

# DEFENCE



## SECTOR OVERVIEW

The Indian Defence Sector has the second largest Armed Forces in the world. The Government of India has identified the Defence and the Aerospace Sectors as focus areas for the ‘Aatmanirbhar Bharat’ or Self-Reliant India initiative, with a formidable push towards the establishment of indigenous manufacturing infrastructure supported by a requisite research and development ecosystem.

India is positioned as the 3<sup>rd</sup> largest military spender in the world, with its defence budget accounting for 2.15% of the country’s total GDP. The Government aims to achieve a turnover of USD 25 Billion including export of USD 5 Billion in Aerospace and Defence goods and services by 2025.

## REASONS TO INVEST

- ❖ The Government has recently approved the signing of a contract with Larsen and Toubro Limited for acquisition of three Cadet Training Ships, at an overall cost of INR 3,108.00 Crore (i.e. USD 377.33 Million as on 03.04.2023) in 2023.
- ❖ The Government has approved the procurement of 70 HTT-Basic Trainer Aircraft, which is a turbo prop aircraft, from Hindustan Aeronautics Limited (HAL) for the Indian Air Force at a cost of over INR 6,828 Crore (i.e. USD 828.97 Million as on 03.04.2023) in 2023. The aircraft would be supplied over a period of six years.
- ❖ The Government has approved the continuation of Central Sector Umbrella Scheme of “Border Infrastructure and Management” (BIM) over the 15<sup>th</sup> Finance Commission Cycle from 2021-22 to 2025-26, at a cost of INR 13,020.00 Crore (i.e. USD 1.58 Billion as on 03.04.2023) in 2022. This is for construction of border fence, border floodlights, technological solutions, border roads and overall improvement of the border infrastructure and border management, etc.
- ❖ The vision of the Government is to achieve a turnover of USD 25 Billion including exports of USD 5 Billion in Aerospace and Defence goods and services Sector by 2025.
- ❖ The Union Budget 2023-24 has enhanced the allocation of funds under Capital Outlay on Defence Services to Rs 1,62,600.00 Crores (i.e. USD 19.74 Billion as on 03.04.2023). Further, 68% of capital procurement budget was earmarked for domestic industry to promote self-reliance and reduce import dependency.

## **FOREIGN DIRECT INVESTMENT POLICY**

- The Foreign Direct Investment (**FDI**) in the Defence Sector is allowed up to 74% through Automatic Route and FDI beyond 74% - up to 100% will be permitted under the Government Route.
- The total FDI inflow in the Defence Sector, reported till May 2022, is approximately Rs. 494.00 Crores (i.e. USD 59.97 Million as on 03.04.2023).

## **FOREIGN INVESTORS**

- Airbus (France)
- BAE India Systems (UK)
- Pilatus (Switzerland)
- Lockheed Martin (USA)
- Boeing India (USA)
- Raytheon (USA)
- Israel Aerospace Industries (Israel)
- Rafael Advanced Defense Systems Ltd. (Israel)
- Dassault Aviation SA (France)



## **AGENCIES**

- ❖ Department of Defence Production, Ministry of Defence
- ❖ Department for Promotion of Industry & Internal Trade, Ministry of Commerce & Industry
- ❖ Department of Commerce, Ministry of Commerce & Industry
- ❖ Border Roads Organization
- ❖ Defence Investor Cell, Ministry of Defence

## **RECENT DEVELOPMENT/INVESTMENTS**

The Indian Defence Manufacturing Sector has witnessed major investments and developments as follows:

- India's indigenous defence production in the last three financial years was worth Rs. 2.58 Lakh Crore (i.e. USD 31.3 Billion as on 03.04.2023) as reported in February 2023.
- In June 2022, the Ministry of Defence approved the procurement of military equipment and platforms worth Rs. 76,390 Crore (US\$ 9.27 Billion as on 03.04.2023) from domestic industries.
- India and Japan have agreed to enhance bilateral security and defence cooperation, including in the area of defence manufacturing in May 2022.
- The Startup Incubation and Innovation Centre, IIT-Kanpur (SIIC IIT-Kanpur) signed an MoU in 2022 with Defence Innovation Organization (DIO) to nurture and support start-ups and SMEs in the Defence Sector through its flagship programme, 'Innovations for Defence Excellence (iDEX)' Prime.
- In November 2021, the Defence Research and Development Organization (DRDO), India and the Directorate of Defence Research and Development (DDR&D), Ministry of Defence, Israel, entered into a Bilateral Innovation Agreement (BIA) to promote innovation and R&D in start-ups and MSMEs of both countries for development of dual use technologies.

- In November 2021, the Indian Army signed a Memorandum of Understanding (MoU) with Bhaskaracharya National Institute for Space Applications and Geo-Informatics (BISAG-N), Gujarat.
- The Chief of Defence Staff recently visited the Defence Sub Systems Manufacturing Plant at Nibe Defence Limited in Pune on 07-02-2023, where he attended the Micro, Small and Medium Enterprises (MSME) Nibe Def-Expo 2023 that showcased selected defence products and MSME product displays.

### **GOVERNMENT INITIATIVES**



- ✓ The Ministry of Defence has been allocated Rs. 5,93,537.64 Crore (i.e. USD 72.06 Billion as on 03.04.2023) towards expenditure on salaries of armed forces and civilians, pensions, modernisation of armed forces, production establishments, maintenance, and research and development organizations.
- ✓ Under Mission *Raksha Gyan Shakti*, 1474 Intellectual Property Rights (IPRs) have been granted/registered by the Indian Patent Office until 30-09-2022, to promote creation of IPR in Defence production Sector.
- ✓ Indigenously developed Laser-Guided Anti-Tank Guided Missiles (ATGM) were successfully test-fired from Main Battle Tank (MBT) Arjun by DRDO and Indian Army at KK Ranges with support of Armoured Corps Centre & School Ahmednagar in Maharashtra on 04-08-2022.
- ✓ The Union Minister for Home Affairs has launched 75 newly-developed Artificial Intelligence (AI) products / technologies during the first-ever 'AI in Defence' Symposium and Exhibition, in New Delhi on 11-07-2022. These products fall under various domains inter alia Autonomous/Unmanned/Robotics Systems; Command, Control, Communication, Computer and Intelligence, etc.
- ✓ The Government has established 2 (two) Defence Industrial Corridors in Uttar Pradesh (**UP**) and Tamil Nadu to develop defence manufacturing ecosystem. As in December 2022, the Government has identified 6 (six) nodes i.e. Agra, Aligarh, Chitrakoot, Jhansi, Kanpur and Lucknow for developing UP Defence Industrial Corridor; whereas, the Government has identified 5 (five) nodes i.e. Chennai, Coimbatore, Hosur, Salem and Tiruchirappalli for developing Tamil Nadu Defence Industrial Corridor.
- ✓ FDI in the Defence Sector has been allowed up to 74% through Automatic Route and FDI beyond 74% - up to 100% under the Government Route
- ✓ The Defence Ministry has notified a third list of 101 defence items comprising of highly complex Systems, Sensors, Weapons and Ammunitions, etc, as reported in April 2022. The said items would be indigenized, manufactured and procured only from local sources. Further, private investment is allowed in technology and manufacturing facilities.
- ✓ A Green Channel Status Policy (GCS) has been introduced by the Defence Ministry to promote and encourage private sector investments, to promote the role of private sector in defence production.

## ROAD AHEAD



The Indian Government has been encouraging start ups and innovators to come up with innovative solutions to modernize the Indian Armed Forces through research and development, etc. The Defence Ministry has also reported in October 2022 that more than Rs 300 Crore (USD 36.4 Million as on 03.04.2023) have been approved for over 100 'Innovations for Defence Excellence (iDEX)' winners to develop products/technologies in more than 50 technological areas, stressing that the iDEX initiative has changed the perception that defence production is only for big businesses and industrialists.

### Contact Person:

**Mrs Sushila Ram Varma**

Advocate and Chief Legal Consultant

The Indian Lawyer & Allied Services

Ph: +91 98111 91142, +91 7893087474

Email: [sushilaram@theindianlawyer.in](mailto:sushilaram@theindianlawyer.in) ; [sushilaram@gmail.com](mailto:sushilaram@gmail.com)

### Sources:

1. <https://www.ibef.org/industry/defence-manufacturing>
2. <http://www.indiandefencereview.com/spotlights/indian-defence-industry-a-glorious-path-of-growth/>
3. [https://pib.gov.in/PressReleasePage.aspx?PRID=1882702#:~:text=Agra%2C%20Aligarh%2C%20Chitrakoot%2C%20Jhansi,Defence%20Industrial%20Corridor%20\(TNDIC\).](https://pib.gov.in/PressReleasePage.aspx?PRID=1882702#:~:text=Agra%2C%20Aligarh%2C%20Chitrakoot%2C%20Jhansi,Defence%20Industrial%20Corridor%20(TNDIC).)
4. <https://www.pib.gov.in/PressReleasePage.aspx?PRID=1903441>
5. <https://pib.gov.in/PressReleaseDetail.aspx?PRID=1903445>
6. <https://pib.gov.in/PressReleasePage.aspx?PRID=1800072#:~:text=The%20Modi%20Government%20has%20approved,13%2C020%20crore.>
7. <https://pib.gov.in/PressReleasePage.aspx?PRID=1884353>
8. [https://www.mod.gov.in/sites/default/files/pre2\\_1.pdf](https://www.mod.gov.in/sites/default/files/pre2_1.pdf)
9. <https://www.ndtv.com/india-news/indias-defence-production-in-3-years-worth-rs-2-58-lakh-crore-government-3770774>
10. <https://pib.gov.in/PressReleaseIframePage.aspx?PRID=1897060>
11. <https://www.indiabudget.gov.in/doc/eb/sumsbe.pdf>
12. <https://dgaeroqa.gov.in/mission-raksha-gyan-shakti-mrgs.htm>
13. <https://pib.gov.in/PressReleasePage.aspx?PRID=1848497>
14. <https://pib.gov.in/PressReleasePage.aspx?PRID=1840740>
15. <https://pib.gov.in/PressReleasePage.aspx?PRID=1814446>
16. <https://dggadefence.gov.in/green-channel-policy>
17. <https://pib.gov.in/PressReleaseIframePage.aspx?PRID=1868930>

## DISCLAIMER

This Presentation is for information purposes only. While due care has been taken during the compilation of this Presentation to ensure that the information is accurate to the best of the Team's knowledge and belief, the content is not to be construed in any manner whatsoever as a substitute for professional advice.