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Draft Defence Production, Export Promotion Policy 2020

Recently, the Ministry of Defence (MoD) released the draft Defence Production & Export Promotion Policy 2020 (DPEPP 2020) to provide impetus to self-reliance in defence manufacturing and in line with the framework outlined in 'Make in India' and 'Atmanirbhar Bharat Package'. DPEPP 2020 aims to position India among the leading countries of the world in the aerospace & defence sector. It is envisaged as the overarching guiding document of MoD to provide a focused, structured and significant thrust to defence production capabilities in India for self-reliance and exports. This will enable public & private defence manufacturing companies to significantly scale-up their manufacturing capabilities in the long term.

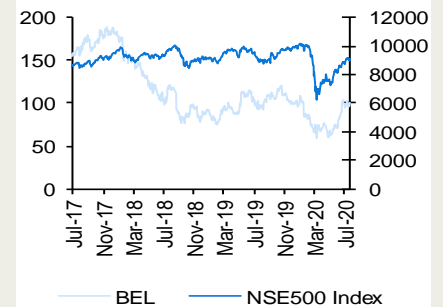
Policy goals & objectives

- To achieve a turnover of ₹ 175000 crore (US\$25 billion) including export of ₹ 35000 crore (US\$5 billion) in aerospace & defence goods & services by 2025
- To develop a dynamic, robust and competitive defence industry including aerospace and naval shipbuilding industry to cater to the needs of the armed forces with quality products
- To reduce dependence on imports and take forward "Make in India" initiatives through domestic design and development
- To promote exports of defence products and become part of the global defence value chains
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- To create an environment that encourages R&D, rewards innovation, creates Indian IP ownership and promotes a robust and self-reliant defence industry

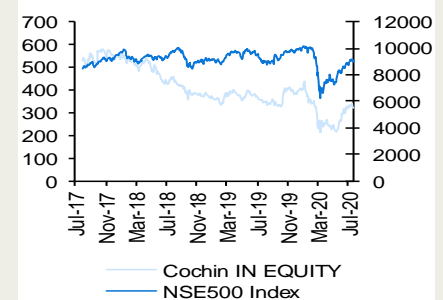
Outlook

The policy aims to reduce needs for imports and push 'Make in India' initiative through design and development. It focuses on support to MSMEs, FDI, investment promotion, R&D, export promotion, ease of doing business etc. The policy aims to double India's defence production over five years with focus on indigenisation of components in line with Atmanirbhar Bharat. This would provide significant thrust to defence manufacturing companies in scaling up their production capabilities in long term. In our coverage universe, companies like **L&T**, **Bharat Electronics (BEL)** and **Cochin Shipyard (CSL)** having strong indigenous capabilities are likely to benefit from this policy in the long run. However, the intent on the paper is good but the execution on ground in terms of rapid indigenisation, pick-up in ordering, allocation of funds to defence capital expenditure would be key monitorables to achieve the desired objectives of the policy (Source: Ministry of Defence, Company, ICICI Direct Research).

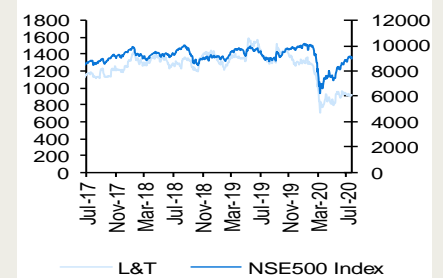
Price Chart



Price Chart



Price Chart



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Key Highlights.

Procurement reforms:

A negative list of weapons/platforms would be notified with year wise timelines for placing an embargo on import of such items from those dates.

Indigenisation and support to MSMEs/ start-ups:

It aims to create an industry ecosystem to indigenise ~5000 imported components (including alloys and special materials) and sub-assemblies for defence equipment and platform manufactured by 2025. An indigenisation portal will be developed for DPSUs/OFB/Services with an industry interface to provide development support to MSMEs/start-ups/industry for import substitution.

Optimise resource allocation

To carve out distinct budget head for domestic capital procurement. To strive for enhancing allocation for domestic capital procurement at the rate of minimum 15% per annum for the next five years.

Investment promotion, FDI and ease of doing business

Investments would be encouraged to provide specific focus on certain identified segments and technological areas. Investments in aviation sector, which help in co-development and strengthening defence ecosystem would be facilitated in association with the Civil Aviation Ministry.

Efforts would be made to address the identified gaps in those segments and offer incentives to global OEMs and domestic industry to set up design and manufacturing facilities in India. Investment support in development of aero engines complex, maintenance repair & overhaul (MRO), critical technologies & materials.

The opportunities in the aerospace industry have been identified in the segments: (a) Aircraft Build Work (b) Aircraft MRO (c) Helicopters (d) Engine manufacturing and MRO work (e) Line Replaceable Units (LRUs) (f) Unmanned Aerial Vehicles (UAVs) (g) Upgrades & Retrofits.

Defence corridors

The two defence corridors set up in Tamil Nadu and Uttar Pradesh would be specifically targeted by providing additional support as well as by offering higher multipliers for offset discharge for investments flowing into the defence corridors.

Innovation & R&D:

The Defence Research and Development Organisation (DRDO) in consultation with the services and in collaboration with other scientific and industrial establishments would set up missions in select areas to develop futuristic and critical systems/platforms/materials.

An indicative list is as below. a) gas turbine engines, b) hypersonic missiles, c) ballistic & cruise missiles, d) armoured vehicles, e) submarines, f) fifth generation fighters, g) transport aircraft to meet military requirements, h) secure communication devices, secure microprocessors and secure routers i) cyber security infrastructure j) surveillance systems and k) artificial intelligence & robotics including unmanned platforms (Source: Ministry of Defence, Company, ICICI Direct Research).

Key Highlights (Continued.....)

DPSUs /OFB:

Ordnance factories will be corporatised to make them competitive and to improve their productivity. Efforts will be made to position DPSUs as system integrators and create a multi-tier domestic supply chain and will be mandated to maximise outsourcing from indigenous sources. Divestment of DPSUs will be pursued.

Export Promotion:

In order to achieve the target of ₹ 35,000 crore (US\$ 5 billion) of defence exports by 2025, DPSUs and OFB would be mandated to have at least 25% of their revenue from exports including success fee earned as target by 2025.

Defence attachés have been mandated and are supported to promote export of indigenous defence equipment abroad. This effort would be supplemented by selected DPSUs, which would be positioned to work as export promotion agencies for certain countries with earnings linked to success fee, to promote export of defence products abroad.

Subject to strategic considerations, domestically manufactured defence products will be promoted through government to government agreements and lines of credit/funding (Source: Ministry of Defence, Company, ICICI Direct Research)

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