Table of content

I. MRO moving from “Good to Have” to “Must Have” 3

II. Policy initiatives by the Government to support the sector 4

III. Way forward 5

IV. Conclusion 6
I. MRO moving from “Good to Have” to “Must Have”

1. With a significant dip in oil prices to below USD 50 per barrel, airlines have shifted their focus on the next big cost item in their list i.e. aircraft maintenance.

2. According to the IATA survey, average direct maintenance spend by the airlines was USD 3.6 mn and in some cases as high as USD 9.3 mn per aircraft¹.

3. At an average revenue possibility of USD 20 mn per narrow body aircraft and USD 40 mn per wide body aircraft a year, maintenance costs account for about 12% to 15% of the expenses for the airline.

4. With an expected growth in fleet size of Indian carriers to 1740 aircraft in the next 20 years, the Indian Maintenance, Repair and Overhaul (MRO) market is pegged at an estimated value of USD 5.2 bn by 2026. At the same time, as the fleet ages, the requirements for advanced checks will continuously increase.

With the fleet size of Indian scheduled and non-scheduled operators likely to double by 2020 along with the aging of the current fleet, the need for a strong domestic MRO industry is critical. Any delay in capacity enhancement will result in loss of both output and employment.

5. Indian private carriers are heavily reliant on foreign MRO service providers for engine management contracts, component contracts and heavy base checks, in the order of degree of dependence.

6. Approximately 64% of the total maintenance spend², which would account for an estimated 7% of revenue of airlines is being transacted for maintenance, in foreign currency.

7. Given the rise in the Sale and Leaseback model in India (where airlines recycle their aircrafts every 6-10 years), redelivery maintenance of aircrafts is expected to be a huge requirement which requires MRO support and would form a significant revenue stream of approximately USD 1.2 mn per aircraft for Indian MRO (s).

8. Currently, Indian carriers find it more cost effective to fly empty aircrafts and crew to overseas MRO hubs. According to industry sources, merely 10 per cent of the MRO work for domestic scheduled carriers is carried out in India. MROs in India are currently fighting to survive and hence are unable to focus on development and implementation of long term growth strategy.

9. As evidenced from above, not only is there significant room for Indian MRO (s) to grow in India, but also vertically integrate themselves to provide value added services. Indian MROs need not limit their operations to line or base maintenance activities only, but may choose to take up a larger role to partner effectively with airlines in India as value providers.

10. On the policy front, there have been noteworthy steps taken by the Government of India towards strengthening the MRO sector. However, fragmentation within the sector, the size of various players and their respective service offerings along with location diversity have created hurdles for sectoral growth.

11. An interesting facet of aircraft maintenance in India is that Indian carriers hold an estimated USD 3 mn worth of inventory for every aircraft up to 20 aircraft fleet. This accounts for an estimated inventory value of about USD 60 mn for 20 aircraft fleet. This is an area where Indian MROs can aid air operators in reducing inventory holding costs and add significant value to airline operations.

1  IATA Airline Maintenance Cost Executive Summary
2  IATA FY 14 Direct Maintenance Cost Breakdown

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II. Policy initiatives by the Government to support the sector

13 The government has made the ‘Make in India’ initiative as one of its key objectives along with identification of Aerospace and Defence as a key sector under this initiative. Hence, the development of a robust MRO industry should be a natural follow through to this program.

14 The Ministry of Civil Aviation (MoCA), with support from other ministries of the Government of India, has provided infrastructure status to the MRO industry under the National Civil Aviation Policy (NCAP) 2016 promulgated on 15 June 2016. Other far reaching provisions in the budget announcements for 2016-17 for the MRO sector are:

a. Exemption of Customs Duty on tools and tool-kits used by MRO (s)

b. Automatic clearance for import of aircraft parts by one time certification by DGCA approved quality managers in MRO (s)

c. Extension of duty free storage period for aircraft spares by MRO (s) to 3 years

d. Allowing import of unserviceable parts including aircraft components like engines and landing gear for repairs and advance export of serviceable parts

e. Permitting foreign aircraft to stay in India for a period of 6 months

f. Ease of visa issuance for foreign MRO/OEM experts along with provision of temporary landing permit(s) in case of an Aircraft on Ground (AOG) situation

g. Provision of temporary landing permits to foreign pilots

h. Need based issuance of Airport Entry Passes (AEPs) for MRO (s) without restrictions, subject to meeting required conditions

i. Persuading state governments to make VAT zero-rated on MRO services

j. Providing for adequate land for MRO in all future airport projects

k. Cancellation of Airport royalty and additional charges on MRO service providers for a period of five years from the date of approval of the policy

15 The above changes have been welcomed by the entire aviation industry in general and the MRO industry in particular. This is the first time that the MRO industry has received such detailed attention in a policy proposal. It is therefore likely to bring in significant investments, infrastructure, technology and employment over the next 3-5 years.

16 The Ministry of Defence (MoD) is actively engaging with the private players for MRO of defence aircraft. This opens up a significantly large and sustainable opportunity for the Indian MRO industry. MoD is willing to train, hand-hold and certify private players and the industry for its part, is thankful to the MoD and is keen to support the Indian defence forces in every possible manner.

17 The NCAP 2016 has laid the foundation for a revival of the Indian MRO industry and the industry hopes that the policy is implemented at the earliest. A few of the suggested actions required to make the Indian MRO industry competitive are as follows:

a. The Government should encourage the establishment of an integrated supply chain service provider in India, either by a domestic player or by inviting strategic international companies for joint ventures in India.

b. There is a need for large domestic conglomerates operating within the MRO space to invest in the fragmented industry to enable consolidation, engineer sustainable growth and increase returns for its stakeholders.

c. State Governments should encourage increased participation in the international arena by MROs operational within their respective states and project them as islands of excellence for international cooperation.
III. Way forward

18 The above mentioned actions will necessitate that the MRO industry work closely with MoCA, MoD, DGCA, other Government agencies, airlines, aircraft OEMs, component manufacturers and leasing companies. The MRO Association should create a task force to coordinate with the stakeholders to address the challenges that may emerge during the course of implementation.

19 The industry as a whole is in favour of GST, which is being finalised for various services and goods. However, it would be a necessity to provide GST exemption for the MRO industry including spare part trading companies to ensure that the growth potential of the sector is not stifled.
IV. Conclusion

India, being among the leading growth centres for aviation, is expected to drive international and domestic air travel in the next decade.

The government has implemented an immersive strategy by involving key stakeholders in the business areas during its policy making process which is greatly appreciated and would pave the way for sustained growth of the industry.

**Total 2014 Third-Party MRO Revenue per million maintenance manhour** in billion USD

Source: Aviation Week & Space Technology MRO Edition
* includes parent airline figures when applicable
**Includes airframe, component and engine MRO
***Estimated values based on KPMG analysis for year 2015

Indian MROs have developed capabilities and infrastructure to provide up to 2 million maintenance man-hours equivalent to the man hour capability of Evergreen Aviation Technologies (EGAT), Taiwan and Turkish Technik.

Successful implementation of the provisions of NCAP 2016, along with other structural reforms in the MRO sector, would endow the Indian MRO industry with the capability to generate up to USD 975 million in revenues as against the current revenues of USD 92 million.

3 Source: KPMG analysis based on industry experts
Thank you

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