UNION BUDGET

2026–27

What it means for

INDIAN BUSINESSES

KINGS & ALLIANCE LLP
LAW FIRM

info@knallp.com
www.knallp.com

EDITOR's NOTE

The Union Budget 2026-27 charts India's financial and policy priorities in a challenging global environment while maintaining steady growth, enhanced competitiveness and reforms tailored for business expansion and investment attraction. Framed as a Yuva Shakti-driven, investment-led growth strategy, the Budget aims to sustain high growth, bolster manufacturing, modernise infrastructure, and deepen regulatory & tax reforms, all anchored on factual economic targets and institutional initiatives.

Fiscal anchors:

- Fiscal Deficit targeted at 4.3 % of GDP in FY 2026-27.
- Public Capital Expenditure of ₹12.2 lakh crore (₹12.2 trillion) - an 11 %+ increase aimed at infrastructure and logistic networks.
- Debt-to-GDP Ratio estimated at ~55.6 % - aligned with medium-term consolidation.
- Net Tax Receipts expected at ₹28.7 lakh crore.

With these fundamentals, the government signals continued structural improvement rather than ad-hoc reliefs, reflecting a consistent policy stance toward sustainable economic expansion and improved business sentiment.

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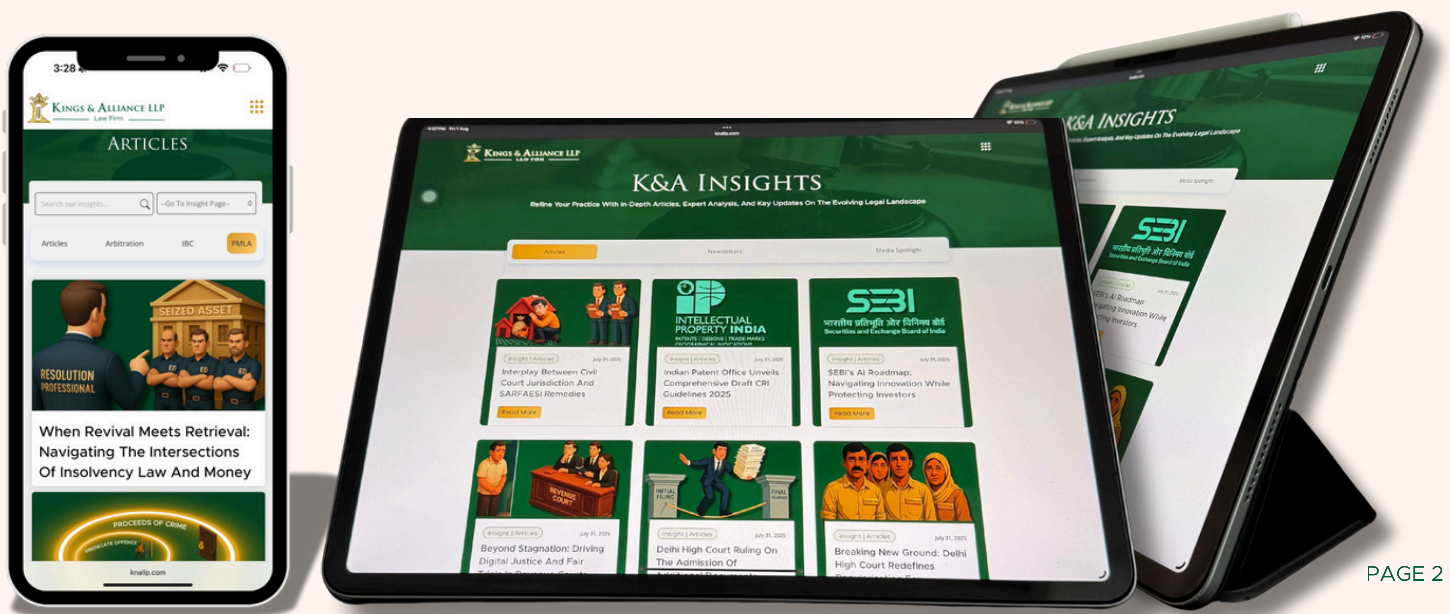

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1. Manufacturing and Strategic Sectors

Union Budget 2026–27 places manufacturing firmly at the centre of India's economic strategy, not as a short-term employment lever but as a long-term competitiveness play. The Government has explicitly identified seven strategic and frontier sectors where India seeks to deepen domestic capacity, reduce import dependence, and integrate more decisively into global value chains. This sectoral targeting is significant because it signals policy continuity and prioritisation, allowing businesses to align capital allocation decisions with medium-term national objectives.

One of the most consequential announcements is Biopharma SHAKTI, with an allocation of ₹10,000 crore over five years. The initiative goes beyond incentives and focuses on ecosystem creation: expansion and upgradation of National Institutes of Pharmaceutical Education and Research (NIPERs), establishment of a nationwide network of over 1,000 clinical trial sites, and a clear emphasis on innovation-led growth. For pharmaceutical companies, biotech firms, CROs, and medical-device manufacturers, this signals a push to move India higher up the value chain—from volume-driven generics toward complex biologics, advanced therapies, and clinical research-driven manufacturing.

Electronics and semiconductors receive another decisive push. The announcement of India Semiconductor Mission (ISM) 2.0, coupled with an increased outlay of ₹40,000 crore for the Electronics Components Manufacturing Scheme, indicates a shift from assembly-centric growth to deeper value addition. The policy emphasis now explicitly includes semiconductor equipment, materials, indigenous intellectual property, and component ecosystems. For electronics manufacturers, EMS players, and technology firms, this opens opportunities in design-linked manufacturing, IP creation, and long-term supply agreements tied to domestic capacity.

The Budget also recognises supply-chain vulnerabilities by proposing Dedicated Rare Earth Corridors across mineral-rich states such as Odisha, Andhra Pradesh, Tamil Nadu, and Kerala. These corridors are intended to integrate mining, processing, R&D, and downstream manufacturing. This has wide commercial relevance for electric vehicles, renewable-energy hardware, defence manufacturing, electronics, and advanced industrial equipment—sectors where access to critical minerals increasingly determines competitiveness.

Additional support for chemical parks, capital goods manufacturing, tool rooms, and a ₹10,000 crore Container Manufacturing Scheme further reinforces the Government's intent to strengthen industrial inputs and logistics resilience. For businesses, the manufacturing thrust in Budget 2026–27 is best read as a long-term invitation: invest in scale, technology, and integration in India, and expect policy alignment to follow.

What It Means

Reliable growth projections coupled with clear fiscal targets reduce macro uncertainty for businesses planning multi-year investments.

+91 981 981 5818
INFO@KNALLP.COM
WWW.KNALLP.COM

Corporate Office - 13 Ring Road, Lajpat Nagar IV, New Delhi - 110024
Chamber - 511, Ad. Complex, Supreme Court of India, New Delhi - 110001

2. Infrastructure and Connectivity

Infrastructure in Union Budget 2026–27 is not positioned as a public-sector expenditure item but as a business productivity tool. The Government has proposed public capital expenditure of ₹12.2 lakh crore for FY 2026–27, continuing a sustained multi-year expansion in infrastructure investment. For businesses, the relevance of this outlay lies not in headline numbers but in how it translates into lower logistics costs, faster movement of goods, and reduced working-capital lock-ups.

A key announcement is the proposal for a new Dedicated Freight Corridor connecting Dankuni in the East to Surat in the West. This corridor is strategically significant because it links eastern manufacturing and mineral belts with western consumption centres and export hubs. For sectors such as steel, cement, chemicals, FMCG distribution, textiles, and auto components, improved east-west freight movement can materially reduce transit time and freight volatility.

Inland waterways receive renewed attention. The Budget proposes to operationalise 20 new National Waterways over five years, beginning with National Waterway-5 in Odisha. NW-5 is specifically intended to connect mineral-rich and industrial zones such as Talcher, Angul, and Kalinga Nagar to port infrastructure. For bulk-cargo industries—aluminium, steel, power, fertilisers, and minerals—this creates a credible alternative to road and rail, potentially reshaping freight economics.

The Government has also articulated a long-term modal-shift objective: increasing the share of inland waterways and coastal shipping from 6% to 12% by 2047. While gradual, this shift can structurally lower logistics costs for heavy industries and export-oriented businesses over time.

To crowd in private participation, the Budget proposes an Infrastructure Risk Guarantee Fund, aimed at mitigating construction-phase risk. This is particularly relevant for businesses involved in EPC contracts, industrial parks, logistics hubs, warehousing, ports, and PPP projects. By addressing early-stage risk, the Fund seeks to improve bankability and attract private capital into large infrastructure projects.

What It Means

The infrastructure thrust in Budget 2026–27 should be viewed as a long-term operating-cost reduction strategy. Improved connectivity, diversified transport modes, and risk-mitigation mechanisms together create an environment where scale becomes more economical and supply chains more resilient.

+91 981 981 5818
INFO@KNALLP.COM
WWW.KNALLP.COM
Corporate Office - 13 Ring Road, Lajpat Nagar IV, New Delhi - 110024
Chamber - 511, Ad. Complex, Supreme Court of India, New Delhi - 110001

3. Energy Security and Decarbonisation

The Budget approaches energy transition with a clear understanding of industrial realities. Rather than focusing solely on renewable capacity, the Budget recognises that hard-to-abate industries require practical transition tools. A key signal is the proposed allocation of ₹20,000 crore over five years for Carbon Capture, Utilisation and Storage (CCUS) technologies.

CCUS is particularly relevant for sectors such as power generation, steel, cement, refineries, and chemicals, where emissions cannot be eliminated simply by switching to renewable electricity. These industries form the backbone of India's infrastructure and manufacturing economy. Without viable decarbonisation pathways, they risk losing competitiveness in global markets where carbon-linked procurement standards and border-adjustment mechanisms are gaining traction.

By allocating dedicated funding for CCUS, the Government is signalling that industrial decarbonisation will be supported through technology adoption rather than punitive regulation alone. For businesses, this opens opportunities for partnerships in technology deployment, pilot projects, retrofitting of existing facilities, and long-term offtake arrangements linked to cleaner production.

Energy security remains an underlying theme. By supporting domestic manufacturing of capital goods, chemicals, and critical inputs, the Budget indirectly reduces energy import dependence and exposure to global price shocks. Businesses operating in energy-intensive sectors can expect increasing alignment between industrial policy, energy strategy, and climate commitments.

The key business takeaway is that sustainability is being repositioned as an investment and competitiveness issue, not merely an ESG reporting obligation.

What It Means

Companies that engage early with CCUS frameworks, technology providers, and regulatory developments may gain strategic advantages as transition requirements become more explicit.

Corporate Office - 13 Ring Road, Lajpat Nagar IV, New Delhi - 110024
Chamber - 511, Ad. Complex, Supreme Court of India, New Delhi - 110001
+91 981 981 5818
INFO@KNALLP.COM
WWW.KNALLP.COM

4. MSMEs and Supply-Chain

This Budget treats MSMEs not as welfare recipients but as economic multipliers critical to manufacturing scale and supply-chain resilience. The announcement of a ₹10,000 crore SME Growth Fund aimed at creating "future champions" reflects a deliberate attempt to build globally competitive MSMEs rather than perpetually supporting sub-scale enterprises.

In addition, the Government has proposed to augment the Self-Reliant India Fund by ₹2,000 crore, extending risk-capital access to micro enterprises. Liquidity support is complemented by measures to strengthen the Trade Receivables Discounting System (TReDS), addressing one of the most persistent constraints faced by MSMEs—delayed payments.

For larger businesses, these measures are directly relevant. Stronger MSMEs translate into more reliable vendors, improved quality standards, and reduced counterparty risk. As MSMEs gain access to equity and professional support, they are better positioned to invest in technology, compliance, and capacity expansion—benefiting the entire value chain.

The Budget also proposes to create a cadre of "Corporate Mitras", trained through professional bodies such as ICAI, ICSI, and ICMAI, particularly in Tier-II and Tier-III towns. This initiative is intended to bridge capability gaps in accounting, compliance, and governance at the grassroots level.

What It Means

For manufacturing groups, EPC companies, exporters, and consumer businesses dependent on distributed vendor networks, the MSME measures in Budget 2026–27 should be read as a supply-chain stabilisation strategy. By strengthening upstream enterprises, the Government is indirectly improving the operating environment for larger businesses.

+91 981 981 5818
INFO@KNALLP.COM
WWW.KNALLP.COM

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Chamber - 511, Ad. Complex, Supreme Court of India, New Delhi - 110001

5. Tax, Capital Markets and Compliance

Union Budget 2026–27 does not rely on headline tax giveaways. Instead, it continues a steady shift toward predictability, simplification, and system-based compliance, which benefits formal businesses over the medium term.

On capital returns, the Budget proposes a re-characterisation of share buybacks, taxing proceeds as capital gains with differentiated treatment for promoters. While this changes the relative attractiveness of buybacks versus dividends, it provides clarity and aligns tax outcomes more closely with economic substance. For listed companies and promoter-driven groups, this reinforces the need for deliberate capital-allocation strategies rather than opportunistic distributions.

In capital markets, the increase in Securities Transaction Tax (STT) on derivatives affects hedging and treasury costs, particularly for businesses with significant market exposure. While this marginally raises transaction costs, it also signals regulatory confidence in market depth and participation.

From a compliance perspective, the extension of timelines for filing revised returns up to 31 March (subject to a fee) offers businesses additional flexibility to correct errors identified during audits or reconciliations. Rationalisation of penalties and selective decriminalisation of technical defaults further indicate a move toward trust-based compliance for bona fide taxpayers.

The overarching message for businesses is consistency. The tax and compliance framework is being refined incrementally rather than disrupted.

What It Means

For enterprises that value transparency and long-term planning, Budget 2026–27 offers a stable backdrop against which investment, restructuring, and expansion decisions can be made with greater confidence.

Corporate Office - 13 Ring Road, Lajpat Nagar IV, New Delhi - 110024
Chamber - 511, Ad. Complex, Supreme Court of India, New Delhi - 110001
+91 981 981 5818
INFO@KNALLP.COM
WWW.KNALLP.COM

LEADERSHIP

MOHIT CHAUDHARY

FOUNDER AND MANAGING PARTNER

Former AAG for State of J&K at Supreme Court of India

Advocate on Record, Supreme Court of India

+91 98106 63997

mohit@knallp.com

mohitchaudhary2020@gmail.com

KUNAL SACHDEVA

PARTNER

+91 99536 55270

kunal@knallp.com

kunalsachdeva826@gmail.com

PUJA CHAUDHARY

PARTNER

+91 98106 22198

puja@knallp.com

pujabhaskar1@rediffmail.com

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GET IN TOUCH

+91 981 981 5818

info@knallp.com

www.knallp.com

Kings & Alliance LLP

wa.me/919819815818

WhatsApp Business Account

LOCATIONS

CORPORATE OFFICE
13 Ring Road, Lajpat Nagar IV,
New Delhi - 110024

CHAMBER
511, Ad. Complex, Supreme Court
of India, New Delhi - 110001

IPR OFFICE
T 518, Sector 99, Supreme Tower,
Noida, Uttar Pradesh - 201303

INSIGHT DIVISION
62/6, Channi Himmat
(Green Belt), Jammu - 180015

MUMBAI
Chamber No.3, Block No.23, 02nd Floor, Bell Building, Sir Phirozshah Mehta Road, Fort, Mumbai - 400 001

Corporate Office - 13 Ring Road, Lajpat Nagar IV, New Delhi - 110024
Chamber - 511, Ad. Complex, Supreme Court of India, New Delhi - 110001

+91 981 981 5818
INFO@KNALLP.COM
WWW.KNALLP.COM