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INDIA'S PRIVATE SECTOR ENTERS THE AIRCRAFT INDUSTRY

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Introduction

India's aircraft industry was started in the private sector in 1940. However, soon thereafter it came to be nationalised due to the exigencies of war. After World War-II ended and India gained independence India's sole aircraft building enterprise at the time Hindustan Aircraft Limited (HAL) was retained as a public sector, owned and run by the government, enterprise, A public sector undertaking (PSU), due to government policies. Thereafter for several decades aircraft manufacture in India has remained a state monopoly. As part of the liberalization process that finally gained traction in the early 1990s the Indian Government progressively relaxed its control on the aircraft industry through permitting interested private sector parties to enter the Indian aircraft manufacturing industry in a phased manner. This step was intended to increase private sector participation in the industry with the hope of higher efficiency and new product development over time.

Background

From the time that the Indian Government permitted private sector companies to participate in the national aerospace industry, a few companies stepped in quite quickly. One of the first companies to do this was Bangalore based Taneja Aviation and Aeronautics Limited (TAAL). TAAL tied up with Italy's Partenavia to manufacture the twin turboprop P-68 light commuter general aviation aircraft in India. TAAL also entered into other areas of the aerospace industry through winning contracts to build large aero structures for Indian space Research Organisation's (ISRO's) launch vehicles. TAAL has a division that offers building and operation of airports on turnkey basis. TAAL also markets the Cessna Citation range of business jets in India while also undertaking maintenance and support of these aircraft. TAAL, however, has not ventured out of the niche of offering services and building



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only relatively small general aviation aircraft. There has been to attempt by TAAL to expand its expertise into other areas of aircraft design and manufacture.

The Mahindra group has been involved in supplying equipment to the country's military for decades. The initial supplies by Mahindra Group were light utility vehicles such as license built Jeeps. These were progressively indigenized and their own designs were supplied later. Still later Mahindras commenced offering specialised services such as specially modified vehicles for use by the security forces. In recent years the Mahindra group has invested in aircraft plants abroad and obtained the rights to a few light aircraft that are offered to customers. These light aircraft from the Mahindras also fall in the light general aviation category. The Mahindra Group has established expertise in land vehicles and has carried out extensive Research and Development (R&D) in this field. The same level of R&D is not evident in the Mahindra Group's foray into aircraft building.

At various stages other big domestic business houses have indicated interest in entering this industry. When the Indian Government was negotiating the purchase of the French Rafale fighter with its manufacturer, M/S Avions Marcel Dassault, it emerged that Dassault wanted to tie up with the newly formed Reliance Aerospace to manufacture the aircraft in India.

The IAF, in view of its experience with the monopolistic state owned public sector Hindustan aeronautics Limited (HAL) has been keen on the private sector entering the aircraft manufacturing industry in its pursuit of reliable aircraft builders in India. The IAF in the case of replacement of its ageing fleet of HS-748 "Avro" light transport aircraft in consultation with the Government specified that 16 aircraft out of the total order for 56 aircraft would be bought directly from the original equipment manufacturer (OEM) while the remaining 40 were to be built in India by a collaboration between the OEM and an Indian private sector company. Initial reports on this project mentioned that the project had been put on hold as only one bidder; the Airbus-TASL group remained in the fray. A single vendor situation was not desired by the authorities. A relook appears to have been



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taken and it has been reported in the media that the Indian Government has awarded the Airbus and TASL an order worth \$1.87 billion for 56 C-295 aircraft to replace the IAF's Avro aircraftⁱ.

This contract bodes well for the entry of the Indian private sector into aircraft manufacturing. The Tata Group has been very active in various segments of the economy and has several innovative products in the market, that have been developed through in-house R&D. these include the Swatch water purifier, a range of motor vehicles ranging from trucks, buses and cars. It could be reasonably expected that TASL would expend all efforts to internalize the learning available in building the C-295 aircraft in India in collaboration with airbus. Over time, this process could lead to TASL achieving standards and skills that enable it to take on a larger role in the aircraft industry. TASL is also unlikely to be held back by the bureaucratic issues that are reported to play a part in HAL, a PSU enterprise. The entry of the Tata group into aircraft manufacture could lead to a true transformation of India's aircraft industry.

The story of TASL with Airbus is likely to be watched with great interest by other large Indian business groups. These business organizations are likely to use the TASL experience as a test to determine the feasibility of more parties bidding for future contracts for the IAF and other operators. Overall in case the TASL venture succeeds on the production as well as profitability fronts more activity could be expected by private parties in the Indian aircraft industry. Combined with existing players such as Samtel Display Systems etc. bodes well for development of an effective and internationally competitive domestic aerospace industry over the next few decades.

Conclusion

India's aircraft industry has been a PSU monopoly since the 1940s when it was formed. Due to monopolistic market issues the main local player, HAL, has been unable to meet the requirements of users of aircraft in both the military and civil sector. The initiatives by the Government to give an impetus to the entry of private players into the aircraft industry have resulted in the Tata group entering into an arrangement with Airbus to bid for and win the IAF's Avro replacement program



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with the Airbus C-295 being offered. Of the total need for 56 aircraft, 16 are to be directly imported from Airbus while the remaining 40 will be built in India by TASL. Over time, given the track record of the Tata Group of companies, it could be reasonably expected that TASL will internalise the learning available from this project to build up effective capabilities in the aerospace manufacturing sector.

(Disclaimer: The views and opinions expressed in this article are those of the author and do not necessarily reflect the position of the Centre for Air Power Studies [CAPS])

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ⁱ “India awards Airbus \$1.9 billion military plane order”, <http://airsoc.com/articles/view/id/5555a81e313944f03f8b4569/india-awards-airbus-1-9-billion-military-plane-order>, accessed on May, 19 2015.