

21 March 2025

India | Equity Research | Sector Update

## Defence

### Reforms in capital acquisition process a big plus; AoNs worth INR 540bn approved

The Defence Acquisition Council (DAC) has approved AoNs for eight proposals worth over INR 540bn. Three proposals disclosed in public domain relate to: 1) Upgrade of T-90 engine to 1,350 HP from current 1,000 HP; 2) procurement of Varunastra Torpedo, benefiting BDL; and 3) procurement of Airborne Early Warning & Control (AEW&C) Aircraft Systems, benefitting BEL, Astra Microwave and other radar companies in the ecosystem. Besides, DAC has approved reforms in the capital acquisition process. We see both orders and AoNs picking up again in Q4FY25 and believe FY26 would be much better if reforms in the capital acquisition process are implemented. We have **BUY** rating on BDL (TP: INR 1,400), BEL (TP: INR 350) and Astra Microwave (TP: INR 935).

### AoNs worth more than INR 540bn cleared

DAC has approved AoNs for eight proposals worth INR 540bn. The three proposals in the public domain cover all the defence forces: 1) **Army**- procurement of 1,350 HP Engine upgrade the present 1000 HP Engine for the T-90 Tanks. The higher power engine is likely to enhance the battlefield mobility of these tanks, especially in high-altitude area by increasing the power to weight ratio; 2) **Navy**- procurement of Varunastra Torpedoes (Combat) to enhance the Navy's capability against adversaries' submarine threats. Varunastra Torpedo is an indigenously-developed ship-launched anti-submarine torpedo developed by Naval Science & Technological Laboratory and will be produced by BDL; 3) **Airforce**- procurement of Airborne Early Warning & Control (AEW&C) Aircraft Systems was accorded by DAC. AEW&C systems are capability enhancers and increase the combat potential of every other weapon system. In our view, BEL is likely to benefit with rub-off effect on the companies in radar ecosystem, such as Astra Microwave. Thus far in FY25, AoNs (cumulative) worth INR 2.5trn have been issued, still lower than FY24 (INR 3.53trn) and FY23 (INR 2.6trn).

### Focus on reducing the timelines of capital acquisition process

DAC also approved the guidelines for reducing the timelines at various stages of the capital acquisition process to make it faster, more effective and efficient. As per media report ([Link](#)), the new guidelines endeavour to reduce the average acquisition timeline from 96 weeks (two years) to just 24 weeks (six months). Key points: 1) Preparation of Request for Proposal (RFP) at the same time the AoN for any acquisition is sought; 2) conducting Field Evaluation Trials under simulated conditions, instead of polar and desert conditions. This would boost the requirement of simulators; and 3) Contract Negotiation Committee (CNC), which finalises pricing with suppliers, will now have a maximum of six months to complete its process. In our view, this could have significant positive impact in defence preparedness. In recent times, a lot of orders have faced delays and tightening the capital acquisition process would allay the concerns of investors pertaining to the potential delays in awarding of defence contracts.

Amit Dixit

amit.dixit@icicisecurities.com

+91 22 6807 7289

Mohit Lohia

mohit.lohia@icicisecurities.com

Pritish Urumkar

Pritish.urumkar@icicisecurities.com

Astra Microwave (BUY)

Azad Engineering (BUY)

Bharat Electronics (BUY)

Bharat Dynamics (BUY)

Dynamatic Tech. (BUY)

Solar Industries (BUY)

PTC Industries (BUY)

Zen Technologies (BUY)

MIDHANI (BUY)

Hindustan Aeronautics (ADD)

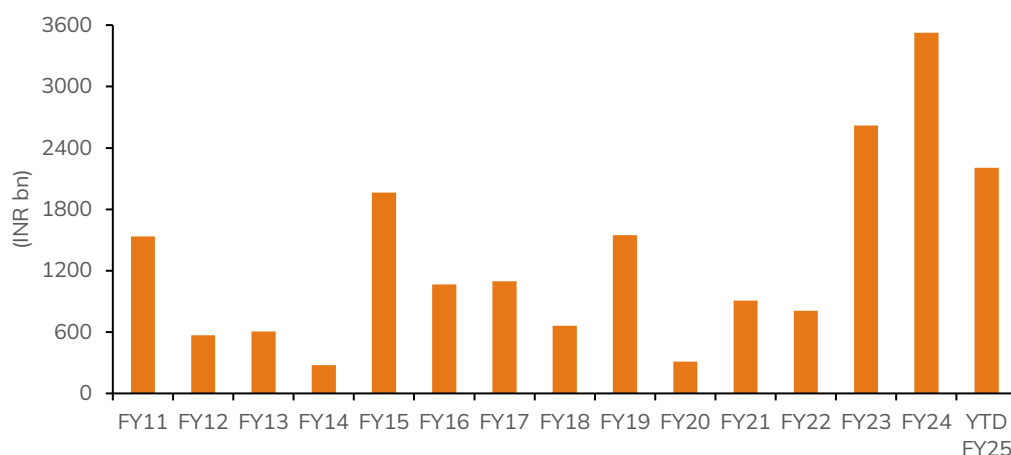
GRSE (SELL)

MDSL (SELL)

### Outlook: Reforms in capital acquisition process significant

We believe the proposed reforms in capital acquisition process come as a big relief at times when recent orders were delayed and investors were concerned on the timelines. With major orders, such as Rafale-N, Predator drones, additional Scorpene-class submarines, Nex-gen Corvettes, QRSAM, additional 97 Mk-1As and 156nos. LCH Prachand expected to be awarded in next couple of years, we believe reduced timelines could play a major role in restoring the confidence of street. Apart from the current AoN, as per media reports, Cabinet Committee of Security (CCS) has also cleared the procurement of indigenous ATAGS worth INR 70bn ([Link](#)). With AoNs and orders gathering momentum and facilitation by a more efficient capital acquisition process, we believe FY26 is likely to be an interesting year for defence sector. Our top picks in the sector are: Solar Industries (**BUY**; TP: INR 13,720), PTC Industries (**BUY**; TP: INR 20,070) and Azad Engineering (**BUY**; TP: INR 2,350). However, we believe the current AoN is likely to be beneficial for BDL (TP: INR 1,400), BEL (TP: INR 350) and Astra Microwave (TP: INR 935) – all **BUYs**.

### Exhibit 1: AoNs over last 15 years



Source: I-Sec research, Ministry of Defence

**Exhibit 2: AoNs granted, FY20 – FY25YTD**

Date	DAC clearance for procurement	Worth (INR bn)
Mar'25	<ul style="list-style-type: none"> <li>i) HP engines for T-90 tanks – 1,350 units</li> <li>ii) Varunastra Torpedoes</li> <li>iii) Airborne Early Warning &amp; Control (AEW&amp;C) Aircraft Systems</li> </ul>	540
Dec'24	<ul style="list-style-type: none"> <li>i) New Water Jet Fast Attack Crafts (NWJFACs) for the Indian Navy – 31 units</li> <li>ii) Fast Interceptor Craft (FIC-1) – 120 units</li> <li>iii) Electronic Warfare Suite (EWS) for Su-30 Mk1</li> <li>iv) Advanced Light Helicopters (ALH-MR) for Indian Coast Guard – 6 units</li> <li>v) Overhaul of Engines for T-72 &amp; T-90 tanks (BMP engines) and Sukhoi fighter aircraft</li> </ul>	218
Sep'24	<ul style="list-style-type: none"> <li>i) Future Ready Combat Vehicles (FRCVs) for Indian Army</li> <li>ii) Air Defence Fire Control radars</li> <li>iii) Forward Repair Team - Tracked</li> <li>iv) Dornier-228 aircrafts for Indian Coast guard</li> <li>v) Next-Gen Fast Patrol Vessel (NG-FPV) for Indian Coast guard</li> <li>vi) Next-Gen Offshore Patrol Vessel for (NG-OPV) Indian Coast guard</li> <li>vii) And others</li> </ul>	1,447
Jul'24	<ul style="list-style-type: none"> <li>i) Advanced Land Navigation System (ALNS) for Armoured Fighting Vehicles (AFVs) of the Indian Army.</li> <li>ii) Interceptor Boats for Indian Coast Guard – 22 units.</li> </ul>	
Feb'24	<p>Under Buy Indian IDDM (Indigenously Designed, Developed and Manufactured), which Includes:</p> <ul style="list-style-type: none"> <li>i) New-Gen Anti-tank mines (Prachanda) – 45,000units</li> <li>ii) Canister launched Anti-Armour Loiter Munition System (CLAM)</li> <li>iii) ADTCR – 25units</li> <li>iv) SDRs for Indian coast guards</li> <li>v) LR – LACM</li> </ul> <p>Under Buy 'make India'</p> <ul style="list-style-type: none"> <li>i) C-295 MMR / MMA – 15 units (2 from Spain &amp; 13 by TASL)</li> </ul> <p>Under Buy 'Indian'</p> <ul style="list-style-type: none"> <li>i) SIGINT COMJAN Aircraft Airbus A319 – 3 units</li> <li>ii) Active Towed Array Sonar</li> </ul> <p>Under Buy 'Global'</p> <ul style="list-style-type: none"> <li>i) HWT for Scorpenes (Kalvari class Submarines) – 48units</li> <li>ii) Sustained &amp; Repair replenishment support for MH-60R aircraft – 24 units</li> <li>iii) Mid-Air flight refueller – 6 units</li> <li>iv) Amendments in DAP'20 wrt. Benchmarking and coast computation, payment schedule, procurement etc.</li> </ul>	846
Nov'23	<ul style="list-style-type: none"> <li>i) Light Combat Aircraft (Tejas Mk 1A) – 97 units</li> <li>ii) Light Combat Helicopters (Prachand) – 156 units</li> </ul>	2,230
Sep'23	<ul style="list-style-type: none"> <li>i) Light Armoured Multipurpose Vehicles</li> <li>ii) Integrated Surveillance and Targeting systems</li> <li>iii) Next Generation Survey Vessels</li> <li>iv) Avionic upgradation of IAF's Dornier Carrier Aircraft</li> <li>v) SU-30MKI aircraft – 12 units</li> <li>vi) Dhruvastra - Short Range Air-to-Surface Missile.</li> </ul>	450
Jul'23	<ul style="list-style-type: none"> <li>i) Rafale (Marine) Aircraft for the Indian Navy – 26 units</li> </ul>	
Jun'23	<ul style="list-style-type: none"> <li>i) General Atomics MQ-9B drones for the Tri-Services – 31 units</li> </ul>	USD 3,072mn

Source: I-Sec research, MoD

**Exhibit 3: AoNs granted, FY20 – FY25 YTD (Cont.)**

Date	DAC clearance for procurement	Worth (INR bn)
Mar'23	Under Buy Indian IDDM, which includes: i) BrahMos missiles ii) Utility Helicopters (Maritime) iii) Advanced Light Helicopter MK-III for the Indian Coast Guard iv) Long Range Stand-off Weapon for integration in IAF's Su-30MKI aircraft v) 155mm/52 Calibre ATAGS for Indian Army vi) High Mobility & Gun Towing Vehicles. For Indian Army	705
Jan'23	Under Buy Indian IDDM, which includes: i) HELINA Anti-Tank Guided missiles for Indian Army ii) VSHORAD (IR Homing) missile Indian Army iii) Brahmos Launcher and Fire Control System (FCS) for Indian Navy	43
Dec'22	i) Futuristic Infantry Combat Vehicles for Indian Army ii) Light Tanks for Indian Army iii) Mounted Gun System for Indian Army iv) Ballistic Helmets for Indian Army v) Naval Anti-Ship Missiles for Indian Navy vi) Multi-Purpose Vessels for Indian Navy vii) High Endurance Autonomous Vehicles for Indian Navy viii) Missile system for Indian Airforce ix) Long Range Guided Bombs for Indian Airforce x) Range Augmentation Kit for Indian Airforce xi) Advanced surveillance systems for Indian Airforce xii) Next Generation Offshore Patrol Vessels (NG-OPV) for Indian Coast Guard	821
Jul'22	i) Guided Extended Range Rocket Ammunition, ii) Aerial Denial Munition Type I iii) Infantry Combat Vehicle - Command iv) Bullet Proof Jackets v) Close Quarter Battle Carbines - 4lakh units vi) Swarm Drones vii) 1250KW capacity Marine Gas Turbine Generator for Kolkata class ships viii) Fast Patrol Vessels (FPVs) for Indian Coast Guard - 14 units	287
Jun'22	i) Rough Terrain Fork Lift Trucks (RTFLT) ii) Bridge Laying Tanks (BLTs) iii) Wheeled Armoured Fighting Vehicles (Wh AFVs) with Anti-Tank Guided Missiles (ATGMs) iv) Weapon Locating Radars (WLRs) v) Next Generation Corvettes (NGC) vi) Aero-engines for Su-30 and Dornier vi) Digital Coast Guard	764
Mar'22	i) Night Sight (Image Intensifier) ii) Light Vehicles GS 4X4 iii) Air Defence Fire Control Radar (Light) iv) GSAT 7B Satellite v) Procurements from iDex Startups and MSMEs	84
Nov'21	i) GSAT-7C Satellite and Ground Hubs for Software Defined Radios (SDRs)	22
Nov'21	i) Light Utility Helicopters (LUH) - 12 units ii) Lynx U2 Fire Control System iii) Life Upgradation of Dornier Aircraft iv) Super Rapid Gun Mount (SRGM)	80
Sep'21	i) ALH Mk3 Helicopters ii) Terminally Guided Munition iii) HEPF/RHE Rocket Ammunition	132
Jun'21	i) Air Defence guns and ammunition for Army ii) P-75(I) Conventional Submarines - 6 units	490
Feb'21	i) Various weapons/platforms/equipment/systems required by the Armed Forces	137

Source: I-Sec research, MoD

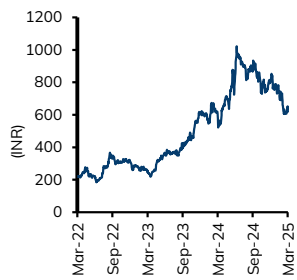
**Exhibit 4: AoNs granted, FY20 – FY25 YTD (Cont.)**

Date	DAC clearance for procurement		Worth (INR bn)
Dec'20	i) ii) iii)	Airborne Early Warning & Control (AEW&C) Systems for the Indian Air Force Next Generation Offshore Patrol Vessels (NG OPV) for the Indian Navy Modular Bridges for the Indian Army	270
Sep'20	i) ii) iii)	Static HF Tans-receiver sets Smart Anti Airfield Weapon (SAAW) SIG SAUER Assault Rifles	23
Aug'20	i) ii) iii)	Basic Trainer Aircraft from HAL - 106 units Super Rapid Gun Mount (SRGM) for Indian Coast Guard APFSDS ammunition for Indian Army	87
Jul'20	i) ii) iii) iv) v) vi) vii) viii)	Pinaka ammunition for Indian Army BMP armament upgrades for Indian Army SDRs for Indian Army Long Range Attak Cruise missile systems Astra missiles MiG-29 - 21units Upgradation of MiG 29 - 59 units Su-30 Mk1 - 12 units	389
Jan'20	i) ii)	Electronic Warfare Systems (EWS) for the Indian Army Trawl assemblies for T-72 & T-90 tanks	51
Nov'19	i) ii) iii) iv)	'Thermal Imaging Night Sights' for Assault Rifle Airborne Warning and Control System (AWACS) India aircraft Long Range Maritime Reconnaissance (LRMR) Anti-Submarine Warfare P8I aircraft Twin Engine Heavy Helicopters (TEHH) for the Indian Coast Guard	228
Oct'19	i) ii) iii)	3rd Gen Anti-Tank Guided Missiles (ATGM) Auxiliary Power Units (APUs) for the T-72 and T-90 Tanks Electronic Warfare Systems (EWS) for mountain and high-altitude terrain	33

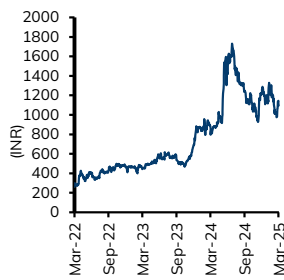
Source: I-Sec research, MoD

## Price charts

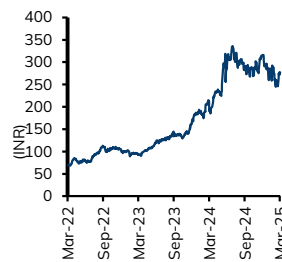
**Astra Microwave**



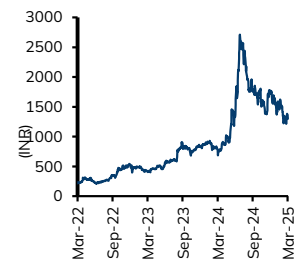
**Bharat Dynamics**



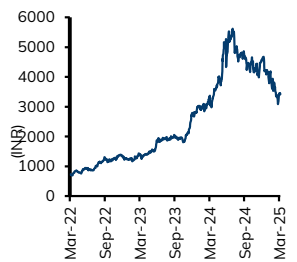
**Bharat Electronics**



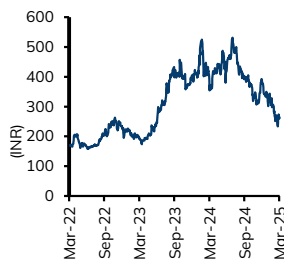
**Garden Reach**



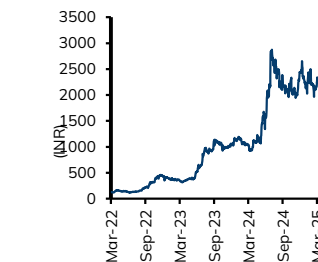
**Hindustan Aeronautics**



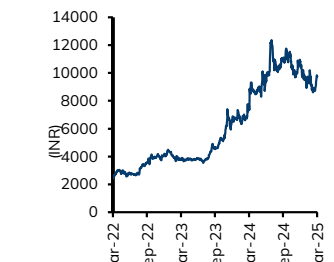
**MIDHANI**



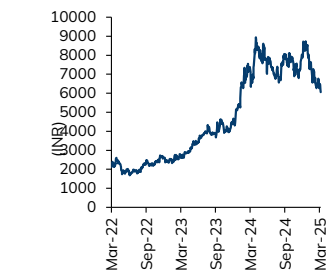
**Mazagon Dock**



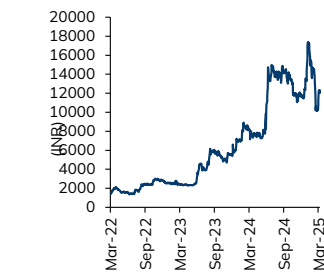
**Solar Industries**



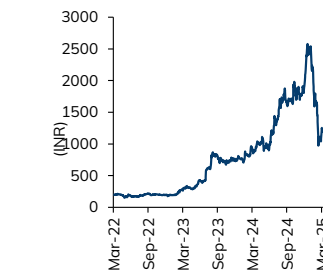
**Dynamatic Technology**



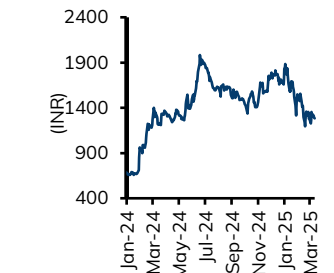
**PTC Industries**



**Zen Technologies**



**Azad Engineering**



Source: Bloomberg

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For any queries or grievances: [Mr. Bhavesh Soni](#) Email address: [headsservicequality@icicidirect.com](mailto:headsservicequality@icicidirect.com) Contact Number: 18601231122

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