PL Capital
PRABHUDAS LILLADHER

Capital Goods (Defense)

Sector Update

December 30, 2025

DAC AoNs ~Rs790bn adds to multi-year revenue visibility

Recently Defense council has approved the acquisition of Rs790bn covering upgrades, overhauls and fresh procurement across key defense platforms. Over the past few months, the DAC has accorded AoN aggregating ~Rs3.3trn across the Army, Navy and Air Force, spanning missiles and air defense, electronic warfare and sensors, unmanned and autonomous systems, naval platforms, mobility solutions, and lifecycle upgrades/MRO. The steady cadence of approvals underscores a structural defense capex upcycle and the government's continued push toward indigenization under Atmanirbhar Bharat. We believe these AoNs provide strong multi-year order visibility, support higher localization and private-sector participation, and improve execution and earnings visibility for domestic defense manufacturers, particularly across missiles, electronics, unmanned systems, naval shipbuilding and sustainment services.

On 29thDec'25 the **DAC accorded AoN** for procurement **proposals across defense platforms** aggregating **~Rs790bn**, reinforcing the medium-term defence capex pipeline. We believe the major AoN approvals include **Long Range Guided Rocket Ammunition for Pinaka** (**Solar Industries India** as the primary beneficiary), and **Astra Mk-II missile**, which should mainly benefit **Bharat Dynamics (BDL)** and **Bharat Electronics (BEL)** while other approvals across drones, radars, naval and IAF platforms provide incremental opportunities for a wider set of domestic defense players.

Indian Army

- AoN cleared for **Loiter Munition Systems** for artillery regiments, enabling precision strikes against tactical targets.
- **Low Level Light Weight Radars** approved to detect and track small, low-flying UAVs, strengthening counter-UAS capability.
- **Long Range Guided Rocket Ammunition** for **Pinaka MRLS** to enhance range and accuracy against high-value targets.
- **Integrated Drone Detection & Interdiction System (IDDIS) Mk-II** approved to protect vital assets in tactical battle areas and hinterland.

Indian Navy

- AoN for **Bollard Pull (BP) Tugs** to aid berthing, unberthing and maneuvering of ships and submarines in confined waters.
- **HF Software Defined Radio (SDR) Manpack** approved to enhance secure long-range communications during boarding/landing operations.
- Approval to **lease HALE RPAS**, enabling persistent ISR and improved Maritime Domain Awareness across the Indian Ocean Region.

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Indian Air Force

- AoN for **Automatic Take-off & Landing Recording System** to improve aerospace safety via all-weather, high-definition recording.
- **Astra Mk-II air-to-air missiles** approved, providing enhanced standoff engagement capability.
- **Full Mission Simulator** for LCA Tejas to augment pilot training in a cost-effective and safe manner.
- **SPICE-1000 long-range guidance kits** approved to strengthen precision strike capability.

Exhibit 1: Likely beneficiaries of ~Rs790bn AoN approvals by DAC

Key AoN Exposure	Company
Loitering Munition Systems, Radars, Long range guided rockets for Pinaka MRLS and Integrated Drone detection & Interdition System Mk-II	SOIL, Ideaforge, BEL, Data Patterns
Bollard Pull, HF SDR, HALE RPAS	Cochin Shipyard, GRSE, BEL,HAL
Automatic Take-off & Landing Recording System, Astra Mk-II Air-to-Air Missiles, LCA Tejas Simulators, SPICE-1000 Long-Range Guidance Kits	BEL, BDL, Paras, Astra Microwaves

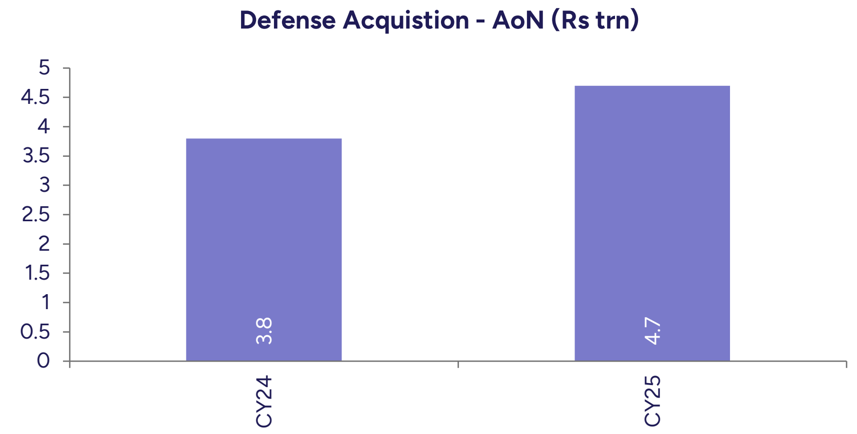
Source: Industry, PL

Exhibit 2: ~3.3trn defense acquisition approvals over the last six months

Date	AoN Value (Rsbn)	Key Approvals
Jul-25	1,050	Armoured recovery vehicles, EW systems, Tri-Services inventory management, SAMs, moored mines, MCM vessels, SRGMs, autonomous submersible vessels
Aug-25	670	IFV driver night sights; autonomous surface craft (Navy); BrahMos FCS & launchers; mountain radar (IAF); MALE drones; C-17/C-130J sustenance; S-400 LRAD AMC
Oct-25	790	Army: Nag (Tracked) Mk-II, mobile ELINT, HMVs with cranes; Navy: LPDs, 30mm NSG, ALWT, EOIRST, smart ammo for 76mm SRGM; IAF: CLRTS/DS and other high-tech systems
Dec-25	800	Army: Loitering munitions, LLL radars, guided rockets for Pinaka MRLS, drone detection & interdiction (Mk-II); Navy: BP tugs, HF SDR manpack, HALE RPAS (lease); IAF: Astra Mk-II, simulators, SPICE-1000; RFPs: refuellers & AWACS

Source: Industry, PL

Exhibit 3: Annually defense procurement has increased by ~24% YoY in CY25



Source: Industry, PL

Our defence coverage includes Hindustan Aeronautics, Bharat Electronics and BEML. Of which **our current top pick is Hindustan Aeronautics.**

- **Start of GE F-404 engine deliveries to support LCA Tejas Mk1A execution ramp up:** GE has commenced F-404 engine deliveries, with 5 engines delivered to date and 2 more expected in Jan'26. The improving supply outlook supports a ramp-up in execution and deliveries in subsequent years..

- **Procurement of additional 97 LCA Tejas MkA1 aircrafts at ~Rs620bn:** HAL received the much-awaited order for additional 97 LCA Tejas MkA1 adding ~Rs620bn to HAL's order book. These aircrafts will feature ~64% indigenous content and the deliveries to commence over 2027-2028 to be completed over next 6 years. HAL has further entered into an agreement with GE for the supply of 113 F404-GE-IN20 engines to power these 97 LCA Tejas MkA1 jets.

- **HNAL has robust order book of ~Rs2.5trn** including recently won ~Rs628bn order of 156 LCH Prachand Helicopters (deliveries to start from FY29) and 97 LCA Tejas Mk1A (deliveries to start from FY28) along with the order prospects exceeding ~Rs1.0trn for the next 2 years. The robust order book is expected to keep HNAL's factories occupied for the next decade.

- **Next gen platforms to replace to current fleet of IAF:** IAF's current fleet of fighter aircrafts is planned to be phased out in the next decade replacing it with advancing next-generation platforms such as Tejas Mk2, AMCA, GE-414 and IMRH engines etc further bolstering HNAL's long-term prospects.

HAL is currently trading at PE of 31.7x/28.8x on FY27E/28E. We currently have a 'Buy' rating with a TP of Rs5,507

Exhibit 4: Financial snapshot of defense companies

Peer Comparison	Sales (Rs mn)			EBITDA (Rs mn)			EBITDA %			PAT (Rs mn)		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Hindustan Aeronautics#	3,37,812	3,85,839	4,41,593	98,755	1,12,023	1,26,455	29.2%	29.0%	28.6%	84,470	92,318	1,01,518
BEML#	47,615	59,731	69,590	6,595	8,900	10,515	13.9%	14.9%	15.1%	4,273	5,948	7,067
Bharat Dynamics*	46,361	61,327	79,707	9,236	12,744	17,181	19.9%	20.8%	21.6%	9,165	12,213	15,984
Solar Industries India*	1,00,312	1,27,392	1,54,325	26,483	34,145	41,641	26.4%	26.8%	27.0%	16,902	21,690	26,277
Bharat Electronics#	2,73,801	3,23,355	3,70,965	76,500	87,920	1,00,865	27.9%	27.2%	27.2%	59,687	69,111	79,574
Data Patterns*	9,263	11,440	14,233	3,443	4,552	5,586	37.2%	39.8%	39.2%	2,661	3,508	4,306
Astra Microwave Products*	12,188	14,564	17,827	2,997	3,719	4,687	24.6%	25.5%	26.3%	1,731	2,246	2,844
Mazagaon Dock Shipbuilders*	1,34,033	1,58,424	1,63,707	23,930	30,161	33,139	17.9%	19.0%	20.2%	27,465	33,396	36,559
Garden Reach Shipbuilders*	66,004	88,181	90,324	6,091	8,838	10,194	9.2%	10.0%	11.3%	7,005	9,775	10,571
Cochin Shipyard*	50,502	60,877	70,329	8,201	14,981	13,517	16.2%	24.6%	19.2%	7,240	9,528	11,531

*Source: Industry, #PL Estimates, *Bloomberg Consensus*

Exhibit 5: Defense peers – Valuation comparison

Peer Comparison	Market Data (Rs Mn)		EPS (Rs)			P/E (x)			EV/EBITDA (x)		
	CMP	MCap	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Hindustan Aeronautics#	4,377	29,28,213	126.3	138.0	151.8	34.7x	31.7x	28.8x	24.4x	21.5x	19.1x
BEML#	1,861	1,54,835	51.3	71.4	84.8	36.3x	26.1x	21.9x	20.7x	15.3x	13.0x
Bharat Dynamics*	1,473	5,40,591	25.3	33.5	43.5	58.3x	44.0x	33.9x	46.3x	33.6x	24.9x
Solar Industries India*	12,300	11,13,150	186.9	239.8	287.3	65.8x	51.3x	42.8x	38.4x	29.8x	24.4x
Bharat Electronics#	393	28,72,830	8.2	9.5	10.9	48.1x	41.6x	36.1x	27.6x	24.0x	20.9x
Data Patterns*	2,663	1,49,128	47.9	62.6	77.6	55.6x	42.5x	34.3x	26.2x	19.8x	16.1x
Astra Microwave Products*	979	92,907	19.1	23.7	30.5	51.4x	41.3x	32.1x	22.4x	18.0x	14.3x
Mazagon Dock Shipbuilders*	2,538	10,22,814	68.6	83.6	89.9	37.0x	30.4x	28.2x	37.8x	30.0x	27.3x
Garden Reach Shipbuilders*	2,484	2,85,660	63.8	85.4	92.4	39.0x	29.1x	26.9x	25.6x	17.6x	15.3x
Cochin Shipyard*	1,636	4,30,268	27.5	36.2	43.8	59.5x	45.2x	37.3x	42.1x	23.0x	25.5x

*Source: Industry, #PL Estimates, *Bloomberg Consensus*

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB India	Accumulate	5,540	5,017
2	Apar Industries	Hold	9,744	8,625
3	BEML	Hold	1,982	1,987
4	Bharat Electronics	Hold	407	426
5	BHEL	Hold	250	270
6	Carborundum Universal	Hold	894	901
7	Cummins India	Hold	4,172	4,292
8	Elgi Equipments	Accumulate	561	500
9	Engineers India	BUY	255	190
10	GE Vernova T&D India	BUY	4,005	3,098
11	Grindwell Norton	Hold	1,744	1,676
12	Harsha Engineers International	Hold	407	388
13	Hindustan Aeronautics	BUY	5,507	4,749
14	Ingersoll-Rand (India)	Accumulate	4,271	3,804
15	Kalpataru Projects International	BUY	1,494	1,256
16	KEC International	BUY	932	768
17	Kirloskar Pneumatic Company	BUY	1,620	1,047
18	Larsen & Toubro	BUY	4,766	3,958
19	Praj Industries	Hold	353	335
20	Siemens	Accumulate	3,470	3,145
21	Siemens Energy India	Accumulate	3,312	2,982
22	Thermax	Accumulate	3,513	3,061
23	Triveni Turbine	Accumulate	609	543
24	Voltamp Transformers	BUY	10,318	7,845

PL's Recommendation Nomenclature

Buy	:	> 15%
Accumulate	:	5% to 15%
Hold	:	+5% to -5%
Reduce	:	-5% to -15%
Sell	:	< -15%
Not Rated (NR)	:	No specific call on the stock
Under Review (UR)	:	Rating likely to change shortly

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