

Press Release

COVID-19 to severely impact domestic airline operations

Sharp drop in passenger load factor, air fares to lead to short-term financial stress

The domestic aviation industry is set to witness a sharp plunge in demand during the peak tourist season (March-May 2020) given the rapid spread of the novel coronavirus (Covid-19) globally and gradually across India coupled with preventive measures imposed by the government through visa suspension orders and travel advisories. Acuite Ratings believes that the drop in domestic passenger traffic over the next three months can be as high as 50% and can pose a severe threat to the profitability of the airline sector unless there is a near-term moderation in the spread of the pandemic.

Covid-19 or the Corona Virus has dealt a significant blow to the global economy. With over 1.7 lakh infected people and over 6,500 deaths, the outbreak has rapidly spread from China to parts of Asia, Europe and USA. The global growth estimates has been substantially revised to 2.4% from 2.9% with severe economic disruption and recession risks in some developed nations. There has already been a drastic impact on the global aviation industry since the outbreak in China in January 2020 with large scale flight cancellations and rising travel restrictions imposed by governments. IATA estimates that the aggregate passenger revenue losses can reach \$113 billion in the current calendar, thereby impacting the sustainability of several global airlines.

While the number of infected people in India is still modest at around 100 as of now and the mortality is yet to pick up, the risks of the spread of Covid-19 across the country are high given the size of the population, the general level of awareness and the inadequate availability of quality healthcare. The spill-over effect of the Covid-19 crisis on the Indian aviation sector is therefore likely to be very significant in the near term. With the announcement of drastic preventive measures that include the temporary suspension of foreign visas up to April 15, 2020 and shutdown of schools, malls and other places of public activity in some states, there is an increasing risk perception about airline travel, translating to rapidly rising ticket cancellations and a slowdown in fresh bookings.

Says Suman Chowdhury, President, Acuite Ratings & Research **“While the domestic airline industry started to benefit from the consolidation brought about by the exit of a large domestic airline and lately a drop in fuel prices in H2FY20, the emergence of Covid-19 poses a severe threat to the turnaround of a few players and even challenges the sustainability of a few others. With the continuing spread of Covid-19 virus, the average passenger load factor (PLF) may decline to 50%-60% in the summer season (Mar-May 2020) as compared to over 85% in the corresponding period of previous year.”**

With an expectation of sharply lower PLF, there is a risk of a sharp fall in fares with 15%-20% decline being already witnessed in some of the trunk routes. Adds Mr Chowdhury **“The reduction in fares along with the sharply lower passenger volumes, are expected to lead to an abrupt drop in the operating margins of the airline companies and possibly, reporting of large losses in Q4FY20 and Q1FY21. The airlines who have a higher presence in international routes clearly will witness a larger impact.”** However, corrective steps such as temporary cessation of flights in certain routes along with the drop in ATF prices may offset the margin pressures to an extent.

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About Acuite Ratings & Research Limited:

Acuite Ratings & Research Limited (*Erstwhile SMERA Ratings Limited*) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in BKC, Mumbai.

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