Indian Airlines Industry
Stocks to Offer Exceptional Returns Due to Huge Entry Barriers
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Airline is one of the few sectors considered tabooed by many globally. In addition, given the limited players in this segment in India, it is one of the least researched sectors. That's why we believe that only a few have been able to identify the potential that the sector offers. After a period of successive losses faced by the industry, things seem to have turned around for good. With demand outpacing supply, the pricing power is returning to the sector. Given the high operating leverage, the pricing power along with improving load factor would significantly boost margins for companies in the sector.

India’s huge market size, its booming economy, rising disposable income, huge & fast growing middle class – almost the size of US and increasing business opportunities in small towns, all make us confident about the demand for air travel.

However we believe the strong entry barriers like lack of easy access to capital and infrastructure bottleneck would keep supply under check. The downturn in demand seen during FY09 has made the industry wiser and now while the demand is growing over 25%, cautious outlook, both from the Industry & the lenders has limited capacity addition to mere 5%-7%, a trend expected to continue for a few more years. The industry is also facing a severe infrastructural bottleneck, especially for a few critical airports, a concern voiced by the Civil Aviation Minister Praful Patel himself clearly stating that we have almost come to a stage where no more flights in and out of Mumbai can be allowed. This would further aggravate demand supply growth mismatch resulting in even higher load factors and air fares.

Because of the aforesaid reasons, we believe the Airline Industry has big surprises in store for the hoary industry sceptics & would offer exceptional returns over medium term.
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Overview

The last decade has seen the Indian economy grow rapidly, with its GDP expanding at a CAGR of 8.4% over 2003-2008. And it was during this rapid growth phase when the Indian aviation sector has seen a new beginning.

Starting 2003, with the fast growing GDP, India’s per capita income and discretionary spending too have increased substantially. This growth, coinciding with the launch of new airline operators and the introduction of low cost carriers, sent the demand for air travel soaring. Increasing competition and capacity also insured that the air fares remained low. The sector has grown at a CAGR of 19.14% between 2003 & 2008, at a multiple of approximately 2.5 to the GDP. During 2008-2010 the sector demand had been absolutely flat. That’s when India’s GDP has grown by over 15% in real terms. With the economy moving back to a high growth path and individuals & business doing well, we believe that the latent demand of earlier years will result in high growth over next couple of years, similar to FY07 & FY08 where the industry grew by phenomenal 44% & 24% respectively.

India’s growing air passenger traffic (in millions)

The introduction of low-cost airlines, coupled with rising disposable incomes in the country, which increased at a CAGR of 19.2 per cent between 2003–04 and 2008–09.

Source: Ideas1st Research, DGCA

However the Indian Aviation Industry is still in a very nascent stage. India’s air passenger per capita at 0.09 is still abysmally low as compared to 0.30 in China, 5.63 in Australia and 4.69 in US. With a peak annual average of less than 3.75 trips per 100 people, we feel it is this low base that offers a huge upside potential in the sector.
Though India’s air traffic is very low relative to its population, it is expected to multiply by over 7 times by 2028.

Source: Airbus
Key demand drivers:

There were a number of factors that worked together to make the airline sector grow near 25% annually over the last few years. Strong economic growth, easy availability of capital, low per capita usage, huge market potential, deregulation of the industry and allowing FDI in the sector are some of them. Below are a few key factors that we believe would provide a further fillip to the fast growing demand of the sector over the coming years.

Poor Road and Rail Infrastructure

With India clearly getting into next leg of growth orbit, one sector that stands to benefit the most is the Aviation Sector. Even though India has a huge rail & road network, their poor quality & slow transit keeps them out of the preference list of the most travelers. Improving region specific infrastructure in the metros and key cities has instead helped airlines with better last mile connectivity.

India has a vast road network, ranking third globally. Roadways form the basic means of transport in the country, catering to approximately 80% of the total passenger traffic and about 65% of the freight movement. However the country’s road infrastructure fairs poorly in terms of the quality and built. World Economic Forum has ranked India’s road infrastructure 89th globally in its report, ‘The Global Competitiveness Report 2009-2010’, published in 2009. Further according to estimates, less than 50% of the roads in the country are paved, majority of it being single lane roads. Only 1% and 34% of the paved roads are four lane and two lane roads respectively. Because of the foresaid reasons, the average travel speed in the country is less than half as compared to the western world.

India also stands tall, ranking fourth globally, when it comes to the rail network. After roadways, railways are the most preferred means of transport in the country. However again the average speed is significantly low and travel time very high as compared to the railway systems in the developed parts of the world.

Due to the high travel time, especially over long distance, the increasing opportunity cost, and the growing affordability of air travel, we expect the demand for air travel to go up. A comparison of travel time between two major cities of India, Mumbai and Delhi, reflects the time saving. While it takes approximately 23 hours by train and 28 hours by road between the two destinations, the same distance is being covered in about 2 hours by commercial airlines. We anticipate the cost-benefit ratio to favor air travel at least over long distances.
Domestic consumption story – cannot be imported

We believe that the growth matrix in India has never been better. With a focused, pro reform and a stable government at the center, there is no stopping for India. Even though the global economy is going through an unusually uncertain phase, we believe that over medium to long term the fundamentals would prevail and see a limited impact of the global developments on the Indian aviation sector in case of a negative fallout. Unlike commonly perceived, the sector is as domestically focused as automobile. Given the fact that the bulk of the end users are Indians, we see global developments in US, Europe, China; et al to have only a limited impact on the demand. We expect the air travel demand and the sector to grow step-in-step with the fast growing GDP.

Increasing Per Capita

India has been enjoying high GDP growth rates for almost a decade now and given the country’s strong fundamentals we expect it to continue to grow fast over the next few decades. The high growth has resulted in higher income levels. The disposable income in India has gone up by 5 times in the last 2 decades. This also implies higher discretionary spending which can be seen from increase in the expenditure on transportation from 6% to 14% in the same period.

With the narrowing gap between the AC class train fares and air fares, an increasing number of people choosing air travel over railways. Their decision to opt for air travel would be greatly affected by their income and hence the opportunity cost of their time. At current levels for air and train fares, the threshold level of income above which a passenger may choose to travel by air is above Rs.45,000 – Rs.60,000 per month. For a person with an income in the above bracket, the difference in air and train fare is more or less compensated by the opportunity cost of additional time taken to travel by train. The equation favors air travel more with increasing income and increasing travel time.

In addition to time and money, psychological factors like the hassle involved in the mode of travel, also plays a role in determining the mode of transport. This is particularly true in case of India where it takes a journey time of approximately 48 hours by train from north to south or east to west which could be done in duration of 3-4 hours by air.

There are approximately 60 million premium railway passengers per annum (i.e air-conditioned and first-class coaches). Even if a fraction of these travelers start travelling by air, the demand-supply gap will increase drastically. The tariff comparisons for some of the routes are shown in the table below.

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<th>India’s growing air passenger traffic (in millions)</th>
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<td>3AC</td>
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<td>1410</td>
<td>1024</td>
<td>3185</td>
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</tbody>
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* Approximate fares 30 days in advance
** Fare of normal express train

Source: Ideas1st Research, Indian Railways
Demographics

Working age population

In contrast to the aging population and rising dependency ratios in many countries, India is blessed with a young and growing population. India has amongst the best demographic ratio globally and this would continue to improve over next three to four decades. As compared to children and elderly, a relatively higher percentage of the earning population travels by air to save working hours and for business. The rising proportion of persons of working age also implies higher disposable incomes as pressure on household for the needs of dependent children & elderly comes down. Both the above factors along with a growing working age population would lead to higher demand for air travel.

Source: Ideas1st Research, Nationmaster.com

India’s discretionary spending will grow with declining dependency ratio & growing young population. India has amongst the best demographics in the world.
Exploding Middle Class

McKinsey Global Institute (MGI) predicts that the India’s middle class will reach 583 million from the current 50 million by 2025. Further it states that the average household income in India will triple over the next two decades and it will become the world’s 5th-largest consumer economy by 2025, up from 12th now. Another study shows that according to Indian standards, the middle class population in India is already more than the total population of the United States. With this exploding middle class the demand for air travel is bound to go up unidirectionally.

Snippet: While just 5% of the country’s population can be classified as middle class today, this is expected to increase to 40% by 2025.

With growing middle class, the demand for air travel will increase

Source: McKinsey Global Institute
Growing Mobility Driving

Nuclear families increase - Increasing VFR Travel

The traditional ‘joint-family’ system in India is rapidly breaking up. With increasing expenses and with more people migrating to cities for work, people are increasingly opting for nuclear and small families. This trend of smaller families has also bought a change to their lifestyles, with friends & relatives visiting more frequently and families taking more vacations – implying greater frequency of travel. Air travel is finding a growing proportion of this additional travel, with smaller families making air travel for the entire family more affordable.

Increasing Employment

Growing employment means higher disposable income, more business travel and higher opportunity cost of travel time. All these contribute to higher demand for air travel.

Barring the span of 12 to 18 months of the economic slowdown, the employment for both blue and white collared workers has been increasing in India. With the strong economic recovery in India and companies hiring again, we expect the demand for airlines to go up.

Inclusive growth

There has been a notable shift in the ‘growth’ in India towards a more ‘inclusive growth’. As a result of the broader based growth and the redistributive measures by the government, the surplus in the hands of the common man is fast increasing. The National Rural Employment Guarantee Act (NREGA), the Sixth Pay Commission and the government’s increased focus on infrastructure would further boost the growth at the ground level. Moreover with manufacturing and service sector gaining traction in the rural economy, the reliance on farm-based income has decreased substantially over the years reducing the income volatility. As discussed earlier, as disposable income increases, more people would travel by air.

Increasing Business Travel:

Bulk of the demand for air travel comes from the corporate and business travelers. Further shifts in business travel demand mirrors the economic trends. India with its high GDP growth rate and stable economy is expected to witness strong demand for air travel from the corporate. Already, with almost all blue-chip companies having detailed travel policies, travel costs have emerged as the third largest expenses for them, after salaries and raw materials.
Increasing Leisure Travel:

Tourism accounts only for 2.5% of India’s GDP, versus 6% in Asia Pacific and 5.3% in China. However this ratio is fast changing with India emerging amongst the fast growing tourism destinations in the world. According to the World Travel & Tourism Council, Indian tourism industry will grow at over 8% per annum in real terms over 2007-16.

The domestic demand for leisure travel is directly related to the country’s GDP and disposable income growth. That said, and given India’s expected high GDP growth, it is safe to assume healthy growth in air travel demand from this segment.

**Foreign tourist arrivals has increased by over 50% between 2004 & 2008; about 89% of foreign tourists arrive by air.**

Source: Ideas1st Research, IBEF

**Mode of foreign tourist arrival (%)**

<table>
<thead>
<tr>
<th>Mode</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Air</td>
<td>89%</td>
</tr>
<tr>
<td>Sea</td>
<td>1%</td>
</tr>
<tr>
<td>Land</td>
<td>10%</td>
</tr>
</tbody>
</table>

Source: Ideas1st Research, IBEF
Costs driven internationally while revenue is domestically driven

Crude forms approximately 40% of the total costs for low cost airline companies in India. Further almost the entire fleet of aircrafts in India is serviced outside the country, due to limited MRO (maintenance, repair and overhaul) facilities domestically, high tax structure and lack of certifications like the EASA or FAA required for servicing leased aircrafts. This adds approximately another 13% to the costs. Aircraft lease rentals is another major cost for these companies that is incurred internationally. With bulk of the costs being incurred and driven internationally, the costs and margins of the Indian carriers are hugely determined by the trend in other major economies. It is interesting to note that while the costs are driven internationally, bulk of the revenue for majority of the most carriers is earned domestically.

With western economies expected to have lukewarm growth over the next few years, the costs for the Indian airlines can be expected to be relatively lower. On the other hand the strong domestic demand would give a boost to the revenues, thus expanding the margins.

Huge untapped market

The Indian Aviation Industry is still in a very nascent stage and offers a huge potential. With a peak annual average of less than 3.75 trips per 100 people India’s aviation at best has just scratched its surface. India’s air passenger per capita at 0.09 is still abysmally low as compared to 0.30 in China, 5.63 in Australia and 4.69 in US. Even, Australia, a country with a population of just 21 million, compared with India’s 1.1 billion, has a market 25% larger. Further India’s population in million per aircraft is on the higher to 2.89 whereas it is 1.14 for China, 0.63 for Brazil, 0.31 for South Africa, 0.24 for Japan, 0.11 for Germany, 0.07 for Britain and 0.05 for the US. All these point that the average growth of about 24% between 2003 – 2008 is just the tip of the iceberg and that the sector has a long way to go in India.

India’s low air travel per capita

![Chart showing air travel per capita for various countries](null)

*Trips per capita - 2008*

Source: Airbus
Key Supply Bottlenecks:

Even though the airline sector will continue to see double digit growth over next few decades in India, we expect that the sector might see some more consolidation and offer little room if any for a new entrant. Other than the massive losses seen during last couple of years that have waned investors interest in this sector, below are a few other known and some relatively unknown barriers that will keep the supply in the sector under check.

**Infrastructure bottleneck**

The lack of adequate airport infrastructure is one of the most major barriers to the airline industry and has remained relatively unnoticed until recently. Execution can be a major hurdle for a new entrant, due to a host of these infrastructure issues. Further as commonly believed, airlines do not have "Mobile Capacity". Airlines are understood to be able to move their capacity, airplanes, literally over night. However, owed to the lack of infrastructure, such capacity shifts from low demand markets to higher demand destinations is easier said than done.

The aviation infrastructure growth hasn't kept pace with the growth in air traffic. While fleet size has increased manifolds, from just 184 aircrafts in 2005 to around 425 currently with scheduled operators, not much infrastructure has been added. This has resulted in big takeoff and landing queues at the major airports. Limited airport facilities and lack of parking bays is not only leading to congestion or delays but also forcing airlines to park their aircrafts in far flung places. Congestion in the terminals, on the runways and in the air, is leading to a deteriorating passenger experience and an increasingly inefficient (and costly) operating environment for the airlines.

At most major airports, slots i.e. the landing and takeoff rights, are saturated at peak hours, with the possibility of new flights coming in only during off peak or odd hours. These slots are an important consideration for an entrant as peak timed slots register higher passenger load factors as compared to other slots. We anticipate these capacity constraints and inefficiencies to act as a strong entry barrier for new entrants.

Luckily, lately, the sector and its infrastructure constraint is being given the due focus that it deserves. The Minister for Civil Aviation, Praful Patel, himself has recently voiced the foresaid concerns at several forums (refer annexure for supporting articles). While steps have been taken for restructuring of the aviation sector, these reforms would take several years to show colour. Unlike other industries, capacity in the aviation sector cannot be immediately augmented in face of rising demand.

While metro airports are going through capacity upgradation process, we believe that all airports, other than Delhi will take at least 2-3 years for implementing any substantial addition in their capacity intake. Given improving expected demand we believe that this gap will continue to increase in major trunk routes even after these up gradations.
Exploding Indian middle class

While aircraft movement has more than doubled over the last six years, aviation infrastructure growth has not grown much.

Source: Ideas1st Research, IBEF

India is high growth & high congestion market

Mumbai airport is operating at more than 150% of designed capacity. It is also amongst the highest air passenger growth markets.

Source: Airbus
Capital Availability

The airlines sector is a highly capital intensive industry with high fixed & constant costs and variable revenues. Fixed costs include costs like aircraft acquisition cost, rental cost of leased planes, maintenance cost, crew & administrative staff salaries; that have to be incurred even if the flight is cancelled. Constant costs, which cease if the flight is cancelled but are invariant to the volume of traffic carried, are also high. Example of constant costs are ATF, landing fees, which do not depend on the number of passengers, but will not be incurred if the flight is cancelled. While majority of the costs are fixed, the industries revenues are variable, resulting in high operating leverage.

Given the successive losses faced by the industry over the last few years, already high debt levels, and the high operating leverage, the industry has been tabooed by most investors globally. We believe that even at higher capital costs, existing and new players would find it very challenging to raise any funds.

Regulatory barriers

Regulatory barriers are another stumbling block that may discourage new participants in the industry. There are some inherent policies that may discourage competition in the sector and may ensue in a loose form of oligopoly type of market structure.

Some regulations that may prove as barriers to domestic operations include regulations governing minimum fleet size, minimum equity requirements, route dispersal guidelines et al. The regulation governing minimum fleet & experience requirements for international operations in a way strengthens the incumbents’ position. Further the exclusive right to National carriers to fly to Gulf Routes et al is highly discriminative.

Other barriers

The mandatory coverage of certain routes that may offer high passenger loads may act as a burden for the players.
Challenges faced in India

High State Tax levied on ATF

The high state tax levied on the ATF (Aviation Turbine Fuel) in India makes it one of the most expensive in the world. As compared to the world average of 20-25%, ATF accounts for over 40% of the total cost for the airline companies, eating into their margins. The state tax levied on ATF in India ranges from as low as 0% in Andaman and Nicobar Islands to 28-30% in Karnataka, Bihar, Madhya Pradesh, Tamil Nadu and Gujarat.

Lack of MRO facilities

The Indian aviation industry is in dire need of viable MRO (maintenance, repair and overhaul) facilities within the country. India does not have any independent MRO facilities currently, with the development plans of the scheduled MRO facility at Hyderabad being postponed. The other MRO facilities in the country are expensive due to the high tax structure and lack of certifications like the EASA or FAA required for servicing leased aircrafts. As a result almost the entire fleet of aircrafts in India is serviced outside the country, proving very expensive for these companies. These charges account for approximately 13% for their total costs.

Other challenges

The under-developed commodity hedging market makes it difficult for the companies to hedge against the fluctuating prices of air fuel, which on a few occasions has also resulted into huge forex losses. Further, due to internet penetration being low in the country, the popularity of online booking and the associated cost benefits have not taken off yet.
Other Positives

Stable Fuel Prices

Due to the high state taxes levied on the Aviation Turbine Fuel, ATF constitutes for over 40% of the total cost for the airline companies. This makes the margins and profits of the companies highly sensitive to the fuel prices. These companies were bleeding in 2008 when the crude prices skyrocketed, touching all time highs. The sharp fall in the crude prices following the Lehman Brothers collapse, bought some relief to the airline companies. Though the prices have increased since then, they have been stable over the last few months with crude trading at almost 50% discount to the 2008 highs. Further given the lukewarm global economic milieu, the prices are not expected to shoot up back to those levels anytime soon.

Improving aviation infrastructure

Fortunately, lately the aviation sector and its infrastructure bottleneck are being given the due focus that it deserves. Constructive steps are being taken for restructuring of the aviation sector, with plans for up gradations of metro airports and new airports in several new cities on the cards. Though we believe that all airports, other than Delhi will take at least 2-3 years for implementing any substantial addition in their capacity intake and for the new airports to come up, we see it as a very positive move for the industry over the medium term. The new, state of the art terminal at Delhi airport is very encouraging and shows the commitment of the government to bring Indian aviation sector to match the global standards.

Saner Capacity Addition

With the demand for air travel growing at a CAGR of 19.14% over 2003-2008, with growth touching 44% in FY07, the airline companies rapidly added capacities to gain a greater market share. With the 'low cost' model seeming as a hit within the consumers, the period saw many new entrants especially those offering 'low cost' operations. Increasing competition & seat supply kept the fares low and demand growing. However with crude prices sky rocketing in mid 2008, air fares moved up, suppressing demand. This followed by the downturn triggered by the collapse of Lehman Brothers, saw demand falling drastically. The falling load factors and increasing debt burden saw airline companies losing millions of dollars, forcing airlines cut capacities hastily, returning leased aircrafts in addition to leasing owned aircrafts, in an effort to minimize the losses. Many FSC also changed their business model, by increasing proportion of low cost seats in their total offering as many corporate and individual took austerity measures opting for LCC instead of expensive FSC

The downturn in demand seen during FY09 has made the industry wiser and now while the demand is growing over 25%, cautious outlook, both from the Industry & the lenders has limited capacity addition to mere 5%-7%, a trend expected to continue for a few more years. We believe with the demand out pacing the supply, the revenues and the margins for the airline companies to go, substantiating the bottom line.
High entry barriers:

The saturating aviation infrastructure, lack of easy capital availability and stringent regulations make it extremely difficult for new players to enter the segment. While other issues can be addressed in short to medium term, it would take atleast a couple of years before adequate infrastructure can be created.

These entry barriers along with the cautious capacity addition by incumbent players in face of the recent crisis would ensue in limited supply growth while demand increases rapidly. With the increasing demand-supply gap, we see the pricing power returning in the hands of the companies and anticipate higher revenues & margins per ticket going forward.

Low market value of free float

There are currently only three scheduled commercial airlines in the listed space with their combined market value of free float being less than Rs.4000 crores. Given the limited size of the sector, any new interest by even a couple of institutional investors would be at a substantial premium to the current market prices.
The market value of the free float stocks in the sector is very less

Market value of free float (INR Cr) as on August 2010

- Kingfisher: 591
- SpiceJet*: 1849
- Jet Airways: 1417

* Calculated considering Mr Kalanithi Maran's 37.75% as promoter stake

Source: BSE
Indian Airlines Industry

Sector View

Annexure

May witnesses highest ever flyers

TNN, Jun 16, 2010, 01.14am IST

NEW DELHI: Thanks to the sharp economic recovery, Indians are holidaying like never before. May recorded the highest number of domestic air travellers ever with 47.8 lakh people taking to the skies. This figure gets even higher if Pawan Hans’ 70,000 fliers are added, taking the combined scheduled traveller figure to 48.5 lakh for the school vacation month.

Till last month, the record for highest number of domestic travellers in a single month rested with December 2009 when 44.9 lakh people flew. Adding Pawan Hans’ fliers, this number was 45.5 lakh.

The government now expects India to break into the top league of nations in terms of air traffic. "We will be part of the top five aviation markets in the world in coming years. A number of efforts have been taken to make this happen. Safety will be the prime focus as traffic grows and the regulatory mechanism is being strengthened," civil aviation minister Praful Patel said.

With domestic travellers choosing to fly in record numbers, airlines are now also set to end their loss-making runs. Centre for Asia Pacific Aviation (CAPA) India head Kapil Kaul said that expect Air India, almost all other carriers will make profits this quarter and break even in the current fiscal. "Indian carriers, that collectively lost over Rs 8,000 crore last fiscal, will have a total profit of over Rs 1,500 crore in 2010-11. Three pure low cost carriers, IndiGo, SpiceJet and Go, will account for over half this amount. Kingfisher may at least break even on domestic routes as its international routes are new and would take time to get there. AI will cut losses but still lose money due to structural issues," Kaul said.

Two biggest LCCs — IndiGo and SpiceJet — saw load factors of over 90%. Flights to popular summer getaways like Srinagar are going full.
Civil aviation sector to be in world's top five: Patel

PTI, Jul 4, 2010, 06.38pm IST

AHMEDABAD: India's civil aviation sector will be among the top five in the world in the next five years, Civil Aviation Minister Praful Patel said in Ahmedabad on Sunday.

"In the last six years we have been successful in bringing a revolution in India's civil aviation sector, I do not mind saying that," Patel said after inaugurating the new domestic-cum-international terminal at the Sardar Vallabhbhai Patel International (SVPI) Airport here, which is likely to become operational from August 15.

"In 2004-05, we were considering our civil aviation sector as big, but at world level it was not much recognised. In just six years, India's civil aviation sector is ranked ninth in the world.

"In the next five years, India's civil aviation sector will be among the top five in the world," Patel said.

Patel, who had laid the foundation of the building in 2007, said inauguration of the new terminal at the Ahmedabad airport was a rare occasion. "It is a rare occasion when a minister lay the foundation of a building and inaugurates it too."

The Aviation Minister also expressed the need for more air services in Gujarat, looking at the development.

"There should be increase of air service in Gujarat be it Ahmedabad, Surat, Rajkot, Vadodara, or Bhavnagar. Central Civil Aviation ministry would support all projects for Gujarat and we assure you there would be no discrimination," he said.

When Patel requested the Gujarat government to consider the viability gap funding (VGF) model of the Centre, chief minister Narendra Modi said, "In the VGF model for north eastern states, it is the Central government which is funding the gap for airline connectivity. If this is given to Gujarat, I will adopt it right now."
Mumbai airport won’t be able to take more flights

DNA / Sindhu Bhattacharya / Saturday, July 3, 2010 1:07 IST

It may soon become difficult to allow new flights into and out of Mumbai, given congestion at the international airport and delays in building a new one at Navi Mumbai.

Slamming the environment ministry for delaying clearance to the Navi Mumbai project, Union civil aviation minister Praful Patel said on Friday, “We are reaching a point where we have to think whether new flights can be permitted or not.

After the current upgradation, Mumbai international airport's peak capacity will reach 40 million passengers annually, but more is needed. In 24 hours, we are using peak airport capacity for 15 hours every day."

Patel said objections from the ministry of environment and forests over the Navi Mumbai project were beyond comprehension. "We can’t be overly obsessive about environmental issues. We can’t give priority to 50-100 acres of degradation over a large infrastructure project."

The new airport has been planned near Panvel, but Union environment minister Jairam Ramesh has raised concerns over the project destroying about 400 acres of forest.

A Mumbai International Airport Ltd spokesperson pointed out that there were currently 32 aircraft movements per hour.

But when the traffic reaches 40 million passengers, there will be 40 an hour.

“The airport will soon reach saturation point. We handled 26 million passengers in 2009-10 on a land area of 1,849 acres as against Delhi, which handled almost the same number of passengers at more than double the land area available at 5,200 acres.

Even Hyderabad, which handles about seven million passengers a year, has 5,400 acres at its disposal."

He said Mumbai airport was constrained in terms of land, and therefore in critical areas such as runways, aircraft parking bays and terminal expansion.
It’ll hurt. We are reaching capacity in Mumbai & new airport is stuck: Patel

Civil Aviation Minister Praful Patel is in favour of allowing foreign carriers to own stakes in domestic ones. That’s one way the aviation industry, which he describes as India’s ‘new sunrise sector,’ can get a part of the capital it badly needs to keep pace with the growth in demand that’s bound to be unleashed, he says. ‘If only 10% of us flew, the Indian civil aviation industry would still need to become six times its present size,’’ he says. In a walkabout interview with ET NOW’s Andy Mukherjee at New Delhi’s gleaming, new, state-of-the-art Terminal 3, Patel spoke about a host of issues, including making India an aviation hub for Asia, the turnaround of Air India and his concerns over the dithering in building a new airport at Navi Mumbai because of environmental concerns. Excerpts from the interview, which plays on ET NOW on Tuesday at 6:30 pm and 11 pm.

Is it time to revisit the issue of allowing foreign carriers to invest in domestic airlines?

The entire government has to take a call on this. But yes, there is a case. Since the aviation sector is now turning around, and the growth and the volumes are coming, there will be a requirement of huge capital expenditure and a lot of investments. So I think there is a possibility.

At an IATA conference you perhaps jokingly said that by 2050, of the 12 surviving global airline brands, three will be from India.

I mean it. When I said in 2004 that India’s aviation will grow and will arrive on the world scene, I am sure not many people would have believed it and I do not think four years back anybody in India would have ever thought that we could have an airport terminal as big and grand as this. Let’s not underestimate India. With its huge population, geography and growing economic strength, India will be able to demonstrate all that I have said in Berlin. By 2050, if there are 12 carriers flying, three will come from India and three from China.

What about the losses at Air India?

I am happy that a lot has changed in Air India since last year. The losses have started coming down and the outlook is good.

But we are still talking about some 22,000 crore rupees of expensive longterm debt that Air India has taken because of the new aircraft orders that it has placed?

Well that is unfortunately a thing which happened because we did not have a capital expenditure programme for 20 years. So when you have a large induction of aircraft, these kinds of issues will certainly be a factor which they will have to contend with, but as I said, things are looking better.

With T 3 operational, will India at least be a contender for the position of an aviation hub in this part of the world?
In fact, that is what it’s precisely meant to be. It’s a game changer for India’s aviation. This airport will establish Delhi as a major hub for most of Asia. So this, I think, is a defining moment. The vision document which we have internally in the ministry is to make, to begin with, Delhi, Mumbai, Kolkata, Chennai, Bangalore and Hyderabad as the six major hubs of India. And if we are on course, I can assure you that aviation in India will also be on course. The strength of the airlines will be to be able to, say, bring a passenger from Paris into Delhi and to be taking the passenger from Delhi to, say, Hanoi or Shanghai or to any other city. All the carriers — right from Air India to Jet Airways to Kingfisher and in future all the other airlines which will start flying internationally — will take advantage of these kinds of airports. So an airport is not just a facility that looks big, grand and comfortable.

Will the Mumbai Airport also look as nice as the new airport in Delhi?

The Mumbai Airport, when completed, will be absolutely on the same scale and size and grandeur. But what worries me about Mumbai is not whether the existing Chhatrapati Shivaji International Airport will be as grand or great like this; it will be. What worries me is that it’s a constrained airport, it has one major runway, one cross runway which is like a half runway, and if the second airport at Navi Mumbai — which I am very concerned about — is not coming up in the next five years, it will affect the economy of Mumbai because I have almost come to a stage where no more flights in and out of Mumbai can be allowed. It is coming to a stage where passenger capacity may exist in the terminals, but the number of aircraft movement in and out of Mumbai cannot happen, and that is why Navi Mumbai must be cleared at the earliest. Unfortunately it has been held up due to some environment concerns. I am not against addressing concerns. After all, we all have to ensure a good and a clean world. But in a country like ours where development and the aspirations and the needs of the Indian economy and the population have to be addressed, I think we will have to strike the right balance. So if 100 acres or hectares of some mangroves are an issue, well I think that’s a larger call (for the government). But one thing is certain.

Mumbai used to be the No.1 airport in India until just two years ago, and Delhi has overtaken it. It means that over the years Delhi will be the premier airport of India and that should be a concern. It isn’t that I come from Mumbai and it worries me because of I look at it from a parochial perspective, but Mumbai is the commercial capital of the country.

And what affects commerce in Mumbai will hurt India …

It’s so unfortunate that Mumbai has a constrained airport. Pune, which could have had a satellite airport, has still not been able to find consensus on where to build the second airport. Navi Mumbai is stuck. I do not know what is going to happen. If tomorrow we have to put a ban on new flights in and out of Mumbai, what chaos it will create, that’s for everybody to see.
First independent MRO unit in India shelved

Duke Aviation was to set up the facility at a cost of $150 million, but the investors have backed out

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Hyderabad: It was to be India’s first independent aircraft maintenance and repair facility. But a year after the foundation stone was laid, the investors have backed out and the company has been shut.

Duke Aviation Engineering Pvt. Ltd had planned to set up a maintenance, repair and overhaul (MRO) unit in a special economic zone, or SEZ, in Nagpur run by Maharashtra Airport Development Co. Ltd, with an investment of $150 million (around Rs681 crore).

Growing market: With lower labour costs than West and South-east Asia, India has the potential to service aircraft from these regions, too.

Ajith Karnik, who was a promoter and chief executive of Duke Aviation, said the project had to be shelved as the investors had backed out. “We would be reviving the project in a different name and different set of investors,” he said.

Duke Aviation was promoted by Karnik and Dubai-based Duke Equity Ltd, whose managing partner Gopal Patwardhan said now is not “the right time for civil aviation. We will be reviving the project after 18 months”.

Interest in the MRO business gained momentum during the Indian aviation industry’s boom years from 2004 to 2007, when domestic carriers decided to buy a total of around 500 planes over a five-year period, making the business a natural draw as maintenance accounts for around 13% of an airline’s operating cost.

But with the downturn and the scaling down of aircraft orders, prospects for MRO operators also appeared less rosy.

Aircraft manufacturers Boeing Co. and Airbus SAS had committed $100 million each four years ago to set up MRO facilities in India after they won local orders, but their projects are yet to begin.

Airbus had signed an agreement with the erstwhile Indian Airlines, and Boeing with Air-India, to set up MRO units after selling a total of 111 planes to the two state-owned airlines. Indian Airlines and Air-India have since merged under National Aviation Co. of India Ltd, or Nacil.

Boeing’s India president Dinesh Keskar said construction on the firm’s MRO facility would begin this year, without elaborating. Other Boeing executives said the unit would now come up by 2014 at Nagpur. As for the Airbus facility, a senior official at the ministry of civil aviation said it “is very much on track and it is coming up in Delhi”. He did not want to be named and did not provide any further details.

Kiran Rao, executive vice-president for sales and marketing at Airbus, said the firm recently submitted its business plan for the MRO unit to the government.

Airbus had undertaken the venture through its parent company EADS NV, which in turn had a tie-up with Jupiter Aviation and Logistics Pvt. Ltd.

S. Ravi Narayanan, chief executive and managing director of Jupiter Aviation, said his firm has submitted a business plan for an MRO unit to the government. He declined to give more details.
Analysts still see good potential for India’s MRO industry. Consulting firm Frost and Sullivan, in a September report, said India’s fledgling MRO market had an estimated revenue potential of $499 million in 2009 and this figure is expected to more than double to $1.06 billion by 2015.

“Labour costs in India are around $30-35 per man-hour, compared to $55-60 in Southeast Asia and (the) Middle East and even higher in the US and Europe,” Frost and Sullivan analysts Chethan Kambi and Arun Narayanan said in the report. “Therefore, India has the potential to service not just Indian aircraft but also those from neighbouring regions.”

Suresh Soni, executive director of Mumbai-based Air Works Engineering Pvt. Ltd, which began repairing aircraft 59 years ago, said his firm can save airlines about 25% of their costs on painting wide- and narrow-body planes, following its acquisition of European aircraft refurbishing and painting firm Air Livery UK Plc for an undisclosed amount.

Engineering firm Punj Lloyd Ltd and US-based private equity Global Technology Investment Group each holds a 33% stake in Air Works.

Neelam Mathews, senior contributing editor to Aviation Week, an international aviation magazine, said India needs to revise its taxes for MRO facilities. Even Air India, which has its own MRO units, sends its planes abroad for maintenance and repairs, she points out. “A multifarious tax regime makes it cheaper for airlines to do checks out of the country. Including service tax, the total tax for an independent, third-party MRO operator would come up to 35%,” Mathews said. “The government will have to wake up to the reality that it is losing precious foreign exchange.”
Indian Airlines Industry

Sector View

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