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UNION BUDGET 2025-2026

Analysis & Insights

Budget Breakdown

Budget Highlights:

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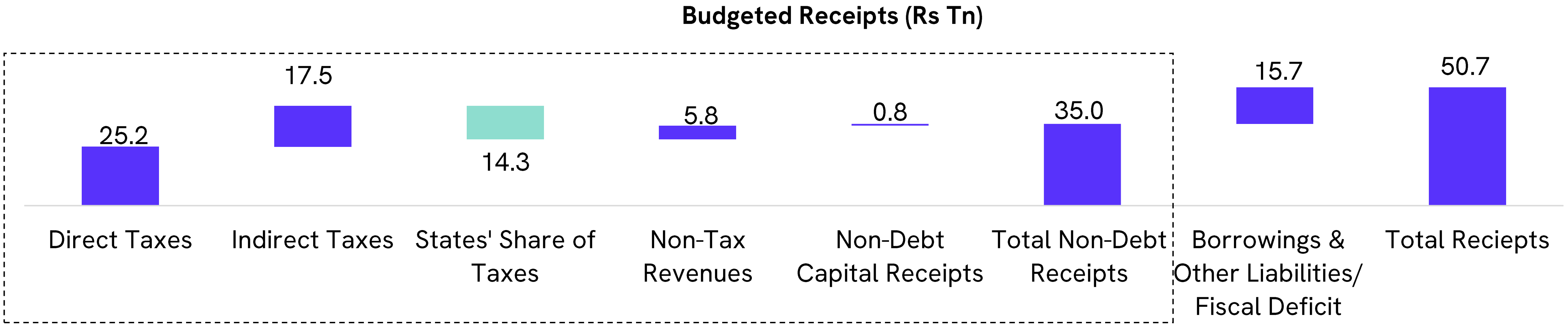
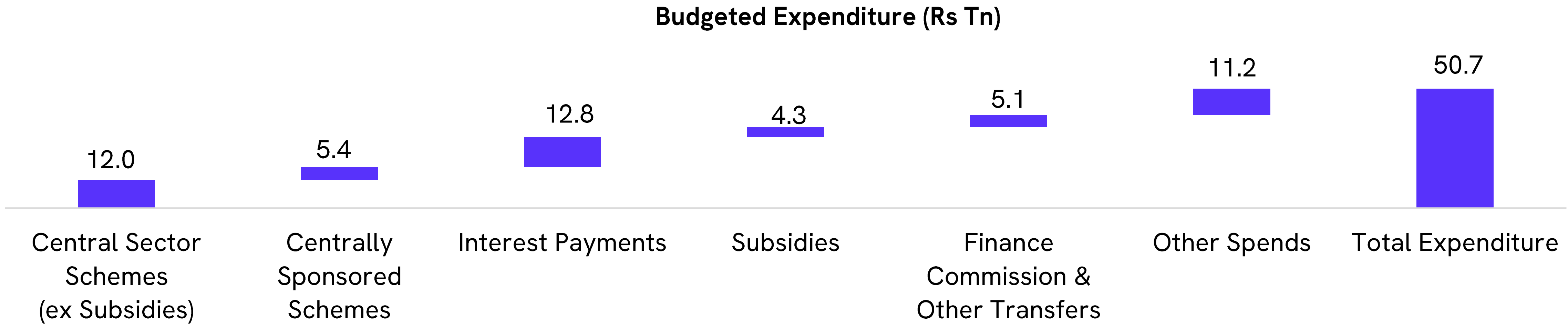
- The budget focuses on boosting consumption by revising tax slabs under the new tax regime - No income tax is payable up to an income of Rs 1.2 mn through a tax rebate (benefit of Rs 80,000)
- A new income tax bill will be introduced
- Rationalisation of Tax Deduction at Source (TDS) by reducing the number of rates and thresholds
- Rationalisation of the customs structure by removing seven tariff rates and levying no more than one cess/surcharge
- Other measures include support for manufacturing, policies for export promotion, and relief on the medicines import
- The FDI limit for the insurance sector will be raised from 74% to 100% with certain conditionalities
- The second Asset Monetisation Plan will be launched to plough back capital of Rs 10 tn into new projects
- The budget revises the classification criteria for MSMEs by increasing the investment and turnover limits
- The credit guarantee cover will be enhanced for micro and small enterprises, startups, and export MSMEs
- Multiple measures to boost labour-intensive sectors such as footwear, toys, food processing, etc.
- The budget targets capital expenditure of Rs 11.2 tn in FY26, up from the FY25 revised estimate of Rs 10.2 tn
- An outlay of Rs 1.5 tn is proposed for the 50-year, interest-free loans to states for capital expenditure
- The budget targets a fiscal deficit of 4.4% of GDP for FY26, with the FY25 fiscal deficit revised down to 4.8% of GDP

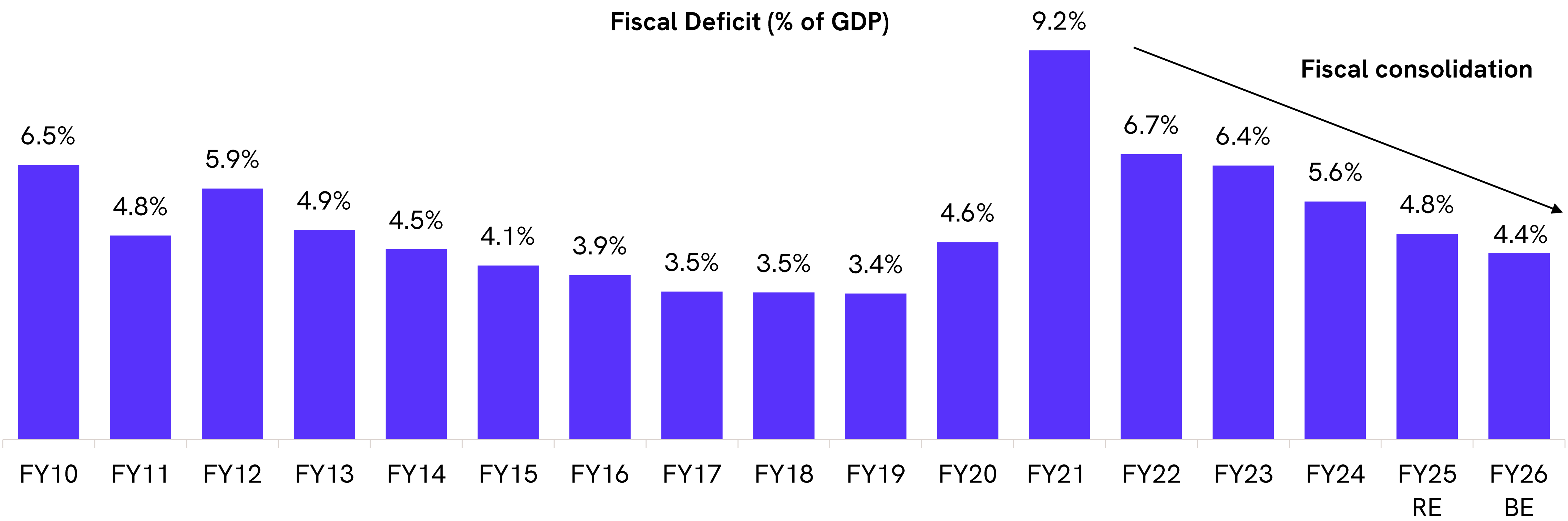
FY26 Budget Snapshot





Source: Budget documents, CMIE, 360 ONE Asset Research

Budget FY26 sticks to the fiscal consolidation path



- The Government aims to reduce the fiscal deficit to 4.4% of GDP in FY26BE
- The FY25 fiscal deficit has been revised lower to 4.8% of GDP, down from the 4.9% target set in the previous budget

Source: Budget documents, CMIE, 360 ONE Asset Research

Note – RE: Revised Estimates, BE: Budget Estimates

How realistic are the budget calculations?

Major Heads	Rs Tn				% YoY			
	FY23 A	FY24 A	FY25 RE	FY26 BE	FY23 A	FY24 A	FY25 RE	FY26 BE
GDP (Nominal)	269.5	295.4	324.1	357.0	14.2%	9.6%	9.7%	10.1%
Tax Revenue (Net to Centre)	21.0	23.3	25.6	28.4	16.2%	10.9%	9.9%	11.0%
Non-Tax Revenue	2.9	4.0	5.3	5.8	-21.8%	40.8%	32.2%	9.8%
Disinvestments & Others	0.7	0.6	0.6	0.8	83.4%	-17.2%	-1.3%	28.8%
Total Receipts	**24.6**	**27.9**	**31.5**	**35.0**	**11.1%**	**13.6%**	**12.8%**	**11.1%**
Revenue Expenditure	34.5	34.9	37.0	39.4	7.9%	1.2%	5.8%	6.7%
Capital Expenditure	7.4	9.5	10.2	11.2	24.8%	28.3%	7.3%	10.1%
Total Expenditure	**41.9**	**44.4**	**47.2**	**50.7**	**10.5%**	**6.0%**	**6.1%**	**7.4%**
Fiscal Deficit	**17.4**	**16.5**	**15.7**	**15.7**	**9.7%**	**-4.8%**	**-5.1%**	**0.0%**

- The budget projects a realistic nominal GDP growth of 10.1% YoY for FY26, but downside risks remain if economic growth slows
- The projections for tax revenue (net to centre) and non-tax revenue are also credible, but contingent on economic recovery in FY26
- However, non-debt capital receipts (disinvestment and others) may be challenging to achieve

Source: Budget documents, CMIE, 360 ONE Asset Research

Note – A: Actual, RE: Revised Estimates, BE: Budget Estimates

How will the fiscal deficit be financed? What are the implications for the debt market?

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Deficit Financing	Rs Tn				% share of total financing			
	FY23 A	FY24 A	FY25 RE	FY26 BE	FY23 A	FY24 A	FY25 RE	FY26 BE
Fiscal Deficit	**17.4**	**16.5**	**15.7**	**15.7**				
Financing of Deficit								
Net Borrowings (incl. Short term)	12.2	12.3	9.5	11.5	70%	74%	61%	74%
Small Savings	4.0	4.5	4.1	3.4	23%	27%	26%	22%
State PF's	0.1	0.1	0.1	0.1	0%	0%	0%	0%
Others	0.8	-0.9	0.3	0.4	5%	-5%	2%	3%
External Assistance	0.4	0.6	0.3	0.2	2%	3%	2%	1%
Cash Drawdown	0.0	0.0	1.4	0.0	0%	0%	9%	0%

- Borrowings account for 74% of total debt financing in FY26, higher than the 61% share in the revised estimates for FY25
- The government plans to draw down Rs 1.4 tn of cash balance in FY25 to fund the deficit
- The net borrowings for FY25 are lower than the previous budget estimates due to a Rs 0.9 tn buyback
- The FY26 borrowing figures are broadly in line with market expectations and are supportive of the debt market

Source: Budget documents, CMIE, 360 ONE Asset Research

Note – A: Actual, RE: Revised Estimates, BE: Budget Estimates

Will the government be able to achieve the targeted tax revenues?

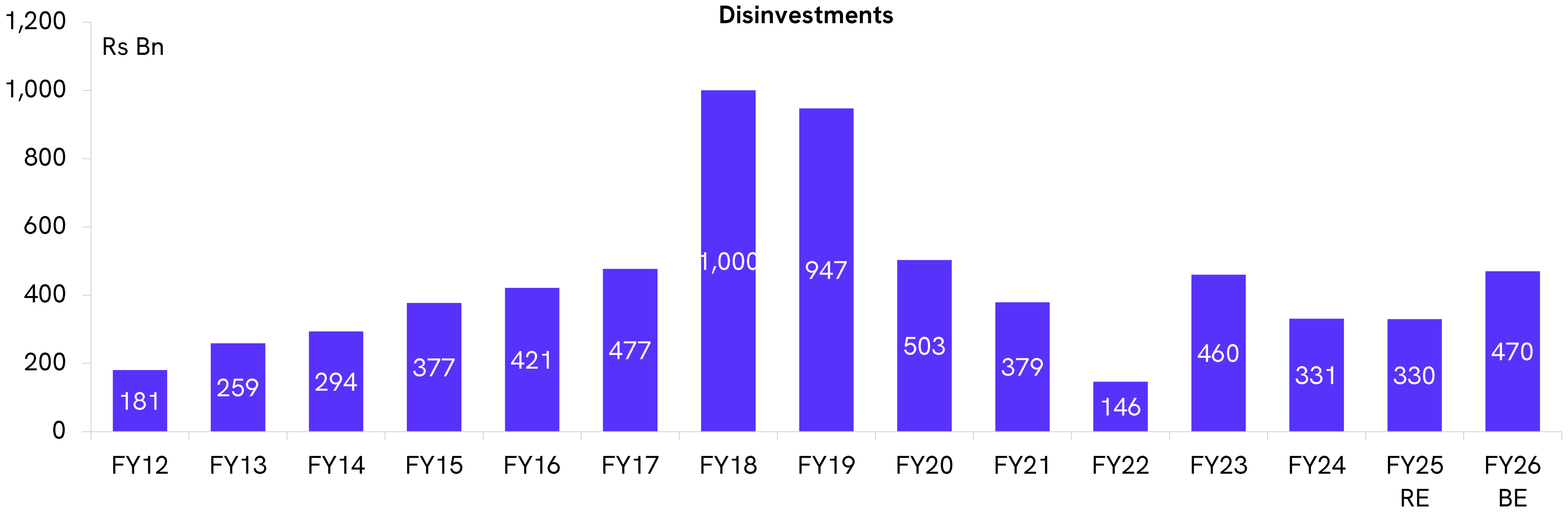
Tax Revenue Heads	Rs Tn				% YoY			
	FY23	FY24	FY25	FY26	FY23	FY24	FY25	FY26
	A	A	RE	BE	A	A	RE	BE
Gross Tax Revenue	**30.5**	**34.7**	**38.5**	**42.7**	**12.7%**	**13.5%**	**11.2%**	**10.8%**
Income	8.3	10.4	12.6	14.4	19.7%	25.4%	20.3%	14.4%
Corporation	8.3	9.1	9.8	10.8	16.0%	10.3%	7.6%	10.4%
Excise	3.2	3.1	3.1	3.2	-18.4%	-4.3%	-0.1%	3.9%
Customs	2.1	2.3	2.4	2.4	6.8%	9.3%	0.8%	2.1%
Central GST	7.2	8.2	9.1	10.1	21.5%	14.2%	10.7%	11.3%
Compensation Cess	1.3	1.4	1.5	1.7	20.1%	12.4%	8.5%	8.9%
Direct Tax	**16.6**	**19.6**	**22.4**	**25.2**	**17.8%**	**17.9%**	**14.4%**	**12.7%**
Indirect Tax	**14.0**	**15.1**	**16.2**	**17.5**	**7.2%**	**8.2%**	**7.1%**	**8.3%**
Tax Revenue (Net to Centre)	**21.0**	**23.3**	**25.6**	**28.4**	**16.2%**	**10.9%**	**9.9%**	**11.0%**

- As per the accepted recommendations of the Fifteenth Finance Commission, the states’ share has been fixed at 41% of the net proceeds of shareable central taxes. Tax revenue (net to the Centre) is calculated after the devolution of the states' share of taxes
- Income tax collection growth is expected to slow to 14.4% YoY in FY26BE from 20.3% YoY in FY25RE, possibly due to changes in the new tax regime
- The revenue targets are realistic rather than conservative, with their attainment reliant on economic recovery

Source: Budget documents, CMIE, 360 ONE Asset Research

Note – A: Actual, RE: Revised Estimates, BE: Budget Estimates

Government sets an optimistic FY26 disinvestment target



- The government revises down the FY25 disinvestment target to Rs 330 bn from Rs 500 bn
- The FY26 disinvestment target has been set at Rs 470 bn in the budget, but achieving this may prove challenging, as the government has consistently failed to meet previous disinvestment targets

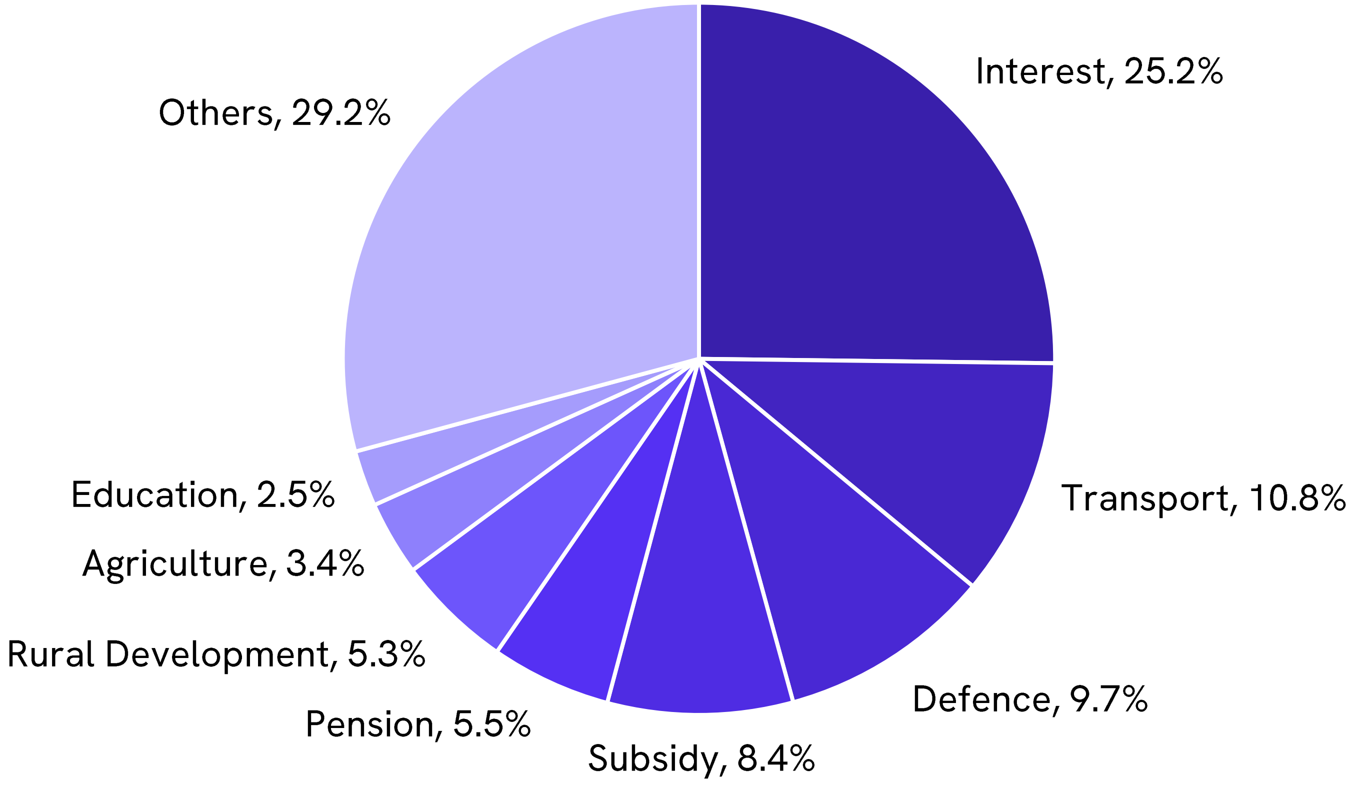
Note: Disinvestments may include other heads like proceeds from monetization of national highways

Source: Budget documents, CMIE, 360 ONE Asset Research

Note – RE: Revised Estimates, BE: Budget Estimates

How is the budget expenditure distributed among key heads?

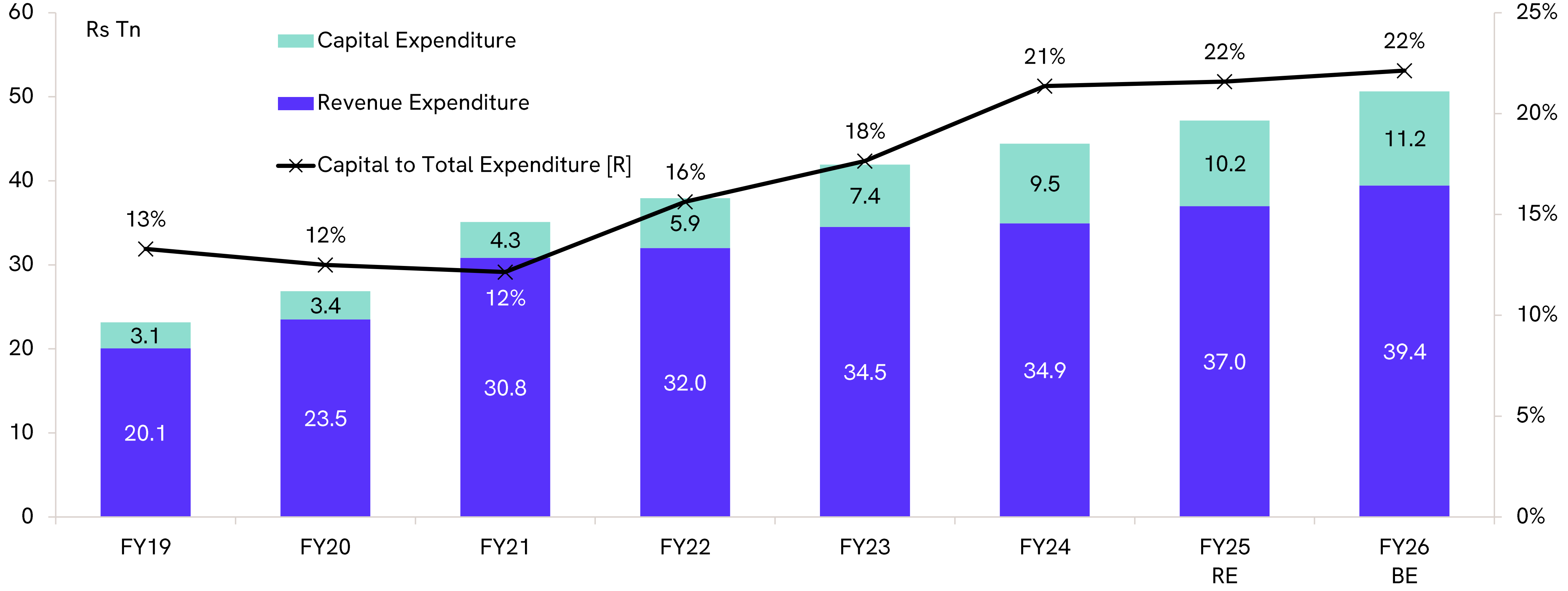
Share of Various Heads in Total Expenditure – Budget FY26



- Interest, subsidies, and pensions together account for nearly 39% of the total expenditure

Source: Budget documents, 360 ONE Asset Research

Has the quality of budgetary expenditure improved?



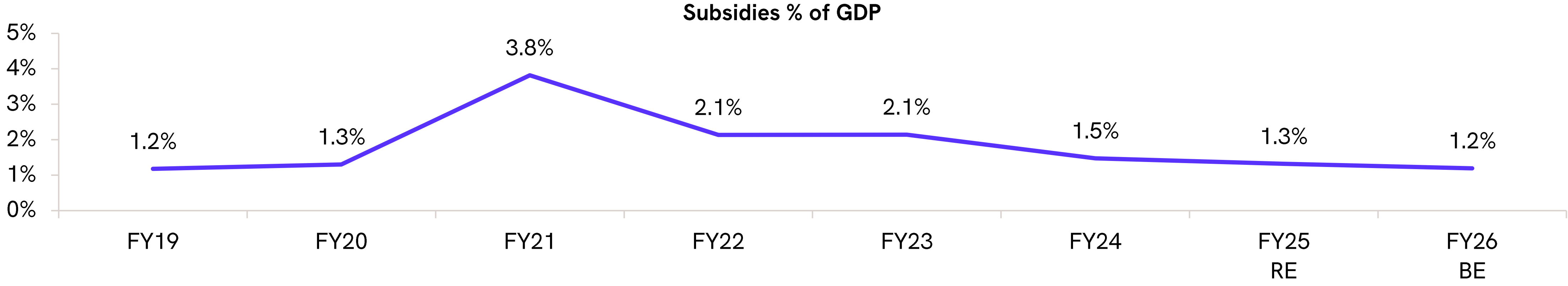
- The budget maintains the quality of spending as the ratio of capital to total expenditure remains flat at 22%

Source: Budget documents, CMIE, 360 ONE Asset Research

Note – RE: Revised Estimates, BE: Budget Estimates

The government keeps the subsidy expenditure contained

Subsidies Expenditure	Rs Tn				% YoY			
	FY23 A	FY24 A	FY25 RE	FY26 BE	FY23 A	FY24 A	FY25 RE	FY26 BE
Subsidies	**5.8**	**4.3**	**4.3**	**4.3**	**14.7%**	**-24.7%**	**-1.6%**	**-0.4%**
o/w Food	2.7	2.1	2.0	2.0	-5.6%	-22.4%	-6.8%	3.0%
Fertilizer	2.5	1.9	1.7	1.7	63.5%	-25.1%	-9.0%	-2.0%
Petroleum	0.1	0.1	0.1	0.1	99.2%	79.5%	20.1%	-17.7%



- Subsidy expenditure is expected to remain flat in FY26BE
- Petroleum subsidy is projected to decline by 18% YoY, as crude oil prices are expected to remain range-bound

Source: Budget documents, CMIE, 360 ONE Asset Research

Note – A: Actual, RE: Revised Estimates, BE: Budget Estimates

What are the key capital expenditure heads?

Capital Expenditure Major Heads	Rs Tn				% YoY			
	FY23 A	FY24 A	FY25 RE	FY26 BE	FY23 A	FY24 A	FY25 RE	FY26 BE
Capital Expenditure	**7.4**	**9.5**	**10.2**	**11.2**	**24.8%**	**28.3%**	**7.3%**	**10.1%**
o/w: Capital Outlay on Defence Services	1.4	1.5	1.6	1.8	3.6%	7.9%	3.4%	12.9%
Road Transport and Highways	2.1	2.6	2.7	2.7	81.8%	28.1%	3.2%	-0.1%
Railways	1.6	2.4	2.5	2.5	35.8%	52.3%	3.9%	0.0%
Transfers to States	0.9	1.2	1.4	1.7	311.4%	32.5%	13.4%	22.4%
Urban Development	0.3	0.3	0.3	0.4	3.6%	-1.6%	19.7%	18.8%
Police	0.1	0.1	0.1	0.2	13.8%	18.7%	8.2%	57.4%
Telecommmunications	0.5	0.6	0.7	0.5	1544.6%	8.5%	26.3%	-30.9%
Economic Affairs	0.0	0.1	0.1	0.5	-79.7%	254.8%	129.0%	266.2%

- Capital outlay on defence witnesses a healthy growth rate of 13% YoY in FY26BE
- Capital spending on roads and railways remain flat in FY26BE
- Transfers to states include an outlay of Rs 1.5 tn for 50-year, interest-free loans to states for capital expenditure

Source: Budget documents, 360 ONE Asset Research

Note – A: Actual, RE: Revised Estimates, BE: Budget Estimates

Other key announcements:

- Revised new tax regime structure:

Tax Slabs	Tax Rate (%)
Rs 0-4 Lakhs	nil
Rs 4-8 Lakhs	5%
Rs 8-12 Lakhs	10%
Rs 12-16 Lakhs	15%
Rs 16-20 Lakhs	20%
Rs 20-24 Lakhs	25%
Above Rs 24 Lakhs	30%

- Rationalization of Tax Deduction at Source (TDS) include:
  - Limit for tax deduction on interest for senior citizens doubled to Rs 1 Lakh
  - Annual limit of Rs 2.40 lakh for TDS on rent increased to Rs 6 lakh
  - Tax collected at source on remittances under Liberalized Remittance Scheme (LRS) increased to Rs 10 Lakh
- Prime Minister Dhan-Dhaanya Krishi Yojana to cover 100 districts to enhance agricultural productivity, adopt crop diversification, improve irrigation facilities etc.
- The loan limit under the Modified Interest Subvention Scheme will be enhanced from Rs 3 lakh to 5 lakh for loans taken through the Kisan Credit Cards (KCC)

Source: Budget documents, 360 ONE Asset Research

Other key announcements:

- The Government will set up an Urban Challenge Fund of Rs 1 tn to implement the proposals for 'Cities as Growth Hubs', 'Creative Redevelopment of Cities' and 'Water and Sanitation'
- A Nuclear Energy Mission for research & development of Small Modular Reactors (SMR) with an outlay of Rs 200 bn will be set up
- Scheme to enhance the productivity, quality and competitiveness of India's footwear and leather sector
- A Maritime Development Fund with a corpus of Rs 250 bn will be set up
- A modified UDAN scheme will be launched to enhance regional connectivity to 120 new destinations
- Special Window for Affordable and Mid-Income Housing (SWAMIH) Fund 2 will be established for expeditious completion of dwelling units in stressed housing projects
- Rs 200 bn allocated to implement private sector driven research, development and innovation
- A Deep Tech Fund of Funds will also be explored to catalyze the next generation startups
- NaBFID will set up a 'Partial Credit Enhancement Facility' for corporate bonds for infrastructure
- A High-Level Committee for Regulatory Reforms will be set up for review of all non-financial sector regulations, certifications, licenses, and permissions
- A Centre of Excellence in Artificial Intelligence for education will be set up with a total outlay of Rs 5 bn

Source: Budget documents, 360 ONE Asset Research

Sectoral Impact & Conclusion

Impact on sectors

Budget Proposals	Implications	Net impact
Infrastructure Sector		
• Capex target for FY26: Raised to Rs 11.2 trillion, up 0.8% from FY25BE (Rs 11.11 trillion) and 10% from FY25RE (Rs10.18 trillion). However, this falls short of market expectations (Rs 12-14 trillion). Capex remains at 3.1% of GDP, similar to FY25. • State Infra Support: Rs 1.5 trillion in 50-year interest-free loans to boost state-level capital spending. • Urban Challenge Fund: Rs 1 trillion allocated for urban redevelopment, covering city infrastructure, water, and sanitation projects. • Project Pipeline: All infrastructure ministries will create a 3-year project pipeline under the PPP model. States can also seek IIPD support for similar initiatives. • Aviation Infra: A new greenfield airport in Bihar and expansion of air connectivity under the UDAN scheme.	Although the capex allocation is lower than expected, it remains reasonable. The budget signals a shift towards private capex taking the lead.	

Source: Budget documents, 360 ONE Asset Research

Impact on sectors

Budget Proposals	Implications	Net impact
Cement, Building Materials & Real Estate		
• Outlay for PMAY-Urban down 23% YoY to Rs 233 bn, while the outlay for PMAY-Rural remains flat YoY. Railways see only ~1% capex rise from FY25RE. NHAI & road projects get a modest 2% capex increase.	• Limited Capex could lead to lower offtake in cement volumes.	↓
• Jal Jeevan Mission (JJM), aimed at providing tap water to all rural households, has been extended until 2028 with a higher budget allocation. The allocation is revised higher at Rs 670 bn in FY26 vs 227 bn in FY25.	• The extension of the Jal Jeevan Mission (JJM) until 2028 with increased funding is positive for pipe manufacturers. Higher budget allocation will drive demand for PVC, HDPE, and DI pipes used in water supply projects.	↑
• Previously, taxpayers could claim only one self-occupied property with a zero annual value, while additional properties were taxed based on deemed rental income. Budget 2025 now allows them to claim up to two self-occupied properties with a zero annual value.	• Positive for investment demand in real estate sector. Should benefit all developers.	↑

Source: Budget documents, 360 ONE Asset Research

Impact on sectors

Budget Proposals	Implications	Net impact
Consumer staples and discretionary		
• Income tab slab change and rebate up to Rs1.2 mn (under new tax regime)	• Positive for urban consumption as it will boost disposable income • While the benefit will be across, discretionary companies may gain more	
EMS		
• Decrease / exemption in BCD for EMS related products	• Benefits are targeted to the development of the component eco-system as the Indian EMS companies move towards higher value-addition	

Source: Budget documents, 360 ONE Asset Research

Impact on sectors

Budget Proposals	Implications	Net impact
BFSI		
• Personal income tax rates reduction	• To boost consumption and savings; Overall positive for BFSI especially private banks and NBFCs more focused on retail consumption; Could be marginal negative for life insurance companies	↑
• Credit Guarantee coverage for MSME loans enhanced by Rs1.5tn over the next five years	• Positive for flow of credit to MSME sector; Asset quality to benefit too. All lending financial institutes to benefit.	↑
• FDI in Insurance enhanced to 100%	• Neutral to positive for the Insurance sector	↔
• FY25RE for PMAY, interest subsidy allocation and other related housing schemes stood at ~Rs540bn vs BE of ~Rs980bn; For FY26 BE stands at ~Rs930bn	• Allocation is lower than expected; marginal negative for Affordable housing segment	↓
• Clarification on treatment of ULIP as capital gains and not under income from other sources for premiums below Rs 0.25 Mn and the sum assured is less than 10x of premium. Exemption on ULIP up to Rs 0.25 Mn remains	• This is more of clarification	↔

Source: Budget documents, 360 ONE Asset Research

Impact on sectors

Budget Proposals	Implications	Net impact
Automobile		
• Income tax cut: No tax till INR1.2mn under new regime, from INR0.7mn earlier. Tax rate reduced for lower income slabs	• Higher disposable income should provide impetus to urban consumption (which had slowed down in recent months), and uptick in rural segment. Positive for 2W and 4W OEMs especially in scooters, 110 & 125cc motorcycles and entry-mid segment cars.	↑
• BCD exemption of critical minerals	• BCD exemption of critical minerals for lithium-ion cell would be beneficial for domestic lithium-ion cell manufacturers.	↑
• Import duty cuts on autos	• For PV with CIF > $40,000, import duty has been cut from 100% to 70%. This is not really negative from overall industry perspective given low level of competition from domestic OEM in >$40k segment.	↔
• Infra spending: Flat yoy growth in outlay for the Ministry of Roads and only 1% growth for NHAI	• Outlay below expectation, so negative for CV more so for higher tonnage MHCVs.	↓

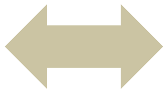
Source: Budget documents, 360 ONE Asset Research

Impact on sectors

Budget Proposals	Implications	Net impact
Healthcare		
• Increase in Health and Family welfare budget by 11% to INR 998.6bn (vs. INR 899.7bn RE) • Ayushman Bharat (PMJAY) outlay up 24%YoY to INR 94.1bn (vs. INR 76.1bn in FY25 RE) • Addition of 36 life saving drugs to exempted list, 6 medicines to 5% duty list and 37 medicines and 13 new patient assistance programs in exempt list (medicines for cancer, rare diseases and severe chronic conditions) • Facilitate setting up of Day Care Cancer Centers in all district hospitals in the next 3 years (200 in FY26). • Medical Tourism and Heal in India will be promoted in partnership with private sector along with capacity building and easier visa norms.	• Hospitals will benefit from thrust on medical tourism and Heal in India initiatives • Hospitals are likely to face more competition in cancer care • Addition of medical seats also means better talent availability	↔

Source: Budget documents, 360 ONE Asset Research

Impact on sectors

Budget Proposals	Implications	Net impact
Pharmaceuticals		
• Department of Pharmaceuticals budgetary allocation increased 56%YoY to INR 52.7bn (vs. INR 33.9bn in FY25 RE). • Jan Aushadhi outlay raised to INR 3.5bn from INR 2.8bn. • PLI scheme outlay increased 14%YoY to INR 24.5bn. Of this, Pharma formulations PLI is budgeted at INR 23bn (vs. INR 20.5bn in FY25 RE). • Promotion of bulk drugs park revised upwards to INR 14.6bn (vs. INR 3bn in FY25 RE).	• Indian branded generic companies have seen moderation in volume growth due to ramp up in Jan Aushadhi stores, which is likely to continue. • Increase in PLI budget (for formulations) will continue to benefit Indian formulation companies. The indicated outcome is INR 900bn production. • Bulk drugs/API/KSM PLI ramp up remains a key monitorable in FY26.	

Source: Budget documents, 360 ONE Asset Research

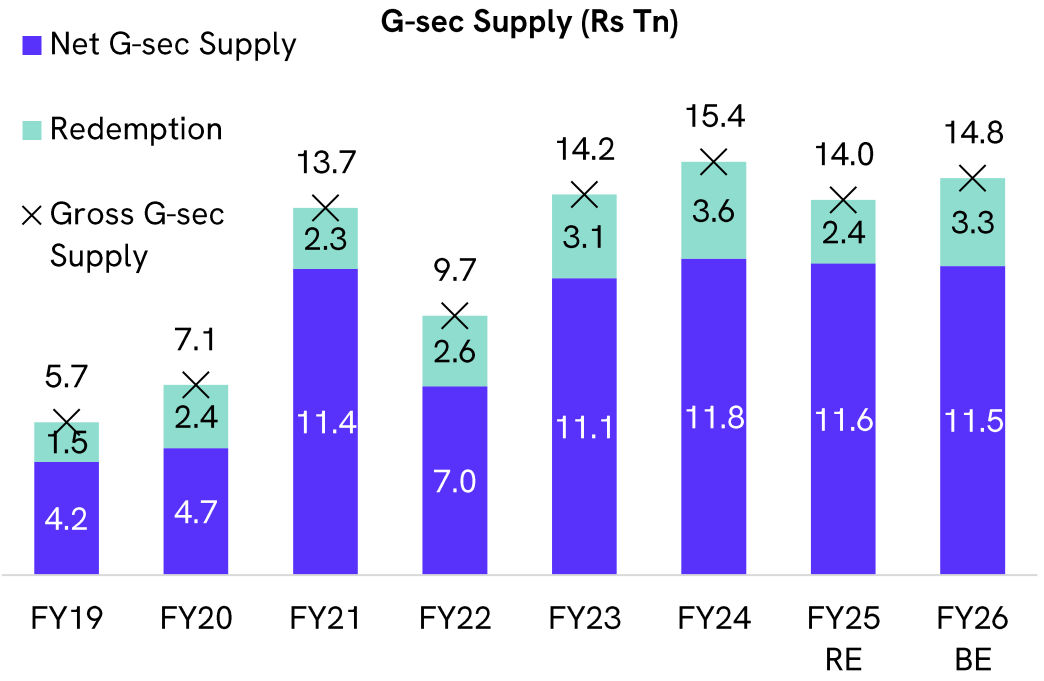
Impact on sectors

Budget Proposals	Implications	Net impact
Telecom Equipment Manufacturers		
• Broadband connectivity to be provided to all government secondary schools and primary health centres in rural areas. • Allocation to BharatNet has increased from Rs 65 Bn to Rs 220 Bn	• Positive for Telecom Equipment Manufacturing companies	
Textile		
• 5-year Mission for Cotton Productivity to facilitate improvements in productivity and promote extra long staple cotton varieties • Increase in BCD rate on Knitted Fabrics • Addition of two more types of shuttle-less looms to the list of textile machinery fully exempted from BCD	• Marginally positive for the textile value chain • Incentivizes domestic production of technical textile products	

Source: Budget documents, 360 ONE Asset Research

Conclusion: The budget shifts focus to consumption revival as the pace of capital expenditure slows down

- **Achieving revenue targets contingent on growth revival** – The budget has broadly presented realistic estimates, except for the disinvestment target. However, downside risks to revenue collections exist if growth does not recover in FY26.
- **Pace of capital expenditure slows down** – The government has revised the FY25 capital expenditure target lower to Rs 10.2 tn, and the target for FY26 assumes a muted 10% growth. The heavy lifting for investment will now have to be done by the private sector.
- **Consumption revival in focus** – The changes in new tax regime are favourable for consumption-driven sectors, with discretionary spending likely to witness a higher benefit compared to non-discretionary spending.
- **Commitment to fiscal consolidation commendable** – The fiscal deficit target has been reduced to 4.4% of GDP in FY26BE from 4.8% in FY25RE.
- **Borrowing figures are supportive of the debt market** – The borrowings for FY26 are broadly in line with market expectations. RBI's liquidity measures and rate cut expectations will be the key drivers for the debt market.



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