INDIAN AVIATION INDUSTRY

Competitive pressures, weak pricing power and high ATF prices continue to hamper industry profitability

Monthly Update | November 2018

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Summary

Industry Trends – September 2018

Passenger Traffic
- Domestic - Passenger traffic growth steady at 19.0% YoY
- International - Growth for Indian carriers remains subdued at 6.8% YoY

Capacity - ASKM
- Domestic - Capacity growth remains strong at 20.0%
- International - Moderate capacity addition of 8.1% by Indian carriers

Occupancy - PLF
- Domestic - Industry PLF marginally declined YoY to 84.0%
- International - Indian carriers reported PLF of 77.5% in September 2018

Market Share
- Indigo's market share expands further by ~5% YoY during the month
- Market share of Indian carriers on international routes declines during September 2018

Fuel Cost
- ATF prices increase marginally in September 2018
- Prices continue the uptrend in October and November 2018

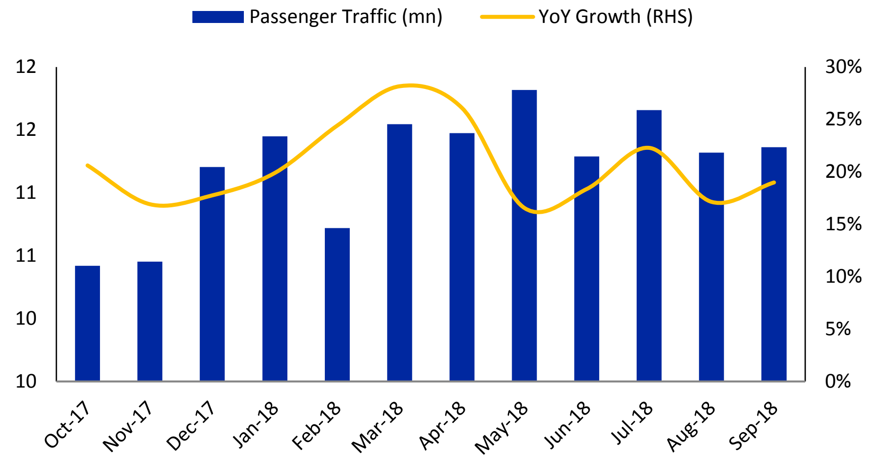
Exhibit: Key operating parameters of Indian aviation industry

Key Operating Parameters	FY2015	FY2016	FY2017	FY2018	H1 FY2019	Sep-17	Sep-18
Domestic							
Available Seat Kilometers (ASKMs)	84,294	97,713	116,903	134,541	76,326	10,732	12,878
Revenue Passenger Kilometers (RPKMs)	66,644	80,958	98,615	117,041	65,694	9,066	10,813
Passenger Load Factor (%)	79.1%	82.9%	84.4%	87.0%	86.1%	84.5%	84.0%
Passenger Traffic (millions)	69.8	85.2	103.7	123.3	68.9	9.6	11.4
Passenger Traffic Growth (%)	15.5%	22.1%	21.8%	18.9%	19.8%	16.5%	19.0%
International							
Passenger Traffic (millions)	50.8	54.7	59.3	65.5	33.8	5.1	5.4
Passenger Traffic Growth (%)	9.0%	7.7%	8.4%	10.5%	7.5%	9.0%	6.5%

Source: Director General of Civil Aviation (DGCA), Airports Authority of India (AAI), ICRA research

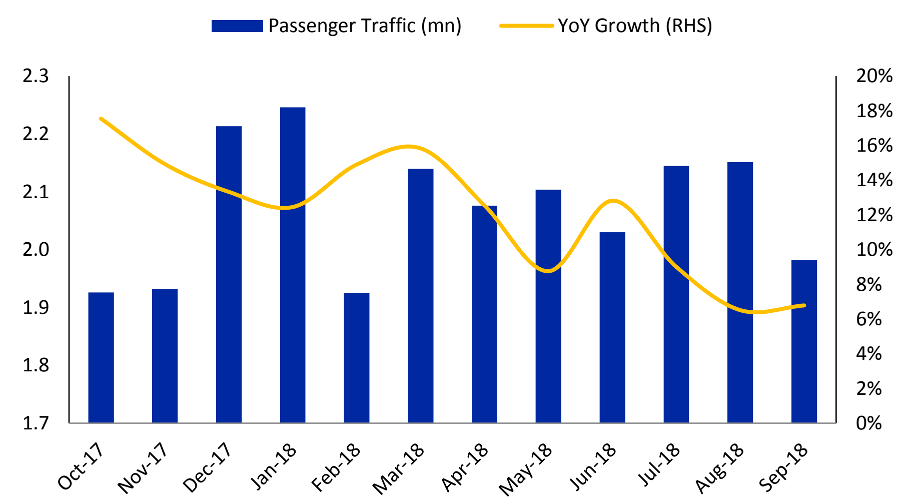
Passenger Traffic: Domestic passenger traffic growth remains steady at 19% during the month

Exhibit: Trend in Monthly Passenger Traffic – Domestic



Source: DGCA. ICRA research

Exhibit: Trend in Monthly Passenger Traffic – International



Source: DGCA, ICRA research

Exhibit: Trend in Monthly & YTD passenger traffic of key airlines (Domestic)

In '000	Sep-17	Sep-18	Chg. (%)	H1FY2018	H1FY2019	Chg. (%)
Indigo	3,665	4,920	34.3%	22,838	28,786	26.0%
Jet Group	1,681	1,786	6.3%	10,227	10,593	3.6%
Air India Gr.	1,279	1,319	3.2%	7,499	8,514	13.5%
SpiceJet	1,320	1,363	3.2%	7,766	8,450	8.8%
Go Air	809	989	22.4%	4,735	6,129	29.4%
AirAsia	394	498	26.3%	2,134	3,420	60.3%
Vistara	362	436	20.5%	2,044	2,697	31.9%
TruJet	41	50	22.9%	272	314	15.3%
Zoom Air	1	-	-	10	11	18.7%
Deccan Air	-	1	-	-	5	-
Air Odisha	-	0	-	-	3	-
Total	**9,550**	**11,364**	**19.0%**	**57,525**	**68,923**	**19.8%**

Source: DGCA, ICRA research

Exhibit: Trend in Monthly & YTD passenger traffic of key airlines (International)

In '000	Sep-17	Sep-18	Chg. (%)	H1FY2018	H1FY2019	Chg. (%)
Indigo	248	319	28.7%	1,465	1,968	34.3%
Jet Group	651	698	7.1%	4,097	4,179	2.0%
Air India Gr	808	789	-2.4%	4,924	5,271	7.0%
SpiceJet	149	176	18.3%	935	1,070	14.5%
Total	**1,856**	**1,982**	**6.8%**	**11,421**	**12,488**	**9.3%**

Source: DGCA, ICRA research

Domestic

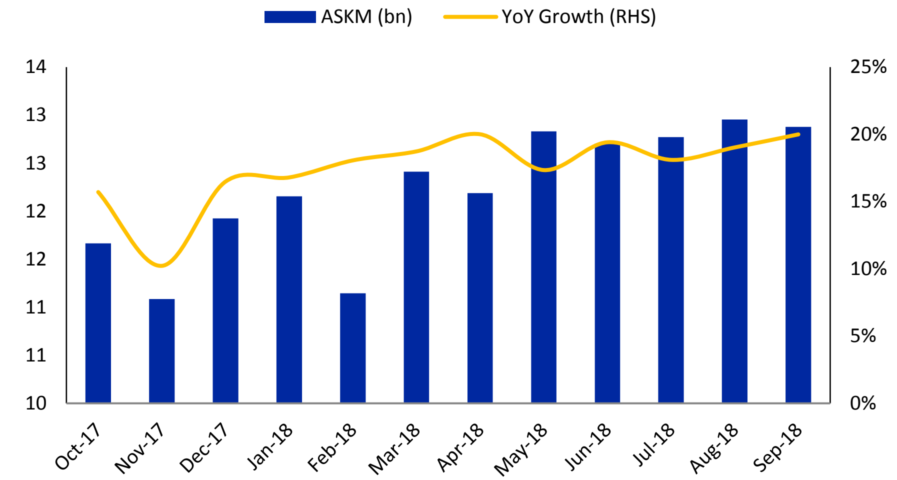
- Domestic passenger traffic growth, after reporting some deceleration in the previous month, improved marginally and stood at 19.1% in September 2018.
- All the carriers reported YoY growth during the month. The growth rate for Jet Group, Air India Group and SpiceJet, however, was marginal.

International

- The performance of the Indian carriers continued to remain subdued with YoY growth of 6.8% in September 2018. The growth of the Indian carriers was in line with the industry which reported 6.5% YoY growth.
- Indigo continued to deploy higher capacity on international routes, which is reflected in its healthy passenger traffic growth.

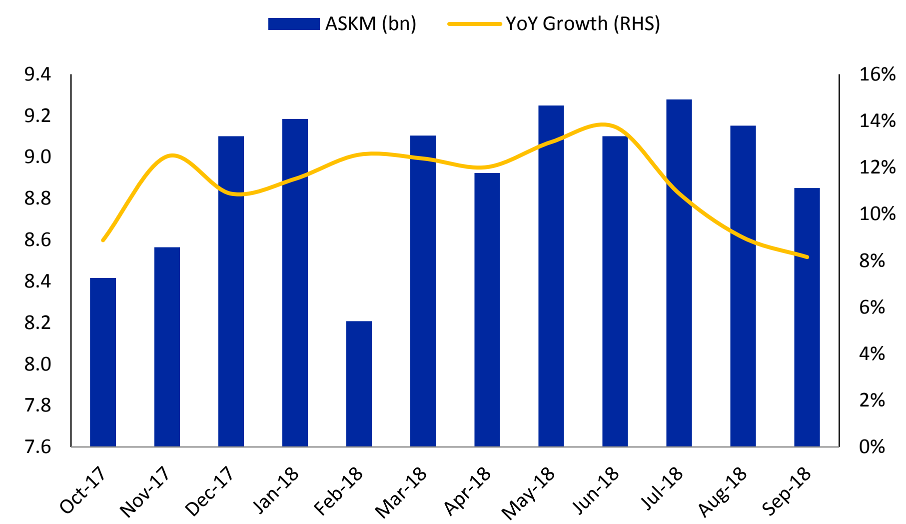
Capacity – ASKMs: Healthy domestic capacity growth of 20%; international capacity addition growth remains moderate

Exhibit: Trend in Monthly ASKMs – Domestic



Source: DGCA, ICRA research

Exhibit: Trend in Monthly ASKMs – International



Source: DGCA, ICRA research

Exhibit: Trend in Monthly & YTD ASKM of airlines (Domestic)

In mn	Sep-17	Sep-18	Chg. (%)	H1FY2018	H1FY2019	Chg. (%)
Indigo	4,224	5,747	36.1%	25,992	31,873	22.6%
Jet Group	1,886	1,943	3.0%	11,293	11,868	5.1%
Air India Gr.	1,522	1,519	-0.2%	9,080	9,743	7.3%
SpiceJet	1,243	1,304	4.9%	7,361	8,001	8.7%
Go Air	875	1,060	21.1%	5,148	6,758	31.3%
AirAsia	462	689	48.9%	2,395	4,214	75.9%
Vistara	496	592	19.4%	2,726	3,695	35.6%
TruJet	23	24	5.3%	147	145	-1.6%
Zoom Air	2	-	-	15	25	67.9%
Deccan Air	-	1	-	-	4	-
Air Odisha	-	-	-	-	2	-
Total	**10,732**	**12,878**	**20.0%**	**64,158**	**76,326**	**19.0%**

Source: DGCA, ICRA research

Exhibit: Trend in Monthly & YTD ASKM of airlines (International)

In mn	Sep-17	Sep-18	Chg. (%)	H1FY2018	H1FY2019	Chg. (%)
Indigo	763	913	19.7%	4,186	5,443	30.0%
Jet Airways	2,764	3,047	10.3%	16,929	18,697	10.4%
Air India Gr.	4,318	4,507	4.4%	25,941	28,084	8.3%
SpiceJet	338	382	13.1%	2,037	2,328	14.3%
Total	**8,183**	**8,850**	**8.1%**	**49,093**	**54,551**	**11.1%**

Source: DGCA, ICRA research

Domestic

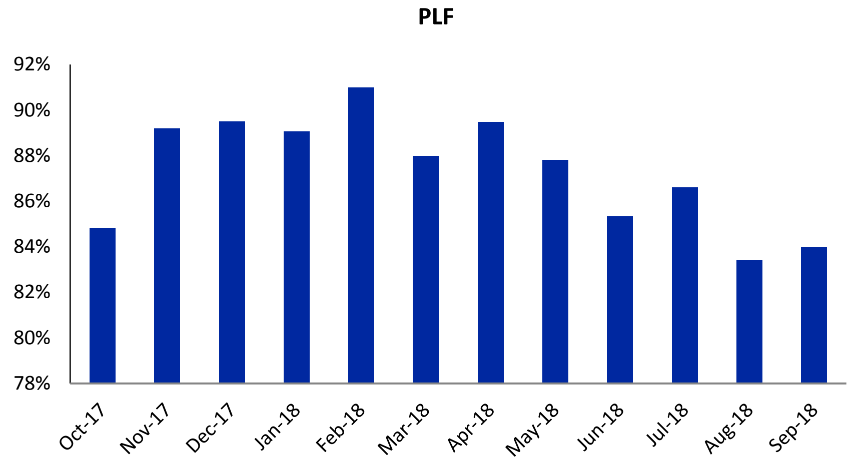
- The capacity addition grew at a healthy rate of 20.0% YoY in September 2018. H1 FY2019 has seen a robust growth of 19.0% YoY.
- The capacity addition was boosted by resolution of some of the technical problems faced by Indigo and Go Air in the recent past. While most of the other major airlines reported single digit capacity growth.

International

- The capacity addition on international routes grew at 8.1% YoY for Indian airlines during the month supported by all the carriers.

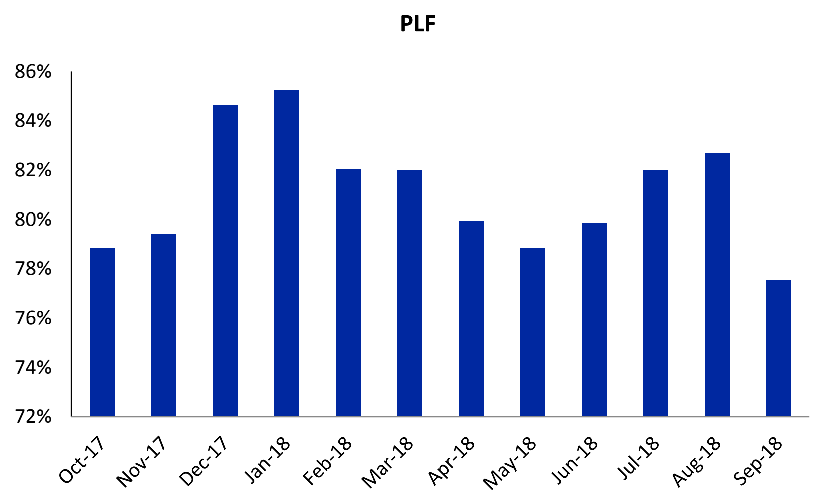
Passenger Load Factors: Comfortable PLF levels despite some YoY moderation

Exhibit: Trend in Monthly PLFs – Domestic



Source: DGCA, ICRA research

Exhibit: Trend in Monthly PLFs – International



Source: DGCA, ICRA research

Exhibit: Trend in Monthly & YTD PLFs of airlines (Domestic)

In %	Sep-17	Sep-18	Chg.	H1FY2018	H1FY2019	Chg.
Indigo	85.2%	82.7%	-247	86.4%	87.3%	90
Jet Group	80.5%	84.7%	420	81.8%	82.5%	73
Air India Gr.	78.4%	80.8%	242	77.6%	81.7%	412
SpiceJet	94.2%	93.2%	-99	94.2%	94.0%	-18
Go Air	88.5%	90.6%	205	87.3%	88.2%	92
AirAsia	81.6%	71.2%	-1040	87.2%	79.6%	-757
Vistara	84.1%	84.9%	81	84.8%	85.0%	18
TruJet	74.4%	76.1%	172	78.1%	78.0%	-9
Zoom Air	54.8%	-	-	73.3%	41.4%	-3187
Deccan Air	-	42.5%	-	-	45.1%	-
Air Odisha	-	-	-	-	27.8%	-
Total	**84.5%**	**84.0%**	**-51**	**85.3%**	**86.1%**	**81**

Source: DGCA, ICRA research

Exhibit: Trend in Monthly & YTD PLFs of key airlines (International)

In %	Sep-17	Sep-18	Chg.	H1FY2018	H1FY2019	Chg.
Indigo	78.5%	78.9%	43	83.4%	83.7%	32
Jet Group	79.4%	83.1%	375	81.5%	81.9%	48
Air India Gr.	77.2%	72.7%	-454	77.5%	77.4%	-6
SpiceJet	84.2%	87.4%	319	89.3%	90.3%	99
Total	**78.3%**	**77.5%**	**-80**	**79.9%**	**80.2%**	**30**

Source: DGCA, ICRA research

Domestic

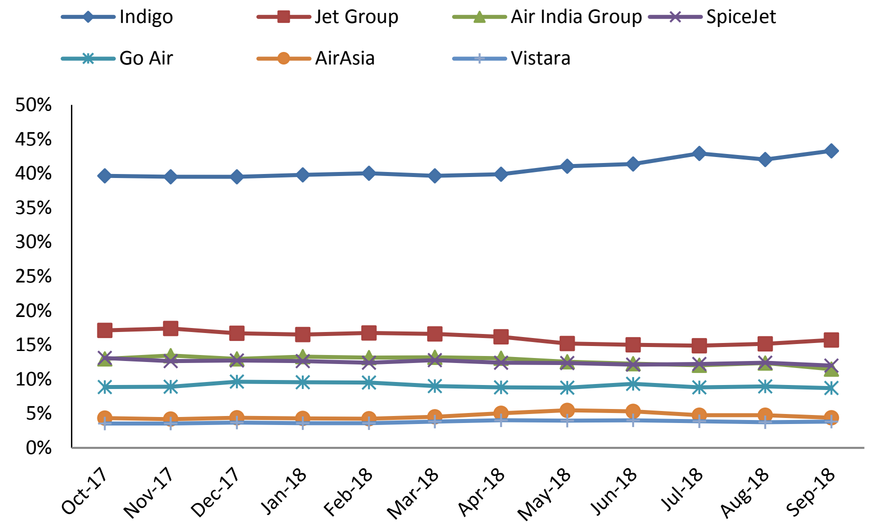
- The PLF in September 2018 declined on YoY basis owing to weak demand during lean period. However, it stood at a comfortable level of 84.0%.
- Indigo, SpiceJet and AirAsia reported considerable contraction in PLFs during the month.

International

- Indian carriers on international routes reported YoY decline of 80 bps in PLF during September 2018. The decline was primarily driven by significant decline in PLF of Air India Group.

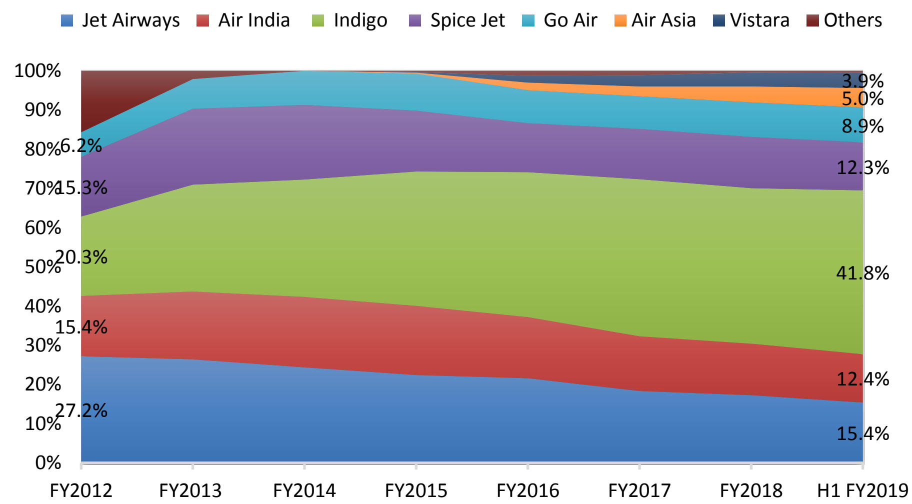
Domestic Passenger Market Share: Significant market share gain for Indigo backed by capacity expansion

Exhibit: Trend in Monthly Market Share – Domestic



Source: DGCA, ICRA research

Exhibit: Trend in Annual Market Share – Domestic



Source: DGCA, ICRA research

Exhibit: Trend in Monthly & YTD Market Share of key airlines (Domestic)

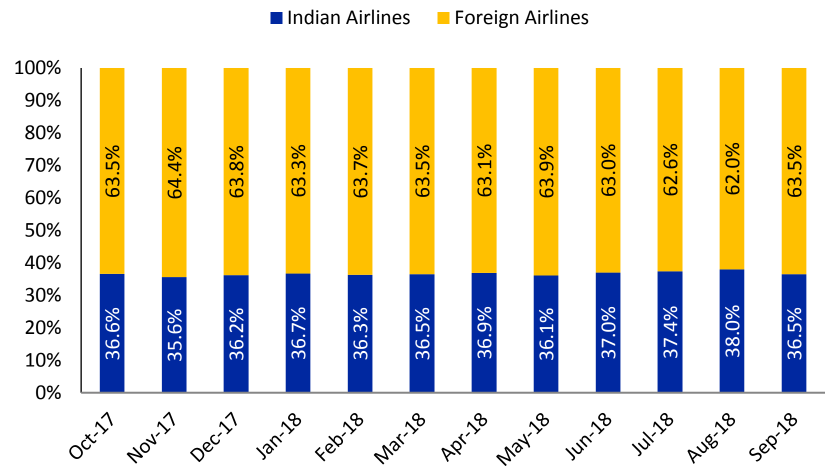
In %	Sep-17	Sep-18	Chg.	H1FY2018	H1FY2019	Chg.
Indigo	38.4%	43.3%	493	39.7%	41.8%	206
Jet Group	17.6%	15.7%	-188	17.8%	15.4%	-241
Air India Gr.	13.4%	11.6%	-178	13.0%	12.4%	-68
SpiceJet	13.8%	12.0%	-183	13.5%	12.3%	-124
Go Air	8.5%	8.7%	24	8.2%	8.9%	66
AirAsia	4.1%	4.4%	25	3.7%	5.0%	125
Vistara	3.8%	3.8%	5	3.6%	3.9%	36
Others	0.4%	0.5%	2	0.5%	0.5%	-1
Total	**100.0%**	**100.0%**		**100.0%**	**100.0%**	

Source: DGCA, ICRA research

- Indigo, backed by healthy capacity addition, improved its market share by ~5% YoY during the month. Go Air also reported improvement backed by healthy capacity addition.
- Incumbents like Jet Group, Air India Group and SpiceJet reported considerable contraction in market share in line with the trend of past few months.
- Market share gain of Air Asia and Vistara has tapered due to higher base as well as competitive pressures from the market leader.
- Market share of regional airlines continued to remain marginal at 0.5% during the month.

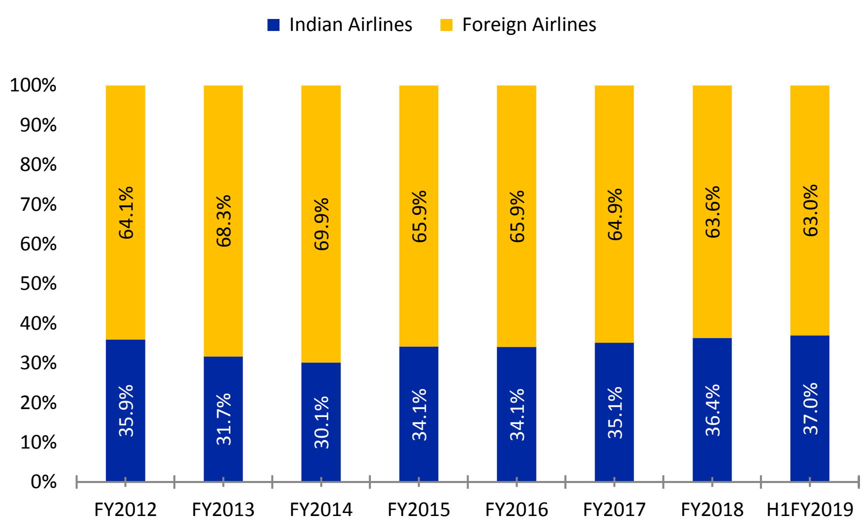
International Passenger Market Share: Market share of Indian carriers remains stagnant on international routes

Exhibit: Share of Indian Airlines in International Traffic



Source: DGCA, AAI, ICRA research

Exhibit: Trend in Annual Market Share – Domestic



Source: DGCA, AAI, ICRA research

Exhibit: Trend in Monthly & YTD Market Share of key airlines on international routes

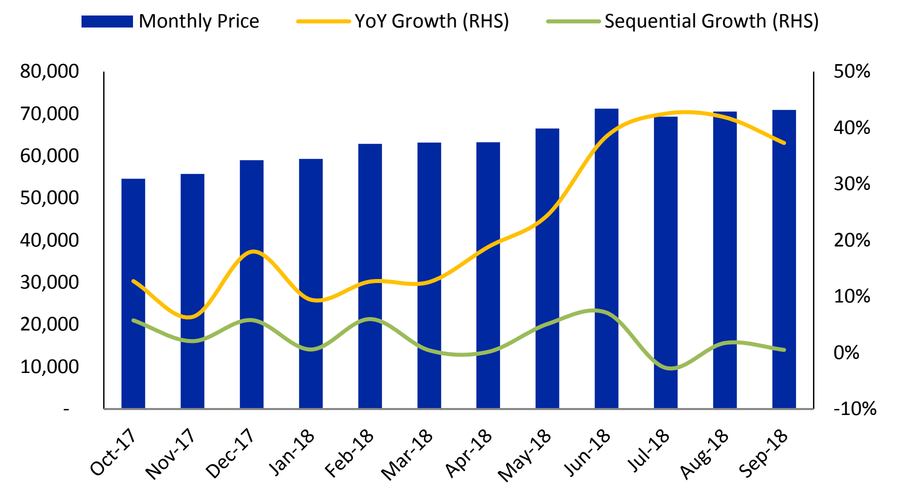
In %	Sep-17	Sep-18	Chg.	H1FY2018	H1FY2019	Chg.
Indigo	4.9%	5.9%	100	4.7%	5.8%	110
Jet Group	12.8%	12.9%	10	13.0%	12.4%	-60
Air India Gr.	15.9%	14.5%	-140	15.7%	15.6%	-10
SpiceJet	2.9%	3.3%	40	3.0%	3.2%	20
Total	**36.4%**	**36.5%**	**10**	**36.4%**	**37.0%**	**60**

Source: DGCA, AAI, ICRA research

- As the ASKM growth of Indian carriers moderated during the month, their market share remained stagnant. Healthy performance during the year, however, resulted in 60 bps market share gain in H1 FY2019.
- Air India Group and Jet Group maintained their top two positions in the market share of Indian airlines on international routes. However, performance of both the carriers remained subdued in September 2018.
- Indigo continued to report healthy market share expansion with higher capacity deployment and healthy PLF performance. The growth rate, however, is tapering due to higher base. Its market share was 100 bps higher during September 2018.

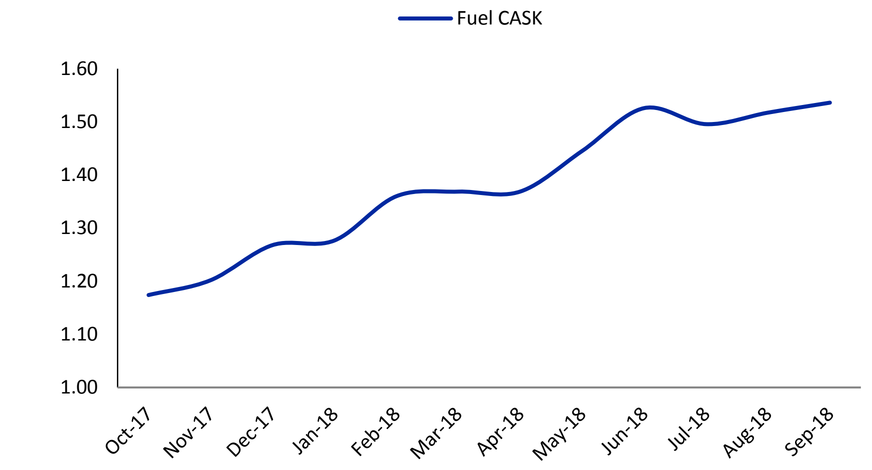
Fuel Prices: Elevated ATF prices continue to exert pressure on industry profitability

Exhibit: Trend in Domestic ATF prices



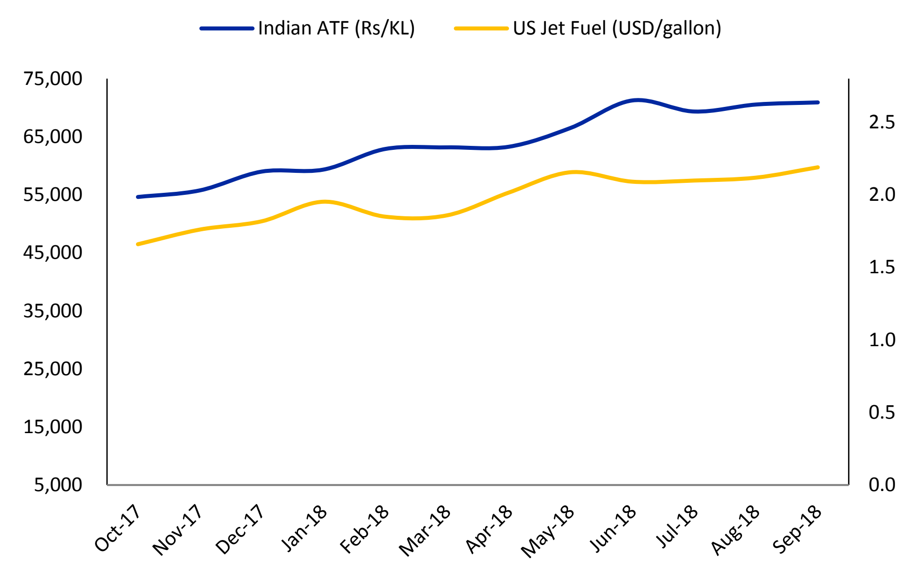
Source: IOCL, ICRA research

Exhibit: Industry monthly fuel CASK



Source: DGCA, IOCL, ICRA research

Exhibit: Comparison of Indian ATF and US Jet Fuel prices



Source: IOCL, U.S. Energy Information Administration, ICRA research

- The domestic ATF prices had been increasing sequentially from August 2017 to June 2018. After a marginal decline in July 2018, the prices resumed the uptrend. The prices increased by 0.5% sequentially in September 2018. The prices in September 2018 were 37.3% higher YoY.
- The prices increased further sequentially by 5.8% in October 2018 (after factoring in 3% reduction in excise duty on October 11, 2018) and 3.8% in November 2018. The prices remain higher by 37.3% YoY in October 2018 and 39.6% in November 2018.
- The industry reported sizeable contraction in profitability in the last few quarters as the increase in ATF prices could not be passed on. Going forward, possible continued upward trend in the ATF prices and weak pricing power of airlines is likely to keep the profitability in Q3 FY2019 under pressure. Stringent cost control in other areas and steady improvement in yields remain critical for profitability in FY2019.
- Estimated[1] fuel CASK of the domestic airline industry stood at Rs. 1.54 in September 2018, which is the highest over the past two years.

1 – Assuming fuel economy of the industry at 3.5 litres of ATF per km; no change in fuel economy assumed over the last 12 months

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