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FY27 BUDGET REVIEW

02 February 2026

Continues to lay building blocks for the long term. Unlikely to be a short-term market catalyst

- **Budget 2026 largely met muted expectations around it as much had been accomplished in and outside previous budgets**
- **Believe by itself it will not move earnings materially for FY27 but lays ground for better growth from a medium to long term perspective**
- **In 2026, paper supply will absorb domestic flows while valuation, AI driven faster earnings growth in other EMs may keep FPIs disinterested**

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With much accomplished in and outside earlier budgets market went into the current one with low expectations: Income Tax giveaway in FY26 budget, GST rate rationalization from September 2025, Monetary easing (repo rate cut by 125bps over the last 12 months) were among those actions. After supporting capex since Feb 2021, FY26 saw a pivot towards supporting consumption. FY27 budget seems balanced.

Key asks going into the budget FY27: (1) Keep growth going at a reasonable clip through both balanced capex and consumption growth (2) support areas of the economy which have been impacted by US tariffs and also those that could drive exports through the various FTAs being signed by India (with EU, UK, etc). (3) thrust on generating employment (4) get recent depreciation of INR under control (5) keep cost of capital low by keeping 10-year G sec yields under control. They hit one year peak of ~6.7% despite repo rate cuts of 125 bps in the last 12 months.

See market likely to trade in a large range in 2026: With Nifty earnings growth expected to pick up in FY27 (~17% based on Bbg) after a lackluster FY26 (~1%), and a lower valuation premium vis-à-vis EM peers there is a widespread expectation that Indian equities will do well in 2026 relative to 2025 (Nifty up ~10.5% in local currency terms). AI/Digital driven faster and supposedly structural earnings growth for some key corporates in Taiwan, South Korea and China is likely to keep FPIs from looking at India in a meaningful way. Domestically, strong retail flows into equities have been absorbed by large supply of paper through IPOs, FPOs and QIPs. Consensus view is that 2026 is going to be as strong on this front if not stronger than 2025. We therefore think that while easing valuation premium and the structural earnings compounding story will keep the market from falling too much, the above two points will keep the market reigned in. The change in taxation on Buybacks may help support stock prices.

Sectors that are likely to outperform: Prefer domestic sectors at reasonable valuations. BFSI is the only sector that fits that description. In many other domestic sectors, we believe valuations are not reasonable as they seem to be more than adequately pricing in the earnings turnaround from various fiscal and monetary policy actions and hence the need to go stock by stock.

We think the budget has addressed many of the asks: Believe the Feb 2026 budget is a balanced one focusing on both investment and consumption. On the currency front, there is medium term thrust to support parts of manufacturing that can gain from FTAs (in textiles and leather goods, marine exports), building capacity to grow services (medical tourism, tourism in general), changed safe harbor norms to promote GCCs, given tax holiday for development of cloud services and Data centers, increasing investment limits in Indian equities by Individual Persons Resident Outside India (PROI) and tax holiday applicable to units in GIFT City being extended to 20 years from 10. In infrastructure it talked about seven new high-speed rail corridors and a new dedicated freight corridor to promote faster, greener passenger and cargo movement. 10-year GSec yields should stay capped on credible fiscal math and adherence to a debt/GDP glide path. Infrastructure Risk Guarantee Fund has been created to facilitate longer term lending to infrastructure projects. This will likely address concerns around project viability, execution risk, and long-term returns

Math is credible: Believe budget math is credible and probably a bit conservative unless nominal GDP growth (10% assumed in FY27) under/over performs. These include (1) net tax revenue growth to the center growing at below nominal GDP growth. This we think is partly because of assumption of decline in GST revenue in FY27 (2) a modest cut in fiscal deficit from 4.4% in FY26RE to 4.3% FY27BE and a very gradual glide path to government debt reduction from ~55% of GDP level in FY27 to ~50% level in FY31. This is after cutting central fiscal deficit from a peak of 9.3% of GDP seen in FY21 due to the pandemic to 4.4% in FY26RE. Keeping to the glide path of gradual fiscal consolidation we believe will help keep 10 year GSec yield in check while at the same time support the economy when India is facing tariff related challenges.

Higher STT on Equity F&O transactions: We believe part of the reason for the ~2% cut in Nifty on 1 Feb 2026 is the steep increase in Securities Transaction tax (STT) on equity futures and options. This has been increased by 150% and 50% respectively. This is meant to dissuade Indian retail traders (where 9 out of 10 make losses in F&O according to recent studies).

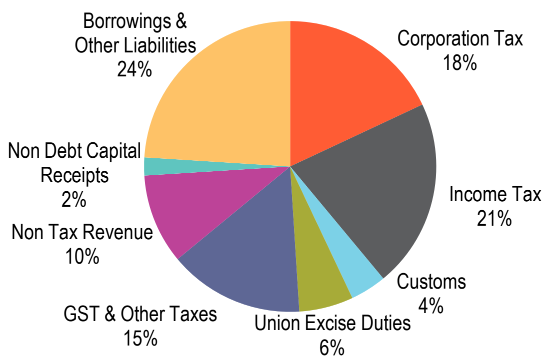
Some specific proposals that may impact equity markets over the next 12 months: (1) The budget proposed setting up a “High Level Committee on Banking for Viksit Bharat”, to comprehensively review the sector and align it with India’s next phase of growth, This may potentially lead to greater consolidation on the PSU banking front, potentially change FDI limits in certain segments, etc. (2) Defense related capex has been increased by 18% (3) increase in investment in the electronics components and semiconductor sectors (4) thrust on bio pharma research

Fig 1 – Budget at a glance

(Rs trn)	2024-2025	2025-2026	2025-2026	2026-2027	
	Actuals	Budget Estimates	Revised Estimates	Budget Estimates	Growth (%)
1. Revenue Receipts	30.4	34.2	33.4	35.3	5.7
2. Tax Revenue (Net Centre)	25.0	28.4	26.7	28.7	7.2
3. Non Tax Revenue	5.4	5.8	6.7	6.7	(0.2)
4. Capital Receipts	16.2	16.4	16.2	18.1	11.8
5. Recovery of Loans	0.2	0.3	0.3	0.4	27.2
6. Other Receipts	0.2	0.5	0.3	0.8	136.4
7. Borrowings and Other Liabilities	15.7	15.7	15.6	17.0	8.8
8. Total Receipts (1+4)	46.5	50.7	49.6	53.5	7.7
9. Total Expenditure (10+13)	46.5	50.7	49.6	53.5	7.7
10. On Revenue Account of which	36.0	39.4	38.7	41.3	6.6
11. Interest Payments	11.2	12.8	12.7	14.0	10.2
12. Grants in Aid for creation of Capital Assets	2.7	4.3	3.1	4.9	59.9
13. On Capital Account	10.5	11.2	11.0	12.2	11.5
14. Effective Capital Expenditure (12+13)	13.2	15.5	14.0	17.1	22.1
15. Revenue Deficit (10-1)	5.6	5.2	5.3	5.9	12.4
% of GDP	1.7	1.5	1.5	1.5	
16. Effective Revenue Deficit (15-12)	2.9	1.0	2.2	1.0	(54.4)
% of GDP	0.9	0.3	0.6	0.3	
17. Fiscal Deficit [9-(1+5+6)]	15.7	15.7	15.6	17.0	8.8
% of GDP	4.8	4.4	4.4	4.3	
18. Primary Deficit (17-11)	4.6	2.9	2.8	2.9	2.7
% of GDP	1.4	0.8	0.8	0.7	

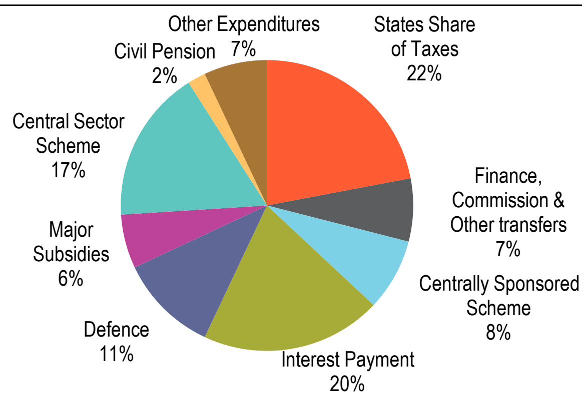
Source: Budget Documents, BOBCAPS Research

Fig 2 – Rupee comes from…



Source: Budget Documents, BOBCAPS Research

Fig 3 – Rupee goes to…



Source: Budget Documents, BOBCAPS Research

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