



Odisha Aerospace and Defence Manufacturing Policy 2018



DISHA
NEW OPPORTUNITIES



Government of Odisha

Industries Department

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PREAMBLE

India ranks amongst the top 10 countries in terms of its military expenditure and is the largest importer of defence equipment in the world. As on 2018-19, the country allocates about 1.49%¹ of its GDP to defence spending, of which 34% was assigned to capital acquisitions, and this trend is likely to continue, if not improve. However, only about 40%² of defence equipment is currently manufactured in India, primarily by PSUs.

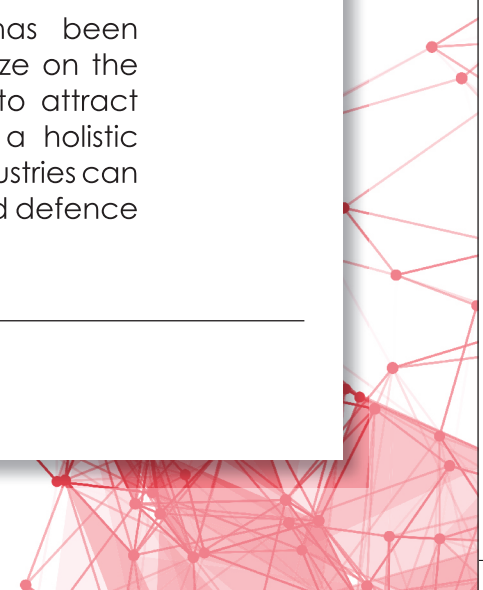
As the country gears up to spend USD 130 billion³ on military modernization in the next 5 years, achieving self-reliance in defence production is a key target for the Government of India. The focus on indigenous manufacturing has opened up the defence industry for private sector participation and is paving the way for foreign Original Equipment Manufacturers (OEMs) to enter into strategic partnerships with Indian companies.

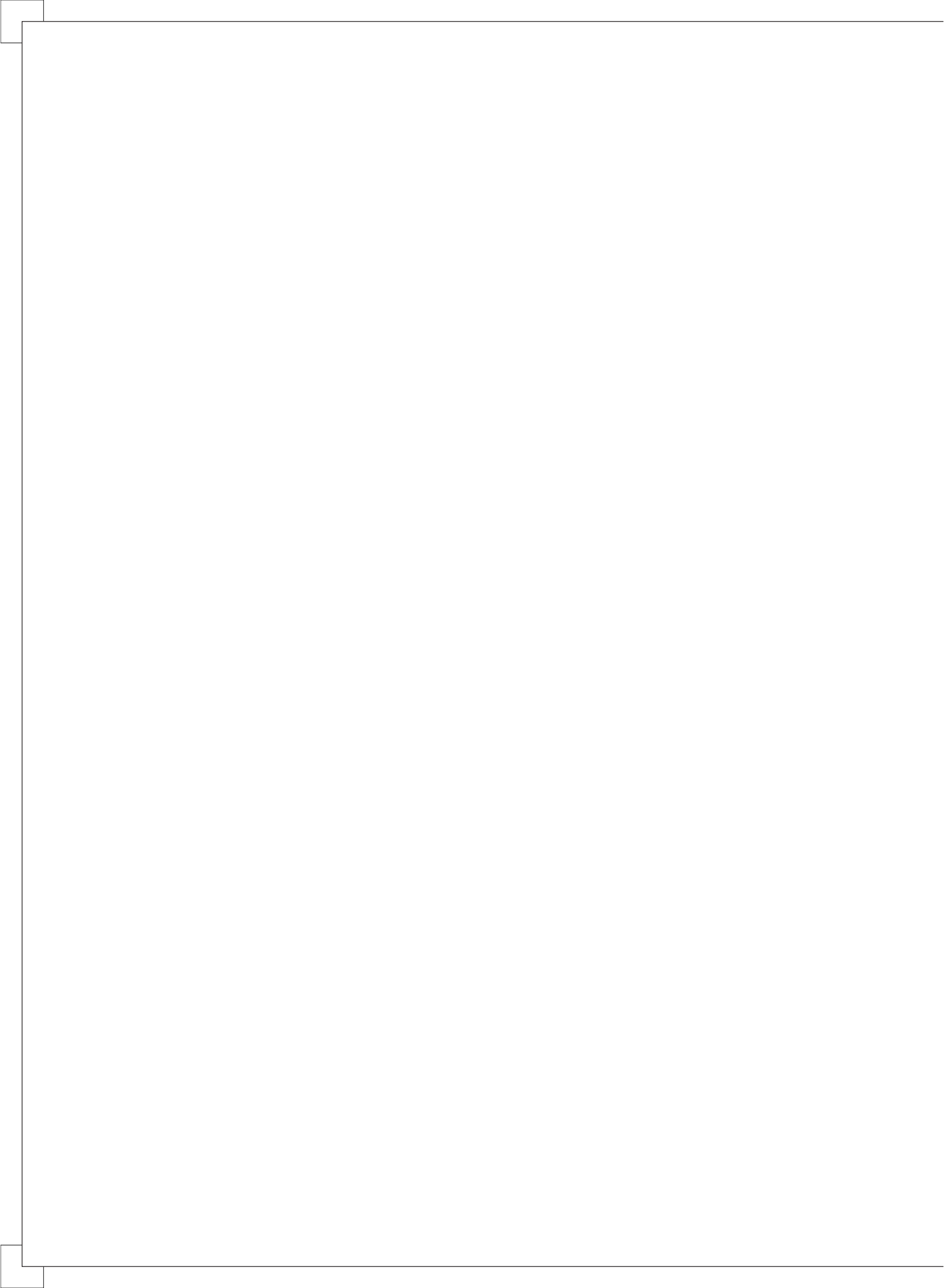
This Aerospace and Defence Manufacturing Policy has been formulated to tap this significant potential and to capitalize on the competitive advantages of Odisha's existing ecosystem to attract investments in the sector. The policy intends to create a holistic investment environment where public and private sector industries can play a pivotal role in the indigenization of the aerospace and defence sector manufacturing in the country.

¹ <https://idsa.in/issuebrief/defence-budget-2018-19-controlling-manpower-cost-1kbehera-020218>

² Defence Manufacturing Sector Achievements Report 2017

³ <https://www.investindia.gov.in/sector/defence-manufacturing>





1. Key Growth Drivers

The key growth drivers for the sector are the following:

- a) Favorable government policy which promotes self-reliance, indigenization, technology upgradation and achieving economies of scale including development of capabilities for exports in the defence sector
- b) Country's extensive modernization plans with an increased focus on homeland security and India's growing attractiveness as a defence sourcing hub
- c) New category of capital procurement - Buy Indian —IDDM (Indigenously Designed, Developed and Manufactured) introduced to encourage indigenous design, development and manufacturing of defence equipment
- d) Preference to 'Buy (Indian-IDDM)', 'Buy (Indian)' and 'Buy and Make (Indian)' over 'Buy (Global)' categories of capital acquisition
- e) Provisions to allow foreign OEM (Original Equipment Manufacturer) to select Indian production agency
- g) The MAKE procedure (Acquisitions covered under the 'Make' category refer to equipment/system/sub-system/assembly/sub-assembly, major components, or upgrades thereof, to be designed, developed and manufactured by an Indian vendor), which aims to promote research & development in the industry with support from the government and the placement of orders, has been promulgated with provision for 90% funding by Government and preference to MSMEs in certain category of projects. The MAKE II procedure allows for production/manufacture of systems/sub-systems including the path-breaking provision where the private industries/MSMEs/Startups may make a 'Suo Moto' offer to Defence forces, for items that the private players feel may be needed by them
- h) Civil aviation sector likely to see investments worth of Rs. 1.05 lakh crore during 2016-2020, 2/3rd of which is expected from the private sector and set to become the 3rd largest by 2020
- i) Maintenance, Repair and Overhaul (MRO) industry is expected to grow to Rs. 13,000 crore by 2020 from current Rs. 5,300 crore as 300 business jets, 300 small aircraft and 250 helicopters are expected to be added in the next five years

2. Existing Ecosystem in the State

Odisha, strategically located on the east coast with a long coastline and abundant mineral resources, provides a perfect ecosystem as required for the Aerospace and Defence Manufacturing sector.

2.1 Raw Materials and Resources

2.1.1 Aluminium

Odisha currently has 54% of country's Aluminium smelting capacity with presence of major conglomerates such as NALCO, Vedanta and Hindalco. The raw material produced by these units is a key input for various aluminium based alloys used in aerospace and defence products such as the fuselage, wing and supporting structures of commercial airliners and military cargo/transport aircraft.

2.1.2 Steel and Stainless Steel

Odisha is the largest Stainless Steel and Steel producer in the country. Steel and Stainless Steel are crucial raw materials for the aerospace and defence industry as they find extensive usage in the components such as gas tubes, fire arms, mess kits, quenched and tempered special alloy plates etc. used in the production of missiles, jet aircraft, submarines, helicopters, etc.

2.1.3 Electronics Manufacturing

With rapid modernization and technological innovations in the Aerospace & Defence industry, the usage of electronic equipment has significantly increased. Electronics components form a significant part in defence products such as avionics, airborne systems, military communication systems, land system electronics, naval system electronics, missile system electronics, etc.

The dedicated ESDM Park facility at Bhubaneswar along with the Special Incentive Package Scheme of the State for ESDM sector provides supporting ecosystem for manufacturing of defence electronic products in the State.

2.1.4 Plastics and its Derivatives

The structural elements of the interior of an aircraft such as navigational components, dials, back-lit panels, etc. are made of plastic and its derivatives. The State is developing a state-of-the-art Plastics Park at Paradip as part of the Petroleum, Chemicals and Petrochemicals Investment Region (PCPIR). The park will have committed feedstock availability from the IOCL refinery at Paradip. This exclusive facility will support plastics manufacturers looking to supply to the Aerospace & Defence industry.

2.1.5 Research and Training Institutions

- a) Central Institute of Plastics Engineering & Technology (CIPET), Bhubaneswar is one the premier research institutions of the country catering to the need of Plastics & allied industries of Eastern region.

It offers Technology Support Services in the areas of design, tooling, plastics processing, testing, quality assurance and research & development support for high-grade plastics.

- b) Central Tool Room & Training Centre (CTTC), Bhubaneswar is a training, production, design and consultancy center that was established in technical cooperation between Government of India & Government of Denmark. It imparts industry-oriented long & short term training programmes on CAD/CAM, Tool Design & Manufacturing, Tool & Die Making, CNC Programming & Machining, Machine Maintenance, Industrial Automation, Hardware & Networking Management, ITI (Machinist/Welder) etc. The Centre has played a key role in supplying various components and assemblies to the Light Combat Aircraft (LCA-Tejas) project and has made significant contribution by supplying precision components for the 'Mangalyaan' and 'Chandrayaan' missions of the country.⁴

2.2 Locational Advantage

2.2.1 Deep Sea Ports and International Air Cargo

A number of OEMs import different parts of the aerospace & defence equipment and assemble those to create the final product. As indigenization picks up, it is expected that there will be a large import component in raw materials both at system and sub-system levels. Moreover, India itself aims to increase its exports in defence goods and services to USD 5 billion by 2025.⁵ Therefore, it may be prudent to set up a manufacturing facility near ports to save on the logistics costs and the transport time.

Odisha, with a long coastline of 480 km is networked with several ports at vantage locations. With presence of ports at Paradip, Dhamra and Gopalpur along with other upcoming ports at Subarnarekha and Astaranga, Odisha offers a significant opportunity and competitive advantage for the Aerospace & Defence manufacturing sector companies looking to invest in the country.

The State also has an International Air Cargo facility at Bhubaneswar, equipped with custom clearance facilities for dispatching cargo and modern equipment.

2.2.2 Integrated Test Range (ITR) and Proof & Experimental Establishment (PXE), Chandipur

One of the key requirements for the Defence Sector, in particular, is availability of suitable facility for testing of artillery and other defence equipment. The availability of such a facility in the vicinity of a manufacturing unit adds to the attractiveness of the ecosystem as the equipment need not be transported to far off places for testing.

The Integrated Test Range (ITR) facility spread between Balasore on the coast and the Dr. Abdul Kalam Island located 10 Km into the sea, is a missile testing facility for most of the missiles of India such as Akash, Agni, Astra, BrahMos, Nirbhay, Prahaar, Prithvi, Shaurya, etc. The range is spread over a length of 17 km along the sea coast where a number of tracking instruments have been deployed to cover the total flight path of the test vehicles. The presence of ITR in Odisha provides a unique

⁴ <http://www.cttc.gov.in/report/sixsigma/program/CTTC%20six%20sigma%20green%20belt%20Brochure%20bbsr.pdf>

⁵ <https://ddpmod.gov.in/sites/default/files/Draft%20Defence%20Production%20Policy%202018%20-%20for%20website.pdf>

competitive advantage for Aerospace and Defence units that require testing of guns, ammunitions, explosives and missiles.

Moreover, Integrated Test Range (ITR) and Proof & Experimental Establishment (PXE) continuously explore technologies and solutions with regard to various types of Targets, RF Technology, High Speed Video Processing, Real Time Software, Sensor Technology which presents a significant market opportunity for companies operating in the sector.

2.2.3 Hindustan Aeronautics Limited, Koraput

Odisha is also home to the engine manufacturing division of Hindustan Aeronautics Limited (HAL), which has the unique distinction of being amongst one of the few aero engine manufacturers in the country. The facility has also undertaken maintenance and overhaul of military aircrafts such as MiG and Sukhoi. This facility presents a significant opportunity for ancillary and component suppliers to HAL to set their manufacturing units in the State .

2.2.4 Ordnance Factory

Odisha has an established Ordnance factory at Bolangir, which manufactures medium and large calibre ammunitions for the Indian Armed Forces. The process plants at the factory are used to manufacture initiatory compositors, automatic filling of detonators, automatic dosing, explosive filling and hot probing. Again, this provides a ready market for the suppliers to Ordnance Factory to set up their manufacturing base in the State.⁶

3. Vision

To emerge as one of the leading and globally recognized Aerospace and Defence Manufacturing Hubs by utilizing the existing competitive ecosystem of the State, through dedicated industrial infrastructure development, extension of fiscal and non-fiscal benefits and ensuring unmatched ease of doing business.

⁶ <https://economictimes.indiatimes.com/industry/transportation/airlines/-aviation/koraput-to-be-nurtured-as-aero-engine-capital-of-india-arup-raha/articleshow/45397621.cms>

4. Objectives

The key objectives of the Policy include:

- a) Attract investments in Aerospace and Defence Manufacturing sector with a target to attract at least 10% of the orders by the end of the policy period.
- b) Attract 10% of the total offset obligations discharged by companies in India by the end of the policy period.
- c) Create a strong ancillary ecosystem of manufacturers, suppliers and vendors through a focused cluster based approach.
- d) Harness the potential of ITR, DRDO, HAL, OFB and other institutions present in Odisha for developing state-of-the-art technologies, products and ecosystem for the sector.
- e) Promote R&D for building of indigenous advanced Aerospace and Defence technology with the assistance of Industries and Academic Institutions.
- f) Promote skill development in Aerospace and Defence Manufacturing to create industry-ready manpower.

5. Scope

The policy would provide incentives and exemptions in conjunction with any other applicable existing policy of the State and Government of India. Any A&D manufacturing unit may choose to avail a particular incentive either from this policy or from any other policy of the State, but not both.

6. Policy Period

The Policy will remain in operation for a period of ten (10) years from the date of its notification, with course correction as and when required, but without altering the basic framework of the policy or the incentives.

7. Fiscal & Non-Fiscal Incentives

The following incentives will be made available for Aerospace & Defence manufacturing units.

7.1 Fiscal Incentives:

Employment Rating Based Incentives

The employment and investment based incentives shall be applicable for setting up Aerospace and Defence manufacturing facility in the State as mentioned below. This will be applicable only in respect of the employees domiciled in Odisha.

Classification of Districts and Industries

For the purpose of administering the incentives, the classification of districts and industrial units are as follows.

Classification of Industries		
Category A	All other districts other than Category 'B'	
Category B	Industrially Backward Districts- Kalahandi, Nuapada, Bolangir, Subampur, Koraput, Malkangiri, Rayagada, Nawrangpur, Kandhamal, Gajapati and Mayurbhanj	
Category	Investment (Rs. Crore)	Minimum Employment
A1	>100	100
A2	>200	200
A3	>500	400
B1	>50	75
B2	>100	100
B3	>250	200

7.1.1 Capital Subsidy

The below Capital Subsidy shall be provided to all A&D manufacturing units for investment in plant and machinery as follows:

Category	Maximum Capital Subsidy
A1/ B1	10% of investment with a maximum of Rs. 10 Crore
A2/ B2	10% of investment with a maximum of Rs. 20 Crore
A3/ B3	10% of investment with a maximum of Rs. 50 Crore

For the first 3 OEMs, setting up manufacturing facility in the State, following conditions will apply.

- Capital subsidy of Rs.100 crore shall be provided to the unit which:
 - Makes minimum investment of Rs. 1,000 crore in plant & machinery
 - And provides employment to at least 1,000 persons