

FEBRUARY 2026



UNION BUDGET '26 - '27

*Key Implications for the Startup
& Tech Ecosystem*

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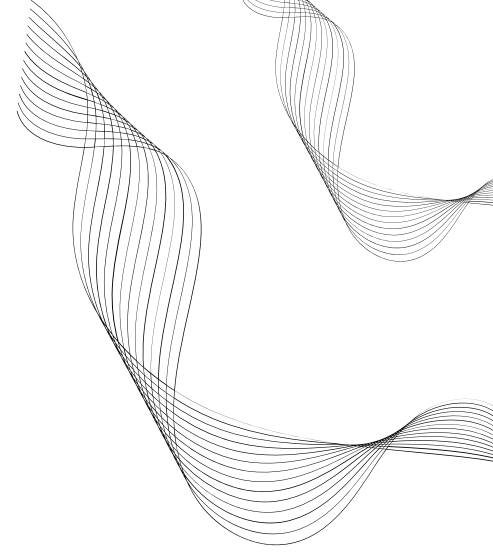


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Introduction to the Union Budget 2026–27

The Union Budget 2026–27 comes at a time of heightened global uncertainty, where changing interest rate conditions in developed markets are shaping venture capital activity and risk appetite. Against this backdrop, the budget's emphasis on fiscal discipline, structural reforms, and policy continuity is a deliberate and pragmatic choice. Rather than chasing short-term sentiment, the government has prioritised long-term capacity building within the limits imposed by domestic fiscal realities.

From a macro perspective, the budget's arithmetic is broadly credible. Capital expenditure is proposed to be increased to ₹12.22 lakh crore (4.4% of GDP), despite constrained tax inflows and a rising interest burden that now absorbs close to 49%¹ of net tax revenues. While this demonstrates the Centre's commitment to growth-oriented spending, the onus will increasingly shift to the private sector to complement public capex if the targeted 10% nominal GDP growth is to be achieved².

For the startup ecosystem, however, the budget's significance lies beyond immediate market reactions. At a time when global venture funding remain relatively subdued, Tracxn data shows Indian startups raised an estimated \$11B in 2025, retaining India's position as the world's third-largest startup ecosystem³, even as overall funding moderated down by 12–13% year-on-year. The nature of deals increasingly reflects a maturing ecosystem, with greater emphasis on unit economics, capital efficiency, and defensible capabilities.

The budget acknowledges this shift by focusing on supply-side enablers rather than consumer subsidies. Investments in digital infrastructure, deep tech, life sciences, semiconductors, defence, and space, alongside measures to strengthen Champion MSMEs, improve liquidity through TReDS (Trade Receivables Discounting System), liberalise NRI investment, and reduce regulatory friction, align closely with the evolving priorities of founders and investors.



1. AI Multiplier: Compute, Capital, and Tax Certainty

By expanding access to domestic compute infrastructure, the government is positioning AI not merely as a standalone technology but as an AI multiplier—one that amplifies productivity across sectors such as agriculture, manufacturing, logistics, healthcare, and financial services. Lower cost and greater predictability of access to compute enables startups to embed AI deeper into core business processes, accelerating innovation while reducing dependence on foreign cloud infrastructure.

1.1 Tax benefits to foreign companies that set up data centres

To attract sustained global investment in digital infrastructure, the government has offered tax benefits to foreign companies that establish AI data centres and cloud services in India, subject to the condition that services are delivered through Indian companies. These benefits may continue until 2047, providing long-term policy certainty for capital-intensive investments. The intent is to anchor global compute capacity within India while ensuring data sovereignty and domestic value capture.

Private investment momentum in AI and data infrastructure is already strong. Union IT Minister Ashwini Vaishnaw has stated that private investments in India's AI infrastructure could double from around \$70B last year by the end of FY26⁴. Large commitments have been announced by global and Indian technology firms, including multi-gigawatt AI-ready data centre projects. India currently has a leased data centre capacity of approximately 1–3 GW, the highest among comparable emerging markets such as Indonesia, Malaysia, Thailand, the Philippines, and Vietnam. In recent months, major global and Indian technology companies have announced large-scale investments in India's AI-ready data centre infrastructure. Tata Consultancy Services committed \$6.5B over five years to develop 1 GW of AI-ready capacity. Google followed with a \$15B investment for a 1 GW data centre in partnership with the Adani Group⁵.

At the ecosystem level, this infrastructure push is mirrored by a steadily expanding base of domestic companies building across the AI stack. Tracxn data indicates that India currently has 483 companies operating in the AI infrastructure space, which together have attracted approximately \$404M in funding and 207 companies are focused on cloud infrastructure, while 64 companies operate specifically in data centre infrastructure, highlighting a growing specialisation across different layers of the compute and storage value chain.

Why it matters: Data centres address one of the most critical constraints in artificial intelligence: access to computing power. Compute capacity, along with data and algorithms, is a foundational input for building large AI systems. For startups and smaller firms, access to compute is often prohibitively expensive. By scaling national data centre capacity through global investment, the government is indirectly lowering long-term compute costs for the entire ecosystem.

1.2 IT and Telecom

The budget has significantly increased allocation to the IT and telecom sector to ₹74,560 crore, up from ₹53,946 crore in the previous year⁶. This increase supports the expansion of digital infrastructure, telecom networks, and technology-led public services.

This public spending push aligns with a steady build-up of private innovation capacity in the IT and telecom domain. Tracxn data shows that over 2.9K companies were founded in the Telecom Tech space and has raised \$22.9B across 211 funding rounds.

Why it matters: The higher allocation is positive for IT and telecom companies involved in infrastructure deployment, system integration, and digital service delivery. It also strengthens the foundational layer on which startups, SaaS companies, and digital platforms operate.

1.3 Safe Harbour Expansion

To reduce litigation and compliance burden, the budget has expanded the Safe Harbour threshold for IT services from ₹300 crore to ₹2,000 crore⁷. Safe Harbour provisions allow taxpayers to follow predefined rules for transfer pricing, ensuring that their declared margins are accepted without detailed audits or disputes.

Why it matters: This change provides significant relief to mid-sized technology exporters, particularly at a time when the Economic Survey has issued cautionary signals for the IT services sector. Greater predictability in taxation allows companies to focus on operations and growth rather than prolonged tax disputes.

2. Deep-Tech Enablement: IP, Talent & Strategy

2.1 Deep Tech Fund

The budget proposes a Deep Tech Fund focused on supporting full-stack Indian intellectual property. The fund is intended for sectors such as AI, defence, semiconductors, biotech, and advanced manufacturing, where innovation cycles are long and capital requirements are high.

Why it matters: The objective is to move India beyond application-layer innovation toward ownership of core technologies.

2.2 AVGC Content Creator Labs

The budget proposes setting up AVGC (Animation, Visual Effects, Gaming, and Comics) Content Creator Labs in 15,000 secondary schools and 500 colleges⁸. This aligns with the Economic Survey 2025–26, which notes that gaming revenues reached ₹232B in 2024, while animation and VFX generated around ₹103B. Live entertainment accounted for over ₹100B, with strong spillovers into tourism and urban services.

Why it matters: As per a Government of India press release, the global creative economy generates over \$2 trillion annually and supports nearly 50 million jobs, while in India the creative sector is valued at around \$30B⁹.

2.3 AI Integration – Bharat-VISTAAR

The government has announced Bharat-VISTAAR, a multilingual AI tool to be integrated with the Agri-Stack¹⁰. The system will provide customised advisory support to farmers using crop, soil, and land data, following best practices outlined by the Indian Council of Agricultural Research.

This initiative is being rolled out into an ecosystem that has already achieved significant scale. Currently, India has over 5,000 agritech companies, which collectively raised approximately \$4.8B across 1.28K funding rounds. Importantly, the sector has begun to demonstrate exit maturity as well, with around 19 agritech companies having gone public.

Why it matters: By embedding AI directly into agriculture, the government is positioning it as productivity-enhancing public infrastructure rather than a niche enterprise tool. Bharat-VISTAAR is designed to evolve through collaboration with not-for-profit organisations, AI startups, technology companies, and AI Centres of Excellence, drawing on the broader national AI ecosystem, including the India AI Mission and BHASHINI. Its interactive design enables continuous feedback from farmers to flow back into government systems, strengthening evidence-based policymaking and helping prioritise agricultural research and interventions.

2.4 Semiconductor Mission – ISM 2.0

The budget proposes ISM 2.0, building on the India Semiconductor Mission 1.0. The new phase moves beyond fabs and ATMP units to focus on equipment, materials, full-stack Indian IP, and industry-led research. A design-linked incentive scheme with a ₹100 crore outlay is proposed for at least 30 semiconductor design companies. In addition, ISM 2.0 provides ₹5,000 crore in fiscal support for fabs manufacturing compound semiconductors, silicon photonics, sensors, and ATMP units, with project cost coverage of up to ₹2,000 crore¹¹.

This policy push is being rolled out into a semiconductor startup ecosystem that has already begun to show both scale and momentum. Over the years, India has seen the emergence of nearly 3,000 active semiconductor startups, collectively raising approximately \$930M across 118 funding rounds in the last five years. Investment activity has accelerated sharply in recent years, with 2025 marking a clear inflection point, as equity funding peaked at \$571M across 30 rounds. This surge reflects growing investor confidence in India's semiconductor potential, particularly in design, specialised materials, and application-specific chips.

By aligning ISM 2.0 with an ecosystem that is already expanding rather than nascent, the government is seeking to strengthen India's end-to-end semiconductor capabilities.

Why it matters: The emphasis moves beyond chip assembly to producing the equipment, chemicals, and gases needed for semiconductor manufacturing. This reduces external dependencies, aiming to lower reliance on imported chips.

3. Green Tech & Energy Security

The Union Budget 2026–27 reinforces India’s clean energy push through a coordinated focus on decarbonisation, storage, and decentralised generation. It allocates ₹20,000 crore over five years for Carbon Capture, Utilisation, and Storage (CCUS)¹², recognising that industrial decarbonisation will require capital-intensive solutions beyond renewable power alone. To address grid stability challenges arising from higher renewable penetration, Viability Gap Funding for Battery Energy Storage Systems has been increased tenfold from ₹100 crore to ₹1,000 crore¹³. Complementing these measures, the allocation for the PM Surya Ghar Muft Bijli Yojana has been raised to ₹22,000 crore, supporting rooftop solar adoption and the expansion of decentralised energy generation.

Why it matters: Tracxn data indicates that the ecosystem comprises around 425 active companies, which have collectively raised \$1.01B across 121 equity funding rounds over the last five years. As India advances Free Trade Agreements with the European Union, access to these markets will increasingly hinge on environmental and clean-energy commitments. In this context, these initiatives provide a timely boost, aligning domestic innovation with global sustainability standards and supporting long-term growth and export competitiveness.



4. Strategic Frontiers & Indigenization (Defence & Space Tech)

4.1 Defence & Space Capital Outlay

Defence capital outlay has been increased to ₹2.19 lakh crore, a 17% rise from the previous year¹⁴. Space technology funding has been raised to ₹10,397 crore¹⁵, signalling strong support for strategic and commercial space activities.

This policy momentum is unfolding alongside a steadily expanding private defence technology ecosystem. According to Tracxn, India has around 230 defence-tech startups, which together have raised approximately \$622M across 163 funding rounds over the past five years. The scale and consistency of funding activity indicate that private investors are increasingly willing to back defence startups. A similar trend is visible in the space tech sector, where around 240 active companies have together attracted nearly \$600M in overall funding.

4.2 Building a Global MRO Hub

The budget proposes exempting basic customs duty on raw materials and components required for aircraft manufacturing and MRO operations. The objective is to reduce costs and encourage aerospace companies and startups to locate operations in India instead of overseas hubs such as Singapore or Dubai.

Why it matters: By reducing input costs for manufacturers and MRO players, the measure makes acquisition and upkeep more economical and simultaneously curbs dollar outflows and vulnerability to forex fluctuations.

4.3 Dual-Use Technology & Space Startups

The budget is expected to fuel growth in India's space and defence startup ecosystem by supporting dual-use technologies. These include technologies with both civilian and defence applications, such as advanced sensors, imaging systems, and materials.

Why it matters: This will help in accelerating the expansion of India's space ecosystem and significantly strengthen the ability of Indian companies to compete on a global stage



5. The Startup & SME Ecosystem

5.1 Liberalisation of NRI & PIO Investment Norms:

The budget proposes liberalising portfolio Investment Scheme (PIS) limits norms for Non-Resident Indians and Persons Resident Outside India by increasing individual investment limits under portfolio management schemes. In addition, the overall investment limit for Persons of Indian Origin has been increased from 10% to 24%.

Why it matters: This change broadens the investor base for Indian companies and is expected to reduce reliance on Foreign Portfolio Investment. Diaspora investors are generally more patient and long-term oriented, making them a stabilising source of capital for startups and growth-stage companies.

5.2 TReDS Receivables as Asset-Backed Securities

To improve MSME liquidity, the budget allows receivables under the Trade Receivables Discounting System to be converted into asset-backed securities. This enables the development of a secondary market for MSME receivables.

Why it matters: By unlocking liquidity without forcing equity dilution, this measure addresses one of the most persistent challenges faced by small businesses: delayed payments and working capital shortages.

5.3 ₹10,000 crore SME Growth Fund; The Orange Economy

The budget announces a dedicated ₹10,000 crore fund for SMEs¹⁶, designed to incentivise growth based on performance criteria rather than mere registration or size. The focus is on rewarding execution, compliance, and scalability. These measures also support the broader transition of India's SME and startup ecosystem into what is increasingly described as the Orange Economy—an economy driven by knowledge, creativity, technology, and innovation rather than traditional factor inputs alone.

Why it matters: This approach signals a shift from subsidy-based support toward performance-linked capital allocation.

5.4 Extended Tax Benefits for Startups

The budget continues the 100% tax holiday for eligible startups, extending the eligibility window to March 31, 2030 in line with the 2025–26 trajectory. This provides continuity and planning certainty for early-stage companies.

5.5 Regulatory Easing

Proposals include fast-track mergers and the formation of a High-Level Committee to rationalise non-financial regulations. These measures aim to reduce friction as startups scale, consolidate, or restructure.

Why it matters: Fast-track mergers enable quicker consolidation, strategic pivots, and cleaner corporate structures, while rationalising non-financial regulations reduces compliance overhead and uncertainty. Together, these measures improve ease of doing business, lower transaction costs, and allow founders and management teams to focus capital and effort on growth, governance, and long-term value creation rather than procedural complexity.

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All startup data-related information including company numbers and funding that have been referenced in this report has been sourced from the Tracxn platform.

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