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India Union Budget 2026-27

Point of view

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Aerospace and Defence

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Budget Allocations for the Aerospace and Defence sector

- The Union Budget for FY 2026-27 allocates approximately ~15 per cent of total budget expenditure to the defence sector, with an aggregate outlay of INR 784,678 crore (~USD 85.6 Bn), including defence pensions.
- The breakup of the budgetary allocations into capital and revenue expenditure, along with the comparative figures and **percentage change in INR terms,** of Budget 2026 are as below:

(in INR crore)

Particulars	FY 2026-27 (BE)	FY 2025-26 (BE)	Percentage Change
Capital Expenditure	INR 219,306 (~USD 23.9 Bn)	INR 180,000 (~USD 19.6 Bn)	**22%**
Revenue Expenditure	INR 365,479 (~USD 33.9 Bn)	INR 311,732 (~USD 34.0 Bn)	17%
Defence Pension	INR 171,338 (~USD 18.7 Bn)	INR 160,795 (~USD 17.5 Bn)	7%
Ministry of Defence (Civil)	INR 28,555 (~USD 3.1 Bn)	INR 28,683 (~USD 3.1 Bn)	-
Total Defence Budget	**INR 784,678 (~USD 85.6 Bn)**	**INR 681,210 (~USD 74.3 Bn)**	**15%**

- The capital expenditure allocation has seen a sharp rise of ~22 per cent y-o-y, from INR 1.80 lakh crores (Budgeted estimates (BE) of FY 2025-26) to INR 2.19 lakh crores (BE of FY 2026-27), while the increase when compared to revised estimate (RE) of FY 2025-26 is ~18 per cent. Further, the capital expenditure on defence services is envisaged as below*:

(in INR crore)

Particulars	Allocations (BE)	% of total capital outlay
Aircraft and Aero Engines	INR 63,734 (~USD 7 Bn)	29%
Other Equipment	INR 82,219 (~USD 9 Bn)	37%
Naval Fleet	INR 25,024 (~USD 2.7 Bn)	11%
Construction Works	INR 11,752 (~USD 1.3 Bn)	5%

Technology Development – Prototype under Make	INR 1,708 (~USD 0.2 Bn)	1%
Research & Development	INR 17,250 (~USD 1.9 Bn)	8%
Others (Land, Naval Dockyards, Special Projects etc.)	INR 17,621 (~USD 1.9 Bn)	8%
Portion of total expenditure covered	**INR 219,306 (~USD 23.9 Bn)**	

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

Key announcements for the sector

Direct Taxes

- The tax holiday period for units operating in India's International Financial Services Centre (IFSC) is proposed to be extended to 20 consecutive years out of 25 years (from the existing 10 out of 15 years) and to tax business income thereafter at a concessional rate of 15 per cent.
- Income of non-resident by way of providing capital goods, equipment or tools to an Indian contract manufacturer (located in a custom bonded area) for producing electronic goods on behalf of the foreign company eligible for exemption up to tax-year 2030-31.
- A holistic overhaul of prosecution provisions is proposed by revising offence gradation and penalties, capping imprisonment terms at two years and decriminalizing or replacing several prosecution provisions with fines.
- Proposal to tax the consideration received on buy-back of securities as Capital Gain instead of Dividends (Income from other sources). Promoters are required to pay additional tax, over and above the regular capital gains tax.
- Extended revised return timelines and updated return-filing rules for loss cases improve taxpayer convenience and simplify overall compliance.

Indirect Taxes

Customs:

- Basic Customs Duty (BCD) exemption allowed on **specified raw materials** imported for the manufacture of parts of aircraft used in the maintenance, repair or overhaul **(MRO)** of aircraft or aircraft components **by Public Sector Units** under Ministry of Defence (MoD), subject to certain conditions, which was already allowed for civil MRO.
- BCD exemption allowed on components or parts of aircraft, including engines, imported for the manufacture of aircraft and parts thereof, **for civil aviation.**
- Conditional exemptions/concessional duty rates on certain parts or components of aircraft, satellite and payloads, scientific and technical instruments etc., which were originally expiring on **31 March 2026** has now been extended to **31 March 2028.**
- To address global trade disruption challenges, Special Economic Zone (SEZ) manufacturing units will be permitted, as a special one-time measure, to make concessional-duty sales to the Domestic Tariff Area (DTA), restricted to a prescribed proportion of their export volumes.
- Proposal to provide 5-year validity for Customs Advance Rulings (earlier 3 years). Existing rulings shall also be extended for 5 years from the date of the ruling, on request

Goods and Services Tax ('GST')

- Proposal to treat supplies of intermediary services provider to overseas clients, as eligible for exports, subject to conditions.

Key takeaways for the Space sector

- INR 13,706 crore (~USD 1.5 Bn) allocated to Department of Space ('DoS') for FY 2026-27, reflecting a modest ~2 per cent y-o-y increase over FY 2025-26 BE but, a **10 per cent increase over the FY 2025-26 RE** signaling a measured spending stance despite the sector's rapidly growing strategic relevance globally.
- A higher capital expenditure of INR 6,376 crore (~USD 0.7 Bn) enhances mission readiness for Gaganyaan and future lunar and interplanetary initiatives.
- INR 7,173 crore (~USD 0.8 Bn) – constituting **over ~52 per cent** of the total DoS budget – is directed towards **space research**, reinforcing the Government of India's focus on deep scientific capability and advanced R&D.
- The Union Budget 2026-27 reflects capability focused commitment to India's space program, set against the backdrop of the Economic Survey also valuing India's space economy at ~USD 8.4 Bn, around 2 per cent of the global market, with a projected expansion to ~USD 44 Bn over the next decade. The 2026-27 budget's structure – anchors significant R&D allocation and targeted technology investments.

Key Implications for the Defence sector

- The MoD has once again received one of the highest allocation among all ministries, with an outlay of INR 7.84 lakh crore (~USD 85.6 Bn) from the total Union Budget of INR 53.5 lakh crore (~USD 583 Bn).
- The Defence capex allocation has increased from INR 1.8 lakh crore (~ 19.6 Bn) in FY 2025-26 (BE) to INR 2.2 lakh crore (~23.9 Bn), **reflecting a significant ~22 per cent increase.** The capex allocation being ~28 per cent of total defence budget signals a structural shift toward modernization and capability centric investments.
  - A substantial ~29 per cent share of the defence capital budget has been directed towards aircraft and aero-engines. The segment has seen a sharp 31 per cent y-o-y increase in allocation, from INR 48,614 crore (~USD 5.3 Bn) to INR 63,734 (~USD 7 Bn) crore. This reflects both accelerating procurement momentum and execution readiness, supporting acquisitions across fighter aircrafts, transport platforms, helicopters and UAVs, while reinforcing the push for indigenous programmes such as Tejas Mk II.
  - The budgetary allocation for land platforms in FY 2026-27 has increased to INR 1,237 crore (~USD 0.14 Bn), marking a ~45 per cent increase over the last year's revised estimates, thereby reinforcing the government's focus on strengthening ground capabilities.
  - Allocation towards Naval fleet has been nominally increased to INR 25,024 crore (~USD 2.7 Bn) with focus on fleet modernization, for procurement of submarines, maritime surveillance systems, etc.
- The Government has continued to strengthen its focus on defence Research and Development (R&D) through higher capital budget allocations. Accordingly, y-o-y allocations have increased to INR 17,250 crore (~USD 1.9 Bn) in FY 2026-27, compared with the BE of INR 14,923 crore (~USD 1.6 Bn) in FY 2025-26.
- Despite this increase in absolute terms, R&D expenditure as a proportion of the total defence capital budget remains stable at ~8 per cent. Overall, this indicates a calibrated approach – while incremental funding supports innovation and indigenous capability development, a step-change in R&D intensity may be required to drive next-generation technologies and achieve long-term self-reliance objectives.
- Budgetary allocation to revenue services has increased to INR 3.65 lakh crores (~USD 39.9 Bn) from INR 3.1 lakh crores (~USD 34 Bn), an increase of ~17 per cent y-o-y, which includes allocations for stores, repairs & refits.

- While the Budget reinforces the Government's commitment to defence capital expenditure, it does not introduce any new Production Linked Incentive (PLI) scheme, fiscal incentive, or sector specific direct tax relief. Support remains largely limited to certain BCD exemptions alongside the increased defence outlay. While this signals spending intent, but it falls short of creating a targeted incentive framework for the sector, with no Aerospace and Defence (A&D) specific tax holidays, deductions, or investment accelerators announced.
- The Union Budget 2026 underscores a decisive step-up in India's defence ambition, with overall defence budget allocation rising ~15 per cent y-o-y to INR 7.84 lakh crore (~USD 85.6 Bn), clearly signaling an accelerated push towards modernization, capability enhancement and indigenization. This fiscal momentum is further reinforced by India's defence exports, which have expanded sharply from INR 1,522 crore from FY 2016-17 (~USD 0.17 Bn) to INR 26,673 crore (~USD 2.91 Bn) in FY 2025-26 – marking a structural evolution. Collectively, these trends reflect a maturing defence industrial base and a deepening commitment to building a self-reliant, globally integrated A&D ecosystem.

Note – All figures have been converted to USD using the exchange rate of USD 1 = INR 91.67 as on February 2026

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