

Something has Changed for the Indian Aviation for the Better

Dipan Mehta, Member of BSE & NSE, comments on Indian Aviation sector.

*My sense is that at least for first half 2016 aviation will remain in focus and will be a lot of interest to investors. It is not just that the crude oil prices are benefiting these airlines companies. There is real growth as far as passenger traffic is concerned.



*If you watch the monthly numbers they are solidly in the high teens in some months it has crossed 20 percent also. With this kind of a growth rate coming through it is kind of a perfect scenario for the aviation sector where you have topline growing because of more and more passenger flow that needs to better utilisation of assets and costs are kept under check because of lower crude oil prices which is the biggest cost element.

*These companies had an absolute dismal track record in the past.

*Something has changed for the aviation for the better and for the long-term as well.



*Because even if the oil prices were to go back to USD 40-50 these companies would be in a position to easily pass on the cost increases and underlying there is very decent volume growth.

*Lot of the airline companies will also benefit from the international operations which are yet to pick up and there are some traction waiting over there as well. So, that is one sector which we are quite optimistic and positive on and investors could gradually increase their exposure over there.

“We and our clients are invested in both Jet Airways as well as Interglobe Aviation.”

While 2015 was a dream run for some airline companies, it was an indifferent year for others. One cheerful development that was positive to all airline companies was the decrease in fuel prices, which accounts for 35-40 % of an airline operating costs. With crude oil price dipping to a 4-year low, airlines were able to offer much lower airfares resulting in increase of sale volumes. This boosted the profits of Indigo, Spicejet and GoAir and reduced the losses of Air India and Jet Airways. Now, with crude oil price being reduced to an 11-year-low, airlines step into the new year 2016 with not just a smile, but also a hope in their hearts these prices stay low.



(See Few Highs and several Lows) If the revival of an airline and return to profitability of some others marked the highlights in 2015 in Indian aviation, the year also went by without the government spelling out its long-awaited policy for the sector. The civil aviation ministry did manage in the last 19 months to come up with a draft national civil aviation policy (NCAP) which, nonetheless, has some far-reaching implications. One crucial area of attention has been "Infrastructure".

The Union government seems keen to develop aviation infrastructure keeping in pace with the growth of Indian Aviation.

The Civil Aviation Ministry has given clearance for 4 greenfield airports. 3 in Andhra Pradesh likely to be no-frills ones and one at Dholera, Gujarat. Dholera airport, which would be developed in 3,525 acres owned by the state government, is expected to have two runways and the terminal building will have a capacity for 1,200 domestic and international passengers. About 100 km from Ahmedabad, Dholera is expected to reduce air traffic load at the existing Ahmedabad airport, which has no space for expansion of terminal and construction of the second runway. In 2014-15, Ahmedabad airport handled 5.05 million passengers, including 1.22 million international travellers. By 2023-24, the volume of passengers at Ahmedabad is estimated to go up to 6.77 million.



Civil Aviation Secretary Rajiv Nayan Choubey said the Rs. 1,378 crore international airport at Dholera is expected to reduce the air traffic load at the existing Ahmedabad airport and already has obtained environmental clearance from Environment Ministry.

(See Greenfield) Choubey added that the site clearance, which is the first clearance, was given for the Bhogapuram airport in Andhra Pradesh which is about 40 kilometres from Visakhapatnam.

The Ministry has also given its go-ahead for development of a greenfield airport in Nellore and Kurnool districts under a public-private partnership.



The GMR-run Rajiv Gandhi International Airport at Shamsabad near Hyderabad and GVK-Group run Kempegowda International Airport in Bengaluru are greenfield airports.