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# Defence in the Crosshairs

## How Global Skirmishes Shape Strategic Markets



## Chairman's Message



Dear Readers,

Recent regional conflicts have highlighted how real-world combat scenarios shape global perceptions of defence capability. India's evolving defence sector—through indigenous innovation, strategic partnerships, and a firm No First Use nuclear policy—stands at a pivotal point. While global powers use conflict to showcase their military exports, India must balance growth with ethical responsibility. Our objective remains deterrence, not escalation. With rising investor confidence and increasing defence exports, we are poised for strategic and economic gains. As always, our strength lies not in warfare, but in preparedness.

*CA Dr. Rajesh Khandol*

## Introduction

Recent escalations along the India-Pakistan border have stirred not only geopolitical concern but also significant movements within the global defence sector. This newsletter examines how brief but intense confrontations serve as de facto test beds for modern defence technology, offering strategic insight, market signals, and uncomfortable ethical questions about the commodification of conflict.





## 1. China's JF-17 Thunder Gets a Real Combat Test

The skirmish marks the first real-world engagement of China's JF-17 Thunder aircraft, co-developed with Pakistan. This has provided China a rare opportunity to evaluate and refine its defence exports based on live combat feedback. While the JF-17 operated within expected parameters, gaps in electronic warfare and endurance capabilities were observed by military analysts globally.



China has long sought legitimacy in the global defence market. The use of the JF-17 in actual conflict serves as both a marketing demonstration and diagnostic exercise. Buyers across Africa and Southeast Asia are watching closely, recalibrating their procurement strategies based on this newly available combat data.

## 2. Indo-Russian Defence Systems Hold Ground

India's deployment of Russian-origin Su-30 MKIs, S-400 missile systems, and upgraded T-90 tanks showed continued reliability under stress. Despite newer entrants, Russian systems have remained the backbone of India's strategic defence apparatus.

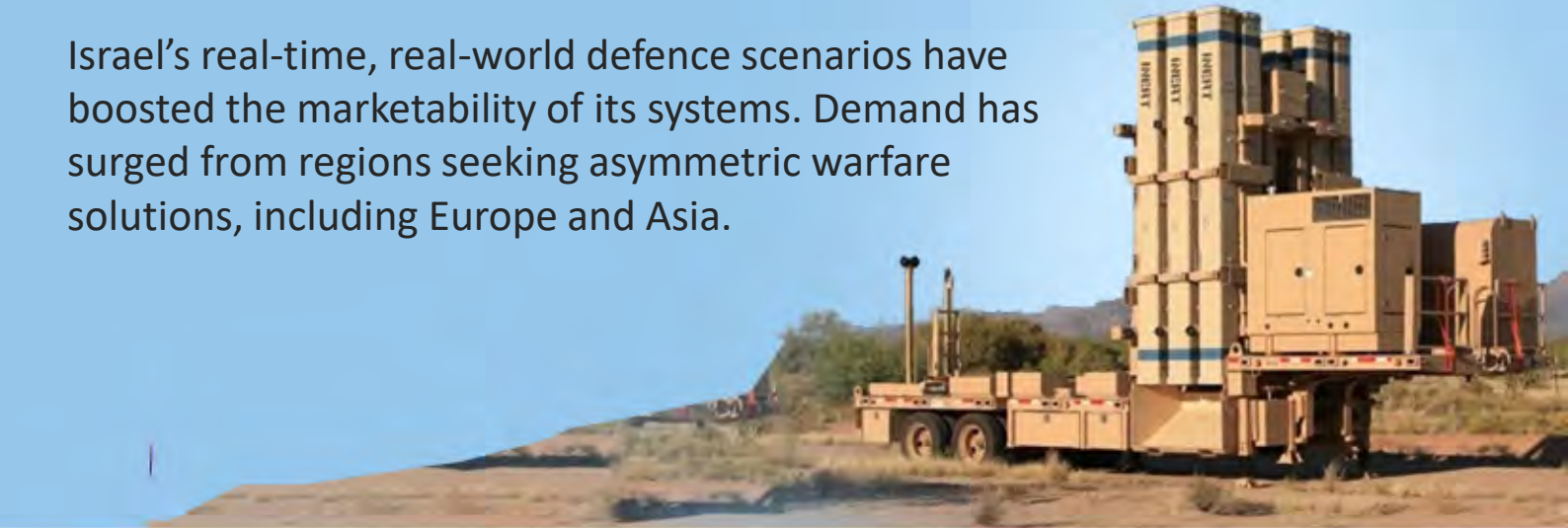
The conflict reaffirmed the operational relevance of Indo-Russian platforms. However, the experience also highlighted India's need to diversify and indigenise to reduce dependency and respond more nimbly to evolving threats.



### 3. Israel's Anti-Hamas Strategy: Defence as Advertisement

While South Asia watched tensions unfold, the Israel-Hamas conflict offered another battlefield of commercial consequence. Israel's Iron Dome, David's Sling, and cyber-intelligence tools have proven to be not only effective but also highly exportable.

Israel's real-time, real-world defence scenarios have boosted the marketability of its systems. Demand has surged from regions seeking asymmetric warfare solutions, including Europe and Asia.



### 4. India's Indigenization Drive and Global Ambitions

India's recent defence policies, including the "Atmanirbhar Bharat" initiative, have accelerated indigenous development of drones, missile systems, battlefield surveillance, and naval equipment. The successful deployment of Arjun tanks, Akash missiles, and Tejas fighter aircraft during recent tensions bolsters confidence in homegrown capabilities.

This is an opportune moment for India to enter the global defence export arena. Countries in Africa, Southeast Asia, and Latin America are prime potential buyers of affordable, battle-tested Indian equipment—creating jobs, attracting FDI, and boosting defence manufacturing domestically.





## 5. The U.S. Model: Conflict as a Defence Economy Driver

Historically, the United States has leveraged proxy wars and direct engagements—notably in the Middle East—to showcase and export military technology. Conflicts in Iraq, Syria, and Afghanistan doubled as marketing campaigns for the F-35 program, Patriot systems, and unmanned drones.



The U.S. has built a multi-trillion-dollar defence export economy, creating millions of jobs and maintaining technological leadership. Defence firms like Lockheed Martin, Raytheon, and Boeing have thrived, often riding waves of geopolitical tension.

## 6. The Ethics of War Profiteering

While defence exports can undeniably strengthen national economies, the underlying moral dilemma remains: Should nations profit from conflict and human suffering?

### Balanced Perspective:

- Countries like France and Russia export advanced systems and often operate in regions of conflict.
- Japan, with its pacifist constitution, is slowly entering the market while maintaining strict ethical controls.
- Israel openly markets defence products but also faces criticism for using active conflict as promotional material.
- Even China, while new to real-world demonstrations, faces scrutiny over the lack of transparency in its arms diplomacy.

### Key Thought:

There must be a distinction between strategic preparedness and profiteering. While boosting exports is economically sound, ethical frameworks and transparency must guide transactions, ensuring that the goal remains deterrence—not destruction.

## 7. India's Defence Economy: Rising Valuations and Room for Growth

India's defence sector has recently witnessed increased investor interest, fuelled in part by geopolitical tensions and government-led manufacturing incentives. The PE (Price-to-Earnings) ratios of listed Indian defence companies—such as Hindustan Aeronautics Limited (HAL), Bharat Electronics Limited (BEL), and Bharat Dynamics—have surged, reflecting optimism about earnings growth and future orders.

### Current Landscape:

- India's defence production crossed ₹1 lakh crore in FY24 for the first time.
- Private participation is increasing, supported by policy reforms like 100% FDI under the automatic route in select defence segments.
- Over ₹25,000 crore worth of defence exports were recorded in FY24—a record high, but still modest compared to global players.

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## Financial Outlook:

As per Economic Times analysis based on closing prices between May 7 and May 20, 2025, the Nifty India Defence Index rose over 15% outpacing Nifty 50's 1.1% gain. Besides the recent price surge, the performance of the sector has been excellent in the past few years. The defence benchmark gained 97% return in CAGR terms between June 2021 & July 2024. India's defence self-reliance can be gauged by looking at the proportion of equipment manufactured domestically. Currently, India manufactures 65% of defence equipment domestically, a significant shift from the earlier 65-70% import dependency. The surge in defence budget, from ₹2.53 trillion in 2013-15 to ₹6.81 trillion in 2025-26, coupled with policy support, private participation and technological innovation, have strengthened the country's military infrastructure. While the defence production reached ₹1.27 trillion in 2023-24 & grew by 174% since 2014-15, the defence exports expanded 34 times between 2013-14 and 2024-25 according to March 2025 PIB release.

The concerns about overvaluations led to a 38% correction in the defence benchmark between July 2024 and February 2025. The substantial fall in share prices led to a reduction in premium valuations. The trailing 12 months PE multiple of Nifty India Defence index fell from 73.4 times in July 2024 to 38 times in February 2025. The current trailing 12 months PE of the benchmark index is at 60 times. As per Dr Manoranjan Sharma, Chief Economist, Infomerics Valuation & Ratings, **"The defence stocks are fairly valued because the capability and competence of the Indian defence products are clearly established and, therefore, defence stocks are set to move higher."**





Below data analysis shows how the stocks have fared between April 30, 2025 and May 30, 2025 –

#	Name	Mar Cap Rs.Cr.	CMP Rs. (30-05-25)	Market price Rs. (30-04-25)	Price Return in % (30-04-25 to 30-05-25)	P/E (30-05-25)	P/E (30-04-25)
1	AstraMicrowave	10,387.84	1,094.25	828.65	32.05%	67.67	58.50
2	BEML Ltd	17,623.55	4,231.30	3,164.00	33.73%	60.25	50.30
3	Bharat Dynamics	73,934.92	2,015.60	1,529.60	31.77%	134.52	99.10
4	Bharat Electron	2,81,134.10	384.60	314.10	22.45%	52.83	46.00
5	Cochin Shipyard	51,267.81	1,948.60	1,591.40	22.45%	60.83	50.90
6	Data Pattern	15,929.97	2,845.75	2,486.60	14.44%	71.82	77.80
7	DCX Systems	3,409.50	306.00	283.85	7.80%	87.69	61.80
8	Garden Reach Sh.	34,485.77	3,006.35	1,917.00	56.83%	65.39	55.60
9	Hind.Aeronautics	3,32,582.04	4,973.65	4,487.90	10.82%	39.79	34.50
10	Mazagon Dock	1,40,451.42	3,480.10	3,057.60	13.82%	58.19	44.80
11	Mishra Dhatu Nig	7,923.76	423.30	307.00	37.88%	71.98	57.40
12	MTAR Technologie	5,039.72	1,639.90	1,421.30	15.38%	93.59	97.80
13	Paras Defence	6,472.77	1,606.30	1,359.55	18.15%	105.27	89.10
14	Solar Industries	1,45,639.44	16,102.30	13,172.00	22.25%	120.42	106.20
15	Unimech Aero.	6,645.46	1,306.80	911.50	43.37%	79.62	69.10
16	Zen Technologies	19,242.73	2,130.50	1,416.40	50.42%	68.66	58.00
17	Cyient DLM Ltd.	3,839.22	483.85	447.25	8.18%	56.39	52.10
18	Dynamatic Technologies Ltd.	4,652.42	6,841.75	6,326.00	8.15%	108.10	94.20

Despite rising stock valuations and strong order books, the sector remains under-penetrated relative to India's potential. Defence still forms a small percentage of the country's overall manufacturing GDP. With India aiming to become a \$5 trillion economy, a robust and export-focused defence ecosystem could contribute significantly to high-skill employment, technological advancement, and global influence.

Quick note from our author here is, any PE above 35 is still considered high. Such high PE is always vulnerable to market changes. If benchmark index changes, stocks with high PE changes manifold. Though defence sector in India as a whole sector does have a promise of growth, but still can be considered as a risky investment, and investors are advised to proceed cautiously.



## Final Thought: Deterrence Over Destruction

As the dust settles on yet another regional skirmish, a deeper truth emerges in strategic circles:

***“The best defence equipment is the one that never has to be used.”***

This principle—popularised in modern culture but rooted in military doctrine—underscores a key tenet of strategic preparedness: deterrence is the ultimate goal. Nations do not build arms to wage wars, but to prevent them.

India, as an emerging defence power, must remember this balance—between exporting to empower allies and maintaining ethical boundaries; between boosting valuations and building peace; and between stockpiling for readiness and striving for diplomacy.

India's strategic posture is firmly rooted in its declared policy of '**No First Use**' (NFU) of nuclear weapons. This doctrine, officially articulated in India's 2003 Nuclear Doctrine, asserts that India will not be the first to initiate a nuclear strike, but will respond with punitive retaliation if attacked with nuclear weapons.

India's NFU policy strengthens its image as a responsible nuclear power and reinforces the notion of deterrence rather than aggression. In a region fraught with historical tensions and arms buildup, this principle serves as a stabilising factor and aligns with India's broader diplomatic stance of restraint and peaceful resolution.



## India's Nuclear Doctrine: A Commitment to No First Use

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# Performances



## (1) Equity Market

Indices	01-05-2025	31-05-2025	High	Low
BSE S&P SENSEX	80,300.19	81,451.01	82,718.14	78,968.34
NIFTY 50	24,311.90	24,750.70	25,116.25	23,935.75

## (2) Mutual Fund

### AUM Data of Mutual Fund for the Month of May 2025

(INR. In Lakh Crore)

Particulars	AUM As On 30-04-2025	Fresh Fund Mobilize During May-25	Redemption During May-25	AUM As On 31-03-2025
Total AUM of all mutual funds scheme	71.64	10.57	10.27	71.94
AUM of equity oriented (growth) schemes	31.86	0.57	0.38	32.05

Source: Association of Mutual Fund of India (AMFI)

### SIP Contribution

(INR. In Crore)

Month	SIP Contribution	SIP AUM
May-2025	26,688	14,61,360



### (3) FII & DII Inflow/Outflow Position – May 2025

FII's buying in the month is 0.12 Lakh.

DII's buying in the month is 0.67 Lakh

(INR. In Crore)

FII /DII	Gross Purchase	Gross Sale	Net
FII	3.51Lakh	3.39Lakh	0.12Lakh
DII	2.98 Lakh	2.31Lakh	0.67Lakh

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