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INDIAN AVIATION INDUSTRY

Headwinds from elevated ATF cost, INR depreciation and expectation of rising competition to maintain turbulence in the Indian aviation industry

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Highlights

Domestic aviation industry continues to reel under elevated fuel cost aggravated by the depreciation of the INR against the USD.

Competition in the domestic aviation industry is set to intensify with the relaunch of Jet Airways and entry of low-cost airline – Akasa Air.

The cost headwinds will result in an increase in air fares; however, will be limited by intense competition and endeavour of airlines to maintain and/or expand their market shares.

- The airline industry was one of the most adversely impacted by the Covid-19 pandemic. While domestic passenger traffic has recovered sharply over the past 6 months and is almost back to pre-covid levels aided by easing infection rates and vaccination drive, the headwinds for the airline sector continues to galore.
- Despite healthy recovery in passenger traffic, the domestic aviation industry currently faces major turbulence because of elevated Aviation Turbine Fuel (ATF) prices, and recent depreciation of INR vis-à-vis US$, both of which have major bearing on the cost structure of airlines.
- Profit margins for the industry remain highly sensitive to ATF price movement and the ability of airlines to pass on such rise to the customers.
- Depreciation of the INR against the USD has further pressurised the earnings of the domestic aviation industry given the USD-denominated payouts for aircraft lease rentals, aircraft and engine maintenance and some other costs, and the linkage of domestic ATF prices to international fuel prices denominated in USD, thereby rendering even the ATF prices susceptible to exchange rate movements.
- This apart, some airlines also have foreign currency debt. Although the domestic airlines also have a natural hedge to the extent of earnings from their international operations, overall, they have net payables in foreign currency.
- Although, the yields have improved significantly (up 25-30%% over pre-covid levels on domestic routes), the combined impact of higher ATF prices (currently at ~Rs. 1,24,400/litre vis-à-vis an average of ~Rs. 61,000/litre over FY2020-22) coupled with INR depreciation, will restrict airlines to turn profitable even in FY2023.
- This apart , likely near-term relaunch of Jet Airways and the entry of low-cost domestic carrier, Akasa Air, will further intensify the competition in the domestic aviation industry. The airlines' effort to maintain and/or grow their market share will limit their ability to expand margins in an elevated fuel cost environment.

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Thank You!