A&D Newsletter

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Aerospace & Defence

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Listed Indian DPSUs	Share Price (INR) as of 14th December 2021	YTD change (since Jan 1 2021)	Market cap (INR cr)
BEML Limited	1,944.5	99.3%	8,065.1
Bharat Electronics Limited	209.8	66.0%	50,912.6
Hindustan Aeronautics Limited	1,288.0	50.3%	43,854.9
Mazagon Dock Shipbuilders Ltd	266.4	17.0%	5,376.0
Garden Reach Shipbuilders and Engineers Ltd	234.4	16.1%	2,701.7
Bharat Dynamics Limited	401.0	15.2%	7,364.2
Mishra Dhatu Nigam Limited	186.0	-6.8%	3,478.9

Our Take

In the Guidelines on the 'Positive List for Indigenization (erstwhile known as Negative List for Defence Imports), issued by the DMA, three aspects stand out:

1. DMA has taken control over all aspects pertaining to processing of the List(s) while the approving authority is the Honourable Raksha Mantri
2. Detailed interactions would be held by the Defence Indigenization Committee (DIC), with all stake holders, including industry and regular reviewing of progress.
3. Flexibility has been given to Services to process cases for procurement to meet immediate requirement where in domestic industry is not able to supply equipment in stipulated time-frame/quantity, inadequacy in equipment affecting safety of troops, or technical issues like no response to RFP. While this enables essential capability building to counter external belligerence, enough checks & balances have been imposed in the guidelines and DAP-2020 to counter the tendency to go 'Import'.

What has been very amply highlighted, which we have been stressing so far, is that procurement of these systems does not imply that product is wholly Indian. The procurement will still be governed by the procurement category allowing Import content as per IC laid down.

The Indian defence industry is evolving and like any evolutionary process, with forward movements there will be learnings. The positive indigenization list is a most recent example.

It highlights the need for continuous consultative process with industry. There is also a dire necessity to map the Indian defence industry, a database of capabilities and capacities of complete ecosystem.

The Indian industry also needs to invest in R&D, much more than today. There needs to be a mechanism whereby the R&D efforts of each company is mapped at a national level to also ensure there is no duplication The Strategic Partnership Model give the advantages of firmness in planning resources and capabilities with potential of return realization. Finance facilitation and OEM technological tie-ups are also enabled. The model has to be extended to all major system-of-system products, wherein some major industrial houses are designated as prime integrators while a complete ecosystem of other companies (Tier 2 & 3) also take advantage of the enabling factors to grow in outlay & capabilities. As such, technology permeations into the complete ecosystem is facilitated.

Aero engines, production of which is seriously lacking in Indian aerospace, is one sphere of signaling growing Indian capabilities. To progress, it becomes essential to have strategic partnership between a consortium of Indian companies and a foreign OEM. While procedures continue to evolve and industry continues to grow, what will bind both together is the policy and the intent to make things happen. This should continue to be part of the entire ethos of Indian defence industry.

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

With a potential INR 15,000cr outlay for the 5th Gen AMCA program, it is expected that a foreign company will also be shortlisted in 2022 for the high thrust aero engine program and an estimated $4-6bn additional funds will be requested and cleared.

Discussions are reportedly on with both Safran and Rolls Royce for the 69kN dry thrust and 110kN wet thrust engine for AMCA Mk2 variant which will enter production in 2035 sometime.

This is an important step and the quicker a decision is taken on this, the better it will be for the sector in India. The selection of the Indian company / companies to partner with the selected foreign OEM will also be critical.

In the best interests of the nation, there should be a minimum of two Indian companies who have the required expertise / capability in aero engine manufacturing in maybe ten years from now. It will also enable risk sharing between the Indian partners as this will be a high investment and high gestation period development project.

A supply chain will also need to be created whereby Indian vendors should have the capabilities to supply parts and components and meet the demand in the time to come. This again should be done keeping an alternative vendor source in consideration just in case the preferred vendor is not able to supply.

The Government, of course, will need to provide a surety of order book in the vision that they have to develop the aerospace segment in India

Insights and Analysis

- Guidelines issued by MoD on formulation, promulgation, monitoring and implementation of positive indigenization lists

The **positive indigenization list** is being promulgated by MoD with the intent to promote self reliance. While the **RM is the Competent Authority for all matters concerning the list, DMA is the lead agency to coordinate and execute all issues**.

The guidelines issued by the MoD early November puts down the process that will be followed in the formulation of such a list:

DMA seeks inputs from SHQs / DRDO / DDP / DoD and interacts with private industry on what to include in the list	To fully factor existing indigenous capabilities in equipment / systems / platforms / weapons / ammunition
↓ Draft list is formulated and sent to DIC for approval from RM	**Defence Indigenization Committee (DIC) will be chaired by Secretary DMA with other stakeholder members**
↓ List is hosted on MoD website as positive indigenization list	To target technology intensive and also niche technology products and equipment with realistic timelines of indigenizing

1. The above restriction is only for fully formed systems or platforms etc (but with minimum 50% IC) and not for components / assemblies etc (unless mentioned in the list)
2. Other than cases where contract is already executed, the listed products will be procured only from Indian vendors
3. The procurement of products in list cannot be done under Buy (Global) category
4. For other categories which have a Buy component – the Buy portion will be restricted to Nil
5. Cases where product is manufactured in India through foreign ToT and there is a new technology – such upgrades maybe permitted through foreign ToT by Acquisition Wing (capital procurement) / DMA (revenue procurement)
    - Attempt will be to encourage foreign OEM to engage with an Indian partner to jointly upgrade or set up a subsidiary with majority Indian stake
6. Clarifications for items included in this list may be raised by any of the stakeholders (Department / SHQ / industry) and will be responded to by DMA after obtaining inputs from requisite stakeholders.

This notification further highlights the steps for the process of down selecting the constituents of the list while categorically stating that DMA is the lead agency for the formulation, monitoring and implementation of this list.

It will be interesting to note further additions or modifications to this list given the fact that ***imports may now be allowed in case of "immediate requirement" even if the particular item belongs to the list. Also, there is now a provision to review or remove items from this list.*** *This clause is potentially a dampener for the industry. Without an assured order potential, it would be difficult for industry to invest in capacity and capability building.*

Hence, while the new clauses keep the import option open, It is important to incentivize the domestic industry to invest in R&D and also produce the specific products or equipment that are mentioned in the list. Segment specific initiatives would probably be a good starting point (similar to what is done in the DAP 2020 for materials)

P.S.: The notification can be accessed here: https://www.mod.gov.in/sites/default/files/navy241121.pdf

News & Announcements

Some buzz on the industry

Indian Army signed agreements with two security and space related academic institutions to promote military research and innovation in key technologies for training
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Imports ban on products put under negative list can be lifted in case of immediate requirements / emergency needs
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Admiral Hari Kumar has taken charge as the new chief of the Indian Navy
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The Indian MoD released a new list of blacklisted firms with whom dealings are either debarred, suspended or put on hold. AgustaWestland and Leonardo SpA are not in the list
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The MEA has mentioned that India pursues an independent foreign policy and its defence procurements are guided by national security interests, amid apprehensions over possible CAATSA sanctions for S400 procurements
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Some buzz on the industry players

Aerolloy Technologies Ltd, a wholly owned subsidiary of PTC Industries Ltd operationalized a facility in UP corridor to manufacture parts of aero engines and aerostructures while the foundation stone was laid for an integrated metal manufacturing facility
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Lockheed Martin plans to build F21 Legion and Sniper pod parts in India – RFQs are expected by end of December 2021
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SSS Defence won an order (competing with Israel's FAB Defense) from Indian Army to upgrade a limited number of AK-47 rifles with the SOPMOD package
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The Indian Navy placed an order with Indian firm PLR Systems for 500 India manufactured specialized Israel Masada 9mm pistols under the FTP route
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BDL signed a contract worth INR 471cr for refurbishment of IGLA-1M missiles which will extend the life of the missiles for another 10 years
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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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