# Digital push to drive growth for aviation sector

**MAY 20, 2017**

## Aviation sector to take off in coming years on high passenger growth

The Indian aviation sector is flying high from past couple of years. At present, the country is among the fastest growing and the ninth largest civil aviation market in the world with a size of around $16 billion. The country is likely to become the third largest aviation market in the world by 2020 after the US and China. This would be possible because of a host of factors, including increased competition, low-cost carriers, modern airports which are expanding, improved technology in both air side and city side operations, foreign direct investment (FDI) and increased emphasis on regional connectivity. In terms of domestic passenger traffic, the country has become the third largest aviation market, beating Japan. Domestic air traffic has shown a consistent growth of 20 -25 per cent throughout 2015 and 2016, peaking in January 2017 at 25.13 per cent.

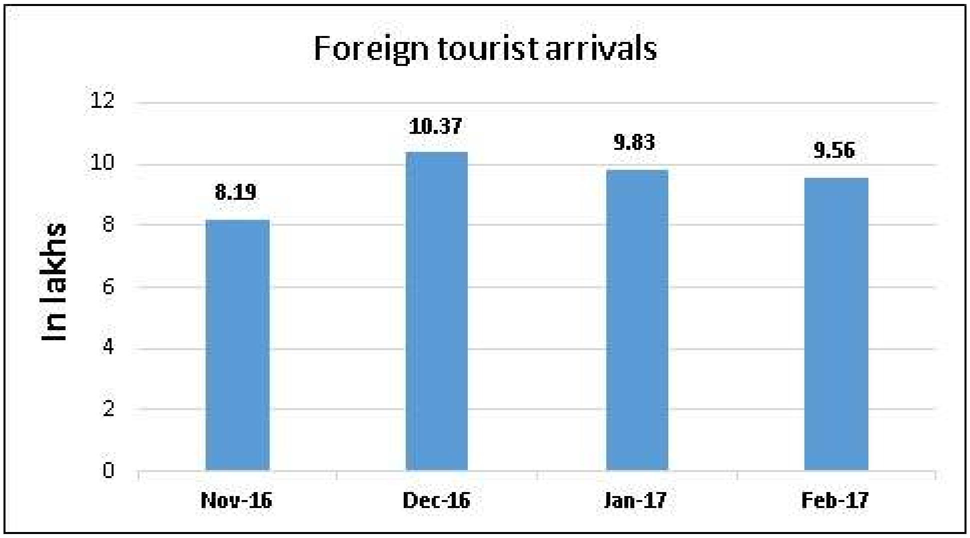
## Foreign tourist arrivals

Foreign Tourist Arrivals (FTAs) during the Month of February, 2017 were 9.56 lakh as compared to 8.47 lakh during the month of February, 2016 and 7.61 lakh in February, 2015.

The percentage share of FTAs in India during February 2017 among the top 15 source countries was highest from Bangladesh (17.46%) followed by UK (12.20%), USA (11.83%), Russian Fed. (4.29%), Canada (4.26%), France (3.25%), Germany (3.11%), China (2.96%), Sri Lanka (2.91%), Australia (2.62%), Malaysia (2.55%), Japan (2.26%), Thailand (1.83%), Afghanistan (1.73%), and Nepal (1.50%).

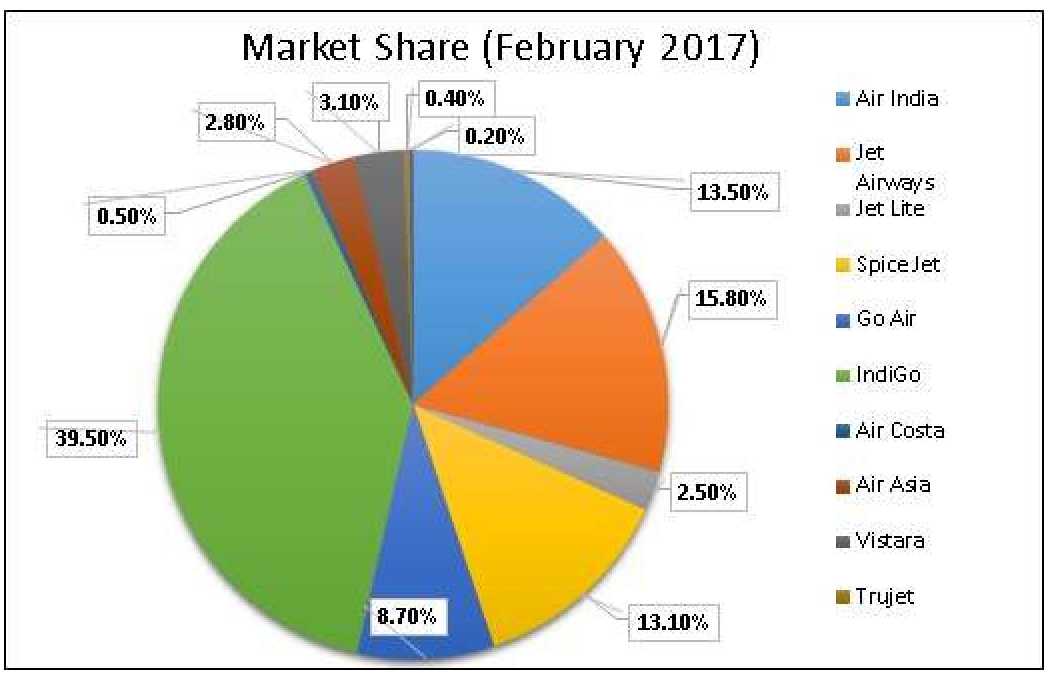

## Total Telephone Subscribers

The number of telephone subscribers in India increased from 1,123.96 million at the end of November-16 to 1,151.78 million at the end of December-16, thereby showing a monthly growth rate of 2.48%. The urban subscription increased from 659.03 million at the end of November-16 to 683.14 million at the end of December-16, the rural subscription also increased from 464.93 million to 468.64 million during the same period. The monthly growth rates of urban and rural subscription were 3.66% and 0.80% respectively during the month of December-16.



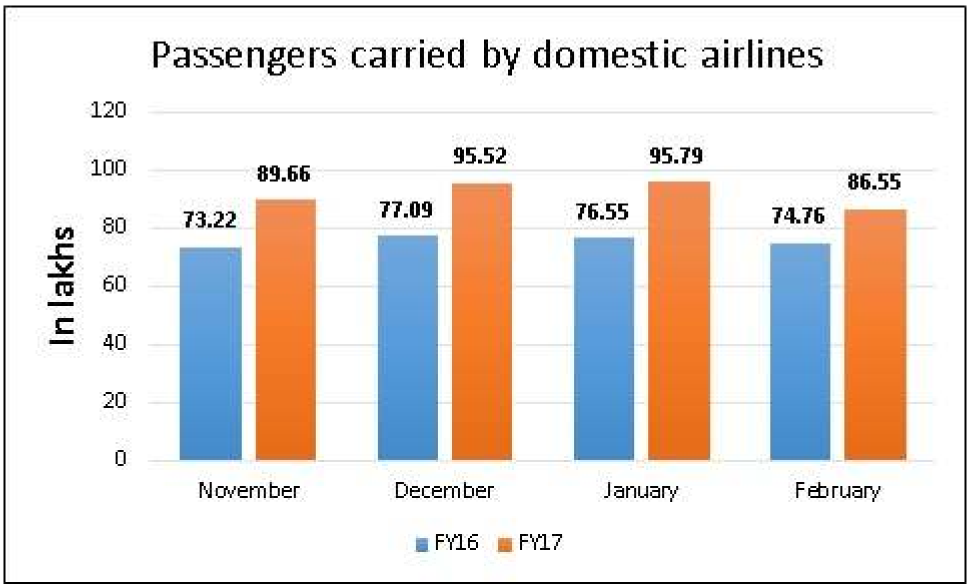

## Market Share

IndiGo, owned by InterGlobe Aviation, continued to maintain its position as the largest player, with 39.50 percent market share in February 2017, a tad lower from 39.8 percent in January 2017. Full-service carrier Jet Airways saw its market share go up to 15.8 percent, while national carrier Air India's market share declined to 13.5 percent in February 2017 from 14.1 percent in January 2017. Another budget carrier, SpiceJet, increased its market share to 13.1 percent in February 2017 from 12.8 percent in January 2017.



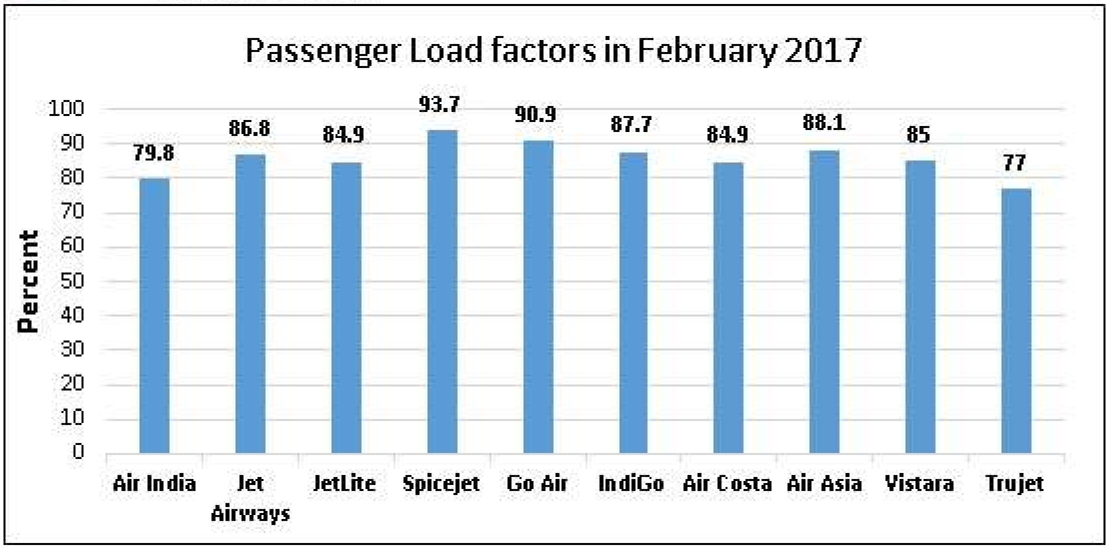
## Passengers carried by domestic airlines

Indian carriers together flew a total of 86.55 lakh passengers in February 2017 as compared to 74.76 lakh fliers in the same month of 2016, registering a growth of 15.77 per cent. Passengers carried by domestic airlines during January-February 2017 were 182.34 lakh as against 151.31 lakh during the corresponding period of previous year thereby registering a growth of 20.51 per cent. Budget carrier IndiGo ferried the highest number of passengers in February at 34.19 lakh, rival SpiceJet continued to see the highest seat factor across its flights. In January, the passenger traffic zoomed up by 25.13 per cent to 95.79 lakh.




## Passenger Load Factor

The passenger-load factor (PLF) is used to measure the capacity utilisation of airlines. After reporting its highest ever load factor in December (93.7 per cent), SpiceJet again hit a similar high in February. Indigo's PLF was 88 per cent, down 230 bps m-o-m from 90 per cent a month ago. Including Jet-lite, Jet Airways' PLF came at 86 per cent, down 20 bps m-o-m. Indigo maintained its leadership position by carrying 34.19 lakh passengers in February.




## Government initiatives

**Govt flags off first flight under UDAN scheme:** The government flagged off the first flight from Shimla to Delhi at the Shimla airport, under the UdeDeshkaAamNagrik (UDAN) scheme on April 27, 2017. The air service under the UDAN scheme aims to make air travel accessible to lower middle class families and enhance connectivity with more airports in the country. About 70 such airports may come to life in the next one year.

**Common IT platform for air cargo stakeholders:** The government is working on a common IT platform for stakeholders in the domestic air cargo segment, which is expected to see increased growth in the next few years. The work has started and once it is in place, movement of air cargo would be far more easier.

**'Air Sewa' web portal for Air Passengers:** The 'Air Sewa' Web Portal and a Mobile App has been launched by the government for convenience of air passengers. It provides an integrated common platform on which air passengers can lodge their grievances against all major stakeholders in aviation sector including airlines. All complaints related to air services including flight delays, baggage loss and unusually long periods for refund besides long queues at airports can be registered using Air Sewa web portal/Mobile App.

**Air Services Agreements:** The Air Services Agreements between government of India and other countries have the potential to spur greater trade, investment, tourism and cultural exchange, in tune with the developments in the civil aviation sector. This enables environment for enhanced and seamless connectivity, while providing commercial opportunities to the carriers of both the sides ensuring greater safety and security. The government of India has so far signed and initiated Air Services Agreement with 114 countries.

**Facilities for differently abled persons at airports:** India's aviation regulator the Directorate General of Civil Aviation (DGCA)has issued Civil Aviation Requirements Section 3 - Air Transport Series 'M' part -I on carriage by Air-Persons with disability and /or persons with reduced mobility. This CAR lays down regulations for carriage of persons with disabilities and reduced mobility by air in order to protect them against any form of discrimination and to ensure that they receive all possible assistance during their travel. The facilities like lift, ramps, toilets and wheel chairs etc. are being provided at Airports Authority of India (AAI) managed airports to all persons with disability to ensure dignified treatment during their air travel.

**Govt grants in-principle approval to set up 18 Greenfield airports:** Government has given in principle approval for setting up 18 Greenfield airports which together are estimated to cost nearly Rs 30,000 crore. The 18 airports which have received in principle nod for construction includes Mopa (Goa), Navi Mumbai, Shirdi and Sindhudurg (Maharashtra), Bijapur, Gulbarga, Hasan and Shimoga (Karnataka), Kannur (Kerala), Pakyong (Sikkim), Karaikal (Puducherry), Dholera (Gujarat) and Bhogapuram (Andhra Pradesh). Besides, 'site clearance' has been given to 5 Greenfield airports. They are Machiwara, Ludhiana Airport (Punjab), Itanagar in Arunachal Pradesh, Jamshedpur in Jharkhand, Alwar in Rajasthan and Kothagudem in Telangana.

## Corporate developments in Aviation industry

- SpiceJet has introduced 22 new flights, including 19 on domestic routes, as part of the summer schedule. Pursuant to this, the airline will increase its operation to 360 average daily flights. The summer schedule is from March 26 to October 28.
- After the latest order of 250 aircraft placed in 2014, Indigo Airlines will be getting delivery of a new aircraft every nine days till 2027.
- Air India has inducted the first Airbus 320 neo aircraft on February 16, 2017, that burns less fuel, into its fleet and plans to lease 13 more such planes this year.
- Jet Airways has entered into a reciprocal codeshare partnership with Hong Kong Airlines, which will enable Indian fliers to travel seamlessly to New Zealand, Japan, Indonesia, Vietnam and Thailand.

## Outlook

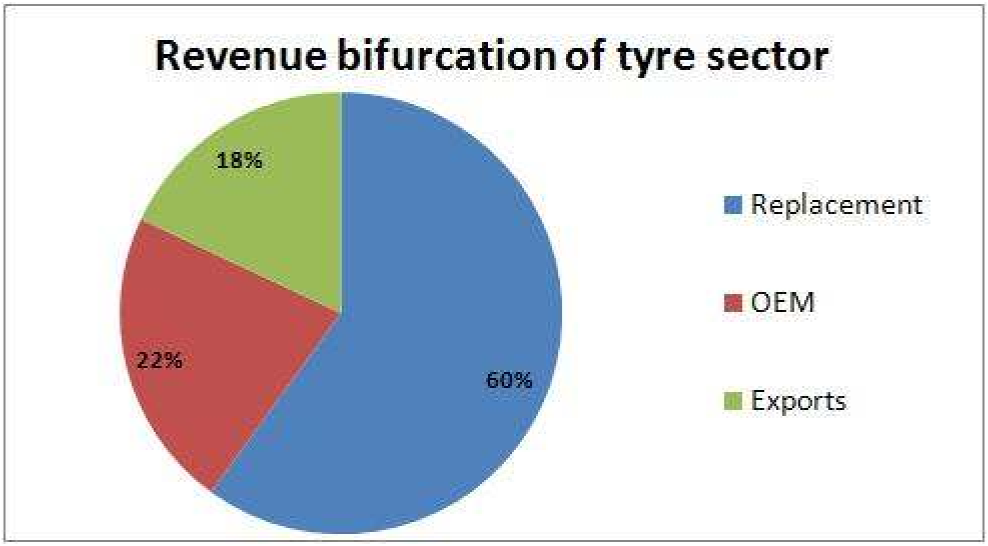
Volatile fuel prices combined with highest tax on aviation turbine fuel and other national policy related issues continue to challenge the sector's growth, still Indian aviation industry is likely to grow considerably in the coming years. The sector continues to experience high passenger growth, and following the trend it could rank among the top three aviation markets in the world by 2020. A strong market growth rate coupled with infrastructure expansion will help the sector to grow at faster pace.

**15-May-2017**

## Tyre sector's outlook looks positive on strong demand from OEM, Replacement markets

Tyre Industry, has become the most competitive markets in the world and with the help of new technology, ultra modern production facilities and availability of raw materials at lower rate, the sector is set to grow further. The Indian tyre industry has witnessed a remarkable growth in last few years on the back of growth in automobiles demand, especially in passenger vehicles and two-wheeler segments.

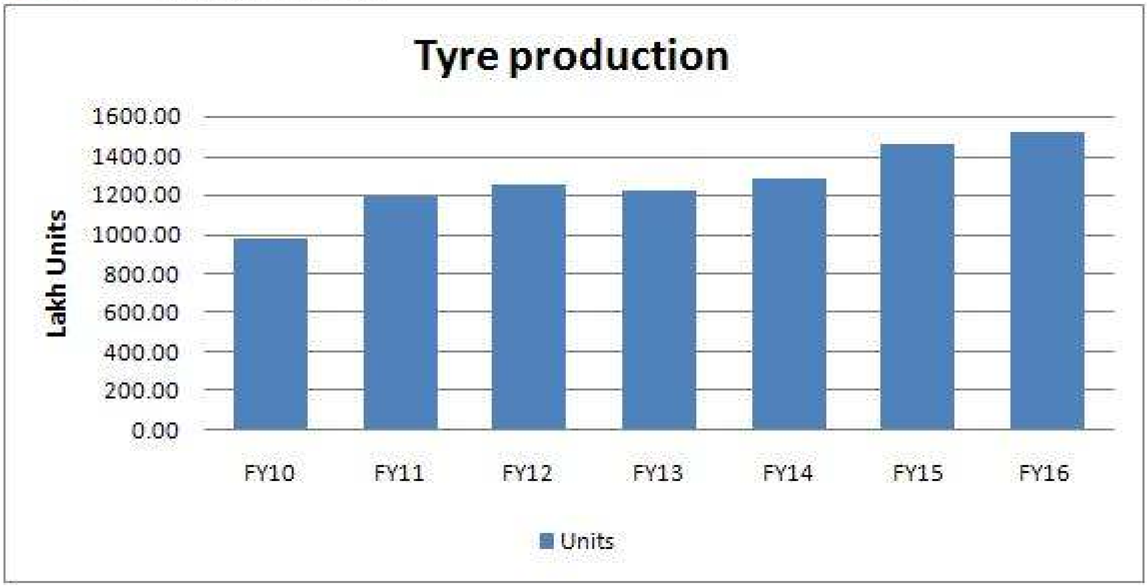
The industry can be divided principally into two key segments - the OEM and replacement markets. The demand for tyres in the OEM sector is dependent on the sales trend of new vehicles, while the demand in the replacement sector is related to usage patterns and replacement cycles. Driven by the strong demand in automobile OEM sector and replacement market, the Indian tyre industry has been witnessing stupendous growth since last two years. While in the Commercial and Farm segments, replacement sales forms a major chunk, in the passenger segment both Institutional and OEM and replacement sales play an almost equal role. The tyre industry provides direct and indirect employment to more than a million people, comprising of dealers, re-treaders and truck operators. The truck business is controlled by nearly 2.6 million small operators.




## Production

Total tyre production in FY16 has witnessed a marginal growth of around 4 per cent to 1520.32 lakh unit as compared to 1461.50 lakh unit sold in FY15 on the back of steady demand from original equipment manufacturers (OEMs) and an improvement in replacement demand. Persistent weakness in OEMs demand in select key segments, weak agricultural activity and consequent subdued rural demand; and relatively muted infrastructural activity for most of the year affected tyre demand during FY 2016.

Of total, production of OTR tyre grew 17 per cent to 4.98 lakh unit from 4.27 in FY15, two/ three wheeler tyre rose 5 per cent to 799.42 lakh unit as compared to 759.89 lakh unit in previous year and passenger car tyre (including jeep) was up by 8 per cent to 387.02 lakh unit from 357.43 lakh unit in FY15. However, production of truck & bus tyre declined 2% to 167.64 lakh unit as compared to 171.12 lakh unit in FY15. Moreover, production of LCV tyre and farm/tractor (incl. front, rear and trailer) tyre slipped 5 percent and 3 percent respectively.



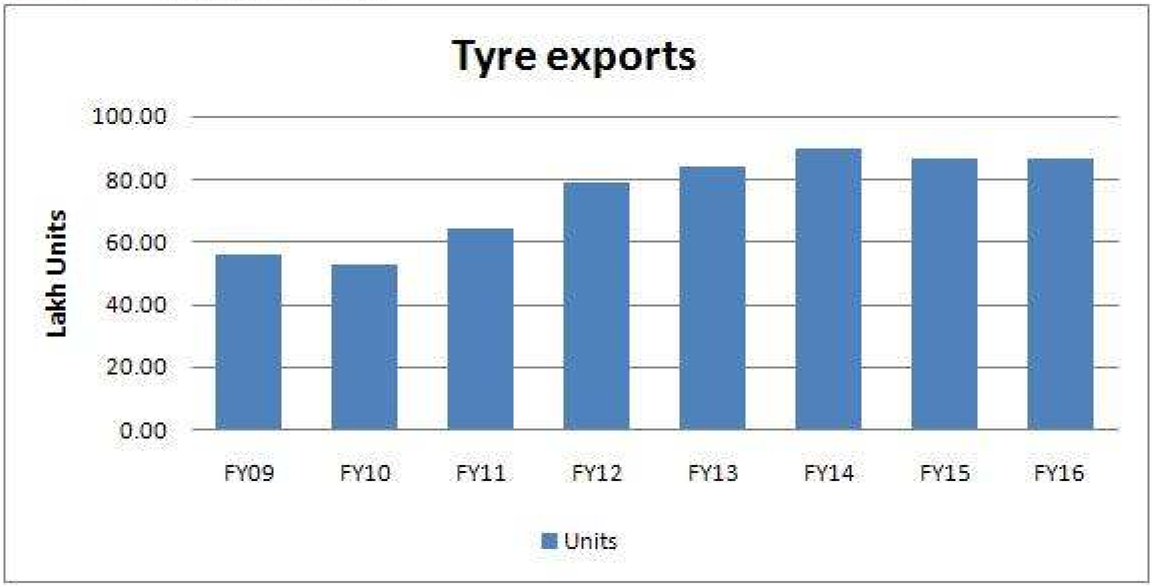

## Imports

Currently 40% of the replacement demand in truck and bus radial tyres (TBR) is being met by imports while domestic capacities are faced with the prospects of ever declining utilization. India's import of TBR tyre jumped by 64 per cent in 2015-16 to 12.8 lakh units from from 7.8 lakh units in the previous fiscal, with increased 'dumping' from China. In the last two years, truck and bus radial tyre (TBR) import has gone up by 2.5 times. It called for anti-dumping measures on import from China as it accounted for a major chunk. From an average per month import of about 40,000 units in FY14 and 65,000 units in FY15, the TBR import figure has crossed one lakh units per month in FY16. Most of the import of TBR in India is from China, whose share has more than doubled to 90 per cent in 2015-16 from 40 per cent in 2013-14.

Meanwhile, Tyre manufacturers in India have made major investments towards greenfield and brownfield projects for manufacturing of state of the art radial tyres but indiscriminate import and dumping of cheap tyres from China are queering the pitch for domestic manufacturing. Domestic tyre industry has put in around Rs 35,000 crore in capacity expansion in the last few years by way of greenfield and brownfield projects. Unfortunately, as the new radial capacities have just gone on stream, cheap imports are surging.

## Exports

In FY16, export of tyre declined marginally by 0.30 per cent to 86.54 lakh units as compared to 86.81 lakh units exported in FY15. Moreover, tyre exports have seen contraction during the current fiscal across key categories. Exports of Truck & Bus tyres declined 12 per cent to 19.39 lakh unit in FY16 as compared to 22.03 lakh unit in FY15 and passenger car tyres dropped 12 per cent to 23.32 lakh unit from 26.54 lakh unit in FY15, however, exports of LCV Tyres edged higher by 11 per cent to 16.94 lakh unit as compared to 15.29 lakh unit in FY15.




### Strong demand in OEM and Replacement market

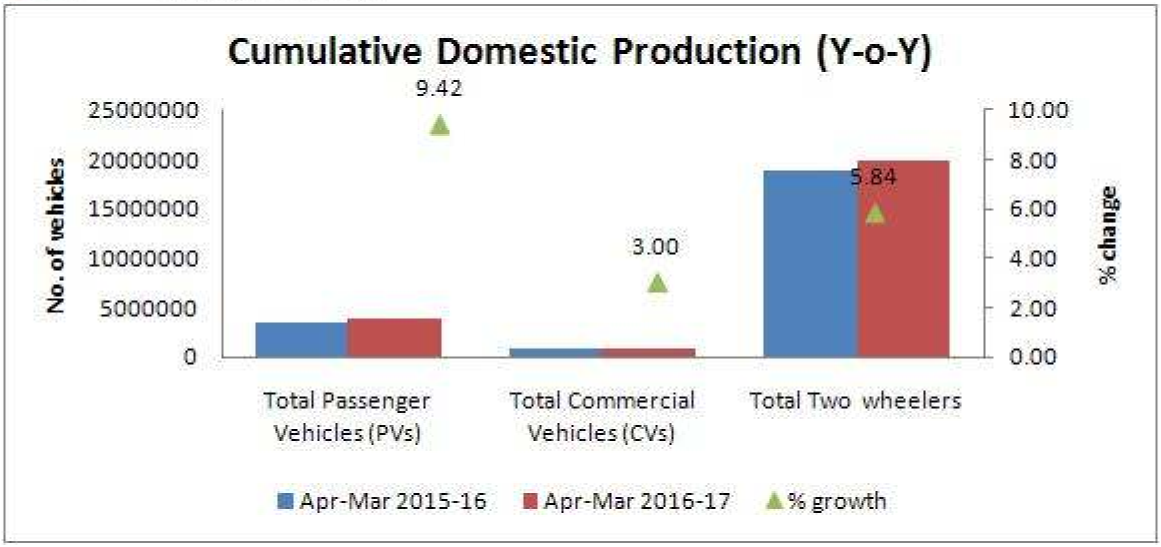
Demand of two-wheelers and small cars has been hit slightly in past few months on account of demonetization. However, auto sector has seen some recovery on the back of lower cost of ownership of auto vehicles, triggered by series of interest rate cuts and push on manufacturing and infrastructure segment by the government.

Indian Tyre manufacturers are likely to take benefit from this turnaround in OEM demand and stable replacement demand. Tyre manufacturers who supplies to commercial vehicles, passengers vehicles and tractors segment are likely to get the maximum advantage in the near term, as outlook for these auto segments in the Indian market is relatively more positive than two-wheelers.

The trend in tyre production and sales for OEM market has been in line with the automobile sales over the past few years i.e., production of tyres has been about 1.5 times that of a vehicle produced. Moreover, domestic and export demand for tyres is likely to remain strong during2017-18 on the back of steady growth prospects for Auto OEMs as well as the stable replacement market.

### Growth in automobile sector

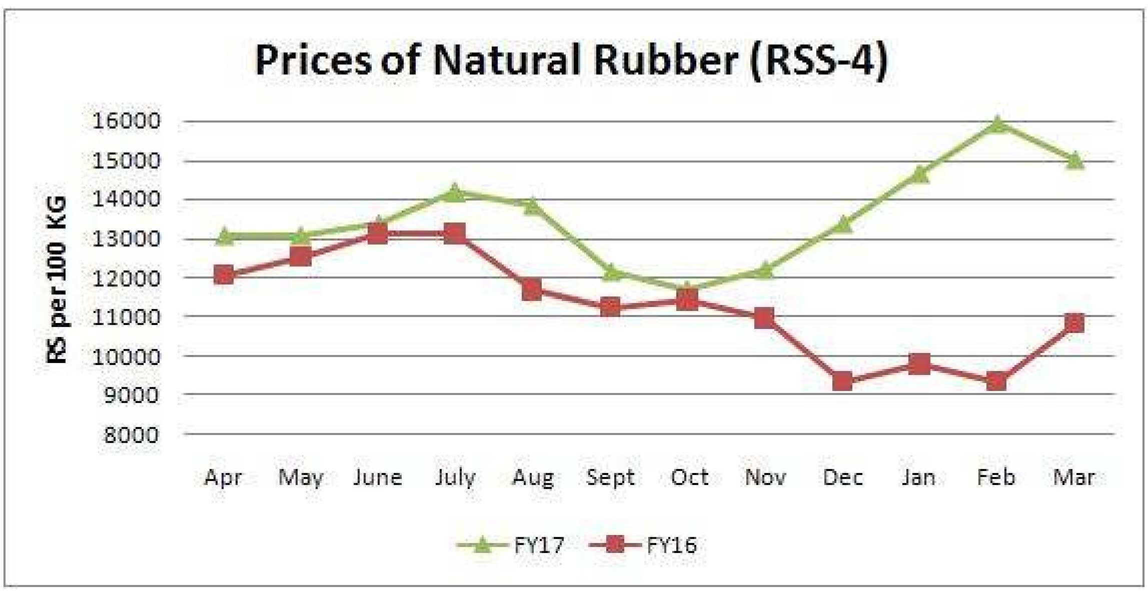
Tyre demand is directly proportional to the automobiles demand. Therefore, demand swings in automobiles have an impact on the demand for tyres. India's annual automobiles production registered a growth of 5.84% y-o-y in FY17 to 2,53,14,460 units as compared to 2,40,16,068 units in FY16. This led to rise in demand for tyres as well during the year. Of total, production of Passenger vehicle increased the most with a growth of 9.42%, while production of commercial vehicle and two-wheeler vehicle surged by 3% and 5.84% respectively.




## Raw material prices

### Rubber prices

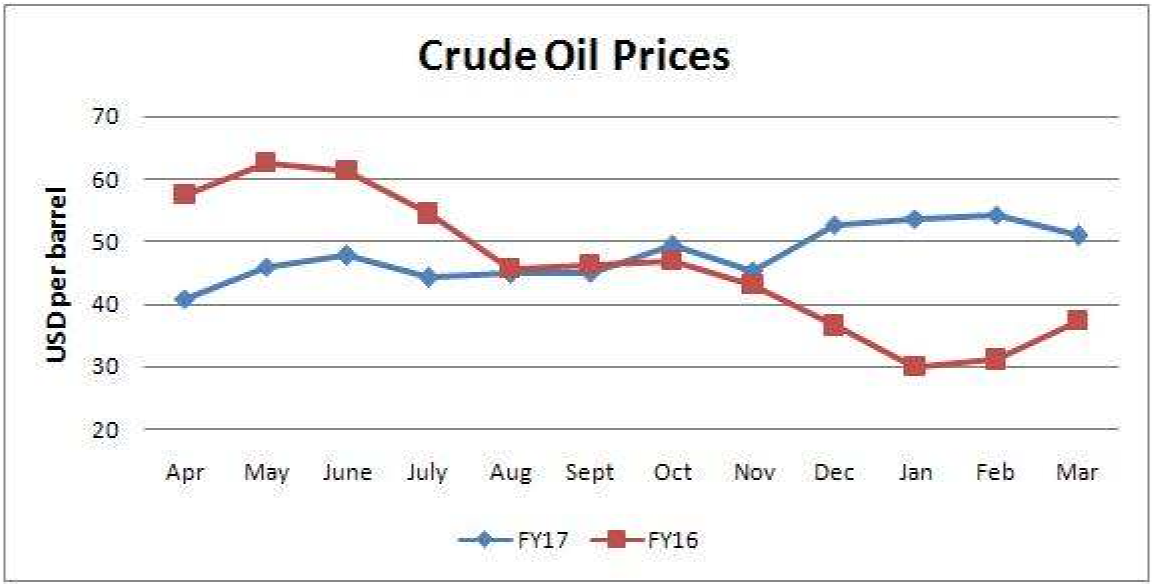
Domestic prices of natural rubber, which makes up more than 50 per cent of the cost of a tyre, have been increasing continuously. The domestic RSS 4 price at Kottayam market increased at Rs 15,024 per 100 kilogram (kg) in March 2017 as compared to Rs 10812 per 100 kg during same month previous year. Domestic RSS-4 price touched highest level of Rs 15,942 per 100 kg in February 2017, while it touched lowest level of Rs 11692 per 100 kg in October 2016.




### Oil prices

The tyre industry is raw material intensive, which accounts for more than 60% of the production cost. Since most of these raw materials are petroleum based, their prices fluctuate with the international prices of petroleum products. The main raw materials for tyre are rubber (natural or synthetic), carbon black, nylon tyre cord and rubber chemicals. Except natural rubber, the costs of all other raw materials in tyre production are related to crude oil prices.

Crude oil prices increased 36.34 per cent to $50.91 per barrel in March 2017 as compared to $37.34 per barrel in same month previous year. Crude oil prices touched highest level of Rs 54.36 per barrel in February 2017, while it touched lowest level of 40.75 per barrel in April 2016.



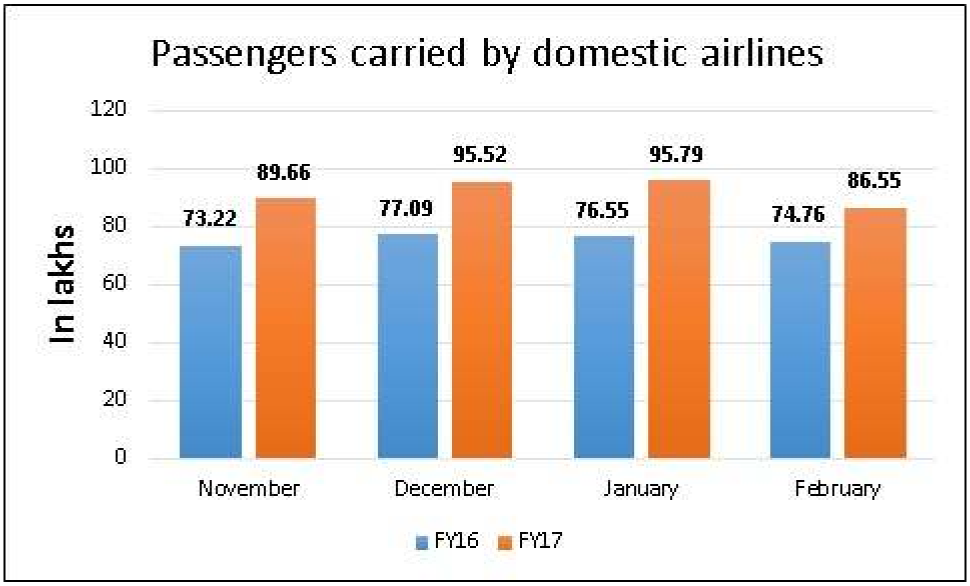

### Indian tyre manufacturer to benefit from shift of Chinese tyres to US markets

US department of commerce has refused to levy anti dumping, countervailing duty on Chinese truck and bus tyres; Chinese tyre players will focus back on US market thus reducing exports to other destinations such as India. The U.S. Commerce Department had earlier determined final subsidy rates ranging from 38.61% to 65.46% and anti-dumping margins ranging from 9% to 22.57% on Chinese tyre imports. As of 2015, US imported about $1.5 billion worth truck and bus tyres from China which fell to about $1 billion in January 2016-November 2016 period given the investigation undertaken by US authorities. No levy of duties would enable Chinese players to shift focus back on the US market leading to reduced exports to other destinations. This is positive for domestic tyre players like Apollo Tyres, MRF, JK Tyres and Ceat etc.

### Corporate developments

- Ceat is planning to invest around Rs 2,800 crores over a period of five years up to FY2022 to raise its tyre manufacturing capacity. With this investment, Ceat is aiming to raise capacity by 1 million tyres per annum for truck bus radials, 17 million tyres per annum for 2-wheelers and 6 million tyres per annum for passenger car radials.
- Apollo Tyres will invest around Rs 525 crores for setting up a production facility in Andhra Pradesh bordering the south-eastern coast of India. A memorandum of understanding to this effect was signed by the company with the government of Andhra Pradesh. The new facility will manufacture tyres for two-wheelers and pick-up vehicles, which is currently being manufactured by some third-party on behalf of Apollo tyres.

- JK Tyre and Industries is planning to set up a new R&D centre of excellence in Mysuru. In this regard, the company will invest Rs 100 crore. It will initially have about 200 engineers and scientists and the number will double during the next one year.




## Outlook

India will emerge as a leading player in the virtual world as it is expected to have almost one billion unique mobile subscribers by 2020. The Indian telecommunication sector is expected to witness fast growth in the next few years on back of government's regulation policies and proactive steps. A young, growing population is aiding this trend (especially demand for smart phones). Incomes have risen at a brisk pace in India and will continue rising given the country's strong economic growth prospects. With 70% of the population staying in rural areas, the rural market would be a key growth driver in the coming years. The reduction in license fee and relaxed FDI norms will encourage operators to expand to rural areas. The government of India has introduced Digital India program under which all the sectors such as healthcare, retail, etc. will be connected through internet. This digital push will drive the growth as the government has set a target of achieving 25 billion digital transactions for banks with the help of PoS machines, transactions enabled & merchants.

## Companies Financial Data In Industry

| COMPANY NAME | CMP | MCAP | BOOK VALUE | DIV. YEILD % | TTM EPS | TTM PE |
|---|---|---|---|---|---|---|
| Jet Airways (India) Ltd. | 474.35 | 5388.49 | -261.96 | 0.00 | 66.09 | 7.18 |
| Interglobe Aviation Ltd. | 1077.10 | 38933.76 | 104.55 | 3.16 | 45.90 | 23.47 |
| Global Vectra Helicorp Ltd. | 130.25 | 182.35 | 17.21 | 0.00 | 15.85 | 8.22 |
| Spicejet Ltd. | 101.85 | 6105.40 | -13.72 | 0.00 | 6.65 | 15.32 |

Sorted with TTM EPS (High to Low)

**Source – Ace Equity**