

Govt to expand competitive bidding for defence buys

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In a move that could level the playing field for private defence firms, the Ministry of Defence (MoD) will expand the use of competitive bidding in procuring weapons and systems for the armed forces. This would be particularly for the equipment where Indian private industry has established capacity, Defence Secretary Rajesh Kumar Singh told *Business Standard*.

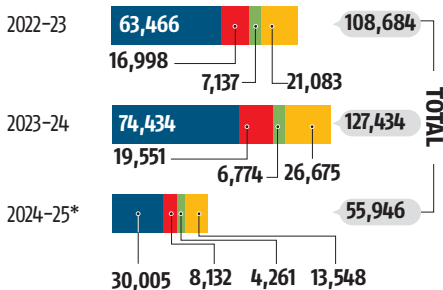
This is part of the government's ongoing shift from nomination, or the practice of directly awarding procurement contracts to public-sector entities without a tendering process. Industry insiders estimate that a substantial share of the production of defence public sector undertakings (DPSUs) is secured through nomination. Private defence firms have long viewed a shift away from this practice as key to ensuring a more level playing field.

Emphasising that defence procurement must continue to be a diligent process, given the use of public funds, the defence secretary

MILITARY BOOK

India's defence production (₹ cr)

■ Old defence PSUs ■ New defence PSUs
■ Other PSUs/JVs ■ Defence private firms



Note: Summation of annual sales turnover reported by firms;
*As on Sep 30, 2024

Source: Department of Defence Production, Ministry of Defence

said promoting ease of doing business in the defence industry would be a priority for the MoD this year, aligning with its decision to observe 2025 as the 'Year of Reforms'.

MoD taking steps to enhance ease of doing business

“The MoD is focusing on a more expeditious industrial licensing process in defence and taking additional steps to enhance ease of doing business. This is an ongoing effort involving multiple branches of the ministry, particularly the Department of Defence Production, along with the Department for Promotion of Industry and Internal Trade and the Petroleum and Explosives Safety Organisation,” Defence Secretary Rajesh Kumar Singh (*pictured*) said.

As part of this ongoing process, the concerns of the private industry — nomination in military acquisitions, and the ‘no-cost, no-commitment’ approach to product trials for capital procurements, where the government neither funds evaluations nor guarantees purchase after trials — would be discussed with all stakeholders, Singh said. Positioning India as a global leader in defence exports is a key part of the ‘Year of Reforms’ agenda. “As part of the ongoing efforts, the MoD is also

looking at ways to make the export-approval process more efficient, in consultation and coordination with the Ministry of External Affairs.” One possible measure could be the formulation of positive and negative defence export lists.

Besides the broader ease-of-doing-business agenda, as reported by Business Standard last week, the process to “significantly” shorten defence procurement timelines is expected to be completed in three months, by early June, while procedural reforms to the Defence Acquisition Procedure (DAP) 2020 — aimed at streamlining India’s defence procurement policy — are expected to be completed by early September. A committee was recently set up under the additional secretary and director general (acquisition) to drive these procedural reforms. Making defence acquisition procedures simpler and time-sensitive is another major ‘Year of Reforms’ agenda item.

In 2023-24, India’s total defence pro-



duction hit a record ₹1.27 trillion, with the private sector accounting for ₹26,675 crore (20.93 per cent). The 17.25 per cent growth in total production that year was a seven-year high. The domestic defence industry comprises 16 DPSUs, 430 licensed companies, and around 16,000 micro, small, and medium enterprises.

The same year, India’s defence exports

hit a record ₹21,083.35 crore, 32.45 per cent higher than the previous year, with the private sector accounting for ₹13,119 crore (62.22 per cent).

Since 2020-21, a significant share of the armed forces’ capital acquisition budget has been allocated to domestic procurement. For 2025-26, ₹1.115 trillion (75 per cent) of the ₹1.49 trillion capital acquisition budget has been earmarked for domestic purchases, with ₹27,886.21 crore (25 per cent of the domestic share) set aside for private firms.

“Defence remained a closed sector until 2001, and private sector participation gained real momentum only in 2014. The shift away from nomination began with the Defence Procurement Procedure 2016, later replaced by DAP 2020. Procurement rules must align with this transition,” said Laxman Kumar Behera, associate professor at the Special Centre for National Security Studies, Jawaharlal Nehru University. “Major defence platforms are

still procured through nomination, but competitive bidding for newer platforms will likely benefit the private sector. However, capital naval ships will likely continue to be procured through nomination from public shipyards,” he added.

Jayant Patil, a member of the executive committee of management at Larsen & Toubro (L&T), and advisor (defence and smart technologies) to the L&T chairman and managing director, said: “The government has taken steps to create a level playing field between private firms and DPSUs. However, major acquisitions continue through nominations, ignoring competitive bidding and the level playing field.” This makes it difficult for private companies to secure contracts, he said, adding: “Curbing nominations would be a significant step forward. More contracts for private firms, whose share in indigenous acquisition has stagnated at 20 per cent, would mean greater funds at their disposal to invest in research and development.”