

Private sector's share in defence production reaches highest in eight years

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Synopsis

Private sector companies in India have played a significant role in the country's defence production, contributing Rs 16,411 crore in fiscal year 2023-24, marking the highest share since 2016-17. Despite a decrease from the previous year, this contribution accounted for 22 per cent of the total defence production of Rs 74,739 crore. The government's push for local defence production, record high defence exports, and investments in defence corridors in Uttar Pradesh and Tamil Nadu aim to boost domestic manufacturing and reduce reliance on imports.



Private sector companies in India have significantly contributed to the country's **defence production** in the fiscal year 2023-24 (FY24), accounting for a larger share than in the past eight years. According to data from the **Department of Defence Production**, private sector companies contributed Rs 16,411 crore, or 22 per cent, to the total defence production of Rs 74,739 crore in FY24. This marks the highest share of private sector contribution since 2016-17.

Rise in Private Sector Contribution

Despite a decrease from the previous fiscal year's Rs 21,083 crore, which accounted for 19 per cent of the total, private sector defence production in FY24 saw a higher share due to a lesser decline compared to overall numbers. The total defence production in India for FY24 was Rs 74,739 crore, down from Rs 1.09 trillion in the previous year. Other segments contributing to defence production include the Ordnance Factory Board, defence public sector undertakings (PSUs), other PSUs, and joint ventures.

Government's Push for Local Defence Production

The government has been actively promoting higher defence production within the country. Defence Minister Rajnath Singh announced in November a reservation of Rs 1 trillion, or 75 per cent of the defence acquisition budget, for local companies. Additionally, the defence offset policy aims to boost the local industry by requiring foreign companies to spend a portion of their orders locally through investments in domestic firms or purchases from them.

Record High Defence Exports

India's defence exports reached a record high of Rs 21,083 crore in FY24, up from Rs 15,920 crore in FY23, according to the Ministry of Defence. The total value of defence offset was \$7.9 billion as of FY24, nearly tripling from \$2.9 billion in 2019-20. However, there are still claims worth roughly \$310 million yet to be processed, which may be stuck due to incomplete information or other reasons.

Investments in Defence Corridors

The private sector is also investing in new defence production facilities, particularly in the **Uttar Pradesh** and **Tamil**

Nadu defence corridors. The Uttar Pradesh defence corridor has received Rs 25,397 crore in investment announcements, including small arms **manufacturing** in Kanpur and a new facility at Noida for electro-optics. Similarly, investments in the Tamil Nadu defence corridor worth Rs 11,821 crore include facilities for protective gears, photonics, thermal imaging, and aerospace components.

Significance of Defence Industrial Corridors

The government's establishment of defence industrial corridors in Uttar Pradesh and Tamil Nadu aims to promote local production, reduce dependence on imports, create opportunities for domestic manufacturers, and increase the export of indigenous equipment. These corridors not only promise national security but also strengthen the economy by reducing reliance on imports and leading to job creation.

Defence Industrial Corridor in Uttar Pradesh (UP):

The Uttar Pradesh Expressways Industrial Development Authority (UPEIDA) has been appointed as the nodal authority for the defence industrial corridor in UP. Nodal points including Agra, Aligarh, Chitrakoot, Jhansi, Kanpur, and Lucknow have been identified for potential development of defence industries. In August 2018, the government announced investments worth over INR 3700 crores for the defence industrial corridor in UP, aiming to attract further investments of about INR 10,000 crores and position UP as a defence manufacturing hub.

- UP, with its large population and strong economy, is a top manufacturing and exporting state in India.
- The state's proactive government policies, robust infrastructure, skilled workforce, and ease of doing business make it an ideal location for a defence industrial corridor.
- The UP Expressways Industrial Development Authority (UPEIDA) is the nodal authority for the defence industrial corridor in UP, with key nodal points identified for development.
- The corridor offers benefits such as uninterrupted electricity supply, single window approvals, and connectivity to highways, airports, and railways.
- Legal frameworks like the UPEIDA Regulations and UP Defence and Aerospace Unit and Employment Promotion Policy provide guidelines for development and incentives for investors.

Defence Industrial Corridor in Tamil Nadu:

Tamil Nadu is the second-largest state in India and has shown high economic growth, with a projected GDP of Rs. 28.3 lakh crores for FY 2023-24. It has the highest number of factories in India, ranks first in annual turnout of skilled manpower, and has a mature ecosystem that supports the aerospace and defence industry. The state's connectivity with national highways, railway divisions, international airports, and seaports makes it an attractive choice for defence public sector units and private industries. The Tamil Nadu Industrial Development Corporation (TIDCO) is the nodal agency for the defence industrial corridor in Tamil Nadu, with Chennai, Coimbatore, Hosur, Salem, and Tiruchirappalli identified as nodal points.

- Tamil Nadu, with its strong economic growth and manufacturing sector, is a key state for a defence industrial corridor.

- The Tamil Nadu Industrial Development Corporation (TIDCO) is the nodal agency for the defence industrial corridor in Tamil Nadu, with several nodal points identified.
- The corridor offers benefits such as land provision, quality power and water supply, and renewable energy capacity.
- Legal frameworks like the Defence Acquisition Procedure, 2020, and Tamil Nadu Aerospace and Defence Industrial Policy, 2022, provide guidelines and incentives for investors.
- Both corridors aim to attract investments, promote local manufacturing, and generate employment in the defence and aerospace sectors.

Gunning for Growth: India's Defence Sector

The government has set ambitious targets to significantly increase the country's annual defence production and exports by 2028-29. The aim is to nearly triple total annual defence production to Rs 3 lakh crore and more than double defence exports to Rs 50,000 crore. For the year 2024-25, the target is Rs 1,75,000 crore worth of total annual defence production, including exports worth ₹35,000 crore.

India's efforts to boost defence exports include the sale of its indigenously built light-combat aircraft Tejas, manufactured by Hindustan Aeronautics Limited (HAL). While India has yet to find a customer for the Tejas, the potential sale of these aircraft could significantly boost exports and elevate India into an exclusive club of fighter jet exporters. India recently delivered HAL-228 aircraft to the defence forces of Guyana, highlighting its commitment to expanding defence exports and strengthening ties with countries worldwide.

Defence Minister Rajnath Singh has indicated that India is looking to export fighter jet engines in the future, referencing an engine manufacturing agreement between GE Aerospace and HAL for the GE 414 engine that will power future Tejas variants.

A report by brokerage house Jefferies India suggests significant growth opportunities for the Indian defence sector, with an estimated domestic defence opportunity of \$100-120 billion over the next five-six years. The sector anticipates a visible 13 per cent industry Compound Annual Growth Rate (CAGR) from FY23 to FY30. Additionally, export defence opportunities are projected to witness a commendable 21 per cent CAGR from FY23 to FY30.

Despite these promising projections, the sector faces risks such as technology obsolescence and management bandwidth constraints. However, with prudent strategies and robust government support, India's defence sector appears poised for exponential growth, driving both economic and strategic advancements. Stocks like Hindustan Aeronautics (HAL), Data Patterns, and Bharat Electronics (BEL) are expected to benefit from this growth.

The establishment of defence industrial corridors in India is a significant step towards promoting indigenous defence and aerospace production, reducing reliance on imports, and boosting the economy. These corridors not only promise national security but also create opportunities for job creation and economic growth.

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