

# AEROSPACE INDUSTRY



## THE INDIAN SCENARIO



The Indian aerospace industry is one of the fastest growing aerospace markets in the world and has the third largest domestic civil aviation market in the world. The robust growth potential and excellent pool of resources in the aerospace sector, offers tremendous opportunity to all stakeholders.

There has been an increase in air traffic over the past few years and to cater the rising demand, the Government has taken several initiatives to push for new aircrafts and set up new airports and also, modernize and operationalize existing airports. The number of airplanes is projected to reach 1100 by 2027.

Additionally, the aerospace sector also provides immense investment opportunities to private and foreign players in the space industry. The Indian Space Research Organization (**ISRO**) has successfully operationalized two major satellite systems, mainly, Indian National Satellite (**INSAT**) for communication services and Indian Remote Sensing (**IRS**) Satellite for management of natural resources. ISRO has also undertaken several commendable space launches including Mangalyaan, Chandrayaan 1 and 2 and the upcoming Gaganyaan-unmanned and manned spaceflight programmes, etc.

## GROWTH PROSPECTS



The Government of India has taken several initiatives for development and modernization of the aerospace sector.

- 1) **Maintenance, repair and overhaul activities-** Maintenance, repair and overhaul (**MRO**) involves services of repair, maintenance and inspection of an aircraft, its components, safety and airworthiness. The Government is encouraging the setting up of domestic MRO service providers, so that airlines do not have to incur high cost of MRO services overseas. This would help in cost saving to the airlines and reduced cost of travel to passengers.
- 2) **Defence production-** The Government efforts to make India self-dependent in indigenous manufacturing of defence aircrafts, warships, defence equipment, arms and ammunitions, etc, have paved way for foreign equipment manufacturers to collaborate with Indian entities.

- 3) **Space Sector-** In view of the ever-expanding prospects in the space sector, ISRO has opened up the space sector for private players, to promote private investment and innovation in this sector. ISRO has launched the Indian National Space Promotion and Authorisation Centre (**IN-SPACE**) in September 2020, to facilitate and provide the private players, technical support, temporary space in Department of Space (**DoS**) premises, partnering in science and space exploration missions, etc. The private sector is allowed to build satellites, launch vehicles, carry out launches, develop applications and systems for space sector activities, etc.<sup>1</sup>
- 4) **Civil Aviation Sector-** The Open Skies Policy has led to an unprecedented rise in air traffic, demand for new aircrafts and airports, space missions, etc and in the next five years, the aerospace sector would set out on its high growth trajectory.
- 5) **Airports-** The Government has planned to develop an additional 100 airports/waterdromes/heliports in the country by 2024 to support the Regional Connectivity Scheme (**RCS**), i.e. *Ude Desh Ka Aam Nagrik* (**UDAN**) Scheme, of extending last mile connectivity to under-served or un-served areas.<sup>2</sup> With the increase in number of RCS and no-frills airports, the air fleet number is also expected to rise from 600 to 1200 during the said period.



#### 6) **Budgetary allocation-**

- i) Recently, in the Union Budget 2021-22, the Government has proposed to allocate INR 20,000 Crores to set up and capitalise a Development Financial Institution which would act as a provider, enabler and catalyst for infrastructure financing.
- ii) The Government has also reduced customs duty on components, including engines, for manufacture of aircrafts by Public Sector Units of Ministry of Defence from 2.5% to 0%.
- iii) The Government has planned tax holidays on capital gains earned by aircraft leasing companies and tax exemption for aircraft lease rentals paid to foreign lessors.
- iv) Tier II and III airports to get monetised for operations and management concession.

### **GROWTH FACTORS**

The factors driving growth in the aerospace industry that provide attractive fiscal benefits for developers and manufacturers are as follows:

1. Growing domestic aircraft demand
2. Liberalization of civil aviation policies
3. A strong domestic manufacturing base
4. Manpower cost effectiveness and availability of talent
5. Globalization of MRO services
6. Locational advantages, and weather conditions
7. Use of modern and advanced technologies, etc
8. Rise in private sector involvement



<sup>1</sup> <https://pib.gov.in/PressReleasePage.aspx?PRID=1657766>

<sup>2</sup> <https://pib.gov.in/PressReleasePage.aspx?PRID=1666421>

## GOVERNMENT POLICIES



The Government has reviewed and liberalized the Foreign Direct Investment (FDI) Policy for the aerospace sector in 2020 as follows:

SN	SECTOR	FDI	PERMISSION
1	<b>Civil Aviation:</b>		
	i) Airports	100%	Through automatic route in greenfield and existing projects
	ii) Scheduled and Regional Air Transport Services	100%	Through automatic route up to 49% (exception: 100% through automatic route for Non-Resident Indians)  Through Government route beyond 49%
	iii) Non-Scheduled Air Transport Services and Helicopter/Seaplane Services	100%	Through automatic route
	iv) Ground Handling Services	100%	Through automatic route, subject to sectoral regulations
	v) MRO, Flying Training Institutes; and Technical Training Institutions <sup>3</sup>	100%	Through automatic route
2	Defence <sup>4</sup>	100%	Through automatic route up to 74%  Through Government route beyond 74%  Licenses to be obtained from Department of Industrial Policy and Promotion ( <b>DIPP</b> ), Ministry of Commerce and Industry, Ministry of Defence and/or any other concerned authority
3	Space	100%	Through Government route

<sup>3</sup> [https://dipp.gov.in/sites/default/files/FDI-PolicyCircular-2020-29October2020\\_1.pdf](https://dipp.gov.in/sites/default/files/FDI-PolicyCircular-2020-29October2020_1.pdf)

<sup>4</sup> [https://dipp.gov.in/sites/default/files/pn4-2020\\_0.PDF](https://dipp.gov.in/sites/default/files/pn4-2020_0.PDF)

## INVESTMENTS IN AEROSPACE



Some of the recent investments made in aerospace industry are as follows:

- 1) **Airbus Defence and Space and Tata Advanced Systems Limited (TASL)** would soon collaborate in a Joint Project in 2021, whereby, Airbus and TASL would supply and assemble transport aircrafts to the Air Force under the Make in India initiative.
- 2) **Tata Boeing Aerospace Limited, Hyderabad-** This Joint Venture between Boeing and TASL has worked together to manufacture and develop Made-in-India state-of-the-art helicopters, to co-develop integrated systems in aerospace and defence in India.
- 3) **Hindustan Aeronautics Limited-** Hindustan Aeronautics Limited (HAL) has been manufacturing aircrafts and helicopters for defence and for civil purpose indigenously, by collaborating with foreign original equipment manufacturers (OEMs).<sup>5</sup>
- 4) **Aerospace Special Economic Zones-** Currently, there are a number of aerospace special economic zones (SEZs) operating in India including Tata Advanced Systems in Telangana<sup>6</sup>, Telangana State Industrial Infrastructural Corporation Ltd, Karnataka Industrial Areas Development Board<sup>7</sup>, etc. The aerospace SEZs enable production of goods and services after tax exemptions, grant of land at subsidized costs, etc<sup>8</sup>.
- 5) **Aerospace Parks-** The aerospace parks are set up to provide ready-to-use industrial infrastructure such as land, supply of power, water and other utilities, proximity to air cargo terminal, availability of hotels, affordable transport, emergency services, security, etc to companies engaged in the business of manufacturing and assembly, MRO services, warehousing and distribution, aviation and aerospace training, design and engineering, fleet management, etc. For instance, GMR Aerospace & Industrial Park is the renowned aerospace and industrial park operating in Hyderabad, Telangana.
- 6) **Other aerospace manufacturing and design companies in India-**
  - i) Acumen Aviation - Bangalore, Karnataka
  - ii) BytzSoft Technologies - Pune, Maharashtra
  - iii) Drone Aerospace Systems - Bangalore, Karnataka
  - iv) Collins Aerospace – Hyderabad, Telangana
  - v) Yatih Air Services Pvt Ltd- New Delhi
  - vi) Boeing International Corporation India Private Limited- New Delhi

<sup>5</sup> <https://pib.gov.in/Pressreleaseshare.aspx?PRID=1541025>

<sup>6</sup> [https://tsiic.telangana.gov.in/list\\_of\\_allotments\\_in\\_sezs\\_of\\_tsiic.html](https://tsiic.telangana.gov.in/list_of_allotments_in_sezs_of_tsiic.html)

<sup>7</sup> [http://sezindia.nic.in/upload/uploadfiles/files/Operational-SEZs-list\(1\).pdf](http://sezindia.nic.in/upload/uploadfiles/files/Operational-SEZs-list(1).pdf)

<sup>8</sup> [https://kum.karnataka.gov.in/KUM/PDFS/AerospacePolicy\\_Finalwithoutphoto.pdf](https://kum.karnataka.gov.in/KUM/PDFS/AerospacePolicy_Finalwithoutphoto.pdf)

Thus, the Indian aerospace industry is said to be moving into an era of transnational cooperation, where original equipment manufacturers as well as service suppliers seamlessly integrate functions such as engineering, manufacturing, and customer support across multiple global locations.

Further, the Indian Government's regulatory focus for the aerospace sector has been on self-reliance, import substitution, and indigenization in India. As a result, it has encouraged foreign investment and technology platforms for increasing manufacturing operations in India, rather than importing defence equipment. This would enable efficient growth and development of the aerospace industry in India.

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