

AN IN-DEPTH ANALYSES OF THE IMPACT ON INFRASTRUCTURE,  
ENERGY, DEFENCE AND STRATEGIC SECTORS

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# UNION BUDGET 2026-2027

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# KEY TAKEAWAYS

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- The Union Budget 2026-27 follows an execution-led, capital-intensive growth model, consistent with the Economic Survey 2025-26, which highlights public capex as a catalyst for private investment, productivity gains and lower transaction costs, supported by macroeconomic stability and stronger financial sector health.
- Public capital expenditure of approximately ₹12.2 lakh crore anchors the growth strategy, positioning infrastructure as the principal driver of productivity, employment and regional integration, with emphasis on execution readiness and project bankability.
- Project risk mitigation is institutionalised, notably through the proposed Infrastructure Risk Guarantee Fund, aimed at providing credit enhancement during construction and early operational phases for PPP and greenfield projects.
- Transport and logistics receive approximately ₹5.98 lakh crore, prioritising multimodal connectivity, logistics cost reduction, high-speed rail, freight corridor expansion, inland waterways and regional connectivity.
- Urban and regional development is advanced through City Economic Regions (CERs), with proposed funding of approximately ₹5,000 crore per CER over five years for Tier-II and Tier-III cities, supported by corridor-led development and sustainable mobility.
- Renewable energy and grid modernisation allocations total approximately ₹32,914 crore, reflecting a system-level energy transition aligned with grid readiness and financing discipline. Grid strengthening is prioritised, including continued investment under Green Energy Corridor-III (approximately ₹600 crore) to improve transmission capacity and renewable evacuation.
- Solar and wind deployment and manufacturing receive targeted support, including ₹22,000 crore under PM Surya Ghar, ₹1,775 crore for solar parks and CPSU projects, ₹5,000 crore under PM-KUSUM, customs duty rationalisation for key inputs and continued support for wind manufacturing.
- Energy storage is recognised as core grid infrastructure, supported by a ₹1,000 crore VGF scheme for 8 GWh of grid-scale BESS by FY 2026-27, financial closure for 30 GWh under PSDF and earmarking of 10 GWh within the 50 GWh ACC PLI.
- Electric mobility receives targeted support, with ₹1,500 crore under PM E-DRIVE and ₹500 crore under PM-eBus Sewa for electric bus deployment and enabling infrastructure.
- Green hydrogen and green ammonia are positioned as strategic export and industrial assets, supported by 100 per cent tax exemptions for export-oriented units at Kandla (Gujarat) and Tuticorin (Tamil Nadu), and PLI support for advanced electrolyser technologies.

# KEY TAKEAWAYS

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- Nuclear energy policy marks a structural inflection, with a ₹20,000 crore Nuclear Energy Mission targeting 100 GW by 2047 and five indigenously developed SMRs by 2033, supported by customs duty exemptions until September 2035 and legislative reforms enabling private participation.
- Carbon Capture, Utilisation and Storage (CCUS) is institutionalised, through a National CCUS Mission with an outlay of approximately ₹20,000 crore over five years and tradable Carbon Capture Credits.
- Defence expenditure increases to approximately ₹7.85 lakh crore, with emphasis on capital outlay, indigenisation, private sector participation and MSME integration across strategic manufacturing ecosystems.
- Manufacturing policy aligns with infrastructure and energy priorities, supporting critical minerals, rare earths, semiconductors, electronics, advanced batteries and clean energy equipment, including customs exemptions for mineral processing capital goods.
- Technology and digital infrastructure are treated as economic infrastructure, with tax holidays for cloud services using Indian data centres extending until 2047, safe harbour transfer pricing certainty and AI integration across sectors.
- Social infrastructure is framed as a productivity enabler, with focus on skilling, healthcare and education aligned to industrial corridors and employment outcomes.
- Capital markets and financial sector reforms focus on long-term capital mobilisation, through enhanced foreign portfolio investment limits, asset monetisation via InvITs and REITs, restructuring of infrastructure finance institutions and banking and NBFC reforms.
- Direct tax policy prioritises certainty and continuity, confirming implementation of the new Income-tax Act from 1 April 2026, stable corporate tax rates and targeted incentives for manufacturing, clean energy and R&D.
- Indirect tax policy functions as a supply-chain tool, with customs and GST rationalisation for batteries, renewable equipment, electrolyzers and critical minerals to support domestic value addition.
- Overall, the Budget reflects a shift from allocation-led policymaking to execution-focused governance, combining public investment, market-based instruments and institutional reform, with outcomes dependent on regulatory clarity and coordinated implementation.

# INTRODUCTION

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The Union Budget 2026-27 has been presented at a time of macroeconomic stability, improved financial sector health and sustained public investment-led growth. The Budget builds upon reform and institutional frameworks established over the past decade and reflects a conscious policy choice to prioritise long-term capital formation, execution readiness and resilience in the face of volatile global economic and geopolitical dynamics.

The Budget is explicitly framed around three principal obligations (Kartavyas) of the Government:

- (i) accelerating and sustaining economic growth by enhancing productivity, competitiveness and resilience;
- (ii) fulfilling the aspirations of citizens through capacity building, skilling and employment generation; and
- (iii) advancing the vision of Sabka Saath, Sabka Vikas by ensuring equitable access to infrastructure, resources and economic opportunities across regions and sectors.

In line with these objectives, the Budget places strong emphasis on infrastructure development, energy security and transition, defence preparedness, manufacturing-led growth and technology enablement, supported by institutional reforms, risk-mitigation mechanisms and market-based financing structures. This report analyses the Union Budget 2026-27 primarily through the lens of infrastructure, energy and defence, while also examining technology, battery storage and social infrastructure as critical enablers of India's medium to long-term growth trajectory.



# **ECONOMIC SURVEY 2025–26: MACROECONOMIC CONTEXT AND POLICY DIRECTION**

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The Economic Survey 2025–26 provides the analytical foundation for the Union Budget 2026–27. The Survey highlights the role of public capital expenditure as a catalyst for private investment, noting that government-led infrastructure spending has generated strong multiplier effects, improved logistics efficiency and reduced transaction costs. Sustaining high growth, the Survey argues, will require predictable policy frameworks, effective risk-sharing mechanisms and enhanced execution capacity.

For the Energy sector, the Survey adopts a pragmatic and balanced approach, recognising renewable energy, energy storage, green hydrogen, nuclear power and transitional technologies as complementary components of a resilient energy system. While reaffirming India’s commitment to climate goals, the Survey cautions against disorderly transitions and stresses the importance of sequencing, system readiness and adequate financing.

For manufacturing and defence, the Survey underscores domestic value addition, supply-chain resilience and strategic autonomy. Greater involvement of private industry, startups and MSMEs in defence production is viewed as essential for innovation, scale and rapid technology absorption. These themes are reflected in the structure and priorities of the Union Budget 2026–27.

# INFRASTRUCTURE DEVELOPMENT AND PUBLIC CAPITAL EXPENDITURE

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## **PUBLIC CAPITAL EXPENDITURE AND INFRASTRUCTURE STRATEGY**

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Public capital expenditure remains the cornerstone of the Government's growth strategy. For FY 2026-27, capital expenditure has been budgeted at approximately ₹12.2 lakh crore, continuing the sustained upward trajectory of recent years. This reflects a deliberate shift towards asset creation-led growth, with infrastructure positioned as the primary driver of productivity, employment generation and private sector participation.

A key feature of this year's infrastructure strategy is the emphasis on execution readiness and bankability. Accelerated digital land mapping, improved spatial data systems and streamlined approval processes are expected to reduce project delays, enhance Public Private Partnerships' (PPP) viability and improve financial closure timelines. These measures are complemented by reforms in customs, trade facilitation and contract management.

## **INFRASTRUCTURE RISK GUARANTEE FUND**

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A significant institutional reform announced in the Budget is the proposal to establish an Infrastructure Risk Guarantee Fund. The Fund is intended to provide targeted credit enhancement and risk-mitigation support to infrastructure projects, particularly during construction and early operational phases. By offering partial guarantees against risks such as payment delays or defaults by contracting authorities, the Fund seeks to improve project bankability, lower borrowing costs in long-term private capital, especially for PPP and greenfield projects.

## **URBAN INFRASTRUCTURE AND CITY ECONOMIC REGIONS**

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The Budget places renewed focus on decentralised urban development through the creation of City Economic Regions (CERs), particularly in Tier-II and Tier-III cities and temple towns. An allocation of approximately ₹5,000 crore per CER over a five-year period has been proposed to support modern infrastructure, basic amenities and economic activity. Model documentation and implementation frameworks developed under the Smart Cities Mission may serve as useful references for CER rollout.

# INFRASTRUCTURE DEVELOPMENT AND PUBLIC CAPITAL EXPENDITURE

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## INDUSTRIAL CORRIDORS AND REGIONAL CONNECTIVITY

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The Budget advances regional development through proposals for an integrated East Coast Industrial Corridor, with a strategically connected node at Durgapur, West Bengal. The creation of tourism destinations across the five Purvodaya States (Bihar, Jharkhand, West Bengal, Odisha, and Andhra Pradesh) and deployment of 4,000 e-buses underscores the focus on sustainable mobility and regional economic integration.

The contractual and institutional frameworks of the Delhi-Mumbai Industrial Corridor (DMIC), and their replication for corridors such as the Amritsar-Kolkata Industrial Corridor (AKIC) and the Chennai-Bengaluru Industrial Corridor (CBIC), provide a tested foundation for implementing large-scale corridor projects.

## TRANSPORT AND LOGISTICS INFRASTRUCTURE

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The transport and logistics sector has received an allocation of approximately ₹5.98 lakh crore in FY 2026-27. The Budget continues to prioritise reduction of logistics costs, improvement of multimodal connectivity and promotion of environmentally sustainable transport systems.

The proposal to develop seven high-speed rail corridors as growth connectors between major economic centres is expected to significantly reduce travel time, enhance regional integration and support low-carbon passenger mobility. The seven proposed high-speed rail corridors will connect key economic and industrial centres, including Mumbai-Pune, Pune-Hyderabad, Hyderabad-Bengaluru, Hyderabad-Chennai, Chennai-Bengaluru, Delhi-Varanasi and Varanasi-Siliguri.

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On the freight side, initiatives such as a new east-west Dedicated Freight Corridor, operationalisation of 20 National Waterways, development of ship repair ecosystems and a Coastal Cargo Promotion Scheme support modal shift and efficiency gains. A Seaplane Viability Gap Funding (VGF) Scheme further enhances regional connectivity and indigenous manufacturing.

To support the expansion of inland waterways, the Budget also proposes the establishment of specialised training institutes as regional centres of excellence. These institutes are intended to develop skilled manpower for operations, maintenance, repair and logistics services associated with waterways and allied infrastructure.

## **ENERGY SECURITY, ENERGY TRANSITION AND CLIMATE INFRASTRUCTURE**

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The energy sector has been allocated approximately ₹1.09 lakh crore in FY 2026-27, reflecting a comprehensive approach that integrates energy security, decarbonisation and industrial competitiveness.

### **RENEWABLE ENERGY, GRID MODERNISATION AND STORAGE**

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The Budget continues support for solar and wind capacity expansion alongside grid modernisation. Green Energy Corridor-III, with an allocation of approximately ₹600 crore, focuses on evacuation infrastructure for offshore wind projects. Deployment of smart prepaid meters is expected to improve grid efficiency and demand-side management.

Distributed renewable energy also receives targeted policy support. The PM Surya Ghar scheme has been expanded to cover an additional five million households, with a specific focus on high-density urban apartment complexes.



# ENERGY SECURITY, ENERGY TRANSITION AND CLIMATE INFRASTRUCTURE

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This expansion is expected to improve urban rooftop solar penetration, reduce distribution losses and enhance consumer participation in the energy transition.

Recognising the need for long-duration energy storage, the Budget proposes a national policy framework to fast-track pumped storage projects. The policy targets the development of approximately 15 GW of pumped storage capacity by 2030, positioning such projects as critical grid-balancing assets to support large-scale renewable energy integration.

## SOLAR ENERGY

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The Union Budget 2026-27 introduces a set of customs duty revisions, scheme allocations and manufacturing support measures aimed at the solar power sector:

- **Solar Cells:** The tariff rate on solar cells has been revised from 25% plus 2.5% Social Welfare Surcharge (SWS) to 20% plus 7.5% Agriculture Infrastructure and Development Cess (AIDC). The overall effective duty rate remains unchanged. The revision reflects a reallocation of duty components, with a higher proportion of collections accruing to the Central Government.
- **Solar Modules:** The tariff rate on solar modules has been revised from 40% plus 4% Social Welfare Surcharge (SWS) to 20% plus 20% Agriculture Infrastructure and Development Cess (AIDC), resulting in a reduction in the overall effective duty rate. The revision also increases the Central Government's share of duty collections. Imports of solar modules remain subject to non-tariff restrictions under the Approved List of Models and Manufacturers (ALMM).
- **Silicon for Wafer Manufacturing:** The existing Nil Basic Customs Duty (BCD) on silicon used for the manufacture of wafers will lapse on 31 March 2026.
- **Solar Glass and Encapsulation Inputs:** Sodium antimonate used in the manufacture of solar glass has been notified at a Nil BCD rate. Specified goods used for the manufacture of EVA and PoE sheets and backsheets have also been notified at a Nil BCD rate.

# ENERGY SECURITY, ENERGY TRANSITION AND CLIMATE INFRASTRUCTURE

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- **Solar PV Cell and Module Materials:** Specified goods used for the manufacture of EVA and PoE encapsulant sheets (or combinations thereof) for solar PV cells and modules have been exempted from BCD until 31 March 2028.
- **Copper Inputs for Cell Interconnections:** Refined copper rods required for the manufacture of PV ribbons used in cell interconnections, including tabbing wires and busbars, have been exempted from BCD until 31 March 2028.

## Scheme Outlays and Targets

- **PM Surya Ghar: Muft Bijli Yojana:** Allocation of ₹22,000 crore for 39 lakh rooftop solar installations, targeting 11.7 GW of capacity addition and 17.42 billion units of electricity generation.
- **Solar Power (Grid):** Allocation of ₹1,775 crore for commissioning 7,000 MW through Solar Parks and 1,100 MW through Central Public Sector Undertaking (CPSU) projects.
- **c. PM-KUSUM:** Allocation of ₹5,000 crore for installation of 1,00,000 standalone solar pumps, solarisation of 9,00,000 grid-connected pumps, and commissioning of 2,000 MW of decentralised ground-mounted grid-connected solar plants.

## WIND ENERGY

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The Union Budget 2026-27 introduces a set of customs duty revisions, scheme allocations and manufacturing support measures aimed at the wind power sector:

- **Forged Steel Rings for Wind Turbine Bearings:** Forged steel rings used in the manufacture of main shaft bearings have been notified under the 5% Basic Customs Duty (BCD) category (Serial No. 230). Domestic availability of forged steel rings is a key requirement for indigenisation of critical wind turbine components and for compliance with Approved List of Models and Manufacturers (ALMM) requirements.

# ENERGY SECURITY, ENERGY TRANSITION AND CLIMATE INFRASTRUCTURE

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- Inclusion of Wind Turbine Ecosystem under the National Manufacturing Mission: The National Manufacturing Mission (NMM) has been expanded to explicitly include the wind turbine manufacturing ecosystem, covering components and systems across the value chain.
- Allocation for Legacy Generation Based Incentive (GBI) Scheme: An allocation of ₹500 crore has been provided for the legacy Generation Based Incentive (GBI) scheme for wind power projects, to meet existing financial commitments.
- Continuation of Concessional Duty on Wind Turbine Components: Parts and sub-parts of special bearings, gearboxes, yaw systems and controllers used in wind turbine generators (WTGs) will continue to attract 5% BCD. Essential inputs for blade manufacturing, including balsa wood and carbon fibre, also continue to be covered under the same concessional duty rate.

# ENERGY SECURITY, ENERGY TRANSITION AND CLIMATE INFRASTRUCTURE

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## BATTERY STORAGE AND ENERGY STORAGE SYSTEMS

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Energy storage is positioned in the Union Budget 2026-27 as core infrastructure for renewable energy integration, grid stability and flexible power system operation. The Budget and accompanying papers set out a fiscal and regulatory roadmap to advance battery energy storage and electric mobility, with emphasis on domestic manufacturing, grid-scale deployment and upstream supply-chain resilience.

Battery Energy Storage Systems (BESS) are recognised as critical assets for rapid-response balancing, peak shaving and frequency regulation, complementing long-duration pumped storage projects. In this context, the Budget advances a combination of tariff rationalisation, direct financial support and production-linked incentives to accelerate scale and commercial viability.

On the manufacturing side, customs duty reforms have been introduced to lower capital and input costs. The Basic Customs Duty (BCD) exemption on capital goods used for manufacturing lithium-ion cells for electric vehicles has been extended to cover batteries used in BESS applications. In addition, 35 additional capital goods and machinery have been notified for full BCD exemption for use in the manufacture of lithium-ion batteries for electric vehicles. To support recycling and secondary battery production, cobalt powder and scrap of lithium-ion batteries have been fully exempted from BCD. Further, BCD on monazite, a key mineral input for permanent magnets used in electric vehicle motors, has been reduced to Nil, supporting domestic manufacture of Permanent Magnet Synchronous Motors (PMSMs) and Brushless DC (BLDC) motors.

# ENERGY SECURITY, ENERGY TRANSITION AND CLIMATE INFRASTRUCTURE

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The Budget also introduces direct financial support mechanisms to address the commercial viability gap faced by grid-scale storage projects. A dedicated Viability Gap Funding (VGF) scheme with an outlay of ₹1,000 crore has been announced to support the commissioning of 8,000 MWh of BESS capacity for grid operation by FY 2026-27. Under the Power System Development Fund (PSDF), the Government proposes to facilitate grid-scale BESS projects with a target of achieving financial closure for 30 GWh of storage capacity, aimed at improving grid reliability and flexibility. Within the existing 50 GWh Production Linked Incentive (PLI) scheme for Advanced Chemistry Cell (ACC) manufacturing, 10 GWh has been specifically earmarked for Grid Scale Stationary Storage (GSSS) applications.

Battery storage is also positioned as a foundational enabler of electric mobility and associated infrastructure. The PM E-DRIVE Scheme, with an allocation of ₹1,500 crore, focuses on demand incentives for electric buses, ambulances and trucks. Complementing this, the PM-eBus Sewa initiative has been provided an outlay of ₹500 crore to operationalise 1,500 electric buses, along with development of behind-the-meter power infrastructure and depot-level civil works required for electric fleet operations. The Budget also provides direct funding for upgradation of automotive and battery testing agencies, including ARAI and ICAT, to support certification of advanced electric vehicle and battery technologies.

The Budget builds on earlier initiatives to strengthen domestic battery manufacturing through Production Linked Incentives, support for advanced battery chemistries, and development of recycling ecosystems. Battery storage is increasingly linked to strategic applications across electric mobility, data centres, industrial users and defence installations, where reliable and decentralised power supply is essential.

Overall, the Budget positions energy storage as a distinct infrastructure asset class, supported by targeted fiscal incentives, viability support mechanisms and manufacturing-focused policy interventions, with deployment expected to be shaped by market design, regulatory clarity and bankable revenue frameworks.



# ENERGY SECURITY, ENERGY TRANSITION AND CLIMATE INFRASTRUCTURE

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## GREEN HYDROGEN AND GREEN AMMONIA

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Green hydrogen and its downstream derivatives, particularly green ammonia, occupy a central position in India's energy transition strategy as articulated in the Union Budget 2026-27. These technologies are viewed not only as decarbonisation tools but also as strategic industrial inputs capable of supporting export competitiveness, energy security and domestic manufacturing.

The National Green Hydrogen Mission gains further momentum through focused fiscal and policy support. Export-oriented green ammonia units operating from the designated hubs at Kandla (Gujarat) and Tuticorin (Tamil Nadu) have been accorded 100 per cent tax exemptions, significantly improving project bankability and reinforcing India's ambition to emerge as a globally competitive exporter of green fuels.

Green hydrogen and ammonia are also positioned as critical enablers for decarbonisation of hard-to-abate sectors such as fertilisers, refining, steel and shipping. The Budget's integrated approach: combining renewable energy expansion, battery storage, grid upgrades and hydrogen infrastructure, seeks to address cost, intermittency and scale challenges that have constrained adoption globally.

In addition, the extension of the PLI scheme to next-generation electrolyser technologies supports domestic manufacturing across the hydrogen value chain. By encouraging indigenisation of electrolysers, balance-of-plant equipment and associated power electronics, the Budget aims to reduce capital costs, manage foreign exchange exposure and build long-term technological capability.

Looking ahead, the success of India's green hydrogen and ammonia ambitions will depend on timely development of offtake frameworks, long-term contracts, transport and storage infrastructure, and harmonisation of standards for domestic use and exports.

# ENERGY SECURITY, ENERGY TRANSITION AND CLIMATE INFRASTRUCTURE

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In the transport fuels segment, the Budget introduces a mandatory blending requirement of 1 per cent Sustainable Aviation Fuel (SAF) for all domestic flights commencing FY 2026-27. This mandate is supported by targeted fiscal incentives and capital support for bio-refinery development, positioning SAF as an emerging decarbonisation pathway for aviation while creating new demand streams for agricultural residue and bio-based feedstocks.

## NUCLEAR ENERGY AND ADVANCED NUCLEAR TECHNOLOGIES

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Nuclear energy is positioned in the Union Budget 2026-27 as a critical pillar of India's non-fossil baseload strategy, providing reliable, scalable and low-carbon power essential for industrial growth, data centres and energy-intensive manufacturing. The Budget articulates a long-term vision to develop at least 100 GW of nuclear energy capacity by 2047, establishing nuclear power as a cornerstone of India's long-term energy security and climate resilience framework.

A key development is the emphasis on advanced nuclear technologies, including Small Modular Reactors (SMRs), particularly for captive and industrial applications. To support this transition, the Government has launched a Nuclear Energy Mission with a total financial outlay of ₹20,000 crore, dedicated to research, development and deployment of SMRs and associated technologies. As part of this roadmap, India proposes to operationalise at least five indigenously developed SMRs by 2033, marking a defined operational milestone in the domestic nuclear programme.

The Budget reflects a strategic shift from viewing nuclear power exclusively as a public-sector domain to enabling broader participation across the value chain. The proposed Atomic Energy Bill, 2025, which consolidates the Atomic Energy Act, 1962 and the Civil Liability for Nuclear Damage Act, 2010, establishes a revised legislative framework for private sector participation in civil nuclear energy, including in reactor deployment, manufacturing and ancillary services.

# ENERGY SECURITY, ENERGY TRANSITION AND CLIMATE INFRASTRUCTURE

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Importantly, nuclear energy policy is aligned with India's broader strategic and technological objectives through reference to the framework provided under the SHANTI (Small, High-performance, Advanced Nuclear Technologies Initiative) Act, 2025. The SHANTI framework envisages structured support for the research, development and deployment of advanced reactor technologies, including SMRs and next-generation systems, with emphasis on safety, indigenisation and international collaboration.

The Budget also introduces significant customs duty incentives for nuclear projects. Project Import benefits under the Customs Tariff Act have been extended to nuclear power projects, with Basic Customs Duty (BCD) exemptions for goods required to set up nuclear power plants extended until September 2035, and made applicable across nuclear plants irrespective of capacity. In addition, BCD has been reduced to Nil on critical nuclear inputs, including non-irradiated fuel elements and control, protection and burnable absorber rods.

Nuclear energy is increasingly linked to emerging demand centres such as data centres, green hydrogen production facilities and industrial clusters, where stable baseload power is essential for cost competitiveness and grid stability. In this context, nuclear power is positioned as complementary to renewable energy and battery storage, contributing to a balanced and resilient energy mix.

Further, the Department of Atomic Energy has invited proposals for Bharat Small Reactors (BSRs) - 220 MWe units - to be established at industrial sites for direct captive consumption, indicating a move towards decentralised nuclear deployment aligned with industrial energy requirements.

# ENERGY SECURITY, ENERGY TRANSITION AND CLIMATE INFRASTRUCTURE

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While the Budget signals clear policy intent, effective implementation will require enabling regulatory frameworks, clarity on liability and risk allocation, fuel supply assurances and coordination between central agencies and potential private participants. If executed effectively, nuclear energy, anchored by the SHANTI Act, could play a transformative role in India's long-term energy architecture.

## **CARBON CAPTURE, UTILISATION AND STORAGE (CCUS)**

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The launch of a National CCUS Mission with an outlay of approximately ₹20,000 crore over five years represents a significant step towards decarbonisation of industrial sectors, including power, steel, cement, refineries and chemicals. CCUS is positioned as a complementary pathway alongside renewables, hydrogen and nuclear energy.

For CCUS deployment at scale, the development of enabling regulatory frameworks, shared transport infrastructure and storage site identification will be critical. Integration of CCUS with industrial clusters and PPP models is expected to play a key role in improving economic viability and accelerating adoption.

In addition to direct fiscal support, the Budget introduces a market-based incentive through the creation of tradable Carbon Capture Credits. These credits are intended to reward verified capture and underground storage of carbon dioxide, enabling private industries to monetise emission abatement while supporting the development of a domestic carbon market aligned with India's net-zero pathway.

# DEFENCE AND AEROSPACE

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Defence expenditure for FY 2026-27 has been budgeted at approximately ₹7.85 lakh crore, with a significant share allocated to capital expenditure. The Budget reinforces indigenisation, modernisation and private sector participation in defence manufacturing.

Fiscal incentives and customs duty exemptions for aircraft manufacturing, maintenance, repair and overhaul (MRO) activities support development of a domestic aerospace ecosystem. These measures are aligned with procurement reforms aimed at enhancing technological capability and export potential.

# MANUFACTURING AND STRATEGIC SUPPLY CHAINS

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India's manufacturing policy is closely aligned with infrastructure expansion, energy transition and defence preparedness. The priority sectors include biopharmaceuticals, semiconductors, electronics, rare earths and critical minerals, chemicals, capital goods, textiles and sports goods manufacturing. The Government to create rare-earth corridors in the mineral-rich states of Odisha, Kerala, Andhra Pradesh, and Tamil Nadu to promote mining, processing, research, and manufacturing. These initiatives aim to reduce import dependence, strengthen domestic value chains and enhance industrial resilience.

In addition to the corridors, basic customs duty exemption have been announced to import capital goods required for processing of critical minerals in India.

Further, support to Micro, Small and Medium Enterprises (MSMEs) through equity, liquidity and capacity-building measures reinforces their role across infrastructure, energy and defence ecosystems.



# TECHNOLOGY, DIGITAL INFRASTRUCTURE AND ARTIFICIAL INTELLIGENCE

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The Budget recognises technology and digital capabilities as core economic infrastructure. Policy support for digital public infrastructure, data centres, cloud services and AI integration reflects a shift towards embedding technology across infrastructure, energy, defence and manufacturing sectors.

To further strengthen India's position as a global digital infrastructure hub, a tax holiday extending until 2047 has been announced for global companies offering cloud services using data centres located in India, subject to specified localisation conditions. This measure is expected to accelerate hyperscale data centre investment, deepen domestic digital infrastructure capacity and align long-term technology investment with India's energy, grid resilience and nuclear baseload planning.

The cloud services provided to Indian customers must be routed through an Indian reseller entity, and where services are rendered by a related party, a margin of up to 15 per cent over cost will be covered under applicable safe harbour rules, providing certainty on transfer pricing.

Artificial intelligence is positioned as a productivity multiplier across sectors, enabling predictive maintenance, logistics optimisation, smart grids, defence surveillance and advanced manufacturing. Incentives for data centres and cloud providers reinforce India's ambition to emerge as a trusted global digital infrastructure hub, with strong linkages to renewable and nuclear energy planning.

# SOCIAL INFRASTRUCTURE AND HUMAN CAPITAL DEVELOPMENT

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The Budget reframes social infrastructure, healthcare, education, skilling, housing and urban services, as a foundational driver of economic productivity. Investments in human capital complement physical and digital infrastructure by enabling labour participation, skill intensity and regional growth.

Enhanced focus on skilling, healthcare expansion in Tier-II and Tier-III cities and urban liveability supports workforce resilience, labour mobility and balanced urbanisation.

To strengthen alignment between education, skilling and labour market needs, the Budget proposes the establishment of a high-powered 'Education to Employment and Enterprise' Standing Committee. The committee will recommend reforms focused on improving employability, enterprise creation and workforce readiness, particularly in services-led sectors.

The Budget also proposes the development of five University Townships along major industrial and logistics corridors. These integrated academic zones will host universities, research institutions, skill centres and residential facilities, supporting industry-linked education, research and regional talent ecosystems.

As part of inclusive growth initiatives, the Budget further proposes the establishment of SHE-Marts (Self-Help Group Enterprise Marts) as community-owned retail outlets for rural women-led enterprises. These marts will be supported through innovative financing instruments at the cluster federation level, strengthening market access and income generation for women entrepreneurs.

The Budget also introduces targeted value-chain development programmes for select agricultural and forestry products, including cashew, cocoa, coconut and sandalwood. These initiatives aim to promote focused cultivation, post-harvest processing and branding, enabling India to develop premium global products while strengthening rural livelihoods.

# CAPITAL MARKETS, INFRASTRUCTURE FINANCING AND BANKING REFORMS

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Capital markets continue to be positioned as key enablers of infrastructure and energy financing. Asset monetisation through Infrastructure Investment Trusts (InvITs) and Real Estate Investment Trusts (REITs), including proposed Central Public Sector Enterprise (CPSE) REITs, supports capital recycling and balance-sheet optimisation.

In addition, the Budget introduces targeted measures to stabilise capital flows and broaden the investor base. Limits for portfolio investments by Persons Resident Outside India (PROI) in listed Indian companies have been enhanced, alongside an increase in aggregate ceilings, with a view to mobilising long-term capital from global Indian communities. The proposed review of the FEMA (Non-Debt Instruments) Rules signals an intent to modernise the foreign investment framework and align it with evolving economic priorities, while preserving regulatory stability. Together, these measures reinforce confidence in India's capital markets at a time of heightened global volatility.

Banking and NBFC (Non-banking Financial Company) sector reforms aim to strengthen governance, risk management and lending capacity. Proposed restructuring of specialised infrastructure financing institutions showcases an intent to optimise capital allocation.

# DIRECT TAXATION: POLICY CERTAINTY, SIMPLIFICATION AND INVESTMENT SIGNALLING

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The Union Budget 2026-27 reinforces the Government's stated objective of providing predictability, stability and administrative simplicity in the direct tax regime. The confirmation that the new Income-tax Act will come into effect from 1 April 2026 represents a significant institutional milestone. The new framework is intended to simplify statutory language, rationalise exemptions and reduce interpretational ambiguity, thereby improving compliance.

From an investment perspective, the Budget's approach to direct taxation is incremental rather than disruptive. There are no material changes to headline corporate tax rates, reflecting policy continuity and signalling confidence in India's existing tax competitiveness. Rationalisation of Minimum Alternate Tax (MAT) provisions and calibrated adjustments to capital gains taxation are framed as alignment measures rather than revenue-maximising interventions, reinforcing India's positioning as a stable jurisdiction for long-term capital.

Targeted direct tax incentives continue to be used as instruments of industrial policy. Manufacturing-linked incentives, particularly for clean energy equipment, advanced batteries, semiconductors and defence manufacturing, are aligned with PLI schemes and broader supply-chain localisation objectives. The Budget also signals continued support for research and development expenditure through deduction benefits, reinforcing innovation-led growth and domestic capability creation.

Overall, the direct tax measures in the Budget prioritise certainty, institutional credibility and alignment with long-horizon investment planning, rather than short-term fiscal extraction.

# INDIRECT TAXATION: SUPPLY-CHAIN EFFICIENCY, MANUFACTURING DEPTH AND ENERGY TRANSITION

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Indirect taxation measures in the Union Budget 2026-27 are more explicitly interventionist and closely aligned with sectoral and supply-chain objectives. Goods and Services Tax (GST) reforms focus on compliance simplification, digitisation and reduction of classification disputes, particularly for infrastructure inputs, capital goods and energy-related equipment. These measures are expected to lower transaction costs and improve working capital efficiency across large project ecosystems.

Customs duty rationalisation plays a strategic role in shaping domestic manufacturing outcomes. The Budget advances a calibrated tariff structure that discourages import dependence while avoiding cost escalation for downstream industries. This is particularly visible in the battery and lithium-ion value chain, where customs and GST alignment supports domestic cell manufacturing, battery pack assembly and recycling ecosystems. The recognition of batteries as both an energy and industrial asset is reflected in a more coherent indirect tax treatment across raw materials, components and end-use applications.

The Budget also introduces targeted customs duty reliefs to support clean energy manufacturing and critical supply chains. Basic Customs Duty (BCD) exemptions have been extended on capital goods used for lithium-ion battery manufacturing, reinforcing domestic cell manufacturing, pack assembly and recycling ecosystems. In addition, sodium antimonate, an essential input for solar glass manufacturing, has been exempted from BCD, reducing input costs for domestic solar module and glass manufacturers and supporting scale economies in upstream renewable energy components.

Further, capital goods required for processing and beneficiation of critical minerals have been exempted from basic customs duty, recognising the strategic importance of minerals such as lithium, cobalt, nickel and rare earths for energy transition, defence and advanced manufacturing. These measures are intended to strengthen domestic mineral value chains, reduce import dependence and align customs policy with India's critical minerals strategy.



# INDIRECT TAXATION: SUPPLY-CHAIN EFFICIENCY, MANUFACTURING DEPTH AND ENERGY TRANSITION

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The Budget also provides indirect tax relief to support clean fuels and circular economy outcomes. The value of biogas blended into compressed natural gas (CNG) has been excluded from the calculation of central excise duty, improving the commercial viability of bio-CNG projects and encouraging waste-to-energy deployment. In addition, a one-time facilitation has been provided for manufacturing units in Special Economic Zones (SEZs) to sell goods into the Domestic Tariff Area, easing inventory pressures and improving capacity utilisation while maintaining the integrity of the SEZ framework.

Indirect tax incentives also support India's clean energy and circular economy ambitions. Reduced duties and GST rationalisation for renewable energy equipment, electrolyzers, energy storage systems and recycling infrastructure aim to accelerate deployment while strengthening domestic value addition. In green hydrogen and green ammonia, indirect tax measures complement export-oriented incentives, improving global competitiveness of Indian production hubs.

In logistics, defence and aerospace, selective exemptions and duty reliefs for aircraft manufacturing, maintenance, repair and overhaul (MRO) activities contribute to ecosystem development rather than isolated project support. These measures align with corridor-based infrastructure planning and export-oriented manufacturing strategies.

Taken together, indirect tax policy in the Budget functions as a supply-chain instrument, reducing friction, improving scale economics and reinforcing strategic manufacturing and energy priorities, while remaining broadly neutral from a revenue perspective.

# OUR ANALYSIS: OPPORTUNITIES AND CHALLENGES

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The Union Budget 2026-27 reinforces infrastructure, energy, defence, technology and human capital as the primary engines of medium to long-term growth. The integrated approach to physical, digital and social infrastructure enhances execution capacity and investment attractiveness, particularly where policy measures are aligned with bankable project structures, risk mitigation mechanisms and institutional reforms. The emphasis on large-scale infrastructure, energy transition and strategic manufacturing reflects a deliberate shift towards asset creation-led growth and long-horizon capital formation.

From an implementation perspective, experience across infrastructure financing, energy transition and environmental projects suggests that outcomes will hinge on regulatory clarity, timely approvals and effective coordination between central and state authorities. HSA's advisory work on infrastructure, transport corridors, inland waterways, and grid-scale energy assets has consistently highlighted interface risks between multiple public agencies, uncertainty in land and environmental clearances, and ambiguities in risk allocation as recurring constraints on project timelines and financial closure. Mechanisms such as credit enhancement, standardised concession frameworks and predictable approval processes will therefore be critical in translating budgetary intent into executable and bankable projects.

The Budget's increasing reliance on market-based instruments, whether through infrastructure risk guarantees, asset monetisation, carbon capture frameworks or long-term offtake models, marks an evolution in how public investment is structured and financed. In practice, the success of these instruments will depend on enforceability, transparency and institutional capacity, rather than headline allocations alone. Our experience with complex PPP structures and sustainability-linked infrastructure projects indicates that early regulatory alignment and clearly defined contractual protections materially influence lender appetite and private capital participation.

# OUR ANALYSIS: OPPORTUNITIES AND CHALLENGES

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Mobilising large-scale private and foreign capital will further require continued focus on dispute resolution, balanced risk allocation and sustained institutional credibility. These considerations are informed by our experience advising on several landmark matters, including a multi-state transport infrastructure PPP, grid-scale renewable and energy storage projects, and environmental and regulatory structuring for industrial decarbonisation initiatives. In such capital-intensive projects, investor confidence has been closely linked to enforceable contractual frameworks, predictable regulatory treatment and policy continuity across political and administrative cycles.

Viewed in this context, the Union Budget 2026-27 provides a coherent and forward-looking framework capable of sustaining growth, strengthening economic resilience and positioning India competitively in a rapidly evolving global economic landscape. Its ultimate success, however, will depend on the consistency of execution, the credibility of institutions and the ability to bridge the gap between policy ambition and on-ground implementation.