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EDITORIAL ANALYSIS

From OFB to DPSUs — Three Years of Corporatisation and the Aatmanirbhar Balance Sheet

THE HINDU

2 February 2026

SUBJECTS COVERED**ECONOMY****SECURITY & DEFENCE****GS PAPERS****GS3****GS2****CURATED & WRITTEN BY****Bharat Choudhary**

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GS3

GS2



The Hindu

MAINS RELEVANCE:

GS Paper 3

GS Paper 2



INTERVIEW ANGLE

"The corporatisation of the Ordnance Factory Board in 2021 was India's most significant defence manufacturing reform in decades. Yantra India's Miniratna status is an early dividend. What does the three-year balance sheet tell us about whether this model can deliver Aatmanirbhar Bharat in defence?"

WHY IN NEWS

Defence Minister Rajnath Singh's grant of Miniratna Category-I status to Yantra India Limited — the ammunition DPSU born from the October 2021 Ordnance Factory Board corporatisation — provides the first concrete evidence that converting India's defence factories into commercially governed PSUs is generating results. But three years is too short to declare the experiment a success.

THE PROBLEM THAT CORPORATISATION WAS MEANT TO SOLVE

The Ordnance Factory Board (OFB) was an anomaly in modern governance: a manufacturing enterprise of 41 factories, 80,000+ workers, and Rs 15,000 crore turnover, run as a **government department** rather than a company. As a department, it had:

No P&L accountability — cost overruns did not affect OFB's budgets; the armed forces absorbed them

No export orientation — OFB had no marketing function, no customer development capacity, and no incentive to compete globally

Captive customer syndrome — the armed forces had to buy OFB products even when imports were cheaper or better

Technology stagnation — R&D was underfunded; OFB's product designs were predominantly 1970s-80s vintage

The **Parliamentary Standing Committee on Defence** had been flagging these issues for a decade before action was taken. The Naresh Chandra Task Force (2012) recommended corporatisation; so did the Shekatkar Committee (2016). The government acted in 2021, creating **7 new DPSUs** from OFB's 41 factories, organised by product cluster.

WHAT CORPORATISATION CHANGED — AND WHAT IT DIDN'T

What changed:

Legal form: Each DPSU is now a company under the **Companies Act, 2013**, with a board of directors, statutory auditors, and annual general meetings — the accountability infrastructure that companies have and departments don't

Export function: DPSUs now have sales and business development teams. Yantra India's exports going from **zero to Rs 321.77 crore** in three years would have been impossible under OFB — the organisational architecture for export marketing simply did not exist

Performance incentives: Board members and CEOs have performance-linked components in their compensation, unlike OFB's tenure-based government service structure

Capital market access: DPSUs can raise commercial debt — OFB could only access government appropriations

What didn't change:

100% government ownership: The DPSUs are not privatised. The government retains full equity. This means commercial discipline is incentive-based (performance-linked pay), not survival-based (insolvency risk). A DPSU cannot go bankrupt; an OFB factory never could either.

Captive customers: The armed forces still predominantly buy from DPSUs (enforced through negative import lists and DAP 2020 procurement categories). This reduces the market pressure that would force genuine competitiveness.

Worker insecurity: 80,000+ workers transferred to DPSUs retained government service terms initially, but the long-term question of whether commercial pressure will eventually lead to rationalisation remains unresolved.

THE YANTRA INDIA MINIRATNA: A REAL MILESTONE

Yantra India's Miniratna Category-I is not merely symbolic. The criteria — **3 consecutive years of net profit, net worth above Rs 300 crore, no government borrowing guarantees** — are substantive. Meeting them required Yantra India to actually generate commercial surpluses rather than rely on government cost-plus contracts.

The **capex authority of Rs 500 crore** without Ministry approval is operationally significant. Procurement cycles for ammunition manufacturing equipment are long — 18-36 months from decision to delivery is typical. Removing Ministry-level approval for up to Rs 500 crore eliminates months of bureaucratic delay, enabling Yantra India to respond to market opportunities more quickly.

The export story is perhaps most revealing. Yantra India now sells bulk propellants and specialty explosives to customers it had to find, not customers assigned to it. This is a fundamentally different commercial posture than OFB's.

THE HARDER QUESTION: IS IT ENOUGH FOR AATMANIRBHAR BHARAT?

India's **defence import dependence** remains approximately **55-60% of total defence requirements** despite years of indigenisation policy. The gap between aspiration and reality reveals structural limits that DPSU reform alone cannot address:

Limit 1: Technology depth India lacks the ability to indigenously develop certain key systems — advanced aero-engines (GE F414 deal with India is for licensed production, not indigenous design), semiconductors for weapons guidance, certain specialty steels and advanced composites. Until these capability gaps are filled, import dependence in these categories will persist regardless of what DPSUs do.

Limit 2: The private sector integration problem The most dynamic players in India's emerging defence manufacturing ecosystem are **Tata Advanced Systems, L&T Defence, Mahindra Defence Systems, and several startups** backed by iDEX (Innovations for Defence Excellence). These private sector entities are more agile, more R&D-intensive, and increasingly competitive on export orders. But the procurement system still routes most orders through DPSUs first, slowing private sector scaling.

Limit 3: The “golden passport” problem in DPSUs DPSUs retain captive customer relationships, government land at below-market prices, and implicit sovereign backing — advantages unavailable to private competitors. This creates an uneven playing field that may actually slow overall sector dynamism even as individual DPSUs improve.

WHAT THE THREE-YEAR BALANCE SHEET SHOWS

Credit column:

Yantra India: Miniratna; exports Rs 321.77 crore; revenue Rs 3,108 crore

AVNL: K9 Vajra howitzer production (licensed from Hanwha, South Korea); localisation increasing

MIL: Artillery ammunition supply significantly improved post-2022 (Ukraine conflict-driven global shortages highlighted importance)

Collective DPSU defence exports growing from near-zero to over Rs 1,600 crore annually

Debit column:

AWEIL (small arms DPSU) has faced criticism for slow modernisation of infantry rifle programs

Several DPSUs are still resolving legacy pension, land, and inter-factory transfer issues from OFB

Technology absorption from licensed production remains shallow — most DPSUs can produce but not yet innovate

Only 2 of 7 DPSUs (Yantra India and AVNL) have achieved Navratna/Miniratna-level financial autonomy benchmarks as of early 2026

The verdict: Corporatisation is working — but it is a necessary, not sufficient, condition for Aatmanirbhar Bharat in defence. The model needs deeper industry linkages, genuine private sector co-competition, and an R&D ecosystem that can eventually produce indigenous designs, not just licensed production.

UPSC RELEVANCE

*OFB corporatisation: **October 2021**; 41 factories → 7 DPSUs (AVNL, AWEIL, MIL, YIL, ITOL, GIL, TCL); Yantra India (Miniratna Cat-I; Feb 2, 2026; capex Rs 500Cr; revenue Rs 3,108Cr FY25; exports Rs 321.77Cr); Miniratna criteria; iDEX (Innovations for Defence Excellence); DAP 2020 (Defence Acquisition Procedure); SRIJAN Portal; India defence imports ~55-60%; India defence exports FY25 ~Rs 21,000-23,000 crore; Naresh Chandra Task Force 2012; Shekatkar Committee 2016; Companies Act 2013.*

OFB corporatisation — rationale, structure, and outcomes; Aatmanirbhar Bharat in defence: targets vs achievements; private sector vs DPSUs in defence manufacturing; India's defence export trajectory; what corporatisation changes vs what it doesn't.

★ FACTS CORNER — KNOWLEDGEPEDIA

OFB → 7 DPSUS (OCTOBER 2021):

Trigger: Parliamentary Standing Committee, Naresh Chandra TF (2012), Shekatkar Committee (2016)

Conversion: **41 OFB factories** → 7 DPSUs under Companies Act 2013

Workers absorbed: ~**80,000+** with equivalent service conditions

Structure: **100% Government of India equity** in all 7 DPSUs

DPSU PERFORMANCE (FY25):

Yantra India: Revenue **Rs 3,108 Cr**; Exports **Rs 321.77 Cr**; Miniratna Cat-I ✓

AVNL: K9 Vajra howitzer (licensed, Hanwha South Korea); increasing localisation

MIL: Key ammunition supplier; artillery shell supply improved post-2022

INDIA'S DEFENCE MANUFACTURING LANDSCAPE:

Defence import dependence: ~**55-60%** of requirements

Defence exports FY14: **Rs 686 crore**

Defence exports FY25: ~**Rs 21,000-23,000 crore** (target: Rs 35,000 Cr)

iDEX (Innovations for Defence Excellence): Startup ecosystem under MoD; 200+ challenges issued

DAP 2020: Replaced DPP 2016; preference hierarchy: Buy Indian-IDDM > Buy Indian > Buy and Make Indian > Buy Global with ToT > Buy Global

POLICY FRAMEWORK:

SRIJAN Portal: Negative import list; mandatory domestic procurement for listed items

Miniratna Cat-I criteria: 3yr net profit; net worth >Rs 300Cr; no govt guarantee

Navratna criteria: 3yr net profit >Rs 2,000Cr + turnover >Rs 10,000Cr; greater autonomy (capex up to Rs 1,000Cr)

OTHER RELEVANT FACTS:

OFB established: 1775 (Gun Carriage Factory, Cossimbazar, Bengal)

India-GE F414 deal: Licensed production of aero-engine for TEJAS Mk2 — illustrates remaining import dependence for high-tech components

iDEX budget: Rs 498 crore (announced Defence Budget 2024-25) for startup innovation

L&T Defence, Tata Advanced Systems, Mahindra Defence: Key private sector DPSU competitors

Sources: The Hindu, PIB, Ministry of Defence

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