



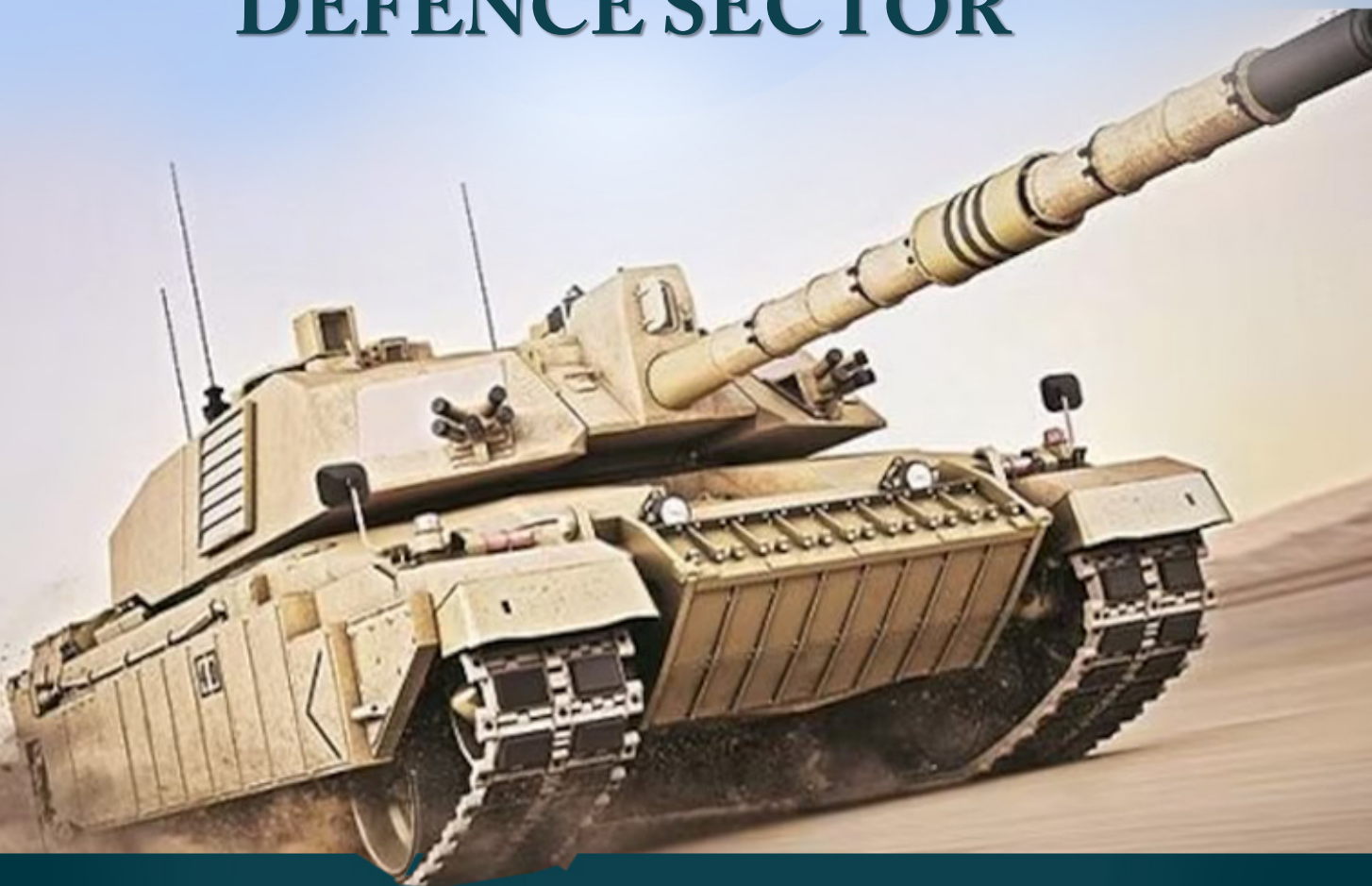
Capital
—SPROUT—

NEWSLETTER

OCTOBER 2023



DEFENCE SECTOR



The Chairman's Message



Greetings from Capital Sprout!

It gives me pleasure to share with you the Oct-23 issue of Capital Sprout's Wealth Bulletin. In this month's bulletin, we discuss **the impact of the defence manufacturing industry on the capital market and the economy as a whole.**

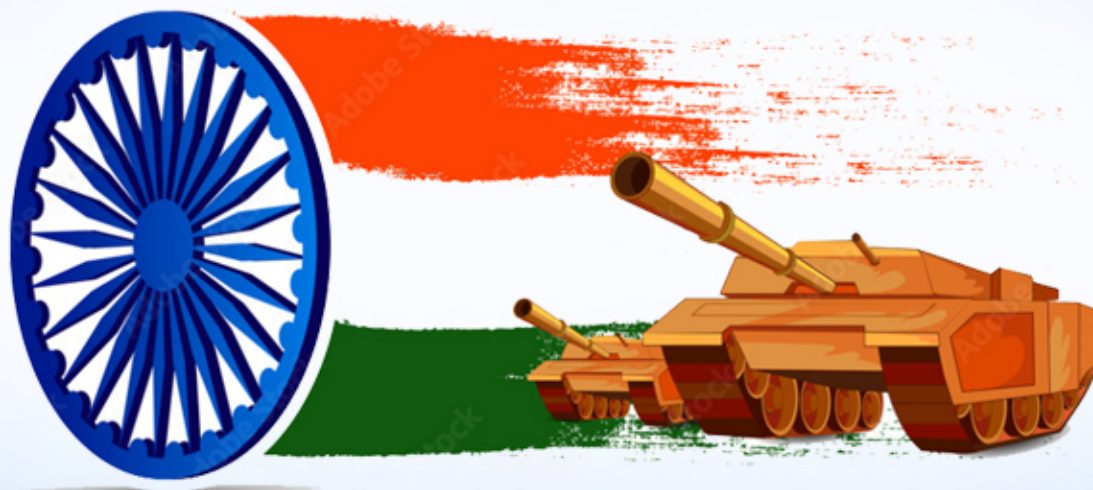
The world is currently rife with uncertainty. The globe has most likely changed more in the last two decades than it has in the previous five. The most contentious issue in the world is the ongoing conflict between Israel and Hamas and the Russia-Ukraine war, which has been going on for more than 18 months. After COVID-19, the idea of conducting business globally is progressively going backward. The world is thinking about the new expansion within their comfortable boundaries. India is likewise not an outlier in this regard.

In terms of military budget, India is placed **third** globally in **2021**. It represents around **Rs. 5,93,574.64 Crore (US \$72.20 billion) which is 13.80% of the entire Union budget for FY 2023–2024.**

The defence sector has received increased attention from our Prime Minister, Mr. Narendra Modi, as part of the "Make in India" program. India's defence sector has picked up some best practices. The government is continually refining and reforming its procurement process and fine-tuning its requirement to reach best-in-class performance. An effort is made to comprehend and evaluate government's priorities and how they affect the facts and figures of the capital market. I hope that readers will find this bulletin valuable.

CA DR Rajesh Khandol





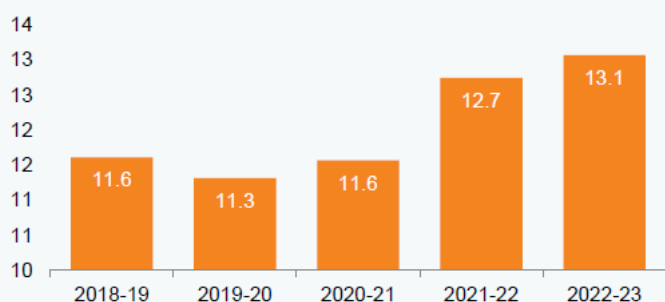
India's defence Production Market

The value of defence production in the country crossed Rs. 1 lakh crore (US\$ 12 billion) for the first time on the back of key reforms to spur growth in the sector that holds vast potential. The figure stood at Rs. 1,08,330 crore (US\$ 13.07 billion) in FY23 compared to Rs. 95,000 crore (US\$ 11.47 billion) in FY22 and Rs. 54,951 crore (US\$ 6.63 billion) five years ago.

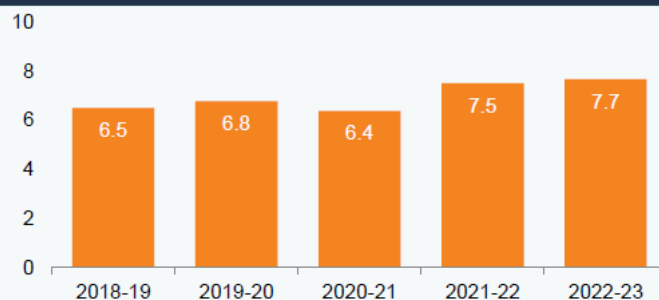
The Indian defence sector is one of the world's largest and most profitable industries, with a 10-year pipeline of over US\$ 223 billion in aerospace and defence capital expenditure and a projected medium-term investment of US\$ 130 billion.

The FDI maximum in Defence manufacturing under the automatic route has been raised from 49% to 74% (for new investments requiring an industrial licence), allowing foreign firms to establish manufacturing units with a greater degree of ownership and control.

Indian Defence Production (US\$ billion)



Value of Production by Defence PSUs (US\$ billion)

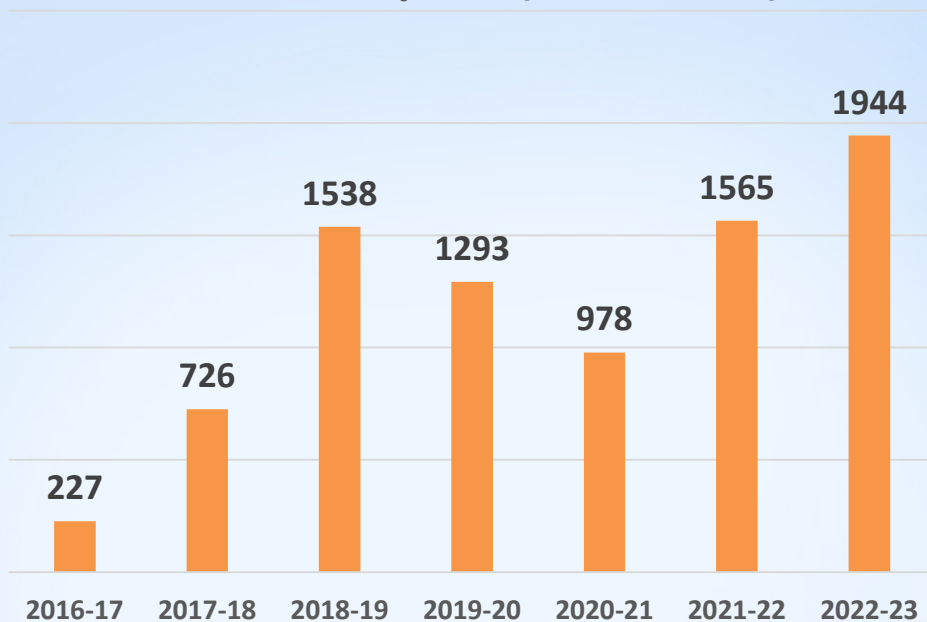


India's Defence Export

According to the defence Ministry, India's defence exports hit a new high of around Rs 16,000 crore in the fiscal year 2022–2023. The indigenous defence industry of the nation has succeeded by selling significant defence systems, such the Akash Air defence System and BrahMos missiles, to friendly countries.

Defence exports grew by **334% in last five years** and India now **exports to over 75 countries** due to collaborative efforts. The Central government aims to take India's Defence exports up to US\$ 5 billion by 2024-25. Drastically changing Geo Political equations of the World leads western countries & India's focused policy are two crucial factors behind the growth of Defence exporting.

Defence Exports (US\$ million)



Notable Changes In Defence Manufacturing

Focusing on start-ups

According to government data, India has around 194 Defence start-ups building innovative tech solution. The government has set a target of US\$ 21.3 billion (Rs. 1.75 lakh crore) of Defence production by 2025, which includes export of US\$ 4.3 billion (Rs.35,000 crore).

Indian and American startups will now be able to co-develop and co-produce advanced technologies, including in areas of space artificial intelligence, under the India-United States Defence Acceleration Ecosystem (INDUS-X).

Presence of private sector in defence manufacturing

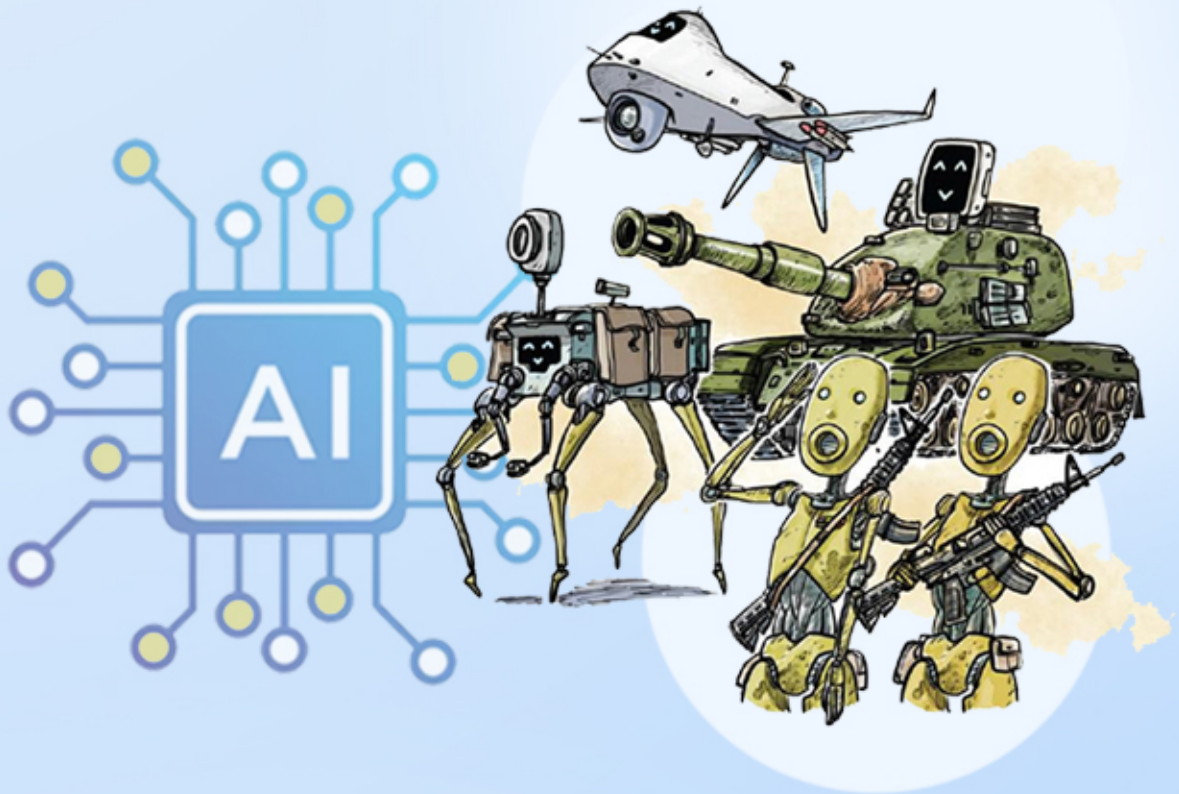
Since the Defence sector opened, the Indian private sector has expanded and progressed beyond manufacturing components and subsystems to developing entire equipment and systems, systems of systems, and platform-level solutions.

This is clearly visible from the quantum [more than 90%] of Defence exports by private Defence companies.



Developing AI based capabilities

The Radio Trunk System (RTS), Radio Local System, Artillery Combat Command and Control System (ACCCS) also called as 'SHAKTI', wireless message transfer unit (WMTU), are some of the CAIR's products which have significantly improved military communication in the border areas.



Leveraging it for efficient defence production operations

SRIJAN portal launched to promote indigenization. 19,509 Defence items, have been displayed on the portal for indigenization

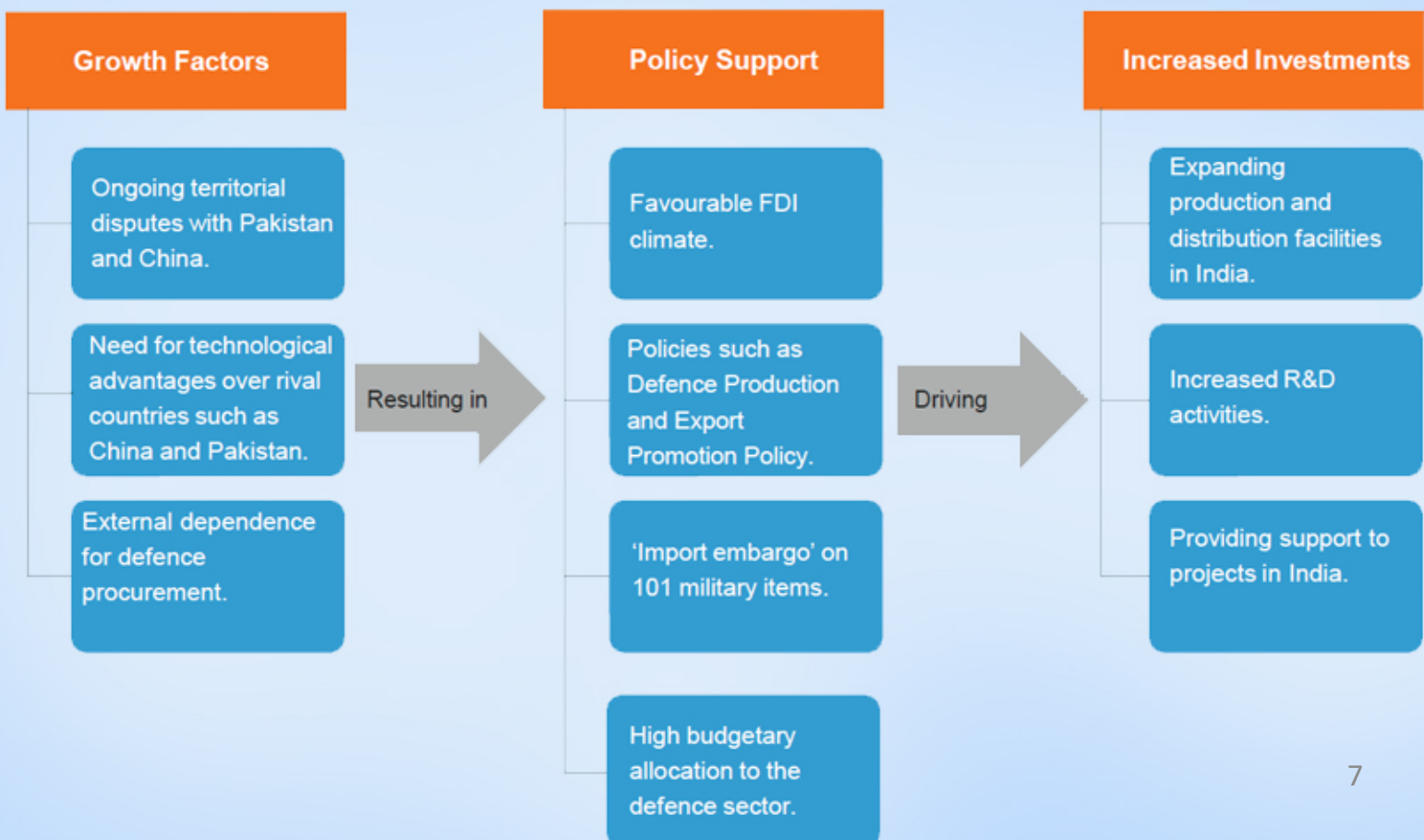


रक्षा विभाग
DEPARTMENT OF
DEFENCE

Growth Drivers For Defence Manufacturing In India

India has always been a peace-loving country. It has never believed in violence and has always favored friendly relations with all its neighboring countries but self-reliance is now essential for self-DEFENCE. Due to territorial dispute with China and Pakistan since more than 5 decades and 8 decades, respectively, as well as other global geo political equations, the nation's defensive capabilities were required to be strengthened.

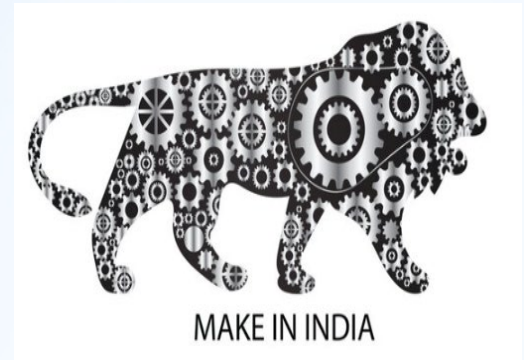
Our Prime Minister, Mr. Narendra Modi, recognized that importing more defence equipment would cost valuable foreign exchange and encourage corruption in large defence contracts. Thus, the Made in India initiative is launched with the express goal of producing defence weapons and ancillary products in India. This saves significant foreign exchange, creates employment, increases the ex-chequer, etc.



Opportunities In Defence Manufacturing

Make-in India initiative

Government's emphasis on 'Make in India' initiative in the Defence sector provides huge opportunities for domestic players to enhance their indigenization efforts.



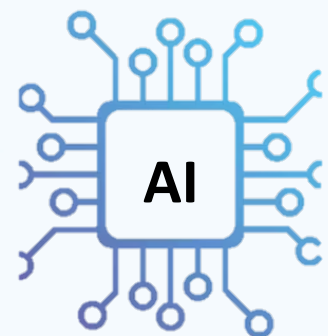
Government policy support

FDI in the defence sector is allowed up to 74% through automatic route (from earlier 49%) for companies seeking new industrial licenses. FDI beyond 74% and up to 100% will be permitted under the Government route.



Technological modernization via public private partnership

75 newly-developed Artificial Intelligence (AI) products/technologies are inaugurated. These products are expected to open up new business avenues for the defence PSUs..



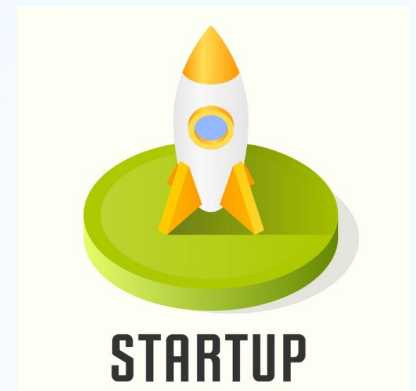
DRDO's Technology Development Fund (TDF) for MSMEs & Startups to indigenize cutting-edge defence technologies. 163 Technologies being indigenized, US\$ 30 million funds sanctioned, 1,703 experts and 5,020 companies engaged.



Opportunities In Defence Manufacturing

Start-ups In India

As per the Union Budget 2022-23, 25% of DEFENCE R&D budget has been earmarked for private industry and start-ups which will pave the way for innovation of New defence technologies in India



Self-reliance

The present 'Defence Production & Export Promotion Policy (DPEPP) 2020' is positioned as Ministry of defence's overarching guiding document to provide a focused, structured and significant thrust to defence production capabilities of the country for self-reliance and exports.



Analysis Of Top Listed Companies Involved In Defence Manufacturing

Name of company	Financial data of 2022-2023		Capital Market Data			Manufacturing of
	Turnover in Cr.	Net Profit in Cr.	Current Price in Rs.	Market cap in Cr.	P/E ratio	
Hind.Aeronautics	26,928	5811	2107.45	1,40,941	23.31	Manufacture of Aircraft and Helicopters and Repair, Maintenance of Aircraft and Helicopters.
Bharat Electron	17,734	2986	142.75	1,04,347	31.43	Manufactures and supplies electronic equipment and systems to the defence sector. Company also has a limited presence in the civilian market.
Solar Industries	6,923	811	6872.95	62,193	76.96	manufacturing of propellants for missiles and rockets, warheads and warhead explosives.
Bharat Forge	12,910	508	1050.4	48,905	74.74	Manufacturing of Advanced Towed Artillery Gun System (ATAGS) program.
Mazagon Dock	7,827	1,073	2000	40,338	32.12	MDL has evolved into a renowned shipbuilding company. It has constructed 801 vessels since 1960, including warships, submarines, cargo/passenger ships, and offshore platforms.
Bharat Dynamics	2,489	352	1116.6	20,465	48.19	It is engaged in the manufacturing of guided missiles and allied defence equipment.
Cochin Shipyard	2,330	334	1091.35	14,356	34.4	CSL has expertise in offering various range of products such as Tankers, Product carriers, Bulk carriers, Passenger vessels, High bollard Pull tugs and Air defence ships.
BEML Ltd	3,899	158	2246.8	9,356	46.63	Manufactures a wide range of heavy earthmoving equipment catering to the mining and construction industry, vehicles for defence forces and coaches for the metro and Indian Railways.
MTAR Technologie	573	104	2226.3	6,848	66.43	Manufacturing various machine equipment, assemblies, sub-assemblies, and spare parts for energy, nuclear, space, aerospace, defence and other engineering industries.
Astra Microwave	816	70	567.5	5,388	83.59	Engaged in the business of design, development and manufacture of sub-systems for Radio Frequency and microwave systems used in defence, space, meteorology and telecommunication.
Paras Defence	214	36	728.85	2,843	79.7	Primarily engaged in the designing, developing, manufacturing, and testing of a variety of defence and space engineering products and solutions. The company caters to four major segments - Defence & Space Optics, Defence Electronics, Heavy Engineering and Electromagnetic Pulse Protection Solutions.
Avantel	154	30	342.65	2,778	63.87	Engaged in the business of designing, developing and maintaining wireless and satellite communication products, defence electronics, radar systems and development of network management software applications for its customers majorly from the aerospace and defence sectors.
Krishna Defence	63	5.3	296	339	53.89	Develop, manufactures, and designs Defence Application Products, Kitchen, and Dairy Equipment Products.

Synopsis Of India's Defence Sector

Share of GDP spent on defence	3.30 % (2023-24)
Defence budget 2023-24	Rs. 5.94 Lakh Crore
Current value of defence production in FY 2022-23	Rs. 1,06,800 Crore
Defence export	Rs. 16,000 Crore
FDI inflow during 2000 -2023	US\$ 15.78 Million
Military force	14.40 Lakh (1.44 Million) Active Personnel

List Of Countries With Highest Military Spending

Sl No	Name Of Country	\$ US Billion In Year 2022
1	USA	877.00
2	CHINA	292.00
3	RUSSIA	86.40
4	INDIA	81.40
5	SAUDI ARABIA	75.00
6	UNITED KINGDOM	68.50
7	GERMANY	55.80
8	FRANCE	53.60

Conclusion

Defence sector of any country assumes greater importance from national security point of view. India's defence sector assumes even greater importance since 2014. India has found commercial & economic vision in Defence manufacturing and ever since it extending various Government policy like Make in India, Atmanirbhar Bharat etc to boost India's defence manufacturing. The defence manufacturing sector in India has evolved significantly to offer wide range of opportunities and ready to cater the global demand.

Performances



Equity Market

Indices	01 st Oct, 2023	31st Oct, 2023	High	Low
BSE S&P SENSEX	65,813.42	63,874.93	66,592.16	63,092.98
NIFTY 50	19,622.40	19,079.60	19849.75	18837.85

Mutual Fund

AUM Data of Mutual Fund for the Month of October 2023

(INR. In Lakh Crore)

Particulars	AUM As On 30-09-2023	Fresh Fund Mobilize During Oct- 23	Redemption During Oct – 23	AUM As On 31-10-2023
Total AUM of all mutual funds scheme	45.64	9.77	8.97	46.44
AUM of equity oriented (growth) schemes	18.59	0.44	0.24	18.79

Source: Association of Mutual Fund of India (AMFI)

Performances

SIP Contribution

(INR. In Crore)

Year	SIP Contribution	SIP AUM
Oct-2023	16,928	8,59,924

FII & DII Inflow/Outflow Position

FII's selling in the month of October-23 is (-0.29) Lakh.

DII's Buying in the month of October-23 is 0.25 Lakh.

Inflow/Outflow position in the month of October 2023

FII /DII	Gross Purchase	Gross Sale	Net
FII	1.86 Lakh	2.16 Lakh	(-0.29 Lakh)
DII	1.56 Lakh	1.31 Lakh	0.25 Lakh

