

## Budget Round-Up: Aerospace and Defence Sector

The Hon'ble Finance Minister of India announced the budget for the financial year 2022-23 on February 1, 2022. Set out below are the key budget takeaways for the Aerospace and Defence sector:

### Defence Budget 2022-23: A Comparative Analysis of allocations

Allocation Head	2021 (in USD)*	2022 (in USD)*
<b>Total Defence Allocation</b> <i>(includes expenditure on salaries, pensions, modernisation of armed forces, production establishments, maintenance, and research and development organisations)</i>	64 billion	70.25 billion
<b>Capital Outlay for Defence Services</b> <i>(earmarked for capital expenditure)</i>	18 billion	20.38 billion
<b>Domestic Procurement budget</b> <i>(out of total Capital Outlay)</i>	9.36 billion	13.8 billion
<b>Private Sector procurement</b> <i>(out of total Domestic Procurement budget)</i>	2.34 billion	Figures not yet available, but should be at least 25% of the domestic procurement budget
<b>R&amp;D</b>	1.12 billion	1.24 billion

\* Based on an exchange rate of USD 1 = INR 74.62

In speaking of the Aerospace and Defence sector, the main focus of the Finance Minister remained on promoting an 'Atmanirbhar Bharat'. Successive increases in the domestic capital acquisition budget as well as the growing list of items placed on the 'positive lists' (i.e., items under imported embargo) are indicative of the Government's strong stance to reduce dependence on imports. However, an estimated USD 10 billion still remaining earmarked for imports showcases the Government's acceptance of India's current state of sophistication in the sector and the need to rely on foreign players for critical, high-end technologies. To bridge this gap going forward, the Finance Minister also announced several initiatives aimed at further strengthening domestic capabilities. Set out below are the key highlights of the significant announcements made in this regard:

- ▮ 25% of the Defence R&D budget earmarked for private industry, startups and academia. Private industry will be encouraged to take up design and development of military platforms and equipment in collaboration with the DRDO and other organisation, through the SPV model.
- ▮ An independent, nodal "umbrella" body to be set up, to meet testing and certification requirements of private players.
- ▮ The Government has decided to categorise various sectors as 'strategic' or 'non-strategic'. For the non-strategic sectors, it is proposed that all Central Public Sector Undertakings (CPSUs) will be privatised or closed. Defence has been classified as a "strategic sector", where going forward, there will be bare minimum presence of CPSUs, and other than certain key CPSUs, all others will be privatised or merged or subsidiarized with other CPSUs or closed. This initiative should result in the CPSU stronghold in sector finally being vitiated in favour of private players.



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