

A&D Newsletter

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Aerospace & Defence

"War never pays its dividends in cash on the money it costs."

- Sir Winston Churchill

1

Our Take

Defence Procurement Procedures – an evolving exercise

2

Insights and Analysis

India defence procurement programs – require steps for faster closures

3

News and Announcements

Listed Indian DPSUs	Share Price (INR) as of 14 th October 2021	YTD change (since Jan 1 2021)	Market price (INR cr)
BEML Limited	1,660	70.1%	6,920
Hindustan Aeronautics Limited	1,444	68.5%	48,290
Bharat Electronics Limited	211	66.6%	51,330
Mazagon Dock Shipbuilders Ltd	268	17.6%	5,400
Bharat Dynamics Limited	391	12.3%	7,170
Garden Reach Shipbuilders and Engineers Ltd	221	9.5%	2,530
Mishra Dhatu Nigam Limited	200	0.4%	3,760

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Our Take

While the 209 negative list / positive indigenization list sets out the intentions clearly, by itself it is not going to achieve the targeted objectives. Enablement by the Govt is required in the form of orders, financing, technology partners and mentorship. Essentially, the procurement process requires further refinement.

In pursuance of the best technology, one certainly cannot follow L1 bidder while ruling out the best technology which may be only marginally losing out in the price war. It raises the basic question, 'do we want an equipment that ONLY meets our declared criteria or is the criteria only an instrument of guidance for equipment provision and its trial'.

Leaving the entire gamut of getting acceptable equipment to the framing of GSQR is a fallacy, especially when the framing itself is plagued with (1) Getting together a criteria which focuses on getting a multi-vendor situation (2) Inputs from industry which may not have the equipment in most cases and are dependent on technology partners and thereby inadequate knowledge (3) Dependence on publications - incomplete picture (4) Interpretation and perceptions of requirements, especially which come into play in drawn out cases (5) Technology changes that far transcend the pace of procurement.

The current provisions in the DAP viz Enhanced Performance Parameters (EPP) that were enshrined in DPP-2016 and continued in DAP-2020 to address this issue have not enthused many. The exact scope for EPP is defined in the RFP. The vendor declares it in his technical bid and being successfully tested, will be awarded a credit score of up to 10%, for evaluation of L1, with each individual attribute not exceeding 3%.

This 3% in cost, for a performance attribute which would require extensive efforts to achieve, is too miniscule for the vendor to incorporate niche technology in the equipment. Another criterion, Essential Parameters-B states that parameters not available originally in the equipment fielded for trials, can be developed and would be tested before delivery, after the contract has been given. The military is worried about the equipment not making the criteria after years of effort have been put in for processing the case.

The newly introduced Chapter-VIII of DAP-2020, pertaining to acquisition of systems products and ICT systems, shows the way towards future procurement. With Combined Quality Cum Cost Based (CQCCBS) Selection Method and 60% weightage given to technology, the contract award is facilitated towards higher end technology providers.

The application of a similar concept of CQCCBS 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.

It is time that the L1-T1 concept must be undertaken expeditiously. The perceived problem is 'Price Indexing of Technology', which may lead to allegation of bias in our representation-plagued defence procurement. Systems can be put in place to mitigate those possibilities.

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

Segment	Procurement programs
	Procurements like the FRCV and FICV are yet to be concluded after more than a decade of the initial RFI.
	Finalization of the AVRO replacement program was recently concluded after years of deliberations and the LCA Tejas and rotary platforms procurements appear to be making headway in the last few years
	Procurement of the 6 P-75 Scorpene class submarines is in progress while the process for 6 P-75(I) procurement has finally moved forward
	Procurement of the S-400s was finalized in 2018 with deliveries expected to begin this year or the next but the procurement of the NASAM-II is still under deliberation



Insights and Analysis

- Defence procurement programs require faster closures and hence this decade is critical for India

"The danger that our long-drawn procurement processes and bureaucratic speed-breakers would prevent us from acquiring cutting edge technology is a real one" – this statement from the Indian Army Chief Gen MM Naravane has summed up concerns which the industry has been highlighting at various forums and discussions.

An Army marches on its stomach – well stocked with not just food but also weapons and armor. Delays in procurement result in lack of resources which leave the country vulnerable. The current fleet of the Indian defence forces is reportedly vintage in most cases. There have been a few large orders in the previous few years, but they have been more as an emergent measure to fill glaring gaps, and more importantly via the G2G route. The procurement processes of multiple programs have already aged 10 years or more but are still huffing and puffing. It has been a while since a major procurement program completed its entire procurement cycle within the timelines. The AVRO replacement program was finally approved and awarded in September 2021 for replacing the fleet aged almost 60 years – the process for which was initiated in 2010.

The FICV and FRCV programs to procure 2610 future infantry combat vehicles and ~2000 future ready combat vehicles are still being deliberated after more than 10 years for both programs individually. The NUH and NMRH procurement programs for 111 and 123 helicopters respectively are still undecided while procurement has been done in parts (24 MH-60R NMRHs) in one case and RFI issued for leasing (24 NUH) in another. The fixed wing squadrons have a wide gap to fill with the current strength reported at around 34 squadrons. There are multiple programs in process including MMRCA 2.0 and MRCBF which are at various stages of procurement with closure appearing to be far from today. The P-75(I) submarines program has moved forward with shortlisting of two Indian vendors as part of the SP policy framework – however this procurement also will take time to fructify.

The above delays in procurements, for various reasons, have also impacted the budget for these platforms. A simple inflation adjustment across the last 10 years post indexation arguably inflates the cost by multiple crores with technology related cost increments being another critical factor.

A few important reasons for the delays in decision making for procurement programs include:

- (1) Multiple checks and balances which involve 55 approval points across 11 different stages of procurement till the signing of the contract, as observed by the CAG, which further tends to dilute responsibility and accountability
- (2) Continuous focus on meeting emergent needs resulting in distractions both from a strategic as well as budget perspective
- (3) The continuous tussle on L1-T1 where advanced technology parameters (sometimes also termed as "unrealistic") are being assessed vis-à-vis a budget perspective.

Steps are being taken to further simplify and make the process more transparent. A month back the RM approved a proposal mandating that SHQs publish relevant details on their or the MoD website within a week of receipt of approvals / AoNs – subject to sensitivities. This is being done in order to promote transparency in the procurement process.

The DPP 2016 has been replaced by a lengthier DAP 2020 – the attempt is towards having a detailed process but at the cost of efficiency and clarity.

The order for C-295s to the Tata Group, sale of Air India to the Tata Group and the dissolution of OFBs are all recent instances of the Government accepting that the private industry is stepping in with giant strides and what is now required is for the latter to step up. The Government has no business to be in business and will be a regulatory and facilitating agency. In line with the process to bring in more efficiency and be more competitive, few DPSUs are also being disinvested.

These are interesting times – especially given the fact that this industry in the past has been the most reserved and considered as the prerogative of only government-owned entities.

We are marching forward towards a high growth and highly competitive aerospace and defence industry in India!

News & Announcements



Some buzz on the industry

The Indian MoD has suggested that attempts will be made to try and complete acquisition of any defence equipment in 2 years from current average of 3.5 years as long as there is no R&D involved.

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India defence RM has urged the private sector defence industry to invest in R&D to boost production while also stressing that rapid changes in global security scenarios are expected to increase demand for military equipment

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The 13th round of Corps Commander level talks between India and China concluded recently with further disengagement expected to take place at the contentious Hot Springs area

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The Indian Air force effected an overhaul of its top brass with a new Vice Chief apart from a slew of other new appointments

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India and the US agreed in principle to establish an Industry Security Joint Working Group that will meet periodically to align the two nations' policies and procedures expeditiously to allow for defence industries to collaborate on cutting edge military technologies

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Some buzz on the industry players

Airbus breaks India jinx – signs first major defence deal for 56 C-295 transport aircraft, 40 of which will be built in India by Airbus-Tata partnership

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Indian firm Raphe Mphibir was awarded an emergency contract for 48 MR-20 hexacopter drones capable of ferrying loads of up to 20 kgs each

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India signed a \$184mn contract with Mahindra Defence Systems Limited to supply 14 anti-submarine warfare systems to the Indian Navy under the Buy and Make (Indian) category adhering to 50% IC norms

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The DAC approved the procurement of \$1.8bn worth of weapons and military equipment including helicopters, guided munition and rocket ammunition, focusing on buying domestic products worth \$1.55bn

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BHEL bagged a maiden order from GSL for (1) supply, installation and commissioning of an upgraded Super Rapid Gun Mount, the main gun on board most Indian Navy warships and (2) accessories for Tripud Class Frigate of Indian Navy

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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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