

News monitored for: Air Works

Aircraft maintenance units need more fuel to take off

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The recent Union Budget provided some succour to the fledgling maintenance, repair and overhaul (MRO) wing of the aviation industry in the form of waiver of custom duty on spares.

But the industry has a lot more runway to cover for a take-off. India is still nowhere within sighting distance of achieving self-sufficiency in maintaining and servicing its growing fleet of commercial aircraft.

Sample this — today domestic airlines spend about \$800 million every year for MRO services to keep their aircraft fleet in flying condition. But hardly 10-15 per cent of these services are undertaken in India with the rest flowing to Europe, West Asia and South-East Asia.

BUDGET: A FIRST STEP

And the reason is that Indian MRO operators are not able to match the prices of their overseas competitors due to a stiff tax regime and inadequate capabilities.

"It (the Budget) was definitely a positive sign. But the question is, when will India achieve self-sufficiency in the (MRO) sector, especially with new generation aircraft coming in? Today we have no capability to service a 787 or an A-330 — clearly we still have a long way to go," Ravi Menon, Executive Director of Air Works, points out.

The domestic MRO market is estimated to climb to an altitude of \$1.5 billion in the next four to five years because despite the troubles facing the aviation sector, India's fleet of commercial aircraft is set to grow from the current level of about 330.

Airbus estimates that in 20 years India will require more than 1,000 new aircraft, which means the opportunities in the domestic MRO sector are immense.

"We can develop the required capabilities and skilled personnel. A right push from the Government in the form of tax relief and other in-



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centives will make the domestic MRO sector competitive, generate employment and save foreign exchange outflow," says Bharat Malkani, chairman of Mumbai-based Max Aerospace & Aviation Ltd.

HEADING OUT

Today a handful of MRO service providers are operating in India, mostly as in-house facilities of the major airlines. In fact, Air India has a nearly 70 per cent share of the MRO works being done within the country, the rest shared by companies such as Max Aerospace, Air Works and GMR's facility at the Hyderabad International airport.

Basically, MRO services relate to the airframe, components, engines and landing gear of an aircraft. While the component and engine services account for a share of 25-30 per cent each in the entire MRO services, airframes account for 20

per cent and landing gear, which do not need a regular service, about 15 per cent.

Services for engines and landing gear are totally being done outside India's shores, while only a minuscule part of the component and airframe works are being undertaken within the country.

Only Spice does some bit of its airframe works in India, while about five to 10 per cent of the total component services are handled by Max and the in-house facilities of some airlines.

The industry presently has to pay value-added tax (VAT) on import of spares at 12-15 per cent of the cost and service tax of 12 to 26 per cent. Most of the domestic MRO services are related to airframe works, as labour cost accounts for almost 70 per cent of the total service cost.

As for the other services, spares account for 60-70 per cent of the cost and all spares need to be bought from offshore at higher prices. Hence,

Indian MROs lose out to their foreign counterparts, who operate in a near-zero tax regime.

TAX TROUBLES

"VAT on import of spare is actually on the total cost of the imported item, including interest and insurance. Thus, a spare part costing Rs 100 outside becomes almost Rs 144 by the time we get it in India. And this makes a huge difference in overall costs," Malkani explains.

Roughly, a basic C check (a half overhaul of the aircraft done once in 18 months) on an A 320 would cost about Rs 2 crore overseas, while the same servicing cost in India would be over Rs 3 crore.

MRO operators also have to pay a royalty of 13 per cent of gross turnover to the Airports Authority of India for the work undertaken at the airports. It was hiked to as much as 36 per cent for some airports in the western region, but was subsequently rolled back.

The industry was happy that the recent Budget waived customs duty, which will lighten the tax burden and also could reduce cycle time for spare parts and other components.

The recent relief has prompted the Indian MRO industry to plan addition of new services to its portfolios through their foreign joint venture partners.

Max Aerospace, which has a partnership with Air France Industries-KLM, will look at providing component support services to the A320 Neo and Boeing 737 NG coming into the market. "We plan to add avionics, hydraulics, pneumatics and electrical systems to our existing maintenance inventory," Malkani said.

Air Works, which is basically into airframe services, may look into getting into the components sector, given the right incentives.

Clearly, the Indian MRO sector has to cover a lot more ground to support the domestic aircraft fleet.

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