

Devoid of Hype, High on Substance

Notwithstanding the negative reaction of the markets, in our opinion, the Union Budget 2026-27 ticks all the right boxes.

Given the weak markets and the large FII selling preceding the budget, markets were expecting some steps by the government to reverse the same. Thankfully, the government has chosen to play for the long term. Taxation / rules should not be tweaked to deal with short term minor situations; rather taxation / policies should be stable and should encourage growth and investment, should be equitable and should be simple to administer.

Hike in Securities Transaction Tax on F&O should curb speculation, change in taxation on buybacks should improve capital allocation.

With the structural reforms largely behind, the focus in Bharat has rightly shifted to simplification of rules, processes; to targeted interventions and to build on our strengths.

The government's focus on regulatory simplification is unrelenting. Key initiatives include GST reforms, the Income Tax Act, 2025 with streamlined rules and forms (likely to be notified shortly), and the introduction of new labour codes. The government is also rationalising mandatory quality control orders and establishing high-level committees dedicated to deregulation and reducing compliance costs. Offences are being decriminalised in favour of monetary penalties, while safe harbour rules, customs provisions, and duty inversion structures are being simplified. Collectively, these measures represent significant progress toward a more efficient and business-friendly regulatory environment.

This budget has identified and is taking steps to support scaling up manufacturing in 7 strategic and frontier sectors –

- Biopharma SHAKTI – Building an ecosystem for domestic production of biologics and biosimilars through National Institutes of Pharmaceutical Education and Research (NIPER) and accredited India Clinical Trials sites.
- India Semiconductor Mission 2.0 – Production of equipment and materials, design full-stack Indian IP, and fortify supply chains. Focus is also on research and training centres to develop technology and skilled workforce.
- Electronics Components Manufacturing Scheme – Outlay is doubled to INR 400 bn to capitalise on the momentum of rising investment commitments.
- Rare Earth Corridors – Supporting mineral rich states to promote mining, processing, research and manufacturing.
- Chemical Parks – Scheme to support states in establishing 3 dedicated Chemical Parks will be launched.

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- Capital Goods – Hi-Tech Tool rooms for precision manufacturing at lower cost. Scheme for Enhancement of Construction and Infrastructure Equipment (CIE) to be introduced for manufacturing of high-value & advanced CIE. Further, a scheme will be launched to develop a competitive container manufacturing ecosystem in the country.
- Textile Sector – Schemes and initiatives for self-reliance in fibres, modernising traditional clusters with capital support, providing targeted support to weavers and artisans, upgrading the textile skilling ecosystem through industry and academic institutions.

The budget aims to build on Bharat’s strengths in services and takes a number of targeted initiatives to skill youth, create jobs and to promote growth.

- Set up a High-Powered ‘Education to Employment and Enterprise’ Standing Committee with focus on emerging technologies, including AI.
- Addition of 1 lakh Allied Health Professionals over the next 5 years through upgradation of existing and new institutions.
- Launch of scheme to support states in establishing five Regional Medical Hubs to promote India as a hub for medical tourism.
- Support Indian Institute of Creative Technologies, Mumbai in setting up AVGC Content Creator Labs in 15,000 secondary schools and 500 colleges as the Orange Economy is expected to require 2 million professionals by 2030.
- Establishment of new National Institute of Design to boost design education and development in the eastern region of India.
- 4 Telescope Infrastructure Facilities to be established to promote Astrophysics and Astronomy via immersive experiences.
- Setting up of National Institute of Hospitality to function as a bridge between academia, industry and the Government.
- Upskilling 10,000 guides in 20 iconic tourist sites through a standardized, high-quality 12-week training course in collaboration with IIMs.
- Development of ecologically sustainable mountain trails, turtle trails and bird watching trails to capture the potential and opportunity to offer world-class trekking and hiking.
- Launch of Khelo India Mission to transform the Sports sector.

The eye for detail for a Union Budget is impressive and commendable. While big bang ideas are eye catching, focus on small improvements and niche areas suit a diverse Bharat more.

The long-term objective is to enhance Bharat’s share in global services to 10% from the present 4%.

As seen in previous budgets, the underlying assumptions in budget estimates are realistic. The budget’s focus on fiscal consolidation continues. It maintains the target of reaching a debt-to-GDP ratio of 50±1 percent by 2030-31 from the current 56.1 percent. The headwinds of fiscal consolidation is likely to reduce going forward as the Covid related surge in fiscal deficit has been wound down. India’s Real GDP growth is likely to accelerate at ~7% vs last 10 year average of 6.1%.

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MANAGERS**

01st February 2026

In summary, this is one more step in the long journey towards Viksit Bharat. The disappointment of the stock market is in our opinion a result of unrealistic expectations before the budget. We continue to believe that after the nearly 18-month time correction in NIFTY, large caps are reasonably valued and offer compounding prospects in line with nominal GDP growth. Markets are now in an accumulation phase for long-term investors; Small and Mid caps however continue to be less attractive as a category.

In view of the above, this is a reasonable opportunity to get invested over the next few months. Return expectation however have to be realistic and should be ~12% CAGR over the long term. This is in line with the nominal GDP growth and likely growth in corporate profits.

Please feel free to reach out to the undersigned or services (services@3pim.com) for any clarifications, feedback or suggestions.

Warmly,

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The 3P way. Simple but not easy.

1P

Prudence of creating a portfolio of sustainable and reasonably valued businesses.

2P

Patience with businesses and markets. Risk in equities reduces as investment horizon increases.

3P

Performance is the outcome.