



RENAISSANCE INVESTMENT MANAGERS

FY27 budget—focus on manufacturing, employment and economic security

We found the FY27 union budget forward looking and strategic, one that is aimed at sustaining growth, generating employment and building economic resiliency, **keeping in mind the changing geopolitical context in terms of ongoing trade fragmentation and supply-chain reorganization.**

Manufacturing growth and supply chain resiliency remain key strategic priorities, as evidenced by the following budget proposals:

1. Electronic component manufacturing scheme or ECMS—allocation raised to INR 400bn in FY27BE from INR 239bn in FY26RE. Note BE is budget estimate and RE is revised estimate
2. Outlay for ISM 1.0 (Semiconductor Mission) raised to INR 80bn vs 53bn in FY26RE. ISM 2.0 announced with initial outlay of INR 10bn
3. Import duty (BCD) exemptions on capital goods—extended till 2035 for nuclear power, introduced for manufacturing of Lithium-Ion batteries
4. Support announced for other key industries such as: (a) Bio-pharma; (b) Chemical; (c) Rare Earths; (d) Construction and Infra Equipment or CIE; and (e) Container manufacturing
5. Carbon Capture Utilization and Storage (CCUS)—INR 200bn allocated for 5 years
6. Data Centers—foreign companies providing cloud services globally to get 20-year tax holiday

The budget also included several proposals to **boost labor-intensive manufacturing**, as well as **service sector employment** in areas such as Healthcare, Education, Sports, Culture and Tourism. Select proposals include:

1. Textiles—allocation of INR 15bn towards mega textile parks, natural fibers, capital support for modernization etc.
2. Sports goods and equipment—proposal to boost R&D, Design, Testing and Manufacturing
3. A new National Institute of Design, 5 University Townships with state govt. support, content creator labs in 15,000 secondary schools and 500 colleges
4. Healthcare—launch of 5 medical tourism hubs in PPP mode, training of 150,000 care-givers, scaling up availability of veterinary professionals by more than 20,000
5. Culture and Tourism—pilot scheme for upskilling 10,000 guides in 20 iconic tourist sites, develop 15 archaeological sites, set up a National Institute of Hospitality
6. Sports—development of sports infrastructure, talent and coaching development

Employment generation in the above domains could help partially offset any impact of AI on more cognitive jobs.

The budget math—prudent and pragmatic

The government has budgeted a slower pace of fiscal consolidation in FY27BE vs FY26RE. Gross Fiscal Deficit or GFD is budgeted to grow at 9% yoy to INR 17tn, and thus a Nominal GDP growth of 10% in FY27BE would result in GFD/GDP coming down to 4.3% from 4.4%. Of the 1.37tn yoy absolute increase in FY27BE GFD, about 95% comes from higher interest expenses. The primary deficit [GFD less interest expenses] is broadly stable at around INR 2.9tn, as the increase in Receipts (+2.5tn) broadly matches with the budgeted increase in non-interest expenditure (+2.6tn).

Receipts: Budgeted growth of 7.2% in total receipts is based on **7.2% growth in net taxes** and flat non-tax receipts. Net tax growth 7.2% assumes 12.5% growth in personal income taxes (including capital gains and STT), which appears realistic given historical tax buoyancy of 1.2x on average. Indirect taxes show a modest growth of 2.3% vs FY26RE, driven by full-year impact of GST rate cuts and elimination of Compensation Cess. Excise duty shows 16% growth, likely boosted by an increase in excise duty on cigarettes. Divestment target has been raised to INR 800bn from 338bn in FY26RE (470bn in FY26BE); this may be on the higher side, given government's below-par track record historically.

Expenditure: Government has kept revenue expenditure or Revex on a tight leash, with a budgeted growth of 4.9% (vs 4.4% in FY26RE). Capex growth of 11.5% is slightly ahead of NGDP growth, with Capex-to-GDP ratio broadly flat at yoy at 3.1%. However, capex-mix has improved in favor of Defense (17% growth) and Loans to States (+33%), while capex on Roads/Highways/Railways is seen to be growing at 8-10%. Interest expense-to-GDP continues to be rather sticky at 3.6% vs 3.6% in the current fiscal.

Summary of Budget [Source: Union Budget documents]

India Union Budget FY27 (INR trillions)

Particulars	FY26RE	FY27BE	Change (INR tn)	Change (%)
Receipts				
Net tax receipts	26.7	28.7	1.9	7.2
Non tax receipts	6.7	6.7	(0.0)	(0.2)
Capital receipts incl. divestments	0.6	1.2	0.5	85.0
Total Receipts	34.1	36.5	2.5	7.2
Expenditure				
Reven (ex-interest)	25.9	27.2	1.3	4.9
Capex	11.0	12.2	1.3	11.5
Interest	12.7	14.0	1.3	10.2
Total Expenditure	49.6	53.5	3.8	7.7
Gross Fiscal Deficit [GFD]	15.6	17.0	1.4	8.8
GFD/GDP (%)	4.4	4.3		
Primary Deficit [PD]	2.8	2.9	0.1	2.7
PD/GDP (%)	0.8	0.7		
Nominal GDP	357.1	393.0	35.9	10.0

The union government has reiterated its focus on continuously bringing down the Debt/GDP ratio from 56.1% in FY26RE to around 50% by FY31. This should happen, as long as the Primary Deficit (budgeted at 1.3% of debt for FY27) + Borrowing Cost (6.5% currently) remain below the N-GDP growth rate. The FY27BE Debt/GDP ratio has been pegged at 55.6%, which implies an annual fiscal consolidation of around 10-20bps in GFD/GDP for attaining the FY31 target of 50% debt/GDP.

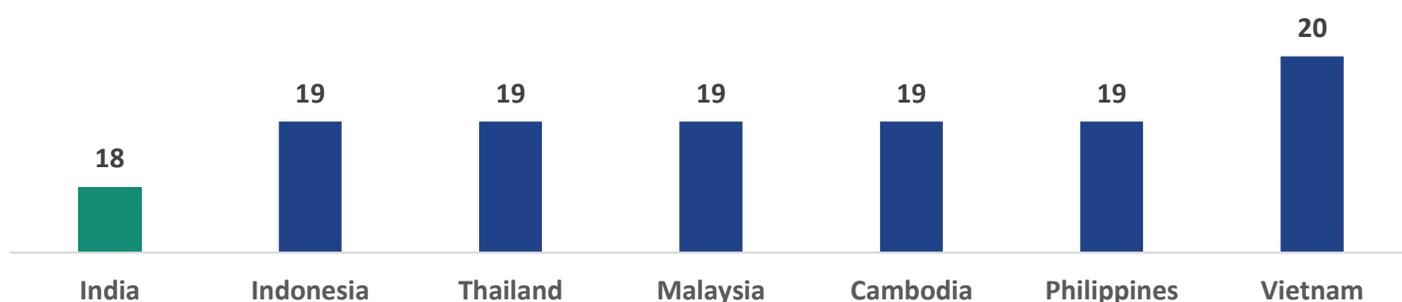
Negative sentiment post-budget offset by India-US trade deal

Market sentiment turned negative post budget, because of: (1) unexpected hikes in securities transaction tax or STT rates on F&O trades, despite a positive announcement of tax rationalization on share buybacks; (2) expectations in some sections of the market about a reduction capital gains tax on equities, which were belied; and (3) lack of near-term measures to boost private corporate capex.

Nonetheless, after the budget, the US and India announced a 'trade deal' with reduced tariff rates. The 25% Russian oil penalty on Indian goods is removed immediately, while the reciprocal tariff rate of 25% will be brought down to 18% subject to successful conclusion of the Interim Agreement. This has partly sweetened the sour sentiment, resulting in a sharp recovery in the markets and in the Indian Rupee. While details of deal-contours are awaited, the announcement is incrementally positive for GDP growth. In fact, despite relatively high real interest rates (on recent inflation), the RBI did not cut the repo rate in its latest monetary policy meeting (6th Feb), based on a better growth outlook, and higher inflation forecasts driven by increase in precious metal prices and normalization of base-effect in case of food inflation. We see scope for one additional 25bps rate cut in 2026. In our view, the RBI may be keeping some ammunition, should growth turn out softer because of weak monsoons or any other factors. We note bank credit growth has already seen a handsome recovery at 13.1% yoy as of mid-January, after being range-bound at 9.5-10.0% for much of the first half (1HFY26).

US Tariffs

Reciprocal Tariff Rate - Exports to US



Back to basics—earnings growth recovery, cost of capital and valuations

Even as a recovery in corporate profit growth is underway, the market's valuation multiples are not inexpensive.

At Nifty-50 index value of 25,700, its valuation at 21x 1-yr forward 'EPS' is ahead of the 10-yr average multiple (=20x). Valuations are adequately discounting medium-term earnings trajectory (low-to-mid teens CAGR), expected by us. Further, valuation multiples face headwind from sticky and possibly rising cost of capital – as India 10-year G-Sec yields have risen by 50bps from 6.25% in May'25 to 6.75% currently. This has been driven by FPI outflows from debt markets (INR depreciation in 2H25) and rising fiscal strain as recently evidenced by higher-than-expected gross borrowing program of INR 17.2tn for FY27BE vs 14.2tn for FY26RE. We therefore see dim chances of any valuation re-rating this year. As such, index returns would largely follow earnings compounding rate in our view.

Looking at the flows, while domestic MF equity inflows remain strong at around INR300bn per month led by SIPs, the FPI outflows continue to be a drag on market performance. FPI outflows of US\$18.8bn in 2025 were driven by India's slower earnings growth, lack of AI trade/narrative, INR depreciation, and India's excessive valuation-premium over MSCI-EM relative to history. MSCI-India TR Index had its worst year of underperformance relative to the MSCI-EM TR index, at 30% in 2025 (in USD-terms), and yet India's valuation premium has not reverted / normalized to historical levels. As such, FPI outflows are likely to remain a hurdle for the market in 2026 as well, potentially leading to another year of relative underperformance vs EM equities.

Our portfolios remain skewed towards credit, consumption, internet and select outsourcing plays

Given the backdrop of improving credit growth and consumption stimulus, we remain positively biased towards private banks and select NBFCs. We believe banks are a solid way to play domestic consumption/industrial demand recovery in India; they also provide proxy exposure to the real estate sector. We also have select exposure to life insurance—secular compounding stories with reasonable valuations. Within Consumption, we own select consumer staple stocks having higher discretionary sales mix and the potential for above-average earnings compounding, driven by double-digit topline growth as well as margin expansion. We are however, a lot more bullish on pure consumer discretionary names having significant moats, in segments like consumer durables, branded apparel retail, alcoholic beverages, and auto OEMs & ancillaries. We also like new age / internet businesses, mainly consumer-tech and select fin-tech plays. These companies have large addressable markets, stellar track record of execution, and sustainable competitive moats.

In summary, our portfolios are skewed towards companies that will likely witness greater earnings acceleration over the next two years, fueled by recovery in credit growth (including consumer proxies), recovery in consumption (across staples, durables and discretionary), and recovery in export/outourcing growth. We continue to maintain our disciplined stock selection process to ensure long term, sustainable returns for our investors.

Happy Investing

Pankaj Murarka
Founder & CIO

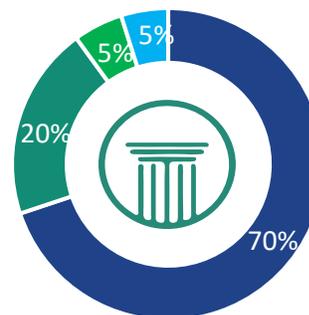
Renaissance Opportunities Portfolio

Inception Date: 1st January 2018
Data as on 31st January 2026

Investment Strategy

- ❖ Large cap strategy
- ❖ Blend of growth & quality
- ❖ Diversified portfolio of 25 - 30 stocks
- ❖ High conviction ideas
- ❖ Investing across businesses which are at different stages of their business lifecycle

Portfolio Capitalization



■ Large Cap ■ Mid Cap ■ Small Cap ■ Cash

Top Holdings

Company	Weight (%)
HDFC Bank Ltd	7.93
ICICI Bank Ltd	6.16
Tech Mahindra Ltd	6.03
Infosys Ltd	5.75
Reliance Industries Ltd	5.17

Top Sectors

Sector	Weight (%)
BFSI	32.32
Information Technology	17.69
Consumer Discretionary	12.89
Industrials	5.89
Pharma & Chemicals	5.41

Portfolio – Fundamental Attributes

Particular	FY25	FY26E	FY27E
PAT Growth (%)	11.4	10.4	15.3
ROE (%)	14.8	14.6	15.0
P/E	23.8	21.6	18.7
PEG	2.09	2.07	1.22

Portfolio – Risk Attributes*

Particular	ROP	Nifty 50 TRI
Standard Deviation (%)	21.83	20.43
Sharpe Ratio	0.52	0.41
Beta	0.96	
Treynors Ratio (%)	11.78	
Information Ratio	0.30	

*3 years data

Financial Year Returns

Financial Year	ROP	Nifty 50 TRI
FY25-26 YTD	4.95%	8.80%
FY24-25	9.88%	6.65%
FY23-24	38.02%	30.08%
FY22-23	3.80%	0.59%
FY21-22	30.77%	20.26%
FY20-21	83.53%	72.54%

Periodic Returns

Period	ROP	Nifty 50 TRI
1M	-3.00%	-3.04%
3M	-0.35%	-1.45%
1Y	3.56%	8.97%
3Y CAGR	16.95%	14.08%
5Y CAGR	18.31%	14.54%
7Y CAGR	15.68%	14.25%

The performance related information provided herein is not verified by SEBI.
Returns are for all clients on TWRR basis

Sustainable Quality Growth At Reasonable Price (SQGARP)TM

 <p>Sustainability</p> <p>Companies with sustainable and Durable business models.</p>	 <p>Quality</p> <p>Superior quality businesses as demonstrated by Competitive edge, Pricing power ,ROE, FCF. Good quality and competent quality and competent Management teams.</p>	 <p>Growth</p> <p>Business that can deliver Superior growth over Medium term to long term</p>	 <p>Price</p> <p>Ability to invest at reasonable valuations. Fair value approach to violation, focus on economic value of business.</p>
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Statutory Details

Renaissance Investment Mangers Private Limited (“RIMPL”) is registered under SEBI (Portfolio Managers) Regulations, 1993 as a Portfolio Manager vide Registration No. INP000005455. RIMPL is also an Investment Manager to Renaissance Alternate Investment Fund– Category III which is registered with SEBI as Alternate Investment Fund under SEBI (Alternative Investment Funds) Regulations, 2012 vide Registration No: IN/AIF3/18-19/0549.

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