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India's Defence Sector Is Rewriting the Rules:

Manufacture Locally, Own Strategically.

Foreign Direct Investment(FDI) Policy- Defence Sector in India

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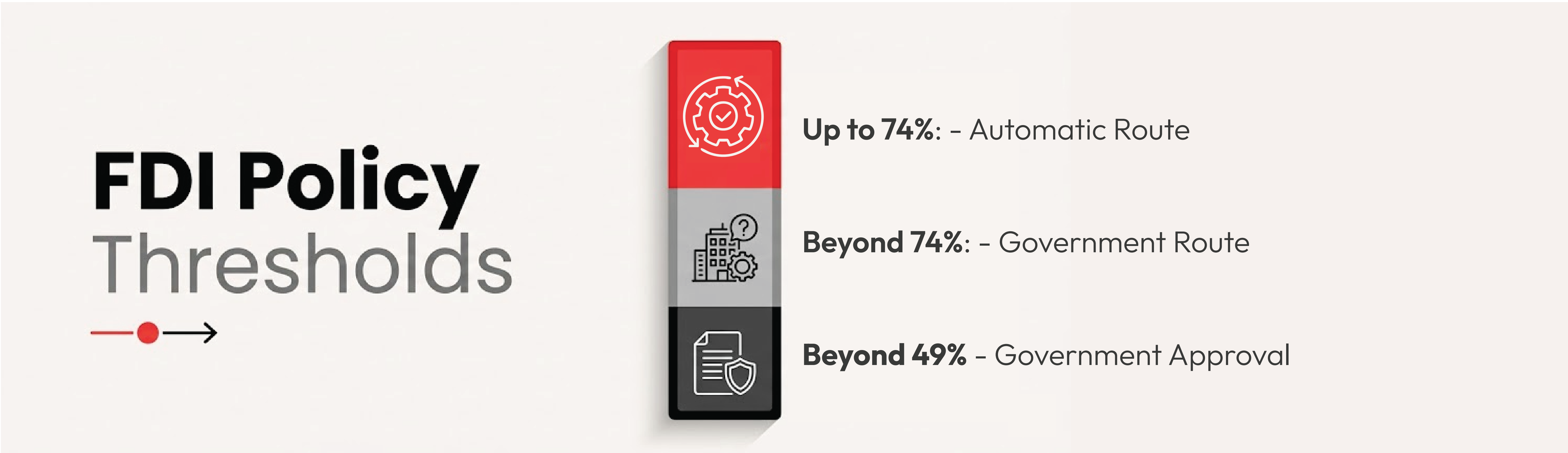

The framework for foreign investment in the defence sector is structured by the FDI policy, which determines both the entry route and the applicable approval requirements:

1. **Up to 74%:** Permitted via the **Automatic Route** for companies seeking new industrial licenses*

2. **Beyond 74%:** Permitted via the **Government Route** if the investment provides access to modern technology

3. **Beyond 49%:** Specifically requires Government Approval for companies with existing approvals or those not seeking a license.

*"industrial licence" refers to a licence obtained under the Industries (Development and Regulation) Act, 1951 and, where applicable, under the Arms Act, 1959 for manufacture of defence items.

DAP 2026, Procurement Schemes

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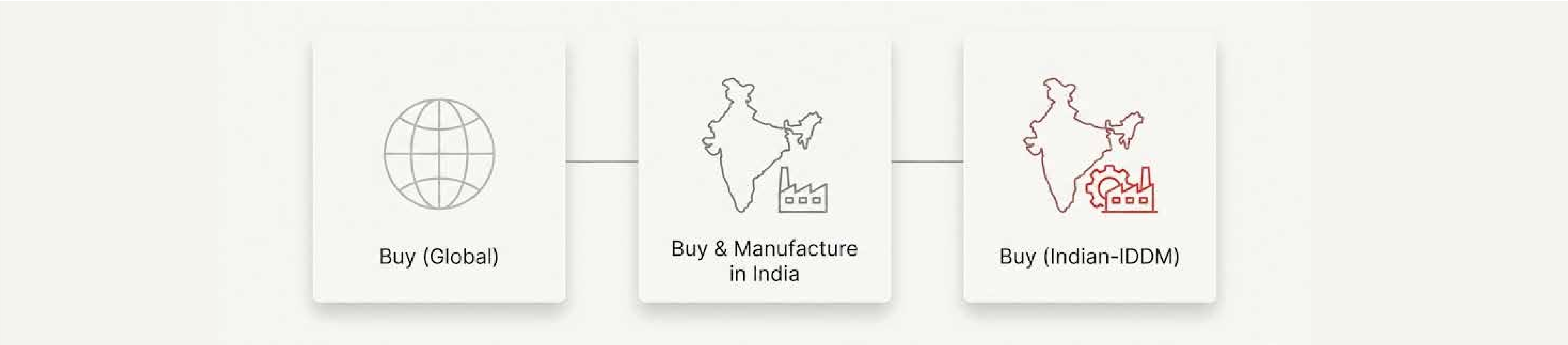

The **Draft Defence Acquisition Procedure (DAP) 2026** – Policy framework that leverages procurement to build long term industrial capability.

1. **Buy (Global)-** procurement is made directly from foreign vendors, (cases requiring urgent operational requirements or highly specialised technology)

2. **Buy (Global) and Manufacture in India and Buy (Indian) and Manufacture in India**- introduce a structural requirement for foreign OEMs* (Presence of OEM required in India by way of JV/ WOS or other arrangements)

3. **Buy (Indian-IDDM) Indigenously Designed, Developed and Manufactured**- preference to indigenously designed products and manufactured in India. (OEM participation here is significantly restricted).

* OEM- Original Equipment Manufacturer

Strategic Partnership Model (SPM) under DAP, 2026 — Control at the Core

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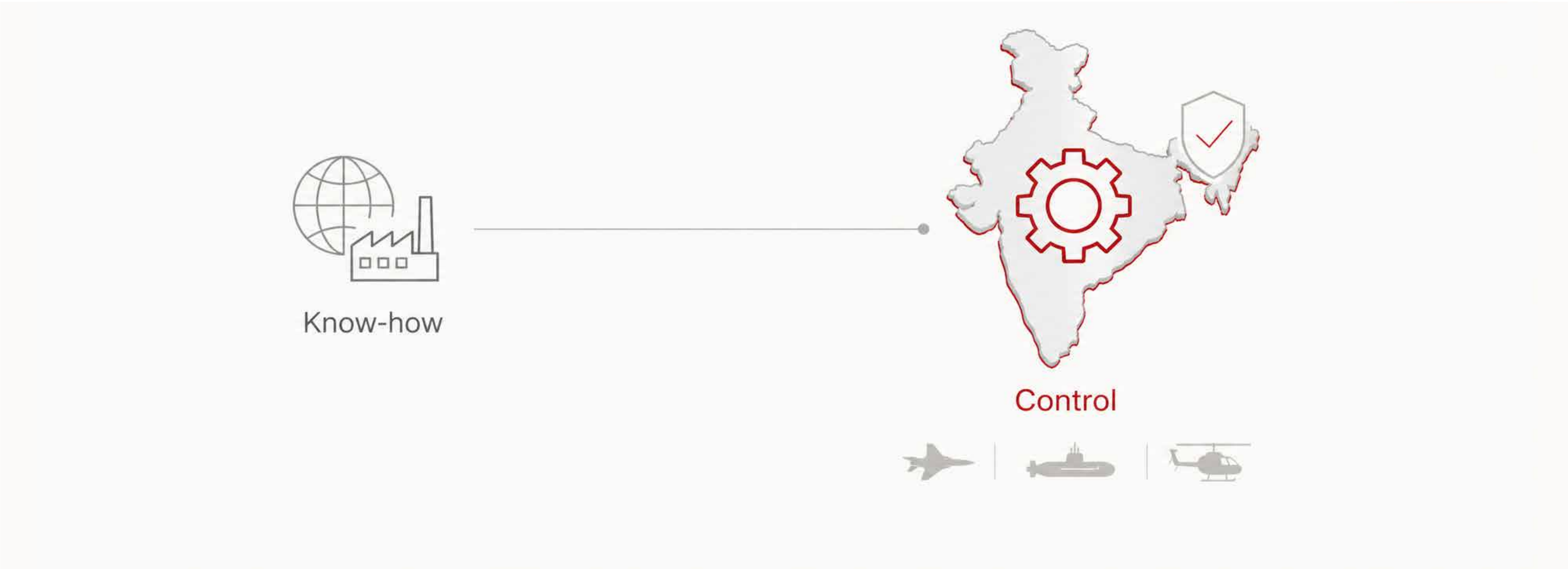

What is SPM under DAP 2026?-

Under this model, the Indian entity is not merely a manufacturing partner but is designated as a Strategic Partner (SP) and acts as the system integrator.

While foreign Original Equipment Manufacturer (OEMs) provide the "know-how," the Indian partner provides the **"control".**

Critical segments for SPM:

- Fighter aircraft,
- Submarines,
- Helicopters,
- Armoured vehicles and
- Niche strategic technologies

The "Indian Control" Checklist for SPM:

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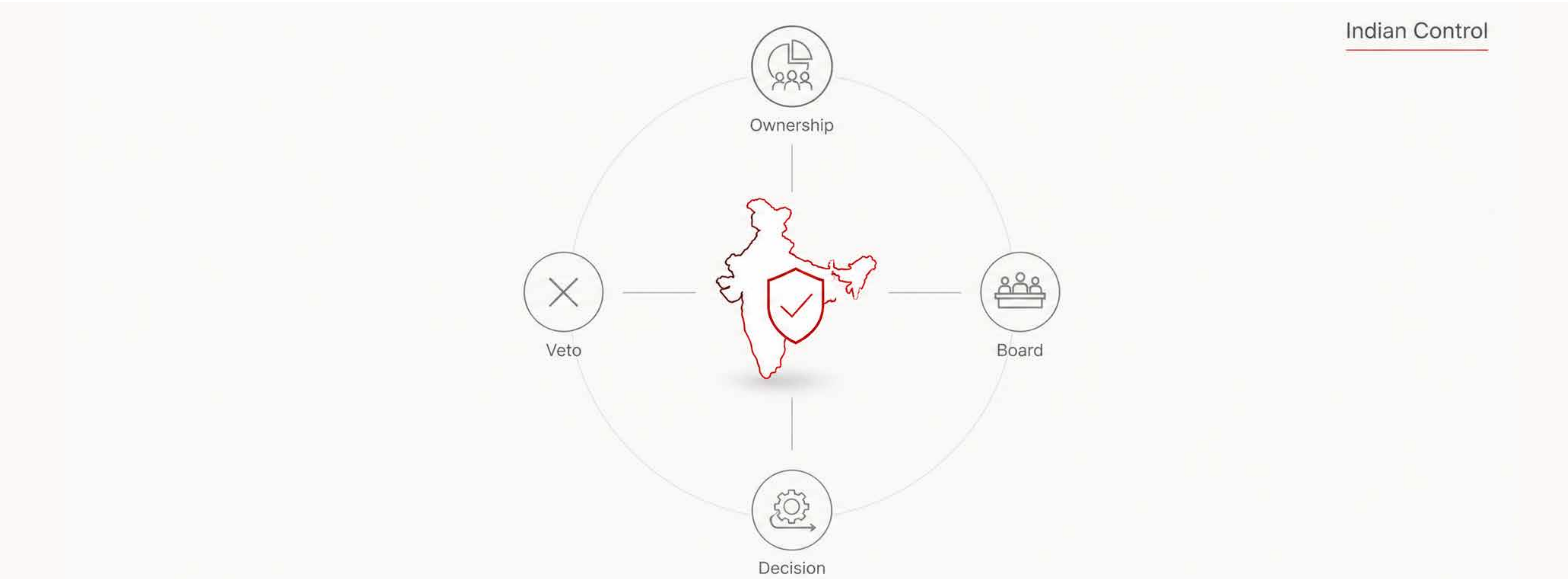

To qualify as a Strategic Partner, the entity must be **owned and controlled by India.** This requires:

1. **Ownership:** Majority stake (direct and indirect) held by Indian shareholders.
2. **Board Control:** The right to appoint the majority of directors.
3. **Decision Making:** Full authority over management and policy decisions.
4. **Veto Power:** An absolute absence of foreign control rights that could dilute Indian authority.

The FDI vs DAP Paradox:

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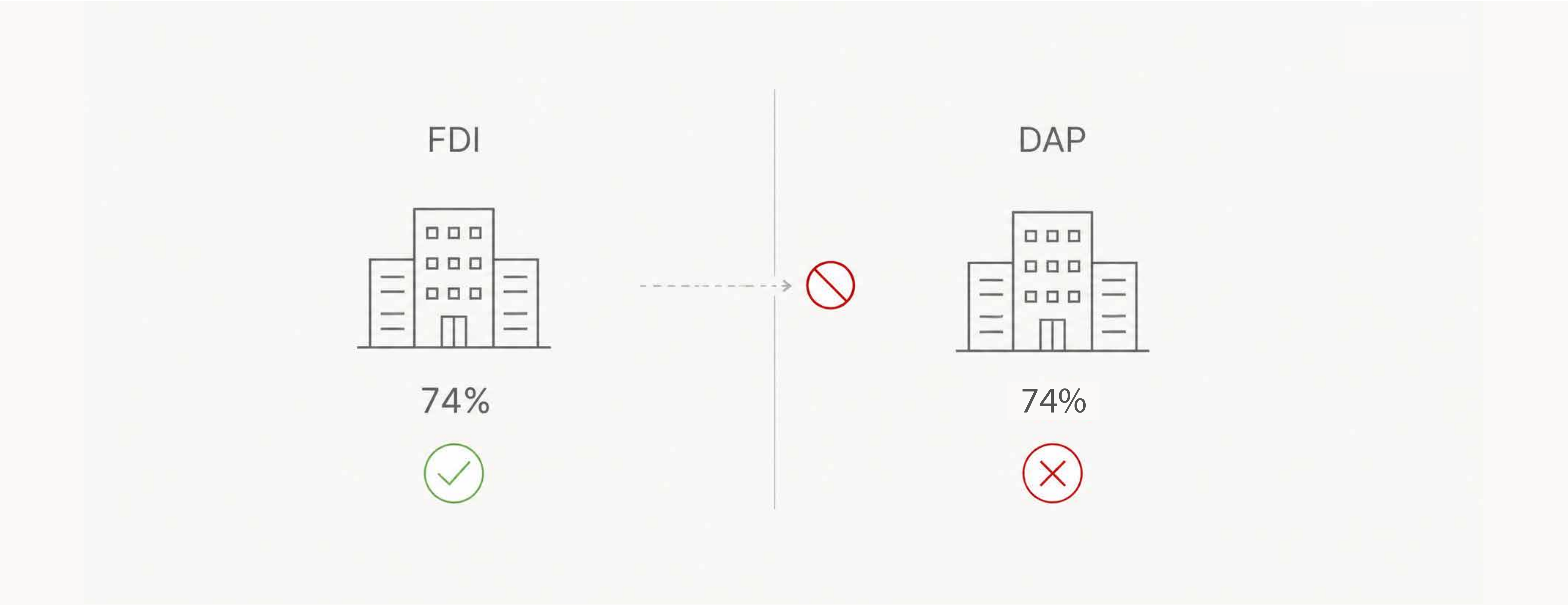

There is a critical distinction between what is legally allowed and what is procurement-eligible:

1. **FDI Framework:** Permits up to **74% foreign investment** under the automatic route for defence manufacturing

2. **DAP 2026:** May require foreign ownership to be capped at **74%** to qualify for preferred procurement categories or as a Strategic

3. Partner.

The Reality: A company can be FDI-compliant at 74% but ineligible for Indian defence programs unless it restructures for Indian control.

Takeaways

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The takeaway is clear:

1. **Look Beyond Caps:** Structuring decisions cannot be driven solely by the maximum permissible FDI threshold

2. **Align with Pathways:** Ownership structures must be designed based on the specific procurement pathway the company intends to pursue

3. **Capability is Currency:** Success in India's defence ecosystem now depends on how ownership and control are structured to create domestic capability.