

# Strategy

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## FY2027 Budget: Balancing act on a slippery slope

The FY2027 Union Budget stayed the course on fiscal consolidation, even as the pace moderated, given the revenue constraints. The government budgeted GFD/GDP at 4.3% (debt/GDP at 55.6%), led by (1) an 8% increase in gross tax revenues, (2) a 7% increase in revenue expenditure and (3) a 12% increase in capex. It left tax rates broadly unchanged while rationalizing (1) MAT rates, (2) STT rates in F&O and (3) taxation on buyback of shares, etc.

### GFD/GDP of 4.3% underpins fiscal prudence at a moderate pace

The central government projected GFD/GDP at 4.3% in FY2027BE (Rs17 tn), in line with our expectations and lower versus 4.4% (Rs15.6 tn) in FY2026RE. We find the fiscal deficit targets realistic in the context of a moderate 10% nominal growth assumption, with (1) a 7% increase projected in net tax revenues after accounting for an increase in devolution to states by Rs1.3 tn (10% yoy), based on the 16<sup>th</sup> Finance Commission recommendations; (2) 6% growth in revenue receipts; (3) 8% growth projected in expenditure (revenue expenditure: 7% and capex: 12%); and (4) gross market borrowings of Rs17.2 tn (FY2026RE: Rs14.6 tn).

### Spending growth remains modest; maintains focus on capex

The capital expenditure is budgeted to grow at 12% to Rs12.2 tn for FY2027BE, driven by (1) defense (Rs2.3 tn; +17% yoy), (2) loans for capex to states (Rs2 tn; +33% yoy) and (3) railways (Rs2.8 tn, +10% yoy), while modest capex growth is budgeted in other segments. Meanwhile, revenue expenditure growth is budgeted to grow a modest 7% yoy to Rs41.2 tn, with the bulk of the increase coming from (1) the new rural employment scheme, (2) elevated allocation for drinking water in FY2027BE (a large miss on spending in FY2026RE), (3) education, etc. We note an increased reliance on states for capex, as central capex growth beyond defense remains moderate.

### Interest rates likely to remain elevated

We expect the long end of the yield curve to remain elevated, as financing the fiscal deficit will entail gross borrowing of Rs17.2 tn, including Rs5.5 tn of redemption (FY2026RE: Rs3.3 tn). In addition, at the shorter end of the curve, the T-Bill borrowing of Rs1.3 tn could put pressure on yields. This, coupled with the RBI's rate cut cycle nearing its end, will weigh on yields, with demand-supply dynamics for domestic SLR securities dependent on the RBI's interventions. We expect the 10-year government benchmark yield to be in the range of 6.65-7.15% in FY2027.

### Key sector highlights: Minor changes for select sectors

The government did not make any major changes to customs duty rates or taxation policies for sectors, with minor changes done in select sectors. Key changes in the budget were (1) taxation of buybacks, (2) higher STT rates for F&O, (3) increased allocation to electronic component manufacturing, (4) permitting foreigners to invest in listed equities directly, (5) tax holiday for foreign companies on data centers, (6) new initiative for bio-pharma and (7) BCD reduction on capital goods for lithium-ion cell manufacturing, etc.

### Key estimates summary

	2026E	2027E	2028E
<b>Nifty estimates</b>			
Earnings growth (%)	8.6	16.6	14.5
Nifty EPS (Rs)	1,071	1,252	1,436
Nifty P/E (X)	23.2	19.8	17.3
<b>Macro data</b>			
Real GDP (%)	7.8	6.5	6.5
Avg CPI inflation (%)	2.1	4.1	4.0

Source: Company data, Kotak Institutional Equities estimates

### Quick Numbers

Central GFD/GDP at 4.3% for FY2027BE versus 4.4% for FY2026RE

Gross market borrowing at Rs17.2 tn for FY2027BE versus Rs14.6 tn for FY2026RE

FY2027RE capital expenditure up 12% and revenue expenditure up 7% versus FY2026RE

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Sanjeev Prasad  
[sanjeev.prasad@kotak.com](mailto:sanjeev.prasad@kotak.com)  
+91-22-4336-0830

Suvodeep Rakshit  
[suvodeep.rakshit@kotak.com](mailto:suvodeep.rakshit@kotak.com)  
+91-22-4336-0898

Anindya Bhowmik  
[anindya.bhowmik@kotak.com](mailto:anindya.bhowmik@kotak.com)  
+91-22-4336-0897

Sunita Baldawa  
[sunita.baldawa@kotak.com](mailto:sunita.baldawa@kotak.com)  
+91-22-4336-0896

Swarupjit Palit  
[swarupjit.palit@kotak.com](mailto:swarupjit.palit@kotak.com)  
+91-22-4336-0859



## FY2027 Union Budget: In line with expectations

The FY2027 Union Budget delivered a prudent budget, with continued focus on (1) fiscal consolidation (with the pace reducing significantly), (2) capital expenditure and (3) targeted welfarism. Key financial highlights of the budget are (1) 6% growth in receipts and 8% growth in expenditure, leading to a fiscal deficit of Rs17 tn, (2) Rs6.7 tn of non-tax revenues, (3) Rs800 bn of divestment-related revenues, (4) Rs2.7 tn of likely transfer of surplus from the RBI and (5) 7% growth in revenue expenditure and 12% growth in capital expenditure. FY2027 central GFD/GDP has been budgeted at 4.3% (FY2026RE: 4.4%), with debt/GDP at 55.6% (FY2026RE: 56.1%).

### Marginal fiscal consolidation with capex remaining in focus

We discuss the key highlights of the FY2027 Union Budget below, implications for the economy, interest-rate environment and the government's vision for the Indian economy.

- **Central FY2027 GFD/GDP target at 4.3%.** The government projected central government fiscal deficit of 4.3%, as a proportion of GDP, in FY2027BE (Rs17 tn), compared to 4.4% in FY2026RE. Exhibit 1 summarizes the key revenue, expenditure and market borrowing items. The government has assumed a nominal GDP growth of 10% for FY2027, which is realistic, in our view.

### Government pegs GFD/GDP at 4.3% in FY2027E

Exhibit 1: Major central government budgetary items, March fiscal year-ends, 2021-27E (Rs bn)

	2021	2022	2023	2024	2025	2026BE	2026RE	2027BE	Change (%) 2024/ 2023	2025/ 2024	2026RE/ 2025	2027BE/ 2026RE
<b>Receipts</b>												
1. Revenue receipts (2d + 3)	16,339	21,699	23,832	27,290	30,366	34,204	33,423	35,332	15	11	10	6
2. Gross tax revenues (a + b)	20,271	27,093	30,542	34,655	37,964	42,702	40,778	44,041	13	10	7	8
2.a. Direct taxes	9,523	14,158	16,723	19,694	22,359	25,351	24,365	27,250	18	14	9	12
2.a.1. Corporation tax	4,577	7,120	8,258	9,111	9,868	10,820	11,090	12,310	10	8	12	11
2.a.2. Income tax (incl. other taxes)	4,946	7,038	8,464	10,584	12,491	14,531	13,275	14,940	25	18	6	13
2.a.2.1. Securities transaction tax (STT)	169	232	251	338	522	780	637	737	35	55	22	16
2.b. Indirect taxes	10,748	12,935	13,819	14,961	15,605	17,351	16,413	16,791	8	4	5	2
2.b.1. Goods and Services Tax	5,488	6,981	8,491	9,572	10,270	11,780	10,465	10,190	13	7	2	(3)
2.b.1.1. CGST	4,563	5,912	7,185	8,206	9,090	10,109	9,585	10,190	14	11	5	6
2.b.1.2. IGST	73	21	47	(49)	(325)	—	—	—	—	—	—	—
2.b.1.3. Compensation cess	852	1,048	1,259	1,414	1,506	1,671	880	—	12	6	(42)	—
2.b.2. Customs duty	1,348	1,997	2,134	2,331	2,332	2,400	2,583	2,712	9	0	11	5
2.b.2.1. Basic duties	1,065	1,460	1,676	1,775	1,797	1,893	2,006	2,181	6	1	12	9
2.b.2.2. Others	282	537	457	557	535	507	577	531	22	(4)	8	(8)
2.b.3. Excise duty	3,897	3,946	3,190	3,054	3,003	3,170	3,366	3,889	(4)	(2)	12	16
2.b.4. Service tax	16	10	4	4	(0)	1	—	—	(1)	(104)	—	—
2.c. Devolution to states, UTs, etc.	6,008	9,045	9,564	11,383	12,963	14,328	14,031	15,372	19	14	8	10
2.d Net tax revenues (2 - 2.c)	14,263	18,048	20,978	23,273	25,000	28,374	26,747	28,669	11	7	7	7
3. Non-tax revenues	2,076	3,651	2,854	4,018	5,366	5,830	6,677	6,662	41	34	24	(0)
3.a. RBI's transfer of surplus	600	991	303	874	2,104	2,104	2,686	2,686	188	141	28	—
3.b. Telecommunications	455	858	648	907	848	824	1,408	1,171	40	(6)	66	(17)
3.c. Others	1,021	1,802	1,903	2,237	2,414	2,902	2,582	2,806	18	8	7	9
4. Non-debt capital receipts (a + b)	576	394	722	598	418	760	640	1,184	(17)	(30)	53	85
4.a Recovery of loans	197	247	262	266	246	290	302	384	2	(8)	23	27
4.b Other receipts (incl. disinvestments)	379	146	460	331	172	470	338	800	(28)	(48)	97	136
5. Total receipts (1 + 4)	16,915	22,093	24,554	27,888	30,784	34,964	34,064	36,515	14	10	11	7
<b>Expenditure</b>												
6. Revenue expenditure	30,835	32,009	34,531	34,943	36,009	39,443	38,691	41,255	1	3	7	7
6.a. Interest payments	6,799	8,055	9,285	10,639	11,156	12,763	12,743	14,040	15	5	14	10
6.b. Subsidies	7,077	4,461	5,310	4,123	3,850	3,834	4,297	4,105	(22)	(7)	12	(4)
6.b.1. Food	5,413	2,890	2,728	2,118	1,999	2,034	2,282	2,276	(22)	(6)	14	(0)
6.b.2. Fertilizer	1,279	1,538	2,513	1,883	1,707	1,679	1,865	1,708	(25)	(9)	9	(8)
6.b.3. Oil	385	34	68	122	145	121	151	121	80	18	4	(20)
6.c. Pay, allowances and pensions	6,711	5,899	6,564	6,857	7,543	7,825	7,873	8,151	4	10	4	4
6.c.1.a. Pay and allowances	4,626	3,910	4,148	4,474	4,806	5,059	5,006	5,189	8	7	4	4
6.c.1.b. Pensions	2,085	1,989	2,416	2,383	2,738	2,766	2,866	2,962	(1)	15	5	3
6.d. Agriculture and farmers' welfare	1,083	1,145	999	1,083	1,299	1,272	1,230	1,305	8	20	(5)	6
6.e. Education	840	803	972	1,232	1,107	1,286	1,219	1,393	27	(10)	10	14
6.f. Health and family welfare	740	787	703	783	850	923	905	988	11	9	6	9
6.g. Rural development	1,964	1,604	1,768	1,619	1,767	1,878	1,870	1,944	(8)	9	6	4
6.h. Drinking water, sanitation, etc.	230	833	714	949	464	989	410	943	33	(51)	(12)	130
6.i. Transfers to states	1,919	2,520	1,807	1,657	1,333	1,574	1,815	1,678	(8)	(20)	36	(8)
6.j. Police (Central forces)	867	994	1,074	1,150	1,351	1,438	1,463	1,525	7	17	8	4
6.k. Others	2,606	4,907	5,335	4,850	5,290	5,659	4,866	5,183	(9)	9	(8)	7
7. Capital expenditure	4,263	5,929	7,400	9,492	10,520	11,211	10,958	12,218	28	11	4	12
7.a. Defence	1,399	1,448	1,509	1,646	1,706	1,924	1,974	2,310	9	4	16	17
7.b. Railways	1,093	1,173	1,593	2,426	2,519	2,520	2,520	2,778	52	4	0	10
7.c. Roads and highways	892	1,133	2,060	2,639	2,853	2,722	2,721	2,942	28	8	(5)	8
7.d. Loans for capex to states	118	142	812	1,096	1,499	1,500	1,500	2,000	35	37	0	33
7.e. Housing and urban affairs	103	259	269	264	316	376	330	348	(2)	20	4	6
7.f. Others	657	1,774	1,158	1,422	1,625	2,168	1,913	1,840	23	14	18	(4)
8. Total expenditure (6 + 7)	35,098	37,938	41,932	44,434	46,529	50,653	49,648	53,473	6	5	7	8
<b>Deficit</b>												
Primary deficit (PD)	11,384	7,790	8,092	5,908	4,589	2,926	2,842	2,918	(27)	(22)	(38)	3
Revenue deficit (RD)	14,496	10,310	10,699	7,652	5,643	5,238	5,268	5,923	(28)	(26)	(7)	12
Gross fiscal deficit (GFD)	18,183	15,845	17,378	16,546	15,744	15,689	15,585	16,958	(5)	(5)	(1)	9
Gross market borrowing (dated securities)	12,601	9,684	14,210	15,014	14,007	14,820	14,610	17,200	6	(7)	4	18
Net market borrowing (dated securities)	10,329	7,041	11,083	11,778	11,629	11,538	11,328	11,732	6	(1)	(3)	4
Short-term borrowing (T-bills/WMA)	2,032	774	1,148	532	(1,602)	0	0	1,300	—	—	—	—
Non-fundamental GDP	198,541	235,974	268,905	301,230	330,682	356,979	357,139	393,004	12.0	9.8	8.0	10.0
PD/GDP (%)	5.7	3.3	3.0	2.0	1.4	0.8	0.8	0.7				
RD/GDP (%)	7.3	4.4	4.0	2.5	1.7	1.5	1.5	1.5				
GFD/GDP (%)	9.2	6.7	6.5	5.5	4.8	4.4	4.4	4.3				

Notes:

- (a) 'Gross tax revenues' means revenues post refunds and 'net tax revenues' means gross tax revenues minus devolution to states.  
(b) RBI's transfer of surplus for FY2026BE are our estimate.  
(c) Pay and allowances include pay and allowances from Ministry of Railways.

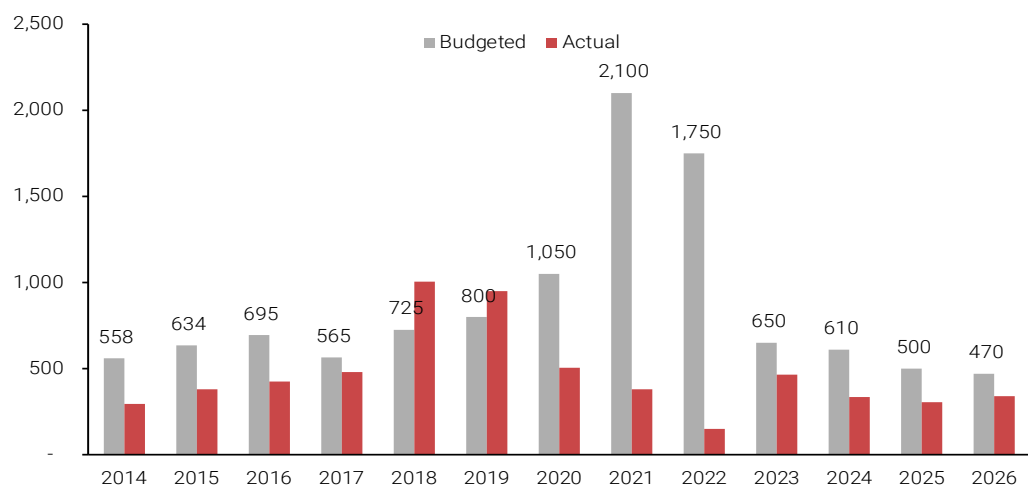
Source: Union Budget, Ministry of Finance, Kotak Institutional Equities estimates

- **Realistic targets for tax revenues.** In our view, direct tax revenue growth at 12% (11% for corporate tax and 13% for income tax) seems achievable, while nominal GDP growth is estimated at 10%. However, STT collection growth at 16% could have some downside. Indirect taxes show growth of 2% over FY2026RE, with (1) CGST growth of 6%, (2) customs duty growth of 5% and (3) excise duty growth of 16% (likely led by an increase in excise duty on cigarettes). Net tax revenues (after devolution to states) have been pegged at Rs28.7 tn (growth of 7% over FY2026RE). The government has kept the devolution ratio to states unchanged at 41%, based on accepting the recommendations of the 16<sup>th</sup> Finance Commission.
- **Maintained non-tax revenues versus FY2026RE; divestment target increased substantially but may be difficult to achieve in past form.** The government has projected non-tax revenues at Rs6.7 tn for FY2027BE (flat yoy). This includes (1) Rs3.9 tn from dividends and profits (Rs3.2 tn from the RBI, PSU banks and FIs) and (2) Rs1.2 tn from the telecom sector for license fee/spectrum usage charges.

The government increased the divestment target to Rs800 bn from Rs338 bn in FY2026RE and Rs470 bn in FY2026BE. The divestment target for FY2027 may be on the higher side, given its historical track record has not been encouraging (see Exhibit 2). Currently, IDBI Bank is the only major entity in the divestment process. A meaningful miss on the divestment target may result in further pressure on the fiscal deficit, government borrowing and bond yields.

#### Government has consistently missed its disinvestment targets over FY2020-26

Exhibit 2: Budgeted versus actual disinvestment receipts, March fiscal year-ends, 2014-26 (Rs bn)



Source: Union Budget, CGA, CEIC, Kotak Institutional Equities

The government has likely budgeted Rs2.7 tn of surplus for FY2027BE from the RBI, in line with Rs2.7 tn in FY2026RE. However, the final figure could be different from the budgeted figure, which may have a bearing on the governments' FY2027 revenues and fiscal deficit. We note that the higher-than-budgeted figure (Rs2.7 tn in FY2026RE versus Rs2.1 tn in FY2026BE) for the RBI's transfer of surplus to the government helped partly offset the large shortfall in tax revenues versus the government's FY2026BE figures.

- **Tax rates broadly unchanged.** The government kept the tax rates broadly unchanged. It made minor changes in select areas (see Exhibit 3).

### Modest changes in taxation of select provisions

#### Exhibit 3: Changes in major tax regimes in FY2027 Union Budget

	Existing regime	New regime
Minimum alternate tax (MAT)	MAT rate on book profits at 15%. If MAT amount is higher than regular tax, the increment is allowed as a tax credit, carried forward upto 15 years	MAT rate on book profits at 14%. MAT to be treated as final tax and no new MAT credit is allowed
Securities transaction tax (STT)	STT on options at 0.1% of premium. STT on futures at 0.02% of notional	STT on options at 0.15% of premium. STT on futures at 0.05% of notional
Taxation of buyback of shares	Entire proceeds will be deemed as dividend and acquisition price set off as capital loss	Buyback consideration is treated as capital gains. For promoters, the tax rate is 22% plus surcharge in the case of companies and 30% plus surcharge in the case of individuals

Source: Union Budget, Kotak Institutional Equities

► **Modest increase in expenditure; decent growth in capex.** The government has budgeted a soft 8% increase in expenditure, comprising 7% growth in revenue expenditure (Rs41.2 tn versus Rs38.7 tn in FY2026RE) and a slightly higher 12% growth in capital expenditure (Rs12.2 tn versus Rs11 tn for FY2026RE).

■ **Major increase in defense capex and capex assistance to states.** The government has budgeted 12% growth in capital expenditure for FY2027BE to Rs12.2 tn. With allocation to (1) defense at Rs2.3 tn (17% yoy), (2) Rs2 tn for loans for capex to states (33% yoy), (3) Rs348 bn for housing (6% yoy), (4) Rs2.8 tn for railways (10% yoy) and (5) Rs2.9 tn for roads and highways. We note that the government has continued to spend heavily on defense while pushing states to do more capex, by providing higher financing. The capex assumptions appear broadly realistic, in our view.

Total public sector (central government and central PSUs only) capital expenditure, including internal and external budgetary resources (IEBR) is projected to grow 11.5% in FY2027BE (over FY2026RE; see Exhibit 4). The planned outlay by public sector enterprises has increased 11.5% yoy (see Exhibit 5).

### Decent increase in central government outlay over FY2026-27BE

#### Exhibit 4: Revenue and capital expenditure through budget and IEBR (internal and extra budgetary resources), March fiscal year-ends, 2026-27BE (Rs bn)

	2026RE					2027BE					Capex growth yoy (%)
	Revenue	Capital	IEBR	Bonds	Total capex	Revenue	Capital	IEBR	Bonds	Total capex	
Atomic Energy	124	121	125	92	246	142	100	132	104	231	(6)
Defense	5,267	1,974	38	—	2,012	3,823	2,310	43	—	2,353	17
Economic Affairs	598	708	—	—	708	43	163	—	—	163	(77)
Electronics and Information Technology	198	4	2	—	6	212	4	2	—	6	2
Food and Public Distribution	2,350	0	157	—	157	2,350	0	214	—	214	36
Housing and Urban Development	242	330	674	163	1,004	507	348	726	175	1,074	7
New and Renewable Energy	253	0	361	130	361	329	0	429	166	429	19
Petroleum and Natural Gas	284	14	1,300	105	1,314	302	2	1,338	41	1,341	2
Power	210	6	858	311	864	296	4	1,018	368	1,021	18
Railways	35	2,520	130	—	2,650	35	2,778	150	—	2,928	11
Road Transport and Highways	151	2,721	—	—	2,721	157	2,942	—	—	2,942	8
Science and Technology	88	31	—	—	31	80	201	—	—	201	551
Telecommunications	295	239	8	—	247	267	473	9	—	482	95
Transfer to states	1,815	1,750	—	—	1,750	1,678	2,264	—	—	2,264	29
Others	26,780	541	686	41	1,227	31,033	630	778	44	1,408	15
<b>All ministries</b>	<b>38,691</b>	<b>10,958</b>	<b>4,339</b>	<b>841</b>	<b>15,297</b>	<b>41,255</b>	<b>12,218</b>	<b>4,838</b>	<b>897</b>	<b>17,056</b>	<b>12</b>

Notes:

(a) Bonds imply bonds and debentures issued as part of the IEBR.

(b) Data for IEBR are based on revised estimates for each year.

Source: Union Budget, Kotak Institutional Equities

## IEBR is the major funding source for capex of various ministries

Exhibit 5: Total plan outlay by public enterprises, March fiscal year-ends, 2020-27BE (Rs bn)

	2024	2025	2026BE	2026RE	2027BE	Growth (%)		Share (%) (2027BE)
						2026RE vs. 2025	2027BE vs. 2026RE	
<b>Ministry of Civil Aviation</b>	<b>46</b>	<b>51</b>	<b>42</b>	<b>47</b>	<b>47</b>	<b>(8)</b>	<b>0</b>	<b>0</b>
Airport Authority of India	46	51	42	47	47	(8)	0	0
<b>Ministry of Coal</b>	<b>294</b>	<b>317</b>	<b>228</b>	<b>228</b>	<b>247</b>	<b>(28)</b>	<b>9</b>	<b>2</b>
Coal India Ltd	235	218	160	160	165	(27)	3	2
Neyveli Lignite Corp. Ltd	43	77	51	51	57	(34)	13	1
Singareni Collieries Co. Ltd	17	22	17	17	25	(21)	47	0
<b>Min. of Heavy Industries &amp; Public Enterprises</b>	<b>4</b>	<b>6</b>	<b>8</b>	<b>9</b>	<b>4</b>	<b>56</b>	<b>(56)</b>	<b>0</b>
Bharat Heavy Electricals Ltd	3	5	2	3	3	(43)	2	0
<b>Min. of Housing &amp; Urban Affairs</b>	<b>464</b>	<b>668</b>	<b>958</b>	<b>963</b>	<b>1,022</b>	<b>44</b>	<b>6</b>	<b>10</b>
Housing and Urban Development Corp.	231	381	618	669	721	76	8	7
<b>Ministry of Urban Development</b>	<b>233</b>	<b>285</b>	<b>339</b>	<b>291</b>	<b>301</b>	<b>2</b>	<b>3</b>	<b>3</b>
Bangalore Metro Rail Corp.								—
Chennai Metro Rail Project								—
Delhi Metro Rail Corp. (DMRC)	194	246	311	273	287	11		3
Kochi Metro								—
Jaipur Metro								—
National Capital Region Transport Corporation	35	36	25	15	9	(58)	(43)	0
Others	3	3	3	3	5	—	73	0
<b>Ministry of Mines</b>	<b>25</b>	<b>18</b>	<b>24</b>	<b>21</b>	<b>19</b>	<b>13</b>	<b>(10)</b>	<b>0</b>
National Aluminium Company Ltd	20	14	20	17	15	22	(12)	0
<b>Ministry of Petroleum &amp; Natural Gas</b>	<b>1,373</b>	<b>1,692</b>	<b>1,383</b>	<b>1,300</b>	<b>1,338</b>	<b>(23)</b>	<b>3</b>	<b>13</b>
<b>Ministry of Shipping</b>	<b>52</b>	<b>89</b>	<b>88</b>	<b>150</b>	<b>138</b>	<b>69</b>	<b>(8)</b>	<b>1</b>
<b>Ministry of Steel</b>	<b>101</b>	<b>191</b>	<b>149</b>	<b>205</b>	<b>25</b>	<b>7</b>	<b>(88)</b>	<b>0</b>
<b>Ministry of Communications &amp; IT</b>	<b>580</b>	<b>741</b>	<b>346</b>	<b>96</b>	<b>294</b>	<b>(87)</b>	<b>207</b>	<b>3</b>
Bharat Sanchar Nigam Ltd	573	725	343	343	290	(53)	(15)	3
<b>Ministry of Power</b>	<b>550</b>	<b>766</b>	<b>861</b>	<b>858</b>	<b>1,018</b>	<b>12</b>	<b>19</b>	<b>10</b>
<b>Ministry of Road Transport &amp; Highways</b>	<b>1,674</b>	<b>1,686</b>	<b>1,878</b>	<b>1,703</b>	<b>1,873</b>	<b>1</b>	<b>10</b>	<b>18</b>
National Highway Authority of India (NHAI)	1,674	1,686	1,878	1,703	1,873	1	10	18
<b>Ministry of Railways</b>	<b>2,622</b>	<b>2,693</b>	<b>2,650</b>	<b>2,650</b>	<b>2,928</b>	<b>(2)</b>	<b>11</b>	<b>29</b>
Indian Railways	2,622	2,288	2,650	2,334	2,636	2	13	26
<b>Other ministries</b>	<b>1,208</b>	<b>1,416</b>	<b>1,051</b>	<b>888</b>	<b>1,236</b>	<b>(37)</b>	<b>39</b>	<b>12</b>
<b>Grand total</b>	<b>8,993</b>	<b>10,333</b>	<b>9,666</b>	<b>9,117</b>	<b>10,190</b>	<b>(12)</b>	<b>12</b>	<b>100</b>
<b>IEBR</b>	<b>3,900</b>	<b>4,886</b>	<b>4,319</b>	<b>4,339</b>	<b>4,838</b>	<b>(11)</b>	<b>11</b>	

Source: Union Budget, Kotak Institutional Equities

- **Modest increase in revenue expenditure.** The government has budgeted a 7% growth (over FY2026RE) in revenue expenditure to Rs41.2 tn. The government has reduced allocation to subsidies by 4% yoy (led by an 8% yoy decline in fertilizer) and proposed a modest 4% increase in pay, allowances and pensions, ahead of the Eight Central Pay Commission recommendations and implementation (likely in FY2028). Allocation to drinking water, education and healthcare saw a strong increase.
- **Targeted expenditure in key rural-focused schemes.** Exhibit 6 gives details for expenditure under the major social welfare schemes for FY2027BE and the past few years. The sharp growth in allocations shows increased government focus on targeted spending on welfarism. The government has allocated Rs956 bn in a new income support scheme for rural India (VB-G RAM G), which is going to replace the existing MNREGS while retaining an allocation of Rs300 bn in the earlier scheme for FY2027BE. The sharp increase in allocation to the rural drinking water mission is commendable but would require monitoring, in the context of large under-utilization in the scheme in FY2026RE (Rs170 bn versus Rs670 bn in FY2026BE). We note that a number of ministries were unable to spend their allocation for FY2026BE (see Exhibit 7).

## Allocation in rural welfare schemes targeted toward employment, housing, roads and water

**Exhibit 6: Major social welfare schemes in the interim budget, March fiscal year-ends, 2019-27BE (Rs bn) (sorted on descending order of FY2027BE)**

	2019	2020	2021	2022	2023	2024	2025	2026RE	2027BE	2027BE/ 2026RE (%)
Food subsidy	1,011	1,085	5,411	2,887	2,728	2,118	1,999	2,282	2,276	(0)
National Rural Employment Guarantee Program/VBG RAM G	618	730	1,112	985	908	892	858	880	1,257	43
National Rural Drinking Water Mission	55	100	110	631	547	700	226	170	677	298
Income support scheme for farmers (PM-KISAN)	200	487	610	668	583	614	635	550	600	9
Pradhan Mantri Awas Yojana (PMAY) (Rural)	254	250	403	900	450	218	323	325	549	69
Saksham Anganwadi and POSHAN 2.0				184	199	218	210	209	231	10
Interest subsidy for short-term credit to farmers	115	162	178	215	180	143	178	226	226	0
National Rural Livelihood Mission	63	98	100	102	115	139	147	160	192	20
Pradhan Mantri Gram Sadak Yojana (PMGSY)	154	140	137	140	188	154	179	110	190	73
Crop insurance scheme	119	126	142	135	103	129	145	123	122	(1)
Green revolution/ Rashtriya Krishi Vikas Yojana	118	99	97	67	52	57	56	70	86	22
Swachh Bharat Mission (Gramin)	129	82	49	31	49	65	36	60	72	20
Pradhan Mantri Krishi Sinchai Yojana (PMKSY)	81	82	79	113	56	61	65	69	71	3
Pradhan Mantri Swasthya Suraksha Yojana	22	33	27	93	75	14	17	15	20	34
DBT-LPG		296	237	2	2	15	4	10	15	50
<b>Total</b>	<b>2,940</b>	<b>3,770</b>	<b>8,691</b>	<b>7,153</b>	<b>6,235</b>	<b>5,536</b>	<b>5,078</b>	<b>5,259</b>	<b>6,584</b>	<b>25</b>
<b>Total (ex-food subsidy)</b>	<b>1,929</b>	<b>2,685</b>	<b>3,280</b>	<b>4,266</b>	<b>3,507</b>	<b>3,418</b>	<b>3,079</b>	<b>2,977</b>	<b>4,308</b>	<b>45</b>

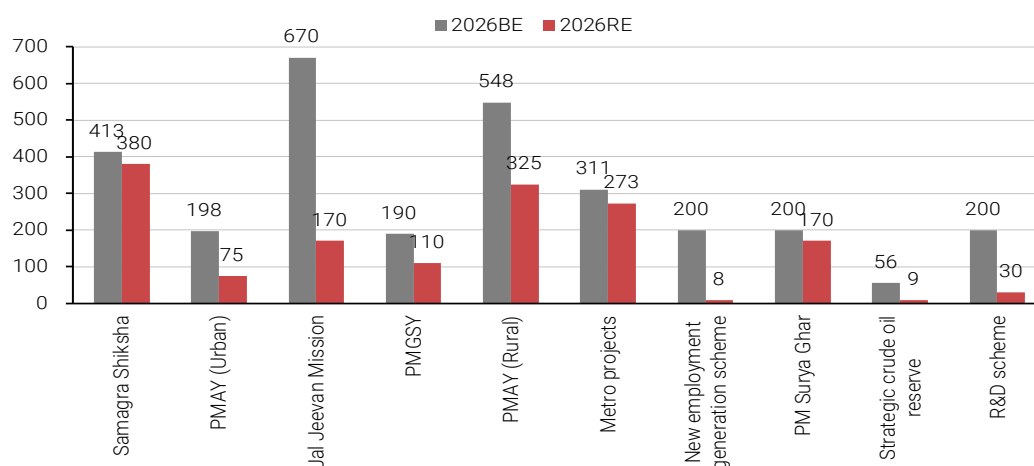
Notes:

- Food subsidy and PMAY also cover urban poor households.
- Modified interest subvention scheme (MIS) for farmers has been introduced in lieu of interest subsidy scheme to farmers.
- Green revolution has been subsumed under Rashtriya Krishi Vikas Yojana.

Source: Union Budget, Kotak Institutional Equities

## Center has missed its FY2026BE targets for a number of schemes

**Exhibit 7: Major central schemes, where spending is significantly below the budgeted target in FY2026 (Rs bn)**



Source: Union Budget, Kotak Institutional Equities

- **Gross borrowings higher than expected at Rs17.2 tn.** The government has budgeted FY2027BE gross borrowings of dated securities at Rs17.2 tn (Rs14.6 tn in FY2026RE) and Rs11.7 tn of net market of dated securities borrowings. The large increase in FY2027BE gross borrowings reflects the high redemption of Rs5.5 tn. The government also aims to borrow Rs1.3 tn (on a net basis) through T-Bills. The government expects to finance FY2027BE fiscal deficit of Rs17 tn through (1) market borrowings, including T-bills, (2) National Small Savings Fund and (3) a mix of cash balances, external assistance and state provident funds (see Exhibit 8).

### Deficit financing heavily skewed toward market borrowings and NSSF

Exhibit 8: Financing of central government's fiscal deficit, March fiscal year-ends, 2019-27BE (Rs bn)

	2021	2022	2023	2024	2025P	2026BE	2026RE	2027BE
Government securities	10,329	7,041	11,083	11,778	11,629	11,538	11,328	11,732
Small savings	4,837	5,513	3,959	4,514	4,295	3,434	3,722	3,868
T-bills	2,032	774	1,148	532	(1,602)	—	—	1,300
Cash balance	(72)	25	(16)	8	6	25	457	327
State PF	185	103	51	51	40	50	38	35
External financing	702	361	371	551	473	235	205	154
Others	169	2,027	783	(887)	903	407	(165)	(458)
<b>Gross fiscal deficit (GFD)</b>	<b>18,183</b>	<b>15,845</b>	<b>17,378</b>	<b>16,546</b>	<b>15,744</b>	<b>15,689</b>	<b>15,585</b>	<b>16,958</b>

Notes:

(a) FY2022P government securities does not include Rs1.59 tn of borrowings towards back-to-back loans to states for GST.

Source: Union Budget, Kotak Institutional Equities

### Bond yields to remain elevated

The higher gross borrowing of Rs17.2 tn is likely to exert upward pressure on yields, with the demand-supply dynamics for SLR securities (see Exhibit 9) remaining dependent on RBI's interventions through OMOs and the extent of buybacks, if any. Additionally, at the shorter end of the curve the T-Bill borrowing of Rs1.3 tn could weigh on yields, especially as the RBI is at the end of its rate-cutting cycle and inflation gradually turns upward. We pencil in bond yields to stay elevated through most of CY2026/FY2027 in a range of 6.65-7.15%.

### Upward pressure on yields likely to continue

Exhibit 9: Demand and supply of SLR securities, March fiscal year-ends, 2023-27BE (Rs bn)

	2023	2024	2025	2026RE	2027BE
Gross Gsec supply	8,092	5,908	2,926	14,610	17,200
Gross SDL supply	7,594	10,058	10,810	11,942	13,033
<b>Net Supply of SLR securities</b>	<b>17,157</b>	<b>34,812</b>	<b>17,204</b>	<b>19,806</b>	<b>21,575</b>
Net dated securities borrowing by center	11,083	11,778	11,629	11,328	11,732
Net T-bill borrowing by center	886	16,546	(813)	0	1,025
Net market borrowing by states	5,188	7,269	7,624	8,477	8,818
<b>Demand of SLR securities (excl. RBI)</b>	<b>17,579</b>	<b>35,809</b>	<b>15,392</b>	<b>13,905</b>	<b>18,575</b>
Banks	7,021	15,937	3,986	2,669	5,820
Insurance	3,679	8,124	2,940	4,406	3,798
PFs	1,953	4,469	2,863	3,150	3,926
FPIs	(22)	2,244	1,221	0	450
Others	4,948	5,035	4,382	3,680	4,581
- Pension funds	1,334	2,484	1,550	819	1,739
- Others (MFs, PDs, corporates, etc.)	3,614	2,551	2,832	2,861	2,842
<b>Excess supply (+)/demand (-)</b>	<b>(422)</b>	<b>(997)</b>	<b>1,812</b>	<b>5,900</b>	<b>3,000</b>
Net RBI purchase (+)/sale (-)	(422)	(997)	1,812	5,900	3,000
<b>Net excess supply (+)/demand (-)</b>	<b>(0)</b>	<b>(0)</b>	<b>0</b>	<b>0</b>	<b>(0)</b>

Source: Union Budget, Kotak Institutional Equities

### Debt management: Targets suggest gradual consolidation in the future

The FY2027 Union Budget is the first where the government is targeting a level of debt/GDP rather than the fiscal deficit. Conceptually, there is not much difference in either, as controlling the latter is the avenue to target the former. The FY2027BE debt/GDP ratio has been pegged at 55.6%, which implies an annual fiscal consolidation of around 10-20 bps in GFD/GDP to attain the medium-term target of debt/GDP of 50%(+/-1%) by FY2031.

## 2

**FY2027 Union Budget: Sectoral implications**

The FY2027 Union Budget is likely to have broad implications on growth of select sectors, broadly driven by (1) government spending and (2) elevated government borrowing. The key sector-specific announcements are (1) changes in STT rates of F&O, (2) changes in the taxation of buybacks, (3) increased allocation in electronics component manufacturing, (4) permitting foreigners to invest in listed equities directly, (5) tax holiday for foreign companies on data centers, (6) new initiative for bio-pharma and (7) BCD reduction on capital goods for lithium-ion cell manufacturing, etc.



## Exhibit 10: Budget impact on sectors at a glance (contd.)

Sector	Net impact	Proposals	Implications
<b>Automobiles &amp; components</b>			
	↔	Production-Linked Incentive (PLI) scheme allocation for automobiles & auto components at Rs59 bn in FY2027BE, which is significantly higher than Rs20.9 bn allocated in FY2026RE.	The majority of the allotment has been deferred to FY2027 from FY2026 as the auto OEMs and component companies will start receiving cash incentives pertaining to FY2026 in FY2027. The deferment is known to market participants.
	↑	Capital expenditure to be increased to Rs12.2 tn in FY2027BE from Rs10.9 tn in FY2026RE. The government to set up an Infrastructure Risk Guarantee Fund to strengthen the confidence of private developers regarding risks during infrastructure development and construction phase.	Should support demand for MHCV trucks and earthmovers.
	↓	PM Electric Drive Revolution in Innovative Vehicle Enhancement (PM E-DRIVE) Scheme incentive reduced to Rs15 bn in FY2027BE (from Rs13 bn in FY2026RE, including the FAME incentives).	The earlier allocation for FY2026BE was Rs40 bn. The 2026RE amount is a significant downward revision.
	↔	Government to develop an integrated East Coast industrial corridor, with a well-connected node at Durgapur, create five tourism destinations in the five Purvodaya States and provide for 4,000 e-buses.	While the opportunity remains small, it bodes well for the direction of the adoption of electric fleets for public transportation.
	↔	Customs duty exemptions and concessions for lithium-ion batteries and Battery Energy Storage Systems (BESS). The basic customs duty exemption given to capital goods used for manufacturing Lithium-Ion Cells for batteries to be extended.	While there is no incremental benefits, overall the move will aid in improving the adoption of electric vehicles by reducing the battery cost of the vehicles.
<b>Banks/Capital markets/Diversified Financials/Insurance</b>			
	↓	Increase in bond yields	Increase in bond yields and crowding of the bond market may impact the ability on NBFCs to raise liabilities and result in moderation in growth for the sector.
	↑	Increase in bond yields	Upward sloping yield curve augurs well for non-par IRRs, making the product attractive for policyholders. This supports both growth and margins of life insurance players as non-par products have higher margins.
	↑	CGTSM to TREDIS.	The extension of CGTSM to working capital loans on TREDIS platform augurs well for NBFCs such as ABCL, CIBC, HDB, Tata Capital, which lend to MSMEs.
	↑	PTC of working capital loans	Securitization of the working capital loans will increase the funding sources available for NBFCs. Increasing the appetite for such loans.
	↑	Credit guarantee on infrastructure projects.	Positive for NBFCs that lend to infrastructure projects like Tata Capital.
	↔	Restructure PFC and REC	May merge the two companies or expand their mandate. Growth may pick up for the two entities but impact for larger sector to remain muted.
	↑	Credit-linked subsidy for animal husbandry.	Positive for MFI sector and small-ticket unsecured lenders such as L&T finance and digital lenders
	↓	STT on options increased to 0.15% from 0.1% of premium. STT on futures increased to 0.05% from 0.02% of notional.	No direct correlation between STT hikes and market volumes. The increase in cost of trading is higher for futures compared to options. Overall retail sentiment and market volatility are more relevant for market volumes and revenues of brokers.
	↑	Incentive scheme for promotion of RuPay debit cards and low-value UPI P2M transactions budgeted at Rs20 bn for FY2027BE against Rs22 bn for FY2026RE.	Continuation of the digital incentive scheme into FY2027E is positive for the ecosystem participants, especially third-party app providers (TPAPs) such as Paytm.
	↔	Budgetary allocation for Guarantee Emergency Credit Line (GECL) facility under Emergency Credit Line Guarantee Scheme (ECLGS) scheme set at Rs90 bn for FY2027BE, while allocation for FY2026RE is revised down to zero.	The significance of this scheme in the ongoing environment seems low, given the benign asset quality cycle.
<b>Construction Materials</b>			
	↑	Rs200 bn over next five years announced for carbon capture utilization and storage(CCUS) for five key sectors, power, steel, cement, refineries and chemicals.	Positive for sector from the point of view of transition to lower carbon emission regime.
	↑	Total capex up 11.5% yoy to Rs12.2 tn. Incremental infra-related announcements include (1) government focus on infra development in tier 2/3 cities, (2) seven proposed high-speed rail corridors, (3) new east-west freight corridor and (4) proposed East Coast industrial corridor.	Directionally positive for sector from the perspective of continued public sector spends.
<b>Consumer Durables &amp; Apparel</b>			
	↔	Solar pumps/rooftop: FY2027BE outlay for PM KUSUM/PM Surya Ghar Muft Bijili Yojana stood at Rs50 bn (similar to last year)/Rs220 bn (+10% over FY2026RE).	Neutral-to-marginally positive for the likes of Crompton Greaves Consumer.
	↑	Wires & cables: FY2027BE capex outlay at Rs12.2 tn (12% growth on FY2026RE, after weak growth in FY2026).	Positive for W&C players (though largely on expected lines).
	↑	Electro-mechanical projects: Tax holiday to a foreign company on any income accruing or arising in India by way of procuring data center services from a specified data center until FY2047.	Positive for EMP revenues of players such as Blue Star and Voltas.
	↔	Home appliances: BCD exemption on specified parts used in the manufacture of microwave ovens.	Marginally positive for white goods players.
<b>Consumer Staples</b>			
	↔	Cigarettes: No change in NCCD of cigarettes.	Neutral for ITC.
	↔	Jewelry: No change in customs duty on gold imports.	Neutral for Titan.
<b>Electric Utilities</b>			
	↑	Proposal to extend the basic customs duty (BCD) exemption given to capital goods used for manufacturing Lithium-Ion Cells for batteries, to those used for manufacturing Lithium-Ion Cells for battery energy storage systems too.	Reduction in duty would lower the cost of setting up BESS projects (battery modules/cells constitute nearly 40-50% of the overall BESS cost).
	↑	Proposal to exempt basic customs duty on import of sodium antimonate for use in manufacture of solar glass (7.5% earlier).	Marginal reduction in the cost of solar modules (sodium antimonate is used in making solar glass, which constitutes 8-12% of the overall cost of a solar module).
	↑	Proposal to extend the existing basic customs duty exemption on imports of goods required for Nuclear Power Projects (including Control and Protector Absorber Rods, Burnable Absorber Rods etc.) till the year 2035 and expand it for all nuclear plants irrespective of their capacity.	Would lower the cost of setting up a nuclear power plant.
<b>Electronic Manufacturing Services</b>			
	↑	Electronic component manufacturing scheme allocation has been increased to Rs400 bn in FY2027BE from Rs230 bn in FY2026RE	This implies that nearly all 249 applications who have applied under component schemes would be getting their approvals and would benefit Dixon, Amber, Symra and Kaynes, etc.
	↑	ISM 2.0 announced with an initial outlay of Rs10 bn.	This could be potentially beneficial for Dixon (setting up display fab plant) or Kaynes and CG Power who could undertake further expansion.
	↑	ISM 1.0 allocation for FY2027BE increased to Rs80 bn from Rs43 bn in FY2026RE.	Implies payouts would start for the likes of CG Power and Kaynes once they sign agreements with the Government of India.
	↔	Payout for Large-Scale Electronics Manufacturing PLI scheme lowered to Rs13 bn in FY2027BE versus Rs70 bn in FY2026RE.	Mobile PLI scheme ends in FY2026 and the balance payments of FY2026 will be paid out in FY2027.

Source: Union budget documents, Kotak Institutional Equities estimates

## Exhibit 11: Budget impact on sectors at a glance (contd.)

Sector	Net impact	Proposals	Implications
<b>Fertilizers &amp; Agricultural Chemicals</b>			
	↓	Fertilizer subsidy cut to Rs1.71 tn from Rs1.86 tn for FY2026RE.	Somewhat negative for fertilizer industry; however, any additional subsidy requirements are usually met outside the budget.
	↑	Measures announced to increase farmer incomes in fisheries, high-value agriculture and animal husbandry.	Potentially positive for companies in the animal feed and agri-inputs spaces.
<b>Hotels &amp; Restaurants</b>			
	↑	Proposal to develop 15 archaeological sites into experiential cultural destinations.	Development of tourism infrastructure augurs well for the growth of the hospitality sector.
	↑	Proposal to set up a National Institute of Hospitality; proposal of pilot scheme for upskilling 10,000 guides; development of ecologically sustainable trekking and hiking sites; establishment of National Destination Digital Knowledge Grid to digitally document all places of significance.	Would help address the human resource constraints, owing to high attrition levels in the hospitality industry.
	↓	Proposal to reduce TCS rate on the sale of overseas tour program package from the current 5% (up to Rs1 mn) and 20% (beyond Rs1 mn) to 2% without any stipulation of amount.	Would reduce the cost of foreign travel.
<b>Industrials/Infrastructure</b>			
	↑	Extending BCD exemption on imports of goods required for nuclear power projects until 2035.	Positive for companies such as L&T, BHEL and HCC.
	↔	Exclusion of entire value of biogas while calculating the central excise duty payable on biogas blended CNG.	Unlikely to materially impact economics of blending biogas with CNG, and thus no impact of players such as Praj Industries.
	↓	Budget allocation for metro projects revised to Rs273 bn from Rs311 bn for FY2026RE (Rs246 bn in FY2025); FY2027BE stands at Rs287 bn (up 5% yoy).	Negative for ABB, CG Power, Siemens, Titagarh as growth in projected spending growth is lower than the previous years.
	↔	Jal Jeevan Mission RE allocation for FY2026 cut from Rs670 bn to Rs170 bn. FY2027BE stands at a Rs676 bn, similar to FY2025BE.	Neutral for Kalpataru, KEC and LT as water projects are generally delayed due to the deferral of payments. Nonetheless, achieving FY2027BE targets will help in improving execution in subsequent years.
	↑	Railway capex is higher by 11% yoy at Rs2.9 tn, with higher allocation for the construction of new lines, doubling and rolling stock. The government has announced seven high-speed rail corridors.	Positive for companies such as CGPOWER, Texmaco and Titagarh Rail Systems.
	↑	Railway signaling spending increased to Rs75 bn for FY2027BE from Rs65 bn in FY2026RE.	Moderately positive for CG Power, Siemens, KEC and Kaynes that are expected to participate in KAVACH.
	↑	Outlay of Rs100 bn to create a globally competitive container manufacturing ecosystem over a five-year period.	Marginally positive for CONCOR as benefits on lower procurement cost and faster delivery of containers will be realized over a period of time.
	↑	Defense allocation up by 17% in FY2027BE versus FY2026RE, primarily driven by a 62% increase in the allocation for other equipment (allocation has increased to Rs822 bn in FY2027 from Rs508 bn in FY2026RE).	Positive for electronics and missile/consumable companies such as Astra Microwaves, BEL, Data Patterns and Solar Industries.
	↓	Naval fleet capex allocation at Rs250 bn in 2027 (+17% versus 2026RE and +2.6% versus 2026BE) and Aircraft and Aero engines allocation at Rs638 bn for FY2027 has declined 12.4% versus Rs2026RE.	Negative for Cochin Shipyard, Garden Reach Shipyard, HAL and Mazagon Dock Shipbuilders.
<b>IT services</b>			
	↑	Buy-back taxation aligned with capital gains regime and differential rate for promoters (22% for promoter companies and 30% for promoter individuals).	The earlier taxation regime had deemed entire buyback proceeds as dividend and cost of acquisition as a capital loss. The proposal now treats the consideration as capital gains. Assuming the definition of capital gains is unchanged, buyback route for capital distribution to shareholders becomes more attractive over dividend payouts.
	↔	New safe harbour provisions for IT/ITES with all sub-segments clubbed under a single category with common safe harbour margin of 15.5% and threshold for availing safeharbour increased to Rs20 bn (from Rs3 bn). The safe harbour would be approved by an automated rule-based process without any need for tax officers to examine and accept the application.	This effectively eliminates administrative burden and tax disputes for multinational companies.
	↑	Data Center incentives - Tax holiday to any foreign company until FY2047 who provides cloud services globally using data center services in India.	These incentives will accelerate growth of data center setups in India. Tax exemption is provided to foreign companies, provided they use data center services from Indian-owned companies. This is a positive for Indian data center colocation players.
<b>Metals &amp; Mining</b>			
	↑	Rs200 bn in the next five years announced for carbon capture utilization and storage(CCUS) for five key sectors, power, steel, cement, refineries and chemicals.	Positive for sector from the point of view of transition to lower carbon emission regime.
	↑	Deduction for exploration and prospecting expenditure for additional minerals.	Positive for companies exposed to mining/prospecting of certain critical minerals that will be notified.
<b>Oil, Gas &amp; Consumable Fuels</b>			
	↑	Excise duties on petrol and diesel.	No increase in excise duty on diesel and gasoline is a positive versus concerns of an increase. However, tax on or retail price of diesel and gasoline can be changed outside the budget as well. OMCs margins on diesel and petrol at high levels.
	↔	LPG compensation.	The budget has provided the breakdown of Rs300 bn one-time LPG compensation as Rs125 bn in FY2026 and Rs175 bn in FY2027E. This is in line with earlier decision of monthly disbursal from November 2025. For first LPG connection to poor households, the budget has provided Rs92 bn for FY2027E, similar to Rs91 bn in FY2026BE, but lower than FY2026RE of Rs127 bn.
	↔	Exemption of excise duty on value of Biogas/CBG in CNG.	Budget exempts the value of biogas/CBG blended in CNG for calculation of central excise tax on such blended CNG. As the share of CBG is small (~1% of CNG sales), the impact will not be meaningful for any CGDs.

Source: Union budget documents, Kotak Institutional Equities estimates

## Exhibit 12: Budget impact on sectors at a glance (contd.)

Sector	Net impact	Proposals	Implications
<b>Pharmaceuticals and Healthcare</b>			
	↑	Biopharma SHAKTI (Strategy for Healthcare Advancement through Knowledge, Technology and Innovation) initiative with a total outlay of Rs100 bn to be incurred in the next five years to transform India into a global hub for biopharma and enhance focus on research, innovation, and domestic manufacturing of biologics and biosimilars. This would include the establishment of three new National Institutes of Pharmaceutical Education and Research (NIPER) and the upgrade of seven existing units.	Minor boost for pharma companies focusing on biologics such as anthem, Aurobindo, Biocon, Dr Reddy's, Lupin, Syngene, Zydus, etc.
	↑	Upgrade existing institutions for Allied Health Professionals (AHPs), alongside the establishment of new AHP institutions in both the public and private sectors. The initiative covers 10 selected disciplines, including optometry, radiology, anaesthesia, operating theatre (OT) technology, applied psychology, and behavioral health. The goal is to add ~100k Allied Health Professionals over the next five years. A focus on building a robust care ecosystem for geriatric and allied care services, with plans to train ~150k caregivers in the coming year.	Better sourcing of qualified medical talent (both doctors and nurses) for hospitals.
	↑	Support states in creating integrated, large-scale healthcare complexes, with specific focus on enhancing regional connectivity for international patients. The project relies on collaboration with private healthcare providers to build and manage these facilities. These hubs will combine modern medicine with traditional systems, featuring AYUSH Centres (dedicated to traditional medicine, with three new All India Institutes of Ayurveda to be established), Medical Value Tourism Facilitation Centres (to assist international patients) and upgrade infrastructure for advanced diagnostic facilities, post-care, and rehabilitation services. In addition to the hubs, the budget includes upgrading Ayush pharmacies and drug testing labs for higher certification standards.	This could aid an impetus to international medical footfalls, which have a higher ARPOB profile.
	↔	Increase emergency and trauma care capacity in district hospitals by ~50% and setting up specialized Emergency and Trauma Care Centres. Alongside trauma care, the budget proposes setting up a second NIMHANS (NIMHANS-2) and upgrading mental health institutes in Ranchi and Tezpur to Regional Apex Institutions.	Limited impact for private hospitals.
	↔	Reduced import duties on 17 drugs and medicines used for treatment of rare diseases. Concession duties on fission-related Molybdenum and certain hospital equipment for use in specified hospitals has been extended until FY2028.	Limited impact for pharma and hospital companies as this benefit is likely to get passed on to the patients.
<b>Real Estate</b>			
	↑	Proposal to accelerate recycling of significant real estate assets of CPSEs through the setting up of dedicated REITs.	This would aid asset monetization for the government, while also deepening the sector (REITs) if a new REIT were to get listed.
	↑	Data Center incentives - Tax holiday to any foreign company, which provides cloud services globally using data center services in India, until FY2047.	These incentives will accelerate growth of data center setups in India. Tax exemption is provided to foreign company provided they use data center services from Indian-owned companies. This is positive for Indian data center colocation players.
<b>Renewable Energy</b>			
	↓	PM Surya Ghar Muft Bijli Yojana allocation is now Rs220 bn (+30% versus figure FY2026RE of Rs170 bn, and +10% versus FY2026BE figure of Rs200 bn).	Negative for Premier Energies and Waaree Energies given market expectation of a much higher allocation; the number of households expected to be covered in FY2027 was expected at 7 mn versus 2 mn in FY2026
	↔	PM KUSUM scheme allocation maintained at Rs50 bn, in line with last years revised numbers.	Neutral of Premier Energies and Waaree Energies, as this implies PM KUSUM scheme installations would be in line with last years level
<b>Specialty Chemicals</b>			
	↑	Three dedicated chemical parks to be set up via challenge route; initial allocation of Rs6 bn.	Potentially positive for Indian chemicals sector if the chemical parks were to scale up successfully.
	↑	Customs duty reduced on specified capital goods for use in manufacture of lithium-ion cells for batteries of battery energy storage systems.	Potentially beneficial for manufacturers of battery chemicals such as Gujarat Fluoro and Neogen.
	↑	Basic customs duty to expire on alpha pinene, maltol.	Could benefit Privi Organics by making imports of the raw material alpha pinene more expensive for its competition. Privi also plans to make maltol.
<b>Telecommunication Services</b>			
	↑	Tax holiday to any foreign company until 2047 that provides cloud services globally using data center services in India.	Incrementally positive for TCOM and Bharti which provide services to data centers set up by hyperscalers.

Source: Union budget documents, Kotak Institutional Equities estimates

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**ADD.** We expect this stock to deliver 5-15% returns over the next 12 months.

**REDUCE.** We expect this stock to deliver -5+5% returns over the next 12 months.

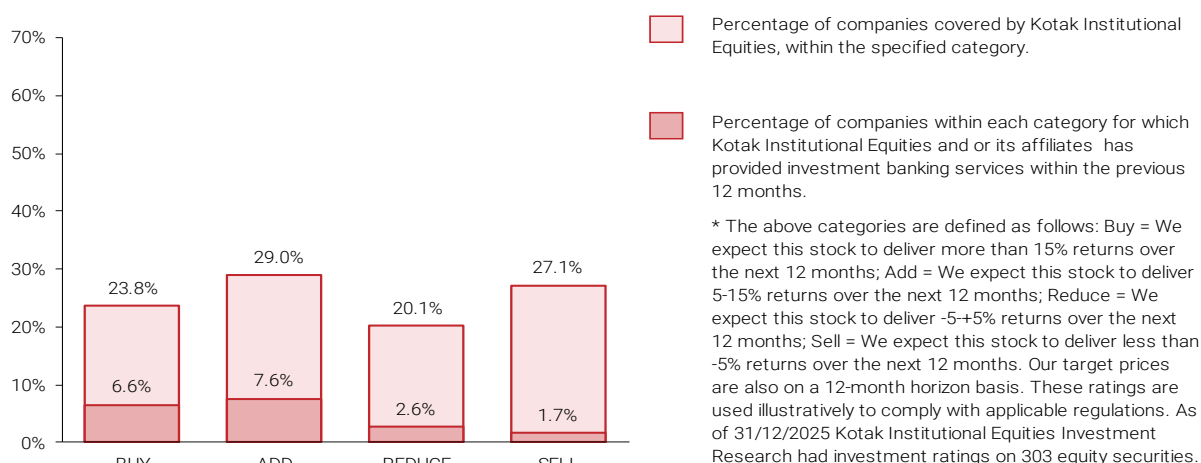
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As of December 31, 2025

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Corporate Office

Kotak Securities Ltd.  
27 BKC, Plot No. C-27, "G Block" Bandra Kurla  
Complex, Bandra (E) Mumbai 400 051, India  
Tel: +91-22-43360000

Overseas Affiliates

Kotak Mahindra (UK) Ltd  
8th Floor, Portoken House  
155-157 Minories, London EC3N 1LS  
Tel: +44-20-7977-6900

Kotak Mahindra Inc  
PENN 1,1 Pennsylvania Plaza,  
Suite 1720, New York, NY 10119, USA  
Tel: +1-212-600-8858

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Details of	Contact Person	Address	Contact No.	Email ID
Customer Care/ Complaints	Mr. Ritesh Shah	Kotak Towers, 8th Floor, Building No.21, Infinity Park, Off Western Express Highway, Malad (East), Mumbai, Maharashtra - 400097	18002099393	<a href="mailto:ks.escalation@kotak.com">ks.escalation@kotak.com</a>
Head of Customer Care	Mr. Tabrez Anwar		022-42858208	<a href="mailto:ks.servicehead@kotak.com">ks.servicehead@kotak.com</a>
Compliance Officer	Mr. Hiren Thakkar		022-42858484	<a href="mailto:ks.compliance@kotak.com">ks.compliance@kotak.com</a>
CEO	Mr. Shripal Shah		022-42858301	<a href="mailto:ceo.ks@kotak.com">ceo.ks@kotak.com</a>
Principal Officer (For the purpose of Research Analyst activities)	Mr. Kawaljeet Saluja	"A" Wing, 8th Floor, One BKC, Bandra Kurla Complex, Mumbai – 400051	022-62664011	<a href="mailto:ks.po@kotak.com">ks.po@kotak.com</a>

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