THE SCANNER

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Aerospace:
The Next Growth Driver within India's Defence Story

The battle for air superiority has evolved

Few segments within India's defence ecosystem are undergoing as much change as aerospace. Changing warfare, policy-led indigenisation, rising exports and increasing private sector participation are converging to reshape the sector. Together, these trends are creating a multi-year investment theme that extends well beyond traditional defence spending.

Exhibit: Four drivers shaping India's aerospace opportunity

Theme	Why it matters
Aerial capability	Modern warfare is increasingly being driven by drones, surveillance, electronic warfare and integrated air-defence systems, making aerospace a larger share of defence capital allocation.
Indigenisation	Falling import dependence and higher domestic procurement are strengthening India's aerospace manufacturing base.
Export story	Defence exports have grown from INR 6.8 bn in FY14 to INR 384.2 bn in FY26, with ambitious medium-term targets providing a strong runway for sustained growth.
Private participation	Private players contribute 45% of exports despite only 24% of domestic production, signalling increasing competitiveness in high-value technologies.

Source:
https://www.pib.gov.in/PressReleaseDetail.aspx?PRID=2273824&reg=48&lang=1
https://www.pib.gov.in/PressReleaseDetail.aspx?PRID=2248124&reg=48&lang=1

Aerial supremacy is redefining defence priorities

Modern air power extends far beyond aircraft procurement. It increasingly depends on an integrated network of radar, avionics, propulsion systems, electronic warfare, sensors and unmanned aerial platforms that improve surveillance, precision and operational coordination. As military planning becomes more technology-intensive, these systems are evolving from support functions into strategic assets. It diversifies the portfolio into advanced manufacturing and specialised engineering for aerospace.

Indigenisation is strengthening domestic capability

Over the years, India's dependence on foreign procurement has declined as policies have increasingly favoured domestic sourcing. Successive indigenisation programmes and higher domestic procurement goals are strengthening the domestic production of critical defence and aerospace technologies, gradually reducing reliance on foreign procurement. According to the Ministry of Defence, as of May 2026, five Positive Indigenisation Lists covering 5,012 items for Defence Public Sector Undertakings had been notified, of which 3,204 have already been manufactured domestically.

Exports are expanding the addressable opportunity

Exports are emerging as another important pillar of India's defence ecosystem. Defence exports have increased from INR 6.8 bn in FY14 to a record INR 384.2 bn in FY26, surpassing the earlier INR 350 bn benchmark. The government is now targeting INR 500 bn in defence exports by FY29. More than 80 countries now import Indian defence products, and manufacturers are gradually moving beyond supplying components towards integrated platforms and complete solutions. As operational deployment enhances the credibility of indigenous systems, exports have the potential to become an important source of scale, technology development and long-term competitiveness.

Private participation is reshaping the ecosystem

One of the most striking changes is in the structure of India's defence industry. Although Defence Public Sector Undertakings still form more than 76% of all domestic production, private enterprises are slowly growing in importance in high-value parts of the defence industry. While contributing to just about 24% of total domestic production, they contribute close to 45% of exports from the Indian defence sector. This suggests that private participation is extending beyond manufacturing capacity into areas such as electronics, unmanned systems and aerospace components, where technology, innovation and execution increasingly determine competitiveness.

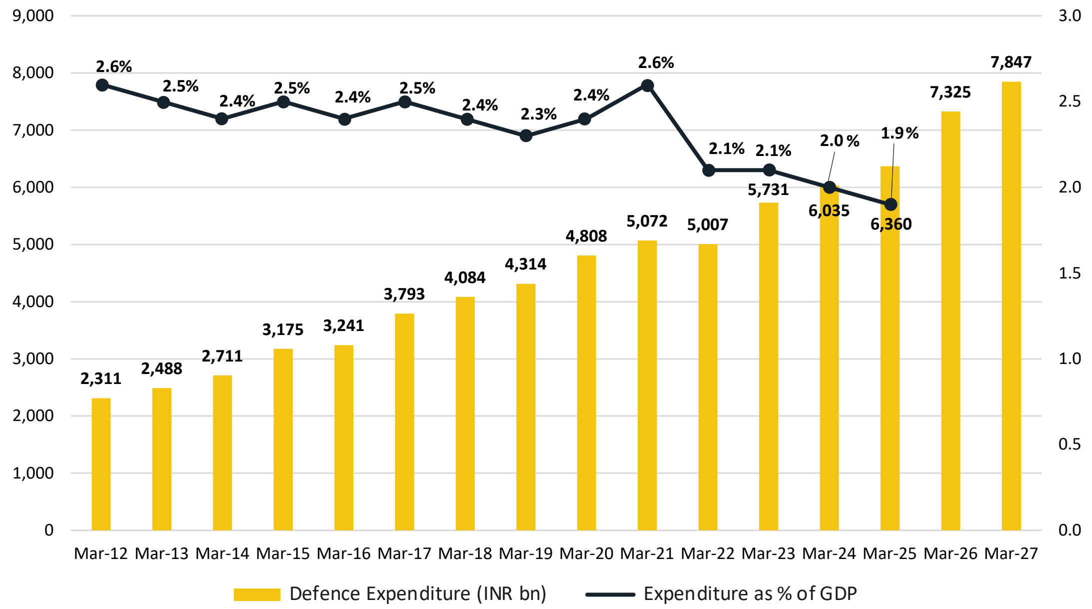
Defence manufacturing remains a long-cycle business, with milestone-based execution, high working capital requirements and dependence on government procurement timelines. These characteristics have often resulted in uneven order flows and periods of slower execution in previous defence cycles. What appears different today is that several drivers are reinforcing one another simultaneously. Higher domestic procurement, expanding exports, greater private-sector participation and sustained investments in aerial capability are collectively reshaping the industry. While execution risks remain, the opportunity now extends beyond a cyclical increase in defence spending towards the emergence of a broader aerospace manufacturing theme.

In charts

Chart 1: India's Defence Expenditure – Steady capital allocation provides long-term visibility for the sector

Defence Expenditure as % of Central Government Expenditure

Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24	Mar-25	Mar-26#	Mar-27#
17.7%	17.6%	17.4%	19.1%	18.1%	19.2%	19.1%	18.6%	17.9%	14.5%	13.2%	13.7%	13.7%	13.7%	14.8%	14.7%



Notes: 1. #- Nos for March 2026 and March 2027 are sourced from Union Budget 2026-27 and hence are Revised Estimated and Budget Estimates, respectively (This is applicable for all charts across the file.) 2. Source Union Budgets 2012-2027

The defence budget has grown steadily over the past decade, providing greater visibility for long-gestation programmes rather than signalling a one-off increase in spending.

Chart 2: Air power continues to command a significant share of capital investment

Particulars	Actual										Revised	Budgeted
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Aircraft & Aero-engines												
Army	1,383	1,437	1,778	2,383	4,478	3,582	2,113	4,767	4,602	–	–	–
Navy	4,183	2,974	3,089	1,891	1,071	9,074	7,331	7,036	3,096	–	–	–
Air Force	19,157	19,481	25,056	25,327	23,449	35,681	29,930	23,208	17,283	–	–	–
Total Expenditure	**24,723**	**23,892**	**29,924**	**29,602**	**28,999**	**48,336**	**39,374**	**35,010**	**24,981**	**44,365**	**72,780**	**63,734**
Total Defence Capital Outlay	**71,675**	**86,357**	**90,438**	**95,231**	**1,11,092**	**1,34,305**	**1,37,987**	**1,42,940**	**1,54,256**	**1,59,768**	**1,86,454**	**2,19,306**
Share of Aircraft & Aero-engines in Total Defence Capital Outlay	**34.5%**	**27.7%**	**33.1%**	**31.1%**	**26.1%**	**36.0%**	**28.5%**	**24.5%**	**16.2%**	**27.8%**	**39.0%**	**29.1%**

The continued allocation towards aircraft and aero-engines indicates that India's modernisation efforts remain heavily focused on strengthening aerial capability.

Sources:
1. https://idsa.in/publisher/issuebrief/ministry-of-defence-2026-27-budget-estimates-an-analysis
2. https://bharatshakti.in/big-ticket-buys-propel-rise-in-capital-outlay - Capital Outlay Up Nearly 24%, Focus on Modernisation
3. https://ftp.motilaloswal.com/emailer/Research/HNAL-20250410-MOSL-IC-PG040.pdf

Chart 3: Indigenisation is creating a larger domestic opportunity

Share of Foreign Procurement (%)

Service	FY02	FY05	FY08	FY11	FY14	FY17	FY20	FY23	FY25
Army	62%	30%	42%	7%	14%	26%	16%	37%	5%
Navy	55%	34%	23%	62%	66%	36%	34%	31%	17%
Air Force	67%	26%	42%	20%	57%	57%	61%	31%	13%
Total	**62%**	**29%**	**36%**	**30%**	**53%**	**41%**	**42%**	**33%**	**12%**

Source: Standing Committee of Defence Reports; data compiled by Goldman Sachs Global Investment Research.

India's declining dependence on imported defence equipment reflects a structural policy shift rather than a temporary procurement preference.

Q&A

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How is aerial warfare changing the investment landscape within defence?

The shift towards aerial warfare is expanding the defence opportunity beyond traditional platforms. Investments are also increasingly flowing into drones, radar, electronic warfare, sensors and mission systems that support intelligence and precision operations. As these technologies become integral to modern defence planning, they are creating demand, and thus investment opportunities across a wider aerospace manufacturing value chain rather than within a single segment.

Why does indigenisation matter from an investment perspective?

India's defence strategy is increasingly catalysing a strategic shift towards building domestically rather than relying on imports. Procurement reforms, Positive Indigenisation Lists (PILs) and higher domestic sourcing are encouraging local manufacturing across critical technologies.

This shift reduces import dependence while creating opportunities for both private-sector companies and Defence Public Sector Undertakings involved in specialised engineering, electronics, propulsion systems and other areas that support the broader aerospace supply chain. As pointed out by the Ministry of Defence recently, India was able to produce defence supplies worth INR 1,780 bn (consistency) in last FY (~16% growth!).

Can exports become an important growth driver for the sector?

Domestic procurement is likely to remain the backbone of the industry, but exports are becoming an increasingly important second engine of growth, providing an interesting optionality. Indian defence products are now supplied to more than 80 countries, and the mix is gradually shifting from components towards higher-value systems.

A broader export base can improve manufacturing scale, support technology development and reduce dependence on domestic order cycles over time.

What should investors watch as this theme evolves?

The long-term outlook is supported by higher defence spending, greater policy support for newer avenues like drones and avionics, indigenisation and a growing export market. At the same time, defence manufacturing remains a business with long execution cycles, milestone-based revenues and dependence on government procurement. The key question is not whether the opportunity exists, but how consistently these structural drivers translate into execution, order visibility and sustained growth. Valuation risk remains another challenge in current times with intriguing perplexities involved: capacity constraints, sustainability of current order-book momentum, and the gap between order book and earnings.

Ultimately, investment decision is based on understanding whether this is a cyclical play (with mean reversion risk) or a sustainable growth play?

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