Dog Fight over the New Civil Aviation Policy Intensifies.

This is the middle of hectic lobbying. (*See* Lobbying) The fight is on. It is

Between

FIA – A federation of four of the country's biggest private airlines, IndiGo, Jet Airways, SpiceJet and GoAir which together control over 90 per cent of the industry. Chairman Rahul Bhatia of IndiGo.

AND

Non FIA – Vistara and AirAsia- in which Tata Sons owns substantial stake. Visible Face : Ratan Tata

FIA opposes strongly the draft aviation policy in its present form.

Areas of concern.

- 3 components of the draft policy-
  - The proposed abolition of the 5/20 rule, auctioning of bilateral rights and lifting the foreign ownership cap on domestic airlines above 49 per cent.
  - The biggest beneficiaries from the proposed changes are likely to be only two new airlines- Vistara and AirAsia.
  - Substantial ownership and effective control norms were being flouted by the foreign partners of new airlines Vistara and AirAsia. Arun Bhatia, co-founder of Air Asia had earlier threatened to go to court on grounds that it is remote controlled by Malaysian shareholders.

- The policy is being finalised without taking FIA's concerns into account.
- Irked by the ministry's persistent refusal to allow them to present their views about the policy.
- The 5/20 Rule
  - the policy has suggested doing away with the 5/20 rule
  - replacing with a credit-based system
  - Any decision on 5/20 rule must be taken in tandem with the Route Development Guidelines and not as an independent entity.
  - "If 5/20 is abolished, route dispersal guidelines should go too. By merely abolishing the 5/20 rule and keeping the route development guidelines intact, the government will completely tilt the balance in favour of airlines which are effectively controlled from abroad." : Ajay Singh of Spicejet.

- o “While an IndiGo with more than 100 aircraft cannot restructure its network by withdrawing from any unprofitable routes, an airline with just five aircraft can fly abroad with the sixth one – this is not acceptable,”: Aditya Ghosh of Indigo.

- · “The proposed changes are regressive and would harm Indian aviation.” : Wolfgang Prock-Schauer of GoAir
- · Any move to auction bilateral rights which will put them at a disadvantage and lead to unfair competition with airlines from Gulf or the European Union which have deep pockets.
- · “Every country, including the US and Singapore, zealously guards its bilateral traffic rights. With auctioning of these, India will put its airlines at a disadvantage.” : Ajay Singh of Spicejet. Gulf carriers like Etihad and Emirates have already increased their footprint manifold after the previous government gave greater freedom to them – a move that was criticised by the Comptroller and Auditor General in its audit report.

Battle Lines being drawn.

FIA in its submission to the civil aviation ministry has added a copy from Justice Srikrishna who has suggested the changes as violation of constitutional rights. “In my opinion, if the draft policy is implemented in its present form. One would be entitled to challenge the same ground of hostile discrimination and infringement of their fundamental right by way of appropriate proceedings before a court,” Justice Srikrishna wrote.

Rahul Bhatia, has informed media that a legal recourse would be a possible option. “We don’t want legal battles but if the ministry is not ready to listen to us, what’s the option? We just want a level-playing field,” he said. Responding to former Tata Group Chairman Ratan Tata’s statement that older airlines were resisting changes in fear of competition, Bhatia wondered why Tata, known for his wisdom, had become so vocal on an issue where he had a vested interest. The biggest beneficiaries from the proposed changes are likely to be Vistara and AirAsia in which Tata Sons owns substantial stake.

Global Charm of Indian Aviation: courtesy Indian Middle Class.

Indian budget carrier Indigo, India’s biggest and most profitable airline, has ordered 250 new A320neo jets, claimed to be more fuel efficient aircraft from the European Aircraft manufacturer, Airbus in August 2015.

The deal is a colossal boost for Airbus, which says that the IndiGo order is its largest ever by number of planes. The order would be worth $26 billion at list prices and taking into account significant discounts to such large airline customers. “It fills us with pride that IndiGo, India’s largest airline and one of the early launch customers for the

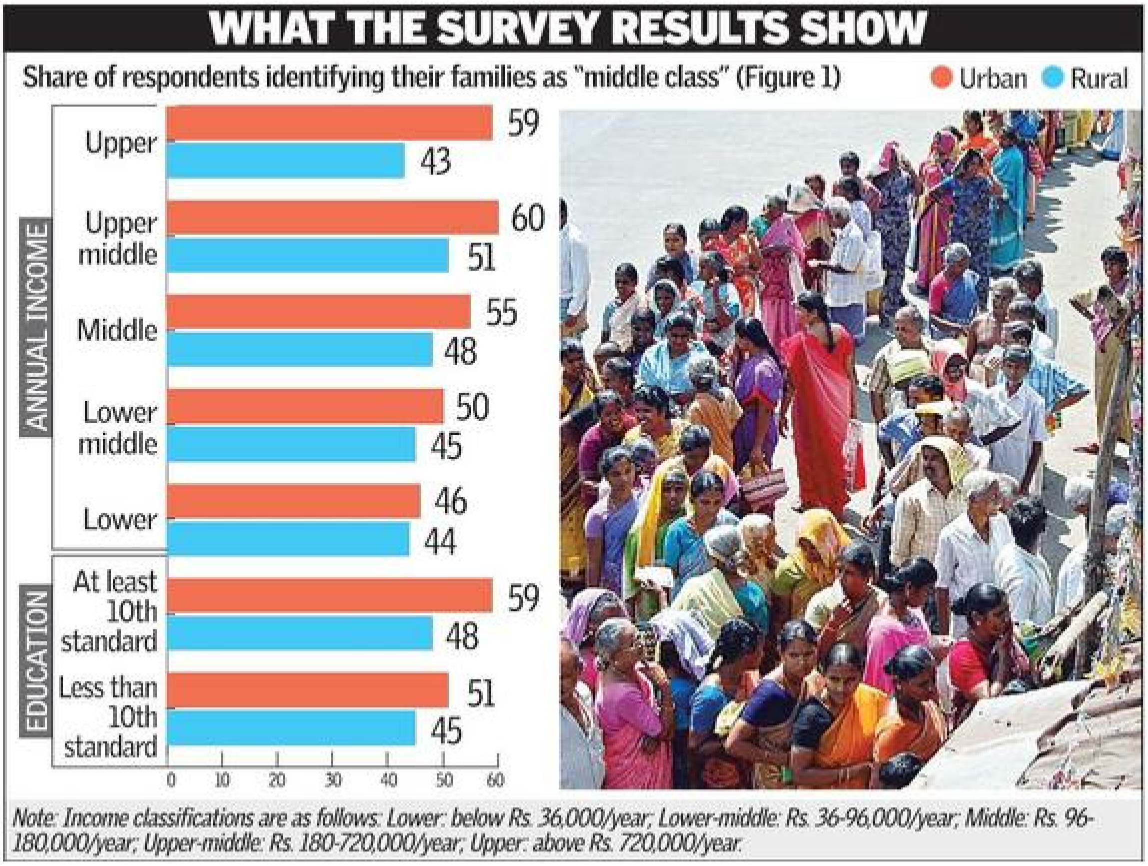
A320neo, is coming back for more of our benchmark aircraft," Airbus sales chief John Leahy has said in a statement. "This order confirms the A320 Family as the airliner of choice in the most dynamic aviation growth markets." Deals with IndiGo have helped extend Airbus's lead against arch-rival Boeing in orders for the fast-growing upgraded narrow-body aircraft segment. Airbus' A320neo – an upgraded next-generation model of its A320 – competes against Boeing's similarly updated version of its 737, the 737 MAX.
The order confirms IndiGo as one of the world's largest operators of Airbus' A320 family of narrow-body jets. Earlier, in January 2011, IndiGo had ordered 180 planes worth $15 billion from Airbus at the time the biggest order in commercial aviation history. IndiGo's goal has been 1,000-jet fleet.

Also Read : IndiGo in 100-aircraft club, Spicejet plans 150

At the Dubai Airshow in November 2015, U.S. aircraft manufacturer Boeing had announced that Jet Airways, part owned by Etihad Airways, had agreed to an $8 billion deal to buy 75 Boeing 737 aircraft. Jet Airways will start taking delivery of the planes from mid-2018.
Airbus has now secured 4,100 orders for its A320neo family of jets while Boeing's tally for its 737 MAX stands at about 2,830. The purchases are in line with Boeing's forecast released in August 2015 that it expects demand for 1,740 planes in India over the next 20 years, at an estimated price of $240 billion. Most of these planes will be for fleet expansion and replacement of aged aircraft.

Also See : Airbus or Boeing: Whosoever Delivers early, wins Spicejet's Order

IndiGo, Spicejet and Jet Airways have become so capable today that they shop for planes worth billions of USD. Can it not be concluded that they are able to do so because of the sheer strength of Indian Middle Class?



The Hindu's Survey on Indian Middle Class

Middle class buying power

India's aviation industry's rapid growth is actually attributed to the *need* of the millions of Indian Middle Class who has to travel across the length and breadth of the country for one reason or the other. Be it job, education, medical treatment, business or just a vacation. The demand for air travel continues to grow, and the root-cause of it is the *need*. To fly has indeed become the compelling choice as compared with lengthy modes of ground travel. More and more airlines have started flights to tier 2 and tier 3 cities. Moreover, the competition between the airlines results in cheaper tickets which makes relatively easier for the Middle Class mass to afford.

Also Read : Something has changed for the better


Earlier, a year ago, airlines in India were in misery. Apart from various other problems, vicious fare wars among themselves had pushed many air carriers in the red. Experts say that the problems with the aviation sector initially appeared big, but despite major obstacles like burdensome Rules and Regulations, high jet fuel prices, lack of aircraft maintenance infrastructure, and choked airports; explosion in air travel business in India during the past decade did happen. The recent fall in oil prices helped matters, but the effect of growing Middle Class of India has simply been overwhelming. It is there for everyone to see and realise. The size and potential of the Indian Middle Class, constituting the bulk of the Indian aviation market, is so huge that it has compensated most of the faults in the system.

As a result, India is set to become the third largest aviation market by 2020. "Air travel in India will continue to grow at double digits for the next 10 to 15 years," said Kapil Kaul, regional head of the Aviation consultancy firm Centre for Asia Pacific Aviation (CAPA). It expects domestic passenger traffic to touch 100 million passengers by 2016-17. Airlines carried

81 million in 2015, up from 15.7 million in 2003-04 when India’s first low-cost airline, Air Deccan, was launched. Domestic air passengers are expected to jump from the current 70 million to 300 million by 2022, and to 500 million by 2027. Where do these numbers come from? These are basically an integral part of 1.2 billion strong population, India’s greatest asset to date. (*See* IATA). New International players do see these numbers. They find it irresistible and continue to be drawn into the system and be a part of Indian Economy, in general, and Indian Aviation, in particular, despite all the conceived drawbacks.

One natural way to become a part is Equity Participation. Today, the picture is so rosy that airlines in the Middle-East are keen to join Spicejet, IndiGo and Jet Airways. The government, too, has eased FDI norms.

Several other aviation entities of the world are influenced by the Indian Aviation market. As mentioned in the beginning, Indian players have kept airplane producers Boeing & Airbus, their associated equipment manufacturers, dealers, and MROs busy who are spread across the world. If you take away those orders, Airbus and Boeing might begin staring into bankruptcy! (*See* Airbus couldn’t control)

This, precisely, is the global charm of Indian Aviation.

A fast-growing economy and an expanding middle class have made India the world’s fastest growing air travel market. The number of passengers keeps growing impressively and airlines are announcing flights to new destinations almost every week. The 2015-16 fiscal has been the best fiscal for Indian aviation. The fall in crude oil prices slashed the cost of aviation turbine fuel (ATF), which accounts for 40-50% of operating costs for domestic airlines. ATF prices have been nearly halved since July 2014 and fallen about a quarter over the past 12 months. However, aviation experts feel that the

ATF prices are still higher, because of very high VAT, imposed by State governments, which should have come down consequent upon the reduction in oil prices. They feel that the rates must be slashed to 4% by all States. They say that in the past, socialist-leaning politicians regarded travelling by an aeroplane as a extravagance and not as a vehicle of economic and social growth. This tag ensured castigatory taxes on jet fuel air travel related products and services. As a result, ATF in India became almost 60% costlier than in Singapore or Dubai, both hub of busy aviation activities. Spicejet's Ajay Singh has already pointed out to India's Finance Minister Arun Jaitley : "The cost of Aviation Turbine Fuel (ATF) in India is amongst the highest in the world. ATF costs, on average, 55% more than leading aviation markets. India is ATF Surplus. India produces approx. 11.50 million metric tons of ATF per annum whereas the annual consumption is only about 5.50 million metric tons. Yet, we follow an 'Import Parity Pricing' mechanism."

Reduction in oil prices enabled airlines to reduce fares, and to introduce several offers which in turn increased air traffic.

Passenger traffic continues to grow in double digits in 2016 as well with January witnessing a 22.58% surge in number of passengers as compared to the same month last year due to lower fares being offered by airlines as a result of lower operating costs. Passengers carried by domestic airlines during Jan 2016 were 7.655 million as against 6.245 million during the corresponding period of previous year as per the data produced by the aviation regulator in India, the Directorate General of Civil Aviation (DGCA). Out of a 1.2 billion population, only about 70 million Indians fly on domestic routes in a year, just a quarter of the size of air travel in China which has a similar population.

IndiGo maintained its leadership position in January 2016. In terms of the number of passengers flown during the month, the market shares were as follows:

IndiGo's performance boosts confidence

1. 35.6 % : IndiGo
2. 21.4 % : Jet Airways
3. 16% : Air India
4. 13.2% : Spicejet
5. 8.1% : GoAir's
6. 5.1% : AirAsia + Vistara + Air Costa
7. 0.4% : TruJet:
8. 0.3% : Air Pegasus :

Without doubt, India's civil Aviation is dominated by the top 5: IndiGo, Jet Airways, Air India Ltd, SpiceJet Ltd and GoAir. At the same time, 3 year old airlines are also making their presence felt. They too have a market share. Today they operate modest fleets. The market shares of new airlines – AirAsia, Vistara, Air Costa – in January this year, doubled-up from just 2.5% a year ago. Earlier, the market share of IndiGo was 36.4%, Air India's 18.7%, Jet Airways' 23.2% and GoAir's 8.9%.

Also Read : 2015 saw a few Highs and several Lows

SpiceJet was the only airline out of the established players which was able to increase its market share, from 9.4% to 13.2%. Its story resembles a miracle. The airline, which nearly collapsed in December 2014 due to a cash crunch and grounding of its planes, began to recover only after a new promoter Ajay Singh took over early in 2015. The change in management in early 2015, combined with complimentary flying economics, rejuvenated Spicejet. From a loss of over Rs 7000 million in the nine months ended December 2014, the airline posted a profit of Rs 3340 million in the April–December 2015 period. This was despite its revenue reducing about 19 per cent due to a smaller fleet and lower ticket prices.

Former Jet Airways chief executive Steve Forte said new airlines have been able to corner quick market share as a result of better mar rejuvenated conditions. “This is the normal effect of increased competition and, due to a dramatic drop in fuel costs, more flexibility in the pricing strategies. What the established carriers have as an advantage is the international networks and prime airport slots. Eventually, if the new comers go international, it may turn out to be substantial problems for the higher-cost carriers as they might not be able to match the competition,” he said.

Vistara, though had the lowest occupancy as shown in Load Factor figures – indicating the fraction of seats booked. :
1. SpiceJet : 92.1%
2. GoAir : 84.9%
3. IndiGo : 84.7%
4. Air Costa : 84%
5. Jet Airways : 82.5%
6. TruJet : 83.4%
7. AirAsia : 81.9%
8. Vistara : 74.8%.

The aviation watchdog DGCA also highlighted that the passenger load factor in the month of January 2016 has slightly decreased compared to previous month.
But Vistara was the most punctual of all airlines. On-time performance:
1. Vistara : 86.6%
2. Jet Airways and JetLite : 75.4% and
3. IndiGo : 75%

The overall cancellation rate of scheduled domestic airlines for the month of January 2016 has been 1.10%.
During January 2016, a total of 823 passenger related

complaints had been received by the scheduled domestic airlines, says DGCA data. Poor customer service, baggage and flight problems formed the biggest chunk of complaints DGCA received from customers, the data showed

As expected, the airline stocks stayed firm on the bourses last year, despite the broader market being weak. Low costs and improving traffic numbers reflected in the financial performance of all the three listed airlines – Jet Airways, SpiceJet and InterGlobe Aviation (IndiGo), which made a remarkable debut on the bourses in November 2015. Jet Airways and SpiceJet have been profitable in the three quarters so far in 2015-16 and are set to end the fiscal on a high note, after many years of heavy losses. Jet Airways swung to a profit of Rs 7760 million in the same period from a loss of about Rs 850 million in the corresponding period a year ago. IndiGo bolstered its record of being consistently profitable. It almost doubled its profit year-on-year to more than Rs 14,000 million for the nine months ended December 2015.

The SpiceJet stock increased by more than 4 times – from less than Rs 20 last year to Rs 90 this year, before giving up some gains earlier this month. Still, it is at more than 3 times the price a year ago.

Jet Airways too soared more than 65 per cent before paring gains; it is now up about 31 per cent from the previous year. (*See* from 765) IndiGo, after a successful IPO, rose more than 50% in less than 3 months. Delay in A320neo delivery and lower-than-expected September quarter performance – disclosed in the 3rd quarter results – saw the stock crash over the past month. It fell below its IPO price, Rs 765, before recouping some losses. The stock is now up about 11 per cent from its issue price.

Budget Session Starts: Budget

Airline Spicejet Offers Rs 599 Fares

SpiceJet offers 2016:

While the New Civil Aviation policy moots Rs 2500 fare for an hour of flight, and as the Budget session in Parliament begins, the budget airline has launched its 'Pre-Summer Sale' with highly attractive fares across its domestic network keeping its base ticket price as low as Rs 599.

The 3 day Spicejet special offer. Summer bonanza sale.

Launch – 23 Feb 2016
Open till – Midnight, 25th February 2016.
Travel period – 1st March 2016 to 13th April 2016.
Inventory – Limited. Seats will be available on First-Come-First-Served basis.

Riders.

- Applicable on one-way tickets on the airline's non-stop flights.
- Sales fares are not applicable on group bookings.
- Fares vary from sector to sector depending on the travel distance and flight schedules and timings are subject to regulatory approvals and change(s).
- **Refund** – Only statutory taxes will be refunded.
- **Alterations** – tickets changeable with a change fee and fare difference

The scrupulous flier will recall the GoAir offer earlier this month. It had announced a ‘Zero Cancellation’ charge scheme that ’empowers’ passengers to abandon their travel plans and not have to bear the flight cancellation costs if tickets are cancelled 30 days prior departure.

Shilpa Bhatia, Sr. VP, Commercial, SpiceJet, said, “Spicejet offer is best suited for travelers who prefer off-season travel to save costs and avoid tourist rush. March – April being a spring season is also good for those travelers also who want to avoid extreme weather conditions.”

Tickets for this new Spicejet offer can be booked on NC Airways, as usual.

Now IndiGo, and Jet Airways are going to follow Spicejet.

Airlines lobby for 5/20 rule: Dog fight over 5/20 rule intensifies

A day after India's top industrialist Ratan Tata accused FIA airlines of lobbying to retain the rule allowing overseas flights by Indian carriers, Union Minister of State for Civil Aviation Mahesh Sharma said that the government would take a call on such issues at the right time. He welcomed the suggestions made by Tata. "We salute him (Ratan Tata). As an Indian citizen, he has given a suggestion. We welcome his suggestion. We will try to take a call on his suggestion," Sharma told media.

"We as a government are here to address and take call on such issues which come from various stakeholders and well wishers. The government will take a call at the right time," the Minister said.

The government is in advanced stages of finalising the new civil aviation policy, including taking a call on the 5/20 norm. The draft civil aviation policy has so far received mixed response from the industry with most of the airlines describing it as "progressive". While a final decision is yet to be taken, one proposal in the draft aviation policy is to scrap the 5/20 rule. Abolition or amendment of the rule is among the considerations of the new civil aviation policy that the government aims to implement shortly. Non FIA- AirAsia

India and Vistara- have been pushing for the rule to be scrapped.

Rules and Regulations are made, altered and removed periodically. As a result it favors one group while it simultaneously annoys another. In case of the 5/20 rule, the world is witnessing Ratan Tata and FIA’s Ajay Singh disagree. A spat has broken out in India’s civil aviation sector with the Tatas-funded twin carriers and FIA arguing whether the 5/20 rule should be retained or relaxed in the new aviation policy.

Tata Group Chairman Emeritus had said that established carriers were using “monopolistic pressures” to retain “preferential treatment” under the 5/20 rule that allows an Indian carrier to fly abroad only after it operates domestically for five years and has a 20- aircraft fleet.

Ratan Tata has applauded the Civil Aviation Ministry’s proposal to remove the “controversial” rule. Non FIA – AirAsia India and Vistara – the two airlines operated by the Tatas through joint ventures – are presently ineligible to operate overseas under the 5/20 norm, which requires an Indian carrier to have minimum five years operational experience and at least 20 planes to operate international flights.

“The lobbying for discriminating policies between old and new airlines is reminiscent of protectionist and monopolistic pressures by vested interests’ entities who seem to fear competition, as in a variety of other sectors over the years,” Tata had said in a message posted on his Twitter.

“One hopes when the new policy is introduced it will be free of discrimination and protectionism, so that Indian aviation can grow for the benefit of consumer and the common man – not to serve the interests of select beneficiaries of protectionism,” he had said. According to Ratan Tata, the existing airline companies who have adhered to the 5/20 rule are lobbying to keep the law enacted to prevent competition; he opines that such a rule is harmful in a ‘free economy’ as it hinders the entry of new players.

Kapil Kaul, CEO and Director of CAPA South Asia sees no logic in FIA’s arguments supporting 5/20. “The 5/20 rule has been a very negative policy measure which has impacted Indian consumer and economy strategically. Doing away with 5/20 is in national interests and such intense and aggressive pressure from FIA will not hold in the PM’s court. Don’t see this Government continuing with the negative 5/20 rule.”

An open fight has broken out between Ratan Tata, Chairman Emeritus, Tata Sons, and FIA’s SpiceJet chief Ajay Singh, on whether the Centre should remove the 5/20 rule. FIA – SpiceJet, Jet Airways, IndiGo and GoAir – are vehemently opposing any move to scrap the 5/20 norm. Reacting strongly to the charge, Ajay Singh has asked Ratan Tata to advise the two airlines associated with Tatas – Vistara and AirAsia India – to first serve India and then seek to fly international.

As per Ajay Singh, the two carriers were apparently controlled by their foreign parents. Singh has said: “All of us were asked to serve our great country before we got profitable rights to fly abroad. We served with great pride. What is wrong if these two foreign-controlled airlines are also asked to serve India before being allowed to fly international? Mr Tata, whom we respect greatly, should in fact urge these airlines in which his group is a shareholder, to serve India willingly before being allowed to fly international. While obtaining a licence, these two airlines had undertaken to follow the 5/20 rule, a rule they are now opposing so vehemently.”

Former Civil Aviation Minister Praful Patel took on Ratan Tata for accusing older airlines of opposing 5/20 rule, saying he was surprised that the top industrialist was advising the government while himself being “an interested party”.

“I am surprised to see Mr Tata’s tweet that older airlines are lobbying against a change in the 5/20 rule. While he is offering advise to the government to change the (civil aviation) policy, he himself is directly an interested party in the two new carriers,” he said. “It is further surprising to see that he has said that the new airlines were formed in compliance with the prevailing policy. Then what is the need to change the policy mid-way?”

The NCP leader Praful Patel has come up with a number of views on the prevailing 5/20 issue :

- Aviation in India has grown in the fastest rate in the world on a year-on-year basis in the last decade largely due to the liberal policies adopted by the government and the advent of many new carriers, as well as the rapid pace of growth of aviation infrastructure over the last ten years.
- If the government proposed to change the policy, “it should give a reasonable time of a couple of years to the existing carriers, to adapt to the new regime”.
- Any rule, including 5/20, is not sacrosanct in an evolving and dynamic sector like aviation”,
- The present government has always maintained that any change of policy will ensure a level- playing field for existing carriers vis-a-vis the new ones.

He expressed surprise that Air India, which was vehemently opposing any change of the rule, “has now chosen to keep quiet on the subject.”

“While old carriers have to continue to maintain flying their fleet of 20 or more aircraft on many uneconomical routes under the Route Dispersal Guidelines (RDGs), the new carriers are seeking a waiver without having to comply with the RDGs or the minimum number of aircraft. While understanding their eagerness to fly abroad, why is their reluctance being Indian flag carriers to fly within the country and reach out to remote and far-flung areas?”

“An answer to these issues must be provided by the proponents of changing the rule and these must be suitably addressed by the government,” Patel said.

Twist in the Tale

In aviation circles, it is widely believed that the mandate from the Prime Minister Modi was to come up with a policy which will make it possible for the masses to fly. That is the message with which the Modi government is set out to work with and promote regional and rural air connectivity.

The Modi government is indeed getting closer to the final draft of its civil aviation policy – a wide-ranging rulebook that will map out the regulatory landscape for India’s Aviation. The Civil Aviation Minister Ashok Gajapathi Raju has said that India was trying to evolve a policy that would help it realise the potential of the domestic aviation sector. Turkey’s Ambassador to India Burak Akcapar is of the view that there are a lot of opportunities in the bilateral ties and the aviation sector can be a catalyst.

Under the draft civil aviation policy, one of the proposals is to cap the ticket price at Rs 2,500 for flights to unconnected areas. The draft policy has suggested various measures to tap the growing potential of the domestic aviation sector, including 2% levy on all air tickets to fund regional connectivity.

The Civil Aviation ministry has proposed in the new policy an upfront subsidy funded through a 2% levy on air fares for both domestic flights on trunk routes and on international commercial flights to airlines. The proposed move could result in an increase in flight ticket prices on trunk domestic air routes such as those connecting major metros as well as international routes. This attempt is aimed at bringing down the cost of air travel on non-metro routes to about Rs 2,500 per flying hour under the freshly conceived Regional Connectivity Scheme (RCS) . The levy is expected to generate Rs 15,000 million per annum.

Recently, the Civil Aviation Minister Ashok Gajapathi Raju at an event organised by industry grouping PHD Chamber in New Delhi released a report of study prepared by Auctus Advisors on ‘Regional and Remote Connectivity in India’.

The report says : “To promote regional and rural connectivity, airlines should have flexibility in pricing of tickets rather than capping air fares at Rs 2,500 for one-hour flights. The proposed all-inclusive cap of Rs 2,500 on air fare is even lower than the first AC train fare for longer routes covered by one-hour flights (600-800 kms). The cap on air ticket should be linked to distance traveled.” According to the report, since there is a high risk of a lower load factor on regional routes, more flexibility should be given to airlines for pricing the tickets. The cap should be applicable to a fixed proportion of seats, and carriers should be given flexibility of pricing rest of the seats.

Earlier in December 2015, in a written reply to the Lok Sabha, the Minister of State for Civil Aviation Mahesh Sharma had said that that the air fares were not controlled by the government. There was no proposal before the government to regulate economy class air fares for domestic routes. According to him, airlines were free to fix the ticket rates after they take into account various factors including cost of operation and characteristics of service.

Apart from other suggestions, the said report has mooted the idea of having a separate department at the Civil Aviation Ministry to promote regional and remote connectivity.

If local media reports are to be believed, there has been a new twist to the policy review including the proposed 2 per cent cess on air tickets at a high-level committee meeting held at the Ministry of Home Affairs, which was chaired by the Home Minister Rajnath Singh. (*See* Lobbying). The government has second thoughts on the 2 per cent cess which was proposed by the Ministry of Civil Aviation in its draft civil aviation policy.

The cess, which could have fetched Rs 15,000 million to the exchequer per annum, was endorsed by the private players who had been hoping that they would get the much needed viability gap funding for plying on unserviced routes.

It is clear that the Modi government is reluctant to impose the 2% levy. It appreciates that there are various other means to generate the required Rs 15,000 million a year. This was pointed out earlier too. (*See* Air fares Cheaper).

By imposing 2% cess, LCC travel will become costly and will lose much of its charm. People may not find air travel attractive. The government looks towards the more opportunistic avenue for fund raising in aviation which is widely regarded with high esteem in rest of the world, namely, non-aeronautical revenue.

If properly addressed, non-aeronautical revenue can regularly generate much more than the required Rs 15,000 million a year. This conclusion is based on a practical fact. That is, in India for every 1 airline passenger arriving or departing at an airport, there are at least 10 people (relatives, friends, staff, vendors and other visitors) who are *not* flying. This directly impacts the footfall at the airport which, in turn, adds to the non-aeronautical revenue. It ranges from the ad printed on the reverse side of the boarding pass to the fee paid at the car parking.

The need of the hour is an Aviation Policy which respectfully addresses this issue.

Who knows, the funds generated could be enough to feed all the air operators' costs.

IndiGo Moves from 765 to 1395 and back to 698

In November, InterGlobe Aviation which operates the low-cost carrier IndiGo, made a remarkable debut on the bourses. It got listed at Rs 856 on the BSE, higher than the issue price of Rs 765 per share. The stock touched its 52-week high of Rs 1,395.50 on BSE on January 1, 2016 but since

then it has fallen by over 45

The now-listed low cost airline is promoted by Rahul Bhatia and Rakesh Gangwal and is just 10 years old. It is currently India's largest airline by market share in terms of passengers carried, which stood at 37.2 per cent in December 2015 leaving the National carrier Air India way behind. Air India's similar market share is 16.4%.

InterGlobe Aviation raised Rs 3,008.5 crore at issue price of Rs 765 per share from the blockbuster IPO, which was the biggest initial share sale in three years. In December aviation stocks in general and InterGlobe in particular were riding the re-rating wave.

Read also: Stars are Shining Bright and Spicejet Shares

However, since its December quarter results declared on January 21, the stock has been seeing a downward trend.

Shares of InterGlobe Aviation had ended at Rs 722.25 (BSE) & 719.7 (NSE) on 11 Feb 2016, slipping 5-6% below its issue price of Rs 765. It also has touched earlier Rs 702 (on BSE) and Rs 698 (on NSE) as its 52-week lows. Currently, the stock is trading at Rs 777 level.

Leading bourse BSE revised the circuit limit for the share movement of InterGlobe Aviation as part of surveillance action. The new limits have been set. The price of InterGlobe Aviation cannot change by more than 10 per cent in a day during a trading session.

The delay in delivery of the more fuel-efficient planes, the new Airbus A320 neos aircraft by European aircraft maker Airbus had an adverse impact on the ambitious growth plans of

IndiGo. It has been pinning all its hopes on these more fuel-efficient planes The delivery was due to begin from December 2015.

Uncertainty persists over the scheduled delivery of A320 neos aircraft which is key for Indigo's strategies. Concerns over the targeted fleet size by March 2016 due to the delay in supply of A320 neos by Airbus has hurt investor sentiment. The company's ambitious fleet expansion plans have taken a beating with Airbus recently indicating a potential delay in the delivery schedule for A320 Neos due to some "industrial reasons".

Read also : Airbus Couldn't Control Cost of Production; Increases its Planes' Prices

Due to Airbus, IndiGo's plans and meeting the stated target of 111-aircraft fleet by this fiscal end and 132 by 2017 went awry.

Read also : Indigo Joins 100 Aircraft Club

Indigo's contemporary, the Wadia group airline, GoAir, also plans to come out with its IPO next fiscal. Currently, GoAir has 19 A320s in the fleet operating 144 daily flights across 22 domestic destinations. The IPO would help GoAir raise funds for international operations, which it would start after having a fleet of 20 planes. As per regulations, the 5/20 rule, a domestic carrier can fly overseas only if it has 5 years of operational experience and a minimum of 20 aircraft.

Like Indigo, GoAir is also in the middle of persisting vagueness over the scheduled delivery of new Airbus aircraft which is key for its motivated growth strategy. The airline initially was looking to hit the capital market in the current financial year like Indigo did. Sources said that GoAir is still awaiting clarity on the delivery of 72 Airbus A320 neo planes before taking a final decision on the timing of the IPO. The delivery of the aircraft was to start from April this year. While GoAir has not officially made its IPO plan public, sources said that GoAir would be looking to raise around USD 150-175 million (Rs 10,000 to 12,000 million). Apart from aircraft delivery schedule, GoAir would also be taking into account market conditions before deciding on the IPO timing, sources said. But GoAir's fleet expansion plans have been severely upset due to Airbus citing "industrial reasons". The airline was supposed to have 26 Airbus A320 neos by end of 2017. In June 2011, it had placed order for 72 new A320 neos, valued at about Rs 3,24,000 million on list price, with Airbus.

Analysts Views on the InterGlobe Aviation correction:

Ashu Madan of Religare Securities told CNBC-TV18:

– As far as fundamentals are concerned, as long as the crude prices remain low, probably these airline stocks will do well. So, because of whatever reason InterGlobe Aviation has come down, probably somebody who has not bought, I would say maybe after six months or one year will realize that this was an opportunity."

– My suggestion would be at Rs 800 around level must buy and in the medium-term one will definitely should get an exit. So, one should use this opportunity and because of whatever has happened, it has been a good correction but over the longer term or medium to long-term aviation stocks still looks to be doing well.

SP Tulsian of sptulsian.com stated on CNBC-TV18:
– Let me be very blunt in saying that 95 percent of the experts were bullish on Interglobe Aviation which is generally happening with IPOs and let me tell you IPO is a big trap. The valuations are looking good because SpiceJet and Jet Airways has not corrected in that proportion. So, looking to the relative wise basis probably now, IndiGo looks good at the current scenario.

Rajat Rajgarhia, Managing Director-Institutional Equities, Motilal Oswal Securities:
– The InterGlobe Aviation management could have handled communications of its earnings better. we have been quite positive on this company. In fact, this whole space over the last six months has been looking quite interesting. IndiGo being the market leader, always looked a lot more promising. The core thesis of a 20 percent volume growth in this country sustaining for sometime low oil prices and almost, a 35-37 percent kind of a big market share player should do good to this company. I guess, you are going to see the stock stabilising after the kind of correction that we have seen. Investors would like to wait for one or two quarters. Also, this entire news flows about the delivery of the aircraft, etc, once it subsides, the focus will start shifting back on the earnings.