

INDIAN AIR FORCE:

Procurements have been made across all services—Air Force, Army, and Navy. However, it is interesting to note that most of the land-based platforms in service with the Army are either bought or licenced produced in India, with not much of offset obligations. Here's a deeper understanding of procurements in India



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The Indian defence industry has witnessed a lot of foreign procurements which have resulted in billions of dollars of offset obligations on foreign vendors. Till March 2019 MoD has reportedly signed 52 offset contracts worth ~\$11.8bn.

Procurements have been made across all services – Air Force, Army and Navy. However, it is interesting to note that most of the land based platforms in service with the Army,

OFFSET DRIVERS



including the T-72 and the T-90 tanks are of Russian origin, and either bought or licenced produced in India with not much of offset obligations. Several of these Army contracts even pre-date the introduction of the offset policy under DPP 2005. Indian Navy platform procurements include aircraft carriers, submarines and war ships like frigates etc both through indigenous and foreign sources. There has also been offsets involved when it comes to procurements by

the Navy such as the P8I aircraft. However when we look at procurements of the Indian Air Force and the corresponding offsets as a percentage of total offset obligations, it highlights that IAF are predominantly the drivers of offsets.

INDIAN AIR FORCE PROCUREMENTS

Some of the major procurements by the Indian Air force in the last decade or so can be summarized as under:



**INDIAN AIR FORCE:
Few cases of offset
linked work**

A Karnataka based company is involved in precision engineering manufactures ramps and pylons for Chinook helicopters. Another one is involved in wire and harness solutions for the Chinook helicopters.

In Chandigarh, pre commissioning activities are being carried out as part of the offset plans for setting up a centre for carrying out repair works on the Mi-17V5 helicopters



- Contract for 36 Rafale fighter aircraft worth INR 59,000 cr (~Euro 7.9bn) signed in 2016 with corresponding offsets close to INR 30,000 cr (~Euro 4bn)
- Contract for 10 C-17 transport aircraft worth \$ 4.1bn in 2011 followed by one more (the last from Boeing’s production line) in 2018-19. While the last single purchase reportedly did not have offset obligations, the total obligations from the C-17 procurements at the minimum requirement of 30% would come to around \$1.1bn
- Contract for 6 C-130Js worth \$1.2bn in 2008 followed by the exercise of option to procure another seven (6+1 later in 2016) aircraft worth around \$700-800mn which were inducted in the last few years with potential offset obligations at ~\$600mn
- Contract for 22 AH-64E Apache helicopters and 15 CH-47(I) Chinook helicopters signed in 2018 worth \$2.5-3.0bn with corresponding offset obligations worth ~\$600mn.
- There also are offset obligations being discharged by Russian companies potentially as part of a deal for 151 Mi-17V5 helicopters signed in two tranches



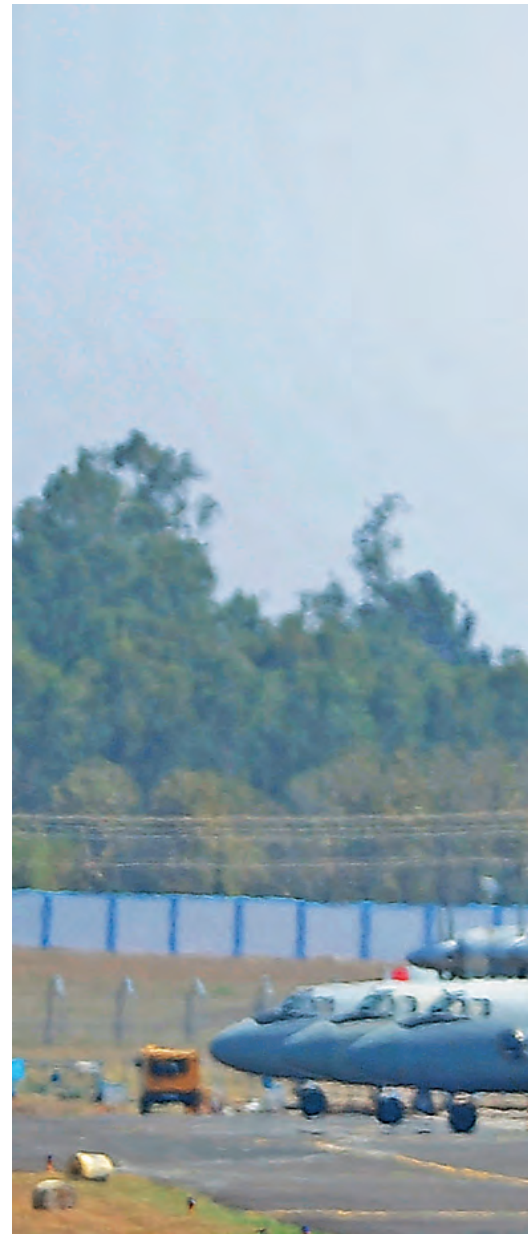


in 2008 and 2012-2013 and for the upgrade of the MiG-29s. The above deals alone have potentially brought offset discharge requirements worth around \$6-7bn out of the \$11.8bn worth of offset contracts signed till March 2019 by the MoD – that is approximately 55-60% of the total. Apart from this, there are other upgrade deals including for example the ~\$2.4bn deal signed in 2011 with Dassault Aviation and Thales for the upgradation of the Mirage-2000H fleet of aircraft which potentially brought another ~\$600mn worth of offset obligations for discharge in India. There is an additional order for 48 Mi-17V5s being discussed as part of a \$1.1bn deal with a requirement for 30% offsets. Apart from the major platforms, separate contracts for weapons / electronics wherever awarded also would have potentially carried an offsets component. MBDA's total offset obligations as of 2018 were worth ~Euro 1bn which include, apart from the enclosures in the Rafale contract and Mirage 2000 upgrade programs highlighted earlier, a contract for ASRAAM missiles for the IAF Jaguar fighter aircraft. In a nutshell, it is safe to say that the IAF has been a major driver for offset contracts. The corresponding work orders that have been given to the Indian industry have also enabled the ecosystem to grow and develop.

Having said that, only around \$1.9bn worth of offset obligations have been disposed with the claims for another \$1.1bn either being incomplete or under examination. A significant part of the above offsets are however expected to be discharged in the next few years up to 2024.

When we look at the capability building spectrum also, the IAF has contributed almost equally if not more than the Army and the Air Force. Highlighting a few cases where offset-linked work and / or a purely commercial order related to the IAF procurements has enabled the development of the indigenous aerospace and allied industries.

● **Karnataka based companies:** A company involved in precision engineering manufactures ramps and pylons for the Chinook helicopters. The same company also is the sole supplier, albeit on the commercial



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aerospace side, for the single aisle flap track beam assembly for an aircraft manufacturer. Another company involved in wire and harness solutions and electronic systems fabricates wire harnesses for the Chinook helicopters.

- **Telangana based companies:** A joint venture company manufactures the crown and tail cone assembly for the CH-47Fs. A similar JV company manufactures empennages for C-130J and has reportedly delivered 130 empennages till date. Another JV based out of Hyderabad also manufactures the cabin of the S-92 helicopter and have reportedly delivered 154 such cabins till date.

- **Maharashtra based companies:** One of the companies in Maharashtra reportedly makes components of the

Legacy Falcon 2000 series of business jets as a part of the offset obligations for the procurement of Rafale aircraft. The offset obligations for the order of 36 Rafale aircraft span across airframe, aero-engines, electronics and engineering and software services among others.

- **Chandigarh based companies:** Reportedly, pre commissioning activities are being carried out as part of the offset plans for setting up a centre for carrying out repair works on the Mi-17V5 helicopters.

GOING FORWARD

The draft DAP 2020 categorically stated: “Foreign vendors will need to discharge offsets in all Buy (Global) cases with AoN cost of INR 2000 crores or more, other than cases



being progressed based on IGAs including Foreign Military Sales (FMS)”. Under the DAP 2020, formalized on 28th September 2020, offset guidelines have been revised by (1) giving preference to manufacturing products in India rather than only parts and components and (2) ending offsets in G2G, IGA and resultant single vendor deals. While this restricts the scope of offsets eligibility in future contracts, procurements by the Air Force have seen few contracts being signed at a G2G level. Hence, from an IAF perspective going forward, procurements may still continue to generate offsets depending on the stage of the procurement cycle as well as nature of procurement. Moreover, with the emphasis on Atmanirbhar

Bharat and the introduction of the ‘101 list’ and DRDO’s ‘108 list’, imports in the future may largely be for very niche systems and equipment or for emergency procurements which would require long lead times in India.

The one major procurement program of the IAF that could potentially still generate offsets in the coming years is for the 110 fighter aircraft (75% single seaters and balance twin seaters) with a maximum of 15% in fly away state and balance 85% to be made in India under the SP policy. The RFI was released in 2018 but there is no update on the stage of the process as of now.

Given the large number and value of offset contracts that have been

signed in the previous years and possibly the few that could be signed in the coming years, it is important that the obligations when being discharged are channelled in the appropriate direction. The discharge of obligations should be adding long term value to the Indian industry and contributing in developing capabilities in the country. While the offsets are being discharged, it is important to also ensure that the Indian Offset Partners involved in the same are able to either gradually move up the value chain or are able to expand and add value within their current domain of expertise.

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