ICRA

UNION
BUDGET 2025-26

#Budget25WithICRA

Table Of Contents

ICRA

EXPERT SPEAK	06
FISCAL PERFORMANCE OF GOVERNMENT OF INDIA	07
FISCAL ANALYSIS AS PER FY2025 RE	10
FISCAL ANALYSIS AS PER FY2026 BE	22
DASHBOARD	42
UNION BUDGET - SECTOR IMPACT	43
AGRICULTURE	44

Table Of Contents

AUTOMOTIVE – COMMERCIAL VEHICLES	45
AUTOMOTIVE – TWO-WHEELERS/PASSENGER VEHICLES	46
AVIATION	47
BFSI – BANKS/NBFCs/INSURANCE/CAPITAL MARKETS	48
CAPITAL GOODS	50
CEMENT	51
EDUCATION	52

Table Of Contents

ELECTRONICS AND CONSUMER DURABLES	53
FERTILISERS	54
FOOD PROCESSING	55
HOSPITALITY	56
INFRASTRUCTURE/CONSTRUCTION	57
METALS & MINING	58
OIL AND GAS	59

Table Of Contents

ICRA

PHARMACEUTICAL AND HEALTHCARE	60
POWER & RENEWABLES	61
REAL ESTATE	62
ROADS	63
SHIPPING	64
TEXTILES	65

EXPERT SPEAK

RAMNATH KRISHNAN

(MD & Group CEO)

"The Union Budget for FY2026 has tread a fine line between fiscal prudence and a thrust to growth. The Government of India's proposals, aimed at boosting both consumption and investment, are likely to boost domestic economic activity, protecting the growth outlook amidst global uncertainties. While the fiscal deficit and borrowing numbers are along expected lines, the tax revenue assumptions appear a tad optimistic in light of the revenue foregone from the rationalisation of income taxes."

ICRA

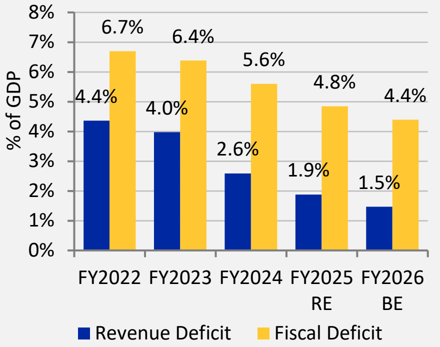
FISCAL PERFORMANCE OF GOVERNMENT OF INDIA

#Budget25WithICRA

Highlights - I

Click to Provide Feedback

EXHIBIT: GoI's Revenue and Fiscal Deficit (as % of GDP)



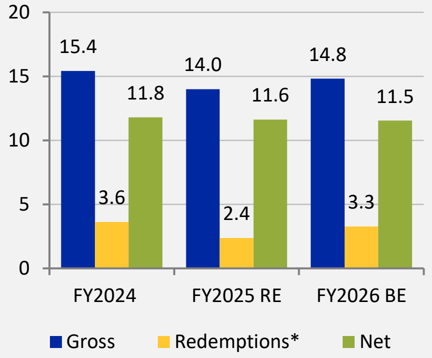
BE/RE: Budget/Revised Estimates; Source: Union Budget, GoI, ICRA Research

The Government of India (GoI) presented its Union Budget for FY2026, with proposals including relief on personal income-tax front and a reasonable 10.1% growth in capital expenditure aimed at boosting domestic consumption and investment, respectively, in an uncertain global environment. The Budget Estimates (BE) for FY2026 have placed the revenue and fiscal deficits at 1.5% and 4.4% of GDP, respectively, with the latter being broadly in line with what the medium-term path had foretold, and mildly lower than ICRA's projection of 4.5%. These entail a reasonable reduction from the 1.9% and 4.8% included in the Revised Estimates (RE) for FY2025. While the assumptions made for the total expenditure and disinvestment receipts seem reasonable for FY2026, the target for revenue receipts appears somewhat optimistic, considering that the tax revenue foregone is estimated to exceed Rs. 1.0 trillion. The GoI's new glide path of debt/GDP (to 50%+/-1% by end-FY2031 from 56.1% in FY2026 BE) as a fiscal anchor, would provide the requisite operational flexibility to respond to unforeseen developments.

- **FY2025 fiscal deficit target pared to 4.8% of GDP in RE from 4.9% in BE:** The GoI's revenue deficit has been revised upwards to Rs. 6.1 trillion in the RE for FY2025 from Rs. 5.8 trillion in the BE, with the undershooting in revenue receipts (-Rs. 0.4 trillion) offsetting the lower-than-budgeted revenue expenditure (-Rs. 0.1 trillion; revex). However, with a sharp shortfall in the capex target (-Rs. 0.9 trillion), the fiscal deficit for FY2025 was reduced to Rs. 15.7 trillion, relative to the BE of Rs. 16.1 trillion. Notwithstanding the lower nominal GDP print in FY2025 (RE: Rs. 324.1 trillion vs. BE: Rs. 326.4 trillion), the deficit in FY2025 RE is projected to print at 4.8% of GDP, narrower than the budgeted target of 4.9% of GDP, in line with ICRA's estimate.
- **FY2026 fiscal deficit targeted at 4.4% of GDP, in line with the medium-term fiscal consolidation path:** With growth in revenue receipts (+10.8%) estimated to outpace that in revenue spending (+6.7%), the revenue deficit is budgeted to narrow considerably to Rs. 5.2 trillion in FY2026 BE from Rs. 6.1 trillion in FY2025 RE. Moreover, the fiscal deficit is budgeted at Rs. 15.7 trillion in FY2026 BE, in line with the FY2025 RE, amid a modest target for disinvestment receipts and a ~10% growth in capex. However, as a proportion of GDP, the fiscal deficit may narrow to 4.4% in FY2026 BE from 4.8% in FY2025 RE, in adherence to the medium-term fiscal consolidation glide path.

Highlights - II

EXHIBIT: GoI's Gross and Net Market Borrowings (Rs. Trillion)



**Repayment of Rs. 1.24 trillion in FY2025 RE and Rs. 675 billion in FY2026 BE are met through additional recovery from GST Compensation Fund against the back-to-back loans extended to States/UTs in lieu of shortfall in GST revenue; during FY2024, this amount was Rs. 781 billion; Source: Union Budget, GoI; ICRA Research*

- **Gross tax revenues targeted to grow by 10.8% in FY2026 BE:** With the expansion in direct taxes (+12.7%) outpacing that in indirect taxes (+8.3%), the gross tax revenues of the GoI are budgeted to rise by 10.8% in FY2026 BE. This entails a tax buoyancy of 1.1, with the nominal GDP estimated to expand by 10.1% (in line with ICRA's exp.: +10.0%). Moreover, the GoI's target for non-tax revenues at Rs. 5.8 trillion (YoY: +9.8%) in FY2026 BE seems optimistic, amid elevated projections for dividends and profits (Rs. 3.3 trillion; +12.3%)
- **Growth in revex projected at 6.7%, while that for capex is targeted at 10.1%:** The GoI has indicated a modest rise of 6.7% in its revenue expenditure in FY2026 BE, amid a sharp 12.2% increase in interest payments, even as the allocation towards major subsidies has been kept unchanged at Rs. 3.8 trillion, in line with the FY2025 RE. Additionally, the GoI has raised its capital expenditure target by ~10% YoY to Rs. 11.2 trillion in FY2026 BE, led by enhanced allocation for new schemes and a rise in the 50-year interest-free loans to states for capital investment.
- **GoI's net market borrowings estimated to dip in FY2026 BE:** The GoI's gross market borrowings have been pegged at Rs. 14.8 trillion in FY2026 BE (vs. Rs. 14.0 trillion in FY2025 RE). The redemptions* for FY2026 stand at Rs. 3.3 trillion (vs. Rs. 2.4 trillion in FY2025 RE). Accordingly, the GoI's net market borrowings are estimated to dip by 0.8% to Rs. 11.5 trillion in FY2026 BE from Rs. 11.6 trillion in FY2025 RE, largely in line with ICRA's expectations. Following the recent liquidity measures taken by the RBI and the increased probability of a rate cut in February 2025, the 10-year G-Sec yield will likely range between 6.5-6.8% in the near term.
- **GoI announced a new glide path with debt/GDP ratio as the fiscal anchor:** While outlining the fiscal consolidation path for FY2027-2031, the GoI highlighted that it would try to keep the fiscal deficit under control every year such that the Central Government debt is on a declining path, attaining a debt-to-GDP level of about 50±1% by March 31, 2031. This would be excluding any major macro economic exogenous shocks while keeping in mind the potential growth trends and emerging development needs.

ICRA

FISCAL ANALYSIS AS PER FY2025 RE

#Budget25WithICRA

GoI expects fiscal deficit to narrow to 4.8% of GDP in FY2025 RE, against BE of 4.9%

ICRA

- The FY2025 RE indicates that the GoI's fiscal deficit would narrow to Rs. 15.7 trillion, Rs. 0.4 trillion lower than the BE (Rs. 16.1 trillion). Although, the nominal GDP for FY2025 has been revised downwards to Rs. 324.1 trillion from Rs. 326.4 trillion in the BE, the fiscal deficit is expected to decline to 4.8% of GDP, against the BE of 4.9% of GDP, in line with ICRA's expectations.
- The narrowing of the fiscal deficit in FY2025 RE relative to the BE by Rs. 0.4 trillion, was largely led by lower-than-budgeted capital expenditure (-Rs. 0.9 trillion) as well as marginal undershooting in revenue expenditure (-Rs. 0.1 trillion), which offset the shortfall in revenue receipts (-Rs. 0.4 trillion) and disinvestment inflows (-Rs. 0.2 trillion).
- On a YoY basis, the GoI expects its fiscal deficit to moderate to Rs. 15.7 trillion in FY2025 RE from Rs. 16.5 trillion in the FY2024 actuals. This was led by a robust expansion in non-tax revenues (+32.2%; to Rs. 5.3 trillion in FY2025 RE from Rs. 4.0 trillion in FY2024 actuals) and net tax revenues (+9.9%; to Rs. 25.6 trillion from Rs. 23.3 trillion), offsetting the contraction in miscellaneous capital receipts (-0.4%; to Rs. 330 billion from Rs. 331.2 billion) and the uptick in total expenditure (+6.1%; to Rs. 47.2 trillion from Rs. 44.4 trillion) in FY2025 RE relative to FY2024 actuals.
- On the expenditure side, the revenue spending is projected to expand by 5.8% to Rs. 37.0 trillion in FY2025 RE from Rs. 34.9 trillion in FY2024 actuals. Moreover, gross capex is estimated to rise by 7.3% (7-year low growth) to Rs. 10.2 trillion in FY2025 RE from Rs. 9.5 trillion in FY2024 actuals.

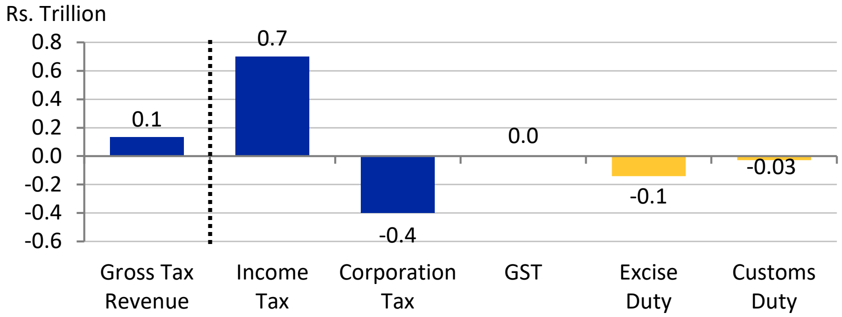
EXHIBIT: Trends in GoI's key Fiscal Balances

Rs. Trillion	FY2024 Actual (1)	FY2025 BE (2)	FY2025 RE (3)	Variation (3)-(2)	Growth (3)/(1)
Revenue Receipts	27.3	31.3	30.9	-0.4	13.2%
Tax Revenues$	*23.3*	*25.8*	*25.6*	*-0.3*	*9.9%*
Non-Tax Revenues	*4.0*	*5.5*	*5.3*	*-0.1*	*32.2%*
Revenue Expenditure	34.9	37.1	37.0	-0.1	5.8%
Revenue Balance	**-7.7**	**-5.8**	**-6.1**		
% of GDP	**-2.6%**	**-1.8%**	**-1.9%**		
Capital Receipts (Non-Debt)^	0.6	0.8	0.6	-0.2	-1.3%
Gross Capital Expenditure	9.5	11.1	10.2	-0.9	7.3%
Fiscal Balance	**-16.5**	**-16.1**	**-15.7**		
% of GDP	**-5.6%**	**-4.9%**	**-4.8%**		
Nominal GDP	**295.4**	**326.4**	**324.1**	**-2.3**	**9.7%**

$ Net of Refunds, Net of States' share in Central Taxes; ^Recovery of loans and disinvestment receipts; BE: Budget Estimate; RE: Revised Estimate; Source: GoI Budget Documents, CGA, ICRA Research

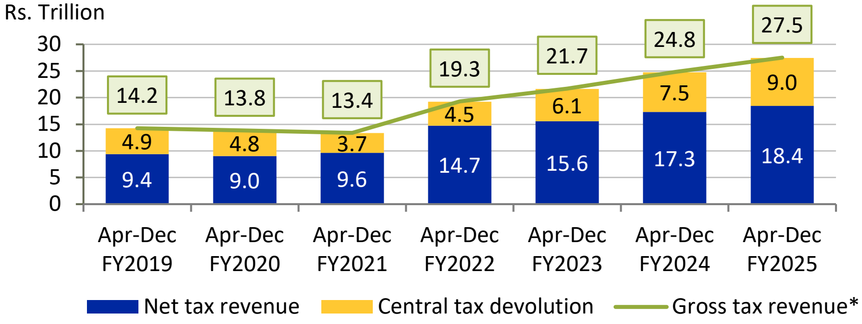
Gross tax revenues pegged at Rs. 38.5 trillion in FY2025 RE, a marginal Rs. 0.1 trillion higher than the BE

EXHIBIT: Variation in Gross Tax Revenues and its constituents in FY2025 RE over BE



Source: GoI Budget Documents, CGA, Ministry of Finance, GoI, ICRA Research

EXHIBIT: April-December trends in Gross tax revenues, Central tax devolution and Net tax revenues



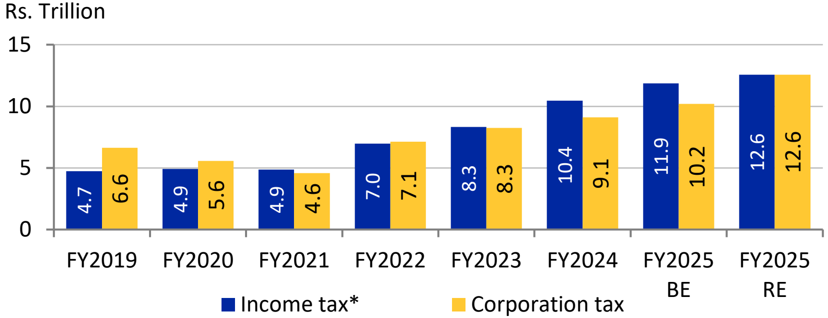
**inclusive of transfers to NCCF/NDRF; Source: GoI Budget Documents, CGA, Ministry of Finance, GoI, ICRA Research*

- The GoI's gross tax revenues have been revised upwards marginally by Rs. 0.1 trillion in FY2025 RE relative to the BE (Rs. 38.4 trillion), entirely driven by direct taxes (+Rs. 0.3 trillion), outweighing the undershooting in indirect taxes (-Rs. 0.2 trillion). Moreover, provisional data released by the CGA indicated that gross tax revenues rose by 10.8% YoY to Rs. 27.5 trillion in 9M FY2025 (71.4% of FY2025 RE) from Rs. 24.8 trillion in 9M FY2024 (71.6% of FY2024 actuals). **Based on this, the GoI implicitly expects gross tax revenues to grow by 12.2% YoY to Rs. 11.0 trillion in Q4 FY2025 from Rs. 9.8 trillion in Q4 FY2024.**
- The Central tax devolution to the states has been revised upwards to Rs. 12.9 trillion in FY2025 RE (including adjustment of Rs. 127.6 billion for prior years) from Rs. 12.5 trillion in the BE. During 9M FY2025, the CTD to the states expanded by 20.6% to Rs. 9.0 trillion (70.0% of FY2025 RE) from Rs. 7.5 trillion in 9M FY2024 (66.2% of FY2024 Actuals). Subsequently, based on a press release by the Ministry of Finance, the GoI released Rs. 1.73 trillion to the states in January 2025, taking the total CTD to Rs. 10.7 trillion in April-January FY2025, 31.0% higher than the year-ago level of Rs. 8.2 trillion. **Accordingly, around Rs. 2.1 trillion remains to be disbursed in February-March FY2025, a sharp 31.2% lower than the amount of Rs. 3.1 trillion devolved in the year-ago period, offering a cushion to the GoI's fiscal deficit in the remainder of FY2025.**
- After adjustments for tax devolution, the GoI's net tax revenues have been revised downwards by Rs. 0.3 trillion in FY2025 RE, relative to the BE (Rs. 25.8 trillion).

Direct tax collections revised upwards by Rs. 0.3 trillion in FY2025 RE over BE; implicitly projected to rise by ~18% in Q4 FY2025

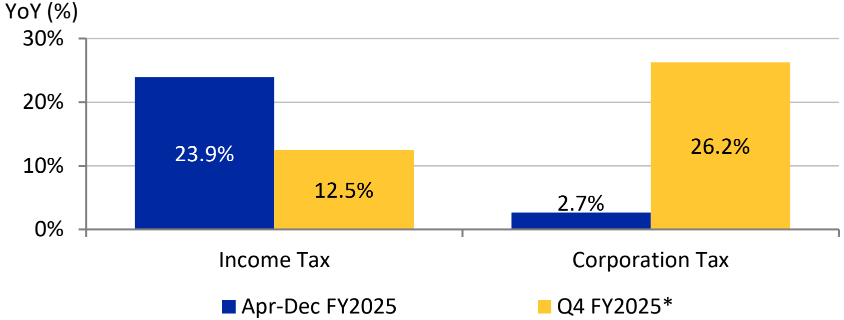
ICRA

EXHIBIT: Trends in GoI's Direct Taxes



**Income tax includes security transaction tax and fringe benefit tax; Actuals for FY2019-24; Source: GoI Budget Documents, CGA, Ministry of Finance, GoI, ICRA Research*

EXHIBIT: GoI's Direct Taxes in 9M FY2025 and Implicit Trend for Q4 FY2025



**Q4 FY2025 is based on FY2025 RE and data for 9M FY2025; Source: GoI Budget Documents, CGA, Ministry of Finance, GoI, ICRA Research*

- As per the FY2025 RE, direct taxes have been revised upwards by Rs. 0.3 trillion from Rs. 22.1 trillion indicated in FY2025 BE, in line with ICRA's expectations. This translates to a YoY expansion of 14.4% over the FY2024 actuals (Rs. 19.6 trillion).
- This was entirely driven by a sharp upward revision of Rs. 0.7 trillion in income tax receipts (to Rs. 12.6 trillion in FY2025 RE from Rs. 11.9 trillion in FY2025 BE), while corporate tax collections (to Rs. 9.8 trillion from Rs. 10.2 trillion) have been pared by Rs. 0.4 trillion in FY2025 RE, compared to the BE.
- As per the provisional data provided by the CGA, direct tax collections expanded by 13.2% to Rs. 16.2 trillion in 9M FY2025 (72.6% of FY2025 RE) from Rs. 14.3 trillion in 9M FY2024 (73.4% of FY2024 actuals), led by the surge in income tax receipts (YoY: +23.9%; 70.3% of FY2025 RE), followed by a relatively lower uptick in corporate tax collections (+2.7%; 75.6% of FY2025 RE). **Based on the FY2025 RE and 9M FY2025 trends, direct tax collections have been projected by the GoI to record a YoY growth of 17.5% in Q4 FY2025 (+0.8% in Q4 FY2024), led by corporation tax (+26.2%) and income tax (+12.5%) collections. While this implies a slowdown vis-à-vis the 23.9% expansion seen in income tax receipts in 9M FY2025, it entails a step up from the tepid 2.7% growth posted by corporation taxes, which seems slightly ambitious.**

Indirect taxes pared slightly in FY2025 RE, largely driven by downward revision in excise duty collections

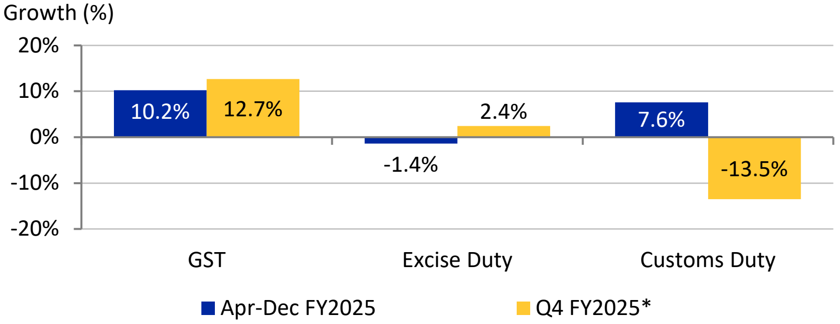
ICRA

EXHIBIT: Trends in GoI's Indirect Taxes

Rs. Trillion	FY2024 Actuals	FY2025 BE (1)	FY2025 RE (2)	Variation (2) - (1)	Growth (2)/(1)
Customs Duty	2.3	2.4	2.4	-0.03	0.8%
Union Excise Duty	3.1	3.2	3.1	-0.14	-0.1%
CGST + IGST	8.2	9.1	9.1	-0.02	11.4%

Source: Union Budget, CGA, Ministry of Finance, GoI, ICRA Research

EXHIBIT: GoI's Indirect Taxes in 9M FY2025 and Implicit Trends for Q4 FY2025*



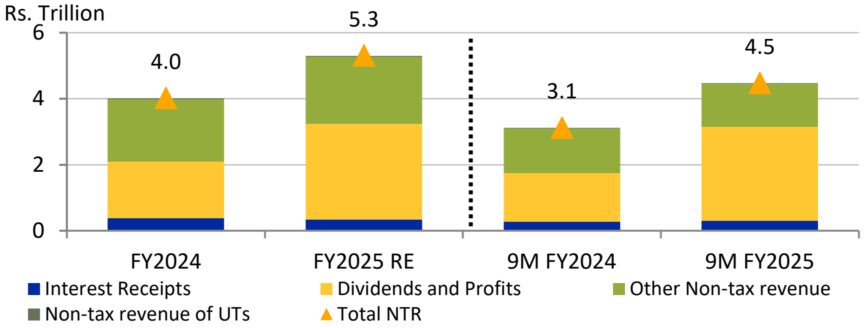
**Q4 FY2025 is based on FY2025 RE and 9M FY2025; Source: Union Budget, CGA, Ministry of Finance, GoI, ICRA Research*

- The FY2025 RE for indirect taxes has been revised downwards by Rs. 0.2 trillion, while entailing an expansion of 6.9% over the FY2024 actuals. This is largely on account of a downward revision in the Union Excise Duty (to Rs. 3.1 trillion in FY2025 RE from Rs. 3.2 trillion in FY2025 BE), even as customs duty collections have been kept largely unchanged (at Rs. 2.4 trillion) in FY2025 RE, vis-à-vis the BE. Additionally, the combined CGST and IGST collections have been estimated at Rs. 9.1 trillion in FY2025 RE, in line with the BE.
- During 9M FY2025, indirect taxes rose by 7.5% to Rs. 10.1 trillion (69.8% of FY2025 RE) from Rs. 9.4 trillion in 9M FY2024 (69.3% of FY2024 actuals). Higher inflows from CGST (YoY: +11.7%; 74.1% of FY2025 RE) and customs duty (+7.6%; 72.4% of FY2025 RE) partly offset the YoY decline in the Union Excise Duty collections (-1.4%; 65.5% of FY2025 RE) during 9M FY2025. **Based on these trends, indirect taxes are implicitly estimated to rise by 5.3% YoY in Q4 FY2025, led by GST collections (+12.7%; including GST compensation cess) and the Union Excise Duty (+2.4%), which would be largely offset by the sharp contraction projected in customs duty (-13.5%).**

Non-tax revenues revised marginally downwards by Rs. 0.1 trillion in FY2025 RE, compared to the BE

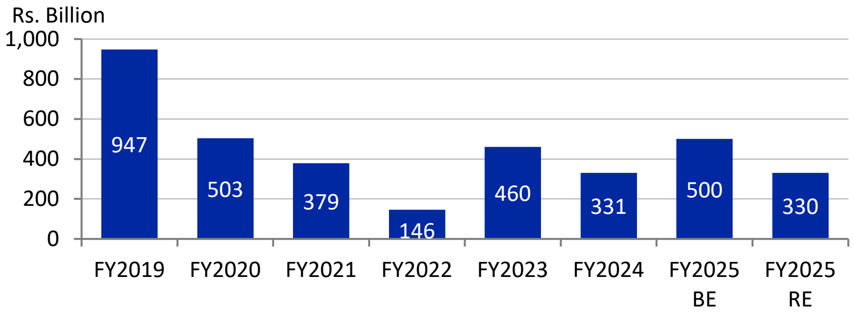
ICRA

EXHIBIT: Trends in Non-tax Revenues and its Constituents



Source: Union Budget, CGA, Ministry of Finance, GoI, ICRA Research

EXHIBIT: Annual trends in Miscellaneous capital receipts



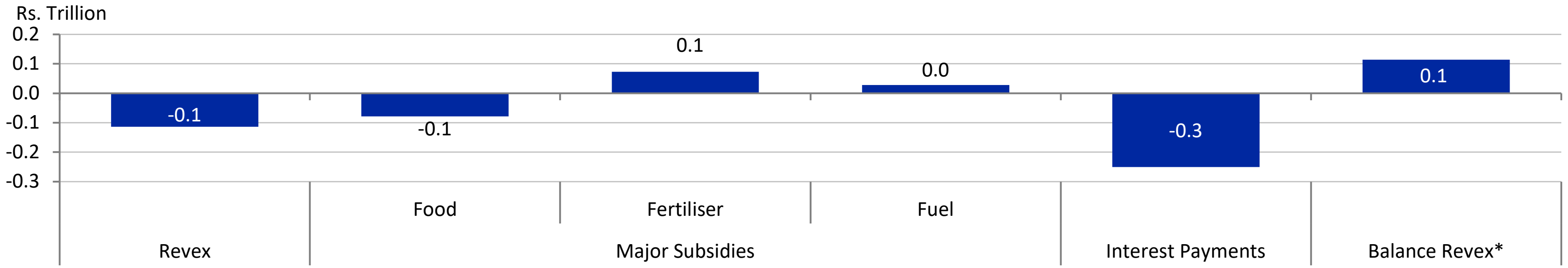
Source: Union Budget, CGA, Ministry of Finance, GoI, ICRA Research

- The GoI has marginally pared its estimate for non-tax revenues to Rs. 5.3 trillion in FY2025 RE from Rs. 5.5 trillion in FY2025 BE, with lower inflows from interest receipts (-Rs. 41.8 billion) and other non-tax revenue (-Rs. 109.6 billion) offsetting the marginal upward revision in dividends and profits (+Rs. 1.5 billion).
- As per the CGA data, non-tax revenues stood at Rs. 4.5 trillion in 9M FY2025 (YoY: +43.3%; 84.3% of FY2025 RE), led by dividend and profits (+93.4%; amid record dividend payout by RBI: Rs. 2.1 trillion in FY2025 vs. Rs. 0.9 trillion in FY2024). **This implies that the GoI has projected non-tax revenues to dip slightly to Rs. 0.8 trillion in Q4 FY2025 from Rs. 0.9 trillion in Q4 FY2024, led by a sharp 80.9% YoY contraction in dividends and profits.**
- The GoI has reduced the target for miscellaneous capital receipts to Rs. 330 billion in FY2025 RE from Rs. 500 billion in the BE. As per CGA data, such receipts remained tepid at Rs. 89.9 billion or 27.3% of FY2025 RE during 9M FY2025. **This implies that the GoI implicitly projects miscellaneous capital receipts to rise by 4.1% to Rs. 240.1 billion in Q4 FY2025 from Rs. 230.7 billion in Q4 FY2024.** Notably, as per the data provided by the Department of Investment and Public Asset Management (DIPAM), the total receipts from disinvestment stood at Rs. 86.3 billion as on February 1, 2025.

Revenue expenditure has been cut by Rs. 0.1 trillion in FY2025 RE, compared to BE, driven by interest payments

ICRA

EXHIBIT: Variation in Revenue Expenditure in FY2025 RE over BE

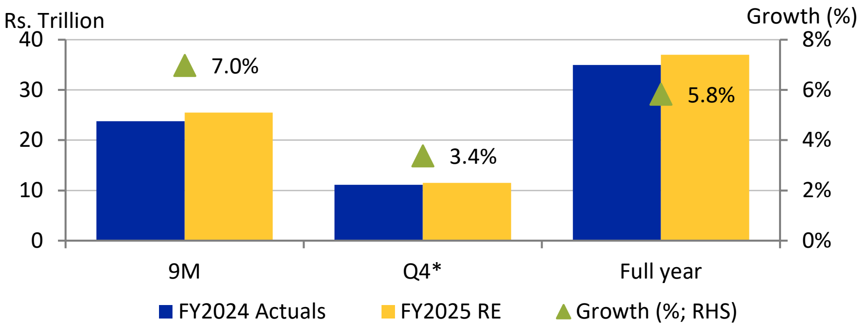


**excluding subsidy and interest payment outgo; Source: Union Budget, CGA, Ministry of Finance, GoI, ICRA Research*

- The GoI had pegged the net cash outgo in its First Supplementary Demand for Grants (1st SDG) for FY2025 at a modest Rs. 441.4 billion, largely dominated by fertiliser subsidy, expenditure towards Defence services, and for the PM-Kisan scheme. Nevertheless, the revenue expenditure has been revised downwards by Rs. 0.1 trillion to Rs. 37.0 trillion in FY2025 RE from the BE of Rs. 37.1 trillion, driven by a downward revision in interest payments (-Rs. 0.3 trillion), while the outgo towards all major subsidies (+Rs. 22.4 billion) as well as balance revex (+Rs. 0.1 trillion; excluding major subsidies and interest payments) was raised slightly in FY2025 RE, relative to the budgeted level.
- While the food subsidy outgo has been pared by Rs. 0.1 trillion to Rs. 2.0 trillion in FY2025 RE (no additional allocation made in the 1st SDG) from the BE of Rs. 2.1 trillion, the subsidy allocations for fertilisers (+Rs. 0.1 trillion over BE; additional allocation of Rs. 65.9 billion in 1st SDG) and fuel (+Rs. 0.03 trillion over BE; Rs. 4.4 billion in 1st SDG) have been raised somewhat in the FY2025 RE, compared to the BE.
- Interest payments have been pared to Rs. 11.4 trillion in FY2025 RE (vs. Rs. 11.6 trillion in BE), translating to a YoY growth of 7.0% over FY2024 actuals.

Revex implicitly projected to rise by 3.4% YoY in Q4 FY2025 to meet FY2025 RE

EXHIBIT: Trends in Revenue Expenditure in 9M FY2025 and headroom available for Q4 FY2025*



**Headroom available in Q4 FY2024 and Q4 FY2025 is based on FY2024 actuals and FY2025 RE, respectively; Source: Union Budget, CGA, Ministry of Finance, GoI, ICRA Research*

EXHIBIT: Trends in Major Subsidies

Rs. Trillion	9M FY2024	9M FY2025	Q4 FY2024* (1)	Q4 FY2025* (2)	Growth (2)/(1)
Major Subsidies	**2.8**	**3.1**	**1.4**	**0.8**	**-43.6%**
Fertiliser	1.41	1.36	0.5	0.3	-26.5%
Food	1.3	1.6	0.8	0.3	-56.5%
Fuel	0.02	0.07	0.1	0.1	-25.7%

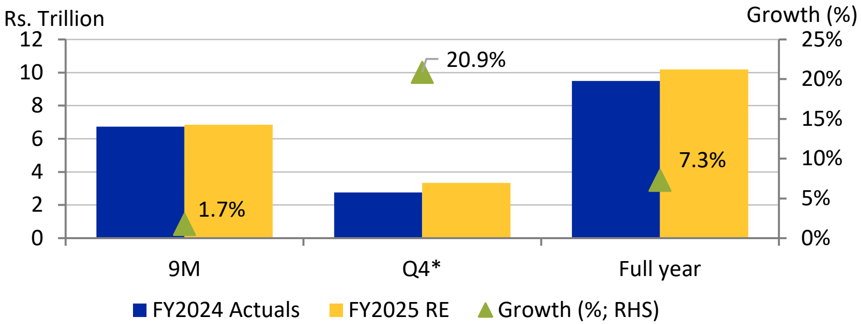
**Q4 FY2024 and Q4 FY2025 is based on FY2024 actuals and FY2025 RE, respectively; Source: Union Budget, CGA, Ministry of Finance, GoI, ICRA Research*

- As per the provisional data released by the CGA, the outgo for major subsidies rose by 10.9% YoY to Rs. 3.1 trillion in 9M FY2025 (80.1% of FY2025 RE) from Rs. 2.8 trillion in 9M FY2024 (67.1% of FY2024 actuals). This was led by a YoY expansion in the food (YoY: +21.9%; 82.9% of FY2025 RE) and fuel (+302.5%; 46.8% of FY2025 RE) subsidies, even as that for fertilisers (-3.2%; 79.6% of FY2025 RE) declined during this period.
- Given these trends, the GoI has implicitly estimated the allocation for major subsidies to contract sharply by 43.6% YoY to Rs. 0.8 trillion in Q4 FY2025 from Rs. 1.4 trillion in Q4 FY2024, led by a broad-based contraction across all major subsidies, namely fertilisers (-26.5%), food (-56.5%), and fuel (-25.7%) subsidies. **This would impact the wedge between the GDP and GVA growth in that quarter.**
- Overall, revenue expenditure rose by 7.0% to Rs. 25.5 trillion (68.9% of FY2025 RE) during 9M FY2025 from Rs. 23.8 trillion in 9M FY2024 (68.1% of FY2024 actuals). **To meet the FY2025 RE of Rs. 37.0 trillion, the GoI's revenue expenditure growth needs to slow to 3.4% in the ongoing quarter (to Rs. 11.5 trillion in Q4 FY2025 from Rs. 11.1 trillion in Q4 FY2024).**

Capex target pared sharply by Rs. 0.9 trillion in FY2025 RE; ~Rs. 1.1 trillion/month required during Q4 FY2025 to meet target

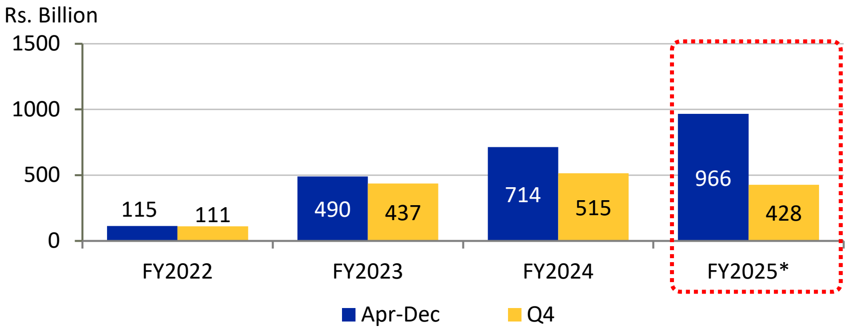
ICRA

EXHIBIT: Trends in Centre's Capital Expenditure in 9M FY2025 and headroom available for Q4 FY2025*



Headroom available in Q4 FY2024 and Q4 FY2025 is based on FY2024 actuals and FY2025 RE, respectively; Source: Union Budget, CGA, Ministry of Finance, GoI, ICRA Research

EXHIBIT: Capital Transfers to States by the Centre

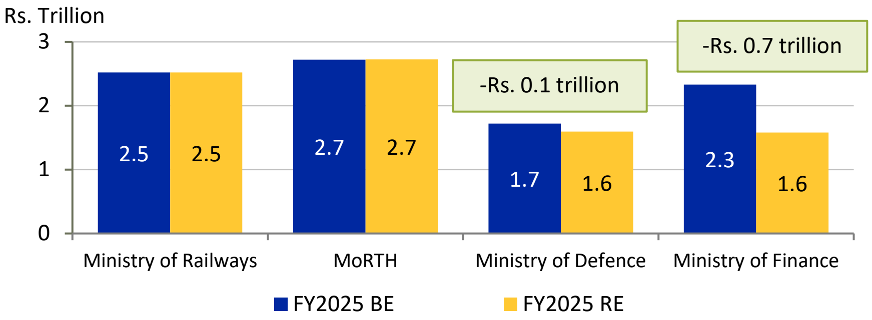


Data for Q4 FY2025 is based on FY2025 RE and 9M FY2025; Source: CGA, Ministry of Finance, GoI, ICRA Research

- Capital spending has been revised downwards to Rs. 10.2 trillion in FY2025 RE from Rs. 11.1 trillion in the BE. Moreover, data released by the CGA revealed that the GoI's capex rose by 1.7% to Rs. 6.9 trillion in 9M FY2025 (67.3% of FY2025 RE) from Rs. 6.7 trillion in 9M FY2024 (71.0% of FY2024 actuals), amid a ~95% surge in capex in December 2024.
- **This implies that capex would need to rise by a sharp 20.9% YoY in Q4 FY2025 to meet the FY2025 RE (+47.7% in Q3 FY2025). Moreover, an average monthly run rate of ~Rs. 1.1 trillion/month is required during the ongoing quarter to meet the target, significantly higher than the Rs. 0.8 trillion/month incurred during 9M FY2025. While this appears sharp, we expect it to be achieved – thus aiding in supporting economic activity in the quarter.**
- Under the "special assistance to states for capital investment" (FY2025 RE: Rs. 1.25 trillion vs. BE: Rs. 1.5 trillion), ~69% or Rs. 0.9 trillion was approved to the eligible states at end-November 2024, and the GoI released ~70% of such amount or Rs. 0.6 trillion during April-November FY2025 (vs. Rs. 590.3 billion in April-November FY2024). Overall, the capital transfer to states rose by a sharp 35.3% to Rs. 1.0 trillion in 9M FY2025 from Rs. 0.7 trillion in 9M FY2024, amid a sharp pick-up in the offtake in December 2024 (to Rs. 264.4 billion from Rs. 45.7 billion in December 2023). **Notably, an additional Rs. 428 billion would need to be incurred on this account during Q4 FY2025 to meet the RE (Rs. 1.4 trillion), which seems likely to be achieved.**

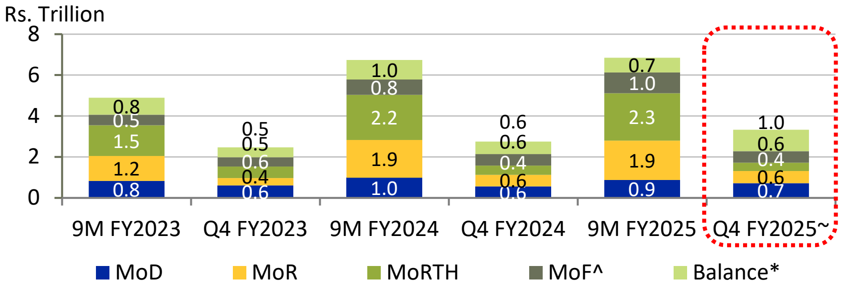
Lower capex by MoF and capital outlay for Defence services in FY2025 RE vs. BE drove the downward revision in gross capex

EXHIBIT: Capex by major Ministries in FY2025 RE vs. BE



Source: Union Budget, GoI, ICRA Research

EXHIBIT: Capex by Ministry of Road Transport and Highways (MoRTH), Ministry of Railways (MoR) and capital outlay on Defence services (MoD), and Ministry of Finance (MoF)



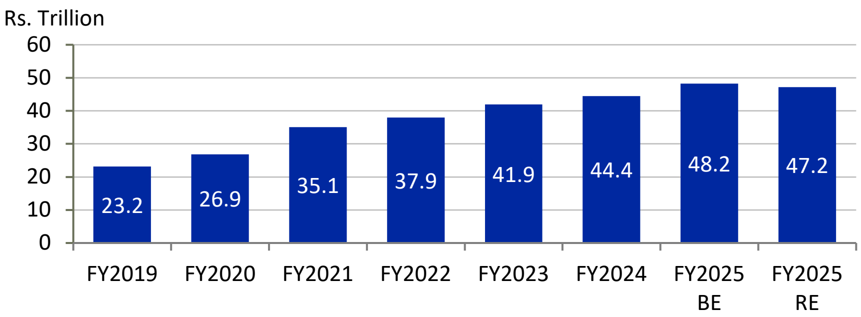
**Balance includes capex by ministries other than MoD, MoR, MoRTH, and MoF; ~Remaining capex required to meet FY2025 RE; ^Includes transfer to states; Source: Union Budget, CGA, Ministry of Finance, GoI, ICRA Research*

- The undershooting in capex in FY2025 RE, compared to the BE (-Rs. 0.9 trillion) was largely driven by lower capex by the Ministry of Finance (MoF; -Rs. 0.7 trillion; driven by -Rs. 0.3 trillion in the interest free capex loan to states and -Rs. 0.4 trillion cut in 'new schemes') and a decline in the capital outlay for Defence services (MoD; -Rs. 0.1 trillion in FY2025 RE vs. BE). However, capex by the Ministry of Road Transport and Highways (MoRTH; at Rs. 2.7 trillion) and the Ministry of Railways (MoR; at Rs. 2.5 trillion) was kept unchanged in the RE, in line with the FY2025 BE.
- As per data provided by the CGA, the capital spending by most of these ministries reported a YoY expansion during 9M FY2025, including the MoF (+34.8%), followed by MoRTH (+6.2%) and the Ministry of Railways (YoY: +3.3%), while the capital outlay on Defence services (-10.6%) contracted during this period.
- **While the capex by MoD (+27.9%) is required to expand sharply in Q4 FY2025 to meet the FY2025 RE, the implicit growth requirement for capex by MoR (+5.9%) and MoF (+0.7%) is relatively lower and appears achievable. Moreover, the capex by MoRTH has been projected to contract by 11.0% YoY in Q4 FY2025 to meet the RE.**
- Additionally, the balance portion of the capex (gross capex minus capex incurred by the aforementioned ministries) contracted by 24.9% YoY during 9M FY2025. **This implies that the balance capex needs to rise by a sharp ~72% YoY in Q4 FY2025 to meet the FY2025 RBE, which seems ambitious.**

Revised total spending target lower than FY2025 BE by Rs. 1.0 trillion, amid large miss in capex

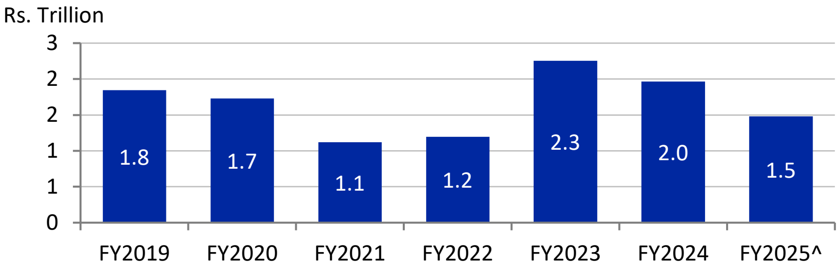
ICRA

EXHIBIT: Trends in Total Expenditure



Source: Union Budget, CGA, Ministry of Finance, GoI, ICRA Research

EXHIBIT: Estimated Expenditure Savings (BE + NSDG – Actual)

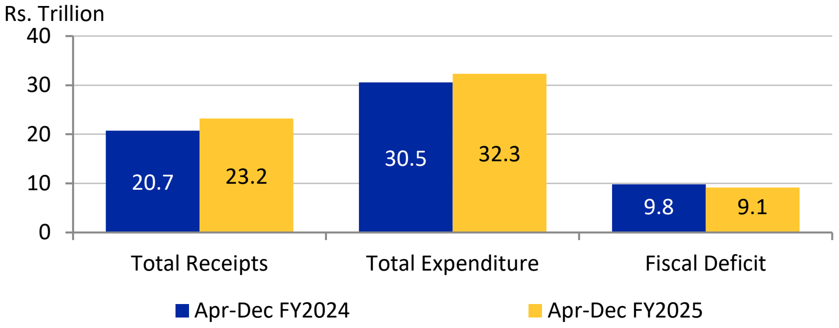


*NSDG: Net outgo under Supplementary Demand for Grants; Actuals for FY2019-24; Aggregate expenditure savings of the GoI are computed by adding net cash outgo under the SDG to the budgeted total expenditure and subtracting actual spending incurred in each fiscal; *Second batch of SDG for FY2019 is not available in the public domain and hence savings might be modestly lower than Rs. 1.8 trillion; ^Based on FY2025 RE; Source: Union Budget, GoI, ICRA Research*

- The GoI's total expenditure has been revised downwards by Rs. 1.0 trillion to Rs. 47.2 trillion in FY2025 RE compared to the BE of Rs. 48.2 trillion, with a downward revision in the capital expenditure (-Rs 0.9 trillion) as well as revenue expenditure (-Rs. 0.1 trillion), relative to the BE.
- **Based on the RE for total expenditure and the net cash outgo under the 1st SDG for FY2025 (Rs. 441.4 billion), the GoI is estimated to have generated expenditure savings from other heads (such as in Centrally-sponsored Schemes and/or Central sector Schemes) to the extent of Rs. 1.5 trillion in FY2025, slightly lower than the yearly average seen since FY2018 (Rs. 1.6 trillion/year during FY2018-24).**
- As per the provisional data released by the CGA, total expenditure stood at Rs. 32.3 trillion in 9M FY2025 (68.5% of FY2025 RE), up by 5.8% from Rs. 30.5 trillion in 9M FY2024 (68.7% of FY2024 actuals). **This implies a spending headroom of Rs. 14.8 trillion for Q4 FY2025 to meet the FY2025 RE, which entails a YoY growth of 6.9%, somewhat higher than that seen during 9M FY2025.**

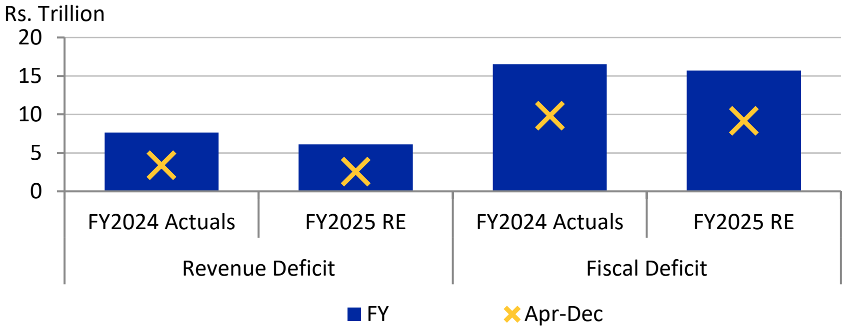
Fiscal deficit target for FY2025 pared by Rs. 438 billion; projected at 4.8% of GDP vis-à-vis BE of 4.9%

EXHIBIT: Trends in Revenues and Expenditure of the GoI



Source: CGA, Ministry of Finance, GoI, ICRA Research

EXHIBIT: Revenue and Fiscal Deficits



Source: CGA, Union Budget, Ministry of Finance, GoI, ICRA Research

- As per the provisional data released by the CGA, the revenue deficit declined to Rs. 2.6 trillion in 9M FY2025 from Rs. 3.4 trillion in 9M FY2024, led by a higher uptick in revenue receipts (+12.2%), relative to the revenue expenditure (+7.0%). Moreover, the GoI's fiscal deficit declined marginally to Rs. 9.1 trillion in 9M FY2025 from Rs. 9.8 trillion in 9M FY2024, amid a relatively muted uptick in capital spending (+1.7%) during this period.
- The GoI's revenue and fiscal deficits stood at 42.0% and 58.2% of the FY2025 RE, respectively, in 9M FY2025, somewhat lower than the prints of 44.2% and 59.4% of the FY2024 actuals, respectively, in 9M FY2024.
- The GoI has estimated the revenue deficit to widen to Rs. 6.1 trillion in FY2025 RE from the BE of Rs. 5.8 trillion. However, it expects the fiscal deficit to be narrower at Rs. 15.7 trillion in FY2025 RE, relative to Rs. 16.1 trillion in the BE, with lower-than-budgeted capital expenditure offsetting the shortfall in disinvestment proceeds. **Notwithstanding the lower nominal GDP print in FY2024 (RE: Rs. 324.1 trillion vs. BE: Rs. 326.4 trillion), the fiscal deficit is expected to print at 4.8% of GDP, lower than the BE of 4.9% of GDP - in line with ICRA's expectations.**

ICRA

FISCAL ANALYSIS AS PER FY2026 BE

#Budget25WithICRA

Fiscal deficit target placed at 4.4% of GDP in FY2026, amid curtailment of revenue deficit and reasonable growth in capex

- The GoI's revenue receipts are budgeted to grow by 10.8% in FY2026 BE (+13.2% in FY2025 RE), attributed to a healthy 11.0% expansion in net tax revenues, slightly higher than ICRA's forecast of 10.5%. Moreover, the target for non-tax revenues appears ambitious, with a growth of 9.8% in FY2026 BE (over FY2025 RE), contrary to our expectation of a YoY moderation.
- On the expenditure side, revenue spending is estimated to increase by 6.7% in FY2026, slightly higher than our projection (ICRA exp: +5.5-6.0%). In spite of this, the revenue deficit is projected to compress to Rs. 5.2 trillion in FY2026 BE from Rs. 6.1 trillion in FY2025 RE. Relative to the GDP, the revenue deficit is estimated to decline to 1.5% from 1.9%, the lowest level since FY2008.
- The fiscal deficit is budgeted at Rs. 15.7 trillion in FY2026 BE (ICRA exp.: Rs. 16.0 trillion), in line with the RE for FY2025, with a moderate 10.1% growth in capital expenditure to Rs. 11.2 trillion (ICRA exp.: Rs. 11 trillion) over the FY2025 RE. Besides, the disinvestment target is set at Rs. 0.47 trillion in FY2026 BE, which seems plausible. With nominal GDP growth forecast at 10.1% in FY2025 (ICRA's exp.: +10.0%), the fiscal deficit, as a proportion of GDP, is budgeted to dip to 4.4% in FY2026 BE from 4.8% in FY2025 RE, a shade lower than ICRA's forecast of 4.5%, owing to sharper-than-expected growth in revenue receipts.
- The detailed assessment of revenue and expenditure accounts is shared in the subsequent slides.

EXHIBIT: Trends in GoI's key Fiscal Balances

Rs. Trillion	FY2025 RE (1)	FY2026 BE (2)	Growth in FY2025*	Growth in FY2026 (2/1)
Revenue Receipts	30.9	34.2	13.2%	10.8%
Tax Revenues$	*25.6*	*28.4*	*9.9%*	*11.0%*
Non-Tax Revenues	*5.3*	*5.8*	*32.2%*	*9.8%*
Revenue Expenditure	37.0	39.4	5.8%	6.7%
Revenue Balance	**-6.1**	**-5.2**	**-20.3%**	**-14.1%**
% of GDP	**-1.9%**	**-1.5%**		
Capital Receipts (Non-Debt)^	0.6	0.8	-1.3%	28.8%
Gross Capital Expenditure	10.2	11.2	7.3%	10.1%
Fiscal Balance	**-15.7**	**-15.7**	**-5.1%**	**0.0%**
% of GDP	**-4.8%**	**-4.4%**		
Nominal GDP	**324.1**	**357.0**	**9.7%**	**10.1%**

*$ Net of Refunds, Net of States' share in Central Taxes, ^Recovery of loans and other receipts; *Growth in FY2025 RE over FY2024 Actuals; Source: GoI Budget Documents, CGA, ICRA Research*

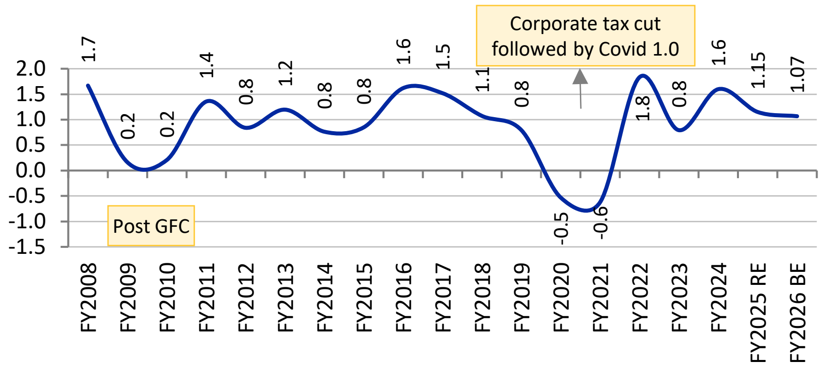
Gross tax revenues budgeted to grow by 10.8% in FY2026 BE, entailing a tax buoyancy of 1.1

EXHIBIT: Gross tax revenues

Rs. Trillion	FY2024 Actuals	FY2025 RE (1)	FY2026 BE (2)	Variation (2)-(1)	Growth (%)
Gross tax revenues	**34.7**	**38.5**	**42.7**	**4.2**	**10.8%**
Direct taxes	19.6	22.4	25.2	2.8	12.7%
Indirect taxes (including GSTCC)	15.1	16.2	17.5	1.3	8.3%

Source: Union Budget, GoI, ICRA Research

EXHIBIT: Tax buoyancy of the Centre



Tax buoyancy is a proportion of % change in Gross tax revenues and % change in Nominal GDP growth; Source: Union Budget, GoI, NSO, ICRA Research

- Slightly above ICRA's growth forecast (+10.5%), the GoI has projected the gross tax revenues to increase by 10.8% to Rs. 42.7 trillion in FY2026 BE (+11.2% in FY2025 RE), boosted by a relatively healthier expansion envisaged in direct taxes (+12.7%), compared to indirect taxes (+8.2%) – a trend seen over the last few fiscals.
- With the growth in gross tax revenues (+10.8%) is budgeted to trend slightly higher than that in nominal GDP (+10.1%) for FY2026 BE, the GoI has assumed a tax buoyancy of 1.07 in FY2026 BE. This is slightly lower than the buoyancy of 1.15 included in FY2025 RE, and the historical average seen during FY2015-19 (1.2).
- Several tax proposals have been made in the Budget, which are expected to result in a revenue foregone amounting to Rs. 1.0 trillion under direct taxes and Rs. 26 billion under indirect taxes to the Centre. The FY2026 growth budgeted for personal income tax collections (+14.4%) seems a bit optimistic, considering the extent of the revenue foregone with regard to the revision of tax slabs and rates under the new tax regime.

Direct tax growth forecast at 12.7% in FY2026 BE, amid optimistic assumptions for personal income taxes

ICRA

Direct tax

Direct tax revenues are budgeted to grow by 12.7% to Rs. 25.2 trillion in FY2026 BE (+14.4% in FY2025 RE), slightly sharper than the CAGR of ~11.8% seen over the past decade ending FY2024.

- While the budgeted growth in corporate tax inflows has been pegged at an expected 10.4% in FY2026 BE (+7.6% in FY2025 RE), that in personal income taxes is set at a robust 14.4% (+20.3% in FY2025 RE), which seems a bit optimistic, especially on a high base.
- Several direct tax proposals have been made in the Budget, with the objective of providing much-awaited tax relief reforms for the middle class, rationalisation of the TDS/TCS, reducing compliance burden, encouraging voluntary compliance, and promoting ease of doing business.

Corporation tax

Corporate tax collections are forecast to increase by 10.4% to Rs. 10.8 trillion in FY2026 BE, on the back of a lower-than-budgeted Rs. 9.8 trillion in FY2025 RE. This also echoes with our views of some improvement in corporates' profitability and taxes, after showing weak performance in the ongoing fiscal. Moreover, as a proportion of the GDP, such collections are budgeted at 3.0% for FY2026, in line with FY2025 RE, while trailing the 3.1% of GDP seen in FY2024.

Personal income tax

Personal income tax (PIT; including security transaction tax; STT) collections are estimated to increase quite sharply to Rs. 14.4 trillion in FY2026 BE (4.0% of GDP) from Rs. 12.6 trillion in FY2025 RE (3.9% of GDP). The resilience in PIT collections was evident over the last 2-3 years, supported by the GoI's efforts, including the simplified tax return filing and introduction of annual information statement to streamline compliances, as well as steps taken to grow the tax base. Looking ahead, the FY2026 target appears optimistic, given the estimated revenue foregone from various proposals, the details of which are discussed in the next slide.

Revenue foregone from direct and indirect tax proposals estimated by the GoI at over Rs. 1 trillion

ICRA

PIT relief focused on middle class: The Government has significantly raised the tax rebate limit for salaried tax-payers with income of up to Rs. 1.2 million (Rs. 1.3 million after including standard deduction of Rs. 75,000) from Rs. 0.75 million earlier under the new tax regime. Besides, the tax slabs have been raised across the board, while a new tax rate of 25% has been introduced for individuals having income between Rs. 2.0-2.4 million, thereby benefiting all taxpayers. This measure would play an important role in increasing the discretionary income of households and augmenting urban demand in FY2026.

TDS/TCS rationalisation for easing difficulties: The GoI has proposed to double the limit for tax deduction on interest for senior citizens from the present Rs.50,000 to Rs. 100,000 and raise the annual limit of Rs. 0.24 million for TDS on rent to Rs. 0.6 million. Moreover, it has increased the threshold to collect TCS on remittances under Liberalised Remittance Scheme (LRS) to Rs. 1.0 million from Rs. 0.7 million, while removing TCS on remittances for education purposes. Besides, TCS will be not be levied on any transaction of sales of goods from now on, while any delay of TCS payment up to the due date of filling will now be decriminalised.

The Government has announced other measures like extending the time-limit to file updated returns for any assessment year, from the current 2 years to 4 years, reducing compliance burden for charitable trusts, exempting withdrawals made from National Savings Schemes by individuals on or after August 29, 2024 and allowing similar treatment of NPS Vatsalaya accounts as is available to normal NPS account. Besides, it has introduced a safe harbour for tax certainty for non-residents for electronic manufacturing schemes, extended benefits of existing tonnage tax scheme to certain registered inland vessels and extended incorporation period by 5 years for start-ups.

Revised tax structure under the New Tax Regime :

Tax slabs (%)	Previous (Rs.)	Revised (Rs.)
Nil	0 to 3 lakhs	0 to 4 lakhs
5%	3-7 lakhs	4-8 lakhs
10%	7-10 lakhs	8-12 lakhs
15%	10-12 lakhs	12-16 lakhs
20%	12-15 lakhs	16-20 lakhs
25%	-	20-24 lakhs
30%	Above 15 lakhs	Above 24 lakhs

In addition, several incentives have been proposed to entities which are set up in International Financial Services Centre to promote investment activity, while certainty of taxation to Category I and II AIF entities on gains from securities will now be provided. Furthermore, the Centre has raised the date for making investment by 5 more years till FY2030 for Sovereign and Pension funds to promote funding to infrastructure sector.

Indirect tax growth budgeted to improve to 8.3% in FY2026 from 7.1% in FY2025, led by Union Excise and Customs Duty inflows

Indirect tax

The growth in indirect tax collections (including GST compensation cess) is budgeted to improve to 8.3% in FY2026 BE from 7.1% in FY2025 RE. This pencils in a turnaround in Union excise duty inflows to a growth (to +3.9% in FY2026 BE from -0.1% in FY2025 RE, despite cessation of windfall tax on domestically produced crude and fuel exports) and a mildly higher growth forecast for customs duty (to +2.1% from +0.8%) in FY2026 BE compared to FY2025, while the growth for GST revenues has been retained at 10.9% (in line with FY2025 RE).

GST

The GST collections (including compensation cess) are budgeted at Rs. 11.8 trillion in FY2026 BE. The stable growth forecast for FY2026 takes into account the ongoing resilience in domestic transactions, including consumption of services. The growth in CGST inflows is budgeted to accelerate slightly to 11.3% in FY2026, from 10.7% in FY2025 RE, while that in GST Compensation cess is pegged to improve to 8.9% from 8.5%.

Customs duty

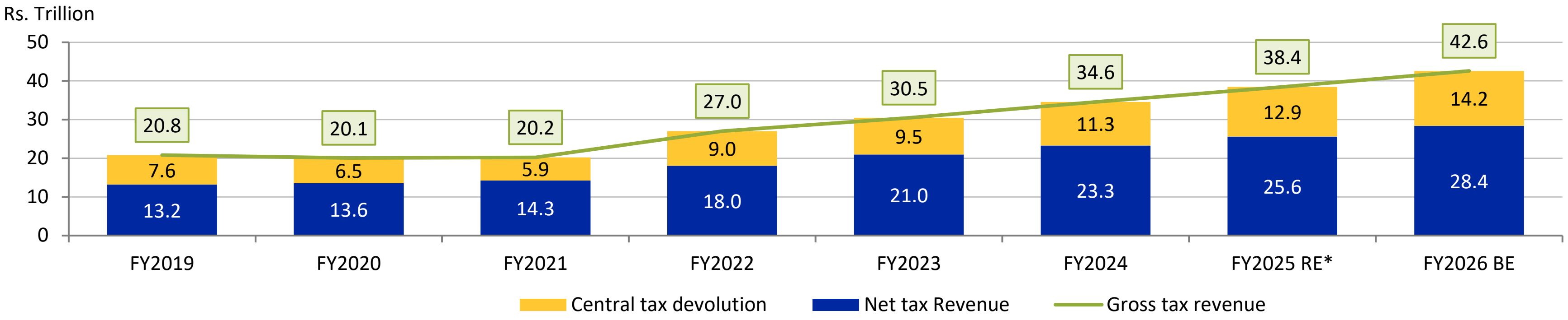
Customs duty collections are estimated to rise by a modest 2.1% to Rs. 2.40 trillion in FY2026 BE over FY2025 RE (Rs. 2.35 trillion; +0.8% YoY). This takes into account the lower-than-historical growth forecast for world output by the IMF (from 3.2% in CY2024 to 3.3% each in CY2025-2026 vs. 3.7% seen in 2000-2019), in the light of divergent recovery across countries amid elevated policy uncertainty, and the impending uncertainty regarding imposition of US tariffs. Several changes have been made in customs duties, which are as follows:

Reduction in Custom Duty to promote domestic manufacturing, lower input cost: Waste and scrap of lead, zinc and lithium-ion battery (to nil from 5%), cobalt powder (to nil from 5%), platinum findings (to 6.4% from 25%), wet blue leather (to nil from 10%), shuttle less loom rapier looms (to nil from 7.5%), frozen fish paste (surimi; to 5% from 30%), specified input cells for making open cells of LED/LCD TV panels (to nil from 2.5%), inputs of USB cable, camera module (to nil from 2.5%), motorcycles with engine capacity of <1600 CC (to 40% from 50%) and above (to 30% from 50%), and 36 capital goods for making lithium-ion battery for mobile phones and EV batteries (to nil from applicates rates).

Increase in Customs Duty: Knitted fabrics covered under certain tariff items (to 20% or Rs. 115/kg whichever is higher from 10/20%); and interactive Flat Panel Display classified under tariff item 8528 5900 (to 20% from 10%).

Central tax devolution estimated to grow to Rs. 14.2 trillion in FY2026

EXHIBIT: Trends in Centre's gross and net tax revenues as well as tax devolution to state governments



**This includes devolution of Rs. 12.7 trillion for FY2025 and Rs. 127.6 billion as prior-period adjustment amount paid in the fiscal; Source: Union Budget, CGA; GoI; ICRA Research*

- The Budget has pencilled in the tax devolution amount to be released to the state governments at Rs. 14.2 trillion in FY2026 BE, an increase of 11.6% over the FY2025 RE of Rs. 12.7 trillion. Including the adjusted amount of Rs. 127.6 billion paid for the prior period in FY2025 RE, the budgeted growth is estimated at a relatively shallower, albeit healthy 10.5%.
- This is slightly lower than the growth pegged for the GoI's gross tax revenues (+10.8%) for FY2026. Accordingly, the GoI's net tax revenue is projected to display a marginally higher growth of 11.0% to Rs. 28.4 trillion in FY2026 BE from Rs. 25.6 trillion estimated for FY2025 RE.

{Note that the 15th Finance Commission had recommended the share of states in the shareable Central taxes (or central tax devolution; CTD) at 41% for its award period of FY2022 to FY2026. However, the effective rate of devolution relative to the gross tax revenues of the GoI tends to be closer to 30-33%, as cesses and surcharges are not included in the shareable/divisible pool.}

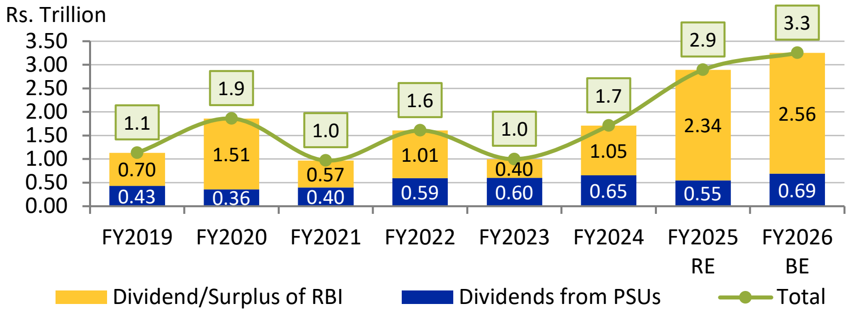
FY2026 growth forecast of 9.8% for non-tax revenues appears quite optimistic

EXHIBIT: Non-tax Revenues and its components

Rs. Trillion	FY2025 RE (1)	FY2026 BE (2)	Growth (2)/(1)
Non-Tax Revenue (A)	**5.3**	**5.8**	**9.8%**
- Interest Receipts (B)	0.3	0.5	40.2%
- Dividends and Profits (C)	2.9	3.3	12.3%
- Other Communication Services (D)	1.2	0.8	-33.2%
Balance (E=A-B-C-D)	0.8	1.3	51.6%

Source: Union Budget, GoI, ICRA Research

EXHIBIT: Dividends from PSUs and RBI

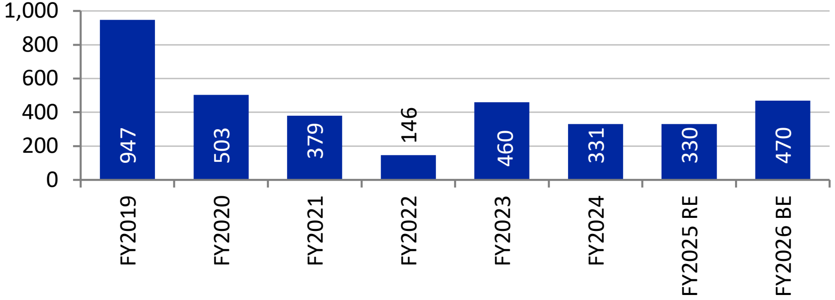


Source: Union Budget, GoI, ICRA Research

- Belying our expectation of a YoY moderation, the non-tax revenues of the GoI are budgeted to grow by 9.8% to Rs. 5.8 trillion in FY2026 BE from Rs. 5.3 trillion in FY2025 RE. This has stemmed from an unexpected increase in dividends and profits (to Rs. 3.3 trillion from Rs. 2.9 trillion).
- While the increase in dividends from the RBI, nationalised banks, FIs (to Rs. 2.56 trillion in FY2026 BE from Rs. 2.34 trillion in FY2025 RE) appears on a higher side, the dividends from the PSEs (to Rs. 0.7 trillion from Rs. 0.6 trillion) seems reasonable. **ICRA anticipates the RBI's dividend to decline in FY2026, after record transfer of Rs. 2.1 trillion made in FY2025, considering their total income from domestic and foreign sources may moderate in FY2025, amid the dip in RBI's holdings of domestic securities, and easing of interest rates in major economies, as well as possibly higher provisioning amount, given the ongoing volatility in the currency market.**
- Besides, interest receipts are estimated to show a sharp YoY growth of 40.2% in FY2026 BE albeit on a low base (-11.0% in FY2024 RE). In contrast, the inflows from "Other Communication services" (to Rs. 0.8 trillion from Rs. 1.2 trillion) are anticipated to ease relative to FY2025.
- The balance portion of non-tax revenues is estimated to rise by a sharp 51.6% to Rs. 1.3 trillion in FY2026 BE from Rs. 0.8 trillion in FY2025 RE.

Disinvestment target set at Rs. 470 billion in FY2026 BE

EXHIBIT: Trends in other capital receipts (disinvestment)



Source: Union Budget, GoI, ICRA Research

EXHIBIT: Strategic disinvestments- EOIs in Pipeline, available and closed

EOIs- in Pipeline	▪ Rashtriya Ispat Nigam Ltd., ConCor, AIESL, AIASL, AAAL
EOIs – Currently Available	▪ None
EOIs –Closed (Stage 2 transaction)	▪ NMDC Steel, IDBI Bank Ltd., Shipping Corp. of India Ltd., BEML Ltd., PDIL, HLL Lifecare, Indian Medicines Pharmaceutical Corporation Limited

As on January 30, 2025, AIESL: Air India engineering services ltd., AIASL: AI Airport Services Limited, AAAL: American Association for Applied Linguistics, NMDC: National Mineral Development Corporation, PDIL: Projects and Development India Ltd., BEML: Bharat Earth Movers Ltd., Source: DIPAM, ICRA Research

- The GoI has placed the disinvestment target at Rs. 470 billion in FY2026 BE (ICRA's exp: Rs. 500 billion), marginally lower than Rs. 500 billion budgeted for FY2025, while being higher than RE of Rs. 330 billion for FY2025, wherein the activity slowed down owing to General Elections and elevated global uncertainty.
- There are some major privatisation bids, whose expressions of interest (EoIs) are either in the pipeline or in Stage 2, such as the IDBI Bank and NMDC Steel. However, the Government highlighted that actual realisation of other miscellaneous capital receipts depends on the prevailing market conditions during the year. Simply going by the trend seen across years, a shortfall on this account would not be surprising, although the budgeted amount itself is not very large and therefore a miss relative to the target may not be very disruptive.

Revenue expenditure estimated to grow by 6.7% in FY2026, amid unpleasant increase in interest payments

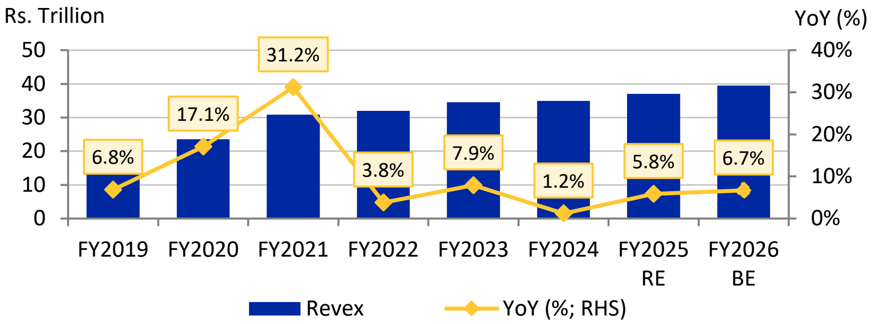
ICRA

EXHIBIT: Revenue expenditure of the GoI and its breakup

Rs. Trillion	FY2025 RE	FY2026 BE	Growth (%)
Revenue expenditure (1)	**37.0**	**39.4**	**6.7%**
Interest payments (2)	**11.4**	**12.8**	**12.2%**
Major subsidies (3)	**3.8**	**3.8**	**0.0%**
-Food	*1.97*	*2.03*	*3.0%*
-Fertiliser	*1.71*	*1.68*	*-2.0%*
-Fuel	*0.15*	*0.12*	*-17.7%*
Salaries and pensions (4)	**7.7**	**8.0**	**3.6%**
Balance revex (5= 1-2-3-4)	**14.1**	**14.9**	**5.7%**

Source: Union Budget, GoI, ICRA Research

EXHIBIT: Annual trends in Revenue Expenditure

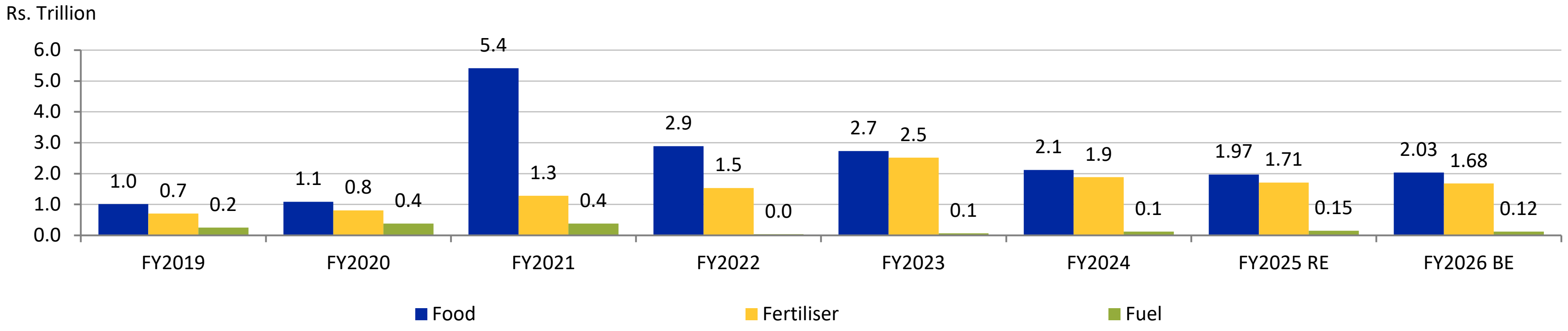


Source: Union Budget, GoI, ICRA Research

- The GoI has indicated a 6.7% growth in its revenue expenditure to Rs. 39.4 trillion in FY2026 BE from Rs. 37.0 trillion in FY2025 RE, slightly exceeding ICRA's forecast of 5.5-6.0%.
  - Interest payments are budgeted to rise by an unpleasant 12.2% to Rs. 12.8 trillion in FY2026 BE. This accounts for a quarter of the GoI's total expenditure (up from 24.1% in FY2025 RE), and a sizeable 37.3% of their revenue receipts in FY2026 (36.9% in FY2025 RE), underscoring the need to pare the borrowings over the medium term.
  - The total allocation towards major subsidies has been retained at Rs. 3.8 trillion in FY2026 BE, in line with FY2025 RE.
  - Additionally, the salaries and pensions (including Defence) have been budgeted to grow by a modest 3.6% in FY2026 BE over FY2025 RE, a relief ahead of the looming 8th Pay Commission's recommendations. The budgetary impact of this increased committed expenditure will likely be visible in FY2027.
  - Besides, the balance part of revex has been estimated to grow by 5.7% in FY2026 BE, the details of which are included in the ensuing slides.

Subsidy outlay pegged at Rs. 3.8 trillion in FY2026 BE, in line with FY2025 RE

EXHIBIT: Annual trends in Allocation towards Major Subsidies



Source: Union Budget, GoI, ICRA Research

- Within major subsidies, the allocation for food subsidy has been budgeted at Rs. 2.03 trillion in FY2026 BE, slightly raised from Rs. 1.97 trillion estimated in FY2025 RE, possibly factoring in a healthy rabi production of crops like rice and wheat and a consequent increase in procurement targets and costs.
- However, the subsidy allocation for fertilisers has been budgeted to ease somewhat to Rs. 1.68 trillion in FY2026 from Rs. 1.71 trillion in FY2025 RE, although this is largely in line with ICRA's forecast of Rs. 1.7 trillion. Besides, the subsidy allocation for petroleum has been estimated to dip to Rs. 0.12 billion in FY2026 BE from the FY2025 RE of Rs. 0.15 billion, remaining quite modest vis-à-vis the levels seen before FY2022.
- Nevertheless, the GoI may recalibrate the subsidy requirement during the year and announce additional allocation in the supplementary demand for grants if required, as was typically seen in the previous years.

Allocations for Jal Jeevan Mission and PMAY enhanced in FY2026 BE over FY2025 RE, accounting for the bulk of increase in balance revex

ICRA

- The allocation for balance revex (i.e. revex less of interest payments, major subsidies, and salaries and pensions) is budgeted at Rs. 14.9 trillion in FY2026, Rs. 0.8 trillion higher than Rs. 14.1 trillion mentioned in the RE for FY2025.
- Bulk of the increase in balance revex in FY2026 BE over FY2025 RE has stemmed from higher allocation for Jal Jeevan Mission (to Rs. 0.7 trillion in FY2026 BE from Rs. 0.2 trillion in FY2025 RE) and Pradhan Mantri Awas Yojana (PMAY; to Rs. 0.8 trillion from Rs. 0.5 trillion in FY2025 RE, including fresh allocation for the urban 2.0 scheme).
- As expected, the allocation for the Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) has been kept unchanged at Rs. 0.9 trillion in FY2026 BE, in line with FY2025 RE. Similarly, the allocation towards the Income Support Scheme has been retained at Rs. 0.64 trillion.
- The allocation towards the National Health Mission (to Rs. 0.37 trillion from Rs. 0.36 trillion), PM Gram Sadak Yojana (to Rs. 0.19 trillion from Rs. 0.15 trillion), FC grants (to Rs. 1.33 trillion from Rs. 1.27 trillion), Samagra Shiksha (to Rs. 0.41 trillion from Rs. 0.37 trillion) and Saksham Angadwadi and POSHAN 2.0 (to Rs. 0.22 trillion from Rs. 0.20 trillion) has been increased marginally in FY2026 BE, vs. FY2025 RE.
- Additionally, the GoI has increased the allocation for PLI schemes sharply to Rs. 175 billion in FY2026 BE from Rs. 94 billion in FY2025 RE, including sectors like specialty steel, automobiles and components, white goods, pharma, and large-scale electronic manufacturing.

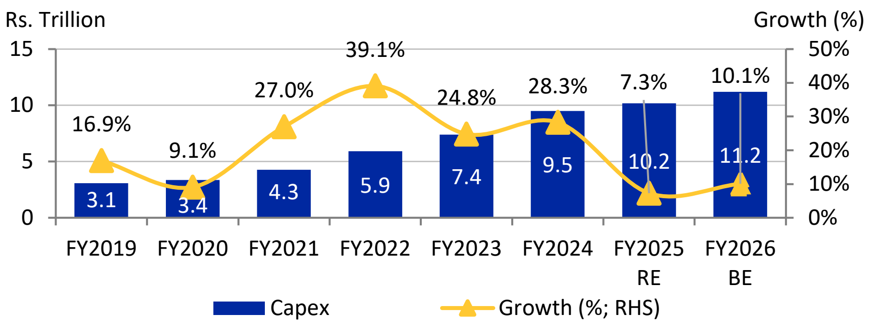
EXHIBIT: Trends in Schemes Showing Major Outlay under Revenue Head

Expenditure Items (Rs. Trillion)	FY2025 RE (1)	FY2026 BE (2)	Variation (2-1)	Growth (2/1)
Balance revex (5)	**14.1**	**14.9**	**0.8**	**5.7%**
Jal Jeevan Mission	0.2	0.7	0.4	195.2%
Pradhan Mantri Awas Yojna~	0.48	0.78	0.3	64.1%
Income support scheme	0.6	0.6	0.0	0.0%
MGNREGS	0.86	0.86	0.0	0.0%
National Health Mission	0.36	0.37	0.0	3.4%
Pradhan Mantri Gram Sadak Yojna	0.15	0.19	0.0	31.0%
GECL	0.1	0.1	0.0	20.0%
Samagra Shiksha	0.4	0.4	0.0	11.5%
Finance Commission Grants	1.3	1.3	0.1	4.4%
PLI schemes	0.09	0.18	0.1	87.1%
Crop Insurance scheme	0.2	0.1	0.0	-22.8%
Saksham Anganwadi and POSHAN 2.0	0.2	0.2	0.0	9.4%

GECL: Guaranteed Emergency Credit Line; PLI: Productivity Linked Incentive, ~includes urban, urban 2.0 and Grameen segment; Source: GoI Budget Documents, ICRA Research

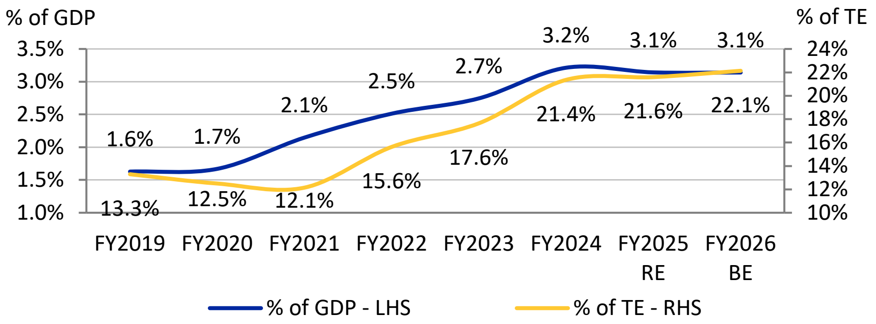
GoI's capex target to rise by ~10% YoY to Rs. 11.2 trillion in FY2026 BE, largely in line with expectations

EXHIBIT: Capital expenditure of the GoI



Source: Union Budget, GoI, ICRA Research

EXHIBIT: Capital Expenditure as % of GDP and % Total Expenditure



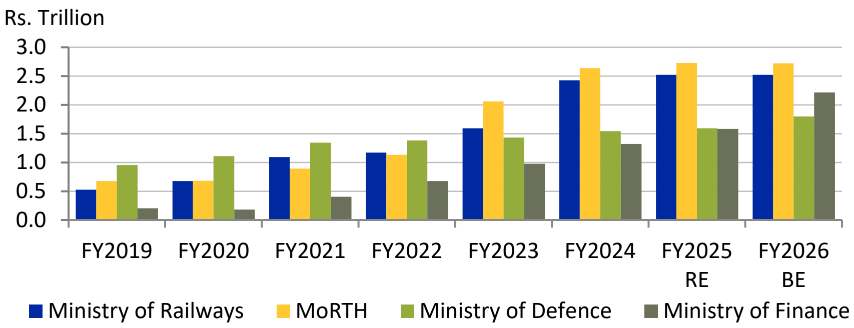
Source: Union Budget, GoI, ICRA Research

- The GoI has placed the target for gross capital expenditure at Rs. 11.2 trillion in FY2026 BE (ICRA's exp.: Rs. 11 trillion), a growth of 10.1% from the Rs. 10.2 trillion in FY2025 RE. This comes on the back of a modest 7.3% rise in FY2025 RE, with capex in H1 FY2025 tempered by factors including the General Elections, heavy rains etc. Notably, this translates to 3.1% of GDP in FY2026 BE, in line with the levels seen in FY2025 RE, while trailing the 3.2% of GDP recorded in FY2024 Actuals.
- Owing to the sharper growth in capex vis-à-vis revex, the quality of spending is budgeted to improve further, with a rise in the share of capital expenditure in total expenditure to 22.1% in FY2026 BE from 21.6% in the FY2025 RE.
- While the YoY hike in the GoI's capex is relatively moderate compared to that seen in FY2022-24, the grants-in-aid for creation of capital assets have been enhanced by a sharp 42.4% in FY2026 BE. Including this, the expansion in the GoI's effective capital expenditure is estimated to rise by 17.4% to Rs. 15.5 trillion in FY2026 BE (4.3% of GDP) from Rs. 13.2 trillion FY2025 RE (4.1% of GDP). **This would play an important role in boosting investment demand and GDP growth in the next fiscal.**

YoY rise in capex in FY2026 BE led by enhanced allocation for new schemes and increase in interest-free capex loan to states

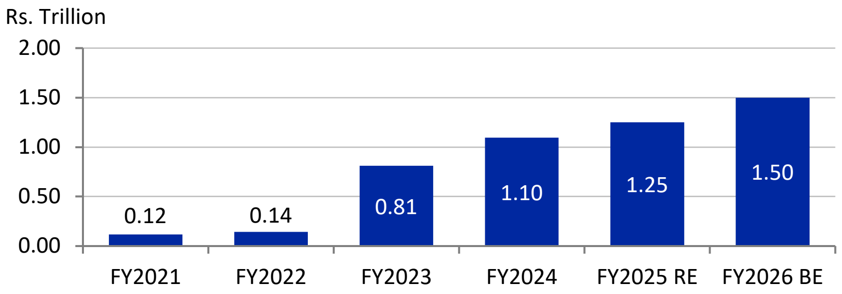
ICRA

EXHIBIT: Trends in Capex Allocation towards Major Ministries/Sectors



Source: Union Budget, GoI, ICRA Research

EXHIBIT: Trends in Interest Free Capex Loan to State Governments



Source: Union Budget, GoI, ICRA Research

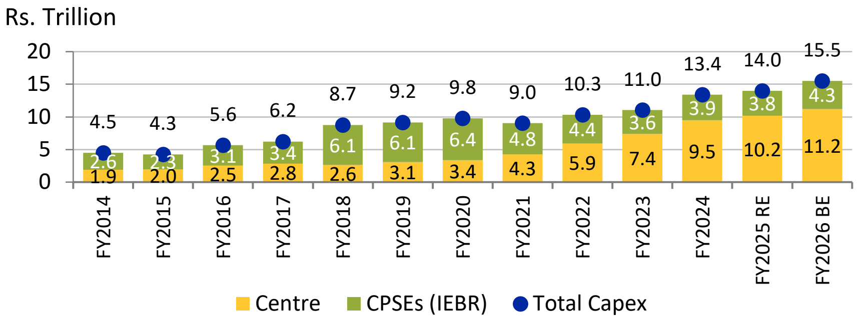
- The YoY increase of Rs. 1.0 trillion in the capex target for FY2026 BE over FY2025 RE has been driven by higher allocation towards the Ministry of Finance (+Rs. 0.6 trillion), including an enhanced outlay towards new schemes (+Rs. 0.3 trillion; details undisclosed) as well as increase in “special assistance as loan to states for capital expenditure” (+Rs. 0.3 trillion). **An early articulation of the new schemes under the MoF would be important to get capex off to an early start and avoid a downward revision as has been seen in FY2025.**

- Furthermore, the capital outlay for Defence services has been raised by Rs. 0.2 trillion in FY2026 BE, compared to the FY2025 RE, while the capex for MoRTH (at Rs. 2.7 trillion) and the MoR (at Rs. 2.5 trillion) have been kept unchanged, in line with the previous year. In contrast, the capital infusion in BSNL has been pared to Rs. 0.3 trillion in FY2026 BE, relative to Rs. 0.7 trillion in FY2025 RE.

IEBR of CPSEs to expand by ~13% YoY in FY2026 BE; combined capex by Centre and CPSEs projected at 4.3% of GDP

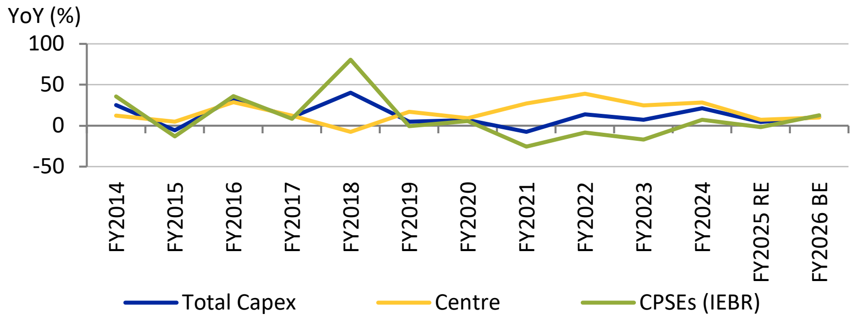
ICRA

EXHIBIT: Capex by Centre and CPSEs (IEBR)



Source: Union Budget, GoI, ICRA Research

EXHIBIT: Annual growth trends in Capex by Centre and CPSEs (IEBR)

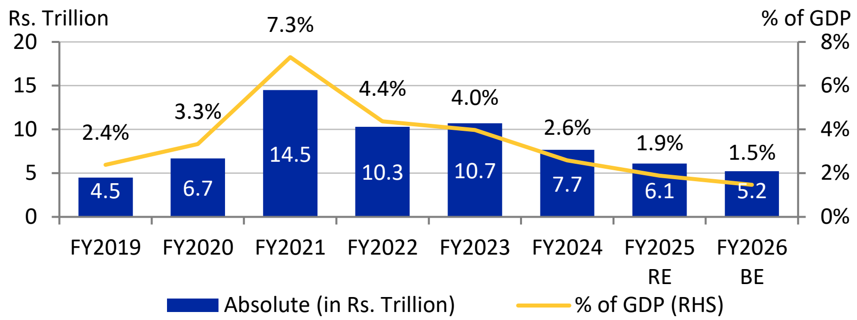


Source: Union Budget, GoI, ICRA Research

- In addition to the increase in the budgeted capex (+10.1% in FY2026 BE), the Internal and Extra Budgetary Resources (IEBRs) portion of the capital outlay by CPSEs has been indicated to rise by 12.9% to Rs. 4.3 trillion in FY2026 BE from Rs. 3.8 trillion in FY2025 RE, led by Ministry of Petroleum and Natural Gas, Housing and Urban Affairs, and Department of Food and Public Distribution.
- Consequently, the combined capital expenditure (budgetary capex + IEBR) is estimated to grow by 10.8% in FY2026 BE. This amounts to 4.3% of GDP, in line with the FY2025 RE and would play an important role in supporting investment demand and construction activity.
- Interestingly, the IEBR for the Ministry of Railways has been kept unchanged at Rs. 130 billion in FY2026 BE, in line with the FY2025 RE. Additionally, with the spending by the National Highway Authority of India (NHAI) being subsumed within the GoI's own budget, nil allocation has been made under the IEBR component for the Ministry of Road Transport and Highways (MoRTH), in line with the practice during FY2023-2025.

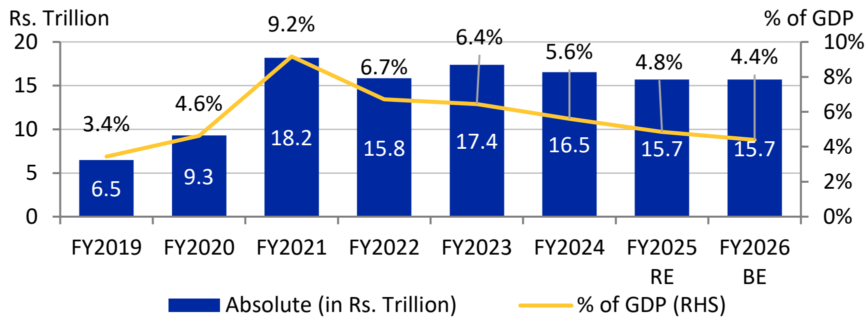
GoI's fiscal deficit pegged at 4.4% of GDP in FY2025 BE, adhering to the medium-term fiscal consolidation path

EXHIBIT: GoI's Revenue Deficit (Rs. Trillion and % of GDP)



Source: Union Budget, GoI, ICRA Research

EXHIBIT: GoI's Fiscal Deficit (Rs. Trillion and % of GDP)

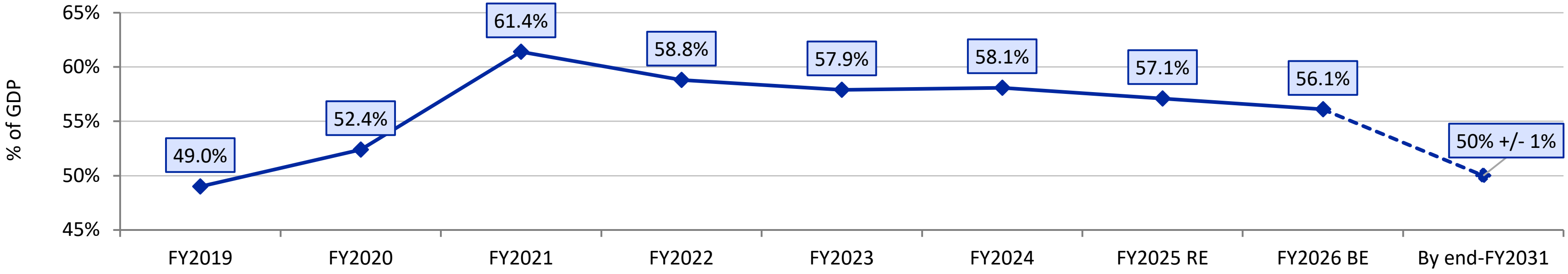


Source: Union Budget, GoI, ICRA Research

- With revenue receipts (+10.8%) estimated to grow at a relatively quicker pace than revenue spending (+6.7%) in FY2026 BE over FY2025 RE, the GoI has estimated its revenue deficit to narrow to Rs. 5.2 trillion (1.5% of GDP) in FY2026 BE from Rs. 6.1 trillion (1.9% of GDP) in FY2025 RE.
- Taking into account the target for disinvestment receipts and a 10.1% YoY expansion in capex, the GoI has targeted the fiscal deficit at Rs. 15.7 trillion in FY2026 BE, in line with the FY2025 RE, while being lower than the FY2024 Actuals (Rs. 16.5 trillion). However, as a percentage of GDP, the fiscal deficit is estimated to be curtailed to 4.4% from 4.8% included in FY2025 RE, in line with the medium-term fiscal consolidation path, while printing lower than ICRA's expectations (4.5% of GDP).
- In addition, the quality of the fiscal deficit is set to improve, with the share of revenue deficit in the fiscal deficit moderating to 33.4% in FY2026 BE from 38.9% in FY2025 RE and 46.2% in FY2024 Actuals.

GoI announces a new glide path with debt/GDP ratio as the fiscal anchor

EXHIBIT: Central Government debt-to-GDP ratio



Source: GoI Budget Documents, 15th FC Report, ICRA Research

- The Central Government debt is estimated to decrease to 56.1% of GDP in FY2026 BE from 57.1% of GDP in FY2025 RE. In its MTFP and Fiscal Policy Strategy Statement, it is mentioned that FY2026 is the last year of the 15th Finance Commission and the terminal year of the glide path for fiscal consolidation announced in the Budget Speech of FY2022. In the FY2026 Union Budget, the GoI has announced a new glide path with debt to GDP ratio as the fiscal anchor.
- While outlining the fiscal consolidation path for FY2027 to FY2031, the GoI has mentioned that the choice of debt-to-GDP ratio encourages a shift from rigid annual fiscal targets towards more transparent and operationally flexible fiscal standards. Excluding any major macro economic exogenous shocks while keeping in mind the potential growth trends and emerging development needs, the GoI would endeavour to keep fiscal deficit in each year (from FY2027 till FY2031) such that the Central Government debt is on a declining path to attain a debt-to-GDP level of about 50 ±1% by March 31, 2031. According to the GoI, this approach would provide it the requisite operational flexibility to respond to unforeseen developments.

GoI's gross and net market borrowings pegged at Rs. 14.8 trillion and Rs. 11.5 trillion in FY2026 BE, largely in line with ICRA's expectations

ICRA

EXHIBIT: GoI's Long-Term Market Borrowings

Rs. Trillion	FY2025 BE (A)	FY2025 RE (B)	FY2026 BE (C)	Growth (C/B)
Gross Market Borrowing	14.01	14.01	14.82	5.8%
Redemptions*	2.38	2.38	3.28	38.0%
Net Market Borrowings	**11.63**	**11.63**	**11.54**	**-0.8%**
Net Market Borrowings adjusted for buybacks and switching	**11.63**	**10.75**	**11.54**	**7.4%**

**adjusted for recovery of Rs. 0.68 trillion from GST compensation fund in FY2026 BE and Rs. 1.24 trillion in FY2025 RE; Source: Budget Documents, Ministry of Finance, GoI, ICRA Research*

- The gross and net market borrowings of the GoI in FY2025 RE have been retained at Rs. 14.01 trillion and Rs. 11.63 trillion, respectively, in line with the budgeted levels for the fiscal.
- Subsequently, the GoI has estimated its gross market borrowings to increase modestly by 5.8% to Rs. 14.82 trillion in FY2026. The redemptions for FY2026 are budgeted at Rs. 3.28 trillion, 38.0% higher than Rs. 2.38 trillion included in FY2025 RE, after netting for the recovery of Rs. 0.68 trillion and Rs. 1.24 trillion in FY2026 BE and FY2025 RE, respectively, from the GST Compensation Fund. Accordingly, the GoI's net market borrowing is estimated at Rs. 11.54 trillion in FY2026 BE, 0.8% lower on a YoY basis, which would augur well for the bond yields. The gross and net market borrowing in FY2026 BE are nearly in line with ICRA's expectations (Rs. 15.1 trillion and Rs. 11.4 trillion, respectively).

Net market borrowings and NSSF major sources of financing the fiscal deficit

ICRA

EXHIBIT: Sources for Financing the Fiscal Deficit

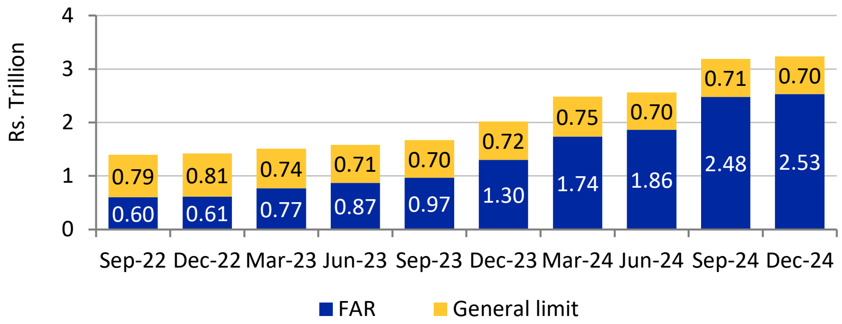
Rs. Trillion	FY2025 BE	FY2025 RE	FY2026 BE
(A) Borrowings	**11.13**	**9.55**	**11.54**
Dated Net Market Borrowings (i)	11.63	11.63	11.54
Treasury-Bills (ii)	-0.50	-1.20	0.00
Net Switching of Securities (iii)	0.0	0.00	0.00
Net Buyback (iv)	0.0	-0.88	0.00
Net Post Office Life Insurance Fund (v)	0.0	0.0	0.0
(B) Net Securities against Small Savings	4.20	4.12	3.43
(C) Net State Provident Funds	0.05	0.05	0.05
(D) Other Receipts	-0.81	0.26	0.41
(E) Net External Debt	0.16	0.32	0.23
(F) Net drawdown of Cash Balances	1.40	1.40	0.02
Sources of Funding the Fiscal Deficit (sum of A to F)	**16.13**	**15.70**	**15.69**

Source: GoI Budget Documents, ICRA Research

- The GoI is expected to redeem Treasury Bills of Rs. 1.2 trillion in FY2025 RE, more than double the Rs. 0.5 trillion indicated in FY2025 BE; this along with sizeable buyback (Rs. 0.88 trillion) has led the sharp dip in borrowings to Rs. 9.55 trillion in FY2025 RE vis-à-vis the budgeted amount. In FY2026 BE, the net Treasury Bills have been indicated at nil, which is leading to the sharp rise in borrowings even as dated borrowings are set to dip slightly between these years.
- The net amount raised from the savings deposits and certificates is pencilled in at Rs. 4.12 trillion in FY2025 RE, modestly lower than Rs. 4.20 trillion indicated in the FY2025 BE. For FY2026 BE, the GoI has indicated that it would borrow a net amount of Rs. 3.43 trillion from the savings deposits and certificates, significantly lower than the year ago level. **This may suggest a potential reduction in interest rates on small savings schemes ahead, in line with the expected monetary easing.**
- The share of net market borrowings and NSSF in financing the fiscal deficit is expected at 74% and 22%, respectively, in FY2026 BE, similar to the trends in recent years.

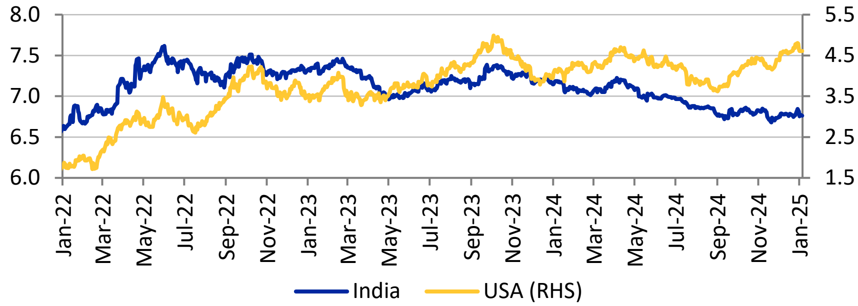
10Y G-Sec yield likely to trade at 6.5-6.8% in the near term

EXHIBIT: Central Government securities held by FPIs under Fully Accessible Route and General Investment Route



Source: NSDL, CCIL, ICRA Research

EXHIBIT: India and US 10-year G-sec/Treasury yield



Source: CCIL, Refinitiv, ICRA Research

- India's 10Y G-Sec yields remained elevated at 6.75-6.85% for the most part of November 2024, before softening to 6.68% as on December 5, 2024, on expectations of monetary policy easing by the Monetary Policy Committee (MPC) amid a sharper-than-expected slowdown in GDP growth. Thereafter, the yield witnessed a rebound to 6.84% as on January 13, 2025, amid the uptick in 10Y UST yields (to 4.81% on Jan 13, 2025 from 4.18% on Dec 5, 2024, due to slower policy easing outlook), as well as rising crude oil prices and selling spree by the FPIs.
- India's benchmark yield plunged by 16 bps to 6.68% on January 29, 2025, after the liquidity support announced by the RBI via OMOs and forex buy/sell swap auction, suggesting that a February 2025 rate cut by the MPC may be on the anvil. Likewise, the UST 10Y yield declined albeit by a sharper 25 bps in the second half of January 2025 to 4.56%.
- Looking ahead, the incoming news on rate decisions by the US and India would influence the direction of G-Sec yields, even as the augmented demand for Indian bonds seen since the inclusion announcement is likely to dissipate, as India's weight in the J.P. Morgan GBI-EM peaks by end-June 2024, which could pose some upside pressure to yields. **Following the recent liquidity measures taken by the RBI and the increased probability of a rate cut in February 2025, the 10-year G-Sec yield will likely range between 6.5-6.8% in the near term.**

DASHBOARD

↑	Positive	↔	Neutral	↓	Negative

Sector	Impact	Sector	Impact
AGRICULTURE	↔	HOSPITALITY	↑
AUTOMOTIVE – COMMERCIAL VEHICLES	↑	INFRASTRUCTURE/CONSTRUCTION	↑
AUTOMOTIVE – TWO-WHEELERS/ PASSENGER VEHICLES	↑	METALS & MINING	↑
AVIATION	↑	OIL AND GAS	↓
BFSI - BANKS/NBFCs/INSURANCE/CAPITAL MARKET	↔	PHARMACEUTICAL AND HEALTHCARE	↑
CAPITAL GOODS	↑	POWER & RENEWABLES	↑
CEMENT	↑	REAL ESTATE	↑
EDUCATION	↑	ROADS	↔
ELECTRONICS AND CONSUMER DURABLES	↑	SHIPPING	↑
FERTILISERS	↔	TEXTILES	↑
FOOD PROCESSING	↑		

ICRA

SECTOR IMPACT

#Budget25WithICRA

AGRICULTURE

PROPOSALS

- Budgetary allocation for the Crop Insurance Scheme has been reduced to Rs. 122 billion for FY2026 BE from Rs. 158 billion for FY2025 RE.
- Allocation towards the Modified Interest Subvention Scheme has been kept at Rs. 226 billion for FY2026 BE, same as FY2025 RE.
- Allocation for the Rashtriya Krishi Vikas Yojna has been increased to Rs. 85 billion for FY2026 BE from Rs. 60 billion for FY2025 RE.
- An allocation of Rs. 635 billion has been made for FY2026 BE towards the Pradhan Mantri Kisan Samman Nidhi Yojna (PM-Kisan), which stood at similar levels as FY2025 RE.

VIEW

- The allocation towards the Crop Insurance Scheme provides financial support to farmers by covering crop losses suffered due to natural calamities.
- The allocation towards the Modified Interest Subvention Scheme remains high and would promote access to farm credit at relatively lower interest rates.
- The allocation towards the Rashtriya Krishi Vikas Yojna would promote agriculture growth by enhanced investments in agriculture and allied sectors.
- The continued allocation towards the Pradhan Mantri Kisan Samman Nidhi Yojna would support farmers' income. Other initiatives to improve agricultural productivity and irrigation facilities as well as the focus on high-yielding seeds would also help increase farmers' income.

AUTOMOTIVE – COMMERCIAL VEHICLES

PROPOSALS

- The capital expenditure has been increased by 10.1% on a YoY basis to Rs. 11.2 trillion for FY2026 BE.
- The allocation for e-bus procurement under the PM e-Bus Sewa Scheme has been enhanced to Rs. 13.1 billion for FY2026 BE from Rs. 5 billion for FY2025 RE, while allocation towards the payment security mechanism for e-bus procurement has been increased to Rs. 5.1 billion from Rs. 0.2 billion, during the same period.
- The outlay for the PLI scheme for advanced chemistry cell (ACC) battery storage has been augmented to Rs. 1.6 billion from Rs. 0.15 billion last year.
- The allocation for the procurement of heavy and medium vehicles (to be used by the Defence Ministry) continues to be sizeable at ~Rs. 36.5 billion (compared to ~Rs. 40.9 billion last year).
- The outlay for the PLI scheme for the automobile and automobile components sectors has been raised to Rs. 28.2 billion (from ~Rs. 3.5 billion last year).

VIEW

- The GoI's continued focus on infrastructure development augurs well for commercial vehicle demand, especially multi-axle vehicles and tippers.
- The GoI continues to support the Green Growth initiative by increasing the outlay towards the procurement of e-buses for public transportation. This will bolster growth of e-bus OEMs and operators. In addition, the Government's continued focus on addressing payment security for private e-bus operators will help in accelerating the adoption of e-buses.
- The continued impetus on Defence and sizeable capital outlay for medium and heavy commercial vehicles augurs well for the segment.
- The GoI's continued focus on expanding the PLI scheme for the automobile sector would help reduce the capital outlay by the CV OEMs towards their expansion plans.

PROPOSALS

- The income tax exemption limit under the new tax regime has been increased to Rs. 12 lakh.
- The Government has increased the outlay for agriculture and allied activities to Rs. 1.71 trillion for 2025-26 BE, up from Rs. 1.40 trillion for 2024-25 RE.
- PM Dhan-Dhaanya Krishi Yojana will be launched in partnership with states to help augment farm incomes.
- PLI scheme allocation for automobiles and auto components has been increased to Rs. 28.19 billion for 2025-26 BE from Rs. 3.47 billion for 2024-25 RE.
- The Government has allocated Rs. 40 billion for 2025-26 BE under the PM Electric Drive Revolution in Innovative Vehicle Enhancement (PM E-drive) Scheme.
- Basic customs duty (BCD) exemption has been granted on cobalt powder, lithium-ion battery waste and scrap, lead, zinc and 12 other critical minerals. Additionally, 35 capital goods for EV battery manufacturing to also benefit from BCD exemption.
- National Manufacturing Mission will be launched with a focus on clean technology.
- Export Promotion Mission to be set up with sector-specific and ministerial targets.
- Five National Centres of Excellence will be set up for skill development.

VIEW

- Enhancements in the income tax exemption limit and other tax-related benefits will increase consumers' disposable income, supporting demand in the automotive sector, particularly for two-wheelers.
- The GoI's continued focus on supporting agricultural cash flows through rural infrastructure development and higher allocation for farmer welfare schemes continued in the Union Budget. The enhanced outlay for agriculture and allied activities is likely to support rural demand, a critical driver for the auto sector.
- The disbursement of funds under PLI schemes would support manufacturing competitiveness of automotive OEMs and ancillaries.
- The Government's focus on developing the EV ecosystem remains strong, with the launch of the National Manufacturing Mission, an emphasis on clean technology, and increased efforts to establish domestic lithium-ion battery manufacturing. The allocation under the PM E-drive scheme will also continue to reduce upfront costs and encourage adoption.
- The launch of the Export Promotion Mission will further enhance the global competitiveness of the automotive industry.
- The lack of adequate skills is a challenge for the localisation of EV components, including batteries. Establishing such centres will help bridge skill gaps amid the technological shifts in the industry.

AVIATION

PROPOSALS

- A modified Ude Desh ka Aam Naagrik (UDAN) scheme will be launched to enhance regional connectivity to 120 new destinations and cater to an additional four crore passengers over the next 10 years. The scheme will also support helipads and smaller airports in the hilly and northeastern regions of the country.
- Greenfield airports will be facilitated in Bihar in addition to the brownfield expansion of capacities of existing airports.
- The top 50 tourist destination sites in the country will be developed in partnership with states. Emphasis will remain on places of spiritual and religious significance.
- Streamlined e-visa facilities will be introduced along with visa fee waivers for certain tourist groups.
- Medical tourism and the Heal in India programme will be promoted in partnership with the private sector.

VIEW

- Domestic air passenger traffic rose at a compound annual growth rate (CAGR) of 10% over the last 10 years. These measures will provide a further boost to the same.
- The introduction of a modified UDAN scheme and the launch of new airports will strengthen air connectivity to underserved and unserved regions, increasing accessibility to smaller towns. The modified scheme will help increase penetration on UDAN routes, which has remained low at 1-4% (during FY2018-FY2024).
- Ease of travel will also boost tourism and provide employment opportunities.
- Other measures, including the development of tourist destinations, promotion of medical tourism and streamlining of e-visa facilities, will boost international tourism in India.

PROPOSALS

- The loan limit under the modified interest subvention scheme has been increased to Rs. 0.5 million from Rs. 0.3 million for loans taken through Kisan Credit Cards (KCC).
- The investment and turnover limit for classification as micro, small and medium enterprises (MSMEs) has been raised.
- The credit guarantee cover for micro and small enterprises, start-ups and well-run exporter MSMEs has been enhanced.
- Customised credit cards will be provided to micro enterprises registered on the Udyam portal.
- Tax-exempted income has been increased through the rationalisation of tax slabs.
- Foreign direct investment (FDI) in the insurance sector has been raised to 100% from 74%.
- Clarification has been provided on the taxation of income on the redemption of unit linked insurance plans (ULIPs).

VIEW

- Measures for KCC and MSMEs will improve credit flow to the agriculture and MSME sectors and help banks meet their priority sector lending targets.
- The reduction in personal tax rates can aid the deposit growth of banks from the retail segment and partly correct their credit-deposit ratios and improve their liquidity coverage ratios. However, this will adversely impact retail flow into equity linked savings scheme (ELSS) and debt mutual funds and potentially affect the growth of life insurance companies.
- The increase in disposable income because of tax rate cuts could help improve the asset quality of lenders in the retail segment.
- Investment in insurance savings products will be adversely impacted by the improved competitiveness of the new tax regime.
- Higher FDI limits in the insurance sector could boost the inflow of foreign capital and increase insurance penetration, though competition could rise.
- The clarification on taxation on ULIPs {not exempted under Section 10(10D)} is a positive as the marginal tax rate for a high-ticket policy is more than the capital gains tax.

BFSI – BANKS/NBFCs/INSURANCE/CAPITAL MARKETS

PROPOSALS

- No capital allocation has been announced for public sector general insurers.
- National Bank for Financing Infrastructure and Development (NaBFID) will set up a partial credit enhancement facility for corporate bonds for infrastructure.
- Clarity regarding taxation on gains from securities for Category I and II Alternative Investment Funds (AIFs) investing in the infrastructure sector has been provided.
- Rs. 35 billion has been allocated for interest subsidy under Pradhan Mantri Awas Yojana – Urban 2.0 (-U 2.0).
- Special Window for Affordable and Mid-Income Housing (SWAMIH) Fund II will be set up with a corpus of Rs. 150 billion.
- The revamped centralised know your customer (KYC) registry will be rolled out in 2025.

VIEW

- The lack of budgetary allocation for public sector general insurance companies is a negative, given the weak solvency of three of the four public sector general insurers.
- The partial credit enhancement facility and the clarity regarding AIF investments represent attempts to vitalise the bond markets and can support private sector investment in infrastructure. Details on the same are awaited.
- The ongoing thrust on housing for all will support demand for home loans.
- The continuation of the SWAMIH Fund will help in the resolution of stressed assets of lenders.
- The revamped KYC process is expected to ease the operational load of banking, financial services, and insurance (BFSI) service providers and help the ultimate beneficiaries – depositors, investors and policyholders.

CAPITAL GOODS

PROPOSALS

- Capital expenditure has been pegged at Rs. 11.2 trillion for FY2026, increased from Rs. 10.2 trillion as per FY2025 RE; the capital outlay for railways continues to stand at Rs. 2.5 trillion.
- The Budget has provided a thrust on the development of a domestic ecosystem for solar photovoltaic cells, wind turbines, electrolysers, etc.
- The Government intends to set up 100 GW of nuclear power capacities by 2047 and promote the research and development of small modular reactors, including the setting up of five such reactors by 2033, at an outlay of Rs. 200 billion.

VIEW

- The continued focus of the Government on building and improving infrastructure, translating into increased capital outlay is likely to boost the demand for various engineering equipment and would provide a thrust to the order book position of the companies in the engineering and capital goods sector.
- The announcement to set up nuclear energy capacities of around 100 GW by 20247 augurs well for the order book and the revenue visibility of the capital goods companies. Focus on the ecosystem around solar cells, wind turbines and electrolysers, etc., will also open avenues for the capital goods players.
- While all the measures remain positive for the industry, timely implementation will be the key.

PROPOSALS

- There has been an increase in the budgetary allocation towards the agriculture sector and rural development by 31.9% to Rs. 4.4 trillion for FY2026 BE from Rs. 3.3 trillion for FY2025 RE.
- The capital expenditure stands at Rs. 11.2 trillion in FY2026 BE, marking an increase of 10.1% over FY2025 RE.
- Measures such as increase in rebates for income up to Rs. 12 lakh along with a reduction in tax rates and 64% higher allocation towards the Pradhan Mantri Awas Yojana (PMAY) programme (Rural and Gramin) in FY2026 BE compared to FY2025 RE have been introduced in the Union Budget.
- Moreover, Rs. 150 billion has been allocated towards the second tranche of the SWAMIH Fund.

VIEW

- The Government's focus on agri-economy and rural development is expected to support income for farm households and thereby aid demand for rural housing, which is a significant contributor (of around 35%) to the overall cement demand.
- The infrastructure sector accounts for around 24% of the total cement demand. The substantial budgetary allocation underscores the Government's focus on the infrastructure sector, translating into a positive impact on the cement sector.
- The reduction in income tax will enhance the disposable income in the hands of consumers and is a positive for the affordable and mid-income housing segments. Further, continued focus on the PMAY, leading to an increase in rural and urban housing construction activity and a revival of stressed residential projects, will boost cement demand.

EDUCATION

ICRA

PROPOSALS

- The Bharartiya Bhasha Pushtak Scheme (BBPS) will provide a digital version of Indian language books for schools and higher education. Broadband connectivity will be provided to all Government secondary schools.
- A Centre of Excellence in Artificial Intelligence (AI) for Education will be set up with an outlay of Rs. 500 crore.
- PM Research Fellowship will provide 10,000 fellowships for technological research in IITs and IISCs with enhanced financial support in the next five years.
- Additional infrastructure in five IITs will add 6,500 new seats.
- Additional 10,000 seats in medical colleges and hospitals will be set up in FY2026, and 75,000 seats will be added over the next five years.

VIEW

- Establishment of technology-oriented labs and broadband connectivity in Government schools will create avenues for innovation and scientific thinking among young minds. It will also create opportunities for tech-driven education service providers.
- The BBPS would create demand for digital books and new business opportunities for the publishing houses, pushing digitisation in the education sector.
- The focus of the Government on skill enhancement and AI would help the educational institutes to align with the requirement of the new-age industries and aid in bridging the skill gap.
- PM Research Fellowship as well as the move to increase the seats in IITs will provide the much-needed push for research-oriented courses. The same will also expand the scope of quality higher education in the engineering/technical domain.
- New 10,000 medical education seats in FY2026 would create opportunities for existing as well as new medical colleges. The provision to add 75,000 seats in the next five years augurs well for expansion of the medical education sector.

ELECTRONICS AND CONSUMER DURABLES

PROPOSALS

- The BCD on interactive flat panel display (IFPD) has been increased to 20% from 10%.
- The duty on open cell and other components has been reduced to 5% from 10%.
- There is nil BCD on component/parts of open cells against 2.5% earlier.
- The duty has been exempted on 28 capital goods/machinery for use in manufacturing of lithium-ion battery of mobile phones.

VIEW

- The higher duty on IFPD will boost its local manufacturing over the medium term. However, the possibility of some price hikes on LCD/LED televisions in the near term cannot be ruled out.
- The decrease in duty on open cell and other components will make LCD/LED televisions cheaper in India.
- The GoI is encouraging manufacturing of open cell and other components indigenously. Hence, the BCD on the component/parts of open cells has been reduced to nil.
- The full duty exemption extended to 28 capital goods/plant and machinery used in manufacturing of lithium-ion battery for mobile phones will boost domestic manufacturing as well as reduce the prices of mobile phones.

FERTILISERS

PROPOSALS

- The Budget has allocated Rs. 1.68 trillion towards fertiliser subsidy, including Rs. 1.19 trillion for urea and Rs. 490 billion in the form of nutrient-based subsidy, which is slightly lower than the FY2025 RE of Rs. 1.71 trillion.
- The Government has proposed to set up a new urea unit of 1.27-MMTPA capacity at Namrup, Assam.

VIEW

- The budgetary allocation towards fertiliser subsidy stood at Rs. 1.68 trillion, which is slightly lower than the last fiscal's revised estimate of Rs. 1.71 trillion. ICRA expects the total subsidy to be largely sufficient at current prices. Moreover, ICRA believes that the Government will allocate additional amounts in a timely manner, if needed.
- The proposed unit at Namrup, Assam, will reduce import dependence from the current levels of 6-7 MMT per annum.

FOOD PROCESSING

PROPOSALS

- The Government has announced the Prime Minister Dhan-Dhaanya Krishi Yojana in partnership with state governments. The scheme will cover 100 districts and ~1.7 crore farmers to enhance agricultural productivity, promote crop diversification, encourage sustainable farming, improve post-harvest storage and irrigation infrastructure, and facilitate credit availability.
- The allocation for fisheries/animal husbandry and food processing has been increased by ~73% to Rs. 55.15 billion for the FY2026 BE.
- The credit limit for Kisan Credit Cards (KCC) under the modified interest subvention scheme has been enhanced to Rs. 5 lakh from Rs. 3 lakh.
- A National Mission for Edible Oilseeds has been launched to achieve self-reliance in edible oil production. Additionally, a six-year Mission for Aatmanirbharta in Pulses has been introduced, with a special focus on tur, urad and masoor.
- A National Institute of Food Technology will be established in Bihar.
- Plans have been announced for sustainable harnessing of fisheries from the Indian Exclusive Economic Zone and high seas, with a special focus on the Andaman & Nicobar and Lakshadweep Islands.

VIEW

- Food processing activities are expected to increase with an anticipated boost to raw material availability and quality of agricultural products, including edible oil and pulses.
- The Government will ensure the assured offtake of pulses from farmers through its agencies, offer remunerative prices, improve seed quality and provide financial aid to incentivise agricultural production.
- Value addition in food products is expected to rise, supported by Government initiatives to strengthen infrastructure, enhance farmer training and promote upskilling. Higher productivity and value addition will contribute to increased farmer income.
- Employment and entrepreneurship opportunities in the food processing sector are expected to grow, particularly in the eastern parts of the country.
- New business opportunities are likely to emerge in the marine products/seafood sector.

HOSPITALITY

ICRA

PROPOSALS

- Modified UDAN scheme to be launched to enhance regional connectivity to 120 new destinations, and helipads and smaller airports will be provided support.
- The top 50 tourist destinations in India will be developed in partnership with states through a challenge mode. Land will be given by states, and hotels will be included in an infrastructure harmonised master list.
- Performance-linked incentives (PLI) to states will be given for effective destination management, including tourist amenities, cleanliness, and marketing efforts.
- Continued focus will be on spiritual tourism with special focus on Buddhist destinations. Medical tourism and Heal in India will be promoted in partnership with the private sector, along with capacity building and easier visa norms.
- A national framework will be formulated as guidance to states for promoting Global Capability Centres (GCC) in emerging tier-2 cities.
- Streamlined e-visa facilities and visa fee waivers have been planned for certain tourist groups.
- Skill development for youth will be undertaken, including the Institutes of Hospitality Management.

VIEW

- The proposals to enhance regional connectivity and GCCs in tier-2 cities would aid in demand uptick for hotels in tier-II cities.
- Development of specific tourist destinations and PLIs to states for tourism promotion would result in higher demand for hotels in these destinations.
- Providing infrastructure status for hotels in specific destinations would help promote construction of greenfield projects with long-tenure loans, at lower interest rates.
- Free trade arrivals (FTAs) are yet to reach the pre-Covid levels. In this context, promotion of medical tourism, streamlining e-visas and waiver of visa fee for certain groups would promote FTAs.
- Higher disposable income could result in improved travel spend. This is a positive for hotels.
- Given the cyclicality of the hotel industry and the turmoil during Covid, there has been migration of talent to other industries. Being a service industry, skill development for the sector is critical, which has been addressed in the Union Budget.

INFRASTRUCTURE/CONSTRUCTION

PROPOSALS

- The capital outlay for FY2026 BE at Rs. 11.2 trillion is 10.1% higher than the FY2025 RE. The allocation towards roads and railways has been sustained at the healthy FY2025 RE levels.
- Special assistance as long-term interest-free loan to states has been continued, with a 20% YoY increase to Rs. 1.5 trillion for FY2026 BE.
- An Urban Challenge Fund of Rs. 1 trillion to finance up to 25% of the cost of bankable projects is proposed. The projects financed by this fund will have a stipulation that at least 50% of the cost is funded from bonds, bank loans, and public-private partnerships (PPPs). An allocation of Rs. 100 billion is proposed for FY2025-FY2026.
- The Jal Jeevan Mission (JJM) has been extended until 2028 with an enhanced total outlay of Rs. 670 billion, along with a 31% YoY increase in the allocation under the Pradhan Mantri Gram Sadak Yojna (PMGSY) to Rs. 190 billion and a 27% YoY increase (to Rs. 312 billion) for metro projects.
- Focus is on increasing private participation. Central Government infrastructure ministries will propose 3-year project pipelines under the PPP mode. The states are also encouraged to do so, with the option of seeking support from the India Infrastructure Project Development Fund (IIPDF) scheme to prepare PPP proposals.
- The National Monetisation Plan (NMP) 2.0 will be launched to plough back capital of Rs. 10 trillion in new projects.
- NaBFID will set up a partial credit enhancement facility for corporate bonds for infrastructure.

VIEW

- The sustained growth in capital allocations continues to bode well for the infrastructure and construction sectors. With ~47% of the total allocation, the roads and railways sectors remain cornerstones of the GoI's infrastructure thrust. However, the lack of increase over the FY2025 RE levels deviates from the trend seen in the last few years. Under the Ministry of Finance, the allocation of Rs. 417 billion towards the new schemes accounts for ~4% of the overall Rs. 11.2-trillion of capital expenditure, and the same will be allocated during the fiscal.
- The increase in the allocation towards major schemes like JJM (+195% YoY), PMGSY, and metro projects is a positive. The continuation, along with the increase, in the Central Government's interest-free loan to state governments for capex, will support state-sponsored infrastructure projects.
- The Government's focus on sustainably funding the infrastructure pipeline, while maintaining fiscal prudence, is reflected in its multi-pronged approach – recycling capital from operational assets (NMP 2.0) and encouraging private sector participation through the PPP mode.
- The partial credit enhancement for bonds for infra funding should enhance the financial viability of weaker standalone projects and improve access to the capital (bond) market.

PROPOSALS

- The Union Budget targets capex expenditure growth at 10.1% in FY2026 BE vs FY2025 RE.
- Interest-free loan of Rs. 1.5 lakh crore has been extended to states for funding capital expenditure projects.
- Allocation to the PMAY has been increased by 64%, while the allocation to the JJM has been raised by 195% in FY2026 BE vs FY2025 RE.
- The Budget has proposed the institution of a State Mining Index and a policy on the extraction of critical minerals from tailings as part of its mining reforms.
- Customs duty has been exempted on cobalt powder and waste, scrap of lithium-ion battery, lead, zinc and 12 more critical minerals.

VIEW

- The Budget built in capital expenditure growth of 7.3% in FY2025 RE and 10.1% FY2026 BE, markedly lower than the compounded annual growth rate of 29.7% witnessed between FY2021 and FY2024. This is expected to have a moderating impact on domestic steel demand growth.
- Key steel end users, like the railways and roads, which account for 50-55% of the Centre's capex budget, witnessed nil growth in capex allocations. However, some isolated green shoots were still visible for the PMAY and JJM schemes, which is expected to support demand for long steel and pipe manufacturers. Moreover, the continuation of the Central Government's support to states for funding capex programmes remains positive for the steel sector.
- The Budget had a sharper focus on boosting the mining sector, which is a large employment generator. The proposal of a State Mining Index can help enhance the ease of doing business.
- The development of a critical mineral processing ecosystem through a supportive policy framework and the removal of import duty barriers may help improve the domestic availability of critical minerals and support a green economy.

OIL AND GAS

PROPOSALS

- The Budget has allocated Rs. 15 billion towards direct benefit transfer (DBT) on domestic sales of liquified petroleum gas (LPG).
- An allocation of Rs. 91.0 billion has been made for LPG connection to poor households.
- Around Rs. 7.0 billion has been allocated for Indradhanush Gas Grid Limited (IGGL), part of the North-East natural gas pipeline grid.
- An amount of Rs. 60.1 billion has been allocated for building strategic crude oil reserves.
- The Government has allocated Rs. 2.5 billion for the development of pipeline infrastructure for injection of compressed biogas (CBG) in city gas distribution (CGD) network.
- A cumulative allocation of Rs. 6.9 billion has been announced towards Mission Anveshan and appraisal of areas in India's Extended Continental Shelf (ECS).

VIEW

- The budgetary allocation for DBT is inadequate at Rs. 15 billion for FY2026 BE and Rs. 5.0 billion for FY2025 RE compared to the under-recoveries of Rs. 380-400 billion each for these two years on LPG (domestic) by the oil marketing companies. The budgetary allocation of Rs. 91.0 billion towards LPG connection for poor households might fall short against the actual outflow.
- The allocation towards IGGL is expected to improve the viability of this project.
- The allocation to ISPRL is aimed at building crude oil reserves, which would provide comfort for domestic oil consumption in case of any emergency.
- The allocation for the development of infrastructure for the injection of CBG in the CGD network would aid the offtake of CBG gas as these projects are often in remote/rural locations and lack pipeline connectivity.
- The allocation towards Mission Anveshan and ECS to build sub-surface geology data would support an effective planning and execution of exploration & production (E&P) activities.

PHARMACEUTICAL AND HEALTHCARE

ICRA

PROPOSALS

- Budgetary allocation towards healthcare has been increased by 11.0% to ~Rs. 999 billion for FY2026 BE from ~Rs. 900 billion for FY2025 RE.
- Customs duty on 36 additional life-saving drugs/medicines have been exempted, and there will be concessional customs duty on six medicines.
- Additional 37 medicines and 13 patient assistance programmes have been included in the list of duty-free imports by pharmaceutical companies.
- Day care cancer centres at all district hospitals will be set up within the next three years, and 200 such centres will be added in FY2026.
- The Government will add 10,000 medical seats and has a goal of adding 75,000 more seats over the next five years.
- Medical tourism and Heal in India will be promoted in partnership with the private sector along with capacity building and easier visa norms.
- The allocation towards the pharmaceutical PLI scheme has been increased to Rs. 24.4 billion in FY2026 BE from Rs. 21.5 billion in FY2025 RE.

VIEW

- Given the under-penetrated healthcare infrastructure in the country, the increase in budgetary allocation is a welcome move.
- Exemption/concession of customs duty on 42 life-saving drugs/medicines, and duty-free import of 37 more medicines will reduce healthcare costs.
- The setting up of day care cancer centres at all district hospitals will improve the accessibility to cancer care across the country.
- The increase in the number of medical seats will improve the availability of skilled medical personnel.
- Thrust on medical tourism and the Heal in India programme is expected to increase international patient footfalls.
- The higher allocation towards the pharma PLI scheme will support domestic production and help reduce the dependence on imports.
- A 23.7% increase in allocation towards the Ayushman Bharat Scheme reaffirms the Government's focus on national health protection.
- The expected increase in disposable income is likely to improve penetration of health insurance, supporting the demand for healthcare services.

POWER & RENEWABLES

PROPOSALS

- The Union Budget proposes to undertake reforms in the power sector to augment growth, while maintaining focus on clean energy.
- Allocation under the PM Surya Ghar Muft Bijli Yojana has been scaled up to Rs. 200 billion in FY2026 BE, higher by 80% over FY2025 RE.
- The Budget has set a 100-GW nuclear power capacity target by 2047, including through private sector participation, to meet the energy transition goals.
- A Nuclear Energy Mission will be set up for the research & development of small modular reactors (SMR) at an outlay of Rs. 200 billion to operationalise at least five indigenously developed SMRs by 2033.
- A National Manufacturing Mission has been announced to promote an ecosystem for manufacturing solar PV cells, wind turbines, grid scale batteries and electrolysers.
- States to continue to get an incentive of additional borrowing of 0.5% of GSDP to reform the power distribution segment. For FY2026 BE, Rs. 180 billion has been allocated for the Reform-Linked Distribution Scheme (RDSS) and for strengthening the power system, higher by 15% over FY2025 RE.

VIEW

- The policy focus remains on the clean energy sector, in line with the objective to reduce carbon footprint and achieve sustainable development.
- The increased allocation for solar power to promote rooftop solar projects is a positive for solar module manufacturers and EPC players.
- The Nuclear Energy Mission will support clean energy goals. Clarity on tariff framework and timely amendments to the Atomic Energy Act remain important for private sector participation.
- Focus on manufacturing solar PV cells, wind turbine generators, electrolysers and grid scale batteries will support a scale-up in domestic manufacturing capacities and reduce import dependence.
- The incentive to states for distribution sector reforms and the increased allocation to RDSS positives for the power sector. Implementation by the states remains key to achieve a sustainable turnaround in the finances of distribution utilities.
- The large capital expenditure allocation and expected consumption boost is likely to support electricity demand growth, which ICRA estimates at 6.0% for FY2026.

REAL ESTATE

ICRA

PROPOSALS

- Rebate for income up to Rs. 12 lakh has been increased along with a reduction in tax rates.
- The allocation towards PMAY-Urban has been increased by 54% to Rs. 233 billion for FY2026 BE from Rs. 152 billion for FY2025 RE.
- An allocation of Rs. 150 billion has been made towards the second tranche of the SWAMIH Fund.

VIEW

- The reduction in income tax will enhance the disposable income in the hands of consumers and is a positive for the affordable and mid-income housing segments. An extra monthly inflow of Rs. 7,000-8,000 will result in an additional Rs. 0.6-0.8 million loan eligibility for home buyers.
- The continued focus on PMAY-Urban is likely to support the demand for affordable housing in the urban real estate segment.
- The introduction of the second tranche of the SWAMIH Fund is likely to provide the much-needed liquidity support to the stressed residential projects and aid the completion of additional 40,000 incomplete housing units in the country, thus providing some relief to the buyers.

ROADS

ICRA

PROPOSALS

- The gross budgetary support for the Ministry of Road Transport & Highways remained similar at Rs. 2.72 trillion in FY2026 BE.
- The monetisation target stands at Rs. 300 billion.
- The allocation for the Pradhan Mantri Gram Sadak Yojana (PMGSY) increased by 31% to Rs. 190 billion in FY2026 BE compared to Rs. 145 billion in FY2025 RE, supporting the Government's aim to provide all-weather connectivity to rural habitations.

VIEW

- The Government has maintained healthy allocation levels for the road sector, which is expected to support the National Infrastructure Pipeline (NIP) works.
- The restriction on incremental borrowing programme for the NHAI is attributable to the elevated debt levels. The NHAI, in the recent past, has pre-paid some of its relatively high-cost borrowings, thereby resulting in lower interest outgo.
- The monetisation target of Rs. 300 billion for FY2026 remains similar to FY2025. The NHAI has monetised Rs. 83 billion in FY2025 through two toll-operate-transfer (TOT) bundles. It expects to achieve the target after completion of the fourth round of asset transfer to the NHAI InvIT and the pending three TOT bids.
- The allocation towards the PMGSY scheme increased by a healthy 31% to Rs. 190 billion in FY2026 BE and is likely to support the order book of small construction contractors while improving the last-mile connectivity.

SHIPPING

PROPOSALS

- A Maritime Development Fund (MDF) with a corpus of Rs. 250 billion will be set up with 49% contribution from the GoI and the remaining from ports and the private sector.
- The exemption of BCD on raw materials, components, consumables or parts for ship manufacturers will be extended for another 10 years.
- The tonnage tax scheme will be extended to inland vessels registered under the Indian Vessels Act, 2021. Further, the budgetary allocation for the Inland Water Transport Authority of India increased to Rs. 17.5 billion in FY2026 BE from Rs. 11.9 billion in FY2025 RE.
- The shipbuilding financial assistance policy will be revamped.
- Shipbuilding clusters will be facilitated to expand the range, categories and capacities of ships.

VIEW

- MDF will support the development of long-term financing for the shipbuilding industry and promote competition.
- The continued exemption of BCD on raw materials, components, consumables or parts will support domestic ship manufacturers.
- Extension of the tonnage tax scheme to inland vessels (currently available for sea-going ships) and the increased budgetary allocation to promote domestic inland water transport will strengthen the shipping industry.
- A focus on shipbuilding clusters and the revamp of the financial assistance policy will drive the development of the shipbuilding ecosystem and enhance India’s share in the global shipbuilding market.

TEXTILES

PROPOSALS

- A five-year Cotton Technology Mission Scheme has been proposed with a budgetary allocation of Rs. 5.0 billion.
- There has been a sharp increase in the budgetary allocation for the Ministry of Textiles to Rs. 52.7 billion in FY2026 BE, in comparison to Rs. 33.4 billion in FY2025 RE.
- The allocation towards the Amended Technology Upgradation Scheme (ATUFS) and the PLI scheme has been increased to Rs. 17.8 billion in FY2026 BE compared to Rs. 4.4 billion in FY2025 RE.
- The basic customs duty on knitted fabrics has been increased to 20% from 10-20%, and the import duty on rapier looms (below 650 metres per minute) and shuttle-less loom air jet looms (below 1000 metres per minute) has been reduced to nil.
- The Budget has introduced an Export Promotion Mission and extended higher credit support to MSMEs.

VIEW

- The new five-year Cotton Technology Mission Scheme, focused on improving cotton farming and promoting extra-long staple (ELS) varieties, is likely to aid an increase in the cotton acreage and output. Given the shrinking cotton area in recent periods, a focused approach towards cotton farming and enhancing the output of the ELS varieties (which are largely imported) is a positive for the industry.
- The increase in budgetary allocation for the Ministry of Textiles is a favourable for the industry. The sharp rise in allocation towards the ATUFS and PLI schemes is likely to increase capacity addition across the value chain, apart from an enhancement in technological spend.
- The imposition of duties on select knitted fabric and the exemption on certain imported shuttle-less looms is likely to support domestic production of technical textile products and aid incremental capacity additions.
- The Budget proposals are likely to address the inherent challenges in the industry, like availability of quality raw material, funding-related headwinds for technological needs etc. These proposals, along with the launch of the new Export Promotion Mission and the enhanced credit access to MSMEs, shall enhance the global competitiveness of Indian textile players.

Click to Provide Feedback

Business Development/Media Contact Details

Name	Designation	Email	Contact Number
L Shivakumar	Chief Business Officer	shivakumar@icraindia.com	022-61693304
Neha Agarwal	Head – Research Sales	neha.agarwal@icraindia.com	022-61693338
Rohit Gupta	Head Business Development – Infrastructure Sector	rohitg@icraindia.com	0124-4545340
Vivek Bhalla	Head Business Development – Financial Sector	vivek.bhalla@icraindia.com	022-61693372
Vinita Baid	Head Business Development – Corporate Sector - West & East	vinita.baid@icraindia.com	033-71501131
Shivam Bhatia	Head Business Development – Corporate Sector - North & South	shivam.bhatia@icraindia.com	0124-4545803
Naznin Prodhani	Head – Group Corporate Communications & Media Relations	communications@icraindia.com	0124-4545860

ICRA

ICRA

THANK YOU