

# Indianisation of the Defence Sector



## Introduction

With a military size ranking among the top five in the world, India has time and again proved its mettle as an indomitable adversary. The nation has overall military spending of over \$60 billion, which is again one of the highest globally. Consequently, India's defence manufacturing industry holds a crucial place in its overall economy.

Back in February of 2021 (during Aero India 2021), our Minister of Defence emphasized the country's heightening presence in designing and developing indigenous weapon systems. Subsequently in August of 2021, the Ministry of Defence presented the Defence Production and Export Promotion Policy (DPEPP) draft (under the Aatmanirbhar Bharat programme). Its aim? To achieve a turnover of \$25 billion in defence production by 2025 via the establishment of a dynamic industrial ecosystem.

Let's look at how and why the Indianisation of the defence sector is a hot topic.

## Need for an Indigenous Defence Sector

Apart from bolstering India's image in the global arena and expanding employment horizons, concerns of national security also call for indigenous defence equipment. Defence forces face Maintenance, Repair & Overhaul (MRO) challenges owing to imported defence procurements. Experts expect an acceleration in the domestic defence manufacturing sector owing to the need for relentlessly protecting the Country's boundaries and ensuring continuous / speedy supply of defence components.

Furthermore, pushing for self-reliance in the defence sector enables a boost in Indian exports. According to Stockholm International Peace Research Institute (SIPRI), Indian arms exports stand at \$151 million in 2020, while import is valued at \$2799 million in the same year. This evident deference between arms exports and import highlights the scope for export of indigenously produced defence equipment.

## Challenges to Indianisation of the Defence Sector

While it is important to Indianise defence sector, it isn't devoid of challenges. From attracting private sector to the allocation of fund, the issues are prevalent.

- Low participation from the private sector companies.
- Delay in manufacturing and procurement due to procedural hurdles.
- Inefficient coordination between manufacturers and defence forces on grounds of proper design, capacity, etc.
- Heavy reliance on imports as on date and reluctance of foreign players in sharing technology.
- Lack of allocation of adequate funds and availability of credit facility.

These challenges have been agonizing the domestic industry for years now. However, the government is attempting to aggressively push for indigenization of the defence sector amidst the aforementioned challenges.

For instance, over 30% of the budget allocated to the Ministry of Defence for FY21 was supposed to be channelled towards capital acquisition of major arms, military hardware systems, and military equipment. More such desirable reforms have been introduced in recent years which are mentioned in the following section.

## Government Initiatives and Present Status of the Indianisation Propulsion

Currently, the Indian domestic defence industry is estimated to have a valuation of nearly Rs. 80,000 crores (2019-20) with a robust base of more than 8,000 MSMEs.

A significant amount of efforts have been made to minimize import dependence, strengthen India's defence production potential, and foster exports for self-reliance in the defence industry (DPEPP 2020, for instance). Some of the recent reforms in the sector are as follows:

- The Ministry of Defence was allocated Rs 478,195 crore in the Union Budget of 2021-22. Also, an allocation of Rs. 70,000 crore was made to the Defence Ministry for domestic procurement in 2021-22.
- To enhance functional autonomy, growth potential, and R&D in the defence sector, the Government restructured the 200 year old Ordinance Factory Board (OFB) that operates 41 ammunition facilities into seven defence PSUs.
- Our hefty reliance on imports for major arms paved the way for the Defence Procurement Policy 2020 (DPP). By 2025, the policy aims to achieve self-reliance in 13 weapon platforms (including missiles, aircraft, tanks, artillery, etc.) via fast-tracking acquisition proposals' approvals.
- To increase the procurement from domestic industry (60% of total at present), the government decided to withdraw the annual capacity restriction criteria for defence industries. This step is to promote more startups in the defence sector.
- As part of the Aatmanirbhar Bharat scheme, a PMU or Project Management Unit has been provisioned to facilitate timely procurement, consultancy support, and aid contract management during the acquisition procedure.
- What's more, a list of over 100 banned items (import) was released in 2020. Imposing bans enabled a substantial boost for the domestic defence manufacturing industry and is estimated to create domestic contracts worth Rs. 4 lakh crore in the next 5-7 years. Besides, a dip of 33% has been detected in India's imported military goods.
- In September of 2020, the Foreign Direct Investment (FDI) limit under the automatic route was increased from 49% to 74%. In the case of likely access to modern technology, FDI beyond 74% (with government approval) is also permitted. This is to bolster India's place in the global defence value chains while increasing defence manufacturing in India.

Of all the aforementioned advances, change in the FDI policy is the most prominent impetus for boosting an indigenous defence sector and economic growth. But, **how will foreign investment in defence fortify the Indian economy?**

India shows immense potential as one of the most lucrative markets for investments by defence companies headquartered abroad with subsidiaries in India. However, the earlier FDI limit of 49% deterred overseas investors from the transfer of technology 'know-how'. Experts claim that concerns over lack of authority over manufacturing quality and technology by investors are considerably tackled with the help of further liberalization.

In addition, reforms to promote FDI complement and supplement domestic investment.

With enhanced access to state-of-the-art technology and supplementary capital, this move not only amplifies the development of the defence-oriented sector but also reinforces the number of startups. Moreover, India's military expenditure as a percent of its GDP stood at 2.9% in 2020. So, the change will effectively generate overall competitiveness and offer sizeable technology capability in order to trade solutions in India and for exports.

## Parting Thoughts

India is proactively approaching joint agreements with friendly foreign countries for joint defence manufacturing. It offers tremendous growth opportunities for defence manufacturing in India. Additionally, in the next five years, the Indian government's initiative to empower the defence sector via 'Innovations for Defence Excellence (iDEX)' will enable start-ups to secure and develop new technologies/products by connecting to reputed military.

The target of 70% self-reliance in weaponry by 2027, set by the Defence Ministry of India, is expected to create huge prospect for industry players. Simply put — increased investments, self-sufficiency in product design and development, and enhanced innovation in the defence sector all come as welcome moves to indigenize the country's defence and good security.

The companies in the sector also have to adopt high end technologies in their processes, deploy good management practice in operation, deploy responsible financial management behaviour and open to adopt changes. Together, the private and public sector, supported by strong Government initiative will drive growth in the defence sector.

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