

# Uttar Pradesh Defence and Aerospace Manufacturing Policy 2018

## 1. Introduction

Indian economy continues to be a bright spot in the world with an average GDP growth rate of 7% for last three years (2014-15 to 2016-17). The economy is looked upon as one of the world's fastest growing large economies reaping high demographic dividend. Manufacturing sector forms the base of this economic growth and India poises to be a manufacturing hub of global recognition.

The global market size of Defence & Aerospace (D&A) sector is estimated to be around INR 64 Lac Crores (2016) in terms of revenue<sup>1</sup>, and employs over 2 million people. India, with the 3<sup>rd</sup> largest armed forces, 4<sup>th</sup> largest Air force and 7<sup>th</sup> largest Naval force in the world. Nonetheless, India is world's 6<sup>th</sup> biggest military spender, making it a significant market for Defence & Aerospace manufacturing in the world.

Year	Expenditure (INR Crores*)
2012-13	181805
2013-14	203515
2014-15	222365
2015-16	246740
2016-17	249080
2017-18(BE)	347750

*Source: MoD, Gol and IDSA (\*1USD=INR 65)*

India's Defence Budget has been continuously rising, and in Union Budget 2017-18, Govt. of India allocated around INR 3.6 Lac Crores to Ministry of Defence, recording a 5% growth in defence budget between 2016-17 and 2017-18. The 2017-18 defence budget had a capital expenditure share of around 33%. As most requirements for defence related equipment are met by imports in India, huge opportunity exists for import substitution in the sector. On the basis of current capital purchase requirements, it is expected that the defence offset market in India can rise upto approximately INR 64145 Crores per annum in just next few years<sup>2</sup>.

In order to grab this opportunity, Govt of India has issued Defence Procurement Procedure (DPP) 2016 under the over-arching framework of 'Make in India' programme. This Defence offset Policy is acting as a major thrust to overcome hurdles of developing defence manufacturing in the country. The threshold of defence offset under the policy has been relaxed to INR 2000 Cr under 'buy and make' category, thereby inviting more OEMs. The policy defines a new category with high priority called

'Indian Designed Developed and Manufactured (IDDM). 100% of the defence offset obligations have been claimed in 2014-15, as against 63% between 2008 and 2013.

With Defence sector open to 100% Foreign Direct Investment (FDI) through government route, and 49% FDI through automatic route, the sector has gained global attention. In recent years, defence exports in India have risen. Value of Defence exports by DPSUs, Ordnance Factories and Private Sector Companies (based on NOC issued) increased to INR 1105 Cr (provisional) in 2016-17 from INR 461 Cr in 2012-13<sup>3</sup>.

India's focus on indigenous manufacturing in the defence space is paying off as the Ministry of Defence over the last 2years unveiled several products manufactured in India. Defence licensing mechanism has been liberalised and made more transparent in India. Therefore, number of industrial licenses granted in the defence sector in recent years has been rising. Between 2014 and 2016, total 119 licenses have been issued, as against 214 licenses issued in 13years between 2001 and 2014<sup>4</sup>.

Taking forward the Make in India vision of Government of India, State Government of Uttar Pradesh has launched its Civil Aviation Policy 2017 and Industrial Investment and Employment Promotion Policy (IIEPP) 2017, which is expected to create huge demand for the sector and boost investments in the state. The State is committed towards strengthening its foothold in Aerospace & Defence (D&A) sector so as to create a promising ecosystem to boost indigenised manufacturing of aerospace & defence systems, equipment and parts.

## 2. Advantage Uttar Pradesh

Uttar Pradesh is access to country's 4<sup>th</sup> largest state, and 3<sup>rd</sup> largest economy. Home to 16.5% of India's population, Uttar Pradesh is amongst the top 5 manufacturing state and has 2<sup>nd</sup> highest number of MSME units. 13.26% growth in exports (CAGR) recorded in the state in last 5 years (2012-17).

### 2.1. Enabling Infrastructure

Strategically located along the Golden quadrilateral, the State is well connected to major national and international airports. Uttar Pradesh has largest railway network in India spanning over 8,949kms. The upcoming Western Dedicated Freight Corridor (WDFC) that stretches from Dadri in Ghaziabad to Jawaharlal Nehru Port at Mumbai, is set to boost the economic activities in the state by reducing the transportation time to ports.

Similarly, 57% of the Eastern Dedicated Freight Corridor (EDFC) connect western region to the eastern part of the of the country passes through Uttar Pradesh. Both

these freight corridors intersect at Dadri in Ghaziabad rendering the state a huge advantage in the logistics and warehousing sector. Considerable amount of the catchment areas of the Delhi Mumbai Industrial Corridor and Amritsar Kolkata Industrial Corridor running parallel to WDFC and EDFC catchment area falls in Uttar Pradesh. In order to derive maximum value out of the WDFC and EDFC projects, the state is coming up with integrated manufacturing clusters, logistics and industrial integrated townships in cities like Greater Noida, Allahabad, Kanpur etc. along the corridors.

The existing logistics infrastructure in Uttar Pradesh includes Moradabad rail linked combined domestic and EXIM terminal, Rail linked Pvt Freight Terminal and Inland Container Depot in Kanpur, ICD at Dadri Terminal, ICD at Kanpur etc. Besides these, multi modal logistics/ transport hubs are also proposed at Noida, Boraki and Varanasi. In addition to the existing investment hotspots like Kanpur, Noida, Varanasi, Ghaziabad etc., new industrial regions such as Dadri Noida Ghaziabad Investment region, Meerut Muzaffarnagar Investment region, DeenDayal Upadhaya Nagar (Mughalsarai)-Varanasi-Mirzapur Investment Region are also evolving.

The connectivity web of the state including existing and upcoming expressways like Poorvanchal Expressway, Bundelkhand Expressway, Lucknow- Agra Expressway etc.; 4 lane and 6 lane state highways; national and international airports; NW 1 waterways connecting Allahabad, Varanasi and Haldia sea port etc., is expected to create a web of air, water, road and rail network that will help the state's industries and manufacturing units switch seamlessly between different modes of transport as they send their goods to markets in India and abroad. The Multi-city metro rail projects, coming up at Lucknow, Kanpur, Meerut and Varanasi, and upcoming international airport at Jewar and Kushinagar are also expected strength to State's connectivity advantage.

## 2.2. Market Base

Uttar Pradesh has a number of public and private sector units manufacturing a range of products in the D&A sector. Procuring various components and materials from local players, the Public Sector Units (PSUs) forms the base of a strong local market base in the state. Prominent PSUs includes nine Indian Ordnance factories, three Hindustan Aeronautics Limited (HAL) manufacturing units, etc.

<b>Table – 2 : List of Ordnance Factories in Uttar Pradesh</b>	
Ordnance Factory, Muradnagar, Ghaziabad	Plain Carbon and alloy steel castings for tanks, ammunitions, steel forgings
Ordnance Factory, Kanpur	Medium & high calibre guns, shell empties
Small Arms Factory, Kanpur	Small arms.
Field Gun Factory, Kanpur	High calibre ordnance & spare barrels, .32" Revolver

Ordnance Equipment Factory, Kanpur	Leather items, textile items, engineering equipment including mountaineering items
Ordnance Parachute Factory, Kanpur	Parachutes of different types.
Ordnance Clothing Factory, Shahjahanpur	All combat clothing, textile and tent age items
Ordnance Equipment Factory, Hazratpur, Tundla	Tents & other clothing items
Ordnance Factory, Korwa	For production of carbines (At Project Stage).

<b>Table-3 : Prominent manufacturing units of HAL in Uttar Pradesh</b>	
HAL Transport Aircraft Division, Kanpur	Core competence in manufacture, maintenance, modification and upgrade of light transport aircraft and trainer aircraft for both domestic and international markets. The division also carries out maintenance, repair and overhaul of aircraft, its rotables and undertakes servicing of engines and hydraulic systems of UAVs.
HAL Accessories Division Lucknow	Manufacturing of Hydraulics, Engine Fuel, Air-conditioning and Pressurization, Flight Control, Wheel and Brake, Gyro & Barometric Instruments, Electrical Power Generation & Control System, Undercarriages, Oxygen and Electronic System, Fuel Content Gauges etc.
HAL Avionics Division Korwa	Manufacturing & repair facilities for various avionics systems fitted on MiG-27M upgrade, mirage-2000, LCA, jaguar upgrade, AJT-HAWK aircraft.

In addition to these PSUs, there are various other private sector manufacturing units involved in the production of technical textiles, engineering goods, components, etc. in the D&A sector in the state.

### **2.3. R&D Ecosystem**

The State hosts multiple institutions engaged in research & development in the D&A sector. With key Government sector R&D institutes like Defence Research and Development Organisation (DRDO), HAL, etc. in the state, UP offers an excellent R&D ecosystem for D&A sector.

The Aerospace Systems & Equipment R&D Centre (ASERDC), Lucknow under HAL, which is engaged in applied research, design & development of all major systems & equipment for aircraft, helicopter and engine using state of the art technology, and the Aerospace System and Equipment R&D Centre (ASERDC), Korwa under HAL, which is engaged in development of Flight Data Recorders and other Avionic LRUs, are some of prominent R&D institutions in the State.

In addition, prominent Forensics Science Laboratories in Uttar Pradesh at Lucknow and Agra with 7-divisions are aiding UP Police with modern technologies and equipment.

## 2.4. Opportunities in Uttar Pradesh

Offering an excellent infrastructure and ecosystem support, this policy intends to attract investments in the following areas of D&A sector, -

- **Defence Park** at Kanpur and other districts such as Varanasi, Agra, GB Nagar.
- **Defence PSUs**
- **Auto related components and Automobile manufacturing** for military.
- **Testing facilities** - Development testing range for artillery and other military equipment
- **Police modernization**
- **Forensics Centres**
- **Drones Manufacturing and Testing facilities**
- **Aerospace Park**
- **Aircraft/ Helicopter Manufacturing/ Assembling Units**

## 3. About The Policy

This policy takes ahead the vision and objectives of State's Industrial Investment and Employment Promotion Policy 2017 (IIEPP 2017) with sectoral focus and supplements the Civil Aviation Policy 2017, and UP MSME Policy 2017. Providing attractive incentives, this policy provides strategic direction for development of the D&A sector in the state for the next five years.

### 3.1. Objectives of the Policy

1. Make Uttar Pradesh one of the most preferred destinations for Defence & Aerospace manufacturing.
2. Identify and address existing infrastructure gaps affecting Defence & Aerospace manufacturing industry.
3. Promote private industrial parks catering to Defence & Aerospace manufacturing sectors.
4. Promote establishment of Defence & Aerospace clusters in order to promote development of a sectoral ecosystem.
5. Promote Research and Development in D&A sector and ensure continuous technology up gradation.
6. Attract mega Defence & Aerospace manufacturing projects & Defence Public sector Units (DPSUs) in the State
7. Promote Ancillarisation and development of MSMEs in the D&A sector
8. Encourage skill development in Defence & Aerospace domain

### 3.2. Definitions

1. **MSME Units:** GoUP will follow the MSME definition laid out by Government of India for MSME as per MSME Act 2006. The definition for MSMEs will be revised automatically as per the guidelines of Government of India from time to time.
2. **Mega D&A Units:** D&A units with fixed capital investment of –
  - a. More than INR 300 crores or creating at least 1000 direct employment in Bundelkhand & Poorvanchal Region,
  - b. More than INR 400 crores in Madhyanchal & Pashimanchal (except GB Nagar, Ghaziabad) or creating at least 1500 direct employment,
  - c. More than INR 500 crores in GB Nagar, Ghaziabad districts or creating at least 2000 direct employment.
3. **Defence Public Sector Units** that are Central PSUs under the administrative control of Ministry of Defence.
4. **Anchor units:** : Global or Indian Original Equipment Manufacturer (OEM) companies which designs and manufactures D&A platforms with investments of at least INR 200 Cr and brings along at least 10 vendor units as defined in this policy in the same cluster shall be treated as Anchor unit.  
These Anchor Units should qualify that they have defence orders worth at least INR 50 crore or more. The definition of a defence order is a contract with the Ministry of Defence or the Ministry of Home Affairs (of Government of India) or their authorised equivalents in foreign countries or civilian aerospace manufacturer/supplier or an MRO facility
5. **Vendor units:** Units which are located in the same cluster as Anchor unit and supply at-least 75% of its end product to the Anchor unit.

### 3.3. Implementation of the Policy

1. This policy will come into effect on the date of its notification and will remain in force for a period of 5 years.
2. If at any stage a situation arises which necessitates any amendment or supersession of the policy, only the cabinet will be authorised to approve such amendments/ supersession.
3. In case of any amendment in this policy, if any package of incentives is already committed by the state government to any unit, will not be withdrawn and the unit will continue to remain entitled to the benefits.

## 4. Private Defence & Aerospace Park

Govt of Uttar Pradesh will promote Defence & Aerospace Parks in the state, especially in areas with strong ecosystem support. Districts like Kanpur, GB Nagar, Agra and Varanasi will be focused in this context. These parks will provide 'plug-and-play' industrial infrastructure allowing companies to focus on their core business. These parks will have:

- 1) Manufacturing area (components, sub-components, sub-assemblies, aerospace parts) and SEZ
- 2) Testing centre
- 3) Hardware/Embedded Technology Centre
- 4) Technology innovation centre
- 5) Housing & Common facility centre

Towards this, the Government of Uttar Pradesh will provide following incentives to private Aerospace & Defence Parks developed on more than 150 acres of land in Bundelkhand & Purvanchal Region, 100 acres of land in Madhyanchal & Paschimanchal Subject to the condition that the park will have at least 5 D&A units and any one unit will not occupy more than 40% area of the park:

- 4.1. Interest subsidy in the form of reimbursement of interest of up to 50% of annual interest on the loan taken to buy land, calculated on the basis of prevalent circle rate, for 7 years subject to a maximum ceiling of INR 50 lacs per annum per D&A park.
- 4.2. Interest subsidy in the form of reimbursement of interest of up to 60% of annual interest for 7 years on the loan taken for building infrastructure in the D&A parks subject to INR 10 crore per year with an overall ceiling of INR 50 crore per D&A park.
- 4.3. Interest subsidy in the form of reimbursement of interest of up to 60% of annual interest for 7years on loan taken for setting up common Technology Innovation Centre, Testing Centres at the D&A parks subject to INR 5 crore per year with an overall ceiling of INR 30 crore per D&A park
- 4.4. 100% exemption/ reimbursement on stamp duty on the purchase of land by the developer and 50% exemption on stamp duty to individual buyers (first) will be provided on purchase of plot in the D&A parks.

## 5. Incentives to D&A units –

D&A sector units will be eligible for following incentives -

- 5.1. **Capital Interest Subsidy** in form of reimbursement to the extent of 5% per annum for 5 years on loan taken for procurement of plant & machinery, subject to a maximum of INR 5 crore per annum per unit and overall ceiling of INR 20 crore.
- 5.2. **Infrastructure Interest Subsidy** - D&A units setup in the state, will for a maximum period of 5 years be reimbursed the amount of interest at the rate of 5% per annum payable on loan taken by them for developing infrastructural amenities for self-use like roads, sewer, water drainage, erection of power line, transformer and power feeder, subject to a maximum of 2 crore per annum and overall ceiling of INR 10 crore.
- 5.3. **Industrial Research Subsidy** to D&A units to the extent of 5% per annum for 5 years in the form of reimbursement on interest on loan taken for industrial research, quality improvement and development of products by incurring expenditure on procurement of plant, machinery & equipment for setting up testing labs, quality certification labs and tool rooms, subject to an overall ceiling of INR 1 Crore.
- 5.4. **Stamp Duty Exemption** - 100% Stamp duty exemption for units set up in D&A sector in Bundelkhand & Poorvanchal Region, 75% stamp duty exemption to D&A units in Madhyanchal & Pashchimanchal Region (except GB Nagar, Ghaziabad), and 50% Stamp duty exemption to those set up in GB Nagar, Ghaziabad districts.
- 5.5. **Electricity duty exemption** - 100% exemption for 10 years to all new D&A units set up in the state.
- 5.6. **SGST reimbursement** –
  - 5.6.1. 70% of net SGST reimbursement to MSME units in D&A sector for 7 years, subject to annual ceiling of 15% of capital investment or actual tax deposited, whichever is lower.
  - 5.6.2. 70% of net SGST reimbursement to eligible Large D&A Units (capital investment of above INR 10 cr and below the capital investment required for consideration under various categories of mega investment) for 10 years, subject to annual ceiling of 10% of capital investment or actual tax deposited, whichever is lower.
  - 5.6.3. 70% of net SGST reimbursement to Mega D&A units eligible under this policy for 20 years for Bundelkhand and Poorvanchal and 15



years for Madhyanchal and 12 years for Paschimanchal subject to annual ceiling of 15% of capital investment or actual tax deposited, whichever is lower.

- 5.7. **EPF Incentive** - All such new D&A units set up in the state, which provide employment to 100 or more unskilled workers, shall be reimbursed 50% of Employer's contribution to EPF. And, additionally 10% of employer's contribution on direct employment to 200 skilled and unskilled workers will be reimbursed.
- 5.8. **Case to Case Incentives** - Projects in the following categories will be provided incentives on case to case basis for finalising the incentive structure, -
- 5.8.1. Mega units as defined in this policy
  - 5.8.2. Anchor unit along with their Vendor units, in case their cumulative fixed capital investment qualifies the eligibility criteria of mega projects.
  - 5.8.3. DPSUs with minimum fixed capital investment of INR 1000 crores, located anywhere in the state.
  - 5.8.4. DPSUs will also be provided land on lease at subsidised rates.

**NOTE 1-** All incentives for eligible projects under the above categories (Section 5.8) in the form of reimbursement, subsidies, exemptions etc., will be subject to a maximum of 300% of fixed capital investment made in Poorvanchal and Bundelkhand area of UP, 200% of fixed capital investment made in Madhyanchal, 100% in Paschimanchal (except Gautambuddh Nagar & Ghaziabad districts) and 80% of fixed capital investment made in Gautambuddhnagar & Ghaziabad districts, for Mega D&A Units, Anchor units and Defence Public Sector Units (DPSUs), subject to annual ceiling of 20% of fixed capital investment.

In addition to the incentives provided under IIEPP 2017 as mentioned above, the eligible D&A units will be provided additional incentives as listed below -

**5.9. Tax incentive –**

- 5.9.1. 100% reimbursement of net SGST on all input material (excluding Aviation Turbine Fuel), for 10 years to all new Aerospace sector units.
- 5.9.2. The Aviation Turbine Fuel is already subsidised under UP Civil Aviation Policy 2017 – Section 7.1.1, 8.1.1, 8.2.1, 8.5.2.1.

**5.10. Rebate on Transportation Charges –**

- 5.10.1. D&A units shall be eligible for transportation subsidy of 50% of cost, up to a maximum of INR 2 Crores, on transportation of imported equipment, plant and machinery from logistics parks/transport hubs and harbour/port to the place of production in the state. This subsidy

shall be applicable on transportation of equipment by D&A units for projects whose contract value is greater than or equal to INR 50 Cr and up to the date of start of first year of production.

5.10.2. D&A units shall be eligible for transportation subsidy of 30% of cost up to a maximum of INR 1 Crore on transportation of finished products from the unit to logistics parks/transportation hubs, harbour/port for a period of 5 years from the date of start of commercial production.

**5.11. Subsidy for setting up Effluent Treatment Plant (ETP) –**

20% reimbursement of project cost of setting up ETP by D&A units upto maximum INR 1 crore.

**5.12. Tech Transfer Subsidy –**

Anchor units shall be reimbursed 100% of the cost of technology transfer towards first 5 vendors and 50% towards next 5 vendors, subject to maximum INR 50 lacs towards each vendor unit.

## **6. R&D and Testing Facility Support**

For setting up R&D or testing facility in the D&A sector, 10% subsidy on capital investment of more than INR 10 crore, up to maximum INR 10 crore per investment, provided –

- The centre should either have a direct order of at least INR 5 crore from the Ministry of Defence/ Ministry of Home Affairs/ equivalent foreign governments/ civilian aerospace supplier or an MRO facility; or
- The Centre should be providing services to a manufacturer who has a minimum of INR 50 crore order from the Ministry of Defence/ Ministry of Home Affairs/ equivalent foreign governments/ civilian aerospace supplier or an MRO facility.
- The criteria must be fulfilled within 2years of commencement of operations at the centre.

## **7. Building Market**

7.1. The MSME units in D&A sector will be eligible for reimbursement of 50% of cost of participation in international exhibitions/fairs, subject to maximum of INR 5 lakh per exhibition/fairs, towards maximum 10 MSME D&A units. One unit will be provided this incentive only once in a year.

7.2. Govt of Uttar Pradesh will give preference in procurement to state based D&A units, while procuring equipment for its security forces.

## 8. Capacity Building

- 8.1. **On the job training Incentive** – Units providing on the job training in D&A sector for prescribed courses, would be reimbursed 50% of the cost of training in the form of subject to maximum INR 10000 per month per trainee for six months, upto maximum of 50 trainees per institutions per annum.
- 8.2. **Strengthening existing Skill training base** – Wherever feasible, D&A units shall be handed over identified Government I.T.I. for D&A sector specific skill development. Custom courses in D&A sector can also be introduced in these ITIs as per requests from D&A sector units.
- 8.3. **Academic tie-up** – Govt of Uttar Pradesh will encourage Universities (in India and abroad) with excellence in D&A training and research to tie up with universities in the State to enhance pedagogy and R&D culture.
- 8.4. **Training centres at D&A Park** – The State Govt will encourage training institutions at D&A Parks. Institutions imparting training to atleast 1000 workers annually will be provided land subsidised rates at these parks.

## 9. Patent Cost/ Quality Certification

Govt of Uttar Pradesh will provide financial assistance towards expenses incurred for patent registration and for quality certifications.

- 9.1. **Patent Fee Reimbursement** – 100% reimbursement of patent fees for domestic patent registration, and 50% reimbursement of patent fees for international patent registration subject to maximum of INR 25 lacs, will be provided for D&A sector units established in the state. The reimbursement would be granted only after grant of patents.
- 9.2. **Quality certification** – Govt of Uttar Pradesh will provide financial assistance to MSME units in D&A sector for obtaining quality certification such as AS-9100 series, NADCP, etc. 100% reimbursement of certification fees subject to maximum INR 2 lacs for each certification will be provided.
- 9.3. **Trademark registration** – Trade Mark registration application fees would be fully reimbursed, subject to maximum INR 1 lac per registration to all eligible D&A units.

**NOTE 2:** All incentives in the form of reimbursement, subsidies, exemptions etc. for eligible MSME and Vendor units in D&A sector, other than mega projects as defined under this policy will be subject to a maximum of 100% of fixed capital investment made in Poorvanchal and Bundelkhand, 90% of fixed capital investment made in

Madhyanchal & Paschimanchal (except Gautambuddh Nagar & Ghaziabad districts) and 80% of fixed capital investment made in Gautambuddh Nagar & Ghaziabad districts subject to annual ceiling of 15% of fixed capital investment.

## 10. Ease of Doing Business

Taking forward the vision and mission of State's Industrial Investment and Employment Promotion (IIEP) Policy, 2017, this policy also ensures ease of business in the state.

- 10.1. **Single Window-** All required approvals and clearances to D&A manufacturing units shall be provided under one roof through single window system of the state directly monitored by the Chief Minister's office.
- 10.2. **Lump Sum Payment of incentives:** All incentive payments in the form of reimbursement, subsidies, etc. under the policy will be made with a single sanction order and from a single head of account by the nodal agency.
- 10.3. **Simplifying procedures-** This policy aims to rationalise existing regulatory regime and simplify procedures by supporting self-certification, deemed approval and third party certification.
- 10.4. **Labour Permits-** Govt of UP will permit D&A industry towards flexible employment conditions, working hours and employment of women in 3-shifts, and hiring of contractual workers, subject to the requisites of respective laws.
- 10.5. **Quality Power-** Govt of Uttar Pradesh is committed to supply 24X7 reliable, quality power to D&A industry as per provisions in Industrial Investment & Employment Promotion Policy 2017.
- 10.6. **Industrial Security-** Govt of Uttar Pradesh will provide safe and secure industrial environment in the state. Towards this dedicated police force headed by specialised officer will be deputed at industrial clusters/ areas in regions and integrated police cum fire station will also be established.

**NOTE 3** – D&A units availing incentives from any other policy or those sanctioned by the departments of the State government, will also be entitled to avail incentives/benefits mentioned in this policy provided the same kind of benefits/incentives are not being availed from any other policy.

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