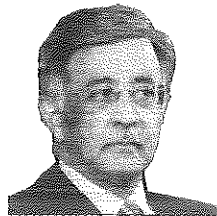


# Boosting private investment in defence production

Given the peculiarities of defence production and very few end-users, sustaining a business without exports is not viable in the long run



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The Indian industry is all geared up to take on the challenges of high-technology centric and investment driven defence production. The industry has also drawn up plans to not only participate but also contribute towards indigenisation and strengthening of our Armed Forces' defence preparedness with the state-of-the-art equipment and weaponry. The private sector companies alone have invested thousands of crores in creating state-of-the-art defence and aerospace manufacturing facilities, that too without any assured orders. Few of the fully integrated systems are even available for trials. This speaks volumes about the seriousness of Indian industry.

However, the private sector's share in the defence procurement is not very encouraging. CII has already welcomed the latest initiatives of the Ministry of Defence, such as the steps taken to ensure a level playing field and the clear stating of the 'order of priority' for capital procurement. The users are now bound to explore all the options available within the country. The user is also bound to give a solid justification while opting for Buy & Make or Buy Global cases. We are of the firm belief that the public, including research and development establishments, and private sectors should complement each other to meet the requirements of the Armed Forces. There is no denying the fact that private sector companies have demonstrated greater and highly-effective resource planning and resource utilisation. Comprehensive project management, coupled with better supply-chain management, results in avoiding time and cost over-runs.

Due to strategic reasons, creating



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the most lucrative markets in the world for military products, and defence suppliers are gearing up to compete. There is an urgent need to leverage India's defence buying clout while negotiating with foreign OEMs and over any big project. Defence offsets should be buyer-driven and not as per vendor's choice. The multiplier for offsets should be directed towards capacity and capability building in India.

To encourage Indian industry's greater participation, the defence ministry should take more pro-active initiatives. For instance, tax holidays for the entire defence production sector, including components suppliers or removal of anomalies in the taxes, should be considered. Private sector companies end-up

a second line of system integration capability outside defence PSUs (DPSUs) is very important. Running two manufacturing lines for all strategic and large-scale programmes will not only create healthy competition but also help in meeting the requirements of our Armed Forces in a time-bound manner without any compromising the quality.

One of the key elements of indigenisation is import-substitution which can be achieved through indigenous development and production of machinery and materials. It is a time-consuming process as it involves a steep learning curve, along with absorption of the required technology. The import-substitution process should be milestone based with tangible outcomes. The present 30% sourcing from domestic sources can be raised to 70% or more in the next five years provided necessary actions are taken.

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bat Vehicle (FICV) and Battlefield Management System (BMS), having the potential of changing the face of the defence manufacturing in India, should be accorded top priority.

While we are yet to see the final outcome of any Make programme, similar development cost-sharing mechanisms should be created for the smaller but critical technologies/projects so that SMEs can also be benefited. The government should also encourage setting up of new factories in the areas which are critical to the Armed Forces.

With more thrust on Make and Buy & Make (Indian) programmes wherein the Indian company will be the prime contractor, the foreign OEMs have already started revisiting their strategies to stay relevant to the Indian market by collaborating with the Indian companies. The onus is on the prime contractor to have tie-ups with the foreign players to bring in the required technologies and create and run manufacturing lines/final assembly lines in the country. The Indian Air Force has recently issued several Request for Informa-

tion (RFIs) for electronic warfare systems and weapon systems with a vision to categorise these critical projects as Buy and Make (Indian). It is heartening to note that several Indian private sector companies could successfully enter into understandings with foreign OEMs to either develop together the required systems or manufacture under technology-sharing arrangements. It is obligatory for the prime contractor to progressively increase the indigenous content throughout the project.

The industry will also feel more encouraged if the government accepts CII's recommendations on adopting a single-window clearance for obtaining or renewing industrial licenses, implements the Defence Production Policy in word and spirit, creates an enabling environment for the growth of Indian defence industrial base, ensures a level playing field for Indian private sector companies, creates and operationalises funds for defence R&D, initiates hand-holding of SMEs and gives procurement preference/preferential market access to the companies having higher indigenous content.

With due deliberations with all the stakeholders, CII has also identified few low-hanging fruits which should be categorised as Buy Indian—for instance, all MRO for aircraft projects, Mi17 upgrades, Avro upgrades and Su-30 upgrades.

The Indian industry can further more pro-actively invest in the defence production if tri-service requirements for common platforms are spelled out collectively, say, in the case of night vision devices, unmanned platforms, small arms and so on. It will also benefit industry in preparing the business case. Finally, some of the critical projects having a bearing on the peripheral sectors like civil aerospace, space and internal security should be carried out on a mission-mode basis.

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