



# *Cutting Edge:* Aerospace and Defence





## Editorial

Dear readers,

It gives me immense pleasure to present the 36th edition of 'Cutting Edge', PwC India's Aerospace and Defence newsletter. In this issue, we aim to update our valued clients on the latest developments in the defence sector in India. The sector experienced significant activity in the last few months, with the recently concluded Defexpo 2018, the release of the draft Defence Production Policy (DProP) 2018 and the defence budget that was presented in February 2018.

Defexpo 2018 saw participation from 500 Indian companies, along with over 150 foreign companies and official delegations from more than 40 countries. In his speech at the event, the Hon'ble Prime Minister re-emphasised on the need for indigenisation in defence manufacturing and reiterated the government's commitment to transform India into a defence industrial hub. He also acknowledged the complexity of achieving this goal, perhaps to explain the slow progress on key initiatives like the Strategic Partnership Policy and the inability of the government to award a major programme to the private sector. During this expo a number of MoUs were signed between Indian and foreign defence companies. Mahindra and Shinmaywa signed an MoU that would allow for the manufacture of US-2 seaplanes in India, MKU Limited and the Thales Group signed an MoU for the development and production of optronic devices and F90 close quarter battle rifles, Larsen & Toubro and Rosoboronexport signed an MoU for developing underwater platforms and six other MoUs were signed with different Russian companies<sup>1</sup>.



1. Various news articles

DProP 2018 has been a much-awaited policy. That said, it can only become successful with the right implementation strategy, the setting of strict timelines for achieving well-defined milestones, a periodic review mechanism and accountability for non-performance. The MoD has invited suggestions from experts and stakeholders, after which it intends to issue the finalised DProP 2018 by the end of April 2018. The policy demonstrates the government's intent to develop and nurture intrinsic defence production capabilities and promote indigenous defence manufacturing. While the policy is comprehensive and has a positive intent towards the sector, its actual implementation would define the outcomes since it is yet to be seen how the policy will transition into specific guidelines, regulations and, most importantly, actions.

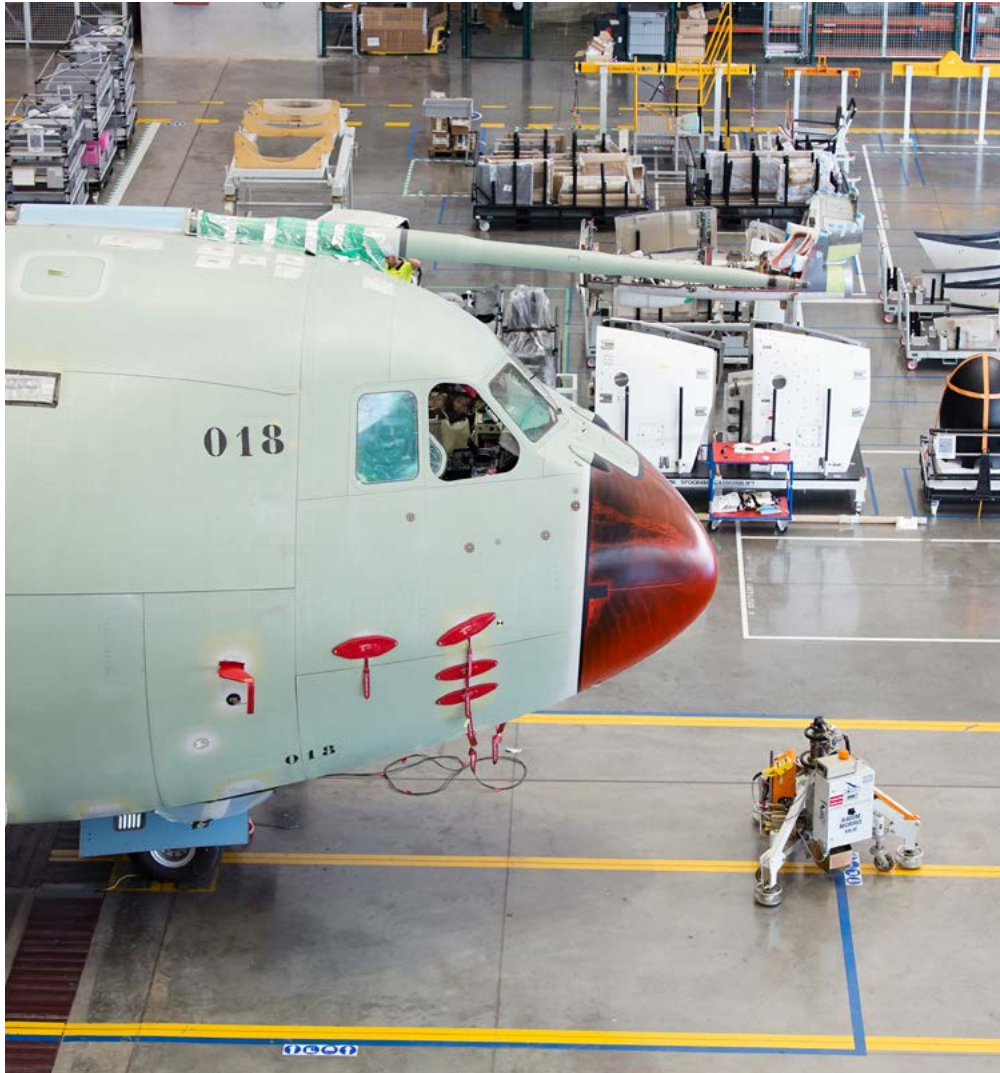
The defence budget,<sup>2</sup> which was released in February 2018, has been widely discussed. There was a marginal increase of 5.8% in revenue in

the defence budget for 2018–19 in comparison to last year (262,390 crore INR in 2017–18 to 282,733 crore INR in the current year), accounting for 10.74% of the total allocation. Capital expenditure witnessed a CAGR of -0.2% over the last five years; however, it increased by about 8.7% over last year's revised estimates and revenue saw a marginal increase of 4.5% over last year's revised estimates. It was great to see that growth in the allocation and share of capital expenditure exceeded that of revenue as this was a pre-budget ask/expectation of the defence sector. Despite the constant public discourse on increasing indigenous development, there was no significant increase in capital allocation; however, it was heartening to note that the MoD was able to spend its capital allocation last year.

On the procurement front, we saw some flip-flop during this quarter. The government scrapped its plan to produce 114 single-engine fighters with foreign collaboration under the Strategic Partnership Policy framework which was at an



2. PwC analysis; Union Budget, 2018–19



estimated cost of 1.15 lakh crore INR (almost 18 billion USD). Instead, the MoD has now initiated the process of procuring 110 multi-role combat aircraft worth an estimated 15 billion USD—one of its largest orders in recent years—in a bid to shore up its fast-depleting squadron strength. However, the question now is, is this a reincarnation of the failed MMRCA all over again?

In relation to the government's efforts to divest from public sector entities, it invited bids for the disinvestment of PHL in 2017. The bid was open to both Indian and foreign players to buy out the government stake along with management control in the helicopter service operator. However, as there was only one bidder, the government had to cancel the EoI and it has now invited fresh bids for disinvestment by 11 June 2018.

With a view to expedite the disinvestment process for Air India, the government relaxed FDI norms and allowed foreign investment up to 49% in the airline through the approval route. This was a sensible move by the government and is expected to widen the universe of bidders, thereby making disinvestment easier and faster in FY19. The MoCA has issued a PIM in March 2018 for bidders interested in acquiring 76% stake in Air India. However, the response so far is lukewarm. We believe the government should completely exit and not hold 24% equity because its presence government on the board dilutes management control and flexibility. If this divestment has to succeed, the government will have to be flexible in discussions with potential buyers and reconsider some of the terms of the divestment.

We also witnessed three IPOs in the defence sector in this quarter: HAL, BDL and MIDHANI. HAL's IPO was undersubscribed, with LIC bailing it out and picking 70% of the shares on offer. Retail, HNI and employee categories were severely undersubscribed. While BDL and MIDHANI did relatively better, they



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were only moderately successful because of poor market sentiments, as well as uncertainty and the lack of clarity on the indigenisation programme and the role of DPSUs in the larger plans of Make in India.

Another industry event that was much-awaited and appreciated was the release of the second phase of UDAN under the RCS. As the government saw a poor response from fixed-wing operators in the first phase of the scheme for airports in difficult terrains, it modified the guidelines and allowed helicopters to fly to these regions. Also, emphasis was laid on enhancing air connectivity to the remote terrains of India's northeastern regions and the hill states of Jammu and Kashmir. In 2017, there were a total of 117 million passenger trips and

with the addition of 50 lakh seats in phases I and II of UDAN, there will be more than 130 million passenger trips in the coming months.<sup>3</sup> So, there has been an addition of 3–4% of the total.

I invite you to go through our newsletter dedicated to A&D. I thank all our esteemed clients for their continued support and trust in PwC. Your feedback, trust and support are important and we look forward to the same.

Sincerely,  
**Dhiraj Mathur**  
Partner and Leader, Aerospace and Defence



3. MoCA

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## Modi Government's new ambitious 'Make in India' draft Defence Production Policy 2018 is ready: Top 10 takeaways

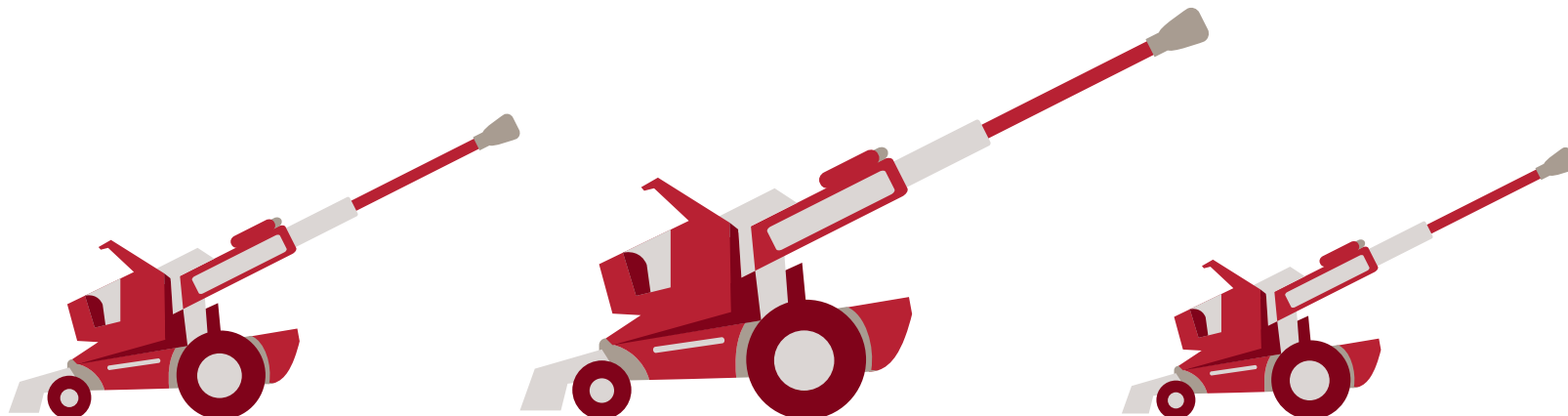
Nirmala Sitharaman-led Ministry of Defence has released the new Draft Defence Production Policy 2018 (DProP 2018). The DProP 2018 has embarked on an ambitious journey to mark India's position among the top defence production countries in the world. The DProP 2018 is focused on self-reliance and seeks to change its position as the largest importer of arms in the world. Under the 'Make in India' initiative, the Ministry of Defence aims at making India a global leader in defence production. The Ministry has also invited comments and suggestions before 30th March 2018. It also intends to finalise the Defence Production Policy 2018 by next month.

Source: <http://www.financialexpress.com/defence/modi-governments-new-ambitious-make-in-india-draft-defence-production-policy-2018-is-ready-top-10-takeaways/1112532/>

## Defence Expo 2018: Modi Government gears up to showcase India as emerging defence manufacturing hub

The Defence Expo is the biggest platform for the industry to showcase its products and offerings for the crucial defence sector of the country. The last edition and this too assume significance given the Narendra Modi government's aim to push 'Make in India' in the defence sector. The focus of the Defexpo 2018 is to mark India as a hub of defence production and as an emerging pioneer in defence exports. The exposition will also mark the initiation of the "Make-II" procedure

Source: <http://www.financialexpress.com/defence/defence-expo-2018-modi-government-gears-up-to-showcase-india-as-emerging-defence-manufacturing-hub/1113915/>





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## India orders additional Barak-1 short-range SAMs

The Indian Ministry of Defence (MoD) has contracted Israel Aerospace Industries/Rafael Advanced Defense Systems to supply additional Barak-1 short-range surface-to-air missiles (SAMs). The contract, which is valued at INR4.6 billion (USD 70.5 million), will see 131 Barak-1 shipborne, point defence missiles delivered to the Indian Navy (IN), the MoD announced in a 20 March statement. The acquisition had been cleared by the ministry in January.

Source: <http://www.janes.com/article/78846/india-orders-additional-barak-1-short-range-sams>

## India fastest growing market for unmanned aerial vehicles

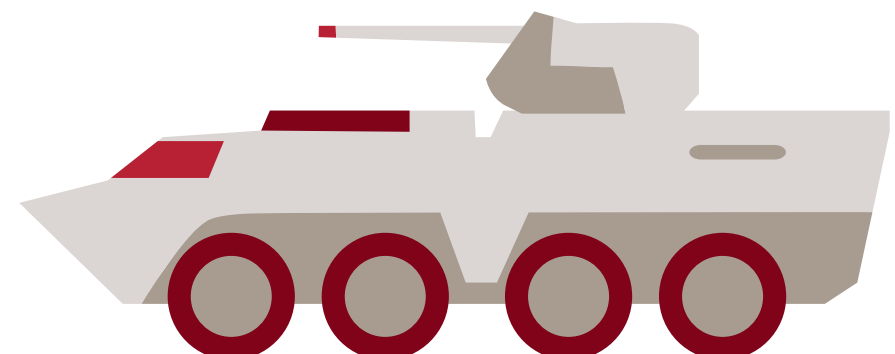
India is one of the fastest-growing markets for unmanned aerial vehicles (UAVs), and one of the top UAV importers for military purposes worldwide, says a report. According to global market intelligence and advisory firm BIS Research, by 2021, the Indian UAV market will reach USD 885.7 million, while the global market size will touch USD 21.47 billion.

Source: <https://economictimes.indiatimes.com/news/defence/india-fastest-growing-market-for-unmanned-aerial-vehicles/articleshow/63466658.cms>

## L&T defence inaugurates 'multi-skill training centre' in Visakhapatnam

The defence arm of Larsen & Toubro has inaugurated a 'Multi-Skill Training Centre' at Visakhapatnam, under its Corporate Social Responsibility initiative. The centre with a capacity to train 200 students per batch is focused on imparting specialized skill-sets required for construction of warships & submarines. The training facility was recently unveiled by Mr. J D Patil, Whole-Time Director and Member of the Board, L&T, Admiral S R Sarma, AVSM, VSM, Director General of Naval Project, Indian Navy, in the presence of Cmde. Mukesh Bhargava (Retd), Member of Board (L&T-Defence) along with many other distinguished senior naval officers.

Source: <http://www.indiandefensenews.in/2018/03/l-defence-inaugurates-multi-skill.html>







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## Defence Minister's visit to Russia in April May yield S-400 deal

India will likely seal the deal for purchase of Russian-made S-400 air defence systems during the Defence Minister Nirmala Sitharaman's first visit to Moscow in the early week of April, Economic Times reports. In December 2015, the Defence Acquisition Council (DAC) cleared the game-changing acquisition of the S-400 systems, which later led to inking of inter-governmental agreement for five S-400 systems on October 2016.

Source: [http://www.defenseworld.net/news/22212/Indian\\_Defense\\_Minister\\_\\_\\_s\\_Visit\\_To\\_Russia\\_In\\_April\\_May\\_Yield\\_S\\_400\\_Deal\\_Report](http://www.defenseworld.net/news/22212/Indian_Defense_Minister___s_Visit_To_Russia_In_April_May_Yield_S_400_Deal_Report)

## Godrej Aerospace bags ₹ 200 crore Rolls-Royce deal

Expanding its partnership with aerospace major Rolls-Royce, Godrej Aerospace, a business unit of Godrej & Boyce, has bagged a ₹200-crore contract. The Indian group will invest ₹50 crore in a new facility, called the Centre of Excellence, with an aim to strengthen its foothold in the aerospace sector.

Source: <https://www.thehindubusinessline.com/news/godrej-aerospace-bags-rollys-royce-deal/article23313925.ece>

## OFB upgrades 130-mm field guns, eyes order from army

The Ordnance Factories Board (OFB) today said it had successfully upgraded the 130-mm field guns to 155mm capability at its Nalanda facility in Bihar and was expecting an order for 300 such guns from the Army. The Kolkata-headquartered State defence manufacturer had successfully completed the user evaluation of 130/155 mm "upgunning" and was likely to receive orders for the upgradation of 300 artillery guns from the Army, OFB Chairman S K Chourasia said.

Source: <https://economictimes.indiatimes.com/news/defence/ofb-upgrades-130-mm-field-guns-eyes-order-from-army/articleshow/63372332.cms>

## OFB developing mine protected vehicles

Close on the heels of the Maoist attack at Sukma that killed nine CRPF personnel by blowing up an anti-landmine vehicle, India's largest defence production organisation Ordnance Factory Board (OFB) on Monday said they are putting more efforts on detection of mines and not on neutralising the blast impacts. "We are developing Mine Protected Vehicles (MPV) to sustain higher intensity explosions but we are also working on means to detect the landmines to avoid such attacks," OFB chairman Sunil Kumar Chourasia said on the occasion of celebration of 217th Foundation Day of OFB

Source: <http://www.millenniumpost.in/kolkata/ofb-developing-mine-protected-vehicles-290292>



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## Safran to set up unit in Telengana

Safran Electrical & Power, a global leader in electrical systems in aeronautics, would set up a unit for electrical wiring interconnection systems in Telangana. The manufacturing facility, to be set up with an investment of ₹52 crore in the Special Economic Zone of Hyderabad airport, is expected to create over 250 employment opportunities, said an official release on an MoU the firm and the Telangana government signed on Saturday. Safran CEO Philippe Petitcolin and Telangana Industries Secretary Jayesh Ranjan signed the MoU in the presence of French Foreign Affairs Minister M.Le Drian, Union Commerce Minister Suresh Prabhu and Telangana IT and Industries Minister K.T. Rama Rao, at the Indo-French Economic Partnership signing ceremony in New Delhi.

Source: <http://www.thehindu.com/news/cities/Hyderabad/safran-to-set-up-unit-in-telangana/article23036732.ece>

## DRDO developing future unmanned combat ground vehicle

The Unmanned Combat Ground Vehicle (UCGV) is an unmanned ground vehicle with a suite of remotely operated weapons (current international conventions do not permit the use of autonomous weapons, even though the technology is readily available). The deployment of UCGVs will greatly enhance the battlefield effectiveness and Angling of dozer blade for snow clearance generate force-multiplier effects. It is projected that in the immediate future, the role of humans will be greatly reduced in the war front and the actual fighting will be done by UCGVs and similar machines.

Source: <http://www.indiandefensenews.in/2018/03/drdo-developing-future-unmanned-combat.html>





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## Russia says in talks with India on helicopters, frigates supplies

India is negotiating purchases of Russian Mi-17 helicopters and Project 11356 frigates, a Russian official said Monday. These negotiations “are proceeding and they are at different stages,” Vasily Kozhin, aide to Russian President Vladimir Putin for military-technical cooperation, said in an interview with Russia-24 TV channel. The Mi-17 is a medium twin-turbine transport helicopter, which also has an armed gunship version and is considered one of the world’s most advanced military helicopters. The Project 11356 guided missile frigate is a multipurpose warship armed with powerful weapons capable of hitting various types of targets.

Source: <http://www.defencenews.in/article/Russia-says-in-talks-with-India-on-helicopters,-frigates-supplies-536953>

## No joint venture agreement between HAL, Dassault for Rafale: Govt

The government on Monday denied any joint venture agreement (JVA) had been signed between public sector defence firm Hindustan Aeronautics Limited (HAL) and Dassault Aviation under the MMRCA deal for 126 Rafale fighter jets from France. It also denied that the old deal cost India \$10.2 billion, stating that it was never finalised. In a written reply to the Rajya Sabha, Minister of State for Defence Subhash Bhamre said: “Due to the inability of the government to conclude negotiations and sign the contract, there was no such agreement between Dassault Aviation and Hindustan Aeronautics Limited or any other Public Sector Undertaking (PSU).”

Source: <http://www.defencenews.in/article/No-joint-venture-agreement-between-HAL,-Dassault-for-Rafale-Govt-536946>





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## Hindustan Aeronautics IPO fails to gather full subscription on last day despite overbidding by institutions

Government-owned Hindustan Aeronautics Limited (HAL) opened its Initial Public Offering (IPO) worth Rs 4,200 crore for subscription on March 16. The offering was entirely an offer for sale (OFS) by the government as part of its 2017-18 disinvestment program. A total of 3,41,07,525 equity shares were offered for sale. 6,68,775 shares were reserved for subscription by employees of the company. The price band for the IPO was Rs 1,215 to Rs 1,240 per share. The centre offered a discount of Rs 25 per share to retail investors. However, the IPO remain undersubscribed on the last day of subscription despite an overbidding by institutional investors wherein Life Insurance Corporation of India once again came to government's rescue by subscribing 70% of the IPO.

Source: <https://www.financialexpress.com/market/hindustan-aeronautics-ipo-subscribed-just-over-50-on-last-day-of-bidding-so-far-all-categories-underbid/1105028/>

<https://economictimes.indiatimes.com/markets/stocks/news/lic-bails-out-hal-issue-subscribes-70-of-rs-4200-crore-ipo/articleshow/63399370.cms>

## Bharat Dynamics IPO subscribed 1.3 times on last day

The 960 crore INR IPO of BDL witnessed an overall subscription of 1.3 times on the last day of the share sale. The portion of shares reserved for institutional investors in the IPO saw a subscription of 1.5 times, while those kept aside for retail investors and HNIs were subscribed 1.4 times and 0.5 times, respectively. It was a pure offer for sale where the government is selling a total of 22.45 million shares, representing a stake dilution of about 12%.

Source: <https://www.livemint.com/Money/FPENrgr3pioXoi2Q8ushGL/Bharat-Dynamics-IPO-subscribed-128-times-so-far-on-last-day.html>





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## Midhani IPO overall subscribed 1.21 times, QIB quota at 2 times

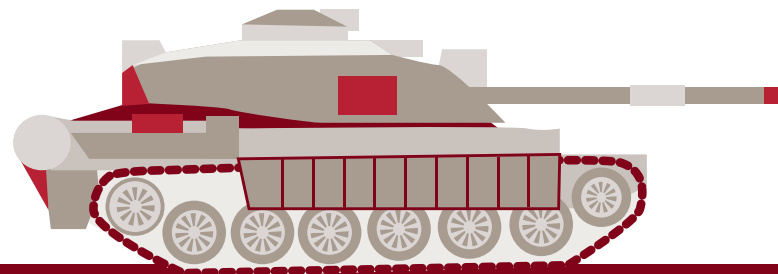
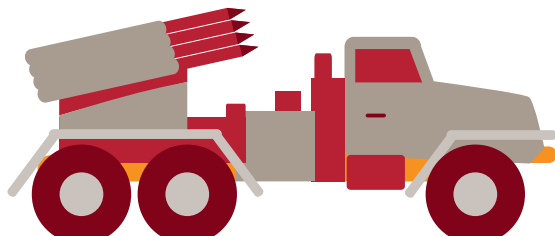
The IPO of mini-ratna MIDHANI was overall subscribed 1.21 times on the last day of the bidding process. The offer was part of the disinvestment programme through which, the government is looking to offload 26 per cent stake. The IPO consists entirely of an offer for sale (OFS) of 4.87 crore shares (26 per cent stake) by the government. Of the total issue, 3.8 per cent, that is 18,73,400 shares, shall be reserved for employees of the company. Retail investors and employees will be offered a discount of Rs 3 per share. The price band of the offer has been fixed at Rs 87-90 with a face value of Rs 10 each.

Source: [https://economictimes.indiatimes.com/articleshow/63428031.cms?utm\\_source=contentofinterest&utm\\_medium=text&utm\\_campaign=cppst](https://economictimes.indiatimes.com/articleshow/63428031.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst)

## France signs deals worth \$16 billion in India; to deepen defense, security ties

French and Indian companies signed contracts worth 13 billion euros (\$16 billion) on the first day of President Emmanuel Macron's visit to India on Saturday, the French presidency said in a statement. The deals include a contract for France's Safran to supply airline Spice Jet with engines, water system modernization by Suez in the southern city of Davangere and a contract between industrial gas company Air Liquide and Sterlite. Macron and Indian Prime Minister Narendra Modi – addressing a news conference in New Delhi – also committed to strengthening their partnership on defense and security.

Source: <http://www.indiandefensenews.in/2018/03/france-signs-deals-worth-16-billion-in.html>





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## France to push for more submarines under navy's \$8-b 'project 75 India'

France will be making a strong and fresh pitch for building additional submarines under the Navy's P-75(I) or 'Project 75 India' program for \$8 billion after the successful induction of first Scorpene-class submarine into the Indian Navy in December last year. Securing additional orders for French defence conglomerate Navatl Group (formerly DCNS) is going to be the topmost agenda of their Defence Minister Florence Parly, who is accompanying President Emmanuel Macron in his maiden India visit starting on Saturday, sources told BusinessLine on condition of anonymity.

Source: <http://www.indiandefensenews.in/2018/03/france-to-push-for-more-submarines.html>

## ISRO set to transfer tech on low-cost e-vehicle batteries to industry: ISRO chief

Giving thrust to the Centre's ambitious e-vehicle project with the objective of reducing air pollution and crude oil import, Indian Space Research Organisation (ISRO) is in the process of transferring the technology of the cheaper version of space batteries developed by it to the automobile industry for commercial use in e-vehicles. In another development promoting outsourcing of space components, ISRO has given Bharat Heavy Electricals Ltd (BHEL), a PSU, the contract to manufacture 10,000 space cells per year for space applications.

Source: <http://www.indiandefensenews.in/2018/03/isro-set-to-transfer-tech-on-low-cost-e.html>





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## Defence Ministry 'shelves' two acquisition projects worth Rs 587 crore

The defence ministry has shelved two acquisition projects involving Rs 587 crore, while clearing almost all long-pending procurement proposals in the last few months, officials sources said today. The two proposals, which were shelved, were earlier accorded Acceptance of Necessity (AoN). AoN is an in-principle approval for any procurement. In one case, it was due to its non-utility in the changed circumstances, and in another case it was due to indigenously developed substitute being cheaper than the imported article, a source said, explaining the reasons behind the shelving.

Source: <http://www.indiandefensenews.in/2018/03/defence-ministry-shelves-two.html>

## DRDO develops underwater drone prototype

Even as the Indian Navy's ships and submarines are being equipped with different kinds of sonars, defence scientists are looking at newer technologies to equip services to protect the territorial and the exclusive economic zone waters. Naval research has turned to development of unmanned vehicles for defence applications. "This will be for surveillance purposes. We have developed a low endurance prototype and it has been tested in many waters," said Samir V Kamat, director general, Naval systems and Materials, DRDO.

Source: <http://www.indiandefensenews.in/2018/03/drdo-develops-underwater-drone-prototype.html>

## DRDO transfers 18 technologies to the private defence industries

Defence Minister Nirmala Sitharaman inaugurated a two-day 'Defence Industry Development Meet' organised by the Department of Defence Production, Ministry of Defence, in Chennai in January 2018, to encourage and facilitate participation of private industries especially Micro Small and Medium Enterprises (MSMEs) in Defence manufacturing. The objective of the meet was to forge new partnerships with private industry with the aim of achieving self-reliance in defence production under the 'Make in India' initiative of the Government. The meet focused on indigenization, import substitution and technology infusion.

Source: <http://www.indiandefensenews.in/2018/03/drdo-transfers-18-technologies-to.html>

## Bharti Defence delivers c-162 to coast guard

It comes as a shot in the arm for BDIL which is admitted to corporate insolvency resolution process. Bharati Defence and Infrastructure Ltd. (BDIL), Mangalore, on Thursday delivered an interceptor boat, C-162, to the Indian Coast Guard on its premises here. Sixth in a series of 15 high speed interceptor boats being procured by the ICG, C-162 was launched on January 31 at BDIL and within 28 days, the vessel completed harbour and sea trials successfully achieving speeds more than the contractual limit of 35 knots, said a release from BDIL.

Source: <http://www.indiandefensenews.in/2018/03/bharti-defence-delivers-c-162-to-coast.html>



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## Tata, Boeing open Apache helicopter unit in Hyderabad

TATA Boeing Aerospace Ltd (TBAL), a joint venture between Boeing Co. and TATA Advanced Systems Ltd (TASL) on Thursday inaugurated its facility to produce fuselages for the AH-64 Apache helicopter in Hyderabad. Spread over 14,000-square metres and employing 350 highly skilled workers, the facility will be the sole global producer of fuselages for AH-64 Apache helicopter delivered by Boeing to its global customers including the US Army, a joint press release from TATA and Boeing said.

Source: <http://www.indiandefensenews.in/2018/03/tata-boeing-open-apache-helicopter-unit.html>

## Tejas Mark-II to fly by 2022

Giving an insight into various modern technologies being developed for the military, Dr. S Christopher, delivering the first i-Talk organised by Gujarat Innovation Society (GIS), also spoke about the likely timeline for the Mark-II version of TEJAS fighter jet to fly. Speaking of TEJAS, Christopher said HAL had already got an order to manufacture 123 aircraft. In addition to that, the air force has given in writing another 201 aircraft, which is the next version, that is called as Mark-II. ADA is working on it and by 2022 it will be flying, he further added.

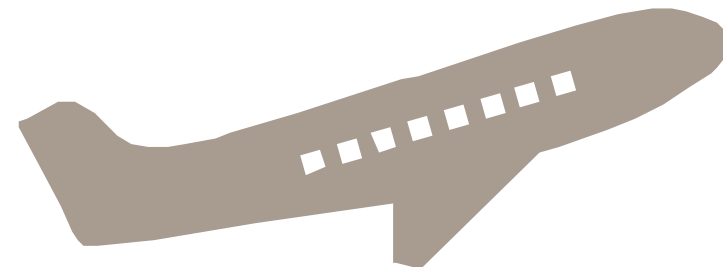
Source: <http://www.indiandefensenews.in/2018/03/tejas-mark-ii-to-fly-by-2022.html>

## Airbus refuses to extend commercial bids validity for 14 helicopters for coast guard

European aviation major Airbus has refused to extend commercial bids validity for 14 twin-engine EC725 helicopters, estimated to cost Rs 2,000 crore, for the Indian Coast Guard. The ECB has signalled that it would be ending its easy money policy by September 2018 and the anticipation is that ECB deposit rates could rise to 2% by 2019, explained industry sources

Coinciding with French President Emmanuel Macron's visit in March, European aviation major Airbus has refused to extend commercial bids validity for 14 twin-engine EC725 helicopters, estimated to cost Rs 2,000 crore, for the Indian Coast Guard. An Airbus company spokesperson confirmed to FE, "We confirm that the commercial bid pricing has not been extended for the helicopters." The pricing for the twin-engine helicopters, which had been extended nine times earlier, expired on February 15, and the French company did not extend it for the 10th time.

Source: <http://www.indiandefensenews.in/2018/03/airbus-refuses-to-extend-commercial.html>







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## Defence Ministry approves purchase of 41k LMGs, 3.5 lakh carbines

The defence ministry today approved capital acquisition proposals worth nearly Rs 9,435 crore including procurement of 41,000 light machine guns and over 3.5 lakh battle carbines to bolster firepower of infantry soldiers deployed along borders with China and Pakistan. The proposals were cleared at a meeting of the Defence Acquisition Council (DAC), the defence ministry's highest decision making body on procurement. The total cost for procurement of 41,000 LMGs will be Rs 3,000 crore while over 3.5 lakh Close Quarter Battle Carbines will be bought at a cost of Rs 4,607 crore respectively, defence ministry officials said.

Source: <http://www.indiandefensenews.in/2018/03/defence-ministry-approves-purchase-of.html>



## Reliance Aerostructure-Thales JV gets CCI approval

Fair trade regulator CCI has given its nod to the formation of joint venture between Reliance Aerostructure and Thales India. Reliance Infrastructure-promoted Reliance Aerostructure would have 51 per cent stake in the entity. The joint venture would be known as 'Thales Reliance Defence Systems'. In a tweet today, the Competition Commission of India (CCI) said it has approved the formation of joint venture between Reliance Aerostructure Ltd and Thales India Pvt Ltd. Deals beyond a certain threshold require the fair trade regulator's clearance.

Source: <http://www.indiandefensenews.in/2018/03/reliance-aerostructure-thales-jv-gets.html>

## Process to set up defence corridor kick started in TN

The Ministry of Defence has initiated work for preparing a Detailed Project Report (DPR) to set up a defence production corridor in Tamil Nadu. The Department of Defence Production, part of the Defence Ministry, will engage a top consultancy firm to draw up the DPR for the 'Tamil Nadu Defence Quad'. The defence quad or quadrilateral is one of the two defence production corridors announced Finance Minister Arun Jaitley in the 2018-19 budget. "The corridor, which is organised as a quadrilateral will extend from Chennai, Hosur, Coimbatore, Salem and Tiruchi," a press release from the Defence Ministry said.

Source: <http://www.indiandefensenews.in/2018/03/process-to-set-up-defence-corridor.html>



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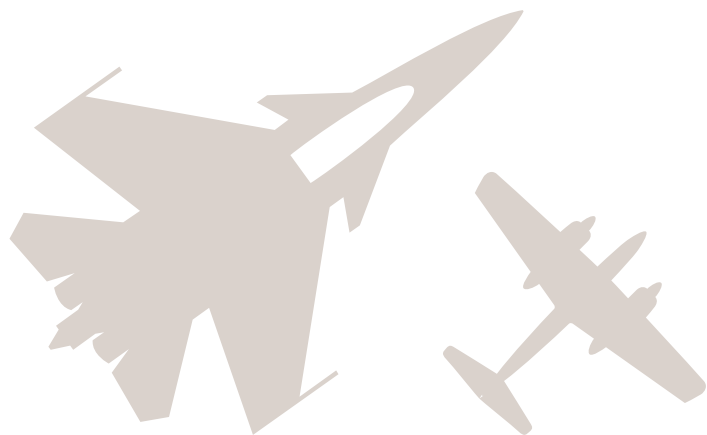
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## Govt shelves \$10-b single-engine fighter jet deal, to push for Tejas

After much dithering the government has finally taken a decision to shelve the \$10-billion project on procuring only single-engine fighter from foreign vendors even as it plans to push for Tejas Light Combat Aircraft Mark-2 for the Indian Air Force, which is in dire need of modern fighter jets. In 2016, the plan to procure imported single-engine warplane got a major push when the Air Force had sent letters to foreign vendors seeking their interest in building a single-engine fighter aircraft in India in collaboration with an Indian player. Finally, the choices narrowed down to US aerospace giant Lockheed Martin's F-16 Block 70 and Swedish Gripen-E manufactured by SAAB.

Source: <http://www.indiandefensenews.in/2018/02/govt-shelves-10-b-single-engine-fighter.html>



## Sterlite Tech bags Rs 3500 cr project from Indian Navy

Sterlite Technologies today said it has been awarded a Rs 3500-crore advance purchase order to design, build and manage the Indian Navy's communications network. "The Rs 3500-crore system integration project will enable the Indian Navy with a digital communications network at par with the most advanced naval forces globally," the company said in a statement.

Source: <http://www.indiandefensenews.in/2018/02/sterlite-tech-bags-rs-3500-cr-project.html>

## Navy agrees to buy four Russian frigates for \$3 bn

The navy's medium term plans envisage increasing warship strength from the current 140-odd, to 198 warships by 2027, New Delhi and Moscow have finalised contractual terms for four new stealth frigates that Russia will supply the Indian Navy for slightly over Rs 200 billion (\$3 billion), or about Rs 50 billion (\$775 million) per vessel. Designated the "Upgraded Krivak III class", the first two frigates will be built in Yantar Shipyard, in Kaliningrad, Russia. The following two will be built in Goa Shipyard Ltd (GSL) with technology and designs transferred by Yantar. Delivery will begin within four years of signing the contract.

Source: [http://www.business-standard.com/article/economy-policy/navy-agrees-to-buy-four-russian-frigates-for-3-bn-118022600021\\_1.html](http://www.business-standard.com/article/economy-policy/navy-agrees-to-buy-four-russian-frigates-for-3-bn-118022600021_1.html)



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## CRPF to purchase 25 high-end drones to conduct anti-Maoist operations, tackle terrorists in Jammu and Kashmir

The Central Reserve Police Force (CRPF) is all set to purchase 25 high-end drones to equip itself to better conduct anti-Maoist operations and deal with militants in Jammu and Kashmir. The tendering process for the procurement of the drones has started and they are expected to be introduced by the CRPF - the country's largest paramilitary force - in the next three-four months, a deputy inspector general-rank officer told IANS on the condition of anonymity. A pre-bid conference for the procurement of the drones was held on 12 September, 2017, and the online and offline tender was opened on 26 October, 2017, with a validity of six months.

Source: <http://www.indiandefensenews.in/2018/02/crpf-to-purchase-25-high-end-drones-to.html>



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## Army gets closer to buying Apache attack choppers

India will be the 14th country to operate the attack helicopters and Boeing has delivered more than 2,200 Apaches to international customers. The army is inching closer towards its goal of deploying attack helicopters for the first time, with India issuing a Letter of Request (LoR) to the US government for buying Boeing-made Apache choppers, a person closely monitoring the project said. The LoR is a significant step as it formally kicks off the foreign military sales programme, Washington's government-to-government method for selling US-built platforms. "The LoR was issued recently and now the US has to respond with a Letter of Acceptance (LoA) to take the Apache deal forward," said the person quoted above. The LoA could come in six months after which the two sides will begin negotiations to hammer out a deal

Source: <http://www.indiandefensenews.in/2018/02/army-gets-closer-to-buying-apache.html>

## India is replacing its MIG-21S with its homegrown fighters

When it comes to making good military aircraft, some countries are obvious go-tos. The United States, France, Japan, Russia, and the United Kingdom all immediately spring to mind as creators of classic combat planes. Then, you've got some smaller countries, like Israel and Sweden, that have produced some great aircraft. It may be time now to include another country on that list: India. In some ways, it's not a surprise. India has built some modern fighters, like the Jaguar and MiG-27, under license from their original manufacturers. They've also managed to seriously upgrade their force of MiG-21 Fishbeds. The "Bison" program gave these 1960s-vintage fighters the ability to use modern missiles, like the AA-11 Archer and AA-12 Adder. India's force of Fishbeds, however, was getting worn out.

Source: <http://www.indiandefensenews.in/2018/02/india-is-replacing-its-mig-21s-with-its.html>





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## India develops indigenous FSAPDS ammunition for T-72, T-90 battle tanks

India's state-owned Defense Research & Development Organization (DRDO) has conducted a successful penetration trial of the critically important Fin Stabilized Armour Piercing Discarding Sabot (FSAPDS) ammunition, designed and developed for the Indian Army's T-72 and T-90 main battle tanks. "The trial results established the penetration capabilities of the indigenously designed FSAPDS ammunition, at par with NATO and Russian tank ammunition," a DRDO document reads. The ammunition is developed by the Armament Research and Development Establishment (ARDE), Pune, and the trial was conducted between November and December last year.

Source: <http://www.indiandefensenews.in/2018/02/india-develops-indigenous-fsapds.html>



## PM Modi announces Rs 20,000 crore defence corridor for Bundelkhand

Prime Minister Narendra Modi today announced a Rs 20,000-crore defence industrial corridor in Bundelkhand for development of one of the most backward regions of Uttar Pradesh and said the Yogi government has pulled the state out of prevailing negativity. "Of one of the two defence industrial corridors mentioned in the budget, one is proposed in the Bundelkhand region of the state which will bring an investment of Rs 20,000 crore and generate employment avenues for 2.5 lakh people," the prime minister said after inaugurating the UP Investors Summit 2018 here.

Source: <http://www.indiandefensenews.in/2018/02/pm-modi-announces-rs-20000-crore.html>

## Indian Army planning to buy 150 armoured combat vehicles

Seeking to bolster its armoured capabilities during wars, the Indian Army is moving a proposal expected to be worth over Rs 2,200 Crore for buying 150 infantry combat vehicles, which provide safety to troops from small arms firing in the battlefield. "A proposal to acquire 150 infantry combat vehicles expected to be worth over Rs 2,200 crore is going to be placed before a high-level meeting of the defence ministry headed by Nirmala Sitharaman next week for approval," government sources told Mail Today.

Source: <http://www.indiandefensenews.in/2018/02/indian-army-planning-to-buy-150.html>



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## HAL invites Indian partner for licence manufacturing of civilian Dhruv helicopter

Hindustan Aeronautics Limited (HAL) has offered the indigenous 'Advanced Light Helicopter-Dhruv' (Civil version) for manufacturing to potential Indian private companies through Transfer of Technology. The company today said it has invited Expression of Interest (EOI) for identification of Indian Partner. HAL which is the Design Authority and Original Equipment Manufacturer (OEM) of ALH-Dhruv, in a release said the company is now looking forward to develop a reliable Indian Partner (IP) to service the potential demand to different customers in civil sector in shorter time span.

Source: <http://www.indiandefensenews.in/2018/02/hal-invites-indian-partner-for-licence.html>

## Defence Ministry approves acquisitions worth over Rs 15,000 crore: Detailed report

The Defence Acquisition Council cleared a proposal to procure 7.4 lakh assault rifles for the three services. It also approved procurement of 5,719 Sniper Rifles for the Indian Army and Indian Air Force at an estimated cost of Rs 982 crore. Responding to a long-pending demand for equipping soldiers deployed on the borders with modern personal weapons, Defence Ministry on Tuesday cleared the procurement of sniper rifles and Light Machine Guns (LMGs) for the armed forces on a fast-track basis. The Defence Acquisition Council (DAC), chaired by the defence minister Nirmala Sitharaman accorded approval to Capital Acquisition Proposals of approximately Rs 15,935 crore.

Source: <https://economictimes.indiatimes.com/news/defence/defence-acquisition-council-approves-acquisitions-worth-over-rs-15000-crore/articleshow/62902723.cms>





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## Defence Ministry clears proposal for procuring 7.40 lakh assault rifles worth Rs 12,280 crore

The Defence Ministry today cleared a proposal to buy 7.40 lakh assault rifles at a cost of Rs 12,280 crore for the three services, officials said. The decision was taken at a meeting of Defence Acquisition Council (DAC) presided over by Defence Minister Nirmala Sitharaman. The defence ministry will also procure light machine guns worth Rs 1,819 crore, they said. In other decisions, a proposal for purchase of 5,719 sniper rifles for the army at a cost of Rs 982 crore was also approved.

Source: <http://www.indiandefensenews.in/2018/02/defence-ministry-clears-proposal-for.html>

## GE, TATA Group to deliver leap engine

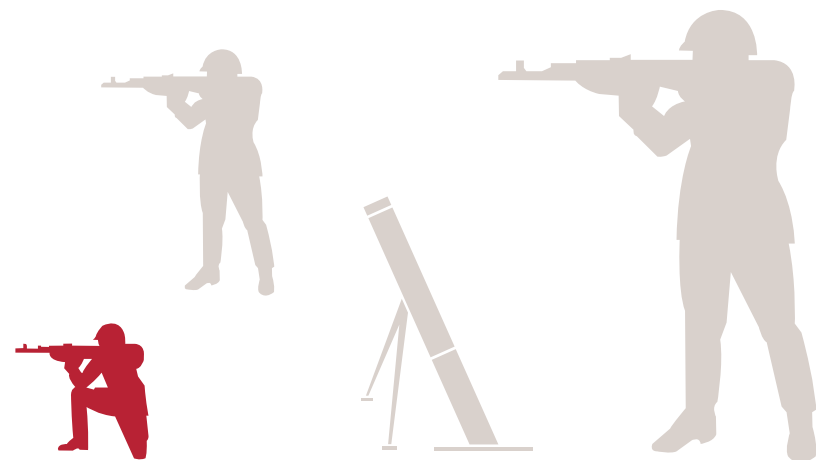
GE and TATA Advanced Systems Limited, a TATA group entity, have set up a Structural Center of Excellence for aero-engine components. The manufacturing facility, located in Adibatla near here close to the Hyderabad international airport, will deliver complex high precision aero-engine components to the CFM LEAP engine. The ground-breaking ceremony was held in the presence of KT Rama Rao, Telangana Minister for IT, Industries and Commerce. This Centre is part of the strategic partnership signed in November 2017 between GE Aviation and TATA Advanced Systems Limited for manufacture, assembly, integration and testing of aircraft components.

Source: <http://www.indiandefensenews.in/2018/02/ge-tata-group-to-deliver-leap-engine.html>

## After defence JV with Adani, Saab eyes more partnerships with Indian firms

Months after it announced a joint venture with the Adani Group, Swedish defence giant SAAB has said it plans to partner with a few other Indian entities for manufacturing a broad portfolio of products in view of the improving business climate in India. Mats Palmberg, Vice President of SAAB's International Partnerships, said the company was also bringing its global partners to India to expand on its product range. On the Indian Air Force looking to procure over 100 single-engine fighters and the Navy seeking to induct 57 jets for its aircraft carriers, he said it would be beneficial for India if the two acquisitions were combined.

Source: <http://www.indiandefensenews.in/2018/02/after-defence-jv-with-adani-saab-eyes.html>





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## Indian Navy to purchase 12 aircraft from US firm Boeing

The Indian Navy will purchase 12 aircraft from American aircraft manufacturer Boeing by 2020. This was revealed by Steve Tripp, Senior Manager, P-8 A international Global Marketing and sales of the Boeing company on the sidelines of the Singapore Air Show. Tripp said the twelve aircraft will be delivered to Indian Navy by 2020 as agreed in the terms of contract signed earlier years. It may be noted that eight aircraft were ordered in 2015 and later the contract was extended to include the purchase of four more aircraft in 2016. The U.S. Congress approved the sale to India in November 2016.

Source: <http://www.indiandefensenews.in/2018/02/indian-navy-to-purchase-12-aircraft.html>

## Army to get 40 artillery guns made by DRDO

In what will be a major boost to self-reliance for military equipment, the Ministry of Defence is set to give permission for procurement of the first lot of 40 artillery guns made by the Defence Research and Development Organisation (DRDO) in collaboration with two Indian manufacturers. The guns called the Advance Towed Artillery Gun System (ATAGS) performed “very well” in winter trials in Sikkim last week.

Source: <http://www.indiandefensenews.in/2018/02/army-to-get-40-artillery-guns-made-by.html>

## Indian and Russian shipbuilders sign MoU to develop ‘eco-friendly’ vessels

India’s Cochin Shipyard Limited (CSL) says it has signed a memorandum of understanding (MoU) with Russia’s United Shipbuilding Corporation (USC) to collaborate on the design and development of “eco-friendly” transportation on Inland and Coastal Waterways. The MoU is intended to prepare to cater to the demand for different kinds of vessels that is expected over the near and medium term.

Source: <http://www.indiandefensenews.in/2018/02/indian-and-russian-shipbuilders-sign.html>

## India signs agreement with Russian firm to manufacture inland shipping vessels

Cochin Shipyard Limited (CSL) & Joint Stock Company United Shipbuilding Corporation (USC), Russia today signed a Memorandum of Understanding (MoU) to collaborate and engage in Design, Development and Execution of High-End, State-of-Art vessels for Inland and Coastal Waterways

Source: <http://www.indiandefensenews.in/2018/02/india-signs-agreement-with-russian-firm.html>





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## Bharati Defence launches vessel for coast guard

Bharati Defence and Infrastructure Ltd (BDIL) launched an interceptor vessel for Indian Coast Guard at its New Mangalore shipyard on Wednesday. Speaking at the launch of the interceptor vessel 'V-410', Narendra Kumar, Chief Operating Officer of BDIL, said BDIL has delivered five interceptor boats to Coast Guard till now. The first interceptor boat for Coast Guard from New Mangalore shipyard was delivered on November 10. 'V-410', which was launched on Wednesday, will be delivered to Coast Guard by February 20. These interceptor vessels will be effective in anti-smuggling, anti-piracy operations, and also in fisheries protection and monitoring.

Source: <http://www.indiandefensenews.in/2018/02/bharati-defence-launches-vessel-for.html>

## Indian Navy launches 3rd Scorpene class submarine INS Karanj

The Indian Navy today launched the third Scorpene class submarine Karanj. Navy chief Admiral Sunil Lanba's wife Reena Lanba launched the submarine, which has been constructed by shipbuilder Mazagon Dock Limited (MDL) here. "It (submarine) will undergo rigorous tests for the next one year before it is commissioned," Admiral Lanba said on the occasion. Total six submarines are going to be built at the MDL

Source: <http://www.indiandefensenews.in/2018/01/indian-navy-launches-3rd-scorpene-class.html>

## IAF may buy twin-engine refueling jets for USD 1.5 billion

In a move that would help the Centre save money, it is now planning to buy only twin-engine aircraft as the next mid-air refueling planes for the Air Force for which even second-hand planes can be offered by vendors. The Indian Air Force (IAF) is once again moving ahead with its program to augment its fleet of six Russian four-engine Ilyushin-78 planes which have proved to be force multipliers but are very expensive to operate. The requirement for only twin-engine aircraft by the IAF means that effectively the Russians are out of this deal as they don't have a plane in this class.

Source: <https://www.indiatoday.in/mail-today/story/iaf-may-buy-twin-engine-refueling-jets-for-usd-1-5-billion-1156228-2018-01-29>





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## ISRO to share indigenous positioning tech with industry to boost usage

The Indian Space Research Organisation (ISRO) will transfer technology to companies to help them build navigational devices for a variety of applications, including smart phones. The decision to share the technology is driven by its aim to get more users to use the homegrown NavIC network for finding routes across the country. NavIC or (Navigation with Indian Constellation) is the country's constellation of seven navigation satellites -- India's alternative to the US GPS network. The Navigation tool, which has been used for strategic purposes so far, provides positioning accuracy of five meters

Source: <http://www.indiandefensenews.in/2018/01/isro-to-share-indigenous-positioning.html>

## India-Russia to sign contract for 48 Mi-17 choppers by March: ROSTEC

A contract for Mi-17V-5 helicopters, which was supposed to be signed last year, is now expected to be finalised soon, a top Russian official has said. "Negotiations with the Indian side on the delivery of 48 Mi-17V-5 helicopters have been completed; we expect to sign the corresponding contract in the first quarter of 2018," CEO of Russia's Rostec State Corporation, Sergey Chemezov, told IANS in an interview. He also said that there is "serious modernisation potential" in the Mi-17 and Mi-8 choppers which was proven by the development of the Mi-171A2 helicopter.

Source: <http://www.indiandefensenews.in/2018/01/india-russia-to-sign-contract-for-48-mi.html>

## L&T signs first DRDO-TDF project for 'development of light weight bullet proof materials'

Indian Army's very first Technology Development Fund (TDF) project has taken off the ground for Development of Light Weight Bullet Proof Materials for Indian soldiers on the Frontline. Defence industrial major- L&T and its academia partner Amrita University were awarded the TDF certificate on Thursday by Raksha Mantri Nirmala Sitharaman in Chennai. Mr Jayant D Patil, who is the Director on board of L&T and Head of Defence and Aerospace business received this TDF certificate from Ms Sitharaman.

Source: <http://www.indiandefensenews.in/2018/01/l-signs-first-drdo-tdf-project-for.html>





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## India begins talks with Russia for Rs 39,000 cr Triumf missile shield deal

India has now begun final contract negotiations with Russia for the Rs 39,000 crore (over \$5.5 billion) acquisition of five advanced S-400 Triumf air defence missile systems, which can detect, track and destroy hostile strategic bombers, stealth fighters, spy planes, missiles and drones at a range of up to 400 km and altitude of 30 km. India wants to conclude the major deal in the 2018-19 financial year, with the first S-400 surface-to-air (SAM) missile system, with its associated battle-management system of command post and launchers, acquisition and engagement radars, and all-terrain transporter-erector-launcher vehicles, slated for delivery two years after the contract is inked.

Source: <https://timesofindia.indiatimes.com/india/india-begins-talks-with-russia-for-rs-39k-cr-missile-shield-deal/articleshow/62596978.cms>

## Nagpur based private firm to make boosters for Brahmos

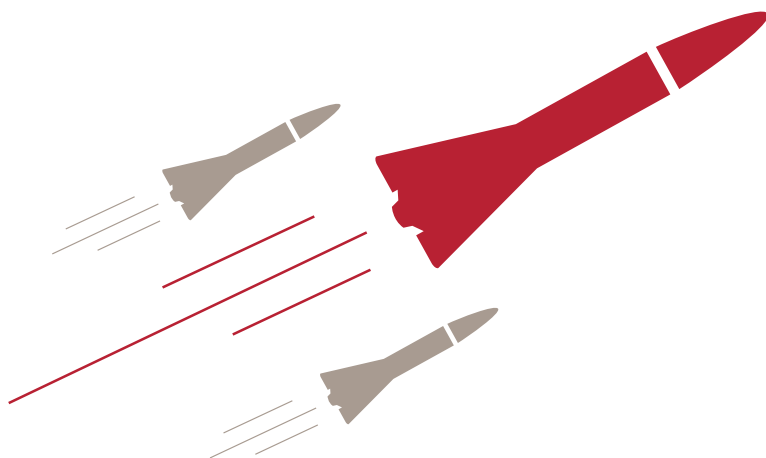
A crucial solid propellant booster of BrahMos, the world's fastest supersonic cruise missile, will now be manufactured in India enabling the government to save crores of rupees, a senior official of Defence Research and Development Organisation said on Wednesday. "The DRDO will sign an agreement of transfer of technology (ToT) with a Nagpur-based private company for mass production of the boosters during a defence industry development meet at Chennai on Thursday. Defence minister Nirmala Sitharaman will hand over the ToT to the company," the official said.

Source: <https://timesofindia.indiatimes.com/city/pune/nagpur-firm-to-make-boosters-for-brahmos/articleshow/62546346.cms>

## K. Sivan takes charge as new ISRO chairman

K. Sivan took charge here on Monday as the new Secretary, Department of Space, Chairman of the Indian Space Research Organisation and the Space Commission. Dr. Sivan, who immediately returned to Thiruvananthapuram, his previous centre, said he took charge from A.S. Kiran Kumar at a low-key event. "I plan to work from Thiruvananthapuram for a few more days to clear important files, and will move to the headquarters on January 22," he said.

Source: <http://www.thehindu.com/todays-paper/tp-national/tp-karnataka/k-sivan-takes-charge-as-new-isro-chairman/article22446006.ece>





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## India may import 5,500 Israeli spike missiles via Inter-Governmental Agreement (IGA)

Israel today said that any problems in the earlier-proposed Spike anti-tank missile deal with India can be solved, thereby indicating that the deal may still be alive. This comes in the wake of reports that India had cancelled the US\$ 500 million contract. They said, however, that the transfer of technology being negotiated earlier to licence-build about 30,000 ATGMs would not be part of the IGA, which is likely to be progressed during Israeli Prime Minister Benjamin Netanyahu's four-day India visit beginning 14 January.

Source: <http://www.indiandefensenews.in/2018/01/india-may-import-5500-israeli-spike.html>

## TATA Power and DSIT to supply PointShield advanced sonar to Indian Navy

Israel-based DSIT Solutions and Tata Power SED are set to jointly deliver 78 units of the PointShield portable diver detection sonar (PDDS) to the Indian Navy under a procurement program known as 'Buy Make India'. The procurement initiative will see some of the sonars supplied directly by DSIT, while the remaining units will be developed by TATA Power SED in India under DSIT's supervision and support.

Source: <http://www.indiandefensenews.in/2018/01/tata-power-and-dsit-to-supply.html>





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## NAL to get transport aircraft SARAS certified for military use

State-run National Aerospace Laboratories (NAL) will get its transport aircraft SARAS-Mark 2 certified initially for military operations and civil use subsequently, Union Minister Harsh Vardhan said on Wednesday. “The improved version (SARAS-Mk2) will be a 19-seater transport aircraft instead of 14-seater and will be used for military operations and flying civilians later on under the state-run Udan scheme,” the Union Minister for Science and Technology told reporters hours after NAL flight-tested its prototype for the second time at the defence airport in the city’s eastern suburb.

Source: <http://www.indiandefensenews.in/2018/02/nal-to-get-transport-aircraft-saras.html>

## NAL working on Mark 2 version of light transport aircraft

India’s indigenously developed light transport aircraft SARAS was successfully test flown for a second time today, less than a month after the first flight on January 24. The flight commanded by Wing Commander U.P. Singh, Group Captain R.V. Panicker and Group Captain K.P. Bhat of Indian Air Force- Aircraft and System Testing Establishment (ASTE), took off from Hindustan Aeronautic Limited (HAL)’s airport at Bangalore, according to details released by the Council of Scientific and Industrial Research (CSIR) here.

Source: <http://www.indiandefensenews.in/2018/02/nal-working-on-mark-2-version-of-light.html>

## Govt to sell 76% stake in Air India, transfer management control to private players

Starting its ambitious strategic disinvestment process for debt-laden Air India, the government on Wednesday unveiled plans to sell up to 76 per cent stake in the national carrier and transfer the management control to private players. The Civil Aviation Ministry today came out with a detailed preliminary information memorandum on the stake sale and said that the proposed disinvestment would include profit-making Air India Express and joint venture AIATSL. The latter is an equal joint venture between the national carrier and Singapore-based SATS Ltd. The government would retain 26 per cent stake in Air India and the winning bidder would be required to stay invested in the airline for at least three years.

Source: <http://indianexpress.com/article/business/aviation/govt-to-sell-76-stake-in-air-india-cede-management-control-5115028/>





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## Centre identifies 24 airports, helipads to enhance air connectivity in Kashmir and North East India under Phase-II of UDAN

In a move to increase air connectivity and boost low-cost flights between remote, strategic areas such as Jammu and Kashmir and North East India under the regional connectivity scheme (RCS) Ude Desh ka Aam Nagrik (UDAN), the Centre has identified airports and helipads in Phase-II of Narendra Modi's project launched this year. According to The Indian Express, the Ministry of Civil Aviation has identified 24 airports and helipads for Phase-II of the RCS. Nine airports have been identified in Arunachal Pradesh, which borders China, five each in Assam and Manipur, two in Jammu and Kashmir and, one each in Tripura, Meghalaya, and Sikkim. Bidding for these routes under Phase-II began on 24 August.

Source: <https://www.firstpost.com/india/centre-identifies-24-airports-helipads-to-enhance-air-connectivity-in-kashmir-and-north-east-india-under-phase-ii-of-udan-4212633.html>

## Aviation sector welcomes emphasis on airport infrastructure

The aviation industry has welcomed the proposal in the Union Budget to enhance airport capacity by five times but has demanded swift execution to meet the infrastructure shortfall. Finance Minister Arun Jaitley in his budget presentation said that the government proposes to expand airport capacity by more than five times to handle a billion passengers a year, adding that the balance sheet of Airport Authority of India will be leveraged to raise more resources for funding expansion works. "We welcome the focus on airport infrastructure capacity announced in the Budget. In our 20-year passenger forecasts, IATA anticipates India will become the third largest aviation market by 2024.

Source: <http://businessworld.in/article/Aviation-sector-welcomes-emphasis-on-airport-infrastructure/02-02-2018-139269/>





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## India grounds 11 Airbus A320neos

Following cases of in-flight shutdowns and rejected takeoffs, India's Directorate General of Civil Aviation (DGCA) on Monday grounded 11 A320neos powered by Pratt & Whitney PW1100G turbofans. The latest engine problems involve eight of 32 A320neos operated by budget airline IndiGo and another three by GoAir. The groundings will likely result in the cancellation of some 85 flights a day. In a written statement, Pratt and Whitney said it is working closely with customers to minimize disruption. "The corrective action has been approved and we have already begun to deliver production engines with the upgraded configuration," it said. "We are working to mitigate the aircraft on ground (AOG) situation by the end of the second quarter."

Source: <https://www.ainonline.com/aviation-news/air-transport/2018-03-12/india-grounds-11-airbus-a320neos>



## Suresh Prabhu gets additional charge of Civil Aviation Ministry amid Air India stake sale plan

Commerce and Industries minister Suresh Prabhu was on Saturday given the additional charge of the Civil Aviation Ministry, two days after TDP's Ashok Gajapathi Raju resigned amid the strategic disinvestment plan of debt-laden national carrier Air India. "As advised by the Prime Minister, President Kovind has directed that Shri Suresh Prabhu, Cabinet Minister, shall be assigned charge of the Union Ministry of Civil Aviation, in addition to his existing portfolio," the President's Office said in a tweet.

Source: <http://www.financialexpress.com/industry/suresh-prabhu-gets-additional-charge-of-civil-aviation-ministry-amid-air-india-stake-sale-plan/1093797/>

## Airbus aims to deliver 1 aircraft per week over 10 years in India

European aviation major Airbus today said it expects to deliver one aircraft per week on an average to Indian carriers over the next 10 years, even as it projects a need for 1,750 new planes over the next 20 years. "Airbus will be delivering one plane on an average per week to airlines in India over the next 10 years," Airbus Commercial Aircraft, India president Srinivasan Dwarakanath, said at aviation event Wings India here today.

Source: <https://economictimes.indiatimes.com/industry/transportation/airlines/-aviation/airbus-aims-to-deliver-1-aircraft-per-week-over-10-years-in-india/articleshow/63233767.cms>



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## AirAsia India IPO talk adds zing to aviation; lift Jet, IndiGo stocks

Aviation stocks Jet Airways BSE -4.35 % and InterGlobe Aviation were trading higher in Wednesday's trade, after AirAsia Chief Executive Tony Fernandes tweeted about the Malaysia-based carrier's plans to list its India unit. While shares of Jet Airways traded at kissing distance of its seven-year high, InterGlobe Aviation was up 1.5 per cent. Spicejet BSE -0.64 %, though, was trading in the red.

Source: <https://economictimes.indiatimes.com/markets/stocks/news/airasia-india-ipo-talk-adds-zing-to-aviation-lift-jet-indigo-stocks/articleshow/62441592.cms>

## SpiceJet inks \$12.5 billion deal with France's Safran Group for aircraft engines

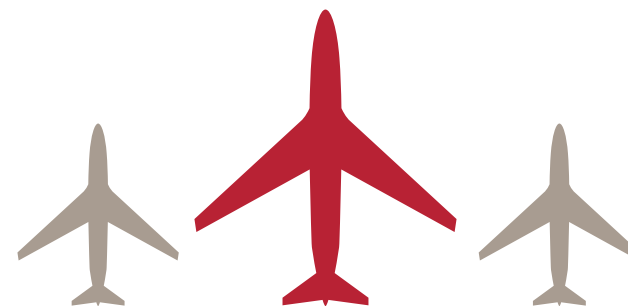
SpiceJet and Safran Group, have now finalised the purchase of LEAP-1B engines to power a total of 155 Boeing 737 MAX planes, along with spare engines to support the fleet, according to a release. No-frills airline SpiceJet on Saturday inked USD 12.5 billion deal with French major Safran Group for CFM aircraft engines. At current exchange rate, the deal is worth more than Rs 81,000 crore and is one of the biggest in the aviation sector. SpiceJet and Safran Group, have now finalised the purchase of LEAP-1B engines to power a total of 155 Boeing 737 MAX planes, along with spare engines to support the fleet, according to a release.

Source: <http://www.indiandefensenews.in/2018/03/spicejet-inks-125-billion-deal-with.html>

## Hindustan Aeronautics Limited, NAL eye the lucrative UDAN market

Wings India 2018 was off to a flying start on Thursday and Hindustan Aeronautics Limited stole the show with its 19-seater aircraft HAL-DO-228-201. The state-owned aerospace and defence company brought the aircraft to showcase it to potential buyers, that's commercial airline operators, who are planning to venture into the Regional Connectivity Scheme (RCS) also called UDAN. Sources claimed the aircraft garnered a lot of interest, especially for chartered flight operations. The HAL-DO-228-201 is a 19-seater twin-turboprop Short Takeoff and Landing (STOL) utility aircraft. "For small distances, a jet engine is not economical but a twin turboprop surely is," said Abhinav Kumar, deputy marketing manager, transport aircraft division, HAL. "This is a military aircraft model that has been adapted for civil use. We have upgraded the engine, propeller, interior decoration, avionics with the scope for future upgrade," he added.

Source: <http://www.indiandefensenews.in/2018/03/hindustan-aeronautics-limited-nal-eye.html>







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## India aviation sector's growth may drop to 12% in 2018: Boeing

The Indian aviation sector could see a drop of 12% in its growth rate due to the rising jet fuel prices, a senior official of aerospace major Boeing said on Thursday. Domestic air traffic has shown a consistent growth of 20 -25% throughout 2015 and 2016. However, the domestic travel demand petered out and stayed under 20% in 2017.

Source <http://www.livemint.com/Companies/skNsG9h1EbQU3eqkLfdPLK/India-aviation-sectors-growth-may-drop-to-12-in-2018-Boei.html>



## Cabinet clears 100% FDI in aviation under automatic route; discusses 49% foreign investment in Air India

The Union Cabinet on Wednesday announced a major easing of FDI norms for the aviation sector, allowing 100% foreign direct investment into Indian airline operators under the automatic route, even as the talks around selling a stake in the national carrier Air India continue to gather steam. Cabinet approved foreign direct investment up to 49% under approval route in Air India. "Foreign airlines allowed to invest up to 49 percent under approval route in Air India," the statement said. As per the policy, foreign airlines are allowed to invest under government approval route in Indian companies operating scheduled and non-scheduled air transport services, up to the limit of 49 percent of their paid-up capital. However, the provision was not applicable to Air India, thereby implying that foreign airlines could not invest in Air India. "It has now been decided to do away with this restriction and allow foreign airlines to invest up to 49 percent under approval route in Air India

Source: <http://www.financialexpress.com/economy/cabinet-eases-norms-for-fdi-in-aviation-and-construction/1009190/>



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## Aviation multi-skill development centre opens in Chandigarh

An aviation multi-skill development centre (MSDC) was opened in Chandigarh by aviation minister Ashok Gajapathi Raju on Tuesday. A CSR initiative of Airports Authority of India (AAI), this first-of-its-kind centre has been set up in collaboration with the National Skill Development Corporation (NSDC) and is supported by the Aerospace and Aviation Sector Skill Council (AASSC) of India.

Source: <https://timesofindia.indiatimes.com/business/india-business/aviation-multi-skill-development-centre-opens-in-chandigarh/articleshow/63098649.cms>

## Inflight connectivity in India gets green light

After years of deliberation, the Telecom Regulatory Authority of India (TRAI) has decided to allow internet and mobile communication on aircraft (MCA) for in-flight connectivity (IFC) in Indian airspace through both satellite and terrestrial networks. India remained one of the few countries left in the world that did not permit IFC. While the implementation could take around six months, domestic carriers may now introduce voice, data, and video in flight. International carriers and overflying flights required to shut down their systems on entry into Indian airspace will now no longer have to do so.

Source: <https://www.ainonline.com/aviation-news/air-transport/2018-01-22/inflight-connectivity-india-gets-green-light>

## Air India receives delivery of Boeing 777 aircraft for VVIP use

Air India today received the delivery of its latest Boeing 777-300 ER aircraft, which will be one of the two new planes to be used for VVIP purposes. This aircraft is among the last three Boeing 777 aircraft remaining from an order of 68 Boeing aircraft placed by the national carrier in 2006.

Source: <https://economictimes.indiatimes.com/industry/transportation/airlines/-aviation/air-india-receives-delivery-of-boeing-777-aircraft-for-vvip-use/articleshow/62654968.cms>

## Airports Authority of India's dividend pay out to fund RCS flights

The Airports Authority of India (AAI) will be partly funding the regional connectivity scheme, as the finance ministry has agreed to provide Rs 200 crore for the scheme this fiscal. "The finance ministry has agreed to fund the Ude Desh ke Aam Nagrik (UDAN) scheme through the dividend that AAI pays to the government every year. We already have got Rs 200 crore from AAI's dividend share for this year and will also get the amount for next year," said aviation secretary R N Choubey.

Source: <https://economictimes.indiatimes.com/industry/transportation/airlines/-aviation/airports-authority-of-indias-dividend-pay-out-to-fund-rcs-flights/articleshow/62637561.cms>



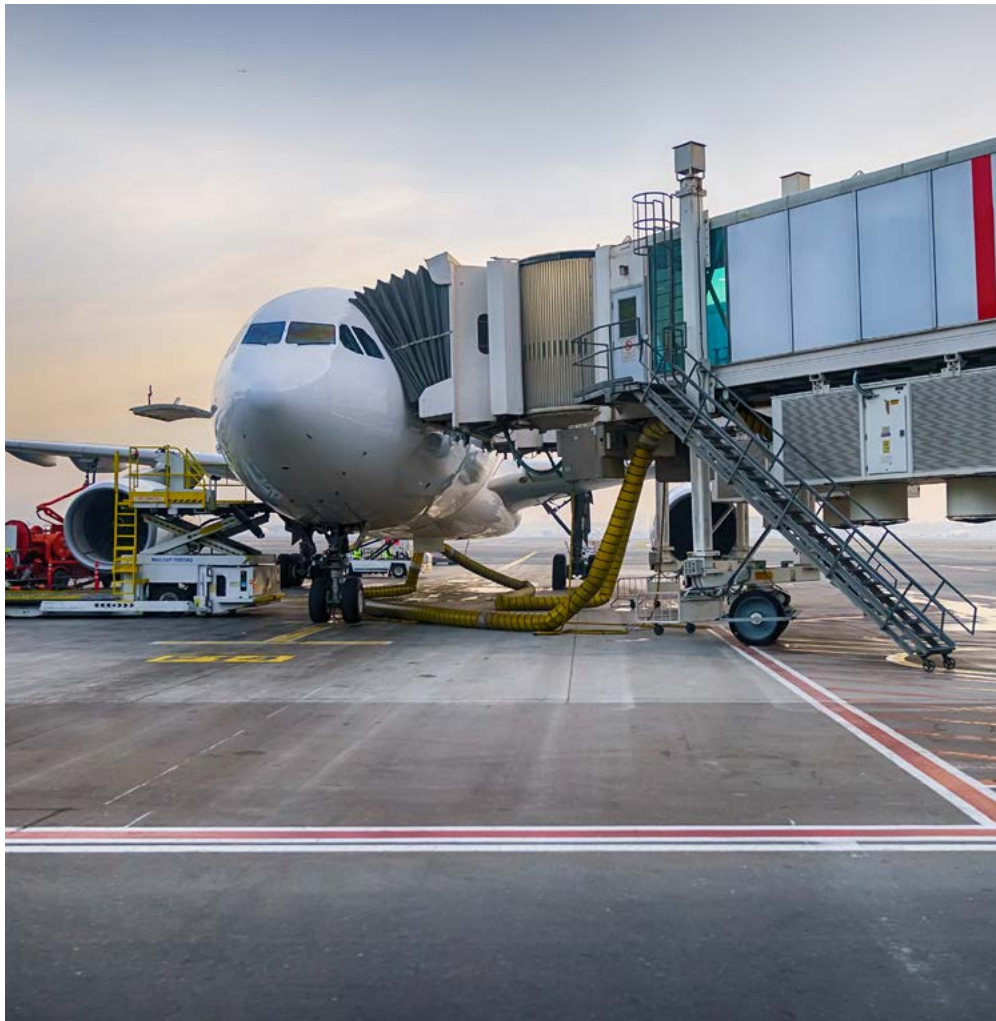
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## Budget: Civil aviation ministry gets Rs 6,602 crore allocation

Civil aviation ministry will receive an increased budgetary allocation of Rs 6,602.86 crore in the next financial year, with a significant chunk kept aside for purchase of “two new aircraft” to be used for VVIP flights. The allocation is nearly three times higher than the amount of Rs 2,710.31 crore allocated to the ministry for this fiscal. In the Budget for 2018-19 presented today, an allocation of Rs 6,602.86 crore has been made for the ministry.

Source: <https://economictimes.indiatimes.com/industry/transportation/airlines/-aviation/budget-civil-aviation-ministry-gets-rs-6602-crore-allocation/articleshow/62742019.cms>

## India to have 855 million air passengers in 2030-31: Government

The country is likely to have 855 million air travellers in 2030-31, the government told Parliament today. The figure indicates a three-fold increase in the number of air travellers which was 265 million in 2016-2017. The growth in air traffic over a period of around 15 years will also be more than double the existing passenger handling capacity of airports in the country, which is at 334 million, as per the data shared by the government.

Source: <https://economictimes.indiatimes.com/industry/transportation/airlines/-aviation/india-to-have-855-million-air-passengers-in-2030-31-government/articleshow/62839405.cms>

## DProP 2018

The GoI recently announced the draft DProP 2018,<sup>4</sup> which focuses on domestic production by public and private sector companies and MSMEs. Further, the government has requested comments and suggestions from experts and stakeholders on the policy before 30 March 2018 and intends to finalise it this month. DProP, which focuses on self-reliance in defence production, was announced by the government in 2011. Since then, India still remains the world's largest defence buyer, importing 60–65% of its defence needs<sup>5</sup>. DProP 2018, indicates that India's defence production has only gone up from 437.46 billion INR in 2013–14 to 558.94 billion INR in 2016–17. The salient features of the policy are as below:

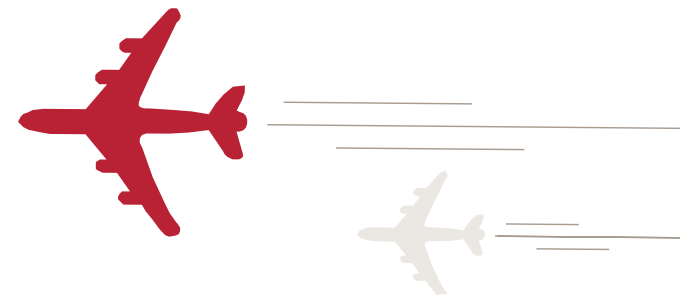
- The vision of DProP 2018 is to make India one of the top five countries in the world in the A&D. It pushes for increased indigenisation of defence production not just for purposes of self-reliance but also to widen India's export to other nations. The policy intends to capitalise on India's information technology strengths to make India a global leader in cyberspace and artificial intelligence technologies.
- The new policy commits to building an 80–100 seater civilian aircraft within the next seven years.
- With a plan to allow higher foreign investments in niche defence technologies under the automatic route, the government aims to increase the FDI cap from the current 49% to 74% in such technologies.
- The government has identified 12 military platforms and weapons systems for production in India to achieve the aim of self-reliance. They include fighter aircraft, medium lift and utility helicopters, warships, land combat vehicles, missile systems, gun systems, small arms, ammunition and explosives, surveillance systems, electronic warfare systems and night fighting enablers, among others.



4. DProP 2018-Invite for comments <http://ddpmod.gov.in/sites/default/files/Draft%20Defence%20Production%20Policy%202018%20-%20for%20website.pdf>

5. MoD

- By 2025, the policy aims to achieve a turnover of 1,70,000 crore INR in defence goods and services, involving an additional investment of nearly 70,000 crore INR, and creating employment for nearly 2 to 3 million people.
- It aims to make it easier to do business and calls for increased participation of MSMEs, start-ups and other players from the private sector in the defence industry. It has also planned strategies, portals and platforms such as 'Competency Mapping', 'Defence Investor Cell' and 'Technology Perspective Capability Roadmap' to facilitate the indigenisation of defence production.
- The policy elaborates on the two 'defence industry corridors' in Tamil Nadu and Uttar Pradesh and stipulates that each corridor would have 'one major cluster of defence production units around an anchor unit'. The creation of an SPV in each corridor would develop an ecosystem for defence production, with testing and certification facilities, export facilitation centres and technology transfer facilitation.
- The Simplified Make-II would be facilitated easily through this draft policy and it will launch itself as an initiative to make it easier for industries to enter the defence sector.
- The policy will also liberalise licences that will be provided to defence industries. The draft also says that the requirements for renewal of licences will be pruned and that companies with a track record will be given favourable consideration.
- The government also wants greater interaction between the private and public sector. This policy aims at fusing technologies from the OFB, defence PSUs and private players. It aims at advancing and boosting existing public sector defence production units through skill development and overall programme management.
- It also aims to create open competition in the industry. By opening the sector to private players, the policy will be the driving force for increased productivity and innovation.
- Broadly, the policy accelerates domestic defence production and thereby makes it feasible to have a market of our own. Indigenous defence production will attract more investors, which will eventually lead to the creation of a massive market.
- Apart from synergising all the stakeholders and creating self-reliant defence sector, the policy also plans to export defence goods worth 7.7 crore INR to other countries. Further, it plans on setting up a Defence Export Organisation in partnership with the industry and market domestically produced goods overseas.
- The policy indicates that the tax regime will be rationalised to make domestic manufacturing attractive by ensuring that there is no tax inversion. Taxes on the import of capital goods and services, inputs and components used in defence production will be rationalised.
- The policy is silent, however, on the fate of the ongoing global procurement of the platforms to be indigenised, including single-engine and carrier-borne fighters, infantry small arms, maritime surveillance systems and others.





## Defence budget analysis

### Key statistics of defence budgets, 2017–18 and 2018–19<sup>6</sup>

	2017–18 (budget estimates)	2017–18 (revised estimates)	2018–19 (budget estimates)
<b>Defence budget (in crore INR)</b>	262,390	267,108	282,733
Growth of defence budget (%)	4.2%*	-	5.8%**
<b>Revenue expenditure (in crore INR)</b>	175,861	180,608	188,723
Growth of revenue expenditure (%)	6.3%*	-	4.5%**
<b>Share of revenue expenditure in the defence budget (%)</b>	67.0%	67.6%	66.7%
<b>Capital expenditure (in crore INR)</b>	86,529	86,499	94,011
Growth of capital expenditure (%)	0.2%*	-	8.7%**
<b>Share of capital expenditure in the defence budget (%)</b>	33.0%	32.4%	33.3%

\* Growth rate in comparison to actuals for 2016–17

\*\* Growth rate in comparison to the revised estimates for 2017–18

6. PwC analysis; Union Budget, 2018–19

## Highlights of the budget<sup>7</sup>

- Reversing the trend of declining capital budgets, the allocation in the present budget has increased by 8.7% over the last year's revised estimates.
- Allocation of 9,734 crore INR towards R&D, which is an increase of 29% from the last year, will boost indigenous defence manufacturing.
- A continued focus on modernisation and enhancement of the operational capabilities of defence forces by developing intrinsic defence production capabilities and promoting private investment in defence production by announcing:
  - Development of two defence industrial corridors (though no budget allocation has been set)
  - Formulation of an industry-friendly DProP 2018 to promote domestic production from the public and private sector and MSMEs
  - An additional 130 crore INR for assistance in prototype development under the 'Make' procedure for Indian Army projects
- An increase of 3% in allocation from 2,708 crore INR to 2,785 crore INR by Border Roads Development Boards. Further, grants to states for the development of strategic roads has increased by 60% from 50 crore INR to 80 crore INR for the completion of the construction of the Rohtang tunnel and the proposed construction of the Zozila Pass and Sela Pass tunnels.
- Increase in budget allocation from 13 crore INR to 22 crore INR under the National Cadet Corps to motivate youth to join the armed forces to address the shortage of manpower across the armed forces.
- In recognition of the assistance and aid that is provided by the armed forces for HADR missions, the government has increased the allocation to the grants-in-aid to the state governments from 5 crore INR to 22 crore INR.

## Implications of these changes

- Increase in R&D expenditure allocation will boost indigenous defence manufacturing.
- Promotion of the Make in India initiative would assist in developing and nurturing intrinsic defence production capabilities.
- Strengthening of the road infrastructure on our borders.



7. PwC analysis; Union Budget 2018–19

## Phase II of the UDAN scheme

The second phase of the RCS, which was aimed at improving air connectivity across tier II and tier III, is expected to give impetus to the economic growth of regional centres, including unconnected towns and cities. The second phase was announced on 24 January 2018 under which 73 underserved and unserved airports and helipads will be connected. Under the first round of UDAN, which concluded in March 2017, a total of 128 routes were awarded to five airline operators. Under Phase II, a total of 90 proposals were awarded to provide flight connectivity to more than 300 regional routes. Interglobe Aviation, the parent firm of IndiGo, was awarded a maximum of 20 proposals, followed by SpiceJet and Jet Airways, which won 17 and four proposals respectively.<sup>8</sup>

### • Highlights of the UDAN 2 scheme<sup>9</sup>

- In the first phase, the total funding needed was 213 crore INR per annum, whereas the total funding needed for the second phase is expected to be 617 crore INR.
- UDAN 2 will be funded through the dividend that the AAI pays to the Union Government every year.
- Witnessing a poor response from fixed-wing operators in the first phase of the scheme for airports in difficult terrains, the government tweaked the guidelines to allow helicopters to fly to these regions. In this round, four helicopter operators—Heligo Charters, Heritage Aviation, Pawan Hans and Skyone Airways—will ferry passengers on these routes. Around two lakh RCS seats per annum will be provided through helicopter operations.

- The government is expected to provide viability gap funding or subsidies for 50% of the seats set aside that are offered at discounted rates by airlines and for up to 13 passenger seats for helicopters. The routes have been awarded to 15 airlines, including major domestic players such as SpiceJet, IndiGo, Jet Airways and the Air India subsidiary Alliance Air.
- The focus was on ‘priority areas’ of the Northeast, Jammu and Kashmir, and other hilly regions of the country. With the aim of stepping up air connectivity, the government identified 24 airports and helipads, out of which nine are in Arunachal Pradesh.
- Some of the cities that are expected to be connected include Kargil, Darbhanga, Kasauli, Bokaro, Dumka, Hubli, Kannur and Pakyong.



8. Regional connectivity scheme - UDAN. AAI. Retrieved from <https://www.aai.aero/en/rcs-udan>

9. PwC analysis, AAI, MoCA



## Disinvestment of Air India Limited<sup>10</sup>

In January this year, in a move to expedite Air India's strategic divestment, the Union Cabinet approved changes in FDI norms to allow foreign carriers to own 49% in Air India under the approval route—a change that will allow foreign carriers to bid for the national carrier but with an Indian partner. The earlier FDI policy allowed foreign carriers to own 49% in Indian carriers but had kept Air India out of it; however, this has been amended by the Union Cabinet.

The divestment process of the flag carrier Air India was initiated after the government invited an EoI to off-load 76% stake and management control of the airline. The PIM inviting an EoI for the strategic divestment of Air India, along with the airline's shares in AIXL and AISATS, from private entities, including the airline's employees, was issued on 28 March 2018. The Central Government owns 100% equity of Air India. In turn, the airline holds full stake in AIXL and 50% stake in the joint venture AISATS. Accordingly, it has been planned to divest the 76% government stake in Air India, 100% in AIXL and 50% in AISATS. Interested bidders could furnish EoIs by 14 May 2018.

Facts about the Air India disinvestment process:

- Apart from AIXL and AISATS, other subsidiaries of the Air India Group like AIESL, AIATSL, HCI and AASL 'will not be part of the proposed transaction', according to the PIM.
- Private entities should have a net worth of 5,000 crore INR to be eligible to send in their EoIs. The entities are also required to have reported a positive

profit after tax in at least three of the five preceding financial years.

- However, if the member of the consortium is a scheduled airline operator in the country, the condition to meet the minimum share of net worth/ ACI requirement shall not apply to such a member provided the equity shareholding of such a member is restricted to a maximum of 51% of paid-up equity share capital of the consortium.
- Companies like IndiGo, Tata Group and Turkey's Celebi Aviation Holdings have expressed an interest in buying some of Air India's operations. Singapore Airlines has also said they have an open mind about making an initial bid.<sup>11</sup>
- In the case of a foreign airline, the requirement to meet the minimum share of the net worth shall remain applicable.
- The existing debt and liabilities of Air India and AIXL as on 31 March 2017 are being reallocated and it is expected that debt and liabilities, including net current liabilities of 88,160 million INR, will remain with AI and AIXL. The balance debt shall be allocated to Air India Asset Holding Ltd which is 100% owned by the GoI, subject to receipt of requisite approvals from lenders and regulators.
- Non-core assets like buildings and others will be transferred to SPVs and only the core assets which are essential for operation are being transferred to Air India.
- The confirmed selected bidder will be required to invest in the airline for at least three years and keep the 'substantial ownership and effective control' of both Air India and AIXL vested with Indian nationals.

11. Shah, A. (15 March 2018). Singapore Airlines has open mind on making initial bid for Air India. Retrieved from <https://www.reuters.com/article/singapore-air-air-india/singapore-airlines-has-open-mind-on-making-initial-bid-for-air-india-idUSL3N1QX4S5>



## Section 206AA of the Act cannot override the beneficial provisions of the tax treaty<sup>12</sup>

### Facts

- The taxpayer is an Indian assessee who, in the normal course of business, remits payments to a non-resident company located in Singapore.
- During the year, the taxpayer made certain payments in the nature of FTS, as defined under Article 12 of the India-Singapore tax treaty, to the Singapore Company.

### Assessee's contention

- The taxpayer contended that section 206AA (i), which requires the withholding of tax @ 20% in the absence of a PAN, has the effect of undoing the provisions of the tax treaty, besides being in violation of Article 265 of the Constitution of India.
- As per the principle of law enunciated in the Union of India v. Azadi Bachao Andolan [2003] 263 ITR 706 (SC), even if the tax rate for the activity in the nature of 'fees for technical services' is higher, not more than 10% can be recovered by the Indian tax authorities.

### Revenue's contention

- The Revenue urged that with the passage of the amendment, which was brought into force by the Finance Act, 2016, the effect, if any, of pre-existing provisions has been neutralised. The Revenue also contended that Rule 37BC of the Income-tax Rules (the Rules), 1962, introduced after the amendment, does away with the mandatory requirement of the overseas company intending to possess an Indian PAN and instead demands a specific identification number or code, as provided.

### HC's ruling

- The HC, relying upon the decision of the Pune Tribunal, in the case of Serum Institute of India Ltd. [2015] 68 SOT 254, held that the provision in section 206AA (as it existed before the amendment) has to be read down to mean that where the deductee—that is, the overseas resident business concern—conducts its operation from a territory whose government has entered into a tax treaty with India, the rate of taxation would be as dictated by the provisions of the treaty.
- Hence, section 206AA of the Income-tax Act (the Act), 1961, does not override the provisions of section 90(2) of the Act and the taxpayer was justified in withholding taxes, as provided under the tax treaty.

12. Danisco India (P) Ltd. vs. Union of India [2018] 90 Taxmann.com (Delhi HC)

## Erection and commissioning charges not taxable as fees for technical service<sup>13</sup>



### Facts

- The taxpayer was an Indian company which purchased machinery and equipment from a Saudi Arabian company. For erection and commissioning of the same, it entered into an agreement with a tax resident in the UAE. As per the agreement, the non-resident was to provide services only for the erection and commissioning of the machinery. The equipment, specifications, designing, drawing, etc., related to the machinery were to remain the property of the taxpayer. The machinery was purchased and supplied outside India and the erection and commissioning services were also carried out outside India.
- The assessment for the year under consideration was completed by the AO without making any disallowance under section 40(a)(ia) of the Act. Subsequently, the AO issued a notice under section 148 of the Act alleging that the taxpayer had not withheld taxes on payment made towards erection and commissioning activities carried out by a non-resident entity based out of the UAE. The AO disallowed payment made towards the erection and commissioning services to the non-resident.
- The CIT (A) upheld the AO's order, against which the taxpayer filed an appeal before the Income Tax Appellate Tribunal (tribunal).

13. Shivsu Canadian Clear Waters Ltd. vs. Deputy Commissioner of Income Tax, [2018] 90 taxmann.com 352 (Chennai - Trib.)

## Issue before the tribunal

- Whether the taxpayer was required to withhold taxes on payments made to the non-resident entity towards the erection and commissioning services.

## Assessee's contention

- The taxpayer contended that the payment was made towards erection and commissioning activities performed by the non-resident entity. The same amounts to 'construction', which falls within the exclusion of FTS, as defined in explanation 2 to section 9(1)(vii) of the Act. Hence, the said payment was not liable to withholding tax.

## Revenue's contention

- The Revenue contended that the amount paid by the taxpayer towards erection and commissioning charges was in the nature of FTS under section 9 (1)(vii) of the Act, since the non-resident entity utilised its technical skill and expertise for the erection and commissioning of machinery. Therefore, tax was required to be withheld.

## Tribunal's ruling

- The tribunal noted that the non-resident entity is only a service provider for the installation of machinery. The agreement with the non-resident entity was entered into outside India and the installation services were also performed outside India. As per the agreement, the equipment, specifications, designing, drawing, etc., remained the property of the taxpayer.
- Therefore, in view of specific facts in the agreement, payments made to the non-resident entity could not be construed as FTS within the meaning of section 9(1)(vii) of the Act. Hence, the taxpayer was not required to withhold taxes on such payments.





## Consideration paid to non-resident suppliers for acquiring software made for ‘copyrighted article’ and not for ‘use of copyright or transfer of right to use of copyright’ cannot not be taxed as royalty<sup>14</sup>

### Facts

- The taxpayer part of an Indian diversified group, engaged in the business of telecommunication. The taxpayer entered into various contracts with non-resident vendors for the supply of software. The taxpayer made applications under section 195, requesting the AO to allow them to make payments to non-residents without withholding taxes in India.
- The AO rejected the taxpayer’s contention and held that payments made by the taxpayer to the non-residents were taxable in India and taxes should be withheld before making such payments.
- On further appeal before the CIT-(A), the appeal of the taxpayer was allowed holding that the payment made by the taxpayer for acquiring a copy of the software did not amount to royalty as per the tax treaty and hence no withholding tax was required. Further, they were also not required to deduct tax at source for the payments made to the non-resident entities. Pursuant to the same, the tax department preferred an appeal before the tribunal.

### Assessee’s contention

- Differentiating the AO’s contention and relying on the Delhi HC’s view in cases like Infrasoftware (39 taxmann.com 88), A.B Ericsson (204 taxmann.com

192) and Nokia Networks (25 taxmann.com 225), the taxpayer referred to the definition of ‘royalty’ given under the India-USA tax treaty and argued that as per the definition, the term ‘royalties’ included any payment towards the use or right to use any copyright; that royalties, as a subject matter of a copyright, connoted only the payments for use—that is, exploitation of such copyright in the software; that it was different from the use of the copyrighted article—that is, the software itself.

- The taxpayer contended that it merely had the domain over the copyrighted article and used the article for its business purpose (internal use). It neither used nor did it have the right to use the copyright in the software, and the payments made by the taxpayer to non-resident suppliers did not constitute royalty.

### Revenue’s contention

- The Revenue contended that software was a process/an invention/an equipment/transfer of all or any rights in respect of the software.
- The Revenue referred to the definition of equipment from Wikipedia and relying on the decision of Poompohar Shipping Corpn. Ltd. v. ITO (International Taxation) [2014] 360 ITR 257, held that the payment made by the assessee for the purchase of software fell under the head ‘equipment royalty’.

14. DDIT vs Reliance communication 90 taxmann.com 358 (ITAT)



- The Revenue majorly relied upon various Karnataka High Court judgements—that is, CIT vs Synopsis International Old Ltd. (28 taxmann.com 162) and CIT vs Samsung Electronics Co. Ltd (345 ITR 494)—which have held that payment made for the purchase of software was royalty payment and hence liable to withholding tax in India.
- The Revenue also relied on the definition given in the Indian Copyright Act, 1957, and submitted that to reproduce the work in any material form, including its storage in any medium by electronic means, under the definition of computer programme. Therefore, payment made by it for the purchase of software shall fall under the definition of royalty.

### Tribunal's ruling

- The term 'royalty' is understood to be a consideration paid to an owner for the use of his/her intellectual property such as patents, copyrighted works, franchises or natural resources.
- A royalty payment is made by those who wish to make use of an intellectual property for the purpose of generating revenue or other such desirable activities.

- In most cases, royalty is designed to compensate the owner for the use of his/her asset, considering that its use is legally binding.
- The following factors should be considered to understand taxation of royalty payments to non-residents:
  1. The software was sold in the same manner as the equipment.
  2. The software was an integral part of the equipment, which facilitated the running of the said equipment.
  3. The software had no independent value of its own.
  4. Copyrights in the software were transferred to customers.
  5. Access to 'source codes' in the software were granted to the assessee.
  6. The payment for software was not related to the productivity, use or number of subscribers.
  7. Customers did not have the right to commercially exploit the software.
  8. The software supply was in the nature of transfer of the copyrighted article and not transfer of a copyrighted right.

If replies to points 4 and 5 are negative and replies to the remaining questions are positive, it can be safely held that the payments made by an assessee cannot be treated as royalty.



## Sales commission for procuring export order from outside India for goods of Indian company was not managerial service fee or Fees for Technical Services as per section 9 of the Income-tax Act, 1961<sup>15</sup>

### Facts

- The taxpayer was a company engaged in the business of manufacturing and export of furniture, leather goods, etc.
- It paid sales commission to two foreign agents in Canada and the UK for booking export orders from foreign buyers. In the process of procuring export orders, the non-resident agents display or demonstrates the goods of the taxpayer to foreign buyers. If foreign buyers place any order for the purchase of those goods, the non-resident agent forwards those purchase orders to the taxpayer.

### Assessee's contention

- The taxpayer claimed that the entire process of procuring orders by the non-resident agents cannot be termed as managerial service, which could fall under FTS. Further, no part of the service was rendered in India.
- The taxpayer also contended that in terms of the DTAA, both in the case of Canada and the UK, for taxability of FTS, the services should make available 'technical knowledge' to the taxpayer. However, the said condition has not been fulfilled.

### Revenue's contention

- The services provided by the non-resident foreign agents were managerial services and had been utilised in India and, therefore, clearly fell within the ambit of 'income deemed to accrue or arise in India' and were taxable under section 9(1)(i) and 9(1)(vii)(b) of the Act.
- Further, the AO contended that the payment made by the taxpayer to the non-resident agents was income accrued from business connections in India.
- The CIT (A) ruled in favour of the taxpayer. Aggrieved by the order of the CIT (A), the AO preferred an appeal before the tribunal.

### Tribunal's ruling

#### FTS

- The services of procuring export orders do not fall under either technical or consultancy services. The contention of the AO is that the said services are managerial services and, thus, fall under FTS, which is devoid of any merits and the AO has not made any attempt as to how the said services of procuring the orders are managerial services.

15. Evergreen International Ltd vs. Assistant Commissioner of Income Tax, [2018] 91 taxmann.com 111 (Bangalore-ITAT)

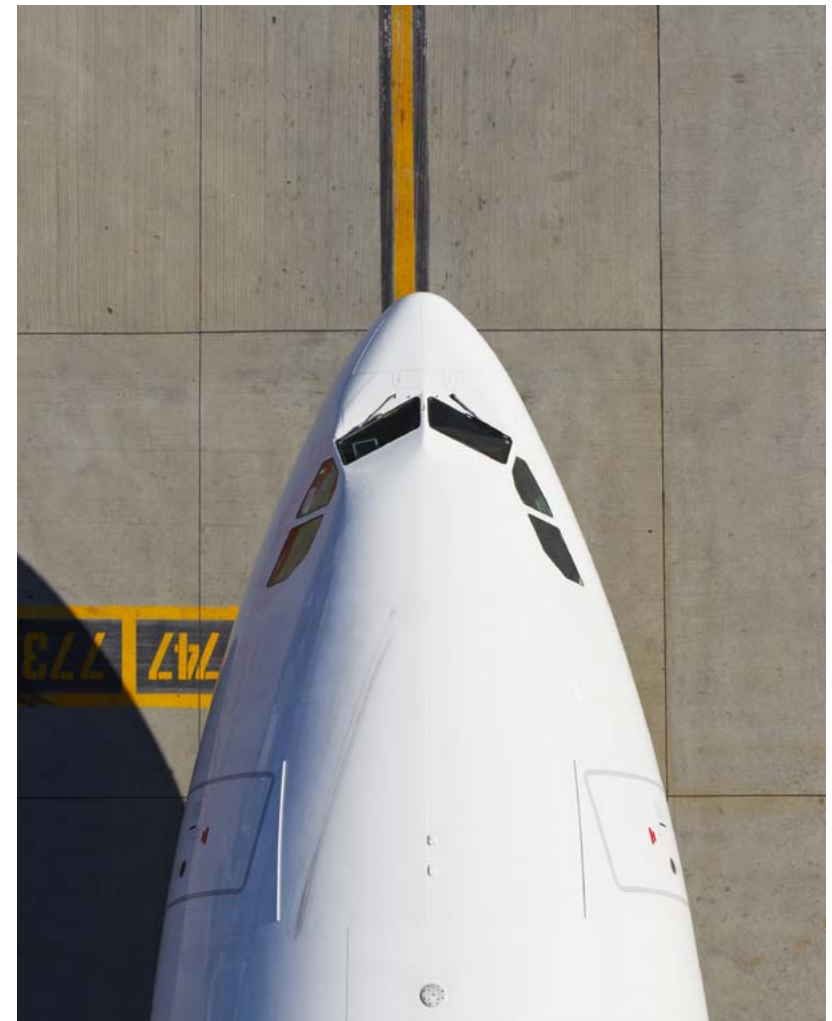
- In terms of the DTAA, both in the case of Canada and the UK, for holding the FTS as liable to tax in the source country, the services should make available the technical knowledge, etc., to the taxpayer of the source country. The AO has not been able to establish that the services of procuring orders have made available any technical knowledge, experience, skill know-how, etc., to the taxpayer, and, therefore, the services rendered by non-resident agents cannot be taxed as FTS under the DTAA.

### Business connection and PE

- The term 'business connection' as defined in explanation 2 to section 9(1)(i) of the Act is identical to the dependant agent PE in the DTAA. The AO has not made any efforts to establish any 'business connection' for invoking section 9(1)(i) and hence it cannot be held that an income was accrued in the hands of a non-resident through or from any business connection in India.
- Also, the AO has still not established that the non-resident had any PE in India, and, thus, in terms of the DTAA with Canada and the UK, the income of the non-residents was not taxable as business income in India.

### Reference to the explanation below section 9(2) of the Act

- In view of the retrospective explanation inserted below section 9(2) by the Finance Act, 2010, even if services are rendered outside India, irrespective of whether the non-resident has a residence or place of business or business connection in India or the non-resident has rendered services in India, the income of a non-resident for the purpose of clause FTS shall be deemed to accrue or arise in India. Since the case of the taxpayer is for FY 2009–10, the taxpayer had no occasion to know/believe that tax was to be deducted irrespective of the place of rendering service. Thus, the taxpayer cannot be made liable for deduction of tax at source in view of a retrospective amendment to section 9.
- The tribunal concluded that income from services of the non-residents of procuring orders are not chargeable to tax in India and, therefore, the taxpayer was not liable to deduct tax at source on the payment of commission to those agents.





ITA	Income Tax Act, 1961 (the Act)	DPSU	Defence public sector undertaking
AAI	Airports Authority of India	DTAA	Double Taxation Avoidance Agreement
AIESL	Air India Engineering Services Limited	DRDO	Defence Research and Development Organisation
ALH	Advance light helicopter	EoI	Expression of interest
AO	Assessing officer	FDI	Foreign direct investment
ASW	Anti-submarine warfare	FGFA	Fifth generation fighter aircraft
BDL	Bharat Dynamics Limited	FRCV	Future-ready combat vehicle
BEL	Bharat Electronics Limited	FTS	Fee for technical services
CAGR	Compound annual growth rate	GIL	Google Ireland Limited
CCEA	Cabinet Committee on Economic Affairs	GoI	Government of India
CE	Constituent entity	GRSE	Garden Reach Shipbuilders and Engineers
CIT (A)	Commissioner of Income Tax-Appeals	GSL	Goa Shipyard Ltd
CSL	Cochin Shipyard Ltd	HADR	Human assistance and disaster relief
DAC	Defence Acquisition Council	HAL	Hindustan Aeronautics Limited
DGCA	Director General of Civil Aviation	HC	High Court
DGIT	Director General of Income Tax	IDDM	Indigenous design, development and manufacturing
DProP	Defence Production Policy	IPO	Initial public offering

JV	Joint venture	OFB	Ordinance Factory Board
LCA	Light combat aircraft	ONGC	Oil and Natural Gas Corporation
MBT	Main battle tanks	PE	Permanent establishment
MCMV	Mine counter-measure vessels	PHL	Pawan Hans Limited
MDL	Mazagon Dock Shipbuilders Limited	PIM	Preliminary Information Memorandum
MHA	Ministry of Home Affairs	PSU	Public sector unit
MIDHANI	Mishra Dhatu Nigam Limited	RA	Risk assessment
MMRCA	Medium multi-role combat aircraft	RCS	Regional Connectivity Scheme
MoCA	Ministry of Civil Aviation	RFI	Request for information
MoD	Ministry of Defence	RFP	Request for proposal
MoU	Memorandum of understanding	SAAW	Smart anti-airfield weapon
MPATGM	Man-portable anti-tank guided missile	SIAEC	SIA Engineering Company
MSME	Micro, small and medium enterprises	UAOP	Unmanned aircraft operator permit
NAL	National aeronautics laboratories	UAVs/RPAS	Unmanned aerial vehicle/remotely piloted aircraft systems
NMRH	Naval multi-role helicopters	UIN	Unique identification number
NUH	Naval utility helicopter	UDAN	Ude Desh ka Aam Nagrik
OEMs	Original equipment manufacturers		



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