



# India Interim Budget 2024

Point of view

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## Aerospace and Defence

# Budget allocations for the Aerospace and Defence sector

In keeping up with the convention, since an Interim Budget for the Financial Year (FY) 2024-25 has been introduced, no major policy changes have been proposed currently by the incumbent government. The full-fledged Union Budget 2024 is expected to be tabled post federal elections, likely in July 2024.

- In the Interim Budget 2024, INR621,541 crore (~ USD74.88 bn) is allocated towards the total defence budget (including the defence pensions) for FY 2024-25.
- The breakup of the budgetary allocations into capital and revenue expenditure, along with the comparative figures of Budget 2023 are as below:

(in INR crore)

Particulars	FY 2024-25 (Interim)	FY 2023-24	Percentage Change
<b>Capital expenditure</b>	INR172,000 (~USD20.72 bn)	INR162,600 (~USD19.59 bn)	6%
<b>Revenue expenditure</b>	INR282,773 (~USD34.07 bn)	INR270,120 (~USD32.54 bn)	5%
<b>Defence pension</b>	INR141,205 (~USD17.01 bn)	INR138,205 (~USD16.65 bn)	2%
<b>Ministry of Defence (Civil)</b>	INR25,563 (~USD3.08 bn)	INR22,613 (~USD2.72 bn)	13%
<b>Total defence budget</b>	<b>INR621,541</b> <b>(~USD74.88 bn)</b>	<b>INR593,538</b> <b>(~USD71.51 bn)</b>	5%

- There is an increase of 5 per cent in the overall defence budget (interim) of FY 2024-25 as compared to the original budget of FY 2023-24 and negligible change as compared to the revised estimates of budget 2023-24.

- Further, the capital expenditure on defence services is envisaged as below\*:

(in INR crore)

Particulars	Allocations	% of total capital outlay
<b>Aircraft and aero engines</b>	INR40,778 (~USD4.91 bn)	24%
<b>Other equipment</b>	INR62,343 (~USD7.51 bn)	36%
<b>Naval fleet</b>	INR23,800 (~USD2.87 bn)	14%
<b>Construction works</b>	INR12,017 (~USD1.45 bn)	7%
<b>Technology development</b>	INR1,707 (~USD0.21 bn)	1%
<b>Others</b> (Land, Naval Dockyards, Special Projects etc.)	INR31,355 (~USD3.78 bn)	18%
<b>Portion of total expenditure covered</b>	INR172,000 (~USD20.72 bn)	

\*excluding allocation towards Ministry of Defence (Civil)

## Key announcements for the sector

### Direct tax

- Corporate tax rates remain unchanged.
- No extension has been provided for availing the concessional corporate tax rate of 15 per cent for manufacturing entities, on the deadline for commencement of manufacturing operations beyond 31 March 2024.
- Extension of period of commencement of business up to 31 March 2025 (from 31 March 2024) for units in International Financial Services Centre (IFSC) in following relevant cases:
  - Exemption on income arising from the transfer of an asset, being an aircraft or a ship, which was leased by an IFSC unit to a person, subject to the condition that such IFSC unit has commenced operation on or before 31 March 2024 *(now proposed to be extended to 31 March 2025)*;
  - Tax exemption on interest and royalty paid to non-residents by units in the IFSC on account of lease of an aircraft or a ship, if the IFSC commences its operations on or before 31 March 2024 *(now proposed to be extended to 31 March 2025)*;
- Under the extant provisions, eligible start-ups being a Company or Limited Liability Partnership (LLP) were eligible to claim income tax exemption for any three consecutive years out of ten years, post incorporation, subject to inter-alia, being incorporated between 1 April 2016 and 31 March 2024. This period is now proposed to be extended to 31 March 2025.

## Indirect tax

- Various basic customs duty exemptions/concessions extended up to 30 September 2024 (earlier available till from 31 March 2024), some of the key exemptions/concessions are mentioned below:
  - Aircrafts and components or parts thereof – Nil/2.5%
  - Parts of gliders or simulators of aircrafts – Nil
  - Parts, testing equipment, tools and tool kits for maintenance, repair, and overhauling of aircraft - Nil
  - Satellites and specified technical instruments, apparatus, etc. – Nil/5%
  - Specified vessels, including warships and specified parts thereof - Nil
  - Goods imported for trial, demonstration or training before any authority under the Ministry of Defence in the Government of India – Nil
  - Imports relating to defence and internal security forces as specified in notification no. 36/1996 dated 23 July 1996 – Nil

*(Vide Notification no. 06 & 07/ 2024-Customs dated 29 January 2024)*

- No other changes proposed in the indirect tax rates, including import duties.

## Key takeaways for the space sector

- The Department of Space (DoS) is allocated INR13,043 crore (~USD1.57 bn) in the Interim Budget 2024, out of which INR5,568 crore (~USD0.67 bn) is earmarked towards the capital expenditure. There has been an increase in the overall budget of INR1,973 crore (~USD0.24 bn) i.e. increase by 18 per cent as compared to the revised estimate of FY 2023-24.
- Major part of the space budget is earmarked for space technology with ~23 per cent increase in the space technology spending earmarked in FY 2024-25 over revised estimate of FY 2023-24.
- Capital outlay on space research has been increased by ~25 per cent in the budget of FY 2024-25 over revised budgetary estimate of FY 2023-24.

## Key implications for the sector

- Yet again the Aerospace and Defence sector has been provided the highest budget allocation amongst all the sectors by the Indian government. Though, the overall defence budget only gets a 5 per cent y-o-y increase, the interim defence budget crossed the INR6 lakh crore threshold this year for the first time (to ~USD74.88 bn).
- The proposed capital outlay stands at INR1.72 lakh crore (~USD20.72 bn) which is approx. 6 per cent y-o-y increase (vis-à-vis ~9 per cent increase from revised estimates) and certainly misses industry expectations.
- The budget proposals also highlight the future launch of a new scheme for strengthening deep-tech technologies for defence purposes. Details of such scheme would be awaited and hopefully that would help in further strengthening in-country defence manufacturing ecosystem.

- Since it's only an interim budget, detailed allocations have not been provided. Key highlights of the capital budgetary allocations to the defence services are as below:
  - Allocation towards 'aircraft and aeroengines' has increased for all the services from INR28,222 crore (~USD3.40 bn) in FY 2023-24 to INR40,778 crore (~USD4.91 bn) in FY 2024-25. An increase of more than INR12,556 crore (~USD1.51 bn / ~44 per cent). This is likely linked to the procurement of platforms such as the C 295, Tejas Mk1, aeroengines and helicopters such as Prachand.
  - Allocation towards 'naval fleet' has decreased from INR24,200 crore (~USD2.92 bn) in FY 2023-24 to INR23,800 crore (~USD2.87 bn) in FY 2024-25. A decrease of INR400 crore (~USD0.05 bn / ~2 per cent) mostly due to completion of the Indigenous Aircraft Carrier – 1 programme last year.
  - Expenditure on 'Research & Development' increased by INR358 crore (~USD0.04 bn) over FY 2023-24, an increase of about 2.8 per cent.
- In the revenue procurement budget, majorly, expenditure on stores by the Army has reduced from INR23,965 crore (~USD2.89 bn) in FY 2023-24 to INR21,991 crore (~USD2.65 bn) in FY 2024-25. A decrease of INR1,974 crore (~USD0.24 bn / ~9 per cent).
- While the sector has witnessed certain constructive policy reforms/approvals during the last year (including introduction of certain positive indigenisation lists, removal of restriction on wholly owned subsidiary being an Indian offset partner, first government approval to a company for 100 per cent FDI in defence sector, etc.), 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 are still a miss in the interim budget this year. Such exclusions could be a deterrent to the government's ambitious vision of achieving a turnover of INR175,000 crore (~ USD21.08 bn) including exports of INR35,000 crore (~ USD4.22 bn) in aerospace and defence goods and services by FY 2025.
- Considering that the interim budget is a vote on account, no major policy announcements were expected by the industry at large. Expectations would be high from the new government to introduce the aforementioned reforms in the final budget proposed to be tabled before the Lok Sabha likely in July 2024, thus, further strengthening the Indian government's commitment to this sector for its 'Make in India' initiative.

*Note – All figures have been converted to USD using the exchange rate of USD 1 = INR 83 as in February 2024*

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