

Private Sector Participation in Indian Defense Industry 2020

<https://marketpublishers.com/r/P47DA1FD19C8EN.html>

Date: July 2020

Pages: 69

Price: US\$ 950.00 (Single User License)

ID: P47DA1FD19C8EN

Abstracts

In May 2001, the Indian defense sector, which was only reserved for the public sector, was allowed 100% participation by the Indian private sector, bound by licensing. Since then, the Government of India has taken initiatives to achieve higher levels of indigenization and self-reliance in the defense sector, by harnessing the capabilities of public and private sector industries in the country.

In order to further encourage procurement from local Indian suppliers, in May 2020, the central government issued a Public Procurement Policy to encourage the Make in India initiative, and promote manufacturing and production of goods and services indigenously in India. As a part of the Aatmanirbhar Bharat Abhiyan, initiated by the Government of India in June 2020, the Indian defense ministry has proposed to ban the import of defense weapons that can be indigenously manufactured. These steps by the government are expected to boost private sector participation in the defense manufacturing industry

Market insights:

Indian companies' share in the total value of contracts awarded by the Indian Union Defence Ministry for the procurement of defense equipment has increased steadily over the last five years, and stands at ~75.03% in FY 2020 (as of January 2020). According to the Ministry of Defence, over the last four years, from FY 2016 to FY 2020 (up to January 2020), a total of 158 contracts were signed with Indian vendors, which include private sector defense manufacturers/MSMEs/SMEs and start-ups, against 100 contracts with foreign vendors for the capital procurement of defense equipment for the armed forces.

In July 2020, the Indian Defence Acquisition Council (DAC) approved an amount of INR 389 Bn for the capital acquisition of various platforms and equipment required by the Indian Armed Forces. The DAC has announced that, focusing on indigenous design and development, INR 311.3 Bn worth of equipment acquisitions, out of INR 389 Bn, will be obtained from the domestic defense manufacturing companies, while the rest will be acquired from global OEMs. Several Indian MSMEs will be the prime tier vendors in this manufacturing project, along with other major government defense organizations.

Orders placed, over the last five years, by the Indian Ministry of Defence to private sector defense manufacturing vendors such as Titagarh Wagons Ltd., Force Motors Pvt. Ltd., TATA Power SED, Tech Mahindra Ltd., TATA Motor Ltd., Ashok Leyland Ltd, Bharat Forge Ltd, MKU Ltd, SMPP Delhi, and Alpha Design include items like 1,000 tons of fuel barges, light strike vehicles, portable diver detection sonar (PDDS), RFID-based SMART Card, 6?6 and 8?8 High mobility vehicle with material handling crane, dual technology mine detector, ballistic helmet, bullet proof jacket (BPJ), and integrated gunnery.

Impact of COVID-19:

The Indian defense industry witnessed a slackened growth momentum, owing to the restrictions in global trade following the outbreak of COVID-19 in the country. Imposition of a strict nationwide lockdown from March 24th to May 31st 2020, had halted the production/service cycle, disrupting the supply chain, and eventually impacting company inventories in the Indian defense manufacturing industry. According to the Indian Ministry of Defence, Indian defense companies have suffered a loss of around INR 225 Bn worth of potential revenue during the nationwide lockdown period. However, the Indian Ministry of Defence has announced financial packages and reforms to strengthen the MSME sector and generate employment. Corporatization of the Ordnance Factory Board (OFB), indigenization of imported spares, and setting up of realistic qualitative requirements for weapons to support local industries are other measures taken by the government to revive the Indian defense industry, post the pandemic.

Challenges faced by private sector Indian defense manufacturing companies:

India has failed to attract substantial private sector investments in the defense manufacturing sector. This has happened mainly due to delays in taking decisions on the part of the government, placing unsystematic orders, canceling tenders, and placing of unreasonable qualitative requirements by the Indian Armed Forces. Many Indian

private companies had invested in enhancing their defense production capabilities with a view to receive government support and orders, but have been left disappointed. In May 2020, Tonbo Imaging, a private sector defense equipment manufacturing start-up, wrote an open letter to the current Prime Minister of India, highlighting the cancelation of orders and delays in making payments by the government.

Companies covered:

Reliance Naval and Engineering Limited

Kalyani Strategic Systems Limited

L&T Defence

TATA Advanced Systems Limited

TATA Power Strategic Engineering Division (SED)

Axio Biosolutions Private Limited

CRON Systems Private Limited

ideaForge Technology Private Limited

Tonbo Imaging Private Limited

Viz Experts India Private Limited

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