

AEROSPACE

INDIA

SEZ

MARKET

PRICEWATERHOUSECOOPERS

# Rise in outsourcing catalyses setting up of aerospace SEZs

Rise in outsourcing catalyses setting up of aerospace SEZs

K. Raghu

First Published: Sun, May 16 2010. 09 02 PM IST



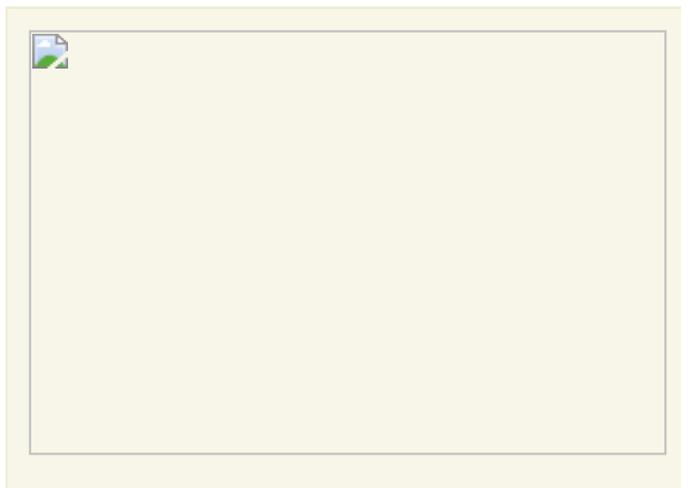
Share

0



Tweet

0



*Updated: Sun, May 16 2010. 09 02 PM IST*

Bangalore: As global aerospace and defence firms step up outsourcing to India to meet local commitments and cut costs, the country will see at least eight special economic zones (SEZs) dedicated to aerospace come up over the next five years.

India received the largest number of foreign investments in aerospace research and development in 2000-08, audit firm **PricewaterhouseCoopers** said in an April report, without quantifying the amount. India also got the second highest number of investments in aerospace manufacturing, after China.

**Also See** New Horizon (Graphic)

But the biggest growth yet for the country's aerospace sector is to come from the offset clause in India's defence procurement procedure. Foreign arms makers have to source from local vendors at least 30% of the value of contracts won from India's military on deals of Rs300 crore or more.

India is expected to spend \$100 billion (around Rs4.5 trillion) on buying fighter planes and helicopters from foreign firms over the next decade. About one-third of this will be spent on sourcing equipment from Indian firms.

In just the past 18 months, around \$2 billion worth of offset contracts have been awarded to local firms. These will be executed over the next decade.

In addition to this, India's own growth in civil aviation and the government's efforts to modernize airports will fuel the need for repair and maintenance units and local development of aircraft.

Despite a booming market for military and passenger aircraft, India's aerospace industry is still nascent. So far, the country has to its credit only a home-grown helicopter, a fighter jet and a trainer, and a two-seater passenger aircraft. It has set an ambitious task to build a 70-seater regional aircraft to compete with firms such as ATR, but its efforts to build a 14-seater passenger aircraft have been hit by delays. The offset clause could help bridge the technology gaps.

Industry experts caution that dedicated aerospace zones require large capital and long-term commitments by companies, so unless an ecosystem is built the ventures could fail. As SEZs offer tax and other incentives to units within them in return for generating local jobs, experts fear the enclaves could turn into mere haunts for real estate and infrastructure developers.

Aravind Melligeri, co-founder of **Quality Engineering and Software Technologies Pvt. Ltd**, or QUEST, said firms looking at aerospace SEZs as real estate plays will find the going tough.

"Global aerospace companies look at lower costs next year than this year. So you need to have the right infrastructure and ecosystem to do that year after year," he said.

QUEST set up India's first aerospace SEZ in Belgaum, Karnataka. It began operations in November.

"For automobile components, if there is an issue you can rectify it on road; the loss is

not much. But in aerospace, one failure can be deadly," said Ravinder Reddy, chairman of MTAR Technologies Pvt. Ltd. "It will be very expensive for anyone to invest and maintain."

The Hyderabad-based defence equipment maker is setting up an aerospace SEZ in the city along with the state government and as part of a consortium of around 50 other small firms. MTAR will also set up a unit in **Lepakshi Group's** aerospace park in Anantapur, Andhra Pradesh.

Lepakshi's managing director S. Balaji said the challenge in setting up an SEZ lies in bringing on one platform all the government agencies involved.

The other challenge lies in getting land.

"That problem is there everywhere in the country," said an official at Tamil Nadu Industrial Development Corp. Ltd.

The state is planning two aerospace SEZs, including one in Perambalur.

The official, who didn't want to be named, said the state is inviting consultants this month to help develop a masterplan for aerospace SEZs. He didn't give more details.

In addition to these, the Karnataka government is setting up a 250 acre SEZ in Devanahalli near the new airport in Bangalore; the operator of Hyderabad's new airport, GMR Hyderabad International Airport Ltd, is setting up a 250 acre aerospace SEZ; and Maharashtra is building a dedicated hub in Nagpur.

Some say that even with the huge potential for foreign investments in the sector, not all of the aerospace SEZs may survive.

"In this competitive world, those who are fast enough, they will survive. Those who are slow, they have to close down," said R.C. Sinha, vice-chairman and managing director of Maharashtra Airport Development Co. Ltd, which is setting up the Nagpur enclave.

*raghu.k@livemint.com*