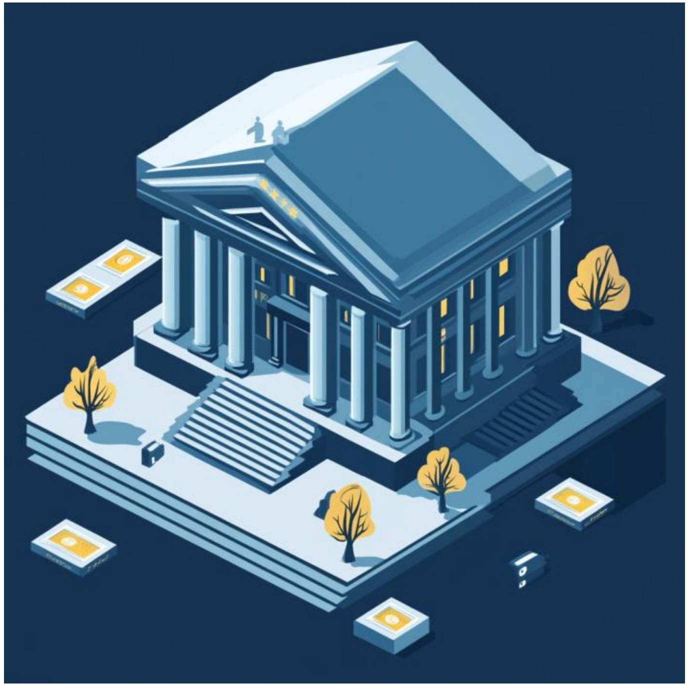
Sector Implications - Banks/NBFCs/HFCs

- It's likely to result in an additional Rs 1.5 trillion in credit to the MSME sector over the next five years.

- This is beneficial for lenders in the housing finance business, as the fund is expected to expedite the construction of 100,000 housing units.

- It will help deepen the infrastructure bond market.

- This is positive for banks, as the higher KCC limit will aid in meeting PSL targets. However, it is negative for MFIs, as the credit needs of rural India will be met by banks through the KCC.



Sector Implications – Insurance & Payments

- This could increase the competitive intensity within the Insurance industry.
- This is detrimental to fintechs in the payments ecosystem that relied on these incentives.

Sector Implications – Consumer

- Beneficial for consumer discretionary and consumer staples companies.
- The absence of a tax increase is favorable for the cigarette industry.
- Government schemes like MGNREGA and PM Kisan boost rural demand. Therefore, the flat FY26 outlay for MGNREGA and PM Kisan is negative for FMCG companies.

Sector Implications

- **Cement and building materials**
  - This can boost demand from the infrastructure sector.
- **Defence**
  - Increased capital expenditure and initiatives towards indigenization will boost the order books for Defence companies.
- **Metal**
  - Increased infrastructure spending and growth in manufacturing will boost the demand for steel, aluminum, and other metals.

Sector Implications

- Real Estate
  - Boost for urban consumption, benefiting retail space owners.
  - Favorable for investment demand in the real estate sector.
  - Allocation remains significantly lower than FY25BE.

Sector Implications – Infrastructure

- The 10% growth in capital expenditure after the miss in FY25 is considered modest.
- Capital expenditure for highways and railways has been maintained.
- The Centre has acknowledged the difficulties states faced in utilizing the grant-in-aid limits in FY25. The higher budget limits are seen as a positive sign for this spending.
- Slow expenditure and revenue build-up in receivables for the Jal Jeevan Mission (JJM) have been key issues for EPC stocks. The Government's reinforcement of JJM is expected to be a positive for these stocks.
- The allocation for the Pradhan Mantri Awas Yojana (PMAY) was lower than FY25 Budget Estimates.
- While the budget did not outline a long-term road map for the highways sector, more Public-Private Partnership (PPP) and Build-Operate-Transfer (BOT) projects could be forthcoming.

Sector Implications – Capital Goods

- The increased capital expenditure is expected to drive demand for industrial, power equipment, and EPC companies.
- In the nuclear sector, companies involved in equipment supply, EPC works, and electrical equipment manufacturing will benefit.
- The expansion of PPP mode for infrastructure projects and capital raised through the asset monetization plan will support new projects and, consequently, order inflows.
- The emphasis on the Make in India initiative will boost revenue growth for capital goods companies.
- The development of the shipbuilding ecosystem will support the MSME sector, particularly in fabrication and metal processing work.

Disclaimer

The views expressed herein are as of February 1, 2025, based on the Budget proposals presented by the Honorable Finance Minister in Parliament on February 1, 2025. These proposals may change or be different when the Budget is passed by Parliament and notified by the Government. This information is for general purposes only and does not provide a complete disclosure of every material fact related to the Indian Budget. For a detailed review, please refer to the budget documents available at www.indiabudget.gov.in. These views involve known and unknown risks and uncertainties that could cause actual results, performance, or events to differ materially from those expressed or implied herein. Views are subject to change without notice.

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