



Aircraft leasing in GIFT IFSC

April 2024





Foreword

India's economy has grown to USD 3.73 trillion.¹ The first trillion was achieved 60 years after independence, and a consistent growth rate has been maintained thereafter. In today's interconnected and dynamic global economy, the role of the financial services sector has become increasingly vital.

As a pioneering initiative in India's financial landscape, the Government of India launched the Gujarat International Finance Tec-City (GIFT City) project in 2007, with an endeavour to develop a smart city that would host an International Financial Services Centre (IFSC) to provide a comprehensive platform for various financial activities, such as banking, insurance, capital markets, asset and wealth management, FinTech, and access to global markets and currencies.

Representing the nation's vision to become a global hub for international finance and commerce, GIFT IFSC offers world-class infrastructure and a regulatory framework to attract leading financial institutions, businesses and investors from around the globe.

This report aims to provide readers with a comprehensive understanding of the unique attributes and business opportunities inherent in this dynamic environment. We invite readers to envision the potential that GIFT City holds, as well as the opportunities it presents for the future.

I extend my sincere gratitude to all the contributors, whose expertise and insights have enriched this publication. I also commend the editorial team for their dedication and diligence in bringing this project to fruition.

May this publication foster continued collaboration, innovation, growth and prosperity of GIFT City and GIFT IFSC.



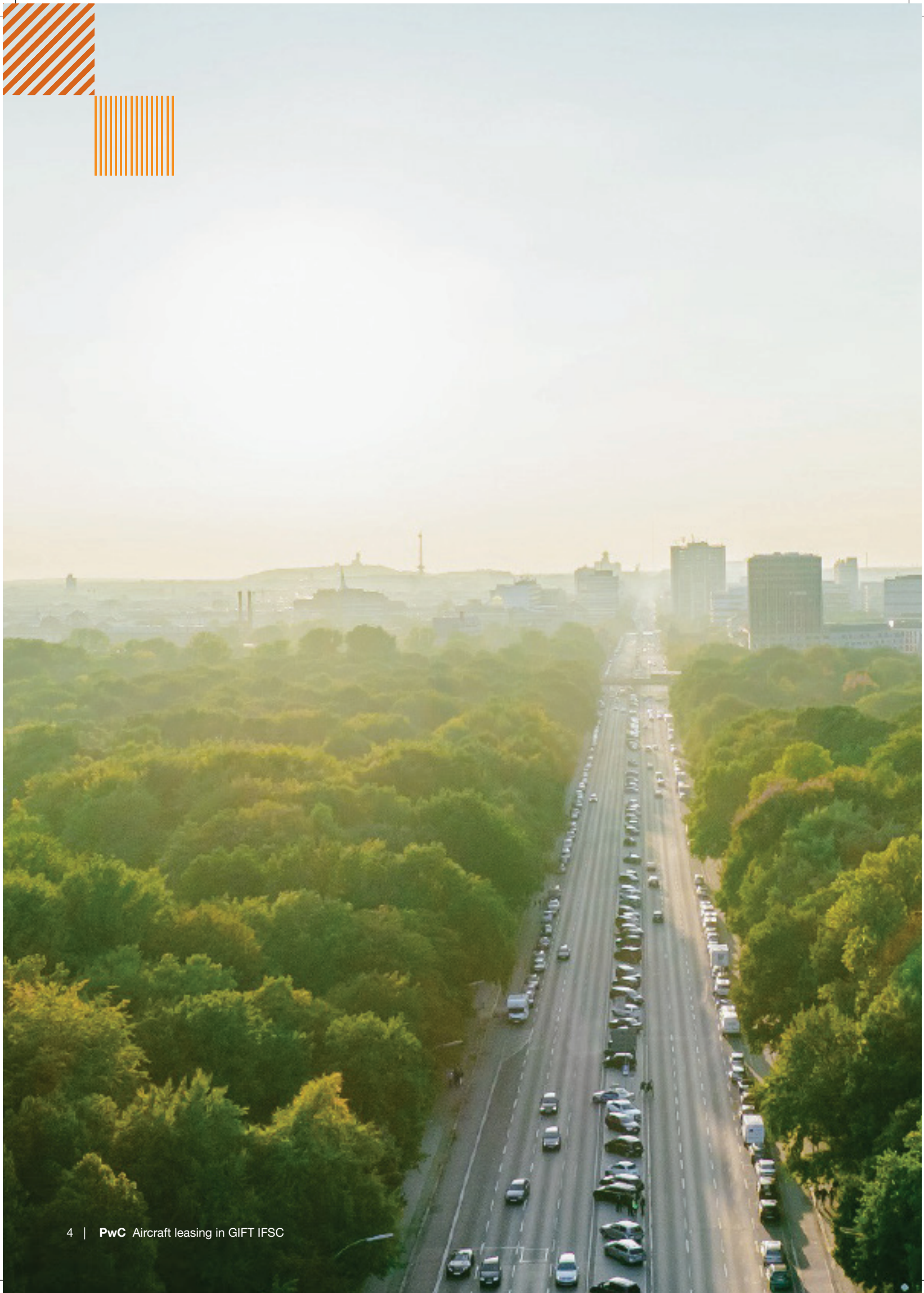
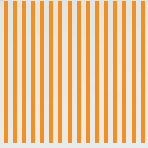
Gayathri Parthasarathy

India Financial Services Sector Leader and
Global Financial Services Technology Leader
PwC India

1. <https://www.zeebiz.com/economy-infra/news-india-to-become-3rd-largest-economy-with-gdp-of-usd-5-trillion-in-3-years-finmin-273873#:~:text=Today%2C%20it%20is%20the%205th,2024%20review%20of%20the%20economy.>







GIFT City – an introduction

GIFT City, the Government of India's flagship project, aims to boost India's stature on the world map of international finance by fostering a favourable regulatory environment, promoting talent and facilitating capital flow in the Indian economy.

Recognising India's financial prowess, Finance Minister Mr. Arun Jaitley announced the establishment of GIFT City as India's inaugural International Financial Services Centre (IFSC) during the Union Budget for 2015-16.

GIFT City, often labelled the 'smart city of the future', is located in Gujarat, nestled between Ahmedabad and Gandhinagar. This tri-city ecosystem fosters an environment supporting business, industry, international finance, and foreign investment, symbolising both a nostalgic era and a promising future.

Conceived as a vertical city, GIFT City boasts modern infrastructure such as a fully automated district cooling system (DCS), automated waste collection system (AWCS) and underground utility tunnels.

This top-tier infrastructure has played a vital role in establishing GIFT City as a global leader among smart cities.² The urban centre is complemented by contemporary social amenities, such as an international school, healthcare facilities, a five-star hotel, an international exhibition complex, the GIFT City Business Club with both indoor and outdoor sports facilities, diverse dining options, and well-planned residential projects. Collectively, these offerings make GIFT City a truly 'walk-to-work' city.

Government of India
operationalised GIFT City
as an IFSC in 2015

A greenfield smart city
developed on 886 acres
of land

Divided into two zones that
include a Domestic Tariff
Area (DTA) and Special
Economic Zone (SEZ)

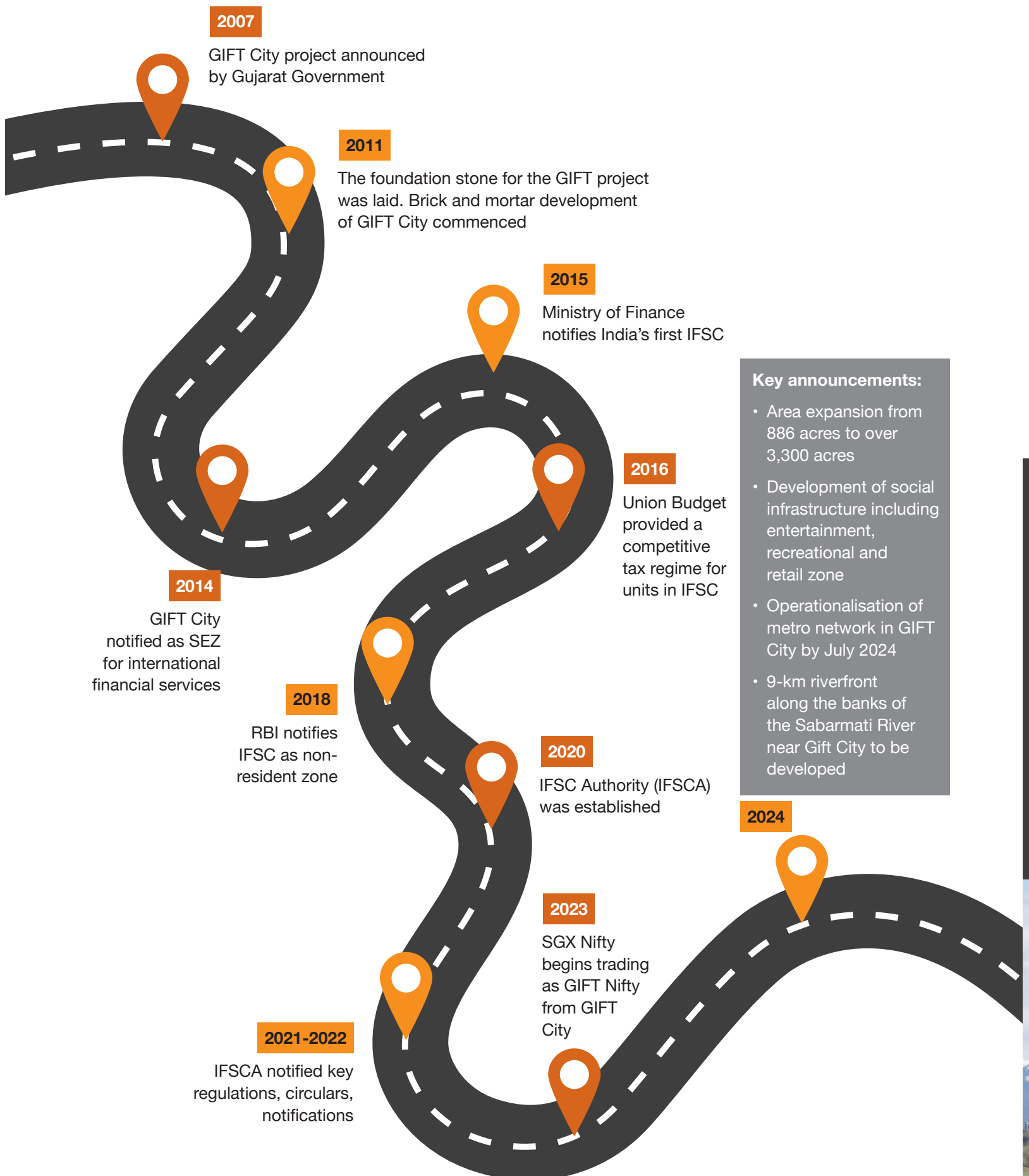
The financial gateway
of India for inbound and
outbound investment



- 1 Along National Highway 48 (Delhi-Mumbai Industrial Corridor)
- 2 25 mins from Ahmedabad International Airport
- 3 15 mins from nearest railway station and upcoming high-speed rail

2. <https://www.thehindubusinessline.com/news/national/gifts-ifsc-amongst-the-fastest-growing-globally/article24935538.ece>

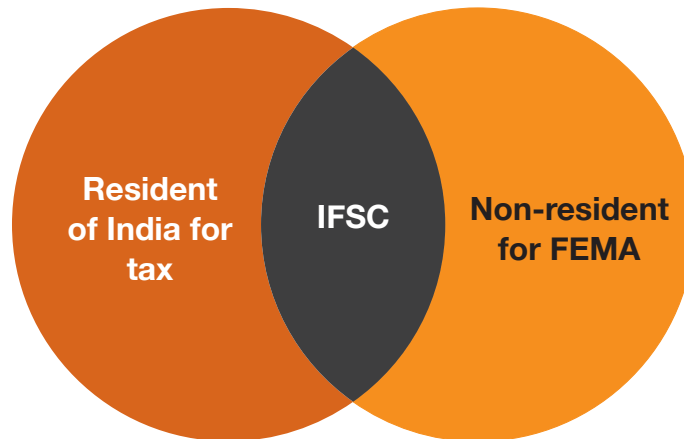
GIFT City journey so far...



IFSC

The Government of India launched India's first IFSC in 2015 to accomplish the vision of becoming a significant economic power by fostering the robust growth of international financial services within the nation.

The IFSC is envisioned as a world-class zone dedicated to offering financial services to non-residents and certain residents in a foreign currency (other than the Indian rupee [INR]).



IFSC governing regulators

IFSCA

Established in 2020, the IFSCA plays a role as a statutory body, providing a forward-looking regulatory environment for financial market participants and facilitating ease of doing business. It functions as a unified regulator, combining the powers of the Reserve Bank of India (RBI), Securities and Exchange Board of India (SEBI), Insurance Regulatory and Development Authority of India (IRDAI), and Pension Fund Regulatory and Development Authority (PFRDA) related to financial services, products and institutions within the IFSC.

In addition to securing approvals from the IFSCA for establishing a unit in the IFSC, it is also necessary to obtain approvals from the SEZ Authority. The SEZ Authority, in conjunction with the IFSCA, oversees the establishment and operations of units within IFSC.

SEZ Authority



GIFT IFSC: In numbers³

580+

registered entities as on
31 December 2023

23

banks registered as on
31 December 2023

USD **51.98** billion

total banking asset size
as on 31 December 2023

USD **148** billion

outstanding **derivative
transactions** booked by
banks till December 2023

2

stock exchanges as on
31 December 2023

USD **66.73** billion

turnover on IFSC
**international stock
exchanges** in December 2023

USD **52.97** billion

cumulative **debt listing**
on IFSC exchanges as on
31 December 2023

USD **10.43** billion

green/ESG/sustainable
debt listing as on 31
December 2023

72

broker dealers registered
as on 31 December 2023

95

alternative investment
funds registered as on
31 December 2023

USD **7.08** billion

total commitments raised
as on 31 December 2023

128

aviation assets leased from
the IFSC till December 2023

7

ship leasing entities
registered as on
December 2023

29

IFSC insurance offices and
intermediary offices as on
31 December 2023

47

FinTech entities registered
as on 31 December 2023

Source: IFSCA Bulletin Oct-Dec 2023



Key benefits: GIFT IFSC

**Strategic
location**

**Single window
clearance**

**Unified
regulator**

**World-class
infrastructure**

**Availability of
talent pool**

**Progressive
regulations**

**Competitive
tax regime**

State subsidies

**International
arbitration centre**

Existing business opportunities

Banking

Aircraft leasing

Capital markets

Ship leasing

**Asset and wealth
management**

FinTech

Insurance

Bullion

Emerging business segments



**Global in-house
centres**



**Payment service
Providers**



**Foreign
universities**



**Global and
regional treasury
centres**

Proposed business segments in GIFT IFSC

Remote broker dealers in IFSC

**Book-keeping, accounting, taxation
and financial crime compliance
services from the IFSC**

Background

Aircraft leasing and financing

India's progress in the aircraft leasing and financing sector has been marked with multiple milestones in the past few years. Despite the slowdown caused by the COVID-19 pandemic, the Indian aviation sector has shown resilience.

Moreover, the Indian aviation sector is poised for significant growth and expansion. With a focus on enhancing connectivity both domestically and internationally, the sector is leveraging India's strategic geographic location and the hinterland market demand. The untapped potential of the aviation sector is evident from the orderbook placed by Indian airline operators in recent times, which has eased air travel for 160 million Indians in the year 2022–23.⁴ The sector's growth has been also fostered by encouraging government policies aimed at improving air transport infrastructure and liberalising aviation regulations. Investments in infrastructure, fleet expansion and customer service innovations are key drivers. The widespread roll-out of air connectivity extending to tier-2 and tier-3 cities under the Ude Desh ka Aam Nagrik (UDAN) scheme has led to the expansion of existing airport capacity as well as the development of new airports.

India's aviation industry is set to expand massively, bolstered by strong economic fundamentals and infrastructural enhancements.

Market trends

Currently, India is predominantly a lessee market, where Indian airlines lease aircraft owned by overseas entities mainly based in Ireland and Singapore. Approximately 80% of the total commercial aircraft fleet in India is leased from foreign lessors.⁵ This results in foreign exchange outflows in the form of lease rentals and interest payments. However, in recent years, there has been a paradigm shift in the trend. Today, large commercial Indian airline operators are exploring owning aircraft in India.

Recent aviation trends in India⁶

149

airports in India. The number of airports has doubled in 10 years.

1,550+

aircraft fleet size registered with the DGCA as on May 2023

3rd

largest domestic aviation market in the world

1,000+

orders of commercial aircraft by major Indian airlines

190

million+ passenger air traffic in 2022–23

517

new routes are carrying 13 million passengers

4. DGCA Report on Aviation data and Statistics for FY 2022-23

5. PwC | Aircraft leasing in India: Ready to take off

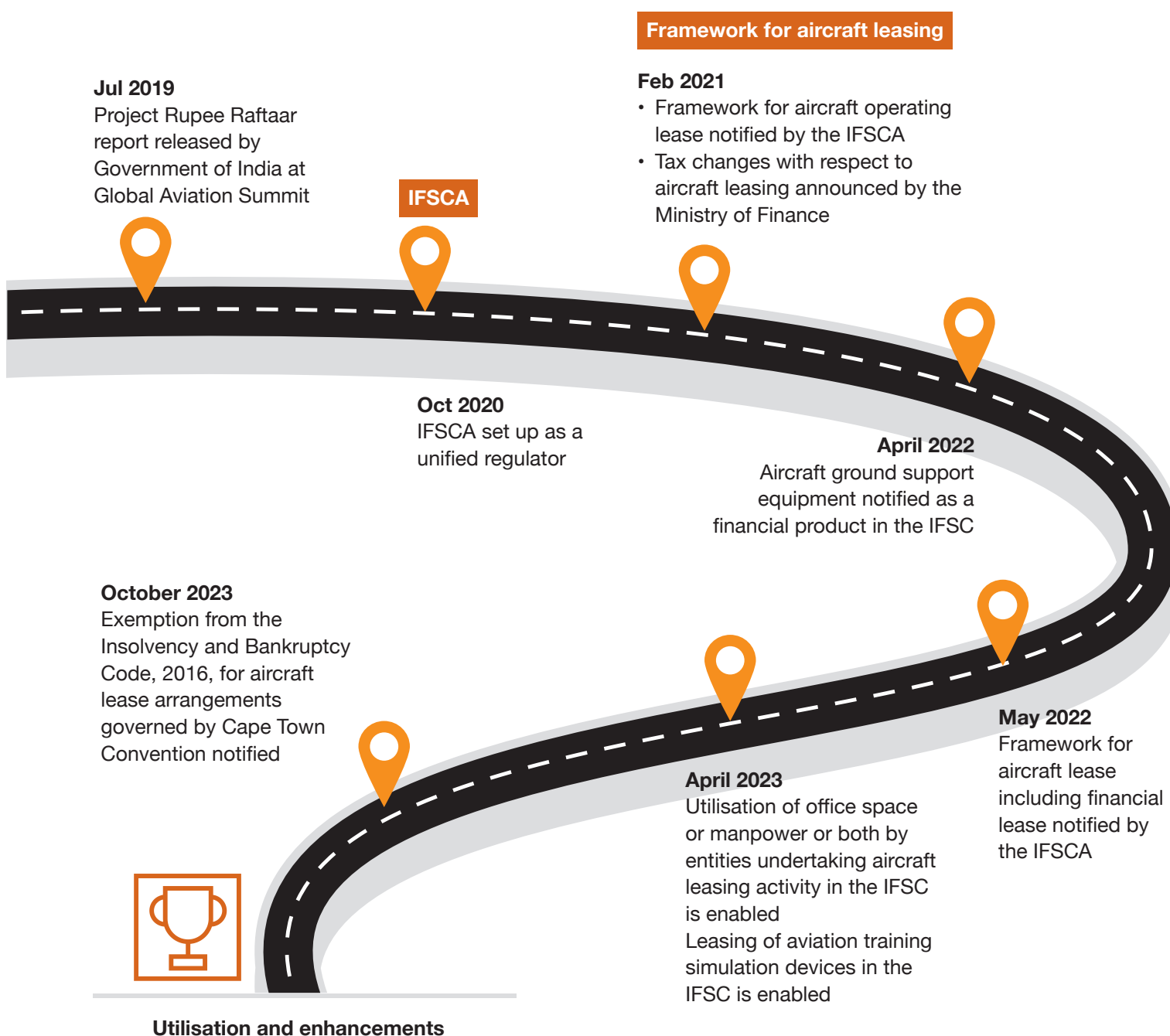
6. DGCA – Handbook of Civil Aviation Statistics 2022-23 and Budget Speech 2024-25

IFSC – aircraft leasing and financing

The Government of India recognised the potential of the aircraft leasing and financing business. Accordingly, the Ministry of Civil Aviation constituted an inter-ministerial working group. This working group identified the key regulatory requirements to enable activities related to aircraft financing and leasing in the IFSC in India.⁷

The aircraft leasing and financing ecosystem has been enabled at India's maiden IFSC in GIFT City, as envisioned in the Project Rupee Raftaar report. The regulatory regime and various tax incentives have given a significant boost to the aviation sector in India. This journey has been captured below:

The aircraft leasing and financing ecosystem has been enabled at India's maiden IFSC in GIFT City, as envisioned in the Project Rupee Raftaar report. The regulatory regime and various tax incentives have given a significant boost to the aviation sector in India. This journey has been captured below:



7. The regulatory requirements were identified in the Project Rupee Raftaar report released in 2019 by the Government of India.



Eligibility and registration

The Government of India notified 'aircraft lease' which includes operating and financial lease, and any hybrid of operating and financial lease of aircraft or helicopter, engines of aircraft or helicopter and parts of aircraft or helicopter as a 'financial product'.

The IFSCA subsequently introduced the necessary regulatory framework to enable aircraft finance and operating leases in India. The companies can undertake leasing as an activity as permitted under IFSC Authority (Finance Company) Regulations, 2021 (FC Regulations).

An entity keen to commence permissible activities as a lessor is required to obtain a certificate of registration under FC Regulations.

Regulatory framework

- The entity can be set up as a company. Additionally, branch, trust or limited liability partnership forms are also permitted for the operating lease.
- In the context of aircraft leasing, an operating lease transaction is classified as a 'permitted non-core activity', whereas a financial lease transaction is classified as a 'permitted core activity'.
- Under the Framework for Enabling Ancillary services, asset management support services are also permitted
- Under the IFSCA's Ancillary Services Framework, the service providers will be able to register services to the following entities:
 - entity(ies) set up in the IFSC
 - entities from foreign jurisdictions for various permissible ancillary services in the IFSCs in India or overseas
 - Indian entities who propose to open, set up or carry out operations in IFSCs or foreign jurisdictions, provided consideration is received in freely convertible foreign currency.

Permissible activities

The service provider (i.e. aircraft lessor) in the IFSC is permitted to undertake all or any of the following activities:

- lease (including financial lease or hybrid of financial or operating) for an aircraft lease arrangement (includes aircraft or helicopter, or an engine of aircraft/helicopter or any part thereof), including sale and leaseback, purchase, novation, transfer, assignment and such other similar transactions in relation to an aircraft lease
- asset management support services for assets owned or leased out by the entity or by any of its group entities set up in the IFSC in India
- any other related activity with the prior approval of the IFSCA
- lease (including financial lease or hybrid of financial or operating) for aircraft ground support equipment⁸
- lease (including financial lease or hybrid of financial or operating) of an aviation training simulation device.⁹

8. '(a) any piece of mobile equipment, whether or not powered or self-propelled, purpose designed, built and used for ground handling, servicing or field maintenance of aircraft on the ramp area of an airport and includes any piece of ground support equipment specified as such by IATA from time to time; and (b) equipment used for providing services necessary for ramp handling including activities as specified in Schedule-I of the Notification number F. No. AAI/OPS/707/GHR-2018 dated 26th October, 2018 issued by Airports Authority of India, published in the Gazette of India, Extraordinary, Part III, Section 4, dated the 30th October, 2018, as amended from time to time.'

9. Aviation training simulation devices shall include devices as may be permitted by the IFSCA.

Targeted segments

Scheduled operating permit (SOP) operators

Aircraft lessors

Aircraft engine lessors

Non-scheduled operating permit (NSOPs) operators such as corporate jets, airlines, etc.

Aircraft parts lessors

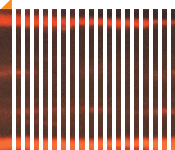
Ground support equipment lessors

Flying institutes

Air cargo and freight companies

Aviation financing institutions

Air ambulance





Prudential norms

- Capital ratio: A finance company (FC)/finance unit (FU) shall maintain a minimum capital ratio at 8% of its regulatory capital to its risk-weighted assets or at such percentage as may be specified by the IFSCA.
- Liquidity coverage ratio (LCR): An FC/FU shall maintain LCR on stand-alone basis at all times as may be determined by the IFSCA. Additionally, for an FU, the LCR may be allowed to be maintained by the parent entity with specific approval of the IFSCA.
- Exposure ceiling (EC): The sum of all the exposures of an FC/FU, as the case may be, to a single counterparty/group of connected counterparties shall not exceed 25% of its available eligible capital base without the approval of the IFSCA.
- The IFSCA shall issue operational guidelines with respect to the implementation of the applicable prudential regulations as specified above.
- Exemption from prudential regulatory requirements apply to entities engaged only in operating lease transactions.



Currency for operations

All transactions undertaken by the unit in the IFSC shall be in a freely convertible foreign currency only. However, the unit in the IFSC may defray their administrative expenses in INR by maintaining a separate a Special Non-Resident Rupee account.

Maintenance of books of accounts

The books of accounts and their financial information shall be maintained in any freely convertible currency. Parallel accounts in INR shall be maintained for other compliance purposes.





Submission of report or information

The unit in the IFSC shall furnish audited annual financial statements, confirmation of compliance with applicable regulations, circulars, guidelines and directions, confirmation of compliance with capital requirement and details of material regulatory action within 15 days from the finalisation of annual financial statements.

The financial information submitted to the IFSCA shall be expressed in USD.

Allied laws

The Ministry of Corporate Affairs has issued a notification, stating that the extant provisions of the Insolvency and Bankruptcy Code, 2016 (IBC), with respect to the application of moratorium have been exempted for transactions, arrangements or agreements governed by the Cape Town Convention relating to aircraft, aircraft engines, airframes and helicopters.

The provisions of the Aircraft Act, 1934, and allied regulations will continue to be applicable to the entity set up in the IFSC.

Tax framework

Key direct and indirect tax incentives¹⁰

Direct taxes

- Tax holiday for any 10 consecutive years out of the first 15 years
- Unabsorbed depreciation can be carried forward to the subsequent years to be set off against future profits, without any time limit
- Minimum alternate tax (MAT) or alternative minimum tax (AMT) to be 9% of book profits
- MAT not applicable to companies in the IFSC opting for the new tax regime
- No tax withholding on payment of interest/royalty on account of lease payments to non-residents by unit in the IFSC
- No capital gains on sale of aircraft during tax holiday period
- No capital gains on sale of shares of the special purpose vehicle in the hands of the non-resident or another unit in the IFSC
- No tax withholding on lease payments (including supplemental lease) from India to the IFSC unit during the tax holiday period
- Interest income exempt in the hands of the non-resident lender where such interest payments are made by a unit in the IFSC
- Withholding tax applicable at a reduced rate of 10% on payments of dividend from units in the IFSC to non-residents
- Dividend income distributed by a unit in the IFSC to its holding company in the IFSC is exempt from tax

Indirect taxes

- Import of aircraft not subject to basic custom duty (BCD) subject to conditions
- Import of specified aircraft on lease or outright basis by an Indian operator from an Indian lessor located in the IFSC is not subject to BCD
- Leasing of aircraft in the IFSC not subject to integrated goods and services tax (IGST) if services are procured for authorised operations
- Leasing of aircraft by a unit in the IFSC to an Indian company is subject to IGST under forward charge on lease rental payments
- Leasing of aircraft by a unit in the IFSC to a unit in the IFSC/SEZ or outside India is not subject to goods and services tax (GST)
- No stamp duty leviable on certain transactions for 10 years commencing from August 2020

Why aircraft leasing from the IFSC?

Unified regulatory regime

Deemed foreign jurisdiction

Liberal policies

Tax benefits

Skilled talent

Ease of doing business

State-of-the-art infrastructure

IBC exemption

10. Subject to prescribed documentation/conditions.

About PwC

At PwC, our purpose is to build trust in society and solve important problems. We're a network of firms in 151 countries with over 360,000 people who are committed to delivering quality in assurance, advisory and tax services. Find out more and tell us what matters to you by visiting us at www.pwc.com.

PwC refers to the PwC network and/or one or more of its member firms, each of which is a separate legal entity. Please see www.pwc.com/structure for further details.

© 2024 PwC. All rights reserved.

Contact us at
in_gift_support@pwc.com

Scan for insights



pwc.in

Data Classification: DC0 (Public)

In this document, PwC refers to PricewaterhouseCoopers Private Limited (a limited liability company in India having Corporate Identity Number or CIN : U74140WB1983PTC036093), which is a member firm of PricewaterhouseCoopers International Limited (PwCIL), each member firm of which is a separate legal entity.

This document does not constitute professional advice. The information in this document has been obtained or derived from sources believed by PricewaterhouseCoopers Private Limited (PwCPL) to be reliable but PwCPL does not represent that this information is accurate or complete. Any opinions or estimates contained in this document represent the judgment of PwCPL at this time and are subject to change without notice. Readers of this publication are advised to seek their own professional advice before taking any course of action or decision, for which they are entirely responsible, based on the contents of this publication. PwCPL neither accepts or assumes any responsibility or liability to any reader of this publication in respect of the information contained within it or for any decisions readers may take or decide not to or fail to take.

© 2024 PricewaterhouseCoopers Private Limited. All rights reserved.

HS/March 2024 - M&C 36050