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Government of Gujarat

Aerospace and Defence Policy 2016

Industries and Mines Department

Government of Gujarat

Signature

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1. Preamble

India has the third largest armed forces and the eighth highest defence expenditure in the world. With 60% of its defence needs met through imports, India is the largest importer of conventional defence equipment in the world. National security and Geo-Political requirements present an ever growing need to build additional capability through new capital acquisition. In addition the civilian aerospace sector is in itself a large evolving industry that already services many of its requirements from India. All of this presents enormous opportunities for companies looking to grow in these sectors. With a supply of skilled engineers, scientists and IT professionals, expectations are high that Indian companies and the country will play a vital role across the A&D value chain including research, design, development, manufacturing, maintenance, quality control and training. Some estimates state that defence offsets with approximately \$4.53 Billion worth of contractual offset obligations are to be met in next five to six years. The next decade will undoubtedly see India as an important part of this sector globally.

Government of India (GoI) has made the development and growth of the indigenous A&D sector a high priority. Under the over-arching framework of the "Make in India" program, Government of India announced the Defence Procurement Procedure (DPP) 2016 which provides a massive thrust to sector. With the aim of making India a self-reliant nation in defence production, Government of India has taken farsighted steps that encourage indigenization and attract global industry players to manufacture in India. Overall, these initiatives provide a boost to indigenous design, development and manufacturing of defence equipment, A&D platforms and sub-systems while at the same time removing bottlenecks in the procurement processes. DPP 2016 also refines the 'Make' procedure to ensure increased participation from the Indian industry. Enhancing the role of MSMEs in Defence sector is an important aspect of the new policy. Government of India has increased the Foreign Direct Investment (FDI) limits for the Defence sector to 49% making it even higher for those foreign investors who

provide state-of-the-art technology to the nation. The licensing requirements for Defence products has been relaxed making it easier for to enter into the A&D supply chain. These initiatives will undoubtedly encourage global OEMs and private sector manufacturers to expand and setup new manufacturing bases in India.

With encouraging regulatory enablers, ongoing defence modernization plans, the central Government's thrust on 'Make in India' and keen industry interest, the Indian A&D industry seems set on the path of higher trajectory growth. Greater indigenization will not only make India self-reliant in the defence sector, it will also help in creating huge employment opportunities for young engineers, operators and the workforce in general.

Supplementing the vision of Government of India for encouraging indigenization, Gujarat is working towards strengthening its foothold in the Aerospace and Defence manufacturing sector to create an ecosystem that will help in catalyzing innovation and indigenize manufacturing. Gujarat is one of the leading industrialized states in the country. It accounts for 5% of the country's population but contributes over 19% of its industrial output. The entrepreneurial spirit of its people is complemented with strong support of the state government. In fact Gujarat is emerging as a favorable defence manufacturing base amongst the private Indian defence companies .Under the visionary 'Make in India' program, Government of India has granted Defence manufacturing licenses to A&D companies and Gujarat has emerged as a preferred destination for a large number of these companies that are looking to commence operations in the A&D sector. Government of Gujarat aims to tap the investments envisaged in India's A&D sector. Gujarat is renowned for its expertise in engineering, including welded and forged products, and production of technical textiles. With proven engineering and industrial capabilities, Gujarat is well poised to take advantage of the surge in investments in the Indian A&D industry. Gujarat aims to not only attract the world's largest A&D companies but also proactively promote the MSME sector to tap into huge opportunities in defence manufacturing and offsets. Government of India's target to source 70% of the Defence equipment from Indian companies by 2020, has given a major boost to the large base of MSME's in Gujarat.



Gujarat is an industrially progressive state and it is envisaged that a significant amount of investment in the A&D sector is likely to come to the state. In line with the Make in India initiative of the Hon'ble Prime Minister and the call to build its defence capabilities within the country, Government of Gujarat has taken farsighted steps to encourage its growth and is the first state in the country to provide legislative support to the Defence sector through simplification of the procedure of land acquisition.

Under the Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement (Gujarat Amendment) Act, 2016, land acquisition for projects vital to National Security or Defence of India and every part thereof, including preparation for Defence or Defence Production have been exempted from the process of obtaining consent from affected area /affected family, carried out along with the Social Impact Assessment as per the provisions of Chapter II and Chapter III of the Act.

The 'Aerospace & Defence Policy 2016' is presented with the intention of bringing in capital intensive defence and aerospace manufacturing to the state. An A&D manufacturing ecosystem will be cultivated within the state by way of developing critical mass of capabilities, technologies and suppliers. This policy is a promise that investors, both Global and Domestic will find a facilitative, peaceful and enabling business environment that matches with the best in the world.

2. State Government's Vision

To establish Gujarat as India's leading hub for indigenous Aerospace & Defence manufacturing by developing globally competitive talent in the sector, promoting investments in research & development to drive globally-recognized innovation in product design and manufacturing, and supporting enabling institutions in the Aerospace & Defence manufacturing ecosystem.

3. Objectives of the Policy

Gujarat is committed to establish itself as India's leading Aerospace & Defence Manufacturing Hub. The State's well-recognized manufacturing proficiency and

state-of-the-art infrastructure will play a vital role in meeting India's critical need to be self-reliant in this sector. The objectives of the policy are to:

- Attract public and private sector investments into Gujarat in Aerospace & Defence design, development and manufacturing with a target to attract 10-15% of the orders in the defence industry in India over the next 5 years
- Create Aerospace & Defence manufacturing hubs within the State with state-of-the-art infrastructure where Mega A&D Units and MSMEs can jointly thrive
- Develop a strong A&D supply chain ecosystem in the State. Create synergies for A&D companies to meet their defence offset obligations by promoting and supporting the SME sector
- Attract a significant portion of fresh offset obligations discharged by companies in India over the next decade
- Develop skilled manpower and innovation in the A&D sector across the research, design, development and manufacturing value chain.
- Create direct and indirect employment in State through the A&D sector

4. Focus Sectors

1. **Engineering:**

Gujarat has a thriving engineering industry in the regions of Ahmedabad, Anand, Rajkot, Vadodara, Surendranagar, Jamnagar, Mehsana, Panchmahal and Kutch. These industries manufacture electrical and electronics goods, transport equipment, precision goods, fabricated metal products, machinery & equipment. The small-scale industry is a significant contributor to the production of brass parts, foundry, forging and machine tools, oil engines and electric motors, submersible pumps and industrial valves and bearings. Precision engineering cluster have also been planned by GIDC.



2. **Artillery, Ammunition and Small Arms:**

Arms, ammunition and artillery are a critical component of a modern military and India has important programs such as upgradation of rifles and procurement/ upgradation of howitzers etc. within this subsector. Manufacture of artillery has synergies with the engineering SME base of Gujarat including its extensive forging industry.

3. **Automotive:**

Gujarat has emerged as a major center for automotive production in India. Defence and Aerospace industries can utilize the automotive capabilities of Gujarat to supply auto related components, particularly to the aerospace sector. Companies which manufacture automobiles for military applications would also find Gujarat's automotive and engineering prowess to their advantage

4. **Shipbuilding:**

Gujarat has a well-developed shipbuilding sector with both public and private sector units operating large and small shipyards. In addition the vendor ecosystem that has grown around it makes shipbuilding and ship repair in Gujarat an attractive proposition. Keeping this in mind, Gujarat had come out with a Shipbuilding Policy in 2010. Since then, shipbuilding and repair activity in Gujarat has grown with several naval and coast guard vessels being built in shipyards in the state

5. **Composites / Defencetech Fabrics:**

Gujarat is the largest producer of cotton in India, the second largest manufacturer of cotton fabrics and the largest manufacturer of man-made and filament fabric in India. It has 50% of India's processing machinery manufacturers and 90% of weaving machinery manufacturers. Gujarat Textile Policy 2012 provides incentives and subsidies for technical textiles which includes 'Defencetech' textiles used for military applications such as

high performance fabrics for troops, camouflage fabrics, fabrics for tents and shelters etc. Manufacturing Defence tech fabrics on a large scale would be a natural extension to the technical and competitive advantage Gujarat has in textile and textile manufacturing.

6. Electronic Systems:

According to some estimates, India's defence electronics opportunity can total more than \$70 billion over the next 15 years. The opportunity for electronics in defence systems in India is spread across both standalone equipment as well as at a sub-system level. Gujarat's Electronics Policy provides a fillip to indigenous manufacturers of electronic products through various incentives and packages and by creating a favorable investor-friendly ecosystem across the entire value chain. Government of Gujarat would support companies / organizations that are engaged in the design, development and production of state-of-the-art electronic equipment components and subsystems for missiles, avionics, radars, surveillance systems, military communication applications etc.

7. Casting and Forging Products:

Casting and forging are a major manufacturing activity and it provides critical components to the A&D industry. Gujarat is one of the largest manufacturers of forged products among states in India. With foundries able to create from small, medium and large complex forgings, Gujarat would serve the A&D industry well in this critical activity.

8. Maintenance, Repair and Overhaul (MRO):

Gujarat has 9 airports operating under Airports Authority of India, 3 under the Indian Air Force, 2 private airports and 3 airports under Government of Gujarat. Many new airports are planned including an international airport at Dholera Special Investment Region. Government of Gujarat will promote and encourage the development and growth of MRO facilities in the State



through and will proactively focus on this sub-sector within the Aerospace industry.

9. Research & Development:

R&D plays a critical role in A&D sector and has positive spin-offs in other sectors also. Government of Gujarat will encourage companies to setup &D centers in the state through targeted incentives.

10. Ancillary Cluster Development

Government of Gujarat strongly believes in building an ecosystem for each industry rather than encourage only individual units. The development of ancillary industry around a main focus sector is a critical aspect of the overall growth of any region and its communities. To promote ancillary manufacturing clusters close to A&D OEMs, the government will proactively identify land parcels and enable them to be available at prevailing Jantri rates.

11. Testing Ranges

A unique requirement for the Defence Sector is the availability of narrow but long strips of land for testing of artillery and other requirements. Government will support A&D testing ranges/sites in the state for testing of A&D products including prioritizing land allocation for testing facilities and test ranges

5. Definitions, Terms and Conditions

5.1 Aerospace and Defence products

For determining whether a product / technology is in the category of aerospace and/or defence, the provision/definition contained in any policy, scheme or any other related document of Government of India shall be referred.

5.2 Tiers of Suppliers

- 1) Tier-1 supplier is one who manufactures and supplies sub-assemblies and allied A&D items / components / equipment / parts / accessories to OEMs.
- 2) Tier-2 supplier is one who manufactures and supplies to sub-assemblies and allied A&D items / components / equipment / parts / accessories to Tier 1 supplier.
- 3) Tier-3 supplier is one who one who manufactures and supplies basic components or parts, such as casting, forging, special steels, technical fabrics, electronic items, or such others to the A&D supply chain.

5.3 Mega A&D Enterprise

A Mega A&D Enterprise is one that fulfils each of the following conditions:

1. Is a global/Indian Original Equipment Manufacturer (OEM), i.e. a company which designs and manufactures the A&D platform and makes investment of ₹500 crore or above in the project; and
2. Has on hand A&D orders of ₹ 50 crore or above at the time of commencement of production. For this purpose, the definition of an A&D order is a contract with the Ministry of Defence or the Ministry of Home Affairs in Government of India or their equivalent in a foreign country.

5.4 Large A&D Enterprise

1. A Large A&D Enterprise is one that makes investment lower than the minimum investment prescribed for a Mega A&D Enterprise under this scheme but above that prescribed for a medium enterprise under the MSME Development Act, 2006 of Government of India.
2. A supplier will qualify as Large A&D enterprise if at least 50% of its turnover from manufacturing is by being a supplier to Mega or Large



A&D Enterprise or to Tier-1 or Tier-2 supplier in the A&D value chain, and it also makes an investment above that prescribed for a medium enterprise under the MSME Development Act, 2006 of Government of India.

5.5 A&D Micro, Small and Medium Enterprises (MSME)

1. A micro, small or medium enterprise shall be one which satisfies the conditions of Micro, Small and Medium Enterprises under the MSME Development Act, 2006 of Government of India, and has acknowledgement of Entrepreneurs' Memorandum or Udyog Aadhaar (UA) filed with the competent authority.
2. A micro, small or medium enterprise shall qualify as an A&D supplier if at least 50% of its turnover from manufacturing is by supplying to a Mega or Large A&D Enterprise or to a Tier-1 or Tier-2 supplier in the A&D value chain, and it also makes the minimum investment prescribed for a micro, small or medium enterprise, as the case may be, under the MSME Development Act, 2006 of Government of India.

6. Eligible Units

1. Mega A&D Units and SMEs which are Gujarat-based (having a manufacturing plant in Gujarat) are eligible for availing the incentives under this Policy.
2. New Unit means a unit which commences commercial production / service during the operative period of this scheme and has obtained an acknowledgement for filing Entrepreneur's Memorandum (EM) 6 with the concerned District Industries Center (DIC) or Industrial Entrepreneur's Memorandum (IEM) with Government of India.
3. Existing Unit means a unit which has filed EM with the concerned DIC or IEM with GoI.
4. Expansion / Diversification: An expansion and/ or diversification with an investment of more than 50% of its existing gross fixed capital investment

on the date of initiating expansion/ diversification shall be termed as Expansion.

7. A&D Policy Incentives and Initiatives:

7.1 Land Related Incentives:

1. Defence industries usually cluster around central Mega A&D Units. Tier-1, Tier 2 and Tier 3 suppliers will try and establish operations in close proximity of such major buyers. It is therefore important to encourage a cluster approach as in many manufacturing sectors. Land parcels would be identified and earmarked for the A&D industry. While companies would be encouraged to set up operations in Special Investment Regions, the incentives in this policy are applicable to units outside such clusters as well. The State government has identified areas in Kutch, Banaskantha, Sabarkantha, Ahmedabad and other coastal districts where the defence facilities can be promoted along with plans of developing a special defence manufacturing zone in the State. Government land would be provided at Jantri rate to companies setting up a A&D Manufacturing Unit in the state of Gujarat within the policy period
2. Inter-tidal land not falling under the jurisdiction of Gujarat Maritime Board (GMB) would be provided at 25% of the Jantri rate
3. Inter-tidal land falling under the jurisdiction of Gujarat Maritime Board (GMB) would be provided as per the GMB policy and regulations
4. 100% reimbursement of stamp duty and registration charges paid for purchase, lease, mortgage and hypothecation of land meant for A&D industrial use
5. Reimbursed Stamp Duty and Reimbursed Registration Charges will not be included as part of Eligible Fixed Capital Investment as defined elsewhere in this policy
6. Land can be sub-leased by units at the same rate as they are being leased by the units

7. Land can be mortgaged by units for raising funds. Funds thus raised should be demonstrably used only for A&D related works
8. The A&D unit would have to provide a detailed project plan before allotment of any land
9. In order to have an effective and efficient value chain for a modern and robust defence industry in Gujarat with well integrated and networked production and supply elements, government land parcels will be identified and provided at Jantri Rate to the developers of **A&D Ancillary Clusters** through Defence Industrial Parks.
10. These Parks would be developed closer to an OEM or lead integrator preferably a mega or large enterprise known as 'Anchor Unit'. Such Anchor Units could be private or defence public sector units. The intention would be to develop the park with Tier I, II and III suppliers around the 'Anchor Unit'. This would allow opportunities for wider participation by MSMEs and smaller players to participate in the industry
11. All defence equipment must pass through vigorous trial and testing before they get the final approval for induction in the armed forces. The Gujarat Forensic Sciences University (GFSU), has Asia's first integrated indoor ballistic testing range that would help the defence manufactures save costs in testing their military equipment locally who had to send their equipment abroad for testing. The 150-ft long, 50-ft wide and 35-ft high range is one of the most advanced labs for testing bullet-resistant jackets and armoured vehicles adhering to global safety requirements. A&D manufacturers would be encouraged to use the facilities in GFSU including R&D facilities.
12. To accelerate and facilitate the **Trial Tnd testing** process of artillery and other defence equipment, the Government of Gujarat will support in identification and development of testing ranges/sites in the state closer to the 'Anchor Units' to save transit time and cost overruns.



7.2 Interest Subsidy:

Interest subsidy on payable interest on borrowing from institutions outside the country through External Commercial Borrowing loans and from local financing institutions will be provided to A&D units at ₹1 Cr. per annum, ₹5 Cr. per annum and ₹10 Cr. per annum for period of 5 years to MSME, Large units and Mega units respectively

7.3 Value Added Tax (VAT), Central Sales Tax (CST) and Goods & Services Tax (GST):

1. All units would be allowed reimbursement to the extent of 100% of the net VAT paid and/or CST as per the provisions of Gujarat Value Added Tax Act 2003 for a period of 10 years. . However, additional tax will not be eligible for reimbursement
2. The reimbursement will be limited to 90% of the eligible Fixed Capital Investment made by the eligible unit within 3 years for Mega A&D Units, 2 years for Large A&D Units and 1 year for SME, as the case may be, from the date of production or during the operative period of this Policy whichever is earlier.
3. This reimbursement will be available within 10 years from the date of production for 10 years from the date of production or the completion of the 90% limit, whichever is earlier. In no case shall the amount of reimbursement exceed the total inflow of tax paid into the government treasury
4. Under the GST regime, the unit shall be reimbursed up to the extent of SGST paid in intrastate sale of the specified goods

7.4 Electricity Duty Exemption:

1. All A&D units would be provided 100% exemption on Electricity Duty for a period of 5 years from the date of commencement of commercial production
2. Power tariff subsidy of ₹ 1 per unit in the billed amount will be provided for all A&D units



3. Units purchasing electricity only from the state electricity / power distribution licensee are eligible for this subsidy
4. Units either generating power from its captive power plant or via open access will not be eligible for this subsidy

7.5 Skill Development:

1. With the increasing technological sophistication in defence, skill requirements of the industry are very specific. Meeting these requires a framework of specialized courses and a network of knowledgeable experts in the field.
2. Developing the technological skill base at State level is an important step towards indigenization in defence industry. Government of Gujarat shall work with A&D Sector Skill Council, setup by the National Skill Development Corporation, for skill development and enhancing skill effectiveness in the State for A&D sector.
3. For job related training provided by Mega A&D Units, reimbursement of ₹ 1 lakh per employee per annum subject to a maximum of 25 employees per unit per annum will be provided
4. For job related training provided by Large A&D Units, reimbursement of ₹ 1 lakh per employee per annum subject to a maximum of 20 employees per unit per annum will be provided
5. For job related training provided by MSME Units, reimbursement of ₹ 10,000 per employee per annum subject to a maximum of 10 employees per unit per annum will be provided
6. For all units, 80% of the reimbursable training cost are required to be for trainings provided to technical personnel. 20% of the reimbursable training cost may be for training provided to techno-managerial personnel