

MP-IDSA *Commentary*

Why India's Defence Start-ups and MSMEs Must Think Civilian Too

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S*ummary*

Start-ups and MSMEs must innovate for defence and civilian needs of the Indian as well as the foreign markets.

India’s push for *Atmanirbharta* (self-reliance) in the defence sector has created a wave of optimism among domestic industries. From seasoned private players to new-age start-ups and even Micro, Small and Medium Enterprises (MSMEs), many are eager to ride the momentum of indigenisation. The policy ecosystem, boosted by initiatives like Innovations for Defence Excellence (iDEX), positive indigenisation lists, and increased Foreign Direct Investment (FDI) limits, has certainly unlocked many opportunities.¹ However, a cautionary check is necessary: the Indian defence market, while strategic, is limited in size and unpredictable.

The domestic defence market in India, while growing, is largely determined by the annual defence budget and, more specifically, the share allocated to capital procurement. In FY 2024–25, for instance, India allocated Rs 6.22 lakh crore (US\$ 74.8 billion) for defence, of which Rs 1.72 lakh crore (approx. US\$ 20.7 billion) was earmarked for capital acquisitions.² However, not all of this translates into immediate opportunities for domestic players. Furthermore, established public and private sector firms already dominate most procurement pipelines, leaving limited space for new entrants to break in.

In effect, the domestic defence market today is a relatively small pie, with a growing number of firms—including many start-ups and MSMEs—vying for a share. In this context, aspiring defence entrepreneurs cannot entirely base their business models solely on announced government schemes or incentives. Without predictable demand or steady order flow, over-reliance on such initiatives can lead to financial strain, especially for smaller players with limited working capital.

Unlike consumer or Fast-Moving Consumer Goods (FMCG) markets, defence procurement operates on long, stringent, and often unpredictable cycles. The Indian defence sector is also unique in having a single major buyer—the government—and procurement decisions are typically capital-intensive and episodic. While multiple tranches of the same equipment may be acquired over time, such follow-on orders are neither routine nor guaranteed. Historically, India’s major defence platforms have largely been imported, which allowed flexibility in timing and sourcing.

However, as the focus shifts towards indigenous production, especially involving start-ups and MSMEs, it is important to recognise that these smaller firms may not have the financial resilience to absorb the long gaps and uncertain pacing of defence orders. Without steady and predictable demand, relying solely on defence contracts can be risky for such enterprises. For instance, once a major aircraft or combat

¹ [“Make in India Powers Defence Growth”](#), Press Information Bureau, Ministry of Defence, Government of India, 24 March 2025.

² [“Rs. 6.22 Lakh Crore Allocated to MoD, Highest Among Ministries, in Regular Union Budget 2024-25”](#), Press Information Bureau, Ministry of Defence, Government of India, 23 July 2024.

vehicle order is placed and completed, no substantial procurement in that category may happen again for a long time, except for upgrades or replacements. This makes the business environment in defence procurement inherently volatile.

It is important to recognise that while follow-on orders for defence platforms do occur, they are never guaranteed—particularly in the Indian context. Larger companies, with more diverse portfolios and deeper financial reserves, are better equipped to wait through procurement delays or adapt to shifting timelines. Smaller firms, especially start-ups and MSMEs, often lack this cushion and depend on regular cash flow to remain viable.

For example, India’s procurement of the Su-30MKI fighter jets from Russia spanned multiple tranches over two decades, with orders placed in 1996, 2007 and 2012—but such staggered timelines are manageable only for firms with scale and staying power. Similarly, submarine acquisitions have been spread across long intervals, with the Scorpène-class (Kalvari class) seeing deliveries starting a decade after the signing of the contract.

In contrast, a domestic start-up aiming to manufacture sub-systems or components cannot easily adjust to such time-gaps. Aligning the business models too closely with policy announcements and scheme-based incentives, without factoring in the irregular and capital-intensive nature of defence procurement, is therefore unsustainable. This makes it imperative to diversify offerings, plan for long cash cycles, and not rely exclusively on domestic defence orders for sustainability.

Hence, Indian start-ups and MSMEs, especially those betting their business model entirely on Indian defence orders, may be treading on fragile ground. Niche specialisation, investments in R&D, efforts towards export promotion and developing products and services for civilian as well as military requirements can help create a better and sustainable business in the long term.

To be sure, India’s major private players in defence have not limited themselves to the defence sector alone. Their initial strong foundations in civilian and dual-use sectors³ such as automobiles, shipping, power, aerospace, etc., allow them to absorb the shocks of inconsistent orders from the Indian defence market. Established private companies also have sufficient capital, some of which can be channelled by them towards in-house research and development in the fundamental as well as the applied technology domain. The defence market is an additional vertical for them to expand their presence—not the core lifeline.

³ P.B. Jayakumar, “[India’s Defence Sector is Transforming as the Private Sector Storms In, Driving Modernisation](#)”, *Fortune India*, 3 March 2025.

In contrast, new start-ups and MSMEs exclusively entering the aerospace and defence segments, often inspired by nationalistic fervour or by policy incentives, risk becoming over-reliant on a market that cannot provide continuous demand. Globally, 90 per cent of the start-ups are known to fail.⁴ Also, in the case of Indian MSMEs, the majority units are in the micro category, with annual turnover under Rs 5 crores.⁵ In this context, the limited availability of funds for research and development can also hinder the business model of small-scale units. Thus, developing products or offering services only towards the Indian defence market may not be sustainable in the long run.

Defence manufacturing involves long gestation periods for research, product development as well as procurement, rigorous testing and certification cycles, and high capital costs. Without parallel revenue streams, sustaining operations between defence contracts becomes untenable. As a result, these smaller units may face burnouts, takeovers by larger players, or outright shutdowns. A pragmatic solution lies in pursuing dual-use products and services and diversification into civilian markets.

Technologies in areas such as robotics, drones, secure communications, electronics, etc., often have both military and civilian applications. A start-up developing tactical drones, for example, could also cater to agriculture, logistics, or disaster management sectors. Similarly, companies working on defence-grade cybersecurity solutions could find lucrative clients in banking, infrastructure, or telecom sectors. Global trends also validate this strategy.

Some of the most successful Western defence-tech companies began as start-ups or MSMEs and simultaneously built civil and military use products which helped them to establish a stronghold in the defence markets gradually. Prominent names include Palantir Technologies in the US (a start-up that transitioned from data analytics to battlefield intelligence), Inzpire of the UK (a technical services start-up which is today one of the fastest growing British defence companies) and HENSOLDT of Germany (a MSME that went on to become one of Europe’s leading defence sensor tech provider), among others.

In India too, a new generation of defence-tech start-ups are beginning to emerge. Firms like ideaForge (known for its UAVs), Digantara (developing space situational awareness capabilities) and NewSpace Research and Technologies (AI-based unmanned systems) represent promising examples. While it is still early to assess

⁴ Alla Adam, [“90% of Startups Fail- How to Secure Your Place in the Top 10%”](#), *Forbes*, 10 September 2024.

⁵ [“Budget 2025-26: Fuelling MSME Expansion”](#), Press Information Bureau, Ministry of Micro, Small & Medium Enterprises, Government of India, 4 February 2024.

their long-term viability, their ability to secure defence orders and private investment shows that the Indian innovation ecosystem is beginning to find its footing in the sector. However, sustaining this growth will depend not just on government schemes, but on the ability of these firms to diversify, scale and adapt to the realities of defence procurement cycles.

For India, dual-use innovation will not only ensure sustainability for the private sector, but it also aligns with its broader strategic goals. A robust civilian industrial base strengthens national resilience, drives exports and creates jobs—objectives that perfectly complement defence self-reliance. Of course, not every company can straddle both worlds equally. A few niche start-ups and MSMEs may find success, but these would be exceptions, not the rule.

For India, self-reliance is not an option but a necessity⁶ and hence the road ahead must be paved with realism. Self-reliance in defence is not limited to making in India, but also about building companies that sustain. Start-ups and MSMEs must hence think long-term—diversify, find adjacent markets, scale aggressively with a focus on exports, and innovate for defence and civilian needs of the Indian as well as the foreign market. Only then will India’s *Atmanirbharta* mission translate into a truly resilient and self-reliant industrial ecosystem in the long term.

⁶ [**“Self-reliance a Necessity as India Faces Double Border Threat & New Dimensions of Warfare: Raksha Mantri in Lucknow”**](#), Press Information Bureau, Ministry of Defence, Government of India, 17 June 2023.

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