'Every airliner has some part made in Belagavi'

Hrithik Kiran Bagade, DH News Service, Jul 16 2017

In conversation: **Aravind Melligeri**, Chairman & CEO, Aequs Aerospace

With the Indian airline industry set to soar, Aequs, with its aerospace SEZ in Belagavi, is doing its bit. Spread over 260 acres at an investment of about $100 million (about Rs 640 crore), the facility is the largest private aerospace ecosystem in the country. In conversation with DH's Hrithik Kiran Bagade, Aequs Chairman and CEO Aravind Melligeri shares his vision. Edited excerpts:

As the largest private aerospace SEZ in India, how has been your journey?

The government's decision to do direct offsets back in 2003-04, helped us open up, with Airbus and Boeing being interested to buy from India. It was in 2007 that we felt that it made sense to be aggressive on the aerospace manufacturing front, and we decided to establish an SEZ because export was our focus. By 2009, we operationalised the SEZ, deciding to set up the project spread over 60,000 sq feet area, with two facilities -- one for surface treatment and the other for machining.

If you saw the industry then, in terms of machining, it mainly brought raw materials from outside. The in-country value-add was about 20-30% over the product. We felt that we wanted to build an ecosystem so as to increase the in-country value-add. Since 2009, we have fostered capabilities of processing, surface treatment, and machining; then we brought in forging and assembly, and material suppliers, and so on. Hence, we've been able to grow some of the parts' in-country value-add by up to 90%.

The parts that you mentioned, go where exactly?

If you look at our customers, we work with Airbus, United Technologies Aerospace Systems, Saffran, Premium AEROTEC, and Honeywell, among others. Being a build-to-print company, we only make hardware as per customers' designs. Today, we are the Tier-I supplier of parts to sub-assemblies of the said companies' products. Across all commercial aircraft worldwide, I can assure you that there is some part originating out of Belagavi.

You were working on some parts for the A320. What is the latest update?

We had a small contract with Airbus around 2009, which has culminated into various pacts today. We supply various components going into every programme – A320, A330, A350 and A380. In defence, we make some A400 parts at our (SiRA) facility in France.

What's the current scene in your business with Saffran?

Today, our acquisition in France (SiRA) is the biggest supplier to Saffran. We just started executing some Saffran-related work in India. For Saffran, we make main landing gears, engine components, and hydraulic actuators that go into programmes like the A320. We are the Tier-II supplier in this case.

What are your plans with Boeing? Will it affect your working with Airbus?

We are already the Tier-I supplier to Boeing, producing fuselage and wing components for several of their programmes. In this industry, customers are perfectly fine about working with all suppliers, as long as the latter protect their programmes and deliver without issues. One's growth should not affect another's growth.

What challenges do you see for your industry in the market, which is largely driven by the IT industry?

In a global perspective, we are barely scratching the surface. Every company has limitations, that there is only 'so much' one can do or absorb as a business. There is only 'so much' you can grow, especially if you are a manufacturing business, where there are infrastructure and skill issues. Also, you have to perform physical delivery of defect-free products on time. On the other hand, IT and services have the advantage to add and scale up people quickly. Growing 50% year-on-year is challenging (In FY2018, Aequs is valued at $100 million).

Considering that India is slated to become the third largest airline market by 2020, what opportunities do you see?

Airlines are customers to OEMs, and the former are signing larger contracts, while expecting lower price. The only way for OEMs to achieve this is to make sure that the costs are lower, so they can remain more competitive, for which they require a globalised supply chain.

So is the industry in India growing at a supplier level, even as it grows at an airline level?

There is huge growth across the spectrum. There are two levers at play here: The new programmes that are coming in -- A320neo, 737 MAX, and A350, for instance. Also, there is ramp-up of the total production volumes of single-aisles. These two levers are offering opportunity for everyone to grow. Even as the overall industry is growing at a rate of passengers flying, regional connectivity and so on, at the supplier level too there is growth. In the end, suppliers help them moderate cost structures, in turn keeping seat prices low. Lower the price, more people fly. The two biggest drivers for aircraft seat pricing are fuel and cost of aircraft (sum of all components).

What are your plans in defence?

We are involved in several activities, in space and defence. We work with ISRO and HAL. However, 95% of our business is commercial, but we eye scaling up defence. Our upcoming facility in Goa would concentrate on defence.