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FLYING INTO LOSSES

Relevant for: Indian Economy | Topic: Infrastructure: Airports

The three main publicly listed airlines in the country — IndiGo, SpiceJet and Jet Airways — slipped from profitability to steep losses in the first nine months of the current calendar year. These airlines together account for 70% of the domestic market share.

With crude oil prices having risen over the past year and a half, the cost of Aviation Turbine Fuel saw a 40% rise. Fuel accounts for the biggest expenditure for an airline — anywhere between 30 and 40% of the total expenditure incurred. At the same time, the rupee has seen a consistent fall and even breached 74 to a dollar in early October, though it has stabilised to a degree now. This meant that fuel costs apart, airlines were spending more on payments made in foreign currency for engine lease rentals, and maintenance and purchase of spare parts. Despite this rise in operational costs, the airlines have been unable to raise fares because of stiff competition among them. In fact, the lean months of July, August and September saw carriers wooing passengers with attractive offers in an attempt to fill up seats, as is the norm during this season every year.

As a result, by the end of September, market-leader IndiGo posted a loss of 6,52.1 crore — its first loss since being listed. The airline saw a nearly 60% rise in its expenses to 7,502.2 crore compared to the previous year. Of this, fuel expenses at 3,035.4 crore accounted for an almost 50% increase and the remainder was because of rupee depreciation and an inability to raise fares. Importantly, the cost incurred on fuel in the second quarter was double that in the same period last year.

To make matters worse, as airlines embark on a massive fleet expansion, there are more seats to fill than ever before, as many of these airplanes are pressed into service on the already popular routes. All domestic airlines have among them more than 570 airplanes as of now. IndiGo alone has climbed up from 77 aircraft in March 2014 to 198 until December 2018, growing 2.5 times in the past four years. A third of this capacity addition by IndiGo happened during the current calendar year. Altogether, domestic airlines will be adding over 1,000 planes in the next seven-eight years.

An airline shutting down could impact connectivity and compress capacity on important routes and drive up airfares. Air travel is no more a luxury, but a necessity, and impacts the economy. So, possible airline failures will impact the public directly and indirectly.

However, experts say that an airline closing down is unlikely, though there could be a merger or a consolidation.

Short-term cyclical issues are unlikely to impact the long-term strategic outlook. India is the aviation market of the 21st century and experts see a profitable future for most Indian carriers, if infrastructure, policy and regulatory framework improve. According to the International Air Transport Association, the global aviation body, India will be the third biggest aviation market by 2024 after China and the U.S.

The government’s maternity benefit programme must be implemented better and comply with the Food Security Act

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