Union Budget FY26: Impact

EQUITY RESEARCH TEAM I equityresearch@idbicapital.com

India – The Budget Blueprint

On a path to fiscal consolidation

With a focus on fiscal consolidation, the government has set a fiscal deficit target at 4.4% for FY26, compared to 4.8% in FY25, which was revised downward from the original target of 4.9%. This downward trend in the fiscal deficit is a positive indication of the government's commitment to fiscal consolidation. It suggests that central governments borrowings in FY26 will remain relatively stable, which could push bond yields lower. This creates favorable conditions for the private sector to borrow more at a reduced cost of capital, particularly at a time when private sector capex has been sluggish for various reasons. By strengthening fiscal stability, the government may also aim to improve its sovereign credit rating, potentially in FY26.

Removing regulatory cholesterol

The government plans to set up a high-level committee to drive regulatory reforms across all non-financial sectors. By reducing regulations and eliminating redundant compliance requirements, the government aims to stimulate private investment. The private sector, particularly SMEs and MSMEs, continues to face significant regulatory burdens. This is welcome initiate from the government as deregulation will help lower transaction costs, enhance competitiveness, and improve the productivity of the private sector.

Capex falls short of expectations

The government has revised its capital expenditure target for FY25 down by 8% YoY. The revised target FY25 is Rs.10.18 lakh cr compared to original budgeted Rs.11.11 lakh cr. On the other hand, capex outlay for FY26 has been raised to Rs.11.2 lakh cr, which is higher than the previous year but still below industry expectations. It's important to note that the central government's capex spending has been a key driver of overall investment growth in recent years, despite weak private sector investments. While the FY26 capex figure may seem disappointing compared to FY25, it is still substantial, provided the government fully utilizes the allocated funds. In the first eight months of FY25, the government was unable to spend even half of the Rs. 11.11 lakh crore target. Nevertheless, the focus on sectors like construction, infrastructure, railways, and defense will continue in FY26, benefiting companies operating in these areas.

Pravin Bokade
pravin.bokade@idbicapital.com
+91-22-4069 1812

Consumption stimulus

Measures such as the increased personal income tax limit and the raising limit of TDS on house rent are expected to put an additional Rs. 1 lakh crore into the hands of consumers. These initiatives will provide significant relief to the middle class, especially when wage growth is lagging behind inflation. The tax changes are anticipated to boost disposable income for the middle class, potentially driving an uptick in consumption, which has been sluggish over the past two quarters. This is positive for FMCG companies.

Renewed focus on manufacturing

The government is set to launch a National Manufacturing Mission aimed at offering policy support, execution roadmaps, and a governance framework to states and other agencies. This renewed focus on manufacturing, particularly on labour intensive sectors, along with efforts to reduce compliance costs for private sector, is expected to drive long-term, sustainable employment generation.

Personal Tax

Empowering Taxpayers with Key Tax Changes

Summary

House Property Income:

- Tax payers to be allowed to claim the annual value of 2 self-occupied properties (previously 1) without any conditions (previously conditions attached).

New Tax Regime:

- Under the new tax regime, a tax rebate is provided along with reduced slab rates, ensuring that no income tax on normal income up to Rs 12 lakh is payable.
- For salaried taxpayers, the limit increases to Rs 12.75 lakh due to the standard deduction of Rs 75,000.

TDS:

- Limit for TDS on interest for senior citizens is doubled from Rs 50,000 to Rs 1 lakh.
- Annual limit for TDS on rent is increased from Rs 2.40 lakh to Rs 6 lakh.
- Threshold for TCS on remittances under the RBI's Liberalized Remittance Scheme is increased from Rs7 lakh to Rs 10 lakh.
- TCS on remittances for education purposes will be removed, provided the remittance is from a loan taken from a specified financial institution.
- TCS on transactions related to the sale of goods is proposed to be omitted to simplify compliance, as both TDS and TCS are currently applied.
- Provisions for higher TDS deductions will now apply only in cases where a PAN is not provided.
- Delay in TCS payment, up to the due date for filing the statement, is decriminalized.
- Time-limit to file updated returns is increased from 2 years to 4 years.

Revised tax structure under New tax regime

Tax rate	Tax structure for FY25	Tax structure for FY26
Nil	0 - 3 lakh	0 - 4 lakh
5%	3 - 7 lakh	4 - 8 lakh
10%	7 - 10 lakh	8 - 12 lakh
15%	10 - 12 lakh	12 - 16 lakh
20%	12 - 15 lakh	16 - 20 lakh
25%	-	20 - 24 lakh
30%	Above 15 lakh	Above 24 lakh

Source: IDBI Capital Research

Impact and our view:

- A taxpayer with Rs 12 lakh income will save Rs 80,000 in tax (100% of the tax payable under existing rates).
- A person with Rs 18 lakh income will save Rs 70,000 in tax (30% of the tax payable under existing rates).
- A person with Rs 25 lakh income will save Rs 1,10,000 in tax reduction (25% of the tax payable under existing rates).

Ajit Sahu
ajit.sahu@idbicapital.com
+91-22-4069 1849

BFSI

Boosts MSME portfolio; FDI hike positive for insurance sector

Budget Impact: Positive

Summary

Measure announced:

- Customised credit cards with a Rs.5 lakh limit for micro enterprises registered on Udyam Portal. In the first year, 10 lakhs such cards will be issued.
- For 5 lakh first time entrepreneurs, including women, scheduled castes and scheduled tribes, a new scheme will be launched to provide term loans up to Rs.20mn during next 5 years.
- Credit guarantee revised for MSEs from Rs.50mn to Rs.100mn, and from Rs.100mn to Rs.200mn for startups.
- Loan limit under Modified Interest Subvention scheme will be enhanced from Rs.3lakh to Rs.5lakhs for loans taken through the KCC.
- NaBFID will set up a 'Partial Credit Enhancement Facility' for corporate bonds.
- The services of India Post Payment Bank will be expanded in rural areas.
- PSU banks will develop 'Grameen Credit Score' framework for SHG members and people in rural areas.
- The FDI limit for the insurance sector will be raised from 74 to 100%. This enhanced limit will be available for those companies which invest the entire premium in India.

Impact and our view:

- The announcements on credit cards for micro enterprises remains positive for banks and key credit card players.
- Term loans to 5 lakh entrepreneurs, as well as revision in credit guarantee for MSMEs is positive for banking industry.
- Hike in FDI limit in the insurance sector will ensure deeper penetration and increased M&A activity in the sector.

Key stock impacted:

- Large banks and MSME-focused mid cap banks like City Union Bank, credit card players like SBI Cards, and insurance companies.

BFSI - Rating and Target Price

	Rating	Mkt Cap (In Bn)	CMP (Rs)	TP (Rs)	*Upside (%)*	P/ABV (x) FY25E	P/ABV (x) FY26E
Banks							
HDFC Bank	**BUY**	12,996	1,699	1,970	*16*	2.5	2.3
Axis Bank	**BUY**	3,054	986	1,300	*32*	1.8	1.5
City Union Bank	**BUY**	129	174	215	*24*	1.4	1.3
DCB Bank	**BUY**	37	119	170	*43*	0.7	0.6
Federal Bank	**BUY**	460	188	240	*28*	1.4	1.3
ICICI Bank	**BUY**	8,844	1,253	1,490	*19*	3.3	2.9
IndusInd Bank	**BUY**	773	992	1,400	*41*	1.2	1.1
Gold Finance NBFCs							
Manappuram Fin.	**HOLD**	166	196	176	*-10*	1.3	1.1
Muthoot Finance	**HOLD**	906	2,257	2,015	*-11*	3.3	2.7
Vehicle Finance NBFCs							
Cholamandalam Inv	**BUY**	1,081	1,285	1,590	*24*	5.1	3.9
Shriram Finance	**BUY**	1,023	544	730	*34*	2.0	1.7
Mahindra Finance	**BUY**	352	285	325	*14*	1.9	1.7
Sundaram Finance	**HOLD**	515	4,635	5,162	*11*	4.7	4.1
Housing Finance NBFCs							
Repco Home Finance	**BUY**	25	392	595	*52*	0.8	0.7
Aavas financiers	**BUY**	135	1,711	2,200	*29*	3.2	2.7

Source: Company; IDBI Capital Research;

Bunty Chawla
bunty.chawla@idbicapital.com
+91-22-4069 1843

Shreejit Nair
Shreejit.nair@idbicapital.com
+91-22-4069 1819

Building Material Products

Water supply scheme to push demand

Budget Impact: Positive

Summary

Measure announced:

- Jal Jeevan Mission which has provided 15 crore households representing 80% of India's rural population access to potable tap water connections has been extended until 2028. The scheme is intended to increase the quality of infrastructure, operation & maintenance of rural piped water supply schemes through "Jan Bhagidhari".
- Under the Jal Jeevan Mission the government plans to make a capital expenditure of Rs.67000 Crore in FY2025-26.
- Under the Special Window for Affordable and Mid-Income Housing (SWAMIH) another 40,000 units will be completed in 2025, further helping middle-class families who were paying EMIs on loans taken for apartments, while also paying rent for their current dwellings.

Impact and our view:

- The extension of Jal Jeevan Mission and SWAMIH are positive news for the building material products sector. Extension of water delivery systems would help drive the demand for PVC pipes and fittings.

Key stock impacted:

- Astral Pipes, Finolex Industries, Supreme Industries, Kajaria Ceramics, Cera Sanitaryware, Somany Ceramics and Prince Pipes, Surya Roshni

Valuation snapshot

Companies	Mkt Cap (Rs bn)	CMP (Rs)	TP (Rs)	*Upside (%)*	Reco	PER (x)	
						FY25E	FY26E
Kajaria Ceramics	158	991	1,459	*47.2*	**HOLD**	32.7	27.2
Finolex Industries	127	205	301	*46.6*	**HOLD**	27.9	19.1
Astral Polytechnik	405	1,507	1,948	*29.3*	**BUY**	76.8	57.6
Prince Pipes	41	371	529	*42.8*	**HOLD**	21.7	16.8
Cera Sanitaryware	86	6,682	8,395	*25.6*	**BUY**	36.5	29.5
Supreme Industries	504	3,971	4,820	*21.4*	**BUY**	48.9	40.0
Somany Ceramics	21	510	718	*40.9*	**HOLD**	15.5	12.8
Surya Roshni	57	263	302	*15*	**HOLD**	17	12

Source: IDBI Capital Research

Archana Gude
Archana.gude@idbicapital.com
+91-22-4069 1938

Capital Goods

Specific measures to benefit key players

Budget Impact: Neutral

Summary

Measures announced:

- National Manufacturing Mission covering small, medium and large industries for furthering "Make in India" by providing policy support, execution roadmaps, governance and monitoring framework for central ministries and states.
- The Mission will also support Clean Tech manufacturing which will aim to improve domestic value addition and build the ecosystem for solar PV cells, EV batteries, motors and controllers, electrolyzes, wind turbines, very high voltage transmission equipment and grid scale batteries.
- Reduction of customs duty to nil with respect to the addition of 35 capital goods/machinery for use in the manufacture of lithium-ion battery of EVs and 28 capital goods/machinery for use in the manufacture of lithium-ion battery of mobile phones.

Impact and our view:

- The government has already undertaken sustained measures to rev up the capex cycle in the previous budgets and these measures have immensely benefitted prominent capital goods players. The capital expenditure in the budget has been raised from Rs10.2trn to Rs11.2trn in FY26. Sustained investment in infrastructure outlay augurs well for growth prospects of prominent capital goods players.

Key stocks impacted:

- Waaree Energies, Acme Solar, Suzlon, Inox Wind, Hitachi Energy, Neogen Chemicals, Gujarat Fluorochemicals, Ami Organics, Exide Industries, Amara Raja Energy & Mobility

Valuation and Rating

Companies	Rating	Mkt Cap (Rs bn)	CMP (Rs)	TP (Rs)	*Upside (%)*	P/E (x)	
						FY25E	FY26E
Ador Welding	**BUY**	17	993	1,250	*26%*	16.8	12.5
Harsha Engineers	**HOLD**	38	421	551	*31%*	28.2	25.2
Cummins India	**BUY**	809	2,802	4,401	*57%*	39.5	33.0
Kirloskar Oil Engines	**BUY**	131	880	1,491	*69%*	23.3	18.4
Rolex Rings	**HOLD**	49	1,789	2,268	*27%*	23.3	19.7
Voltamp Transf.	**BUY**	85	7,955	16,681	*110%*	24.5	23.0
Ador Welding	**BUY**	17	993	1,250	*26%*	16.8	12.5

Source: IDBI Capital, Company

Jason Soans
jason.soans@idbicapital.com
+91-22-4069 1992

IDBI capital

Cement & Construction

Capex intact

Budget Impact: Neutral

Summary

Measure announced:

- In FY26 BE Overall capex outlay is up 10% to Rs11.2tn vs FY25RE i.e. 3.5% of GDP and is 2.5 times of outlay made in FY21.
- MORTH capex (road sector) is up 2% respectively. PMAY (rural and urban) is allocated Rs800bn versus FY25RE it is up 12%. In addition to this government has planned to develop new greenfield projects in state of Bihar.
- Finance minister has also announced extension of Jal Jeevan Mission which will include quality infrastructure, O&M of pipelines.

Impact and our view:

- Higher outlay is positive for road construction, construction and Cement companies. We expect improved execution by road construction companies in FY26E. As the companies are sitting on strong order book, we now expect execution to be strong too. Cement sector is expected to see strong volume growth in FY26E.

Key stock impacted:

- Key positive impact is on Road sector companies. Key Retain preference for Ashoka Buildcon, HG Infra and given capex outlay is up strongly , this bodes well for Ahluwalia NCC
- In cement this is positive for all the companies, our preference is Ultratech.

Valuation snapshot

		Mkt Cap	CMP	TP	*Upside*	PER	
Companies	Reco	Rs bn	(Rs)	(Rs)	*(%)*	FY25E	FY26E
Ashoka Buildcon	**HOLD**	66	234	222	*-6*	14	10
Dilip Buildcon	**HOLD**	76	523	525	*0*	20	15
KNR	**HOLD**	102	363	303	*-17*	21	19
PNC Infratech	**HOLD**	130	508	597	*17*	19	15
PSP Projects	**HOLD**	27	678	714	*5*	19	15
H G Infra	**BUY**	113	1739	1358	*-22*	22	19
Ahluwalia	**HOLD**	92	1,376	1,412	*3*	30	24
Ultratech C.*	**BUY**	3253	11270	13	*18*	22	18
Shree C.*	**HOLD**	1008	27045	25446	*-6*	17	14
Ambuja C*	**SELL**	1286	502	586	*-15*	41	31
ACC*	**BUY**	375	2001	2,324	*18*	11	9

*Source: IDBI Capital Research; Note:*EV/EBITDA for cement companies*

Shubham Shelar
Shubham.shelar@idbicapital.com
+91-22-4069 1859

Exhibit : Capex Outlay

	FY25		FY26	*Change %*	
	BE	**RE**	**BE**	***FY24 RE vs FY24 BE***	***FY26 BE vs FY25 RE***
MORTH	2.7	2.7	2.8	*0%*	*2%*
- NHAI (incl IEBR)	1.6	1.7	1.7	*12%*	*1%*
- Others in MORTH	0.8	1.1	1.1	*14%*	*0%*

Source: Budget Document

Footwear

A push to the sector growth

Budget Impact: Positive

Summary

Measure announced:

- Focus product Scheme was the highlight for the footwear industry which will be implemented to support design capacity and component manufacturing for the machine required for manufacturing of non- leather footwear.
- The scheme will further facilitate the employment of 22 lakh people in the footwear and leather sector.
- These investments are expected to generate a turnover of more than Rs4lakh Crore. and exports of over Rs1.1lakh Crore.

Impact and our view:

- We believe this is a positive development for the sector and these strategic decisions and investments bodes well for overall growth of the sector.

Key stock impacted:

- Relaxo Footwears, Bata India Ltd, Mirza International etc

Valuation snapshot

Companies	Mkt Cap (Rs bn)	CMP (Rs)	TP (Rs)	*Upside (%)*	Reco	PER (x)	
						FY25E	FY26E
Bata India	166	1,294	1,610	24.4	HOLD	46.9	40.2
Relaxo Footwears	137	550	797	45.0	HOLD	60.6	44.8

Source: IDBI Capital Research

Archana Gude
archana.gude@idbicapital.com
+91-22-4069 1938

Hospitality

Tourism booster

Budget Impact: Positive

Summary

Measure announced:

- Development of the top 50 tourist's destinations in partnership with state government along with improved connectivity to tourist destinations was announced to elevate the experience of foreign and domestic travelers. Hotels will also be included in the infrastructure list.
- The government has also assured the streamlining of the e-Visa facility with visa fee waiver for certain tourist groups.
- Medical Tourism and Heal in India will be promoted in partnership with the private sector along with capacity building and easier visa norms. Destinations related to the life of lord Buddha will be promoted to increase Religious tourism in the country.
- A modified UDAN scheme was announced to enhance regional connectivity to 120 new destinations and carry 4 crore passengers in the coming decade. The scheme is expected to improve flight connectivity in hilly, aspirational, and North East region districts.

Impact and our view:

- We believe this is a positive development for hospitality industry as increased connectivity will reduce travel time and effective destination management will be able to cater to more number of travelers. This news bodes well for overall growth of the sector.

Key stock impacted:

IHCL Hotels, Chalet Hotels Ltd, Lemon tree Hotels Ltd, EIH etc.

Valuation snapshot

Companies	Mkt Cap (Rs bn)	CMP (Rs)	TP (Rs)	*Upside (%)*	Reco	PER (x)	
						FY25E	FY26E
Chalet hotels	169	772	984	*27.5*	**BUY**	22.1	17.8
Indian Hotels	1,088	765	889	*16.3*	**HOLD**	38.5	32.1
Lemon Tree Hotels	108	136	143	*5.1*	**BUY**	20.2	16.1
Park Hotels	39	178	245	*37.6*	**BUY**	18.4	15.7

Source: IDBI Capital Research

Archana Gude
archana.gude@idbicapital.com
+91-22-4069 1938

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Metals & Mining

Higher capital spending to boost steel demand

Budget Impact: Positive

Summary

Measure announced:

- Capital expenditure announced for FY26 is Rs11.2 trillion.
- In addition to previously announced 25 critical minerals, Cobalt powder and waste, lithium-ion battery, lead, zinc and 12 more critical minerals have now been exempted from Basic Custom Duty.

Impact and our view:

- Increase in the capital expenditure by 10% towards infrastructure spending is positive for metal companies as it will drive higher demand for steel used for construction.

Key stock impacted:

- SAIL, Jindal Steel, Tata Steel and JSW Steel.

Valuation snapshot

Companies	Reco	Mkt Cap Rs bn	CMP (Rs)	TP (Rs)	*Upside (%)*	EV/EBITDA FY25E	EV/EBITDA FY26E
Tata Steel	**HOLD**	1,681	135	136	*1.0*	9.6	6.6
JSW Steel	**HOLD**	2,310	944	899	*-4.8*	12.7	9.9
JSPL	**HOLD**	808	792	922	*16.4*	10.0	7.6
SAIL	**HOLD**	444	107	113	*5.2*	7.6	6.0

Source: IDBI Capital Research

Ajit Sahu
ajit.sahu@idbicapital.com
+91-22-4069 1849

Mohd Sheikh Sahil
sahil.sheikh@idbicapital.com
+91-22-4069 1854

Railway

Capex Unchanged

Budget Impact: Negative

Summary

Measure announced:

- For FY26E, railway physical target (in km) for new lines is flat compared to FY25RE, doubling of lines is down 10% and physical target for wagons is up by 38%.
- Total Railway capital expenditure is flat(vs FY25RE) to Rs2.6tn. Baring Coaches & Wagons, all other railway component has seen flat or negative growth in capex outlay.
- In terms of Public Enterprises, every enterprise is flat compared to FY25RE.

Impact and our view:

- No change in capital expenditure is negative for the Railway sector. Despite High demand for railways, capex spends was much need in urban areas, also slowdown on capex spending from government indicates delay in improvement in railways.
- Increase in capital expenditure for coaches & wagons is defineatly positive for companies like Titagarh Rail systems, Jupiter Wagons.

Key stock impacted:

- Railway capex is negative for, RITES, IRCON, RVNL.

Valuation snapshot

Companies	Reco	Mkt Cap Rs bn	CMP (Rs)	TP (Rs)	*Upside (%)*	PER FY26E	PER FY27E
RITES	**HOLD**	121	255	283	*12*	19	16
RVNL	**HOLD**	911	437	463	*5*	57	50
IRCON	**HOLD**	191	204	202	*0*	18	15

Source: IDBI Capital Research

Shubham Shelar
Shubham.shelar@idbicapital.com
+91-22-4069 1859

Exhibit: Railway Physical Target

	FY23		FY24		FY25		FY26	Change (%)
	Target	Achievement	Target	Achievement	BE	RE	BE	FY25 BE vs FY24 RE
1 Construction of New Lines (Route Kms)	200	1,815	600	2,806	700	700	700	*0%*
2 Gauge conversion (Route Kms)	100	242	150	259	200	200	200	*0%*
3 Doubling of Lines (Route Kms)	2,200	3,186	2,800	2,244	2,900	2,900	2,600	*-10%*
4 Rolling Stock								
a (i) Diesel Locomotives	100	103	100	105	100	100	100	*0%*
a (ii) Electric Locomotives	1,290	1,086	1,280	1,367	1,280	1,600	1,600	*0%*
b Coaches	7,520	5,877	6,630	6,560	8,405	7,910	9,423	*19%*
c Wagons (vehicle units)	21,000	17,935	23,000	20,186	30,000	30,000	38,000	*27%*
5 Track renewals (Route Kms)	4,200	5,227	4,800	5,950	5,000	5,000	5,000	*0%*
6 Electrification Projects (Route Kms)	6,500	6,565	6,500	7,188	na	na	na	*na*

Source: Budget Document

Exhibit: Railway Capex Outlay by work profile (Budget + IEBR)

Rs bn	FY23 Actual	FY24 Actual	FY25 BE	FY25 RE	FY26 BE	Change (%) FY24 BE vs FY23 RE
New Lines (Construction)	243	337	346	315	322	*2%*
Gauge Conversion	26	45	47	45	46	*0%*
Doubling	300	368	293	310	320	*3%*
Rolling Stock	443	540	523	589	589	*0%*
Leased Assets	175	207	243	249	279	*12%*
Road Safety Works	49	67	100	82	77	*-6%*
Track Renewals	163	179	176	227	228	*0%*
Electrification Projects	67	58	65	60	62	*2%*
Investment in Govt. Commercial Undertaking-JV SPV	275	319	327	275	224	*-18%*
EBR - Parnetrship	110	166	100	100	100	*0%*
Other	163	299	386	340	337	*-1%*
Total	**2,039**	**2,622**	**2,652**	**2,652**	**2,652**	***0%***

Source: Budget Document

PRAVIN MARUTI BOKADE

Digitally signed by PRAVIN MARUTI BOKADE
DN: c=IN, postalCode=400053, st=MAHARASHTRA, street=MUMBAI, l=MUMBAI, o=Personal, serialNumber=38fdbcaa59cc94a63f65b73d43ab782f4ebfa8d4dbef7b0b396c876fa1908be2, pseudonym=e7b8aec3e60dcc39b971d0f77a423ade, 2.5.4.20=69eddc37b22f2880b12d32c0cd462dfe48b6b3501a585c1f41b73c7de0e9e5b3, email=PRAVIN.BOKADE@IDBICAPITAL.COM, cn=PRAVIN MARUTI BOKADE
Date: 2025.02.01 19:34:15 +05'30'

Dealing	(91-22) 6836 1111	dealing@idbicapital.com

Key to Ratings Stocks:

BUY: 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.

IDBI Capital Markets & Securities Ltd.
Equity Research Desk
6th Floor, IDBI Tower, WTC Complex, Cuffe Parade, Colaba, Mumbai – 400 005. Phones: (91-22) 4069 1700; Fax: (91-22) 2215 1787; Email: info@idbicapital.com
SEBI Registration: BSE & NSE (Cash & FO) – INZ000007237, NSDL – IN-DP-NSDL-12-96, Research – INH000002459, CIN – U65990MH1993GOI075578
Compliance Officer: Pushkar Vartak; Email: compliance@idbicapital.com; Telephone: (91-22) 4069 1907

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