

Is Covid-19 Decaying the Financial Health of the Aviation Industry in India

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ABSTRACT

Forecasting of financial distress helps not only the companies but also their stakeholders, employees, creditors, stock market agents, etc. As COVID-19 has made a humungous impact on the Aviation industry of the country already we have witnessed a decline in the industry but since the country got hit by the co vid-19 the effect got even worse. This has not only caused loss of economy but also has made it very tough for people to earn their livelihood as they have lost their jobs. Economy of the country has been greatly impacted as the Airline industry is the one of the major sources of revenue. This research paper aims to analyze the current and the future situation of the aviation industry with reference to COVID-19.

KEY WORDS

Covid-19, financial health, aviation industry

INTRODUCTION

India stands at the 3rd position for having largest domestic aviation market globally. With current contribution of \$72 billion in GDP Indian Aviation market is expected to secure the position of being 3rd largest globally by 2024. India stands at 5th largest market including both domestic and international

passenger of airlines. India has 91 international carriers (85 foreign + 5 Indian). The growth in global Revenue Passenger Kilometer (RPK) in 2018 was 6.5% whereas the growth in domestic Revenue Passenger Kilometer (RPK) was 3x of global which is 18.6%. it is therefore predicted that:

- The freight traffic will cross 11.4MT in Airports of India by 2032.
- As India is fastest growing market so, it is expected that by 2037 it may cater 520mn passengers.
- The demand for Indian aircrafts is expected to be 1,750 by 2037.
- The increase in size of Indian carriers to 1100 aircrafts by 2027.

BACKGROUND

Financial Distress

The term refers to the situation of a company right before the bankruptcy in which the company is not in a position to generate profits and even is unable/ finds very challenging to pay its liabilities. The financial distress can also leave depressively negative impact which lead to major bankruptcies which eventually pushes the company into recession. It also puts the

customers and investors into dilemma before spending and investing their money. The stage of bankruptcy begins when the decline in company's profit occurs because the customers stop spending as they get in doubt due to the situation of company. It's daunting for a company to arrange the finance when it is already in financial distress. It may cause the decline in orders by the customers and the important fall in its market value. Predicting bankruptcy/financial distress can help the businesses which are likely to have financial distress. Warnings may help the businesses to take some actions and prepare itself prior to the situation. The state in which the organization is not able to generate revenue and is unable to pay its financial liabilities that situation is known as financial distress. It may be due to high fixed costs. This is the main reason of the failure of the firm. And the prediction of financial distress works as an effective warning method.

LITERATURE REVIEW

Amongst the growing industries aviation industry is one which stays always in demand [Lee2019]. In past few decades the commercial aviation is observed as one of the main sources of stimulating trade, economic prosperity, cultivating tourism development. And it is comparatively much pocket friendly and due to this it has become a part of people's life [O'Connell 2018]. The industry contributes US\$ 2.7 trillion in global GDP(ATAG2018). In spite of being growth and capacity in demand the industry often faces financial threats and sometimes due to thin margins [O'Connell 2018], high competition, unpredictable fuel prices, exchange rates, interest rates the

industry faces difficulty in survival [Merkert and Swidan 2019; Stamolampros and Korfatis 2019]. The industry has to deal with unpredictable external environment, regulations, customer choices, tough competition, labor cost, fuel cost and so on [Riwo-Abudho et al. 2013]. The performance of the industry has been contingent to macro-predictability, micro-uncertainty and macro environmental factors [Mhlanga 2019]. Airline industry are observed to be exposed to exogenous happenings. A fall as observed in the industry after 9/11 that even made many airline companies bankrupt which resulted in shut down of few, and apart from them who were rescued got caught by the oil crisis 2002 [yang, 2007]. In 2006 the LCC (Lo Cost Carriers) raised the competition in the market which made other companies to revise their pricing strategies [Belobaba 2011]. The low-cost carriers also challenged the commercial viability of traditional model, forcing the changes in conventional airline revenue management [Michaels and Fletcher 2009]. The paper analyses the change in their approach, how airlines are dealing and what is their reaction to changed airline industry. It consists consideration of all marketing levers in a unified form and, changes and development require in the core revenue management system themselves as well [Michaels and Fletcher 2009]. Internet has made people/customers equipped with all the information as they have access to online booking of tickets which made a price competitiveness as a significant factor of an Airline's success [Ratlif and Vinod 2005]. Indian aviation market is the fastest growing market [Mahtani and Garg 2018] and is one of

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the most challenged aviation markets around the globe because of its ever-rising fuel prices and tough price competition [Saranga and Nagpal 2016]. Moreover, the Indian airline industry often gets into the situation of financial distress with an influential internal and external environment in spite of the extensive infrastructural development support by the government [Mahtani and Garg 2018].

Distress in industry pre and post COVID-19

Air Asia reported a cash distress in 2016 which made them postpone their expansion plans [according to Livemint, 2016]. Kingfisher Airlines stopped its services in October 2012 due to failure in payment of its liabilities. Air Pegasus faced bankruptcy in 2017, In 2014 SpiceJet airlines faced huge losses which made the company to stop 2000 flights at the end of the year [economic times, 2014]. In past ten years the similar situations of FD and bankruptcies has been reported like these instances shows the terrible situation of FD. Jet Airways in distress: The airline officially stopped its services on April 17th, 2019. As the Jet Airways owes 8000 crores plus to the banks, and they had thousands of crores in arrears to creditors, lessors and their employees. According to Indian bankruptcy law the company has consumed 270 days out of 330. 60 days are left as per law, and to extend it for 90 days the approval of National Company Law Tribunal (NCLT) is needed. The creditors will probably meet up and decide the liquidation of assets and shut down of the airline.

Mistakes by airline companies which leads to financial distress:

Renown airlines like SpiceJet and Jet Airways faced distress due to capacity of 78% of load factor. Less passenger demand with already low load factor can cause financial distress. And

like Jet Airways and Air India purchasing the aircrafts directly from the manufactures may increase the leverage which is also the reason of Financial Distress which is why the sale and leaseback (SLB) has been proven effective for the companies to help them to save the excess outflow.

Is Covid-19 - Affecting the global economy?

COVID-19 (coronavirus) is an infectious disease in which most infected people feel mild to moderate respiratory illness and no special treatment is required to recover. Those people which have major medical problems like diabetes, cancer, cardiovascular disease and those who are old are likely to have serious illness. There is no such treatment or vaccines for COVID-19 currently. An outbreak of coronavirus started on February 17 in China, but less than 1000 people were affected outside the country. Over the next 30 days, investors didn't know that coronavirus burst out of china and major outbreaks seen in Italy, South Korea then in Spain, Germany. The UK, The United States and in France. Businesses suddenly stopped, stock market start dropping, and sudden emergency actions taken by central governments even bigger than the financial crisis happened in 2008. As per Johns Hopkins University, more than 3,00,00 people are affected by coronavirus and at least 12,944 have died till March 22, 2020 (CNN, 2020).

Covid-19 – Impact in India

341 active covid-19 cases and 5 death were reported till 22nd March 2020. Necessary steps were taken by Govt. of India to ensure the people are prepared to face this disease and threat created by the pandemic. Health emergency as well as financial crisis is created by COVID-19. Coronavirus came at a worse time as Indian economy was already facing slowdown. 25 million jobs are about to abolish due to coronavirus as estimated by the

International Labour Organization. In 2020, global economy can be cost by coronavirus between \$1 trillion and \$2 trillion according to UNCTAD (United Nations Conference on Trade and Development). Impact on India could be \$348 million though it has affected only 30 people in early March in India.

Impact of COVID-19 on Indian aviation industry

Due to the situation of COVID-19 the industry has incurred a revenue loss of 92% from 2,973 crores in April- June 2019 to 293 crores in 2020 [sept. 2020]

CAPA-Centre for Aviation March 18 report:

"In the absence of serious and meaningful government intervention, such an outcome could lead to several Indian airlines shutting down operations by May or June due to a lack of cash".

The aviation industry in India is on a growth path. The shares of airline companies hyped upto 10% till 20th March 2020. According to Investment information and credit rating agency of India limited, Coronavirus outbreak led to cancellation of travel by international travellers. This has led to drastic change for the airline companies as 150 planes might be preventing from flying. Air India is expected to suffer a loss of \$500-600 million as per initial estimates. But if the situation continues to be same, it might face more damage. Government acting upon this situation by providing interim funding of \$300-400 million. As per CAPA, most of the airlines went bankrupt by the end of May 2020 because of various travel restrictions by multiple foreign government in the world. Cash reserves are deteriorating, and forward booking are being cancelled. Aviation industry is important factor in global trade and communication but due to the decreasing demand it is far away from normality.

Initiative to prevent the crash of the aviation industry:

Government Initiatives

1. GST regime to cover ATF (aviation turbine fuel).
2. Jet fuel prices should be revised weekly.
3. Implementation of Short-term suspension.
4. Extension in credit terms for payments.
5. Extension of working capital loans by banks which are secured against SLB.

Proposed relief measures by the Government:

1. Fuel credit line for two months
2. Waiver of VAT on jet fuel and excise duty.
3. Easy loan @ 1%
4. Waiver of parking charges and landing charges.

Rescue package by Finance Minister:

The package worth Rs.100-120 billion proposed by Ministry of Indian Civil Aviation. And the taxes are to be levied on aviation were suspended including aviation fuel tax.

Major decisions taken by Airline Companies

Almost 70% of the International flights were suspended by IndiGo Airlines and Air India on March 18th, 2020, and near the same day Vistara and Go Air cancelled all their flights. 25% of domestic services got decreased by IndiGo as they couldn't see the demand for travel due to COVID-19.

Stock view of listed companies of Indian aviation industry

Date	IndiGo	SpiceJet Ltd	Jet Airways (India) Ltd
2/20/2020	1464.85	92.85	27.9
2/24/2020	1444.5	86.6	27.15
2/25/2020	1376.9	87.7	28.2
2/26/2020	1391.45	89.05	27.25

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2/27/2020	1366.5	87.45	25.95
2/28/2020	1300.05	83.35	25.1
3/2/2020	1239.05	75.8	23.9
3/3/2020	1228.45	74.35	22.75
3/4/2020	1201.05	70.9	21.65
3/5/2020	1211.1	69.5	22.7
3/6/2020	1176.9	63.2	21.6
3/9/2020	1213.2	63.7	20.55
3/11/2020	1160.25	60.35	19.55
3/12/2020	1018.4	48.6	18.6
3/13/2020	998.8	43.75	17.7
3/16/2020	978.4	42.6	16.85
3/17/2020	976.7	42	16.1
3/18/2020	949.9	37.8	15.85
3/19/2020	909.2	34.05	15.9
3/20/2020	871.7	35.5	15.85

Table 1: Stock prices of listed Indian aviation companies on NSE, Source: (NSE, 2020)

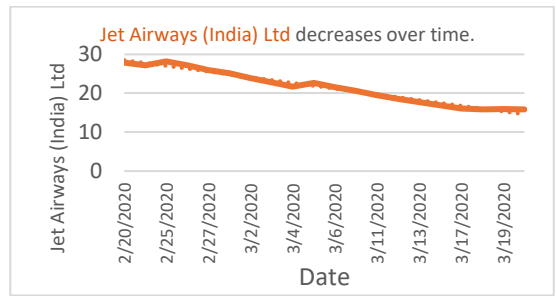


Figure 3: Change in the NSE stock price of Airways

The table and figures shown above states the drastic fall in the stock values of three Airline companies. And the reason of this loss is COVID-19 in the nation. As passengers were avoiding travelling in the situation and restrictions imposed by the government because of COVID-19 is another big reason for fall in value.

FUTURE OF INDIAN AIRLINE INDUSTRY

The governments across the globe trying hard to rescue the airlines which are already in the situation to cut jobs and suspend the flights due to virus which caused the travel slowdown. According to International Air Transport Association (IATA) requirement of \$200 billion plus is estimated. Previously during 1990s various failures have been seen in the industry. Since 2012 two serious airline shutdowns have been seen which caused the major impact on the system of \$6 billion in Jet Airways and the case of SpiceJet is a bit different as the company was rescued at last moment by Mr. Ajay Singh which could've resulted into 3rd failure. Almost 68% flights have been grounded by the airlines due to Covid-19 outbreak as per Indian government. There could be a cash deficit in some local airlines the might led to shut down, f there was no support by the government of India. it is stated by a political agreement that the impact of virus could extend upto 6 months or more.

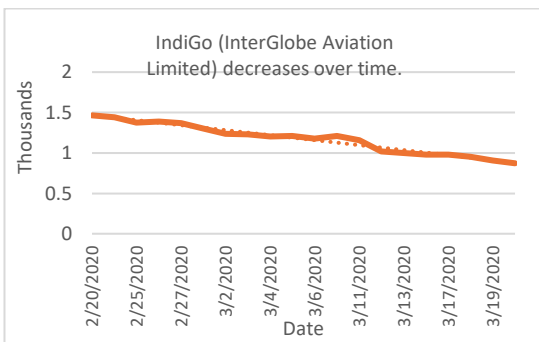


Figure 1: Change in the NSE stock price of IndiGo

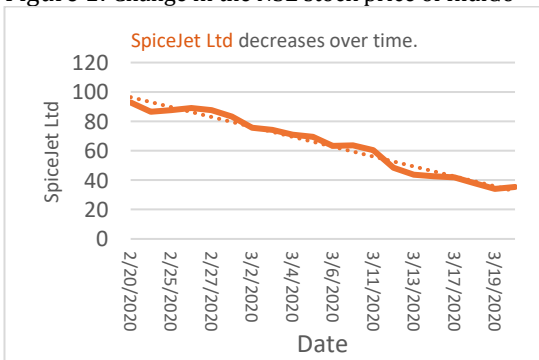


Figure 2: Change in the NSE stock price of SpiceJet

CONCLUSION

The industry supports the GDP of the country by contributing in it. And the industry is significant as it helps to communicate with other countries and developing trade relations with them but because of the Covid-19 outbreak the FD can be seen in the industry. Lesser demand to travel by the people due to restrictions imposed by the government has made the industry difficult to survive. Huge fall an experienced by the top aviation industry and Air India has put its privatization on postpone. It is expected that if government doesn't consider the necessary actions then it could lead to maor bankruptcies. Government has proposed many proposals to rescue the industry from financial distress due to covid-19. Waiving off parking charges, landing charges, easy loan @1% are some proposals as per CAPA to Government of India, and the government was most likely to extend working capital loan by banks, getting ATF under GST. Government to decrease the proposal by them if the situation of covid-19 gets decreased/favorable as there will be chances that companies themselves can handle the situation of bankruptcies and financial distress.

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