Defence Production Secretary assures industry of simpler policies,
enabling environment and level playing field
FICCI-Centrum report on defence sector released

NEW DELHI, February 6, 2015: Mr. G Mohan Kumar, Secretary (Defence Production), Ministry of Defence, today released a comprehensive Defence Sector Report 'India: Aerospace & Defence – Today India, Tomorrow World – Secular Growth Story' prepared jointly by The Federation of Indian Chambers of Commerce and Industry (FICCI) in partnership with Centrum Capital Limited.

On this occasion, Mr. Kumar addressed an interactive session on 'Investment Opportunities in the Indian Defence Sector' organized by FICCI. He said that the defence sector in India which was dominated by the public sector, was bogged down with elaborate procedures and lacked a proper ecosystem. He assured industry that the government was making efforts to simplify the policies and was working towards creating an environment where private players would be on a level playing field with the public sector. Mr. Kumar added that the government would pave the way and the private sector should take the way.

Mr. Kumar pointed out that in order to become a global player, Indian manufacturers need to hone their skills and cater to the domestic market with quality products in a time bound manner to establish their credibility in the global value chain.

Speaking on the export regime, Mr. Kumar said that a supportive regime would provide demand for products which would help the private sector in taking care of their investment risks and added that the government was giving it top priority. However, he said that this issue was sensitive and not all defence products could be exported.

Referring to the issue of offsets, Mr. Kumar said that offsets were the growth engine of the industry and a revised offset policy was in the offing besides restructuring of other policies and procedures. On privatization of the sector, he said that the government was open to exploring joint ventures with the private sector and was ready to promote them.

Earlier in a panel discussion Ms. Shubhra Singh, Joint Secretary – Department of Industry Policy & Promotion, Government of India, said that DIPP took a major policy level initiative to encourage investment in defence manufacturing by pruning down the list of items requiring defence industrial license. Almost 55 per cent of the defence items have been removed from the compulsory licensing list. There is a smaller negative list of defence items in which compulsory licensing is still required. With this relaxation, the private companies will no longer require a license to manufacture dual use components, castings and sub-assembly. She added that more such policy measures are under way to make the system and procedures in the defence sector flexible and investor-friendly.

Maj. Gen. Sanjeev Shukla, Technical Manager (Land Systems), Ministry of Defence, said that India cannot have a radical policy change but the government would gradually move towards making the policy environment simpler. He also informed that offsets policy was being revised and soon a new version would be announced.

Col Rajinder Singh Bhatia (Retd), Executive Vice President & CEO (Defence & Aerospace), Bharat Forge Limited, was of the view that for the defence sector to achieve its designated goals, the five parameters - clear vision and mission statement, adequate skill sets, incentives, infrastructure capabilities and action plan - must be taken care of. The government needs to create the vision and mission along with providing incentives and action plan, whereas the private sector must address the need of developing adequate skill sets and infrastructure capabilities.

Mr. Sudhakar Gande, Chairman – FICCI Task Force on Aerospace and Air Defence and Vice Chairman, AXISCADES Aerospace & Technologies Ltd., said that India has the required capability in the sector. There were more than 100 medium scale companies with the specified defence capabilities. The need was to scale up the quality, facility, process and technology. He suggested that the government should identify such companies and allocate funds to scale up their potential. He added that for attracting investments, India needs to create an ecosystem and simplify its processes by appointing a technical team to address queries related to procedures.

Mr. Subimal Bhattacharjee, Independent, Non-Executive Director, Centrum Capital Ltd, said that the funds allocated in the Budget for defence R&D were directed to DRDO and insisted that now was the time to consider the private sector as well for the allocation of these funds. He added that realistic and holistic procedures should be in place and the government should consider revision of complex policies.

Mr. Gautam Gode, Co-Founder and Managing Director, Samara India Advisors Private Limited, said that it was important to create a conducive exit environment for industry as there was no assured returns on investments or a timeframe with almost no liquidity outlet in the sector. The business environment was also very unpredictable which calls for a developing a predictable ecosystem where business could materialize.

Mr. Rahul Chaudhry, Co-Chairman, FICCI Defence Committee & CEO, Tata Power SED, said that the defence sector was unlike other commercial business and works in a controlled regime. Hence, India needs to create an industrial defence base where it was able to control defence products produced in the country and the products were need-based. He added that the government should also facilitate the industry with a document which could be operationalized.

Dr. A Didar Singh, Secretary General, FICCI, said that FICCI believes that the defence sector in India needed to invest heavily in R&D in order to innovate and ensure high precision and zero defect world class products with a level playing field for the private sector.

Speaking about the report, Mr. Sandeep Upadhyay, Senior Vice President, Centrum Capital Ltd, said, “I believe that the Indian defence sector is at an inflexion point and poised to grow at a sustainable high rate in the next decade. The prolific growth opportunities highlighted in the report backed by renewed focus from the Government on streamlining the policies and cultivating a conducive investment climate, potential investors should consider it as a strategic investment alternative.”

The report highlights the defence sector opportunity to investors, the positives that would drive investment growth and the areas of improvement which we would like to bring to the Government's attention to consider for the long term sustainability and growth of this sector. As mentioned in the report, it was expected that the total defence budget allocation to be $620bn between FY14-22 of which 50% would be on capex. The annual opportunity for Indian companies (PSU & Pvt) is expected to reach $41bn in size by FY22 (7xFY14) and $168 billion of cumulative opportunity between FY14-22 driven by domestic and external demand.

The domestic defence sector spends have seen continuous under spending vis-à-vis budgets, due to procedural delays. Majority of the spends were for maintenance and salaries of the forces rather than for buying new equipment. This anomaly is being taken very seriously by the Government, which is planning to shift the current opex/capex ratio of 60/40 to 50/50 and eventually take it to 40/60 in the long term. Policy level changes in the past 2-3 years are considered positive by industry players. Realization of the importance of private sector for up-gradation of arms is a major positive. We expect the domestic demand to be the primary force to drive industry growth.

The fiscal strain on the balance sheets of developed countries, will pressure defence spends and global players will start looking out for cheaper sourcing (products & services) from other countries. We believe India has the key ingredients (large and relatively low cost engineering talent pool along with comfort of western nations with India from a geo-political perspective) to deliver on the opportunity. However India will have to significantly improve on some other factors (technology, lack of a defence manufacturing ecosystem, etc). Besides, with the nature of warfare becoming more software intensive, it plays into the strength of India with IT sector growth and its diversified presence. Post a 10-15-year learning curve, we expect some Indian companies to move up the value chain to become independent systems integrators across technology-design-system integration value chain, either in their own right or as part of significant consortia. The above benefits will drive sector growth along with domestic demand picking up. Indian companies are expected to ramp-up their capacities to cater to this demand.

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