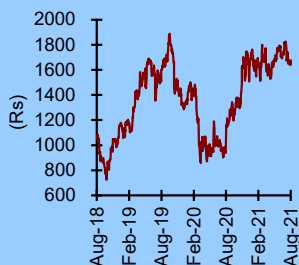
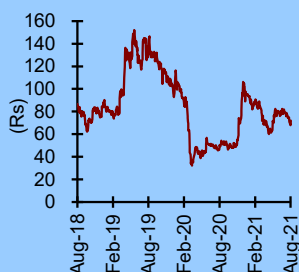


Sector update

Indigo



SpiceJet



Aviation

MAX okayed for Indian airlines, advantage SpiceJet?

Indian regulator DGCA has allowed the operation of Boeing MAX aircraft to resume services in India upon satisfaction of applicable requirements for return to service. Among Indian airlines, SpiceJet had taken 13 MAX deliveries before flying restrictions were laid on the aircraft. SpiceJet also has an existing order of 129 MAX aircraft ([Link](#)). SpiceJet expects to start operations of MAX aircraft around the end of September 2021, subject to regulatory approvals ([Link](#)). There are also media articles suggesting a possible new airline operator planning foray into Indian skies with MAX aircraft ([Link](#)).

How does it change the competition landscape? The expected reduction in aircraft count within the Indian system due to financial strain of weaker Indian airlines leading to payment failures have not happened materially barring some sporadic news of aircraft withdrawals by lessors. Hence, airlines have been able to get payment holidays, restructured lease tenures and lessors have not been able to put the traditional 'hell or high water' payment clause. Now, we believe that the resumption of MAX operations aircraft will increase the available cost-efficient supply for Indian skies.

Advantage SpiceJet? Yes, if it is able to negotiate restructured deals with lessors. SpiceJet announced it has entered into a settlement with Avolon, a major lessor of MAX aircraft ([Link](#)). However, balance sheet remains the major concern, in our view. The company has continued to factor Rs1.4bn in the other income every quarter towards Boeing compensation (refer Table 3). We believe the cumulative amount towards expected Boeing compensation of ~Rs14bn till Q1FY22 remains a major issue between Boeing and SpiceJet. Monetisation of cargo business remains a lever for recapitalisation ([Link](#)).

Table 1: Financial and operation highlights (FY21)

FY21	Fleet Size	Loss (Rs mn)	Networth (Rs mn)	ASK (bn)	RPK (bn)	PLF (%)	PAX (mn)	Pax market share (%)
Indigo	285	-58,064	1,109	41.05	28.22	68.74	29.34	55.1
SpiceJet	113	-10,299	-25,715	9.78	7.40	75.65	7.09	13.3
Air Asia	34	-15,320	-36,803	6.04	3.87	64.13	3.61	6.8
Vistara	45	-16,110	-60,883	5.59	3.75	67.18	3.37	6.3

Source: Company, I-Sec estimates

Table 2: Market share trend: IndiGo and Vistara gaining market share

(%)	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jun-21
Air India	12.2	9.1	9.8	9.4	9.4	10.3	10.2	10.3	11.7	11.7	12.0	20.3	16.5	13.4
SpiceJet	16.8	15.7	13.8	13.4	13.4	13.2	13.0	12.8	12.3	12.8	12.3	9.4	9.0	9.1
Go Air	4.5	3.8	4.7	6.7	7.5	9.1	8.9	8.2	7.4	7.8	9.6	6.5	8.3	6.8
IndiGo	52.8	60.4	59.4	57.5	55.5	53.9	53.9	54.3	54.2	53.5	53.9	55.3	54.7	58.6
Air Asia	7.1	6.2	6.8	6.0	7.1	6.6	6.9	6.9	6.7	6.9	6.2	3.0	3.4	3.3
Vistara	5.6	4.2	5.0	6.6	6.4	6.3	6.3	6.7	6.9	6.4	5.4	4.6	7.2	8.1
Rest	1.0	0.6	0.5	0.4	0.7	0.6	0.8	0.8	0.8	0.9	0.6	0.9	0.9	0.7

Source: DGCA, I-Sec research

Table 3: Declining cash balance has also led to declining other income for IndiGo but continued factoring of expected compensation from Boeing has kept other income steady for SpiceJet

(Rs mn)	1Q FY20	2Q FY20	3Q FY20	4Q FY20	1Q FY21	2Q FY21	3Q FY21	4Q FY21	1Q FY22
Indigo	3,669	4,346	3,985	3,356	3,771	2,882	2,328	1,389	1,633
SpiceJet	1,468	515	2,702	1,857	1,944	2,460	2,100	2,976	1,700

Source: DGCA, I-Sec research

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Key Highlights of order on resumption of operations of Boeing MAX aircraft

- DGCA wide order number – 15018(21)/9/2018-DAS dated 20th Apr'21, applicable to Boeing company model 737-8 and Boeing company model 737-9 airplanes is rescinded with immediate effect. The rescission enables operation of Boeing company 737-8 and 737-9 airplanes only upon satisfaction of applicable requirements for return to service.
- **Basis of rescission:** Based on design changes by M/s Boeing, Federal Aviation Administration (FAA) issued an Airworthiness Directive (AD) on 18th Nov'2020, mandating actions for 737 Max airplanes return to service (RTS). Concurrent with the issuance of AD, FAA rescinded the emergency order of prohibition. Subsequently, European Aviation safety agency (EASA) also issued its own AD on 17th February 2021 which has been mandated by DGCA for compliance on Indian registered fleet.
- **In Apr'21, DGCA superseded the B737 MAX grounding order dated 13th Mar'19 (AIC 7/2019) with a revised order dated 20th Apr'21 (AIC 10/2021). The revised order allowed**
 - Foreign registered Boeing 737 Max aircraft, which was grounded in India due to the DGCA order, dated 13th Mar'19 to conduct operational readiness flight and ferry fly out of India.
 - Overflying of foreign registered Boeing 737 max aircraft over the Indian airspace.
- Following the above order, the foreign registered aircraft grounded at various airports in India was able to undertake RTS, perform an operational readiness flight as mandated by FAA and EASA Ads and were ferried out of India.
- Post issuance of AD by FAA / EASA and rescinding of the grounding order by FAA, DGCA has been closely monitoring the global trend with regards to un-grounding of Boeing company model 737-8 and 737-9 airplanes.
- Worldwide 17 regulators have permitted operation of Boeing 737 MAX airplane. **A sizeable number of airlines (34) and B737 MAX airplane (345) are operating currently and have attained 1,22,824 total departures with 2,89,537 cumulative hours since the un-grounding from 9th December 2020, with no untoward reporting [\[Link\]](#).**

Update from SpiceJet

As per the press release issued by SpiceJet, it has entered into a settlement with Avolon, a major lessor of MAX aircraft, paving the way for the airline's 737 MAX aircraft to return to service. ([Link](#))

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