

## FY26 BUDGET REVIEW

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### FY26 Double Digit Earnings Likely Protected

- The budget raises confidence in the consensus' domestic cyclical earnings turnaround and Nifty's double digit. earnings growth for FY26
- Purchasing power of consumers is not only boosted by tax breaks but also by a likely lower EMI outgo as RBI cuts rates on lower fiscal deficit. Leveraged consumption/investment is likely by households. Corporates to likely to do capex and lever up if demand sustains in the years ahead
- Lenders, auto, cement, homebuilding, consumer staples/durables/discretionary stocks beneficiaries

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**Hope rises for FY26 Nifty 50 double digit earnings growth:** Bloomberg consensus FY25 earnings have moved from low teen growth at the beginning of the year to next to no growth currently. The market has been apprehensive that something similar was in store for FY26 earnings. We believe the higher-than-expected tax breaks given to the Indian middle class, other budgetary proposals and RBI rate cuts in the coming months will have positive demand/pricing/margin ramifications for multiple sectors.

**Households will lever up while government levers down. Corporates could lever up with a lag:** We believe the extra money in the hands of consumers through tax breaks and through likely lower EMI outgo in the months ahead (as RBI cuts rates in the wake of benign core CPI and better than expected fiscal deficit) could possibly lead to leveraged consumption/investment by households. It is difficult to precisely pin down where the extra money will finally go. On the consumer staples' front it may not be so much about volume growth (as the middle class likely consumes adequately) but about premiumization. It could also be about higher pricing power/margin. It could also mean leveraged consumption of discretionary items like auto (better vehicles from currently owned ones), ability to buy a house (or a bigger/better one). The ancillary players will therefore benefit- lenders, cement players, home building product companies, consumer durables, etc. Credit growth, which had fallen from high teens to current 10-11% could rebound on higher demand and the recent liquidity measures of the RBI. We are only mentioning sectors where we have coverage. A broader swathe of companies will also likely benefit like real estate players.

**Portfolio strategy- Domestic Cyclical rebound on the cards:** Believe the last 6-9 months have been marked by investors shifting away from domestic themes as they faced earnings cuts. The shift has been to sectors like IT services and Pharma where the perception was that the earnings are resilient. We believe the budget may be the harbinger of the reversal of that trade as investors gain confidence in FY26 rebound.



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