PL Capital
PRABHUDAS LILLADHER

Defense

Sector Update

September 08, 2026

Coverage Universe

Name of the Company	Rating	CMP (INR)	TP (INR)
BEML	Accumulate	2,097	2,011
Bharat Electronics	Accumulate	404	452
Hindustan Aeronautics	BUY	4,855	5,795

DAC AoN of INR1.1trn accelerates indigenization

Quick Pointers

- **INR1.1trn AoN approved across the Indian Army, Navy and Air Force, with ~98% of procurement expected from Indian industry**
- **Key beneficiaries include HAL, BEL and BEML, given their exposure to helicopters, radars, electronic warfare, mobility and combat platforms**

DAC clears capital acquisition proposals for the defense forces

The Defense Acquisition Council (DAC) has accorded AoN for capital acquisitions of ~INR1.1trn across the Army, Navy and Air Force, spanning mobility and combat engineering platforms, CBRN preparedness, helicopters, radars, marine propulsion, electronic warfare and secure communications. With YTD AoN for FY27 now standing at ~INR1.6trn, the steady cadence of approvals underscores a sustained defense capex upcycle and the government's continued push toward indigenization under Atmanirbhar Bharat. Importantly, ~98% of the latest procurements are expected to be sourced from Indian industry, reinforcing the focus on higher localization and private-sector participation. We believe the AoN provides strong multi-year order and earnings visibility for domestic defense manufacturers.

Details of the AoN

Indian Army

- CBRN recce vehicles approved for detection, identification, monitoring and marking of areas contaminated by CBRN agents, strengthening battlefield preparedness and survivability
- High mobility vehicles (HMVs) approved to enhance troop mobility, logistics and operational support across challenging terrains
- Self-propelled mechanical mine layers (MMLs) approved to enable faster and more responsive mine-laying operations across difficult terrains
- Advanced light helicopters (ALHs) approved for execution of complex missions across varied terrains and operational conditions
- Trawl tanks and Sarvatra bridge systems approved to provide composite crossings for fighting formations, strengthening mobility across varied terrain during operations

Amit Anwani
amitanwani@plindia.com | +91-22-66322250

Hitesh Agarwal
hiteshagarwal@plindia.com | +91-22-66322535

Devansh Dedhia
devanshdedhia@plindi | +91-22-66322324

Indian Navy

- Arudhra radars approved to replace existing air route surveillance radars at various naval air stations, strengthening airspace surveillance capabilities
- Marine gas turbines (MGTs) approved for design, development and subsequent procurement as warship propulsion systems, reducing dependence on foreign vendors and supporting indigenous propulsion capabilities

Indian Air Force

- Ground-based multi-purpose jammers (GBMPJs) approved to provide effective jamming against adversary radars, strengthening electronic warfare and battlefield survivability
- Defense Forces Secure Access Card (DEFSAC) system approved to replace paper-based identity cards, passes and permits with interoperable RFID-based smart cards, enhancing secure access and identification across defense establishments

Our view

The DAC has accorded AoN for procurement proposals across defense platforms aggregating to ~INR1.1trn, reinforcing the medium-term defense capex pipeline and the government's continued push toward indigenization. We believe the major AoN proposals include ALHs and MGTs, which should mainly benefit HAL, while Arudhra radars and GBMPJs should provide opportunities for BEL. Approvals for CBRN recce vehicles, HMVs, self-propelled MMLs, trawl tanks and Sarvatra bridge systems should primarily benefit BEML, while other approvals across mobility, combat engineering and secure communications provide incremental opportunities for a wider set of domestic defense players.

With ~98% of the latest ~INR1.1trn AoN earmarked for Indian industry, the procurement approvals provide a significant opportunity for domestic defense players and reinforce the government's continued push toward indigenization under Atmanirbhar Bharat. This was further reinforced by the 6th Positive Indigenisation List (PIL), which covers 405 strategically important items, of which ~320 are linked to platforms and systems where HAL, BEL and BEML are key beneficiaries. The overlap between the latest AoN and the PIL across helicopters, radars, mobility and combat systems should further strengthen the long-term opportunity for these companies as import substitution accelerates and a greater share of the defense value chain shifts toward domestic manufacturers.

We remain positive on long-term growth story of BEL given the 1) strong order backlog of INR722.6bn (2.6x TTM revenue) provides multi-year revenue visibility; 2) healthy pipeline comprising QRSAM, NGC systems, MFRX radars, P75I submarine programs and many others; 3) diversification in non-defense verticals like data centers, cybersecurity, drones and quantum communication to aid non-defense growth; and 4) government focus on product indigenization and import substitution, supporting long-term growth visibility.

Exhibit 1: Likely beneficiaries of key approved platforms

Service	Platform	Likely beneficiaries
Indian Army	CBRN recce vehicles	BEML, BEL
	HMVs	BEML
	Self-propelled MMLs	BEML
	ALHs	HAL, BEL, Dynamatic Technologies, MIDHANI
	Trawl tanks	BEML
	Sarvatra bridge systems	BEML
Indian Navy	Arudhra radars	BEL, Astra Microwave Products, Data Patterns
	MGTs	HAL, BHEL, Bharat Forge
Indian Air Force	GBMPJs	BEL, Astra Microwave Products, Data Patterns

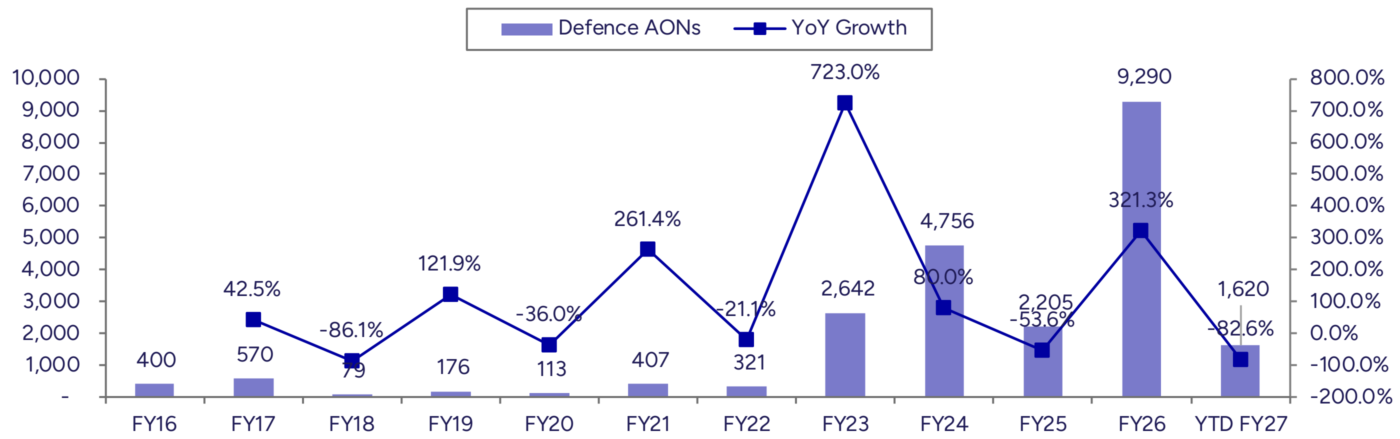
Source: Company, PL

Exhibit 2: AoN worth INR1.6trn approved in FY27 YTD

Date	Amount (INR bn)	Key approvals
Jul-26	520	• Army: Procurement of Akash Tarang anti-UAV EW systems, MPATGM, MRSAM, V-SHORADS, tank active protection systems and kamikaze drones • Navy: Procurement of multi-influence ground mines and shipborne UAVs, alongside a land-based testing facility for electric propulsion systems • IAF: Procurement of fixed-wing HAPS to enhance persistent ISR, communications and remote-sensing capabilities
Sep-26	1,100	• Army: Procurement of CBRN recce vehicles, HMVs, MMLs, ALHs, trawl tanks and Sarvatra bridge systems • Navy: Procurement of GBMPJs and installation of the DEFSAC system • IAF: Procurement of Arudhra radars and development of MGTs

Source: PL, Press Information Bureau

Exhibit 3: Rising Defense AoN reinforces the structural capex upcycle



Source: PL, Press Information Bureau

Exhibit 4: **Valuation Matrix**

Company	Revenue (INR mn)			Revenue CAGR FY26-FY28E	EBITDA (INR mn)			EBITDA Margin			PAT (INR mn)			PAT CAGR FY26-FY28E
	FY26	FY27E	FY28E		FY26	FY27E	FY28E	FY26	FY27E	FY28E	FY26	FY27E	FY28E	
BEML	43,505	54,149	64,932	22.2%	5,562	7,148	9,610	12.8%	13.2%	14.8%	3,236	4,476	6,203	38.5%
Bharat Electronics	274,796	320,861	369,211	15.9%	80,153	91,478	105,927	29.2%	28.5%	28.7%	60,485	70,524	82,545	16.8%
Hindustan Aeronautics	330,888	369,595	438,754	15.2%	97,698	108,291	128,116	29.5%	29.3%	29.2%	91,156	95,107	107,658	8.7%

Source: Company, PL

Exhibit 5: **Valuation Matrix**

Company	EPS (INR)			P/E			EV/EBITDA			RoCE			RoE		
	FY26	FY27E	FY28E	FY26	FY27E	FY28E	FY26	FY27E	FY28E	FY26	FY27E	FY28E	FY26	FY27E	FY28E
BEML	38.8	53.7	74.5	54.0x	38.5x	29.2x	31.9x	25.4x	19.9x	11.60%	13.79%	15.78%	11.12%	14.67%	18.12%
Bharat Electronics	8.3	9.6	11.3	48.8x	41.9x	35.8x	35.8x	31.2x	26.9x	34.43%	32.71%	32.04%	27.88%	26.92%	26.51%
Hindustan Aeronautics	136.3	142.2	161.0	35.6x	34.1x	30.2x	28.5x	24.8x	20.1x	11.20%	11.00%	12.76%	23.98%	21.43%	20.91%

Source: Company, PL

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (INR)	Share Price (INR)
1	ABB India	HOLD	6944	7285
2	Apar Industries	Accumulate	14720	13889
3	BEML	Accumulate	2011	1911
4	Bharat Electronics	Accumulate	452	407
5	BHEL	Reduce	368	435
6	Carborundum Universal	HOLD	1072	1121
7	Cummins India	HOLD	5323	5402
8	Elgi Equipments	Accumulate	638	610
9	Engineers India	BUY	294	244
10	GE Vernova T&D India	Accumulate	4701	4299
11	Grindwell Norton	Accumulate	2113	2018
12	Harsha Engineers International	Accumulate	462	410
13	Hindustan Aeronautics	BUY	5795	4995
14	Hitachi Energy India	HOLD	34026	32600
15	Ingersoll-Rand (India)	Accumulate	5029	4606
16	Kalpataru Projects International	Accumulate	1472	1348
17	KEC International	Accumulate	523	451
18	Kirloskar Pneumatic Company	Accumulate	1715	1599
19	Larsen & Toubro	BUY	4425	3832
20	Praj Industries	Buy	390	335
21	Siemens	HOLD	3831	4011
22	Siemens Energy India	Accumulate	3434	3252
23	Thermax	Reduce	3952	4306
24	Triveni Turbine	HOLD	615	600
25	Voltamp Transformers	Accumulate	11003	9950

PL's Recommendation Nomenclature (Absolute Performance)

BUY : > 15%
Accumulate : 5% to 15%
Hold : +5% to -5%
Reduce : -5% to -15%
Sell : < -15%
Not Rated (NR) : No specific call on the stock
Under Review (UR) : Rating likely to change shortly

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Prabhudas Lilladher Pvt. Ltd.

Corporate Office: 6th Floor, Tower 2B South Annex, One World Centre, 841, Senapati Bapat Marg, Lower Parel, Mumbai - 400013

Registered Office: 3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018

Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

www.plindia.com

AMNISH AGGARWAL

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