

INDIAN DEFENCE BUDGET 2024-25: INDIGENIZATION DRIVE

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(Views expressed in the brief are those of the author, and do not represent those of ISSI)



Source of image: *The Economic Times*

For the Fiscal Year 2024-2025, India has raised its Defence Budget by 4.55 per cent, allocating approximately \$74.30 billion (INR 6.21 trillion) for military expenditure. A significant focus is on the indigenization drive. Under several mantras, such as 'Made in India' and 'AatmaNirbhar Bharat' (self-reliant India), India has been pouring generous funding into the indigenization of defence manufacturing capabilities. In order to meet the emerging geostrategic challenges, the purpose of the drive is to reduce reliance on foreign procurement that eats up a significant chunk of the Defence Budget and to promote a self-reliant ecosystem of R&D and defence manufacturing industries. To achieve this objective, the Indian Defence Budget reflects a two-pronged approach. Firstly, investment in State-owned Ordnance Factories; and, secondly, investment in Corporatized State-Owned Defence Companies.¹

1. State-owned Ordnance Factories:

State-owned Ordnance Factories have significant modernization projects underway. For this purpose, the Indian government invested \$389 million (INR 3,254 Crore). The top five factories, their major projects, and the investment secured are highlighted below:

¹ The data has been gleaned from the website of the Ministry of Finance, India and is converted into U.S. dollars using a conversion rate of 83.72.)

- **Hindustan Aeronautics Limited:** HAL, India's leading state-owned aerospace and defence company, received the bulk of the investment amounting to \$191 million (1,600 crore). Among its upcoming projects that require investments, HAL is manufacturing Twin Engine Deck Based Fighter (TEDBF) for the Indian Navy which is expected for its first flight in 2026 and production by 2031 to replace the aging MiG-29K fleet.² Additionally, HAL is working on Multirole Helicopters and the fifth Advanced Medium Combat Aircraft (AMCA) Mk-II program.³ However, despite these big ventures, HAL has failed to meet the production deadlines due to long lead times and delays in the production line.⁴
- **Bharat Electronics Limited:** BEL secured the second-highest investment at \$71.8 million, which is an increase a 9 percent increase from last year. BEL produces software and electronic equipment for C4ISR, radars, avionics, satellites, tanks and troops. The investment showcases India's focus on network-centric warfare capabilities joining tactical data links to strategic communication.
- **Bharat Earth Movers Limited (BEML):** The third highest investment was secured by BEML, standing at \$57.8 million (INR 484 Crore), which is a jump of 85 percent from last year. As per the BEML statements, it caters to the development of connectivity infrastructure, provides ground support vehicles for India's Integrated Guided Missile Development Projects and produces tanks and armoured vehicles among other equipment. The rapid hike in investment showcases India's focus on building strategic rail links to move defence equipment and personnel to border regions, and supporting portability of India's strategic assets.
- **Mazagon Dock Shipbuilders Limited:** The investment in MDL has remained the same, amounting to \$35.8 million (INR 300 Crore). MDL manufactures warships and submarines for the Indian Navy, and the investment showcases India's desire for a larger role in the Indian Ocean Region.
- **Bharat Dynamics Limited:** The investment in BDL also remained consistent. BDL procured an investment of \$11.95 million (INR 100 crore) like the previous year. While the investment by the

² "TEDBF Program: Indian Navy's Modernization Drive Advances Despite Delays," *Defence. In*, March 21, 2024, https://defence.in/threads/tedbf-program-indian-navys-modernization-drive-advances-despite-delays.4692/#google_vignette; "Interview with Admiral R Hari Kumar, Chief of the Naval Staff, Indian Navy," *VAYU Aerospace & Defence Review*, 2022 <https://www.vayuaerospace.in/Issue/202203031244324118.pdf>

³ "India approves fifth-generation AMCA fighter project," *Janes*, March 11, 2024, <https://www.janes.com/osint-insights/defence-news/defence/india-approves-fifth-generation-amca-fighter-project>

⁴ Maynak Singh, "More delay in Tejas Mark 1A delivery," *Indian Express*, August 1, 2024, <https://www.newindianexpress.com/nation/2024/Aug/01/more-delay-in-tejas-mark-1a-delivery>

Indian government remained low, BDL generated a high revenue of INR 2,489 Crore in 2023s. This showcases the self-sustenance of the company that facilitates and produces missiles for the Integrated Guided Missile Development Programme (IGMDP), which includes Prithvi (SSM), Akash (SAM), Agni (ICBM) and other anti-tank missiles.

The Table 1 below shows the list of 9 State-owned Ordnance Factories and the investments procured by them from 2022 to 2024.

	State-owned Ordnance Factories	2024-25	2023-24	2022-23
1.	Hindustan Aeronautics Limited	\$191 million 1600 Crore	\$185 million 1550.00 Crore	\$217 million 1818.00 Crore
2.	Bharat Electronics Limited	71.8 million 600 Crore	\$ 65.7 million 550 Crore	\$65 million 541 Crore
3.	BEML Limited	57.8 million 484.32 Crore	\$23.2 million 194.11 Crore	\$4 million 30.56 Crore
4.	Mazagon Dock Shipbuilders Limited	35.8 million 300.00 Crore	\$35.8 million 300.00 Crore	\$13.8 million 115.51 Crore
5.	Bharat Dynamics Limited	11.95 million 100 Crore	\$11.95 million 100 Crore	\$13.5 million 113.00 Crore
6.	Mishra Dhatu Nigam Limited	\$ 7.16 million 60 Crore	\$ 9.55 million 80 Crore	\$9 million 75 Crore
7.	Hindustan Shipyard Limited	\$5.98 million 50 Crore	\$1.55 million 13 Crore	\$2 million 13 Crore
8.	Garden Reach Shipbuilders and Engineers Ltd	\$4.78 million 40 Crore	\$4.78 million 40 Crore	\$5 million 43 Crore
9.	Goa Shipyard Limited	\$2.39 million 20 Crore	\$2.99 million 25 Crore	\$7 million 58 Crore

Table 1: Budget of State-owned Ordnance Factories in India (2022-24)

Source: Ministry of Finance, India

2. Corporatized State-Owned Defence Companies:

The second track is investment in state-owned defence production companies, which reached \$178.5 million (INR 1,494 Crore). Under the restructuring and corporatization of Ordnance Factory to promote R&D and the manufacturing ecosystem, seven state-owned defence production companies were established in 2021.⁶ The objective of these companies is to not only ensure sufficient production for national purposes but also export goods to become global brands. The top four out of

⁵ "Bharat Dynamics Profit & Loss Annual," *Live Mint*, August 5, 2024, <https://www.livemint.com/bharat-dynamics/profit-loss-annual/companyid-s0003345>

⁶ "Seven new defence companies, carved out of OFB, dedicated to the Nation on the occasion of Vijayadashami," *Indian Press Information Bureau*, October 15, 2021, <https://pib.gov.in/PressReleasePage.aspx?PRID=1764148>

seven defence production houses, that received significant investment for research, development, production and export as highlighted below:

- **Munitions India Limited (MIL):** Most investment was secured by Munitions India Limited (MIL), amounting to \$89 million (INR 745.45 Crore) in the 2024-25 defence budget. As per the company's brochure, MIL engages in "production, testing, R&D and marketing of a comprehensive range of ammunition and explosives." MIL is being fortified to ensure the supply of ammunition during long-haul wars and improve production for export.⁷
- **Advanced Weapons and Equipment India Limited (AWE):** The second largest investment is being funnelled into AWE, standing at \$39.3 million (INR 329.26 Crore) for the production of small arms. One of the major projects between AWE and Russian defence manufacture Kalashnikov Concerns was the delivery of 27,000 AK-203 assault rifles for the Indian Army. This project is being undertaken by their joint venture, Indo-Russian Rifles Private Limited (IRRPL). Under this project, over 770,000 AK-203 rifles are to be manufactured, facilitating technology transfer from Russia to India,⁸ showcasing India's strengthening of its tactical positions.
- **Yantra India Limited:** Yantra India Limited received the third largest investment of \$ 27.3 million (INR 228.15 Crore) for forging and casting steel and metal components and manufacturing small bomb hardware, spare parts and ammunition. Presently, the company is running an aggressive recruitment drive to enlist 500 employees to work on enhancing the AI ecosystem.⁹ Russia is the biggest supplier of spare parts to India; however, as the supply of defence spare parts was impacted after the Russia-Ukraine conflict, India is focused on finding indigenous local alternatives.
- **Armoured Vehicles Nigam Limited (ANVL):** Also established in 2021, ANVL secured an investment of \$20.7 million (INR 173 Crore) for the production of battle tanks and armoured vehicles. ANVL is also working with Russia to produce Typhoon-K 4x4 Mine-Resistant Ambush Protected (MRAP) vehicle. This demonstrates India's growing focus on modernizing its military with the latest defence equipment.

⁷ R. Ramachandran, "Govt-Owned Munitions India Ltd Exported Ordnance to Israel as Gaza Was Reduced to Rubble," *The Wire*, May 7, 2024, <https://thewire.in/government/govt-owned-munitions-india-ltd-exported-ordnance-to-israel-as-gaza-was-reduced-to-rubble>

⁸ Ujjwal Shrotriyia, "Indian Army Takes Delivery Of 27,000 Locally-Made AK-203 Assault Rifles," *Swarajya*, May 20, 2024, <https://swarajyamag.com/defence/indian-army-takes-delivery-of-27000-locally-made-ak-203-assault-rifles>

⁹ "Yantra to invest Rs 100 crore in India's generative AI market," *Business Today*, December 2, 2023, <https://www.businesstoday.in/technology/news/story/yantra-to-invest-rs-100-crore-in-indias-generative-ai-market-407961-2023-12-02>

Figure 1 below illustrates the growth trajectory of the top four Defence Companies from 2022 to 2024:

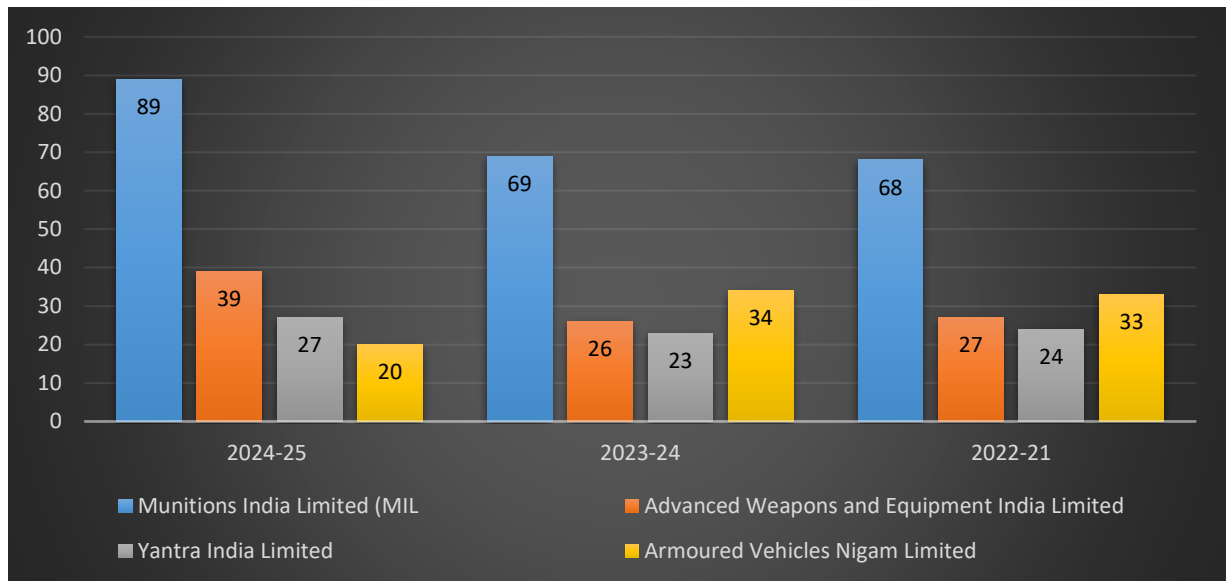


Figure 1: Budget Growth Trajectory of top four Defence Companies in India (USD million)

Source: Ministry of Finance, India

The Table 2 elaborates the investment by Indian government in indigenous Defence Companies from 2022 to 2024:

	STATE-OWNED DEFENCE COMPANIES	2024-25	2023-24	2022-23
1.	Munitions India Limited (MIL)	\$ 89.1 million (745.45 Crore)	\$69.3 million 580.00 Crore	\$68.9 million 577.00 Crore
2.	Advanced Weapons and Equipment India Limited	\$ 39.3 million 329.26 Crore	\$26.9 million 225.00 Crore	\$27.0 million 226.00 Crore
3.	Yantra India Limited	\$ 27.3 million 228.15 Crore	\$23.9 million 200.00 Crore	\$24.3 million 203.00 Crore
4.	Armoured Vehicles Nigam Limited	\$ 20.8 million 173.86 Crore	\$ 34.6 million 290.00 Crore	\$33.7 million 282.00 Crore
5.	Troop Comforts Limited	\$ 1.19 million 9.96 Crore	\$837,000 7.00 Crore	\$ 837,000 7.00 Crore
6.	India Optel Limited	\$ 620,000 5.18 Crore	\$717,000 6.00 Crore	\$956,000 8.00 Crore
7.	Gliders India Limited	\$ 256,000 2.14 Crore	\$239,000 2.00 Crore	\$837,000 7.00 Crore

Table 2: Budget of Defence Companies in India (2022-24)

Source: Ministry of Finance, India

Conclusion:

Although India is heavily investing in its indigenization drive, it is still a long way from achieving the desired objectives. This is because significant delays on production lines, shortage of critical components, lack of skilled staff, funding limitations, bureaucratic hurdles and cost-effectiveness are some of the key constraints in the indigenization drive. Defence personnel and experts in India have also expressed dissatisfaction over the allocation of the defence budget and India's progress in the indigenization market.¹⁰ Vice Chief of Indian Air Force (IAF) Air Marshal A. P. Singh warned that "self-reliance cannot be at the cost of the nation's defence," implying that the quality of output of the indigenization drive still lags in meeting the geostrategic challenges.¹¹

Nevertheless, India's Defence Budget of 2024-25 allocated an amount of \$567 million (4,748 crores) to indigenization drive, an increase of 14 per cent as compared to previous fiscal year.¹² This hike in defence spending will elevate India's conventional capability and force posture in the South Asian region. While India is enhancing its own security, it has had a destabilising effect on the neighbourhood. It will directly impinge on Pakistan's national security, and, despite economic challenges, it would put pressure on Pakistan to pour more investment into its indigenization drive to keep the gap from becoming too large. This will ultimately fan an arms race in the region and detract from the objective of building a peaceful and prosperous neighbourhood.

¹⁰ Seminar: Kargil to Galwan | Assessing India's Military Preparedness, ORF, July 20, 2024, <https://www.youtube.com/watch?v=waBPkYbYO3o>; Laxman Kumar Behera, "Examining India's Interim Defence Budget 2024-'25," ORF, February 26, 2024, <https://www.orfonline.org/research/examining-indias-interim-defence-budget-2024-25>

¹¹ Dinakar Peri, "Aatmanirbharta cannot be at the cost of nation's defence: IAF Vice Chief," The Hindu, July 20, 2024, <https://www.thehindu.com/news/national/aatmanirbharta-cannot-be-at-the-cost-of-nations-defence-iaf-vice-chief/article68422356.ece>

¹² Budget for Indigenization drive FY 2023-24 – 4,162 crore