

FREQUENTLY ASKED QUESTIONS

Indian Defence Industry: Regulatory and Commercial Framework

INTRODUCTION

India's defence sector stands at an inflection point. Anchored by the Government of India's Aatmanirbhar Bharat (i.e., **Self-Reliant India**) initiative, the sector has undergone a comprehensive policy overhaul aimed at reducing import dependence and building a globally competitive domestic defence industrial base. For FY 2025-26, approximately 75% of India's capital acquisition budget, amounting to INR 1,11,544 crore (approx. USD 11.63 billion) has been earmarked exclusively for procurement from domestic industry (Source: <https://pib.gov.in/PressReleasframePage.aspx?PRID=2114546>). Defence exports have grown thirty-four-fold over the past decade, rising from INR 686 crore (approx. USD 71.51 million) in FY 2013-14 to INR 23,622 crore (approx. USD 2.46 billion) in FY 2024-25, with a Government target of INR 50,000 crore (approx. USD 5.21 billion) in exports by 2029. (Source: <https://pib.gov.in/PressReleasframePage.aspx?PRID=2114546>)

The regulatory framework governing participation in India's defence sector is multi-layered. The Industrial licensing for defence manufacturing is governed by the Industries (Development and Regulation) Act, 1951 and the Arms Act, 1959. The Foreign investments are regulated under the Foreign Exchange Management Act, 1999 and the Consolidated FDI Policy Circular of 2020, which currently permits foreign direct investment of up to 74% under the automatic route and up to 100% under the government approval route. The capital acquisitions by the Armed Forces are governed by the Defence Acquisition Procedure 2020. The export controls on dual-use and military items are administered under the SCOMET framework of the Foreign Trade Policy 2023.

This document addresses, in a FAQ format, the principal regulatory, commercial and procedural questions that arise for Indian and foreign companies seeking to enter, invest in, operate within, or export from India's defence sector. It has been compiled with reference to the primary legislative and policy instruments operative as of May 2026.

SECTION A: MANUFACTURING AND LICENSING

Q1. What is the regulatory framework governing the manufacture of defence items in India?

The manufacturing of defence items in India is governed by a layered legislative framework.

- **Layer #1:** The Arms Act, 1959 ("**Arms Act**") and the Arms Rules, 2016, ("**Arms Rules**") regulate the manufacture, possession and transfer of arms and ammunition.
- **Layer #2:** The Industries (Development and Regulation) Act, 1951 ("**IDR Act**"), under which manufacturing certain defence products identified in the Government-notified Defence Products List (Annexure-I to Press Note No. 1 2019 Series) requires an Industrial Licence. The industrial license is granted by the Department for Promotion of Industry and Internal Trade ("**DPIIT**") i.e., the erstwhile Department of Industrial Policy and Promotion ("**DIPP**").
- **Layer #3:** Specific conditions of manufacture, particularly relating to security and compliance, including requirements under the Security Manual for Licensed Defence Industries, 2025 ("**SMLDI**"), are prescribed by the Department of Defence Production ("**DDP**"), Ministry of Defence ("**MoD**").

Together, these instruments define the regulatory framework for Indian arms and defence manufacturers falling within the notified licensing categories.

Q2. Which defence products require an Industrial Licence under the Industries (Development and Regulation) Act, 1951 and which require a licence under the Arms Act, 1959?

These two licensing regimes apply to distinct, notification-based product categories. An Industrial Licence under the IDR Act is required for the manufacture of items listed in Annexure-I to Press Note No. 1 (2019 Series), which is a curated Defence Products List that includes military aircraft, warships,

tanks, missiles, and specified electronic and communication systems for defence applications. A separate licence under Section 5 of the Arms Act is required for the manufacture and/or proof testing of arms and ammunition, as reflected in Annexure-II to Press Note No. 1 (2019 Series). Manufacturers must therefore map their product range against relevant notified annexures before commencing production.

Q3. What is the Defence Products List, and how does it determine licensing requirements for a manufacturer?

The Defence Products List is a government-notified list, issued under Press Note No. 1 (2019 Series), that identifies defence items requiring an Industrial Licence under the IDR Act and designates the applicable licensing authority. The items specifically enumerated in the Defence Product List are processed by DPIIT. The items not included in the said list do not require an Industrial Licence under the IDR Act. The items requiring a licence for manufacturing and / or proof testing under the Arms Act are consolidated in Annexure-II to Press Note No. 1 (2019 Series). The list has been periodically updated, and accordingly, manufacturers are advised to confirm the current classification of their product directly with the relevant licensing authority, as re-classifications can alter licensing obligations.

Q4. Which authority grants Industrial Licences and Arms Licences for defence manufacturing, and where does one apply?

The applications for an Industrial Licence under the IDR Act are made online through the National Single Window System (“NSWS”) portal, which routes applications to DPIIT, the licensing authority. Under the Arms Act, DPIIT, acting under powers delegated by the Ministry of Home Affairs (“MHA”), issues industrial licences for the manufacture of items specifically listed in Annexure II to Press Note No. 1 (2019 Series), which includes tanks, armoured fighting vehicles, and certain heavy weapons and allied defence equipment. The items not covered under Annexure II, including small arms and related ammunition, remain within the licensing jurisdiction of the MHA. The NSWS portal consolidates pre-commencement approvals across multiple ministries, making it the single point of entry for a prospective defence manufacturer in the country.

Q5. What is the validity period of a defence manufacturing licence, and what is the process for its renewal or amendment?

An Industrial Licence granted under the IDR Act is currently valid for 15 (fifteen) years from the date of issue, within which the licensee must commence production. The validity of such a license may be extended by an additional period of 3 (three) years, in accordance with the guidelines mentioned under Press Note 1 (2023 Series) dated 21 July 2023. As per Rule 54 of the Arms Rules, licences under the Arms Act for the manufacture of arms and ammunition are granted with lifetime validity, subject to the condition that the licensee establishes manufacturing facilities and commences production within 7 (seven) years from the date of grant of such license. Any material change, such as a revision in installed capacity, addition of new products, or a change in promoters or directors, requires a formal amendment to the existing licence. Amendment applications are also made through the NSWS portal, and a fresh licence is required only where the proposed change falls outside the scope of the existing licence.

Q6. Are there any defence products that can be manufactured without a licence? If so, which categories are exempt?

Yes. No Industrial Licence or Arms Licence is required for the manufacture of parts, components, or accessories in the defence sector, unless such items are expressly listed in Annexure-I or Annexure-II of Press Note No. 1 (2019 Series). Accordingly, defence-related products, parts, and accessories that are not expressly included in the notified annexures of Press Note No. 1 (2019 Series) may be manufactured without a licence. This clarification does not apply to the manufacture of small arms, which continues to be regulated separately under the Arms Act.

Q7. What documents and conditions must be fulfilled before commencing production under a defence manufacturing licence?

A defence manufacturing licence authorises manufacture subject to the fulfilment of pre-commencement conditions prescribed under the licence and applicable laws. Before commencing production, the licensee must obtain mandatory statutory approvals, including a registration of the establishment under Section 3 of the Occupational Safety, Health and Working Conditions Code, 2020

(which subsumes the Factories Act, 1948) read with Rule 3 of the Occupational Safety, Health and Working Conditions (Central) Rules, 2026 and applicable environmental clearances under environmental laws such as the Air (Prevention and Control of Pollution) Act, 1981 and Water (Prevention and Control of Pollution) Act, 1974. The licensee must also comply with security conditions forming part of the licence, as prescribed under the SMLDI. For certain categories of arms and ammunition, proof testing under Rule 59 of the Arms Rules, with regard to the manufactured item, is mandatory before delivery.

Q8. What are the penal consequences of manufacturing defence items without a valid licence under the Arms Act, 1959 or the Industries (Development and Regulation) Act, 1951?

Under the Arms Act, manufacture of any arms or ammunition without a licence, in contravention of Section 5, is punishable under Section 25(1)(a) with imprisonment for a term not less than 7 (seven) years, which may extend to imprisonment for life, and fine. Where the manufacture relates to prohibited arms or prohibited ammunition in contravention of Section 7, enhanced punishment applies under Section 25(1AA), with imprisonment for a term not less than 10 (ten) years, which may extend to imprisonment for life, and fine.

Under the IDR Act, manufacture of defence items without the required Industrial Licence or in contravention of licence conditions is punishable under Section 24, with a monetary penalty which may extend to INR 25 lakh (approx. USD 26,000).

SECTION B: FOREIGN DIRECT INVESTMENT (FDI) IN DEFENCE

Q9. What is the current permissible limit for Foreign Direct Investment in the defence sector in India?

India currently permits Foreign Direct Investment ("FDI") in the defence sector up to 74% under the Automatic Route. FDI beyond 74% and up to 100% is permitted under the Government Approval Route, where it is likely to result in access to modern technology or, for other reasons, to be recorded.

Q10. What is the distinction between the Automatic Route and the Government Approval Route for Foreign Direct Investment in defence, and when does each apply?

Under the Automatic Route, a foreign investor does not require prior approval from the Government or the Reserve Bank of India ("RBI"). Under the Government Approval Route, prior approval of the Government of India through the competent authority is required before the investment is consummated. The Government Route applies where FDI in a defence company is proposed to exceed 74%, or where the investment is considered likely to involve access to particularly sensitive or modern technologies. The foreign investments in the defence sector are subject to security clearance from the MHA, and as per the guidelines of MoD.

Q11. What conditions and security clearances must a foreign investor satisfy before investing in an Indian defence company?

FDI in the defence sector is subject to mandatory security clearance from the MHA and must comply with the guidelines issued by the MoD, particularly in relation to national security and handling of sensitive technology. The investee company must be structured to be self-sufficient in product design and development, and must maintain manufacturing as well as maintenance and lifecycle support facilities for the defence products manufactured in India. Foreign investments in the defence sector remain subject to ongoing scrutiny on grounds of national security, and the Government of India reserves the right to review any investment that affects or may affect national security.

Q12. Are there any reporting obligations that an Indian defence company must fulfil when it receives Foreign Direct Investment?

Yes. All FDI into India must be reported to the RBI in the prescribed form within the timelines mandated under Regulation 4 of the Foreign Exchange Management (Mode of Payment and Reporting of Non-Debt Instruments) Regulations, 2019. Additionally, for defence-specific obligations, a change in the ownership or shareholding pattern of an existing licensee that is attributable to foreign investment must be reported to the MoD within 30 (thirty) days.

Q13. Can a foreign entity set up a wholly-owned subsidiary for defence manufacturing in India, and what conditions apply?

Yes. A foreign entity may set up a wholly-owned (100% FDI) subsidiary for defence manufacturing in India, but only under the Government approval route, as it exceeds the 74% automatic route threshold. Such proposals are examined by the concerned wing of the MoD, with security clearance from the MHA being a mandatory prerequisite. Even with 100% foreign ownership, the company must hold a valid Industrial Licence or Arms Licence, and all manufacturing and supply activities must comply with the end-use conditions, security protocols, audit requirements, and reporting obligations applicable to defence licensees in India.

Q14. What restrictions apply to the transfer of shares in an Indian defence company to a foreign person or entity?

Any transfer of shares in an Indian defence company to a foreign person is regulated in terms of the Foreign Exchange Management (Non-Debt Instruments) Rules, 2019 (“**NDI Rules**”). In particular, Rule 9 of the NDI Rules governs the transfer of equity instruments of an Indian company by or to a person resident outside India. Where a share transfer results in a change in ownership or control, it is treated as an FDI event and shall require government approval. Further, all secondary transfers involving foreign shareholders, whether resident-to-non-resident or non-resident-to-resident, must comply with the pricing guidelines under Rule 21 of NDI Rules and the taxation and remittance conditions under Rule 22 of the NDI Rules. Additionally, in the defence sector, foreign investment is expressly subject to security clearance by the MHA.

The Articles of Association of the Indian company and its Industrial Licence may also impose additional transfer restrictions, particularly where a change in ownership or control is involved, and these must be reviewed carefully before any share transfer is consummated.

SECTION C: DEFENCE PROCUREMENT AND DAP 2020

Q15. What is the Defence Acquisition Procedure 2020, and what are its principal objectives?

The Defence Acquisition Procedure 2020 (“**DAP 2020**”), issued by the MoD, is the governing framework for all capital acquisitions by the Indian Armed Forces. It was brought into force with effect from 1 October 2020. It replaced the earlier Defence Procurement Procedure, 2016 and represents a paradigm shift in India’s approach to defence procurement philosophy from a predominantly import-driven, transactional procurement model to a framework focused on strategic indigenisation and domestic capability development. As set out in the Preamble and Chapter I of DAP 2020, its principal objectives are to accelerate domestic procurement, incentivise indigenous design and development, introduce greater transparency and predictability in the acquisition process, in alignment with the Government of India’s Aatmanirbhar Bharat and Make in India initiatives. The MoD has since then initiated a comprehensive review of DAP 2020 and, in February 2026, released the Draft Defence Acquisition Procedure 2026 (“**DAP 2026**”) for public consultation. As of the date, the DAP 2026 has not yet been formally notified, and DAP 2020 remains the operative framework.

Q16. What are the different procurement categories under Defence Acquisition Procedure 2020, and in what order of priority do they apply?

DAP 2020, under Chapter I, prescribes a hierarchy of procurement categories that decisively favours domestic manufacturing. In decreasing order of priority, the categories are:

- a. Buy (Indian–Indigenously Designed Developed and Manufactured) i.e. Indian-IDDM;
- b. Buy (Indian);
- c. Buy and Make (Indian);
- d. Buy (Global – Manufacture in India); and
- e. Buy (Global).

Q17. What is the 'Buy (Indian-IDDM)' category, and what are the qualifying conditions?

Buy (Indian-IDDM) is the highest-priority procurement category under Chapter I, para 5 (a) of the DAP 2020. As defined in Chapter I, Para 8, this category applies to the acquisition of products from an Indian vendor that are indigenously designed, developed and manufactured. To qualify under the Buy (Indian-IDDM) category, the product must meet a minimum Indigenous Content requirement of 50%, calculated on the cost basis of the base contract price (i.e. total contract price less taxes and duties). DAP 2020 expressly recognises that design and development may be undertaken in consultation with, or by, Defence Research and Development Organisation (“DRDO”), and provides for DRDO’s involvement in the formulation of the Request for Information (“RFI”) and verification of indigenous design claims.

Q18. What is the 'Buy (Global – Manufacture in India)' category, and how does it differ from the 'Buy and Make' category?

Buy (Global – Manufacture in India) is a procurement category under the DAP 2020, and is defined in Chapter I, Para 11. It covers acquisitions involving an outright purchase from foreign vendors, followed by mandatory indigenous manufacture in India of the entire equipment or specified parts, sub-systems, assemblies, spares and associated maintenance facilities, through an Indian subsidiary, joint venture or Indian Production Agency, with a minimum Indigenous Content of 50% calculated on the base contract price.

This category differs from the Buy and Make (Indian) category, defined in Chapter I, Para 10 of DAP 2020, which involves indigenous production in India under transfer of technology arrangements from a foreign original equipment manufacturer (“OEM”), with or without an initial acquisition of equipment in a Fully Formed state from an Indian vendor. Unlike Buy and Make (Indian), the Buy (Global – Manufacture in India) category permits direct participation by foreign vendors, subject to compulsory manufacturing in India.

Q19. What is the Make Procedure under the Defence Acquisition Procedure 2020, and how can Indian companies participate in Make I and Make II projects?

The Make Procedure set out in Chapter III of DAP 2020 is intended to promote the indigenous design and development of defence equipment, systems and platforms which are not available off-the-shelf and require development in India. Under Make-I, development projects are government-funded, with funding by the MoD of up to 70% of the approved development cost, and participating companies are selected through a competitive process. Under Make-II, development is entirely industry-funded, with the government committing to procure the product upon successful development, subject to meeting prescribed requirements. Indian companies can participate in Make-I and Make-II projects in accordance with the project structuring, eligibility, categorisation and selection procedures set out in Chapter III of DAP 2020, as initiated and progressed by the Service Headquarters (“SHQs”) / MoD.

Q20. How can an Indian company register as a vendor or supplier for defence procurement?

The DAP 2020 does not provide for a centralised vendor registration system for defence procurement. Vendor engagement is therefore managed at multiple levels, depending on the procuring entity and the nature of the requirement. For capital acquisitions under DAP 2020, Indian companies participate on a case-by-case basis in procurement processes initiated by the respective SHQ, such as RFI, Requests for Proposal (“RFP”), and project-specific selection procedures, rather than through a central vendor registration database.

For procurements and sub-supplies by Defence Public Sector Undertakings (“DPSUs”), including entities such as Hindustan Aeronautics Limited, Bharat Electronics Limited, BEML Limited and Mazagon Dock Shipbuilders Limited, each DPSU maintains its own vendor registration portal and qualification process, which suppliers must complete in order to participate in DPSU-specific procurement.

For import-substitution and indigenisation opportunities, the Support for Indigenisation of Defence Imports (“SRIJAN”) Indigenisation Portal, maintained by the DDP, serves as the primary platform. The portal publishes Positive Indigenisation Lists (“PILs”) and associated Expressions of Interest / RFPs issued by DPSUs and SHQs, enabling Indian companies to identify and pursue domestic supply opportunities.

Q21. What is the SRIJAN portal, and what opportunities does it present for the Indian industry?

SRIJAN is an official indigenisation portal set up by the DDP, MoD, to facilitate 'Make in India' opportunities in defence procurement. The portal publishes items identified by DPSUs and SHQs for indigenisation, particularly items that are currently being imported or are planned for import. Each item listed on the portal carries information on the item description, the DPSU or SHQ seeking indigenisation, and the stage or target timeline for indigenisation. Indian companies, including MSMEs and new entrants, can register on the portal, express interest in specific items, and engage directly with the concerned DPSU or SHQ through the prescribed procurement processes.

The items notified under the PILs issued by the DDP, MoD, are operationalised and made visible to the industry through the SRIJAN portal, enabling Indian manufacturers to identify protected domestic procurement opportunities for items that are barred from import after the stipulated timelines.

SECTION D: EXPORTS, SCOMET AND FOREIGN TRADE POLICY

Q22. What is the SCOMET list, and what categories of defence and dual-use items does it cover?

Special Chemicals, Organisms, Materials, Equipment and Technologies ("**SCOMET**") is India's national export control list, administered by the Directorate General of Foreign Trade ("**DGFT**") under Chapter 10 of the Foreign Trade Policy, 2023 ("**FTP 2023**"), and notified under Appendix-3 to Schedule II of the Indian Trade Classification (Harmonised System) ("**ITC (HS) Code**"). It regulates the export of dual-use items, munitions and nuclear-related items, including software and technology, in line with India's international non-proliferation obligations. The SCOMET list is organised into Categories 0 to 8, covering nuclear materials and equipment; toxic chemicals; microorganisms and toxins; specialised materials and materials-processing equipment; nuclear-related equipment outside Category 0 (i.e., in Category 4); aerospace systems and propulsion; the Munitions List (Category 6); and electronics, computers, telecommunications, information security, sensors, lasers, navigation, avionics, marine, aerospace and propulsion technologies (Category 8). Category 7 (Emerging Technologies and related items), which was earlier marked as 'Reserved' under FTP 2023, has been populated under Appendix-3 to Schedule II of the ITC (HS) Code, by the DGFT Notification No. 31/2025-26 effective 23 October 2025.

Q23. Which authority grants export authorisation for SCOMET items, and what is the applicable procedure?

Export authorisation for SCOMET items is governed by Chapter 10 of the FTP 2023 with the application procedure prescribed under Chapter 10 of the Handbook of Procedures, 2023 dated 01 April 2023 and notified by the DGFT ("**HBP 2023**"). As per the HBP 2023, the licensing authority varies by category. The DGFT is the licensing authority for SCOMET Categories 1–5, 7 and 8, while Category 0 (nuclear items) and items listed under Note 2 of Commodity Identification Note ("**CIN**") of SCOMET List are licensed by the Department of Atomic Energy, and Category 6 (Munitions List) is licensed by the DDP, MoD, except sub-categories 6A007 and 6A008 which remain under DGFT's licensing authority.

The application procedure and the documentation required, is set out in Para 10.04 of the HBP 2023. Exporters are required to file an online application through the DGFT SCOMET portal in the prescribed Aayat-Niryat Forms (ANF-10 series, as applicable), along with detailed technical specifications of the item, SCOMET classification, end-use and end-user details, destination country, and supporting documents, including the End-Use-cum-End-User Certificate ("**EUC**") commonly referred to as an End-User Certificate. Manual submission is dispensed with, except for submission of original EUCs or legal undertakings where required.

Applications are examined through an Inter-Ministerial Working Group mechanism in the DGFT headquarters, as per guidelines / factors mentioned under Para 10.06 of the HBP 2023. The applications for Authorisation to export items or technology or software on SCOMET List are considered on the basis of *inter alia* assessment of end uses of export items, export control measures instituted by the recipient State, assessed risk that exported items will fall into hands of terrorists, terrorist groups, etc. and provisions of relevant bilateral or multilateral Agreements and Arrangements, to which India is a party, or adherent including the Wassenaar Arrangement, Missile Technology Control Regime ("**MTCR**"), Australia Group and Nuclear Suppliers Group ("**NSG**"), as amended from time to time.

Q24. When is a No Objection Certificate from the Department of Defence Production required for export, and how is it obtained?

For items covered under SCOMET Category 6 (Munitions List), approval from the DDP, MoD is required for export. Under Chapter 10 of the HBP 2023, the DDP is the designated licensing authority for Category 6 items, and export is permitted only against an export authorisation issued by the DDP in accordance with its applicable guidelines and SOPs. This approval is commonly referred to as a No Objection Certificate (“**NOC**”). However, for Category 6 items, the NOC, export authorisation and export licence denote the same statutory approval issued by the DDP, and do not constitute a requirement that is separate from or additional to SCOMET authorisation.

Applications are made online through the Defence Exports Promotion portal with details of the proposed export, including the item description, technical specifications, foreign buyer, stated end-use and end-user, along with the prescribed EUC and other supporting documentation as required under the DDP’s SOPs. Applications are evaluated by the DDP from a national security and foreign policy perspective. Export of Category 6 items without a valid authorisation issued by the DDP would constitute a violation of the Foreign Trade (Development and Regulation) Act, 1992 (“**FTDR Act**”) and, where applicable, the Arms Act.

Q25. What are the penal consequences for exporting SCOMET items without the requisite authorisation?

Exporting SCOMET items without the requisite authorisation constitutes a contravention of the FTDR Act and the FTP 2023 / HBP 2023 issued thereunder. Under Section 11(2) of the FTDR Act, a person making/abetting/attempting such export is liable to a monetary penalty of not less than INR 10,000 (approx. USD 104) and not more than five times the value of the goods/services/technology (whichever is higher). In addition, the goods (and related packages/conveyance) are liable to confiscation under Section 11(8), with release possible only on payment of redemption charges equivalent to market value under Section 11(9). The exporter’s “Importer-Exporter Code” may also be suspended until the penalty is paid or recovered under Section 11(7).

Where the unauthorised export involves materials, equipment or technology with a Weapons of Mass Destruction or delivery-system nexus, the Weapons of Mass Destruction and their Delivery Systems (Prohibition of Unlawful Activities) Act, 2005 (“**WMD Act**”) may also apply. In particular, the WMD Act regulates export and related activities primarily through Sections 11 and 13. Penalties under the WMD Act are tiered: Section 16(1) prescribes a fine (a minimum of INR 3 lakhs to 20 lakhs (approx. USD 3,127 to USD 20,850)) for unauthorised export in the circumstances covered by Section 13(4), while imprisonment (minimum of 6 months upto 5 years) arises for repeated convictions under Section 16.

Q26. What is the end-user certificate requirement for defence exports, and what international commitments govern India's export control regime?

An EUC or End-User Undertaking is a government-issued assurance confirming the final destination and intended use of the exported item and typically includes commitments relating to non-re-export and non-diversion. For Indian defence exports, the requirement for EUCs is expressly prescribed under the SOP issued by the DDP, MoD, governing exports of items falling under SCOMET Category 6 (Munitions List). The SOP mandates submission of EUCs for exports involving government or military end use, including complete systems, sensitive items, parts and components, and transfer of technology, software or services. In specified cases and particularly for complete systems, sensitive items and transfer of technology the SOP requires EUCs signed and stamped by the Government of the End-User or Ultimate End-User country as a condition precedent to the grant of export authorisation / NOC. The SOP further authorises verification of EUCs both before and after export.

At the multilateral level, India’s export-control regime is governed by its membership of the major international export-control arrangements, namely the MTCR, the Wassenaar Arrangement, and the Australia Group, and by its practice of harmonising national control lists and guidelines with those of the NSG. As expressly stated in Chapter 10 of the FTP 2023, these international commitments are implemented through India’s domestic SCOMET framework, which is notified under the FTP 2023 and administered through a category-wise, inter-ministerial licensing process involving DGFT, DDP and other competent authorities, depending on the nature of the controlled item.

Q27. Can Indian companies participate in government-to-government defence supply arrangements with foreign nations, and what procedure applies?

Indian companies can participate in defence exports that involve foreign governments; however, Government sources do not prescribe a formal or standardised government-to-government (“G2G”) defence supply framework. Instead, defence exports are facilitated by the MoD through an export-promotion regime.

G2G is being increasingly favoured route for major defence exports. G2G arrangements are facilitated through the MoD, with typically the India Exim Bank providing financing support in appropriate cases. This model has been successfully used for India's defence exports to friendly nations across South Asia, Africa and Southeast Asia. For example, in February 2021 the Exim Bank entered into an agreement with the Government of the Republic of Mauritius, for making available a Line of Credit of USD 100 million (United States Dollar One hundred million only) for procurement of defence items from India. Out of the total credit by Exim Bank under the agreement, goods and services of the value of at least 75 % of the contract price shall be supplied by the seller from India.

Companies interested in G2G opportunities should engage proactively with the DDP and the Export Promotion Cell of the MoD, which coordinates outreach with Indian missions abroad.

SECTION E: GOVERNMENT SCHEMES AND INDUSTRY OPPORTUNITIES

Q28. What is the iDEX scheme, and who is eligible to apply for funding under it?

Innovations for Defence Excellence (“iDEX”) is a scheme of the DDP, MoD, formulated and approved by the Government of India rolled out in 2021, to foster innovation and technology development in the defence and aerospace sector. The iDEX framework was formally announced during DefExpo 2018 and is implemented through the Defence Innovation Organisation (“DIO”), a Section 8 company under the Companies Act, 2013, established for this purpose. The iDEX was set up with a budgetary support of INR 498.8 crore (approx. USD 52 million) for 2021-22 to 2025-26 to provide financial support to nearly 300 startups / MSMEs / individual innovators and about 20 partner incubators under the DIO framework in consultation with various stakeholders. The objective of the scheme is to create an ecosystem that enables start-ups, Micro, Small, and Medium Enterprises (“MSMEs”), individual innovators, academia and R&D institutions to develop indigenised and innovative technologies with potential application for the Indian defence and aerospace ecosystem, in furtherance of self-reliance and indigenisation goals. Under the scheme, selected applicants may be awarded grant funding of up to INR 1.5 crore (approx. USD 156,371) per applicant, disbursed strictly on a milestone basis, for developing functional prototypes or for productising existing technologies identified through structured challenge mechanisms such as Defence India Start-up Challenges.

As per the iDEX scheme, the following entities are eligible to apply for funding under the “Support for Prototype and Research Kickstart” framework:

- **Start-ups**, as defined and recognised by the DPIIT;
- **Indian companies** incorporated under the Companies Act, 2013, primarily MSMEs as defined under the MSME Act, 2006; and
- **Individual innovators**, including applications routed through research and academic institutions.

Q29. What is the ADITI scheme, and what is the maximum grant available to eligible innovators?

Agile Development of Innovative Technologies with iDEX (“ADITI”) is a sub-scheme under the iDEX framework of the DDP, MoD, implemented through the DIO. ADITI has been introduced to promote innovation in critical and strategic defence technologies that require high capital investment and are beyond the funding scope of the existing iDEX scheme. The scheme has a total budgetary support of INR 750 crore (approx. USD 78.19 million) for the period from FY 2023-24 to FY 2025-26 and is aimed at supporting the development of approximately 30 (thirty) critical and advanced technologies which are critically required for national security and where the country does not have existing capabilities. Technologies classified as ‘critical and strategic’ include areas such as satellite communication

applications, advanced cyber technology, autonomous weapons, semiconductor technologies, artificial intelligence, quantum technologies, and advanced underwater surveillance systems, among others.

Under ADITI, eligible innovators may be awarded grant funding of up to 50% of the Product Development Budget, subject to a maximum cap of INR 25 crore (approx. USD 2.61 million) per applicant. Grants are disbursed on a milestone basis, and project implementation and monitoring are carried out by the DIO through Partner Incubators, in accordance with extant IDEX guidelines.

Q30. What is the Positive Indigenisation List and what business opportunities does it create for Indian manufacturers?

The PIL identifies defence items, such as systems, sub-systems, assemblies, components, and raw materials, that the Government has decided to procure exclusively from indigenous sources after a specified cut-off date, in order to promote indigenisation and reduce import dependence. Once an item is on the PIL, procurement of that item from foreign sources by the concerned procuring agency is restricted after the notified date, and procurement is required to be made from Indian manufacturers, subject to compliance with applicable procurement procedures and technical requirements.

PILs are notified separately by the DDP (for items procured by DPSUs), and the Department of Military Affairs (for items procured by the Armed Forces). As on date, a total of 5 (five) PILs have been notified for DPSUs covering over 5,000 (five-thousand) items, and 5 (five) lists have been notified for the Armed Forces covering highly complex systems, weapons, sensors and ammunition, each with staggered indigenisation timelines. The inclusion of an item in the PIL creates a clear and assured demand for the particular item in the domestic industry.

Q31. What is the Technology Development Fund scheme, and how does it support industry in developing defence technologies?

The Technology Development Fund (“TDF”) scheme is a grant-in-aid programme of the MoD, executed by DRDO under the Make in India initiative, targeted specifically at MSMEs, startups and academic institutions engaged in the development of advanced defence and dual-use technologies. The projects can attract grants covering up to 90% of the total development cost for projects up to INR 10 crore (approx. USD 1.04 million), and generally up to 70% for projects above INR 10 crore (approx. USD 1.04 million) and up to INR 50 crore (approx. USD 5.21 million), in accordance with DRDO TDF guidelines, on a project value of up to INR 50 crore (approx. USD 5.21 million), over a development period typically not exceeding 4 (four) years.

The scheme is significant for advanced and deep-technology development where commercial financing is limited, and where the technology addresses an identified requirement of the Armed Forces or falls within priority defence technology areas supported by DRDO. As of December 2024, 79 (seventy-nine) projects worth approximately INR 335 crore (approx. USD 34.92 million) had been sanctioned, with a recently approved additional corpus of INR 500 crore (approx. USD 52.12 million) for deep-tech and cutting-edge projects under the TDF framework.

Q32. What are the Defence Industrial Corridors, where are they located, and what incentives are available for companies setting up units within them?

India has established 2 (two) dedicated Defence Industrial Corridors, announced in the Union Budget 2018-19, to promote indigenous defence manufacturing and strengthen the national defence production ecosystem. The Defence Industrial Corridors are namely the Uttar Pradesh Defence Industrial Corridor (“UPDIC”), with nodes at Agra, Aligarh, Jhansi, Lucknow, Kanpur and Chitrakoot, and the Tamil Nadu Defence Industrial Corridor (“TNDIC”), with nodes at Chennai, Coimbatore, Hosur, Salem and Tiruchirappalli.

As on October 2025, the UPDIC and the TNDIC have attracted investments worth over INR 9,145 crore (approx. USD 953.34 million) with 289 MoUs signed, unlocking INR 66,423 crore (approx. USD 6.92 billion) in potential opportunities. The implementation of projects under both corridors is monitored by a committee constituted under the DDP, with designated state-level nodal agencies responsible for execution.

Incentives for companies establishing units within the Defence Industrial Corridors are state-specific and governed by applicable state industrial and defence policies. A brief of the framework in Uttar Pradesh and Tamil Nadu is as follows:

- In Uttar Pradesh, the corridor is implemented through Uttar Pradesh Expressways Industrial Development Authority (**UPEIDA**) as the nodal agency and offers facilitated land allotment across all 6 (six) nodes, single-window approvals and clearances channelled via Nivesh Mitra. Incentives under the Uttar Pradesh Aerospace & Defence Unit and Employment Promotion Policy, 2024 include land and capital subsidies, stamp duty exemptions on land purchase/lease, transport subsidies, and support for training, quality certification, patents, and common facility centres, subject to eligibility.
- In Tamil Nadu, the corridor is implemented through Tamil Nadu Industrial Development Corporation Limited (**TIDCL**) as the nodal agency. The incentives under the Tamil Nadu Aerospace & Defence Industrial Policy, 2022 include facilitated land allotment in industrial parks, capital and land-related subsidies, stamp duty concessions, electricity tax exemptions, training and skill-development subsidies, certification cost reimbursements, and single-window approvals, as provided and related industrial policy frameworks.

Q33. Is there a Production Linked Incentive scheme for the defence sector, and what are its key eligibility criteria and incentive structure?

As on date, there is no dedicated Production Linked Incentive (“**PLI**”) scheme applicable to defence manufacturing as a sector. The Government of India has approved PLI scheme only for 14 (fourteen) specified sectors pursuant to Union Cabinet approval, and defence manufacturing is not included among the approved sectors. The only defence-related activity covered under the PLI framework is “Drones and Drone Components”, which is one of the 14 notified PLI sectors. Accordingly, in the absence of a notified PLI scheme for defence manufacturing in particular, there are no sector-specific eligibility criteria, incentive rates, investment thresholds or incentive structures applicable to defence manufacturing under the PLI framework.

Defence manufacturing is instead supported through non-PLI policy instruments, including:

- procurement preferences under the DAP 2020, which accord priority to indigenously designed, developed and manufactured defence products;
- PILs notified by the MoD, mandating domestic procurement of specified defence items and imposing import embargoes after notified timelines;
- innovation-linked grant support under the iDEX and ADITI schemes for the development of defence and strategic technologies; and
- state-level fiscal and infrastructure incentives available in the Defence Industrial Corridors in Uttar Pradesh and Tamil Nadu (as enumerated in Q 32 above).

Unless and until a separate PLI scheme for defence manufacturing is expressly notified by the competent authority, the PLI framework does not extend to defence manufacturing beyond the notified category of drones and drone components.

DRAFT DEFENCE ACQUISITION PROCEDURE 2026

Q34. The Draft Defence Acquisition Procedure 2026 has been released for public consultation. What are the key reforms it proposes, and how do they differ significantly from DAP 2020?

The MoD released the DAP 2026 on 10 February 2026 for public consultation, inviting stakeholder comments until 3 March 2026. As of date, DAP 2026 has not been formally notified, and DAP 2020 continues to remain the operative framework. The DAP 2026 proposes a series of structural and procedural reforms intended to strengthen self-reliance, accelerate acquisition timelines and deepen the domestic defence industrial base. The key changes proposed in comparison to DAP 2020 *inter alia* include:

- Reduction of procurement categories from 5 (five) to 4 (four), simplifying the acquisition framework and reinforcing preference for indigenously designed, developed and manufactured systems.

- Formal definition of “indigenous design” within the DAP 2026, to promote *Atmanirbharta*.
- Increase in Indigenous Content from 50% to 60% under the Buy (Indian-Indigenous Design, Development & Manufacture) category, with incentives for higher localisation.
- Involvement of subject matter experts in finalisation of Service Qualitative Requirements and oversight of trials.
- Introduction of 2 (two) new acquisition procedures: (i) Long-Term Bulk Acquisition, to provide industry with advance visibility and production planning stability; and (ii) Low-Cost Capital Acquisition, aimed at faster procurement of low-cost and rapidly evolving technology items.
- Introduction of Technology Readiness Level based categorisation of equipment.
- Provision for two-stage trials and refinement of the Fast Track Procedure, with greater delegation of powers for procurements involving emerging technologies and shorter development cycles.
- Compensation to all vendors who successfully complete trial evaluations.
- Review of the Development-cum-Production Partner selection process for DRDO projects to ensure a level playing field.
- Updating Make and iDEX projects as acquisition pathways, incorporating spiral development and 5 (five) years of assured procurement orders.
- Greater flexibility for services to choose the mode of Quality Assurance (QA) trials to reduce procurement timelines.
- Monitoring of timelines from the RFI stage onwards, with concurrent planning to shorten the overall acquisition cycle.

Overall, the DAP 2026 is designed to bolster self-reliance, accelerate acquisition timelines and empower the Indian defence industrial ecosystem, while aiming to build a stronger indigenous defence manufacturing base, reduce import dependency and position India as a global leader in defence technology. It seeks to achieve these objectives by streamlining procurement processes, enhancing indigenous content mandates and introducing new procurement mechanisms under a simplified acquisition framework.

Disclaimer: The information contained in this document is not legal advice or legal opinion. The contents recorded in the said document are for informational purposes only and should not be used for commercial purposes. Acuity Law LLP disclaims all liability to any person for any loss or damage caused by errors or omissions, whether arising from negligence, accident, or any other cause.

Legislative and Regulatory References

These FAQs have been prepared with reference to the following primary instruments: Arms Act, 1959; Arms Rules, 2016; Industries (Development and Regulation) Act, 1951; Defence Acquisition Procedure 2020 (as amended); Draft Defence Acquisition Procedure 2026 (released for public consultation, February 2026; not yet formally notified); Foreign Trade Policy 2023; SCOMET List as revised by DGFT Notification No. 31/2025-26 (effective 23 October 2025); Consolidated FDI Policy Circular of 2020 (as amended); Foreign Exchange Management Act, 1999; Foreign Exchange Management (Non-debt Instruments) Rules, 2019; Weapons of Mass Destruction and their Delivery Systems (Prohibition of Unlawful Activities) Act, 2005; iDEX and ADITI Scheme Guidelines (MoD, 2024); Technology Development Fund Scheme Guidelines (DRDO); and the Positive Indigenisation Lists notified by the Department of Defence Production and the Department of Military Affairs.

Currency Note: All INR amounts in these FAQs are accompanied by an approximate USD equivalent in brackets, converted using the RBI Reference Rate for 15 May 2026, fixed at ₹95.9255 per USD 1.