



No change to 2026 outlook – we continue to look for better markets led by earnings recovery

- There is no change in our view that 2026 will be a volatile but better year for broader markets led by (a) stable macros (b) revival in earnings which should grow at 12-14% in FY27 (c) valuations in line with 10-year averages. (see note <https://www.valentisadvisors.com>). Our long-standing view has been that the budget is rarely a market moving event given that lot of reforms happen outside the budget eg GST cuts in September 2025.

Misses #1: STT cuts negative for markets – can it delay revival in FII flows?

- The budget has proposed a sharp increase in STT on futures and options (see Table 5). While we have argued for steps to curb the F&O markets, the increase unfortunately comes at a time when markets had already performed poorly and India had its worst relative performance to emerging markets since 1993. This will probably put further pressure on markets in the near term though we stress there is no change in STT for cash equities.

Misses #2: Capex – no major thrust; counting on private sector revival

- One could argue whether we would have been better off by a slightly higher capex either through higher privatization or a slightly higher fiscal deficit.
- However, given that Government spent below target in FY26 on capex, the budget still targets a 11.5% growth in direct capex and a 22.1% increase in capex including grants.
- Hopefully the Government meets its budget targets for FY27 on some of its large schemes which fell short last year (see Table 6). Example: spending on Jal Jeevan Mission, PMAY, etc. were way below target and can be expected to rise sharply this year. An increased expenditure on Jal Jeevan will help the pipe sector and the PMAY will help the cement sector.

Hits #1: Fiscal consolidation on track

- The good news is that fiscal deficit targets have been on track despite a much lower nominal GDP growth and the extra expenditure on defence given Operation Sindoor. Track record of the Government has been good, and the fiscal deficit has again been lower than budgeted.
- Also, revenue estimates for FY27 appear reasonable with an 11% increase in income and corporate tax estimates. The estimates build in growth in excise revenues due to the tax on cigarettes announced earlier and the reduced GST collection for the concessions announced last year.



- However, the gross borrowings of Rs 17.2 lakh crores (a 17.8% jump from the BE of Rs 14.82 lakh crores) is higher than market expectations and could put some pressure on the bond markets.

Hits #2: Measures for attracting longer term FDI

- The Government has taken many measures to attract FDI. The biggest one is no taxation on data centers up to 2047.
- Similarly safe harbor rules for IT services and GCCs will help attract investments.
- The Gift City sees a major thrust on attracting financial services entities with a tax holiday for 20 of the next 25 years and a reduced taxation of 15% to make it competitive with other regional peers.

Table 1: Budget at a Glance (Rs Cr)

Particulars	2024-25	2025-26	2025-26	2026-27	BEFY26 vs	REFY26 vs	BEFY27 vs
	Actuals	Budget Estimates	Revised Estimates	Budget Estimates	Actuals FY25	Actuals FY25	REFY26
1. Revenue Receipts	3,036,619	3,420,409	3,342,323	3,533,150	12.6%	10.1%	5.7%
2. Tax Revenue (Net to Centre)*	2,500,039	2,837,409	2,674,661	2,866,922	13.5%	7.0%	7.2%
3. Non Tax Revenue	536,580	583,000	667,662	666,228	8.7%	24.4%	-0.2%
4. Capital Receipts	1,616,249	1,644,936	1,622,519	1,814,165	1.8%	0.4%	11.8%
5. Recovery of Loans	24,617	29,000	30,190	38,397	17.8%	22.6%	27.2%
6. Other Receipts	17,202	47,000	33,837	80,000	173.2%	96.7%	136.4%
7. Borrowings and Other Liabilities #	1,574,431	1,568,936	1,558,492	1,695,768	-0.3%	-1.0%	8.8%
8. Total Receipts (1+4)	4,652,867	5,065,345	4,964,842	5,347,315	8.9%	6.7%	7.7%
9. Total Expenditure (10+13)	4,652,867	5,065,345	4,964,842	5,347,315	8.9%	6.7%	7.7%
10. On Revenue Account of which	3,600,914	3,944,255	3,869,087	4,125,494	9.5%	7.4%	6.6%
11. Interest Payments	1,115,575	1,276,338	1,274,338	1,403,972	14.4%	14.2%	10.2%
12. Grants in Aid for creation of capital assets	272,656	427,192	308,151	492,702	56.7%	13.0%	59.9%
13. On Capital Account	1,051,953	1,121,090	1,095,755	1,221,821	6.6%	4.2%	11.5%
14. Effective Capital Expenditure (12+13)	1,324,609	1,548,282	1,403,906	1,714,523	16.9%	6.0%	22.1%
15. Revenue Deficit (10-1)	564,296	523,846	526,764	592,344	-7.2%	-6.7%	12.4%
	-1.7	-1.5	-1.5	-1.5			
16. Effective Revenue Deficit (15-12)	291,640	96,654	218,613	99,642	-66.9%	-25.0%	-54.4%
	-0.9	-0.3	-0.6	-0.3			
17. Fiscal Deficit [9-(1+5+6)]	1,574,431	1,568,936	1,558,492	1,695,768	-0.3%	-1.0%	8.8%
	-4.8	-4.4	-4.4	-4.3			
18. Primary Deficit (17-11)	458,856	292,598	284,154	291,796	-36.2%	-38.1%	2.7%
	-1.4	-0.8	-0.8	-0.7			

* RE 2025-26 is adjusted by ₹9,084 crore on account of net amount receivable by Centre from the States for prior years.

Includes drawdown of Cash Balance.

Notes –

i) The GDP for FY 2026-27 is estimated at ₹393,00,393 crore, which is 10% over the Advance Estimates for FY 2025-26 of ₹357,13,886 crore released by NSO.

ii) Individual items in this document may not sum up to the totals due to rounding off.

iii) Figures in parentheses are as a percentage of GDP



Table 2: Receipts (Rs Cr)

Particulars	2024-25	2025-26	2025-26	2026-27	BEFY26 vs	REFY26 vs	BEFY27 vs
	Actuals	Budget Estimates	Revised Estimates	Budget Estimates	Actuals FY25	Actuals FY25	REFY26
REVENUE RECEIPTS							
1. Tax Revenue							
Gross Tax Revenue	3,796,382	4,270,233	4,077,772	4,404,086	12.5%	7.4%	8.0%
a. Corporation Tax	986,767	1,082,000	1,109,000	1,231,000	9.7%	12.4%	11.0%
b. Taxes on Income	1,235,171	1,438,000	1,312,000	1,466,000	16.4%	6.2%	11.7%
c. Customs	233,201	240,000	258,290	271,200	2.9%	10.8%	5.0%
d. Union Excise Duties	300,253	317,000	336,550	388,910	5.6%	12.1%	15.6%
e. GST	1,027,041	1,178,000	1,046,480	1,019,020	14.7%	1.9%	-2.6%
-CGST	908,954	1,010,890	958,480	1,019,020	11.2%	5.4%	6.3%
-IGST	-32,483			
-GST Compensation Cess	150,570	167,110	88,000	..	11.0%	-41.6%	..
f. Taxes of Union Territories	9,527	10,133	9,622	10,256			
g. Other Taxes	4,422	5,100	5,830	17,700	15.3%	31.8%	203.6%
Less - NCCD transferred to the NCCF / NDRF	9,458	10,380	10,140	10,910	9.7%	7.2%	7.6%
Less - State's share	1,286,885	1,422,444	1,392,971	1,526,255	10.5%	8.2%	9.6%
1a Centre's Net Tax Revenue	2,500,039	2,837,409	2,674,661	2,866,922	13.5%	7.0%	7.2%
2. Non-Tax Revenue	536,580	583,000	667,662	666,228	8.7%	24.4%	-0.2%
Interest receipts	40,435	47,738	40,165	41,763	18.1%	-0.7%	4.0%
Dividends and Profits	308,424	325,000	375,590	391,000	5.4%	21.8%	4.1%
External Grants	687	1,175	1,639	2,327	71.0%	138.6%	42.0%
Other Non Tax Revenue	184,206	205,668	248,461	229,373	11.7%	34.9%	-7.7%
Receipts of Union Territories	2,828	3,419	1,807	1,765	20.9%	-36.1%	-2.3%
Total- Revenue Receipts (1a + 2)	3,036,619	3,420,409	3,342,323	3,533,150	12.6%	10.1%	5.7%
3. CAPITAL RECEIPTS							
A. Non-debt Receipts@	41,818	76,000	64,027	118,397	81.7%	53.1%	84.9%
B. Debt Receipts* #	1,573,823	1,566,452	1,512,770	1,663,066	-0.5%	-3.9%	9.9%
Total Capital Receipts (A+B)	1,615,641	1,642,452	1,576,797	1,781,463	1.7%	-2.4%	13.0%
4. Draw-Down of Cash Balance	608	2,484	45,722	32,702	308.6%	7420.1%	-28.5%
Total Receipts (1a+2+3+4)	4,652,867	5,065,345	4,964,842	5,347,315	8.9%	6.7%	7.7%

@ Excludes recoveries of short-term loans and advances.

* The receipts are net of payment.

Market borrowings and draw down include buy back and switching of securities.



Table 3: Deficit Statistics (Rs Cr)

Particulars	2024-25	2025-26	2025-26	2026-27
	Actuals	Budget Estimates	Revised Estimates	Budget Estimates
1. Fiscal Deficit	1,574,431	1,568,936	1,558,492	1,695,768
	-4.8	-4.4	-4.4	-4.3
2. Revenue Deficit	564,296	523,846	526,764	592,344
	-1.7	-1.5	-1.5	-1.5
3. Effective Revenue Deficit	291,640	96,654	218,613	99,642
	-0.9	-0.3	-0.6	-0.3
4. Primary Deficit	458,856	292,598	284,154	291,796
	-1.4	-0.8	-0.8	-0.7

Figures in parenthesis are as a percentage of GDP.

Table 4: Sources of Financing Fiscal Deficit (Rs Cr)

Particulars	2024-25	2025-26	2025-26	2026-27
	Actuals	Budget Estimates	Revised Estimates	Budget Estimates
1. Debt Receipts (Net)	1,573,823	1,566,452	1,512,770	1,663,066
2. Market Borrowings (G-Sec)*	1,074,512	1,153,834	1,040,439	1,173,210
3. Short term Borrowings (T bills etc.)	-160,154	-	-	130,000
4. Securities Against Small Savings	429,502	343,382	372,192	386,772
5. State Provident Funds	3,999	5,000	3,800	3,500
6. Other Receipts (Internal Debt & Public Account)	178,692	40,746	75,877	-45,801
7. External Debt	47,271	23,490	20,462	15,385
8. Draw Down of Cash Balance*	608	2,484	45,722	32,702
Grand Total	1,574,431	1,568,936	1,558,492	1,695,768

Figures in parentheses are as a percentage of GDP

Chart 1: Capital Expenditure as % of total expenditure

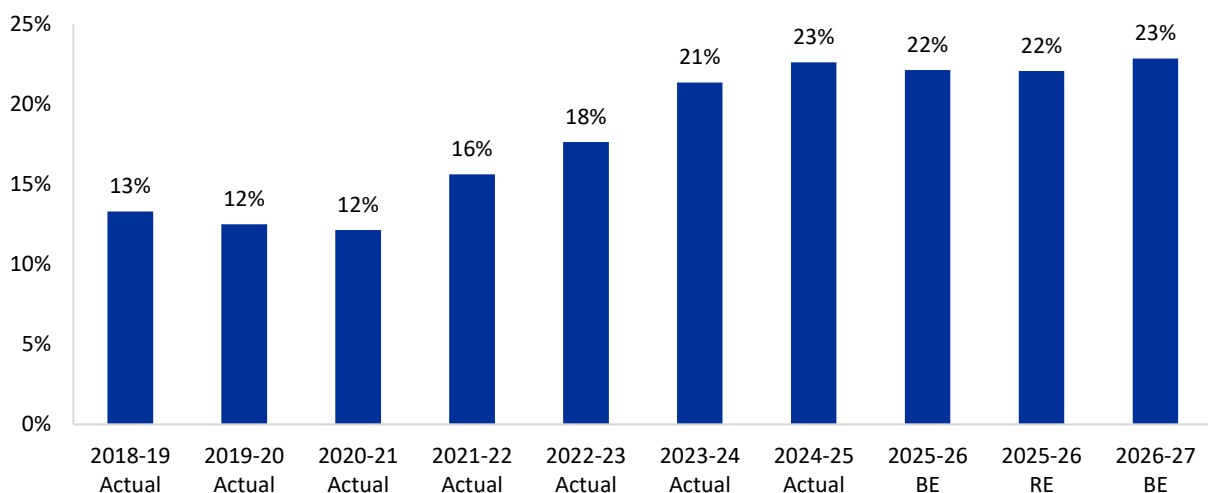




Table 5: Government increases STT rates on F&O

STT rates	Prior to Oct'24	Current	New
Futures	0.01%	0.02%	0.05%
Options	0.06%	0.10%	0.15%

Table 6: Few Schemes where Govt spending is way below the Budget Estimates

Particulars	Actual 2024-25	BE 2025-26	RE 2025-26	BE 2026-27	RE - BE	% shortfall (RE/BE)
Jal Jeevan Mission (JJM) / National Rural Drinking Water Mission	22,612	67,000	17,000	67,670	-50,000	-75%
Pradhan Mantri Awas Yojna (PMAY) - Rural	32,327	54,832	32,500	54,917	-22,332	-41%
PMAY-Urban	5,815	19,794	7,500	18,625	-12,294	-62%
Compensation to Service Providers for creation & augmentation of telecom infrastructure	8,221	28,400	9,650	24,000	-18,750	-66%
Research, Development and Innovation (RDI) scheme	0	20,000	3,000	20,000	-17,000	-85%
PM Internship Scheme	32	10,831	526	4,788	-10,305	-95%
Pradhan Mantri Gram Sadak Yojna	17,871	19,000	11,000	19,000	-8,000	-42%

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