JM FINANCIAL

Strategy

Taking stock of the Indian stock market post Budget FY26

Venkatesh Balasubramaniam
venkatesh.balasubramaniam@jmfl.com | Tel: (91 22) 66303081
Shalin Choksy
shalin.choksy@jmfl.com | Tel: (91 22) 66303380
Hitesh Suvarna
hitesh.suvarna@jmfl.com | Tel: (91 22) 66303351

Budget FY26 treads a fine balance between promoting consumption without compromising on fiscal prudence and maintaining continuity on capex. Nifty50 EPS growth will remain tepid at 3.8% in FY25, but it could be much better in FY26E. Post the > double-digit market correction, Nifty50 large caps seem less expensive (trading at < +1 sd). Bond yield premium above earnings yield implies the market is cheaper than what P/E multiples suggest. Last but not the least, we believe the rate cut cycle could begin from Feb'25.

- **Budget FY26 treads a fine balance -** The biggest positive of Budget FY26 is the reduction of taxes for the middle class, which leaves more money in their hands for consumption. Interestingly, this has been done: (1) without compromising on fiscal prudence, with FY25 and FY26 fiscal deficit of 4.4% (4.5% earlier) and 4.8% (4.9% earlier) respectively and (2) with continuity on capex growth at 7% in FY25E and 10% in FY26E. The only question one can possibly ask is, "Would a slightly higher capex and a slightly higher fiscal deficit have been better?" But one wonders if the government is nudging the Reserve Bank of India (RBI) to cut rates by keeping the fiscal deficit in check.

- **Nifty FY25E EPS growth revised down to 3.8% -** Nifty EPS growth in 1HFY25 was tepid with only 5.5% and 4.2% YoY growth in 1QFY25 and 2QFY25 respectively. Further, against our expectation of 5.8% YoY growth (ex-BFSI growth at 2.1% YoY) in 3QFY25, so far the 26 Nifty50 companies that have reported numbers have delivered only 4.4% YoY growth. We have already cut the FY25E EPS growth to 3.8% (from 5% earlier) during 3QFY25 so far.

- **Why should Nifty50 FY26E EPS be better?** We pencil in an 18.3% growth for the Nifty50 EPS and this is based on the following reasons: (1) 'nil tax' up to INR 1.2mn (1.275mn for salaried individuals) and rejigging of tax slabs should support consumption (both discretionary and non-discretionary), especially in the urban economy; (2) unlike CY24, the rural economy should do better in CY25 on the back of good monsoons and reservoir levels improving above long period averages; and (3) government capex growth should be much better at 10% in FY26 vs. 7% in FY25.

- **Market is less expensive now, especially large caps -** The Nifty50, Nifty Midcap 100 and Nifty Smallcap 100 indices have corrected 12%, 14% and 16% respectively from their recent peaks in 3QFY25. Valuations are relatively less expensive now with Nifty50 large cap valuations having dipped below +1 sd. Interestingly, the bond yield premium above earnings yield suggests the market is cheaper than what the Nifty50 P/E multiples suggest. Midcap and small cap valuations still seem expensive even though earnings growth might be stronger in these names vis-à-vis large caps.

- **Rate cut cycle could start from Feb'25 -** A change in guard at the RBI with a new Governor has sparked hopes of the start of the rate cut cycle from Feb'25. Moreover, we expect inflation to trend lower in the near term to 4.5-4.6% levels. We also believe the RBI's recent measures around bond purchases, repo operations and currency swaps were intended to address the liquidity situation, which sets the stage for the start of rate cut cycle from Feb'25. In our base case, we are building in a shallow (50-75bps) rate cut cycle for 2025.

Nifty Valuation table

Particulars	FY24	FY25E	FY26E
Nifty Index	23,482	23,482	23,482
EPS (INR)	985	1,022	1,208.9
YoY (%)	24.1	3.8	18.3
BPS (INR)	6,850	7,122	7,971
YoY (%)	(5.8)	4.0	11.9
PE (x)	23.8	23.0	19.4
PB (x)	3.4	3.3	2.9
ROE (%)	16.8	14.9	16.0

Source: Bloomberg, JM Financial

Exhibit 1. JM Financial top picks post Budget FY26

Top picks post Budget FY26			
RIL	Bajaj Finance	DLF	Havells
TCS	Larsen & Toubro	HDFC Life	SRF
Bharti Airtel	Sun Pharma	Hindalco	BHEL
ITC	Maruti Suzuki	GCPL	KPIT

Source: JM Financial

Top picks post Budget FY26

Exhibit 2. Top picks post Budget FY26

Stock	M.Cap (USD bn)	CMP (INR)	Target Price (INR)	Upside
RIL	196.7	1,265	1,660	31.2%
TCS	169.6	4,074	4,680	14.9%
Bharti Airtel	111.7	1,623	1,850	14.0%
ITC	66.5	462	530	14.7%
Bajaj Finance	56.9	8,001	9,350	16.9%
Larsen & Toubro	54.5	3,447	4,015	16.5%
Sun Pharma	48.1	1,744	2,094	20.1%
Maruti Suzuki	46.7	12,921	15,100	16.9%
DLF	21.6	761	1,000	31.4%
HDFC Life	15.5	625	900	44.0%
Hindalco	15.2	587	760	29.5%
GCPL	13.9	1,183	1,350	14.1%
Havells	11.9	1,656	1,900	14.7%
SRF	9.6	2,827	3,115	10.2%
BHEL	8.0	200	358	79.0%
KPIT	4.5	1,416	2,250	58.9%

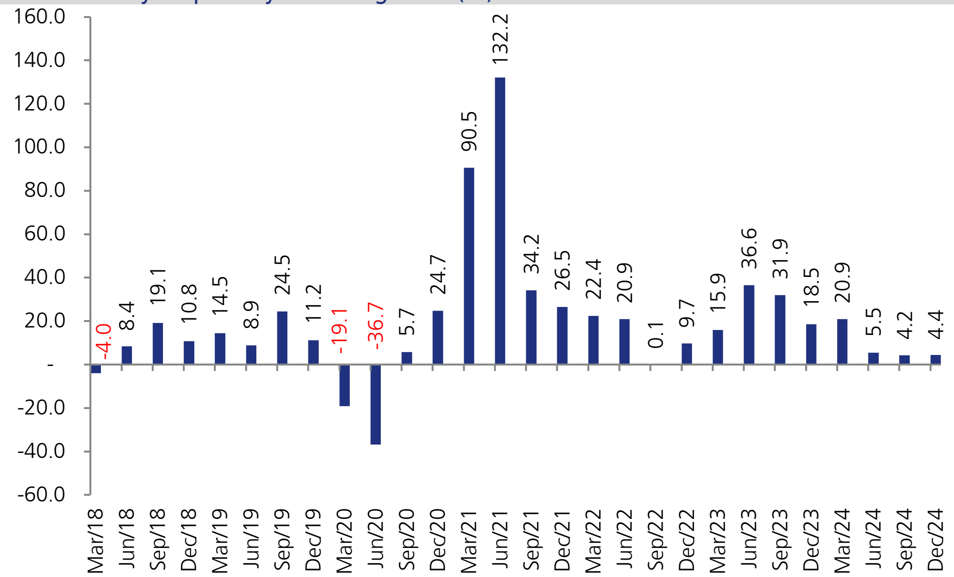
Source: JM Financial

Earnings recovery is the key in FY26

For 3QFY25 so far, 26 Nifty50 companies have delivered 4.4% YoY growth

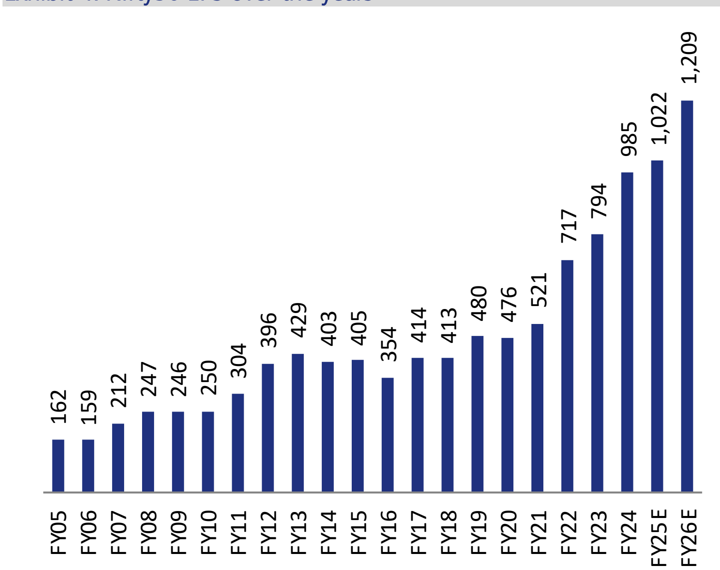
- We observed a marked slowdown in Nifty EPS growth in 1HFY25 with only 5.5% and 4.2% YoY growth in 1QFY25 and 2QFY25 respectively.
- Further, against our expectation of growth of 5.8% YoY (ex-BFSI growth at 2.1% YoY) in 3QFY25, so far 26 Nifty50 companies that have reported numbers have delivered only 4.4% YoY growth.
- Given macro weakness, we have cut the FY25E EPS growth to 3.8% (from 5% earlier) during 3QFY25. However, we expect a rebound in FY26E with 18.3% growth.

Exhibit 3. Nifty50 quarterly YoY EPS growth (%)



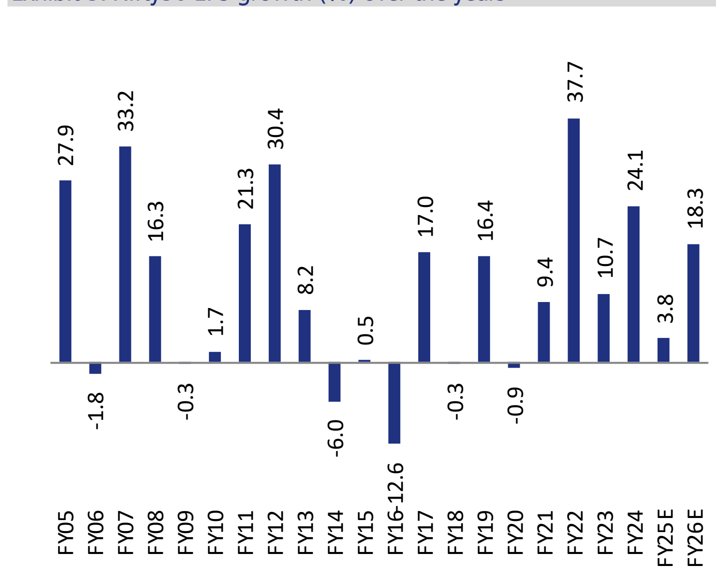
Source: Capitaline and JM Financial

Exhibit 4. Nifty50 EPS over the years



Source: Company and JM Financial

Exhibit 5. Nifty50 EPS growth (%) over the years



Source: Company and JM Financial

Why did GDP growth slowdown in FY25?

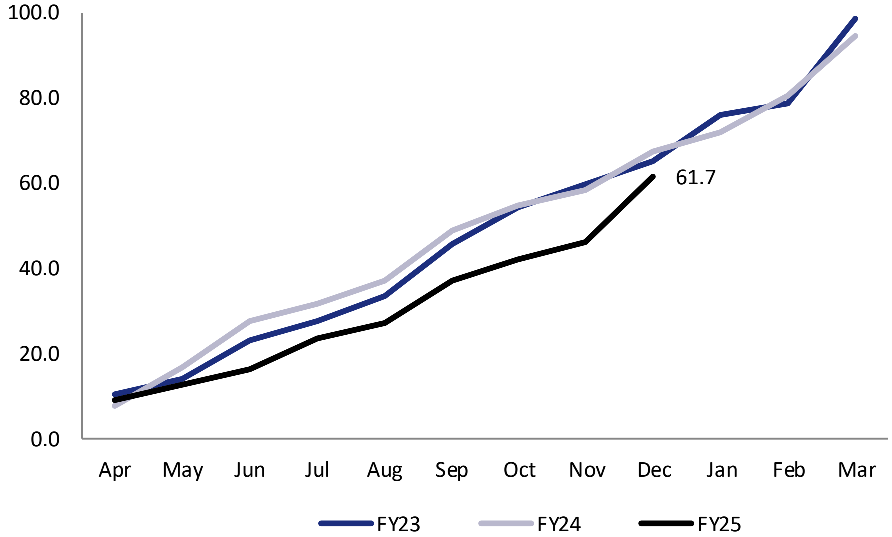
FY25 capex growth would be 7%, slower than earlier expectations

- In the general elections held in the country in 1QFY25 the BJP did not get a majority on its own, raising concern amongst market participants. This was alleviated only after the party's unexpectedly strong victories in Maharashtra and Haryana in the state assembly polls.
- General elections also led to government capex slowing down. Further, strong monsoons in 2QFY25 disrupted supply chains. Market expectations of a pickup in government

spending post the election season did not materialise, which is evident from weaker capex intensity of 62% of FY25BE vs. 67% in FY24BE during Apr-Dec'24.

- According to the Budget, FY25 capex growth would be 7%, which is slower than earlier expectations.

Exhibit 6. Capex as % of budget estimates weak, but saw some improvement in Dec'24

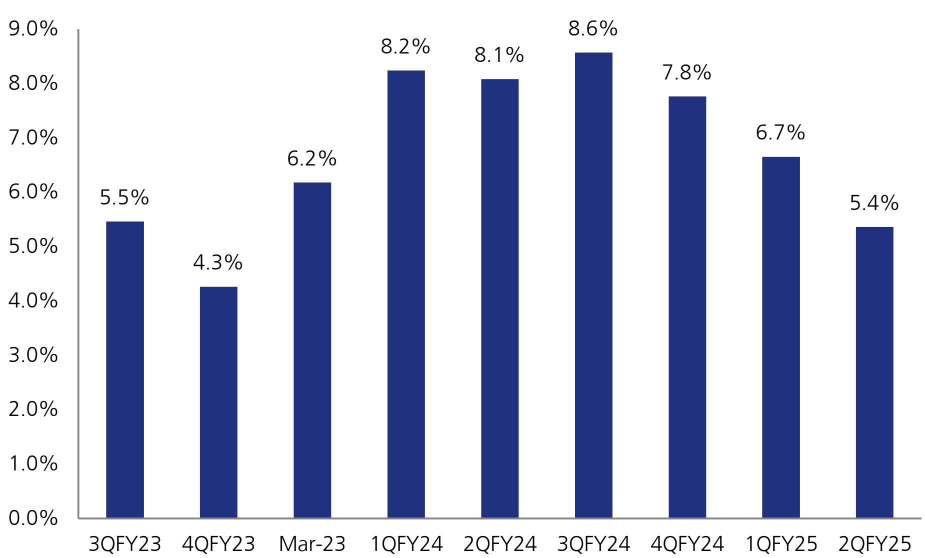


Source: CGA and JM Financial

GDP growth in 2QFY25 decelerated to 5.4% YoY (vs. expectations of 6.5% YoY)

- Wage growth was outpaced by inflation, leading to declines in real wages. RBI's regulatory action on unsecured loans, non-banking finance companies (NBFCs), and digital lending impacted credit growth and consumption.
- This led to a deceleration in GDP growth in 2QFY25 to 5.4% YoY (sharply lower than market expectations of 6.5% YoY).

Exhibit 7. India quarterly YoY real GDP growth



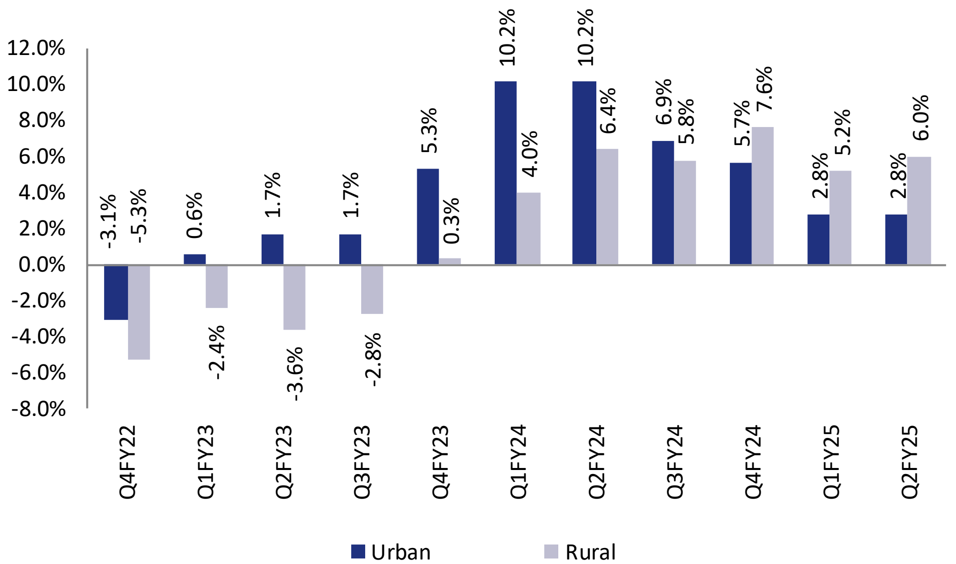
Source: CMIE and JM Financial

66% of companies saw EPS cuts for FY25 in 2QFY25 earnings season

- Our analysis of the JM Financial coverage universe post 2QFY25 suggests that: (1) 66% companies saw EPS cuts for FY25 and (2) 45% of the companies saw cuts in target price post 2QFY25.

- Corporate commentary in 1HFY25 suggests a slowdown in urban demand across FMCG, retail, auto and mall operators. Besides this, chemicals, consumer durables and building materials also witnessed a moderation in demand. Micro finance institutions (MFIs), select private sector banks and NBFCs witnessed stress in their unsecured book.

Exhibit 8. India FMCG volume growth



Source: Nielsen IQ and JM Financial

Nifty50 3QFY25 PAT growth of 4.4% so far is below our expectations of 5.8%

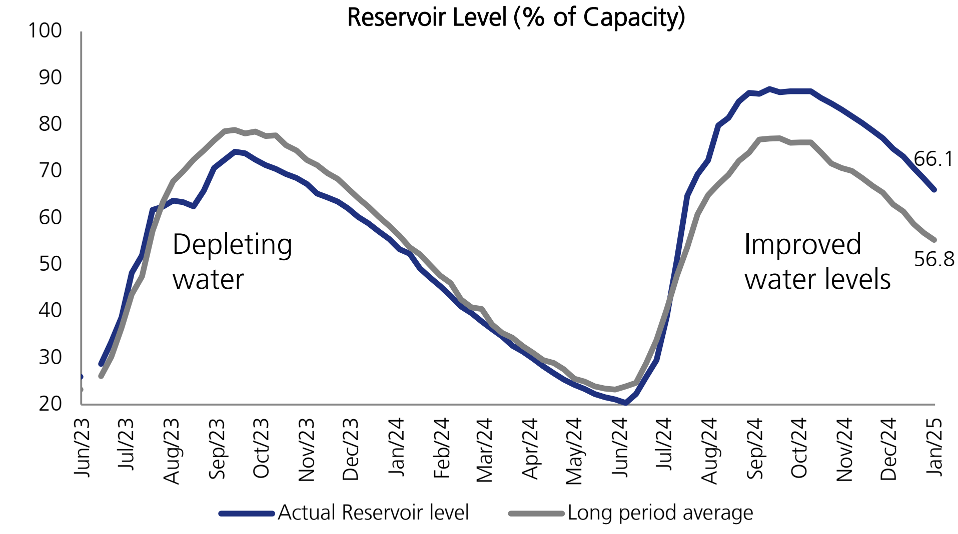
- 3QFY25 is set to be another quarter of modest performance with Nifty50 PAT growth at 5.8% YoY (ex-BFSI, growth is weaker at 2.1% YoY).
- 26 Nifty50 companies that have reported numbers are tracking 4.4% YoY growth so far.

Why should earnings growth improve in FY26?

Unlike CY24, the rural economy should do better in CY25 on good monsoons and reservoir levels improving above long period averages

- 'Nil tax' up to INR 1.2mn (1.275mn for salaried individuals) and rejigging of tax slabs should support consumption (both discretionary and non-discretionary), especially in the urban economy.
- 2025 has only three state elections (West Bengal, Delhi, and Bihar), which is a positive.
- Unlike CY24, the rural economy should do better in CY25 on the back of good monsoons and significant improvement above the long period averages in reservoir levels. This has given confidence to the farmers and led to higher crop sowing, which should eventually reflect in higher income.

Exhibit 9. Domestic reservoir levels are at comfortable levels currently

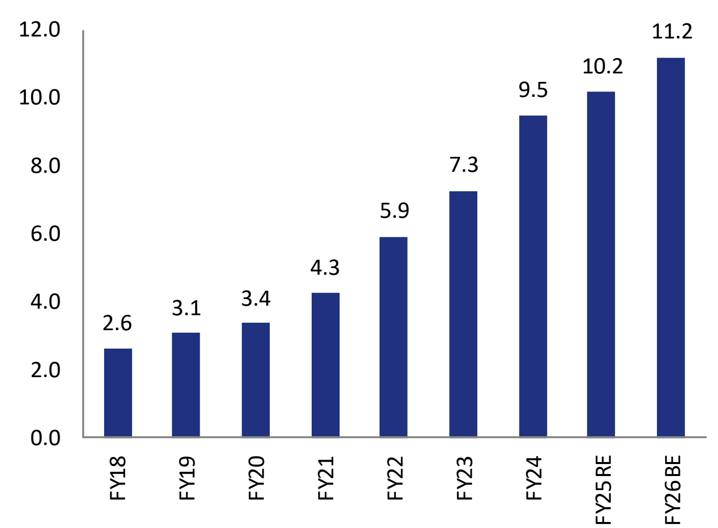


Source: CMIE and JM Financial

- Government capex growth should be much better at 10% in FY26 vs. 7% in FY25 given there are no impediments like general elections in FY26.

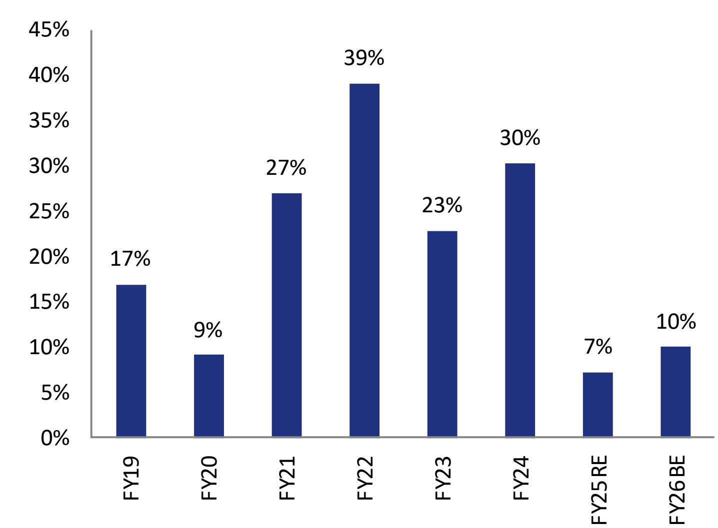
Capex growth should be better at 10% in FY26 vs. 7% in FY25

Exhibit 10. Government capex investments (INR trln)



Source: India Budget, JM Financial

ibit 11. Growth in capex investment (%)



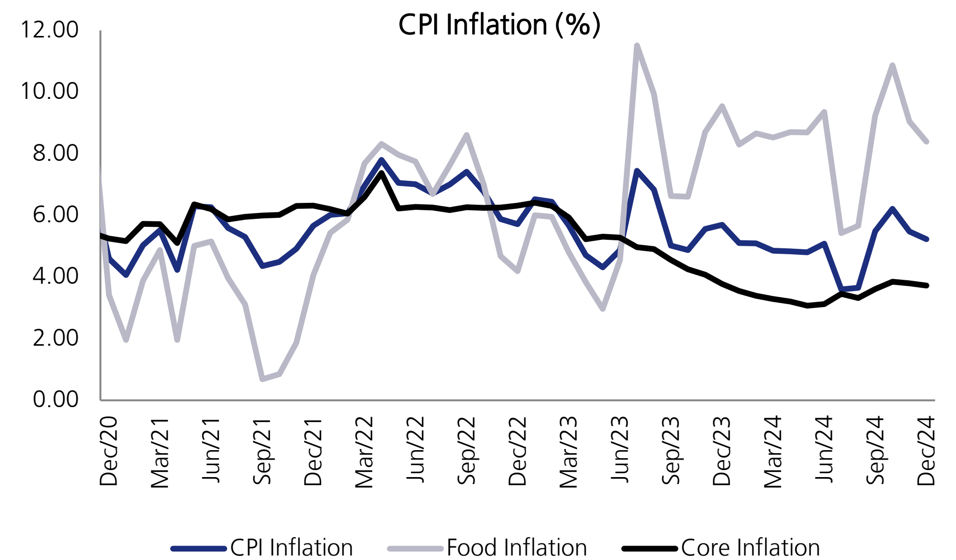
Source: India Budget, JM Financial

Will RBI cut interest rates?

Inflation could ease to 4.5-4.6% levels

- Despite recent easing in CPI inflation to 5.22% in Dec'24, the monthly reading continues to be elevated when compared to RBI's target of 4%. The volatile component vegetable inflation has been the major reason that has kept the headline elevated ever since Jun'23. It is pertinent to note that despite the policy restraint since Feb'23 (6.5%), the progress in inflation has not been meaningful. Core inflation has been trending lower and has been consistently below the 4% mark.
- We expect inflation to trend lower in the near term ~ 4.5-4.6%, while RBI expects inflation to average 4.8% in FY25. Appropriate supply side measures will be warranted to address the inflationary environment as we believe that monetary policy alone will not be effective in resolving this issue; hence, a coordinated approach will be warranted.

Exhibit 12. India CPI, food and core inflation



Source: RBI and JM Financial

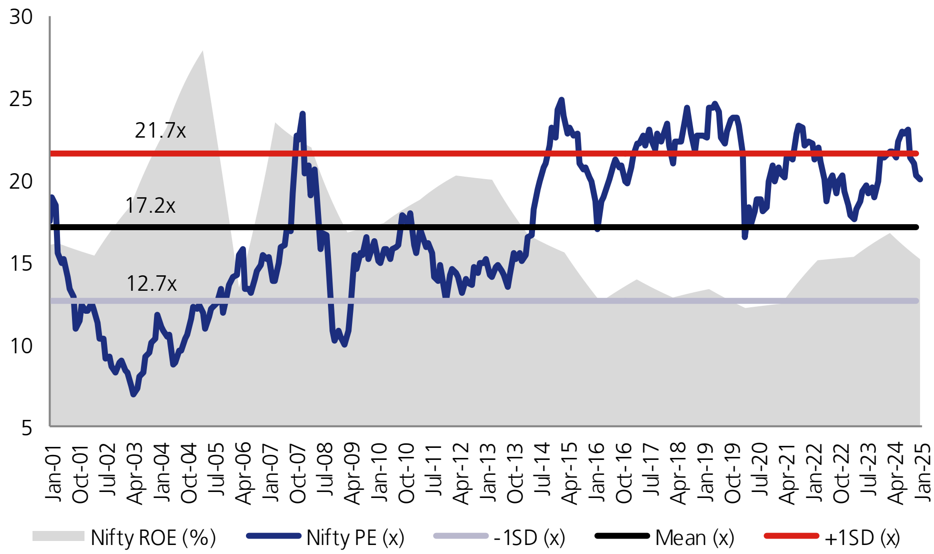
Rate cut cycle could start from Feb'25

- RBI's decision on a rate cut has got complicated by the fact the rupee has been depreciating against a strong USD, and the US Fed's recent pause.
- RBI has already spent ~USD 80bn to defend the currency. However, given the rupee is overvalued based on REER, RBI might cut rates over the next 6 months even at the cost of some currency depreciation.
- The RBI's recent measures around bond purchases, repo operations and currency swaps were with intended to address the liquidity situation, which had turned deficit to the tune of INR 3.1trln. Collectively, these measures will aid in improving the liquidity situation to comfortable levels and yields should ease as well. On the currency front, the strengthening dollar has been exerting pressure on emerging market (EM) currencies including INR, hence, the currency swaps were announced.
- A change in guard at the RBI with a new Governor has sparked hopes of the start of the rate cut cycle from Febr'25. In our base case, we are building in a shallow (50-75bps) rate cut cycle for 2025.

Market not as expensive after the recent correction

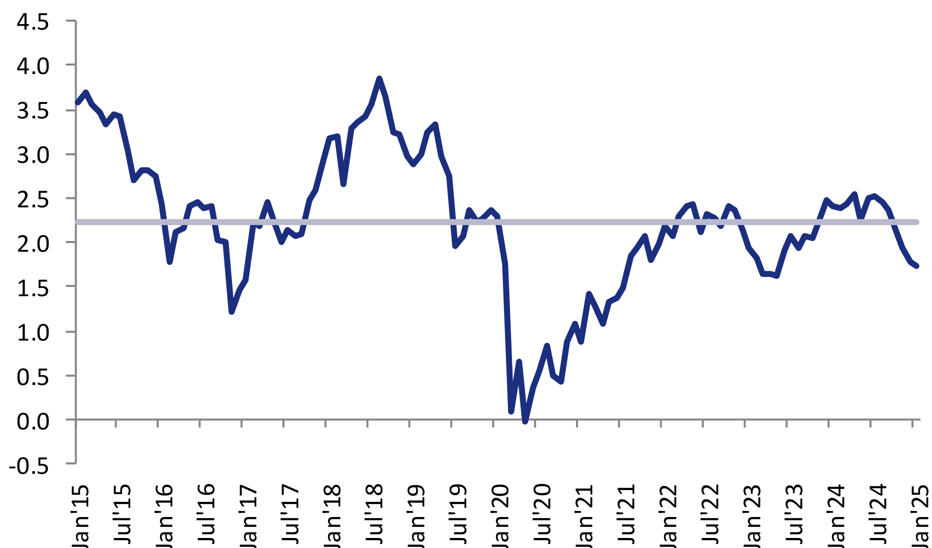
- The Nifty50, Nifty Midcap 100 and Nifty Small Cap 100 indices are down 12%, 14% and 16% respectively from their recent peaks in 3QFY25. Valuations are relatively less expensive now with Nifty50 large cap valuations having dipped below 1 standard deviation above mean.
- Interestingly, the bond yield premium above earnings yield (10 year G-Sec yield – 1 year forward Nifty50 earnings yield) currently stands at 173 bps, and has fallen below the 10-year mean of 223bps, which implies the market is cheaper than what the Nifty50 P/E multiples suggest.
- Midcap and small cap valuations still seem expensive even though earnings growth might be stronger in these names vis-à-vis large caps.

Exhibit 13. Nifty 50 Index - 1 year forward P/E (x)



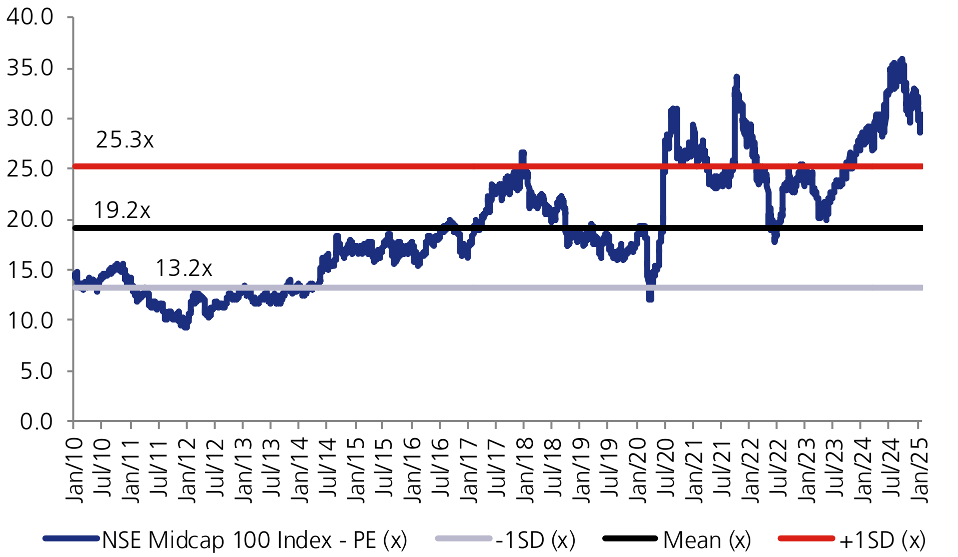
Source: Company, JM Financial

Exhibit 14. Bond yield premium over earnings yield (10 year G-Sec yield - Nifty yield)



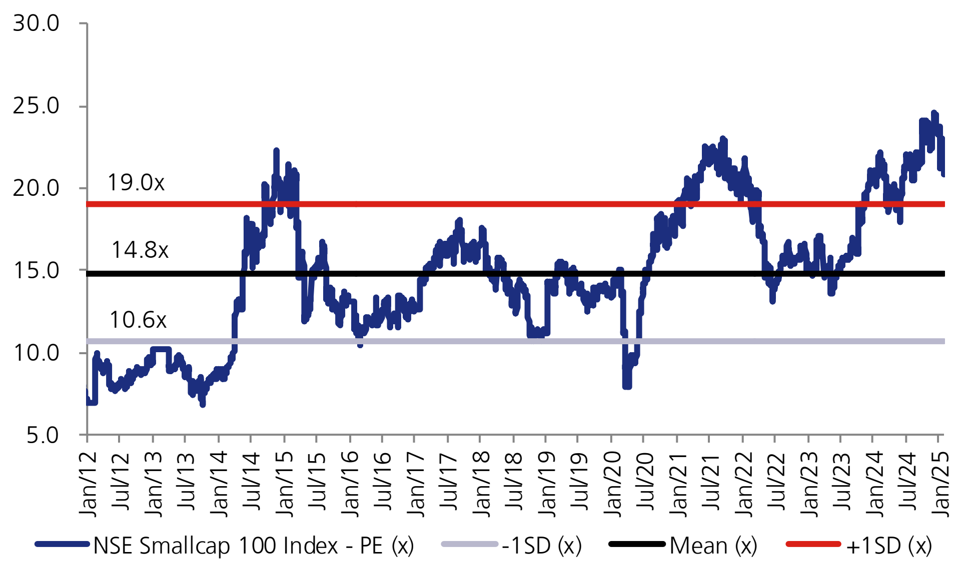
Source: Bloomberg, Industry, JM Financial

Exhibit 15. Nifty Midcap 100 Index – 1 year forward P/E



Source: Bloomberg and JM Financial

Exhibit 16. Nifty Smallcap 100 - 1 year forward P/E



Source: Bloomberg and JM Financial

FII selling continues in Jan'25

Our analysis suggests that significant FII outflows have historically led to sharp corrections in the Indian markets. In most instances wherein the Nifty 50 has declined > 5% in a month, FII flows have been negative. In 3QFY25, FIIs offloaded Indian equities to the tune of INR 991bn (USD 11.8bn). A part of this was counterbalanced by DII inflows of INR 1859bn (USD 22.1bn). A key driver of this is the increasing retail participation in equity markets through SIP flows, which has been consistently going up.

In 3QFY25, FIIs offloaded Indian equities to the tune of INR 991bn (USD 11.8bn). FII selling has continued in Jan'25 with outflows of INR 755 bn (USD 8.8bn) so far

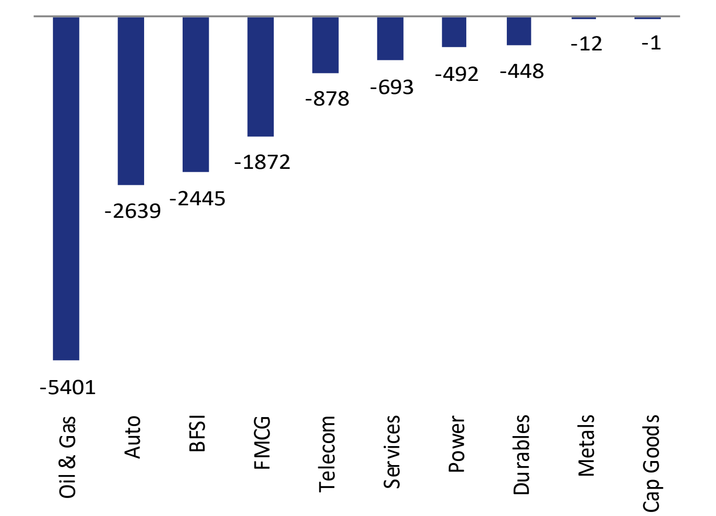
- **Sectors with highest FII outflows in 3QFY25:** (1) oil & gas - USD 5.4bn, (2) auto and auto components - USD 2.6bn, (3) BSFI - USD 2.4bn, and (4) FMCG- USD 1.9bn,
- **Sectors with highest FII inflows in 3QFY25:** (1) IT - USD 1.4bn, (2) realty - USD 641mn, (3) pharma - USD 492mn, and (4) chemicals - USD 143mn.

FII selling has continued in Jan'25 with outflows of INR 755bn (USD 8.8bn) so far.

Is money flowing back to the US?

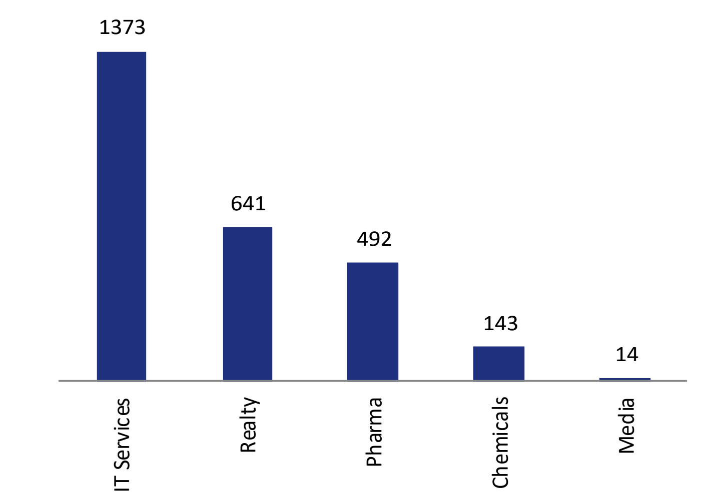
- The results of the 2024 US presidential elections announced in Nov'24 indicated that Donald Trump and the Republicans had gained control over all the three branches of the US government. Trump also won the popular vote, something he was unable to do in 2016. We believe Trump's plans for lower corporate taxes, higher import tariffs, and deportation of illegal immigrants will result in growth in the US economy, higher inflation, higher interest rates and a stronger US dollar.
- This is tempting FIIs to take at least some portion of their money back to the US.

Exhibit 17. Sectors with highest FII outflows in 3QFY25 (USD mn)



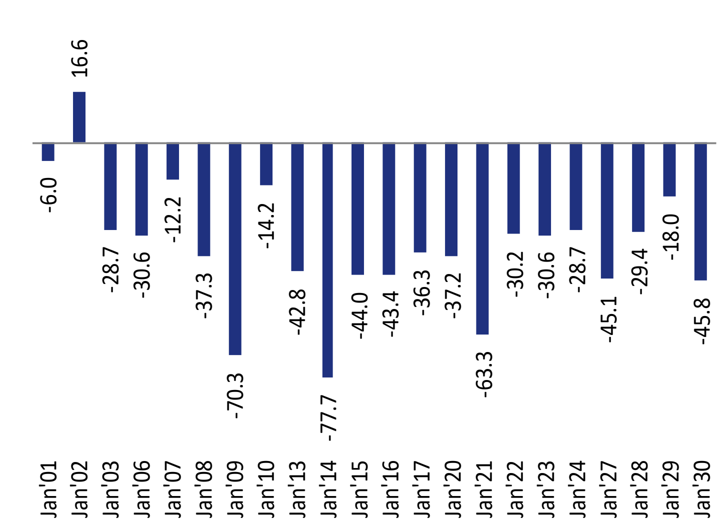
Source: NSDL, JM Financial

Exhibit 18. Sectors with highest FII inflows in 3QFY25 (USD mn)



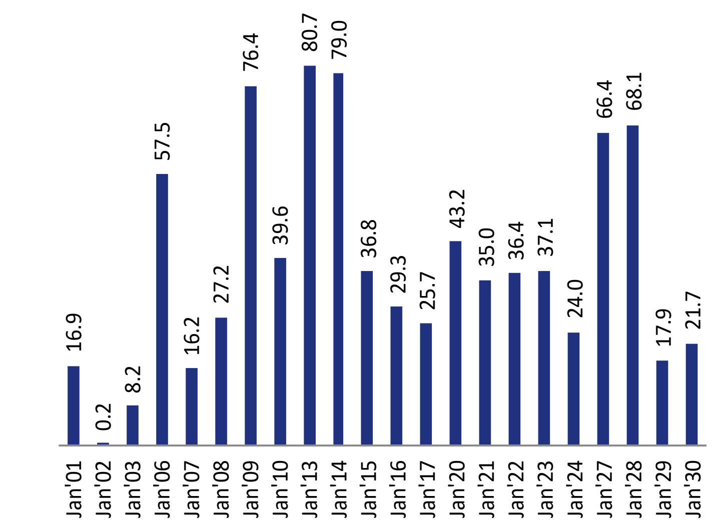
Source: NSDL, JM Financial

Exhibit 19. FII flows CYTD (INR bn)



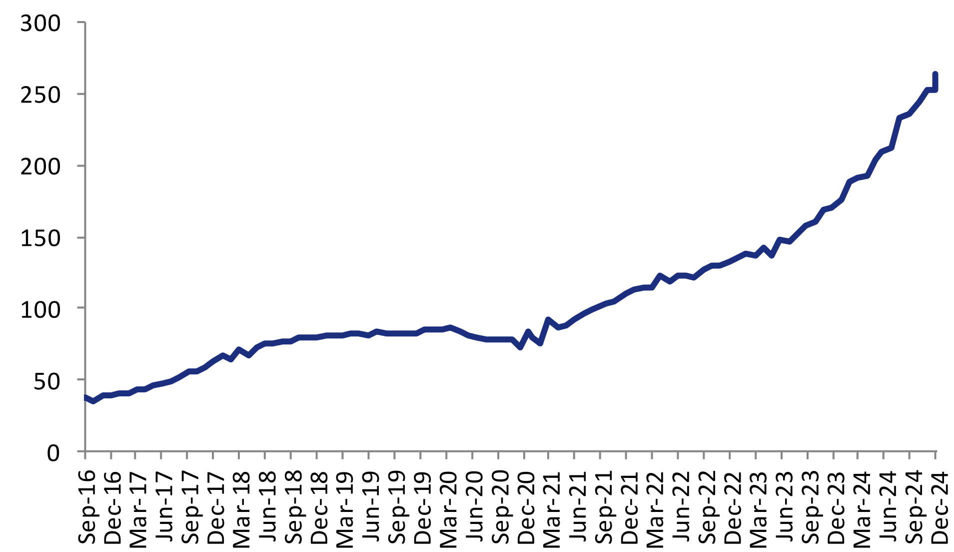
Source: NSDL, Industry, JM Financial

Exhibit 20. DII flows CYTD (INR bn)



Source: NSDL, Industry, JM Financial

Exhibit 21. Historical data on monthly SIP flows (INR bn)



Source: AMFI, JM Financial

Budget FY26 sectoral impact

Sector	Budget Announcement	Impact	Companies impacted	Overall Impact (Positive, Neutral, Negative)
Auto & Auto Ancillaries	**PM E-DRIVE**: Slight increase in budgetary outlay (INR 1bn). **PLI on Autos**: Increase in budgetary outlay (from by INR 3.5bn to INR 28bn) and measures for ensuring faster release of funds and incentivising the export of EVs. **PM-eBus Sewa-Payment Security Mechanism (PSM):** Introduced PSM for procurement and operation of e-Buses with budget outlay of INR 5bn by Public Transport Authorities. **Customs Duty**: Multiple capital goods/machinery and raw materials for use in the manufacture of lithium-ion batteries for EVs will be exempted.	Electric vehicle (EV) manufacturers across segments (2Ws, PVs, CVs, Buses).	Incumbent and new-age EV OEMs and component suppliers	**Positive**
Aviation	Modified UDAN which will be launched to enhance regional connectivity to 120 new destinations and carry 4cr passengers in the next 10 years.	More destinations to lead to better demand and revenue opportunities for Airlines like Indigo.	Indigo	**Positive**
BFSI	**Life Insurance:** Background - For ULIPs where the premium payable for any year is less than 10% of the sum assured and aggregate premium is less than 2.5 lakh, the sum received is exempt from tax. For ULIPs which are not exempt, the gains received were earlier classified as income from other sources. (Tax applicable as per slab rate) **Budget Announcement:** With the new amendment, the ULIPs which are not exempt will be considered as capital assets and the gains from them will be considered as capital gains and taxed accordingly.	This is neutral for insurance companies. Apart from this, no tax change was imposed on insurance products.		**Neutral**
Building Materials	**Extension of Jal Jeevan Mission to 2028:** Since 2019, 15cr households representing c.80% of the rural population have been given access to tap water connections. **Launch of SWAMIH Fund 2:** Under the Special Window for Affordable and Mid-Income Housing (SWAMIH) 50,000 units have been completed, and keys handed over to home-buyers and another 40,000 be completed in 2025.	On the backdrop of this, Budget aims to achieve 100% coverage under Jal Jeevan Mission through enhanced outlay. SWAMIH Fund 2 with outlay of INR 150bn will provide finance facility and aims for expeditious completion of another 1 lakh units.	Century Ply, Kajaria, Astral	**Positive**
Cement	In FY25RE, amount to be spent on PMAY (R+U) has significantly reduced to INR 476bn (+10% YoY, 44% reduction from BE figure). In FY26 BE, has increased by 64% YoY to INR 781bn.	Increased allocation in PMAY schemes is positive for cement companies.	UltraTech, Ambuja, Shree, JK Cement etc.	**Positive**
Agri Inputs	Reduction in custom duty on import of phosphoric acid to 7.5% from 20%, effective from 1st May'25.	This is positive for non-backward integrated phosphatic fertiliser manufacturers.		**Positive**
Consumer Discretionary	**Tax:** Reduction of Income tax rate (slab rate reduced). **Product schemes:** Introduced focussed product scheme for footwear to enhance product, quality, and competitiveness of India's footwear sector. The scheme is expected to facilitate employment for 22 lakh persons, generate turnover of INR 4trln and exports of over INR 1.1trln. Also, decreased custom duty on some footwear products from 35% to 20% but increased AIDC (cess) from 0% to 18.5%, resulting in net increase of 3.5%. **Duty:** Increase in custom duty on import of knitted fabrics from 20%/10% to 20% or INR 115/ kg, whichever is higher.	Rate reduction will lead to savings of INR 80k to110k, which will help to boost the demand in overall discretionary segment (Apparel, footwear, QSR, Jewellery, etc.). Net increase of duty on footwear is in line with the government's intention to curb the import of footwear products via implementation of BIS regulations. Increase of duty on knitted fabrics will benefit the companies producing products in India as the competition from cheap products imported from Bangladesh/ Sri Lanka will reduce.	- Positive for all the consumer discretionary companies - Positive for Campus Activewear, Relaxo - Marginally negative for companies like Trent	**Positive**
Consumer	**Taxes:** Tax exemption for income upto INR 12lakh & change in tax slabs under new tax regime. **Cigarettes:** No change in tax rate for cigarettes	Will boost consumption (especially for middle class) with increase in disposable income and positive for organised cigarette players as stable tax regime supports volume trajectory.	Entire Consumer Staples and Discretionary space and ITC	**Positive**
Consumer Durables	The new structure will substantially reduce the taxes of the middle class and leave more money in their hands, boosting household consumption, savings and investment.	Will boost consumption and thus will be positive for durables companies.	Positive impact on Havells, Voltas, Bluestar	**Positive**
Consumer Electricals	No major announcements.	Not much.	KEI, Polycab	**Neutral**
Defence	Defence Capital outlay at INR 1.8trln (up 13% vs. FY25RE, and 5% above FY25BE).	Directionally positive for Defence PSU and private players.	BEL and Data Patterns	**Neutral**
Electronics Manufacturing Services	Change in BCD on certain products: (1) BCD on flat panel displays hiked from 10% to 20%. (2) BCD on open cell has been brought down to 5% from 10%/15% and parts of open cell brought down from 2.5% to nil. (3) 3. BCD on parts used in PCBA, camera module, and connectors of mobile phones brought down from 2.5% to nil.	BCD going up on Flat Panel Display going up from 10% to 20% a positive and should incentivise local manufacturing. Open Cell is a key component used in TVs, BCD on which has been cut, hence, this too, is a positive. Cut in parts used in mobile components should help mobile manufacturers as they deepen their capabilities.	Dixon	**Positive**
Hotels	Central government to develop the top 50 tourist sites in partnership with the state governments, which will include infrastructure upgrades to improve accessibility and traveller's experience.	Can stimulate inbound tourism and demand for room nights around these locations.		**Positive**
Healthcare	**Medical education:** 10,000 additional seats to be added in medical colleges with an aim to add 75,000 seats in next 5 years. 200 cancer centres will be established in 2025-26.	Some announcements in the budget that could benefit Hospitals (increased supply of Healthcare Professionals and increase in Medical tourists) and MNC Pharma companies (BCD exemption of patent protected cancer drugs) over the	Long-term positive for Hospitals & Pharma MNC companies	**Neutral**

Sector	Budget Announcement	Impact	Companies impacted	Overall Impact (Positive, Neutral, Negative)
	Medical tourism: Easing visa norms could be beneficial for Medical tourism. **Duties:** 36 drugs will be added to list of drugs fully exempted from custom duty and 6 lifesaving medicines added to the list attracting concessional custom duty of 5%. Full exemption benefit will also apply on bulk drugs for manufacturers. **Patient assistance programmes**: run by pharma companies exempt from BCD, provided the medicines are supplied free of cost to patients.	long term.		
Industrials	**Expenditure:** Overall capital expenditure target of INR11.2trln, up 10% vs. FY25RE (Flat vs. FY25BE) (3.5% of GDP). Railways capex budget at INR 2.5trln (same as FY25RE and FY25BE). **Support for clean Tech Manufacturing**: to boost domestic value addition and build ecosystem for solar PV cells, EV batteries, motors and controllers, electrolysers, wind turbines, very high voltage transmission equipment and grid scale batteries. **SMRs:** Target to install at least 5 indigenously developed SMRs by 2033 to be beneficial for small component players.	Focus to boost clean tech and overall manufacturing is directionally positive for companies catering to overall capex story play.	ABB, Siemens, Cummins, KOEL, Thermax	**Neutral**
Infrastructure/ Construction	**Aggregate capex:** INR 11.2trln (+10% over FY25RE of INR 10.18tn) but remained flat over FY25BE of INR 11.1trln. Allocations for key verticals like Roads, Railways and Water also remained muted over FY25BE. **Roads and Bridges (MORTH):** INR 2.87trln, +2.4% over FY25RE of INR 2.81trln. Of this, NHAI: INR 1.7trln, +0.5% over FY25RE of INR 1.69trln. **Railways:** INR 2.65trln, flat over FY25RE/FY25BE. **Housing and Urban Development:** INR 1.59trln, +50% over FY25RE of INR 1.06trln (+27% over FY25BE of INR 1.25tn). **Defence (capex):** INR 1.8trln, +13% over FY25RE of INR 1.6trln (+5% over FY25BE of INR 1.72trln). **Renewable Energy:** INR 620bn, +27% over FY25RE of INR 490bn (+24% over FY25BE of INR 498bn).	Allocations for key ministries like highways, railways, water remained muted vs. expectations of upward revisions given the muted growth in previous budget. Muted allocation is sentimentally negative for the infrastructure sector. Weak growth in allocation for roads is also reflective of slower project awards in FY24/25. Having said that, we expect highway awarding to pick up with relatively higher focus on PPP models (HAM and especially BOT-Toll) than in previous years.	L&T, NCC, KEC International, Kalpataru Projects, PNC Infratech, GR Infraprojects, HG Infra, KNR Constructions, Ashoka Buildcon, Ceigall India	**Negative**
Internet	**Paytm:** The UPI Incentive budget for FY26 is decided at INR 437cr versus budgeted INR 1,441cr for FY25. To be noted, the actual number for FY25 has been revised upwards to INR 2,000cr. While the actual number for FY26 could also be higher, the overall direction is downward, as the final number is unlikely to reach INR 2,000cr. Consequently, this is a negative development for the stock. **PB Fintech:** Changes in income tax rates have made the new tax regime more appealing, where deduction under Section 80C (Life Insurance investments) and 80D (health insurance) is not applicable. Since PB Fintech's typical customer base falls within the INR 10-30lakh income bracket who are likely to shift towards the new tax regime, this is negative for PB Fintech as this becomes less attractive. **Delhivery:** With India Post expected to do logistics, Delhivery's moat of having the most distributed platform takes a minor hit but the company obviously is a different beast than what India Post would ever become. **TBO Tek:** Increase in threshold for TDS /TCS for remittance under LRS and overseas tour programme package from present INR 7lakh to INR 10lakh, TBO Tek is likely to benefit as India outbound travel contributes more than 2/3rd to its India GTV (Contribution to consol GTV - around 1/3rd). **Zomato and Swiggy:** Government will arrange identity cards and registration on the e-Shram portal for gig workers of online platforms. They will be provided healthcare under PM Jan Arogya Yojana. This measure is likely to assist nearly 10 million gig workers. This will have no impact on Zomato and Swiggy. **Travel tech:** 1) A modified UDAN scheme will be launched to enhance regional connectivity to 120 new destinations and carry 4cr passengers in the next 10 years, 2) Greenfield airports facilitated in Bihar to meet the future needs of the		Positive for Zomato, Swiggy, Nykaa, FirstCry, ixigo, Yatra, TBO Tek. Negative for Paytm and Policybazaar, Delhivery	**Neutral**

Sector	Budget Announcement	Impact	Companies impacted	Overall Impact (Positive, Neutral, Negative)
	state, in addition to the expansion of the capacity of Patna airport and a brownfield airport at Bihta. (ixigo likely to benefit the most due strong brand presence in the state of Bihar) 3) Top 50 tourist destination sites in the country will be developed in partnership with states through a challenge mode. 4) Introducing streamlined e-visa facilities along with visa-fee waivers for certain tourist groups.			
IT Services	**National framework for GCC & Centre of Excellence for AI:** The FM announced that a national framework will be formulated as guidance to states for promoting Global Capability Centres in emerging tier 2 cities, and announced CoE in AI for education with a total outlay of INR 5bn. **National geospatial Mission:** The FM announced the start of a National Geospatial Mission to develop foundational geospatial infrastructure and data. Using PM Gati Shakti, this mission will facilitate modernisation of land records, urban planning and design of infrastructure projects.	**GCC framework:** This announcement is a positive development for IT services companies. This will drive GCC deals and related revenues for IT services companies. Coforge in 3QFY25 results announced their GCC CoE. GCCs are expected to become an integral part of their business. Persistent also announced in 3QFY25 that they are enhancing their focus on global capability centres. **Geospatial Mission:** This announcement is a positive development for MapMyIndia IN. MapMyIndia in 3QFY25 results announced its participation in government projects. The budget announcement is likely to accelerate the ramp-up of these projects. Modernisation of land records and use of geospatial data in infrastructure projects will drive C&E segment revenue.	Coforge, Persistent, Infosys, TCS, HCITech, LTIM, Wipro, TechMahindra	**Positive**
Media	**Tax reduction:** The budget included significant tweaks to the direct tax regime. Net tax for tax payers upto income of INR 12 L was reduced to nil and the revised tax rate structure lowered direct taxes for all taxpayers.	This is a positive development for broadcasters such as (ZEE, SUNTV). Lower taxes would increase discretionary spending among consumers which would be a boost to FMCG companies. Increased momentum in FMCG would drive Advertising and Promotion spending driving ad revenue for broadcasters. A rise in discretionary income is also a positive for PVR-INOX. Increase in movie watching and therefore occupancy can be expected.	Zee Enterprises, Sun TV, PVR-INOX	**Positive**
Metals & Mining	Jal Jeevan Mission is now extended till 2028 to cover 100% rural households with enhanced outlay and budgeted outlay for FY25 increased marginally to ~INR 702bn from INR 700bn in FY24.	More demand for water infrastructure under JJM, -DI pipes.	Welspun Corp	**Positive**
Oil & Gas	FY26 LPG subsidy budgeted only at INR 147bn for FY25RE (from INR 119bn FY25BE) and INR 121bn for FY26BE. However, above lower LPG compensation is partly offset by the fact that the government has not hiked the excise duty on auto fuel as FY26 BE Excise duty estimate up only 4% at INR 3,170bn (vs. FY25RE of INR 3,050bn).	FY26 LPG subsidy budgeted only at INR 147bn for FY25RE (from INR 119bn FY25BE) and INR 121bn for FY26BE - this is negative for OMCs as OMCs' potential LPG loss could be INR 350bn-400bn in FY25 and press reports had suggested that oil ministry had requested for ~INR 400bn LPG compensation to OMCs. However, government may increase LPG provision later during the year via taking approval for supplementary grants (as it has done in the past as well). However, above lower LPG compensation is partly offset by the fact that government has not hiked the excise duty on auto fuel as FY26 BE Excise duty estimate up only 4% at INR 3,170bn (vs. FY25RE of INR 3,050bn) - there was scope for INR 3-4/ltr hike in excise duty on auto-fuel. OMCs gross marketing margin is INR 6.0/ltr on diesel and INR 9.7/ltr on petrol resulting in Rs7.2/ltr blended auto-fuel GMM (above historical GMM of +Rs3.5/ltr). While weighted average auto-fuel integrated gross margin of Rs13.5/ltr (above its historical integrated auto-fuel gross margin of ~Rs11.7/ltr) assuming 1:1 marketing vs. refining volume.	OMCs (IOCL, BPCL, HPCL)	**Negative**
Power & Utilities	**Commitment to climate-friendly development.** Aim to improve domestic value addition and build our ecosystem for solar PV cells, EV batteries, motors and controllers, electrolysers, wind turbines, very high voltage transmission equipment and grid scale batteries. **Incentives:** The government will introduce incentives for electricity distribution reforms and the augmentation of intra-state transmission capacity by state governments. To encourage the adoption of these reforms, the budget permits additional borrowing of 0.5% of GSDP by states. **Nuclear energy:** Vikisit Bharat mission of additional 100GW of nuclear energy by 2047 is essential for the country's transition efforts. **Atomic Energy:** Amendments will be done to the Atomic	Distribution sector to get support. Nuclear energy is back on radar. Reiterates commitment to support RE manufacturing.	Clean energy manufacturing (Waaree, Premier, Suzlon, Inox, etc.) Nuclear (BHEL, L&T) Utilities (NTPC, Tata Power, Torrent Power, CESC)	**Positive**

Sector	Budget Announcement	Impact	Companies impacted	Overall Impact (Positive, Neutral, Negative)
	Energy Act and Nuclear Damage Act to support development of nuclear power. Active partnership with private sector for development of nuclear power. At least 5 Small modular Reactors to be operational by 2033. For R&D of SMR capex of INR 200bn. 35 additional manufacturing capital goods for manufacturing for EV batteries.			
Real Estate	Tax payers to be allowed to claim annual value of 2 self-occupied houses w/o any conditions (previously conditions were applicable - due to employment, business or profession carried on at any other place). Launch of SWAMIH Fund II with outlay of INR 150bn for last mile funding of stalled projects - aiding the completion of another 1 lakh dwelling units. Formulation of a national framework to guide states in promoting GCCs in emerging tier II cities.	Benefits the taxpayer, as the second property will have no tax incidence. Helps clear NPA accounts - positive for Banks/NBFC and helps to ease the EMI burden on homebuyers. Promotes India as a prominent offshoring location maintaining the cost advantage, no immediate benefit.	No major P&L impact for publicly listed companies	
Telecom	Telecom revenue budgeted at ~INR 824bn for FY26 (vs. FY25 RE of INR 1,234bn, FY25 BE of INR 1,203bn and FY24 actual revenue of ~INR 906bn). Central government's support to BSNL budgeted at ~INR 338bn for FY26 (vs. FY25 RE of INR 720bn and FY24 actual support of ~INR 568bn). There were no details around any potential AGR relief for telcos as suggested by press reports. Tax liability for tax payers upto income of INR 12L is reduced to NIL and the revised tax rate structure lowered direct taxes for all taxpayers.	Telecom revenue budgeted at ~INR 824bn for FY26 (vs. FY25 RE of INR 1,234bn, FY25 BE of INR 1,203bn and FY24 actual revenue of ~INR 906bn) - this YoY decline in revenue in FY26 is due to lower revenue receipts from BSNL and hence, it is neutral for telecom sector. GoI's support to BSNL budgeted at ~INR 338bn for FY26 (vs. FY25 RE of INR 720bn and FY24 actual support of ~INR 568bn) - this investment is utilised by BSNL for various purposes including payment to DoT for 4G/5G spectrum and also for investments in network and related technologies. Hence, only a portion (though a major part) of such infused capital shows up as DoT's receipts from BSNL. This is largely non-cash entry; as on the one hand the government infuses equity into BSNL, and on other hand it takes it away in lieu of 4G/5G spectrum allocation. There were no details around any potential AGR relief for telcos as suggested by press reports - negative for VIL and largely neutral for Bharti/Jio. Tax liability for tax payers upto income of INR 12L is reduced to NIL and the revised tax rate structure lowered direct taxes for all taxpayers - this is sentimentally positive for the sector as this improves the customer affordability to absorb the future tariff hikes.	Bharti Airtel, RIL, Bharti Hexacom and VIL	**Neutral**
Exchanges	Revamped Central KYC to be launched in 2025 to ease KYC for investors.	Directionally negative for CDSL (KYC revenue to be impacted); subject to further details.	CDSL	**Negative**

Source: Budget documents, JM Financial

Brief thesis on our top picks post Budget FY26

- **Reliance:** We have a BUY on RIL (1 year TP of INR 1,660; 32% upside) as we expect net debt to decline gradually as capex will not only moderate (INR 1.2trln-1.4trln p.a. vs. INR 2.3trln in FY23 and INR 1.3trln in FY24) but, importantly, also be funded by a gradual increase in internal cash generation. Be that as it may, we believe RIL could still drive a robust 14-15% EPS CAGR over the next 3-5 years with Jio's ARPU expected to rise at 11% CAGR over FY24-28 with ARPU being on a structural uptrend given the industry structure, future investment needs, and the need to avoid a duopoly market. The recent weakness in RIL's share price (down ~20% in the last 4 months) seems primarily due to: a) 5-6% downgrade in consensus FY25 EBITDA estimate driven by weak O2C and Retail business earnings; and b) limited clarity on Jio's listing timeline. Further, this was aided by accelerated stake sale by FIIs (down 114bps during Oct-Dec'24 to 21.4% at end-Dec'24). Hence, at CMP, RIL is trading near our bear-case valuation of INR 1,230. Sustainability of recovery in growth in Retail business and sustenance of robust GRMs are key earnings based triggers; while clarity on the potential timeline and valuation for Jio's listing could be a possible event-based trigger in the near term. At CMP, the stock is trading at FY27E P/E of 16.0x (3-yr avg: 24.7x) and FY27E EV/EBITDA of 8.5x (3-yr avg: 12.6x). Key risks: a) continued high capex, resulting in rising net debt with limited earnings visibility from new projects; b) weak subs addition and limited ARPU hike; c) muted growth in Retail business; and d) subdued O2C margins due to macro concerns.

- **Tata Consultancy Services:** Fine print of TCS' 3Q results and commentary was positive. Deal wins picked up, taking LTM book-to-bill to 1.3x. Leakages, ex-BSNL, reduced, implying better revenue conversion ahead. Deal wins were also granular (no mega deals) and widespread (geos and verticals), possibly a precursor to consistent growth ahead. Deal decision cycle improved too, implying faster pipeline to deal conversion. These, we believe, underpin the management's confidence of a better CY25 (vs. CY24). TCS currently trades at 24x FY27E EPS, at 5-year median. Its valuation premium to large-cap IT is also at a decadal low. The current risk-off sentiment coupled with TCS' resilient and improving outlook makes it our top pick in the sector.

- **Bharti Airtel**: We reiterate the high conviction we have on our BUY rating on Bharti Airtel (TP of INR 1,850; 14% upside) as we believe India wireless business tariff hikes are likely to be more frequent given the consolidated industry structure, and higher ARPU requirement for Jio not only to justify its significant 5G capex but also given its potential listing plans. Bharti is the biggest beneficiary of higher tariffs given the sticky and premium quality of its subs. We expect Bharti's India wireless ARPU to grow at a CAGR of ~11% to +INR 310 in FY28 driving consolidated EBITDA CAGR of ~13% over FY24-28. Further, Bharti and Jio's managements have reiterated that capex hit a peak in FY24 and is likely to moderate from FY25 with pan-India rollout of 5G achieved by Dec'23 (for Jio) and Mar'24 (for Bharti and BHL). Thus, we estimate Bharti's India business FCF to rise to ~INR 287bn/ INR 355bn in FY25/FY26 and Jio's FCF to rise to ~INR 244bn/ INR 374bn in FY25/FY26; Bharti/BHL/Jio are likely to get to net cash position by FY29-30 further aiding in accretion in equity value. At CMP, Bharti India business trades at 10x FY27 EV/EBITDA.

- **ITC:** No change in cigarette taxation (in Union Budget) is a positive which along with the government's thrust on rural and support to urban middleclass (under the new tax regime) should ease pressure on the consumer's wallet and result in better volume growth for overall business. ITC's wide portfolio in foods & HPC, leadership position in cigarette and large distribution stands to benefit. Valuations at 26x/ 24x FY26/ 27E provide comfort, and with demerger of the hotels business (had high capex) RoCE profile is expected to improve, which should aid rerating. We have BUY rating with TP of 550 (28x Dec'26E EPS).

- **Bajaj Finance:** BAF is one of the only few large cap companies across our financials coverage that will grow 20%+ over the couple of years (25% CAGR over FY24-27E) with healthy profitability (avg RoA/RoE of 4.1%/21% over FY25-27E). Moreover, it was the first company to proactively identify current stress in unsecured segments and, therefore, cut down its exposure to these segments (currently nil exposure to MFI loans). We believe the current valuations at 24x FY26e/19x FY27e EPS offers an attractive opportunity given its strong RoA/RoE profile and ability to grow across cycles. We roll forward our estimates to FY27E and expect earnings CAGR of 25% over FY24-27E with consistent 4%+ RoAs and 20%+ RoEs. Our TP is INR 9,350 at 22x FY27e EPS.

- Larsen & Toubro: Robust order backlog of INR 5.64trln (3.1x TTM P&M revenue) as of Dec'24 spread across Infrastructure, Hydrocarbons, Defence, Power etc. Order inflow momentum remains strong backed by large order wins across verticals. P&M order inflows are up 18% YoY in 9MFY25 and L&T is likely to surpass its 10% growth guidance for FY25E. Expect EPS CAGR of 19% over FY24-27E for L&T's P&M business led by robust order backlog and margin expansion. Strong growth, reducing asset intensity (lower NWC & asset sales) and push from buyback should drive RoE expansion to 17.5% by FY27E (14.8% in FY24). Valuations at 27x/24x FY26/27E P&M business EPS remain well supported. We have a TP of INR 4,015 (P&M business valued at 30x Mar-27E EPS)

- Sun Pharma: Sun Pharma's positioning is unique among leading Indian generic players given its specialty heavy portfolio. This enables the company to avoid the pitfall of price erosion its generic peers face in the US market. In addition, the company's dominance in the Indian Pharma Market (IPM) and steady EM business will keep providing consistent cash flows to inorganically build its specialty portfolio in the future. We expect earnings for the company to be driven by - (1) Strong growth in 4-5 key specialty assets (Ilumya, Winlevi, Cequa and Odomzo); (2) New launches like Leqselvi, Sezaby and Nidlegy; and (3) Double-digit growth in IPM/EM. We build in EPS CAGR of 14% over FY24-27. The stock currently trades at 30x/28x FY26E/27E EPS. We maintain BUY with a TP of INR 2094.

- Maruti Suzuki: Maruti Suzuki (MSIL) has finally unveiled its first BEV, e-Vitara. And, its strategy to make India an export hub for EVs will be the key enabler for achieving scale. Underlying demand is showing signs of improvement. MSIL, with its tech-agnostic approach (ICE, hybrids, CNG, EV, etc.), remains well-positioned (and hedged) to cater to changing customer preferences. We expect multiple model launches over next 12-18 months (10+ new launches over the next 6-7 years including 6 new EVs and Hybrid models) to drive volumes. Near-term demand momentum is expected to be driven by CNG and UVs. Exports remains one of the key growth pillars. Strong ASP growth owing to this favourable shift in powertrain mix is still underappreciated by the Street and is expected to drive healthy operating leverage. We estimate revenue / EPS CAGR of 12% / 15% over FY24-27E. Valuations remain supportive (trading at ~20x FY27e EPS). We have a BUY rating on MSIL with TP of 15,100 (24x FY27e EPS). MSIL remains our top pick in the PV segment.

- DLF: DLF reported strong pre-sales of INR 120.9bn (up 34% YoY), led by record performance of its new launch (Dahlias) at DLF Phase. With this successful launch, sales for 9MFY25 stand at INR 191.9bn vs. the annual guidance of INR 170bn. The launch pipeline beyond FY25 has also been revised upwards to INR 704bn (from 635bn earlier). The annuity portfolio is also ramping up well and will generate INR 63bn in rental income in FY26. DLF with its steady annuity cash flows and fully paid-up land banks remains extremely well placed to scale up across segments and newer geographies.

- HDFC Life: Against concerns on a regulatory cap of sourcing business from banca channel, HDFC Life reported a respectable 11.3% growth from banca in 3Q to report 23.6% growth from the channel in 9M25. The management mentioned that it had received no communication from the regulator on any cap on banca share, even as it continues to focus on diversifying the channel mix. Margin improved by 40bps from 1H25 levels to 25.1%, 40bps ahead of JMFe. This implies margin of 26.1% for 3Q, down 77bps YoY, up 174bps QoQ. The management attributed this to improving margin in the ULIP business, with higher sum assured variants gaining more traction. With margin rising to 25.2%, the company should comfortably report 14% VNB growth for FY25. As we roll forward to FY27e, we see consistent 17%+ growth in VNB and EV for both FY26e and FY27e. At CMP, the stock trades at undemanding valuations of 2.1x FY26e EV/1.8x FY27e EV. This implies 19.2x/15.0x on VNB, after adjusting for VIF (Value in Force), cheap for 17% RoEV, 17.4% VNB CAGR. We value the company at 2.5x FY27e EVPS of INR 355 to get a TP of INR 900.

- Hindalco Industries: The outlook for Hindalco continues to be buoyant given a) resilient performance by India aluminium operations b) record high run rates in the copper business c) enhanced coal security post acquisition of Meenakshi, Meenakshi West and

Chakla coal mines as well as bauxite through Aditya FRP project. Given ~70%+ steady/strong EBITDA being non-LME linked, Hindalco remains our preferred play in the metal space. This will also lead to EBITDA growing at a faster rate than revenue. We expect EPS to grow at ~7% CAGR over FY24-27E. Fundamentally, spreads in the sector are on an uptrend with subdued coal price alongside elevated metal prices. We estimate a target price of INR760/sh for FY26E, implying an upside of ~30%.

- Godrej Consumer: The government's thrust on rural and driving urban consumption in the current budget augurs well for the overall FMCG sector. GCPL with higher salience in urban markets (c.65-70% of sales), initiatives on expanding distribution in rural and interventions in core categories (HI/Personal care) stands to benefit. This apart, international business remains on a strong footing, which provides better visibility on the overall earnings trajectory (CAGR of 22%) over FY25-27. Valuations at 50x/43x FY26/27E are closer to the 5-year average. We have a BUY with TP of INR 1,350 (50x Dec'26 EPS).

- Havells: We believe the recent relief in Budget 2025 on income tax should aid in more disposable income in the hands of the consumer, which can translate to more spends on consumer durables. Havells' strong distribution, focus on fresh investments in team and brand building and in-house manufacturing should continue to aid market share gain in the near to medium term. This coupled with its strong balance sheet should help it to invest in segments ahead of time and keep it ahead of competitors. New product innovation and increase in market share across ECD categories should aid robust revenue CAGR of c.15% over FY24-27E in the segment. For Lloyd, we expect (1) completion of appliances portfolio, (2) benefit from own domestic manufacturing, (3) focus on profitability and (4) opening of export opportunity and PLI – to result in revenue CAGR of c.19% over FY24-FY27. Havells currently trades at a P/E of 72x/55x/43x over FY25/26/27 respectively and we value it at a P/E of 50x on FY27 to arrive at a TP of 1900.

- SRF: We believe that SRF has a robust pipeline of new products to double its specialty chemicals top line over the next 4-5 years. Currently, its specialty chemicals business is on a recovery path with ramp-up of its new products. On the ref gas front, HFC pricing is favourable in both domestic and export markets. Beyond HFC, the company is looking to commercialise HFO in FY28. Moreover, chemicals business margins are trending upwards with better plant utilisation of both ref gas and specialty chemicals. Hence, there is a decent run way of growth with possibility of a further margin uptick. SRF is our top pick in chemicals large caps with Mar'26 TP of INR 3,115 (SoTP based).

- BHEL: Currently, 31GW of thermal power plants are under construction. The government is in fire-fighting mode to control a possible power deficit FY26 onwards and is targeting to add 93GW of thermal power plants by FY32. BHEL has received orders for 9,600MW of thermal power projects during FY24 (1,320MW in FY23). It bagged orders worth INR 480bn (INR 395bn power, INR 83bn industry, INR 2bn exports) in 9MFY25. With this, the order book stands at INR 1,601bn as of 31st Dec'24 (INR 1,213bn Power, INR 351bn Industry, INR 37bn Exports). Additionally, the company is favourably placed in 2x660 MW DVC Raghunathpur (SG), 3x800 MW NTPC Meja-II, 2x660 MW Korba, 1x660 MW Amarkantak, 1x660 MW Satpura, 1x800 MW Singareni , 2x660 MW Koradi (BTG EPC) and, 1x800 MW Ukai thermal projects. Further, NPCIL has invited proposals for setting up 220MW Bharat Small Reactors (BSR) for captive use. Most of the nuclear power plants in the country have been established by BHEL. This proposal from NPCIL is expected to unlock further growth opportunities for BHEL. With a growing and executable order book, pick-up in execution (32% YoY revenue growth in 3QFY25) and, improving margins (4.2%/3.9% during 3QFY25/3QFY24), the company has regained its growth trajectory. We expect revenue/EBITDA to grow at CAGR of 29%/100% during FY24-FY27E. We have BUY rating on the stock (currently trading at FY27E P/E of 16.5), with TP of 358 (30x FY27EPS, 82% Upside).

- KPIT: KPIT exceeded expectations in 3Q (on top line and margins) despite a challenging environment. Its deal wins (25% YoY) and pipeline (+20% QoQ) suggests growth could improve, going forward. Importantly, it spoke about a couple of large deals in the pipeline that it is confident of closing in 1HFY26. That would be an upside risk to our current FY26E USD revenue growth of 10%. KPIT is currently trading at 34x FY27E EPS, at par with its past 5-year median. Improving growth outlook should drive up multiples.

APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081
Member of BSE Ltd. and National Stock Exchange of India Ltd.
SEBI Registration Nos.: Stock Broker - INZ000163434, Research Analyst - INH000000610
Registered Office: 7th Floor, Cnergy, Appasaheb Marathe Marg, Prabhadevi, Mumbai 400 025, India.
Board: +91 22 6630 3030 | Fax: +91 22 6630 3488 | Email: jmfinancial.research@jmfl.com | www.jmfl.com
Compliance Officer: Mr. Sahil Salastekar | Tel: +91 22 6224 1073 | Email: sahil.salastekar@jmfl.com
Grievance officer: Mr. Sahil Salastekar | Tel: +91 22 6224 1073 | Email: instcompliance@jmfl.com

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Rating	Meaning
Buy	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
Sell	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

* REITs refers to Real Estate Investment Trusts.

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