

Government of India  
Ministry of Defence  
(Acquisition Wing Secretariat)

**SUBJECT: GUIDELINES FOR FRAMING CRITERIA FOR VENDOR SELECTION/  
PREQUALIFICATION IN 'BUY (INDIAN-IDDMM)', 'BUY (INDIAN)' AND  
'BUY & MAKE (INDIAN)' CASES**

Subsequent to issue of DPP-2016, a need was felt to streamline the procedure for vendor selection by laying down broad and quantifiable selection criteria which would enable the Service HQs to make the process more definable and verifiable, and at the same time allowing maximum participation of eligible vendors with adequate experience and financial worth in the Acquisition process. Accordingly, Ministry of Defence has undertaken an exercise in consultation with the stakeholders including Industry to formulate appropriate guidelines in the matter.

2. A copy of the Guidelines for framing the criteria for vendor selection/ pre-qualification in 'Buy (Indian-IDDMM)', 'Buy (Indian)' and 'Buy & Make (Indian)' cases is enclosed. The following procedure will be followed by the SHQs while implementing the Guidelines:-

(a) RFI will continue to be posted on the MoD website as hither-to-fore. The RFI will broadly include the vendor criteria to be met by vendor except specific financial parameters.

(b) Shortlisting of vendors for issue of RFP will continue as per guidelines issued vide MoD ID No. 4276/DG(Acq)/11 dated 01 June 2011.

(c) RFP would include an **appendix giving the detailed criteria** as laid down in the Guidelines to be met by vendors for participation in the said procurement scheme. The financial criteria would be rounded off to ensure that AoN cost is not disclosed to the vendors.

(d) Vendors would be required to submit their technical and commercial bids **along with proof** of their meeting the criteria specified in the RFP.

(e) Vendors found compliant to all the RFP parameters and **also to the various Selection Criteria will be allowed to participate in the next stage** of procurement, e.g. the Field Evaluation Trial (FET) Stage or Contract Negotiation Committee (CNC) Stage, as applicable.

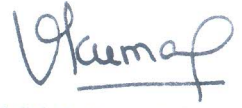
3. The subject Guidelines will be implemented with immediate effect. These Guidelines would, however, not be applicable in the following cases -

(a) Cases where AoN have been obtained under **Para 72** of DPP-2016 (Design and Development cases) and the selection of Development-cum-Production partner of DRDO or DPSU which has undertaken the Design and Development project or the Production Agency (PA) would have been done as per their internal procedures in a competitive manner.

(b) Cases in which only commercial RFP is to be issued to selected vendors, such as in **Repeat Order** cases.

4. This issues with the concurrence of Secretary(Defence Finance) vide Dy No.253/Fin/ND dated 17.07.2019 and approval of the Raksha Mantri.

Encl: As above



(VK Adhana)  
Director (Acq)

Telefax: 23792865

CISC	VCOAS	VCNS	VCAS	DG(CG)	CGDA
AS&FA(Acq)	DG(PC&SI)				
JS&AM(LS)	JS&AM(MS)	JS&AM(Air)			
FM(LS)	FM(MS)	FM(Air)			
TM(LS)	TM(MS)	TM(Air)			

MoD ID No.4(3)/D(Acq)/16-Pt.IV dated 18.09.2019

Copy to:-

- (i) Director, RM Office
- (ii) SO to Defence Secretary
- (iii) PPS to Secretary (DP)
- (iv) PPS to Secretary (R&D)
- (v) PPS to Secretary (Defence Finance)
- (vi) PPS to DG (Acq)

Copy also to: ✓ US, D(IT), Room No.217, 'B' Wing, Sena Bhavan for uploading this ID on MoD website immediately.

**GUIDELINES FOR FRAMING CRITERIA FOR VENDOR SELECTION/  
PREQUALIFICATION IN 'BUY (INDIAN-IDDMM)' 'BUY (INDIAN)'  
AND 'BUY & MAKE (INDIAN)' CASES**

1. The success of a procurement scheme largely depends on the capability of the vendor. A judicious process is required to identify potential vendors who have the requisite capability, infrastructure, technical knowhow and capacity to supply the required defence equipment. DPP-2016 lays down vendor selection criteria for 'Make' procedure and 'Strategic Partnerships'. However, no explicit criteria have been laid down for other procurement categories. Hence, a need is felt to frame guidelines to enable finalisation of prequalification criteria for vendors participating in procurement schemes under Buy (Indian-IDDMM), Buy (Indian) and Buy & Make (Indian) categories.

2. Accordingly, the guidelines prescribed for short-listing/ pre-qualification of Indian vendors in Buy (Indian-IDDMM), Buy (Indian) and Buy & Make (Indian) cases are enumerated in the succeeding paragraphs. **Para 3** deals with the parameters that may be considered for short-listing of vendors, whereas **Para 4** amplifies the process for applying selected parameters to the process of Vendor Short listing. These guidelines may be read in conjunction with Appendix A to Chapter III of DPP 2016 where relevant.

3. **PARAMETERS**

(a) **General Parameters**

(i) Applicant Entity should be an Indian Company (as defined under the Companies Act, 2013 as amended from time to time), owned and controlled by resident Indian citizens. The management of the Applicant Entity should be in Indian hands with majority representation on the board of directors. The chief executive(s) of the applicant Entity shall be resident Indian citizen(s) who are part of the Indian group owning and controlling the Applicant Entity. 'Control' shall include the right to appoint a majority of the directors or to control the management or policy decisions, including by virtue of their shareholding or management rights or shareholders agreements or voting agreements. Further, a company shall be considered as 'Owned' by resident Indian citizens if more than fifty percent (50%) of the capital in it is directly or beneficially owned by resident Indian citizens and/or Indian companies, which are ultimately owned and controlled by resident Indian citizens. This implies that the maximum permitted FDI shall be forty nine percent (49%). No pyramiding of FDI in Indian holding companies or in Indian entities subscribing to shares or securities of the Applicant Entity shall be permitted. Indirect foreign investment shall be accounted for in counting the forty-nine percent (49%) FDI.

(Note: FDI limit shall be in accordance with Consolidated FDI Policy Circular 2016 issued vide Ministry of Commerce & Industry, Department of Industrial Policy & Promotion (DIPP) F. No. 5(1)/ 2016-FC-1 dated 07 Jun 2016 and any amendments thereof.)

(ii) Business dealing with applicant Entity or any of its allied entities should not have been suspended or banned, by MoD/ SHQ or any Government Department or organization (as defined in Guidelines for Penalties in Business Dealings with Entities issued vide Ministry of Defence, D(Vigilance) MoD ID No 31013/I/2016-D(Vig) Vol II dated 21 Nov 2016 and 30 Dec 2016). None of the Promoters and Directors of applicant entity should be a willful defaulter.

(iii) "Entities" will include companies, with whom the Ministry of Defence has entered into, or intends to enter into, or could enter into contracts or agreements.

(iv) "Applicant entity" may be a company, subsidiary, an associate company (as defined in the Companies Act, 2013), a consortium or a Joint Venture (JV).

(b) **Technical Parameters**

(i) Vendor shall be a manufacturing entity or a system integrator of defence equipment and not a trading company, except in cases where the OEM participates only through its authorised Vendors.

(ii) Minimum **02 years** experience in **broad areas like manufacturing/ electronics/ explosives etc. as applicable in the instant procurement case**. If not, then cumulative experience of at **least 03 years in above areas**, resulting in gaining of competence for manufacturing the proposed product. (In case the SHQ feels that for a particular equipment a lesser experience could be accepted, then the same should be got approved by the competent authority before including the same in the RFP).

(iii) Where product involves integration, previous experience **of not less than one year/ one project** in integration of systems/ equipment shall be required.

(c) **Financial Parameters**

(i) **Turnover**. Minimum average annual turnover for last three financial years, ending 31<sup>st</sup> March of the previous financial year, should not be less than 10% of estimated cost of the Buy (Indian-IDDMM) and

Buy (Indian) project and for Buy & Make (Indian) should not be less than 10% of estimated cost of the Make portion.

(ii) **Net Worth**. Net worth of entities, ending 31<sup>st</sup> March of the previous financial year, should not be less than 5% of the estimated cost of the Buy (Indian-IDDMM) and Buy (Indian) project and for Buy & Make (Indian) should not be less than 5% of estimated cost of the Make portion.

(iii) **Insolvency**. The entity should not be under insolvency resolution as per Indian Bankruptcy Code at any stage of procurement process from the issuing of RFP to the signing of contract.

(iv) **Credit Rating (Desirable Financial Parameter)**. It would be desirable for the entity to have a minimum long term credit rating equivalent to CRISIL rating on Corporate Credit Scale as **CCR-BBB**, and **SME-04 for SMEs** issued by credit rating agencies recognized by SEBI. Credit rating should be as on 31<sup>st</sup> March of the previous financial year.

*(Note 1: All the above Financial Parameters, except Para 3(c)(iii) above (Insolvency) will not be applicable for Capital Acquisition cases where estimated cost is ₹150 Crores and below. However, Net worth of entities should not be **negative**.*

*Note 2: The turnover and net worth of the vendor shall be rounded off to the nearest lower ten/ hundred crore so as to keep the estimated cost of procurement confidential).*

(d) **Other Parameters**

(i) **Industrial License (IL)**. Vendors should be either holding a valid defence industrial license or should have applied for the same before responding to RFP. In any case the vendor must confirm holding of IL before commencement of FET. (Items requiring IL will be as per DIPP Press Note 3 of 2014 as amended from time to time).

4. **STIPULATIONS FOR APPLYING PARAMETERS**

(a) **Areas like manufacturing/ electronics/ explosives etc.** referred to at Para 3(b)(ii) should be defined in each case of procurement.

(b) In case the Applicant Entity is unable to meet the Financial Parameters by itself, it may rely on its **Holding Company** (as defined in the Companies Act, 2013 and amendments thereof) ("Companies Act") for fulfillment of the Financial Parameters, in which case reliance must be placed on the Holding Company towards fulfillment of **ALL** the Financial Parameters.

(c) In case the Applicant Entity is unable to meet one or more of the Technical Parameters by itself, it may rely on a Group Company (ies) for fulfillment of the Technical Parameters. A Group Company in relation to the Applicant Entity may be:-

(i) A company of which the Applicant Entity is an Associate Company. Such company should have ownership, directly or indirectly, of at least **26%** of the voting shares of the Applicant Entity.

(ii) A company which is an Associate Company of the Applicant Entity. The Applicant Entity should have ownership directly or indirectly, of at least **26%** of the voting shares of such Associate Company.

(iii) A Company with whom the Applicant Entity is commonly owned, directly or indirectly, for at least **26%** of the voting shares by another company. For example: An Applicant Company A is an Associate Company of Company B, in which B holds at least 26%. Further, C is also an Associate Company of B, in which B holds at least 26%. In this case the Applicant Company may use the credentials of C as well.

(iv) The Holding Company and Subsidiary Companies (as defined under the Companies Act) of the Applicant Entity.

(d) The Applicant entity may be a single entity or a group of entities (the "Consortium"), coming together to implement the project. In such case:-

(i) The credentials of only those members or their related entities may be counted, who have at least **26%** equity stake in the Consortium.

(ii) Each Consortium should have a designated **Lead Member**.

(iii) For Technical Parameters, **any of the Consortium members or their Group Companies** may meet the criteria.

(iv) For Financial Parameters; the Turnover and Net Worth of the Consortium Member shall be reckoned **proportionate to Consortium Member's equity stake** in the Consortium, and each Consortium member should meet the other criteria pertaining to Insolvency and Credit Rating. In case the Consortium Member relies on its Holding Company for any one of the above-mentioned Financial Parameters, then reliance must be placed on the Holding Company for meeting **all the financial Parameters**.

(e) Vendors should provide all necessary self-authenticated documentation in support of their achievement of criteria. Such documentation should inter-alia include:-

(i) Details of projects/ supply orders successfully executed in the last two years.

(ii) Annual reports for three years of applicant entity, parent and associate companies, consortium and JV partners.

(iii) Details of shareholders, promoters, associated, allied and JV companies.

(iv) Details of vigilance action, viz. ongoing investigation and suspension/ debarment/ blacklisting actions against the applicant entity or any of its allied entities, parent company or consortium and JV partners, if any by any Department/agency of Central Government.

(v) A certificate from CA/CS indicating the financial parameters for the last three years as per Para 3(c).

(Note: If a vendor is already a supplier to MoD and/ or has already provided the above documents in such cases, it should be necessary for the vendor to resubmit only such documentations as is necessary to update the above).

(f) Any vendor furnishing false information will be liable for action under Para 93 of Chapter II of DPP 2016.

(g) Based on these generic parameters, more specific criteria should be evolved by the SHQs with regard to Technical and Financial parameters {Paras 3(b) and 3(c) above} in each procurement case depending upon requirements peculiar to each case keeping in view the overall need to ensure wider vendor participation. The specific criteria evolved by the SHQ for each case, as per these guidelines, may be got approved by the competent authority before including the same in the RFPs.

5. **Start Ups/ MSMEs.** Start ups would be defined as per G.S.R. 127 (E) dated 19 Feb 2019 (as amended from time to time). For procurement cases where the estimated cost is not exceeding ₹50 Crores/ year based on delivery schedule at the time of seeking AoN or ₹150 Crores, whichever is higher, to encourage the Start Ups/ MSMEs and build Industrial ecosystem, the recognized Start Ups/ MSMEs in the relevant fields may be considered for issue of RFP without any stipulation of Financial parameters, except Para 3(c)(iii) above (Insolvency) and with General and Technical parameters to be decided on case to case basis.

(Note: Start Ups should not be confused with New entrants who may be high/ mid-sized groups having financial support and manufacturing experiences and now venturing into Defence Production).

6. The criteria for vendor selection shall be clearly stipulated in RFPs so as to maintain transparency. Care shall be taken to ensure that the stipulated criteria are not open to subjectivity and arbitrary interpretation.

<><><><>