

Airlines Traffic Update

Contact:

Madan Sabnavis

Chief Economist

madan.sabnavis@careratings.com

91-22-6837 4433

Author:

Kavita Chacko

Senior Economist

kavita.chacko@careratings.com

91-22-6837 4426

Mradul Mishra (Media Contact)

mradul.mishra@careratings.com

91-22-6754 3573

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.

Foremost among the sectors most impacted by the pandemic is aviation. The restrictions imposed in India and other countries, coupled with the reluctance of the public to travel has led to largescale demand destruction for air travel. The current year is being recognised as the most unsatisfactory period in history for the global aviation industry.

Following the suspension of all air travel (aside from the transport of essential supplies and the evacuation of distressed Indian citizens) by the Indian government for two months from 23 March'20, air travel has resumed, albeit with restrictions. In the case of domestic air travel, limits have been imposed on the permissible capacity of operations and fares chargeable by airlines. Barring the repatriation flights and the air bubble arrangements, international passenger flights to and from India continue to be suspended. Currently, 22 countries are part of the air bubbles, which is essentially a temporary reciprocal arrangement that permits airlines from these countries to fly to India and vice-versa.

India's air traffic i.e. aircraft, passenger, and cargo movement has fallen to over decadal lows in the current financial year and is poised for a gradual and prolonged recovery.

- Passenger traffic was down by 82% in the first seven months of the current financial year from a year ago.
- Similarly, aircraft movement was 71% lower and cargo handled declined by 40%.

There has been a progressive improvement in the country's air traffic as seen from the monthly increases in aircraft, passenger, and cargo movement since the calibrated re-opening of airline operations from end-May'20.

The extent of the decline in freight traffic has been lower than that of passenger traffic. Cargo movement has come to provide limited respite for beleaguered domestic airlines who have seen a sharp drop in revenues from operations.

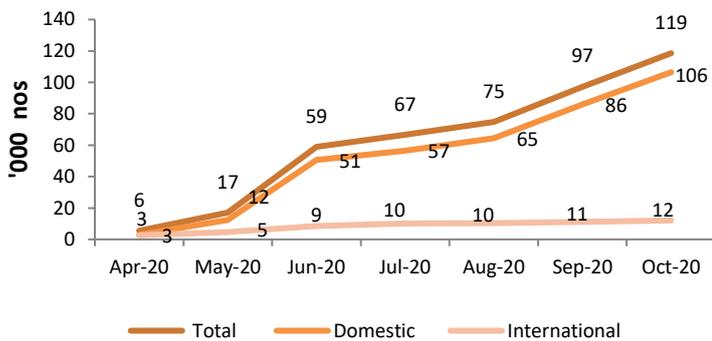
Flight operations on the rise

Although still markedly lower than pre-pandemic levels, the number of flights handled at the country's airports has successively increased since May'20 led by domestic flights (~ 90% share) amid the restrictions on international flights. In October'20, the total number of flight movements at the Indian airports at 1,18,530 flights was 22% higher than the month ago but nearly half that of October'19 and February'19.

Domestic flight movements saw a monthly increase of 24% (to 1,06,450 flights) in October'20 and a further narrowing of the year-on-year decline to 45%, 6% lower than September'20, and 27% lower than June'20. Domestic flight movements have progressively increased with the government enhancing the permissible capacity that airlines can operate from 33% (of approved pre-covid summer schedule) in May'20 to 60% in September'20. This was further increased to 70% on 11 November'20.

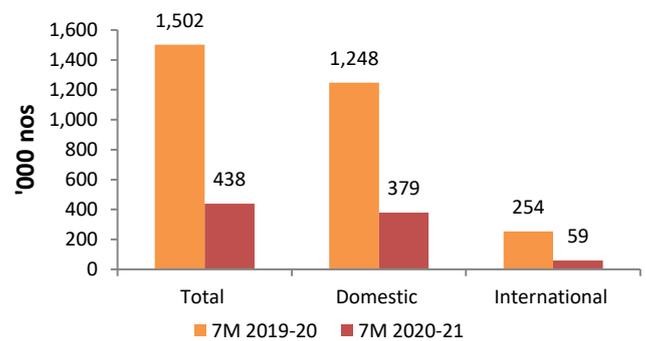
International flight movements have been limited given the prevailing restrictions on their operations. International flights handled at the Indian airports in October'20 was only 33% of the pre-lockdown (February'20) levels, a marginal improvement from 30% in September'20. On a monthly basis, international flights increased by 8% (to 12,080 flights) in October'20 but were 69% less than that in October'19.

Chart 1 : Aircraft Movement -Monthly



Source: AAI

Chart 2 : Aircraft Movement - (Apr-Oct)



Source: AAI

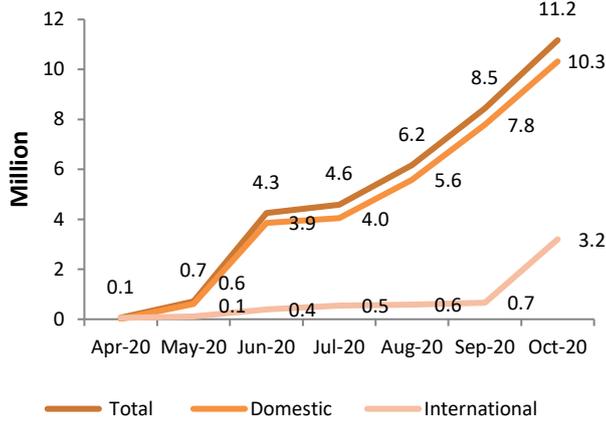
During the first seven months of 2020-21 (Apr-Oct), the flights handled at the domestic airports have been the lowest in sixteen years (comparable period). Domestic aircraft movement was at a fifteen-year low while the number of international flights operated was the lowest in nineteen years. On a yearly basis, the domestic flights have been 70% lower while the international flights have reduced by 77% during April-October'20.

Gradual recovery in passenger traffic

Demand for air travel, both domestic and international, has been strengthening every month since the resumption of operations and the easing of the lockdown associated travel restrictions across regions. However, even with the recovery, air passenger traffic has stayed well below the pre-pandemic levels as travel has been predominantly restricted to essential travels. Passengers are also seen to prefer making reservations closer to the date of travel given the uncertainty regarding the pandemic and the associated restrictions.

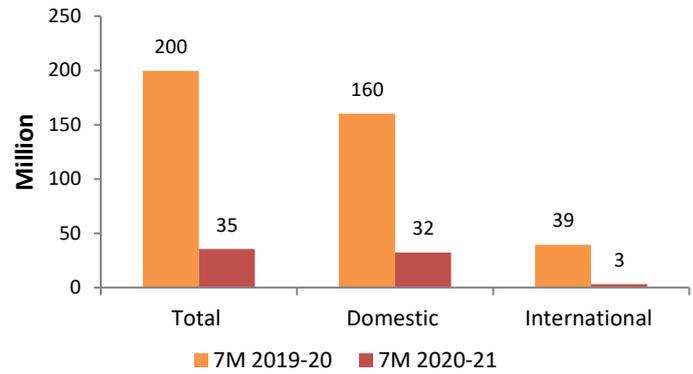
Air passenger traffic at the Indian airports in October'20 at 11.17 mn was 32% higher than the month-ago but was 62% lower than that in October'19 and about 38% of the pre-lockdown (February'20) levels. On a sequential basis in October'20 domestic passenger traffic improved by 33% (to 10.32 mn) while international travel rose by 29% (to 0.85 mn). However, despite the improvements, domestic air passenger traffic in October'20 was 43% of February'20 levels and international passenger traffic was a mere 16%.

Chart 3: Passenger Movement - Monthly



Source: AAI

Chart 4 : Passenger Movement (Apr-Oct)



Source: AAI

International air passenger traffic has decreased by 92% during April-October’20 v/s that in April-October’19 while domestic air travel has reduced by 80% during this period. The overall passenger traffic during the first seven months of 2020-21 has been the lowest in sixteen years.

The improved monthly passenger traffic has led to improved capacity utilization or passenger load factor (PLF) of airlines. The PLF of the major domestic airlines averaged 66% in October’20, a 3% improvement from the previous month and ranged between 62-74%. Nevertheless, given the subdued demand for air travel and the restrictions on the capacity that airlines can operate, the PLF of the major airlines was significantly lower than the pre-pandemic (February’20) levels of average 88% and ranged between 82-93%.

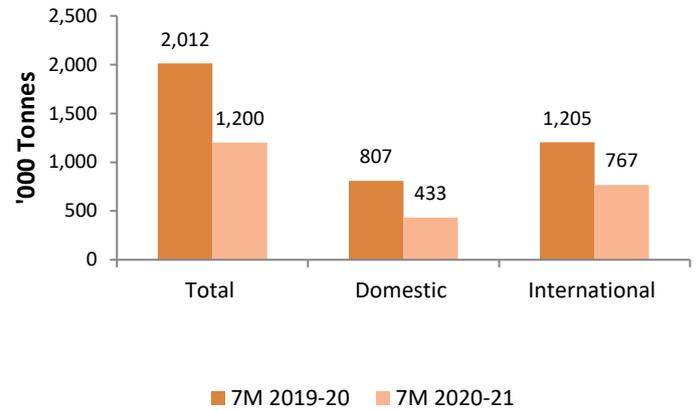
Higher freight traffic to the aid of airlines

The fall in freight traffic has been lower in comparison to passenger traffic. The freight traffic handled at Indian airports has decreased by 40% during April-October’20 from that in the corresponding period of 2019-20. With a significantly lower number of passenger flights in operation, there has been a reduction in freight capacity given that a large quantum of cargo (nearly half of total air cargo as per some estimates) is carried in the belly of passenger airlines

The decline in freight traffic during the seven months to October’20 has been sharper in the case of domestic cargo at 46% as against the 36% fall in the case of international cargo. Despite the lower number of international flights, the share of international freight has been higher in the current financial year as the suspension of international passenger flights does not extend to cargo flights. International cargo accounted for 64% of the 12,00,170 MT of freight traffic handled at Indian airports during April-October’20 which is a 2% increase from a year ago.

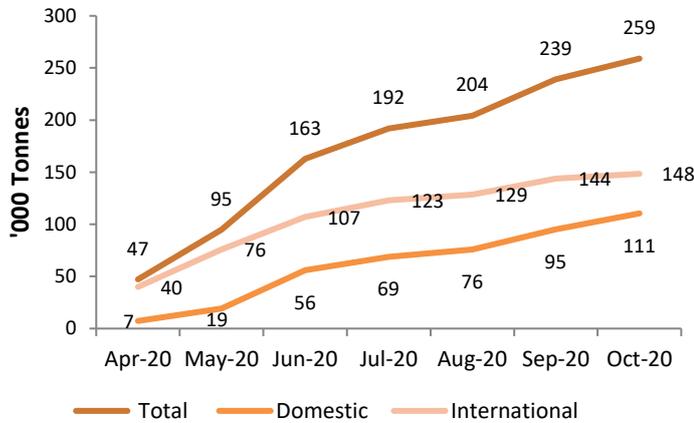
There has been a sequential improvement in total freight traffic with October’20 witnessing an 8% growth over September’20. The year-on-year contraction in freight traffic has narrowed on a sustained basis from 41% in June’20 to 14% in October’20. The monthly growth has been higher in the case of domestic freight which grew by an average of 19% during the four months to October’20 versus the average 9% growth in international freight during this period. The growth in domestic freight can be attributed to the higher volume of e-commerce purchases and the restocking of inventories by businesses.

Chart 6: Freight Movement (Apr-Oct)



Source: AAI

Chart 5: Freight Movement - Monthly



Source: AAI

Some airlines faced with low passenger traffic and declining cash flows have reportedly converted their passenger fleet to freight carriers to generate the much needed revenues.

Airline Finances - Stressed

Domestic airlines have witnessed a sharp decline in their revenues with the prolonged restrictions imposed on their operations. The two major airlines – Indigo (59%) and Spice Jet (14%) which together accounted for nearly 73% of the market share in terms of passengers carried in the quarter ended September’20 saw their revenues from operations decline by 66% and 63% respectively in Q2 2020-21 (year-over-year). Revenues from cargo for these airlines have been strong having risen by 20% and 39% respectively (year-over-year) in Q2 2020-21, helping them offset to a limited extent the shortfalls from passenger traffic.

Cash strapped airlines have been undertaking cost rationalization measures ranging from renegotiating aircraft lease rentals, seeking relaxation and waiver for insurance premium payments, renegotiating vendor contracts, cutting down headcount and staff salaries to delaying taking deliveries of aircraft among other.

The sector has not received any direct financial aid from the government and is seeking financial relief package, reduction in taxes (fuel), deferment of payments, and extension of credit lines.

Going forward

The prospects for the aviation sector for the remainder of the current financial year are rather grim. Health concerns and uncertainty over the pandemic led restrictions have reduced appetite for travel and has largely restricted it to essential travels. Although domestic air travel is likely to see a pickup during the festive season, it is expected to be limited. The operation capacity is expected to be increased further in a graded manner with a return to pre-Covid levels unlikely in the current financial year. Passenger traffic is expected to sustain the sequential improvement but for the 2020-21 financial year as a whole passenger travel demand is expected to be muted and would be 60-65 % lower (y-o-y). The recovery in air travel is expected to be gradual and prolonged with tourism unlikely to see a revival in the next 2-3 years.

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
 /company/CARE Ratings