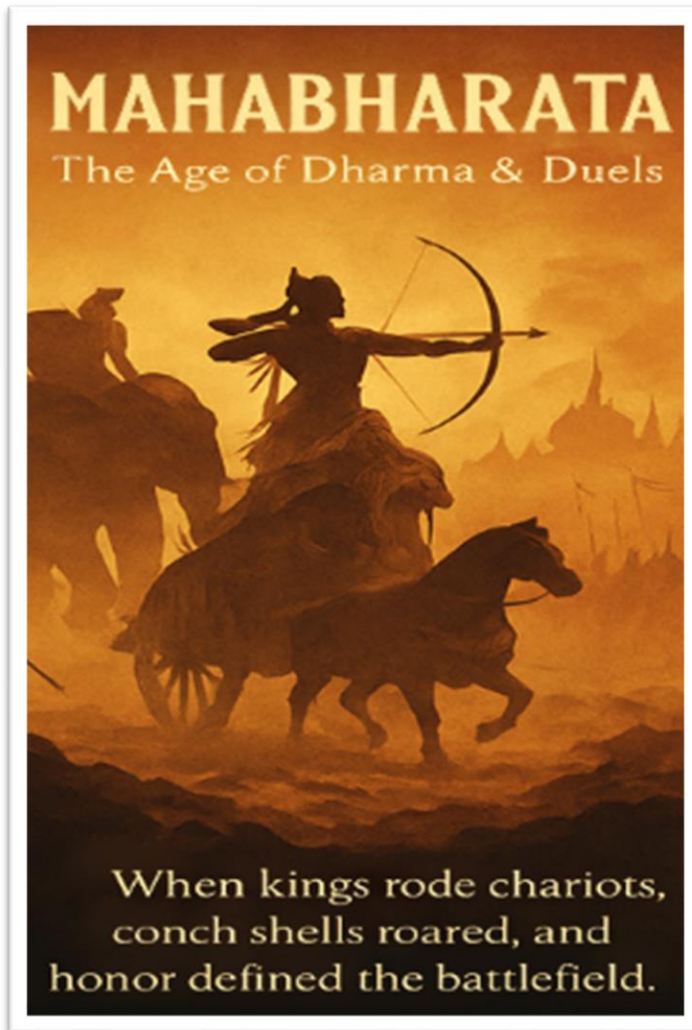




Indian Defense Sector



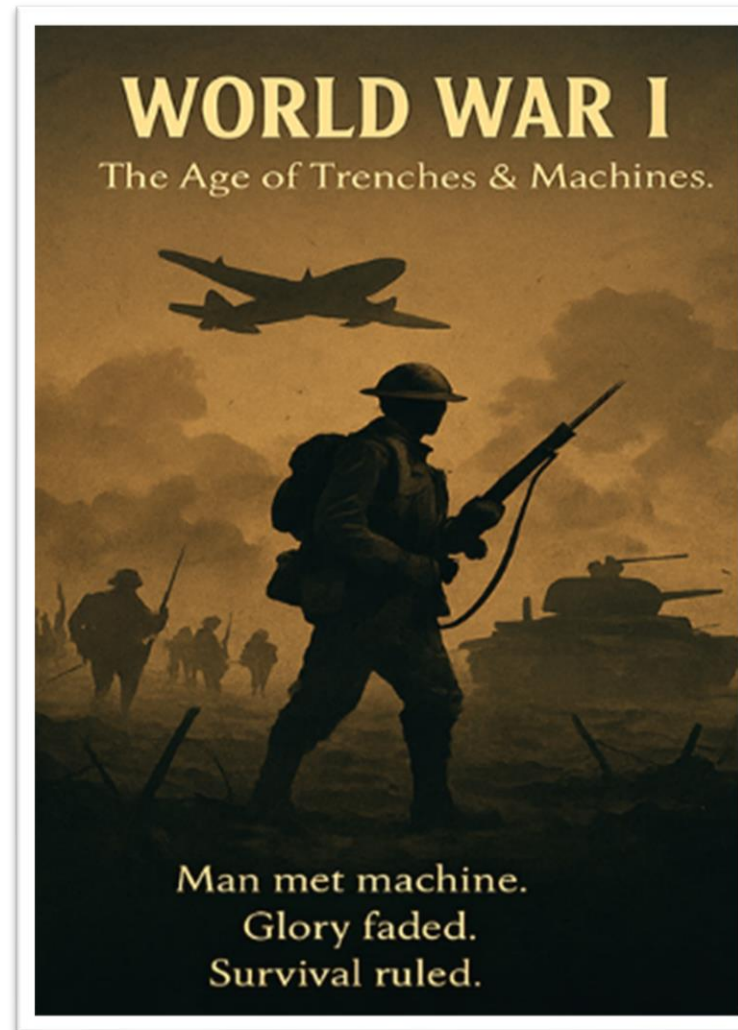
Changes In Warfare Over The Years



MAHABHARATA
The Age of Dharma & Duels

When kings rode chariots,
conch shells roared, and
honor defined the battlefield.

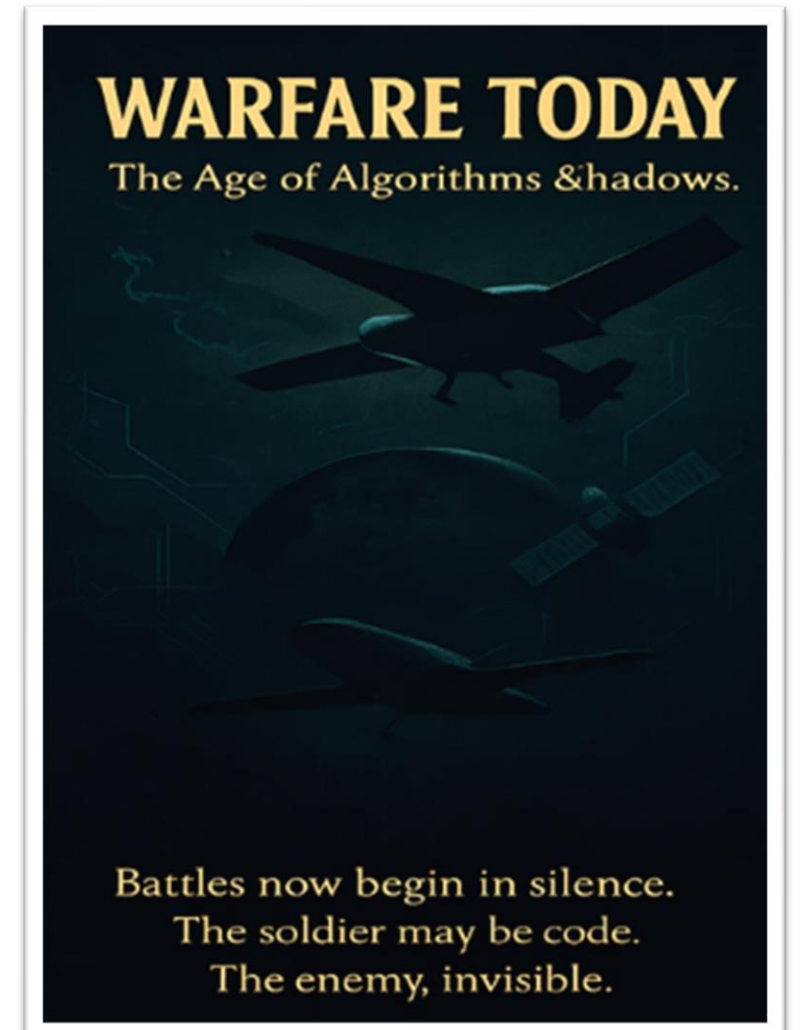
The illustration depicts a warrior on a horse, silhouetted against a bright orange sunset. He is holding a bow and arrow, ready for battle. In the background, other warriors on horseback and a chariot are visible, along with the faint outlines of a city or palace.



WORLD WAR I
The Age of Trenches & Machines.

Man met machine.
Glory faded.
Survival ruled.

The illustration shows a soldier in silhouette, wearing a helmet and carrying a rifle, standing in a trench. In the background, a biplane flies in the sky, and a tank is visible on the right. Other soldiers are seen in the distance, and the overall scene is set against a hazy, war-torn landscape.

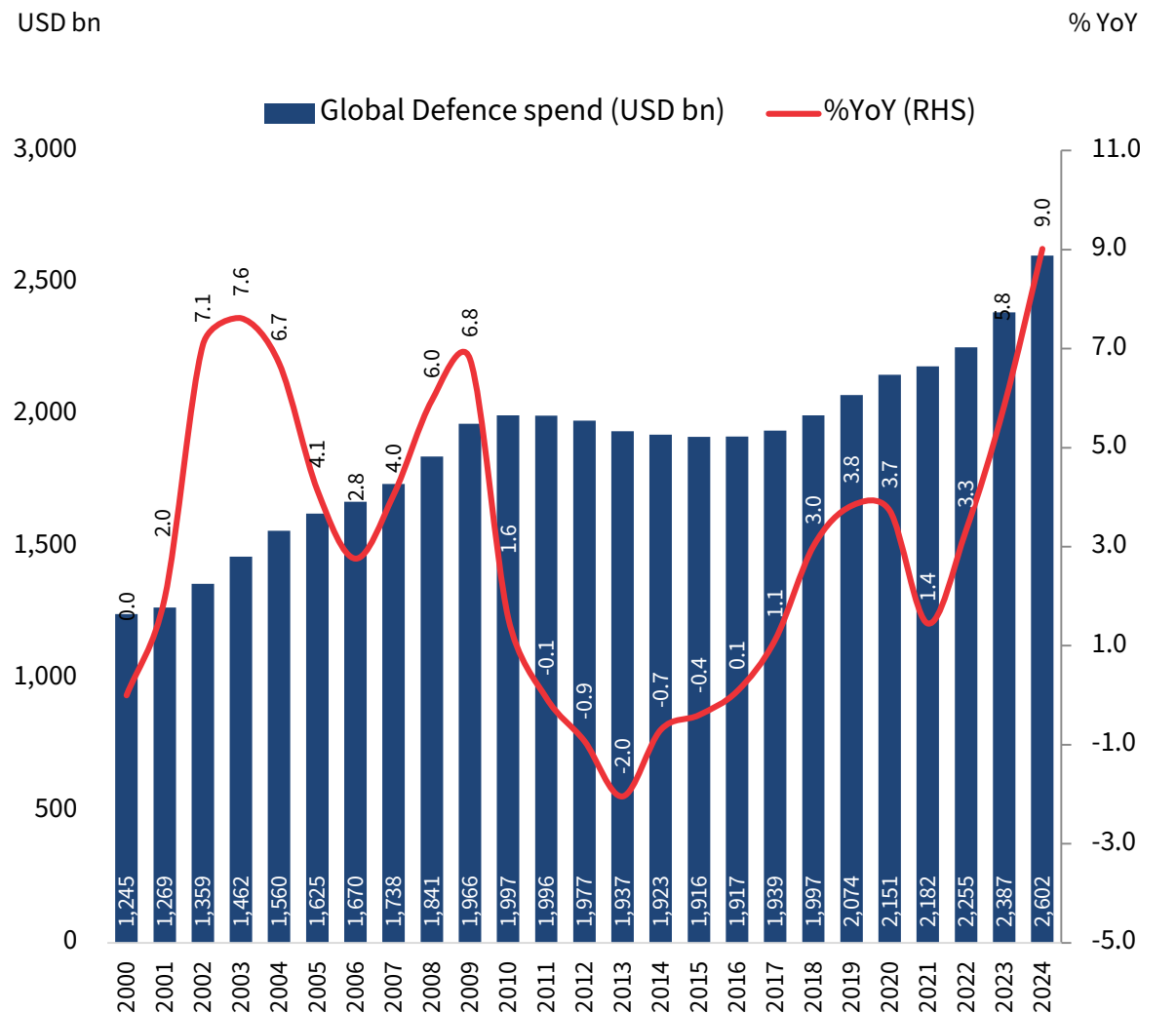


WARFARE TODAY
The Age of Algorithms & Shadows.

Battles now begin in silence.
The soldier may be code.
The enemy, invisible.

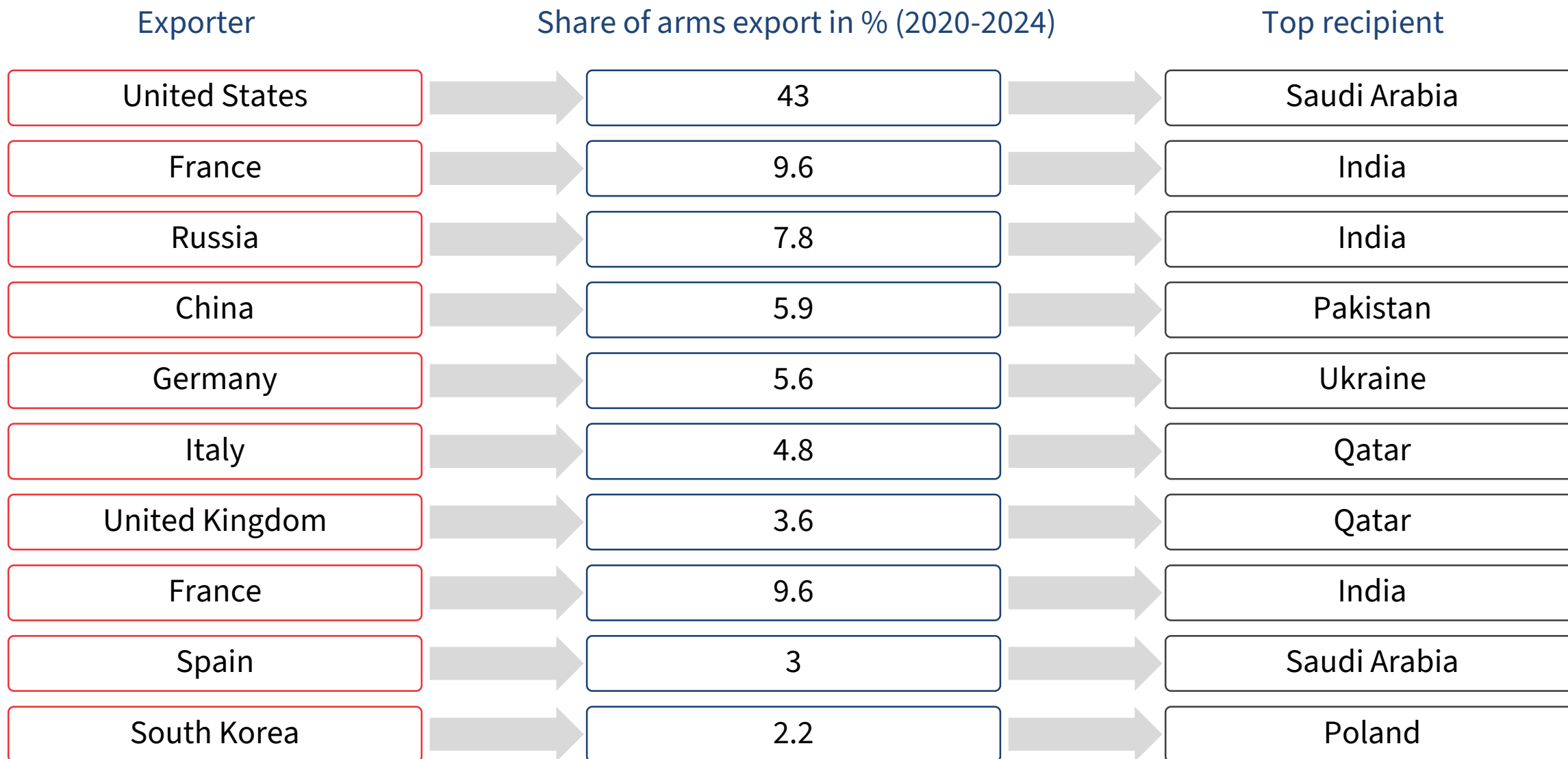
The illustration features a dark, futuristic scene. A biplane is shown in silhouette against a dark blue background. Below it, a satellite is visible in orbit. The overall atmosphere is one of high-tech, covert warfare.

Defence Spending Is Increasing Globally Prompted By Rising Conflicts

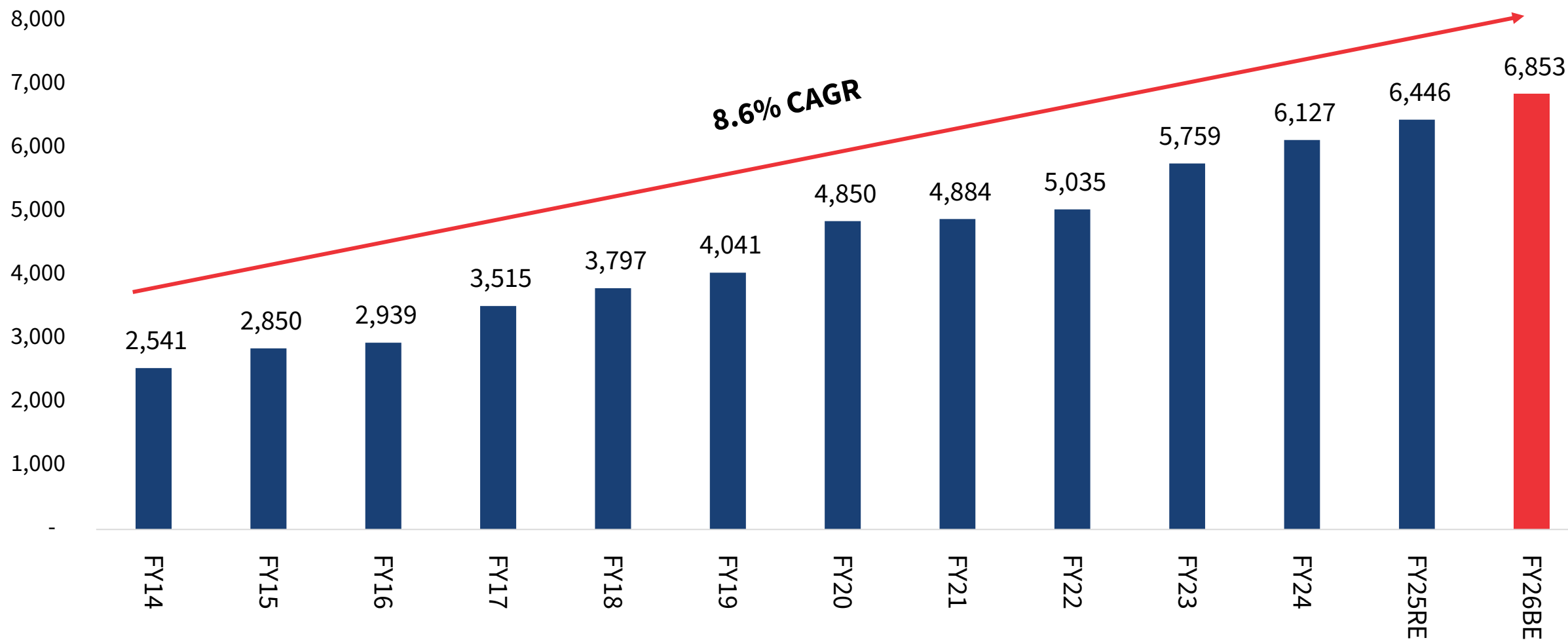


Country	Defence Spending (USD mn)				CAGR (%)		
	1994	2004	2014	2024	1994-2004	2004-2014	2014-2024
USA	308	493	648	997	4.8%	2.8%	4.4%
China	10	38	182	314	14.4%	17.0%	5.6%
Russia	14	21	85	149	4.5%	15.0%	5.8%
S. Arabia	14	21	81	80	3.9%	14.5%	-0.1%
France	37	45	53	65	1.8%	1.8%	2.0%
Japan	45	45	47	55	0.0%	0.3%	1.7%
UK	39	60	67	82	4.6%	1.1%	2.0%
India	9	20	51	86	8.6%	9.7%	5.4%
Israel	8	9	18	47	1.0%	7.5%	10.1%
Pakistan	3	4	9	10	2.2%	7.7%	1.6%

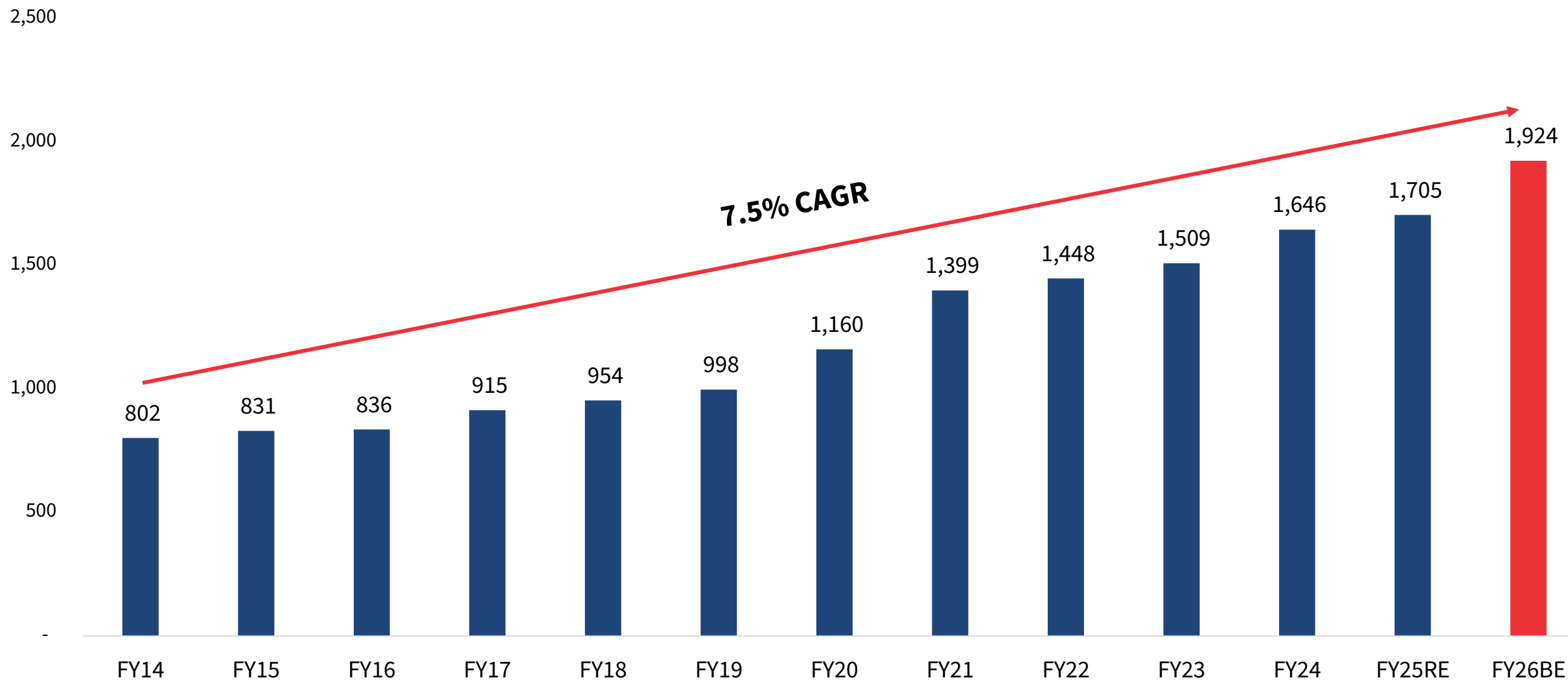
Developed Countries Are Primary Suppliers Of Military Equipment



India's Total Defence Expenditure Has Grown At A CAGR Of 8.6%

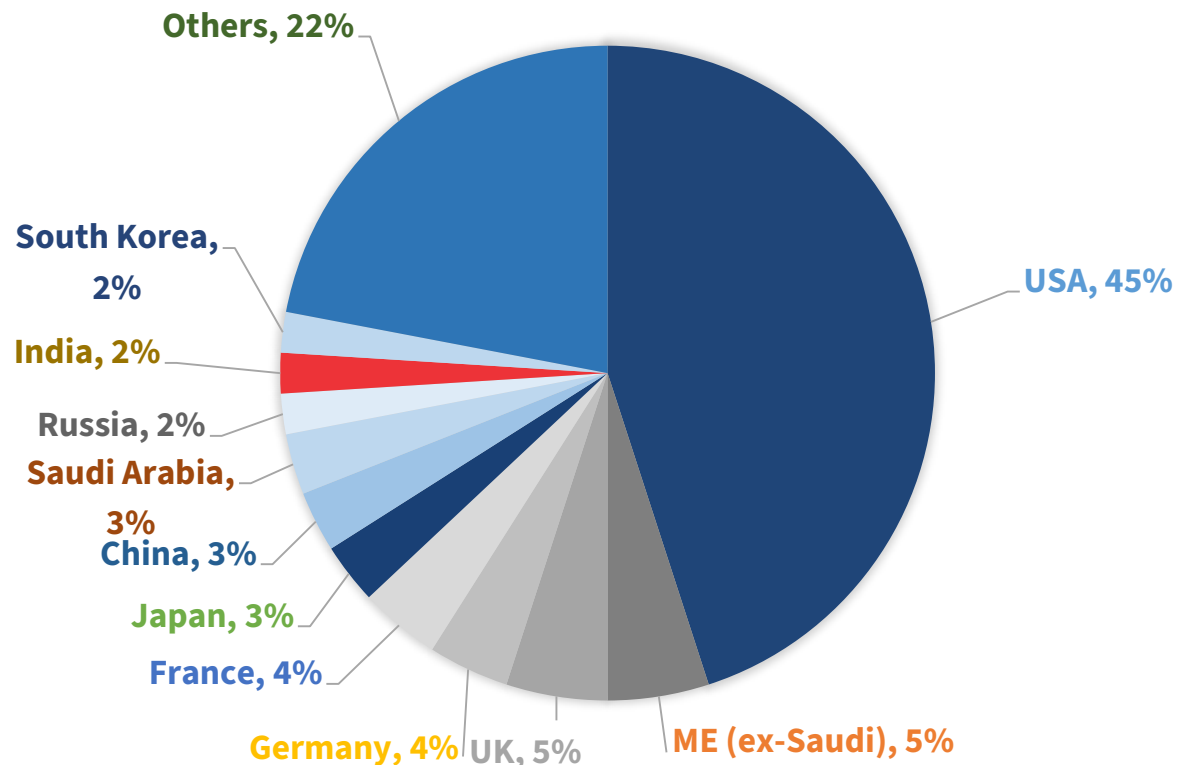


Defence Capital Expenditure To See Steady Growth

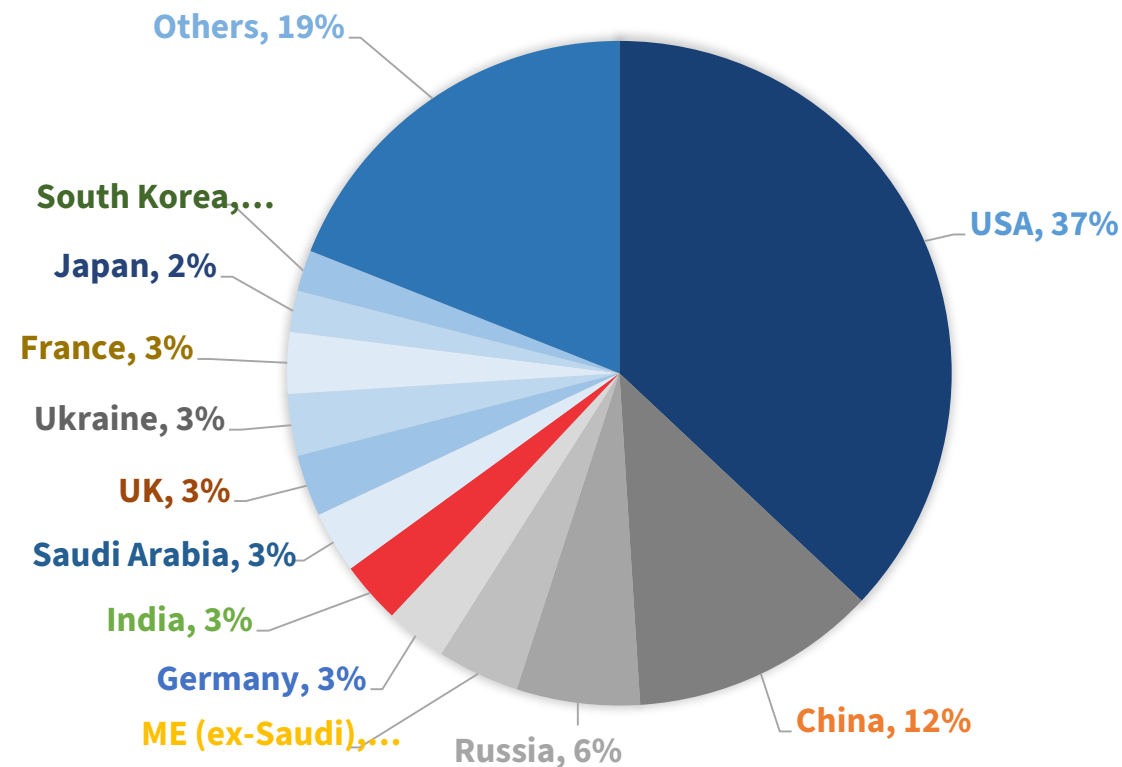


India Went From 9th Largest Defence Spender In 2000 To 5th Largest In 2024

2000 (%)

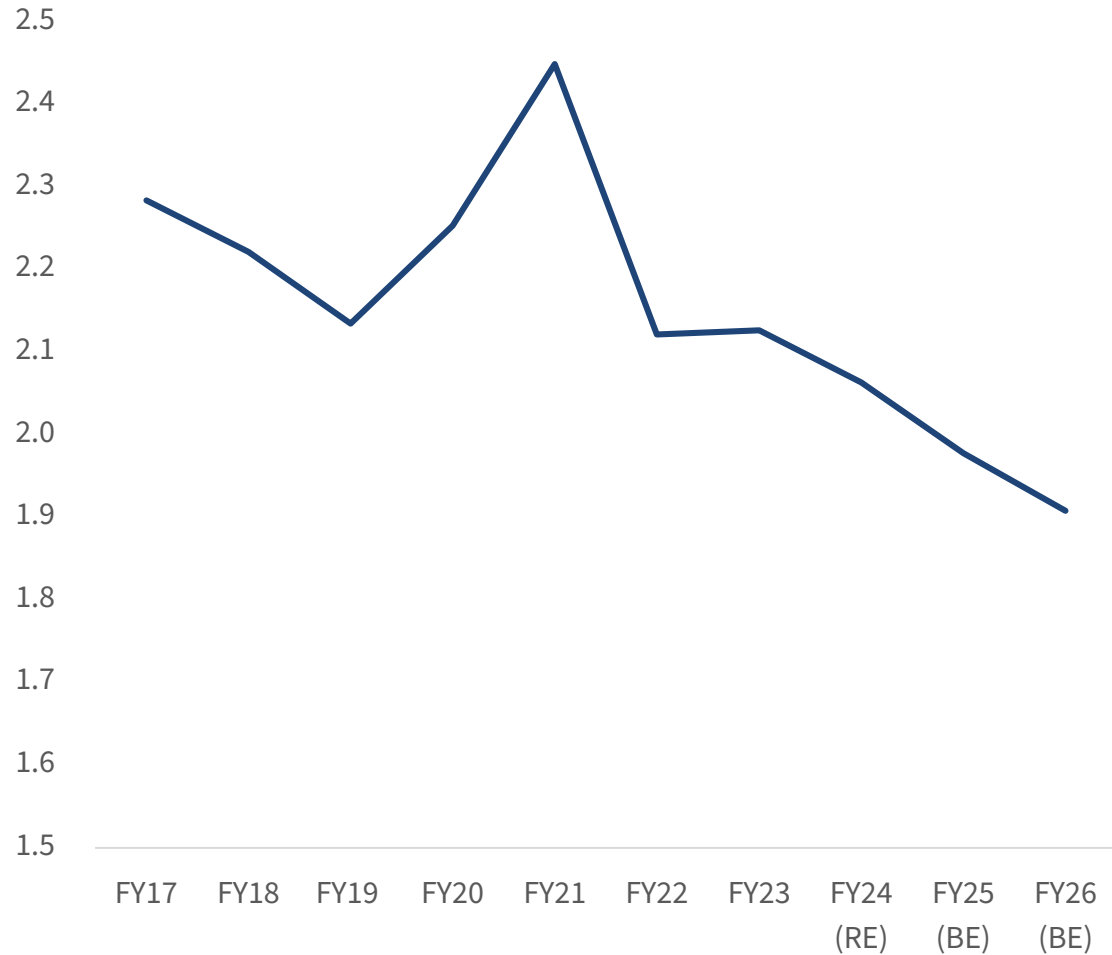


2024 (%)

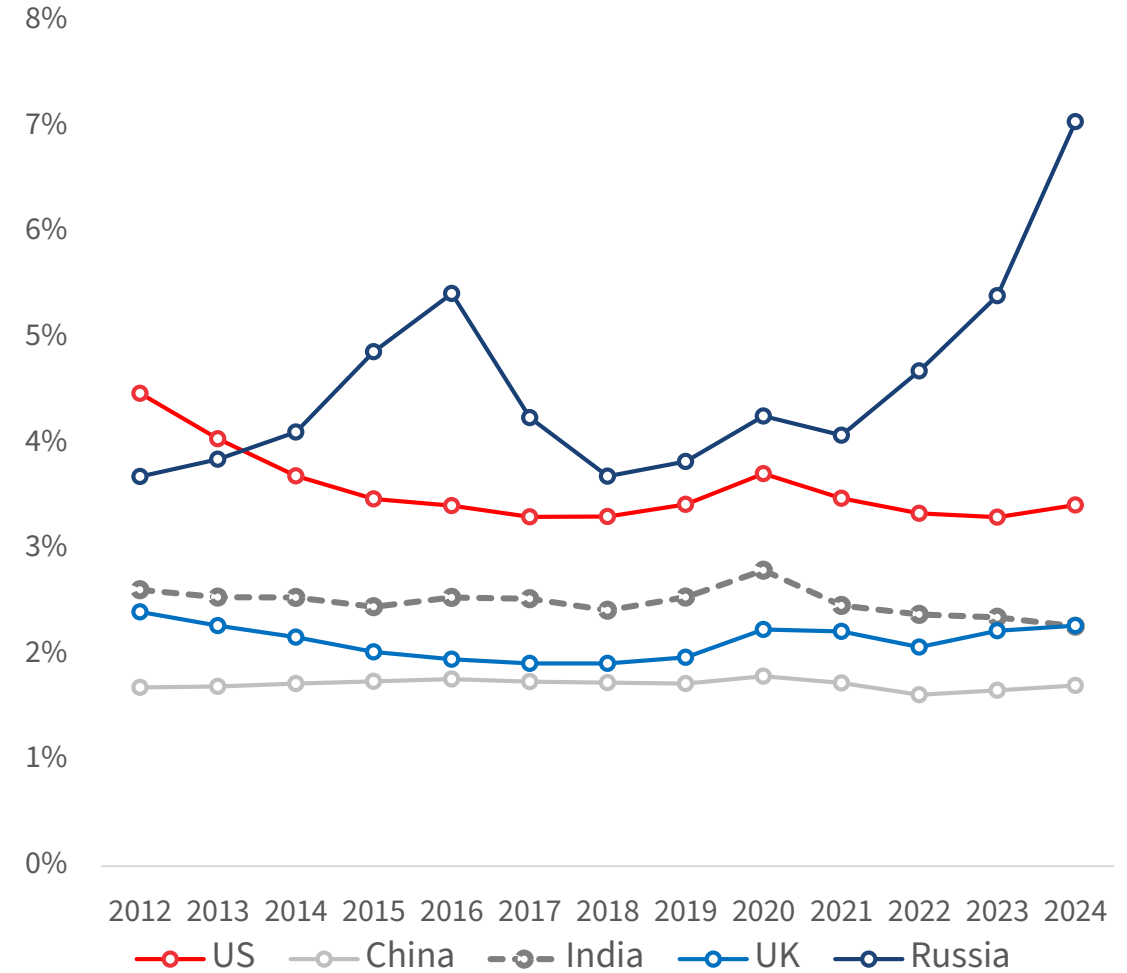


However, Defence Budget As % Of GDP Has Declined Resulting In The Need For Accelerating Spend

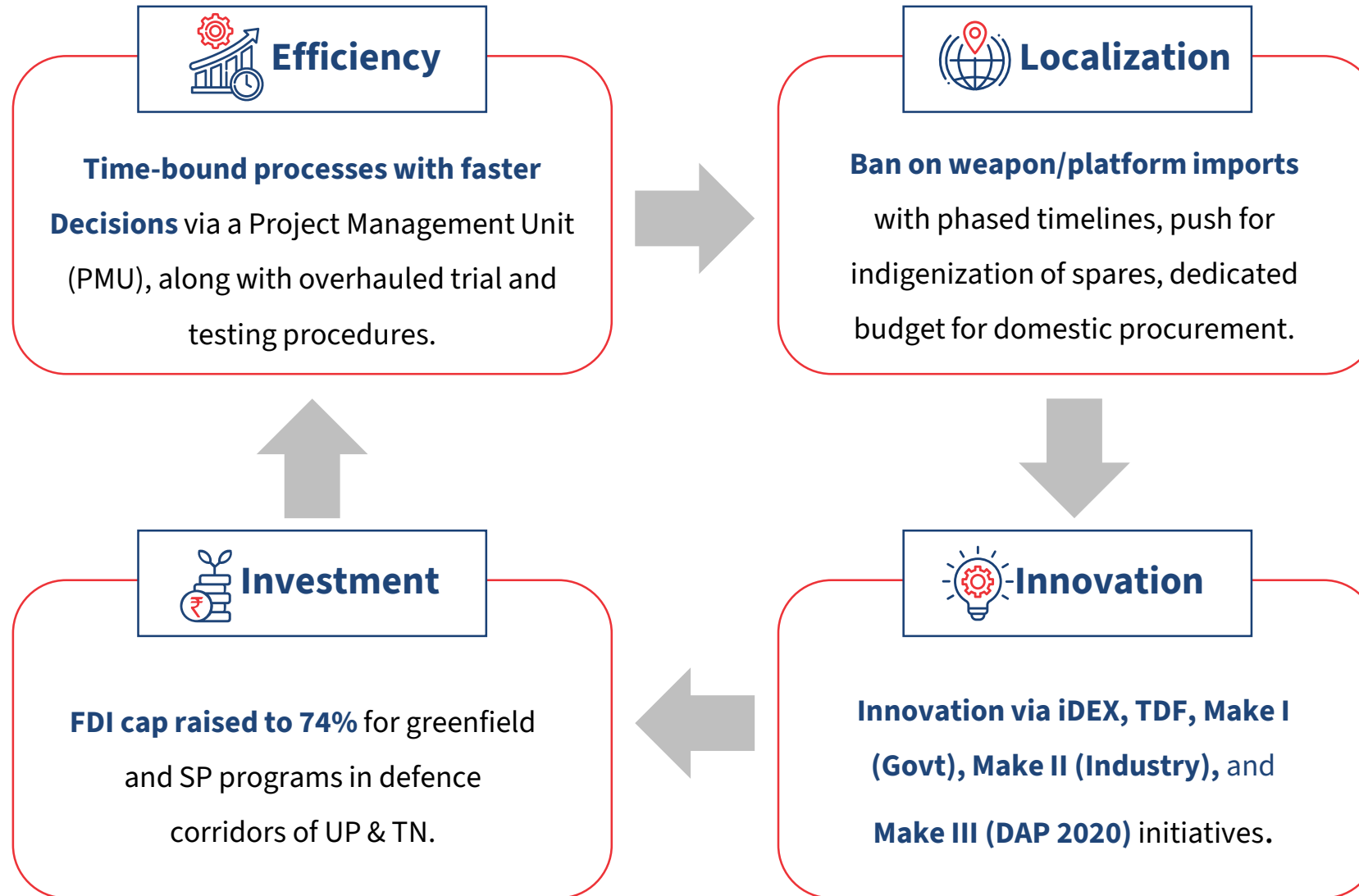
India Defence Budget (% of GDP)



India Defence Budget is low (% of GDP)



Strategy For Improvement In Defense Procurement



Defence Sector Measures Under Aatmanirbhar Bharat Initiative

Negative import list



Banned import of 209 defence related equipment/components

Positive indigenization list



Four lists containing over 2,000 items to be indigenized within specific timelines.

Budget allocation



Outlay of Rs 1.12tn has been earmarked for domestic procurement in FY26

Corporatization of Ordnance Factory Board (OFBs)



41 ordnance factories reorganized to 7 companies to increase efficiency

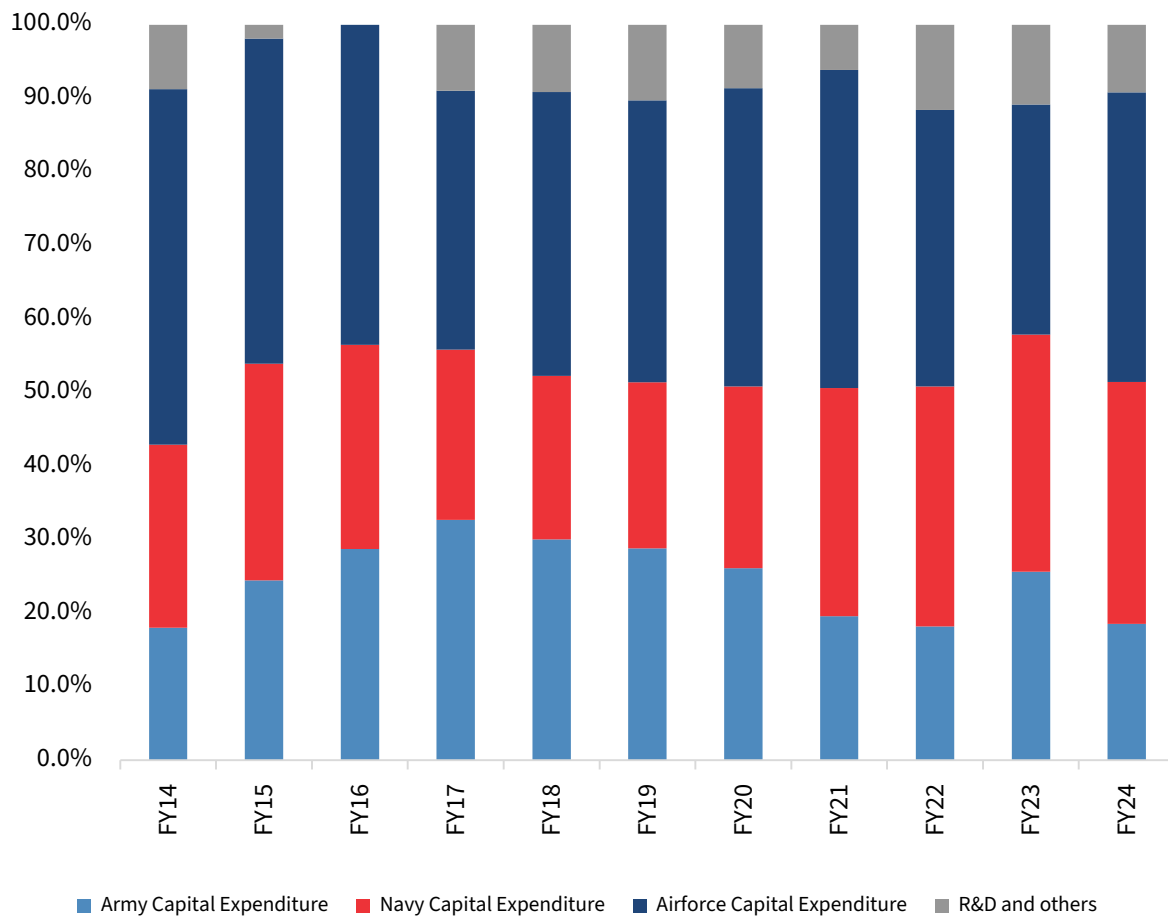
Foreign Direct Investment (FDI)



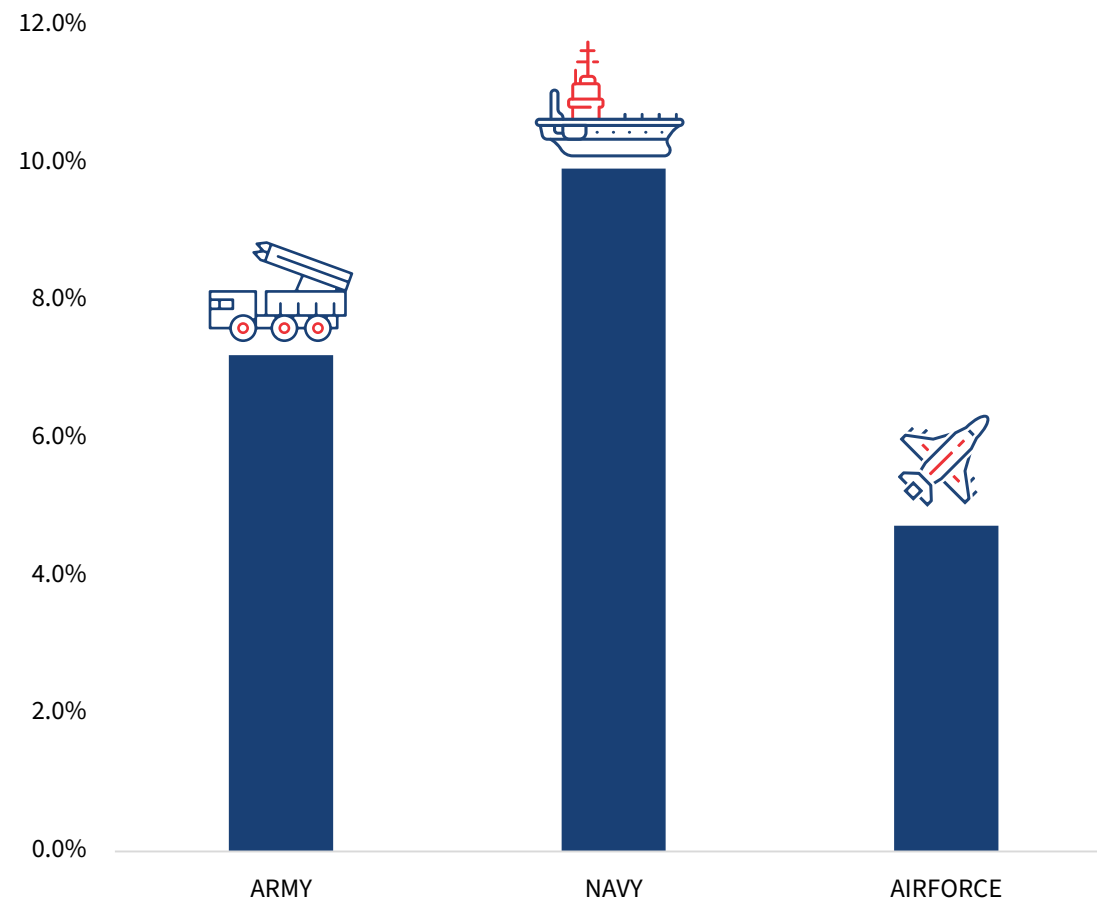
FDI limit under the automatic route has been increased to 74% from 49% to encourage global companies to bring technology

Navy & Airforce Get Higher Allocation Of Capital Expenditure

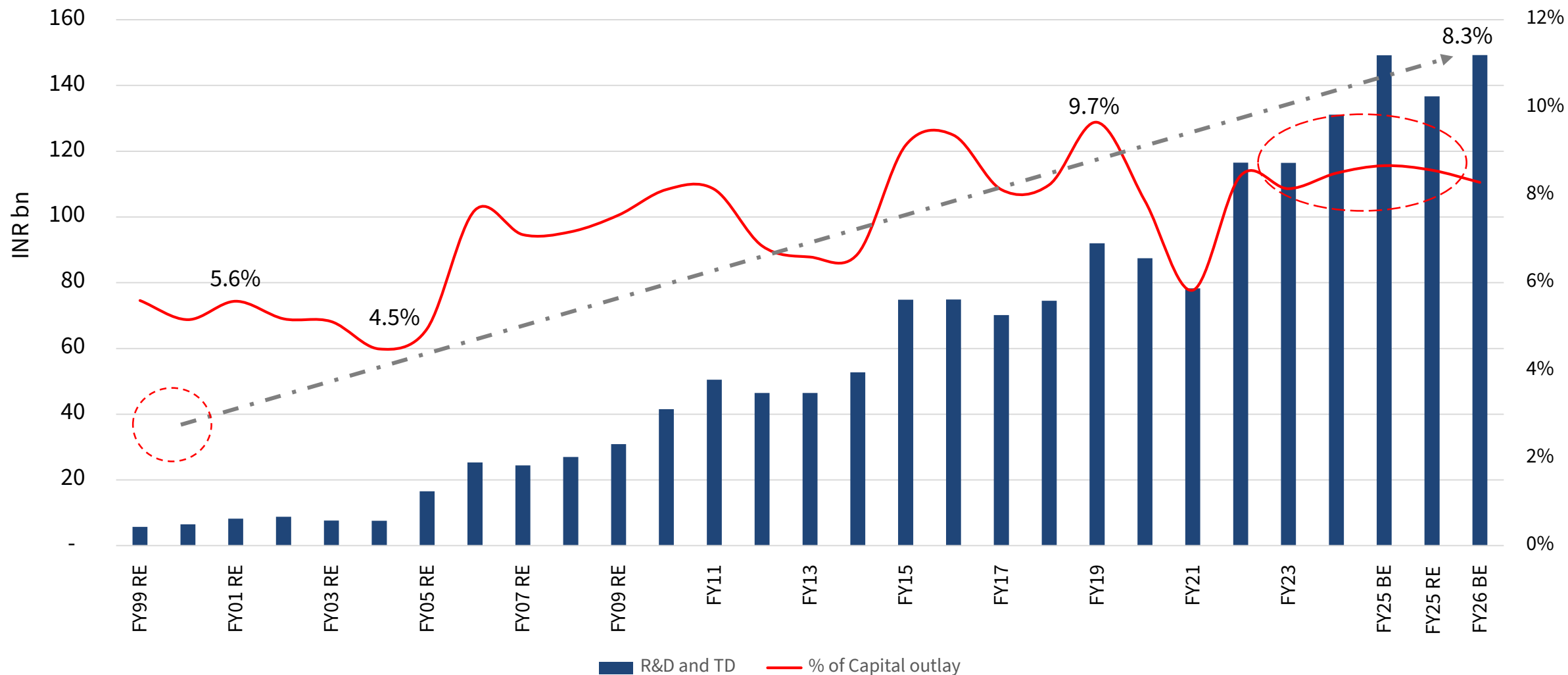
Allocation for Army, Navy, Air force and R&D



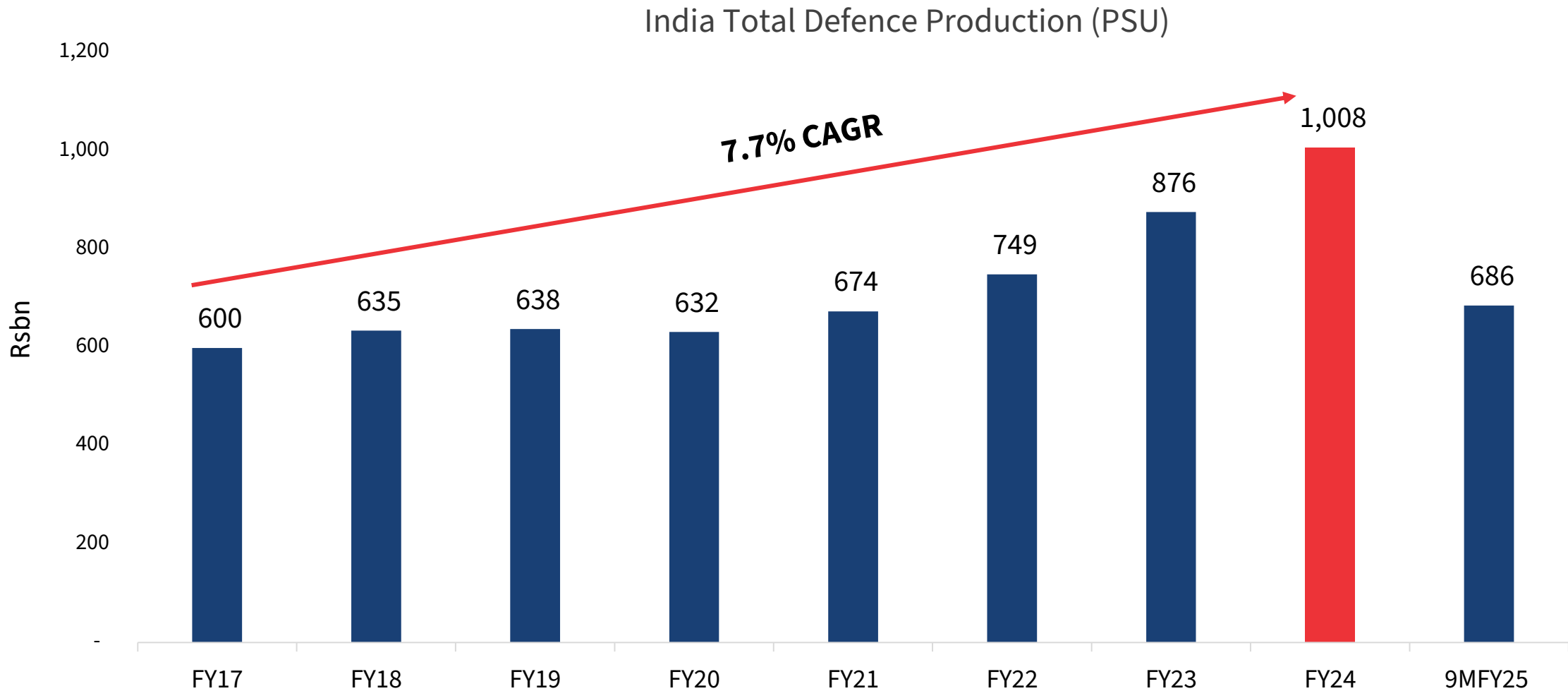
10 Yr CAGR growth for Army, Airforce and Navy



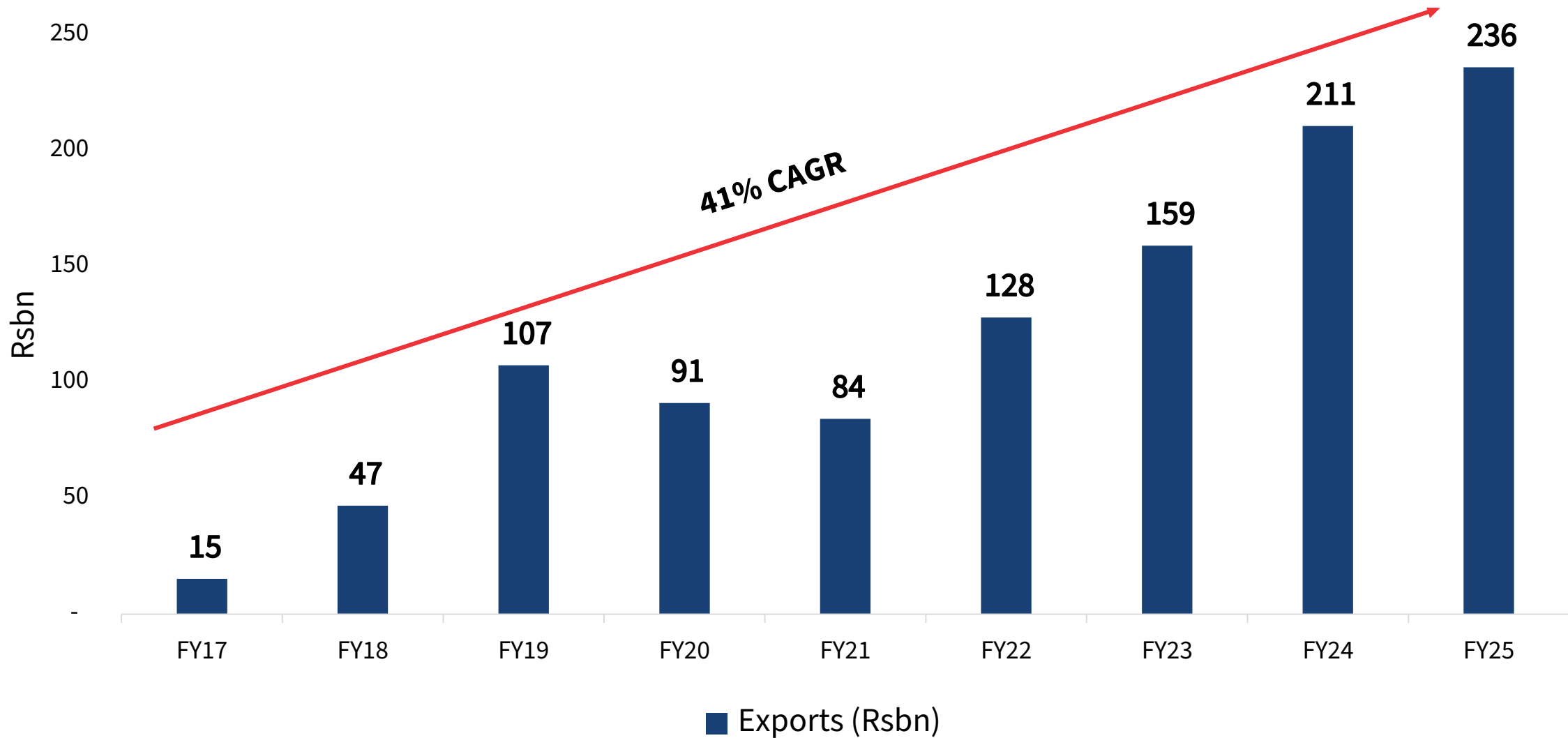
Defence R&D Expenditure Has Increased Over Time To ~8.3% In FY26BE



Leading To Higher Indigenization

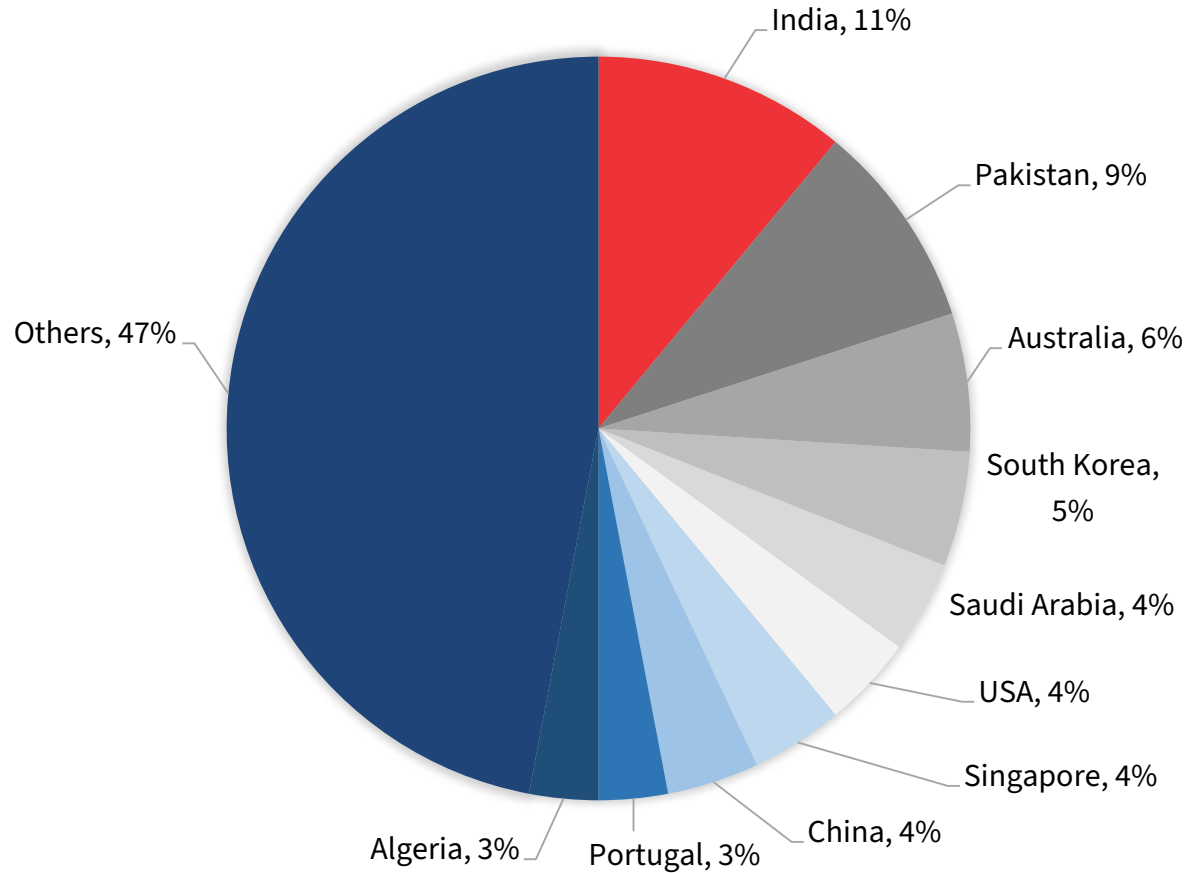


Focus On Indigenization Also Driving Exports

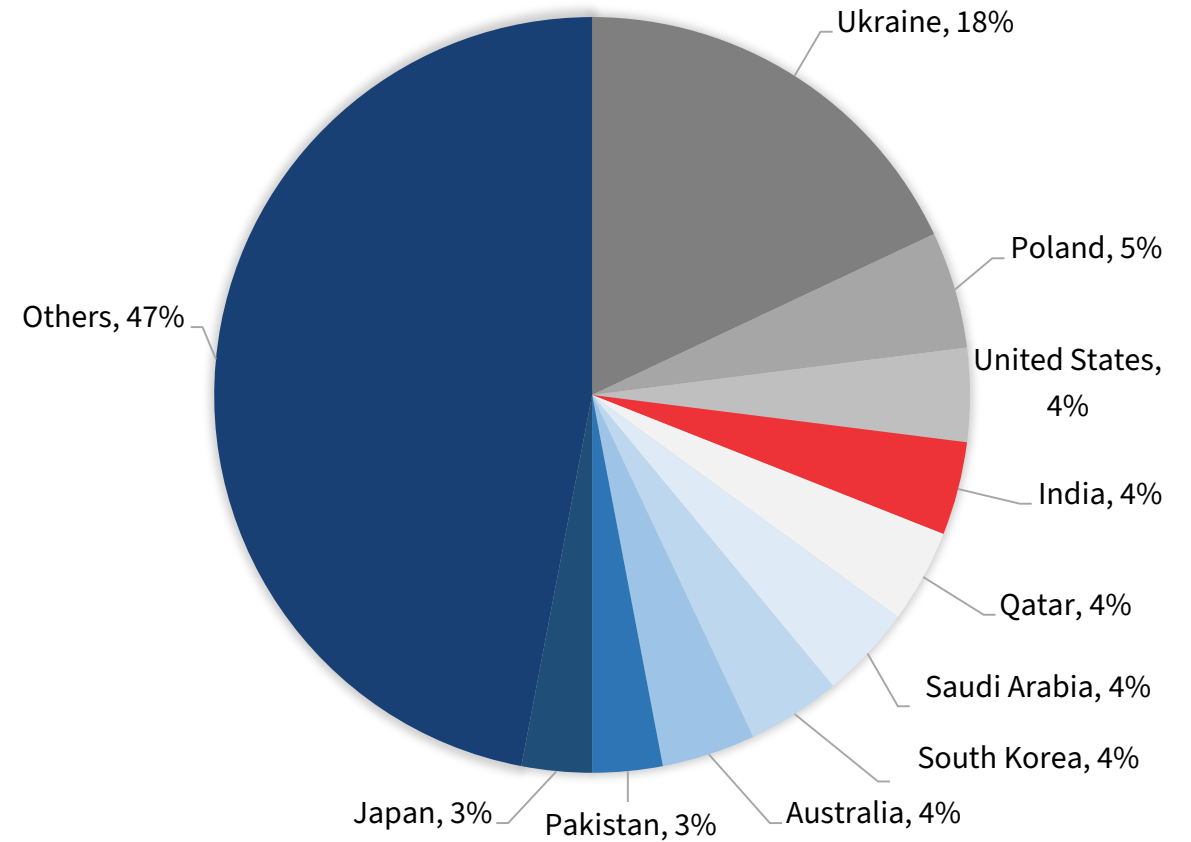


...And Reducing Reliance On Imports

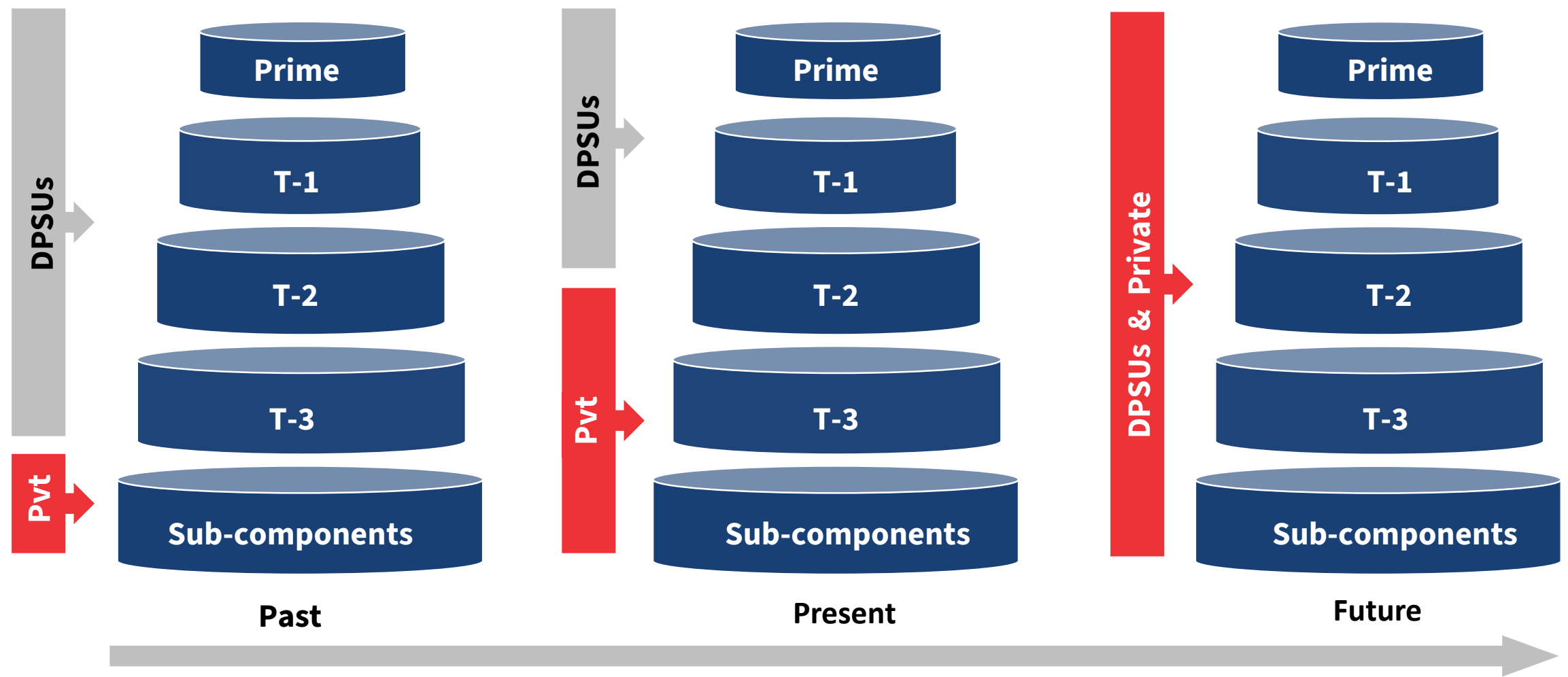
In 2010 India was the largest importer



In 2024 India has moved down to 4th position



Private Companies Are Transitioning Up The Value Chain



Many Equipment Indigenized, But Still Long Way To Go

Reaping Dividends of Indigenisation

High Export Dependencies

Astra Missile



INS Vikrant



GE - 404 /414 Engine



Sukhoi Su-Mk1



Agni Missile



Pinaka Multi-Barrel Rocket Launcher



MQ-9B Predator



S-400 Air Defence System



Nagastra -1



BrahMos Missile



Safran

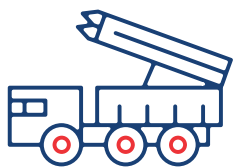


Dassault Rafale



Modern Warfare Requires Smarter Weapons

World War 1



- World War I marked the beginning of modern warfare technology
- Significant advancements in artillery and machine guns.

World War 2



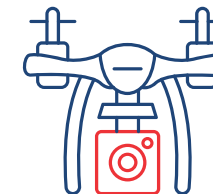
- World War II saw the introduction of tanks and combat aircraft.
- RADAR, nuclear weapons and proximity fuse

Cold War



- Cold War saw miniaturization of nuclear weapons and missile technology development.
- Ballistic missiles, cruise missiles, and surface-to-air missiles and spy satellites.

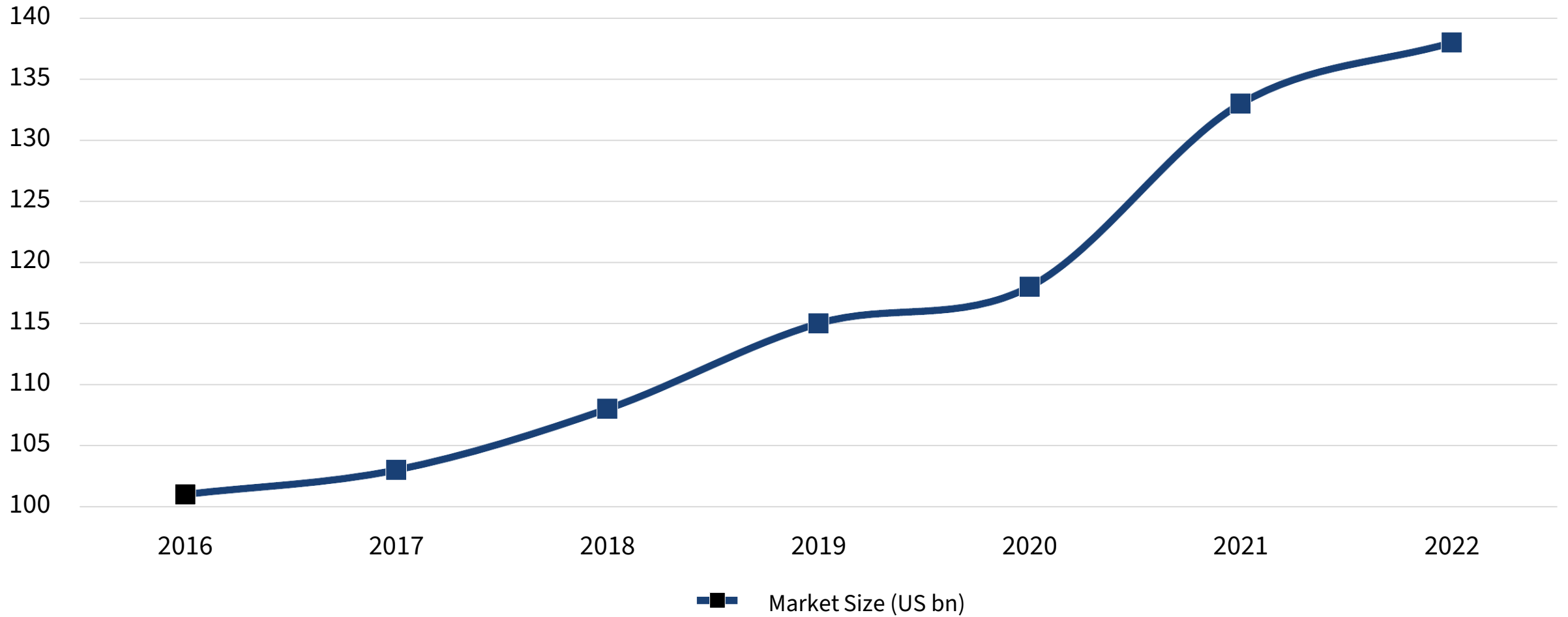
Modern Warfare



- Today's defence includes advanced drones, cyber warfare tools, and AI applications.
- Development off AI tools for spying, FPV drones, Stealth aircraft and Electronic Warfare

Defence Electronics Is Key For Modern Products

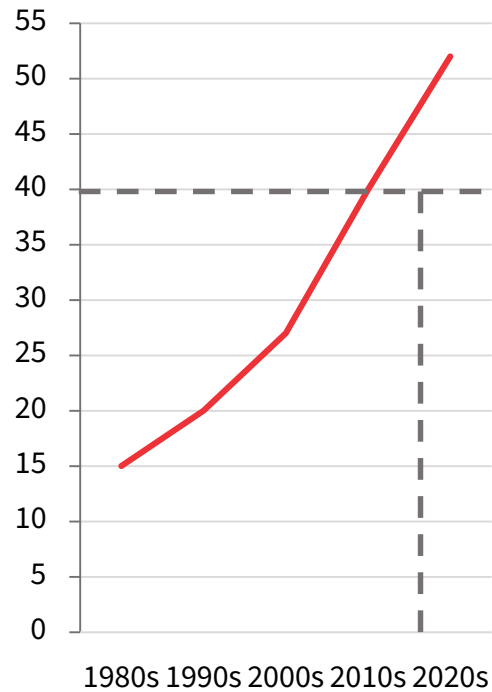
Defence Electronics has increased 37% from 2016 to 2022



Value Contribution Of Electronics In Leading Platforms



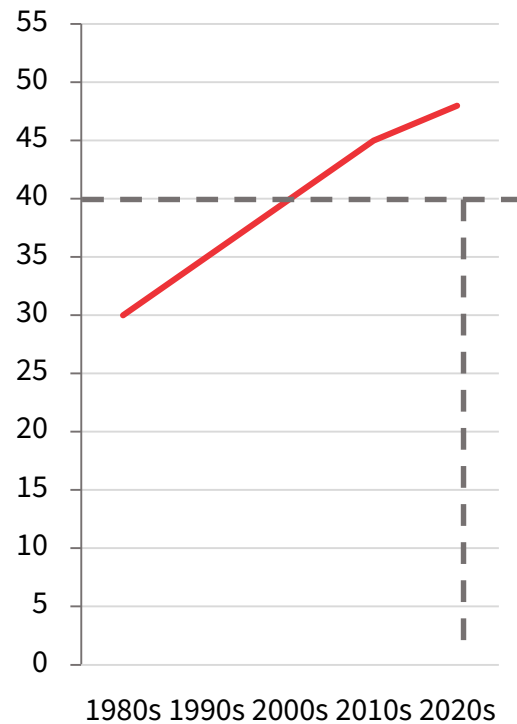
Armored personnel carrier



Across mobility, mission systems, protection and munitions



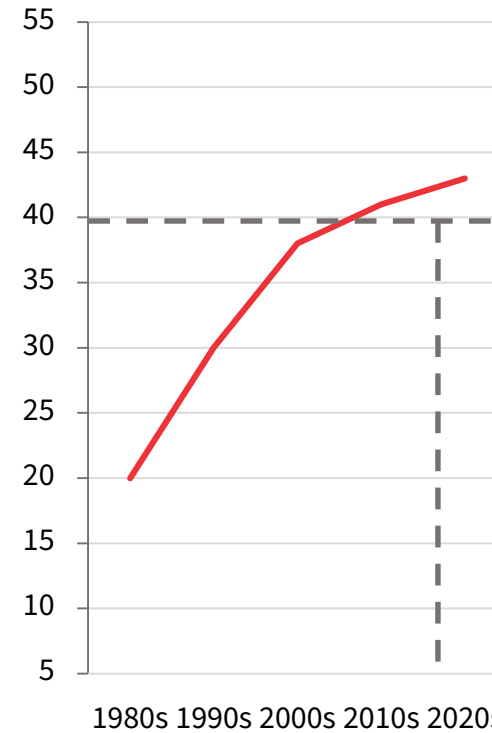
4+ Gen fighter aircraft



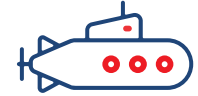
Across avionics, Actuation; Structures, Munitions and Engines



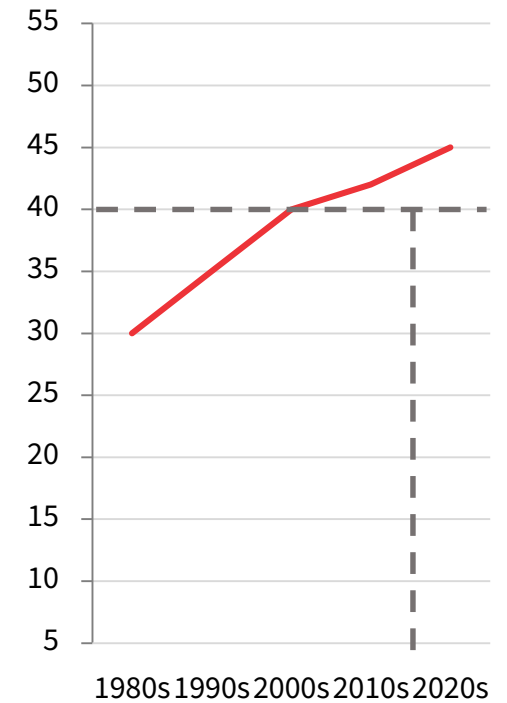
New-gen naval destroyer



Across platform electronics, platform management, structures, unitions and protection



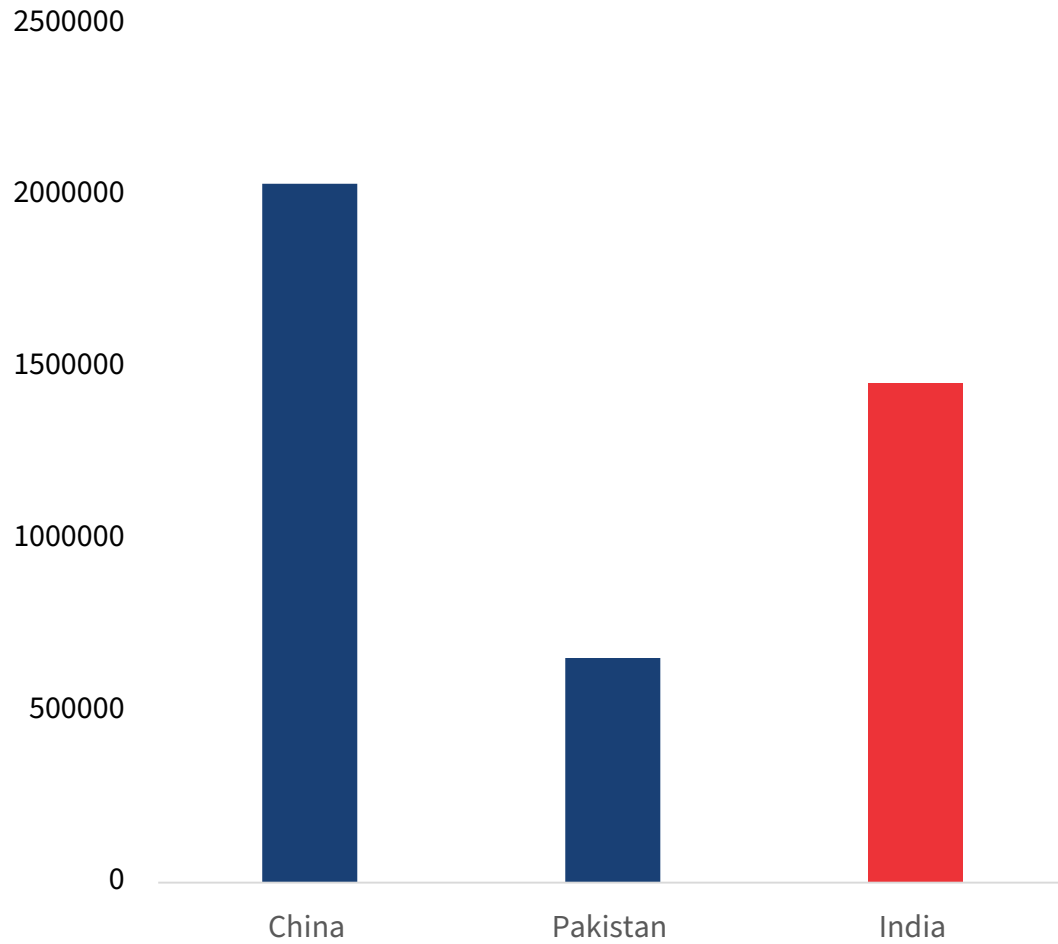
AIP Submarine



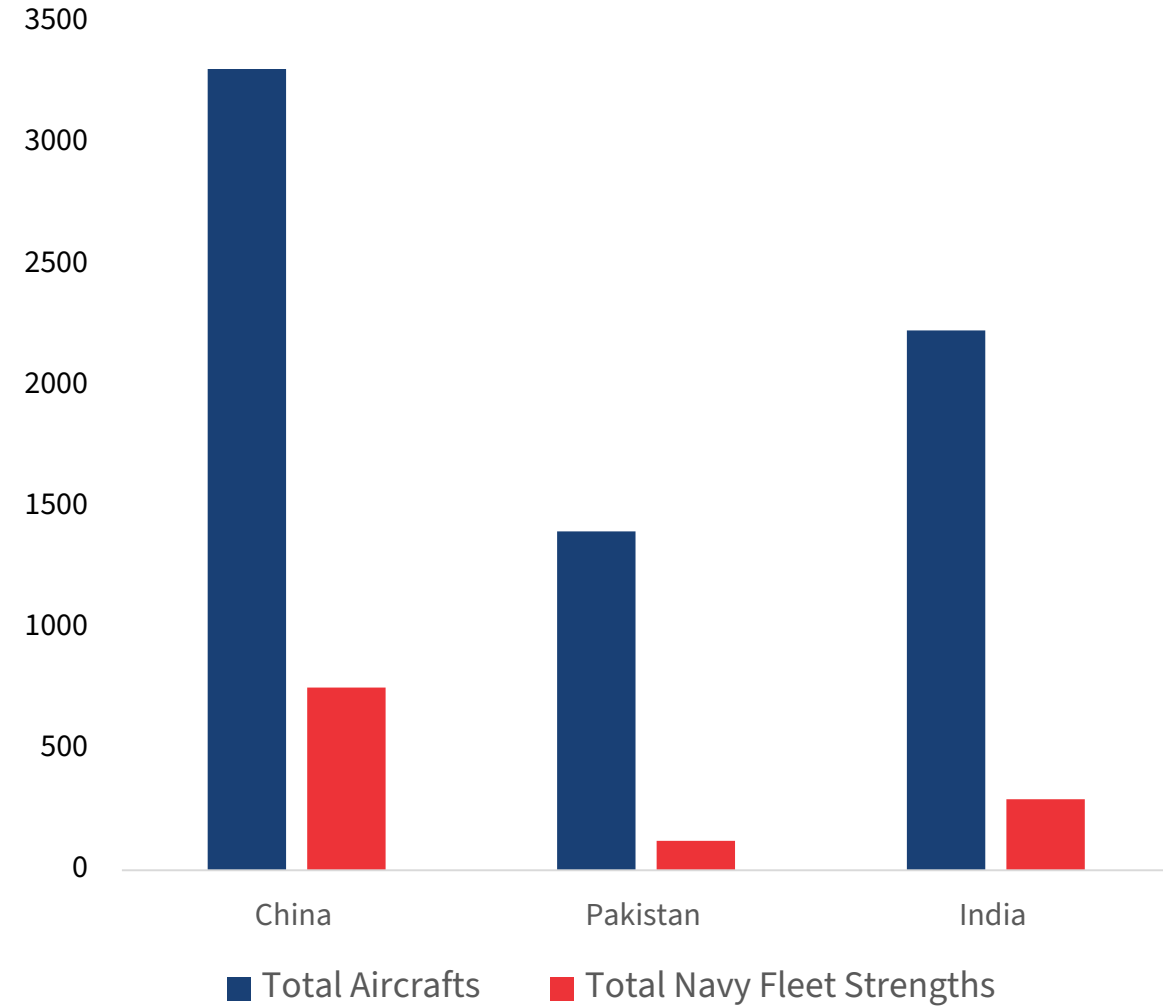
Across platform electronics, platform management, structures, munitions and protection

Quality Of Weapons > Quantity Of Weapons

Active Frontline Personnel



Comparison of Air and Naval Power



Quality Of Weapons > Quantity Of Weapons

	Country								
	India	Afghanistan	Pakistan	Sri Lanka	Nepal	China	Bangladesh	Bhutan	Myanmar
Govt type	Democratic Republic	Islamic Republic	Parliamentary Republic	Democratic Republic	Federal Republic	Communist	Democratic Republic	Parliamentary Monarchy	Constitutional Republic
Relation with India	-	Friendly	Hostile	Friendly	Friendly	Hostile	Friendly	Friendly	Friendly
Border issues	-	None	Pending	None	Pending	Pending	Pending	None	None
Active military ('000)	1,456	NA	654	346	95	2,035	163	8	150
Def. Spend: 2023 (USD mn)	83.6	0.3*	8.5	1.2	0.4	296.4	4.2	NA	2.5
Def. Spend (% of GDP)	2.4%	1.8%*	2.8%	1.6%	1.1%	1.7%	1.0%	NA	3.8%
Internal Security Scenario	Militancy & Maoist issues	Taliban dominance	Faces threat of terrorism	Stable after LTTE conflict (2009)	Maoist issues	Broadly Stable	Unstable given recent adverse events	Stable	Broadly Stable

Fund Raising By Defence Companies – Gearing Up For Growth

IPOs

Company	Issue size (INR mn)	Use of proceeds
Mazagon Dock Shipbuilders Limited	4,437	Divestment
MTAR Technologies Limited	5,964	Debt repayment, funding working capital,
Paras Defence And Space Technologies Limited	1,708	Capex, funding working capital, debt repayment
Data Patterns (India) Limited	5,882	Repayment of debt, funding working capital, Capex,.
DCX Systems Limited	5,000	Repayment of debt, funding working capital, capex
ideaForge Technology Limited	5,673	Debt repayment, funding working capital, product development,
Azad Engineering	7,400	Capex funding, repayment of debt
Unimech Aerospace and Manufacturing Limited	5,000	Capital expenditure, funding working capital, debt repayment.

QIPs

Company	Amount raised (INR mn)	Use of proceeds
Data Patterns (India) Limited	5,000	New product development (radar, EW, communication systems etc), working capital,
Astra Microwave Products Ltd	2,250	Repayment of working capital loans
Axiscades Technologies Ltd	2,030	Repayment of debt
DCX Systems	5,000	Investment in its subsidiary
Zen Technologies	10,000	Loan repayment for subsidiaries, 100% acquisition of AAM India Manufacturing Corp Pvt Ltd
PTC Industries Ltd	7,000	Debt repayment, capex, funding working capital,
Paras Defence & Space Technologies Ltd	1,350	Funding working capital requirements and seize emerging business opportunities.
Bharat Forge Ltd	16,500	Debt repayment and financing of inorganic expansion.
Azad Engineering Ltd	7,000	Capex and working capital.

Domestic Equipment Performed Spectacularly In Operation Sindoor



Equipment	Type	Domestic/Imported	Manufacturing Country	Made By
Integrated Air Command and Control System	Air Defence Control & Reporting System	Domestic	India	Bharat Electronics Limited
Akash Surface to Air Missile (SAM) system	Short/Medium Range Surface to Air Missile System	Domestic	India	Bharat Electronics Limited , Larsen & Toubro(Defence), Tata Power SED, Electronics Corporation of India Limited, Ordnance Factory Board
BrahMos	Supersonic Cruise Missile System (Surface to Surface)	Domestic (ToT)	India/Russia	BrahMos Aerospace Private Limited, Defence Research and Development Organisation, NPOM Mashinostroyeniya Russia
Integrated Counter-Unmanned Aerial Systems (C-UAS)	Anti-Drone System	Domestic	India	Bharat Electronics Limited, Zen Technologies,
SAMAR	Short Range Air Defence System	Domestic	India	Adtech Inventions Ltd, Simran Flowtech
Samyukta	Electronic Warfare System	Domestic (ToT)	India	Bharat Electronics Limited
Loitering Munitions	Loitering Munitions	Domestic	India	Alpha Design Technologies, Solar Industries, Adani
MRSAM	Surface to Air Missile	Domestic	India/Israel	Bharat Electronics Limited , Bharat Dynamics Limited, Elta Systems, Rafael Advanced Defence Systems
Upgraded ZSU-23-4 Shilka	Anti Aircraft Gun	Domestic (ToT)	India	Bharat Electronics Limited
T-90 Tanks	Main Battle Tank	ToT	Russia	Heavy Vehicles Factory Avadi
BMP-2 Sarath	Infantry Fighting Vehicle	ToT	Russia	Ordnance Factories Board

Source: Jefferies Report Dated 17th April 2025, <https://www.pib.gov.in/>. The stocks/sectors mentioned do not constitute any kind of recommendation and are for information purpose only. Kotak Mahindra Mutual Fund may or may not hold position in the mentioned stock(s)/sector(s). Kotak Mahindra Asset Management Company Limited (KAMAMC) is not guaranteeing or promising any returns/futuristic returns.

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