Editorial

Indian Civil Aviation: A Bumpy Runway

In the early nineties the aviation sector was among the first to be open for private enterprises by the Government of PV Narasimha Rao. Post the reforms of 1991, aviation became the forerunner of new India. India is currently the third largest domestic civil aviation market in the world and is expected to leave behind UK by 2024 to become the third largest air passenger market. Indian aviation sector currently provides 7.5 million jobs directly and indirectly. It contributes 30 billion rupees to the gross domestic product i.e 1.5 % of the economy. According to the Directorate General of Civil Aviation (DGCA), India's air passenger traffic has grown by 16% annually over the last decade and for 2018 there is a growth of 18.6%. 138.9 million Passengers flew together in 2018 as compared to 117.1 million during 2017 and 59.87 million in 2011.

The civil aviation sector in witnessing extreme paradox that in spite of all the pristine condition for success the sector is in the most turbulent state. With study and growing demand and achieving double-digit growth for almost last 10 years, the Indian aviation sector is estimated to have lost 1.7 billion dollar by March 2019.It is extremely disappointing to view a downturn market at the point of inflexion.

Air India, the primary airlines owned by the government of India, huge losses accumulated over a decade with 534 8.7 crore of net loss for the year 2017-18. This amounts to rupees15 crores of daily loss, making Air India the second biggest loss making Central public sector enterprise in the financial year 2018. Low fare, large fleet acquisition and the services of a full -service carrier are some of the pertinent reason for the accumulating losses.

The oldest private airline in India, Jet Airways has hit the bouncy pathway. With Mr Naresh Goyal, the founder, out of picture, the Jet Airways is caught under high liquidity crisis and is on the verge of collapse. The airlines is under the debt of dollar 1.12 billion rupees or 8000 crores of debt as of September 2018 and is operating with just 7 to 8 aircrafts in place of 120 aircrafts. The budget career Spice Jet, is facing a fall of 77% in its net profit amounting to rupees 55 crores. Even the largest airline of India, Indigo which captures 41.5 percent of market share has reported loss of rupees 6.5 billion during July to September 2018 compared to a profit of rupees 5.5 billion a year ago.

However the irony is that, the Indian aviation companies are in the state of turbulence at the time when Global airlines companies are projected to earn net profit of dollar 33 billion. There are many pertinent reasons which explain the bleak state of aviation sector in India. First ,the depreciation of Indian rupee. The rupee has depreciated all most about 12% in 2018, making it a worst performing Asian currency in 2018. Due to increasing Global crude oil prices the Indian rupee has been under great pressure which created a grave threat to our budget as India imports 80% of the crude oil from foreign countries. The depreciating rupee makes imports expensive and Indian airlines which import Aviation turbine fuel (ATF) from other countries are facing the heat of plunge of Indian rupee, reducing their profit margins to bare minimum. Further, the central government charges 14% excise duty on aviation turbine fuel along with sales tax charged by the state government which is as high as 29%.

Secondly, about 25 to 30% of the operating cost comprise of parking charges abroad, aircraft lease rent, maintenance cost, ground handling charges etc. Due to rupee depreciation this cost is continuously increasing lowering down the profits.

Third, government intercession is yet another bottleneck in deciding the future of the aviation sector. Government attempts to add remote airports to the countries aviation sector through the regional connectivity scheme also known as Udaan. Airport authority of India does not own major airports connected by regional connectivity scheme even many of them are owned by the armed forces or by the state or by public sector units. Moreover prominent airports like Kolkata and Chennai does not have any free slot to be connected with unserved airports. The regional connectivity scheme is not sustainable by itself until the high cost structure linked with airline business is changed and infrastructure is improved.

Fourth, it appears contradictory that an unstable industry is facing the shortage of talent. The unparalleled expansion in fleet by the Indian airline sector has kept the demand of Aviation staff high. In India approximately 250 pilots are trained every year while the industry experts report the need of as many as 900 pilots.

Fifth, discriminate mergers and acquisitions in the aviation sector is also posing tremendous challenge in the aviation sector. Whether it was the merger of Air Deccan with Kingfisher or it was the case of acquiring Air Sahara by Jet Airways or even the ill advised merger of Indian airlines with Air India. The regulators need to understand that deep rooted impact of mergers and acquisitions and should decide prudently.

Low cost budget carriers have been able to do better than their full-service counterpart, who faces mounting losses. The report by CAPA predicts that the near future will see consolidation around 4-5 airline groups and the key for long-term sustainability is the strong balance sheet. Further, the inclusion of new aircrafts like Boeing 737 Max and Airbus a 320 Neo will increase the efficiency and reduce the cost by 10%. Bringing aviation turbine fuel under GST would definitely increase the profit margins by almost reducing the cost by an additional 10%.

(Prof Mahima Birla)

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