

THE FUTURE OF THE MRO INDUSTRY IN INDIA: TRENDS AND OPPORTUNITIES



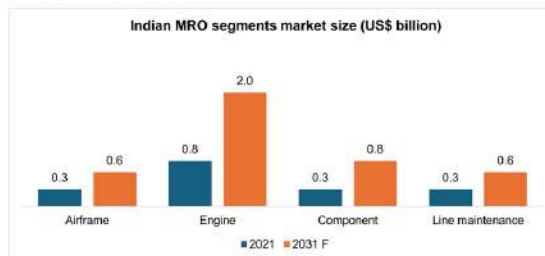
India has emerged as the third-largest air passenger market in the world, underscoring the critical role of the Maintenance, Repair, and Overhaul (MRO) industry in ensuring the efficient functioning of its aviation sector. MRO operations are vital for maintaining the airworthiness and availability of aircraft across commercial and defence aviation. The MRO ecosystem is a complex network that encompasses Original Equipment Manufacturers (OEMs), airline operators, service providers, vendors, and manufacturers of parts and spare components. This multifaceted landscape includes key segments such as airframes, engines, components, and line maintenance, presenting significant opportunities for growth in the Indian MRO industry.

Trends in the Indian MRO industry

The MRO sector in India is evolving, with a strong importance on latest technology to boost efficiency and service quality. By leveraging digital solutions for maintenance tracking and management, companies are modernizing operations and being competitive in a dynamic market.

India is placed as the third-largest air passenger market globally as of April 2024. To supply to the growing air passenger traffic, the aircraft fleet has also increased from 400 aircrafts in 2014 to 644 as of December 2023. This growth has been supported by favourable government policies, increasing the demand for MRO services. As per a NITI Aayog report, the Indian MRO market, valued at approximately US\$ 1.7 billion in 2021, and expected to reach US\$ 4 billion by 2031, reflecting a strong Compound Annual Growth Rate (CAGR) of 8.9%, significantly outpacing the global average of 5.6%.

Moreover, India's civil aviation MRO industry, which is valued at US\$ 900 million on March 2022, is one of the fastest-growing sectors in the country. It is expected to drive substantial advancements in MRO capabilities throughout the Asia-Pacific region, with an anticipated growth rate of 9.1% by 2031. These trends highlight the potential and transformative changes shaping the Indian MRO landscape, making it an exciting area for investment.



Source: Deloitte Report 2021, Note: F-forecasted

Factors driving the growth of the Indian MRO industry

- Increased fleet size:** The Indian aviation sector is growing, and forecasts suggest that India will soon be the third-largest buyer of commercial passenger aircrafts with over 1,000 on order. This expansion necessitates regular maintenance and repair. It is expected to generate a demand for 200 to 300 major maintenance checks each year, as airlines increase their fleets and replace older aircraft. India is estimated to require over 2,200 aircraft by 2042, which will increase the demand for maintenance and repair services even further.
- Growing passenger traffic:** The Indian air passenger traffic is witnessing a strong annual growth rate of around 15% (pre COVID-19) as per NITI Aayog. As a result, there will be a corresponding rise in the demand for MRO services to support the increasing aircraft movements which has surge to 11,73,875 during the period April to August 2024 from 10,91,569 during the same period last year, marking a 75% growth. This surge in passenger traffic underscores the need for enhanced maintenance to ensure safe and reliable air travel.
- Policy support:** To promote the growth of the MRO sector, the government India launched many projects like the MRO Policy 2021 and the National Civil Aviation Policy 2016. These policies feature tax rationalisation, the removal of certain duties, and incentives for investment in MRO facilities, all of which are essential for strengthening domestic capabilities. This governmental support creates a favourable environment for the MRO industry to boom, driving growth and enhancing the overall sustainability of India's aviation sector.

Government initiatives

- MRO policy 2021:** In September 2021, the Indian government proposed this scheme to enhance investment and performance in MRO facilities in India. It provides land on lease for MRO services and facilities for as long as up to 30 years, removing previous royalty charges from the Airports Authority of India (AAI). Furthermore, eight airports, including major cities like Delhi, Mumbai, Chennai and Kolkata, have been authorized for MRO facility establishment. The policy also underlines skill development in the sector, promoting the creation of training centres.
- National Civil Aviation Policy 2016:** The National Civil Aviation Policy (NCAP) 2016 has been influential in the growth of the MRO industry in India through different strategic provisions. It permits infrastructure status to MRO facilities, enabling access to financing and tax incentives. Another aspect is the reduction of customs duties on MRO services, which stands at 5% against an earlier rate of 18%, making domestic options competitive. It also introduces Viability Gap Funding to support regional airlines, encourages 100% Foreign Direct Investment (FDI), simplifies the regulatory process of approvals, and encourages skill development programs aimed at producing a competent workforce to push for better productivity at the MRO level.
- Development of the manufacturing ecosystem:** Under the Aatmanirbhar Bharat expansion initiative, the central government aims to develop a defence and aerospace manufacturing ecosystem through central grants and support. Several state governments have been chosen to establish manufacturing corridors to support this vision, emphasizing the aerospace component, including Tamil Nadu, Karnataka, and Uttar Pradesh.

Opportunities

- Growing demand for domestic services:** Presently, over 90% of MRO supplies in India are received through imports, showcasing a significant opportunity for domestic players to capture market share as local capabilities develop. The government's push towards self-reliance supports this trend as India is witnessing a growing fleet and availability of young talent who can contribute significantly. This will not only provide employment to pool of engineers in the country but also reduce foreign exchange outflow.
- Emerging opportunities in defence aviation:** The growing defence sector in India offers significant growth opportunities to the MRO industry, with estimates suggesting it could reach US\$ 3 billion by 2031 from US\$ 1.8 billion in 2021. As India's defence fleet ages, the demand for maintenance and repair services will continue to rise, highlighting the need for robust MRO capabilities to ensure operational readiness and reliability. This requirement presents an opportunity for MRO providers to expand their services and contribute to the nation's defence preparedness.
- Strategic partnerships and investments:** Collaborations between Indian firms and global players are increasing, such as partnerships with OEMs to establish local MRO facilities. These investments are essential for enhancing service capabilities and attracting foreign investment as this is a capital-intensive industry. In August 2024, Boeing and AIESL joined forces to offer in-country overhaul services for the essential components of India's Naval fleet of 12 Boeing P-8I aircrafts. Recently, the first landing gear overhaul of a P-8I aircraft was successfully completed at INS Rajali. This marks a significant milestone in India, highlighting the country's advancing indigenous capabilities in the MRO service.

The road ahead

The Indian government is actively encouraging air service operators to conduct aircraft maintenance domestically by implementing policy changes and offering fiscal incentives. These efforts aim to enhance the ease of doing business and attract investment in the MRO sector. As India continues to emerge as one of the fastest-growing aviation markets post-COVID, there is an opportunity for Indian conglomerates to lead in establishing MRO facilities. By leveraging relationships with aircraft OEMs and international airlines that provide high-quality MRO services, companies can develop robust capabilities and infrastructure in India, potentially through subcontracting arrangements. By executing strategic moves, the MRO sector in India is well-positioned to achieve long-term sustainable growth and success, meeting both domestic and international aviation needs effectively.