INDIA AIRCRAFT LEASING
RUPEE RAFTAAR

# knowledge report on LEASING & FINANCING AIRCRAFT IN INDIA

# ACUMEN



## ACUMEN AVIATION GROUP

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FICCI

# Complete Lease Management Solutions

## Industry leaders providing a tailored approach

### Who We Are:

Founded in 2009, Acumen is a leading asset manager with a global reach and the ability to offer complete lease management solutions tailored to your specific needs. Whether you are a private equity, start up lessor, or airline from a related sector, we have the necessary in-house service capability to support you. This ranges from corporate management; deal sourcing / remarketing to technical commercial asset management

### Acumen, Figuratively Speaking

INDIA AIRCRAFT LEASING RUPEE RAFTAAR

**5+** structures / spvs comprising 30 aircraft

**1400+** assets appraised

**2000+** aircraft supported ft

**90+** permanent staff ft

**60+** countries operated in :

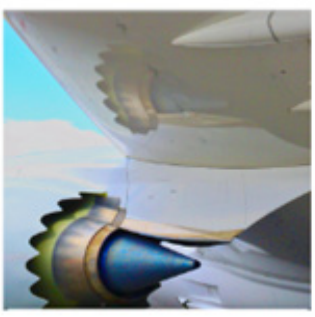
**4** global offices in key jurisdictions

Our offices- **Ireland, India, China, USA and IFSC GIFT City India (upcoming)**

### Key Services



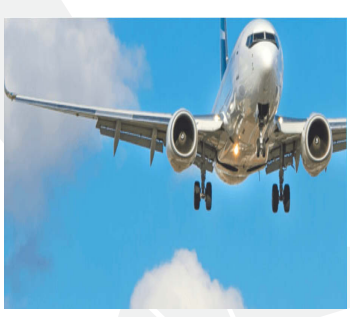
advisory



deal initiation



asset management



transactions

# India Commercial Aviation: an Overview

India has a rich aviation heritage stretching back as far as 1911, almost to this very day.

The take off of a single Humber-Sommer Bi-plane from Allahabad to Naini would establish the world's first airmail service and the birth of Indian civil aviation.

Source: http://aaians.org/top-articles/memorable-journey-indian-aviation-1911

Today, India is the world's 3rd largest domestic aviation market after China and the USA and is currently the fastest growing. Though India leases 85% of its fleet, there are no Indian leasing companies in this global industry.This must change for India to strengthen its aviation capabilities.

Source: https://aviationvoice.com/top-5-worlds-largest-aviation-markets-2-201912031047/

India's aircraft order book has been growing substantially. This includes commercial passenger, and freighter airline fleet, and defence transport and trainer aircraft capacities.

International aviation, essential to supporting economic growth, trade and tourism, has been under-invested and needs significant additional focus in India.

The share of aircraft on lease globally has increased dramatically over the last few decades. It has escalated from 2 per cent in 1980 to over 41 per cent in 2018, and is estimated to have reached 50% in 2020. In India the share of lease aircraft is close to 85%.

This sustained sector growth,globally and nationally clearly highlights the rate at which the aircraft leasing business itself is growing, coupled with the India based airlines' propensity to opt for leased aircraft above ownership, illuminates the potential that the aircraft leasing in dustry represents to Indian interests.

In aviation, India is positioning itself among other Asian economies such as China, Singapore and Hong Kong which are fast emerging as new leaders in global aircraft leasing market.

The global civil aircraft market size is estimated to increase to USD 62 billion by 2023 recording a compound annual growth rate (CAGR) of 4.7% from 2017 to 2023.

As per predictions of Airbus and Boeing, in the next 20 years, India will need 1,750-2,100 aircraft valued at over ₹20,40,000 crore (~USD 290 billion), with an estimated 100 deliveries each year, i.e. about ₹35,000crore or USD 5 billion of financing each year.

Source: https://airfinancejournal.com

# India Commercial Aviation: an Overview




It is strongly felt that India must leverage its growing air traffic to establish a robust aircraft leasing industry, which would finance new aircraft deliveries through its own policies and products.

This sector, which is missing in India today has the potential to contribute to the growth of the economy in the form of higher tax revenue collections, new employment opportunities and affordable air travel for citizens.

In India, over 80% of the aircraft acquisitions over the last decade have been on an operating lease basis and the trend is expected to continue.

**"Resilience,recalibration,and resurgence in the extra-ordinary COVID-19 pandemic situation of Indian carriers is evident from the new passenger aircraft orders placed by them. Re-orientation of Defence aircraft acquisitions by including the leasing options in 2020 policy has scaled up India's aircraft leasing and financing market manifold."**

Aircraft financing is the most profitable segment of the aviation value chain. Currently, foreign financiers and lessors are the biggest beneficiaries of India's growing opportunity.

It is vital to develop this new line of business in India for financial services and add India on the map of global financial centers for international financial services.

This would create additional high-end jobs' opportunities in India not only directly through aircraft financing, but also ancillary jobs in industries such legal, accounting, etc.

The time is ripe to align India's aircraft / engine rupee-financing and high-value asset leasing regime with the jurisdictions holding global center-stage like Ireland, Singapore, the US, and China.

# Global Market: An Overview

Over 80% of the total deliveries by 2039 will be split between the Asia-pacific region (40%+) North America and Europe together (42%)

## 20 years forecast...

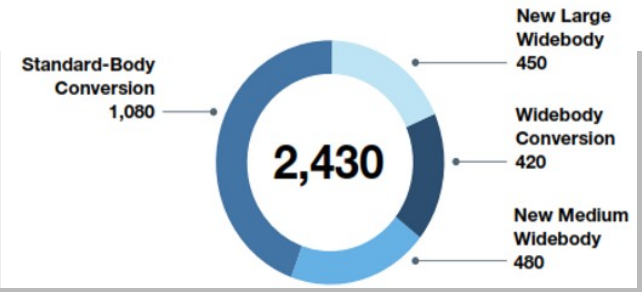
**2,430 DELIVERIES** | regional jet

**32,270 DELIVERIES** | single aisle

**7,480 DELIVERIES** | wide body

**930 DELIVERIES** | freighter

**Freighter fleet to grow nearly 60% by 2039**




Airlines will focus on building versatile fleets that provide future network flexibility, maximising capability while minimising risk, and and improving efficiency and sustainability.

Narrow body airplanes will lead the way to recovery as domestic and short-haul markets are forecasted to recover earlier, followed by wide body fleets as airlines progressively bring their network back online

Source: https://airfinancejournal.com
https://airbus.com/aircraft/market/global-market-forecast.html

The current market disruption will shape airline fleet strategies into the future as airlines make decisions to renew their fleets through the medium term and grow again into the longer term.

Over the next 20 years, the air cargo market is forecast to grow at an average annual rate of 4%, led by India and other robust markets in Asia.

This growth will drive the need for 2,430 new and converted freighters. Of these, 930 airplanes will be new widebody freighters and 1,500 will be passenger airplane conversions.

## 10 years forecast...

**1,240 DELIVERIES** | regional jet

**13,570 DELIVERIES** | single aisle

**3,060 DELIVERIES** | wide body

**480 DELIVERIES** | freighter

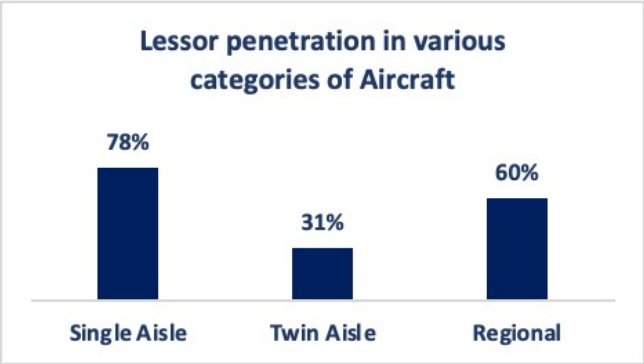
| 43,110 | 48,400 | $9,040B |
|---|---|---|
| Global Delivery | 2039 Fleet | Service Market Value |

# Major Indian Operators and Potential Market

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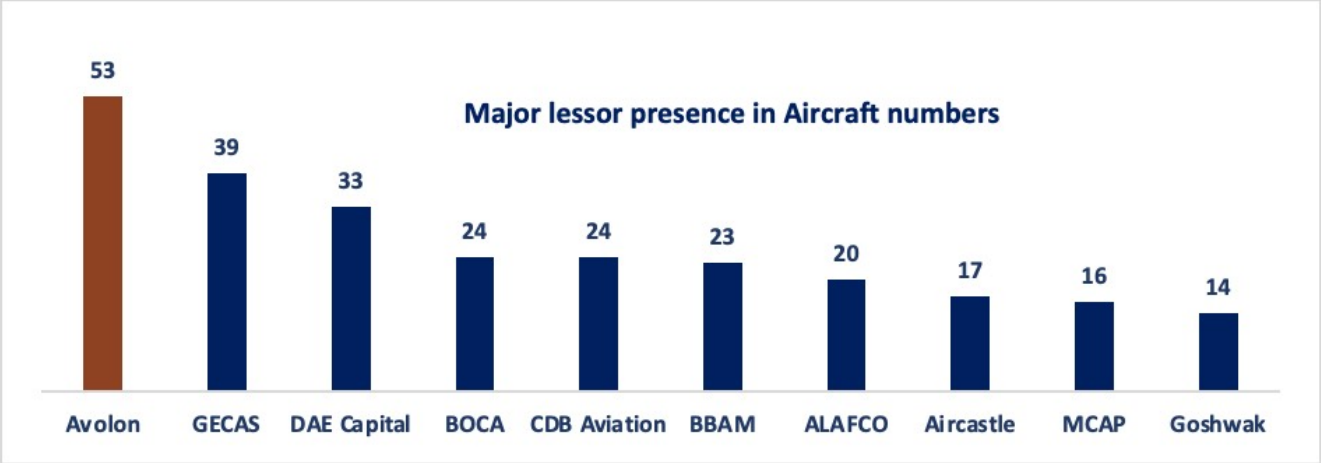
Fleet Size of major Indian Airlines as of January 31, 2021

| | Indigo | Air India | SpiceJet | GoAir | Vistara | Air Asia | Other | Total |
|---|---|---|---|---|---|---|---|---|
| Narrow Body | 286 | 122 | 100 | 57 | 47 | 33 | **21** | **666** |
| Wide Body | - | 49 | - | - | - | - | **-** | **49** |
| **Total** | **286** | **161** | **121** | **57** | **47** | **33** | **21** | **715** |










400+
LEASED AIRCRAFT

43
LESSORS

6x
TRAFFIC GROWTH

1.1Bn
BY 2040

2350
OPERATING FLEET
BY 2040

$5 Bn
FINANCING
PER ANNUM

₹35,000 Cr.
100 AIRCRAFT
DELIVERIES PER ANNUM

$290 Bn
₹20,40,000 Cr.
OF AIRCRAFT NEEDED
IN INDIA
OVER
THE NEXT 20 YEARS

Source: https://dgca.gov.in/digigov-portal/ Avolon white paperReport on Rupee Raftaar

# Story so far starting from Rupee Raftaar Report

## 2019

Rupee Raftaar report published in January 2019 was the first step in setting up the initial framework on aircraft leasing & financing

Subsequent meeting with various stakeholders i.e. Banks, Insurance Funds, Reinsurer, Airlines, MROs, Asset Managers etc. gave insight about the aircraft leasing & financing dynamics

FM Budget speech 2019-20 on tax incentive to IFSC on aircraft financing and leasing transactions

August 2019 - India workshop Rupee Raftaar organized by MoCA in collaboration with Acumen Aviation

## 2020

Apr 2020 - The government announces tax breaks for MRO industry,vital for the overall aircraft maintenance activities under lease contracts. Further, the government has established a unified authority known as 'International Financial Services Centres Authority (IFSCA)' to regulate all financial services in International Financial Services Centres (IFSCs) in the country.

Jul 2020 - Shri Injeti Srinivas was appointed as Chairman of the International Financial Service Centre Authority. Additional appointments in IFSCA made to strengthen the regulatory framework.

Aug 2020 - Government of Gujarat notifies complete waiver from stamp duty on documents registering aircraft leasing and associated transactions.

Oct 2020 – Finance ministry notifies "Aircraft lease" as a financial product that could be transacted in IFSC, GIFT City Gujarat

Dec 2020 – IFSCA issued consultation paper on proposed Aircraft leasing regulations

## 2021

Feb 2021 - Tax incentive in Union Budget on Aircraft leasing & financing transaction carried out from IFSC

- Capital gains tax exemption on aircraft, exemption on withholding tax on royalty payments to non-residents by leasing units, and tax incentives announced.
- Regulations for establishment of aircraft leasing units in IFSC at GIFT-City India notified by IFSCA.

# IFSC India framework, an industry-leading jurisdiction

Acumen has established similar structures in other competing jurisdictions

**MAT (Minimum Alternate Tax)**

- ✓ NIL during tax holiday

**Corporation Tax Rate**

- ✓ Tax holiday of 10 consecutive years out of a block of 15years.

**Stamp Duty**

- ✓ No Stamp Duty on aircraft leasing and financing

**VAT**

- ✓ 0% VAT on International aviation leasing

**Tax Treaty Network**

- ✓ India has an extensive double tax treaty network with over 85 countries

**Cape Town Convention**

- ✓ Cape-town convention protects both equity investors and creditors

**Covenants (Financial & Operating)**

- ✓ Establishing covenants for operator & counterparts

**Withholding Tax**

- ✓ No withholding tax on lease rental payments
- ✓ Interest payment by IFSC based lessor to non-resident is exempt u/s 10(15)(ix)

**Income on disposal of aircraft by a lessor out of IFSC is not taxable**

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India has created a highly effective system for aircraft leasing and financing which is comparable to that of Ireland, China, Hong Kong, Singapore and elsewhere

# Importance of a well-developed domestic aircraft leasing & financing industry




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It fosters greater participation for Indian insurers/ credit guarantors (more domestic financiers may mean more business being available to domestic insurers and credit guarantors, as against foreign insurers).

It provides an impetus for development of Indian MRO industry, as currently, Indian MRO business is also stymied due to financier / lessor preferences for overseas MROs as a part of the financing / lease transaction.

Creating additional high-end jobs' opportunities in India not only directly through aircraft financing, but also ancillary jobs in industries such legal, accounting, etc.

Reducing foreign exchange outgoings (lease rentals, maintenance, legal / consultancy fee, etc.).

Generating additional governmental sources of revenues through collection of taxes / duties from ancillary industries, and eventually through aircraft financing and leasing.

Reducing the cost burden for the airlines through friendlier lease terms and rates which are bespoke.

It also provides attractive and competitive alternatives to foreign lessors and financiers.

## Multiplier Effects

# Changes made so far to enable the industry in India

| Changes | Detail |
|---|---|
| Stamp Duty | Waiver of stamp duty on Aircraft leasing & financing in IFSC |
| Tax Holiday | 10 out of block of 15 years tax holidays to IFSC based lessors |
| Tax on disposal of Aircraft | Income on disposal of Aircraft by a lessor out of IFSC is not taxable |
| Non- resident lessor income | Income earned by non resident lessor leasing aircraft to IFSC based lessor is not taxable (Finance bill 2021) |
| Interest payment by IFSC lessor | Payment of interest by IFSC based lessor to non-resident is exempt u/s 10 (15) (ix) |
| MAT | MAT is not applicable during the tax holiday period |

To promote aircraft leasing and financing from IFSC, Government of Gujarat has provided a waiver of stamp duty in relation to aircraft leasing and financing in IFSC and Government of India has provided tax incentive & other non-tax relaxation for business conducted in IFSC

# Acumen Training Capabilities

Acumen has held a global presence since 2009

Acumen has acquired professional expertise over the decade.

Our courses are developed keeping in mind Training Need Analysis (TNA).

Courses are concurrent with industry needs and match the Aircraft Leasing and Finance industry knowledge and skill requirement

**Acumen currently offers**
**9 courses & 1 Post Graduate Program*.**

JAIN DEEMED-TO-BE UNIVERSITY | CMS BUSINESS SCHOOL

Certificate Programs in collaboration with
JAIN (Deemed-to-be-university)
CMS Business School.

1 Year Post Graduate Program in Aircraft leasing & Financing in collaboration with Jain University, CMS Business School, proposed to start in April 2021

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The leasing industry is extremely sophisticated and requires an advanced skillset. To support the market growth, the industry requires

specialized & trained personnel

# Building human capital & simplifying leasing process

# Next steps and a way forward for the Industry

The first transaction needs to be expedited now that the regulation is in place enabling the

lessors based in IFSC to have access to the best financing solutions

Create more awareness amongst the investors about the initiative and the potential return on investment in Aircraft leasing business

Ensure no additional burden to the operators by leasing the aircraft from IFSC rather provide some meaningful incentive which would attract more operator to lease aircraft from IFSC based lessors

Allowing pension fund, Insurance companies to invest in Aircraft leasing & financing business

ECGs – Guarantee given by institution like ECGs would allow the lessors to have access to cheapest fund

Bringing Innovative financing solutions prevailing in the US capital market

Credit enhancement scheme etc.



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# Contact Us

We are here to help

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