Indian Defense: Procurement Process and Policy

Report created by Feedback Business Consulting Services Pvt. Ltd. for the Virginia Economic Development Partnership

February 2014
Abbreviations

- AHSP – Authority Holding Sealed Particulars
- SQAE – Senior Quality Assurance Establishment
- QAE – Quality Assurance Engineer
- SAAR – Supplier Assessment Application Registration Form
- SQSR – Supplier Quality System Requirements
- DGQA – Directorate General of Aeronautical Quality Assurance
- QR – Quality Report
- RFP – Request for Proposal
- MoD – Ministry of Defence
- DOFA – Defence Offset Facilitation Agency
- SHQ – Service Headquarters
- SCAPCHC – Service Capital Acquisition Plan Categorization Committee
- DRDO – Defence Research & Development Organization
- DAC – Defence Acquisition Council
- DPB – Defence Procurement Board
- TEC – Technical Evaluation Committee
Industry Overview
India is the 3rd largest armed forces and 10th largest Defence spender in the world.

India spends around 2% of its GDP to Defence.

In FY 2013, the Budget for Defence has increased by almost 10% to reach US$ 41 billion from FY 2010.

India spends 40% of its total Defence budget on capital acquisitions.

India currently procures approx 70% of its equipment needs from abroad.

The sector has attracted a meager investment of US$ 3.72 million from 2001 to 2011.

India, with its Defence spending & Civil Aviation market growth rate of (CAGR) 18%, would put the country, in very near future, among one of the top five Defence & Civil aviation markets.

FDI of 26% is allowed in the Industry.

**Industry Structure**

- **Ministry of Defense**
  - **Department of Defense**
    - Deals with the Integrated Defense Staff (IDS) and three services and various inter-service organizations.
    - It is also responsible for drafting both long term and short term Defense budgets, policies and co-ordination of all Defense-related activities.
  - **Department of Defense Production**
    - Deals with matters pertaining to Defense production, indigenization of imported stores, equipment and spares.
    - It also undertakes planning and control of departmental production units of the OFBs and DPSUs.
  - **Department of Defense Research & Development**
    - The DRDO under the DDRD works in various areas of military technology.
    - Also deals with scientific aspects of military equipment and logistics and the formulation of research, design and development plans equipment used by the Services.
  - **Department of Ex-Servicemen Welfare**
    - Responsibility of matters relating to ex-servicemen including pensioners, ex-servicemen contributory health scheme, directorate general of resettlement and kendriya sainik board and administration of pension regulations relating to the three services.
India’s Defense budget is barely 1.79% of the country’s gross domestic product (GDP) which is a record low for India in at least three decades.
26% of FDI through approval route (where it required prior government approval)

<table>
<thead>
<tr>
<th>Year</th>
<th>Cumulative FDI Inflow (USD mn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec 2010</td>
<td>0.05</td>
</tr>
<tr>
<td>Dec 2011</td>
<td>3.72</td>
</tr>
<tr>
<td>Dec 2012</td>
<td>4.12</td>
</tr>
<tr>
<td>Dec 2013</td>
<td>4.94</td>
</tr>
</tbody>
</table>

- Application for FDI up to 26% will follow the existing procedures (through approval route) with proposals involving inflows in excess of USD 200 Mn being approved by Cabinet Committee on Economic Affairs.
- Applications seeking permission of the Government for FDI beyond 26% will be examined by the Department of Defence Production (DoDP) & Cabinet Committee on Security from the point of view particularly of access to modern and state-of-the-art technology in the country.

Source: DIPP
Defense Procurement Process
Development in Defense Procurement Procedures

- Defense sector opened to private industry
- 26% FDI permitted

- Buy & Make category with ToT introduced

- Defense offset policy formulated (2005) and Defence Offset Facilitation Agency (DOFA) created
- Make and Buy & Make Indian categories (2006 & 2008) introduced

- Kelkar committee constituted for revision of DPP and participation of private sector

- Offset scope enhanced to include aerospace & internal security

- Revised offset guidelines issued wherein ToT included in list of offsets

- Preference to be given to indigenous production and public release of Long Term Integrated Perspective Plan (LTIPP)
Framework of Defense Procurement Procedure

15 years
Long Term Integrated Perspective Plan (LTIPP)

05 years
Services Capital Acquisition Plan (SCAP)

01 year
Annual Acquisition Plan (AAP)

Service Headquarters
- Request for Information (RFI)
- Staff Qualitative Requirements (SQR)
- Statement of Case (SOC)

Commonality & Interoperability Issues are discussed at Headquarters Integrated Defence Services (HQIDS)

Categorisation & Acceptance of Necessity (AoN)
- Service Capital Acquisition Plan Categorisation Committee (SCAPCC)
- Service Capital Acquisition Plan Categorisation Higher Committee (SCAPCHC)
- Defence Procurement Board (DPB)
- Defence Acquisition Council (DAC)

Civil Industry Participation

Defence Research and Design Organisation (DRDO)
Ministry of Defence (MoD)
Department of Defence Production (DDP)
Ministry of Defence MoD (Finance)
# Sanctioning Authorities

<table>
<thead>
<tr>
<th>For Acceptance of Necessity (Aon)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>SCAPCHC</td>
<td>Upto USD 10 Mn</td>
</tr>
<tr>
<td>DPB</td>
<td>Upto USD 20 Mn</td>
</tr>
<tr>
<td>DAC</td>
<td>Beyond USD 20 Mn</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>For Award of Contract</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Vice/Deputy Chiefs/CISC/DG CG</td>
<td>USD 10 Mn</td>
</tr>
<tr>
<td>Defence Secretary</td>
<td>USD 15 Mn</td>
</tr>
<tr>
<td>Raksha Mantri</td>
<td>USD 100 Mn</td>
</tr>
<tr>
<td>Finance Minister</td>
<td>USD 200 Mn</td>
</tr>
<tr>
<td>Cabinet Committee on Security</td>
<td>Above USD 200 Mn</td>
</tr>
</tbody>
</table>
Defense Procurement Manual (DPM)

<table>
<thead>
<tr>
<th></th>
<th>DPP 2013</th>
<th>DPM 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>For capital procurement</td>
<td>For revenue procurement</td>
</tr>
<tr>
<td>2</td>
<td>Only done by Service Headquarters and Ministry of Defence</td>
<td>Delegated to Command Headquarters up to unit level</td>
</tr>
<tr>
<td>3</td>
<td>Two bid system only</td>
<td>Procured under various methods</td>
</tr>
<tr>
<td>4</td>
<td>Only OEMs can participate</td>
<td>Agents/ Distributors/ Authorised Representatives can participate</td>
</tr>
<tr>
<td>5</td>
<td>Time duration longer</td>
<td>Time duration truncated</td>
</tr>
</tbody>
</table>

**DPM Process**

- Under New Management Strategy (NMS) Indian Government decentralised decision making
- Defence Procurement Manual (DPM) promulgated in 2009 and presently under revision
- As per Rule 91 of General Financial Rules 2005 following can be procured under DPM:
  - Maintenance and Working expenses.
  - Renewals and Replacements.
  - Assemblies / Sub assemblies to maintain and operate already sanctioned assets

**Contract Negotiations**

- Staff Qualitative Requirements (SQR)
- Acceptance of Necessity (AoN) and Quantity Vetting
- RFP Vetting and Issuance of RFP
- Two Bid System
- Single Bid System
- Proprietary Article Certificate (PAC) and Rate Contract
- Total duration for this process after SQRs are formulated is approximately 22 to 25 weeks
Request for Proposal (RFP) Process

Ministry of Defence (MoD)
Issues Request for Proposal (RFP)

Ministry of Defence (MoD)
Receives technical & commercial proposal

Ministry of Defence (MoD)
Opens technical proposals, hands them over to SHQ. Commercial proposals lie unopened

Service Headquarters (SHQ)
Receivers open technical proposals from HQ IDS and constitutes Technical Evaluation Committee (TEC)

Ministry of Defence (MoD)
Approves TEC reports and asks Service Headquarters to carry out Field Evaluation Trials (FET)

Ministry of Defence (MoD)
Approves staff evaluation reports and forwards details of technically acceptable vendors to MoD

Ministry of Defence (MoD)
Opens commercial proposals of technically successful vendors, identifies lowest compliant bidder and negotiates contract

Ministry of Defence (Finance)
vets the RFP

Ministry of Defence (Finance) is co-opted in commercial evaluation
New Procurement Policy to Boost India’s Self-reliance in Arms

**Categorization**

- **Buy**
  - Buy Global
  - Foreign & Indian Vendors
- **Buy Indian**
  - Indian Vendors with 30% Indigenous Content
- **Buy & Make**
  - Purchase from Foreign Vendor followed by Licensed/Indigenous Production
- **Buy & Make Indian**
  - RFP to be issued only to Indian Vendors
- **Make**
  - High Tech Complex Indigenous Systems
### New Procurement Policy Brief

<table>
<thead>
<tr>
<th>Parameter</th>
<th>Brief</th>
</tr>
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</table>
| **Buy’ Decision**  | “Buy” would mean an outright purchase of equipment. Based on the source of procurement, this category would be classified as “Buy (Indian)” and “Buy (Global)”. “Indian” would mean Indian vendors only and “Global” would mean foreign as well as Indian vendors. **Buy (Indian) must have minimum 30% indigenous content on cost basis.** Apart from the overall indigenous content being at least 30% of the total contract value, a minimum 30% indigenous content will also be required in:  
  - Basic Cost of Equipment  
  - Cost of Manufacturers’ Recommended List of Spares  
  - Cost of Special Maintenance Tools and Special Test Equipment taken together provided a minimum 30% indigenous content is ensured in the Basic cost of equipment at all stages of contract including the FET stage |
| **‘Buy & Make’ Decision** | Acquisitions covered under the ‘Buy & Make’ decision would mean purchase from a foreign vendor followed by licensed production/indigenous manufacture in the country |
| **‘Buy & Make (Indian)’ Decision** | Acquisitions covered under the ‘Buy & Make (Indian)’ decision would mean purchase from an Indian vendor (including an Indian company forming joint venture/establishing production arrangement with OEM), followed by licensed production/indigenous manufacture in the country. **Buy & Make (Indian) must have minimum 50% indigenous content on cost basis.** This implies that indigenous content in the total of the Basic Cost of Equipment, Cost of Manufacturers’ Recommended List of Spares, Cost of Special Maintenance Tools and Special Test Equipment must be at least 50% of the total contract value. In addition, such cases require minimum 30% **Indigenous Indian content in the first basic equipment made/assembled in India and in subsequent deliveries thereof.** |
| **Make’ Decision**  | Acquisitions covered under the ‘Make’ decisions would include high technology complex systems or critical components/equipment for any weapon system to be designed, developed and produced indigenously. A minimum 30% indigenous content on cost basis shall be required in such cases in the successful prototype |
## Procurement Timeline

<table>
<thead>
<tr>
<th>Steps</th>
<th>Timelines</th>
<th>Authorities Involved</th>
<th>Actions Taken</th>
</tr>
</thead>
</table>
| Drafting of Service Quality Requirement; Acceptance of Necessity | 1 Month   | SHQ, HQ, IDS, DPB, Acquisition Wing of MoD                | ➢ Commenced by the issue of RFI laying down only “Essential parameters” and not the “desirable parameters”  
➢ SHQ compiles the comments of the DDP, DRDO, MOD (Finance), MOD (Admin) and forwards the same to the HQ IDS |
| Issue of RFPs                 | 4 Months  | SHQ - DAC, SCAPCHC -                                      | ➢ Lays down following requirements:  
➢ Quantity, time frame, offset obligation, training, maintenance etc  
➢ Technical parameters, field evaluation on No-Cost-No-Commitment basis  
➢ Commercial aspects including payment terms, guarantee/warranty  
➢ Criteria for evaluation and acceptance |
| Technical Evaluation/Field Trials | 11 – 17 months | TEC, SHQ, DRDO, DGQA, Acquisition Wing of MoD | ➢ Evaluation of proposals and preparation of TEC report  
➢ Vetting of report by Technical Manager and acceptance by Directorate  
➢ General Acquisition DG (Acq.)  
➢ Field trials/ DGQA/ maintainability trials, preparation and approval of staff evaluation at SHQ and acceptance of the same by DG (Acq.) |
| Commercial Negotiations       | 4 – 11 months | Technical Oversight Committee Commercial Negotiation Committee Competent Financial Authority, MoD, MoF, Cabinet Committee on Security (CCS) | ➢ Technical Oversight Committee involved for cases over INR 300 Cr.  
➢ Opening of bids and determination of L1  
➢ Contracts Negotiation Committee (CNC) negotiations, finalisation of CNC report  
➢ Approval of Competent Finance Authority (CFA) – MoD, MoF, CCS  
➢ Evaluation of commercial offset offers |
| Contract Signing              | Thus the cumulative process takes around 20-34 months | | |
Vendor Registration Guidelines

- Capacity assessment of a firm is necessary for the following purposes:
  - To select and register Suppliers/suppliers for development, indigenization and bulk supply of specific products and to renew registrations periodically.
  - To select and/or develop new design/technology for indigenisation and product improvement.
  - To consider whether or not to continue placement of orders on Registered Suppliers.

- Manufacturers with 3 years of experience in the industry will be considered for Assessment and Registration.

- Whenever a Supplier approaches the nearest AHSP/SQAE, the Dept. shall give necessary technical guidance/assistance to the firm and supply the relevant application form.

- Firms not eligible for registration – Traders/Dealers, Sole Selling/Authorised Agents, Sick units (as defined in the "Sick Industrial companies (Special Provision) act 1985" and which have been declared sick by the competent Central/state Govt authority)

- Value addition firms – A product/item not manufactured by the supplier but taken for processing in a finished product, having higher value is said to be value addition. For other categories of firms who are not actual manufactures, the principle of ‘value addition’ will be applied to decide whether they can be assessed for Registration as Defence Suppliers.

- All firms on initial acceptance will remain registered for a period of three years unless otherwise if removal from compendium of approved suppliers is processed.

- Registration with one discipline of DGQA is valid for others.

- The formal procedure for submitting all documents indicating details of technical infrastructure/facilities and the quality system may be modified by the approving authority.

- The average turnover of the firm for the last three years will be taken as the monetary limit up to which order can be placed on the firm and this will be included in the assessment report.

- All Suppliers will be graded and registered according to their quality system, technical facilities available with them and their financial status.

- 80% and more marks – Grade I – Fit for Registration
- 60% to 80% marks – Grade II – Advice to Improve
- Less than 60% marks – Grade III – Not Fit
Laws & Tax
Laws to Abide

Factories Act

- Under the Industries (Development and Regulation) Act, 1951 (the Act), an Industrial License is required to manufacture arms and ammunition and allied items of Defence equipment, parts and accessories.
- The license is granted under Rule 15(2) of the Registration and Licensing of Industrial Undertaking Rules, 1952. These rules have been issued under section 30 of the Act. This is also a mandatory requirement under the FDI policy for the Defence sector.
- The license applications are considered by the DIPP, Ministry of Commerce & Industry, in consultation with the MoD.

EXIM Policy

- The Directorate General of Foreign Trade (DGFT) is the authority that regulates India’s export policy. Under the Foreign Trade Policy (FTP), export of Defence equipment falls under the restrictive Special Chemicals, Organisms, Materials, Equipment and Technologies (SCOMET) list and requires an export license.
- Similarly, an import license is required from the DGFT to import restricted items covered under the FTP. The license is granted for specific Defence items and comes with a fixed tenure.
- An end-user certificate is mandatory for obtaining such a license.

CPRF

- The Central Reserve Police Force is an armed Force of the Union of India, with the basic role of striking reserve to assist the State/Union Territories in Police operations to maintain law and order and contain insurgency.
## Tax Regime

<table>
<thead>
<tr>
<th>Parameter</th>
<th>Particulars</th>
<th>Private sector</th>
<th>Foreign OEM</th>
<th>Brief</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buy global: The Indian private sector vis-à-vis foreign OEMs</td>
<td>Input transaction taxes</td>
<td>Added to the bid price as no exemption available</td>
<td>Likely refundable or exempt as finished goods are exported</td>
<td>Foreign OEMs are able to minimize the input cost on account of export benefits available in foreign countries. However, input taxes are added and loaded on bids for the domestic private sector as there are no exemptions to the sub-contractors</td>
</tr>
<tr>
<td>Buy Indian: The Indian private sector vis-à-vis DPSU</td>
<td>Input transaction taxes</td>
<td>Added to the bid price as no exemption available</td>
<td>Exempt</td>
<td>The sub-contractors for the Defence Public Sector Undertaking (DPSU) are entitled to customs duty exemption. Similarly, excise duty exemption is claimed in terms of customs and excise duty certification issued by the DPSUs. However, the excise duty exemptions claimed by sub-contractors are being disputed by the authorities on the basis that notifications do not specify sub-contractor as in customs regulations</td>
</tr>
<tr>
<td>Offset: Sourcing from India vis-à-vis manufacturing in India</td>
<td>Input transaction taxes</td>
<td>Refundable or exempt as finished goods are exported</td>
<td>Available as offset (credit) against output taxes</td>
<td>The present tax and duty structure treatment of offsets, limits offsets to supply of parts and systems by Indian industry to OEMs by way of physical exports and thus misses out on system integration/manufacture within the country. As an Indian offset partner is entitled to export benefits on inputs and tax free export of goods, it becomes uneconomical to carry out system integration in India or deliver assemblies and sub-assemblies to OEMs in India.</td>
</tr>
<tr>
<td>Offset: Sourcing from India vis-à-vis manufacturing in India</td>
<td>Output transaction taxes</td>
<td>Exempt as exports</td>
<td>Applicable</td>
<td></td>
</tr>
</tbody>
</table>
Role of DPSU
<table>
<thead>
<tr>
<th>Company</th>
<th>Sales (USD Mn)</th>
<th>Products/Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hindustan Aeronautics Limited (HAL)</td>
<td>2388</td>
<td>Design, development, manufacture, repair and overhaul of aircraft, helicopters, engines and their accessories</td>
</tr>
<tr>
<td>Bharat Electronics Limited (BEL)</td>
<td>1000</td>
<td>Design, development and manufacture of sophisticated state-or-the-art electronic equipment components for the use of the Defence services, para-military organisations and other government users</td>
</tr>
<tr>
<td>Bharat Earth Movers Ltd (BEML)</td>
<td>548</td>
<td>Multi-product company engaged in the design and manufacture of a wide range of equipment including specialised heavy vehicles for Defence and re-engineering solutions in automotive and aeronautics</td>
</tr>
<tr>
<td>Mazagon Dock Limited (MDL)</td>
<td>400</td>
<td>Submarines, missile boats, destroyers, frigates and corvettes for the Indian Navy</td>
</tr>
<tr>
<td>Garden Reach Shipbuilders &amp; Engineers Ltd (GRSE)</td>
<td>267</td>
<td>Builds and repairs warships and auxiliary vessels for the Indian Navy and the Coast Guard</td>
</tr>
<tr>
<td>Bharat Dynamics Limited (BDL)</td>
<td>179</td>
<td>Missiles, torpedo counter measure system, counter measures dispensing system</td>
</tr>
<tr>
<td>Mishra Dhatu Nigam Limited (MIDHANI)</td>
<td>85*</td>
<td>Aeronautics, space, armaments, atomic energy, navy special products like molybdenum wires and plates, titanium and stainless steel tubes, alloys etc.</td>
</tr>
<tr>
<td>Goa Shipyard Ltd (GSL)</td>
<td>95</td>
<td>Builds a variety of medium size, special purpose ships for the Defence, Indian Coast Gaurd (ICG) and civil sectors</td>
</tr>
</tbody>
</table>

* FY 12 Sales
The DPSUs enjoy significant tax and funding advantages
  – Currently, Indian Customs and Central Excise regimes prescribe significant exemptions or concessions from payment of Customs and Excise duties on supplies made to the Defence sector
  – The benefits are also extended to vendors/sub-contractors of DPSUs whereas they have not been extended to those of private sector firms supplying such goods to the Government

DPSUs continue to hold an inherent advantage over private sector players as Government regularly invests in developing DPSU manufacturing capabilities and in-house research and development facilities

The private sector seeks greater sharing of the DPSU's technology assets
  – Lack of access to the latest technologies is one of the greatest inhibitors to the growth and development of the private sector
    • While many technologies are available within the DPSUs, the private sector does not have access to these

As the receivers of major government investment over many years and their consequent position as market leaders in the Indian Defence industry, the DPSUs share both advantage and responsibility in the development of the Defence industry in India

While DPP encourages the private sector to enter into Defence production, Government continues to retain its own Defence research and development through the DRDO
Case Study
## Market Entry Strategy Adopted by Key Foreign Players

<table>
<thead>
<tr>
<th>Company</th>
<th>Country of Origin</th>
<th>Year</th>
<th>Entry Strategy</th>
<th>Strategic Objectives</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Electric</td>
<td>US</td>
<td>2009</td>
<td>Formed a JV agreement with Wipro Infotech</td>
<td>To expand its security offerings in Indian market</td>
</tr>
<tr>
<td>SAAB</td>
<td>Sweden</td>
<td>2009</td>
<td>Established an office in New Delhi (India)</td>
<td>To market Defence products in India</td>
</tr>
<tr>
<td>Raytheon</td>
<td>US</td>
<td>2007</td>
<td>Entered into an agreement with Tata Power Strategic Electronics Division</td>
<td>To focus on India as a strategic partner and to forge partnerships with both private and public Indian companies. Since 2007, the company has continued to form strategic alliances with 8 other Indian companies</td>
</tr>
<tr>
<td>General Dynamics</td>
<td>US</td>
<td>2004</td>
<td>Acquired TriPoint Global Communications Inc.</td>
<td>To actively pursue government and Defence supply deals</td>
</tr>
<tr>
<td>Thales</td>
<td>Frances</td>
<td>2003</td>
<td>Established a wholly owned subsidiary “Thales India Private Ltd”</td>
<td>To establish direct presence in Indian market</td>
</tr>
<tr>
<td>BAE Systems</td>
<td>UK</td>
<td>1993</td>
<td>Established BAeHAL (JV with HAL)</td>
<td>To focus Aerospace, Defence, Transport &amp; Engineering Industries (IT Solutions &amp; Services)</td>
</tr>
</tbody>
</table>
## Market Entry Strategy Adopted by Key Foreign Players

<table>
<thead>
<tr>
<th>Company</th>
<th>Country of Origin</th>
<th>Year</th>
<th>Entry Strategy</th>
<th>Strategic Objectives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lockheed Martin</td>
<td>US</td>
<td>1995</td>
<td>Inherited a office in India (as a result of corporate merger with Martin Marietta in 1995)</td>
<td>Providing Integrated platform management system, Low-level transportable radar, vessel traffic management system, Aegis weapon system, etc... to Indian Defence.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Lockheed Martin and Tata Advanced Systems have formed a joint venture company in India</td>
<td></td>
</tr>
<tr>
<td>Rolls-Royce</td>
<td>UK</td>
<td>1956</td>
<td>Entered into license production with HAL. The two companies entered into a technical assistance agreement</td>
<td>To develop affordable aero engineering solutions, including engineering analysis and design and to use capabilities in Indian market</td>
</tr>
</tbody>
</table>
**Joint Ventures and Partnerships**

Defense PSUs make better joint venture partners for foreign companies

**JVs and partnerships between overseas Defence companies and DPSUs enjoy a 100% success rate**

<table>
<thead>
<tr>
<th>Indian Companies</th>
<th>Active JVs</th>
<th>Past JVs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tata Group</td>
<td>Slkorsky, Augusta Westland</td>
<td>Boeing, Rheinmetall, Israel Aerospace Industries</td>
</tr>
<tr>
<td>Mahindra &amp; Mahindra</td>
<td>Telephonics</td>
<td>WASS, BAE Systems</td>
</tr>
<tr>
<td>Ashok Leyland</td>
<td>NA</td>
<td>KMW, Chemring</td>
</tr>
<tr>
<td>HAL</td>
<td>Elta, Elbit, Sukhol, Rolls-Royce, BAE Systems</td>
<td>NA</td>
</tr>
<tr>
<td>BEL</td>
<td>Elbit, Thales, Rafael</td>
<td>NA</td>
</tr>
</tbody>
</table>

*Source: News Articles*
Case Study – Lockheed Martin hopes to secure deals worth USD 15 bn in the Indian Defense Industry in near future

- Lockheed Martin has maintained a presence in New Delhi for more than 20 years
- Today, Lockheed Martin’s largest program in India is the C-130J Super Hercules. India has joined the growing list of first time C-130 operators with 72 countries now operating the aircraft.
- In addition, Lockheed Martin and Tata Advanced Systems have formed a joint venture company in India, Tata Lockheed Martin Aero structures, for manufacturing airframe components for the C-130J

Following are key alliances of Lockheed Martin Corporation in India

<table>
<thead>
<tr>
<th>Alliance</th>
<th>Partner Company</th>
<th>Year</th>
<th>Product Focus</th>
</tr>
</thead>
<tbody>
<tr>
<td>Joint Venture</td>
<td>Tata Advanced Systems Ltd.</td>
<td>2011</td>
<td>To make Aero Structures for Lockheed’s C-130 Aircraft in India</td>
</tr>
<tr>
<td>Memorandum of Understanding</td>
<td>BEL</td>
<td>2007</td>
<td>Aerospace &amp; Defence electronics requirement</td>
</tr>
<tr>
<td>Partnership</td>
<td>L&amp;T</td>
<td>2007</td>
<td>Integrated platform management system</td>
</tr>
<tr>
<td>Joint Venture</td>
<td>HAL</td>
<td>2005</td>
<td>Technical assistance agreement related to the P-3 Orion maritime surveillance aircraft program (Design, Manufacturing &amp; Overhaul)</td>
</tr>
<tr>
<td>Joint Venture</td>
<td>Mahindra Defence Systems</td>
<td>2003</td>
<td>Simulators for Indian Defence Forces</td>
</tr>
</tbody>
</table>
Defense procurement long drawn, local presence important

- United states the preferred partner/vendor when it comes to defense procurement
- The overall defense procurement expected to increase
- The defense procurement process is long drawn and time consuming
- Need to be registered vendor to deal with defense, but once registered you can deal with agencies
- Local presence important to deal with the defense agencies in India,
- Most preferred form of local presence would be through a ‘Local Partner’
- The local partner can represent the company and do the needful paperwork and meetings for the ‘Vendor registration’
- The association with the partner can be short term, just to enter to India and post which can be extended if required
Offset Policy

- Ministry of Defence, Government of India has announced the Offset Policy as part of the Defence Procurement Procedure (DPP).
- The Offset Policy mandates foreign companies selling products to the Indian Government to reinvest a portion from such earnings in the country. Foreign companies can make such investments either on their own or through joint investments with Indian companies.
- The latest Defence offset policy amendment in 2012 stipulates that any deal for Defence equipment to be supplied by a foreign company, worth over 55 million USD, would attract the offset clause under which 30 to 50 percent of the contract costs would have to be ploughed back into India.
- This amendment aims to promote and develop local Defence sourcing; translating into a total offset opportunity for the native commercial segment valued at 10 to 15 billion USD.
- Offset contracts valued at more than 4.5 to 5 billion USD have been signed between Indian companies and foreign partners since 2005.
- To promote investments in the Indian Defence industry and collaborations with Indian companies, the Defence offset Policy permits up to 49% foreign direct investment (FDI) by foreign Defence companies. This FDI requires approval by the Foreign Investment Promotion Board (FIPB) and is conditioned on the Indian partner receiving an industrial license from the Department of Industrial Policy and Promotion (DIIP).
- FDI has led to the development of a 10 billion USD native Defence industry with product and as well as component manufacturing capabilities. There have been more than 40 noteworthy joint ventures and partnerships between international firms and major Indian Defence players such as Tata, Mahindra & Mahindra and L&T. Technology collaborations in Indian Defence are also on the rise.
- By August 2012, the MoD had signed 19 offset contracts valued at Rs. 25,000 crore. Fourteen of these contracts pertain to the air force, and rest are meant for the navy.
## Major Procurements by Service

### Indian Army
Major Procurements those are at various stages worth $ 3.56 billion are
- Assault Rifles for Infantry
- Modern Artillery Ammunition
- Light Utility Helicopters
- Tank Ammunition
- Bullet Proof Jackets/Helmets
- Tactical Communication System (TCS)

### Indian Air Force
Major Procurements those are at various stages worth $ 7.71 billion are
- Medium Multi Role Combat Aircraft (MMRCA)
- Pilatus Basic Trainer Aircraft
- Light Utility Helicopters
- Installment for upgrade of Mirage 2000, C130J, C17
- Attack Helicopters
- Heavy Lift Helicopters

### Indian Navy
Major Procurements those are at various stages worth $ 4.68 billion are
- Multi Role Maritime Helicopters (MRH)
- Mine Counter Measure Vessels (MCMV)
- Light Utility Helicopters
- Project 75 Submarines
- Installments for Indigenous Aircraft Carrier (IAC)
- Installment for Advance Technology Vessels (ATV)
## Major Procurements - Defense

<table>
<thead>
<tr>
<th>Major Procurement</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Anti missile Doppler radar for Indian Army</td>
<td>USD 70 Mn</td>
</tr>
<tr>
<td>Night vision sights for tanks and BMPs for Indian Army</td>
<td>USD 400 Mn</td>
</tr>
<tr>
<td>120 Naval Multi Role Helicopter (NMRH) for Indian Navy</td>
<td>USD 7 Bn</td>
</tr>
<tr>
<td>56 Medium lift transport aircraft for Indian Air Force</td>
<td>USD 2.4 Bn</td>
</tr>
<tr>
<td>Future Infantry Soldier as a System (F – INSAS) for Indian Army</td>
<td>USD 1.1 Bn</td>
</tr>
<tr>
<td>05 Fleet Support Ships (FSS) for Indian Navy</td>
<td>RFI Issued</td>
</tr>
<tr>
<td>Mobile Communication System for Indian Army</td>
<td>USD 170 Mn</td>
</tr>
<tr>
<td>06 Project 75 I submarines for Indian Navy</td>
<td>USD 11 Bn</td>
</tr>
<tr>
<td>171 Light Strike Vehicles (LSV) for Para Special Forces of Indian Army and Indian Navy</td>
<td>USD 16 Mn</td>
</tr>
<tr>
<td>04 Special Operations Vessels (SOV) for marine commandos of Indian Navy</td>
<td>USD 340 Mn</td>
</tr>
<tr>
<td>Relief and rescue equipment for Indian Air Force</td>
<td>USD 200 Mn</td>
</tr>
<tr>
<td>Light Machine Guns (LMG) for Indian Army</td>
<td>USD 105 Mn</td>
</tr>
<tr>
<td>3000 Light Support Vehicles for Indian Army</td>
<td>USD 300 Mn</td>
</tr>
<tr>
<td>3000 Hand Held Thermal Imagers (HHTI) for Indian Army</td>
<td>USD 160 Mn</td>
</tr>
<tr>
<td>02 Truck Scanners for Indian Army</td>
<td>USD 11 Mn</td>
</tr>
<tr>
<td>Anti Tank Guided Missiles for Indian Army</td>
<td>USD 3 Bn</td>
</tr>
<tr>
<td>2600 Future Infantry Combat Vehicles (FICV) for Indian Army</td>
<td>USD 1 Bn</td>
</tr>
</tbody>
</table>
## Indian Army – Future Procurement

<table>
<thead>
<tr>
<th>Tanks &amp; Vehicles</th>
<th>Artillery</th>
<th>Missiles</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>Main Battle Tanks – 1500</td>
<td>Artillery Rationalization Plan</td>
<td>Replacement of Air Defence System</td>
<td>Future Infantry Soldier as a System (F-INSAS) Project</td>
</tr>
<tr>
<td>FICV – 2600</td>
<td>155 mm Medium Gun</td>
<td>ZU-23-2 Upgrade – 468</td>
<td>Modern Assault Rifles – 400,000</td>
</tr>
<tr>
<td>Light Tanks – 300</td>
<td>ULH – 140</td>
<td>40 mm Anti/A Gun – 115</td>
<td>CQB Carbine</td>
</tr>
<tr>
<td>Light Strike/BP Vehicles</td>
<td>Towed Guns – 1500</td>
<td>Tracked MRSAM System – 100</td>
<td></td>
</tr>
<tr>
<td>MPV – 600</td>
<td>SP Tracked and Wheeled 155 mm/52 Guns</td>
<td>Inf Anti-tank Guided Missiles – 5000</td>
<td></td>
</tr>
<tr>
<td>Aerial Vehicles – 1000</td>
<td>Mounted Gun System – 200 (totally 814)</td>
<td>Anti-tank guided Missiles - 1000</td>
<td></td>
</tr>
<tr>
<td>Unmanned Combat Air Vehicles</td>
<td>Precision Guided Munitions</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Other**
- Future Infantry Soldier as a System (F-INSAS) Project
- Modern Assault Rifles – 400,000
- CQB Carbine
**Air Force – Future Procurement**

<table>
<thead>
<tr>
<th>Fighter Aircraft</th>
<th>Helicopters</th>
<th>Transport &amp; Other Aircraft</th>
<th>Missile Systems, UAVs &amp; Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Medium Multi Role Combat Aircraft – 126 with an option for 64 – 74 more</td>
<td>- Medium Lift Helicopters – 80</td>
<td>- Multi-Role Tanker Transport – 6</td>
<td>- Surface to Air Missile System (SRSAM, MRSAM, QRSAM)</td>
</tr>
<tr>
<td>- Su-30 MKI 80</td>
<td>- Combat and Heavy Lift Helicopters – Around 35+</td>
<td>- Strategic Transports/Advanced Airlifters</td>
<td>- Israeli Harop ‘Kiler’ UAVs – 10</td>
</tr>
<tr>
<td>- LCA (Tejas) – 120</td>
<td>- Dhruv Helicopters – 245</td>
<td>- Hawk MK 132 Advanced Jet Trainer (66 + 57)</td>
<td>- Airfields for Infrastructure Upgrade - 3</td>
</tr>
<tr>
<td>- Fifth Generation Fighter Aircraft (FGFA) - 250</td>
<td>- Observation Helicopter - 187</td>
<td>- Basic Trainer Jets (75 + 106 to be built indigenously)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>- AEW&amp;C (Embraer) aircrafts - 3</td>
<td></td>
</tr>
</tbody>
</table>
### Warships
- ASW Corvettes – 8
- Guided Missiles Stealth Corvettes – 20
- Off-Shore Patrol Vessels – 6
- Sail Training Ship – 1
- Landing Platform Docks – 4
- Survey Vessels – 6
- Destroyers – 4
- Frigates – 7
- Mine Counter Measures Vessels – 8
- Mid-Life Upgrades of Frigates - 3 & Destroyers -5

### Naval Aviation
- Fighters for IAC2 (New Generation Aircrafts)
- MiG-29K – 29
- Maritime Patrol Aircraft Boeing P8-I – 20
- Medium Range Maritime Reconnaissance Aircraft – 9
- Short Range Maritime Reconnaissance Aircraft – 11
- Multi Mission Maritime Aircraft for Coast Guard – 6
- Dornier for Coast Guard - 4

### Helicopters
- Advanced Light Helicopters – 47
- Light Utility Helicopters – 56
- Multi Role Helicopters – 16 (44 follow on)
- Another 75 MRH
- Training Aircraft – 17
- Advanced Jet Trainers – 17
- Ship Borne Helicopters – 16 (Ship Based – 14)

### Submarines & Equipments
- ATVs (Nuclear Submarines) – 6
- Weapons Missiles
- Weapons – Torpedoes Heavy Weight – 98
- Marine Engineering Equipment
- Marine Engineering Equipment – Propulsion Systems
- SSK/EKM Submarine Equipment
# Electronics – Future Procurement

## Land
- Short/Medium Range Battlefield surveillance radars
- Weapon Locating Radars - Approx. 50
- Hand-held Thermal Imaging Devices – 5000
- Integrated Observation Equipment – 1200
- Standalone infrared, seismic & Acoustic sensors
- Networked communications & modern strategic & tactical level command and control systems
- EW Systems
- Detection Devices, NBC system, Remotely operated robots & Micro-UAVs (DRDO)

## Maritime
- Various general electronics including 70 rectifiers and 35 rotary converters
- Radars – 130
- Sonar
- Gyros – 100
- Logs – 100
- Echo Sounders – 40
- Integration of various surveillance/Weapon delivery system - 25

## Aerospace
- Upgrade of Chetak Helicopters
- Upgrade MiG-27s
- Upgrade of avionics in Sukhois
- Surface-to-air Guided Weapon System (SAGW)
- Surface to Air Missile Systems (MRSAM)
- Surface to Air Missile Systems (SRSAM)
- Air Defence Ground Environment System (ADGES) Modernization
India is projected to become one of the largest players in the global homeland security market by 2020.

About 6% of global procurement in the field of homeland security is expected to emanate from India, a 60% growth from its current expenditure estimate of 3.6%.

India offers large potential for firms wanting to take advantage of opportunities manifested in India on account of:

- High GDP growth,
- High spending on modernizing military capabilities and industrial infrastructure,
- Aging and obsolete equipment.

Homeland Security in India is handled by a multitude of bodies with complex functional and reporting relationships. Law and order is a State subject and the State police are responsible for maintaining law and order internally.
Virginia Economic Development Partnership -- International Trade offers a number of export-related services to Virginia businesses, including trade missions and market research by our Global Network of in-country consultants. These services are available to all Virginia exporters.

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