

# BI-MONTHLY SECTOR UPDATE

Issue | August 2020



## Aerospace & Defence

*"In the midst of chaos, there is also opportunity."*

- Sun Tzu

Offset contracts signed	\$11.79bn (as of Mar 2019)
Offsets discharged	\$1.71bn (as of July 2010)
Incomplete claims / clarifications sought	\$0.53bn (as of July 2020)
Offsets being examined	\$0.77bn (as of July 2020)
<b>Balance offsets due for discharge</b>	<b>~\$8.8bn</b>

- Close to \$8.8 bn in offset obligations yet to be discharged.
- DPP 2016 prescribes penalties in case of failure to discharge
- This is a readily available investment size which is not being fully exploited. Solutions to address this problem need to be evolved.

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# Our Take

The geo-political theatres are evolving at a fast pace - Hong Kong, Taiwan and Vietnam. In South Asia, the situation in Ladakh is reportedly still far from calm. India and China continue to reach out to their South Asian counterparts. There are significant resource deployment and related logistics.

In such critical times, the scenario is compounded by the global pandemic. There is an immediate term focus on border issues. With this backdrop in mind, it is essential to analyze the defence procurement procedure in the country critically. Many emergency purchases have been announced in the last month or so. Greater encouragement and incentivization is needed for many critical technology weapons and platforms. Indigenous development, a key area of self-reliance, remains handicapped by resource crunch, which can only be partly abated with Government funding. Possibly the Strategic Partnership Model, if judiciously applied in critical

areas, will attract commitment of funds, in the development of technology and comparable products.

It is an earnest hope of the industry that the draft DAP 2020 (erstwhile draft DPP 2020) is more than just a change in nomenclature. It is critical for the industry that the essential highlights in the draft including (1) focus on aero engines, military materials and fab, (2) higher IC requirement and (3) negative list for imports, are encouraged and, more importantly, the ecosystem is developed in a manner that enables technology absorption and developments, for the entire value chain.

**Maj Gen Rohit Gupta, SM (Retd)**  
Head - Aerospace and Defence  
Primus Partners

## Key take-aways

Emergency procurements (mentioned below), recently proposed and/or approved by the DAC are needed to plug the immediate gaps, but imports are not a long-term solution.



**Platform Purchases:** 21 MiG-29s, 12 Su-30 MKIs  
**Platform Upgrades:** 59 MiG-29s  
**Spare parts purchases:** Su-30 MKIs



**Tanks:** APFSDS for T-72 and T-90 tanks, Spike ATGMs  
**Air Defence Systems:** Israel based system and S2A missiles from Russia  
**Artillery rounds:** Excalibur for the M-777s  
**Precision Guided munitions:** ~100 cases of Hammer PGMs



**Assault rifles:** Additional order for 72,000 SIG916 7.62x51mm (similar order in 2019 for which deliveries started in December 2019)



**Miscellaneous:** Mines, High altitude clothing, 45 Light Tanks, Additional Heron UAVs

### Quick Shooting needed on this Project

#### **Assault Rifles:**

A new facility was inaugurated in Korwa, Amethi (U.P) in March 2019 to manufacture around 700,000 7.62x39mm AK-203 rifles.

However, as of today, the facility is yet to start production.

# Insights and Analysis

## Defence procurement procedures in India and DAP 2020

The first Defence Procurement Procedure was formalised after the Kargil War. The stimulus package to counter the damage caused due to the ongoing pandemic came in the form of Atmanirbhar Bharat Abhiyaan, and the definition of MSMEs was revised after 14 years during the same time. Suffice to say, the crisis has always resulted in quicker action. However, it is also clear that strategic aspects require long gestation investments coupled with consistency in policies and execution. This is a crucial feature of the Defence sector, where a particular R&D effort could cost billions of dollars and take decades. It is with this background that the Defence Production Policy 2018 was drafted. However, it is yet to be promulgated as a document though parts of it have after that been implemented.

The draft DAP has introduced a few critical sections like the chapter on leasing, which could address the budget problem to some extent. However, the indicative list can further be developed to include other products which can assist Capability Building in the short term, while distributing the Capital Budget load over a larger time frame. The focus on aero engines, fab and military materials is another significant development which could address some very critical gaps in the growth of the indigenous ecosystem. Further, classifying aero engines and fab formally as projects of national importance is a positive step. The focus on increased IC requirements, negative list of imports and the creation of a PMU are all positive policy measures.

The Combined Quality Cum Cost Based (CQCCBS) Selection Method, which has been incorporated for the ICT Systems, is a positive step to ensure technology is given its weightage in this fast-changing field. Its application into other areas of critical equipment procurement, to ensure that the best is available for the armed forces, with a balance between technology and cost, is necessary.

The Strategic Partnership Policy has been extended from DPP 2016 to the draft DAP 2020. However, its

full implementation, towards the Indian Private Defence Industry, to bring focus in fields of niche, cost-intensive endeavours, is yet to take full shape. Two of the critical programs identified under the SP program viz the NUH program and the P-751 program are still at various stages of the procurement cycle.

While policy measures are being put in place, it is the execution that will be the most crucial factor. Emergency purchases after the Kargil war, after the Balakot strikes and now after the face-off with China, are outcome-oriented decisions which can address some of the present critical issues but cannot fully cater to capacity building, especially in developing the indigenous manufacturing capability. A ~700-page DAP, with best intentions and enabling policy guidelines, might struggle to deliver to expectation if the 'process' outweighs the 'outcome'. Hence, while the draft DAP 2020 addresses the critical requirements for the industry in India, the execution of the process has to be monitored closely.

The draft DAP 2020 has been released to the public for comments after reportedly having incorporated, as deemed fit, more than 10,000 pages of suggestions from all stakeholders. This, in itself, is arguably a first in the Defence sector, reflecting the forward outlook and the intent of the government.

Outside the framework of DAP, the plan for setting up 6-8 Defence testing infrastructure establishments, for which the RFP for Consultancy has been issued, is a step in the right direction. This will provide the indigenous Defence industry with top-of-line testing facility to develop their products and also facilitate testing of prototypes, which will enable certification. Such testing will reduce help trial durations, both in terms of on-ground testing in varied conditions and repeated trials due to failures.

These are exciting times for the sector with the multitude of developments across the landscape and sectors. A vibrant and dynamic Defence manufacturing industry is the need of the hour and steps have already been taken in that direction.



# News & Announcements



## Some buzz on the industry

The Centre is considering removing defence projects from the Union environment ministry's purview  
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DPIIT has suggested a series of measures that can boost defence manufacturing in India.  
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The Ministry of Civil Aviation has set up an Investment Clearance Cell as a single window clearance mechanism for assistance and clearance of investment proposals in the domestic aviation industry.  
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The U.S. State Department has officially loosened restrictions on exporting military-grade unmanned aerial vehicles to foreign nations  
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India and Russia have decided to fund joint development of cutting edge technologies in areas like Information technology  
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## Some buzz on the industry players

The Indian Navy is not keen on HAL for the NUH project and wants private sector to build alternate capability  
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American private equity giants are circling Rolls-Royce's £1 billion ITP Aero business.  
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Long awaited order for 83 indigenous LCA Tejas Aircraft (worth about \$5.3bn) is expected to be awarded to HAL on or before December 2020  
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The US Air Force's research laboratories have signed up a co-operation agreement with an Indian startup to support the co-development of UAVs  
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Israel Aerospace Industries' CEO Nimrod Sheffer stepped down in the first week of July 2020.  
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'Idea Realization'— a unique approach to examine futuristic ideas required for the growth of an organization or a sector or geography, from the perspective of assured on ground implementability.

India is and will continue to be a complex opportunity. Private and Public sector need trusted advisory partners in order to tap into this opportunity. Primus Partners is your go-to trusted Advisory for both public and private sector organizations involved intricately with nation building, and the creation and growth of robust corporations as engines of progress.

Our core strength comes from our founding partners, who are goal-oriented, with extensive hands-on experience and subject-matter expertise, which is well recognized in the industry. Our core founders form a diverse cohort of leaders from both genders with experience across industries (Public Sector, Healthcare, Transport, Education, etc), and with varied specialization (engineers, lawyers, tax professionals, management, etc).

Primus Partners brings experience of working in more than 30 countries with private and public sector, including working with Government of India, building and leading large consulting teams at the leadership level, and creating one of the largest public sector consulting practice in India. They also represent 200 person years of experience in leading global and Indian consulting firms and the public sector.

The founding team is supported by a distinguished advisory board that includes experts with leadership experience across government, large corporate and notable civil society organisations.

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