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*Concept note based on Vision 2040*

## OEM Support to Indian MRO

India would become one of the top aviation hubs by 2040. The passenger traffic is expected to grow six-fold to around 1.1 billion. India has one of the largest aircraft order books currently with pending deliveries of over 1000 aircraft. Its commercial airline fleet are likely to grow from 621 in July 2019 to around 2359 in March 2040.

India, with a projected fleet of over 2300 commercial aircraft by 2040 and large orders of military aircraft, provides ample justification for global OEMs to consider India as an aircraft manufacturing base.

The 20-30 percent cost advantage in India versus USA allows OEMs to use India as a base for global exports too. NCAP 2016 allows OEMs to claim defence offset credits in lieu of investments in commercial aerospace manufacturing. It also speaks of providing a viability gap funding in case the cost of **Made in India** aircraft and components work out to be higher than those supplied from their original sources.

The Government needs to engage with the Indian airline industry and global OEMs to facilitate establishment of a robust, globally-competitive aerospace manufacturing hub in India by the year 2040 than being a mere component supplier.

Leasing and MRO lead to a massive outflow of foreign exchange from Indian carriers. These sub-sectors need a massive policy support.

With its growing aircraft fleet size, strategic geographic location, rich pool of engineering expertise and low labor cost, India has a huge potential to be the global Maintenance, Repair and Overhaul (MRO) hub given a long-time perspective.

India has the potential to become the third largest aviation market by 2022. India has long been viewed with interest from MROs globally seeking a valuable gateway between the Middle East and Asia-Pacific.

This demand is being driven by a fleet growing at 9.9% annually. With over 1000 aircraft currently on order, India is likely to become the third largest buyer of commercial passenger aircraft in the world, only behind the US and China. The growth is being boosted by the expansion and development of new airports, fast expanding LCCs, a liberal FDI policy, rising adoption of new technology and focus on regional connectivity etc.



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### ***Key challenges***

Despite a rising fleet, the MRO industry continues to struggle for relevance. The biggest challenge is the severe tax anomaly with foreign jurisdictions. This is despite the widespread appreciation of the fact that, with a fast-expanding fleet, India needs to build a robust domestic MRO eco-system. More so, given the Government's avowed commitment to push for Make in India or Maintain in India.

Airlines will need a complete MRO eco-system in India in order to switch from their current service providers. The OEMs will have to play a pivotal role in developing the MRO eco-system in India.

Investments from foreign OEMs and MROs are subject to dividend tax. These entities have already invested in MRO facilities in India's neighbourhood. An investment in India will cannibalise their own investments and hurt the volume commitments that they may have made to their business partners. OEMs and foreign MROs need to be incentivised to balance out these constraints.

At MRO Association of India's annual conference and exhibition, Aero MRO India A&D 2019 the focus is on developing more understanding between OEMs and MROs and encouraging small vendors to help create a healthy MRO Ecosystem in India.