

POST-BUDGET SERIES 2025

Analysing aspects of
Union Budget 2025



Chintan
Research
Foundation

ISSUE BRIEF NO. 12/2025

THE FRONT FOOT DEFENCE

Greater Push for Privatisation in Defence Manufacturing

By Nandini Bhatnagar

The 2025-26 Union Budget has set the stage for reforming India's defence manufacturing sector. While PSUs dominate, delays and overcapacity necessitate private sector participation. Increased budget allocations and a push for PPPs in the budget signal a shift toward self-reliance and global competitiveness. India aims to boost defence exports and reduce import dependency while balancing national security concerns. By embracing privatization, India can strengthen its defence ecosystem while also securing both economic

As India navigates its strategic imperatives in a changing global security landscape, the 2025-26 Union Budget has provided a direction to address the long-standing challenges in India's defence manufacturing sector. In a rapidly evolving geopolitical landscape, India's defence manufacturing capabilities must be strengthened to meet complex security challenges and strategic ambitions. Historically, this sector has been dominated by Public Sector Undertakings (PSUs) like Hindustan Aeronautics Limited (HAL) and Bharat Electronics Limited (BEL). While they have made significant contributions, bureaucratic delays and technological stagnation have stifled India's potential as a global defence manufacturing powerhouse. The time has come for India to decisively shift toward privatization, unleashing the full potential of its private sector to achieve strategic self-reliance and export competitiveness. Historically, this sector has been dominated by Public Sector Undertakings (PSUs) like Hindustan Aeronautics Limited (HAL) and Bharat Electronics Limited (BEL). While they have made significant contributions, bureaucratic delays and technological stagnation



The author is a Research Assistant with the Centre for Geopolitics and Strategic Studies at CRF

have stifled India's potential as a global defence manufacturing powerhouse. The time has come for India to decisively shift toward privatization, unleashing the full potential of its private sector to achieve strategic self-reliance and export competitiveness.

Reforming Defence Manufacturing Traditions

The recently announced Union Budget signals the government's growing acknowledgement of this matter. With the latest budget allocating ₹6.8 lakh crore to defence – a notable 9.5% increase from the previous year – there is a clear indication of the government's commitment to boosting national security. A significant portion of ₹1.80 lakh crore is dedicated to the capital outlay for defence services, which reflects a 4.65% increase from the previous year. Of this, ₹1.48 lakh crore is earmarked for capital acquisitions aimed at modernizing the armed forces with state-of-the-art weaponry and technology. Notably, ₹1.11 lakh crore, representing 75% of the modernization budget, is allocated for procurement from domestic industries, with ₹27,886 crore specifically designated for the private sector. This strategic move is designed to bolster self-reliance, stimulate domestic manufacturing, and encourage technological advancements within India's defence sector.

However, despite consistent increases in allocation, the defence industry remains heavily dominated by public sector enterprises. The private sector, despite showing promise, continues to play a limited role in manufacturing and innovation. The fine print suggests that about 90% of the allocated modernization budget will continue to favour PSUs. This persistent gap raises an important question: why hasn't India fully tapped into the capabilities of its private sector to bolster defence manufacturing?

”
These setbacks aren't a failure of the PSUs but rather an indication of the need for complementary contributions from the private sector to enhance capacity and efficiency.

In this context, the Ministry of Defence has declared 2025 as the “Year of Reforms,” signaling a renewed commitment to restructuring and modernizing defence production. These reforms are aimed at streamlining procurement processes and encouraging private-sector participation, along with a strong focus on achieving self-reliance in defence manufacturing. This move aligns with India's ‘Aatmanirbhar Bharat’ mission, which aims to reduce dependence on imports and develop indigenous capabilities across sectors.

India's defence budget has consistently shown a commitment to reducing reliance on imports. Over the years, policies like the 2020 Defence Acquisition Procedure (DAP) were created to prioritize domestic manufacturers. Yet, in practice, state



owned giants have been central to this endeavour. It is important to highlight that these organizations have developed capabilities over decades and remain vital for handling sensitive technologies and national security projects. However, public sector enterprises alone cannot meet the growing demands of modern defence requirements.



After independence, India adopted a centralized approach to defence production, focusing heavily on public-sector control to safeguard sensitive technologies and ensure secrecy.

Addressing Structural Challenges

The overreliance on public sector enterprises has created inefficiencies that drain the defence budget. The armed forces were unable to fully utilize last year's budget and returned ₹13,000 crore in unspent funds. Challenges such as production delays and technology gaps often arise due to the sheer scale and complexity of their responsibilities. For instance, the Light Combat Aircraft (LCA) Tejas project has taken years longer than expected. This forced India to import equipment to fill the gap, which undermined the very goal of self-reliance. These setbacks aren't a failure of the PSUs but rather an indication of the need for complementary contributions from the private sector to enhance capacity and efficiency.

The hesitancy to involve private companies in defence manufacturing stems from both historical and strategic concerns. After independence, India adopted a centralized approach to defence production, focusing heavily on public-sector

control to safeguard sensitive technologies and ensure secrecy. While this approach served its purpose during the early years of nation-building, it created a culture of mistrust towards private enterprises. Decision-makers have long worried that private companies could prioritize profits over national security or fall victim to monopolistic tendencies. These concerns, while valid, have inadvertently limited the potential for private-sector innovation to play a transformative role defence.

The private sector thrives on competition and innovation, which are essential for technological advancements in defence. Companies like Adani Defence & Aerospace, Tata Advanced Systems, Larsen & Toubro, and Bharat Forge have already demonstrated their ability to produce world-class defence equipment, including critical missile systems, naval platforms, drones, and aerospace components. Yet, their contributions remain limited due to policy biases that favor state-owned entities. PSUs, while experienced, are often burdened by bureaucratic inefficiencies and legacy systems. The delays in projects like the Tejas Light Combat Aircraft and indigenous submarines underscore these challenges. By contrast, private firms have the flexibility and efficiency to execute complex projects within tighter timelines and budgets.

Public-Private Partnerships: A Promising Model

Public-private partnerships (PPPs) represent an important area of opportunity. The Finance Minister announced a new asset monetization plan for 2025 to 2030 to plough back capital of ₹10 lakh crore in new projects, which plans to encourage private investments in existing public assets. One of the most promising developments in the budget is the directive for ministries to prepare a three-year pipeline of PPP projects. This model, which has proven successful in infrastructure and energy sectors, can be a game-changer for defence manufacturing. PPPs in defence can combine the resources and experience of PSUs with the innovation and agility of private firms. For instance, collaborations between the Indian Navy and private shipyards have already demonstrated the potential of such partnerships. Similarly, projects like the Advanced Medium Combat Aircraft (AMCA) is a good example of where technologies could benefit from such push from private sector involvement. Expanding this model to other defence platforms could yield similar significant benefits.



PPPs in defence can combine the resources and experience of PSUs with the innovation and agility of private firms.

Moreover, the privatization push could also foster collaborations between Indian and foreign firms by establishing joint production facilities in India with a clear roadmap for technology transfer over time. This approach would help bridge the technological gap for Indian private companies while boosting domestic

manufacturing. While currently equipment like the Sukhoi SU-30 are being made in India, none of our private firms are in direct collaboration with the Original Equipment Manufacturer (OEM). Encouraging direct joint ventures with private Indian firms could also be a transformative game-changer for the defence sector. By clearly defining roles, responsibilities, and risk-sharing mechanisms, PPPs and joint production units can accelerate project execution, enhance quality, and reduce costs

Learning from Global Successes

In countries like the United States, private companies like Lockheed Martin and Boeing play a pivotal role in defence manufacturing and developing advanced technologies under strict government oversight. These partnerships have driven innovation and created robust industrial ecosystems that benefit the broader economy. For India, the challenge is to replicate such models while trying to ensure that sensitive technologies and national security concerns remain protected. While private entities like Larsen and Toubro (L&T) have indeed made commendable contributions in the development of the nuclear-powered Arihant-class submarines, such examples are more of an exception rather than the rule. There is significant room to institutionalize such collaborations with a strong PPP framework.

Balancing Public and Private Roles

While encouraging private sector involvement in defence manufacturing is important, it is equally important to recognize the areas where public control must remain paramount. Sectors that involve highly classified technologies, such as missile systems or nuclear capabilities, are best managed by state-owned enterprises due to their direct impact on national security. Similarly, strategic assets like cybersecurity systems and critical infrastructure should remain under strict government oversight to prevent vulnerabilities. Balancing these priorities will require a nuanced approach that distinguishes between areas where private innovation can flourish and those where government control is essential.

”
**Privatization
is not just
about meeting
domestic
defence needs;
it is also about
positioning
India as a
global defence
exporter.**

A Strategic Imperative

Privatization is not just about meeting domestic defence needs; it is also about positioning India as a global defence exporter. The government's push to increase defence exports to ₹50,000 by 2029 is commendable but ambitious. Achieving this target will require a strong private sector that can develop competitive, cutting-edge products for global markets. Countries in Africa, Southeast Asia,

and the Middle East are potential markets for Indian defence exports. However, to capture these markets, India must offer technologically advanced and cost-effective solutions. The private sector, with its focus on innovation and efficiency, is best positioned to meet this target.

Prime Minister Narendra Modi has consistently underscored the importance of indigenization in defence manufacturing and emphasized that India must move towards becoming a global leader in defence exports. This vision demands more than budgetary allocations; it requires a policy thrust that translates words into action. A significant highlight of the budget, the “Make for India, Make for the World” vision, underscores the push to transform India into a global defence manufacturing hub. This framing suggests a strategic push towards enhancing domestic manufacturing capabilities, which could pave the way for greater private-sector participation in defence production for both local and global markets.

The privatization of defence manufacturing is not just an economic necessity; it is a strategic imperative. As India faces growing security threats from hostile neighbors and seeks to assert its influence in the Indo-Pacific region, a robust and self-reliant defence manufacturing ecosystem is essential. By empowering the private sector, India can reduce its dependence on imports, develop cutting-edge technologies, and emerge as a global leader in defence.

The Union Budget 2025-26 has laid the groundwork for this transformation. However, its success will depend on the government’s ability to implement reforms, foster meaningful collaboration between the public and private sectors, and create an ecosystem that encourages innovation and competitiveness. India stands at a crossroads. The path it chooses will determine its defence future and its place in the global strategic order. By embracing privatization, India can secure its defence future, strengthen its economy, and realize its vision of becoming a global defence manufacturing powerhouse. ●



1st Floor, Bharti Crescent Building, 1 Nelson Mandela Marg, Vasant Kunj Phase II, New Delhi - 110070



info@crfindia.org



+91 6358895955, +91 6358871398



www.crfindia.org