

Budget 2026-27 was more growth-focused than populist, which was expected given that several populist measures like GST rate cuts and relief in direct taxes have already been rolled out the last budget session. Key expectations were support policies for FII investments, Incremental capex and growth-related measures. The government seems to have missed the mark on FII support-driven policies – an increment in the Securities Transaction Tax (STT) only dampened the equity market's spirits - but on the capex and growth themes, Budget 2026 has delivered well. played out as per the estimates.

Populist measures undertaken in the previous Budget session The measures taken earlier like GST and relief in personal income tax in last budget session and other consumption boosting policies leave the FM with little headroom for capex allocation. Hence, the Budget outlined a 10% increase in FY27BE capex, with the capex to GDP ratio set at 3.1%, almost similar to last year's levels. However, the government's endorsement of Public Private Partnership (PPP) model may take a center-stage hereon, given a sustained pick-up in infrastructure activities in the country, which, in our view, could be a daunting task given historical track record of the PPP model.

Supportive policies in heavy manufacturing and emerging sectors: A Masterpiece of Budget 2026-27

Manufacturing tops the winners' chart. Sectors such as electronics, semiconductors, biopharma, capital goods, containers, and textiles are clearly the government's priority bets. With bigger spending commitments, smarter duty structures and well-targeted incentives, the message is loud and clear: India looks to position itself as a global manufacturing player, even as amid trade tensions rise worldwide. For businesses in these spaces, the Budget offers better earnings visibility rather than a short-term demand boom. All these self-sufficient indigenous policies along with earlier initiatives to boost consumption shall spur the economy's growth.

Following massive capital commitments from industry majors - \$15 billion from Google for Visakhapatnam, \$35 billion from Amazon, and \$17.5 billion from Microsoft — Budget 2026 features a tax holiday for data centers until 2047. Major technology firms are increasingly utilizing India's massive population as a primary laboratory for AI development. While tariff disputes persist, this sector is a rising engine for employment, contrasting with the stagnation seen in legacy IT services.

On the flipside, capital market stocks have been severely hit by the increment in STT on options and futures, which will raise cost and dampen derivative volumes, besides the fact that there were no FII supportive announcements. Other sectors which facing the brunt are - Consumption (no changes in personal income tax brackets), Rate-sensitive sectors such as real estate, banks, NBFCs, etc., (government borrowing plans which would keep yields elevated). However, the government's commitment to fiscal consolidation provides some reassurance over the medium term.

Commitment on fiscal consolidation offers comfort

The government remained committed to fiscal consolidation path and announced moderate capex target (FY27BE capex up by over 9% from FY26BE). For FY27, the government is targeting fiscal deficit at 4.3%. Also, FY27 capex growth is higher over revenue expenditures, which reflects that quality spending is still in the government's agenda, which bodes well for the economy.

Outlook - Budget to accentuate manufacturing growth in longer term

Budget 2026's policy thrust clearly favours productive enterprise (builders and producers) over trading/speculative activity and long-term structural capacity over short-lived consumption spikes. For portfolio decisions, the signal is to discount near-term volatility and allocate toward manufacturing-linked plays, infrastructure beneficiaries, and employment-intensive themes — domains enjoying deep, persistent government support. We believe that 2026 could be marked with stabilization in large cap stocks and correction in the broader markets (SMID space) and besides investments in regular sectors, funds shall also be allocated towards new age themes such as Data center, Semiconductor etc.

While the absence of capital gains tax relief and the increase in STT create near-term headwinds, we at the Mirae Asset India Research Centre believe that investors should remain selective, focus on quality sectors with strong policy visibility, and avoid aggressive short-term bets. Defensive allocation and long-term positioning remain key in navigating post-Budget volatility.

In conclusion, Budget 2026 marks a clear shift from consumption boost to ensuring fiscal and policy stability, amid uncertain global waters. This year's Budget may have its hits and misses, but to borrow a phrase from the FM's speech – "The Reform Express is well on its way and will maintain its momentum."

Investment Picks:

Large-Caps: Sun Pharma, ICICI Bank, M&M, SBIN, L&T, HUL, Dabur, Tata Consumer, Sun Pharma, Hero MotoCorp, NTPC, PowerGrid, UltraTech, TCS, Infosys, DLF, JSW Steel and Jindal Steel.

Mid-caps: Lupin, Torrent Pharma, Biocon, Marico, Persistent Systems, HUDCO, Varun Beverages, Zydus Wellness, Polycab India, REC, PFC.

Small-caps: Kirloskar Oil Engines, Radico, ABDL, Arvind Smartspaces, KEC, V2 Retail and Emami.

Budget summary

(Rs '00 crore)

Particulars	FY21	FY22	FY23	FY24	FY25	FY26BE	FY26RE	FY27BE
Gross tax revenues	20,271	27,093	30,542	34,655	37,964	42,702	40777.72	44040.86
% change yoy	1	34	13	13	10	12	-5	8
Net tax revenues	14,263	18,048	20,978	23,273	25,000	28,374	26,747	28,669
% change yoy	5	27	16	11	7	13	-6	7
Non tax revenues	2,076	6,255	2,854	4,018	5,366	5,830	6,677	6,662
Total expenditure	35,098	37,938	41,932	44,434	46,529	50,653	49,648	53,473
% change yoy	31	8	11	6	5	9	-2	8
Fiscal deficit	18,183	15,845	17,378	16,546	15,744	15,689	15,585	16,958
% as of GDP	9.2	6.8	6.4	5.6	4.8	4.4	4.4	4.3
Revenue deficit	14,496	10,310	10,699	7,652	5,643	5,238	5,268	5,923
% as of GDP	7.3	4.4	4.0	2.6	1.7	1.5	1.5	1.5
Primary deficit	11,384	7,790	8,092	5,908	4,589	2,926	2,842	2,918
% as of GDP	5.8	3.4	3.0	2.0	1.4	0.8	0.8	0.7

Source: Budget documents, Mirae Asset Sharekhan Research

Amendments made under Direct Tax

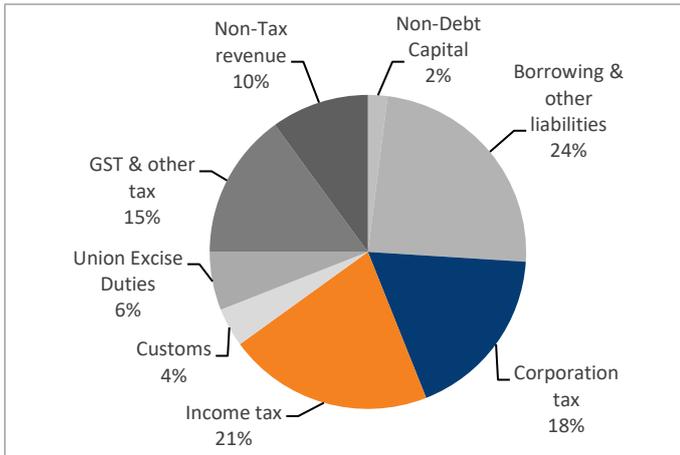
Direct tax proposals

- ◆ No changes in tax slabs.
- ◆ In Union Budget 2026, share buyback proceeds will be taxed as capital gains for all shareholders (allowing taxation only on actual profit, often at lower LTCG rates), benefiting retail and minority investors as compared to the earlier dividend treatment. To prevent tax arbitrage by promoters, an additional buyback tax will apply specifically to them, leading to an effective tax rate of 22% for corporate promoters and 30% for non-corporate promoters.
- ◆ The TCS rate for sellers of specific goods namely alcoholic liquor, scrap and minerals will be rationalized to 2% and that on tendu leaves will be reduced from 5% to 2%.
- ◆ The Budget also proposes raising the Securities Transaction Tax (STT) on futures trades from the current 0.02% to 0.05% (a 150% increase), aiming to curb excessive speculation in the derivatives segment. For options, STT on the premium is set to increase from 0.1% to 0.15% (50% hike), while the STT on the exercise of options will rise from 0.125% to 0.15% (20% hike).
- ◆ Minimum Alternate Tax (MAT) is proposed to be made the final tax. So, there will be no further credit accumulation from April 1, 2026. In line with this change, the effective rate is being reduced to 14% from 15% currently. The brought forward MAT credit of taxpayers accumulated till March 31, 2026, will continue to be available to them for set-off as above.
- ◆ The TCS rate on the sale of overseas tour program package from the current 5% and 20% to 2% without any stipulation of amount.

Indirect tax proposals:

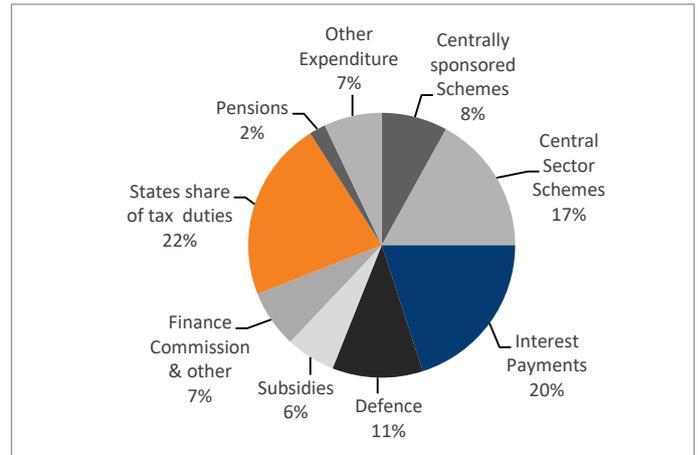
- ◆ Due to omission of clause 13 (b) (8) the services provided by Indian brokers to FPI's shall be considered as export services and not liable to GST.

Budget Receipts



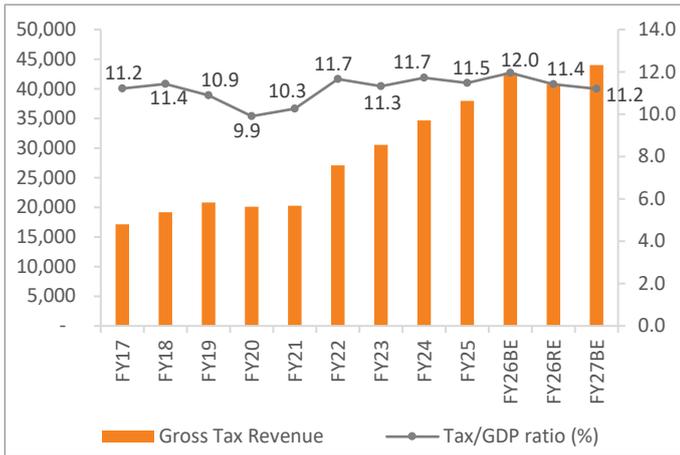
Source: Budget documents, Mirae Asset Sharekhan Research

Budget Expenditure



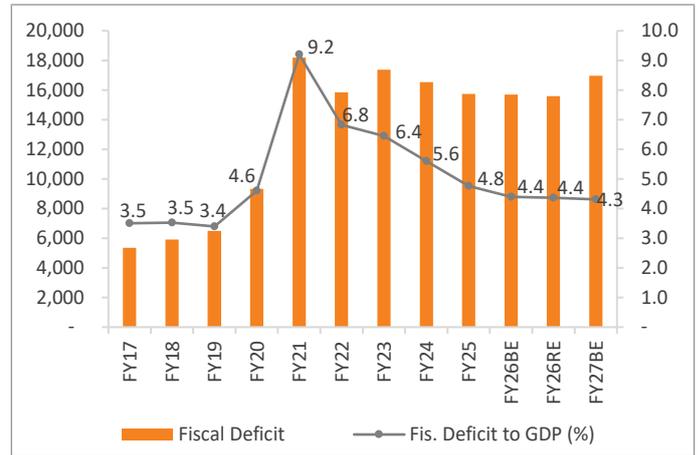
Source: Budget documents, Mirae Asset Sharekhan Research

Gross tax revenue and Tax as % of GDP



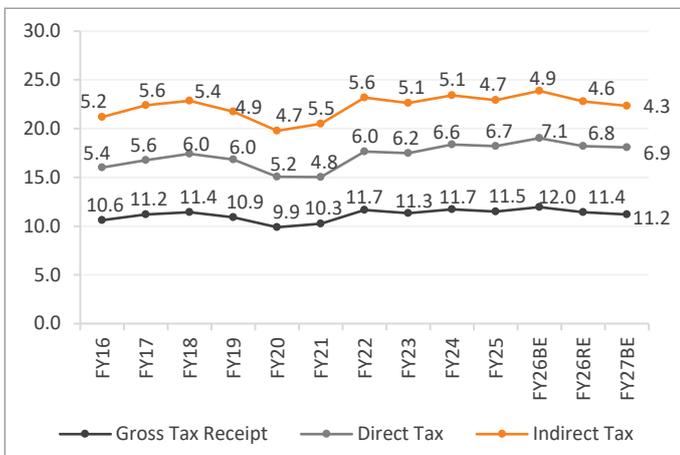
Source: Budget documents, Mirae Asset Sharekhan Research

Fiscal deficit movement and FD as % to GDP



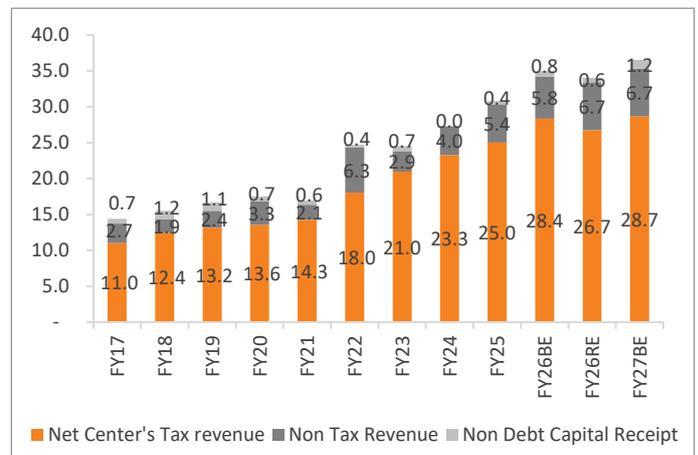
Source: Budget documents, Mirae Asset Sharekhan Research

Trends in Tax Receipts (% of GDP)



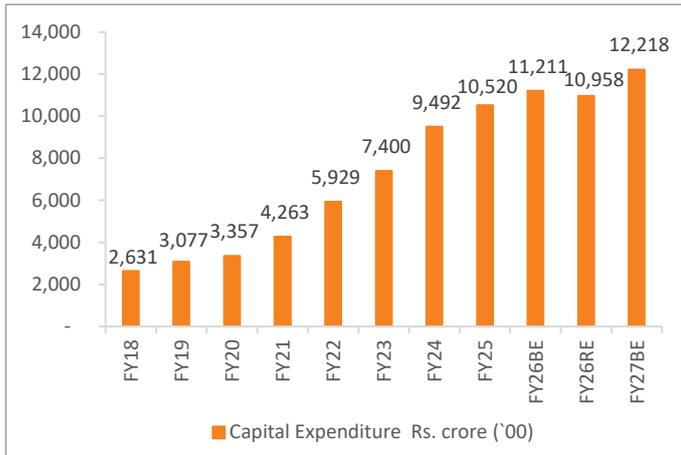
Source: Budget documents, Mirae Asset Sharekhan Research

Net receipts of the centre (Rs Lakh cr)



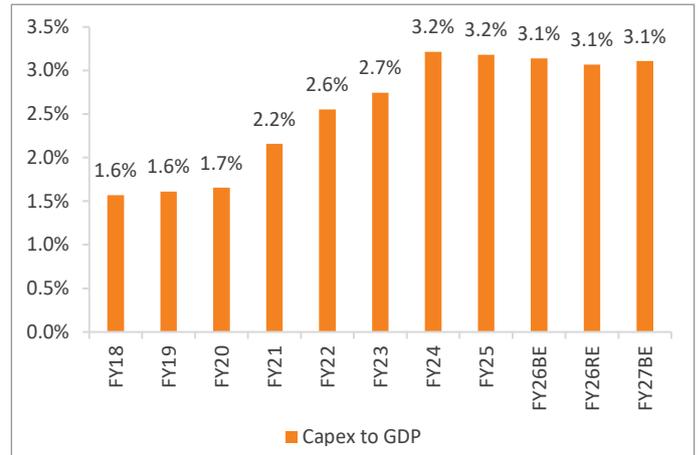
Source: Budget documents, Mirae Asset Sharekhan Research

FY27 Capex maintained at same level as budgeted for FY26



Source: Budget documents, Mirae Asset Sharekhan Research

Trend in Capex to GDP ratio



Source: Budget documents, Mirae Asset Sharekhan Research

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