

The Troubles of India's Aviation Industry

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What's in today's article?

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- How big is the Indian aviation sector?
- Is the sector financially viable?
- What are the regulatory frameworks for the aviation sector?
- What are the challenges faced by the aviation sector in India?

Why in news?

- After low-cost carrier GoFirst's insolvency filing recently, the aviation safety regulator Directorate General of Civil Aviation (DGCA) directed the airline to stop selling air tickets immediately.
- The DGCA issued GoFirst a show-cause notice for its failure to continue the operation of the service in a safe, efficient and reliable manner.
- It gave the airline 15 days to reply before the regulator decides on revoking the airline's permit to offer commercial flights.

- The unprecedented distress call by the airline raises concerns about the health of the Indian aviation industry already reeling from pandemic losses.

Indian aviation sector

How big is the Indian aviation sector?

- **Domestic air traffic**
 - India's domestic air traffic has been recovering in the past few months after being severely hit by the coronavirus pandemic.
 - In March, domestic carriers flew 13 million passengers, which according to the DGCA was 11% more than the same month in the pre-pandemic years of 2018 and 2019.
 - As per the Civil Aviation Ministry, India will have more than 140 million passengers in FY2024 alone.
- **Airports and seat capacity**
 - There are currently 148 airports in the country and it is the third-largest domestic market in the world in terms of seat capacity.
- **Market shares of different airlines**
 - As of March 2023, IndiGo remained the domestic market leader with 56.8% of the market share, followed by Vistara (8.9%) and Air India (8.8%).
 - AirAsia had 7.6% of the market, while GoFirst was at 6.9%, followed by SpiceJet at 6.4%.
 - The newest player AkasaAir, which began operations in August 2022, managed to capture a 3.3% share.

Is the sector financially viable?

- **The struggle for survival**
 - The past decade saw two full-service airlines, Kingfisher and Jet Airways, exit the aviation industry after running into financial trouble.
 - In 2019-20, IndiGo was the only airline to make a profit, while all other players posted losses led by then state-run Air India at ₹4,600 crore.
 - Despite being touted as the fastest growing aviation sector in the world, airlines in the country have struggled to survive in the highly competitive and unforgiving aviation industry.
- **Airline losses not a pandemic phenomena**
 - While India's airlines cumulatively suffered huge losses (₹15,000 crore) in the financial year 2020-2021 owing to the pandemic, losses are not a post-COVID phenomenon.
- **Tough for smaller airlines to capture the market**
 - The consolidation of four carriers including Air India and Vistara under one umbrella by the Tatas is going to make it even tougher for smaller airlines to capture the market.
 - AirIndia was bad for competition in its earlier state-owned version.

- However, with the current consolidation, 75-80% of the market will be captured by Indigo and Air India combined.
- This will leave just about 20% for players like SpiceJet, GoFirst (if it revives), and the newest entrant Akasa.

What are the regulatory frameworks for the aviation sector?

- **National Civil Aviation Policy (NCAP) 2016** guides the Indian aviation sector.
- Aviation policy is broad-based in India and is dealt with by the **Ministry of Civil Aviation** under the legal framework of the Aircraft Act 1934, and Aircraft Rules 1937.
- The DGCA is the **statutory regulatory authority** which comes in for issues related to safety, licensing, airworthiness, and so on.

What are the challenges faced by the aviation sector in India?

- **Tax burden**
 - India's airfares are 15% below the break-even point.
 - However, heavily-taxed ATF contributes to the single biggest expenses of carriers, amounting to anywhere between 40-50% of operational expenses.
 - Some Indian States impose provincial taxes of as much as 30% on jet fuel.
- **Indian aviation policy**
 - Indian aviation policy has also posed barriers to entry and growth while also not affecting players uniformly.
 - From 2004 to 2016, new airlines in the country had to be in operation for at least five years and have a fleet of at least 20 aircraft to be able to fly internationally, which stabilises the operations and viability of carriers.
 - This changed with the NCAP 2016, which removed the five-year domestic experience rule but kept in place the 20 aircraft fleet requirement.
 - Legacy carriers who had to meet the earlier requirements to go international opposed the change as being bad for competition.
- **Ownership of fleets**
 - Most Indian airlines do not own entire fleets as their financials do not allow them to shell out huge one-time payments to buy planes but lease them from companies based out of India instead.
 - About 80% of India's total commercial fleet is leased.
 - However, leasing ends up adding high costs to operations as these leases of about six months each are denominated in U.S dollars.
 - Airlines have to pay annual lease rents of about ₹10,000 crore to lessors, making up nearly 15% of the revenues of Indian Airlines.

- The costs of these leases go up further when the Indian rupee depreciates during short and long term global financial developments.

- **Highly competitive**

- Airlines also have to bear costs in terms of airport fees for the use of airport facilities including aircraft landing, freight and other charges.
- Internationally, airlines pass on the bulk of these charges to passengers.
- However, carriers in India to must remain competitive have to offer lower ticket fares to increase reach.

- **Other factors**

- Aviation experts argue that India has not kept pace with modern technology in aerospace and increasing costs to the industry which ultimately affects passenger growth.
- There are also high costs associated with the training of airline crew.
- Besides, the crunch in pilots is also reflective of the inadequate number of Flight Training Organisations.

Q1) What is the Directorate General of Civil Aviation (DGCA)?

DGCA is the national regulatory body of India responsible for regulating and overseeing civil aviation activities in the country. The DGCA is responsible for implementing policies and regulations related to aviation safety, airworthiness, pilot training, and licensing of airlines and other aviation-related personnel. It also manages air traffic control and provides meteorological services to support safe and efficient air travel in India. The DGCA operates under the Ministry of Civil Aviation of the Government of India..

Q2) What is the National Civil Aviation Policy (NCAP) 2016?

The National Civil Aviation Policy (NCAP) 2016 is a comprehensive policy framework launched by the Government of India in June 2016 to promote the development of the civil aviation sector in the country. The NCAP 2016 aims to make air travel affordable and convenient for the common man while ensuring safety, security, and sustainability in the aviation industry.

Source: [Explained | The troubles of India's aviation industry](#)

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