

“OEMs prefer to work with SMEs”

...says Aravind Melligeri, CEO & Chairman, Aequs, in this interaction with Juili Eklahare. He speaks about how efforts should be made to provide SMEs with access to information on business opportunities globally and how stepping into toy manufacturing has helped the group generate more employment.

Tell us about Aequs' role in the government's 'Make in India' initiative.

Innovation, indigenous manufacturing and self-reliance are the key aspects to the success of 'Make in India'. These should be encouraged, in addition to developing the capabilities of the industry to cater to exports. Domestic capabilities, in terms of designing and developing state-of-the-art systems, should also be developed by leveraging cutting-edge technology.

At Aequs, our business model is not only to manufacture high volume machined parts and assemblies at competitive prices, but to also create the manufacturing ecosystem, which consists of several facilities supporting the entire manufacturing cycle from start to end, in order to maximise the in-country value add. We

have built facilities at our Belagavi SEZ, which cater to aerospace forging, precision machining, special processing and assembly for aerospace industry.

With such an establishment, we are now able to achieve over 90% in-country value

add for some of the detailed parts, which was less than 30% just a few years ago.

Why do you think it makes sense for big players in the aerospace and defence manufacturing ecosystem to partner with SME suppliers? How can SMEs be a mainstay for India's aerospace and defence sector?

SMEs contribute 45% of the nation's industrial output as well as 40% of total exports. They play a crucial role in mitigating the regional imbalances. Predominantly, SMEs are mostly located in tier II/III cities or semi-rural areas, facilitating development in the regions by creating infrastructure, jobs etc. This is very critical for a country like ours. If we look at the opportunities in our sector, commercial aerospace manufacturing itself is worth USD 100 bn per year, globally. Today, all organisations in India put together, export only USD 500 mn, which is less than 0.5%. The global opportunity is growing at a CAGR of 5%-6%, taking the potential to USD 150-160 billion from USD 100 billion annually, over a decade's time. Furthermore, India is among the top 10 spenders in defense procurement. The government has taken strong steps to strengthen public-private relationships by announcing that all government establishments need to work with private players – large, medium or small.

Globally, the aerospace and defence sector work closely with SMEs through a well-defined supply chain. These SMEs function as ancillary units to many large-scale industries in the country, fulfilling critical roles, such as, supplying raw materials and basic components. OEMs prefer to work with SMEs because of their innovative capabilities in niche manufacturing, lower overhead costs and their ability to absorb new technologies. They generate healthy competition among entrepreneurs in the market, providing opportunities for skill and knowledge development. Efforts should be made to provide them with access to information on business opportunities globally. This





Aravind Melligeri holds a Bachelor's degree in Mechanical Engineering from the National Institute of Technology, Karnataka and a Master's degree in Mechanical Engineering from Pennsylvania State University. He has been conferred the 'Young Achiever Award' by the Indo-American Society. He serves on the board of QuEST Global, a company he co-founded in 1997, which is a globally recognised provider of outsourced engineering services.

will enable them to build relationships with international SMEs in global aerospace and defence programmes that will facilitate in enhancing their capabilities and impacting the entire supply chain positively.

What do you think are some threats that the aerospace manufacturing industry is facing right now? What is it that the Indian aerospace manufacturing industry currently lacks?

India's aerospace manufacturing industry is still in its nascent stage and fragmented. Tier II and tier III suppliers have started making components for the global commercial aerospace market in India only recently. Today, OEMs are increasingly making use of a global supply chain. They are not only farming out a big chunk of machined and sheet metal parts production, but also expecting vendors to supply large aircraft sub-assemblies and even design expertise.

It is a capital-intensive industry that is characterised by a long project life cycle, spanning R&D, engineering design, manufacturing and assembly. Due to intensive technology and safety demands, there are heavy investments on R&D and quality control. It is also critical to formulate a National Aerospace Policy (NAP) that should give a direction to where we want to be in the next 20 years. With the increasing contribution from private companies, this policy becomes even more necessary, that could harness the knowledge residing in a fragmented setup. Such an institution could map indigenous capabilities, address critical technology and training institutes and needs, tax holidays, etc. Also, the policy changes should create an investment vehicle which can help get access to funds and technology easily.

You are planning a major foray into toy manufacturing. Of all the manufacturing products that you could have chosen, what drove you to take up toy manufacturing? Tell us your plans on how you are going to go about this?

With toys, we forayed into the 'consumer' vertical for the first time in 2016. As a proof of concept, it commenced with a 200,000 sq. ft. manufacturing unit in Aequus SEZ, Belagavi. The Karnataka government has given us the approval to start a large new facility in Koppal for further scaling up this vertical. We started with a vision to bring more economic value to the region by generating employment – toy manufacturing predominantly employs more labour, thus providing more job opportunities in the region.

Since India has a labour arbitrage over China, global players in the toy industry are looking at India for expansion. We saw an opportunity in creating in-country value by generating employment as well as stimulating the country's economy by increasing exports. Hence, we forayed into this segment.

What are the plans ahead for Aequus, 5 years down the line?

Presently, Aequus generates about USD 100 million in sales, with over 2500 employees worldwide and aims at becoming a USD 300 million company by 2022. Machining is our core competency and there lies a huge opportunity for scalability. We are gearing up to bring in more capabilities in-house. We acquired a company in France to enhance our capabilities in manufacturing mission-critical parts like, landing gear and engine components. We have also built a robust supply chain and brought in desired capabilities to manufacture complex parts from India. □

“

THE GOVERNMENT HAS TAKEN STRONG STEPS TO STRENGTHEN PUBLIC-PRIVATE RELATIONSHIPS