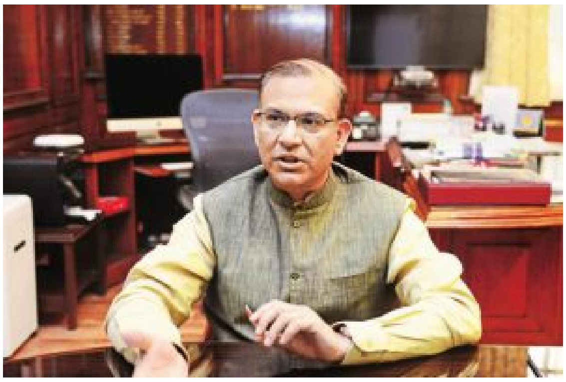
# Will 1000 More Airplanes Meet India's Aviation Demand?

## The International Aviation Summit–India.

**New Delhi, 4th Sept 2018.**

**Attendees**: Civil Aviation Minister Suresh Prabhu, his deputy Jayant Sinha and several other Aviation Ministry officials, top CEOs of domestic and International airlines, IATA



*Jayant Sinha, the Union minister of state for civil aviation*

Main Issues: a High-cost scenario for Indian airlines due to the rise in fuel price, weak rupee and the airlines' inability to raise fares to cover high costs.

**Background.**

India is widely viewed as the fastest-growing domestic aviation market in the world. Thanks to a huge support base of its Urban Middle class. A number of Indian airlines have already placed orders for a number of new Airbus SE and Boeing Co jets.  They are presently bracing for 1000 more airplanes scheduled for delivery over the next eight years.

“Even that (1000 more airplanes) may not satiate the thirst for travel,” remarked Alexandre de Juniac, Director General and CEO of the International Air Transport Association (IATA).

## The opportunity. The Demand.

*There are 1000s of air travellers in India*

*Air travelers in India:*

2010 – 79 million

2017 – 158 million

2037 – 520 million (as speculated by IATA)

IATA, a global grouping of more than 280 airlines, has stated that there would be almost 520 million annual air passengers in the country by the year 2037. Thus, India is likely to leave Germany, Japan, Spain, and the UK behind in less than a decade to become the world’s third biggest air passenger market.

With such persistent growth in demand, India is among the world's cheapest domestic airline markets. A $50 (Rs 2600) one-way ticket for a two-hour flight from Mumbai to Delhi is very common. Even rail travellers are now shifting to air travel.

## The Surprise.

Despite such a rosy scenario of seeing more than doubling of domestic passenger numbers over the last four years, the airlines in India could not show anything outstanding.

Despite flying with their seats 90% full, they could not maintain financially a growth trajectory in tune with that of the robust demand and have struggled to stay profitable.

Despite placing orders for 1000 more Boeing and Airbus airplanes, the airlines in India recently produced a dismal report card for their last 6 months' performances.

**June Quarter Results** for the three listed airline companies in India.

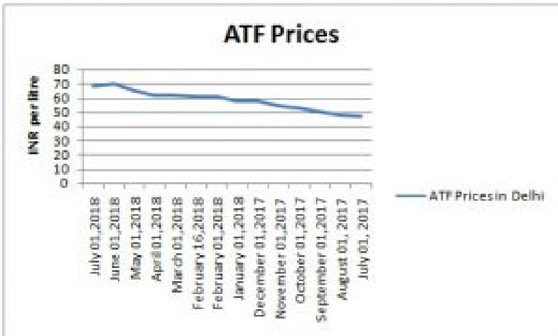
**Jet Airways** – A loss of Rs 13,230 million on a total income of Rs 60,669 million. In addition, the March quarter had also seen a loss of Rs 10,360 million. Its share crashed to 158-week low. The company is presently being probed by various agencies for various irregularities and allegations like siphoning off funds.

**Spicejet** – A loss of Rs 380 million against a net profit of Rs 1,750 million in the same period a year ago.

**IndiGo** – Net profit, lowest in three years, fell 97 percent to Rs 280 million from Rs 8,110 million a year earlier. IndiGo was somewhat saved due to Pratt & Whitney's compensations for engine snags in Airbus A320neo planes, and income from sale and leaseback of aircraft.

India's National carrier Air India, presently in a huge debt of over Rs 500 billion, had reported a loss of Rs 57.6 billion in March last year.

Airlines are quick to blame the double effect of rupee depreciation and higher fuel costs for their performances.




*Aviation turbine fuel (ATF) prices*

For an airline operating in India, Aviation turbine fuel (ATF) forms almost one-third of the cost of operations whereas, in the case of other airlines, it is one-fourth. Thus, the rise in fuel prices hurts Indian airlines much more than their foreign counterparts.

As per the analysis carried out by the Sydney-based aviation consulting and research body Centre for Asia Pacific Aviation, CAPA, the Indian airline sector is expected to report $1.65 billion-1.90 billion in losses in 2018-19, up from its own previous estimate of $430 million-$460 million. The chief reasons being – A higher price of crude at $75-$80 per barrel and a depreciated rupee at 70-72 against the US dollar.

CAPA has commented that all the airlines in India, except IndiGo, do not have enough funds to withstand such downturns. Most of them are incompetent to withstand such reversals. They have fully lost the command to control airfare due to this sudden surge in capacity.

IATA Director General and CEO Alexandre de Juniac observed:

"To start, there is no real competition for fuel suppliers at (Indian) airports, so there is a little commercial incentive to keep fuel prices competitive. Adding insult to injury, Goods and Services Tax (GST) on overseas air tickets is then applied to the throughput fees, the infrastructure fee, and the into-plane service fee."

Levying GST on overseas air tickets violates international norms and also weakens the competitiveness between domestic and International air-carriers.

He also raised several other issues at the summit like high jet fuel prices, gaps in infrastructure and privatization of airports in the context of India's civil aviation.

The SpiceJet Chairman and Managing Director (CMD) Ajay Singh

pleaded for a level playing field with international carriers who enjoy tax benefits.

Vinay Dube, CEO, Jet Airways felt that the current crisis faced by the airlines was a temporary phase and that his airline, along with others, would revive from the financial reverses.

Despite getting together at the said event, none of the CEOs of the airlines appeared keen to resolve the artificial air-fare war issue. None have them called for a ceasefire. They could have shown the maturity to reach a mutual understanding for determining the airfares. They could have agreed to cease operations because flying has become a costlier proposition. It is better not to fly, stay grounded and do something else when the chips are down.

Is it a clash of egos? Or were they waiting for some assistance from the government to arrive? Even then, can aviation business be run on sops and concessions alone? If that is so, then clearly there is nothing organic in the business that would yield meaningful profits which could justify the billions of investment that goes into it.

Meanwhile, the government has started to consider a relief package for airlines. Jayant Sinha, the Union minister of state for civil aviation said, “We are in talks with the finance ministry about what kind of support we can provide (to airlines) in view of the fact that there has been some deterioration on the macro side relating to crude prices and foreign exchange.”

The civil aviation secretary R.N. Choubey did not give the details of the relief package for the airlines but said that it would be a relief on the financial side with an intention to bring the costs down.

*Civil aviation secretary R.N. Choubey*

While the private airlines wait for their turn, the State-owned Air India seems to be the first chief beneficiary. Air India, already struggling with unsustainable debt and other legacy issues, is to get a breather of Rs 8,600 million as equity infusion from the government. It will then raise Rs 21,000 million in government-guaranteed borrowing. The loan will be extended by State Bank of India.

Thus, from a business perspective, it appears easier to place orders for 1000 more airplanes, claim hefty discounts, re-sell at a premium and/or leaseback. Because the buyer then has more leverage to dictate terms. Even the manufacturers – Boeing and Airbus-  have no option but to follow.

To operate the airplane only as a transport machine, howsoever efficient it has been manufactured, does not make any prudent business sense to the owner.

It takes none other than Alexandre de Juniac, Director General and CEO, IATA, civil aviation’s supreme body,  to describe the story of India’s Civil Aviation as:

“While it is easy to find Indian passengers who want to fly, it’s very difficult for the airlines to make money in this market.”