

Union Budget Analysis

2026-27



A Budget of Continuity and Control

Against a backdrop of heightened global uncertainty, evolving trade dynamics and early signs of moderation in global growth, the Union Budget 2026–27 comes at a juncture where policy focus is gradually shifting from short-term support to medium-term credibility and resilience. The direct and indirect tax measures undertaken in the previous year, aimed at easing compliance, improving disposable incomes, and strengthening the ease of doing business, continue to trickle through the economy, supporting consumption, formalization, and investment activity with a lag. Building on this improving base, the government has reiterated its commitment to fiscal consolidation by setting a fiscal deficit target of 4.3% of GDP for FY27, while simultaneously stepping up public capital expenditure to Rs. 12.2 lakh crores (vis-à-vis Rs. 11.2 lakh crores in FY26BE), underscoring its intent to crowd-in private investment and sustain the investment cycle. The key highlight of the budget lies in this calibrated balance between fiscal discipline and growth support, complemented by a rise in STT charges on derivatives, signalling the government's intent to curb excessive speculative activity while reinforcing market stability, alongside targeted interventions across infrastructure, manufacturing, and services aimed at enhancing medium-term economic stability.

Highlights of Budget

- ⇒ The Public capex raised to Rs. 12.2 lakh crores in FY27, up from Rs. 11.2 lakh crores in FY26BE, sustaining order inflows for EPC, capital goods, railways, and defence stocks.
- ⇒ Debt-to-GDP ratio estimated at 55.6% in FY27, with a medium-term target of 50±1% by FY30.
- ⇒ Fiscal deficit pegged at 4.3% of GDP in FY27 BE compared with 4.4% in FY26 RE, maintaining the consolidation glide path.
- ⇒ Total Union Government expenditure budgeted at Rs. 41.3 lakh crores in FY27 BE versus Rs. 38.7 lakh crores in FY26 RE.
- ⇒ Disinvestment target for FY27 has been set-up for Rs. 80,000 crores.
- ⇒ Government expects Rs. 3.16 lakh crores dividend/transfer from RBI and PSBs, aiding fiscal consolidation and revenue stability.
- ⇒ Biopharma SHAKTI launched with an outlay of Rs. 10,000 crores over 5 years, aimed at developing India as a global hub for biologics and biosimilars manufacturing. Shift in policy focus towards biologics, biosimilars and complex therapies, structurally positive for large pharma and specialty pharma companies with R&D capabilities.
- ⇒ The budget has announced an Integrated Textile Programme covering fibres, cluster modernisation, skilling and sustainability, setting up Mega Textile Parks via challenge mode, revival of textile-heavy legacy clusters (part of 200 clusters), and export-side relief.
- ⇒ Container Manufacturing Scheme with Rs. 10,000 crores outlay over 5 years, creating a new domestic manufacturing opportunity linked to trade and logistics.
- ⇒ Dedicated SME Growth Fund of Rs. 10,000 crores to support scale-up of MSMEs.
- ⇒ Rs. 2,000 crores additional allocation made to the Self-Reliant India Fund to expand MSME risk capital.
- ⇒ The Rs. 2,000 crores subsidy for UPI and RuPay, aimed at accelerating digital payments adoption and reducing transaction costs.
- ⇒ India Semiconductor Mission (ISM) strengthened, with electronics components outlay increased to Rs. 40,000 crores to boost domestic manufacturing and supply chain resilience.
- ⇒ Government to take additional steps to support export of quality Ayurvedic products, benefiting herb-growing farmers and youth engaged in processing, in line with rising global demand.
- ⇒ Incentive of Rs. 100 crores announced for single municipal bond issuances above Rs. 1,000 crores by large cities, while the AMRUT scheme continues to support issuances up to Rs. 200 crores for small and mid-sized towns.
- ⇒ Foreign Investments: Comprehensive review of FEMA (Non-debt Instruments) Rules proposed to create a more user-friendly and contemporary framework for foreign investments aligned with India's evolving priorities.
- ⇒ Professional bodies such as ICAI, ICSI and ICMAI to develop short-term modular courses to create a cadre of 'Corporate Mitras', supporting MSMEs with affordable compliance assistance, especially in Tier II and Tier III towns.
- ⇒ Government to support States in setting up 3 dedicated Chemical Parks through a challenge-based, cluster-driven, plug-and-play model, aimed at boosting domestic production and reducing import dependence.
- ⇒ Proposed to raise STT on Futures to 0.05% from present 0.02%. STT on options premium and exercise of options are both proposed to be raised to 0.15% from the present rate of 0.1% and 0.125% respectively.
- ⇒ Dedicated Freight Corridor from Dankuni to Surat announced, along with 20 new National Waterways to be operationalised over the next 5 years, positive for logistics, ports and infrastructure developers.
- ⇒ Safe harbour threshold for IT services increased from Rs. 300 crores to Rs. 2,000 crores, materially reducing tax uncertainty for mid-sized IT companies. Common safe harbour margin of 15.5% across IT services improves earnings predictability.
- ⇒ Proposal for seven high-speed rail corridors, supporting long-term logistics efficiency and regional connectivity.

Highlights of Budget (contd.)

- ⇒ The Customs duty exemptions on capital goods for critical minerals processing and energy storage, improving cost economics for renewable and battery-linked companies.
- ⇒ The healthcare ecosystem strengthens with a multi-pronged push, including the development of five regional medical tourism hubs to enhance India's global healthcare leadership and employment generation, plans to train 1.5 lakh caregivers to bridge workforce gaps, and a renewed focus on AYUSH through integrated care complexes, upgraded laboratories and pharmacies, and expanded research and training infrastructure to promote holistic and affordable care delivery .
- ⇒ Dedicated Scheme for Rare Earth Permanent Magnets announced to support research, mining, processing and manufacturing of rare earth materials. Government support for setting up Rare Earth Corridors across mineral-rich states including Odisha, Kerala, Andhra Pradesh and Tamil Nadu.
- ⇒ Extension of basic customs duty exemption on capital goods used for manufacturing Lithium-Ion Cells for battery energy storage systems (BESS). BCD exemption on import of capital goods for processing critical minerals, directly benefiting lithium refining and processing ecosystem.
- ⇒ Export timeline extended from 6 months to 1 year for leather and textile garments, footwear and other leather products, easing working capital and execution pressure.
- ⇒ Energy Transition and Security Basic customs duty exemption extended to capital goods used for manufacturing Lithium-Ion Cells for battery energy storage systems (BESS).
- ⇒ The government has announced targeted BCD exemptions across critical sectors, including capital goods for processing critical minerals, biogas value under excise for CNG blending, aircraft components and MRO inputs for defence aviation, specified parts for microwave manufacturing, and sodium antimonite for solar glass production, collectively aimed at enhancing domestic value addition, improving cost competitiveness, and strengthening the clean energy, aviation, and electronics manufacturing ecosystems.
- ⇒ Extension of BCD exemption on imports for nuclear power projects till 2035, expanded to cover all nuclear plants irrespective of capacity.
- ⇒ One-time measure allowing eligible SEZ manufacturing units to sell into the Domestic Tariff Area at concessional duty rates, subject to a prescribed proportion of exports, aimed at improving capacity utilisation amid global trade disruptions.
- ⇒ Proposal for seven high-speed rail corridors, supporting long-term logistics efficiency and regional connectivity.
- ⇒ Relaxation of investment limits for NRIs and FPIs, providing incremental support for foreign capital inflows and market liquidity.
- ⇒ The government has rationalized TCS rates under the Liberalised Remittance Scheme (LRS), reducing the levy on overseas tour packages as well as education and medical remittances to 2% from 5%.

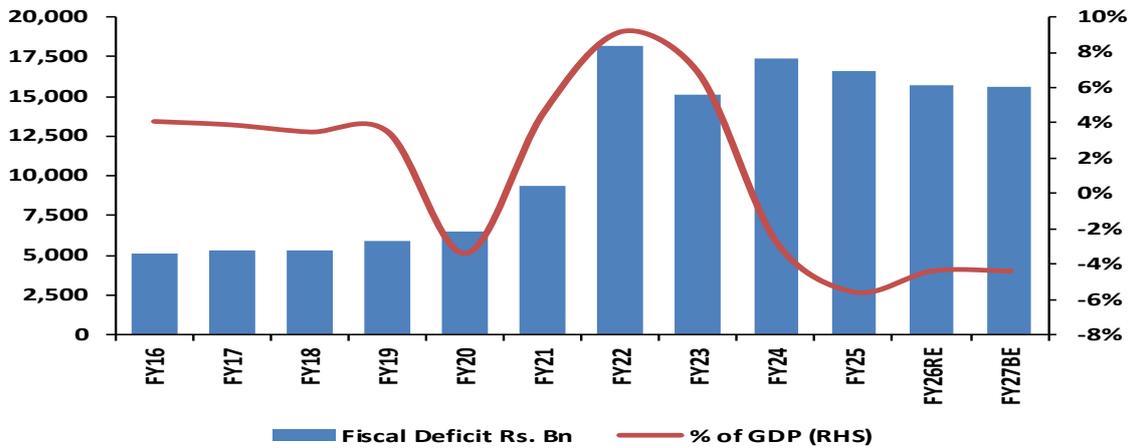
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Budget at a Glance (table)

Rs. Bn	FY22	FY23	FY24	FY25	FY26BE	FY26RE	FY27BE	Growth Rate
1. Revenue Receipts (i+ii)	17,884	23,832	27,290	30,366	34,204	33,423	35,332	5.7%
i) Tax Revenue (Net)	15,454	20,978	23,273	25,000	28,374	26,747	28,669	7.2%
ii) Non-Tax Revenue	2,430	2,854	4,018	5,366	5,830	6,677	6,662	-0.2%
2. Capital Receipts	18,114	18,100	17,143	16,163	16,504	16,330	18,142	11.1%
iii) Recoveries of loans	130	262	266	246	290	302	384	27.2%
iv) Other Receipts	1,750	460	331	172	470	338	800	136.4%
v) Borrowings & other Liabilities	16,234	17,378	16,546	15,744	15,744	15,689	16,958	8.1%
Total Receipts (1 + 2)	35,999	41,932	44,433	46,529	50,708	49,753	53,473	7.5%
3. On revenue account of which	29,290	34,531	34,942	36,009	39,443	38,691	41,255	6.6%
vi) Interest Payments	8,097	9,285	10,639	11,156	12,763	12,743	14,040	10.2%
4. Capital Account	5,542	10,463	9,492	13,246	15,483	14,039	17,145	22.1%
Total Expenditure (3 + 4)	34,832	44,994	44,434	49,255	54,925	52,730	58,400	10.8%
5. Revenue Deficit	11,406	10,699	7,652	5,643	5,238	5,268	5,923	12.4%
% of GDP	5.1%	-3.9%	-2.6%	-1.7%	-1.5%	-1.5%	-1.5%	0.0%
6. Effective Revenue Deficit	9,215	7,637	4,613	2,916	967	2,186	996	-54.4%
% of GDP	4.1%	-2.8%	-1.6%	-0.9%	-0.3%	-0.6%	-0.3%	-50.0%
7. Fiscal Deficit	15,068	17,378	16,546	15,744	15,689	15,585	16,958	8.8%
% of GDP	6.8%	-2.8%	-5.6%	-4.8%	-4.4%	-4.4%	-4.3%	-2.3%
8. Primary Deficit	6,971	8,092	5,908	4,589	2,926	2,842	2,918	2.7%
% of GDP	3.1%	-3.0%	-2.0%	-1.4%	-0.8%	-0.8%	-0.7%	-12.5%

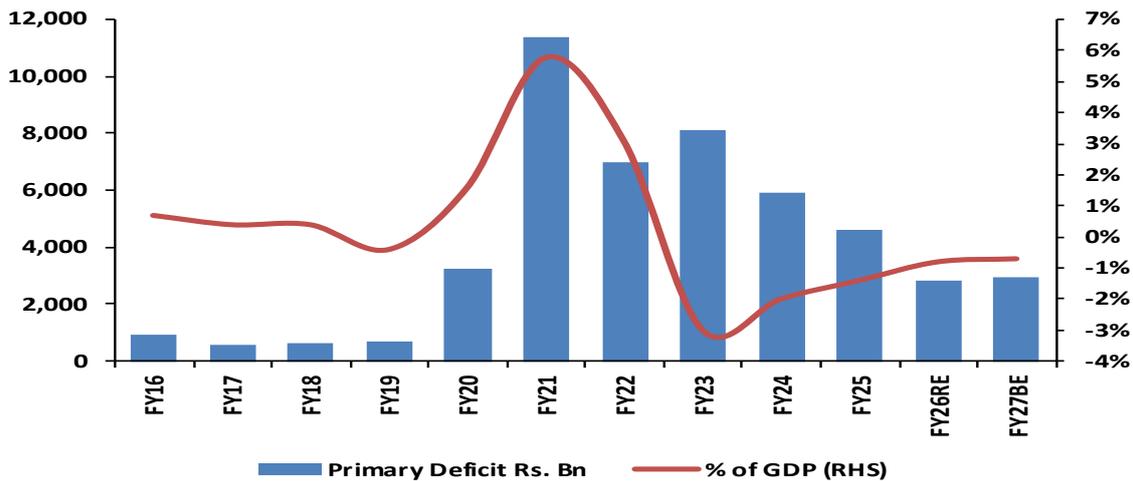
Source: Budget Documents, BP Equity Research

Fiscal Deficit as % of GDP



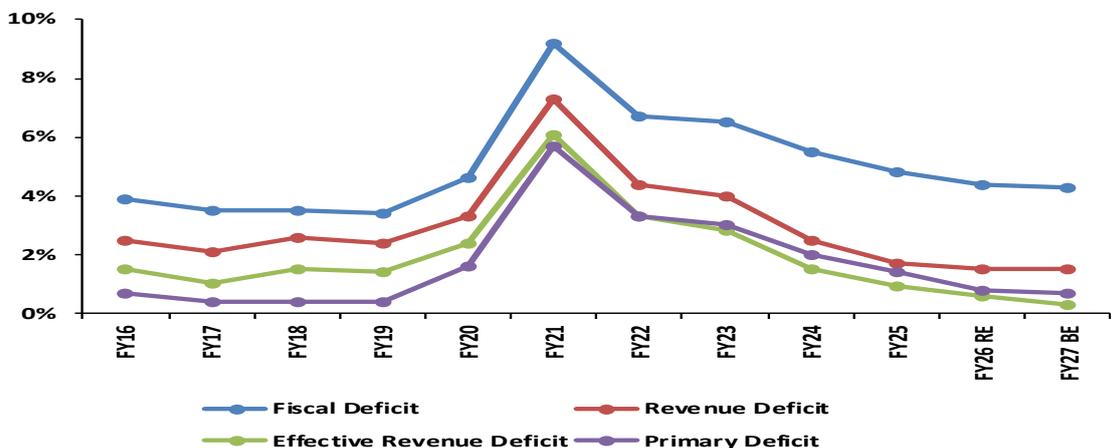
Source: Budget Documents, BP Equities Research

Primary Deficit as % of GDP



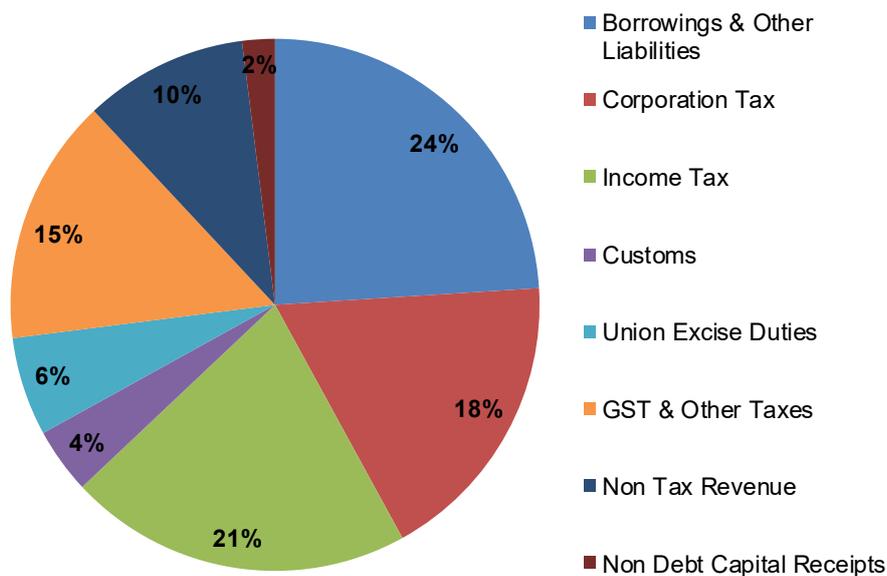
Source: Budget Documents, BP Equities Research

Deficit Trends as % of GDP



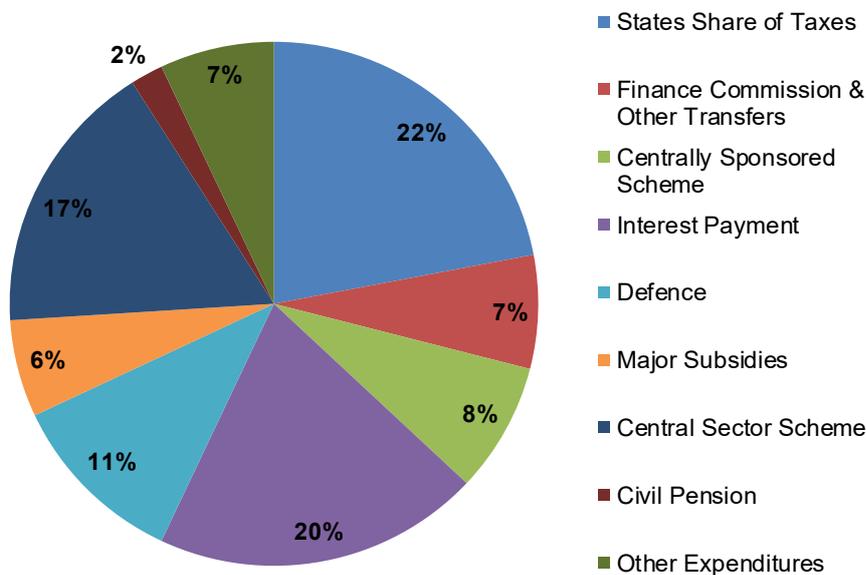
Source: Budget Documents, BP Equities Research

Revenue Contribution from Budget



Source: Budget Documents, BP Equities Research

Revenue Expenses from Budget



Source: Budget Documents, BP Equities Research

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Announcement	Impact	Companies
Rare earth permanent magnet manufacturing programme launched covering domestic mining, processing and fabrication, aimed at reducing import dependence (currently >90%), supporting EVs, wind energy, electronics and defence applications, with focus on end-to-end value chain development.	Positive for Metal & Mining companies	GMDC Ltd., and NMDC Ltd.
India's pharma sector is evolving from generic manufacturing to innovation-led biopharma dominance via the Rs. 10,000 crores "Biopharma Shakti" initiative over five years. It aims to foster a domestic biosimilars ecosystem, boost global clinical research, and cut high-value therapy imports through 3 new NIPERs (plus upgrades), 1,000 accredited trial sites, and industry-academia skill linkages.	Positive for Pharmaceutical companies	Biocon Ltd., Dr Reddy's Laboratories Ltd., Sun Pharma Industries Ltd., and Piramal Pharma Ltd.
Extension of basic customs duty exemption on capital goods used for manufacturing Lithium-Ion Cells for battery energy storage systems (BESS). BCD exemption on import of capital goods for processing critical minerals, directly benefiting lithium refining and processing ecosystem.	Positive for Auto Components companies	Exide Industries Ltd., Amara Raja Batteries Ltd.
Safe harbour threshold for IT services increased from Rs. 300 crores to Rs. 2,000 crores, materially reducing tax uncertainty for mid-sized IT companies. Common safe harbour margin of 15.5% across IT services improves earnings predictability.	Positive for IT companies	Infosys Ltd., Coforge Ltd. and other players
The fertilizers sector is eyeing ~Rs. 1.7 lakh crores in FY27 subsidy support to ensure affordable nutrient availability amid volatile global input costs. The industry continues to seek duty and GST rationalization, inclusion of urea under the nutrient-based subsidy regime, and streamlined regulations to improve efficiency and domestic competitiveness.	Positive for agro-chemical companies	RCF Ltd., Chambal Fertilizer Ltd., Paradeep Phosphate Ltd.
Outlay for The Electronics Components Manufacturing Scheme has been increased from Rs. 22,919 crores to Rs. 40,000 crores.	Positive for Electrical components companies	Dixon Technologies Ltd., Syrma SGS Technology Ltd.
The textile sector received support through an integrated programme focused on improving scale, productivity and global competitiveness, with emphasis on value-added and export-oriented segments.	Positive for Textiles companies	Vardhaman Textiles Ltd., KPR Mill Ltd., SP Apparel Ltd.
The government has proposed a dedicated Container Manufacturing Scheme with a total outlay of Rs. 10,000 crores over 5 years to develop a globally competitive domestic container manufacturing ecosystem.	Positive for Container Manufacturing companies	Container Corporation Of India Ltd.
The Construction Scheme for Enhancement of Construction and Infrastructure Equipment (CIE) announced to strengthen domestic manufacturing of high-value, technologically advanced equipment, spanning lifts, fire-fighting systems, and heavy machinery including tunnel-boring equipment used in metros and high-altitude infrastructure projects.	Positive for Construction Equipment Sector	Ajax Engineering Ltd., Escort Kubota Ltd., and Action Construction Equipment Ltd.

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