KRIIS
PORTFOLIO PRIVATE LIMITED

2nd February, 2026

Dear Investor,

On the market, Nifty benchmark remained highly volatile despite with continuous selling by FPI, currency depreciation etc. However strong macro performance was the saviour with GDP growing at 8.2% and improved performance by corporates.

Volatile metals led by speculation than economics

We saw huge price rise in non ferrous metals across the board seemingly more due to paper demand than real. Another reason was the de-dollarisation majorly was the reason for the price rise more technical in nature. We also saw a drastic pull back in gold and silver by the end of the month. Hopefully it should settle in the future.

Key takeaways from the Union budget presented on 1ST Feb 2026.

- FY27 fiscal deficit targeted at 4.3% of GDP (vs FY26 fiscal deficit of 4.4% of GDP) – a small 10bps reduction. This is lower reduction that 20-25bps reduction expected by the market.
- Over the last 3 years, Govt has reduced fiscal deficit by 210bps cumulatively (40bps in FY26). So Govt drag on GDP growth goes down in FY27. Central Govt debt to GDP goes down by 50bps to 55.6% by Mar'27. Mar'31 target is 50% (with 1 ppt deviation) implies sharper debt reduction in future years.
- Govt capex spend is projected to grow by 11% in FY27 (4% for FY26). Defence capex is slated to grow by 17% (16% in FY26). Roads & Railways capex is projected to grow by 8% and 11% respectively – a positive. This can be a positive for L&T, BEL, Cement cos etc.
- Disinvestment proceeds have been budgeted at Rs800bn, >2x YoY. This could include IDBI bank divestment but also imply listed PSU stake sales at accelerated pace.
- A big boost given to the data centre business by offering a 20-year tax exemption for the cloud service providers (or tenants). Data centre infra owners were given a 20-year exemption earlier in Sep'25 itself. Could be a trigger for DC developer like Lodha.
- Increased budget allocation for electronics component manufacturers (Rs400bn vs 229bn) – a positive for electronics manufacturing in India.
- Several procedural issues being simplified. This includes simpler taxation for GCCs (global capability centres) through higher safe harbor limits (+ve office REITs), multiple steps for easier tax administration for individual payers etc.
- Increased in STT (Securities Transaction Tax) on futures & options would try and curb speculation further. This would be a -ve for capital market plays like brokers & exchanges. -ve for BSE and Groww.
- Change in taxation of Buybacks reduces tax incidence on promoters and minority shareholders. This is likely to take up yields marginally (15-20bps) which is a positive for IT cos which see large buybacks.

Market strategy

The Budget was largely in line with our modest expectations, signaling more of continuity in the fiscal approach of past five years. The Finance Minister balanced the imperatives of staying on the fiscal consolidation path with sustaining growth dynamics, while also seeking to fortify India's business architecture against prevailing geopolitical headwinds. The FM also utilized the Budget platform to signal the government's continued commitment to improving ease of doing business and weaning out procedural bottlenecks.

Market reaction (Nifty down 2%) was sharp, as the measure to raise STT on Futures (2bp to 5bp) and Options (10bp/12.5bp to 15bp) dented sentiment. This was compounded by the lack of measures aimed at soothing equity market sentiment, such as a reduction in LTCG, a hike in FPI limits for PSUs, or measures to stimulate FII investments. Unlike FY26, when personal tax forbearance was a key step, there were no major high-impact measures in FY27 to enthuse markets. Given the limited fiscal headroom, the Budget could have been leveraged to perk up sentiments, making this a missed opportunity.

As expected, the Budget is tilted toward capex, which is budgeted to grow 11.5% YoY to INR12.2t in FY27E, while revenue expenditure growth is budgeted at a modest 6.6% YoY. Within capex, understandably, defense capex is expected to register the highest growth (at 17.6% YoY to INR2.2t), cognizing the prevalent geopolitical strife. Growth in railways/road capex is expected to pick up to 10.2%/8% YoY, a sharp improvement over the dip in FY26E.

Last year's pivot toward stimulating urban consumption through personal tax forbearance has given way to higher growth in some rural-oriented flagship schemes, such as MGNREGA+GRAMG (+43% YoY in FY27BE over FY26RE), JJM (+298%), PMGSY (+73%), and PMAY-Rural (+69%). While actuals may differ, the budgeted numbers suggest a renewed intent to address rural and farm incomes through select higher-impact rural programs.

The standout announcement was the government's intent to attract global investment into data centers. While the nuances need to be weighed and the theme is likely to play out over the longer term, the proposed tax holiday of 22 years is unprecedented and reveals GoI's resolve to tap this megatrend.

Diversification of our exports market.

India has so far signed FTAs with 6 countries including the recent European Union. In order to prepare for high quality exports the budget provided incentive to build India as a global manufacturing hub and a reliable supply chain for the world. This should provide a massive opportunity to grow and provide employment and prosperity.

US and India also concluded the trade deal while penning the note which was long awaited. This should provide boost to our growth and employment which was affected in the recent times especially the textiles, jewellery, shrimp ect.

Outlook and Valuations:

We strongly feel one should take a longer-term perspective, post the healthy correction and with valuation becoming reasonable. With massive sizable manufacturing opportunities due to the trade deals which could provide huge export opportunities and digital and AI world India offers attractive investment destination. We firmly believe that India is on the right path to become a third largest world economy.

Thanks with Regards,
C A Rakesh Doshi
Principal Officer & Fund Manager
KRIIS - The Portfolio Management Company