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Indian Defence Sector

Recent fund-raise by private players to provide them with the requisite growth capital to raise their share in total production to an estimated 22%-23% in FY2026

April 2025

Highlights

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ICRA expects the share of private sector entities in the Indian Defence production to improve to 22%-23% over FY2025 and FY2026, from 21% (for FY2024) on the back of various policy measures and increased budget allocation for capital expenditure by the Government of India.

- India was the fourth largest military spender in the world in 2023, after USA, Russia and China. The Government of India (GoI), in the Union Budget for FY2026, continued the increasing trend in allocation to capital outlay with a YoY rise of 12.8% in FY2026 Budget Estimates (BE) to Rs. 1.92 lakh crore, resulting in a CAGR of 7.6% during FY2019-FY2026(BE). This, coupled with the Government's aim to reduce import dependence, would open up various opportunities and benefit domestic companies.

- Policy initiatives in the Defence sector, with Atmanirbhar Bharat at its core, have reduced procurement from foreign vendors (to 25% in FY2024 Revised Estimates (RE) from 68% in FY2013). This has enhanced domestic manufacturing and design capabilities, encouraged investments and enabled the sector to grow tremendously in the past few years, thus boosting the long-term prospects of the Indian Defence manufacturing sector.

- Defence sector entities have elongated gross operating cycles due to high inventory holding and receivable periods. Most companies remain debt-free, leading to minimal gearing, though leverage indicators (TOL/TNW) are elevated in certain segments (e.g. Naval) due to their reliance on customer advances. ICRA's analysis highlighted a contrasting difference in working capital cycle of Defence PSUs (DPSUs) and private players. Nonetheless, ICRA's study highlighted that several private players have raised capital though the QIP route in last 2-3 years, which provided them long-term growth capital and helped fund their working capital requirements. The ability to raise long-term capital to sustain growth momentum and for efficient working capital management will be crucial for private players.

- Buoyed by the increased budgetary allocation, coupled with the Government's aim to reduce dependance on imports and its production target of Rs. 1.75 lakh crore by FY2025, ICRA estimates opportunities worth Rs 3.00 lakh crore for the Indian domestic entities over FY2025 and FY2026, 22%-23% of which are expected to be accounted for by private sector entities.

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Thank You!