



## DEFENCE MANUFACTURING

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### SUMMARY

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India is among the top five countries with the highest military spending in 2019. <sup>1</sup>

India has the second-largest standing army in the world. <sup>2</sup>

As per the Union Budget for the financial year 2020-21, the total allocation for Defense is around USD 62.85 Bn. Around 1/4<sup>th</sup> of this amount is allocated for capital expenditure. <sup>3</sup>

On 21st December 2020, Implementing Arrangement on Defence Industry Cooperation between Dept. of Defence Production, Ministry of Defence, India and General Dept. of Defence Industry, Ministry of National Defence, Vietnam to provide a framework for promoting cooperation between the defence industries of the two countries.

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### REASONS TO INVEST

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India's requirements on defence are catered largely by imports. The opening of the Defence sector for private sector participation will help foreign Original Equipment Manufacturers (OEMs) to enter into strategic partnerships with Indian companies. This will enable them to leverage the domestic markets as well as aim at global markets. Besides helping in building domestic capabilities, it will also bolster exports in the long term.

Since 2014 the Ministry of Defence has signed more than 180 contracts with the Indian Industry, as of December 2019. These contracts were valued over USD 25.8 Bn approximately. <sup>4</sup>

Favourable government policy which promotes self-reliance, indigenisation, and technology upgradation. The policies also aim at achieving economies of scale, including the development of capabilities, for exports in the defence sector. <sup>5</sup>

India's extensive modernisation plans with an increased focus on homeland security and growing attractiveness as a defence sourcing hub. <sup>5</sup>

[Explore more about infrastructure availability in Defence Manufacturing sector >](#)

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### RECENT ANNOUNCEMENTS

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**31st December 2020:** Ministry of Defence (MoD) has signed a contract with Bharat Electronics Limited (BEL) for procurement of 10 Lynx U2 Fire Control systems for frontline warships of Indian Navy at a cost of Rs 1,355 crore under Buy (Indian) category.

[Read More](#)

**30th December 2020:** Cabinet Approves Export of Akash Missile System and Creates a Committee for faster Approval of Exports.

[Read More](#)

**22nd December 2020:** Indian Army and Bank of Baroda have entered into a Memorandum of Understanding (MoU) for 'Baroda Military Salary Package' for serving and retired personnel of Indian Army through the Bank's network of over 8,200 domestic branches and around 20,000 business correspondent touchpoints.

[Read More](#)

**21st December 2020:** Under India - Vietnam Virtual Summit (December 21, 2020), The High-Speed Guard Boat (HSGB) Manufacturing Project for Vietnam Border Guard Command under the US\$ 100 mn under Defence Line of Credit extended by Government of India to Vietnam.

[Read More](#)

**17th December 2020:** Defence Acquisition Council headed by Raksha Mantri Shri Rajnath Singh approves proposals to procure equipment worth INR 27,000 cr from the domestic industry which will boost Make in India initiative.

[Read More](#)

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### STATISTICS

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India's total expenditure on modernization and equipment in the defence sector in the last three fiscals (till January 2020) was about USD 37 Bn. <sup>6</sup>

Around 1/3<sup>rd</sup> of the allocation to defence (excluding defence pensions) in the budget for FY 2020-21 is allocated for capital expenditure. <sup>7</sup>

Total defence budget allocation for the Ministry of Defence is 15.49% of the total Central Government expenditure in 2020-21 Budget. The allocation for Defence in India's budget in 2020-21 is around USD 62.06 Bn. <sup>7</sup>

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### GROWTH DRIVERS

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Defence Procurement Procedure (DPP) has been revised in 2016 and special provisions for simulating growth of domestic defence industry have been introduced: <sup>8</sup>

DPP focuses on institutionalising, streamlining and simplifying defence procurement procedure to give a boost to “Make in India” initiative. It aims to promote indigenous design, development and manufacturing of defence equipment, platforms, systems and sub-systems. It also aims to enhance the role of MSMEs in the Defence industry.

A new category of capital procurement: Buy Indian - Indigenously Designed, Developed and Manufactured (IDDM) has been introduced to encourage indigenous design, development and manufacturing of defence equipment.

Preference has been given to ‘Buy (Indian)’, ‘Buy and Make (Indian)’ and ‘Make’ categories over ‘Buy (Global)’ and ‘Buy and Make (Global)’ categories. A clear and unambiguous definition of indigenous content is provided.

The ‘Make’ Procedure has been simplified with provisions for funding of 90% of development cost by the Government to Indian industry.

Separate procedure for ‘Make-II’ category has been notified under DPP to encourage indigenous development and manufacture of defence equipment. Number of industry friendly provisions such as relaxation of eligibility criterion, minimal documentation, provision for considering proposals suggested by industry/individual etc. have been introduced in this procedure.

Defence Products list requiring Industrial Licences has been rationalised and manufacture of most of parts or components does not require Industrial License. The initial validity of the Industrial License granted under the IDR Act has been increased from 03 years to 15 years with a provision to further extend it by 03 years on a case-to-case basis.

Provision for Maintenance Transfer of Technology (MToT) to Indian partners.

Provisions to allow foreign Original Equipment Manufacturer (OEM) to select Indian Production Agency (PA).

The requirement of minimum indigenous content is rationalised.

‘Services’ as an avenue for discharging offsets is re-introduced. <sup>9</sup>

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## FDI POLICY

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FDI in the defence sector is allowed up to 74% through automatic route (from earlier 49%) for companies seeking new industrial licenses. FDI beyond 74% and up to 100% will be permitted under Government route. <sup>10</sup>

The cumulative FDI equity inflow in the Defence industry is USD 10.05 bn during the period April 2000 to September 2020. <sup>25</sup>

[Read more about Foreign Direct Investment Policy in India >](#)

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## SECTOR POLICY

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### PROCUREMENT POLICY <sup>11</sup>

The defence procurement is governed by the Defence Procurement Procedure (DPP).

The latest revision of DPP was released in March 2016.

DPP focuses on institutionalising, streamlining and simplifying defence procurement procedure to give a boost to “Make in India” initiative.

### OFFSET POLICY <sup>11</sup>

The key objectives of the defence offset policy are to leverage capital acquisitions to develop the domestic Defence industry. The policy stipulates the mandatory offset requirement of a minimum of 30% for procurement of defence equipment by foreign defence players. It is applicable on categories of procurements where estimated cost of the acquisition proposal is USD 286.04 Mn or more.

### PROCEDURES FOR THE GRANT OF INDUSTRIAL LICENSES HAVE BEEN STREAMLINED

The initial validity period of industrial licenses has increased from 3 years to 15 years. It also has a provision to grant an extension for a period of 3 years. <sup>12</sup>

Guidelines for the extension of validity of industrial licenses have been issued. Partial commencement of production is treated as the commencement of production of all the items included in the licence. <sup>13</sup>

[Explore Government policies/schemes in Defence Manufacturing sector >](#)

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## FINANCIAL SUPPORT

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### KEY PROVISIONS OF UNION BUDGET: 2018-19, 2019-20 AND 2020-21

Development of 2 Defence-related industrial production corridors, one in Uttar Pradesh and another in Tamil Nadu. <sup>14</sup>

Investments of approximately USD 487.16 Mn were announced by Ordnance Factory Board (OFB/Defence Public Sector Undertakings (DPSUs) & Private Industries for Uttar Pradesh Defence Corridors and investment of approximately USD 408.16 Mn were announced by OFB/DPSUs & private industries for Tamil Nadu Defence Corridor.

Total budget of around USD 62.06 Bn has been allocated for the Ministry of Defence for FY 2020-21. <sup>15</sup>

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## INVESTMENT OPPORTUNITIES

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In the Indian Defence Sector, investment opportunities are in the following areas: <sup>16</sup>

Supply chain sourcing opportunity

Modernization of armed forces

Infrastructure development

Research and Development

Defence products manufacturing - Indigenously designed, developed and manufactured (IDDM) is the new method of capital procurement <sup>16</sup>

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## FOREIGN INVESTORS

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Airbus (France)  
BAE India Systems (UK)  
Pilatus (Switzerland)  
Lockheed Martin (USA)  
Boeing India (USA)  
Raytheon (USA)  
Israel Aerospace Industries (Israel)  
Rafael Advanced Defense Systems Ltd. (Israel)  
Dassault Aviation SA (France) <sup>17</sup>

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## AGENCIES

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Department of Defence Production, Ministry of Defence  
Department for Promotion of Industry & Internal Trade, Ministry of Commerce & Industry, Government of India  
Department of Commerce, Ministry of Commerce & Industry, Government of India  
Defence and Strategic Industries Association of India <sup>17</sup>  
Border Roads Organization <sup>26</sup>

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## KEY ACHIEVEMENTS

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Indigenous defence products unveiled - Akash Surface to Air Missile System, Dhanush Artillery Gun system and Light Combat Aircraft <sup>18</sup>  
The Defence Procurement Procedure (DPP) has been amended to introduce Buy Indian-IDD (Indigenously Designed, Developed and Manufactured) <sup>19</sup>  
Strategic Partnership Model introduced to encourage the participation of the private sector, in the manufacture of defence platforms and equipment such as aircraft, submarines, helicopters and armoured vehicles. <sup>20</sup>  
The 11<sup>th</sup> edition of 'DefExpo' was organised from February 5 to 8, 2020 in Lucknow, Uttar Pradesh. <sup>21</sup>  
The Government of India has decided to set up two Defence Production corridors, one each in Uttar Pradesh (UP) and Tamil Nadu. <sup>22</sup>  
A Defence Investor Cell is also functional in the Department of Defence Production. <sup>22</sup>  
The maiden flight of indigenously developed Automatic Flight Control System (AFCS) integrated on LCH was conducted successfully by Hindustan Aeronautics Limited (HAL). <sup>23</sup>  
Raksha Mantri Shri Rajnath Singh launched SRIJAN (Self Reliant Initiatives through Joint Action) web portal aimed at promoting indigenous production of Defence Goods imported by DPSUs, OFBs and SHQs. Import information and requirement details have been uploaded for domestic vendors. <sup>24</sup>  
Enhanced PINAKA rocket, developed by Defence Research and Development Organisation (DRDO) has been successfully flight tested from Integrated Test Range. The design and development has been carried out by Pune based DRDO laboratories. <sup>27</sup>  
Defence Research and Development Organisation (DRDO) achieved a major milestone with the launch of Medium Range Surface to Air Missile (MRSAM). The missile completely destroyed a high speed unmanned aerial target which was mimicking an aircraft with a direct hit. <sup>29</sup>

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