

Corona Cordons off the Aviation Industry

March 25th, 2020

| Industry Research

Contact:

Madan Sabnavis
Chief Economist
madan.sabnavis@careratings.com
+91-22- 6837 4433

Urvisha H Jagasheth
Research Analyst
urvisha.jagasheth@careratings.com
+91-22-6837 4410

Mradul Mishra (Media Contact)
mradul.mishra@careratings.com
+91-22-6837 424

Overview

With the spread of the novel coronavirus (COVID-19) to geographies beyond the epicentre of its origin in China and with Europe becoming the new hotspot of cases, the airlines industry has been beleaguered as countries all over are imposing travel restriction and are going into complete lockdown. Indians too will not be traveling anywhere anytime soon as the government has imposed a 21 day lockdown which will restrict any passenger movement whatsoever and air transport services too have been halted for the time being (not applicable for cargo/freight transport).

Initially in January airlines had restricted or cancelled their flights to China but now with the spread of the pandemic to different geographies, border closures and other travel restrictions world over airlines have either cancelled or circumscribed the number of airlines flying out to different countries due to fall in air travel.

Even with the fall in the crude oil prices which would have added some respite in the form of low ATF prices, the airlines industry has been impacted in the form of low ticket bookings, ticket cancellation, grounding of aircrafts, cut in salaries and wages of employees and in some cases even asking employees to go on unpaid leaves. If the matter is to persist beyond two quarters, airlines may risk of becoming bankrupt as a whole.

Disclaimer: This report is prepared by CARE Ratings Ltd. CARE Ratings has taken utmost care to ensure accuracy and objectivity while developing this report based on information available in public domain. However, neither the accuracy nor completeness of information contained in this report is guaranteed. CARE Ratings is not responsible for any errors or omissions in analysis/inferences/views or for results obtained from the use of information contained in this report and especially states that CARE Ratings has no financial liability whatsoever to the user of this report

Impact of COVID-19 on the Global Aviation sector

Air transport is a major contributor to global economic prosperity, supporting a total of 65.5 million jobs and USD 2.7 trillion in economic activity globally. As per a note issued by IATA, the airlines industry could be facing a loss of passenger revenues in the tune of USD 113 billion worldwide in 2020.

Many countries have suspended their “visa on arrival” facility and are denying entry to any passenger who has recently travelled to any COVID-19 hit country. Imposition of quarantine of at least 14 days has also been mandated to passengers arriving from any COVID-19 hit country.

Here’s how some of the travel restrictions imposed by countries in order to tackle the contagion;

- The US and announced a travel ban on European countries, including the UK and Ireland, as well as China and Iran.
- Qatar has temporarily barred arrivals of passengers from 14 countries including India.
- Saudi Arabia has suspended all international flights, departures and arrivals.
- UAE government temporarily bans entry for all passengers of all nationalities into UAE.
- Oman, Malaysia and Canada are only allowing their citizens to enter.

The risk of being put in quarantine or of catching the contagion is dissuading international air travel.

Impact of COVID-19 on the Indian Aviation sector

The Indian government has suspended the entry of any scheduled international airline into the country starting 22nd March 2020 but now even all domestic air travel has been suspended 25th March 2020 onwards. However the restrictions shall not apply to cargo flights (domestic and international).

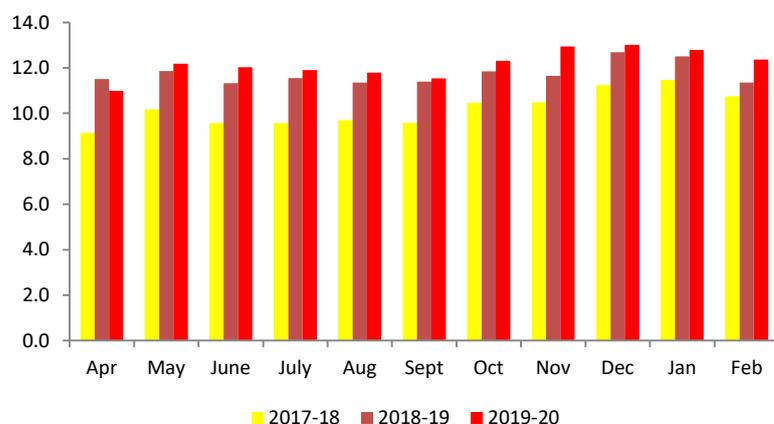
Prior to the aforementioned notification; here’s how domestic airlines were tackling the crisis:

- SpiceJet had stopped flights to nearly all foreign destinations, except Kolkata-Dhaka. The flights are to remain suspended till April 30th 2020.
- Vistara has halted its international operations for the time being.
- GoAir temporarily stopped their international operations till 15th April 2020.
- Air India has cancelled flights to several international destinations till April 30th 2020.
- Private jet companies are no longer able to provide fly-on-demand services, leaving their clients grounded.

In addition to the above measures Go Air and Indigo also announced salary cuts for its employees in order to preserve the level of liquidity and keep the operations functional, in times where there is almost negligible air travel demand and absolute under-utilization of seat capacity.

Pattern of the Airlines Passenger growth in the current financial year

Chart and Table 1: Passenger carried and passenger growth in respect to scheduled domestic airlines (Unit: in millions)



	Passenger Traffic	Growth (y-o-y)
2017-18*	112	17.9%
2018-19*	129	15.1%
2019-20*	134	3.7%

Note: DGCA traffic information pertains data by various domestic airlines

Source: DGCA, CARE Ratings *April-February

Passenger traffic grew by 3.7% during FY20 (April-February) which is a distinct fall from the 15.1% growth rate achieved in the corresponding period in the previous financial year. The general slowdown in the economy since the start of FY20 has led to a sharp moderation in airline passenger growth operated by domestic airlines. The grounding of Jet airways in the start of the year led to a negative passenger growth during April but it soon recovered with the onset of the tourist season in May and with the other scheduled airlines picking up Jet airways coveted international and national flying slots.

Pattern of Airports traffic growth in the current financial year

Table 2: Air Traffic at all Indian Airports

	2017-18*	2018-19*	2019-20*	2017-18	2018-19	2019-20
Aircraft Movement (in '000)						
International	365	379	373	9.5%	3.8%	-1.6%
Domestic	1,554	1,813	1,827	13.4%	16.6%	0.8%
Total	1,920	2,192	2,200	12.6%	14.2%	0.4%
Passengers handled (in millions)						
International	54	58	59	10.1%	6.8%	1.0%
Domestic	200	231	235	16.9%	15.7%	1.9%
Total	254	289	294	15.3%	13.8%	1.7%
Freight(in 000' ton)						
International	1,781	1,838	1,708	17.6%	3.1%	-7.1%
Domestic	1,011	1,143	1,140	8.4%	13%	-0.3%
Total	2,792	2,982	2,848	14.1%	6.8%	-4.5%

Source: AAI *April-January

Note: AAI traffic information pertains data by various airports domestic, international, custom, JV airports

Subdued passenger growth of airlines has been reflected in the fall aircraft movements and passengers handled by airports. Overall aircraft movements have grown by a meagre 0.4% whereas passenger handled by airports has only growth by only 1.7% as compared with the 14.2% (aircraft movement) and 13.8% (passengers handled) growth achieved in the previous

corresponding period in the year ago period. During the FY20 April-January period Delhi airport handled around 20% of the overall passengers, followed by the Mumbai, Bangalore, Chennai, Kolkata and Hyderabad airports handling around 14%, 10%, 7% 6% and 6% of the total overall passengers respectively.

Overall freight has recorded a 4.5% de-growth v/s the 6.8% growth achieved in the corresponding period in the previous financial year. Global economic slowdown and trade-war between the US and China had impacted trade volumes significantly globally which also commensurate to weak domestic trade volume.

COVID-19 Impact on passenger movement

Table 3: Passenger movement (m-o-m) since the outbreak of COVID-19 (Unit: in Millions)

	Nov-19	Dec-19	Jan-20	Feb-20	Dec-19	Jan-20	Feb-20
Airlines							
Passenger Movement	12.9	13.0	12.8	12.4	0.5%	-1.8%	-3.2%
Airports							
International Passengers	6.1	6.6	6.5	NA	8.3%	-1.1%	NA
Domestic Passengers	25.2	25.3	24.8	NA	0.6%	-1.8%	NA

Source: DGCA, AAI Note: NA- Not Available

The fall in passenger movements both international and domestic, as a result of the coronavirus scare is visible when the pandemic first broke out in China December 2019 onwards.

Concluding Remarks and Outlook for FY21

Even as the macros of the Indian aviation industry may be in favour of propelling its growth, the industry may not fully recover any time soon post the effects of the pandemic which has affected business operations, travel and tourism and economies world over. With most of the countries going under lockdown and banning/posing restriction on entry of foreign nationals, airline carriers world over are mulling their operations due to lack of demand and are grounding their fleet due to which the aviation industry is in a fragile financial position.

Domestic scheduled airlines too have started facing severe cash flow pressures, considering airlines will not be functional at all till 14th April 2020 and this is also leading to trimming of employee salaries aside of the other issues being faced by the industry. Even post the nationwide lockdown, fares of airline operators is to be very low considering the lack of air travel demand which will also lead to scaling down of certain routes.

Going forward, there seems to be turbulence and stormy clouds for the Indian aviation industry as airlines will be operating on sub-par capacity which will result in low ticket booking, fall in revenues and low passenger load factor (PLF). **Passenger growth of airlines is to fall sharply and register a negative 20%-25% growth for FY21.** Passenger growth has been 13.7% during FY19 and 3.7% during FY20 (April-February).

- Even post the lift off the nation lockdown passenger growth will face a sharp contraction considering the inhibitions of travelling anywhere till the pandemic scare has been settled fully in the domestic regions and internationally especially on certain routes.
- Even with the containment of the virus, countries will not freely issue visas fearing the rise of any exigency with the entry of foreign nationals.

- COVID-19 has put a halt on major business operations and economies which means there will be a considerable fall in income which will also discourage incurring of discretionary expenses like traveling for leisure and tourism.

Given the fall in airline operations, **Airports are likely to operate at less than 20% capacity for the month of April and less than 50% till June.** Decline anywhere between 8% to 15% is expected for passengers handled (domestic and international) by airports.

Freight operations will add support to overall traffic movement but that is also likely to be subdued given the fall slowdown/shutdown of manufacturing units in most parts of the world and in the domestic economy due to the COVID-19 pandemic.

In terms of **capital expenditure** airlines will be deferring or scaling back on CAPEX given the expected fall in the topline and bottlomline of carries which means purchase of airplanes or adding to the fleet sizes will not take place atleast till 9M-FY21.

CORPORATE OFFICE:**CARE Ratings Limited**

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022; CIN: L67190MH1993PLC071691

Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457

E-mail: care@careratings.com | Website: www.careratings.com

Follow us on  [/company/CARE Ratings](https://www.linkedin.com/company/CARE-Ratings)
 [/company/CARE Ratings](https://www.youtube.com/channel/UC...)