

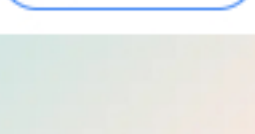
How Indian Manufacturing MSMEs Can Diversify into the Defence Sector in 2025

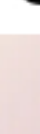

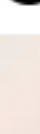
Discover how Indian manufacturing MSMEs can successfully diversify into the defence sector in 2025. Explore growth opportunities, key regions, eligible MSME categories, and government schemes that support this expansion.



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As India accelerates towards the goal of self-reliance in defence manufacturing, the role of domestic industries—particularly MSMEs—has become more critical than ever. The government’s Aatmanirbhar Bharat initiative, coupled with a growing demand for indigenous defence solutions, has opened doors for Indian MSMEs to enter and thrive in this strategically significant sector.

In FY 2025-26, India's defence budget crossed ₹6.2 lakh crore, emphasizing modernisation and indigenisation. MSMEs can play a major role in fulfilling the needs of the defence sector through innovation, component supply, and advanced manufacturing solutions. Diversification into the defence sector not only presents long-term business opportunities but also enables MSMEs to contribute to national security.

Why MSMEs Should Enter the Defence Sector

- There are compelling reasons for MSMEs to consider diversification into the defence sector:
- **High-Value Contracts:** The Ministry of Defence (MoD) has reserved about 70% of capital acquisition budget for domestic industry.
 - **Long-Term Demand:** The demand for defence equipment and systems is set to grow as India focuses on modernising its armed forces.
 - **Innovation & Expertise:** MSMEs are flexible and innovative, often capable of niche manufacturing with high precision.
 - **Global Opportunities:** Defence offset policies require foreign OEMs to partner with Indian firms, creating new joint venture opportunities.

Defence Sector Opportunities for MSMEs in 2025

Several sectors within defence manufacturing offer promising opportunities for MSMEs:

1. **Component Manufacturing:** MSMEs can produce vital parts for defence platforms like missiles, aircraft, ships, and vehicles.
2. **Aerospace and UAV Systems:** Drones, surveillance systems, and avionics present opportunities for electronics and aerostructure MSMEs.
3. **MRO Services:** Maintenance, Repair, and Overhaul for military aircraft and vehicles is a growing segment.
4. **Defence Exports:** With India’s defence exports target set at \$5 billion, export-oriented MSMEs have huge potential.
5. **Cybersecurity and AI:** Technology-driven MSMEs can contribute to digital warfare systems and intelligence platforms.

Which Kind of MSMEs Can Enter the Defence Sector?

Not all MSMEs are equally positioned to enter defence manufacturing. However, the following categories have a natural advantage:

- **Engineering & Fabrication Units:** Can supply mechanical parts and high-precision tools.
- **Electronics & IoT Firms:** Can create communication tools, sensor systems, and surveillance equipment.
- **AI/ML & Software Startups:** Offer predictive maintenance software, battlefield analytics, and cybersecurity tools.
- **Automotive Component Makers:** Adapt easily to manufacturing vehicle components used in defence logistics.
- **Chemical Manufacturers:** Can contribute in coatings, lubricants, or explosives.

"The most successful MSMEs in defence are those that combine domain know-how with agility in adopting defence-specific certifications and manufacturing standards," says Col. S. Singh (Retd.), Defence Industry Consultant.

Which Indian Regions Are Ideal for Defence MSMEs?

Certain regions in India are becoming hotspots for defence-related MSME growth due to existing infrastructure and policy support:

1. **Uttar Pradesh Defence Industrial Corridor (UP DIC):** Locations like Aligarh, Kanpur, and Jhansi are attracting strong investments.
2. **Tamil Nadu Defence Corridor (TNDIC):** Cities like Chennai, Salem, and Coimbatore are emerging hubs for aerospace and defence manufacturing.
3. **Hyderabad:** Known for missile and aerospace production, it houses DRDO labs and global OEM facilities.
4. **Pune-Nashik-Aurangabad Belt:** Automotive and engineering MSMEs in this belt can easily shift to defence components.
5. **Bengaluru:** An innovation hub for defence tech, AI, and UAVs, with proximity to ISRO, HAL, and R&D labs.

Government Schemes That Can Help MSMEs Enter Defence Sector

To promote MSME participation in defence manufacturing, the government has rolled out several policy measures and schemes:

1. **Defence Production and Export Promotion Policy (DPEPP) 2020:** Encourages MSME integration in supply chains and export growth.
2. **Technology Development Fund (TDF):** Offers up to ₹10 crore per project to MSMEs developing indigenous technologies.
3. **iDEX (Innovation for Defence Excellence):** A platform offering funding, mentorship, and access to armed forces for product testing.
4. **Public Procurement Policy for MSEs:** Reserves 25% of procurement by defence PSUs for registered MSMEs.
5. **Make-II Initiative:** Encourages MSMEs to develop prototypes with no upfront funding; successful trials guarantee procurement.

"The TDF and iDEX schemes are game-changers. They democratise defence innovation by allowing MSMEs to solve specific military problems with full support from defence institutions," says a senior Industry expert official.

How MSMEs Can Start Their Defence Journey

MSMEs interested in entering the defence sector can follow this roadmap:

1. **Capability Assessment:** Identify internal strengths such as design, manufacturing, or tech expertise.
2. **Registration:** Enlist on defence-related portals like Srijan, iDEX, and GeM.
3. **Certifications:** Secure quality approvals like AS9100, ISO 9001, or CEMILAC clearance.
4. **Networking:** Attend expos like DefExpo and Aero India; interact with DPSUs and armed forces procurement teams.
5. **Collaboration:** Partner with larger OEMs or defence PSUs for joint development or offset compliance.
6. **Stay Updated:** Follow Ministry of Defence announcements and state-level policy updates for new opportunities.

Conclusion

2025 is a critical year for India’s journey toward defence self-reliance. With strong policy backing, rising domestic demand, and global interest in Indian-made defence products, this is a prime time for MSMEs to enter the sector.

While regulatory and certification barriers exist, the long-term potential—both financially and strategically—is immense. MSMEs can not only grow profitably but also contribute to India’s national security and global positioning.

"MSMEs should view defence not just as a sector but as a platform to uplift their technological competence and global visibility," remarks Ankit Mehta, Co-Founder of ideaForge.

With the right guidance, support, and partnerships, Indian manufacturing MSMEs can indeed become the backbone of India’s future defence industry.