

2015 SAW AVIATION SECTOR FLYING HIGH WITH LOW CRUDE PRICES

News / Finance



From waiting in the wings to finally taking wing, 2015 was a year that changed the skies of the Indian aviation sector. To begin with, the sector, which lacked a clear policy framework, received a shot in the arm when the Civil Aviation Ministry unveiled its much-awaited draft civil aviation policy on the 30th of October.

The policy touched upon 16 critical areas to make travel affordable for the masses, create a conducive environment for airlines and provide a level playing field for all stakeholders. The civil aviation ministry has invited public comments on the policy and hopes to send it to the cabinet by mid-January. Some of highlights of this policy are: -- Increase FDI in domestic airlines from the current 49 percent to above 50 percent -- Capping airfare for regional routes to promote regional connectivity, -- Develop no-frill airports by utilising ghost airports & airstrips However, the draft had no decisive proposal to either retain or abolish the contentious 5/20 rule, which mandates that an airline must complete at least 5 years and have 20 aircraft to be able to fly abroad. So, while airlines were not entirely satisfied, most hailed the draft policy as a step in the right direction.

“We applaud the ministry for its proactiveness, for its speed in putting together a slew of measures to tackle several issues holding the sector down,” said Phee teik Yeoh, CEO of Vistara. 2015 was also a milestone year for India's leading carriers. InterGlobe Aviation, the parent of India's leading domestic carrier Indigo, launched its Rs 3000 crore initial public offering (IPO), valuing Indigo at a massive USD 4 billion. This was the largest IPO in 3 years and was met with stellar success. The overall issue was oversubscribed 6 times, thanks to tremendous support from qualified institutional buyers. On its listing, an IPO-starved dalal street welcomed Indigo with open arms, with

InterGlobe's shares listing at a premium. "While we were confident that this would be a good opening, in the first few seconds to see that number go up & hit 800, it was an amazing feeling," said Aditya Ghosh, President & whole-time director of Indigo. The year also saw no-frills carrier SpiceJet rise like a phoenix from the ashes.

Last December, it was on the brink of collapse after piling up -- what had then seemed -- insurmountable dues of Rs1,600 crore and losses of Rs 3,500 crore. The gruelling ordeal had then forced the carrier to cut its fleet size, cancel flights, default on dues and face the ire of stranded passengers. But after former co-founder Ajay Singh decided to step into the cockpit and steer the controls of the young airline himself with an investment of RS 800 crore, Spicejet got back on its feet. Today, SpiceJet has managed to turn around its fortunes, reporting profits in last three quarters, has made its operations efficient by cutting costs and improving its load factor by effective pricing and inventory management and expanding its market share. "SpiceJet is a profitable airline. The prospects going forward look very good," said Singh. However, for 2013-entrant Air Asia India, dark clouds continued to loom large. It not just continued its dismal performance this year, but also found itself at the centre of a bitter boardroom battle, with co-founder Arun Bhatia threatening legal action on allegations that the low-cost airline is controlled by its Malaysian parent, in contravention with Indian laws. So, while 2015 was a dream run for some airlines, it was a difficult year for others. But one development that was positive to all airlines was the dip in crude prices, which accounts for 50 percent of all airlines operating costs.

So, with crude dipping to a 4-year low, airlines were able to lower airfare, which saw volumes pick up. This boosted the profits of Indigo and GoAir and minimised losses of Air India and Jet Airways. Now, with crude sinking to an even lower level, at an 11-year-low, airlines are entering 2016 with not just a smile, but also a prayer on their lips –prayers that these low crude prices stay on.

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