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## Special Report



# Airline & Tourism Industry : Flying With Clipped Wings

The pandemic has dealt out a severe blow to the airline and tourism industry and it is unlikely to emerge from this situation soon enough. **Geyatee Deshpande** discusses that while gradual phasing out of lockdowns across the world will rejuvenate the air travel sector, the luxury holiday and resort sectors are unlikely to find many takers

**G**lobally, the airline and tourism industry has witnessed many hiccups. A recent example includes that of Thomas Cook Plc. Being one of the world's oldest travel firms, the tour operator had its business arms spread in operational areas such as hotels, resorts and airline sectors. But as a result of its failure to adapt to the fast developing travel and tourism environment and also to the challenges posed by competitive peers, the company incurred heavy losses and was forced into liquidation. Faced by the impact of Brexit as well as failed mergers, Thomas Cook Plc and its subsidiaries announced its bankruptcy suddenly, thereby shocking the world, travellers and investors.

Similarly, one of the most preferred airline companies by many, Jet Airways witnessed its sudden crash as a result of debt issues,

lack of concrete business model and failure to find strategic investors to pump money into the debt-ridden company. Owing to these troubles, the company had to suspend all operations in April 2019. But though the industry has been battered with such shocks, it hadn't witnessed majority of its operations being halted for months as has happened due to the virus-triggered pandemic. During the previous crisis situations, weak demand was but a normal offshoot but the current pandemic has axed the industry totally.

As of now, the fear of travel is considered to be much more severe and also a more complicated phenomenon than financial insecurity. An earlier such trend was witnessed in the wake of the tragic September 9, 2011 events when travellers avoided boarding airplanes plagued with fear of being entangled in terrorist acts. Further, stays in hotels, short-term



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rentals and on cruise ships is mainly driven by leisure and also because of the need for face-to-face business meetings. People avoid travel when they feel unsure about their future financial state and also when they feel afraid to undertake trips. During the 2008 financial crisis, future cash flow and wealth uncertainties severely impacted travel, resulting in a severe drop in consumer demand and shortage of liquidity in companies.

\Another travel fear comes from the fear of contracting communicable diseases or infections. With outbreaks in several forms of transmissible viruses such as Severe Acute Respiratory Syndrome, Ebola and Swine Flu, even though lot of human lives were lost, the effects on the industry were not as major and long-lasting as that of Covid. Thus, the travel and tourism industry has to brace for a huge reduction in business and leisure trips. The spreading of the corona virus has forced many countries to implement nationwide lockdowns and to discontinue travel. To curb the spread of the virus, citizens have been forced to stay in their homes, thus forcing a complete shutdown of business operations in the hotel and resort industry as well as of airline companies, except for operations related to cargo and emergency goods.

## Impact on Inbound Tourism

In India, inbound tourism has come to a halt with suspension of visas and global advisories against travel. As of now, there are barely any bookings being made for the future, and the current ones all stand cancelled. In this scenario, a quick revival is impossible but slow and steady growth is expected instead. Since the time period of the corona virus pandemic coincided with that of India's tourist season, which is generally from mid-March to mid-June, the airline and hotel industry lost revenues that would have been gained from domestic tourists as well.



This has also affected online and brick-n-mortar travel agencies as well as aircraft component manufacturers since the demand for their services and goods has suddenly diminished. Also, forex is a critical part of the travel industry. With travel and tourism taking a beating, forex firms which fall under the travel essential category are also facing extreme stress because people have been cancelling travel plans, students are returning back home and there are no foreign tourist travelling, thus leading to almost zero forex inflow. India's foreign exchange market, which is an important part of the tourism industry, is valued at around USD 60 billion annually.

## Affect on Equity

As pricing recovery may take time, revenues will continue to be affected. From the above table it can be derived that during Q4FY20, hotel and resort companies were heavily affected with decrease in revenues. A slash in business also resulted

Company Name	Market Cap (₹ Cr)	Returns (%)		Net Sales			NetProfit	
		YTD	Recovery post market fall	Q4FY20	Q4FY19	YoY (%)	Q4FY20	Q4FY19
Interglobe Aviation	38829.79	-24.34	18.71	8299.06	7883.26	5.27	-870.81	595.83
Hindustan Aeronautics	25465.28	4.39	50.83	10323	10153.79	1.67	1249.63	1237.08
The Indian Hotels Company	9436.77	-44.93	6.3	1062.98	1244.32	-14.57	66.81	116.92
EIH	3695.2	-55.01	-2.05	410.44	503.45	-18.47	44.1	12.22
*Spicejet	3087.39	-55.8	53.58	3542.7	2383.98	48.60	77.97	64.44
Chalet Hotels	2718.62	-61.27	-35.6	227.35	269.87	-15.76	42.18	13.31
Mahindra Holidays & Resorts India	2266.41	-25.46	29.05	616.61	634.59	-2.83	38.23	52.26
Lemon Tree Hotels	1853.86	-63.03	-10.52	176.13	150.53	17.01	-17.68	34.23
Thomas Cook (India)	1062.95	-56.3	12.85	1089.89	1363.28	-20.05	-15.95	-19.3
Oriental Hotels	360.77	-38.97	30.32	71.28	92.85	-23.23	-0.15	-0.39

\*Result data for Q3FY20 and Q3FY19



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into many companies reporting net loss for Q4FY20 as compared to net profit gained in Q4FY19. Since the beginning of the year, investors have been sceptical about the industry's performance which is evident from the fall in stock prices. Amongst the stock of airline companies, InterGlobe Aviation, the holding company of IndiGo, has given a negative return of 24.34 per cent since the beginning of the year while SpiceJet fell by 55.8 per cent.

The stock of Lemon Tree Hotels fell by 63.03 per cent on YTD basis. Though the stock of Thomas Cook (India) wiped off investors' money by 56.3 per cent on YTD basis, owing to the bullish rallies in the Sensex post the sharp decline on March 23, 2020, the stock has recovered by 12.85 per cent. The best recovery is posted by SpiceJet with the stock recovering by 53.58 per cent since March 23. InterGlobe Aviation was able to report increase in sales with passenger revenues and ancillary revenues increasing. Though the company alone reported a loss of ₹3.8 billion for the month of March led by pandemic disruptions, its cargo business attracted good revenue.

## The Alternatives

During such a tough time, revenues from the cargo business have been a saviour for the airline companies. Companies have taken advantage of the current situation to venture into alternative businesses as well. Indian Hotels plans to launch food delivery business from its hotels as well as brands in the alcoholic beverage category to boost its revenues. Currently, the industry must focus on preparing for the upcoming demand by paying attention to marketing and upgradation while keeping within sights integration of digitalization. This 'stop gap plan' is about maintaining a thread of communication by using the social media and advertisements to influence consumers.

It will also help in strengthening communications within the company to create an efficient budget and plan for reopening and to utilise this period to fix and upgrade whatever is possible wherever. Post the pandemic scenario when the virus no longer poses a threat to masses and travel resumes again, industry researchers believe that any reopening that is carried out must be done keeping long-term benefits and safety compliances in mind. Companies can reach out to deferred and cancelled bookings and give extra attention to domestic travellers. Also, they must slowly roll out their services depending on the demand rather than starting everything at once to avoid getting caught up in unnecessary spending.

The Indian tourism industry has been able to gain a comparative market share with travellers across the world frequently visiting India for tourism. Tourism campaigns such as 'Incredible India' and various others have also boosted the industry. India's domestic tourism is considered to be the

## The Strategy

Companies in the industry have been shifting focus from growth to conserving cash and revising full year capacity guidance to factor in the weaker demand environment. This makes them better placed to withstand economic downturn.

third-largest in the world with close to 1.7 billion tourism visits while our share of the international market has become over 1 per cent with earnings of around USD 29 billion in forex. Keeping this in mind, Federation of Associations in Indian Tourism and Hospitality (FAITH) suggests that along with other sectors, the airline and tourism industry also is in need of a stimulus package to boost it since it is one of the most affected by the virus-triggered disruptions.

## Way Forward

With economic activity expected to start stabilising around Q2FY21, recovery can only be seen from Q3FY21 and the next quarters ahead. Looking forward, the industry may be able to benefit more from corporate bookings than from tourist bookings, but still the inflow of revenue will remain hindered. When travelling will resume, the most complex constraint will be of social distancing efforts and travel or group gathering restrictions on global populations. Hotel and resort properties primarily catering to discretionary travel will be affected the most, including luxury, upper upscale, urban, and airport and resort properties. However, a timid recovery in the industry will be seen with the fundamental reason being that once travel restrictions are uplifted and the fear in the minds of people subsides, the pent-up demand of consumers to leave their homes and venture out once again will boost growth.

Additionally, with the government injecting monetary and fiscal stimulus in the economy as well as with an expected substantial rebound in economic activity by 2021, companies in the industry with strong financials, practicing good corporate governance system and properly managing their expenses (cost optimization) will be able to survive through the current economic conditions. Industry experts also suggest that though cash issues will pose a problem, companies which are better placed than their peers in terms of cash reserves, strong brand visibility and focus on long-term growth will emerge as the best picks.