



## Rapidly Indigenize Indian Defense Industry For 'Make In India' To Succeed

By **Ashok Atluri**

HYDERABAD: India's Ministry of Defense (MoD) is expected to soon come up with a revised Defense Procurement Procedure (DPP). Here are suggestions on what needs to be done in the DPP to encourage Indian firms involved in indigenization and take the 'Make in India' agenda forward:

### Buy Indian for Existing Requirements

Make a list of products for which Acceptance of Necessity (AON) has been done. Please find out from the industry (through associations and others) whether there are any indigenously designed and developed products available to match the specifications. If they are available, then please ask them to bring the products for evaluation. If they pass the trials, then order may be placed on the price bid by the firm, as long as the price is less than the internationally bench-marked price. The test for indigenously designed and developed technology is that the software, algorithms, and electronics (that is, key technologies) are all developed in-house and the company has the capability to develop next generation of the same products. And also that there is no outflow of foreign exchange during the production and sale of the equipment. The minimum indigenous content for such procurement should be 75 per cent.

### Preference Under Buy Indian or Buy Global

In a 'Buy Indian' or a 'Buy Global' procurement, if an Indian company, with indigenous design and with indigenous content of 75 per cent or more, clears the trials successfully but is not the Lowest Bidder (or L1), the order should be split between the L1 and the Indian company and each should get half of the total order, provided the Indian company matches the price of L1. In case, there is more than one Indian company fulfilling such criteria, then the company with the maximum indigenous content in its product shall be allowed to match the L1. Order should not be split to more than two companies as this may violate the principle of commonality of equipment, that is, it will be very difficult to maintain and repair such systems, among other things.

### Make Procedure

Please make technical capability the basis for eligibility to bid for any 'Make' project. Five per cent net worth based on the total cost of the project is patently wrong. For example, a Software Defined Radio would cost about Rs.50,000 and for one million soldiers it would mean a project cost of about Rs.5,000 crore. That means, to get the Expression of Interest (EoI), a firm would need to have about Rs.250 crore of net worth! But we know the development cost of the project will be approximately few crores of Rupees. When someone can develop the project in Rs.4 crore or Rs.5 crore, and the manufacturing cost of

the product is going to be few thousand rupees, what is the point in asking Rs.250 crore net worth for the firm to be eligible to submit EoI? In the worst case, the net worth should be a percentage of the development cost. And, manufacturing, which is relatively a dumb task, can be outsourced to companies with adequate infrastructure.

### **Buy Indian (Indigenously Designed And Developed)**

The 'Buy Indian (Indigenously Designed And Developed)' category needs to be introduced and should be given the maximum preference. The heart of any weaponry and related system is the technology, the software, the algorithms that run the system. The metal around the technology is dumb. Where Indian companies develop technology that meets the requirements of the Indian forces, these products should be bought from that company at the same international prices (as per standard bench-marking done now) at which they would have been procured from foreign companies. And this should be done even if it is a single vendor situation (which is more than likely as there is only one customer - the Indian armed forces).

### **Positive Side Effects**

Almost 30 per cent of the profits that the Indian companies make will come back as income tax. Almost 20 per cent to 30 per cent of the procurement comes back as sales/excise/service tax. If an Indian company has developed the technology, then they will be spending significant amounts of money in Research and Development (R&D) -- 10 per cent to 20 per cent of the revenues will go back into R&D, which will help the company evolve existing products and develop newer defense products. This policy will attract talent and ensure that lots of Indian companies get into R&D for military purposes. With so much to gain from buying products that are developed indigenously, it is strange that there is no provision, as on date, to give preference to indigenously developed technology.

**Note:** It is better to proactively identify technologies that have been developed in India and clearly indicate them as vendors. Companies that are trying to outright buy such technologies or license them from foreign companies should be dissuaded. In fact, foreign companies have started looking for partners financially strong and large Indian companies to transfer technology, wherever it is indigenously available. This will impact the indigenous companies very negatively. To preempt it, MoD should proactively identify indigenously developed technologies and name them as vendors.

### **Single Vendor Situation**

As per DPP, Request for Proposals (RFP) is retracted if it is a single vendor situation at Technical Evaluation Committee (TEC) stage. It is suggested that if such a single vendor is an Indian company and the product has 75 per cent or more indigenous content, procurement process should continue. If the company successfully clears the trials and other evaluations, order should be placed on that company.

### **Blanket Permission To Export To Certain Countries**

Like the 'Most Favored Nation' status in other countries, make a list of countries to which export can be done without any permission. These should include the majority of countries in Africa, Middle-East, Latin America, and South East Asia. Only countries that we perceive as unfriendly should not make into the list. For countries that are not in the list we need to take permission. The permission should be granted automatically within 15 days unless the MoD turns down the request to export.

### **Procurement Under No Cost Full Commitment (NCFC) Basis**

Presently most procurement by the MoD are on 'No Cost No commitment' (NCNC) basis wherein it is not necessary that procurement process will culminate in a contract or supply order. It is proposed that some of the MoD procurement from Indian industry are carried out on NCFC basis.

A suggested methodology for the same is as under:

The MoD prepares and publishes a document which lists weapons/equipment/systems that it requires to procure from Indian public or private companies. The document should be comprehensive enough to have project related relevant information such as numbers required, internationally bench-marked price, essential Qualitative Requirements and procurement time frame in. Also, the MoD assures full cooperation in terms of access to equipment (weaponry, etc) and subject-matter experts to help build the desired products.

-- The MoD invites proposals from Indian companies, who have the capabilities and competencies to undertake various projects listed in above stated document. This may be done through industrial associations.

-- Shortlisted Indian companies, thereafter, are provided with all the relevant and necessary information of the envisaged project(s), which will enable these selected Indian companies to design and develop the products as per user's requirement. Vendors should also be given enough time to develop the product keeping their complexity in mind.

-- After required time frame given to vendors to develop the product, the MoD shall issue RFP/EOI to these selected companies and proceed with trial, evaluations and other procurement processes as given in the DPP.

-- If even a single vendor qualifies, then they should go ahead with the purchase. If there are still some gaps, the companies should be given more time to fill the gap.

-- The MoD should finally sign the contract with the lowest bidder. The contract should also be signed in case there is only one vendor left at TEC stage or after trial and evaluations.

-- Since such a procedure does not exist in present DPP, MoD may consider incorporating suitable changes in the procedures so as to enable such a procurement on NCFC basis.

*(Ashok Atluri is the Managing Director of Hyderabad-based Zen Technologies Limited)*

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