



OMNISCIENCE CAPITAL
SCIENCE OF ALPHA FROM SAFETY

DEFENCE SECTOR OUTLOOK

Defence Continues to be a Key Growth Vector for India,
backed by Growing Exports and *Aatmanirbhar Bharat*

1. India's Defence Theme is Intact and Still Growing

Defence manufacturing in India continues to break new records year-after-year, with the country's total defence output reaching INR 1.27 lakh crores in FY2024¹, growing ~17% from FY2023, and nearly 60% since FY2020 (see Figure 1), representing an annualized growth rate of ~12.6%*.

At INR 6.2 lakh crores, India's military spending is currently the fourth largest in the world. However, in terms of defence expenditure as % of GDP, India is still underpenetrated compared to other global powers such as US, China and Russia (see Figure 2). NATO guidelines further

recommend its member nations allocate at least 2% of their GDP into defence expenditure. In future, this gap can be expected to bridge further, as India's defence policies emphasize self-reliance and indigenization, while incentivizing growth in India's defence exports. Industry estimates suggest that India's GDP may reach ~\$7.3 trillion by 2030². At 2% of GDP, this would correspond to an estimated defence expenditure of ~\$146 billion (~INR 12.4 lakh crores) by 2030. This is roughly in line with the latest industry estimates, which indicate that the Indian Defence Sector is expected to grow at 14% annualized growth rate till 2030³.

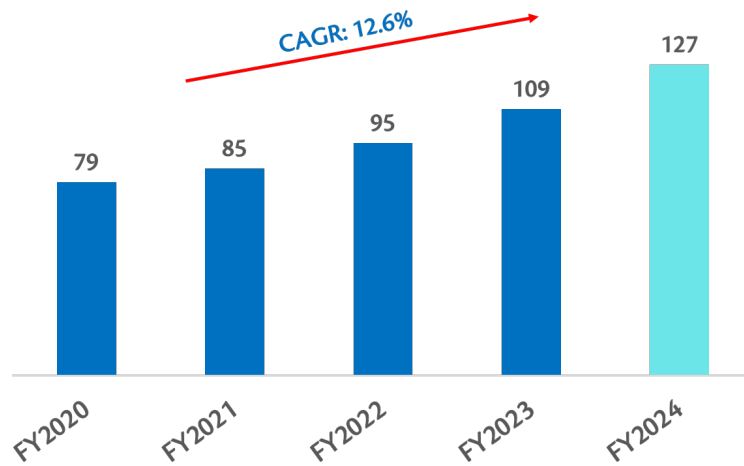


Figure 1: India's Defence Output (INR '000 crores)

Source: <https://www.investindia.gov.in/sector/defence-manufacturing>

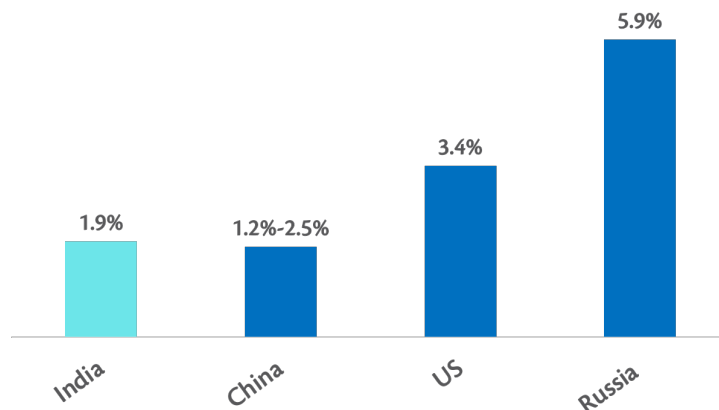


Figure 2: Defence Expenditure as % of GDP

Source: <https://www.statista.com/statistics/266892/military-expenditure-as-percentage-of-gdp-in-highest-spending-countries/>

1. InvestIndia: <https://www.investindia.gov.in/sector/defence-manufacturing>
 2. Hindu Business Line: <https://www.thehindubusinessline.com/economy/india-set-to-become-3rd-largest-economy-by-2030-says-sp-global/article67607959.ece>
 3. Times of India: <https://timesofindia.indiatimes.com/business/india-business/indian-defence-industry-set-for-14-cagr-growth-by-2030-report/articleshow/113161269.cms>

1.1 India's is Defending the World Now

Defence exports in India continue to reach new heights amidst modernization and upgradation

India's defence exports have continued to grow at a high double-digit growth rate, skyrocketing to INR 21,083 crores in FY2024¹, with YoY growth of 32.4%* from FY2023 and an annualized growth of 35.7%* from FY2021-24 (see Figure 3). With supportive policies and participation by both public and private players, India currently exports defence products to nearly 90 countries worldwide, and exports will continue to be a high-growth segment within the defence growth vector, as the government targets an ambitious INR 50,000 crores in defence exports by 2028-29³.

Alongside exports, modernization of the country's defence infrastructure remains a key focus for the government, especially as India becomes a major

economy in the region with increasing emphasis to protect its national interests. While the total defence budget increased by 4.8% last year to INR 6.22 lakh crores (Budget Estimate [BE] FY2025), capital allocations towards modernization and infrastructure development rose to INR 1.72 lakh crores, a growth of 9.4% from last year (see Figure 4)¹. Modernization initiatives would continue to be a key growth segment within the defence theme, driven by the need to improve defence preparedness, streamlining and rationalizing defence acquisition, and developing a defence industrial ecosystem necessary to meet any geopolitical contingencies and continue India's rise on the global stage².

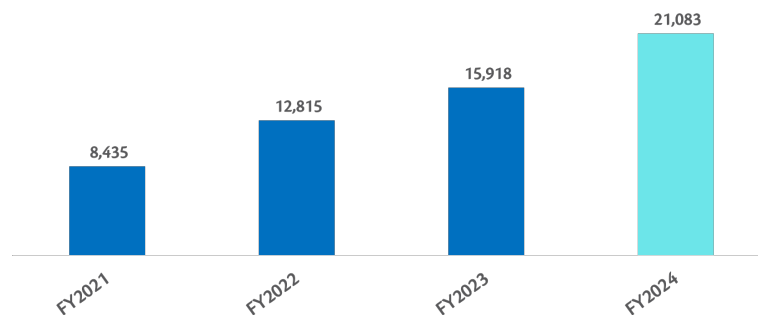


Figure 3: India Defence Exports (INR crores)

Source: <https://www.investindia.gov.in/sector/defence-manufacturing>

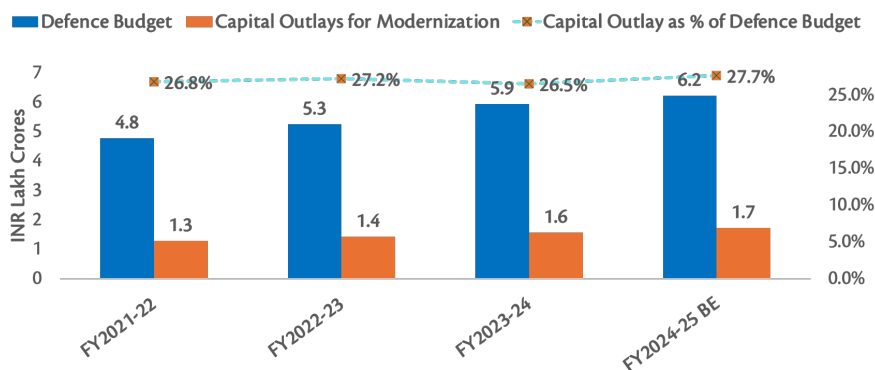


Figure 4: Total Defence Budget vs. Capital Outlays for Modernization

Source: <https://www.financialexpress.com/business/defence-unprecedented-defence-budget-increase-to-strengthen-indias-security-and-self-reliance-3562768/>

1. InvestIndia: <https://www.investindia.gov.in/sector/defence-manufacturing>

2. <https://www.stimson.org/2024/indias-military-modernization-efforts-under-prime-minister-modi/>

3. ET: <https://economictimes.indiatimes.com/news/defence/union-budget-defence-awaits-budget-ammo-roadmap-to-2030-as-india-guns-for-ambitious-export-target/articleshow/111884009.cms?from=mdr>

*For Illustrative Purposes Only

1.2 “Make in India” Continues to be a Priority

Order books of major defence manufacturers stay robust as government continues to prioritize *Aatmanirbhar Bharat*

While the defence theme has already witnessed double-digit annual growth since 2020, order books for major defence contractors continue to stay at healthy levels across different sub-segments, including aerospace, shipbuilding, missile & defence systems, earth moving equipment, and rare earth metals. **For most major defence contractors, order book-to-revenue ratios remain in a comfortable range of 3.0 or above (see Figure 5).** This is in line with the future demand created by both defence exports and defence modernization/upgradation.

Since 2020, both DAP (Defence Acquisition Procedure) and DPEPP (Draft Defence Production & Export Promotion Policy) have sought to

enhance India’s defence production capabilities, guided by the overarching principle of Aatmanirbhar Bharat, or Make in India. **The DPEPP has revised its target to an ambitious INR 3 lakh crores in defence production and INR 50,000 crores in aerospace & defence exports by 2025¹.** The policy has also pushed for increasing indigenization of defence products, driven by “Positive Indigenization Lists” – a list of military hardware that can only be procured by domestic manufacturers (and not imported). **In the past three years, over 12,300 items have already been indigenized, with a recent addition of 346 items in the 5th indigenization list².** We expect this cumulative indigenization to continue to give a boost to domestic defence manufacturing.

Company	Sector	Revenue (INR Cr.)	Order Book (INR Cr.)	Order Book-to-Revenue
Company 1	Aerospace	30,381	94,129	3.1
Company 2	Electronics	20,169	75,934	3.8
Company 3	Missiles/Torpedoes	2,369	19,434	8.2
Company 4	Earth Moving Equipment	4,054	11,872	2.9
Company 5	Rare Earth Metals	1,005	1,830	1.8
Company 6	Ships & Submarines	9,467	40,000	4.2
Company 7	Ships & Submarines	3,588	22,652	6.3
Company 8	Ships & Submarines	4,126	22,000	5.3

Figure 5: Revenue & Order Books of major Indian defence contractors (as of Mar 2024)

Source: Omniscience Research/Company Annual Reports

1. ET: <https://economictimes.indiatimes.com/news/defence/union-budget-defence-awaits-budget-ammo-roadmap-to-2030-as-india-guns-for-ambitious-export-target/articleshow/111884009.cms?from=mdr>

2. Economic Times: <https://economictimes.indiatimes.com/news/defence/defence-ministry-announces-fifth-positive-indigenisation-list-of-346-items-to-be-procured-domestically/articleshow/11177817.cms?from=mdr>

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1.3 Case Study: Leading Indian Aerospace Manufacturer

Analyzing one of India’s most valuable defence companies

Established since 1951, this company is currently one of India’s most valuable companies, with its growth and criticality to the country being recognized further by the government as it may see an **upgradation to a “Maharatna” category PSU by the end of the year (from the current “Navratna” status)**¹. This would accord further authority and autonomy to the company, along with a broader range of options for investing their capital. The past three years have seen a dramatic rise in the top-line and profits for the company, driven by the overall

increase in India’s defence and aerospace needs, as well as expanding exports. The company also generates revenue through the overhaul of various aircraft, helicopters and engines. From FY2021-FY2024, **revenues have grown at an annualized growth rate of 7.8%* to INR 28,594 crores, while PAT has grown at 32.9%* annually to INR 7,621 crores in FY2024 (see Figure 6)**².

The company has also into multiple Joint Venture (JV) agreements where the company owns 48-50% of the JV, across various aerospace functions (see Figure 7).

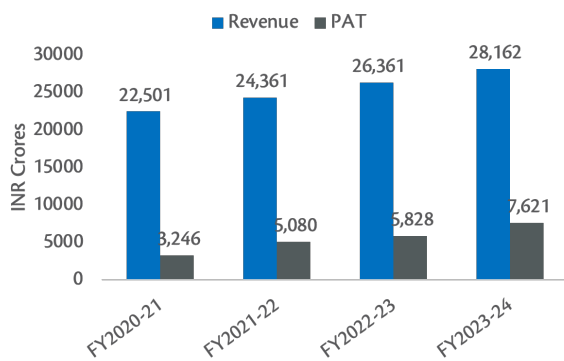


Figure 6: Leading Indian Aerospace Company: Revenues and PAT
Source: Omniscience Research

JV	Nature of business
1	Manufacturing of compressed rings, turbine blades
2	Produce engine parts/components
3	Hi-tech aerospace & defence products
4	Overhaul & repair of aircraft/engines
5	Design/development of display systems
6	Military/civil helicopter pilot training
7	Developing/leasing of software
8	Engineering services for aero engines

Figure 7: JVs with Foreign Partners
Source: Omniscience Research

This is an important case study that demonstrates the positive effect of policy frameworks like DPEPP and DAP on domestic defence manufacturers, both in terms of revenue expansion, and the push towards supplying defence equipment to ally nations. **As of FY2024, the company’s order book stands at a robust INR 94,129 crores**, roughly three times its revenue. The order book includes a healthy mix of domestic and export orders, including:

- Supply of ALH (Advanced Light Helicopters) to Indian Army and Indian Coast Guard
- RD-33 engines for Indian Air Force
- Dornier-228 aircraft for Indian Navy
- 2 Hindustan-228 aircraft for Guyana Defence Forces

The company has also placed high emphasis on domestic R&D and investments. The CAPEX in FY2024 stood

at INR 2,168 crores, with some key achievements including:

- The first LCA Tejas twin seater was handed over to the IAF
- The first production series of LCA Mk1A fighter completed its Maiden flight
- Developing critical structures, castings and forgings for Chandrayaan-3
- Undertaking design and development of Indian Multi Role Helicopter (IMRH)

The company’s achievements and production targets in FY2024 are in line with the recent capital acquisition **proposals made by the Defence Acquisition Council (DAC) to the tune of INR 2.23 lakh crores**, which includes procurement of Light Combat Helicopters and the LCA Mk1A aircraft from the company.

1. Moneycontrol: <https://www.moneycontrol.com/news/economy-2/cabinet-secretary-to-chair-apex-committee-meeting-on-maharatna-status-for-hal-12827624.html>
2. HAL Annual Reports: <https://hal-india.co.in/investor>

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2 India's Defence Ecosystem has Opportunities Across a Broad Spectrum

While the mainstream way of interpreting "defence" might be to only think of conventional aerospace & defence companies, **the defence ecosystem spreads far wider than just companies that fall under the strict definition of "defence" in mainstream media outlets (see Figure 8).**

Wars are not only won by the might of weaponry, cavalry, airpower or naval power. India's country's defence forces also **rely heavily on a massive supply chain of food, fuel and other critical supplies needed to maintain or strengthen the human & industrial infrastructure of their defence forces.** This means that domains such as food security, fuel/energy security, raw material security and logistics are also non-conventional but vital components of India's defence ecosystem and

should be treated as such when planning to invest in the Defence theme.

Defence as a theme has delivered SuperNormal returns to investors in the past 3-5 years, and this extraordinary exuberance has also led to certain defence companies becoming overvalued as of today. However, as discussed, defence as a theme is still very much growing, with an emphasis on domestic manufacturing, indigenization, and exports. For the Scientific Investor, the need of the hour is to **broaden the investment universe to include non-conventional proxy defence companies - and other forms of more subtle defence-related companies - so that undervalued companies can be found in this attractive growth vector.**

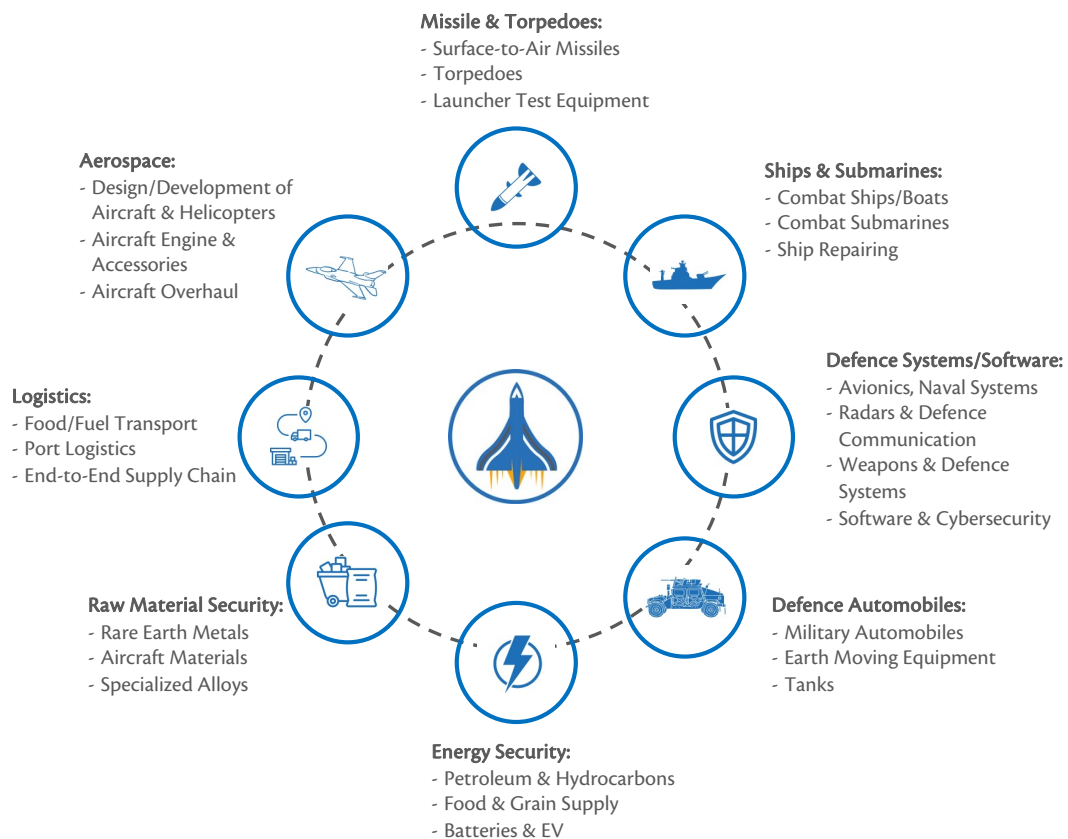


Figure 8: India's Defence Ecosystem
Source: Omniscience Research

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