Will Budget 2025 add more firepower to Indian defence industry's local manufacturing, self-reliance push?

Synopsis
Defence Budget 2025 Expectations: India is advancing towards self-reliance in defence by focusing on domestic procurement, increasing investments in R&D, and strategic public-private partnerships. Significant growth in defence production and exports is evident, but achieving full indigenisation will require addressing technological challenges and inefficiencies.

Budget 2025 expectations for Indian Defence Manufacturing

India's journey towards self-reliance is more than just a story of indigenous defence production, it also reflects an overall strategy to increase India's independence from foreign countries, safeguard national interests, as well as boost the nation's economy. As the 2025-26 **defence budget** approaches, it is an opportune moment to examine where India stands now in terms of its policies, challenges and its roadmap in achieving its indigenisation targets.

As Mr Neeraj Gupta, Managing Director, MKU Limited, said, "Achieving self-reliance in defence is undoubtedly a long-drawn process. It's important to define the level of self-reliance we're aiming for. Take, for example, the Light Combat Aircraft (LCA) Tejas. While we are advancing in manufacturing its body, avionics, and other components, we still face challenges in producing critical technologies like engines and propulsion systems. Moreover, materials technology remains an area where we're lagging."

"Self-reliance in defence is a much broader subject than it might initially appear. Yes, India is moving in the right direction. However, the depth of self-reliance we aim to achieve needs to be clearly outlined, as there are numerous challenges to overcome," he went on to say.

Defence Budget Allocation: Stability with Room for Growth

India's defence allocation for **Budget 2025** is likely to be in the range of 1.9 to 2 per cent of GDP, similar to previous years. This stability will provide fiscal stability, but experts warn that it may not be enough to meet the growing external threats. Some experts feel that it should be gradually increased to 2.5 per cent over the next four years, which would greatly enhance India's strategic positioning in the region.

Defence Secretary Rajesh Kumar Singh during the discussions at the 21st Subroto Mukerjee Seminar pointed out, "Today with the current numbers of domestic procurement, the absorptive capacity stretches over domestic industries.".

With this in mind, optimising the utilisation of available funds becomes vital for achieving self-reliance in defence.

On the contrary, Mr Neeraj Gupta said, "Recently, the Defence Secretary stated that there is no lack of financial resources for procurement. However, I frequently hear conflicting views about whether allocated funds are fully utilised."

He went on to say, "Rather than focusing solely on the budget size, we need to align our defence industry's capabilities with the vision of an Atmanirbhar Bharat (self-reliant India). The funding appears to be sufficient for now, as I haven't heard of projects being stalled due to financial constraints."

Declining Defence Share and Fund Utilisation Challenges

The share of defence spending in India's national budget has continually declined over the past years, with a reduction to 16% in 2013 and projecting to 13% in 2025 as a reflection of fiscal prudence, but experts also warn that the

reduction may fail to enable an effective response against the evolving threats to security.

In FY25, the capital expenditure accounted for only 27.66 per cent of the defence budget, which is mainly on modernisation. According to Dr. Amit Singh, Associate Professor at Jawaharlal Nehru University, "DAP 2020 has been a great catalyst for indigenisation, but true self-reliance will require much more indigenous content—50 per cent to 80-90 per cent. As in this highly globalised interdependent world 100 per cent indigenisation is a distant-dream."

Mr Gupta said, "While debates about the actual percentage persist, the trend is clear — jobs are being created, and more procurements are happening domestically. Achieving complete self-reliance, however, will take time. The goal should be to minimise dependency on imports for core systems while strengthening local capabilities."

Domestic Procurement: A Strategic Move

India's focus on indigenous procurement is evident in the FY25 defence budget allocation of Rs 1.72 trillion ($21 billion), with 75 per cent of it going into domestic purchases. According to Dr. Singh, the policy has indeed helped, but inefficiencies and bureaucratic delays need to be sorted out to sustain long-term progress. He went on to say, “That while it may take some time, if we continue with some of these proactive policies towards achieving self-reliance in the defence sector. In which India can include few more reliable private partners to boost its defence manufacturing. Furthermore, New Delhi should also improve the efficiency of the state-owned companies.”

Mr Gupta said, “This policy is indeed helping the Indian industry by creating jobs and enabling knowledge transfer from countries with advanced technologies. However, I question whether the 50% indigenous content requirement is being accurately implemented.”

“Currently, the Defence Acquisition Procedure (DAP) 2020 defines indigenous content as the sale price minus the import price. However, this formula is overly generic and doesn’t provide a granular understanding of actual Indian content.”

According to him, “A more meaningful approach would be to evaluate content at a component level, ensuring that a certain percentage of the product’s core technologies and materials are indigenously developed. This shift would provide a clearer picture of India’s progress in self-reliance.”

Achievements in Defence Production and Export Growth

India's defence production has been on a high growth trajectory, crossing Rs 1 lakh crore ($12 billion) in FY23. The country's defence exports have reached a record $2.5 billion, marking a 14-fold increase since 2016. This expansion is largely driven by both private industries and **Defence Public Sector**

Undertakings (DPSUs), which account for 60 per cent and 40 per cent of exports, respectively.

Mr. Puneet Kaura, Managing Director and CEO, Samtel Avionics Ltd states that the Indian defence ecosystem is evolving, and exports will truly scale up when investment in R&D increases manifold and manufacturing processes become flexible. He went on to say that, “These partnerships enable crucial technology transfer, knowledge sharing, and significantly reduce development and production costs while creating a robust domestic supply chain. However, we acknowledge certain challenges in the process, including complex procurement procedures, the need for long-term visibility on orders, and high initial investment requirements.”

Government Policies Shaping Modernisation

DPEPP 2020 and the Defence Acquisition Procedure 2020 form a powerful enabler in taking India towards its indigenisation quest. Under the DPEPP, a turnover of Rs 1.75 lakh crore ($21 billion) is sought for and an export target of Rs 35,000 crore ($4.2 billion) is proposed for the year 2025. Dr Singh stresses the Positive Indigenisation List wherein he believes, at this moment, 59 percent of items already exist as indigenised ones. This will further gain speed if these lists expand and help MSMEs and start-ups.

Mr. Kartik Ganapathy also went on to say, “The indigenisation process requires accelerated R&D funding, policy incentives, and ease of doing business reforms in the defense sector. Legal advisors can streamline processes for IP ownership and licensing agreements to encourage more private sector involvement in developing indigenous technologies.”

Hurdles to Self-Reliance: R&D Gaps and Delays

Despite significant strides in indigenisation, India remains the world's largest arms importer. Between 2014-18 and 2019-23, India's arms imports increased by 4.7 per cent, underscoring the challenges in scaling up R&D and overcoming delays in executing defence projects. Mr. Kartik Ganapathy, Founding Partner at IndusLaw, pointed out the necessity of balancing strategic imports and indigenisation.

"Strategic imports should continue until maximum indigenisation is achieved," he advocates, urging for a phased approach that moves from assembly and testing to full-scale indigenous manufacturing. He said, “Strengthening patent regimes and offering tax incentives for high-tech defense startups can address these issues. Legal interventions can ensure equitable access to global supply chains while negotiating technology-sharing agreements.”

Technological Hurdles: Addressing the Innovation Gap

The development of advanced technologies like fighter jets and drones remains a critical challenge. Samtel’s experience reveals key obstacles, such as limited access to specialised components, testing facilities, and long

certification cycles. To remedy these problems, Mr Puneet Kaura said, "That companies could successfully navigate these challenges through strategic partnerships with global technology leaders and substantial investment in state-of-the-art R&D facilities."

Amit Singh on the other hand also stressed on the need to foster innovation and address regulatory bottlenecks to overcome the technological challenges facing India's defence sector.

Mr Gupta also went on to state that another impediment to addressing the technological gap is that funding for defence R&D has been a major challenge. He credits this to defence projects often having long gestation periods, which banks find difficult to support under traditional financing mechanisms. He went on to say, "Companies are hesitant to invest in such niche areas due to uncertain returns. In my industry, for example, the high capital investment required for producing materials locally often makes the project financially unviable."

"Additionally, government grants or tax incentives for R&D are limited. Government initiatives like co-funding capital investments or introducing specific "Make One" schemes for material technologies could help bridge this gap and boost local manufacturing."

Looking Towards 2029: Future Projections

Projections for 2029 suggest that India's annual defence production could reach Rs 3 lakh crore ($36 billion), with exports rising to Rs 50,000 crore ($6 billion). Achieving these ambitious targets requires strong public-private collaborations, sustained investment in R&D, and an efficient manufacturing process. Personally, Mr Kaura believes India's growing capabilities in high-demand technologies such as avionics and drones, supported by cost advantages in manufacturing, position the nation to emerge as a major player in the global arms trade.

The Role of Public-Private Partnerships

Public-private partnerships (PPPs) are central to accelerating India's defence indigenisation. Amit Singh argues that PPPs are a fast track to achieving self-reliance and any challenges can be remedied by sharing risk, combining expertise, coordinating relationships, raising capital, etc. Samtel's work in avionics highlights the potential of PPPs, but challenges such as complex procurement processes and high initial investments need to be streamlined.

Mr Ganapathy said, "PPPs are critical for leveraging private sector innovation and reducing dependency on public sector undertakings (PSUs). However, challenges like delays in approvals, unclear risk-sharing mechanisms, and bureaucratic hurdles deter participation. Legal reforms to establish transparent frameworks and risk allocation models are essential to foster trust

and participation."

Balancing Strategic Imports with Indigenisation

India's ongoing reliance on imports necessitates a phased approach to import substitution. As Singh suggests, starting with assembly and testing before progressing to full-scale indigenous manufacturing is a proven strategy. This approach ensures that India's defence capabilities remain robust while gradually transitioning towards self-reliance.

Mr Kartik Ganapathy said, "Strategic imports will remain essential for advanced platforms, but these should be accompanied by technology transfer agreements. Policies need to include mandatory offsets to ensure that foreign procurements contribute to domestic capability development. Legal support can ensure compliance with offset obligations and resolve disputes efficiently."

India's defence ecosystem has seen significant transformation, marked by increased domestic procurement, export growth, and a shift towards indigenisation. However, achieving full self-reliance will require addressing systemic inefficiencies, fostering innovation, and reinforcing public-private collaborations. With sustained effort, India can not only achieve self-reliance in defence but also emerge as a leading global player in the arms trade.

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