

## AVIATION



### SECTOR OVERVIEW

India's civil aviation industry is on a high-growth trajectory. The Civil Aviation industry has ushered in a new era of expansion, driven by factors such as low-cost carriers (LCCs), modern airports, Foreign Direct Investment (FDI) in domestic airlines, advanced information technology (IT) interventions and growing emphasis on regional connectivity. India is the ninth-largest civil aviation market in the world, with a market size of around US\$ 16 billion. India aims to become the third-largest aviation market by 2020 and the largest by 2030.

“The world is focused on Indian aviation – from manufacturers, tourism boards, airlines and global businesses to individual travellers, shippers and businessmen. If we can find common purpose among all stakeholders in Indian aviation, a bright future is at hand” said Mr. Tony Tyler, Director General and CEO, International Air Transport Association (IATA). Currently India is ninth largest civil aviation market. Total passenger traffic stood at 224 million during 2016. India is expected to have 60 million international passengers by 2017. 81 international airlines connecting over 40 countries.

India has the potential to be among the global top three nations in terms of domestic and international passenger traffic. It has an ideal geographical location between the eastern and western hemisphere, a strong middle class of about 30 crore Indians and a rapidly growing economy. At present it is ranked 10th in the world in terms of number of passengers. The Government has proposed to promote the growth of Indian aviation sector in a significant manner as the development of this sector has a multiplier effect on the economy. As per an International Civil Aviation Organisation (ICAO) study, the output multiplier and employment multiplier are 3.25 and 6.10 respectively. The aim of the Government is to provide an ecosystem for the harmonised growth of various aviation subsectors, i.e. Airlines, Airports, Cargo, Maintenance Repairs and Overhaul services (MRO), General Aviation, Aerospace Manufacturing, Skill Development, etc. The Government has proposed to take flying to the masses by making it affordable and convenient. For example, if every Indian in middle class income bracket takes just one flight in a year, it would result in a sale of 35 crore tickets, a big jump from 7 crore domestic tickets sold in 2014-15. This will be possible if the air-fares, especially on the regional routes, are brought down to an affordable level. The reduction in costs will require concessions by the Central and State Governments and Airport Operators.

### **REASONS TO INVEST**

India is one of the fastest growing aviation markets and currently the ninth largest civil aviation market in the world. India is projected to be the third largest aviation market by 2020. Total passenger traffic stood at 224 million during 2016. India is one of the least penetrated air markets in the world with 0.04 trips per capita per annum as compared to 0.3 in China and more than 2 in the USA. Indian carriers plan to increase their fleet size to reach 800 aircraft by 2020.

The Indian aviation sector is likely to see investments totalling USD 15 billion during 2016-2020 of which USD 10 billion is expected to come from the private sector.

### **STATISTICS**

Domestic Passenger traffic Compound Annual Growth Rate (CAGR) – 10.1% (FY 2006-16).

International Passenger traffic CAGR – 8.8% (FY 2006-16).

Total freight compared to International air freight traffic CAGR in Domestic Sector – 7.6% (FY 2006-16) and in International Sector 4.8% (FY 2006-16)

India has more than 86 scheduled international airlines constituted of 5 Indian carriers and 81 foreign carriers. Currently India has air connectivity with 55 countries through more than 300 routes. Passenger traffic is growing at 20% per annum in the last 2 years.

## GOVERNMENT INITIATIVES

Government agencies project that around 500 brownfield and greenfield airports would be required by 2020. The private sector is being encouraged to become actively involved in the construction of airports through different Public Private Partnership models, with substantial state support in terms of financing, concessional land allotment, tax holidays and other incentives.

In the Union Budget 2016-17, the Government introduced various proposals for Maintenance, Repair and Overhaul (MRO) operations for airplanes. These include customs and excise duty exemption for tools and tool-kits used in MRO works. The Government has also scrapped the one-year restriction for utilisation of duty free parts apart from allowing import of unserviceable parts by MROs for providing exchange. As per revised norms, the foreign aircraft brought in to India for MRO work would now be permitted to stay up to six months or as extended by aviation regulator Directorate General of Civil Aviation (DGCA). Such foreign aircraft would also be henceforth permitted to carry passengers in the flights at the start and end of its period of stay in India.

Some major initiatives undertaken by the Government are:

- The Ministry of Civil Aviation has finalised and put forward for approval to the Union Cabinet, the new aviation policy, which includes proposals such as allowing new airlines to fly abroad, introduction of more regional flights and a new formula for granting bilateral flying rights.
- The Indian Space Research Organisation (ISRO) has signed a memorandum of understanding (MoU) with the Airports Authority of India (AAI), aimed at providing space technology for construction of airports.
- The Government of India is planning to boost regional connectivity by setting up 50 new airports over the next three years, out of which at least 10 would be operational by 2017.
- Airports Authority of India (AAI) plans to develop city-side infrastructure at 13 regional airports across India, with help from private players for building of hotels, car parks and other facilities, and thereby boost its non-aeronautical revenues.
- Directorate General of Civil Aviation (DGCA), India's aviation regulator, has signed an agreement with United States Technical Development Agency (USTDA) for India Aviation Safety Technical Assistance Phase II, aimed at bringing in systemic improvements in the area of operation, airworthiness and licensing.
- The Government of India has given site clearance to Delhi Mumbai Industrial Corridor and Development Corporation (DMICDC) for setting up of a greenfield

Airport for public use near Bhiwadi in Alwar district of Rajasthan and has granted 'in-principle' approval to 13 other greenfield airport projects.

- The Airports Authority of India (AAI) plans to revive and operationalise around 50 airports in India over the next 10 years to improve regional and remote air connectivity.
- Gujarat is expected to get a second international airport at Dholera. The State Government has formed Dholera International Airport Co. Ltd. and is obtaining approvals from the Union Government.
- The Directorate General of Civil Aviation (DGCA) has given its approval to Air India's maintenance, repair and overhaul (MRO) unit.
- The Government of India has decided to award airports in Kolkata, Chennai, Jaipur and Ahmedabad on management contract. AAI has issued the 'Request for Qualification' document for these four airports.

#### **GROWTH IN THE AVIATION SECTOR**

- Five international airports (Delhi, Mumbai, Cochin, Hyderabad, and Bengaluru) have been completed and are operational under Public Private Partnership (PPP) mode.
- Greenfield airport at Navi Mumbai, Mopa (Goa) and some brownfield airports of Airports Authority of India (AAI) and 50 airports under the no-frills model would be developed all over the country of which same would be executed under the PPP model.
- Indian aviation is experiencing dramatic growth which includes the emergence of Low Cost Carriers (LCC) / new carriers to a growing middle-class ready to travel by air as well as growth in business and leisure travel.
- Greater focus on infrastructure development; increasing liberalisation – Open Sky Policy; AAI driving modernisation of airports, Air and Navigation Systems.
- Growth in aviation is also increasing demand for MRO (maintenance, repair and overhaul) facilities.
- India is home to large scale collaborations/ Merger & Acquisitions (M&A) deals – Etihad Airways & Jet Airways, Tata Group & Singapore Airlines, Tata Group & AirAsia.
- India plans to increase the number of operational airports to 250 by the year 2020.

## FOREIGN DIRECT INVESTMENT POLICY

The extant FDI policy on Airports permits 100% FDI under automatic route in Greenfield Projects and 74% FDI in Brownfield Projects under automatic route. FDI beyond 74% for Brownfield Projects is under Government route.

With a view to aid in modernization of the existing airports to establish a high standard and help ease the pressure on the existing airports, it has been decided to permit 100% FDI under automatic route in Brownfield Airport projects.

As per the present FDI policy, foreign investment up to 49% is allowed under automatic route in Scheduled Air Transport Service/ Domestic Scheduled Passenger Airline and regional Air Transport Service. FDI beyond 49% is allowed through Government approval. For Non-Resident Indians (NRIs), 100% FDI will continue to be allowed under automatic route. However, foreign airlines would continue to be allowed to invest in capital of Indian companies operating scheduled and non-scheduled air-transport services up to the limit of 49% of their paid up capital and subject to the laid down conditions in the existing policy.

- Up to 100% FDI is permitted in Non-scheduled air transport services under the automatic route.
- Up to 100% FDI is permitted in helicopter services and seaplanes under the automatic route.
- Up to 100% FDI is permitted in MRO for maintenance and repair organisations; flying training institutes; and technical training institutes under the automatic route.
- Up to 100% FDI is permitted in Ground Handling Services subject to sectoral regulations & security clearance under automatic route.

Investments are subject to relevant regulations, approvals from Directorate General of Civil Aviation (DGCA) and security and other conditions.

## SECTOR POLICY

Airport Authority of India (AAI) is responsible for developing, financing, operating, and maintaining all public sector airports. New airports are permitted under the Greenfield Airport Policy 2008. Investment in airports is encouraged under the PPP Policy of the Government of India.

Regional Air Connectivity Policy offers attractive incentives in the form of exemption of landing, parking and navigation fees to airlines operating at designated airports in non-metro areas.

## FINANCIAL SUPPORT

Aircraft engines and parts thereof are eligible for duty exemption when imported for servicing, repair or maintenance of aircraft used for scheduled operations. The budget envisages the development of new airports in Tier II and Tier III cities.

The Income Tax Act provides presumptive taxation under Section 44AE in respect of assesses who are engaged in the business of plying, hiring or leasing goods carriages. The bill proposes to increase the amount of presumptive income to USD 112 per vehicle for all types of goods carriage vehicles. Exemptions under the Income Tax Act for infrastructure development under section 80 IA.

Budgetary support is provided to the Airport Authority of India (AAI) for the development of airport infrastructure in the North-eastern states of India. Basic customs duty exemption is available for parts and testing equipment used for the maintenance, repair and overhaul of aircraft.

## DEVELOPMENT AND INVESTMENT OPPORTUNITIES IN THE AVIATION SECTOR

Demand for MRO facilities is increasing in India, due to growth in the aviation sector. Investment opportunities worth USD 3 billion in Greenfield airports under PPP at Navi Mumbai and Mopa (Goa). 300 business jets, 300 small aircraft and 250 helicopters are expected to be added to the current fleet of Indian carriers in the next five years.

The development of new airports – the Airport Authority of India (AAI) aims to bring around 250 airports under operation across the country by 2020. For development of aviation in the North-east region – the AAI plans to develop Guwahati as an inter-regional hub and Agartala, Imphal and Dibrugarh as intra-regional hubs. AAI has planned to spend USD 3 billion on non-metro projects between 2016 and 2020, focusing on the modernisation and up-gradation of airports.

Indian airports are emulating the Special Economic Zone (SEZ) Aerotropolis model to enhance revenues, focus on revenues from retail, advertising and vehicle parking, security equipment and services.

- Airbus SAS has signed an agreement with Karnataka-based Aequs Aerospace, an aircraft component maker, for the supply of over 100,000 titanium machined parts for its A320 new engine option (NEO) aircraft.
- Boeing Company, an American plane maker, and Tata Advanced Systems Ltd (TASL), a fully owned subsidiary of Tata Sons, have entered into a joint venture to set up a

new facility in Hyderabad to manufacture Boeing AH-64 Apache helicopter fuselages.

- GoAir, India's fifth-biggest carrier by passengers travelled, has signed a memorandum of understanding (MoU) with Airbus to buy 72 A320neo aircrafts, valued at US\$ 7.7 billion, as part of an expansion drive.
- Lockheed Martin Corporation plans to make India a manufacturing base for its F-16V fighter jets, C-130J Super Hercules military transport planes and helicopters.
- Auto components maker Bharat Forge Ltd (BFL), the flagship company of the US\$ 3 billion Kalyani Group, has formalized agreement with Rolls-Royce Plc, under which BFL will supply critical and high integrity forged and machined components for a range of aero engines.
- The Ministry of Civil Aviation has signed Memorandum of Understanding (MoU) with Finland, Kazakhstan, Kenya, Sweden, Norway, Denmark, Oman and Ethiopia for increased co-operation between the countries in terms of additional seats, sharing of airlines codes, increased frequencies and additional points of call, during the International Civil Aviation Negotiations (ICAN),2015 held in Antalya, Turkey.
- Tata Advanced Systems (TASL) has signed a joint venture with American aircraft manufacturing major, Boeing, to establish a centre of excellence for manufacturing aero structures for Apache helicopter initially and collaborate on integrated systems development opportunities in India in the long term.
- US-based aircraft manufacturer Boeing plans to assemble one of its two helicopters namely, Chinook (heavy-lift) or Apache (attack type) in India, thus becoming yet another global company to invest in India encouraged by the 'Make in India' campaign.
- Airbus, leading European aircraft manufacturer, plans to invest US\$ 40 million to set up a pilot and maintenance training center in New Delhi, which will be operational by the end of 2017.
- Airbus also expects India's aviation industry to grow at over 10 per cent annually in the next decade, almost double the average growth rate of the global aviation industry.

#### **FOREIGN INVESTORS**

- Airbus (France)
- Boeing International Corporation (USA)
- AirAsia (Malaysia)
- Rolls Royce (UK)

- Frankfurt Airport Services Worldwide (Germany)
- Honeywell Aerospace (USA)
- Malaysia Airports Holdings Berhad (Malaysia)
- GE Aviation (USA)
- Airports Company South Africa Global (South Africa)
- Alcoa Fastening Systems Aerospace (USA)
- Singapore Airlines (Singapore)
- Etihad Airways (UAE)
- Fairfax (London)
- AGENCIES
- Ministry of Civil Aviation
- Directorate General of Civil Aviation
- Bureau of Civil Aviation Security
- Airports Economic Regulatory Authority of India
- Air India Limited
- Pawan Hans Limited
- Airports Authority of India

## CONTACT PERSONS

### 1. Sushila Ram Varma

Chief Legal Consultant

Ph: +91 98111 91142, +91 99492 78548

Email - [sushilaram@theindianlawyer.in](mailto:sushilaram@theindianlawyer.in), [contact@theindianlawyer.in](mailto:contact@theindianlawyer.in),  
[sushilaram@gmail.com](mailto:sushilaram@gmail.com)

### 2. Mogli S.V

Chief Business Consultant

Ph: +91 78933 37474

Email – [msv@theindianlawyer.in](mailto:msv@theindianlawyer.in), [mogilisvarma@gmail.com](mailto:mogilisvarma@gmail.com)

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