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'Govt should create sovereign fund for aerospace'

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Aravind Melligeri, president and CEO, QuEST Global, says global aerospace majors want to source from India, despite the sector still being at a nascent stage.

Aravind Melligeri, president and CEO, QuEST Global, says global aerospace majors want to source from India, despite the sector still being at a nascent stage. He told DNA it wouldn't be long before Indian firms develop complete design and build capabilities for large aerospace contracts.

Excerpts:

Most global aerospace companies such as GE, Rolls Royce, Pratt and Whitney, Boeing, Airbus, EADS and others are here, but India still doesn't have much of aircraft or aircraft parts manufacturing happening out of India. Why is that?

Historically, India has jumped from farming to services and skipped the manufacturing bandwagon because of the inadequate physical infrastructure. I guess we can see that reflected in the aerospace sector too. But that is changing now with some pieces of aerospace infrastructure evolving in India. This is expected to grow as we buy more defence and civil aircraft from global aerospace companies, which are likely to create offset obligations for sourcing aircraft components from India.

Also, we are seeing a lot of production engineering and engineering services for aerospace, oil and gas and power industry being done out of India.

How large is the share of aerospace in India's engineering services outsourcing (ESO)?

It is fairly large. It (aerospace) is close to half billion right now. If you include IT, it must be almost a billion dollar. This is 50% of the total Indian ESO revenues. Most of it is due to the commercial and military obligations under the offset deal. It is these obligations that made many of the global aerospace companies look at India for aircraft parts and structures.

Not that India did not have value (earlier), but these obligations have woken them (aerospace majors) up to it. They were looking at China since 1990. Now, Eastern Europe, Mexico and India are also part of emerging markets. One of the reasons, Indian companies do not want to invest in aerospace projects is because of their long gestation periods, which can go up to 20-30 years. It also requires huge investment.

But some of us have started dabbling into it. We are already doing design pieces. A lot of engineering works for Airbus' A350 and Boeing 787 has happened from India. These include work on controls, in-flight entertainment and others. We have designed flap and landing gear controls from India and now we are manufacturing these components from Bangalore and Belgaum.

We supply to our customer Magellan, which then gets integrated at Messier-Dowty, who are the actual makers of the whole landing gear systems of Boeing 787. Our components go as module and get plugged into the system. That's how the evolution is happening. We are also making floor board components and main landing gear components of A380 for SABCA. We are making door components of Boeing 787 for SAAB.

So, it's only the subcontract work that is coming to Indian firms?

Absolutely, if you look at aerospace supply chain, there are the original equipment manufacturers (OEMs) - Boeing and Airbus. Then, you have Tier I contractors such as the SAAB, SABCA and others, who get system level contracts, parts of which might get outsourced. Today, because India does not have complete integrated design and manufacturing capability, we end up getting mostly design part of it. Tomorrow, they might outsource whole design and build portfolio to us. We expect the evolution to happen.

Are Indian firms prepared for executing such design and build contracts for aircraft systems?

At that stage, it will involve risk sharing with the OEMs. The OEMs are under a lot of financial pressure and they want their partners to put in money. The risk capital could range from \$100 million to \$300 million and have more than 7-8 years of gestation period. So, unless there are organisations or associations or consortium to take a view of that nature, it is going to be a challenge. But, first we need to have the ability to meticulously execute design and manufacturing pieces. After that, we can try to integrate both and take risk capital on top of it so there is evolution. I believe India will get there.

Are Indian firms sharing any kind of risk today with their aerospace customers?

We are doing it (sharing risk) at a smaller level - at the sub-system level. For instance, we (QuEST Global) are investing in the landing gear control programme of Boeing 787. We have invested in tools, which we will start recovering once we start shipping next year.

Do they have appetite for such risk?

Smaller companies may not have it (risk appetite), but even for large companies, it is easy unless there is active participation from the government like in the advanced economies. See, there are a lot of opportunities in India, so to make a choice for a long gestation investment like aerospace is not easy.

What kind of government assistance does the sector need?

One of the biggest challenges for us is interest portion of the overall investment because of the long gestation period involved in these programmes. The government should create a sovereign fund for aerospace into which we can tap. It can be similar to the fund created for infrastructure project by the Indian government.

What is the size of the aerospace industry in India?

It is still in a very nascent stage. We are just 0.2% of the global aerospace industry if we leave HAL out.

What needs to be done to develop aerospace sector in India?

We need to develop scale and the complete eco-system for it. Overall, the industry is slowly getting there. Despite being at a nascent stage, customers are coming and they want scalable suppliers. They want to simplify the supply chain because managing the suppliers is a very complicated affair in aerospace.

They want few of them (suppliers). We have laid down a plan to do one million hours of manufacturing by 2015. We want to build that kind of scale at our Belgaum SEZ.

Last year, we did 100,000 hours. This year, we will do 200,000 hours. By 2015, we will increase 10 times from where we are today. That will give the scale to the customers to come and get all their requirements from one location. We have to compete globally.

Currently, only Hindustan Aeronautics Limited (HAL) has forging and casting facilities that cater to their own needs. We are trying to develop it at our SEZ in Belgaum.

Today, even the raw material used for aircraft components is imported. There are no mills which manufacture aluminum for aerospace in India. We import it from US and Europe. Only if there is enough consumption, will any mill think of producing it. This pushes up cost because of logistics. Aerospace grade aluminum may cost \$6 or \$7 a kg but you may spend additional \$4 for just airlifting it. All these hurdles need to be crossed.

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