

### Muted budget lacking growth triggers

The Union Budget 2026 upholds policy continuity, prioritizing public investment, manufacturing scale-up, and structural reforms to bolster medium-term growth. While it sustains a stable framework for investors, near-term market sentiment faces headwinds from measures like the increased Securities Transaction Tax (STT).

### Key Highlights:

**Robust Public Capex and Defence Spending:** Public capital expenditure rises 8.9% YoY to INR 12.2 lakh crore for FY27, supporting the investment cycle alongside total expenditure of INR 53.5 lakh crore. Defence outlay hits INR 5.94 trillion (4.8% YoY growth over FY26 RE), signaling strong commitment to strategic sectors.

**Manufacturing and MSME Push:** Multi-year initiatives target deeper domestic value chains, including Biopharma SHAKTI (₹10,000 crore), expanded Electronics Components Manufacturing Scheme (₹40,000 crore), Semiconductor Mission 2.0, and schemes for containers, construction equipment, rare earths, chemical parks, textiles, and industrial clusters. These enhance earnings visibility for listed players in capital goods, electronics, specialty chemicals, pharma services, textiles, and infrastructure over the medium term.

**Fiscal Path with Borrowing Pressures:** Fiscal consolidation continues steadily, but gross market borrowings surge 17.8% YoY to INR 17.2 trillion (vs. FY26 RE of INR 14.6 trillion). This could lift yields, challenge banks, and crowd out private corporate borrowing.

**Capital Markets Impact:** STT hikes on derivatives—futures to 0.05% (from 0.02%), options premium to 0.15% (from 0.1%), and options exercise to 0.15% (from 0.125%)—raise costs for traders and proprietary desks, potentially curbing trading activity, liquidity, and sentiment for exchanges, brokers, and market-linked firms.

**Market Implications:** The Budget delivers stability over acceleration, with elevated capex and manufacturing focus aiding medium-term prospects. However, limited immediate re-rating triggers persist amid a 10% FY27 GDP growth assumption (carrying global macro risks), an ambitious INR 80,000 crore divestment target reliant on execution. This points to a stock-specific market, where investors should prioritize fundamentals and delivery over broad-based optimism.

## Union Budget Highlights

### Key Highlights of the Union Budget 2026-27

(Rs.trillion)	FY25-26 RE	FY26-27 BE
GDP in nominal terms (In Rs)	357.1	393
GDP growth (%)	10.1	10
Fiscal Deficit (in Rs)	15.6	16.95
Fiscal Deficit (as a % of GDP )	4.4	4.3
Primary Deficit (asa % of GDP)	0.8	0.7
Debt (as a % of GDP)	56.1	55.6
Gross market borrowings (in Rs)	14.6	17.2
Gross Mkt Borrowings (growth %)		17.8
Net borrowings g-sec (in Rs)	10.4	11.7

*Note: GDP growth of 10.1% for FY26 (RE) is budgeted estimate; while actual nominal GDP for H1FY26 is 8.8%.*

- GDP (in nominal terms) is expected to grow by 10% yoy to INR 393 trillion in FY26-27 (BE).
- At the same time, there is marginal reduction expected in fiscal deficit from 4.4% in FY26 (RE) to 4.3% in FY27 (BE).
- Overall gross market borrowings is higher by 17.8% for BE FY27 to INR 17.2 trillion vs. INR 14.6 trillion (RE FY26). In our view, large quantum of borrowings is likely to keep yields on higher side which is negative for the banks in general. Also, higher govt. borrowings will crowd out private corporate borrowings as well.
- At the same time, net borrowings is pegged at INR 11.7 trillion for FY27 (BE) vs. INR 10.4 (RE) for FY26.

## SECTOR

### Agriculture & Rural Development

- **Total Outlay:** Allocated ₹1.63 lakh crore for Agriculture & Allied Activities and ₹2.73 lakh crore for Rural Development
- **Horticulture Push:** New high-density cultivation programs for walnuts, almonds, and pine nuts, plus dedicated schemes for coconut, cashew, and cocoa.
- **Fisheries:** Integrated development of 500 reservoirs (Amrit Sarovars) to strengthen the inland and coastal value chains.
- **Digital Innovation:** Launch of Bharat-VISTAAR, a multilingual AI-integrated advisory tool linked to AgriStack and ICAR.
- **Rural Support (SASCI):** Provided ₹2 lakh crore to states for capital investment, aimed at stimulating rural demand and infrastructure creation.

**Stocks that can benefit:**  
**Kaveri Seed, Godrej Agrovet**

### MSME

- The budget continues strong credit push to MSMEs via enhanced CGTMSE guarantees, interest subvention, and priority sector lending, improving access to low-cost funding
- Focus on formalization, digital payments, and GST compliance support helps MSMEs scale up and integrate into organized supply chains.
- Capex-led growth (infra, defense, railways, housing) will boost order inflows for MSME suppliers, improving capacity utilization and cash flows.

### Infrastructure, Railways & Transportation

- **Public Capex Boost:** Capital expenditure raised to ₹12.2 lakh crore in FY27, strengthening infrastructure-led growth with focus on Tier II & III cities. (Population more than 5 lakhs).
- **Infrastructure Risk Guarantee Fund:** Partial credit guarantee mechanism to enhance lender confidence and attract higher private investment.
- **Logistics & Freight Corridors:** New Dedicated Freight Corridor (Dankuni–Surat) and 20 National Waterways to promote efficient and green cargo movement.
- **Coastal & Inland Shipping Push:** Coastal Cargo Promotion Scheme to double waterways and coastal shipping share from 6% to 12% by 2047, lowering logistics costs.

- **Passenger Transport Expansion:** 7 High-Speed Rail corridors and incentives for seaplane manufacturing & operations to improve regional and last-mile connectivity
- **Container Manufacturing Scheme:** ₹10,000 crore program over five years to build a globally competitive domestic container manufacturing industry.
- Railways capex retained at ₹2.52 lakh crore, unchanged from FY26 BE

**Stocks that can benefit:**

**L&T, CONCOR, CG Power, RVNL, Adani Ports, NCC, IRCON**

## **BFSI**

- PFC & REC to be restructured
- **Formation of the high-level committee in order to form next level Banks for Vikshit Bharat** – This might signal consolidation of PSU Banks which might be positive for small PSU Banks like Bank of Maharashtra, UCO Bank and not so positive for large cap banks.
- **Higher capital allocation of INR 12.2 trillion** – giving better visibility of banking sector credit growth as well
- **Introduction of market making framework and total return swaps on corporate bonds**
- Under Pradhan Mantri Awas Yojna (PMAY) – Rural scheme – allocation has been increased from INR 32500 RE 2025-26 to INR 54917 cr in BE 2026-27. Additionally, there is increased allocation under PMAY – Urban at INR 18625 BE 2026-27 (INR 7500 cr RE 2025-26) and PMAY – Urban 2.0 at INR 3000 (INR 300 RE 2025-26)

Gross market borrowings for fiscal year FY27 is pegged at INR 17.2 trillion higher than INR 14.6 trillion RE 2025-26. While net market borrowings (g-sec) is estimated at INR 11.7 trillion BE FY27 vs. INR 10.7 RE FY26. Higher borrowings is likely to crowd-out private investments and keep the benchmark government yields on higher side. This shall be overall negative for the Banking sector in general.

**Stocks that can benefit:**

Positive for affordable lenders viz. Home First Finance, Aptus Housing Finance, India Shelter Finance, Aadhar Housing Finance, Aavas Housing Finance.

## Capital Markets

- Raising of STT on futures from 0.02% to 0.05%
- STT on options premium and exercise of options to be raised to 0.15% from rate of 0.1% and 0.125%, respectively.

## Defense & Aerospace

- **Total Defence Expenditure:** ₹5,94,585 crore, up from ₹5,67,855 crore in FY26 RE (YoY growth: ~4.7% over FY26 RE, reflecting sustained prioritisation despite fiscal consolidation)
- **Basic Customs Duty (BCD) exemptions** extended on: Components and parts used in aircraft manufacturing, Raw materials imported for defence MRO (maintenance, repair & overhaul)
- Policy support to private sector defence manufacturers, particularly in: Defence electronics, Precision engineering, Aero-engine components

### Stocks that can benefit:

HAL, BEL, Azad Engineering, MTAR Technologies

## Healthcare

- The government **allocated ₹98,000 crore to healthcare**, focusing on strengthening public health infrastructure, medical education, preventive healthcare, and hospital capacity expansion.
- **Launch of Biopharma SHAKTI with an outlay of ₹10,000 crore over five years** to develop India as a global hub for biologics and biosimilars, including new NIPERs, expanded clinical trial capacity, and faster drug approvals.
- **AAYUSH** - The Ministry of AYUSH budget rises from ₹3,671.82 crore (RE 2025-26) to ₹4,408.93 crore (BE 2026-27), with National AYUSH Mission allocation increasing ~66% to ₹1,300 crore.
- **Ayushman Bharat – PMJAY** allocation also rises from ₹9,000 crore (RE 2025-26) to ₹9,500 crore (BE 2026-27)
- **Funding will support 5 regional AYUSH medical hubs, 3 new All India Institutes of Ayurveda, upgraded pharmacies and drug-testing labs, and global traditional medicine initiatives.**

### Stocks that can benefit:

Sun Pharma, Dr Reddy's, Cipla, Biocon, Apollo Hospitals,  
Kims Hospital, Jeena Sikho Lifecare

## Services, IT & Digital Economy

- Safe harbour rationalisation for IT services with threshold raised to ₹2,000 crore.
- **Tax holiday till 2047** for foreign cloud service providers using India-based data centres & 15% safe harbour for domestic players on cost.

### **Stocks that can benefit:**

E2E Networks, Anant Raj, Netweb Technologies India

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