

Aviation Newscast

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Government cuts excise duty on Aviation Turbine Fuel (ATF)

- Government announced cut in excise duty of Aviation Turbine fuel (ATF) to 11% from 14%, effective October 11, 2018. The Government has taken the step in wider public interest as per the notification.
- The move comes on the back of cut in excise duty on petrol and diesel. The government had cut the excise duty on petrol and diesel by Rs 2.50 a litre. Of this, Rs 1.50 will be borne by the government and Rs 1 by the OMCs. It also advised the states to lower their duties by a similar amount.
- ATF prices have gone up by 13% in FY19 and 20% during the calendar year. The move aims at providing some relief to airline companies, who are facing heightened cost pressures due to rising crude prices (22% in 2018) and falling rupee (15% in 2018).
- Earlier, the Excise duty on ATF had been revised to 14% from 8% in July 2016. Thus, the move is a partial roll-back.
- UDAN routes meant for regional connectivity already have the benefit of a lower excise duty at 2% for airline operators.

CARE Ratings view and likely impact

- The cost-saving would be in the range of Rs. 2000-2250 per Kilo Litre (KL) (ATF price Rs. 69,500-74,700 per KL as of September 1st, 2018).
- The overall impact on cost incurred by airlines would be less than 1% taking into the account, financials of airline companies for FY18. The overall reduction in fuel cost would be in the range of Rs.300-500 crore assuming historical fuel costs incurred by the industry.
- State governments who charge VAT of up to 29% (Tamil Nadu-29%, Maharashtra & Delhi- 25% & Karnataka-28%) could now pass on a similar cut providing further relief to airlines.
- ATF prices have moved up by an average 13% during the current financial year (April-September 2018). Air ticket prices on the other hand have not witnessed a hike due to competition. The 3% excise duty cut is unlikely to have any pass-on benefit to passengers w.r.t. fares. On the contrary, we believe, the fares may witness hike going forward as airlines slowly pass on the costs to passengers during peak demand season.

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