

Indian Defence Market 2018 Global Trend, Segmentation and Opportunities Forecast To 2023

Defence -Market Demand, Growth, Opportunities and Analysis Of Top Key Player Forecast To 2022

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Description

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- India’s defence sector is at an inflection point in its expansion cycle driven by modernisation plans, the increased focus on security, and India's growing attractiveness as a market for defence manufacturing.
- Defence share accounts for about 17% of India's total non-Plan expenditure and about 1.6% of the gross domestic product (GDP). The latter, however, marked a deceleration in the last four fiscal years. In comparison, neighboring countries such as China and Pakistan spend over 2% of their GDP on Defence. Globally, the US, China and France are the top three military spenders. India ranks 9th in the list.
- Budget allocation has grown at a CAGR of 10.84% during 2006-07 to 2016-17. As per the Fourteenth Finance Commission report, allocation is expected to grow at 13.2% CAGR between 2015-16 and 2019-20, primarily on account of revenue expenditure.
- In terms of capital expenditure, allocation is much less than the actual requirement.
- The foreign exchange outgo in defence is nearly 50%. Imports constitute about 60-70% of the total defence procurement. As a result, India today is the world's largest arms importer and accounts for 14% of the world's arms imports (for the five-year period between 2011 and 2015). However, the scenario is likely to change in the near future. During 2013-14 to 2015-16, over 75% of the total expenditure of the Indian Army on capital acquisition has been for orders placed on Indian firms.

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- In terms of manufacturing, the market is dominated by Defence Public Sector Undertakings (DPSUs) and Ordnance Factories (OFs), while the private sector is the newcomer.
- Till 2001, defence production was a part of the reserve list, making it mandatory for production to be taken up only by public sector units. This created a defence industrial base consisting of nine DPSUs and 41 OFs. The role of private sector was restricted to supply of raw materials and semi-finished parts/components to the public sector. This is slowly changing. The government has a clear intention

to increase the role of the private sector in developing capabilities and capacities in defence manufacturing. It is re-designing and re-aligning the ecosystem to make it more industry-friendly, in line with its “Make in India” vision.

- The government also aims to achieve 70% indigenisation by 2027. DPSUs and OFs together are currently outsourcing about 20-25% of their production requirements to the private sector
- The Defence Procurement Procedure (DPP) 2016 bears a clear linkage with the ideology behind the Make in India initiative.
- It focuses on attaining self-reliance in design, development and manufacturing in the defence sector; a brand new procurement category – Indigenously designed, developed and manufactured (IDDM); enhancing the role of MSMEs in the defence sector; streamlining and simplifying defence procurement procedure, and reducing the long gestation periods and delays in procurement process.
- A number of tangible initiatives are being taken to establish a level playing field between the private and the public sector. The entry barriers for the defence industry have been lowered.
 - o The foreign direct investment (FDI) norms have been relaxed, allowing investment up to 49% through the automatic route and above 49% under the government route, wherever it is likely to result in access to modern technology or for other reasons to be recorded.
 - o In order to streamline the industrial licensing process, the government has brought out a public version of a list of defence items. Only the items identified in the list are subject to industrial license (IL). It has been pruned drastically, and most parts, components, testing equipments, etc. have been removed from the list.
 - o In addition, the industrial licensing process has been streamlined and the licence validity has been extended from 7 years to 15 years.
 - o Exchange Rate Variation protection has been made applicable for the Indian private sector at par with Public Sector Undertakings for all categories of capital acquisitions.
 - o Relaxations in offset policy now encourage foreign OEMs to actively engage with Indian companies in manufacturing of defence items. The threshold value has been enhanced to Rs 20 billion as against the earlier value of Rs 3 billion.
 - o Simplification of export regulation has been done to encourage export in order to make local manufacturing economically viable. List of items requiring NOC for export have been put in public domain.
 - o The Outsourcing and Vendor Development Guidelines mandate each DPSU and OFB to have a short-term and long-term outsourcing and vendor development plan to gradually increase outsourcing from the private sector.

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- The sector is poised for steady growth, stronger domestic production capability and business friendly policy environment. The private sector interest is growing. Huge investments are expected in the sector for modernisation and capital acquisition. The onus will be on the industry to make use of this opportunity.

- A few big-ticket acquisitions such as the Future Infantry Combat Vehicle (FICV), Future Ready Combat Vehicle (FRCV), the Avro Replacement Programme, acquisition of Su-30 MK-I fighter jets, Battlefield Management System (BMS) and the Tactical Communication System (TCS), which were conceived in the past, have inched ahead. The Indian Air Force (IAF) has recently launched its Indigenisation Roadmap for 2016-2025. Majority of the growth in the coming years will be buoyed by the aerospace, electronics and shipbuilding segments.

- Nonetheless, teething troubles with the long-drawn contract award process need to be addressed. Insufficient and limited vendor base, non-conformity of the offers to the request for proposal (RFP) conditions, long field trials, complexities in contract negotiations and long lead time for indigenisation are the key issues that impede faster turnaround of capital acquisition projects.

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