

# CONNECTING THE DOTS...

West Asia to West Bengal –  
Sentiments Rule Equity Market

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A decisive electoral mandate for the BJP in West Bengal, along with consolidation in Assam, could improve market sentiment and potentially accelerate reform momentum. The broader market may look through weak earnings momentum, impending margin pressures, and slower than expected GDP growth if a strong political mandate translates into faster and more decisive reforms. This, combined with easing tensions in West Asia, could bring some relief to energy prices, help ease pressure on bond yields, and support the INR, in our view.

### Exhibit 1: Stronger the government sharper the reform momentum



Source: Indian Express

## The Intersection of Politics and Market Dynamics

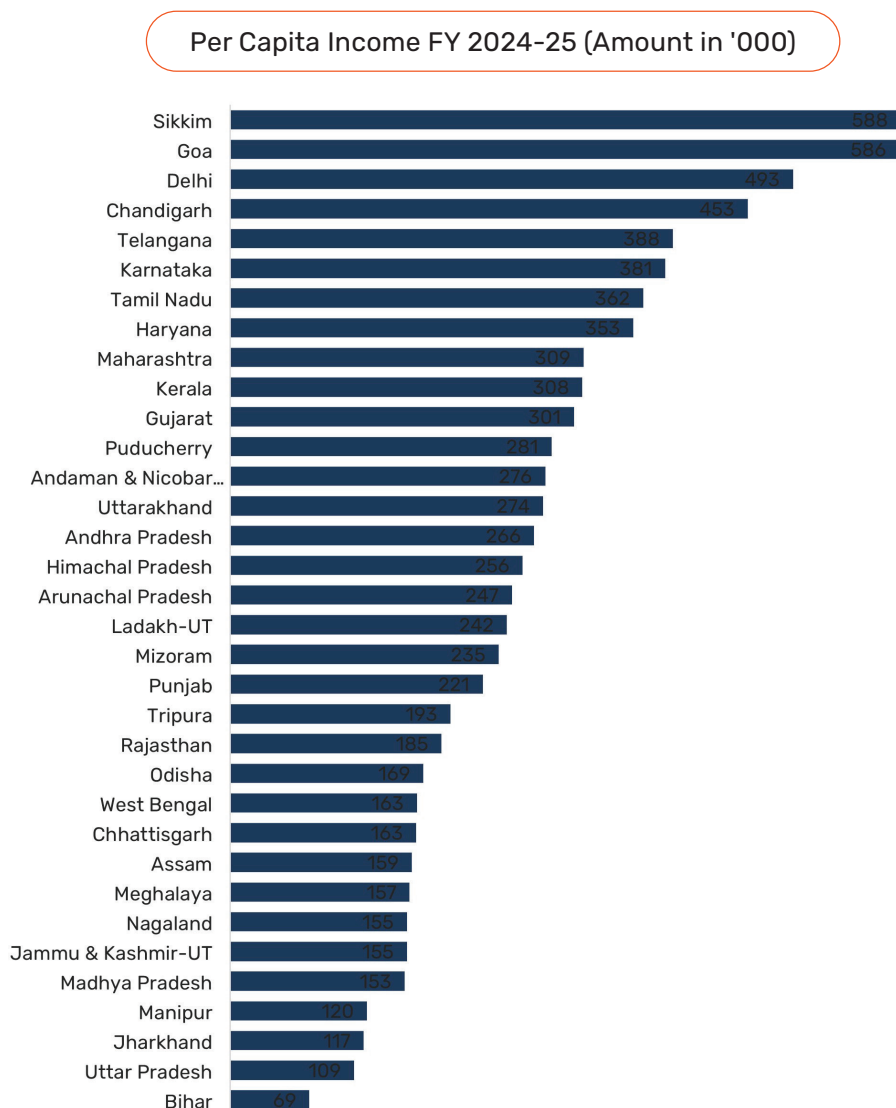
Such major political developments often carry long lasting implications for regional economies and broader stock market performance. West Bengal currently stands as India's sixth largest state economy, generating a Gross State Domestic Product (GSDP) of approximately INR 20.3 trillion FY 2026E. This aggregate output represents about 5-6% of India's total GDP.

However, the state struggles significantly on an individual wealth basis. West Bengal has slipped

to 24th nationally (exhibit 2) in per capita GDP (from 15th in 2011), at roughly INR 163,000, a level that is materially below the national average of INR ~2,34,000 (source: MoSPI).

This disparity highlights a classic economic paradox: while aggregate output is large due to population size and historical industrial bases, wealth distribution and individual productivity remain severely constrained.

## Exhibit 2: Per Capita Income of Indian states



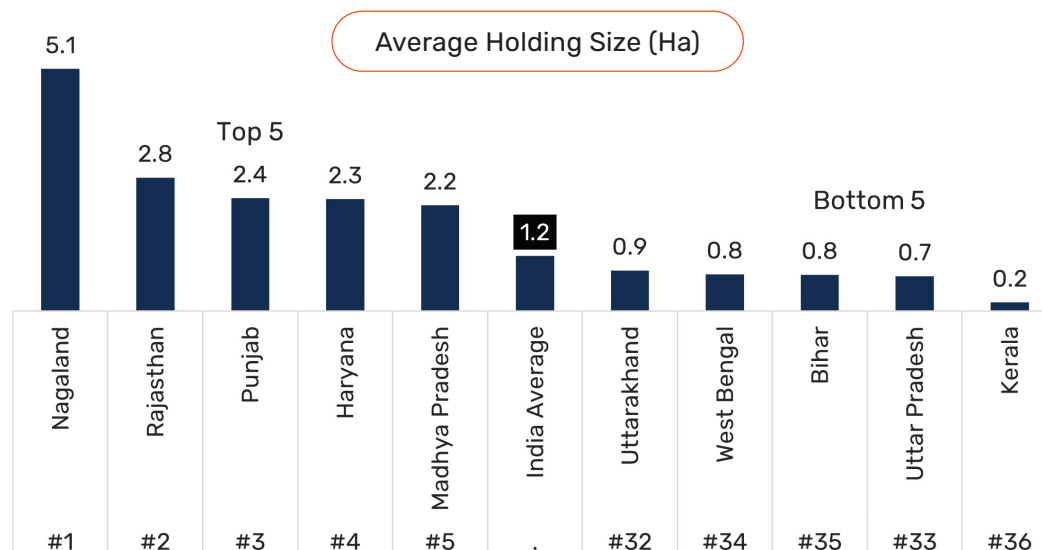
Source: Economic Survey 2025-26, Ministry of Statistics and Programme Implementation (MoSPI)

## The Legacy of Fragmentation: How Land Reforms Stifled Industry

West Bengal urgently needs land and labour reforms and this huge political mandate in favor of centre will bring a lot of attention in coming years. In India, land is a state subject and labour is a concurrent subject (shared by the Centre and the states). During its 34-year rule from 1977 to 2011, the Left Front government made aggressive land reform its central political agenda by enforcing strict land ceilings. The state systematically vested surplus land and redistributed it to landless labourers, marginal farmers, and disadvantaged

households, creating millions of micro-landholdings. While these socialist policies successfully secured political power for decades, this extreme fragmentation made it virtually impossible for companies to acquire and consolidate the large land parcels required for manufacturing facilities. Consequently, this structural bottleneck drove private capital away and caused West Bengal to steadily lose its historical industrial leadership.

### Exhibit 3: Average land size of operational holdings by state



Source: Agriculture Census 2015-16, Department of Agriculture & Farmers Welfare

## The Shift to a Fragmented Economy

During the British Raj, West Bengal stood as the most industrialized state in India, driving massive economic output through large-scale manufacturing. Today, the state's economic engine and employment landscape revolves almost entirely around agriculture and Micro, Small, and Medium Enterprises (MSMEs). West Bengal currently hosts approximately 14% of India's total MSMEs<sup>1</sup> and accounts for about 13% of the nation's MSME employment<sup>2</sup>. This highly fragmented corporate structure creates severe structural challenges. Small enterprises frequently lack the capital required to invest in advanced technology, resulting in significant operational inefficiencies and a severe lack of industrial scale.

## Policy Shifts and Governance

The BJP's political manifesto for West Bengal includes freebies as well as some reforms. On the welfare side, the platform promises a monthly stipend of INR 3,000 for women and unemployed youth. This is paired with governance promises, including the implementation of the 7th Pay

Commission, clearance of Dearness Allowance arrears, police modernization, and the introduction of a Uniform Civil Code.

A core strategy involves monetizing West Bengal's expansive coastline, river networks, and skilled marine workforce to drive new commercial revenue streams. The manifesto also outlines a strong pro-industry pitch focused on infrastructure development and better alignment between the central and state governments.

Implementing these policies poses challenges because West Bengal's balance sheet is already heavily distressed with fiscal deficit running as high as 3.6% with Debt to State GDP of 38% (average 28% in Indian states) far higher than desired. With virtually no fiscal headroom for additional welfare spending, executing these promises would require careful financial maneuvering and heavy reliance on central government funding. Real estate developers, port operators, power producers, shipbuilding firms, and Engineering, Procurement, and Construction (EPC) companies would be the primary beneficiaries of a renewed capital expenditure cycle, in our view.

<sup>1</sup>Ministry of MSME, Udyam Registration Portal. <sup>2</sup>ibid.

## Market Outlook

The economic shock due to Iran-US war has led to significant deterioration in India's macro parameters. CYTD the Brent oil price has averaged USD 101/bbl since the war between Iran and USA broke out on 28th February 2026, versus average of USD 68/bbl in 2025 for the full year. The INR too depreciated 4.3% CYTD 2026, exaggerating the import bill. FPIs have too sold a record USD 21.6 bn in the first 4 months of the year, which is more than USD 18.8 bn for the entire 2025.

**Macro:** If elevated oil prices persist, India's real GDP growth could moderate between 6.3–7.0% in our view, depending on how long the war lasts. The silver lining is that higher inflation could push the nominal GDP growth of 11–12% on the back of higher inflation (versus ~10% expected in the budget). This could support tax collections and partly cushion the debt-to-GDP and fiscal deficit ratios. However, the subsidy burden—government budgeted at INR 4.1 trillion for FY27—could rise sharply if the war drags on, as the budget assumes oil prices of around USD 75/bbl. The government has some headroom to offset this by curtailing certain capital expenditure spending, receiving higher-than-expected RBI dividends, and accelerating disinvestment and divestment plans.

**Quality of growth deteriorating:** Despite stagnant real wage growth and household savings at multi-decade lows, consumption in India has remained resilient even amid elevated inflation. We attribute this to four key factors: (1) a strong wealth effect from buoyant equity markets and rising gold prices; (2) GST-led formalization and stability; (3) sizable Direct Benefit Transfers nearing INR 7 trillion in FY 2027E (including INR 4.1 trillion of central government subsidies); and (4) precautionary pre-buying and inventory stocking amid war-related inflation risks.

**Corporate earnings in Q4 still resilient:** The government has largely shielded consumers from higher prices, barring LPG hikes for commercial users. The retail fuel prices have remained largely stagnant since last few years despite significantly higher import bills similarly the fertilizer prices have shot up in the international market but the government has been subsidizing it. Similarly the recent announcement of Emergency Credit Line Guarantee Scheme (ECLGS 5.0) envisages to

provide emergency working capital liquidity of ~ INR 2.55 trn in aggregate to businesses facing stress from external geopolitical shocks, primarily the West Asia conflict.

In contrast, consumer companies—including FMCG and discretionary players—have taken price hikes despite margins hovering near multi-decade highs and have been guiding for further price hikes in coming quarters. A weaker INR has supported export-oriented companies and aided import substitution. We expect earnings downgrades over the next couple of quarters as rising cost pressures are reflected in corporate cost structures and demand slows, especially as pre-buying fades.

**Sector Preference:** We believe the impact of the war is yet to be fully reflected in corporate earnings, inflation, and valuations. That said, it is commendable that, despite these challenges, the Indian economy has weathered the situation better than expected so far. We continue to believe that India needs hard-hitting reforms to accelerate capex and deregulate the economy to attract foreign capital; otherwise, equity market upside will remain limited and could result in disappointment on the earnings and valuation front.

- We remain largely diversified, with a clear focus on sectors benefiting from policy and political tailwinds. We continue to favor power, cables and wires, EMS, defense sectors, along with pharma as a defensive play.
- Overall, we remain neutral on the financial sector with some good bottom up opportunities in small finance companies and select few large cap banks. Valuation is reasonable and selective buying opportunities have emerged.
- The outlook for the IT sector remains challenging; however, selective value-buying opportunities may emerge over the coming quarters.
- Electronic manufacturing remains our preferred manufacturing bet, supported by a structurally positive long-term outlook.
- We believe auto-sector tailwinds are here to stay and recommend a buy on dips strategy. The upcoming monsoon season will be crucial, followed by the wedding and festive season ahead of the Uttar Pradesh elections in early 2027 and the implementation of the 8th Pay Commission.

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