



BHARAT SHAKTI

Self-Reliance in Defence

Menu

Government to go ahead with strategic tieups in defence procurement policy

[HOME](#) [EXCLUSIVES](#)

Interview with Ashok Atluri, CMD, Zen Technologies

December 23, 2015; By: [Nitin A. Gokhale](#)

[Print](#) [Email](#)

Note from the Editor-in-Chief

BharatShakti is committed to the MSMEs that have so long mostly languished in the shadows with their full potential not fully realised.

To get a feel of the pulse, BharatShakti interviewed Mr Ashok Atluri, Chairman and MD, Zen Technologies Ltd. Zen Technologies, an MSME, has the distinction of being India's largest simulator manufacturer. Zen's long list of simulators has a wide market in the Indian Defence and Police Forces.

In a free and frank talk with Nitin A. Gokhale and Brig SK Chatterji, the Founder and Editor-in-Chief of BharatShakti respectively, Ashok Atluri reflects on the past, the long road to its present leadership position, and shares his views on how best to shape an environment where MSMEs can become the prime contributors in indigenisation of defence equipment production.

Ashok Atluri also talks about Defence Innovators Industry Association (DIIA); its objectives and mission. Ashok Atluri is one of the founders of DIIA, an association that is growing in strength.

Nitin A Gokhale (NG): *Tell us the story of Zen Technologies. Its inception, growth, range of products/services?*



Ashok Atluri (AA): The company was started along with my brother Mr Kishore Dutt, and Mr Ravi Kumar in June 1993. Initially, we had developed only one product, the **Small Arms Training Simulator (SATS)**. We tried hard to sell it to the police. But, without exception, even as they would like the product, they would ask for reference of an existing customer. We would say that we haven't sold it yet. And they would back out. Finally, we almost ran out of money, and kept our SATS as a demo unit in National

Police Academy in Hyderabad, hoping that would help our efforts. A senior officer from Delhi police visited National Police Academy and liked the product and wrote to us to supply the system that we had "installed" in NPA. Delhi Police was having some year end funds and wanted to exhaust before the year; and we sold it to them. After that it was easy selling to the police. Our first sale to the army was still tougher and we sold it in the year 2007; almost 14 years after we formed the company.

SATS was our product for the first six years. We introduced **Zen Advanced Weapons Simulator** in the year 2000 and that really helped us grow big. We now have around 30 plus simulators, predominantly for the Armed Forces and Police; and to a lesser extent for transport and mining sector. Today, we are active in aviation and marine simulation. We are also seeking to grow through exports and offsets. Recently we have been promoting the idea of building Combat Training Centres for combating internal threats like Paris and Mumbai attacks and external threat like Boko Haram.

SK Chatterji (SKC): *What were the major hurdles you faced in your growth as an MSME in the defence sector?*

AA: Getting orders from the police or defence was a big problem. And the long procurement cycle and the habitual retraction of tenders almost killed us. Retraction, till recent times, was the norm, rather than an exception. Only in the recent few months has cancelling a tender become very difficult. Thankfully!

SKC: *What are the major problems being faced by MSMEs currently in the defence sector?*

AA: Another problem that MSMEs face is the method of payment. While the foreign vendors are made payment by way of Letter of Credit, Indian vendors are given only 15 percent advance (against Bank Guarantee) and 80 per cent against delivery, and 5 per cent 45 days after installation! I think this has to change. Since the advance is given against bank

guarantee, this can be substantially increased (may be to 80 percent or so). And rest of the payment can be done through Letter of Credit.

NG: Our weaker area in defence equipment indigenisation lies in the areas of design and development. How can the present government address it?

AA: Today there is only Buy Indian (30 per cent indigenous content) category. If you do research and more indigenisation, you are not given any preference and you may lose as foreign companies bid aggressively whenever they see an indigenous threat. Typical modus operandi is: some Indian company ties up with a foreign vendor, puts the sticker on the equipment (the 30 percent) and then fields it for trials. At present, whether you are 90 per cent indigenous or 50 per cent or 30 per cent, there is no preference for you. Given this lopsided policy, is it any wonder that there are no indigenisation efforts? And well-meaning efforts to give preference to design and development are being scuttled by entrenched interests. Surprisingly, even the Dhirendra Singh Committee does not recommend preference for design and development with a lame excuse that it would be difficult to estimate the indigenous content and it would lead to litigation. It is very easy to estimate the indigenous content; look at Made in USA policy. Therefore, to give such a small justification to kill such a great initiative is regrettable.

SKC: Funding of design and development is a major issue? Can you suggest a practical model with accountability being built into it for the major stakeholders?



AA: First: NCFC -- No Cost, Full Commitment. Make program, that is currently only for high tech complex programs, can be made for all those products that are currently being imported: high technology non-complex, low technology mature products, sub-systems, components, etc. I think this will accelerate the rate of indigenization. There are lots of companies, especially among MSMEs, that are willing to undertake technological challenges

and risk financial allocation essential for designing and developing the product at their own cost provided they are guaranteed procurement of the equipment, if and only if, it meets the specifications of the defence. This can be done under a new category called NCFC – No Cost (to the Government but) Full Commitment (from the Government to buy if the developed product meets the needs of the forces) at internationally benchmarked prices. This cannot be at cost plus model as there is tremendous risk being taken by the company. Also, I think, the Government should not have any resistance to paying Indian company something that they are willing to pay a foreign company. Added to that, 30 percent of the profits of the company come back as taxes; the scientific talent of the country is employed for India, and the chance of India becoming a global leader, from a laggard, increases significantly. But, as of now, there are too many entrenched interests that will scuttle such suggestions –whatever reasons they

may give. However, I have been through the [interview of Raksha Mantri Shri Parrikar](#) that your website had done, which gives MSMEs a lot of hope. As and when the new DPP becomes operative, perhaps a lot of our concerns will be taken care of.

SKC: What are your views on the Strategic Partnership Model and how do you think MSME interests should be addressed when such a model is adopted?

AA: I think only capability and track record should be used as criteria for Strategic Partners. Financial criteria should be completely dropped. In fact, if financial criterion is dropped the cost of development will come down drastically as there will be real competitive bidding. Again, when the financing is done by the Government; it has to be cost plus model. And the cost plus model from the MSME is going to be much lesser than larger companies. Larger companies may have a role to play as integrators but care should be taken to ensure that lion's share of the value is not taken out by them by way of humungous salaries, etc. Their value capture may be restricted to 10-20 per cent and the rest should be passed on to the supply chain.

NG: An important incentive to growth in any sector is the size of the market. What measures you feel are necessary for Indian defence industry to better exploit the export market?

AA: I think the Government of India should focus on the export market a lot. In recent times, the ease of export is helping companies like Zen to export to foreign countries. Export permission that we couldn't get in six months is now being given in six days. A lot more can be done. The Ministry of External Affairs can actively help promote those companies that have export worthy equipment. DAs in foreign companies can be tasked to aggressively promote the products. Once during Indian DefExpo, I was at a Swedish stall. One person was aggressively explaining the Swedish product to a visiting Indian General. I asked someone in the Swedish stall who that person was and he said, "Sweden's Ambassador to India". I said, "Wow! He's behaving like your sales guy!" To which they were a bit astonished and replied, "Aren't the Ambassadors supposed to sell their country's equipment?"

I know of very few Indian Ambassadors who would even think of promoting Indian interests like this. But that is the way it should be. Another way is to use the line of credit given by Indian Government to sell the Indian defence equipment.

SKC: MSME participation in Make in India will require major capitalisation in the sector. How do you think the issue can be best addressed?

AA: Make programs with preference for MSMEs, higher advance payment against Bank Guarantees, declaration of lending to defence MSMEs by banks as priority lending, faster procurement cycle, etc., will help ease the need for capital to MSMEs.

NG: Any other issues of critical importance to the MSMEs that require to be addressed by the government?

AA: I think if the government wants to focus on indigenization that can only happen through MSMEs at a rapid pace. MSMEs are also known for being the cradles of innovation. Having policies that unleash the capability and creativity of MSMEs will make India not only self-sufficient but a net exporter of defence equipment.

SKC: You are closely involved with the MSMEs industry association – DIIA. I can possibly call you as one of its founders. Give us some details about its mission and objectives.



AA: Defence Innovators and Industry Association (DIIA) was originally conceived as a concept by Ms Smita Purushottam, IFS. Without her relentless push, DIIA would not have come into existence. DIIA champions the view point that self-sufficiency in defence can be achieved through government policies that pro-actively encourage indigenous R&D. It provides a platform for like-minded organisations to rally around, collaborate and

co-operate to forge ahead in making the Design, Develop and 'Make by India' a sustainable initiative.

DIIA advocates that indigenously designed, developed and manufactured products should be given higher priority than the products that are manufactured under Transfer of Technology, whether licensed or bought. This aspect of encouraging and promoting indigenous R&D has never been actively pursued by any industry association to date. However, it is an undeniable fact that many Indian companies, particularly MSMEs, have been spearheading intense R&D efforts to indigenise defence sub-systems and even complete equipment. These initiatives and success stories need to be converted to fruitful business contracts which not only help the companies sustain themselves but aids the nation in attaining the much needed strength in matters concerning self reliant Indian defence industry. This is one of the major ideological viewpoint that DIIA stands for and is attempting to promote.

SKC: *What are you doing to make DIIA a force to reckon with?*

AA: We are reaching out to like-minded organisations to join us. And we are interacting with the Government to ensure that the policies that help India indigenise rapidly, (versus perpetuating technological dependence on foreign vendors) are introduced without further delay.

NG: *Lastly, how do you see the defence MSME sector growing in the next ten years? What are the strengths that will be the keys to their growth, being competitive and playing a role in the global supply chain for OEMs?*

AA: I think the biggest thing happening under the Modi Government is the Defence story. All ambitious and innovative firms should lap up this once-in-a-lifetime opportunity. The next 4-5 years will provide the MSMEs with the biggest opportunity where the size of the balance sheet will matter less (if at all) than technical capability. And I think those with ambition and innovation have never had a better chance. As Mark Twain said, "It is not the size of the dog in the fight, it's the size of the fight in the dog," that will matter. Go for it!

Share 0

Tweet

Share 0

Share 2

Share 0

ABOUT THE AUTHOR



Nitin A. Gokhale

Nitin Gokhale has been a multimedia reporter since 1983. He has recently made a transition from being a full-time journalist to becoming an author, media trainer and researcher.

Read More About: [Nitin A. Gokhale](#)

LEAVE A REPLY

Your email address will not be published. Required fields are marked *

Comment...

Name (required)

Email (required)

Website