

Progress continues: Crescent MFD Budget Analysis 2026-27

Crescent MFD, I have synthesized the key themes of the latest Union Budget 2026-27 (as presented in early February 2026). This budget marks a definitive shift from "recovery" to "structural strengthening," focusing on predictability for global capital and efficiency for the domestic investor.

Sustaining Momentum: The Crescent MFD Budget Analysis 2026-27

The Union Budget 2026-27 is a "continuity budget" with a sharp focus on Viksit Bharat 2047. By lowering the fiscal deficit target to 4.3% of GDP, the government has sent a clear signal to global rating agencies and investors: India is committed to fiscal discipline while aggressively funding long-cycle infrastructure.

1. Impact Across Key Sectors

The budget moves away from broad-based subsidies toward targeted industrial strategy:

- Defense & Strategic Manufacturing: A 20.1% increase in defense capital expenditure continues to fuel the "Atmanirbhar" (self-reliant) theme. This benefits heavy engineering and aerospace firms.
- Technology & IT Services: The introduction of a Unified Safe Harbour Regime at 15.5% for IT services provides much-needed tax certainty for global delivery centers, encouraging long-term offshore commitments.
- Infrastructure & Logistics: The focus on container manufacturing and ship repair aims to embed India deeper into the global supply chain, shifting the focus from just building roads to enhancing maritime and logistics efficiency.
- Healthcare (Biopharma): Increased R&D allocations and custom duty exemptions on 17 life-saving cancer drugs provide a boost to the pharmaceutical sector and lower costs for consumers.

2. The Economic Outlook: Short-Term vs. Long-Term

| Primary Focus | Economic Impact |
|--------------------------|---|
| Consumption & Compliance | Reduced TCS (2%) on overseas travel and higher standard deductions provide immediate liquidity to the middle class, supporting urban consumption. |
| Productivity-Lead Growth | Shifts from "employment schemes" to "skilling-led productivity". The lower fiscal deficit (4.3%) reduces the government's crowding-out effect, lowering the long term cost of capital for private industry. |

3. Impact on Investors and Capital Markets

For the modern investor, the budget is a "mixed bag" that favors long-term compounding over high-frequency speculation.

- **The Rise of Trading Costs:** To curb excessive speculation, the Securities Transaction Tax (STT) on derivatives has been hiked significantly (Futures to 0.05% and Options to 0.15%).
- **Insight:** This will likely impact arbitrage fund returns (estimated drag of 0.30%–0.35%) and high-frequency traders, while leaving long-term delivery investors relatively unscathed.
- **Share Buybacks:** A major structural change—proceeds from share buybacks will now be taxed as Capital Gains for all shareholders. This prevents tax arbitrage and aligns the interests of promoters with minority investors.
- **Real Estate & Debt:** The rationalization of MAT (reduced to 14%) and the treatment of it as a final tax is a massive positive for capital-intensive sectors, improving the cash flow of listed infrastructure and real estate companies.
- **FPI Inflows:** Foreign Portfolio Investment (FPI) limits in listed equities have been relaxed (individual cap raised to 10%), which is expected to deepen liquidity in the secondary market.

Crescent MFD's View: The "Compounder's" Market

At Crescent MFD, we believe this budget rewards the patient investor. While the hike in STT may cause a temporary dip in derivative volumes, the structural reforms in corporate taxation and the continued push for infrastructure create a fertile ground for equity compounding.

Key Takeaway: The 2026 Budget has effectively "taxed the noise" (derivatives) to "fund the signals" (infrastructure and R&D).