



Department of Industrial Policy and
Promotion

Department of Defence
Production

Defence Manufacturing Sector

Achievements Report

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MAKE IN INDIA

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Defence Manufacturing Sector

India has the **third largest military in the world and is the sixth biggest defence spender**. India is also one of the largest importers of conventional defence equipment and spends around 30% of its total defense budget on capital acquisitions. 60% of defence related requirements are currently met through imports. The 'Make in India' initiative by the Government is focusing its efforts on increasing indigenous defence manufacturing and becoming self-reliant. The opening up of the defence sector for private sector participation is helping foreign original equipment manufacturers (OEMs) enter into strategic partnerships with Indian companies and leverage opportunities in the domestic market as well as global markets.

India's **focus on indigenous manufacturing** in the defence space is paying off as the Ministry of Defence over the last two years unveiled several products manufactured in India like the **HAL Tejas Light Combat Aircraft**, the **composites Sonar dome**, a **Portable Telemedicine System (PDF)** for Armed Forces, **Penetration-cum-Blast (PCB) and Thermobaric (TB) ammunition** specifically designed for Arjun tanks, a **heavyweight torpedo called Varunastra** manufactured with 95% locally sourced parts and medium range surface to air missiles (MSRAM).

The Defence Acquisition Council (DAC) under Ministry of Defence, cleared defence deals worth more than INR 82,000 crore under 'Buy and

Make (Indian)' and 'Buy Indian' category. The deals include the procurement of Light Combat Aircraft (LCA), T-90 Tanks, Mini-Unmanned Aerial Vehicles (UAV) & light combat helicopters.

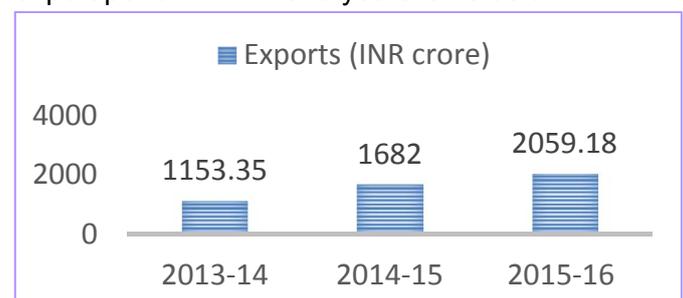
Policy Initiatives & Investments

FDI Policy

100% FDI is allowed in defence sector, out of which up to 49% is under automatic route. FDI above 49% is permitted through Government route on case to case basis where it is likely to result in access to modern technology.

Exports

During FY 2015-16, INR 2,059.18 crore worth of defence platforms, equipment and spares manufactured in India were exported to more than 28 countries. Some of the major defence equipment exported by Defence Public Sector Undertakings (DPSUs) and Ordnance Factory Board (OFB) are Patrol Vessels, Helicopters & their spares, Sonars & Radars, Avionics, Radar Warning Receivers (RWR), Small Arms, Small Caliber Ammunition, Grenades and Telecommunication equipment. The defence export performance for 3 years is as below:



Value of Exports in INR Crore (Based on No Objection Certificate (NOCs) issued by the DDP)



For items, where there is a capacity constraint, **DPSUs have been permitted to export upto 10% of their annual production** to explore market opportunities for exports.

Fiscal Incentives

- In budget 2017-18, defence budget has received a boost of 6.2% as compared to budget 2016-17. INR 86,488 crore has been allocated for Defence Capital out INR 2,74,114 crore allocated for defence expenditure (excluding pension) in the budget.
- **The preferential treatment given to Defence Public Sector Undertakings (DPSUs) in excise duty/custom duty has been discontinued to create a level playing field.** As per the revised policy, all Indian industries (public and private) are subjected to the same kind of excise and custom duty levies (April 2015).
- **Exchange Rate Variation protection has been made applicable** for Indian private sector at par with Public Sector Undertakings for all categories of capital acquisitions (August 2015).
- The custom duty exemption on import of defence equipment has been removed to encourage imports and incentivize domestic manufacturing.
- **New most preferred acquisition category Buy Indian (IDDM (Indigenously Designed, Developed and Manufactured)) introduced** to encourage indigenous design, development and manufacturing of defence equipment. This category refers to procurement from Indian vendors of products that are indigenously designed, developed and manufactured, and have at least 40% indigenous content. If the product is not designed and developed indigenously, it will have to have 60% indigenous content.
- Indian companies are allowed for tie-ups with a foreign Original Equipment Manufacturer (OEM) for Transfer of Technology (ToT) under 'Buy & Make (Indian)' category.
- Under 'Buy & Make' Category of Capital Acquisition, the foreign vendor is required to transfer the Technology to Indian Production agency for indigenous production of the items.
- Foreign OEM can select Indian Production agency of its choice for transfer of technology.
- 'Services' as an avenue for discharging offsets was re-introduced in December 2015
- Defense products list for industrial licensing announced in June 2014; **large number of parts/components, castings/ forgings etc. have been excluded** from the purview of industrial licensing.

Defence Procurement Procedure

The Defence Procurement Procedure (DPP) of 2013 was **amended w.e.f from April 2, 2016** to provide for the following:

- The defense security manual for the private sector defence manufacturing units has been finalized and



- clarifies the security architecture required to be put in place by the industry while undertaking sensitive defence equipment.
- The MAKE procedure, which is directed at promoting research & development in the industry with support from the government has been revamped:

- **Make 1** – Government will refund 90% of development cost to encourage local development; 20% will be given as advance.

If vendor develops a prototype but does not get an order within two years, then remaining 10% will also be reimbursed by the Government.

- **Make II** – prototype development will be through industry funding, but if a tender is not issued within two years of successful development of prototype, Government will refund 100% of the development cost to a duly selected vendor
- **Make III** – preference to MSMEs

Defence Offset Policy

The offset policy in capital purchase contracts with foreign defence OEMs, stipulates a mandatory offset requirement of a minimum of 30% for defence contracts. The **minimum contract value for which offsets are mandatory has now been revised from INR 300 crore to INR 2,000 crore.**

In August 2015, services (R&D, maintenance, repair and overhaul (MRO) and technology

transfer) were reinstated as an eligible avenue to offset discharge under the defense offset policy.

A simplified mechanism to change offset partners, components, dollar commitments has also been introduced to catalyze stalled offset investments.

The contractual offset obligation in next 5-6 years, estimated at INR 295 billion will enhance domestic capabilities.

Strategy for Defence Exports

In September 2014, the Strategy for Defence Exports (SDE), which provides clear cut procedures and an institutional mechanism for export promotion and regulation, was announced. Under the ambit of the Foreign Trade Policy, it provides guidelines for engaging with Indian Missions/Embassies abroad for export promotion, offers options for export financing through line of credit, promotes better use of offset policy and the export of indigenously developed defence systems as well as streamlining of the export regulation process.

Special Focus on MSME

- In the 'Make' category of capital acquisition, government funded projects with estimated cost of prototype development phase not exceeding INR 10 crore and industry funded projects with estimated cost of prototype development phase not exceeding INR 3 crore are reserved for MSMEs.



- MSME associations are being involved for carrying out feasibility studies for 'Make' projects. MSMEs have also been granted relaxation in the registration and profitability criteria for consideration as eligible "Indian Vendor" for participation in the 'Make' projects.
- In the discharge of offset obligations, a multiplier of 1.50 has been permitted where MSMEs are Indian Offset Partners (IOPs).
- DPSU & OFB have been mandated to develop short-term and long-term outsourcing and vendor development plan (including import substitution) to increase outsourcing from private players, particularly MSMEs.
 - The value of outsourcing as a percentage of value of production has increased to 37.4% in FY 2015-16 as compared to FY 2014-15.

Research and Development

Centres of Excellence for Defence Research and Development Organisation (DRDO) have been setup for conducting research in the defence sector. The following three Centres of Excellence were established during 2016:

- Centre of Propulsion Technology (CoPT), IIT-Mumbai was established in June 2016
- Jagdish Chandra Bose Centre for Advanced Technology (JCBCAT), Jadavpur University, Kolkata was established in June 2016
- Joint Advanced Technology Centre (JATC), IIT-Delhi was established in Oct 2016

Ease of Doing Business

- **Foreign vendors can finalize Indian Offset Partners (IOPs) and offset product details one year prior to the intended offset discharge** or undertake the offset activity and submit claims thereafter. Foreign players no longer need to provide all details of their Indian partners at the time of bidding (December, 2015)
 - 100% offset claims filed during the past 2 years as compared to 64% during 2008-2013.
- **Acceptance of Necessity (AoN) validity has been reduced to 6 months** from previous one year fast tracking procurements.
- The list of military stores for the purpose of issuing NOC for export has been notified by the Government to remove ambiguity and to make the process transparent (March, 2015).
- The **requirement of single largest Indian ownership of 51% of equity has been removed.**
- A **lock-in period of three years on equity transfer has been done-away** with in FDI for defence.
- **Standard Operating Procedures (SOPs) for issue of NOC** for export of military stores has been **simplified and specific timelines prescribed.** Requirement of Government signed End User Certificate for export of parts and components and other non-sensitive military stores has been removed (July 2015).
- The provision of **'in-principle' approval** for export



incorporated in the SOP to enable Indian companies to explore export opportunities in overseas markets.

- **Application for NOC** for export of military stores can be made online (November 2015). The **maximum processing time has been reduced to 25 days and 70% of the NOCs are issued in 15 days.** 241 NOCs were issued in FY 2015-16 as compared to 39 in FY 2013-14.
- **Industrial Licensing has been simplified and can be applied online:**
 - A large number of components, parts, sub-systems, testing equipment, production equipment excluded from preview of industrial licensing on the Defense Products List.
 - Validity of Industrial Licence granted under the IDR Act has been increased to 15 years from 7 years with a provision to further extend it by 3 years on a case-to-case basis.
 - 119 industrial licences have been issued to private defence equipment manufacturers during April 2014 to March 2016.
 - **Renewable of registration can be carried out on self certification basis.**

The capacity verification of non-registered firms have been made valid for three years with renewable facility in line with registered firms.

- **A 'Make in India' portal for Defence Production (www.makeinindiadefence.com)** has been launched. It provides policy and procedural issues relevant for defence manufacturing industry. Test facilities of DPSUs/OFB/DGQA/DGAQA/DRDO/Forces, which can be utilized by the private sector, have been displayed. Investors can also seek clarifications or ask questions related to defence production.
- **e-tendering for procurement** has been implemented for various items.

Skill Development

Under Skill India initiative, National Skills Qualification Frame Work (NSQF) compliant skill training is being promoted.

- 8 ITIs have been selected to upgrade their training infrastructure. Spare equipment in working condition are being donated to ITIs by OFB/DPSUs for training.
- OFB/DPSUs have stepped up trainings under Apprenticeship Act from 2.5% to 10% of the strength.



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