



# INDIAN DEFENCE MARKET

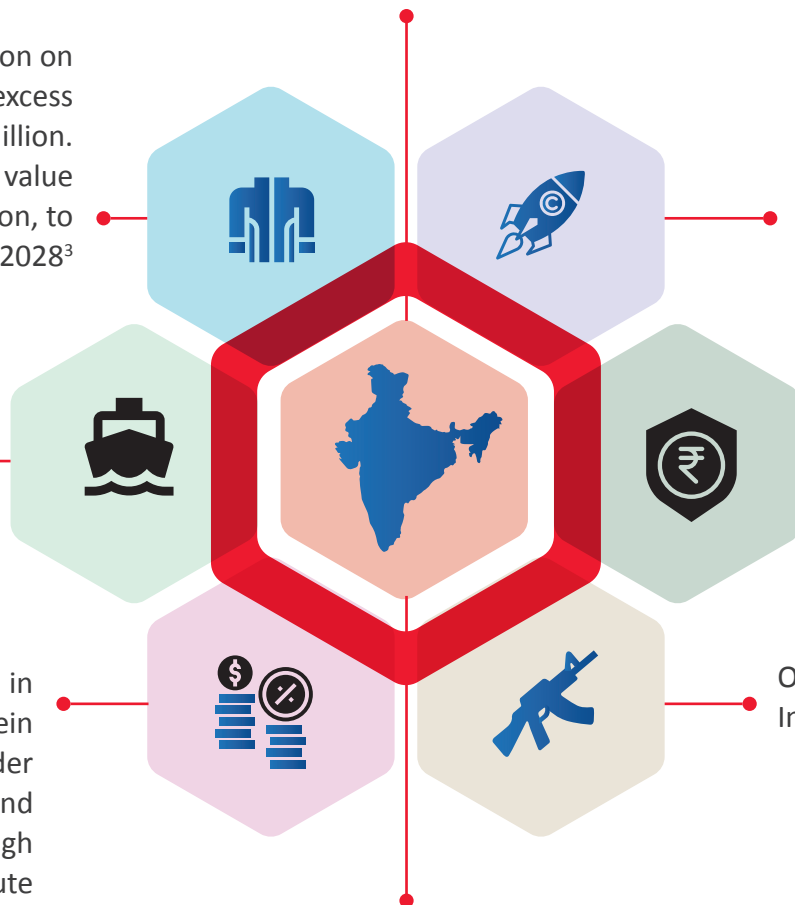
## The Opportunity

5<sup>th</sup> Largest military spending nation in the world with a defence expenditure of ~ USD 50 billion<sup>1</sup>

30% offset obligation on equipment procured in excess of ~ USD 300 million. The current outstanding value of offsets is USD 16 billion, to be executed till 2028<sup>3</sup>

USD 309 million in exports (2016). Govt. has set a goal of USD 5 billion in exports by 2025<sup>4</sup>

100% FDI is allowed in defence industry; wherein 49% is allowed under automatic route and beyond 49% through Government route



Largest Defence Importer - gets 65% of its defence requirements from abroad

Defence Manufacturing has been identified as one of the primary Make-in-India sectors

Ongoing DRDO projects in India worth USD 7.3 billion<sup>2</sup>

3<sup>rd</sup> largest Armed Forces in the world

<sup>1</sup> SIPRI data

<sup>2</sup> investindia.gov.in

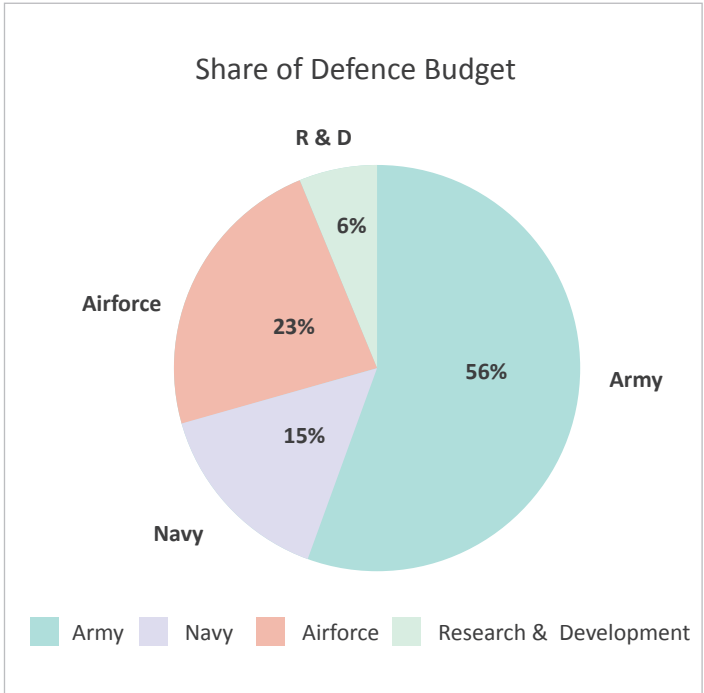
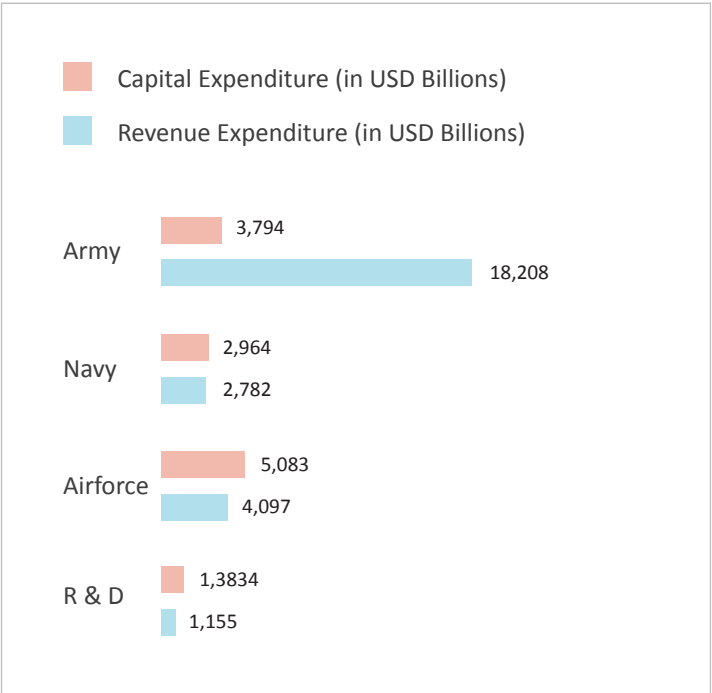
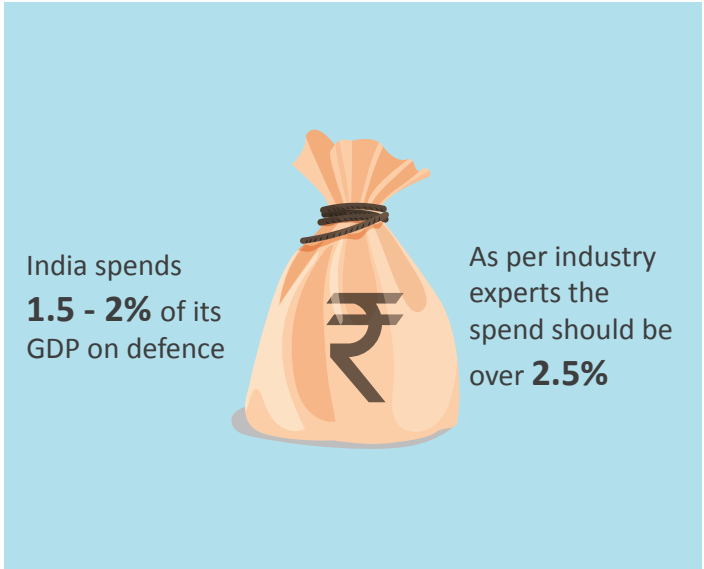
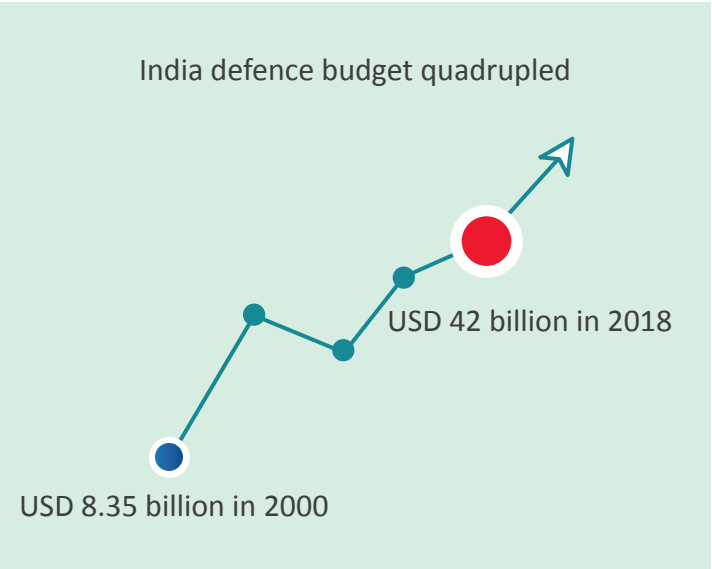
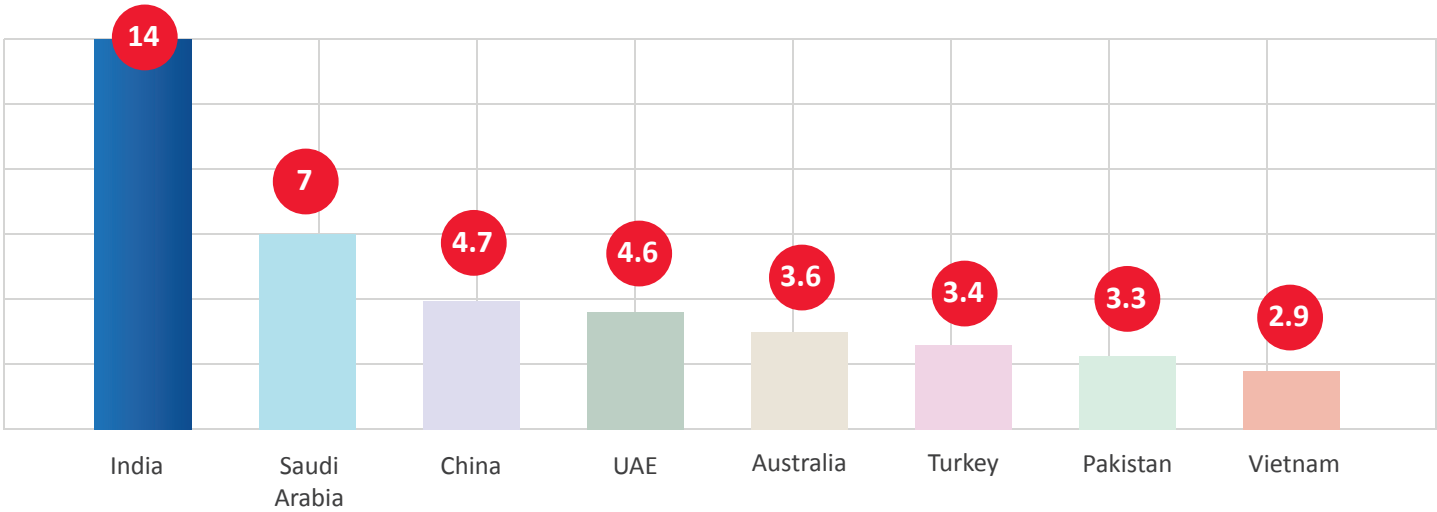
<sup>3</sup> Statement by Minister of State for Defence Mr. Subhash R Bhamre to College of Defence Management

<sup>4</sup> Draft Defence Production Policy 2018

INDIA'S DEFENCE EXPENDITURE ANALYSIS

Share of Defence Imports % from 2011-2015

Source: Stockholm International Peace Research Institute



## PROCUREMENT OF CAPITAL DEFENCE ITEMS IN INDIA

In India, all defence goods are procured in accordance with the Defence Procurement Policy (DPP) that is laid down by the MoD. As per this policy, preference is given to those goods which promote the Make-in-India initiative and contain a minimum amount of indigenous content. In decreasing order, the priority for procurement of defence equipment in India is categorised into six categories is:

<b>Buy (Indian – Indigenous Designed, Developed &amp; Manufactured)</b>	<ul style="list-style-type: none"><li>Procurement of products from an Indian vendor which have been indigenously designed, developed and manufactured with a minimum <b>40% Indigenous Content</b><sup>5</sup>, while a minimum <b>60% Indigenous Content</b> is required when the design is foreign</li></ul>
<b>Buy (Indian)</b>	<ul style="list-style-type: none"><li>Procurement of products from an Indian vendor having a minimum of <b>40% Indigenous Content</b></li></ul>
<b>Buy and Make(Indian)</b>	<ul style="list-style-type: none"><li>Initial procurement of equipment in Fully Formed (FF) state in quantities as considered necessary, from an Indian vendor engaged in a tie-up with a foreign OEM. Requires minimum <b>50% Indigenous Content</b></li></ul>
<b>Buy and Make</b>	<ul style="list-style-type: none"><li>Initial procurement of equipment in FF state from a foreign vendor, in quantities as considered necessary, followed by indigenous production through an Indian Production Agency.</li><li>Offset obligation of 30% would be applicable</li></ul>
<b>Buy (Global)</b>	<ul style="list-style-type: none"><li>Outright purchase of equipment from foreign or Indian vendors</li><li>Offset obligation of 30% would be applicable</li></ul>
<b>Make</b>	<ul style="list-style-type: none"><li>Acquisitions covered under the 'Make' category refer to equipment, systems or components thereof, designed, developed and manufactured by an Indian vendor.</li><li>Make projects are of two categories: Make - I projects which involve Government funding of 90%, and Make - II projects which involve prototype development for which no Government funding is provided</li></ul>

## MAKE IN INDIA POLICY BEYOND THE DPP

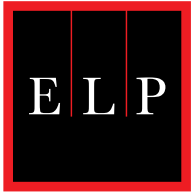


- The Government of India has issued a Public Procurement Order in June 2017 which mandates the procurement of Government equipment that has been manufactured in India and requires a stipulated percentage of local content.
- This policy applies to all Ministries of the Government for procurement of any equipment that has been specified in the policy.

## OFFSET OBLIGATIONS – AVENUES FOR DISCHARGE

Existing	Proposed
<ul style="list-style-type: none"><li>i. Direct purchase of or execution of export orders for the eligible products and services by Indian enterprises</li><li>ii. Foreign Direct Investment (FDI) in joint ventures with Indian enterprises</li><li>iii. Investment in 'kind' in terms of transfer of technology for eligible goods and services</li><li>iv. Investment in 'kind' in Indian enterprises in terms of provision of equipment and eligible services through the non-equity route</li><li>v. Provision of equipment and/or transfer of technology to Government institutions and establishments engaged</li><li>vi. Technology Acquisition by the Defence Research and Development Organization in areas of high technology – (a multiplier of up to three will be permitted)</li></ul>	<p>The three proposed new avenues for discharge of offsets:</p> <ul style="list-style-type: none"><li>i. Investment in specified projects for development of internationally competitive defence, aerospace and internal security related enterprises in the country - (a multiplier of up to five will be permitted)</li><li>ii. Investment in defence manufacturing through equity investment - (a multiplier of up to four will be permitted)</li><li>iii. Investment in specified SEBI regulated funds for defence, aerospace and internal security - (a multiplier of up to three will be permitted)</li></ul>

<sup>5</sup> Indigenous Content”(IC) for an equipment or an item has been defined in the DPP and Public Procurement Order.



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