

Airlines in India unleash deep discounts to dominate the sky

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Fare wars induced deep discounting has reappeared in India's aviation sector, as airlines seek to augment cash reserves, consolidate market share and bring back more capacity.

The first shot in this war of extremely low prices was fired recently with most airlines commencing their sales offers.

The development comes around a year since Covid-19 lockdown devastated the sector.

Industry insiders, however, now believe that the roll-out of anti-Covid-19 vaccination programme will give a boost to air travel.

Besides, some of the travel period offered under these schemes are beyond the current expiry of the fare cap imposed by the Centre.

IndiGo's Chief Strategy and Revenue Officer Sanjay Kumar said: "Low fares always helps stimulate the demand for the travel period far out and works as a part of airline strategy."

"These sales stimulate traffic among extremely price sensitive customers and helps airlines meet overall objectives."

The latest passenger traffic data from the sector regulator DGCA indicate that the growth in passenger volumes is not yet adequate enough for a revival in the

airline sector.

The aggregate passenger traffic in December 2020 at 73.27 lakh was still 43.7 per cent lower on a year-on-year basis.

"Lack of adequate demand in the post festive season along with higher available capacity has therefore, led a drop in passenger load factor for some of the airlines in December 2020 on a sequential basis vis-a-vis Nov 2020," said Suman Chowdhury, Chief Analytical Officer at Acuite Ratings & Research.

"Such a scenario is possibly leading to a deep discounting strategy from airline companies. This involves sale of seats over the next few months through an attractive discount or add ons to ensure higher PLF over the next 1-2 quarters."

Nevertheless, deep discounts are expected to hurt the already fragile financial condition of the sector.

"It will have an impact on the profitability of airline operations which has already been under losses in the last few quarters. In our opinion, however, passenger demand will witness a significant improvement in the next few months with the tapering of the Covid infection rate as well as the progress on the vaccination," Chowdhury said.

Apart from ensuring a minimum PLF in the coming months, experts contend that deep discounts will trigger liquidity enhancement for airlines.

"Low airfares this month indicate the expected dip in travel post holiday season in December. Airfares in Jan across key routes have decreased 15-20 per cent MoM," said Rajnish Kumar, Co-founder & CTO, ixigo.

"Heavy discounts being rolled out by major domestic and international airlines will definitely woo travellers who are planning vacations this year. With government caps ending on March 31, the discounts will attract flyers to plan their trips in advance and accelerate recovery in bookings to pre-Covid levels this year."

On the other hand, the government has till now permitted the industry players to operate at 80 per cent of their pre-Covid capacity.

The operational capacity deployment level is expected to reach pre-Covid mark by the end of calendar year's first quarter.

"In the current scenario of impact on demand due to the pandemic, while some aircraft continue to be grounded, the passenger load factors (PLFs) of airlines have also been impacted despite the lower capacity," said Kinjal Shah, Vice President, ICRA.

"Thus, airlines have to take a calculated call on fares and its impact on demand."

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