2026: Budget Preview

January 23, 2026

Gradual fiscal consolidation to continue

Key Points

- We expect the focus on fiscal consolidation to stay with the fiscal deficit for FY27 pegged at 4.2% of GDP. We are factoring in net borrowing of Rs. 11.6tn and gross borrowing of Rs.15.1tn. We estimate central government debt to GDP at 55.2% in FY27 on track to meet the target of 50%+/-1% by FY31.
- In the light of the focus on fiscal consolidation, we pencil in moderate capex growth of 9.5% in FY26 led by high allocation to the defence sector.
- We believe the manufacturing push is likely to stay with the possibility of extension in production linked incentive (PLI) schemes. Sectors hit by tariffs may receive additional support in terms of interest subvention and credit guarantees.
- We expect continued focus on job creation and skilling, particularly targeting the youth. Emerging sectors such as AI and data centres may receive incentives to attract investments.
- We believe continued support through Open Market Operations (OMOs) will be required from the RBI to support domestic liquidity and to help the bond market to clear.

Fiscal consolidation to stay the course with 4.2% fiscal deficit target: We expect the focus on fiscal consolidation to stay with the fiscal deficit for FY27 pegged at 4.2% of GDP. We are factoring in net borrowing of Rs. 11.6tn and gross borrowing of Rs.15.1tn.We estimate central government debt to GDP at 55.2% in FY27 on track to meet the target of 50%+/-1% by FY31. In the light of the focus on fiscal consolidation, we pencil in moderate capex growth of 9.5% in FY26 led by high allocation to the defence sector. Capex loans to states will also remain in focus. We factor in a moderate 6.5% growth in revenue expenditure with an increase in state contribution in funding many of the social sector schemes as seen in the case of VB-GRAM-G (Viksit Bharat- Guarantee for Rozgar and Ajeevika Mission (Gramin).

Manufacturing, exports AI, data centres etc. to remain in focus: The thrust on domestic manufacturing will likely sustain through expansion of the scope / extension of the Production Linked Incentive (PLI) Scheme, indigenisation of defence, increased investment in R&D etc. The push towards green transition will also remain. Emerging sectors such as AI and data centres may receive incentives to attract investments. Employment intensive export linked sectors hit by tariffs such as textiles, gems and jewelry etcmay receive additional support in terms of interest subvention and credit guarantees. The cabinet had in Nov-25, approved an export promotion mission to strengthen India's export ecosystem with an outlay of Rs.250.60bn.

Focus on job creation; no major tax changes expected; watchful on excise: We expect continued focus on job creation and skilling particularly targeting the youth. An urban employment generation scheme is also a possibility. We do not expect any major changes on the tax front given the income tax cut announced in Feb-25 followed by GST cuts in Sep-25. While GST cuts may weigh on tax collections, we believe it will be partially offset by higher buoyancy and a higher slab for luxury/ sin goods encompassing the GST compensation cess. We do not rule out some changes in excise duties to partially make good for lower GST rates.

Key Macro Forecasts

Particulars	FY25F	FY26F	FY27F
GDP (% YoY)	6.5	7.5	6.9
GVA (% YoY)	6.4	7.4	6.9
Agriculture (% YoY)	4.6	3.8	3.3
Industry ex. construction (% YoY)	4.5	6.6	6.0
Services inc. construction (% YoY)	7.5	8.5	7.9
CPI (average)	4.7	2.0	4.1
WPI (average)	2.3	0.2	2.7
Interest rates-Repo (Fiscal year end)	6.25	5.25	5.00
Fiscal deficit (% of GDP)	4.8	4.4	4.2
Current account balance (% of GDP)	-0.6	-0.8	-0.9
INR/USD (Average)	84.5	88.2	91.0
10 year yields (average)	7.0	6.5	6.3
Crude oil price (US$ /bbl average)	77	65	65

Please refer to the disclaimer towards the end of the document.

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1. Will the government continue with fiscal consolidation?

Fiscal deficit may be pegged at 4.2% of GDP in FY27: We expect the focus on fiscal consolidation to stay with the FY27 fiscal deficit pegged at 4.2% of GDP. We expect tax revenues (+9.6%) to grow largely in line with nominal GDP (+10.2%). We factor in capital expenditure growth of 9.5% while revenue expenditure growth is estimated at 6.5%

Exhibit 1: Fiscal deficit seen at 4.4% of GDP in FY26 and 4.2% of GDP in FY27

	Item (Rs.bn)	FY21	FY22	FY23	FY24A	FY25RE	FY25A	FY26BE	FY26E	FY27E
1	**Revenue Receipts (2+3)**	**16,339**	**21,684**	**23,835**	**27,290**	**30,880**	**30,364**	**34,204**	***33,661***	***36,338***
	% YoY	*(3)*	*33*	*10*	*14*	*13*	*11*	*11*	*10.9*	*8.0*
2	*Tax Revenue (net to centre)*	14,263	18,204	20,974	23,273	25,570	24,989	28,374	26,961	29,538
	% YoY	*6*	*28*	*15*	*11*	*10*	*7*	*11*	*7.9*	*9.6*
3	*Non-Tax Revenue including spectrum sale*	2,076	3,480	2,862	4,018	5,310	5,375	5,830	6,700	6,800
	% YoY	*(40)*	*68*	*(18)*	*40*	*32*	*34*	*10*	*24.6*	*1.5*
4	**Non-debt capital receipts (5+6)**	**576**	**392**	**722**	**598**	**590**	**418**	**760**	***770***	***850***
	% YoY	*(13)*	*(32)*	*84*	*(17)*	*(1)*	*(30)*	*29*	*84.1*	*10.4*
5	*Recoveries of Loans*	197	*246*	*262*	*266*	260	246	290	300	350
	% YoY	*19*	*25*	*6*	*2*	*(2)*	*(8)*	*12*	*21.9*	*16.7*
6	*Other Receipts includes disinvestment*	379	*146*	*460*	*331*	330	172	470	470	500
	% YoY	*(24)*	*(61)*	*215*	*(28)*	*(0)*	*(48)*	*42*	*173.2*	*6.4*
7	**Total Receipts (1+4)**	**16,915**	**22,076**	**24,557**	**27,888**	**31,470**	**30,782**	**34,964**	**34,431**	**37,188**
	% YoY	*(4)*	*31*	*11*	*14*	*13*	*10*	*11*	*11.9*	*8.0*
8	**Total Expenditure (9+10)**	**35,083**	**37,942**	**41,888**	**44,434**	**47,165**	**46,555**	**50,653**	***50,211***	***53,811***
	% YoY	*30*	*8*	*10*	*6*	*6*	*5*	*7*	*7.9*	*7.2*
9	*Revenue Expenditure*	30,835	32,014	34,525	34,943	36,981	36,035	39,443	39,000	41,535
	% YoY	*31*	*4*	*8*	*1*	*6*	*3*	*7*	*8.2*	*6.5*
10	*Capital Expenditure*	4,248	5,928	7,363	9,492	10,184	10,520	11,211	11,210.9	12,275.9
	% YoY	*22*	*40*	*24*	*29*	*7*	*11*	*10*	*6.6*	*9.5*
11	**Fiscal Deficit {7-8}**	**(18,168)**	**(15,865)**	**(17,331)**	**(16,546)**	**(15,695)**	**(15,773)**	**(15,689)**	***(15,780)***	***(16,623)***
	% of GDP	***(9.3)***	***(6.7)***	***(6.4)***	***(5.6)***	***(4.8)***	***(4.8)***	***(4.4)***	***(4.4)***	***(4.2)***
12	**Net borrowings including buyback**	**10,329**	**8,631**	**11,083**	**11,778**	**10,745**	**10,393**	**11,538**	**11,538**	**11,636**
	% of GDP	*5*	*4*	*4*	*4*	*3*	*3*	*3.23*	*3.21*	*2.93*

Source: Government of India, Nirmal Bang Institutional Equities Research

FY26 fiscal deficit target at 4.4% of GDP likely to be met: We believe the fiscal deficit target for FY26 will likely be met with higher non tax revenues (including dividends from the RBI and PSUs) offsetting the shortfall in tax revenue. While the capex target is expected to be met, we expect some shortfall in revenue expenditure despite higher fuel and fertiliser subsidies. Revenue expenditure is up only 1.8%YoY in FY26YTD (Apr-Nov).

Exhibit 2: Revenue expenditure up 1.8%YoY in FY26YTD

	Item (Rs.bn)	FY25YTD	FY26YTD	(%YoY)	FY25 (% of BE)	FY26 (% of BE)
1	**Revenue Receipts**	**18,704.6**	**19,103.1**	**2.1**	**59.8**	**55.9**
2	*Tax Revenue (net to centre)*	14,434.4	13,939.5	**(3.4)**	**55.9**	**49.1**
3	***Non-Tax Revenue***	**4,270.2**	**5,163.7**	**20.9**	**78.3**	**88.6**
	Dividend	2,790.6	3,395.4	**21.7**	**96.5**	**104.5**
	Spectrum etc	937.3	1,241.1	**32.4**	**51.5**	**211.0**
4	**Non-debt capital receipts**	**239.5**	**389.3**	**62.5**	**30.7**	**51.2**
5	*Recoveries of Loans*	149.7	152.1	**1.6**	**53.5**	**52.4**
6	*Other Receipts (Divestment)*	89.8	237.2	**164.1**	**18.0**	**50.5**
7	**Total Receipts (1+4)**	**18,944.1**	**19,492.4**	**2.9**	**59.1**	**55.7**
8	***Revenue Expenditure***	**22,275.0**	**22,677.0**	**1.8**	**60.1**	**57.5**
	Interest payments	6,584.9	7,457.7	**13.3**	**56.6**	**58.4**
	Subsidies: Fertiliser	*1,213.6*	*1,424.0*	**17.3**	**74.0**	**84.8**
	Subsidies: Food	*1,517.7*	*1,373.0*	**(9.5)**	**73.9**	**67.5**
	Subsidies: Petroleum	*60.8*	*86.3*	**41.9**	**51.0**	**71.3**
9	**Capital Expenditure**	**5,135.0**	**6,582.1**	**28.2**	**46.2**	**58.7**
10	**Total Expenditure (8+9)**	**27,410.0**	**29,259.1**	**6.7**	**56.9**	**57.8**
11	**Fiscal Deficit {7-10}**	**-8,465.9**	**-9,766.7**	**15.4**	**(52.5)**	**(62.3)**

Source: Government of India, Nirmal Bang Institutional Equities Research

2. Where will the government spend?

Capex growth likely at ~9.5%YoY led by Defence: We are factoring in capex growth of ~9.5%YoY. In FY26YTD, capex growth is being led by Defence (+57%YoY) and we expect this trend to sustain in FY27 (+20% increase). Road capex is up 21%YoY FY26YTD, and we factor in a 9.5% increase in road capex and ~10% increase in rail capex. However, limited award of NHAI projects may act as a drag on road capex while rail project announcements are seeing a pick up ahead of crucial state elections like West Bengal.

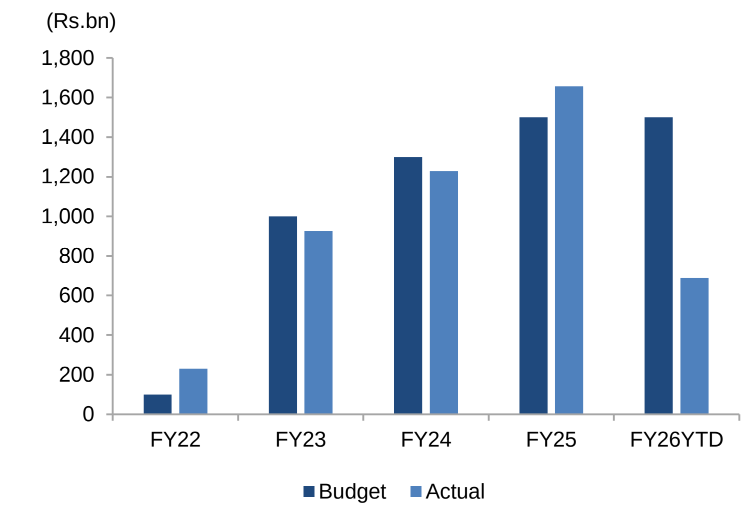
Exhibit 3: Defence spending likely to lead capex in FY27

	FY19	FY20	FY21	FY22	FY23	FY24	FY25BE	FY25RE	FY25A	FY25YTD	FY26YTD	FY26BE	FY27E
Ministry of Road Transport and Highways	676	673	874	1,133	2,060	2,639	2,722	2,725	2,853	1,468	1,770	2,722	2,981
% YoY	-	*-0.6*	*29.9*	*29.6*	*81.8*	*28.1*	*3.1*	*3.3*	*8.0*	-	*20.6*	*-0.1*	*9.5*
Ministry of Railways	528	678	1,093	1173	1,593	2,426	2,520	2,520	2,519	1,683	1,820	2,520	2,772
% YoY	-	*28.3*	*61.2*	*7.3*	*35.8*	*52.3*	*3.9*	*3.9*	*4.0*	-	*8.2*	*0.0*	*10.0*
Ministry of Finance	161.4	215.2	406.4	677.3	970.3	1,314.5	2,330	1,581	1,709	755	724	2,215	2,326
% YoY	-	*33.4*	*88.9*	*66.6*	*43.3*	*35.5*	*77.3*	*20.3*	*8.1*	-	*-4.2*	*40.1*	*5.0*
Ministry of Finance (of which capex loans to states)	57.7	70.1	194.1	232.0	927.0	1,228.7	1,500	1,250	1,657	701	690	1,500	1,688
% YoY	-	*21.6*	*176.7*	*19.5*	*299.7*	*32.5*	*22.1*	*1.7*	*35.0*	-	*-1.7*	*20.0*	*12.5*
Ministry of Defence	949.4	1111.2	1,344.1	1,380.0	1,429.4	1,542.6	1,822	1,705	1,598	707	1,114	1,924	2,309
% YoY	-	*17.0*	*21.0*	*2.7*	*3.6*	*7.9*	*18.1*	*10.5*	*4.0*	-	*57.5*	*12.8*	*20.0*
Ministry of Communications	21.1	49.3	43.6	33.3	547.3	593.8	858	750	738	54	180	527	559
% YoY	-	*133.2*	*-11.6*	*-23.6*	*1,544.6*	*8.5*	*44.5*	*26.3*	*24.0*	-	*232.4*	*-29.7*	*6.0*
Ministry of Housing & Urban Affairs	157.7	193.0	103.0	259.5	234.7	264.4	286	317	316	140	167	376	399
% YoY	-	*22.4*	*-46.6*	*151.8*	*-9.6*	*12.7*	*8.2*	*19.9*	*20.0*	-	*19.0*	*18.6*	*6.0*
Other	528.0	447.9	375.1	1271.3	525.1	699.1	572.0	586.0	697	326	817	927	927
% YoY	-	*-15.2*	*-16.3*	*239.0*	*-58.7*	*34.0*	*-18.2*	*-16.2*	*-15.0*	-	*150.5*	*58.2*	*0.0*
Total Expenditure	3,022.5	3,367.5	4,239.4	5927.1	7,359.2	9,479.3	11,110	10,184	10,431	5,133	6,591	11,211	12,271
% YoY	-	*11.4*	*25.9*	*40.0*	*24.0*	*29.0*	*17.2*	*7.4*	*10.0*	-	*28.4*	*10.1*	*9.5*

Source: Government of India, CEIC, Nirmal Bang Institutional Equities Research

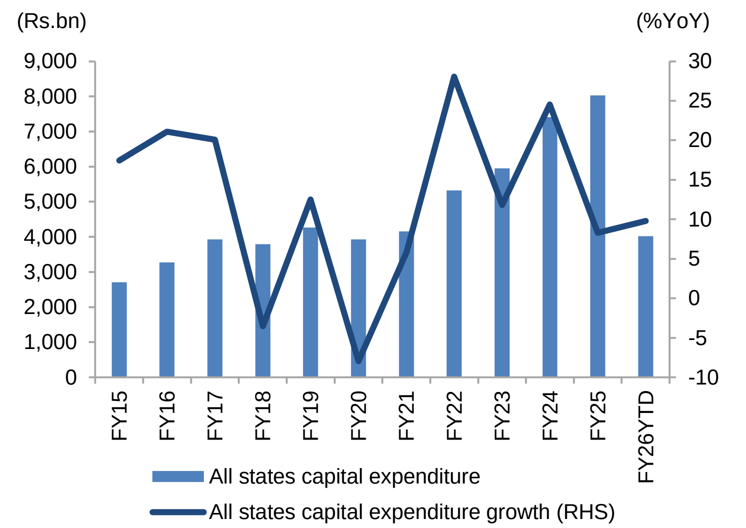
Capex loans to states to remain in focus: We expect capex loans to states to remain in focus given their growing salience over the years (Exhibit 4). State government capex is seeing decent growth at ~.10%YoY despite pressure on state finances.

Exhibit 4: Capex loans to states to remain in focus…



Source: Government of India, CEIC, Nirmal Bang Institutional Equities

Exhibit 5: … as States' capex growth is holding up



Source: Government of India, CEIC, Nirmal Bang Institutional Equities

Capex linked sectors seeing better utilisation in FY26YTD: Apart from Consumer Affairs (led by food subsidies) and Ministry of Chemicals & Fertilisers (led by fertiliser subsidies) and Home Affairs, capex related sectors are leading in fund utilisation.

Exhibit 6: Capex linked sector seeing better utilization in FY26YTD

Ministry/ Rs.bn	FY25A	FY26BE	FY25YTD	FY26YTD	FY26BE/ FY25 (%YoY)	FY26YTD (%YoY)	FY26YTD/ BE (%)
Ministry of Agriculture & Family Welfare	1,397.4	1,377.6	783.9	825.6	-1.4	5.3	59.9
Ministry of Chemicals & Fertilisers	1,863.4	1,619.7	1,209.2	1,350.7	-13.1	11.7	83.4
Ministry of Communications	1,478.3	1,081.1	523.8	647.8	-26.9	23.7	59.9
Ministry of Defence	6,358.1	6,812.1	3,982.8	4,547.3	7.1	14.2	66.8
Ministry of Railways	2,552.6	2,554.5	1,958.3	2,150.8	0.1	9.8	84.2
Ministry of Home Affairs	2,246.0	2,332.1	1,573.3	1,660.7	3.8	5.6	71.2
Ministry of Consumer Affairs, Food and Public Distribution	2,150.1	2,157.7	1,635.9	1,860.6	0.4	13.7	86.2
Ministry of Road Transport and Highways	2,994.6	2,873.3	1,499.8	1,885.4	-4.0	25.7	65.6

Source: Government of India, CEIC, Nirmal Bang Institutional Equities Research

Job creation to remain in focus: We expect job creation to remain a key focus in the budget. That aside, we do not see significant scope for increase in allocation under key expenditure heads (Exhibit 7). We factor in 5-7% increase in expenditure across most expenditure heads.

Exhibit 7: Limited increase in expenditure across most expenditure heads

Major Expenditure Heads (Rs.bn)	FY19A	FY20A	FY21A	FY22	FY23	FY24A	FY25RE	FY26BE	FY26E	FY27
Pension	**1,602**	**1,840**	**2,085**	**1,990**	**2,416**	**2,383**	**2,751**	**2,766**	**2,766**	**2,904**
% YoY	*10*	*15*	*13*	*(5)*	*21*	*(1)*	*15*	*1*	*1*	*5*
Interest	**5,826**	**6,121**	**6,799**	**8,055**	**9,285**	**10,639**	**11,379**	**12,763**	**12,771**	**14,048**
% YoY	*10*	*13*	*11*	*18*	*15*	*15*	*7*	*12*	*12*	*10*
Defence	**2,908**	**3,187**	**3,400**	**3,665**	**3,991**	**4,447**	**4,567**	**4,917**	**5,250**	**6,038**
% YoY	*5*	*5*	*7*	*8*	*9*	*11*	*3*	*8*	*15*	*15*
Total Subsidies	**1,968**	**2,283**	**7,077**	**4,498**	**5,310**	**4,123**	**3,834**	**3,834**	**4,263**	**4,466**
% YoY	*3*	*16*	*210*	*(36)*	*18*	*(22)*	*(7)*	*(0)*	*11*	*5*
Fertiiser	**706**	**811**	**1,279**	**1,574**	**2,513**	**1,883**	**1,713**	**1,679**	**1,979**	**1,979**
% YoY	*6*	*15*	*58*	*23*	*60*	*(25)*	*(9)*	*(2)*	*16*	*0*
Food	**1,013**	**1,087**	**5,413**	**2,890**	**2,728**	**2,118**	**1,974**	**2,034**	**2,034**	**2,238**
% YoY	*1*	*7*	*398*	*(47)*	*(6)*	*(22)*	*(7)*	*3*	*3*	*10*
Petroleum	**248**	**385**	**385**	**34**	**68**	**122**	**147**	**121**	**250**	**250**
% YoY	*2*	*55*	*(0)*	*(91)*	*99*	*80*	*20*	*(18)*	*70*	*0*
Rural development	**1,328**	**1,424**	**2,142**	**2,288**	**2,384**	**2,412**	**1,907**	**2,668**	**2,904**	**3,107**
% YoY	*(2)*	*7*	*50*	*7*	*4*	*1*	*(21)*	*40*	*6*	*7*
Agriculture and Allied Activities	**633**	**1,125**	**1,344**	**1,433**	**1,259**	**1,460**	**1,409**	**1,714**	**1,722**	**1,843**
% YoY	*20*	*78*	*20*	*7*	*(12)*	*16*	*(4)*	*22*	*6*	*7*
Transport	**1,436**	**1,534**	**2,168**	**3,322**	**3,905**	**5,268**	**5,414**	**5,486**	**5,713**	**6,113**
% YoY	*30*	*7*	*41*	*53*	*18*	*35*	*3*	*1*	*5*	*7*
Education	**803**	**894**	**842**	**804**	**986**	**1,234**	**1,141**	**1,287**	**1,287**	**1,351**
% YoY	*0*	*11*	*(6)*	*(5)*	*23*	*25*	*(8)*	*13*	*7*	*5*
Healthcare	**545**	**634**	**800**	**841**	**736**	**816**	**880**	**983**	**983**	**1,032**
% YoY	*3*	*16*	*26*	*5*	*(13)*	*11*	*8*	*12*	*4*	*5*

Source: Budget documents, Nirmal Bang Institutional Equities Research

3. Will tax revenues fall short?

Tax revenues fell short in FY26 on account of tax cuts and lower nominal GDP growth: We expect tax revenues to fall short in FY26 due to the impact of income tax cuts and GST cuts and muted increase in corporate taxes due to sluggish nominal GDP growth.

Tax revenue to increase by ~9.6% in FY27: We are factoring in net tax revenue growth of 9.6% in FY27, marginally lower than our nominal GDP estimate of 10.2%. While we estimate growth in direct taxes at 11.1%, growth in indirect taxes is expected to be more muted at 7.4% largely on account of GST cuts.

Exhibit 8: Tax revenue expected to grow by ~9.6% in FY27

	FY22	FY23	FY24	FY25RE	FY25A	FY26BE	FY25YTD	FY26YTD	FY26E	FY27E
Corporation Tax	7,120.4	8,258.3	9,110.6	9,800.0	9,867.7	10,820.0	5,116.4	5,514.7	10,558.4	11,614.2
% YoY	*55.6*	*16.0*	*10.3*	*7.6*	*8.3*	*10.4*	-	*7.8*	*7.0*	*10.0*
Income Tax	6,962.4	8,082.2	10,451.8	12,570.0	12,351.6	14,380.0	7,007.8	7,483.0	13,000.0	14,560.0
% YoY	*42.9*	*16.1*	*29.3*	*20.3*	*18.2*	*14.4*	-	*6.8*	*5.2*	*12.0*
Direct taxes	**14,082.8**	**16,340.6**	**19,562.3**	**22,370.0**	**22,219.3**	**25,200.0**	**12,124.1**	**12,997.7**	**23,558.4**	**26,174.2**
% YoY	*49.0*	*16.0*	*19.7*	*14.4*	*13.6*	*12.7*	-	*7.2*	*6.0*	*11.1*
Customs	1,997.3	2,133.7	2,331.2	2,350.0	2,329.0	2,400.0	1,541.4	1,428.6	2,300.0	2,392.0
% YoY	*48.2*	*6.8*	*9.3*	*0.8*	*-0.1*	*2.1*	-	*-7.3*	*-1.2*	*4.0*
Excise duties	3,946.4	3,190.0	3,092.9	3,100.0	3,002.5	3,220.0	1,751.0	1,913.0	3,220.0	3,509.8
% YoY	*0.7*	*(19.2)*	*-3.0*	*0.2*	*-2.9*	*3.9*	-	*9.3*	*7.2*	*9.0*
Service tax	10.1	4.3	4.2	1.0	-0.2	1.0	1.0	-11.6	1.0	1.0
% YoY	*(37.3)*	*(57.4)*	*-1.4*	*-76.5*	*-103.8*	*0.0*	-	*-1,305.2*	*-725.0*	*0.0*
Other taxes	75.2	334.3	92.4	94.3	179.1	101.3	52.5	33.4	101.3	101.3
% YoY	*41.0*	*344.4*	*-72.4*	*2.0*	*93.7*	*7.5*	-	*-36.3*	*-43.4*	*0.0*
GST	6,698.1	8,510.9	9,572.1	10,619.0	10,594.9	11,780.0	6,780.4	6,645.9	11,361.7	12,239.7
% YoY	*22.1*	*27.1*	*12.5*	*10.9*	*10.7*	*10.9*	-	*(2.0)*	*7.2*	*7.7*
Indirect taxes	**12,727.2**	**14,173.3**	**15,092.9**	**16,164.3**	**16,105.3**	**17,502.3**	**10,126.3**	**10,009.4**	**16,984.1**	**18,243.8**
% YoY	*17.6*	*11.4*	*6.5*	*7.1*	*6.7*	*8.3*	-	*(1.2)*	*5.5*	*7.4*
Gross Tax revenue	2,6810.0	30,513.9	34,655.2	38,534.6	37,952.3	42,702.3	22,609.8	23,364.3	40,542.5	44,418.1
% YoY	*32.3*	*13.8*	*13.6*	*11.2*	*9.5*	*10.8*	-	*3.3*	*6.8*	*9.6*
Net tax revenue	18,047.9	20,973.7	23,272.5	25,569.6	24,988.9	28,374.1	14,434.4	13,939.5	26,960.7	29,538.0
% YoY	*26.5*	*16.2*	*11.0*	*9.9*	*7.4*	*11.0*	-	*(3.4)*	*7.9*	*9.6*

Source: Government of India, Nirmal Bang Institutional Equities Research

GST cuts may be partially offset by demand buoyancy: While GST compensation cess has now ceased to exist, since Jul-22 it was meant to fund repayments on back to back loans taken by states to fund shortfall in revenue with the excess used for redemption of G-secs. Nevertheless, GST growth will be optically lower on account of termination of GST compensation cess, but will be partially offset by higher demand buoyancy boosted by tax cuts and higher rates on luxury and sin goods encompassing the GST compensation cess. We do not rule out some changes in excise duties to partially make good for lower GST rates.

Exhibit 9: GST cuts may be partially offset by demand buoyancy

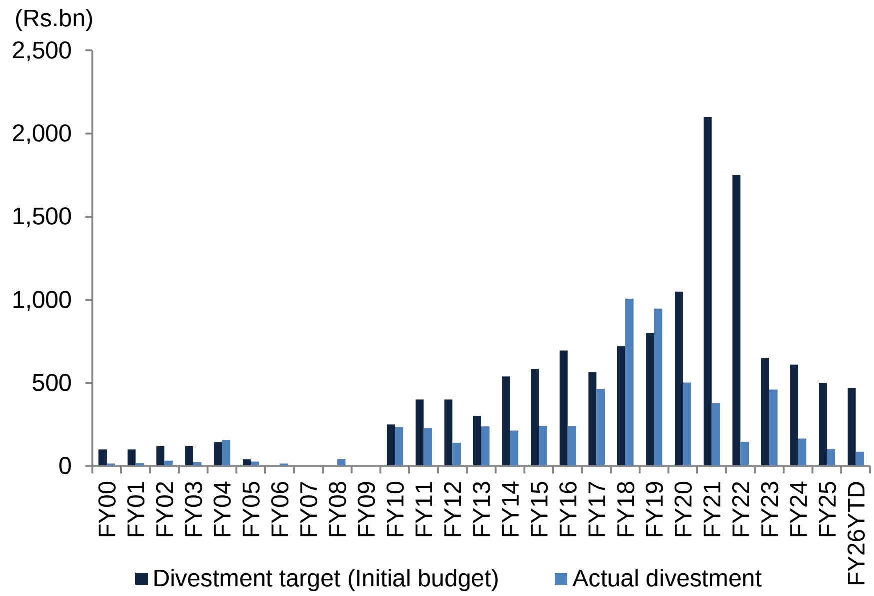
	FY20	FY21	FY22	FY23	FY24	FY25A	FY26BE	FY26E	FY27
CGST	**4,940.7**	**4,563.3**	**5,912.3**	**7,185.2**	**8,206.2**	**9,089.8**	**10,108.9**	**10,461.3**	**12,239.7**
%YoY	-	*(7.6)*	*29.6*	*21.5*	*14.2*	*10.8*	*11.2*	*15.1*	*17.0*
IGST	**91.3**	**72.5**	**21.2**	**47.5**	**-48.5**	**0.0**	**0.0**	-	-
%YoY	-	*(20.5)*	*(70.8)*	*124.1*	*(202.2)*	*(100.0)*	-	-	-
GST compensation cess	**955.5**	**851.9**	**1,048.0**	**1,258.6**	**1,414.4**	**1,505.1**	**1,671.1**	**900.4**	-
%YoY	-	*(10.8)*	*23.0*	*20.1*	*12.4*	*6.4*	*11.0*	*(46.1)*	-
Total	**5,896.2**	**5,415.3**	**6,960.3**	**8,443.8**	**9,620.6**	**10,594.9**	**11,780.0**	**11,361.7**	**12,239.7**
%YoY	-	*(8.2)*	*28.5*	*21.3*	*13.9*	*10.1*	*11.2*	*7.2*	*7.7*

Source: Government of India, Nirmal Bang Institutional Equities Research

4. What is the divestment trend?

Disinvestment revenue lagging, but asset monetisation providing support: Divestment revenue in FY26YTD stands at ~Rs.87.7bn, far short of the target of Rs. 470bn. However, of late asset monetisation proceeds are being clubbed with divestment proceeds resulting in total collections of Rs.230.7bn in FY26YTD.

Exhibit 10: Actual divestment receipts falling short in FY26 similar to the past



Source: Department of Investment and Public Asset Management, Nirmal Bang Institutional Equities Research

Exhibit 11: Divestment receipts FY26YTD stand at Rs.87.7bn but asset monetisation providing support

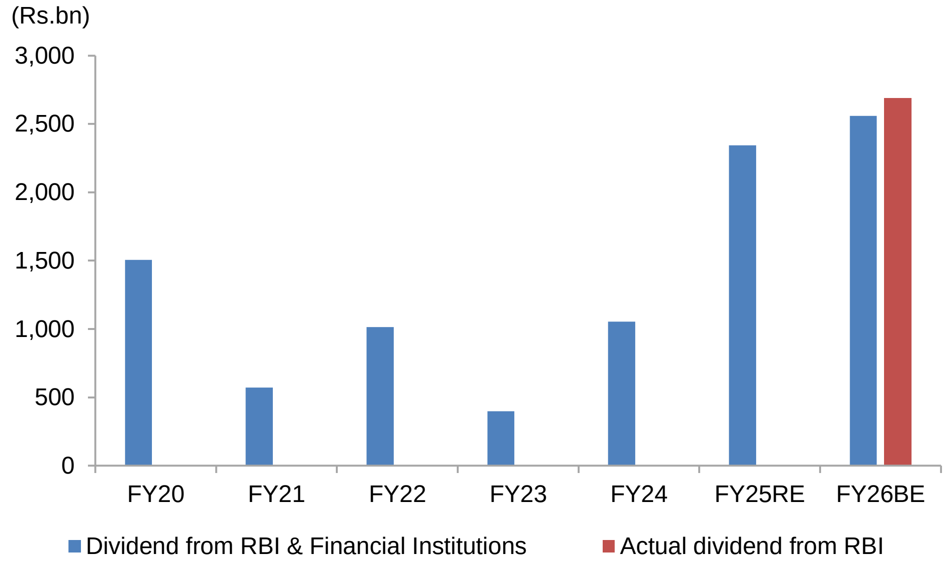
S. No	Name of CPSEs	% of GoI's Shares Disinvested	Method of Disinvestment	Receipts (Rs.bn)	GoI's Shareholding Post Disinvestment
1	Mazagaon Dock Shipbuilders Private Limited	3.6	OFS	36.7	81.2
2	Others (Remittance from SUUTI)	0.0	OTHER	10.5	0.0
3	Bank of Maharashtra	6.0	OFS	26.2	73.6
4	Indian Overseas Bank	2.2	OFS	14.2	92.4
	Total			**87.7**	

Source: DIPAM, Nirmal Bang Institutional Equities Research

5. Can there be an upside surprise in dividends from the RBI in FY27?

Dividends from RBI exceeds budget estimate in FY26: Dividends from the RBI and other public financial institutions in FY26 was pegged at Rs.2560bn. However, dividend from RBI alone at Rs. 2690bn have exceeded the target which will be further bolstered by dividends from other public financial institutions.

Exhibit 12: Dividend from RBI exceeds budget estimate in FY26



Source: RBI, Government of India, CEIC, Nirmal Bang Institutional Equities Research

Dividends from other Public Sector Undertakings (PSUs) in FY26YTD stand at Rs. 495bn (Exhibit 13) largely on track to meet the target of Rs. 690bn and may potentially exceed the target.

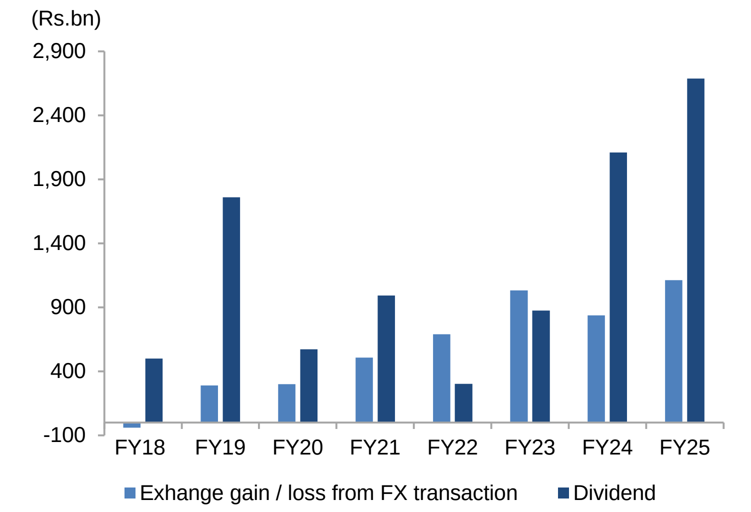
Exhibit 13: Dividend from PSUs on track to meet target

Entity	Dividend (in Rs.bn)
COAL INDIA LTD.	81.32
INDIAN OIL CORPORATION LTD.	58.18
OIL & NATURAL GAS CORPORATION LTD.	53.71
DIVIDENDS FROM NATIONAL INVESTMENT & INFRASTRUCTURE FUND LTD. (NIIFL)(OTHER AGENCIES)	34.92
NTPC LTD.	30.23
BHARAT PETROLEUM CORPORATION LTD.	28.73
POWER GRID CORPORATION OF INDIA LTD.	26.42
AIRPORTS AUTHORITY OF INDIA	21.62
POWER FINANCE CORPORATION LTD.	17.37
INDIAN RAILWAY FINANCE CORPORATION LTD.	11.85
Other	131.62
Total	**495.96**

Source: DIPAM, Nirmal Bang Institutional Equities Research

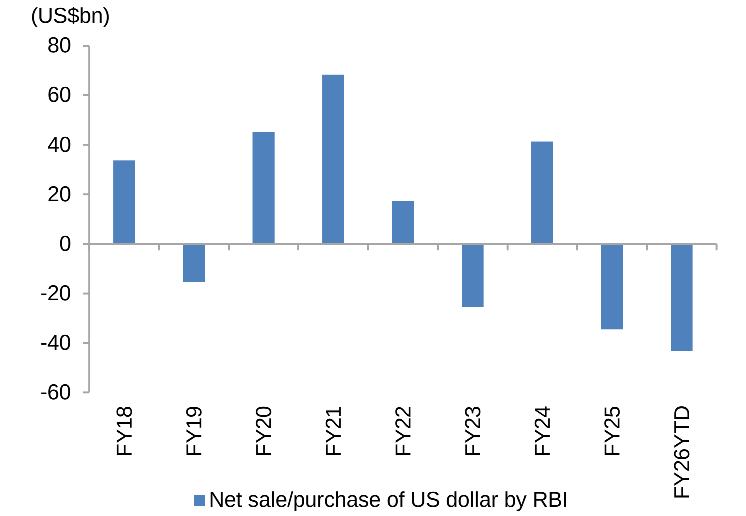
RBI dividend could sustain at current levels in FY27: In our view, dividends from the RBI could potentially continue to find support on the back of higher income from FX sales (Exhibit 14 & Exhibit 15) assuming mark to market losses on RBI's foreign and domestic securities portfolio remained contained.

Exhibit 14: FX gains could contribute to RBI dividends in FY27…



Source: RBI, Nirmal Bang Institutional Equities Research

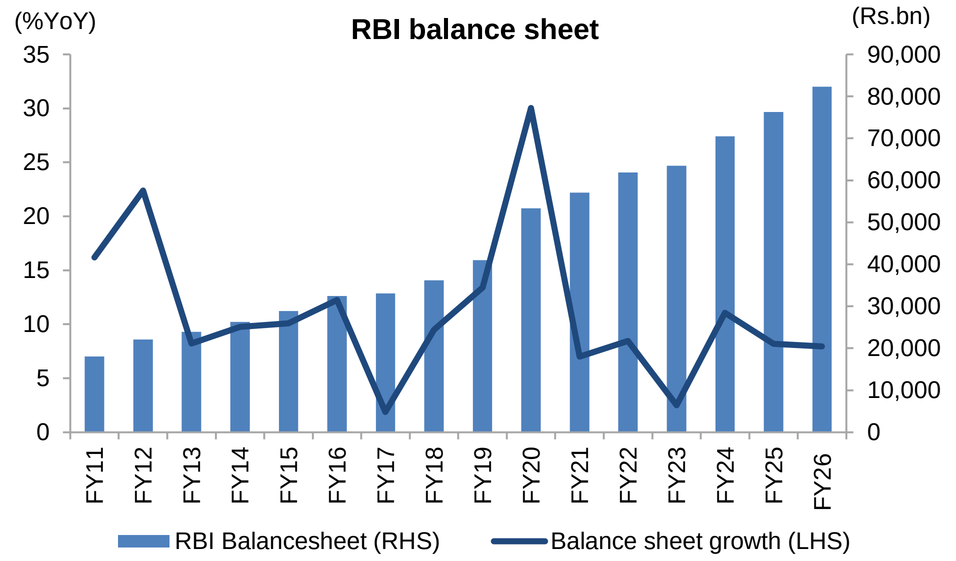
Exhibit 15: … led by dollar sales



Source: RBI, CEIC, Nirmal Bang Institutional Equities Research

Moreover, relatively contained RBI balance sheet growth (Exhibit 16) suggests that provisioning requirements could also be contained, which could in turn support higher dividend payouts.

Exhibit 16: Stable growth in RBI balance sheet may aid limited provisioning

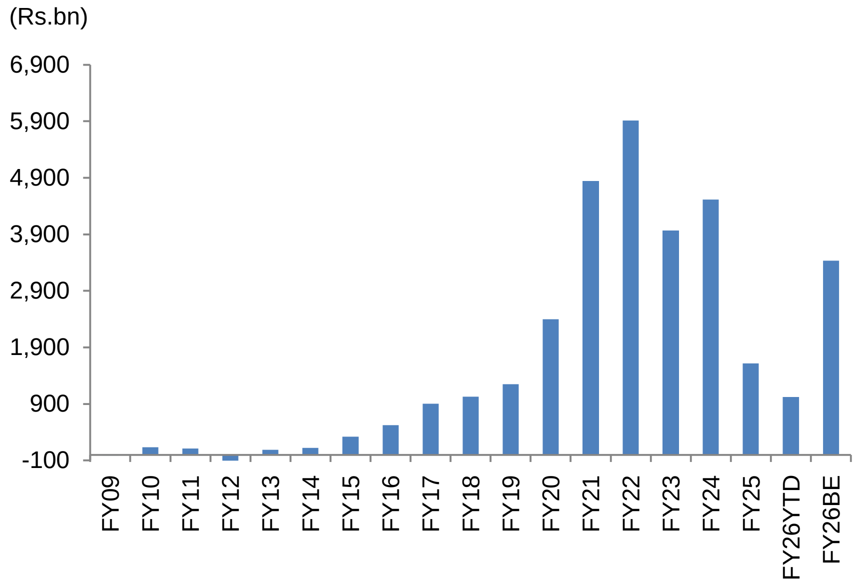


Source: RBI, Nirmal Bang Institutional Equities Research

6. How will the fiscal deficit be funded?

Small savings will remain a buffer: In recent years, the reliance on small savings to fund the central government's fiscal deficit has increased as states have turned to market borrowings. We believe this trend will likely sustain into FY27 as well.

Exhibit 17: Reliance on small savings has increased in recent years and may sustain



Source: Government of India, Nirmal Bang Institutional Equities Research

The government has largely maintained the interest rate on Small Savings through FY26 despite bond yields trending slightly lower. Interest rates on small savings are slightly better than bank deposit rates on comparable maturities being offered by both Private and Public Sector Banks (Exhibit 18).Small savings collections in FY26YTD (up to Nov'24) stand at Rs. 1024bn against the budgeted Rs. 3433bn, which is likely to see a pick up.

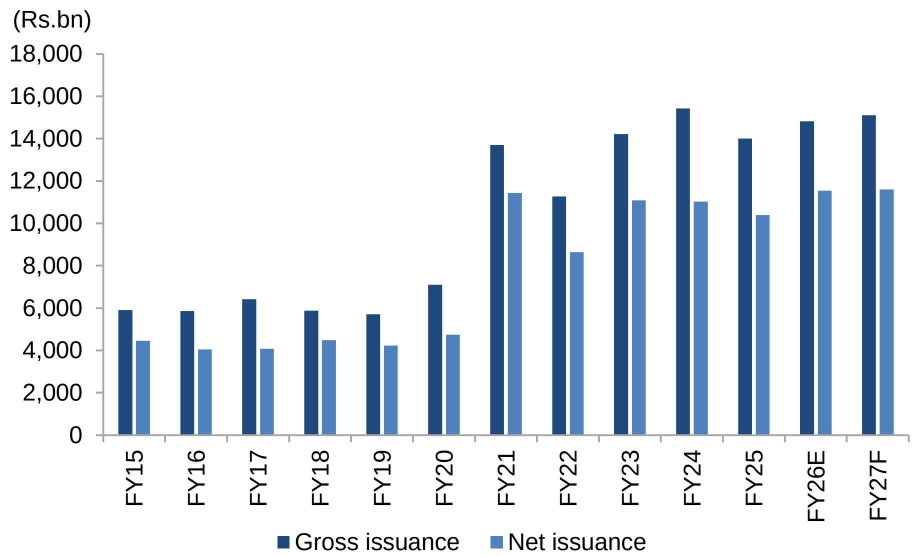
Exhibit 18: Small savings interest rates competitive vs. bank FDs

Scheme / Interest rate (%)	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	2QFY26	3QFY26	4QFY26	Current Comparable Bank deposit rates (SBI retail)	Current Comparable Bank deposit rates (HDFC retail)
1 Year time deposit	6.8	6.9	6.9	6.9	6.9	6.9	6.9	6.9	6.9	6.9	6.9	6.9	6.3	6.3
2 Year time deposit	6.9	7	7	7	7	7	7	7	7	7	7	7	6.4	6.5
3 Year time deposit	7	7	7	7.1	7.1	7.1	7.1	7.1	7.1	7.1	7.1	7.1	6.3	6.4
5 Year time deposit	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	6.1	6.2
5 Year recurring deposit	6.2	6.5	6.7	6.7	6.7	6.7	6.7	6.7	6.7	6.7	6.7	6.7	6.1	6.2
5 Year Senior Citizens	8.2	8.2	8.2	8.2	8.2	8.2	8.2	8.2	8.2	8.2	8.2	8.2	7.1	6.7
5 Year Monthly Income Account Scheme	7.4	7.4	7.4	7.4	7.4	7.4	7.4	7.4	7.4	7.4	7.4	7.4	6.1	6.2
5 Year National Savings Certificate	7.7	7.7	7.7	7.7	7.7	7.7	7.7	7.7	7.7	7.7	7.7	7.7	6.1	6.2
PPF	7.1	7.1	7.1	7.1	7.1	7.1	7.1	7.1	7.1	7.1	7.1	7.1	-	-
Kisan Vikas Patra	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	-	-
Sukanya Samriddhi Account Scheme	8	8	8	8.2	8.2	8.2	8.2	8.2	8.2	8.2	8.2	8.2	-	-
Average 10 yr G- sec yields in the past quarter	**7.4**	**7.1**	**7.2**	**7.3**	**7.1**	**7.1**	**6.8**	**6.8**	**6.7**	**6.3**	**6.5**	**6.5**	-	-

Source: Government of India, SBI, HDFC, Nirmal Bang Institutional Equities Research

Net market borrowing seen at Rs11.6tn in FY27: We are penciling in net market borrowing of ~Rs11.6tn in FY26 (70% of fiscal deficit).This is broadly in line with the trend of the past few years.

Exhibit 19: Gross and net issuance will likely remain flat in FY27 vs. FY26

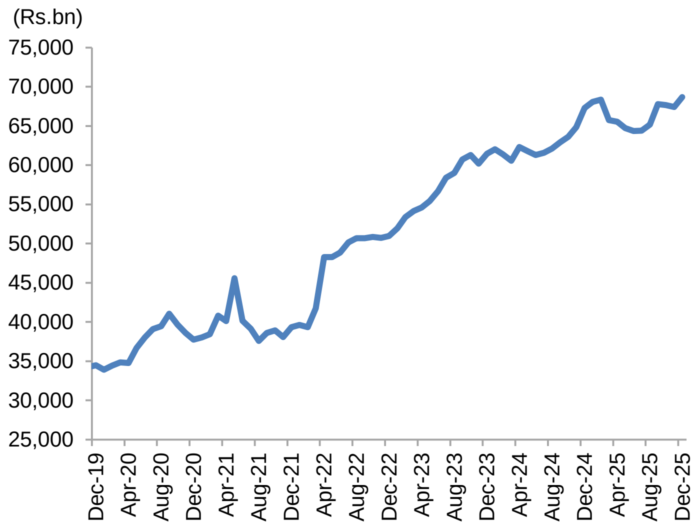


Source: Government of India, Nirmal Bang Institutional Equities Research

Gross borrowing pegged at Rs. 15.1tn: Given maturities of Rs. 5.5tn in FY27, gross borrowing should be ~ Rs.17.1tn. However, factoring in switches of around Rs.2tn, we believe gross issuance would be ~Rs.15.1tn.

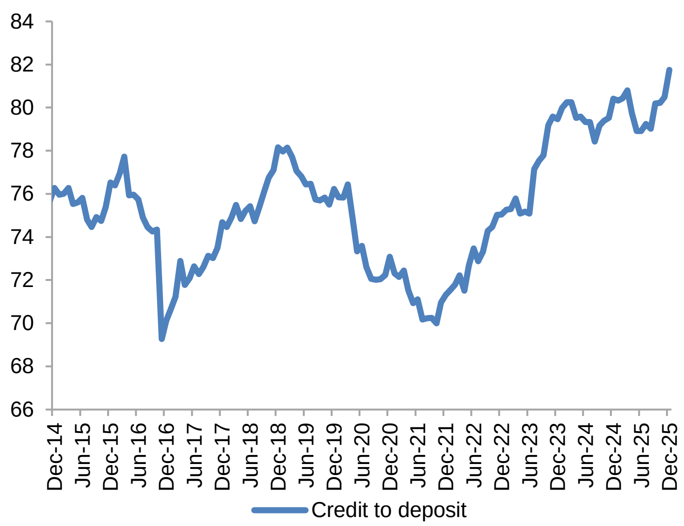
Bank demand for G-secs muted on elevated credit to deposit ratios: Bank demand for G-secs has been muted in FY26 (Exhibit 20) constrained by elevated credit to deposit ratios (Exhibit 21). We expect bank demand for G-secs to remain muted as deposit growth will at best be at par with credit growth.

Exhibit 20: Bank demand for G-secs has been muted in FY26



Source: RBI, CEIC, Nirmal Bang Institutional Equities Research

Exhibit 21: Elevated credit to deposit ratio constraining bank demand for g-sec



Source: RBI, CEIC, Nirmal Bang Institutional Equities Research

Exhibit 22: Bank demand for G-secs may remain muted in FY27

Banks Source of funds flow (Rs.bn)	FY25	FY26E	FY27F
Deposits	21,053.75	27,270.78	28,823.05
Borrowings	1373.05	0	0
ODTL	1254.64	800	800
Total	**23,681.44**	**28,070.78**	**29,623.05**
Uses of funds (Rs. Bn)			
Credit demand	18,118.08	23,078.89	23593.77928
SLR requirement	0	0	0
CRR requirement	-566.27	-2,500.00	1,500.00
Net foreign assets	2849	5000	2500
Total	**20,400.81**	**25,578.89**	**27,593.78**
Remaining available for investment in G- sec /SDL	**3,280.63**	**2,491.89**	**2,029.28**

Source: RBI, Nirmal Bang Institutional Equities Research

The demand for G-secs will have to be supported by RBI OMOs: We believe the G-sec market will have to be supported by RBI's intervention through Open Market Operations (OMOs). Continued RBI liquidity infusion through OMOs as well as the scope for an additional 25bps suggests some scope for a mild rally in bond yields to 6.5% or below.

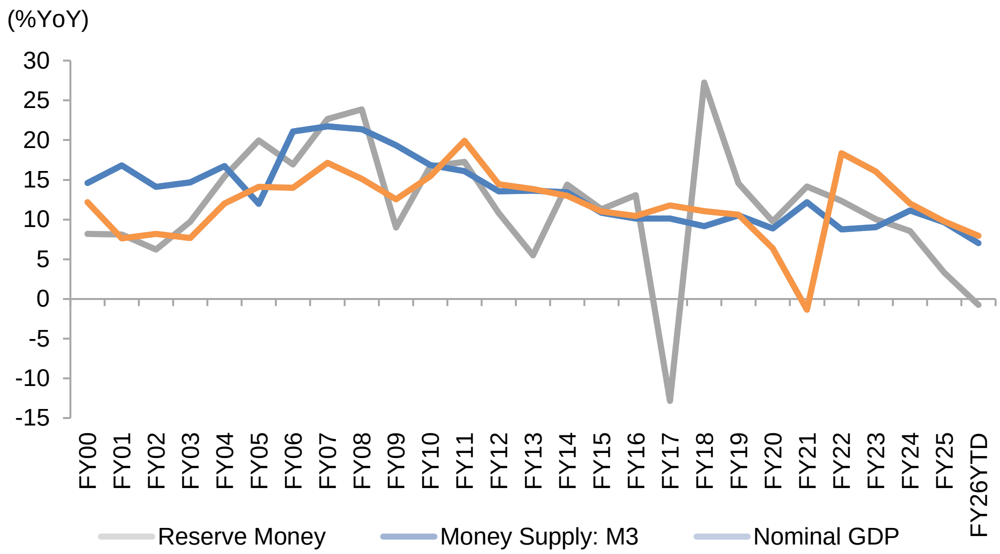
Exhibit 23: Demand for G-Secs will have to be supported by RBI OMOs

Central Government (Rs.bn)	FY25	FY26E	FY27
Net market borrowing (Supply of G-Secs)	**10,392.75**	**11,538.34**	**11,599.00**
Sources of demand			
Banks	1,674.81	1,491.00	1,029.00
Insurance	2,146.15	2,307.67	2,993.70
Provident Fund	135.53	489.23	491.80
FPIs	1,119.26	0.00	361.89
Others	2,694.26	2,065.36	2,076.22
RBI	1,657.89	5,707.00	5,500.00
Total Demand	**9,427.90**	**12,060.26**	**12452.6**
Excess supply of G-sec	**964.85**	**-521.92**	**-853.61**
State governments (Rs.bn)	**FY25**	**FY26**	**FY27**
Net Supply of SDL	**7,533.45**	**8,807.11**	**9,436.19**
Banks	3,378.26	1,000.00	1,000.00
Insurance	644.53	2,119.87	2,556.26
Provident Fund	2,483.67	2,078.48	2,075.96
Others	1,054.44	1,409.14	1,509.79
RBI	-3.74	48.44	66.05
Total Demand	7,557.18	6,655.93	7,208.07
Excess supply of SDL	**-23.73**	**2,151.18**	**2,228.12**
Total excess supply	**941.12**	**1,629.27**	**1,374.51**

Source: RBI, Nirmal Bang Institutional Equities Research

Reserve money growth lagging nominal GDP growth also necessitates OMOs: Reserve money has clocked a CAGR of 5.2% in FY22-FY26 (Exhibit 24), trailing nominal GDP growth of 10.9%.This suggests that continued liquidity infusion primarily through OMOs remains a necessity. We believe liquidity infusion and a pickup in reserve money growth can support deposit growth as well.

Exhibit 24: Reserve money growth trailing nominal GDP necessitates OMOs

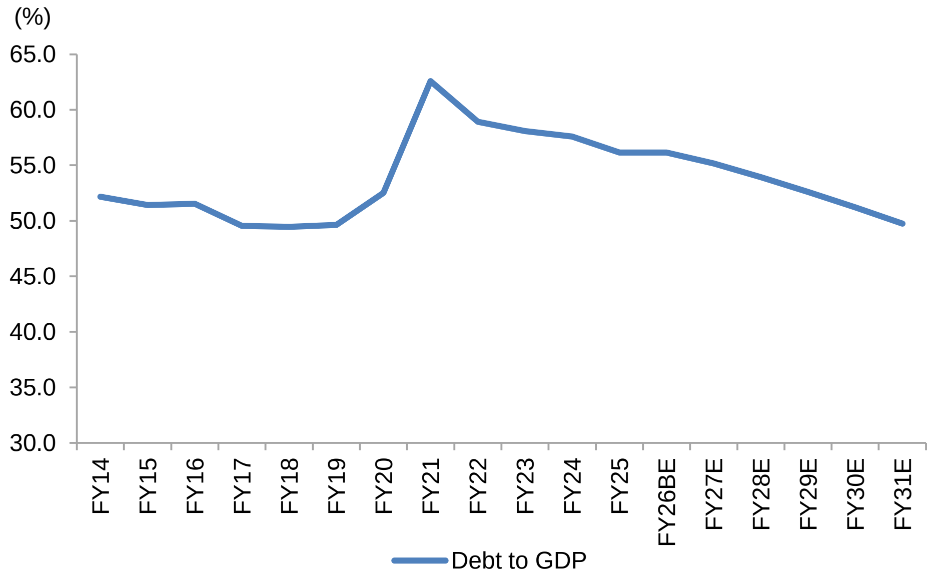


Source: RBI, Nirmal Bang Institutional Equities Research

7. Will the government consolidate debt?

Central government debt to GDP seen at 55.2%of GDP: We estimate the central government debt to GDP at 55.2% in FY27 and believe that gradual fiscal consolidation around 20bps each year will enable the government to meet the central government debt to GDP target of 50%+/-1% by FY31.

Exhibit 25: Central government debt to GDP on track to meet FY31 target of 50%+/-1%



Source: Government of India, Nirmal Bang Institutional Equities Research

SECTOR-WISE EXPECTATIONS

Automobile Sector

- Extension of EV incentives beyond PLI/FAME, duty relief on batteries and critical components, and higher outlay for public charging infrastructure.
- Support for localisation and export competitiveness through duty/FTA measures, alongside GST compliance simplification and clearer input tax credit norms.
- Continuity in pro-EV policy, formal acknowledgement of GST 2.0 gains, and selective GST rationalisation for EVs and small cars to sustain affordability-led demand.
- Budget measures to improve vehicle financing, particularly for rural and first-time buyers, to reinforce the ongoing structural recovery.
- Increase in incentives for export of auto components, new reforms related to localisation of auto components.

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Banking and Financials Sector

- **Enhanced focus and continued support for existing credit guarantee schemes for MSMEs and small businesses:** We expect the government to enhance its focus on the existing credit guarantee schemes for MSMEs and small businesses along with continued support through allocation of funds and technical support, thereby promoting the ease of doing business.
- **Initiatives towards affordable housing:** With focus on achieving the stated goal of Housing for All, we expect the Govt. to increase its budgetary allocations under the Pradhan Mantri Awas Yojana (PMAY) scheme, upwards from Rs 781.3bn for FY26. The deduction limit of home loan interest u/s 24(b) of the Income Tax Act can be raised upwards from Rs 0.2mn at present. There can also be an expansion in the definition of affordable housing which would expand the benefits for homebuyers and hence boost end-user demand.
- **Thrust on infrastructure development:** We expect an increase in budgetary allocations towards infrastructure development schemes in critical sectors such as railways, defence, power and data centres, which will be positive for corporate credit growth of banks.
- **Some guidance on IDBI Stake sale / merger of PSBs:** We expect the government to provide some clarity on the merger of PSBs, in order to create bigger banks. We also expect to get some guidance on divestment of Govt. stake in IDBI Bank.
- **Announcements expected for gold loan NBFCs:** Priority sector status (PSL) could be given to eligible gold loan NBFCs which will enable competitive credit access for borrowers. In addition to this a gold linked credit line could be enabled for NBFCs via. UPI which would allow customers to monetize idle gold jewellery and access a revolving secured credit line instantly through UPI platforms. The aim is to offer funds at significantly lower interest rates (12-18%) than unsecured credit cards, thereby boosting consumption, strengthening household resilience, and formalizing borrowing behavior.

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NBFCs and Insurance

- **Introduction of a dedicated refinance window for NBFCs:** The industry is asking the government to establish a permanent refinance window for NBFCs, modelled on the National Housing Bank (NHB) structure. This facility will provide a steady source of cheaper funding, reducing reliance on bank borrowings and allowing NBFCs to better address asset-liability mismatches, which is critical for sustaining credit flow to the MSME sector.
- **Microfinance credit guarantee scheme for NBFC-MFIs:** We expect the government to introduce a large one-time microfinance credit guarantee scheme for NBFC-MFIs, potentially exceeding the Rs75bn support provided during the pandemic. This will improve access to bank funding, ease liquidity pressures, and ensure continued credit flow to low-income households.
- **Parity in recovery mechanisms (SARFAESI Act amendment) for NBFCs:** There is an expectation of a reduction in the SARFAESI Act enforcement threshold from Rs2mn to Rs0.1mn for NBFCs. Bringing this limit at par with banks will significantly improve recovery efficiency for smaller ticket loans, particularly in the vehicle finance and micro-business segments, thereby strengthening overall asset quality.
- **Rationalization of TDS norms for NBFCs:** NBFCs are requesting for an exemption from Section 194A of the Income Tax Act, which currently mandates TDS on interest income. Removing this requirement would release substantial working capital currently blocked in tax credits and align NBFCs with banks and insurance companies, promoting ease of doing business.
- **Input Tax Credit (ITC) restoration for Insurance:** Companies are requesting the government to allow Input Tax Credit (ITC) on expenses incurred by insurers, even if the final policy premium is GST-exempt. Currently, the inability to claim ITC on services like IT, rent, and advertising acts as a cost burden, compressing new business value margins. A reversal here would be positive for profitability.
- **Separate tax deduction limit for Life Insurance:** We expect a distinct deduction limit for life insurance premiums, separate from the existing Section 80C bucket, or a hike in the 80C limit from Rs0.15mn to Rs0.25-0.3mn. This is necessary to adjust for inflation and to incentivize long-term protection products, which have seen muted growth due to the saturation of the current tax-saving window.
- **Enhancement of Health Insurance limits (Sec 80D):** With medical inflation tracking at 12-14%, we expect the Section 80D deduction limit to be raised from Rs25,000 to Rs50,000 for individuals and from Rs50,000 to Rs0.1mn for senior citizens. This would not only provide relief to policyholders but also drive penetration for health insurance.
- **Parity for Annuity Income treatment:** We expect annuity income to be made tax-free or treated at par with the National Pension System (NPS). Currently taxed at slab rates, a concession here would make annuity products more competitive against other retirement savings instruments, benefiting life insurers with large annuity books.

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Consumer Durables Sector

- **Broadband and rural connectivity push:** We expect continued emphasis on the BharatNet program, particularly broadband connectivity to government schools and primary health centres in rural areas. If execution remains steady, this should support incremental demand for cables, wires and related infrastructure products, benefiting organized electrical players.
- **Sustained capex and green energy focus:** We expect the government to maintain its strong capex orientation in 2026-2027, with an increasing tilt towards renewable and clean energy projects. This should aid demand for power cables, solar-related electricals and industrial wiring, supporting volume growth for cable and EPC players.
- **Housing and urban infrastructure support:** We expect policy support for housing construction and urban infrastructure to continue, including progress under schemes such as SWAMIH. This is likely to drive demand for B2C electrical products such as lighting, switches, switchgears and wires, especially in residential and urban redevelopment projects.
- **Consumption boost via tax relief:** We expect some relief on the personal income tax front, which could improve discretionary spending. This should benefit demand for large consumer durables such as air conditioners, refrigerators and other household appliances, in addition to supporting broader electrical consumption.

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Consumer Sector

- With the reduction in direct tax rates in the last interim budget and GST rates subsequently reduced as well, it would be interesting to see what are the further moves from the government to boost mass consumption demand that continues to remain muted.
- We also await clarity on the incremental central allocation towards VB G RAM G (erstwhile MNREGA) and its implications on jobs and spending power.
- While rural consumption has been healthy for a few quarters now, it has also been aided by favourable weather patterns. Any substantial announcements on rural infrastructure allocation (irrigation, roads, warehousing) can boost rural demand growth on a structural basis.
- Another factor to watch out for is the extension of PLI schemes to new categories and the extent of its consequent ability to boost consumption.
- We await further clarity on direction of government policies towards taxation of cigarettes.

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Cement and Infrastructure Sector

- **FY27 central capex expansion likely:** Central government capex is expected to rise to ~Rs12tn + in FY27, extending the government's medium-term infrastructure investment trajectory.
- **Roads remain the core pillar:** Roads and highways are likely to retain a dominant share, with MoRTH/NHAI capex estimated at ~Rs3.0trn, underscoring sustained prioritisation of connectivity and logistics efficiency.
- **Urban infrastructure sees gradual uplift:** MoHUA capex is expected to trend modestly higher from the FY26 base of ~Rs370–380 bn, supported by incremental allocations to urban infrastructure and housing-linked schemes.
- **Deployable roads capex remains execution-linked:** Despite a headline MoRTH allocation of ~Rs2.8–2.9 trn, the effective capex for new project awards is structurally dependent on monetisation execution.
- **Monetisation is a swing variable:** ~Rs600–700 bn per annum is assumed from asset monetisation (TOT, InvITs, SPVs), with proceeds routed via the Consolidated Fund of India and re-appropriated to NHAI, making utilisation non-assured.
- **Project awards constrained by structure:** After land acquisition, O&M, and HAM annuities, visibility-backed upfront capex is ~Rs2.0 trn, with incremental awards contingent on monetisation closures rather than fiscal expansion.

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Defence Sector

- Following the Rs.6.8 trn defence budget in FY26 (up ~9.5% YoY), the upcoming budget is expected to see a 10–15% YoY increase.
- Some estimates suggest defence spending could gradually edge closer to ~2% of GDP, supporting long-term modernisation and capability enhancement amid heightened border and geopolitical tensions.
- We expect capital allocation to increase to Rs.2.1–2.3 trn, implying a 20–30% YoY growth, with the share potentially moving closer to ~30% of total spending.

Key focus areas are likely to include:

- Missiles and ammunition
- UAVs and counter-UAV systems
- Electronic warfare, air defence and network-centric systems
- Technology-driven, force-multiplier equipment and border infrastructure

Industry expects continued policy support through:

- Tax incentives, faster depreciation and capital cost reliefs to encourage investments in advanced manufacturing
- Procurement reforms to shorten execution timelines and reduce fund underutilisation

With rising global acceptance of "Made in India" defence products (e.g., Pinaka exports), budgetary support for:

- Export financing
- Trade infrastructure
- Market access initiatives is likely to remain a focus area.

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Hospitality Sector

- India's tourism sector Budget expectations for 2026 remains buoyant, with Swadesh Darshan (SD) 2.0 driving 12-15% domestic travel growth amid sustained government spending. The 2025-26 Union Budget allocated Rs 25.41bn to Ministry of Tourism (up 3x prior), including Rs19 bn for Swadesh Darshan, Rs200bn PPP boost for 50 destinations, SASCI loans (Rs3,296 crore sanctioned), and homestays.
- **Acceleration in allocation**: Rs 30 bn Ministry of Tourism allocation (15-20% YoY), prioritizing SD 2.0's challenge based destination development and capex loans to states for project completion, lifting hospitality values in key circuits.
- **Sustainability Focus:** Funding for eco-tourism sites and skills programs like Hunar Se Rozgar, supporting spiritual and Buddhist theme operators in hospitality.
- **Connectivity Multiplier:** UDAN and PRASHAD schemes enhance airport access and pilgrimage infrastructure to boost footfall in Swadesh Darshan circuits for mid-cap hotel chains.

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Pharmaceutical Sector

- Following the GST rationalization efforts of 2025, we expect a stable and consistent GST framework that addresses inverted duty structures, particularly across APIs and medical devices, while adequately factoring in quality, safety, and compliance standards.
- We expect a new program to promote R&D and innovation in Pharmaceuticals to be taken up through Centers of Excellence.
- We are optimistic about the potential expansion of the PLI scheme for the Healthcare sector. This strategic move is expected to stimulate increased manufacturing activities for Pharmaceuticals and Medical Devices, providing a boost to the overall healthcare ecosystem.
- We also expect a substantial increase in allocation for Ayushman Bharat - Pradhan Mantri Jan Arogya Yojana (AB PMJAY). This anticipated increment is particularly crucial as it may extend coverage to encompass serious diseases such as cancer and transplant procedures. The proposal will also raise the insurance cover from Rs0.5 mn to Rs1mn per family, which aligns with the growing healthcare needs of the population.

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HOLD -5% to14%

SELL < -5%

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