

BI-MONTHLY SECTOR UPDATE

Issue | June 2020



Aerospace & Defence

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

- Sun Tzu

Metric	Status Quo	Target
Investments announced for Defence Corridors	31 st Dec 2019: INR6,875 crore	2023-24: INR20,000 crore
IPRs filed	FY19-20: 736	2020-21: 1,000
Defence Exports	FY19-20: INR8,600 crore	2020-21: INR15,000 crore

Source: DDP Dashboard

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Our Take

Reforms are good but execution is key

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Insights and Analysis

MSMEs are the 'alpha' in the Indian A&D industry

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News and Announcements

COVID or no COVID - Indigenization is the future

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Our Take

The world has seen unprecedented times since the beginning of this year and the times continue to be such that it is difficult for the industry to get back to normal business, let alone accelerate to make up for the lost time and opportunity.

In these times, stimulus packages and / or reforms have been announced by governments world-wide and across all sectors. In India, for the aerospace and defence sector too, mid to long term targeted reforms have been announced. Increasing the scope of MSMEs, a negative list for imports, banning global tenders for procurement up to a threshold and corporatization of OFB are some of the most over-due reforms that have now been announced. The other announcement of setting up a PMU is also a welcome reform.

The Indian defence sector is moving forward in its

journey to strengthen its ecosystem. The vision of becoming a self-reliant country will support the aerospace and defence sector in driving the Make in India program.

We believe proper and timely implementation would be the key for these reforms to have the expected impact on the domestic industry, its participants and India's position in the global A&D market.

We at Primus Partners India endeavor to periodically bring forth key insights in the industry to enable an engaging conversation.

Nilaya Varma
Co-founder & CEO
Primus Partners

Top take-aways

More power to MSMEs to move forward

Indigenization is on a steep rising curve - time to invest more in R&D

FDI increased to 74% but remains 49% for programs under SP policy

Now is the time for the implementation of these crucial reforms that can push the self-reliance and indigenization initiative:

- **Negative list for imports:** The Department of Military Affairs is creating a negative list of weapons/platforms that cannot be imported going forward. Such a list of imports would provide the necessary impetus to both the public and private industries to further invest in R&D and develop domestic supply chains
- **Special budgetary provision for domestic procurement:** Specifying the capital budget allocation earmarked for domestic procurement, will provide a clearer picture of order books for the local industry. The private defence sector should also be allocated a significant share to support capacity building
- **Indigenization of imported spares:** Indigenization of critical defence equipment needs to be pushed across segments, especially spares. Such an effort would go a long way in guaranteeing greater serviceability of the in-service platforms
- **Time-bound defence procurement:** The setting up of a Project Management Unit to support contract management will help reduce and gradually prevent delays in procurement
- **FDI limit increased to 74% from 49%:** Increasing the FDI limit via the automatic route has long been sought by several OEMs and can boost investments in India, bringing in technology to the country

Insights and Analysis

MSMEs - the backbone of Indian defence industry

The upward revision of MSME definition (after 14 years since the MSME Development Act 2006) has been a welcome step for the reported 8,000+ strong community that contributes to the aerospace and defence sector. Reportedly 80% of components, aggregates and assemblies of complex weapon systems and aircraft are made by MSMEs*.

The new definition stands as follows:

- Micro: INR1 crore of investment and INR5 crore of turnover
- Small: INR10 crore of investment and INR50 crore of turnover
- Medium: INR50 crore of investment and INR250 crore of turnover

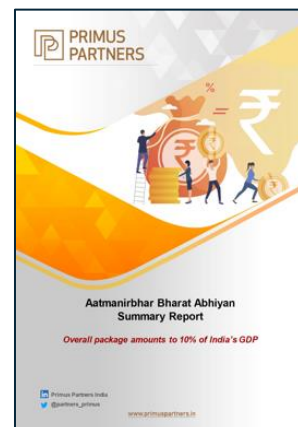
More importantly, turnover from exports will not be counted in the limits for any category.

Coupled with this, the disallowance of global tenders for procurement up to INR200 crore will further open new opportunities for MSMEs supplying to the Indian defence forces.

In the backdrop of COVID-19, steps have been taken that will benefit the MSMEs in the mid to long term. If we look at a few key factors that hinder the growth of an MSME in defence sector, they are (1) funding support, (2) lack of right opportunity and (3) technology expertise.

Reform measures in place and announced in the recent past cater to solutions on these fronts include:

- (1) Approval for equity infusion of INR50,000 crore for MSMEs through Fund of Funds which could enable capacity expansion
- (2) Disallowance of global tenders beyond INR200 crore ensuring scope for Indian companies increases Suo-moto proposals are being encouraged and 'Make-III' a new category in draft DPP-2020 encourages import substitution
- (3) Increased FDI to 74% in defence thereby facilitating an increased interest from FOEMs to bring in technology
- (4) DPSUs are mandated to procure a 25% of their requirement from MSMEs
- (5) Global OEMs discharging offset obligations via MSMEs get a multiplier benefit
- (6) Licensing policy has been made very liberal resulting in reduced entry barriers for MSMEs entering the industry



News & Announcements



Some buzz on the industry

India and Australia decided on a shared vision for maritime co-operation as Comprehensive Strategic Partners.

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India inducted its second Tejas LCA squadron on Sular air base in Tamil Nadu, reviving its No 18 Squadron or the 'Flying Bullets'

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The IAF is expected to soon put forward a proposal to procure the HTT-40 from HAL for its trainer aircraft fleet which currently stands at 260 against a sanctioned strength of 388.

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FDI in defence increased to 74% via automatic route from 49% earlier.

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The MoD has extended the delivery period of all existing capital acquisition contracts with Indian vendors by four months.

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Some buzz on the industry players

With current sourcing of \$1 billion annually from 200 suppliers, Boeing expects its India presence to be the largest outside the US over the next couple of years.

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General Atomics announced that Vivek Lall will assume the position of Chief Executive at General Atomics Global Corporation.

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Embraer has said that India and China could be potential new partners.

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Airbus planning to reassess output due to the COVID-19 impact, especially for its A320 series narrow body aircraft which accounts for bulk of its production and cash flow.

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James Taiclet will become the new President and CEO of Lockheed Martin effective June 15, 2020.

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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.

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