AT-TV Indian Aviation Outlook 2023

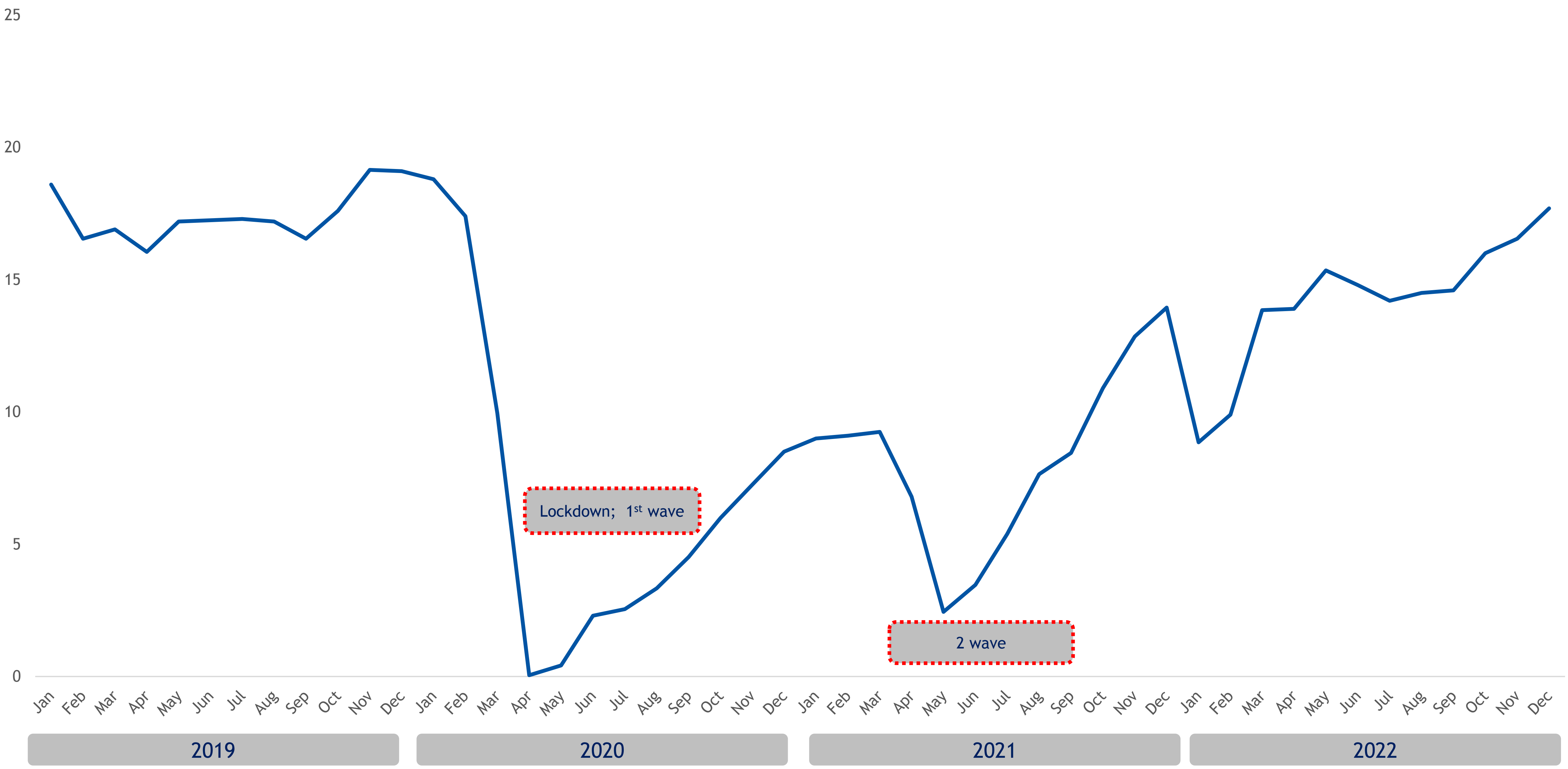
Indian aviation snapshot as 2023 begins ...

7 airlines*	692 aircraft	Revenues: USD 11.5bn	Losses: USD 2.7 billion	Debt: USD 5.2bn
	Passengers: 170 million	Cargo volumes: 3mn (tonnes)	Flights: 2.3mn	

Data is for large commercial airlines

Resilience in air-travel patterns to continue…

But context cannot be glossed over…



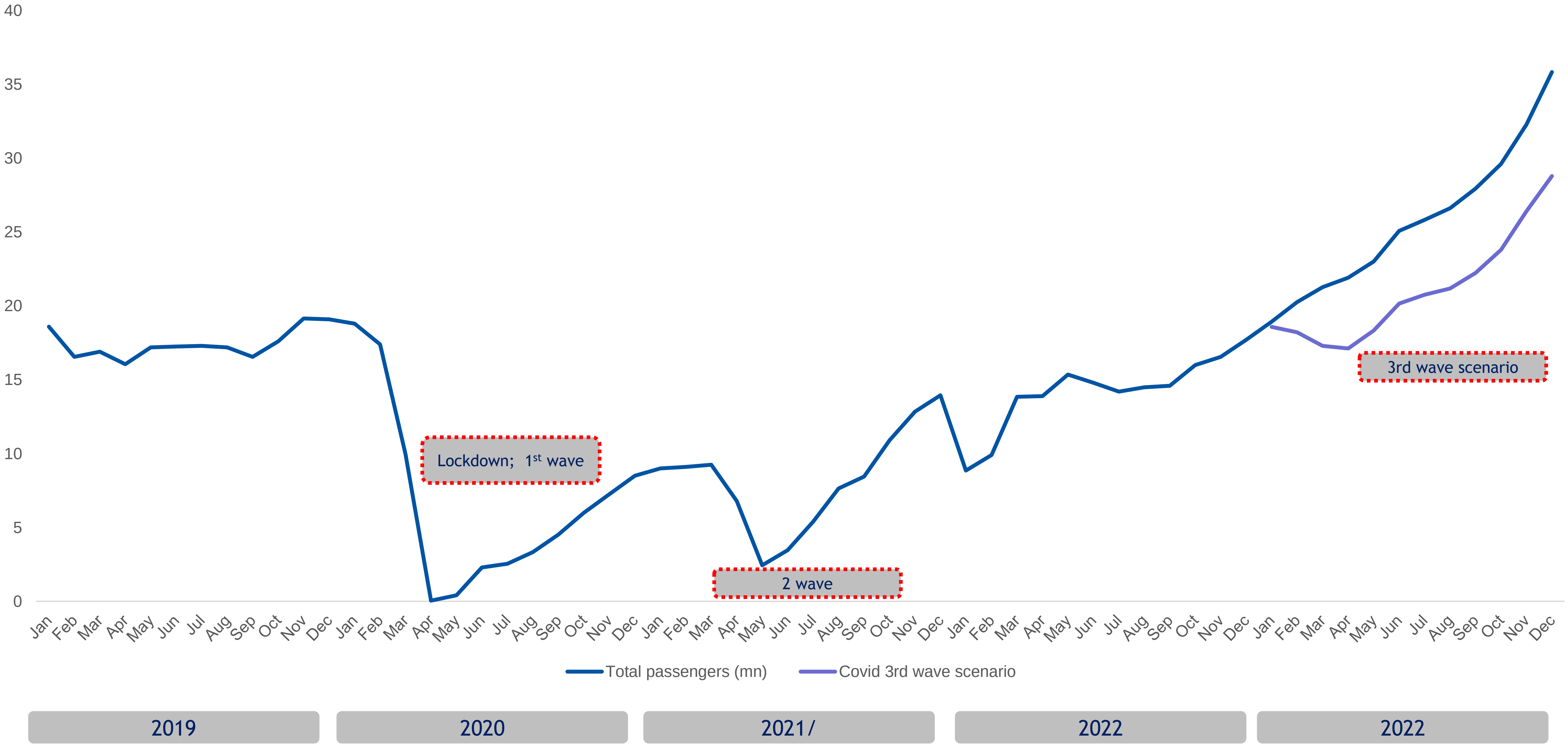
Data is for total passengers flown (domestic & international) in millions

Demand holding strong; proxies reveal sentiment …

- Hotel occupancy: 70%
- Room rates for 5-star properties +22%
- Forward bookings +18%
- MICE segment : gradually returning
- Other proxies incl. luggage sales, inter-state travel, OTA volumes etc. confirm the sentiment

Note: comparisons of rates to FY20 (pre-pandemic) levels

A 3rd wave may cause another dip …



Data is for total passengers (domestic & international) in milliona

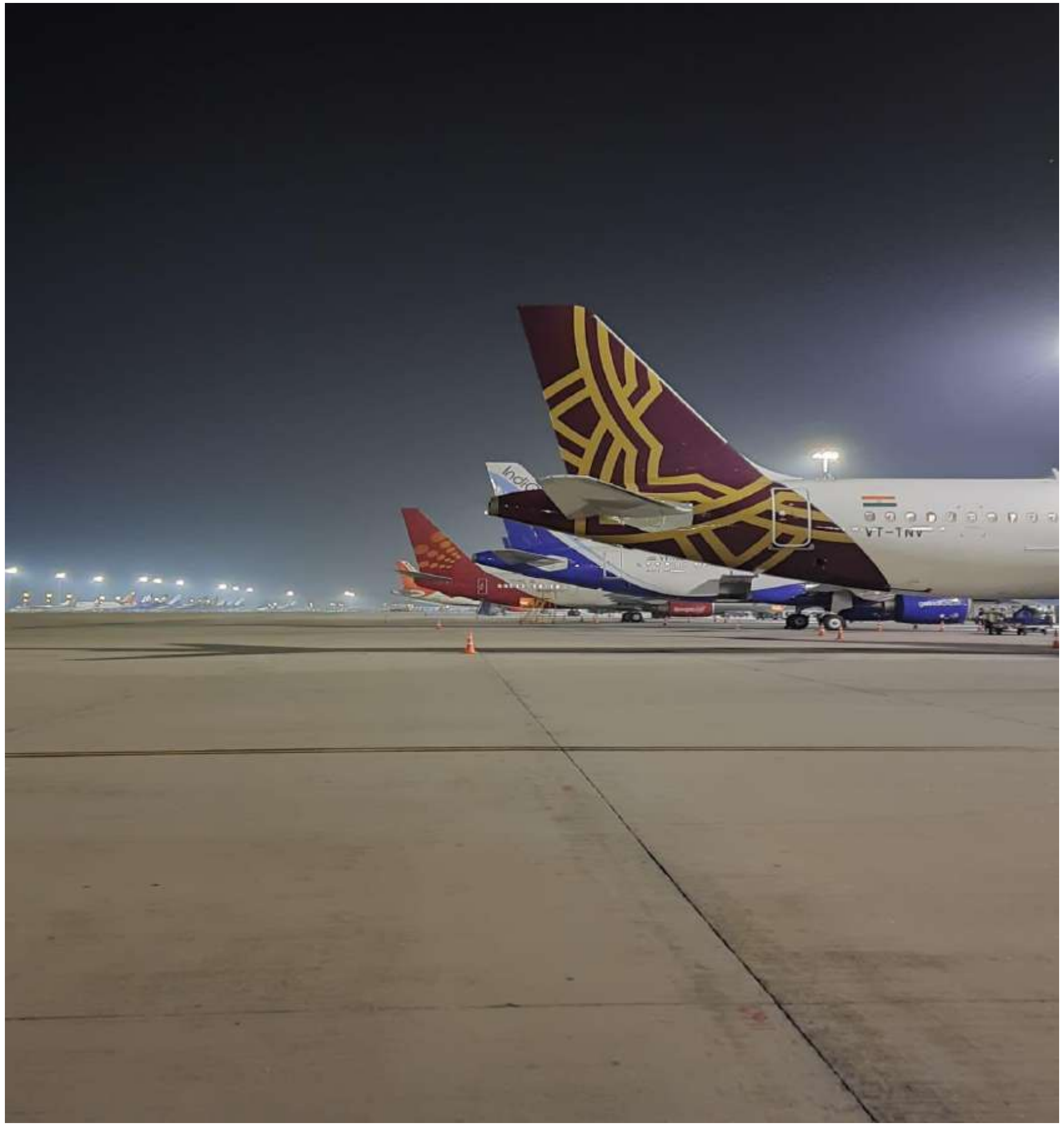
AT-TV/ January 2023


But demand can be deceptive …

Strong demand notwithstanding, profitability remains elusive

- For the financial year ending March 31, 2023 India's airlines will lose approx. **USD 3 billion+**
- Revenues for the year estimated to be USD 12.7+ billion
- Return on invested capital remains negative
- Debt levels for the industry exceed USD 5.3 billion (excluding lease liabilities)
- Path to profitability for several airlines remains foggy at best (details in full report)
- Losses are in-spite of extremely high yields for stronger airlines (weaker airlines lose on both counts)
- Fuel, FX and finance costs continue to be a challenge for the industry
- Other costs including talent, technology & airport costs set to rise drastically in 2023

With consolidation, market dynamics have changed



Airline	Ownership	Domestic marketshare (forecasts)
Indigo	Publicly traded	52% - 55%
SpiceJet	Publicly traded	8% - 9%
GoAir (now Go First)	Privately held	6% - 8%
AirAsia India (now AIX connect)	Tata group	3% - 4%
Vistara	To be merged with Air India; majority owned by Tata group	10% - 12%
Air India	Tata group	12% - 14%
Akasa	Privately held	3% - 4 %
Others	Privately held	1% - 3%

**based on transactions*

2023 will see 80% of the market dominated by 2 airlines …

Air India
(25% - 30%)

Indigo
(52% - 55%)

Others

Based on DGCA data; AT-TV forecasts

The flight to quality to continue in 2023 …

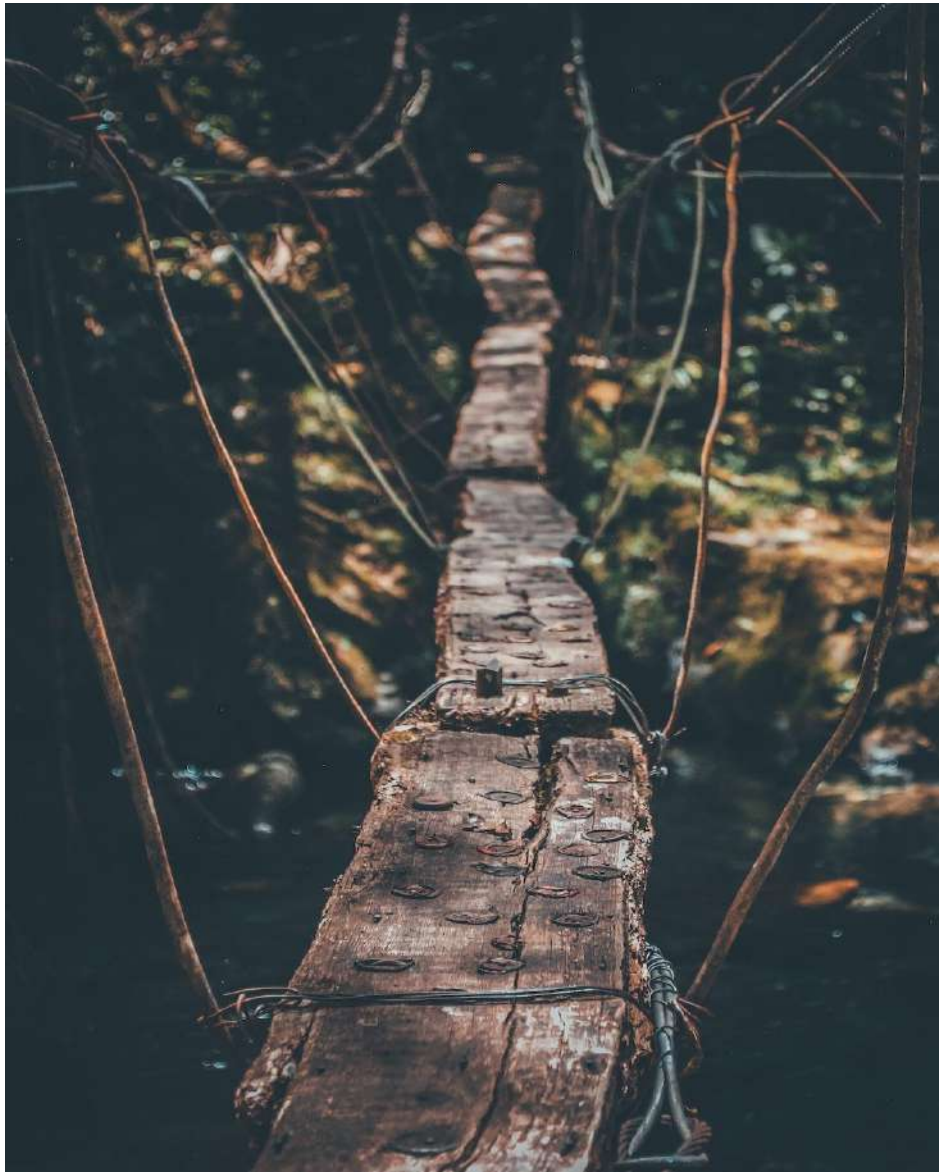
- Credit quality showing stark contrast:
  - AAA credit
  - Sustainable credit
  - Weak/very weak credit
- Given credit quality, weaker airlines taking a short-sighted view for cash flow by discounting future revenue
- Escalation clauses in current contracts (especially US dollar contracts) will impact negatively

The year ahead …

- Air travel trends to continue (forecast growth of 7%-10% for the travel market)
- 100+ aircraft to be inducted into the India market in 2023
- Bank financing continues to be constrained; rates of 9% - 15%
- USD interest creeping closer to local interest rates on a blended basis
- Rising USD interest rates to impact sale-and-leaseback terms especially for weaker credits
- No differentiation in terms of financing strategy observed
- Risk mitigating factors different for different airlines
- Stronger credits able to attract favourable terms (coupon payments, end of the year MR, lease terms)
- Credit quality driven by parent company backing and/or balance sheet strength
- International flying to gain traction – upto 30% capacity increase planned by some airlines
- Widebody deployment to gain traction; sizeable widebody orders likely
- Talent wars to continue driving up talent costs (both management and operations)
- Consolidation/ failure of one or more airlines predicted

Multiple opportunities available but risks have to be managed …

- Sale-and-leasebacks
- Operational leases for placements
- Fleet renewal
- Fleet transitions
- Minimal wet leases
- Revised structures for supplier financing
- Buyouts (older assets)



- Recourse risk
- Default risk
- Repossession risk including technical issues
- Records availability & ownership
- Liquidity risk (no/ pseudo equity infusions)
- Known unknowns
- “Unknown unknowns”

AT-TV is engaged in Transactions, Risk Advisory & Technical Services

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