India Union Budget 2023-24

Point of view

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Aerospace and Defence

Budget allocations for the Aerospace and Defence sector

- In the Union Budget 2023, INR 593,538 crore (~ USD 72.38 Bn) is allocated towards the total defence budget (including the defence pensions) for Financial Year (FY) 2023-24.
- The breakup of the budgetary allocations into capital and revenue expenditure, along with the comparative figures of Budget 2022 are as below:

(In INR crores)

Particulars	FY 2023-24	FY 2022-23	Percentage Change
Capital Expenditure	INR 162,600 (~USD 19.83 Bn)	INR 152,370* (~USD 18.58 Bn)	**7%**
Revenue Expenditure	INR 270,120 (~USD 32.94 Bn)	INR 233,001 (~USD 28.41 Bn)	16%
Defence Pension	INR 138,205 (~USD 16.85 Bn)	INR 119,696 (~USD 14.60 Bn)	15%
Ministry of Defence (Civil)	INR 22,613 (~USD 2.76 Bn)	INR 20,100 (~USD 2.45 Bn)	13%
Total Defence Budget	**INR 593,538 (~USD 72.38 Bn)**	**INR 525,167 (~USD 64.05 Bn)**	**13%**

**68% earmarked for procurement from domestic industry*

- There is an increase of 13 per cent in the overall defence budget of FY 2023-24 as compared to the original budget of FY 2022-23, while the increase when compared to revised estimate of FY 2022-23 is just 1.5 per cent.
- Further, the capital expenditure on defence services is envisaged as below*:

(In INR crores)

Particulars	Allocations	% of total capital outlay
Army	INR 37,242 (~USD 4.54 Bn)	23%
Navy	INR 52,805 (~USD 6.44 Bn)	32%
Airforce	INR 57,137 (~USD 6.97 Bn)	35%
Others (Research & Development ('R&D'), Inspection, Technology development, etc.)	INR 15,417 (~USD 1.88 Bn)	10%
Total capital expenditure	**INR 162,600** (~USD 19.83 Bn)	

**excluding allocation towards Ministry of Defence (Civil)*

Key announcements for the sector

Direct tax

- For the Agnipath Scheme[1] introduced by Ministry of Defence (MoD) in 2022, payment received from the Agniveer Corpus Fund by the Agniveer is proposed to be exempted from tax, and deduction shall be allowed for the contributions made by the Agniveer/Central government to their Seva Nidhi account.
- With a view to promote timely payments to Micro, Small and Medium enterprises (MSME), it is proposed that any sum payable to MSME beyond the time limit(s) specified in Micro, Small and Medium enterprises development (MSMED) Act 2006 shall be allowed as a deduction only on payment basis.
- Relief has been further extended to MSMEs, wherein the government and the government undertakings will return 95 per cent of the amount (relating to bid or performance security) forfeited on account of failure to execute contracts by MSMEs during the Covid period.
- The cost of acquisition and cost of improvement of certain assets like intangible assets or any sort of right for which no consideration has been paid is proposed to be explicitly defined as 'Nil' while computing capital gains.
- Corporate tax rates remain unchanged. Currently, for availing the concessional corporate tax rate of 15 per cent, no extension on the deadline for commencement of manufacturing operations beyond 31 March 2024 has been announced.

Indirect tax

- There is no change in the effective customs duty rate on goods falling under Chapter 88 (aircraft, spacecraft and parts thereof)
- The validity period for most of the conditional exemptions relevant to this sector extended till 31 March 2024
- Proposal to exclude certain types of conditional customs duty exemption (exemption in relation to scheme under Foreign Trade Policy, re-imports, temporary import, IGST exemption, Free Trade Agreements etc.) from the ambit of automatic expiry within two years has been introduced
- Input tax credit (ITC) is proposed to be restricted in respect of Corporate Social Responsibility (CSR) expenses incurred as per Companies Act
- Proposal of ITC reversal in case of supply of warehoused goods before clearance from home consumption has been announced
- It is proposed to retrospectively amend the following entries in Schedule III (transaction outside the purview of GST law) with effect from 1 July 2017:
  - Supply of goods from the non-taxable territory to non-taxable territory,
  - High sea sale,
  - Supply of warehoused goods before clearance for home consumption.

  Further, no refund of tax paid shall be available, in cases where any tax has already been paid on above transactions.

[1] Agnipath Scheme, 2022 was introduced by MoD for enrolment of Agniveers in Indian Armed Forces (effective from 01.11.2022). Pursuant to such scheme, an Agniveer Corpus Fund is proposed to be established and the package given to an Agniveer will be known as 'Seva Nidhi'.

Key policy takeaways for the space sector

- The Department of Space (DoS) is allocated INR 12,544 crore (~USD 1.53 Bn) in the Union Budget 2023, out of which INR 6,357 crore (~USD 0.77 Bn) is earmarked towards the capital expenditure. There has been an increase in the budget of INR 2,014 crore (~USD 0.25 Bn) as compared to the revised estimate of FY 2022-23.
- The budgetary allocation to INSPACe has increased from INR 21 crore (~USD 2.56 Mn) in the revised budget of FY 2022-23 to INR 95 crore (~USD 11.6 Mn) in the current budget. This signals the government's intent to establish INSPACe as a regulator and facilitator for the private sector's entry in the emerging sector.

Key Implications for the sector

- The Aerospace and Defence sector, being one of the key focus areas under the Indian government's 'Make in India' initiative, has never failed to attract global attention. With the introduction of several policy reforms in the sector, the industry expected adequate budgetary allocations for the sector to fund its path of self-growth
- As the budget comes in the backdrop of the geo-political upheaval, rising inflation and slowing global growth, it can be said that the capital allocation to the defence sector is not in accordance with the expectations of the industry at large. While the defence capex allocation has risen in absolute terms on yearly basis, the incremental percentage in the past three years has seen a downward trend. This year's budget has a nominal capital outlay increase of 7 per cent as compared to last year's increase of 13 per cent and an increase of approximately 19 per cent in FY 2021-22 budget. On top of it, the government has budgeted an increase of 33 per cent in overall capital expenditure commitment in this year's budget, but the defence sector only gets an increase of 7 per cent for defence capex
- The budget allocation towards the Agnipath scheme has been increased to INR 4,266 crore (~USD 0.52 Bn) for FY 2023-24 vis-à-vis INR 453.4 crore (~USD 0.05 Bn) in the revised estimates for FY 2022-23. This indicates a broader and more ambitious recruitment initiative under this scheme
- In the capital outlay on research and development, assistance for prototype development under "Make" procedure, INR 1,132 crore (~USD 0.14 Bn) has been allocated for the Air Force and INR 100 crore (~USD 0.012 Bn) has been allocated to the Army
- Key highlights of the capital budgetary allocations to the defence services are as below:
  - For the army, increase in capital outlay under the head 'Aircraft and aeroengines – Army' to the tune of INR 1,935 crore (~USD 0.24 Bn) has been observed as compared to the revised estimates of FY 2022-23. The end use of this expense is expected towards the announced induction of the AH 64 Apache helicopters
  - For the Indian Airforce, there is an increase of about INR 9,599 crore (~USD 1.17 Bn) in capital outlay under 'Other equipment – Air Force' as compared to the revised estimates of FY 2022-23. This increase in outlay is likely because of the committed payments towards the induction S-400 Triumf missile systems. Further, the allocation of the budget towards Aircrafts and Aeroengines-Air Force has reduced by about INR 7,991 crore (~USD 0.97 Bn) as compared to the revised estimates of FY 2022-23
  - For the Indian Navy, the land budget has increased from INR 30 crore (~USD 3.66 Mn) (revised estimates of FY 2022-23) to INR 1,551 crore (~USD 0.19 Bn), indicating acquisition of new land for new bases/ berthing of ships/submarines.
- Certain key asks of the industry, such as introduction of production linked incentive scheme, extension of the deadline of concessional tax rate for commencement of manufacturing activities get a miss in the budget this year
- Not turning a blind eye to the fact that this year's budget is the last complete budget before federal elections, keeping the grassroot level growth at its centrestage, it can be seen that impetus has been placed by the government on MSMEs, revenue expenditure and defence pensions, overlooking the capital requirements of the sector.

Note – All figures have been converted to USD using the exchange rate of USD 1 = INR 82 as in February 2023

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