

BI-MONTHLY SECTOR UPDATE

Issue | December 2020



Aerospace & Defence

"To be prepared for war is one of the most effective means of preserving peace."

- George Washington

Listed Indian DPSUs (as on end of day 4 th Dec 2020)	Share Price (INR)	Market price (INR crores)
Hindustan Aeronautics Limited	842.6	28,177
Bharat Dynamics Limited	322.6	5,913
BEML Limited	739.0	3,078
Mishra Dhatu Nigam Limited	193.6	3,628
Garden Reach Shipbuilders and Engineers Ltd	196.7	2,253
Bharat Electronics Limited	115.7	28,204
Mazagon Dock Shipbuilders Ltd	182.4	3,679

Follow us on social media

 Primus Partners India

 @partners_primus

1

Our Take

Geo-political relations

- 'Times they are a-changing'

2

Insights and Analysis

A financing arm for defence

- Its time 'hath cometh'

3

News and Announcements

 **PRIMUS
PARTNERS**

Our Take

India decided to opt-out of RCEP in November 2020. Both from a geopolitics perspective and a trade perspective, it is a big decision. However, that said, India continues to focus on bilateral and multilateral agreements. The two phases of the Malabar 2020 naval exercise was closely monitored with Australia also joining for the first time. The logistics agreements with countries including the US and Japan (the same with Russia and UK planned soon) also indicate a further strengthening of military co-operation. At the LAC, both sides are buckling down for the harsh winter. The non-compromising posture by India has found admirers the World over.

The 4th of December 2020 was the Navy Day, and a key point that came out was that procurement plans are in progress. The NUH under the SP model is expected to progress to the stage of shortlisting of companies. The P-75(I)RFP is expected to be discussed at the next DAC meeting.

The MoD pushed forward the proposed date for embargo on 155mm 52 cal towed artillery guns from December 2020 to December 2021. This is an issue of concern to the defence industry, some of whom would have invested substantial funds into the development of artillery guns, especially 52 cal.

It also raises apprehensions on the continued retention of the negative import items list, as issued. A positive stroke to assuage the concerns of the industry will go a long way.

Alternative sources of funding our defence acquisitions are being discussed, and in this edition of our newsletter, we have also presented a few of our viewpoints.

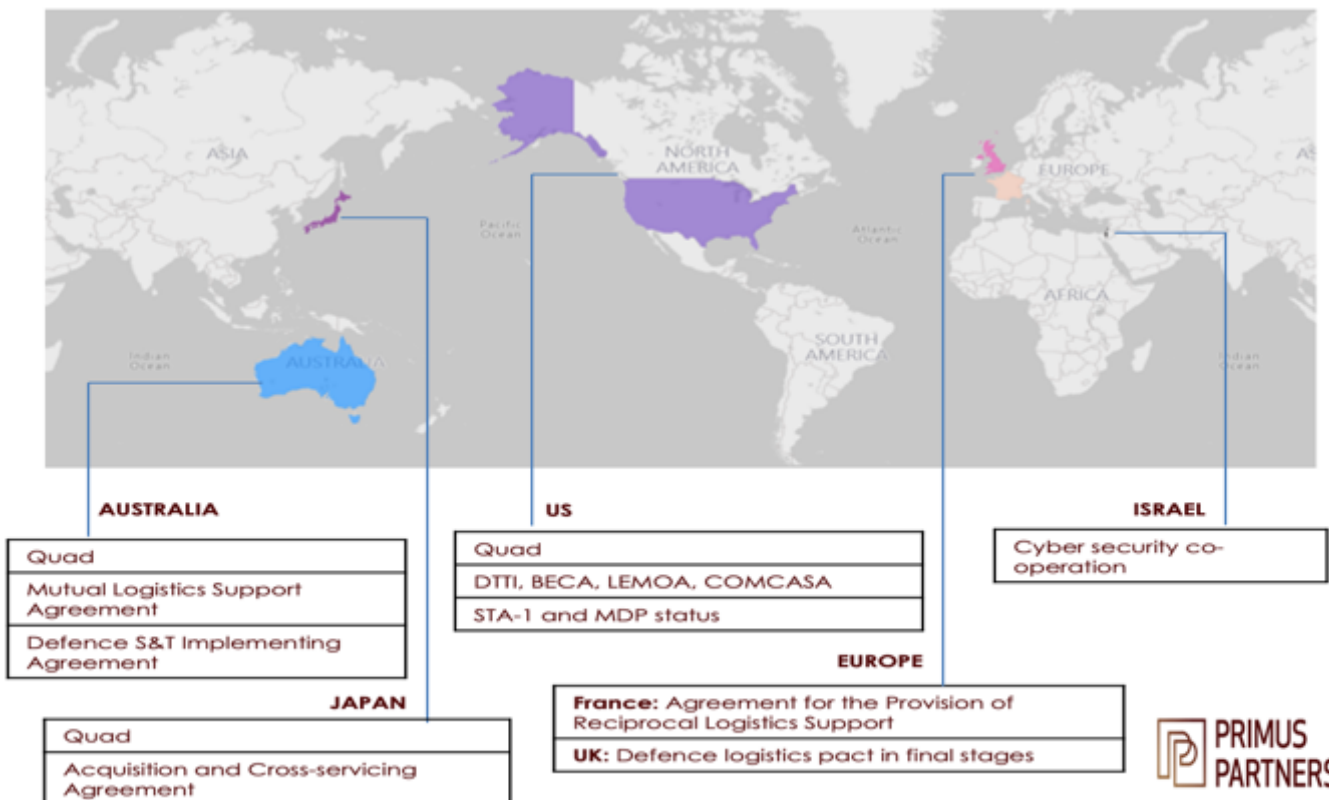
The drone/swarm strike on Saudi Arabian oil fields, the influence of the Turkish drones in Libya and Syria against the Russians and the more recent Azerbaijan-Armenia conflict has brought home the stark reality of such weapon systems to the Indian Armed Forces. The danger of low-cost armed drones and swarm attacks will take its toll on the mechanized forces and the combat support elements with it, which will need to be protected with new systems.

Results of US Elections will throw up new dimensions in Geo-politics. While Indo-US relations will continue to be further strengthened, developments in the APAC would be closely watched.

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

Key take-aways

Regional partnerships / alliances / collaborations continue to define the very fluid geo-political landscape. Below are few key highlights of India's relations with a few countries.



Insights and Analysis

A financing arm for defence: Alternative routes of funding



Per Demand no 19 and 20 of the Union Budget 2020-21, India's defence budget (excluding pensions) stands at around INR3.4 lakh crores with the capital portion share at around 30% which is split between the Army, Air Force, Navy, Ordnance Factories, DRDO and Others. The capital portion saw a ~10% YoY increase of ~INR10,400 crores. In general, it is reported that around 80-85% of the capital budget is for committed liabilities from previous years, thereby not leaving much for new procurement contracts.

When signing a procurement contract, 15% of the base contract price needs to be paid within 30 days through Direct Bank Transfer upon submission of a claim and a Bank Guarantee for equivalent amount, subject to correction and acceptability of the documents submitted. Considering the INR1.14 lakh crores capital outlay on defence services as per Demand no 20 for 2020-21, it would be fair to say that subject to an assumption of 85% committed liabilities, at max ~INR17,000 crores would be available as advance payments for signing new contracts. Such new contracts that are signed also have a varied cash outgo depending on factors including among others criticality of the product/service being procured, the delivery schedule for the same and currency exchange rates. This does not leave much on a YoY basis for the level of modernization required and planned for the Indian defence forces.

The relative paucity of funds has been felt by the forces also - a case in point being the Navy reportedly revising its long-term plan of building a 200-ship fleet by 2027, to a fleet of 175 ships. To add to that, delays in the signing of procurement contracts further add to the total cost, apart from potentially leading to delays in the preparedness of the armed forces. In order to plug this gap, a financing arm is being considered. The nomenclature and the operational requirements may vary whether to call it a fund/bank.

HAL has reportedly proposed a defence financing corporation on the lines of the Indian Railways Finance Corporation (IRFC)

which is the dedicated financing arm of Indian Railways. IRFC, in turn, meets its fund requirements from sources including an infusion from Government of India, ECBs, taxable and tax-free bonds and institutional finance among others. The objective is to be the 'extra-budgetary resource'. IRFC's operations range from being a lessor for Indian Railways (total outstanding lease receivables to Ministry of Railways as in March 2017 is reported at INR96,280 crores) to lending activities to Ministry of Railways as well as to companies in the sector for implementation of various projects for expansion and modernization.

Similarly, NABARD also is involved in financial and developmental support to the agriculture and rural industry in India. Its financial activities include both direct finance to all stakeholders in the agriculture sector including food parks, storage facilities, marketing federations, co-op banks and to Govt schemes. NABARD also provides both short term and long-term re-finance facilities.

While a financing arm is probably in conceptual stages currently, a few points can be considered:

- **FDI that comes into this financing arm could be made eligible for offset credits. This would be another quick solution to realize the ~\$9bn offsets pending for discharge. It would of course be weaved into the operational aspect of such funds so that the utilization of such FDI is completely independent of the source of the same**
- **The Board of such financial arm should ideally include representation from all stakeholders - Indian Ministry of Defence, Indian financial institutions and former heads of DPSUs / OFB / Indian private companies**
- **The source of funds should be monitored so that it is not overly reliant on foreign funding only**
- **Gradually, apart from just funding capital procurements, the financing arm can assume additional roles of lending funds to Indian defence companies at competitive rates**

News & Announcements



Some buzz on the industry

Artillery import embargo put off, doors open for INR23,700 crores Israel guns
[Read More](#)

India-US signed the BECA enabling India to get access to advanced satellite topographical data for navigation and missile targeting
[Read More](#)

FAA clears Boeing's 737 MAX to resume passenger service. The FAA has asked for a series of design changes laid out in a 115-page directive along with training requirements for pilots and maintenance requirements for airlines
[Read More](#)

Orders worth ~\$51bn are likely to be executed by Indian Navy for surface ships, submarines in this decade
[Read More](#)

HAL moots defence financing corporation for acquisition of weapon systems
[Read More](#)

India-US extend MoU for co-operation on nuclear energy for 10 more years
[Read More](#)

Some buzz on the industry players

Cabinet approves a partial privatization of Israel Aerospace Industries.
[Read More](#)

India HAL delivers largest cryogenic propellant tank to ISRO, ahead of contracted timeline
[Read More](#)

Israel's IAI have named Boaz Levy, its former VP for the Systems Missiles and Space Group as its new CEO.
[Read More](#)

Bharat Forge now has its sights set on hovercraft, after artillery guns and combat vehicles
[Read More](#)

Thales, MKU to make night vision devices for Armed Forces
[Read More](#)

Brazil express interest in Indo-Russian BrahMos-NG version of the short-range ramjet supersonic cruise missiles
[Read More](#)

About Primus Partners

Primus Partners has been set up to partner with clients in 'navigating' India, by experts with decades of experience in doing so for large global firms. Set up on the principle of 'Idea Realization', it brings to bear 'experience in action'.

'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.

Primus Partners Contacts



Nilaya Varma
Co-Founder & CEO



**Maj. Gen. Rohit Gupta,
SM (Retd.)**
Head - Aerospace &
Defence



Amit Dugar
Vice President, Sector
Lead – Aerospace &
Defence



Pooja Ahluwalia
Vice President, Head of
Research

Disclaimer

The report is prepared using information of a general nature and is not intended to address the circumstances of any particular individual or entity. The report has been prepared from various public sources and the information received from these sources is believed to be reliable. The information available in the report is selective and subject to updation, revision and amendment. While the information provided herein is believed to be accurate and reliable, Primus Partners Pvt. Ltd. does not make any representations or warranties, expressed or implied, as to the accuracy or completeness of such information and data available in the public domain. While due care has been taken while preparing the report Primus Partners Pvt. Ltd. does not accept any liability whatsoever, for any direct or consequential loss arising from this document or its contents.