

ILO CONSULTING

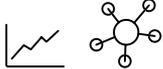
Recent Developments in the Defence Sector





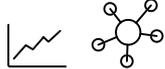
Indian Defence Sector

- India has the third largest armed forces in the world.
- India is one of the largest importers of conventional defence equipment and spends about 31.1% of its total defence budget on capital acquisitions.
- About 60% of its defence requirements are met through imports.
- The allocation for Defence in the Budget 2016-17 is approximate US\$ 50.7 Billion and expected to reach US\$ 64.8 Billion by 2020.
- Defence products list for industrial licensing, has been articulated in June 2014, wherein large numbers of parts/components, castings/ forgings etc. have been excluded from the purview of industrial licensing.
- Indian defence is dominated by defence public sector undertakings (DPSUs) and ordnance factories (OFs) which contribute about 90% of the total domestic defence manufacturing output.





Indian Defence Sector

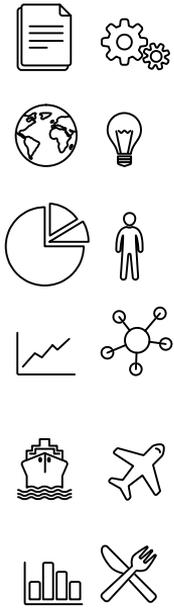


- The 41 ordnance factories are spread across 26 different locations and employ close to 1,25,000 people.
- The DPSUs and OFs manufacture a wide spectrum of equipment including small arms and field guns, ammunitions, explosives, armoured vehicles, transport vehicles, clothing, parachutes and general stores.
- DPSUs account for approximately 65 percent of the total industrial output of the defence public sector enterprises.
- India allows FDI upto 100% under defence sector subject to the government approval.
- India has the potential to emerge as a global platform for defence research, manufacturing, supply chain sourcing, software development, and offsets, which will strengthen our defence capabilities and spur industrial development as well as exports in this sector.



Changes in Defence Sector

Prior 24th June 2016, FDI regime permits 49% FDI participation in the equity of a company under automatic route. FDI beyond 49% is permitted through Government approval on case to case basis, wherever it is likely to result in access to modern and 'state-of-art' technology in the country. In this regard, the Government of India (GoI) announced the following changes in FDI policy on this sector vide Press Note 5:



1

FDI beyond 49% is permissible after obtaining the approval from Government of India, where it is likely to result in **access modern technology or for reason to be considered.**

2

The condition of access to **'state-of-art' technology in the country has been done away with.**

3

The meaning of the term **'modern technology'** is not defined in the extant FDI Policy and is a subjective term. It is **subject to interpretation by the regulator** and to be considered on a case to case basis.



Changes in **Defence Sector**



4

The condition of ‘access to **modern technology** in the country’ may **not be mandatory** as the word ‘or’ has been inserted before the condition of ‘for other reasons to be recorded’.



5

Introduced the **FDI in Manufacturing of small arms and ammunition** under the Arm Act 1959. The FDI limits are same as applicable to the Defence Industry.



6

License application will be considered and approval given by **Department of Industrial Policy & Promotion, Ministry of Commerce & Industry**, in consultation with Ministry of Defence and Ministry of External Affairs.



7

Investee company should be structured to be sufficient in area of product design and development. The investee / joint venture company along with **manufacturing facility, should also have maintenance and life cycle support facility** of the products being manufactured in India.





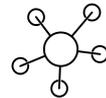
BUSINESS OPPORTUNITY



“Foreign Defence players are allowed to hold majority stake in Indian businesses”



Foreign Investment in defence brings more technological support from other countries. India will be able to establish relations with developed countries that export Defence technology and military hardware.



India has the potential to emerge as global platform for defence research, manufacturing, supply chain sourcing, software development, which will strengthen defence capabilities and contribute industrial development as well as exports in this sector.

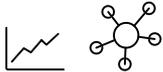


FDI in Small Arms & Ammunition

The manufacturing of Small Arms is subject to the license from Ministry of Home Affairs. The country has 95 firms licensed by the Ministry of Home Affairs for the manufacture of guns (single barrel or double barrel) and 25 firms cartridges (either blank cartridges or live cartridges or both). Some of the Firms are Max Aerospace, Bharat Forge, L&T, Punj Lloyd etc.

The Indian inventories of Small Arms are estimated to 5.6 million which has a life of 20 years. The country need the production capacity of 1.5 lacs small arms per years for the replacement cycle to ensure forces are always equipped with latest technology. The current annual production capacity is 1 lac per year which unable to meet the current requirements of small arms.

This gives an opportunity to both domestic as well as foreign players to fill the gap by increasing the production of small arms & ammunition with latest technology. Indian army has recently ordered for purchasing 1.8 lacs weapons worth US\$ 750 million and shortlisted the four foreign players Beretta (Italy), Israel Weapon Industries (Israel), Colt Defence (USA) and Ceska Zbrojovka (Czech Republic).





FDI in General Technology

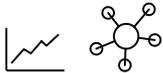
The Government of India has recently removed the condition of state-of-art technology to permit 100 % FDI under government approval and permit to access modern technology or for reason to be considered by regulators.

The meaning of the term 'modern technology' is not defined in the extant FDI Policy and is a subjective term. It is subject to interpretation by the regulator and to be considered on a case to case basis.

The condition of 'access to modern technology in the country' may not be mandatory as the word 'or' has been inserted before the condition of 'for other reasons to be recorded'.

This government initiative present opportunities for the foreign companies to enter India and local companies to collaborate and design, develop and showcase their engineering strength.

The objective is to create jobs, catalyse technology development, and transform into export capabilities in defence sector. India's existing wealth of talent, technology and cost advantages together can help make defence products globally competitive.



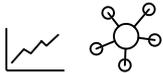


Make in India

India has the third largest Army, the fourth largest Air force and the seventh largest Navy in the world. India is among the top 10 countries in the world in terms of military expenditure and world's largest arms importer.

All these factors make the Indian defence market one of the most attractive globally and provides an immense opportunity for both domestic and foreign players in the defence sector.

The Government policy of promoting domestic defence industry is reflected in the Defence Procurement Policy, wherein preferential treatment is given to "Buy (Indian)" and "Buy and Make (Indian)" categories of acquisition over "Buy (Global)". As the Indian Companies may not have adequate capabilities in terms of technology, they are encouraged to partner with foreign companies for joint ventures, technology transfer arrangements and tie-ups.





Make in India

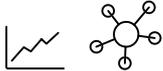
K9 Vajra –T

The Ministry of Defence has concluded the deal with Larsen & Toubro (L&T) to produce 100 unit of 155 –mm/52-calibre self-propelled howitzer amounting to US\$ 700 million.



M777 Ultra Light Howitzer

The Ministry of Defence has approved the deal from US to purchase of 144 Ultra Light Howitzer worth of US\$ 750 million. 25 units will be supplied from US and rest will be supplied from India by partnership with Mahindra.





About Us

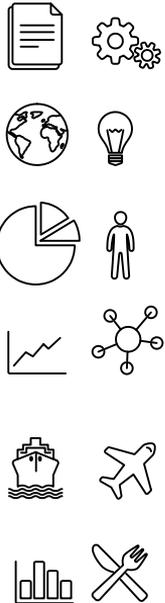
ILO Consulting Services is a growth advisory company and has a rich experience in the field of facilitating international Merger & Acquisition and Divestment, Private Equity Syndication, Structured Finance, Joint Venture, Franchisee and Distribution.

We are headquartered in New Delhi, India and have offices in Mumbai, Bangalore and Chennai.

In short span of time, ILO Consulting Services has become favoured global consultancy service provider owing to its deep knowledge mix of legal, financial and business environments in over 70 countries adding significant value to its client's business growth ambitions.

ILO Consulting has pioneered strong business relationships across the globe including Indian and Foreign Bank, FII, global private equity funds, India focused private equity funds, real estate funds, mezzanine funds and hedge funds.

ILO Consulting leverages insights, relationships and industry experiences to provide clients with high quality services.





Thanks!

Any questions ?

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