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India's Precision Engineering Sector: Key Considerations for M&A

Trilegal

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India's manufacturing landscape is undergoing a structural shift. Rising domestic demand, increasing global supply-chain diversification and government-led manufacturing initiatives have created a supportive environment for Indian engineering and component manufacturers. Within this broader manufacturing ecosystem, precision engineering is gaining increasing relevance, particularly as manufacturers across sectors seek reliable suppliers capable of meeting increasingly stringent requirements around quality, cost and delivery. For purposes of this article, the precision engineering sector broadly encompasses capabilities including computerised numerical control (CNC) machining, forging, casting, fabrication, tooling and the manufacture of high-tolerance components. These capabilities form an important part of the supply chains of a wide range of industries, including aerospace, defence, industrial machinery, auto components, renewable energy, electronics and medical devices. According to EEPC India, India's engineering exports recorded their highest-ever annual exports of USD 122.43 billion in FY 2025-26, up from USD 116.75 billion in the previous year.

Demand for precision engineering is closely linked to the performance and investment cycles of its downstream industries. These businesses often supply high-tolerance components, assemblies, tools and other engineered parts that sit deep within larger manufacturing value chains. Policy has reinforced some of these trends. The Production-Linked Incentive schemes provide financial incentives to eligible manufacturers based on incremental sales across sectors including automobiles and auto components, medical devices and electronics, while Make in India continues to encourage domestic capacity creation. In defence, the Defence Acquisition

Procedure, 2020^[1] governs procurement for the armed forces and places significant emphasis on indigenous design and manufacturing and Indian vendors. Separately, global manufacturers are increasingly assessing China+1 and broader supply-chain diversification strategies, creating opportunities for Indian suppliers that can meet international standards on quality, cost, delivery and scale.

These dynamics are also creating a growing role for external capital. Precision engineering businesses can be capital intensive, requiring substantial investment in plant, machinery, automation, quality systems and working capital. Access to capital can therefore be important not only for capacity expansion, but also for upgrading capabilities, obtaining customer and industry certifications and meeting increasingly stringent quality requirements. For strategic acquirers, acquisitions may offer a route to adding manufacturing capabilities, customer relationships, product offerings or geographic reach; for financial sponsors, the sector may offer opportunities to support organic expansion alongside consolidation. These characteristics can make precision

engineering a progressively relevant area for M&A, even as the attractiveness of individual businesses will depend on factors such as customer concentration, technological capabilities, export exposure, quality credentials, scalability and capital requirements.

SECTOR SPECIFIC CONSIDERATIONS

While the precision engineering sector presents a number of growth opportunities, transactions involving such businesses can raise sector-specific issues that go beyond ordinary manufacturing diligence.

Firstly, certifications and customer qualifications are central to the commercial model. Customers and certifying bodies in aerospace, defence and other regulated industrial applications typically impose stringent technical and quality requirements before approving a supplier or manufacturing facility. These qualifications may be specific to the relevant manufacturing facility, production process or product, rather than being at the entity level. This can have direct implications for transaction structuring: adding a manufacturing facility, relocating production, consolidating facilities, transferring operations to another entity or otherwise changing the manufacturing footprint may trigger a requirement for customer re-qualification.

Secondly, the licensing and foreign investment framework can have a material bearing on deal structure. The manufacture of certain defence and aerospace products may require industrial or other sector-specific licences, and the applicable licensing framework may impose conditions relevant to changes in shareholding, control or management. In addition, applicable sectoral caps and foreign investment restrictions, particularly in the defence sector, need to be considered in evaluating an investment by a non-resident investor. This includes the approval requirements under Press Note 3 (2020) for investments involving entities or beneficial ownership from countries sharing a land border with India.

Further, the commercial architecture is often thinner than it appears. Long-standing supply relationships are frequently supported by rolling purchase orders rather than comprehensive framework or long-term supply agreements, with limited contractual clarity around ownership and use of drawings, tooling, process know-how and other intellectual property. This can make it important to distinguish between the apparent strength of a customer relationship and the contractual rights underpinning it. Where products are exported or supplied into regulated end-use markets, warranty, recall, product liability and compliance exposures may also warrant closer scrutiny, beyond headline revenue volumes and customer relationships.

RISKS COMMON TO MANUFACTURING BUSINESSES

Regulatory and contractual requirements relating to physical infrastructure, including title to land, validity and registration of leases, land-use permissions, building plan approvals and factory licences, can bear directly on the value and continuity of operations. Where land has been allotted by a state industrial development corporation, the terms of the allotment may restrict transfer or require prior consent for a change in control. Operational consents, including fire and safety approvals, hazardous waste authorisations, environmental consents to establish and to operate, and legal metrology registrations, can be equally important. Gaps in these approvals may result in remediation costs, operational restrictions or additional conditions to a transaction.

Labour compliance also warrants particular attention. The four labour codes were brought into force with effect from 21 November 2025, although the position on the applicable central and state rules and the transition to the new framework continues to evolve. Precision engineering businesses commonly rely on contract workers for production support, maintenance, loading and unloading and other intermittent work. The Occupational Safety, Health and Working Conditions Code, 2020 places restrictions on the engagement of contract labour in core activities of an establishment, subject to specified exceptions, and contractor licensing obligations may apply where applicable thresholds are met. Whether an outsourced activity is genuinely ancillary or forms part of the

core activity can therefore be an important diligence question. The contractual allocation of responsibility for provident fund and employees' state insurance contributions is a related concern, particularly given the potential for residual liability to rest with the company as principal employer.

Promoter-led ownership adds a further dimension. Related party arrangements, land or equipment held personally by promoters, informal family understandings and succession planning frequently surface in diligence and can become transaction-structuring issues. These matters are often best addressed before a sale process begins, rather than left to be resolved during negotiations with a prospective investor or acquirer.

CONCLUSION

India's precision engineering sector is undergoing a period of change, shaped by domestic manufacturing demand, global supply-chain diversification and evolving capital requirements. As M&A activity in the sector develops, financial and operational performance will need to be considered alongside the regulatory, contractual, customer qualification and infrastructure considerations that underpin these businesses. The interplay of these factors is likely to be relevant to how businesses in the sector are valued, structured and transacted as India's manufacturing ecosystem continues to evolve.

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