

SIGHTS FOR

UNION BUDGET 2025-26: KEY HIGHLIGHTS AND SECTORAL IMPACTS

The Union Budget 2025-26 presents a comprehensive framework to foster economic growth, technological advancement, and sustainable development across various sectors. This budget introduces several key proposals and allocations to address critical areas such as agriculture, auto and auto components, capital goods, cement, financial services, healthcare, tourism, infrastructure, real estate, power, and more.



Retail Asset Securitisation:
Record Volume of Rs 73,000
crore in Q3FY25



NBFCs - Navigating Growth and
Risks Across Asset Classes in an
Evolving Landscape



NOTE FROM

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Driving Consumption while Maintaining Fiscal Discipline

As we delve into the current budget, it's evident that the government has not only met but exceeded the primary expectation of boosting consumption demand within the economy. Despite initial concerns, the finance minister has successfully balanced both objectives, demonstrating the government's adept budget management.

A bonanza of nearly Rs 1 lakh crore is given to the taxpayers, which is expected to boost the demand for consumption. This significant tax relief will likely increase disposable income, stimulating consumer spending. At the same time, the government has further tightened its fiscal deficit target for FY26 to 4.4% vis a vis the earlier target of 4.5%.

In addition, I see this budget focusing on three key areas – Ease of Doing Business, focus on labour-intensive sectors and continued focus on infrastructure investment.

With both domestic and global investments in India slowing down, the government has announced several measures. Steps like the centralised KYC registry, decriminalisation of offences, reducing compliances, and the upcoming income tax bill indicate the seriousness with which the government attempts to ease the red tape involved in doing business in India. For instance, the centralised KYC registry is expected to streamline the

onboarding process for new customers. At the same time, decriminalising offences aims to reduce the legal risks associated with business operations. However, we will still wait to see whether these measures increase domestic and foreign investments.

The budget's focus on the MSME, agriculture, and tourism sectors, which have the potential to create significant employment opportunities, is a beacon of hope. The increased allocation of guaranteed credit and enhancement in the qualifying limit for MSMEs, particularly in the low-value-added sectors of footwear and toys, promises to provide substantial employment opportunities to low-skilled or semi-skilled workers, instilling a sense of optimism.

The budgeted capex amount is almost stagnant at Rs 11.2 lakh crore compared to Rs 11.11 lakh crore for FY25. It does, however, see a modest growth of 10% compared to muted estimated expenditure for FY 25. There has also been a shift towards infrastructure expenditure in urban development (Rs 1 lakh crore), nuclear energy, and power distribution. In addition, there is a proposal to have greater involvement of state governments in infrastructure development, with interest-free loans amounting to Rs 1.5 lakh crores.

The government's plan to monetise infrastructure assets worth Rs 10 lakh crore over the next 5 years and reinvest them into fresh infrastructure projects is a testament to its commitment to maintaining fiscal prudence. This strategy, if successful, will ensure the sustainability of the budget's infrastructure investments, instilling confidence in its long-term viability.

In conclusion, the government has successfully managed to tread the path of fiscal discipline while giving a meaningful boost to consumer demand through the tax cuts. The question remains whether there is enough fillip for the private sector investments to pick up. While the budget proposals regarding 'ease of doing business' show the government's intent, we must wait for any real action.

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NOTE FROM

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Union Budget Ticks the Right Boxes

The Union Budget has been announced in a difficult macro-economic backdrop, with GDP growth moderating, volatile financial markets and uncertain global scenario. In that regard, the Budget has managed to tick the right boxes in terms of boosting consumption and continuing with capex focus, even while remaining on the fiscal consolidation path. Moreover, there is a focus on easing regulations and facilitating ease of doing business that should help the country move towards a higher growth trajectory in the medium term.

India is a consumption driven economy with more than 55% of GDP contributed by private final consumption expenditure. Consumer sentiments and spending have been weak in the economy and that has been constraining the growth momentum. The Budget's proposal of reducing income tax burden, will provide a big relief to households and should spur consumer spending. Pick-up in domestic consumption becomes critical at a time when global demand remains muted. Healthy momentum in consumption expenditure will also help revive private investment.

Importantly, the consumption spur has been clubbed with continued capex focus. The Centre's capex for FY26 has been budgeted at Rs 11.2 lakh crore, implying a growth of 10% compared to revised estimate of FY25. The capex to GDP ratio has been maintained at 3.1% in FY26, around the same as the previous year and much higher than 1.6% in FY19 (pre-COVID). Post COVID, the Centre's capex had grown by an annual average of 30% between FY21-24 and that held the economy in good stead. But continued growth of this magnitude is not sustainable and desirable.

The finance minister has managed to give growth stimulus even while continuing the move towards fiscal consolidation. Fiscal deficit for FY25 is estimated at 4.8% of GDP (lower than the budgeted 4.9%) and for FY26 it is budgeted at 4.4% of GDP. Income tax



collection is budgeted to grow by 14%, lower than the 20% growth for FY25 (RE). However, achieving this lower number could be a challenge with the FM estimating a revenue loss of around Rs 1 lakh crore due to income tax rationalization. The fiscal consolidation has been achieved mainly through expenditure route with total expenditure to GDP budgeted at 14.2% in FY26 as against 14.6% in FY25 (RE). While the capex focus has been maintained, there is a decline in revenue expenditure to GDP to 11% in FY26 (BE) from 11.4% in FY25 (RE).

This Budget has rightly focused on improving the ease of doing business by easing regulations. This should help invigorate private investment including FDI and unleash the long-term growth potential of the economy. Measures like expansion of safe harbour rules, decriminalization of provisions, easing regulations for MSMEs are all steps in the right direction. The setting up of a high-level committee for regulatory reforms shows the government's intent to ease regulations.

With GDP growth moderating to around 6.5% level, India has an uphill task to achieve the Viksit Bharat status by 2047. However, the budget has taken steps in the right direction to enable the move towards this aspiration.



UNION BUDGET 2025-26: KEY HIGHLIGHTS AND SECTORAL IMPACTS

The Union Budget 2025-26 presents a comprehensive framework to foster economic growth, technological advancement, and sustainable development across various sectors. This budget introduces several key proposals and allocations to address critical areas such as agriculture, auto and auto components, capital goods, cement, financial services, healthcare, tourism, infrastructure, real estate, power, and more.

The budget proposes the establishment of a new urea plant in Assam with an annual capacity of 12.7 lakh metric tonnes. A substantial subsidy allocation for FY26 is expected to reduce India's import dependency on urea and stabilise input costs, provided key input prices remain within the prevailing range.

Significant measures include a full customs duty exemption on capital goods for lithium-ion battery manufacturing, a proposed PLI outlay, and allocations for PM e-Bus Sewa and PM e-DRIVE schemes. These initiatives will likely boost lithium-ion battery manufacturing, lower EV costs, and foster growth in the auto and auto components industry. Increased disposable income is also expected to drive demand for entry-level vehicles and tractors.

With a capital expenditure budget of Rs 11.21 lakh crore for FY26, the sector is poised for growth, particularly in infrastructure development and lithium-ion battery manufacturing. Continued support for states through interest-free long-term loans is expected to boost infrastructure projects further and reduce import dependency.



Key highlights include enhanced credit guarantees and limits for MSMEs, significant allocations for housing and education loans, and various schemes to support micro-enterprises and first-time entrepreneurs. These measures are expected to improve access to credit, support economic growth, and enhance the efficiency and competitiveness of MSMEs.

The budget sees a 12% increase in allocation towards health, with significant increases for Ayushman Bharat and exemptions on specified drugs. These measures are expected to strengthen healthcare infrastructure, improve access to critical treatments, and promote domestic production of bulk drugs.

To boost the tourism and hospitality sector, the development of top tourism sites, regional connectivity enhancements, and various tax reliefs are proposed. These initiatives aim to improve infrastructure, promote diverse tourist experiences, and enhance regional connectivity.

CareEdge offers a concise and insightful overview of the budget's sectoral implications in this analysis. This comprehensive analysis highlights the key expectations and policy measures that are set to influence India's economic growth trajectory. Moreover, you will gain valuable insights into how the budget impacts various industries, fiscal priorities, and the broader financial landscape.

• Agri and Allied – Fertilisers

Proposal

- A new urea plant with an annual capacity of 12.7 lakh metric tonnes will be set up at Namrup, Assam.
- Budget for urea subsidy is kept at Rs 118,900 crore, whereas NBS subsidy is at Rs 49,000 crore for FY26 taking total subsidy budget at Rs 1,67,900 crore for the year.

Impact

- Post sizeable urea production capacity added in recent past, India's import dependency for urea has significantly declined. With additional capacity at Assam, import dependency is expected to remain under check.
- Keeping aggregate subsidy budget for FY26 at Rs 1,67,900 crore compared to FY25 (RE) of subsidy at Rs 1,71,310 crore, could be sufficient if key input prices remain within the prevailing range.



Auto and Auto Components •

Proposal

- Full exemption of customs duties on 35 capital goods/ machinery for use in the manufacture of lithium-ion battery of EVs.
- Proposed PLI outlay of Rs 2,819 crore, PM e-Bus Sewa scheme of Rs 1,310 crore and PM e-DRIVE Scheme of Rs 4,000 crore.
- Full exemption of cobalt powder and waste, the scrap of lithium-ion battery, Lead, Zinc and 12 more critical minerals from customs duty.

- Reduction in tax rates under the new regime.

Impact

- Likely to boost lithium-ion battery manufacturing in India, lowering costs and reducing EV prices. Furthermore, the PLI scheme will foster growth of auto and auto components industry. In addition, the PM e-Bus Sewa scheme and the PM e-DRIVE Scheme are anticipated to accelerate the adoption of EVs.
- Will enhance disposable income and boost demand in both urban and rural regions thereby driving demand for entry level two-wheelers & passenger vehicles and tractors.

• Capital Goods

Proposal

- Capital expenditure budgeted at Rs 11.21 lakh crore for FY26. Continued outlay of Rs 1.5 lakh crore for interest free long-term loans to states towards capital expenditure.
- Exemption of basic customs duty on 35 additional capital goods required for manufacturing electric vehicle batteries and 28 additional capital goods required for manufacturing mobile phone batteries.

Impact

- Capital expenditure budgeted at Rs 11.21 lakh crore for FY26 [up by about 10% from the FY25(RE) at Rs 10.18 lakh crore] and continued support to States should boost infrastructure development and in turn augurs well for the capital goods sector.
- Expected to expedite the progress of setting up lithium-ion battery manufacturing plants in India for both mobile phones and electric vehicles which in turn shall reduce India's import dependency.





Cement

Proposal

- The budget allocated Rs 11.2 lakh crore for capital expenditure for FY26 is lower than the Rs 11.5 lakh crore allocation of FY25.
- An outlay of Rs 1.5 lakh crore is proposed for the 50-year interest free loans to states for capital expenditure and incentives for reforms.
- Rs 1 lakh crore allocation for urban development, new asset monetisation plan.
- Additionally, the launch of SWAMIH 2.0, targeting the completion of 100,000 units with a Rs 15,000 crore blended finance facility, is expected to boost liquidity for affordable and low mid-income housing projects

Impact

- While there are few announcements on Infra and housing which will support some growth in cement, however the government's lower-than-expected capital expenditure (Capex) target for FY26 is not positive particularly in core sector companies that rely heavily on public spending for infrastructure development. Cement, a key construction material, is a direct beneficiary of government's capital spending. With this move, the Centre seems to be signaling that it wants the private sector to take on a larger role in driving capital expenditure, which could lead to increased private investments in infrastructure however remains a monitorable.

Financial Services

Banking and NBFCs – MSME Funding

Proposal

- Enhance the investment and turnover limits for a classification of all MSMEs to 2.5 and 2 times, respectively.
- Double available credit guarantee cover
- For micro and small enterprises, from Rs 5 crore to Rs 10 crore.
- For Startups, from Rs 10 crore to Rs 20 crore with guaranteed fee reduced to 1% for loans in 27 focus sectors under Atmanirbhar Bharat.
- For well-run exporter MSMEs, for term loans up to Rs 20 crore.
- Introduce customised Credit Cards with a Rs 5 lakh limit for micro-enterprises registered on Udyam portal.
- Launch a new scheme for 5 lakh women, SC/ ST first-time entrepreneurs to provide term loans up to Rs 2 crore during the next 5 years.

Impact

- There are currently over one crore registered MSMEs, which employ 7.5 crore people and account for 36% of manufacturing and 45% of exports. With the enhancement of limits, the MSME share would improve further.
- The increase in limits would enable MSMEs to achieve higher efficiencies of scale, along with technological upgradation, and compete effectively. It would enable the extension of MSME

benefits for more mid-size enterprises.

- MSMEs have an estimated credit gap of around Rs 28 lakh crore. In the pre-Covid era, MSMEs accounted for a large share of NPAs. With digitalization and effective credit guarantee coverage, Banks and NBFCs could provide funds for capex/ working capital to MSMEs at competitive terms.



Banking and NBFCs – Housing & Education

Proposal

- **Education Loans**
 - Remove TCS on remittances for education purposes, where such remittance is out of a loan taken from a specified financial institution.
- **Housing**
 - Increased the allocation to the PM Awas Yojana by over 50% to Rs 23,294 crore in FY25-26 from the revised Rs 15,170 crore in FY24-25.
 - Launch Special Window for Affordable and Mid-Income Housing (SWAMIH)

Fund 2 as a blended finance facility with contributions from the Government, banks and private investors. This fund of Rs 15,000 crore will aim to expedite the completion of one lakh units.

- Include homestays as being eligible for Mudra loans.

Impact

- This would benefit students and Banks/education loan NBFCs as it would reduce the funding requirements and the cost of compliance. The interest paid also carries income tax benefits.
- This is in line with the Subsidy schemes announced in previous Budgets for funding housing and interest on affordable housing loans. Based on progress in the scheme, the amount indicated here may have to be revised upwards during the year.
- Boost liquidity and enable the completion of stalled/stressed projects and reduce the stressed assets in the real estate sector.
- Develop destination tourism since local residents usually carry out homestay activities.

Banking and NBFCs - Others

Proposal

- Revamp the PM SVANidhi scheme with enhanced loans from banks, UPI-linked credit cards with Rs 30,000 limit, and capacity-building support.
- Kisan Credit Cards (KCC) to continue facilitating short-term loans for 7.7 crore farmers, fishermen, and dairy farmers. Additionally, the loan limit under the modified interest subvention scheme will be increased from Rs 3 lakh to Rs 5 lakh for loans taken through the KCC.
- The TDS limit increase for senior citizens from Rs 50,000 to Rs 1 lakh.
- Public sector banks should develop a 'Grameen Credit Score' framework to serve the credit needs of SHG members and people in rural areas.

Impact

- Enhance access of the street vendors to formal credit at competitive terms riding on the benefits of digital economy piggybacking on India Stack.
- Would provide greater financial support for agricultural production. It would also enable banks to improve coverage of agriculture loans and reduce priority sector shortfalls and related costs.
- Senior Citizens have over 38% share of the aggregate individual deposits as of March 2024. This increase facilitates deposit mobilisation and supports banks' Credit to Deposit ratio.
- While details are yet to be available, this framework would reduce the high credit costs

currently associated with BOP (Bottom of Pyramid) and MFI funding.

Infrastructure Financing

Proposal

- NaBFID will set up a 'Partial Credit Enhancement Facility' for corporate bonds for infrastructure.
- Extend investment date for Sovereign and Pension Funds to March 2030 for exemption of capital gains tax.

Impact

- While details are awaited, this scheme is expected to overcome challenges faced by old PCG schemes. A successful scheme will enable better access to the Bond market for infrastructure players.
- Along with Insurance companies, SWFs and Pension funds provide a high quantum of patient capital required for infrastructure financing. Hence, tax benefits have been extended for them.

Insurance and Funds

Proposal

- FDI limit in the insurance sector to 100% from 74% for players who invest the premium in India.
- The government has reduced the allocation to the PM Fasal Bima Yojana by 22.8% to Rs 12,242 crore in FY25-26 from the revised Rs 15,864 crore in FY24-25.
- Set up and allocate Rs 10,000 crore for an Urban Challenge Fund to finance up to 25% of the cost provided at least 50% is funded from bonds, bank loans, and PPPs.
- Set up a new Fund of Funds for Startups as an AIF with expanded scope and a fresh contribution of another Rs 10,000 crore.
- Further certainty on taxation of gains from securities for AIF I and II.

Impact

- It would encourage more Global players to look towards the country and improve insurance penetration. Long-term funding remains a key requirement for CapEx, which the insurance sector addresses.
- This is a significant decrease in allocation and could indicate the rationalisation of allocation towards the scheme given the claims experience. It could be counterproductive in case the weather conditions turn significantly adverse.
- Fund allocation for an announcement made earlier.
- Expanding the scope and corpus under the successful FoF-AIF scheme anchored by SIDBI.
- This will help investors in making investment decisions in AIFs.

Healthcare & Pharma

Proposal

- Almost a 12% increase in the budget allocation towards health and welfare, amounting to Rs 98,311 crore, which majorly includes a significant increase (25%) in allocation towards Ayushman Bharath – Pradhan Mantri Jan Arogya Yojana (PMJAY).
- A 14% jump in allocation to Rs 2,445 crore towards Production Linked Incentive Schemes.
- Full exemption from Basic Custom Duty to specified 37 drugs under Patient Assistance Programmes run by pharmaceutical companies, provided the medicines are supplied free of cost to patients.
- Facilitate setting up of 200 Day Care Cancer Centres in 2025-26 and it aim to develop such Cancer Care Centres in all district hospitals in the next 3 years.

Impact

- The increase in budget allocation towards health will strengthen and improve the rural and semi-urban health infrastructure, such as the modernisation of existing hospitals, the addition of new hospitals and an increase in the strength of doctors.
- Higher allocation towards PMJAY would lead to the quick release of funds to hospitals to treat the patients covered under the scheme.
- Promote domestic production of Bulk Drugs to reduce the reliance on imports.
- Improve the access of drugs towards critical care treatment.
- Access to high-end cancer care infrastructure and treatment.



Hotel & Tourism

Proposal

- Focus on developing the top 50 tourism sites with States, including hotels in the infrastructure list. The program will offer skill development in hospitality, Mudra loans for homestays, PLIs for destination management, and e-visa facilities for select tourists.
- Increase in Disposable Income with direct income tax reliefs and other incentives.
- Modified Udan scheme will be launched to enhance regional connectivity to 120 new destinations and carry 4 crore passengers in the next 10 years with a special mention to include hilly, aspirational, and North-East region districts.
- States to be given performance-linked incentives for effective destination management.
- Special focus on destinations related to the life and times of

Lord Buddha, North-East.

- Medical Tourism and Heal in India to be promoted in partnership with the private sector.

Impact

- The budget is focussed on setting up a strong foundation for boosting tourism and hospitality in India. Developing the tourist destinations, the government is not just improving infrastructure but also promoting a more diverse and rich tourist experience, which could lead to more sustainable and well-curated tourism offerings and boost the hospitality sector.
- Focusing on niche segments like spiritual and medical tourism will attract more tourists. Additionally, by improving regional connectivity and port infrastructure, tourism can become more accessible, which will surely support the hospitality sector by promoting occupancy and ARR.



Non-Ferrous Metals

Proposal

- Exemption of Basic Customs Duty on Copper scrap from existing 2.5% to NIL.
- Exemption of Basic Customs Duty on waste and Zinc scrap from existing 5% to NIL.
- Exemption of Basic Customs Duty on waste and Lead scrap from existing 5% to NIL.

Impact

- Duty exemption on waste and scrap of major non-ferrous metals (NFM) such as Copper, Zinc and Lead will likely benefit

the small & mid-sized secondary/recycling metal manufacturers.

- Reduction in customs duty will benefit these players in lowering the cost of key inputs, which are largely import-dependent, thereby reducing the impact of forex fluctuations.
- Owing to the reduction in key input cost, the competitiveness of the secondary NFM manufacturers is likely to improve and benefit in terms of increased production from these players, further enhancing domestic availability.

Power

Proposal

- National Manufacturing Mission to be set up to support clean tech manufacturing.
- Amendments to the Atomic Energy Act and the civil liability for Nuclear Damage Act for active participation of private sector. Dedicated R&D initiative for small modular reactors (SMRs) with an outlay of Rs 20,000 crore, 5 indigenously developed SMR to be operational by 2033.
- Additional borrowing of 0.5% of GSDP to states for undertaking power sector reforms and 50 year interest free loans to states with an outlay of Rs 1.5 lakh crore.
- NaBFID to setup Partial Credit Enhancement Facility (PCE) for corporate bonds for infrastructure.

Impact

- Initiative to aid backward integration in the domestic manufacturing of solar power plants, wind turbines, high-voltage transmission equipment and grid-scale batteries. This augur well for creating a secure alternate supply chain for both domestic and global markets.
- There is sustained focus on energy security as indigenous development of SMRs along with policy reforms in nuclear segment is likely to boost nuclear power capacity addition.
- Interest free loans and additional borrowings by states subject to their implementation of power reforms is likely to attract investments in the distribution and transmission sector. This may lead to improvement in the operational performance of state distribution utilities.
- PCE by NaBFID for corporate bonds is likely to improve the accessibility of issuers to the bond market thereby opening newer avenues for securing borrowings.



• Real Estate

Proposal

- Focus on Stalled projects: Announcement of SWAMIH Fund 2.0 with blended facility of Rs 15,000 crore aiming at completion of 1 lac units.
- Promoting new leasing hubs: Establishing National framework for Global Capability Centers (GCCs).
- Tax Incentives: Change in Income tax Slabs and enhancement in income tax rebate under section 87A.
- Tax Simplification: Easing the nil taxation rule for claiming two self-occupied properties (SOPs) and enhancement in Tax Deduction at Source for rental properties from Rs 2.40 lacs to Rs 6.00 lacs.
- Boost for Warehousing: Promoting manufacturing and upgrading warehouse facilities for Air Cargo.
- GCCs are growth catalyzers of India's office leasing market, accounting for over 30% of total absorption in Tier 1 cities in CY2024. The government's plan to introduce a National Framework for GCCs, aimed at guiding states in promoting GCC expansion in Tier 2 cities, is expected to drive the creation of new leasing hubs along-with the development of commercial parks.
- The revised income tax slabs and increased rebate are expected to expand disposable income and drive demand for affordable and mid-income housing. The enhanced rebate under Section 87A, from Rs 7 lakh to Rs 12 lakh, will benefit salaried individuals, while tax savings of over Rs 80,000 for annual income exceeding Rs 20 lakh to enhance home loan eligibility.
- Both these announcements are aimed at tax simplification and are expected to kindle investment demand for residential real estate.

Impact

- Introduction of SWAMIH Fund 2.0 to provide liquidity boost for stalled affordable and mid-income housing projects and accelerate completion. Thus far, the SWAMIH Fund has been pivotal in completing stalled dwellings, with 50,000 homes delivered and another 40,000 units on track for completion in 2025.
- The Budget 2025 emphasizes strengthening India's position as a global manufacturing hub to drive demand for warehousing facilities. Furthermore, upgrades planned for warehousing facilities, particularly for air cargo, are likely to increase demand as well as supply for Grade A warehouses catering to the export market.



Shipbuilding and Shipping •

Proposal

- Shipbuilding Financial Assistance (SFA) Scheme to be revamped for cost-effectiveness.
- Establishment of Maritime Development Fund with a corpus of Rs 25,000 crore and inclusion of large ships in the Harmonized Master List (HML).
- Extension of the time limit for exporting foreign-origin goods imported for repairs from 6 months to one year.
- Tonnage Tax Scheme introduced for Inland Vessels.

Impact

- Revamped SFA Scheme shall attract private sector investments, strengthening shipbuilding entities' order book position.
- Inclusion in HML and establishment of Maritime fund shall augment long-term funding avenues for the sector at competitive rates.
- Extension of time limit for export of foreign goods is expected to boost high-margin repair services for shipyards.
- Availability of tonnage tax for inland vessels is favourable for the development of inland waterways.



Sugar and Allied Sector •

Proposal

- Union Budget 2025-26 introduced PM Dhan Dhanya Krishi Yojana, covering 100 districts with low productivity, moderate crop intensity and below-average credit parameters. By integrating existing schemes, it targets to benefit the 1.7 crore farmers and focuses on crop diversification, sustainable practices, improved irrigation, better post-harvest storage, and increased access to credit.
- National Mission on High Yielding Seeds to strengthen research, develop and promote high-yield, pest-resistant, and climate-

resilient seeds, and ensure the commercial availability of over 100 seed varieties released since July 2024.

- Enhancement in Kisan Credit Cards (KCC) loan limits from Rs 3 lakh to Rs 5 lakh, helping 7.7 crore farmers, fishermen, and dairy farmers.

Impact

- The entire agriculture sector, including sugarcane farmers, will benefit from proposals related to agriculture, focus on increased productivity with High yield seeds, improved irrigation, and enhancement in the availability of access to credit

• Textile

Proposal

- Allocation of Rs 500 crore towards the 'Mission for Cotton Productivity'.
- Exemption of Basic Custom Duty (BCD) on shuttle-less looms.
- Higher allocation towards Remission of Duties and Taxes on Exported Products (RoDTEP) and Rebate on State and Central Taxes and Levies (RoSCTL).
- Sizable allocation of Rs.1,148 crore towards the Production Linked Incentive (PLI) scheme for textiles.
- Extension of the time period for export from 6 months to one year.

Impact

- Science & technology support to farmers shall facilitate significant improvements in

productivity and sustainability of cotton farming and promote extra-long-staple cotton varieties. This shall also provide a steady supply of quality cotton to the textile industry.

- Promote domestic production of technical textile products such as agro-textiles, medical, and geotextiles.
- Higher allocation towards the RoDTEP and RoSCTL shall boost export-oriented sectors like textiles.
- Apart from incentivising fresh investment in the sector, a sizable allocation towards the PLI scheme facilitates the timely disbursement of incentives to industry players.
- Extension of the time period from 6 months to one year shall facilitate exports of handicrafts products.



• Transportation Infrastructure

Proposal

- Capital expenditure maintained at Rs 11.21 Lakh crore with stable Capex outflow for Roads and Railways at Rs 5.24 Lakh crore.
- Second phase of asset monetisation aims to raise Rs 10 lakh crore over 2025-2030.
- The government will extend Rs 1.5 lakh crore support to states through fifty-year interest-free loans for capex and reforms.
- Each Infrastructure-related ministry to develop a 3-year pipeline for projects to be implemented under PPP mode.
- NaBFID to establish a partial credit enhancement facility for corporate bonds.

Impact

- Enhanced focus on Infrastructure PPP and asset monetisation to continue infrastructure-led growth.
- A significant shift in project awarding from EPC to PPP variants is expected in the roads sector to support sustained project awarding.
- State capex outlay to get an uplift with increased budgetary support.
- Partial Credit enhancement facility shall help in deepening the corporate bond market towards Infra financing of PPP projects.



Urban Infra & Airports •

Proposal

- The government will set up an Urban Challenge Fund of Rs 1 lakh crore focused on proposals for urban development. Govt would allocate Rs 10,000 crore for the said fund for the 2025-26 fiscal.
- Extension of Jal Jeevan Mission (JJM) until 2028 with an increase in coverage to 100%.
- Modified UDAN Scheme to connect 120 destinations.
- Announcement of green field airport in Bihar.

Impact

- The fund aims to bridge the critical urban infrastructure financing gap, driven by rapid

population growth and bleak municipal revenue sources contributing less than 1% of the country's GDP. The proposal also portends well for the growth of municipal bond issuances.

- Extension of JJM shall boost drinking water supply projects. However, the successful implementation of the extension of the JJM scheme holds the key, especially after ~ 2.5x underachievement in the allocated budget in 2024-25.
- The modified UDAN Scheme will provide a fillip for regional connectivity and potentially cater to 4 crore passengers. Yet, the financial health condition of airlines will be a critical determinant of the scheme's success.



RETAIL ASSET SECURITISATION: RECORD VOLUME OF RS 73,000 CRORE IN Q3FY25

Securitisation Market Poised for Another Record-Breaking Year

The securitisation market is progressing steadily towards another record high in FY25, despite a moderate start in the first quarter of the current fiscal with total volumes reaching Rs 1,93,000 crore (CareEdge Ratings estimate) for the first nine months of the current fiscal, encompassing both pass-through certificate (PTC) issuances and direct assignment (DA) transactions. The securitisation market gained significant momentum in the second quarter of the current fiscal, which continued in the third quarter, with a total volume of around Rs 73,000 crore in Q3FY25 (up from Rs 43,000 crore for Q3FY24). Traditionally, the final quarter of the fiscal records the highest volumes, and current trends suggest that this pattern is likely to continue.

This growth was primarily driven by significant contributions from HDFC Bank and other large originators and continued demand for loans that meet Priority Sector Lending (PSL) norms. The quarter also witnessed the consummation of the largest PTC transaction backed by retail loans, with mutual funds participating as investors.

9MFY25, the market witnessed a total volume of approximately Rs 1,93,000 crore (CareEdge Ratings estimate), reflecting a 35% increase compared to around Rs 1,44,000 crore in 9MFY24. The PTC volume has outstripped the DA volumes, constituting 52% of the overall volume.

In Q3FY25, securitisation volumes were somewhat impacted by the slower growth in disbursements within the NBFC sector. This was particularly evident in unsecured asset classes like microfinance, personal loans, and business loans, which faced industry-wide stress.



Asset Class-wise Break-up

In the first nine months of FY25, Mortgage-backed securitisation (MBS) transactions dominated the Direct Assignment (DA) volumes, comprising 59%, while Asset-backed securitisation (ABS) transactions accounted for 27%. The proportion of transactions backed by microfinance loans (MFI) saw a significant drop to around 9%, compared to 17% in the same period the previous year (9MFY24).

For PTC issuances, ABS pools constituted a substantial 85% of the total, with MBS and MFI pools contributing around 10% and 5%, respectively. The share of MFI transactions in PTC issuances also declined to 5% from 11% in 9MFY24. Vehicle loan financing, including loans against commercial vehicles, cars, two-wheelers, construction equipment, and tractors, accounted for Rs 73,500 crore, making up 73% of PTC issuance.

Outlook

The surge in the securitisation market was primarily driven by issuances from a few large private sector banks aiming to maintain the credit-deposit ratio. Typically, the highest volumes occur in the last quarter of the fiscal year. Additionally, the anticipated easing of monetary policy in Q4FY25 and renewed interim mutual fund houses could further boost the securitisation market. CareEdge Ratings continues to project that the overall market volume will grow by at least 15% in FY25 compared to FY24, estimating it to cross at least Rs 2,35,000 crore.

NBFCs - NAVIGATING GROWTH AND RISKS ACROSS ASSET CLASSES IN AN EVOLVING LANDSCAPE

India, the fastest-growing economy and the one of the largest globally, offers a favourable environment for expanding its credit market. Non-Banking Financial Companies (NBFCs) have carved out a niche in the Indian financial sector with their distinctive business models and credit appraisal methods, targeting relatively unbanked borrower segments with specialised domain expertise. They facilitate last-mile credit delivery and leverage significantly to enhance operational efficiency and risk management.

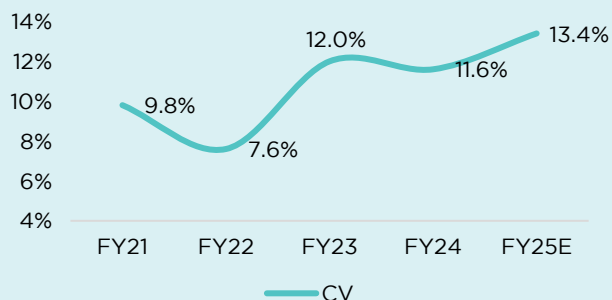
NBFCs hold a significant 22% share in the credit market, alongside banks and AIFIs. Over 400 operational mid-sized and large NBFCs are active in the lending markets. Over the years, the balance sheets of NBFCs have strengthened, with reduced leveraged and improved asset quality, showing a significant shift toward retail.

The sector's leverage has decreased from approximately 4.5 times in FY20 to about 3.1 times in FY24. Similarly, the Net NPA has fallen from 3.4% in FY20 to 1.1% in FY24, despite the adverse effects of the Covid-19 pandemic during this period.

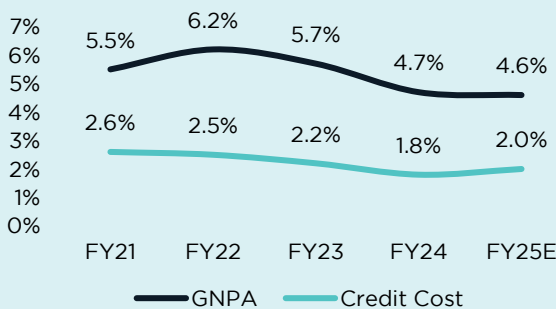
The NBFCs operate in various asset classes such as CV financing, home

loans, gold loans, and microfinance loans, the growth expectations of which have been briefly touched upon below.

Growth Expected to Bounce Back in CV Financing AuM Growth



GNPA & Credit Cost



Source: Company Filings, CareEdge Estimates

Growth in CV Financing is expected to reach 13.4% in FY25, up from 11.6% in FY24. The overall growth will be driven by used vehicle financing and increasing ticket sizes, reflecting higher prices for second-hand vehicles due to the increased cost of new vehicles following the implementation of BS-6 Norms. The borrowers' repayment capacity in rural areas was impacted post the second wave of Covid-19, resulting in an increase in GNPA to 6.2% levels in FY22. GNPA is expected to decrease to 4.6% in FY25, while credit costs will likely be around 2.0%.

Housing loans AuM is expected to continue its growth momentum and improve asset quality levels. AuM is expected to grow at 13.5% for FY25, with mainstream mainline Housing finance companies able to compete effectively in the market with high-quality offerings. GNPA for the sector is expected to reduce to 2.0% in FY25 from 4.1% in FY22. Credit costs would remain low at 0.5% for FY25. Incidentally, the NPAs in this segment mostly represent high-yield wholesale loans for builders or commercial premises.

The AuM growth of affordable HFCs will likely remain robust yet marginally taper down to 23% in FY25 from 29% in FY24. Meanwhile, GNPA and credit costs are anticipated to increase by 10 bps to 1.3% and 0.5%, respectively, because of relatively weaker borrowers, especially the self-employed segment. Further, improvement in the seasoning of the loan book will lead to some natural elevation in delinquencies. Policy initiatives, such as interest subsidies, will provide a fillip for the sector. However, higher delinquencies are visible for HFCs with a higher composition of self-employed borrowers.

The AUM growth of gold loan companies is expected to remain high at over 15% in FY25, with significant movement in gold prices in the current year. In terms of AUM, tonnage is expected to remain constant. Gold Loan NBFCs have been facing increased competition from banks over the years. Any weakness in asset quality is mainly due to a delay in the auction process, which gives more time for the customers to repay rather than discomfort in the underlying gold security. GNPA is likely to be at 2.8% levels in FY25. Credit costs are likely to remain very low as usual.

Given that the MFI sector faces asset quality challenges, the industry is projected to witness a modest 4% growth in FY25. A significant concern is the sharp increase in credit costs, which is expected to severely affect

profitability, potentially bringing the RoA down to an estimated 0.4%. The credit cost for FY25 is likely to be around 6.5% for the sector.

In case of continuing weakness in Q3 and Q4 of FY'25, the credit cost estimates could increase to 8.5% for the year, with a corresponding impact on the bottom-line. The increasing indebtedness of borrowers is another challenge, as larger ticket sizes and multiple loans taken by low-income individuals have led to over-leverage and difficulties in repayment. In addition, the industry continues to face significant challenges beyond financial and operational risks, including high staff turnover and rising fraud, both of which disrupt client relationships and loan recovery. However, despite operating in a vulnerable segment, the MFI sector has consistently shown resilience, overcoming challenges like Covid-19 and demonetisation.

Meanwhile, the interconnectedness between banks and NBFCs has grown significantly on the liabilities front, with bank finance to NBFCs increasing fourfold over the past seven years. Bank finance to NBFCs has risen from 5% to ~9.4% over the same period. Consequently, the RBI has raised concerns about the growing interconnectedness and has encouraged NBFCs to diversify their funding sources. Hence, growth in bank exposure to NBFCs has slowed while NBFCs are exploring domestic capital markets and overseas markets, including ECBs, for sourcing funds.

Conclusion

The NBFC sector in India is well-positioned for continued growth and is bolstered by a thriving economy, robust balance sheets, and a good portfolio mix. The sector's resilience and adaptability provide a strong foundation for future success. The last mile of reach, understanding, and focus on niche micro markets is expected to continue as their USP. As NBFCs continue innovating and harnessing technology, their role in the financial ecosystem will become increasingly crucial, driving significant contributions to India's overall economic development.

HEAT MAP AND PROJECTION TABLE

		Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25
PMI-M	Unit	56.5	56.9	59.1	58.8	57.5	58.3	58.1	57.5	56.5	57.5	56.5	56.4	57.7
PMI-S	Unit	61.8	60.6	61.2	60.8	60.2	60.5	60.3	60.9	57.7	58.5	58.4	59.3	56.5
GST Collections	Rs lakh crore	1.7	1.7	1.8	2.1	1.7	1.7	1.8	1.7	1.7	1.9	1.8	1.8	2.0
E-Way Bill	Crоре	9.6	9.7	10.4	9.7	10.3	10.0	10.5	10.5	10.9	11.7	10.2	11.2	11.8
Air Passenger Traffic	Crоре	3.3	3.1	3.3	3.2	3.5	3.3	3.2	3.3	3.2	3.4	3.5	3.8	
PV Sales	Lakh	3.9	3.7	3.8	3.4	3.5	3.7	3.6	3.7	3.8	4.1	3.6	3.5	
2-3-Wheeler Sales	Lakh	18.3	19.3	19.0	21.4	20.1	19.9	18.5	21.5	25.0	26.3	20.5	15.6	
Tractor Sales	Lakh	0.6	0.5	0.7	0.8	0.9	1.1	0.7	0.6	1.1	1.5	0.8	0.6	
IIP	y-o-y%	4.2	5.6	5.5	5.2	6.3	4.9	5.0	0.0	3.1	3.7	5.2		
Core Sector	y-o-y%	4.2	7.1	6.3	6.9	6.9	5.0	6.3	-1.5	2.4	3.7	4.4	4.0	
Power Consumption	y-o-y%	6.1	8.4	9.1	10.5	15.3	8.9	8.2	-4.9	0.6	1.1	4.0	5.9	2.7
Petroleum Consumption	y-o-y%	7.3	8.2	1.7	7.8	1.9	2.3	10.7	-3.1	-4.4	4.1	10.6	2.3	3.1
Outstanding Bank Credit - Total	y-o-y%	20.3	20.5	20.2	19.0	20.8	17.3	13.6	13.6	13.0	11.7	12.1	11.2	
Capital Goods Import	y-o-y%	4.2	10.0	0.9	3.2	7.0	11.6	6.2	8.7	8.6	4.1	5.5	4.9	
Merchandise Exports	y-o-y%	4.3	11.9	-0.6	2.0	13.2	2.4	-2.0	-9.9	-0.3	16.6	-5.1	-1.0	

Indicator	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25 Forecast	FY26 Forecast
Gross Domestic Product (y-o-y%)	6.8	6.5	3.9	-5.8	9.7	7.0	8.2	6.4 (FAE)	6.7
CPI Inflation (y-o-y%)	3.6	3.4	4.8	6.2	5.5	6.7	5.4	4.8	4.5
Fiscal Deficit (As % of GDP)	3.5	3.4	4.6	9.2	6.8	6.4	5.6	4.8	4.5
Current Account Balance (As % of GDP)*	-1.8	-2.1	-0.9	0.9	-1.2	-2.0	-0.7	-0.9	-
Rupee (USD/INR) (Fiscal year-end)	65.0	69.2	75.4	73.5	75.8	82.2	83.4	86-87	87.5
10-Year G-Sec Yield (%) (Fiscal year-end)	7.3	7.5	6.1	6.3	6.8	7.3	7.1	6.5-6.7	6.3-6.5

*(-) Deficit / (+) Surplus; FAE: First Advance Estimate

About Us

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