

RFI for the Basic Trainer Aircraft: New Ray of Hope for the Indian industry

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With the Avro replacement programme of the Indian Air Force tragically consigned to the back burner, a new ray of hope has appeared for the Indian aerospace industry in the form of a Request for Information (RFI) for procurement of 106 PC-7 MK II Basic Trainer Aircraft (BTA) and associated equipment.

This is a 'Buy and Make (Indian)' programme, which makes only the Indian companies eligible to respond to the RFI and subsequently compete for the contract, though it is not quite clear how multiple Indian companies will successfully woo the same OEM and seal separate arrangements to be able to participate in the tender.

Nevertheless, this programme is a clear indication of the MoD/IAF shedding reservations about the ability of the Indian companies to be the prime contractors in such programmes. It was because of this reservation that the Avro replacement programme was categorized as 'Buy and Make' and not as 'Buy and Make (India)', leaving it to the foreign original equipment manufacturer (OEM) to select an Indian company as the production partner.

There is an on-going contract, signed in May 2012, with the OEM, Pilatus Aircraft Ltd of Switzerland, for the supply of 75 PC-7 Mk II BT aircraft. The Indian companies will have to supply the aircraft and the associated equipment in the same configuration/ specification. This programme seems to be free from the complexity of life-cycle costing, as was the case with the original BTA contract.

This should be exciting for the Indian companies, especially because the RFI does not contain many of the stringent conditions that were imposed in the Avro replacement programme for selection of the Indian Production Partner (IPP) by the OEM. According to those conditions only public limited engineering companies with an established track record in manufacturing, CRISIL/ICRA "A" credit rating and registered in India for at least ten years can be selected as IPP, provided they do not have foreign direct investment (FDI) exceeding 26 per cent. They are also required to have capital assets of not less than INR 100 crore, a turnover of not less than INR 1,000 crore for the last three years and a profitable financial record showing profit in at least during 3 of the previous 5 years with no accumulated losses.

The companies from whom response has been sought for the BTA programme have been spared these stringent conditions. The RFI simply says the proposal is sought from Indian vendors, including an Indian company forming a Joint Venture or establishing production arrangement with the OEM. Therefore, the only condition the vendors will have to comply with is the sectoral cap of 26 per cent on FDI. The current FDI policy also requires such companies to be 'owned and controlled' by resident Indian citizens and the Indian companies, which, in turn, are owned and controlled by the resident Indian citizens. This is a refreshing change in thinking, though one

cannot help wonder why the aforesaid stringent conditions were stipulated in the Avro replacement programme.

This is not the only welcome change. The Avro replacement programme requires transfer of the production technology by the OEM to the IPP in such a manner that the value addition by the latter increases from 30 per cent to 60 per cent by the end of the programme. There are many who believe that this is unachievable. In the case of BTA, however, the requirement is to ensure 50 per cent indigenous content by the end of the programme, with a minimum of 30 per cent guaranteed at all stages of delivery.

But this is as good as it gets.

It is not going to be easy for the Indian companies to respond to the Request for Proposal (RFP), as and when issued by the MoD. According to the RFI, the technical proposal of the bidding companies must indicate:

- (a) Availability of the capabilities and requisite infrastructure to license produce/indigenously manufacture the aircraft.
- (b) The production plan and timelines for delivering the aircraft and the associated equipment.
- (c) Arrangement made with the OEM, timelines and the breakdown of items proposed to be supplied under the 'Buy' and the 'Make' portions.
- (d) Roadmap to obtain necessary government clearances, as applicable.
- (e) Roadmap for Flight Testing and meeting Certification Requirements.
- (f) Roadmap for achieving the indigenous content as mandated for 'Buy and Make (Indian)' in the Defence Procurement Procedure 2013.

It is difficult to understand why the MoD should bind itself by asking for information that cannot be compared across all the proposals. What would constitute 'capability' and 'requisite infrastructure' to license produce the aircraft is a matter of subjective interpretation. Therefore, it would become difficult for MoD to assess whether the information provided by a bidder establishes that he/she has the requisite capability/infrastructure.

Even if the MoD specifies upfront in the RFP what kind of 'capability' and 'infrastructure' the bidders must have, disputes could arise about whether those capabilities and infrastructure are indeed necessary for undertaking this project.

In the context of the Avro replacement programme, there were murmurs about non-viability of the programme as the private companies could not possibly acquire land and make airfields for testing the aircraft. If this is perceived as necessary infrastructure, the BTA project could turn out to be a non-starter.

To ask the bidders to provide a roadmap for obtaining 'necessary' government clearances, as applicable, is baffling. No one can predict how much time the government departments would take to accord those clearances.

The bidders would find it difficult to provide a roadmap for flight testing and meeting the certification requirement. In fact, the MoD should specify in the RFP which agency is to be approached by the successful bidder for certification. This is also an issue raised by many in the context of the Avro replacement programme.

These yardsticks can only complicate the process of technical evaluation and lead to delay in, and disputes over, short listing of the bidders.

The prospective bidders should, and most probably would, raise all these, and other, difficulties while responding to the RFI and MoD would do well to take cognizance of all such issues while formulating the RFP so that subsequently the proposal glides through the procedural maze. It is too good an opportunity to be missed by the private sector entities in India, even if it entails competition with the state-owned Hindustan Aeronautics Limited (HAL).

It would add to the commercial viability of the BTA programme if the MoD were to announce *suo moto* in the RFP that the IPP/OEM would be permitted to export the aircraft and the sectoral cap will be relaxed up to 49 per cent, if any bidder wants it that way. This might make the project more attractive.

Hopefully, it will not spell the end of the Avro replacement programme. That model, predicated on the choice of the IPP being left to the OEM, may also be a workable model.

Views expressed are of the author and do not necessarily reflect the views of the IDSA or of the Government of India.