



Delhi Policy Group

Advancing India's Rise as a Leading Power

POLICY BRIEF

Evolving India's Defence Industry Through Private Sector Prime Contractors

Author

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1. The Mahindra Armoured Light Specialist Vehicle (ALSV), said to be India's first completely indigenous tactical military vehicle and designed and built by Mahindra Defence Systems, participates at the International Defence Exhibition and Conference (IDEX) held in Abu Dhabi. Source: [X/SP Shukla](#)
2. Kalyani Strategic Systems Limited (KSSL), the defence subsidiary of Bharat Forge, unveiled its MArG (Mounted Artillery Gun) series of 155mm 4x4 truck-mounted howitzers at Eurosatory 2026 in Paris on June 16, 2026. Source: [Kalyani Strategic Systems Limited](#)
3. A Light Armoured Multipurpose Vehicle (LAMV) designed for reconnaissance, patrol, and troop transport developed by Tata Advanced Systems. Source: [Tata Advanced Systems Limited](#)

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"India cannot achieve genuine self-reliance in the defence sector unless large private sector corporations emerge as prime contractors and system integrators alongside DRDO, DPSUs, MSMEs and startups".

Introduction

The outcome of war is shaped by several variables, but few are as vital as a nation's ability to field advanced weapons, sensors and military platforms at scale. Military effectiveness increasingly depends on technological and industrial capacity. This makes a strong indigenous Defence Industrial Base (DIB) indispensable – not merely for military preparedness, but also for strategic autonomy and the wider exercise of national power. A capable DIB strengthens sovereignty, reduces external dependence and enhances influence in the international arena. *India has made good progress in the defence sector but still imports many critical systems.*

Despite a clearer understanding of the risks associated with importing military equipment, India remains compelled to source advanced platforms and weapons from abroad, both to deter adversaries and secure favourable outcomes in conflict. This dependence persists despite major and commendable government efforts to stimulate research, innovation, development and manufacturing in the defence sector. *As of 2026, New Delhi continues to rank among the world's largest arms importers, often without any meaningful transfer of technology, and at considerable financial and strategic cost.*

The strategic establishment, and even the wider public, now recognise that prevalent geopolitical threats and widening technological gaps cannot be addressed through continued dependence on imported military hardware. *Such dependence carries significant vulnerabilities, including external leverage, supply uncertainty, and long-term operational constraints.*

Defence Imports

Moreover, high-quality imports are becoming harder to secure, often involve exceedingly prohibitive costs, and create strategic uncertainty over delivery schedules and lifetime support. *Increasing strategic competition is discouraging technology sharing. Three discernible trends are matters of concern.*

Capacity Constraints. It is often assumed that friendly foreign countries will make high-quality military platforms, technologies and munitions available to India, even if at high costs and prolonged timelines. That assumption no longer reflects current realities. *Few high-technology systems are readily available, and none can be procured off the shelf.* Global defence prime contractors are already stretched in terms of capacity by recent conventional conflicts, as well as the ongoing rearmament of the United States and European militaries. In this environment, relatively small and intermittent Indian orders are unlikely to receive any priority.

Technology Denial. There is a growing global reluctance to share emerging technologies embedded in cutting-edge military hardware. *As technology increasingly determines conflict outcomes, both governments and major defence corporations are unlikely to surrender long-term strategic and competitive advantage for short-term commercial gain.* This is especially true where full transfer of technology is sought, including intellectual property rights.

Permanent 'Friends'. Even close and long-standing partners will primarily act in accordance with their own evolving national interests, which may not always align with New Delhi's priorities. Partners may also lack the capacity to supply high-quality military hardware in the quantities and timelines India requires—especially during an unexpected conflict, when rapid replenishment becomes critical. *In a transactional Westphalian system, where alliances and alignments remain fluid, atmanirbharta, or self-reliance, must therefore be pursued as a strategic necessity, without lapsing into autarky or compromising operational necessity.*

Indian Defence Industry

India's defence industry has grown appreciably in recent years, and the momentum for further expansion is increasingly evident. Private sector participation has increased, accounting for a record 23% of defence production in FY 2024–25. Several initiatives are underway to harness domestic talent, innovation and technology. These achievements are important and deserve recognition.

However, as yet, the output of the Indian DIB has fallen short of the capability levels and performance standards required to match the challenge posed by likely adversaries. Persistent shortcomings and insufficient innovation velocity, along with significant time and cost overruns, has led to continuing reliance on imported aircraft, engines, sensors and weapons. In the current scenario, rapid technological change and volatile geopolitical conditions demand that the DIB deliver credible capability within compressed timeframes.

Defence exports have also reached a new high of \$2.76 billion in 2024-25, a figure broadly comparable to defence imports valued at \$2.8 billion in the same year. *However, export performance must not be mistaken for the principal purpose of the DIB. While overseas sales bring foreign exchange and diplomatic leverage, the central mission of the defence industry must be to equip India's armed forces with high-quality military capability suited to contemporary and future battlefields.*

Core Issue

The central question is not whether progress has been made, but whether this progress is sufficient to produce the advanced military capability India requires to deter or defeat modern adversaries. The answer remains no. Significant dependence on foreign suppliers persists.

Progress will remain incomplete unless the DIB can research, develop and manufacture the top-tier platforms and weapons India is currently compelled to import. *Start-ups, innovators and MSMEs are essential to the ecosystem, but simply adding them to the long-standing DRDO-DPSU edifice will not be sufficient to transform the defence sector at the scale required.*

Significant transformation will require, inter alia, the emergence of large private sector corporations as prime contractors and system integrators.

Prime Contractors

Modern military platforms and weapons are extremely complex systems which are developed and designed by large corporations who have the wherewithal in terms of the financial, technological, human and organisational resources, to sustain the enormous investments needed for research, development, integration, manufacturing and lifecycle support. These are referred to as 'Prime Contractors' (PCs), (Lockheed Martin, Northrop, Mitsubishi Heavy Industries, Thales, etc.)

These corporations also function as 'Lead Integrators' who amalgamate the subsystems, assemblies and components into operational systems. These parts may be manufactured and procured from a variety of indigenous and external sources. PCs manage the supply chains, take ownership of programme execution, and assume responsibility for cost, schedule and performance.

These enormous demands mean that Prime Contractors are typically either large state-owned enterprises or major private corporations supported by government through procurement and risk-sharing mechanisms. *A major reason for the relative underperformance of the Indian DIB has been the absence of sufficiently large and capable*

private-sector Prime Contractors. While some large private corporations have now forayed into the defence sector, their activity is limited to a few projects, and their quantum of investments and research do not yet qualify them as PCs.

DPSUs have played a prominent role in building national industrial capacity and will remain integral to the defence ecosystem. However, public-sector organisations often work under structural constraints that can slow decision-making, dilute accountability, and limit responsiveness to technological change. *These challenges are not unique to India and are characteristic of public-sector and state-owned enterprises in many countries.*

While startups and MSMEs contribute innovation, specialised technologies, and components, they lack the financial resources, industrial scale and programme-management capacity needed to integrate complex defence technologies, coordinate supply chains, manage risk and deliver complete operational capability.

To achieve strategic autonomy and develop a globally competitive defence industry, India must foster an ecosystem in which large private corporations can operate as prime contractors alongside public-sector institutions. The goal is not to replace DPSUs, but to complement them through a broader and more balanced industrial structure capable of delivering advanced military capability at scale, speed, and competitive cost.

The introduction of the Strategic Partnership Model in 2017, and its sporadic activation since then, has not yet translated onto the emergence of large globally competitive private sector PCs. This will require more than a template. Only far-sighted, visionary, and synergetic policies, which overcome the ingrained trust deficit regarding private industry, and which look to fuse and converge the interests and aims of both the government and of private enterprise, will be able to transform the DIB in a manner that serves national interests.

Limitations of the State-Centric Model

DPSUs remain indispensable components of India's defence industrial ecosystem. However, exclusive reliance on state-owned prime contractors is unlikely to deliver the scale, speed and competitiveness required for transforming and evolving the DIB. By their very structure and ethos, public and government entities are cautious and procedure-bound, which does not make for nimble decision-making and acting swiftly on opportunities that the nature of the defence industry demands.

Frequent nomination of DPSUs over private contenders removes the vital element of competition. Furthermore, assured jobs and time-based promotions offer limited

incentives for efficiency. There is also little inducement for technological disruption as the survival of public companies is guaranteed.

Some features integral to the environment, which disadvantage the public sector, are well known and documented and must be accepted with realism.

- Diffused accountability.
- Relatively slow decision-making.
- Risk aversion, and preference for collegiate decisions.
- Time and cost overruns, which are subsumed in government outlays and borne by taxpayers.
- Performance shortfalls when compared to inflated and unrealistic time schedules/cost projections.
- Complex procedures and processing at multiple levels.
- Lack of synergy between various public departments and organs.

Despite best efforts to streamline management and deliver greater efficiency, it would be difficult to reduce, let alone eradicate, the deleterious effects of inherent systemic drawbacks that DPSUs have to contend with.

MSMEs and Startups: Good but Insufficient

India has reason to be proud of the capability and enterprise displayed by of a host of MSMEs and startups which have brought considerable energy, optimism, and enthusiasm into the defence sector. These enterprises score high on innovation and risk-taking ability, rapidly exploiting advances in AI and other emergent technologies. They provide competition and manufacturing depth, which has resulted in the supply of high-quality components and assemblies through public sector integrators such as HAL, BDL, MDL and so on.

However, MSMEs are limited in terms of capital, scale, programme management capability, global supply-chain connections, and long-term sustainment capacity. They face severe structural disadvantages when operating in a capital intensive highly regulated industry. They struggle to secure long term debt financing or venture funding for heavy capital expenditure when cash flows are years away. Unpredictable payment schedules and extended trial cycles soften lead to severe liquidity crises. Small firms frequently burn through their cash reserves before prototypes transition into revenue generating production contracts.

MSMEs and start-ups are unable to act as lead system integrators and are heavily dependent-on state owned enterprises or large private prime contractors for order

flow. The cost and duration of completing trials and certifications is disproportionately high for small firms. Navigating rigid regulatory frameworks require dedicated legal compliance and accounting teams that small companies cannot afford.

In sum, whilst MSMEs and startups can contribute significantly, they cannot produce large operational combat platforms, except in certain niche areas such as drones.

The Private Sector Edge

The private sector is exposed to continuous and fierce competition which needs to be constantly addressed not just for growth, but for their very survival. Private companies need to continuously adapt to market forces. *Taxpayer funded bailouts are simply not available. This translates into a culture of performance-based competitiveness, resulting in quick-decision making, and very strict accountability at all levels.* In regard to Human Resources, the private sector operates with reduced bureaucratic friction, flexible talent management, better incentives, and can release non-performers relatively easily.

Importantly, they have much easier access to capital, and can raise equity, debt, and investment from a plethora of avenues. They are also significantly more agile in establishing joint ventures with foreign OEMs, and this is also of great importance for giving wings to co-development and co-production ventures necessary for the 'make and manufacture in India' strategy.

Large private corporations bring sophisticated institutional management to the task of orchestrating and integrating thousands of subsystems across global supply chains. By creating dual domestic production lines in consonance with DPSUs, they have the potential to virtually double the defence sector output of the nation's DIB in relatively quick time.

Building Private Prime Contractors

Policy makers seem to have realised that a capable and vibrant defence industrial base cannot be built by the state alone. It also seems to have been accepted that the private sector cannot invest in the defence sector and projects driven solely by service to the nation. The performance of private companies is scrutinised by a host of stakeholders, including regulators, auditors, shareholders, independent directors, and economic experts across media and financial institutions. This scrutiny and accountability prevent private companies from investing in ventures which are not financially viable, and which involve high risk of capital destruction.

The Strategic Partnership Model

Realising that participation of large private firms was an imperative, the government introduced a 'strategic partnership model' (SPM) in 2017. This template was explicitly designed to break state monopolies by transforming large Indian private conglomerates into system integrators. Rather than treating private firms as mere sub-tier contractors for DPSUs, the SPM Model attempted to establish a framework where a selected private company partners directly with a foreign Original Equipment Manufacturer (OEM) to build complex military platforms such as submarines, helicopters and aircraft within India.

Regrettably, not a single final production contract has been signed under the SPM model in nearly a decade. However, there has been a recent breakthrough wherein the Ministry of Defence has shortlisted both MDL and L&T as Indian strategic partners, pairing them with foreign OEMs for the 75I submarine project. Implementation has been slow due to procedural inertia and frequent policy re-evaluations.

Projects remain stalled, largely because transfer-of-technology and intellectual property issues are constrained by OEM home-country export controls. Foreign OEMs are also reluctant to transfer proprietary technology without operational or majority control over manufacturing.

Nevertheless, the SPM has played a major part in the broader integration of private conglomerates into India's defence supply chain. This initiative needs to be accelerated, even if the government has shifted its primary focus from license manufacturing to indigenous design ownership.

Beyond SPM

Private companies must be incentivised into military production through a combination of legislation, assured demand, flexible contracts, direct financial support and shared risk. This approach combines institutional coordination with practical incentives. The government needs to relax rigid bidding rules where necessary, use cost-plus contracts for uncertain development work, and fund companies willing to build specialised equipment and munitions.

Capable and promising companies must be offered grants, tax incentives, and advance purchase commitments. Companies who have invested in prototypes but failed to win production contracts must receive partial compensation, and retention of intellectual

property rights, so as to mitigate the penalty of failure, and encourage continued innovation.

Over time, this will create a culture of joint planning between government and industry, aligning commercial incentives with national security needs. Successful defence industrial transformation requires governments to treat private industry as a trusted strategic partner, not merely as a vendor or regulated subject.

Procurement Reform

The acquisition process must move from nomination to competitive selection whenever and wherever possible. If a company succeeds in trials, it should be given production preference and a minimum order commitment. The government must provide industry with some certainty in regard to commitment to spending, and a clearer long term fiscal road map.

Reforming Defence R&D

The DRDO is a design and research institution, not a high-volume manufacturing firm. Its transfer of technology model gets bottlenecked when passed to a single DPSU. Should the DRDO transfer technology to both DPSUs and private sector primes simultaneously, as seen in the 155 mm artillery programme, which is split between Bharat Forge and Tata Advanced Systems, development speed increases and unit cost falls through competition. Government and industry must share the risk of research, and there should be an increase in prototype funding. Intellectual property reform is needed to allow firms to retain commercial IPR rights. The acquisition process must avoid restarting competitions after successful prototypes have been built.

Caveats

It is not the contention of this paper, nor does it seek to convey, that the Indian defence sector would only evolve or be transformed simply by the emergence of private sector prime contractors. However, their appearance would add to competition, capacity, global best practices, and will certainly speed up delivery of required military platforms and systems. *Most importantly, private sector prime contractors may be able to generate frontier and blue-sky technologies through the research and development emanating from a culture of performance, efficiency and accountability.*

However, there are many other challenges facing India which would impact and determine the success of its defence industrial base. These challenges, which need to be addressed concurrently and simultaneously, include the improvement of technical education and skilling, the introduction of curricula pertaining to emerging

engineering disciplines like lithography, and taking all necessary steps to ensure the availability of critical minerals. India also needs to see a quantum jump in its manufacturing workforce and its ability to produce the cutting-edge machine tools required for translating technology into hardware.

Most of all, all strategy and planning eventually depend on the availability of finance and funding, and India certainly needs to take its defence budget to a higher percentage of GDP than it is currently at. Last, but not least, attempts need to be continually made to acquire and absorb relevant technology including AI, robotics, quantum, directed energy weapons, underwater detection, and many others.

Recommendations

- Accelerate the implementation of the Strategic Partnership Model at scale.
- Incentivise private-sector Prime Contractors in priority sectors.
- Reform defence procurement timelines.
- Expand co-funded R&D programmes.
- Permit greater private ownership of intellectual property.
- Build resilient domestic supply chains.
- Invest in advanced manufacturing capability.
- Develop defence-specific technical talent pools.

Conclusion

It is unfortunate that just as India's external security threats are increasing, and the global geopolitical situation is deteriorating, New Delhi is faced with the reality that some quality, high-technology military platforms and weapon systems may not be easily or readily available either from internal or external sources. This is aggravated by the existence of strengthening adversarial security pacts in India's immediate and extended neighbourhood. Transforming and energising the indigenous defence industrial base, therefore, becomes absolutely vital.

The purpose of the DIB is to provide the armed forces with decisive, state of the art military capability when it is needed most. In an era of accelerating technological change and intensifying geopolitical competition, this objective cannot be achieved through imports alone, nor through a state-dominated industrial model. India requires a balanced ecosystem in which DRDO, DPSUs, startups, MSMEs and large private corporations operate as complementary partners. The emergence of private-sector Prime Contractors is, therefore, not merely desirable; it is a strategic imperative for India's national security and strategic autonomy.



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