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Aircraft repair firms gear up for growth with new plans

At the moment, domestic players get only 10 per cent of the over ₹5,000-crore annual contracts



Workers carry out maintenance operations at an Air India facility

ANEESH PHADNIS
Mumbai, 2 December

Ravi Menon is the promoter of Air Works, the country's oldest private aircraft maintenance company, which his father and uncle jointly set up in 1951.

In the six decades since then, Air Works has expanded globally and is now the biggest repair shop for private and charter aircraft in India. But there have been difficult times too—spurred by the tough business environment, high taxes and maintenance business moving abroad.

Menon hopes it will be smooth sailing from here on. With the civil aviation ministry proposing concessions, including service tax waiver, the maintenance repair and overhaul (MRO) industry, which had lost its edge to foreign players, is set to regain its advantage.

At present, Indian carriers outsource about 90 per cent of their repair and maintenance work to companies abroad. This is partly because of the limited capabilities of domestic service providers and partly because of the high tax structure in India.

"The proposed reforms ensure a level playing field for Indian MRO industry," says Menon.

The changes could indeed be a huge boost for the domestic players. The MRO industry is worth ₹5,000 crore—and is growing at a fast pace. With airlines looking to expand their fleet, the opportunities are only set to grow bigger. Indian carriers have a combined fleet of 440 aircraft and orders for 689 new planes have been placed. Then, there is also the potential to get additional business from owners of private jets and helicopters whose

combined number stands at 550.

What it entails

The job of an airline maintenance company is to carry out periodic checks on the frame, engine and components of an aircraft. The checks are required in order to ensure the airworthiness of an aircraft, and need to be carried out after the aircraft has completed a certain number of flying hours.

While airframe checks are performed locally, engine overhaul and component repair work is mostly outsourced to companies in Sri Lanka, Malaysia, Singapore and the United Arab Emirates, among others.

To woo Indian carriers, many of these offshore companies, especially in China, even offer to pay for one-way fuel to cover the cost of flying to the workshop, says Menon. The recent reforms, he hopes, will encourage Indian carriers to explore business tie ups with Indian MROs, as it will save these carriers time and cost in ferrying their aircraft abroad.

"The draft civil aviation policy for MROs is a game changer that can bring India to the global forefront in the aircraft maintenance industry. Indian MROs are highly taxed and thus unable to compete globally. Once the policy is brought into force, we will be able to compete with MROs that are taking away close to \$800 million in revenues every year from our country," says Bharat Malkani, founder chairperson of the MRO Association of India.

Not only will this result in additional jobs, but also boost indirect tax collections and lead to savings on foreign exchange, he says.

Key beneficiaries

For companies looking to expand their

KEY PROPOSALS

- Zero service tax on MRO, services.
- Infrastructure status for MRO resulting in extended tax breaks
- Simplification of import processes for aircraft spares
- Exemption on customs duty for maintenance tools and tool kits

operations, the new policy could come as a big boost. The policy, which is in the draft stage right now, calls for infrastructure status to MRO companies, which means extended tax breaks apart from many other sops for new facilities. Among these are exemption on customs duty for maintenance tools and tool kits, simple procedures for importing aircraft parts and tax free use of parts for three years (from one year at present).

Air India is expanding its servicing and overhaul facilities to widen its reach to Boeing planes such as the 777 and the 787. To this end, a new facility is being set up in Nagpur, which is expected to be ready in 2018. "Our strength lies in engine servicing, and ours will be a one-stop-shop in Nagpur with hangar facilities for Boeing 777 and 787 planes," says S N Ojha, executive director (engineering), Air India.

Air India's MRO operations are carried out through a separate engineering company which was hived off from its parent in 2013. It also has facilities and regulatory approvals to carry out overhauls on certain types of engines

mounted on Boeing 737 and Airbus A320 aircraft.

Others are stepping on the gas too. Tata group-run TajAir, which currently carries out maintenance on Dassault Falcon business jets, has tied up with Hong Kong's Metrojet to further develop the scope of its MRO services.

The GMR group, on the other hand, is expanding its facilities at its MRO unit in Hyderabad and awaiting approval from the US Federal Aviation Administration for its facilities. This approval will make it easier to secure business in the US. GMR's Hyderabad facility was set up in 2012 in a joint venture with Malaysian Aerospace Engineering, but GMR bought out its stake last year.

"We are continuously enhancing capabilities to meet requirements of newer customers. We have performed over 150 C Checks on B737, A320, ATR and Q400 aircraft since the start of the operations which also includes the most extensive C checks," says S G K Kishore CEO of GMR-led Hyderabad Airport. A 'C' check is a heavy maintenance check of an aircraft carried out after 24 months. He says the company could undertake further expansion depending on future demand.

However, there are some areas where the industry still has a long way to go. For instance, in boosting engine overhaul and repair capabilities. It is the most attractive part for MRO companies as it accounts for 35-50 per cent of an airline's maintenance budget. Still, apart from Air India, other companies are not looking at this segment because of the large investment requirements. Companies want to be sure there is enough demand for engine servicing before deciding to venture into it, says Menon.