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SCALING INDIA'S DRONE ECOSYSTEM

Drone makers in India face a defining choice for the next decade. The choice is whether to climb up the value chain through innovation and ownership of designs, or to assemble imported components while optimising for short-term margins. Recent regulatory developments in the industry, the ongoing defence procurement opportunities and the redesigning of the Defence Acquisition Procedure make the first path the only sustainable one.

The policy architecture over the past five years also points towards this direction. The Drone Rules, 2021 liberalised the use and operation of drones with fewer approvals and a lighter licensing regime, and by moving everything onto a single digital platform. However, the Director General of Foreign Trade in 2022 banned imports of drones in completely built-up, semi-knocked-down or completely knocked-down (CBU/SKD/CKD) form, with limited exceptions for R&D, defence and security purposes. Though, import of components was permitted.

The Assembly Loophole: This distinction allowed entities to import drone components across fragmented consignments, which could be assembled as complete drones. The issue of whether such consignments can be aggregated as a prohibited knocked-down drone has already been fought out before the customs tribunal, and the cases have turned on the evidence in each shipment. This is a major regulatory and commercial exposure for the drone makers who do not climb up the value chain. The business of assembling drones from components may have been the first step into the industry, but it comes with a ceiling as it cannot scale, because procurement opportunities and larger funding flows are usually with companies who own the design, IP, innovate or increase the local manufacturing base.

Defence Changes the Calculus: This exposure becomes more acute as the industry moves from the civil market into defence. This is evident from the expanding use and application of drones, from surveillance and intelligence gathering to combat. Defence is going to be the biggest customer of the drone industry, as the programmes run for decades and the orders run into thousands of crores. The draft Defence Acquisition Procedure 2026 restructures the procurement towards indigenisation by raising the indigenous content requirements, by requiring proof of indigenous design, and by pressing for design data and source code in Indian hands. This signifies moving from a "**Made in India**" approach to "**Owned by India**".

What Investors Actually Price: Ultimately, the incentives for the industry, such as the production linked incentive scheme and the regulatory environment, have been calibrated to value addition rather than just assembling components. The diligence of investors and evaluation committees also turns on a narrow set of questions. What platform / IP do you own? What can you modify without the licensor's permission? What happens to your product line if a single foreign supplier stops shipping tomorrow? The path of assembling imported components is going to be difficult with the rising indigenous content thresholds. The future belongs to firms that will move up the value chain through deep-tech innovation, owned IP and manufacturing at scale. That is what attracts capital, wins order books, sustains valuations and ultimately builds companies that outlast the policy cycle that created them.

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