

Cheap fares, costly fuel send India's airlines into a tailspin

August 29 2018, by Vishal Manve



Indian airlines operate in a hyper-competitive market, and are scrambling to cut costs

Bargain-basement fares, high oil prices and a tumbling rupee are causing turbulence in India's hyper-competitive aviation market, virtually wiping out airlines' profits and leaving them scrambling to cut costs to survive.

India's aviation sector is expected to become the world's third-largest by 2025, with passenger numbers increasing six-fold over the past decade as a growing middle class take advantage of better connectivity and inexpensive flights.

But experts warn cheap tickets and an over-reliance on favourable fuel pricing is unsustainable.

India's top two airlines by [market share](#), IndiGo and Jet Airways, and debt-laden state carrier Air India are all suffering financial woes, while SpiceJet's boss has said the industry is in "great stress".

"The rise in the price of Brent fuel, a depreciating rupee and a resulting mismatch between high fuel prices and low fares have adversely impacted the Indian aviation industry, including Jet Airways," Jet CEO Vinay Dube said this week.

Brent crude has risen 50 percent a over the past year, while the impact has been exacerbated by the rupee recently touching a record low of 70 to the dollar.

Then they must pay taxes of up to 44 percent on jet fuel, the highest in Asia according to Bloomberg News, all the while stumping up billions for new planes to keep up with passenger demand.

Profits nosedive

On Monday, Jet Airways reported a loss of 13.23 billion rupees (\$189 million) for the three months ended June 30, compared with a profit of 535 million rupees for the same period a year earlier.



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"The key challenge faced by Indian airlines is on the cost front as 60-70 percent of expenditure is exposed to fluctuations in [oil prices](#) and currency markets," Binit Somaia, South Asia director at the Centre for Aviation (CAPA), told AFP.

Millions of dollars have been wiped off the value of Jet's stock this year and its financial situation has been the subject of furious speculation in Indian media in recent weeks.

That intensified after the carrier failed to release its first-quarter earnings as scheduled earlier this month, before finally releasing them on

Monday showing a second successive loss.

In July, it denied a report in the Economic Times that it needed to make major cost cuts or face having to shut down operations within 60 days.

But the carrier announced with its earnings Monday that it would implement a "comprehensive cost reduction programme" amounting to 20 billion rupees over the next two years and seek investment to help turn around its fortunes.

"Airlines can't solely rely on oil prices being low to bring in profitability. They need to be careful with pricing and manage costs better," said Amrit Pandurangi, an independent aviation expert.

Jet's struggles are not unique.

IndiGo's profits plunged 97 percent on-year in April-June, sending its stock plunging.

And Air India, once the country's monopoly airline and known affectionately as the "Maharaja of the skies", has been haemorrhaging money for years and losing market share to low-cost rivals.



Air India, the country's debt-laden state carrier, has been hemorrhaging money for years

'Ongoing crisis'

Air India is about \$8 billion in the red and reported losses of almost 58 billion rupees for the financial year ending March 2017.

In June, it sought an urgent loan of 10 billion rupees to maintain day-to-day operations and last week, local media reported it was defaulting on bank loan payments and had sought a \$5 billion bailout.

A handful of carriers, most notably fugitive tycoon Vijay Mallya's Kingfisher Airlines, have already gone bust.

Airlines have to navigate a fiercely competitive market, with a host of budget airlines offering steep discounts to attract passengers. Some tickets, before taxes, are as low as 999 rupees.

Analysts agree that Indian airlines cannot hold off passing on the rising operating costs to customers much longer.

"Pricing has been irrational and unsustainable. Airlines will have to raise fares in the coming months to match costs even if it means a subsequent passenger crunch," Devesh Agarwal, editor of the Bangalore Aviation website, told AFP.

They also say carriers must lobby the government to reduce taxes.

"Indian airlines need to avoid price wars... and provide a much unified front to tackle the ongoing crisis," said Pandurangi.

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Citation: Cheap fares, costly fuel send India's airlines into a tailspin (2018, August 29) retrieved 12 May 2024 from <https://phys.org/news/2018-08-cheap-fares-costly-fuel-india.html>

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