INDIA · DEFENSE · STRUCTURAL GROWTH

India's Defense Industry: A structural, multi-year theme

A distinctive, high-conviction version of the global rearmament story

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FROM GLOBALIZATION TO MERCANTILISM: THE GLOBAL DEFENSE RE-RATING

Defense stocks have been among the strongest-performing sectors globally over the past two years. Global military spending reached a record **$2.9 trillion** in 2025, NATO's combined defense budgets topped **$1.5 trillion** for the first time in 2026, and European members alone lifted spending by double-digit percentages — the fastest pace since the Cold War. This is best understood as part of a broader structural shift: the world is moving from an era of globalization, where nations optimized for cost and efficiency through outsourced production and just-in-time global supply chains, toward a more *mercantilist posture*, where countries prioritize self-sufficiency, strategic autonomy, and control over critical supply chains — even at higher cost. Decades of “peace dividend” underinvestment, seen since the Berlin war fell in 1989 left Western militaries with hollowed-out industrial bases; Ukraine and the West Asia conflict have shown how vulnerable that model was.

Germany is the clearest single illustration of this shift. Berlin passed a constitutional amendment exempting defense spending above 1% of GDP from its long-standing “debt brake,” unlocking up to **€200 billion** in additional defense borrowing over the coming decade — arguably the most significant fiscal-policy shift in modern German history. Germany's 2026 procurement budget of roughly **€22.4 billion** is nearly three times what it spent on new weapons in 2025.

Reshoring production, friend-shoring supply chains, industrial subsidies, and export controls that treat defense capacity the way earlier decades treated energy security. This is not a cyclical rearmament. It is a multi-decade reordering of how nations think about production and self-reliance, and defense is one of its clearest expressions. That is what gives the current cycle its durability: We are looking a multiyear, long term investment theme here.

INDIA: A DISTINCTIVE, HIGH-CONVICTION VERSION OF THE SAME STORY

Defense is not just a global investment thesis. India is now the world's **fifth-largest military spender**, with defense expenditure reaching **$92.1 billion** in 2025 — an **8.9%** real-terms increase — trailing only the United States, China, Russia, and Germany, per SIPRI's 2026 Yearbook. That places India ahead of established defense powers like the UK, France, and Japan, and reflects a budget now large enough to sustain a genuinely deep, investable domestic supply chain rather than a handful of flagship programs.

For equity investors, this scale of national commitment is directly investable through a wide and genuinely diversified array of listed companies straddling many verticals in the defense value chain. From aeronautics and submarines to radar and electronic warfare, from artillery and munitions to drones and counter-drone systems, India's listed defense universe now offers equity exposure to almost every major category of modern military capability, spanning both large, franchise-like State Owned Entities and a fast-growing tail of specialized private manufacturers. That breadth itself is a differentiator. Few emerging markets offer investors a public-market way to express a view on this theme across so many distinct sub-sectors at once, rather than through one or two proxy stocks.

The evidence is visible. The Nifty India Defense Index outperformed the Nifty 50 by a wide margin through 2026. The rationale is anchored in hard numbers: the Union Budget 2026–27 allocated **₹7.85 lakh crore** to the Ministry of Defense, the highest-ever allocation and a **15%** increase over the prior year, with capital acquisition crossing **₹2.19 lakh crore**. Crucially, **75%** of that capital acquisition budget — roughly ₹1.39 lakh crore — is legally reserved for domestic industry.

HERE TOO THE OPPORTUNITY LIES BEYOND THE BENCHMARK INDEX

As we have argued in earlier versions of The Beam, India's most compelling investment opportunities in this cycle are being seen outside the Nifty 50 — in the mid-cap and small cap companies. Defense is not an exception to this thesis. It is also important to highlight that most of this opportunity sits outside the index most portfolios track. Only one defense company appears in the Nifty 50, and only a handful of the largest names (HAL, Bharat Electronics) show up even in the Nifty 100. An investor holding a standard large-cap or Nifty 50-tracking portfolio has, in practice, *close to zero exposure* to one of the best-performing and most structurally supported themes in the Indian market — the entire opportunity lives in the mid-and small-cap space that most diversified portfolios systematically underweight.

The true breadth of the indigenization theme relies on a specialized tail of suppliers. High-margin, rapid-growth verticals — such as specialized high-energy military explosives (Solar Industries), defense electronics (Data Patterns), drone simulation (Zen Technologies), and military optics (Paras Defense) — are all mid cap and small cap stocks, still.

India's defense universe spans the full defense value chain — aeronautics, electronics and radar/electronic warfare, shipbuilding and submarines, munitions and explosives, land systems, and drones and counter-drone systems. Order books have swelled to levels that give genuine multi-year revenue visibility. A number of these companies have also moved beyond domestic contracts into formal qualification for NATO's own supply chain — Solar Industries, Data Patterns, and Bharat Electronics all hold the NATO Commercial and Government Entity (NCAGE) codes required to be catalogued as recognized manufacturers within the NATO Codification System and are actively exporting to NATO members including the US, UK, France, and Sweden.

> And because three-quarters of new capital spending is contractually routed to domestic vendors, the benefit cascades well beyond the large government companies into a widening base of component manufacturers and private-sector suppliers. We see the beginning of a genuine, self-reinforcing defense ancillary ecosystem developing in India.

ILLUSTRATIVE UNIVERSE OF LISTED INDIAN DEFENSE COMPANIES OFFERING A WIDE ARRAY OF INVESTABLE OPPORTUNITIES

The names below are illustrations of what each company does and where it sits by size — not investment recommendations or a solicitation to buy or sell any security.

COMPANY	MARKET CAP (US$ BN)	CLASSIFICATION	DEFENSE VERTICAL
Bharat Electronics (BEL)	31.6	Large Cap	Electronics, Radar & Electronic Warfare
Hindustan Aeronautics (HAL)	30.5	Large Cap	Aeronautics (Aircraft & Helicopters)
Solar Industries India	17.4	Large Cap	Munitions & Explosives
Mazagaon Dock Shipbuilders	10.5	Mid Cap	Warships & Submarines
Bharat Forge	9.6	Mid Cap	Artillery & Armoured Systems
Bharat Dynamics (BDL)	4.5	Mid Cap	Missiles & Torpedoes
Cochin Shipyard	4.1	Mid Cap	Shipbuilding (Warships)
Garden Reach Shipbuilders (GRSE)	3.2	Small Cap	Warships & Naval Vessels
MTAR Technologies	2.6	Small Cap	Precision Components (Missile/Aerospace)
Data Patterns (India)	2.5	Small Cap	Electronic Warfare & Aerospace Electronics
Zen Technologies	1.6	Small Cap	Combat Simulation & Counter-Drone Systems
BEML	1.6	Small Cap	Land Systems & Defense Mobility
Apollo Micro Systems	1.5	Small Cap	Avionics & Missile Electronics
Astra Microwave Products	1.4	Small Cap	Radar & Microwave/RF Systems
Aequs	1.3	Small Cap	Aerospace Components
AXISCADES Technologies	0.8	Small Cap	Aerospace Engineering & Design
Mishra Dhatu Nigam (MIDHANI)	0.8	Small Cap	Special Alloys (Aerospace, Missile, Submarine)
Dynamitic Technologies	0.8	Small Cap	Aerospace Structures & Hydraulics
Paras Defense and Space Technologies	0.7	Small Cap	Optics, Lenses & Electro-Optics
Unimech Aerospace	0.5	Small Cap	Aerospace Precision Engineering

THE EXPORT OPPORTUNITY: COST-COMPETITIVE, AND FILLING A REAL GLOBAL GAP

India's defense story is not just domestic. India's defense exports reached an all-time high of **₹38,424 crore** in FY 2025–26, up **62.66%** year-on-year and roughly 25-fold since FY 2016–17, reaching over 80 countries including the US, France, and Armenia — with the government targeting ₹50,000 crore by 2029. This growth is underpinned by genuine cost competitiveness.

Indian government sources cited by Reuters put the country's 155mm artillery shell production cost at just **$300–400 per unit**, roughly one-tenth the price of comparable Western-made shells — a gap wide enough that European and Middle Eastern buyers are increasingly turning to Indian suppliers even as domestic Western capacity struggles to keep pace with demand. The same dynamic plays out in air defense: each Akash surface-to-air missile costs India roughly **$250,000** to produce, compared with around $4 million for a single US Patriot PAC-3 missile domestically and $6–10 million for export customers — a difference of more than fifteen-fold for a system that has already proven itself capable of engaging saturated drone and missile attacks in real combat conditions during the 2025 India-Pakistan conflict. These are just two examples of why India's cost edge here translates into recurring, large-order-book demand rather than one-off boutique sales.

Nowhere is this opportunity clearer than in artillery ammunition, where a genuine global shortage has opened directly onto Indian order books. India is now widely recognized as the world's third-largest producer of artillery ammunition. The US set a target of 100,000 155mm shells a month by October 2025 but was still producing only about 36,000 a month as of March 2026; Europe's pre-war annual output of 300,000–400,000 shells was never built for sustained industrial warfare. Solar Industries was one of nine firms — alongside US, Canadian, and Polish producers — awarded a US Army contract to help close this gap and is now moving beyond explosives into full 155mm shell production, with defense revenue up **115%** year-on-year.

THE INVESTABLE UNIVERSE IS ALSO ACTIVELY WIDENING THROUGH A STEADY PIPELINE OF NEW LISTINGS

A drone manufacturer became the first defense-tech company to go public in 2023, followed by precision aerospace-component makers, a maker of aerospace structures supplying global commercial aircraft programs, and niche defense-electronics and test-equipment specialists listing on the SME platform. Taken together, these new listings have raised roughly ₹2,100–2,200 crore (about $220 million) in fresh capital since 2023. A further ₹800–1,000 crore (roughly $85–105 million) is visible in the immediate pipeline, with an electro-optics and thermal-imaging manufacturer having filed its draft prospectus in December 2025, and additional defense-technology firms reportedly preparing similar filings. For investors, this steady cadence matters because it means the sector's investable breadth is compounding over time — today's list of twenty-odd companies is likely to look larger within twelve to eighteen months.

WHY THIS IS A STRUCTURAL, NOT CYCLICAL, STORY

What sets the Defense investment opportunity apart from a typical cyclical rally is that several powerful forces are reinforcing each other at the same time. A global pivot from open trade toward strategic self-sufficiency, and India's domestic indigenization clause — a mechanism that functions almost like an annuity, creating a long-term, visible project pipeline for domestic firms rather than a one-off contract win. Formal technical qualification into NATO's own supply chain. A genuine cost and capability edge that is winning export contracts on merit and a Western industrial base that has, after several years of trying, still failed to close its own ammunition and equipment shortfalls. *The investment thesis for Defense is a multi-year structural theme that most Indian equity investors remain significantly underexposed to.*

Footnote: The company names referenced in this note against various defense sub-verticals are for illustrative purposes only, intended to help readers navigate a complex and still-nascent sector in India. They do not constitute stock recommendations, investment advice, or an endorsement of any specific company.

IMPORTANT INFORMATION

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