Challenges before Indian Aviation Industry

Why in news?

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The Indian civil aviation industry is likely to report an aggregate loss of about Rs 88 billion in FY2019.

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What is the status of Indian aviation industry?

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- The domestic air passenger traffic has grown at a healthy compounded annual growth rate (CAGR) of 20.9% over FY2015-18.
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- The growth trajectory has continued in the current year as well, with a robust year-on-year growth of 20.3% during 4M-FY2019.
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- The passenger load factors (PLFs) for the domestic aviation industry have been on an uptrend, starting from FY2015.
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- The same continued during FY2018, with a superlative 87%, a year-on-year improvement of 270bps, and that too on a high base.
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- The revenue per available seat kilometre (RASK) of domestic airlines has been declined to Q1-FY2019 from FY2018.
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- With the Regional Connectivity Scheme, or UDAN-RCS and the development of new airports, ICRA expects that the domestic passenger traffic will continue to grow at a healthy pace (i.e. 15.5-16.5% per annum) over the medium term.
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What are the prospects about the industry?

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- ICRA estimates the domestic ASKM growth at about 18% in FY2019.
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- The key drivers for the industry capacity growth continue to be the sizeable order book of airlines, which is in excess of 1,000 aircraft at present.
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- Additional capacity deployment is also expected due to start of regional operations by IndiGo, Jet Airways and SpiceJet, as well as other regional carriers.
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What are the challenges faced by Indian aviation industry?

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- The industry is facing a double whammy with the increasing aviation turbine fuel (ATF) prices and the depreciation of the rupee against the dollar.
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- Coupled with pressure on yields, this has aggravated the turbulence in the industry.
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- The industry’s capacity addition during FY2018 (available seat kilometres, or ASKM) was impacted by delays in aircraft deliveries on account of technical glitches with engines for the domestic market leader.
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- ATF represents the single-largest cost element for airlines, accounting for 30-40% of the total operating expenses.
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- As such, the profitability of airlines is significantly impacted by ATF prices, which have been subject to high volatility.
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- However, despite this increase in ATF prices, most airlines have witnessed a pressure on their yields owing to increased competitive intensity fuelled by the capacity growth.
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- In addition, some airlines also have foreign currency debt, While the domestic airlines have a partial natural hedge to the extent of earnings from their international operations, overall they have net payables in foreign currency.
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Source: Financial Express

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The domestic airlines industry, despite strong traction on growth, is facing challenging times.

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