Interview With Sunil Kumar Sharma, Chairman of BEL

Correction: A previous version of this article had the incorrect spelling of the BEL chairman's name. It has been corrected.

NEW DELHI — With India opening up 100 percent Foreign Direct Investment (FDI) for the defense industry, state enterprise Bharat Electronics Limited (BEL) is preparing to react to the new initiative to achieve growth in a competitive market.

According to BEL Chairman and Managing Director Sunil Kumar Sharma, the plan is to increase the level of indigenization, keep pace with fast-changing defense technologies and move closer to the goal of achieving self-reliance in the defense sector.

Sharma, who has held his current leadership position in BEL since January 2014 and is retiring on Sept. 30, 2016, participated in a Q&A by email with Defense News about his experience with the defense industry and Indian policies:

Q. What challenges do you foresee as India plans to create a level playing field between the public and private sectors?

A. The Indian government's vision is to develop a strong, self-reliant domestic industry in the defense sector with substantial participation from the private sector. The government has taken several initiatives to enable this vision like the Make in India program and raising of FDI to 100 percent. Several evolutions of the Defense Procurement Procedure have also progressively ensured wider participation of Indian and foreign companies. All these have intensified the competition for BEL.

BEL has been taking several strategic initiatives for maintaining and enhancing the growth rate of BEL in the competitive scenario like emphasis on in-house R&D; restructuring of strategic business units; thrust on exports and offsets; formation of joint venture companies/special purpose vehicles to bridge technology gaps; and diversification into new defense and non-defense segments

Q. Recently, BEL has lost out on major defense projects to private companies. Do you have a model wherein private sector and BEL can work in synergy without a sense of mistrust that exists today?

A. In a competitive environment, winning or losing depends on our ability to offer a most optimized solution in a cost-effective manner. BEL has been winning about 40 to 50 percent of the bids in which it participated in competitive routes in the last six to seven years. The company has a process wherein it analyzes both the winning and losing bids to understand precisely the reasons for success or failure and carry out necessary, systemic changes in the processes to become more competitive.

Incidentally, BEL had won the L70 [air defense gun] upgrade contract against private sector competition. Some of the other bids won by BEL in a competitive route include the Schilka upgrade, ground-based Mobile Electronic Intelligence, and the low-intensity conflict electronic warfare system for the Indian Army, to name a few.

Photo Credit: Bharat Electronics Limited

BEL is open to partnering with private sector companies that have strong complementary capabilities. There are many programs where BEL has participated in partnership with the private sector. The indigenously developed surface-to-air Akash missile system is a great success story of public-private participation. BEL has taken the Lead System Integrator role while private players like Tata, L&T, etc. played a collaborative role for successful development and deployment of the Akash missile system.

BEL is also partnering with Indian private industry for the upcoming Make [in India] category projects such as the tactical communication system and battlefield management system.

Q. How realistic is Make in India for the defense sector since these are long-term, drawn-out programs and defense orders are limited, plus there is very little guarantee of repeat orders?

A. India is one of the most lucrative defense markets globally due to shrinking global defense budgets. There is a huge export potential from India, as India is seen as an attractive outsourcing destination for software development and engineering and support services on account of availability of engineering manpower, government support, cost competitiveness, etc. Today, India is also one of the largest importers of defense equipment with many of its defense needs met through imports, and the government seeks to expand procurement through indigenous sources. The government has launched the Make in India program to transform India into a global power in defense manufacturing and to build a strong, self-reliant domestic defense industry.

The introduction of new categories for Indian-made defense will provide the necessary policy support for ensuring the success of the Make in India program. This initiative of the government has the potential to transform the Indian defense manufacturing into a globally competitive one, where Indian firms can become part of the global supply chain for defense products and systems.

Q. What are your views on 100 percent FDI in defense?

A. To create a more liberal FDI environment, in June 2016, the Ministry of Defence had permitted FDI beyond 49 percent through a government approval route in cases resulting in flow of modern technology into the country. As FDI policy was not able to attract investments and flow of technologies as desired, the government has come out with this latest policy change, further liberalizing and simplifying the FDI in defense.

The new FDI policy change is a progressive move and likely to encourage foreign original equipment manufacturers (OEM) to invest in India as they will have the management and control of the Indian entity. This provides foreign OEMs the flexibility and freedom to run the defense business in India.

Q. BEL has been in business for close to 60 years, out of which 50 years have been a monopoly business. Yet, India has not achieved a high percentage of indigenization and self-reliance in defense. Why?

A. BEL was established in the year 1954 under the Ministry of Defence, primarily to manufacture and supply defense products. Beginning with radio communication products, BEL has grown into a multi-product company with strong presence in the field of radars and fire control systems, missile systems, communication and C4I systems, electronic warfare and avionics, anti-submarine warfare systems, electro-optics, tank electronics and gun upgrades, civilian products, and strategic components.

Defense technologies are complex and fast-changing. The life span of technologies is getting shorter with the faster pace of development in the area of electronics and network-centric warfare. We have taken several initiatives to achieve self-reliance and increase indigenization. BEL has been substantially investing around 8 percent to 10 percent of its turnover on R&D annually and is planning to increase to 12 percent progressively in the next three years. We have institutionalized a process for a three-year

R&D roll-on plan based on customer perspective and technology road maps. We are in the process of setting up a new Product Development and Innovation Centre for developing key sub-systems and futuristic products.

The company has been investing around $60 million on infrastructure upgradation/expansion every year and has world-class infrastructure/test facilities established in all its strategic business units and other units. Today, BEL is geared up to manufacture large and complex projects, as well as carry out mass production. The company has drawn up plans of investing around $303 million over the next three to five years on expansion and modernization.

All these efforts are expected to contribute to further increase the level of indigenization, keep pace with fast-changing defense technologies and help the country to move closer to the goal of achieving self-reliance in defense.

Q. Can a defense company like BEL deliver cheaper defense products compared to their Western competitors?

A. BEL has been catering to a large part of the Defense Electronics requirements of the defense forces successfully. Barring a few critical technology gaps, we have the requisite knowledge and experience to understand the operational requirements of the customer and translate them into cost-effective solutions.

The indigenous development of Weapon Locating Radar is one such example where BEL, in collaboration with state-owned Defence Research and Development Organisation (DRDO), has not only designed and developed the system, exceeding the performance of Western equipment but is also delivering the same at a competitive price.

Similarly, Communication equipment has been our major strength and we have delivered several cost-effective products to the defense forces. Presently the focus of BEL is to offer futuristic software-defined radios in various form factors at par with the products available in the international market at very competitive prices.

Q. Is BEL part of any global aerospace and defense supply chain?

A. We have signed several MOUs [memorandums of understanding] and partnership agreements with many foreign OEMs and are working with major aerospace and defense companies to establish long-term supply chain relationships. Currently, we are working with OEMs like Boeing, Airbus, Lockheed Martin, IAI, Pilatus, etc.

Q. BEL is notably involved in a joint venture with Thales. Is it successful?

A. BEL Thales Systems Ltd., a joint venture company [JVC] between BEL and Thales, had been incorporated in August 2014 with an objective to grow as a center for development, evolution and customization of systems to address a larger share of the Indian and international radar systems business. The joint venture company is presently operational and is engaged in design, development, marketing, supply, and support of civilian and select defense radars for Indian and global markets. This will enable the JVC to bring out complex, high technology Radars in a time-bound and cost-effective manner, matching customer expectations. Recently, the JVC has entered into a strategic cooperation

with Thales to jointly develop PHAROS, a fire control radar for both gun and missile systems. This JV is expected to yield good results in the near future.

Q. What defense orders you have executed in the past three to five years?

A. Major orders executed by BEL include Akash missile systems, the Schilka upgrade, central acquisition radars, low-level lightweight radars, naval air surveillance radars, naval fire control systems, test beds of [Integrated Air Command and Control System] & [Air Defence Control and Reporting System] projects, image intensifier technology based night vision devices, mobile strategic communication systems, hull-mounted sonars, Advanced Composite Communication Systems, ship data networks, the L-70 upgrade, etc. The sales turnover during fiscal 2015-2016 was about $1.13 billion, of which defense sales accounted for about 80 percent.

Q. Do you have defense order footprints outside India?

A. BEL is pursuing possibilities to export products and systems to friendly countries with the approval of MoD. Currently, the coastal surveillance systems, naval air surveillance radars, sonars, night vision devices and electronic voting machines are being exported to Southeast Asian, Middle Eastern and African countries.

BEL registered exports worth US $85 million during 2015-16, achieving a growth of about 47 percent. Currently, BEL is pursuing export opportunities worth about $1 billion.