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We are in unique position to deliver across a wide range of needs of the Indian Armed Forces: SP Shukla, M&M



As a nation, India's defense budget is among the top 10 in the world. The NDA government is laying thrust under its Make in India campaign to incentivize and build a domestic ecosystem of manufacturers. Mahindra Group is one of them. Mahindra Aerospace and Defence Sector currently comprises of 9 operating companies engaged in designing and producing products across a wide spectrum. **S P Shukla**, Member of the Group Executive Board of Mahindra & Mahindra Limited and Group President - Aerospace & Defence shares his perspective on the sector with ET

What are Mahindra Group's plans in the defense sector?

Mahindra Group has forged a very trusted relationship with the defense forces in India. One of our founding businesses was the military jeep just after the Second World War. The relationship later expanded to different types of armoured vehicles and general service vehicles. Mahindra Aerospace and Defence Sector comprises of 9 companies which have built capability to serve the needs of all the three services - the Army, the Navy and the Air Force. In the defense sector we have now built capability to offer platforms, weapons, sensors, sub-systems, IT solutions, maintenance and training to name a few. Thus, we are in a unique position to deliver across a wide range of needs of the Indian Armed Forces.

What are some of the policy initiatives of this government that hold out hope for you?

In the aviation sector, the central government has announced their support for regional connectivity so that Indians living in smaller towns take to the skies. The union budget could be a catalyst for this noble plan, by first rationalizing the taxes on fuel. The draft civil aviation policy has proposed tax concessions from Centre and States for aviation turbine fuel, but it does not cover AVGAS which continues to be costlier. AVGAS is required for operations of piston engine aircrafts which would be used by small players. Currently, the oil companies imports and stocks AVGAS at only 13 locations in the entire country. To break this barrier, the government can consider free import of AVGAS, so that small operators would have ease in accessing fuel for operations of piston engine in remote locations. Additionally, small operators engaged in remote air-connectivity need to be encouraged by providing a tax holiday for about five years so that they run a sustainable business.

The Government has also indicated that they are catering for adequate infrastructure for Maintenance Repair and Overhaul activities, with an aim to create a level-playing field for Indian MROs vis-a-vis the global ones. Some reforms to make Indian MROs competitive are - exemption of basic customs duty on aviation spares and extending the duty-free period for spares consumption. These would go a long way in attracting MRO business into our country.

Coming to the defense sector, the most important policy in the last two years has been the thrust on 'Make in India'. This is an area where India is looking at building partnerships with global leaders so as to absorb technology

in India. Towards furthering such a national initiative we are hopeful that the government brings about a roadmap for the 'Make in India' initiative so that we are completely aligned to the strategic need of our nation.

What's your take on the government's Make in India campaign?

Make in India is a strategic initiative of the Government of India, which will help in creating an indigenous production base for the defense and aerospace industry that is a critical to a nation's sovereignty. Apart from improving the technological base and creating jobs it will also reduce our dependence on imports to reduce our current account deficit. Given the long term strategic and financial implications for the nation, the industry expects the oncoming union budget to foster this process.

Given the focus on the Make in India initiative, we are expecting a much larger capital allocation for indigenous manufacture in the outlay for defense. This would need to be much more than the traditional 10% increase we have seen year on year.

Government could also consider 'upgrades and modernisation' under separate heads instead of clubbing them with the revenue expenditure, as they are not traditional running expenditure of equipment. Further, in line with the recommendation of the Parliament's Standing Committee on Defense in April 2015, the budget would need to introduce a "non-lapsable and roll-on allocation" fund for 5 to 10 years duration. These key measures if incorporated will aid the Make in India initiative to gather momentum.

Mahindra is aligned to the 'Make in India' philosophy and has initiated multiple large scale programmes in the land, air and maritime sectors with a focus on the defense industry. Some of these include our commitment to manufacturing artillery, helicopters and torpedo decoys which have been in the news recently.

What are some of the challenges/policy bottlenecks that you would like to highlights?

The defense sector has certain unique features. It has long gestation periods for delivery of projects, high cost of capital and requirement of skilled manpower. These are areas where the government could reform the tax structure to make our defense industry competitive. On account of the long gestation period in this industry, tax incentives for private players manufacturing defense equipment could be provided. Further, procurement by Ministry of Defense could be exempt from taxes as it would lower costs like interest and overheads for the private players. Presently, taxes are transferred from one ministry to another with the procuring ministry (defense in this case) paying the finance ministry. As a result, the Indian industry has an increased cost of capital.

Such exemption would also have a positive connotation in the future, when an Indian player competes with a foreign OEM who is exempt taxes for export to India.

On the element of skill development, the tax benefits could be provided to defense industry for training employees abroad. This again would go a long way in addressing indigenous design, development and manufacturing in India.

In offsets, traditionally the private industry delivers products to foreign OEMs who then incorporate the Indian work share into their final product in their factories and export it back to the Indian MoD. This scenario would play out differently, as our private defense industry matures, with the foreign OEM giving a much larger work share in India and integrating some of their components in India itself for final delivery to the Indian MoD.

Such a case would need to be treated as deemed export without the levy of excise duty or service tax. This measure would encourage foreign vendors to increase the work share well beyond the mandated 30% in offsets purely on cost advantage basis.

Implementation of these recommendations would aid to grow the industry and truly energise the Make in India initiative.

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