

**NATIONAL SMALL INDUSTRIES CORPORATION(NSIC)**

**POTENTIAL  
FOR  
MSMEs  
In  
DEFENCE SECTOR**

**IF INDIA LIVES IN VILLAGES, INDUSTRY LIVES IN MSMEs**

# Why Offsets?

## GOVERNMENT PERSPECTIVE

Leveraging buying power to create a defence manufacturing base that addresses needs of self reliance.

## PRIVATE INDUSTRY PERSPECTIVE

Use offset as a route to amalgamate into global defence supply chains, in addition to self sustenance of the Indian Armed Forces.

# Offsets- What are the Rules of Engagement

## On What?

- 'Buy' Global
- 'Buy' & Make Global
- Program Cost > Rs. 300Cr.
- Minimum 30% of Contract value, could be higher. (MMRCA)

## Rules

- All Offset offers which satisfy the minimum eligibility, will be placed at par.
- Offset Contract can be extended by 24 months beyond the main contract. (extension period)
- Penalty of 5% on unfulfilled portion of the Offset Obligation; CAP of 20%. This does not apply to the extension period

## Indian Offset Partner

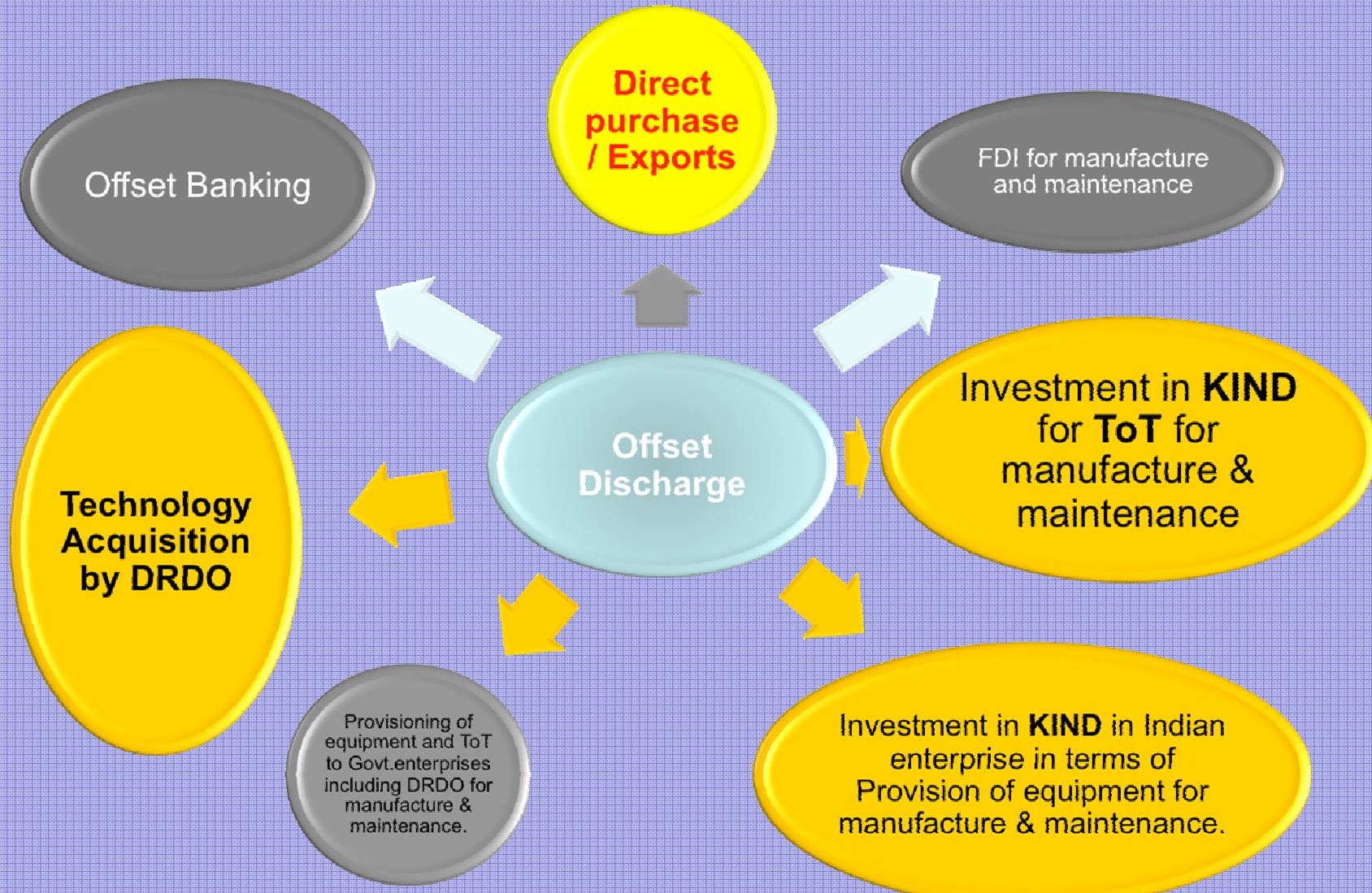
- Defense Products- 13 categories
- \*Civil Aerospace
- \*Inland / Coastal Security Products- Clarity is awaited from MoD

\* MoD's stance on FDI is awaited

The Tier-1's on a particular program are permitted to discharge offsets, on behalf of the Prime / OEM, in proportion to their work-share on the platform being supplied.

India follows a middle path for Implementing Offsets. The OEM is not restricted to the Platform that it is supplying, however at the same time it can discharge its offset obligation only through Eligible Products & Services

# Avenues For Discharge



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# Eligible Products (Defence)

- (a) Small arms, mortar, cannons, guns, howitzers, anti tank weapons and their ammunition including fuzes.
- (b) Bombs, torpedoes, rockets, missiles, other explosive devices and charges, related equipment and accessories specially designed for military use, equipment specially designed for handling, control, operation, jamming and detection.
- (c) Energetic materials, explosive, propellants and pyrotechnics.
- (d) Tracked and wheeled armoured vehicle, vehicle with ballistic protection designed for military applications, armoured or protective equipment.
- (e) Vessel of war, special naval systems, equipment and accessories to include following
  - (i) Design, manufacture or upgrade of weapons, sensors, armaments, propulsion system, machinery control system, navigation equipment/instruments other marine equipment and hull forms of warship, submarines, auxiliaries.
  - (ii) Facilities and equipment required for testing, certification. Qualification and calibration of hull forms, platform, propulsion and machinery control systems, weapons sensors and related equipment including enhancement of stealth features and EMI/EMC studies for warships, submarines and auxiliaries.
  - (iii) Software specially designed, developed and modified for design of all types of warships, submarines and auxiliaries or their hull forms.
  - (iv) Setting up of maintenance and repair facility for equipment/weapons and sensors and other marine systems including related technical civil works.
- (f) Aircraft, unmanned airborne vehicle, aero engines and air craft equipment, related equipment specially designed or modified for military use, parachutes and related equipment.
- (g) Electronics and communication equipment specially designed for military use such as electronic counter measure and counter-counter measure equipment surveillance and monitoring, data processing and signaling, guidance and navigation equipment, imaging equipment and night vision devices, sensors.
- (h) Specialized equipment for military training or for simulating military scenarios, specially designed simulators for use of armaments and trainers and training aids Viz. simulators, associated equipment, software and computer based training modules.
- (i) Forgings, castings and other unfinished products which are specially designed for products for military applications and troop comfort equipment.
- (j) Miscellaneous equipment and materials designed for military applications, specially designed environment test facilities and equipment for the certification, qualification, testing or production of the above products.
- (k) Software specially designed or modifies for the development, production or use of above items. This includes software specially designed for modeling, simulating military operation scenario and command, communications, control, Computer and Intelligence (C4I) applications.
- (l) High velocity kinetic energy Weapon systems and related equipment.
- (m) Direct energy weapon system, related or countermeasure equipment, super conductive equipment and specially designed for components and accessories.

# Eligible Products (Inland & Coastal Security)

- (a) Arms and their ammunition including all types of close quarter Weapons.
- (b) Specialized protective Equipment for Security Personnel including body armour and helmets.
- (c) Vehicle for internal security purpose including armoured vehicle, bullet proof vehicle and mine protected vehicles.
- (d) Riot control equipment and protective as well as riot control vehicles.
- (e) Specialized equipment for Surveillance including hand held devices and unmanned aerial vehicle.
- (f) Equipment and devices for night fighting capability including night vision devices.
- (g) Navigational and communications equipment including secure communications.
- (h) Specialized counter terrorism equipment and gear, assault platform, detection devices, breaching gear etc.
- (i) Specialized equipment for Harbour Security and Coastal Defence including Seabed/Maritime surveillance Sensor chains, sonar's, radars, Optical devices, AIS.
- (j) Vessel Traffic Management System (VTMS/VATMS) and appropriate vessel/Craft/Boats.
- (k) Miscellaneous maritime equipment for undertaking investigation, Boarding, Search and Seizure of Ships/Vessels.
- (l) Software specially designed, development and modified for all types of Coastal and Maritime Security awareness, operations and data exchange.
- (m) Training Aids viz simulators, associated equipment, Software and computer based training modules.

# Eligible Products (Civil Aerospace)

- a) Design, Development, Manufacture and Upgrade of all types of fixed wing and rotary wing aircraft or their airframes, aero engines, avionics, instrument and related components.
- b) Composites, forgings and casting for the products.
- c) Training Aids viz. simulators, associated equipment, software and computer based training modules.
- d) Guidelines and Navigation Equipment.
- e) Test facility and equipment required for testing, certification, qualification and calibration of the above products.
- f) Software specially designed, developed or modified for the above products.

## Services (related to eligible products)

- a) Maintenance, repair and Overhaul.
- b) Up gradation / life extension.
- c) Engineering, design and testing.
- d) Software development
- e) Quality assurance
- f) Training
- g) Research and development services (from government recognized R&D facilities.

**Note:** - Investment in civil infrastructure is excluded from the list of eligible products and services, unless specifically indicated.

# Application of Multipliers for the SME sector

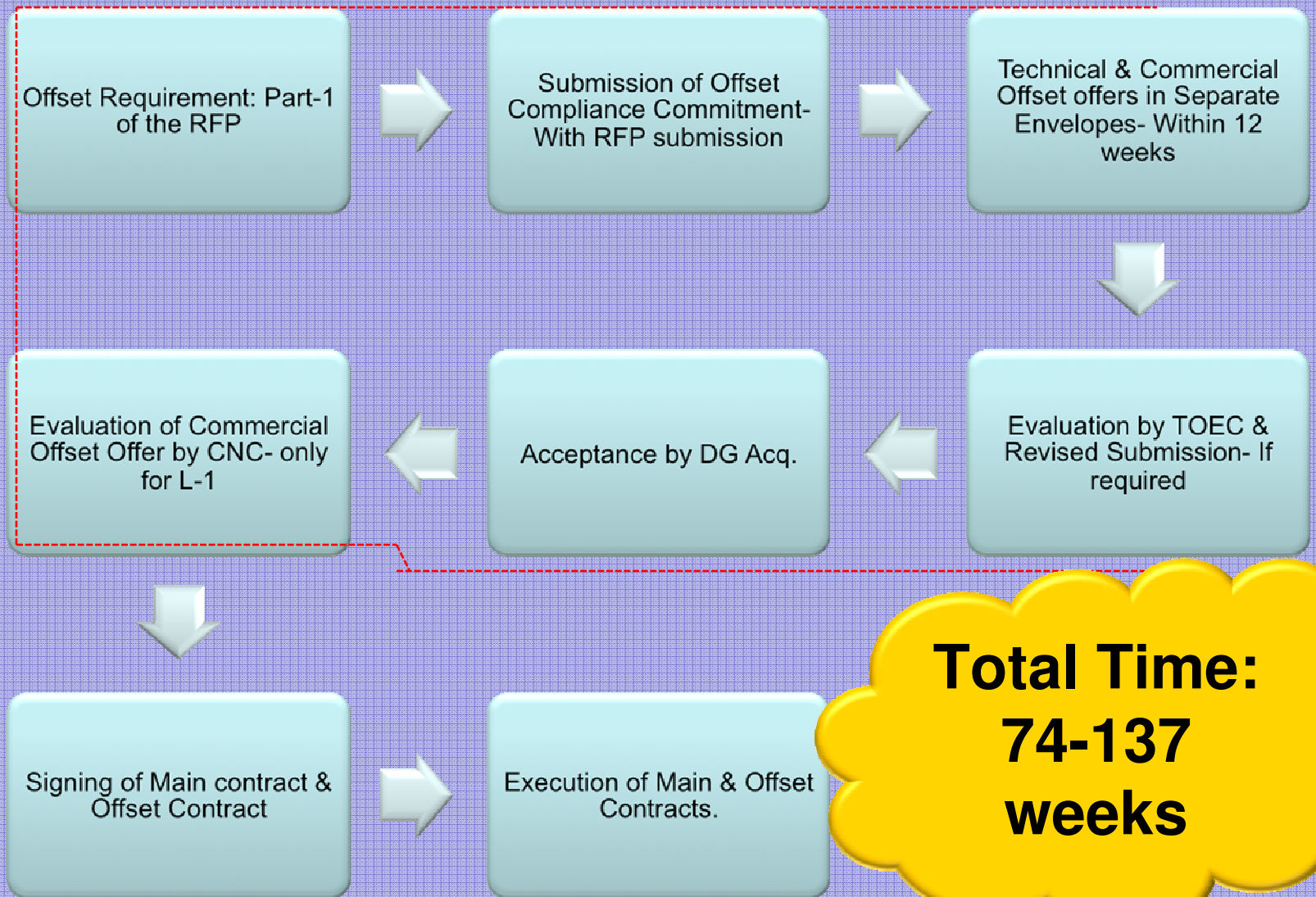
- **Multiplier of 1.50 :: Avenues for Discharge :: IOP**

Category	Manufacture (Plant & Machinery)	Services (Equipment)
<b>Micro</b>	Less than or equal to Rs. 2.5 million	Less than or equal to Rs. 1 million
<b>Small</b>	Greater than Rs. 2.5 million but not more than Rs. 50 million	Greater than Rs. 1 million but not more than Rs. 20 million
<b>Medium</b>	Greater than Rs. 50 million but not more than Rs. 100 million	Greater than Rs. 20 million but not more than Rs. 50 million

- ▶ OEM's are now being incentivized to pick up SME's. In turn the OEM's will have to work harder to ensure the SME's will be able to meet the global aerospace quality standards.
- ▶ SME's would be provided a better chance of winning orders in comparison to the large-established players.

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# Offset Process



**Total Time:  
74-137  
weeks**

# Govt. Bodies Associated with Offsets

## MoD

**The Defence Offsets Management Wing (DOMW)** under the Department of Defence Production will be responsible for formulation of Defence Offset Guidelines and all matters relating to post contract management

**The functions of DOMW will include:**

- (a) Formulation of Defence Offset guidelines.
- (b) Monitoring the discharge of offset obligations, including audit and review of progress reports received from vendors;
- (c) Participation in Technical and Commercial evaluation of offset proposals as members of TOEC and CNC;
- (d) Implementation of Offset Banking guidelines;
- (e) Administration of penalties under offset contracts in consultation with Acquisition Wing
- (f) Assisting vendors in interfacing with Indian Industry; and
- (g) Other responsibilities assigned under the offset guidelines or entrusted by the Government.

## MoF

**Foreign Investment Promotion Board (FIPB)**

The FIPB is a government body that offers :

- a single window clearance for proposals on foreign direct investment in the country that are not allowed access through the automatic route
- this high powered body discusses and examines proposals for foreign investment in the country for restricted sectors ( as laid out in the Press notes and extant foreign investment policy) on a regular basis.
- Currently proposals for investment beyond 600 crores require the concurrence of the CCEA .

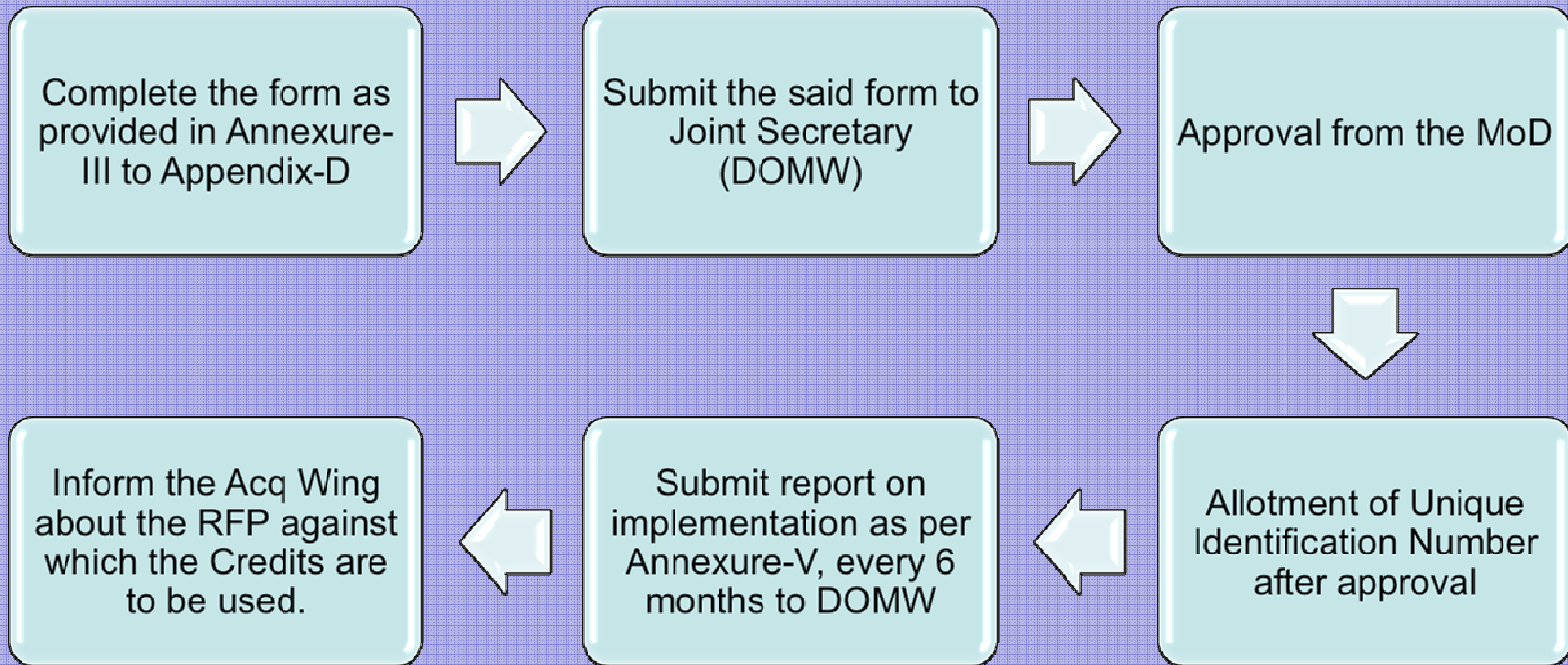
## MoC

**Directorate Of Industrial Policy & Promotion (DIPP)**

The DIPP is a government body that offers

- Provides an Industrial License (IL) for undertaking manufacturing activities in Restricted Sectors.
- It is assisted by the Sect. Of Industrial Assistance (SIA).
- The SIA is also responsible for the Issuance of Press Notes from time to time.
- While issuing licenses, the DIPP also takes into account views of the other concerned ministries.
- Approvals for SEZ's is provided for by the BOA which is covered under the Ministry of Commerce, consultation is taken from all concerned ministries.

# Offset Banking- How?



## Rules Of Engagement

- A vendor will be able to discharge the banked offset credits for the RFP's which are issued within 7 years of the date of approval of the banked offset credits.
- The Banked offset credits are

non-transferable, except between the main contractor and his sub-contractors within the same acquisition program.

- Offset Banking can be only executed for Direct Purchase / Exports; Investment in Kind (ToT / Machinery) to Pvt. Industry; and FDI in eligible sectors.

- \_Offset Banking can be used up to a maximum extent of 50% of the total offset obligation that has to be discharged.

# Indian Offset Partners- Please keep in mind

Post RFP is when the real work starts

- Offset proposal is submitted 12 weeks post submission of RFP response and not simultaneously

Initially only a MoU is sufficient

- The initial Offset proposal undergoes multiple revisions during the TOEC stage.

CNC is final stage for Offsets also

- During the CNC stage, a final and practical Offset proposal is submitted. At most times, this will be very different from the initial proposal.

Keep in mind Para 5.9 of the Offset policy

- If the IOP is importing any of the contents of an Offset product, the OEM should be informed at the beginning itself.

Tier-1's are permitted to discharge Offsets.

- There is always more Offset work available from the Tier-1's than from the OEM.

## Four pronged Strategy:-

- **Indigenization in the Armed Forces**
- **Revenue procurement( Systems and Supplies)**
- **Technology Infusion**
- **Capital procurement**
  - **Buy Indian; B&M Indian and Make category**
  - **Offsets participation with OEMs for “Buy Global” and “Buy and Make” category**

## **NSIC to REPRESENT MSMEs**

- **Large companies are able to liaison with government and put across their view point**
- **Who takes responsibilities for MSMEs ?**
- **NSIC to spearhead initiative for MSMEs**
- **Liaison with the government**
- **Ensure dispensations allowed under MSMED**
- **Help with Funding and Technology**

## **NSIC's APPROACH TO INDUSTRY**



- **Compilation of Data Base**
- **Creation of clusters/consortia**
- **Lead the consortia in procurements**
- **Enable the consortia to lead the procurement**
- **Create a strong information systems**
- **Credible dissemination of information**
- **Organized high profile MSME DEFEXPO**

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## **NSIC as Manufacturer :: IOP**



- **MSME Development act 2006 stipulates NSIC as manufacturer ; status of OEM and IOP**
- **NSIC can directly receive and respond to RFPs from MoD**
- **NSIC will pass on RFI/RFP info to units registered**
- **Select competent units for the RFP and lead the procurement**
- **Similar will be role as IOP**

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- **Compilation of policy imperatives**
- **Organizing workshops for MSMEs at various places in the country**
- **Bringing out the opportunity in Defence**
- **Explain the policy and regulatory issues**
- **Enable participation by credible advice**
- **Facilitate with the government agencies for clarifications and feed back**

- **ADVISORY** policy and procedures
- Interpretation of DPP, DPM and regulatory
- Feasibility reports and approach papers
- Preparation of Due diligence reports on IOP
- Match the requirements of OEM for certifications and QA requirements
- Use of DGQA and other certified agencies as mandated by OEM or MoD for offsets.

# NSIC's INITIATIVES IN TECHNOLOGY



- **Identification of countries and OEMs with technology, with or w/o Offsets Obligations**
- **Lead delegations of MSMEs to these countries**
- **Participate in International exhibitions, with displays and stalls**
- **Interact with government officials and agencies for facilitation; Facilitate B-B meetings between DPSUs and MSEs**
- **NSIC has MoU with more than 30 countries and offices worldwide**
- **Interact with DRDO for incubation and harnessing technology**

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## FUNDING OF MSMEs

**NSIC**

ISSO 9001:2008

- **NSIC has MoU with more than 16 banks in the country for funding.**
- **Can leverage the strength for funding MSMEs**
- **NSIC can explore tie up with PE also**
- **Strategy is to create a pool of money for funding MSMEs in Defence Sector**
- **Can explore Foreign Line of Credit as well.**
- **SIDBI, Financial institutions and banks to evolve a competitive basis for funding**

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# REGISTRATIONS



- **Single point registration scheme :: NSIC**
- **Registration with quality compliances and certifications**
- **Working with DIPP for formal acceptance of NSIC registered companies for Defence Sector**
- **Working with MoD for acceptance of NSIC registered units as valid vendors**
- **Single tender nominations in accordance to MSMED Act 2006**
- **Work at Inter Ministerial level for solutions**

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- **Similar initiative in synergistic sectors**
- **MHA and Ministry of Civil Aviation**
- **Interaction with STC for civil offsets as well**
- **Homeland Security – huge budget provisions**
- **Vendor data base of MSMEs is critical**
- **Create offset projects in Internal Security and civil aerospace as well**
- **Enable MSME participation with Police, CISF, BSF, ITBP, AR, CRPF, SSB etc**

**NSIC established in 1955 :**

**NSIC**  
ISO 9001:2008

## AIM

**To Aid, counsel, assist, finance, protect and promote the interests of small industries\* in India.**

\*Since 2007 Micro, Small and Medium Enterprises



## VISION

To be a premier organization fostering the promotion & growth of Micro, Small & Medium Enterprises in the country.

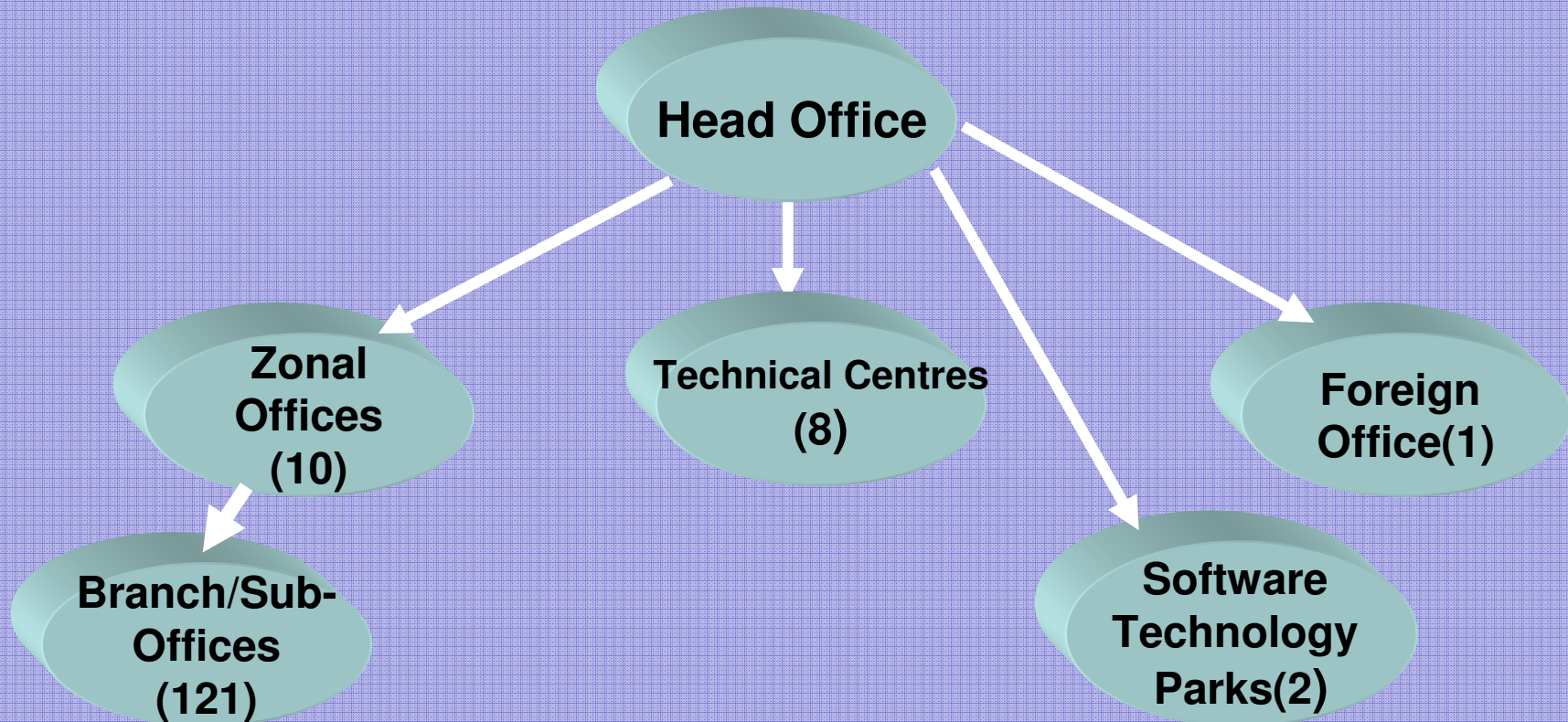
## MISSION

To enhance the competitiveness of micro, small & medium enterprises by providing integrated support services encompassing, marketing, finance, technology and other services.

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# NSIC OFFICES

**NSIC**  
ISO 9001:2008

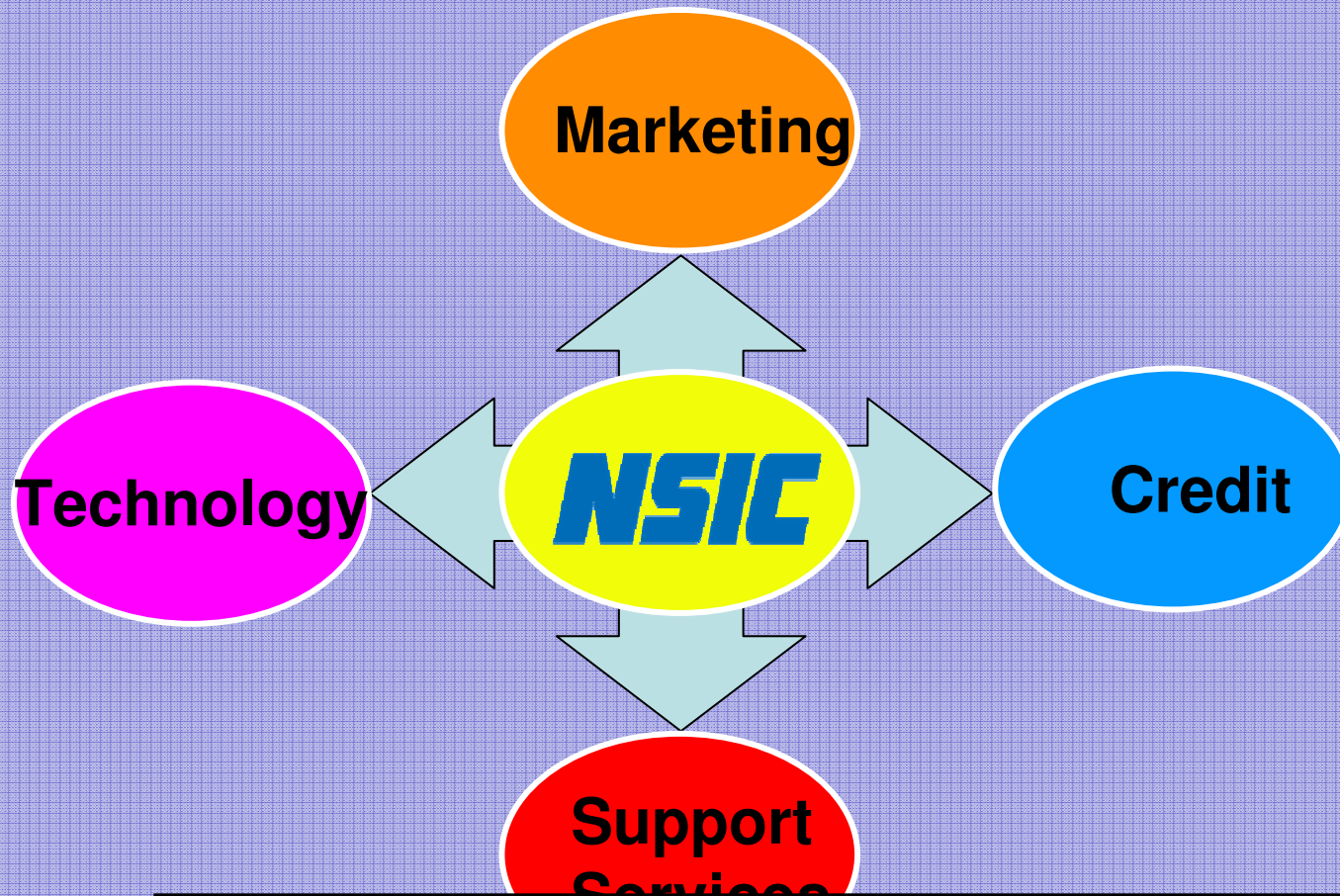


-Total 143 Offices

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# NSIC'S ACTIVITIES

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# NSIC's SCHEMES

**NSIC**  
ISO 9001:2008

## MARKETING

- Raw Material Distribution
- Registration for Government Purchase
- Tender & Consortia Marketing,
- Marketing Events
- Marketing Intelligence

## CREDIT

- Credit for Raw Materials & Marketing
- Credit facilitation through 15 Banks.



## TECHNOLOGY

- Training
- Material Testing
- Job-work
- Energy and Environment

## SUPPORT SERVICES

- Performance and Credit Rating
- B2B Portal
- Training – cum –Incubation

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**Thanks**

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