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This is an opportune time to be in defence sector: Ashok Atluri, Zen Technologies

By: Huma Siddiqui | January 30, 2015 12:41 am

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Zen Technologies, incorporated in 1993 and went public in 2004, is a 100% indigenous manufacturer. The company has supplied more than 750 simulators to over 100 customers so far. Its key customers include the Army, Air Force, Navy, DRDO and importantly the central and state police and special forces. The company, which spends heavily on R&D, has patents for key technologies. In an interview with FE's Huma Siddiqui, Ashok Atluri, managing director, Zen Technologies, highlights the opportunities and obstacles in indigenisation and defence production.

What kind of opportunities are there for SMEs in the defence space?
SMEs are the hubs for creativity and innovation. If we really want to design and develop new defence products and make India a global supplier of defence products, SMEs are our only hope. The market in the next five years is pegged at more than R6 lakh crore. Opportunities are there both in terms of being a part of the supply chain of a product or making the complete product. I would suggest that SMEs should develop, by themselves or by forming a consortium, complete products and bid for them directly with the Armed Forces. This will ensure that the value is captured by SMEs instead of the so-called "integrators". The benefit of such businesses going to smaller companies is that they would reinvest such earnings into R&D to evolve better products, and the country benefits. This will also aid our country's vision to be a global supplier for defence rather than carry the ignominy of being the world's largest importer of defence goods.

It is often assumed that is it difficult for an SME to get into defence production?
As of now, the long procurement cycle and the payment terms make it difficult for smaller players to participate for defence products. It is better to position oneself now and take advantage of the new, faster norms, if and when they become applicable. Companies that are truly innovative and can design and develop new technologies will really benefit from entering the defence sector. There are lots of solutions that the defence sector is looking forward to the industry to solve indigenously, especially given our over-reliance on imports. So this is an opportune time to be in this sector.

What are the changes you would suggest to the process to increase indigenisation in India?
Today a lot of companies are tying up with foreign companies for developing basic mechanical items without really understanding the technology. The key to defence equipment is technology–the software, the algorithms, the crucial electronics, mechanical designs, etc. If you just buy or license this technology, and once this technology becomes outdated we will go and ask for transfer of technology (ToT) again and the vicious and destructive cycle will repeat ad nauseam. One solution is: the government should publish a list of equipment it plans to acquire in the next few years along with specs, quantity required and the international prices. Once the list is published lots of Indian companies would come forward to develop the products. Companies with the technical capability should be allowed to develop the equipment. In this case, 100% investment will be done by these companies (and not 20% as in the case of Make category where 80% is financed by government). However, this should be on the NCFC basis: No Cost to the government, (but) Full Commitment to buy, at agreed price and quantity, if the product meets the specifications.

As a growing MSME in this sector, can you elaborate on your offerings?
We have primarily focused on simulators for the land forces and other security agencies. In the last 21 years, we have developed more than 30 product simulators, including Advance Weapons Simulator, Tactical Engagement Simulator, Anti-Tank Guided Missile Simulator, Infantry Combat Vehicle BMP II Driving and Missile simulator, to name a few.

What about simulators in the aerospace?
In terms of software advancements we are at par with global players and have the desired capabilities and knowledge base across various verticals, including Projectile Behaviour, Vehicle Dynamics, Environment Effects, Video/Image real time, data acquisition, Electronic Control System, Laser Sensing, Weapon Recoil System, etc. This knowledge base enables us to create simulators which mirror the real world scenario and provide soldiers with accurate feedback and training.

How much weightage do you give to R&D to hold on to your technology edge?
R&D plays a crucial role in developing cutting edge defence simulators, therefore, to keep our R&D division ahead of the technological curve we invest more than 40% of our revenue back into the division. For example, last year out of a turnover of R49 crore, we invested R20 crore on R&D. Additionally, out of 245 employees; 97 work in the R&D department, again about 40% of our human capital is invested in the R&D department. Not many Indian companies can speak of such high investment and allocation of resources for R&D. For us product development is a continuous process and R&D helps us in improving and refining our product portfolio. Zen also has an impressive list of patents. The company's R&D unit has been accredited by the department of scientific and industrial research, ministry of science & technology, government of India.

How will the PM's 'Make in India' programme help SMEs in the defence & aerospace sectors?
As of now, under Buy Indian category, if there is a company with 100% indigenous content, it is not given any preference over a company that has "value added" 30% in collaboration with a foreign company. The value add in such collaborations is typically very minimal and cosmetic. With such lopsided policy it is hardly surprising that indigenisation never really happened in defence. This has to change. Companies that pretend to value add without really doing it should be punished severely, including holding the top management of such companies criminally liable.

It is vital to highlight the difference between 'Make in India' and 'Designed, Developed and Made in India'; we should aspire for the latter in defence. It is not just about manufacturing the products on a TOT basis, but the focus should be on encouraging and incentivising indigenous companies to develop the same product and then give them preference during the procurement process. The next logical step should be to create the most preferred category called "Buy Indian with Indigenous Design" with at least 75% indigenous content–this step will unleash rapid indigenisation of defence technology in India.

Having said that, the past few months has seen a major shift in the attitude of the procurement machinery, with orders being cleared rapidly. Given the inclination of the government now, we expect the preference for indigenously designed and developed systems to be articulated very soon.

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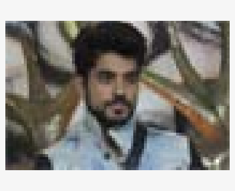
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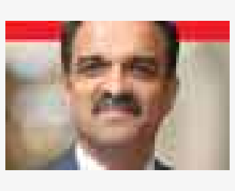
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