

For immediate release

Defence sector in India, cache of opportunities: CII-KPMG Study

- India is currently the 10th largest defence spender in the world
- India's defence spending has grown manifold since the country announced its first defence budget in 1950, to INR 1,450 Bn in 2009-10 and is on an upwards trend
- Government is continuing actively to develop and enhance the defence procurement process
- Use of offsets, transfer of technology, FDI and the public and private sector defence industries in India should be brought together in a comprehensive defence industrialization strategy for India
- Changes to the taxation regime would further incentivise the growth of Indian Defence sector

New Delhi, 13 January 2010: The defence industry in India is poised at an inflection point in its expansion cycle driven by the modernization plans, the increased focus on homeland security, and India's growing attractiveness as a 'home market' defence sourcing hub. A joint study by **CII-KPMG, Opportunities in the Indian Defence Sector: An Overview** reveals that Indian Industry is upbeat about the opportunities in defence and aerospace, and eager to grow its industrial capabilities in this space, but is looking to Government to continue its process of developing and fine-tuning the procurement regime and industry drivers that will enable industry to grow a robust and sustainable defence industry in India.

India currently procures approximately 70 percent of its equipment needs from abroad, but aims to reverse this balance and manufacture 70 per cent or more of its defence equipment in India. While the government has put in place the building blocks to incentivise the growth of a domestic defence industry, the report identifies three areas where industry is seeking further Government input. These are the procurement process, the need for a defence industrial strategy for India and tax and regulatory incentives.

Commenting on the release of the report, Marty Philips, Global Head, Aerospace and Defence, KPMG, said, "India is at a hugely exciting juncture in the growth of its defence industry. By leveraging off its own major defence procurement cycle and its inherent skills and capabilities, India can use this opportunity to become a major defence production hub for both domestic and global defence systems. Our report with CII highlights the considerable progress made to-date

by Government and industry and provides a number of pointers to ensure that going forward full use is made of the opportunity”.

” With skilled intensive manufacturing capabilities and a world class IT base, India has the right ingredients to become a key link in the global defence supply chain. The outlook is bright, but will require Government’s on-going active management and fine-tuning of policy, regulations, process and fiscal environment to help ensure strong domestic growth and achievement of self-sufficiency”, said Richard Rekhy, Deputy CEO, KPMG in India “However, Indian industry also needs to respond to this opportunity in a rapid and well structured manner.”

Gurpal Singh, Deputy Director General, CII commented ”Defence production is an opportunity not only for the industrial majors in India, but also for a large number of Micro, Small and Medium Sized Enterprises (MSMEs) which are now turning their attention to the unexplored defence sector which promises sustained business opportunities. The need of the hour is to combine the skills of the public and private sectors to develop a partnership that can achieve the aim of self-reliance in defence production.

Mr Baba Kalyani, Chairman, CII National Committee on Defence stated that ‘The amendments to DPP 2008 (Amendments 2009) are being viewed upon by the industry as a positive development. The DPP 2008 (Amendments 2009) which have come into effect from 1 November 2009 are encouraging and we at CII welcome these forward looking reforms.’ He was of a view that the provisions incorporated in the amendments would go a long way in encouraging larger participation from the Indian Industry’

The government has indicated its willingness to improve policy and its desire to create an effective and efficient defence procurement procedure (DPP). Since its first edition the DPP has evolved significantly and further iterations are expected in 2010. The industry has sought a few key initiatives to be adopted. These include improving visibility of Government’s defence order book, increasing industry’s input and feedback into the RFP process, better predictably and flexibility of the procurement process and to reduce bidders’ costs.

The report also identifies the need for a comprehensive industrialisation strategy for defence, and within this, a holistic approach to the roles of offsets, transfer of technology, FDI and the various public and private industry players. There is also strong support for extending the use of offset credit banking, allowing offset credit trading, and introducing the use of multipliers. Offset investment requires greater direction by Government, targeting to ensure its full potential benefit is realised.

Transfer of foreign technologies to India is essential for realising the goal of self-sufficiency. Receipt of technology assets under major procurements is currently the exclusive remit of the Defence Public Sector Units. Industry is hopeful that with the DPP Amendment 2009 and its introduction of the Buy and Make (Indian) category, it will start to see private sector companies competing with the DPSUs for technology assets.

The taxation regime is also highlighted for the critical role it can play in developing an environment that incentivises and supports the long term risk taking, investment and R&D required for a nascent defence industry. The report highlights a number of areas for additional exemptions or concessions which could be used to promote the development of the industry.

About KPMG

KPMG is the global network of professional services firms of KPMG International. KPMG member firms provide audit, tax and advisory services through industry focused, talented professionals, who deliver value for the benefit of their clients and communities.

KPMG in India has offices in Mumbai, Delhi, Bangalore, Chennai, Hyderabad, Kolkata and Pune and services over 5,000 international and national clients. The firms in India have access to more than 3500 Indian and expatriate professionals.

Log on to www.in.kpmg.com for a copy of the report.

About CII

The Confederation of Indian Industry (CII) works to create and sustain an environment conducive to the growth of industry in India, partnering industry and government alike through advisory and consultative processes.

CII is a non-government, not-for-profit, industry led and industry managed organisation, playing a proactive role in India's development process. Founded over 114 years ago, it is India's premier business association, with a direct membership of over 7800 organisations from the private as well as public sectors, including SMEs and MNCs, and an indirect membership of over 90,000 companies from around 385 national and regional sectoral associations.

CII catalyses change by working closely with government on policy issues, enhancing efficiency, competitiveness and expanding business opportunities for industry through a range of specialised services and global linkages. It also provides a platform for sectoral consensus building and networking. Major emphasis is laid on projecting a positive image of business, assisting industry to identify and execute corporate citizenship programmes. Partnerships with over 120 NGOs across the country carry forward our initiatives in integrated and inclusive development, which include health, education, livelihood, diversity management, skill development and water, to name a few.

Complementing this vision, CII's theme for 2009-10 is 'India@75: Economy, Infrastructure and Governance.' Within the overarching agenda to facilitate India's transformation into an economically vital, technologically innovative, socially and ethically vibrant global leader by year 2022, CII's focus this year is on revival of the Economy, fast tracking Infrastructure and improved Governance.

With 64 offices in India, 9 overseas in Australia, Austria, China, France, Germany, Japan, Singapore, UK, and USA, and institutional partnerships with 213 counterpart organisations in 88

countries, CII serves as a reference point for Indian industry and the international business community.

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