

Union Budget 2026-27



Ticks most boxes, misses few

Debt/GDP target at 55.6% in FY27; fiscal deficit target at 4.3% of GDP

The Union Budget 2026-27 broadly delivered on the fiscal math:

1. The nominal GDP expectations were realistically set at 10% (Real GDP as stated in the economic survey: 6.8%-7.2%).
2. The fiscal consolidation was modest at 4.3% of GDP in FY27 from 4.4% in FY26RE.

The debt/GDP reduction trajectory, as outlined in the Budget, is 50+/-1% by FY30-31, with FY27BE at 55.6% vs. 56% in FY26RE. While the broad fiscal math appears sound, the negative surprise was the higher gross market borrowing of INR17.2t vs INR16-16.5t of market expectations.

On the revenue front, tax revenue receipts are expected to grow 5.7% in FY27 to INR29t (income tax: 11.7%; corporate tax: 11%; indirect tax: 2.3%). This is well-aligned with overall nominal GDP growth. RBI/PSU bank dividends of INR3.9t (RBI: INR3.16t, PSU: INR750b) also appear achievable. FY27 would mark the second consecutive year in which dividends do the heavy lifting for the government. The only ambitious numbers on the revenue side appear to be: 1) Disinvestment with a target of INR800b vs FY26RE of INR338b (IDBI, LIC); 2) Telecom receipts of INR1.17t vs. INR1.4t in FY26RE.

On the expenditure side, the capex budget of INR12.2t (3.1% of GDP or 11.5% YoY) was broadly in line with our estimate of INR12.4t, with a keen focus on defense, as expected (18% YoY to INR2.2t), followed by railways (10%), roads, and highways (8%). Notably, interest-free capex loans to states are budgeted at INR 1.85t for FY27, higher than last year.

Our tracker of the government's rural spending shows a jump of 11.9% YoY to INR5.8t, primarily led by the VB G-Ram-G scheme and MGNREGA. In contrast, the subsidies budget is tracking 3.1% lower YoY, led by a broad-based decline across food, fertilizer, and petroleum.

On a net basis, the budget deficit of INR16.9t is achievable with a balanced mix of capex spend and sectoral giveaways.

Budget impact on sectors:

- **Negative:** STT hike on Futures and Options (negative flows, INR)
- **Neutral:** Real Estate, Consumption, Capital Goods, Cement, Consumer Durables, Infra (Roads, Railways, Defense), Logistics, Metals, Oil & Gas, Telecom, Auto
- **Positive:** Utilities (Data Center Power Demand, Battery Storage, Solar, Nuclear, Carbon Capture), Agri, Aviation, Tourism, Pharma/Healthcare (Sentimentally positive but not in capex allocation), Semiconductors/EMS, Defense, Data Center, Chemicals (PLI/Dedicated Parks)

Budget impact on the debt market

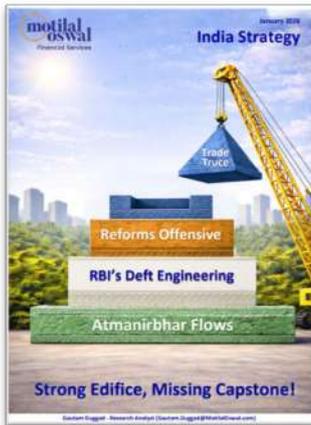
While the broad fiscal math appears sound, the negative surprise was the higher gross market borrowing of INR17.2t vs INR16-16.5t of market expectations. That said, two points to consider are: 1) buybacks/switches by the RBI during the year, and 2) conservative estimates on small savings. Our view is that the higher gross borrowing may decline during the year, closer to street estimates. Nonetheless, the market is likely to react negatively to the headline news.

The RBI's monetary policy is scheduled for Friday, serving as the next major event following the Budget on 1st Feb'26. Market expectations point to further liquidity measures and an OMO announcement, alongside our call for a final 25bp rate cut.

Given the budget math and global developments, we expect 10-year yields to inch toward 7% by Mar'27.

Market strategy

- The Budget was largely in line with our modest expectations, but shorn of high-impact immediate measures, signaling more of continuity in the fiscal approach of past five years. The Finance Minister balanced the imperatives of staying on the fiscal consolidation path with sustaining growth dynamics, while also seeking to fortify India's business architecture against prevailing geopolitical headwinds. The FM also utilized the Budget platform to signal the government's continued commitment to improving ease of doing business and weaning out procedural bottlenecks.
- Market reaction (Nifty down 2%) was sharp, as the measure to raise STT on Futures (2bp to 5bp) and Options (10bp/12.5bp to 15bp) dented sentiment. This was compounded by the lack of measures aimed at soothing equity market sentiment, such as a reduction in LTCG, a hike in FPI limits for PSUs, or measures to stimulate FII investments. Unlike FY26, when personal tax forbearance was a key step, there were no major high-impact measures in FY27 to enthuse markets. Given the limited fiscal headroom, the Budget could have been leveraged to perk up sentiments, making this a missed opportunity.
- As expected, the Budget is tilted toward capex, which is budgeted to grow 11.5% YoY to INR12.2t in FY27E, while revenue expenditure growth is budgeted at a modest 6.6% YoY. Within capex, understandably, defense capex is expected to register the highest growth (at 17.6% YoY to INR2.2t), cognizing the prevalent geopolitical strife. Growth in railways/road capex is expected to pick up to 10.2%/8% YoY, a sharp improvement over the dip in FY26E.
- Last year's pivot toward stimulating urban consumption through personal tax forbearance has given way to higher growth in some rural-oriented flagship schemes, such as MGNREGA+GRAMG (+43% YoY in FY27BE over FY26RE), JJM (+298%), PMGSY (+73%), and PMAY-Rural (+69%). While actuals may differ, the budgeted numbers suggest a renewed intent to address rural and farm incomes through select higher-impact rural programs.
- The standout announcement was the government's intent to attract global investment into data centers. While the nuances need to be weighed and the theme is likely to play out over the longer term, the proposed tax holiday of 22 years is unprecedented and reveals GoI's resolve to tap this megatrend.



- Top sector beneficiaries: Data Centres, Healthcare, Cap Goods, Defense, EMS, Utilities, while Capital Markets is the most impacted, followed by Lenders.
- Overall, the Budget arithmetic appears feasible, with the FM expecting a 10% YoY nominal GDP growth and a slightly lower central fiscal deficit of 4.3% for FY27E (vs. 4.4% in FY26). Cognizing the tight interplay of macro factors and limited headroom for a stimulative budget, we did not have high expectations.
- We expect the market to quickly discount the Budget and shift its focus to the trajectory of corporate earnings growth, which has remained in line with our expectations so far in 3QFY26. We expect ~12% earnings growth for Nifty over FY25-27E. Valuations for Nifty at 20.4x remain marginally below its LPA at 20.8x 12m forward earnings, while they remain stretched for broader markets.
- We are OW on Auto, Diversified Financials, Technology, Discretionary, and EMS, which are our key preferred investment themes. We remain Neutral on PSBs, Healthcare, Cap Goods, Infra & Cement, while maintaining UW on Pvt. Banks, Staples, O&G, Utilities, and Metals, in our [model portfolio](#).
- **Top five Nifty-50 ideas:** SBI, Titan, M&M, Infosys, Eternal; **Top five Non-Nifty-50 ideas:** Dixon Technologies, Indian Hotels, Groww, TVS Motor, Radico Khaitan.

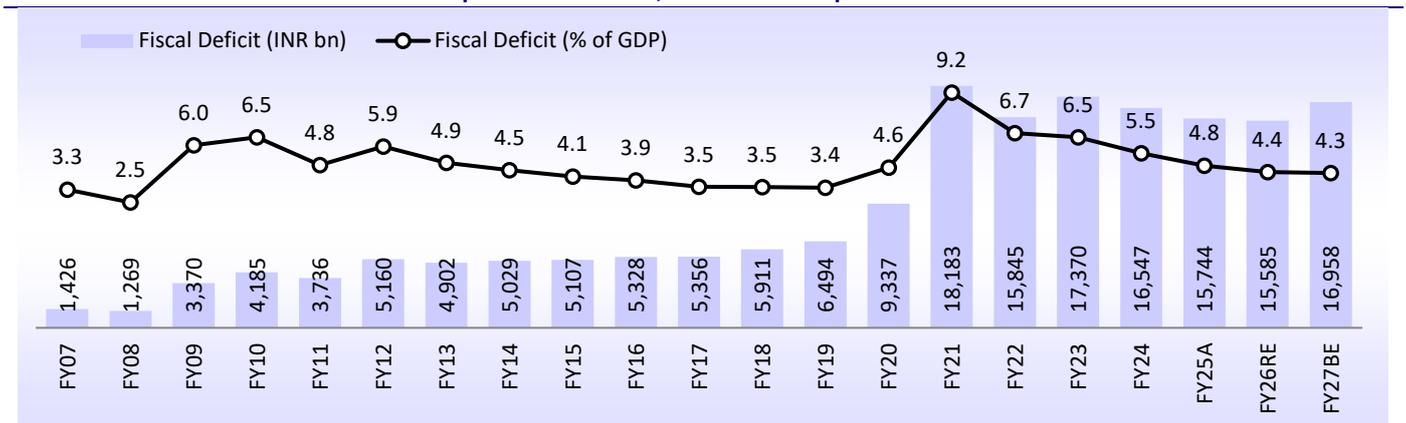
Fiscal deficit targeted at 4.3% of GDP in FY27BE

The Budget is anchored on a realistic macro framework, with nominal GDP growth assumed at 10% in FY27. This conservative growth assumption underpins the fiscal stance, with the fiscal deficit target set at 4.3% of GDP for FY27, representing a modest consolidation from 4.4% in FY26 and reinforcing the government’s commitment to gradual fiscal repair.

The government has also indicated a gradual improvement in debt dynamics, with the debt-to-GDP ratio expected to decline to 55.6% in FY27 from around 56% in FY26 (RE), broadly in line with earlier projections, thereby reinforcing confidence in medium-term fiscal sustainability.

The key negative surprise for markets is the higher-than-anticipated gross market borrowing program. Gross borrowings for FY27 exceed prevailing market expectations, which could exert upward pressure on bond yields and weigh on fixed-income sentiment in the near term. The increase in securities transaction tax on futures and options is a clear negative for market flows and currency sentiment, particularly for trading-related activity.

Exhibit 1: Trends in fiscal deficit over the past two decades; fiscal deficit expected to decline to 4.3% of GDP in FY27BE



Source: Government, MOFSL

Exhibit 2: Center’s outstanding debt to be reduced to 50±1% by FY31



Source: Government, MOFSL

Financing the fiscal deficit

Center's net market borrowings expected at INR11.7t in FY27BE

On the financing side, gross market borrowings are budgeted at INR17.2t, with net borrowings of about INR11.7 t. The higher-than-expected gross borrowing number may create near-term pressure on bond yields, although active debt management and conservative assumptions on small savings could provide some offset during the year. From a monetary policy perspective, we expect a 25bp rate cut by the RBI in February, which should help cushion the impact of elevated supply. Even so, in the absence of global bond index inclusion, 10-year government bond yields are likely to gravitate towards the 7% mark over the medium term.

(Exhibits 2, 3, and 4).

Exhibit 3: Market borrowings elevated

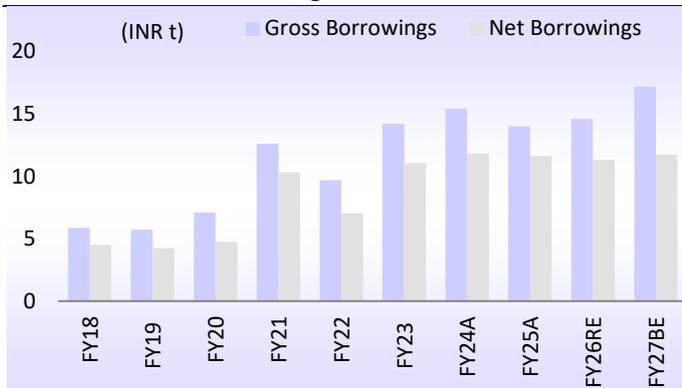
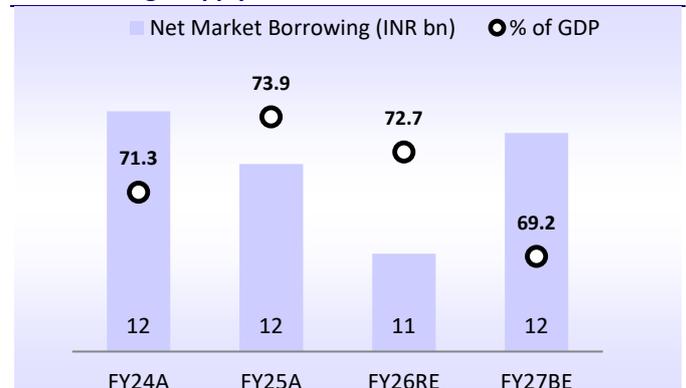


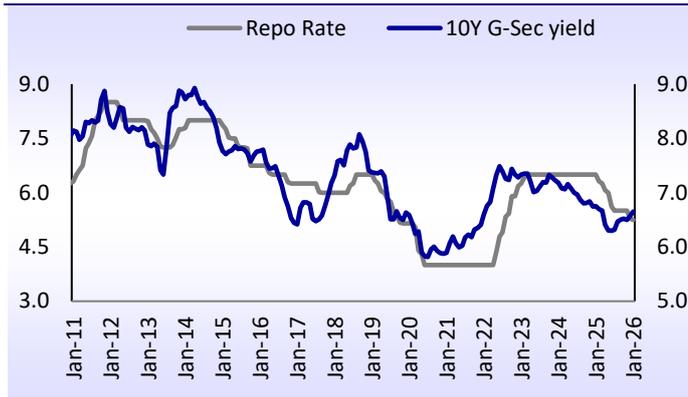
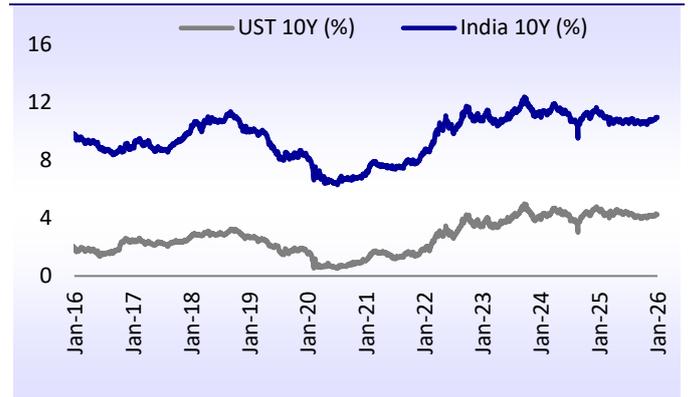
Exhibit 4: High supply of G-Sec bonds



Source: CEIC, MOFSL

Exhibit 5: Financing the fiscal deficit

Financing of Fiscal Deficit (INR b; % of FD)	FY24A	FY25A	FY26RE	FY27BE
Fiscal Deficit	16,547	15,744	15,585	16,958
Sources of Funding:				
External	473	205	154	0
	(2.9)	(1.3)	(1.0)	(0.0)
Domestic	16,074	15,540	15,431	16,958
	(97.1)	(98.7)	(99.0)	(98.5)
Dated Borrowings (Net)	11,805	11,629	11,328	11,732
	71.3	73.9	72.7	69.2
Repayments	-3,625	-2,378	-3,282	-5,468
Dated Borrowings (Gross)	15,430	14,007	14,610	17,200
Short-Term Borrowings (Net)	532	-1,602	0	1,300
	(3.2)	(-10.2)	(0.0)	(7.7)
Small Savings & Others	3,730	5,506	3,646	3,599
	(22.5)	(35.0)	(23.4)	(21.2)
Draw-Down of Cash Balances	8	6	457	327
	(0.0)	(0.0)	(2.9)	(1.9)

Exhibit 6: Trend in repo rate and G-Sec yield

Exhibit 7: Trend in US and India 10Y yields


Source: Bloomberg, MOFSL

Exhibit 8: Budget at a glance – FY26RE and FY27BE

	Budget at a Glance (INR t)					As % of GDP				
	FY24 A	FY25 A	FY26BE	FY26RE	FY27BE	FY24 A	FY25P	FY26BE	FY26E	FY27E
Total Receipts	27.9	30.8	35.0	34.1	36.5	9.3	9.3	9.8	9.5	9.3
Revenue Receipts	27.3	30.4	34.2	33.4	35.3	9.1	9.2	9.6	9.4	9.0
Gross Tax Revenue	34.7	38.0	42.7	40.8	44.0	11.5	11.5	12.0	11.4	11.2
Direct tax	19.6	22.2	25.2	24.2	27.0	6.5	6.7	7.1	6.8	6.9
Corporate Tax	9.1	9.9	10.8	11.1	12.3	3.0	3.0	3.0	3.1	3.1
Income Tax	10.4	12.4	14.4	13.1	14.7	3.5	3.7	4.0	3.7	3.7
Indirect Tax	15.1	15.6	17.5	16.4	16.8	5.0	4.7	4.9	4.6	4.3
Customs	2.3	2.3	2.4	2.6	2.7	0.8	0.7	0.7	0.7	0.7
Excise	3.1	3.0	3.2	3.4	3.9	1.0	0.9	0.9	0.9	1.0
Services	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other taxes+UT+Wealth	0.1	0.1	0.2	0.2	0.3	0.0	0.0	0.0	0.0	0.1
GST	9.6	10.3	11.8	10.5	10.2	3.2	3.1	3.3	2.9	2.6
CGST	8.2	9.1	10.1	9.6	10.2	2.7	2.7	2.8	2.7	2.6
IGST	0.0	-0.3	0.0	0.0	0.0	0.0	-0.1	0.0	0.0	0.0
Compensation Cess	1.4	1.5	1.7	0.9	0.0	0.5	0.5	0.5	0.2	0.0
(-)Surcharge for Financing NCCF	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0
(-)Less state share	11.3	12.9	14.2	13.9	15.3	3.7	3.9	4.0	3.9	3.9
Net Tax Revenue	23.3	25.0	28.4	26.7	28.7	7.7	7.6	7.9	7.5	7.3
Non-Tax Revenue	4.0	5.4	5.8	6.7	6.7	1.3	1.6	1.6	1.9	1.7
RBI Dividend	1.1	2.3	2.6	3.0	3.2	0.4	0.7	0.7	0.9	0.8
Non-Debt Capital Receipts	0.6	0.4	0.8	0.6	1.2	0.2	0.1	0.2	0.2	0.3
Disinvestments	0.3	0.2	0.5	0.3	0.8	0.1	0.1	0.1	0.1	0.2
Total Expenditure	44.4	46.5	50.7	49.6	53.5	14.8	14.1	14.2	13.9	13.6
Revenue Expenditure	34.9	36.0	39.4	38.7	41.3	11.6	10.9	11.0	10.8	10.5
Interest payments	10.6	11.2	12.8	12.7	14.0	3.5	3.4	3.6	3.6	3.6
Subsidies	4.3	4.2	4.3	4.7	4.5	1.4	1.3	1.2	1.3	1.2
of which, Food	2.1	2.0	2.0	2.3	2.3	0.7	0.6	0.6	0.6	0.6
Fertilizer	1.9	1.7	1.7	1.9	1.7	0.6	0.5	0.5	0.5	0.4
Petroleum	0.1	0.1	0.1	0.2	0.1	0.0	0.0	0.0	0.0	0.0
Revenue Expenditure ex. subsidy, interest	20.0	20.6	22.4	21.3	22.7	6.6	6.2	6.3	6.0	5.8
Capital Expenditure	9.5	10.5	11.2	11.0	12.2	3.2	3.2	3.1	3.1	3.1
of which, Defense	1.5	1.6	1.8	1.9	2.2	0.5	0.5	0.5	0.5	0.6
Railways	2.4	2.5	2.5	2.5	2.8	0.8	0.8	0.7	0.7	0.7
Road Transport and Highways	2.7	2.9	2.7	2.7	2.9	0.9	0.9	0.8	0.8	0.7
Gross Fiscal Deficit	16.5	15.7	15.7	15.6	17.0	5.5	4.8	4.4	4.4	4.3
Revenue Deficit	7.7	5.6	5.2	5.3	5.9	2.5	1.7	1.5	1.5	1.5
Primary Deficit	5.9	4.6	2.9	2.8	2.9	2.0	1.4	0.8	0.8	0.7
GDP	301.2	330.7	357.0	357.1	393.0					

Source: CEIC, MOFSL

Continued reliance on direct taxes as the primary growth engine

On the revenue side, the Budget clearly acknowledges a changing tax environment. Gross tax revenues in FY27 are projected to grow by around 8% YoY, a moderation from the double-digit growth rates recorded in recent years. Net tax receipts are projected to grow by 5.7%. **Tax mobilization continues to rely disproportionately on direct taxes**, with income tax collections budgeted to grow by about 11.7% and corporate tax by around 11.0% in FY27BE. This underscores the government's continued confidence in compliance-driven revenue gains rather than policy-induced rate increases.

Exhibit 9: Revenue receipts to grow 7.2% in FY27BE

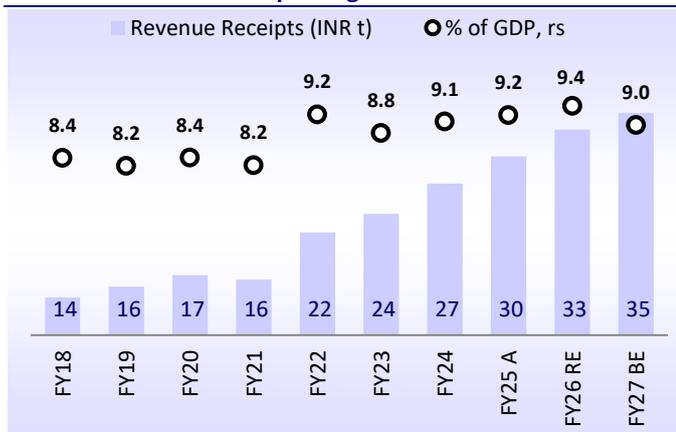
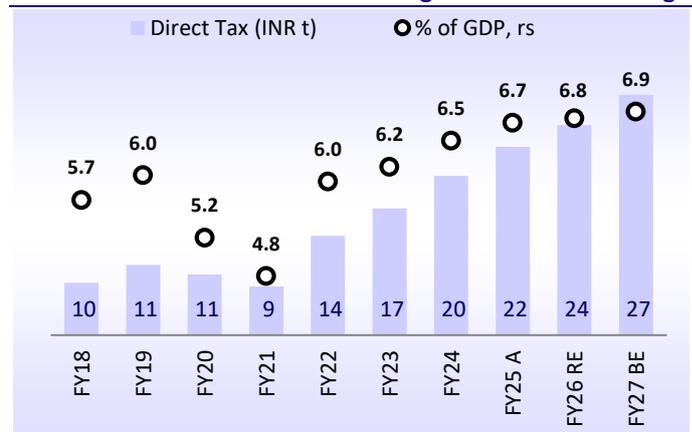


Exhibit 10: Direct tax collections budgeted to remain strong



Source: Union Budget documents, MOFSL

In contrast, indirect taxes present a structurally weaker picture. Collections are projected to grow at a much slower pace, reflecting the anticipated impact of GST rate rationalization and softer customs duty collections. While excise duty collections are projected to rise by around 15–16%, partially offsetting the weakness in GST, overall indirect tax growth is estimated at only about 2–3%, implying a continued decline in indirect tax buoyancy relative to GDP.

Exhibit 11: Direct tax collections budgeted to remain strong...

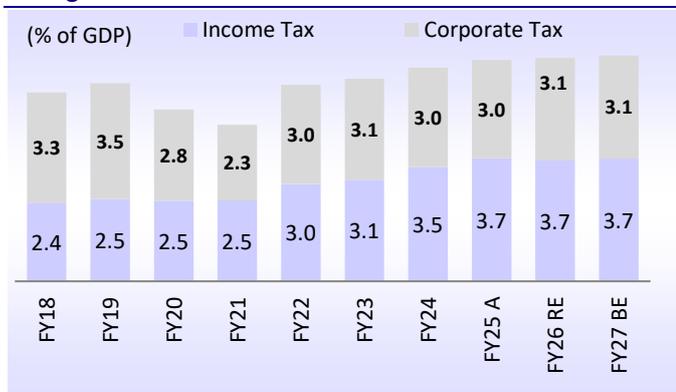
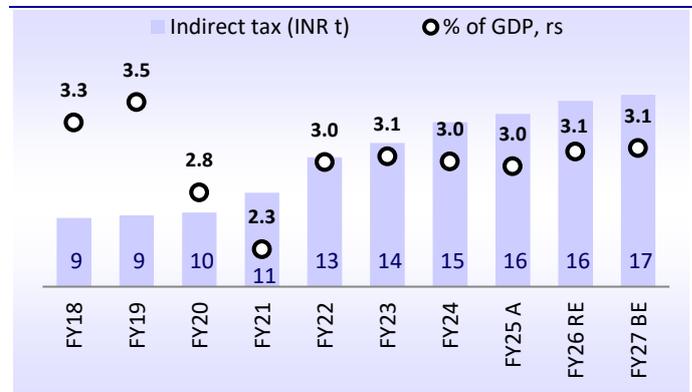
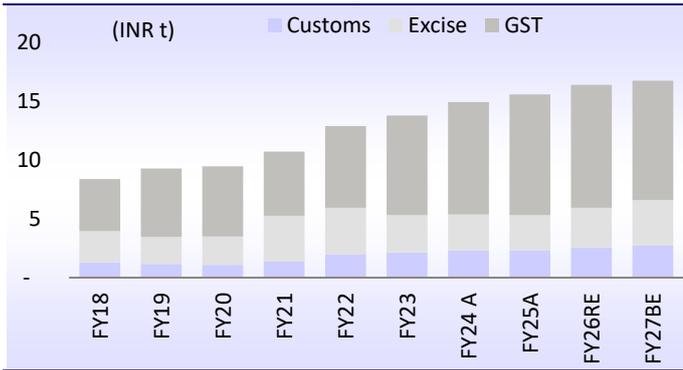
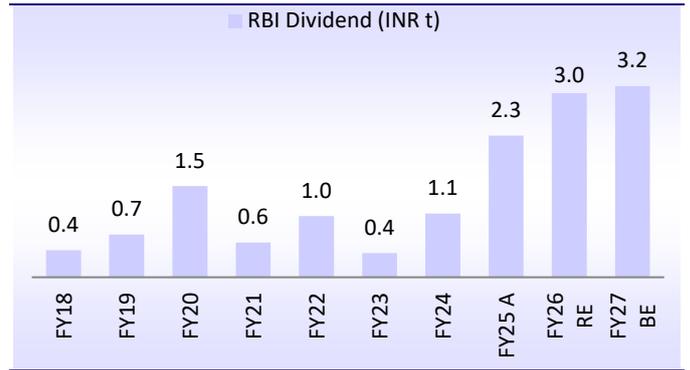


Exhibit 12: ...while indirect tax collections weak



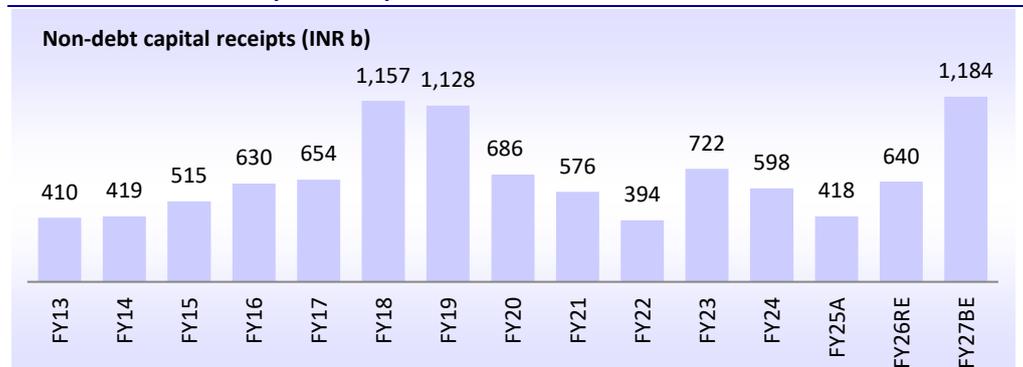
Source: Union Budget documents, MOFSL

Exhibit 13: GST collections budgeted to contract in FY27BE

Exhibit 14: RBI dividend stood at INR3.2t in FY27BE


Source: CEIC, MOFSL

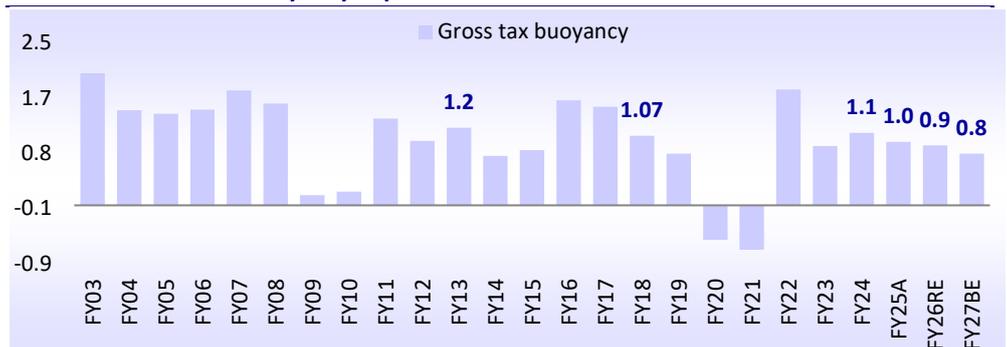
The Budget continues to rely on transfers from the Central Bank as an important non-tax revenue source, with total dividends from the RBI and public sector banks estimated at around INR3.9t, of which RBI contribution is expected to be INR3.16t, which appears achievable based on recent trends.

At the same time, non-debt capital receipts are budgeted to rise sharply, driven by a disinvestment target of about INR800b, significantly higher than the revised estimate of around INR338bn in FY26. While these targets appear ambitious, the broader fiscal framework does not rely critically on their full realization, as market borrowings remain the dominant source of financing, thereby limiting downside risks to the overall fiscal arithmetic.

Exhibit 15: Non-debt capital receipts increased to INR1184b in FY27BE


Tax buoyancy budgeted at 0.8x in FY27BE

Even with nominal GDP growth assumed to pick up to 10% in FY27 (vs. 8% in FY26), gross tax buoyancy is expected to be lower at 0.8 vs 0.9 in FY26. This is majorly driven by lower expected buoyancy in indirect taxes (due to GST rate cuts).

Exhibit 16: Gross tax buoyancy expected at 0.8x in FY27BE


Total spending to moderate in FY27BE, led by revex

On the expenditure side, the Budget demonstrates a clear preference for quality over quantity. Total expenditure is projected to grow by about 7.7% in FY27BE, broadly aligned with receipts growth. Revenue expenditure growth is contained at 6.6%, aided by a broad-based decline in subsidy allocations, with food, fertilizer, and petroleum subsidies all budgeted lower on a YoY basis.

Exhibit 17: Total spending growth budgeted to increase 7.7% in FY27BE

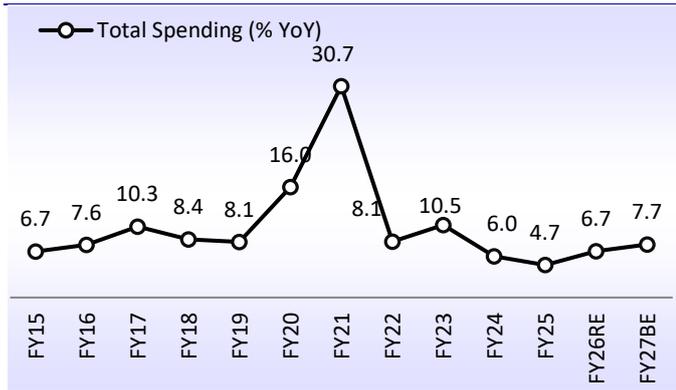
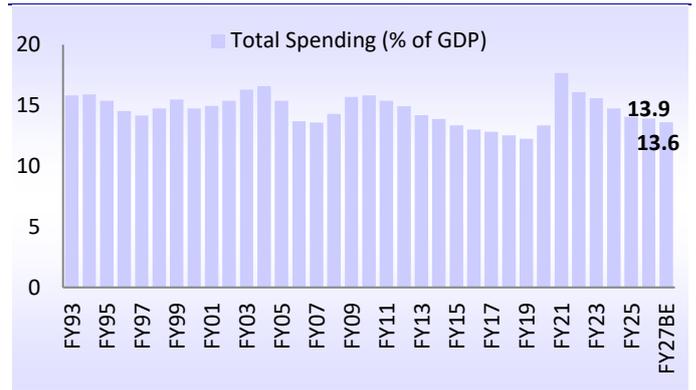


Exhibit 18: Total spending budgeted to decelerate to 13.6% of GDP in FY27BE, lowest in seven years



Source: Government, MOFSL

Exhibit 19: Revex budgeted to moderate in FY27BE

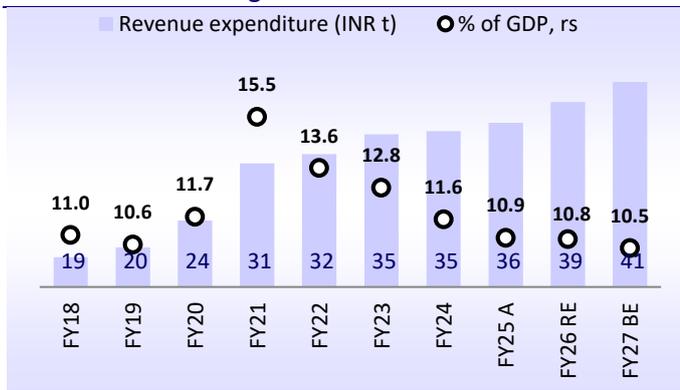
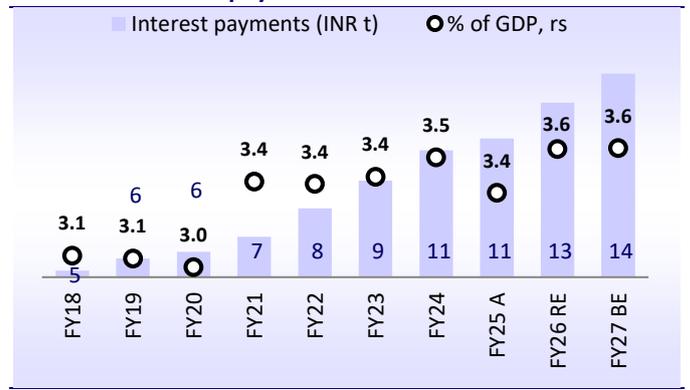


Exhibit 20: Interest payments rise with substantial share



Source: CEIC, MOFSL

Exhibit 21: Subsidies to be lower in FY27BE

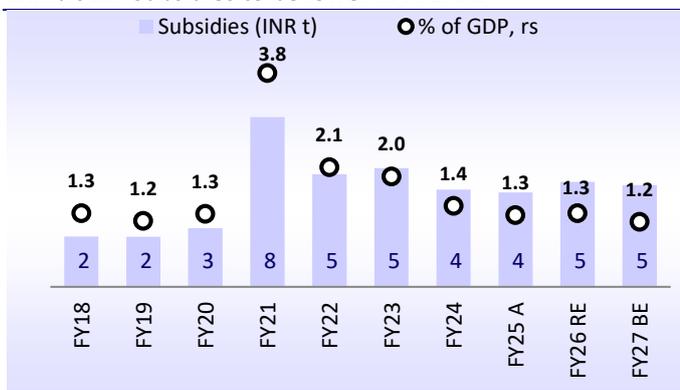
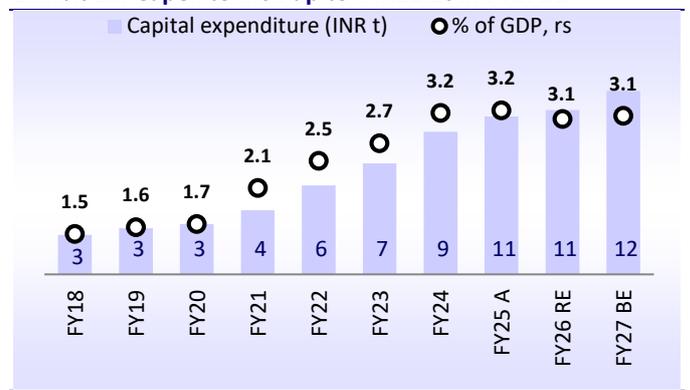


Exhibit 22: Capex to inch up to INR12.2t in FY27BE



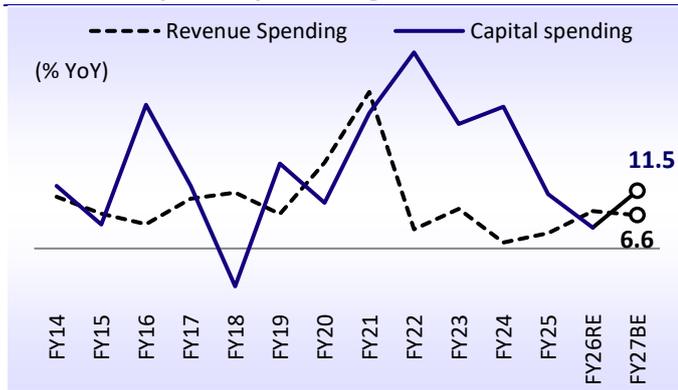
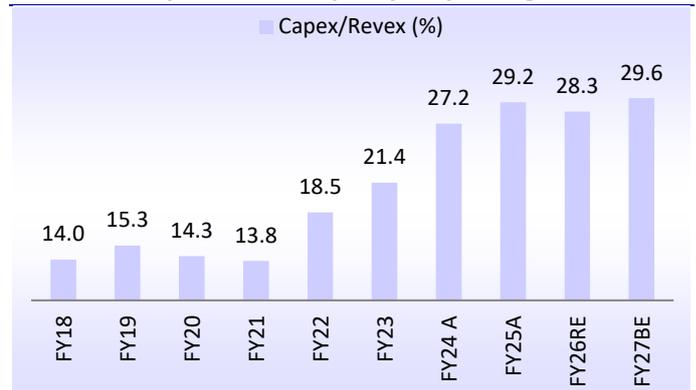
Source: CEIC, MOFSL

Exhibit 23: Revex moderated, led by subsidies

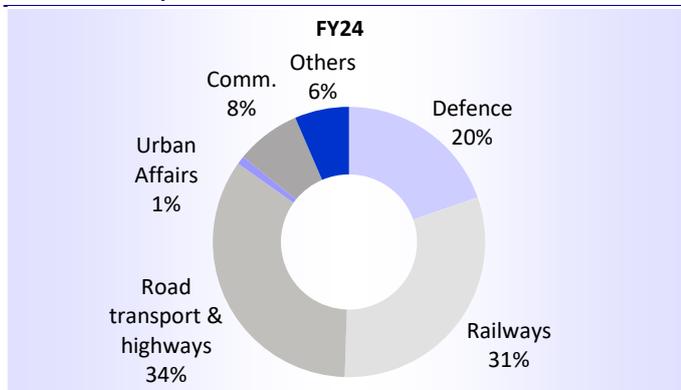
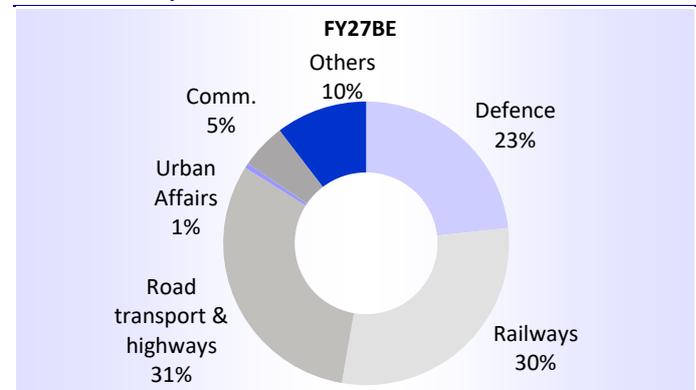
	FY25	FY26RE		FY27BE	
	INR b	INR b	% YoY	INR b	% YoY
Revenue exp	36,009	38,691	7.4	41,255	6.6
Interest	11,156	12,743	14.2	14,040	10.2
Subsidies	4,226	4,695	11.1	4,548	-3.1
Defense	4,507	5,679	26	5,946	4.7
Pensions	2,738	2,866	4.7	2,962	3.3
Grants	6,138	5,258	-14.3	6,652	26.5
Memo items:					
Rural spending*	5,275	5,224	-1	5,846	11.9

Capex push to continue to support growth, led by defense

Capital expenditure remains the central pillar of the Budget's growth strategy. Central government capex rises to about INR12.2t in FY27, registering an 11.5% increase over the revised estimates for FY26. While growth is lower than in the immediate post-pandemic years, capex remains elevated at around 3.1% of GDP. Sector-wise, defense emerges as a clear priority, with capital outlays rising sharply (17.6% YoY in FY27BE). Railways and roads see more moderate increases, reflecting base effects and a shift toward execution and consolidation rather than rapid expansion.

Exhibit 24: Capex is expected to grow 11.5% YoY in FY27BE

Exhibit 25: Improvement in quality of spending


Source: Union Budget documents, MOFSL

Exhibit 26: Capex allocation in FY24

Exhibit 27: Capex allocation in FY27BE


Source: Union Budget documents, MOFSL

Exhibit 28: Effective capex increased sharply in FY27BE

	FY25	FY26RE	FY27BE		
	INR b	INR b	% YoY	INR bn	% YoY
Effective Capital spending	13,246	14,039	6.0	17,145	22.1
ow: Grants for Capex	2,727	3,082	13.0	4,927	59.9
Capital spending	10,520	10,958	4.2	12,218	11.5
ow: Roads & highways	2,853	2,721	-4.7	2,942	8.1
ow: Railways	2,524	2,519	-0.2	2,777	10.2
ow: Defense	1,595	1,865	16.9	2,193	17.6
Capex^	8,552	8,874	3.8	9,430	6.3
L&As	1,967	2,084	5.9	2,788	33.8

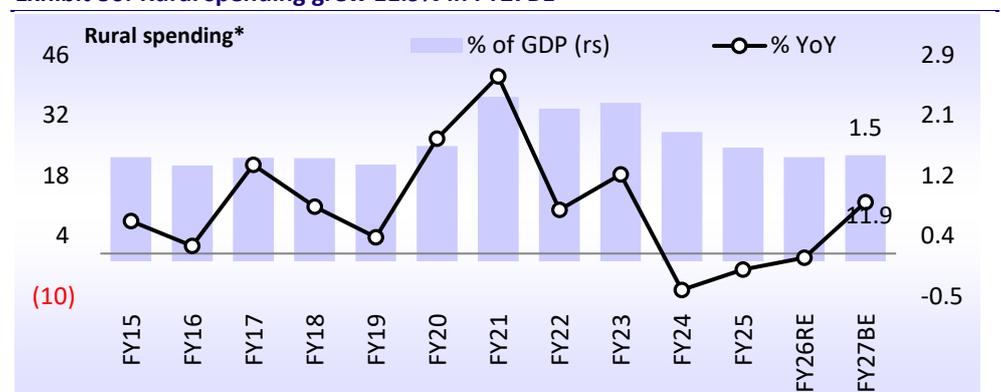
^ Excluding loans and advances

Exhibit 29: Expenditure profile for schemes related to capex

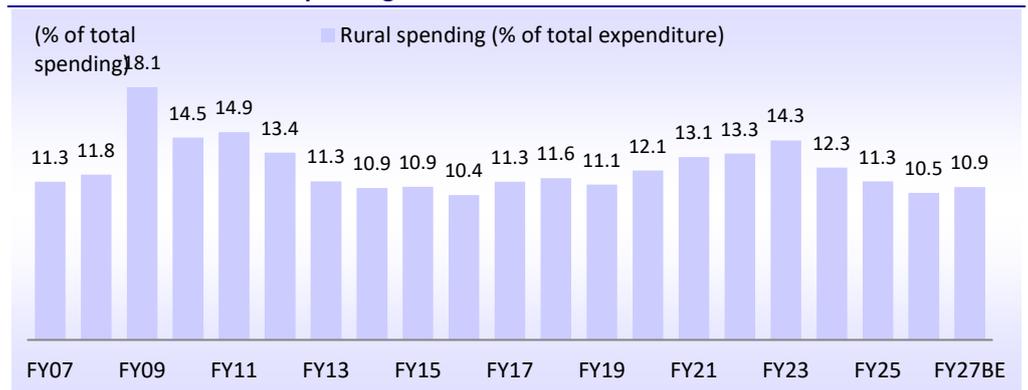
(INR B)	FY24A	FY25A	FY26 RE	FY27 BE	FY25 - % YOY	FY26RE - % YOY	FY27BE - %YOY
PMAY-U	217	59	78	216	-73.0	33.0	177.3
PMAY-G	218	323	325	549	48.3	0.5	69.0
JJM	700	226	170	677	-67.7	-24.8	298.1
PMGSY	154	179	110	190	16.0	-38.4	72.7
MGNREGA	888	858	880	300	-3.3	2.5	-65.9
Road Works	970	1,310	1,163	1,220	35.0	-11.2	4.9
NHAI	1,674	1,686	1,703	1,873	0.7	1.0	10.0
Metro projects	195	247	275	287	26.6	11.2	4.7
AMRUT and Smart Cities	136	76	75	80	-43.8	-1.8	6.7
Total	5,152	4,964	4,779	5,392	-3.6	-3.7	12.8

Rural spending to increase 11.9% in FY27BE

Rural spending is budgeted to increase slightly to INR5.8t in FY27BE vs. INR5.2t in FY26RE, implying a growth of 11.9% YoY. (Exhibits 16 and 17).

Exhibit 30: Rural spending grew 11.9% in FY27BE


*Ministry of Rural Development, Panchayati Raj, Fertilizer and Agriculture

Exhibit 31: Share of rural spending at 10.9% in FY27BE


*Ministry of Rural Development, Panchayati Raj, Fertilizer and Agriculture

Allocation for the rural job guarantee scheme (MGNREGA + VB-GRAM program) was increased to INR1.26t in FY27 vs. INR 0.88t in FY26RE. Allocation for all other major schemes was largely flat.

Exhibit 32: Key rural sector schemes (INR b)

	FY23	FY24	FY25A	FY26RE	FY27BE
PM Aasha		22	54	69	72
RKVY	52	57	72	70	86
PM-KISAN	583	614	661	635	635
Fertilizer subsidy	2,513	1,883	1,707	1,865	1,708
Jal Jeevan Mission	547	700	226	170	677
PM Krishi Sinchai Yojana	56	61	65	64	66
NSAP	97	95	97	92	97
VB G Ram G scheme					957
MGNREGA	908	892	858	880	300
PM Gram Sadak Yojana	188	154	179	110	190
National Rural Livelihood Mission	139	150	147	160	192
PMAY- Rural	450	218	323	325	549
Rural spending	5,980	5,477	5,275	5,224	5,846

Conclusion

The Union Budget 2026–27 largely met expectations on the macro front, with no major surprises in nominal GDP growth assumptions or the fiscal consolidation path. Nominal GDP growth is projected broadly in line with trend, while the fiscal deficit target reflects a modest yet credible consolidation compared to the previous year. The government has also indicated a gradual improvement in debt dynamics, with the debt-to-GDP ratio expected to edge lower, broadly in line with earlier projections, reinforcing confidence in medium-term fiscal sustainability.

The key negative surprise for markets is the higher-than-anticipated gross market borrowing program. Gross borrowings for FY27 exceed prevailing market expectations, potentially exerting upward pressure on bond yields and weighing on fixed-income sentiment in the near term. That said, two mitigating factors merit consideration. First, active debt management through switches during the year could help smooth net supply. Second, the Budget adopts a conservative stance on small savings assumptions, implying some upside risk to funding flexibility over the course of the year.

From a sectoral perspective, the Budget’s impact is differentiated. The increase in securities transaction tax on futures and options is a clear negative for market flows and currency sentiment, particularly for trading-related activity. Most sectors, however, see a largely neutral impact, including real estate, consumption-oriented segments, capital goods, cement, consumer durables, core infrastructure such as roads, railways and defense, as well as logistics, metals, oil and gas, telecom, and automobiles. For these sectors, policy continuity and the absence of adverse surprises dominate the narrative.

On the positive side, utilities stand out as beneficiaries, driven by policy support aligned with rising data center power demand, battery storage, renewable energy, nuclear power, and carbon capture. Agriculture, aviation, and tourism also gain from supportive policy signals. Pharmaceuticals and healthcare benefit from improved sentiment, although the Budget does not meaningfully raise sectoral capital allocations. Strategic sectors such as semiconductors and electronics manufacturing services, defense, data centers, and chemicals receive positive reinforcement through targeted incentives, production-linked schemes, and the development of dedicated industrial parks, strengthening the medium-term investment outlook.




AGRI
Budget Impact: Positive
Sector Stance: Positive

The Union Budget 2026-27 prioritizes the welfare of farmers and agricultural growth. Key announcements influencing the agriculture sector and farmers include:

Area	Key proposal	Impact
Fertilizer subsidy for FY27 declined by 8% to INR1,710b (vs. FY26RE)	❖ The total budget allocation for fertilizer subsidy declined by 8% to INR1,710b (Urea subsidy declined by 8% to INR1,168b, while complex fertilizer subsidy declined to INR540b, i.e., 10% vs. FY26 RE). The current prices of key raw material, Amonia, have increased by 41% vs. the last nine-month average, Potassium remained flat, while Phosphoric acid prices fell 5%. Any further increase in the raw material prices can result in an additional subsidy announcement by the government.	Negative
Strengthening Farmer Collectives & Agri Infrastructure	❖ The government is promoting 10,000 FPOs with INR5b for equity and credit-guarantee support, market linkage via e-NAM/ONDC and seed production, alongside INR9.1b under the Agriculture Infrastructure Fund to provide interest subvention and guarantees, aiming to crowd in ~INR300b for storage and post-harvest infrastructure.	Positive
Continued large outlays for core farm schemes:	❖ The government has allocated INR635b for PM-KISAN to support 95m farmers, INR226b under the Modified Interest Subvention Scheme (KCC) to ensure affordable short-term agri credit, and INR122b for PMFBY with a push toward tech-driven yield estimation (YES-TECH) and weather infrastructure (WINDS) to strengthen crop risk coverage.	Positive
Dedicated program for Indian cashew, coconut and cocoa	❖ The government is promoting coconut cultivation to raise production and productivity, alongside Indian Cashew and Cocoa programs aimed at improving yields, quality, and value addition in plantation crops. This is expected to support coastal regions of India.	Positive
Fisheries Value Chain Development	❖ The government plans integrated development of 500 reservoirs and Amrit Sarovars while strengthening the coastal fisheries value chain through improved infrastructure and market linkages for start-ups, women-led groups, and Fish FPOs.	Positive
Agri Productivity, Sustainability & Tech-led Interventions	❖ The government has earmarked INR85.5b for Rashtriya Krishi Vikas Yojana (RKVY) to drive micro-irrigation, mechanization, climate-resilient and organic farming; INR112b for Krishionnati Yojana spanning edible oils, food security, horticulture, digital agriculture and marketing; INR7.5b for the National Mission on Natural Farming to expand natural farming over ~650k ha with 5,000 bio-input centers; and ~INR6.77b under 'Namo Drone Didi' to deploy 3,000 drones through women SHGs for agri input application and income generation.	Positive

Outlook and recommendations

For the agriculture sector, the Budget prioritizes: 1) enhancing agricultural productivity through targeted schemes like the RKVY and Krishionnati Yojana on edible oils, food security, horticulture, digital agriculture; 2) supporting farmer income through credit support, price assurance, and infrastructure development; and 3) strengthening rural economies through employment and entrepreneurship programs targeting farmers and rural youth. The government's strategy continues to emphasize long-term sustainability, productivity enhancement, and farmer prosperity, benefiting agrochemical, fertilizer, and agri-tech industries.



AUTOMOBILES

Budget Impact: Neutral

Sector Stance: Positive

The immediate direct benefit from the Budget comes from the PLI, wherein the allocation for the auto sector has been increased in FY27, in line with the rising penetration of EVs. The other indirect measures that would benefit the sector include continued focus on infrastructure push and increase in defense capex.

At a glance

Area	Key proposals	Impact
Infrastructure spending	❖ Increase in capex by 12% from FY26RE to INR12.2t for FY27E	Positive for CVs
PLI scheme	❖ Increase in PLI allocation to INR59.4b from RE of INR21b	Positive for EV transition
Defense	❖ Allocation of INR2.2t to defense, up 22% YoY	Positive for Auto comps like BHFC
East Tourism	❖ Creation of five tourism destinations in the five Purvodaya States, and the provision of 4,000 e-buses	Marginal Positive for CVs
Minerals	❖ Establish dedicated rare earth corridors to promote mining, processing, research and manufacturing in Odisha, Kerala, Andhra Pradesh, and Tamil Nadu.	Positive for EV transition in the long run

Outlook and recommendations

The government had already provided a major fillip to the sector by announcing GST rate cuts in Sep'25, which has led to a marked revival in demand across key segments. Hence, expectations for the auto sector from the budget were minimal.

However, the fact that the government would continue its infrastructure push is a key indirect positive for autos. Further, the increase in PLI allocation, move toward establishment of rare earth corridor and provision of 4k e-buses for East Tourism highlight its continued focus on EV transition. Further, increase in defense allocation is a key positive for certain auto components with exposure to defense (like BHFC) and marginally positive for CV OEMs who supply defense vehicles/components like TMCV, AL and VECV.

After the GST rate cut, demand across all key segments has revived and remained intact even after the festive season, with Jan'26 sales also showing healthy growth across segments. We expect the auto segment to sustain its momentum on the back of a positive consumer sentiment, both in urban and rural and steady economic growth expected in FY27 (real GDP growth projected at 6.8-7.2%). MSIL is our top pick among auto OEMs, as its new launches and the current export momentum are likely to drive healthy earnings growth. We also like MM, given the uptrend in tractors and healthy growth in UVs. In 2Ws, we are positive on TVSL. Among auto ancillaries, our top picks are MOTHERSO, ENDU, MSWIL and HAPPYFORG.



AVIATION & TOURISM

Budget Impact: Positive

Sector Stance: Positive

In the Union Budget 2026-27, the government has launched a modified UDAN scheme to enhance regional connectivity in India. It has also announced relief from basic custom duty on aircraft parts and MRO inputs, thereby lowering maintenance costs and encouraging domestic MRO services. For tourism, the government announced upskilling programs with the formation of dedicated institutes across regions. Key announcements influencing the aviation and tourism sector are:

At a glance

Segment	Area	Key proposal	Impact
Aviation	Regional Connectivity Scheme – Modified UDAN	<ul style="list-style-type: none"> The scheme has connected 88 airports and operationalized 619 routes. Inspired by that success, a modified UDAN scheme will be launched to connect 120 new destinations (vs 100 earlier) and carry 40m passengers. Viability gap funding for regional routes, revival of smaller airports, North East focus; INR5.5b outlay in FY27; targets 100 routes, 2m passengers. 	Positive
	Customs duty on aircraft parts	<ul style="list-style-type: none"> Basic custom duty (BCD) exemption on components and parts used in aircraft manufacturing; Zero BCD up to Mar'28 on specified lines. 	Positive
	Duty relief for aircraft MRO inputs	<ul style="list-style-type: none"> BCD exemption for raw materials to make aircraft parts for MRO. Exemption extended to 31st Mar'28. 	Positive
Tourism/Hospitality	Top 50 Tourist Destinations	<ul style="list-style-type: none"> Develop 50 destinations via challenge mode, infra and PLI. For a new scheme, allocation and list under finalization. 	Positive
	Focus on Buddhist destinations	<ul style="list-style-type: none"> Priority development of Buddhist sites like Bodhgaya and Shrawasti; Bodhgaya INR1.65b; Shrawasti INR802.4m. 	Positive
	TCS on overseas tour packages	<ul style="list-style-type: none"> Reduce TCS rate on the sale of overseas tour package from 5% and 20% to 2% without any stipulation of amount. Reduce TCS for pursuing education and for medical purposes under the Liberalized Remittance Scheme (LRS) from 5% to 2%. 	Positive
	National Institute of Hospitality and Skill programmes via IHMs/FCIs/ SIHMs	<ul style="list-style-type: none"> Bridge academia-industry-Government for hospitality skills and standards. Destination-linked short courses for hospitality and tourism roles. Pilot scheme for upskilling 10,000 guides in 20 iconic tourist sites 	Positive
	MUDRA loans for homestays	<ul style="list-style-type: none"> Homestays classed under MUDRA. Financed from MUDRA corpus; no homestay cap. 	Positive
	PLI for destination management	<ul style="list-style-type: none"> Providing PLI to States for effective destination management, including tourist amenities, cleanliness, and marketing efforts 	Positive

Outlook and recommendation

We are optimistic about the domestic tourism industry (inc. aviation and hospitality), with demand consistently exceeding pre-Covid levels. Hotel companies expanding into tier-II and below cities will benefit from the government's push for tourism. INDIGO is also expanding its domestic presence, backed by higher government focus through UDAN scheme, covering more untapped markets (such as North East and other regional routes), aiming to capture a larger share of growth in the domestic aviation market.



CAPITAL GOODS

Budget Impact: Neutral

Sector Stance: Positive

In the Union Budget 2026-27, the government has increased its total capital outlay from INR11.2t in FY26BE to INR12.2t for FY27BE (+9% YoY). However, revised FY26RE capex has been lowered to INR11.0t indicating a 11% YoY growth. The capital allocation has increased for key heads such as 1) Defense: moved up 18% YoY to INR2.2t in FY27BE even on a high base of last year, when defense capital outlay grew 17% YoY in FY26RE; 2) Railways: increased 10% YoY to INR2.5t in FY27BE; and 3) Roads: increased 8% YoY INR2.9t in FY27BE. Key announcements include tax and duty exemptions, higher public spending, and targeted incentives to boost data centers, nuclear power, manufacturing, infrastructure, aviation, and clean energy.

At a glance

Area	Key proposal	Impact
Capital allocation	❖ Total capital allocation was up 9% at INR12.2t for FY27 vs. INR11.2t in FY26BE, and 11% YoY vs INR11t budget in FY26RE.	Positive
Allocation for Defense	❖ The capital outlay for Defense was hiked to INR2.2t for FY27 (up 18% YoY) vs. INR1.9t in FY26RE	Positive
Allocation for Railways	❖ The railway capital allocation was hiked to INR2.8t for FY27, up 10% YoY from FY26RE	Positive
Allocation for Roads	❖ Capital allocation for roads and bridges was hiked to INR2.9t for FY27, up 8% YoY from FY26RE allocation	Positive
Railways	❖ Proposed to develop seven high-speed rail corridors between cities as growth connectors.	Positive
Data centers	❖ Proposed a tax holiday until CY47 for foreign companies providing global cloud services using India-based data center infrastructure	Positive
Nuclear Power projects	❖ Extension of basic customs duty exemption on imports for nuclear power projects till CY35, expanded to cover all nuclear plants irrespective of capacity	Positive
Hi-tech Tool rooms	❖ Proposed CPSE-led Hi-tech tool rooms for low-cost, high-precision component design, testing and manufacturing.	Positive
Industrials	❖ Proposed INR200b for carbon capture, utilization, storage (CCUS) over five years to support blue hydrogen production across power, steel, cement, refining and chemical industries. This can lead to an increase in overall private capex.	Positive
Jal Jeevan Mission	❖ Spending on Jal Jeevan Mission was limited in FY26RE and this has seen a higher allocation of INR677b for FY27	Positive
Aircraft components	❖ Basic customs duty exemption on components, parts and raw materials for manufacturing and MRO of civilian, training and defense aircrafts	Positive
Seaplane manufacturing	❖ Incentives were proposed to support indigenization of seaplane manufacturing in India	Positive
Private sector boost	❖ Incentives and schemes announced to support industries such as textile, bio-pharma, rare earth minerals, semiconductors, etc.; updates on launch of ISM 2.0 and increase of allocation for ECMS is expected to increase overall private capex in India over the years.	Positive

Outlook and recommendations

In the Union Budget 2026-27, the government has increased capex allocation by ~9% YoY. We believe that this high-single-digit growth will not be able to meaningfully revive central government capex from the current levels. However, the increase in overall capital allocation to defense was in line with our expectations of ~20% YoY growth. Another key takeaway is that in FY25, the defense budget was fully utilized, and even in FY26, we expect the increase in revised defense capex to be fully utilized, with ~80% already deployed up to Dec'25. Railways capex, after being largely flat in the previous budget, has revived with around 10% YoY growth, which should support a pickup in tendering and execution activity. Focus area of railway infra is going to be in Tier 2 and Tier 3 cities, which have expanded to become growth centers. Roads' capex growth of ~8% YoY marks an improvement over the prior year's contraction and indicates stabilization in awarding activity. Overall, incentives and schemes announced across other sectors are also expected to increase private sector spending over the medium to long term. Over last two years, a broad-based capex allocation growth has still been lower than the growth seen over FY21-24. We, therefore, remain selective on the sector.

Our **top picks** in the sector are L&T, Bharat Electronics, and Cummins India.



CEMENT

Budget Impact: Neutral

Sector Stance: Positive

The Union Budget 2026-27 did not include any direct announcements for the cement sector. However, the government's increased allocation to overall capex (up ~12% to INR12.2t vs. 2025-26RE) is expected to indirectly benefit cement demand.

At a glance

Area	Key proposal	Impact
Allocation for housing schemes	❖ Allocation for housing schemes (PMAY Urban and Rural) stood at INR765b, up ~90% vs. 2025-26RE; however, this was up only ~2% vs. 2025-26BE.	Neutral
Allocation for rail/road projects	❖ Allocation for rail projects at INR2.8t is up ~10% and road projects at INR2.9t is up ~8% vs. 2025-26RE.	Neutral

Outlook and recommendations

Cement: Cement demand has improved after remaining weak for 1.5 years. Industry volume grew ~7-8% YoY in 3QFY26, with strong demand momentum after the monsoon and festive periods. The strong demand momentum continued in Jan'26, led by infrastructure and housing segments. We now estimate industry volume growth to be ~8% YoY in FY26E (vs. earlier estimate of ~6-7%). Further, cement prices have been rising over the past two months. Cement prices were hiked by ~INR5-15/bag in the trade segment and INR10-15/bag in the non-trade segment across regions in Jan'26. Industry players are likely to attempt another round of price hike of INR10-20/bag in Feb'26. UTCCEM is our top pick in largecap and JKCE in midcap.



CHEMICALS

Budget Impact: Positive

Sector Stance: Neutral

The Union Budget 2026-27 introduces duty changes that support domestic chemical manufacturing while improving competitiveness in sectors like solar and batteries chemicals. The three proposed dedicated chemical parks should strengthen the push for scale and lower import dependence. The key announcements influencing the chemicals sector are:

At a glance

Area	Key proposal	Impact
Dedicated parks	❖ Three dedicated chemical parks announced to enhance domestic chemical production, reduce import dependency, and improve supply chain. They will be launched through a challenge route, on a cluster-based plug-and-play model.	Positive
PLI scheme	❖ PLI for bulk drugs, pharma, and med-devices, bulk-drug parks and PRIP scheme pharma (combined outlay ~INR25b plus separate PRIP scheme INR7.50b) together should raise structural domestic demand for upstream and intermediate chemicals.	Positive
Changes in customs duties	❖ Potassium hydroxide Acid from Nil to 7.5% ❖ Sodium antimonate for use in solar glass manufacturing from 7.5% to Nil	Neutral

Outlook and recommendation

The budget announcements are positive for the chemicals sector, including three dedicated chemical parks and select duty hikes to support import substitution. The proposed chemical parks have been allotted INR6b in the budget for 2026-27, marking the first instance of direct budgetary support for such infrastructure. PLI-led capacity additions in pharma and med-tech will drive demand for intermediates and specialty chemicals.



CONSUMER DURABLES

Budget Impact: Neutral

Sector Stance: Neutral

The Union Budget 2026-27 gives a substantial manufacturing push (electronics and infrastructure) that should support demand for cables & wires. Moreover, enhanced electronics PLI and strengthened manufacturing focus could support localization of components by consumer durable companies.

At a glance

Area	Key proposal	Impact
Cables and wires	<ul style="list-style-type: none"> ❖ Overall capex increase would indirectly benefit in terms of higher demand for cables in power transmission, metro, highways, etc. ❖ Long-term tax holiday until 2047 for <i>foreign companies</i> that provide cloud services globally using data center infrastructure located in India – this will attract investment in Indian data center capacity, which would drive growth for cables. 	Positive
Durables including appliances	<ul style="list-style-type: none"> ❖ Extension of Exemption/concessional customs duty (till 31st Mar'28) on imports of 1) parts, components and accessories for manufacturing CCTV camera; 2) open cell and specified goods for use in the manufacturing of LCD and LED TV panels; 3) magnetron of up to 1.5 KW used for the manufacturing of domestic microwave ovens; and 4) all parts for use in the manufacturing of LED lights or fixtures including LED Lamps. ❖ Increased allocation in PM Surya Ghar Muft Bijli Yojana to INR220b from INR170b. ❖ Long-term tax holiday until 2047 for <i>foreign companies</i> that provide cloud services – this will attract investment in Indian data center capacity, which should drive growth for HVAC service providers. 	Positive

Outlook and recommendations

Consumer Durables: Cables continue to deliver strong growth, led by strong demand in domestic markets and a pick-up in international demand. We estimate cables demand should continue to grow, led by infrastructure, power T&D and industrial sectors. However, there could be near-term volatility due to steep fluctuation in input costs (copper and aluminum). RAC demand was weak in 1HFY26 due to erratic weather conditions, and the inventory spiked sharply in past few months. However, RAC demand has seen an uptick due to a change in BEE-rating norms, which drives up stocking of new star-rated products and discounting of old-rated products. However, high inventory levels of 8-10 weeks at the industry level and cost increase (~10% for input cost and ~7% for BEE rating changes) may keep margin volatile in the near term. POLYCAB and LGEIL are our preferred picks in this space.



CONSUMER

Budget Impact: Neutral

Sector Stance: Positive

The Union Budget 2026-27 continued to reinforce the government's focus on sustaining consumption by keep everything stable. The government has already taken several critical steps (lowering repo rates, reducing income tax slabs, GST rate revision, etc.) over the last 12-months. The total allocation for rural development is ~INR2,731b in FY27BE vs. ~INR2,650b last year, but it is up 30% from ~INR2,120b in FY26RE. The actual rural spending in 2024-25 was ~INR2,060b. That said, the budget was a neutral event for the sector.

At a glance

Area	Key proposal	Impact
No change in taxes for cigarettes	❖ The government had increased the excise duty (with 40% GST) on cigarettes on 1 Jan'26, the effective date was 1st Feb'26. Tobacco lobby was requesting govt to reassess the sharp tax increase, but there was no change in tax in the budget.	Neutral
Rural focused new schemes launched	❖ Budgetary allocation to MGNREGA has been reduced to INR300b from INR880b, while a new scheme—Viksit Bharat: Guarantee for Rozgar and Ajeevika Mission (Gramin)—has been introduced with a budgeted outlay of INR956b. ❖ The total rural development BE is ~INR2,731b vs. ~INR2,650b BE last year but 30% growth as compared to ~INR2,120b RE. The actual rural spends in 2024-25 was ~INR2,060b	Positive

Outlook

The government has been firing all cylinders over the last two years to revive broader consumption. These steps include lowering repo rates, reducing income tax slabs, and GST rate revision, among others. The Budget was largely neutral but maintained its stance by keep everything stable. Most big steps have already been taken by the government, and we are tracking outcomes of these initiatives. 3QFY26 results so far are constructive, particularly for packaged food companies. We remain positive for overall consumption revival in 2026.


EMS
Budget Impact: Positive
Sector Stance: Positive

The Union Budget 2026-27 reflects the government’s continued focus on boosting the electronics manufacturing services (EMS) sector, aligning with its goal of making India a global hub for electronics production. Key budget announcements influencing the EMS sector are:

Area	Key proposal	Impact
India Semiconductor Mission (ISM) 2.0	<ul style="list-style-type: none"> ❖ Centre plans to launch ISM 2.0 to produce equipment and materials, design full-stack Indian IP, and fortify supply chains. ❖ Centre will also focus on industry-led research and training centers to develop technology and skilled workforce. ❖ Centre plans to provide fiscal support of INR50b (vs. INR39b in 2025-26) on capex for setting up of compound semiconductor/silicon photonics/sensors/discrete semiconductor fabs/ATMP units ❖ Centre will provide fiscal support on project cost for setting up semiconductor fabs (planned disbursement of INR20b vs. INR25b in 2025-26) 	Positive
Electronics Components Manufacturing Scheme (ECMS)	<ul style="list-style-type: none"> ❖ ECMS was launched in Apr’25 with an initial outlay of INR229b, with the Centre planning to double it to INR400b. 	Positive
Tax exemption for foreign tolling suppliers	<ul style="list-style-type: none"> ❖ Five-year income tax holiday for non-residents providing capital goods to bonded EMS units 	Positive

Outlook and recommendations

The Union Budget 2026-27 announcements and initiatives are aimed at boosting domestic manufacturing and competitiveness in the Indian EMS sector. The introduction of an ISM 2.0, Scheme for Promotion of Manufacturing of Electronic Components and Semiconductors (SPECS), Modified Special Incentive Package Scheme (MSIPS), EMC/EMC2.0 and doubling of outlay under the ECMS scheme promote cost-efficient manufacturing. These steps should position India as a growing hub for electronics production, offering significant growth opportunities. EMS companies will leverage these initiatives by expanding domestic production.


FINANCIALS
Budget Impact: Negative
Sector Stance: Positive

The Union Budget 2026-27 announcements were overall neutral for the BFSI lending, though negative for the capital market players. The key government recommendations were: 1) enhancement of the UPI incentive scheme; 2) liquidity support through TReDS; 3) measures to deepen the corporate bond market; 4) increase in capex outlay to support credit growth; 5) change in STT rates in the futures/options segment effective Apr'26; 6) budgetary allocation under PMAY Urban 2.0 Interest Subsidy Scheme has been reduced to INR30b (from INR35b last year); and 7) restructuring of PSU power financiers - Power Finance Corporation (PFC) and Rural Electrification Corporation (REC).

At a glance

Area	Key proposals	Impact
UPI Incentive Scheme (RuPay Debit Cards and Low-Value BHIM-UPI Transactions)	<ul style="list-style-type: none"> ❖ Enhancement of UPI incentive scheme: The Budget announces an increase in allocation for the UPI incentive scheme to promote the use of RuPay debit cards and low-value BHIM-UPI transactions, aimed at sustaining digital payment adoption and supporting merchant acceptance, particularly for small-value transactions. ❖ The said measure is positive for digital payment companies like Paytm, PhonePe (unlisted), and Mobikwik. This increase in UPI incentive will partly help offset the damage caused by the discontinuation of the PIDF scheme. <i>(Refer to the Exhibit below).</i> 	Positive
Trade Receivables Discounting System (TReDS)	<ul style="list-style-type: none"> ❖ Liquidity support through TReDS: 1) Mandate TReDS as the transaction settlement platform for all purchases from MSMEs by CPSEs, serving as a benchmark for other corporates; 2) Introduce a credit guarantee support mechanism through CGTMSE for invoice discounting on the TReDS platform. 3) Linking GeM with TReDS to encourage cheaper and quicker financing. 4) TReDS receivables as asset-backed securities, to develop a secondary market and enhance liquidity and settlement of transactions. 	Neutral
Corporate Bonds / Debt Markets	<ul style="list-style-type: none"> ❖ Measures to deepen the corporate bond market: Introduction of market-making mechanisms and corporate bond total return swaps, along with initiatives to increase participation in corporate and municipal bond markets. These measures are expected to improve secondary-market liquidity, enhance price discovery, lower borrowing costs for issuers, and create incremental investment opportunities for banks and NBFCs. 	Positive
Capital Expenditure (Capex) Push	<ul style="list-style-type: none"> ❖ GOI raised public capital expenditure to INR12.2t for FY26-27, up from INR11.2t in FY 2025-26, reflecting a sustained emphasis on infrastructure and public investment. This higher capex is expected to drive increased activity in infrastructure, transport, urban development, and energy sectors, which should support demand for long-term financing. For banks and NBFCs, this translates into stronger credit demand in project finance, term loans, and working-capital financing. Mainly positive for PSU banks. 	Positive
STT Changes	<ul style="list-style-type: none"> ❖ The STT rates for the Futures segment have been increased to 0.05% (effective Apr'26) from the current rates at 0.02%. ❖ The STT rates for the Options segment have been increased to 0.15% (effective Apr'26) from the current rates at 0.10%. 	Negative
PMAY 2.0 CLSS	<ul style="list-style-type: none"> ❖ Budgetary allocation under the PMAY Urban 2.0 Interest Subsidy Scheme has been reduced. The allocation for the economically weaker section (EWS) and lower-income group (LIG) categories has been reduced from ~INR25b to ~INR20b. Meanwhile, the allocation for the middle-income group (MIG) remains unchanged at INR10b. The total allocation under PMAY 2.0 CLSS has been reduced to ~INR30b from ~INR35b last year. ❖ It is important to note that the revised estimate for 2025-26 stood at just INR3b, which makes the 2026-27 budgetary allocation reduction less relevant. This is also because PMAY 2.0 faced several teething issues in the last year when the scheme was rolled out, which constrained subsidy disbursements despite higher headline allocations. We expect the subsidy availed under this scheme next year to be materially better. 	Neutral
Power Financing	<ul style="list-style-type: none"> ❖ The government has decided to restructure PSU power financiers – Power Finance Corporation (PFC) and Rural Electrification Corporation (REC). However, there is limited clarity at this stage on the exact structure of the proposed reorganization and its potential impact on the two entities. 	Neutral
SME growth fund	<ul style="list-style-type: none"> ❖ The government has proposed a dedicated INR100b SME Growth Fund aimed at creating future champions by providing targeted incentives to eligible enterprises. In addition, an INR20b top-up has been announced for the Self-Reliant India Fund (set up in 2021) to continue supporting microenterprises and ensure their sustained access to risk capital. 	Sentimentally Positive

RuPay and UPI Incentive Scheme allotment

INR bn	FY21-22	FY22-23	FY23-24	FY24-25	FY25-26	FY26-27P
Industry UPI incentive (allotted)	13.89	22.10	36.31	19.23	21.96	20.00
UPI incentive received by Paytm	NA	1.82	2.88	0.70		

Cost of trade	Retail		Large traders			
	Options (premium)		Futures (notional)		Options (premium)	
INR	Buy	Sell	Buy	Sell	Buy	Sell
Existing STT Rates						
Transaction value	5,000	5,000	10m	10m	10m	10m
STT/ CTT		5		2,000		10,000
- Rate		0.10%		0.02%		0.10%
Ex-STT charges	25.8	25.7	440	240	4,516	4,216
Total charges	25.8	30.7	440	2,240	4,516	14,216
New STT Rates						
STT/ CTT		7.5		5,000		15,000
- Rate		0.15%		0.05%		0.15%
Ex-STT charges	25.8	25.7	440	240	4,516	4,216
Total charges	25.8	33.2	440	5,240	4,516	19,216
Increase in the cost of trade	-	2.5	-	3,000	-	5,000
Total charges growth	0%	8%	0%	135%	0%	35%
Increase as % of transaction value		0.05%		0.03%		0.05%

Outlook and recommendation

Payments & Fintechs: The increased allocation under the UPI incentive scheme to promote RuPay debit cards and low-value BHIM-UPI transactions is positive for digital payment companies, as it partially offsets the cost burden arising from zero-MDR on UPI, as well as the recent discontinuation of the PIDF scheme. In our view, this should help improve the overall economics of digital payments, particularly for payment companies with strong retail and merchant acquiring franchises and a strong customer base (such as Paytm and PhonePe).



HEALTHCARE

Budget Impact: Positive

Sector Stance: Positive

- The Union Budget 2026-27 places strong emphasis on strengthening the biopharmaceutical sector and healthcare infrastructure. Key focus areas include promoting medical tourism, expanding the pool of skilled healthcare professionals, and enhancing the capacity of district hospitals. The following are the key budget announcements impacting the healthcare sector:

Area	Key proposal	Impact
Establishment of regional medical hubs for medical tourism	❖ The government will support states in establishing five regional medical hubs in partnership with the private sector. These hubs will function as integrated healthcare complexes combining medical services, education, and research, including AYUSH centers, medical value tourism facilitation centers, and infrastructure for diagnostics, post-treatment care, and rehabilitation. This is expected to be supportive for large hospital operators with strong operational presence.	Positive
Strengthening allied health education and caregiver workforce	❖ Existing allied health professional (AHP) institutions will be upgraded and new institutions will be established across government and private sectors, covering 10 key disciplines and adding 100,000 AHPs over the next five years. In parallel, a care ecosystem focused on geriatric and allied services will be strengthened through NSQF-aligned programs to train 150,000 multiskilled caregivers.	Positive
Expansion of emergency and trauma care capacity at district hospitals	❖ Emergency and trauma care capacity at district hospitals will be enhanced by 50% through the establishment of emergency and trauma care centers. While this improves access and affordability of emergency care, the overall impact on private hospital business outlook is expected to be limited due to persistent availability constraints of trained medical professionals.	Negative
Biopharma SHAKTI Programme with an outlay of INR100b	❖ An investment of INR100b over five years is proposed to strengthen the biopharmaceutical manufacturing ecosystem in the country. The allocation of INR5b in FY27 represents the first dedicated budgetary support, indicating increased policy focus with potential medium-term sector benefits.	Positive
	❖ The program includes the establishment of three new National Institutes of Pharmaceutical Education and Research (NIPERs) and the upgrade of seven existing NIPERs to enhance specialized manpower, research capability, and training infrastructure for biopharmaceuticals.	Neutral
	❖ A network of over 1,000 accredited clinical trial sites will be developed, alongside strengthening the CDSCO through dedicated scientific review capacity to improve regulatory efficiency, align approval timelines with global standards, and support faster development for domestic formulation companies.	Positive
PLI allocation of ~INR25b	❖ Continued allocation of ~INR25b for PLI schemes in FY27 reflects the government's sustained focus on domestic pharmaceutical and medical device manufacturing. The funding supports upstream integration across APIs/KSMs, pharmaceuticals, and devices.	Positive

Outlook and recommendations

- For the healthcare sector, the budget not only provides financial assistance but also highlights the government's efforts to prepare Indian companies to gain business on global healthcare platform. The measures to market 'India' for medical tourism, supported with enhancing resource pool (doctors/nurses), would enable increased international patient flow.
- Budget allocation for making India a global bio-pharma manufacturing hub is a gradual step toward making India self-reliant in health security and providing support to pharma companies in India to attract contracts under CDMO. It also provides business opportunities and reduces dependence on imports.
- Even beyond budget, measures like PLI scheme have been providing support to private companies for mutual benefits to patient population at large.



INFRASTRUCTURE

Budget Impact: Neutral

Sector Stance: Positive

Moderate capex outlay across key sectors

At a glance

Area	Key proposals	Impact
Roads	<ul style="list-style-type: none"> ❖ Total outlay for the road sector rose 8% to INR2.94t for FY27 from INR2.72t in FY26. ❖ A new infrastructure risk guarantee fund will provide partial credit guarantees to lenders to help de-risk infrastructure development and construction. ❖ The government plans to accelerate recycling and monetization of real estate owned by central public sector enterprises (CPSE) through REITs and INVITs. 	Neutral
Railways	<ul style="list-style-type: none"> ❖ The sector has been allocated INR2.77t for FY27, up from INR2.52t in FY26. 	Neutral
Defense	<ul style="list-style-type: none"> ❖ Budget allocation for FY27 is INR2.19t, up from INR1.86t in FY26RE. 	Neutral

Outlook and recommendations

- **Infrastructure:** Total capex outlay remains moderate with 12% growth. Allocations to key sectors like roads have increased by a mere 8% YoY in FY27.


LOGISTICS
Budget Impact: Neutral
Sector Stance: Positive
At a glance

Area	Key proposals	Impact
Logistics	<ul style="list-style-type: none"> ❖ Coastal cargo promotion scheme to increase the share of inland waterways and coastal shipping in freight movement from 6% currently to 12% by 2047. ❖ Approved the budgetary allocation of INR100b for container manufacturing. ❖ Approved establishment of new dedicated freight corridors connecting Dankuni in the East to Surat in the West. ❖ To operationalize 20 new national waterways (NW) over next five years, starting with NW-5 in Odisha to connect mineral-rich areas of Talcher and Angul and industrial centers like Kalinga Nagar to the Ports of Paradeep and Dhamra ❖ Overall capex higher by 12% in FY27 against FY26 revised estimate 	Neutral

Outlook and recommendations

- **Logistics:** Initiatives have been taken to improve the railway and inland waterways logistics, which should influence demand for logistics.
- **Our top picks:** Delhivery, Adani Ports and JSW Infra are our preferred plays in the logistics sector.



METALS

Budget Impact: Neutral

Sector Stance: Positive

There was no notable budget proposal for the metal sector. Capex for FY27BE is pegged at INR12.2t, compared to INR11.0t in FY26RE. The focus has been on niche areas of critical minerals, where duties have been reduced and impetus has been provided for manufacturing domestically.

At a glance

Area	Key proposals	Impact
Capex	❖ Overall Infrastructure capex increased from INR11.0t to INR12.2t in FY27BE	Neutral
Customs Duty (Critical Minerals)	❖ Exemption of BCD on import of capital goods required for the processing of critical minerals in India	Positive
Critical Minerals	❖ Support the mineral-rich states of Odisha, Kerala, Andhra Pradesh and Tamil Nadu to establish dedicated rare earth corridors to promote mining, processing, research and manufacturing.	Positive

Outlook and recommendations

- The infrastructure sector accounts for ~60% of the total domestic steel demand, with construction at ~20% and automobiles at ~8%. Domestic steel demand is expected to improve with higher capex and recent GST rate cuts on auto, consumer durables and other sectors.
- Tata Steel, Jindal Stainless and Midwest are **our top picks**.



OIL AND GAS

Budget Impact: Neutral

Sector Stance: Positive

The Budget was largely **neutral for the Oil & Gas sector**, with **no significant hike in excise duty on MS/HSD**, which is a **positive** for OMCs as it removes near-term risk to marketing margins.

At a glance

Area	Key proposals	Impact
Revenue support	❖ The proposed additional excise duty of INR2/lit on the sale of unblended diesel has been deferred until 31 Mar'28.	Neutral
Revenue support	❖ The government has excluded the value of biogas/compressed biogas (CBG) and the associated GST paid thereon from the transaction value used to compute central excise duty on blended CNG. The excise duty relief aligns with the government's phased CBG blending mandate , under which CBG blending in CNG/PNG has been made mandatory at 1% in FY26, rising to 3% in FY27, 4% in FY28 and 5% from FY29 onwards . The excise duty relief, though modest in immediate financial impact, is a minor long-term positive for the City Gas Distribution sector .	Neutral

Outlook and recommendation

The absence of MS/HSD excise duty hike is sentimentally positive for OMCs, as:

- OMCs have continued to maintain robust MS/HSD marketing margins of INR9+/-lit.
- OMC balance sheets are in a much-improved situation, with ND/E improving to 0.5-0.7x by FY27E.
- For controlled products like LPG, the Oil and Gas Ministry, on behalf of OMCs, can continue to request the Finance Ministry for support.
- **We have a buy rating on HPCL.**



REAL ESTATE

Budget Impact: Neutral

Sector Stance: Positive

In the Union Budget 2026-27, the government's allocation to PMAY is flat compared to last year's budgeted number, which is sector neutral. However, the govt has given tax sop for cloud services provided by foreign companies in data center business. Here are key budget announcements influencing the real estate sector:

At a glance

Area	Key proposal	Impact
Increased PMAY Allocation	❖ PMAY allocation for FY26-27 is flat compared to the last year's budgeted numbers; however, it is up 90% from the revised estimates.	Neutral
Tax holiday to foreign company till 2047	❖ Tax holiday till 2047 to any foreign company that provides cloud services to customers globally by using data center services from India. It will, however, need to provide services to Indian customers through an Indian reseller entity.	Positive

Outlook and recommendations

The Budget was largely sector-neutral for real estate; while direct announcements were absent and PMAY allocation remained flat, historical under-utilization of these funds suggests little immediate impact. However, the outlook for data centers is significantly more bullish.

The government has introduced a tax holiday until 2047 for foreign cloud service providers utilizing Indian data centers for global operations, provided they use an Indian reseller for domestic clients. Combined with the existing 20-year tax holiday for Indian providers, these incentives should position India as a global hub. We expect this to drive sustainable demand and premium pricing, directly benefiting established players like Anant Raj and Lodha Developers.



TELECOM

Budget Impact: Neutral

Sector Stance: Positive

Telecom receipts down ~17% in FY27RE; albeit on high FY26RE (raised by ~70% vs. FY26BE)

At a glance

Area	Key proposals	Impact
Telecom Receipts	❖ Telecom receipts (excluding Vodafone Idea's equity conversion) are expected to rise ~71% in FY26RE (vs. FY26BE). However, for FY27BE, the telecom receipts are down ~17% to INR1.17t (vs. FY26RE). Further, there will be a capital infusion of INR338b into BSNL in FY26BE (vs. INR720b in FY25RE).	Neutral
Capital infusion in BSNL	❖ Capital infusion in BSNL was budgeted at ~INR338b in FY26, which has been lowered to ~INR69b for FY26RE, with roll-forward of ~INR285b to FY27BE.	Neutral

Outlook and recommendations

- Implication of telecom receipts projections:** The sharp increase in telecom receipts for FY26RE to INR1.41t (excluding equity conversion for VI) is puzzling considering the significant relief given to Vi on AGR dues (INR1.2b vs. ~INR179b payable earlier) and a reduction in capital infusion to BSNL in FY26 (from ~INR338b to INR69b), which typically is a double entry for receipt as well as expenditure for the Ministry of Communications. While telecom receipts are budgeted to decline ~17% from FY26RE, telecom receipts at INR1.17t for FY27BE are significantly higher than our estimate of total regulatory payouts (incl. annual LF/SUC payments, deferred spectrum and AGR payments) at ~INR685b for FY27 (vs. our estimate of INR554b for FY26) and **could have further downside risks from delays in tariff hikes (vs. our est. of ~15% from Jul'26)**. We note the FY25 actual telecom receipts came in at INR848b (~31% lower vs. INR1.2t in FY25RE).


UTILITIES
Budget Impact: Positive
Sector Stance: Positive
Budget 2026-27 continues to emphasize clean energy transition

The Union Budget 2026-27 reinforces the government's commitment to promoting clean and emerging technologies across the energy value chain. Allocation for the PM Surya Ghar Muft Bijli Yojana has been raised to INR220b, up ~30% from INR170b in FY26RE, underscoring continued policy focus on rooftop solar adoption. Outlay under the reform-linked distribution scheme (RDSS) is proposed to increase to INR180b from INR156.7b in FY26RE, aimed at improving the financial and operational performance of distribution companies; both structurally positive for integrated utilities such as Tata Power. Viability gap funding (VGF) support for battery energy storage systems (BESS) is proposed to increase sharply to INR10b, a tenfold rise from INR1b in FY26RE, which is positive for 1) IPPs such as JSW Energy, NTPC Green, and ACME Solar, which have undertaken BESS projects; 2) over the longer term, for companies such as Waaree Energies, which are deploying capital in battery manufacturing, despite no immediate financial impact. For nuclear power, the government has proposed extending the BCD exemption on imports of goods required for nuclear power projects until 2035 and expanding its applicability to all nuclear plants, irrespective of capacity, thereby improving project viability and investment visibility.

Area	Key proposals	Impact
Data Centers and Power Demand Growth	<ul style="list-style-type: none"> To attract global investment and support the development of critical digital infrastructure, the government has proposed a tax holiday until 2047 for foreign companies providing global cloud services using data center infrastructure located in India. Safe harbour in case the resident company providing data center services is a related entity. This measure is structurally positive for long-term power demand, as every 1 GW of data center capacity typically requires ~5 GW of renewable energy capacity. 	Positive
Battery Energy Storage Systems (BESS) and Solar Manufacturing	<ul style="list-style-type: none"> The existing basic customs duty (BCD) exemption on capital goods used for manufacturing lithium-ion cells for batteries has been extended to include capital goods used for manufacturing lithium-ion cells for BESS. 	Positive
Solar Manufacturing	<ul style="list-style-type: none"> The government has proposed a BCD exemption on imports of sodium antimonate, a key input in the manufacture of solar glass, supporting domestic solar manufacturing. 	Positive
Nuclear Power	<ul style="list-style-type: none"> BCD exemption on imported goods required for nuclear power projects has been extended until 2035. Exemption has been expanded to cover all nuclear power plants, irrespective of capacity. 	Positive
Carbon Capture, Utilization and Storage (CCUS):	<ul style="list-style-type: none"> In alignment with the national CCUS roadmap announced in Dec'25, the government aims to scale CCUS technologies to higher technology readiness levels across five industrial sectors—power, steel, cement, refineries, and chemicals To support deployment at scale, an outlay of INR200b over the next five years has been proposed. 	Positive

Budget Outlay
(INRb)

Name of Central Scheme	Budgeted 2025-26	Revised Estimate 2025-26	Budgeted 2026-27
Solar Power (Grid)	15.0	10.0	17.8
KUSUM	26.0	50.0	50.0
PM Surya Ghar Muft Bijli Yojana	200.0	170.0	220.0
VGF for BESS	2.0	1.0	10.0
CCUS	-	-	5.0
Reform Linked Distribution Scheme	160.2	156.7	180.0

Outlook and recommendation

Overall, the Budget signals a clear, long-term policy commitment to accelerating India's clean energy transition. Higher allocations for storage and rooftop solar and distribution reforms, alongside targeted support for CCUS, domestic manufacturing, data centers, and nuclear power, collectively improve investment visibility and execution momentum. The measures are structurally positive for grid resilience, energy security, and stable power demand growth, reinforcing the outlook for integrated utilities and clean energy players over the medium to long term.

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