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Papering over the cracks

Madhavi Arora
madhavi.arora@emkayglobal.com
+91 22 6612 1341

Harshal Patel
harshal.patel@emkayglobal.com
+91 22 6612 2434

Refer to important disclosures at the end of this report

Preface

- **India had seen a much-needed federal fiscal consolidation push post-Covid, with both—the Centre and states —aligning in terms of their fiscal behavior. However, the past couple of years now indicate that this convergence has broken, possibly over the medium term. While the Centre has continued to bring down its FD/GDP (and has now committed to reduce debt/GDP), states' aggregate FD/GDP has expanded since FY23 and looks to be >3% on a structural basis, moving forward.**
- **This has implications for India's debt profile – with the Centre's starting position being much higher than that of states, India will be able to comfortably bring down its debt/GDP even while keeping fiscal relatively high; on the other hand, states (whose debt/GDP is nearly half that of the Centre) will need to work much harder – even maintaining FD/GDP at 3% will not be enough to reduce debt/GDP. As a result, despite the Centre's best efforts, India's general government debt/GDP is likely to remain sticky at ~80% over the next decade.**
- **States' fiscal profligacy has been driven by two major factors – weak revenue mobilization and election-led focus on freebies/subsidies. The nature of the federal tax policy means that states have limited taxation (and thus revenue-raising) levers and are hence dependent on transfers (tax devolution + grants) from the Centre. This will be exacerbated in the short term by the GST reforms which will lead to a double whammy for states (SGST + devolution loss), although an improvement in economic activity may lead to higher tax collections eventually.**
- **Additionally, the last two years have been extremely heavy with state elections, wherein a new wave of populist spending has been unleashed. Even hitherto fiscally responsible states have been caught up in this electorally successful "race to the bottom" and while some spending is rationalized post-polls, there seems to be a new baseline for freebie spending which is already impinging on states' fiscal health.**
- **However, states have also managed to focus on capex, with achievement rates vs BE at multi-year highs. The Centre's capex loans have played a big part here, although the aforementioned revenue concerns + sticky subsidy spending mean that this encouraging trend may be under threat.**
- **Fiscal profligacy has also begun to bite via the debt market – SDL spreads blew up recently due to fiscal concerns (along with a supply-demand mismatch), with the GSec market bearing some of the brunt as well. With states' FD/GDP looking to be structurally higher, elevated SDL supply could play an increasingly important role in the overall government securities market going ahead and may even become a driver for GSec yields – a hitherto unthinkable thought!**
- **Our analysis of state finances covers these myriad issues, along with an assessment of states' FY26 budgets and their fiscal progress in the year so far. With FY26BE FD/GDP at 3.2% (vs FY25P: 3.3%), states are also running the risk of slippage vs BE (with nominal FD running 50% higher in FY26TD), especially as the impact of GST 2.0 will play out in H2. In such a scenario, reduction in general government FD/GDP will continue to be driven by the Centre, and remain higher than 7.5% (FY25P: 8.1%).**

Key concerns around State finances

1) Centre and states on different fiscal trajectories

- ✓ States abandon fiscal consolidation in contrast to the Centre, with further Centre-state divergence likely in FY26E
- ✓ States' FY26BE FD/GDP at 3.2%, albeit with upside risks due to optimistic revenue estimates and GST losses
- ✓ 14 of the 19 states slipped vs BE in FY25P; risks abound for FY26E
- ✓ States' 4MFY26 revenue growth is anemic, leading to higher YTD deficit, despite curtailed spends
- ✓ Fiscal dynamics to keep sovereign debt/GDP at ~80%, even as the Centre consolidates

2) Deficits reset higher post-elections

- ✓ The last 20 years have seen states' spending picking up post-elections, with the current cycle seeing much higher deficits
- ✓ Subsidies now look sticky at 1.7% of GDP, with upside risk during election cycles
- ✓ Bihar: A (basket) case study

3) States' revenue troubles could grow

- ✓ States' OTR once again likely to be far lower than that budgeted in FY26E (even before the GST cuts)
- ✓ Optimistic budget estimates put states' indirect tax mobilization at risk
- ✓ Central transfers to States continue to fall – 16th FC recommendations may bring some relief

4) Healthy capex despite headwinds

- ✓ Strong capex achievement in FY25P despite headwinds, with FY26TD capex having steady growth
- ✓ Committed expenditure (ex-subsidies) burden reduces, though continuation of the trend will be difficult
- ✓ Post-Covid increase in states' capex has been led by small- and mid-size states
- ✓ The last six years have seen Transport and Urban Development evolve into the largest state capex sectors

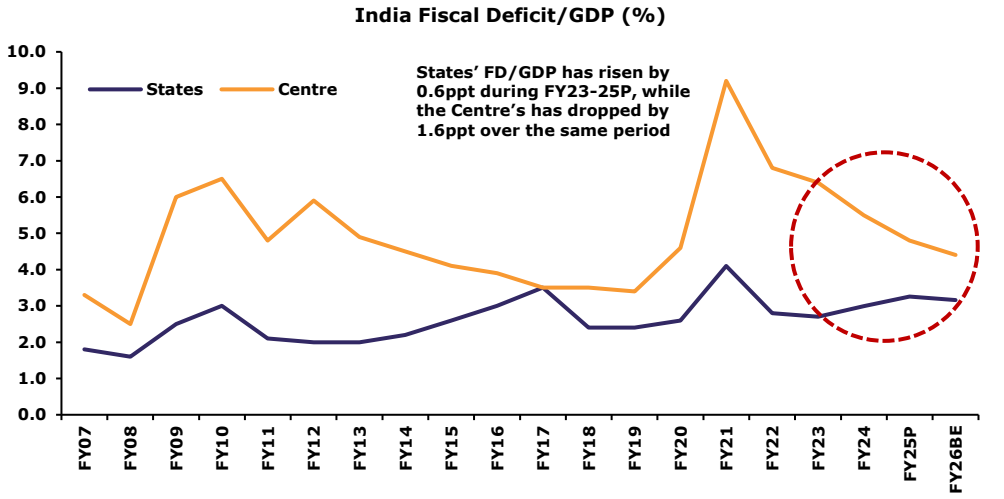
5) SDL supply curse

- ✓ The SDL supply curse led by quantum and tenor effect
- ✓ SDL spreads may narrow marginally, though structural issues persist
- ✓ Sovereign DD from long- and ultra-long players to moderate

1) Centre and states on different fiscal trajectories

States abandon fiscal consolidation in contrast to the Centre…

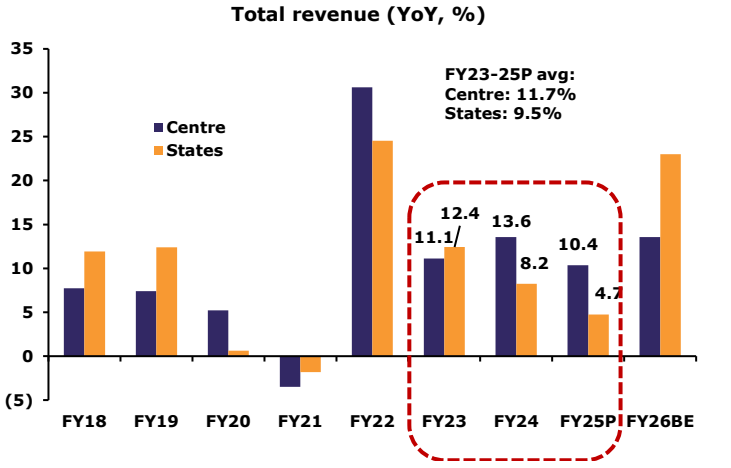
Exhibit 1: States' fiscal path is now diverging from the Centre's…



Source: RBI, Union Budget, States' budget documents, Emkay Research

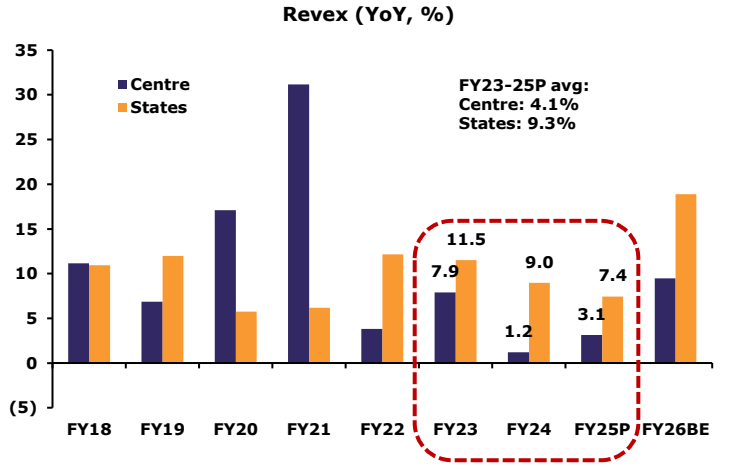
- **States' post-Covid consolidation comes to a halt:** States had followed the Centre in improving their fiscal position post-Covid, although in a considerably different manner (Centre: healthy revenue allowing focus on capex, while cutting FD/GDP; States: poor revenue forcing expenditure cuts). However, the last two years have upended this – states have increased revex (especially freebies/subsidies) and, with revenue growth remaining poor, deficits have soared **(~0.6ppt rise in FD/GDP during FY23-25P)**
- **Capex focus to take a hit:** Helped by the Centre's capex loan program, states had improved their capex post-Covid, with FY24 seeing a multi-year high of ~89% capex achievement vs BE. On the back of this, **FY25P also saw ~88% of capex achievement** – however, this may be under threat now, with states facing further revenue cuts due to GST rationalization
- **States' FD/GDP finds a new normal at 3%:** Amid these dynamics, **states have posted >3% FD/GDP for two straight years**, with FY25P seeing them slip vs BE as well. Given the growing revenue pressure and sticky revex, **we believe states' FD/GDP has found a new normal at 3%,** with FY26BE at 3.2%

Exhibit 2: …as their revenue growth lags the Centre's considerably…



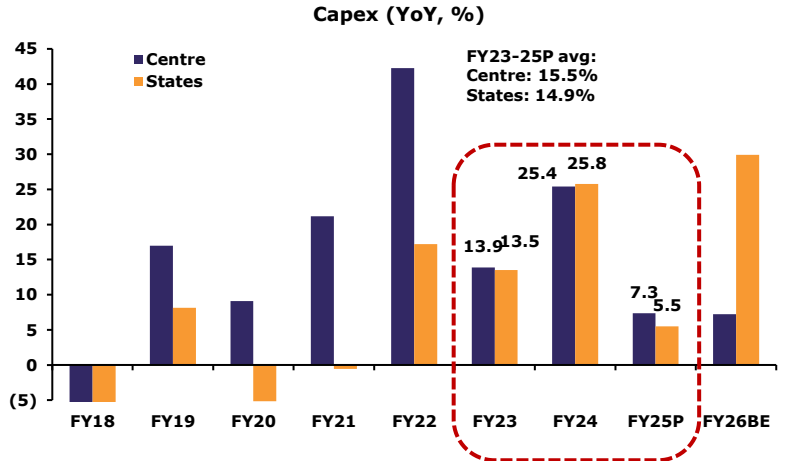
Source: Union Budget, States' budget documents, Emkay Research

Exhibit 3: …even as revex (led by subsidies) has seen healthy growth over the past two years



Source: Union Budget, States' budget documents, Emkay Research

Exhibit 4: Capex growth has remained comparable to the Centre's, helped by the Centre's capex loans

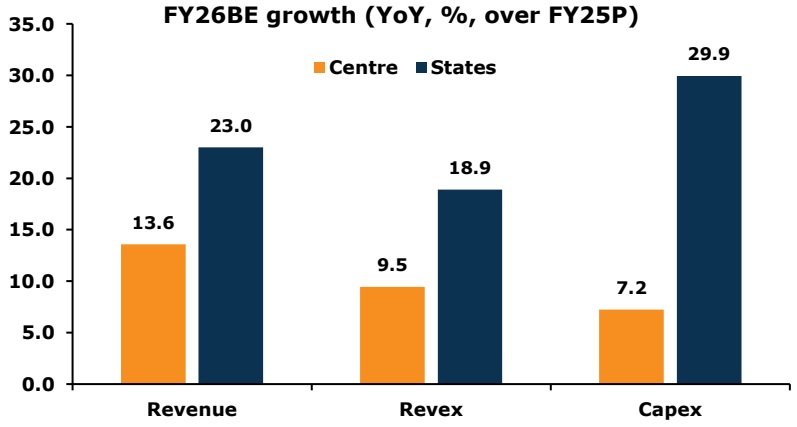


Source: Union Budget, States' budget documents, Emkay Research

…with further Centre-state divergence likely in FY26E

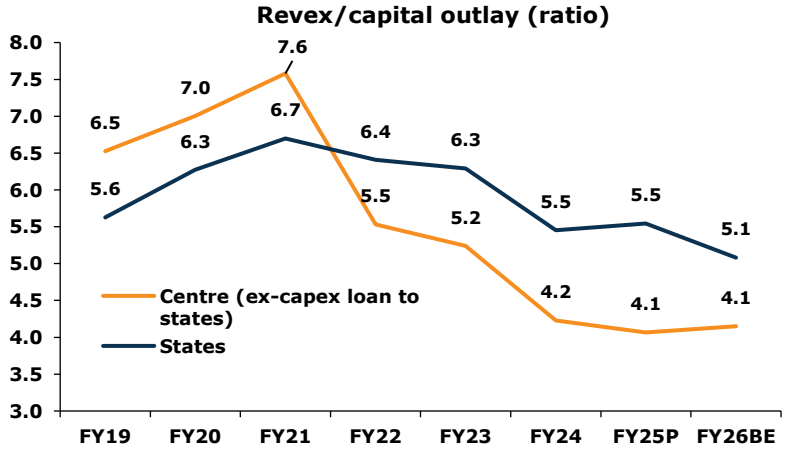
- **States' FY26BE FD/GDP is 3.2%, on the back of 3.3% FD/GDP for FY25P**. In contrast, the Centre has budgeted FD/GDP to decline to 4.4% in FY26 vs 4.8% for FY25P
- While noting that states are budgeting a slight consolidation (0.1ppt), FY25P saw the FD/GDP rise by 0.3ppt over FY24; thus, even achieving FY26BE would see continuation of the reversal of the post-Covid consolidation trend for states. While the Centre is likely to continue tightening its fiscal profile, states are likely to diverge yet again, mainly because:
  - **States' revenue estimates seem extremely optimistic:** States' FY26BE revenue growth is ~23%, vs the Centre's ~14% – this seems unrealistic, especially as States had also budgeted higher revenue growth vs the Centre in FY25 (States: 18.6%; Centre: 15%) but achieved much lower (States: 4.7%, Centre: 10.4%). GST rationalization puts this at even further risk, as states will face the double whammy of lower SGST revenue and lower devolution from the Centre (~70% of est Rs480bn revenue loss to be borne by states). States' tax buoyancy estimates are also unrealistic as a result – at more than double that of the Centre's, and after achieving a ratio of only 0.7x in FY25P (vs the Centre at 1.1x and budgeted at 2.2x)
  - **Revenue at risk despite improvement in revenue quality:** States have managed to reduce their reliance on central transfers (devolution + grants) over the last five years, with share of revenue receipts falling to 37% for FY26BE (vs 43% in FY19). However, States have budgeted ~66% YoY increase in grants for FY26 – this is highly unlikely following an 18% decline in FY25P. With OTR already at risk, lower grants would mean major downside risk to states' revenue for FY26E
- **States' expenditure quality at risk:** States' expenditure quality (RECO) has been improving post-Covid, in line with the Centre's (although States' RECO has remained higher than the Centre's). While the Centre has budgeted a largely steady RECO ratio for FY26, states are budgeting a sharp improvement – however, revenue challenges will make it difficult to meet budgeted capex targets

Exhibit 5: States budgeting much higher revenue, revex, and capex growth for FY26 compared to the Centre



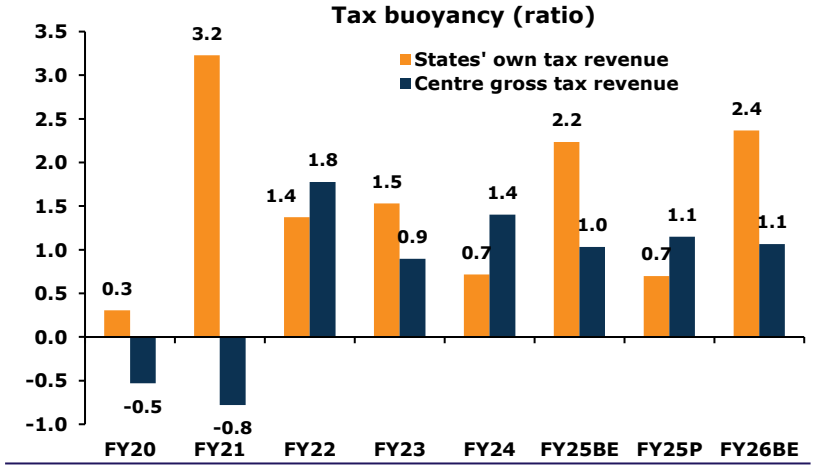
Source: States' budget documents, Union Budget, Emkay Research estimates; Note: Centre's capex is ex-transfers to States

Exhibit 6: While the Centre's expenditure quality is budgeted to stay steady, states have budgeted a sharp improvement…



Source: Union Budget, States' budget documents, CAG, Emkay Research; Note: Centre's capex is ex-transfers to States

Exhibit 7: …which is at risk, given unrealistic revenue growth assumptions, especially compared to the Centre



Source: Union Budget, States' budget documents, Emkay Research

States' FY26BE FD/GSDP at 3.2%, albeit with upside risk…

Exhibit 8: Fiscal aggregates of 19 States

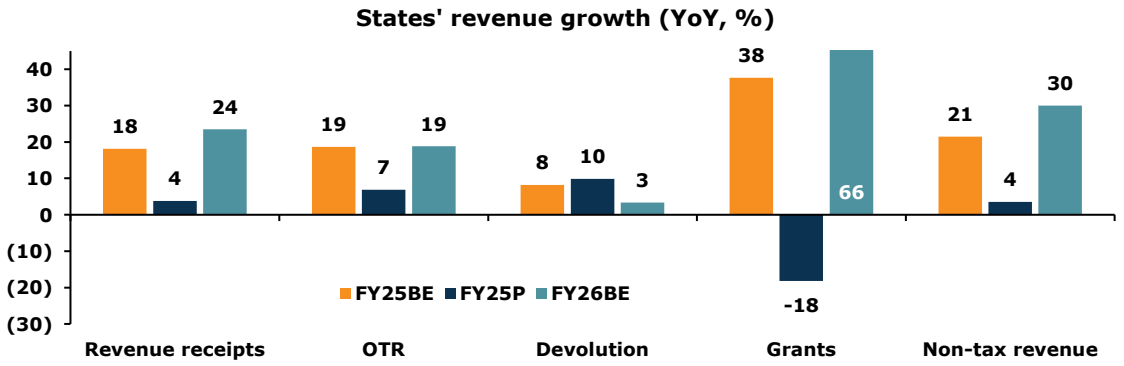
Rs bn	FY23	FY24	FY25BE	FY25RE	FY25P	FY26BE	YoY growth (%) FY23	FY24	FY25BE	FY25RE	FY25P	FY26BE	%GDP FY23	FY24	FY25BE	FY25RE	FY25P	FY26BE
Total receipts	**33,713**	**36,488**	**43,273**	**41,613**	**38,047**	**47,014**	**12**	**8**	**19**	**14**	**4**	**24**	**12.9**	**13.1**	**14.0**	**13.4**	**12.3**	**13.6**
Revenue receipts	**33,638**	**36,283**	**42,851**	**41,399**	**37,675**	**46,542**	**13**	**8**	**18**	**14**	**4**	**24**	**12.9**	**13.0**	**13.9**	**13.4**	**12.2**	**13.4**
Own tax revenue	17,335	18,831	22,342	20,895	20,119	23,908	21	9	19	11	7	19	6.6	6.7	7.2	6.7	6.5	6.9
SGST	6,928	8,042	9,629	9,016	8,816	10,418	23	16	20	12	10	18	2.7	2.9	3.1	2.9	2.8	3.0
Sales tax/VAT	3,896	3,920	4,589	4,264	4,024	4,753	16	1	17	9	3	18	1.5	1.4	1.5	1.4	1.3	1.4
Stamp duty and reg	2,050	2,251	2,713	2,543	2,383	2,969	25	10	20	13	6	25	0.8	0.8	0.9	0.8	0.8	0.9
Vehicle tax	940	1,064	1,224	1,174	0	1,330	35	13	15	10			0.4	0.4	0.4	0.4	0.0	0.4
State excise	2,267	2,497	3,085	2,822	2,678	3,239	19	10	24	13	7	21	0.9	0.9	1.0	0.9	0.9	0.9
Land revenue	170	234	207	224	189	258	14	38	-12	-4	-19	36	0.1	0.1	0.1	0.1	0.1	0.1
Taxes on electricity	612	649	715	674	0	707	46	6	10	4			0.2	0.2	0.2	0.2	0.0	0.2
Devolution	8,644	10,286	11,128	11,720	11,305	11,689	7	19	8	14	10	3	3.3	3.7	3.6	3.8	3.6	3.4
Grants-in-aid	5,397	4,183	5,760	5,377	3,423	5,685	6	-22	38	29	-18	66	2.1	1.5	1.9	1.7	1.1	1.6
Non tax revenue	2,601	2,982	3,622	3,406	3,087	4,014	13	15	21	14	4	30	1.0	1.1	1.2	1.1	1.0	1.2
Non-debt capital receipts	97	205	422	214	265	472	-49	111	106	5	29	78	0.0	0.1	0.1	0.1	0.1	0.1
Total Expenditure	**40,469**	**44,856**	**53,144**	**52,422**	**48,158**	**57,959**	**12**	**11**	**18**	**17**	**7**	**20**	**15.5**	**16.0**	**17.2**	**16.9**	**15.5**	**16.7**
Revenue expenditure	**34,308**	**37,389**	**44,051**	**43,588**	**40,151**	**47,755**	**11**	**9**	**18**	**17**	**7**	**19**	**13.1**	**13.4**	**14.2**	**14.1**	**13.0**	**13.8**
Capital expenditure	**5,452**	**6,857**	**8,235**	**8,005**	**7,240**	**9,399**	**14**	**26**	**20**	**17**	**6**	**30**	**2.1**	**2.5**	**2.7**	**2.6**	**2.3**	**2.7**
Deficit indicators																		
Revenue deficit	670	1,106	1,200	2,189	2,475	1,213												
Fiscal deficit	6,755	8,369	9,871	10,809	10,111	10,945												
RD/GDP	**0.3**	**0.4**	**0.4**	**0.7**	**0.8**	**0.3**												
GFD/GDP	**2.6**	**3.0**	**3.2**	**3.5**	**3.3**	**3.2**												

Source: CAG, States' budget documents, RBI, Emkay Research; ***Note: Aggregate of 19 major states***

…due to optimistic revenue estimates and GST losses

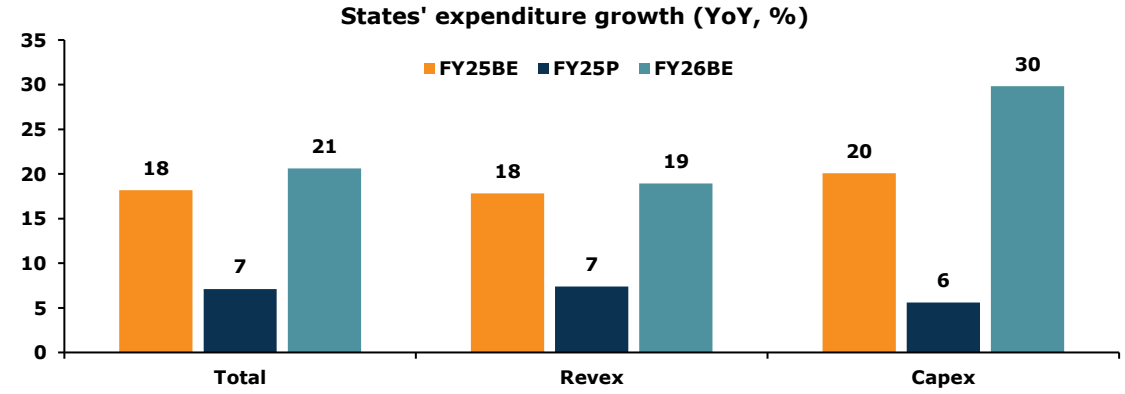
- **Slippage vs BE in FY25P; risk of continuation in FY26E:** FY25P accounts show that **States' FD/GSDP rose by 0.3ppt over FY24 to 3.3**%, continuing the trend seen since FY23. Further, it also marked the **first time since FY21 that States slipped vs BE**. The higher deficit was due to lower revenue than budgeted, such that even heavy expenditure cuts did not bring the deficit lower vs BE (3.2%). While FY26BE FD/GDP is slightly lower at 3.2%, continued revenue challenges and sticky revex mean that mild slippage could be possible once again
- **Revenue slowdown to continue for OTR and central transfers:** States' revenue growth has been consistently slowing post-Covid, and FY25P was no different, with **revenue receipts rising only 4% YoY**. The slowdown was led by **OTR, which grew at only 7% (vs 19% budgeted), while grants were sharply lower (-18% YoY vs 38% budgeted)**, even as tax devolution was higher (10% YoY vs 8% budgeted). On the back of much slower revenue growth in FY25P, FY26BE projections look optimistic – growth estimates for OTR (19%) and grants (66%) look unachievable, while several States have also budgeted much higher estimates for volatile revenue sources such as non-tax revenue (30% YoY) and non-debt capital receipts (78% YoY) to bridge revenue gaps. Increasing reliance on these sources increases the chances of budget estimates being missed
- **Revenue pressure to put capex at risk, even as subsidies may be rationalized:** With lower revenue than budgeted, the slippage was managed by cutting expenditure. Revex grew 7% (vs 18% budgeted), while capex growth was also much lower (6% vs 20% budgeted). Importantly, subsidies grew 28% (vs 26% budgeted) and were 5% higher than those in FY25BE. Nevertheless, States did achieve ~88% of their FY25BE capex target (after 89% achievement in FY24), despite a sharp slowdown in H1FY25 due to the general election. FY26BE sees revex growth at 19%, while capex is at 30% – both of which look unrealistic. While subsidies are set to be rationalized (5% FY26BE growth), it remains to be seen if this materializes. With revenue also at risk due to GST 2.0, the axe may fall on capex

Exhibit 9: All revenue categories' ex-devolution are budgeted for higher growth in FY26BE vs FY25P which looks difficult to achieve



Source: CAG, States' budget documents, Emkay Research

Exhibit 10: While freebies may see some rationalization in FY26, revenue pressures mean that heavy capex cuts may be the only way to avoid fiscal slippage



Source: CAG, States' budget documents, Emkay Research

14 of the 19 states slipped vs BE in FY25P; risks abound for FY26E

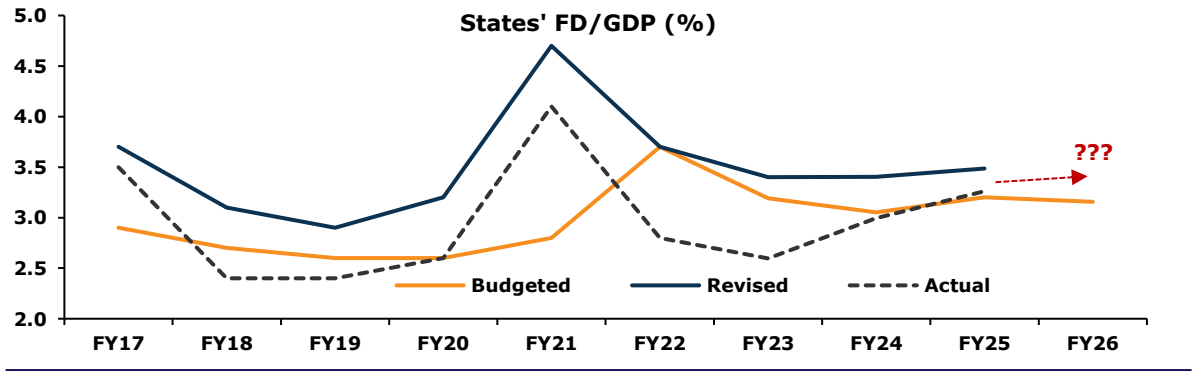
Exhibit 11: Cross-state accounts show majority budgeting lower FD/GDP in FY26

FD/GSDP	FY21	FY22	FY23	FY24BE	FY24	FY25BE	FY25P	FY26BE
GJ	2.4	1.2	0.6	1.8	1.0	1.9	1.8	2.0
UP	3.3	2.0	2.9	3.5	3.2	3.5	2.4	3.0
JH	5.0	0.8	1.2	2.8	1.4	2.0	2.7	2.0
MH	2.6	2.1	1.9	2.5	2.2	2.6	2.7	2.8
OD	1.8	(3.1)	2.0	3.0	1.7	3.5	2.7	3.2
TN	4.7	3.4	2.9	3.3	3.3	3.4	2.9	3.0
HR	3.3	2.8	3.2	3.4	2.9	2.8	2.9	2.7
UK	2.3	1.4	1.0	2.7	2.3	2.4	3.0	2.9
TS	5.2	4.1	2.5	2.7	3.4	3.0	3.0	3.0
KA	3.7	3.3	1.7	2.9	2.6	2.9	3.1	2.9
WB	3.9	3.7	3.3	3.8	3.3	3.6	3.3	3.6
KL	5.2	5.1	2.4	3.5	3.0	3.4	3.5	3.2
RJ	5.8	4.0	3.7	4.0	4.3	3.9	4.4	4.3
PB	4.3	4.4	5.0	5.0	4.4	3.8	4.6	3.8
MP	5.4	3.3	3.3	4.0	3.3	4.1	4.7	4.7
CG	1.0	1.5	1.0	3.0	5.3	3.8	4.9	3.8
AP	2.0	2.2	4.1	3.8	4.4	4.2	5.1	4.4
HP	3.5	3.0	6.5	4.6	5.3	4.7	5.3	4.0
BR	4.8	3.8	6.0	2.8	4.2	3.0	6.0	3.0
Total	3.7	2.6	2.6	3.1	3.0	3.2	3.3	3.2

Source: States' budget documents, CAG, Emkay Research

- FY25P accounts show that **14/19 States slipped vs their FY25BE FD/GDP targets**, with the worst offenders being BR (300bps slippage!), CG (112bps), AP (89bps), and PB (77bps). **The only states that came in under BE were UP, OD, TN, WB, and GJ**
- **For FY26BE, 12 States are budgeting lower FD/GDP than FY25P**. This list includes the likes of BR, CG, AP, JH, and PB, which had slipped the most in FY25P – while some rationalization is expected here, it may not be enough for overall FD/GDP to drop by much
- It is important to note that 10 of the 19 states had deficits higher than the 3% limit in FY25P, with two states (HR, TN) at 2.9%. Similarly, 9 states are budgeting FD/GDP at >3% for FY26, with two states at 2.9%; 3% thus looks like the new normal for states' FD/GDP ahead
- With elections in BR in CY25 (and in WB, TN, and KL in CY26), there is an increased risk of slippage for these states too *(Refer to Section 2: Deficits run higher post-elections)*
- FY25P marked the first time since FY21 (Covid) that states slipped vs BE, and there is a risk of this continuing in FY26 as well, given revenue mobilization challenges and sticky spending

Exhibit 12: Risk of slippage vs BE is high for FY26, following the FY25P miss



Source: States' budget documents, CAG, Emkay Research

States' 4MFY26 revenue growth is anemic, leading to higher YTD deficit despite curtailed spend

Exhibit 13: FYTD fiscal aggregates of 19 Indian States

	FYTD (Apr-Jul)		FYTD	FY26BE	FY26	FY25
18 States (Rs bn)	2026	2025	growth (%)	growth (%)	% of BE	% of P
Total Receipts	**11,181**	**10,989**	**2**	**24**	**24**	**29**
Revenue Receipts	**11,132**	**10,969**	**1**	**23**	**24**	**29**
Tax Revenue	9,683	9,505	2	13	27	30
OTR	6,875	6,401	7	19	29	32
SGST	3,207	2,877	11	18	31	33
Stamps and Registration Fees	836	784	7	25	28	33
Land Revenue	59	57	4	36	23	30
Sales Tax	1,284	1,263	2	18	27	31
State Excise	928	843	10	21	29	31
State's Share of Union Taxes	2,807	3,101	(9)	3	24	27
Other Taxes	561	576	(3)	12	25	28
Non Tax Revenue	859	813	6	30	21	26
Grants-in-aid	531	651	(18)	69	9	19
Non-debt capital receipts	49	20	146	78	10	7
Total expenditure	**13,646**	**12,687**	**8**	**22**	**24**	**27**
Revenue exp	**12,058**	**11,407**	**6**	**19**	**25**	**28**
Revex ex-interest	**10,580**	**10,080**	**5**	**18**	**25**	**29**
Int Payments	1,478	1,327	11	23	25	28
Salaries and Wages	2,526	2,803	(10)	30	24	35
Pension	1,610	1,595	1	23	28	35
Subsidy	901	1,025	(12)	5	23	26
Capital Exp	**1,421**	**1,280**	**11**	**30**	**15**	**18**
Revenue Surplus/Deficit	(926)	(438)	112	(47)	76	19
Fiscal Surplus/Deficit	**(1,489)**	**(995)**	**50**	**31**	**14**	**12**

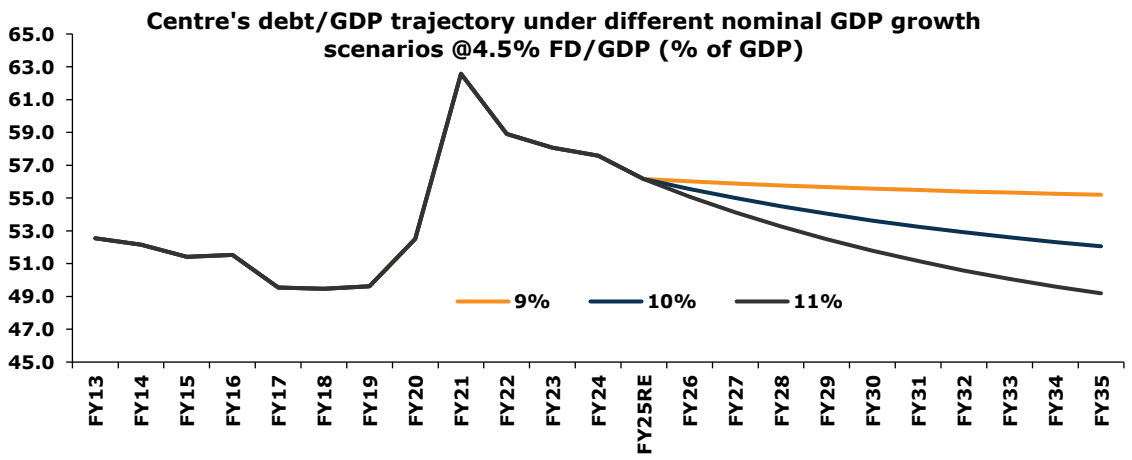
Source: CAG, States' budget documents, Emkay Research; Note: Data for BR is not yet available for FY26TD

- **States' revenue sees anemic growth due to sharp fall in Central transfers:** States' revenue for 4MFY26 has risen only 2% YoY (vs 24% FY26BE). Slower growth has been driven by a sharp fall in central transfers – both, devolution (-9%) and grants (-18%), are running lower than last year. While devolution will pick up as the Centre receives delayed income tax revenue, it is unlikely that BE growth estimates will be met for both categories, putting states' revenue at risk
- **Slower tax growth across categories:** States' tax revenue growth (2% vs 13% budgeted) is much lower than budgeted, due to the aforementioned squeeze in central transfers. However, OTR growth is also lower (7% vs 19% budgeted), with every category running lower-than-budgeted growth. SGST growth is already low (11% vs 18% BE), and with GST rationalization to play out in H2FY26, this is likely to be squeezed further
- **Revenue squeeze leads to lower revex growth…:** States' revex growth (ex-interest) has been much lower than budgeted (5% vs 18% BE) due to this revenue squeeze. Interestingly, subsidies are also much lower (-12% vs 5% BE), suggesting that some rationalization is taking place
- **…though capex growth is higher than revex:** Capex growth is 11% YoY (vs 30% BE) despite revenue mobilization issues. The Centre is also pushing states to frontload capex, with its capex transfers to States running at 103% YoY, with Rs40bn already disbursed by July (vs Rs1.5trn BE)
- **YTD deficit running higher:** The revenue challenges have meant that states' nominal FY26TD fiscal deficit is running 50% higher than last year (vs 31% budgeted) despite restricted expenditure. With H2 likely to see further revenue constraints, FD may widen further despite efforts to control expenditure

Fiscal dynamics to keep sovereign debt/GDP at around 80%, even as the Centre consolidates

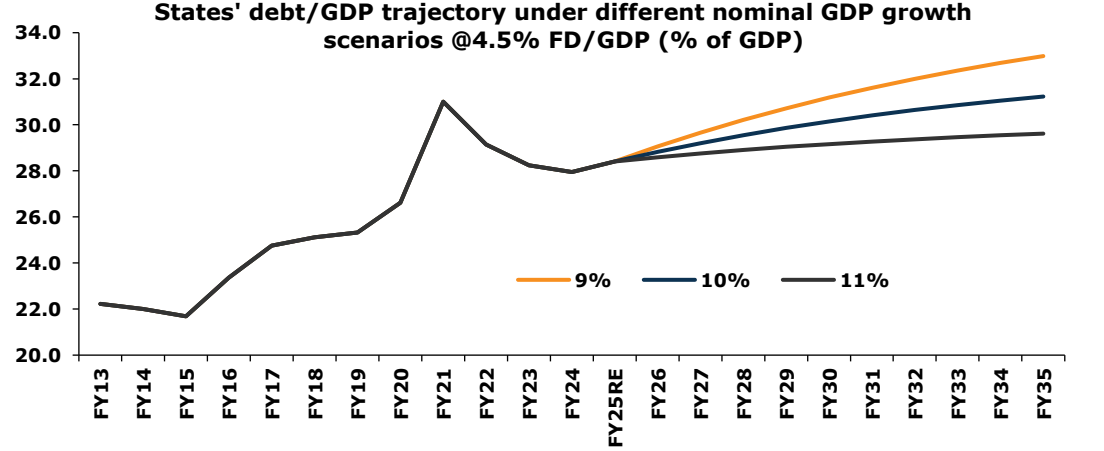
- **Scale of deficit assumes greater importance as debt/GDP now a target**: The Centre's new fiscal roadmap sees debt/GDP being targeted from FY27 onward in keeping with the FRBM Act, as against specific FD/GDP targets in the post-Covid years. The Centre aims to bring down its debt/GDP to 50% (+/- 1%) by FY31 from the FY25 level of 56.2%, and thus to maintain FD/GDP such that debt/GDP is on a declining path until then. States, however, have no such targets, with 3% FD/GDP remaining their upper limit (albeit with exemptions)
- **Fiscal burden sharing by the Centre and States:** The Centre's starting position for debt/GDP (56%) is nearly double that of states (28%); thus technically, it should bear more of the extra debt and deficit adjustment burden. There is also an argument that the Centre should be allowed to carry a higher level of debt (vs states), given its greater control over federal taxation and better repayment ability. The flipside of this is to argue that states have limited tax levers, and are hitting revenue mobilization ceilings, and should therefore be given more leeway. However, we note that FY25 seems to mark a shift for states where higher FD is being partly driven by non-merit subsidies rather than asset creation. In such a scenario, giving states more fiscal space may induce moral hazard and lead to even more non-productive spending
- **Centre in a better position to reduce debt than states:** Given the Centre's larger debt stock, our calculations show that it can run an average FD/GDP of 4.5% over the next decade and still bring down debt/GDP – as long as nominal GDP growth is >9%. However, under the same scenarios, states' debt/GDP expands even if they maintain FD/GDP at 3%. This is due to the "low-hanging fruit" effect – where improvements are faster/easier when the starting position is larger. Thus, perversely, states will be penalized (in terms of interest expense) for having a lower debt/GDP than the Centre, going ahead – raising the question of whether the fiscal consolidation burden should be completely borne by the Centre alone

Exhibit 14: Centre's debt/GDP reducing in most scenarios…



Source: States' budget documents, Union Budget, Emkay Research estimates; Note: Centre's capex is ex-transfers to States

Exhibit 15: …while states face an uphill task to bring down their debt/GDP



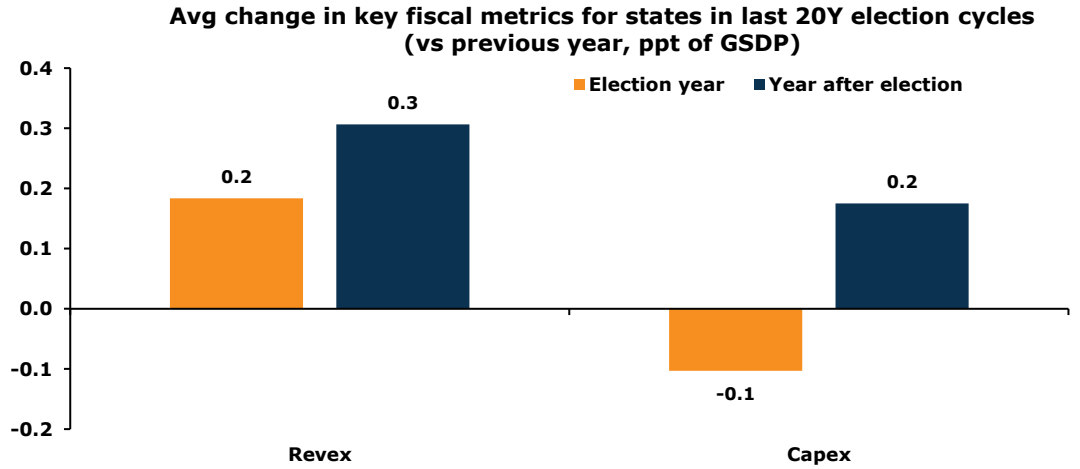
Source: Union Budget, States' budget documents, CAG, Emkay Research; Note: Centre's capex is ex-transfers to States

2) Deficits reset higher, post-elections

The last 20 years have seen states' spending usually picking up post-elections…

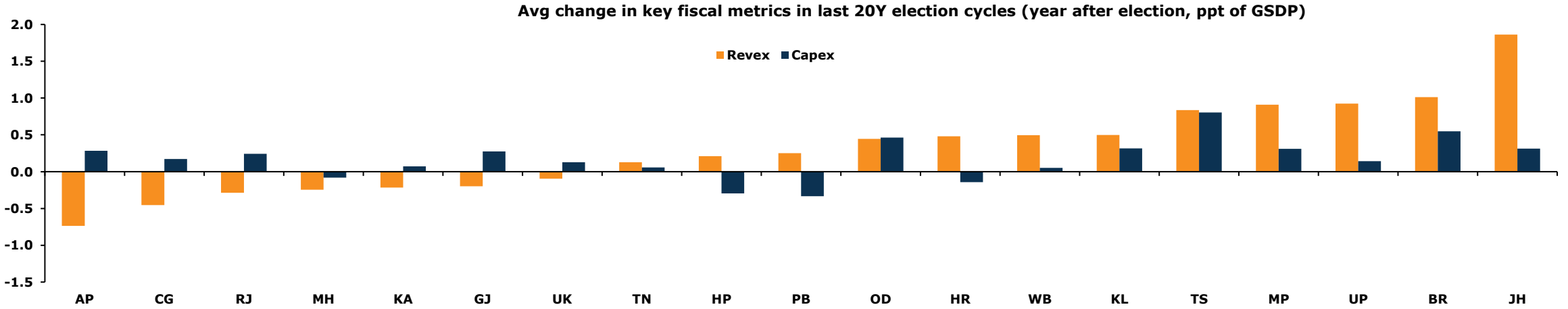
- The last couple of years have been heavy with state elections, with 10 major states going to polls during this time. Almost each of these states introduced new freebie schemes (especially for women), regardless of party lines, as such schemes have proven to be an election-winning strategy
- This has added to the existing problem – our analysis of 19 major states over the past 20 years shows that **on average, a state's revex rises 0.3% of GSDP in the year immediately after an election**. **Capex rises 0.2% of GSDP as well, though this is merely a catch-up, as it falls in the lead-up to the elections**. The fiscal deficit, however, remains unchanged
- This shows that **revex (especially freebies) is sticky** – it is difficult to cut welfare/freebie programs once these are started, while this **may also reflect the spending on new programs as the ruling dispensation changes**

Exhibit 16: States' spending (both revex and capex) rises in the year after elections



Source: RBI, States' budget documents, Emkay Research; Data is an average for 19 States

Exhibit 17: JH, BR, UP, MP, TS, and KL have generally seen their revex/GDP rise sharply in the year after an election, while AP, CG, RJ, MH, KA, GJ, and UK have managed to reduce it



Source: States' budget documents, RBI, Emkay Research

…with the current cycle seeing much higher deficits post-polls than pre-polls

Exhibit 18: Election states in the current cycle have seen deficits reset much higher vs pre-polls

State	Election date	FD/GSDP (%)			Revex/GSDP (%)			Capex/GSDP (%)		
		Pre-election year	Election year	Year after	Pre-election year	Election year	Year after	Pre-election year	Election year	Year after
KA	May-23	1.7	2.6	3.1	9.5	9.5	9.5	2.5	2.0	2.1
CG	Nov-23	1.0	5.3	4.9	18.4	22.4	22.3	3.0	3.0	3.7
MP	Nov-23	3.3	3.3	4.7	16.0	16.2	16.7	3.4	4.1	4.8
RJ	Nov-23	3.7	4.3	4.4	16.6	15.9	15.5	1.7	1.8	2.0
TS	Nov-23	2.5	3.4	3.0	11.8	11.5	11.0	1.4	3.0	2.2
AP	May-24	4.4	5.1	4.4	14.9	14.1	13.8	1.6	1.2	2.2
OD	May-24	1.7	2.7	3.2	17.3	17.0	18.8	5.0	4.9	6.1
HR	Oct-24	2.9	2.9	2.7	10.4	10.2	11.0	1.5	0.9	1.2
MH	Nov-24	2.2	2.7	2.8	11.0	11.5	12.3	1.8	1.8	1.7
JH	Nov-24	1.4	2.7	2.0	16.6	17.0	19.9	4.5	3.6	4.1
		2.5	**3.5**	**3.5**	**14.2**	**14.5**	**15.1**	**2.6**	**2.6**	**3.0**

Source: RBI, states' budget documents, CAG, Emkay Research

Exhibit 19: States are rationalizing their cash transfer schemes to women

	Cash transfer schemes for women		% of GDP		Change
Rs bn	**FY25BE**	**FY26BE**	**FY25BE**	**FY26BE**	**(% of GDP)**
MP	189	187	1.2	1.1	-0.1
MH	460	364	1.1	0.7	-0.3
KA	286	286	1.0	0.9	-0.1
WB	120	120	0.6	0.6	0.0
JH	0	133	0.0	2.4	2.4
OD	110	101	1.2	1.0	-0.2
HR	200	50	1.6	0.4	-1.3
TS	31	50	0.2	0.3	0.1
TN	137	138	0.4	0.4	0.0
CG	30	50	0.5	0.8	0.3
HP	23	23	1.0	0.9	-0.1
Total	**1,586**	**1,502**	**0.8**	**0.7**	-0.1

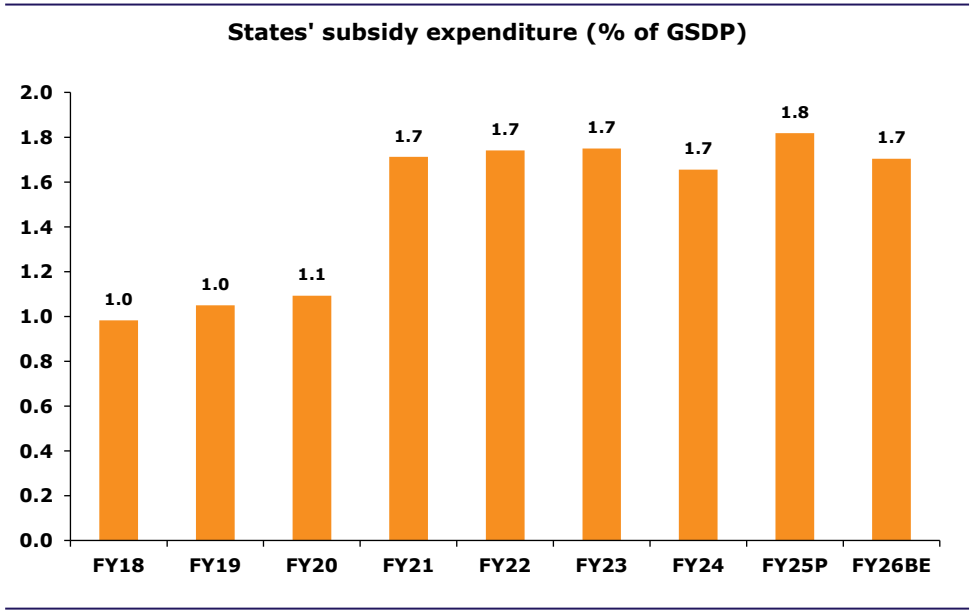
Source: States' budget documents, Media reports, Emkay Research

- 10 major states went to polls in the last two years (5 in FY24, 5 in FY25). Our analysis suggests that on average, **these states saw FD/GDP rise by 1ppt in the election year (vs previous year), while then staying flat the following year**
- **Revex/GDP rose by 0.3ppt in the election year, with a further increase of 0.6ppt in the year after the polls** – which likely reflects the sticky nature of freebies/welfare programs announced pre-elections
- **Capex/GDP stayed flat in the election year, before rising by 0.4ppt a year later**. States had rationalized capex in the respective election years to focus more on revex, with capex then seeing a catch-up a year later
- Notably, for the five states that had elections in FY25, the 'year after' reflects FY26BE numbers – and thus, the actual outcome may be different to that shown in the budget estimates
- While results are varied across states, **all (except HR) had a higher FD/GDP in the year after the polls vs the year before** – even if it was lower vs the election year. This shows the difficulty in reining in sticky spending, with states possibly having to cut spending ex-freebies, to reduce deficits
- In this context, we note that **states' spending on cash transfer schemes to women has declined modestly for FY26BE vs FY25BE – by 0.1ppt of GDP**. The likes of **HR, MH, and OD have seen larger cuts as fiscal pressures bite.** It is likely that spending on these schemes will see muted growth in nominal terms going ahead, as states aim to rationalize beneficiaries and control expenditure

Subsidies now look sticky at 1.7% of GDP, with upside risk during election cycles

- **Election-led subsidies surge:** States saw a sharp surge in subsidy spending in FY25P (23% YoY), as poll-bound states announced subsidies and freebies to woo voters. This led to subsidies reaching 1.8% of GDP – the highest ratio post the Covid-led subsidy surge (while having hovered at ~1.7% post-Covid). This surge has been led by TN, MP, AP, JH, and KA – which have all gone to polls in the last two years and have seen subsidies/GDP rise markedly over pre-Covid levels as a result (Exhibit 21)
- **Some rationalization possible, though new sticky level achieved:** FY26BE shows states budgeting only ~5% growth (over FY25P), and 4MFY26 data shows a decline in subsidy spending so far (-12%). However, while states are rationalizing their subsidy spending after elections, a new base level of spending has likely been reached, where subsidies will not drop below ~1.5% of GDP
- **Election-led subsidy cycles could distort the fiscal:** The modest growth in subsidies may also be due to there being only one state election (BR) in FY26. With three large states (WB, TN, and KL) having elections in FY27, we may well see subsidy expenditure rise sharply once again; thus, even with some rationalization, the recurrence of these poll cycles means that subsidies may now be anchored around 1.7-1.8% of GDP (vs 1% pre-Covid)

Exhibit 20: Subsidies have found a new normal at 1.7% of GDP



Source: RBI, States' budget documents, Emkay Research

Exhibit 21: Poll-bound states led the subsidy surge, with more to follow

Subsidies (% of GDP)	FY19	FY20	FY21	FY22	FY23	FY24	FY25P	FY26BE	Change from FY19-FY25P
AP	0.3	0.7	0.5	1.3	1.1	1.4	1.5	1.4	1.3
BR	1.6	1.2	1.4	1.6	1.9	1.8	1.7	1.2	0.1
CG	2.5	2.1	2.3	2.5	3.2	2.1	2.9	2.1	0.4
GJ	1.2	1.1	1.4	1.2	1.2	1.2	1.0	1.0	-0.2
HR	1.2	1.1	1.0	1.1	1.0	1.0	1.0	0.9	-0.3
HP	0.9	0.7	0.8	0.7	1.0	0.8	0.8	0.6	-0.1
JH	0.7	1.4	1.1	1.5	1.0	1.0	1.5	1.7	0.8
KA	1.6	1.6	1.6	1.8	1.4	2.5	2.7	2.6	1.1
KL	0.2	0.2	0.8	0.4	0.1	0.1	0.1	0.2	-0.1
MP	0.0	1.4	1.4	3.1	3.3	1.5	2.9	2.8	2.9
MH	1.1	1.1	1.6	0.9	1.2	1.1	1.5	1.2	0.4
OD	0.5	0.5	0.6	0.6	0.5	0.5	1.0	0.8	0.5
PB	2.6	1.9	1.8	2.3	3.0	2.4	2.1	2.5	-0.5
RJ	2.4	1.9	1.5	2.0	1.9	1.9	2.0	2.0	-0.4
TN	1.2	1.2	6.0	5.6	5.1	5.1	4.7	4.5	3.6
TS	0.7	0.7	1.3	1.2	1.0	0.6	0.7	0.9	0.0
UP	0.9	0.8	0.7	1.0	0.9	0.9	1.0	1.1	0.1
UK	0.1	0.0	0.1	0.1	0.1	0.1	0.2	0.2	0.1
WB	0.9	0.8	1.1	1.2	1.1	0.6	1.1	0.6	0.2

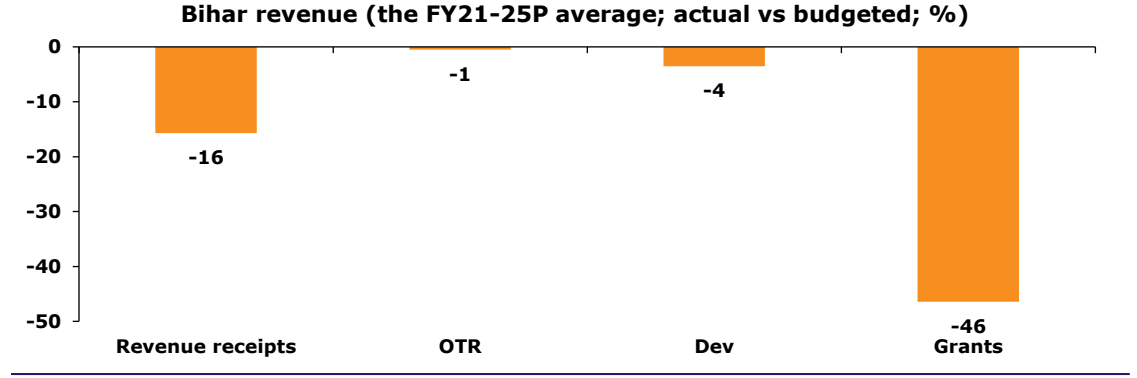
Source: RBI, states' budget documents, CAG, Emkay Research

Bihar: A (basket) case study

While states' fiscal numbers are generally volatile, with large divergence between BE, RE, and actual data, BR takes the cake – and with heavy subsidy announcements ahead of the polls, its fiscal performance is only set to worsen going ahead

- BR's FD/GDP has fluctuated wildly over the past five years – it posted 6% FD/GDP in FY23 (higher than 4.8% in FY21), which then reduced to 4.2% in FY24, albeit has now shot up to a whopping 6% in FY25P!
- Additionally, BR had initially budgeted 3% FD/GDP for FY25 which then shot up, to 9.2% for FY25RE! The biggest culprit is extremely unrealistic revenue estimates – BR's actual revenue is often 10-20% below BE. This is driven by extremely high BE for grants – BR's actual grants received have been lower than BE by a whopping 46% on average over the past five years!
- We also note that **BR's FY26BE FD/GDP of 3% is based on a nominal GDP growth estimate of 22%,** which naturally puts BR at risk of slippage even if its fiscal performance is better than budgeted
- In such a precarious fiscal scenario, **BR has announced various large subsidy/freebie schemes ahead of the polls this year – totaling ~Rs344bn (3.1% of GDP) already!** With BR being extremely reliant on SGST (57% of OTR) and devolution (57% of total receipts), GST rationalization will hurt it disproportionately and, thus, its fiscal position is only set to worsen!

Exhibit 22: Bihar's revenue undershoot has been significant over last 5Y, led by grants



Source: RBI, Bihar budget documents, Emkay Research

Exhibit 23: BR has announced huge subsidy/freebie schemes ahead of polls later this year

Scheme	Details	FY26E amt (Rs bn)	% of GDP
Free electricity	Up to 125 units per month + lost taxes on electricity	74	0.7
Higher social pension	Raised from Rs400 to Rs1,100	46	0.4
Monthly stipend for students	Rs4,000 for high school graduates, Rs5,000 for Industrial training pass-outs, Rs6,000 for graduates and PG	7	0.1
Higher stipend for medical interns	Rs7,000 increase in stipend for medical interns	0	0.0
Grant to women entrepreneurs	Rs10,000 grant; Rs200,000 loan after six months	277	2.5
Grant to construction workers	Rs5,000 grant	8	0.1
		412	**3.8**

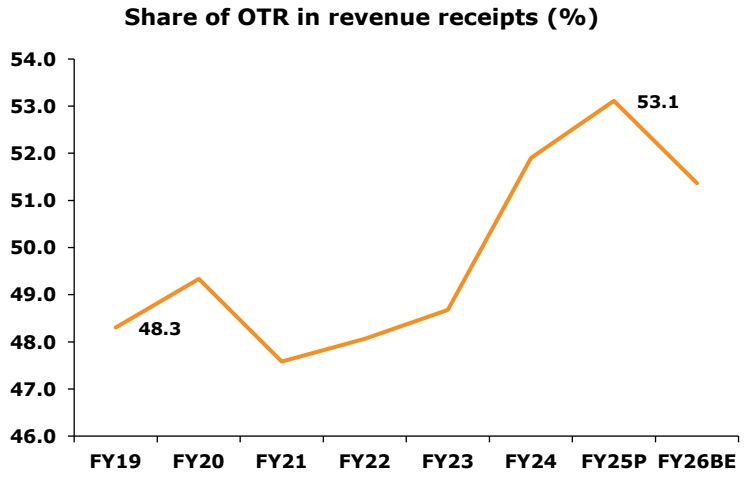
Source: States' budget documents, Media reports, Emkay Research

3) States’ revenue troubles could grow

States’ OTR once again likely to be far lower than budgeted in FY26E (even before the GST cut)

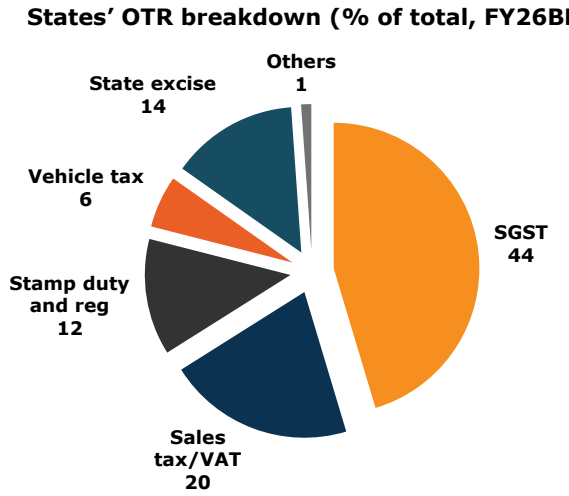
- **Post-Covid revenue growth led by OTR:** States’ revenue growth post-Covid has been **led by own tax revenue (OTR),** which **has grown at a faster rate than overall revenue receipts (9.6% CAGR vs 7.8% CAGR)**. OTR currently makes up ~53% of States’ revenue receipts (FY25P) — **an increase of nearly 5ppt since FY19**, on account of this faster growth
- **However, OTR growth to once again undershoot BE (even before GST rationalization):** States’ OTR grew only 7% in FY25P (vs 9% growth in FY24), although it is budgeted to rise 19% in FY26BE. This looks unrealistic, especially when the Centre’s budgeted gross tax revenue growth (over FY25P) is 12.5%. It is unlikely that states can garner much higher tax revenue growth than the Centre, **especially when ~44% of states’ OTR comes from SGST (which will now be lower due to GST rationalization)**. It also follows a **similar pattern as in FY25, when states budgeted 18% growth in OTR, though FY25P growth was only 7%**
- **OTR growth to be dragged by slower growth ex-SGST as well:** SGST (~10% YoY) grew higher than any other component in FY25P and is budgeted to rise 18% in FY26. However, with GST rationalization to hit the books in H2FY26, SGST growth will be much lower. Additionally, all other OTR heads have significantly higher FY26BE growth vs FY25P (and FY24) – this means that it will be **difficult for total OTR to see substantially higher growth in FY26E**
- **Non-tax sources also have unrealistic growth estimates:** States have had to increase reliance on non-tax revenue sources due to slower OTR growth. On aggregate, States are budgeting much higher growth for non-tax revenue (30% vs 3% for FY25P) and non-debt capital receipts (78% vs 29%). With shortfalls likely in these heads, total receipts are also likely to undershoot budget estimates once again – possibly by a significant margin

Exhibit 24: OTR has risen to over 50% of states’ revenue receipts…



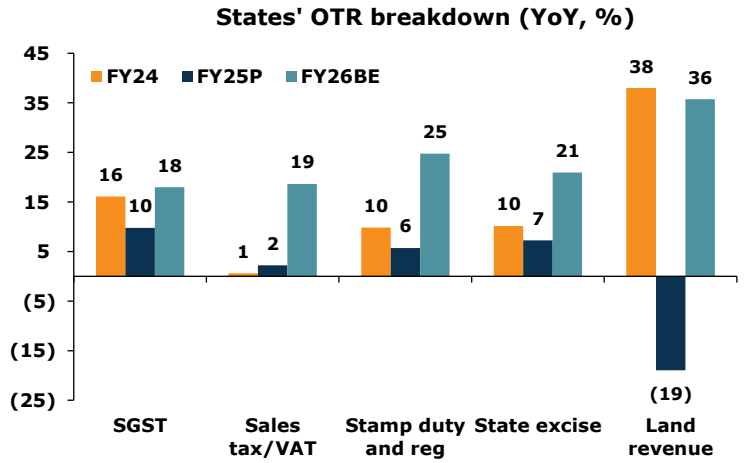
Source: RBI, States' budget documents, Emkay Research

Exhibit 25: …with SGST accounting for ~44% of total OTR



Source: RBI, States' budget documents, Emkay Research

Exhibit 26: FY26BE for most OTR heads looks optimistic on the back of slow FY25P growth



Source: Union Budget, States' budget documents, Emkay Research

Optimistic budget estimates put states' indirect tax mobilization at risk

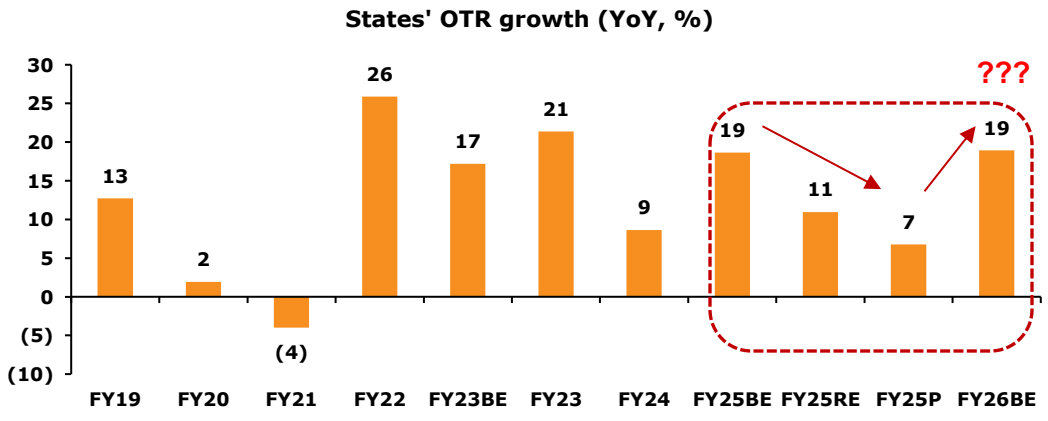
Exhibit 27: Several states are heavily reliant on SGST and VAT, making them vulnerable to slower growth (and GST rationalization)

Share of OTR (%)	SGST	Sales Tax/VAT	Excise Duty	Stamp Duty	Others
AP	37	19	25	12	7
BR	57	19	0	14	10
CG	34	16	23	7	19
GJ	51	21	0	12	16
HR	46	14	14	18	9
HP	42	14	20	4	20
JH	44	26	9	4	17
KA	44	13	19	13	10
KL	41	37	3	8	11
MP	39	21	16	13	12
MH	45	18	8	16	12
OD	43	24	15	4	14
PB	44	13	18	11	15
RJ	45	22	14	10	10
TN	42	32	6	12	8
TS	35	26	19	13	7
UP	44	15	21	13	6
UK	47	10	21	12	10
WB	44	12	20	9	14
Total	44	20	14	12	11

Source: RBI, States' budget documents, Emkay Research; Data is for FY26BE

- **Slower SGST growth will have a diverse impact across States:** While SGST comprises ~44% of aggregate States' OTR (FY26BE), there are several states for which it is a bigger chunk – namely **BR (57%), GJ (51%), UK (47%), HR (46%), and MH (45%)**. Sharply lower growth in SGST will therefore have a bigger impact on these States' finances. However, their budgeted SGST growth estimates vary significantly: BR (-5% YoY) and MH (-12%) have actually budgeted negative growth for FY26, making an upside surprise possible; HR has a modest growth estimate (11%), while UK (21%) and GJ (22%) have far higher estimates – making them vulnerable to slippages
- **Similar scenario for sales tax/VAT:** With sales tax/VAT also being an indirect tax levied on consumption, slower economic activity will have a similar impact on their collections. States having significant reliance on SGST + VAT **(these taxes are >70% of OTR for KL, BR, TN, GJ, and JH)** are the most vulnerable to slower growth in FY26
- **States attempting to augment revenue sources:** With two major sources of OTR (SGST and sales tax/VAT) largely out of the states' control, many states continue to pull levers for excise (~14% of aggregate OTR) and stamp duty (~12% of OTR). MH has recently raised rates for both excise and stamp duty, while several states raised rates last year. However, **GJ and BR cannot raise revenue via excise**, and so the GST cut may hit them harder than other states (although GJ's fiscal position is robust; BR's less so)

Exhibit 28: FY26BE growth estimates are once again too optimistic

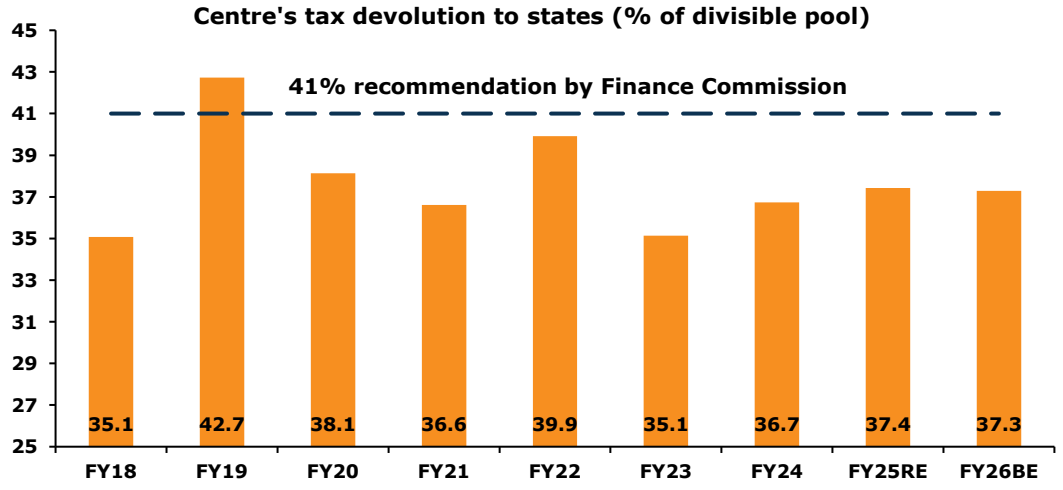


Source: RBI, States' budget documents, Emkay Research

Central transfers to States continue to fall – 16th FC recommendations may bring some relief

- The 15th Finance Commission (FC) had recommended that 41% of the Centre's divisible pool be shared with States. However, **States' share has usually been below 41%, and has been steadily falling – with FY26BE at ~37%**
- The decline is **largely due to increasing cess and surcharges imposed by the Centre** which forms part of the Central tax pool and **does not need to be shared with States**. Cess and surcharge have often seen a faster growth pace than gross tax revenue in the last few years, thus nearly doubling from 11.4% of gross tax revenue in FY18 to 19.8% in FY21, albeit declining since then, and only 10.7% of FY26BE gross tax revenue
- Centrally sponsored scheme (CSS) transfers and FC revenue deficit grants have also fallen sharply post-Covid, with the revenue deficit grants tapering off in line with the 15th FC recommendations. **Total resource transfers (TRT) to States by the Centre have fallen to ~53% of Centre's gross revenue receipts (GRR) in FY26BE**, from ~59% in FY21. This is despite GRR rising at ~17% CAGR in this period
- Thus, **there is a case to be made for cess and surcharge being a part of the divisible pool**, as States do not have these additional avenues to raise revenue and are already struggling. Various states have already made this demand to the 16th Finance Commission, along with several others (22 of the 28 states have asked for states' share of the divisible pool to be raised to 50%)

Exhibit 29: Centre's tax devolution to States remains well below the FC recommendation…



Source: Union Budget documents, Emkay Research calculations

Exhibit 30:…while TRT to States has been falling as a share of the Centre's GRR as well

% of Gross Revenue Receipts (GRR)	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25RE	FY26BE
Devolution	30.6%	31.9%	32.9%	27.8%	26.6%	29.2%	28.4%	29.2%	29.4%	29.3%
Special loan for capex	0.0%	0.0%	0.0%	0.0%	0.5%	0.5%	2.4%	2.8%	2.9%	3.1%
Finance Commission Grants	4.8%	4.4%	4.0%	5.3%	8.2%	6.7%	5.2%	3.8%	2.9%	2.7%
Centrally Sponsored Schemes	12.1%	13.5%	12.8%	13.2%	17.2%	14.8%	13.5%	11.0%	9.2%	10.9%
Other transfers	2.1%	0.6%	1.9%	2.6%	6.5%	4.3%	1.8%	6.5%	7.6%	6.8%
Total resource transfers to states	49.6%	50.3%	51.6%	49.0%	59.0%	55.5%	55.8%	53.4%	51.9%	52.7%

Note: TRT as a share of Centre's GRR has fallen from Covid high of 59% to 53% in 5 years

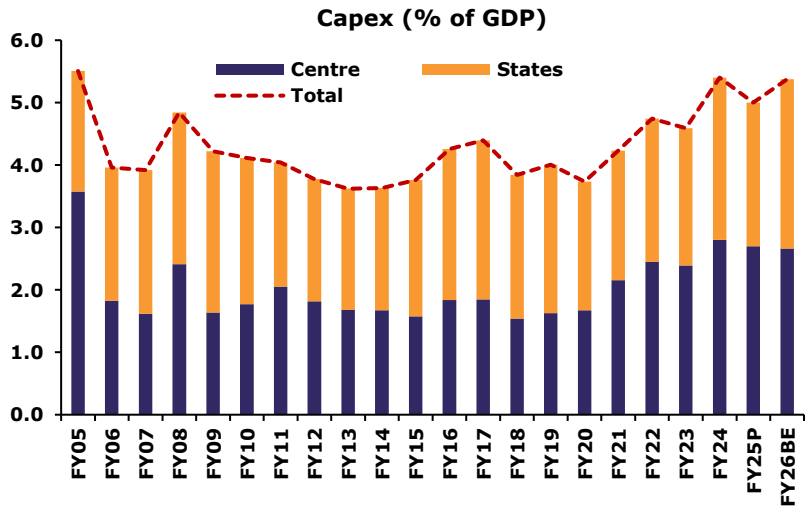
Source: Union Budget documents, Emkay Research

4) Healthy capex despite headwinds

Strong capex achievement in FY25P despite headwinds…

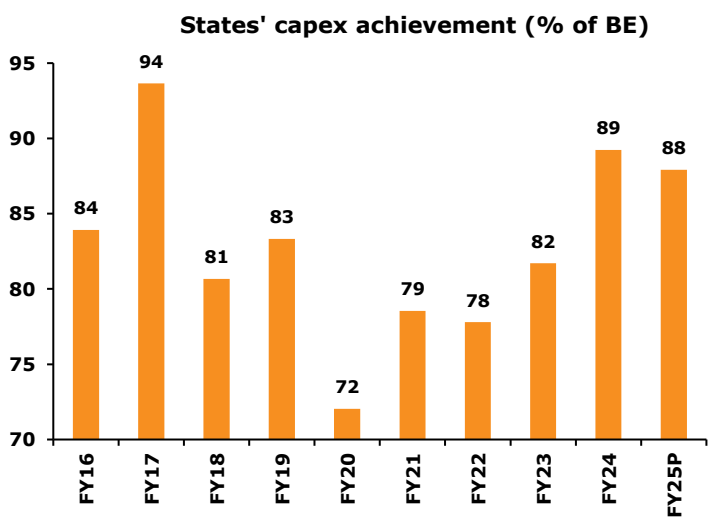
- FY26BE sees States budgeting growth of ~30% for capex (vs the Centre at ~7% ex-state capex loans). **If achieved, this would imply Centre+States (C+S) capex/GDP at 5.4%, with States' capex/GSDP at 2.7% - a multi-year high**
- This strong growth is budgeted on the back of an encouraging performance by States in FY25P. Despite capex being lagged due to the general election, **states were able to achieve ~88% of FY25BE** (after achieving ~89% in FY24). These are multi-year high achievement ratios, and **states' capex/GDP for FY25P was at a healthy 2.3%** (FY24: 2.5%)
- **With the Centre's capex (ex-capex loans to States) at 2.7% of GDP, this meant that FY25P C+S capex/GDP was at 5% (vs 5.4% in FY24)** – still the 2nd highest ratio since FY08
- Encouragingly, **5 states achieved higher capex than their BE, with a further five achieving at least 85%**. Achievement was led by **MP (>130% for 2nd year in a row), BR, KA, TS, and HP**. However, HR, AP, WB, CG, and UP missed their BE by the widest margins
- State capex was helped by the Centre achieving its FY25BE of Rs1.5trn for state capex loans, despite the general election delaying disbursements. For FY26BE, the allocation has stayed flat (Rs1.5trn), but disbursements have been frontloaded (Rs400bn until August) – which should give a leg up to states' capex

Exhibit 31: C+S capex dips in FY25P, though it remains at a near multi-year high of 5%…



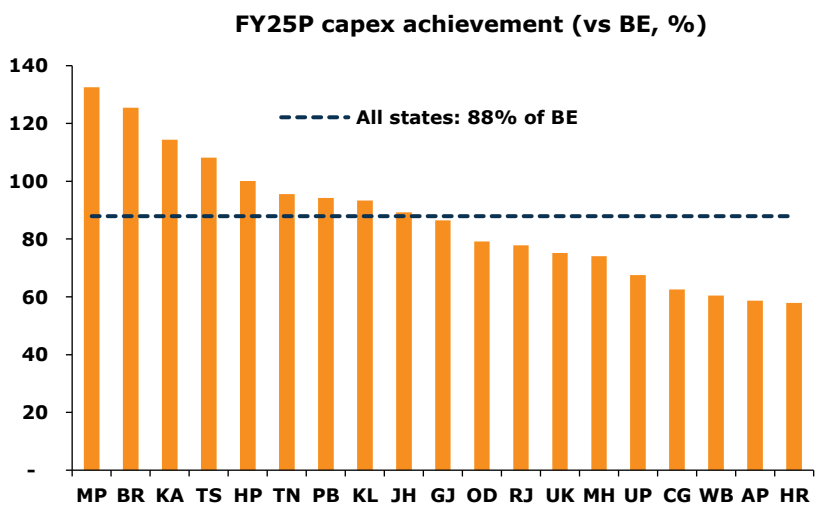
Source: Union Budget documents, CAG, States' budget documents, Emkay Research

Exhibit 32: …as states achieve 88% of FY25BE despite lagged start…



Source: CAG, States' budget documents, Emkay Research estimates

Exhibit 33: …with 10 states achieving at least 85% of BE

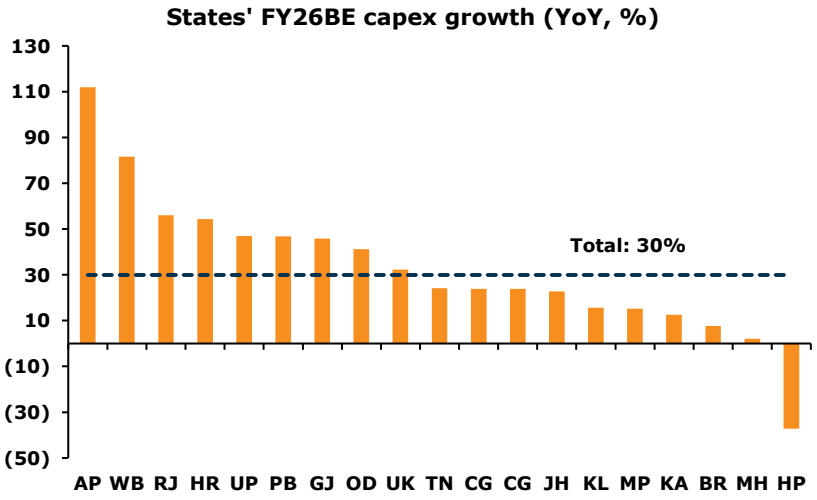


Source: CAG, States' budget documents, Emkay Research

…with FY26TD capex having steady growth, despite concerns around some states

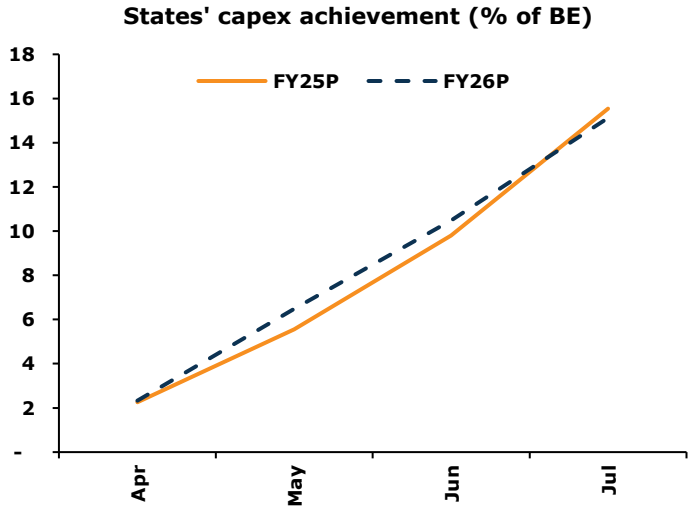
- **Heavy divergence across States' capex for FY26BE:** The likes of **AP (112%!), WB, RJ, HR, and UP have the highest budgeted capex growth for FY26BE**, while MP, KA, BR, and MH have the lowest growth projections (with HP estimating a decline in capex). This is mainly due to base effect (AP, WB, RJ, and HR all saw a decline in capex in FY25P) – however, all the states with the lowest growth estimates (ex-MP) had only modest capex expansion in FY25P, suggesting that there may be some constraints to further growth
- **4MFY26 sees steady capex growth:** Data till July shows that **States' aggregate capex has grown 11% so far**. While this is lower than budgeted (30%), it is higher than revex growth (6%) and largely in line with FY25 trends (15% of BE achieved vs 18% last year). States are trying to frontload capex this year after election-led disruptions in FY25; also, with the Centre's capex loan disbursement of Rs400bn already (Rs600bn sanctioned), states' capex should continue to grow at a healthy clip
- **Disparity in cross-state capex for FY26TD:** Cross-state data shows that there is significant variance in States' capex in FY26 (till July). The likes of **HR, KL, HP, and MP have all achieved at least 25% of their respective FY26BE capex**, while UK, CG, WB, and MH are at 10% or lower (data not available for BR). The leading states had also been ahead of the pack last year, which suggests a focus on frontloading capex, while MH in particular is creating worry, given its low FY26BE growth as well as low achievement so far (albeit, it can scale up rapidly)

Exhibit 34: States, whose capex lagged in FY25P, have budgeted high growth for FY26



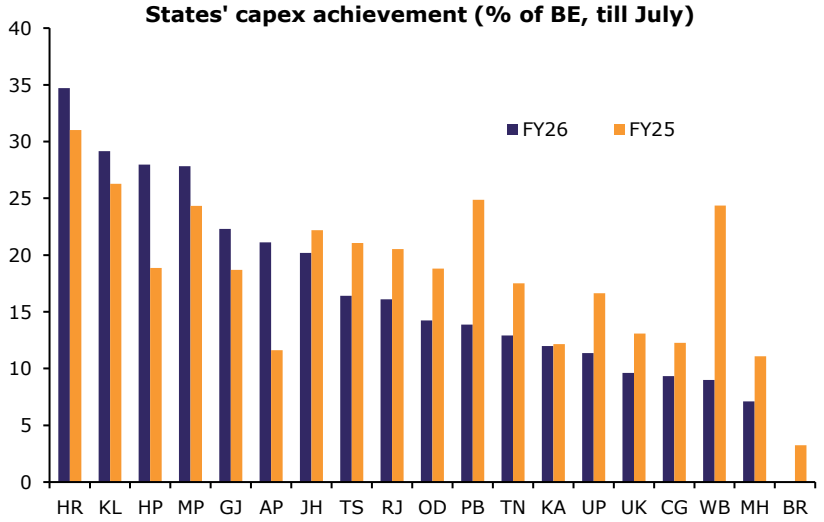
Source: States' budget documents, Emkay Research

Exhibit 35: States' capex achievement is tracking last year's…



Source: CAG, States' budget documents, Emkay Research

Exhibit 36: …though there remains significant inter-state variance in the FY26TD capex achievement

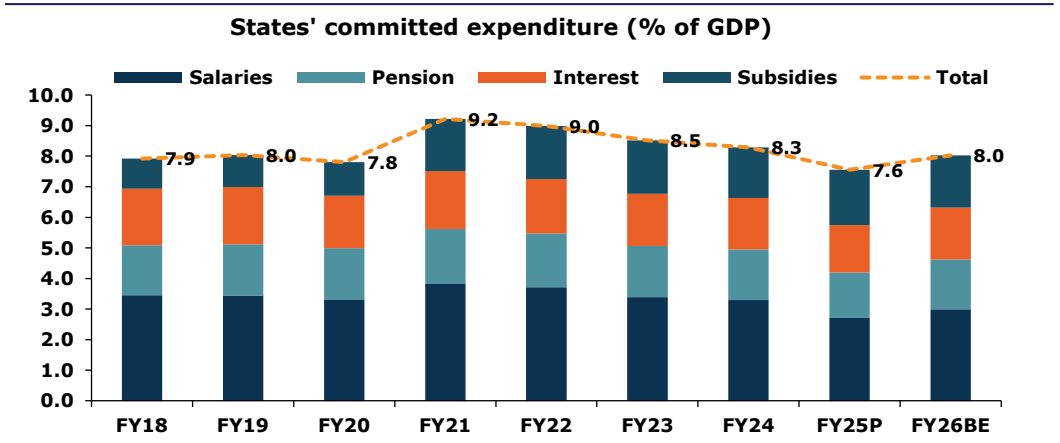


Source: CAG, States' budget documents, Emkay Research

Committed expenditure (ex-subsidies) burden reduces, though trend will be difficult to continue

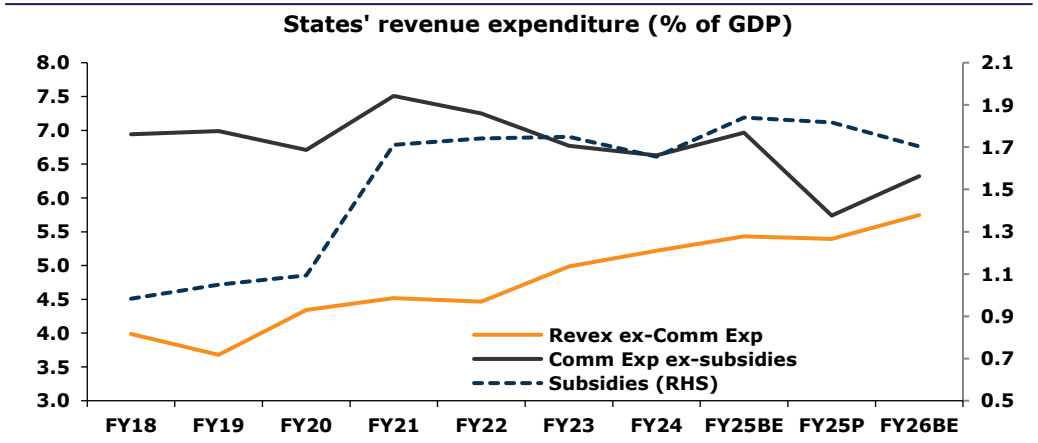
- **Sticky expenditure (ex-subsidies) reduces…:** States' committed expenditure (CE) as a share of GDP had risen to 9% in FY21 (Covid), though it has been on a declining path since then, falling to 7.6% in FY25P – around pre-Covid levels. This reduction in the sticky expenditure burden may also be helping states carry out more discretionary spending, though such a trend may be difficult to sustain
- **…although this looks unsustainable:** Notably, this fall has come amid a sharp rise in subsidy spending (*see slide on subsidies*), with other heads of committed expenditure seeing sharp rationalization – interest (3%), salaries (-8%), and pension (1%) saw minimal growth in FY25P even as subsidies surged ~23%. Thus, CE ex-subsidies fell to 5.7% of GDP from 6.6% in FY24 and the FY21 high of 7.7%, even as subsidies rose or stayed steady. However, it looks unlikely that this trend will continue
- **CE (ex-subsidies) has limited room to be controlled:** CE (ex-subsidies) is a difficult beast to slay – interest payments will rise as issuances increase and rates go up, while salaries and pensions are extremely difficult to reduce without cutting payments/workforces outright – both of which would be politically fraught. While FY26BE shows total CE/GDP rising to 8%, with CE (ex-subsidies)/GDP rising to 6.3%, data for 4MFY26 shows divergent behavior so far – salaries are down 10% and pension is up only 1%, while interest is 11% higher
- **Discretionary revex likely to hit a ceiling as a result:** Revex ex-CE as a share of GDP has risen to 5.4% in FY25P (vs 4.5% in Covid year FY21) – reflecting more ability for states to undertake developmental and discretionary spending. To be fair, CE accounts for ~58% of total revex, both CE and revex ex-CE are budgeted to rise as a share of GDP; however, these look unlikely to be met, with total revex budgeted to increase ~19% (4MFY26: 6%)

Exhibit 37: Committed expenditure declined sharply in FY25P, with higher FY26BE unlikely to be met



Source: RBI, States' budget documents, CAG, Emkay Research

Exhibit 38: Discretionary revex has risen as the committed expenditure burden has reduced, though it may difficult to sustain going forward

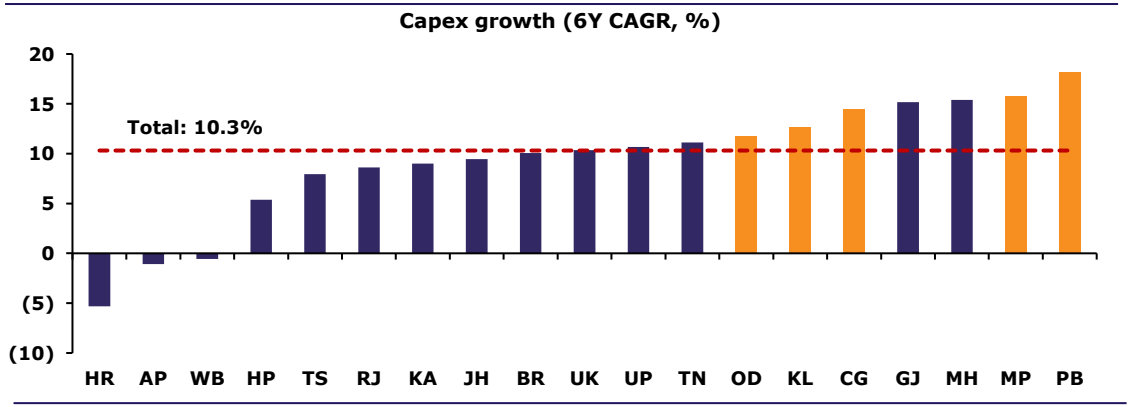


Source: States' budget documents, CAG, Emkay Research

Post-Covid increase in States' capex has been led by small- and mid-size states

- In line with the Centre's capex push, **States' capex rose from Rs4,014bn in FY19 to Rs7,233bn in FY25P – an increase of Rs3,220bn (~80%) in six years**
- **Only five States—UP, MH, MP, GJ, and KA—accounted for 63% of this increase**, with UP alone accounting for 16%
- While four of these five are also among the largest states and will thus always show up in nominal calculations, **several smaller states have had significantly higher growth rates**
- Looking at 6Y CAGR, the likes of **PB, MP, CG, KL, and OD have higher growth than the aggregate (~10%)** – indicating that these smaller states are prioritizing capex and punching above their weight (especially MP)
- This is also reflected in Exhibit 40, which shows that the largest States have not been the ones pushing capex over the last five years – in fact, **there is a negative correlation (-30%) between a State's share of GDP and its capex/GSDP over the last six years!**
- Exhibit 41 shows average capex/GDP over FY19-25, with emergence of one clear trend: **relatively industrialized States in the western and southern parts of the country have not been investing as much as the underdeveloped eastern States**, which are looking to catch up
- This is also evident in Exhibit 42, which shows the change in capex/GSDP during FY19-25. **Eastern States have the highest increase in capex/GSDP, while southern States have actually seen a decline**

Exhibit 39: Several smaller States have far higher capex CAGR over the last five years



Source: States' budget documents, Emkay Research

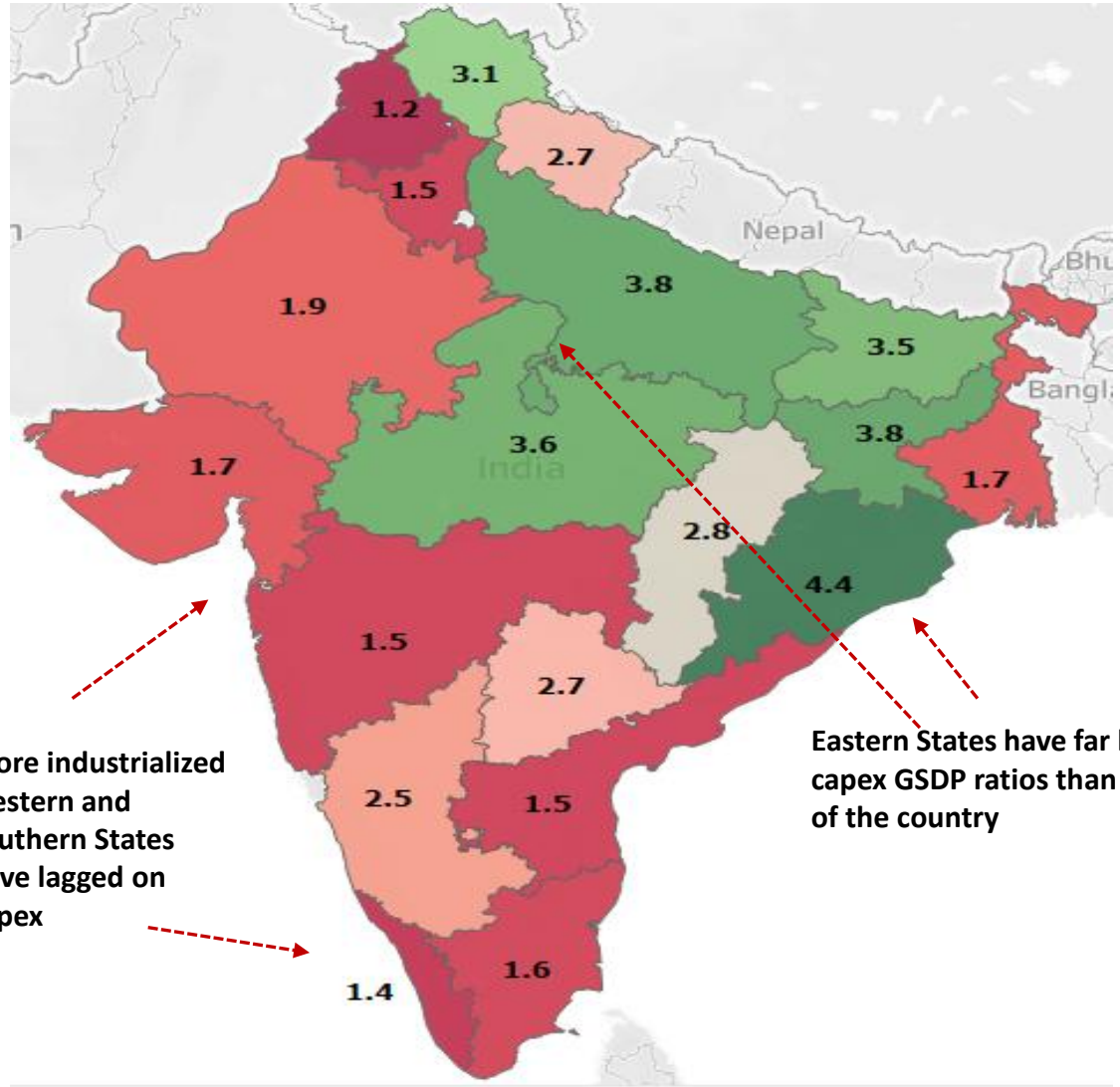
Exhibit 40: Post-Covid, larger States have had lower capex/GSDP vs smaller states

	Share of GDP (%, FY26BE)	Share of total state capex (%, FY21-25 avg)	Ranking in terms of GDP	Ranking in terms of capex share	Capex/ GSDP (%, FY21-25 avg)	Capex/ GSDP ranking
MH	13.8	7.9	1	3	1.6	13
TN	10.0	5.8	2	5	1.6	15
UP	8.6	12.2	3	1	4.1	2
KA	8.6	8.0	4	2	2.5	9
GJ	8.4	5.5	5	6	1.8	12
WB	5.7	3.1	6	11	1.6	14
RJ	5.6	3.3	7	10	1.9	11
AP	5.1	2.6	8	12	1.2	17
TS	5.0	4.4	9	7	2.0	10
MP	4.7	6.5	10	4	3.7	4
KL	4.0	2.3	11	13	1.4	16
HR	3.8	1.7	12	16	1.1	18
BR	3.1	4.1	13	9	3.9	3
OD	3.0	4.4	14	8	4.5	1
PB	2.5	0.9	15	18	1.1	19
CG	1.8	1.8	16	15	3.0	7
JH	1.6	2.1	17	14	3.5	5
UK	1.2	1.3	18	17	2.8	8
HP	0.7	0.9	19	19	3.4	6
Total	97.2				2.3	

Source: States' budget documents, Emkay Research

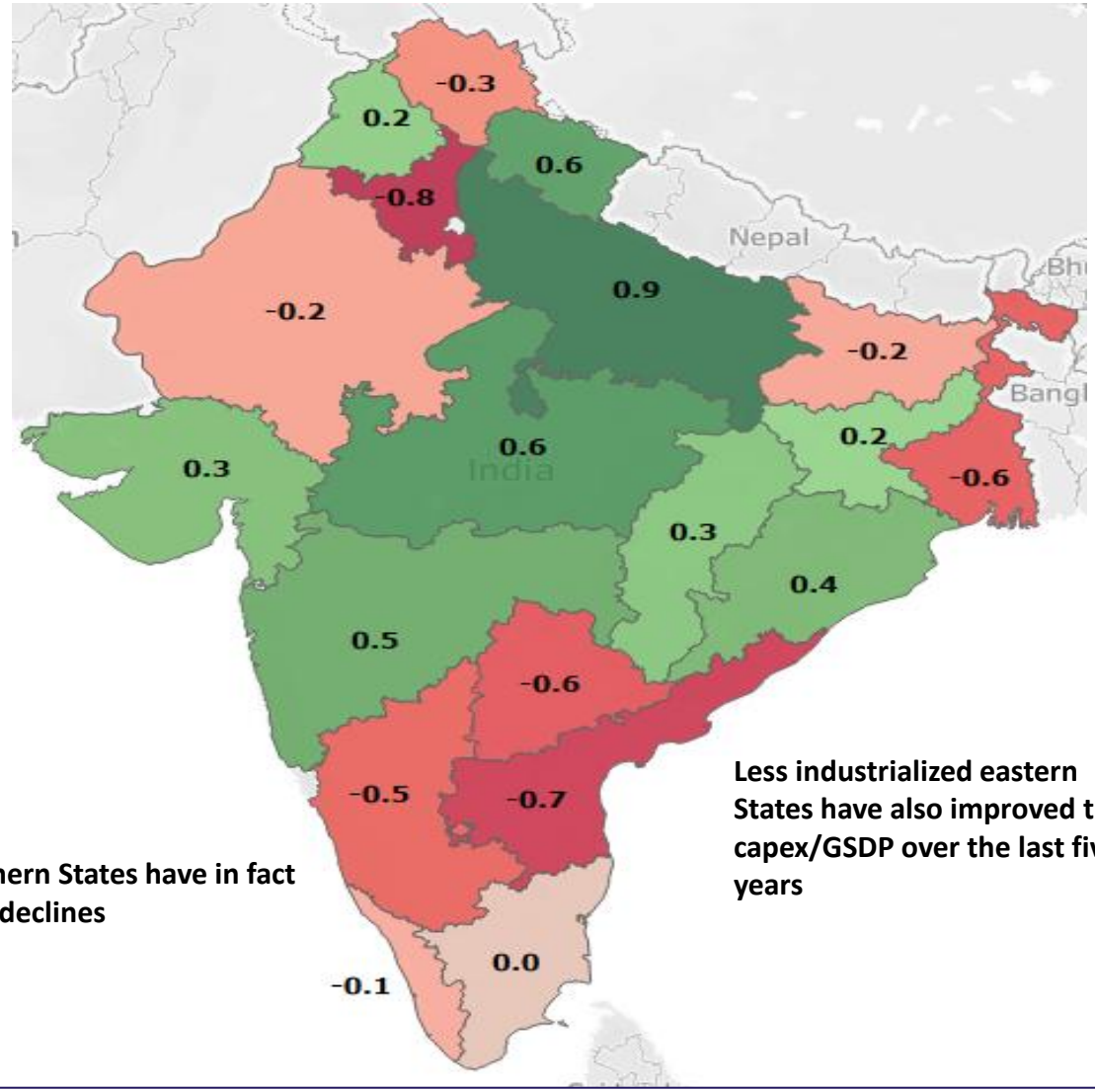
Clear distinction in capex between eastern States and the rest of the country

Exhibit 41: Average capex/GSDP ratio (FY19-25P)



Source: States' budget documents, Emkay Research

Exhibit 42: Change in capex/GSDP ratio (FY19-25P)

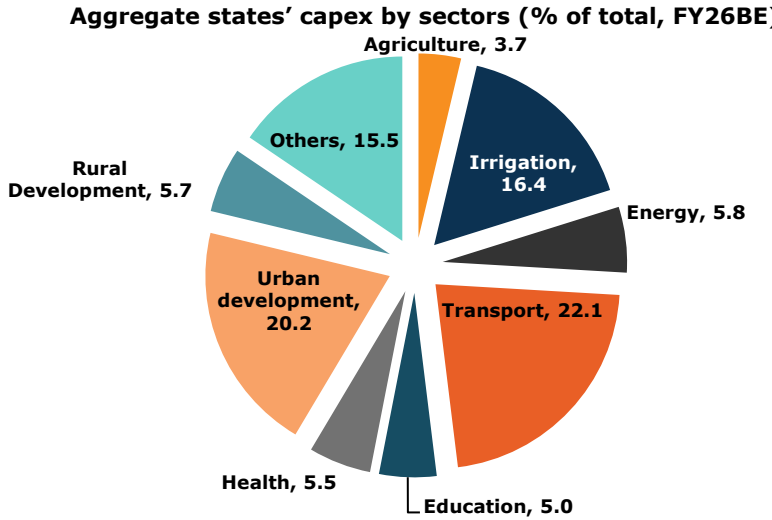


Source: States' budget documents, Emkay Research

The last 6Y saw Transport and Urban Development evolve into the largest state capex sectors

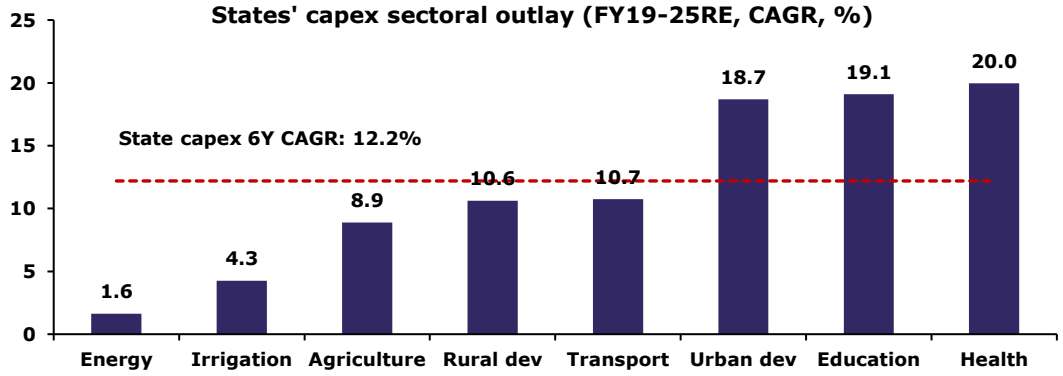
- **Irrigation share falls sharply…:** On a sectoral basis, this period has seen a significant decline in aggregate allocation to irrigation. The share of Irrigation in total capex has fallen to ~16% in FY25P vs ~22% in FY19, and has now been overtaken by both Transport (~22%) and Urban Development (~20%) as the highest sectoral capex outlay for states
- **…as Urban Development ramps up:** While share of Transport has been largely stable in this period, Urban Development has ramped up significantly, with its share rising by 7ppts in six years
- **States' capex quality improving:** Healthcare and Education are two major sectors that have seen their share in total capex rise by ~2ppt in this timeframe – with ~20% CAGR as well. This is a welcome indicator that the quality of states' capex is also improving
- **Agri and Energy share declining:** Alongside Irrigation, the share of Energy and Agri has also declined in this period, while Rural Development has barely changed – thus, on aggregate, **States' capex focus has clearly been on Urban Development, Health, and Education, over this period**

Exhibit 44: Transport and Irrigation remain the two largest sectors for State capex



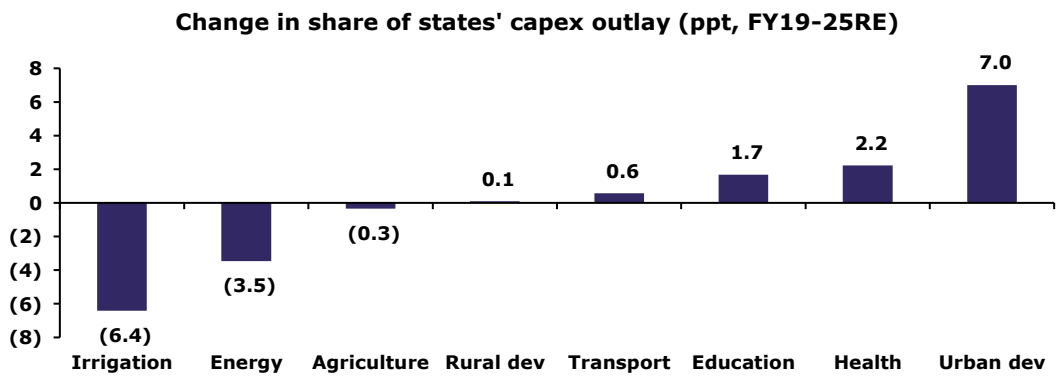
Source: States' budget documents, Emkay Research

Exhibit 43: Allocations to education, health, and urban development have grown at a much faster pace vs total state capex over the last six years…



Source: States' budget documents, Emkay Research

Exhibit 45: …leading to a fall in the share of irrigation, agri, and energy



Source: States' budget documents, Emkay Research

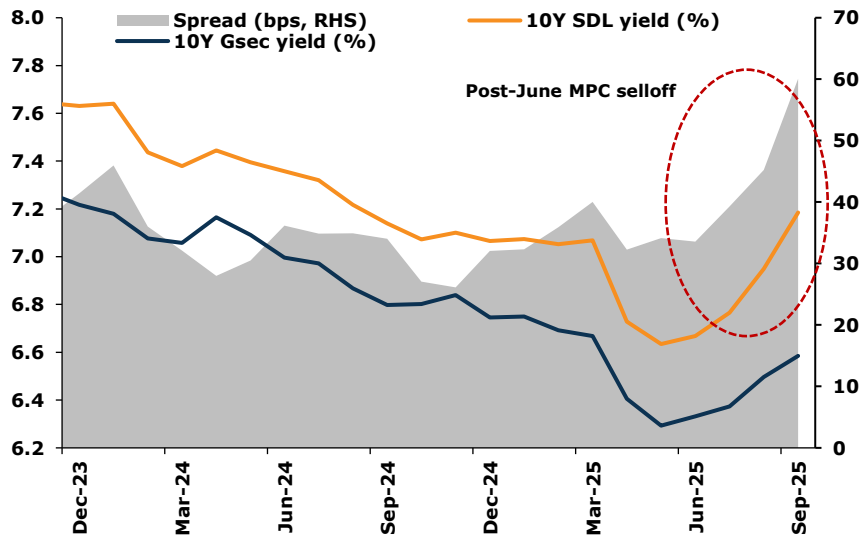
5) The SDL supply curse

SDLs: the supply curse

- **SDL spreads remain higher than historical trends:** The recent sovereign bond rout post-Jun MPC was exacerbated by a sell-off in SDLs, with SDL spreads rising dramatically over the last three months. Even as some bull-flattening has taken place across GSec and SDL curves, spreads remain ominous compared to past trends, as seen by the recent cut-offs. The average 10Y SDL-GSec spread has more than doubled since Apr-25, crossing 70bps (even as it has eased moderately in recent weeks). However, 15/20Y+ papers saw spreads increasing even further, with 20Y rising to ~55bps from only 10bps around the start of the fiscal year. Not only has the SDL quantum been higher in 2Q vs the past, but the issuance tenor has also been increasing over the years

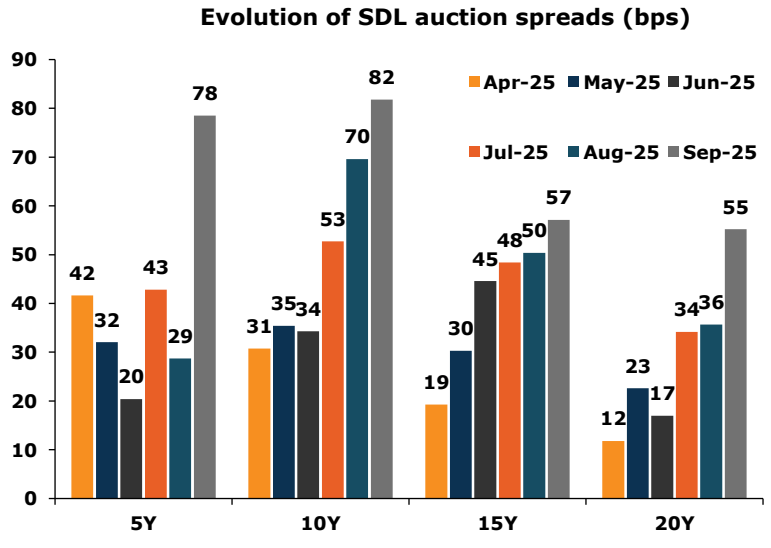
- **The quantum and tenor effect:** Amid a fragile fiscal state, FY26 gross and net SDL issuances are expected to rise 15-16%. Higher 1HFY26 issuances than recent years, in conjunction with consistently rising average tenor of SDL issuances, have added to states' market financing woes. With 1HFY26 average tenor spiking to ~17 years (vs pre-Covid average of 10 years), led by ~33% of gross issuances in the >20Y bracket, the supply skewness has not matched the existing demand appetite. To be fair, states have tried to emulate the Centre's borrowing pattern over the years, to capture the shift in demand in favor of *Long-only* market players – which seems to have peaked

Exhibit 46: SDL spreads have shot up in FY26 to near-Covid highs…



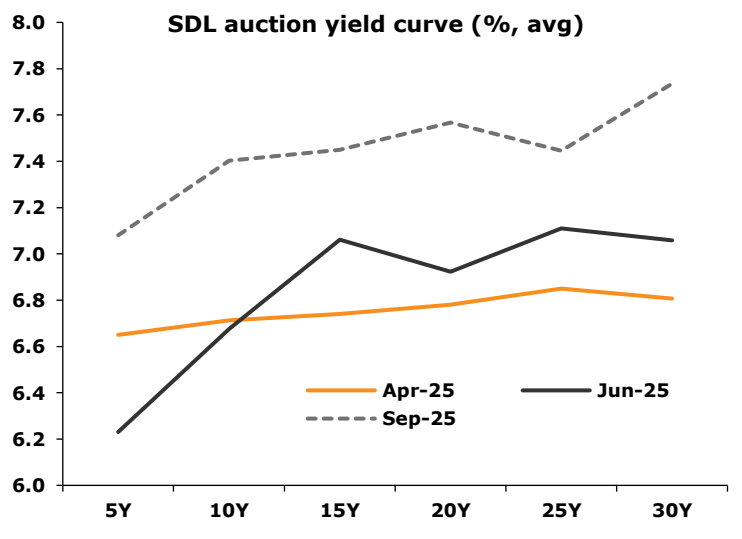
Source: RBI, CEIC, Emkay Research

Exhibit 47: …with spreads rising consistently post-Jun MPC



Source: RBI, CEIC, Emkay Research

Exhibit 48: The SDL curve has bear-steepened as a result

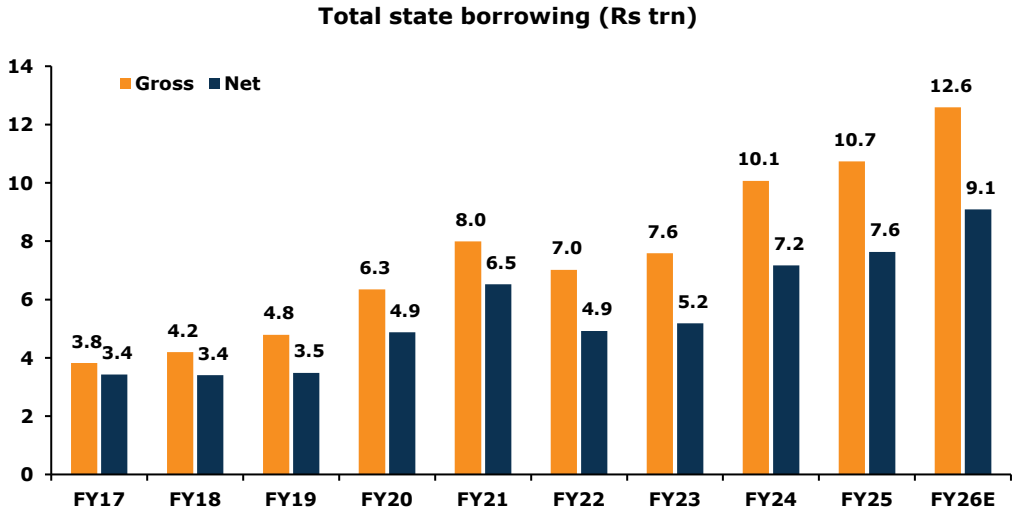


Source: RBI, CEIC, Emkay Research

1) The quantum effect…

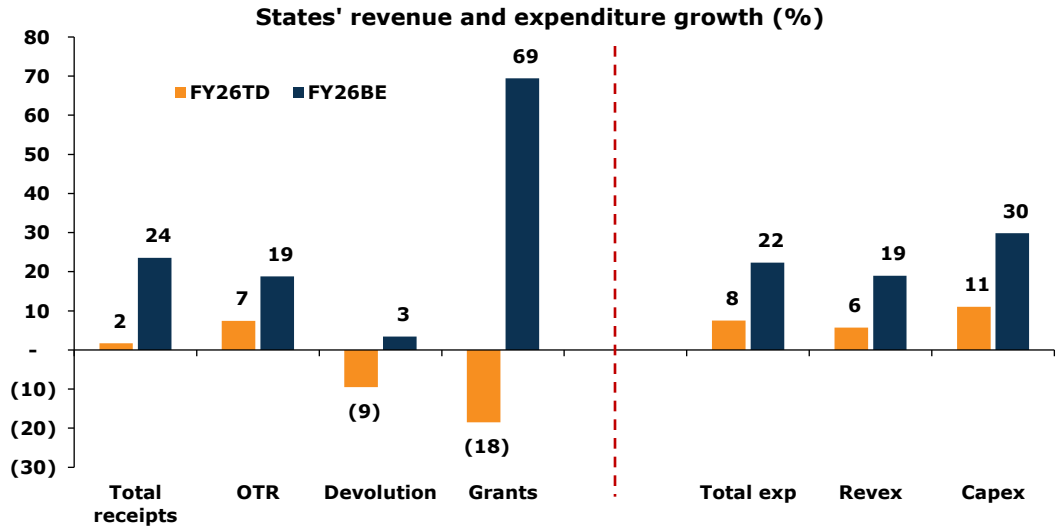
- **FY26E net SDL issuances to rise 16%:** For FY26, gross/net SDL issuances are expected to rise 15-16% to Rs12.6trn/Rs9.1trn, with net issuance likely to fund ~75% of states' fiscal deficit. So far in FY26, gross/net issuance is up ~22%/~27%.
- **Fragile fiscal math in 1H:** Deteriorating state finances have pressed FY26BE FD/GDP at 3.2% – the third straight year when states' FD/GDP may cross 3%. 4MFY26 fiscals show that states' revenue-spending mismatch has been worse than the Centre's – with states' revenue growth at only 2% (24% of FY26BE vs 29% last year), while expenditure has grown 8% (24% of BE vs 27% last year). This is lower than the last three-year average (revenue: 29%; expenditure: 28%) on achievement ratios as well. The pressure from squeezed revenue is telling on the fiscal deficit, which is up 50% YoY for 4MFY26 (14% of BE achieved vs 12%/13% in 4MFY25/last 3Y average).
- **1HFY26 issuance much higher than the past:** As a result, 1H issuances are much higher, skewed in 2Q, when not only are issuances running near 100% of the indicated calendar (vs the 10%/14% average undershoot in the last 5Y/2Y), but the quantum is also much higher vs historical patterns. Of the 19 major states, 7 have borrowed more than their indicative calendars so far, with 2 more over 90%. MH and GJ have led the way in terms of absolute borrowing quantum, though it is the fiscally strained states such as TS, AP, HP, KL, and RJ that have borrowed more than their indicative calendars so far – reflecting their fiscal stress.

Exhibit 49: Gross/net SDLs expected to rise 15-16% in FY26E



Source: States' budget documents, RBI, Emkay Research estimates

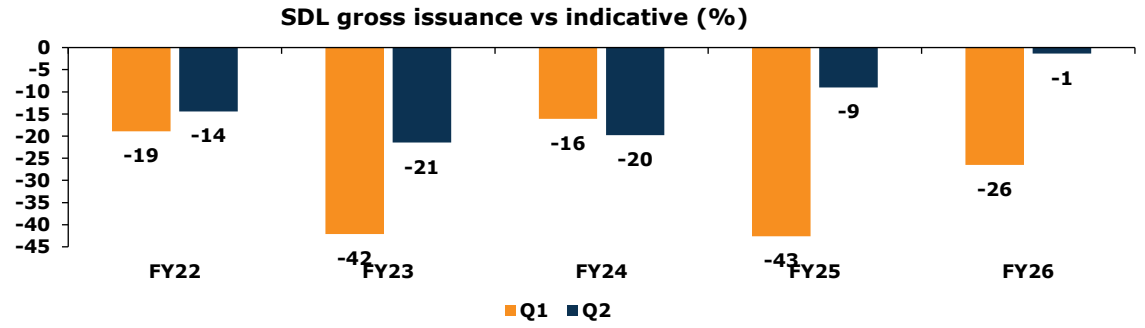
Exhibit 50: States' revenue is running far below the budgeted growth, putting pressure on fiscal, despite controlled expenditure



Source: States' budget documents, CAG, Emkay Research

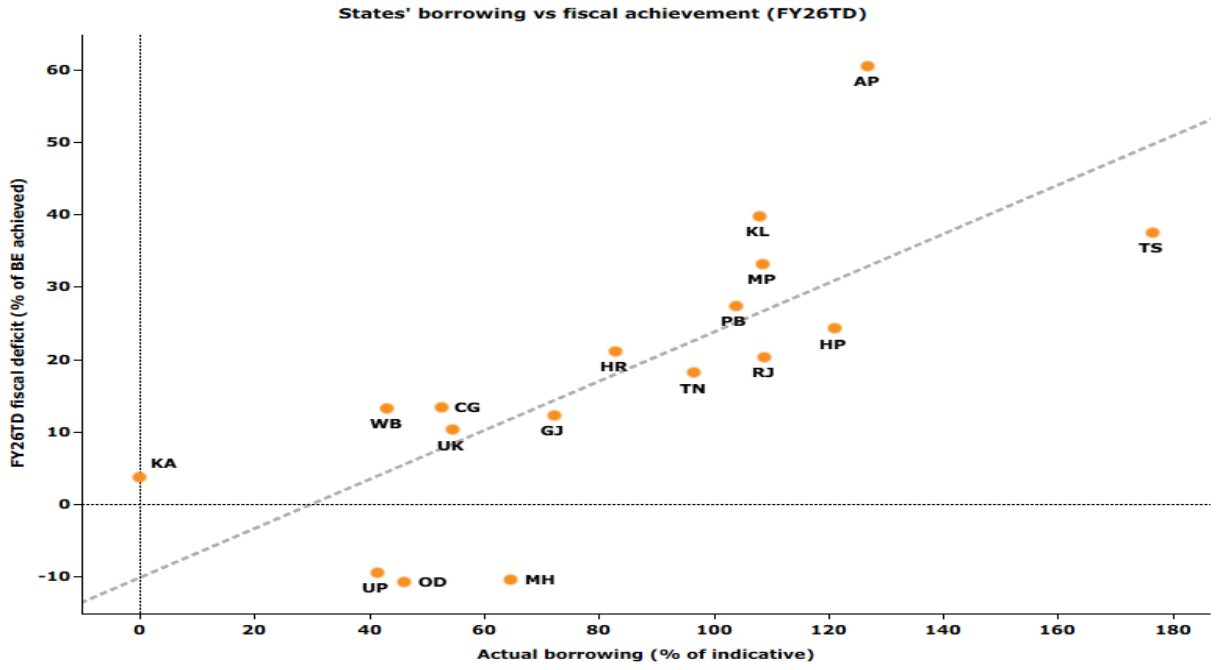
...(contd) The quantum effect

Exhibit 51: SDL issuance has been much closer to indicative in FY26 vs previous years



Source: RBI, CEIC, Emkay Research

Exhibit 52: States that have borrowed more vs indicative are also running higher FD run-rates



Source: RBI, CEIC, Emkay Research

Exhibit 53: Several states have issued more SDLs than the same period last year

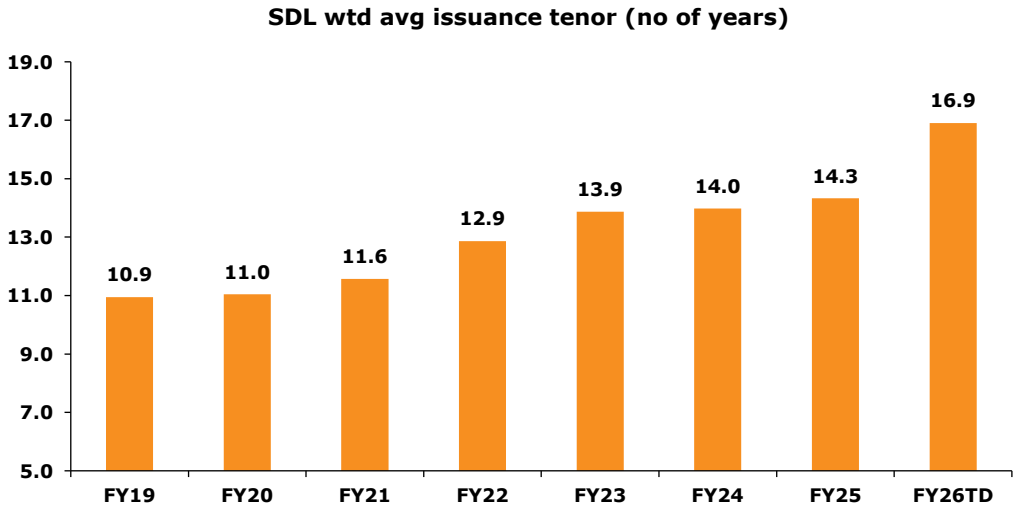
		Actual		Indicated		Actual (% of indicated)		
Gross borrowing (Rs bn)		**FYTD26**	**FYTD25**	**FYTD26**	**FYTD25**	**FYTD26**	**FYTD25**	**YoY %**
Andhra Pradesh	AP	422	440	333	370	127	119	-4
Bihar	BR	260	120	280	120	93	100	117
Chhattisgarh	CG	45	35	85	60	53	58	28
Gujarat	GJ	195	45	270	245	72	18	333
Haryana	HR	195	195	235	210	83	93	0
Himachal Pradesh	HP	64	46	53	70	121	66	40
Jharkhand	JH	20	0	0	30	-	0	-
Karnataka	KA	0	30	100	200	0	15	-100
Kerala	KL	270	243	250	135	108	180	11
Madhya Pradesh	MP	309	150	284	110	109	136	106
Maharashtra	MH	660	640	1,050	1,150	63	56	3
Odisha	OD	60	0	130	20	46	0	-
Punjab	PB	252	269	243	227	104	119	-6
Rajasthan	RJ	381	365	350	295	109	124	4
Tamil Nadu	TN	483	500	500	530	97	94	-3
Telangana	TS	459	315	260	320	177	98	46
Uttar Pradesh	UP	120	0	290	310	41	0	-
Uttarakhand	UK	30	14	55	45	55	31	114
West Bengal	WB	220	245	510	480	43	51	-10

Source: RBI, CEIC, Emkay Research

2) The tenor effect…

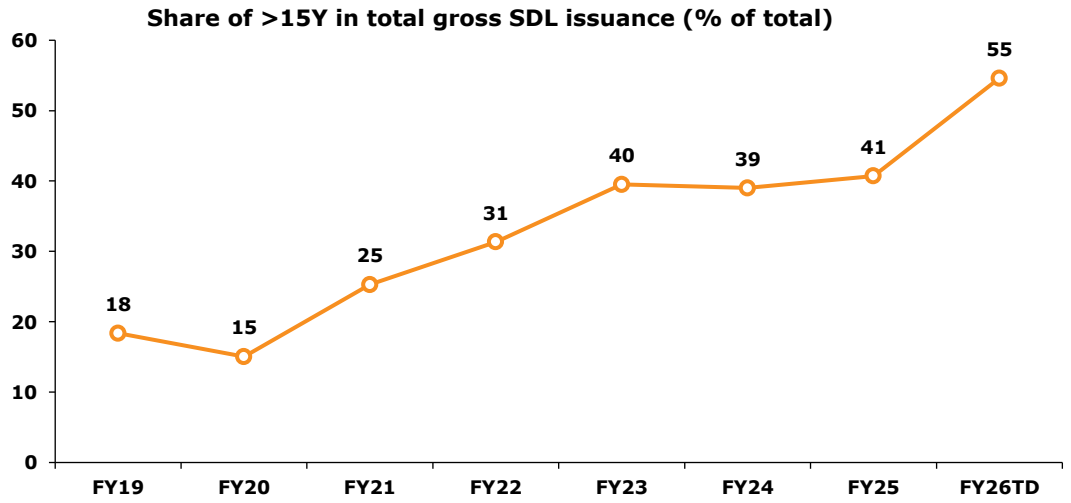
- **SDL average issuance tenor now 14 years:** The average tenor of SDL issuances has been rising over the years (like the Centre) – SDL weighted average issuance tenor is up, to ~14Y in FY23-25, strikingly higher vs the 10Y seen pre-Covid. 1HFY26 has seen this trend strengthen even further, with weighted average SDL issuance tenor rising to 17Y. More than half (~53%) of the gross SDL issuance in 1HFY26 has been in the >15Y bracket as compared to ~40% three years ago and 15-20% pre-Covid.
- **TS, WB, KL lead the show:** This surge has been led by states such as TS, WB, and KL, which have average issuance tenor of >20Y, while the likes of MH, MP, PB, RJ, and TN have average issuance tenor of 15-20Y. In fact, of the 19 major states, only three have average issuance tenor of <10Y.
- **Higher tenors intended to elongate SDL residual maturity profile:** The weighted average residual maturity of SDLs is now higher at 9.2Y. Most SDLs have bunched up residual maturity below 12Y, with the 1-5Y bracket leading the pack (~33%), followed by 6-10Y (~29%) – only ~18% of the outstanding SDLs have residual maturity of >15Y.
- **Long players' demand response drying up**: To be fair, this glut of long-dated supply is in response to a shift in demand over the past couple of years in favor of long- and ultra-long investors (Insurance, PF, Pension) – a phenomenon that now seems to have peaked out, with supply yet to readjust in response.

Exhibit 54: Wtd average issuance tenor of SDLs has been steadily rising post-Covid, and has shot up to ~17Y in FY26TD



Source: RBI, Emkay Research

Exhibit 55: This has been driven by a sharp rise in ultra-long bond issuances, which are now more than half of all SDL issuances!



Source: RBI, Emkay Research

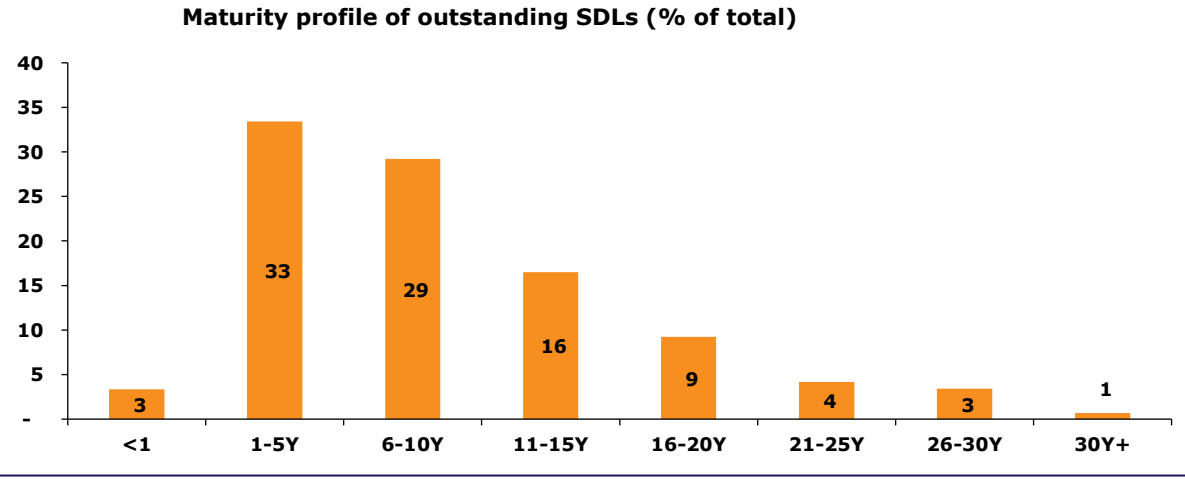
...(contd) The tenor effect

Exhibit 56: States' issuances are tilting heavily toward longer tenors

Weighted average issuance tenor (no of years)	AP	BR	GJ	HR	HP	JH	KA	KL	MP	MH	OD	PB	RJ	TN	TS	UK	UP	WB
FY19	12.0	10.0	9.9	15.5	6.0	10.0	8.0	11.0	8.1	8.2	9.1	10.8	10.1	9.8	23.5	10.0	10.0	13.9
FY20	13.0	9.5	8.1	12.3	10.4	10.1	9.2	10.0	11.2	9.5	3.7	12.2	8.9	12.8	19.0	10.0	10.0	12.2
FY21	12.4	4.0	9.1	12.7	10.6	12.6	12.0	7.3	11.7	8.0	2.7	17.0	10.9	12.8	21.6	10.0	10.0	14.5
FY22	17.3	8.3	8.2	12.0	10.6	14.1	12.0	15.7	12.9	10.0		13.0	9.3	17.8	19.4	10.0	10.2	12.8
FY23	13.5	10.0	8.7	9.4	12.3	10.8	13.9	20.2	14.0	8.8		18.3	15.9	19.9	15.6	10.0	11.9	16.2
FY24	14.1	12.0	6.9	10.5	13.5	8.0	12.5	21.8	15.3	10.8		13.7	14.8	17.2	18.9	8.7	11.7	18.5
FY25	16.1	11.2	7.1	12.4	12.6	4.1	9.6	21.2	16.3	15.0	11.1	13.4	13.8	15.2	19.7	6.5	12.8	17.6
FY26TD	10.7	14.5	8.0	13.1	15.8	7.3	-	24.7	17.4	18.0	10.8	19.0	17.6	14.4	28.4	10.0	7.5	20.0

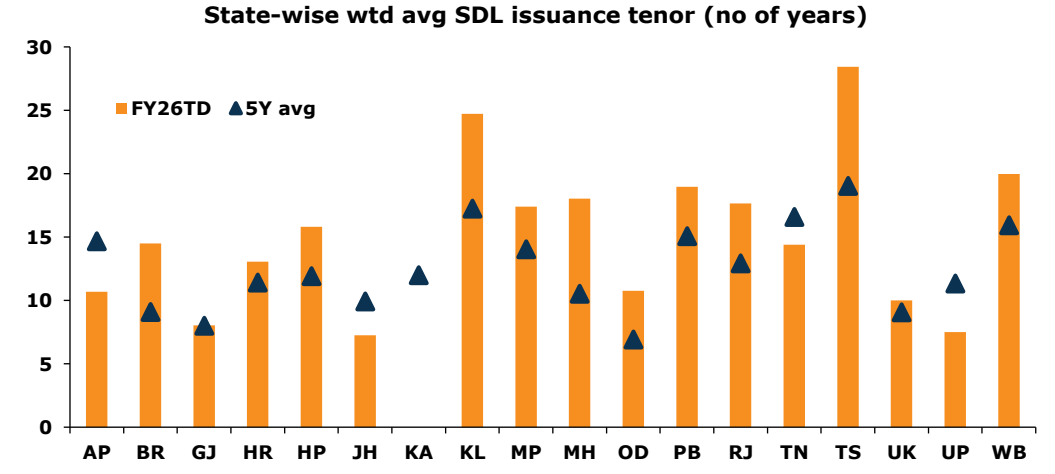
Source: RBI, Emkay Research

Exhibit 57: Weighted average maturity of SDLs remains skewed toward the <10Y bucket



Source: RBI, Emkay Research

Exhibit 58: Eight of the 19 states have weighted average issuance tenor of >15Y now vs only five 3y ago



Source: RBI, Emkay Research

SDL spreads may narrow marginally, though structural issues persist

SDL's IGB-like behavior has backfired: Even as SDL spreads have eased marginally in recent weeks, with receding fears of a sharp fiscal hit due to GST 2.0, though pressure persists, as reflected in the recent auction outcomes. The front-loading of issuances in 1H at >20Y tenors is a "*very IGB-like behavior*" with respect to bond issuances. Unfortunately, the market treatment and bond liquidity are not! Secondary market liquidity is thin for SDLs, especially for fiscally-weaker states, giving limited exit route to investors – who are then forced to change investment strategy for more liquid papers like GSec/corporate bonds. This demonstration effect is not ideal for YC transmission.

Demand drought from captive investors like banks: Banks' demand seems to be a problem after having seen considerably healthy demand in the early part of the year, apparently with reallocation of their IGB sales in OMOs in 1HCY26 in their HTM books. With their internal investment book limits toward SDLs being hit, their capacity to absorb further SGS into HTM books is constrained. On the other hand, MTM losses have also kept banks' SLR investments tepid.

Structural issues need a more far-sighted policy approach:

Both policy and market failures are to be blamed for the shallow debt market and weak price discovery over the years. The policy prescriptions need to be such that they do not lead to lazy investing or lazy borrowing behavior or market hazards.

- **Stick to best practices on price discovery**: Some market participants suggest reverting to uniform-price auctions from multiple-price auctions, given tail-bidding bias during bear markets (and partly to save their own P&L). However, we feel that **multiple price auctions are much better to fair price discovery,** even with its flaws.
- **Avoid moral hazards:** We do not subscribe to the idea of the central bank bailing out market players, especially on their trading losses. The market-ask on one-time allowance for banks to shift sovereign/semi-sovereign papers from their held-for-trading book to held-to-maturity, to ease pressure on their losses and eventually leading to some bond buying. Such bailing-out behavior will cripple the market depth further and only lead to moral hazards. There is no systemic risk or market failure that requires such policy responses.
- **State OMOs may not be easy to execute:** While OMO purchases in SDLs could be one policy tool, contingent on the liquidity landscape, non-uniform issuances and cross-state asymmetric fiscal dynamics would make it trickier for the RBI to choose the amounts and States.
- **Keep combined federal issuance patterns aligned with market dynamics:** Another way to fix the demand-supply mismatch, especially at the long-end of the curve, is to have a more consolidated approach for longer-term GSecs and SDL issuances, as the demand for both comes from the same entities. The policy aim should be to ensure that the combined issuances are aligned with structural market demand.
- **2HFY26 issuances to be tweaked toward the belly:** Near-term of course, a possible reduction in proportion of long-end maturities and shift of supply toward short-to-belly duration could be done to accommodate structural and regulatory changes impacting demand by domestic investors.
- **Scope for SDL rally still limited:** That said, in the absence of steps for supporting markets through i) bond purchases in the secondary market, after frontloaded OMOs, ii) dovish RBI guidance, or iii) moves to trim supply, the scope for a one-sided rally in benchmark bonds (led more by GSecs) in the near term remains limited.

Sovereign debt DD-SS balance

Exhibit 59: DD-SS position for Indian sovereign papers

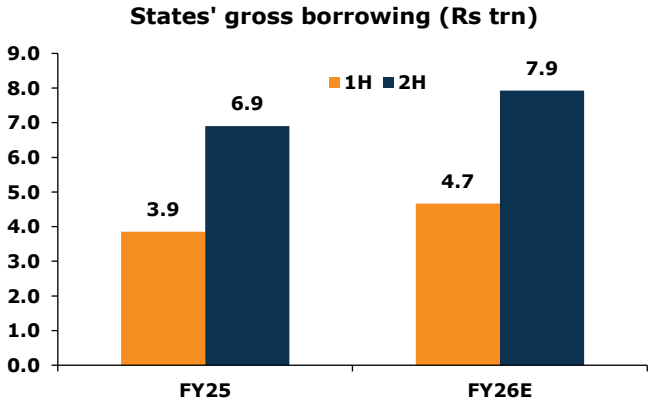
(Rs bn)	FY25	FY26BE	FY26E
Centre's Fiscal deficit (% of GDP)	**4.6%**	**4.4%**	**4.4%**
States' Fiscal deficit (% of GDP)	**3.3%**	**3.2%**	**3.4%**
CG Fiscal deficit	15,773	15,689	15,685
Centre's gross borrowings	14,007	14,820	14,820
Gsec Redemptions	3,614	3,282	3,282
Net Gsec market borrowing (dated)	10,393	11,538	11,538
State's gross borrowings	10,733	12,055	12,590
State redemptions	3,109	3,500	3,500
Net SDLs supply	7,624	8,555	9,090
Net Tbill supply	-1,200	0	0
Net supply (CG+SDL+TB)	16,817	20,094	20,628
	FY25	FY26E	FY26E
Total demand (CG + SDL+TB)	15,163	18,183	18,183
Banks+PD	4,215	7,397	7,397
Insurance	2,931	3,106	3,106
PFs	2,801	3,165	3,165
Pension	1,516	1,577	1,577
MFs/Corporates/ Fin Insti	1,060	1,071	1,071
Others (State govt/individual/Trusts)	1,446	1,519	1,519
FIIs	1,194	348	348
Excess supply (+)/demand (-)	1,654	1,911	2,446
OMOs purchase (+)/sale (-)/ RBI (adjusted for redemptions)	1,654	1,292	?
Net excess supply (+)/demand (-)	**0**	**619**	?

Source: RBI, Emkay Research estimates

We have assumed NDTL growth at 10.7%, with SLR demand at 28.5%; we assume 75% of states' FD being financed by SDLs in FY26

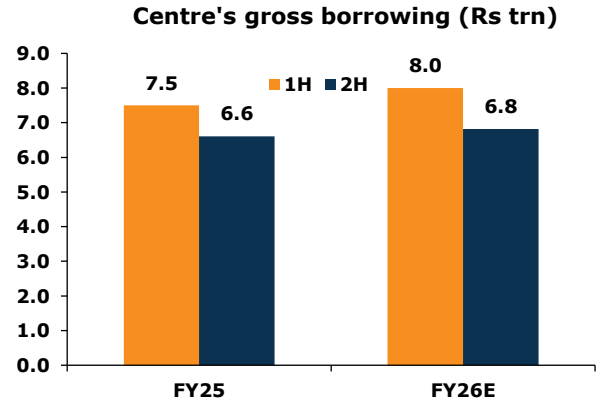
NPS DD for GSecs may only grow at 3-4% despite AUM growth of >10% owing to a one-time shift in DD to equities due to regulatory changes

Exhibit 60: States' issuance to surge in H2FY26…



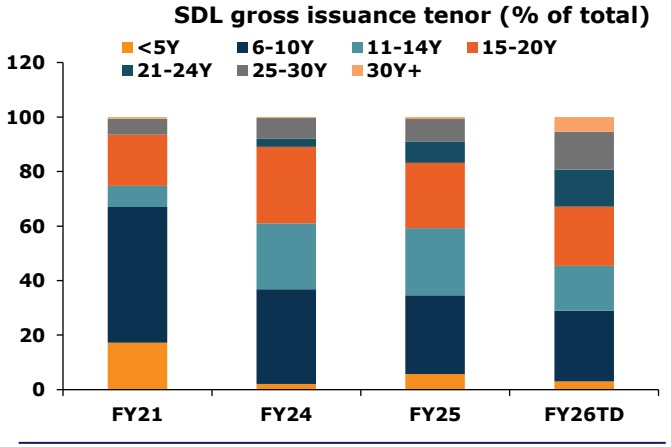
Source: RBI, Emkay Research

Exhibit 61: …as the Centre's issuance moderates



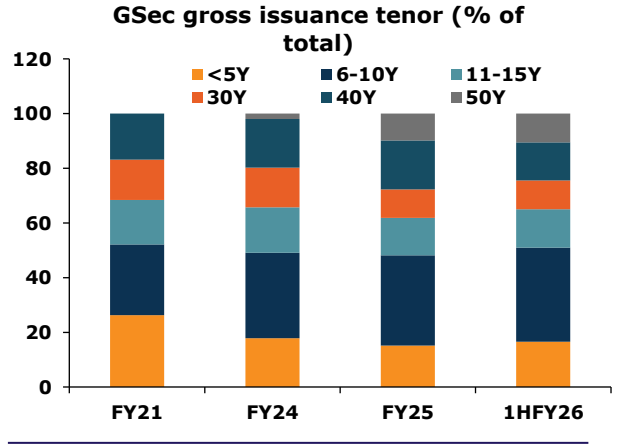
Source: RBI, Emkay Research

Exhibit 62: SDLs have been steadily shifting toward longer tenors post-Covid



Source: RBI, Emkay Research

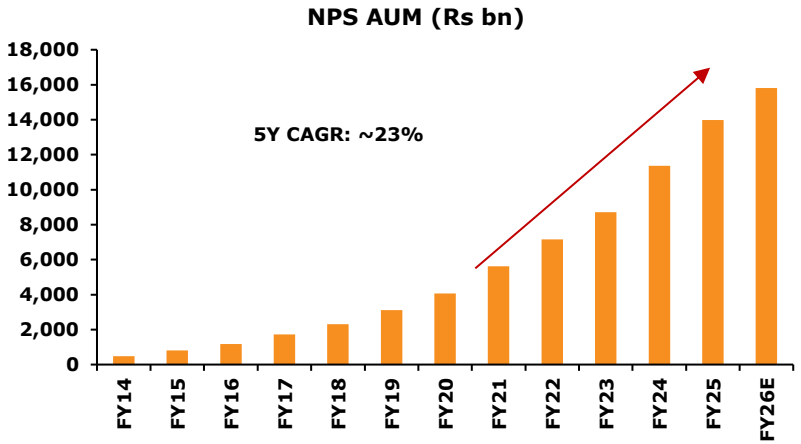
Exhibit 63: GSec issuance at the long- and ultra-long segments has also risen



Source: RBI, Emkay Research

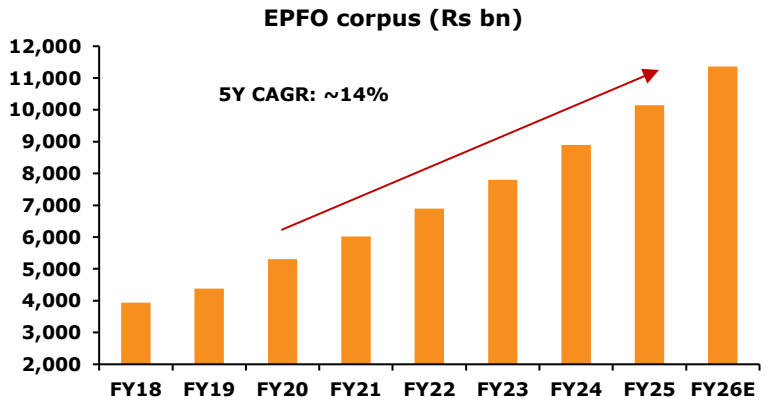
Sovereign DD from long- and ultra-long players to moderate

Exhibit 64: NPS AUM continues to grow rapidly post-Covid



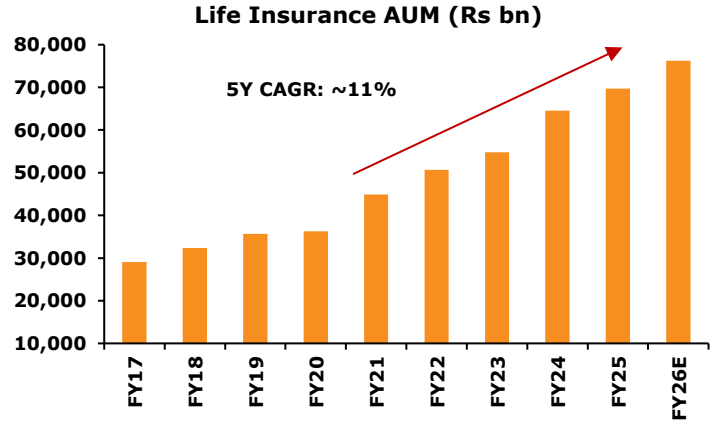
Source: NPS, Emkay Research

Exhibit 65: Rising EPFO corpus may add to sovereign DD



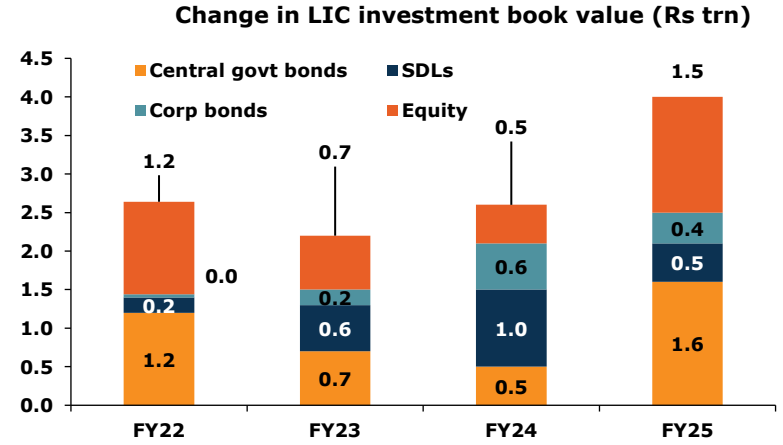
Source: EPFO, Emkay Research

Exhibit 66: While life insurance AUM continues to grow, DD for sovereign debt may be curtailed



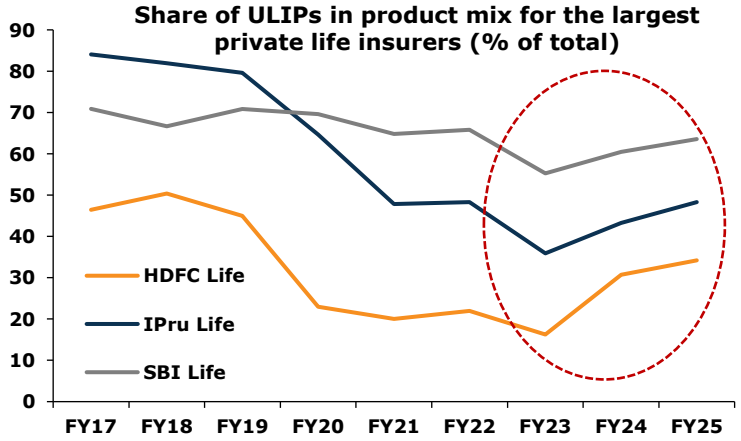
Source: Company data, Emkay Research; Note: Data is for the 7 largest insurance players

Exhibit 67: LIC's incremental investment in equities has surged



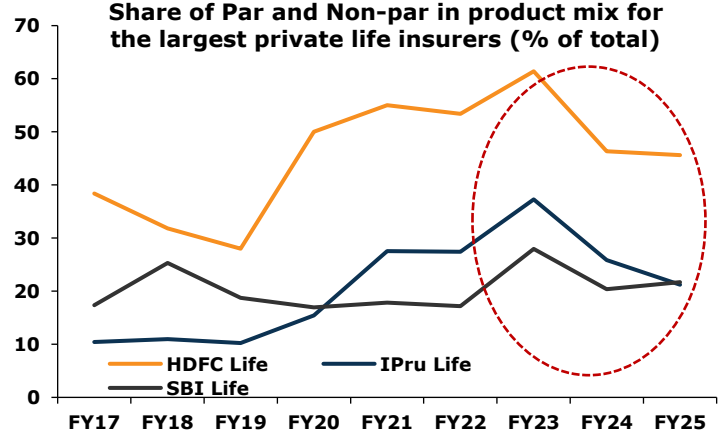
Source: LIC, Emkay Research

Exhibit 68: ULIPs' share in the life insurance product mix has surged...



Source: Company data Emkay Research

Exhibit 69: ...while Par/non-Par has been hurt by tax changes, reducing insurers' DD for sovereign debt



Source: Company data, Emkay Research

Appendix

Modalities of the Centre’s capex loans to states for FY26

- After achieving its FY25BE target of Rs1.5trn for capex loans to states (albeit lower than RE), the Centre maintained the same target for FY26BE
- However, some of the norms and rules around eligibility have been tweaked, while disbursements have been accelerated (Rs500bn disbursed; Rs750bn sanctioned)
  - Rs570bn (38% of total) as ‘untied’, of which Rs550bn was allocated to states per their share of central taxes and duties, with Rs20bn allotted for the first time to union territories
  - First instalment (66%) to be released on meeting certain conditions, with the rest (34%) to be released after 75% of the first instalment is utilized, and the Centre’s share of unused CSS funds in SNA accounts migrated to SNA SPARSH
  - This ‘untied’ component has now been provisionally increased, by up to 50% of the original allocation (up to 100% for NE/Hill States) for states that have utilized the first instalment and availed the second instalment. This is on a first-come-first-serve basis
  - Of the remainder, Rs130bn tied to governance reforms such as building municipal cadres, finance, and urban planning reforms
  - Rs60bn as incentive for states for digital public infra for agriculture (farmers’ registry, digital crop survey, etc)
  - Rs60bn allocated to incentivize states toward onboarding 29 CSS in the SNA SPARSH platform – to allow just-in-time release of funds
  - Rs50bn each for digitization of rural land records, urban land reforms, and deregulation
  - The Centre will use the RBI platform from November onward, for transferring funds for schemes instead of using state treasuries and banks

States’ capex/GDP evolution over the years

Exhibit 70: States’ capex/GDP evolution over the years

Capex/GSDP (%)																										
	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24BE	FY24	FY25BE	FY25RE	FY25P	FY26BE	5Y avg	5Y change in capex/GDP
AP	4.0	5.4	6.3	7.2	5.7	7.1	5.3	3.6	4.0	3.8	2.6	2.8	3.2	1.7	2.3	1.3	1.9	1.4	0.6	2.4	0.6	1.6	2.0	1.5	1.2	1.2	0.2
BR	1.5	2.7	5.9	6.5	6.0	6.5	7.1	3.6	3.7	5.2	6.5	8.1	6.5	6.2	4.2	2.1	2.8	3.7	3.9	3.9	4.2	4.3	3.0	4.9	4.2	3.9	2.8
CG	2.7	3.0	3.8	4.9	4.3	3.8	3.7	2.6	3.0	2.5	3.6	4.2	3.9	3.6	2.9	2.6	2.6	2.6	3.0	3.7	3.0	3.0	4.0	4.0	3.7	3.0	1.4
GJ	2.0	3.0	3.1	2.4	3.4	2.4	2.6	2.2	3.1	3.1	3.0	2.7	2.0	2.0	2.0	1.5	1.5	1.5	1.6	3.7	1.6	2.3	2.7	2.6	2.5	1.8	1.1
HP	2.7	3.1	3.9	4.6	6.3	5.4	4.6	2.5	2.5	2.2	2.8	3.0	2.8	2.7	3.0	3.2	3.4	3.4	3.1	2.4	3.1	2.7	2.8	3.8	2.7	3.4	0.6
HR	0.9	1.5	2.1	2.7	3.3	3.4	2.5	1.8	1.8	1.1	1.0	1.7	2.0	2.3	2.2	2.3	1.0	1.3	1.1	1.6	1.1	1.5	1.3	1.1	0.9	1.1	(1.2)
JH	3.4	3.8	4.6	5.3	5.6	4.9	4.8	2.1	2.6	2.9	3.0	4.7	5.1	4.5	4.6	3.1	3.9	2.7	3.7	5.0	3.6	4.5	5.1	3.8	3.6	3.5	0.7
KA	2.8	3.2	4.2	3.8	4.0	4.9	4.9	2.6	2.4	2.4	2.6	2.5	2.5	2.6	2.5	2.3	2.7	2.7	2.5	3.4	2.5	2.0	1.8	1.9	2.1	2.5	(0.4)
KL	0.6	0.6	0.6	1.0	1.0	1.2	1.8	1.1	1.2	1.1	1.0	1.7	1.8	1.5	1.2	1.1	1.9	1.6	1.3	1.3	1.3	1.2	1.2	1.1	1.1	1.4	(0.0)
MP	4.4	5.6	4.0	5.0	4.4	4.7	4.9	2.9	3.3	3.0	3.1	4.0	5.0	4.5	3.8	3.3	3.4	3.6	3.4	3.9	3.6	4.1	4.0	4.3	4.8	3.7	1.0
MH	1.9	2.1	1.9	1.9	3.1	2.6	2.4	1.4	1.3	1.4	1.3	1.4	1.4	1.9	1.4	1.4	1.2	1.5	1.7	1.9	1.7	1.8	2.0	2.1	1.8	1.6	0.7
OD	1.4	1.3	1.6	2.8	3.4	3.1	3.4	1.9	2.3	2.9	4.1	5.8	4.8	5.2	5.0	4.0	3.3	4.5	4.4	8.8	4.5	5.0	6.3	5.8	4.9	4.5	1.8
PB	0.7	1.5	2.3	1.8	2.2	1.6	1.6	0.6	0.7	0.7	1.0	0.9	1.0	0.5	0.5	3.1	0.8	1.4	1.1	1.5	1.0	0.6	0.9	1.0	0.9	1.1	(2.1)
RJ	2.7	3.2	3.2	4.1	3.4	2.8	2.5	1.6	2.4	2.8	3.1	3.9	3.9	2.6	2.2	1.7	1.5	2.0	1.7	2.4	1.8	1.8	2.5	2.2	2.0	1.9	0.6
TN	2.1	1.6	2.1	2.4	2.8	2.4	3.1	2.2	1.8	2.0	2.0	2.0	1.6	1.4	1.5	1.4	1.7	1.7	1.6	1.6	1.6	1.5	1.5	1.5	1.5	1.6	0.1
TS											2.0	2.9	5.6	4.0	3.6	2.7	2.4	2.9	1.4	3.3	1.4	3.0	2.0	2.1	2.2	2.0	(0.6)
UP	2.2	3.1	4.7	5.3	6.5	6.8	5.1	3.0	3.1	4.1	6.4	7.1	5.9	2.7	3.7	3.3	2.7	3.7	4.6	6.0	4.1	4.3	6.2	5.4	4.1	4.1	2.0
UK	4.5	6.0	5.3	5.9	4.7	4.2	3.3	2.0	2.9	2.8	3.5	2.8	2.6	2.7	2.6	2.2	2.8	2.8	2.7	3.9	2.7	3.3	3.5	3.1	3.0	2.8	0.9
WB	0.9	0.7	0.8	1.0	1.4	1.0	0.7	0.5	0.8	1.2	1.7	2.0	1.4	2.0	2.2	1.5	1.3	2.3	1.4	2.0	1.5	1.8	1.9	1.6	1.2	1.6	0.1
Total	**2.2**	**2.6**	**3.0**	**3.3**	**3.7**	**3.6**	**3.3**	**2.0**	**2.2**	**2.3**	**2.7**	**3.0**	**2.5**	**2.3**	**2.4**	**2.1**	**2.1**	**2.3**	**2.2**	**2.8**	**2.5**	**2.7**	**2.6**	**2.3**	**2.7**	**2.3**	**0.3**

Source: RBI, state budget documents, Emkay Research

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REDUCE	5% upside to 15% downside
SELL	>15% downside

Emkay Global Financial Services Ltd.
CIN - L67120MH1995PLC084899
7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India Tel: +91 22 66121212 Fax: +91 22 66121299 Web: www.emkayglobal.com

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Seshadri Kumar Sen

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