



Defence Sector to boom under Atmanirbhar Bharat

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The Indian defence industry aims to achieve technical capabilities and economies of scale to reach a 25 billion revenue in military goods and services by 2025. The GOI has taken measures such as extending 100% of FDI to the defence sector. The government also relaxed its FDI regulations to allow investments up to 74% in the defence manufacturing sector under its automatic route.

India is focusing on **new, innovative technologies** that will change the scenario. The key areas are **energy weapons systems, hypersonic missile systems, space-based systems, stealth submarines and advanced aircraft, multipurpose missile systems, autonomous systems and missile defence systems.**

The key fundamental factor for "Atmanirbhar Bharat" in defence will be focusing on cutting-edge areas, developing the latest technology systems, and holding intellectual property to **produce the systems domestically and increase exports.** In the 2022-23 budget announcements, 25% of the defence research budget is allocated to academia, industries & start-ups.

Many countries are showing interest in LCA, radars, torpedoes, communication systems and missiles, and around 50 Indian private players are contributing to defence exports to several countries. India has entered into a **\$375 million deal to export the BrahMos supersonic cruise missiles to the Philippines.** By 2030 India will become the hub of innovative defence technologies and a leading defence exporter.

The CAPEX on imports for 2021 and 2022 was around Rs 40,000 Cr which is 35.3% of total procurement. The government has announced a policy that restricts 351 subsystems and components from being imported over some time for indigenisation. The budget 2022-23 emphasises industry participation in the development of defence systems. The indigenous defence industry received a big boost with the increase in the capital procurement budget from 58% to 68%.

Atmanirbhar Bharat focused on reducing imports and promoting self-reliance. In line with this strategy, **the Capital procurement budget has increased from 58% (2021-22) to 68% (2022-23).** The 10% increase in capital procurement outlay of around Rs 1,52,369 Cr is for purchasing new weapons, aircraft, warships & other military hardware. The ministry of defence has increased the allocation from Rs 478 lakh Cr in FY-22 to Rs 525 lakh Cr in FY-23. In addition, an allocation of Rs 2,33,000 Cr has been made for revenue expenditure that includes expenses on payment of salaries & maintenance of establishments.

Private sector participation plays a vital role in better execution with more indigenisation. The government is focusing on involving more private players, MSMEs and start-ups to improve overall efficiency in the manufacturing ecosystem of defence platforms. In the FY23 budget, the government allocated 25% of the domestic capital acquisition budget to the private sector to encourage them to participate in defence production. In addition, efforts by the private sector to develop cutting-edge military solutions have also been greatly boosted, with a 25% annual research & development budget reserved for projects led by start-ups and private companies.

The government also launched the Innovations for Defence Excellence (IDEX) initiative in April 2018. IDEX aims to achieve self-reliance and focus on innovation & technology development in defence and aerospace by involving industries including MSMEs, start-ups, individual innovators, R&D institutes & academia.

The government has already notified four positive indigenisation lists in major platforms (which account for 411 items) and three lists in subsystems/components (which account for 1238 items). Indigenisation of these items will increase private sector participation, which will eventually lead to an increase in the indigenisation level of major platforms & systems.

Rise of unmanned aerial vehicles (UAVs)

Unmanned aerial vehicles are expected to witness major growth in India. Many private players have already developed UAVs and drones for military & civil use. Since many of these UAVs & drones developed by private players and start-ups would not have very high operational range, these will be offered to armed forces for only supervising, surveillance and utility functions. Indian Army & Navy are also considered ready to have unmanned aerial vehicles for these functions.

IAF is looking for quicker induction of unmanned combat aerial vehicles for combat function in the coming years. Moreover, IAF envisions a right mix of manned and unmanned aircraft for combat roles. The fifth-generation manned combat aircraft (Tejas Mk2), 5.5th and sixth generation AMCA Mk1 are already under development. In unmanned combat aerial vehicles, DRDO has been working on MALE (Medium Altitude Long Endurance) UAVs - Rustom II (Tapas BH1) and Ghatak. Tapas BH1, which HAL, with indigenised Kaveri engine, will manufacture. HAL is in the process of making a CATS warrior, which is an unmanned aerial vehicle for combating. The high version of the Kaveri engine is also in the development process.

New missiles on a way of development.

In terms of missiles & torpedoes, surface-to-air missile variants like Akash, medium-range SAM, and quick reaction SAM are in the process of getting a final nod. In addition, the next variant of Astra air-to-air & indigenous anti-tank guided missiles, like Amogha and Nag, is also being made. BDL is the nominated agency for the manufacturing of these missiles.

Moreover, the new missiles like smart anti-airfield weapons (SAAW), man-portable anti-tank guided missiles, short-range air defence system (VSHORADS), Rudram air-to-surface anti-radiation missile, Nirbhay cruise missile, Pralay surface to surface short-range missile. These missiles are also in the development phase, and contracts for these are also expected in the coming years.

Emerging export opportunities.

Exports hold a huge opportunity for Indian defence companies amid the expected further rise in the indigenisation level of major platforms & systems. Most of the missiles manufactured already have high levels of indigenisation, which makes them good export contenders. Moreover, with the expected rise in other bigger platforms like aircraft, helicopters, and vessels, India's export potential in defence is high, and the target of the government of touching Rs 35000-40000 crore of defence exports in FY25E (from Rs 12000-13000 crore currently) is possible.

Big projects in warships/submarines are expected to come.

Indian Navy's plans of inducting new-generation destroyers (next phase of P-15B), new-generation frigates (next phase of P-17A), and next-generation corvettes, anti-submarine corvettes and other vessels were already in place. Still, now larger projects like the landing platform docks (with a displacement of about 30000-40000 tonnes), the third indigenous aircraft carrier (INS Vishal) with about 65000 tonnes displacement and the next submarine project (P-75I) are also on the cards with a longer-term perspective.

Huge opportunity for defence companies

HAL has a huge opportunity in manned and unmanned combat aerial vehicles, helicopters and aero engines. With the manufacturing of Kaveri engine variants for diverse UCAVs, development of other aircraft engines and maintenance, repair & overhaul (MRO) of these aircraft and engines, HAL has a multi-year growth story with significant growth potential.

BDL also has a major opportunity by requiring new-generation missiles from army forces. The current order book is strong at 3.8x TTM revenues with a healthy pipeline of orders in new missiles & torpedoes.

The Navy's big projects in the pipeline give longer-term visibility to defence shipyard companies like **Mazagon Dock, Cochin Shipyard and Garden Reach**. Moreover, the need for new aircraft for INS Vikrant, like a twin-engine deck-based fighter (TEDBF), to be manufactured by HAL. With these new high-tech aircraft & warships, players like **Bharat Electronics & Data Patterns** will also benefit significantly.

Make In India Defence Companies	Order Book (In Cr)	Trailing Revenue (In Cr)	Order Book/ Revenue (X)
Astra Microwave Products Ltd	1650	783.73	2
Bharat Dynamics Limited	13000	3383.61	4
Bharat Electronics Limited	55450	16860.12	3
Cochin Shipyard Limited	20000	3302.37	6
Garden Reach Shipbuilders & Engineers Limited	23583	2033.1	12
Hindustan Aeronautics Limited	54800	26626.65	3
Mazagaon Shipbuilders Limited	43500	6749.36	6
Mtar Technologies Limited	766	358.98	2
Total	242749	60097.93	4

Outlook: Indian defence industry is expected to achieve healthy revenue growth backed by government measures to extend 100% FDI in the defence sector. The fundamental factor of Atmanirbhar Bharat will help reduce imports and improve exports. In addition, the government's focus on involving more private players, MSMEs and start-ups for improving overall efficiency in the manufacturing ecosystem of defence platforms will play a key role in execution.

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