

Amended space FDI norms a boost for space tech companies

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New Delhi, 8 March

In a rare move, the government has adopted a graded approach to set the limits for foreign direct investment (FDI) through the automatic route for different segments of the space sector.

It has done so to strike a balance between the need to attract more investment into the sector and the country's security and strategic interests.

The government, on March 5, notified the amended FDI norms in the space sector. The decks have been cleared for 100 per cent overseas investment in making components for satellites, 74 per cent in satellite manufacturing and operations, and 49 per cent in launch vehicles. Anything beyond these limits for their respective sub-sectors will need government approval.

The move's aim is to remedy the tepid foreign investment into the country's space sector over the past two years, which has mainly been caused by challenges in the global economy.

Before the change in FDI norms, foreign investment in the space sector was allowed up to 100 per cent in the satellite establishment and operations sector through the government route alone. Now, the government hopes to attract overseas players and private companies into the segment via easing of

the policy.

However, there are security considerations that result in the difference in how much FDI can come in through the automatic route in the space sector's different sub-segments.

It's not arbitrary

Jayant Patil, member of Executive Committee of Management, Larsen & Toubro (L&T), said that the FDI regime, which was graded into three segments, was not an arbitrary move.

Patil said, "For satellite components, the regime must be completely free so that we integrate the Indian industry with the global supply chain and also open it for overseas players to come here and set up shop." He added, "In any case, while the components and subsystems are vital, they hardly decide the final purpose of the satellites. Thus, there is no need to restrict FDI due to strategic considerations."

Under the revised norms, up to 100 per cent FDI through the automatic route is allowed in manufacturing of components, systems, and sub-systems for satellites, along with the ground and user segments.

Controlling end-use is a key factor

However, this logic changes once we come to satellite manufacturing and operations.

STRIKING A BALANCE

Amended space sector FDI norms

Automatic Government route

Sector/activity	Sectoral cap	Entry route
▶ Satellites—manufacturing and operation	100%	Up to 74% Automatic Beyond 74% Government route
▶ Satellite data products		
▶ Ground segment and user segment		
▶ Launch vehicles and associated systems or subsystems	100%	Up to 49% Automatic Beyond 49% Government route
▶ Creation of spaceports for launching and receiving spacecraft		
▶ Manufacturing of components and systems/subsystems for satellites, ground segment and user segment	100%	Up to 100% Automatic

Source: PIB

Average number of smallsats launched per year	2013–2022	2023–2032*
	698	2,610

*Estimated figure

Source: Euroconsult Group

Up to 74 per cent FDI under the automatic route has been allowed for satellite manufacturing and operations, satellite data products, and ground and user segments.

Government approval will be required beyond this limit. Explaining the reason for this, Patil said, "On the other hand, satellite manufacturing and

operations have a lot more to do with end-use."

He added, "While foreign entities can own 74 per cent, from consideration of undisputed control on ownership to the intellectual property, the Indian partner needs to have a veto right that comes with a 26 per cent holding should the purpose and end-use of the satellite or

on-board sensors not be fully in alignment with national interests."

Satellite demand is also a consideration

The more liberal norms for the manufacturing of satellites, components, systems, and sub-systems for satellites are also based on financial

considerations.

Ratan Shrivastava, managing director (MD) of BowerGroupAsia and a member of the SatCom Industry Association's (SIA-India's) Advisory Board, said that liberalisation of FDI norms in the satellite manufacturing and ground segment was welcome as reception and dissemination requirements have significant capital expenditure needs.

BowerGroupAsia is a strategic advisory firm that specialises in the Indo-Pacific.

Shrivastava said, "It will also be helpful for those foreign investors who want to work with Indian companies to manufacture satellites for third parties and countries." And more inflow of funds to finance capex is a must if India's private space firms want to make the most of the robust projected demand for satellites over the current decade.

In fact, the demand for smallsats, satellites that weigh less than 500 kg, is particularly encouraging, as experts believe that this is a segment where Indian startups will have a relatively lower bar for entry.

According to Euroconsult Group, a global strategy consulting and market intelligence firm that specialises in the space sector and satellite-enabled verticals, around 26,104 smallsats will be launched between 2023 and 2032.

The average number of smallsats launched per year between 2023 and 2032 will amount to 2,610, almost four times the 698 launched per year between 2013 and 2022.