

Expect FY27E fiscal deficit at 4.2%

Union Budget FY27E is set to emphasize the government's role as a capex enabler from a capex spender. The government of India is transitioning toward a greater role as a policy enabler to facilitate private sector investment (New Labor codes, GST rate rationalization SHANTI Bill, The Merchant's Shipping Bill, change in definition for MSME), while moderating the pace of its direct capital expenditure that dominated post-COVID recovery (public infrastructure foundations – roads, railways – are now more mature). We expect the Union Budget FY27E to continue on this path. We pencil in a growth of 9.5-10% in capital expenditure in FY27E (10.1% in FY26BE vs FY25RE) with defence and 50-year interest free loans to states recording more than 20% increase versus FY26E levels.

As government opens to trade, customs duty rationalization imperative: With geopolitical uncertainty reshaping global supply chains, a simpler and more predictable customs framework could materially enhance the competitiveness of exports and improve FTA effectiveness, without posing meaningful fiscal risks. A fragmented duty structure with eight slabs, multiple exemptions and overlapping levies adds to compliance complexity and increases the scope for classification disputes. Although India has signed several FTAs, related utilization remains limited due to extensive documentation requirements, stringent rules of origin and post-clearance audit risks. The Government should address these challenges in the upcoming Union Budget FY27.

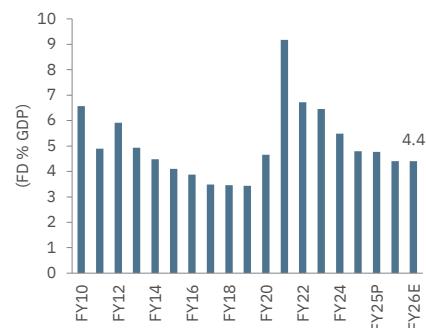
Shift to debt-to-GDP anchors allows modest fiscal consolidation, expect FY27E fiscal deficit at 4.2%: As the government shifts from point targeting of the fiscal deficit to a debt-to-GDP anchor, we expect the modest pace of fiscal deficit consolidation to moderate hereon. If the Centre wants to reduce the debt-to-GDP to below 50% by FY31 from ~55% currently, and assuming a nominal GDP growth of 10% each year, the pace of consolidation required hereon till FY31E would be 40-50bps only. This should provide room for expenditure growth of ~8% YoY; led by revenue expenditure at 7.5% and capital expenditure of 9.5%, translating into fiscal deficit of 4.2% in FY27E versus 4.4% in FY26E.

Net tax revenue set to improve in FY27E: A recovery in nominal GDP growth should aid tax collections, especially corporate and indirect taxes. Also, recent excise duty hike in cigarettes and tobacco products and likely hike in petrol and diesel may help garner additional revenue. We project overall net tax growth of 8.1% in FY27E versus 3.2% in FY26E and 11% in FY26BE. Expect the momentum of non-tax revenue to be retained in FY27E and see a growth of 15%. We budget additional INR 150bn from higher excise duty on cigarettes.

Government to meet fiscal deficit target of 4.4% in FY26E: We expect the Central government's fiscal deficit to print at 4.4% of GDP, in line with the budgeted target, as shortfall in receipts is offset by expenditure compression. Weak net tax collections in FY26 weighed on overall revenue collections. Given the lower drawdown of funds by the Ministry of Finance and the absence of new capex schemes announced during the year, we see limited scope for full utilization of the budgeted capex allocation, implying a shortfall of ~INR 400bn versus BE.

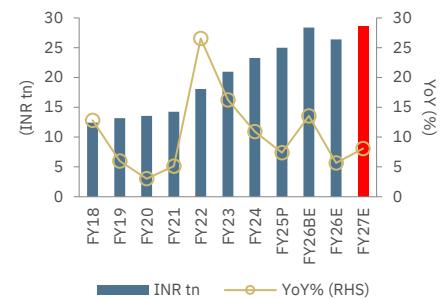
Yields to remain firm: As fiscal policy globally takes dominance over monetary policy and Japanese yields remain under pressure, we see domestic yields staying firm. JGB 10y yield has 30% positive correlation with IGB 10y for the past two decades. Domestically, the consolidated net borrowing by centre plus states is expected to increase to INR 21.47tn from INR 20.24tn, assuming INR 865bn of back-to-back GST loans maturing in April 2026, funded by amount in compensation cess fund and ~INR 1tn worth buybacks. As demand from Provident Fund rises amid new rules of salary structure under new labour codes (50% of basic pay), the demand for bonds may see some improvement. We expect India 10-year yield to remain firm and trade in the range of 6.7-7% through FY27E versus 6.6% at present.

Fiscal deficit broadly contained in FY26E



Source: CMIE, Elara Securities Estimate

Net tax revenue set to recover in FY27E



Source: CMIE, Elara Securities Estimate

Key focus areas for FY27E Budget

- Expect key reforms on custom duties
- Targeting debt-GDP ratio is a potential game-changer
- Likely to see a shift from capex spender to a capex enabler
- Expect higher market borrowings in FY27E

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Exhibit 1: Overview of Fiscal math for FY26E and FY27E

	INR Bn						YoY (%)					
	FY24	FY25RE	FY25P	FY26BE	FY26E	FY27E	FY25P/24A	FY26BE/25RE	FY26BE/25P	FY26E/25RE	FY26E/25P	FY27E/26E
Total receipts (ex-borrowing)	27,888	31,470	30,782	34,964	33,424	36,423	10.4	11.1	13.6	6.2	8.6	9.0
Revenue receipts	27,290	30,880	30,364	34,204	32,824	35,923	11.3	10.8	12.6	6.3	8.1	9.4
Net tax revenue	23,273	25,570	24,989	28,374	26,411	28,548	7.4	11.0	13.5	3.3	5.7	8.1
o/w central GST (gross)	8,206	9,085	9,090	10,109	9,681	10,843	10.8	11.3	11.2	6.6	6.5	12.0
Non-tax revenue	4,018	5,310	5,375	5,830	6,413	7,375	33.8	9.8	8.5	20.8	19.3	15.0
Non-debt capital receipts	598	590	418	760	600	500	-30.1	28.8	81.8	1.7	43.5	-16.7
Total expenditure	44,434	47,165	46,555	50,653	49,267	53,179	4.8	7.4	8.8	4.5	5.8	7.9
Total revenue expenditure	34,943	36,981	36,035	39,443	38,456	41,341	3.1	6.7	9.5	4.0	6.7	7.5
o/w interest payments	10,639	11,379	11,163	12,763	12,800	13,824	4.9	12.2	14.3	12.5	14.7	8.0
o/w pensions	2,380	2,755	2,755	2,766	2,766	2,966	15.8	0.4	0.4	0.4	0.4	7.2
o/w subsidies	4123.5	3834	3880	3834	3955.2	4,004	-5.9	0.0	-1.2	3.2	1.9	1.2
Food	2,118	1,974	1,999	2,034	2,034	2,134	-5.6	3.0	1.8	3.0	1.8	4.9
Fertilizer	1,883	1,713	1,737	1,679	1,750	1,700	-7.8	-2.0	-3.3	2.2	0.7	-2.9
Petroleum	122	147	145	121	171	170	18.9	-17.7	-16.6	16.3	17.9	-0.6
Total capital expenditure	9,492	10,184	10,520	11,211	10,811	11,838	10.8	10.1	6.6	6.2	2.8	9.5
Fiscal deficit	16546	15695	15773	15689	15843	16,756						
Fiscal deficit: GDP ratio	5.5	4.8	4.8	4.4	4.4	4.2						
Subsidy to GDP ratio	1.4	1.2	1.2	1.1	1.1	1.0						
GDP (INR bn)	3,01,230	3,24,114	3,30,682	3,56,979	3,57,139	3,95,760						

Note: BE: Budgeted Estimate, RE: Revised Estimates, P= Provisional, Source: Union Budget, CAG, Elara Securities Estimate

Exhibit 2: Gross tax projections – Tax revenue likely to recover in FY27E

	INR bn						YoY %					As % of GDP					
	FY24	FY25RE	FY25P	FY26BE	FY26E	FY27E	FY25P/24A	FY26BE/25RE	FY26BE/25P	FY26E/25RE	FY26E/25P	FY27E/26E	FY24	FY25P	FY26BE	FY26E	FY27E
Direct taxes	19,558	22,370	21,697	25,200	23,321	25,567	10.9	16.1	7.5	7.5	9.6	6.5	6.6	7.1	6.5	6.5	
Corporate	9,111	9,800	9,868	10,820	10,569	11,732	8.3	9.7	7.1	7.1	11.0	3.0	3.0	3.0	3.0	3.0	
Income	10,448	12,570	11,830	14,380	12,751	13,835	13.2	21.6	7.8	7.8	8.5	3.5	3.6	4.0	3.6	3.5	
Indirect taxes	14,957	16,019	15,926	17,350	16,184	17,104	6.5	8.9	1.6	1.6	5.7	5.0	4.8	4.9	4.5	4.3	
GST	9,572	10,619	10,595	11,780	10,586	10,843	10.7	11.2	(0.1)	(0.1)	2.4	3.2	3.2	3.3	3.0	2.7	
Central GST	8,206	9,085	9,090	10,109	9,681	10,843	10.8	11.2	6.5	6.5	12.0	2.7	2.7	2.8	2.7	2.7	
Compensation cess	1,414	1,534	1,505	1,671	905	0	6.4	11.0	(39.9)	(39.9)	-	0.5	0.5	0.5	0.3	0.0	
Customs	2,331	2,350	2,329	2,400	2,296	2,365	(0.1)	3.1	(1.4)	(1.4)	3.0	0.8	0.7	0.7	0.6	0.6	
Excise	3,054	3,050	3,003	3,170	3,302	3,896	(1.7)	5.6	10.0	10.0	18.0	1.0	0.9	0.9	0.9	1.0	
Gross tax	34,655	38,535	37,952	42,702	39,748	42,964	9.5	12.5	4.7	4.7	8.1	11.5	11.5	12.0	11.1	10.9	
Net taxes	23,273	25,570	24,989	28,374	26,411	28,548	7.4	13.5	5.7	5.7	8.1	7.7	7.6	7.9	7.4	7.2	
Nominal GDP growth	12	7.6	9.8	10.1	8	10.5											
Tax Buoyancy	0.9	1.3	0.8	1.3	0.7	0.8											

Note: BE: Budgeted Estimate, RE: Revised Estimates, P= Provisional, Source: Union Budget, CAG, Elara Securities Estimate

Custom duty: Key reform agenda for FY27E

In the upcoming FY27 Union Budget, customs duty reform is increasingly being viewed as a competitiveness issue rather than a revenue lever. Although the contribution of customs duties to overall tax collections has steadily declined, the regime remains complex, litigation-prone and administratively heavy. With geopolitical uncertainty reshaping global supply chains, a simpler and more predictable customs framework could materially enhance export competitiveness and improve FTA effectiveness, without posing meaningful fiscal risks.

High complexity, limited revenue significance: India's customs duty has more than 12,000 tariff lines distributed across an eight slab (0% to 25%) duty structure, along with numerous exemptions and frequent rate changes. Despite this complexity, customs duties now account for a smaller share of government revenues. In FY25, customs duties contributed only 6.1% of total gross tax collections, amounting to INR 2.3tn out of INR 37.9tn. This underscores the declining fiscal importance of customs duties relative to direct taxes and GST. India's simple average MFN applied tariff stands at ~12-13%, while the trade-weighted average tariff is significantly lower, at ~7-8%, reflecting higher tariffs on a narrow set of products and lower rates on high-volume imports.

Structural issues in existing customs regime: A fragmented duty structure with eight slabs, multiple exemptions and overlapping levies add to compliance complexity and increases the scope for classification disputes. Although India has signed several FTAs, their utilisation remains limited due to extensive documentation requirements, stringent rules of origin and post-clearance audit risks. At the same time, recurring disputes related to classification, valuation and exemptions contribute to high litigation levels, leading to working-capital lockups and elevated uncertainty for exporters. Frequent duty revisions and retrospective demands further reduce predictability, affecting long-term export planning and investment decisions.

View: With customs duties contributing a shrinking share of tax revenues, we believe Budget FY27 offers room to prioritise efficiency over protection. Rationalising duty slabs and simplifying procedures could unlock export competitiveness, improve FTA outcomes and reduce litigation, making customs reform a low-fiscal-cost, high-growth policy lever.

Exhibit 3: Custom duty structure – Overview

Slab	BCD rate	Typical coverage / examples	Simple average of import tariffs (%)	Weighted average of import tariffs (%)
1	0%	Essential goods, select raw material, inputs under FTAs	1990	80.9
2	2.50%	Critical inputs, intermediates, capital goods	2001	31.8
3	5%	Raw materials, components, electronics parts		26.5
4	7.50%	Select intermediates and semi-finished goods	2006	14.5
5	10%	Broad range of manufactured goods	2016	13.4
6	15%	Consumer goods, finished products	2023	17
7	20%	Higher protection items		12
8	25%	Sensitive / high-protection goods	2024	16.2

Source: Union budget document, Elara Securities Research

Exhibit 4: Import tariff rates are easing

Source: Wits, Word Tariff Profile Data, Elara Securities Research

FY26 finances – Review

FY26 fiscal deficit set to be attained

We expect the Centre's fiscal deficit to print at 4.4% of GDP in FY26E, broadly in line with FY26BE as shortfall in receipts is compensated with compression in expenditure, both capital as well as revenue. Moreover, with lower nominal GDP growth of 8% (as per advance estimates) versus 10.1% assumed in the budgeted, fiscal deficit, as a percentage of GDP for FY26E, seems attainable.

Fiscal deficit, as a percentage of GDP, is likely to be in line with BE

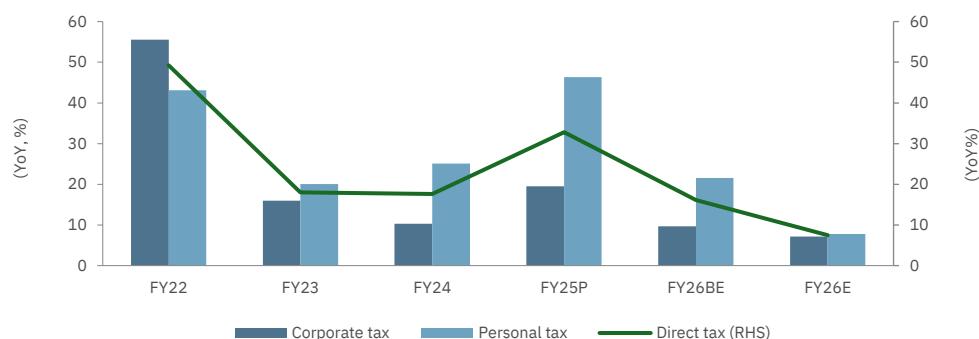
Government revenue receipts to undershoot in FY26E

The government's revenue receipts for FY26E are likely to undershoot the budgeted estimate by ~INR 1.3tn, largely driven by a meaningful shortfall in net tax revenues (~INR 1.9tn). With this, the centre's gross tax-to-GDP as a percentage is expected to moderate to 11.1% for FY26E, the lowest level since FY21, reflecting weaker tax collection. Notably, NSO's first advance estimates imply nominal GDP growth of 8% YoY in FY26, significantly below 10.1% growth implicit in FY26BE, thereby weighing on overall tax buoyancy, which we estimate at ~0.7x (well below FY24 levels). The slowdown is broad-based, with personal income tax collections estimated to grow by only 7.8% YoY in FY26E versus the budgeted 21.6% (over FY25 provisional numbers), while corporate tax collections are also expected to grow at a slower pace of 7.1% YoY compared with 9.7% in FY26BE over FY25P.

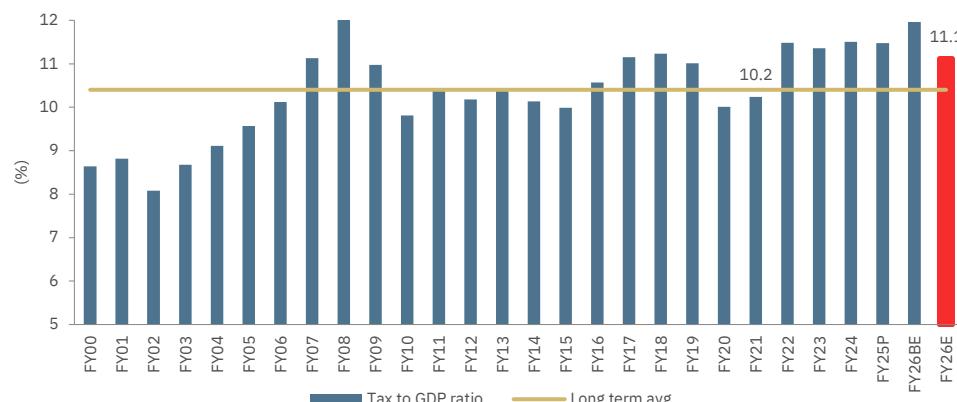
Indirect tax collections are likely to remain weak, with growth estimated at 1.6% YoY in FY26E versus the budgeted ~8.9% over FY25P, led by a sharp contraction of ~40% YoY in cess collections and subdued GST receipts amid GST rate rationalization. CGST revenues is estimated to decline by 4.2% from the budgeted estimate of INR 10.1tn, marking the first drop since FY21. We estimate net tax collections to grow by only 5.7% YoY in FY26E compared with FY26BE target of ~13.5% (over FY25 provisional levels). Tax devolution to states has reached 65.8% of FY26BE in Apr-Nov FY26, broadly in line with last year's pace, though the YoY growth in devolution has moderated to ~15.5% versus ~35% in the corresponding period last year. Thus, the overall pace of tax collection has weakened due to policy-led GST rate rationalization, moderation in corporate tax collections and income tax relief measures. We expect a shortfall of ~ INR 1.9tn in net tax collection in FY26E from FY26BE levels.

Excise duty to overshoot budgeted estimate

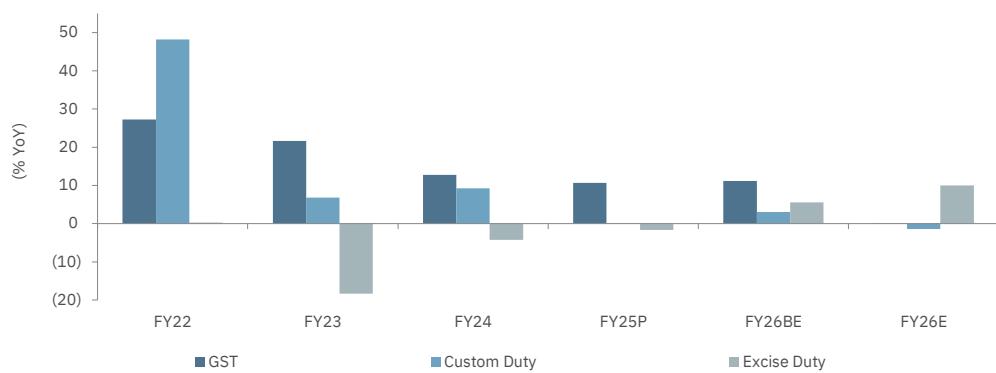
Exhibit 5: Growth in direct taxes revenue likely to be subsumed in FY26E



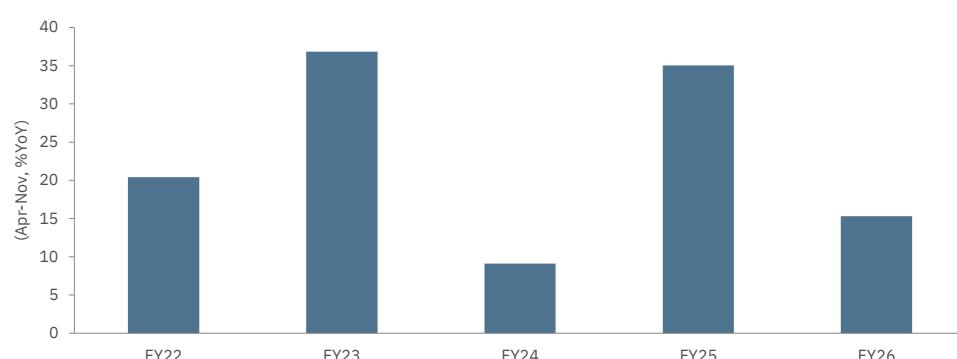
Note: FY2BE and FY26E growth over FY25 provisional numbers, Source: CMIE, Elara Securities Estimate

Exhibit 6: Gross tax-GDP ratio likely to be at the lowest level since FY21

Source: CMIE, Elara Securities Research

Exhibit 7: Subdued GST collections and custom duty likely to drag indirect tax growth in FY26E

Note: FY26BE and FY26E growth over FY25 provisional numbers, Source: CMIE, Elara Securities Estimate

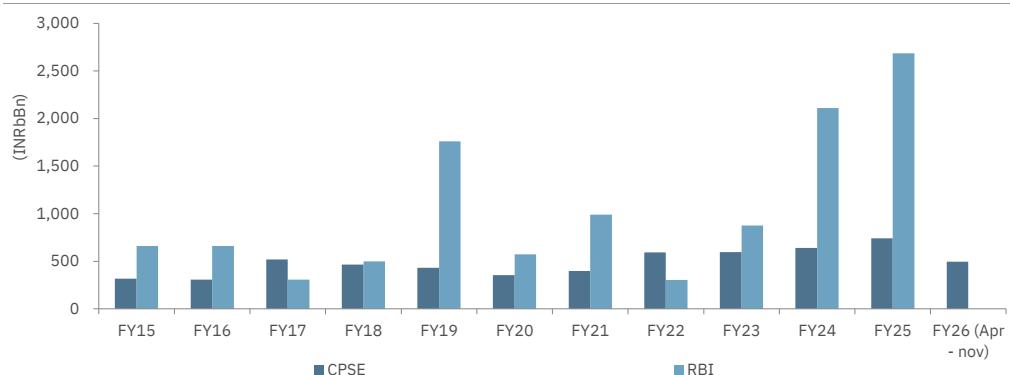
Exhibit 8: Tax devolution to states moderates in FY26YTD after rising significantly in FY25YTD

Source: CMIE, Elara Securities Research

Higher non-tax revenue in FY26 from RBI and CPSE limits fiscal slippage

Encouragingly, non-tax revenues provided a meaningful cushion in FY26 and are expected to register a robust growth of 19.3%YoY in FY26E versus 8.5% FY26BE (over FY25 provisional levels), supported by higher dividends and miscellaneous receipts, which partially cushioned the impact of softer tax buoyancy on overall revenue performance. The RBI's sizeable dividend payout of INR 2.7tn cushioned the overall impact on revenue receipts. Moreover, the centre's dividend receipts from CPSE, of INR 496bn as on 17 January 2026, was in line with INR 493.2bn during the same period last year, with the top contributors being the Ministry of Oil & Natural Gas at INR 150bn, the Ministry of Coal at INR 83.6bn, and the Ministry of Power at INR 78.2bn. Based on CPSE performance, the government is likely to exceed its non-tax revenue target by INR 583bn this fiscal.

Exhibit 9: Higher dividend receipts from RBI help GOI to cushion the impact of softer tax buoyancy

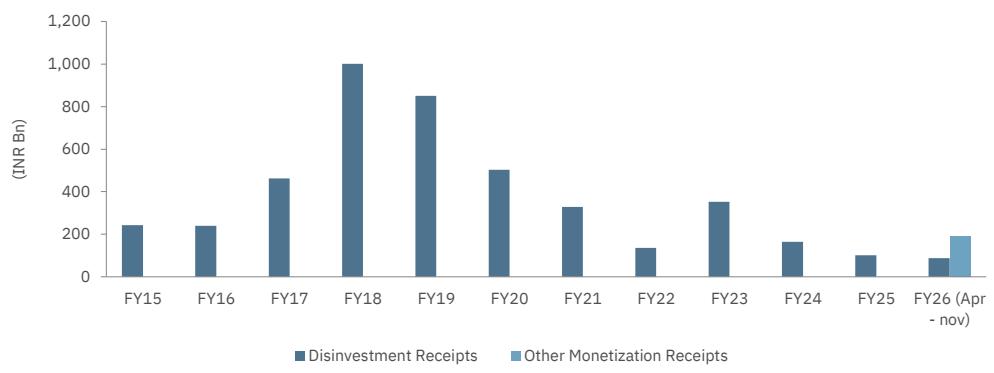


Source: DIPAM, RBI, Elara Securities Research

Muted disinvestment proceeds so far, asset monetization aids in FY26

Disinvestment continues to be a recurring weak spot in the Centre's fiscal math, with receipts persistently falling short of Budgeted targets. Receipts were at INR 87.6bn until January 2026, with key contributions from MAZGAON DOCK through the offer for sale (OFS) method (sold 3.6% stake at INR 36.7bn), followed by Bank of Maharashtra (sold 6% stake at INR 26.2bn) and Indian Overseas Bank (sold 2.17% stake at INR 14.2 bn). However, centre's collection from asset monetization has been healthy at INR 188.37bn so far, helping cushion the disinvestment shortfall.

Exhibit 10: Disinvestment receipts in FY26 continue to be underwhelming



Source: DIPAM, Elara Securities Research

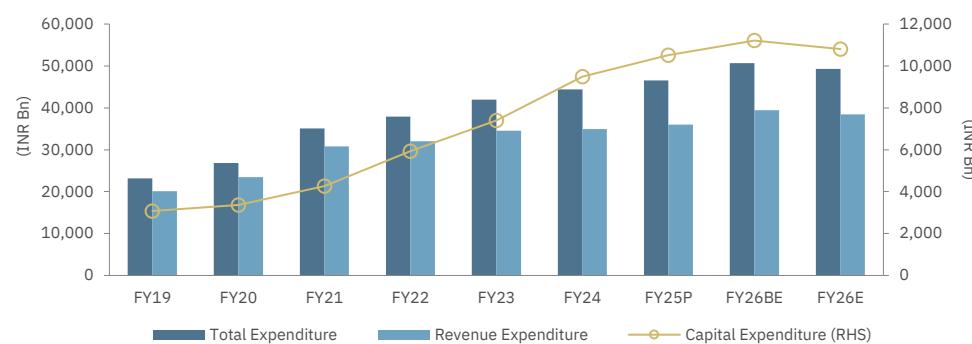
Expenditure likely to undershoot FY26 budgeted target

In FY26, the pace of expenditure remained broadly steady, up 6.75% YoY in 8MFY26 versus 3.35% YoY growth in 8MFY25, driven largely by strong capex push. The surge in capex has been supported by higher allocations to Defence and the Department of Food and Public Distribution. However, allocation to the latter, in our view, is likely to be reversed in the coming months as it largely reflects ways and means/advance funding to FCI rather than structural budgeted capex. Excluding this component, overall capex still grew a healthy ~20% YoY, reaching ~INR 6.1tn in 8MFY26.

However, INR 466bn has been allocated under the Ministry of Finance, of which only INR 18.93bn has been spent. Given that no new schemes have been launched this year under capex, we see no scope for this allocation to be spent. As such, we estimate FY26E capex at ~INR 10.8tn, implying a shortfall of ~INR 400bn versus BE. Notably, capex under the 50-year interest-free capex loans to states has been decent, where amount released has been at INR 568bn during Apr-Nov against the INR 1.5tn budgeted estimate.

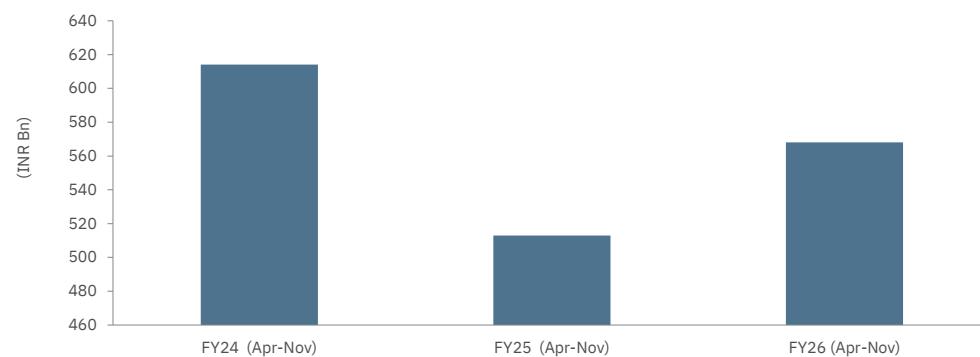
On the revenue side, expenditure traction has remained weak, with Jal Jeevan Mission seeing only 2% utilization of the Budgeted INR 742bn till November 2025. Overall Revenue expenditure grew by just 1.8% YoY in 8MFY26, sharply lower than 7.8% YoY growth in the same period last year and stands at 57.5% of FY26BE versus 60.1% of FY25BE during the same period last year. Overall, progress on revenue spending remains inadequate, and we estimate revenue expenditure to undershoot the Budgeted target by ~INR 987bn in FY26E.

Exhibit 11: Total expenditure to undershoot by INR 1.3tn in FY26E



Source: CMIE, Elara Securities Estimate

Exhibit 12: Centre's capex loan disbursement to states decent in FY26

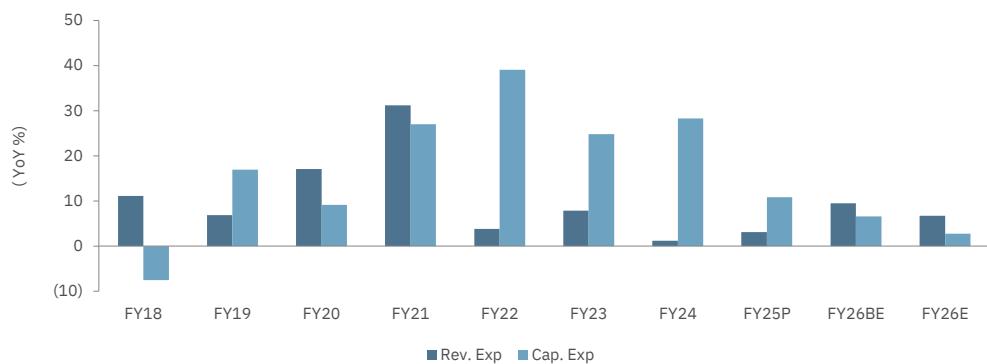


Source: Department of Expenditure, Elara Securities Research

Exhibit 13: Uttar Pradesh emerges as the largest beneficiary of interest-free capex loan

States/UTs	Amount released (INR bn) (up to 27.11.2025)	Number of projects approved
Andhra Pradesh	34.9	96
Arunachal Pradesh	6.5	144
Assam	50.4	229
Bihar	39.5	144
Chhattisgarh	18.4	187
Goa	9.9	189
Gujarat	22.1	80
Haryana	5.4	3
Himachal Pradesh	8.6	128
Jharkhand	7.8	148
Karnataka	18.1	36
Kerala	9.1	24
Madhya Pradesh	38.1	53
Maharashtra	30.8	331
Manipur	2.2	101
Meghalaya	6.6	85
Mizoram	2.4	41
Nagaland	0.0	0
Odisha	19.7	288
Punjab	6.8	145
Rajasthan	41.1	183
Sikkim	2.9	15
Tamil Nadu	27.7	170
Telangana	11.6	100
Tripura	3.5	101
Uttar Pradesh	84.7	482
Uttarakhand	6.0	46
West Bengal	35.4	236
Delhi	5.4	35
Jammu & Kashmir	10.8	234
Puducherry	1.8	52
Total	568.3	4106

Source: Lok Sabha Document, Elara Securities Research

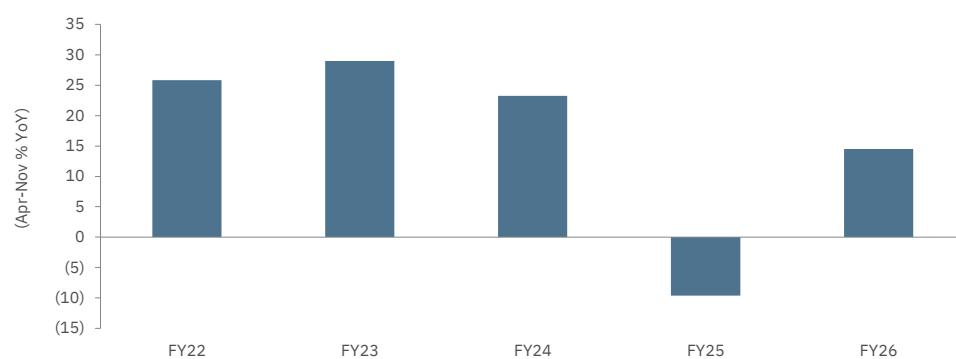
Exhibit 14: Expenditure growth moderates in FY26E

Note: FY26BE and FY26E growth over FY25 provisional numbers, Source: CMIE, Elara Securities Estimate

Exhibit 15: Overall spending under Jal Shakti and Rural Ministry lags in FY26

Ministry (% BE)	Apr '23 – Nov '23	Apr '24- Nov '24	Apr '25-Nov '25
Ministry of Agriculture	54.57	61.49	59.93
Ministry of Chemicals and Fertilisers	71.58	71.81	83.4
Ministry of Coal	171.86	282.73	121.25
Ministry of Defence	67.59	64.08	66.75
Ministry of New and Renewable Energy	39.12	56.67	51.15
Ministry of Steel	21.66	54.42	74.13
Ministry of Jal Shakti	51.63	31.16	8.58
Ministry of Micro, Small and Medium Enterprises	17.88	19.88	32.21
Ministry of Petroleum and Natural Gas	5.1	21.32	46.63
Ministry of Power	73.63	114.02	71.22
Ministry of Road Transport and Highways	67.51	53.93	65.03
Ministry of Rural Development	44.14	52.23	32.57
Ministry of Housing and Urban Poverty Alleviation	54.09	48.86	44.25
Ministry of Railways	70.67	66.77	72.21
Ministry of Health and Family Welfare	54.17	66.38	60.27
Ministry of Heavy Industries and Public Enterprises	29.61	19.8	23.65

Source: CMIE, Elara Securities Research

**Exhibit 16: Capex in CPSE marks modest improvement in FY26 versus last year levels**

Source: CMIE, Elara Securities Research

FY27E finances – Preview

Macro-economic and policy backdrop to Budget FY27

The global macroeconomic landscape in 2026 presents a mosaic of divergent policy trajectories, geopolitical fault lines, and an accelerating race for technological supremacy. The International Monetary Fund projects global growth at ~3.2% for 2025, with advanced economies expanding at a modest 1.5-1.8% while emerging markets continue to outpace at 4.2-4.5%. However, these headline figures mask significant crosscurrents that are reshaping capital flows, trade corridors, supply chains, and investment priorities across the globe.

The US remains in a policy flux, with the Trump administration's tariff playbook injecting uncertainty into global trade and supply chains, albeit at lower levels than in CY25. This has triggered reactive policy frameworks across Asia, with China adopting a domestic, inward-looking consumption-pivot strategy to insulate its economy from external headwinds. In the past year, defense spending is emerging as a fiscal stimulus lever across countries particularly in AEs such as the US, Japan and Germany (and hence, Europe) along with spending in new age technology, and artificial intelligence gaining traction across the economies.

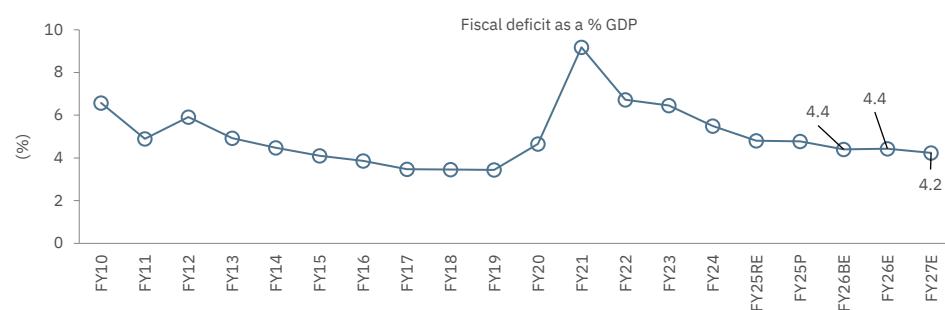
On the domestic front, the government has shown intent to undertake difficult reforms that will help to insulate the domestic economy from global headwinds at a time when India-US trade deal is getting delayed. India enters FY27 with robust growth projections (nominal growth 10%+ Elara estimates), supportive monetary policy background with 150bps+ rate cut (including 25bps cut expected in Feb 25E meet), and supportive fiscal policy for personal consumption via personal tax cuts and GST rate cuts. Through FY26TD, consumption inducing fiscal policies have been effective, complemented by benign inflation leading to 7.5% YoY growth in real private spending in H1FY26, the highest since FY23.

In our view, the government is shifting its policy focus from being a capex spender to a capex enabler, and policy decisions are centred around the 'ease of doing business', consumption boost, de-regulation, trade liberalization, and factor reforms. We expect the states to do the heavy lifting of capex as well as revenue spending as the central government pivots from traditional capex sectors such as roads & railways to power, ports, airports, urban infra, semiconductor and tech via enabling policies.

On the revenue front, foregone revenues due to direct/indirect tax cuts, moderate nominal growth coupled with increasing refunds have led to lacklustre revenues for the government FYTD (49.1% of BE). With domestic yields firm, eyes will be on how the government maintains a delicate balance between keeping fiscal deficit, spending priorities and hence borrowing. Current global environment is not too favorable for the durations, in line with global peers in spite of rate cuts by the RBI. With return of inflation expected in H2FY27, higher-than-expected borrowing can inject additional upside bias on the rates.

We expect FY27E fiscal deficit at 4.2% of GDP versus 4.4% in FY26E. We estimate 10.5% nominal GDP growth and anticipate the tax revenue to recover, which is likely to see 8.1% YoY growth in FY27E over FY26E following weak 5.7% YoY growth in FY26E over FY25P.

Exhibit 17: Pace of fiscal consolidation by the center set to moderate



Source: CMIE, Elara Securities Estimate

Tax collections set to recover in FY27E

We expect FY27E net tax revenue at ~INR 28.5tn, up from INR 26.4tn in FY26E, supported by a recovery in nominal GDP growth to ~10.5% in FY27E (versus the NSO's FY26 first advance estimate of ~8% and our FY26E expectation of ~8.5%). This should provide a supportive backdrop for collections, particularly for direct taxes, alongside a modest improvement in excise duties from the recent hikes in cigarettes and tobacco product and a possible hike in excise duty on petrol & diesel.

Within direct taxes, despite policy-led income tax relief measures undertaken in FY26, we expect direct tax growth to rise to ~9.6% in FY27E (from 7.5% in FY26E over FY25P), led by improvement in corporate profitability and steady personal tax collections. We expect personal income tax growth to normalise to a more durable 8.5% in FY27E over FY26E, compared with the 20.3% average growth since FY23. Expect corporate tax collections to improve by 11.0% YoY in FY27E over FY26E (7.1% in FY26E over FY25P), reflecting both stronger nominal growth and easing of the base effect.

On the indirect tax side, we expect GST collections in FY27E to map recovery in nominal GDP growth, as we peg central GST collections to grow by 12.0% in FY27E versus 6.5% in FY26E. While excise revenues could see incremental support from the recent hike in duties on cigarettes and tobacco products, any likely upward revision in petrol and diesel excise would provide further upside to receipts. Overall, expect gross tax-to-GDP ratio to moderate by 10.9% in FY27E from 11.1% in FY26E.

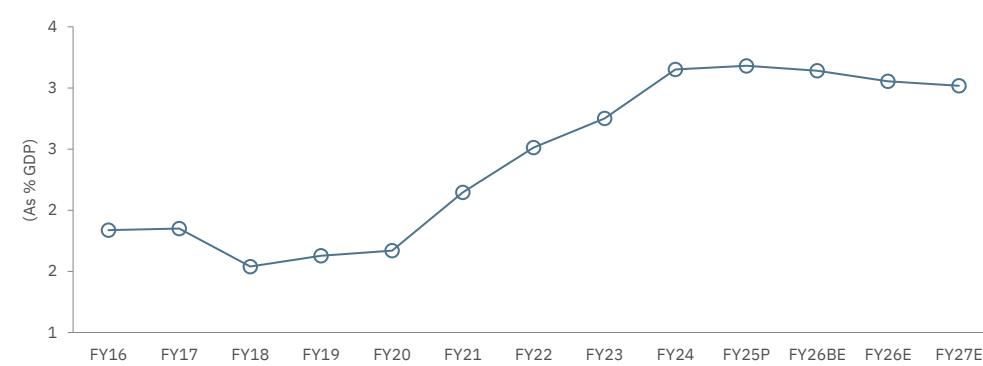
Separately, from a market perspective, we believe the government is likely to make no changes in existing tax structure involving STT and STCG, or LTCG.

Government – From a capex spender to a private sector-enabler in FY27E

A defining shift in FY27 will be the approach of the central government towards capex. The government of India is transitioning toward a greater role as a policy enabler to facilitate private sector investment, while moderating the pace of its own direct capital expenditure push that dominated post-COVID recovery (public infrastructure foundations – roads, railways – are now more mature).

The capex-GDP ratio soared from 1.7% in FY20 to 3.1% of GDP in FY25. We expect this focus to continue, albeit at a moderate pace. We expect FY27E capital expenditure to rise by 9.5% on the back of ~2.8% growth in FY26E over FY25P (and 6.2% FY26E/FY25RE). In the past five years, 66% of the overall capex has been allocated to roads, railways and defence. As the absorption capacity of roads and railways peaks out, we see the share of roads, railways and defence falling to ~60% in FY27E. We see defence services getting the highest allocation growth of 20%. A significant part of the overall capex is likely to be allocated to sectors such as urban development, water, shipping and for 50 year interest free loan to states. We see provision for loans to states rising by 25% in FY27E.

Exhibit 18: Central government capex spending set to plateau

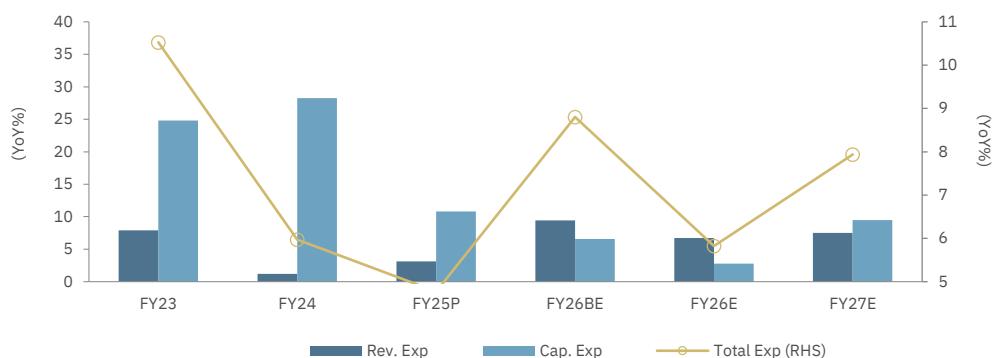


Source: CEIC, Elara Securities Estimate

Exhibit 19: Capex in traditional sector allocations to see moderate growth

(INR bn)	FY21	FY22	FY23	FY24	FY25P	FY26BE	FY26 Apr-Nov	FY26E	FY27E
Defence	1,343	1,380	1,429	1,543	1,598	1,800	1,114	1,900	2,300
Roads	892	1,133	2,060	2,639	2,853	2,722	1,770	2,500	2,600
Housing & Urban Affordable Housing	103	259	269	264	316	376	167	350	450
Railways	1,093	1,173	1,624	2,426	2,519	2,520	1,820	2,520	2,600
Total	3,431	3,945	5,382	6,872	7,287	7,419	4,870	7,270	7,950
Others	832	1,984	2,018	2,620	3,233	3,792	1,712	3,541	3,888
Total Capex	4,263	5,929	7,400	9,492	10,520	11,211	6,582	10,811	11,838

Source: CMIE, Elara Securities Estimate

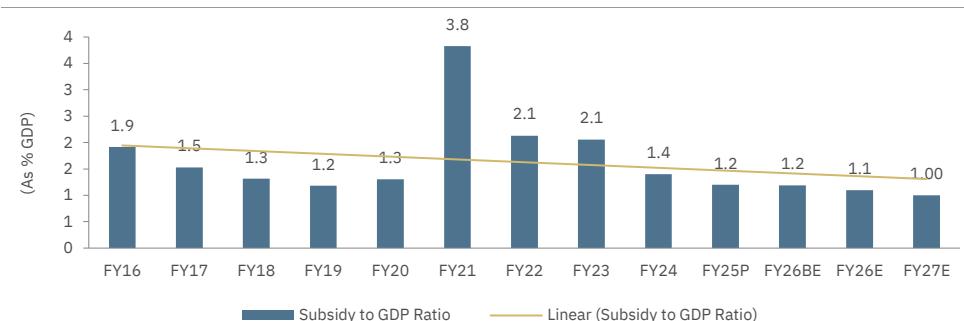
Exhibit 20: Government expenditure likely grow at decent level in FY27E

Source: CMIE, Elara Securities Estimate

Revenue expenditure to prioritize demand in FY27E

We expect FY27E revenue expenditure to grow 7.5% versus 6.7% in FY26E, as the government looks to hike allocation to the rural development and agriculture sector amid need to keep demand supported. Likewise, we expect the government to hike allocations under existing schemes that benefit the rural poor, women, the unemployed, and the farmer community. Amid expectations of soft crude oil and fertilizer input prices, we do not see any material uptick in subsidy spending. Overall subsidy burden in FY27E is likely to remain flat at INR 4.0tn in FY27E, translating into 1.0% of GDP versus 1.1% in FY26E amid subdued crude oil prices and limited increase in fertilizer input prices in CY26 after a sharp increase in CY25.

Within key ministries, we expect execution momentum to improve in FY27E under schemes such as Jal Jeevan Mission and Housing, where spending was sluggish in FY26 amid corruption and implementation concerns.

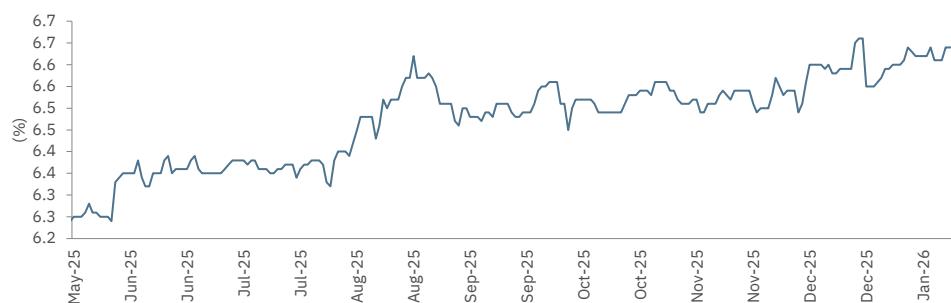
Exhibit 21: Subsidy to GDP likely to stay contained in FY27E

Source: CMIE, Elara Securities Estimate

Ten-year yield to remain firm through FY27E; see trading in the range of 6.7-7%

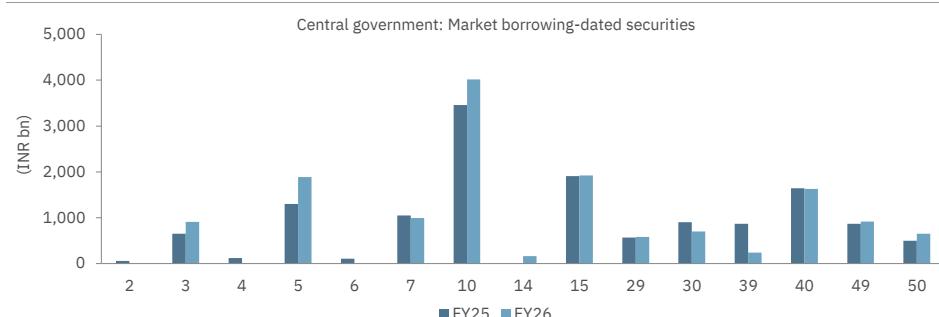
In FY26, the 10-year yield rose by ~35bps from its low even as repo rate was cut by 100bps as demand for bonds was impacted by one-off factors – a global rise in yields, higher supply of bonds skewed towards higher duration and supply from states. Demand for bonds in FY26 witnessed some pressure due to one off factors such as: (1) revision to the NPS rules for higher investing in equities, resulting in reallocation of funds away from government securities, and (2) revised LCR guidelines, effective 1 April 2026, which reduced the pressure on banks to acquire high-quality liquid assets (HQLA), thus impacting overall demand.

Exhibit 22: Gsec yield continue to remain in a tight range in FY27



Source: CMIE, Elara Securities Research

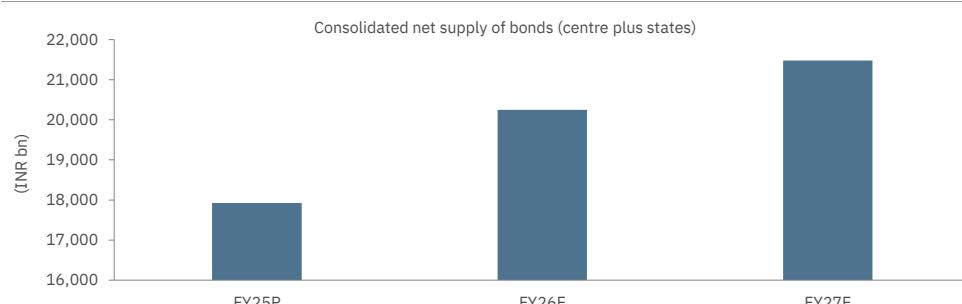
Exhibit 23: Gsec supply this year higher in longer dated bonds



Source: RBI, Elara Securities Research

As fiscal policy globally takes dominance over monetary policy and Japanese yields remain under pressure, we see domestic yields staying firm. JGB 10y yield has 30% positive correlation with IGB 10y for the past two decades. Domestically, the consolidated net borrowing by centre plus states is expected to increase to INR 21.47tn from INR 20.24tn, assuming INR 865bn of back-to-back GST loans maturing in April 2026, funded by amount in compensation cess fund and ~INR 1tn worth buybacks. As demand from Provident Fund rises amid new rules of salary structure under new labour codes (50% of basic pay), the demand for bonds may see some improvement. We expect India 10-year yield to remain firm and trade in the range of 6.7-7% through FY27E versus 6.6% at present.

Exhibit 24: Consolidated bond supply to be INR 21.47tn this year



Source: RBI, Elara Securities Estimate

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