**COVID Impact on Indian Defence Industry**



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The extended lockout has adversely impacted on cash flow situation of the Indian Industry especially MSMEs. A large number of Indian MSMEs are cash negative due to long shut down. Even after lock-out is over, retention of prevailing orders due to disturbed supply chain is challenging. The aforesaid is resulting in business losses, even closures, loss of jobs and other sources of income and finally a significant reduction in disposable income in the hands of domestic consumers.

Prolong lockdown left its phycological impact – the uncertainty of the future in terms of employment and health care has started disturbing the way of life of the Indian consumers. People will resort to a conservative approach in their spending – spend less and save more for the unknown future. This will harm the money supply in the market.

Above will have a negative impact on Demand Side – fueling recession.

Revenue side, extended lockdown and further restricted working adversely impacted tax collection by the State and Central Governments. Loss if tax collection while continued Salary and Pension bills of Government Servants is to be considered. Nonperforming expenditure in National Health Care and Social Security will burden Cash Reserve.

Prior to COVID-19 during last quarter of 2019, GDP growth rate in India was 4.7% (with Government Prediction it is to be 5.5 to 6% in 2020-21). Due to extended locked down and its negative impact of the economy, GDP growth is expected to move further downwards in short to medium terms, but downfall will not be much. Positive side includes:-

1) India is not majorly integrated with global supply chain

2) Not a major exporter to Global Market

3) Fall in crude oil price

4) decline in cost of overseas borrowing.

At the other side, there will be demand-side negative pressure on GDP due to loss in disposable income. In 2019, Indian Central Bank had all time high cash reserves- thanks to conservative capitalism. The government has started taking measures to fuel the economy through spending in infrastructure sectors, enhancing money supply (reducing cost of local borrowing), revival packages in specific sectors etc. However, Government moves are going to be highly calibrated among countervailing factors like social security, revival and growth of the industry, employment and support to the agriculture sector.

Considering above, we should expect the Indian GDP growth rate for next 3 years in the range of 5% to 6%.

The above analysis indicates that Indian Defence & Aerospace sector will be adversely impacted in short to medium terms. Big-ticket government programs – Medium Multi-Role Combat Aircraft (MMRCA) program of IAF, NUH/NMRH programs of IN etc. will be shelved for a while Requirements of Armed Forces will be met through indigenously grown technology like LCA, LCH, LUH, AMCA, IMRH etc. We can expect a lot of emphasis on Make-2 (Industry funded Design and Development Program), DRDO programs and Start-Ups. Small and mid-size programs like upgrades, supply against scale deficiency, a supply of ammunition, training programs, maintenance programs etc will continue with minor delays – idea is to do all programs that are required for fullest exploitation of present war assets while postponing capability enhancement programs.

Complete shutdown due to the widespread outbreak of COVID-19 will have a serious impact on the global supply chain and in-turn international business. Countries will start focusing on domestic demand. Developed economies will prioritize their business requirements on grounds of national interest than sole profit motive. In this scenario, non-Chinese global OEMs may come out of china and move to more ethical and transparent destinations. Indian Government’s on-going initiatives and policies in handling COVID-19 pandemic are being lauded globally. Indian economy though not very aggressive yet is well established on solid foundation and is, therefore, being watched with interest. In my opinion, India can become the favorite destination for manufacturing including Defense and Aerospace, if it survives under the widespread outbreak and comes out of the crisis in a period of 10 to 12 months.