

**PRESS RELEASE**

**July 20, 2021**

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

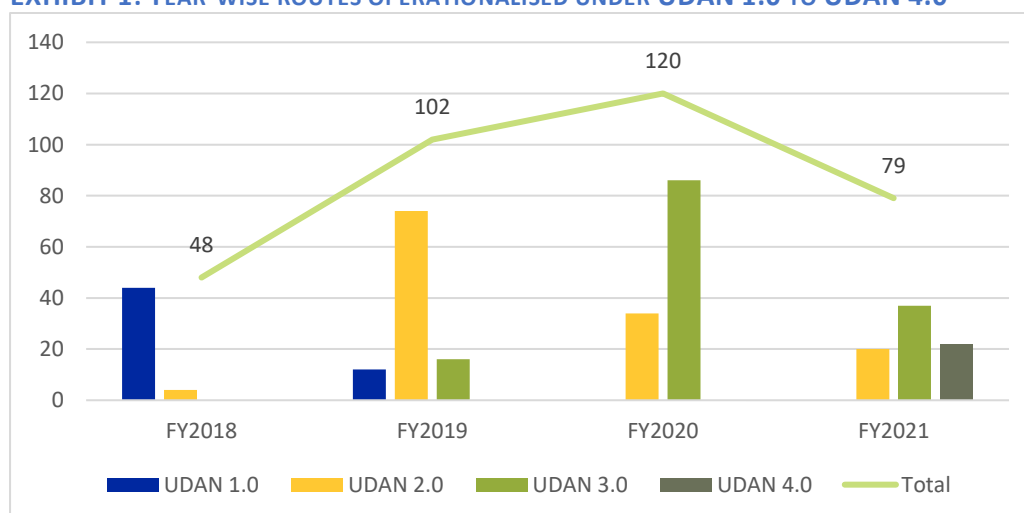
**Highlights:**

- **Only 47% of the routes are operationalised after four years of launch**
- **ICRA expects the target of operationalising 100 airports under UDAN by 2026, with a delay of two years from revised schedule**

The Ministry of Civil Aviation (MoCA) had launched the UDAN (Ude Desh Ka Aam Naagrik) scheme in 2016 as a Regional Connectivity Scheme (RCS) to enhance regional connectivity through fiscal support and infrastructure development. However, as on May 31, 2021, only 47% of total routes and 39% of airports (unserved and underserved) have been operationalised<sup>1</sup> under UDAN. 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, but have declined to 79 new routes in FY2021 due to the Covid-19 pandemic. During FY2018 – FY2021, a total of Rs. 3,350 crores have been incurred by the Central Government towards the UDAN scheme and the budgeted outlay for FY2022 is Rs. 1,130 crores.

**Giving more insights, Mr. Shubham Jain, SVP & Group Head, Corporate Ratings, ICRA, says, “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. The second wave of the pandemic, which started from mid of March 2021 would further impact the UDAN scheme going forward with aviation being one of the worst-hit infrastructure sectors.”**

**EXHIBIT 1: YEAR-WISE ROUTES OPERATIONALISED UNDER UDAN 1.0 TO UDAN 4.0**



**Source:** AAI, MoCA; ICRA research

<sup>1</sup> 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 airports.

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.

*“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). The weak credit profile of domestic airlines 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 scheme,” Mr. Jain added.*

There has been a significant impact on financial health of airline operators due to Covid-19 pandemic. ICRA estimates Indian airlines<sup>2</sup> 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.

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