

Aerospace and Defence Industries: Offering Further Opportunities

With changing policies and focus of the Central government to indigenise defence equipment, the opportunities for domestic players are gradually increasing. Read on to find out the trends in this sector

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According to the Military Expenditure Database maintained by think tank Stockholm International Peace Research Institute (SIPRI), India is the ninth biggest spender on defence in the world. The Interim Union Budget for 2014-15 allocated ₹ 2290 billion Indian rupees for defence, around 10% more than outlay of ₹ 2040 billion in 2013-2014. With this enhanced allocation, the defence/strategic electronics could become one of the largest sectors in India over the next ten years. It is also likely to grow at an average compound rate (CAGR) of 20-30 per cent. The sector accounts for around 6-7 per cent of the overall Indian electronics market. The *Global Strategic Trends - Out to 2045*, a publication by Britain's Defence Ministry, forecasts the acceleration of India's defence expenditure over the next three decades to rival that of China and the USA.

Indigenisation and growth of the private sector

Earlier, major defence projects in India were done through collaboration with the Russians and Europeans for products like the Jaguars and Mirages, where nothing much was done here except the assembling of aircraft. India didn't develop indigenous products in this sector except for the Light Combat Aircraft, probably because the volumes were not there.

The government of India (GOI) now welcomes domestic private participation in the fields of research, development and manufacturing in

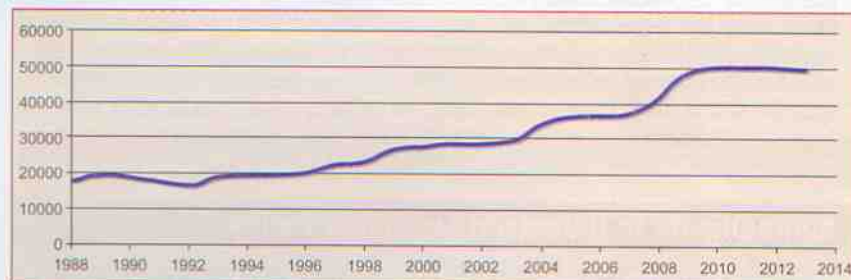


Fig. 1: Chart of Indian defence spending in US\$ showing gradual increase (Data sourced from SIPRI)

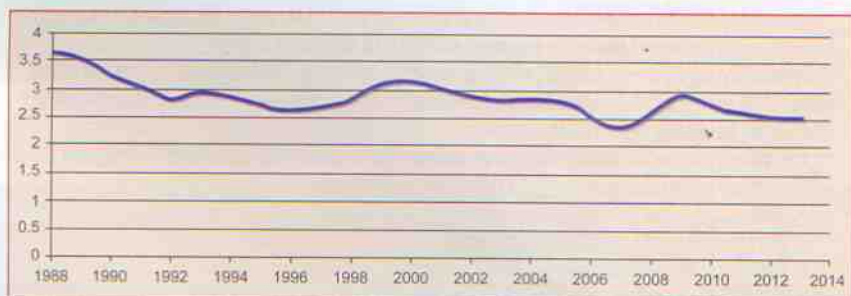


Fig. 2: Chart of Indian defence spending as a % of GDP showing reduction (Data sourced from SIPRI)

aerospace sector. Private companies have a lot of involvement and play an important role along with PSUs. The big firms, such as Tata, L&T and Mahindra, are aiming to become alternatives to the PSUs. The PSUs subcontract the projects, mainly because of the expertise and manpower available with private players.

The private sector is estimated to have a relatively small share (just 5%) of the defence equipment market as of now. Over 70 per cent of India's defence equipment needs are still met through imports.

The amount spent on India's imports of defence equipment was a massive ₹ 400 billion in 2013. Now that Indian government has stressed on the need for indigenisation in design, private companies in our country can

also tap this huge market. Between 2004 and 2013, the government issued licences to 209 Indian companies for manufacturing defence equipment domestically. The pace of granting licences has comparatively increased over the last five years.

Sunil Kottarathil of Mistral Solutions is of the opinion that the vision of indigenisation by the new government will lower dependence on imports, and this would boost Indian industries. The government is expected to invest on new programmes like intelligence, surveillance and reconnaissance technologies, electronic warfare and network-centric warfare technologies. "The focus will be on the ability to know, process and react in real-time to events occurring on the ground, air and sea, which will be a strategic