

# India's Defense Manufacturing Sector: Policy Support, Top Exports, Key Firms

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*India's defense manufacturing sector is steadily growing, driven by policy reforms, increased budget allocations, technological advancements, and a focused push for domestic production. The country is keen to become a global defense manufacturing hub, combining indigenous capability development with strategic international collaboration.*

## India's defense manufacturing policy

India is keen to achieve self-reliance in defense manufacturing, making necessary changes to its policy framework. The Union Budget 2024-25 showcased this ambition by allocating a record INR 3.9 trillion (US\$68.233 billion) to the defense sector, including INR 1.8 trillion (US\$20.8 billion) earmarked for capital outlay. A major portion of this budget is directed toward indigenous procurement, signaling strong support for domestic manufacturers.

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Further, India's Ministry of Defense (MOD) has published "Positive Indigenization Lists" (PILs) that prohibit the import of specific defense equipment. Items on these lists must be exclusively procured from domestic manufacturers, including public and private sector enterprises, as well as micro, small, and medium enterprises (MSMEs). These PIL lists include Line Replacement Units (LRUs), systems, sub-systems, assemblies, sub-assemblies, spares, components, and raw

materials, ranging from hardware and electronics components to small arms and advanced defense technology such as unmanned aerial vehicles (UAVs) and fighter jets.

## Streamlining procurement with the Defense Acquisition Procedure

India's defense indigenization push via the PILs aligns with the Defense Acquisition Procedure (DAP) 2020, a cornerstone policy for defense procurement in India. Introduced as an overhaul of the earlier Defense Procurement Procedure (DPP), the DAP aims to streamline procurement processes, promote domestic manufacturing, and enhance transparency, efficiency, and accountability.

The DAP serves as the procedural framework for implementing acquisitions based on the PIL, ensuring that items on the list are procured in compliance with domestic manufacturing guidelines. It includes detailed provisions for evaluation processes, vendor selection, and production timelines. The policy prioritizes indigenous design and development, emphasizing collaboration between private players, public sector entities, and foreign original equipment manufacturers (OEMs).

Key procurement categories under the DAP include "Buy (Indian – Indigenous Design, Development, and Manufacturing)," "Buy and Make (Indian)," and "Make I and II." These classifications incentivize domestic industries, particularly MSMEs, to actively participate in the defense sector. Additionally, DAP introduces leasing as a cost-effective alternative to outright purchases, optimizing expenditures on certain defense assets.

Make-I and Make-II are categories of projects under the "Make" category in the DAP.

Make-I

- > Central government-funded projects
- > Involve the design and development of critical defense equipment, products, and systems
- > Products include the Indian Light Tanks, Terminal End Security Device (TESD), Tactical Communication System (TCS), and Futuristic Infantry Combat Vehicle (FICV)

Make-II

- > Private sector/industry-funded projects
- > Involve the development of prototypes, systems, and subsystems
- > Primarily aimed at import substitution or innovative solutions

## The 2023 amendments to India's Defense Acquisition Procedure

Amendments to the DAP were introduced in 2023 and seek to incorporate technological advancements and operational requirements. They also focus on reducing procedural delays and further incentivizing indigenous production. Some key changes are noted below:

- **Promotion of indigenous content:** The minimum indigenous content requirement has been increased across various categories of procurement, reinforcing the government's emphasis on local manufacturing and technology development.
- **Incentives for startups and MSMEs:** Specific measures have been introduced to simplify processes for startups and MSMEs, including fast-tracking approvals and offering greater flexibility in project execution.
- **Introduction of iDEX (Innovations for Defense Excellence):** The amendments highlight the role of the iDEX framework, allowing smaller firms and innovators to contribute to defense R&D and procurement. This initiative promotes innovation and accelerates the introduction of cutting-edge technologies.
- **Simplified Make-II process:** The "Make-II" category, which involves industry-funded projects for prototyping without government funding, has been further simplified. Timelines for approvals have been reduced to enable faster development and deployment.
- **Leasing provisions:** Updates to the leasing mechanism now include clearer guidelines, making it a viable option for acquiring non-core equipment while avoiding high capital costs.
- **Digitalization of processes:** The entire procurement lifecycle has been increasingly digitized, improving transparency and reducing administrative inefficiencies.