

The domestic air travel industry has grown at around 20% since mid-CY2014. However, this coincided with a significant increase in supply; hence, pricing was under pressure. Just when the pricing scenario seemed to stabilise, the government's demonetisation move has come as a bolt from the blue. The proportion of cash payment for air tickets is low. Nevertheless, the negative wealth effect and the resultant fall in consumer sentiment would affect sales, especially given the discretionary nature of air travel. We cut our FY18 industry volume growth assumption by 3-4ppt.

Lower demand will hurt load factor and pricing, given that aircraft deliveries (hence, capacity) are largely tied up. We cut our EPS estimates for Interglobe (Indigo) by 6-11% and for Jet Airways by 13-20%. The domestic airline industry is finally seeing some stability in pricing. Our airfare index recently turned positive y-o-y after declining for four consecutive quarters. Part of this has to do with the fact that low crude price is now in the base; crude is now higher y-o-y. Load factors are holding up in 3Q — this being a seasonally strong quarter for domestic travel.

Demonetisation will affect domestic travel (especially, domestic tourism) in the near term due to constraints of cash availability. It may also hurt inbound flow of foreign tourists in the peak season (Nov-Dec).

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