

AVIATION SECTOR



SECTOR OVERVIEW

India is currently the 7th largest civil aviation market in the world and is expected to become the third-largest civil aviation market within the next 10 years. Indigo Airlines has the largest presence in the market share. India has become the third largest domestic aviation market in the world and is expected to overtake UK to become the third largest air passenger market by 2024.

Domestic traffic contributes to around 69% of the total airline traffic in South Asia and India's airport capacity is expected to handle 1 billion trips annually by 2023. The Indian Aviation Industry has recovered fully from the Covid-19 pandemic shock as indicated by the air traffic movement which stood at 613,566 in the first quarter of FY 2022-23 compared to 300,405 in the same period last year, an increase of 104.24%.

The global recovery in air travel has been mirrored in India, and this is a sector that holds immense potential. Boeing estimated India requires an additional 2,500 passenger aircraft to meet this rapidly growing demand.

India's Vision 2040 strategy document outlines development needs for the sector, including a five-fold increase in the number of airports needed to handle over a billion passenger trips a year. The Airports Authority of India (AAI), a nodal authority under the Ministry of Civil Aviation, is responsible for creating, upgrading, maintaining, and managing civil aviation infrastructure in India. AAI is one of the largest airport operators in the world, owning 137 airports (24 international, 80 domestic, 23 domestic defense airfields, and 10 customs). Under its asset monetization through public-private partnership model, AAI has an ambitious plan to privatize airports under its purview and bundle profitable airports with loss-making ones in the sales process.



LEADING SUBSECTORS

❖ *Maintenance, Repair, and Overhaul (MRO)*

The Indian Government has revised its MRO policy in an effort to increase the ease of doing business and to make India a global leader in the MRO sector. Approximately 90 percent of India’s MRO activity occurs outside of India, predominantly in Sri Lanka, Singapore, and Malaysia. Local capabilities are at a nascent stage but with the potential to grow quickly. According to industry experts, the segment is expected to increase by 4 billion by 2031.

❖ *Navigation and Air Traffic Management Systems*

AAI continues to upgrade and modernize air navigation services. With the launch of the GPS-Aided GEO-Augmented Navigation System, India became the fourth country in the world to implement satellite-based navigation systems and began utilizing satellite-based Automatic Surveillance-Broadcast services in 2019.

❖ *Human Resource Development*

Training, skilling, and human resource development are key priorities for the Indian civil aviation sector. India’s primary educational institution for the industry, the Rajiv Gandhi National Aviation University, is exploring collaboration with foreign and domestic partners. India’s National Skill Development Council has a separate entity called the Aerospace and Aviation Sector Skill Council to identify needs and explore conducive environments to develop educational curricula.



❖ *Helicopters*

The Indian Government recently issued its “Policy for Promotion of Helicopter Operations,” which invites opportunities to increase fleet size and usage beyond the traditional short-haul travel. India has approximately 90 helicopter operators, including non-scheduled operators, private companies, state governments, and public sector utility companies. With 42 helicopters in its fleet (comprising Dauphin and Bell platforms), Pawan Hans Limited is the largest single operator nationwide.

❖ **Unmanned Aircraft Systems (UAS)**

In February 2022, the Directorate General of Foreign Trade banned the importation of foreign drones. However, an exemption is in place for imported drones for research and development (R&D), defense and security purposes. These will nonetheless require specific approvals in order to be imported into the country. The Indian Government also released its “Drone Rules 2021,” with a vision to make India a global hub for R&D, testing, manufacturing, and operations



FOREIGN DIRECT INVESTMENT

The Government has allowed 100% FDI under the automatic route in scheduled air transport service, regional air transport service and domestic scheduled passenger airline. However, FDI over 49% would require Government approval.

According to the data released by the Department for Promotion of Industry and Internal Trade (DPIIT), FDI inflow in India’s air transport sector (including air freight) has reached USD 3.56 billion between April 2000 - June 2022.

INVESTMENT OPPORTUNITIES

- ✦ Investment to the tune of Rs.420-450 Billion (USD 5.99-6.41 billion) is expected in India’s airport infrastructure between FY 2018-2023.
- ✦ India’s aviation industry is expected to witness Rs. 35,000 Crore (USD 4.99 Billion) investment in the next four years. The Indian Government is planning to invest USD 1.83 Billion for development of airport infrastructure along with aviation navigation services by 2026.
- ✦ India aims to have 220 new airports by 2025, said, Mr. Jyotiraditya Scindia, Minister of Civil Aviation. Cargo flights for perishable food items will also be increased to 30% with 133 new flights in the coming years.
- ✦ In 2022, Mumbai International Airport Ltd (MIAL) has raised USD 750 Million debt in a private placement from US-based private asset manager, Apollo Global.
- ✦ Adani Airport Holdings (AAHL) has raised USD 250 Million in May 2022 for capital expenditure and for the development of six airports that it currently manages.

- ✦ In February 2022, the Airports Authority of India (AAI) and other airport developers have set a capital outlay target of Rs. 91,000 Crore (USD 12.08 Billion) for the development of the airport industry.
- ✦ AAI plans to invest Rs. 25,000 Crore (USD 3.58 Billion) in next the five years to augment facilities and infrastructure at airports.
- ✦ UK group to invest Rs. 950 Crore (USD 135.9 Million as of 19.03.2023) in Turbo Aviation's new airline TruStar.
- ✦ In October 2021, Tata Sons won the bid to acquire state-run Air India by offering Rs. 18,000 Crore (USD 2.4 Billion as of 19.03.2023) to acquire 100% shares.
- ✦ In October 2021, Akasa Air, a start-up airline, received a 'No Objection' certificate from the Ministry of Civil Aviation to launch operations. The start-up plans to commence its operations from mid-2022.
- ✦ In September 2021, Jet Set Go, a private aviation company, plans to make its flight operations carbon neutral by 2024 through a carbon management programme.
- ✦ In March 2021, the Government submitted a proposal to develop a water aerodrome project at the Ujjani Dam, under the Ministry of Civil Aviation's UDAN-RCS (regional connectivity scheme).
- ✦ According to World Travel and Tourism Council (WTTC), India ranked 7th among 185 countries in terms of travel & tourism's total contribution (4.7%) to the GDP in 2020. The contribution was worth USD 121.9 Billion.

GOVERNMENT INITIATIVES

1. Budgetary Allocation 2022-23:

- ✓ Rs. 10,667 Crore (US\$ 1.38 Billion as of 20.03.2023) has been allocated to the Ministry of Civil Aviation.
- ✓ The RCS (Regional Connectivity Scheme) UDAN scheme which aims to stimulate regional air connectivity has been allocated Rs. 601 Crore (USD 77.52 Million as of 20.03.2023).
- ✓ For a better execution of the PM-Gati Shakti Vision, Mr. Jyotiraditya M. Scindia, Minister of Civil Aviation has asked for co operation between Central and State Governments to



build 16 new airports in Madhya Pradesh, Chhattisgarh, Uttar Pradesh, Rajasthan, and Maharashtra.

2. In October 2022, Prime Minister Mr. Narendra Modi laid the foundation stone of C-295 Aircraft Manufacturing Facility in Vadodara, Gujarat.
3. The Ministry of Civil Aviation (MoCA) announced that airlines can operate domestic flights without any capacity restriction, effective from 18.10.2021.
4. In October 2021, the Union Minister of Civil Aviation, Mr. Jyotiraditya M. Scindia, virtually flagged off the first direct flight along the Shillong-Dibrugarh route, under the RCS-UDAN(Regional Connectivity Scheme – Ude Desh Ka Aam Naagrik) Scheme.
5. Ministry of Civil Aviation launched the Krishi UDAN 2.0 scheme in October 2021. The Scheme proposes assistance and incentive for movement of agri-produce by air transportation.
6. The Government is planning to start 14 more water aerodromes across the country, after the successful launch of seaplane service by Prime Minister, Mr. Narendra Modi, between the Statue of Unity near Kevadiya in Gujarat's Narmada district and Sabarmati Riverfront in Ahmedabad in October 2020.

SUPPORTING POLICIES

➤ **National Civil Aviation Policy 2016 (NCAP)**, The Government plans to take flying to the masses by enhancing affordability and connectivity. It promotes ease of doing business, deregulation, simplified procedures, and e-governance. In April 2020, the Goods and Services Tax for MRO services rendered locally was reduced from 18% to 5%. The ‘place of supply’ for B2B MRO services was changed to the ‘location of recipient’, enabling Indian MRO facilities to claim zero-rating (i.e., export status) under GST laws on MRO services rendered to prime contractor/ OEM located outside India.



➤ **Regional Connectivity Scheme or UDAN (‘Ude Desh ka Aam Nagrik’)** This Scheme is a vital component of NCAP 2016. The Scheme plans to enhance connectivity to India's unserved and under-served airports and envisages to make air

travel affordable and widespread. More than 2.15 lakhs UDAN flights have operated and over 1.1 crore passengers have availed the benefits in UDAN flights as on 30.11.2022.

- The aircraft leasing and financing businesses are operated from the **International Financial Services Centre (IFSC)** and **GIFT City** provides the off-shore status for financial services.
- MOCA released **Krishi UDAN 2.0**. The Scheme lays out the vision of improving value realization through better integration and optimization of agri-harvesting and air transportation and contributing to agri-value chain sustainability and resilience under different and dynamic conditions.
- **Monetising Assets:** AAI has formed joint ventures in seven airports. As per National Monetisation Pipeline (NMP), 25 AAI airports have been earmarked for asset monetisation between 2022 and 2025.



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