



# Mirage or Oasis? MRO Outsourcing in India

India's aircraft maintenance and overhaul business is showing signs of revving up, but a distinct lack of infrastructure and severe tax policies are preventing a smooth take-off for what could be massive outsourcing potential, given the expansion of the local airline industry. **By Jay Menon**





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**DESPITE EXTENSIVE DEBATE AND** speculation as to whether India has the potential to develop as a Maintenance, Repair and Overhaul (MRO) hub in the Asian region, the industry is not growing rapidly. It is, say observers, constrained with no definite strategy for developing global standards of excellence that could attract business into the country.

“Understanding just what prevents India from becoming a MRO or an aviation hub is the need of the hour,” says Amber Dubey, a partner at auditor KPMG. “Though the mid- to long-term fundamentals are robust, the lack of infrastructure and facilities prevent growth in the sector.”

The MRO spend by airlines in India currently is a significant US\$800 million-plus, and is likely to grow to over US\$1.5 billion by 2020, estimates indicate. But locally speaking, India has only an insignificant 1% of the US\$45 billion global MRO market. About 15% of the revenue of airlines in India is channelled towards maintenance; second only to the cost of carriers’ aviation fuel. Most of the airlines make their own engineers carry out tarmac inspections, but work with third-party MROs for engine, heavy maintenance and modifications.

#### Good prospects, poor results

There are several financial, legal and procedural limitations that are currently preventing the local MRO industry from growing. In addition to taxation, the key impediment to growth of airline MRO capacity is the lack of availability of hangar space at key international airports.

“Removing fiscal disincentives (import duty, value-added tax and service tax) on domestic MRO, delinking MRO services

from ground handling, and increasing taxes on export of MRO work are some ways by which countries such as Singapore, Brazil, UAE and Malaysia have become major MRO hubs. By emulating these best practices, India can hope to be the next MRO hub in one of the fastest growing regions,” notes Dubey.

The airline fleet size in India is now reaching a critical mass where it makes sense to have a strong MRO industry, not just for the domestic fleet but also for international airlines. Growth of MRO in India is now a necessity rather than an option, says Dubey. On the plus side of the account, India will have no dearth of skilled manpower and has the advantage of its good geographical position. The potential is there.

But currently, over 70% of all critical checks on narrow-body aircraft in India are farmed out to international destinations. Barring aircraft belonging to national carrier Air India and to a certain level private airline Jet Airways, most of the other carriers outsource their MRO requirements. IndiGo, the largest private airliner, gets its MRO done at Sri Lankan Engineering, in the neighbouring island nation of Sri Lanka, which is a mere half-an-hour from India’s southern tip. Similarly, other low-cost carriers such as SpiceJet and GoAir have also signed agreements with MROs outside India – but still within Asia – to provide a wide spectrum of cost-per-flight-hour maintenance for their fleet of aircraft.

“Since MRO operators in India are laden with unfriendly custom duties and other tax structures, it makes it cheaper for airlines like ours to repair the aircraft overseas rather than in India,” one





**ABOVE:** It remains to be seen if Indian MRO providers can persuade local carrier SpiceJet to return home for maintenance works

official spokesman from a LCC asserts on condition of anonymity. Nonetheless, MRO units in India are constantly in discussion with local and international carriers offering all facilities.

Vivek Gour, MD of Air Works, one of the leading independent general aviation and airline MRO firms in the country, says that the battle is an uphill one. "In the absence of quality infrastructure, airlines (in India) were forced to carry out maintenance outside India at the nearest available MRO locations such as (Southeast Asia, the Middle East and even Europe), incurring a ferry flight, logistics costs and engine hours. This is slowly

changing," he says. Air Works, with an EASA-certified facility in southern India, provides heavy maintenance capability for Airbus A320, ATR42/62 and Boeing 737/NG family of aircraft.

**Certified and local**

Having the flexibility to get the aircraft serviced at a local MRO, with European Aviation Safety Agency (EASA) approved facilities in India results in a 30% to 40% saving in aircraft maintenance costs for most airlines, despite the tax regime on import of spares into the country, which makes them 30% more expensive compared to international MROs, asserts Air Works' Gour.

Most Indian airline fleets include a mix of directly purchased aircraft and airplanes that are leased. The leasing option requires maintenance and re-delivery checks, and since most of the leasing companies are either European or American, it is imperative for the Indian MRO companies to have global certifications to perform MRO activities to conform to contract requirements.

The benefits for the domestic airlines in availing themselves of the MRO services offered in India include cost advantage and faster turnaround time, points out Ravi Menom, Executive Director of Air Works.

"The ferry time of getting the aircraft serviced in India is another advantage, which can save fuel, logistic costs, and engine, auxiliary power unit and component hours. This in turn translates into more revenue for the airlines," points out Menon. He says that despite this, one major reason why the airlines continue to look towards the international market is because of the perceived quality of service. "But then the safety standards are the same globally," Menon says.

So with ever increasing passenger traffic and fleet expansion, mainly by low-cost carriers, the Indian aviation sector should see a wide-open gate of opportunities for aircraft companies working in the MRO segment.

Air India and Jet Airways have their own or captive MRO facilities. Additionally, there are several MRO projects under development in India. For instance, Cochin





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International Airport Ltd (CIAL) launched its MRO facility in 2012. Similarly, Malaysian Aerospace Engineering and GMR Hyderabad International Airport Ltd has implemented an MRO through an India-Malaysia joint-venture agreement. The facility at Rajiv Gandhi International Airport in Hyderabad offers base maintenance services starting with C-checks for narrow-bodied aircraft such as Airbus A320 and Boeing 737, including the Classic and NG.

Air India is heading towards operationalising its subsidiary company Air India Engineering Services Ltd (AIESL) for its MRO activity. The airline has built up major MRO facilities in a number of Indian cities, while Mumbai serves as the main base for maintenance of the Air India wide-bodied aircraft fleet. Indeed, the biggest Air India MRO facility is being created at Nagpur in western India, where Boeing has agreed to set up an airframe MRO. The airline has also tied up with GE, AeroStar and Pratt & Whitney to offer their MRO services to other airlines.

“It is pertinent to note that except for Line Maintenance, the majority of (our) work in other segments is outsourced to MRO’s outside India,” says the former chief of Air India Arvind Jadhav. “So the

challenge lies in wooing Indian customers and providing them with the confidence that MROs in India too can carry out the same work and also be competitive in the pricing structure,” he adds. This then where the opportunity – and the challenge – both lie.

#### Government help

The burgeoning Indian MRO industry got a much-needed boost when the government announced tax concessions on imports of spare parts and testing equipment for aircraft repair work in its federal budget last February. The government also extended the time period for consumption or installation of the parts or equipment from a paltry three months to one year.

Additionally, the budget proposed to exempt basic customs duty for spare parts and testing equipment for MRO facilities. The import duty is currently some 19% on spare parts and equipment. The MRO industry has also been demanding a reduction in the service tax from 12.5%, along with an import duty including a duty of 18.5%. This is not a straightforward issue – according to estimates, the government earns about 1.5 billion rupees from the levy of import duty on spares and equipment each year.

“India has the potential to be an MRO hub due to its growing aircraft fleet, location advantage and availability of technical manpower,” admits Civil Aviation Minister Ajit Singh. “To facilitate the growth of MRO business and to make them competitive, we have recently announced several concessions in the budget, and the industry has welcomed it.”

And so it should. Labour costs in India are around US\$30 to US\$35 per man-hour, in comparison to US\$55 to US\$60 in Southeast Asia and the Middle East, and even higher in the US and Europe, giving a considerable advantage to those companies that can get deals. “Therefore, India has the potential to serve not just Indian aircraft – but also those from neighboring regions,” say research analysts Chethan Kambi and Arun Narayanan from consultants Frost & Sullivan.

So as Gour says, India’s new incentives offer small steps in the right direction. But the big question still remains: Will all these ‘tinkering round the edges’ legislative efforts, and the changing attitude of local airlines be enough to provide the required impetus for the country’s MRO market to lift off? AAA is not holding its breath. ■