



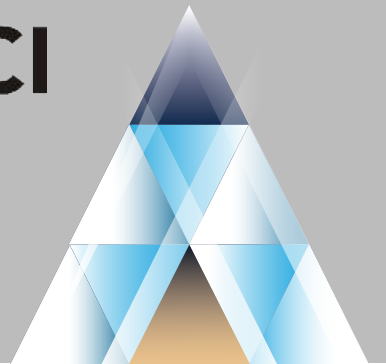
knowledge report on
LEASING & FINANCING
AIRCRAFT IN
INDIA

ACUMEN



ACUMEN
AVIATION GROUP

PUBLISHED 26 FEBRUARY 2021



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



5+

structures / spvs comprising 30 aircraft

1650+

assets appraised

2000+

aircraft supported

90+

permanent staff

60+

countries operated in

4

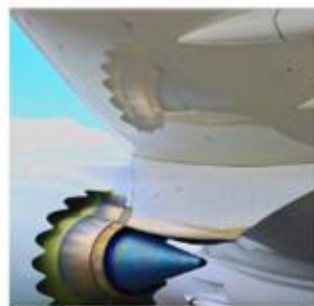
global offices in key jurisdictions

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 industry 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 ₹35,000 crore 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



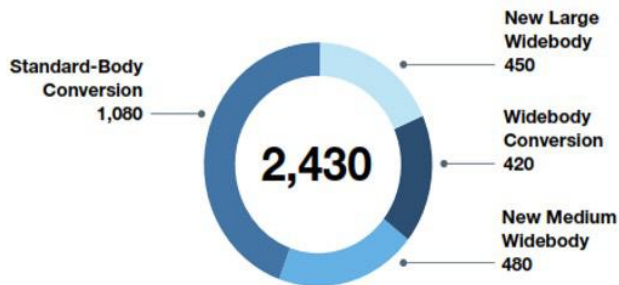
930 DELIVERIES | freighter

Freighter fleet to grow nearly 60% by 2039

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.



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>

10 years forecast...

1,240 DELIVERIES | regional jet



13,570 DELIVERIES | single aisle



3,060 DELIVERIES | wide body



480 DELIVERIES | freighter



43,110
Global Delivery

48,400
2039 Fleet

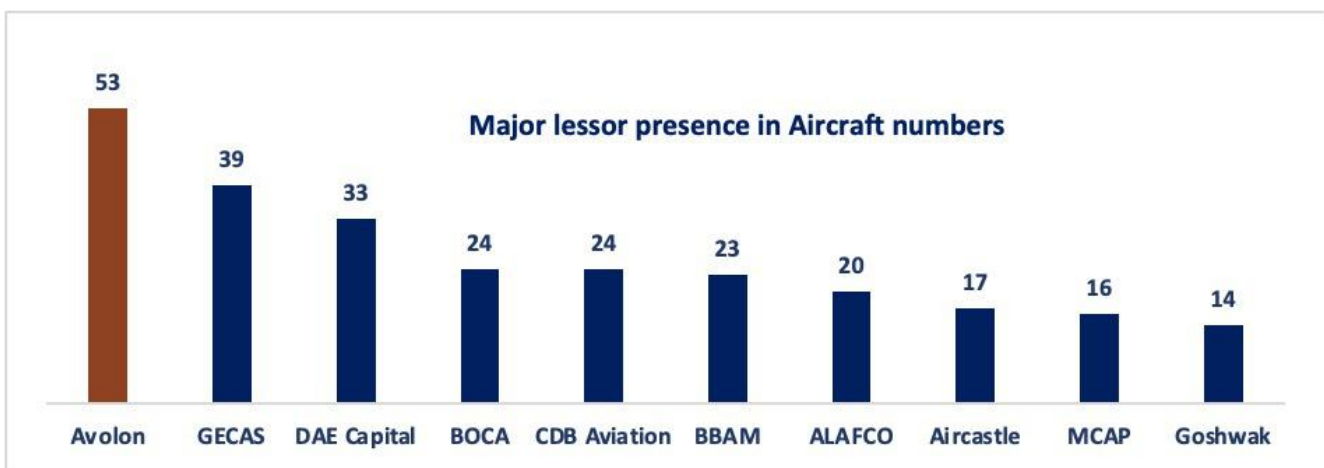
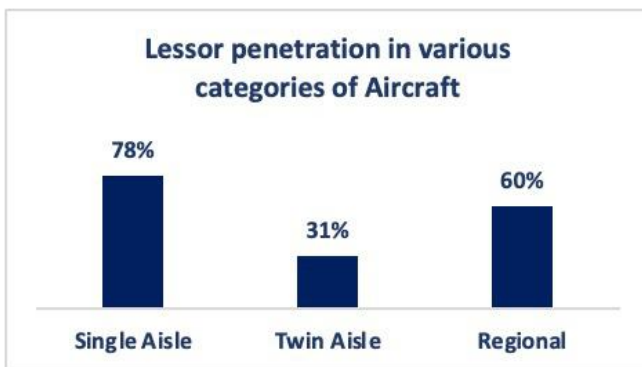
\$9,040B
Service Market Value

Major Indian Operators and Potential Market



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	6x TRAFFIC GROWTH	2350 OPERATING FLEET BY 2040	\$5 Bn FINANCING PER ANNUM	\$290 Bn ₹20,40,000 Cr. OF AIRCRAFT NEEDED IN INDIA OVER THE NEXT 20 YEARS
43 LESSORS	1.1Bn BY 2040		₹35,000 Cr. 100 AIRCRAFT DELIVERIES PER ANNUM	

Story so far starting from Rupee Raftaar Report

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

2019

- 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

2020

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.

2021

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 15 years.

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



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



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*.



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



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

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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