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INDO-PAK WAR, SURGING DEFENCE STOCKS

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The spike in the Indian defence stocks in the aftermath of the Indo-Pak war has evoked wide discussion and debate. There have been some concerns about whether the rally in the defence stocks on May 14, 2025, was a flash in the pan or was sustainable over the long haul.

With India achieving all its avowed strategic objectives, Operation Sindoor was an unqualified and unequivocal success, in which India's growing technological self-reliance played a pivotal role. The war unmistakably demonstrated the massive might of the Indian military, powered by home-grown weapons and cutting-edge domestic technologies. Propelled by a distinct showcasing of India's indigenous military strength and effective deployment of indigenous systems, India's defence stocks, such as Cochin Shipyard, Paras Defence, Mazagon Dock Shipbuilders, Bharat Dynamics, Bharat Electronics, and Hindustan Aeronautics rose steeply by up to 11% following Operation Sindoor.



India's defence sector has come of age, and how! This seamless integration of indigenous hi-tech systems into the overall national defence across the development spectrum, including drone warfare, layered air defence, electronic warfare, etc., was executed tellingly—a manner that has been effectively communicated in the Indian subcontinent and internationally. And the rest is history.

Valuation of Defence Sector Stocks - Fairly Valued?

The global growth is muted, and the Indian economy has emerged as an outperformer and a bright spot in the global economy. While the stock market oscillations are a function of multiple forces and factors, macroeconomic factors, such as sustained economic growth, low and stable inflation, buoyant forex reserves of over \$ 688 billion, manageable Current Account Deficit (CAD), glide path of the fiscal deficit, corporate earnings, valuations and continuity and stability in policymaking and the Government play an important role.

A stock market forecast is always fraught with uncertainties because of a slew of global cues and domestic factors, firm performance, industry, and the macroeconomy and prospects. In the past month, the Nifty India Defence Index rose 18.5%, whereas the Nifty 50 rose by a relatively modest 7.6%.

Top 10 Defence Stocks with Highest Returns (Last 1 Month)

Company Name	Return (%)
Bharat Dynamics	32%
Mishra Dhatu Nigam	28%
Astra Microwave	24%
Mazagon Dock	23%
Bharat Electronics	18%
Garden Reach Shipbuilders	18%
HAL	12%
Cochin Shipyard	12%
BEML	9%
Zen Technologies	6%

While there is no case for “*irrational exuberance*”, these numbers highlight growing investor confidence in the defence sector, especially due to the government’s reforms under the Atmanirbhar Bharat (Self-reliant India) initiative.

To my mind, the defence stocks are fairly valued because the capability and competence of the Indian defence products are clearly established and, therefore, defence stocks are set to move higher and onwards in “*the new normal*”- a normal, where patience cannot be

mistaken for weakness, retribution and catastrophic revenge are inevitable in India's new war doctrine at a date, time and place of India's choosing. As A.C. Swinburne wrote in his poem *The Triumph of Time* (1866)

“At the door of life, by the gate of breath,

There are worse things waiting for men than death”

Crystal Ball Gazing- Defence Space Forecast

Let me begin with this classic observation of Lord J. M. Keynes, *“In the long run, we are all dead”*. On a serious note, Russian, French, Israeli and Indian military equipment provided the teeth to India's fierce assault. Accordingly, the rally in India's defence stocks is here to stay. Why? No rocket science here. Historically, the *“military-industrial complex”* has been an important driver of American economic development for the last few decades. With a clear demonstration of the stellar quality and lethal destructive power of India's defence systems, a similar pattern of the military-industrial complex is now emerging in India. The defence sector must be an integral part of India's growth story of becoming a \$ 7 trillion economy by 2030. This new economic calculus, this inflexion point and extensive dissemination of this information are likely to set in motion a virtuous and mutually reinforcing cycle of economic development and military muscle and heft.

Choice of Defence Stocks

India's major defence stocks, viz. Cochin Shipyard, Paras Defence, Mazagon Dock Shipbuilders, Bharat Dynamics, Bharat Electronics and Hindustan Aeronautics are likely to do well. But the rise in these stocks will be a function of various factors. Hence, it's difficult to quantify the rise in these scrips.

Where Do We Go From Here?

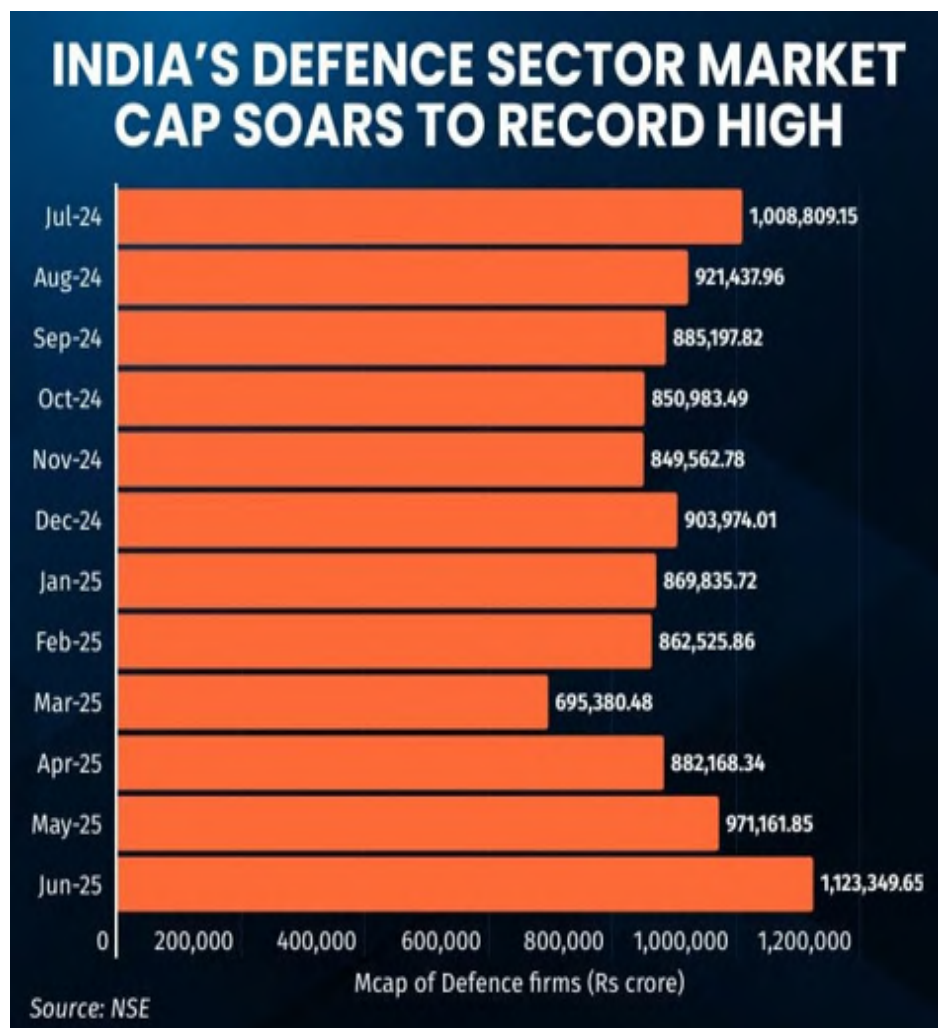
Considered in a proper historical and comparative perspective, India's defence exports zoomed 34-fold from just ₹ 686 crore in 2013–14 to ₹ 23,622 crore in 2024–25. Shri Rajnath Singh, India's Defence Minister, stressed that this extraordinary rise demonstrates the growing strength of India's defence sector, powered by the vision of *“Atmanirbhar Bharat”* (self-reliant India) and strategic policy interventions, such as the Make in India initiative and Production-Linked Incentive (PLI) schemes.

These contextually significant initiatives have attempted to enhance the global competitiveness of Indian manufacturers, boost exports, attract foreign investments, and reduce dependency on imports by developing R&D capabilities through public-private partnerships for military-grade products. Consequently, surging defence production led to hefty returns for investors in public sector undertakings (PSUs) engaged in defence manufacturing.

India has come a long way from importing 65–70% of its defence requirements in 2014-15 to 65% domestic defence equipment manufacturing in India in 2023-24. Way to go!

Year	Defence Production	Defence Exports
2014-15	₹46,429 crore	₹686 crore
2023-24	₹1.27 lakh crore	₹23,622 crore

With the establishment of multiple defence hubs and increased collaboration with global players, India’s defence and aerospace ecosystem is also expanding rapidly. The Ministry of Defence (MoD) revealed that India exported a wide array of defence items, including ammunition, weapons, systems/subsystems, and components, to nearly 80 countries in FY25. In a concerted attempt to consolidate India’s footprint in the global defence market and raise the bar, the government has now set an ambitious target of achieving annual defence exports of Rs. 50,000 crore by 2029. Value unlocking through capex-enhanced Budget allocation of Rs. 6.81 lakh crore for FY 25 and policy support has a “*crowding-in*” effect.



India's defence budget has grown 2.5 times since 2013-14, now reaching ₹6.8 lakh crore. In FY 25, out of 193 defence contracts, 177 (92%) were awarded to domestic companies. The government aims to achieve ₹3 lakh crore in defence production and ₹50,000 crore in defence exports by 2029, and is speeding up policy and structural reforms to meet these goals.

India's Expanding Defence Industry

Defence PSUs: 16

Licensed Private Companies: 430+

MSMEs in the Sector: 16,000+

Private Sector Share: 21%

This growing industrial base is not only increasing India's defence production but also creating jobs and fostering technology innovation. This creates a conducive environment for the sustained growth of both private and public sector players.

The Nifty India Defence Index has surged by over 30% in the past three months, reflecting rising investor confidence strengthened by the effective performance of indigenously developed defence systems. The strategic and commercial value of self-reliance in defence manufacturing is self-evident and, therefore, India is certain to go full steam ahead in this crucial area.

Transforming Ground Realities, Changing Equations

Global defence purchase of arms and ammunition is a huge and growing market. With India's weaponry acquiring a "*critical mass*" "*in the change of years, in the coil of things*" (A.C. Swinburne), we see greater collaboration in defence production between Russia, France, Israel and India as partners in development because of a confluence and convergence of these countries' strategic, economic and defence interests.

DEFENCE STOCKS IN FOCUS

Company Name	Period	Revenue (Rs crore)	Net profit (Rs crore)	Orderbook (Rs crore)
Paras Defence And Space Technologies	FY25	365	61	900
Data Patterns (India)	FY25	708	222	729.84
Cochin Shipyard	FY25	4820	827	22500
Hindustan Aeronautics	FY25	30981	8323	184000
Cyient DLM	FY25	1520	68	1900
Garden Reach Shipbuilders & Engineers	FY25	5076	527	25231
Zen Technologies	FY25	974	299	950
Bharat Electronics	FY25	23769	5287	71650
Astra Microwave Products	9 Month ended	643	70	2332
BEML	9 Month ended	2370	5	15100
Bharat Dynamics	9 Month ended	1523	277	22700
DCX Systems	9 Month ended	534	18	3359
Mazagon Dock Shipbuilders	9 Month ended	8257	1987	34787
MTAR Technologies	9 Month ended	485	39	942.25
Solar Industries India	9 Month ended	5384	934	7100

Source: ACE Equities, Company presentations

The order books of leading companies are rising because of domestic wins and rising exports. It has been held- and justifiably so - that India is all set to garner a larger share of the global arms market in conformity with its rising economic ascendancy, technological development and knowledge of the ecosystem of weapons.

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