

## DEFENCE



### SECTOR OVERVIEW

The Indian Defence Manufacturing Industry is a significant sector for the economy. The Industry is likely to accelerate with rising concerns of national security. Demand for Defence equipment in India has been growing due to the ongoing territorial disputes with Pakistan and China over the ownership of the Northern State of Kashmir and the North Eastern State of Arunachal Pradesh, respectively.

Over the last five years, India has been ranked among the top importers of Defence equipment to gain technological advantages over rival countries such as China and Pakistan.

To modernise its armed forces and reduce dependency over external dependence for Defence procurement, several initiatives have been taken by the Government to encourage 'Make in India' activities via policy support initiatives.



### MARKET DYNAMICS

India's Defence Manufacturing Sector has been witnessing a CAGR of 3.9% between 2016 and 2020. The Indian Government has set the Defence production target at USD 25.00 Billion by 2025 (including USD 5 Billion from exports by 2025). Export business contributed USD 1.00 Billion to the total value in 2019. Defence exports in India were estimated to be at USD 2.0 Billion in 2019-20. India's Defence import value stood at USD 463 Million for FY20 and is expected to be at USD 469.5 Million in FY21. Defence exports in the country witnessed strong growth in the last two years. India targets to export military hardware worth USD 5 Billion (Rs. 35,000 Crore) in the next 5 years.

As of 2019, India ranked 19th in the list of top Defence exporters in the world by exporting Defence products to 42 countries.



### **RECENT DEVELOPMENT/INVESTMENTS**

- ✓ Foreign Direct Investment (FDI) equity inflow in the Defence sector for April 2000 – June 2020 stood at USD 9.52 Million (Rs. 56.88 Crore) as per data released by the Department for Promotion of Industry and Internal Trade (DPIIT).
- ✓ In December 2020, the Indian Military acquired Sea Guardian drones from the US under the 2018 Communications Compatibility and Security Agreement, which facilitates secure exchange of military information and data between platforms operated by both countries. The partnership eases way by which India can buy unmanned aerial vehicles (UAVs) and promotes greater India-US cooperation on maritime domain awareness.
- ✓ In December 2020, The Economic Times reported that India is planning to develop an air-launched swarm drone system to overwhelm Chinese air Defences, giving their fighter jets an edge in any potential conflict. The development process of the Project is expected to take four years. State-owned aerospace and Defence manufacturing company Hindustan Aeronautics Ltd. is partnering with two start-ups to work on the Project, according to The Economic Times.
- ✓ In December 2020, India and Vietnam agreed to collaborate on numerous domains such as shipbuilding, surface and subsurface capacities such as submarines at sea. Both sides also signed the agreement on Hydrographic cooperation that will enable sharing Hydrographic data and assist in the production of navigational charts.
- ✓ In December 2020, The Economic Times reported that India is developing very high altitude and long endurance unmanned aircraft for surveillance and reconnaissance purposes. The vehicle is being designed to fly 70,000 feet for a period of days, providing real-time feedback to controllers while remaining beyond the range of most air Defence systems.

- ✓ In December 2020, Advanced Towed Artillery Gun System (**ATAGS**) development reached the last stages of its trial and reportedly, could soon be inducted into the Indian Army. ATAGS is being developed by the Defence Research Development Organisation's (**DRDO**) Armament Research Development Establishment (**ARDE**) Pune, Defence Electronics Application Laboratory, Dehradun, and the Centre for Artificial Intelligence and Robotics, Bengaluru, along with major corporates such as Bharat Forge, TATA Power SED, Ashok Leyland and Cummins.
- ✓ In November 2020, the fifth Scorpene submarine of Project-75 'Vagir' was launched at Mazagon Dock Shipbuilders Limited (MDL) in Mumbai, positioning India as a submarine building country and contributing to the Government's 'Make in India' and 'Aatmanirbhar Bharat' initiatives.
- ✓ On October 29, 2020, the Indian Army developed a 'Secure Internet Application (SAI)', a simple and secure message framework, which supports stable end-to-end voice, text and video calling services on an android platform.
- ✓ On October 28, 2020, the Indian Army introduced the 'Infrastructure Management System (IMS)' software to empower Defence stakeholders, make operations more efficient and transparent, and enhance accountability.
- ✓ On October 27, 2020, India and the US signed the 'Basic Exchange and Cooperation Agreement for Geo-Spatial Cooperation (**BECA**)' to strengthen Defence ties between the two countries.



### **FDI POLICY**

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.

The cumulative FDI equity inflow in the Defence Industry is USD 10.05 Billion during the period April 2000 to September 2020.



## GOVERNMENT INITIATIVES

- ❖ Government formulated the ‘Defence Production and Export Promotion Policy 2020’ to provide impetus to self-reliance in Defence manufacturing under the ‘Aatma Nirbhar Bharat’ scheme. The Defence Ministry aims to achieve a turnover of Rs. 1 lakh 75 thousand Crore (USD 25 Billion), including an export of Rs. 35 thousand Crore (USD 5 Billion) in the aerospace and Defence goods and services by 2025.
- ❖ To encourage more participation from start-ups and micro, small & medium enterprises (MSMEs) in Defence Research & Development (R&D) in achieving the ‘Atmanirbhar Bharat’ goal, the Defence Minister Mr. Rajnath Singh released a new version of ‘Defence Research and Development Organisation (DRDO) Procurement Manual 2020’ on October 20, 2020. There are plans to establish new infrastructure including a Defence park in Kerala to manufacture Defence equipment for the armed forces. The Project is aimed at promoting MSMEs and boosting the ‘Make in India’ initiative. In November 2020, the Department of Defence, in partnership with the DGDE and Armed Forces, established a Land Management System (LMS) as part of efforts to enhance the overall Defence land management.
- ❖ To increase Defence manufacturing in India and make the country a reliable weapon supplier to friendly countries, the Indian Government allowed the following FDI limits in September 2020. For new licensees – FDI allowed up to 74% through Automatic Route; FDI beyond 74% would need to be permitted under the Government Route. For existing Licensees – Infusion of new foreign investments up to 49% can be added by making declarations of change/transfer within 30 days.
- ❖ Defence Ministry plans to put 101 Defence items (artillery guns and assault rifles) under import embargo to offer potential military hardware manufacturing opportunities to the Indian Defence Industry.
- ❖ The Defence Ministry estimates potential contract worth Rs. 4 lakh Crore (USD 57.2 Billion) for the domestic Industry in the next 5–7 years (2025–2027).



## FOREIGN INVESTORS

- Airbus (France)
- BAE India Systems (UK)
- Pilatus (Switzerland)
- Lockheed Martin (USA)
- Boeing India (USA)
- Raytheon (USA)
- Israel Aerospace Industries (Israel)
- Rafael Advanced Defence Systems Ltd. (Israel)
- Dassault Aviation SA (France)



## AGENCIES

- 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
- Border Roads Organization

## ROAD AHEAD

The Indian Government is focussing on innovative solutions to empower the country's Defence and security via 'Innovations for Defence Excellence (**iDEX**)', which has provided a platform for start-ups to connect to the Defence establishments and develop new technologies/products in the next five years (2021–2026).

Working through partner incubators, iDEX has been able to attract the start-up community to participate in the Defence India Start-up Challenge (**DISC**) programme.

The Defence Ministry has set a target of 70% self-reliance in weaponry by 2027, creating huge prospects for Industry players.

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