Union Budget 2025-26: An In-Depth Analyses Of The Impact On Infrastructure, Renewable Energy and Manufacturing

Introduction

The Union Budget 2025-26 seeks to, inter alia, encourage investments in the infrastructure sector, including renewable energy, nuclear energy, public-private partnerships (PPP) across sectors, and also provide an enabling framework for startups and manufacturing sector. The budget aligns with the broader vision of "Vikasit Bharat 2047" and seeks to chart a path in that direction.

At the outset, we will summarise the "Economic Survey 2025", that provides the guiding framework for the Budget.

Economic Survey 2025

The key findings and notings of the Economic Survey 2025 are as follows :

The Survey underscored the importance for increased private sector engagement in infrastructure development, acknowledging that public investment alone cannot meet the ambitious objectives of "Vikasit Bharat 2047." To facilitate this, the Survey notes that the government is committed to enhancing risk-mitigation and risk-sharing mechanisms, streamlining contract management, and refining dispute resolution processes, thereby encouraging greater private sector participation through PPP models in crucial areas such as railways, highways, ports, airports, and telecom.

The Survey acknowledges that the renewable energy sector has witnessed substantial growth, particularly in solar and wind power and that this growth has essentially been driven by private sector investments, both domestic and foreign.

As of December 2024, the country's installed renewable capacity had risen by 15.8% year-on-year to reach 209.4 GW, accounting for 47% of total energy capacity, marking a significant transition towards sustainable energy solutions.

Some of the other key observations in the Survey are :

Micro, Small, and Medium Enterprises (MSMEs) collectively employ over 23 crore individuals and this sector requires continued government initiatives for a sustained growth in employment opportunities. The pharmaceutical sector is advancing towards greater self-sufficiency in Active Pharmaceutical Ingredients (API) production.

While steel and cement industries are witnessing growth owing to increased infrastructure and construction projects, addition of capital goods remains reliant on imports.

Despite India's position as the world's sixth-largest patent filer, investment in research and development (R&D) stands at a mere 0.64% of GDP, emphasizing the need for more private sector contributions. The Survey advocates for greater de-regulation, innovation, skill enhancement, MSME support, and state-level reforms to bolster long-term industrial and infrastructural progress.

While a 6-7% GDP growth is impressive, however, India needs a sustained GDP growth of 8-10% YoY to be able to break out of the middle income trap. As per the Survey, India will need to improve its global competitiveness through grassroots-level structural reforms and deregulation to reinforce its medium-term growth potential. "India needs a continued step-up of infrastructure investment over the next two decades to sustain a high rate of growth," the Survey added.

Budget Proposals in the light of the findings in the Economic Survey

Manufacturing Sector

Recognizing the pivotal role of manufacturing in economic expansion, the budget introduces measures to strengthen domestic production, boost technological capabilities, and enhance access to structured finance.

Key budgetary proposals and initiatives for the Manufacturing sector: -

- The National Manufacturing Mission prioritizes manufacturing of clean technology equipment to increase domestic value addition in solar PV cells, electric vehicles (EVs), grid-scale batteries, electrolysers, wind turbines, and high-voltage transmission equipment.
- The Budget has introduced complete exemption in Basic Custom Duty (BCD) for cobalt powder, lithium-ion battery waste, and 12 critical minerals. This exemption will reduce input costs and assist in investments in manufacturing of batteries and electronic components.
- The Budget also increased BCD on Interactive Flat Panel Displays (IFPD) from 10% to 20%, and reduced BCD on Open Cell for the manufacturing of IFPD modules, to 5%. These changes will give impetus to domestic manufacturing of LCD and LED TVs.
- The Enhanced Credit Guarantee Scheme will improve credit accessibility for MSMEs by mitigating financial risk for lenders, while a Technology Support Package enables technological upgrades to enhance global competitiveness.
- Additionally, the expansion of the Small Industries Development Bank of India (SIDBI) through 24 new branches will ensure improved financial services for MSME clusters.
- The Production Linked Incentive (PLI) Scheme now covers sectors like semiconductors, electronics, and automobiles, promoting high-tech manufacturing and reducing reliance on imports, with Rs. 8,885 crore allocated for electronics manufacturing.

These measures are expected to attract investments, generate employment, and support India's aspirations to be a global manufacturing hub.

Infrastructure Development & Public-Private Partnerships (PPP)

India's infrastructure growth is being fueled by ambitious projects and strategic public-private partnerships (PPP) across diverse infrastructure verticals. By leveraging private investments and innovation, the government intends to accelerate the development of roads, railways, airports, and urban infrastructure. India has traditionally been one of the top PPP jurisdictions, however, over the last several years the momentum had slowed in sectors other than highways. This budget seeks to re-invigorate the PPP model with a recaliberation of risk sharing between the private developer and the authority granting the concession. This collaborative approach is expected to assist in PPP projects for building a modern, resilient, and efficient infrastructure network.

Key budgetary proposals and initiatives for the infrastructure sector: -

- The budget has allocated Rs. 11.2 lakh crore towards capital expenditure in the Infrastructure Sector.
- An allocation of Rs. 1.5 lakh crore in interest-free loans to states will support critical infrastructure projects and regional development initiatives. Each state's infrastructure ministry will develop a three-year project pipeline to be implemented under the PPP framework, with states encouraged to seek support from the India Infrastructure Project Development Fund (IIPDF) scheme.
- In parallel, the budget envisages that the second phase of asset monetization will target to raise Rs. 10 lakh crore between 2025-2030. This capital generated from monetization will be re invested in other PPP infrastructure projects with VGF and other capital support. The Finance

Minister stated that the Government will align fiscal and regulatory measures to support the successful implementation of this plan.

- An Urban Challenge Fund, worth Rs. 1 lakh crore, has been introduced to support initiatives such as 'Cities as Growth Hubs', 'Creative Redevelopment of Cities', and 'Water and Sanitation'. This fund will finance up to 25% of the cost of bankable projects with at least 50% of the cost funded from bonds, bank loans, and PPP formats. Rs. 10,000 crore have been proposed to be allocated towards this funds for FY2025-26.

  (https://pib.gov.in/PressReleaseIframePage.aspx?PRID=2098385)

- The PM Gati Shakti Portal has been expanded to allow private sector participation/usage, ensuring swifter project execution.
- Railways and transport investments stand at Rs. 2.4 lakh crore, prioritizing high-speed corridors, electrification, and freight logistics enhancements.
- Maritime and aviation development continues under the expanded UDAN scheme, which now includes 120 new destinations, alongside a Rs. 25,000 crore allocation to the Maritime Development Fund.
- Rs. 2.87 lakh crore have been allocated for the road transport and highways ministry. The allocation for the state owned National Highways Authority of India (NHAI) has also been increased from Rs. 1.69 lakh crore to Rs.1.87 lakh crore.
- To further PPP initiatives, private sector access to PM Gati Shakti data and maps will be enabled.
- The National Bank for Financing Infrastructure and Development (NaBFID) will introduce a ‘Partial Credit Enhancement Facility’ for corporate infrastructure bonds.

M&As in Infrastructure

The Union Budget introduces key reforms to streamline mergers and acquisitions (M&A), aiming to simplify approval processes and accelerate corporate restructuring. The Finance Minister announced plans to expand the scope of fast-track mergers, ensuring that M&As occur at “digital speed” in line with evolving market dynamics.

To create a more business-friendly regulatory framework by addressing long-standing delays that have hindered both domestic and foreign investments, the following initiatives will be taken up by the Government: -

- Amendments to the Companies Act, 2013 are being considered to fast-track mergers, amalgamations, and demergers while reducing procedural bottlenecks.
- A significant change under discussion is limiting the jurisdiction of merger approvals to a single National Company Law Tribunal (NCLT), which would help decongest the tribunal system and ensure faster resolutions.
- The reforms also focus on improving efficiency in mergers between listed and unlisted entities and expanding the Fast-Track Merger (FTR) framework. Currently, FTR is available only for small companies, wholly owned subsidiaries, and start-ups. The proposed changes would extend its benefits to all unlisted entities and introduce ‘mirror demergers,’ a widely used restructuring tool in global markets.
- Another key initiative is a revised shareholder approval mechanism under FTR, replacing the stringent 90% approval requirement with a twin-test approach that balances efficiency and minority shareholder protection. The twin-test approach would entail:

  (i) Approval by a majority of shareholders present and voting, representing at least 75 per cent in value of those present.

(ii) Approval from shareholders holding more than 50 per cent in value of the total shares of the company.

By aligning India's M&A framework with global best practices and reducing regulatory hurdles, these reforms aim to create a more predictable and efficient restructuring environment. Significant M&A and consolidation is already taking place in the energy and infrastructure sectors and these simplifications in M&A procedures will clearly be beneficial for the infrastructure sector too, in terms of savings in cost and time.

Renewable Energy & Green Transition

The budget reaffirms India's commitment to clean energy and sustainability. With abundant solar and wind resources, the country is rapidly expanding its clean energy capacity. This transition not only reduces reliance on fossil fuels but also creates jobs and strengthens the economy.

These are the key measures announced towards this sector: -

- Rs. 26,549 crore have been allocated to the Ministry of New and Renewable Energy (MNRE), marking a 53.48% funding increase.
- Rs. 600 crore has been designated for Green Energy Corridors (GECs) to integrate renewable power into the national grid.
- Solar initiatives received Rs. 1,500 crore for grid-connected projects and Rs. 2,600 crore for the Kisan Urja Suraksha evam Utthaan Mahabhiyan (KUSUM) scheme, while Rs. 20,000 crore is directed towards the PM Surya Ghar Muft Bijli Yojana.
- The National Green Hydrogen Mission, with a Rs. 600 crore allocation, aims to position India as a leader in hydrogen-based energy, targeting annual production of 5 million metric tons by 2030. This is a 100% increase from the last year's Rs. 300 crore. The National Green Hydrogen Mission

was approved by the Union Cabinet in January 2023, with an outlay of Rs. 19,744 crores. MNRE increased the annual allocation for green ammonia production from 5,50,000 to 7,50,000 tonnes per annum, highlighting its commitment to stimulate domestic demand for Green Hydrogen and its derivatives. By 2030, the cost of hydrogen is projected to decrease by 50%. The Government anticipates around Rs. 8 lakh crores of investment in this space. Looking ahead to 2050, its demand is anticipated to surge five times to 28 MT, with green hydrogen accounting for nearly 80% of the total demand. Green hydrogen and green ammonia are set to be the fuels of the future and present enormous economic opportunity for India. India is poised to be an exporter of energy in the form of green ammonia for use as bunker fuel. India is favourably geographically placed, and it is expected that India will export over 80% of the green hydrogen and its derivatives that it produces.

- EV infrastructure received Rs. 30,000 crore for charging stations, battery-swapping policies, and R&D in energy storage, complemented by reduced import duties on EV components.
- The PLI scheme for National Programme on Advances Chemistry Cell (ACC) Battery Storage has received an increased allocation, from Rs. 15.42 crore to Rs. 155.76 crore. The removal of BCD on lithium-ion batteries will promote the recycling of EV batteries and will reduce the cost of production of batteries.

Nuclear Energy – Intrinsic Pillar of Indian Energy Mix

The Nuclear Energy Mission has set an ambitious target of 100 GW of nuclear capacity by 2047, as a long term strategy for India's energy transition. In order to build indigenous nuclear technology, the Government will give emphasis on strategic policy initiatives and infrastructure investments through public private collaborations.

The following measures have been announced for the Nuclear Energy sector: -

- A Rs. 20,000 crore allocation will support the development of Small Modular Reactors (SMRs), with at least five SMRs expected to be operational by 2033.
- To implement the Nuclear Energy Mission, the Parliament will make amendments to the Atomic Energy Act and Civil Liability for Nuclear Damage Act. While the Atomic Energy Act is an umbrella legislation which governs all aspects of Nuclear Energy, its development and control, the Civil Liability for Nuclear Damage Act prescribes compensation for victims in case of a nuclear accident. These legislative amendments are slated to encourage private sector involvement.
- To expand its Nuclear Energy sector, the Government plans to develop Bharat Small Reactors (BSR) by involving private entities. These reactors are being upgraded to occupy less land, making them ideal for installation near industries like steel, aluminum, and metals. By functioning as captive power plants, they will support these sectors in reducing their carbon footprint and advancing decarbonization efforts. The private entities will provide land, cooling water and capital, while the Nuclear Power Corporation of India Limited (NPCIL) will handle design, quality assurance, and operation and maintenance, all within the existing legal framework for production of BSR. This initiative aligns with India's commitment to achieving 500 GW of non-fossil fuel-based energy generation by 2030, and meeting 50% of its energy requirements from renewable energy by 2030.

(https://pib.gov.in/PressReleaseIframePage.aspx?PRID=2099244#:~:text=The%20plan%20involves%20private%20entities,within%20the%20existing%20legal%20framework)

India is actively enhancing its nuclear power capacity to meet growing energy demands and achieve environmental goals. The government has accelerated steps to increase nuclear power capacity from the current 8,180 MW to 22,480 MW by 2031-32.

Startup Ecosystem & MSME Growth

India's MSME sector, comprising over 1 crore registered businesses and employing 7.5 crore people, now benefits from revised classification limits. The startup ecosystem, too, is thriving and has great potential to grow manifold with strong government support and initiatives.

Schemes and proposals for Startups and MSMEs: -

- Investment and turnover caps have been raised to Rs. 2.5 crore for micro enterprises, Rs. 25 crore for small businesses, and Rs. 125 crore for medium enterprises. Turnover limits now stand at Rs. 10 crore, Rs. 100 crore, and Rs. 500 crore, respectively.
- A Fund of Funds worth Rs. 10,000 crore has been introduced to support startups in AI, climate tech, and agri-tech. The Credit Guarantee Scheme coverage has doubled from Rs. 5 crore to Rs. 10 crore for micro and small enterprises, while startup coverage has increased from Rs. 10 crore to Rs. 20 crore. Women entrepreneurs benefit from dedicated funding and mentorship programs.

- The Government's skill development initiative, with a Rs. 2 lakh crore outlay, aims to train 4.1 crore youth over five years, ensuring workforce readiness for emerging industries.

Our Analysis: Opportunities & Challenges

The Union Budget 2025-26 sets a clear direction for India's economic growth to be fueled by incremental capex in key sectors like manufacturing, infrastructure, PPP, startups, MSMEs, and renewable energy. By expanding PLI schemes, increasing capital expenditure, and introducing targeted policy measures, the government is creating an environment and an enabling framework where businesses can scale, innovate, and attract fresh investments. The strong push for asset monetization and structured financing in PPP projects highlights the government's intent to encourage and increase the share of private sector participation in national development. By easing the procedure for Mergers and Acquisition (M&As), the M&A activity will rise generally and in particular, in the infrastructure space.

For startups and MSMEs, the enhanced access to credit and dedicated funding initiatives offer much-needed financial support, ensuring they can grow and compete effectively.

The emphasis on clean energy, hydrogen, and solar power further aligns businesses with India's long-term sustainability vision. However, while these measures create exciting opportunities, their true impact will depend on efficient execution, clear regulations, and strong industry-government collaboration. Businesses that stay agile, informed, and proactive in leveraging available incentives will be best positioned to thrive in this evolving economic landscape.

Overall, while significant policy and financial support has been provided, however, this may be less than what is required. The aggregate investment in infrastructure over the next decade is projected to be around USD 1 Trillion, therefore, bulk of this must come from private sector, which will require significant amount of foreign investment. To attract foreign and domestic private investments, some of the sectoral risks still need to be addressed through several broad-based policy interventions. For instance, the increasing trend of the government moving away from commercial arbitration and increasing instances of courts setting aside arbitration awards passed against government agencies, send negative signals to private investors. Structural reforms need to be undertaken to create an investor friendly environment, and to instill predictability in business operations.