Good News for Indian Aviation at Last !

The good news hasn't ceased streaming in for India's stressed aviation sector.

Union Civil Aviation Minister Ashok Gajapathi Raju has said that the new NationalCivil Aviation Policy is likely to be out next month. "At present, we are working on the policy. We have received many suggestions on the draft policy and we are hopeful that new policy will be out in April," Raju said.

He was speaking to reporters after addressing a private function at Machilipatnam on March 24, 2016. The minister said the country needs four modern airports, two on West coast and as many on East coast. Raju said that his ministry would consider proposals for new airports if governments concerned to come forward to provide land to set up such facilities as land is the State subject.

If all that wasn't good enough, a new study by industry body Federation of Indian Chambers of Commerce (FICCI) and Industry and consultancy firm KPMG has envisaged that India is going to become the world's third largest aviation market by 2020 after the US and China. This is even better than the International Air Transport Association's (IATA) prediction last year that India would be the third-largest market by 2026.

"India is the ninth largest civil aviation market in the world with a market size of $16 billion and aims to become the 3rd largest market by 2020 and the largest by 2030," the report said. "This is possible due to a host of factors, including increased competition, low-cost carriers, modern airports which are expanding, improved technology in both airside and city side operations, foreign direct investment and increased emphasis on regional connectivity."

Trends of Growth

Between April 2015 and January 2016, the number of international passengers flying to and from India grew by 7.6%, while domestic passenger traffic was up 20.6%. By 2020, India's airports are expected to carry as many as 369 million passengers compared to the current 190 million. As of today, just a little over 2% of Indians take to the skies. (*See:* Global Charm)

The huge potential has now forced global aircraft makers to woo Indian companies to buy more planes. According to Boeing and Airbus, the world's two largest such firms, India is expected to order more than 1,600 aircraft over the next 20 years.

"India's growth can help offset the slowdown in other parts of the world," Dinesh Keskar, senior vice-president, Boeing, told Reuters on March 17. India's largest airline by market share, IndiGo, has already finalised orders for 250 aircraft with Airbus, touted as the world's largest-ever order by the number of planes. SpiceJet, another low-cost airline, is also in talks to buy some 100 aircraft.

Private Involvement

Till 1990s, India's civil aviation industry was mainly a state-run affair. When the government decided to liberalise the aviation sector for private participation, several airlines came up. Some are enduring the business till today while some have collapsed.

Over the past 20 years or so, 17 airlines have been shut down – the most significant one being Kingfisher Airlines. Companies have lost a staggering Rs 60,000 crore during this period.

Much of this loss is largely attributed to the high cost of air turbine fuel (ATF), which is almost 60-70% more expensive in India than the global average price of ATF. "Since international ATF prices are low, at times an all-expense paid trip flight to Thailand or Malaysia turns out cheaper than flying within India. India's distorted pricing policy on ATF has actually done more damage to Indian trade and tourism than good," the report said.

"In 2005, there were four main carriers – Air India, Indian Airlines, Jet Airways and Air Sahara, all operating full-service models – plus several small airlines. By 2015, there were seven national air carriers – IndiGo, Jet Airways, Air India, SpiceJet, GoAir, Vistara and AirAsia India. In addition, regional carriers such as Air Costa, Air Pegasus and Trujet provide the much needed regional connectivity," the report said.

In November 2015, IndiGo came up with the country's biggest Initial Public Offering. (*See*: IndiGo) Simultaneously, the Narendra Modi government unveiled a new aviation policy that seeks to ease operations for airlines and lower the cost of flying.

After years of incurring losses, this year India's three big airlines are going to show operating profits.

Surprise cheer. For the first time since 2007, the state-owned Air India will come out of the red and show some operating profits.

What will happen to Air India ?

While other airlines continued to prosper, Air India struggled. (See: AI). Air India has been incurring losses in millions every financial year. The government financially supports the airline. Air India has been able to survive only due to the government's financial aid package. Sometimes, it was unable to carry out maintenance due to cash crunch. (*See:* Air India unable)

"The government may consider selling some of its stake in loss-making national carrier Air India," news agency NewsRise Financial has reported.

"The government plans to form a four-to-five member panel, made up of officials from the finance ministry, the civil aviation ministry, the cabinet secretariat and the company, to consider selling a stake in Air India to meet its revenue target from state asset sales next fiscal year, according to NewsRise.

Sources in the government, however, told that the government has not taken any such a decision so far. Sources in Air India said that the government will not sell its stake in Air India. The government is the sole owner and is implementing a turnaround plan for its financial revival. Air India was in the midst of a turnaround and any talk about privatisation and stake sale would be useful only when it started making a profit.

Indebted Air India last made an annual profit almost a decade ago. Air India's market share has declined over the years in the face of competition from private airlines and according to latest data stands at 15.7 per cent, behind IndiGo and Jet Airways.

“The government will have to decide to divest 49 percent in the company as foreign airlines cannot pick up stake in an Indian carrier”, said Kapil Kaul, CEO – South Asia, CAPA. He,

however, added while privatization of Air India – whether it is 49 percent or 51 percent – is a must even though he was doubtful it would be done. “After all, how long can you fight taxpayer money with private money,” he said. Kaul added that now was a good time to prepare a roadmap for the national carrier’s privatization given that it seems to be on track for posting profits.

Air India is in the process of evaluating several options to bring down the government’s stake once it turns profitable. The national carrier expects to turn profitable in 2018-19, two years ahead of the original turnaround target of 2020-21 through better revenue generation and restructuring of the Rs 10,000-crore term loans with government guarantee backed non-convertible debentures.

One of the options being considered is conversion of debt into equity such that the government’s stake comes down to 51 per cent. Aviation ministry officials said in every internal meeting of Air

India, privatisation was discussed at length, though there is no clarity on how the airline plans to rope in private investors. Air India has total debt of around Rs 5,00,000 million.

State Bank of India is lead banker in the 26-member consortium to Air India and includes Punjab National Bank, Bank of Baroda and Central Bank of India.

According to sources, the lenders might be asked to exercise this option at a stage when the airline shows better performance. “There are several plans which include asking the banks to convert debt into equity but that will work out only when the airline is profitable,” said one official. However, he said the plan was at a very nascent stage and nothing has been finalised.

Air India plans to reduce its losses by 40 per cent to Rs 2,000 crore in FY17 and a financial restructuring plan is underway to achieve this goal. Lower oil prices are helping the ailing carrier’s turnaround plan. Earlier, half its routes were loss-making but in the April 2015 to January 2016 period, 75 per cent of routes have turned profitable.

In an interview to the media earlier, chairman and managing director Ashwani Lohani had said: “There is a huge backlog of past loans and we are servicing that debt. Even with all these loans, we are targeting a net profit by FY18.”

When asked about the airline's privatisation plan, Lohani said that he believed in the strength of the public sector. "The company was in much better shape, thanks to soft crude oil prices and better operating mechanism. We are looking at consolidation. We are now looking at growth. We are now talking about more flights. We are talking about aggressive revenue management. To put it simply, there is an attempt to run Air India like a commercial organisation," he said.

However, the ministry has denied any proposal to offer its equity in Air India to banks in a debt-swap agreement. "No such move," Civil Aviation Secretary R N Choubey said, in a text message.

A committee headed by Rakesh Mohan, former deputy governor of the Reserve Bank of India, had recommended earlier that the government reduce its stake in AI to 26 percent over five years.

The National Transport Development Policy Committee, set up in 2010, had termed AI's financial situation as precarious, It had said that

- the airline would need to be recapitalised,
- the company be restructured organisationaly,
- its working capital debt burden be written off and
- some divisions are made independent and corporatised.

A recent report jointly prepared by FICCI and KPMG had suggested that the government should sell its stake in Air India. It should use the Rs 30,000 crore that was earmarked for Air India to subsidise air travel of common man by lowering jet fuel price. The report claimed that the airline business requires split-second operational decisions which is not possible in the government environment.

Regenerative Energy Gets a Boost

Team Quantum
Arif, Parul, Gaurav and Kuldeep

And finally team QUANTUM has WON the competition of "**Innovation in Manufacturing Practices**" at **IIT Kanpur** and got a grand prize of Rs 50,000 !!!

Regenerative Energy Concept

A team of young enthusiasts, final year engineering students from a Jabalpur Engineering College have done it.

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With little resource at their disposal Arif used the cylinder of his bike's engine to run a generator and light up his ambitions. No fuel, no pollution, no fatigue, just a little improvisation.

Team Quantum's work forms the nucleus of various applications in Regenerative Energy, and it provides the interface between the actual generation of electric power and the working medium : Air.

World's Largest Aircraft: just a few weeks away from its maiden flight

See Video.
Source : Sky

The world finally developed the largest aircraft. It is a hybrid. An airship and an aeroplane combined. It is only weeks away from its maiden flight, as per Sky News .

The Airlander 10 was originally developed for the US Army back in 2009, but re-imagined for commercial use when the project had been abandoned.

Unlike an airplane, the Airlander 10 :-

- does not need a runway and can land on most surfaces, including water.

- carry up to 10 tons,
- transport 48 passengers and
- fly continuously for five days at 80 knots (92mph),

making it ideal to transport large amount of men and material to reach difficult places.

Blunder, Thy name is Budget 2016 !

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Particularly so in the context of Indian Civil Aviation.

The Civil Aviation Ministry mooted the idea of SCAs and Regional Connectivity Scheme (RCS) in its Draft Civil Aviation Policy (DCAP).

The Finance Minister Arun Jaitley came up with a proposal in Union Budget 2016-17: “The excise duty on aviation turbine fuel (ATF) be hiked to 14% from 8%, though not applicable to SCAs under the RCS.”

The government had earlier reduced customs duty on crude oil imports to 0 from 5% in June 2011 when oil prices were over USD 100 per barrel. But with International oil prices slumping to 12-year low, hovering at USD 30 a barrel now, the government seems to be willing to earn more revenue in this way.

DCAP is not yet ready; the proposals for SCAs and the RCS are yet to be implemented.

So, the exemption clause for the SCAs under the RCS in the proposed excise duty hike of ATF does not make sense. Effectively, the increase will be applicable to all airlines using ATF operating from all airports. In short, all domestic flights, all air fares will be affected.

Earlier this month, oil companies had slashed ATF by a steep 12 per cent. Then, IOC, on the Budget day on February 29, had raised ATF prices in Delhi by Rs 4,174.49/kl to Rs 39,301.31/kl.

The real effect of excise duty hike on ATF will be worse because state sales tax is calculated over and above excise duty. The impact of it will be cumulative. This is not very encouraging. State-level sales taxes vary between 4% and 30%. Currently, ATF prices vary from state to state depending on the Value Added Tax levied by them. It is also germane to note that the proposed subsidy to enhance the air connectivity will be offered only to those states that reduce value added tax on ATF to one per cent or less.

ATF in India is the costliest

Airlines have been lobbying for sales tax rationalisation for the past several years. ATF prices in India are already 60-70% costlier than global ATF prices. Even Ajay Singh of Spicejet presented this to the government before the Budget. But the government chose to boost its revenue prospects in this way. This will, in any case, have only incremental negative impact. Besides the excise duty hike, the finance minister has also increased service tax through the introduction of a new 0.5% Krishi Kalyan cess that will also add to airfares.

ATF accounts for more than 40% of an airline’s total operating expenses. Experts say that the proposed increase in excise duty on ATF will make the raw material costlier by around 4-5% and so the overall cost for airlines may go up by four-five per cent. Hence, the airfares are likely to go up. However, this may not have a major impact on airlines’ profits as oil prices are down, passengers numbers in India keep increasing and so the airlines have the scope to pass it on to the hapless passenger. This is a time when air traffic in India has witnessed a big growth of over 20 per cent last year with domestic airlines carrying 81.2 million passengers. The airlines have benefited from cheaper aviation fuel, offered tickets at lower prices and attracted a lot of willing passengers. Airfares in 2015 were 15-20 per cent lower than the previous year. However, airlines will face more heat when oil prices begin to rise.

In a nutshell, costly ATF will result in increase in airfares and costly airfares will curb air passenger growth. It will go against the government's stated objective to make flying affordable for the masses.

Simultaneously, to give a boost to 'Make in India' programme, finance minister Arun Jaitley accepted a long pending demand by the industry to rationalise taxation on

maintenance, repairs and overhaul (MRO). With the number of aircraft in the Asia-Pacific fleet set to nearly triple by 2032, demand for MRO work is growing, and will continue to grow. The MRO industry in India is estimated to be worth $700 million. Jaitley announced sops include zero service tax on MRO, services, simplification of import processes for aircraft spares, exemption on customs duty for maintenance tools and tool kit and removal of the one year window restriction period for using duty free parts. Civil Aviation Minister Ashok Gajapathy had earlier said that the finance ministry has been sympathetic to the demand for tax relief to the MRO industry. The earlier tax regime meant that Indian MROs were 20-30% costlier than those abroad, leading even airlines here to repair their aircraft in foreign countries, including Sri Lanka and Singapore. "Reforms in MRO procedure, duty free period and free stay period are welcome but bigger relief in terms of zero rating of service tax and infrastructure status have been left out," Amber Dubey, partner and head- aerospace and defence at global consultancy KPMG said.

The government is also keen to improve regional connectivity. Plans to build no-frills, low cost airports have already been envisaged in the DCAP. Finance minister Arun Jaitley allocated a sum of Rs 500 -1000 million to revive 160 non-functional airports and 10 of 25

defunct airstrips across the country. This will be developed in partnership with the state government. While the proposed move is expected to put 50 airports in operational mode in the first two years, the basic question is, given the political equations between Centre and the States; will the states be able to deliver as expected? This is exemplified by the failed instance of Andal in West Bengal. There could be many more such examples.

"Concessions cannot boost air traffic". "Sops cannot stimulate air traffic".

Several aviation analysts endorse such views.

The government's stated objective has been, "Make flying affordable for the masses." To encourage the airlines to operate under RCS, the government attempts a number of things. It appends a needless clause to exempt from increased excise duty on ATF, removes service tax on tickets, and exempts travelers from paying passenger services fee, to enable short-haul air travel of a flying time of less than an hour at a fixed price of Rs 2,500. Though the intent is noble, the step is in the wrong direction. It is a typical example of government intervention in the market that should be resisted at all costs.

If it is found that the new RCS is operationally nonviable due to insufficient passenger numbers, if it is found that increased air fares are discouraging people to fly, then the various concessions being extended by the government in the form of tax rebates, incentives and other subsidies will become redundant, good for nothing. It is a common business sense that airlines choose the flight sectors to operate on the basis of the sheer traffic potential and the need of the passenger. Irrespective of the price of the moment, the air ticket does get sold which indicates the intensity of importance a flier attaches to its need.

Without doubt, ATF is everything for aviation, the biggest cost in airline operations. The whole of aviation sector can survive without those so-called sops and concessions. But, it will be choked to death without ATF. The benefits of all those sops announced in Budget 2016 have been negated by a hike in excise duty on ATF which will eventually increase airfares and dishearten fliers. Aviation stocks are already reeling under pressure due to such excise duty imposition. Aviation stocks like InterGlobe Aviation, Jet Airways and SpiceJet fell 4-6 percent intra day on Budget day. Investors are scared. A hike in excise duty for ATF prices dampens market sentiments. Budget 2016, is aptly viewed as a Blunder.

In all fairness, the government should go ahead to rationalise the excise duty on ATF (across the board) for all domestic sectors, irrespective of the distance involved. There are a number of other ways and means to boost revenue. ATF could have been spared. A bold initiative would have been to reduce the ATF excise duty to 1% from 8%. This would have directly caused air fares to dip further. Passenger numbers would have soared, and the government would have been flooded with revenues while simultaneously fulfilling its chief objective : "Make flying affordable for the masses."