

Grant Thornton Aviation Digest: Quarterly Aviation Insights

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India's domestic airline capacity has doubled in the last decade — from 7.9 million passengers in April 2014 to 15.5 million in April 2024, and now ranks as the third largest air passenger market globally after the US (86.1 million) and China (67.8 million). The ongoing development of new greenfield airports and the progressive policies like UDAN that encourage regional air connectivity are setting India on a path of sustained growth.

However, the market remains under-penetrated, offering significant opportunities across airlines, airport infrastructure, airplane leasing, and MRO services.

We will be sharing a quarterly newsletter on our perspectives on the latest developments in this key industry. We hope you find these insights useful and look forward to your thoughts and feedback.



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Indian Aviation: soaring higher



Increased passenger capacity

Economic mobility and accessibility has affected demand and supply in the aviation sector. Scheduled airline capacity from India has gone up by almost 9% with 240 million seats across both domestic and international markets. In 2024, Q1 and Q2 saw 79.35 million passengers carried by domestic airlines, with the corresponding number in 2023 at 76.09 million passengers.



Increased growth rate

The last 20 years have seen growth in the Indian aviation sector at 8.7% annually, outpacing China, where growth has fallen below 5%. Average international growth rate is at 6% annually. This increased service demand has led to a higher demand for aircrafts. The number of Indian airplanes is expected to reach 1,100 by 2027. This places India as one of the fastest major growing aviation markets in the world.

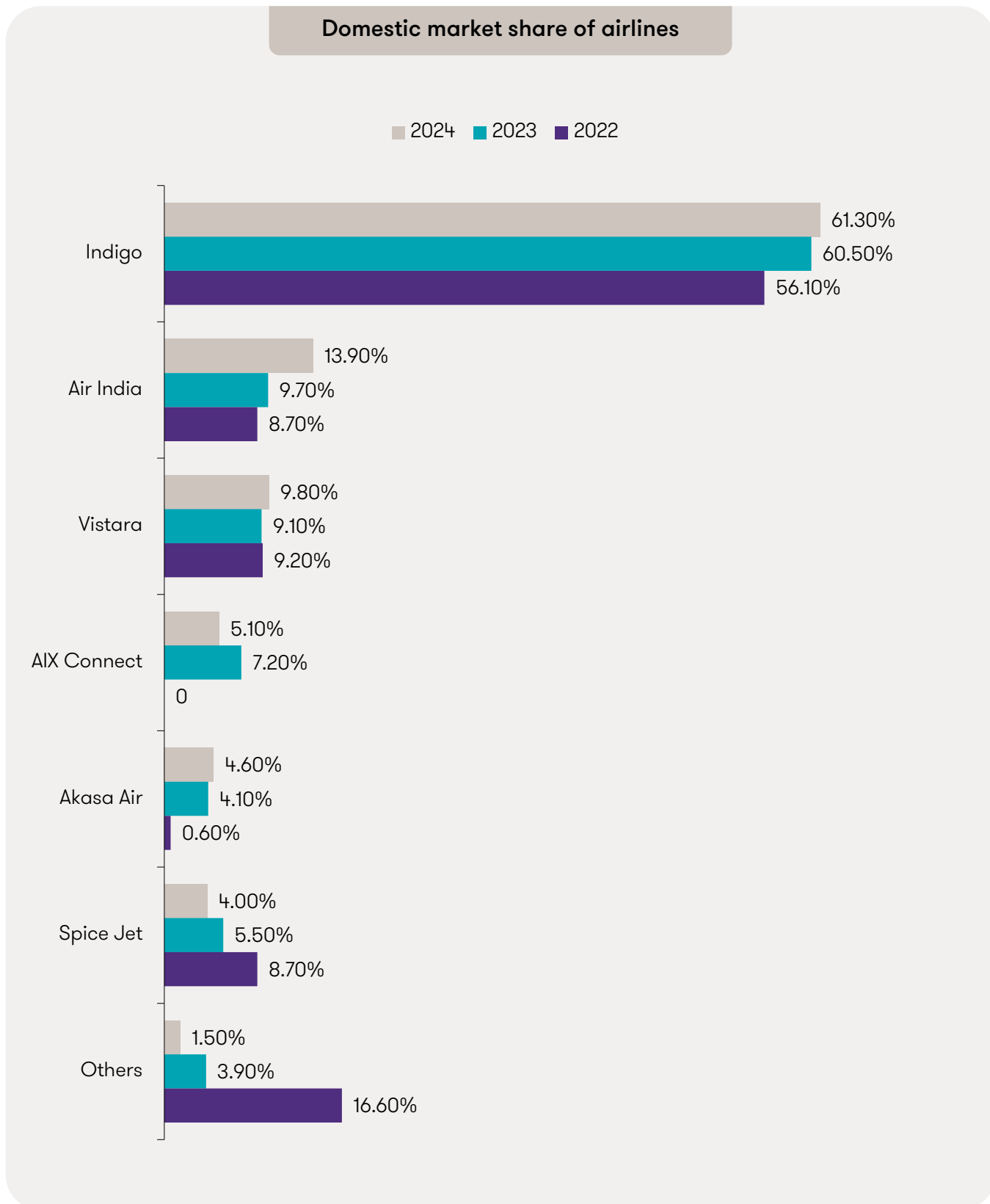


Increased market potential

There has been an increase in access to and availability of air travel. However, there is an under penetration of the Indian aviation market, particularly in international travel. In 2023, domestic seats per capita in India stood at 0.13 per head of population, compared to 3.09 in the US. Further, our international seats per capita were at only 0.06, compared to 0.88 in the US and 4.28 in the UK.

Domestic passenger market share of Indian airlines

Indigo has consistently maintained its leadership position in the domestic Indian aviation market, with the highest market share. Air India is at a distant second, with potential to increase its market share post their merger with Vistara. Akasa Air is also rapidly expanding their operations.



Wings of change



Financing



Aircraft leasing costs have seen significant growth due to the industry facing supply chain challenges and engine failures. The grounding of flights affected available seat kilometers (ASKs), increased operating expenses due to grounding costs, increased lease rentals, and reduced fuel efficiency from older aircrafts. However, healthy yields, high passenger load factor (PLF), and partial compensation from engine original equipment manufacturers (OEMs) have helped mitigate some impact.

Fueling



Decline in aviation turbine fuel (ATF) prices had a favorable impact on the sector as fuel cost accounts for 30-40% of an airlines' expenses. This has been on the back of weaker crude oil prices, and greater oil production by the US. In September 2024, jet fuel prices in Delhi were reduced by 4.6%, after two consecutive price hikes in August, reducing the cost to USD 1,111.79 per kiloliter. In light of price fluctuations in major crude oil markets, India as an importer of ATF, must look towards adopting alternative fuel technologies sooner to decrease volatility in cost structure. This will also enhance India's efforts to reduce its carbon footprint in the aviation sector, in line with the endorsement of the Delhi Declaration.

Bringing international destinations closer



01

There has been an increase in direct international connectivity, reducing stopovers at hub airports. Direct flights have become more accessible with more international destinations. Significantly, Indian hubs have gained 10 lakh indirect passengers.

02

The major metropolitan airports of India are also poised for a rise in their status as global Megahubs. Delhi Airport (DEL) has gone up to 24th position while Mumbai (BOM) now stands at 44th as per the OAG Megahubs 2024 report. This year 1,047 airport pairs will be connected across domestic and international destinations, which is up by 11.08% from 2019.



03

Indian airlines have introduced 52 new international routes. Since 2014, the government has maintained a conservative approach to increasing bilaterals, or flying rights, with foreign countries. This strategy aims to protect domestic airlines and foster the development of global hubs within India.

04

As per the Ministry of External Affairs, only 6.5% of Indians hold valid passports. This level of under penetration highlights the immense growth potential of the market, presenting an opportunity to make air travel more accessible to the world's most populated country.

New on the horizon



New Airlines launch with MoCA clearance. Shankh Air, India's first scheduled airline from Uttar Pradesh, is poised to hub in Lucknow and Noida. Air Kerala is also set to launch in 2025 as a domestic airline based out of Kochi. MoCA has also advocated for and established 12 existing Greenfield airports with more underway.



The Second Asia Pacific Ministerial Conference on Civil Aviation was held in New Delhi this September. It called for an environmentally sustainable future for air travel. It endorsed the Delhi Declaration which was unanimously passed by 29 APAC nations.

In league with these developments, Sustainable Aviation Fuel (SAF), an alternative fuel made from non-petroleum feedstocks, can be utilized to reduce emissions from air traffic. According to Ministry of Petroleum, the National Biofuels Coordination Committee has set a target to blend 1% of sustainable aviation fuel with jet fuel in 2027 and 2% in 2028. Significantly, 73 Indian airports have also transitioned to complete green energy usage.



This quarter saw a significant merger with Air India absorbing Vistara, co-owned by the Tata Group and Singapore Airlines (SIA) which is set to be completed by the end of 2024. SIA will invest approximately USD 250 million in Air India as part of the deal. The investment will give SIA a 25.1% stake in the enlarged Air India group. Further, Air India is acquiring AirAsia India and merging it with its low-cost subsidiary, Air India Express. This merger is expected to bolster its fleet and market presence.



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