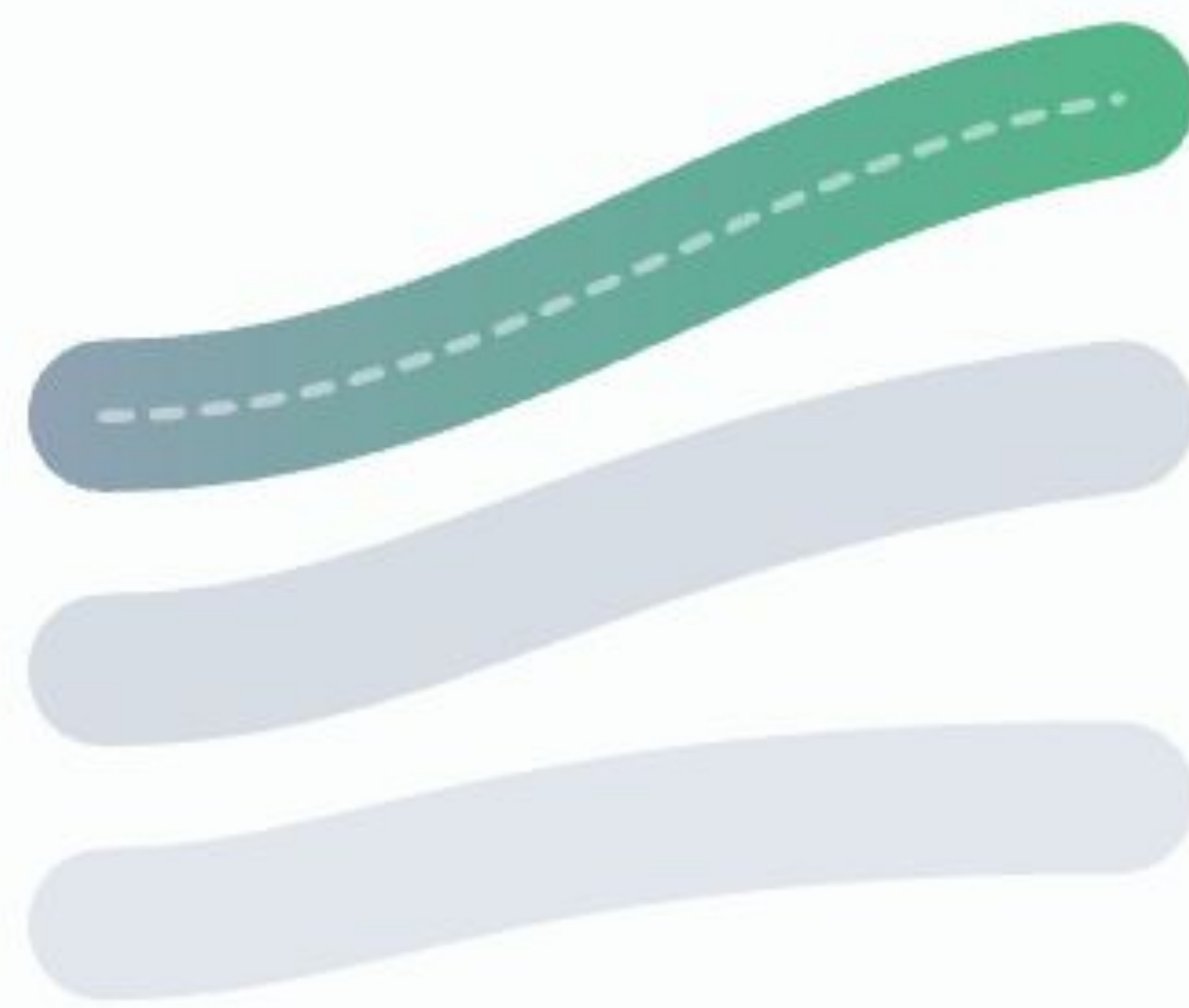




Union Budget 2026

Key Insights for Investors





BUDGET OUTLOOK

Budget 2026 is presented against a challenging market backdrop, marked by sustained foreign portfolio investor outflows, pressure on the rupee, and elevated commodity prices. In this context, what stands out is not a shift in policy direction, but its continuity. The budget reinforces a steady approach to fiscal consolidation, a gradual reduction in the fiscal deficit, and a clear preference for domestic, long-term borrowing directed toward capital expenditure and asset creation.

At a thematic level, the budget strengthens several structural growth drivers. Infrastructure-led growth remains central, with a strong emphasis on logistics and connectivity. The push for Atmanirbharta continues, particularly in defence and other strategic manufacturing sectors. Technology-driven productivity gains, especially through digital and AI-led initiatives, remain a key pillar. Rural income support and infrastructure investment underline the role of rural India as a growth engine, while targeted measures support the pharmaceutical and biotechnology ecosystem. The transition toward cleaner and more sustainable energy sources also remains an important medium-term focus.

These priorities are reinforced through both spending allocations and policy measures, suggesting a consistent and long-term orientation rather than episodic or reactive policymaking.

For long-term investors, Budget 2026 reinforces the importance of staying aligned with structural growth themes instead of reacting to short-term market volatility. The continued emphasis on capital expenditure, fiscal discipline, and policy predictability supports a disciplined, long-term investment approach.

Mr. Naveen KR

Senior Director, Windmill Capital

Key Numbers and Focus Areas

Union Budget 2026–27 has a total outlay of ₹53.47 lakh crore. The fiscal stance continues to prioritise consolidation alongside capital-led growth, with borrowing increasingly directed toward asset creation rather than revenue expenditure.

Tax policy remains broadly stable, with no major rate changes, while expenditure priorities are concentrated in infrastructure, defence, manufacturing, technology, and rural development. The budget places limited emphasis on short-term stimulus, focusing instead on improving the quality and composition of public spending.



What Has Changed Since Budget 2025

Fiscal consolidation has progressed further, with the fiscal deficit continuing on a steady glide path. Borrowing levels remain significant, but the use of funds has shifted more decisively toward capital expenditure rather than revenue spending. Effective capital expenditure now exceeds the fiscal deficit, signalling that incremental borrowing is being used primarily for asset creation. This shift is visible in the fiscal deficit glide path, which has steadily improved from its pandemic peak and is now targeted at 4.3% of GDP in FY 2026–27.

On the policy side, the government has moved from incremental tweaks to clearer structural simplification. The announcement of a new Income Tax Act from April 2026 aims to reduce complexity without altering tax rates. GST is being streamlined toward fewer slabs. In financial markets, measures such as higher STT on derivatives and changes in buyback taxation reflect an effort to curb excesses rather than discourage long-term investment.



The Bigger Economic Picture

Budget 2026 is framed against a backdrop of global uncertainty, currency pressures, and uneven capital flows. In such an environment, fiscal credibility matters as much as fiscal support. The government appears conscious of this trade-off. Rather than responding to external volatility with aggressive spending or tax cuts, it has chosen a more measured approach focused on stability.

The steady reduction in fiscal deficit from its pandemic peak and the focus on domestic, long-term borrowing help contain risks related to debt sustainability and currency volatility. This macro backdrop explains why the budget prioritises predictability, disciplined spending, and gradual reform over aggressive experimentation.



Balancing Growth and Spending

The government's approach to balancing growth with fiscal prudence rests on two pillars.

1. Mandatory and committed expenditures such as interest payments and tax devolution to states are being managed within a tighter overall fiscal framework.
2. Discretionary spending is being tilted toward capital expenditure that can support long-term productivity.

Interest payments and states' share of taxes together account for a large portion of total expenditure, leaving limited room for manoeuvre. Within this constraint, the decision to keep capital expenditure elevated reflects a deliberate policy choice: Support growth not through consumption-led stimulus, but through infrastructure, manufacturing capacity, and public asset creation.

A key signal of this balance is that effective capital expenditure is estimated at over 100% of the fiscal deficit in FY 2026–27, indicating that borrowing is largely funding asset creation rather than consumption.

Market Reaction vs What Actually Matters Long Term

Indian equity markets closed sharply lower on Budget Day, with the Nifty 50 falling 1.96%, the biggest Budget-day decline in six years. Selling pressure was concentrated in metals, banking, defence and commodity-linked stocks, reflecting immediate investor discomfort rather than a shift in long-term fundamentals.

The reaction was driven by two key factors. The sharp hike in Securities Transaction Tax (STT) on FnO raised concerns over higher trading costs for short-term participants. In addition, the absence of major new foreign investment incentives disappointed market expectations, even though the broader policy framework remained unchanged.

Global factors added to the pressure. Precious metal ETFs fell over 10%, tracking declines in gold and silver prices after a stronger US dollar, triggered by developments around the US Federal Reserve leadership. These moves reinforced a risk-off tone on the day.

Market Reaction vs What Actually Matters Long Term (Contd.)

At the same time, the budget reiterated its structural priorities, including record infrastructure capital expenditure of ₹12.2 lakh crore and a significant increase in defence spending, alongside proposals to restructure power finance institutions. These measures are long-term in nature and unlikely to be reflected in a single trading session.

For long-term investors, the gap between short-term market reaction and policy substance is critical. Budget-day volatility often reflects sentiment and positioning, while outcomes are shaped by fiscal discipline, capital-led growth, and policy continuity over time.



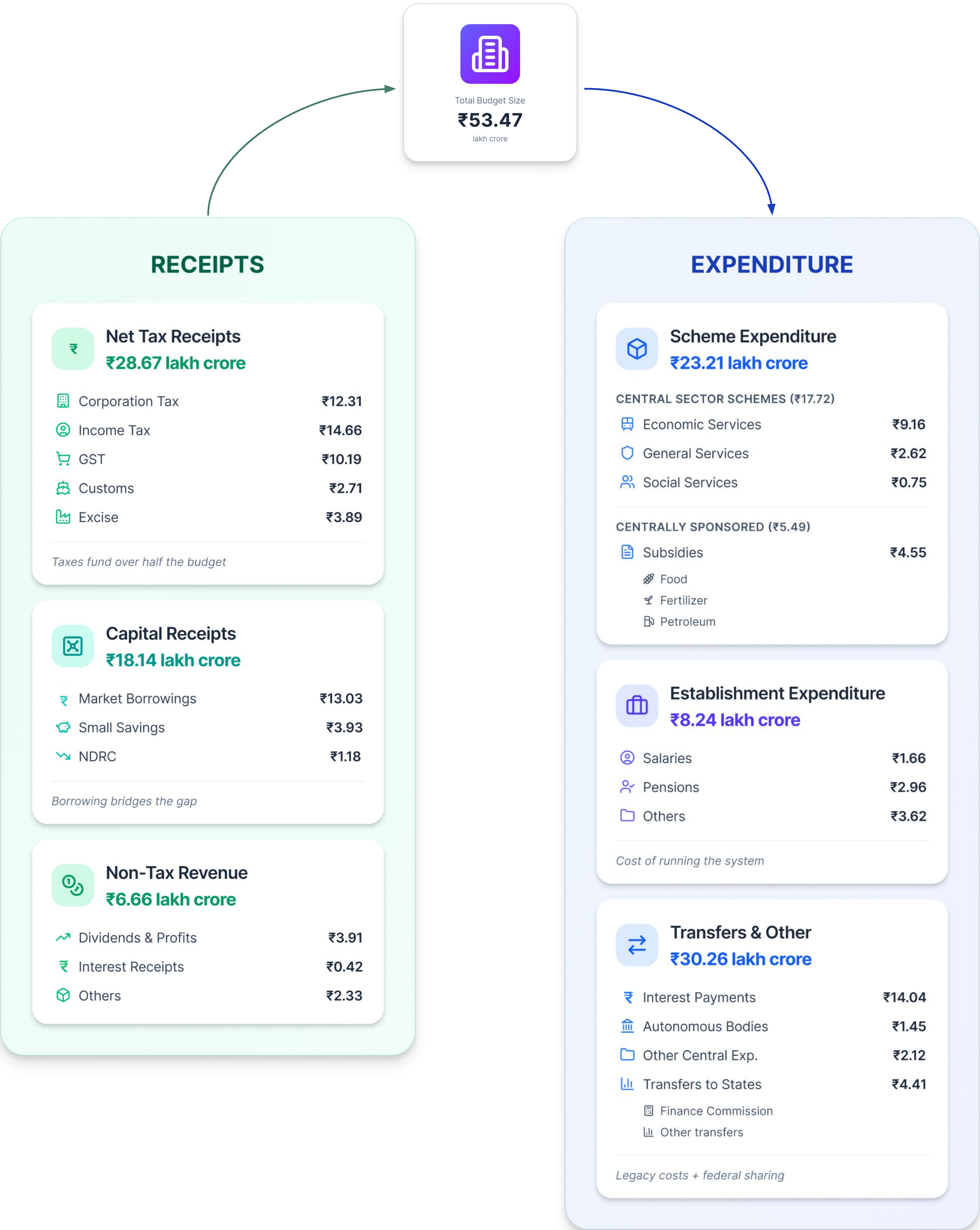
What Budget 2026 Means for Loans, Savings, and Markets

Borrowings and other liabilities account for about 24% of government receipts. For FY 2026–27, gross market borrowings are planned at ₹17.2 lakh crore (around 4.4% of GDP), while net borrowings are estimated at ₹11.7 lakh crore (about 3.0% of GDP). The remaining financing comes from sources such as the National Small Savings Fund and provident funds. Central government debt is expected to remain around 55–56% of GDP, with a medium-term objective of gradually reducing this closer to 50%.

For savers and investors, the key implication is stability. Lower fiscal risk supports bond market confidence and helps contain volatility in interest rates and currency markets. For households, tax compliance is eased through procedural simplification rather than rate changes, while speculative activity in markets is being gently discouraged through higher transaction costs.



Where the Money Goes & Comes



Spending Priorities in Budget 2026

Transport receives the highest sectoral allocation, followed by defence and rural development. Capital-intensive sectors dominate incremental spending, while subsidies remain contained.

This allocation pattern reflects a broader strategy: use public investment to crowd in private capital, reduce logistics costs, improve productivity, and strengthen strategic capabilities. The scale and spread of spending across transport, defence, energy transition, and rural infrastructure underline the government's focus on building long-term economic capacity.

Alongside direct spending, the government is also accelerating asset monetisation, particularly through the recycling of CPSE real estate assets via dedicated REIT structures. This approach aims to fund infrastructure without materially increasing debt, while deepening domestic capital markets.



Impacts on Key Sectors

BioPharma SHAKTI

The launch of BioPharma SHAKTI signals a focused push toward strengthening India's pharmaceutical and biotechnology ecosystem. The emphasis is on building domestic capability, scaling advanced manufacturing, and supporting innovation. Over the medium term, this supports higher-value segments of the pharma supply chain, though execution and time-to-scale remain key risks.

*Windmill Capital offers **Pharma Tracker smallcase**, which is likely to benefit from this push.*

Rare Earth Corridor

The Rare Earth Corridor highlights strategic intent to secure critical minerals essential for advanced manufacturing and clean energy technologies. While this creates long-term opportunities in resource processing and downstream manufacturing, the sector remains sensitive to execution challenges, global supply chains, and environmental clearances.

*Windmill Capital offers **Metal Tracker smallcase**, which is likely to benefit from this corridor.*

Impacts on Key Sectors

Defence Modernisation Push

Defence spending continues its steady rise, increasing from ₹4.5 lakh crore in FY 2024–25 to an estimated ₹5.67 lakh crore in FY 2025–26, and further to ₹5.95 lakh crore in FY 2026–27. Defence now accounts for about 11% of the total Union Budget, underscoring its strategic importance.

The focus is firmly on modernisation. Spending across key equipment and technology heads has increased, with Other Equipment forming the largest category. Aircraft and aero engines see strong growth, supported by customs duty exemptions for MRO inputs. Defence R&D continues to rise, strengthening long-term technological capability, while naval and ground mobility allocations have stabilised after earlier volatility. Overall, the composition of defence spending is shifting from maintenance toward capability building.

*Windmill Capital offers **Defence Picks AI Model smallcase**, which is likely to benefit from this push.*



Impacts on Key Sectors

Public Investment in Transport (Rail, Roads, Ports, and Aviation)

Transport receives the highest sectoral allocation at ₹5,98,520 crore, reflecting the central role of infrastructure in the growth strategy. Railways see major investments in high-speed corridors, dedicated freight corridors, and capacity expansion. Roads and highways continue to receive strong support through NHAI and general road works, while rural and urban mobility projects aim to improve connectivity and reduce congestion.

Maritime and waterways development is accelerated through new national waterways, coastal cargo promotion, and the creation of a Maritime Development Fund. Aviation and logistics receive targeted support through MRO incentives, seaplane viability funding, and container manufacturing schemes. Together, these initiatives aim to lower logistics costs and improve supply-chain efficiency over the long term.

*Windmill Capital offers the **Transporting India smallcase**, which tracks companies linked to this field.*

Impacts on Key Sectors

Technology, AI & Digital Infrastructure Initiatives

Technology and AI feature prominently as enablers of governance and growth. Simplification of transfer pricing rules for IT services and expanded safe harbour provisions reduce compliance friction and litigation risk. Tax incentives for cloud and data centre operations enhance India's attractiveness as a global digital hub.

On manufacturing and emerging technologies, the expansion of India Semiconductor Mission 2.0, increased support for electronics manufacturing, and allocations to the IndiaAI Mission and National Quantum Mission strengthen long-term innovation capacity. The integration of AI into agriculture, education, and public services reflects a broader push to embed technology into the real economy.

*Windmill Capital offers the **IT Tracker & Digital Inclusion Theme** smallcase focused on this theme.*



Impacts on Key Sectors

Strong Rural Focus

Rural development emerges as a central pillar of Budget 2026–27, with the Department of Rural Development receiving ₹2.73 lakh crore. Employment generation, infrastructure creation, and income security are addressed through a mix of existing and new programmes.

The launch of the Viksit Bharat–Guarantee for Rozgar and Aajeevika Mission (Gramin) strengthens livelihood creation, while continued allocations to MGNREGA and DAY–NRLM support income stability. Investments in housing, water access, sanitation, and rural roads aim to improve living standards. Agriculture and allied activities receive targeted support to promote diversification, productivity, and resilience.

Technology and financial inclusion play a growing role, with AI-driven advisory tools for farmers and expanded banking coverage reinforcing the rural growth agenda.

*Windmill Capital offers the **Rising Rural Demand Theme** smallcase tracking this segment.*

Key Takeaways

Budget 2026–27 signals continuity, discipline, and intent. Fiscal consolidation remains on track. Borrowing is increasingly used for asset creation. Policy reforms focus on simplicity and predictability. Sectoral priorities align with long-term growth rather than short-term stimulus.

For investors with a long-term horizon, the budget reinforces the importance of patience, diversification, and alignment with structural themes shaping India's economic trajectory.

We hope this breakdown has helped you make sense of the budget's impact.



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