



ICRA

A MOODY'S INVESTORS
SERVICE COMPANY

INDIAN AVIATION INFRASTRUCTURE SECTOR

**Second wave to further delay UDAN
progress; stressed financial health of
airline operators to impact existing
route operations and future bidding**

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CREDIT OUTLOOK: NEGATIVE

Target of operationalising as many as 100 unserved and underserved airports and starting at least 1,000 RCS routes by 2024 looks aggressive given the past hindrances in implementation and the impact of Covid-19 pandemic on the aviation sector. ICRA expects the target of operationalising 100 airports under UDAN by 2026, with a delay of two years from revised schedule.

- **ICRA continues to have a Negative credit outlook on the Indian airport infrastructure industry.**
- Ude Desh Ka Aam Naagrik (UDAN) was launched as a Regional Connectivity Scheme (RCS) by the Ministry of Civil Aviation (MoCA) in 2016 to enhance regional connectivity through fiscal support and infrastructure development. The first RCS UDAN flight was launched on April 27, 2017 from Shimla to Delhi.
- **Slow progress of UDAN scheme:** As on May 31, 2021, 47% of the total routes and 39% of airports (unserved and underserved) have been operationalised¹ under UDAN, since its launch. The number of new RCS routes which started operations increased at a healthy pace and stood at 102 and 120 routes in FY2019 and FY2020 respectively. However, it declined to 77 new routes in FY2021 due to the Covid-19 pandemic. During FY2018 – FY2021, a total of Rs. 3350 crore has been incurred by the Central Government towards the UDAN scheme and the budgeted outlay for FY2022 is Rs. 1130 crore. The slow progress of UDAN implementation is attributable to delayed upgradation of infrastructure and readiness of airports, due to lack of adequate right of way (including insufficient runway lengths) at some of the RCS airports and delays in securing necessary regulatory approvals. Low demand on few routes awarded, adverse and unpredictable weather conditions leads to inconsistent operations and have also resulted in closure of operations by some airlines in a few cases.
- **Aggressive target set by MoCA; expected delays in award and implementation due to second wave of Covid-19:** The Civil Aviation Ministry has set a target of operationalising as many as 100 unserved and underserved airports and starting at least 1,000 RCS routes by 2024 (of this, 52 unserved and underserved airports and 357 routes are operationalised as on May 31, 2021). To improvise the RCS network and achieve its target of developing 100 RCS airports by 2024, the AAI has launched UDAN 4.1 as a special bidding round under UDAN 4.0 in March 2021 to award 392 routes. However, the award and implementation of UDAN 4.1 may get delayed significantly due to the second wave of the pandemic in India and its effect on the Indian aviation industry. ICRA expects the target of operationalising 100 airports under UDAN by 2026, with a delay of two years from revised schedule (of 2024 from earlier 2019).
- **No major impact on private airport operators:** The airport operators have to provide concessions to airline operators by not levying landing charges, parking charges, user development fee on RCS flights. However, it is not expected to have a major impact on private airport operators because such flights account for less than 3% of overall aircraft movement and less than 1%-2% of the overall passenger traffic. Further, RCS flights are primarily operated during non-peak hours, majority of fuel requirements of these flights are met through private airports and have the potential to generate non-aeronautical revenues (similar to non-RCS flights).

¹ During FY2017 – FY2021, four phases viz. UDAN 1.0 to UDAN 4.0 of the scheme have been implemented through which 766 RCS routes are awarded connecting 132 unserved and underserved

- **Stressed financial health of airline operators is expected to impact the existing route operations and participation in new rounds:**
Due to Covid-19 pandemic, there has been a significant impact on financial health of airline operators. ICRA estimates Indian airlines² to report a significant net loss of ~Rs. 210 billion in FY2021 and estimated net loss of Rs. 127 billion in FY2022, with the industry debt level increasing to around Rs. 500 billion in FY2022. While some airlines have sufficient liquidity and/or financial support from a strong parentage, which will help them sustain over the near term, there are other airlines, which are already in financial stress. Furthermore, even for the former, credit metrics and liquidity profile have deteriorated. Until the cash inflows improve, the airlines will require funding support to meet their expenses. This is expected to have an impact on the existing routes under UDAN scheme, particularly for smaller airlines given the stretched liquidity position, low utilisation in some of the routes and will also impact future bidding of routes under the UDAN scheme.

² Aggregate of Air Asia India Limited, Air India Limited, Go Airlines (India) Limited, Interglobe Aviation Limited, Tata SIA Airlines Limited and SpiceJet Limited

ABOUT ICRA

ICRA Limited (formerly Investment Information and Credit Rating Agency of India Limited) was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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