Defence Equipment Market & Manufacturing in India 2017

Analysing Business Case and Evaluating a USD 50 Billion Opportunity

April 2017
Why enincon’s report upon “Defence Equipment Market & Manufacturing in India 2017”

“Make in India” in Indian Defence Space: Bracing Up Core In House Manufacturing Capabilities

Time has come for India to leave the average behind and take a leap to go for global leadership in manufacturing. For Indian manufacturing to soar high and to reach at the top nosh level as per the global benchmarks, “Make in India” (MII) has given enough fillip to convert this into a reality. Like other manufacturing segments, Indian defence facet being no different is projected to be one of the highly investment seeking sector in the MII campaign. India has been rapidly enhancing its spending on defence year on year. Presently, India stands as the third largest defence spender in the world after US and China. Equipment spending by Ministry of Defence has increased 15-20% over the last five years and is projected grow at a much escalated speed in near future.

Although, India is among the top ten military spenders in the world. However, unlike other geographies which have large defence industries to support their domestic needs, Indian requirements are primarily met by government players into the domain and imports. With importing nearly USD 5.5 Billion worth of military hardware, India has emerged as the largest arms importer in the globe accounting nearly 15% of such imports internationally. Hence self-reliance to sustain the needs of Indian defence sector is of vital importance for strategic and economic reasons. Since the government has been assiduously working upon building the defence manufacturing capabilities over the years. But to look beyond the customary curve, “Make in India” has triggered the positive sentiments for making India to stand at par with its global counterparts with respect to its in house defence manufacturing competencies.

MII has provided a level playing field not only to the domestic public sector players and international giants to collaborate together but has opened opportunity gates for the domestic private players as well. This will not only significantly cut down the import burden but will also increase the presence of domestic players in the Indian defence manufacturing market. At present, about 50% of the defence manufacturing in India is dominated by the international players (via imports). With enhancing the participation of domestic players in the defence space, the share of imports is projected to drip down by 20-25% in 4-5 years down the line.
Exhibit 01: Market Size Estimations for Defence Equipment Manufacturing in India, FY’2015-16

Projected investment for FY’2015-16

- **Funds for Capital Acquisition**
  - Total Capital Outlay for FY’2015-16 in USD Bn and its Breakup
  - Estimated Defence Spending Breakup of DPSUs in FY’2015-16

- **Market Share**
  - Rest 60%
  - 40% Market Share as of now

- **Imported**
  - 35%
  - 26%
  - 14%
  - 13%
  - 11%
  - 8%
  - 6%
  - 4%
  - 1%

- **Funds for Capital Acquisition**: 16, 13, 3 Bn

- **Projected Investment**
  - $40 Billion

- **Cumulative Market Size**: $12.8 Billion

- **Army**
  - 3.65 Billion

- **Naval**
  - 4.03 Billion

- **Airforce**
  - 5.2 Billion

- **Military Budgetary Allocations**: USD 40 Billion

- **Percentage Share of Defence Services**
  - **Army**: 53%
  - **Naval**: 23%
  - **Airforce**: 16%
  - **DRDO**: 6%
  - **OFs**: 2%

- **Total Budgetary Allocation**: USD 40 Billion

- **An order of 1200 HMV worth INR 900 crores is bagged by Tata group to be delivered in 2016**

- **An increase of 27% is observed in the budget for naval fleets**

- **The budgetary allocations for aircrafts & aero engines witnessed a growth of 11% from FY’2014 to FY’ 2015**

Source: enincon research & analysis

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For India to build a strong defence manufacturing base in future, collaborating with mature as well as developing markets is the need of the hour. Although countries such France, Russia, UK etc have been aiding India for its defence requirements since long. About 50% of the military imports of India were cumulatively driven by France & Russia over the past many years. But it’s the time for India to take a step beyond the comfort zone by zeroing down the imports and applying manufacturing expertise pioneered in these nations. Historically, India has always favoured public sector over the private players in the defence production space. But, the growing demand of military equipments in the country coupled with the government’s vision to make India a leader in global manufacturing is likely to change the old track and provide new pathways for private players to enter the defence manufacturing space. Not only the domestic private fellows but the international origin firms with expertise in catering the defence requirements have too found a breeding ground for expanding their business within the Indian periphery. Global giants like Dassault, Rafael, Airbus are projected to forge JVs with the Indian players in order to set up strong manufacturing capabilities and R&D bases for India’s defence sector. It is noteworthy that investments to the tune of USD 1 Trillion or may be above are likely to be made via JV route. Not only the major domestic players but the SMEs too are projected to be the highest beneficiaries of increased defence production in the country. Huge supply chains, complying with world class standards will come up around the manufacturing facilities and would help the Indian SMEs to enter the global supply chain of manufacturers.

Exhibit 02: Key Joint Ventures Forged to Beef Up the Domestic Manufacturing of Defence Equipments in India

<table>
<thead>
<tr>
<th>Company</th>
<th>JV Details</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reliance, Dassault Aviation</td>
<td>set up JV as a part of fighter jet deal</td>
<td>$ 2 Billion</td>
</tr>
<tr>
<td>Mahindra</td>
<td>to forge a joint venture with Airbus to manufacture helicopters</td>
<td>$ 1.6 Billion</td>
</tr>
<tr>
<td>Hinduja Group</td>
<td>has partnered with Larsen &amp; Tubro for manufacturing in various facets of defence</td>
<td>$ 10 Billion</td>
</tr>
<tr>
<td>Tata Power SED</td>
<td>tied a JV with Airbus to build 56 aircrafts</td>
<td>$ 100 Million</td>
</tr>
<tr>
<td>Bharat Forge</td>
<td>in partnership with Rafael for setting up manufacturing facility in Gujarat</td>
<td>$ 0.22 Trillion</td>
</tr>
</tbody>
</table>

Source: enincon research & analysis
Exhibit 03: Import Dependence in Defence Across Key Economies and the likely “Make in India” Impact (in %age)

- **UK**: 65% of the UK spend is on foreign and imports.
- **US**: 90% of the US spend is on foreign and imports.
- **India**: 32% of the US spend is on foreign and imports.
- **60%** of India’s spend is on imports.
- **40%** of the India’s spend would be on foreign origin players in JV’s with domestic players.
- **15-20%** of the India’s spend would be on foreign origin players in JV’s with domestic players.
- **55%**: PSUs
- **30%**: Domestic Private Players
- **15%**: Foreign Origin Players

**Source:** enincon research & analysis
Therefore, to satiate the much needed requirement of investments to expand the domestic manufacturing base of defence equipments into the country, enincon consulting llp takes pride in coming up with a report “Defence Manufacturing in India: An USD 40 Billion Opportunity”. The report tracks the planned expenditure and the growth plan of Indian defence manufacturing industry. Further, it also unveils the market opportunity for various private OEMs present across the defence manufacturing domain coupled with the regulatory and policy environment offered by the Indian government to encourage investments in international currencies as well. In addition to this, the dossier also includes the profiling of key global and domestic OEMs present into the Indian defence manufacturing space.

BUSINESS CASE FOR DEFENCE EQUIPMENT MARKET & MANUFACTURING IN INDIA

1. Government’s push for “Make in India” initiative.
2. The opening of the defence sector for private sector participation giving thrust to domestic manufacturing.
3. India’s growing attractiveness as a defence sourcing hub.
4. Contractual offset obligations worth approximately USD 4.53 Billion in next 5-6 years.
5. India’s enhanced focus for import substitution for Defence equipment.
6. New category of capital procurement “Buy Indian” - IDDM (Indigenously Designed, Developed and Manufactured) introduced to encourage indigenous design, development and manufacturing of defence equipment
7. Provision for Maintenance TOT (Transfer of Technology) to Indian Industry partners.
8. Provisions to allow foreign OEMs (Original Equipment Manufacturers) to select Indian Manufacturing Agencies.
9. Easing off FDI policy to attract more foreign investments in the sector.
PRESS EXCERPTS

We are not talking about moving an existing line to India but about setting up a brand new factory that will have all the lessons that we have learnt over time. We will bring the best of modern manufacturing capabilities to make a 21st century factory. It will be capable of producing future platforms as well

Dan Gillian, Vice President (F/A 18 Program), Boeing

Exclusive F-16 production in India would make India home to the world’s only F-16 production facility, a leading exporter of advanced fighter aircraft, and offer Indian industry the opportunity to become an integral part of the world’s largest fighter aircraft supply chain

Abhay Paranjape, National Executive (BD), Lockheed Martin Aeronautics

KEY QUERIES ANSWERED

1. What shall be the key enablers for beefing up Defence manufacturing in India?
2. What has been the key challenges that has set back the domestic manufacturing of Defence equipment in India in past?
3. What shall be the scope of Defence industrialisation in India?
4. What would be the planned spending on land systems?
5. What would be the planned spending on naval systems?
6. What would be the planned spending on aerospace systems?
7. What would be the planned spending on technical systems?
8. What would be the future scope of domestic R&D for Defence manufacturing?
MUST BUY FOR

1. Defence Public Sector Undertakings
2. Domestic Private Defence OEMs
3. International Private Defence OEMs
4. Defence Equipment Vendors
5. Defence Equipment contractors/sub contractors
6. Various government institutions linked with Ministry of Defence
7. Financial Institutions
8. Research Institutes

WHAT YOU CAN LEARN ? – A SNAPSHOT

1. Growth of Indian Defence Industry
2. Planned and actual investments in Indian Defence sector
3. Domestic and global benchmarks vis-à-vis Defence industry structure
4. Regulatory and Policy landscape for Defence manufacturing in India
5. Defence procurement process in India
6. Degree of Defence industrialisation in India
7. Business process track to set up manufacturing unit in India
8. Tracking US $ 50 Billion opportunity of Defence market in India
9. Defence equipment market size in India
10. Defence equipment market Outlook in India - 2022