

# Will Emergency Credit From Oil-firms, Airports Help Indian Airlines?

India's central government led by the PM Modi after assuming power in May 2014 increased excise duty on Jet fuel from 8 to 14% in 2016. In 2018, just a few months prior to the 2019 elections, it did not bring the excise duty on Jet fuel to 7% but it reduced the duty to only 11% for the sake of a customary pre-election gesture.



As expected, the reduction hardly made any difference to India's beleaguered aviation sector because the damage had already been done in the preceding two years. Even today, some states want nothing less than 30% sales tax on aviation turbine fuel.

The net effect is that the Indian carriers are slipping quickly in the red. Fuel-price increase push them deeper into losses and imperil their survival. All the airlines are struggling to make profits in India as they face punitive local taxes and end up paying exorbitant rates for the fuel – the costliest jet fuel in Asia. The situation becomes worse when the Indian rupee depreciates. It has already weakened 11% this year against the dollar, pushing up finance costs on

overseas borrowings.



Losses at Indian carriers will swell to almost \$1.9 billion by March 2019. More than \$3 billion in working capital in the near term will be needed. Most of the airlines have cash balances that can cover expenses for just one or two weeks. (See: [Loss estimate](#))

The airlines earn less and spend more – a considerable cash-flow mismatch – is the crisis facing airlines presently in India, where the world's fastest-growth in air travel has created a capacity glut. Three days ago, Jet airways lost in one day an amount equivalent to its normal seven-day earnings. It was forced to cancel its flights in Mumbai. Reasons being..... well, that's another story. (Read : [Cancel flights](#))

Intense competition, eagerness to fill seats and gain market share prevent the airlines from raising fares. Indian carriers would need to raise fares by 12% to compensate for the costly fuel.

When the government didn't take any note of the Airlines' plight, the airlines have now urged the government to help them obtain a penalty-free, one-month unsecured credit from oil companies and state-run Airports Authority of India and private airports. The carriers already receive credit from both groups on an ad hoc basis. Both the groups had earlier bitter experience of recovery from Kingfisher, now defunct.

The plea coming from Federation of Indian Airlines (FIA) is the latest sign of not much government support for the industry. The FIA consists of Jet Airways, InterGlobe Aviation Ltd.'s market leading IndiGo, SpiceJet Ltd and Go Airlines India Ltd., which together account for almost 80% of the domestic market.

'We'll continue to make sure the aviation sector will grow, but for private airlines, it's for the board, the management to make sure they function properly', Civil Aviation Minister Suresh Prabhu had earlier told reporters while referring to Jet Airways.

*...to be continued, the latest on Jet-Tata deal*