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Key Messages

India remains a USD 10 billion opportunity for US Companies



Need to review strategies – with a gradual focus in Buy Indian categorization



Offset requirements remain onerous



The policy and fiscal regime continue to challenge

The Political Scenario

1

Assembly Elections 2014 – BJP emerging as the single largest party but coalition politics here to stay

Insights

- Stable but boisterous democracy
- Independent judiciary
- Vocal Press
- Recently, assembly elections were concluded in 5 states – Chhattisgarh, Delhi, MP, Mizoram and Rajasthan
- Election results disturbing for Congress; BJP seems to be leading the race
- Emerging active involvement of middle class in shaping the current political scenario
- AAP emerging as a show spoiler for BJP though the charm seems to be fizzling out
- The general elections are scheduled in May 2014

State Assembly Election Results (seats won)

	Year	Chhattisgarh	Delhi	MP	Mizoram	Rajasthan
Congress	2013	39	8	58	30	21
	2008	38	43	71	32	96
BJP	2013	49	32	165	1	162
	2008	50	23	143	-	78
AAP	2013	-	28	-	-	-
	2008	-	-	-	-	-
BSP	2013	0	-	-	-	-
	2008	2	2	7	-	6
Others	2013	2	2	7	9	16
	2008	0	2	6	8	6
IND	2013	-	-	-	-	-
	2008	-	1	3	-	14

source: www.indian-elections.com

Assembly Elections 2014 – BJP emerging as the single largest party but coalition politics here to stay

What the crystal ball says....

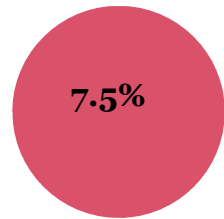
- The ruling UPA saddled with the allegations of indecisiveness, low growth rates and rising inflation, which reflected in the recent assembly elections
- Congress has finally projected Rahul Gandhi as the contender for PM. Major work being done in creating visibility for Rahul Gandhi as the one representing India's youth with focus on governance and growth
- BJP projected Narendra Modi as the growth driver
- Increased focus on governance, accountability, growth and reform for the next Government
- Unlikely any policy reversal – except retail FDI

The Indian economy

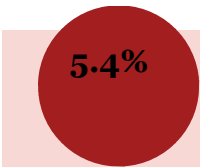
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India still remains among the growing economies...

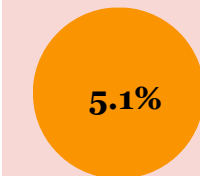
GDP Growth– 2014



China



India*

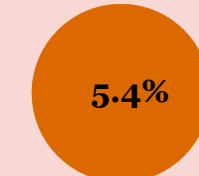
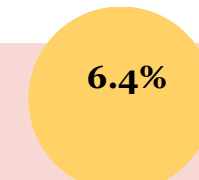
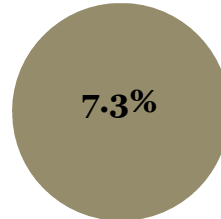


Emerging and developing economies



Advanced economies

GDP Growth-2015



- Real GDP growth slowed to a 10-year low of 5% in the FY 2013 from 6.2% in FY 2012
- However, the IMF forecasts that India's GDP growth rate in 2015 will be better than the collective growth rate of advanced economies, and emerging and developing economies.

• The Prime Minister's Economic Advisory Council (PMEAC) to believes that India will register a growth rate of **5.3%** in FY 2014.

*For India, data and forecasts are presented on a fiscal year basis.

Source: World Economic Outlook , The IMF

...with price control and reforms high on agenda

Price Stabilization remains priority

- The RBI Committee on the Monetary Policy Framework headed by Urjit Patel recommends making inflation a prime target of the monetary policy and containing consumer price inflation within 4% (+/-2 percentage points) by 2016. The policy rate hike of 25 bps by the RBI on January 28 was more aligned to the central bank's objective of stabilizing prices.

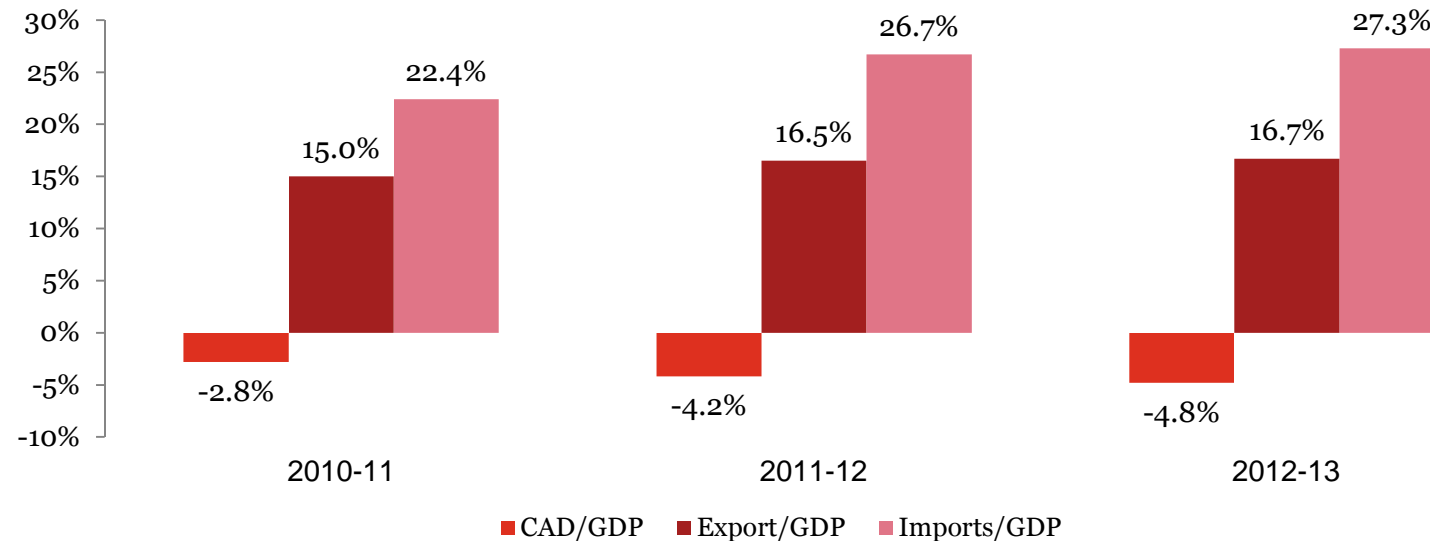
Reformist mood

- The government still pushing for
 - reducing subsidies on petroleum and diesel
 - attracting FDI in e-commerce, aviation, railways and broadcasting
 - the new Companies Act/ setting up the Cabinet Committee on Investment
- The central bank intends to maintain price stability, make households a priority, encourage healthy banks to increase their branches and foreign banks to move to wholly-owned subsidiary structures

*For India, data and forecasts are presented on a fiscal year basis.

Source: Highlights of economic outlook 2013-14, PMEAC

Rupee, CAD and fiscal deficit remain as challenges



- Current account deficit (CAD) has moved from -2.8% in 2010-11 to -4.8 in 2012-13
- However, recently the Finance Minister announced that he hopes to meet the CAD target of 4.8% by the end of this financial year
- Containing fiscal deficit is also a primary focus of the administration
- The rupee had shown a sudden fall against the USD on fears of ‘tapering’ of the US asset purchase programme. However, vulnerability of the currency is expected to reduce as external risks have moderated and markets have already factored in ‘tapering’

Source: Bloomberg and RBI

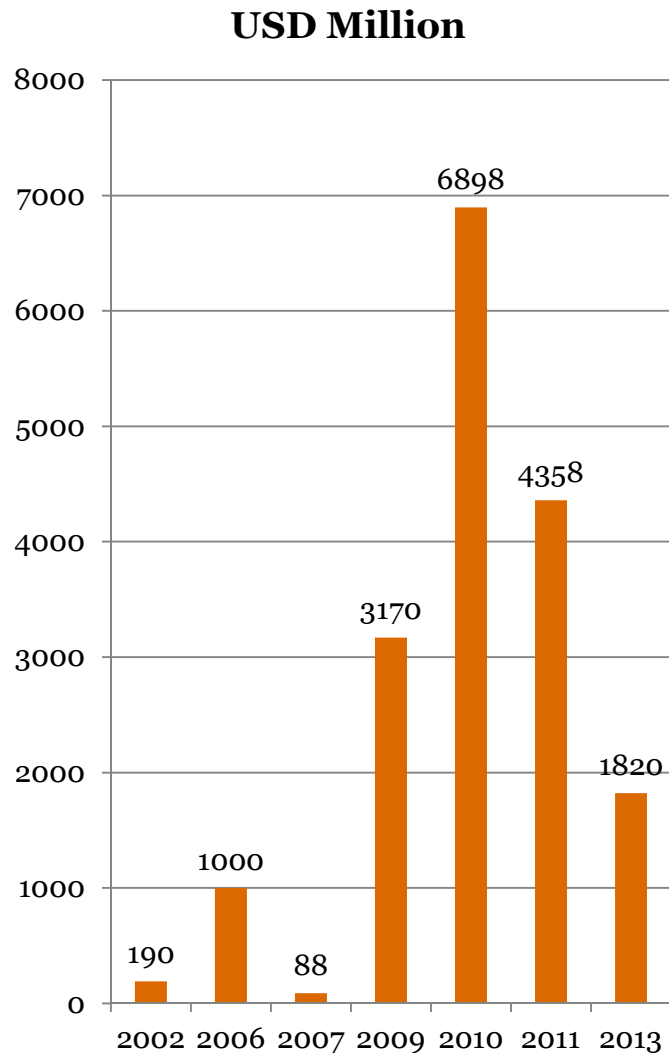
Reflections from 17th PwC Global CEO Survey

- The 17th PwC Global CEO Survey released at the World Economic Forum emphasized on the fact how the global economy is rebalancing itself– ‘The advanced economies are mending, while some emerging economies are slowing down.’
- The rebalancing act is true for India as well. The global CEOs were asked ‘Which three countries, excluding the country in which you are based, do you consider most important for your overall growth prospects over the next 12 months?’ In the ensuing ranking India’s position worsened in 2014 compared to 2013. However, India still features in the top 10 destinations

Opportunities for US Industry

3

FMS Programs remain significant



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Contracts Signed

2002 - 12 ANTPQ 37 Artillery Radars bought from Raytheon for USD 190 million

2006 - 3 VVIP aircraft from Boeing for USD 1 billion

2007 - Naval ship USS Trenton + 6 Sea King helicopters worth USD 88 million

2009 - 8 P-8i maritime Aircraft from Boeing for USD 2.21 billion

2010 - 6 C-130 J Hercules transport aircraft from LM for USD962 million

2011 - 10 C-17 Globemaster aircraft from Boeing for USD 4.1 billion and CBU -105 sensor fused weapons from Textron for USD 258 million

2013 - 99 engines for Tejas LCA from GE for USD 820 million (option of 45 more) and 6 C 130 J Hercules Transport Aircrafts from LM for USD 1 billion

India continues to be an attractive market for US companies

Company Name	Product	Deal Size
Boeing	4 P-8 I maritime aircraft (FMS)	USD 1 billion
Lockheed Martin	8000 javelins with launchers	USD 2 billion
Boeing	AGM 84 L Harpoon block 2 missiles for P 8i Maritime Patrol aircraft (FMS)	USD 200 million
Boeing & Pratt & Whitney	6 C-17 Globemaster aircraft (FMS)	USD 2.5 billion
General dynamics	100 UN mission APC	USD 2.5 million
Boeing, Bell, Sikorsky	15 Heavy lift Helicopters	USD 550 million
Sikorsky	16 multi role helicopters	USD 1 billion
Honeywell	Engines for Jaguar fighter aircraft	USD 670 million
Boeing , Lockheed Martin, GE, Northrop Grumman, Raytheon	22 Attack Helicopters + hellfire & Stinger missiles	USD 1.4 billion
BAE	M 777 Ultra-Light Howitzers (FMS)	\$ 650 million

Overview of the defence sector

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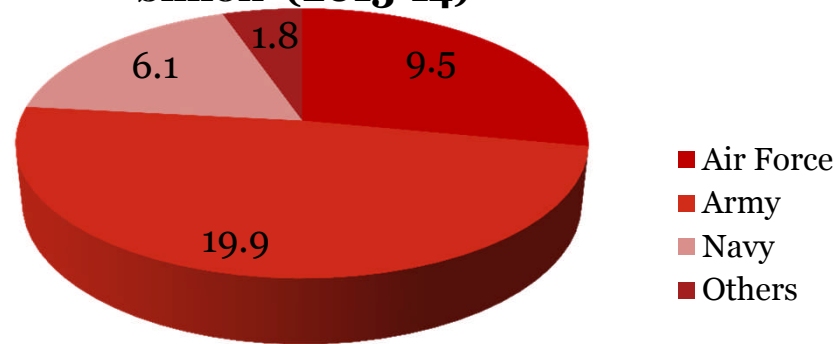
Five policy regimes primarily govern the defence sector

<i>DPP 2013</i>	<i>Industrial license</i>	<i>FDI policy</i>	<i>Export and import policy</i>	<i>Tax regime</i>
<ul style="list-style-type: none">• ‘Indian enterprise’ not defined• Lack of clarity on the eligibility of a WoS and integration for offset credits• Eligibility of services as an offset avenue	<ul style="list-style-type: none">• Long and uncertain time lag for obtaining an IL• List of defence items rolled out by DIPP• Clarification issued by MoD that IL will not be a mandatory requirement in order to qualify as an IOP	<ul style="list-style-type: none">• 26% cap restricting investments*• Problematic conditions regarding ownership and control by resident Indian citizens of a listed company• No clarity on what constitutes “State of the art technology”	<ul style="list-style-type: none">• Lack of clarity on whether export/import license is required for a ‘dual use’ item• Long and uncertain time lag for obtaining export/import license• Absence of list of ‘friendly countries’ for free export	<ul style="list-style-type: none">• Lack of tax incentives to Indian vendors• Taxes in the domestic supply chain adding to costs• Indirect tax structure favoring export of goods and direct imports by MoD vis-à-vis local supplies to MoD

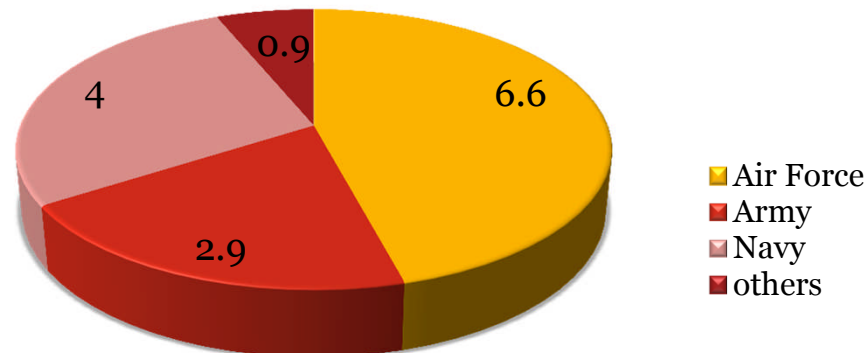
** The Government of India recently allowed FDI in Defence Production beyond 26% subject to transfer of state of the art technology and approval from CCS.*

Capital budget worth USD 1.31 billion re-allocated to revenue budget; however we expect a 10% increase in next year's budget

MoD Budget by Service in USD billion (2013-14)



Capital Budget by Service in USD billion (2013-14)



Conversion rate 1 USD = INR 60

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- Total budget for defence - USD 33.95 billion
- Capital budget worth USD 1.31 billion re-allocated to the revenue budget
- Revised capital budget after re-allocation – USD 13.14 billion
- Highest increase was in the capital budget of Air Force

Expectations from budget 2014-15

- Increase in capital budget of Navy and Air Force
- Revenue budget to remain steady

Recent Trends

Offsets

- Services held in abeyance
- Value addition in India to be documented
- Certificate of origin required
- Started responding to banking proposals
- Credentials and capabilities of IOPs being checked
- Penalties being levied

Joint ventures

- Amertec Systems and Israel's Enertec Electronics Ltd, to develop electronic systems, and simulators
- Hical Technologies and NSE Industries, France for wiring, cable and harness and test benches.
- M&M and US's Telephonics, for radar and surveillance systems
- Mahindra & Mahindra and Rafael to develop Electronic Warfare Systems and remotely operated weapon stations for FICV
- Elbit and Bharat Forge to develop advanced artillery and mortars systems solutions

Defence procurement

- Slowdown in decision making
- Increase in "Buy Indian"
- Maintenance ToT (MToT) no longer through nomination
- Definition of indigenous content specified
- DAC to approve deviations from DPP
- Fixed price contracts for naval ships
- Directorates of indigenization
- De-emphasis on nomination
- Simplification of Make procedure underway

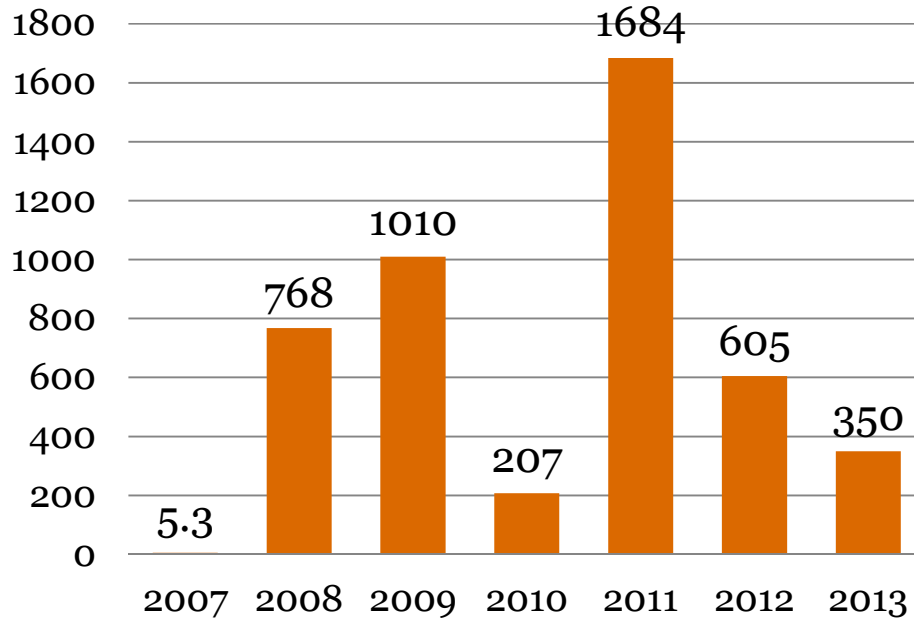
The Offset Experience

20 Offset Contracts signed - USD 4.63 bn

Increased scrutiny

- Measuring value addition in India
- Checking fair price of offset proposals
- Valuation of proposals
- Antecedents of IOPs

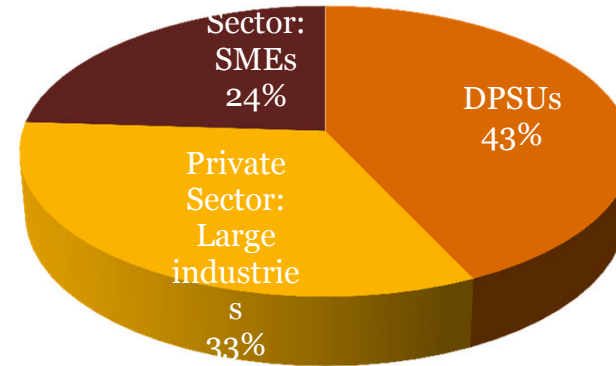
USD million



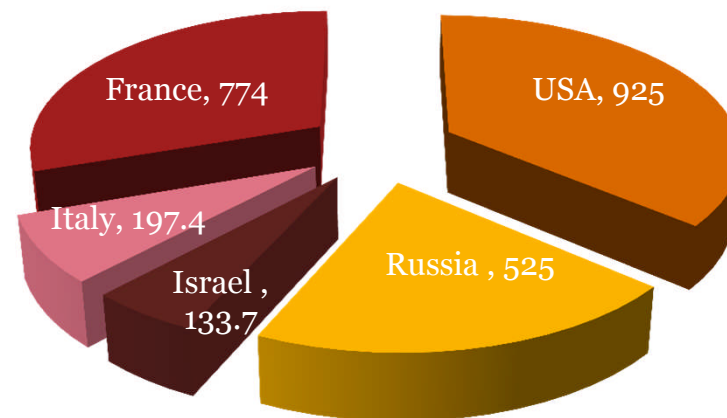
PwC

■ \$ million

Offset contracts - allocation



Aerospace offsets (USD Million)



The unfinished agenda...

5

The unfinished agenda...

1

Requirement of indigenous content at trial stage

2

WOS eligibility for offsets

3

Indirect tax issues impeding domestic value addition

4

Services as an offset avenue

5

Extending benefits of prospective amendments in offset guidelines to ongoing programs

Thank you

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