

India shows military might as it pushes for defence sector self-reliance

Currently, India is the world's largest importer of arms, buying in about 70 per cent of its defence needs



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In the skies above Bangalore, India over the past few days, the country has had its fighter jets and helicopters on full display, roaring through the air and weaving past each other in daredevil formations.

The Aero India military aviation exhibition, one of the world's largest air shows, which concludes today, reflects India's expanding defence sector, part of the Prime Minister Narendra Modi's \$250 billion military modernisation plan.



Indian Air Force Advance Light Helicopter team Sarang at the Aero India 2019 in Bangalore, India. EPA

"India's a promising market with a genuine need for military equipment," says Karishma Maniar, an associate director for the defence and aerospace practice at Economic Laws Practice, a Mumbai-based corporate law firm. "India plans to spend on military modernisation is a huge opportunity for foreign manufacturers as well as the Indian ecosystem."

India in 2017 overtook the UK to rise to fifth place in terms of its defence spending, investing \$52.5bn that year compared to \$51.1bn a year earlier, according to the International Institute for Strategic Studies.

Its defence spend is driven by the need to protect India's "vulnerable borders" and defend against "the threat of terrorist attacks", says Ms Maniar.

This is only likely to gain momentum given the recent rise in tensions between India and Pakistan following an attack earlier this month in Indian administered Kashmir in which more than 40 paramilitary police were killed. Pakistan-based militant group Jaish-e-Mohammad claimed responsibility but India is accusing Pakistan of playing a role – an accusation which Pakistan's Imran Khan-led government denies.

But military might comes at a price and India is the world's largest importer of arms, buying in about 70 per cent of its defence needs.



Helicopters and fighter jets at the Aero India. AFP

In recent years, the Indian government - as part of its broader "Make in India" initiative to boost manufacturing within the country to help the economy expand and create more jobs - has been striving for more defence equipment to be manufactured on its own soil, by both domestic and foreign firms. To this end, the government has eased foreign direct investment rules for the defence sector. The country automatically allows up to 49 per cent FDI in the defence sector and can potentially allow up to 100 per cent in the sector with government approval.

Launching Aero India on Wednesday, the country's defence minister Nirmala Sitharaman said that 150 contracts worth more than 1.3 trillion rupees (Dh67.2bn) had been signed with Indian vendors for procurement of defence equipment for the armed forces during the past four years. She urged investors to capitalise on the opportunities in defence manufacturing.

But despite this push by New Delhi, companies say that progress on homegrown defence equipment manufacturing has been disappointing.

"The Indian defence manufacturing segment has not seen major investments in the last year or two," says Sanjay Sharma, the vice president and business head of Cyient Solutions & Systems, a Indian supplier of aerospace and defence solutions. "This could be due to the fact that major defence deals are still in the procurement process and the investments by the Indian companies can be expected in the coming years."

He adds that the fact that the government is allocating sizeable funds to defence is "an extremely encouraging step, especially for the national private players".

The combined global and local strategy "gives the Indian defence industry the unique advantage of having the global technology knowledge which is transferred and nurtured in the domestic industry, assuring positive growth for the Indian economy", says Mr Sharma.

For example, Adani Group, based in Ahmedabad in western India, is one of the latest players to enter the defence sector. It has a major presence at the Aero India show, as it strives to tap the market. Among its equipment, Adani, along with its Israeli partner Elbit Systems, was showcasing its Hermes 900 unmanned aerial vehicles, which are being produced in Hyderabad in India and sold by Adani and Elbit's joint venture company. Its first order for the vehicles, to be rolled out in May, will go to the Israeli armed forces.

"All our initiatives have been driven by the belief that India needs to have an ecosystem of capabilities, to enable true indigenisation and help achieve the ultimate goal of self-reliance in defence manufacturing," says Ashish Rajvanshi, the head of Adani defence and aerospace.

France-based aviation giant Airbus, meanwhile, has also used the Aero India show to leverage opportunities, displaying scale models of military aircraft including its H225M helicopter. The plane maker said its presence showed "the company's continued commitment to supporting the growth of India's aviation, defence and space sectors".

American defence firm Lockheed Martin, meanwhile, showed off its new F-21 fighter jet at the Aero show, which will be manufactured in India for the Indian air force.



A Lockheed Martin F-16 fighter jet behind a US Air Force C-17 Globemaster. EPA

Belgium-based pilot training device and flight simulator company Euramec announced plans to open a regional sales and technology centre in Bangalore in 2020.

Bert Buyle, the chief executive of Euramec says that while a lot of its focus is on India's burgeoning commercial aviation sector, the company sees enormous potential in the defence industry, too.

"It's a very important defence market and we can see in the air force that there are a lot of aircraft that are actually outdated and will be replaced in the future," says Mr Buyle. "This means that there will be a need for more training platforms, flight simulation."



An Indian Air Force Tejas fighter jet. EPA

India is a complex market, though, and analysts say this has played a role in its manufacturing industry not yet taking off as expected.

“While India has its head and heart at the right place when it comes to its objective of achieving military self-reliance, a lot of traction on policymaking, cutting down red tape and decision making is required,” says Ms Maniar. “Most contracts suffer delays resulting in years due to red tape and no commercial entity can absorb the financial impact of such delays.”

She says that in the defence sector, “despite years of stated indigenisation goals, very little progress has been made and India continues to be largest importing nation for over a decade”.

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Mr Modi a few years ago had stated plans that the aim for India was to manufacture 70 per cent of its weapons at home by 2020, but experts say that this is now clearly a highly unrealistic target.

There are other challenges that have hampered the industry.

There has been an ongoing controversy over a deal signed between India and France in 2016 in which India said it was buying 36 Rafale fighter jets, manufactured by France's Dassault, for €7.8bn (Dh32.47bn). This turned into a political issue, with the opposition Congress continuing to accuse the government of corruption and unfairly getting India-based Anil Ambani's Reliance Defence signed up as a local partner in the deal.

Analysts at Kotak Institutional Equities in a recent research note described India's defence industry as “sunrise sector”.

“Defence procurement is inherently time-consuming due to evolving technologies, changing threat perceptions, geopolitics, domestic politics and large requirement of resources,” according to Kotak. “Investors should be patient when investing in this sector.”

Back at the Aero India show, executives at companies including Cyient remain upbeat about the longer term outlook for the defence market.

“There can be little doubt that the sector has tremendous potential,” says Mr Sharma. “It is evident that the defence forces are already overdue for large scale modernisation.”

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