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Defence Sector Update

Operation Sindoor: An inflection point for Bharat's Omni Defence Strategy

Bharat's cumulative defence production likely to exceed $0.5 Trillion over next decade

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Operation Sindoor: An inflection point for Bharat's Omni Defence Strategy

Bharat's Defence Production from 2025-35 could be INR 50-64 Trillion

Operation Sindoor has triggered a renewed focus on defence, vigilance and strategic preparedness to attack enemies and safeguard not only our borders and citizens but also the critical resources, economic and trade infrastructure and the digital ecosystem.

Recent resource allocation for defence clearly shows the intent to boost preparedness. DAC approval for 54,000 Cr for military hardware purchase, centre's approval for acquisition of 26 Rafale Marine fighter jets at a cost of 63,000 Cr and 40,000 Cr DAC approval for procurement of arms and ammunition are some of the recent instances.

Operation Sindoor demonstrated the extremely advanced capabilities of the Indian Defence Forces to execute a highly structured, accurate, remotely-managed, and limited in space, time and scope, war with a precisely-defined objective. The very little use of armed forces personnel on the ground made it a "low cost" affair from human lives perspective. The Integrated Defence System which helped this is popularly called Akashteer, and could be called "Bharat Kavach" possibly.

Given the demonstration of advanced capabilities to not only attack but also defend, the Indian Armed Forces need to spend much more now to counter the potential competitive spending by neighbouring countries to match India's capabilities. Only a much higher spending from India's side would keep the advantage in future. ***This is why it is likely that future defence spends would be much higher than earlier declared plans of GoI and Indian Armed Forces post Operation Sindoor.***

Mid-Term Outlook on Defence Growth

The mid-term target for Domestic Defence production is set at INR 3 lac crores by 2029. In FY25 domestic defence production crossed INR 1.4 lac crores of which 78% was contributed by the Defence PSUs at around INR 1.1 lac crores. The listed DPSUs accounted for more than INR 90,000 crore of this, accounting for 66% of the total DPSUs share. With increasing participation of the private sector, share of DPSUs in the total defence production by 2029 may go down. However, even at 60% share, the total output is expected to double to INR 1.8 lac crore, indicating a growth at 18% CAGR over the next 4 years.

This growth outlook gets revalidated if one looks at the analyst estimates for the next couple of years. The total turnover of listed 8 DPSUs is expected to grow at 18% and 22% for FY26 and FY27 respectively. 9 Unlisted DPSUs combined are expected to report a total turnover in excess of INR 20k crore in FY26.

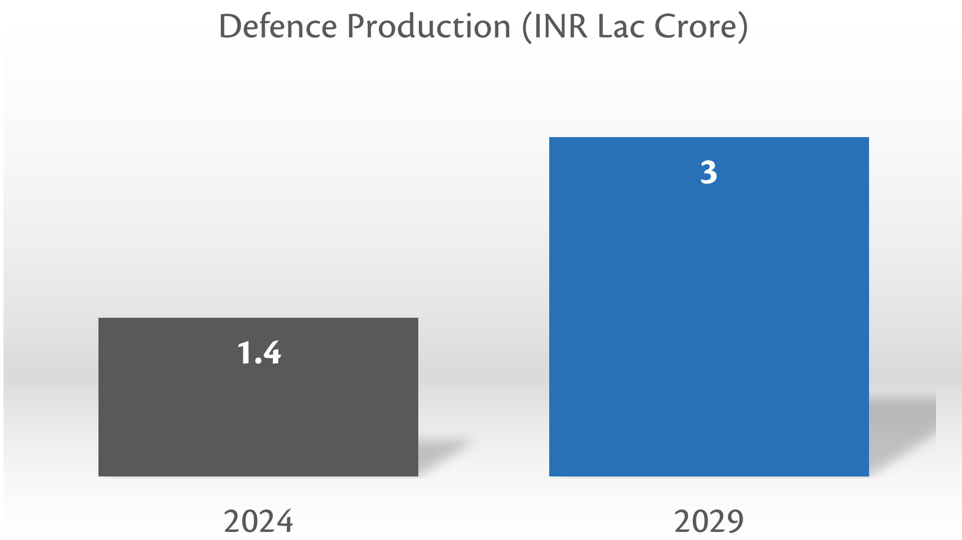

Chart 1: Growth of Domestic Defence Production from 2025-2029
Source: PIB - Ministry of defence releases dated 29 Mar 2025 and 26 May 2025

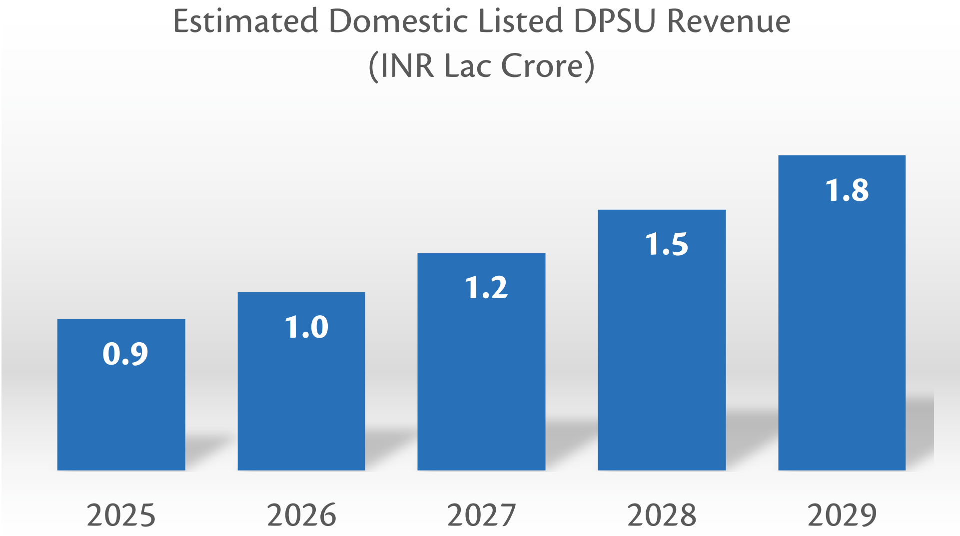

Chart 2: Domestic Listed DPSU From 2025 to 2029 based on analysts estimates and defence production target for 2029
Source: Omniscience research, company financials and analyst estimate from Trendlyne and Tikr.com

Global comparison of Defence Spending

While India may be one among the top 5 defence spenders in the world, it falls way behind the US and China. In fiscal 2024, US spent $874 bn on defence which is around 3.0% of GDP and if one includes $325 bn spent on Support for Veterans' and ~$100 bn on International Security and other assistance then the total allocation adds up to $1.3 trillion, 4.5% of the GDP. Similarly, for China, while the reported number is around $300bn, the non-budgetary allocation is significant and could be as high as $500-600 billion. This is around 3% of GDP.

Countries going through active war are observed to allocate significantly large budgets on defence. Russia and Israel, in 2024, spent 6.7% and 8.6%, respectively, of their GDPs as the two countries are at war. Ukraine, according to SIPRI, is spending an exorbitant 34% of its GDP on defence! (link).

While we are currently in a ceasefire, it is an ongoing war against the terrorist organizations, and a risky neighborhood for India and it cannot be less prepared to fight. Thus, it is possible that India gradually increases its Defence budget as a percentage of GDP from the current ~2% to 3% or even 4% over the next decade. This will be commensurate with its evolving nature as the 3rd largest economy and one of the globally influential countries of the world.

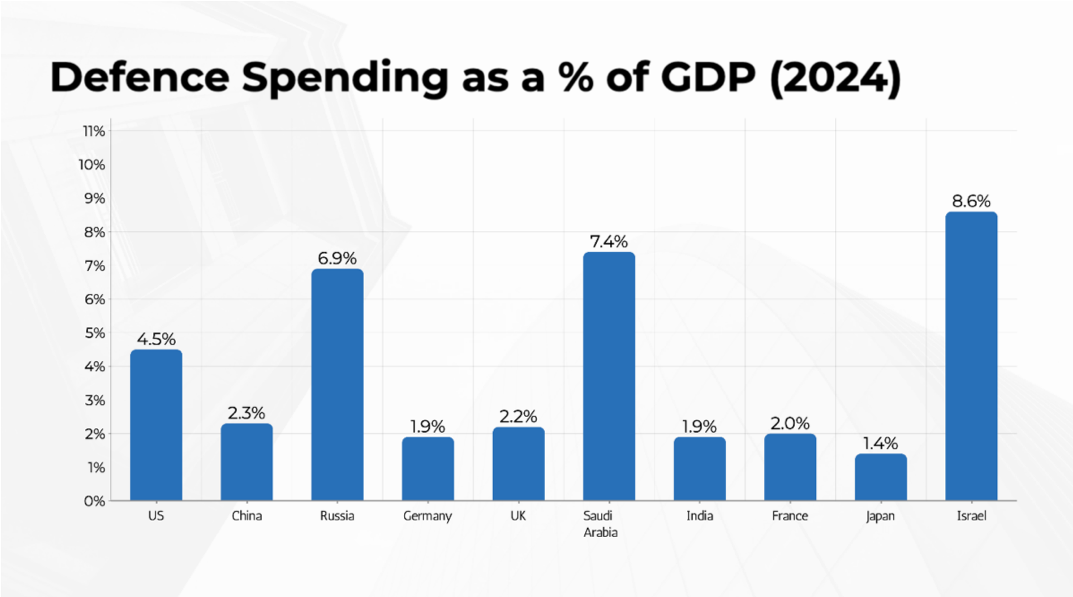

Chart 3: Defence to GDP for various countries.

Source: Omniscience Research, Statista (20 countries with largest GDP), India Budget document, SIPRI (link) & Usafacts.org (link)

Long-Term Outlook on Defence Growth

The evolving world order, risky neighborhood and a huge pent-up demand from the India Armed Forces due to decades of underspending on defence makes it inevitable that we need to ramp up our defence budget for the next decade and a strong fiscal position shall support us in doing exactly that. As India becomes the 3rd largest in 2027-28 and grows to be a $10 trillion economy in the next decade accounting for 7-8% of the Global GDP, it needs to protect its global trade lanes for uninterrupted shipment of its manufacturing goods and also needs to protect its global assets (strategic mineral resources, ports, trading hubs, Outward Direct Investments etc.) to support continued growth.

We expect the Defence budget to be increased to 3% to 4% of the GDP from the current ~2% level. With a $10 trillion GDP the defence budget is expected to grow to more than $300 bn USD or around INR 30 lac crores. This implies a 16-17% annualized growth till 2035. Since Defence Pension, which accounts for around 25% of the total defence budget, currently, and the largest part of the expense under the Salary head (currently around INR 2 lac crore) are expected to grow at a slower pace, the expected annualized growth of the capital budget and supplies would be even higher at potentially, 20%+ levels. The cumulative capex over next 10 years could range from INR 50 lac crore (at 2.4% in 2035) to INR 64 lac crore (at 3% in 2035).

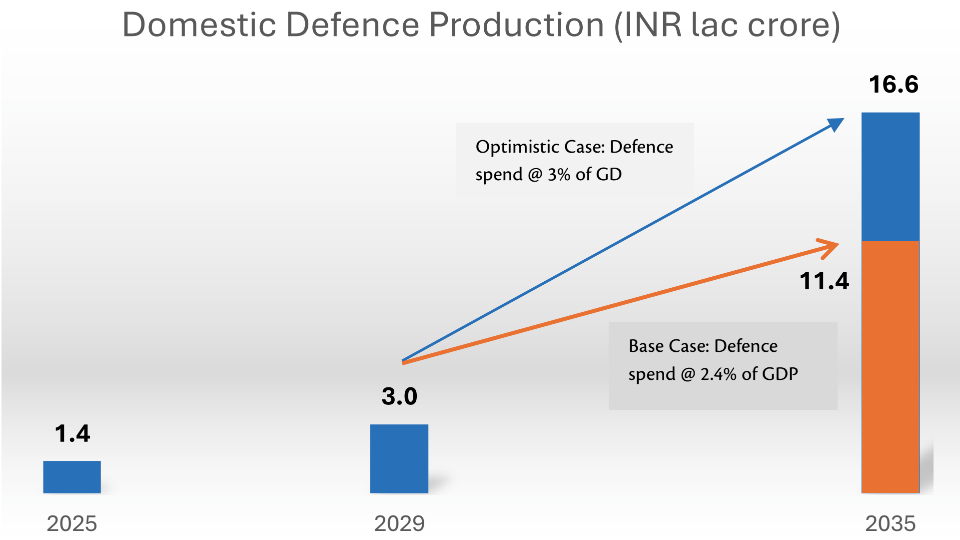

Chart 4: Domestic defence production: Current to 2029 to 2035 | Source: Omniscience research

It is also likely that the INR 3 lac crores domestic defence production target for 2029 announced earlier might be revised upward significantly and be exceeded.

Defence Exports – Key driver of long-term growth

Another long-term growth vector for Indian defence is the export potential. It has an export target of INR 50,000 crore by 2029. Operation Sindoor has underscored the country's emergence as a technologically, sophisticated, battle-proven and reliable global defence partner. By harnessing innovation, forging strategic partnerships, and enhancing indigenous capabilities, India is poised to play a crucial role in the future of global defence manufacturing and security. Given the circumstances, it is likely that this target is conservative and will be surpassed.

FDI driven joint ventures with Russia, US and other defence manufacturers for domestic needs and exports also are likely to be strong drivers of long-term growth of Indian Defence Production.

Evolving Omni Defence Geo-Strategic Ecosystem

"Every neighbouring state is an enemy and the enemy's enemy is a friend."
— Kautilya, The Arthashastra

In the current global strategic paradigm, Defence is no longer only about wars; it is played across a much vaster geo-strategic arena across multiple dimensions. These dimensions include, economy, trade, finance, control of merchandize lanes, control of strategic resources globally, armed presence in strategic global locations, Outward Direct Investment in critical entities globally, control of strategic technologies, and several other dimensions, most important, a global diplomacy backed by intellectual, human, financial and military strength. And the most important, from ancient times to modern times, is supply chain and logistics systems and infrastructure.

"The line between disorder and order lies in logistics..." - Sun Tzu

In addition, as demonstrated in Operation Sindoor, in the modern warfare of the 21st century, integrated software-controlled weapons systems across land, water, air, and cyber space, are going to play a very important role.

Defence currently involves areas such as Cybersecurity, Space security, AI and Defence software and solutions. The modern warfare demands rapid development on defence technologies to develop systems such as combat robots and Aerial and Underwater Drones.

Economic and Financial Security and protection of Trade lanes and global Strategic Resources are also key to overall defence. Logistics, resource mobilization of human resource, equipment and supplies strengthens preparedness. It is further critical to build preparedness to counter extreme attacks such as Chemical attacks, Bio attacks or Nuclear attacks.

The above wholistic, multi-dimensional, geo-strategic modern defence paradigm is termed as **Omni Defence Geo-Strategic Ecosystem.**

Chart 5: Omni Defence Geo-Strategic Ecosystem

Caution for Investors from Valuation Standpoint

The growth potential of the defence sector is unmistakably robust, the TAM (total addressable market) is large, and the growth rates are likely to remain high for decades. ***However, the investors need to pay attention to the valuations.*** The median trailing price to earnings (P/E) multiple of the 8 listed DPSUs is 57. The forward median P/E for FY26 and FY27 is at 45 and 36 indicating that the high growth potential is significantly priced in. *For some of the private sector names the multiples are even higher and hence, investors are advised to be extremely cautious while allocating capital to specific names at current levels.*

TICKER	PE (TTM)	PE (FWD26)	PE (FWD27)
HAL	40.2	38.8	32.7
BEL	53.3	48.1	41.8
BEML	61.6	43.0	29.8
BDL	127.9	72.6	52.4
GRSE	62.8	40.1	28.9
MAZDOCK	52.6	48.4	40.2
MIDHANI	50.2	39.3	29.8
COCHINSHIP	60.1	57.6	47.4
MEDIAN	**57**	**46**	**36**

Chart 6: PE (TTM), FY 26, FY 27. Based on analyst earnings estimates.
Source: Trendlyne and Tikr.com

It is advisable for investors to be aware of the great potential this growth vector has economically, but at the same time to allocate capital only in a manner which is conservative; meaning, *buy a portfolio which is at a discount to its intrinsic values*. ***If you don't find that, don't invest.*** Check the PE ratio of any defence stock or portfolio, whether an index fund or an active portfolio before investing.

Remember, as Warren Buffett's guru Benjamin Graham said:

The intelligent investor is a realist who sells to optimists and buys from pessimists.

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