Expanding the Ecosystem

Aequs sets sights on becoming the world's largest detailed parts supplier

INDIAN AEROSPACE PARTS MANUFACTURER

Aequs has plans to grow into the largest detailed parts supplier in the world. The company is now on a clear path to increase the revenues of its aerospace business from the US$100 million presently to US$300 million by 2020. "We want to be the largest detailed parts supplier in the world and this will be at the core of all our business growth plans. Our core focus is precision machining," Aravind Melligeri, Chairman & CEO Aequs tells our Special Correspondent Atul Chandra. The company has grown at a CAGR of 55 percent over the last five years.

What were the important developments at Aequs in 2016?

2016 was an exciting year for us as we started expanding our ecosystem to the global level. In 2015 we had acquired a company in the U.S.A called T&K technologies and in FY 17 (this fiscal year), we made an acquisition in France with Sira SAS. Through the acquisition of Sira we brought in landing gear capability, machine capability, engine component machining capability, primary flight control actuators machining capability and some aero engine fabrication capability. This was a great satisfaction to me when I look at our overall capability expansion phase in 2016. This was a good start for us and we closed this transaction in April 2016. We also received an important contract from Airbus for supply of titanium detailed parts for pylon fittings for 100,000 numbers. Following in the footsteps of these developments, we expanded our treatment facility and doubled its capacity, making it one of the largest facilities of its kind in the country today. In terms of surface treatment, we do pretty much all forms of surface treatment for companies such as Airbus and Boeing and several other companies. We have expanded our Special Economic Zone (SEZ) facility further bringing UK based All Metal Services (AMS) as a material supplier partner. They are now setting up a 40,000 sq foot facility in our SEZ that will supply the raw materials to us.

Please provide an update on your revenues and growth plans?

In terms of year-on-year growth we have doubled our revenue. This year we are close to US$100 million in revenue, compared to US$45 million last year. We have already achieved about US$90 million this year and we still have Feb and March to complete. We have been growing at a CAGR of 55 percent over the last five years. In October, last year we received the Airbus Innovation Award and it was nice to be recognised by Airbus for what we have done. We have managed to bring in forging, machining, surface treatment, assembly process together. We are one of a kind in what we do and have developed our capability in a strategic fashion by using partners who are located all over the world.

Please elaborate on the work done for Airbus by Aequs?

We work with Airbus and their subsidiaries and started working with them in 2009. It was small order at the time worth US$200,000-300,000 dollars as they wanted to test the market. We were the first supplier to be chosen in India, with whom Airbus directly placed an order. So, we started off in this fashion and continued to grow with more contracts. Airbus went through a process of consolidation of its global supplier base and we are now one of the 13 partners chosen by Airbus for supply of detailed parts and the only one in India. We get the first cut opportunity to take a look at the work that can be done, when Airbus looks to outsource detailed parts work. Knowing that we were going to expand, we set-up a

100,000 sq feet dedicated facility for Airbus and its subsidiaries at our SEZ in Belgaum, Karnataka. It is already running at 50 percent capacity within a year and we are adding more work as well.

Please elaborate on other customers and plans?

At Aequs we do a lot of detailed parts from titanium, aluminium, machining and some of the sheet metal work for Airbus. We also have aerostructure assembly in India, through our Joint Venture (JV) with Saab Aerospace and we currently producing the A380 fixed leading edge assembly at this facility, for which we are the sole source supplier. We expect more orders for this facility and are already winning additional orders for assemblies. We are also working on the forging side with Airbus for getting some forged machine products. Airbus is a prime customer in the sense that they can take advantage of all the facilities we have, such as assembly work, forging machining work or just machining work. We have a number of companies that are talking to us to make use of our facilities, we already work with Spirit Aerosystems from our U.S. facility, Safran from our French facility. We supply to UTC Aerospace Systems (UTAS) from all our locations.

How do you see the future of Aequs?

We have a very clear path to get to US$300 million in our aerospace business by 2020 from the current US$100 million revenue. We believe that India brings best value when it comes to volumes and we are doing the volume game. Basically, we are looking at replicating the services business for aerospace in India. Because this is when we deliver the best value to customers. We want to be the largest detailed parts supplier in the world and this will be at the core of all our business growth plans. Our core focus is precision machining. I have one million hours of machining capacity today, this will rise to four million by 2020.

What needs to be done to further incentivise the growth of aerospace manufacturing in India?

I don't see 'Make in India' making much of a difference on the ground, while the government is trying to improve the ease of doing business in India, the reality of the situation is, that in a manufacturing business, access to capital is the most important thing. We need low cost capital and government support on long-term projects is paramount for an industry like aerospace. I just don't see a conscious effort being taken for this to happen in India as there is no inherent system or programme for it. There needs to be a framework for such incentives to be given to the aerospace industry. Low cost capital, will allow us to expand far more aggressively and bring in newer technology, enabling us to take a long-term view of the business.

We put the largest hydraulic forging press in the country as part of a US$20 million project for aerospace in our SEZ, with our French JV partner. After such a large investment, we are only now getting the first revenue drips, six years after we started the project in 2010. The interest costs are high and the project will take approximately five years to reach an operating break-even. We are doing these investments as we are passionate about building our manufacturing ecosystem here in India and we are taking a very long term view of the market. But are there another 10 more companies willing to do this? I don't think so.

Skilled workforce is something that is always going to be a barrier especially for manufacturing and when we say 'Make in India'. There must be an incentive to develop skills and I don't see that right now as a benefit to the companies directly. We have training programmes and we train our personnel. ■