

Airbus mulls assembly line here; K'taka, TN likely spots

Pankaj Mishra
BANGALORE

AIRBUS, the world's biggest commercial aircraft-maker is currently evaluating an Indian aircraft assembly line, its second such unit outside Europe after China, as the company seeks to reduce its cost of production by at least 20-30% and serve the India market better.

Karnataka and Tamil Nadu are two states being considered by Airbus for the facility which will include an around 2,600-metre runway and facilities for painting, tests and final delivery of the plane. Depending upon the specific requirements and other costs, Airbus may have to invest around \$600 million in establishing the final assembly line (FAL) in India, and employ anywhere between 600 and 1,000 people across various segments.

The new assembly line, expect-

FLIGHT TO INDIA

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- **Airbus mulls assembly line in India**
 - **Second such unit outside Europe**
 - **To be established in 3-4 years**
 - **Helps reduce production cost by 20-30%**

ed to be established in 3-4 years, will also help grow India's commercial aviation supplier market from around \$1.5 billion to almost \$3.8 billion by 2014, providing more opportunities for the country's aviation companies including QuEST and Dynamatic to grow faster. The company's chief

executive Tom Enders said last month that his company will need to have production facilities in US, China and India to remain competitive.

Airbus, which is all set to roll out its first China-made A320 from its assembly line in Tianjin, is seeking to reduce its production costs and globalise its manufacturing by establishing such units outside Europe. The company now has three aircraft assembly units — in France, Germany and China. "We do complex assembly sourcing from India, very similar to

what we started doing in China few years ago. We believe what we did in China can be repeated here," said Dwarakanath Srinivasan, head, industrial cooperation projects, Airbus.

► **Production costs to fall by 30%: P2**

Production costs to tumble by 30%

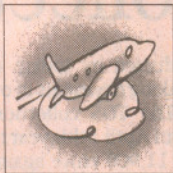
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Whenever an FAL is established in India by Airbus, it will have a capacity of what is termed as 'Rate 4', referring to a production capacity of four planes every month. "Airbus aims to have Rate 4 capacity for producing A320s in China, and India should be no different," the person added. "An Indian assembly line will be at least 20-30% cheaper than a similar unit in Germany or France because of the much lower labour costs," he said. Rising operational costs and pressure on profitability are among the reasons for Airbus to establish manufacturing units in locations such as China and India.

"Although most of the cost incurred by Airbus is in euros, a majority of its products are priced in dollars. Depreciation of the dollar against the euro has a negative impact on the profitability of the Airbus," said Madusudanan Ramani, an analyst at research firm, Frost & Sullivan. "It is estimated that every 10 cents of rise translates to a one-billion euro rise in cost of production in Europe," he added. Airbus' parent company EADS, which procured services and products worth over \$138 million in 2007, recently said it will increase sourcing from India 10-fold over the next ten years. An aircraft assembly line will help India's domestic aviation engineering companies such as QuEST in gaining more business, since Airbus will bring its top-tier

suppliers to the country for serving the manufacturing unit. "We are already set to double our manufacturing revenues from around \$8 million last year to \$16 million by March 2010 — if an assembly line comes up, it will mean a lot more business for us and many others," said Bejoy George, vice-president and chief marketing officer of QuEST.

QuEST, which has acquired a 300-acre plot in a Belgaum special economic zone (SEZ) for establishing its manufacturing facilities hopes to gain more business from Airbus' primary suppliers who may have to set up units in India whenever the FAL comes up. Airbus, on its part, has been asking its suppliers to increase sourcing from India to help build the required ecosystem for setting up an assembly line. "Many of our partners,



including OEMs, are already sourcing from companies like QuEST and Dynamatic — we are asking them to look at India more than before," said Mr Srinivasan. However, Airbus' plans to expand its production centres outside Europe is expected to face strong resistance from political lobbyists in the region. "Airbus might have to cut its production of aircraft from some of its existing facilities in Europe. It might face some pressure from some European governments, its biggest shareholders not to cut jobs especially during these times of recession," said Mr Ramani.

pankaj.mishra1@timesgroup.com