

It was a well-balanced Union Budget with more positives than negatives this time around. The key Budget expectations included the 4Cs: Capex, Consumption, Fiscal Consolidation and employment Creation. The government seem to have met market expectations on the fiscal consolidation front and has taken enough measures to provide the required boost to consumption by realigning tax slabs to provide an estimated relief of Rs. 1 lakh crore to the middle class.

Further, the government has shown its continued commitments towards MSME (which essentially contribute 36% of India's manufacturing and contributes 45% of exports) and some of the other labour-intensive industries such as tourism, footwear, toys, food processing among others.

The measures taken to boost consumption and provide relief to weaker sections of the society has left little headroom with the government for capex allocation. Hence, a modest 10% increase in FY26BE capex, with the capex to GDP ratio set at 3.1% versus 3.2% in FY24 and 3.4% in FY25BE might be taken as a kind of setback. However, the government's endorsement of PPP (Public Private Partnership) model may take a center-stage hereon, given a sustained pick-up in infrastructure activities in the country, which, in our view, could be a daunting task given historical track record of PPP model.

Further, within allocation for capex, there is focus on drinking water, sanitation, renewable energy, but some of the market darlings such as Railways has nil growth in capex allocation. An increase in capex allocation for the power and defence sectors is also below market expectations.

### Consumption boost: A centerpiece of Budget 2025-26

A slowdown in consumption activities, led by inflationary pressures and low disposable incomes has been a key cause of concern for a large portion of India population for the past couple of years. As expected, Union Budget has given priority to this space by way of a single masterstroke of ensuring over Rs. 1 lakh in additional savings in low-income categories by way of ensuring 100% tax rebate for income upto Rs 12 lakh per annum. In our view, this is going to have a long-lasting impact on overall consumption space, including discretionary and consumer durables. We believe that consumption, which was a weak link of economic activities for the last several quarters will also start playing its role to support economic growth, hereon.

### Commitment on fiscal consolidation continues to offer comfort

Notably, a visible slowdown in economic activities led the government to miss its revenue target by 1.3% in FY25RE. However, the government remained committed to fiscal consolidation path and compromised over capex target (FY25RE capex is down by over 8% from FY25BE). This essentially resulted in the fiscal deficit improving to 4.8% vs 4.9% FY25BE. For FY26, the government is targeting fiscal deficit at 4.4%, considering 11% revenue growth and an over 7% expenditure growth which should be reasonably achieved. Also, FY26 capex growth is higher over revenue expenditures, which reflects that quality spending is still in the government's agenda, which bodes well for the economy.

### Outlook – Budget to accentuate sector churn; all eyes on RBI now

There has been churn away from the PSE and cap goods/engineering space lately which is reflected in the sharp correction in their stock prices in the past six months. On the other hand, there is outperformance by stocks in the IT services, pharmaceuticals and textile space that are largely seen as beneficiaries of the depreciation in the Rupee.

The Union Budget could further boost the churn away from capex-driven stocks with consumption stocks attracting investor interest now. The RBI has also taken steps to ease liquidity crunch and is expected to follow it up with a rate cut in the forthcoming monetary policy review meet. The coordinated efforts by the central government and the RBI are expected to provide the required impetus to upswing in consumption.

Overall, we retain our view that Year 2025 could be marked with correction in the broader markets (SMID space) and the continued sector rotation in favour of IT Services, Pharma, consumer and some select banking stocks.

### Investment Picks:

**Large-Caps:** TCS, Infosys, DLF, ITC, ICICI Bank, M&M, SBIN, L&T, Tata Motors, HUL, Dabur, Tata Consumer, Sun Pharma, Hero MotoCorp, NTPC, PowerGrid and UltraTech.

**Mid-caps:** Macrotech, Marico, BATA, SRF, Persistent Systems, Sundram Fasteners, PNB housing, HUDCO, Varun Beverages, Zydus Wellness and Navin Fluorine.

**Small-caps:** Kirloskar Oil Engines, Radico, Sunteck Realty, ABDL, Arvind Smartspaces, KEC, V2 Retail, Lumax Auto Technologies, ISGEC and Emami.

Budget summary		(Rs '00 crore)						
Particulars	FY19	FY20	FY21	FY22	FY23	FY24	FY25RE	FY26BE
Gross tax revenues	20,805	20,101	20,271	27,093	30,542	34,655	38,535	42,702
% change yoy	8%	-3%	1%	34%	13%	13%	11%	11%
Net tax revenues	13,172	13,569	14,263	18,048	20,978	23,273	25,570	28,374
% change yoy	6%	3%	5%	27%	16%	11%	10%	11%
Non tax revenues	2,357	3,272	2,076	6,255	2,854	4,018	5,310	5,830
Total expenditure	23,151	26,863	35,098	37,938	41,932	44,434	47,165	50,653
% change yoy	8%	16%	31%	8%	11%	6%	6%	7%
Fiscal deficit	6,494	9,337	18,183	15,845	17,378	16,546	15,695	15,689
as % of GDP	3.4	4.6	9.2	6.8	6.4	5.6	4.8	4.4
Revenue deficit	4,545	6,665	14,496	10,310	10,699	7,652	6,101	5,238
as % of GDP	2.4	3.3	7.3	4.4	4.0	2.6	1.9	1.5
Primary deficit	668	3,216	11,384	7,790	8,092	5,908	4,316	2,926
as % of GDP	0.3	1.6	5.8	3.4	3.0	2.0	1.3	0.8

Source: Budget documents, Mirae Asset Sharekhan Research

## Amendments made under Direct Tax

### ◆ Changes under New Tax Regime:

- **Rebates increased, no income tax till slab of Rs. 12 lakh:** A salary income earner with total income of up to Rs. 12.75 lakh will not pay any tax thanks to the increase in tax rebate from Rs. 25000 to Rs. 60000. Point to note that where income is taxable at special rates such as Capital Gains then this tax rebate will not apply.

Slabs	Tax rate	Old Slabs	Tax rate
Up to 4 Lakhs	Nil	Up to 4 Lakhs	Nil
4-8 Lakh	5%	3-7 Lakhs	5%
8-12 Lakhs	10%	7-10 Lakhs	10%
12-16 Lakhs	15%	10-12 Lakhs	15%
16-20 Lakhs	20%	12-15 Lakhs	20%
20-24 Lakhs	25%	> 15 Lakhs	30%
> 24L Lakhs	30%		

Source: Budget documents, Mirae Asset Sharekhan Research

- Standard deduction has been raised to Rs 75,000 from Rs 25,000 earlier. Therefore, a salary earner of Rs 12.75 lakh need not pay any tax.
- ◆ **Self-occupied properties:** Taxpayers can now claim the annual value of two self-occupied properties as zero. Earlier, only one property was allowed to be claimed as self-owned, while the other was taxed based on the deemed rental income. This is expected to provide a big boost to the real estate industry.
- ◆ **Rationalisation of TDS rates:**
  - The threshold limit for TDS on interest increased from Rs 50,000 to Rs 1 lakh for senior citizens and from Rs 40,000 to Rs 50,000 in case of others.
  - Threshold limit for dividend income raised from Rs. 5000 to Rs. 10,000
  - Threshold limit for rental income raised from Rs 240000 to Rs 600000
  - Threshold limit for professional income/technical services raised from Rs 30000 to Rs 50000
- ◆ ULIPs with annual premiums exceeding Rs 2.5 lakh will now be taxed as capital gains. Earlier, they were taxed at a marginal tax rate. They will now be taxed at 12.5% i.e. long-term capital gain tax rate, which is likely to be lower than the marginal rate of tax.
- ◆ Withdrawal of National Savings Scheme (NSS) and Vatsalya NPS accounts are now tax free.
- ◆ Tonnage tax scheme is now proposed for inland vessels registered under the Indian Vessels Act, 2021 to promote inland water transport in the country. Earlier it was only applicable for sea going ships.
- ◆ Long term capital gains tax rate for FPIs has been rationalized from 10% to 12.5% on transfer of any security.
- ◆ **Indirect Tax Proposal**
  - **Rationalisation of customs tariff structure for industrial goods**
    - A. Removal of seven tariff rates
    - B. Apply not more than one cess or surcharge
    - C. Apply equivalent cess to maintain effective duty incidence on most items and lower cess on certain items

### o Sector-specific proposals

- A. **Make in India** - Exemption to part of open cell for LED/LCD TV, looms for textiles, capital goods for lithium-ion battery of mobile phones and EVs.
- B. Basic customs duty (BCD) on Interactive Flat Panel Display (IFPD) increased to 20% and on open cells reduced to 5%
- C. BCD reduced from 30% to 5% on frozen fish paste and 15% to 5% on fish hydrolysate
- D. **Promotion of MROs** – Exemption for 10 years on goods for ship building and ships for breaking, extension of time limit for export of railway goods imported for repairs.
- E. **Export promotion** – duty free inputs for handicraft and leather sectors.
- F. **Trade Facilitation** – The time limit fixed for finalisation of provisional assessment; new provision for voluntary declaration of material facts post clearance and duty payment with interest but without penalty; IGCR Rules amended to extend time limit to 1 year and file quarterly statement instead of monthly statements.

### o Improved access to life savings medicines

(Medicines for rare diseases, cancer, severe chronic diseases)

- A. BCD exempted on 36 life-saving drugs and medicines for treating cancer, rare and chronic diseases.
- B. Six medicines in 5% duty list
- C. 37 medicines and 13 new patient assistance programmes are in exempted list now.

**DISCLAIMER**

This information/document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This information/ document is subject to changes without prior notice.

Recommendation in reports based on technical and derivatives analysis is based on studying charts of a stock's price movement, trading volume, outstanding positions, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals. However, this would only apply for information/document focused on technical and derivatives research and shall not apply to reports/documents/information focused on fundamental research.

This information/document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this information/report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved) and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other recommendations/reports that are inconsistent with and reach different conclusions from the information presented in this recommendations/report.

This information/recommendation/report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst might have dealt or traded directly or indirectly in securities of the company and that all the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst and SHAREKHAN further certifies that either he or his relatives or Sharekhan associates might have direct or indirect financial interest or might have actual or beneficial ownership of 1% or more in the securities of the company at the end of the month immediately preceding the date of publication of the research report. The analyst and SHAREKHAN encourages independence in research report/ material preparation and strives to minimize conflict in preparation of research report. The analyst and SHAREKHAN does not have any material conflict of interest or has not served as officer, director or employee or engaged in market making activity of the company. The analyst and SHAREKHAN has not been a part of the team which has managed or co-managed the public offerings of the company, and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document. Sharekhan Ltd or its associates or analysts have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from third party in the past twelve months in connection with the research report.

Either SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Forward-looking statements (if any) are provided to allow potential investors the opportunity to understand management's beliefs and opinions in respect of the future so that they may use such beliefs and opinions as one factor in evaluating an investment. These statements are not a guarantee of future performance and undue reliance should not be placed on them. Such forward-looking statements necessarily involve known and unknown risks and uncertainties, which may cause actual performance and financial results in future periods to differ materially from any projections of future performance or result expressed or implied by such forward-looking statements. Sharekhan/its affiliates undertakes no obligation to update forward-looking statements if circumstances or management's estimates or opinions should change except as required by applicable securities laws. The reader/investors are cautioned not to place undue reliance on forward-looking statements and use their independent judgement before taking any investment decision.

Investment in securities market are subject to market risks, read all the related documents carefully before investing. The securities quoted are for illustration only and are not recommendatory. Registration granted by SEBI, and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T&C on [www.sharekhan.com](http://www.sharekhan.com)

---

Registration and Contact Details: Name of Research Analyst - Sharekhan Limited, Research Analyst Regn No.: INH000006183. CIN: - U99999MH1995PLC087498.

Registered Office: The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA. Tel: 022-6115000.

Correspondence/Administrative Office Address - Gigaplex IT Park, Unit No 1001, 10th Floor, Building No.9, TTC Industrial Area, Digha, Airoli-West, Navi Mumbai – 400708. Tel: 022 61169000 / 61150000, Fax No. 61169699.

Other registrations of Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE (CASH / F&O / CD) / MCX - Commodity: INZ000171337; BSE – 748, NSE – 10733, MCX – 56125, DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669 (date of initial registration: 03/07/2004, and valid till 02/07/2026); IRDAI Registered Corporate Agent (Composite) License No. CA0950, valid till June 13, 2027.

Compliance Officer: Ms. Binkle R. Oza; Tel: 022-62263303; email id: [complianceofficer@sharekhan.com](mailto:complianceofficer@sharekhan.com)

For any complaints/grievance, email us at [igc@sharekhan.com](mailto:igc@sharekhan.com) or you may even call Customer Service desk on - 022- 41523200/022-69920600.