

Ashok Leyland sets its sights high in defence

It wants to grow 10-fold in five years through strategic alliances



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Last month, Ashok Leyland Defence Systems, a division of Hinduja group's flagship, Ashok Leyland, roped in US-based defence contractor Lockheed Martin to develop combat vehicles for the Indian Army.

The technology sourcing agreement with Lockheed is the latest in a string of partnership deals from Ashok Leyland to step up its defence play and to reach a turnover of ₹5,000 crore over the next five years.

This, by any stretch of imagination, is an ambitious target, given that its current revenue is a little over ₹600 crore. However, it may not be entirely unachievable.

Since its inception in 1998, Ashok Leyland's defence arm has relied heavily on strategic alliances to win big contracts. Over the past decade, it has signed three deals with overseas players to boost its technological know-how. It is now looking to do the same with Lockheed.

Nitin Seth, president (light commercial vehicle & defence), Ashok Leyland, says the right technological support is critical to the success of a company trying to make a mark in defence manufacturing, given the huge initial costs involved in developing products.

"It is not that we cannot develop our own technology, but considering the time it takes and the money that is required (₹400-₹500 crore), it is better to source (platforms) which are in service," says Seth.

The latest deal, for instance, will allow Ashok Leyland to use Lockheed's platforms for its light-specialist vehicles (LSV) and light-armoured multipurpose (LAM) vehicles. In addition to giving it a foothold in the \$1-billion armoured vehicle market in India, the tie-up will significantly boost its overall capabilities in providing mobility solutions for the army.

Defence mobility is one area Ashok Leyland is betting on heavily. Already, it is the largest supplier of medium- and heavy vehicles to the army. Its warhorse, the Stallion, was used to carry troops to the battlefield during the Kargil war, and from 400 Stallions in 1998, the army today has over 70,000 Stallions, accounting for almost 80 per cent of its fleet of big vehicles.

Backed by Lockheed's technological

THE MANY DEALS

US

Partner: LOCKHEED MARTIN
Purpose: For Light Specialist Vehicle and Light Armoured Multipurpose vehicles

SWEDEN

Partner: SAAB
Purpose: Short-range surface-to-air missile system programme

INDIA

Partner: L&T
Purpose: Mounted gun systems programme

Partner: NIXTER SYSTEMS
Purpose: Mounted gun systems

support. Ashok Leyland is looking to bid for LSV and LAM vehicle programmes of the Indian Army. It believes the tie-up will significantly shrink the time taken to develop the vehicle and also help it keep the costs low, as it won't have to start manufacturing from scratch.

A shot in the arm

If Ashok Leyland becomes a supplier of LSV and LAM vehicles, its revenue could straightaway get a boost of ₹5,000 crore. Then, there is also the scope for recurring demand as the army doesn't change its models frequently. This means the business from these programmes could be four or five times bigger than what is believed today.

Ashok Leyland, however, is not banking on armoured vehicles alone to reach the ₹5,000 crore target. It has also joined hands with Sweden's defence and security company Saab and is looking for an alliance with Bharat Forge to produce vehicles to carry guns and missiles. The idea, the company says, is to have a wide range of products under one roof to meet all requirements of the army.

So far this strategy has proved fruitful. Out of the 14 tenders to supply medium

The Stallion has been the most successful product from Ashok Leyland's defence arm so far

and heavy trucks floated over the past year, Ashok Leyland claims to be in the final stages (L1 stage) of at least 12 of these. However, it has not disclosed the deal value yet.

This means Ashok Leyland is proving to be cost-competitive in India. One way it has achieved this is by localising production as much as possible. "In order to have a viable business in defence, one should have at least over 80 per cent localisation but for certain products we have achieved almost 100 per cent localisation," says Seth.

Its strengths are clearly reflected in its order book. It recently bagged a ₹800-crore tender to supply 450 artillery tractors and Stallions and 825 ambulances to the army.

Yet, its future is not without challenges. Other major players, including Tata Advanced Systems, Mahindra Defence Systems and Bharat Forge, are also keen on the LSV and LAM programmes, increasing competition in the space.

This is the first time the Indian army has called for bids for these vehicles (1,100 LSV and 700 LAMs). Equipped with sophisticated technology, including thermal imaging and mounted machine guns, these vehicles are highly effective in combat and patrolling operations, be it within the city or along the border.

While the vehicle is popular worldwide, especially with the armies in the US, the UK and Iraq, it cannot be imported because the specifications for speed, power and weight differ based on local conditions.

Seth says while Ashok Leyland has a head-start with the platform provided by Lockheed, it will still have to make heavy investments in redesigning the product to acclimatise it to Indian conditions. Currently, the prototype of the vehicle, along with that of two other companies, is in the testing stage with the army. If Ashok Leyland wins the commercial bid, it will be in a position to start manufacturing by 2019.

However, because it takes a long time for defence contracts to materialise and the outcome even after the gestation period is unpredictable, the company is also looking at exports to safeguard its interests.