

SEP 04, 2015

The Indian civil aviation industry is on a high growth trajectory, albeit with minor hiccups. Simply going by the market size, the Indian civil aviation industry is amongst the top 10 in the world with a size of around \$16 billion. India has a vision of becoming the third largest aviation market by 2020 and is expected to be the largest by 2030. Despite facing a reduced growth rate in the past few years, the Civil Aviation Industry in India has ushered in a new era of expansion driven by factors such as Low Cost Carriers (LCC), modern airports, Foreign Direct Investments (FDI) in domestic airlines, cutting edge Information Technology (IT) interventions and a growing emphasis on regional connectivity.

However, in order to achieve the vision of becoming the third largest aviation market by 2020, a lot more needs to be done. The Asia Pacific region along with other emerging economies of Latin America and Eastern Europe are projected to lead the growth of the global aviation sector in the next few decades. Steady economic development of China and India would lead to higher spending power and increased need to travel. With one third of the world's population residing in these two nations, there is a huge untapped potential.

As per the 12th Five Year Plan (2012-2017), improving air connectivity in tier-2 and tier-3 cities in India is one of the key priorities of the government. This expansion will not only add a much needed boost to the industry, but also increase the viability of new trends like low cost airports and airlines in the country. With the unfortunate downgrade of India to Category 2 by USA's Federal Aviation Administration (FAA), expansion in the global routes may be constrained. That too will lead to greater focus on the domestic market in the short run. All this will have a multiplier effect in terms of higher growth of local economic activities, tourism and employment.

Present passenger traffic Scenario

The passengers carried by domestic airlines during January-July 2015 were 455.78 lakhs as against 376.28 lakhs during the corresponding period of previous year, thereby registering a growth of 21.13%. About 67.45 lakh passengers flew within India in July 2015, as compared to 66.01 lakh people in June. Among the carriers IndiGo remained number one carrying 24.17 lakh passengers in July, followed by Jet Airways with 13.35 lakh; Air India with 10.94 lakh; and SpiceJet 8.31 lakh passengers.

In terms of passenger load factor (PLF), a key metric of profitability measured by the number of seats sold in every operated flight, SpiceJet led the pack with 93.4%, during July. The better performance was helped by the company's flash sales of tickets and discounts. Air Costa, a regional airline followed next with 81.7% PLF, followed by GoAir with 81.2%, and Jet Airways with 81%.

Performance wise, Air Pegasus remained number one with 96.6% on time performance at 4 metros followed by Vistara with 93.5%, IndiGo 86.6% Air Asia 86.3%, while Spicejet remained at bottom with 63.8% on time performance. The overall cancellation rate of scheduled domestic airlines for the month of July 2015 has been 0.53%. Air Costa topped the chart with Cancellation rate of 4.67%, followed by Air Pegasus 2.50%, Air India (Domestic) 1.12%, Jet Airways 0.52%, Spicejet 0.49%, Go Air 0.46%, Vistara 0.37%, Air Asia 0.30%, JetLite 0.22% and IndiGo 0.11%.

Low-cost carrier IndiGo once again proved its superiority and remained the market leader with a 35.80% share in domestic travel in July 2015, followed by Jet Airways 19.80%, Air India 16.20%, SpiceJet 12.30%, GoAir 8.40% and JetLite 3%.

ATF prices

Jet fuel prices were slashed by as much as 4% on July 1, 2015, as the international oil prices dropped sharply, offering a slight respite to airlines reeling under high costs. ATF constitutes over 40% of an airline's operating costs and the price cut is set to reduce the financial burden on cash-strapped carriers. Jet fuel prices have dropped sharply, by as much as 33% since January 2014. During the same period crude oil prices fell by about 42%. The fall in the fuel prices have prompted debt-laden airlines like Air India and Jet Airways to announce their turn around plans, which are expected to bear fruits in the next couple of fiscals provided the ATF prices don't rise to their pre-January 2014 levels. However in June, the state-run oil refiners hiked jet fuel prices by more than 7% taking away some of the cost benefits airlines have been enjoying on lower fuel costs in the last one year.

Investment in the sector

The Government has permitted different limits of Foreign Direct Investment for different services in aviation sector. 100% FDI is permitted for green-field airport projects under the automatic route, while up to 74% FDI is permitted for existing airport projects under the automatic route, above 74% and up to 100% permitted under government approval route. Moreover, up to 49% FDI is permitted in domestic scheduled passenger airlines under the automatic route. 100% permitted for NRIs. Up to 49% FDI under the automatic route is permitted in Non-Scheduled Air Transport Service. FDI above 49% and up to 74% is permitted under Government approval route. 100% FDI permitted for NRIs. Up to 100% FDI is permitted in helicopter services and seaplanes under the automatic route.

Further, up to 49% FDI is permitted in ground handling services under the automatic route. FDI above 49% and up to 74% is permitted under government approval route. 100% FDI permitted for NRIs. While, up to 100% FDI is permitted in maintenance and repair organizations; flying training institutes; and technical training institutes under the automatic route. The foreign direct investment (FDI) in the air transport (including air freight) attracted FDI worth \$3.01 million or Rs 19.26 crore in May 2015.

Recent developments

GoI grants in-principle approval to set up 14 Greenfield airports

There are a total number of 476 airports in the country. This includes operational and non-operational airports, airstrips etc. owned by the Airports Authority of India, Defence, State Governments, private parties etc. Government of India (GoI) has granted 'in-principle' approval for setting up of 14 Greenfield airports in the country. These airport include; Mopa in Goa (Rs 3000 crore), Navi Mumbai (Rs 15149 crore), Sindhudurg (Rs 350 crore) and Shirdi (Rs 320.54 crore for Phase I) in Maharashtra, Bijapur (Rs 150 crore), Gulbarga (Rs 13.78 crore in initial

phase), Hassan (around Rs 793.95 crore in three phases) and Shimoga (Rs 38.91 crore in initial phase) in Karnataka, Kannur (Rs 1892 crore) in Kerala, Dabra (Rs 200 crore) in Gwalior, Pakyong (Rs 605.59 crore) in Sikkim, Kushinagar (Rs 600.39 crore) in Uttar Pradesh, cost estimated by Airports Authority of India, as the development of the airport through Public Private Partnership (PPP) could not be realized by the Government of Uttar Pradesh (GoUP), Karaikal (Rs. 280 cr) in Pudducherry and Durgapur (Rs 700 crore) in West Bengal. Out of these, one project namely Durgapur Airport has commenced commercial operations on May 18, 2015. The timeline for construction of airport projects depends upon many factors such as land acquisition, availability of mandatory clearances, financial closure, etc. by the individual operator.

Union Civil Aviation Ministry launches GAGAN System

Civil Aviation ministry has launched the GPS-Aided Geo Augmented Navigation system, which would make airline operations more efficient and reduce costs. GAGAN is a satellite-based navigation system which provides autonomous, high precision geo-spatial location information of the user in terms of latitude, longitude and height along with velocity and time. It is jointly developed by the Indian Space Research Organisation and the Airports Authority of India, at an investment of Rs 774 crore. GAGAN will offer seamless navigation to the aviation industry. The benefits of GAGAN include improved efficiency, direct routes, increased fuel savings, approach with vertical guidance at runways, significant cost savings due to withdrawal of ground aids and reduced workload of flight crew and Air Traffic Controllers.

Corporate developments in Aviation industry:

- Budget carrier SpiceJet has announced to enhance its air connectivity on several trunk routes, including Delhi and Mumbai, and launch a new flight service between Goa and Ahmedabad in the coming winters.
- IndiGo, the country's biggest airline by market share has placed a firm order for 250 Airbus A320neo (new engine option) planes, the plane maker's biggest order by volume.
- Air India has announced to operate special flights for Hajj pilgrims from seven Indian cities - Delhi, Srinagar, Mumbai, Kochi, Hyderabad, Goa and Nagpur.
- Abu Dhabi-based airliner Etihad Airways will collaborate with Maharashtra government in identifying new areas of mutual interest to support the economic growth of the state.
- Hindustan Aeronautics (HAL) signed an agreement with French engine manufacturer Turbomeca for maintenance, repair and overhaul (MRO) of Shakti helicopter engine, which would power a fleet of 1,000 Indian military choppers over the next 10 years.

Outlook

The potential of the India's aviation industry is enormous as it is largely untapped with huge growth opportunities, considering that air transport is still expensive for majority of the country's population, of which nearly 40 per cent is the upwardly mobile middle class. With the right policies and relentless focus on quality, cost and passenger interest, India would be well placed to achieve its vision of becoming the third-largest aviation market by 2020 and the largest by 2030. Improving economic environment, firm yields due to moderate capacity growth, increasing passenger traffic, reducing ATF prices and rising investment in the sector will also help sector to grow significantly.

Companies Financial Data In Industry

Company Name	CMP	MCAP (Rs Crore)	BOOK VALUE	DIV. YEILD %	TTM EPS	TTM PE
Global Vectra Helicorp Ltd.	80.60	112.84	-5.26	0.00	14.94	5.40
Taneja Aerospace & Aviation Ltd.	85.35	212.78	43.24	0.00	-3.01	0.00
Spicejet Ltd.	24.35	1459.66	-26.69	0.00	-9.22	0.00
Jet Airways (India) Ltd.	325.30	3695.32	-368.31	0.00	-120.99	0.00

Sorted with TTM EPS (High to Low)

Source – Ace Equity

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