Semiconductor push signals an upswing

STRONGER CAPEX, SERVICES SECTOR PROGRESS & AI ADOPTION TO LIFT FY27 EARNINGS

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THE BUDGET SPEECH mentioned "semiconductors" early on, signaling a major pivot in the government's view of what India should pursue. A likely boost to capex, services sector growth and AI, along with slower than expected fiscal consolidation, will likely support F2027 earnings, further helped by increased demand for equities through buybacks. We are Overweight Financials, Consumer Discretionary and Industrials.

Focus on manufacturing sectors:

Budget seeks to facilitate manufacturing as a key engine for growth. Key sectors are semi-conductors, rare-earth, biopharma, electronic components, critical minerals, textiles, etc., that are critical in supporting domestic value chain resilience and reducing import dependence.

Semiconductors: The Budget reinforces India's push to become a global chip manufacturing hub by supporting capacity expansion.

Electronics components: With a significantly raised outlay for electronics manufacturing incentives, the Budget aims to strengthen domestic production.

Biopharma: Strategic focus on biopharmaceuticals is intended to boost innovation and scale up manufacturing capacity.

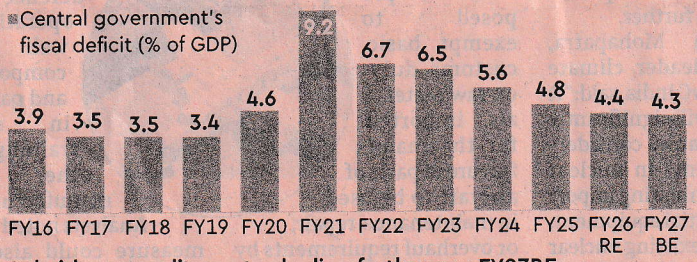
Chemicals: Proposals such as setting up new chemical production parks and related infrastructure aim to build integrated chemical clusters, and reduce dependency on imports of key intermediates.

Capital Goods: The emphasis includes policy support to expand heavy machinery and industrial equipment manufacturing.

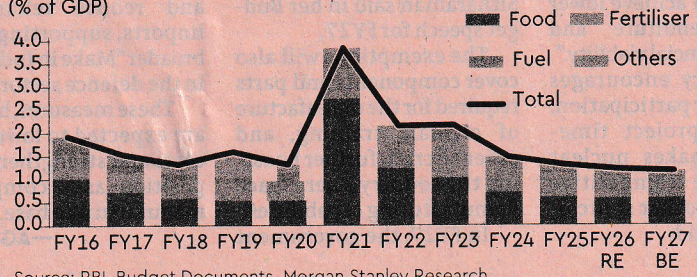
Rare Earths & Critical minerals: Initiatives such as rare earth corridors aim to develop domestic mining and processing, securing inputs for EVs.

MACRO IMPLICATIONS

Fiscal deficit to reach eight-year low of 4.3% of GDP per FY27BE



Subsidy expenditures to decline further per FY27BE



Source: RBI, Budget Documents, Morgan Stanley Research