

# Indian Defence Industry - Set to Grow at Around 20% During FY24-FY29

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## Synopsis

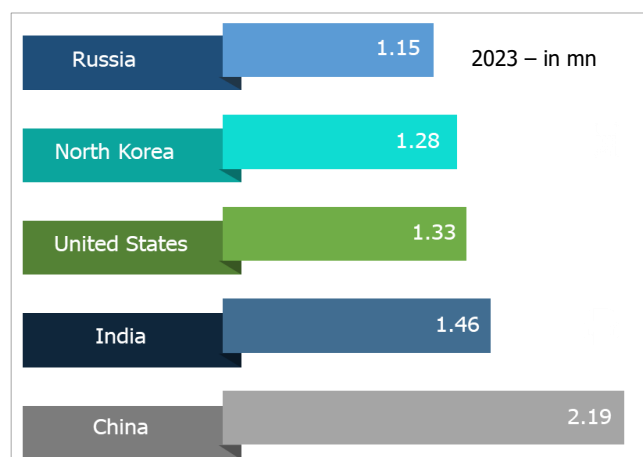
- India's defence sector is characterized by its position as the world's second-largest armed forces and significant military expenditure.
- The collaboration between the government and private sector entities in India's defence sector has driven advancements in arms and ammunition, aerospace, electronics, and naval technologies, aided by policies such as 'Make in India' and liberalized FDI norms. These policies have enhanced domestic manufacturing capabilities, attracted international investments in defence innovation and driven notable growth in exports of military equipment.
- On the back of strong government backing and increasing private sector participation, the Indian defence sector is set to grow at a CAGR of around 20% during FY24-FY29 while maintaining a PBILDT margin of around 20%. Indian defence sector companies are set to further enhance the country's defence capabilities, reduce import dependency, and elevate its global stature.

## India's Defence Sector: The Backbone of National Security

India's stature on the global stage in the defence sector is underpinned by it having the world's second-largest active armed forces and its position as the world's fourth-largest spender on military resources. Within India's intricate security framework, the defence sector emerges as a cornerstone, not only safeguarding national sovereignty but also exerting considerable influence on regional geo-politics and forging strategic alliances.

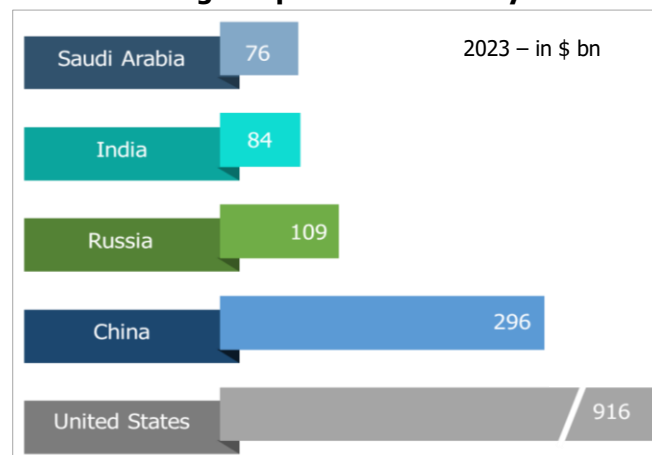
As India confronts a complex security landscape, its defence forces tackle various challenges. These range from traditional threats posed by some neighbouring countries to the ever-evolving realm of cyber warfare. This means that India's defence system is always evolving, with ongoing innovations, strategic planning, and technological upgrades. By strengthening its defences against both old and new threats, it aims to demonstrate its reliability and responsibility on the global stage in matters of defence and security.

### India ranks no.2 in active armed forces



Source: World Population Review

### India is 4<sup>th</sup> largest spender on military resources



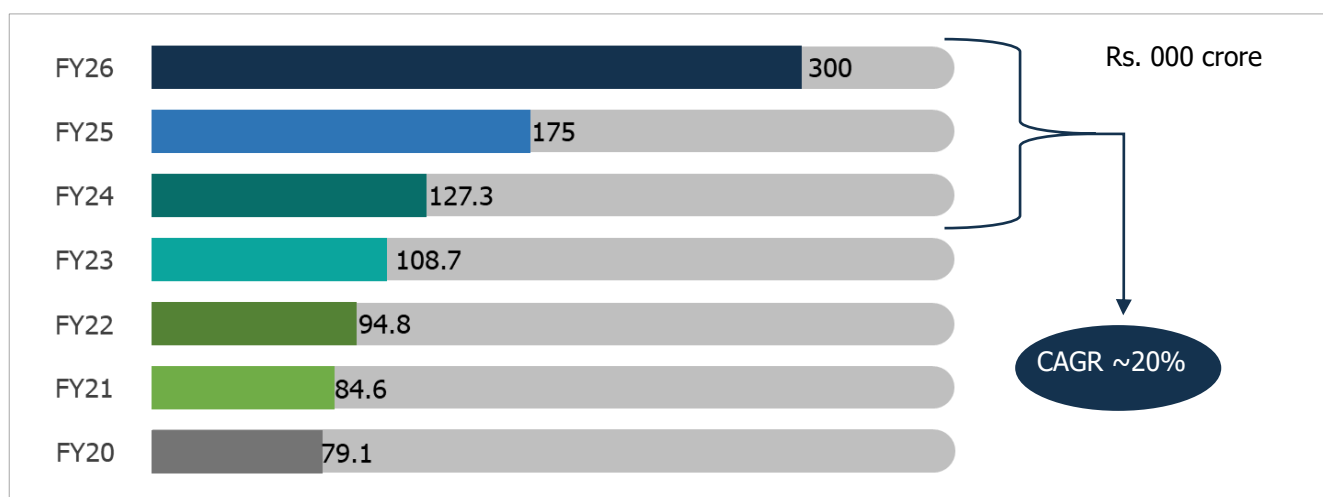
Source: Stockholm International Peace Research Institute (SIPRI)

### India's Defence Production Journey: A Strategic Evolution

Since gaining independence in 1947, India has gradually transitioned from relying on imported military hardware to enhancing its indigenous defence capabilities. This shift is driven by domestic manufacturing and technology transfer agreements. Today, India's defence sector includes a diverse mix of public and private enterprises involved in various aspects of defence, from research and development to production.

In recent years, India's defence budget has consistently ranged between 1.90% to 2.80% of its Gross Domestic Product (GDP). For the fiscal year 2024-25, a substantial allocation of ₹6.22 lakh crore has been dedicated for the defence sector. Furthermore, India has set an ambitious annual defence production outlay of ₹1.75 lakh crore for FY25 which is expected to grow at a CAGR of around 20% to ₹3 lakh crore (as per Ministry of Defence) by FY29, underscoring its commitment to becoming a self-reliant defence powerhouse.

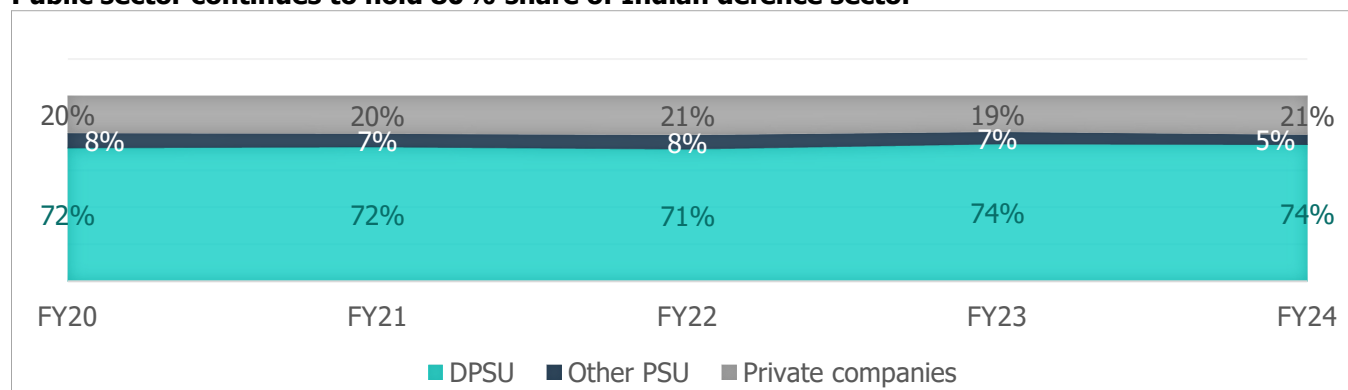
### India's defence production set to grow at a CAGR of around 20% during FY24-FY29



Source: Department of Defence Production (DDP), Press Information Bureau (PIB) and compiled by CareEdge Ratings

At the forefront of this ecosystem are prominent government-owned entities such as Hindustan Aeronautics Limited (HAL), Bharat Electronics Limited (BEL), Cochin Shipyard Limited (CSL), Mazagon Dock Shipbuilders Limited (MDL), BrahMos Aerospace Private Limited and Bharat Dynamics Limited (BDL) alongside the restructured Ordnance Factory Board (OFB), now divided into seven corporatised entities. These organizations form the core of India's indigenous defence research and manufacturing, spanning arms and ammunition, aerospace, missile systems, electronics, and naval technologies.

Complementing these public sector giants is the gradually growing private sector participation, comprising both domestic firms and multinational corporations. Notable players such as the Tata Group, L&T, Mahindra Defence Systems, Kalyani Group, etc are expected to play a pivotal role in advancing defence modernization, leveraging their engineering and technological expertise.

**Public sector continues to hold 80% share of Indian defence sector**


Source: DDP

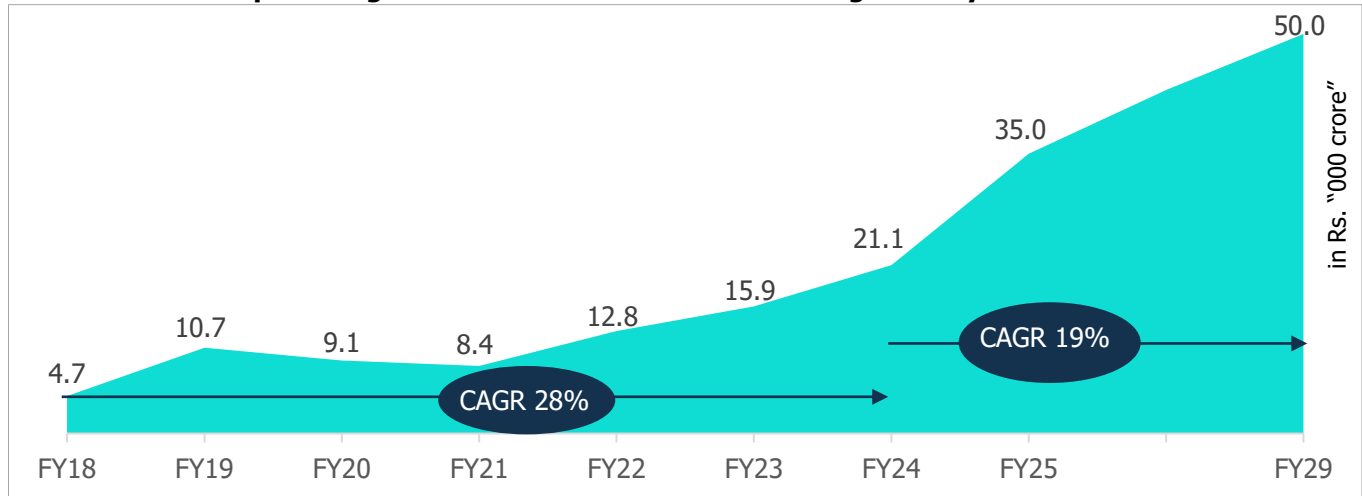
The Indian government's proactive policies, including the 'Make in India' initiative and the liberalization of FDI norms (74% through automatic route and 100% through Government route), have significantly facilitated private sector participation and investment in defence manufacturing. These measures have enhanced domestic R&D capabilities, attracted foreign investments, and reinforced India's position as a hub for defence innovation and production.

**India's Growing Role in the Global Defence Market: A Surge in Export Dynamics**

Historically, India has been a net importer of defence equipment, heavily relying on foreign suppliers to meet its critical military needs. However, concerted efforts to promote indigenous defence manufacturing and technology development, supported by policy reforms such as the 'Make in India' initiative, is bringing about a gradual shift. Today, India boasts an expanding defence industry encompassing a wide range of advanced weaponry and systems.

India's defence exports include a diverse array of products such as aircraft, naval systems, missile technology, and military hardware. Despite challenges like regulatory hurdles and competition, there are significant opportunities to penetrate emerging markets by leveraging India's cost-effectiveness, skilled workforce and technological expertise. Over the last six years ending FY24, Indian defence exports have grown at a healthy CAGR of approximately 28%. CareEdge Ratings anticipates that India's defence exports will grow in tandem with government spending in the sector, at an estimated rate of about 19% during next 5 years (i.e. from FY24 to FY29) on a larger base.

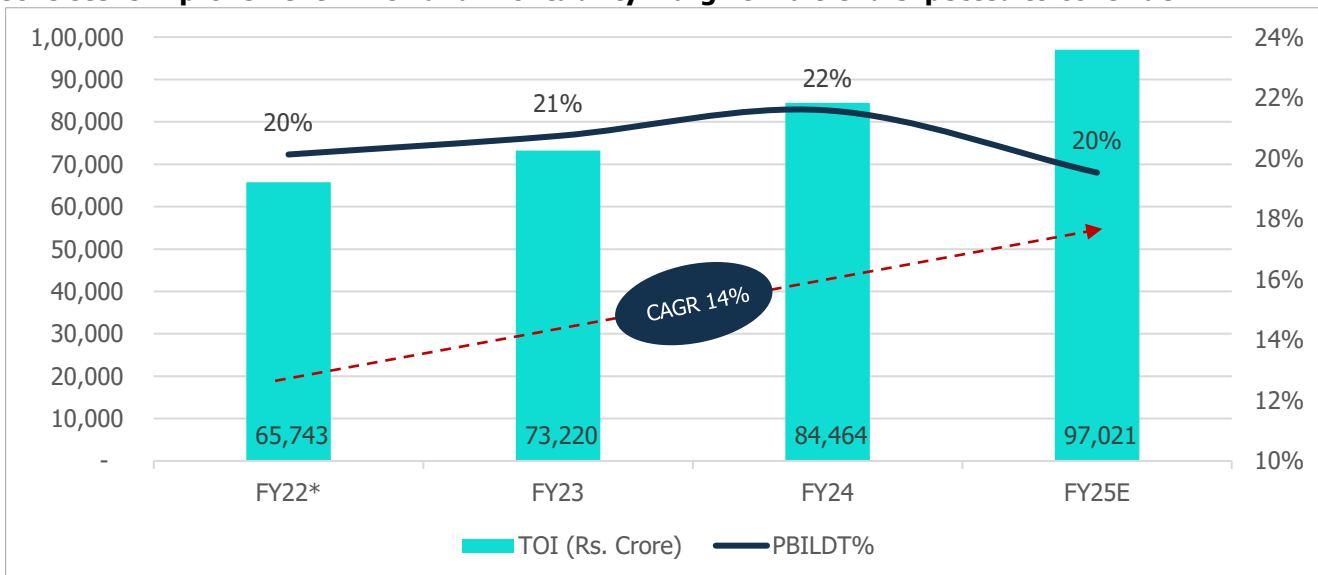
The growth of India's defence exports not only bolsters its economy but also enhances its strategic influence globally. By establishing itself as a reliable defence partner, India can strengthen diplomatic ties, foster regional security cooperation, and assert itself as a key player in the defence sector.

**Indian Defence Exports to grow at a CAGR of about 19% during next 5 years**


Source: DDP, Press Information Bureau and compiled by CareEdge Ratings

**Government defence companies to maintain robust credit metrics**

According to the analysis conducted by CareEdge Ratings on major DPSUs, new DPSUs and other PSUs/JVs which together constitute about 85% of all their aggregate defence production, there is a consistent upward trend in the total operating income (TOI). Historical data indicates a CAGR of approximately 14% in TOI during last 3 years ending FY24, a trend expected to improve in the medium term on the back of their healthy order book. Profit Before Interest, Lease, Depreciation, and Tax (PBILDT) is anticipated to remain about 20% during FY25, underscoring the healthy profitability of these entities. It is anticipated that going forward these DPSUs will play a pivotal role in reducing defence imports and bolstering exports, thereby positioning India prominently in the global defence landscape.

**Consistent improvement in TOI and Profitability margins – a trend expected to continue**


\*Annualised

Source: Compiled by CareEdge Ratings

Note: CareEdge Ratings in its analysis has considered major DPSUs, New DPSUs and Other PSUs/JVs which formed about 85% of all of their aggregate defence production in FY24.

### **CareEdge Ratings' View**

"India's defence sector is on the cusp of significant modernization, with a strong emphasis on indigenous production to make us more self-reliant in the matter of national security. Under the 'Make in India' initiative, there is an expected increase in collaboration between both domestic and international defence firms to develop cutting-edge military equipment.

Geo-political dynamics, and maritime security concerns, will shape defence priorities, influencing procurement strategies and strategic partnerships. Emerging technologies such as artificial intelligence (AI) and hypersonic weapons will be crucial in enhancing defence capabilities, which in turn could drive substantial investments in research and development (R&D).

Counter-terrorism and border security will remain key areas of focus, necessitating investments in intelligence and surveillance. Budgetary allocations will play a crucial role in the sector's growth, while India may also explore export opportunities to strengthen its position in the global defence market.

Regulatory reforms aimed at streamlining procurement processes and promoting private sector involvement will foster a conducive environment for innovation and investment in the defence sector. All the above factors together are expected to drive the industry growth by around 20% during FY24-FY29", says, D. Naveen Kumar, Associate Director, CareEdge Ratings.

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