CRISIL
An S&P Global Company

Press Release

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Air fares to rise this fiscal, reversing trend with cost seen up 20%

3% rise expected, but won't provide an adequate offset

The current declining trend in domestic air fares is likely to reverse in the third quarter of fiscal 2019 on robust demand from consumers with low sensitivity to fares, rising operating costs, and pressure on profitability

CRISIL expects this to lead to about 3% rise in fares, but this would not offset the 20% rise in operating costs.

The third quarter is also seasonally strong, and accounted for 27% of annual revenues and 26% of annual traffic for listed airlines last fiscal.

Operating costs have risen by a fifth over last fiscal primarily because of a 30% rise in crude oil prices and 9% depreciation in the rupee.

Says Prasad Koparkar, Senior Director, CRISIL Research, "Operational profitability was under the pump in the first and second quarters due to low fares. But despite any fare rise, operating margins would likely be in the red this fiscal compared with 9-10% estimated for last fiscal".

During the first quarter of this fiscal, domestic air fares declined 4-6% despite the rise in crude oil prices and depreciation in rupee. For the second quarter, fares are expected to see a similar trend because of high capacity addition and weak demand.

The introduction of customs duty means oil marketers may increase the price of aviation turbine fuel by 7-8%. This would be over and above the already elevated crude oil prices of $75-80 per barrel in September. Crude prices are ~35% higher compared with $55-60 per barrel average in fiscal 2018.

CRISIL Research expects average crude oil prices to be $72-77 per barrel this fiscal, pushing ATF prices up similarly.

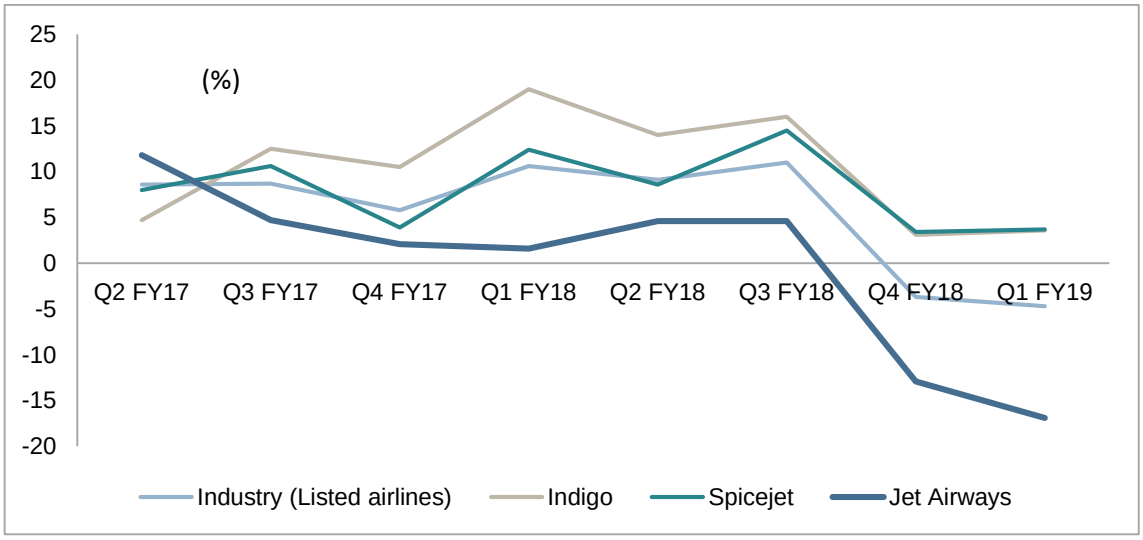
Says Hetal Gandhi, Director, CRISIL Research, "Apart from fuel-side pressures, the fall in the rupee-dollar exchange rate has made matters worse for the industry. For the first half of this fiscal, the rupee has plunged 9% on-year against the dollar, compared with the same period last year".

All these factors are estimated to have increased the operating cost of airlines by about 20-22% this fiscal. Consequently, for the whole of this fiscal, the industry is likely to see negative operating margins despite a strong rise in fares.

While, the rise in fares in can provide interim relief for airlines, continuation of that in the seasonally weak fourth will be crucial.

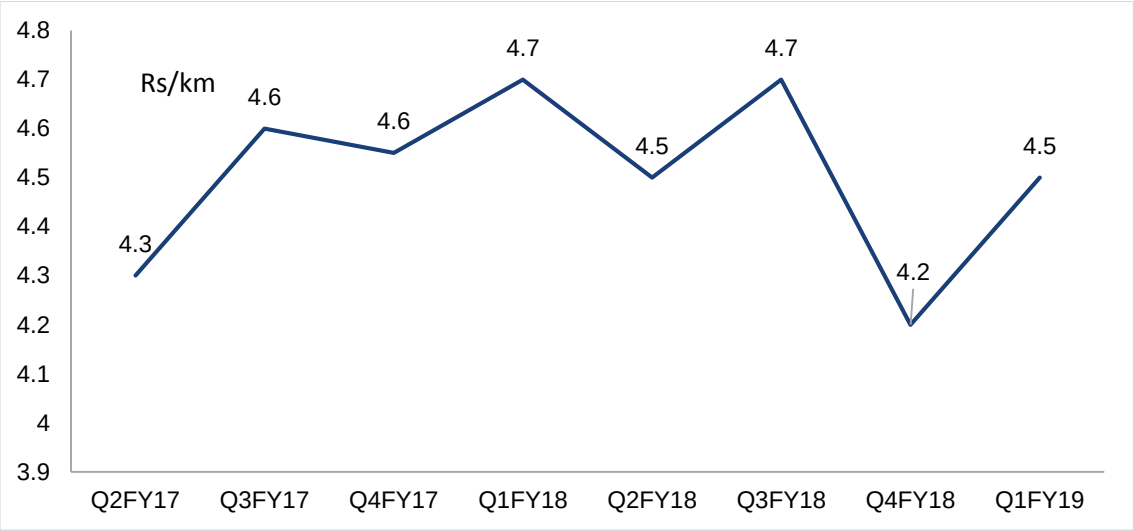
Annexure

Negative operating margins of Jet Airways pulled down industry aggregate



Source: Company report; CRISIL Research

Yields of listed airlines



Source: Company report; CRISIL Research

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