

LOOKING TO THE FUTURE OF AIR CARGO IN INDIA

Ameya Gore | April 2021





Ameya Gore

Chief Technical Officer

Ameya joined Acumen in 2009 and, as Chief Technical Officer (CTO) – Digital, he is responsible for the continued successful development of Acumen’s digital business offering, both in terms of available products and services.

Ameya has adeptly used the knowledge and experience he has gained throughout his time with Acumen to inform key decisions he and his team have needed to take in order to grow Acumen’s digital footprint.

In response to Acumen’s continued growth, and the fact that the level of digital activities continues to accelerate, Ameya provides the necessary dedicated leadership, focus and strategic direction to the digital business, making sure that Acumen is found ready able and willing to meet the anticipated future digital demands made on it by the sector.

Ameya has, within his considerable tenure with Acumen, held senior positions within various departments, including technical & asset management and data management. In addition, Ameya has been a certified ISTAT appraiser for over four years and is a member of the valuation team.

Ameya holds an BSc; an MBA in aerospace and aviation, and certificates in general and product management, awarded by the IIMB and Duke Corporate Education, respectively.

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A FORWARD OUTLOOK ON FUTURE OF AIR CARGO INDUSTRY IN INDIA

Synopsis:

With economic strides in the right direction, easier access to smart phones, together with deep internet penetration to Tier II and III zip codes, the e-commerce industry has been gaining increasing popularity amongst the masses in the past few years. It is perceivable that this trend will continue in an upward direction owing to long-term consumer behavior changes brought about by COVID 19.

The dependence on e-commerce to satisfy even the most elementary needs is expected to drive more adoption, fuelling further growth of this sector. Let us explore its effects on the air cargo portion of the value chain.

The e-commerce industry continues to flourish in India as it nears a decade of existence. Many major players have recognized the market potential and invested billions of dollars to acquire stake in the Indian markets.

Lucrative investment policies such as 100% Foreign Direct Investment in B2B e-commerce and 100% Foreign Direct Investment via automatic route under the marketplace model of B2C e-commerce have further incentivised players in the sector. Through the Digital India campaign, the Indian Government is aiming to create a trillion-dollar online economy by the year 2025.

As per India Brand Equity Foundation (IBEF) report in Jan 2021, the Indian e-commerce sector is expected to reach \$99 Billion by 2024, growing by 27% CAGR over the next 4 year period (Figure One).

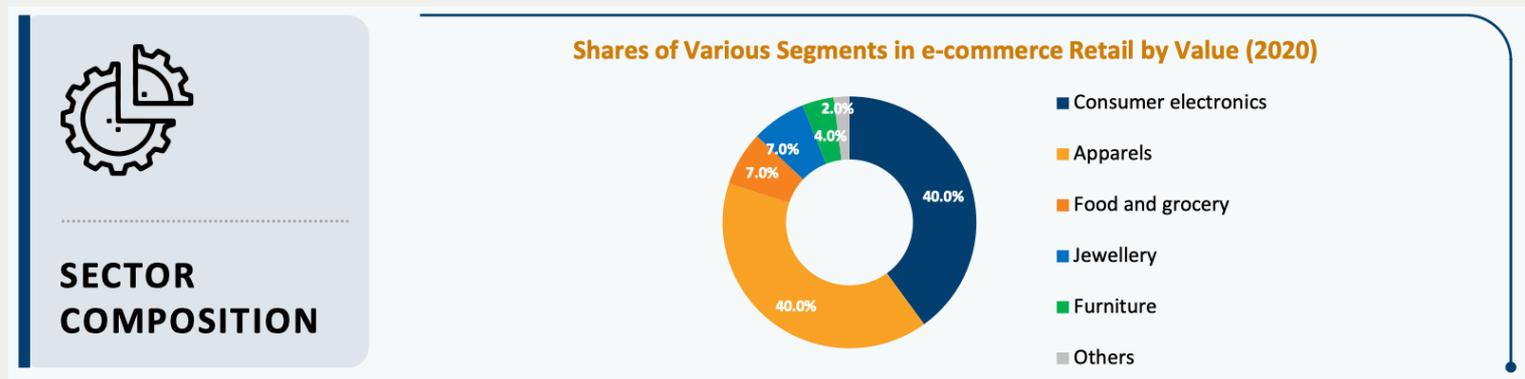
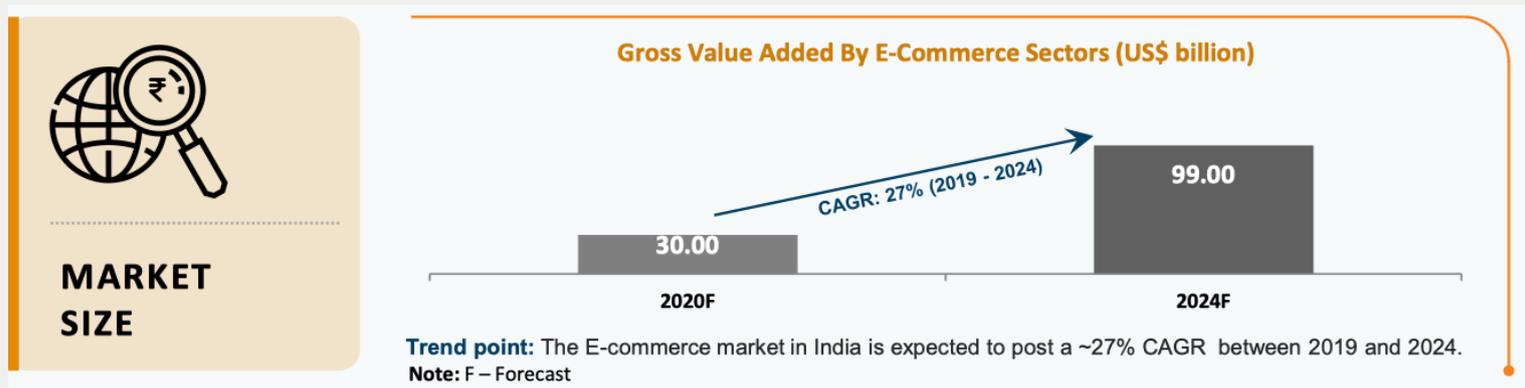
Based on their more recent analysis, e-commerce companies reported sales worth \$ 4.1 Bn across platforms in the festive week of 15-20 Oct 2020 alone.

What is even more interesting is that 55% of those sales came from Tier II cities including Ludhiana, Dhanbad, Asansol and Rajkot

....e-commerce companies reported sales worth \$ 4.1Bn across platforms in the festive week of 15-20 Oct 2020 alone

Figure One: Anticipated market growth from 2020 to 2024

Source: (India Brand Equity Foundation, 2021)



E-commerce giants like Walmart and Amazon reported strong results in 2020 in India across their online retail and e-commerce platforms. A major contributor to the success of these companies is their seller-base which has been increasing exponentially year on year.

As per reports released in December 2020, Amazon Business marketplace grew by 85% in terms of sales, with more than 70000 exporters on the Amazon Global Selling crossing \$ 2 Billion in cumulative e-commerce exports.

Amazon also claims to have more than 700,000 sellers on its marketplace. In comparison, Walmart-owned Flipkart has about 250,000 sellers on its marketplace. Government initiatives enabling ease of doing business for Micro, Small and Medium Enterprises (MSME) has permitted entrepreneurs to register and sell their products on these e-commerce platforms while taking benefit of the mega consumer base on these platforms.

Now, whilst the advantages of this ecosystem to the sellers and consumers are well publicised, its effects on the supply chain players are also noteworthy. Across a vast geography like India, connecting a seller to a buyer throughout the country poses a significant challenge.

It typically requires all modes of transportation to make the delivery to the customer. However, the expectation of receiving the ordered merchandise within 24 hours is fast becoming a norm. This intensifies the need for logistical agility and operational efficiency.

In a vast geography like India, connecting a seller to a buyer across the country is a significant challenge



The transportation industry is a benefactor as well as a key player in the value chain. In order to achieve the shortened timelines, air cargo is the preferred option when compared with rail and sea modes. For India, which is yet to achieve its full potential in air travel connectivity, this presents a unique opportunity in the coming years.

Recent History of Air Cargo

Traditionally, FEDEX, DHL and UPS have been the frontrunners in air freight industry for several decades delivering unmatched value to their customers.

However, these 3 market leaders have been facing consistent competition from passenger airlines also deploying freighter aircraft in their fleet.

Over the years, leading passenger airlines including Qatar Airways, Emirates, Korean Air, Cathay Pacific, Lufthansa and others have added significant cargo capacity.

Most of these airlines have wide body aircraft with large belly capacity to accommodate additional commercial cargo as well as a small number of dedicated freighter aircraft. In fact, as per IATA Air Cargo statistics report published in Dec 2020 – prior to the crisis (COVID 19 pandemic), the belly-hold of passenger aircraft accounted for 60% of total international Available Cargo Tonne Kilometres or ACTKs – a common metric for cargo capacity (Figure Two).

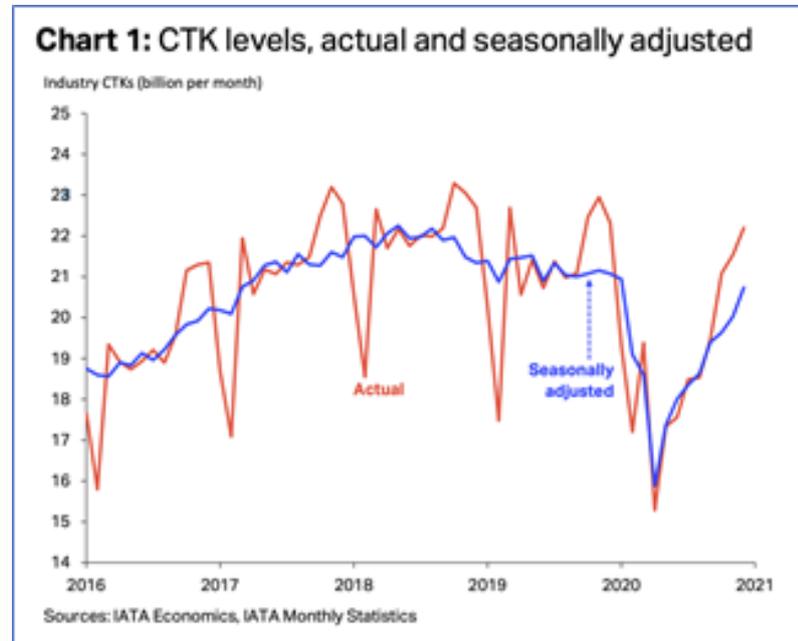
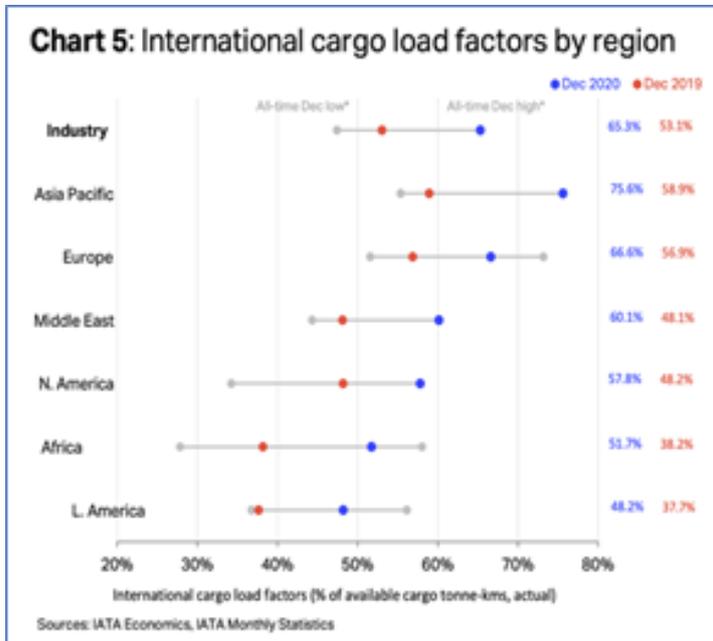
In the recent months, air cargo load factors are experiencing a rebound after the initial steep decline resulting from the lockdowns. As per statistics published by IATA, the APAC region has witnessed considerable growth in 2020 compared with the 2019 numbers around the same time.

Compared with the ACTK statistics for mature markets like Middle East, North America and Europe, the APAC region showed ~25% higher ACTKs for Dec 2020.



Figure Two: International cargo tonne kilometre stats

Source: (IBEF, 2021)



Asia Pacific airlines registered a 13.2% YOY fall in international cargo volumes in 2020 and a 3.9% YOY fall in December.

After a pause in the recovery in Q3, South Asia CTKs accelerated in recent months, driven by the rebound in manufacturing activity and export orders, notably from China and South Korea.

At the same time, airlines raised freighter fleet sizes and daily utilisation of aircraft, which has resulted in a 20.6% YOY increase in dedicated ACTKs over the whole year (24.2% in Dec.). Most of the gains in levels occurred during the mid-year 2020 however, and carriers have been unable to fully compensate for the lack of belly capacity which is expected to continue as we continue to face restrictions on international passenger travel (IATA, 2020).

A consequence of the lack of space for air cargo has been elevated fares. After reaching first peak in April and May 2020, cargo yields have increased again during the peak cargo season in Q4. With resilient cargo volumes, this has led to exceptionally high cargo revenues, up 75% YOY in December according to CargoIS data (IATA, 2020). This can certainly be seen as a market blip caused by supply constraints having a proportional impact on the fare increases and higher revenue yields.

Yet, there are imminent signs of more airlines capitalising on opportunities that air cargo operations may present in the coming days.

In India as well, the statistics are similarly aligned (Figure Three) to the overall revival seen in the other parts of the APAC region.

As shown in the report below, issued by Indian DGCA (Aviation Regulator), freight carriage and weight load factors have consistently increased since April 2020.

Figure Three: India domestic cargo tonne kilometre stats

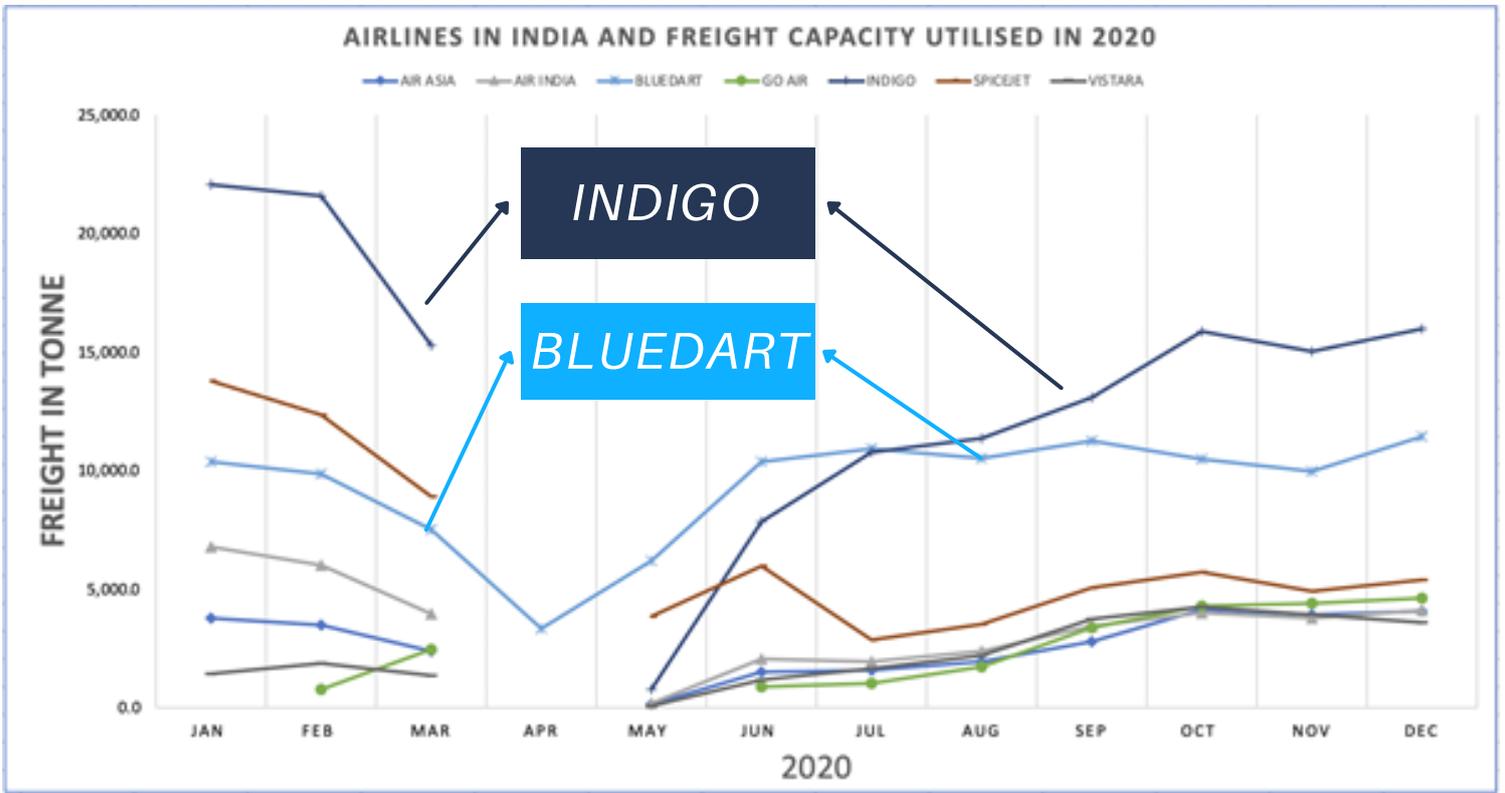
Source: (DGCA India, 2021)

Monthly Traffic And Operating Statistics of Indian Carriers During 2020 (Provisional) (Scheduled Domestic Services)																
MONTH	AIRCRAFT FLOWN			PASSENGERS CARRIED (IN NUMBER)	PASSENGER KMS.PERFORMED (IN THOUSAND)	AVAILABLE SEAT KILOMETRE (IN THOUSAND)	PAX LOAD FACTOR# (IN %)	CARGO CARRIED			TONNE KILOMETRE PERFORMED				AVAILABLE TONNE KILOMETRE (IN THOUSAND)	WEIGHT LOAD FACTOR## (IN %)
	DEPARTURES (IN NUMBER)	HOURS (IN NUMBER)	KILOMETRE (IN THOUSAND)					FREIGHT (IN TONNE)	MAIL (IN TONNE)	TOTAL (IN TONNE)	PASSENGER (IN THOUSAND)	FREIGHT (IN THOUSAND)	MAIL (IN THOUSAND)	TOTAL (IN THOUSAND)		
JAN	95,487	1,67,218	87,579	1,27,47,591	12342405.0	14358228.3	86.0	58,354.2	2,610.2	60,964.4	41,52,730.7	64,658.5	2,609.4	42,19,998.6	60,15,802.6	70.1
FEB	90,959	1,58,679	82,552	1,23,31,165	11864098.1	13521335.1	87.7	56,128.2	2,533.7	58,662.0	42,72,153.1	62,661.6	2,526.3	43,37,341.0	58,67,332.4	73.9
MAR	69,310	1,19,353	63,148	77,35,665	7554543.3	10335611.3	73.1	42,009.0	438.4	42,447.4	26,69,015.1	45,388.2	417.6	27,14,820.9	43,19,652.3	62.8
APR	188	261	202					3,341.0		3,341.0			3,874.0	3,874.0	6,264.0	61.8
MAY	3,813	6,211	3,515	2,78,417	276192.8	543695.4	50.8	11,358.1	215.9	11,574.1	72,061.9	9,347.7	189.6	81,599.2	2,97,364.2	27.4
JUN	22,367	36,004	20,231	19,79,472	1999995.1	3362585.4	59.5	29,829.4	1,569.7	31,399.1	6,80,587.0	29,861.5	1,404.1	7,11,852.6	23,62,395.1	30.1
JULY	24,770	39,807	22,910	21,02,854	2084440.6	3596291.4	58.0	30,812.5	1,916.2	32,728.7	5,16,436.0	33,967.2	1,698.0	5,52,101.3	14,84,297.0	37.2
AUG	28,834	48,999	27,000	28,26,148	2818761.8	4290205.5	65.7	33,730.0	2,087.5	35,817.5	4,88,914.5	34,934.0	1,788.7	5,25,637.2	8,93,468.0	58.8
SEP	39,628	69,574	38,358	39,39,687	4004630.9	6224370.9	64.3	42,863.6	2,476.2	45,339.7	7,08,943.9	49,544.8	2,071.9	7,60,560.6	17,50,095.2	43.5
OCT	49,150	86,315	48,125	52,68,696	5262536.3	7867784.9	66.9	48,879.6	2,737.0	51,616.6	14,89,646.8	56,957.9	2,400.0	15,49,004.7	32,74,476.4	47.3
NOV	54,132	95,387	52,044	63,42,589	6310968.2	8687053.4	72.6	46,080.0	2,522.6	48,602.6	15,75,353.4	53,283.5	2,328.3	16,30,965.2	28,05,836.2	58.1
DEC	64,002	1,13,831	60,566	73,06,064	7220783.5	10272902.9	70.3	49,273.0	3,105.9	52,378.9	21,31,285.4	56,822.0	2,975.5	21,91,083.0	37,32,846.5	58.7
Total	5,42,640	9,41,640	5,06,228	6,28,58,348	61739355.7	83060064.4	74.3	4,52,658.8	22,213.2	4,74,871.9	1,87,57,127.9	5,01,300.8	20,409.6	1,92,78,838.3	3,28,09,829.7	58.8

SOURCE:-ICAO ATR FORM A FURNISHED BY ALL SCHEDULED INDIAN CARRIERS.
NOTE:- # PAX LOAD FACTOR = (KM PERFORMED/AVAILABLE SEAT KMS)*100
WEIGHT LOAD FACTOR = (TONNE KMS PERFORMED/ AVAILABLE TONNE KMS)*100

Upon consolidating the statistics for individual airlines in India, the picture becomes clearer. Indigo, erstwhile India's leading low cost carrier and market leader in passenger transport, emerged as a more formidable freight carrier than Bluebird, a full freight carrier, and all other

passenger airlines in India. Without doubt, most of the freight carried over this period was medical supplies and everyday essentials.



Whilst the passenger aircraft fleet was grounded, Indigo converted 10 of its passenger aircraft into freighter aircraft to transport medical supplies and PPE in the midst of the COVID 19 crisis. The converted aircraft could carry 20 tonnes of cargo compared with the 6 to 9 tonnes that can be carried typically in the belly of the passenger aircraft.

Similar to Indigo, the airline SpiceJet also operates passenger converted freighter aircraft; these are a mixture of Boeing B737-800 and Bombardier Q400 aircraft.

BlueDart, on the other hand, is a dedicated freighter aircraft operator with a fleet of six B757F aircraft. BlueDart is also part of the DHL group focussing purely on the logistics solutions business, unlike Indigo and SpiceJet; relative new entrants in the air freight business.

Based on the recent reports, Indigo is also exploring options to add five A321 P2F aircraft; the latest developments in the Airbus A32 family, with indications of superior performance when compared with traditional freighter aircraft such as the B757 and B767, most of which are already in the phase out stage.

It seems certain that once the pandemic is over, the need for air freight capacity will shift from medical supplies to e-commerce cargo. It is evident that passenger airlines will also view the freighter segment as a viable opportunity to compliment their business. Therefore, the capacity build up is a step in the right direction.

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LEADING INDUSTRY VIEWS ON AIR CARGO MARKET

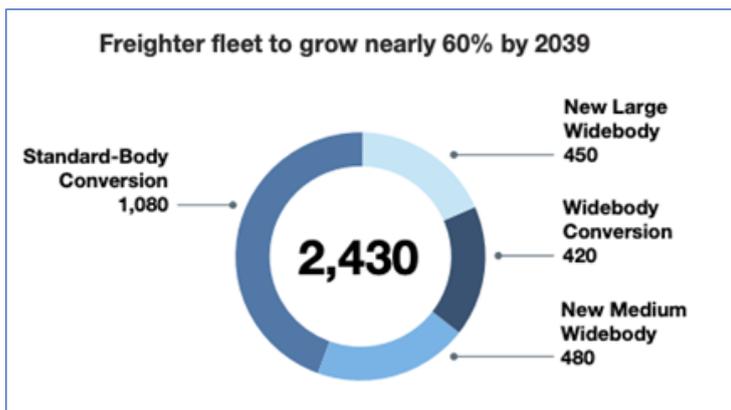
As per Boeing Commercial Market Outlook, released in 2020, the air cargo market is forecast to grow at an average annual rate of 4%, led by the growing markets in Asia.

As a result, the fleet is forecast to expand from 2,010 freighters to 3,260 over the next two decades.

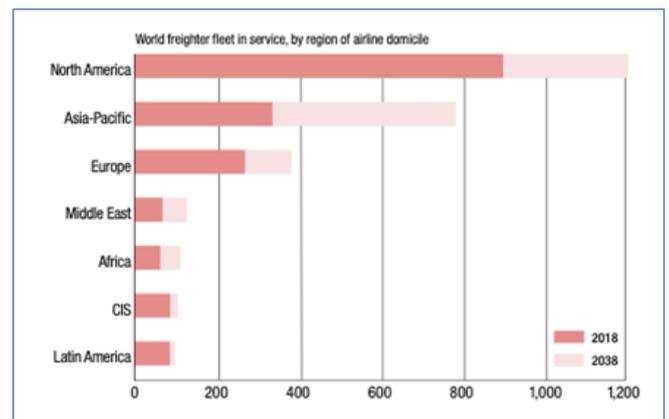
The value of freighters will be increasingly apparent as above-trend growth from e-commerce and pharmaceuticals is expected.

This will drive new opportunities for air cargo, as only freighters can provide the security, speed and safety needed to transport high-value and time-sensitive commodities to serve those market segments. Air cargo's importance to world trade is illustrated by the fact that, although freighters carry just 1% of all commodities by weight, the value of those commodities comprises 35% of total trade (Boeing, 2021).

Figure Four: OEM commercial freighter fleet projections



While Airbus' updated market outlook for 2020-2039 is awaited, the 2019-2038 forecast indicates similar increase in fleets across the freighter segment. As a result of the growth in demand for the transportation of freight by air, the fleet of dedicated freighters is forecast to grow by over 50%, to just over 2,800 aircraft, from the ~1,800 freighters in service.



The largest freighter fleet today, and in 20 years, will be expectedly be domiciled in North America with ~40% of the aircraft, and Asia-Pacific with nearly 30% in 2038, up from ~20% in 2018. (Airbus, 2019)

As seen, both OEMs indicate the expansion of the Asia Pacific markets which comprises of two main high density countries – China and India. In order to successfully serve the consumers in these markets, the air cargo capacity will need to expand proportionately.

China has consistently added infrastructure and capacity over the past few years. India needs to concert its efforts in that direction. Similar to the outlook of the OEMs which is mostly positive, the opinions of other players in the industry, especially within the Indian market, reflect an optimistic view.

IATA representatives in this sector share a positive outlook on the overall cargo revenues, driven primarily by medical supplies and perishable items. Glyn Hughes, Global Head of Cargo at IATA commented, "Cargo volumes are expected to continue the recovery we saw towards the end of 2020 with the continued growth in e-commerce, support for economic production resumption, and the anticipated rollout of COVID vaccines all adding to industry volume growth. Passenger numbers are still expected to be significantly down versus pre-COVID numbers". (Logistics Insider, 2021)

Satyaki Raghunath – Chief Strategy and Development Officer for Bangalore International Airport stated that the, "Introduction of a road feeder service to manufacturing clusters, investment in infrastructure to restart the economy, easing of restrictions on international air traffic movement and cargo-friendly airports hold the key to cargo growth. In addition, the Government of India's Krishi UDAN Scheme, to bolster agricultural exports, will also play a key role in adding impetus to the growth". (Logistics Insider, 2021)

Sakshi Gupta – Country Manager India, Air Logistics Group shares that "The worst is definitely behind us. With the rollout of the vaccine, there is a sense of euphoria amongst people globally. Logistics will be a critically important part of aviation to keep the global economy functional in 2021. Retrofitted aircrafts would be new normal and it would be imperative to accelerate cold storage facilities on-board the planes for sure." (Logistics Insider, 2021)

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Key Contributors to Air Cargo Growth in India:

The growing e-commerce, pharmaceutical and agro-export industry are the primary sources of future demand for expansion of Air Cargo market in India. In order to fully satisfy the demands of these sectors, there are other contributing factors essential to growth.

Airport infrastructure and multi-modal transportation networks:

Airports play a crucial role in improving air connectivity in any country and India is no different. As per the Airports Authority of India (AAI) database, India has 109 airports, all of which have the capability for air freight. Yet, as per the report published by AAI in the Traffic News, over the past 2 years (2019-2021), ~60% of the airports have reported freight carriage less than 1000 Metric tonnes. Out of these, the report also shows that 80% airports did not carry any air freight for the entire year.

This demonstrates potential issue of lack of infrastructure at these airports which can present a future opportunity. While some airports amongst these airports are possibly restricted to air freight due to combined use by the Armed Forces or due to other logistical challenges, several airports are prime tourist destinations as well as producers of agriculture produce and other merchandise.

For example, locations such as Mysore, Agra, Gwalior and Tirupati are prime tourist destinations, well connected with rail networks.

Many of these airports are located in Tier II cities which have sea port capabilities and present an unique opportunity for dual purpose (air and sea) hubs to the entire region. Examples of these Kandla, Porbandar and Pondicherry are all sea-shore cities which can present this infrastructure opportunity.

Therefore, multi-modal transportation systems with airports acting as the primary source of bulk cargo management hubs are needed to boost the logistics efficiencies.

On the bright side, the pandemic has proved that the ramp up of the infrastructure can be achieved swiftly. As per recent reports from Ministry of Civil Aviation as well as Senior Economic Advisor Ms. Vandana Aggarwal, the cold storage and shipment infrastructure essential for movement of perishable items and medical supplies proved to be ~50% above peak capacity.

When placed in context of ensuring that the entire population of 1.4 Billion people needed immediate access to daily essentials the availability of excess capacity is certainly a noteworthy feat. The future consumer demands further justify the need expand the airport capacities in each state of India and improve connectivity between air, sea, rail and road networks.

Cargo handling and facilities:

With a view of aiding and strengthening the air cargo logistics infrastructure in India, the Ministry of Civil Aviation (MoCA) released policies regarding setting up of "off-airport common user facility for handling international air cargo" called Air Freight Stations (AFS).

Such AFS' would be equipped with fixed installations of minimum requirements and offering services for handling and temporary storage of import and export cargo.

This initiative of AFS will create an enabling environment for promoting international air cargo operations by reaching out to hinterland regions of the country besides de-congesting the congested Air Cargo terminals in some gateway international airports that face high dwell time (Ministry of Civil Aviation India, 2014).



A logistics solutions provider engaged in the complete supply chain would benefit from such dedicated air freight stations to expedite the process of air cargo clearance which translates value to end user.

The primary functions of the AFS are as follows:

- (a). Receipt of Export Cargo for processing and to make the cargo "Ready for Carriage" condition including ULD (Unit Load Device) building of export cargo and scanning of cargo. While ULDs will be the ideal mode of handling cargo for and from AFS, export / import consignments both in palletised / ULD and bulk, loose form shall also be facilitated.
- (b). Transit operations by road to and from serving Airport.
- (c). All Customs related requirements for import and exports including inspection of cargo wherever required.
- (d). Unitisation of Cargo.
- (e). Temporary storage of cargo and Unit Load Device (ULDs).
- (f). Re-building of ULDs of Export Cargo.
- (g). De-stuffing of Import Cargo.
- (h). Storage, Examination, Packing and Delivery of Import Cargo.
- (i). Auction / disposal of 30 days old uncleared Import Cargo.
- (j). Maintenance and repair of Unit Load Devices

In today's fast paced environment, technology plays a crucial role in achieving efficiencies at scale. Setting up operations or scaling existing businesses require enhanced usage of technology and digital systems.

With a significant amount of trained human resource and advanced skills in varied fields of engineering, India is a formidable force in Science, Technology, Engineering and Math (STEM) fields.

As per reports from IBEF, India's IT industry contributed around 7.7% to the country's GDP and is expected to contribute 10% to India's GDP by 2025.

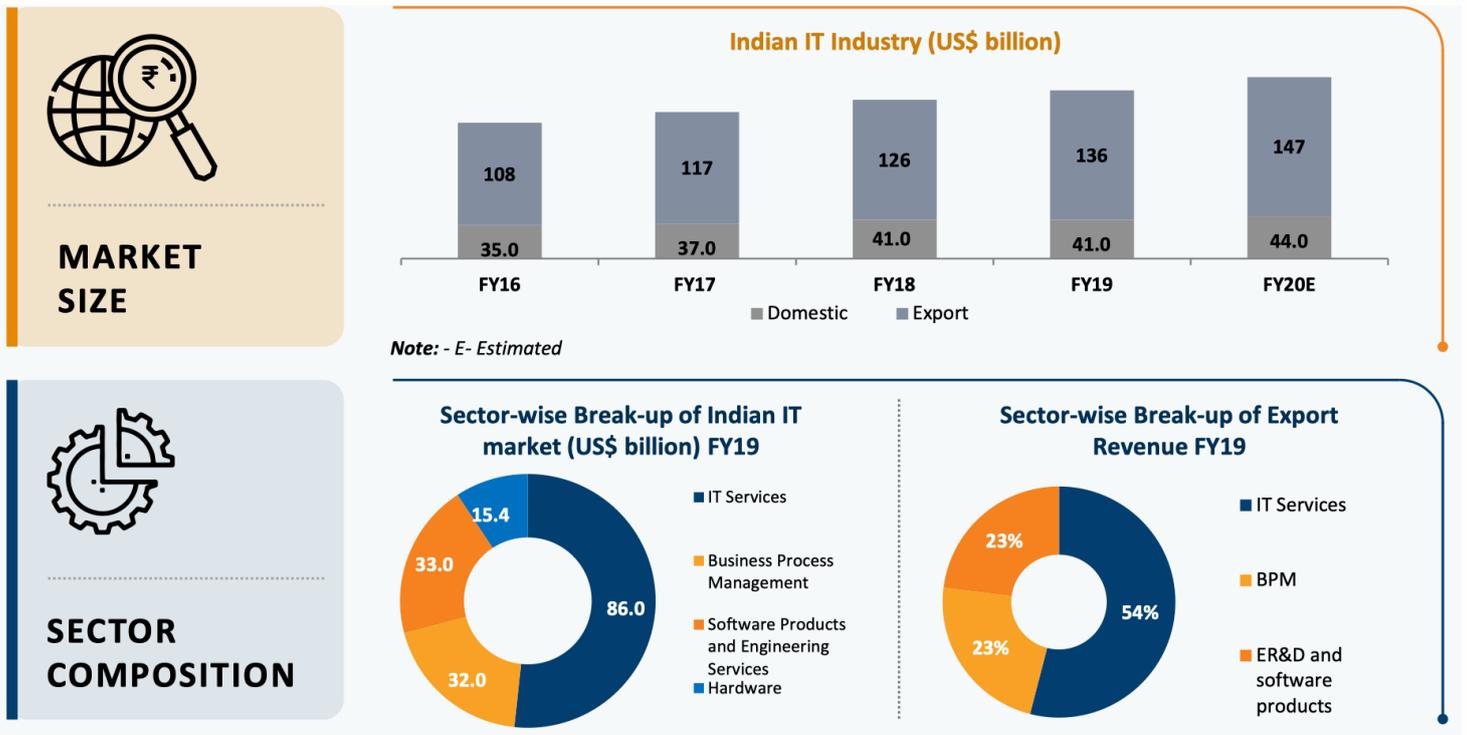
The expanding use of Artificial Intelligence (AI) and Machine Learning (ML) is also a focus area for most of India's IT companies.

As reported by IBEF, AI and ML will contribute more than \$ 1 Trillion to the Indian economy by 2025 and IT spending in India will increase to \$ 81.9 Billion in 2021.

India currently commands 55% of the global IT services sourcing business and IT & BPM companies in India have set up over 1000 delivery centres in about 80 countries across the world.

Figure Five: India market estimated growth and composition

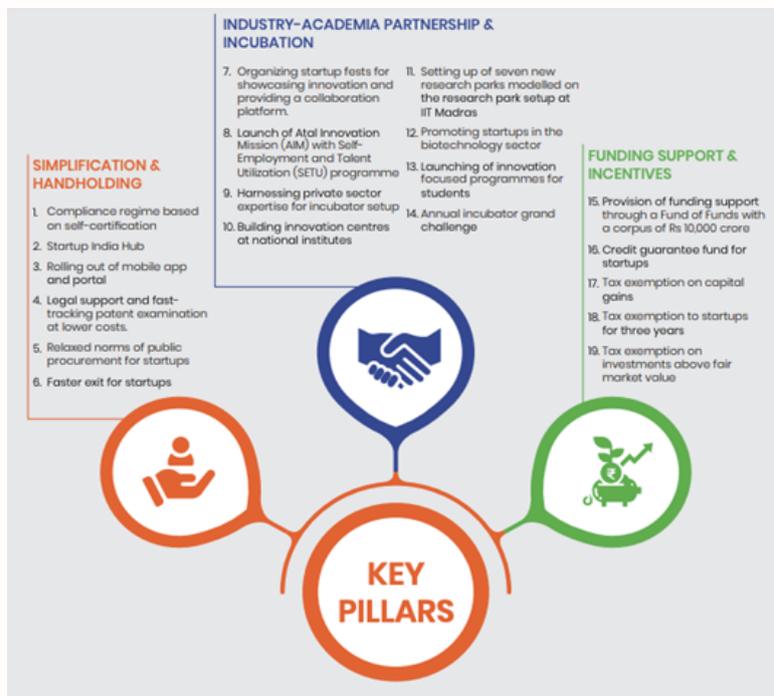
Source: (India Brand Equity Foundation, 2021)



More impressive, however, is the start-up ecosystem in India which has been supported by several recent government initiatives such as Make in India, Start-Up India and "Ease of Doing Business" initiatives. The Start-Up India initiative laid out key action plans to

provide holistic support to entrepreneurial businesses and create a level playing field for them to thrive. It has identified three key pillars of future success (Figure Six) of India's budding start up and MSME community.

Figure Six: Start-Up India Initiative, 3 Key Pillars of Success



As per the Start-Up-India website, as of Mar 2021, there are a total of 136,464 start-ups in India across a variety of industries. However, 34,115 start-ups or 25% of these start-ups are in the field of analytics, AI, Enterprise Software, Finance Technology (FinTech), Internet of Things (IOT), Robotics, Transportation and Storage, IT Services and Logistics.

In essence, this demonstrates that the industrial advances have the necessary technology enablers and digital ecosystem to achieve the desired results. In addition to these, there have been measures taken to address data availability, transparency and digital information management systems.

The Unified Logistics Interface Platform or ULIP and National Logistics Portal-Marine or NLP-Marine, unveiled in 2020, are crucial steps in unifying information centres in the supply chain across India.

ULIP (Unified Logistics Interface Platform) is an integrated multi-modal platform for digitising supply chain issues to address the logistics sector. On the other hand, the National Logistics Portal will be a national maritime single window encompassing complete end-to-end logistics solutions.

The idea behind the creation of the portal is to be of benefit to exporters, importers and service providers. It will work as a single platform for the primary activities of importers, exporters and customs brokers.

It will have solutions such as domestic tracking of the shipment with notifications, online transaction with custodians, remote electronic data interchange (EDI) system package for Bill of Entry and Shipping Bill checklist plus EDI file generation and document management system to store important documents securely on cloud storage.

Technological advancements such as these, coupled with a robust ecosystem of digital solutions service providers, the integration of the entire logistics value chain will be possible.

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Aircraft play an irreplaceable role in ensuring smooth air cargo operations.

As seen in previous sections, large corporations like Boeing and Airbus forecast a huge need for cargo aircraft to support expansion of air freight operations in the future.

While the manufacturers gear up for delivering these large quantity of aircraft, the requirements of maintenance, leasing and financing of these aircraft also need to be fulfilled.

Routine maintenance of aircraft is paramount for the safe and smooth operations of the aircraft. Due to the global nature of the business, it is also essential that there exists adequate facilities and maintenance, repair and overhaul (MRO) players in the said market.

Traditionally India has been dependent on established MROs in Malaysia, Singapore, Hong Kong and Middle East for majority of the maintenance work.

Outsourcing of the maintenance to these foreign stations was attributed to the lack of adequate capacity in India as well as counter-productive taxation and investment policies in India.

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India's talent pool of aircraft maintenance engineers, technical support personnel and management cadre have traditionally sought foreign MROs and airlines due to the high demand for such services.

However, with economies badly impacted by the pandemic, the compressing job market in regions such as Middle East and South East Asia is forcing a large portion of the work force back to India.

Combined with the excess human resource available owing to layoffs resulting from closure of Jet Airways less than 2 years ago, there is currently an

over-supply situation with regards to aircraft maintenance personnel.

In order to restore the necessary balance in this regard and to incentivise the airlines to source maintenance services locally, several reforms have been made in the aviation MRO sector.

This has provided a better platform for Indian MROs to provide value for money to its airline customers. Futuristically, this also provides a sound reasoning for increased investments in MRO sector for sustainable returns.

Aircraft leasing and financing

Aircraft are capital intensive assets and draw attention to the needs for financing prior to acquisition. Almost half a century back, the aircraft leasing industry was conceptualised in Ireland and has proven to be a successful industry that has provided a robust financial platform for many airlines to thrive.

For more than 50 years, aircraft financing and leasing has been primarily remained isolated to a select few countries like Ireland, USA, Singapore and Hong Kong.

Most of the aircraft in India are leased except for certain owned or finance leased aircraft in Air India and erstwhile Jet Airways. This presents a disadvantageous position to the Indian airline carriers. Airlines in India earn their revenue in Indian Rupees which has periodically weakened in comparison with the US Dollar.

The cash outflow in US Dollar puts immense pressure on the airline when realising cash inflow in Indian Rupee. Price sensitivity amongst the consumers and highly competitive market further places downward pressure on the profit margins of the airline carriers. Finally, the aviation regulations in India denied local investment institutions, banks and other private equity players from setting up leasing platforms on-shore in India.

However, this is now set to change in coming years. Initiated in 2019, the Government of India has fast tracked drastic changes to the aviation regulations to develop aircraft leasing and financing hub in India. These changes in regulations will now provide a level playing field to Indian lessors to compete with those based in Ireland, Hong Kong, Singapore and USA.

ECONOMIC REFORMS AND POLICIES

The success of any mega-scale industrial initiative requires commensurate economic policies in place to benefit the industry.

The recent policy reforms demonstrate the government's futuristic view point to boost entrepreneurial ecosystem and facilitate trade.

In the aviation sector as well, there have been several key initiatives in the past five years that present a conducive market for players to enter.

Aircraft maintenance services

Recognising the importance of Airports as crucial players in the entire logistics value chain, there have been consistent strides in privatisation of airports in India over the past few years.

As per reports published in June 2020, the first round of privatisation in February 2019 had seen six AAI airports – Ahmedabad, Jaipur, Lucknow, Guwahati, Thiruvananthapuram and Mangalore – being auctioned to overwhelming market response, with more than 25 independent bids.

The second round, of six more AAI airports – Trichy, Varanasi, Amritsar, Indore, Bhubaneswar and Raipur – all of which logged growth of over 20% between fiscals 2014 and 2019 are planned for the next privatisation round.

The combined potential investment in these six airports is expected to be Rs 4,000-6,000 crore (~ \$ 555 Million). Six more airports are due to be privatised in the third round as well.

Airport privatisation through Public Private Partnership or PPP Model offers unique opportunities to the private players to reap significant financial and economic benefits for many years to come.

As per the National Civil Aviation Policy (NCAP) released in 2016, there are substantial fiscal incentives on offer to private players who express interest in infrastructure projects which include the following:

·Hundred per cent (100%) deduction in profits for purposes of Income Tax for the first five years.

·Thirty per cent (30%) deduction in profits for the same purpose for the next five years.

·Full deduction to run for continuous ten (10) out of twenty (20) fiscal years of the assessee's choice.

·Forty per cent (40%) of the profit from infrastructure is also deductible for financial institutions providing long-term finance for infrastructure projects.

In the aviation sector as well, there have been several key initiatives in the past five years that present a conducive market for players to enter.



Trade facilitation and optimisation

Similar to the infrastructure development of airports for improving passenger service capacity and experience, the handling of cargo is an equally important area having substantial commercial impact.

This area of the aviation value chain is being addressed through National Trade Facilitation Action Plan – 2020-23 (CBIC India, 2020) where key steps are being initiated to improve the efficiency of ground handling of cargo. The initial National Trade Facilitation Action Plan 2017-20 was formulated as an early measure by the Government of India to be an active facilitator of trade.

The initial NTFAP identified 96 specific measures assigned to stakeholders with indicative timelines for implementation. Building upon this initial action plan and taking cognizance of the contribution of

cargo revenues to the airports, the NTAFP 2020-23 seeks to enable a reduction in the overall release time associated with the clearance of goods with regards to:

- Imports – less than 48 hours for Sea / ICD / ICP and less than 24 hours for Air.
- Exports – less than 24 hours for Sea / ICD / ICP and less than 12 hours for Air.

In addition to the NTAFP, the Government of India is also in trade negotiations with other land-locked countries in the region to enhance the air cargo and multi-modal connectivity networks with such nations.

As a compliment to the current Open Sky Policy adopted by India, a close collaboration with land locked countries to explore trade opportunities through dedicated freight corridors will certainly

boost the speed and outreach of-import activities with India.

This level of cross-border international trade will have far reaching effects on India's own air cargo eco-system and capabilities.

MRO sector

As reported in Business World magazine article (Business World , 2021), MRO services were taxed at 18% while the same services if done overseas attracted a tax of 5%. Additionally, no customs duties were levied on import of MRO services from overseas.

This severely limited the ability of India's MROs to compete and they were left competing for contracts where the labour pay arbitrage made for a more economic proposition.

The high-value work including heavy checks on aircraft and engine overhauls continued to be sent to overseas. This then led to a situation where the infrastructure required for high-value work was never developed and India's airlines (with the exception of Air India) continued to depend on foreign contractors for majority of their high-value MRO requirements.

Despite labour advantages, a qualified talent pool and exponential growth in airline fleets, Indian MROs continued to be unviable.

However, in March 2020, the government adjusted the rates of MRO to 5%. Further, it changed the place of supply for B2B MRO services to the location of recipient. Clearly, the move is aimed at encouraging India's airlines to source their maintenance needs from providers within the country and not from providers overseas. This move not only reduced taxes for India's MRO providers but also gave them full input tax credit (ITC). Foreign MROs continue to not be eligible for Input Tax Credit (ITC) as opposed to their Indian counterparts. This provides the Indian MROs with much needed competitive advantage to source local work from the airline partners and pass the value advantage to them. This can prove to be a key benefit to any new airline starting up in India and looking towards cost savings for their maintenance expenses.

With India's airlines having a sizeable order backlog with the manufacturers, the need for support in maintaining financial stability was a major concern. The future cash outlays for the Indian Airline Carriers include large foreign exchange outflow towards lease rental payments to lessors based abroad.

With a pivotal step to provide relief to the cash strapped airlines, new policies have been implemented in India which will provide tax holidays on capital gains to aircraft leasing companies domiciled in India and, at the same time, provide tax reliefs to airlines for lease rental.

payments made to aircraft lessors based at the International Financial Services Centre (IFSC) in GIFT City, Gujarat, India. This two-pronged approach intended to benefit the airlines and the aircraft lessor is expected to provide a viable ecosystem to the Indian aviation sector in achieving self-sustainability, eventually benefiting the overall economy.

Apart from the tax breaks and financial incentives, setting up of aircraft leasing and financing ecosystem in India will also help provide similar services to airlines in the region further improving the economy. Air Freight carriers – present and future – will also benefit from these economic reforms in years to come.

Conclusion

It is evident that the e-commerce industry is set for expansion globally as well as in India. The massive population of India, improving disposable income of the masses, internet penetration and availability of smart phones are factors that are expected to drive the next phase of e-commerce adoption in India. Consumer behaviour patterns already indicate that delivery time of ordered merchandise will be viewed as value differentiators and e-commerce players will continue to compete heavily on this front.

To satisfy the consumer demands as well as the competing players, the entire logistics sector is set to undergo a major overhaul – led by the Air Cargo segment.

The market conditions, in addition to the latent demand, is ripe for first-movers to lay stake to the opportunities that exist. The recent economic reforms and those expected to be implemented in the near future demonstrate the seriousness of the political and industry leadership to boost the contributions from the industry. These indicate the bright future that Air Cargo industry is set to experience in India in the years to come.

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