

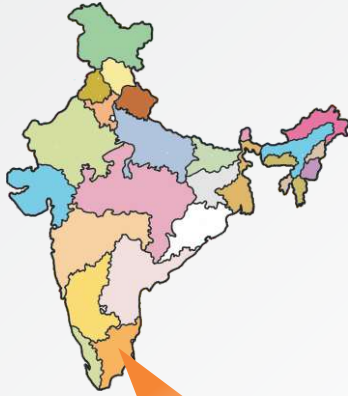


# TAMIL NADU AEROSPACE & DEFENCE INDUSTRIAL POLICY 2019





# Tamilnadu - The Economic Power House of India



# 01. Preamble



India is fast emerging as a major defence and aerospace market, fuelled by the increasing defence spending and a booming commercial aviation market. Aerospace and Defence Industries include units involved in designing, testing, developing, manufacturing and servicing of commercial and military aircrafts, missiles, space crafts, defence systems, space exploration systems, etc.

India's Defence Production Policy encourages Indigenous Designed Developed and Manufacture (IDDM) of equipment / sub-systems / components and consumables under the aegis of Make in India policy. Moreover, the India's defence offset policy which stipulates a mandatory offset requirement of 30% to 50% for procurement of domestically produced defence equipment would ensure that an eco-system of suppliers is developed domestically. The cumulative opportunities for domestic industries over a period of 15 years under the aerospace and defence offset obligations are estimated to be approximately 100 Billion USD.

One of the reasons for the growth opportunities available today in Aerospace and Defence sector in India is that several Original Equipment Manufacturers (OEMs) are shifting their bases to Asia especially to India.





## 02. Vision & Objective of this Policy

To position Tamil Nadu as the preferred hub for Aerospace & Defence industries in India in the areas of engineering, design, manufacturing and allied activities by harnessing its industrial base and talented human capital strengths.

**The present Policy is formulated with the following objectives:**

- ❖ To create an end-to-end ecosystem for Aerospace sector development covering design, engineering and manufacturing of aircraft for civil and defence sector;
- ❖ To attract an estimated investment of about 5 Billion USD in 5 years period and an estimated investment of about 10 Billion USD in 10 years period in Aerospace and Defence sector;
- ❖ To generate direct & indirect employment opportunities to around one lakh persons in 10 years;
- ❖ To harness Tamil Nadu's inherent strengths in automotive manufacturing sector for exploring opportunities in Aerospace and Defence manufacturing;
- ❖ To create a global workforce for high-end manufacturing by establishing Centre of Excellence, R & D and skill development institutions; and
- ❖ To attract global OEMs and Tier-1 suppliers and Indian majors as anchor units in the State by providing required facilitation and support.





## 03. Advantage Tamil Nadu

- ❖ Tamil Nadu is industrially advanced and well known for diversified industrial base. The State ranks first in terms of number of factories and industrial workers and third in terms of Gross Industrial Output and Net Value Addition among the States.
- ❖ Gross State Domestic Product (GSDP) of Tamil Nadu grew at a compound annual growth rate (CAGR) of about 9 per cent between 2004-05 and 2016-17, higher than the national average of about 7.5 percent. With cumulative FDI inflows of over 13.3 billion USD from year 2000-01 to 2016-17, Tamil Nadu ranks third in terms of FDI inflows into India. Robust economic growth of the State is predominantly attributed to the stellar performance of industries and service sector.
- ❖ The State turns out the largest number of skilled manpower in India every year and is a pioneer in promoting technical education in private sector. Tamil Nadu has the largest intake capacity among all the States for engineering and technical education.
- ❖ Tamil Nadu's contribution in terms of Industrial Output to the national output of the Automobile industry stands at 25%, making it the largest contributor to the sector in India. Tamil Nadu is to-date the only State to attract seven automobile giants - Ford, Hyundai, Mitsubishi, Daimler, Nissan, Renault and BMW. The State is also a preferred choice for over 350 large auto components manufacturers, accounting for more than 35% of India's auto components production and 21% of India's automobile exports.
- ❖ Tamil Nadu is the 3rd largest manufacturer of electronics hardware in India and the electronic hardware industry in Tamil Nadu has grown at a CAGR of 30% from 2008. Some of the Fortune 500 companies which have set up manufacturing facilities in the State includes Motorola, DELL Computers, Samsung, Foxconn, Sanmina-SCI, Flextronics, Nokia and Siemens besides several components suppliers.



- ❖ Tamil Nadu houses several Defence products manufacturing Central PSUs and Ordnance Factories including-
  - Heavy Vehicles Factory (HVF), Avadi, Chennai manufacturing tanks and heavy vehicles for military requirement;
  - Ordnance Clothing Factory (OCF), Avadi, Chennai manufacturing clothing and other military wears for armed forces;
  - Engine Factory Avadi (EFA) manufacturing high power diesel engine and battle tanks for defence applications;
  - Ordnance Factory Trichy (OFT) manufacturing rifles, grenade launchers etc;
  - Heavy Alloy Penetrator Project (HAPP), Trichy manufacturing special alloys like Titanium and other alloys for defence applications; and
  - Cordite Factory Aruvankadu (CFA) Ooty manufacturing arms and ammunitions.

Over the years, these major factories have enabled establishment of several big supporting industries including numerous SMEs in building their manufacturing capabilities and forming supply chain in defence related products.

- ❖ Strong engineering / manufacturing clusters in several locations and the highly skilled workforce along with favourable investment climate make Tamil Nadu an ideal location for the Aerospace and Defence products manufacturing activities.

## 04. Support for building the Aerospace and Defence Industry Driven Eco-System

### 4.1 Augmenting and Creating the Industrial Infrastructure

- ❖ The Government will adopt a cluster development approach in building the aerospace and defence manufacturing eco-system by creating required physical infrastructure.
- ❖ The Government through TIDCO/SIPCOT will establish Aerospace and Defence Parks based on requirement with adequate Infrastructure for housing large, medium and small companies in all the areas of Aerospace and Defence Sector including -
  - Forging, casting and fabrication facilities;
  - Metal/composite manufacturing facilities;
  - Design/Engineering services;
  - Assembly facilities; and
  - Maintenance facilities.



- ❖ The Government will facilitate development of aerospace and defence clusters in the potential locations of the State viz., Chennai, Coimbatore, Kancheepuram, Krishnagiri, Salem and Trichy Districts focusing on specific areas like Components Manufacturing, MRO, R & D, Training, Centre of Excellence, etc. with common facilities such as warehouses, testing and certification facilities.
- ❖ The Government will also endeavour to develop aerospace and defence clusters through public-private participation. The Government will provide a special incentive package of assistance for clusters and equity support for promoting the Aerospace / Defence Parks.
- ❖ The Government will undertake special initiatives for attracting major Indian and Global OEMs and Tier-1 manufacturers of aerospace and defence systems. The Government will take steps to attract anchor businesses into the Aerospace industry clusters and industrial areas by actively engaging with large Global and Indian corporates.
- ❖ The Government will facilitate / improve the rail / road / air connectivity to the Aerospace / Defence Parks / Clusters.



## 4.2 Create Human Resource with Relevant Talent & Skills

Talent and different skill sets are the key resource for Aerospace and Defence industry. The Government of Tamil Nadu will facilitate the augmentation of the quality and quantity of talent in the State and provide opportunities for continuous learning and improvement through partnering with Global/Indian OEMs/Institutions on a PPP mode to establish new/upgrade existing ITIs/Polytechnics/Engineering Colleges, Flying training schools & Universities in Aerospace and Defence specific skills training.



## 4.3 Support for Building Partnerships/Marketing

The aerospace and defence industry depends largely on the major manufacturers of aircrafts / defence systems and their vendors. Partnership with them is the best way to build the eco-system. The Government will ensure support for building such partnerships, and the modalities will include special partnership meets, industry summits / events / exhibitions, B2B sourcing meets, investor summits, special delegations by the Tamil Nadu Government to various large manufacturers, etc.

Government will provide necessary support to Industry for interaction with Defence Offset Facilitation Agency (DOFA) to encourage foreign / domestic investors to invest in Tamil Nadu Aerospace & Defence Parks to meet their offset contractual obligations.





Sustained growth in Aerospace & Defence sector demands strong R&D base and close Academia- Industry interaction. Innovative technologies and ideas are to be incubated in the academic institutions and R&D laboratories. The Government will facilitate in setting up of Aerospace and Defence Research facilities in the State.

The Government will encourage the industry to set up and adopt labs in the existing institutes for specific research initiatives. The Government will assist in bringing R&D co-operation with international and national organizations.

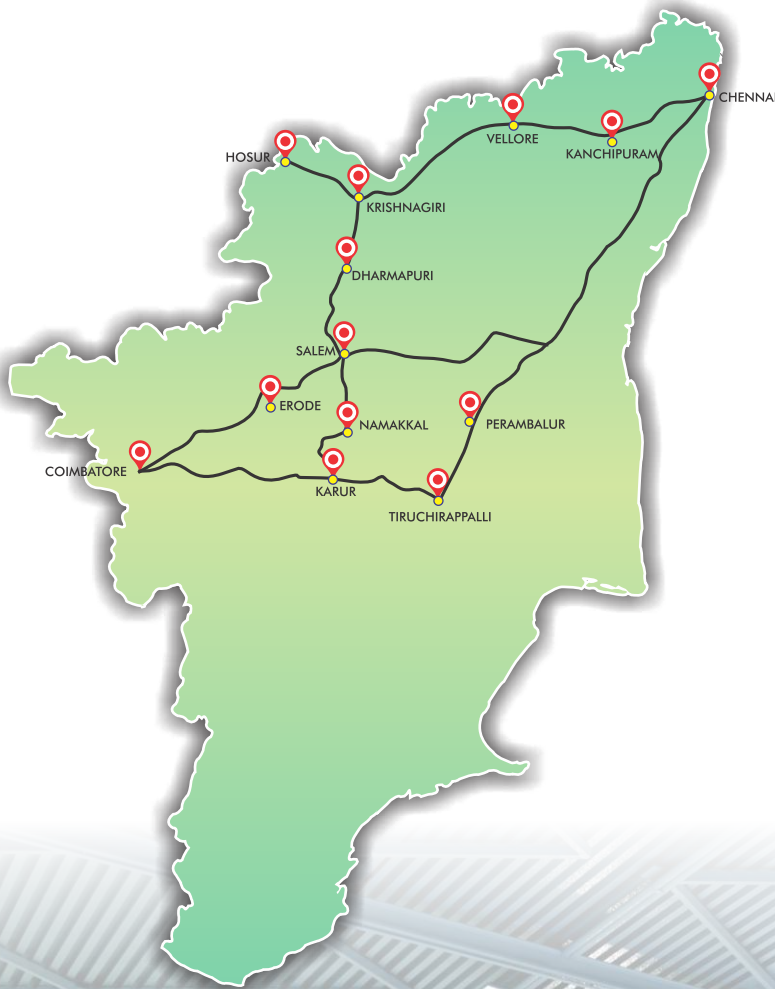
#### 4.4 Innovation, Research & Development

#### 4.5 Help in Certification Processes

Aerospace and Defence Industries are highly regulated and all manufactured parts & services have to be certified for their reliability. Certification is a compulsory and detailed process which needs support. The Government will provide financial support to Aerospace & Defence industries to obtain necessary certifications, on a case to case basis.



## 4.6 Development of Defence Industrial Corridors



Government of India in the Budget 2018-19 has announced that a Defence Industrial Production Corridor will be developed in Tamil Nadu. Department of Defence Production, Ministry of Defence (MoD) has already conducted interactive meetings with the industrial units in Hosur, Salem, Coimbatore, Tiruchirappalli and Chennai. State Government officials participated in all the meetings and provided all support to MoD to formulate the implementation plan. In Tamil Nadu, numerous industrial units in the form of clusters are operating in Chennai, Tiruchirappalli, Coimbatore, Salem and Hosur catering to Defence PSUs and services. State Government will provide all support and facilitation to the MoD for establishing the Defence Industrial Production Corridor to attract more investments and generate employment in the State.



## 05. Incentives & Concessions for Aerospace & Defence Manufacturing Sector

Aerospace & Defence sector industries will be eligible for following incentives and concessions under this policy :

### 5.1 Anchor Unit Subsidy

Anchor Unit Subsidy at the rate of 10% of the eligible fixed assets subject to a ceiling of ₹ 10 crore would be offered to each of the first 10 Aerospace & Defence OEMs/Tier-1 enterprises and/or their suppliers investing ₹ 50 crore or above and providing direct employment to 50 persons anywhere in the State. The minimum investment should be made within three years.

### 5.2 Subsidy for Skill Development

Recognising the fact that trained Human Resources is one of the vital requirements, 100% of the cost of the “on job” technical training will be reimbursed for one year subject to maximum of ₹ 10,000/- per month per trainee for maximum of 50 trainees for a unit. The companies can also send the trainees/employees to designated skill development centres/institutions for imparting training and upgrading their skill set.

### 5.3 Subsidy for Certification Process

Certification procedures and expenses are one of the challenges faced by aerospace industries. Multiple certification processes are involved for multiple products. 50% of the cost of Certification from Indian and International bodies for multiple products and certificates will be reimbursed subject to a ceiling of ₹ 25 lakhs to a company setting up their manufacturing units for the certified products/components in Tamil Nadu.



## 5.4 Subsidy for Allotment of Land

The Aerospace/Defence industrial units which are allotted lands within 3 years from the date of announcement of this Policy in the Industrial Parks/Aerospace & Defence Parks promoted by SIPCOT/TIDCO will be given 20% concession on the actual land cost.

## 5.5 Capital Subsidy for Units

- ❖ Both new and expansion of Aerospace & Defence MSME industrial units with investment upto ₹ 10 crore will be given a back ended capital subsidy at the rate of 10% on its eligible fixed assets in 10 equal instalments in 5 years period.
- ❖ Both new and expansion of Aerospace & Defence industrial units other than the Anchor Units with investment from ₹ 10 crore to 300 crore will be given a back ended capital subsidy at a rate of 5% on its eligible fixed assets subject to a ceiling of ₹ 10 crore in 5 equal instalments in 5 years.

- ❖ Both new and expansion of Aerospace & Defence industrial units located in Southern Districts will be provided an additional capital subsidy of 50% over and above the eligible limit prescribed above.
- ❖ The quantum of incentives for Aerospace and Defence Industrial Parks/Units with investments above ₹ 300 crore will be decided by the Government on a case-to-case basis.

## 5.6 Capital Subsidy for Development of Aerospace & Defence Industrial Parks

An Infrastructure Back Ended Subsidy at a rate of 10% of the eligible fixed assets subject to a ceiling of ₹ 10 crore for the development of Aerospace & Defence Industrial Parks will be given to the developers, provided that Park is developed with a minimum of 50 acres. Development of MRO Complex is also eligible for this subsidy. An additional capital subsidy of 50% over and above the eligible limit will be provided to the developers for development of Aerospace/Defence Parks in Southern Districts.





## 5.7 Aircraft Maintenance, Repair and Overhauling (MRO) facilities

50% net SGST paid by MRO operators in Tamil Nadu will be refunded recognising the fact that aircraft MRO Industries could create huge industrial activities, forex revenue and employment generation.





## 5.8 Electricity Tax Exemption

Aerospace and Defence Industries will be given 100% exemption on Electricity tax on power purchased from Tamil Nadu Generation and Distribution Corporation Ltd. (TANGEDCO) or generated and consumed from captive sources for the first 10 years from the date of commencement of commercial production. Expansion projects will be entitled to exemption for the additional electricity consumed for 10 years.

## 5.9 Stamp duty concession

50% reimbursement of Stamp duty on lease or sale of land shall be offered for Aerospace/Defence projects located in Industrial/Aerospace/Defence Parks promoted by SIPCOT/TIDCO. In case the Aerospace/Defence units are located in Industrial/Aerospace/Defence Parks promoted by SIPCOT/TIDCO in Southern districts, 100% stamp duty will be reimbursed. Normal registration charges will however apply in these cases. For computation of stamp duty, property in such industrial parks would be valued at actual land or building value paid by the manufacturing units to such industrial park.



## 5.10 Environmental Protection Infrastructure Subsidy

Dedicated Effluent Treatment Plants (ETP) and / or Hazardous Waste Treatment Storage and Disposal Facility (HWTSDF) set up by individual manufacturing units would be eligible for an Environment Protection Infrastructure subsidy of ₹1 crore or 25% of capital cost of setting up of such ETP/ HWTSDF, whichever is less.



## 5.11 Structured Package of Incentives

Apart from the above, a Structured Package of Incentives for projects with investment of above ₹ 300 crore will also be offered to both new and expansion of aerospace and defence manufacturing projects/units by the Government on a case-to-case basis.







## 5.12 Special Support for the Units Undertaking Offset Obligations

New/Existing manufacturing units in Tamil Nadu which are undertaking projects under the offset obligations requirements of the Ministry of Defence will be offered special package of incentives, Concession upto 30% of the land cost and 100% reimbursement from stamp duty on lease/sale shall be given for the land in the Industrial Parks/Aerospace & Defence Parks promoted by SIPCOT/TIDCO located anywhere in the State.



### 5.13 Special Initiative

The projects for manufacturing and assembling of civil/military aircrafts, Main Battle tanks and other aerospace and defence platforms and equipment are considered as the key initiative as they will help proliferation of aerospace and defence industrial units and enhancement of manufacturing capabilities in the State. Such project from private industries with the combined responsibilities of Design, Development, Manufacturing, Testing and Certification in the State would be treated as special initiative and the Government would consider sanctioning special funding in the form of equity of such a Joint Venture in partnership with Tamil Nadu Industrial Development Corporation Ltd (TIDCO).

**5.14** Higher incentives/concessions and relaxation of the conditions mentioned in the Policy will be offered for deserving cases giving due weightage to investment, direct and indirect employment generated and potential for attracting further investment through vendors and ancillaries.



## 06. Labour Sector Initiatives

Flexibility in labour laws will be adopted without compromising labour welfare. Subject to applicable labour laws and within the parameters of the Industrial Employment (Standing Orders) Act, 1946 (Central Act 20 of 1946), flexibility in employment conditions including flexible working hours for women and shorter and longer duration of working hours, 24x7 operations (3 shifts), employment of women in the night shifts and flexibility in hiring contract labour will be permitted.





## 07. Implementation of Incentives

State Industries Promotion Corporation of Tamil Nadu (SIPCOT) is mandated to act as the implementing agency for the disbursement of various incentives listed out in this Policy.



## 08. Single Window Clearance Mechanism

Globally the aerospace industry value chain is so structured that the major OEMs are supplied and supported by tier based vendor systems and the majority of the lower tier aerospace and defence related components manufacturing industrial units are of SME category. Hence, in order to enable such SME category, the Single Window Facilitation mechanism under the Tamil Nadu Industrial Guidance Bureau would be available for the entire aerospace and defence related manufacturing and infrastructure projects, irrespective of their investment size.

### Note:

- i. New manufacturing facilities set up by an existing company within the existing facility (or) in a new site (or) in an adjacent vacant site for manufacturing a product already being manufactured in the existing unit or an entirely new product, would be treated as an expansion unit for the purpose of incentives under the Policy, subject to preservation of production volume/value in the older unit.
- ii. "Southern Districts" means the Districts of Madurai, Theni, Dindigul, Sivagangai, Ramanathapuram, Virudhunagar, Tirunelveli, Thoothukudi and Kanniyakumari.
- iii. The Aerospace & Defence Industrial Units eligible for incentives under this Policy are defined in Appendix – 1.
- iv. Eligible Fixed Asset (EFA) is defined at Appendix - 2.
- v. The definition for Direct Employment or Direct Job is at Appendix – 3.
- vi. In case, any subsidy/incentive offered for any MSME unit under the Tamil Nadu Micro, Small, Medium Industries Policy of MSME department is higher than the subsidy/incentive offered to Aerospace/Defence MSME unit under this Policy, the higher subsidy/incentive as applicable to MSME unit will prevail.
- vii. The 'Tamil Nadu Industrial Policy 2014' will be applicable in cases which are not explicitly mentioned in this Policy.

## Definition for Aerospace/Defence Industries

For the purpose of availing the benefits under this Policy, the eligible Aerospace & Defence Industrial units are defined as those which are designing, engineering, manufacturing, servicing, supplying such material/components/sub-assemblies, etc. fully or partially to the OEMs/ Tier I/Tier II/Tier III companies of Aerospace/Defence Industrial majors including HAL, ISRO, all Defence PSUs of Govt, all defence & security forces viz., Army, Navy, Air Force, Coast Guard, CRPF, State Police Department, etc. Construction of MRO Aircraft Hangers will also be considered as Aerospace/Defence Industry.

All the industries units which have got the AS9100 certification are considered as Aerospace/Defence related industrial/service units.

Any clarification in the case of interpretation on the definition of aerospace/defence industries unit may be given by Government as and when required.

Aerospace and Defence Park is defined as an Industrial Park promoted by Private/Govt./PPP proponents with land developed with all related infrastructure with a minimum area of 50 acres and where at least 50% of the units located is Aerospace & Defence related.







## Definition of EFA

### Appendix-2

“Eligible Fixed Assets” shall mean land (including development cost such as fencing, construction of internal roads and other basic infrastructure facilities), permanent buildings, plants, indigenous machineries & equipment, newly imported machineries and equipment, computer equipment, material handling equipment (like forklifts, cranes, etc.), tools, dies, moulds, jigs and fixtures and similar production tools owned and used within the plant or elsewhere within Tamil Nadu, appliances, electrical installations, pollution control and quality control and laboratory equipment, fixtures, tubes, pipes, fittings and storage tanks, to the extent paid by the project.

The term also includes the waste treatment facilities, transformers, generators, captive power plants etc., and other supportive facilities installed for use in the premises including installation charges. All Fixed Assets should have been paid for and should be owned by the project. All the Fixed Assets (except tools, dies, moulds, jigs and fixtures and similar production tools) should be used and installed only within the Project Site.

Upto 20% of total eligible assets will be allowed for the Investment made in captive power plants (including windmills/solar farms), provided 50% of power is for captive consumption.

The said term “Eligible Fixed Assets” excludes Intangible Assets\*.

\* “Intangible Assets” shall mean Technical know-how fees, R & D expenditure, pre-operative expenses, planning fees, expenditure on design and development of products and prototypes etc.

Eligible Investment shall mean and comprise of eligible fixed assets plus the investment made on the following:-

- ❖ The cost of development of the location of the Eligible Unit which the unit has to incur under the project.
- ❖ The Tooling acquired by the Mega Project and given to various Vendors/ancillary units of the Mega Project within the State limited to a maximum of 5% of the total plant and machinery of the Mega Project.

## Direct Employment or Direct Job

Direct Employment or Direct Job shall mean all jobs that are performed by employees who are on the rolls of the respective companies which will include contract labour engaged in production line. It will however not include casual labourers. The percentage of contract/outsourced labourers engaged should not exceed 50%. However, such outsourced/contract labourers must be working within the site of the industry units.



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