

# Production costs to tumble by 30%

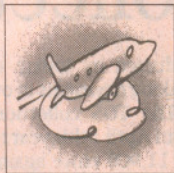
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Whenever an FAL is established in India by Airbus, it will have a capacity of what is termed as 'Rate 4', referring to a production capacity of four planes every month. "Airbus aims to have Rate 4 capacity for producing A320s in China, and India should 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.

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