Business Opportunities In Aviation Sector : Recent Developments

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Aircraft Leasing in India

- Why Leasing?
- Types of Aircraft Leasing
  - Operating Lease
  - Finance Lease (Capital Lease)
  - Sale and Leaseback (SLB)

Regulatory Framework in India for Aircraft Leasing in India

- Aircraft Leasing Market & GIFT City IFSC
- Key Regulatory Bodies
  - Directorate General of Civil Aviation (DGCA)
  - Ministry of Civil Aviation (MoCA)
  - International Financial Services Centre Authority (IFSCA)
  - Reserve Bank of India (RBI)
  - Income Tax Act & GST Laws
- Cape Town Convention (CTC) & Aircraft Protocol
  - India ratified the Cape Town Convention in 2008, which provides protections for lessors in case of airline default.
  - Lessors can repossess aircraft easily in case of airline insolvency (e.g., Jet Airways, Go First cases).

Challenges in Aircraft Leasing in India

- High Dependence on Foreign Lessors
  - Over 85% of leased aircraft in India come from foreign leasing hubs like Ireland, Singapore, and Hong Kong.
  - Payments to foreign lessors lead to forex outflows.
- Taxation & Financial Barriers
  - GST on aircraft lease payments (5% for leasing, 18% for engine lease) increases costs.
  - Withholding tax on lease rentals paid to foreign lessors makes leasing expensive.
- Airline Defaults & Repossession Issues
  - Go First & Jet Airways insolvencies made lessors cautious about leasing to Indian airlines.
  - Delays in aircraft repossession discourage lessors from offering better terms to Indian carriers.
- D. Lack of Domestic Leasing Ecosystem
  - GIFT City IFSC leasing framework is new, with very few operational leasing firms.
  - Indian banks have limited exposure to aircraft financing, reducing capital availability.

GIFT City & Government Initiatives

- GIFT City as an Aircraft Leasing Hub
  - 0% GST for leasing companies in GIFT City.
  - No withholding tax on lease payments to foreign lessors operating from IFSC.
  - Easier regulatory framework for setting up leasing firms.
- Financing Support & Incentives
  - Income tax exemption for lessors in GIFT City for 10 years.
  - Indian banks & NBFCs allowed to fund aircraft leasing.
  - Faster aircraft repossession procedures under Cape Town Convention enforcement.

Key Steps to Strengthen Aircraft Leasing in India

- Enhance GIFT City Framework
  - Encourage global lessors to set up subsidiaries in India.
  - Provide direct RBI funding support for leasing firms.
- Develop Domestic Aircraft Financing
  - Indian banks & financial institutions should actively fund aircraft leasing.
  - Establish a dedicated Aircraft Finance Corporation.
- Improve Lessors’ Legal Protections
  - Ensure fast-track repossession in airline defaults.
  - Strengthen Cape Town Convention implementation.
- Reduce Taxation Burden
  - Provide GST exemptions for aircraft leasing outside GIFT City as well.
  - Lower withholding tax on lease payments to attract lessors.

Project Finance in the Indian Aviation Industry

- Key Aspects of Project Finance in Indian Aviation
  - Funding Sources
    - Domestic Banks & Financial Institutions
    - Infrastructure Finance Companies
    - Private Equity & Institutional Investors
    - International Investors & Capital Markets
    - Government & Multilateral Agencies
  - Project Types in Aviation Finance
    - Greenfield Airport Development
    - Brownfield Airport Expansion
    - Aircraft Acquisition & Fleet Expansion
    - Airport Infrastructure Projects
  - Key Regulatory Aspects
    - GIFT IFSC: India's Emerging Aviation Finance Hub
    - DGCA (Directorate General of Civil Aviation)
    - PPP (Public-Private Partnership) Framework

Challenges in Indian Aviation Project Financing

- High Capital Requirements
  - Aviation projects require huge upfront investments, making them high-risk and long-gestation ventures.
- Debt Servicing Concerns
  - Fluctuations in passenger traffic (e.g., COVID-19 impact) affect an airport's ability to repay debt obligations.
- Land Acquisition & Regulatory Delays
  - Land acquisition remains a major hurdle, leading to cost overruns and project delays.
- Dependence on Foreign Lessors
  - Indian airlines lease 85% of their aircraft from international lessors, leading to foreign exchange outflows.

Foreign Direct Investment (FDI) in India's aviation

- Scheduled Air Transport
  - 100% FDI is allowed in scheduled air transport services, but up to 49% is automatic and the rest requires government approval
  - Non-Resident Indians (NRIs) can invest 100% in scheduled air transport services automatically
- Brownfield airport projects
  - 100% FDI is allowed in brownfield airport projects to modernize existing airports
- Non-scheduled air transport
  - Up to 74% FDI is allowed in non-scheduled air transport services, but approval from the FIPB is required for investments above this level
  - Foreign airlines can invest in the equity of cargo airlines
- Restrictions
  - Substantial ownership and effective control of Indian companies must be vested in Indian nationals
  - Foreign airlines can only invest up to 49% of their paid-up capital in Indian companies

Special Economic Zones (SEZs) and Their Role in the Growth of the Indian Aviation Industry

- How SEZs Drive Growth in the Aviation and Aerospace Industry
  - Boosting Aerospace Manufacturing
  - Infrastructure Development
  - Tax Incentives and Fiscal Benefits
- Prominent Aerospace SEZs in India
  - MIHAN SEZ (Nagpur, Maharashtra)
  - Belagavi (Belgaum) SEZ (Karnataka)
  - Aerospace SEZ, Devanahalli (Near Bengaluru Airport, Karnataka)
  - Hyderabad Aerospace SEZ (Telangana)

SEZ Contributions to India's Aviation Industry

- Export Promotion & Global Competitiveness
- Employment Generation & Skill Development
- Technology Transfer & Innovation
- Cluster Development & Industry Synergy

Challenges and Considerations

- Regulatory Framework & Compliance Hurdles
- Skill Development & Workforce Readiness
- Infrastructure & Connectivity Gaps