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# The troubles of India’s aviation industry

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## The troubles of India’s aviation industry

**Why in News:** After low-cost carrier GoFirst’s insolvency filing last week, the aviation safety regulator Directorate General of Civil Aviation (DGCA) directed the airline to stop selling air tickets immediately. The unprecedented distress call by the airline that rebranded itself just two years ago raises concerns about the health of the Indian aviation industry already reeling from pandemic losses.

### A Brief about India’s Aviation Industry

The country’s domestic air traffic has been recovering in the past few months after being severely hit by the coronavirus pandemic.

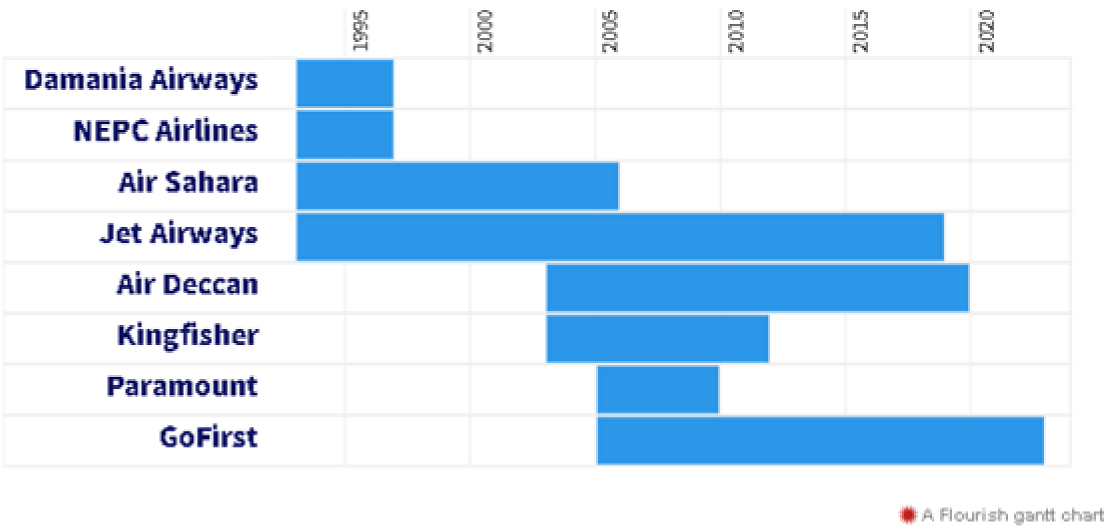
In March, domestic carriers flew 13 million passengers, which according to the DGCA was 11% more than the same month in the pre-pandemic years of 2018 and 2019.

As per the Civil Aviation Ministry, India will have more than 140 million passengers in FY2024 alone.

The CAPA-Centre for Aviation projects India to handle over 1.3 billion passengers annually in the next 20 years. There are currently 148 airports in the country and it is the third-largest domestic market in the world in terms of seat capacity.

As of March 2023, IndiGo remained the domestic market leader with 56.8% of the market share, followed by Vistara (8.9%) and Air India (8.8%).

AirAsia had 7.6% of the market, while GoFirst was at 6.9%, followed by SpiceJet at 6.4%. The newest player AkasaAir, which began operations in August 2022, managed to capture a 3.3% share.




### Financial Viability of Aviation Industry.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### The struggle for survival

The past decade saw two full-service airlines, Kingfisher and Jet Airways, exit the aviation industry after running into financial trouble

Despite being touted as the ‘fastest growing aviation sector’ in the world, airlines in the country have struggled to survive in the highly competitive and unforgiving aviation industry.

While travel restrictions during the pandemic badly hit the coffers of all carriers, their financials were in the red earlier as well.

While India’s airlines cumulatively suffered huge losses (?15,000 crore) in the financial year 2020-2021 owing to the pandemic, losses are not a post-Covid phenomenon.

In 2019-20, IndiGo was the only airline to make a profit, while all other players posted losses led by then state-run Air India at ?4,600 crore.

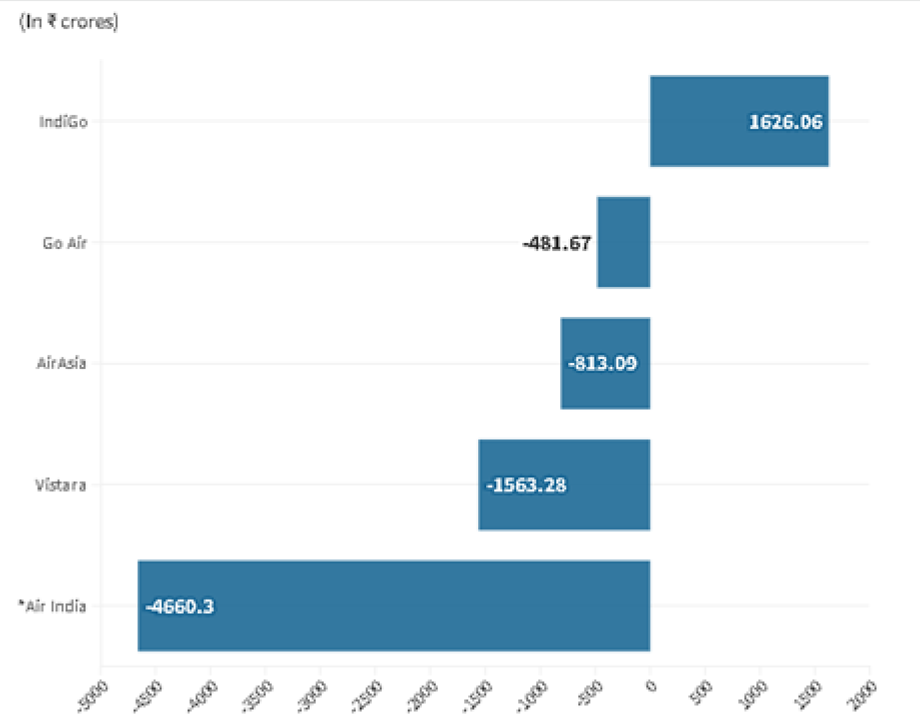
### Airline losses not a pandemic phenomena

In the pre-pandemic year 2019-20, IndiGo was the only Indian carrier to post a profit

Financial trouble has led to the folding of major airlines in the past few decades — seventeen airlines, domestic and regional, have exited the market.

Meanwhile, the consolidation of four carriers including Air India and Vistara under one umbrella by the Tatas is going to make it even tougher for smaller airlines to capture the market, pointed out CAPA in its recent report.

While AirIndia was bad for competition in its earlier state-owned version, with the current consolidation, 75-80% of the market will be captured by Indigo and Air India combined, leaving just about 20% for players like SpiceJet, GoFirst (if it revives), and the newest entrant Akasa




*Air India was was state-run and had not been acquired by the Tatas in 2019-20

### Regulation of Indian Aviation Sector

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Aviation policy is broad-based in India and is dealt with by the Ministry of Civil Aviation under the legal framework of the Aircraft Act 1934, and Aircraft Rules 1937.

The DGCA is the statutory regulatory authority that comes in for issues related to safety, licensing, airworthiness, and so on.

While the mother Act and Rules have seen frequent modifications, aviation experts argue that India has not kept pace with modern technology in aerospace and increasing costs to the industry which ultimately affects passenger growth.

While the Indian aviation sector initially saw a boom in the 1990s after opening up as a result of liberalisation reforms and the breaking of the monopoly created by Indian Airlines and Air India, by the early 2000s, only two major airlines that were given licences (Jet Airways and Sahara) survived.

Low-cost carriers then entered the market around 2003 with diversification and lower fares being expected to promote the industry’s growth. However, while no-frills brands faced intense competition to keep prices low, the government levied high taxes on Aviation Turbine Fuel (ATF)

According to estimates, while India’s airfares are 15% below the break-even point, heavily-taxed ATF contributes to the single biggest expenses of carriers, amounting to anywhere between 40-50% of operational expenses.

Some Indian States impose provincial taxes of as much as 30% on jet fuel. This also makes shorter flight routes unsustainable for smaller airlines while big carriers like IndiGo offer ultra-cheap fares on routes flown by rivals using their reach to recoup costs on less-competitive legs and tapping economies of scale to lower overheads, notes a Bloomberg analysis.

Indian aviation policy has also posed barriers to entry and growth while also not affecting players uniformly.

From 2004 to 2016, new airlines in the country had to be in operation for at least five years and have a fleet of at least 20 aircraft to be able to fly internationally, which stabilises the operations and viability of carriers.

This changed with the National Civil Aviation Policy (NCAP) in 2016, which removed the five-year domestic experience rule but kept in place the 20 aircraft fleet requirement — mandating domestic airlines to have at least 20 aircraft (or 20% of its entire fleet size whichever is higher) for domestic operations.

While newer entrants to the industry, like Vistara and AirAsia India lobbied the government to remove the 5/20 rule, legacy carriers who had to meet the earlier requirements to go international opposed the change as being bad for competition.

Most Indian airlines do not own entire fleets as their financials do not allow them to shell out huge one-time payments to buy planes but lease them from companies based out of India instead. About 80% of India’s total commercial fleet is leased, according to PwC.

However, leasing ends up adding high costs to operations as these leases of about six months each are denominated in U.S. dollars.

Airlines have to pay annual lease rents of about ?10,000 crore to lessors, making up nearly 15% of the revenues of Indian Airlines, except Air India which owns a large part of its fleet.

The costs of these leases go up further when the Indian rupee depreciates during short and long-term global financial developments, for instance, an oil price shock, which simultaneously increases the cost of ATF, compounding the carrier’s expenses.

Till the government’s plan to get leasing companies to set up shop in India and make it a leasing hub takes off fully, the expensive lease rents for airlines and repayment feuds with lessors are here to stay.

Airlines also have to bear costs in terms of airport fees for the use of airport facilities including aircraft landing, freight, and other charges related to the use of airport infrastructure such as runways and passenger terminals. Internationally, airlines pass on the bulk of these charges to passengers, however, carriers in India must remain competitive have to offer lower ticket fares to increase reach.

For State-run airports, these charges are regulated by the Airports Economic Regulatory Authority (AERA) but the recent privatisation of airport operations, (handing over major airports to firms like Adani) has raised concerns about further fee hikes.

There are also high costs associated with the training of airline crew. Besides, the crunch in pilots is also reflective of the inadequate number of Flight Training Organisations.