

Indian Industry at Landmark Defence Tender

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India's defence industry is poised at a landmark. On August 25, four Indian companies — three private and one public — will submit bids in the defence ministry's first-ever 'Indian industry only' competition to develop a high-tech weapon system for the defence forces. The four companies — Tata Motors; the Mahindra Group, L&T and the Ministry of Defence (MoD)-owned Ordnance Factory Board (OFB) — are competing to design and build 2,600 new-generation Future Infantry Combat Vehicles (FICVs) to replace the Indian Army's aging fleet of Russian-designed BMP-IIs.

In an American-style showdown, two of these vendors will be nominated to develop a prototype each and the winning design selected for the FICV. While the cost of developing and manufacturing 2,600 FICVs can only be roughly estimated, senior executives from two of the competing companies say that the bill could add up to Rs 50,000 crore. This will make it India's most expensive defence contract so far. Infantry Combat Vehicles (ICVs) are lightly armoured, highly mobile, tracked vehicles that look like small tanks. Travelling deep into enemy territory alongside tank columns, each ICV carries 7-8 infantry soldiers.

These jawans, once dismounted, physically occupy and defend captured territory until the slower-moving infantry divisions can catch up with the strike formations. MoD will fund 80 per cent of the cost of developing the FICV, while the selected contractor will pay the rest 20 per cent. It has been mandated that the FICV must have an indigenous content of at least 50 per cent. With a development time of 7-8 years, the FICV should be ready by 2018. This indigenous development of an FICV has been enabled by the Defence Procurement Procedure of 2008 (DPP-2008), which lays down a "Make" procedure for developing "high-tech, complex systems" through Indian industry. Following this procedure, MoD surveyed private and public industry to zero in on potential contractors. The

four companies identified were then issued with an Expression of Interest (EoI), which listed out the capabilities that the army expected from the FICV.

Sources familiar with the EoI say that the FICV will be operated by three crewmembers, and carry seven additional soldiers with combat loads; it must provide protection from bullets fired by 14.5-millimetre calibre weapons; it must be amphibious, i.e. capable of floating in water; it must be air-transportable, which would imply a maximum weight of 18-20 tonnes; and it must have a cannon and be capable of firing anti-tank missiles. In their responses to the EoI on August 25, each of the four competitors will detail their proposal for developing the FICV, the key project milestones, the estimated capital expenditure, the technology they will include and how that will be developed or purchased, and the minimum order that they would need to set up a financially viable production line. Those responses will be evaluated by the MoD's Integrated Project Management Team, which will select two contractors. Over a fixed number of years, the two contractors will develop their respective FICV prototypes.

The Indian Army will select the better of the two by carrying out field trials. But this is not a winner-takes-all competition. Since the MoD wants to retain two production lines, the winner will be given 65-70 per cent of the order, the runner-up will build 30-35 per cent of the army's requirement of FICVs, provided that the company agrees to build the winning design at the same cost as the winner. With two assembly lines operating, India's private defence players expect that the FICV contract will create an ecosystem of suppliers extending far beyond the winner of the contract. Brig Khutab Hai, who heads the Mahindra Group's defence business, says: "The FICV project will be a huge boost to the Indian defence industry in R&D, manufacture, and in developing Tier-1 and Tier-2 suppliers from the small and medium sector industries."

This attempt by the MoD to harness private contractors is backstopped by the public sector: The Defence R&D Organisation believes that it will be approached for key technologies; and the Ordnance Factory Board, which manufactures the BMP-II at Medak, in Andhra Pradesh, for production assistance. At least two of the private contractors believe that it would be wasteful to set up a new production line. Says a senior executive in one of the contending companies: "Ordnance Factory, Medak, is a national asset and it would be lying idle at that time. We could build the FICV at Medak — on a government-owned-company-operated basis — instead of setting up a brand new facility."

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