Defense

BHE - Financials & Valuations (INR b)			
Y/E MARCH	FY27E	FY28E	FY29E
Sales	319.2	375.8	414.8
EBITDA	92.9	107.3	118.6
Adj PAT	70.1	81.7	92.0
EPS (INR)	9.6	11.2	12.6
EPS Gr. (%)	15.8	16.6	12.6
BV/Sh (INR)	41.4	51.9	63.6
Ratios			
RoE (%)	23.1	21.5	19.8
RoCE (%)	25.9	24.0	21.8
Payout (%)	6.6	6.6	6.6
Valuations			
P/E (x)	42.2	36.2	32.2
P/BV (x)	9.8	7.8	6.4
EV/EBITDA (x)	30.3	25.7	22.7
Div Yield (%)	0.2	0.2	0.2

HAL - Financials & Valuations (INR b)			
Y/E MARCH	FY27E	FY28E	FY29E
Sales	376.5	472.9	608.6
EBITDA	110.7	136.6	165.4
Adj PAT	100.2	120.1	145.8
EPS (INR)	149.9	179.6	218.0
EPS Gr. (%)	10.0	19.8	21.4
BV/Sh (INR)	719	853	1,026
Ratios			
RoE (%)	20.9	21.1	21.2
RoCE (%)	21.3	21.4	21.5
Payout (%)	30.0	25.1	20.6
Valuations			
P/E (x)	32.4	27.0	22.3
P/BV (x)	6.8	5.7	4.7
EV/EBITDA (x)	24.7	19.3	15.1
Div Yield (%)	0.9	0.9	0.9

ASTM - Financials & Valuations (INR b)			
Y/E MARCH	FY27E	FY28E	FY29E
Sales	13.6	16.7	22.7
EBITDA	3.7	4.6	6.2
Adj PAT	2.4	3.3	4.7
EPS (INR)	25.8	35.3	49.7
EPS Gr. (%)	26.8	36.9	40.9
BV/Sh (INR)	164.2	199.5	249.2
Ratios			
RoE (%)	17.0	19.4	22.2
RoCE (%)	14.9	16.8	19.0
Valuations			
P/E (x)	66.3	48.5	34.4
P/BV (x)	10.4	8.6	6.9
EV/EBITDA (x)	43.4	35.1	25.8

Further DAC approvals enhance addressable market

In continuation with Atmanirbhar Bharat in the defense sector, India's Defence Acquisition Council (DAC) has approved Acceptance of Necessity (AoNs) for various acquisition proposals worth INR1.1t for the Army, Navy, and Air Force. The approvals focus on battlefield mobility, mine warfare, CBRN protection, electronic warfare, surveillance and naval propulsion, with 98% of total AoNs earmarked for the Indian industry. So far in FY27, DAC has given approvals worth INR1.62t. Over FY25-YTDFY27, approvals worth INR13t have been accorded for the Indian defense sector, which enhances the TAM of domestic players. Moreover, the government has been taking steps to open missile production to Indian private players. These initiatives improve order inflow visibility for the defense sector. In the near to medium term, finalization of large tenders for defense PSUs should be keenly watched out for. We reiterate our positive stance on the sector and maintain Bharat Electronics (BEL) as our preferred pick.

DAC approvals worth INR1.1t with 98% sourcing from Indian players

On 7th Sep'26, the DAC granted AoNs for capital procurement proposals worth around INR1.1t, taking the YTDFY27 total approvals to INR1.62t. **Army** approvals include procurement of 1) chemical, biological, radiological and nuclear (CBRN) recce vehicles capable of detecting, identifying, monitoring and marking CBRN-agent contaminated areas; 2) high mobility vehicles (HMVs) to enhance operational capabilities, logistic support and mobility; 3) self-propelled mechanical mine layers (MML) for fast and responsive minelaying; 4) advanced light helicopters (ALHs) to execute complex missions across all terrains; and 5) trawl tanks and Sarvatra Bridge System. For the **Navy**, clearances cover Arudhra radars to replace the existing air route surveillance radars at various Naval Air Stations; design, development and subsequent procurement of marine gas turbines (MGT); and a warship propulsion system, which will reduce dependency on foreign vendors. For **Air Force,** AoNs were granted to various proposals to enhance the war-fighting capability of fighters, transports and helicopters. Approval was also accorded for procuring ground-based multi-purpose jammers (GBMPJ) to provide effective jamming against radars of adversaries, and installing the Defence Forces Secure Access Card (DEFSAC) system, which will replace existing paper-based identity card/passes/permits (Refer **Exhibit 1** for key beneficiaries).

Recent developments in Indian defense sector

- The government has approved the transfer of DRDO-developed technologies of all conventional missile systems to the Indian defense industry for production within the country.
- India has simplified defense export rules by reducing approvals, extending the open general export license (OGEL) validity from two years to three years, and expanding OGEL coverage from 41 countries to most global markets, making exports faster and easier for Indian defense companies.
- The government is pushing defense PSUs toward exports and global competitiveness: At the 1st Sep'26 annual review, the government said PSUs contributed INR1.3t of India's ~INR1.8t defense production in FY26, while their exports jumped 151% YoY. HAL also received a dedicated modernization and indigenization roadmap.

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BDL - Financials & Valuations (INR b)

Y/E MARCH	FY26	FY27E	FY28E
Sales	24.4	42.3	61.2
EBITDA	2.2	6.3	9.8
Adj PAT	4.2	6.7	9.8
EPS (INR)	11.5	18.2	26.7
EPS Gr. (%)	(23.5)	58.8	46.5
BV/Sh (INR)	115.7	127.0	145.6
Ratios			
RoE (%)	9.9	14.3	18.3
RoCE (%)	10.2	14.7	18.7
Valuations			
P/E (x)	108.7	68.4	46.7
P/BV (x)	10.8	9.8	8.6
EV/EBITDA (x)	183.4	63.2	39.2

ZEN - Financials & Valuations (INR b)

Y/E MARCH	FY27E	FY28E	FY29E
Sales	9.9	13.7	17.5
EBITDA	3.6	5.0	6.4
Adj PAT	3.0	4.2	5.3
EPS (INR)	33.6	47.0	58.8
EPS Gr. (%)	107.8	40.0	25.1
BV/Sh (INR)	235.4	282.4	341.2
Ratios			
RoE (%)	15.4	18.2	18.9
RoCE (%)	15.5	18.3	19.0
Valuations			
P/E (x)	53.5	38.2	30.5
P/BV (x)	7.6	6.4	5.3
EV/EBITDA (x)	42.6	30.0	23.2

- GE Aerospace delivered three additional F404 in Aug’26 engines to HAL in Aug’26, taking total Mk1A deliveries to 10 and easing a key supply constraint for Tejas production.
- HAL signed partnerships with Adani Defence and other Indian industry players to strengthen the production ecosystem for LCH Prachand, supporting a faster scale-up of helicopter manufacturing.
- BEL signed an MoU with Ananth Technologies to jointly develop and manufacture advanced systems for missiles, radars, satellites and navigation, strengthening its private-industry R&D ecosystem.
- MoD has signed a contract worth INR19.4b for a 30-month lease for two MQ-9B Sea Guardian HALE RPAS from General Atomics.
- Cochin Shipyard delivered 'Mangrol', the third of eight anti-submarine warfare shallow water craft with around 80% indigenous content.

Valuation and recommendation

- **BHE** is currently trading at 42.2x/36.2x/32.2x on FY27E/FY28E/FY29E EPS. **We maintain our estimates and reiterate our BUY rating on the stock** with an unchanged TP of INR530, based on the 45x two-year forward earnings.
- **HAL** is currently trading at 32.4x/27.0x/22.3x on FY27E/FY28E/FY29E EPS. **We maintain our estimates and reiterate our BUY rating on the stock** with an unchanged TP of INR5,800, based on the average of DCF and 30x two-year forward earnings.
- **BDL** is currently trading at 68.4x/46.7x/37.0x on FY27E/FY28E/FY29E EPS. **We maintain our estimates and reiterate our Neutral rating on the stock** with an unchanged TP of INR1,270, based on the 42x two-year forward earnings.
- **AMPL** is currently trading at 66.3x/48.5x/34.4x on FY27E/FY28E/FY29E EPS. **We maintain our estimates and reiterate our BUY rating on the stock** with an unchanged TP of INR1,900, based on the 42x two-year forward earnings.
- **ZEN** is currently trading at 53.5x/38.2x/30.5x on FY27E/FY28E/FY29E EPS. **We maintain our estimates and reiterate our Neutral rating on the stock** with an unchanged TP of INR1,600, based on the 30x two-year forward earnings.

AoN approvals and key beneficiaries

Exhibit 1: Key beneficiaries of DAC approvals worth INR10.9t from start of FY26 till date, most of which are expected to be awarded to domestic defense players

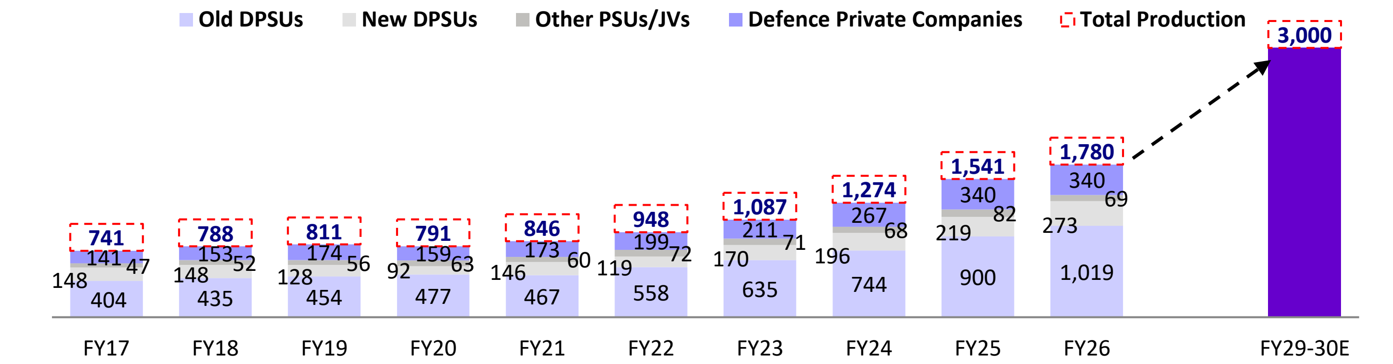
Date	Approval by DAC	Value (INR b)	Potential beneficiaries
07-Sep-26	**Indian Army**	1100	
	Chemical Biological Radiological and Nuclear (CBRN) Recce Vehicles		BEL, BEML, TASL, Bharat Forge,
	High Mobility Vehicles (HMV)		BEML, TASL, Ashok Leyland
	Self-Propelled Mechanical Mine Layers (MML)		Godrej Precision Engineering
	Advanced Light Helicopters (ALHs)		HAL
	Trawl Tanks		BEML, Electro Pneumatics and Hydraulics (India) Pvt Ltd
	Sarvatra Bridge System		BEML
	Indian Navy		
	Arudhra Radars		BEL, Axiscades, AMPL
	Marine Gas Turbines (MGT)		Bharat Forge, BHEL, Triveni Engineering, HAL
	Indian Air Force		
	Ground-Based Multi-Purpose Jammer (GBMPJ)		BEL, ASTM, Data Patterns, Electronics Corporation of India Limited (ECIL)
	Defence Forces Secure Access Card (DEFSAC) System		Tech Mahindra, Infineon Technologies India, BEL
03-Jul-26	**Indian Army**	520	
	Anti-Unmanned Aerial Vehicles (UAV) Electronic Warfare System 'AKASH TARANG		BEL, AMPL, Apollo Micro Systems, Data Patterns
	Man Portable Anti-Tank Guided Missile (MPATGM) Systems		BDL, BEL, ASTM
	Medium Range Surface-to-Air Missile (MRSAM)		BEL, BDL
	Very Short Range Air Defence System (V-SHORADS)		BDL, BEL
	Active Protection System for Tanks		BEL, AMPL, Apollo Micro Systems, Data Patterns, Paras Defence
	Jet Based Kamikaze Drone System		BEL, SMPP, Solar Industries
	Indian Navy		
	Multi Influence Ground Mine (MIGM)		Apollo Micro Systems and BDL
	Naval Shipborne Unmanned Aerial System (NSUAS)		HAL, BEL
	Land Based Testing Facility (LBTF) for Electric Propulsion System		BHEL, L&T
	Indian Air Force		
	Fixed-Wing Based High Altitude Pseudo Satellite (FW-HAPS)		HAL, Data Patterns, BEL, ASTM, Paras Defence
27-Mar-26	**Indian Army**	2,380	
	Air Defence Tracked System		BEL, L&T, TASL
	Armoured Piercing Tank Ammunition		SMPP, Rosoboronexport, Indian Ordnance Factories
	High-Capacity Radio Relay		BEL, HFCL, AMPL, L&T, Precision Electronics Limited
	Dhanush Gun System		Advanced Weapons and Equipment India Ltd, BEL
	Runway Independent Aerial Surveillance System		ideaForge, Adani Defence, JSW Defence, VTOL
	Indian Air Force		
	Medium Transport Aircraft		HAL, TASL + Foreign entities
	S-400 Long Range Surface-to-Air Missile System		Almaz-Antey (Russia)
	Remotely Piloted Strike Aircraft		Adani Defence, L&T, TASL, SOIL, JSW Defence
	Overhaul of Su-30 Aero engine Aggregates		HAL, BEL
	Indian Coast Guard		
	Heavy Duty Air Cushion Vehicles		Private companies
12-Feb-26	**Indian Army**	3,600	
	Anti-Tank Mines (Vibhav)		Bharat Forge
	Overhaul of Vehicle Platforms of Armoured Recovery Vehicles (ARVs), T-72 Tanks and Infantry Combat Vehicles (BMP-II)		AVNL, BEML
	Indian Navy		
	04 MW Marine Gas Turbine based Electric Power Generator		Triveni Engineering & Rolls Royce
	P8I Long Range Maritime Reconnaissance Aircraft		

Date	Approval by DAC	Value (INR b)	Potential beneficiaries
	Indian Air Force		
	Multi Role Fighter Aircraft (MRFA) {Rafale}		Dassault Aviation
	Combat Missiles		BDL, BrahMos
	Air-Ship Based High Altitude Pseudo Satellite (AS-HAPS)		HAL, NewSpace Research and Technologies, VEDA Aeronautics
	Indian Coast Guard		
	Electro-Optical/Infra-Red system for Dornier aircraft.		BEL, Paras Defence, Data Pattern, TASL
29-Dec-25	**Indian Army**	**790**	
	Loiter Munition System for Artillery Regiments		Solar Industries, TASL
	Low Level Light Weight Radars		BEL , AMPL, Data Patterns
	Long Range Guided Rocket Ammunition for Pinaka Multiple Launch Rocket System (MRLS)		Solar Industries, BDL, Munitions India
	Integrated Drone Detection & Interdiction System Mk-II		BEL, AMPL, Data Patterns, Adani, TASL
	Indian Navy		
	Bollard Pull (BP) Tugs		CSL, MDL, GRSE, L&T , Titagarh Rail Systems
	High Frequency Software Defined Radios (HF SDR) Manpack		BEL
	High Altitude Long Range (HALE) Remotely Piloted Aircraft System (RPAS)		HAL, TASL, Adani, BEL
	Indian Air Force		
	Automatic Take-off Landing Recording System		BEL, HAL
	Astra Mk-II Missiles		BDL
	Full Mission Simulator		Zen Tech, BEL, HAL
	SPICE-1000 Long Range Guidance Kits		BDL, Bharat Forge, Rafael
23-Oct-25	**Indian Army**	**790**	
	Nag Missile System (Tracked) Mk-II (NAMIS)		BDL, BEL, AMPL
	Ground Based Mobile ELINT System (GBMES)		BEL, AMPL, TASL
	High Mobility Vehicles (HMVs) with Material Handling Crane		Ashok Leyland, Tata Motors, BEML
	Indian Navy		
	Landing Platform Docks (LPD)		MDL, GRSE, CSL, L&T
	30mm Naval Surface Gun (NSG)		Bharat Forge, TASL, L&T
	Advanced Light Weight Torpedoes (ALWT)		BDL, L&T
	Electro Optical Infra-Red Search and Track System		BEL, AMPL, L&T, TASL
	Smart Ammunition for 76mm Super Rapid Gun Mount		BDL, TASL, Solar Industries
	Indian Air Force		
	Collaborative Long Range Target Saturation/Destruction System (CLRTS/DS)		HAL, BEL, AMPL, TASL
05-Aug-25	**Indian Army**	**670**	
	Thermal Imager-based Driver Night Sight for BMP		BEL, AMPL, L&T
	Indian Navy		
	Compact Autonomous Surface Craft		TASL, L&T Defence, BEML
	BrahMos Fire Control System & Launchers		BrahMos Aerospace, BEL, BDL, L&T
	Upgradation of BARAK-1 Point Defence Missile System		BEL, BDL
	Indian Air Force		
	Mountain Radars		BEL, AMPL, L&T
	Upgradation of SAKSHAM/SPYDER Weapon System		BEL, AMPL, BDL
	Others		
	Medium Altitude Long Endurance (MALE) Remotely Piloted Aircraft (RPAs)		HAL, BEL, AMPL, Solar Industries, TASL
	C-17 and C-130J fleets		HAL, TASL, Mahindra Defence
	Annual maintenance contract of S-400 Long Range Air Defence Missile System		BEL, BDL
03-Jul-25	**Tri-services**	**1,050**	
	Armoured Recovery Vehicles, Electronic Warfare System, Integrated Common Inventory Management System for the Tri-Services and Surface-to-Air Missiles.		BEML, BEL, AMPL, BDL
	Moored Mines, Mine Counter Measure Vessels, Super Rapid Gun Mount and Submersible Autonomous Vessels.		BDL, APOLLO, GSL, BEL, BHEL, L&T, Sagar Defence, Krishna Defence

Source: PIB, MOFSL

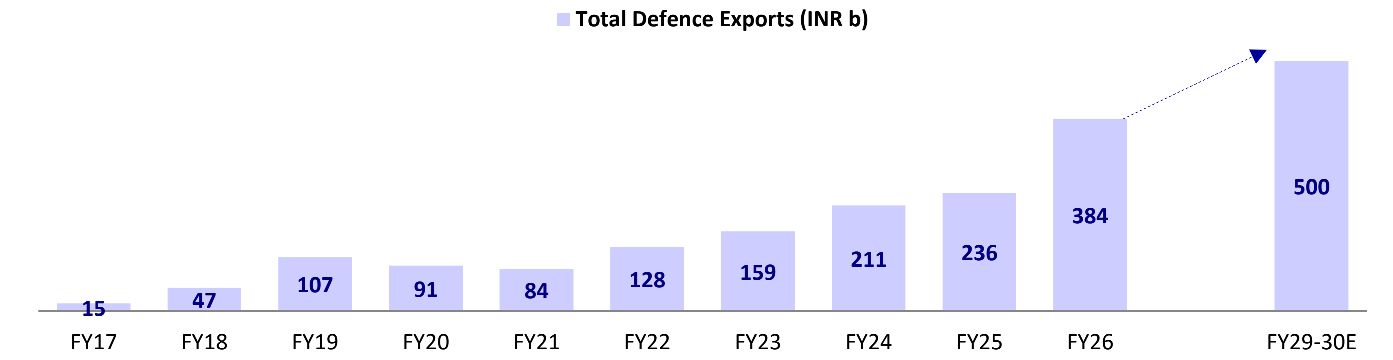
Defense production and exports estimated to double by FY29-30

Exhibit 2: Total defense production targeted to reach INR3t by FY29-30



Source: DDP, MoD, MOFSL

Exhibit 3: Total defense exports are targeted to double from FY25 levels to INR500b by FY29-30



Source: DDP, MOFSL

Exhibit 4: Government's defense capex budget utilization over the years: If defense capex grows at a higher rate, the share of procurement from domestic players will increase too

(INR b)	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27E
Budget	*ACT*	*ACT*	*ACT*	*ACT*	*ACT*	*ACT*	*ACT*	*ACT*	*ACT*	*RE*	*BE*
Defence capital outlay budget	**864**	**904**	**952**	**1,111**	**1,343**	**1,380**	**1,429**	**1,543**	**1,598**	**1,865**	**2,193**
YoY %		*5*	*5*	*17*	*21*	*3*	*4*	*8*	*4*	*17*	*15*
Domestic Defence production	**741**	**788**	**811**	**791**	**846**	**949**	**1,087**	**1,274**	**1,506**	**1,780**	**2,026**
YoY %		*6*	*3*	*(3)*	*7*	*12*	*15*	*17*	*18*	*18*	*14*
Defence PSUs											
HAL	179	185	200	214	229	246	269	298	310	331	377
BEL	83	100	118	126	138	150	173	202	237	275	319
BDL	49	46	31	31	19	28	25	24	33	24	42
MDL	35	45	46	49	40	57	78	95	133	130	150
Cochin Shipyard	21	24	30	34	28	32	23	36	46	50	59
Garden Reach	9	13	14	14	11	18	26	36	50	70	88
BEML	25	32	35	30	36	43	39	41	41	44	52
Other PSUs and JVs	47	52	56	63	60	72	71	68	82	94	113
Ordnance Factories	148	148	128	92	146	119	170	196	218	251	301
Private companies	141	154	174	159	173	199	211	267	340	420	525
Foreign procurement	**305**	**334**	**430**	**446**	**507**	**483**	**391**	**445**	**452**	**560**	**629**
Share of foreign procurement in overall capex budget %	*35*	*37*	*45*	*40*	*38*	*35*	*27*	*29*	*28*	*30*	*29*
Exports	**15**	**47**	**107**	**91**	**84**	**128**	**159**	**211**	**236**	**384**	**461**
YoY%		*208*	*129*	*(15)*	*(7)*	*52*	*24*	*32*	*12*	*63*	*20*

Source: DDP, MOFSL

Valuation and view

- **BHE** is currently trading at 42.2x/36.2x/32.2x on FY27E/FY28E/FY29E EPS. **We maintain our estimates and reiterate our BUY rating on the stock** with an unchanged TP of INR530, based on the 45x two-year forward earnings.
- **HAL** is currently trading at 32.4x/27.0x/22.3x on FY27E/FY28E/FY29E EPS. **We maintain our estimates and reiterate our BUY rating on the stock** with an unchanged TP of INR5,800, based on the average of DCF and 30x two-year forward earnings.
- **BDL** is currently trading at 68.4x/46.7x/37.0x on FY27E/FY28E/FY29E EPS. **We maintain our estimates and reiterate our Neutral rating on the stock** with an unchanged TP of INR1,270, based on the 42x two-year forward earnings.
- **AMPL** is currently trading at 66.3x/48.5x/34.4x on FY27E/FY28E/FY29E EPS. **We maintain our estimates and reiterate our BUY rating on the stock** with an unchanged TP of INR1,900, based on the 42x two-year forward earnings.
- **ZEN** is currently trading at 53.5x/38.2x/30.5x on FY27E/FY28E/FY29E EPS. **We maintain our estimates and reiterate our Neutral rating on the stock** with an unchanged TP of INR1,600, based on the 30x two-year forward earnings.

Exhibit 5: Relative valuations of domestic defense players

Companies	CMP	Mcap	EPS			P/E (X)			FY26-28 CAGR (%)			ROE (%)		
	(INR)	(INR b)	FY26	FY27E	FY28E	FY26	FY27E	FY28E	Rev	EBITDA	PAT	FY26	FY27E	FY28E
Bharat Electronics	405	2,957	8.3	9.6	11.2	48.9	42.2	36.2	16.9	15.7	16.2	25.5	23.1	21.5
Hindustan Aeronautics	4,856	3,248	136.3	149.9	179.6	35.6	32.4	27.0	19.6	18.3	14.8	22.2	20.9	21.1
Bharat Dynamics	1,246	457	11.5	18.2	26.7	108.7	68.4	46.7	58.3	109.5	52.5	9.9	14.3	18.3
Zen Technologies	1,795	162	16.2	33.6	47.0	111.1	53.5	38.2	80.1	91.7	70.6	8.3	15.4	18.2
Astra Microwave	1,710	162	20.3	25.8	35.3	84.1	66.3	48.5	19.7	17.2	31.7	16.0	17.0	19.4
Data Patterns	4,591	257	47.9	62.9	80.8	95.8	73.0	56.8	25.3	23.2	29.8	16.5	18.4	19.6
MTAR	7,507	231	31.5	80.3	149.5	238.4	93.5	50.2	77.9	98.4	117.9	12.5	26.1	35.4
Solar Industries*	21,904	1,982	185.4	322.6	383.3	118.2	67.9	57.1	43.0	46.9	25.6	31.5	29.5	28.3
PTC Industries*	23,799	357	67.8	456.8	786.2	351.2	52.1	30.3	148.6	244.0	240.6	7.0	34.5	45.0
Azad Engineering*	2,869	185	20.6	36.5	51.2	139.5	78.6	56.0	55.6	54.3	69.8	9.1	12.8	15.2
Mazagon Dock*	2,447	987	63.9	77.6	84.0	38.3	31.5	29.1	21.4	20.3	14.7	28.8	24.4	21.7
Garden Reach*	2,506	287	65.3	89.8	69.1	38.4	27.9	36.3	1.7	-12.7	2.9	31.8	26.3	17.2
Cochin Shipyard*	1,508	397	27.2	42.0	39.3	55.4	35.9	38.4	25.7	37.5	20.1	12.5	16.1	14.1

Source: Company, Bloomberg, MOFSL
* Denotes Bloomberg consensus

Explanation of Investment Rating	
Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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