

EU's defence ramp-up: Advantage India

6 March 2025

The European Union (EU) announced a rearmament plan for the EU of EUR 800bn (~USD 850bn) including support of Ukraine after the US suspended military aid to that country. The EU expects its member nations to raise their defence spend by 1.5% of GDP, which could result in EUR 650bn cumulatively for the next four years. It also announced a joint borrowing instrument for EU countries of EUR 150bn for ramping up defence capabilities. We believe defense companies in India stand to benefit as the EU defence original equipment manufacturers (OEM) turn to public and private defence firms to procure components and subsystems. Potential beneficiaries include Bharat Electronics (BHE IN), Hindustan Aeronautics (HNAL IN), Bharat Dynamics (BDL IN), Data Patterns (DATAPATT IN), Zen Technologies (ZEN IN), Paras Defence (PARAS IN), Solar Industries (SOIL IN), Azad Engineering (AZAD IN), Dynamatic Technologies (DYTC IN) and Vem Technologies & SMPP among not listed names.

EU rushes to bolster security and defense capabilities: After the US suspended military aid to Ukraine, and seems to be favoring Russia, the EU has announced a five-part plan to bolster its defence industry and increase military capabilities, likely concerned about lack of US support. As per EU Chief Ursula Von Der Leyen, if every member nation were to raise defence budget by 1.5% of GDP, it would result in defense spend of EUR 650bn (USD 683bn) for the next four years. Currently, defence spend of several EU States is below the North Atlantic Treaty Organization (NATO) target of 2.0% of GDP. Additionally, they announced EUR 150bn (USD 157bn) of new joint EU borrowing that would be lent to member nations to fund capabilities in areas, such as air & missile defence, artillery systems, missiles, ammunitions, drones and other needs.

EU defense spend is win-win for domestic companies: The EU plan to spend EUR 800bn (~USD 850bn) on defense presents a huge opportunity; to put things in perspective, in FY23, the EU's cumulative military expenditure stood at USD 588bn (Source: SIPRI). Currently, defence spend upto 5% of GDP is being incurred by Armenia and Azerbaijan, due to regional conflicts; Poland, Serbia and Estonia are in the range of 2-3% (Russia has spent ~6% of GDP while Ukraine 37% in FY23). Companies like Bharat Dynamics, Solar Industries, Bharat Electronics have already supplied equipments and components to various countries like Armenia.

Exports of subsystems and components presents sizeable opportunity: There has been rising interest among global defence OEM to look at domestic public and private defence manufacturers to outsource and procure subsystems for defence equipment, which we highlighted in our report on the recent visit to Aero India 2025, [Reaching New Heights](#), published on 25th February 2025. Currently, the US, France and Armenia are the top three export countries for India; domestic companies to date have supplied weapons and equipment, such as the 155mm artillery guns, *Akash* air defence missile, *Pinaka* multi-launch rocket system, the *BrahMos* missile, artillery guns, Dornier-228 aircraft, radars, armored vehicles, fuselage and wings for aircraft & helicopters, bulletproof vests, night vision equipment and electronics.

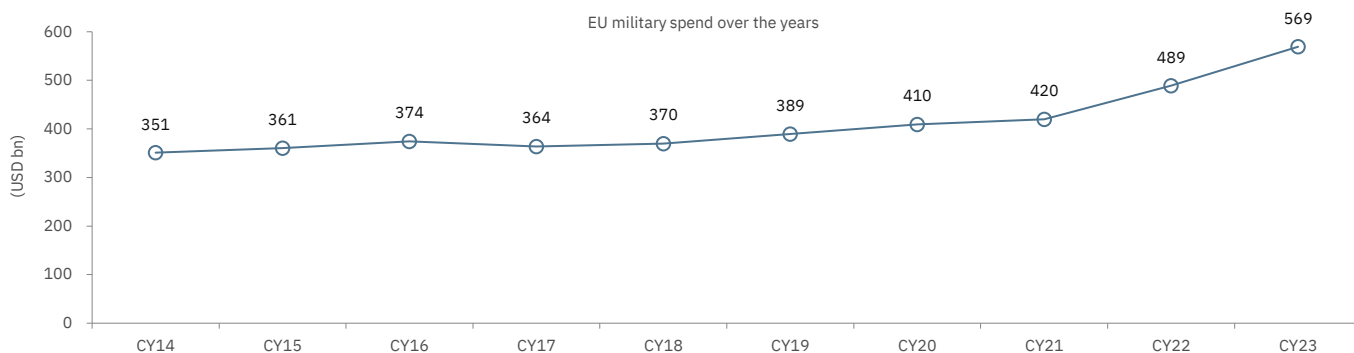
India's defense exports have increased significantly in recent years, reaching a record INR 210bn in FY24 (Source: Defense Ministry). This is a 33% increase from the previous fiscal year. India has set a defense exports target of INR 300bn by FY26. In this context, the new USD 850bn plan by the EU provides a major opportunity for domestic public and private defence companies, especially for exports of subsystems and components to EU OEM. Potential beneficiaries could be Bharat Electronics, Hindustan Aeronautics, Bharat Dynamics, Data Patterns, Zen Technologies, Paras Defence, Solar Industries, Azad Engineering, Dynamatic Technologies and among unlisted names, Vem Technologies and SMPP.

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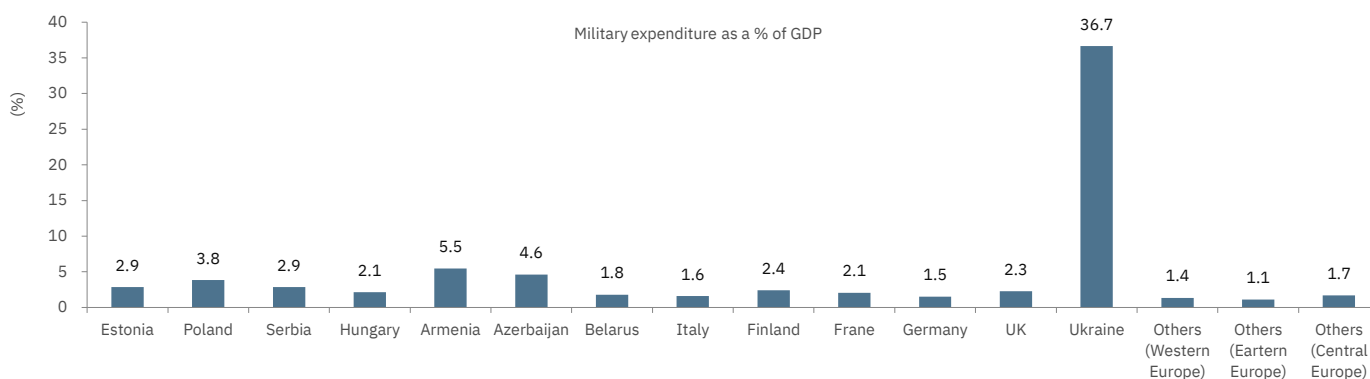


Exhibit 1: EU significantly increases defence spend in the past three years



Source: Stockholm International Peace Research Institute (SIPRI), Elara Securities Research

Exhibit 2: Most European countries defence spend are below 2% of GDP



Source: SIPRI, Elara Securities Research

Exhibit 3: Public & private defence companies exports details

Company	Key product exported or likely to be exported	Exports as a % of FY24 revenue
Bharat Electronics	Radars, Avionics	4
Hindustan Aeronautics	Helicopter structure, accessories, and avionics	1
Bharat Dynamics	Astra Missile for Russian platform and Akash Air Defence System	7
Data Patterns	Radars	6
Zen Technologies	Anti Drone Systems, Simulators	19
Paras Defence	Anti Drone Systems, Electro Optics	16
Solar Industries	Pinaka MBRL	40
Azad Engineering	Air foils, air frames, precision components	87
Dynamatic Technologies	Hydraulics for airplanes	54

Source: Company, Elara Securities Research

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