

BUSINESS OPPORTUNITIES IN INDIAN DEFENCE SECTOR

Some Facts

- India is one of the largest military spenders. It spends around 2.4% of GDP - likely to increase as Indian economy is growing at a healthy rate. More importantly, Government has repeatedly reiterated its resolve to make required resources available to the services.
- Current profile of equipment held by the Indian Armed Forces is:
 - State of the Art – 15% against required 30%.
 - Matured – 35% against desirable 40%.
 - Obsolescent – 50% against acceptable 30%.
- Modernisation of the Indian Armed Forces is considered to be lagging behind by up to 10 years. Therefore, India has to make up existing 15% deficit of the state of the art equipment, in addition to regular modernisation and upgradation schedules.
- According to some estimates, India may be spending close to 40bn USD during the next five years and over 100bn USD by 2022. Imports account for 70% of capital expenditure.

Opportunities

(The details are indicative and not inclusive)

- **New Acquisitions**

Multi Role Combat Aircraft, Maritime Reconnaissance Aircraft, Naval Vessels, Anti-ship Missiles, Stealth Frigates, Air Defence Ships, Multi-function Radars, Medium Lift Helicopters, Attack Helicopters, 155mm/52cal Howitzers (Towed, Wheeled and Tracked), UAV, Short Range AD Missiles, Reconnaissance , Surveillance, Target Acquisition and Communication Equipment, Night Vision Devices, Mine Breaching Equipment, Equipment for Special Forces and ASW Sensors and Weapons.

- **Futuristic Projects**

Many large scale projects are under implementation/finalisation - F-INSAS (Future Infantry Soldier as a System), Network Centric Warfare, Tactical Communication System, aerospace systems, night fighting capability, simulators and other force multipliers.

- **Upgradation of Equipment Held**

Majority of major weapon systems need upgradation to extend their useful lives. Likely to cost up to 10bn USD. Some of the major upgradation programmes involve T-72 MBT, 133 mm M-46 Medium Gun, L-70 AD Gun, Schilka (SP) AD Gun, BMP-2 ICV, Alouette-II/III Helicopters, Sea Harrier, IL-38 MRA, Sea King and Kamov Anti-Submarine Helicopters, Fire Control Radars, 877 EKM Submarines, MIG series and Jaguar Aircraft.

- **Support Services**

Entails maintenance, repairs and overhaul of major systems and production of spares for their entire planned life. Likely to generate business worth 1.2bn USD.

- **Fulfillment of Offset Obligations**

Over 30bn USD likely to flow back into India through trade and investments during the next ten years. Therefore, offsets need to be viewed as another business opportunity.

- **Joint Development of Defence Equipment**

Foreign vendors are encouraged to establish joint ventures with Indian public and private sector. Government has liberalised policy for joint R&D under the new 'Make' procedure for 'High Technology Complex Systems' and also for the development of 'Low Technology Mature Systems' with minimum 50 percent indigenous content.

- **Joint Ventures**

Foreign vendors can enter 'Buy Indian' segment through joint ventures with Indian companies. However, equipment must have minimum 30 percent indigenous content.

Business Environment

Government has done commendable work in putting proper structures and procedures in place to expedite procurements, ensure fair competition and promote transparency.

- Field trials have been opened to vendors.
- Debriefing of all vendors is carried out in a common meeting after each stage of trials as regards performance of competing equipment vis-à-vis stipulated parameters (SQR).
- Results of technical trials and evaluation (along with reasons for disqualification) are intimated to vendors in writing at each stage.

Offset policy is highly undemanding, flexible and pitched at a base level.

- Offset threshold has been kept high while offset value has been kept low.
- Methodology for the fulfillment of offset obligations has been left entirely to the discretion of foreign vendors. They can choose offset programmes and partners. There are no multipliers.
- All offset offers which satisfy minimum eligibility conditions are considered at par.

And Finally

- **It will be incorrect to claim that the Indian defence procurement regime is perfect. There are still many gaps and weaknesses. Reforms are a continuous and evolutionary process. What is most heartening to see is Government's receptiveness to suggestions and willingness to make required policy changes, if found necessary. Initially promulgated in December 2002, Defence Procurement Procedure has already undergone four revisions. It demonstrates Government's commitment to fine-tune the procedure as it gains experience.**
- **Offset credit banking has been recently introduced as demanded by many vendors. Further changes in offset policy will follow with time.**
- **Although presently the upper limit for FDI in defence industry is pegged at 26%, Government is ready to consider higher limit on case to case basis.**

Thank you